I-A-1
Page 1 of 1
Benjamin S. Yin

Q. I-A-1

Provide a summary discussion of the rate change request, including specific reasons for each increase or decrease. Also provide a breakdown which identifies the revenue requirement value of the major items generating the requested rate change.

A. I-A-1

The specific reasons for the rate increase are provided in the Company's Statement of Reasons, which is included as part of the Company's filing. A breakdown identifying the revenue requirement value of the major items generating the requested rate change are provided in the direct testimony of Benjamin S. Yin, PECO Statement No. 3, and in PECO Exhibit BSY-1.

Q. I-A-2 Identify the proposed witnesses for all statements and schedules of revenues, expenses, taxes, property, valuation and the like.

A. I-A-2 Refer to PECO Statement No. 1, the Direct Testimony of Michael A. Innocenzo, which identifies the witnesses submitting direct testimony accompanying the Company’s filing. Mr. Innocenzo’s direct testimony also provides a summary of the areas addressed in each such witness’ direct testimony.

I-A-3
Page 1 of 1
Benjamin S. Yin

Q. I-A-3	Provide a single page summary table showing, at present and at proposed rates, together with references to the filing information, the following as claimed for the fully adjusted test year: Revenues Operating Expenses Operating Income Rate of Return (produced)
A. I-A-3	Refer to PECO Exhibit BSY-1, Schedule A-1, for the fully projected future test year (2019), PECO Exhibit BSY-2, Schedule A-1, for the future test year (2018) and PECO Exhibit BSY-3, Schedule A-1, for the historic year (2017), and PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

I-A-4

Scott A. Bailey

Q. I-A-4 Whenever a major generating plant is placed in operating service or removed from operating service the utility shall separately indicate the effect of the plant addition or removal from service upon rate base, revenue, expense, tax, income and revenue requirement as if affects the test year.

A. I-A-4 Not applicable. PECO does not own a major generating plant, but instead purchases from others the power used to serve its default service customers.

Q. I-B-1	Provide a corporate history including the dates of original incorporation, subsequent mergers and acquisitions. Indicate all counties, cities and other governmental subdivisions to which service is provided, including service areas outside this Commonwealth, and the total number of customers or billed units in the areas served.
A. I-B-1	Refer to Attachments I-B-1(a) and I-B-1(b).

A. CORPORATE HISTORY

PECO Energy Company is the result of a series of corporate mergers, acquisitions and operational transformations. The following history explains the transactions relating to PECO's current electric distribution operations.

1. Corporate Ownership

On October 27, 1902, The Philadelphia Electric Company, Inc. ("Philadelphia Electric") was incorporated and its electric distribution business was the result of a number of electric distribution business acquisitions and consolidations within southeastern Pennsylvania.

On February 24, 1928, Philadelphia Electric became a wholly owned subsidiary of the United Gas Improvement Company (now known as "UGI Corporation" or "UGI"). Philadelphia Electric maintained that status until its divestiture from UGI in 1943.

PECO Energy Company ("PECO") was incorporated on October 31, 1929, in connection with the merger of The Philadelphia Electric Company, Philadelphia Suburban Gas and Electric Company and Counties Gas and Electric Company.

On October 20, 2000, in accordance with the final order of the Pennsylvania Public Utility Commission ("Commission") at Docket No. A-110550F0147 (Order entered June 22, 2000), PECO became an indirect, wholly-owned subsidiary of Exelon Corporation ("Exelon") by operation of the merger between PECO and Unicom Corporation. Exelon is a utility services holding company engaged, through Exelon Generation Company, LLC, in the energy generation business, and through PECO, Commonwealth Edison Company, and Baltimore Gas and Electric Company, in the energy delivery business.

On January 1, 2001, in accordance with the Commission's final order at Docket No. A-110550F0147, PECO transferred its electric generation business to Exelon Generation, LLC as part of a corporate restructuring. Exelon Business Services Company ("EBSC"), a shared services provider, was created at this time and PECO subsequently commenced taking shared services from EBSC through a Commission-approved General Services Agreement and cost-based, negotiated, service level arrangements. A corporate organization chart showing PECO's corporate relationship to Exelon and its other subsidiaries may be found in response to defined filing requirement II-A-24.

2. Electric Operations

All of PECO's predecessor companies held letters, patents and other rights issued by the Commonwealth of Pennsylvania, which allowed for the provision of electric service. These instruments and authorities were ultimately transferred, by operation of law, to PECO. Upon passage of the Public Service Company law and the Public Utility Code, PECO's electric service territory rights were grandfathered or acquired through the issuance of certificates of public convenience by the Commission.

B. LISTING OF GOVERNMENTAL SUBDIVISIONS AND TOTAL CUSTOMER POPULATION SERVED

See Attachment I-B-1(b).

Annual Estimates of the Resident Population

PECO's Electric Service Territory	April 1, 2010	Population Estimate (as of July 1)						
	Census	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Pennsylvania Total Population	12,702,379	12,712,343	12,744,293	12,771,854	12,781,338	12,790,565	12,791,904	12,784,227
Population of PECO's Total Electric Service Terriory	3,912,117	3,917,067	3,935,858	3,954,779	3,967,069	3,979,294	3,988,936	3,995,298
Population change in PECO's Service Territory Since 2010 Census		4,950	23,741	42,662	54,952	67,177	76,819	83,181
	April 1, 2010	**Population Estimate (as of July 1)**						
	Census	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Bucks County Total Population	625,249	625,538	626,397	625,930	625,783	626,169	626,821	626,399
Population of PECO's Bucks County Electric Service Territory	553,472	553,749	554,555	554,191	554,121	554,537	555,116	554,681
Population Change in PECO's Bucks County Electric Service Territory Since 2010 Census		277	1,083	719	649	1,065	1,644	1,209
Bedminster Township	6,574	6,625	6,806	6,868	6,937	6,999	7,030	7,044
Bensalem Township	60,427	60,441	60,458	60,371	60,401	60,364	60,314	60,329
Bristol Borough	9,726	9,723	9,705	9,668	9,627	9,587	9,560	9,534
Bristol Township	54,582	54,640	54,634	54,493	54,346	54,167	54,042	53,771
Buckingham Township	20,075	20,112	20,212	20,279	20,313	20,368	20,366	20,306
Chalfont Borough	4,009	4,011	4,033	4,047	4,055	4,073	4,066	4,047
Doylestown Borough	8,380	8,379	8,374	8,352	8,327	8,300	8,293	8,280
Doylestown Township	17,565	17,684	17,691	17,634	17,527	17,560	17,601	17,559
Dublin Borough	2,158	2,159	2,159	2,155	2,152	2,146	2,167	2,157
Falls Township	34,300	34,296	34,288	34,196	34,076	33,938	33,869	33,714
Hilltown Township	15,029	15,036	15,100	15,128	15,131	15,177	15,247	15,243
Hulmeville Borough	1,003	1,003	1,010	1,006	1,002	998	995	989
Ivyland Borough	1,041	1,041	1,043	1,039	1,054	1,050	1,052	1,046
Langhorne Borough	1,622	1,623	1,620	1,615	1,609	1,603	1,598	1,589
Langhorne Manor Borough	1,442	1,442	1,444	1,441	1,439	1,434	1,430	1,426
Lower Makefield Township	32,559	32,569	32,580	32,580	32,662	32,658	32,724	32,749
Lower Southampton Township	18,909	18,932	19,014	18,975	18,924	18,992	19,124	19,093
Middletown Township	45,436	45,399	45,467	45,389	45,316	45,239	45,358	45,299
Morrisville Borough	8,728	8,727	8,718	8,689	8,658	8,623	8,597	8,552
New Britain Borough	3,152	3,036	3,038	3,035	3,027	3,023	3,017	3,016
New Britain Township	11,070	11,077	11,080	11,054	11,025	11,248	11,225	11,199
New Hope Borough	2,528	2,527	2,527	2,521	2,514	2,506	2,508	2,497
Newtown Borough	2,248	2,249	2,245	2,236	2,229	2,225	2,219	2,229
Newtown Township	19,299	19,322	19,386	19,425	19,501	19,650	19,685	19,720
Northampton Township	39,726	39,733	39,743	39,679	39,598	39,542	39,549	39,443
Penndel Borough	2,328	2,329	2,254	2,256	2,252	2,222	2,212	2,200
Plumstead Township	12,442	12,447	12,487	12,598	12,897	13,193	13,495	13,687

Solebury Township	8,692	8,693	8,695	8,681	8,657	8,639	8,631	8,599
Springfield Township	5,035	5,037	5,046	5,036	5,030	5,023	5,032	5,031
Telford Borough	2,207	2,208	2,208	2,204	2,200	2,194	2,191	2,182
Tullytown Borough	1,872	1,873	1,873	1,871	1,866	1,861	1,857	1,848
Upper Makefield Township	8,190	8,196	8,222	8,238	8,230	8,223	8,247	8,392
Upper Southampton Township	15,152	15,158	15,186	15,167	15,146	15,139	15,107	15,041
Warminster Township	32,682	32,681	32,699	32,718	32,707	32,626	32,564	32,460
Warrington Township	23,418	23,444	23,523	23,488	23,529	23,722	23,917	24,227
Warwick Township	14,437	14,460	14,514	14,555	14,622	14,684	14,681	14,632
Wrightstown Township	2,995	3,002	3,019	3,058	3,098	3,109	3,107	3,099
Yardley Borough	2,434	2,435	2,454	2,446	2,437	2,432	2,439	2,452

	April 1, 2010	**Population Estimate (as of July 1)**						
	Census	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Chester County Total Population	498,886	499,963	503,652	506,278	509,396	512,899	515,253	516,312
Population of PECO's Chester County Electric Service Territory	486,895	487,928	491,512	494,011	496,940	500,335	502,662	503,627
Population Change in PECO's Chester County Electric Service Territory Since 2010 Census		1,033	4,617	7,116	10,045	13,440	15,767	16,732
Avondale Borough	1,265	1,273	1,317	1,389	1,403	1,402	1,398	1,394
Birmingham Township	4,208	4,212	4,222	4,229	4,237	4,258	4,258	4,249
Caln Township	13,817	13,859	13,965	13,911	14,000	14,056	14,092	14,097
Charlestown Township	5,671	5,676	5,683	5,658	5,626	5,625	5,629	5,745
Coatesville City	13,100	13,105	13,131	13,134	13,148	13,168	13,135	13,064
Downingtown Borough	7,891	7,893	7,902	7,919	7,929	7,940	7,939	7,905
East Bradford Township	9,942	9,948	9,970	9,995	10,020	10,042	10,030	9,996
East Brandywine Township	6,742	6,762	7,022	7,273	7,596	8,032	8,284	8,409
East Caln Township	4,838	4,853	4,860	4,865	4,873	4,878	4,869	4,852
East Coventry Township	6,636	6,683	6,729	6,740	6,749	6,756	6,746	6,730
East Fallowfield Township	7,449	7,472	7,503	7,521	7,543	7,570	7,562	7,529
East Goshen Township	18,026	18,039	18,109	18,139	18,172	18,204	18,320	18,265
East MarlBorough Township	7,026	7,032	7,097	7,153	7,211	7,248	7,275	7,270
East Nantmeal Township	1,803	1,807	1,817	1,828	1,834	1,837	1,842	1,841
East Nottingham Township	8,650	8,667	8,745	8,785	8,826	8,867	8,921	8,962
East Pikeland Township	7,079	7,103	7,183	7,249	7,324	7,356	7,349	7,323
Easttown Township	10,477	10,503	10,534	10,560	10,576	10,611	10,609	10,594
East Vincent Township	6,821	6,829	6,840	6,850	6,856	6,861	6,911	7,031
East Whiteland Township	10,650	10,659	10,636	10,675	10,737	10,677	10,658	11,517
Elk Township	1,681	1,682	1,691	1,692	1,696	1,697	1,693	1,694
Franklin Township	4,352	4,365	4,390	4,416	4,430	4,469	4,514	4,516
Highland Township	1,272	1,273	1,275	1,283	1,284	1,286	1,288	1,282
Kennett Township	7,565	7,592	7,654	7,806	7,842	7,997	8,162	8,205
Kennett Square Borough	6,072	6,064	6,089	6,101	6,122	6,138	6,160	6,160
London Britain Township	3,139	3,147	3,171	3,196	3,226	3,253	3,262	3,255
Londonderry Township	2,149	2,173	2,237	2,286	2,331	2,369	2,397	2,426

London Grove Township	7,475	7,503	7,686	7,932	8,149	8,434	8,577	8,626
Lower Oxford Township	5,200	5,208	5,231	5,031	5,003	5,003	4,998	5,018
Malvern Borough	2,998	3,001	3,014	3,028	3,424	3,433	3,427	3,410
Modena Borough	535	536	535	533	532	531	528	524
New Garden Township	11,984	12,010	12,057	12,074	12,082	12,102	12,084	12,053
Newlin Township	1,285	1,286	1,316	1,321	1,337	1,351	1,355	1,351
New London Township	5,631	5,648	5,711	5,772	5,831	5,911	5,932	5,928
North Coventry Township	7,866	7,875	7,898	7,922	7,968	8,023	8,015	7,983
Oxford Borough	5,077	5,079	5,102	5,113	5,112	5,128	5,380	5,392
Parkesburg Borough	3,593	3,599	3,612	3,626	3,640	3,672	3,684	3,747
Penn Township	5,364	5,373	5,439	5,457	5,471	5,473	5,469	5,444
Pennsbury Township	3,604	3,607	3,614	3,620	3,625	3,641	3,655	3,661
Phoenixville Borough	16,440	16,475	16,495	16,512	16,526	16,606	16,641	16,885
Pocopson Township	4,582	4,591	4,631	4,680	4,769	4,849	4,852	4,842
Sadsbury Township	3,570	3,573	3,574	3,709	3,772	3,769	3,846	3,880
Schuylkill Township	8,516	8,520	8,517	8,578	8,557	8,573	8,597	8,571
South Coatesville Borough	1,303	1,311	1,346	1,383	1,422	1,440	1,434	1,427
South Coventry Township	2,604	2,606	2,609	2,613	2,614	2,617	2,613	2,603
Spring City Borough	3,323	3,324	3,330	3,330	3,331	3,329	3,319	3,301
Thornbury Township	3,017	3,271	3,298	3,333	3,299	3,337	3,158	3,146
Tredyffrin Township	29,332	29,352	29,415	29,454	29,496	29,552	29,529	29,423
Upper Oxford Township	2,484	2,486	2,497	2,497	2,501	2,506	2,501	2,497
Upper Uwchlan Township	11,227	11,261	11,367	11,426	11,498	11,544	11,533	11,500
Uwchlan Township	18,088	18,098	18,137	18,313	18,383	18,621	19,047	18,977
Valley Township	6,794	6,831	7,020	7,174	7,320	7,487	7,625	7,653
Wallace Township	3,458	3,467	3,542	3,579	3,646	3,687	3,694	3,677
Warwick Township	2,507	2,509	2,512	2,518	2,530	2,542	2,548	2,540
West Bradford Township	12,223	12,257	12,336	12,425	12,547	12,629	12,766	12,858
West Brandywine Township	7,394	7,400	7,419	7,427	7,443	7,461	7,461	7,444
West Caln Township	9,014	9,024	9,048	9,056	9,063	9,088	9,076	9,061
West Chester Borough	18,461	18,471	18,784	18,927	18,995	19,403	19,937	19,928
West Fallowfield Township	2,566	2,568	2,571	2,577	2,583	2,586	2,593	2,588
West Goshen Township	21,866	21,882	22,549	22,679	22,863	23,053	23,111	23,037
West Grove Borough	2,854	2,857	2,859	2,863	2,864	2,864	2,856	2,842
West Marlborough Township	814	815	817	819	821	821	820	816
West Nantmeal Township	2,170	2,172	2,181	2,184	2,187	2,194	2,188	2,192
West Nottingham Township	2,722	2,722	2,717	2,716	2,715	2,710	2,703	2,685
West Pikeland Township	4,024	4,028	4,040	4,056	4,066	4,075	4,080	4,083
West Sadsbury Township	2,444	2,446	2,457	2,463	2,469	2,480	2,473	2,466
Westtown Township	10,827	10,834	10,865	10,878	10,900	10,923	10,902	10,865
West Vincent Township	4,567	4,588	4,685	4,784	4,854	5,003	5,028	5,084
West Whiteland Township	18,274	18,289	18,368	18,402	18,439	18,461	18,432	18,410
Willistown Township	10,497	10,504	10,539	10,574	10,702	10,826	10,892	10,898

	April 1, 2010							Population Estimate (as of July 1)
	Census	2010	2011	2012	2013	2014	2015	2016

Delaware County Total Population	558,979	559,105	559,094	560,834	561,439	562,582	563,321	563,402
Population of PECO's Delaware County Electric Service Territory	558,979	559,105	559,094	560,834	561,439	562,582	563,321	563,402
Population Change in PECO's Delaware County Electric Service Territory Since 2010 Census		126	115	1,855	2,460	3,603	4,342	4,423
Aldan Borough	4,152	4,153	4,146	4,156	4,158	4,163	4,160	4,154
Aston Township	16,592	16,656	16,755	16,835	16,799	16,761	16,714	16,706
Bethel Township	8,791	8,811	8,919	9,023	9,060	9,113	9,156	9,197
Brookhaven Borough	8,006	8,020	8,015	8,039	8,052	8,067	8,069	8,066
Chadds Ford Township	3,640	3,657	3,701	3,719	3,727	3,735	3,736	3,734
Chester City	33,972	34,012	33,814	34,017	34,087	34,082	34,041	33,988
Chester Township	3,940	3,973	4,079	4,090	4,094	4,099	4,098	4,094
Chester Heights Borough	2,531	2,533	2,533	2,542	2,549	2,621	2,623	2,623
Clifton Heights Borough	6,652	6,652	6,640	6,655	6,658	6,663	6,677	6,689
Collingdale Borough	8,786	8,784	8,767	8,783	8,785	8,790	8,782	8,765
Colwyn Borough	2,546	2,545	2,541	2,547	2,549	2,551	2,550	2,546
Concord Township	17,231	17,248	17,265	17,348	17,444	17,527	17,645	17,726
Darby Borough	10,687	10,689	10,668	10,683	10,684	10,688	10,675	10,654
Darby Township	9,264	9,266	9,258	9,282	9,295	9,308	9,307	9,297
East Lansdowne Borough	2,668	2,667	2,661	2,665	2,665	2,666	2,662	2,656
Eddystone Borough	2,410	2,409	2,404	2,407	2,407	2,407	2,404	2,399
Edgmont Township	3,987	3,992	4,003	4,025	4,043	4,058	4,064	4,081
Folcroft Borough	6,606	6,608	6,600	6,616	6,623	6,631	6,629	6,621
Glenolden Borough	7,153	7,153	7,142	7,158	7,162	7,169	7,164	7,153
Haverford Township	48,491	48,511	48,529	48,688	48,773	48,883	49,044	49,029
Lansdowne Borough	10,620	10,621	10,599	10,620	10,624	10,633	10,627	10,606
Lower Chichester Township	3,469	3,468	3,463	3,470	3,472	3,476	3,474	3,468
Marcus Hook Borough	2,397	2,396	2,393	2,397	2,396	2,397	2,394	2,389
Marple Township	23,428	23,436	23,432	23,534	23,600	23,689	23,714	23,780
Media Borough	5,327	5,327	5,322	5,333	5,335	5,340	5,357	5,350
Middletown Township	15,807	15,824	15,815	15,862	15,885	15,936	15,983	15,984
Millbourne Borough	1,159	1,160	1,158	1,160	1,161	1,162	1,161	1,159
Morton Borough	2,669	2,671	2,671	2,678	2,681	2,688	2,692	2,690
Nether Providence Township	13,706	13,713	13,707	13,749	13,767	13,796	13,792	13,779
Newtown Township	12,216	12,222	12,219	12,274	12,309	12,417	12,737	13,047
Norwood Borough	5,890	5,891	5,881	5,891	5,893	5,897	5,891	5,880
Parkside Borough	2,328	2,327	2,324	2,329	2,330	2,333	2,331	2,328
Prospect Park Borough	6,454	6,456	6,444	6,467	6,476	6,480	6,474	6,472
Radnor Township	31,531	31,548	31,446	31,431	31,439	31,568	31,815	31,814
Ridley Township	30,768	30,773	30,866	30,951	30,979	31,023	31,015	31,038
Ridley Park Borough	7,002	7,006	6,995	7,010	7,017	7,029	7,027	7,023
Rose Valley Borough	913	916	936	938	938	948	948	946
Rutledge Borough	784	785	796	797	796	796	795	792
Sharon Hill Borough	5,697	5,698	5,687	5,697	5,698	5,702	5,696	5,685
Springfield Township	24,211	24,219	24,204	24,270	24,298	24,358	24,373	24,342
Swarthmore Borough	6,194	6,196	6,186	6,194	6,196	6,208	6,243	6,239

Thornbury Township	8,028	7,803	7,841	7,872	7,785	7,843	7,676	7,670
Tinicum Township	4,091	4,092	4,086	4,095	4,097	4,102	4,104	4,103
Trainer Borough	1,828	1,829	1,842	1,844	1,844	1,844	1,842	1,838
Upland Borough	3,239	3,239	3,239	3,245	3,247	3,250	3,247	3,242
Upper Chichester Township	16,738	16,750	16,793	16,879	16,937	16,975	16,984	16,992
Upper Darby Township	82,795	82,798	82,659	82,801	82,819	82,868	82,783	82,629
Upper Providence Township	10,142	10,147	10,175	10,269	10,300	10,325	10,436	10,446
Yeadon Borough	11,443	11,455	11,475	11,499	11,506	11,517	11,510	11,493

	April 1, 2010	**Population Estimate (as of July 1)**						
	Census	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Montgomery County Total Population	799,874	801,112	805,500	809,540	813,400	816,350	818,363	821,725
Population of PECO's Montgomery County Electric Service Territory	768,986	770,070	773,856	777,528	780,835	783,284	784,876	787,677
Population Change in PECO's Montgomery County's Electric Service Territory Since 2010 Census		1,084	4,870	8,542	11,849	14,298	15,890	18,691
Abington Township	55,310	55,429	55,536	55,632	55,676	55,692	55,558	55,557
Ambler Borough	6,417	6,444	6,490	6,500	6,507	6,505	6,499	6,500
Bridgeport Borough	4,554	4,558	4,571	4,576	4,580	4,577	4,560	4,561
Bryn Athyn Borough	1,375	1,368	1,383	1,379	1,392	1,389	1,391	1,390
Cheltenham Township	36,793	36,766	36,807	36,816	36,994	37,003	37,043	37,103
Collegeville Borough	5,089	5,094	5,271	5,301	5,319	5,292	5,250	5,254
Conshohocken Borough	7,833	7,842	7,856	7,874	7,876	7,894	7,949	7,982
East Greenville Borough	2,951	2,955	2,959	2,962	2,963	2,962	2,982	2,979
East Norriton Township	13,590	13,648	13,867	14,000	14,077	14,101	14,070	14,080
Franconia Township	13,064	13,087	13,147	13,212	13,237	13,258	13,230	13,263
Green Lane Borough	508	506	505	505	504	503	500	498
Hatboro Borough	7,360	7,368	7,380	7,392	7,420	7,425	7,405	7,434
Hatfield Township	17,249	17,271	17,313	17,515	17,563	17,585	17,544	17,557
Horsham Township	26,147	26,181	26,276	26,363	26,420	26,553	26,565	26,645
Jenkintown Borough	4,422	4,426	4,443	4,447	4,447	4,444	4,427	4,422
Lansdale Borough	16,269	16,283	16,311	16,382	16,423	16,484	16,498	16,521
Limerick Township	18,074	18,112	18,384	18,494	18,612	18,753	18,781	18,994
Lower Frederick Township	4,840	4,847	4,860	4,873	4,884	4,893	4,885	4,893
Lower Gwynedd Township	11,405	11,421	11,462	11,497	11,533	11,551	11,538	11,558
Lower Merion Township	57,825	57,894	58,067	58,158	58,178	58,249	58,268	58,288
Lower Moreland Township	12,982	13,017	13,079	13,114	13,194	13,213	13,206	13,213
Lower Pottsgrove Township	12,059	12,073	12,105	12,140	12,173	12,190	12,163	12,164
Lower Providence Township	25,436	25,474	25,557	25,625	25,667	25,690	26,161	26,617
Lower Salford Township	14,959	14,996	15,128	15,241	15,311	15,345	15,330	15,416
Marlborough Township	3,178	3,192	3,237	3,266	3,284	3,301	3,305	3,324
Montgomery Township	24,790	24,827	25,053	25,460	25,720	25,942	26,001	26,143
Narberth Borough	4,282	4,284	4,295	4,298	4,297	4,294	4,305	4,330
Norristown Borough	34,324	34,349	34,521	34,535	34,503	34,500	34,361	34,370
North Wales Borough	3,229	3,231	3,233	3,236	3,236	3,238	3,247	3,242
Pennsburg Borough	3,843	3,848	3,855	3,861	3,863	3,876	3,870	3,867
Perkiomen Township	9,139	9,149	9,177	9,202	9,228	9,249	9,237	9,245

Plymouth Township	16,525	16,548	16,592	16,636	16,666	16,712	17,635	17,642
Pottstown Borough	22,377	22,391	22,469	22,499	22,589	22,678	22,644	22,661
Red Hill Borough	2,383	2,384	2,387	2,390	2,390	2,389	2,380	2,378
Rockledge Borough	2,543	2,544	2,547	2,549	2,550	2,548	2,539	2,536
Royersford Borough	4,752	4,771	4,776	4,782	4,783	4,784	4,767	4,762
Salford Township	2,504	2,508	2,511	2,644	2,799	2,929	2,948	2,956
Schwenksville Borough	1,385	1,387	1,390	1,393	1,395	1,398	1,396	1,397
Skippack Township	13,715	13,740	13,826	14,329	15,022	14,892	14,650	14,726
Souderton Borough	6,618	6,627	6,637	6,648	6,652	6,738	6,741	6,883
Springfield Township	19,418	19,431	19,473	19,509	19,524	19,531	19,558	19,685
Telford Borough	2,665	2,660	2,665	2,670	2,672	2,673	2,666	2,665
Towamencin Township	17,578	17,603	17,666	17,989	18,171	18,200	18,253	18,355
Trappe Borough	3,509	3,516	3,537	3,545	3,553	3,556	3,550	3,553
Upper Dublin Township	25,569	25,613	26,001	26,117	26,171	26,212	26,188	26,225
Upper Frederick Township	3,523	3,528	3,536	3,547	3,554	3,562	3,561	3,586
Upper Gwynedd Township	15,552	15,581	15,702	15,786	15,842	15,941	15,914	15,975
Upper Merion Township	28,395	28,419	28,496	28,567	28,609	28,633	28,595	28,640
Upper Moreland Township	24,015	24,040	24,095	24,148	24,220	24,270	24,211	24,210
Upper Pottsgrove Township	5,315	5,347	5,367	5,382	5,394	5,420	5,478	5,567
Upper Providence Township	21,219	21,268	21,442	21,594	22,002	22,658	23,432	23,853
Upper Salford Township	3,299	3,304	3,321	3,334	3,351	3,372	3,375	3,385
West Conshohocken Borough	1,320	1,322	1,323	1,330	1,382	1,381	1,380	1,390
West Norriton Township	15,663	15,681	15,732	15,766	15,787	15,800	15,764	15,766
West Pottsgrove Township	3,874	3,879	3,884	3,889	3,890	3,891	3,881	3,882
Whitemarsh Township	17,349	17,375	17,443	17,478	17,491	17,669	17,652	17,795
Whitpain Township	18,875	18,897	18,997	19,100	19,136	19,177	19,163	19,308
Worcester Township	9,750	9,766	9,913	10,051	10,159	10,319	10,426	10,486

	April 1, 2010	**Population Estimate (as of July 1)**						
	Census	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Philadelphia Total Population	1,526,006	1,528,427	1,539,022	1,550,379	1,555,868	1,560,609	1,564,964	1,567,872
Population of PECO's Philadelphia Electric Service Territory	1,526,006	1,528,427	1,539,022	1,550,379	1,555,868	1,560,609	1,564,964	1,567,872
Population Change in PECO's Philadelphia Electric Service Territory Since 2010 Census		2,421	13,016	24,373	29,862	34,603	38,958	41,866

	April 1, 2010	**Population Estimate (as of July 1)**						
	Census	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
York County Total Population	434,972	435,540	436,845	437,641	439,117	440,590	441,929	443,744
Population of PECO's York County Electric Service	17,779	17,788	17,819	17,836	17,866	17,947	17,997	18,039
Population Change in PECO's York County Electric Service Territory Since 2010 Census		9	40	57	87	168	218	260
Chanceford Township	6,111	6,110	6,110	6,115	6,117	6,130	6,129	6,151
Delta Borough	728	728	730	728	726	724	723	721
Fawn Township	3,099	3,105	3,112	3,108	3,112	3,110	3,123	3,140
Lower Chanceford Township	3,028	3,029	3,042	3,054	3,055	3,073	3,078	3,076

Peach Bottom Township	4,813	4,816	4,825	4,831	4,856	4,910	4,944	4,951

Notes: The estimates are based on the 2010 Census and reflect changes to the April 1, 2010 population due to the Count Question Resolution program and geographic program revisions. For population estimates methodology statements, see http://www.census.gov/programs-surveys/popest/technical-documentation/methodology.html.
Annual Estimates of the Resident Population for cities and towns (incorporated places and minor civil divisions), May 2017. For a list of communities where PECO provides electric service, see https://www.peco.com/SiteCollectionDocuments/CurrentElecTariff_December012017.pdf

Q. I-B-2 Provide a description of the property of the utility and an explanation of the system's operation and supply the following, using available projections if actual data is unavailable:

a. A schedule of generating capability showing for the test year, and for the two consecutive 12-month periods prior to the test year, net dependable capacity in KW by unit, plant capacity factor by unit, and total fuel consumption by type and cost for each unit, if available, or for each station, and operation and maintenance expenses by station.

b. A schedule showing for the test year and the 12-month period immediately prior to the test year the scheduled and unscheduled outages – in excess of 48 hours – for each station, the equipment or unit involved, the date the outage occurred, duration of the outage, maintenance expenses incurred for each outage. If available, and amounts reimbursable from suppliers or insurance companies.

c. A schedule for each unit retired during the test year or subsequent to the end of the test year, which shows the unit's KW capacity, hours of operation during the test year, net output generated, cents/KWH of maintenance and fuel expenses, and date of retirement.

d. A schedule showing latest projections of capacity additions and retirements – costs and KW – and reserve capacity at the time of peak for at least 10 years beyond the test year, including the inservice dates – actual or expected – and AFDC cutoff dates – if different from inservice dates – for all new generating units coming on line during or subsequent to the test year, if claimed.

A. I-B-2 Not applicable. PECO does not own any generation assets but instead, purchases power from wholesale generation suppliers and the PJM capacity and energy markets to serve its default service customers.

Q. I-B-3 Provide an overall system map, including and labeling all generating plants, transmission substations – indicate voltage, transmission system lines – indicate voltage, and all interconnection points with other electric utilities, power pools, and other like systems.

A. I-B-3 The “overall system map” requested in this DFR contains Critical Energy Infrastructure Information (CEII) as defined by the Federal Energy Regulatory Commission’s (FERC) regulations. Consequently, the requested system map constitutes “Confidential Security Information” under 35 P.S. §§ 2141.1 et seq. and the Pennsylvania Public Utility Commission’s (PUC) regulations at 52 Pa. Code §§102.1 – 102.4. Therefore, an overall system map is not being provided. However, if the Commission determines that access to an overall system map is necessary to decide issues presented in this case, PECO will make the map available for review on a confidential basis, consistent with FERC regulations, to a PUC employee or representative who is trained in handling CEII.

Q. II-A-1 Provide a schedule showing the test year rate base and rates of return at original cost less accrued depreciation under present rates and under proposed rates. Claims made on this schedule should be cross-referenced to appropriate supporting schedules.

A. II-A-1 Refer to Schedule A-1 in Exhibits BSY-1 and BSY-2, for the fully projected future test year and the future test year, respectively, and Schedule A-1 of Exhibit BSY-3 for the historic year. The referenced schedules are discussed in PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. II-A-2 If the schedule provided in response to item 1, is based upon a future test year, provide a similar schedule which is based upon actual data for the 12-month period immediately prior to the test year.

A. II-A-2 Refer to PECO Exhibit BSY-3, Schedule A, plus PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. II-A-3 When a utility files a tariff stating a new rate based in whole or in part on the cost of construction, as defined in 66 Pa. C.S. § 1308(f) (relating to voluntary changes in rates), of an electric generating unit, the utility shall identify:

a. The total cost of the generating unit.

b. The following costs:
  (1) The cost and quantity of each category of major equipment, such as switchgear, pumps or diesel generators and the like.
  (2) The cost and quantity of each category of bulk materials, such as concrete, cable and structural steel and the like.
  (3) Manual labor
  (4) Direct and indirect costs of architect/engineering services
  (5) Direct and indirect costs of subcontracts or other contracts involving major components or systems such as turbines, generators, nuclear steam supply systems, major structures and the like.
  (6) Distributed costs.

c. A cost increase of $5 million or more, including AFUDC, over the original utility estimates provided under 66 Pa. C.S. § 515(a) (relating to construction cost of electric generating units) and its causes.

d. Compliance with subsections (a) and (b) will be identical in format and substance as that provided under 52 Pa. Code § 57.103 (relating to estimate of construction costs) for original cost estimates submitted under 66 Pa. C.S. § 515(a).

A. II-A-3 Not applicable. PECO does not own any generation but instead purchases power from wholesale generation suppliers and the PJM capacity and energy market to serve its default service customers.

II-B-1

Benjamin S. Yin

Q. II-B-1 If a claim is made for future use, supply the following:

a. A description of the plant or land site and its cost any accumulative depreciation.
b. The expected date of use for each item claimed.
c. An explanation as to why it is necessary to acquire each item in advance of its date of use.
d. The date when each item was acquired.
e. The date when each item was placed in plant held for future use.

A. II-B-1 Not applicable. The Company is not making a claim for plant held for future use.

Q. II-B-2	If a claim is made for construction work in progress, provide a supporting schedule which sets forth separately, revenue producing and non-revenue producing amounts, and include, for each category a summary of all work orders, amounts expended at the end of the test year and anticipated in-service dates. Indicate if the construction work in progress will result in insurance recoveries, reimbursements, or retirements of existing facilities. Describe in exact detail the necessity of each project claimed if not detailed on the summary page from the work order. Include final completion dates and estimated total amounts to be spent on each project.
A. II-B-2	Not applicable. The Company is not making a claim for construction work in progress.

II-B-3

Benjamin S. Yin

Q. II-B-3 If a claim is made for materials and supplies or fuel inventory provide a supporting schedule for each claim showing the latest actual 13 monthly balances and showing in the case of fuel inventory claims, the type of fuel, and location, as in station, and the quantity and price claimed.

A. II-B-3 Refer to Schedule C-11 of Exhibits BSY-1 and BSY-2 for the thirteen-month average for materials and supplies. The Company is not making a claim for fuel inventory.

Q. II-B-4	If a claim is made for cash working capital provide a supporting schedule setting forth the method and all detailed data utilized to determine the cash working capital requirement. If not provide in the support data provide a lead-lag study of working capital, completed no more than 6 months prior to the rate increase filing.
A. II-B-4	Refer to PECO Statement No. 3, the direct testimony of Benjamin S. Yin, and Schedule C-4 of Exhibits BSY-1 and BSY-2, for the fully projected future test year and the future test year, respectively, for the calculation of the Company’s cash working capital requirement.

Q. II-B-5 If a claim is made for compensating bank balances, provide the following information:

a. Names and address of each bank
b. Types of accounts with each bank – checking, savings, escrow, other services, and the like.
c. Average daily balance in each account.
d. Amount and percentage requirements for compensating bank balance at each bank.
e. Average daily compensating bank balance at each bank.
f. Documents from each bank explaining compensating bank balance requirements.
g. Interest earned on each type of account.
h. A calculation showing the average daily float for each bank.

A. II-B-5 No claim is made for compensating bank balances.

II-B-6
Page 1 of 1
Benjamin S. Yin

Q. II-B-6	Explain in detail by statement, or exhibit the appropriateness of additional claims or the use of a method not previously mentioned, in the claimed rate base.
A. II-B-6	Not applicable. The Company is not claiming any additional items not discussed, explained and supported in the statement of operating income contained in PECO Exhibits BSY-1, BSY-2, and BSY-3 and PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

II-C-1

Benjamin S. Yin

Q. II-C-1 Prepare a Statement of Income including:

a. The book, or budgeted, statement for the test year.

b. Adjustments to annualize and normalize under present rates, including an elimination of the effects on income of the energy cost rate and state tax adjustment surcharge.

c. The income statement under present rates after adjustment.

d. The adjustment for the revenue requested.

e. The income statement under requested rates after adjustment.

A. II-C-1 Refer to Schedules A-1, D-1 and D-2 of Exhibits BSY-1 and BSY-2 for the fully projected future test year and the future test year, respectively, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin, which provide the requested information.

Q. II-C-2 If the schedule provided in item 1 is based upon budgeted date for a future test year, provide a similar schedule which is based upon actual data for the 12-month period immediately prior to the test year.

A. II-C-2 Refer to PECO Exhibit BSY-3, Schedules A-1, D-1, and D-2, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin, which provide the requested information.

Q. II-D-1 Provide a schedule showing all revenues and expenses for the test year and for the 12-month period immediately prior to the test year, together with an explanation for major variances between test year revenues and expenses and those for the previous 12-month period. Revenues and expenses shall be summarized by the major account categories listed below. If budgeted data for a future test year is not readily available by these categories, an analysis of the data for the 12-month period immediately prior to the future test year or for the most recent available calendar year may serve as the basis ratably allocating the budgeted data into the account categories as follows: OPERATING REVENUES 400 Electric Revenues: Residential Sales Commercial Sales Industrial Sales Public Street & Highway Lighting Sales Sales for Resale Total Other Electric Revenues Other Electric Revenues: Late Payment Charges Miscellaneous Service Revenues Rent from Electric Property Other Electric Revenues Total Other Electric Revenues Total Operating Revenues OPERATING EXPENSES 401-2 Operation and Maintenance Expenses Power Production Expenses: Fuel Net Interchange Deferred Energy Costs Other Transmission Expenses Distribution Expenses Customer Service & Informational Expense Sales Expenses Administrative and General Expenses Total Operation & Maintenance Expenses 403 Depreciation Expenses Amortization of Net Salvage Nuclear Decommissioning Expense 407 Amortization of Property Losses Taxes Other Than Income Taxes 408 Total Operating Expenses Prior to Federal & State Income Taxes Operating Income Prior to Federal and State Income Taxes FEDERAL AND STATE INCOME TAXES 409 Federal Income Taxes State Income Taxes Deferred Federal Income Taxes Deferred State Income Taxes Investment Tax Credit Adjustments 411 Deferrals Amortization – Credit Other Income Tax Credits & Charges Total Federal and State Income Taxes Operating Income After Federal and State Income Taxes OTHER INCOME AND DEDUCTIONS OTHER INCOME 415-18 Non-utility Operating Income 419 Interest and Dividend Income Allowance for Other Funds Used During Construction 421 Gain on Disposition of Property Other Miscellaneous Non-operating Income Total Other Income OTHER INCOME DEDUCTIONS 421 Loss on Disposition of Property 425 Miscellaneous Amortization 426

Miscellaneous Total Other Income Deductions TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS 408 Taxes Other Than Income Taxes 409 Federal Income Tax State Income Tax Total Taxes Applicable to Other Income and Deductions Income Before Interest Charges INTEREST CHARGES 427 Interest on Long-Term Debt 428 Amortization of Debt Discount and Expense 429 Amortization of Premium on Debt 431 Other Interest Expense 432 Allowance for Borrowed Funds Used During Construction – Credit Net Interest Charges Income Before Extraordinary Items Extraordinary Items After Taxes Net Income

A. II-D-1 Refer to Attachment II-D-1(a), which was prepared by witness Benjamin S. Yin, and Attachment II-D-1(b), which was prepared by witness Phillip S. Barnett, for the requested comparison of revenues and expenses between the Company's claims for the fully projected future test year (2019) and the future test year (2018) and amounts recorded on its books of account for the historic test year (2017), as well as explanations of the variances between projected and actual amounts.

PECO - Electric Operations
Before The Pennsylvania Public Utility Commission
Fully Projected Future Test Year Ended December 31, 2019
($ in Thousands)

Revenue and Expense Comparison for 2019, 2018 and 2017

Line No	Description		[1] Pennsylvania Jurisdiction 2017	[2] Pennsylvania Jurisdiction 2018	[3] Pennsylvania Jurisdiction 2019
	TOTAL OPERATING REVENUES				
1	Residential	440	$ 1,416,148	$ 1,405,076	$ 1,401,499
2	Small C & I	442	370,057	330,731	336,024
3	Large C & I	442	197,111	207,906	225,012
4	Railroads & Railways	446	8,411	7,926	8,929
5	Street Lighting	445	20,004	18,734	19,892
6	Inter-Company	448	145	1,037	1,068
7	Transmission - All Classes		148,026	174,833	185,615
8	Total Operating Revenue		$ 2,159,902	$ 2,146,244	$ 2,178,038
9	Sales For Resale	447	135	-	-
10	Forfeited Discounts	450	11,699	10,188	9,406
11	Miscellaneous Service Revenues	451	5,040	3,791	3,794
12	Rent For Electric Property	454	17,695	17,507	17,832
13	Decommissioning Payment		(23,455)	(3,860)	(3,860)
14	Other Electric Revenues	456	11,983	6,414	6,514
15	Transmission of Electricity for Others	456.1		-	-
16	Total Revenues		$ 2,183,000	$ 2,180,285	$ 2,211,725
	TOTAL OPERATING EXPENSES				
17	Power Supply		648,913	652,096	608,548
18	Transmission Expenses		136,281	162,215	172,218
19	Regional Market		25	-	-
20	Distribution Expenses		261,345	277,525	279,921
21	Customer Accounts Expenses		98,209	97,395	99,412
22	Customer Service & Information Expense		68,108	79,458	100,796
23	Sales Expense		737	830	864
24	Administrative & General Expense		171,254	177,473	181,392
25	Total Operating Expenses		$ 1,384,871	$ 1,446,991	$ 1,443,152
26	DEPRECIATION EXPENSE		191,458	206,099	227,601
27	TAXES--OTHER THAN INCOME		144,582	144,810	147,607
28	Total Expenses		$ 1,720,911	$ 1,797,899	$ 1,818,360
29	Total Operating Income Before Income Taxes		$ 462,088	$ 382,385	$ 393,365
30	Federal and State Income Taxes		130,332	73,630	92,290
31	Deferred Income Taxes		35,649	6,462	(7,390)
32	ITC Amortization		(38)	(36)	(28)
33	Consolidated Tax Adjustment		-	-	-
34	Net Income Tax Expenses		$ 165,943	$ 80,056	$ 84,872
35	Net Operating Income		$ 296,145	$ 302,330	$ 308,493

Total Revenue for 2018 is ($3M) lower than 2017. The main drivers are:

- 2018 revenues reflect customer credits due to the impacts of the Tax Cuts and Jobs Act ($71M) that were assumed to begin January 1, 2018
- Other Electric Revenues for mutual assistance in 2017 are lower by ($5M); there is a correponding reduction in O&M expense
- Forfeited Discounts Revenues were lower by ($2M) primarily because of lower past-due A/R
- Non-Bypassable Transmission revenue increased by $26M, which is primarily offset in Transmission Cost
- Nuclear Decommissioning payments, reflected as negative revenue, decreased by $20 million, for which there was an offset within Operating Revenues
- Unfavorable weather in 2017 for Electric Distribution reduced 2017 operating revenue by $10M
- Energy Efficiency program cost recovery increased by $14M, which is primarily offset in O&M expense
- An increase in Energy Revenue of $11M was primarily driven by increased energy prices and decreased shopping activities, which is primarily offset in Power Supply Cost
- DSIC revenue increased by $6M for recovery of LTIIP spending
- Load Growth/Mix caused an increase of $5M

Total Revenue for 2019 is $31M higher than 2018. The main drivers are:

- Completion of refunding of Tax Repairs Bill Credits to customers in 2018 of $34M
- Energy Efficiency program cost recovery of $22M, which is primarily offset in O&M expense
- DSIC revenue increased by $12M for recovery of LTIIP spending
- Non-Bypassable Transmission revenue increased by $8M, which is primarily offset in Transmission Cost
- Retail Bypassable Transmission revenue increased by $3M, which was driven by higher rates, which is primarily offset by increased Transmission Cost
- Energy Revenue decreased by ($46M), which is primarily driven by decreased energy prices and increased shopping activities, which is primarily offset in Power Supply Cost
- Load Growth/Mix caused a decrease of ($2M)

Total Operating Expenses for 2018 are $62M higher than 2017. The main drivers are:

- Higher Power Supply Cost of $3M, which is primarily offset in Operating Revenue
- Higher Transmission Cost of $26M, which is primarily offset in Operating Revenue
- Higher Distribution Expenses of $16M primarily caused by the addition to the storm reserve for 2018 as there were no major storms in 2017.

- Higher Customer Service and Information expenses of $11M are primarily due to an increase in expenditures for Act 129 Energy Efficiency programs.
- Higher Administrative & General Expenses of $6M are primarily driven by inflationary impacts upon base payroll and contracting, which were offset by reductions in BSC costs and pension and benefit costs.

  PECO does not budget by FERC account. Please refer the Company's response to SDR-OM-02 for more detailed variance explanations by natural expense codes, which exclude Energy Efficiency costs.

Total Operating Expenses for 2019 are ($4M) lower than 2018. The main drivers are:

- Lower Power Supply Cost of ($44M), which is primarily offset in Operating Revenue
- Higher Transmission Cost $10M, which is primarily offset in Operating Revenue
- Higher Distribution Expenses of $2M are primarily driven by inflationary impacts upon base payroll and contracting, which were offset by reductions in BSC costs and pension and benefit costs.
- Higher Customer Accounts Expense by $2M are primarily driven by inflationary impacts upon base payroll and contracting, which were offset by reductions in BSC costs and pension and benefit costs.
- Higher Customer Service and Information expenses of $22M are primarily due to an increase in expenditures for Act 129 Energy Efficiency programs.
- Higher Administrative & General Expenses of $4M are primarily driven by inflationary impacts upon base payroll and contracting, which were offset by reductions in BSC costs and pension and benefit costs.

  PECO does not budget by FERC account. Please refer the Company's response to SDR-OM-02 for more detailed variance explanations by natural expense codes, which exclude Energy Efficiency costs.

Total Depreciation and Amortization Expense for 2018 is $15M higher than 2017. The main drivers are:

- Higher Plant Depreciation of $8M as a result of increased investment
- Higher Software IT Amortization of $1M as a result of increased investment
- Higher Energy Efficiency Program Amortization of $1M
- Higher CAP Foregiveness Program Amortization of $2M

Total Depreciation and Amortization Expense for 2019 is $22M higher than 2018. The main drivers are:

- Higher Plant Depreciation of $18M as a result of increased investment
- Higher Software IT Amortization of $5M as a result of increased investment
- Lower CAP Shopping Amortization of ($2M)

Total Taxes Other Than Income for 2018 are flat compared to 2017.

Total Taxes Other Than Income for 2019 are $3M higher than 2018. The main driver is:

- Higher Gross Receipts Tax related to higher retail revenue of $3M

Total Income Taxes for 2018 are ($86M) lower than 2017 due primarily to:

- Lower State Income Tax of ($10M) is primarily driven by lower pre-tax income
- Lower Federal Income Tax of ($47M) is primarily driven by lower pre-tax income, property-related timing differences and changes to tax law related to bonus depreciation
- Lower Deferred Income Tax of ($29M) is primarily driven by property-related timing differences, changes to tax law related to bonus depreciation and amortization of excess deferrals

Total Income Taxes for 2019 are $4M higher than 2017 due primarily to:

- Higher State Income Tax of $3M is primarily driven by property-related timing differences
- Higher Federal Income Tax $15M is primarily driven by property-related timing differences
- Lower Deferred Income Tax ($14M) is primarily driven by property-related timing differences

Q. II-D-2 Provide a summary of test year adjustments which sets forth the effect of the adjustment upon the following: operating revenues, operating expenses, taxes other than income taxes, operating income before income taxes, State income tax, Federal income tax and income available for return. In addition, test year adjustments shall be presented on the basis of the major account categories set out at II-D-1.

A. II-D-2 Refer to Schedules D-3 and D-5 of Exhibits BSY-1 and BSY-2 for a summary of each proposed adjustment for the fully projected future test year and future test year, respectively. The impact on taxes other than income is reflected on Schedule D-16, and the impact on State and Federal income taxes is shown on Schedule D-18.

Q. II-D-3 List and explain all nonrecurring or extraordinary expenses incurred in the test year and all expenses included in the test year which do not occur yearly but are of a nature that they do occur over an extended period of years, for example, non-yearly maintenance programs, and the like.

A. II-D-3 Future test year expenses do not include any nonrecurring or extraordinary expenses.

Q. II-D-4 As a separate item, list extraordinary property losses related to property previously included in cost of service when the gain or loss on this property has occurred or is likely to occur in the future test year. The proposed ratemaking treatment of extraordinary gains and losses must also be disclosed. Sufficient supporting data must be provided.

A. II-D-4 No claim is being made for extraordinary property losses.

Q. II-D-5 Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued, and amounts written-off in each of last three years.

A. II-D-5

Uncollectible Accounts
($000)

Year	Reserve Balance*	Write-offs**	Change in Reserve
2015	(78,240)	49,400	(33,072)
2016	(75,309)	39,535	(36,604)
2017	(63,807)	34,611	(23,108)

*Represents reserve for uncollectible customer accounts at the end of each year for electric services only. Does not include reserve for late payment charges or reserves on other accounts.

**The write-offs above include $6,876 and $187 of write-offs for the years ended December 31, 2017 and 2016, respectively, related to the in-program arrearage forgiveness program (Docket No. M-2012-2290911), which have been excluded from Schedule D-10 in Exhibit BSY-1, BSY-2 and BSY-3.

The reserve methodology is predominantly based on applying loss rates developed specifically for PECO to the outstanding receivable balance by risk segment. Risk segments represent a group of customers with similar credit quality indicators. Risk indicators are computed based on various attributes, including the customers' delinquency of account balances and payment history. Loss rates applied to the accounts receivable balances are based on historical average charge-offs as a percentage of accounts receivable in each risk segment. Once established, the loss factors are updated quarterly. On a monthly basis, the reserve is calculated and analyzed, taking into account the then current month's write-offs, and is adjusted as required.

II-D-6
Page 1 of 1
Benjamin S. Yin

Q. II-D-6 Supply detailed calculations to support the total claim for rate case expense, including supporting data for outside service rendered. Provide the items comprising the estimated rate case expense claim for the current rate case.

A. II-D-6 Refer to Schedule D-7 of Exhibits BSY-1 and BSY-2 and PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. II-D-7 Submit schedules for the test year and for the 12-month period immediately prior to the test year showing by major components, if included in claimed test year expenses, the expenses incurred in each of the following expense categories.

a. Miscellaneous general expenses, including account 930.
b. Outside service expenses.
c. Regulatory commission expenses.
d. Advertising expenses, including advertising engaged in by trade associations whenever the utility has claimed a contribution to the trade association as a ratemaking claim – provide explanation of types and purposes of such advertising.
e. Research and development expenses – provide a listing of major projects.
f. Charitable and civic contributions, by recipient and amount.

A. II-D-7

a. Refer to Attachment II-D-7(a) for Miscellaneous general expenses, including account 930 for distribution.
b. Refer to Attachment II-D-7(a) for Outside service expenses for distribution.
c. Refer to Attachment II-D-7(a) for Regulatory commission expenses for distribution.
d. Refer to Attachment II-D-7(a) for Advertising expenses for distribution.
e. Refer to Attachment II-D-7(a) for a listing of major projects for Research and Development expenses for distribution.
f. Charitable and civic contributions are not included in the Company's test year claim.

II-D-8
Page 1 of 1
Phillip S. Barnett

Q. II-D-8	Provide an analysis by function of charges by affiliates, for the test year and the 12-month period immediately prior to the test year, for services rendered included in the operating expenses of the filing company. Explain the nature of the service and the basis on which charges or allocations are made, including a copy of an applicable contract. Also, explain major variances between the charges for the test year and the correspondence charges for the prior 12-month period.
A. II-D-8	Refer to Attachment II-D-8(a) for 2017 and budgeted 2018 and 2019 expenditures for services rendered by Exelon Business Services Company (BSC) and other affiliate services. Refer to SDR-OM-15 for the nature of the services and the basis on which charges or allocations are made.

Q. II-D-9 Prepare a detailed schedule for the test year showing types of social and service organization memberships paid for, the cost thereof, the accounting treatment and whether included in claimed test year expenses.

A. II-D-9 No social and service organization memberships are included in the Company's claimed test year expenses.

II-D-10
Page 1 of 1
Phillip S. Barnett

Q. II-D-10 Provide the following payroll and employee benefit data – regular and overtime – separately for the test year and for the 12-month period immediately prior to the test year:

a. The average and year-end number of employees and the unadjusted annual payroll expenses and employees benefit expense associated with union personnel.
b. The average and year-end number of employees and the unadjusted annual payroll expense and employee benefit expense associated with nonunion personnel.
c. The average and year-end number of employees and the unadjusted annual payroll expense and employee benefit expense associated with management employees, if different than b.
d. A summary of the wage rate, salary and employee benefit changes granted or to be granted during the year.
e. The claimed test year payroll expense and employee benefit expense.
f. The percentage of payroll expense and employee benefit expense applicable to operation and maintenances and the basis thereof.

A. II-D-10 Refer to Attachment II-D-10(a) for responses to items (a.) through (f.)

Q. II-D-11 Describe costs relative to leasing equipment, including computer rentals, and office space, including terms and conditions of the leases. State method for calculating monthly or annual payments.

A. II-D-11 Refer to Attachment II-D-11(a).

Q. II-D-12 Submit a statement of past and anticipated changes, since the previous rate case, in major accounting procedures, explain any differences between the basis or procedure used in allocations of revenues, expenses, depreciation and taxes in the current rate case and that used in the prior rate cases, and list all internal and independent audit reports for the most recent 2 year period.

A. II-D-12 Refer to Attachment II-D-12(a). As PECO Energy filed a base rate case in 2015, the requested information on significant accounting policies is found in FERC Form 1, Footnote 1 – Significant Accounting Policies and in the SEC Form 10-K for 2014, 2015, 2016. See SDR-GEN-02 for 2017 FERC form. As the information in those two reports for each year are identical, only the relevant pages from the FERC Form 1 are attached.

Exelon is the sponsor of the pension and other postretirement employee benefit (OPEB) plans. PECO (and Exelon's other subsidiaries) participate in the Exelon plans and apply multiemployer accounting, which requires recording allocated costs and contributions in PECO's financial statements. Prior to the 2015 rate case, Exelon had allocated the components of pension and OPEB costs to PECO based upon several factors, including the measures of active employee participation. Pension and OPEB contributions were allocated to PECO in proportion to active service costs recognized and total costs recognized, respectively. Since 2015, Exelon has allocated pension and OPEB costs to PECO based on both active and retired employee participation, and contributions are being allocated based on accounting cost.

For information regarding allocations between electric and gas, see PECO Statement 4, the testimony of Scott A. Bailey.

Refer to the Attachment II-D-12(b) for a list of internal audit reports issued in 2016 and 2017.

Refer to Attachment II-D-12(c) for the external audit reports. The audit reports are Management's Report on Internal Control Over Financial Reporting dated February 13, 2017 and February 9, 2018, the Report of Independent Registered Public Accounting Firm dated February 13, 2017 and February 9, 2018, and the PAPUC Management Efficiency Investigation on the Focused Management and Operations Audit Report dated August 2017.

II-D-13
Page 1 of 1
Scott A. Bailey

Q. II-D-13 Regardless of whether a claim for negative or positive net salvage is made, attach an exhibit showing gross salvage, cost of removal, third party reimbursements, if any, and net salvage for the test year and 4 previous years.

A. II-D-13 Refer to Attachment II-D-13(a), which shows the 2015-2019 net salvage (cost of removal net of salvage value) that has been, or is expected to be, closed to the Accumulated Reserve. The 2018 and 2019 net salvage amounts are based on a three-year average of experienced net salvage for the years 2015-2017.

Q. II-D-14 State the amount of debt interest utilized for test year income tax calculations, including the amount so utilized which has been allocated from the debt interest of an affiliate, and provide details of debt interest allocation computations.

A. II-D-14 Refer to Schedule D-18, page 1, line 6, of Exhibits BSY-1 and BSY-2 for the fully projected future test year and future test year, respectively, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin. The Company has not included any debt interest of an affiliate in its interest synchronization calculation.

Q. II-D-15 Provide a schedule for the test year of Federal and Pennsylvania taxes other than income taxes, per books, pro forma at present rates, and pro forma at proposed rates, including the following tax categories:

a. Social security
b. Unemployment
c. Capital stock
d. Public utility
e. P.U.C. assessment
f. Other property taxes
g. Any other appropriate categories

A. II-D-15 Refer to Exhibit BSY-1, Schedule D-16, pages 1-3 for 2019 budget amounts, pro forma at present rates and pro forma at proposed rates. Refer to Exhibit BSY-2, Schedule D-16, pages 1-3 for 2018 budget amounts, pro forma at present rates and pro forma at proposed rates.

Q. II-D-16 Submit a schedule showing the adjustments from taxable net income per books to taxable net income pro forma under existing rates and pro forma under proposed rates, together with an explanation of all normalizing adjustments. Submit detailed calculations supporting taxable income before State and Federal income taxes where the income tax is subject to allocation due to operations in another state or due to operation of other taxable utility or non-utility business, or by operating divisions or areas.

A. II-D-16 Refer to Schedule D-18 of Exhibits BSY-1 and BSY-2 for the fully projected future test year and the future test year, respectively, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. II-D-17 Submit a schedule showing for the last 5 years the income tax refunds, plus interest – net of taxes, received from the Federal government due to prior years' claims.

A. II-D-17 Refer to Confidential Attachment II-D-17(a) for a schedule detailing the last five years of Federal income tax refunds. There were no refunds for the years 2013, 2015 and 2016.

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Q. II-D-18 Furnish a breakdown of major items comprising prepaid and deferred income tax charges and other deferred income tax credits, reserves and associated reversals on liberalized depreciation.

A. II-D-18 Refer to Attachment II-D-18(a) for the breakdown of major items.

Q. II-D-19 Explain how the Federal corporate graduated tax rates have been reflected for rate case purposes. If the Pennsylvania jurisdictional utility is part of a multi-corporate system, explain how the tax savings are allocated to each member of the system.

A. II-D-19 PECO joins with its parent Exelon Corporation ("Exelon") and other subsidiaries of Exelon in filing a consolidated federal income tax return. The Tax Cuts and Jobs Act, enacted on December 22, 2017, eliminated graduated corporate tax rates. Effective January 1, 2018, the Tax Cuts and Jobs Act established a flat 21% corporate tax rate. For tax years prior to 2018, the federal taxable income of PECO and the taxable income of Exelon Corporation both exceeded $18.3 million, the amount designated by the IRS as the level at which the graduated tax rates were fully phased out. Therefore, there are no tax savings from graduated federal corporate income taxes to be reflected by PECO for rate making purposes.

Q. II-D-20 Explain the treatment given to costs of removal in the income tax calculation and the basis for such treatment.

A. II-D-20 The Company includes the cost of removal in the income tax calculation in accordance with Revenue Ruling 2000-7 of the IRS. Costs of removal are treated as deductible tax expense when incurred and need not be capitalized as part of the cost of the replacement asset under section 263 or 263A.

Q. II-D-21 Show income tax loss/gain carryovers from previous years. Show loss/gain carryovers by years of origin and amounts remaining by years at the beginning of the test year.

A. II-D-21 Tax loss carryovers related to Pennsylvania State Corporate Net Income Tax:

Tax Return Year	PECO Loss Generated	Remove "Catch Up"	Electric Allocation	Remaining Electric NOL
(in Thousands)			63.69%	
2011	230,001	(97,000)	84,702	84,702
2012 (utilization)			(13,127)	71,575
2013 (utilization)			(25,394)	46,181
2014 (utilization)			(2,547)	43,634
2015 (utilization)			(12,608)	31,026
2016 (utilization)			(17,831)	13,195
2017 (utilization)			(9,263)	3,931
Carryforward				3,931

Q. II-D-22 State whether the company eliminates tax savings by the payment of actual interest on construction work in progress not in rate base claim. If response is affirmative:

a. Set forth amount of construction claimed in this tax savings reduction and explain the basis for this amount.
b. Explain the manner in which the debt portion of this construction is determined for purposes of the deferral calculations.
c. State the interest rate used to calculate interest on this construction debt portion, and the manner in which it is derived.
d. Provide details of calculation to determine tax savings reduction, and state whether State taxes are increased to reflect the construction interest elimination.

A. II-D-22 The Company computes its income tax expense by deducting interest that is synchronized with the debt actually supporting the plant in service included in its measures of value and, therefore, excludes interest related to debt that may be supporting construction work in progress that is not in the Company's rate base claim.

Q. II-D-23 Under section 1552 of the Internal Revenue Code (26 U.S.C.A. § 1552) and 26 CFR 1.1552-1 (1983), if applicable, a parent company, in filing a consolidated income tax return for the group, must choose one of four options by which it must allocate total income tax liability of the group to the participating members to determine each member's tax liability to the Federal government (if this interrogatory is not applicable, so state):

a. State what option has been chosen by the group.
b. Provide, in summary form, the amount of tax liability that has been allocated to each of the participating members in the consolidated income tax return for the test year and the most recent 3 years for which data is available.
c. Provide a schedule, in summary form, of contributions, which were determined on the basis of separate tax return calculations, made by each of the participating members to the tax liability indicated in the consolidated group tax return. Provide total amounts of actual payments to the tax depository for the tax year, as computed on the basis of separate returns of members.
d. Provide the most recent annual income tax return for the group.
e. Provide details of the amount of the net operating losses of any member allocated to the income tax returns of each of the members of the consolidated group for the test year and the 3 most recent years for which data is available, together with a summary of the actual tax payments for those years.
f. Provide details of the amount of net negative income taxes, after all tax credits are accounted for, of any member allocated to the income tax return of each of the members of the consolidated group for the test year and the 3 most recent years for which data is available, together with a summary of the actual tax payments for those years.

A. II-D-23

a. PECO Energy Company is owned by Exelon Corporation (Exelon). Internal Revenue Code Section 1552 provides for an allocation of consolidated income tax for "earnings and profits" purposes only. Exelon has elected option (a)(2), which in general, allocates consolidated tax (other than alternative minimum tax) among subsidiaries in accordance with Separate Return Tax. Generally, as set forth in the Exelon Tax Sharing Agreement, subsidiaries having positive allocations pay the amount of such allocations and subsidiaries having negative allocations receive payment for their allocation.

b. Confidential Attachments II-D-23(a-c) details the tax liability allocated to each of the participating members in the consolidated federal income tax return for 2014, 2015 and 2016.

c. Exelon is the parent company of the Exelon consolidated group that includes PECO Energy Company and makes all necessary income tax payments to the Internal Revenue Service for the net tax liability that is due for the consolidated group. Exelon charges member companies that have positive federal income tax allocation and pays member companies that have a negative federal income tax allocation. The amounts Exelon receives from, or pays to, each member company are the same amounts as detailed in Confidential Attachments II-D-23(a-c).

d. The most recent Federal income tax return filed by the consolidated group is for tax year 2016. The complete tax return contains over 1,000 pages. Confidential Attachment II-D-23(d) contains pages 1-5 of the Federal Form 1120 and a summary of taxable income by member company. Access to the complete Federal Income Tax returns shall be provided upon request.

e. The details of members with net operating losses are shown on Confidential Attachments II-D-23(a-c) in the column entitled “Taxable Income”. Net operating losses are expressed as negative numbers on the attachment. See part c of this defined filing requirement for the detail of actual tax payments.

f. The details of the amounts of net negative income taxes are shown on Confidential Attachments II-D-23(a-c) in the column entitled "Net Tax Liability". Net negative income taxes are expressed as negative numbers. See part c of this defined filing requirement for the detail of actual tax payments.

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II-D-24
Page 1 of 1
Benjamin S. Yin

Q. II-D-24 Provide detailed computations by vintage year showing State and Federal deferred income taxes resulting from the use of accelerated tax depreciation associated with post-1969 public utility property, ADR rates, and accelerated tax depreciation associated with post-1980 public utility property under the Accelerated Cost Recovery System (ACRS).

A. II-D-24 Attachment II-D-24(a) contains the tax depreciation for all assets included in the Company's measure of value. The book depreciation is presented in Schedule 18 of PECO Exhibits BSY-1 and BSY-2. The Company's tax records do not separately identify property installed prior to 1970 and property installed subsequent to 1969.

Attachment II-D-24(a) also includes plant installed subsequent to 1980, but the Company does not segregate data in the manner requested.

Q. II-D-25	Submit a schedule showing a breakdown of accumulated and unamortized investment tax credits, by vintage year and percentage rate, together with calculations supporting the amortized amount claimed as a reduction to pro forma income taxes. Provide details of methods used to write-off the unamortized balances.
A. II-D-25	Prior years' deferred investment tax credits ("ITCs") are being recognized in income ratably over the remaining life used for depreciation for financial accounting purposes of the related property. Refer to Attachment II-D-25(a).

Q. II-D-26 Explain in detail by statement or exhibit the appropriateness of claiming any additional items, not otherwise specifically explained and supported in the statement of operating income.

A. II-D-26 Not applicable. The Company is not claiming any additional items not discussed, explained and supported in the statements of operating income contained in Exhibits BSY-1 and BSY-2, and described in PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. II-D-27 If the utility's operations include non-jurisdictional activities, provide a schedule which demonstrates the manner in which rate base and operating income date have been adjusted to develop the jurisdictional test year claim.

A. II-D-27 Refer to Exhibits BSY-1 and BSY-2 and PECO Statement No. 3, the direct testimony of Benjamin S. Yin. The manner in which non-jurisdictional amounts were calculated is discussed by Mr. Yin. For each claim that relates to operations that include non-jurisdictional activities, the calculation of the non-jurisdictional amount is shown in the applicable schedules of Exhibits BSY-1 and BSY-2 for the fully projected future test year and the future test year, respectively.

II-E-1
Page 1 of 1
Phillip S. Barnett

Q. II-E-1	Supply a copy of any budget utilized as a basis for any test year claim, and explain the utility budgeting process.
A. II-E-1	Refer to the Company's response to SDR-ROR-13 for the Company's projected operating budget. Refer to the direct testimony of Phillip S. Barnett (PECO Statement No. 2), which explains the Company's budgeting process.

Q. II-E-2	Supply summaries of the utility's projected operating and capital budgets for the 2 calendar years following the end of the test year.
A. II-E-2	Refer to the Company's response to SDR-ROR-13 for the Company's projected operating budgets. Refer to the Company's response to III-F-2 for the Company's projected capital budgets.

Q. III-A-1 Provide a schedule showing the major components of claimed capitalization, and the derivation of the weighted costs of capital for the rate case claim. This schedule shall include a descriptive statement concerning the major elements of changes in claimed capitalization, cost rates and overall return from comparable historical data.

A. III-A-1 The components of the Company's proposed weighted average cost of capital can be found in Schedules 1, 5, and 6 of PECO Exhibit PRM-1. The major changes in the Company's capitalization relate to the issuance of new debt and build-up of retained earnings in the future and fully projected future test years. The components in this regard are shown in the footnotes to Schedule 5 of PECO Exhibit PRM-1.

Q. III-A-2 Provide a schedule in the same format as Schedule 1, except for the omission of the descriptive statement, for the most immediate comparable annual historical period prior to the test year and the two calendar years most immediately preceding the rate of return claim period. Irrespective of whether the capitalization claimed on Schedule 1 includes short-term debt, Schedule 2 should reflect capital ratios with and without short-term debt.

A. III-A-2 Refer to the response to III-A-1.

Q. III-B-1 Provide a schedule showing the calculation of embedded cost of long-term debt by issue, supporting the related rate case claim. The schedule shall contain the following information:

a. Date of issue
b. Date of maturity
c. Amount issued
d. Amount outstanding
e. Amount retired
f. Amount reacquired
g. Gain or loss on reacquisition
h. Coupon rate
i. Discount or premium at issuance
j. Issuance expense
k. Net proceeds
l. Sinking fund requirements
m. Effective cost rate
n. Total average weighted effective cost rate

A. III-B-1 Refer to Exhibit PRM-1, Schedule 6.

Q. III-B-2 In the event that a claim made for a true or economic cost of debt exceeds that shown in the preceding nominal cost schedule because of convertible features, sale with warrants or for any other reason, a full statement of the basis for such a claim should be provided.

A. III-B-2 The Company is not making such a claim in this proceeding.

Q. III-B-3 Provide the following information concerning bank notes payable for actual test year:

a. Line of Credit at each bank.
b. Average daily balances of notes payable to each bank, by name of bank.
c. Interest rate charged on each bank note (Prime rate, formula rate or other).
d. Purpose of each bank note (e.g., construction, fuel storage, working capital, debt retirement).
e. Prospective future need for this type of financing

A. III-B-3 a.-e. PECO Energy Company (PECO) has access to unsecured credit facilities with aggregate bank commitments of $600 million and $34 million, which terminate on May, 2022 and October, 2018, respectively. As of December 31, 2017, PECO had no outstanding borrowings under the $600 million credit facility, which can be used for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit. The $600 million credit facility was used primarily to provide back-up credit support for PECO's commercial paper program and to issue letters of credit. PECO had $1 million in outstanding letters of credit under this facility as of December 31, 2017. During 2017, PECO issued commercial paper to meet its short-term liquidity requirements, including the funding of working capital deficits. However, as of December 31, 2017, PECO did not have any outstanding commercial paper issuances. If PECO were to draw on the unsecured facilities with the aggregate bank commitments of $600M, the interest rate would be LIBOR plus 90 basis points, based on PECO current credit rating.

The $34 million credit facility with Community/Minority Banks is used primarily to issue letters of credit to provide credit support for PECO's workmen's compensation and certain benefit claim obligations. PECO had $1 million in outstanding letters of credit as of December 31, 2017. If PECO were to draw on the $34 million facility, the interest rate would be

LIBOR plus 90 basis points based on PECO’s current credit rating.

PECO is expected to continue to meet its short-term liquidity requirements through the issuance of commercial paper. PECO may also use its credit facilities for general corporate purposes, including the funding of short-term liquidity requirements and the issuance of letters of credit.

Q. III-B-4 Provide detailed information concerning all other short-term debt outstanding.

A. III-B-4 For the most recent 24 months (FY16 and FY17), PECO did not have a short-term debt balance outstanding at the end of any month.

Q. III-B-5 Describe long-term debt reacquisition by issue by Company and Parent as follows:

a. Reacquisition by issue by year.

b. Total gain or loss on reacquisitions by issue by year.

c. Accounting for gain or loss for income tax and book purposes.

d. Proposed treatment of gain or loss on such reacquisition for ratemaking purposes

A. III-B-5 There have been no debt reacquisitions by PECO Energy Company during the period 2013-2017. Exelon Corporation debt reacquisitions are not applicable because PECO issues all of its own debt to finance its plant in service and operations.

Q. III-C-1 Provide a schedule showing the calculation of the embedded cost of preferred stock equity by issue, supporting the related rate case claim. The schedule shall contain the following information:

a. Date of issue
b. Date of maturity
c. Amount issued
d. Amount outstanding
e. Amount retired
f. Amount reacquired
g. Gain or loss on reacquisition
h. Dividend rate
i. Discount or premium at issuance
j. Issuance expenses
k. Net proceeds
l. Sinking fund requirements
m. Effective cost rate
n. Total average weighted effective cost rate

Projected new issues, retirement and other major changes from the comparable historical data should be clearly noted.

A. III-C-1 Currently, PECO has no preferred stock outstanding, and does not project issuing preferred stock.

III-D-1

Paul R. Moul

Q. III-D-1 Provide complete support for claimed common equity rate of return.

A. III-D-1 Refer to PECO Statement No. 5, the direct testimony of Paul R. Moul.

Q. III-D-2 Provide a summary statement of all stock dividends, splits or par value changes during the two (2) calendar year periods preceding the rate case filing.

A. III-D-2 The requested information is provided below for PECO Energy Company and its parent, Exelon Corporation, for calendar years 2016 and 2017.

2017

	Common Stock Dividends Declared ($ millions)	Preferred Stock Dividends Declared ($ millions)	Stock Splits	Par Value Changes
Exelon Corporation	$1,243	None **	None	None
PECO Energy Company	$288	None	None	None

2016

	Common Stock Dividends Declared ($ millions)	Preferred Stock Dividends Declared ($ millions)	Stock Splits	Par Value Changes
Exelon Corporation	$1,172	$8	None	None
PECO Energy Company	$277	None	None	None

** During Q3 2016, BGE redeemed all of its outstanding preferred shares. As there were no preferred shares outstanding at Exelon Corporation during 2017, no preferred stock dividends were declared or paid in 2017.

Q. III-D-3 Provide a schedule of all issuances of common stock, whether or not underwriters are used, for the most immediately available annual historical period and the 2 calendar years most immediate preceding the test year.

A. III-D-3 During the above referenced period, no issuances of common stock have occurred at PECO Energy Company.

Q. III-D-4	Submit details on the utility and parent company stock offerings – past 5 years to present – as follows:

a. Date of prospectus
b. Date of offering
c. Record date
d. Offering period – dates and numbers of days
e. Amount and number of shares offered
f. Offering ratio, if rights offering
g. Percent subscribed
h. Offering price
i. Gross proceeds per share
j. Expenses per share
k. Net proceeds per share (i. – j.)
l. Market price per share
  (1) At record date
  (2) At offering date
  (3) One month after close of offerings
m. Average market price during offering
  (1) Price per share
  (2) Rights per share – average value of rights
n. Latest reported earnings per share at time of offering
o. Latest reported dividends at time of offering

A. III-D-4

There have been no stock offerings in the past 5 years for PECO Energy Company.

Exelon Corporation (parent) marketed an offering of common stock on June 11, 2014 (details below) to finance a portion of the Pepco Holdings Inc. acquisition announced on April 30, 2014 and for general corporate purposes. In connection with the common stock offering, Exelon entered into forward sale agreements with an affiliate of Barclays Capital Inc. and Goldman, Sachs & Co. (the “forward counterparties”). Under those agreements, Exelon agreed to issue and sell to the forward counterparties (subject to Exelon's right to cash or net share settle the forward sale agreements) the same number of shares of Exelon's common stock sold by the forward counterparties (or their respective affiliates) in the underwritten public offering. Settlement of the forward sale agreements occurred in July 2015 with the issuance of 57.5M shares of Exelon common stock.

Details are below:

Date of prospectus: May 23, 2014
Date of offering: June 11, 2014
Record date: n/a
Offering period – dates and numbers of days: June 11, 2014, one day
Amount and number of shares offered: 57.5 million shares (initially offered 50 million shares. Underwriters were granted a 30-day option to purchase an additional 7.5 million shares of Exelon Corp common stock upon the same terms).
Offering ratio, if rights offering: n/a
Percent subscribed: n/a
Offering price: Public offering price was $35.00. Forward sale price was $32.48
Gross proceeds per share: $35.00
Expenses per share: $1.05
Net proceeds per share (i. – j.): $33.95
Market price per share
  1) At record date: n/a
  2) At offering date (June 11, 2014): $35.75
  3) One month after close of offerings (July 11, 2014): $33.78
Average market price during offering
  1) Price per share: $35.92 (average of opening and closing price on June 11, 2014)
  2) Rights per share – average value of rights: n/a

Latest reported earnings per share at time of offering: $2.50 (2013 reported EPS); $2.25 - $2.55 (2014 full-year EPS guidance at time of offering)
Latest reported dividends at time of offering: $0.31 per share, declared on May 14, 2014 (an annualized rate of $1.24 per share)

III-E-1

Paul R. Moul

Q. III-E-1 If a claim of the filing utility is based on utilization of the capital structure or capital costs of the parent company and system – consolidated – the reasons for this claim must be fully stated and supported.

A. III-E-1 The Company has not proposed the use of the capital structure or capital costs of the parent company or system – consolidated -- in this filing.

Q. III-E-2 Regardless of the claim made, provide the capitalization data requested at Item III-A-2 for the parent company and for the system—consolidated.

A. III-E-2 Refer to the response to III-A-1.

Q. III-E-3 Provide the latest available balance sheet and income statement for the parent company and system – consolidated.

A. III-E-3

Parent
12/31/17 Balance Sheet – Refer to Attachment III-E-3(a)
12/31/17 Income Statement – Refer to Attachment III-E-3(b)

System (consolidated)
12/31/17 Balance Sheet – Refer to Attachment III-E-3(c)
12/31/17 Income Statement – Refer to Attachment III-E-3(d)

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Condensed Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 74	$ 18
Deposit with IRS	—	1,250
Accounts receivable, net		
Other accounts receivable	431	73
Accounts receivable from affiliates	33	48
Notes receivable from affiliates	217	88
Regulatory assets	284	263
Other	4	—
Total current assets	1,043	1,740
Property, plant and equipment, net	50	51
Deferred debits and other assets		
Regulatory assets	3,697	4,033
Investments in affiliates	39,272	34,869
Deferred income taxes	1,431	2,107
Notes receivable from affiliates	910	922
Other	234	256
Total deferred debits and other assets	45,544	42,187
Total assets	$ 46,637	$ 43,978

See the Notes to Financial Statements

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Condensed Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 500	$ —
Long-term debt due within one year	—	570
Accounts payable	2	2
Accrued expenses	99	489
Payables to affiliates	360	706
Regulatory liabilities	16	16
Pension obligations	65	58
Other	46	50
Total current liabilities	1,088	1,891
Long-term debt	7,161	7,193
Deferred credits and other liabilities		
Regulatory liabilities	15	31
Pension obligations	7,792	8,608
Non-pension postretirement benefit obligations	322	7
Deferred income taxes	220	226
Other	180	182
Total deferred credits and other liabilities	8,529	9,054
Total liabilities	16,778	18,138
Commitments and contingencies		
Shareholders' equity		
Common stock (No par value, 2000 shares authorized, 963 shares and 924 shares outstanding at December 31, 2017 and 2016, respectively)	18,966	18,797
Treasury stock, at cost (2 shares and 35 shares at December 31, 2017 and 2016, respectively)	(123)	(2,327)
Retained earnings	13,503	12,030
Accumulated other comprehensive loss, net	(2,487)	(2,660)
Total shareholders' equity	29,859	25,840
Total liabilities and shareholders' equity	$ 46,637	$ 43,978

See the Notes to Financial Statements

Attachment III-E-3(b)
Page 1 of 1

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Condensed Statements of Operations and Other Comprehensive Income

(In millions)	For the Years Ended December 31, 2017	2016	2015
Operating expenses			
Operating and maintenance	$ 10	$ 221	$ —
Operating and maintenance from affiliates	25	51	43
Other	4	4	4
Total operating expenses	39	276	47
Operating loss	(39)	(276)	(47)
Other income and (deductions)			
Interest expense, net	(315)	(312)	(168)
Equity in earnings of investments	4,398	1,521	2,461
Interest income from affiliates, net	40	39	43
Other, net	1	7	(43)
Total other income	4,124	1,255	2,293
Income before income taxes	4,085	979	2,246
Income taxes	315	(155)	(23)
Net income	$ 3,770	$ 1,134	$ 2,269
Other comprehensive income (loss)			
Pension and non-pension postretirement benefit plans:			
Prior service benefit reclassified to periodic costs	$ (56)	$ (48)	$ (46)
Actuarial loss reclassified to periodic cost	197	184	220
Pension and non-pension postretirement benefit plan valuation adjustment	10	(181)	(99)
Unrealized gain on cash flow hedges	3	2	9
Unrealized gain on marketable securities	6	1	—
Unrealized gain (loss) on equity investments	6	(4)	(3)
Unrealized gain (loss) on foreign currency translation	7	10	(21)
Other comprehensive income (loss)	173	(36)	60
Comprehensive income	$ 3,943	$ 1,098	$ 2,329

See the Notes to Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Balance Sheets

	December 31,	
(In millions)	**2017**	**2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 898	$ 635
Restricted cash and cash equivalents	207	253
Deposit with IRS	—	1,250
Accounts receivable, net		
Customer	4,401	4,158
Other	1,132	1,201
Mark-to-market derivative assets	976	917
Unamortized energy contract assets	60	88
Inventories, net		
Fossil fuel and emission allowances	340	364
Materials and supplies	1,311	1,274
Regulatory assets	1,267	1,342
Other	1,242	930
Total current assets	11,834	12,412
Property, plant and equipment, net	74,202	71,555
Deferred debits and other assets		
Regulatory assets	8,021	10,046
Nuclear decommissioning trust funds	13,272	11,061
Investments	640	629
Goodwill	6,677	6,677
Mark-to-market derivative assets	337	492
Unamortized energy contract assets	395	447
Pledged assets for Zion Station decommissioning	—	113
Other	1,322	1,472
Total deferred debits and other assets	30,664	30,937
Total assets[(a)]	$ 116,700	$ 114,904

See the Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 929	$ 1,267
Long-term debt due within one year	2,088	2,430
Accounts payable	3,532	3,441
Accrued expenses	1,835	3,460
Payables to affiliates	5	8
Regulatory liabilities	523	602
Mark-to-market derivative liabilities	232	282
Unamortized energy contract liabilities	231	407
Renewable energy credit obligation	352	428
PHI Merger related obligation	87	151
Other	982	981
Total current liabilities	10,796	13,457
Long-term debt	32,176	31,575
Long-term debt to financing trusts	389	641
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	11,222	18,138
Asset retirement obligations	10,029	9,111
Pension obligations	3,736	4,248
Non-pension postretirement benefit obligations	2,093	1,848
Spent nuclear fuel obligation	1,147	1,024
Regulatory liabilities	9,865	4,187
Mark-to-market derivative liabilities	409	392
Unamortized energy contract liabilities	609	830
Payable for Zion Station decommissioning	—	14
Other	2,097	1,827
Total deferred credits and other liabilities	41,207	41,619
Total liabilities[(a)]	84,568	87,292
Commitments and contingencies		
Shareholders' equity		
Common stock (No par value, 2000 shares authorized, 963 shares and 924 shares outstanding at December 31, 2017 and 2016, respectively)	18,964	18,794
Treasury stock, at cost (2 shares and 35 shares at December 31, 2017 and 2016, respectively)	(123)	(2,327)
Retained earnings	13,503	12,030
Accumulated other comprehensive loss, net	(2,487)	(2,660)
Total shareholders' equity	29,857	25,837
Noncontrolling interests	2,275	1,775
Total equity	32,132	27,612
Total liabilities and equity	$ 116,700	$ 114,904

(a) Exelon's consolidated assets include $9,565 million and $8,893 million at December 31, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Exelon's consolidated liabilities include $3,612 million and $3,356 million at December 31, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Exelon. See Note 2–Variable Interest Entities.

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Exelon Corporation and Subsidiary Companies
Consolidated Statements of Operations and Comprehensive Income

	For the Years Ended December 31,		
(In millions, except per share data)	**2017**	**2016**	**2015**
Operating revenues			
Competitive businesses revenues	$ 17,360	$ 16,324	$ 18,395
Rate-regulated utility revenues	16,171	15,036	11,052
Total operating revenues	33,531	31,360	29,447
Operating expenses			
Competitive businesses purchased power and fuel	9,668	8,817	10,007
Rate-regulated utility purchased power and fuel	4,367	3,823	3,077
Operating and maintenance	10,126	10,048	8,322
Depreciation and amortization	3,828	3,936	2,450
Taxes other than income	1,731	1,576	1,200
Total operating expenses	29,720	28,200	25,056
Gain (Loss) on sales of assets	3	(48)	18
Bargain purchase gain	233	—	—
Gain on deconsolidation of business	213	—	—
Operating income	4,260	3,112	4,409
Other income and (deductions)			
Interest expense, net	(1,524)	(1,495)	(992)
Interest expense to affiliates	(36)	(41)	(41)
Other, net	1,056	413	(46)
Total other income and (deductions)	(504)	(1,123)	(1,079)
Income before income taxes	3,756	1,989	3,330
Income taxes	(125)	761	1,073
Equity in losses of unconsolidated affiliates	(32)	(24)	(7)
Net income	3,849	1,204	2,250
Net income (loss) attributable to noncontrolling interests and preference stock dividends	79	70	(19)
Net income attributable to common shareholders	$ 3,770	$ 1,134	$ 2,269
Comprehensive income, net of income taxes			
Net income	$ 3,849	$ 1,204	$ 2,250
Other comprehensive income (loss), net of income taxes			
Pension and non-pension postretirement benefit plans:			
Prior service benefit reclassified to periodic benefit cost	(56)	(48)	(46)
Actuarial loss reclassified to periodic benefit cost	197	184	220
Pension and non-pension postretirement benefit plan valuation adjustment	10	(181)	(99)
Unrealized gain on cash flow hedges	3	2	9
Unrealized gain on marketable securities	6	1	—
Unrealized gain (loss) on equity investments	4	(4)	(3)
Unrealized gain (loss) on foreign currency translation	7	10	(21)
Other comprehensive income (loss)	171	(36)	60
Comprehensive income	4,020	1,168	2,310
Comprehensive income (loss) attributable to noncontrolling interests and preference stock dividends	77	70	(19)
Comprehensive income attributable to common shareholders	$ 3,943	$ 1,098	$ 2,329

Average shares of common stock outstanding:			
Basic	947	924	890
Diluted	949	927	893
Earnings per average common share:			
Basic	$ 3.98	$ 1.23	$ 2.55
Diluted	$ 3.97	$ 1.22	$ 2.54
Dividends per common share	$ 1.31	$ 1.26	$ 1.24

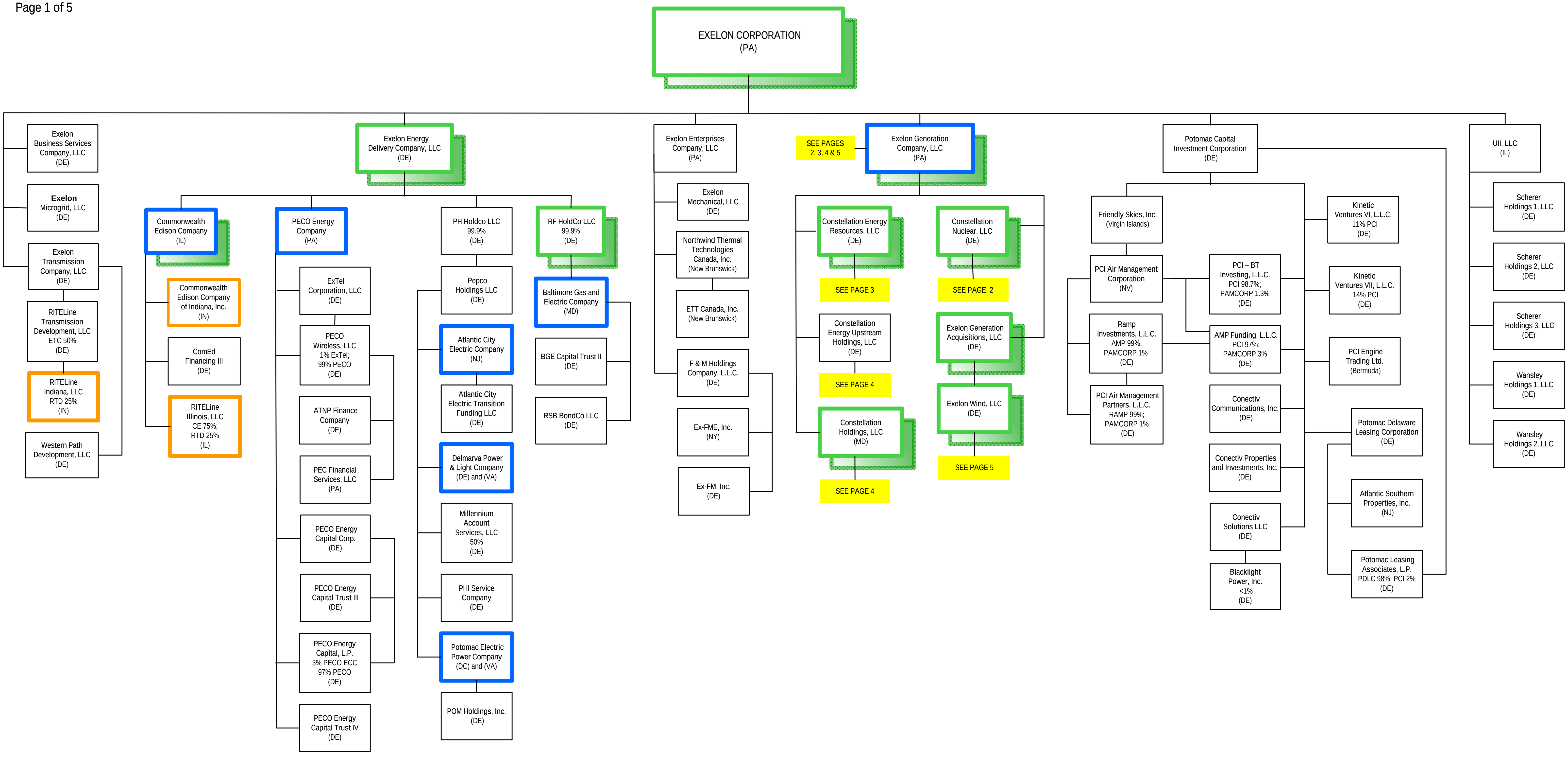
See the Combined Notes to Consolidated Financial Statements

Q. III-E-4	Provide an organizational chart explaining the filing utility's corporate relationship to its affiliates – system structure.
A. III-E-4	Refer to Attachment III-E-4(a).

Exelon

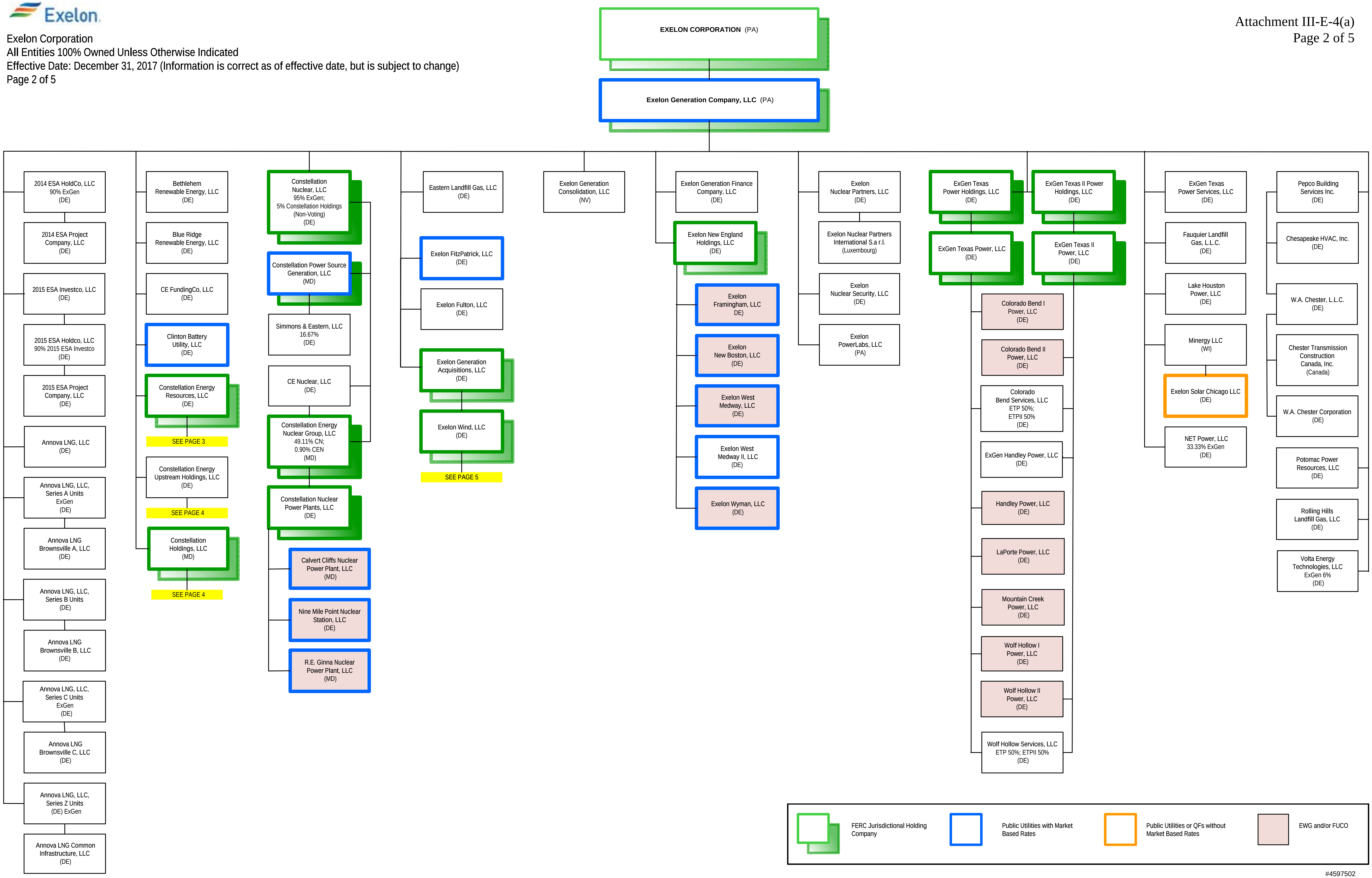
Attachment III-E-4(a)
Page 1 of 5

Exelon Corporation
All Entities 100% Owned Unless Otherwise Indicated
Effective Date: December 31, 2017 (Information is correct as of effective date, but is subject to change)
Page 1 of 5



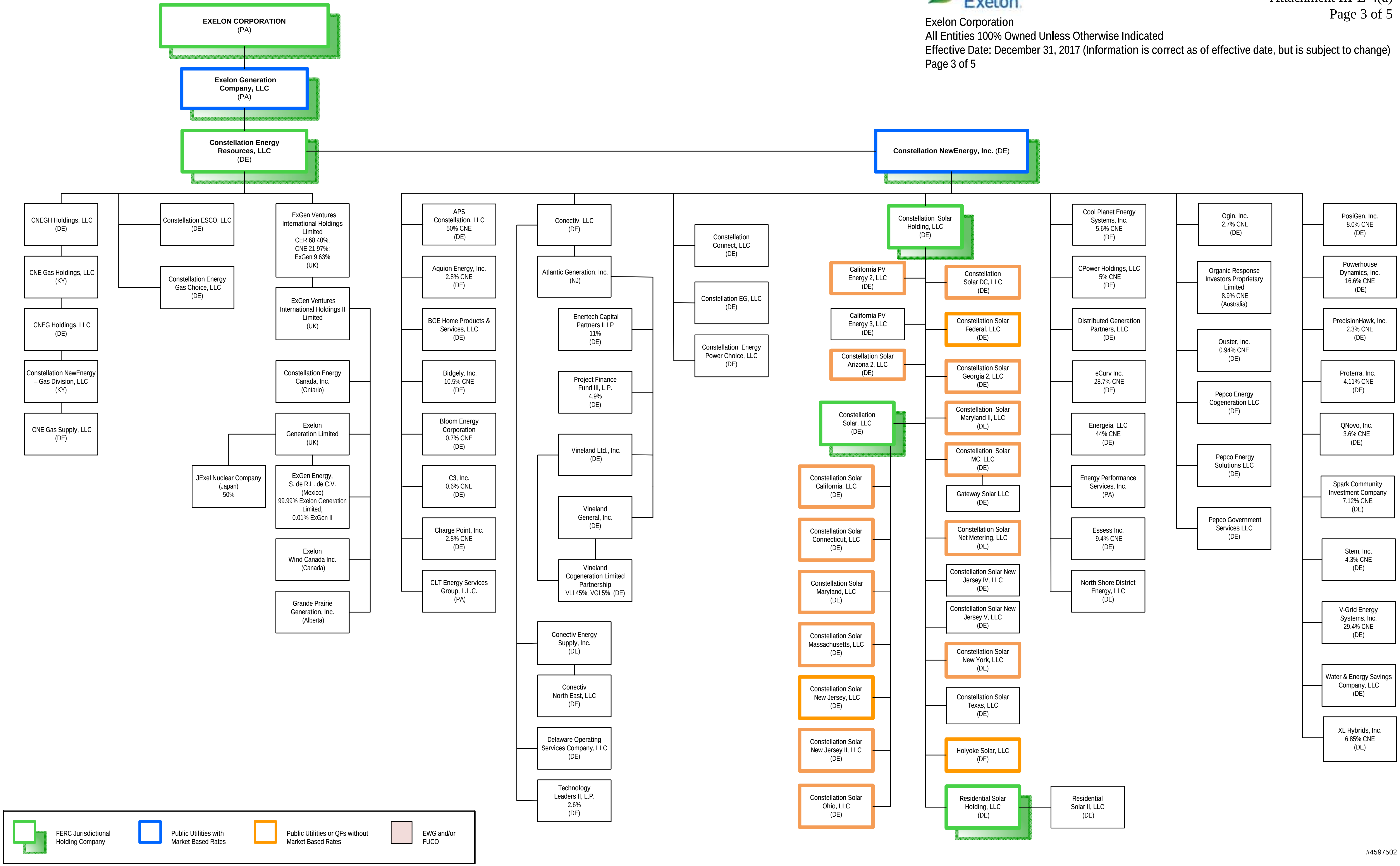
🟩 FERC Jurisdictional Holding Company	☐ Public Utilities with Market Based Rates	☐ Public Utilities or QFs without Market Based Rates	▨ EWG and/or FUCO

Exelon Corporation
All Entities 100% Owned Unless Otherwise Indicated
Effective Date: December 31, 2017 (Information is correct as of effective date, but is subject to change)
Page 2 of 5



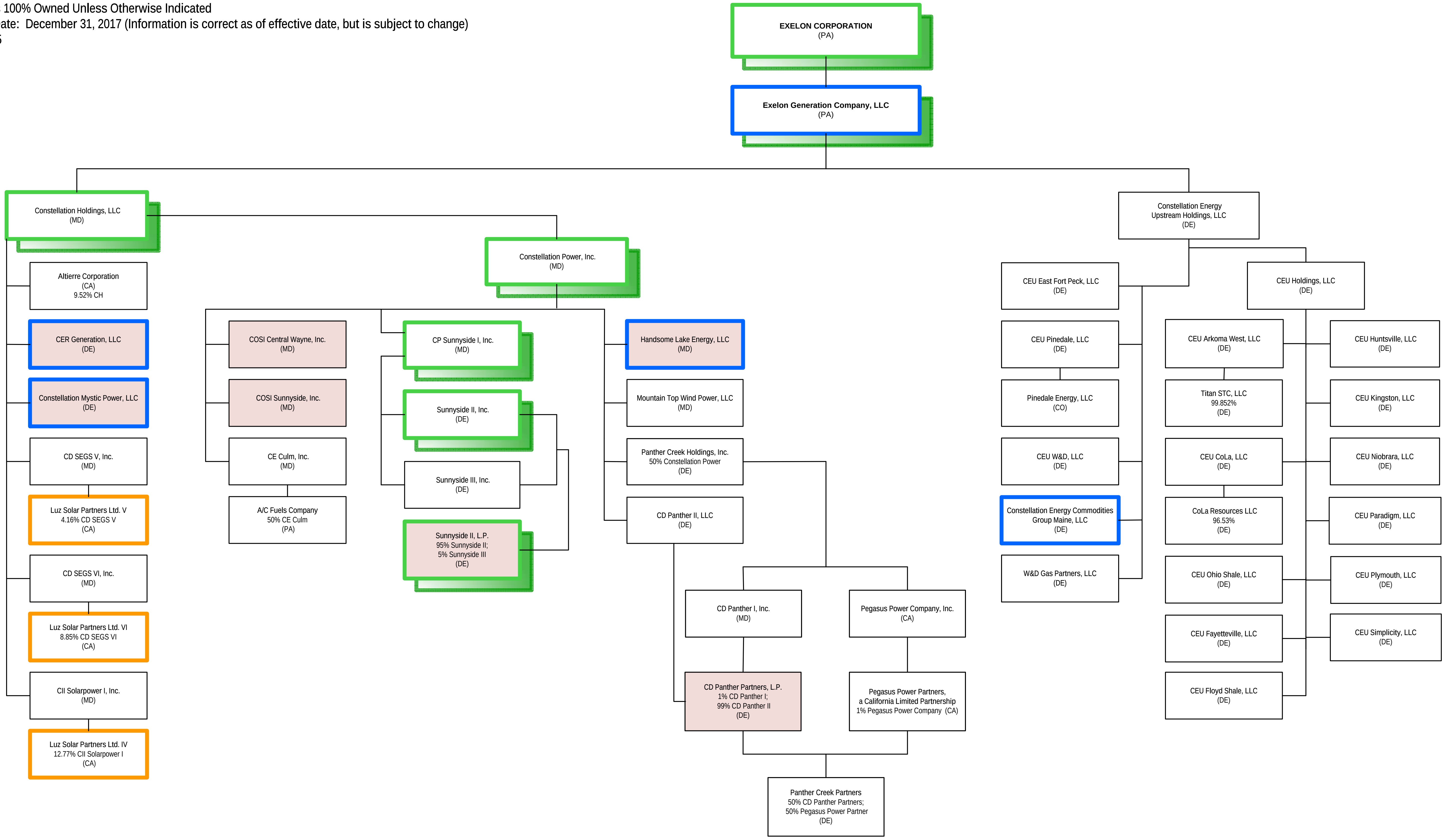
Exelon

Exelon Corporation
All Entities 100% Owned Unless Otherwise Indicated
Effective Date: December 31, 2017 (Information is correct as of effective date, but is subject to change)
Page 3 of 5



Exelon

Exelon Corporation
All Entities 100% Owned Unless Otherwise Indicated
Effective Date: December 31, 2017 (Information is correct as of effective date, but is subject to change)
Page 4 of 5

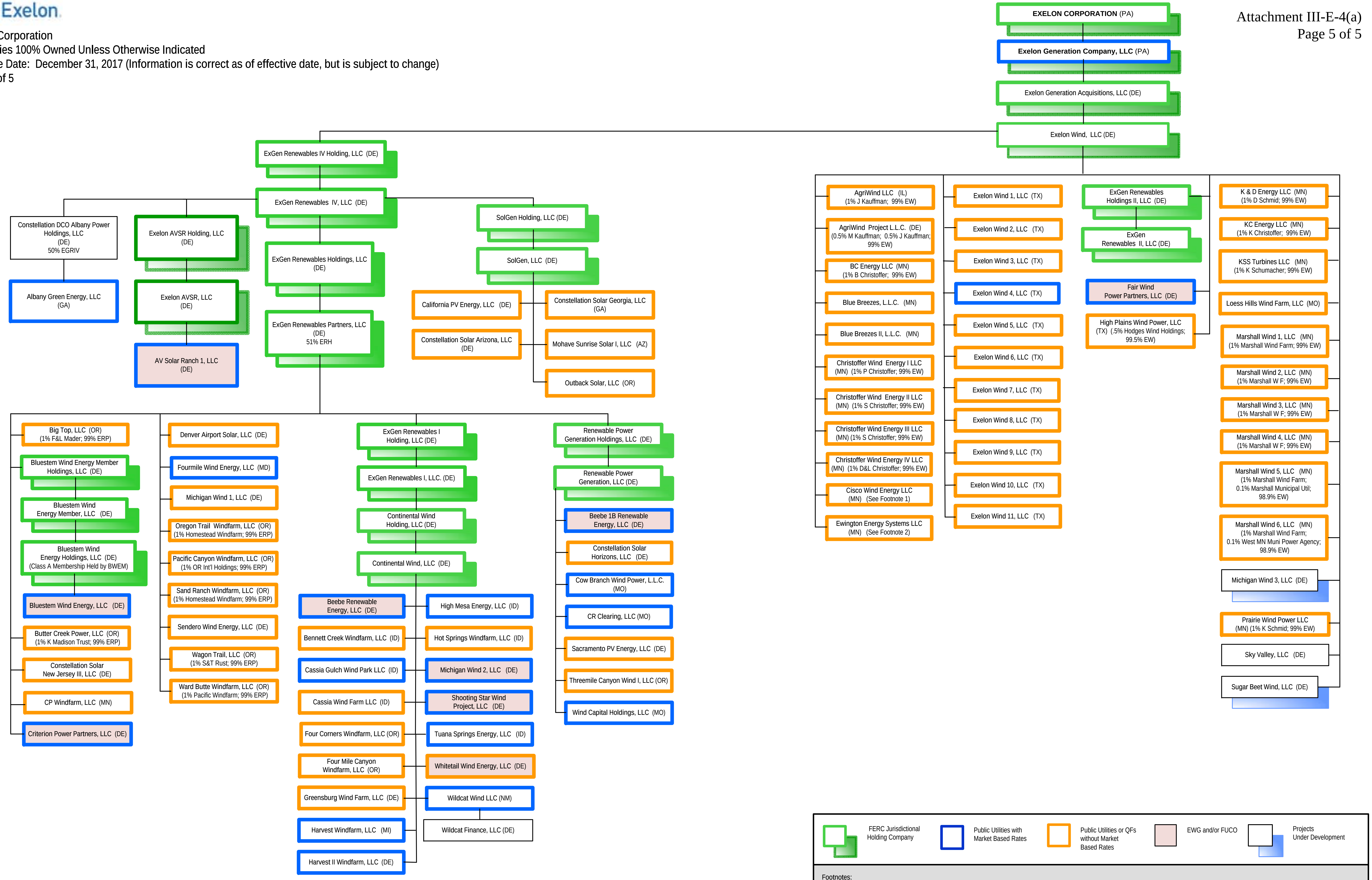


🟩 FERC Jurisdictional Holding Company
🟦 Public Utilities with Market Based Rates
🟧 Public Utilities or QFs without Market Based Rates
▨ EWG and/or FUCO

Exelon

Exelon Corporation
All Entities 100% Owned Unless Otherwise Indicated
Effective Date: December 31, 2017 (Information is correct as of effective date, but is subject to change)
Page 5 of 5

Attachment III-E-4(a)
Page 5 of 5



- **EXELON CORPORATION** (PA)
  - **Exelon Generation Company, LLC** (PA)
    - Exelon Generation Acquisitions, LLC (DE)
      - Exelon Wind, LLC (DE)
        - ExGen Renewables IV Holding, LLC (DE)
          - ExGen Renewables IV, LLC (DE)
            - Constellation DCO Albany Power Holdings, LLC (DE) 50% EGRIV
              - Albany Green Energy, LLC (GA)
            - Exelon AVSR Holding, LLC (DE)
              - Exelon AVSR, LLC (DE)
                - AV Solar Ranch 1, LLC (DE)
            - ExGen Renewables Holdings, LLC (DE)
              - ExGen Renewables Partners, LLC (DE) 51% ERH
                - Big Top, LLC (OR) (1% F&L Mader; 99% ERP)
                - Bluestem Wind Energy Member Holdings, LLC (DE)
                  - Bluestem Wind Energy Member, LLC (DE)
                    - Bluestem Wind Energy Holdings, LLC (DE) (Class A Membership Held by BWEM)
                      - Bluestem Wind Energy, LLC (DE)
                - Butter Creek Power, LLC (OR) (1% K Madison Trust; 99% ERP)
                - Constellation Solar New Jersey III, LLC (DE)
                - CP Windfarm, LLC (MN)
                - Criterion Power Partners, LLC (DE)
                - Denver Airport Solar, LLC (DE)
                - Fourmile Wind Energy, LLC (MD)
                - Michigan Wind 1, LLC (DE)
                - Oregon Trail Windfarm, LLC (OR) (1% Homestead Windfarm; 99% ERP)
                - Pacific Canyon Windfarm, LLC (OR) (1% OR Int'l Holdings; 99% ERP)
                - Sand Ranch Windfarm, LLC (OR) (1% Homestead Windfarm; 99% ERP)
                - Sendero Wind Energy, LLC (DE)
                - Wagon Trail, LLC (OR) (1% S&T Rust; 99% ERP)
                - Ward Butte Windfarm, LLC (OR) (1% Pacific Windfarm; 99% ERP)
                - ExGen Renewables I Holding, LLC (DE)
                  - ExGen Renewables I, LLC. (DE)
                    - Continental Wind Holding, LLC (DE)
                      - Continental Wind, LLC (DE)
                        - Beebe Renewable Energy, LLC (DE)
                        - Bennett Creek Windfarm, LLC (ID)
                        - Cassia Gulch Wind Park LLC (ID)
                        - Cassia Wind Farm LLC (ID)
                        - Four Corners Windfarm, LLC (OR)
                        - Four Mile Canyon Windfarm, LLC (OR)
                        - Greensburg Wind Farm, LLC (DE)
                        - Harvest Windfarm, LLC (MI)
                        - Harvest II Windfarm, LLC (DE)
                        - High Mesa Energy, LLC (ID)
                        - Hot Springs Windfarm, LLC (ID)
                        - Michigan Wind 2, LLC (DE)
                        - Shooting Star Wind Project, LLC (DE)
                        - Tuana Springs Energy, LLC (ID)
                        - Whitetail Wind Energy, LLC (DE)
                        - Wildcat Wind LLC (NM)
                          - Wildcat Finance, LLC (DE)
                - Renewable Power Generation Holdings, LLC (DE)
                  - Renewable Power Generation, LLC (DE)
                    - Beebe 1B Renewable Energy, LLC (DE)
                    - Constellation Solar Horizons, LLC (DE)
                    - Cow Branch Wind Power, L.L.C. (MO)
                    - CR Clearing, LLC (MO)
                    - Sacramento PV Energy, LLC (DE)
                    - Threemile Canyon Wind I, LLC (OR)
                    - Wind Capital Holdings, LLC (MO)
            - SolGen Holding, LLC (DE)
              - SolGen, LLC (DE)
                - California PV Energy, LLC (DE)
                - Constellation Solar Arizona, LLC (DE)
                - Constellation Solar Georgia, LLC (GA)
                - Mohave Sunrise Solar I, LLC (AZ)
                - Outback Solar, LLC (OR)
        - AgriWind LLC (IL) (1% J Kauffman; 99% EW)
        - AgriWind Project L.L.C. (DE) (0.5% M Kauffman; 0.5% J Kauffman; 99% EW)
        - BC Energy LLC (MN) (1% B Christoffer; 99% EW)
        - Blue Breezes, L.L.C. (MN)
        - Blue Breezes II, L.L.C. (MN)
        - Christoffer Wind Energy I LLC (MN) (1% P Christoffer; 99% EW)
        - Christoffer Wind Energy II LLC (MN) (1% S Christoffer; 99% EW)
        - Christoffer Wind Energy III LLC (MN) (1% S Christoffer; 99% EW)
        - Christoffer Wind Energy IV LLC (MN) (1% D&L Christoffer; 99% EW)
        - Cisco Wind Energy LLC (MN) (See Footnote 1)
        - Ewington Energy Systems LLC (MN) (See Footnote 2)
        - Exelon Wind 1, LLC (TX)
        - Exelon Wind 2, LLC (TX)
        - Exelon Wind 3, LLC (TX)
        - Exelon Wind 4, LLC (TX)
        - Exelon Wind 5, LLC (TX)
        - Exelon Wind 6, LLC (TX)
        - Exelon Wind 7, LLC (TX)
        - Exelon Wind 8, LLC (TX)
        - Exelon Wind 9, LLC (TX)
        - Exelon Wind 10, LLC (TX)
        - Exelon Wind 11, LLC (TX)
        - ExGen Renewables Holdings II, LLC (DE)
          - ExGen Renewables II, LLC (DE)
        - Fair Wind Power Partners, LLC (DE)
        - High Plains Wind Power, LLC (TX) (.5% Hodges Wind Holdings; 99.5% EW)
        - K & D Energy LLC (MN) (1% D Schmid; 99% EW)
        - KC Energy LLC (MN) (1% K Christoffer; 99% EW)
        - KSS Turbines LLC (MN) (1% K Schumacher; 99% EW)
        - Loess Hills Wind Farm, LLC (MO)
        - Marshall Wind 1, LLC (MN) (1% Marshall Wind Farm; 99% EW)
        - Marshall Wind 2, LLC (MN) (1% Marshall W F; 99% EW)
        - Marshall Wind 3, LLC (MN) (1% Marshall W F; 99% EW)
        - Marshall Wind 4, LLC (MN) (1% Marshall W F; 99% EW)
        - Marshall Wind 5, LLC (MN) (1% Marshall Wind Farm; 0.1% Marshall Municipal Util; 98.9% EW)
        - Marshall Wind 6, LLC (MN) (1% Marshall Wind Farm; 0.1% West MN Muni Power Agency; 98.9% EW)
        - Michigan Wind 3, LLC (DE)
        - Prairie Wind Power LLC (MN) (1% K Schmid; 99% EW)
        - Sky Valley, LLC (DE)
        - Sugar Beet Wind, LLC (DE)

Footnotes:
#1 Cisco Wind Energy, LLC: 25% owned by each of the following entities: Christoffer Wind Energy I LLC; Christoffer Wind Energy II LLC; Christoffer Wind Energy III LLC; and Christoffer Wind Energy IV LLC.
#2 Ewington Energy Systems LLC: 20% owned by each of the following entities: BC Energy LLC; K & D Energy LLC; KC Energy LLC; KSS Turbines LLC; and Prairie Wind Power LLC.

Q. III-F-1 The latest available quarterly operating and financial report, annual report to the stockholders and prospectus shall be supplied for the utility and for the utility's parent, if the relationship exists.

A. III-F-1 Refer to SDR-ROR-1 attachments for all SEC Form 10-Q's issued within the last year and the most recent SEC Form 10-K. See Attachment III-F-1(a) for Exelon Corporation 2017 Annual Report. See Attachment III-F-1(b) for 2018 Exelon Corporation Proxy Statement.

Exelon®

Exelon Corporation 2017 Annual Report

Corporate Profile

Exelon Corporation (NYSE: EXC) is a Fortune 100 energy company with the largest number of utility customers in the U.S. Exelon does business in 48 states, the District of Columbia and Canada and had 2017 revenue of $33.5 billion. Exelon's six utilities deliver electricity and natural gas to approximately 9 million customers in Delaware, the District of Columbia, Illinois, Maryland, New Jersey and Pennsylvania through its Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO and Pepco subsidiaries. Exelon is one of the largest competitive U.S. power generators, with more than 35,100 megawatts of nuclear, gas, wind, solar and hydroelectric generating capacity comprising one of the nation's cleanest and lowest-cost power generation fleets. The company's Constellation business unit provides energy products and services to approximately 2 million residential, public sector and business customers, including more than two-thirds of the Fortune 100. Exelon trades on the New York and Chicago Stock Exchanges under the ticker EXC.

Shareholder Inquiries

Exelon Corporation has appointed Wells Fargo Shareowner Services as its transfer agent, stock registrar, dividend disbursing agent and dividend reinvestment agent. Should you have questions concerning your registered shareholder account or the payment or reinvestment of your dividends, or if you wish to make a stock transaction or stock transfer, you may call shareowner services at Wells Fargo at the toll-free number shown to the left or access its website at www.shareowneronline.com.

Morgan Stanley administers the Employee Stock Purchase Plan (ESPP), employee stock options and other employee equity awards. Should you have any questions concerning your employee plan shares or wish to make a transaction, you may call the toll-free numbers shown to the left or access its website at www.stockplanconnect.com.

The company had approximately 105,000 holders of record of its common stock as of Dec. 31, 2017. The 2017 Form 10-K Annual Report to the Securities and Exchange Commission was filed on Feb. 9, 2018.

To obtain a copy without charge, write to Carter Culver, Senior Vice President, Deputy General Counsel and Assistant Secretary, Exelon Corporation, Post Office Box 805379, Chicago, Illinois 60680-5379.

Corporate Headquarters
Exelon Corporation
P.O. Box 805379 Chicago, IL 60680-5379

Transfer Agent
Wells Fargo Shareowner Services
800.626.8729

Employee Stock Purchase Plan
877.582.5113

Employee Stock Options
888.609.3534

Investor Relations Voice Mailbox
312.394.8811

Shareholder Services Voice Mailbox
312.394.8811

Independent Public Accountants
PricewaterhouseCoopers LLP

Website
www.exeloncorp.com

Stock Ticker
EXC

Table of Contents

Glossary of Terms and Abbreviations

Exelon Corporation and Related Entities

Exelon
Exelon Corporation

Generation
Exelon Generation Company, LLC

ComEd
Commonwealth Edison Company

PECO
PECO Energy Company

BGE
Baltimore Gas and Electric Company

Pepco Holdings or PHI
Pepco Holdings LLC (formerly Pepco Holdings, Inc.)

Pepco
Potomac Electric Power Company

DPL
Delmarva Power & Light Company

ACE
Atlantic City Electric Company

Registrants
Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, collectively

Utility Registrants
ComEd, PECO, BGE, Pepco, DPL and ACE, collectively

Legacy PHI
PHI, Pepco, DPL, ACE, PES and PCI collectively

ACE Funding or ATF
Atlantic City Electric Transition Funding LLC

Antelope Valley
Antelope Valley Solar Ranch One

BondCo
RSB BondCo LLC

BSC
Exelon Business Services Company, LLC

CENG
Constellation Energy Nuclear Group, LLC

ConEdison Solutions
The competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc., a subsidiary of Consolidated Edison, Inc

Constellation
Constellation Energy Group, Inc.

EEDC
Exelon Energy Delivery Company, LLC

EGR IV
ExGen Renewables IV, LLC

EGTP
ExGen Texas Power, LLC

Entergy
Entergy Nuclear FitzPatrick, LLC

Exelon Corporate
Exelon in its corporate capacity as a holding company

Exelon Transmission Company
Exelon Transmission Company, LLC

Exelon Wind
Exelon Wind, LLC and Exelon Generation Acquisition Company, LLC

FitzPatrick
James A. FitzPatrick nuclear generating station

PCI
Potomac Capital Investment Corporation and its subsidiaries

PEC L.P.
PECO Energy Capital, L.P.

PECO Trust III
PECO Capital Trust III

PECO Trust IV
PECO Energy Capital Trust IV

Pepco Energy Services or PES
Pepco Energy Services, Inc. and its subsidiaries

PHI Corporate
PHI in its corporate capacity as a holding company

PHISCO
PHI Service Company

RPG
Renewable Power Generation

SolGen
SolGen, LLC

TMI
Three Mile Island nuclear facility

UII
Unicom Investments, Inc.

Other Terms and Abbreviations

AEC
Alternative Energy Credit that is issued for each megawatt hour of generation from a qualified alternative energy source

AESO
Alberta Electric Systems Operator

AFUDC
Allowance for Funds Used During Construction

AGE
Albany Green Energy Project

AMI
Advanced Metering Infrastructure

AMP
Advanced Metering Program

AOCI
Accumulated Other Comprehensive Income

ARC
Asset Retirement Cost

ARO
Asset Retirement Obligation

ARP
Alternative Revenue Program

CAISO
California ISO

CAP
Customer Assistance Program

CCGTs
Combined-Cycle gas turbines

CERCLA
Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended

Other Terms and Abbreviations

CES	Clean Energy Standard
Clean Air Act	Clean Air Act of 1963, as amended
Clean Water Act	Federal Water Pollution Control Amendments of 1972, as amended
Conectiv	Conectiv, LLC, a wholly owned subsidiary of PHI and the parent of DPL and ACE during the Predecessor periods
Conectiv Energy	Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries, which were sold to Calpine in July 2010
CSAPR	Cross-State Air Pollution Rule
CTA	Consolidated tax adjustment
D.C. Circuit Court	United States Court of Appeals for the District of Columbia Circuit
DCPSC	District of Columbia Public Service Commission
Default Electricity Supply	The supply of electricity by PHI's electric utility subsidiaries at regulated rates to retail customers who do not elect to purchase electricity from a competitive supplier, and which, depending on the jurisdiction, is also known as Standard Offer Service or BGS
DOE	United States Department of Energy
DOJ	United States Department of Justice
DPSC	Delaware Public Service Commission
DRP	Direct Stock Purchase and Dividend Reinvestment Plan
DSP	Default Service Provider
DSP Program	Default Service Provider Program
EDF	Electricite de France SA and its subsidiaries
EE&C	Energy Efficiency and Conservation/ Demand Response
EIMA	Energy Infrastructure Modernization Act (Illinois Senate Bill 1652 and Illinois House Bill 3036)
EmPower Maryland	A Maryland demand-side management program for Pepco and DPL
EPA	United States Environmental Protection Agency
EPSA	Electric Power Supply Association
ERCOT	Electric Reliability Council of Texas
ERISA	Employee Retirement Income Security Act of 1974, as amended
EROA	Expected Rate of Return on Assets
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FEJA	Illinois Public Act 99-0906 or Future Energy Jobs Act
FERC	Federal Energy Regulatory Commission
FRCC	Florida Reliability Coordinating Council
GAAP	Generally Accepted Accounting Principles in the United States
GCR	Gas Cost Rate
GHG	Greenhouse Gas
GSA	Generation Supply Adjustment
GWh	Gigawatt hour
IBEW	International Brotherhood of Electrical Workers
ICC	Illinois Commerce Commission
ICE	Intercontinental Exchange
Illinois EPA	Illinois Environmental Protection Agency
Illinois Settlement Legislation	Legislation enacted in 2007 affecting electric utilities in Illinois
Integrys	Integrys Energy Services, Inc.
IPA	Illinois Power Agency
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISO	Independent System Operator
ISO-NE	ISO New England Inc.
ISO-NY	ISO New York
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LLRW	Low-Level Radioactive Waste
LT Plan	Long-Term renewable resources procurement plan
LTIP	Long-Term Incentive Plan
MAPP	Mid-Atlantic Power Pathway
MATS	U.S. EPA Mercury and Air Toxics Rule
MBR	Market Based Rates Incentive

Other Terms and Abbreviations

MDE	Maryland Department of the Environment
MDPSC	Maryland Public Service Commission
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator, Inc.
mmcf	Million Cubic Feet
Moody's	Moody's Investor Service
MOPR	Minimum Offer Price Rule
MRV	Market-Related Value
MW	Megawatt
MWh	Megawatt hour
n.m.	not meaningful
NAAQS	National Ambient Air Quality Standards
NAV	Net Asset Value
NDT	Nuclear Decommissioning Trust
NEIL	Nuclear Electric Insurance Limited
NERC	North American Electric Reliability Corporation
NGS	Natural Gas Supplier
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
Non-Regulatory Agreements Units	Nuclear generating units or portions thereof whose decommissioning-related activities are not subject to contractual elimination under regulatory accounting
NOSA	Nuclear Operating Services Agreement
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NUGs	Non-utility generators
NWPA	Nuclear Waste Policy Act of 1982
NYMEX	New York Mercantile Exchange
NYPSC	New York Public Service Commission
OCI	Other Comprehensive Income
OIESO	Ontario Independent Electricity System Operator
OPC	Office of People's Counsel
OPEB	Other Postretirement Employee Benefits
PA DEP	Pennsylvania Department of Environmental Protection
PAPUC	Pennsylvania Public Utility Commission
PGC	Purchased Gas Cost Clause
PJM	PJM Interconnection, LLC
POLR	Provider of Last Resort
POR	Purchase of Receivables
PPA	Power Purchase Agreement
Price-Anderson Act	Price-Anderson Nuclear Industries Indemnity Act of 1957
Preferred Stock	Originally issued shares of non-voting, non-convertible and non-transferable Series A preferred stock, par value $0.01 per share
PRP	Potentially Responsible Parties
PSEG	Public Service Enterprise Group Incorporated
PV	Photovoltaic
RCRA	Resource Conservation and Recovery Act of 1976, as amended
REC	Renewable Energy Credit which is issued for each megawatt hour of generation from a qualified renewable energy source
Regulatory Agreement Units	Nuclear generating units or portions thereof whose decommissioning-related activities are subject to contractual elimination under regulatory accounting
RES	Retail Electric Suppliers
RFP	Request for Proposal
Rider	Reconcilable Surcharge Recovery Mechanism
RGGI	Regional Greenhouse Gas Initiative
RMC	Risk Management Committee
ROE	Return on equity
RPM	PJM Reliability Pricing Model
RPS	Renewable Energy Portfolio Standards
RSSA	Reliability Support Services Agreement
RTEP	Regional Transmission Expansion Plan

Other Terms and Abbreviations

RTO
Regional Transmission Organization

S&P
Standard & Poor's Ratings Services

SEC
United States Securities and Exchange Commission

Senate Bill 1
Maryland Senate Bill 1

SERC
SERC Reliability Corporation (formerly Southeast Electric Reliability Council)

SGIG
Smart Grid Investment Grant from DOE

SILO
Sale-In, Lease-Out

SNF
Spent Nuclear Fuel

SOS
Standard Offer Service

SPFPA
Security, Police and Fire Professionals of America

SPP
Southwest Power Pool

TCJA
Tax Cuts and Jobs Act

Transition Bond Charge
Revenue ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds and related taxes, expenses and fees

Transition Bonds
Transition Bonds issued by ACE Funding

Upstream
Natural gas and oil exploration and production activities

VIE
Variable Interest Entity

WECC
Western Electric Coordinating Council

ZEC
Zero Emission Credit

ZES
Zero Emission Standard

Filing Format

The information included within this Annual Report has been taken from Exelon's 10-K annual report for the year ended December 31, 2017. That annual report was filed with the SEC on February 9, 2018 and can be viewed and retrieved through the SEC's website at *www.sec.gov* or our website at *www.exeloncorp.com*. We encourage you to consider the entire Form 10-K annual report, which contains more information about us and our subsidiaries than is presented in this Annual Report.

Cautionary Statements Regarding Forward-Looking Information

This Annual Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by Exelon include those factors discussed herein or in Exelon's 2017 Form 10-K, including those discussed in (a) Risk Factors, (b) Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) Financial Statements and Supplementary Data: Note 23, Commitments and Contingencies; and (d) other factors discussed in filings with the SEC by Exelon. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report. Exelon does not undertake any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Annual Report.

Where to find More Information

Exelon's 2017 Form 10-K is available on Exelon's website at *www.exeloncorp.com* and will be made available, without charge, in print to any shareholder who requests such documents from Carter Culver, Senior Vice President, Deputy General Counsel and Assistant Secretary, Exelon Corporation, P.O. Box 805398, Chicago, Illinois, 60680-5398.

General Description of Our Business

General

Exelon, incorporated in Pennsylvania in February 1999, is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO, BGE, PHI, Pepco, DPL and ACE in the energy delivery businesses discussed below. Exelon's principal executive offices are located at 10 South Dearborn Street, Chicago, Illinois 60603.

Name of Registrant	State/Jurisdiction and Year of Incorporation	Business	Service Territories	Address of Principal Executive Offices
Exelon Generation Company, LLC	Pennsylvania (2000)	Generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity to both wholesale and retail customers. Generation also sells natural gas, renewable energy and other energy-related products and services.	Six reportable segments: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions	300 Exelon Way, Kennett Square, Pennsylvania 19348
Commonwealth Edison Company	Illinois (1913)	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	Northern Illinois, including the City of Chicago	440 South LaSalle Street, Chicago, Illinois 60605
PECO Energy Company	Pennsylvania (1929)	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Southeastern Pennsylvania, including the City of Philadelphia (electricity) Pennsylvania counties surrounding the City of Philadelphia (natural gas)	2301 Market Street, Philadelphia, Pennsylvania 19103
Baltimore Gas and Electric Company	Maryland (1906)	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Central Maryland, including the City of Baltimore (electricity and natural gas)	110 West Fayette Street, Baltimore, Maryland 21201
Pepco Holdings LLC	Delaware (2016)	Utility services holding company engaged, through its reportable segments Pepco, DPL and ACE	Service Territories of Pepco, DPL and ACE	701 Ninth Street, N.W., Washington, D.C. 20068
Potomac Electric Power Company	District of Columbia (1896) Virginia (1949)	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	District of Columbia and Major portions of Montgomery and Prince George's Counties, Maryland	701 Ninth Street, N.W., Washington, D.C. 20068
Delmarva Power & Light Company	Delaware (1909) Virginia (1979)	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Portions of Delaware and Maryland (electricity) Portions of New Castle County, Delaware (natural gas)	500 North Wakefield Drive, Newark, Delaware 19702
Atlantic City Electric Company	New Jersey (1924)	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	Portions of Southern New Jersey	500 North Wakefield Drive, Newark, Delaware 19702

Business Services

Through its business services subsidiary BSC, Exelon provides its operating subsidiaries with a variety of corporate governance support services including corporate strategy and development, legal, human resources, information technology, finance, real estate, security, corporate communications and supply at cost. The costs of these services are directly charged or allocated to the applicable operating segments. The services are provided pursuant to service agreements. Additionally, the results of Exelon's corporate operations include interest costs and income from various investment and financing activities.

PHI Service Company (PHISCO), a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, finance, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHISCO and the participating operating subsidiaries.

Operating Segments

See Note 25 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information on Exelon's operating segments.

Merger with Pepco Holdings, Inc.

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon's interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). Following the completion of the PHI Merger, Exelon and PHI completed a series of internal corporate organization restructuring transactions resulting in the transfer of PHI's unregulated business interests to Exelon and Generation and the transfer of PHI, Pepco, DPL and ACE to a special purpose subsidiary of EEDC. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional information on the PHI transaction.

Generation

Generation, one of the largest competitive electric generation companies in the United States as measured by owned and contracted MW, physically delivers and markets power across multiple geographic regions through its customer-facing business, Constellation. Constellation sells electricity and natural gas, including renewable energy, in competitive energy markets to both wholesale and retail customers. The retail sales include commercial, industrial and residential customers. Generation leverages its energy generation portfolio to ensure delivery of energy to both wholesale and retail customers under long-term and short-term contracts, and in wholesale power markets. Generation operates in well-developed energy markets and employs an integrated hedging strategy to manage commodity price volatility. Generation's fleet also provides geographic and supply source diversity. Generation's customers include distribution utilities, municipalities, cooperatives, financial institutions, and commercial, industrial, governmental, and residential customers in competitive markets. Generation's customer-facing activities foster development and delivery of other innovative energy-related products and services for its customers.

Generation is a public utility under the Federal Power Act and is subject to FERC's exclusive ratemaking jurisdiction over wholesale sales of electricity and the transmission of electricity in interstate commerce. Under the Federal Power Act, FERC has the authority to grant or deny market-based rates for sales of energy, capacity and ancillary services to ensure that such sales are just and reasonable. FERC's jurisdiction over ratemaking includes the authority to suspend the market-based rates of utilities and set cost-based rates should FERC find that its previous grant of market-based rates authority is no longer just and reasonable. Other matters subject to FERC jurisdiction include, but are not limited to, third-party financings; review of mergers; dispositions of jurisdictional facilities and acquisitions of securities of another public utility or an existing operational generating facility; affiliate transactions; intercompany financings and cash management arrangements; certain internal corporate reorganizations; and certain holding company acquisitions of public utility and holding company securities.

RTOs and ISOs exist in a number of regions to provide transmission service across multiple transmission systems. FERC has approved PJM, MISO, ISO-NE and SPP as RTOs and CAISO and ISO-NY as ISOs. These entities are responsible for regional planning, managing transmission congestion, developing wholesale markets for energy and capacity, maintaining reliability, market monitoring, the scheduling of physical power sales brokered through ICE and NYMEX and the elimination or reduction of redundant transmission charges imposed by multiple transmission providers when wholesale customers take transmission service across several transmission systems. ERCOT is not subject to regulation by FERC but performs a similar function in Texas to that performed by RTOs in markets regulated by FERC.

Specific operations of Generation are also subject to the jurisdiction of various other Federal, state, regional and local agencies, including the NRC and Federal and state environmental protection agencies. Additionally, Generation is subject to NERC mandatory reliability standards, which protect the nation's bulk power system against potential disruptions from cyber and physical security breaches.

Constellation Energy Nuclear Group, LLC

Generation owns a 50.01% interest in CENG, a joint venture with EDF. CENG is governed by a board of ten directors, five of which are appointed by Generation and five by EDF. CENG owns a total of five nuclear generating facilities on three sites, Calvert Cliffs, R.E. Ginna (Ginna) and Nine Mile Point. CENG's ownership share in the total capacity of these units is 4,026 MW.

Generation and EDF entered into a Put Option Agreement on April 1, 2014, pursuant to which EDF has the option, exercisable beginning on January 1, 2016 and thereafter until June 30, 2022, to sell its 49.99% interest in CENG to Generation for a fair market value price determined by agreement of the parties, or absent agreement, a third-party arbitration process. The appraisers determining fair market value of EDF's 49.99% interest in CENG under the Put Option Agreement are instructed to take into account all rights and obligations under the CENG Operating Agreement, including Generation's rights with respect to any unpaid aggregate preferred distributions and the related return, and the value of Generation's rights to other distributions. In addition, under limited circumstances, the period for exercise of the put option may be extended for 18 months. In order to exercise its option, EDF must give 60-days advance written notice to Generation stating that it is exercising its option. To date, EDF has not given notice to Generation that it is exercising its option.

Prior to April 1, 2014, Exelon and Generation accounted for their investment in CENG under the equity method of accounting. The transfer of the nuclear operating licenses and the execution of the NOSA on April 1, 2014, resulted in the derecognition of the equity method investment in CENG and the recording of all assets, liabilities and EDF's noncontrolling interests in CENG at fair value on a fully consolidated basis in Exelon's and Generation's Consolidated Balance Sheets. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for further information regarding the CENG consolidation.

Acquisitions

James A. FitzPatrick Nuclear Generating Station

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick nuclear generating station located in Scriba, New York from Entergy Nuclear FitzPatrick LLC (Entergy) for a total purchase price consideration of $289 million, resulting in an after-tax bargain purchase gain of $233 million in 2017.

ConEdison Solutions

On September 1, 2016, Generation acquired the competitive retail electric and natural gas business activities of ConEdison Solutions, a subsidiary of Consolidated Edison, Inc., for a purchase price of $257 million including net working capital of $204 million. The renewable energy, sustainable services and energy efficiency businesses of ConEdison were excluded from the transaction.

Integrys Energy Services, Inc.

On November 1, 2014, Generation acquired the competitive retail electric and natural gas business activities of Integrys Energy Group, Inc. through the purchase of all of the stock of its wholly owned subsidiary, Integrys Energy Services, Inc. (Integrys) for a purchase price of $332 million, including net working capital. The generation and solar asset businesses of Integrys were excluded from the transaction.

Dispositions

ExGen Texas Power, LLC.

On May 2, 2017, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP, including the revolving credit facility. As a result, Exelon and Generation classified certain EGTP assets and liabilities as held for sale at their respective fair values less costs to sell and recorded associated pre-tax impairment charges of $460 million. On November 7, 2017, EGTP and all of its wholly owned subsidiaries filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. As a result of the bankruptcy filing, EGTP's assets and liabilities were deconsolidated from Exelon and Generation's consolidated financial statements. Exelon and Generation recorded a pre-tax gain upon deconsolidation of $213 million in the fourth quarter of 2017.

Asset Divestitures

During 2015 and 2014, Generation sold certain generating assets with total pre-tax proceeds of $1.8 billion (after-tax proceeds of approximately $1.4 billion). Proceeds were used primarily to finance a portion of the acquisition of PHI.

See Note 4 — Mergers, Acquisitions and Dispositions and Note 7 — Impairment of Long-Lived Assets and Intangibles of the Combined Notes to Consolidated Financial Statements for additional information on acquisitions and dispositions.

Generating Resources

At December 31, 2017, the generating resources of Generation consisted of the following:

Type of Capacity	MW
Owned generation assets[a][b]	
Nuclear	20,310
Fossil (primarily natural gas and oil)	11,723
Renewable[c]	3,135
Owned generation assets[e]	35,168
Long-term power purchase contracts[d]	5,285
Total generating resources	40,453

[a] See "Fuel" for sources of fuels used in electric generation.

[b] Net generation capacity is stated at proportionate ownership share.

[c] Includes wind, hydroelectric and solar generating assets.

[d] Electric supply procured under site specific agreements.

[e] Includes EGTP generating assets that were deconsolidated from Generation's consolidated financial statements. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional information.

Generation has six reportable segments, the Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions, representing the different geographical areas in which Generation's generating resources are located and Generation's customer-facing activities are conducted.

- Mid-Atlantic represents operations in the eastern half of PJM, which includes Pennsylvania, New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of North Carolina (approximately 33% of capacity).
- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Indiana, Ohio, Michigan, Kentucky and Tennessee; and the United States footprint of MISO (excluding MISO's Southern Region), which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin and the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM; and parts of Montana, Missouri and Kentucky (approximately 34% of capacity).
- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont (approximately 6% of capacity).
- New York represents the operations within ISO-NY, which covers the state of New York in its entirety (approximately 6% of capacity).
- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas (approximately 16% of capacity).
- Other Power Regions is an aggregate of regions not considered individually significant (approximately 5% of capacity).

See Note 25 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information on revenues from external customers and revenues net of purchased power and fuel expense for each of Generation's reportable segments.

Nuclear Facilities

Generation has ownership interests in fifteen nuclear generating stations currently in service, consisting of 25 units with an aggregate of 20,310 MW of capacity. Generation wholly owns all of its nuclear generating stations, except for undivided ownership interests in three jointly-owned nuclear stations: Quad Cities (75% ownership), Peach Bottom (50% ownership), and Salem (42.59% ownership), which are consolidated on Exelon's and Generation's financial statements relative to its proportionate ownership interest in each unit, and a 50.01% membership interest in CENG, which owns Calvert Cliffs, Nine Mile Point [excluding Long Island Power Authority's 18% undivided ownership interest in Nine Mile Point Unit 2] and Ginna nuclear stations. CENG is 100% consolidated on Exelon's and Generation's financial statements.

Generation's nuclear generating stations are all operated by Generation, with the exception of the two units at Salem, which are operated by PSEG Nuclear, LLC (PSEG Nuclear), an indirect, wholly owned subsidiary of PSEG. In 2017, 2016 and 2015 electric supply (in GWh) generated from the nuclear generating facilities was 69%, 67% and 68%, respectively, of Generation's total electric supply, which also includes fossil, hydroelectric and renewable generation and electric supply purchased for resale. Generation's wholesale and retail power marketing activities are, in part, supplied by the output from the nuclear generating stations. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for further discussion of Generation's electric supply sources.

Nuclear Operations

Capacity factors, which are significantly affected by the number and duration of refueling and non-refueling outages, can have a significant impact on Generation's results of operations. As the largest generator of nuclear power in the United States, Generation can negotiate favorable terms for the materials and services that its business requires. Generation's operations from its nuclear plants have historically had minimal environmental impact and the plants have a safe operating history.

During 2017, 2016 and 2015, the nuclear generating facilities operated by Generation achieved capacity factors of 94.1%, 94.6% and 93.7%, respectively. The capacity factors reflect ownership percentage of stations operated by Generation and include CENG. Generation manages its scheduled refueling outages to minimize their duration and to maintain high nuclear generating capacity factors, resulting in a stable generation base for Generation's wholesale and retail power marketing activities. During scheduled refueling outages, Generation performs maintenance and equipment upgrades in order to minimize the occurrence of unplanned outages and to maintain safe, reliable operations.

In addition to the maintenance and equipment upgrades performed by Generation during scheduled refueling outages, Generation has extensive operating and security procedures in place to ensure the safe operation of the nuclear units. Generation also has extensive safety systems in place to protect the plant, personnel and surrounding area in the unlikely event of an accident or other incident.

Regulation of Nuclear Power Generation

Generation is subject to the jurisdiction of the NRC with respect to the operation of its nuclear generating stations, including the licensing for operation of each unit. The NRC subjects nuclear generating stations to continuing review and regulation covering, among other things, operations, maintenance, emergency planning, security and environmental and radiological aspects of those stations. As part of its reactor oversight process, the NRC continuously assesses unit performance indicators and inspection results, and communicates its assessment on a semi-annual basis. All nuclear generating stations operated by Generation, except for Clinton, are categorized by the NRC in the Licensee Response Column, which is the highest of five performance bands. As of February 1, 2018, the NRC categorized Clinton in the Regulatory Response Column, which is the second highest of five performance bands. The NRC may modify, suspend or revoke operating licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under such Act or the terms of the operating licenses. Changes in regulations by the NRC may require a substantial increase in capital expenditures and/or operating costs for nuclear generating facilities.

Licenses

Generation has original 40-year operating licenses from the NRC for each of its nuclear units and has received 20-year operating license renewals from the NRC for all its nuclear units except Clinton. Additionally, PSEG has received 20-year operating license renewals for Salem Units 1 and 2. On May 30, 2017, Exelon announced that Generation will permanently cease generation operations at TMI on or about September 30, 2019. On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. In 2010, Generation had previously agreed to permanently cease generation operations at Oyster Creek by the end of 2019. See Note 8 — Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements for additional information regarding the early retirement of TMI. See Note 28 — Subsequent Events of the Combined Notes to Consolidated Financial Statements for additional information regarding the early retirement of Oyster Creek.

The following table summarizes the current operating license expiration dates for Generation's nuclear facilities in service:

Station	Unit	In-Service Date[a]	Current License Expiration
Braidwood	1	1988	2046
	2	1988	2047
Byron	1	1985	2044
	2	1987	2046
Calvert Cliffs	1	1975	2034
	2	1977	2036
Clinton[b]	1	1987	2026
Dresden	2	1970	2029
	3	1971	2031
FitzPatrick	1	1974	2034
LaSalle	1	1984	2042
	2	1984	2043
Limerick	1	1986	2044
	2	1990	2049
Nine Mile Point	1	1969	2029
	2	1988	2046
Oyster Creek[c]	1	1969	2029
Peach Bottom[d]	2	1974	2033
	3	1974	2034
Quad Cities	1	1973	2032
	2	1973	2032
Ginna	1	1970	2029
Salem	1	1977	2036
	2	1981	2040
Three Mile Island[e]	1	1974	2034

[a] Denotes year in which nuclear unit began commercial operations.

[b] Although timing has been delayed, Generation currently plans to seek license renewal for Clinton and has advised the NRC that any license renewal application would not be filed until the first quarter of 2021.

[c] Generation had previously announced and notified the NRC that it will permanently cease generation operations at Oyster Creek by the end of 2019. On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018.

[d] On June 7, 2016, Generation announced that it will submit a second 20-year license renewal application to NRC for Peach Bottom Units 2 and 3 in 2018.

[e] On May 30, 2017, Exelon announced that Generation will permanently cease generation operations at TMI on or about September 30, 2019 and has notified the NRC.

The operating license renewal process takes approximately four to five years from the commencement of the renewal process, which includes approximately two years for Generation to develop the application and approximately two years for the NRC to review the application. To date, each granted license renewal has been for 20 years beyond the original operating license expiration. Depreciation provisions are based on the estimated useful lives of the stations, which reflect the actual renewal of operating licenses for all of Generation's operating nuclear generating stations except for Oyster Creek, TMI and Clinton. In 2017, Oyster Creek and TMI depreciation provisions were based on their 2019 expected shutdown dates. Beginning February 2018, Oyster Creek depreciation provisions will be based on its announced shutdown date of 2018. Clinton depreciation provisions are based on 2027 which is the last year of the Illinois Zero Emissions Standard. See Note 3 - Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional detail on the new Illinois legislation and Note 8 — Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements for additional detail on early retirements.

Nuclear Waste Storage and Disposal

There are no facilities for the reprocessing or permanent disposal of SNF currently in operation in the United States, nor has the NRC licensed any such facilities. Generation currently stores all SNF generated by its nuclear generating facilities on-site in storage pools or in dry cask storage facilities. Since Generation's SNF storage pools generally do not have sufficient storage capacity for the life of the respective plant, Generation has developed dry cask storage facilities to support operations.

As of December 31, 2017, Generation had approximately 84,100 SNF assemblies (20,600 tons) stored on site in SNF pools or dry cask storage (this includes SNF assemblies at Zion Station, for which Generation retains ownership even though the responsibility for decommissioning Zion Station has been assumed by another party; see Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding Zion Station Decommissioning). All currently operating Generation-owned nuclear sites have on-site dry cask storage, except for TMI, where such storage is projected to be in operation in 2021. On-site dry cask storage in concert with on-site storage pools will be capable of meeting all current and future SNF storage requirements at Generation's sites through the end of the license renewal periods and through decommissioning.

For a discussion of matters associated with Generation's contracts with the DOE for the disposal of SNF, see Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements.

As a by-product of their operations, nuclear generating units produce LLRW. LLRW is accumulated at each generating station and permanently disposed of at licensed disposal facilities. The Federal Low-Level Radioactive Waste Policy Act of 1980 provides that states may enter into agreements to provide regional disposal facilities for LLRW and restrict use of those facilities to waste generated within the region. Illinois and Kentucky have entered into such an agreement, although neither state currently has an operational site and none is anticipated to be operational until after 2020.

Generation ships its Class A LLRW, which represents 93% of LLRW generated at its stations, to disposal facilities in Utah and South Carolina, which have enough storage capacity to store all Class A LLRW for the life of all stations in Generation's nuclear fleet. The disposal facility in South Carolina at present is only receiving LLRW from LLRW generators in South Carolina, New Jersey (which includes Oyster Creek and Salem) and Connecticut.

Generation utilizes on-site storage capacity at all its stations to store and stage for shipping Class B and Class C LLRW. Generation has a contract through 2032 to ship Class B and Class C LLRW to a disposal facility in Texas. The agreement provides for disposal of all current Class B and Class C LLRW currently stored at each station as well as the Class B and Class C LLRW generated during the term of the agreement. However, because the production of LLRW from Generation's nuclear fleet will exceed the capacity at the Texas site (3.9 million curies for 15 years beginning in 2012), Generation will still be required to utilize on-site storage at its stations for Class B and Class C LLRW. Generation currently has enough storage capacity to store all Class B and Class C LLRW for the life of all stations in Generation's nuclear fleet. Generation continues to pursue alternative disposal strategies for LLRW, including an LLRW reduction program to minimize on-site storage and cost impacts.

Nuclear Insurance

Generation is subject to liability, property damage and other risks associated with major incidents at any of its nuclear stations, including the CENG nuclear stations. Generation has reduced its financial exposure to these risks through insurance and other industry risk-sharing provisions. See "Nuclear Insurance" within Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for details.

Generation is self-insured to the extent that any losses may exceed the amount of insurance maintained or are within the policy deductible for its insured losses. Such losses could have a material adverse effect on Exelon's and Generation's future financial conditions and results of operations and cash flows.

Decommissioning

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in specified minimum amounts at the end of the life of the facility to decommission the facility. The ultimate decommissioning obligation will be funded by the NDTs. The NDTs are recorded on Exelon's and Generation's Consolidated Balance Sheets at December 31, 2017 at fair value of approximately $13.3 billion and have an estimated targeted annual pre-tax return of 4.8% to 6.4%, while the Nuclear AROs are recorded on Exelon's and Generation's Consolidated Balance Sheets at December 31, 2017 at approximately $9.7 billion and have an estimated annual average accretion of the ARO of approximately 5% through a period of approximately 30 years after the end of the extended lives of the units. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Exelon Corporation, Executive Overview; MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Critical Accounting Policies and Estimates, Nuclear Decommissioning, Asset Retirement Obligations and Nuclear Decommissioning Trust Fund Investments; and Note 3 — Regulatory Matters, Note 11 — Fair Value of Financial Assets and Liabilities and Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding Generation's NDT funds and its decommissioning obligations.

Zion Station Decommissioning. On December 11, 2007, Generation entered into an Asset Sale Agreement (ASA) with EnergySolutions, Inc. and its wholly owned subsidiaries, EnergySolutions, LLC (EnergySolutions) and ZionSolutions, LLC (ZionSolutions) under which ZionSolutions assumed responsibility for decommissioning Zion Station, which is in Zion, Illinois, and ceased operation in 1998.

On September 1, 2010, Generation and EnergySolutions completed the transactions contemplated by the ASA. Specifically, Generation transferred to ZionSolutions substantially all of the assets (other than land) associated with Zion Station, including assets held in related NDT funds. In consideration for Generation's transfer of those assets, ZionSolutions assumed decommissioning and other liabilities, excluding the obligation to dispose of SNF, associated with Zion Station. Pursuant to the ASA, ZionSolutions will periodically request reimbursement from the Zion Station-related NDT funds for costs incurred related to the decommissioning efforts at Zion Station. However, ZionSolutions is subject to certain restrictions on its ability to request reimbursement; specifically, if certain milestones as defined in the ASA are not met, all or a portion of requested reimbursements shall be deferred until such milestones are met. See Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding Zion Station decommissioning and see Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for a discussion of variable interest entity considerations related to ZionSolutions.

Fossil and Renewable Facilities (including Hydroelectric)

At December 31, 2017, Generation had ownership interests in 14,858 MW of capacity in generating facilities currently in service, consisting of 11,723 MW of natural gas and oil, and 3,135 MW of renewables (wind, hydroelectric and solar). Generation wholly owns all of its fossil and renewable generating stations, with the exception of: (1) Wyman; (2) certain wind project entities and a biomass project entity with minority interest owners; and (3) ExGen Renewables Partners, LLC which is owned 49% by another owner. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for additional information regarding certain of these entities which are VIEs. Generation's fossil and renewable generating stations are all operated by Generation, with the exception of LaPorte and Wyman, which are operated by third parties. In 2017, 2016 and 2015, electric supply (in GWh) generated from owned fossil and renewable generating facilities was 12%, 10% and 8%, respectively, of Generation's total electric supply. The majority of this output was dispatched to support Generation's wholesale and retail power marketing activities. For additional information regarding Generation's electric generating facilities, see MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Exelon Corporation, Executive Overview for additional information on Generation Renewable Development.

Licenses

Fossil and renewable generation plants are generally not licensed, and, therefore, the decision on when to retire plants is, fundamentally, a commercial one. FERC has the exclusive authority to license most non-Federal hydropower projects located on navigable waterways or Federal lands, or connected to the interstate electric grid, which include Generation's Conowingo Hydroelectric Project (Conowingo) and Muddy Run Pumped Storage Facility Project (Muddy Run). On August 29, 2012 and August 30, 2012, Generation submitted hydroelectric license applications to the FERC for 46-year licenses for the Conowingo and Muddy Run, respectively. On December 22, 2015, FERC issued a new 40-year license for Muddy Run. The license term expires on December 1, 2055. Based on the FERC procedural schedule, the FERC licensing process for Conowingo was not completed prior to the expiration of the plant's license on September 1, 2014. The FERC is required to issue annual licenses for Conowingo until the new long-term license is issued. On September 10, 2014, FERC issued an annual license for Conowingo, effective as of the expiration of the previous license. The annual license renews automatically absent any further FERC action. The stations are currently being depreciated over their estimated useful lives, which includes actual and anticipated license renewal periods. Refer to Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Insurance

Generation maintains business interruption insurance for its renewable projects, but not for its fossil and hydroelectric operations unless required by contract or financing agreements. Refer to Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information on financing agreements. Generation maintains both property damage and liability insurance. For property damage and liability claims for these operations, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon's and Generation's future financial conditions and their results of operations and cash flows.

Long-Term Power Purchase Contracts

In addition to energy produced by owned generation assets, Generation sources electricity from plants it does not own under long-term contracts. The following tables summarize Generation's long-term contracts to purchase unit-specific physical power with an original term in excess of one year in duration, by region, in effect as of December 31, 2017:

Region	**Number of Agreements**	**Expiration Dates**	**Capacity (MW)**
Mid-Atlantic	14	2019 - 2032	237
Midwest	4	2019 - 2026	834
New England	7	2018	40
ERCOT	5	2020 - 2031	1,524
Other Power Regions	12	2018 - 2030	2,650
Total	42		5,285

	2018	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Capacity Expiring (MW)	141	644	1,020	815	298	2,367	5,285

Fuel

The following table shows sources of electric supply in GWh for 2017 and 2016:

	Source of Electric Supply	
	2017	**2016**
Nuclear[a]	182,843	176,799
Purchases — non-trading portfolio	51,595	59,987
Fossil (primarily natural gas and oil)	22,546	19,830
Renewable[b]	7,848	6,324
Total supply	264,832	262,940

[a] Includes the proportionate share of output where Generation has an undivided ownership interest in jointly-owned generating plants and includes the total output of plants that are fully consolidated (e.g., CENG). Nuclear generation for 2017 and 2016 includes physical volumes of 34,761 GWh and 33,444 GWh, respectively, for CENG.

[b] Includes wind, hydroelectric and solar generating assets.

The fuel costs per MWh for nuclear generation are less than those for fossil-fuel generation. Consequently, nuclear generation is generally the most cost-effective way for Generation to meet its wholesale and retail load servicing requirements.

The cycle of production and utilization of nuclear fuel includes the mining and milling of uranium ore into uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride, the enrichment of the uranium hexafluoride and the fabrication of fuel assemblies. Generation has inventory in various forms and does not anticipate difficulty in obtaining the necessary uranium concentrates or conversion, enrichment or fabrication services to meet the nuclear fuel requirements of its nuclear units.

Natural gas is procured through long-term and short-term contracts, as well as spot-market purchases. Fuel oil inventories are managed so that in the winter months sufficient volumes of fuel are available in the event of extreme weather conditions and during the remaining months to take advantage of favorable market pricing.

Generation uses financial instruments to mitigate price risk associated with certain commodity price exposures, using both over-the-counter and exchange-traded instruments. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Critical Accounting Policies and Estimates and Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding derivative financial instruments.

Power Marketing

Generation's integrated business operations include physical delivery and marketing of power. Generation largely obtains physical power supply from its generating assets and power purchase agreements in multiple geographic regions. Power purchase agreements, including tolling arrangements, are commitments related to power generation of specific generation plants and/or dispatch similar to an owned asset depending on the type of underlying asset. The commodity risks associated with the output from generating assets and PPAs are managed using various commodity transactions including sales to customers. The main objective is to obtain low-cost energy supply to meet physical delivery obligations to both wholesale and retail customers. Generation sells electricity, natural gas and other energy related products and solutions to various customers, including distribution utilities, municipalities, cooperatives, and commercial, industrial, governmental and residential customers in competitive markets. Where necessary, Generation may also purchase transmission service to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs.

Price and Supply Risk Management

Generation also manages the price and supply risks for energy and fuel associated with generation assets and the risks of power marketing activities. Generation implements a three-year ratable sales plan to align its hedging strategy with its financial objectives. Generation may also enter into transactions that are outside of this ratable sales plan. Generation is exposed to commodity price risk in 2018 and beyond for portions of its electricity portfolio that are unhedged. As of December 31, 2017, the percentage of expected generation hedged is 85%-88%, 55%-58% and 26%-29% for 2018, 2019, and 2020, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts, including sales to ComEd, PECO, BGE, Pepco, DPL and ACE to serve their retail load. A portion of Generation's hedging strategy may be implemented through the use of fuel products based on assumed correlations between power and fuel prices. The risk management group and Exelon's RMC monitor the financial risks of the wholesale and retail power marketing activities. Generation also uses financial and commodity contracts for proprietary trading purposes, but this activity accounts for only a small portion of Generation's efforts. The proprietary trading portfolio is subject to a risk management policy that includes stringent risk management limits. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK for additional information.

Capital Expenditures

Generation's business is capital intensive and requires significant investments primarily in nuclear fuel and energy generation assets. Generation's estimated capital expenditures for 2018 are approximately $2.1 billion, which includes Generation's share of the investment in nuclear fuel for the co-owned Salem plant.

ComEd, PECO, BGE, Pepco, DPL and ACE

Utility Operations

Service Territories and Franchise Agreements

The following table presents the size of service territories, populations of each service territory and the number of customers within each service territory for the Utility Registrants as of December 31, 2017:

	Service Territories (in square miles)			Service Territory Population (in millions)			Number of Customers (in millions)		
	Total	**Electric**	**Natural gas**	**Total**	**Electric**	**Natural gas**	**Total**	**Electric**	**Natural gas**
ComEd	11,400	11,400	n/a	9.4(a)	9.4	n/a	4.0	4.0	n/a
PECO	2,100	1,900	1,900	4.0(b)	4.0	2.4	1.6	1.6	0.5
BGE	3,250	2,300	3,050	3.1(c)	3.0	2.9	1.3	1.3	0.7
Pepco	640	640	n/a	2.4(d)	2.4	n/a	0.9	0.9	n/a
DPL	5,400	5,400	275	1.4(e)	1.4	0.6	0.5	0.5	0.1
ACE	2,800	2,800	n/a	1.1(f)	1.1	n/a	0.6	0.6	n/a

(a) Includes approximately 2.7 million in the city of Chicago.
(b) Includes approximately 1.6 million in the city of Philadelphia.
(c) Includes approximately 0.6 million in the city of Baltimore.
(d) Includes approximately 0.7 million in the District of Columbia.
(e) Includes approximately 0.1 million in the city of Wilmington.
(f) Includes approximately 0.1 million in the city of Atlantic City.

The Utility Registrants have the necessary authorizations to perform their current business of providing regulated electric and natural gas distribution services in the various municipalities and territories in which they now supply such services. These authorizations include charters, franchises, permits, and certificates of public convenience issued by local and state governments and state utility commissions. ComEd's, BGE's and ACE's rights are generally non-exclusive; while PECO's, Pepco's and DPL's rights are generally exclusive. Certain authorizations are perpetual while others have varying expiration dates. The Utility Registrants anticipate working with the appropriate governmental bodies to extend or replace the authorizations prior to their expirations.

Utility Regulations

State utility commissions regulate the Utility Registrants' electric and gas distribution rates and service, issuances of certain securities, and certain other aspects of the business. The following table outlines the state commissions responsible for utility oversight.

Registrant	Commission
ComEd	ICC
PECO	PAPUC
BGE	MDPSC
Pepco	DCPSC/MDPSC
DPL	DPSC/MDPSC
ACE	NJBPU

The Utility Registrants are public utilities under the Federal Power Act subject to regulation by FERC related to transmission rates and certain other aspects of the utilities' business. The U.S. Department of Transportation also regulates pipeline safety and other areas of gas operations for PECO, BGE and DPL. Additionally, the Utility Registrants are subject to NERC mandatory reliability standards, which protect the nation's bulk power system against potential disruptions from cyber and physical security breaches.

Seasonality Impacts on Delivery Volumes

The Utility Registrants' electric distribution volumes are generally higher during the summer and winter months when temperature extremes create demand for either summer cooling or winter heating. For PECO, BGE and DPL, natural gas distribution volumes are generally higher during the winter months when cold temperatures create demand for winter heating.

ComEd, BGE, Pepco and DPL Maryland have electric distribution decoupling mechanisms and BGE has a natural gas decoupling mechanism that eliminate the favorable and unfavorable impacts of weather and customer usage patterns on electric distribution and natural gas delivery volumes. As a result, ComEd's, BGE's, Pepco's and DPL's Maryland electric distribution revenues and BGE's natural gas revenues are not materially impacted by delivery volumes. PECO's and ACE's electric distribution revenues and DPL's Delaware electric distribution and natural gas revenues are impacted by delivery volumes.

Electric and Natural Gas Distribution Services

The Utility Registrants are allowed to recover reasonable costs and fair and prudent capital expenditures associated with electric and natural gas distribution services and earn a return on those capital expenditures, subject to commission approval. ComEd recovers costs through a performance-based rate formula. ComEd is required to file an update to the performance-based rate formula on an annual basis. PECO's, BGE's and DPL's electric and gas distribution costs and Pepco's and ACE's electric distribution costs are recovered through traditional rate case proceedings. In certain instances, the Utility Registrants use specific recovery mechanisms as approved by their respective regulatory agencies.

ComEd, Pepco and ACE customers have the choice to purchase electricity, and PECO, BGE and DPL customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers. The Utility Registrants remain the distribution service providers for all customers and are obligated to deliver electricity and natural gas to customers in their respective service territories while charging a regulated rate for distribution service. In addition, the Utility Registrants also retain significant default service obligations to provide electricity to certain groups of customers in their respective service areas who do not choose a competitive electric generation supplier. PECO and BGE also retain significant default service obligations to provide natural gas to certain groups of customers in their respective service areas who do not choose a competitive natural gas supplier. For natural gas, DPL does not retain default service obligations.

For customers that choose to purchase electric generation or natural gas from competitive suppliers, the Utility Registrants act as the billing agent and therefore do not record Operating revenues or Purchased power and fuel expense related to the electricity and/or natural gas. Refer to MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Results of Operations for further information. For customers that choose to purchase electric generation or natural gas from a Utility Registrant, the Utility Registrants are permitted to recover the electricity and natural gas procurement costs without mark-up and therefore record equal and offsetting amounts of Operating revenues and Purchased power and fuel expense related to the electricity and/or natural gas. As a result, fluctuations in electricity or natural gas sales and procurement costs have no impact on the Utility Registrants' Revenues net of purchased power and fuel expense, which is a non-GAAP measure used to evaluate operational performance, or Net Income.

Procurement-Related Proceedings

The Utility Registrants' electric supply for its customers is primarily procured through contracts as required by the ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU. The Utility Registrants procure electricity supply from various approved bidders, including Generation. RTO spot market purchases and sales are utilized to balance the utility electric load and supply as required. Charges incurred for electric supply procured through contracts with Generation are included in Purchased power from affiliates on the Utility Registrants' Statements of Operations and Comprehensive Income.

PECO's, BGE's and DPL's natural gas supplies are purchased from a number of suppliers for terms of up to three years. PECO, BGE and DPL have annual firm supply and transportation contracts of 132,000 mmcf, 128,000 mmcf and 58,000 mmcf, respectively. In addition, to supplement gas supply at times of heavy winter demands and in the event of temporary emergencies, PECO, BGE and DPL have available storage capacity from the following sources:

	Peak Natural Gas Sources (in mmcf)		
	Liquefied Natural Gas Facility	Propane-Air Plant	Underground Storage Service Agreements[a]
PECO	1,200	150	18,000
BGE	1,056	550	22,000
DPL	257	n/a	3,800

[a] Natural gas from underground storage represents approximately 28%, 46% and 34% of PECO's, BGE's and DPL's 2017-2018 heating season planned supplies, respectively.

PECO, BGE and DPL have long-term interstate pipeline contracts and also participate in the interstate markets by releasing pipeline capacity or bundling pipeline capacity with gas for off-system sales. Off-system gas sales are low-margin direct sales of gas to wholesale suppliers of natural gas. Earnings from these activities are shared between the utilities and customers. PECO, BGE and DPL make these sales as part of a program to balance its supply and cost of natural gas. The off-system gas sales are not material to PECO, BGE and DPL.

Refer to QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK, Commodity Price, for further information regarding Utility Registrants' contracts to procure electric supply and natural gas.

Energy Efficiency Programs

The Utility Registrants are allowed to recover costs associated with energy efficiency and demand response programs. Each commission approved program seeks to meet mandated electric consumption reduction targets and implement demand response measures to reduce peak demand. The programs are designed to meet standards required by each respective regulatory agency.

The Utility Registrants are allowed to earn a return on their energy efficiency costs. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further information.

Capital Investment

The Utility Registrants' businesses are capital intensive and require significant investments, primarily in electric transmission and distribution and natural gas transportation and distribution facilities, to ensure the adequate capacity, reliability and efficiency of their systems. ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's most recent estimates of capital expenditures for plant additions and improvements for 2018 are as follows:

	Projected 2018 Capital Expenditure Spending			
(in millions)	**Transmission**	**Distribution**	**Gas**	**Total**
ComEd	$375	$1,750	N/A	$2,125
PECO	125	450	$225	800
BGE	175	425	400	1,000
Pepco	125	600	N/A	725
DPL	150	200	50	400
ACE	175	200	N/A	375

ComEd, PECO, BGE, Pepco and DPL have AMI smart meter and smart grid deployment programs within their respective service territories to enhance their distribution systems. PECO, BGE, Pepco and DPL have completed the installation and activation of smart meters and smart grid in their respective service territories. ComEd expects to complete its smart meter and smart grid deployment in 2018.

Transmission Services

Under FERC's open access transmission policy, the Utility Registrants, as owners of transmission facilities, are required to provide open access to their transmission facilities under filed tariffs at cost-based rates approved by FERC. The Utility Registrants and their affiliates are required to comply with FERC's Standards of Conduct regulation governing the communication of non-public transmission information between the transmission owner's employees and wholesale merchant employees.

PJM is the regional grid operator and operates pursuant to FERC-approved tariffs. PJM is the transmission provider under, and the administrator of, the PJM Open Access Transmission Tariff (PJM Tariff). PJM operates the PJM energy, capacity and other markets, and, through central dispatch, controls the day-to-day operations of the bulk power system for the region. The Utility Registrants are members of PJM and provide regional transmission service pursuant to the PJM Tariff. The Utility Registrants and the other transmission owners in PJM have turned over control of their transmission facilities to PJM, and their transmission systems are under the dispatch control of PJM. Under the PJM Tariff, transmission service is provided on a region-wide, open-access basis using the transmission facilities of the PJM transmission owners at rates based on the costs of transmission service.

ComEd's transmission rates are established based on a formula that was approved by FERC in January 2008. BGE's, Pepco's, DPL's and ACE's transmission rates are established based on a formula that was approved by FERC in April 2006. FERC's orders establish the agreed-upon treatment of costs and revenues in the determination of network service transmission rates and the process for updating the formula rate calculation on an annual basis.

On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The new formula was accepted by FERC effective as of December 1, 2017, subject to refund and set for hearing and settlement judge proceedings, which are currently ongoing. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional detail regarding the transmission formula late.

See Note 3 — Regulatory Matters, Note 25—Segment Information of the Combined Notes to Consolidated Financial Statements and MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Liquidity and Capital Resources for additional information regarding transmission services.

Employees

As of December 31, 2017, Exelon and its subsidiaries had 34,621 employees in the following companies, of which 11,845 or 34% were covered by collective bargaining agreements (CBAs):

	IBEW Local 15[a]	IBEW Local 614[b]	Other CBAs	Total Employees Covered by CBAs	Total Employees
Generation[c]	1,660	97	2,729	4,486	15,011
ComEd	3,515	—	—	3,515	6,280
PECO	—	1,148	—	1,148	2,534
BGE[d]	—	—	—	—	3,022
PHI[e]	—	—	322	322	1,320
Pepco[e]	—	—	1,151	1,151	1,582
DPL[e]	—	—	688	688	944
ACE[e]	—	—	421	421	647
Other[f]	65	—	49	114	3,281
Total	5,240	1,245	5,360	11,845	34,621

[a] A separate CBA between ComEd and IBEW Local 15 covers approximately 65 employees in ComEd's System Services Group and was renewed in 2016. Generation's and ComEd's separate CBAs with IBEW Local 15 will expire in 2022.

[b] PECO craft and call center employees in the Philadelphia service territory are covered by CBAs with IBEW Local 614, both expiring in 2021. Additionally, Exelon Power, an operating unit of Generation, has an agreement covering 97 employees, which was renewed in 2016 and expiring in 2019.

[c] During 2017, Generation finalized CBAs with the Security Officer unions at LaSalle, Limerick and Quad Cities, which all will expire in 2020 and Dresden expiring in 2021. Additionally, during 2017, Generation acquired and combined two CBAs at FitzPatrick into one CBA covering both craft and security employees, which will expire in 2023. During 2016, Generation finalized its CBA with the Security Officer union at Oyster Creek, expiring in 2022 and New Energy IUOE Local 95-95A, which will expire in 2021. Also, during 2016, Generation finalized a 5-year agreement with the New England ENEH, UWUA Local 369, which will expire in 2022. During 2015, Generation finalized its CBA with Clinton Local 51 which will expire in 2020; its two CBAs with Local 369 at Mystic 7 and Mystic 8/9, both expiring in 2020; and four Security Officer unions at Braidwood, Byron, Clinton and TMI, all expiring between 2018 and 2021, respectively. During 2014, Generation finalized CBAs with TMI Local 777 and Oyster Creek Local 1289, expiring in 2019 and 2021, respectively and CENG finalized its CBA with Nine Mile Point which will expire in 2020. Additionally, during 2014, an agreement was negotiated with Las Vegas District Energy and IUOE Local 501, which will expire in 2018.

[d] In January 2017, an election was held at BGE which resulted in union representation for 1,394 employees at the end of the year. BGE and IBEW Local 410 are negotiating an initial agreement which could result in some modifications to wages, hours and other terms and conditions of employment. No agreement has been finalized to date and management cannot predict the outcome of such negotiations.

[e] PHI's utility subsidiaries are parties to five CBAs with four local unions. CBAs are generally renegotiated every three to five years. All of these CBAs were renegotiated in 2014 and were extended through various dates ranging from October 2018 through June 2020.

[f] Other includes shared services employees at BSC.

Environmental Regulation

General

The Registrants are subject to comprehensive and complex legislation regarding environmental matters by the federal government and various state and local jurisdictions in which they operate their facilities. The Registrants are also subject to environmental regulations administered by the EPA and various state and local environmental protection agencies. Federal, state and local regulation includes the authority to regulate air, water, and solid and hazardous waste disposal.

The Exelon Board of Directors is responsible for overseeing the management of environmental matters. Exelon has a management team to address environmental compliance and strategy, including the CEO; the Senior Vice President, Corporate Strategy and Chief Sustainability Officer; the Senior Vice President, Competitive Market Policy; and the Director, Safety & Sustainability, as well as senior management of Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE. Performance of those individuals directly involved in environmental compliance and strategy is reviewed and affects compensation as part of the annual individual performance review process. The Exelon Board of Directors has delegated to its Generation Oversight Committee and the Corporate Governance Committee the authority to oversee Exelon's compliance with health, environmental and safety laws and regulations and its strategies and efforts to protect and improve the quality of the environment, including Exelon's internal climate change and sustainability policies and programs, as discussed in further detail below. The respective Boards of ComEd, PECO, BGE, Pepco, DPL and ACE oversee environmental, health and safety issues related to these companies.

Air Quality

Air quality regulations promulgated by the EPA and the various state and local environmental agencies impose restrictions on emission of particulates, sulfur dioxide (SO_2), nitrogen oxides (NOx), mercury and other air pollutants and require permits for operation of emitting sources. Such permits have been obtained as needed by Exelon's subsidiaries. However, due to its low emitting generation fleet comprised of nuclear, natural gas, hydroelectric, wind and solar, compliance with the Federal Clean Air Act does not have a material impact on Generation's operations.

See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for additional information regarding clean air regulation in the forms of the CSAPR, the regulation of hazardous air pollutants from coal- and oil-fired electric generating facilities under MATS, and regulation of GHG emissions.

Water Quality

Under the federal Clean Water Act, NPDES permits for discharges into waterways are required to be obtained from the EPA or from the state environmental agency to which the permit program has been delegated and must be renewed periodically. Certain of Exelon's facilities discharge stormwater and industrial wastewater into waterways and are therefore subject to these regulations and operate under NPDES permits or pending applications for renewals of such permits after being granted an administrative extension. Generation is also subject to the jurisdiction of the Delaware River Basin Commission and the Susquehanna River Basin Commission, regional agencies that primarily regulate water usage.

Section 316(b) of the Clean Water Act

Section 316(b) requires that the cooling water intake structures at electric power plants reflect the best technology available to minimize adverse environmental impacts, and is implemented through state-level NPDES permit programs. All of Generation's power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems (e.g., cooling towers) are potentially most affected by recent changes to the regulations. For Generation, those facilities are Calvert Cliffs, Clinton, Dresden, Eddystone, Fairless Hills, FitzPatrick, Ginna, Gould Street, Mountain Creek, Handley, Mystic 7, Nine Mile Point Unit 1, Peach Bottom, Quad Cities, Riverside and Salem.

On October 14, 2014, the EPA's Section 316(b) rule became effective. The rule requires that a series of studies and analyses be performed to determine the best technology available to minimize adverse impacts on aquatic life, followed by an implementation period for the selected technology. The timing of the various requirements for each facility is related to the status of its current NPDES permit and the subsequent renewal period. There is no fixed compliance schedule, as this is left to the discretion of the state permitting director.

Until the compliance requirements are determined by the applicable state permitting director on a site-specific basis for each plant, Generation cannot estimate the effect that compliance with the rule will have on the operation of its generating facilities and its future results of operations, cash flows, and financial position. Should a state permitting director determine that a facility must install cooling towers to comply with the rule, that facility's economic viability could be called into question. However, the potential impact of the rule has been significantly reduced since the final rule does not mandate cooling towers as a national standard and sets forth technologies that are presumptively compliant, and the state permitting director is required to apply a cost-benefit test and can take into consideration site-specific factors, such as those that would make cooling towers infeasible.

Pursuant to discussions with the NJDEP in 2010 regarding the application of Section 316(b) to Oyster Creek, Generation agreed to permanently cease generation operations at Oyster Creek by December 31, 2019, ten years before the expiration of its operating license in 2029. The agreement only applies to Oyster Creek based on its unique circumstances and does not set any precedent for the ultimate compliance requirements for Section 316(b) at Exelon's other plants. On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018.

New York Facilities

In July 2011, the New York Department of Environmental Conservation (DEC) issued a policy regarding the best available technology for cooling water intake structures. Through its policy, the DEC established closed-cycle cooling or its equivalent as the performance goal for all existing facilities, but also provided that the DEC will select a feasible technology whose costs are not wholly disproportionate to the environmental benefits to be gained and allows for a site-specific determination where the entrainment performance goal cannot be achieved (i.e., the requirement most likely to support cooling towers). The R.E Ginna and Nine Mile Point Unit 1 power generation facilities received renewals of their state water discharge permits in 2014 and cooling towers were not required. These facilities are now engaged in the required analyses to enable the environmental agency to determine the best technology available in the next permit renewal cycles.

Salem

On July 28, 2016, the NJDEP issued a final permit for Salem that did not require the installation of cooling towers and allows Salem to continue to operate utilizing the existing cooling water system with certain required system modifications. However, the permit is being challenged by an environmental organization, and if successful, could result in additional costs for Clean Water Act compliance. Potential cooling water system modification costs could be material and could adversely impact the economic competitiveness of this facility.

Solid and Hazardous Waste

CERCLA provides for immediate response and removal actions coordinated by the EPA in the event of threatened releases of hazardous substances and authorizes the EPA either to clean up sites at which hazardous substances have created actual or potential environmental hazards or to order persons responsible for the situation to do so. Under CERCLA, generators and transporters of hazardous substances, as well as past and present owners and operators of hazardous waste sites, are strictly, jointly and severally liable for the cleanup costs of waste at sites, most of which are listed by the EPA on the National Priorities List (NPL). These PRPs can be ordered to perform a cleanup, can be sued for costs associated with an EPA-directed cleanup, may voluntarily settle with the EPA concerning their liability for cleanup costs, or may voluntarily begin a site investigation and site remediation under state oversight prior to listing on the NPL. Various states, including Delaware, Illinois, Maryland, New Jersey and Pennsylvania and the District of Columbia have also enacted statutes that contain provisions substantially similar to CERCLA. In addition, RCRA governs treatment, storage and disposal of solid and hazardous wastes and cleanup of sites where such activities were conducted.

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE and their subsidiaries are, or could become in the future, parties to proceedings initiated by the EPA, state agencies and/or other responsible parties under CERCLA and RCRA with respect to a number of sites, including MGP sites, or may undertake to investigate and remediate sites for which they may be subject to enforcement actions by an agency or third-party.

See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information regarding solid and hazardous waste regulation and legislation.

Environmental Remediation

ComEd's and PECO's environmental liabilities primarily arise from contamination at former MGP sites. ComEd, pursuant to an ICC order, and PECO, pursuant to settlements of natural gas distribution rate cases with the PAPUC, have an on-going process to recover environmental remediation costs of the MGP sites through a provision within customer rates. BGE, ACE, Pepco and DPL do not have material contingent liabilities relating to MGP sites. The amount to be expended in 2018 for compliance with environmental remediation related to contamination at former MGP sites and other gas purification sites is expected to total $48 million, consisting of $42 million and $6 million at ComEd and PECO respectively. The Utility Registrants also have contingent liabilities for environmental remediation of non-MGP contaminants (e.g., PCBs). As of December 31, 2017, the Utility Registrants have established appropriate contingent liabilities for environmental remediation requirements.

The Registrants' operations have in the past, and may in the future, require substantial expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, the Registrants are generally liable for the costs of remediating environmental contamination of property now or formerly owned by them and of property contaminated by hazardous substances generated by them. The Registrants own or lease a number of real estate parcels, including parcels on which their operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws.

In addition, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE may be required to make significant additional expenditures not presently determinable for other environmental remediation costs.

See Notes 3 — Regulatory Matters and 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information regarding the Registrants' environmental remediation efforts and related impacts to the Registrants' results of operations, cash flows and financial positions.

Global Climate Change

Exelon has utility and generation assets, and customers, that are and will be further subject to the impacts of climate change. Accordingly, Exelon is engaged in a variety of initiatives to understand and mitigate these impacts, including investments in resiliency, partnering with federal, state and local governments to minimize impacts, and, importantly, advocating for public policy that reduces emissions that cause climate change. Exelon, as a producer of electricity from predominantly low- and zero-carbon generating facilities (such as nuclear, hydroelectric, natural gas, wind and solar photovoltaic), has a relatively small greenhouse gas (GHG) emission profile, or carbon footprint, compared to other domestic generators of electricity (Exelon neither owns or operates any coal-fueled generating assets). Exelon's natural gas and biomass fired generating plants produce GHG emissions, most notably, CO_2. However, Generation's owned-asset emission intensity, or rate of carbon dioxide equivalent (CO_2e) emitted per unit of electricity generated, is among the lowest in the industry. In 2017, while fossil fuel powered approximately 33 percent of Exelon's owned generating capacity, fossil fuel-fired generation represents less than 12 percent of Exelon's overall generation on a MWh basis. Other GHG emission sources at Exelon include natural gas (methane) leakage on the natural gas systems, sulfur hexafluoride (SF_6) leakage from electric transmission and distribution operations, refrigerant leakage from chilling and cooling equipment, and fossil fuel combustion in motor vehicles. Exelon facilities and operations are subject to the global impacts of climate change and Exelon believes its operations could be significantly affected by the physical risks of climate change.

Climate Change Regulation

Exelon is or may become subject to additional climate change regulation or legislation at the federal, regional and state levels.

International Climate Change Agreements. At the international level, the United States is a Party to the United Nations Framework Convention on Climate Change (UNFCCC). The Parties to the UNFCCC adopted the Paris Agreement at the 21st session of the UNFCCC Conference of the Parties (COP 21) on December 12, 2015, and it became effective on November 4, 2016. Under the Paris Agreement, the Parties agreed to try to limit the global average temperature increase to 2°C (3.6°F) above pre-industrial levels. In doing so, Parties developed their own national reduction commitments. The United States submitted a non-binding target of 17% below 2005 emission levels by 2020 and 26% to 28% below 2005 levels by 2025. President Trump has stated his intention to withdraw the U.S. from the Paris Agreement, but no formal action has been initiated.

Federal Climate Change Legislation and Regulation. It is highly unlikely whether federal legislation to reduce GHG emissions will be enacted in the near-term. If such legislation is adopted, Exelon may incur costs either to further limit or offset the GHG emissions from its operations or to procure emission allowances or credits. More importantly, continued inaction could negatively impact the value of Exelon's low-carbon fleet.

Under the Obama Administration, the EPA proposed and finalized regulations for fossil fuel-fired power plants, referred to as the Clean Power Plan, which are currently being litigated. However, the Trump Administration has proposed a repeal of the Clean Power Plan, and is expected to seek broad public comment on whether and how to regulate GHGs at the federal level. Details are not yet known and are likely to be further informed by the public comment process.

Given this uncertainty, Exelon and Generation cannot at this time predict the future of the Clean Power Plan, or its repeal and/or replacement, or individual state responses to Clean Power Plan developments or how developments will impact their future results of operations, cash flows and financial positions.

Regional and State Climate Change Legislation and Regulation. A number of states in which Exelon operates have state and regional programs to reduce GHG emissions, including from the power sector. As the nation's largest generator of carbon-free electricity, our fleet supports these efforts to produce safe, reliable electricity with minimal GHGs. Notably, nine northeast and mid-Atlantic states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont) currently participate in the Regional Greenhouse Gas Initiative (RGGI), which is in the process of strengthening its requirements. The program requires most fossil fuel-fired power plants in the region to hold allowances, purchased at auction, for each ton of CO_2 emissions. Non-emitting resources do not have to purchase or hold these allowances.

Many states in which Exelon subsidiaries operate also have state-specific programs to address GHGs, including from power plants. Most notable of these, besides RGGI, are through renewable and other portfolio standards. Additionally, in response to a court decision clarifying obligations under the Global Warming Solutions Act, the Massachusetts Department of Environmental Protection in 2017 finalized regulations establishing a statewide cap on CO_2 emissions from fossil fuel power plants (Massachusetts remains in RGGI as well). The effect of this new obligation and potential for market illiquidity in the early years represent a risk to Generation's Massachusetts fossil facilities, including Medway and Mystic. At the same time, the District of Columbia is considering a plan to incorporate the cost of carbon into electricity, via consumption, as well as directly into the cost of transportation and home heating fuels. Details remain to be developed, but the specifics could have implications for Pepco's operations.

Regardless of whether GHG regulation occurs at the local, state, or federal level, Exelon remains one of the largest, lowest-carbon electric generators in the United States, relying mainly on nuclear, natural gas, hydropower, wind, and solar. The extent that the low-carbon generating fleet will continue to be a competitive advantage for Exelon depends on what, if anything, replaces the Clean Power Plan at the federal level, new or expanded state action on greenhouse gas emissions or direct support of clean energy technologies, including nuclear, as well as potential market reforms that value our fleet's emission-free attributes.

Renewable and Alternative Energy Portfolio Standards

Thirty-nine states and the District of Columbia, incorporating the vast majority of Exelon operations as well as all utility operations, have adopted some form of RPS requirement. These standards impose varying levels of mandates for procurement of renewable or clean electricity (the definition of which varies by state) and/or energy efficiency. These are generally expressed as a percentage of annual electric load, often increasing by year. Exelon's utilities comply with these various requirements through purchasing qualifying renewables, implementing efficiency programs, acquiring sufficient credits (e.g., RECs), paying an alternative compliance payment, and/or a combination of these compliance alternatives. The Utility Registrants are permitted to recover from retail customers the costs of complying with their state RPS requirements, including the procurement of RECs or other alternative energy resources. New York and Illinois adopted standards targeted at preserving the zero-carbon attributes of certain Exelon's nuclear-powered generating facilities. Generation owns multiple facilities participating in these programs within both states. Other states in which Generation and our utilities operate are considering similar programs.

See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on renewable portfolio standards.

Executive Officers of the Registrants as of February 9, 2018

Exelon

Name	Age	Position	Period
Crane, Christopher M.	59	Chief Executive Officer, Exelon	2012 - Present
		Chairman, ComEd, PECO & BGE	2012 - Present
		Chairman, PHI	2016 - Present
		President, Exelon	2008 - Present
		President, Generation	2008 - 2013
Cornew, Kenneth W.	52	Senior Executive Vice President and Chief Commercial Officer, Exelon	2013 - Present
		President and CEO, Generation	2013 - Present
		Executive Vice President and Chief Commercial Officer, Exelon	2012 - 2013
		President and Chief Executive Officer, Constellation	2012 - 2013
O'Brien, Denis P.	57	Senior Executive Vice President, Exelon; Chief Executive Officer, Exelon Utilities	2012 - Present
		Vice Chairman, ComEd, PECO & BGE	2012 - Present
		Vice Chairman, PHI	2016 - Present
Pramaggiore, Anne R.	59	Chief Executive Officer, ComEd	2012 - Present
		President, ComEd	2009 - Present
Adams, Craig L.	65	President and Chief Executive Officer, PECO	2012 - Present
Butler, Calvin G.	48	Chief Executive Officer, BGE	2014 - Present
		Senior Vice President, Regulatory and External Affairs, BGE	2013 - 2014
		Senior Vice President, Corporate Affairs, Exelon	2011 - 2013
David M. Velazquez	58	President and Chief Executive Officer, PHI	2016 - Present
		President and Chief Executive Officer, Pepco, DPL & ACE	2009 - Present
		Executive Vice President, Pepco Holdings, Inc.	2009 - 2016
Von Hoene Jr., William A.	64	Senior Executive Vice President and Chief Strategy Officer, Exelon	2012 - Present
Thayer, Jonathan W.	46	Senior Executive Vice President and Chief Financial Officer, Exelon	2012 - Present
Aliabadi, Paymon	55	Executive Vice President and Chief Risk Officer, Exelon	2013 - Present
		Managing Director, Gleam Capital Management	2012 - 2013
DesParte, Duane M.	54	Senior Vice President and Corporate Controller, Exelon	2008 - Present

Generation

Name	Age	Position	Period
Cornew, Kenneth W.	52	Senior Executive Vice President and Chief Commercial Officer, Exelon	2013 - Present
		President and CEO, Generation	2013 - Present
		Executive Vice President and Chief Commercial Officer, Exelon	2012 - 2013
		President and Chief Executive Officer, Constellation	2012 - 2013
Pacilio, Michael J.	57	Executive Vice President and Chief Operating Officer, Generation	2015 - Present
		President, Exelon Nuclear; Senior Vice President and Chief Nuclear Officer, Generation	2010 - 2015
Hanson, Bryan C	52	President and Chief Nuclear Officer, Exelon Nuclear; Senior Vice President, Generation	2015 - Present
Nigro, Joseph	53	Executive Vice President, Exelon; Chief Executive Officer, Constellation	2013 - Present
		Senior Vice President, Portfolio Management and Strategy	2012 - 2013
DeGregorio, Ronald	55	Senior Vice President, Generation; President, Exelon Power	2012 - Present
Wright, Bryan P.	51	Senior Vice President and Chief Financial Officer, Generation	2013 - Present
		Senior Vice President, Corporate Finance, Exelon	2012 - 2013
Bauer, Matthew N.	41	Vice President and Controller, Generation	2016 - Present
		Vice President and Controller, BGE	2014 - 2016
		Vice President of Power Finance, Exelon Power	2012 - 2014

ComEd

Name	Age	Position	Period
Pramaggiore, Anne R.	59	Chief Executive Officer, ComEd	2012 - Present
		President, ComEd	2009 - Present
Donnelly, Terence R.	57	Executive Vice President and Chief Operating Officer, ComEd	2012 - Present
Trpik Jr., Joseph R.	48	Senior Vice President, Chief Financial Officer and Treasurer, ComEd	2009 - Present
Jensen, Val	62	Senior Vice President, Customer Operations, ComEd	2012 - Present
Gomez, Veronica	48	Senior Vice President, Regulatory and Energy Policy and General Counsel, ComEd	2017 - Present
		Vice President and Deputy General Counsel, Litigation, Exelon	2012 - 2017
Marquez Jr., Fidel	56	Senior Vice President, Governmental & External Affairs, Exelon	2012 - Present
McGuire, Timothy M.	59	Senior Vice President, Distribution Operations, ComEd	2016 - Present
		Vice President, Transmission and Substations, ComEd	2010 - 2016
Kozel, Gerald J.	45	Vice President, Controller, ComEd	2013 - Present
		Assistant Corporate Controller, Exelon	2012 - 2013

PECO

Name	Age	Position	Period
Adams, Craig L.	65	President and Chief Executive Officer, PECO	2012 - Present
Barnett, Phillip S.	54	Senior Vice President and Chief Financial Officer, PECO	2007 - Present
		Treasurer, PECO	2012 - Present
Innocenzo, Michael A.	52	Senior Vice President and Chief Operations Officer, PECO	2012 - Present
Murphy, Elizabeth A.	58	Senior Vice President, Governmental & External Affairs, PECO	2016 - Present
		Vice President, Governmental & External Affairs, PECO	2012 - 2016
Webster Jr., Richard G.	56	Vice President, Regulatory Policy and Strategy, PECO	2012 - Present
Jiruska, Frank J.	57	Vice President, Customer Operations, PECO	2013 - Present
Diaz Jr., Romulo L.	71	Vice President and General Counsel, PECO	2012 - Present
Bailey, Scott A.	41	Vice President and Controller, PECO	2012 - Present

BGE

Name	Age	Position	Period
Butler, Calvin G.	48	Chief Executive Officer, BGE	2014 - Present
		Senior Vice President, Regulatory and External Affairs, BGE	2013 - 2014
		Senior Vice President, Corporate Affairs, Exelon	2011 - 2013
Woerner, Stephen J.	50	President, BGE	2014 - Present
		Chief Operating Officer, BGE	2012 - Present
		Senior Vice President, BGE	2009 - 2014
Vahos, David M.	45	Senior Vice President, Chief Financial Officer and Treasurer, BGE	2016 - Present
		Vice President, Chief Financial Officer and Treasurer, BGE	2014 - 2016
		Vice President and Controller, BGE	2012 - 2014
Núñez, Alexander G.	46	Senior Vice President, Regulatory and External Affairs, BGE	2016 - Present
		Vice President, Governmental & External Affairs, BGE	2013 - 2016
		Director, State Affairs, BGE	2012 - 2013
Case, Mark D.	56	Vice President, Regulatory Policy and Strategy, BGE	2012 - Present
Biagiotti, Robert D.	48	Vice President, Customer Operations, BGE	2015 - Present
		Vice President, Gas Distribution, BGE	2011 - 2015
Gahagan, Daniel P.	64	Vice President and General Counsel, BGE	2007 - Present
Andrew W. Holmes	49	Vice President and Controller, BGE	2016 - Present
		Director, Generation Accounting, Exelon	2013 - 2016
		Director, Derivatives and Technical Accounting, Exelon	2008 - 2013

PHI, Pepco, DPL and ACE

Name	Age	Position	Period
Velazquez, David M.	58	President and Chief Executive Officer, PHI	2016 - Present
		Executive Vice President, Pepco Holdings, Inc.	2009-2016
		President and Chief Executive Officer, Pepco, DPL & ACE	2009 - Present
Anthony, J. Tyler	53	Senior Vice President and Chief Operating Officer, PHI, Pepco, DPL & ACE	2016 - Present
		Senior Vice President, Distribution Operations, ComEd	2010 - 2016
Kinzel, Donna J.	50	Senior Vice President, Chief Financial Officer and Treasurer, PHI, Pepco, DPL & ACE	2016 - Present
		Vice President, Treasurer and Chief Risk Officer, Pepco Holdings	2012 - 2016
Bonney, Paul R.	59	Senior Vice President, Legal and Regulatory Strategy, PHI, Pepco, DPL & ACE	2016 - Present
		Senior Vice President and General Counsel, Constellation	2012 - 2016
Lavinson, Melissa A.	48	Senior Vice President, Governmental & External Affairs, PHI, Pepco, DPL & ACE	2018 - Present
		Vice President, Federal Affairs and Policy, and Chief Sustainability Officer, PG&E Corporation	2015 - 2018
		Vice President, Federal Affairs, PG&E Corporation	2012 - 2015
Stark, Wendy E.	45	Vice President and General Counsel, PHI, Pepco DPL & ACE	2016 - Present
		Deputy General Counsel, Pepco Holdings, Inc.	2012 - Present
McGowan, Kevin M.	56	Vice President, Regulatory Policy and Strategy, PHI, Pepco, DPL & ACE	2016 - Present
		Vice President, Regulatory Affairs, Pepco Holdings, Inc.	2012 - 2016
Aiken, Robert M.	51	Vice President and Controller, PHI, Pepco, DPL & ACE	2016 - Present
		Vice President and Controller, Generation	2012 - 2016

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Exelon's common stock is listed on the New York Stock Exchange. As of January 31, 2018, there were 965,029,399 shares of common stock outstanding and approximately 104,909 record holders of common stock.

The following table presents the New York Stock Exchange—Composite Common Stock Prices and dividends by quarter on a per share basis:

	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High price	$42.67	$38.78	$37.44	$37.19	$36.36	$37.70	$36.37	$35.95
Low price	37.55	35.37	33.30	34.47	29.82	32.86	33.18	26.26
Close	39.41	37.67	36.07	35.98	35.49	33.29	36.36	35.86
Dividends	0.328	0.328	0.328	0.328	0.318	0.318	0.318	0.310

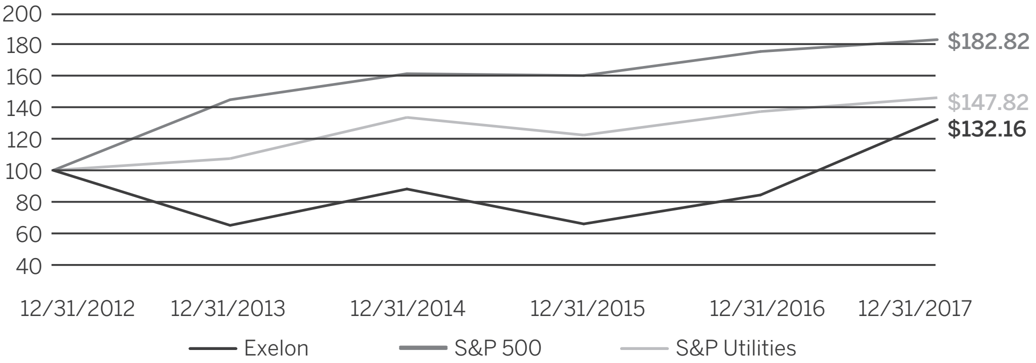
Stock Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of $100 in Exelon common stock, as compared with the S&P 500 Stock Index and the S&P Utility Index, for the period 2013 through 2017.

This performance chart assumes:

- $100 invested on December 31, 2012 in Exelon common stock, in the S&P 500 Stock Index and in the S&P Utility Index; and
- All dividends are reinvested.

COMPARISON OF FIVE-YEAR CUMULATIVE RETURN



	Value of Investment at December 31,					
	2012	2013	2014	2015	2016	2017
Exelon Corporation	$100	$ 65.11	$ 88.14	$ 66.01	$ 84.36	$132.16
S&P 500	$100	$144.74	$161.22	$160.05	$175.31	$182.82
S&P Utilities	$100	$107.43	$133.52	$122.32	$137.24	$147.82

Generation

As of January 31, 2018, Exelon indirectly held the entire membership interest in Generation.

ComEd

As of January 31, 2018, there were 127,021,256 outstanding shares of common stock, $12.50 par value, of ComEd, of which 127,002,904 shares were indirectly held by Exelon. At January 31, 2018, in addition to Exelon, there were 294 record holders of ComEd common stock. There is no established market for shares of the common stock of ComEd.

PECO

As of January 31, 2018, there were 170,478,507 outstanding shares of common stock, without par value, of PECO, all of which were indirectly held by Exelon.

BGE

As of January 31, 2018, there were 1,000 outstanding shares of common stock, without par value, of BGE, all of which were indirectly held by Exelon.

PHI

As of January 31, 2018, Exelon indirectly held the entire membership interest in PHI.

Pepco

As of January 31, 2018, there were 100 outstanding shares of common stock, $0.01 par value, of Pepco, all of which were indirectly held by Exelon.

DPL

As of January 31, 2018, there were 1,000 outstanding shares of common stock, $2.25 par value, of DPL, all of which were indirectly held by Exelon.

ACE

As of January 31, 2018, there were 8,546,017 outstanding shares of common stock, $3.00 par value, of ACE, all of which were indirectly held by Exelon.

Dividends

Under applicable Federal law, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE may limit the dividends that these companies can distribute to Exelon.

The Federal Power Act declares it to be unlawful for any officer or director of any public utility "to participate in the making or paying of any dividends of such public utility from any funds properly included in capital account." What constitutes "funds properly included in capital account" is undefined in the Federal Power Act or the related regulations; however, FERC has consistently interpreted the provision to allow dividends to be paid as long as (1) the source of the dividends is clearly disclosed, (2) the dividend is not excessive and (3) there is no self-dealing on the part of corporate officials. While these restrictions may limit the absolute amount of dividends that a particular subsidiary may pay, Exelon does not believe these limitations are materially limiting because, under these limitations, the subsidiaries are allowed to pay dividends sufficient to meet Exelon's actual cash needs.

Under Illinois law, ComEd may not pay any dividend on its stock unless, among other things, "[its] earnings and earned surplus are sufficient to declare and pay same after provision is made for reasonable and proper reserves," or unless it has specific authorization from the ICC. ComEd has also agreed in connection with a financing arranged through ComEd Financing III that ComEd will not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debt securities issued to ComEd Financing III; (2) it defaults on its guarantee of the payment of distributions on the preferred trust securities of ComEd Financing III; or (3) an event of default occurs under the Indenture under which the subordinated debt securities are issued. No such event has occurred.

PECO has agreed in connection with financings arranged through PEC L.P. and PECO Trust IV that PECO will not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debentures which were issued to PEC L.P. or PECO Trust IV; (2) it defaults on its guarantee of the payment of distributions on the Series D Preferred Securities of PEC L.P. or the preferred trust securities of PECO Trust IV; or (3) an event of default occurs under the Indenture under which the subordinated debentures are issued. No such event has occurred.

BGE is subject to certain dividend restrictions established by the MDPSC. First, in connection with the Constellation merger, BGE was prohibited from paying a dividend on its common shares through the end of 2014. Second, BGE is prohibited from paying a dividend on its common shares if (a) after the dividend payment, BGE's equity ratio would be below 48% as calculated pursuant to the MDPSC's ratemaking precedents or (b) BGE's senior unsecured credit rating is rated by two of the three major credit rating agencies below investment grade. Finally, BGE must notify the MDPSC that it intends to declare a dividend on its common shares at least 30 days before such a dividend is paid and notify the MDPSC that BGE's equity ratio is at least 48% within five business days after dividend payment.

Pepco is subject to certain dividend restrictions limits imposed by: (i) state corporate laws, which impose limitations on the funds that can be used to pay dividends, and (ii) the prior rights of holders of future preferred stock, if any, and existing and future mortgage bonds and other long-term debt issued by Pepco and any other restrictions imposed in connection with the incurrence of liabilities.

DPL is subject to certain dividend restrictions imposed by: (i) state corporate laws, which impose limitations on the funds that can be used to pay dividends, and (ii) the prior rights of holders of existing and future preferred stock, mortgage bonds and other long-term debt issued by DPL and any other restrictions imposed in connection with the incurrence of liabilities.

ACE is subject to dividend restrictions imposed by: (i) state corporate laws, which impose limitations on the funds that can be used to pay dividends and the regulatory requirement that ACE obtain the prior approval of the NJBPU before dividends can be paid if its equity as a percent of its total capitalization, excluding securitization debt, falls below 30%; (ii) the prior rights of holders of existing and future preferred stock, mortgage bonds and other long-term debt issued by ACE and any other restrictions imposed in connection with the incurrence of liabilities; and (iii) certain provisions of the charter of ACE which impose restrictions on payment of common stock dividends for the benefit of preferred stockholders. Currently, the restriction in the ACE charter does not limit its ability to pay common stock dividends.

Exelon's Board of Directors approved an updated dividend policy providing an increase of 5% each year for the period covering 2018 through 2020, beginning with the March 2018 dividend.

At December 31, 2017, Exelon had retained earnings of $13,503 million, including Generation's undistributed earnings of $4,310 million, ComEd's retained earnings of $1,132 million consisting of retained earnings appropriated for future dividends of $2,771 million, partially offset by $1,639 million of unappropriated accumulated deficits, PECO's retained earnings of $1,087 million, BGE's retained earnings of $1,536 million, and PHI's undistributed earnings of $(10) million.

The following table sets forth Exelon's quarterly cash dividends per share paid during 2017 and 2016:

	2017				2016			
(per share)	**4th Quarter**	**3rd Quarter**	**2nd Quarter**	**1st Quarter**	**4th Quarter**	**3rd Quarter**	**2nd Quarter**	**1st Quarter**
Exelon	$0.328	$0.328	$0.328	$0.328	$0.318	$0.318	$0.318	$0.310

The following table sets forth Generation's and PHI's quarterly distributions and ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's quarterly common dividend payments:

	2017				2016			
(in millions)	**4th Quarter**	**3rd Quarter**	**2nd Quarter**	**1st Quarter**	**4th Quarter**	**3rd Quarter**	**2nd Quarter**	**1st Quarter**
Generation	$165	$164	$166	$164	$755	$56	$56	$ 55
ComEd	106	105	106	105	94	92	92	91
PECO	72	72	72	72	69	69	70	69
BGE	50	49	50	49	45	44	45	45
PHI	44	136	62	69	99	50	16	108
Pepco	—	75	28	30	44	37	16	39
DPL	30	28	24	30	15	1	—	38
ACE	15	31	12	10	39	13	—	11

First Quarter 2018 Dividend

On January 30, 2018, the Exelon Board of Directors declared a first quarter 2018 regular quarterly dividend of $0.3450 per share on Exelon's common stock payable on March 9, 2018, to shareholders of record of Exelon at the end of the day on February 15, 2018.

Selected Financial Data

The selected financial data presented below has been derived from the audited consolidated financial statements of Exelon. This data is qualified in its entirety by reference to and should be read in conjunction with Exelon's Consolidated Financial Statements and MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	For the Years Ended December 31,				
(In millions, except per share data)	**2017**	**2016[a]**	**2015**	**2014[b]**	**2013**
Statement of Operations data:					
Operating revenues	$33,531	$31,360	$29,447	$27,429	$24,888
Operating income	4,260	3,112	4,409	3,096	3,669
Net income	3,849	1,204	2,250	1,820	1,729
Net income attributable to common shareholders	3,770	1,134	2,269	1,623	1,719
Earnings per average common share (diluted):					
Net income	$ 3.97	$ 1.22	$ 2.54	$ 1.88	$ 2.00
Dividends per common share	$ 1.31	$ 1.26	$ 1.24	$ 1.24	$ 1.46

[a] The 2016 financial results include the activity of PHI from the merger effective date of March 24, 2016 through December 31, 2016.

[b] On April 1, 2014, Generation assumed operational control of CENG's nuclear fleet. As a result, the 2014 financial results include CENG's results of operations on a fully consolidated basis.

	December 31,				
(In millions)	**2017**	**2016**	**2015**	**2014**	**2013**
Balance Sheet data:					
Current assets	$ 11,834	$ 12,412	$15,334	$11,853	$ 9,562
Property, plant and equipment, net	74,202	71,555	57,439	52,170	47,330
Total assets	116,700	114,904	95,384	86,416	79,243
Current liabilities	10,796	13,457	9,118	8,762	7,686
Long-term debt, including long-term debt to financing trusts	32,565	32,216	24,286	19,853	18,165
Shareholders' equity	29,857	25,837	25,793	22,608	22,732

Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

Exelon, a utility services holding company, operates through the following principal subsidiaries:

- *Generation,* whose integrated business consists of the generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services.
- *ComEd,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in northern Illinois, including the City of Chicago.
- *PECO,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of distribution services in the Pennsylvania counties surrounding the City of Philadelphia.
- *BGE,* whose business consists of the purchase and regulated retail sale of electricity and natural gas and the provision of electricity distribution and transmission and gas distribution services in central Maryland, including the City of Baltimore.
- *Pepco,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission in the District of Columbia and major portions of Prince George's County and Montgomery County in Maryland.
- *DPL,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.
- *ACE,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in southern New Jersey.

Pepco, DPL and ACE are operating companies of PHI, which is a utility services holding company and a wholly owned subsidiary of Exelon.

Exelon has twelve reportable segments consisting of Generation's six reportable segments (Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions in Generation), ComEd, PECO, BGE and PHI's three utility reportable segments (Pepco, DPL and ACE). See Note 25 - Segment Information of the Combined Notes to Consolidated Financial Statements for additional information regarding Exelon's reportable segments.

Through its business services subsidiary BSC, Exelon provides its operating subsidiaries with a variety of corporate governance support services including corporate strategy and development, legal, human resources, information technology, finance, real estate, security, corporate communications and supply at cost. The costs of these services are directly charged or allocated to the applicable operating segments. The services are provided pursuant to service agreements. Additionally, the results of Exelon's corporate operations include interest costs and income from various investment and financing activities.

PHISCO, a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, finance, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHISCO and the participating operating subsidiaries.

Exelon's consolidated financial information includes the results of its eight separate operating subsidiary registrants, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, which, along with Exelon, are collectively referred to as the Registrants. The following combined Management's Discussion and Analysis of Financial Condition and Results of Operations is separately filed by Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE. However, none of the Registrants makes any representation as to information related solely to any of the other Registrants.

Financial Results of Operations

GAAP Results of Operations

The following table sets forth Exelon's GAAP consolidated results of operations for the year ended December 31, 2017 compared to the same period in 2016. 2016 amounts include the operations of PHI, Pepco, DPL and ACE from March 24, 2016 through December 31, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	For the Years Ended December 31,								Favorable (Unfavorable) Variance
	2017							2016	
	Generation	ComEd	PECO	BGE	PHI	Other	Exelon	Exelon[(b)]	
Operating revenues	$18,466	$5,536	$2,870	$3,176	$4,679	$(1,196)	$33,531	$31,360	$ 2,171
Purchased power and fuel expense	9,690	1,641	969	1,133	1,716	(1,114)	14,035	12,640	(1,395)
Revenue net of purchased power and fuel expense[(a)]	8,776	3,895	1,901	2,043	2,963	(82)	19,496	18,720	776
Other operating expenses									
Operating and maintenance	6,291	1,427	806	716	1,068	(182)	10,126	10,048	(78)
Depreciation and amortization	1,457	850	286	473	675	87	3,828	3,936	108
Taxes other than income	555	296	154	240	452	34	1,731	1,576	(155)
Total other operating expenses	8,303	2,573	1,246	1,429	2,195	(61)	15,685	15,560	(125)
Gain (Loss) on sales of assets	2	1	—	—	1	(1)	3	(48)	51
Bargain purchase gain	233	—	—	—	—	—	233	—	233
Gain on deconsolidation of business	213	—	—	—	—	—	213	—	213
Operating income (loss)	921	1,323	655	614	769	(22)	4,260	3,112	1,148
Other income and (deductions)									
Interest expense, net	(440)	(361)	(126)	(105)	(245)	(283)	(1,560)	(1,536)	(24)
Other, net	948	22	9	16	54	7	1,056	413	643
Total other income and (deductions)	508	(339)	(117)	(89)	(191)	(276)	(504)	(1,123)	619
Income (loss) before income taxes	1,429	984	538	525	578	(298)	3,756	1,989	1,767
Income taxes	(1,375)	417	104	218	217	294	(125)	761	886
Equity in (losses) earnings of unconsolidated affiliates	(33)	—	—	—	1	—	(32)	(24)	(8)
Net income (loss)	2,771	567	434	307	362	(592)	3,849	1,204	2,645
Net income attributable to noncontrolling interests and preference stock dividends	77	—	—	—	—	2	79	70	(9)
Net income (loss) attributable to common shareholders	$ 2,694	$ 567	$ 434	$ 307	$ 362	$ (594)	$ 3,770	$ 1,134	$ 2,636

(a) The Registrants' evaluate operating performance using the measure of revenues net of purchased power and fuel expense. The Registrant's believe that revenues net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) As a result of the PHI Merger, Exelon includes the consolidated results of PHI, Pepco, DPL and ACE from March 24, 2016 through December 31, 2016.

Exelon's Net income attributable to common shareholders was $3,770 million for the year ended December 31, 2017 as compared to $1,134 million for the year ended December 31, 2016, and diluted earnings per average common share were $3.97 for the year ended December 31, 2017 as compared to $1.22 for the year ended December 31, 2016.

Revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed below, increased by $776 million as compared to 2016. The year-over-year increase was primarily due to the following favorable factors:

- Increase of $104 million at BGE primarily due to the impacts of the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016 and an increase in transmission formula rate revenues;
- Increase of $99 million at ComEd primarily due to increased electric distribution and transmission formula rate revenues (reflecting the impacts of increased capital investment and higher allowed electric distribution ROE), partially offset by lower revenues resulting from the change to defer and recover over time energy efficiency costs pursuant to FEJA and the impact of favorable weather conditions in 2016; and
- Increase of $767 million in Revenue net of purchased power and fuel due to the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016, as well as distribution rate increases effective in 2016 and 2017.

The year-over-year increase in Revenue net of purchased power and fuel expense was partially offset by the following unfavorable factors:

- Decrease of $134 million at Generation due to mark-to-market losses of $175 million in 2017 compared to mark-to-market losses of $41 million in 2016;
- Decrease of $46 million at PECO primarily due to unfavorable weather conditions; and
- Decrease of $11 million at Generation primarily due to lower realized energy prices, the impacts of lower load volumes delivered due to mild weather in the third quarter 2017, the conclusion of the Ginna Reliability Support Services Agreement and the impact of declining natural gas prices on Generation's natural gas portfolio, partially offset by the impact of the New York CES, increased nuclear volumes primarily as a result of the acquisition of FitzPatrick, higher capacity prices, the addition of two combined-cycle gas turbines in Texas and lower nuclear fuel prices.

Operating and maintenance expense increased by $78 million as compared to 2016. The year-over-year increase was primarily due to the following unfavorable factors:

- Increase of $307 million at Generation due to higher asset impairment charges;
- Increase of $127 million at Generation primarily due to Generation's decision in 2017 to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities;
- Increase of $104 million at Generation due to increased nuclear refueling outage costs;
- Increase of $84 million at Generation due to the annual update of the Generation nuclear decommissioning obligation related to the non-regulatory units in 2017 versus 2016; and
- Increase of $253 million at PHI due to the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016.

The year-over-year increase in Operating and maintenance expense was partially offset by the following favorable factors:

- Decrease of $665 million at Exelon due to merger commitment and other merger-related costs of $73 million in 2017 compared to $738 million in 2016;
- Decrease of $85 million at ComEd due to the change to defer and recover over time energy efficiency costs pursuant to the Illinois Future Energy Jobs Act; and
- Decrease of $21 million at BGE primarily due to certain disallowances contained in the June and July 2016 rate orders, partially offset by the impact of the favorable 2016 settlement of the Baltimore City conduit fee dispute.

Depreciation and amortization expense decreased by $108 million primarily due to lower accelerated depreciation and amortization expense as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities, partially offset by increased depreciation expense as a result of ongoing capital expenditures across all operating companies and the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016.

Taxes other than income increased by $155 million primarily due to increased real estate taxes and sales and use taxes at Generation, as well as the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016.

Gain (Loss) on sales of assets increased by $51 million primarily due to certain Generation projects and contracts being terminated or renegotiated in 2016, partially offset by a gain associated with Generation's sale of the retired New Boston generating site in 2016.

Bargain purchase gain increased by $233 million due to the gain associated with Generation's acquisition of FitzPatrick in 2017.

Gain on deconsolidation of business increased by $213 million due to the deconsolidation of EGTP's net liabilities, which included the previously impaired assets and related debt, as a result of the November 2017 bankruptcy filing.

Interest expense, net increased by $24 million primarily due to the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016, partially offset by additional interest related to Exelon's like-kind exchange tax position recorded in 2016 compared to 2017.

Other, net increased by $643 million primarily due to higher net unrealized and realized gains on NDT funds at Generation for the year ended December 31, 2017 as compared to the same period in 2016 and the penalty recorded in 2016 related to Exelon's like-kind exchange tax position.

Exelon's effective income tax rates for the years ended December 31, 2017 and 2016 were (3.3)% and 38.3%, respectively. Exelon's effective income tax rate for the year ended December 31, 2017 includes the impact of the Tax Cuts and Jobs Act. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

For further detail regarding the financial results for the years ended December 31, 2017 and 2016, including explanation of the non-GAAP measure revenues net of purchased power and fuel expense, see the discussions of Results of Operations by Segment below.

Adjusted (non-GAAP) Operating Earnings

Exelon's Adjusted (non-GAAP) operating earnings for the year ended December 31, 2017 were $2,471 million, or $2.60 per diluted share, compared with Adjusted (non-GAAP) operating earnings of $2,488 million, or $2.68 per diluted share, for the same period in 2016. In addition to net income, Exelon evaluates its operating performance using the measure of Adjusted (non-GAAP) operating earnings because management believes it represents earnings directly related to the ongoing operations of the business. Adjusted (non-GAAP) operating earnings exclude certain costs, expenses, gains and losses and other specified items. This information is intended to enhance an investor's overall understanding of year-to-year operating results and provide an indication of Exelon's baseline operating performance excluding items that are considered by management to be not directly related to the ongoing operations of the business. In addition, this information is among the primary indicators management uses as a basis for evaluating performance, allocating resources, setting incentive compensation targets and planning and forecasting of future periods. Adjusted (non-GAAP) operating earnings is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

The following table provides a reconciliation between Net income attributable to common shareholders as determined in accordance with GAAP and Adjusted (non-GAAP) operating earnings for the year ended December 31, 2017 as compared to 2016:

	For the years ended December 31,			
	2017		2016	
(All amounts after tax; in millions, except per share amounts)		**Earnings per Diluted Share**		**Earnings per Diluted Share**
Net Income Attributable to Common Shareholders	$ 3,770	$ 3.97	$1,134	$ 1.22
Mark-to-Market Impact of Economic Hedging Activities(a) (net of taxes of $68 and $18, respectively)	107	0.11	24	0.03
Unrealized Gains Related to NDT Fund Investments(b) (net of taxes of $204 and $77, respectively)	(318)	(0.34)	(118)	(0.13)
Amortization of Commodity Contract Intangibles(c) (net of taxes of $22 and $22, respectively)	34	0.04	35	0.04
Merger and Integration Costs(d) (net of taxes of $25 and $50, respectively)	40	0.04	114	0.12
Merger Commitments(e) (net of taxes of $137 and $126, respectively)	(137)	(0.14)	437	0.47
Long-Lived Asset Impairments(f) (net of taxes of $204 and $68, respectively)	321	0.34	103	0.11
Plant Retirements and Divestitures(g) (net of taxes of $134 and $273, respectively)	207	0.22	432	0.47
Reassessment of Deferred Income Taxes(h) (entire amount represents tax expense)	(1,299)	(1.37)	10	0.01
Cost Management Program(i) (net of taxes of $21 and $21, respectively)	34	0.04	34	0.04
Like-Kind Exchange Tax Position(j) (net of taxes of $66 and $61, respectively)	(26)	(0.03)	199	0.21
Asset Retirement Obligation(k) (net of taxes of $1 and $13, respectively)	(2)	—	(75)	(0.08)
Tax Settlements(l) (net of taxes of $1 and $0, respectively)	(5)	(0.01)	—	—
Bargain Purchase Gain(m) (net of taxes of $0 and $0, respectively)	(233)	(0.25)	—	—
Gain on Deconsolidation of Business(n) (net of taxes of $83 and $0, respectively)	(130)	(0.14)	—	—
Vacation Policy Change(o) (net of taxes of $21 and $0, respectively)	(33)	(0.03)	—	—
Curtailment of Generation Growth and Development Activities(p) (net of taxes of $0 and $35, respectively)	—	—	57	0.06
Change in Environmental Remediation Liabilities (net of taxes of $17 and $0, respectively)	27	0.03	—	—
Noncontrolling Interests(q) (net of taxes of $24 and $9, respectively)	114	0.12	102	0.11
Adjusted (non-GAAP) Operating Earnings	$ 2,471	$ 2.60	$2,488	$ 2.68

(a) Reflects the impact of net gains and losses on Generation's economic hedging activities. See Note 12 - Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation's hedging activities.

(b) Reflects the impact of net unrealized gains on Generation's NDT fund investments for Non-Regulatory Agreement Units. See Note 15 - Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation's NDT fund investments.

(c) Represents the non-cash amortization of intangible assets, net, primarily related to commodity contracts recorded at fair value related to, in 2017, the ConEdison Solutions and FitzPatrick acquisitions, and in 2016, the Integrys and ConEdison Solutions acquisitions.

(d) Primarily reflects certain costs incurred for the PHI acquisition in 2017 and 2016 and Generation's FitzPatrick acquisition in 2017, including professional fees, employee-related expenses and integration activities. See Note 4 - Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to merger and acquisition costs.

(e) Represents costs incurred as part of the settlement orders approving the PHI acquisition, and in 2017, a decrease in reserves for uncertain tax positions related to the deductibility of certain merger commitments associated with the 2012 CEG and 2016 PHI acquisitions, and in 2016, a charge related to a 2012 CEG merger commitment. See Note 4 - Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to PHI Merger commitments.

(f) Primarily reflects charges to earnings in 2017 related to impairments of EGTP assets and the PHI District of Columbia sponsorship intangible asset, and in 2016, impairments of Upstream assets and certain wind projects at Generation.

[g] Primarily reflects in 2017 accelerated depreciation and amortization expenses, increases to materials and supplies inventory reserves, construction work in progress impairments and charges for severance reserves associated with Generation's decision to early retire the Three Mile Island nuclear facility. Primarily reflects in 2016 accelerated depreciation and amortization expenses through December 2016 and construction work in progress impairments associated with Generation's previous decision to early retire the Clinton and Quad Cities nuclear facilities, partially offset by a gain associated with Generation's sale of the New Boston generating site.

[h] Reflects in 2017 one-time non-cash impacts associated with remeasurements of deferred income taxes as a result of the Tax Cuts and Jobs Act (including impacts on pension obligations), changes in the Illinois and District of Columbia statutory tax rates and changes in forecasted apportionment, and in 2016, the non-cash impact of the remeasurement of deferred income taxes as a result of changes in forecasted apportionment related to the PHI acquisition.

[i] Represents severance and reorganization costs related to a cost management program.

[j] Represents in 2017 adjustments to income tax, penalties and interest expenses as a result of the finalization of the IRS tax computation related to Exelon's like-kind exchange tax position, and in 2016, the recognition of a penalty and associated interest expense as a result of a tax court decision on Exelon's like-kind exchange tax position.

[k] Reflects a non-cash benefit pursuant to the annual update of the Generation nuclear decommissioning obligation related to the non-regulatory units.

[l] Reflects benefits related to the favorable settlement in 2017 of certain income tax positions related to PHI's unregulated business interests that were transferred to Generation.

[m] Represents the excess of the fair value of assets and liabilities acquired over the purchase price for the FitzPatrick acquisition.

[n] Represents the gain recorded upon deconsolidation of EGTP's net liabilities, which included the previously impaired assets and related debt, as a result of the November 2017 bankruptcy filing.

[o] Represents the reversal of previously accrued vacation expenses as a result of a change in Exelon's vacation vesting policy.

[p] Reflects the one-time recognition for a loss on sale of assets and asset impairment charges pursuant to Generation's strategic decision in the fourth quarter of 2016 to narrow the scope and scale of its growth and development activities.

[q] Represents elimination from Generation's results of the noncontrolling interests related to certain exclusion items, primarily related to the impact of unrealized gains and losses on NDT fund investments at CENG.

Note:

Unless otherwise noted, the income tax impact of each reconciling item between GAAP Net Income and Adjusted (non-GAAP) Operating Earnings is based on the marginal statutory federal and state income tax rates for each Registrant, taking into account whether the income or expense item is taxable or deductible, respectively, in whole or in part. For all items except the unrealized gains and losses related to NDT fund investments, the marginal statutory income tax rates ranged from 39 percent to 41 percent. Under IRS regulations, NDT fund investment returns are taxed at differing rates for investments in qualified vs. non-qualified funds. The tax rates applied to unrealized gains and losses related to NDT Fund investments were 47.4 percent and 48.7 percent for the years ended December 31, 2017 and 2016, respectively.

Merger, Integration and Acquisition Costs

As a result of the PHI Merger that was completed on March 23, 2016, the Registrants have incurred costs associated with evaluating, structuring and executing the PHI Merger transaction itself, and will continue to incur cost associated with meeting the various commitments set forth by regulators and agreed-upon with other interested parties as part of the merger approval process, and integrating the former PHI businesses into Exelon. In addition, as a result of the acquisition of the FitzPatrick nuclear generating station on March 31, 2017, Exelon and Generation incurred costs associated with evaluating, structuring and executing the transaction and integrating FitzPatrick into Exelon.

The table below presents the one-time pre-tax charges recognized for the PHI Merger included in the Registrant's respective Consolidated Statements of Operations and Comprehensive Income.

	For the Year Ended December 31, 2016					*Successor* March 24, 2016 to December 31, 2016
	Exelon	**Generation**	**Pepco**	**DPL**	**ACE**	**PHI**
Merger commitments[a]	$513	$ 3	$126	$ 86	$111	$323
Changes in accounting and tax related policies and estimates	—	—	25	15	5	—
Total	$513	$ 3	$151	$101	$116	$323

[a] See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for more information.

In addition to the one-time PHI Merger charges discussed above, for the years ended December 31, 2017 and 2016, expense has been recognized for the PHI Merger and Generation's FitzPatrick acquisition as follows:

Merger, Integration and Acquisition Expense:	**Pre-tax Expense**								
	For the Year Ended December 31, 2017								
	Exelon[(a)]	**Generation[(a)]**	**ComEd**	**PECO**	**BGE**	**PHI[(a)]**	**Pepco[(a)]**	**DPL[(a)]**	**ACE[(a)]**
Transaction[(b)]	$ 6	$ 5	$—	$—	$—	$ —	$—	$—	—
Other[(c)(d)]	67	75	1	4	4	(18)	(6)	(7)	(6)
Total	$73	$80	$ 1	$ 4	$ 4	$(18)	$(6)	$(7)	$(6)

Merger Integration and Acquisition Expense:	**Pre-tax Expense**								
	For the Year Ended December 31, 2016								
	Exelon[(a)]	**Generation[(a)]**	**ComEd**	**PECO**	**BGE**	**PHI[(a)]**	**Pepco[(a)]**	**DPL[(a)]**	**ACE[(a)]**
Transaction[(b)]	$ 34	$ 2	$—	$—	$—	$ —	$ —	$ —	$ —
Employee-related[(e)]	77	10	2	1	1	64	30	18	15
Other[(c)(d)]	52	44	(8)	4	(2)	5	(2)	2	4
Total	$163	$56	$(6)	$ 5	$(1)	$69	$28	$20	$19

(a) For Exelon, Generation, PHI, Pepco, DPL and ACE, includes the operations of the acquired businesses beginning on March 24, 2016.

(b) External, third party costs paid to advisors, consultants, lawyers and other experts to assist in the due diligence and regulatory approval processes and in the closing of transactions.

(c) Costs to integrate PHI processes and systems into Exelon. For the year ended December 31, 2017, also includes costs to integrate FitzPatrick processes and systems into Exelon.

(d) For the year ended December 31, 2017, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $24 million, $8 million, $8 million, and $8 million incurred at PHI, Pepco, DPL, and ACE, respectively, that have been recorded as a regulatory asset for anticipated recovery. For the year ended December 31, 2016, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $8 million, $6 million, $11 million, and $4 million incurred at ComEd, BGE, Pepco, and DPL, respectively, that have been recorded as a regulatory asset for anticipated recovery. For the Successor period March 24, 2016 to December 31, 2016, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $16 million incurred at PHI that have been recorded as a regulatory asset for anticipated recovery. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for more information.

(e) Costs primarily for employee severance, pension and OPEB expense and retention bonuses.

Significant 2017 Transactions and Recent Developments

Corporate Tax Reform

On December 22, 2017, President Trump signed the TCJA into law. The TCJA makes many significant changes to the Internal Revenue Code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) creating a 30% limitation on deductible interest expense (not applicable to regulated utilities); (3) allowing 100% expensing for the cost of qualified property (not applicable to regulated utilities); (4) eliminating the domestic production activities deduction; (5) eliminating the corporate alternative minimum tax and changing how existing alternative minimum tax credits can be realized; and (6) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The most significant change that impacts the Registrants is the reduction of the corporate federal income tax rate from 35% to 21% beginning January 1, 2018. Adjusted non-GAAP operating earnings per share for Exelon is expected to increase by approximately $0.10 on a run-rate basis in 2019 relative to Exelon's projections before the TCJA. For the Utility Registrants, the amount and timing of when certain income tax benefits resulting from the TCJA are provided to customers may vary from jurisdiction to jurisdiction.

Beginning in 2018, Generation will incur lower income tax expense, which will decrease its projected effective income tax rate, even with the elimination of the domestic production activities deduction, and increase its net income. Generation's operating cash inflows are also expected to increase beginning in 2018 reflecting the lower income tax rates and full expensing of capital investments. Generation's projected effective income tax rate in 2018, 2019, and 2020 is expected to be approximately 22%.

Beginning in 2018, the Utility Registrants will incur lower income tax expense, which will generally decrease their projected effective income tax rates. The TCJA is expected to lead to lower customer rates over time due to lower income tax expense recoveries and the settlement of deferred income tax net regulatory liabilities. The TCJA is expected to lead to an incremental increase in rate base of approximately $1.7 billion by 2020 relative to previous expectations across the Utility Registrants. The increased rate base will be funded consistent with each utility jurisdiction, using a combination of third party debt financings and equity funding from Exelon generally consistent with existing capitalization ratio structures. To fund any additional equity contributions to the Utility Registrants, Exelon would have available to it its typical sources, including, but not limited to, the increased operating cash flows at Generation referenced above, which over time are expected to exceed the incremental equity needs at the Utility Registrants. The TCJA is generally expected to result in lower operating cash inflows for the Utility Registrants as a result of the elimination of bonus depreciation and lower customer rates.

Exelon Corporate expects that the interest on its debt will continue to be fully tax deductible albeit at a lower tax rate.

The Utility Registrants continue to work with their state regulatory commissions to determine the amount and timing of the passing back of TCJA income tax savings benefits to customers; with filings either made, or expected to be made, at Pepco, DPL and ACE, and approved filings at ComEd and BGE. The amounts being passed back or proposed to be passed back to customers reflect the benefit of lower income tax expense beginning January 1, 2018 (Feb. 1, 2018 for DPL Delaware), and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. To date, neither the PAPUC nor FERC has yet issued guidance on how and when to reflect the impacts of the TCJA in customer rates. Refer to Note 3 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information on their filings.

Early Nuclear Plant Retirements

On May 30, 2017, Generation announced it will permanently cease generation operations at Three Mile Island Generating Station (TMI) on or about September 30, 2019. The TMI nuclear plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning year and will not receive capacity revenue for that period, the third consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019. In 2017, as a result of the plant retirement decision of TMI, Exelon and Generation recognized one-time charges in Operating and maintenance expense of $77 million related to materials and supplies inventory reserve adjustments, employee-related costs and construction work-in-progress (CWIP) impairments, among other items. In addition to these one-time charges, there will be ongoing annual incremental non-cash charges to earnings stemming from shortening the expected economic useful life of TMI primarily related to accelerated depreciation of plant assets (including any asset retirement costs (ARC)), accelerated amortization of nuclear fuel, and additional asset retirement obligation (ARO) accretion expense associated with the changes in decommissioning timing and cost assumptions. During the year ended December 31, 2017, both Exelon's and Generation's results include an incremental $262 million of pre-tax expense for these items.

The following table summarizes the estimated annual amount and timing of expected incremental non-cash expense items through 2019.

	Actual	Projected[a]	
Income statement expense (pre-tax)	**2017**	**2018**	**2019**
Depreciation and Amortization			
Accelerated depreciation[b]	$250	$440	$330
Accelerated nuclear fuel amortization	12	20	5
Total	$262	$460	$335

[a] Actual results may differ based on incremental future capital additions, actual units of production for nuclear fuel amortization, future revised ARO assumptions, etc.

[b] Reflects incremental accelerated depreciation of plant assets, including any ARC.

On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. In 2010, Generation announced that Oyster Creek would retire by the end of 2019 as part of an agreement with the State of New Jersey to avoid significant costs associated with the construction of cooling towers to meet the State's then new environmental regulations. Since then, like other nuclear sites, Oyster Creek has continued to face rising operating costs amid a historically low wholesale power price environment. The decision to retire Oyster Creek in 2018 at the end of its current operating cycle involved consideration of several factors, including economic and operating efficiencies, and avoids a refueling outage scheduled for the fall of 2018 that would have required advanced purchasing of fuel fabrication and materials beginning in late February 2018.

Because of the decision to retire Oyster Creek in 2018, Exelon and Generation will recognize certain one-time charges in the first quarter of 2018 ranging from an estimated $25 million to $35 million (pre-tax) related to a materials and supplies inventory reserve adjustment, employee-related costs, and construction work-in-progress impairment, among other items. Estimated cash expenditures related to the one-time charges primarily for employee-related costs are expected to range from $5 million to $10 million.

In addition to these one-time charges, there will be financial impacts stemming from shortening the expected economic useful life of Oyster Creek primarily related to accelerated depreciation of plant assets (including any ARC), accelerated amortization of nuclear fuel, and additional ARO accretion expense associated with the changes in decommissioning timing and cost assumptions to reflect an earlier retirement date. The following table summarizes the estimated amount of expected incremental non-cash expense items expected to be incurred in 2018 because of the early retirement decision.

Income statement expense (pre-tax)	Projected[(b)] 2018
Depreciation and Amortization	
Accelerated depreciation[(a)]	$110 to $140
Accelerated nuclear fuel amortization	$40
Operating and Maintenance	
Increased ARO accretion	Up to $5

[(a)] Includes the accelerated depreciation of plant assets including any ARC.

[(b)] Actual results may differ based on incremental future capital additions, actual units of production for nuclear fuel amortization, future revised ARO assumptions, etc.

EGTP Consent Agreement and Bankruptcy

On May 2, 2017, EGTP, an indirect subsidiary of Exelon and Generation, entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries. As a result, Exelon and Generation classified certain EGTP assets and liabilities as held for sale at their respective fair values less costs to sell and recorded a $460 million pre-tax impairment loss during 2017. On November 7, 2017, EGTP and all of its wholly owned subsidiaries filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. As a result, Exelon and Generation deconsolidated EGTP's assets and liabilities from their consolidated financial statements and recorded a $213 million pre-tax gain. See Note 4 — Mergers, Acquisitions and Dispositions, Note 7 — Impairment of Long-Lived Assets and Intangibles and Note 13 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for additional information regarding EGTP and the associated nonrecourse debt.

Acquisition of James A. FitzPatrick Nuclear Generating Station

On March 31, 2017, Generation acquired the 842 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station for a total purchase price of $289 million. In accounting for the acquisition as a business combination, Exelon and Generation recorded an after-tax bargain purchase gain of $233 million which is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information regarding the Generation's acquisition of FitzPatrick and related costs.

Illinois Future Energy Jobs Act

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA was effective on June 1, 2017, and includes, among other provisions, (1) a Zero Emission Standard (ZES) providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute and (7) support for low income rooftop and community solar programs. FEJA establishes new or adjusts existing rate recovery mechanisms for ComEd to recover costs associated with the new or expanded energy efficiency and RPS requirements. Regulatory or legal challenges over the validity of FEJA are possible. See Note 3 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA. See Note 8 — Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information regarding the economic challenges facing Generation's Clinton and Quad Cities nuclear plants and the expected benefits of the ZES.

Illinois ZEC Procurement

On January 25, 2018, the ICC announced that Generation's Clinton Unit 1, Quad Cities Unit 1 and Quad Cities Unit 2 nuclear plants were selected as the winning bidders through the IPA's ZEC procurement event. Generation executed the ZEC procurement contracts with Illinois utilities, including ComEd, effective January 26, 2018 and will begin recognizing revenue. Winning bidders will be entitled to compensation for the sale of ZECs retroactive to the June 1, 2017 effective date of FEJA. In the first quarter of 2018, Generation will recognize approximately $150 million of revenue and ComEd will record an obligation to Generation and corresponding reduction to its regulatory liability of approximately $100 million related to ZECs generated from June 1, 2017 through December 31, 2017.

Dismissal of Litigation Challenging ZEC Programs

On July 14, 2017, the U.S. District Court for the Northern District of Illinois dismissed two lawsuits challenging the ZEC program contained in FEJA. On July 17, 2017, the plaintiffs appealed the court's decisions to the U.S. Court of Appeals for the Seventh Circuit. Briefs were fully submitted on December 12, 2017 and the Court heard oral argument on January 3, 2018. At the argument, the Court asked for supplemental briefing, which was filed on January 26, 2018.

Additionally, on July 25, 2017, the U.S. District Court for the Southern District of New York dismissed a lawsuit challenging the ZEC program contained in the New York CES. On August 24, 2017, the plaintiffs appealed the decision to the Second Circuit. Briefing in the appeal was completed in December 2017, and oral argument is expected to take place in March 2018.

In addition, on November 30, 2016, a group of parties, including certain environmental groups and individuals, filed a Petition in New York State court seeking to invalidate the ZEC program. The Petition, which was amended on January 13, 2017, argued that the NYPSC did not have authority to establish the program and that it violated certain technical provisions of the State Administrative Procedures Act (SAPA) when adopting the ZEC program. On February 15, 2017, Generation and CENG filed a motion to dismiss the state court action. The NYPSC also filed a motion to dismiss the state court action. On March 24, 2017, the plaintiffs filed a memorandum of law opposing the motions to dismiss, and Generation and CENG filed a reply brief on April 28, 2017. Oral argument was held on June 19, 2017. On January 22, 2018, the court denied the motions to dismiss without commenting on the merits of the case. The case will now proceed to summary judgment upon filing of the full record.

The court decisions to date have upheld the ZEC programs which support Illinois's and New York's efforts to advance clean energy and preserve affordable and reliable energy resources for customers. See Note 3 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA and the New York CES.

Merger Commitment Unrecognized Tax Benefits

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, as of December 31, 2017, resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

Combined-Cycle Gas Turbine Projects

In June 2017, Generation commenced commercial operations of two new combined-cycle gas turbines (CCGTs) at the Colorado Bend II and Wolf Hollow II Generating Stations in Texas. The two new CCGTs have added nearly 2,200 MWs of capacity to Generation's fleet, enhancing Generation's strategy to match generation to customer load. Generation invested approximately $1.5 billion over the past three years to complete the new plant construction, which utilizes new General Electric technology to make them among the cleanest, most efficient CCGTs in the nation.

Utility Rates and Rate Proceedings

The Utility Registrants file rate cases with their regulatory commissions seeking increases or decreases to their electric transmission and distribution, and gas distribution rates to recover their costs and earn a fair return on their investments. The outcomes of these regulatory proceedings impact the Utility Registrants' current and future results of operations, cash flows and financial position.

The following tables show the Utility Registrants' completed and pending distribution rate case proceedings in 2017.

COMPLETED DISTRIBUTION RATE CASE PROCEEDINGS

Company	Jurisdiction	Approved Revenue Requirement Increase (in millions)	Approved Return on Equity	Completion Date	Rate Effective Date
ComEd	Illinois (Electric)[a]	$ 96[b]	8.4%[c]	December 6, 2017	January 1, 2018
Pepco	District of Columbia (Electric)	$ 37	9.5%	July 25, 2017	August 15, 2017
Pepco	Maryland (Electric)	$ 32	9.5%	October 27, 2017	October 20, 2017
DPL	Maryland (Electric)	$ 38	9.6%	February 15, 2017	February 15, 2017
DPL	Delaware (Electric)	$31.5	9.7%	May 23, 2017	June 1, 2017
DPL	Delaware (Natural Gas)	$ 4.9	9.7%	June 6, 2017	July 1, 2017
ACE	New Jersey (Electric)	$ 43	9.6%	September 22, 2017	October 1, 2017

(a) Pursuant to EIMA, ComEd's electric distribution rates are established through a performance-based formula through which ComEd is required to file an annual update on or before May 1, with resulting rates effective in January of the following year. ComEd's annual electric distribution formula rate update is based on prior year actual costs and current year projected capital additions (initial year revenue requirement). The update also reconciles any differences between the revenue requirement in effect for the prior year and actual costs incurred for the year (annual reconciliation).

(b) Reflects an increase of $78 million for the initial revenue requirement for 2017 and an increase of $18 million related to the annual reconciliation.

(c) ComEd's allowed ROE under its electric distribution formula rate is the annual average rate on 30-year treasury notes plus 580 basis points and is subject to reduction if ComEd does not deliver certain reliability and customer service benefits. The initial revenue requirement for 2017 reflects an allowed ROE of 8.40%, while the annual reconciliation reflects an allowed ROE of 8.34%, which is inclusive of a 6-basis-point performance penalty.

PENDING DISTRIBUTION RATE CASE PROCEEDINGS

Company	Jurisdiction	Requested Revenue Requirement Increase (in millions)	Requested Return on Equity	Filing Date	Expected Completion Timing
Pepco	Maryland (Electric)	$11[a]	10.1%	January 2, 2018 (Updated February 5, 2018)	Third quarter 2018
Pepco	District of Columbia (Electric)	$66[b]	10.1%	December 19, 2017	Fourth quarter 2018
DPL	Maryland (Electric)	$19[b][c]	10.1%[c]	July 14, 2017 (Updated on November 16, 2017)	First quarter 2018
DPL	Delaware (Electric)	$31[b]	10.1%	August 17, 2017 (Updated on October 18, 2017)	Third quarter 2018
DPL	Delaware (Natural Gas)	$11[b]	10.1%	August 17, 2017 (Updated on November 7, 2017)	Fourth quarter 2018

(a) On February 5, 2018, Pepco filed with the MDPSC an update to its current distribution rate case to reflect approximately $31 million in TCJA tax savings, thereby reducing the requested annual base rate increase to $11 million.

(b) By mid-February, Pepco and DPL will update their current distribution rate cases to reflect the TCJA impacts.

(c) On December 18, 2017, a settlement agreement was filed with the MDPSC wherein DPL will be granted a rate increase of $13 million, and a ROE of 9.5% solely for purposes of calculating AFUDC and regulatory asset carrying costs. On January 5, 2018, the MDPSC held a hearing on the settlement agreement. DPL expects a decision in the matter in the first quarter of 2018, but cannot predict whether the MDPSC will approve the settlement agreement as filed or how much of the requested increase will be approved.

Transmission Formula Rates

The following total increases/(decreases) were included in ComEd's, BGE's, Pepco's, DPL's and ACE's 2017 annual electric transmission formula rate filings:

	2017				
Annual Transmission Filings(a)	**ComEd**	**BGE**	**Pepco**	**DPL**	**ACE**
Initial revenue requirement increase	$ 44	$ 31	$ 5	$ 6	$ 20
Annual reconciliation increase (decrease)	(33)	3	15	8	22
Dedicated facilities decrease(b)	—	(8)	—	—	—
Total revenue requirement increase	$ 11	$ 26	$ 20	$ 14	$ 42
Allowed return on rate base(c)	8.43%	7.47%	7.92%	7.16%	8.02%
Allowed ROE(d)	11.50%	10.50%	10.50%	10.50%	10.50%

(a) All rates are effective June 2017.

(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.

(c) Represents the weighted average debt and equity return on transmission rate bases.

(d) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50%, inclusive of a 50-basis-point incentive adder for being a member of a RTO, and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, Pepco, DPL and ACE, the rate of return on common equity is 10.50%, inclusive of a 50-basis-point incentive adder for being a member of a RTO.

PECO Transmission Formula Rate. On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50-basis-point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. On June 27, 2017, FERC issued an Order accepting the filing and suspending the proposed rates until December 1, 2017, subject to refund, and set the matter for hearing and settlement judge procedures. PECO cannot predict the final outcome of the settlement or hearing proceedings, or the transmission formula FERC may approve.

See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further details on these regulatory proceedings.

Westinghouse Electric Company LLC Bankruptcy

On March 29, 2017, Westinghouse Electric Company LLC (Westinghouse) and its affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. In the petitions and supporting documents, Westinghouse makes clear that its requests for relief center on one business area that is losing money - the construction of nuclear power plants in Georgia and South Carolina. On January 4, 2018, Westinghouse announced its agreement to be acquired by Brookfield Business Partners. The deal, which requires bankruptcy court and regulatory approvals, is expected to close in in the third quarter of 2018. Brookfield has informally indicated to Generation that it will assume all of Exelon's contracts with Westinghouse. Generation is monitoring the bankruptcy and pending sale proceedings to ensure that its rights are protected.

ExGen Renewables Holdings, LLC Transaction

On July 6, 2017, ExGen Renewables Holdings, LLC, a wholly owned subsidiary of Generation, completed the sale of a 49% interest of ExGen Renewables Partners, LLC, a newly formed owner and operator of approximately 1,439 megawatts of Generation's operating wind and solar electric generating facilities. ExGen Renewables Holdings will be the managing member of ExGen Renewables Partners, LLC, and have day-to-day control and management over its renewable generation portfolio. The closing of the transaction was subject to certain regulatory approvals, including the Federal Energy Regulatory Commission (FERC) and the Public Utility Commission of Texas (PUCT) which were received during the second quarter of 2017. The sale price was $400 million plus immaterial working capital and other customary post-closing adjustments. The net proceeds, after approximately $100 million of income taxes, will be used to pay down debt and for general corporate purposes. Generation will continue to consolidate ExGen Renewables Partners, LLC and will record a noncontrolling interest on its Consolidated Balance Sheet for the investor's equity share as well as earnings attributable to the noncontrolling interest in the Consolidated Statements of Operations and Comprehensive Income each period going forward.

Hurricanes Harvey, Irma and Maria Impacts

Although Exelon subsidiaries provided substantial assistance to recovery efforts following Hurricanes Harvey and Irma, Hurricanes Harvey, Irma and Maria are not expected to have a material impact on the Registrants' businesses or financial results given the limited operations in the areas affected by the storms.

Exelon's Strategy and Outlook for 2018 and Beyond

Exelon's value proposition and competitive advantage come from its scope and its core strengths of operational excellence and financial discipline. Exelon leverages its integrated business model to create value. Exelon's regulated and competitive businesses feature a mix of attributes that, when combined, offer shareholders and customers a unique value proposition:

- Exelon's utilities provide a foundation for steadily growing earnings, which translates to a stable currency in our stock.
- Generation's competitive businesses provide free cash flow to invest primarily in the utilities and in long-term, contracted assets and to reduce debt.

Exelon believes its strategy provides a platform for optimal success in an energy industry experiencing fundamental and sweeping change.

Exelon's utility strategy is to improve reliability and operations and enhance the customer experience, while ensuring ratemaking mechanisms provide the utilities fair financial returns. The Exelon utilities only invest in rate base where it provides a benefit to customers and the community by improving reliability and the service experience or otherwise meeting customer needs. The Exelon utilities make these investments at the lowest reasonable cost to customers. Exelon seeks to leverage its scale and expertise across the utilities platform through enhanced standardization and sharing of resources and best practices to achieve improved operational and financial results. Additionally, the Utility Registrants anticipate making significant future investments in smart meter technology, transmission projects, gas infrastructure, and electric system improvement projects, providing greater reliability and improved service for our customers and a stable return for the company.

Generation's competitive businesses create value for customers by providing innovative energy solutions and reliable, clean and affordable energy. Generation's electricity generation strategy is to pursue opportunities that provide stable revenues and generation to load matching to reduce earnings volatility. Generation leverages its energy generation portfolio to deliver energy to both wholesale and retail customers. Generation's customer-facing activities foster development and delivery of other innovative energy-related products and services for its customers. Generation operates in well-developed energy markets and employs an integrated hedging strategy to manage commodity price volatility. Its generation fleet, including its nuclear plants which consistently operate at high capacity factors, also provide geographic and supply source diversity. These factors help Generation mitigate the current challenging conditions in competitive energy markets.

Exelon's financial priorities are to maintain investment grade credit metrics at each of the Registrants, to maintain optimal capital structure and to return value to Exelon's shareholders with an attractive dividend throughout the energy commodity market cycle and through stable earnings growth. Exelon's Board of Directors approved an updated dividend policy providing an increase of 5% each year for the period covering 2018 through 2020, beginning with the March 2018 dividend.

Various market, financial, regulatory, legislative and operational factors could affect the Registrants' success in pursuing their strategies. Exelon continues to assess infrastructure, operational, commercial, policy, and legal solutions to these issues. One key issue is ensuring the ability to properly value nuclear generation assets in the market, solutions to which Exelon is actively pursuing in a variety of jurisdictions and venues.

Continually optimizing the cost structure is a key component of Exelon's financial strategy. In August 2015, Exelon announced a cost management program focused on cost savings of approximately $400 million at BSC and Generation, of which approximately 60% of run-rate savings was achieved by the end of 2017 with the remainder to be fully realized in 2018. At least 75% of the savings are expected to be related to Generation, with the remaining amount related to the Utility Registrants. Additionally, in November 2017, Exelon announced a new commitment for an additional $250 million of cost savings, primarily at Generation, to be achieved by 2020. These actions are in response to the continuing economic challenges confronting all parts of Exelon's business and industry, necessitating continued focus on cost management through enhanced efficiency and productivity.

Growth Opportunities

Management continually evaluates growth opportunities aligned with Exelon's businesses, assets and markets, leveraging Exelon's expertise in those areas and offering sustainable returns.

Regulated Energy Businesses. The PHI merger provides an opportunity to accelerate Exelon's regulated growth to provide stable cash flows, earnings accretion, and dividend support. Additionally, the Utility Registrants anticipate investing approximately $26 billion over the next five years in electric and natural gas infrastructure improvements and modernization projects, including smart meter and smart grid initiatives, storm hardening, advanced reliability technologies, and transmission projects, which is projected to result in an increase to current rate base of approximately $15 billion by the end of 2022. The Utility Registrants invest in rate base where beneficial to customers and the community by increasing reliability and the service experience or otherwise meeting customer needs. These investments are made at the lowest reasonable cost to customers.

See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on the Smart Meter and Smart Grid Initiatives and infrastructure development and enhancement programs.

Competitive Energy Businesses. Generation continually assesses the optimal structure and composition of its generation assets as well as explores wholesale and retail opportunities within the power and gas sectors. Generation's long-term growth strategy is to ensure appropriate valuation of its generation assets, in part through public policy efforts, identify and capitalize on opportunities that provide generation to load matching as a means to provide stable earnings, and identify emerging technologies where strategic investments provide the option for significant future growth or influence in market development.

Liquidity Considerations

Each of the Registrants annually evaluates its financing plan, dividend practices and credit line sizing, focusing on maintaining its investment grade ratings while meeting its cash needs to fund capital requirements, retire debt, pay dividends, fund pension and OPEB obligations and invest in new and existing ventures. A broad spectrum of financing alternatives beyond the core financing options can be used to meet its needs and fund growth including monetizing assets in the portfolio via project financing, asset sales, and the use of other financing structures (e.g., joint ventures, minority partners, etc.). The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have unsecured syndicated revolving credit facilities with aggregate bank commitments of $0.6 billion, $5.3 billion, $1.0 billion, $0.6 billion, $0.6 billion, $0.5 billion, $0.5 billion and $0.4 billion, respectively. Generation also has bilateral credit facilities with aggregate maximum availability of $0.5 billion. See Liquidity and Capital Resources — Credit Matters — Exelon Credit Facilities below.

For further detail regarding the Registrants' liquidity for the year ended December 31, 2017, see Liquidity and Capital Resources discussion below.

Project Financing

Generation utilizes individual project financings as a means to finance the construction of various generating asset projects. Project financing is based upon a nonrecourse financial structure, in which project debt and equity used to finance the project are paid back from the cash generated by the newly constructed asset once operational. Borrowings under these agreements are secured by the assets and equity of each respective project. The lenders do not have recourse against Exelon or Generation in the event of a default. If a specific project financing entity does not maintain compliance with its specific debt financing covenants, there could be a requirement to accelerate repayment of the associated debt or other project-related borrowings earlier than the stated maturity dates. In these instances, if such repayment was not satisfied, or restructured, the lenders or security holders would generally have rights to foreclose against the project-specific assets and related collateral. The potential requirement to satisfy its associated debt or other borrowings earlier than otherwise anticipated could lead to impairments due to a higher likelihood of disposing of the respective project-specific assets significantly before the end of their useful lives. See Note 13 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for additional information on nonrecourse debt.

Other Key Business Drivers and Management Strategies

Utility Rates and Rate Proceedings

The Utility Registrants file rate cases with their regulatory commissions seeking increases or decreases to their electric transmission and distribution, and gas distribution rates to recover their costs and earn a fair return on their investments. The outcomes of these regulatory proceedings impact the Utility Registrants' current and future results of operations, cash flows and financial positions. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further details on these regulatory proceedings.

Power Markets

Price of Fuels

The use of new technologies to recover natural gas from shale deposits is increasing natural gas supply and reserves, which places downward pressure on natural gas prices and, therefore, on wholesale and retail power prices, which results in a reduction in Exelon's revenues. Forward natural gas prices have declined significantly over the last several years; in part reflecting an increase in supply due to strong natural gas production (due to shale gas development).

Capacity Market Changes in PJM

In the wake of the January 2014 Polar Vortex that blanketed much of the Eastern and Midwestern United States, it became clear that while a major outage event was narrowly avoided, resources in PJM were not providing the level of reliability expected by customers. As a result, on December 12, 2014, PJM filed at FERC a proposal to make significant changes to its current capacity market construct, the Reliability Pricing Model (RPM). PJM's proposed changes generally sought to improve resource performance and reliability largely by limiting the excuses for non-performance and by increasing the penalties for performance failures. The proposal permits suppliers to include in capacity market offers additional costs and risk so they can meet these higher performance requirements. While offers are expected to put upward pressure on capacity clearing prices, operational improvements made as a result of PJM's proposal are expected to improve reliability, to reduce energy production costs as a result of more efficient operations and to reduce the need for out of market energy payments to suppliers. Generation participated actively in PJM's stakeholder process through which PJM developed the proposal and also actively participated in the FERC proceeding including filing comments. On June 9, 2015, FERC approved PJM's filing largely as proposed by PJM, including transitional auction rules for delivery years 2016/2017 through 2017/2018. As a result of this and several related orders, PJM hosted its 2018/2019 Base Residual Auction (results posted on August 21, 2015) and its transitional auction for delivery year 2016/2017 (results posted on August 31, 2015) and its transitional auction for delivery years 2017/2018 (results posted on September 9, 2015). On May 10, 2016, FERC largely denied rehearing, and a number of parties appealed to the U.S. Court of Appeals for the DC Circuit for review of the decision. On June 20, 2017, the DC Circuit denied all the appeals.

MISO Capacity Market Results

On April 14, 2015, the MISO released the results of its capacity auction covering the June 2015 through May 2016 delivery year. As a result of the auction, capacity prices for the zone 4 region in downstate Illinois increased to $150 per MW per day beginning in June 2015, an increase from the prior pricing of $16.75 per MW per day that was in effect from June 2014 to May 2015. Generation had an offer that was selected in the auction. However, due to Generation's ratable hedging strategy, the results of the capacity auction have not had a material impact on Exelon's and Generation's consolidated results of operations and cash flows.

Additionally, in late May and June 2015, separate complaints were filed at the FERC by each of the State of Illinois, the Southwest Electric Cooperative, Public Citizens, Inc., and the Illinois Industrial Energy Consumers challenging the results of this MISO capacity auction for the 2015/2016 delivery in MISO delivery zone 4. The complaints allege generally that 1) the results of the capacity auction for zone 4 are not just and reasonable, 2) the results should be suspended, set for hearing and replaced with a new just and reasonable rate, 3) a refund date should be established and that 4) certain alleged behavior by one of the market participants other than Exelon or Generation, be investigated.

On October 1, 2015, FERC announced that it was conducting a non-public investigation (that does not involve Exelon or Generation) into whether market manipulation or other potential violations occurred related to the auction. On December 31, 2015, FERC issued a decision that certain of the rules governing the establishment of capacity prices in downstate Illinois are "not just and reasonable" on a prospective basis. FERC ordered that certain rules be changed prior to the April 2016 auction which set capacity prices for the 2016/2017 planning year. In response to this order, MISO filed certain rule changes with FERC. On March 18, 2016, FERC largely denied rehearing of its December 31, 2015 order. FERC continues to conduct its non-public investigation to determine if the April 2015 auction results were manipulated and, if so, whether refunds are appropriate. FERC did establish May 28, 2015, the day the first complaint was filed, as the date from which refunds (if ordered) would be calculated, and it also made clear that the findings in the December 31, 2015 order do not prejudge the investigation or related proceedings. Generation cannot predict the impact the FERC order may ultimately have on future auction results, capacity pricing or decisions related to the potential early retirement of the Clinton nuclear plant, however, such impacts could be material to Generation's future results of operations and cash flows. See Note 8 - Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information on the impacts of the MISO announcement.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs

PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program - resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that require subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs). However, in Exelon's view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. The EPSA parties have filed motions to expedite both proceedings. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation's facilities in NYISO and PJM expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon's and Generation's future cash flows and results of operations. On August 30, 2017, EPSA filed motions to lodge the district court decisions dismissing the complaints and urging FERC to act expeditiously on its requests to expand the MOPR. On September 14, 2017, Exelon filed a response in each docket noting that it does not oppose the motions to lodge but arguing that the requests to expedite a decision on the requests to expand the MOPR have no merit. The timing of FERC's decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

DOE Notice of Proposed Rulemaking

On August 23, 2017, the DOE staff released its report on the reliability of the electric grid. One aspect of the wide-ranging report is the DOE's recognition that the electricity markets do not currently value the resiliency provided by baseload generation, such as nuclear plants. On September 28, 2017, the DOE issued a Notice of Proposed Rulemaking (NOPR) that would entitle certain eligible resilient generating units (i.e., those located in organized markets, with a 90-day supply of fuel on site, not already subject to state cost of service regulation and satisfying certain other requirements) to recover fully allocated costs and earn a fair return on equity on their investment. The DOE's NOPR recommended that the FERC take comments for 45 days after publication in the Federal Register and issue a final order 60 days after such publication. On January 8, 2018, the FERC issued an order terminating the rulemaking docket that was initiated to address the proposed rule in the DOE NOPR, concluding the proposed rule did not sufficiently demonstrate there is a resiliency issue and that it proposed a remedy that did not appear to be just, reasonable and nondiscriminatory as required under the Federal Power Act. At the same time, the FERC initiated a new proceeding to consider resiliency challenges to the bulk power system and evaluate whether additional FERC action to address resiliency would be appropriate. The FERC directed each RTO and ISO to respond within 60 days to 24 specific questions about how they assess and mitigate threats to resiliency. Interested parties may submit reply comments within 30 days after the due date of the RTO/ISO responses. Exelon has been and will continue to be an active participant in these proceedings, but cannot predict the final outcome or its potential financial impact, if any, on Exelon or Generation.

Energy Demand

Modest economic growth partially offset by energy efficiency initiatives is resulting in flat to declining load growth in electricity for the utilities. There is decrease in projected load for electricity for ComEd, PECO, BGE, and DPL, and an increase in projected load for electricity for Pepco and ACE. ComEd, PECO, BGE, Pepco, DPL, and ACE are projecting load volumes to increase (decrease) by (0.5)%, (0.5)%, (0.6)%, 1.5%, (1.5)% and 1.5%, respectively, in 2018 compared to 2017.

Retail Competition

Generation's retail operations compete for customers in a competitive environment, which affect the margins that Generation can earn and the volumes that it is able to serve. The market experienced high price volatility in the first quarter of 2014 which contributed to bankruptcies and consolidations within the industry during the year. However, forward natural gas and power prices are expected to remain low and thus we expect retail competitors to stay aggressive in their pursuit of market share, and that wholesale generators (including Generation) will continue to use their retail operations to hedge generation output.

Strategic Policy Alignment

As part of its strategic business planning process, Exelon routinely reviews its hedging policy, dividend policy, operating and capital costs, capital spending plans, strength of its balance sheet and credit metrics, and sufficiency of its liquidity position, by performing various stress tests with differing variables, such as commodity price movements, increases in margin-related transactions, changes in hedging practices, and the impacts of hypothetical credit downgrades.

Exelon's Board of Directors declared first, second, third and fourth quarter 2017 dividends of $0.3275 per share each on Exelon's common stock, and the first quarter 2018 dividends declared was $0.3450 per share. The dividends for the first, second, third and fourth quarter 2017 were paid on March 10, 2017, June 9, 2017, September 8, 2017 and December 8, 2017, respectively. The first quarter 2018 dividend is payable on March 9, 2018.

Exelon's Board of Directors approved an updated dividend policy providing an increase of 5% each year for the period covering 2018 through 2020, beginning with the March 2018 dividend.

Hedging Strategy

Exelon's policy to hedge commodity risk on a ratable basis over three-year periods is intended to reduce the financial impact of market price volatility. Generation is exposed to commodity price risk associated with the unhedged portion of its electricity portfolio. Generation enters into non-derivative and derivative contracts, including financially-settled swaps, futures contracts and swap options, and physical options and physical forward contracts, all with credit-approved counterparties, to hedge this anticipated exposure. Generation has hedges in place that significantly mitigate this risk for 2018 and 2019. However, Generation is exposed to relatively greater commodity price risk in the subsequent years with respect to which a larger portion of its electricity portfolio is currently unhedged. As of December 31, 2017, the percentage of expected generation hedged is 85%-88%, 55%-58% and 26%-29% for 2018, 2019, and 2020 respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products, and options. Equivalent sales represent all hedging products, such as wholesale and retail sales of power, options and swaps. Generation has been and will continue to be proactive in using hedging strategies to mitigate commodity price risk in subsequent years as well.

Generation procures oil and natural gas through long-term and short-term contracts and spot-market purchases. Nuclear fuel is obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services, coal, oil and natural gas are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation's procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 59% of Generation's uranium concentrate requirements from 2018 through 2022 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrate can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon's and Generation's results of operations, cash flows and financial positions.

The Utility Registrants mitigate commodity price risk through regulatory mechanisms that allow them to recover procurement costs from retail customers.

Environmental Legislative and Regulatory Developments

Exelon was actively involved in the Obama Administration's development and implementation of environmental regulations for the electric industry, in pursuit of its business strategy to provide reliable, clean, affordable and innovative energy products. These efforts have most frequently involved air, water and waste controls for fossil-fueled electric generating units, as set forth in the discussion below. These regulations have had a disproportionate adverse impact on coal-fired power plants, requiring significant expenditures of capital and variable operating and maintenance expense, and have resulted in the retirement of older, marginal facilities. Due to its low emission generation portfolio, Generation has not been significantly affected by these regulations, representing a competitive advantage relative to electric generators that are more reliant on fossil fuel plants.

Through the issuance of a series of Executive Orders (EO), President Trump has initiated review of a number of EPA and other regulations issued during the Obama Administration, with the expectation that the Administration will seek repeal or significant revision of these rules. Under these EOs, each executive agency is required to evaluate existing regulations and make recommendations regarding repeal, replacement, or modification. The Administration's actions are intended to result in less stringent compliance requirements under air, water, and waste regulations. The exact nature, extent, and timing of the regulatory changes are unknown, as well as the ultimate impact on Exelon's and its subsidiaries results of operations and cash flows.

In particular, the Administration has targeted existing EPA regulations for repeal, including notably the Clean Power Plan, as well as revoking many Executive Orders, reports, and guidance issued by the Obama Administration on the topic of climate change or the regulation of greenhouse gases. The Executive Order also disbanded the Interagency Working Group that developed the social cost of carbon used in rulemakings, and withdrew all technical support documents supporting the calculation. Other regulations that have been specifically identified for review are the Clean Water Act rule relating to jurisdictional waters of the U.S., the Steam Electric Effluent Guidelines relating to waste water discharges from coal-fired power plants, and the 2015 National Ambient Air Quality Standard (NAAQS) for ozone. The review of final rules could extend over several years as formal notice and comment rulemaking process proceeds.

Air Quality

Mercury and Air Toxics Standard Rule (MATS). On December 16, 2011, the EPA signed a final rule to reduce emissions of toxic air pollutants from power plants and signed revisions to the NSPS for electric generating units. The final rule, known as MATS, requires coal-fired electric generation plants to achieve high removal rates of mercury, acid gases and other metals, and to make capital investments in pollution control equipment and incur higher operating expenses. The initial compliance deadline to meet the new standards was April 16, 2015; however, facilities may have been granted an additional one or two-year extension in limited cases. Numerous entities challenged MATS in the D.C. Circuit Court, and Exelon intervened in support of the rule. In April 2014, the D.C. Circuit Court issued an opinion upholding MATS in its entirety. On appeal, the U.S. Supreme Court decided in June 2015 that the EPA unreasonably refused to consider costs in determining whether it is appropriate and necessary to regulate hazardous air pollutants emitted by electric utilities. The U.S. Supreme Court, however, did not vacate the rule; rather, it was remanded to the D.C. Circuit Court to take further action consistent with the U.S. Supreme Court's opinion on this single issue. On April 27, 2017, the D.C. Circuit granted EPA's motion to hold the litigation in abeyance, pending EPA's review of the MATS rule pursuant to President Trump's EO discussed above. Following EPA's review and determination of its course of action for the MATS rule, the parties will have 30 days to file motions on future proceedings. Notwithstanding the Court's order to hold the litigation in abeyance, the MATS rule remains in effect. Exelon will continue to participate in the remanded proceedings before the D.C. Circuit Court as an intervenor in support of the rule.

Clean Power Plan. On April 28, 2017, the D.C. Circuit Court issued orders in separate litigation related to the EPA's actions under the Clean Power Plan (CPP) to amend Clean Air Act Section 111(d) regulation of existing fossil-fired electric generating units and Section 111(b) regulation of new fossil-fired electric generating units. In both cases, the Court has determined to hold the litigation in abeyance pending a determination whether the rule should be remanded to the EPA. On October 10, 2017, EPA issued a proposed rule to repeal the CPP in its entirety, based on a proposed change in the Agency's legal interpretation of Clean Air Act Section 111(d) regarding actions that the Agency can consider when establishing the Best System of Emission Reduction ("BSER") for existing power plants. Under the proposed interpretation, the Agency exceeded its authority under the Clean Air Act by regulating beyond individual sources of GHG emissions. The EPA has also indicated its intent to issue an advance notice of proposed rulemaking to solicit information on systems of emission reduction that are in accord with the Agency's proposed revised legal interpretation; namely, only by regulating emission reductions that can be implemented at and to individual sources.

2015 Ozone National Ambient Air Quality Standards (NAAQS). On April 11, 2017, the D.C. Circuit ordered that the consolidated 2015 ozone NAAQS litigation be held in abeyance pending EPA's further review of the 2015 Rule. EPA did not meet the October 1, 2017 deadline to promulgate initial designations for areas in attainment or non-attainment of the standard. A number of states and environmental organizations have notified the EPA of their intent to file suit to compel EPA to issue the designations.

Climate Change. Exelon supports comprehensive climate change legislation or regulation, including a cap-and-trade program for GHG emissions, which balances the need to protect consumers, business and the economy with the urgent need to reduce national GHG emissions. In the absence of Federal legislation, the EPA is moving forward with the regulation of GHG emissions under the Clean Air Act. In addition, there have been recent developments in the international regulation of GHG emissions pursuant to the United Nations Framework Convention on Climate Change ("UNFCCC" or "Convention"). See GENERAL DESCRIPTION OF BUSINESS, "Global Climate Change" for further discussion.

Water Quality

Section 316(b) requires that the cooling water intake structures at electric power plants reflect the best technology available to minimize adverse environmental impacts, and is implemented through state-level NPDES permit programs. All of Generation's power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems (e.g., cooling towers) are potentially most affected by recent changes to the regulations. For Generation, those facilities are Calvert Cliffs, Clinton, Dresden, Eddystone, Fairless Hills, FitzPatrick, Ginna, Gould Street, Mountain Creek, Handley, Mystic 7, Nine Mile Point Unit 1, Peach Bottom, Quad Cities, and Salem. See GENERAL DESCRIPTION OF BUSINESS, "Water Quality" for further discussion.

Solid and Hazardous Waste

In October 2015, the first federal regulation for the disposal of coal combustion residuals (CCR) from power plants became effective. The rule classifies CCR as non-hazardous waste under RCRA. Under the regulation, CCR will continue to be regulated by most states subject to coordination with the federal regulations. Generation has previously recorded accruals consistent with state regulation for its owned coal ash sites, and as such, the regulation is not expected to impact Exelon's and Generation's financial results. Generation does not have sufficient information to reasonably assess the potential likelihood or magnitude of any remediation requirements that may be asserted under the new federal regulations for coal ash disposal sites formerly owned by Generation. For these reasons, Generation is unable to predict whether and to what extent it may ultimately be held responsible for remediation and other costs relating to formerly owned coal ash disposal sites under the new regulations.

See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further detail related to environmental matters, including the impact of environmental regulation.

Employees

In January 2017, an election was held at BGE which resulted in union representation for approximately 1,394 employees. BGE and IBEW Local 410 are negotiating an initial agreement which could result in some modifications to wages, hours and other terms and conditions of employment. No agreement has been finalized to date and management cannot predict the outcome of such negotiations. In April 2017, Exelon Nuclear Security successfully ratified its CBA with the SPFPA Local 238 at Quad Cities to an extension of three years. In June 2017, Exelon Nuclear Security successfully ratified its CBA with the UGSOA Local 12 at Limerick to an extension of three years.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the amounts of assets and liabilities reported in the financial statements. Management discusses these policies, estimates and assumptions with its Accounting and Disclosure Governance Committee on a regular basis and provides periodic updates on management decisions to the Audit Committee of the Exelon Board of Directors. Management believes that the accounting policies described below require significant judgment in their application, or incorporate estimates and assumptions that are inherently uncertain and that may change in subsequent periods. Additional discussion of the application of these accounting policies can be found in the Combined Notes to Consolidated Financial Statements.

Nuclear Decommissioning Asset Retirement Obligations

Generation's ARO associated with decommissioning its nuclear units was $9.7 billion at December 31, 2017. The authoritative guidance requires that Generation estimate its obligation for the future decommissioning of its nuclear generating plants. To estimate that liability, Generation uses an internally-developed, probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple decommissioning outcome scenarios.

As a result of recent nuclear plant retirements in the industry, nuclear operators and third-party service providers are obtaining more information about costs associated with decommissioning activities. At the same time, regulators are gaining more information about decommissioning activities which could result in changes to existing decommissioning requirements. In addition, as more nuclear plants are retired, it is possible that technological advances will be identified that could create efficiencies and lead to a reduction in decommissioning costs. The availability of decommissioning trust funds could impact the timing of the decommissioning activities. Additionally, certain factors such as changes in regulatory requirements during plant operations or the profitability of a nuclear plant could impact the timing of plant retirements. These factors could result in material changes to Generation's current estimates as more information becomes available and could change the timing of plant retirements and the probability assigned to the decommissioning outcome scenarios.

The nuclear decommissioning obligation is adjusted on a regular basis due to the passage of time and revisions to the key assumptions for the expected timing and/or estimated amounts of the future undiscounted cash flows required to decommission the nuclear plants, based upon the following methodologies and significant estimates and assumptions:

Decommissioning Cost Studies

Generation uses unit-by-unit decommissioning cost studies to provide a marketplace assessment of the expected costs (in current year dollars) and timing of decommissioning activities, which are validated by comparison to current decommissioning projects within the industry and other estimates. Decommissioning cost studies are updated, on a rotational basis, for each of Generation's nuclear units at least every five years, unless circumstances warrant more frequent updates (such as a change in assumed operating life for a nuclear plant). As part of the annual cost study update process, Generation evaluates newly assumed costs or substantive changes in previously assumed costs to determine if the cost estimate impacts are sufficiently material to warrant application of the updated estimates to the AROs across the nuclear fleet outside of the normal five-year rotating cost study update cycle.

Cost Escalation Factors

Generation uses cost escalation factors to escalate the decommissioning costs from the decommissioning cost studies discussed above through the assumed decommissioning period for each of the units. Cost escalation studies, updated on an annual basis, are used to determine escalation factors, and are based on inflation indices for labor, equipment and materials, energy, LLRW disposal and other costs. All of the nuclear AROs are adjusted each year for the updated cost escalation factors.

Probabilistic Cash Flow Models

Generation's probabilistic cash flow models include the assignment of probabilities to various scenarios for decommissioning cost levels, decommissioning approaches, and timing of plant shutdown on a unit-by-unit basis. Probabilities assigned to cost levels include an assessment of the likelihood of costs 20% higher (high-cost scenario) or 15% lower (low-cost scenario) than the base cost scenario. Probabilities are also assigned to four different decommissioning approaches.

1. DECON - a method of decommissioning shortly after the cessation of operation in which the equipment, structures, and portions of a facility and site containing radioactive contaminants are removed and safely buried in a LLRW landfill or decontaminated to a level that permits property to be released for unrestricted use. Spent fuel is transferred to dry cask storage as soon as possible until DOE acceptance for disposal.
2. Delayed DECON - similar to the DECON scenario but with a delay to allow for spent fuel to be removed from the site prior to onset of decommissioning activities. Spent fuel is retained in existing location (either wet or dry storage) until DOE acceptance for disposal.
3. Shortened SAFSTOR - similar to the DECON scenario but with generally a 30-year delay prior to onset of decommissioning activities. Spent fuel is transferred to dry cask storage as soon as possible until DOE acceptance for disposal.
4. SAFSTOR - a method of decommissioning in which the nuclear facility is placed and maintained in such condition that the nuclear facility can be safely stored and subsequently decontaminated to levels that permit release for unrestricted use generally within 60 years after cessation of operations. Spent fuel is transferred to dry cask storage as soon as possible until DOE acceptance for disposal.

The actual decommissioning approach selected once a nuclear facility is shutdown will be determined by Generation at the time of shutdown and may be influenced by multiple factors including the funding status of the nuclear decommissioning trust fund at the time of shutdown.

The assumed plant shutdown timing scenarios include the following four alternatives: (1) the probability of operating through the original 40-year nuclear license term, (2) the probability of operating through an extended 60-year nuclear license term (regardless of whether such 20-year license extension has been received for each unit), (3) the probability of a second, 20-year license renewal for some nuclear units, and (4) the probability of early plant retirement for certain sites due to changing market conditions and regulatory environments. The successful operation of nuclear plants in the U.S. beyond the initial 40-year license terms has prompted the NRC to consider regulatory and technical requirements for potential plant operations for an 80-year nuclear operating term. As power market and regulatory environment developments occur, Generation evaluates and incorporates, as necessary, the impacts of such developments into its nuclear ARO assumptions and estimates.

Generation's probabilistic cash flow models also include an assessment of the timing of DOE acceptance of SNF for disposal. Generation currently assumes DOE will begin accepting SNF in 2030. The SNF acceptance date assumption is based on management's estimates of the amount of time required for DOE to select a site location and develop the necessary infrastructure for long-term SNF storage. For more information regarding the estimated date that DOE will begin accepting SNF, see Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements.

License Renewals

Except for its Clinton unit, Generation has successfully obtained initial 20-year operating license renewal extensions (i.e., extending the total license term to 60 years) for all of its operating nuclear units (including the two Salem units co-owned by Generation, but operated by PSEG). Generation intends to apply for an initial license renewal for the Clinton unit. Clinton depreciation provisions are based on 2027 which is the last year of the Illinois Zero Emissions Standard. No prior Generation initial license extension application has been denied. Generation intends to apply for a second 20-year renewal for the Peach Bottom Units 2 and 3.

Discount Rates

The probability-weighted estimated future cash flows for the various assumed scenarios are discounted using credit-adjusted, risk-free rates (CARFR) applicable to the various businesses in which each of the nuclear units originally operated. The authoritative guidance required Generation to establish an ARO at fair value at the time of the initial adoption. Subsequent to the initial adoption, the ARO is adjusted for changes to estimated costs, timing of future cash flows and modifications to decommissioning assumptions, as described above. The ARO is not required or permitted to be re-measured for changes in the CARFR that occur in isolation. Increases in the ARO as a result of upward revisions in estimated undiscounted cash flows are considered new obligations and are measured using a current CARFR as the increase creates a new cost layer within the ARO. Any decrease in the estimated undiscounted future cash flows relating to the ARO are treated as a modification of an existing ARO cost layer and, therefore, is measured using the average historical CARFR rates used in creating the initial ARO cost layers. If Generation's future nominal cash flows associated with the ARO were to be discounted at current prevailing CARFR, the obligation would increase from approximately $9.7 billion to approximately $10.3 billion.

To illustrate the significant impact that changes in the CARFR, when combined with changes in projected amounts and expected timing of cash flows, can have on the valuation of the ARO: i) had Generation used the 2016 CARFR rather than the 2017 CARFR in performing its annual 2017 ARO update, Generation would have increased the ARO by an additional $10 million; and ii) if the CARFR used in performing the annual 2017 ARO update are increased by 50 basis points or decreased by 50 basis points, the ARO would have decreased by $170 million and increased by $30 million, respectively, as compared to the actual decrease of $69 million.

ARO Sensitivities

Changes in the assumptions underlying the ARO could materially affect the decommissioning obligation. The impact to the ARO of a change in any one of these assumptions is highly dependent on how the other assumptions may correspondingly change.

The following table illustrates the effects of changing certain ARO assumptions while holding all other assumptions constant (dollars in millions):

Change in ARO Assumption	**Increase (Decrease) to ARO at December 31, 2017**
Cost escalation studies	
Uniform increase in escalation rates of 50 basis points	$1,690
Probabilistic cash flow models	
Increase the estimated costs to decommission the nuclear plants by 10 percent	700
Increase the likelihood of the DECON scenario by 10 percentage points and decrease the likelihood of the SAFSTOR scenario by 10 percentage points	500
Shorten each unit's probability weighted operating life assumption by 10%[a]	660
Extend the estimated date for DOE acceptance of SNF to 2035	130

[a] Timing sensitivity does not include any sites for which an early plant retirement has been announced.

For more information regarding accounting for nuclear decommissioning obligations, see Note 1 — Significant Accounting Policies, Note 8 — Early Nuclear Plant Retirements and Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements.

Goodwill

As of December 31, 2017, Exelon's $6.7 billion carrying amount of goodwill primarily consists of $2.6 billion at ComEd relating to the acquisition of ComEd in 2000 as part of the formation of Exelon and $4 billion at PHI pursuant to Exelon's acquisition of PHI in the first quarter of 2016. DPL has $8 million of goodwill as of December 31, 2017, related to its 1995 acquisition of the Conowingo Power Company. Generation also has goodwill of $47 million as of December 31, 2017. Under the provisions of the authoritative guidance for goodwill, these entities are required to perform an assessment for possible impairment of their goodwill at least annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting units below their carrying amount. Under the authoritative guidance, a reporting unit is an operating segment or one level below an operating segment (known as a component) and is the level at which goodwill is tested for impairment. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and its operating results are regularly reviewed by segment management. ComEd has a single operating segment, and PHI's operating segments are Pepco, DPL and ACE. See Note 25 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information. There is no level below these operating segments for which operating results are regularly reviewed by segment management. Therefore, the ComEd, Pepco, DPL and ACE operating segments are also considered reporting units for goodwill impairment testing purposes. Exelon's and ComEd's $2.6 billion of goodwill has been assigned entirely to the ComEd reporting unit, while Exelon's and PHI's $4 billion of goodwill has been assigned to the Pepco, DPL and ACE reporting units in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. DPL's $8 million of goodwill is assigned entirely to the DPL reporting unit.

Entities assessing goodwill for impairment have the option of first performing a qualitative assessment to determine whether a quantitative assessment is necessary. In performing a qualitative assessment, entities should assess, among other things, macroeconomic conditions, industry and market considerations including regulatory and political developments, overall financial performance, cost factors, and entity-specific conditions and events. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, no further testing is required. If an entity bypasses the qualitative assessment, or performs the qualitative assessment but determines that it is more likely than not that its fair value is less than its carrying amount, a quantitative two-step, fair value-based test is performed.

Exelon's, ComEd's and PHI's accounting policy is to perform a quantitative test of goodwill at least once every three years, or more frequently if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The first step in the quantitative test compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation authoritative guidance in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and a charge to operating expense. In January 2017, the FASB issued a new standard, effective January 1, 2020 with early adoption permitted, that simplifies the accounting for goodwill impairment by removing the second step of the test and, instead, measuring goodwill impairment at the amount by which a reporting unit's carrying value exceeds its fair value (currently the first step in the test). Exelon, Generation, ComEd, PHI and DPL have not determined whether to early adopt this standard.

Application of the goodwill impairment test requires management judgment, including the identification of reporting units and determining the fair value of the reporting unit, which management estimates using a weighted combination of a discounted cash flow analysis and a market multiples analysis. Significant assumptions used in these fair value analyses include discount and growth rates, utility sector market performance and transactions, projected operating and capital cash flows for ComEd's, Pepco's, DPL's and ACE's businesses and the fair value of debt. In applying the second step (if needed), management must estimate the fair value of specific assets and liabilities of the reporting unit.

For their 2017 annual goodwill impairment assessments, Exelon, ComEd, PHI and DPL each qualitatively determined that it was more likely than not that the fair value of their respective reporting unit exceeded their respective carrying value. Therefore, ComEd, PHI and DPL did not perform quantitative assessments. As part of their qualitative assessments, ComEd, PHI and DPL evaluated, among other things, management's best estimate of projected operating and capital cash flows for their businesses, outcomes of recent regulatory proceedings, changes in certain market conditions, including the discount rate and regulated utility peer EBITDA multiples, and the passing margin from their last quantitative assessments performed as of November 1, 2016.

ComEd, PHI and DPL performed quantitative tests as of November 1, 2016, for their 2016 annual goodwill impairment assessments. The first step of the tests comparing the estimated fair values of the ComEd, Pepco, DPL and ACE reporting units to their carrying values, including goodwill, indicated no impairments of goodwill; therefore, no second steps were required.

While the annual assessments indicated no impairments, certain assumptions used to estimate reporting unit fair values are highly sensitive to changes. Adverse regulatory actions or changes in significant assumptions could potentially result in future impairments of Exelon's, ComEd's, PHI's or DPL's goodwill, which could be material. Based on the results of the annual goodwill tests performed as of November 1, 2016, the estimated fair values of the ComEd, Pepco, DPL and ACE reporting units would have needed to decrease by more than 30%, 10%, 10% and 10%, respectively, for Exelon, ComEd and PHI to have failed the first step of their respective impairment tests. For the $8 million of goodwill recorded at DPL related to DPL's 1995 acquisition of the Conowingo Power Company, the fair value of the DPL reporting unit would have needed to decrease by more than 50% for DPL to fail the first step of the impairment test.

See Note 1 — Significant Accounting Policies, Note 10 — Intangible Assets and Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information.

Purchase Accounting

In January 2017, the FASB issued a new standard, effective January 1, 2018 with early adoption permitted, that clarifies the definition of a business with the objective of addressing whether acquisitions/dispositions should be accounted for as acquisitions/dispositions of assets or as acquisitions/dispositions of businesses. The Registrants did not early adopt this new standard. See Note 1-Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for further information.

In accordance with authoritative guidance, the assets acquired and liabilities assumed in an acquired business are recorded at their estimated fair values on the date of acquisition. The difference between the purchase price amount and the net fair value of assets acquired and liabilities assumed is recognized as goodwill on the balance sheet if the purchase price exceeds the estimated net fair value or as a bargain purchase gain on the income statement if the purchase price is less than the estimated net fair value. Determining the fair value of assets acquired and liabilities assumed requires management's judgment, often utilizes independent valuation experts and involves the use of significant estimates and assumptions with respect to the timing and amounts of future cash inflows and outflows, discount rates, market prices and asset lives, among other items. The judgments made in the determination of the estimated fair value assigned to the assets acquired and liabilities assumed, as well as the estimated useful life of each asset and the duration of each liability, could significantly impact the financial statements in periods after acquisition, such as through depreciation and amortization expense. Authoritative guidance provides that the allocation of the purchase price may be modified up to one year after the acquisition date as more information is obtained about the fair value of assets acquired and liabilities assumed. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional information.

Unamortized Energy Contract Assets and Liabilities

Unamortized energy contract assets and liabilities represent the remaining unamortized balances of non-derivative energy contracts that Generation has acquired and the electricity contracts Exelon has acquired as part of the PHI acquisition. The initial amount recorded represents the fair value of the contracts at the time of acquisition. At PHI, offsetting regulatory assets or liabilities were also recorded. The unamortized energy contract assets and liabilities and any corresponding regulatory assets or liabilities, respectively, are amortized over the life of the contract in relation to the expected realization of the underlying cash flows. Amortization of the unamortized energy contract assets and liabilities is recorded through purchased power and fuel expense or operating revenues, depending on the nature of the underlying contract. Refer to Note 3 — Regulatory Matters, Note 4 — Mergers, Acquisitions and Dispositions and Note 10 — Intangible Assets of the Combined Notes to Consolidated Financial Statements for further discussion.

Impairment of Long-lived Assets

All Registrants regularly monitor and evaluate their long-lived assets and asset groups, excluding goodwill, for impairment when circumstances indicate the carrying value of those assets may not be recoverable. Indicators of potential impairment may include a deteriorating business climate, including declines in energy prices, condition of the asset, an asset remaining idle for more than a short period of time, specific regulatory disallowance, advances in technology or plans to dispose of a long-lived asset significantly before the end of its useful life, among others.

The review of long-lived assets and asset groups for impairment utilizes significant assumptions about operating strategies and estimates of future cash flows, which require assessments of current and projected market conditions. For the generation business, forecasting future cash flows requires assumptions regarding forecasted commodity prices for the sale of power and purchases of fuel and the expected operations of assets. A variation in the assumptions used could lead to a different conclusion regarding the recoverability of an asset or asset group and, thus, could have a significant impact on the consolidated financial statements. An impairment evaluation is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets or asset groups are largely independent of the cash flows of other assets and liabilities. For the generation business, the lowest level of independent cash flows is determined by the evaluation of several factors, including the geographic dispatch of the generation units and the hedging strategies related to those units as well as the associated intangible assets or liabilities recorded on the balance sheet. The cash flows from the generating units are generally evaluated at a regional portfolio level with cash flows generated from the customer supply and risk management activities, including cash flows from related intangible assets and liabilities on the balance sheet. In certain cases, generating assets may be evaluated on an individual basis where those assets are contracted on a long-term basis with a third party and operations are independent of other generating assets (typically contracted renewables).

On a quarterly basis, Generation assesses its long-lived assets or asset groups for indicators of impairment. If indicators are present for a long-lived asset or asset group, a comparison of the undiscounted expected future cash flows to the carrying value is performed. When the undiscounted cash flow analysis indicates the carrying value of a long-lived asset or asset group is not recoverable, the amount of the impairment loss is determined by measuring the excess of the carrying amount of the long-lived asset or asset group over its fair value. The fair value of the long-lived asset or asset group is dependent upon a market participant's view of the exit price of the assets. This includes significant assumptions of the estimated future cash flows generated by the assets and market discount rates. Events and circumstances often do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material. The determination of fair value is driven by both internal assumptions that include significant unobservable inputs (Level 3) such as revenue and generation forecasts, projected capital, and maintenance expenditures and discount rates, as well as information from various public, financial and industry sources.

Generation evaluates its equity method investments and other investments in debt and equity securities to determine whether or not they are impaired based on whether the investment has experienced a decline in value that is not temporary in nature. Beginning January 1, 2018, the authoritative guidance eliminates the available-for-sale and cost method classifications for equity securities and requires that all equity investments (other than those accounted for using the equity method of accounting) be measured and recorded at fair value with any changes in fair value recorded through earnings. Investments in equity securities without readily determinable fair values must be qualitatively assessed for impairment each reporting period and fair value determined if any significant impairment indicators exist. If the fair value is less than the carrying value, the impairment is recorded through earnings immediately in the period in which it is identified without regard to whether the decline in value is temporary in nature. The new authoritative guidance does not impact the classification or measurement of investments in debt securities. See Note 1-Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for further information.

See Note 7 — Impairment of Long-Lived Assets and Intangibles of the Combined Notes to Consolidated Financial Statements for a discussion of asset impairment evaluations made by Exelon.

Depreciable Lives of Property, Plant and Equipment

The Registrants have significant investments in electric generation assets and electric and natural gas transmission and distribution assets. These assets are generally depreciated on a straight-line basis, using the group, composite or unitary methods of depreciation. The group approach is typically for groups of similar assets that have approximately the same useful lives and the composite approach is used for heterogeneous assets that have different lives. Under both methods, a reporting entity depreciates the assets over the average life of the assets in the group. The estimation of asset useful lives requires management judgment, supported by formal depreciation studies of historical asset retirement experience. Depreciation studies are generally completed every five years, or more frequently if required by a rate regulator or if an event, regulatory action, or change in retirement patterns indicate an update is necessary.

For the Utility Registrants, depreciation studies generally serve as the basis for amounts allowed in customer rates for recovery of depreciation costs. Generally, the Utility Registrants adjust their depreciation rates for financial reporting purposes concurrent with adjustments to depreciation rates reflected in customer rates, unless the depreciation rates reflected in customer rates do not align with management's judgment as to an appropriate estimated useful life or have not been updated on a timely basis. Depreciation expense for ComEd, BGE, Pepco, DPL and ACE includes an estimated cost of dismantling and removing plant from service upon retirement. Actual incurred removal costs are applied against a related regulatory liability or recorded to a regulatory asset if in excess of previously collected removal costs. PECO's removal costs are capitalized to accumulated depreciation when incurred, and recorded to depreciation expense over the life of the new asset constructed consistent with PECO's regulatory recovery method. Estimates for such removal costs are also evaluated in the periodic depreciation studies.

At Generation, along with depreciation study results, management considers expected future energy market conditions and generation plant operating costs and capital investment requirements in determining the estimated service lives of its generating facilities. See Note 8 — Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information on expected and potential early nuclear plant retirements.

Generation completed a depreciation rate study during the first quarter of 2015, which resulted in revised depreciation rates effective January 1, 2015.

ComEd is required to file an electric distribution depreciation rate study at least every five years with the ICC. ComEd completed an electric distribution and transmission depreciation study and filed the updated depreciation rates with both the ICC and FERC in January 2014, resulting in new depreciation rates effective first quarter 2014.

PECO is required to file electric distribution and gas depreciation rate studies at least every five years with the PAPUC. In March 2015, PECO filed a depreciation rate study with the PAPUC for both its electric distribution and gas assets, resulting in new depreciation rates for electric transmission assets effective January 1, 2015, for gas distribution assets effective July 1, 2015, and for electric distribution assets effective January 1, 2016.

The MDPSC does not mandate the frequency or timing of BGE's electric distribution or gas depreciation studies. In July 2014, BGE filed revised depreciation rates with the MDPSC for both its electric distribution and gas assets, which became effective December 15, 2014. In addition, BGE's electric transmission depreciation rates were updated effective April 1, 2015.

The MDPSC does not mandate the frequency or timing of Pepco's electric distribution depreciation studies, while the DCPSC directs Pepco as to when it should file an electric distribution depreciation study. In 2016 and 2013, Pepco filed revised electric distribution depreciation rates with the MDPSC and DCPSC, respectively, with the new rates effective November 15, 2016 and April 16, 2014, respectively. On December 19, 2017, Pepco filed an electric distribution rate application which included revised depreciation rates. Pepco expects a decision in the fourth quarter of 2018.

Neither the DPSC nor the MDPSC mandates the frequency or timing of DPL's electric distribution or gas depreciation studies. On July 20, 2016, DPL filed revised electric depreciation rates with the MDPSC as part of the electric distribution base rate filing, resulting in new depreciation rates effective on April 20, 2017. On May 17, 2016, DPL filed revised electric and natural gas depreciation rates with the DPSC as part of the electric and natural gas base rate case filing, resulting in new electric depreciation rates effective June 1, 2017 and new gas depreciation rates effective July 1, 2017.

The NJBPU does not mandate the frequency or timing of ACE's electric distribution depreciation studies. In 2012, ACE filed revised electric distribution depreciation rates with the NJBPU, with the new rates effective July 1, 2013. ACE expects to perform an electric distribution depreciation study in 2018.

While FERC does not mandate the frequency or timing of electric transmission depreciation studies, the Utility Registrants and Generation perform studies on all assets every 5 years. Pepco, DPL and ACE last performed transmission depreciation studies in 1988, 1990, and 2003, respectively, but are adopting Exelon's practice and are currently evaluating the timing of the next study.

Changes in estimated useful lives of electric generation assets and of electric and natural gas transmission and distribution assets could have a significant impact on the Registrants' future results of operations. See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding depreciation and estimated service lives of the property, plant and equipment of the Registrants.

Defined Benefit Pension and Other Postretirement Employee Benefits

Exelon sponsors defined benefit pension plans and other postretirement employee benefit plans for substantially all current employees. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for additional information regarding the accounting for the defined benefit pension plans and other postretirement benefit plans.

The measurement of the plan obligations and costs of providing benefits involves various factors, including the development of valuation assumptions and inputs and accounting policy elections. When developing the required assumptions, Exelon considers historical information as well as future expectations. The measurement of benefit obligations and costs is affected by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, the anticipated rate of increase of health care costs, Exelon's expected level of contributions to the plans, the incidence of participant mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the long-term expected investment rate credited to employees of certain plans, among others. The assumptions are updated annually and upon any interim remeasurement of the plan obligations. Exelon amortizes actuarial gains or losses in excess of a corridor of 10% of the greater of the projected benefit obligation or the market-related value (MRV) of plan assets over the expected average remaining service period of plan participants. Pension and other postretirement benefit costs attributed to the operating companies are labor costs and are ultimately allocated to projects within the operating companies, some of which are capitalized.

Pension and other postretirement benefit plan assets include equity securities, including U.S. and international securities, and fixed income securities, as well as certain alternative investment classes such as real estate, private equity and hedge funds. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for information on fair value measurements of pension and other postretirement plan assets, including valuation techniques and classification under the fair value hierarchy in accordance with authoritative guidance.

Expected Rate of Return on Plan Assets

In determining the EROA, Exelon considers historical economic indicators (including inflation and GDP growth) that impact asset returns, as well as expectation regarding future long-term capital market performance, weighted by Exelon's target asset class allocations. Exelon calculates the amount of expected return on pension and other postretirement benefit plan assets by multiplying the EROA by the MRV of plan assets at the beginning of the year, taking into consideration anticipated contributions and benefit payments to be made during the year. In determining MRV, the authoritative guidance for pensions and postretirement benefits allows the use of either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. For the majority of pension plan assets, Exelon uses a calculated value that adjusts for 20% of the difference between fair value and expected MRV of plan assets. Use of this calculated value approach enables less volatile expected asset returns to be recognized as a component of pension cost from year to year. For other postretirement benefit plan assets and certain pension plan assets, Exelon uses fair value to calculate the MRV. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for further information regarding Exelon's EROA assumptions.

Discount Rate

At December 31, 2017 and 2016, the discount rates were determined by developing a spot rate curve based on the yield to maturity of a universe of high-quality non-callable (or callable with make whole provisions) bonds with similar maturities to the related pension and other postretirement benefit obligations. The spot rates are used to discount the estimated future benefit distribution amounts under the pension and other postretirement benefit plans. The discount rate is the single level rate that produces the same result as the spot rate curve. Exelon utilizes an analytical tool developed by its actuaries to determine the discount rates. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for further information regarding Exelon's discount rate assumptions.

Health Care Cost Trend Rate

Assumed health care cost trend rates impact the costs reported for Exelon's other postretirement benefit plans for participant populations with plan designs that do not have a cap on cost growth. Authoritative guidance requires that annual health care cost estimates be developed using past and present health care cost trends (both for Exelon and across the broader economy), as well as expectations of health care cost escalation, changes in health care utilization and delivery patterns, technological advances and changes in the health status of plan participants. Therefore, the trend rate assumption is subject to significant uncertainty. Exelon assumes an ultimate health care cost trend rate of 5.00% has been reached in 2017 for its other postretirement benefit plans.

Mortality

The mortality assumption is composed of a base table that represents the current expectation of life expectancy of the population adjusted by an improvement scale that attempts to anticipate future improvements in life expectancy. Exelon's mortality assumption is supported by an actuarial experience study of Exelon's plan participants and utilizes the IRS's RP-2000 base table and the Scale BB 2-Dimensional improvement scale with long-term improvements of 0.75%.

Sensitivity to Changes in Key Assumptions

The following tables illustrate the effects of changing certain of the actuarial assumptions discussed above, while holding all other assumptions constant (dollars in millions):

	Actual Assumption					
Actuarial Assumption	**Pension**	**OPEB**	**Change in Assumption**	**Pension**	**OPEB**	**Total**
Change in 2017 cost:						
Discount rate[(a)]	4.04%	4.04%	0.5%	$ (72)	$ (16)	$ (88)
	4.04%	4.04%	(0.5)%	89	19	108
EROA	7.00%	6.58%	0.5%	(85)	(12)	(97)
	7.00%	6.58%	(0.5)%	85	12	97
Health care cost trend rate	NA	5.00%	1.00%	N/A	9	9
	NA	5.00%	(1.00)%	N/A	(8)	(8)
Change in benefit obligation at December 31, 2017:						
Discount rate[(a)]	3.62%	3.61%	0.5%	(1,183)	(252)	(1,435)
	3.62%	3.61%	(0.5)%	1,371	291	1,662
Health care cost trend rate	NA	5.00%	1.00%	N/A	125	125
	NA	5.00%	(1.00)%	N/A	(113)	(113)

[(a)] In general, the discount rate will have a larger impact on the pension and other postretirement benefit cost and obligation as the rate moves closer to 0%. Therefore, the discount rate sensitivities above cannot necessarily be extrapolated for larger increases or decreases in the discount rate. Additionally, Exelon utilizes a liability-driven investment strategy for its pension asset portfolio. The sensitivities shown above do not reflect the offsetting impact that changes in discount rates may have on pension asset returns.

Regulatory Accounting

Exelon and the Utility Registrants account for their regulated electric and gas operations in accordance with the authoritative guidance, which requires Exelon and the Utility Registrants to reflect the effects of cost-based rate regulation in their financial statements. This authoritative guidance is applicable to entities with regulated operations that meet the following criteria: (1) rates are established or approved by a third-party regulator; (2) rates are designed to recover the entities' cost of providing services or products; and (3) a reasonable expectation that rates designed to recover costs can be charged to and collected from customers. Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent (1) revenue or gains that have been deferred because it is probable such amounts will be returned to customers through future regulated rates; or (2) billings in advance of expenditures for approved regulatory programs. As of December 31, 2017, Exelon and the Utility Registrants have concluded that the operations of each such Registrant meet the criteria to apply the authoritative guidance. If it is concluded in a future period that a separable portion of operations no longer meets the criteria of this authoritative guidance, Exelon and the Utility Registrants would be required to eliminate any associated regulatory assets and liabilities and the impact would be recognized in the Consolidated Statements of Operations and Comprehensive Income and could be material. At December 31, 2017, the gain (loss) could have been as much as $1.1 billion, $5.3 billion, $280 million, $592 million, $(1.1) billion, $(59) million, $321 million and $(8) million (before taxes) as a result of the elimination of regulatory assets and liabilities of Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, respectively. Further, Exelon would record a charge against OCI (before taxes) of up to $3.8 billion, $2.4 billion, $544 million, $177 million, $407 million, $202 million and $92 million related to Exelon's, ComEd's, BGE's, PHI's, Pepco's, DPL's and ACE's respective portions of the deferred costs associated with Exelon's pension and other postretirement benefit plans that are recorded as regulatory assets on Exelon's Consolidated Balance Sheets. Exelon also has a net regulatory liability of $(31) million (before taxes) related to PECO's portion of the deferred costs associated with Exelon's other postretirement benefit plans that would result in an increase in OCI if reversed. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information regarding regulatory matters, including the regulatory assets and liabilities tables of Exelon and the Utility Registrants.

For each regulatory jurisdiction in which they conduct business, Exelon and the Utility Registrants assess whether the regulatory assets and liabilities continue to meet the criteria for probable future recovery or settlement at each balance sheet date and when regulatory events occur. This assessment includes consideration of recent rate orders, historical regulatory treatment for similar costs in each Registrant's jurisdictions, and factors such as changes in applicable regulatory and political environments. Furthermore, each Registrant makes other judgments related to the financial statement impact of their regulatory environments, such as the types of adjustments to rate base that will be acceptable to regulatory bodies, if any, for which costs will be recoverable through rates. Refer to the revenue recognition discussion below for additional information on the annual revenue reconciliations associated with ICC-approved electric distribution and energy efficiency formula rates for ComEd, and FERC transmission formula rate tariffs for ComEd, PECO, BGE, Pepco, DPL and ACE. Additionally, estimates are made in accordance with the authoritative guidance for contingencies as to the amount of revenues billed under certain regulatory orders that may ultimately be refunded to customers upon finalization of applicable regulatory or judicial processes. These assessments are based, to the extent possible, on past relevant experience with regulatory bodies in each Registrant's jurisdictions, known circumstances specific to a particular matter and hearings held with the applicable regulatory body. If the assessments and estimates made by Exelon and the Utility Registrants for regulatory assets and regulatory liabilities are ultimately different than actual regulatory outcomes, the impact on their results of operations, cash flows and financial positions could be material.

The Registrants treat the impacts of a final rate order received after the balance sheet date but prior to the issuance of the financial statements as a non-recognized subsequent event, as the receipt of a final rate order is a separate and distinct event that has future impacts on the parties affected by the order.

Accounting for Derivative Instruments

The Registrants use derivative instruments to manage commodity price risk, foreign currency exchange risk and interest rate risk related to ongoing business operations. The Registrants' derivative activities are in accordance with Exelon's Risk Management Policy (RMP). See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding the Registrants' derivative instruments.

The Registrants account for derivative financial instruments under the applicable authoritative guidance. Determining whether a contract qualifies as a derivative requires that management exercise significant judgment, including assessing market liquidity as well as determining whether a contract has one or more underlyings and one or more notional quantities. Changes in management's assessment of contracts and the liquidity of their markets, and changes in authoritative guidance, could result in previously excluded contracts becoming in scope to new authoritative guidance. Generation has determined that contracts to purchase uranium, contracts to purchase and sell capacity in certain ISO's, certain emission products, ZECs and RECs do not meet the definition of a derivative as they do not provide for net settlement and the uranium, certain capacity, emission and ZEC and REC markets are not sufficiently liquid to conclude that physical forward contracts are readily convertible to cash. If these markets become sufficiently liquid, then Generation would be required to account for these contracts as derivative instruments. In this case, if market prices differ from the underlying prices of the contracts, Generation would be required to record mark-to-market gains or losses, which could have a material impact to Exelon's and Generation's results of operations and financial positions.

Under current authoritative guidance, all derivatives are recognized on the balance sheet at their fair value, except for certain derivatives that qualify for, and are elected under, the normal purchases and normal sales exception. Further, derivatives that qualify and are designated for hedge accounting are classified as either fair value or cash flow hedges. For fair value hedges, changes in fair values for both the derivative and the underlying hedged exposure are recognized in earnings immediately. For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the hedged cash flows of the underlying exposure is deferred in AOCI and reclassified into earnings when the underlying transaction occurs. Gains and losses from the ineffective portion of any hedge are recognized in earnings immediately. The Registrants rarely elect hedge accounting for commodity transactions. Economic commodity hedges are recorded at fair value through earnings. In addition, for commodity derivatives executed for proprietary trading purposes, changes in the fair value of the derivatives are recognized in earnings immediately. For economic hedges that are not designated for hedge accounting for the Utility Registrants, changes in the fair value each period are generally recorded with a corresponding offsetting regulatory asset or liability given likelihood of recovering the associated costs through customer rates.

Normal Purchases and Normal Sales Exception

As part of Generation's energy marketing business, Generation enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy-related products in the retail and wholesale markets with the intent and ability to deliver or take delivery. While some of these contracts are considered derivative financial instruments under the authoritative guidance, certain of these qualifying transactions have been designated by Generation as normal purchases and normal sales transactions, which are thus not required to be recorded at fair value, but rather on an accrual basis of accounting. Determining whether a contract qualifies for the normal purchases and normal sales exception requires judgment on whether the contract will physically deliver and requires that management ensure compliance with all of the associated qualification and documentation requirements. Revenues and expenses on contracts that qualify as normal purchases and normal sales are recognized when the underlying physical transaction is completed. Contracts that qualify for the normal purchases and normal sales exception are those for which physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time and the contract is not financially settled on a net basis. The contracts that ComEd has entered into with suppliers as part of ComEd's energy procurement process, PECO's full requirement contracts under the PAPUC-approved DSP program, most of PECO's natural gas supply agreements, all of BGE's full requirement contracts and natural gas supply agreements that are derivatives and certain Pepco, DPL and ACE full requirement contracts qualify for and are accounted for under the normal purchases and normal sales exception.

Commodity Contracts

Identification of a commodity contract as an economic hedge requires Generation to determine that the contract is in accordance with the RMP. Generation reassesses its economic hedges on a regular basis to determine if they continue to be within the guidelines of the RMP.

As a part of the authoritative guidance, the Registrants make estimates and assumptions concerning future commodity prices, load requirements, interest rates, the timing of future transactions and their probable cash flows, the fair value of contracts and the expected changes in the fair value in deciding whether or not to enter into derivative transactions, and in determining the initial accounting treatment for derivative transactions. Under the authoritative guidance for fair value measurements, the Registrants categorize these derivatives under a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Derivative contracts are traded in both exchange-based and non-exchange-based markets. Exchange-based derivatives that are valued using unadjusted quoted prices in active markets are generally categorized in Level 1 in the fair value hierarchy.

Certain derivatives' pricing is verified using indicative price quotations available through brokers or over-the-counter, on-line exchanges. The price quotations reflect the average of the bid-ask mid-point from markets that the Registrants believe provide the most liquid market for the commodity. The price quotations are reviewed and corroborated to ensure the prices are observable and representative of an orderly transaction between market participants. The Registrant's derivatives are traded predominately at liquid trading points. The remaining derivative contracts are valued using models that consider inputs such as contract terms, including maturity, and market parameters, and assumptions of the future prices of energy, interest rates, volatility, credit worthiness and credit spread. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, the model inputs are generally observable. Such instruments are categorized in Level 2.

For derivatives that trade in less liquid markets with limited pricing information, the model inputs generally would include both observable and unobservable inputs and are categorized in Level 3.

The Registrants consider nonperformance risk, including credit risk in the valuation of derivative contracts, including both historical and current market data in its assessment of nonperformance risk, including credit risk. The impacts of nonperformance and credit risk to date have generally not been material to the financial statements.

Interest Rate and Foreign Exchange Derivative Instruments

The Registrants may utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, to achieve the targeted level of variable-rate debt as a percent of total debt. Additionally, the Registrants may use forward-starting interest rate swaps and treasury rate locks to lock in interest-rate levels and floating to fixed swaps for project financing. In addition, Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the economic hedge and proprietary trading activity is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges. The fair value of the agreements is calculated by discounting the future net cash flows to the present value based on observable inputs and are primarily categorized in Level 2 in the fair value hierarchy. Certain exchange based interest rate derivatives that are valued using unadjusted quoted prices in active markets are categorized in Level 1 in the fair value hierarchy.

See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK and Note 11 — Fair Value of Financial Assets and Liabilities and Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding the Registrants' derivative instruments.

Taxation

Significant management judgment is required in determining the Registrants' provisions for income taxes, primarily due to the uncertainty related to tax positions taken, as well as deferred tax assets and liabilities and valuation allowances. In accordance with applicable authoritative guidance, the Registrants account for uncertain income tax positions using a benefit recognition model with a two-step approach including a more-likely-than-not recognition threshold and a measurement approach based on the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. If it is not more-likely-than-not that the benefit of the tax position will be sustained on its technical merits, no benefit is recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant judgment is required to determine whether the recognition threshold has been met and, if so, the appropriate amount of tax benefits to be recorded in the Registrants' consolidated financial statements.

The Registrants evaluate quarterly the probability of realizing deferred tax assets by reviewing a forecast of future taxable income and their intent and ability to implement tax planning strategies, if necessary, to realize deferred tax assets. The Registrants also evaluate for negative evidence that could indicate the Registrant's inability to realize its deferred tax assets, such as historical operating loss or tax credit carryforward expiration. Based on the combined assessment, the Registrants record valuation allowances for deferred tax assets when they conclude it is more-likely-than-not such benefit will not be realized in future periods.

Actual income taxes could vary from estimated amounts due to the future impacts of various items, including future changes in income tax laws, the Registrants' forecasted financial condition and results of operations, failure to successfully implement tax planning strategies, as well as results of audits and examinations of filed tax returns by taxing authorities. The Registrants have recorded the provisional income tax amounts as of December 31, 2017 for changes pursuant to the TCJA related to depreciation for which the impacts could not be finalized upon issuance of the Registrants' financial statements, but for which reasonable estimates could be determined. In accordance with SAB 118, additional remeasurement may occur based on technical corrections or other forms of guidance issued, which may result in material changes to previously finalized provisions. While the Registrants believe the resulting tax balances as of December 31, 2017 and 2016 are appropriately accounted for in accordance with the applicable authoritative guidance, the ultimate outcome of tax matters could result in favorable or unfavorable adjustments that could be material to their consolidated financial statements. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding taxes.

Accounting for Loss Contingencies

In the preparation of their financial statements, the Registrants make judgments regarding the future outcome of contingent events and record liabilities for loss contingencies that are probable and can be reasonably estimated based upon available information. The amount recorded may differ from the actual expense incurred when the uncertainty is resolved. Such difference could have a significant impact on the Registrants' consolidated financial statements.

Environmental Costs

Environmental investigation and remediation liabilities are based upon estimates with respect to the number of sites for which the Registrants will be responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties, the timing of the remediation work and changes in technology, regulations and the requirements of local governmental authorities. Periodic studies are conducted at the Utility Registrants to determine future remediation requirements for MGP sites and estimates are adjusted accordingly. In addition, periodic reviews are performed at each of the Registrants to assess the adequacy of other environmental reserves. These matters, if resolved in a manner different from the estimate, could have a significant impact on the Registrants' results of operations, cash flows and financial positions. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further information.

Other, Including Personal Injury Claims

The Registrants are self-insured for general liability, automotive liability, workers' compensation, and personal injury claims to the extent that losses are within policy deductibles or exceed the amount of insurance maintained. The Registrants have reserves for both open claims asserted and an estimate of claims incurred but not reported (IBNR). The IBNR reserve is estimated based on actuarial assumptions and analysis and is updated annually. Future events, such as the number of new claims to be filed each year, the average cost of disposing of claims, as well as the numerous uncertainties surrounding litigation and possible state and national legislative measures could cause the actual costs to be higher or lower than estimated. Accordingly, these claims, if resolved in a manner different from the estimate, could have a material impact on the Registrants' results of operations, cash flows and financial positions.

Revenue Recognition

Sources of Revenue and Determination of Accounting Treatment

The Registrants earn revenues from various business activities including: the sale of energy and energy-related products, such as natural gas, capacity, and other commodities in non-regulated markets (wholesale and retail); the sale and delivery of electricity and natural gas in regulated markets; and the provision of other energy-related non-regulated products and services.

The accounting treatment for revenue recognition is based on the nature of the underlying transaction and applicable authoritative guidance. The Registrants primarily use accrual, mark-to-market, and Alternative Revenue Program (ARP) accounting as discussed in more detail below. Beginning on January 1, 2018, the Registrants will begin applying the Revenue from Contracts with Customers guidance to recognize revenue. See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for additional information.

Accrual Accounting

Under accrual accounting, the Registrants recognize revenues in the period when services are rendered or energy is delivered to customers. The Registrants generally use accrual accounting to recognize revenues for sales of electricity, natural gas and other commodities as part of their physical delivery activities. The Registrants enter into these sales transactions using a variety of instruments, including non-derivative agreements, derivatives that qualify for and are designated as normal purchases and normal sales (NPNS) of commodities that will be physically delivered, sales to utility customers under regulated service tariffs and spot-market sales, including settlements with independent system operators.

The determination of Generation's and the Utility Registrants' energy sales to individual customers is based on systematic readings of customer meters generally on a monthly basis. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and corresponding unbilled revenue is recorded. The measurement of unbilled revenue is affected by the following factors: daily customer usage measured by energy or gas throughput volume, customer usage by class, losses of energy during delivery to customers and applicable customer rates. Increases or decreases in volumes delivered to the utilities' customers and favorable or unfavorable rate mix due to changes in usage patterns in customers classes in the period could be significant to the calculation of unbilled revenue. In addition, unbilled revenues may fluctuate monthly as a result of customers electing to use an alternate supplier, since unbilled commodity receivables are not recorded for these customers. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date also impact the measurement of unbilled revenue, however, total operating revenues would remain materially unchanged. See Note 5 — Accounts Receivable of the Combined Notes to Consolidated Financial Statements for additional information on unbilled revenue.

Mark-to-Market Accounting

The Registrants record revenues and expenses using the mark-to-market method of accounting for transactions that meet the definition of a derivative for which they are not permitted, or have not elected, the NPNS exception. These mark-to-market transactions primarily relate to commodity price risk management activities. Mark-to-market revenues and expenses include: inception gains or losses on new transactions where the fair value is observable and realized; and unrealized gains and losses from changes in the fair value of open contracts.

Alternative Revenue Program Accounting

Certain of the Utility Registrants' ratemaking mechanisms qualify as ARPs if they meet certain criteria. At each balance sheet date, the Utility Registrants with such mechanisms, including ComEd's electric distribution and energy efficiency formulas, and ComEd's, PECO's, BGE's, Pepco's, DPL's, and ACE's FERC transmission formula rates, record ARP revenues for any differences between the prior year revenue requirement in effect in rates and their best estimate of the current year revenue requirement that is probable of approval by the ICC or FERC. Estimates of the current year revenue requirement are based on actual and/or forecasted costs and investment in rate base for the period and the rates of return on common equity and associated regulatory capital structure allowed under the applicable tariff. ComEd, BGE, Pepco, and DPL also have decoupling mechanisms which qualify as ARPs. The Utility Registrants recognize and record an offsetting regulatory asset or liability once the condition or event allowing for the automatic adjustment of future rates occurs.

The Utility Registrants' ARP revenues include both: (i) the recognition of "originating" ARP revenues (when the regulator-specified condition or event allowing for additional billing or refund has occurred) and (ii) an equal and offsetting reversal of the "originating" ARP revenues as those amounts are reflected in the price of utility service

See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further information.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts reflects the Registrants' best estimates of losses on the accounts receivable balances. For Generation, the allowance is based on accounts receivable aging historical experience and other currently available information. ComEd, PECO, BGE, Pepco, DPL and ACE, estimate the allowance for uncollectible accounts on customer receivables by applying loss rates developed specifically for each company to the outstanding receivable balance by customer risk segment. Risk segments represent a group of customers with similar credit quality indicators that are comprised based on various attributes, including delinquency of their balances and payment history. Loss rates applied to the accounts receivable balances are based on a historical average of charge-offs as a percentage of accounts receivable in each risk segment. The Utility Registrants' customer accounts are generally considered delinquent if the amount billed is not received by the time the next bill is issued, which normally occurs on a monthly basis. Utility Registrants' customer accounts are written off consistent with approved regulatory requirements. Utility Registrants' allowances for uncollectible accounts will continue to be affected by changes in volume, prices and economic conditions as well as changes in ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU regulations. See Note 5 — Accounts Receivable of the Combined Notes to Consolidated Financial Statements for additional information regarding accounts receivable.

Results of Operations by Business Segment

The comparisons of operating results and other statistical information for the years ended December 31, 2017, 2016 and 2015 set forth below include intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS BY REGISTRANT

	For the Years Ended December 31,		Favorable (unfavorable) 2017 vs. 2016 variance	For the Year Ended December 31, 2015	Favorable (unfavorable) 2016 vs. 2015 variance
	2017	2016			
Exelon	$3,770	$1,134	$2,636	$2,269	$(1,135)
Generation	2,694	496	2,198	1,372	(876)
ComEd	567	378	189	426	(48)
PECO	434	438	(4)	378	60
BGE	307	286	21	275	11
Pepco	205	42	163	187	(145)
DPL	121	(9)	130	76	(85)
ACE	77	(42)	119	40	(82)

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$362	$(61)	$19	$327

Results of Operations—Generation

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$18,466	$17,751	$ 715	$19,135	$(1,384)
Purchased power and fuel expense	9,690	8,830	(860)	10,021	1,191
Revenues net of purchased power and fuel expense[a]	8,776	8,921	(145)	9,114	(193)
Other operating expenses					
Operating and maintenance	6,291	5,641	(650)	5,308	(333)
Depreciation and amortization	1,457	1,879	422	1,054	(825)
Taxes other than income	555	506	(49)	489	(17)
Total other operating expenses	8,303	8,026	(277)	6,851	(1,175)
Gain (Loss) on sales of assets	2	(59)	61	12	(71)
Bargain purchase gain	233	—	233	—	—
Gain on deconsolidation of business	213	—	213	—	—
Operating income	921	836	85	2,275	(1,439)
Other income and (deductions)					
Interest expense	(440)	(364)	(76)	(365)	1
Other, net	948	401	547	(60)	461
Total other income and (deductions)	508	37	471	(425)	462
Income before income taxes	1,429	873	556	1,850	(977)
Income taxes	(1,375)	290	1,665	502	212
Equity in losses of unconsolidated affiliates	(33)	(25)	(8)	(8)	(17)
Net income	2,771	558	2,213	1,340	(782)
Net income (loss) attributable to noncontrolling interests	77	62	15	(32)	94
Net income attributable to membership interest	$ 2,694	$ 496	$2,198	$ 1,372	$ (876)

[a] Generation evaluates its operating performance using the measure of revenues net of purchased power and fuel expense. Generation believes that revenues net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Membership Interest

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Generation's Net income attributable to membership interest increased compared to the same period in 2016, primarily due to lower Depreciation and amortization, a Bargain purchase gain in 2017, a Gain on deconsolidation of business in 2017, higher Other income and decreased Income taxes, partially offset by lower Revenues net of purchased power and fuel expense and higher Operating and maintenance expense. The decrease in Depreciation and amortization expense is primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire Clinton and Quad Cities nuclear facilities. The Bargain purchase gain is due to the acquisition of the FitzPatrick nuclear facility. The Gain on deconsolidation of business in 2017 is due to the deconsolidation of EGTP's net liabilities, which included the previously impaired assets and related debt, as a result of the November 2017 bankruptcy filing. The increase in Other income is primarily due to higher realized NDT fund gains. The decrease in Income taxes primarily relates to the one-time non-cash impacts associated with the Tax Cuts and Jobs Act. The decrease in Revenues net of purchased power and fuel expense primarily reflects lower realized energy prices, the impacts of lower load volumes delivered due to mild weather in the third quarter 2017, the conclusion of the Ginna Reliability Support Services Agreement and the impact of declining natural gas prices on Generation's natural gas portfolio, partially offset by the impact of the New York CES, higher capacity prices, the addition of two combined-cycle gas turbines in Texas and lower nuclear fuel prices. The increase in Operating and maintenance expense is primarily related to the impairment of EGTP in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Generation's Net income attributable to membership interest decreased compared to the same period in 2015, primarily due to lower Revenues net of purchased power and fuel expense, higher Operating and maintenance expense, higher Depreciation and amortization expense, and Losses on sales of assets in 2016, partially offset by increased Other income and decreased Income tax expense. The decrease in Revenues net of purchased power and fuel expense primarily relates to lower mark-to-market results in 2016 compared to 2015 and lower realized energy prices, partially offset by the Ginna Reliability Support Services Agreement and a decrease in outage days at higher capacity units despite an increase in overall outage days. The increase in Operating and maintenance expense is primarily related to the impairment of Upstream assets and certain wind projects, and increased costs related to the implementation of the cost management program. The increase in Depreciation and amortization expense is primarily related to accelerated depreciation and amortization expense related to the previous decision to early retire the Clinton and Quad Cities nuclear generating facilities, increased nuclear decommissioning amortization and increased depreciation expense due to ongoing capital expenditures. The increase in Losses on sales of assets is primarily due to Generation's strategic decision to narrow the scope and scale of its growth and development activities. The increase in Other income is primarily due to the change in realized and unrealized gains and losses on NDT funds.

Revenues Net of Purchased Power and Fuel Expense

The basis for Generation's reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation's hedging strategies and risk metrics are also aligned with these same geographic regions. Descriptions of each of Generation's six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.
- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.
- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
- New York represents operations within ISO-NY, which covers the state of New York in its entirety.

- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.
- Other Power Regions:
  - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.
  - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado, and parts of New Mexico, Wyoming and South Dakota.
  - Canada represents operations across the entire country of Canada and includes the AESO, OIESO and the Canadian portion of MISO.

The following business activities are not allocated to a region, and are reported under Other: natural gas, as well as other miscellaneous business activities that are not significant to Generation's overall operating revenues or results of operations. Further, the following activities are not allocated to a region, and are reported in Other: amortization of certain intangible assets relating to commodity contracts recorded at fair value from mergers and acquisitions; accelerated nuclear fuel amortization associated with nuclear decommissioning; and other miscellaneous revenues.

Generation evaluates the operating performance of electric business activities using the measure of Revenue net of purchased power and fuel expense, which is a non-GAAP measurement. Generation's operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for owned generation and fuel costs associated with tolling agreements.

For the years ended December 31, 2017 compared to 2016 and December 31, 2016 compared to 2015, Generation's Revenue net of purchased power and fuel expense by region were as follows:

			2017 vs. 2016			2016 vs. 2015	
	2017	**2016**	**Variance**	**% Change**	**2015**	**Variance**	**% Change**
Mid-Atlantic[(a)]	$3,214	$3,317	$(103)	(3.1)%	$3,571	$(254)	(7.1)%
Midwest[(b)]	2,820	2,971	(151)	(5.1)%	2,892	79	2.7%
New England	514	438	76	17.4%	461	(23)	(5.0)%
New York[(d)]	976	742	234	31.5%	634	108	17.0%
ERCOT	332	281	51	18.1%	293	(12)	(4.1)%
Other Power Regions	305	336	(31)	(9.2)%	250	86	34.4%
Total electric revenues net of purchased power and fuel expense	8,161	8,085	76	0.9%	8,101	(16)	(0.2)%
Proprietary Trading	18	15	3	n.m.	1	14	n.m.
Mark-to-market gains (losses)	(175)	(41)	(134)	326.8%	257	(298)	(116.0)%
Other[(c)]	772	862	(90)	(10.4)%	755	107	14.2%
Total revenue net of purchased power and fuel expense	$8,776	$8,921	$(145)	(1.6)%	$9,114	$(193)	(2.1)%

(a) Results of transactions with PECO and BGE are included in the Mid-Atlantic region. Results of transactions with Pepco, DPL, and ACE are included in the Mid-Atlantic region beginning on March 24, 2016, the day after the PHI merger was completed.

(b) Results of transactions with ComEd are included in the Midwest region.

(c) Other represents activities not allocated to a region. See text above for a description of included activities. Includes amortization of intangible assets related to commodity contracts recorded at fair value of a $54 million decrease to RNF, an $57 million decrease to RNF, and an $8 million increase to RNF for the years ended December 31, 2017, 2016, and 2015, respectively, and accelerated nuclear fuel amortization associated with announced early plant retirements, as discussed in Note 8 - Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements, of $12 million and $60 million for the years ended December 31, 2017 and 2016, respectively.

(d) Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Generation's supply sources by region are summarized below:

			2017 vs. 2016			2016 vs. 2015	
Supply Source (GWh)	**2017**	**2016**	**Variance**	**% Change**	**2015**	**Variance**	**% Change**
Nuclear Generation[a]							
Mid-Atlantic	64,466	63,447	1,019	1.6%	63,283	164	0.3%
Midwest	93,344	94,668	(1,324)	(1.4)%	93,422	1,246	1.3%
New York[c]	25,033	18,684	6,349	34.0%	18,769	(85)	(0.5)%
Total Nuclear Generation	182,843	176,799	6,044	3.4%	175,474	1,325	0.8%
Fossil and Renewables							
Mid-Atlantic	2,789	2,731	58	2.1%	2,774	(43)	(1.6)%
Midwest	1,482	1,488	(6)	(0.4)%	1,547	(59)	(3.8)%
New England	7,179	6,968	211	3.0%	2,983	3,985	133.6%
New York	3	3	—	—%	3	—	—%
ERCOT	12,072	6,785	5,287	77.9%	5,763	1,022	17.7%
Other Power Regions	6,869	8,179	(1,310)	(16.0)%	7,848	331	4.2%
Total Fossil and Renewables	30,394	26,154	4,240	16.2%	20,918	5,236	25.0%
Purchased Power							
Mid-Atlantic	9,801	16,874	(7,073)	(41.9)%	8,160	8,714	106.8%
Midwest	1,373	2,255	(882)	(39.1)%	2,325	(70)	(3.0)%
New England	18,517	16,632	1,885	11.3%	24,309	(7,677)	(31.6)%
New York	28	—	28	—%	—	—	—%
ERCOT	7,346	10,637	(3,291)	(30.9)%	10,070	567	5.6%
Other Power Regions	14,530	13,589	941	6.9%	18,773	(5,184)	(27.6)%
Total Purchased Power	51,595	59,987	(8,392)	(14.0)%	63,637	(3,650)	(5.7)%
Total Supply/Sales by Region							
Mid-Atlantic[b]	77,056	83,052	(5,996)	(7.2)%	74,217	8,835	11.9%
Midwest[b]	96,199	98,411	(2,212)	(2.2)%	97,294	1,117	1.1%
New England	25,696	23,600	2,096	8.9%	27,292	(3,692)	(13.5)%
New York	25,064	18,687	6,377	34.1%	18,772	(85)	(0.5)%
ERCOT	19,418	17,422	1,996	11.5%	15,833	1,589	10.0%
Other Power Regions	21,399	21,768	(369)	(1.7)%	26,621	(4,853)	(18.2)%
Total Supply/Sales by Region	264,832	262,940	1,892	0.7%	260,029	2,911	1.1%

[a] Includes the proportionate share of output where Generation has an undivided ownership interest in jointly-owned generating plants and includes the total output of plants that are fully consolidated (e.g. CENG).

[b] Includes affiliate sales to PECO and BGE in the Mid-Atlantic region and affiliate sales to ComEd in the Midwest region. As a result of the PHI Merger, includes affiliate sales to Pepco, DPL and ACE in the Mid-Atlantic region beginning on March 24, 2016.

[c] Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Mid-Atlantic

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $103 million decrease in revenues net of purchased power and fuel expense in the Mid-Atlantic primarily reflects lower load volumes, lower realized energy prices and decreased capacity prices, partially offset by the absence of oil inventory write-downs in 2017 and decreased nuclear outage days.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $254 million decrease in revenues net of purchased power and fuel expense in the Mid-Atlantic was primarily due to lower realized energy prices, decreased capacity prices and higher oil inventory write-downs in 2016, partially offset by increased load volumes served.

Midwest

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $151 million decrease in revenues net of purchased power and fuel expense in the Midwest primarily reflects lower realized energy prices and increased nuclear outage days, partially offset by decreased fuel prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $79 million increase in revenues net of purchased power and fuel expense in the Midwest was primarily due to decreased nuclear outage days and decreased nuclear fuel prices.

New England

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $76 million increase in revenues net of purchased power and fuel expense in New England was driven by increased capacity prices, partially offset by lower realized energy prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $23 million decrease in revenues net of purchased power and fuel expense in New England was primarily due to lower realized energy prices and higher oil inventory write-downs in 2016, partially offset by increased capacity prices.

New York

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $234 million increase in revenues net of purchased power and fuel expense in New York was primarily due to the impact of the New York CES and the acquisition of Fitzpatrick, partially offset by the conclusion of the Ginna Reliability Support Service Agreement and lower realized energy prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $108 million increase in revenues net of purchased power and fuel expense in New York was primarily due to the impact of the Ginna Reliability Support Service Agreement, partially offset by lower realized energy prices.

ERCOT

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $51 million increase in revenues net of purchased power and fuel expense in ERCOT was primarily due to the addition of two combined-cycle gas turbines in Texas, partially offset by lower realized energy prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $12 million decrease in revenues net of purchased power and fuel expense in ERCOT was primarily due to lower realized energy prices, partially offset by increased output from renewable assets.

Other Power Regions

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $31 million decrease in revenues net of purchased power and fuel expense in Other Power Regions was primarily due to lower realized energy prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $86 million increase in revenues net of purchased power and fuel expense in Other Power Regions was primarily due to higher realized energy prices.

Proprietary Trading

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $3 million increase in revenues net of purchased power and fuel expense in Proprietary trading was primarily due to congestion activity.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $14 million increase in revenues net of purchased power and fuel expense in Proprietary trading was primarily due to congestion activity.

Mark-to-market

Generation is exposed to market risks associated with changes in commodity prices and executes economic hedges to mitigate exposure to these fluctuations. See Note 11 — Fair Value of Financial Assets and Liabilities and Note 12 — Derivative Financial Instruments of the Combined Notes to the Consolidated Financial Statements for information on gains and losses associated with mark-to-market derivatives.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Mark-to-market losses on economic hedging activities were $175 million in 2017 compared to losses of $41 million in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Mark-to-market losses on economic hedging activities were $41 million in 2016 compared to gains of $257 million in 2015.

Other

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $90 million decrease in other revenue net of purchased power and fuel was primarily due to the impacts of declining natural gas prices on Generation's natural gas portfolio and the decline in revenues related to the distributed generation business, partially offset by a decrease in accelerated nuclear fuel amortization associated with announced early plant retirements as discussed in Note 8 — Early Nuclear Plant Retirements of the Combined Notes to the Financial Statements.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $107 million increase in other revenue net of purchased power and fuel was primarily due to revenue related to the inclusion of Pepco Energy Services results in 2016 and revenue related to energy efficiency projects, partially offset by the amortization of energy contracts recorded at fair value associated with prior acquisitions, and accelerated nuclear fuel amortization associated with the initial early retirement decision for Clinton and Quad Cities as discussed in Note 8 — Early Nuclear Plant Retirements of the Combined Notes to the Financial Statements.

Nuclear Fleet Capacity Factor

The following table presents nuclear fleet operating data for 2017, as compared to 2016 and 2015, for the Generation-operated plants. The nuclear fleet capacity factor presented in the table is defined as the ratio of the actual output of a plant over a period of time to its output if the plant had operated at full average annual mean capacity for that time period. Generation considers capacity factor to be a useful measure to analyze the nuclear fleet performance between periods. Generation has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, these measures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or be more useful than the GAAP information provided elsewhere in this report.

	2017	2016	2015
Nuclear fleet capacity factor[a]	94.1%	94.6%	93.7%
Refueling outage days[a]	293	245	290
Non-refueling outage days[a]	53	63	82

[a] Excludes Salem, which is operated by PSEG Nuclear, LLC. Reflects ownership percentage of stations operated by Exelon. Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The nuclear fleet capacity factor, which excludes Salem, decreased in 2017 compared to 2016 primarily due to increased refueling outage days, partially offset by fewer non-refueling outage days.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The nuclear fleet capacity factor, which excludes Salem, increased in 2016 compared to 2015 primarily due to fewer refueling and non-refueling outage days.

Operating and Maintenance Expense

The changes in operating and maintenance expense for 2017 compared to 2016, consisted of the following:

	(Decrease) Increase[a]
Impairment and related charges of certain generating assets[b]	$307
Merger and integration costs	13
ARO update[c]	84
Pension and non-pension postretirement benefits expense	10
Corporate allocations	23
Plant retirements and divestitures[d]	127
Accretion expense[e]	35
Nuclear refueling outage costs, including the co-owned Salem plant[f]	104
Merger commitments[g]	(53)
Labor, other benefits, contracting and materials[h]	52
Cost management program	(2)
Curtailment of Generation growth and development activities[j]	(24)
Vacation policy change[i]	(40)
Allowance for uncollectible accounts	33
Change in Environmental Remediation Liabilities	44
Other	(63)
Increase in operating and maintenance expense	$650

[a] The 2017 financial results include Generation's acquisition of the FitzPatrick nuclear generating station from March 31, 2017.

[b] Primarily reflects charges to earnings related to impairments as a result of the EGTP assets in 2017 and impairment of Upstream assets and certain wind projects in 2016.

[c] Primarily reflects the non-cash benefit pursuant to the annual update of the Generation nuclear decommissioning obligation related to the non-regulatory units in 2017 compared to 2016.

(d) Primarily represents the announcement of the early retirement of Generation's TMI nuclear facility in 2017 compared to the previous decision to early retire Generation's Clinton and Quad Cities nuclear facilities in 2016.

(e) Reflects the impact of increased accretion expenses primarily due to the acquisition of FitzPatrick on March 31, 2017.

(f) Primarily reflects an increase in the number of nuclear outage days during 2017 compared to 2016.

(g) Primarily represents costs incurred as part of the settlement orders approving the PHI acquisition during 2016.

(h) Reflects increased salaries, wages and contracting costs primarily related to the acquisition of the FitzPatrick nuclear facility beginning on March 31, 2017.

(i) Represents the reversal of previously accrued vacation expenses as a result of a change in Exelon's vacation vesting policy.

(j) Reflects the one-time recognition for a loss on sale of assets and asset impairment charges pursuant to Generation's strategic decision in the fourth quarter of 2016 to narrow the scope and scale of its growth and development activities.

The changes in operating and maintenance expense for 2016 compared to 2015, consisted of the following:

	Increase (Decrease)
Impairment and related charges of certain generating assets (a)	$161
Merger and integration costs	27
Midwest Generation bankruptcy charges	10
ARO update(b)	(79)
Pension and non-pension postretirement benefits expense(c)	(42)
Corporate allocations(d)	(12)
Plant retirements and divestitures(e)	(50)
Accretion expense	(21)
Nuclear refueling outage costs, including the co-owned Salem plant(f)	(61)
Merger commitments	53
Labor, other benefits, contracting and materials(g)	185
Cost management program(h)	43
Curtailment of Generation growth and development activities(i)	24
Other	95
Increase in operating and maintenance expense	$333

(a) Reflects increased impairments in 2016 compared to 2015, primarily related to the impairments of certain Upstream assets and wind generating assets in 2016.

(b) Reflects a non-cash benefit pursuant to the annual update of the Generation nuclear decommissioning obligation related to the non-regulatory units.

(c) Reflects the favorable impact of higher pension and OPEB discount rates.

(d) Reflects a decreased share of corporate allocated costs.

(e) Reflects the impact of the Generation's previous decision to early retire the Clinton and Quad Cities nuclear facilities.

(f) Reflects the favorable impacts of decreased nuclear outages in 2016.

(g) Reflects an increase of labor, other benefits, contracting and materials costs primarily due to increased contracting costs related to energy efficiency projects and the inclusion of Pepco Energy Services results in 2016. Also includes cost of sales of our other business activities that are not allocated to a region.

(h) Represents the 2016 severance expense and reorganization costs related to a cost management program.

(i) Reflects the one-time recognition for asset impairment charges pursuant to Generation's strategic decision in the fourth quarter of 2016 to narrow the scope and scale of its growth and development activities.

Depreciation and Amortization

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Depreciation and amortization expense decreased primarily due to accelerated depreciation and increased nuclear decommissioning amortization related to the previous decision to early retire the Clinton and Quad Cities nuclear facilities in 2016 compared to the decision to early retire the Three Mile Island nuclear facility in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Depreciation and amortization expense increased primarily due to accelerated depreciation and increased nuclear decommissioning amortization related to the previous decision to early retire the Clinton and Quad Cities nuclear facilities in 2016, and increased depreciation expense due to ongoing capital expenditures.

Taxes Other Than Income

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in taxes other than income was primarily due to increased real estate taxes and sales and use taxes.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The increase in taxes other than income was primarily due to an increase in gross receipts tax.

Gain (Loss) on Sales of Assets

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in gain (loss) on sales of assets is primarily due to certain Generation projects and contracts being terminated or renegotiated in 2016, partially offset by a gain associated with Generation's sale of the retired New Boston generating site in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The decrease in gain (loss) on sales of assets is primarily related to the one-time recognition for a loss on sale of assets pursuant to Generation's strategic decision in the fourth quarter of 2016 to narrow the scope and scale of its growth and development activities, partially offset by a gain associated with Generation's sale of the retired New Boston generating site in 2016.

Bargain Purchase Gain

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in the Bargain purchase gain is related to the result of the gain associated with the FitzPatrick acquisition. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information.

Gain on Deconsolidation of Business

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in the Gain on deconsolidation of business is related to the deconsolidation of EGTP's net liabilities, which included the previously impaired assets and related debt, as a result of the November 2017 bankruptcy filing. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information.

Interest Expense

The changes in interest expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Interest expense on long-term debt	$ —	$ 8
Interest expense on interest rate swaps	(2)	1
Interest expense on tax settlements	12	16
Other interest expense	66	(26)
(Decrease) increase in interest expense, net	$76	$ (1)

Other, Net

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in Other, net primarily reflects the net increase in realized and unrealized gains related to the NDT fund investments of Generation's Non-Regulatory Agreement Units as described in the table below. Other, net also reflects $209 million and $80 million for the years ended December 31, 2017 and 2016, respectively, related to the contractual elimination of income tax expense associated with the NDT fund investments of the Regulatory Agreement Units. Refer to Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding NDT fund investments.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The increase in Other, net primarily reflects the net increase in realized and unrealized gains related to the NDT fund investments of Generation's Non-Regulatory Agreement Units as described in the table below. Other, net also reflects $80 million and $(22) million for the years ended December 31, 2016 and 2015, respectively, related to the contractual elimination of income tax expense associated with the NDT fund investments of the Regulatory Agreement Units. Refer to Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding NDT fund investments.

The following table provides unrealized and realized gains (losses) on the NDT funds of the Non-Regulatory Agreement Units recognized in Other, net for 2017, 2016 and 2015:

	2017	2016	2015
Net unrealized gains (losses) on decommissioning trust funds	$521	$194	$(197)
Net realized gains on sale of decommissioning trust funds	95	35	66

Effective Income Tax Rate

Generation's effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were (96.2)%, 33.2% and 27.1%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Results of Operations—ComEd

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$5,536	$5,254	$ 282	$ 4,905	$ 349
Purchased power expense	1,641	1,458	(183)	1,319	(139)
Revenues net of purchased power expense[(a)(b)]	3,895	3,796	99	3,586	210
Other operating expenses					
Operating and maintenance	1,427	1,530	103	1,567	37
Depreciation and amortization	850	775	(75)	707	(68)
Taxes other than income	296	293	(3)	296	3
Total other operating expenses	2,573	2,598	25	2,570	(28)
Gain on sales of assets	1	7	(6)	1	6
Operating income	1,323	1,205	118	1,017	188
Other income and (deductions)					
Interest expense, net	(361)	(461)	100	(332)	(129)
Other, net	22	(65)	87	21	(86)
Total other income and (deductions)	(339)	(526)	187	(311)	(215)
Income before income taxes	984	679	305	706	(27)
Income taxes	417	301	(116)	280	(21)
Net income	$ 567	$ 378	$ 189	$ 426	$ (48)

[(a)] ComEd evaluates its operating performance using the measure of Revenue net of purchased power expense. ComEd believes that Revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. In general, ComEd only earns margin based on the delivery and transmission of electricity. ComEd has included its discussion of Revenue net of purchased power expense below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

[(b)] For regulatory recovery mechanisms, including ComEd's electric distribution and transmission formula rates, and riders, revenues increase and decrease i) as fully recoverable costs fluctuate (with no impact on net earnings), and ii) pursuant to changes in rate base, capital structure and ROE (which impact net earnings).

Net Income

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. ComEd's Net income for the year ended December 31, 2017 was higher than the same period in 2016 primarily due to the recognition of the penalty and the after-tax interest due on the asserted penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in 2016 and increased electric distribution and transmission formula rate earnings (reflecting the impacts of increased capital investment and higher allowed electric distribution ROE). The higher Net income was partially offset by the impact of weather conditions in 2016. See Revenue Decoupling discussion below for additional information on the impact of weather.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. ComEd's Net income for the year ended December 31, 2016 was lower than the same period in 2015 primarily due to the recognition of the penalty and the after-tax interest due on the asserted penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position, partially offset by increased electric distribution and transmission formula rate earnings (reflecting the impacts of increased capital investment, partially offset by lower allowed electric distribution ROE) and favorable weather.

Revenues Net of Purchased Power Expense

There are certain drivers of Operating revenues that are fully offset by their impact on Purchased power expense, such as commodity, REC and ZEC procurement costs and participation in customer choice programs. ComEd is permitted to recover electricity, REC and ZEC procurement costs from retail customers without mark-up. Therefore, fluctuations in these costs have no impact on Revenue net of purchased power expense. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on ComEd's electricity procurement process.

All ComEd customers have the choice to purchase electricity from a competitive electric generation supplier. Customer choice programs do not impact ComEd's volume of deliveries, but do affect ComEd's Operating revenues related to supplied energy, which is fully offset in Purchased power expense. Therefore, customer choice programs have no impact on Revenue net of purchased power expense.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the years ended December 31, 2017, 2016 and 2015, consisted of the following:

	For the Years Ended December 31,		
	2017	2016	2015
Electric	70%	72%	76%

Retail customers purchasing electric generation from competitive electric generation suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	1,371,700	34%	1,502,900	38%	1,655,400	42%

The changes in ComEd's Revenue net of purchased power expense for the year ended December 31, 2017, compared to the same period in 2016, and for the year ended December 31, 2016, compared to the same period in 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Weather[(a)]	$ (36)	$ 54
Volume[(a)]	(5)	(2)
Pricing and customer mix[(a)]	(18)	14
Electric distribution revenue	170	69
Transmission revenue	60	97
Energy efficiency revenue[(b)]	16	—
Regulatory required programs[(b)]	(85)	(31)
Uncollectible accounts recovery, net	(7)	(13)
Other	4	22
Total increase	$ 99	$210

(a) For the year ended December 31, 2017, compared to the same period in 2016, the changes reflect the 2016 impacts of weather, volume and pricing and customer mix. As further described below, pursuant to the revenue decoupling provision in FEJA, ComEd began recording an adjustment to revenue in the first quarter of 2017 to eliminate the favorable or unfavorable impacts associated with variations in delivery volumes associated with above or below normal weather, number of customers or usage per customer.

(b) Beginning on June 1, 2017, ComEd is deferring energy efficiency costs as a regulatory asset that will be recovered through the energy efficiency formula rate over the weighted average useful life of the related energy efficiency measures.

Revenue Decoupling. The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased customer usage. Conversely, mild weather reduces demand.

Under EIMA, ComEd's electric distribution formula rate provided for an adjustment to future billings if its earned ROE fell outside a 50-basis-point collar of its allowed ROE, which partially eliminated the impacts of weather and load on ComEd's revenue. As allowed under FEJA, ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to Operating revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began recognizing the impacts of this change beginning in the first quarter of 2017. For the year ended December 31, 2017, ComEd recorded an increase to Electric distribution revenues of approximately $32 million to eliminate weather and load impacts.

For the year ended December 31, 2016, favorable weather conditions increased Operating revenues net of purchased power expense when compared to the prior year.

For the year ended December 31, 2016, the increase in Revenue net of purchased power as a result of pricing and customer mix is primarily attributable to higher overall effective rates due to decreased usage across all major customer classes and change in customer mix.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in ComEd's service territory with cooling degree days generally having a more significant impact to ComEd, particularly during the summer months. The changes in heating and cooling degree days in ComEd's service territory for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	5,435	5,715	6,198	(4.9)%	(12.3)%
Cooling Degree-Days	991	1,157	893	(14.3)%	11.0%

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	5,715	6,091	6,198	(6.2)%	(7.8)%
Cooling Degree-Days	1,157	806	893	43.5%	29.6%

Electric Distribution Revenue. EIMA and FEJA provide for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Electric distribution revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered and allowed ROE. ComEd's allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. In addition, ComEd's allowed ROE is subject to reduction if ComEd does not deliver the reliability and customer service benefits to which it has committed over the ten-year life of the investment program. During the year ended December 31, 2017, electric distribution revenue increased $170 million, primarily due to increased capital investment, increased Depreciation expense, higher allowed ROE due to an increase in treasury rates and revenue decoupling impacts (as described above). During the year ended December 31, 2016, electric distribution revenue increased $69 million, primarily due to increased capital investment and Depreciation expense, partially offset by lower allowed ROE due to a decrease in treasury rates. See Operating and Maintenance Expense below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Transmission Revenue. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and the highest daily peak load, which is updated annually in January based on the prior calendar year. Generally, increases/decreases in the highest daily peak load will result in higher/lower transmission revenue. For the years ended December 31, 2017 and 2016, ComEd recorded increased transmission revenue due to increased capital investment, higher Depreciation expense and increased highest daily peak load. See Operating and Maintenance Expense below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Energy Efficiency Revenue. Beginning June 1, 2017, FEJA provides for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Under FEJA, energy efficiency revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered, and allowed ROE. ComEd's allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. Beginning January 1, 2018, ComEd's allowed ROE is subject to a maximum downward or upward adjustment of 200 basis points if ComEd's cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. See Depreciation and amortization expense discussions below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in Operating revenues collected under approved rate riders to recover costs incurred for regulatory programs such as ComEd's purchased power administrative costs and energy efficiency and demand response through June 1, 2017 pursuant to FEJA. The riders are designed to provide full and current cost recovery. An equal and offsetting amount has been included in Operating and maintenance expense. See Operating and maintenance expense discussion below for additional information on included programs.

Uncollectible Accounts Recovery, Net. Uncollectible accounts recovery, net, represents recoveries under ComEd's uncollectible accounts tariff. See Operating and maintenance expense discussion below for additional information on this tariff.

Other. Other revenue, which can vary period to period, includes rental revenue, revenue related to late payment charges, assistance provided to other utilities through mutual assistance programs, recoveries of environmental costs associated with MGP sites, and recoveries of energy procurement costs.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016	2017 vs. 2016	2016	2015	2016 vs. 2015
Operating and maintenance expense—baseline	$1,329	$1,347	$ (18)	$1,347	$1,353	$ (6)
Operating and maintenance expense—regulatory required programs(a)	98	183	(85)	183	214	(31)
Total operating and maintenance expense	$1,427	$1,530	$(103)	$1,530	$1,567	$(37)

(a) Operating and maintenance expense for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for year ended December 31, 2017, compared to the same period in 2016, and for the year ended December 31, 2016, compared to the same period in 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ (41)	$ 12
Pension and non-pension postretirement benefits expense(a)	3	(24)
Storm-related costs	2	(9)
Uncollectible accounts expense—provision(b)	(6)	5
Uncollectible accounts expense—recovery, net(b)	(1)	(18)
BSC costs(c)	44	29
Other	(19)	(1)
	(18)	(6)
Regulatory required programs		
Energy efficiency and demand response programs(d)	(85)	(31)
Decrease in operating and maintenance expense	$(103)	$(37)

(a) Primarily reflects the favorable impact of higher assumed pension and OPEB discount rates for the year ended December 31, 2016.

(b) ComEd is allowed to recover from or refund to customers the difference between the utility's annual uncollectible accounts expense and the amounts collected in rates annually through a rider mechanism. ComEd recorded a net decrease in 2017 and 2016 in Operating and maintenance expense related to uncollectible accounts due to the timing of regulatory cost recovery. An equal and offsetting amount has been recognized in Operating revenues for the periods presented.

(c) Primarily reflects increased information technology support services from BSC in 2017 and 2016. For the year ended December 31, 2017, includes the $8 million write-off of a regulatory asset related to Constellation merger and integration costs for which recovery is no longer expected.

(d) Beginning on June 1, 2017 ComEd is deferring energy efficiency costs as a regulatory asset that will be recovered through the energy efficiency over the weighted average useful life of the related energy efficiency measures.

Depreciation and Amortization Expense

The increases in Depreciation and amortization expense for 2017 compared to 2016, and 2016 compared to 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[a]	$60	$58
Regulatory asset amortization[b]	7	(5)
Other	8	15
Total increase	$75	$68

[a] Primarily reflects ongoing capital expenditures for the years ended December 31, 2017 and 2016.

[b] Beginning in June 2017, includes amortization of ComEd's energy efficiency formula rate regulatory asset.

Taxes Other Than Income

Taxes other than income, which can vary year to year, include municipal and state utility taxes, real estate taxes, and payroll taxes. Taxes other than income taxes remained relatively consistent for the year ended December 31, 2017, compared to the same period in 2016, and for the year ended December 31, 2016, compared to the same period in 2015.

Gain on Sale of Assets

Gain on sale of assets decreased during the year ended December 31, 2017, compared to the same period in 2016, and increased during the year ended December 31, 2016, compared to the same period in 2015, primarily due to the sale of land during March 2016.

Interest Expense, Net

The increase (decrease) in Interest expense, net, for the year ended 2017, compared to the same period in 2016, and for the year ended 2016, compared to the same period in 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Interest expense related to uncertain tax positions[a]	$(104)	$ 109
Interest expense on debt (including financing trusts)[b]	6	24
Other	(2)	(4)
Increase (decrease) in interest expense, net	$(100)	$ 129

[a] Primarily reflects the recognition of after-tax interest related to the Tax Court's decision on Exelon's like-kind exchange tax position in the 2016. For the year ended December 31, 2017, the decrease was partially offset by additional interest recorded in 2017 related to Exelon's like-kind exchange tax position. See Note 14—Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information.

[b] Primarily reflects an increase in interest expense due to the issuance of First Mortgage Bonds for the years ended December 31, 2016. See Note 13—Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information on ComEd's debt obligations.

Other, Net

The increase (decrease) in Other, net, for the year ended 2017 compared to the same period in 2016, and for the year ended 2016 compared to the same period in 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Other income and deductions, net[a]	$88	$(94)
AFUDC equity	(2)	9
Other	1	(1)
Increase (decrease) in Other, net	$87	$(86)

[a] Primarily reflects the recognition of the penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in 2016. See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information.

Effective Income Tax Rate

ComEd's effective income tax rates for the years ended December 31, 2017, 2016 and 2015, were 42.4%, 44.3% and 39.7%, respectively. The decrease in the effective income tax rate for the year ended December 31, 2017 compared to the same period in 2016 is primarily due to the recognition of a non-deductible penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in the third quarter of 2016. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

ComEd Electric Operating Statistics and Revenue Detail

Retail Deliveries to customers (in GWhs)	**2017**	**2016**	**% Change 2017 vs. 2016**	**Weather-Normal % Change**	**2015**	**% Change 2016 vs. 2015**	**Weather-Normal % Change**
Retail Deliveries[a]							
Residential	26,292	27,790	(5.4)%	(0.9)%	26,496	4.9%	(0.6)%
Small commercial & industrial	31,332	31,975	(2.0)%	(0.7)%	31,717	0.8%	(0.3)%
Large commercial & industrial	27,467	27,842	(1.3)%	(0.5)%	27,210	2.3%	1.5%
Public authorities & electric railroads	1,286	1,298	(0.9)%	(0.3)%	1,309	(0.8)%	(0.8)%
Total retail deliveries	86,377	88,905	(2.8)%	(0.7)%	86,732	2.5%	0.2%

	As of December 31,		
Number of Electric Customers	**2017**	**2016**	**2015**
Residential	3,624,372	3,595,376	3,550,239
Small commercial & industrial	378,345	374,644	370,932
Large commercial & industrial	1,959	2,007	1,976
Public authorities & electric railroads	4,775	4,750	4,820
Total	4,009,451	3,976,777	3,927,967

Electric Revenue	**2017**	**2016**	**% Change 2017 vs. 2016**	**2015**	**% Change 2016 vs. 2015**
Retail Sales[a]					
Residential	$2,746	$2,597	5.7%	$2,360	10.0%
Small commercial & industrial	1,376	1,316	4.6%	1,337	(1.6)%
Large commercial & industrial	461	462	(0.2)%	443	4.3%
Public authorities & electric railroads	44	45	(2.2)%	42	7.1%
Total retail	4,627	4,420	4.7%	4,182	5.7%
Other revenue[b]	909	834	9.0%	723	15.4%
Total electric revenue[c]	$5,536	$5,254	5.4%	$4,905	7.1%

[a] Reflects delivery revenue and volume from customers purchasing electricity directly from ComEd and customers purchasing electricity from a competitive electric generation supplier, as all customers are assessed delivery charges. For customers purchasing electricity from ComEd, revenue also reflects the cost of energy and transmission.

[b] Other revenue primarily includes transmission revenue from PJM. Other revenue also includes rental revenue, revenue related to late payment charges, revenue from other utilities for mutual assistance programs and recoveries of remediation costs associated with MGP sites.

[c] Includes operating revenues from affiliates totaling $15 million, $15 million, and $4 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Results of Operations—PECO

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$ 2,870	$ 2,994	$(124)	$ 3,032	$ (38)
Purchased power and fuel expense	969	1,047	78	1,190	143
Revenues net of purchased power and fuel expense[(a)]	1,901	1,947	(46)	1,842	105
Other operating expenses					
Operating and maintenance	806	811	5	794	(17)
Depreciation and amortization	286	270	(16)	260	(10)
Taxes other than income	154	164	10	160	(4)
Total other operating expenses	1,246	1,245	(1)	1,214	(31)
Gain on sales of assets	—	—	—	2	(2)
Operating income	655	702	(47)	630	72
Other income and (deductions)					
Interest expense, net	(126)	(123)	(3)	(114)	(9)
Other, net	9	8	1	5	3
Total other income and (deductions)	(117)	(115)	(2)	(109)	(6)
Income before income taxes	538	587	(49)	521	66
Income taxes	104	149	45	143	(6)
Net income	$ 434	$ 438	$ (4)	$ 378	$ 60

[(a)] PECO evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. PECO believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. PECO has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenue net of purchased power expense and revenue net of fuel expense figures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. PECO's net income for the year ended December 31, 2017 was lower than the same period in 2016, primarily due to a decrease in Revenues net of purchased power and fuel expense as a result of unfavorable weather in PECO's service territory, partially offset by the one-time non-cash impacts associated with the Tax Cuts and Jobs Act in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. PECO's net income for the year ended December 31, 2016 was higher than the same period in 2015, primarily due to an increase in Revenues net of purchased power and fuel expense as a result of increased electric distribution revenue pursuant to the 2015 PAPUC authorized electric distribution rate increase effective January 1, 2016.

Revenues Net of Purchased Power and Fuel Expense

Electric and natural gas revenue and purchased power and fuel expense are affected by fluctuations in commodity procurement costs. PECO's electric supply and natural gas cost rates charged to customers are subject to adjustments as specified in the PAPUC-approved tariffs that are designed to recover or refund the difference between the actual cost of electric supply and natural gas and the amount included in rates in accordance with PECO's GSA and PGC, respectively. Therefore, fluctuations in electric supply and natural gas procurement costs have no impact on electric and natural gas revenues net of purchased power and fuel expense.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All PECO customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customer's choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service. Customer Choice Program activity has no impact on electric and natural gas revenue net of purchase power and fuel expense.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the years ended December 31, 2017, 2016, and 2015 consisted of the following:

	For the Years Ended December 31,		
	2017	2016	2015
Electric	71%	70%	70%
Natural Gas	26%	26%	25%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at December 31, 2017, 2016, and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	565,900	35%	587,200	36%	563,400	35%
Natural Gas	83,800	16%	81,300	16%	81,100	16%

The changes in PECO's Operating revenues net of purchased power and fuel expense for the years ended December 31, 2017 and December 31, 2016 compared to the same periods in 2016 and 2015, respectively, consisted of the following:

	2017 vs. 2016			2016 vs. 2015		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Weather	$(28)	$ 4	$(24)	$ 1	$(12)	$ (11)
Volume	(18)	3	(15)	6	4	10
Pricing	8	2	10	160	(1)	159
Regulatory required programs	(31)	—	(31)	(46)	—	(46)
Other	14	—	14	(7)	—	(7)
Total increase (decrease)	$(55)	$ 9	$(46)	$114	$ (9)	$105

Weather. The demand for electricity and natural gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. For the year ended December 31, 2017 compared to the same period in 2016, and the year ended December 31, 2016 compared to the same period in 2015 Operating revenues net of purchased power and fuel expense was reduced by the impact of unfavorable weather conditions in PECO's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in PECO's service territory. The changes in heating and cooling degree days in PECO's service territory for the years ended December 31, 2017 and December 31, 2016 compared to the same periods in 2016 and 2015, respectively, and normal weather consisted of the following:

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Heating Degree-Days	3,949	4,041	4,603	(2.3)%	(14.2)%
Cooling Degree-Days	1,490	1,726	1,290	(13.7)%	15.5%

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	2016	2015	Normal	2016 vs. 2015	2016 vs. Normal
Heating Degree-Days	4,041	4,245	4,603	(4.8)%	(12.2)%
Cooling Degree-Days	1,726	1,720	1,290	0.3%	33.8%

Volume. The decrease in Operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2017 compared to the same period in 2016, was driven by electric and primarily reflects the impact of energy efficiency initiatives on customer usages for residential and small commercial and industrial electric classes, partially offset by solid customer growth. Additionally, the decrease represents a shift in the volume profile across classes from residential and small commercial and industrial to large commercial and industrial.

The increase in Operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2016 compared to the same period in 2015, primarily reflects the impact of moderate economic and customer growth partially offset by energy efficiency initiatives on customer usages for gas and residential and small commercial and industrial electric classes. Additionally, the increase represents a shift in the volume profile across classes from large commercial and industrial classes to residential and small commercial and industrial classes for electric.

Pricing. The increase in Operating revenues net of purchased power expense as a result of pricing for the year ended December 31, 2017 compared to the same period in 2016 reflects higher overall effective rates due to decreased usage in the residential and small commercial and industrial customer classes. Operating revenues net of fuel expense as a result of pricing remained relatively consistent.

The increase in Operating revenues net of purchased power and fuel expense as a result of pricing for the year ended December 31, 2016 compared to the same period in 2015 reflects an increase in electric distribution rates charged to customers. The increase in electric distribution rates was effective January 1, 2016 in accordance with the 2015 PAPUC approved electric distribution rate case settlement. See Note 3 — Regulatory Matters for further information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as smart meter, energy efficiency and the GSA. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Income taxes. Refer to the Operating and maintenance expense discussion below for additional information on included programs.

Other. Other revenue, which can vary period to period, primarily includes wholesale transmission revenue, rental revenue, revenue related to late payment charges and assistance provided to other utilities through mutual assistance programs.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016	2017 vs. 2016	2016	2015	2016 vs. 2015
Operating and maintenance expense—baseline	$746	$740	$ 6	$740	$685	$ 55
Operating and maintenance expense—regulatory required programs(a)	60	71	(11)	71	109	(38)
Total operating and maintenance expense	$806	$811	$ (5)	$811	$794	$ 17

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ 17	$ 22
Storm-related costs	(7)	(9)
Pension and non-pension postretirement benefits expense	(3)	(4)
PHI merger integration costs	—	6
BSC costs	4	36[a]
Uncollectible accounts expense	(5)	1
Other	—	3
	6	55
Regulatory required programs		
Smart meter	—	(28)
Energy efficiency	(10)	(7)
GSA	—	(2)
Other	(1)	(1)
	(11)	(38)
Increase (decrease) in operating and maintenance expense	$ (5)	$ 17

[a] Primarily reflects increased information technology support services from BSC during 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for 2017 compared to 2016 and 2016 compared to 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense	$17	$ 5
Regulatory asset amortization	(1)	5
Increase in depreciation and amortization expense	$16	$10

Taxes Other Than Income

Taxes other than income, which can vary year to year, include municipal and state utility taxes, real estate taxes, and payroll taxes. Taxes other than income decreased for the year ended December 31, 2017, compared to the same period in 2016, primarily due to a decrease in gross receipts tax driven by decreases in electric revenue.

Taxes other than income increased for the year ended December 31, 2016, compared to the same period in 2015, primarily due to an increase in gross receipts tax driven by increases in electric revenue, which was impacted primarily by the new distribution rates that went into effect in January 2016.

Interest Expense, Net

The increase in Interest expense, net for the year ended December 31, 2017, compared to the same period in 2016, primarily reflects an increase in interest expense due to the issuance of First and Refunding Mortgage Bonds in September 2017.

The increase in Interest expense, net for the year ended December 31, 2016, compared to the same period in 2015, primarily reflects an increase in interest expense due to the issuance of First and Refunding Mortgage Bonds in October 2015.

Other, Net

Other, net remained relatively consistent for the year ended December 31, 2017, compared to the same period in 2016, and the year ended December 31, 2016, compared to the same period in 2015.

Effective Income Tax Rate

PECO's effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were 19.3%, 25.4% and 27.4%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for further discussion of the change in effective income tax rates.

PECO ELECTRIC OPERATING STATISTICS AND REVENUE DETAIL

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather-Normal %Change	2015	% Change 2016 vs. 2015	Weather-Normal %Change
Retail Deliveries[a]							
Residential	13,024	13,664	(4.7)%	(1.8)%	13,630	0.2%	0.4%
Small commercial & industrial	7,968	8,099	(1.6)%	(1.1)%	8,118	(0.2)%	0.5%
Large commercial & industrial	15,426	15,263	1.1%	1.4%	15,365	(0.7)%	(1.4)%
Public authorities & electric railroads	809	890	(9.1)%	(9.1)%	881	1.0%	1.0%
Total electric retail deliveries	37,227	37,916	(1.8)%	(0.5)%	37,994	(0.2)%	(0.3)%

	As of December 31,		
Number of Electric Customers	**2017**	**2016**	**2015**
Residential	1,469,916	1,456,585	1,444,338
Small commercial & industrial	151,552	150,142	149,200
Large commercial & industrial	3,112	3,096	3,091
Public authorities & electric railroads	9,569	9,823	9,805
Total	1,634,149	1,619,646	1,606,434

Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[a]					
Residential	$1,505	$1,631	(7.7)%	$1,599	2.0%
Small commercial & industrial	401	430	(6.7)%	428	0.5%
Large commercial & industrial	223	234	(4.7)%	221	5.9%
Public authorities & electric railroads	30	32	(6.3)%	31	3.2%
Total retail	2,159	2,327	(7.2)%	2,279	2.1%
Other revenue[b]	216	204	5.9%	207	(1.4)%
Total electric operating revenues[c]	$2,375	$2,531	(6.2)%	$2,486	1.8%

[a] Reflects delivery volumes and revenue from customers purchasing electricity directly from PECO and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from PECO, revenue also reflects the cost of energy and transmission.

[b] Other revenue includes transmission revenue from PJM and wholesale electric revenue.

[c] Total electric revenue includes operating revenues from affiliates totaling $6 million, $7 million and $1 million for the years ended December 31, 2017, 2016, and 2015, respectively.

PECO GAS OPERATING STATISTICS AND REVENUE DETAIL

Deliveries to customers (in mmcf)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries(a)							
Retail sales	58,457	56,447	3.6%	1.2%	59,003	(4.3)%	1.5%
Transportation and other	26,382	27,630	(4.5)%	(2.3)%	27,879	(0.9)%	(0.1)%
Total natural gas deliveries	84,839	84,077	0.9%	0.1%	86,882	(3.2)%	1.0%

	As of December 31,		
Number of Gas Customers	**2017**	**2016**	**2015**
Residential	477,213	472,606	467,263
Commercial & industrial	43,892	43,668	43,160
Total retail	521,105	516,274	510,423
Transportation	771	790	827
Total	521,876	517,064	511,250

Gas revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales(a)					
Retail sales	$462	$430	7.4%	$511	(15.9)%
Transportation and other	33	33	—%	35	(5.7)%
Total natural gas operating revenues(b)	$495	$463	6.9%	$546	(15.2)%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from PECO and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from PECO, revenue also reflects the cost of natural gas.

(b) Total natural gas revenue includes operating revenues from affiliates totaling $1 million for the years ended December 31, 2017, 2016 and 2015.

Results of Operations—BGE

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$3,176	$3,233	$ (57)	$3,135	$ 98
Purchased power and fuel expense	1,133	1,294	161	1,305	11
Revenues net of purchased power and fuel expense(a)	2,043	1,939	104	1,830	109
Other operating expenses					
Operating and maintenance	716	737	21	683	(54)
Depreciation and amortization	473	423	(50)	366	(57)
Taxes other than income	240	229	(11)	224	(5)
Total other operating expenses	1,429	1,389	(40)	1,273	(116)
Gain on sales of assets	—	—	—	1	(1)
Operating income	614	550	64	558	(8)
Other income and (deductions)					
Interest expense, net	(105)	(103)	(2)	(99)	(4)
Other, net	16	21	(5)	18	3
Total other income and (deductions)	(89)	(82)	(7)	(81)	(1)
Income before income taxes	525	468	57	477	(9)
Income taxes	218	174	(44)	189	15
Net income	307	294	13	288	6
Preference stock dividends	—	8	8	13	5
Net income attributable to common shareholder	$ 307	$ 286	$ 21	$ 275	$ 11

(a) BGE evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. BGE believes revenues net of purchased power and fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. BGE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenues net of purchased power and fuel expense figures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Common Shareholder

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Net income attributable to common shareholder was higher primarily due to an increase in Revenues net of purchased power and fuel expense and lower Operating and maintenance expense, partially offset by higher Depreciation and amortization expense and higher income tax expense. The increase in Revenues net of purchased power and fuel expense was primarily due to the impacts of the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016 and an increase in transmission formula rate revenues. The lower Operating and maintenance expense was primarily due to the absence of cost disallowances resulting from the 2016 distribution rate orders issued by the MDPSC and decreased storm costs in 2017 partially offset by the favorable 2016 settlement of the Baltimore City conduit fee dispute. These items were partially offset by an increase in Depreciation and amortization expense primarily related to the initiation of cost recovery of the AMI programs under the distribution rate orders and the impacts of increased capital investment and higher income tax expense primarily resulting from higher taxable income as well as a 2016 favorable adjustment and 2017 impairment of certain transmission-related income tax regulatory assets.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Net income attributable to common shareholder was higher primarily due to lower income tax expense and decreased preference stock dividends partially offset by slightly lower operating income. The lower income tax expense was driven by a one-time adjustment associated with transmission-related regulatory assets. The slight decrease in operating income was driven by an increase in Operating and maintenance expense as a result of cost disallowances which reduced certain regulatory assets and other long-lived assets stemming from the distribution rate orders issued by the MDPSC in June 2016 and July 2016 and increased storm costs. This increase in Operating and maintenance expense was offset by an increase in Revenues net of purchased power and fuel expense, primarily as a result of an increase in transmission formula rate revenues and higher electric and natural gas revenues as a result of the distribution rate orders issued by the MDPSC in June 2016 and July 2016.

Revenues Net of Purchased Power and Fuel Expense

There are certain drivers to Operating revenues that are offset by their impact on Purchased power and fuel expense, such as commodity procurement costs and programs allowing customers to select a competitive electric or natural gas supplier. Operating revenues and Purchased power and fuel expense are affected by fluctuations in commodity procurement costs. BGE's electric and natural gas rates charged to customers are subject to periodic adjustments that are designed to recover or refund the difference between the actual cost of purchased electric power and purchased natural gas and the amount included in rates in accordance with the MDPSC's market-based SOS and gas commodity programs, respectively. Therefore, fluctuations in electric supply and natural gas procurement costs have no impact on Revenues net of purchased power and fuel expense.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in the number of customers electing to use a competitive supplier for electricity and/or natural gas. All BGE customers have the choice to purchase electricity and natural gas from competitive suppliers. The customers' choice of suppliers does not impact the volume of deliveries, but does affect revenue collected from customers related to supplied electricity and natural gas.

Retail deliveries purchased from competitive electricity and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

	For the Years Ended December 31,		
	2017	2016	2015
Electric	60%	59%	61%
Natural Gas	55%	57%	56%

The number of retail customers purchasing electricity and natural gas from competitive suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of Customers	% of total retail customers	Number of Customers	% of total retail customers	Number of Customers	% of total retail customers
Electric	341,000	27%	337,000	27%	343,000	27%
Natural Gas	151,000	22%	151,000	23%	154,000	23%

The changes in BGE's Operating revenues net of purchased power and fuel expense for the year ended December 31, 2017 compared to the same period in 2016 and for the year ended December 31, 2016 compared to the same period in 2015, respectively, consisted of the following:

	2017 vs. 2016			2016 vs. 2015		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Distribution rate increase	$21	$29	$ 50	$24	$22	$ 46
Regulatory required programs	17	3	20	10	(5)	5
Transmission revenue	18	—	18	30	—	30
Other, net	5	11	16	24	4	28
Total increase	$61	$43	$104	$88	$21	$109

Distribution Rate Increase. During the years ended December 31, 2017 and December 31, 2016, the increases in distribution revenues were primarily due to the impact of the electric and natural gas distribution rate changes that became effective in June 2016 in accordance with the electric and natural gas distribution rate case orders in June 2016 and July 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Revenue Decoupling. The demand for electricity and natural gas is affected by weather and usage conditions. The MDPSC allows BGE to record a monthly adjustment to its electric and natural gas distribution revenue from all residential customers, commercial electric customers, the majority of large industrial electric customers, and all firm service natural gas customers to eliminate the effect of abnormal weather and usage patterns per customer on BGE's electric and natural gas distribution volumes, thereby recovering a specified dollar amount of distribution revenue per customer, by customer class, regardless of fluctuations in actual consumption levels. This allows BGE to recognize revenue at MDPSC-approved distribution charges per customer, regardless of what BGE's actual distribution volumes were for a billing period. Therefore, while this revenue is affected by customer growth (i.e., increase in the number of customers), it will not be affected by volatility in actual weather or usage conditions (i.e., changes in consumption per customer). BGE bills or credits customers in subsequent months for the difference between approved revenue levels under revenue decoupling and actual customer billings.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in BGE's service territory. The changes in heating and cooling degree days in BGE's service territory for the year ended December 31, 2017 compared to the same period in 2016 and for the year ended December 31, 2016 compared to the same period in 2015, respectively, and normal weather consisted of the following:

	For the Year Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	4,190	4,427	4,666	(5.4)%	(10.2)%
Cooling Degree-Days	940	998	875	(5.8)%	7.4%

	For the Year Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	4,427	4,666	4,684	(5.1)%	(5.5)%
Cooling Degree-Days	998	924	876	8.0%	13.9%

Regulatory Required Programs. Revenue from regulatory required programs are billings for the costs of various legislative and/or regulatory programs that are recoverable from customers on a full and current basis. These programs are designed to provide full cost recovery, as well as a return in certain instances. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in BGE's Consolidated Statements of Operations and Comprehensive Income.

Transmission Revenue. Under a FERC approved formula, transmission revenue varies from year to year based upon rate adjustments to reflect fluctuations in the underlying costs, capital investments being recovered and other billing determinants. During the years ended December 31, 2017 and 2016, the increase in transmission revenue was primarily due to increases in capital investment and operating and maintenance expense recoveries. See Operating and Maintenance Expense below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Other, Net. Other net revenue, which can vary from period to period, primarily includes late payment fees and other miscellaneous revenue such as service application fees, assistance provided to other utilities through BGE's mutual assistance program and recoveries of electric supply and natural gas procurement costs.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016	2017 vs. 2016	2016	2015	2016 vs. 2015
Operating and maintenance expense—baseline	$672	$701	$(29)	$701	$636	$ 65
Operating and maintenance expense—regulatory required programs[a]	44	36	8	36	47	(11)
Total operating and maintenance expense	$716	$737	$(21)	$737	$683	$ 54

[a] Operating and maintenance expense for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the year ended December 31, 2017 compared to the same period in 2016 and the year ended December 31, 2016 compared to the same period in 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Impairment on long-lived assets and losses on regulatory assets[a]	$(50)	$ 52
Labor, other benefits, contracting and materials	(11)	7
Storm-related costs	(13)	18
Uncollectible accounts expense	7	(14)
BSC costs	16	11
Conduit lease settlement[b]	15	(15)
Other	7	6
	$(29)	$ 65
Regulatory Required Programs		
Other	8	(11)
	8	(11)
Total (decrease) increase	$(21)	$ 54

[a] See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

[b] See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information.

Depreciation and Amortization

The changes in Depreciation and amortization expense for the year ended December 31, 2017 compared to the same period in 2016 and December 31, 2016 compared to the same period in 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[a]	$13	$10
Regulatory asset amortization[b]	25	31
Regulatory required programs[c]	12	16
Increase in depreciation and amortization expense	$50	$57

[a] Depreciation expense increased due to ongoing capital expenditures.

[b] Regulatory asset amortization increased primarily due to an increase in regulatory asset amortization related to energy efficiency programs and the initiation of cost recovery of the AMI programs under the final electric and natural gas distribution rate case order issued by the MDPSC in June 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

[c] Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

Taxes Other Than Income

Taxes other than income, which can vary period to period, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income taxes increased for the year ended December 31, 2017 compared to the same period in 2016, and for the year ended December 31, 2016 compared to the same period in 2015, primarily due to an increase in property taxes.

Interest Expense, Net

Interest expense, net remained relatively consistent for the year ended December 31, 2017 compared to the same period in 2016, and for the year ended December 31, 2016 compared to the same period in 2015.

Other, Net

Other, net remained relatively consistent for the year ended December 31, 2017, compared to the same period in 2016, and the year ended December 31, 2016, compared to the same period in 2015.

Effective Income Tax Rate

BGE's effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were 41.5%, 37.2% and 39.6%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

BGE ELECTRIC OPERATING STATISTICS AND REVENUE DETAIL

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries[(a)]							
Residential	12,094	12,740	(5.1)%	(2.8)%	12,598	1.1%	(3.2)%
Small commercial & industrial	2,921	3,040	(3.9)%	(4.9)%	3,119	(2.5)%	2.7%
Large commercial & industrial	13,688	13,957	(1.9)%	(2.4)%	14,293	(2.4)%	(1.6)%
Public authorities & electric railroads	268	283	(5.3)%	(3.0)%	294	(3.7)%	(8.9)%
Total electric deliveries	28,971	30,020	(3.5)%	(2.8)%	30,304	(0.9)%	(1.9)%

	As of December 31,		
Number of Electric Customers	**2017**	**2016**	**2015**
Residential	1,160,783	1,150,096	1,137,934
Small commercial & industrial	113,594	113,230	113,138
Large commercial & industrial	12,155	12,053	11,906
Public authorities & electric railroads	272	280	285
Total	1,286,804	1,275,659	1,263,263

Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[a]					
Residential	$ 1,428	$1,554	(8.1)%	$ 1,449	7.2%
Small commercial & industrial	266	277	(4.0)%	273	1.5%
Large commercial & industrial	450	449	0.2%	469	(4.3)%
Public authorities & electric railroads	31	35	(11.4)%	32	9.4%
Total retail	2,175	2,315	(6.0)%	2,223	4.1%
Other revenue[b][c]	314	294	6.8%	267	10.1%
Total electric revenue	$ 2,489	$2,609	(4.6)%	$ 2,490	4.8%

[a] Reflects delivery volumes and revenue from customers purchasing electricity directly from BGE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from BGE, revenue also reflects the cost of energy and transmission.

[b] Other revenue primarily includes wholesale transmission revenue and late payment charges.

[c] Includes operating revenues from affiliates totaling $5 million, $7 million and less than $1 million for the years ended 2017, 2016 and 2015, respectively.

BGE NATURAL GAS OPERATING STATISTICS AND REVENUE DETAIL

Deliveries to customers (in mmcf)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries[a]							
Retail sales	89,337	96,808	(7.7)%	(4.2)%	96,618	0.2%	3.5%
Transportation and other[b]	3,615	5,977	(39.5)%	n/a	6,238	(4.2)%	n/a
Total natural gas deliveries	92,952	102,785	(9.6)%	(4.2)%	102,856	(0.1)%	3.5%

	As of December 31,		
Number of Gas Customers	**2017**	**2016**	**2015**
Residential	629,690	623,647	616,994
Commercial & industrial	44,247	44,255	44,119
Total	673,937	667,902	661,113

Natural Gas revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[a]					
Retail sales	$655	$593	10.5%	$607	(2.3)%
Transportation and other[b]	32	31	3.2%	38	(18.4)%
Total natural gas revenues[c]	$687	$624	10.1%	$645	(3.3)%

[a] Reflects delivery volumes and revenue from customers purchasing natural gas directly from BGE and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from BGE, revenue also reflects the cost of natural gas.

[b] Transportation and other natural gas revenue includes off-system revenue of 3,615 mmcfs ($21 million), 5,977 mmcfs ($23 million), and 6,238 mmcfs ($35 million) for the years ended 2017, 2016 and 2015, respectively.

[c] Includes operating revenues from affiliates totaling $11 million, $14 million, and $14 million for the years ended 2017, 2016 and 2015, respectively.

Results of Operations—PHI

PHI's results of operations include the results of its three reportable segments, Pepco, DPL and ACE for all periods presented below. For "Predecessor" reporting periods, PHI's results of operations also include the results of PES and PCI. See Note 25 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information regarding PHI's reportable segments. All material intercompany accounts and transactions have been eliminated in consolidation. A separate specific discussion of the results of operations for Pepco, DPL and ACE is presented elsewhere in this report.

As a result of the PHI Merger, the following consolidated financial results present two separate reporting periods for 2016. The "Predecessor" reporting periods represent PHI's results of operations for the period of January 1, 2016 to March 23, 2016 and the year ended December 31, 2015. The "Successor" reporting periods represents PHI's results of operations for the year ended December 31, 2017 and for the period of March 24, 2016 to December 31, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	Successor		Predecessor	
	For the Year Ended December 31, 2017	March 24 to December 31, 2016	January 1 to March 23, 2016	For the Year Ended December 31, 2015
Operating revenues	$4,679	$3,643	$1,153	$4,935
Purchased power and fuel	1,716	1,447	497	2,073
Revenues net of purchased power and fuel expense[(a)]	2,963	2,196	656	2,862
Other operating expenses				
Operating and maintenance	1,068	1,233	294	1,156
Depreciation and amortization	675	515	152	624
Taxes other than income	452	354	105	455
Total other operating expenses	2,195	2,102	551	2,235
Gain (loss) on sales of assets	1	(1)	—	46
Operating income	769	93	105	673
Other income and (deductions)				
Interest expense, net	(245)	(195)	(65)	(280)
Other, net	54	44	(4)	88
Total other income and (deductions)	(191)	(151)	(69)	(192)
Income (loss) before income taxes	578	(58)	36	481
Income taxes	217	3	17	163
Equity in earnings of unconsolidated affiliates	1	—	—	—
Net income (loss) from continuing operations	362	(61)	19	318
Net income from discontinued operations	—	—	—	9
Net income (loss) attributable to membership interest/ common shareholders	$ 362	$ (61)	$ 19	$ 327

(a) PHI evaluates its operating performance using the measure of revenue net of purchased power and fuel expense for electric and natural gas sales. PHI believes revenue net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. PHI has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Successor Year Ended December 31, 2017

PHI's Net income was $362 million for the year ended December 31, 2017. There were no significant changes in the underlying trends affecting PHI's results of operations during the Successor year except for the impact of increases in electric distribution and natural gas rates within Revenue net of purchased power expense (Pepco electric distribution rates effective November 2016 and October 2017 in Maryland, Pepco electric distribution rates effective August 2017 in the District of Columbia, DPL electric distribution rates effective February 2017 in Maryland, DPL electric distribution and natural gas rates effective July 2016 and December 2016 in Delaware, and ACE electric distribution rates effective August 2016 and October 2017 in New Jersey). Operating and maintenance expense incurred included the deferral of merger-related, rate case, and customer billing system costs to regulatory assets and lower uncollectible accounts expense, partially offset by a pre-tax impairment charge of $25 million. Income taxes expense incurred included unrecognized tax benefits of $59 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017, and was offset by a $27 million December 2017 impairment of certain transmission-related income tax regulatory assets and the onetime non-cash impacts of $35 million associated with the Tax Cuts and Jobs Act in 2017. For more information on 2017 results please refer to Results of Operations for Pepco, DPL, and ACE.

PHI's effective income tax rate for the year ended December 31, 2017 was 37.5%. See Note 14 —Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of effective income tax rates.

Successor Period of March 24, 2016 to December 31, 2016

PHI's Net loss for the Successor period of March 24, 2016 to December 31, 2016 was $61 million. There were no significant changes in the underlying trends affecting PHI's results of operations during the Successor period March 24, 2016 to December 31, 2016 except for the pre-tax recording of $392 million of non-recurring merger-related costs including merger integration and merger commitments within Operating and maintenance expense. For more information on 2016 results please refer to Results of Operations for Pepco, DPL and ACE.

PHI's effective income tax rate for the period of March 24, 2016 to December 31, 2016 was (5.2)%. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Predecessor Period of January 1, 2016 to March 23, 2016

PHI's Net income for the Predecessor period of January 1, 2016 to March 23, 2016 was $19 million. There were no significant changes in the underlying trends affecting PHI's results of operations during the Predecessor period of January 1, 2016 to March 23, 2016 except for the pre-tax recording of $29 million of non-recurring merger-related costs within Operating and maintenance expense and $18 million of preferred stock derivative expense within Other, net.

PHI's effective income tax rate for the period of January 1, 2016 to March 23, 2016 was 47.2%. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Predecessor Period Year Ended December 31, 2015

PHI's Net income was $327 million for the year ended December 31, 2015. There were no significant changes in the underlying trends affecting PHI's results of operations during the Predecessor year except for the impact of increases in electric distribution rates within Revenue net of purchased power expense (Pepco electric distribution rates effective April 2014 in the District of Columbia, Pepco electric distribution rates effective July 2014 in Maryland, and ACE electric distribution rates effective September 2014), partially offset by Operating and maintenance costs incurred due to the implementation of a new customer information system for Pepco, DPL, and ACE in 2015. Gain (loss) on sales of assets were $46 million, primarily due to 2015 gains recorded at Pepco associated with the sale of unimproved land, held as non-utility property.

PHI's effective income tax rate for the year ended December 31, 2015 was 33.9%. See Note 14 —Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Results of Operations—Pepco

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$2,158	$2,186	$ (28)	$2,129	$ 57
Purchased power expense	614	706	92	719	13
Revenues net of purchased power expense[(a)]	1,544	1,480	64	1,410	70
Other operating expenses					
Operating and maintenance	454	642	188	439	(203)
Depreciation and amortization	321	295	(26)	256	(39)
Taxes other than income	371	377	6	376	(1)
Total other operating expenses	1,146	1,314	168	1,071	(243)
Gain on sales of assets	1	8	(7)	46	(38)
Operating income	399	174	225	385	(211)
Other income and (deductions)					
Interest expense, net	(121)	(127)	6	(124)	(3)
Other, net	32	36	(4)	28	8
Total other income and (deductions)	(89)	(91)	2	(96)	5
Income before income taxes	310	83	227	289	(206)
Income taxes	105	41	(64)	102	61
Net income	$ 205	$ 42	$163	$ 187	$(145)

(a) Pepco evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. Pepco believes revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Pepco has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Pepco's Net income for the year ended December 31, 2017, was higher than the same period in 2016, primarily due to a decrease in Operating and maintenance expense due to merger-related costs recognized in March 2016 and an increase in Revenue net of purchased power expense as a result of the distribution rate increases approved by the MDPSC effective November 2016 and October 2017 and an electric distribution rate increase approved by the DCPSC effective August 2017, partially offset by higher depreciation expense due to increased depreciation rates in Maryland effective November 2016. Income taxes expense incurred included unrecognized tax benefits of $21 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017. This decrease was offset by an increase in income taxes due to the $14 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $8 million associated with the Tax Cuts and Jobs Act in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Pepco's Net income for the year ended December 31, 2016, was lower than the same period in 2015, primarily due to an increase in Operating and maintenance expense due to merger-related costs.

Operating Revenue Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to Pepco's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that Pepco receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All Pepco customers have the choice to purchase electricity from competitive electric generation suppliers. The customers' choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the years ended December 31, 2017, 2016 and 2015 respectively, consisted of the following:

	For the Years Ended December 31,		
	2017	2016	2015
Electric	66%	65%	65%

Retail customers purchasing electric generation from competitive electric generation suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	179,184	21%	176,372	21%	173,222	21%

Retail deliveries purchased from competitive electric generation suppliers represented 73% of Pepco's retail kWh sales to the District of Columbia customers and 60% of Pepco's retail kWh sales to Maryland customers for the year ended December 31, 2017; 73% of Pepco's retail kWh sales to the District of Columbia customers and 59% of Pepco's retail kWh sales to Maryland customers for the year ended December 31, 2016; and 71% of Pepco's retail kWh sales to the District of Columbia customers and 60% of Pepco's retail kWh sales to Maryland customers for year ended December 31, 2015.

Operating revenues include transmission enhancement credits that Pepco receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by Pepco to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

The changes in Pepco's Operating revenues net of purchased power expense for the years ended December 31, 2017 and 2016 compared to the same periods in 2016 and 2015, respectively, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Volume	$ 16	$15
Distribution rate increase	66	5
Regulatory required programs	(12)	38
Transmission revenues	9	(1)
Other	(15)	13
Total increase	$ 64	$70

Volume. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2017 compared to the same period in 2016 primarily reflects the impact of residential customer growth. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2016 compared to the same period in 2015 primarily reflects the impact of moderate economic and customer growth.

Distribution Rate Increase. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2017 compared to the same period in 2016 was primarily due to the impact of the higher electric distribution rates charged to customers in Maryland that became effective in November 2016 and October 2017 and higher electric distribution rates charged to customers in the District of Columbia that became effective August 2017. The increase in distribution revenue for the year ended December 31, 2016 compared to the same period in 2015 was primarily due to the impact of the new electric distribution rates charged to customers in Maryland that became effective in November 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Revenue Decoupling. Pepco's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of Pepco in Maryland and in the District of Columbia, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland and the District of Columbia to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in Pepco's service territory. The changes in heating and cooling degree days in Pepco's service territory for the years ended December 31, 2017 and December 31, 2016 compared to same periods in 2016 and 2015, respectively, and normal weather consisted of the following:

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	3,312	3,624	3,869	(8.6)%	(14.4)%
Cooling Degree-Days	1,767	1,936	1,653	(8.7)%	6.9%

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	3,624	3,657	3,887	(0.9)%	(6.8)%
Cooling Degree-Days	1,936	1,936	1,626	—%	19.1%

Regulatory Required Programs. This represents the change in Operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in Pepco's Consolidated Statements of Operations and Comprehensive Income. Revenue from regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to lower demand-side management program surcharge revenue due to a decrease in kWh sales and a rate decrease effective January 2017. Revenue from regulatory required programs increased for the year ended December 31, 2016 compared to the same period in 2015 primarily due to higher demand-side management program surcharge revenue due to a rate increase effective February 2016. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. Transmission revenue increased for the year ended December 31, 2017 compared to the same period in 2016 due to higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses. Transmission revenue decreased for the year ended December 31, 2016 compared to the same period in 2015 due to lower revenue related to the MAPP abandonment recovery period that ended in March 2016, partially offset by higher rates effective June 1, 2016 and June 1, 2015 related to increases in transmission plant investment and operating expenses.

Other. The decrease in other operating revenue net of purchased power expense for the year ended December 31, 2017 compared to the same period in 2016 is primarily due to lower pass-through revenue (which is substantially offset in Taxes other than income) primarily the result of lower sales that resulted in a decrease in utility taxes that are collected by Pepco on behalf of the jurisdiction. The increase in other operating revenue net of purchased power expense for the year ended December 31, 2016 compared to the same period in 2015 is primarily due to higher pass-through revenue (which is substantially offset in Taxes other than income) primarily the result of higher sales that resulted in an increase in utility taxes that are collected by Pepco on behalf of the jurisdiction.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016	2017 vs. 2016	2016	2015	2016 vs. 2015
Operating and maintenance expense — baseline	$449	$631	$(182)	$631	$427	$204
Operating and maintenance expense — regulatory required programs[a]	5	11	(6)	11	12	(1)
Total operating and maintenance expense	$454	$642	$(188)	$642	$439	$203

[a] Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ 16	$ 7
Storm-related costs	(1)	6
Remeasurement of AMI-related regulatory asset[a]	(7)	7
Deferral of billing system transition costs to regulatory asset	—	(7)
Deferral of merger-related costs to regulatory asset	—	(11)
Uncollectible accounts expense - provision	(11)	8
BSC and PHISCO allocations[b]	(24)	53
Merger commitments[c]	(132)	126
Write-off of construction work in progress[d]	(14)	13
Other	(9)	2
	(182)	204
Regulatory required programs		
Purchased power administrative costs	(6)	(1)
Total (decrease) increase	$ (188)	$ 203

[a] Related to a remeasurement of a regulatory asset for legacy meters recognized in 2016.
[b] Primarily related to merger severance and compensation costs recognized in 2016
[c] Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.
[d] Primarily resulting from a review of capital projects during the fourth quarter of 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[a]	$ 28	$ 11
Regulatory asset amortization[b]	8	(11)
Regulatory required programs[c]	(10)	39
Total increase	$ 26	$ 39

[a] Depreciation expense increased primarily due to higher depreciation rates in Maryland effective November 2016 and ongoing capital expenditures.
[b] Regulatory asset amortization increased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to higher amortization of AMI-related regulatory assets, partially offset by lower amortization of MAPP abandonment costs. Regulatory asset amortization decreased for the year ended December 31, 2016 compared to the same period in 2015 primarily due to lower amortization of MAPP abandonment costs.

(c) Regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to an EmPower Maryland surcharge rate decrease effective February 2016 and increased for the year ended December 31, 2016 compared to the same period in 2015 due to an EmPower Maryland surcharge rate increase effective February 2015. Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to lower utility taxes that are collected and passed through by Pepco (which is substantially offset in Operating revenues), partially offset by higher property taxes. Taxes other than income for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher utility taxes that are collected and passed through by Pepco, partially offset by lower property taxes in Maryland.

Gain on Sales of Assets

Gain on sales of assets for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to higher gains recorded in 2016 at Pepco associated with the sale of land. Gain on sale of assets for the year ended December 31, 2016 compared to the same period in 2015 decreased primarily due to higher gains recorded in 2015 at Pepco associated with the sale of land held as non-utility property.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to the recording of interest expense for an uncertain tax position in 2016, partially offset by higher interest expense associated with the issuance of long term debt in May 2017. Interest expense, net for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to the recording of interest expense for an uncertain tax position in 2016, partially offset by an increase in capitalized AFUDC debt.

Other, Net

Other, net for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to the September 2016 reversal of contributions in aid of construction tax gross-up reserves due to the determination that there is no legal obligation to refund customers per contract term. Other, net for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher income from AFUDC equity.

Effective Income Tax Rate

Pepco's effective income tax rates for the years ended December 31, 2017, 2016, and 2015 were 33.9%, 49.4%, and 35.3%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates. In the first quarter of 2017, Pepco decreased its liability for unrecognized tax benefits by $21 million resulting in a benefit to Income taxes and corresponding decrease to its effective tax rate. This decrease was offset by an increase in income taxes due to the $14 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $8 million associated with the Tax Cuts and Jobs Act in 2017.

As a result of the merger, Pepco recorded an after-tax charge of $31 million during the year ended December 31, 2016 as a result of the assessment and remeasurement of certain federal and state uncertain tax positions.

PEPCO ELECTRIC OPERATING STATISTICS AND REVENUE DETAIL

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries[(a)]							
Residential	7,831	8,372	(6.5)%	(2.5)%	8,452	(0.9)%	(0.3)%
Small commercial & industrial	1,303	1,459	(10.7)%	(9.0)%	1,471	(0.8)%	(0.6)%
Large commercial & industrial	14,988	15,559	(3.7)%	(2.5)%	15,351	1.4%	1.6%
Public authorities & electric railroads	734	724	1.4%	1.4%	714	1.4%	1.7%
Total retail deliveries	24,856	26,114	(4.8)%	(2.8)%	25,988	0.5%	0.9%

	As of December 31,		
Number of Electric Customers	**2017**	**2016**	**2015**
Residential	792,211	780,652	767,392
Small commercial & industrial	53,489	53,529	53,838
Large commercial & industrial	21,732	21,391	20,976
Public authorities & electric railroads	144	130	129
Total	867,576	855,702	842,335

Electric Revenue	**2017**	**2016**	**% Change 2017 vs. 2016**	**2015**	**% Change 2016 vs. 2015**
Retail Sales[(a)]					
Residential	$ 956	$1,000	(4.4)%	$ 970	3.1%
Small commercial & industrial	147	150	(2.0)%	153	(2.0)%
Large commercial & industrial	810	803	0.9%	777	3.3%
Public authorities & electric railroads	33	32	3.1%	30	6.7%
Total retail	1,946	1,985	(2.0)%	1,930	2.8%
Other revenue[(b)]	212	201	5.5%	199	1.0%
Total electric revenue[(c)]	$2,158	2,186	(1.3)%	$2,129	2.7%

[(a)] Reflects delivery volumes and revenues from customers purchasing electricity directly from Pepco and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from Pepco, revenue also reflects the cost of energy and transmission.

[(b)] Other revenue includes transmission revenue from PJM and wholesale electric revenues.

[(c)] Includes operating revenues from affiliates totaling $6 million for the year ended December 31, 2017 and $5 million for the years ended December 31, 2016 and 2015, respectively.

Results of Operations—DPL

	2017	**2016**	**Favorable (unfavorable) 2017 vs. 2016 variance**	**2015**	**Favorable (unfavorable) 2016 vs. 2015 variance**
Operating revenues	$ 1,300	$ 1,277	$ 23	$ 1,302	$ (25)
Purchased power and fuel expense	532	583	51	634	51
Revenues net of purchased power and fuel expense[(a)]	768	694	74	668	26
Other operating expenses					
Operating and maintenance	315	441	126	304	(137)
Depreciation and amortization	167	157	(10)	148	(9)
Taxes other than income	57	55	(2)	51	(4)
Total other operating expenses	539	653	114	503	(150)
Gain on sales of assets	—	9	(9)	—	9
Operating income	229	50	179	165	(115)
Other income and (deductions)					
Interest expense, net	(51)	(50)	(1)	(50)	—
Other, net	14	13	1	10	3
Total other income and (deductions)	(37)	(37)	—	(40)	3
Income before income taxes	192	13	179	125	(112)
Income taxes	71	22	(49)	49	27
Net income (loss)	$ 121	$ (9)	$ 130	$ 76	$ (85)

[(a)] DPL evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. DPL believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements because they provide information that can be used to evaluate its operational performance. DPL has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense and Revenue net of fuel expense is not a presentation defined under GAAP and may not be comparable to other companies’ presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in Net income was driven primarily by a decrease in Operating and maintenance expense primarily due to merger-related costs recognized in March 2016 and an increase in Revenues net of purchased power and fuel expense as a result of the distribution rate increases approved by the DPSC effective July and December 2016 and a distribution rate increase approved by the MDPSC effective February 2017, partially offset by higher depreciation expense due to increased depreciation rates in Maryland effective February 2017. Income taxes expense incurred included unrecognized tax benefits of $16 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017. This decrease was offset by an increase in income taxes due to the $6 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $5 million associated with the Tax Cuts and Jobs Act in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The decrease in Net income was driven primarily by an increase in Operating and maintenance expense primarily due to merger-related costs.

Operating Revenue Net of Purchased Power and Fuel Expense

Operating revenues include revenue from the distribution and supply of electricity and natural gas to DPL's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that DPL receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric and natural gas revenues and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All DPL customers have the choice to purchase electricity and gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the years ended December 31, 2017, 2016 and 2015, consisted of the following:

	For the Years Ended December 31,		
	2017	2016	2015
Electric	52%	51%	51%
Natural Gas	33%	28%	31%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	77,790	14.9%	78,675	15.2%	77,603	15.1%
Natural Gas	154	0.1%	156	0.1%	159	0.1%

Retail deliveries purchased from competitive electric generation suppliers represented 54% of DPL's retail kWh sales to Delaware customers and 48% of DPL retail kWh sales to Maryland customers for the year ended December 31, 2017; 53% of DPL's retail kWh sales to Delaware customers and 48% of DPL's retail kWh sales to Maryland customers for the year ended December 31, 2016; and 53% of DPL's retail kWh sales to Delaware customers and 47% of DPL's retail kWh sales to Maryland customers for the year ended December 31, 2015.

Operating revenues include transmission enhancement credits that DPL receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Natural gas operating revenues includes sources that are subject to price regulation (Regulated Gas Revenue) and those that generally are not subject to price regulation (Other Gas Revenue). Regulated gas revenue includes the revenue DPL receives from on-system natural gas delivered sales and the transportation of natural gas for customers within its service territory at regulated rates. Other gas revenue consists of off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers. Off-system sales are made possible when low demand for natural gas by regulated customers creates excess pipeline capacity.

Purchased power expense consists of the cost of electricity purchased by DPL to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders. Purchased fuel expense consists of the cost of gas purchased by DPL to fulfill its obligation to regulated gas customers and, as such, is recoverable from customers in accordance with the terms of public service commission orders. It also includes the cost of gas purchased for off-system sales.

The changes in DPL's Operating revenues net of purchased power and fuel expense for the years ended December 31, 2017 and 2016 compared to the same periods in 2016 and 2015, respectively, consisted of the following:

	2017 vs. 2016			2016 vs. 2015		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Weather	$ (7)	$(13)	$(20)	$ —	$ —	$ —
Volume	2	11	13	2	2	4
Distribution rate increase	65	4	69	2	1	3
Regulatory required programs	(3)	—	(3)	10	—	10
Transmission revenues	10	—	10	8	—	8
Other	6	(1)	5	1	—	1
Increase in revenue net of purchased power expense	$73	$ 1	$ 74	$23	$ 3	$26

Revenue Decoupling. DPL's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of DPL in Maryland, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. A modified fixed variable rate design, which would provide for a charge not tied to a customer's volumetric consumption of electricity or natural gas, has been proposed for DPL electricity and natural gas customers in Delaware. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

Weather. The demand for electricity and natural gas in areas not subject to the BSA is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. During the year ended December 31, 2017 compared to the same period in 2016, operating revenues net of purchased power and fuel expenses was lower due to the impact of unfavorable weather conditions in DPL's service territory. During the year ended December 31, 2016 compared to the same period in 2015, weather was not a significant impact.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in DPL's electric service territory and a 30-year period in DPL's natural gas service territory. The changes in heating and cooling degree days in DPL's service territory for the years ended December 31, 2017 and December 31, 2016 compared to same periods in 2016 and 2015, respectively, and normal weather consisted of the following:

Electric Service Territory	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Heating Degree-Days	4,077	4,319	4,519	(5.6)%	(9.8)%
Cooling Degree-Days	1,300	1,453	1,210	(10.5)%	7.4%

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	4,319	4,421	4,572	(2.3)%	(5.5)%
Cooling Degree-Days	1,453	1,328	1,188	9.4%	22.3%

Natural Gas Service Territory	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	4,203	4,454	4,739	(5.6)%	(11.3)%

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	4,454	4,618	4,754	(3.6)%	(6.3)%

Volume. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2017 compared to the same period in 2016, primarily reflects the impact of customer growth. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2016 compared to the same period in 2015, primarily reflects the impact of moderate economic and customer growth.

Distribution Rate Increase. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2017 compared to the same period in 2016 was primarily due to the impact of the higher electric distribution and natural gas rates charged to Delaware customers that became effective in July and December 2016 and the impact of higher electric distribution rates charged to Maryland customers that became effective in February 2017. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2016 compared to the same period in 2015 was primarily due to the impact of the new electric distribution rates charged to Delaware customers that became effective in July 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in DPL's Consolidated Statements of Operations and Comprehensive Income. Revenue from regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to lower demand-side management program surcharge revenue due to a decrease in kWh sales and a rate decrease effective January 2017. Revenue from regulatory required programs increased for the year ended December 31, 2016 compared to the same period in 2015 primarily due to higher demand-side management program surcharge revenue due to a rate increase effective February 2016. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. Transmission revenue increased for the year ended December 31, 2017 compared to the same period in 2016 due to higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses. Transmission revenue increased for the year ended December 31, 2016 compared to the same period in 2015 due to higher rates effective June 1, 2016 and June 1, 2015 related to increases in transmission plant investment and operating expenses, partially offset by lower revenue related to the MAPP abandonment recovery period that ended in March 2016.

Other. Other revenue, which can vary period to period, includes rental revenue, revenue related to late payment charges, assistance provided to other utilities through mutual assistance programs, and recoveries of other taxes.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016		2016	2015	
Operating and maintenance expense — baseline	$306	$425	$(119)	$425	$289	$136
Operating and maintenance expense — regulatory required programs(a)	9	16	(7)	16	15	1
Total operating and maintenance expense	$315	$441	$(126)	$441	$304	$137

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ 4	$ 1
Storm-related costs	4	5
Deferral of billing system transition costs to regulatory asset	2	(2)
Deferral of merger-related costs to regulatory asset	(6)	(4)
Uncollectible accounts expense - provision	(10)	3
BSC and PHISCO allocations(a)	(15)	34
Merger commitments(b)	(88)	86
Write-off of construction work in progress(c)	(3)	4
Other	(7)	9
	(119)	136
Regulatory required programs		
Purchased power administrative costs	(7)	1
Total (decrease) increase	$(126)	$ 137

(a) Primarily related to merger severance and compensation costs recognized in 2016.

(b) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

(c) Primarily resulting from a review of capital projects during the fourth quarter of 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense(a)	$14	$ 7
Regulatory asset amortization(b)	—	(7)
Regulatory required programs(c)	(4)	9
Total increase	$10	$ 9

(a) Depreciation expense increased due to higher depreciation rates in Maryland effective February 2017 and due to ongoing capital expenditures.

(b) Regulatory asset amortization decreased for the year ended December 31, 2016 compared to the same period in 2015 primarily due to lower amortization of MAPP abandonment costs.

(c) Regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to an EmPower Maryland surcharge rate decrease effective February 2016 and increased for the year ended December 31, 2016 compared to the same period in 2015 due to an EmPower Maryland surcharge rate increase effective February 2015. Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. A partially offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the year ended December 31, 2017 compared to the same period in 2016 remained relatively constant. Taxes other than income for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher property taxes in Maryland related to higher property assessments and rate increases.

Gain on Sales of Assets

Gain on sales of assets for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to gains recorded in 2016 at DPL associated with the sale of land held as non-utility property. Gain on sales of assets for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to gains recorded in 2016 at DPL associated with the sale of land held as non-utility property.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2017 compared to the same period in 2016 and for the year ended December 31, 2016 compared to the same period in 2015 remained relatively constant.

Other, Net

Other, net for the year ended December 31, 2017 compared to the same period in 2016 remained relatively constant. Other, net for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher income from AFUDC equity.

Effective Income Tax Rate

DPL's effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were 37.0%, 169.2% and 39.2%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates. In the first quarter of 2017, DPL decreased its liability for unrecognized tax benefits by $16 million resulting in a benefit to Income taxes and corresponding decrease to its effective tax rate. This decrease was offset by an increase in income taxes due to the $6 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $5 million associated with the Tax Cuts and Jobs Act in 2017.

As a result of the merger, DPL recorded an after-tax charge of $23 million during the year ended December 31, 2016 as a result of the assessment and remeasurement of certain federal and state uncertain tax positions.

DPL ELECTRIC OPERATING STATISTICS AND REVENUE DETAIL

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather - Normal % Change	2015	% Change 2016 vs. 2015	Weather - Normal % Change
Retail Deliveries[(a)]							
Residential	5,010	5,181	(3.3)%	(0.3)%	5,337	(2.9)%	(2.9)%
Small commercial & industrial	2,237	2,290	(2.3)%	(0.9)%	2,311	(0.9)%	(1.3)%
Large commercial & industrial	4,585	4,623	(0.8)%	0.3%	4,781	(3.3)%	(3.9)%
Public authorities & electric railroads	44	46	(4.3)%	(8.3)%	45	2.2%	6.7%
Total retail deliveries	11,876	12,140	(2.2)%	(0.2)%	12,474	(2.7)%	(2.9)%

	As of December 31,		
Number of Electric Customers	**2017**	**2016**	**2015**
Residential	459,389	456,181	453,145
Small commercial & industrial	60,697	60,173	59,714
Large commercial & industrial	1,400	1,411	1,410
Public authorities & electric railroads	629	643	643
Total	522,115	518,408	514,912

Electric Revenue	**2017**	**2016**	**% Change 2017 vs. 2016**	**2015**	**% Change 2016 vs. 2015**
Retail Sales[a]					
Residential	$ 660	$ 668	(1.2)%	$ 681	(1.9)%
Small commercial & industrial	185	187	(1.1)%	192	(2.6)%
Large commercial & industrial	102	98	4.1%	101	(3.0)%
Public authorities & electric railroads	14	13	7.7%	12	8.3%
Total retail	961	966	(0.5)%	986	(2.0)%
Other revenue[b]	178	163	9.2%	152	7.2%
Total electric revenue[c]	$1,139	$1,129	0.9%	$1,138	(0.8)%

[a] Reflects delivery volumes and revenues from customers purchasing electricity directly from DPL and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from DPL, revenue also reflects the cost of energy and transmission.

[b] Other revenue includes transmission revenue from PJM and wholesale electric revenues.

[c] Includes operating revenues from affiliates totaling $8 million, $7 million and $6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

DPL GAS OPERATING STATISTICS AND REVENUE DETAIL

Retail Deliveries to Customers (in mmcf)	**2017**	**2016**	**% Change 2017 vs. 2016**	**Weather Normal % change**	**2015**	**% Change 2016 vs. 2015**	**Weather Normal % change**
Retail Deliveries							
Residential	13,107	13,341	(1.8)%	5.2%	13,816	(3.4)%	(0.4)%
Transportation & other	6,538	6,201	5.4%	6.9%	6,193	0.1%	1.4%
Total gas deliveries	19,645	19,542	0.5%	5.7%	20,009	(2.3)%	0.1%

	As of December 31,		
Number of Gas Customers	**2017**	**2016**	**2015**
Residential	122,347	120,951	119,771
Commercial & industrial	9,853	9,801	9,712
Transportation & other	154	156	159
Total	132,354	130,908	129,642

Gas Revenue	**2017**	**2016**	**% Change 2017 vs. 2016**	**2015**	**% Change 2016 vs. 2015**
Retail Sales[a]					
Retail sales	$136	$127	7.1%	$143	(11.2)%
Transportation & other[b]	25	21	19.0%	21	—%
Total gas revenues	$161	$148	8.8%	$164	(9.8)%

[a] Reflects delivery volumes and revenues from customers purchasing natural gas directly from DPL and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from DPL, revenue also reflects the cost of natural gas.

[b] Transportation and other revenue includes off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers.

Results of Operations—ACE

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$1,186	$1,257	$ (71)	$1,295	$ (38)
Purchased power expense	570	651	81	708	57
Revenues net of purchased power expense[a]	616	606	10	587	19
Other operating expenses					
Operating and maintenance	307	428	121	271	(157)
Depreciation and amortization	146	165	19	175	10
Taxes other than income	6	7	1	7	—
Total other operating expenses	459	600	141	453	(147)
Gain on sales of assets	—	1	(1)	—	1
Operating income	157	7	150	134	(127)
Other income and (deductions)					
Interest expense, net	(61)	(62)	1	(64)	2
Other, net	7	9	(2)	3	6
Total other income and (deductions)	(54)	(53)	(1)	(61)	8
Income (loss) before income taxes	103	(46)	149	73	(119)
Income taxes	26	(4)	(30)	33	37
Net income (loss)	$ 77	$ (42)	$119	$ 40	$ (82)

[a] ACE evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. ACE believes Revenue net of purchased power expense is a useful measurement of its performance because it provides information that can be used to evaluate its operational performance. ACE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in Net income was primarily due to a decrease in Operating and maintenance expense primarily due to merger-related costs recognized in March 2016 and an increase in Revenues net of purchased power expense resulting from impact of distribution rate increases approved by the NJBPU effective August 2016 and October 2017 and an increase in transmission formula rate revenues, partially offset by lower customer usage. Income taxes expense incurred included unrecognized tax benefits of $22 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017. This decrease was offset by an increase in income taxes due to the December 2017 impairment of certain transmission-related income tax regulatory assets of $7 million and the one-time non-cash impacts of $2 million associated with the Tax Cuts and Jobs Act in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The decrease in Net income was driven primarily by an increase in Operating and maintenance expense primarily due to merger-related costs.

Revenues Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to ACE's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that ACE receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All ACE customers have the choice to purchase electricity from competitive electric generation suppliers. The customer's choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the years ended December 31, 2017, 2016 and 2015, consisted of the following:

	For the Years Ended December 31,		
	2017	2016	2015
Electric	48%	47%	45%

Retail customers purchasing electric generation from competitive electric generation suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	86,155	16%	94,562	17%	78,299	14%

Operating revenues include revenue from Transition Bond Charges that ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds, revenue from the resale in the PJM wholesale markets for energy and capacity purchased under contracts with unaffiliated NUGs, and revenue from transmission enhancement credits.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

The changes in ACE's Operating revenues net of purchased power expense for the years ended December 31, 2017 and 2016 compared to the same periods in 2016 and 2015, respectively, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Weather	$ (3)	$ (3)
Volume	(20)	1
Distribution rate increase	40	14
Regulatory required programs	(24)	(14)
Transmission revenues	22	23
Other	(5)	(2)
Increase in revenue net of purchased power expense	$ 10	$ 19

Weather. The demand for electricity is affected by weather conditions. With respect to the electric business, very warm weather in summer months and very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity. Conversely, mild weather reduces demand. During the year ended December 31, 2017 compared to the same period in 2016, operating revenues net of purchased power and fuel expense was lower due to the impact of unfavorable winter weather conditions in ACE's service territory. During the year ended December 31, 2016 compared to the same period in 2015, operating revenues net of purchased power and fuel expense was lower due to the impact of unfavorable winter weather conditions in ACE's service territory.

For retail customers of ACE, distribution revenues are not decoupled for the distribution of electricity by ACE, and thus are subject to variability due to changes in customer consumption. Therefore, changes in customer usage (due to weather conditions, energy prices, energy savings programs or other reasons) from period to period have a direct impact on reported distribution revenue for customers in ACE's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in ACE's service territory. The changes in heating and cooling degree days in ACE's service territory for the years ended December 31, 2017 and December 31, 2016 compared to same periods in 2016 and 2015, respectively, and normal weather consisted of the following:

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	4,206	4,487	4,713	(6.3)%	(10.8)%
Cooling Degree-Days	1,228	1,303	1,115	(5.8)%	10.1%

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	4,487	4,671	4,768	(3.9)%	(5.9)%
Cooling Degree-Days	1,303	1,259	1,093	3.5%	19.2%

Volume. The decrease in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2017 compared to the same period in 2016, primarily reflects lower average customer usage, partially offset by the impact of customer growth. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2016 compared to the same period in 2015, primarily reflects the impact of moderate economic and customer growth, partially offset by lower average customer usage.

Distribution Rate Increase. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2017 compared to the same period in 2016 was primarily due to the impact of the new electric distribution rates charged to customers that became effective in August 2016 and October 2017. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2016 compared to the same period in 2015 was primarily due to the impact of the new electric distribution rates charged to customers that became effective in August 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in ACE's Consolidated Statements of Operations and Comprehensive Income. Revenue from regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 due to a rate decrease effective October 2016 for the ACE Transition Bond Charge and Market Transition Charge Tax. Revenue from required regulatory programs decreased for the year ended December 31, 2016 compared to the same period in 2015 due to rate decreases effective October 2016 and October 2015 for the ACE Market Transition charge tax. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. Transmission revenue increased for the year ended December 31, 2017 compared to the same period in 2016 due to higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses. Transmission revenue increased for the year ended December 31, 2016 compared to the same period in 2015 due to higher rates effective June 1, 2016 and June 1, 2015 related to increases in transmission plant investment and operating expenses.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016	2017 vs. 2016	2016	2015	2016 vs. 2015
Operating and maintenance expense - baseline	$ 303	$424	$(121)	$424	$267	$157
Operating and maintenance expense - regulatory required programs[a]	4	4	—	4	4	—
Total operating and maintenance expense	$ 307	$428	$(121)	$428	$271	$157

[a] Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ 9	$ 6
BSC and PHISCO allocations[a]	(11)	26
Merger commitments[b]	(111)	111
Deferral of merger-related costs to regulatory asset	(9)	—
Other	1	14
Total (decrease) increase	$(121)	$157

[a] Primarily related to merger severance and compensation costs recognized in 2016.

[b] Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[a]	$ 6	$ 6
Regulatory asset amortization	(2)	(4)
Required regulatory programs[b]	(24)	(12)
Other	1	—
Total decrease	$(19)	$(10)

[a] Depreciation expense increased due to ongoing capital expenditures.

[b] Regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily as a result of lower revenue due to a rate decrease effective October 2016 for the ACE Transition Bond Charge and Market Transition Charge Tax. Required regulatory programs amortization decreased for the year ended December 31, 2016 compared to the same period in 2015 primarily as a result of lower revenue due to a rate decrease effective October 2015 for the ACE Market Transition charge tax. Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the year ended December 31, 2017 compared to the same period in 2016, remained constant. Taxes other than income for the year ended December 31, 2016 compared to the same period in 2015, remained constant.

Interest Expense, Net

Interest expense, net remained relatively consistent for the year ended December 31, 2017, compared to the same period in 2016, and the year ended December 31, 2016, compared to the same period in 2015.

Gain on Sales of Assets

Gain on sales of assets for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to gains recorded in 2016 at ACE associated with the sale of property. Gain on sales of assets for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to gains recorded in 2016 at ACE associated with the sale of property.

Other, Net

Other, net for the year ended December 31, 2017 compared to the same period in 2016 remained relatively constant. Other, net for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher income from AFUDC equity.

Effective Income Tax Rate

ACE's effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were 25.2%, 8.7%, and 45.2%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates. In the first quarter of 2017, ACE decreased its liability for unrecognized tax benefits by $22 million resulting in a benefit to Income taxes and corresponding decrease to its effective tax rate. This decrease was offset by an increase in income taxes due to the December 2017 impairment of certain transmission-related income tax regulatory assets of $7 million and the one-time non-cash impacts of $2 million associated with the Tax Cuts and Jobs Act in 2017.

As a result of the merger, ACE recorded an after-tax charge of $22 million during the year ended December 31, 2016 as a result of the assessment and remeasurement of certain federal and state uncertain tax positions.

ACE ELECTRIC OPERATING STATISTICS AND REVENUE DETAIL

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather - Normal % Change	2015	% Change 2016 vs. 2015	Weather - Normal % Change
Retail Deliveries[a]							
Residential	3,853	4,153	(7.2)%	(6.2)%	4,322	(3.9)%	(2.9)%
Small commercial & industrial	1,286	1,455	(11.6)%	(11.1)%	1,288	13.0%	13.5%
Large commercial & industrial	3,399	3,402	(0.1)%	0.4%	3,594	(5.3)%	(5.2)%
Public authorities & electric railroads	47	49	(4.1)%	(4.1)%	45	8.9%	8.9%
Total retail deliveries	8,585	9,059	(5.2)%	(4.5)%	9,249	(2.1)%	(1.4)%

	As of December 31,		
Number of Electric Customers	**2017**	**2016**	**2015**
Residential	487,168	484,240	482,000
Small commercial & industrial	61,013	61,008	60,745
Large commercial & industrial	3,684	3,763	3,871
Public authorities & electric railroads	636	610	529
Total	552,501	549,621	547,145

Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[a]					
Residential	$ 619	$ 664	(6.8)%	$ 690	(3.8)%
Small commercial & industrial	166	183	(9.3)%	175	4.6%
Large commercial & industrial	189	201	(6.0)%	213	(5.6)%
Public authorities & electric railroads	13	13	—%	12	8.3%
Total retail	987	1,061	(7.0)%	1,090	(2.7)%
Other revenue[b]	199	196	1.5%	205	(4.4)%
Total electric revenue[c]	$1,186	$1,257	(5.6)%	$1,295	(2.9)%

[a] Reflects delivery volumes and revenues from customers purchasing electricity directly from ACE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from ACE, revenue also reflects the cost of energy and transmission.

[b] Other revenue includes transmission revenue from PJM and wholesale electric revenues.

[c] Includes operating revenues from affiliates totaling $2 million, $3 million and $4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Liquidity and Capital Resources

Exelon activity presented below includes the activity of PHI, Pepco, DPL and ACE, from the PHI Merger effective date of March 24, 2016 through December 31, 2017. Exelon prior year activity is unadjusted for the effects of the PHI Merger. Due to the application of push-down accounting to the PHI entity, PHI's activity is presented in two separate reporting periods, the legacy PHI activity through March 23, 2016 (Predecessor), and PHI activity for the remainder of the period after the PHI merger date (Successor). For each of Pepco, DPL and ACE the activity presented below include its activity for the years ended December 31, 2017, 2016 and 2015. All results included throughout the liquidity and capital resources section are presented on a GAAP basis.

The Registrants' operating and capital expenditures requirements are provided by internally generated cash flows from operations as well as funds from external sources in the capital markets and through bank borrowings. The Registrants' businesses are capital intensive and require considerable capital resources. Each Registrant's access to external financing on reasonable terms depends on its credit ratings and current overall capital market business conditions, including that of the utility industry in general. If these conditions deteriorate to the extent that the Registrants no longer have access to the capital markets at reasonable terms, the Registrants have access to unsecured revolving credit facilities with aggregate bank commitments of $9 billion. In addition, Generation has $480 million in bilateral facilities with banks which have various expirations between January 2019 and December 2019. The Registrants utilize their credit facilities to support their commercial paper programs, provide for other short-term borrowings and to issue letters of credit. See the "Credit Matters" section below for further discussion. The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

The Registrants primarily use their capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay dividends, fund pension and other postretirement benefit obligations and invest in new and existing ventures. The Registrants spend a significant amount of cash on capital improvements and construction projects that have a long-term return on investment. Additionally, ComEd, PECO, BGE, Pepco, DPL and ACE operate in rate-regulated environments in which the amount of new investment recovery may be delayed or limited and where such recovery takes place over an extended period of time. See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further discussion of the Registrants' debt and credit agreements.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that sufficient funds will be available in certain minimum amounts to decommission the facility. These NRC minimum funding levels are based upon the assumption that decommissioning activities will commence after the end of the current licensed life of each unit. If a unit fails the NRC minimum funding test, then the plant's owners or parent companies would be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional cash contributions to the NDT fund to ensure sufficient funds are available. See Note 15 - Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information on the NRC minimum funding requirements.

If a nuclear plant were to early retire there is a risk that it will no longer meet the NRC minimum funding requirements due to the earlier commencement of decommissioning activities and a shorter time period over which the NDT fund investments could appreciate in value. A shortfall could require Exelon to post parental guarantees for Generation's share of the obligations. However, the amount of any required guarantees will ultimately depend on the decommissioning approach adopted at each site, the associated level of costs, and the decommissioning trust fund investment performance going forward. Within two years after shutting down a plant, Generation must submit a post-shutdown decommissioning activities report (PSDAR) to the NRC that includes the planned option for decommissioning the site. As discussed in Note 15 - Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements, Generation filed its biennial decommissioning funding status report with the NRC on March 31, 2017 and demonstrated adequate funding assurance for all nuclear units currently operating. As of December 31, 2017, across the four alternative decommissioning approaches available, Generation estimates a parental guarantee of up to $90 million from Exelon could be required for TMI, dependent upon the ultimate decommissioning approach selected. For Oyster Creek, none of the alternative decommissioning approaches available would require Exelon to post a parental guarantee. In the event PSEG decides to early retire Salem, Generation estimates a parental guarantee of up to $45 million from Exelon could be required for Salem, dependent upon the ultimate decommissioning approach selected. Upon issuance of any required financial guarantees, each site would be able to utilize the respective NDT funds for radiological decommissioning costs, which represent the majority of the total expected decommissioning costs. However, the NRC must approve an additional exemption in order for the plant's owner(s) to utilize the NDT fund to pay for non-radiological decommissioning costs (i.e., spent fuel management and site restoration costs). If a unit does not receive this exemption, the costs would be borne by the owner(s). While the ultimate amounts may vary greatly and could be reduced by alternate decommissioning scenarios and/or reimbursement of certain costs under the United States Department of Energy reimbursement agreements or future litigation, across the four alternative decommissioning approaches available, if TMI or Oyster Creek were to fail to obtain the exemption, Generation estimates it could incur spent fuel management and site restoration costs over the next ten years of up to $225 million and $200 million net of taxes, respectively, dependent upon the ultimate decommissioning approach selected. In the event PSEG decides to early retire Salem and Salem were to fail to obtain the exemption, Generation estimates it could incur spent fuel management and site restoration costs over the next ten years of up to $80 million net of taxes.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes used debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon issued approximately 33 million shares of common stock from treasury stock and received $1.15 billion upon settlement of the forward equity purchase contract. When reissuing treasury stock Exelon uses the average price paid to repurchase shares to calculate a gain or loss on issuance and records gains or losses directly to retained earnings. A loss on reissuance of treasury shares of $1.05 billion was recorded to retained earnings as of December 31, 2017. See Note 21 — Earnings Per Share of the Combined Notes to Consolidated Financial Statements for further information on the issuance of common stock.

Cash Flows from Operating Activities

General

Generation’s cash flows from operating activities primarily result from the sale of electric energy and energy-related products and services to customers. Generation’s future cash flows from operating activities may be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as to obtain collections from customers.

The Utility Registrants’ cash flows from operating activities primarily result from the transmission and distribution of electricity and, in the case of PECO, BGE and DPL, gas distribution services. The Utility Registrants’ distribution services are provided to an established and diverse base of retail customers. The Utility Registrants’ future cash flows may be affected by the economy, weather conditions, future legislative initiatives, future regulatory proceedings with respect to their rates or operations, competitive suppliers, and their ability to achieve operating cost reductions.

See Notes 3 — Regulatory Matters and 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further discussion of regulatory and legal proceedings and proposed legislation.

The following table provides a summary of the major items affecting Exelon’s cash flows from operations for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2017 vs. 2016 Variance	2015	2016 vs. 2015 Variance
Net income	$ 3,849	$1,204	$ 2,645	2,250	$(1,046)
Add (subtract):					
Non-cash operating activities[a]	5,446	7,722	(2,276)	5,630	2,092
Pension and non-pension postretirement benefit contributions	(405)	(397)	(8)	(502)	105
Income taxes	299	(674)	973	97	(771)
Changes in working capital and other noncurrent assets and liabilities[b]	(1,579)	(275)	(1,304)	(264)	(11)
Option premiums received (paid), net	28	(66)	94	58	(124)
Collateral received (posted), net	(158)	931	(1,089)	347	584
Net cash flows provided by operations	$ 7,480	$8,445	$ (965)	$7,616	$ 829

[a] Represents depreciation, amortization, depletion and accretion, net fair value changes related to derivatives, deferred income taxes, provision for uncollectible accounts, pension and non-pension postretirement benefit expense, equity in earnings and losses of unconsolidated affiliates and investments, decommissioning-related items, stock compensation expense, impairment of long-lived assets, and other non-cash charges. See Note 24 — Supplemental Financial Information of the Combined Notes to Consolidated Financial Statements for further detail on non-cash operating activity.

[b] Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper, income taxes and the current portion of long-term debt.

Pension and Other Postretirement Benefits

Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006 (the Act), management of the pension obligation and regulatory implications. The Act requires the attainment of certain funding levels to avoid benefit restrictions (such as an inability to pay lump sums or to accrue benefits prospectively), and at-risk status (which triggers higher minimum contribution requirements and participant notification). The projected contributions below reflect a funding strategy of contributing the greater of (1) $300 million (updated for the inclusion of PHI) until the qualified plans are fully funded on an ABO basis, and (2) the minimum amounts under ERISA to avoid benefit restrictions and at-risk status. This level funding strategy helps minimize volatility of future period required pension contributions. Unlike the qualified pension plans, Exelon’s non-qualified pension plans are not funded given that they are not subject to statutory minimum contribution requirements.

While other postretirement plans are also not subject to statutory minimum contribution requirements, Exelon does fund certain of its plans. For Exelon’s funded OPEB plans, contributions generally equal accounting costs, however, Exelon’s management has historically considered several factors in determining the level of contributions to its other postretirement benefit plans, including liabilities management, levels of benefit claims paid and regulatory implications (amounts deemed prudent to meet regulatory expectations and best assure continued rate recovery). The amounts below include benefit payments related to unfunded plans.

The following table provides Exelon's planned contributions to the qualified pension plans, planned benefit payments to non-qualified pension plans, and planned contributions to other postretirement plans in 2018:

	Qualified Pension Plans	Non-Qualified Pension Plans	Other Postretirement Benefits
Exelon	$301	$30	$42

To the extent interest rates decline significantly or the pension and OPEB plans earn less than the expected asset returns, annual pension contribution requirements in future years could increase. Conversely, to the extent interest rates increase significantly or the pension and OPEB plans earn greater than the expected asset returns, annual pension and OPEB contribution requirements in future years could decrease. Additionally, expected contributions could change if Exelon changes its pension or OPEB funding strategy.

On October 3, 2017, the US Department of Treasury and IRS released final regulations updating the mortality tables to be used for defined benefit pension plan funding, as well as the valuation of lump sum and other accelerated distribution options, effective for plan years beginning in 2018. The new mortality tables reflect improved projected life expectancy as compared to the existing table, which is generally expected to increase minimum pension funding requirements, Pension Benefit Guaranty Corporation premiums and the value of lump sum distributions. The IRS permits plan sponsors the option of delaying use of the new mortality tables for determining minimum funding requirements until 2019, which Exelon intends to utilize. The one-year delay does not apply for use of the mortality tables to determine the present value of lump sum distributions. The estimated impact of the new mortality tables along with other current assumptions and market information are reflected in the estimated future pension contributions in the "Contractual Obligations" section below.

The EMA requires CENG to fund the obligation related to pre-transfer service of employees, including the underfunded balance of the pension and other postretirement welfare benefit plans measured as of July 14, 2014 by making periodic payments to Generation. These payments will be made on an agreed payment schedule or upon the occurrence of certain specified events, such as EDF's disposition of a majority of its interest in CENG. However, in the event that EDF exercises its rights under the Put Option, all payments not made as of the put closing date shall accelerate to be paid immediately prior to such closing date. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for additional information regarding the investment in CENG.

Tax Matters

The Registrants' future cash flows from operating activities may be affected by the following tax matters:

- Pursuant to the TCJA, beginning in 2018 Generation is expected to have higher operating cash flows in the range of approximately $1.2 billion to $1.6 billion for the period from 2018 to 2021, reflecting the reduction in the corporate federal income tax rate and full expensing of capital investments.

  The TCJA is generally expected to result in lower operating cash flows for the Utility Registrants as a result of the elimination of bonus depreciation and lower customer rates. Increased operating cash flows for the Utility Registrants from lower corporate federal income tax rates is expected to be more than offset over time by lower customer rates resulting from lower income tax expense recoveries and the settlement of deferred income tax net regulatory liabilities established pursuant to the TCJA. The amount and timing of settlement of the net regulatory liabilities will be determined by the Utility Registrants' respective rate regulators, subject to certain IRS "normalization" rules. The table below sets forth the Registrants' estimated categorization of their net regulatory liabilities as of December 31, 2017. The amounts in the table below are shown on an after-tax basis reflecting future net cash outflows after taking into consideration the income tax benefits associated with the ultimate settlement with customers.

					Successor			
	Exelon	ComEd	PECO[(a)]	BGE	PHI	PEPCO	DPL	ACE
Subject to IRS Normalization Rules	$3,040	$1,400	$533	$459	$ 648	$299	$195	$153
Subject to Rate Regulator Determination	1,694	573	43	324	754	391	194	170
Net Regulatory Liabilities	$4,734	$1,973	$576	$783	$1,402	$690	$389	$323

(a) Given the regulatory treatment of income tax benefits related to electric and gas distribution repairs, PECO remains in an overall net regulatory asset position as of December 31, 2017 after recording the impacts related to the TCJA. As a result, the amount of customer benefits resulting from the TCJA subject to the discretion of PECO's rate regulators are lower relative to the other Utility Registrants. Refer to Note 3 - Regulatory Matters for additional information.

Net regulatory liability amounts subject to normalization rules generally may not be passed back to customers any faster than over the remaining useful lives of the underlying assets giving rise to the associated deferred income taxes. Such deferred income taxes generally relate to property, plant and equipment with remaining useful lives ranging from 30 to 40 years across the Utility Registrants. For the remaining amounts, rate regulators could require the passing back of amounts to customers over shorter time frames, which could materially decrease operating cash outflows at each of the Utility Registrants in the near term.

The Utility Registrants expect to fund any such required incremental operating cash outflows using a combination of third party debt financings and equity funding from Exelon in combinations generally consistent with existing capitalization ratio structures. To fund any additional equity contributions to the Utility Registrants, Exelon would have available to it its typical sources, including, but not limited to, the increased operating cash flows at Generation referenced above, which over time are expected to exceed the incremental equity needs at the Utility Registrants.

The Utility Registrants continue to work with their state regulatory commissions to determine the amount and timing of the passing back of TCJA income tax savings benefits to customers; with filings either made, or expected to be made, at Pepco, DPL and ACE, and approved filings at ComEd and BGE. The amounts being passed back or proposed to be passed back to customers reflect the benefit of lower income tax expense beginning January 1, 2018 (Feb. 1, 2018 for DPL Delaware), and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. To date, neither the PAPUC nor FERC has yet issued guidance on how and when to reflect the impacts of the TCJA in customer rates. Refer to Note 3 - Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information on their filings.

In general, most states use federal taxable income as the starting point for computing state corporate income tax. Now that the TCJA has been enacted, state governments are beginning to analyze the impact of the TCJA on their state revenues. Exelon is uncertain regarding what the state governments will do, and there is a possibility that state corporate income taxes could change due to the enactment of the TCJA. In 2018, Exelon will be closely monitoring the states' responses to the TCJA as these could have an impact on Exelon's future cash flows.

See Note 14 - Income Taxes of the Combined Notes to Consolidated Financial Information for further information on the amounts of the net regulatory liabilities subject to determinations by rate regulators.

- Exelon appealed the Tax Court's like-kind exchange decision in the third quarter of 2017. In the fourth quarter of 2017, the IRS assessed the tax, penalties and interest of approximately $1.3 billion related to the like-kind exchange, including $300 million attributable to ComEd. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total estimated net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts on ComEd's equity from the like-kind exchange position.

  Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings. As a result of the IRS's assessment of the tax, penalties and interest in the fourth quarter of 2017, the deposit is no longer available to Exelon and thus was reclassified from a current asset and is now reflected as an offset to the related liabilities for the tax, penalties, and interest that are included on Exelon's balance sheet as current liabilities. The remaining amount due of approximately $20 million was paid in the fourth quarter of 2017. In the third quarter of 2017, the $300 million payable discussed above attributable to ComEd, net of ComEd's receivable pursuant to the hold harmless agreement, was settled with Exelon. See Note 14 - Income Taxes of the Combined Notes to Consolidated Financial Statements for further discussion of the like-kind exchange tax position.

- State and local governments continue to face increasing financial challenges, which may increase the risk of additional income tax, property taxes and other taxes or the imposition, extension or permanence of temporary tax increases. On July 6, 2017, Illinois enacted Senate Bill 9, which permanently increased Illinois' total corporate income tax rate from 7.75% to 9.50% effective July 1, 2017. The rate increase is not expected to have a material ongoing impact to Exelon's, Generation's or ComEd's future cash taxes. See Note 14 - Income Taxes of the Combined Notes to Consolidated Financial Statements for further discussion of the Illinois tax rate change.

Cash flows provided by operations for the year ended December 31, 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$7,480	$8,445	$7,616
Generation	3,299	4,444	4,199
ComEd	1,527	2,505	1,896
PECO	755	829	770
BGE	821	945	782
Pepco	407	651	373
DPL	321	310	266
ACE	206	385	256

	Successor		Predecessor	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$950	$888	$264	$939

Changes in Registrants' cash flows from operations were generally consistent with changes in each Registrant's respective results of operations, as adjusted by changes in working capital in the normal course of business, except as discussed below. In addition, significant operating cash flow impacts for the Registrants for 2017, 2016 and 2015 were as follows:

Generation

- Depending upon whether Generation is in a net mark-to-market liability or asset position, collateral may be required to be posted with or collected from its counterparties. In addition, the collateral posting and collection requirements differ depending on whether the transactions are on an exchange or in the OTC markets. During 2017, 2016 and 2015, Generation had net collections/(payments) of counterparty cash collateral of $(129) million, $923 million and $407 million, respectively, primarily due to market conditions that resulted in changes to Generation's net mark-to-market position.
- During 2017, 2016 and 2015, Generation had net collections/(payments) of approximately $28 million, $(66) million and $58 million, respectively, related to purchases and sales of options. The level of option activity in a given year may vary due to several factors, including changes in market conditions as well as changes in hedging strategy.

ComEd

- During 2017, 2016, and 2015 ComEd (posted)/received approximately $(27 million), $7 million, and $(31 million) of cash collateral with/from PJM, respectively. ComEd's collateral posted with PJM has increased from 2017 to 2016, primarily due to an increase in ComEd's RPM credit requirements and peak market activity with PJM. The collateral posted with PJM decreased from 2016 to 2015 due to lower PJM billings.

For further discussion regarding changes in non-cash operating activities, please refer to Note 24 —Supplemental Financial Information of the Combined Notes to Consolidated Financial Statements.

Cash Flows from Investing Activities

Cash flows used in investing activities for the year ended December 31, 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$(7,934)	$(15,503)	$(7,822)
Generation[(a)]	(2,592)	(3,851)	(4,069)
ComEd	(2,296)	(2,685)	(2,362)
PECO	(597)	(798)	(588)
BGE	(849)	(910)	(675)
Pepco	(630)	(647)	(477)
DPL	(429)	(336)	(345)
ACE	(310)	(309)	(306)

	Successor		Predecessor	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$(1,396)	$(1,030)	$(343)	$(1,161)

Significant investing cash flow impacts for the Registrants for 2017, 2016 and 2015 were as follows:

Exelon

- During 2017, Exelon had additional expenditures of $23 million and $178 million relating to the ConEdison Solutions and the acquisitions of the FitzPatrick nuclear generating station, respectively. During 2016, Exelon had expenditures of $6.6 billion, $235 million, and $58 million relating to the acquisitions of PHI, ConEdison Solutions and the acquisitions of the FitzPatrick nuclear generating station, respectively.
- During 2017, Exelon had proceeds of $219 million from sales of long-lived assets.
- During 2016, Exelon had proceeds of $360 million as a result of early termination of direct financing leases.

Generation

- During 2017, Generation had additional expenditures of $23 million and $178 million relating to the ConEdison Solutions and the acquisitions of the FitzPatrick nuclear generating station, respectively. During 2016, Generation had expenditures of $235 million, and $58 million relating to the acquisitions of ConEdison Solutions and the acquisitions of the FitzPatrick nuclear generating station, respectively.
- During 2017, Generation had proceeds of $218 million from sales of long-lived assets.

Capital Expenditure Spending

Generation

Generation has entered into several agreements to acquire equity interests in privately held development stage entities which develop energy-related technology. The agreements contain a series of scheduled investment commitments, including in-kind services contributions. There are anticipated expenditures to fund anticipated planned capital and operating needs of the associated companies.

Capital expenditures by Registrant for the year ended December 31, 2017, 2016 and 2015 and projected amounts for 2018 are as follows:

	Projected 2018[(a)]	2017	2016	2015
Exelon[(b)]	$7,825	$7,584	$8,553	$7,624
Generation	2,100	2,259	3,078	3,841
ComEd[(c)]	2,125	2,250	2,734	2,398
PECO	800	732	686	601
BGE	1,000	882	934	719
Pepco	725	628	586	544
DPL	400	428	349	352
ACE	375	312	311	300

		Successor		Predecessor	
	Projected 2018[a]	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI[d]	$1,500	$1,396	$1,008	$273	$1,230

[a] Total projected capital expenditures do not include adjustments for non-cash activity.

[b] Includes corporate operations, BSC and PHISCO rounded to the nearest $25 million.

[c] The capital expenditures and 2018 projections include $86 million of expected incremental spending pursuant to EIMA, ComEd has committed to invest approximately $2.6 billion over a ten-year period to modernize and storm-harden its distribution system and to implement smart grid technology.

[d] Includes PHISCO rounded to the nearest $25 million.

Projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Generation

Approximately 40% and 10% of the projected 2018 capital expenditures at Generation are for the acquisition of nuclear fuel, and the construction of new natural gas plants and solar facilities, respectively, with the remaining amounts reflecting investment in renewable energy and additions and upgrades to existing facilities (including material condition improvements during nuclear refueling outages). Generation anticipates that they will fund capital expenditures with internally generated funds and borrowings.

ComEd, PECO, BGE, Pepco, DPL and ACE

Projected 2018 capital expenditures at the Utility Registrants are for continuing projects to maintain and improve operations, including enhancing reliability and adding capacity to the transmission and distribution systems such as ComEd's reliability related investments required under EIMA, and the Utility Registrants' construction commitments under PJM's RTEP.

The Utility Registrants as transmission owners are subject to NERC compliance requirements. NERC provides guidance to transmission owners regarding assessments of transmission lines. The results of these assessments could require the Utility Registrants to incur incremental capital or operating and maintenance expenditures to ensure their transmission lines meet NERC standards. In 2010, NERC provided guidance to transmission owners that recommended the Utility Registrants perform assessments of their transmission lines. ComEd, PECO and BGE submitted their final bi-annual reports to NERC in January 2014. ComEd, PECO and BGE will be incurring incremental capital expenditures associated with this guidance following the completion of the assessments. Specific projects and expenditures are identified as the assessments are completed. ComEd's, PECO's and BGE's forecasted 2018 capital expenditures above reflect capital spending for remediation to be completed through 2019. Pepco, DPL and ACE have substantially completed their assessments and thus do not expect significant capital expenditures related to this guidance in 2018.

The Utility Registrants anticipate that they will fund their capital expenditures with a combination of internally generated funds and borrowings and additional capital contributions from parent.

Cash Flows from Financing Activities

Cash flows provided by (used in) financing activities for the year ended December 31, 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$ 717	$1,191	$4,830
Generation	(581)	(734)	(479)
ComEd	789	169	467
PECO	50	(263)	83
BGE	22	(21)	(162)
Pepco	219	—	103
DPL	64	67	80
ACE	5	22	51

	Successor		Predecessor	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$306	$(7)	$372	$233

Debt

See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further details of the Registrants' debt issuances and retirements. Debt activity for 2017, 2016 and 2015 by Registrant was as follows:

During the year ended December 31, 2017, the following long-term debt was issued:

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Exelon Corporate	Junior Subordinated Notes	3.50%	June 1, 2022	$1,150	Refinance Exelon's Junior Subordinated Notes issued in June 2014.
Generation	Albany Green Energy Project Financing[(a)]	LIBOR + 1.25%	November 17, 2017	$ 14	Albany Green Energy biomass generation development.
Generation	Energy Efficiency Project Financing[(a)]	3.90%	February 1, 2018	$ 19	Funding to install energy conservation measures for the Naval Station Great Lakes project.
Generation	Energy Efficiency Project Financing[(a)]	3.72%	May 1, 2018	$ 5	Funding to install energy conservation measures for the Smithsonian Zoo project.
Generation	Energy Efficiency Project Financing[(a)]	2.61%	September 30, 2018	$ 13	Funding to install energy conservation measures for the Pensacola project.
Generation	Energy Efficiency Project Financing[(a)]	3.53%	April 1, 2019	$ 8	Funding to install energy conservation measures for the State Department project.
Generation	Senior Notes	2.95%	January 15, 2020	$ 250	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	Senior Notes	3.40%	March 15, 2022	$ 500	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	ExGen Texas Power Nonrecourse Debt[(b)(c)]	LIBOR + 4.75%	September 18, 2021	$ 6	General corporate purposes.
Generation	ExGen Renewables IV, Nonrecourse Debt[(b)]	LIBOR + 3.00%	November 30, 2024	$ 850	General corporate purposes.
ComEd	First Mortgage Bonds, Series 122	2.95%	August 15, 2027	$ 350	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
ComEd	First Mortgage Bonds, Series 123	3.75%	August 15, 2047	$ 650	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
PECO	First and Refunding Mortgage Bonds	3.70%	September 15, 2047	$ 325	General corporate purposes.

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
BGE	Senior Notes	3.75%	August 15, 2047	$ 300	Redeem $250 million in principal amount of the 6.20% Deferrable Interest Subordinated Debentures due October 15, 2043 issued by BGE's affiliate BGE Capital Trust II, repay commercial paper obligations and for general corporate purposes.
Pepco	Energy Efficiency Project Financing[a]	3.30%	December 15, 2017	$ 2	Funding to install energy conservation measures for the DOE Germantown project.
Pepco	First Mortgage Bonds	4.15%	March 15, 2043	$ 200	Funding to repay outstanding commercial paper and for general corporate purposes.

[a] For Energy Efficiency Project Financing, the maturity dates represent the expected date of project completion, upon which the respective customer assumes the outstanding debt.

[b] See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

[c] As a result of the bankruptcy filing for EGTP on November 7, 2017, the nonrecourse debt was deconsolidated from Exelon's and Generation's consolidated financial statements. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for further discussion.

During the year ended December 31, 2016, the following long term debt was issued:

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Exelon Corporate	Senior Unsecured Notes	2.45%	April 15, 2021	$300	Repay commercial paper issued by PHI and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	3.40%	April 15, 2026	$750	Repay commercial paper issued by PHI and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	4.45%	April 15, 2046	$750	Repay commercial paper issued by PHI and for general corporate purposes.
Generation	Renewable Power Generation Nonrecourse Debt[a]	4.11%	March 31, 2035	$150	Paydown long-term debt obligations at Sacramento PV Energy and Constellation Solar Horizons and for general corporate purposes.
Generation	Albany Green Energy Project Financing[b]	LIBOR + 1.25%	November 17, 2017	$ 98	Albany Green Energy biomass generation development
Generation	Energy Efficiency Project Financing[b]	3.17%	December 31, 2017	$ 16	Funding to install energy conservation measures in Brooklyn, NY.
Generation	Energy Efficiency Project Financing[b]	3.90%	January 31, 2018	$ 19	Funding to install energy conservation measures for the Naval Station Great Lakes project.

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Generation	Energy Efficiency Project Financing[(b)]	3.52%	April 30, 2018	$ 14	Funding to install energy conservation measures for the Smithsonian Zoo project.
Generation	SolGen Nonrecourse Debt[(a)]	3.93%	September 30, 2036	$150	General corporate purposes.
Generation	Energy Efficiency Project Financing[(b)]	3.46%	October 1, 2018	$ 36	Funding to install energy conservation measures or the Marine Corps Logistics Base project.
Generation	Energy Efficiency Project Financing[(b)]	2.61%	September 30, 2018	$ 4	Funding to install energy conservation measures for the Pensacola project
ComEd	First Mortgage Bonds, Series 120	2.55%	June 15, 2026	$500	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
ComEd	First Mortgage Bonds, Series 121	3.65%	June 15, 2046	$700	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
PECO	First Mortgage Bonds	1.70%	September 15, 2021	$300	Refinance maturing mortgage bonds.
BGE	Notes	2.40%	August 15, 2026	$350	Redeem the $190M of outstanding preference shares and for general corporate purposes.
BGE	Notes	3.50%	August 15, 2046	$500	Redeem the $190M of outstanding preference shares and for general corporate purposes.
Pepco	Energy Efficiency Project Financing[(b)]	3.30%	December 15, 2017	$ 4	Funding to install energy conservation measures for the DOE Germantown project.
DPL	First Mortgage Bonds	4.15%	May 15, 2045	$175	Refinance maturing mortgage bonds, repay commercial paper and for general corporate purposes.

(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) For Energy Efficiency Project Financing, the maturity dates represent the expected date of project completion, upon which the respective customer assumes the outstanding debt.

During the year ended December 31, 2015, the following long term-debt was issued:

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Exelon Corporate	Senior Unsecured Notes	1.55%	June 9, 2017	$ 550	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	2.85%	June 15, 2020	$ 900	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	3.95%	June 15, 2025	$1,250	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	4.95%	June 15, 2035	$ 500	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	5.10%	June 15, 2045	$1,000	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Long-Term Software License Agreement	3.95%	May 1, 2024	$ 111	Procurement of software licenses.
Generation	Senior Unsecured Notes	2.95%	January 15, 2020	$ 750	Fund the optional redemption of Exelon's $550 million, 4.550% Senior Notes and for general corporate purposes.
Generation	AVSR DOE Nonrecourse Debt(a)	2.29 - 2.96%	January 5, 2037	$ 39	Antelope Valley solar development.
Generation	Energy Efficiency Project Financing(b)	3.71%	July 31, 2017	$ 42	Funding to install energy conservation measures in Coleman, Florida.
Generation	Energy Efficiency Project Financing(b)	3.55%	November 15, 2016	$ 19	Funding to install energy conservation measures in Frederick, Maryland.
Generation	Tax Exempt Pollution Control Revenue Bonds	2.50 - 2.70%	2019 - 2020	$ 435	General corporate purposes.
Generation	Albany Green Energy Project Financing(b)	LIBOR + 1.25%	November 17, 2017	$ 100	Albany Green Energy biomass generation development.
Generation	Nuclear Fuel Purchase Contract	3.15%	September 30, 2020	$ 57	Procurement of uranium.
ComEd	First Mortgage Bonds, Series 118	3.70%	March 1, 2045	$ 400	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
ComEd	First Mortgage Bonds, Series 119	4.35%	November 15, 2045	$ 450	Repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
PECO	First and Refunding Mortgage Bonds	3.15%	October 15, 2025	$ 350	General corporate purposes
Pepco	First Mortgage Bonds	4.15%	March 15, 2043	$ 200	Repay outstanding commercial paper obligations and general corporate purposes
DPL	First Mortgage Bonds	4.15%	May 15, 2045	$ 200	Repay outstanding commercial paper obligations and general corporate purposes
ACE	First Mortgage Bonds	3.50%	December 1, 2025	$ 150	Repay outstanding commercial paper obligations and general corporate purposes

(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) For Energy Efficiency Project Financing, the maturity dates represent the expected date of project completion, upon which the respective customer assumes the outstanding debt.

During the year ended December 31, 2017, the following long-term debt was retired and/or redeemed:

Company	Type	Interest Rate	Maturity	Amount
Exelon Corporate	Long-Term Software License Agreement	3.95%	May 1, 2024	$ 24
Exelon Corporate	Senior Notes	1.55%	June 9, 2017	$550
Generation	Senior Notes - Exelon Wind	2.00%	July 31, 2017	$ 1
Generation	CEU Upstream Nonrecourse Debt(a)	LIBOR + 2.25%	January 14, 2019	$ 6
Generation	SolGen Nonrecourse Debt(a)	3.93%	September 30, 2036	$ 2
Generation	AVSR DOE Nonrecourse Debt(a)	2.29% - 3.56%	January 5, 2037	$ 22
Generation	Kennett Square Capital Lease	7.83%	September 20, 2020	$ 2
Generation	Continental Wind Nonrecourse Debt(a)	6.00%	February 28, 2033	$ 31
Generation	PES - PGOV Notes Payable	6.70-7.60%	2017 - 2018	$ 1
Generation	ExGen Texas Power Nonrecourse Debt(a)(b)	LIBOR + 4.75%	September 18, 2021	$665
Generation	Renewable Power Generation Nonrecourse Debt(a)	4.11%	March 31, 2035	$ 14
Generation	NUKEM	3.25% - 3.35%	June 30, 2018	$ 23
Generation	ExGen Renewables I, Nonrecourse Debt	LIBOR + 4.25%	February 6, 2021	$233
Generation	Senior Notes	6.20%	October 1, 2017	$700
Generation	Albany Green Energy Project Financing	LIBOR + 1.25%	November 17, 2017	$212
ComEd	First Mortgage Bonds	6.15%	September 15, 2017	$425
BGE	Rate Stabilization Bonds	5.82%	April 1, 2017	$ 41
BGE	Capital Trust Preferred Securities	6.20%	October 15, 2043	$258
PHI	Senior Notes	6.13%	June 1, 2017	$ 81
DPL	Medium Term Notes, Unsecured	7.56% - 7.58%	February 1, 2017	$ 14
DPL	Variable Rate Demand Bonds	Variable	October 1, 2017	$ 26
Pepco	Third Party Financing	6.97% - 7.99%	2018 - 2022	$ 1
ACE	Transition Bonds	5.05% - 5.55%	2020 - 2023	$ 35

(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) As a result of the bankruptcy filing for EGTP on November 7, 2017, the nonrecourse debt was deconsolidated from Exelon's and Generation's consolidated financial statements. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further discussion.

During the year ended December 31, 2016, the following long-term debt was retired and/or redeemed:

Company	Type	Interest Rate	Maturity	Amount
Exelon Corporate	Long Term Software License Agreement	3.95%	May 1, 2024	$ 8
Exelon Corporate	Senior Notes	4.95%	June 15, 2035	$ 1
Generation	AVSR DOE Nonrecourse Debt[a]	2.29% - 3.56%	January 5, 2037	$ 22
Generation	Kennett Square Capital Lease	7.83%	September 20, 2020	$ 4
Generation	Continental Wind Nonrecourse Debt[a]	6.00%	February 28, 2033	$ 29
Generation	CEU Upstream Nonrecourse Debt[a]	LIBOR + 2.25%	January 14, 2019	$ 46
Generation	ExGen Texas Power Nonrecourse Debt[a][b]	5.00%	September 18, 2021	$ 7
Generation	Sacramento Solar Nonrecourse Debt	LIBOR + 2.25%	December 31, 2030	$ 33
Generation	Clean Horizons Nonrecourse Debt	LIBOR + 2.25%	September 7, 2030	$ 32
Generation	ExGen Renewables I, Nonrecourse Debt	LIBOR + 4.25%	February 6, 2021	$ 24
Generation	PES - PGOV Notes Payable	6.70% - 7.46%	2017-2018	$ 1
Generation	NUKEM	3.35%	June 30, 2018	$ 12
Generation	NUKEM	3.25%	July 1, 2018	$ 10
Generation	Renewable Power Generation Nonrecourse Debt[a]	4.11%	March 31, 2035	$ 9
Generation	SolGen Nonrecourse Debt[a]	3.93%	September 30, 2036	$ 2
ComEd	First Mortgage Bonds, Series 104	5.95%	August 15, 2016	$415
ComEd	First Mortgage Bonds, Series 111	1.95%	August 1, 2016	$250
PECO	First and Refunding Mortgage Bonds	1.20%	October 15, 2016	$300
BGE	Rate Stabilization Bonds	5.72%	April 1, 2016	$ 1
BGE	Rate Stabilization Bonds	5.82%	April 1, 2017	$ 38
BGE	Notes	5.90%	October 1, 2016	$300
BGE	Rate Stabilization Bonds	5.82%	April 1, 2017	$ 40
PHI	Senior Unsecured Notes	5.90%	December 12, 2016	$190
DPL	First Mortgage Bonds	5.22%	December 30, 2016	$100
ACE	Transition Bonds	5.05%	October 20, 2020	$ 12
ACE	Transition Bonds	5.55%	October 20, 2023	$ 34
ACE	First Mortgage Bonds	7.68%	August 23, 2016	$ 2

(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) As a result of the bankruptcy filing for EGTP on November 7, 2017, the nonrecourse debt was deconsolidated from Exelon's and Generation's consolidated financial statements. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further discussion.

During the year ended December 31, 2015, the following long-term debt was retired and/or redeemed:

Company	Type	Interest Rate	Maturity	Amount
Exelon Corporate	Senior Unsecured Notes	4.55%	June 15, 2015	$550
Exelon Corporate	Senior Notes	4.90%	June 15, 2015	$800
Exelon Corporate	Senior Unsecured Notes	3.95%	June 15, 2025	$443
Exelon Corporate	Senior Unsecured Notes	4.95%	June 15, 2035	$167
Exelon Corporate	Senior Unsecured Notes	5.10%	June 15, 2045	$259
Exelon Corporate	Long-Term Software License Agreement	3.95%	May 1, 2024	$ 1
Generation	Senior Unsecured Notes	4.55%	June 15, 2015	$550
Generation	CEU Upstream Nonrecourse Debt[a]	LIBOR + 2.25%	January 14, 2019	$ 9
Generation	AVSR DOE Nonrecourse Debt[a]	2.29%-3.56%	January 5, 2037	$ 23
Generation	Kennett Square Capital Lease	7.83%	September 20, 2020	$ 3
Generation	Continental Wind Nonrecourse Debt	6.00%	February 28, 2033	$ 20
Generation	ExGen Texas Power Nonrecourse Debt[a][b]	LIBOR + 4.75%	September 8, 2021	$ 5
Generation	ExGen Renewables I Nonrecourse Debt	LIBOR + 4.25%	February 6, 2021	$ 24
Generation	Constellation Solar Horizons Nonrecourse Debt	2.56%	September 7, 2030	$ 2
Generation	Sacramento PV Energy Nonrecourse Debt	2.58%	December 31, 2030	$ 2
Generation	Energy Efficiency Project[b]	3.55%	November 15, 2016	$ 19
ComEd	First Mortgage Bonds, Series 101	4.70%	April 15, 2015	$260
BGE	Rate Stabilization Bonds	5.72%	April 1, 2016	$ 75
PHI	Senior Unsecured Notes	2.70%	October 1, 2015	$250
PHI (c)	Energy Efficiency Project Financing	4.68%	February 10, 2015	$ 7
PHI (c)	Energy Efficiency Project Financing	8.87%	June 1, 2021	$ 5
PHI (c)	Energy Efficiency Project Financing	7.61%	August 1, 2015	$ 1
PHI (c)	PES - PGOV Notes Payable	6.70%	2017-2018	$ 1
Pepco	Energy Efficiency Project Financing	3.12%	February 20, 2015	$ 12
DPL	Senior Unsecured Notes	5.00%	June 1, 2015	$100
ACE	Secured Medium-Term Notes Series C	7.68%	August 24, 2015	$ 15
ACE	Transition Bonds	5.05%	October 20, 2020	$ 12
ACE	Transition Bonds	5.55%	October 20, 2023	$ 32

[a] See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

[b] As a result of the bankruptcy filing for EGTP on November 7, 2017, the nonrecourse debt was deconsolidated from Exelon's and Generation's consolidated financial statements. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further discussion.

[c] Represents Pepco Energy Services energy efficiency project financing. As of the date of the merger, PES financing was included with Generation.

From time to time and as market conditions warrant, the Registrants may engage in long-term debt retirements via tender offers, open market repurchases or other viable options to reduce debt on their respective balance sheets.

Dividends

Cash dividend payments and distributions for the year ended December 31, 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$1,236	$1,166	$1,105
Generation	659	922	2,474
ComEd	422	369	299
PECO	288	277	279
BGE[(a)]	198	187	171
Pepco	133	136	146
DPL	112	54	92
ACE	68	63	12

	Successor		Predecessor	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$311	$273	$—	$275

(a) Includes dividends paid on BGE's preference stock during 2016 and 2015.

Quarterly dividends declared by the Exelon Board of Directors during the year ended December 31, 2017 and for the first quarter of 2018 were as follows:

Period	Declaration Date	Shareholder of Record Date	Dividend Payable Date	Cash per Share
First Quarter 2017	January 31, 2017	February 15, 2017	March 10, 2017	$0.3275
Second Quarter 2017	April 25, 2017	May 15, 2017	June 9, 2017	$0.3275
Third Quarter 2017	July 25, 2017	August 15, 2017	September 8, 2017	$0.3275
Fourth Quarter 2017	September 25, 2017	November 15, 2017	December 8, 2017	$0.3275
First Quarter 2018[(a)]	January 30, 2018	February 15, 2018	March 9, 2018	$0.3450

(a) Exelon's Board of Directors approved an updated dividend policy providing an increase of 5% each year for the period covering 2018 through 2020, beginning with the March 2018 dividend.

Short-Term Borrowings

Short-term borrowings incurred (repaid) during 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$(261)	$(353)	$ 80
Generation	(620)	620	—
ComEd	—	(294)	(10)
BGE	32	(165)	90
Pepco	3	(41)	(40)
DPL	216	(105)	(1)
ACE	108	(5)	(122)

	Successor		Predecessor	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$328	$(515)	$(121)	$34

Retirement of Long-Term Debt to Financing Affiliates

On August 28, 2017, BGE redeemed all of the outstanding shares of BGE Capital Trust II 6.20% Preferred Securities. See Note 13 — Debt and Credit Agreements for further discussion.

Contributions from Parent/Member

Contributions from Parent/Member (Exelon) during 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Generation	$102	$142	$ 47
ComEd[a][b]	672	473	209
PECO[b]	16	18	16
BGE[b]	184	61	7
Pepco[c]	161	187	112
DPL[c]	—	152	75
ACE[c]	—	139	95

	Successor		Predecessor	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI[b]	$758	$1,251	$—	$—

[a] Additional contributions from parent or external debt financing may be required as a result of increased capital investment in infrastructure improvements and modernization pursuant to EIMA, transmission upgrades and expansions and Exelon's agreement to indemnify ComEd for any unfavorable after-tax impacts associated with ComEd's LKE tax matter.

[b] Contribution paid by Exelon.

[c] Contribution paid by PHI.

Pursuant to the orders approving the merger, Exelon made equity contributions of $73 million, $46 million and $49 million to Pepco, DPL and ACE, respectively, in the second quarter of 2016 to fund the after-tax amount of the customer bill credit and the customer base rate credit.

Redemptions of Preference Stock. BGE had $190 million of cumulative preference stock that was redeemable at its option at any time after October 1, 2015 for the redemption price of $100 per share, plus accrued and unpaid dividends. On July 3, 2016, BGE redeemed all 400,000 shares of its outstanding 7.125% Cumulative Preference Stock, 1993 Series and all 600,000 shares of its outstanding 6.990% Cumulative Preference Stock, 1995 Series for $100 million, plus accrued and unpaid dividends. On September 18, 2016, BGE redeemed the remaining 500,000 shares of its outstanding 6.970% Cumulative Preference Stock, 1993 Series and the remaining 400,000 shares of its outstanding 6.700% Cumulative Preference Stock, 1993 Series for $90 million, plus accrued and unpaid dividends. As of December 31, 2017, BGE no longer has any preferred stock outstanding. See Note 21 - Earnings Per Share of the Combined Notes to Consolidated Financial Statements for further details.

Other

For the year ended December 31, 2017, other financing activities primarily consists of debt issuance costs. See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements' for additional information.

Credit Matters

Market Conditions

The Registrants fund liquidity needs for capital investment, working capital, energy hedging and other financial commitments through cash flows from continuing operations, public debt offerings, commercial paper markets and large, diversified credit facilities. The credit facilities include $9.5 billion in aggregate total commitments of which $8.3 billion was available as of December 31, 2017, and of which no financial institution has more than 7% of the aggregate commitments for Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE. The Registrants had access to the commercial paper market during 2017 to fund their short-term liquidity needs, when necessary. The Registrants routinely review the sufficiency of their liquidity position, including appropriate sizing of credit facility commitments, by performing various stress test scenarios, such as commodity price movements, increases in margin-related transactions, changes in hedging levels and the impacts of hypothetical credit downgrades. The Registrants have continued to closely monitor events in the financial markets and the financial institutions associated with the credit facilities, including monitoring credit ratings and outlooks, credit default swap levels, capital raising and merger activity.

The Registrants believe their cash flow from operating activities, access to credit markets and their credit facilities provide sufficient liquidity. If Generation lost its investment grade credit rating as of December 31, 2017, it would have been required to provide incremental collateral of $1.8 billion to meet collateral obligations for derivatives, non-derivatives, normal purchases and normal sales contracts and applicable payables and receivables, net of the contractual right of offset under master netting agreements, which is well within its current available credit facility capacities of $4.7 billion.

The following table presents the incremental collateral that each Utility Registrant would have been required to provide in the event each Utility Registrant lost its investment grade credit rating at December 31, 2017 and available credit facility capacity prior to any incremental collateral at December 31, 2017:

	PJM Credit Policy Collateral	Other Incremental Collateral Required[(a)]	Available Credit Facility Capacity Prior to Any Incremental Collateral
ComEd	$18	$—	$998
PECO	3	34	599
BGE	3	66	600
Pepco	4	—	300
DPL	1	11	300
ACE	—	—	300

(a) Represents incremental collateral related to natural gas procurement contracts.

Exelon Credit Facilities

Exelon, ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the intercompany money pool. PHI meets its short-term liquidity requirements primarily through the issuance of short-term notes and the Exelon intercompany money pool. Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. The Registrants may use their respective credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit.

See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of the Registrants' credit facilities and short term borrowing activity.

Other Credit Matters

Capital Structure. At December 31, 2017, the capital structures of the Registrants consisted of the following:

	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Long-term debt	51%	32%	44%	44%	45%	39%	50%	46%	49%
Long-term debt to affiliates[(a)]	1%	4%	1%	3%	—%	—%	—%	—%	—%
Common equity	47%	—%	55%	53%	54%	—	49%	46%	46%
Member's equity	—%	64%	—%	—%	—%	59%	—	—	—
Commercial paper and notes payable	1%	—%	—	—%	1%	2%	1%	8%	5%

[(a)] Includes approximately $389 million, $205 million and $184 million owed to unconsolidated affiliates of Exelon, ComEd, and PECO respectively. These special purpose entities were created for the sole purposes of issuing mandatorily redeemable trust preferred securities of ComEd and PECO. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for additional information regarding the authoritative guidance for VIEs.

Security Ratings

The Registrants' access to the capital markets, including the commercial paper market, and their respective financing costs in those markets, may depend on the securities ratings of the entity that is accessing the capital markets.

The Registrants' borrowings are not subject to default or prepayment as a result of a downgrading of securities, although such a downgrading of a Registrant's securities could increase fees and interest charges under that Registrant's credit agreements.

As part of the normal course of business, the Registrants enter into contracts that contain express provisions or otherwise permit the Registrants and their counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if the Registrants are downgraded by a credit rating agency, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include the posting of collateral. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on collateral provisions.

Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, both Exelon and PHI operate an intercompany money pool. Maximum amounts contributed to and borrowed from the money pool by participant and the net contribution or borrowing as of December 31, 2017, are presented in the following tables:

EXELON INTERCOMPANY MONEY POOL

	For the Year Ended December 31, 2017		As of December 31, 2017
Contributed (borrowed)	Maximum Contributed	Maximum Borrowed	Contributed (Borrowed)
Exelon Corporate	$ 579	$ —	$ 217
Generation	20	(589)	(54)
PECO	336	(22)	—
BSC	—	(423)	(217)
PHI Corporate	—	(47)	—
PCI	55	—	54

PHI INTERCOMPANY MONEY POOL

Contributed (borrowed)	For the Year Ended December 31, 2017 Maximum Contributed	 Maximum Borrowed	As of December 31, 2017 Contributed (Borrowed)
PHI Corporate	$ 9	$(2)	$ 1
Pepco	—	—	—
DPL	—	—	—
ACE	—	—	—
PHISCO	3	(9)	—

Investments in Nuclear Decommissioning Trust Funds. Exelon, Generation and CENG maintain trust funds, as required by the NRC, to fund certain costs of decommissioning nuclear plants. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to offset inflationary increases in decommissioning costs. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocations in accordance with Generation's NDT fund investment policy. Generation's and CENG's investment policies establish limits on the concentration of holdings in any one company and also in any one industry. See Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for further information regarding the trust funds, the NRC's minimum funding requirements and related liquidity ramifications.

Shelf Registration Statements. Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have a currently effective combined shelf registration statement unlimited in amount, filed with the SEC, that will expire in August 2019. The ability of each Registrant to sell securities off the shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, as applicable, the current financial condition of the Registrant, its securities ratings and market conditions.

Regulatory Authorizations. ComEd, PECO, BGE, Pepco, DPL and ACE are required to obtain short-term and long-term financing authority from Federal and State Commissions as follows:

	Short-term Financing Authority[a]			Long-term Financing Authority[a]		
	Commission	Expiration Date	Amount	Commission	Expiration Date (c)	Amount
ComEd[b]	FERC	December 31, 2019	$2,500	ICC	2019	$1,383
PECO	FERC	December 31, 2019	1,500	PAPUC	December 31, 2018	1,275
BGE	FERC	December 31, 2019	700	MDPSC	N/A	700
Pepco	FERC	December 31, 2019	500	MDPSC	September 25, 2017	—
				DCPSC	December 31, 2020	600
DPL	FERC	December 31, 2019	500	MDPSC	December 31, 2017	—
				DPSC	December 31, 2020	350
ACE	NJBPU	December 31, 2019	350	NJBPU	December 31, 2019	350

(a) Generation currently has blanket financing authority it received from FERC in connection with its market-based rate authority.

(b) ComEd had $1,140 million available in long-term debt refinancing authority and $243 million available in new money long term debt financing authority from the ICC as of December 31, 2017 and has an expiration date of June 1, 2019 and March 1, 2019, respectively.

(c) Pepco and DPL are currently in the process of renewing their long-term financing authority with the MDPSC.

Exelon's ability to pay dividends on its common stock depends on the receipt of dividends paid by its operating subsidiaries. The payments of dividends to Exelon by its subsidiaries in turn depend on their results of operations and cash flows and other items affecting retained earnings. The Federal Power Act declares it to be unlawful for any officer or director of any public utility "to participate in the making or paying of any dividends of such public utility from any funds properly included in capital account." In addition, under Illinois law, ComEd may not pay any dividend on its stock, unless, among other things, its earnings and earned surplus are sufficient to declare and pay a dividend after provision is made for reasonable and proper reserves, or unless ComEd has specific authorization from the ICC. BGE is subject to certain dividend restrictions established by the MDPSC. First, BGE was prohibited from paying a dividend on its common shares through the end of 2014. Second, BGE is prohibited from paying a dividend on its common shares if (a) after the dividend payment, BGE's equity ratio would be below 48% as calculated pursuant to the MDPSC's ratemaking precedents or (b) BGE's senior unsecured credit rating is rated by two of the three major credit rating agencies below investment grade. Finally, BGE must notify the MDPSC that it intends to declare a dividend on its common shares at least 30 days before such a dividend is paid. Pepco, DPL and ACE are subject to certain dividend restrictions established by settlements approved in NJ, DE, MD and the DC. Pepco, DPL and ACE are prohibited from paying a dividend on their common shares if (a) after the dividend payment, Pepco's, DPL's or ACE's equity ratio would be below 48% as equity levels are calculated under the ratemaking precedents of the Commissions and the Board or (b) Pepco's, DPL's or ACE's senior unsecured credit rating is rated by one of the three major credit rating agencies below investment grade. At December 31, 2017, Exelon had retained earnings of $13,503 million, including Generation's undistributed earnings of $4,310 million, ComEd's retained earnings of $1,132 million consisting of retained earnings appropriated for future dividends of $2,771 million partially offset by $1,639 million of unappropriated retained deficit, PECO's retained earnings of $1,087 million and BGE's retained earnings $1,536 million. At December 31, 2017, Pepco had retained earnings of $1,063 million, DPL had retained earnings of $571 million and ACE had retained earnings of $131 million. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information regarding fund transfer restrictions.

Contractual Obligations and Off-Balance Sheet Arrangements

The following tables summarize the Registrants' future estimated cash payments as of December 31, 2017 under existing contractual obligations, including payments due by period. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for information regarding the Registrants' commercial and other commitments, representing commitments potentially triggered by future events.

		Payment due within			
	Total	**2018**	**2019 - 2020**	**2021 - 2022**	**Due 2023 and beyond**
Long-term debt[a]	$33,994	$ 2,057	$ 4,459	$4,574	$22,904
Interest payments on long-term debt[b]	15,999	1,346	2,579	2,231	9,843
Capital leases	53	18	25	2	8
Operating leases[c]	1,512	188	276	261	787
Purchase power obligations[d]	1,153	358	498	103	194
Fuel purchase agreements[e]	7,270	1,229	2,241	1,385	2,415
Electric supply procurement[e]	3,417	2,213	1,204	—	—
AEC purchase commitments[e]	3	1	2	—	—
Curtailment services commitments[e]	119	52	54	13	—
Long-term renewable energy and REC commitments[f]	1,666	111	224	235	1,096
Other purchase obligations[g]	7,765	4,844	1,585	561	775
DC PLUG obligation[h]	188	28	60	60	40
Construction commitments[i]	57	56	1	—	—
PJM regional transmission expansion commitments[j]	569	179	270	120	—
SNF obligation[k]	1,147	—	—	—	1,147
Pension contributions[l]	1,393	301	493	386	213
Total contractual obligations	$76,305	$12,981	$13,971	$9,931	$39,422

[a] Includes $390 million due after 2023 to ComEd and PECO financing trusts.

[b] Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2017. Includes estimated interest payments due to ComEd, PECO, BGE, PHI, Pepco, DPL and ACE financing trusts.

[c] Excludes Generation's contingent operating lease payments associated with contracted generation agreements. These amounts are included within purchase power obligations. Includes estimated cash payments for service fees related to PECO's meter reading operating lease.

[d] Purchase power obligations include contingent operating lease payments associated with contracted generation agreements. Amounts presented represent Generation's expected payments under these arrangements at December 31, 2017, including those related to CENG. Expected payments include certain fixed capacity charges which may be reduced based on plant availability. Expected payments exclude renewable PPA contracts that are contingent in nature. Contained within Purchase power obligations are Net Capacity Purchases of $106 million, $99 million, $40 million, $31 million, $19 million and $171 million for 2018, 2019, 2020, 2021, 2022 and thereafter, respectively.

[e] Represents commitments to purchase nuclear fuel, natural gas and related transportation, storage capacity and services, procure electric renewable energy and RECs, procure electric supply, and purchase AECs and curtailment services.

[f] Primarily related to ComEd 20-year contracts for renewable energy and RECs beginning in June 2012. ComEd is permitted to recover its renewable energy and REC costs from retail customers with no mark-up. The commitments represent the earliest and maximum settlements with suppliers for renewable energy and RECs under the existing contract terms. See Note 3—Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

[g] Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.

[h] Related to DC PLUG project costs for assets funded by the District of Columbia for which the District of Columbia has assessed a charge on Pepco. Pepco will recover this charge from customers through a volumetric distribution rider. See Note 3 — Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

[i] Represents commitments for Generation's ongoing investments in new natural gas and biomass generation construction.

[j] Under their operating agreements with PJM, ComEd, PECO, BGE, Pepco, DPL and ACE are committed to the construction of transmission facilities to maintain system reliability. These amounts represent ComEd, PECO, BGE, Pepco, DPL and ACE's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

[k] See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further information regarding SNF obligations.

[l] These amounts represent Exelon's expected contributions to its qualified pension plans. The projected contributions reflect a funding strategy of contributing the greater of $300 million (which has been updated for the inclusion of PHI) until the qualified plans are fully funded on an accumulated benefit obligation basis, and the minimum amounts under ERISA to avoid benefit restrictions and at-risk status thereafter. The remaining qualified pension plans' contributions are generally based on the estimated minimum pension contributions required under ERISA and the Pension Protection Act of 2006, as well as contributions necessary to avoid benefit restrictions and at-risk status. These amounts represent estimates that are based on assumptions that are subject to change. Qualified pension contributions for years after 2023 are not included. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for further information regarding estimated future pension benefit payments.

Quantitative and Qualitative Disclosures About Market Risk

The Registrants are exposed to market risks associated with adverse changes in commodity prices, counterparty credit, interest rates and equity prices. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities.

Commodity Price Risk

Commodity price risk is associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather conditions, governmental regulatory and environmental policies and other factors. To the extent the total amount of energy Exelon generates and purchases differs from the amount of energy it has contracted to sell, Exelon is exposed to market fluctuations in commodity prices. Exelon seeks to mitigate its commodity price risk through the sale and purchase of electricity, fossil fuel and other commodities.

Generation

Electricity available from Generation's owned or contracted generation supply in excess of Generation's obligations to customers, including portions of the Utility Registrants' retail load, is sold into the wholesale markets. To reduce commodity price risk caused by market fluctuations, Generation enters into non-derivative contracts as well as derivative contracts, including swaps, futures, forwards and options, with approved counterparties to hedge anticipated exposures. Generation uses derivative instruments as economic hedges to mitigate exposure to fluctuations in commodity prices. Generation expects the settlement of the majority of its economic hedges will occur during 2018 through 2020.

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation's owned and contracted generation positions which have not been hedged. Exelon's hedging program involves the hedging of commodity price risk for Exelon's expected generation, typically on a ratable basis over three-year periods. As of December 31, 2017, the percentage of expected generation hedged is 85%-88%, 55%-58% and 26%-29% for 2018, 2019 and 2020, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts, including Generation's sales to ComEd, PECO and BGE to serve their retail load.

A portion of Generation's hedging strategy may be accomplished with fuel products based on assumed correlations between power and fuel prices, which routinely change in the market. Market price risk exposure is the risk of a change in the value of unhedged positions. The forecasted market price risk exposure for Generation's entire economic hedge portfolio associated with a $5 reduction in the annual average around-the-clock energy price based on December 31, 2017 market conditions and hedged position would be decreases in pre-tax net income of approximately $110 million, $400 million and $630 million, respectively, for 2018, 2019 and 2020. Power price sensitivities are derived by adjusting power price assumptions while keeping all other price inputs constant. Generation actively manages its portfolio to mitigate market price risk exposure for its unhedged position. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Proprietary Trading Activities

Proprietary trading portfolio activity for the year ended December 31, 2017, resulted in pre-tax gains of $18 million due to net mark-to-market gains of $5 million and realized gains of $13 million. Generation has not segregated proprietary trading activity within the following discussion because of the relative size of the proprietary trading portfolio in comparison to Generation's total Revenue net of purchased power and fuel expense. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Fuel Procurement

Generation procures natural gas through long-term and short-term contracts, and spot-market purchases. Nuclear fuel assemblies are obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation's procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 59% of Generation's uranium concentrate requirements from 2018 through 2022 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrates can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon's and Generation's results of operations, cash flows and financial positions.

ComEd

ComEd entered into 20-year contracts for renewable energy and RECs beginning in June 2012. ComEd is permitted to recover its renewable energy and REC costs from retail customers with no mark-up. The annual commitments represent the maximum settlements with suppliers for renewable energy and RECs under the existing contract terms. Pursuant to the ICC's Order on December 19, 2012, ComEd's commitments under the existing long-term contracts were reduced for the June 2013 through May 2014 procurement period. In addition, the ICC's December 18, 2013 Order approved the reduction of ComEd's commitments under those contracts for the June 2014 through May 2015 procurement period, and the amount of the reduction was approved by the ICC in March 2014.

ComEd has block energy contracts to procure electric supply that are executed through a competitive procurement process, which is further discussed in Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements. The block energy contracts are considered derivatives and qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result are accounted for on an accrual basis of accounting. ComEd does not execute derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

PECO, BGE, Pepco, DPL and ACE

PECO, BGE, Pepco, DPL and ACE have contracts to procure electric supply that are executed through a competitive procurement process, which are further discussed in Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements. PECO, BGE, Pepco, DPL and ACE have certain full requirements contracts, which are considered derivatives and qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result are accounted for on an accrual basis of accounting. Other full requirements contracts are not derivatives.

PECO, BGE and DPL have also executed derivative natural gas contracts, which either qualify for the normal purchases and normal sales exception or have no mark-to-market balances because the derivatives are index priced, to hedge their long-term price risk in the natural gas market. The hedging programs for natural gas procurement have no direct impact on their results of operations or financial position.

PECO, BGE, Pepco, DPL and ACE do not execute derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Trading and Non-Trading Marketing Activities

The following tables detail Exelon's, Generation's, ComEd's, PHI's and DPL's trading and non-trading marketing activities is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officers (CCRO).

The following table provides detail on changes in Exelon's, Generation's, ComEd's, PHI's and DPL's commodity mark-to-market net asset or liability balance sheet position from December 31, 2015 to December 31, 2017. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings. This table excludes all NPNS contracts and does not segregate proprietary trading activity. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of December 31, 2017 and 2016.

					Successor	*Predecessor*
					March 24 to December 31,	**January 1 to March 23,**
	Exelon	**Generation**	**ComEd**	**DPL**	**PHI**	**PHI**
Total mark-to-market energy contract net assets (liabilities) at December 31, 2015[a]	$ 1,506	$1,753	$(247)	$ —	$—	$—
Total change in fair value during 2016 of contracts recorded in result of operations	236	236	—	—		—
Reclassification to be realized at settlement of contracts recorded in results of operations	(265)	(265)	—	—	—	—
Contracts received at acquisition date[b]	(59)	(59)	—	—	—	—
Changes in fair value—recorded through regulatory assets and liabilities[c]	(8)	—	(11)	4	3	1
Changes in allocated collateral	(908)	(905)	—	(4)	(3)	(1)
Changes in net option premium paid	66	66	—	—	—	—
Option premium amortization	11	11	—	—	—	—
Upfront payments and amortizations[d]	140	140	—	—		
Total mark-to-market energy contract net assets (liabilities) at December 31, 2016[a]	$ 719	$ 977	$(258)	$ —	$—	$—

[a] Amounts are shown net of collateral paid to and received from counterparties.

[b] Includes fair value from contracts received at acquisition of ConEdison Solutions of $(59) million.

[c] For ComEd and DPL, the changes in fair value are recorded as a change in regulatory assets or liabilities. As of December 31, 2016, ComEd recorded a regulatory liability of $258 million, respectively, related to its mark-to-market derivative liabilities with Generation and unaffiliated suppliers. ComEd recorded $29 million of decreases in fair value and an increase for realized losses due to settlements of $18 million in purchased power expense associated with floating-to-fixed energy swap suppliers for the year ended December 31, 2016.

[d] Includes derivative contracts acquired or sold by Generation through upfront payments or receipts of cash, excluding option premiums, and the associated amortizations.

	Exelon	Generation	ComEd	DPL	Successor PHI
Total mark-to-market energy contract net assets (liabilities) at December 31, 2016[a]	$ 719	$ 977	$ (258)	$—	$—
Total change in fair value during 2016 of contracts recorded in result of operations	110	110	—	—	—
Reclassification to be realized at settlement of contracts recorded in results of operations	(273)	(273)	—	—	—
Changes in fair value—recorded through regulatory assets and liabilities[c]	(1)	—	2	(3)	(3)
Changes in allocated collateral	140	137	—	3	3
Changes in net option premium received	(28)	(28)	—	—	—
Option premium amortization	(7)	(7)	—	—	—
Upfront payments and amortizations[b]	(24)	(24)	—	—	—
Other miscellaneous[d]	31	31	—	—	—
Total mark-to-market energy contract net assets (liabilities) at December 31, 2017[a]	$ 667	$ 923	$ (256)	$—	$—

[a] Amounts are shown net of collateral paid to and received from counterparties.

[b] Includes derivative contracts acquired or sold by Generation through upfront payments or receipts of cash, excluding option premiums, and the associated amortizations.

[c] For ComEd and DPL, the changes in fair value are recorded as a change in regulatory assets or liabilities. As of December 31, 2017, ComEd recorded a regulatory liability of $256 million, related to its mark-to-market derivative liabilities with Generation and unaffiliated suppliers. For the year ended December 31, 2017, ComEd also recorded $18 million of decreases in fair value and realized losses due to settlements of $20 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the year ended December 31, 2017.

[d] As a result of the bankruptcy filing for EGTP on November 7, 2017, the net mark-to-market commodity contracts were deconsolidated from Exelon's and Generation consolidated financial statements.

Fair Values

The following tables present maturity and source of fair value for Exelon, Generation and ComEd mark-to-market commodity contract net assets (liabilities). The tables provide two fundamental pieces of information. First, the tables provide the source of fair value used in determining the carrying amount of the Registrants' total mark-to-market net assets (liabilities), net of allocated collateral. Second, the tables show the maturity, by year, of the Registrants' commodity contract net assets (liabilities) net of allocated collateral, giving an indication of when these mark-to-market amounts will settle and either generate or require cash. See Note 11 — Fair Value of Financial Assets and Liabilities of the Combined Notes to Consolidated Financial Statements for additional information regarding fair value measurements and the fair value hierarchy.

	Maturities Within						
	2018	2019	2020	2021	2022	2023 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts[a][b]:							
Actively quoted prices (Level 1)	$ (32)	$ (43)	$(15)	$ 2	$ (2)	$ —	$ (90)
Prices provided by external sources (Level 2)	462	(6)	(1)	6	—	—	461
Prices based on model or other valuation methods (Level 3)[c]	315	130	23	(27)	(58)	(87)	296
Total	$ 745	$ 81	$ 7	$(19)	$(60)	$(87)	$667

[a] Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in results of operations.

[b] Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $466 million at December 31, 2017.

[c] Includes ComEd's net assets (liabilities) associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Credit Risk, Collateral and Contingent Related Features

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that execute derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. See Note 12—Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for a detailed discussion of credit risk, collateral, and contingent related features.

Generation

The following tables provide information on Generation's credit exposure for all derivative instruments, normal purchases and normal sales agreements, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of December 31, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the duration of a company's credit risk by credit rating of the counterparties. The figures in the tables below exclude credit risk exposure from individual retail customers, uranium procurement contracts, and exposure through RTOs, ISOs and commodity exchanges, which are discussed below. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $28 million, $22 million, $24 million, $36 million, $12 million and $6 million respectively. See Note 26 — Related Party Transactions of the Combined Notes to Consolidated Financial Statements for additional information.

Rating as of December 31, 2017	Total Exposure Before Credit Collateral	Credit Collateral[a]	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 738	$ 4	$ 734	1	$ 244
Non-investment grade	90	12	78	—	—
No external ratings					
Internally rated—investment grade	253	—	253	—	—
Internally rated—non-investment grade	83	11	72	—	—
Total	$1,164	$ 27	$1,137	1	$ 244

	Maturity of Credit Risk Exposure			
Rating as of December 31, 2017	Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	Total Exposure Before Credit Collateral
Investment grade	$ 657	$ 80	$ 1	$ 738
Non-investment grade	74	16	—	90
No external ratings				
Internally rated—investment grade	191	30	32	253
Internally rated—non-investment grade	79	4	—	83
Total	$1,001	$ 130	$ 33	$1,164

Net Credit Exposure by Type of Counterparty	As of December 31, 2017
Financial institutions	$ 41
Investor-owned utilities, marketers, power producers	558
Energy cooperatives and municipalities	452
Other	86
Total	$ 1,137

[a] As of December 31, 2017, credit collateral held from counterparties where Generation had credit exposure included $8 million of cash and $19 million of letters of credit.

The Utility Registrants

Credit risk for the Utility Registrants is governed by credit and collection policies, which are aligned with state regulatory requirements. The Utility Registrants are currently obligated to provide service to all electric customers within their franchised territories. The Utility Registrants record a provision for uncollectible accounts, based upon historical experience, to provide for the potential loss from nonpayment by these customers. The Utility Registrants will monitor nonpayment from customers and will make any necessary adjustments to the provision for uncollectible accounts. See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for the allowance for uncollectible accounts policy. The Utility Registrants did not have any customers representing over 10% of their revenues as of December 31, 2017. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

As of December 31, 2017, ComEd's net credit exposure to suppliers was approximately $1 million. PECO and BGE had no net credit exposure to suppliers as of December 31, 2017. As of December 31, 2017 Pepco, DPL and ACE's net credit exposures were immaterial. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Collateral

Generation

As part of the normal course of business, Generation routinely enters into physical or financial contracts for the sale and purchase of electricity, natural gas and other commodities. In accordance with the contracts and applicable law, if Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on Generation's net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for information regarding collateral requirements. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for information regarding the letters of credit supporting the cash collateral.

Generation transacts output through bilateral contracts. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon's and Generation's results of operations, cash flows and financial positions. As market prices rise above or fall below contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. To post collateral, Generation depends on access to bank credit facilities, which serve as liquidity sources to fund collateral requirements. See Liquidity and Capital Resources — Credit Matters — Exelon Credit Facilities for additional information.

The Utility Registrants

As of December 31, 2017, ComEd held $10 million in collateral from suppliers in association with energy procurement contracts, approximately $2 million in collateral from suppliers for REC contract obligations and approximately $19 million in collateral from suppliers for long-term renewable energy contracts. BGE is not required to post collateral under its electric supply contracts but was holding an immaterial amount of collateral under its electric supply procurement contracts. BGE was not required to post collateral under its natural gas procurement contracts, but was holding an immaterial amount of collateral under its natural gas procurement contracts. PECO, Pepco, DPL and ACE were not required to post collateral under their energy and/or natural gas procurement contracts. See Note 3 — Regulatory Matters and Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

RTOs and ISOs

All Registrants participate in all, or some, of the established, wholesale spot energy markets that are administered by PJM, ISO-NE, ISO-NY, CAISO, MISO, SPP, AESO, OIESO and ERCOT. ERCOT is not subject to regulation by FERC but performs a similar function in Texas to that performed by RTOs in markets regulated by FERC. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot energy markets that are administered by the RTOs or ISOs, as applicable. In areas where there is no spot energy market, electricity is purchased and sold solely through bilateral agreements. For sales into the spot markets administered by an RTO or ISO, the RTO or ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the RTOs and ISOs may, under certain circumstances, require that losses arising from the default of one member on spot energy market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on the Registrants' results of operations, cash flows and financial positions.

Exchange Traded Transactions

Generation enters into commodity transactions on NYMEX, ICE, NASDAQ, NGX and the Nodal exchange ("the Exchanges"). DPL enters into commodity transactions on ICE. The Exchange clearinghouses act as the counterparty to each trade. Transactions on the Exchanges must adhere to comprehensive collateral and margining requirements. As a result, transactions on Exchanges are significantly collateralized and have limited counterparty credit risk.

Interest Rate and Foreign Exchange Risk

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants may also utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels, which are typically designated as cash flow hedges. These strategies are employed to manage interest rate risks. At December 31, 2017, Exelon had $800 million of notional amounts of fixed-to-floating hedges outstanding and Exelon and Generation had $636 million of notional amounts of floating-to-fixed hedges outstanding. Assuming the fair value and cash flow interest rate hedges are 100% effective, a hypothetical 50 basis point increase in the interest rates associated with unhedged variable-rate debt (excluding Commercial Paper) and fixed-to-floating swaps would result in approximately a $6 million decrease in Exelon Consolidated pre-tax income for the year ended December 31, 2017. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges. See Note 12—Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Equity Price Risk

Exelon and Generation maintain trust funds, as required by the NRC, to fund certain costs of decommissioning its nuclear plants. As of December 31, 2017, Generation's decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate Generation for inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's NDT fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $662 million reduction in the fair value of the trust assets. This calculation holds all other variables constant and assumes only the discussed changes in interest rates and equity prices. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for further discussion of equity price risk as a result of the current capital and credit market conditions.

Certifications

The CEO of Exelon has made the required annual certifications for 2017 to the New York Stock Exchange in compliance with the New York Stock Exchange listing standards. The CEO and CFO have filed with the SEC all required certifications under section 302 of the Sarbanes-Oxley Act of 2002. These certifications are filed as exhibits 31-1 and 31-2 to Exelon's 2017 Form 10-K.

Financial Statements and Supplementary Data

Management's Report on Internal Control Over Financial Reporting

The management of Exelon Corporation (Exelon) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Exelon's management conducted an assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Exelon's management concluded that, as of December 31, 2017, Exelon's internal control over financial reporting was effective.

The effectiveness of Exelon's internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

February 9, 2018

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Exelon Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedules listed in the index appearing under Item 15(a)(2), of Exelon Corporation and its subsidiaries (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 9, 2018

We have served as the Company's auditor since 2000.

Exelon Corporation and Subsidiary Companies Consolidated Statements of Operations and Comprehensive Income

	For the Years Ended December 31,		
(In millions, except per share data)	**2017**	**2016**	**2015**
Operating revenues			
Competitive businesses revenues	$17,360	$16,324	$18,395
Rate-regulated utility revenues	16,171	15,036	11,052
Total operating revenues	33,531	31,360	29,447
Operating expenses			
Competitive businesses purchased power and fuel	9,668	8,817	10,007
Rate-regulated utility purchased power and fuel	4,367	3,823	3,077
Operating and maintenance	10,126	10,048	8,322
Depreciation and amortization	3,828	3,936	2,450
Taxes other than income	1,731	1,576	1,200
Total operating expenses	29,720	28,200	25,056
Gain (Loss) on sales of assets	3	(48)	18
Bargain purchase gain	233	—	—
Gain on deconsolidation of business	213	—	—
Operating income	4,260	3,112	4,409
Other income and (deductions)			
Interest expense, net	(1,524)	(1,495)	(992)
Interest expense to affiliates	(36)	(41)	(41)
Other, net	1,056	413	(46)
Total other income and (deductions)	(504)	(1,123)	(1,079)
Income before income taxes	3,756	1,989	3,330
Income taxes	(125)	761	1,073
Equity in losses of unconsolidated affiliates	(32)	(24)	(7)
Net income	3,849	1,204	2,250
Net income (loss) attributable to noncontrolling interests and preference stock dividends	79	70	(19)
Net income attributable to common shareholders	$ 3,770	$ 1,134	$ 2,269
Comprehensive income, net of income taxes			
Net income	$ 3,849	$ 1,204	$ 2,250
Other comprehensive income (loss), net of income taxes			
Pension and non-pension postretirement benefit plans:			
Prior service benefit reclassified to periodic benefit cost	(56)	(48)	(46)
Actuarial loss reclassified to periodic benefit cost	197	184	220
Pension and non-pension postretirement benefit plan valuation adjustment	10	(181)	(99)
Unrealized gain on cash flow hedges	3	2	9
Unrealized gain on marketable securities	6	1	—
Unrealized gain (loss) on equity investments	4	(4)	(3)
Unrealized gain (loss) on foreign currency translation	7	10	(21)
Other comprehensive income (loss)	171	(36)	60
Comprehensive income	4,020	1,168	2,310
Comprehensive income (loss) attributable to noncontrolling interests and preference stock dividends	77	70	(19)
Comprehensive income attributable to common shareholders	$ 3,943	$ 1,098	$ 2,329
Average shares of common stock outstanding:			
Basic	947	924	890
Diluted	949	927	893
Earnings per average common share:			
Basic	$ 3.98	$ 1.23	$ 2.55
Diluted	$ 3.97	$ 1.22	$ 2.54
Dividends per common share	$ 1.31	$ 1.26	$ 1.24

See the Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
(In millions)	**2017**	**2016**	**2015**
Cash flows from operating activities			
Net income	$ 3,849	$ 1,204	$ 2,250
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	5,427	5,576	3,987
Impairment losses of long-lived assets, intangibles and regulatory assets	573	306	36
Gain on deconsolidation of business	(213)	—	—
(Gain) Loss on sales of assets	(3)	48	(18)
Bargain purchase gain	(233)	—	—
Deferred income taxes and amortization of investment tax credits	(361)	664	752
Net fair value changes related to derivatives	151	24	(367)
Net realized and unrealized (gains) losses on nuclear decommissioning trust fund investments	(616)	(229)	131
Other non-cash operating activities	721	1,333	1,109
Changes in assets and liabilities:			
Accounts receivable	(426)	(432)	240
Inventories	(72)	7	4
Accounts payable and accrued expenses	(390)	771	(121)
Option premiums received (paid), net	28	(66)	58
Collateral (posted) received, net	(158)	931	347
Income taxes	299	576	97
Pension and non-pension postretirement benefit contributions	(405)	(397)	(502)
Deposit with IRS	—	(1,250)	—
Other assets and liabilities	(691)	(621)	(387)
Net cash flows provided by operating activities	7,480	8,445	7,616
Cash flows from investing activities			
Capital expenditures	(7,584)	(8,553)	(7,624)
Proceeds from termination of direct financing lease investment	—	360	—
Proceeds from nuclear decommissioning trust fund sales	7,845	9,496	6,895
Investment in nuclear decommissioning trust funds	(8,113)	(9,738)	(7,147)
Acquisitions of businesses, net	(208)	(6,934)	(40)
Proceeds from sales of long-lived assets	219	61	147
Change in restricted cash	(50)	(42)	66
Other investing activities	(43)	(153)	(119)
Net cash flows used in investing activities	(7,934)	(15,503)	(7,822)
Cash flows from financing activities			
Changes in short-term borrowings	(261)	(353)	80
Proceeds from short-term borrowings with maturities greater than 90 days	621	240	—
Repayments on short-term borrowings with maturities greater than 90 days	(700)	(462)	—
Issuance of long-term debt	3,470	4,716	6,709
Retirement of long-term debt	(2,490)	(1,936)	(2,687)
Retirement of long-term debt to financing trust	(250)	—	—
Restricted proceeds from issuance of long-term debt	(50)	—	—
Issuance of common stock	—	—	1,868
Common stock issued from treasury stock	1,150	—	—
Redemption of preference stock	—	(190)	—
Dividends paid on common stock	(1,236)	(1,166)	(1,105)
Proceeds from employee stock plans	150	55	32
Sale of noncontrolling interests	396	372	32
Other financing activities	(83)	(85)	(99)
Net cash flows provided by financing activities	717	1,191	4,830
Increase (Decrease) in cash and cash equivalents	263	(5,867)	4,624
Cash and cash equivalents at beginning of period	635	6,502	1,878
Cash and cash equivalents at end of period	$ 898	$ 635	$ 6,502

See the Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies Consolidated Balance Sheets

	December 31,	
(In millions)	**2017**	**2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 898	$ 635
Restricted cash and cash equivalents	207	253
Deposit with IRS	—	1,250
Accounts receivable, net		
Customer	4,401	4,158
Other	1,132	1,201
Mark-to-market derivative assets	976	917
Unamortized energy contract assets	60	88
Inventories, net		
Fossil fuel and emission allowances	340	364
Materials and supplies	1,311	1,274
Regulatory assets	1,267	1,342
Other	1,242	930
Total current assets	11,834	12,412
Property, plant and equipment, net	74,202	71,555
Deferred debits and other assets		
Regulatory assets	8,021	10,046
Nuclear decommissioning trust funds	13,272	11,061
Investments	640	629
Goodwill	6,677	6,677
Mark-to-market derivative assets	337	492
Unamortized energy contract assets	395	447
Pledged assets for Zion Station decommissioning	—	113
Other	1,322	1,472
Total deferred debits and other assets	30,664	30,937
Total assets[(a)]	$116,700	$114,904

See the Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies Consolidated Balance Sheets

	December 31,	
(In millions)	2017	2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 929	$ 1,267
Long-term debt due within one year	2,088	2,430
Accounts payable	3,532	3,441
Accrued expenses	1,835	3,460
Payables to affiliates	5	8
Regulatory liabilities	523	602
Mark-to-market derivative liabilities	232	282
Unamortized energy contract liabilities	231	407
Renewable energy credit obligation	352	428
PHI Merger related obligation	87	151
Other	982	981
Total current liabilities	10,796	13,457
Long-term debt	32,176	31,575
Long-term debt to financing trusts	389	641
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	11,222	18,138
Asset retirement obligations	10,029	9,111
Pension obligations	3,736	4,248
Non-pension postretirement benefit obligations	2,093	1,848
Spent nuclear fuel obligation	1,147	1,024
Regulatory liabilities	9,865	4,187
Mark-to-market derivative liabilities	409	392
Unamortized energy contract liabilities	609	830
Payable for Zion Station decommissioning	—	14
Other	2,097	1,827
Total deferred credits and other liabilities	41,207	41,619
Total liabilities[(a)]	84,568	87,292
Commitments and contingencies		
Shareholders' equity		
Common stock (No par value, 2000 shares authorized, 963 shares and 924 shares outstanding at December 31, 2017 and 2016, respectively)	18,964	18,794
Treasury stock, at cost (2 shares and 35 shares at December 31, 2017 and 2016, respectively)	(123)	(2,327)
Retained earnings	13,503	12,030
Accumulated other comprehensive loss, net	(2,487)	(2,660)
Total shareholders' equity	29,857	25,837
Noncontrolling interests	2,275	1,775
Total equity	32,132	27,612
Total liabilities and equity	$116,700	$114,904

(a) Exelon's consolidated assets include $9,565 million and $8,893 million at December 31, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Exelon's consolidated liabilities include $3,612 million and $3,356 million at December 31, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Exelon. See Note 2—Variable Interest Entities.

Exelon Corporation and Subsidiary Companies Consolidated Statements of Changes in Equity

	Shareholders' Equity							
(In millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Preference Stock	Total Equity
Balance, December 31, 2014	894,568	$16,709	$(2,327)	$10,910	$(2,684)	$1,332	$ 193	$24,133
Net income (loss)	—	—	—	2,269	—	(32)	13	2,250
Long-term incentive plan activity	1,430	70	—	—	—	—	—	70
Employee stock purchase plan issuances	1,170	32	—	—	—	—	—	32
Issuance of common stock	57,500	1,868	—	—	—	—	—	1,868
Tax benefit on stock compensation	—	(3)	—	—	—	—	—	(3)
Acquisition of noncontrolling interests	—	—	—	—	—	4	—	4
Adjustment of contingently redeemable noncontrolling interests due to release of contingency	—	—	—	—	—	4	—	4
Common stock dividends	—	—	—	(1,111)	—	—	—	(1,111)
Preference stock dividends	—	—	—	—	—	—	(13)	(13)
Other comprehensive income, net of income taxes	—	—	—	—	60	—	—	60
Balance, December 31, 2015	954,668	$18,676	$(2,327)	$12,068	$(2,624)	$1,308	$ 193	$27,294
Net income	—	—	—	1,134	—	62	8	1,204
Long-term incentive plan activity	2,868	85	—	—	—	—	—	85
Employee stock purchase plan issuances	1,242	55	—	—	—	—	—	55
Tax benefit on stock compensation	—	(18)	—	—	—	—	—	(18)
Changes in equity of noncontrolling interests	—	—	—	—	—	5	—	5
Sale of noncontrolling interest	—	(4)	—	—	—	243	—	239
Adjustment of contingently redeemable noncontrolling interests due to release of contingency	—	—	—	—	—	157	—	157
Common stock dividends	—	—	—	(1,172)	—	—	—	(1,172)
Redemption of preference stock	—	—	—	—	—	—	(193)	(193)
Preference stock dividends	—	—	—	—	—	—	(8)	(8)
Other comprehensive loss, net of income taxes	—	—	—	—	(36)	—	—	(36)
Balance, December 31, 2016	958,778	$18,794	$(2,327)	$12,030	$(2,660)	$1,775	$ —	$27,612
Net income	—	—	—	3,770	—	79	—	3,849
Long-term incentive plan activity	5,066	56	—	—	—	—	—	56
Employee stock purchase plan issuances	1,324	150	—	—	—	—	—	150
Common stock issued from treasury stock	—	—	2,204	(1,054)	—	—	—	1,150
Changes in equity of noncontrolling interests	—	—	—	—	—	(20)	—	(20)
Sale of noncontrolling interests	—	(36)	—	—	—	443	—	407
Common stock dividends	—	—	—	(1,243)	—	—	—	(1,243)
Other comprehensive income, net of income taxes	—	—	—	—	173	(2)	—	171
Balance, December 31, 2017	965,168	$18,964	$ (123)	$13,503	$(2,487)	$2,275	$ —	$32,132

See the Combined Notes to Consolidated Financial Statements

Combined Notes to Consolidated Financial Statements

(Dollars in millions, except per share data unless otherwise noted)

1. Significant Accounting Policies

Description of Business

Exelon is a utility services holding company engaged through its principal subsidiaries in the energy generation and energy distribution and transmission businesses. Prior to March 23, 2016, Exelon's principal, wholly owned subsidiaries included Generation, ComEd, PECO and BGE. On March 23, 2016, in conjunction with the Amended and Restated Agreement and Plan of Merger (the PHI Merger Agreement), Purple Acquisition Corp, a wholly owned subsidiary of Exelon, merged with and into PHI, with PHI continuing as the surviving entity as a wholly owned subsidiary of Exelon. PHI is a utility services holding company engaged through its principal wholly owned subsidiaries, Pepco, DPL and ACE, in the energy distribution and transmission businesses. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further information regarding the merger transaction.

Name of Registrant	Business	Service Territories
Exelon Generation Company, LLC	Generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity to both wholesale and retail customers. Generation also sells natural gas, renewable energy and other energy-related products and services.	Six reportable segments: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions
Commonwealth Edison Company	Purchase and regulated retail sale of electricity	Northern Illinois, including the City of Chicago
	Transmission and distribution of electricity to retail customers	
PECO Energy Company	Purchase and regulated retail sale of electricity and natural gas	Southeastern Pennsylvania, including the City of Philadelphia (electricity)
	Transmission and distribution of electricity and distribution of natural gas to retail customers	Pennsylvania counties surrounding the City of Philadelphia (natural gas)
Baltimore Gas and Electric Company	Purchase and regulated retail sale of electricity and natural gas	Central Maryland, including the City of Baltimore (electricity and natural gas)
	Transmission and distribution of electricity and distribution of natural gas to retail customers	
Pepco Holdings LLC	Utility services holding company engaged, through its reportable segments Pepco, DPL and ACE	Service Territories of Pepco, DPL and ACE
Potomac Electric Power Company	Purchase and regulated retail sale of electricity	District of Columbia, and major portions of Montgomery and Prince George's Counties, Maryland.
	Transmission and distribution of electricity to retail customers	
Delmarva Power & Light Company	Purchase and regulated retail sale of electricity and natural gas	Portions of Delaware and Maryland (electricity)
	Transmission and distribution of electricity and distribution of natural gas to retail customers	Portions of New Castle County, Delaware (natural gas)
Atlantic City Electric Company	Purchase and regulated retail sale of electricity	Portions of Southern New Jersey
	Transmission and distribution of electricity to retail customers	

Basis of Presentation

This is a combined annual report of all Registrants. The Notes to the Consolidated Financial Statements apply to the Registrants as indicated above in the Index to Combined Notes to Consolidated Financial Statements and parenthetically next to each corresponding disclosure. When appropriate, the Registrants are named specifically for their related activities and disclosures. Each of the Registrant's Consolidated Financial Statements includes the accounts of its subsidiaries. All intercompany transactions have been eliminated.

As a result of the acquisition of PHI, Exelon's financial reporting reflects PHI's consolidated financial results subsequent to the March 23, 2016, acquisition date. Exelon has accounted for the merger transaction applying the acquisition method of accounting, which requires the assets acquired and liabilities assumed by Exelon to be reported in Exelon's financial statements at fair value, with any excess of the purchase price over the fair value of net assets acquired reported as goodwill. Exelon has pushed-down the application of the acquisition method of accounting to the consolidated financial statements of PHI such that the assets and liabilities of PHI are similarly recorded at their respective fair values, and goodwill has been established as of the acquisition date. Accordingly, the consolidated financial statements of PHI for periods before and after the March 23, 2016, acquisition date reflect different bases of accounting, and the results of operations and the financial positions of the predecessor and successor periods are not comparable. The acquisition method of accounting has not been pushed down to PHI's wholly owned subsidiary utility registrants, Pepco, DPL and ACE.

For financial statement purposes, beginning on March 24, 2016, disclosures related to Exelon now also apply to PHI, Pepco, DPL and ACE, unless otherwise noted.

Through its business services subsidiary, BSC, Exelon provides its subsidiaries with a variety of support services at cost, including legal, human resources, financial, information technology and supply management services. The costs of BSC, including support services, are directly charged or allocated to the applicable subsidiaries using a cost-causative allocation method. Corporate governance-type costs that cannot be directly assigned are allocated based on a Modified Massachusetts Formula, which is a method that utilizes a combination of gross revenues, total assets and direct labor costs for the allocation base. The results of Exelon's corporate operations are presented as "Other" within the consolidated financial statements and include intercompany eliminations unless otherwise disclosed.

PHISCO, a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, accounting, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHISCO and the participating operating subsidiaries.

Exelon owns 100% of its significant consolidated subsidiaries, including PHI, either directly or indirectly, except for ComEd, of which Exelon owns more than 99%. As of December 31, 2017, Exelon owned none of BGE's preferred securities, which BGE redeemed in 2016. Exelon has reflected the third-party interests in ComEd, which totaled less than $1 million at December 31, 2017 and December 31, 2016, as equity, in its consolidated financial statements. BGE is subject to certain ring-fencing measures established by order of the MDPSC. As part of this arrangement, BGE common stock is held directly by RF Holdco LLC, which is an indirect subsidiary of Exelon. GSS Holdings (BGE Utility), an unrelated party, holds a nominal non-economic interest in RF Holdco LLC with limited voting rights on specified matters. PHI is subject to some ring-fencing measures established by orders of the DCPSC, DPSC, MDPSC and NJBPU, pursuant to which all of the membership interest in PHI is held directly by PH Holdco LLC, which is an indirect subsidiary of Exelon. GSS Holdings (PH Utility), Inc., an unrelated party, holds a nominal non-economic interest in PH Holdco LLC with limited voting rights on specified matters. PHI owns 100% of its subsidiaries including Pepco, DPL and ACE.

Generation owns 100% of its significant consolidated subsidiaries, either directly or indirectly, except for certain consolidated VIEs, including CENG and ExGen Renewables Partners, LLC, of which Generation holds a 50.01% and 51% interest, respectively. The remaining interests in these consolidated VIEs are included in noncontrolling interests on Exelon's and Generation's Consolidated Balance Sheets. See Note 2 — Variable Interest Entities for further discussion of Exelon's and Generation's consolidated VIEs.

The Registrants consolidate the accounts of entities in which a Registrant has a controlling financial interest, after the elimination of intercompany transactions. A controlling financial interest is evidenced by either a voting interest greater than 50% in which the Registrant can exercise control over the operations and policies of the investee, or the results of a model that identifies the Registrant or one of its subsidiaries as the primary beneficiary of a VIE. Where the Registrants do not have a controlling financial interest in an entity, proportionate consolidation, equity method accounting or cost method accounting is applied. The Registrants apply proportionate consolidation when they have an undivided interest in an asset and are proportionately liable for their share of each liability associated with the asset. The Registrants proportionately consolidate their undivided ownership interests in jointly owned electric plants and transmission facilities. Under proportionate consolidation, the Registrants separately record their proportionate share of the assets, liabilities, revenues and expenses related to the undivided interest in the asset. The Registrants apply equity method accounting when they have significant influence over an investee through an ownership in common stock, which generally approximates a 20% to 50% voting interest. The Registrants apply equity method accounting to certain investments and joint ventures, including certain financing trusts of ComEd, PECO and BGE. Under equity method accounting, the Registrants report their interest in the entity as an investment and the Registrants' percentage share of the earnings from the entity as single line items in their financial statements. The Registrants use cost method accounting if they lack significant influence, which generally results when they hold less than 20% of the common stock of an entity. Under cost method accounting, the Registrants report their investments at cost and recognize income only to the extent dividends or distributions are received.

The accompanying consolidated financial statements have been prepared in accordance with GAAP for annual financial statements and in accordance with the instructions to Form 10-K and Regulation S-X promulgated by the SEC.

Use of Estimates

The preparation of financial statements of each of the Registrants in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Areas in which significant estimates have been made include, but are not limited to, the accounting for nuclear decommissioning costs and other AROs, pension and other postretirement benefits, the application of purchase accounting, inventory reserves, allowance for uncollectible accounts, goodwill and asset impairments, derivative instruments, unamortized energy contracts, fixed asset depreciation, environmental costs and other loss contingencies, taxes and unbilled energy revenues. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts in the Registrants' Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows, Consolidated Balance Sheets and Consolidated Statements of Changes in Shareholders' Equity have been reclassified between line items for comparative purposes. The reclassifications did not affect any of the Registrants' net income, cash flows from operating activities or financial positions.

Accounting for the Effects of Regulation

The Registrants apply the authoritative guidance for accounting for certain types of regulation, which requires them to record in their consolidated financial statements the effects of cost-based rate regulation for entities with regulated operations that meet the following criteria: (1) rates are established or approved by a third-party regulator; (2) rates are designed to recover the entities' cost of providing services or products; and (3) there is a reasonable expectation that rates designed to recover costs can be charged to and collected from customers. Exelon and the Utility Registrants account for their regulated operations in accordance with regulatory and legislative guidance from the regulatory authorities having jurisdiction, principally the ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU, under state public utility laws and the FERC under various Federal laws. Regulatory assets and liabilities are amortized and the related expense or revenue is recognized in the Consolidated Statements of Operations consistent with the recovery or refund included in customer rates. Exelon believes that it is probable that its currently recorded regulatory assets and liabilities will be recovered and settled, respectively, in future rates. Exelon and the Utility Registrants continue to evaluate their respective abilities to continue to apply the authoritative guidance for accounting for certain types of regulation, including consideration of current events in their respective regulatory and political environments. If a separable portion of the Registrants' business was no longer able to meet the criteria discussed above, the affected entities would be required to eliminate from their consolidated financial statements the effects of regulation for that portion, which could have a material impact on their results of operations and financial positions. See Note 3 — Regulatory Matters for additional information.

With the exception of income tax-related regulatory assets and liabilities, the Registrants classify regulatory assets and liabilities with a recovery or settlement period greater than one year as both current and non-current in their Consolidated Balance Sheets, with the current portion representing the amount expected to be recovered from or settled to customers over the next twelve-month period as of the balance sheet date. Income tax-related regulatory assets and liabilities are classified entirely as non-current on the Registrants' Consolidated Balance Sheets to align with the classification of the related deferred income tax balances.

The Registrants treat the impacts of a final rate order received after the balance sheet date but prior to the issuance of the financial statements as a non-recognized subsequent event, as the receipt of a final rate order is a separate and distinct event that has future impacts on the parties affected by the order.

Revenues

Operating Revenues

Operating revenues are recorded as service is rendered or energy is delivered to customers. At the end of each month, the Registrants accrue an estimate for the unbilled amount of energy delivered or services provided to customers. ComEd records its best estimate of its electric distribution, energy efficiency and transmission revenue impacts resulting from changes in rates that ComEd believes are probable of approval by the ICC and FERC in accordance with its formula rate mechanisms. PECO, BGE, Pepco, DPL and ACE record their best estimate of the transmission revenue impacts resulting from changes in rates that they each believe are probable of approval by FERC in accordance with their formula rate mechanisms. See Note 3 — Regulatory Matters and Note 5 — Accounts Receivable for further information.

RTOs and ISOs

In RTO and ISO markets that facilitate the dispatch of energy and energy-related products, the Registrants generally report sales and purchases conducted on a net hourly basis in either revenues or purchased power on their Consolidated Statements of Operations and Comprehensive Income, the classification of which depends on the net hourly activity. In addition, capacity revenue and expense classification is based on the net sale or purchase position of Exelon in the different RTOs and ISOs.

Option Contracts, Swaps and Commodity Derivatives

Certain option contracts and swap arrangements that meet the definition of derivative instruments are recorded at fair value with subsequent changes in fair value recognized as revenue or expense. The classification of revenue or expense is based on the intent of the transaction. For example, gas transactions may be used to hedge the sale of power. This will result in the change in fair value recorded through revenue. To the extent a Utility Registrant receives full cost recovery for energy procurement and related costs from retail customers, it records the fair value of its energy swap contracts with unaffiliated suppliers as well as an offsetting regulatory asset or liability on its Consolidated Balance Sheets. Refer to Note 3 — Regulatory Matters and Note 12 — Derivative Financial Instruments for further information.

Income Taxes

Deferred Federal and state income taxes are recorded on significant temporary differences between the book and tax basis of assets and liabilities and for tax benefits carried forward. Investment tax credits have been deferred on the Registrants' Consolidated Balance Sheets and are recognized in book income over the life of the related property. In accordance with applicable authoritative guidance, the Registrants account for uncertain income tax positions using a benefit recognition model with a two-step approach; a more-likely-than-not recognition criterion; and a measurement approach that measures the position as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. If it is not more-likely-than-not that the benefit of the tax position will be sustained on its technical merits, no benefit is recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. The Registrants recognize accrued interest related to unrecognized tax benefits in Interest expense or Other income and deductions (interest income) and recognize penalties related to unrecognized tax benefits in Other, net on their Consolidated Statements of Operations and Comprehensive Income.

In the first quarter of 2016, PHI, Pepco, DPL and ACE changed their accounting for classification of interest on uncertain tax positions. PHI, Pepco, DPL and ACE have reclassified interest on uncertain tax positions as Interest expense from Income tax expense in the Consolidated Statements of Operations and Comprehensive Income. GAAP does not address the preferability of one acceptable method of accounting over the other for the classification of interest on uncertain tax positions. However, PHI, Pepco, DPL and ACE believe this change is preferable for comparability of their financial statements with the financial statements of the other Registrants in the combined filing, for consistency with FERC classification and for a more appropriate representation of the effective tax rate as they manage the settlement of uncertain tax positions and interest expense separately. PHI, Pepco, DPL and ACE applied the change retrospectively. The reclassification in the Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2015 was $34 million and $4 million for PHI and Pepco, respectively. The impact on all other PHI Registrants for the year ended December 31, 2015 was less than $1 million.

Pursuant to the IRC and relevant state taxing authorities, Exelon and its subsidiaries file consolidated or combined income tax returns for Federal and certain state jurisdictions where allowed or required. See Note 14 — Income Taxes for further information.

Taxes Directly Imposed on Revenue-Producing Transactions

The Registrants collect certain taxes from customers such as sales and gross receipts taxes, along with other taxes, surcharges and fees that are levied by state or local governments on the sale or distribution of gas and electricity. Some of these taxes are imposed on the customer, but paid by the Registrants, while others are imposed on the Registrants. Where these taxes are imposed on the customer, such as sales taxes, they are reported on a net basis with no impact to the Consolidated Statements of Operations and Comprehensive Income. However, where these taxes are imposed on the Registrants, such as gross receipts taxes or other surcharges or fees, they are reported on a gross basis. Accordingly, revenues are recognized for the taxes collected from customers along with an offsetting expense. See Note 24 — Supplemental Financial Information for Generation's, ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's utility taxes that are presented on a gross basis.

Cash and Cash Equivalents

The Registrants consider investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent funds that are restricted to satisfy designated current liabilities. As of December 31, 2017 and 2016, Exelon Corporate's restricted cash and cash equivalents primarily represented restricted funds for payment of medical, dental, vision and long-term disability benefits. Generation's restricted cash and cash equivalents primarily included cash at various project-specific nonrecourse financing structures for debt service and financing of operations of the underlying entities, see Note 13 — Debt and Credit Agreements for additional information on Generation's project- specific financing structures. ComEd's restricted cash primarily represented cash collateral held from suppliers associated with ComEd's energy and REC procurement contracts, any over-recovered RPS costs and alternative compliance payments received from RES pursuant to FEJA and certain funds set aside for the remediation of one of ComEd's MGP sites. PECO's restricted cash primarily represented funds from the sales of assets that were subject to PECO's mortgage indenture. BGE's restricted cash primarily represented funds restricted for certain energy conservation incentive programs. PHI Corporate's restricted cash and cash equivalents primarily represented funds restricted for the payment of merger commitments and cash collateral held from its utility suppliers. Pepco's restricted cash and cash equivalents primarily represented funds restricted for the payment of merger commitments and collateral held from its utility suppliers. DPL's restricted cash and cash equivalents primarily represented cash collateral held from suppliers associated with procurement contracts. ACE's restricted cash and cash equivalents primarily represented funds restricted at its consolidated variable interest entity for repayment of transition bonds and cash collateral held from suppliers.

Restricted cash and cash equivalents not available to satisfy current liabilities are classified as noncurrent assets.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts reflects the Registrants' best estimates of losses on the customers' accounts receivable balances. For Generation, the allowance is based on accounts receivable aging historical experience and other currently available information. ComEd, PECO, BGE, Pepco, DPL and ACE estimate the allowance for uncollectible accounts on customer receivables by applying loss rates developed specifically for each company to the outstanding receivable balance by customer risk segment. Risk segments represent a group of customers with similar credit quality indicators that are comprised based on various attributes, including delinquency of their balances and payment history. Loss rates applied to the accounts receivable balances are based on a historical average of charge-offs as a percentage of accounts receivable in each risk segment. Utility Registrants' customer accounts are generally considered delinquent if the amount billed is not received by the time the next bill is issued, which normally occurs on a monthly basis. Utility Registrants' customer accounts are written off consistent with approved regulatory requirements. Utility Registrants' allowances for uncollectible accounts will continue to be affected by changes in volume, prices and economic conditions as well as changes in ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU regulations. See Note 3 — Regulatory Matters for additional information regarding the regulatory recovery of uncollectible accounts receivable at ComEd and ACE.

Variable Interest Entities

Exelon accounts for its investments in and arrangements with VIEs based on the authoritative guidance which includes the following specific requirements:

- requires an entity to qualitatively assess whether it should consolidate a VIE based on whether the entity has a controlling financial interest, meaning (1) has the power to direct the activities that most significantly impact the VIE's economic performance, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE,
- requires an ongoing reconsideration of this assessment instead of only upon certain triggering events, and
- requires the entity that consolidates a VIE (the primary beneficiary) to disclose (1) the assets of the consolidated VIE, if they can be used to only settle specific obligations of the consolidated VIE, and (2) the liabilities of a consolidated VIE for which creditors do not have recourse to the general credit of the primary beneficiary.

See Note 2 — Variable Interest Entities for additional information.

Inventories

Inventory is recorded at the lower of weighted average cost or net realizable value. Provisions are recorded for excess and obsolete inventory.

Fossil Fuel

Fossil fuel inventory includes natural gas held in storage, propane and oil. The costs of natural gas, propane and oil are generally included in inventory when purchased and charged to purchased power and fuel expense at weighted average cost when used or sold.

Materials and Supplies

Materials and supplies inventory generally includes transmission, distribution and generating plant materials. Materials are generally charged to inventory when purchased and expensed or capitalized to property, plant and equipment, as appropriate, at weighted average cost when installed or used.

Emission Allowances

Emission allowances are included in inventory (for emission allowances exercisable in the current year) and other deferred debits (for emission allowances that are exercisable beyond one year) and charged to purchased power and fuel expense at weighted average cost as they are used in operations.

Marketable Securities

All marketable securities are reported at fair value. Marketable securities held in the NDT funds are classified as trading securities, and all other securities are classified as available-for-sale securities. Realized and unrealized gains and losses, net of tax, on Generation's NDT funds associated with the Regulatory Agreement Units are included in regulatory liabilities at Exelon, ComEd and PECO and in Noncurrent payables to affiliates at Generation and in Noncurrent receivables from affiliates at ComEd and PECO. Realized and unrealized gains and losses, net of tax, on Generation's NDT funds associated with the Non-Regulatory Agreement Units are included in earnings at Exelon and Generation. Unrealized gains and losses, net of tax, for Exelon's available-for-sale securities are reported in OCI. Exelon's and Generation's NDT funds, which are designated to satisfy future decommissioning obligations, are classified as either noncurrent or current assets, depending on the timing of the decommissioning activities and income taxes on trust earnings. Beginning January 1, 2018, the authoritative guidance eliminates the available-for-sale classification for equity securities and requires that all equity investments (other than those accounted for using the equity method of accounting) be measured and recorded at fair value with any changes in fair value recorded through earnings. The new authoritative guidance does not impact the classification or measurement of investments in debt securities. See Note 3 — Regulatory Matters for additional information regarding ComEd's and PECO's regulatory assets and liabilities and Note 11 — Fair Value of Financial Assets and Liabilities and Note 15 — Asset Retirement Obligations for information regarding marketable securities held by NDT funds.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost. Original cost includes construction-related direct labor and material costs. The Utility Registrants also include indirect construction costs including labor and related costs of departments associated with supporting construction activities. When appropriate, original cost also includes capitalized interest for Generation, Exelon Corporate and PHI and AFUDC for regulated property at ComEd, PECO, BGE, Pepco, DPL and ACE. The cost of repairs and maintenance, including planned major maintenance activities and minor replacements of property, is charged to Operating and maintenance expense as incurred.

Third parties reimburse the Utility Registrants for all or a portion of expenditures for certain capital projects. Such contributions in aid of construction costs (CIAC) are recorded as a reduction to Property, plant and equipment. DOE SGIG and other funds reimbursed to the Utility Registrants have been accounted for as CIAC.

For Generation, upon retirement, the cost of property is generally charged to accumulated depreciation in accordance with the composite and group methods of depreciation. Upon replacement of an asset, the costs to remove the asset, net of salvage, are capitalized to gross plant when incurred as part of the cost of the newly-installed asset and recorded to depreciation expense over the life of the new asset. Removal costs, net of salvage, incurred for property that will not be replaced is charged to Operating and maintenance expense as incurred.

For the Utility Registrants, upon retirement, the cost of property, net of salvage, is charged to accumulated depreciation consistent with the composite and group methods of depreciation. Depreciation expense at ComEd, BGE, Pepco, DPL and ACE includes the estimated cost of dismantling and removing plant from service upon retirement. Actual incurred removal costs are applied against a related regulatory liability or recorded to a regulatory asset if in excess of previously collected removal costs. PECO's removal costs are capitalized to accumulated depreciation when incurred, and recorded to depreciation expense over the life of the new asset constructed consistent with PECO's regulatory recovery method.

See Note 6 — Property, Plant and Equipment, Note 9 — Jointly Owned Electric Utility Plant and Note 24 — Supplemental Financial Information for additional information regarding property, plant and equipment.

Nuclear Fuel

The cost of nuclear fuel is capitalized within Property, plant and equipment and charged to fuel expense using the unit-of-production method. Prior to May 16, 2014, the estimated disposal cost of SNF was established per the Standard Waste Contract with the DOE and was expensed through fuel expense at one mill ($0.001) per kWh of net nuclear generation. Effective May 16, 2014, the SNF disposal fee was set to zero by the DOE and Exelon and Generation are not accruing any further costs related to SNF disposal fees until a new fee structure goes into effect. Certain on-site SNF storage costs are being reimbursed by the DOE since a DOE (or government-owned) long-term storage facility has not been completed. See Note 23 — Commitments and Contingencies for additional information regarding the SNF disposal fee.

Nuclear Outage Costs

Costs associated with nuclear outages, including planned major maintenance activities, are expensed to Operating and maintenance expense or capitalized to Property, plant and equipment (based on the nature of the activities) in the period incurred.

New Site Development Costs

New site development costs represent the costs incurred in the assessment and design of new power generating facilities. Such costs are capitalized when management considers project completion to be probable, primarily based on management's determination that the project is economically and operationally feasible, management and/or the Exelon Board of Directors has approved the project and has committed to a plan to develop it, and Exelon and Generation have received the required regulatory approvals or management believes the receipt of required regulatory approvals is probable. As of December 31, 2017 and 2016, Generation has capitalized $228 million and $1.7 billion, respectively, to Property, plant and equipment, net on its Consolidated Balance Sheets. Capitalized development costs are charged to Operating and maintenance expense when project completion is no longer probable. New site development costs incurred prior to a project's completion being deemed probable are expensed as incurred. Approximately $4 million, $30 million and $22 million of costs were expensed by Exelon and Generation for the years ended December 31, 2017, 2016 and 2015, respectively. These costs are primarily related to the possible development of new power generating facilities with the exception of approximately $13 million of costs expensed in 2016 which relate to projects for which completion is no longer probable.

Capitalized Software Costs

Costs incurred during the application development stage of software projects that are internally developed or purchased for operational use are capitalized within Property, plant and equipment. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, generally not to exceed five years. Certain other capitalized software costs are being amortized over longer lives based on the expected life or pursuant to prescribed regulatory requirements. The following table presents net unamortized capitalized software costs and amortization of capitalized software costs by year:

Net unamortized software costs	Exelon
December 31, 2017	$ 834
December 31, 2016	808

Amortization of capitalized software costs	Exelon
2017	$270
2016	255
2015	208

Depreciation and Amortization

Except for the amortization of nuclear fuel, depreciation is generally recorded over the estimated service lives of property, plant and equipment on a straight-line basis using the group, composite or unitary methods of depreciation. The group approach is typically for groups of similar assets that have approximately the same useful lives and the composite approach is used for dissimilar assets that have different lives. Under both methods, a reporting entity depreciates the assets over the average life of the assets in the group. The Utility Registrants' depreciation expense includes the estimated cost of dismantling and removing plant from service upon retirement, which is consistent with each utility's regulatory recovery method. The estimated service lives for the Utility Registrants are primarily based on each company's most recent depreciation studies of historical asset retirement and removal cost experience. At Generation, along with depreciation study results, management considers expected future energy market conditions and generation plant operating costs and capital investment requirements in determining the estimated service lives of its generating facilities. For its nuclear generating facilities, except for Oyster Creek, Clinton and TMI, Generation estimates each unit will operate through the full term of its initial 20-year operating license renewal period. See Note 8 — Early Nuclear Plant Retirements for additional information on the impacts of expected and potential early plant retirements. The estimated service lives of Generation's hydroelectric generating facilities are based on the remaining useful lives of the stations, which assume a license renewal extension of 40 years.

See Note 6 — Property, Plant and Equipment for further information regarding depreciation.

Amortization of regulatory assets and liabilities are recorded over the recovery or refund period specified in the related legislation or regulatory order or agreement. When the recovery or refund period is less than one year, amortization is recorded to the line item in which the deferred cost or income would have originally been recorded in the Registrants' Consolidated Statements of Operations and Comprehensive Income. Amortization of ComEd's electric distribution and energy efficiency formula rate regulatory assets and ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's transmission formula rate regulatory assets is recorded to Operating revenues.

Amortization of income tax related regulatory assets and liabilities are generally recorded to Income tax expense. With the exception of the regulatory assets and liabilities discussed above, when the recovery period is more than one year, the amortization is generally recorded to Depreciation and amortization in the Registrants' Consolidated Statements of Operations and Comprehensive Income.

See Note 3 — Regulatory Matters and Note 24 — Supplemental Financial Information for additional information regarding Generation's nuclear fuel, Generation's ARC and the amortization of the Utility Registrants' regulatory assets.

Asset Retirement Obligations

The authoritative guidance for accounting for AROs requires the recognition of a liability for a legal obligation to perform an asset retirement activity even though the timing and/or method of settlement may be conditional on a future event. To estimate its decommissioning obligation related to its nuclear generating stations, Generation uses a probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple outcome scenarios that include significant estimates and assumptions, and are based on decommissioning cost studies, cost escalation rates, probabilistic future cash flow models and discount rates. Generation generally updates its ARO annually, unless circumstances warrant more frequent updates, based on its review of updated cost studies and its annual evaluation of cost escalation factors and probabilities assigned to various decommissioning scenarios. Decommissioning cost studies are updated, on a rotational basis, for each of Generation's nuclear units at least every five years unless circumstances warrant more frequent updates (such as a change in assumed operating life for a nuclear plant). As part of the annual cost study update process, Generation evaluates newly assumed costs or substantive changes in previously assumed costs to determine if the cost estimate impacts are sufficiently material to warrant application of the updated estimates to the AROs across the nuclear fleet outside of the normal five-year rotating cost study update cycle. The liabilities associated with Exelon's non-nuclear AROs are adjusted on an ongoing rotational basis, at least once every five years unless circumstances warrant more frequent updates. Changes to the recorded value of an ARO result from the passage of new laws and regulations, revisions to either the timing or amount of estimated undiscounted cash flows, and estimates of cost escalation factors. AROs are accreted throughout each year to reflect the time value of money for these present value obligations through a charge to Operating and maintenance expense in the Consolidated Statements of Operations and Comprehensive Income or, in the case of the Utility Registrants' accretion, through an increase to regulatory assets. See Note 15 — Asset Retirement Obligations for additional information.

Capitalized Interest and AFUDC

During construction, Exelon and Generation capitalize the costs of debt funds used to finance non-regulated construction projects. Capitalization of debt funds is recorded as a charge to construction work in progress and as a non-cash credit to interest expense.

Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE apply the authoritative guidance for accounting for certain types of regulation to calculate AFUDC, which is the cost, during the period of construction, of debt and equity funds used to finance construction projects for regulated operations. AFUDC is recorded to construction work in progress and as a non-cash credit to AFUDC that is included in interest expense for debt-related funds and other income and deductions for equity-related funds. The rates used for capitalizing AFUDC are computed under a method prescribed by regulatory authorities.

The following table summarizes total incurred interest, capitalized interest and credits to AFUDC by year:

	For the Years Ended December 31,		
	2017	2016	2015
Total incurred interest[a]	$1,658	$1,678	$1,170
Capitalized interest	63	108	79
Credits to AFUDC debt and equity	108	98	44

[a] Includes interest expense to affiliates.

Guarantees

The Registrants recognize, at the inception of a guarantee, a liability for the fair market value of the obligations they have undertaken by issuing the guarantee, including the ongoing obligation to perform over the term of the guarantee in the event that the specified triggering events or conditions occur.

The liability that is initially recognized at the inception of the guarantee is reduced as the Registrants are released from risk under the guarantee. Depending on the nature of the guarantee, the release from risk of the Registrant may be recognized only upon the expiration or settlement of the guarantee or by a systematic and rational amortization method over the term of the guarantee. See Note 23 — Commitments and Contingencies for additional information.

Asset Impairments

Long-Lived Assets

The Registrants evaluate the carrying value of their long-lived assets or asset groups, excluding goodwill, when circumstances indicate the carrying value of those assets may not be recoverable. Indicators of impairment may include a deteriorating business climate, including, but not limited to, declines in energy prices, condition of the asset, specific regulatory disallowance, or plans to dispose of a long-lived asset significantly before the end of its useful life. The Registrants determine if long-lived assets and asset groups are impaired by comparing the undiscounted expected future cash flows to the carrying value. When the undiscounted cash flow analysis indicates a long-lived asset or asset group is not recoverable, the amount of the impairment loss is determined by measuring the excess of the carrying amount of the long-lived asset or asset group over its fair value.

Cash flows for long-lived assets and asset groups are determined at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The cash flows from the generating units are generally evaluated at a regional portfolio level along with cash flows generated from the customer supply and risk management activities, including cash flows from related intangible assets and liabilities on the balance sheet. In certain cases, generating assets may be evaluated on an individual basis where those assets are contracted on a long-term basis with a third party and operations are independent of other generation assets (typically contracted renewables). See Note 7 — Impairment of Long-Lived Assets and Intangibles for additional information.

Goodwill

Goodwill represents the excess of the purchase price paid over the estimated fair value of the net assets acquired and liabilities assumed in the acquisition of a business. Goodwill is not amortized, but is tested for impairment at least annually or in an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. See Note 10 — Intangible Assets for additional information regarding Exelon's, Generation's, ComEd's, PHI's and DPL's goodwill.

Equity Method Investments

Exelon and Generation regularly monitor and evaluate equity method investments to determine whether they are impaired. An impairment is recorded when the investment has experienced a decline in value that is other-than-temporary in nature. Additionally, if the entity in which Generation holds an investment recognizes an impairment loss, Exelon and Generation would record their proportionate share of that impairment loss and evaluate the investment for an other-than-temporary decline in value.

Debt and Equity Security Investments

Declines in the fair value of Exelon's debt and equity investments below the cost basis are reviewed to determine if such decline is other-than-temporary. For available-for-sale securities and cost investments, if the decline is determined to be other-than-temporary, the cost basis is written down to fair value as a new cost basis. For equity securities and cost investments, the amount of the impairment loss is included in earnings. For debt securities, the amount of the impairment loss is included in earnings or separated between earnings and OCI depending on whether Exelon intends to sell the debt securities before recovery of its cost basis. Beginning January 1, 2018, the authoritative guidance eliminates the available-for-sale and cost method classifications for equity securities and requires that all equity investments (other than those accounted for using the equity method of accounting) be measured and recorded at fair value with any changes in fair value recorded through earnings. Investments in equity securities without readily determinable fair values must be qualitatively assessed for impairment each reporting period and fair value determined if any significant impairment indicators exist. If fair value is less than carrying value, the impairment is recorded through earnings immediately in the period in which it is identified without regard to whether the decline in value is temporary in nature. The new authoritative guidance does not impact the classification or measurement of investments in debt securities.

Derivative Financial Instruments

All derivatives are recognized on the balance sheet at their fair value unless they qualify for certain exceptions, including the normal purchases and normal sales exception. Additionally, derivatives that qualify and are designated for hedge accounting are classified as either hedges of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or hedges of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For fair value hedges, changes in fair values for both the derivative and the underlying hedged exposure are recognized in earnings each period. For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the cost or value of the underlying exposure is deferred in AOCI and later reclassified into earnings when the underlying transaction occurs. Gains and losses from the ineffective portion of any hedge are recognized in earnings immediately. For derivative contracts intended to serve as economic hedges and that are not designated or do not qualify for hedge accounting or the normal purchases and normal sales exception, changes in the fair value of the derivatives are recognized in earnings each period, except for the Utility Registrants where changes in fair value may be recorded as a regulatory asset or liability if there is an ability to recover or return the associated costs. See Note 3 — Regulatory Matters and Note 12 — Derivative Financial Instruments for additional information. Amounts classified in earnings are included in revenue, purchased power and fuel, interest expense or other, net on the Consolidated Statements of Operations and Comprehensive Income based on the activity the transaction is economically hedging. For energy-related derivatives entered into for proprietary trading purposes, which are subject to Exelon's Risk Management Policy, changes in the fair value of the derivatives are recognized in earnings each period. All amounts classified in earnings related to proprietary trading are included in revenue on the Consolidated Statements of Operations and Comprehensive Income. Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing cash flows in the Consolidated Statements of Cash Flows, depending on the nature of each transaction.

As part of Generation's energy marketing business, Generation enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy-related products in the energy markets with the intent and ability to deliver or take delivery of the underlying physical commodity. Normal purchases and normal sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time and will not be financially settled. Revenues and expenses on derivative contracts that qualify, and are designated, as normal purchases and normal sales are recognized when the underlying physical transaction is completed. While these contracts are considered derivative financial instruments, they are not required to be recorded at fair value, but rather are recorded on an accrual basis of accounting. See Note 12 — Derivative Financial Instruments for additional information.

Retirement Benefits

Exelon sponsors defined benefit pension plans and other postretirement benefit plans for essentially all employees.

The measurement of the plan obligations and costs of providing benefits under these plans involve various factors, including numerous assumptions and inputs and accounting elections. The assumptions are reviewed annually and at any interim remeasurement of the plan obligations. The impact of assumption changes or experience different from that assumed on pension and other postretirement benefit obligations is recognized over time rather than immediately recognized in the Consolidated Statements of Operations and Comprehensive Income. Gains or losses in excess of the greater of ten percent of the projected benefit obligation or the MRV of plan assets are amortized over the expected average remaining service period of plan participants. See Note 16 — Retirement Benefits for additional information.

Equity Investment Earnings (Losses) of Unconsolidated Affiliates

Exelon and Generation include equity in earnings from equity method investments in qualifying facilities and power projects in Equity in earnings (losses) of unconsolidated affiliates within their Consolidated Statements of Operations and Comprehensive Income.

New Accounting Standards

New Accounting Standards Issued and Adopted as of January 1, 2018: The following new authoritative accounting guidance issued by the FASB has been adopted as of January 1, 2018 and will be reflected by the Registrants in their consolidated financial statements beginning in the first quarter of 2018. Unless otherwise indicated, adoption of the new guidance in each instance will have no or insignificant impacts on the Registrants' Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows, Consolidated Balance Sheets and disclosures.

Revenue from Contracts with Customers (Issued May 2014 and subsequently amended to address implementation questions; Adopted January 1, 2018): Changes the criteria for recognizing revenue from a contract with a customer. The new revenue recognition guidance, including subsequent amendments, is effective for annual reporting periods beginning on or after December 15, 2017, with the option to early adopt the standard for annual periods beginning on or after December 15, 2016. The Registrants did not early adopt this standard.

The new standard replaces existing guidance on revenue recognition, including most industry specific guidance, with a five-step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method). The Registrants will apply the new guidance using the full retrospective method, which will not have a material impact on previously issued financial statements.

In coordination with the AICPA Power and Utilities Industry Task Force, the Registrants reached conclusions on the following key accounting issues:

- The Utility Registrants' tariff sale contracts, including those with lower credit quality customers, are generally deemed to be probable of collection under the guidance and, thus, the timing of revenue recognition will continue to be concurrent with the delivery of electricity or natural gas, consistent with current practice;
- Consistent with current industry practice, revenues recognized from sales of bundled energy commodities (i.e., contracts involving the delivery of multiple energy commodities such as electricity, capacity, ancillary services, etc.) are generally expected to be recognized upon delivery to the customer in an amount based on the invoice price given that it corresponds directly with the value of the commodities transferred to the customer; and
- Contributions in aid of construction are outside of the scope of the standard and, therefore, will continue to be accounted for as a reduction to Property, Plant, and Equipment.

In assessing the impacts of the new revenue guidance, the Registrants identified the following items that will be accounted for differently:

- Costs to acquire certain contracts (e.g., sales commissions associated with retail power contracts) will be deferred and amortized ratably over the term of the contract rather than being expensed as incurred; and
- Variable consideration within certain contracts (e.g., performance bonuses) will be estimated and recognized as revenue over the term of the contract rather than being recognized when realized.

Based on an assessment of existing contracts and revenue streams, the new guidance, including the identified changes above, will not have a material impact on the amount and timing of the Registrants' revenue recognition.

One of the new disclosure requirements is to present disaggregated revenue into categories that show how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows. In order to comply with this new disclosure requirement, Generation will disclose disaggregated revenue by operating segment and provide further differentiation by major products (i.e., electric power and gas) and the Utility Registrants will disclose disaggregated revenue by major customer class (i.e., residential and commercial and industrial) separately for electric and gas in the Combined Notes to Consolidated Financial Statements. In addition, pursuant to the requirements of the new standard, Exelon and the Utility Registrants will present alternative revenue program revenue separately from revenue from contracts with customers on the face of their Consolidated Statements of Operations and Comprehensive Income.

Recognition and Measurement of Financial Assets and Financial Liabilities (Issued January 2016; Adopted January 1, 2018): Eliminates the available-for-sale and cost method classification for equity securities and requires that all equity investments (other than those accounted for using the equity method of accounting) be measured and recorded at fair value with any changes in fair value recorded through earnings and, for equity investments without a readily determinable fair value, provides a measurement alternative of cost less impairment plus or minus adjustments for observable price changes in identical or similar assets. In addition, equity investments without readily determinable fair values must be qualitatively assessed for impairment each reporting period and fair value determined if any significant impairment indicators exist. If fair value is less than carrying value, the impairment is recorded through net income immediately in the period in which it is identified. The guidance does not impact the classification or measurement of investments in debt securities. The guidance also amends several disclosure requirements, including requiring i) financial assets and financial liabilities to be presented separately in the balance sheet or note, grouped by measurement category and form, ii) disclosure of the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and iii) for financial assets and liabilities measured at amortized cost, disclosure of the fair value of the amount that would be received to sell the asset or paid to transfer the liability. The guidance is effective January 1, 2018 and must be applied using a modified retrospective transition approach with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption. The Registrants recorded an insignificant adjustment to opening retained earnings as of January 1, 2018 related to unrealized gains/losses on available for sale equity securities.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Issued August 2016; Adopted January 1, 2018) and Restricted Cash (Issued November 2016; Adopted January 1, 2018): In 2016, the FASB issued two standards impacting the Statement of Cash Flows. The first adds or clarifies guidance on the classification of certain cash receipts and payments on the statement of cash flows as follows: debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and bank-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, and the application of the predominance principle to separately identifiable cash flows. The second states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows (instead of being presented as cash flow activities). The new standards are effective on January 1, 2018 and must be applied on a full retrospective basis. Adoption of the second standard will result in a change in presentation of restricted cash on the face of the Statement of Cash Flows; otherwise this guidance will not have a significant impact on the Registrants' Consolidated Statements of Cash Flows and disclosures.

Intra-Entity Transfers of Assets Other Than Inventory (Issued October 2016; Adopted January 1, 2018): Requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs (current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party). The standard is effective January 1, 2018 with early adoption permitted. The guidance requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Clarifying the Definition of a Business (Issued January 2017; Adopted January 1, 2018): Clarifies the definition of a business with the objective of addressing whether acquisitions (or dispositions) should be accounted for as acquisitions/dispositions of assets or as acquisitions/dispositions of businesses. If substantially all the fair value of the assets acquired/disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. If the fair value of the assets acquired/disposed of is not concentrated in a single identifiable asset or a group of similar identifiable assets, then an entity must evaluate whether an input and a substantive process exist, which together significantly contribute to the ability to produce outputs. The standard also revises the definition of outputs to focus on goods and services to customers. The standard will likely result in more acquisitions being accounted for as asset acquisitions. The standard is effective January 1, 2018, with early adoption permitted, and must be applied on a prospective basis. The Registrants did not early adopt the guidance.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Issued March 2017; Adopted January 1, 2018): Changes the accounting and presentation of pension and OPEB costs at the plan sponsor (i.e., Exelon) level. The guidance requires plan sponsors to report the service cost and other non-service cost components of net periodic pension cost and net periodic OPEB cost (together, net benefit cost) separately. Under the new guidance, service cost is presented as part of income from operations and the other non-service cost components are classified outside of income from operations on the Consolidated Statements of Operations and Comprehensive Income. Additionally, service cost is the only component eligible for capitalization. Under prior GAAP, the total amount of net benefit cost was recorded as part of income from operations and all components were eligible for capitalization.

Generation, ComEd, PECO, BGE, BSC, PHI, Pepco, DPL, ACE and PHISCO participate in Exelon's single employer pension and OPEB plans and apply multi-employer accounting. Multi-employer accounting is not impacted by this standard; therefore, Exelon's subsidiary financial statements will not change upon its adoption. On Exelon's consolidated financial statements, non-service cost components of pension and OPEB cost capitalizable under a regulatory framework are prospectively reported as regulatory assets (currently, they are capitalizable under pension and OPEB accounting guidance and reported as PP&E). These regulatory assets are amortized outside of operating income.

The presentation of the service cost component and the other non-service cost components of net benefit cost will be applied retrospectively in the Exelon consolidated financial statements beginning in the first quarter of 2018. On Exelon's consolidated financial statements, service cost will continue to be reported in Operating and maintenance and Non-service cost will be reported outside of operating income. The prospective change in the capitalization eligibility is not expected to have a significant impact on Exelon's consolidated net income.

New Accounting Standards Issued and Not Yet Adopted as of December 31, 2017: The following new authoritative accounting guidance issued by the FASB has not yet been adopted and reflected by the Registrants in their consolidated financial statements as of December 31, 2017. Unless otherwise indicated, the Registrants are currently assessing the impacts such guidance may have (which could be material) on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures, as well as the potential to early adopt where applicable. The Registrants have assessed other FASB issuances of new standards which are not listed below given the current expectation such standards will not significantly impact the Registrants' financial reporting.

Leases (Issued February 2016): Increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective January 1, 2019. Early adoption is permitted, however the Registrants will not early adopt the standard. The issued guidance required a modified retrospective transition approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented (January 1, 2017). In January 2018, the FASB proposed amending the standard to give entities another option for transition. The proposed transition method would allow entities to initially apply the requirements of the standard in the period of adoption (January 1, 2019). The Registrants will assess this transition option when the FASB issues the standard.

The new guidance requires lessees to recognize both the right-of-use assets and lease liabilities in the balance sheet for most leases, whereas today only finance lease liabilities (referred to as capital leases) are recognized in the balance sheet. In addition, the definition of a lease has been revised when an arrangement conveys the right to control the use of the identified asset which may change the classification of an arrangement as a lease. Quantitative and qualitative disclosures related to the amount, timing and judgments of an entity's accounting for leases and the related cash flows are also expanded. Disclosure requirements apply to both lessees and lessors, whereas current disclosures relate only to lessees. Significant changes to lease systems, processes and procedures are required to implement the requirements of the new standard. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. Lessor accounting is also largely unchanged.

The standard provides a number of transition practical expedients that entities may elect. These include a "package of three" expedients that must be taken together and allow entities to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. In January 2018, the FASB issued additional guidance which provides another optional transition practical expedient. This practical expedient allows entities to not evaluate land easements under the new guidance at adoption if they were not previously accounted for as leases.

The Registrants have assessed the lease standard and are executing a detailed implementation plan in preparation for adoption on January 1, 2019. Key activities in the implementation plan include:

- Developing a complete lease inventory and abstracting the required data attributes into a lease accounting system that supports the Registrants' lease portfolios and integrates with existing systems.
- Evaluating the transition practical expedients available under the guidance.
- Identifying, assessing and documenting technical accounting issues, policy considerations and financial reporting implications. Includes completing a detailed contract assessment for a sample of transactions to determine whether they are leases under the new guidance.
- Identifying and implementing changes to processes and controls to ensure all impacts of the new guidance are effectively addressed.

Accounting and implementation issues continue to be identified and evaluated by the implementation team.

Impairment of Financial Instruments (Issued June 2016): Provides for a new Current Expected Credit Loss (CECL) impairment model for specified financial instruments including loans, trade receivables, debt securities classified as held-to-maturity investments and net investments in leases recognized by a lessor. Under the new guidance, on initial recognition and at each reporting period, an entity is required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. The standard does not make changes to the existing impairment models for non-financial assets such as fixed assets, intangibles and goodwill. The standard will be effective January 1, 2020 (with early adoption as of January 1, 2019 permitted) and, for most debt instruments, requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Goodwill Impairment (Issued January 2017): Simplifies the accounting for goodwill impairment by removing Step 2 of the current test, which requires calculation of a hypothetical purchase price allocation. Under the revised guidance, goodwill impairment will be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill (currently Step 1 of the two-step impairment test). Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Exelon, Generation, ComEd, PHI, and DPL have goodwill as of December 31, 2017. This updated guidance is not currently expected to impact the Registrants' financial reporting. The standard is effective January 1, 2020, with early adoption permitted, and must be applied on a prospective basis.

Derivatives and Hedging (Issued September 2017): Allows more financial and nonfinancial hedging strategies to be eligible for hedge accounting. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. There are also amendments related to effectiveness testing and disclosure requirements. The guidance is effective January 1, 2019 and early adoption is permitted with a modified retrospective transition approach. The Registrants are currently assessing this standard but do not currently expect a significant impact given the limited activity for which the Registrants elect hedge accounting and because the Registrants do not anticipate increasing their use of hedge accounting as a result of this standard.

2. Variable Interest Entities

A VIE is a legal entity that possesses any of the following characteristics: an insufficient amount of equity at risk to finance its activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest), or equity owners who do not have the obligation to absorb expected losses or the right to receive the expected residual returns of the entity. Companies are required to consolidate a VIE if they are its primary beneficiary, which is the enterprise that has the power to direct the activities that most significantly affect the entity's economic performance.

At December 31, 2017, Exelon, Generation, PHI and ACE collectively consolidated five VIEs or VIE groups for which the applicable Registrant was the primary beneficiary. At December 31, 2016, Exelon, Generation, BGE, PHI and ACE collectively consolidated nine VIEs or VIE groups for which the applicable Registrant was the primary beneficiary *(see Consolidated Variable Interest Entities below)*. As of December 31, 2017 and 2016, Exelon and Generation collectively had significant interests in seven and eight other VIEs, respectively, for which the applicable Registrant does not have the power to direct the entities' activities and, accordingly, was not the primary beneficiary *(see Unconsolidated Variable Interest Entities below)*.

Consolidated Variable Interest Entities

The carrying amounts and classification of the consolidated VIEs' assets and liabilities included in the Exelon's consolidated financial statements at December 31, 2017 and 2016 are as follows:

	As of December 31,	
	2017[(a)]	2016[(a)(b)]
Current assets	$ 630	$ 954
Noncurrent assets	9,317	8,563
Total assets	$9,947	$9,517
Current liabilities	$ 306	$ 885
Noncurrent liabilities	3,312	2,713
Total liabilities	$3,618	$3,598

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.

Except as specifically noted below, the assets in the table above are restricted for settlement of the VIE obligations and the liabilities in the table can only be settled using VIE resources.

As of December 31, 2017, Exelon's and Generation's consolidated VIEs consist of:

Investments in Other Energy Related Companies

During 2015, Generation sold 69% of its equity interest in a company to a tax equity investor. The company holds an equity method investment in a distributed energy company that is an unconsolidated VIE (see unconsolidated VIE section for additional details). Generation and the tax equity investor contributed a total of $227 million of equity in proportion to their ownership interests to the company. The company meets the definition of a VIE because it has a similar structure to a limited partnership and the limited partners do not have kick-out rights with respect to the general partner. Generation is the primary beneficiary because Generation manages the day-to-day activities of the entity.

During 2015, Generation formed a limited liability company to build, own, and operate a backup generator. While Generation owns 100% of the backup generator company, it was determined that the entity is a VIE because the customer absorbs price variability from the entity through the fixed price backup generator agreement. Generation provides operating and capital funding to the backup generator company.

During the fourth quarter of 2017 Generation acquired a controlling financial interest in an energy development company. The company is in the development stage and requires additional subordinated financial support from the equity holders to fund activities. Generation is the majority owner with a 62% equity interest and has the power to direct the activities that most significantly affect the economic performance of the company.

Renewable Energy Project Companies

In July 2017, Generation entered into an arrangement to sell a 49% interest in ExGen Renewable Partners, LLC (the Renewable JV) to an outside investor for $400 million of cash plus immaterial working capital and other customary post-closing adjustments. The Renewable JV meets the definition of a VIE because the Renewable JV has a similar structure to a limited partnership and the limited partners do not have kick out rights with respect to the general partner. Generation is the primarily beneficiary because Generation manages the day-to-day activities of the entity; therefore, Generation will continue to consolidate the Renewable JV. The Renewable JV is a collection of wind and solar project entities and some of these project entities are VIEs that are consolidated by the Renewable JV. The details relating to these VIEs are discussed below.

Generation owns a number of limited liability companies that build, own, and operate solar and wind power facilities some of which are owned by the Renewable JV. While Generation or the Renewable JV owns 100% of the solar entities and 100% of the majority of the wind entities, it has been determined that certain of the solar and wind entities are VIEs because the entities require additional subordinated financial support in the form of a parental guarantee of debt, loans from the customers in order to obtain the necessary funds for construction of the solar facilities, or the customers absorb price variability from the entities through the fixed price power and/or REC purchase agreements. Generation is the primary beneficiary of these solar and wind entities that qualify as VIEs because Generation controls the design, construction, and operation of the facilities. Generation provides operating and capital funding to the solar and wind entities for ongoing construction, operations and maintenance and there is limited recourse related to Generation related to certain solar and wind entities.

While Generation or the Renewable JV owns 100% of the majority of the wind entities, six of the projects have noncontrolling equity interests of 1% held by third parties and one of the projects has noncontrolling equity interests related to its Class B Membership Interest (see additional details below). The entities with noncontrolling equity interests of 1% held by third parties meet the definition of a VIE because the entities have noncontrolling equity interest holders that absorb variability from the wind projects. Generation's or the Renewable JV's current economic interests in five of these projects is significantly greater than its stated contractual governance rights and all of these projects have reversionary interest provisions that provide the noncontrolling interest holder with a purchase option, certain of which are considered bargain purchase prices, which, if exercised, transfers ownership of the projects to the noncontrolling interest holder upon either the passage of time or the achievement of targeted financial returns. The ownership agreements with the noncontrolling interests state that Generation or the Renewable JV are to provide financial support to the projects in proportion to its current 99% economic interests in the projects. Generation provides operating and capital funding to the wind project entities for ongoing construction, operations and maintenance and there is limited recourse to Generation related to certain wind project entities. However, no additional support to these projects beyond what was contractually required has been provided during 2017. Generation is the primary beneficiary of these wind entities because Generation controls the design, construction, and operation of the facilities.

In December 2016, Generation sold 100% of the Class B Membership Interests to a tax equity investor and retained 100% of the Class A Membership Interests of its equity interest in one of its wind entities that was previously consolidated under the voting interest model. The wind entity meets the definition of a VIE because the company has a similar structure to a limited partnership and the limited partners do not have kick-out rights with respect to the general partner. While Generation is the minority interest holder, Generation is the primary beneficiary, because Generation manages the day-to-day activities of the entity. Therefore, the entity continues to be consolidated by Generation.

The renewable energy project companies VIE group was previously separated into two VIE groups for solar project limited liability companies and wind project companies as of December 31, 2016.

Retail Power and Gas Companies

In March 2014, Generation began consolidating retail power and gas VIEs for which Generation is the primary beneficiary as a result of energy supply contracts that give Generation the power to direct the activities that most significantly affect the economic performance of the entities. Generation does not have an equity ownership interest in these entities, but provides approximately $30 million in credit support for the retail power and gas companies for which Generation is the sole supplier of energy. These entities are included in Generation's consolidated financial statements, and the consolidation of the VIEs do not have a material impact on Generation's financial results or financial condition.

CENG

CENG is a joint venture between Generation and EDF. On April 1, 2014, Generation, CENG, and subsidiaries of CENG executed the Nuclear Operating Services Agreement (NOSA) pursuant to which Generation now conducts all activities associated with the operations of the CENG fleet and provides corporate and administrative services to CENG and the CENG fleet for the remaining life of the CENG nuclear plants as if they were a part of the Generation nuclear fleet, subject to the CENG member rights of EDF. As a result of executing the NOSA, CENG qualifies as a VIE due to the disproportionate relationship between Generation's 50.01% equity ownership interest and its role in conducting the operational activities of CENG and the CENG fleet conveyed through the NOSA. Further, since Generation is conducting the operational activities of CENG and the CENG fleet, Generation qualifies as the primary beneficiary of CENG and, therefore, is required to consolidate the results of operations and financial position of CENG.

Exelon and Generation, where indicated, provide the following support to CENG (see Note 26 — Related Party Transactions for additional information regarding Generation's and Exelon's transactions with CENG):

- under power purchase agreements with CENG, Generation purchased or will purchase 50.01% of the available output generated by the CENG nuclear plants not subject to other contractual agreements from January 2015 through the end of the operating life of each respective plant. However, pursuant to amendments dated March 31, 2015, the energy obligations under the Ginna Nuclear Power Plant (Ginna) PPAs were suspended during the term of the Reliability Support Services Agreement (RSSA), through the end of March 31, 2017. With the expiration of the RSSA, the PPA was reinstated beginning April 1, 2017. (see Note 3 — Regulatory Matters for additional details),
- Generation provided a $400 million loan to CENG. As of December 31, 2017, the remaining obligation is $333 million, including accrued interest, which reflects the principal payment made in January 2015,
- Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation's obligations under this Indemnity Agreement. (See Note 23 —Commitments and Contingencies for more details),
- Generation and EDF share in the $637 million of contingent payment obligations for the payment of contingent retrospective premium adjustments for the nuclear liability insurance, and
- Exelon has executed an agreement to provide up to $245 million to support the operations of CENG as well as a $165 million guarantee of CENG's cash pooling agreement with its subsidiaries.

As of December 31, 2016, Exelon and Generation had the following consolidated VIEs that are no longer VIEs as of December 31, 2017:

Retail Gas Group

During 2009, Constellation formed a retail gas group to enter into a collateralized gas supply agreement with a third-party gas supplier. The retail gas group was determined to be a VIE because there was not sufficient equity to fund the group's activities without additional credit support and a $75 million parental guarantee provided by Generation. As the primary beneficiary, Generation consolidated the retail gas group. During the second quarter of 2017, the collateral structure was terminated with the third-party gas supplier except for the $75 million parental guarantee provided by Generation. Although the parental guarantee remains, this is considered customary and reasonable for the unsecured position Generation has with the third-party gas supplier. As a result of the termination, the retail gas group no longer met the definition of a VIE. However, the retail gas group continues to be consolidated by Generation under the voting interest model.

Other Generating Facilities

Prior to 2017, Generation owned 90% of a biomass fueled, combined heat and power company. In the second quarter of 2015, the entity was deemed to be a VIE because the entity required additional subordinated financial support in the form of a parental guarantee provided by Generation for up to $275 million in support of the payment obligations related to the Engineering, Procurement and Construction contract for the facility in support of one of its other generating facilities. During the third quarter of 2017, the ownership of the entity increased to 99%, all payment obligations related to the EPC contract were satisfied, and the parental guarantee provided by Generation was terminated. As a result, the entity is now sufficiently capitalized and no longer meets the definition of a VIE. However, the biomass facility continues to be consolidated by Generation under the voting interest model.

As of December 31, 2017 and 2016, Exelon's and ACE's consolidated VIE consists of:

ACE Transition Funding

A special purpose entity formed by ACE for the purpose of securitizing authorized portions of ACE's recoverable stranded costs through the issuance and sale of transition bonds. Proceeds from the sale of each series of transition bonds by ATF were transferred to ACE in exchange for the transfer by ACE to ATF of the right to collect a non-bypassable Transition Bond Charge from ACE customers pursuant to bondable stranded costs rate orders issued by the NJBPU in an amount sufficient to fund the principal and interest payments on transition bonds and related taxes, expenses and fees. During the three years ended December 31, 2017, 2016 and 2015, ACE transferred $48 million, $60 million and $61 million to ATF, respectively.

As of December 31, 2016, Exelon and BGE had the following consolidated VIE that is no longer a VIE as of December 31, 2017:

RSB BondCo LLC.

In 2007, BGE formed RSB BondCo LLC (BondCo), a special purpose bankruptcy remote limited liability company, to acquire and hold rate stabilization property and to issue and service bonds secured by the rate stabilization property. In

June 2007, BondCo purchased rate stabilization property from BGE, including the right to assess, collect, and receive non-bypassable rate stabilization charges payable by all residential electric customers of BGE. These charges were assessed in order to recover previously incurred power purchase costs that BGE deferred pursuant to Senate Bill 1. In the second quarter of 2017 the rate stabilization bonds were fully redeemed and BGE remitted its final payment to BondCo. Upon redemption of the bonds, BondCo no longer meets the definition of a variable interest entity.

BondCo's assets were restricted and could only be used to settle the obligations of BondCo. Further, BGE was required to remit all payments it received from customers for rate stabilization charges to BondCo. During 2017, 2016 and 2015, BGE remitted $22 million, $86 million and $86 million, respectively, to BondCo.

For each of the consolidated VIEs noted above, except as otherwise noted:

- the assets of the VIEs are restricted and can only be used to settle obligations of the respective VIE;
- Exelon, Generation, BGE, PHI and ACE did not provide any additional material financial support to the VIEs;
- Exelon, Generation, BGE, PHI and ACE did not have any material contractual commitments or obligations to provide financial support to the VIEs; and
- the creditors of the VIEs did not have recourse to Exelon's, Generation's, BGE's, PHI's or ACE's general credit.

As of December 31, 2017 and 2016, ComEd, PECO, Pepco and DPL do not have any material consolidated VIEs.

Assets and Liabilities of Consolidated VIEs

Included within the balances above are assets and liabilities of certain consolidated VIEs for which the assets can only be used to settle obligations of those VIEs, and liabilities that creditors, or beneficiaries, do not have recourse to the general credit of Exelon. As of December 31, 2017 and 2016, these assets and liabilities primarily consisted of the following:

	As of December 31,	
	2017[a]	2016[a][b]
Cash and cash equivalents	$ 126	$ 150
Restricted cash	64	59
Accounts receivable, net		
Customer	138	371
Other	25	48
Inventory		
Materials and supplies	205	199
Other current assets	45	50
Total current assets	603	908
Property, plant and equipment, net	6,186	5,415
Nuclear decommissioning trust funds	2,502	2,185
Goodwill	—	47
Mark-to-market derivative assets	—	23
Other noncurrent assets	274	315
Total noncurrent assets	8,962	7,985
Total assets	$9,565	$8,893
Long-term debt due within one year	$ 102	$ 181
Accounts payable	114	269
Accrued expenses	65	119
Mark-to-market derivative liabilities	—	60
Unamortized energy contract liabilities	18	15
Other current liabilities	7	30
Total current liabilities	306	674
Long-term debt	1,154	641
Asset retirement obligations	2,035	1,904
Pension obligation[c]	—	9
Unamortized energy contract liabilities	5	22
Other noncurrent liabilities	112	106
Noncurrent liabilities	3,306	2,682
Total liabilities	$3,612	$3,356

[a] Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.

[b] Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.

[c] Includes the CNEG retail gas pension obligation, which is presented as a net asset balance within the Prepaid pension asset line item on Generation's balance sheet. See Note 16 - Retirement Benefits for additional details.

Unconsolidated Variable Interest Entities

Exelon's and Generation's variable interests in unconsolidated VIEs generally include equity investments and energy purchase and sale contracts. For the equity investments, the carrying amount of the investments is reflected on Exelon's and Generation's Consolidated Balance Sheets in Investments. For the energy purchase and sale contracts (commercial agreements), the carrying amount of assets and liabilities in Exelon's and Generation's Consolidated Balance Sheets that relate to their involvement with the VIEs are predominately related to working capital accounts and generally represent the amounts owed by, or owed to, Exelon and Generation for the deliveries associated with the current billing cycles under the commercial agreements. Further, Exelon and Generation have not provided material debt or equity support, liquidity arrangements or performance guarantees associated with these commercial agreements.

As of December 31, 2017 and 2016, Exelon and Generation had significant unconsolidated variable interests in seven and eight VIEs, respectively, for which Exelon or Generation, as applicable, was not the primary beneficiary. These interests include certain equity method investments and certain commercial agreements. Exelon and Generation only include unconsolidated VIEs that are individually material in the tables below. However, Generation has several individually immaterial VIEs that in aggregate represent a total investment of $8 million. These immaterial VIEs are equity and debt securities in energy development companies. The maximum exposure to loss related to these securities is limited to the $8 million included in Investments on Exelon's and Generation's Consolidated Balance Sheets.

The following tables present summary information about Exelon and Generation's significant unconsolidated VIE entities:

December 31, 2017	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[a]	$625	$509	$1,134
Total liabilities[a]	37	228	265
Exelon's ownership interest in VIE[a]	—	251	251
Other ownership interests in VIE[a]	588	30	618
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	251	251
Contract intangible asset	8	—	8
Debt and payment guarantees	—	—	—
Net assets pledged for Zion Station decommissioning[b]	2	—	2
December 31, 2016			
Total assets[a]	$638	$567	$1,205
Total liabilities[a]	215	287	502
Exelon's ownership interest in VIE[a]	—	248	248
Other ownership interests in VIE[a]	423	32	455
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	264	264
Contract intangible asset	9	—	9
Debt and payment guarantees	—	3	3
Net assets pledged for Zion Station decommissioning[b]	9	—	9

[a] These items represent amounts on the unconsolidated VIE balance sheets, not on Exelon's or Generation's Consolidated Balance Sheets. These items are included to provide information regarding the relative size of the unconsolidated VIEs.

[b] These items represent amounts on Exelon's and Generation's Consolidated Balance Sheets related to the asset sale agreement with ZionSolutions, LLC. The net assets pledged for Zion Station decommissioning includes gross pledged assets of $39 million and $113 million as of December 31, 2017 and December 31, 2016, respectively; offset by payables to ZionSolutions LLC of $37 million and $104 million as of December 31, 2017 and December 31, 2016, respectively. These items are included to provide information regarding the relative size of the ZionSolutions LLC unconsolidated VIE.

For each unconsolidated VIE, Exelon and Generation assessed the risk of a loss equal to their maximum exposure to be remote and accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss. In addition, there are no agreements with, or commitments by, third parties that would materially affect the fair value or risk of their variable interests in these variable interest entities.

As of December 31, 2017, Exelon's and Generation's unconsolidated VIEs consist of:

Energy Purchase and Sale Agreements

Generation has several energy purchase and sale agreements with generating facilities. Generation has evaluated the significant agreements, ownership structures and risks of each entity, and determined that certain of the entities are VIEs because the entity absorbs risk through the sale of fixed price power and renewable energy credits. Generation has reviewed the entities and has determined that Generation is not the primary beneficiary of the VIEs because Generation does not have the power to direct the activities that most significantly impact the VIEs economic performance.

ZionSolutions

Generation has an asset sale agreement with EnergySolutions, Inc. and certain of its subsidiaries, including ZionSolutions, LLC (ZionSolutions), which is further discussed in Note 15 — Asset Retirement Obligations. Under this agreement, ZionSolutions can put the assets and liabilities back to Generation when decommissioning activities under the asset sale agreement are complete. Generation has evaluated this agreement and determined that, through the put option, it has a variable interest in ZionSolutions but is not the primary beneficiary. As a result, Generation has concluded that consolidation is not required. Other than the asset sale agreement, Exelon and Generation do not have any contractual or other obligations to provide additional financial support and ZionSolutions' creditors do not have any recourse to Exelon's or Generation's general credit.

Investment in Distributed Energy Companies

In July 2014, Generation entered into an arrangement to purchase a 90% equity interest and 90% of the tax attributes of a distributed energy company. Generation contributed a total $85 million of equity. The distributed energy company meets the definition of a VIE because the company has a similar structure to a limited partnership and the limited partners do not have kick-out rights of the general partner. Generation is not the primary beneficiary; therefore, the investment continues to be recorded using the equity method.During 2015, a company that is consolidated by Generation as a VIE entered into an arrangement to purchase a 90% equity interest and 99% of the tax attributes of another distributed energy company (see additional details in the Consolidated Variable Interest Entities section above). The equity holders (of which Generation is one) contributed to the distributed energy company a total of $227 million of equity in proportion to their ownership interests. The equity holders provided a parental guarantee of up to $275 million in support of equity contributions to the distributed energy company. As all equity contributions were made as of the first quarter of 2017, there is no further payment obligation under the parental guarantee. The distributed energy company meets the definition of a VIE because the company has a similar structure to a limited partnership and the limited partners do not have kick-out rights of the general partner. Generation is not the primary beneficiary; therefore, the investment is recorded using the equity method.

Both distributed energy companies from the 2015 and 2014 arrangements are considered related parties to Generation.

As of December 31, 2016, Exelon and Generation had the following unconsolidated VIE that is no longer a VIE as of December 31, 2017:

Investment in Energy Generating Facility

As of December 31, 2016, Generation had an equity investment in an energy generating facility. The entity was a VIE because Generation guaranteed the debt of the entity, provided equity support, and provided operating services to the entity. Generation was not the primary beneficiary of the entity because Generation did not have the power to direct the activities that most significantly impacted the VIE's economic performance. During 2017, Generation sold its equity investment in the entity; therefore, the entity is no longer a VIE as of December 31, 2017.

ComEd, PECO and BGE

The financing trust of ComEd, ComEd Financing III, and the financing trusts of PECO, PECO Trust III and PECO Trust IV, are not consolidated in Exelon's, ComEd's, or PECO's financial statements. These financing trusts were created to issue mandatorily redeemable trust preferred securities. ComEd and PECO have concluded that they do not have a significant variable interest in ComEd Financing III, PECO Trust III, or PECO Trust IV as each Registrant financed its equity interest in the financing trusts through the issuance of subordinated debt and, therefore, has no equity at risk.

The financing trust of BGE, BGE Capital Trust II, was created for the purpose of issuing mandatorily redeemable trust preferred securities. In the third quarter of 2017, BGE redeemed the securities pursuant to the optional redemption provisions of the Indenture, under which the subordinated debt securities were issued, and dissolved BGE Capital Trust II. Prior to dissolution, the BGE Capital Trust II was not consolidated in Exelon's or BGE's financial statements. BGE concluded it did not have a significant variable interest in BGE Capital Trust II as BGE financed its equity interest in the financing trust through the issuance of subordinated debt and, therefore, had no equity at risk. See Note 13 — Debt and Credit Agreements for additional information.

3. Regulatory Matters

The following matters below discuss the status of material regulatory and legislative proceedings of the Registrants.

Illinois Regulatory Matters

Tax Cuts and Jobs Act. On January 18, 2018, the ICC approved ComEd's petition filed on January 5, 2018 seeking approval to pass back to customers beginning February 1, 2018 $201 million in tax savings resulting from the enactment of the TCJA through a reduction in electric distribution rates. The amounts being passed back to customers reflect the benefit of lower income tax rates beginning January 1, 2018 and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. Refer to Note 14 - Income Taxes for more detail on Corporate Tax Reform.

Electric Distribution Formula Rate. ComEd's electric distribution rates are established through a performance-based formula rate. ComEd is required to file an annual update to the performance-based formula rate on or before May 1, with resulting rates effective in January of the following year. This annual electric distribution formula rate update is based on prior year actual costs and current year projected capital additions (initial revenue requirement). The update also reconciles any differences between the revenue requirement in effect for the prior year and actual costs incurred for that year (annual reconciliation). Throughout each year, ComEd records regulatory assets or regulatory liabilities and corresponding increases or decreases to Operating revenues for any differences between the revenue requirement in effect and ComEd's best estimate of the revenue requirement expected to be approved by the ICC for that year's reconciliation. The regulatory asset associated with electric distribution formula rate is amortized to Operating revenues in ComEd's Consolidated Statement of Operations and Comprehensive Income as the associated amounts are recovered through rates. Changes to the distribution formula rate as a result of FEJA are discussed below.

For each of the following years, the ICC approved the following total increases/(decreases) in ComEd's electric distributions formula rate filings:

Annual Electric Distribution Filings	2017	2016	2015
ComEd's requested total revenue requirement increase (decrease)	$ 96	$ 138	$ (50)
Final ICC Order			
Initial revenue requirement increase	$ 78	$ 134	$ 85
Annual reconciliation increase (decrease)	18	(7)	(152)
Total revenue requirement increase (decrease)	$ 96	$ 127[a]	$ (67)
Allowed Return on Rate Base:			
Initial revenue requirement	6.47%	6.71%	7.05%
Annual reconciliation	6.45%	6.69%	7.02%
Allowed ROE:			
Initial revenue requirement	8.40%	8.64%	9.14%
Annual reconciliation	8.34%[b]	8.59%[b]	9.09%[b]
Effective date of rates	January 2018	January 2017	January 2016

[a] On March 22, 2017, the ICC issued an order approving ComEd's proposal to reduce the 2016 revenue requirement by $18 million, which was reflected in customer rates beginning in April 2017. This reduction is not reflected in the 2016 revenue requirement amounts above.

[b] Includes a reduction of 6 basis points in 2017 and 5 basis points in 2016 and 2015 for a reliability performance metric penalty.

Illinois Future Energy Jobs Act

Background

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA went into effect on June 1, 2017, and includes, among other provisions, (1) a ZES providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute to (i) mandate net metering for community generation projects, and establish billing procedures for subscribers to those projects, (ii) provide immediately for netting at the energy-only rate for nonresidential customers, and (iii) transition from netting at the full retail rate to the energy-only rate for certain residential net metering customers once the net meter customer load equals 5% of total peak demand supplied in the previous year and (7) support for low income rooftop and community solar programs.

Zero Emission Standard

FEJA includes a ZES that provides compensation through the procurement of ZECs targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet specific eligibility criteria.

On September 11, 2017, the ICC approved the IPA's ZES Procurement Plan filed with the ICC on July 31, 2017. Bidders interested in participating in the procurement process had 14 days following the ICC's approval of the plan to submit the required eligibility information and become qualified bidders. Generation's Clinton and Quad Cities nuclear plants timely submitted the required eligibility information to the ICC and responded to follow up questions. Winning bidders will contract directly with Illinois utilities, including ComEd, for 10-year terms extending through May 31, 2027. The ZEC price will be based upon the current social cost of carbon as determined by the Federal government and is initially established at $16.50 per MWh of production, subject to annual future adjustments determined by the IPA for specified escalation and pricing adjustment mechanisms designed to lower the ZEC price based on increases in underlying energy and capacity prices. Illinois utilities will be required to purchase all ZECs delivered by the zero-emissions nuclear-powered generating facilities, subject to annual cost caps. For the initial delivery year, June 1, 2017 to May 31, 2018, the ZEC annual cost cap is set at $235 million (ComEd's share is approximately $170 million). For subsequent delivery years, the IPA-approved targeted ZEC procurement amounts will change based on forward energy and capacity prices. ZECs delivered to Illinois utilities in excess of the annual cost cap will be paid in subsequent years if the payments do not exceed the prescribed annual cost cap for that year.

ComEd recovers all costs associated with purchasing ZECs through a rate rider that provides for an annual reconciliation and true-up to actual costs incurred by ComEd to purchase ZECs, with any difference to be credited to or collected from ComEd's retail customers in subsequent periods with interest. ComEd began billing its retail customers under its new ZEC rate rider on June 1, 2017.

On February 14, 2017, two lawsuits were filed in the Northern District of Illinois against the IPA alleging that the state's ZEC program violates certain provisions of the U.S. Constitution. One lawsuit was filed by customers of ComEd, led by the Village of Old Mill Creek, and the other was brought by the EPSA and three other electric suppliers. Both lawsuits argue that the Illinois ZEC program will distort PJM's FERC-approved energy and capacity market auction system of setting wholesale prices, and seek a permanent injunction preventing the implementation of the program. Exelon intervened and filed motions to dismiss in both lawsuits. In addition, on March 31, 2017, plaintiffs in both lawsuits filed motions for preliminary injunction with the court; the court stayed briefing on the motions for preliminary injunction until the resolution of the motions to dismiss. On July 14, 2017, the district court granted the motions to dismiss. On July 17, 2017, the plaintiffs appealed the decision to the Seventh Circuit. Briefs were fully submitted on December 12, 2017, the Court heard oral argument on January 3, 2018. At the argument, the Court asked for supplemental briefing, which was filed on January 26, 2018. Exelon cannot predict the outcome of these lawsuits. It is possible that resolution of these matters could have a material, unfavorable impact on Exelon's and Generation's results of operations, cash flows and financial positions.

See Note 8 — Early Nuclear Plant Retirements for additional information regarding the economic challenges facing Generation's Clinton and Quad Cities nuclear plants and the expected benefits of the ZES.

ComEd Electric Distribution Rates

FEJA extended the sunset date for ComEd's performance-based electric distribution formula rate from 2019 to the end of 2022, allowed ComEd to revise the electric distribution formula rate to eliminate the ROE collar, and allowed ComEd to implement a decoupling tariff if the electric distribution formula rate is terminated at any time. ComEd revised its electric distribution formula rate to eliminate the ROE collar, which eliminates any unfavorable or favorable impacts of weather or load from ComEd's electric distribution formula rate revenues beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to ComEd's electric distribution formula rate revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began reflecting the impacts of this change in its electric distribution services costs regulatory asset in the first quarter 2017. As of December 31, 2017, ComEd recorded an increase to its electric distribution services costs regulatory asset of approximately $32 million for this change.

FEJA requires ComEd to make non-recoverable contributions to low income energy assistance programs of $10 million per year for 5 years as long as the electric distribution formula rate remains in effect. With the exception of these contributions, ComEd will recover from customers, subject to certain caps explained below, the costs it incurs pursuant to FEJA either through its electric distribution formula rate or other recovery mechanisms.

Energy Efficiency

Prior to FEJA, Illinois law required ComEd to implement cost-effective energy efficiency measures and, for a 10-year period ending May 31, 2018, cost-effective demand response measures to reduce peak demand by 0.1% over the prior year for eligible retail customers.

Beginning January 1, 2018, FEJA provides for new cumulative annual energy efficiency MWh savings goals for ComEd, which are designed to achieve 21.5% of cumulative persisting annual MWh savings by 2030, as compared to the deemed baseline of 88 million MWhs of electric power and energy sales. FEJA deems the cumulative persisting annual MWh savings to be 6.6% from 2012 through the end of 2017. ComEd expects to spend approximately $350 million to $400 million annually through 2030 to achieve these energy efficiency MWh savings goals. In addition, FEJA extends the peak demand reduction requirement from 2018 to 2026. Because the new requirements apply beginning in 2018, FEJA extends the existing energy efficiency plans, which were due to end on May 31, 2017, through December 31, 2017. FEJA also exempts customers with demands over 10 MW from energy efficiency plans and requirements beginning June 1, 2017. On September 11, 2017, the ICC approved ComEd's 2018-2021 energy efficiency plan with minor modifications filed by ComEd with the ICC on June 30, 2017.

As allowed by FEJA, ComEd cancelled its existing energy efficiency rate rider effective June 2, 2017. On August 1, 2017, ComEd filed with the ICC a reconciliation of revenues and costs incurred through the cancellation date. On August 30, 2017, the ICC approved ComEd's request, filed on August 1, 2017, to issue an $80 million credit on retail customers' bills in October 2017 for the majority of the over-recoveries with any final adjustment applicable to the over-recoveries to be billed or credited in the future. As of December 31, 2017, ComEd's over-recoveries associated with its former energy efficiency rate rider were $4 million and are expected to be refunded to customers in future rates.

FEJA allows ComEd to defer energy efficiency costs (except for any voltage optimization costs which are recovered through the electric distribution formula rate) as a separate regulatory asset that is recovered through the energy efficiency formula rate over the weighted average useful life, as approved by the ICC, of the related energy efficiency measures. ComEd earns a return on the energy efficiency regulatory asset at a rate equal to its weighted average cost of capital, which is based on a year-end capital structure and calculated using the same methodology applicable to ComEd's electric distribution formula rate. Beginning January 1, 2018 through December 31, 2030, the return on equity that ComEd earns on its energy efficiency regulatory asset is subject to a maximum downward or upward adjustment of 200 basis points if ComEd's cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. ComEd is required to file an update to its energy efficiency formula rate on or before June 1 each year, with resulting rates effective in January of the following year. The annual update will be based on projected current year energy efficiency costs, PJM capacity revenues, and the projected year-end regulatory asset balance less any related deferred income taxes. The update will also include a reconciliation of any differences between the revenue requirement in effect for the prior year and the revenue requirement based on actual prior year costs and actual year-end energy efficiency regulatory asset balances less any related deferred income taxes. ComEd records a regulatory asset or liability and corresponding increase or decrease to Operating revenues for any differences between the revenue requirement in effect and ComEd's best estimate of the revenue requirement expected to be approved by the ICC for that year's reconciliation.

On August 15, 2017, the ICC approved ComEd's new initial energy efficiency formula rate filed pursuant to FEJA. The order establishes the formula under which energy efficiency rates will be calculated going forward and the revenue requirement used to set the initial rates for the period October 1, 2017 through December 31, 2017. The initial revenue requirement is based on projected costs and projected PJM capacity revenues for the period from June 1, 2017 through December 31, 2017, and projected year-end 2017 energy efficiency regulatory asset balances (less related deferred income taxes). The approved energy efficiency formula rate also provides for revenue decoupling to effectively offset the favorable or unfavorable impacts to ComEd's energy efficiency formula rate revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer.

On September 11, 2017, the ICC approved ComEd's annual energy efficiency formula rate. The order establishes the revenue requirement used to set rates that will take effect in January 2018. The revenue requirement for 2018 is based on projected 2018 energy efficiency costs and PJM capacity revenues, and year-end 2018 energy efficiency regulatory asset balances (less related deferred income taxes).

For each of the following years, the ICC approved the following total increases/(decreases) in ComEd's requested energy efficiency revenue requirement:

Annual Energy Efficiency Filings	**Initial**	**2017**
ComEd's requested total revenue requirement (decrease) increase	$ (7)[a]	$ 12
Allowed Return on Rate Base:		
Initial revenue requirement	6.47%	6.47%
Allowed ROE:		
Initial revenue requirement	8.40%	8.40%
Effective date of rates[b]	October 2017	January 2018

[a] Reflects higher projected PJM capacity revenues compared to projected energy efficiency costs.

[b] An ICC order on the annual reconciliation of any differences between the revenue requirement in effect and the revenue requirement based on actual costs for 2017 and 2018 is expected in December 2018 and December 2019, respectively.

Renewable Portfolio Standard

Existing Illinois law requires ComEd to purchase each year an increasing percentage of renewable energy resources for the customers for which it supplies electricity. This obligation is satisfied through the procurement of RECs. FEJA revises the Illinois RPS to require ComEd to procure RECs for all retail customers by June 2019, regardless of the customers' electricity supplier, and provides support for low-income rooftop and community solar programs, which will be funded by the existing Renewable Energy Resources Fund and ongoing RPS collections. FEJA also requires ComEd to use RPS collections to fund utility job training and workforce development programs in the amounts of $10 million in each of the years 2017, 2021, and 2025. ComEd recorded a $20 million noncurrent liability as of December 31, 2017 associated with this obligation. ComEd will recover all costs associated with purchasing RECs and funding utility job training and workforce development programs through a new RPS rate rider that provides for a reconciliation and true-up to actual costs, with any difference between revenues and expenses to be credited to or collected from ComEd's retail customers in subsequent periods with interest. The first reconciliation and true-up for RECs will occur in 2021 and cover revenues and costs for the four-year period beginning June 1, 2017 through May 31, 2021. Subsequently, the RPS rate rider will provide for an annual reconciliation and true-up. ComEd began billing its retail customers under its new RPS rate rider on June 1, 2017 and recorded a related regulatory liability of $21 million as of December 31, 2017. ComEd also recorded a regulatory liability of $41 million for alternative compliance payments received from RES to purchase RECs on behalf of the RES in the future.

As of December 31, 2017, ComEd had received $62 million of over-recovered RPS costs and alternative compliance payments from RES, which are deposited into a separate interest-bearing bank account pursuant to FEJA. The current portion is classified as Restricted cash and the non-current portion is classified as other deferred debits on Exelon's and ComEd's Balance Sheets.

Customer Rate Increase Limitations

FEJA includes provisions intended to limit the average impact on ComEd customer rates for recovery of costs incurred under FEJA as follows: (1) for a typical ComEd residential customer, the average impact must be less than $0.25 cents per month, (2) for nonresidential customers with a peak demand less than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois commercial retail customers during 2015, and (3) for nonresidential customers with a peak demand greater than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois industrial retail customers during 2015.

On June 30, 2017, ComEd submitted a 10-year projection to the ICC of customer rate impacts for residential customers and nonresidential customers with a peak demand less than 10 MW. Such projections indicate that customer rate impacts will not exceed the limitations set by FEJA discussed below. Thereafter, beginning in 2018, ComEd must submit a report to the ICC for residential customers and nonresidential customers with a peak demand less than 10 MW by February 15th and June 30th of each year, respectively. For nonresidential customers with a peak demand greater than 10 MW, ComEd must submit a report to the ICC by May 1 of each year if a rate reduction will be necessary in the following year. For residential customers, the reports will include the actual costs incurred under FEJA during the preceding year and a rolling 10-year customer rate impact projection. The reports for nonresidential customers with a peak demand less than 10 MW will also include the actual costs incurred under FEJA during the preceding year, as well as the average annual rate increase from January 1, 2017 through the end of the preceding year and the average annual rate increase projected for the remainder of the 10-year period.

If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the first four years, ComEd is required to decrease costs associated with FEJA investments, including reductions to ZEC contract quantities. If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the last six years, ComEd is required to demonstrate how it will reduce FEJA investments to ensure compliance. If the actual residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations for any one year, ComEd is required to submit a corrective action plan to decrease future year costs to reduce customer rates to ensure future compliance. If the actual residential customer or nonresidential customer rate exceeds the limitations for two consecutive years, ComEd can offer to credit customers for amounts billed in excess of the limitations or ComEd can terminate FEJA investments. If ComEd chooses to terminate FEJA investments, the ICC shall order termination of ZEC contracts and further initiate proceedings to reduce energy efficiency savings goals and terminate support for low-income rooftop and community solar programs. ComEd is allowed to fully recover all costs incurred as of and up to the date of the programs' termination.

Renewable Energy Resources. In accordance with FEJA, beginning with the plan or plans to be implemented in the 2017 delivery year, the IPA filed its long term renewable resource procurement plan (LT Plan) with the ICC on December 4, 2017. The LT Plan requires a certain percentage of electricity sales be met with a climbing percentage of REC procurement. The 2017 delivery year requirement was 13%, with the obligation increasing by at least 1.5% each year thereafter to at least 25% by the 2025 delivery year; and continuing at no less than 25% for each delivery year thereafter.

Each RES and each Illinois utility, which includes ComEd, is responsible for the renewable resource obligation for the customers to which it supplies power. Over time, this will change and ComEd will procure renewable resources based on the retail load of substantially all customers in its service territory. For the delivery year beginning June 1, 2017, the LT Plan shall include cost effective renewable energy resources procured by ComEd for the retail load it supplies and for 50% of the retail customer load supplied by RES in ComEd's service territory on February 28, 2017. ComEd's procurement for RES supplied retail customer load will increase to 75% June 1, 2018 and to 100% beginning June 1, 2019. All goals are subject to rate impact criteria set forth by Illinois legislation. As of December 31, 2017, ComEd had purchased renewable energy resources or equivalents, such as RECs, in accordance with the IPA Plan. ComEd currently retires all RECs upon transfer and acceptance. ComEd is permitted to recover procurement costs of RECs from retail customers without mark-up through rates.

Pennsylvania Regulatory Matters

Tax Cuts and Jobs Act. PECO is working with the PAPUC and stakeholders on behalf of its distribution customers to determine the proper regulatory mechanisms and timing to reflect the tax benefits from the TCJA.

2015 Pennsylvania Electric Distribution Rate Case. On March 27, 2015, PECO filed a petition with the PAPUC requesting an increase of $190 million to its annual service revenues for electric delivery, which requested an ROE of 10.95%. On September 10, 2015, PECO and interested parties filed with the PAPUC a petition for joint settlement for an increase of $127 million in annual distribution service revenue. No overall ROE was specified in the settlement. On December 17, 2015, the PAPUC approved the settlement of PECO's electric distribution rate case, which included the approval of the In-Program Arrearage Forgiveness ("IPAF") Program. The approved electric delivery rates became effective on January 1, 2016.

The IPAF Program provides for forgiveness of a portion of the eligible arrearage balance of its low-income Customer Assistance Program (CAP) accounts receivable at program inception. The forgiveness will be granted to the extent CAP customers remain current over the duration of the five-year payment agreement term. The Settlement guarantees PECO's recovery of two-thirds of the arrearage balance through a combination of customer payments and rate recovery, including through future rates cases if necessary. The remaining one-third of the arrearage balance has been absorbed by PECO through bad debt expense on its Consolidated Statements of Operations. In October 2016, the IPAF was fully implemented. PECO recorded a regulatory asset representing previously incurred bad debt expense associated with the eligible accounts receivable balances, which is included in the Regulatory assets table below.

Maryland Regulatory Matters

Tax Cuts and Jobs Act. On January 12, 2018, the MDPSC issued an order that directed each of BGE, Pepco and DPL to track the impacts of the TCJA beginning January 1, 2018 and file by February 15, 2018 how and when they expect to pass through such impacts to their customers.

On January 31, 2018, the MDPSC approved BGE's petition to pass back to customers beginning February 1, 2018 $103 million in tax savings resulting from the enactment of the TCJA through a reduction in distribution rates, of which $72 million and $31 million were related to electric and natural gas, respectively. On February 5, 2018, Pepco filed with the MDPSC an update to its current distribution rate case to reflect $31 million in TCJA tax savings. By mid-February 2018, DPL is planning to file with the MDPSC seeking approval to pass back to customers beginning in 2018 $13 million in TCJA tax savings through a reduction in electric distribution rates. The amounts being passed back or proposed to be passed back to customers reflect the annual benefit of lower income tax rates and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. Refer to Note 14 — Income Taxes for more detail on Corporate Tax Reform.

After the filings due by February 15, 2018, it is expected that the MDPSC will address the treatment of the TCJA tax savings tracked by BGE, Pepco and DPL for the period January 1, 2018 through the effective date of their respective $103 million, $31 million and $13 million customer rate adjustments described above.

2018 Maryland Electric Distribution Rates. On January 2, 2018, Pepco filed an application with the MDPSC to increase its annual electric distribution base rates by $41 million, reflecting a requested ROE of 10.1%. On February 5, 2018, Pepco filed with the MDPSC an update to its current distribution rate case to reflect $31 million in TCJA tax savings, thereby reducing the requested annual base rate increase to $11 million. Pepco expects a decision in the matter in the third quarter of 2018, but cannot predict how much of the requested increase the MDPSC will approve.

2017 Maryland Electric Distribution Rates. On March 24, 2017, Pepco filed an application with the MDPSC to increase its annual electric distribution base rates by $69 million, which was updated to $67 million on August 24, 2017, reflecting a requested ROE of 10.1%. The application included a request for an income tax adjustment to reflect full normalization of removal costs associated with pre-1981 property, which accounted for $18 million of the requested increase. On October 20, 2017, the MDPSC approved an increase in Pepco electric distribution rates of $34 million, reflecting a ROE of 9.5%. On October 27, 2017, the MDPSC issued an errata order revising the approved increase in Pepco electric distribution rates to $32 million. The errata order corrected a number of computational errors in the original order but did not alter any of the findings. The new rates became effective for services rendered on or after October 20, 2017. In its decision, the MDPSC denied Pepco's request regarding the income tax adjustment without prejudice to Pepco filing another similar proposal with additional information. On November 20, 2017, an interested party in the proceeding filed a request for rehearing. On December 4, 2017, Pepco filed its response in opposition to the request for rehearing. Pepco cannot predict the outcome of this matter or when it will be decided.

2016 Maryland Electric Distribution Base Rates. On November 15, 2016, the MDPSC approved an increase in electric distribution base rates of $53 million based on a ROE of 9.55%. The new rates became effective for services rendered on or after November 15, 2016. MDPSC also approved Pepco's recovery of substantially all of its capital investment and regulatory assets associated with its AMI program as part of the newly effective rates as well as a recovery over a five-year period of transition costs related to a new billing system implemented in 2015. As a result, during the fourth quarter of 2016, Exelon, PHI and Pepco established a regulatory asset of $13 million, wrote-off $3 million in disallowed AMI costs and recorded a pre-tax credit to net income for $10 million. Additionally, the MDPSC denied Pepco's request to extend its Grid Resiliency Program surcharge for new system reliability and safety improvement projects, with costs for such programs to be recovered going forward through base rates.

2017 Maryland Electric Distribution Rates. On July 14, 2017, DPL filed an application with the MDPSC to increase its annual electric distribution base rates by $27 million, which was updated to $19 million on November 16, 2017, reflecting a requested ROE of 10.1%. On December 18, 2017, a settlement agreement was filed with the MDPSC wherein DPL will be granted a rate increase of $13 million, and a ROE of 9.5% solely for purposes of calculating AFUDC and regulatory asset carrying costs. On January 5, 2018, the MDPSC held a hearing on the settlement agreement. DPL expects a decision in the matter in the first quarter of 2018, but cannot predict whether the MDPSC will approve the settlement agreement as filed or how much of the requested increase will be approved.

2016 Maryland Electric Distribution Base Rates. On February 15, 2017, the MDPSC approved an increase in DPL electric distribution rates of $38 million reflecting a ROE of 9.6%. The new rates became effective for services rendered on or after February 15, 2017. The MDPSC also denied DPL's request to continue its Grid Resiliency Program, through which DPL proposed to invest $5 million a year for two years to improve priority feeders and install single-phase reclosing fuse technology. The final order did not result in the recognition of any incremental regulatory assets or liabilities.

2015 Maryland Electric and Natural Gas Distribution Base Rates. On November 6, 2015, and as amended through the course of the proceeding, BGE filed for electric and natural gas distribution base rate increases with the MDPSC, ultimately requesting annual increases of $116 million and $78 million, respectively, of which $104 million and $37 million were related to recovery of electric and natural gas smart grid initiative costs, respectively. BGE also proposed to recover an annual increase of approximately $30 million for Baltimore City underground conduit fees through a surcharge.

On June 3, 2016, the MDPSC issued an order in which the MDPSC found compelling evidence to conclude that BGE's smart grid initiative overall was cost beneficial to customers. However, the June 3 order contained several cost disallowances and adjustments, including not allowing BGE to defer or recover through a surcharge the $30 million increase in annual Baltimore City underground conduit fees.

On June 30, 2016, BGE filed a petition for rehearing of the June 3 order requesting that the MDPSC modify its order to reverse certain decisions including the decision associated with the Baltimore City underground conduit fees. OPC also subsequently filed for a petition for rehearing of the June 3 order.

On July 29, 2016, the MDPSC issued an order on the petitions for rehearing that reversed certain of its prior cost disallowances and adjustments related to the smart grid initiative. Through the combination of the orders, the MDPSC authorized electric and natural gas rate increases of $44 million and $48 million, respectively, and an allowed ROE for the electric and natural gas distribution businesses of 9.75% and 9.65%, respectively. The new electric and natural gas base rates took effect for service rendered on or after June 4, 2016. However, MDPSC's July 29 order on the petition on rehearing still did not allow BGE to defer or recover through a surcharge the increase in Baltimore City underground conduit fees.

On August 26, 2016, BGE filed an appeal of the MDPSC's orders with the Circuit Court for Baltimore County. On August 29, 2016, the residential consumer advocate also filed an appeal of the MDPSC's order but with the Circuit Court for Baltimore City. On November 15, 2016, Baltimore County Circuit Court issued an order deciding that the cases should be consolidated and should proceed in Baltimore County Circuit Court. However, on January 9, 2017, BGE filed to withdraw its appeal of the MDPSC's orders and on January 10, 2017, the residential consumer advocate filed to withdraw its appeal as well. Refer to the Smart Meter and Smart Grid Investments disclosure below for further details on the impact of the ultimate disallowances contained in the orders to BGE. See Conduit Lease with City of Baltimore in Litigation and Regulatory Matters of Note 23 - Commitments and Contingencies for information about the settlement agreement related to BGE's use of the City-owned underground conduit system.

Cash Working Capital Order. On November 17, 2016, the MDPSC rendered a decision in the proceeding to review BGE's request to recover its cash working capital (CWC) requirement for its Provider of Last Resort service, also known as Standard Offer Service (SOS), as well as other components that make up the Administrative Charge, the mechanism that enables BGE to recover all of its SOS-related costs. The Administrative Charge is now comprised of five components: CWC, uncollectibles, incremental costs, return, and an administrative adjustment, which is an adder to the utility's SOS rate to act as a proxy for retail suppliers' costs. The Commission accepted BGE's positions on recovery of CWC and pass-through recovery of BGE's actual uncollectibles and incremental costs. The order also grants BGE a return on the SOS. The Commission ruled that the level of the administrative adjustment will be determined in BGE's next rate case. On December 16, 2016, MDPSC Staff requested clarification concerning the amount of return on the SOS awarded to BGE and on December 19, 2016, the residential consumer advocate sought rehearing of the return awarded. On January 24, 2017, the MDPSC issued an order denying the MDPSC Staff request for clarification and the residential consumer advocate request for rehearing. On February 22, 2017, the residential consumer advocate filed an appeal of the

MDPSC's orders with the Circuit Court for Baltimore City. The residential consumer advocate filed its Memorandum on Appeal on June 5, 2017 and subsequent Reply Memoranda were filed by BGE and the MDPSC on July 7, 2017 and July 12, 2017, respectively. On August 7, 2017, following oral argument by the parties, a decision was issued from the Circuit Court affirming the decision of the MDPSC. On September 5, 2017, the residential consumer advocate filed an appeal of the Circuit Court's decision to the Maryland Court of Special Appeals. BGE cannot predict the outcome of this appeal.

Smart Meter and Smart Grid Investments. In August 2010, the MDPSC approved a comprehensive smart grid initiative for BGE that included the planned installation of 2 million residential and commercial electric and natural gas smart meters at an expected total cost of $480 million of which $200 million was funded by SGIG. The MDPSC's approval ordered BGE to defer the associated incremental costs, depreciation and amortization, and an appropriate return, in a regulatory asset until such time as a cost-effective advanced metering system is implemented. Refer to AMI programs in the Regulatory Assets and Liabilities section below for further details.

As part of the 2015 electric and natural gas distribution rate case filed on November 6, 2015, BGE sought recovery of its smart grid initiative costs, supported by evidence demonstrating that BGE had, in fact, implemented a cost-beneficial advanced metering system. On June 3, 2016, the MDPSC issued an order concluding that the smart grid initiative overall is cost beneficial to its customers. However, the June 3 order contained several cost disallowances and adjustments including disallowances of certain program and meter installation costs and denial of recovery of any return on unrecovered costs for non-AMI meters replaced under the program. On June 30, 2016, BGE filed a petition for rehearing of the June 3 order requesting that the MDPSC modify its order to reverse certain decisions and change certain of the cost disallowances and adjustments to enable BGE to defer those costs for recovery through future electric and natural gas rates. The residential consumer advocate also subsequently filed for a petition for rehearing of the June 3 order. On July 29, 2016, the MDPSC issued an order on the petitions for rehearing that reversed certain of its prior cost disallowances and adjustments related to the smart grid initiative.

As a combined result of the MDPSC orders in BGE's 2015 electric and natural gas distribution rate case, BGE recorded a $52 million charge in June 2016 to Operating and maintenance expense in Exelon's and BGE's Consolidated Statements of Operations and Comprehensive Income reducing certain regulatory assets and other long-lived assets and reclassified $56 million of non-AMI plant costs from Property, plant and equipment, net to Regulatory assets on Exelon's and BGE's Consolidated Balance Sheets.

The Maryland Strategic Infrastructure Development and Enhancement Program. In 2013, legislation intended to accelerate gas infrastructure replacements in Maryland was signed into law. The law established a mechanism, separate from base rate proceedings, for gas companies to promptly recover reasonable and prudent costs of eligible infrastructure replacement projects incurred after June 1, 2013. The monthly surcharge and infrastructure replacement costs must be approved by the MDPSC and are subject to a cap and require an annual true-up of the surcharge revenues against actual expenditures. Investment levels in excess of the cap would be recoverable in a subsequent gas base rate proceeding at which time all costs for the infrastructure replacement projects would be rolled into gas distribution rates. Irrespective of the cap, BGE is required to file a gas rate case every five years under this legislation.

On August 2, 2013, BGE filed its infrastructure replacement plan and associated surcharge. On January 29, 2014, the MDPSC issued a decision conditionally approving the first five years of BGE's plan and surcharge. On July 1, 2016, BGE filed an amendment to its infrastructure replacement plan, which the MDPSC conditionally approved in an order dated November 23, 2016. The revised surcharge reflecting the costs of the amendment became effective January 1, 2017. On November 1, 2017, BGE filed a surcharge update to be effective January 1, 2018 along with its 2018 project list and projected capital estimates of $136 million to be included in the 2018 surcharge calculation. The MDPSC subsequently approved BGE's 2018 project list and the proposed surcharge for 2018. As of December 31, 2017, BGE recorded a regulatory liability of less than $1 million, representing the difference between the surcharge revenues and program costs.

On December 1, 2017 (and as amended on January 22, 2018), BGE filed an application with the MDPSC seeking approval for a new infrastructure replacement plan and associated surcharge, effective for the five-year period from 2019 through 2023. BGE's new plan calls for capital expenditures over the 2019-2023 timeframe of $963 million, with an associated revenue requirement of $242 million. BGE expects a decision in the matter by May 31, 2018, but cannot predict whether the MDPSC will approve the plan as filed.

Delaware Regulatory Matters

Tax Cuts and Jobs Act. On January 16, 2018, the DPSC opened a docket to examine the impacts of the TCJA on the cost of service and rates of all regulated public utilities in Delaware, which includes DPL. The DPSC also stated the TCJA benefits would be addressed in DPL's pending rate case.

In response, by mid-February 2018, DPL is planning to file with the DPSC updates to its electric and gas distribution rate cases described below to reflect approximately $26 million in tax savings resulting from the enactment of the TCJA, of which $19 million and $7 million are related to electric and natural gas, respectively. The updated requests for amounts being passed back to customers would reflect the annual benefit of lower income tax rates and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. Refer to Note 14 - Income Taxes for more detail on Corporate Tax Reform. DPL expects a decision in the matter in the third quarter of 2018 for the electric distribution proceeding and in the fourth quarter of 2018 for the gas distribution proceeding, but cannot predict how much of the requested increase the DPSC will approve. It is expected that the DPSC will address in a future rate proceeding DPL's treatment of the TCJA tax savings for the period February 1, 2018 through the effective date of any customer rate adjustments in the pending rate proceedings.

2017 Delaware Electric and Natural Gas Distribution Rates. On August 17, 2017, DPL filed applications with the DPSC to increase its annual electric and natural gas distribution base rates by $24 million and $13 million respectively, reflecting a requested ROE of 10.1%. DPL filed updated testimony on October 18, 2017, to request a $31 million increase in electric distribution rates, and updated testimony on November 7, 2017, to request an $11 million increase in natural gas distribution rates. While the DPSC is not required to issue a decision on the applications within a specified period of time, Delaware law allows DPL to put into effect $2.5 million of the rate increases for both electric and natural gas two months after filing the application and the entire requested rate increases seven months after filing, subject to a cap and a refund obligation based on the final DPSC order. On October 24, 2017, the Staff of the DPSC and the Public Advocate filed a joint motion to dismiss DPL's electric distribution base rate application without prejudice to refiling, arguing that the amount of the requested increase to $31 million required additional time to review and additional public notice. In November 2017, the DPSC denied the joint motion to dismiss.

2016 Delaware Electric and Natural Gas Distribution Base Rates. On May 17, 2016, DPL filed applications with the DPSC to increase its annual electric and natural gas distribution base rates by $63 million, which was updated to $60 million on March 8, 2017, and $22 million, respectively, reflecting a requested ROE of 10.6%. Delaware law allowed DPL to put into effect $2.5 million of each of the rate increases effective July 16, 2016. On December 17, 2016, the DPSC approved that an additional $30 million in electric distribution rates and an additional $10 million in gas distribution rates effective December 17, 2016, subject to refund based on the final DPSC orders.

On March 8, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate, Delaware Electric Users Group and the DPSC Staff in its electric distribution rate proceeding, which provides for an increase in DPL annual electric distribution base rates of $31.5 million reflecting a ROE of 9.7% compared to the $32 million increase previously put into effect. On May 23, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective June 1, 2017. Pursuant to the settlement agreement, no refund of the interim rates put into effect on July 16, 2016 and December 17, 2016 (as discussed above) is required.

On April 6, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate and the DPSC Staff in its natural gas distribution rate proceeding, which provides for an increase in DPL annual natural gas distribution base rates of $4.9 million reflecting a ROE of 9.7%. The settlement agreement also provides that DPL will refund amounts collected under the temporary rates effective July 16, 2016 and December 17, 2016 (as discussed above) in excess of the $4.9 million, and that the new rates will be effective within thirty days of DPSC approval of the settlement agreement. On June 6, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective July 1, 2017. Pursuant to the settlement agreement, a rate refund plus interest of approximately $5 million was issued to customers beginning in August 2017. This was a one-time refund and was included on customer bills from mid-August through mid-September.

District of Columbia Regulatory Matters

Tax Cuts and Jobs Act. On January 23, 2018, the DCPSC opened a rate proceeding directing Pepco to track the impacts of the TCJA beginning January 1, 2018 and file its plan to reduce the current revenue requirement by customer class by February 12, 2018. The DCPSC stated it will address the impact of the TCJA on future rates within Pepco's pending electric distribution rate case discussed below and Pepco will accordingly update its current distribution rate case in February 2018.

Separately, on February 6, 2018, Pepco filed with the DCPSC seeking approval to pass back to customers beginning in 2018 $39 million in tax savings resulting from the enactment of the TCJA through a reduction in electric distribution rates. The amounts being passed back to customers would reflect the annual benefit of lower income tax rates and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. It is expected that the DCPSC will address in a future rate proceeding Pepco's treatment of the TCJA tax savings for the period January 1, 2018 through the effective date of any customer rate adjustments. Refer to Note 14 - Income Taxes for more detail on Corporate Tax Reform.

2017 District of Columbia Electric Distribution Base Rates. On December 19, 2017, Pepco filed an application with the DCPSC to increase its annual electric distribution base rates by $66 million, reflecting a requested ROE of 10.1%. By mid-February, Pepco will update its current distribution rate case to reflect the TCJA impacts from January 1, 2018 through the effective date of the $39 million customer rate adjustment described above. Pepco expects a decision in the matter in the fourth quarter of 2018, but cannot predict how much of the requested increase the DCPSC will approve.

2016 District of Columbia Electric Distribution Base Rates. On June 30, 2016, Pepco filed an application with the DCPSC to increase its annual electric distribution base rates by $86 million, which was updated to $77 million on February 1, 2017, reflecting a requested ROE of 10.6%.

On July 25, 2017, the DCPSC approved an increase in Pepco electric distribution base rates of $37 million reflecting a ROE of 9.5%. The new rates became effective for services rendered on or after August 15, 2017. In its decision, the DCPSC ordered that the $26 million customer rate credit created as a result of the Exelon and PHI merger will be provided primarily to residential customers and some small commercial customers to offset the impact of this increase until that amount has been exhausted, which is expected to take approximately two years. Additionally, the Commission is holding approximately $6 million to $7 million of the customer rate credit for use toward a possible new class of customers for certain senior citizens and disabled persons. The DCPSC also held that Pepco's bill stabilization adjustment, which decouples distribution revenues from utility customers from the amount of electricity delivered, will continue to be in place and that no refund of previously collected funds is required. Several parties filed requests that the DCPSC reconsider the order on various issues, and on October 6, 2017, the Commission issued an order denying each of the requests.

District of Columbia Power Line Undergrounding Initiative. The District of Columbia government enacted on an emergency basis (effective May 17, 2017) and thereafter on a permanent basis (effective July 11, 2017) legislation to amend the Electric Company Infrastructure Improvement Financing Act of 2014 (as amended) (the Infrastructure Improvement Financing Act) to authorize the District of Columbia Power Line Undergrounding (DC PLUG) initiative, a projected six year, $500 million project to place underground some of the District of Columbia's most outage-prone power lines with $250 million of the project costs funded by Pepco and $250 million funded by the District of Columbia.

The $250 million of project costs funded by Pepco will be recovered through a volumetric surcharge on the electric bill of substantially all of Pepco's customers in the District of Columbia. Pepco will earn a return on these project costs.

The $250 million of project costs funded by the District of Columbia will come from two sources. Project costs of $187.5 million will be funded through a charge assessed on Pepco by the District of Columbia; Pepco will recover this charge from customers through a volumetric distribution rider. The remaining costs up to $62.5 million are to be funded by the existing capital projects program of the District Department of Transportation (DDOT). Ownership and responsibility for the operation and maintenance of all the assets funded by the District of Columbia will be transferred to Pepco for a nominal amount upon completion. Pepco will not recover or earn a return on the cost of the assets transferred to it by the District of Columbia.

In accordance with the Infrastructure Improvement Financing Act, Pepco filed an application for approval of the first two-year plan in the DC PLUG initiative (the First Biennial Plan) on July 3, 2017. After the initial application, Pepco will be required to make two additional applications. On November 9, 2017, the DCPSC issued an order approving the First Biennial Plan and the application for a financing order. Pursuant to that order, Pepco is obligated to pay $187.5 million to the District of Columbia over the six-year project term, of which it expects to pay $27.5 million in 2018. Pepco recorded an obligation and offsetting regulatory asset in November. On December 11, 2017, an interested party filed for reconsideration of the DCPSC's November 9 order and on January 18, 2018, the DCPSC denied the interested party's request. Rates for the DC PLUG initiative went into effect on February 7, 2018.

New Jersey Regulatory Matters

Tax Cuts and Jobs Act. On January 31, 2018, the NJBPU issued an order mandating that New Jersey utility companies, including ACE, pass any economic benefit from the TCJA to rate payers. The order directed New Jersey utility companies to file by March 2, 2018 proposed tariff sheets reflecting TCJA benefits, with new rates to be implemented effective April 1, 2018. In addition, the NJBPU directed New Jersey utility companies to file by March 2, 2018 a Petition with the NJBPU outlining how they propose to refund any over-collection associated with revised rates not being in place from January 1, 2018 through March 31, 2018, with interest.

ACE estimates that approximately $23 million in TCJA savings will be passed back to ACE customers, reflecting the annual benefit of lower income tax rates and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. Refer to Note 14 - Income Taxes for more detail on Corporate Tax Reform.

New Jersey Consolidated Tax Adjustment. The Consolidated Tax Adjustment (CTA) is a New Jersey ratemaking policy that requires utilities that are part of a consolidated tax group to share with customers the tax benefits that came from losses at unregulated affiliates through a reduction in rate base. In 2013, the NJBPU opened a generic proceeding to review the policy. In 2014, the NJBPU issued a decision which retained the CTA, but in a highly modified format that significantly reduced the impact of the CTA to ACE. On September 18, 2017, the Appellate Division of the Superior Court of New Jersey reversed the NJBPU's decision in adopting the revised CTA policy and held that NJBPU's actions related to the CTA constituted a rulemaking that should have been undertaken pursuant to the requirements of the Administrative Procedures Act. The Court did not address the merits of the CTA methodology itself. No party filed an appeal of the Court's decision, and the NJBPU has issued a proposed rule for comment, consistent with the requirements of the Administrative Procedures Act. The substance of the proposed rule is consistent with the NJBPU's decision in the generic proceeding. If the NJBPU were to apply the CTA in its unmodified form, it could have a material prospective impact to ACE through a reduction in rate base in future rate cases.

2017 New Jersey Electric Distribution Rates. On March 30, 2017, ACE filed an application with the NJBPU to increase its annual electric distribution rates by $70 million (before New Jersey sales and use tax), which was updated to $73 million on July 14, 2017, reflecting a requested ROE of 10.1%. The application also requests approval of a rate surcharge mechanism called the "System Renewal Recovery Charge," which would permit more timely recovery of certain costs associated with reliability and system renewal-related capital investments.

On September 8, 2017, ACE entered into a settlement agreement with the NJBPU staff, the New Jersey Division of Rate Counsel and Wal-Mart Stores, Inc. in its electric distribution rate proceeding, which provides for an increase in ACE annual electric distribution base rates of $43 million (before New Jersey sales and use tax) reflecting a ROE of 9.6%. In addition, pursuant to the settlement agreement, ACE agreed to withdraw its request for approval of a System Renewal Recovery Charge without prejudice to its right to refile. On September 22, 2017, the NJBPU issued an order approving the settlement agreement, with the new rates effective on October 1, 2017.

2016 New Jersey Electric Distribution Base Rates. On August 24, 2016, the NJBPU issued an order approving a stipulation of settlement among ACE, the New Jersey Division of Rate Counsel, NJBPU Staff and Unimin Corporation, which, among other things, provided that a determination on ACE's grid resiliency program, PowerAhead, would be separated into a phase II of the rate proceeding and decided at a later date. PowerAhead includes capital investments to enhance the resiliency of the system through improvements focused on improving the distribution system's ability to withstand major storm events. A stipulation of settlement with respect to the PowerAhead program (the PowerAhead Stipulation) was approved by the NJBPU on May 31, 2017. As adopted, the PowerAhead program includes an approved investment level of $79 million to be recovered through the cost recovery mechanism described in the PowerAhead Stipulation. The NJBPU order adopting the PowerAhead Stipulation was effective on June 10, 2017.

2017 Update and Reconciliation of Certain Under-Recovered Balances. On February 1, 2017, ACE submitted its 2017 annual petition with the NJBPU seeking to reconcile and update (i) charges related to the recovery of above-market costs associated with ACE's long-term power purchase contracts with the non-utility generators and (ii) costs related to surcharges for the New Jersey Societal Benefit Program (a statewide public interest program that is intended to benefit low income customers and address other public policy goals) and ACE's uncollectible accounts. As filed, the net impact of adjusting the charges as proposed would have been an overall annual rate decrease of approximately $29 million (revised to approximately $32 million in April 2017, based upon an update for actuals through March 2017), including New Jersey sales and use tax. On May 31, 2017, the NJBPU approved a stipulation of settlement entered into by the parties providing for an overall annual rate decrease of approximately $32 million, effective June 1, 2017. The rate decrease was placed into effect provisionally, subject to a review by NJBPU and the Division of Rate Counsel of the final underlying costs for reasonableness and prudence. This rate decrease will have no effect on ACE's operating income, since these revenues provide for recovery of deferred costs under an approved deferral mechanism. On November 1, 2017, ACE entered into a Stipulation of Final Rates with the NJBPU staff and the New Jersey Division of Rate Counsel which was unchanged from the provisional rates. On November 21, 2017, the NJBPU issued an order approving the Stipulation of Final Rates as filed.

2016 Update and Reconciliation of Certain Under-Recovered Balances. On February 1, 2016, ACE submitted its 2016 annual petition with the NJBPU seeking to reconcile and update (i) charges related to the recovery of above-market costs associated with ACE's long-term power purchase contracts with the non-utility generators and (ii) costs related to surcharges for the New Jersey Societal Benefit Program (a statewide public interest program that is intended to benefit low income customers and address other public policy goals) and ACE's uncollectible accounts.

As filed, the net impact of adjusting the charges as proposed would have been an overall annual rate increase of $9 million (revised to $19 million in April 2016, based upon an update for actuals through March 2016), including New Jersey sales and use tax.

On November 30, 2016, the NJBPU approved a stipulation of settlement entered into by the parties providing for an overall annual rate increase of $1 million effective January 1, 2017. This settlement included a credit of approximately $10 million to the Non-Utility Generation charge deferral balance and a credit of approximately $7 million to the Uncollectible deferral balance. These credits were directed to be applied to the deferral balances in an NJBPU order dated October 31, 2016. That order approved the Joint Recommendation for Settlement of the Most Favored Nation Provision, which was a condition of the merger between Exelon Corporation and Pepco Holdings, Inc. This rate increase will have no effect on ACE's operating income, since these revenues provide for recovery of deferred costs under an approved deferral mechanism.

New York Regulatory Matters

New York Clean Energy Standard. On August 1, 2016, the New York Public Service Commission (NYPSC) issued an order establishing the New York CES, a component of which is a Tier 3 ZEC program targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet the criteria demonstrating public necessity as determined by the NYPSC. The New York State Energy Research and Development Authority (NYSERDA) will centrally procure the ZECs from eligible plants through a 12-year contract, to be administered in six two-year tranches, extending from April 1, 2017 through March 31, 2029. ZEC payments will be made to the eligible resources based upon the number of MWh produced, subject to specified caps and minimum performance requirements. The price to be paid for the ZECs under each tranche will be administratively determined using a formula based on the social cost of carbon as determined in 2016 by the federal government, subject to pricing adjustments designed to lower the ZEC price based on increases in underlying energy and capacity prices. The ZEC price for the first tranche has been set at $17.48 per MWh of production. Following the first tranche, the price will be updated bi-annually. Each Load Serving Entity (LSE) shall be required to purchase an amount of ZECs equivalent to its load ratio share of the total electric energy in the New York Control Area. Cost recovery from ratepayers shall be incorporated into the commodity charges on customer bills.

The NYPSC initially identified three plants eligible for the ZEC program: the FitzPatrick, Ginna, and Nine Mile Point nuclear facilities. As issued, the order also provided that the duration of the program beyond the first tranche was conditional upon a buyer purchasing the FitzPatrick facility and taking title prior to September 1, 2018. On November 18, 2016, the required contracts with NYSERDA were executed for Ginna and Nine Mile Point, in addition to Entergy's execution of the required contract for the FitzPatrick facility. On March 31, 2017, Generation closed on the acquisition of FitzPatrick. Generation is currently recognizing revenue for the sale of New York ZECs in the month following generation when the ZECs are transferred to NYSERDA. For the year ended December 31, 2017, Generation has recognized $311 million of ZEC revenue.

Several parties filed with the NYPSC requests for rehearing or reconsideration of the New York CES. Generation and CENG also filed a request for clarification, or in the alternative limited rehearing, that the condition limiting the duration of the program beyond the first tranche be limited to the eligibility of the FitzPatrick plant only and have no bearing on Ginna or Nine Mile Point's eligibility for the full 12-year duration. On December 15, 2016, the NYPSC approved Exelon's petition to clarify this condition and denied all petitions for rehearing of the New York CES. Parties had until mid-April 2017 to appeal to New York State court the denials of the requests for rehearing.

On October 19, 2016, a coalition of fossil-generation companies filed a complaint in federal district court against the NYPSC alleging that the ZEC program violates certain provisions of the U.S. Constitution; specifically, that the ZEC program interferes with FERC's jurisdiction over wholesale rates and that it discriminates against out of state competitors. On December 9, 2016, Generation and CENG filed a motion to intervene in the case and to dismiss the lawsuit. The State also filed a motion to dismiss. On July 25, 2017, the court granted both motions to dismiss. On August 24, 2017, plaintiffs appealed the decision to the Second Circuit. Plaintiffs-Appellants' initial brief was filed on October 13, 2017. Briefing in the appeal was completed in December 2017, and oral argument is expected to take place in March 2018.

In addition, on November 30, 2016, a group of parties, including certain environmental groups and individuals, filed a Petition in New York State court seeking to invalidate the ZEC program. The Petition, which was amended on January 13, 2017, argued that the NYPSC did not have authority to establish the program and that it violated certain technical provisions of the State Administrative Procedures Act (SAPA) when adopting the ZEC program. On February 15, 2017, Generation and CENG filed a motion to dismiss the state court action. The NYPSC also filed a motion to dismiss the state court action. On March 24, 2017, the plaintiffs filed a memorandum of law opposing the motions to dismiss, and Generation and CENG filed a reply brief on April 28, 2017. Oral argument was held on June 19, 2017. On January 22, 2018, the court denied the motions to dismiss without commenting on the merits of the case. The case will now proceed to summary judgment upon filing of the full record.

Other legal challenges remain possible, the outcomes of which remain uncertain. See Note 8 - Early Nuclear Plant Retirements for additional information relative to Ginna and Nine Mile Point, and Note 4 -Mergers, Acquisitions and Dispositions for additional information on Generation's proposed acquisition of FitzPatrick.

Ginna Nuclear Power Plant Reliability Support Services Agreement. In November 2014, in response to a petition filed by Ginna Nuclear Power Plant (Ginna) regarding the possible retirement of Ginna, the NYPSC directed Ginna and Rochester Gas & Electric Company (RG&E) to negotiate a Reliability Support Services Agreement (RSSA) to support the continued operation of Ginna to maintain the reliability of the RG&E transmission grid for a specified period of time. During 2015 and 2016, Ginna and RG&E made filings with the NYPSC and FERC for their approval of the proposed RSSA. Although the RSSA was still subject to regulatory approvals, on April 1, 2015, Ginna began delivering the power and capacity from the Ginna plant into the ISO-NY consistent with the technical provisions of the RSSA.

On March 22, 2016, Ginna submitted a compliance filing with FERC with revisions to the RSSA requested by FERC. On April 8, 2016, FERC accepted the compliance filing and on April 20, 2016, the NYPSC accepted the revised RSSA with a term expiring on March 31, 2017. In April 2016, Generation began recognizing revenue based on the final approved pricing contained in the RSSA and also recognized a one-time revenue adjustment of approximately $101 million representing the net cumulative previously unrecognized amount of revenue retroactive from the April 1, 2015 effective date through March 31, 2016. A 49.99% portion of the one-time adjustment was removed from Generation's results of operations as a result of the noncontrolling interests in CENG.

The RSSA required Ginna to continue operating through the RSSA term. On September 30, 2016, Ginna filed the required notice with the NYPSC of its intent to continue operating beyond the March 31, 2017 expiry of the RSSA, conditioned upon successful execution of an agreement between Ginna and NYSERDA for the sale of ZECs under the New York CES. As stated previously, on November 18, 2016 the required contract with NYSERDA was executed by Generation and CENG for Ginna. Upon the expiry of the RSSA on March 31, 2017, Ginna was required to make refund payments of $20 million to RG&E related to capital expenditures. Ginna paid RG&E the $20 million in June 2017. Additionally, the provisions of the RSSA provided for a one-time payment of $12 million to be paid from RG&E to Ginna at the end of the contract. This $12 million was recognized in revenue as of March 31, 2017. RG&E paid the $12 million to Ginna in May 2017. Subject to prevailing over any administrative or legal challenges, it is expected the New York CES will allow Ginna to continue to operate through the end of its current operating license in 2029. See Note 8 - Early Nuclear Plant Retirements for further information regarding the impacts of a decision to early retire one or more nuclear plants.

Federal Regulatory Matters

Tax Cuts and Jobs Act. To date, the FERC has not yet issued guidance to utilities on how and when to reflect the impacts of the TCJA in customer rates. However, pursuant to their respective transmission formula rates, ComEd, BGE, Pepco, DPL and ACE will begin passing back to customers on June 1, 2018, the benefit of lower income tax rates effective January 1, 2018. ComEd's, BGE's, Pepco's, DPL's and ACE's transmission formula rates currently do not provide for the pass back or recovery of income tax-related regulatory liabilities or assets. As discussed above, on December 13, 2016 (and as amended on March 13, 2017), BGE filed with FERC to begin recovering certain existing and future transmission-related income tax regulatory assets through its transmission formula rate. On November 16, 2017, FERC issued an order rejecting BGE's proposed revisions to its transmission formula rate and on December 18, 2017, BGE filed for clarification and rehearing of FERC's order. ComEd, Pepco, DPL and ACE also have similar transmission-related income tax regulatory assets and liabilities, for which FERC approval is required, separate from their transmission formula rate mechanisms, to pass back or recover those regulatory liabilities and assets through customer rates. PECO is currently in settlement discussions regarding its transmission formula rate and expects to pass back TCJA benefits to customers through its annual formula rate update.

Refer to Deferred income taxes in the Regulatory Assets and Liabilities section below for the balances of transmission-related income tax regulatory assets as of December 31, 2017 and 2016.

Transmission Formula Rate. ComEd's, BGE's, Pepco's, DPL's and ACE's transmission rates are each established based on a FERC-approved formula. ComEd, BGE, Pepco, DPL and ACE are required to file an annual update to the FERC-approved formula on or before May 15, with the resulting rates effective on June 1 of the same year. The annual formula rate update is based on prior year actual costs and current year projected capital additions. The update also reconciles any differences between the revenue requirement in effect beginning June 1 of the prior year and actual costs incurred for that year. ComEd, BGE, Pepco, DPL, and ACE record regulatory assets or regulatory liabilities and corresponding increases or decreases to operating revenues for any differences between the revenue requirement in effect and ComEd's, BGE's, Pepco's, DPL's and ACE's best estimate of the revenue requirement expected to be filed with the FERC for that year's reconciliation. The regulatory asset associated with transmission true-up is amortized to Operating revenues within their Consolidated Statements of Operations of Comprehensive Income as the associated amounts are recovered through rates.

For each of the following years, the following total increases/(decreases) were included in ComEd's, BGE's, Pepco's, DPL's and ACE's electric transmission formula rate filings:

	ComEd			BGE		
Annual Transmission Filings(a)	2017	2016	2015	2017	2016	2015
Initial revenue requirement increase	$ 44	$ 90	$ 68	$ 31	$ 12	$ —
Annual reconciliation increase (decrease)	(33)	4	18	3	3	(3)
Dedicated facilities (decrease) increase(b)	—	—	—	(8)	13	13
Total revenue requirement increase	$ 11	$ 94	$ 86	$ 26	$ 28	$ 10
Allowed return on rate base(d)	8.43%	8.47%	8.61%	7.47%	8.09%	8.46%
Allowed ROE(e)	11.50%	11.50%	11.50%	10.50%	10.50%	11.30%

	Pepco			DPL			ACE		
Annual Transmission Filings(a)	2017	2016	2015	2017	2016	2015	2017	2016	2015
Initial revenue requirement increase (decrease)	$ 5	$ 2	$ 10	$ 6	$ 8	$ 15	$ 20	$ 8	$ 10
Annual reconciliation (decrease) increase	15	(10)	(3)	8	(10)	(1)	22	(14)	2
MAPP abandonment recovery (decrease) increase(c)	—	(15)	(2)	—	(12)	(2)	—	—	—
Total revenue requirement (decrease) increase	$ 20	$ (23)	$ 5	$ 14	$ (14)	$ 12	$ 42	$ (6)	$ 12
Allowed return on rate base(d)	7.92%	7.88%	8.36%	7.16%	7.21%	7.80%	8.02%	7.83%	8.51%
Allowed ROE(e)	10.50%	10.50%	11.30%	10.50%	10.50%	11.30%	10.50%	10.50%	11.30%

(a) The time period for any challenges to the annual transmission formula rate update flings expired with no challenges submitted.

(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.

(c) In 2012, PJM terminated the MAPP transmission line construction project planned for the Pepco and DPL service territories. Pursuant to a FERC approved settlement agreement, the abandonment costs associated with MAPP were being recovered in transmission rates over a three-year period that ended in May 2016.

(d) Represents to the weighted average debt and equity return on transmission rate bases.

(e) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50%, inclusive of a 50-basis-point incentive adder for being a member of a RTO, and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, Pepco, DPL and ACE, the rate of return on common equity is 10.50%, inclusive of a 50-basis-point incentive adder for being a member of a RTO.

Transmission Formula Rate. On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50 basis point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. On June 27, 2017, FERC issued an Order accepting the filing and suspending the proposed rates until December 1, 2017, subject to refund, and set the matter for hearing and settlement judge procedures. The parties currently are engaged in settlement discussions. PECO cannot predict the final outcome of the settlement or hearing proceedings, or the transmission formula FERC may approve.

Transmission-Related Income Tax Regulatory Assets. On December 13, 2016 (and as amended on March 13, 2017), BGE filed with FERC to begin recovering certain existing and future transmission-related income tax regulatory assets through its transmission formula rate. BGE's existing regulatory assets included (1) amounts that, if BGE's transmission formula rate provided for recovery, would have been previously amortized and (2) amounts that would be amortized and recovered prospectively. On November 16, 2017, FERC issued an order rejecting BGE's proposed revisions to its transmission formula rate to recover these transmission-related income tax regulatory assets. On December 18, 2017, BGE filed for clarification and rehearing of FERC's order, still seeking full recovery of its existing transmission-related income tax regulatory asset amounts.

ComEd, Pepco, DPL and ACE have similar transmission-related income tax regulatory assets also requiring FERC approval separate from their transmission formula rate mechanisms. Similar regulatory assets at PECO are not subject to the same FERC transmission rate recovery formula and, thus, are not impacted by the November 16, 2017 FERC order.

Each of BGE, ComEd, Pepco, DPL and ACE believe there is sufficient basis to support full recovery of their existing transmission-related income tax regulatory assets, and each intends to further pursue such full recovery with FERC. However, upon further consideration of the November 16, 2017 FERC order, management of each company concluded that the portion of the total transmission-related income tax regulatory assets that would have been previously amortized and recovered through rates had the transmission formula rate provided for such recovery was no longer probable of recovery. As a result, Exelon recorded a $35 million charge to income tax expense within it's Consolidated Statements of Operations and Comprehensive Income in the fourth quarter 2017, reducing the associated transmission-related income tax regulatory asset.

To the extent any of the companies are ultimately successful with the FERC allowing future recovery of these amounts, the associated regulatory assets will be reestablished, with corresponding decreases to Income tax expense. To the extent all or a portion of the prospective amortization amounts were no longer considered probable of recovery, Exelon, ComEd, BGE, PHI, Pepco, DPL and ACE would record additional charges to Income tax expense, which could be up to approximately $81 million, $41 million, $22 million, $18 million, $8 million, $7 million and $3 million, respectively, as of December 31, 2017.

Refer to Deferred income taxes in the Regulatory Assets and Liabilities section below for the balances of these transmission-related income tax regulatory assets as of December 31, 2017 and 2016.

PJM Transmission Rate Design and Operating Agreements. PJM Transmission Rate Design specifies the rates for transmission service charged to customers within PJM. Currently, ComEd, PECO, BGE, Pepco, DPL and ACE incur costs based on the existing rate design, which charges customers based on the cost of the existing transmission facilities within their load zone and the cost of new transmission facilities based on those who benefit from those facilities. In April 2007, FERC issued an order concluding that PJM's current rate design for existing facilities is just and reasonable and should not be changed. In the same order, FERC held that the costs of new facilities 500 kV and above should be socialized across the entire PJM footprint and that the costs of new facilities less than 500 kV should be allocated to the customers of the new facilities who caused the need for those facilities. A number of parties appealed to the U.S. Court of Appeals for the Seventh Circuit for review of the decision.

In August 2009, the court issued its decision affirming the FERC's order with regard to the existing facilities, but remanded to FERC the issue of the cost allocation associated with the new facilities 500 kV and above (Cost Allocation Issue) for further consideration by the FERC. On remand, FERC reaffirmed its earlier decision to socialize the costs of new facilities 500 kV and above. A number of parties filed appeals of these orders. In June 2014, the court again remanded the Cost Allocation Issue to FERC. On December 18, 2014, FERC issued an order setting an evidentiary hearing and settlement proceeding regarding the Cost Allocation Issue. On June 15, 2016, a number of parties, including Exelon and the Utility Registrants, filed a proposed Settlement with FERC. If the Settlement is approved, 50% of the costs of the 500 kV and above facilities approved by the PJM Board on or before February 1, 2013 will be socialized across PJM and 50% will be allocated according to a formula that calculates the flows on the transmission facilities. Each state that is a party in this proceeding either signed, or did not oppose, the settlement. The Settlement is opposed by a number of merchant transmission owners and New York load-serving entities. The Settlement includes provisions for monthly credits or charges that are expected to be mostly refunded or recovered through customer rates over a 10-year period based on negotiated numbers for charges prior to January 1, 2016.

Exelon expects that the Settlement will not have a material impact on the results of operations, cash flows and financial position of Generation, ComEd, PECO, BGE, Pepco, DPL or ACE. The Settlement is subject to approval by FERC. The FERC is not required to issue a decision on the matter within a specified period of time.

The Utility Registrants are committed to the construction of transmission facilities under their operating agreements with PJM to maintain system reliability. The Utility Registrants will work with PJM to continue to evaluate the scope and timing of any required construction projects. The Utility Registrants' estimated commitments are as follows:

	Total	2018	2019	2020	2021	2022
ComEd	$164	$36	$60	$44	$24	$ —
PECO	53	16	19	10	5	3
BGE	118	35	35	35	13	—
Pepco	86	5	11	27	33	10
DPL	27	19	2	1	2	3
ACE	121	68	20	6	21	6

DOE Notice of Proposed Rulemaking. On August 23, 2017, the DOE staff released its report on the reliability of the electric grid. One aspect of the wide-ranging report is the DOE's recognition that the electricity markets do not currently value the resiliency provided by baseload generation, such as nuclear plants. On September 28, 2017, the DOE issued a Notice of Proposed Rulemaking (NOPR) that would entitle certain eligible resilient generating units (i.e., those located in organized markets, with a 90-day supply of fuel on site, not already subject to state cost of service regulation and satisfying certain other requirements) to recover fully allocated costs and earn a fair return on equity on their investment. The DOE's NOPR recommended that the FERC take comments for 45 days after publication in the Federal Register and issue a final order 60 days after such publication. On January 8, 2018, the FERC issued an order terminating the rulemaking docket that was initiated to address the proposed rule in the DOE NOPR, concluding the proposed rule did not sufficiently demonstrate there is a resiliency issue and that it proposed a remedy that did not appear to be just, reasonable and nondiscriminatory as required under the Federal Power Act. At the same time, the FERC initiated a new proceeding to consider resiliency challenges to the bulk power system and evaluate whether additional FERC action to address resiliency would be appropriate. The FERC directed each RTO and ISO to respond within 60 days to 24 specific questions about how they assess and mitigate threats to resiliency. Interested parties may submit reply comments within 30 days after the due date of the RTO/ISO responses. Exelon has been and will continue to be an active participant in these proceedings, but cannot predict the final outcome or its potential financial impact, if any, on Exelon or Generation.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs. PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program - resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that require subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs). However, in Exelon's view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. The EPSA parties have filed motions to expedite both proceedings. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation's facilities in NYISO and PJM expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon's and Generation's future cash flows and results of operations. On August 30, 2017, EPSA filed motions to lodge the district court decisions dismissing the complaints and urging FERC to act expeditiously on its requests to expand the MOPR. On September 14, 2017, Exelon filed a response in each docket noting that it does not oppose the motions to lodge but arguing that the requests to expedite a decision on the requests to expand the MOPR have no merit. The timing of FERC's decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

Operating License Renewals. On August 29, 2012, Generation submitted a hydroelectric license application to FERC for a 46-year license for the Conowingo Hydroelectric Project (Conowingo). In connection with Generation's efforts to obtain a water quality certification pursuant to Section 401 of the Clean Water Act with Maryland Department of the Environment (MDE) for Conowingo, Generation continues to work with MDE and other stakeholders to resolve water quality licensing issues, including: (1) water quality, (2) fish habitat, and (3) sediment.

On April 21, 2016, Exelon and the US Fish and Wildlife Service of the US Department of the Interior executed a Settlement Agreement resolving all fish passage issues between the parties. The financial impact of the Settlement Agreement is estimated to be $3 million to $7 million per year, on average, over the 46-year life of the new license, including both capital and operating costs. The actual timing and amount of these costs are not currently fixed and may vary significantly from year to year throughout the life of the new license.

Resolution of the remaining issues relating to Conowingo involving various stakeholders may have a material effect on Exelon's and Generation's results of operations and financial positions through an increase in capital expenditures and operating costs. As of December 31, 2017, $31 million of direct costs associated with Conowingo licensing efforts have been capitalized.

Regulatory Assets and Liabilities

Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE each prepare their consolidated financial statements in accordance with the authoritative guidance for accounting for certain types of regulation. Under this guidance, regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates or represent billings in advance of expenditures for approved regulatory programs.

As a result of applying the acquisition method of accounting and pushing it down to the consolidated financial statements of PHI, certain regulatory assets and liabilities were established at Exelon and PHI to offset the impacts of fair valuing the acquired assets and liabilities assumed which are subject to regulatory recovery. In total, Exelon and PHI recorded a net $2.4 billion regulatory asset reflecting adjustments recorded as a result of the acquisition method of accounting. See Note 4 - Mergers, Acquisitions and Dispositions for additional information.

The following tables provide information about the regulatory assets and liabilities of Exelon as of December 31, 2017 and December 31, 2016:

	December 31,	
	2017	2016
Regulatory assets		
Pension and other postretirement benefits	$ 3,848	$ 4,162
Deferred income taxes	306	2,016
AMI programs	640	701
Electric distribution formula rate	244	188
Energy efficiency costs	166	—
Debt costs	116	124
Fair value of long-term debt	758	812
Fair value of PHI's unamortized energy contracts	750	1,085
Asset retirement obligations	109	111
MGP remediation costs	295	305
Under-recovered uncollectible accounts	61	56
Renewable energy	258	260
Energy and transmission programs	82	89
Deferred storm costs	27	36
Electric generation-related regulatory asset	—	10
Rate stabilization deferral	—	7
Energy efficiency and demand response programs	596	621
Merger integration costs	45	25
Under-recovered revenue decoupling	55	27
COPCO acquisition adjustment	5	8
Workers compensation and long-term disability costs	35	34
Vacation accrual	19	31
Securitized stranded costs	79	138
CAP arrearage	8	11
Removal costs	529	477
DC PLUG charge	190	—
Other	67	54
Total regulatory assets	9,288	11,388
Less: current portion	1,267	1,342
Total noncurrent regulatory assets	$ 8,021	$ 10,046

	December 31, 2017	December 31, 2016
Regulatory liabilities		
Other postretirement benefits	$ 30	$ 47
Deferred income taxes	5,241	—
Nuclear decommissioning	3,064	2,607
Removal costs	1,573	1,601
Deferred rent	36	39
Energy efficiency and demand response programs	23	185
DLC program costs	7	8
Electric distribution tax repairs	35	76
Gas distribution tax repairs	9	20
Energy and transmission programs	111	134
Renewable portfolio standards costs	63	—
Zero emission credit costs	112	—
Over-recovered uncollectible accounts	2	—
Other	82	72
Total regulatory liabilities	10,388	4,789
Less: current portion	523	602
Total noncurrent regulatory liabilities	$ 9,865	$ 4,187

Descriptions of the regulatory assets and liabilities included in the tables above are summarized below, including their recovery and amortization periods. Unless otherwise noted, the Utility Registrants are not earning or paying a return on these amounts.

Pension and other postretirement benefits. PECO's regulatory recovery for pension is based on cash contributions and, thus, is not included in the regulatory asset balances above. Otherwise, these amounts represent the Utility Registrants' portion of deferred costs associated with Exelon's pension and other postretirement benefit plans, which are recovered through customer rates. These amounts are generally amortized over the plan participants' average remaining service periods, subject to applicable cost recognition policies allowed under the authoritative guidance for pensions and postretirement benefits. See Note 16 - Retirement Benefits for additional information. These amounts also include regulatory assets established at the Constellation and PHI merger dates of $440 million and $953 million, respectively, as of December 31, 2017 and $492 million and $1,027 million, respectively, as of December 31, 2016 related to the rate regulated portions of the deferred costs associated with legacy Constellation's and PHI's pension and other postretirement benefit plans that are being amortized and recovered over approximately 12 years and 3 to 15 years, respectively (as established at the respective acquisition dates).

Deferred income taxes. These amounts represent deferred income taxes that are recoverable or refundable through customer rates, primarily associated with accelerated depreciation, the equity component of the allowance for funds used during construction, and the effects of income tax rate changes, including those resulting from the TCJA. These amounts are being amortized over the period in which the related deferred income taxes reverse, which is generally based on the expected life of the underlying assets, but may vary for certain deferred income taxes based on the determination of the rate regulators. These amounts include transmission-related regulatory liabilities that require FERC approval separate from the transmission formula rate of $484 million, $137 million, $147 million, $148 million and $147 million for ComEd, BGE, Pepco, DPL and ACE, respectively, as of December 31, 2017. The December 31, 2017 balances reflect the impact of regulatory liabilities recorded in the fourth quarter, 2017 associated with the income tax rate reductions under the TCJA of $553 million, $174 million, $161 million, $160 million and $152 million for ComEd, BGE, Pepco, DPL and ACE, respectively, as well as the impact of impairment charges discussed above. As of December 31, 2016 the comparative amounts are a regulatory asset of $22 million, $38 million, $31 million, $20 million and $19 million for ComEd, BGE, Pepco, DPL and ACE, respectively. See Note 14 — Income Taxes and the Transmission-Related Income Tax Regulatory Assets section above for additional information.

AMI programs. For ComEd, this amount primarily represents accelerated depreciation costs resulting from the early retirements of non-AMI meters, which will be amortized over an average ten-year period pursuant to the ICC approved AMI Deployment plan. ComEd is earning a return on the regulatory asset.

For PECO, this amount primarily represents accelerated depreciation on PECO's non-AMI meter assets over a 10-year period ending December 31, 2020. Recovery of smart meter costs are reflected in base rates effective January 1, 2016.

For BGE, this amount represents AMI costs associated with the installation of smart meters and the early retirement of legacy meters. The incremental costs associated with the installation, along with depreciation, amortization, and an appropriate return, had been building in a regulatory asset since the MDPSC approved the comprehensive smart grid initiative for BGE in August 2010 through approval of the program in BGE's rate order issued June 2016. As of December 31, 2017, the balance of BGE's regulatory asset was $214 million, which consists of three major components, including $129 million of unamortized incremental deployment costs of the AMI program, $53 million of unamortized costs of the non-AMI meters replaced under the program, and $32 million related to post-test year incremental program deployment costs incurred prior to approval became effective June 2016. As of December 31, 2016, the balance of BGE's regulatory asset was $230 million, which consists of three major components, including $144 million of unamortized incremental deployment costs of the AMI program, $54 million of unamortized costs of the non-AMI meters replaced under the program, and $32 million related to post-test year incremental program deployment costs incurred prior to approval became effective June 2016. The balances above reflect the impact of the cost allowances and adjustments in BGE's 2015 electric and natural gas distribution rate case. The incremental deployment costs for the AMI program and the non-AMI meter components of the regulatory asset are being amortized and recovered through rates over a 10-year period, which began in June 2016, while the post-test year incremental program deployment costs have not yet been approved for recovery by the MDPSC. A return on the regulatory asset is currently included in rates, except for the portion representing the unamortized cost of the retired non-AMI meters and the portion related to post-test year incremental program deployment costs.

For PHI, this amount represents AMI costs associated with the installation of smart meters and the early retirement of legacy meters throughout the service territories for Pepco and DPL. An AMI program has not been approved by the NJBPU for ACE in New Jersey. Pepco has received approval for recovery of deferred AMI program costs from the DCPSC and the MDPSC in its District of Columbia and Maryland service territories. Pepco does earn a return on the AMI deployment costs, but not on the early retirement of legacy meters. DPL has received approval for recovery of deferred AMI program costs from the DPSC and the MDPSC in its Delaware and Maryland service territories. DPL earns a return on the AMI deployment costs, but not on the early retirement of legacy meters.

Electric Distribution Formula Rate. These amounts represent under recoveries related to electric distribution services costs recoverable through ComEd's performance based formula rate. Under (over) recoveries for the annual reconciliations are recoverable (refundable) over a one-year period and costs for certain one-time events, such as large storms, are recoverable over a five-year period. ComEd earns and pays a return on under and over-recovered costs, respectively. As of December 31, 2017, the regulatory asset was comprised of $186 million for the 2016 and 2017 annual reconciliations and $58 million related to significant one-time events. As of December 31, 2016, the regulatory asset of $188 million was comprised of $134 million for the 2015 and 2016 annual reconciliations and $54 million related to significant one-time events.

Energy efficiency costs. These amounts represent deferred energy efficiency costs beginning June 1, 2017 that will be recovered through ComEd's energy efficiency formula rate tariff over the weighted average useful life of the related energy efficiency measures. The balance also includes the reconciliation of the difference of the revenue requirement in effect for the prior year and the revenue requirement based on actual prior year costs. ComEd earns a return on the energy efficiency regulatory asset.

Debt costs. The Utility Registrants' debt costs are used in the determination of their weighted average cost of capital, which is applied to rate base for rate-making purposes. Consistent with the treatment for ratemaking purposes, ComEd's, PECO's, and Pepco's recoverable losses or refundable gains on reacquired long-term debt are deferred and amortized to interest expense over the life of the new debt issued to finance the debt redemption or over the life of the original debt issuance if the debt is not refinanced, while BGE's, DPL's, and ACE's recoverable losses or refundable gains on reacquired long-term debt are deferred and amortized to interest expense over the life of the original debt issuance even if the debt was refinanced. The regulatory asset for Pepco, DPL and ACE as of March 23, 2016 was eliminated at Exelon and PHI as part of acquisition accounting.

Fair value of long-term debt. These amounts represent the unamortized regulatory assets recorded at Exelon for the difference between the carrying value and fair value of the long-term debt of BGE as of the Constellation merger date based on the MDPSC practice to allow BGE to recover its debt costs through rates and at Exelon and PHI for the difference between carrying value and fair value of long-term debt of Pepco, DPL and ACE as of the PHI Merger date. Exelon is amortizing the regulatory asset and the associated fair value over the life of the underlying debt.

Fair value of PHI's unamortized energy contracts. These amounts represent the regulatory asset recorded at Exelon and PHI offsetting the fair value adjustments related to Pepco's, DPL's and ACE's electricity and natural gas energy supply contracts recorded at PHI as of the PHI Merger date. Pepco, DPL and ACE are allowed full recovery of the costs of these contracts through their respective rate making processes.

Asset retirement obligations. These costs represent future legally required removal costs associated with existing asset retirement obligations. PECO will begin to earn a return on, and a recovery of, these costs once the removal activities have been performed. ComEd and BGE will recover these costs through future depreciation rates and will earn a return on these costs once the removal activities have been performed. The recovery period will be over the expected life of the related assets. See Note 15 — Asset Retirement Obligations for additional information.

MGP remediation costs. ComEd is allowed recovery of these costs under ICC approved rates. For PECO, these costs are recoverable through rates as affirmed in the 2010 approved natural gas distribution rate case settlement. The period of recovery for both ComEd and PECO will depend on the timing of the actual expenditures, currently estimated to be completed in 2022 for both ComEd and PECO. While BGE does not have a rider for MGP clean-up costs, BGE has historically received recovery of actual clean-up costs on a site-specific basis in distribution rates. For BGE, $5 million of clean-up costs incurred during the period from July 2000 through November 2005 and an additional $1 million from December 2005 through November 2010 are recoverable through rates in accordance with MDPSC orders. BGE is earning a return on this regulatory asset and these costs are being amortized over 10-year periods that began in January 2006 and December 2010, respectively. The recovery period for the 10-year period that began January 2006 was extended for an additional 24 months, in accordance with the MDPSC approved 2014 electric and natural gas distribution rate case order. See Note 23 — Commitments and Contingencies for additional information.

Under-recovered uncollectible accounts. These amounts represent the difference between ComEd's annual uncollectible accounts expense and revenues collected in rates through an ICC-approved rider. The difference between net uncollectible account charge-offs and revenues collected through the rider each calendar year is recovered or refunded over a twelve-month period beginning in June of the following calendar year.

Renewable energy. In December 2010, ComEd entered into several 20-year floating-to-fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs through 2032 in order to meet a portion of its obligations under the Illinois RPS. Delivery under the contracts began in June 2012. Since the swap contracts were deemed prudent by the Illinois Settlement Legislation, ensuring ComEd of full recovery in rates, the changes in fair value each period as well as an offsetting regulatory asset or liability are recorded by ComEd. ComEd does not earn (pay) a return on the regulatory asset (liability). Recovery of these costs will continue through 2032. The basis for the mark-to-market derivative asset or liability position is based on the difference between ComEd's cost to purchase energy at the market price and the contracted price.

Beginning with the 2012 compliance year the DPSC required DPL to be responsible for the RPS compliance obligation with respect to energy delivered to all end use customers, including RES supplied customers. This obligation has been met by DPL entering into long term contract(s) for the procurement of renewable energy. This energy is then sold into the market at current energy prices to offset the net cost to customers. An RPS surcharge is billed to customers to ensure recovery of the procurement costs with any variance recorded as an asset or liability. The balance at year end represents an under-recovery of the net procurement costs. These costs will be recovered over the life of the contracts, which range from 15 to 20 years.

In 2008 the NJBPU directed ACE to file a program for the purchase of Solar Renewable Energy Credits (SREC's). In 2009 the NJBPU approved ACE's SREC based contracting program and authorized ACE to enter into long-term contracts to purchase SREC's generated by solar generation projects. ACE is required to auction the purchased SREC's under Purchase and Sale Agreements (PSA) with the solar project developers. In 2015 the NJBPU authorized a "phase II" SREC program. A Regional Greenhouse Gas Initiative (RGGI) surcharge rider ensures recovery of the SREC costs. The balance at year end represents an under-recovery of the SREC costs. These costs will be recovered over the life of the contracts, which range from 15 to 20 years.

Energy and transmission programs. These amounts represent under (over) recoveries related to energy and transmission costs recoverable (refundable) under ComEd's ICC and/or FERC-approved rates. Under (over) recoveries are recoverable (refundable) over a one-year period or less. ComEd earns a return or interest on under-recovered costs and pays interest on over-recovered costs to customers. As of December 31, 2017, ComEd's regulatory asset of $6 million represents transmission costs recoverable through its FERC approved formula rate. As of December 31, 2017, ComEd's regulatory liability of $47 million included $14 million related to over-recovered energy costs and $33 million associated with revenues received for renewable energy requirements. As of December 31, 2016, ComEd's regulatory asset of $23 million included $15 million associated with transmission costs recoverable through its FERC-approved formula rate tariff and $8 million of Constellation merger and integration costs to be recovered upon FERC approval. As of December 31, 2016, ComEd's regulatory liability of $60 million included $30 million related to over-recovered energy costs and $30 million associated with revenues received for renewable energy requirements. See *Transmission Formula Rate* above for further details.

The PECO energy costs represent the electric and gas supply related costs recoverable (refundable) under PECO's GSA and PGC, respectively. PECO earns interest on the under-recovered energy and natural gas costs and pays interest on over-recovered energy and natural gas costs to customers. In addition, the DSP Program costs are presented on a net basis with PECO's GSA under (over)-recovered energy costs. These amounts represent recoverable administrative costs incurred relating to the filing and procurement associated with PECO's PAPUC-approved DSP programs for the procurement of electric supply. The filings and procurements of these DSP Programs are recoverable through the GSA over each respective term. DSP III has a 24-month term that began June 1, 2015, and DSP IV has a 48-month term that began June 1, 2017.

The independent evaluator costs associated with conducting procurements are recoverable over a 12-month period after the PAPUC approves the results of the procurements. PECO is not earning a return on these costs. Certain costs included in PECO's original DSP program related to information technology improvements were recovered over a 5-year period that began January 1, 2011. PECO earns a return on the recovery of information technology costs. The PECO transmission costs represent the electric transmission costs recoverable (refundable) under the TSC under which PECO earns interest on under-recovered costs and pays interest on over-recovered costs to customers. As of December 31, 2017, PECO's regulatory liability of $60 million included $36 million related to over-recovered costs under the DSP program, $12 million related to over-recovered non-bypassable transmission service charges and $12 million related to the over-recovered natural gas costs under the PGC. As of December 31, 2016, PECO's regulatory liability of $56 million included $34 million related to over-recovered costs under the DSP program, $10 million related to over-recovered non-bypassable transmission service charges, $8 million related to the over-recovered natural gas costs under the PGC and $4 million related to over-recovered electric transmission costs.

The BGE energy costs represent the electric supply, gas supply, and transmission related costs recoverable (refundable) from (to) customers under BGE's market-based SOS program, MBR program, and FERC approved transmission rates, respectively. BGE earns or pays interest to customers on under-recovered or over-recovered FERC transmission formula-related costs. BGE does not earn or pay interest to customers on under-recovered or over-recovered SOS and MBR costs. The recovery or refund period is a twelve-month period beginning in June of the following calendar year. As of December 31, 2017, BGE's regulatory asset of $23 million included $7 million of costs associated with transmission costs recoverable through its FERC approved formula rate, $5 million related to under-recovered electric energy costs, $3 million of abandonment costs to be recovered upon FERC approval, and $8 million related to under-recovered natural gas costs. As of December 31, 2016, BGE's regulatory asset of $38 million included $4 million of costs associated with transmission costs recoverable through its FERC approved formula rate, $28 million related to under-recovered electric energy costs, $3 million of abandonment costs to be recovered upon FERC approval and $3 million related to under-recovered natural gas costs.

The Pepco energy costs represent the electric supply and transmission related costs recoverable (refundable) from (to) customers under Pepco's market-based SOS program and FERC approved transmission rates. Pepco earns or pays interest to customers on under-recovered or over-recovered FERC transmission formula-related costs. Pepco does not earn or pay interest to customers on under- or over-recovered SOS costs. The asset is being amortized and recovered over the life of the associated assets. As of December 31, 2017, Pepco's regulatory asset of $11 million included $3 million of transmission costs recoverable through its FERC approved formula rate and $8 million of under-recovered electric energy costs. As of December 31, 2017, Pepco's regulatory liability was zero. As of December 31, 2016, Pepco's regulatory asset of $6 million related to under-recovered electric energy costs. As of December 31, 2016, Pepco's regulatory liability of $8 million included $5 million of over-recovered transmission costs and $3 million of over-recovered electric energy costs.

The DPL energy costs represent the electric supply, gas supply, and transmission related costs recoverable (refundable) from (to) customers under DPL's market-based SOS program, GCR and FERC approved transmission rates. DPL earns or pays interest to customers on under-recovered or over-recovered FERC transmission formula-related costs. In Delaware, DPL earns interest on under-recovered costs and pays interest to customers on over-recovered SOS and GCR costs. In Maryland, DPL does not earn or pay interest to customers on under- or over-recovered SOS costs. The asset is being amortized and recovered over the life of the associated assets. As of December 31, 2017, DPL's regulatory asset of $15 million included $8 million of transmission costs recoverable through its FERC approved formula rate and $7 million of under-recovered electric energy costs. As of December 31, 2017, DPL's regulatory liability of $1 million related to over-recovered electric energy costs. As of December 31, 2016, DPL's regulatory asset of $5 million included $1 million of transmission costs recoverable through its FERC approved formula rate and $4 million of under-recovered electric energy costs. As of December 31, 2016, DPL's regulatory liability of $5 million included $2 million of over-recovered electric energy costs and $3 million of over-recovered transmission costs.

The ACE energy costs represent the electric supply and transmission related costs recoverable (refundable) from (to) customers under ACE's market-based BGS program and FERC approved transmission rates. ACE earns or pays interest to customers on under-recovered or over-recovered FERC transmission formula-related costs. ACE earns interest on under-recovered and pays interest to customers on over-recovered BGS costs. As of December 31, 2017, ACE's regulatory asset of $26 million included $11 million of transmission costs recoverable through its FERC approved formula rate and $15 million of under-recovered electric energy costs. As of December 31, 2017, ACE's regulatory liability of $3 million related to over-recovered electric energy costs. As of December 31, 2016, ACE's regulatory asset of $17 million included $6 million of transmission costs recoverable through its FERC approved formula rate and $11 million of under-recovered electric energy costs. As of December 31, 2016, ACE's regulatory liability of $5 million included $4 million of over-recovered transmission costs and $1 million of over-recovered electric energy costs.

Deferred storm costs. In the MDPSC's March 2011 rate order, BGE was authorized to defer $16 million in storm costs incurred in February 2010. BGE earns a return on this regulatory asset and the original recovery period of five years was extended for an additional 25 months, in accordance with the MDPSC 2014 electric and natural gas distribution rate case order. This regulatory asset has now been fully amortized as of December 31, 2017.

For Pepco, DPL and ACE, amounts represent total incremental storm restoration costs incurred for repair work due to major storm events in 2017, 2016, 2015, 2012 and 2011 recoverable from customers in the Maryland and New Jersey jurisdictions. These incremental storm restoration costs are amortized over a three or five year period dependent on jurisdiction.

Electric generation-related regulatory asset. As a result of the deregulation of electric generation, BGE ceased to meet the requirements for accounting for a regulated business for the previous electric generation portion of its business. As a result, BGE wrote-off its entire individual, generation-related regulatory assets and liabilities and established a single, generation-related regulatory asset to be collected through its regulated rates, which is being amortized on a basis that approximates the pre-existing individual regulatory asset amortization schedules. The portion of this regulatory asset that does not earn a regulated rate of return was $9 million as of December 31, 2016. This regulatory asset has now been fully amortized as of December 31, 2017.

Rate stabilization deferral. In June 2006, Senate Bill 1 was enacted in Maryland and imposed a rate stabilization measure that capped rate increases by BGE for residential electric customers at 15% from July 1, 2006, to May 31, 2007. As a result, BGE recorded a regulatory asset on its Consolidated Balance Sheets equal to the difference between the costs to purchase power and the revenues collected from customers, as well as related carrying charges based on short-term interest rates from July 1, 2006 to May 31, 2007. In addition, as required by Senate Bill 1, the MDPSC approved a plan that allowed residential electric customers the option to further defer the transition to market rates from June 1, 2007 to January 1, 2008. During 2007, BGE deferred $306 million of electricity purchased for resale expenses and certain applicable carrying charges, which are calculated using the implied interest rates of the rate stabilization bonds, as a regulatory asset related to the rate stabilization plans. During 2017 and 2016, BGE recovered $7 million and $81 million, respectively, of electricity purchased for resale expenses and carrying charges related to the rate stabilization plan regulatory asset. BGE began amortizing the regulatory asset associated with the deferral which ended in May 2007 to earnings over a period not to exceed ten years when collection from customers began in June 2007. This regulatory asset has now been fully amortized as of December 31, 2017.

Energy efficiency and demand response programs. For ComEd, these amounts represent over recoveries related to ComEd's ICC-approved Energy Efficiency and Demand Response Plan under the energy efficiency rate rider cancelled on June 2, 2017. ComEd expects to refund these over recoveries in future rates. ComEd earns a return on the capital investment incurred under the program, but does not earn or pay a return or interest on under or over recoveries, respectively. For PECO, these amounts represent over recoveries of program costs related to both Phase II and Phase III of its PAPUC-approved EE&C Plan. PECO began recovering the costs of its Phase II and Phase III EE&C Plans through a surcharge in June 2013 and June 2016, respectively, based on projected spending under the programs. Phase II of the program began on June 1, 2013 and expired on May 31, 2016. Phase III of the program began on June 1, 2016 and will expire on May 31, 2021. PECO earns a return on the capital portion of the EE&C Plan. For BGE, these amounts represent under (over) recoveries related to BGE's Smart Energy Savers Program®, which includes both MDPSC-approved demand response and energy efficiency programs. For the BGE Peak Rewards^{SM} demand response program which began in January 2008, actual marketing and customer bonus costs incurred in the demand response program are being recovered over a 5-year amortization period from the date incurred pursuant to an order by the MDPSC. Fixed assets related to the demand response program are recovered over the life of the equipment. Also included in the demand response program are customer bill credits related to BGE's Smart Energy Rewards program which began in July 2013 and are being recovered through the surcharge. Actual costs incurred in the energy efficiency program are being amortized over a 5-year period with recovery beginning in 2010 pursuant to an order by the MDPSC. BGE earns a rate of return on the capital investments and deferred costs incurred under the program and earns (pays) interest on under (over) collections.

For Pepco, DPL and ACE, amounts represent recoverable costs associated with customer direct load control and energy efficiency and conservation programs in all jurisdictions that are being recovered from customers. These programs are designed to reduce customers' energy consumption. Pepco Maryland and DPL Maryland energy efficiency program costs are recovered over 5 years and the direct load control program costs are recovered over 5 years and 15 years, depending on the type. ACE costs are recovered over 10 years. Pepco, DPL and ACE earn a return on these regulatory assets.

Merger integration costs. These amounts include integration costs to achieve distribution synergies related to the Constellation merger transaction. As a result of the MDPSC's February 2013 rate order, BGE deferred $8 million related to non-severance merger integration costs incurred during 2012 and the first quarter of 2013. Of these costs, $4 million was authorized to be amortized over a 5-year period that began in March 2013. The recovery of the remaining $4 million was deferred. In the MDPSC's December 2013 rate order, BGE was authorized to recover the remaining $4 million and an additional $4 million of non-severance merger integration costs incurred during 2013. These costs are being amortized over a 5-year period that began in December 2013. BGE is earning a return on this regulatory asset.

These amounts also include integration costs to achieve distribution synergies related to the PHI acquisition. As of December 31, 2017 and 2016, BGE's regulatory asset of $6 million and $10 million, respectively, included $4 million and $6 million, respectively, of previously incurred PHI integration costs as authorized by the June 2016 rate case order. As of December 31, 2017, Pepco's regulatory asset of $20 million represents previously incurred PHI integration costs, including $11 million authorized for recovery in Maryland and $9 million expected to be recovered in the District of Columbia service territory. As of December 31, 2016, Pepco's regulatory asset of $11 million represents previously incurred PHI integration costs authorized for recovery in Maryland. As of December 31, 2017, DPL's regulatory asset of $10 million represents previously incurred PHI integration costs, including $4 million authorized for recovery in Maryland, $5 million authorized for recovery in Delaware electric rates, and $1 million expected to be recovered in electric and gas rates in the Maryland and Delaware service territories. As of December 31, 2016, DPL's regulatory asset of $4 million represents previously incurred PHI integration costs expected to be recovered in the Maryland service territory. As of December 31, 2017, ACE's regulatory asset of $9 million represents previously incurred PHI integration costs expected to be recovered in the New Jersey service territory. Pepco and DPL are earning a return on the regulatory assets being recovered in Maryland and these costs are being amortized over five years. DPL is earning a return on the regulatory asset being recovered in Delaware and the cost is being amortized over five years. Amounts deferred for Pepco in the District of Columbia and ACE in New Jersey do not earn a return.

Under (Over)-recovered electric and gas revenue decoupling. For BGE, these amounts represent the electric and gas distribution costs recoverable from or (refundable) to customers under BGE's decoupling mechanisms and are being recovered over the life of the associated assets. As of December 31, 2017, BGE had a regulatory asset of $10 million related to under-recovered electric revenue decoupling and $4 million related to under-recovered natural gas revenue decoupling. As of December 31, 2016, BGE had a regulatory asset of $2 million related to under-recovered natural gas revenue decoupling and $1 million related to under-recovered electric revenue decoupling. For Pepco and DPL, these amounts represent the electric distribution costs recoverable from customers under Pepco's Maryland and District of Columbia decoupling mechanisms and DPL's Maryland decoupling mechanism. Pepco and DPL earn a return on these regulatory assets.

COPCO acquisition adjustment. On July 19, 2007, the MDPSC issued an order which provided for the recovery of a portion of DPL's goodwill. As a result of this order, $41 million in DPL goodwill was transferred to a regulatory asset. In February 2017 the MDPSC ruled that the remaining amortization be extended for an additional three years, and this item is now amortized from August 2007 through February 2020. DPL earns a return on these regulatory assets.

Workers compensation and long-term disability costs. These amounts represent accrued workers' compensation and long-term disability costs for Pepco, which are recoverable from customers when actual claims are paid to employees. The recovery period for these regulatory assets is over the life of the associated assets.

Vacation accrual. These amounts represent accrued vacation costs for PECO, DPL and ACE. PECO, DPL and ACE and the costs are recoverable from customers when actual payments are made to employees or when vacation is taken.

Securitized stranded costs. These amounts represent certain contract termination payments under a contract between ACE and an unaffiliated non-utility generator and costs associated with the regulated operations of ACE's electricity generation business that are no longer recoverable through customer rates (collectively referred to as "stranded costs"). The stranded costs are amortized over the life of Transition Bonds issued by Atlantic City Electric Transition Funding LLC (ACE Funding) to securitize the recoverability of these stranded costs. These bonds mature between 2018 and 2023. A customer surcharge is collected by ACE to fund principal and interest payments on the Transition Bonds. PHI earns a return on these regulatory assets.

CAP arrearage. These amounts represent the guaranteed recovery of PECO's previously incurred bad debt expense associated with the eligible CAP accounts receivable balances under the IPAF Program as provided by the 2015 electric distribution rate case settlement. These costs are amortized as recovery is received through a combination of customer payments over the duration of the five-year payment agreement term and rate recovery, including through future rate cases if necessary.

Removal costs. These amounts represent funds ComEd, BGE, PHI, Pepco, DPL and ACE have received from customers through depreciation rates to cover the future non-legally required cost of removal of property, plant and equipment which reduces rate base for ratemaking purposes. This liability is reduced as costs are incurred. PHI, Pepco, DPL, and ACE have a regulatory asset which represents removal costs incurred in excess of amounts received from customers through depreciation rates recoverable from ratepayers. The recovery period of these regulatory assets is over the life of the associated assets.

DC PLUG charge. On November 9, 2017, the DCPSC issued an order approving the First Biennial Plan and the application for a financing order. As a result, Pepco's obligation of $187 million will be recovered from customers and therefore, a $187 million regulatory asset was established. Pepco will recover $60 million over a two-year period and the remainder will be recovered based on future biennial plans filed with the DCPSC. In addition, $3 million of previously deferred costs from the first Triennial Plan were approved for recovery from customers over a one year recovery period.

Nuclear decommissioning. These amounts represent estimated future nuclear decommissioning costs for the Regulatory Agreement Units that exceed (regulatory asset) or are less than (regulatory liability) the associated decommissioning trust fund assets. Exelon believes the trust fund assets, including prospective earnings thereon and any future collections from customers, will be sufficient to fund the associated future decommissioning costs at the time of decommissioning. See Note 15 — Asset Retirement Obligations for additional information.

Deferred rent. Represents the regulatory liability recorded at Exelon and PHI for deferred rent related to a lease. The costs of the lease are recoverable through the ratemaking process at Pepco, DPL and ACE.

DLC program costs. The DLC program costs include equipment, installation, and information technology costs necessary to implement the DLC Program under PECO's EE&C Phase I Plans. PECO received full cost recovery through Phase I collections and will amortize the costs as a credit to the income statement to offset the related depreciation expense during the same period through September 2025, which is the remaining useful life of the assets.

Electric distribution tax repairs. PECO's 2010 electric distribution rate case settlement required that the expected cash benefit from the application of Revenue Procedure 2011-43, which was issued on August 19, 2011, to prior tax years be refunded to customers over a seven-year period. Credits began being reflected in customer bills on January 1, 2012. PECO's 2015 electric distribution rate case settlement requires PECO to pay interest on the unamortized balance of the tax-effected catch-up deduction beginning January 1, 2016.

Gas distribution tax repairs. PECO's 2010 natural gas distribution rate case settlement required that the expected cash benefit from the application of new tax repairs deduction methodologies for 2010 and prior tax years be refunded to customers over a seven-year period. In September 2012, PECO filed an application with the IRS to change its method of accounting for gas distribution repairs for the 2011 tax year. Credits began being reflected in customer bills on January 1, 2013. No interest will be paid to customers.

Renewable portfolio standards costs. Beginning June 1, 2017, ComEd recovers all costs associated with purchasing renewable energy credits through a new tariff rate rider that provides for a reconciliation and true-up to actual costs, with any difference to be credited to or collected from ComEd's retail customers in subsequent periods with interest. In addition, this balance includes the over recovery of renewable energy credits associated with RPS alternative compliance payments recovered under supply base rates. These collections were required under the Illinois Public Utilities Act to be used for renewable energy purchases in accordance with ICC procurement orders. The amortization period is in accordance with the applicable ICC procurement orders.

Zero emission credit costs. Beginning June 1, 2017, ComEd recovers all costs associated with purchasing ZECs through a new tariff rate rider that provides for an annual reconciliation and true-up to actual costs incurred by ComEd to purchase ZECs, with any difference to be credited to or collected from ComEd's retail customers in subsequent periods with interest.

Over-recovered uncollectible accounts. These amounts represent the difference between ACE's annual uncollectible accounts expense and revenues collected in rates through an NJBPU-approved rider. The difference between GAAP uncollectible expense and revenues collected through the rider each calendar year is recovered or refunded over a twelve-month period beginning in June of the following calendar year.

Capitalized Ratemaking Amounts Not Recognized

The following table illustrates our authorized amounts capitalized for ratemaking purposes related to earnings on shareholders' investment that are not recognized for financial reporting purposes on our Consolidated Balance Sheets. These amounts will be recognized as revenues in our Consolidated Statements of Operations and Comprehensive Income in the periods they are billable to our customers.

December 31, 2017	$69
December 31, 2016	$72

Purchase of Receivables Programs

ComEd, PECO, BGE, Pepco, DPL and ACE are required, under separate legislation and regulations in Illinois, Pennsylvania, Maryland, District of Columbia and New Jersey, to purchase certain receivables from retail electric and natural gas suppliers that participate in the utilities' consolidated billing. ComEd, BGE, Pepco and DPL purchase receivables at a discount primarily to recover uncollectible accounts expense from the suppliers. PECO is required to purchase receivables at face value and is permitted to recover uncollectible accounts expense, including those from Third Party Suppliers, from customers through distribution rates. ACE purchases receivables at face value. ACE recovers all uncollectible accounts expense, including those from Third Party Suppliers, through the Societal Benefits Charge (SBC) rider, which includes uncollectible accounts expense as a component. The SBC is filed annually with the NJBPU. Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE do not record unbilled commodity receivables under the POR programs. Purchased billed receivables are classified in Other accounts receivable, net on Exelon's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets. The following tables provide information about the purchased receivables of those companies as of December 31, 2017 and December 31, 2016.

	As of December 31,	
	2017	2016
Purchased receivables	$298	$313
Allowance for uncollectible accounts[a]	(31)	(37)
Purchased receivables, net	$267	$276

[a] For ComEd, BGE, Pepco and DPL, reflects the incremental allowance for uncollectible accounts recorded, which is in addition to the purchase discount. For ComEd, the incremental uncollectible accounts expense is recovered through its Purchase of Receivables with Consolidated Billing tariff.

4. Mergers, Acquisitions and Dispositions

Acquisition of James A. FitzPatrick Nuclear Generating Station

On March 31, 2017, Generation acquired the 842 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station located in Scriba, New York from Entergy Nuclear FitzPatrick LLC (Entergy) for a total purchase price of $289 million, which consisted of a cash purchase price of $110 million and a net cost reimbursement to and on behalf of Entergy of $179 million. As part of the acquisition agreements, Generation provided nuclear fuel and reimbursed Entergy for incremental costs to prepare for and conduct a plant refueling outage; and Generation reimbursed Entergy for incremental costs to operate and maintain the plant for the period after the refueling outage through the acquisition closing date. These reimbursements covered costs that Entergy otherwise would have avoided had it shut down the plant as originally intended in January 2017. The amounts reimbursed by Generation were offset by FitzPatrick's electricity and capacity sales revenues for this same post-outage period. As part of the transaction, Generation received the FitzPatrick NDT fund assets and assumed the obligation to decommission FitzPatrick. The NRC license for FitzPatrick expires in 2034. In 2017, the final purchase price consideration of $289 million (including $235 million of cash and $54 million of nuclear fuel) was remitted to and on behalf of Entergy.

The fair values of FitzPatrick's assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The valuations performed in the first quarter of 2017 to determine the fair value of the FitzPatrick assets acquired and liabilities assumed were preliminary. Accounting guidance provides that the allocation of the purchase price may be modified up to one year from the date of the acquisition to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date.

During the third quarter of 2017, certain modifications were made to the initial preliminary valuation amounts for acquired property, plant and equipment, the decommissioning ARO, pension and OPEB obligations and related deferred tax liabilities, resulting in a $3 million net increase in assets acquired and liabilities assumed. Additionally, in the third quarter a purchase price settlement payment of $4 million was received from Entergy. These resulted in an adjustment to the after-tax bargain purchase gain recorded at Generation. For the year ended December 31, 2017, the after-tax bargain purchase gain of $233 million is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and primarily reflects differences in strategies between Generation and Entergy for the intended use and ultimate decommissioning of the plant. There are no further adjustments expected to be made to the allocation of the purchase price. See Note 15 - Asset Retirement Obligations and Note 16 - Retirement Benefits for additional information regarding the FitzPatrick decommissioning ARO and pension and OPEB updates.

The following table summarizes the final acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the FitzPatrick acquisition by Generation as of December 31, 2017:

Cash paid for purchase price	$ 110
Cash paid for net cost reimbursement	125
Nuclear fuel transfer	54
Total consideration transferred	$ 289
Identifiable assets acquired and liabilities assumed	
Current assets	$ 60
Property, plant and equipment	298
Nuclear decommissioning trust funds	807
Other assets[a]	114
Total assets	$1,279
Current liabilities	$ 6
Nuclear decommissioning ARO	444
Pension and OPEB obligations	33
Deferred income taxes	149
Spent nuclear fuel obligation	110
Other liabilities	15
Total liabilities	$ 757
Total net identifiable assets, at fair value	$ 522
Bargain purchase gain (after-tax)	$ 233

[a] Includes a $110 million asset associated with a contractual right to reimbursement from the New York Power Authority (NYPA), a prior owner of FitzPatrick, associated with the DOE one-time fee obligation. See Note 23-Commitments and Contingencies for additional background regarding SNF obligations to the DOE.

For the year ended December 31, 2017, Exelon and Generation incurred $57 million of merger and integration related costs which are included within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Acquisition of ConEdison Solutions

On September 1, 2016, Generation acquired the competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc. (ConEdison Solutions), a subsidiary of Consolidated Edison, Inc. for a purchase price of $257 million including net working capital of $204 million. The renewable energy, sustainable services and energy efficiency businesses of ConEdison Solutions are excluded from the transaction.

The fair values of ConEdison Solutions' assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The purchase price equaled the estimated fair value of the net assets acquired and the liabilities assumed and, therefore, no goodwill or bargain purchase was recorded as of the acquisition date. The purchase price allocation is now final.

The following table summarizes the final acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the ConEdison Solutions acquisition by Generation:

Total consideration transferred	$257
Identifiable assets acquired and liabilities assumed	
Working capital assets	$204
Property, plant and equipment	2
Mark-to-market derivative assets	6
Unamortized energy contract assets	100
Customer relationships	9
Other assets	1
Total assets	$322
Mark-to-market derivative liabilities	$ 65
Total liabilities	$ 65
Total net identifiable assets, at fair value	$257

Merger with Pepco Holdings, Inc.

Description of Transaction

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon's interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). Following the completion of the PHI Merger, Exelon and PHI completed a series of internal corporate organization restructuring transactions resulting in the transfer of PHI's unregulated business interests to Exelon and Generation and the transfer of PHI, Pepco, DPL and ACE to a special purpose subsidiary of EEDC.

Regulatory Matters

Approval of the merger in Delaware, New Jersey, Maryland and the District of Columbia was conditioned upon Exelon and PHI agreeing to certain commitments including where applicable: customer rate credits, funding for energy efficiency and delivery system modernization programs, a green sustainability fund, workforce development initiatives, charitable contributions, renewable generation and other required commitments. In addition, the orders approving the merger in Delaware, New Jersey, and Maryland include a "most favored nation" provision which, generally, requires allocation of merger benefits proportionally across all the jurisdictions.

During the third and fourth quarters of 2016, Exelon and PHI filed proposals in Delaware, New Jersey and Maryland for amounts and allocations reflecting the application of the most favored nation provision, resulting in a total nominal cost of commitments of $513 million excluding renewable generation commitments (approximately $444 million on a net present value basis amount, excluding renewable generation commitments and charitable contributions). These filings reflected agreements reached with certain parties to the merger proceedings in these jurisdictions. In 2016, the DPSC and NJBPU approved the amounts and allocations of the additional merger benefits for Delaware and New Jersey, respectively.

On April 12, 2017, the MDPSC issued an order approving the amounts of the additional merger benefits for Maryland, but amending the proposed allocations of the benefits. The amended allocations do not have a material effect on any of the Registrants' financial statements. No changes in commitment cost levels are required in the District of Columbia.

During the second quarter of 2017, Exelon finalized the application of $8 million funding for low- and moderate-income customers in the Pepco Maryland and DPL Maryland service territories. This resulted in an adjustment to merger commitment costs recorded at Exelon Corporate, Pepco, and DPL. Exelon Corporate recorded an increase of $8 million and Pepco and DPL recorded a decrease of $6 million and $2 million, respectively, in Operating and maintenance expense.

The following amounts represent total commitment costs for Exelon, PHI, Pepco, DPL and ACE that have been recorded since the acquisition date:

					Successor	
Description	**Expected Payment Period**	**Pepco**	**DPL**	**ACE**	**PHI**	**Exelon**
Rate credits	2016 - 2017	$ 91	$67	$101	$259	$259
Energy efficiency	2016 - 2021	—	—	—	—	122
Charitable contributions	2016 - 2026	28	12	10	50	50
Delivery system modernization	Q2 2017	—	—	—	—	22
Green sustainability fund	Q2 2017	—	—	—	—	14
Workforce development	2016 - 2020	—	—	—	—	17
Other		1	5	—	6	29
Total		$120	$84	$111	$315	$513

Pursuant to the orders approving the merger, Exelon made $73 million, $46 million and $49 million of equity contributions to Pepco, DPL and ACE, respectively, in the second quarter of 2016 to fund the after-tax amounts of the customer bill credit and the customer base rate credit commitments.

In addition, Exelon is committed to develop or to assist in the commercial development of approximately 37 MWs of new generation in Maryland, District of Columbia, and Delaware, 27 MWs of which are expected to be completed by 2018. These investments are expected to total approximately $137 million, are expected to be primarily capital in nature, and will generate future earnings at Exelon and Generation. Investment costs will be recognized as incurred and recorded on Exelon's and Generation's financial statements. Exelon has also committed to purchase 100 MWs of wind energy in PJM, to procure 120 MWs of wind RECs for the purpose of meeting Delaware's renewable portfolio standards, and to maintain and promote energy efficiency and demand response programs in the PHI jurisdictions.

Pursuant to the various jurisdictions' merger approval conditions, over specified periods Pepco, DPL and ACE are not permitted to reduce employment levels due to involuntary attrition associated with the merger integration process and have made other commitments regarding hiring and relocation of positions.

In July 2015, the OPC, Public Citizen, Inc., the Sierra Club and the Chesapeake Climate Action Network (CCAN) filed motions to stay the MDPSC order approving the merger. The Circuit Court judge issued an order denying the motions for stay on August 12, 2015. On January 8, 2016, the Circuit Court judge affirmed the MDPSC's order approving the merger and denied the petitions for judicial review filed by the OPC, the Sierra Club, CCAN and Public Citizen, Inc. On January 19, 2016, the OPC filed a notice of appeal to the Maryland Court of Special Appeals, and on January 21, the Sierra Club and CCAN filed notices of appeal. On January 27, 2017, the Maryland Court of Special Appeals affirmed the Circuit Court's judgment that the MDPSC did not err in approving the merger. The OPC and Sierra Club filed petitions seeking further review in the Court of Appeals of Maryland, which is the highest court in Maryland. On June 21, 2017, the Court of Appeals granted discretionary review of the January 27, 2017 decision by the Maryland Court of Special Appeals. The Maryland Court of Appeals will review the OPC argument that the MDPSC did not properly consider the acquisition premium paid to PHI shareholders under Maryland's merger approval standard and the Sierra Club's argument that the merger would harm the renewable and distributed generation markets. The two lower courts examining these issues rejected these arguments, which Exelon believes are without merit. All briefs have been filed and oral arguments were presented to the court on October 10, 2017.

Between March 25, 2016 and April 22, 2016, various parties filed motions with the DCPSC to reconsider its March 23, 2016 order approving the merger. On June 17, 2016, the DCPSC denied all motions. In August 2016, the District Legal Entity of Columbia Office of People's Counsel, the District of Columbia Government, and Public Citizen jointly with DC Sun each filed petitions for judicial review of the DCPSC's March 23, 2016 order with the District of Columbia Court of Appeals. On July 20, 2017, the Court issued an opinion rejecting all of appellants' arguments and affirming the Commission's decision approving the merger.

Accounting for the Merger Transaction

The total purchase price consideration of approximately $7.1 billion for the PHI Merger consisted of cash paid to PHI shareholders, cash paid for PHI preferred securities and cash paid for PHI stock-based compensation equity awards as follows:

(In millions of dollars, except per share data)	**Total Consideration**
Cash paid to PHI shareholders at $27.25 per share (254 million shares outstanding at March 23, 2016)	$6,933
Cash paid for PHI preferred stock	180
Cash paid for PHI stock-based compensation equity awards[a]	29
Total purchase price	$7,142

[a] PHI's unvested time-based restricted stock units and performance-based restricted stock units issued prior to April 29, 2014 were immediately vested and paid in cash upon the close of the merger. PHI's remaining unvested time-based restricted stock units as of the close of the merger were cancelled. There were no remaining unvested performance-based restricted stock units as of the close of the merger.

PHI shareholders received $27.25 of cash in exchange for each share of PHI common stock outstanding as of the effective date of the merger. In connection with the Merger Agreement, Exelon entered into a Subscription Agreement under which it purchased $180 million of a new class of nonvoting, nonconvertible and nontransferable preferred securities of PHI prior to December 31, 2015. On March 23, 2016, the preferred securities were cancelled for no consideration to Exelon, and accordingly, the $180 million cash consideration previously paid to acquire the preferred securities was treated as purchase price consideration.

The preliminary valuations performed in the first quarter of 2016 were updated in the second, third, and fourth quarters of 2016. There were no adjustments to the purchase price allocation in the first quarter of 2017 and the purchase price allocation is now final.

Exelon applied push-down accounting to PHI, and accordingly, the PHI assets acquired and liabilities assumed were recorded at their estimated fair values on Exelon's and PHI's Consolidated Balance Sheets as follows:

Purchase Price Allocation[a]	
Current assets	$ 1,441
Property, plant and equipment	11,088
Regulatory assets	5,015
Other assets	248
Goodwill	4,005
Total assets	$21,797
Current liabilities	$ 2,752
Unamortized energy contracts	1,515
Regulatory liabilities	297
Long-term debt, including current maturities	5,636
Deferred income taxes	3,447
Pension and OPEB obligations	821
Other liabilities	187
Total liabilities	$14,655
Total purchase price	$ 7,142

[a] Amounts shown reflect the final purchase price allocation and the correction of a reporting error identified and corrected in the second quarter of 2016. The error had resulted in a gross up of certain assets and liabilities related to legacy PHI intercompany and income tax receivable and payable balances.

On its successor financial statements, PHI has recorded, beginning March 24, 2016, Membership interest equity of $7.2 billion, which is greater than the total $7.1 billion purchase price, reflecting the impact of a $59 million deferred tax liability recorded only at Exelon Corporate to reflect unitary state income tax consequences of the merger.

The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed totaled $4.0 billion, which was recognized as goodwill by PHI and Exelon at the acquisition date, reflecting the value associated with enhancing Exelon's regulated utility portfolio of businesses, including the ability to leverage experience and best practices across the utilities and the opportunities for synergies. For purposes of future required impairment assessments, the goodwill has been assigned to PHI's reportable units Pepco, DPL and ACE in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. None of this goodwill is expected to be tax deductible.

Immediately following closing of the merger, $235 million of net assets included in the table above associated with PHI's unregulated business interests were distributed by PHI to Exelon. Exelon contributed $163 million of such net assets to Generation.

The fair values of PHI's assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows, future market prices and impacts of utility rate regulation. There were also judgments made to determine the expected useful lives assigned to each class of assets acquired.

Through its wholly owned rate regulated utility subsidiaries, most of PHI's assets and liabilities are subject to cost-of-service rate regulation. Under such regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. In applying the acquisition method of accounting, for regulated assets and liabilities included in rate base or otherwise earning a return (primarily property, plant and equipment and regulatory assets earning a return), no fair value adjustments were recorded as historical cost is viewed as a reasonable proxy for fair value.

Fair value adjustments were applied to the historical cost bases of other assets and liabilities subject to rate regulation but not earning a return (including debt instruments and pension and OPEB obligations). In these instances, a corresponding offsetting regulatory asset or liability was also established, as the underlying utility asset and liability amounts are recoverable from or refundable to customers at historical cost (and not at fair value) through the rate setting process. Similar treatment was applied for fair value adjustments to record intangible assets and liabilities, such as for electricity and gas energy supply contracts as further described below. Regulatory assets and liabilities established to offset fair value adjustments are amortized in amounts and over time frames consistent with the realization or settlement of the fair value adjustments, with no impact on reported net income. See Note 3 - Regulatory Matters for additional information regarding the fair value of regulatory assets and liabilities established by Exelon and PHI.

Fair value adjustments were recorded at Exelon and PHI for the difference between the contract price and the market price of electricity and gas energy supply contracts of PHI's wholly owned rate regulated utility subsidiaries. These adjustments are intangible assets and liabilities classified as unamortized energy contracts on Exelon's and PHI's Consolidated Balance Sheets as of December 31, 2017. The difference between the contract price and the market price at the acquisition date of the Merger was recognized for each contract as either an intangible asset or liability. In total, Exelon and PHI recorded a net $1.5 billion liability reflecting out-of-the-money contracts. The valuation of the acquired intangible assets and liabilities was estimated by applying either the market approach or the income approach depending on the nature of the underlying contract. The market approach was utilized when prices and other relevant information generated by market transactions involving comparable transactions were available. Otherwise the income approach, which is based upon discounted projected future cash flows associated with the underlying contracts, was utilized. In certain instances, the valuations were based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key estimates and inputs include forecasted power prices and the discount rate. The unamortized energy contract fair value adjustment amounts and the corresponding offsetting regulatory asset and liability amounts are amortized through Purchased power and fuel expense or Operating revenues, as applicable, over the life of the applicable contract in relation to the present value of the underlying cash flows as of the merger date.

As mentioned, under cost-of-service rate regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. Historical cost information therefore is the most relevant presentation for the financial statements of PHI's rate regulated utility subsidiary registrants, Pepco, DPL and ACE. As such, Exelon and PHI did not push-down the application of acquisition accounting to PHI's utility registrants, and therefore the financial statements of Pepco, DPL and ACE do not reflect the revaluation of any assets and liabilities.

The current impact of PHI, including its unregulated businesses, on Exelon's Consolidated Statements of Operations and Comprehensive Income includes Operating revenues of $4,829 million and Net income of $364 million during the year ended December 31, 2017, and Operating revenues of $3,785 million and Net loss of $(66) million for the year ended December 31, 2016.

For the periods ended December 31, 2017 and 2016, the Registrants have recognized costs to achieve the PHI acquisition as follows:

	For the Year Ended December 31,	
Acquisition, Integration and Financing Costs[a]	**2017**	**2016**
Exelon	$16	$143
Generation	22	37
ComEd[b]	1	(6)
PECO	4	5
BGE[b]	4	(1)
Pepco[b]	(6)	28
DPL[b]	(7)	20
ACE[b]	(6)	19

	Successor		*Predecessor*
Acquisition, Integration and Financing Costs[a]	**For the Year Ended December 31, 2017**	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**
PHI[b]	$(18)	$69	$29

[a] The costs incurred are classified primarily within Operating and maintenance expense in the Registrants' respective Consolidated Statements of Operations and Comprehensive Income, with the exception of the financing costs, which are included within Interest expense. Costs do not include merger commitments discussed above.

[b] For the year ended December 31, 2017, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $24 million, $8 million, $8 million, and $8 million incurred at PHI, Pepco, DPL, and ACE, respectively, that have been recorded as a regulatory asset for anticipated recovery. For the year ended December 31, 2016, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $8 million, $6 million, $11 million, and $4 million incurred at ComEd, BGE, Pepco, and DPL, respectively, that have been recorded as a regulatory asset for anticipated recovery. For the Successor period March 24, 2016 to December 31, 2016, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $16 million incurred at PHI that have been recorded as a regulatory asset for anticipated recovery. See Note 3 - Regulatory Matters for more information.

Pro-forma Impact of the Merger

The following unaudited pro-forma financial information reflects the consolidated results of operations of Exelon as if the merger with PHI had taken place on January 1, 2015. The unaudited pro forma information was calculated after applying Exelon's accounting policies and adjusting PHI's results to reflect purchase accounting adjustments.

The unaudited pro-forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the merger events taken place on the dates indicated, or the future consolidated results of operations of the combined company.

	Year Ended December 31,	
	2016[a]	2015[b]
Total operating revenues	$32,342	$33,823
Net income attributable to common shareholders	1,562	2,618
Basic earnings per share	$ 1.69	$ 2.85
Diluted earnings per share	1.69	2.84

[a] The amounts above exclude non-recurring costs directly related to the merger of $680 million and intercompany revenue of $171 million for the year ended December 31, 2016.

[b] The amounts above exclude non-recurring costs directly related to the merger of $92 million and intercompany revenue of $559 million for the year ended December 31, 2015.

Asset Dispositions

EGTP, a Delaware limited liability company, was formed in 2014 with the purpose of financing a portfolio of assets comprised of two combined-cycle gas turbines (CCGTs) and three peaking/simple cycle facilities consisting of approximately 3.4 GW of generation capacity in ERCOT North and Houston Zones. EGTP is an indirect wholly owned subsidiary of Exelon and Generation. Each of the aforementioned facilities are held through a wholly owned direct subsidiary of EGTP. EGTP also owns two equity method investments in shared facility companies. EGTP, its direct parent and its wholly owned subsidiaries secured a nonrecourse senior secured term loan facility, a revolving loan facility and certain commodity and interest rate swaps.

EGTP's operating cash flows were negatively impacted by certain market conditions and the seasonality of its cash flows. On May 2, 2017, as a result of the negative impacts of certain market conditions and the seasonality of its cash flows, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries. As a result, Exelon and Generation classified certain of EGTP assets and liabilities as held for sale at their respective fair values less costs to sell and recorded a $460 million pre-tax impairment loss. See Note 13 - Debt and Credit Agreements for details regarding the nonrecourse debt associated with EGTP and Note 7 - Impairment of Long-Lived Assets and Intangibles for further information.

On November 7, 2017, EGTP and all of its wholly owned subsidiaries (collectively with EGTP, the "Debtors") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. The Debtors sought Bankruptcy Court authorization to jointly administer the Chapter 11 cases. The Debtors are continuing to manage their assets and operate their businesses as "debtors in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. As a result of the bankruptcy filing, Exelon and Generation deconsolidated EGTP's assets and liabilities from their consolidated financial statements, resulting in a pre-tax gain upon deconsolidation of $213 million. Concurrently with the Chapter 11 filings, Generation entered into an asset purchase agreement to acquire one of EGTP's generating plants, the Handley Generating Station, for approximately $60 million, subject to a potential adjustment for fuel oil and assumption of certain liabilities. In the Chapter 11 Filings, EGTP requested that the proposed acquisition of the Handley Generating Station be consummated through a court-approved and supervised sales process. The acquisition was approved by the Bankruptcy Court in January 2018 and the transaction is expected to be completed in the first half of 2018.

In December 2017, Pepco Building Services, Inc. entered into a purchase and sale agreement to sell its interest in an electrical contracting business that primarily installs, maintains and repairs underground and high-voltage cable transmission and distribution systems. The closing of the sale is expected to be completed in the first quarter of 2018. As a result, as of December 31, 2017, certain assets and liabilities were classified as held for sale at their respective fair values less costs to sell and included in the Other current assets and Other current liabilities balances on Exelon's and Generation's Consolidated Balance Sheet.

During the fourth quarter 2016, as part of its continual assessment of growth and development opportunities, Generation reevaluated and in certain instances terminated or renegotiated certain projects and contracts. As a result, a pre-tax loss of $69 million was recorded within Loss on sale of assets and pre-tax impairment charges of $23 million was recorded within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

In July 2016, DPL completed the sale of a 9-acre land parcel located on South Madison Street in Wilmington, DE, resulting in a pre-tax gain of approximately $4 million. In December 2016, DPL completed the sale of a 48-acre land parcel located in Middletown, DE, resulting in a pre-tax gain of approximately $5 million. Due to the fair value adjustments recorded at Exelon and PHI as part of purchase accounting, no gain was recorded in Exelon's and PHI's Consolidated Statements of Operations and Comprehensive Income.

On June 16, 2016, Generation initiated the sales process of its Upstream business by executing a forbearance agreement with the lenders of the nonrecourse debt. See Note 13 - Debt and Credit Agreements for more information. In December 2016, Generation sold substantially all of the Upstream assets for $37 million which resulted in a pre-tax loss on sale of $10 million which is included in Gain (loss) on sales of assets on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2016.

On May 2, 2016, Pepco completed the sale of the New York Avenue land parcel, located in Washington, D.C., resulting in a pre-tax gain of approximately $8 million at Pepco. Due to the fair value adjustments recorded at Exelon and PHI as part of purchase accounting, no gain was recorded in Exelon's and PHI's Consolidated Statements of Operations and Comprehensive Income.

On April 21, 2016, Generation completed the sale of the retired New Boston generating site, located in Boston, Massachusetts, resulting in a pre-tax gain of approximately $32 million.

On November 10, 2015, Pepco completed the sale of a 3.5-acre parcel of unimproved land (held as non-utility property) in the Buzzard Point area of southeast Washington, D.C., resulting in a pre-tax gain of $37 million.

On December 31, 2015, Pepco completed the sale of a 3.8-acre parcel of unimproved land (held as non-utility property) in the NoMa area of northeast Washington, D.C., resulting in a pre-tax gain of $9 million. The purchase and sale agreement also provided the third party with a 90-day option to purchase the remaining 1.8-acre land parcel.

5. Accounts Receivable

Accounts receivable at December 31, 2017 and 2016 included estimated unbilled revenues, representing an estimate for the unbilled amount of energy or services provided to customers, and is net of an allowance for uncollectible accounts as follows:

	As of December 31,	
	2017	2016
Unbilled customer revenues	$1,858	$1,673
Allowance for uncollectible accounts[a]	(322)	(334)

[a] Includes the estimated allowance for uncollectible accounts on billed customer and other accounts receivable.

PECO Installment Plan Receivables

PECO enters into payment agreements with certain delinquent customers, primarily residential, seeking to restore their service, as required by the PAPUC. Customers with past due balances that meet certain income criteria are provided the option to enter into an installment payment plan, some of which have terms greater than one year, to repay past due balances in addition to paying for their ongoing service on a current basis. The receivable balance for these payment agreement receivables is recorded in accounts receivable for the current portion and other deferred debits and other assets for the noncurrent portion. The net receivable balance for installment plans with terms greater than one year was $11 million and $9 million at December 31, 2017 and 2016, respectively. The allowance for uncollectible accounts reserve methodology and assessment of the credit quality of the installment plan receivables are consistent with the customer accounts receivable methodology discussed in Note 1—Significant Accounting Policies. The allowance for uncollectible accounts balance associated with these receivables at December 31, 2017 of $11 million consists of $3 million and $8 million for medium risk and high-risk segments, respectively. The allowance for uncollectible accounts balance associated with these receivables at December 31, 2016 of $13 million consists of $1 million, $3 million and $9 million for low risk, medium risk and high risk-segments, respectively. The balance of the payment agreement is billed to the customer in equal monthly installments over the term of the agreement. Installment receivables outstanding as of December 31, 2017 and 2016 include balances not yet presented on the customer bill, accounts currently billed and an immaterial amount of past due receivables. When a customer defaults on its payment agreement, the terms of which are defined by plan type, the entire balance of the agreement becomes due and the balance is reclassified to current customer accounts receivable and reserved for in accordance with the methodology discussed in Note 1—Significant Accounting Policies.

6. Property, Plant and Equipment

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)	2017	2016
Asset Category			
Electric—transmission and distribution	5-90	$49,506	$45,698
Electric—generation	2-56	29,019	27,193
Gas—transportation and distribution	5-90	5,050	4,642
Common—electric and gas	5-75	1,447	1,312
Nuclear fuel[a]	1-8	6,420	6,546
Construction work in progress	N/A	2,825	4,306
Other property, plant and equipment[b]	2-50	999	1,027
Total property, plant and equipment		95,266	90,724
Less: accumulated depreciation[c]		21,064	19,169
Property, plant and equipment, net		$74,202	$71,555

(a) Includes nuclear fuel that is in the fabrication and installation phase of $1,196 million and $1,326 million at December 31, 2017 and 2016, respectively.

(b) Includes Generation's buildings under capital lease with a net carrying value of $7 million and $10 million at December 31, 2017 and 2016, respectively. The original cost basis of the buildings was $47 million and $52 million, and total accumulated amortization was $40 million and $42 million, as of December 31, 2017 and 2016, respectively. Also includes ComEd's buildings under capital lease with a net carrying value at both December 31, 2017 and 2016, of $7 million. The original cost basis of the buildings was $8 million and total accumulated amortization was $1 million as of both December 31, 2017 and 2016. Includes land held for future use and non-utility property at ComEd, PECO, BGE, Pepco, DPL and ACE of $44 million, $21 million, $26 million, $59 million, $15 million and $27 million, respectively, at December 31, 2017. Includes the original cost and progress payments associated with Generation's turbine equipment held for future use with a carrying value of $0 million and $17 million as of December 31, 2017 and 2016, respectively. Generation's turbine equipment was impaired by $11 million and the remaining $6 million was moved to the assets held for sale account at December 31, 2017.

(c) Includes accumulated amortization of nuclear fuel in the reactor core at Generation of $3,159 million and $3,186 million as of December 31, 2017 and 2016, respectively.

The following table presents the annual depreciation provisions as a percentage of average service life for each asset category.

Average Service Life Percentage by Asset Category	2017	2016	2015
Electric—transmission and distribution	2.75%	2.73%	2.83%
Electric—generation[a]	4.36%[a]	5.94%[a]	3.47%
Gas	2.10%	2.17%	2.17%
Common—electric and gas	7.05%	7.41%	7.79%

(a) See Note 8 — Early Nuclear Plant Retirements for additional information on the accelerated net depreciation and amortization of Clinton, Quad Cities and TMI.

See Note 1 — Significant Accounting Policies for further information regarding property, plant and equipment policies and accounting for capitalized software costs for the Registrants. See Note 13 — Debt and Credit Agreements for further information regarding Exelon's, ComEd's and PECO's property, plant and equipment subject to mortgage liens.

7. Impairment of Long-Lived Assets and Intangibles

Long-Lived Assets

Registrants evaluate long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At Generation, EGTP's operating cash flows have been negatively impacted by certain market conditions and the seasonality of its cash flows. On May 2, 2017, EGTP entered into a consent agreement with its lenders to initiate an orderly sales process to sell the assets of its wholly owned subsidiaries. As a result, Exelon and Generation classified certain of EGTP's assets and liabilities as held for sale at their respective fair values less costs to sell and recorded a pre-tax impairment charge of $460 million within Operating and maintenance expense on their Consolidated Statements of Operations and Comprehensive Income during 2017. On November 7, 2017, EGTP and its wholly owned subsidiaries filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy

Court for the District of Delaware and, as a result, Exelon and Generation deconsolidated EGTP's assets and liabilities from their consolidated financial statements. See Note 4 — Mergers, Acquisitions and Dispositions and Note 13 — Debt and Credit Agreements, for further information.

In the third quarter of 2015, PHI entered into a sponsorship agreement with the District of Columbia for future sponsorship rights associated with public property within the District of Columbia and paid the District of Columbia $25 million, which Exelon and PHI had recorded as a finite-lived intangible asset as of December 31, 2016. The specific sponsorship rights were to be determined over time through future negotiations. In the fourth quarter of 2017, based upon the lack of currently available sponsorship opportunities, the asset was written off and a pre-tax impairment charge of $25 million was recorded within Operating and maintenance expense in Exelon's and PHI's Consolidated Statements of Operations and Comprehensive Income.

During the first quarter of 2016, significant changes in Generation's intended use of the Upstream oil and gas assets, developments with nonrecourse debt held by its Upstream subsidiary CEU Holdings, LLC (as described in Note 13 — Debt and Credit Agreements) and continued declines in both production volumes and commodity prices suggested that the carrying value may be impaired. Generation concluded that the estimated undiscounted future cash flows and fair value of its Upstream properties were less than their carrying values. As a result, a pre-tax impairment charge of $119 million was recorded in March 2016 within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. On June 16, 2016, Generation initiated the sales process of its Upstream natural gas and oil exploration and production business by executing a forbearance agreement with the lenders of the nonrecourse debt, see Note 13 — Debt and Credit Agreements for additional information. An additional pre-tax impairment charge of $15 million was recorded in September 2016 within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income due to further declines in fair value. In December 2016, Generation sold substantially all of the Upstream Assets. See Note 4 — Mergers, Acquisitions and Dispositions for additional information.

In the second quarter of 2016, updates to Exelon's long-term view of energy and capacity prices suggested that the carrying value of a group of merchant wind assets, located in West Texas, may be impaired. Upon review, the estimated undiscounted future cash flows and fair value of the group were less than their carrying value. The fair value analysis was based on the income approach using significant unobservable inputs (Level 3) including revenue and generation forecasts, projected capital and maintenance expenditures and discount rates. As a result of the fair value analysis, long-lived merchant wind assets held and used with a carrying amount of approximately $60 million were written down to their fair value of $24 million and a pre-tax impairment charge of $36 million was recorded during the second quarter of 2016 in Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Also in the second quarter of 2016, updates to Exelon's long-term view, as described above, in conjunction with the retirement announcements of the Quad Cities and Clinton nuclear plants in Illinois suggested that the carrying value of our Midwest asset group may be impaired. Generation completed a comprehensive review of the estimated undiscounted future cash flows of the Midwest asset group and no impairment charge was required.

The fair value analysis used in the above impairments was primarily based on the income approach using significant unobservable inputs (Level 3) including revenue, generation and production forecasts, projected capital and maintenance expenditures and discount rates. Changes in the assumptions described above could potentially result in future impairments of Exelon's long-lived assets, which could be material.

Like-Kind Exchange Transaction

In June 2000, UII, LLC (formerly Unicom Investments, Inc.) (UII), a wholly owned subsidiary of Exelon Corporation, entered into transactions pursuant to which UII invested in coal-fired generating station leases (Headleases) with the Municipal Electric Authority of Georgia (MEAG). The generating stations were leased back to MEAG as part of the transactions (Leases).

Pursuant to the applicable authoritative guidance, Exelon is required to review the estimated residual values of its direct financing lease investments at least annually and record an impairment charge if the review indicates an other-than-temporary decline in the fair value of the residual values below their carrying values. Exelon estimates the fair value of the residual values of its direct financing lease investments based on the income approach, which uses a discounted cash flow analysis, taking into consideration significant unobservable inputs (Level 3) including the expected revenues to be generated and costs to be incurred to operate the plants over their remaining useful lives subsequent to the lease end dates. Significant assumptions used in estimating the fair value include fundamental energy and capacity prices, fixed and variable costs, capital expenditure requirements, discount rates, tax rates and the estimated remaining useful lives of the plants. The estimated fair values also reflect the cash flows associated with the service contract option discussed above given that a market participant would take into consideration all of the terms and conditions contained in the lease agreements.

All the Headleases were terminated by the second quarter of 2016, and no events occurred prior to the termination that required Exelon to review the estimated residual values of the direct financing lease investments in 2016. On March 31, 2016, UII and MEAG finalized an agreement to terminate the MEAG Headleases, the MEAG Leases, and other related agreements prior to their expiration dates. As a result of the lease termination, UII received an early termination payment of $360 million from MEAG and wrote-off the $356 million net investment in the MEAG Headleases and the Leases. The transaction resulted in a pre-tax gain of $4 million which is reflected in Operating and maintenance expense in Exelon's Consolidated Statements of Operations and Comprehensive Income. See Note 14 — Income Taxes for additional information.

8. Early Nuclear Plant Retirements

Exelon and Generation continue to evaluate the current and expected economic value of each of Generation's nuclear plants. Factors that will continue to affect the economic value of Generation's nuclear plants include, but are not limited to: market power prices, results of capacity auctions, potential legislative and regulatory solutions to ensure nuclear plants are fairly compensated for their carbon-free emissions, and the impact of final rules from the EPA requiring reduction of carbon and other emissions and the efforts of states to implement those final rules. The precise timing of an early retirement date for any nuclear plant, and the resulting financial statement impacts, may be affected by a number of factors, including the status of potential regulatory or legislative solutions, results of any transmission system reliability study assessments, the nature of any co-owner requirements and stipulations, and decommissioning trust fund requirements, among other factors. However, the earliest retirement date for any plant would usually be the first year in which the unit does not have capacity or other obligations, where applicable, and just prior to its next scheduled nuclear refueling outage.

In 2015 and 2016, Generation identified the Quad Cities, Clinton, Ginna, Nine Mile Point and Three Mile Island (TMI) nuclear plants as having the greatest risk of early retirement based on economic valuation and other factors. In 2017, PSEG has made public similar financial challenges facing its New Jersey nuclear plants including Salem, of which Generation owns a 42.59% ownership interest.

In Illinois, the Clinton and Quad Cities nuclear plants continued to face significant economic challenges and risk of retirement before the end of each unit's respective operating license period (2026 for Clinton and 2032 for Quad Cities). In April 2016, Clinton cleared the MISO primary reliability auction as a price taker for the 2016-2017 planning year. The resulting capacity price was insufficient to cover cash operating costs and a risk-adjusted rate of return to shareholders. In May 2016, Quad Cities did not clear in the PJM capacity auction for the 2019-2020 planning year. Based on these capacity auction results, and given the lack of progress on Illinois energy legislation and MISO market reforms, on June 2, 2016 Generation announced it would shut down the Clinton and Quad Cities nuclear plants on June 1, 2017 and June 1, 2018, respectively.

On December 7, 2016, Illinois FEJA was signed into law by the Governor of Illinois and included a ZES that provides compensation through the procurement of ZECs targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet specific eligibility criteria, much like the solution implemented with the New York CES. The Illinois ZES will have a 10-year duration extending from June 1, 2017 through May 31, 2027. See Note 3 - Regulatory Matters for additional discussion on the Illinois FEJA and the ZES. With the passage of the Illinois ZES, and subject to prevailing over any related potential administrative or legal challenges, in December 2016 Generation reversed its June 2016 decision to permanently cease generation operations at the Clinton and Quad Cities nuclear generating plants.

In New York, the Ginna and Nine Mile Point nuclear plants continue to face significant economic challenges and risk of retirement before the end of each unit's respective operating license period (2029 for Ginna and Nine Mile Point Unit 1, and 2046 for Nine Mile Point Unit 2). On August 1, 2016, the NYPSC issued an order adopting the CES, which would provide payments to Ginna and Nine Mile Point for the environmental attributes of their production. On November 18, 2016, Ginna and Nine Mile Point executed the necessary contracts with NYSERDA, as required under the CES. Subject to prevailing over any administrative or legal challenges, the New York CES will allow Ginna and Nine Mile Point to continue to operate at least through the life of the program (March 31, 2029). The assumed useful life for depreciation purposes is through the end of their current operating licenses. The approved RSSA required Ginna to operate through the RSSA term expiring on March 31, 2017 and required notification to the NYPSC if Ginna did not plan to retire shortly after the expiration of the RSSA. On September 30, 2016, Ginna filed the required notice with the NYPSC of its intent to continue operating beyond the expiry of the RSSA. Refer to Note 3 - Regulatory Matters for additional discussion on the Ginna RSSA and the New York CES.

Assuming the successful implementation of the Illinois ZES and the New York CES and the continued effectiveness of these programs, Generation and CENG, through its ownership of Ginna and Nine Mile Point, no longer consider Clinton, Quad Cities, Ginna or Nine Mile Point to be at heightened risk for early retirement. However, to the extent either the Illinois ZES or the New York CES programs do not operate as expected over their full terms, each of these plants could again be at heightened risk for early retirement, which could have a material impact on Exelon's and Generation's future results of operations, cash flows and financial positions.

In Pennsylvania, the TMI nuclear plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning year, the third consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019 and is licensed to operate through 2034. On May 30, 2017, based on these capacity auction results, prolonged periods of low wholesale power prices, and the absence of federal or state policies that place a value on nuclear energy for its ability to produce electricity without air pollution, Exelon announced that Generation will permanently cease generation operations at TMI on or about September 30, 2019. Generation has filed the required market and regulatory notifications to shut down the plant. PJM has subsequently notified Generation that it has not identified any reliability issues and has approved the deactivation of TMI as proposed.

As a result of these plant retirement decisions, Exelon and Generation recognized one-time charges in Operating and maintenance expense related to materials and supplies inventory reserve adjustments, employee-related costs and CWIP impairments, among other items. In addition to these one-time charges, annual incremental non-cash charges to earnings stemming from shortening the expected economic useful lives primarily related to accelerated depreciation of plant assets (including any ARC), accelerated amortization of nuclear fuel, and additional ARO accretion expense associated with the changes in decommissioning timing and cost assumptions were also recorded. See Note 15 — Asset Retirement Obligations for additional detail on changes to the nuclear decommissioning ARO balances. The total annual impact of these charges by year are summarized in the table below.

Income statement expense (pre-tax)	**2017**[(a)]	**2016**[(b)]
Depreciation and Amortization		
Accelerated depreciation[(c)]	$250	$712
Accelerated nuclear fuel amortization	12	60
Operating and Maintenance		
One-time charges[(d,e)]	77	26
Change in ARO accretion, net of any contractual offset[(f)]	—	2
Contractual offset for ARC depreciation[(f)]	—	(86)
Total	$339	$714

[(a)] Reflects incremental charges for TMI including incremental accelerated depreciation and amortization from May 30, 2017 through December 31, 2017.

[(b)] Reflects incremental charges for Clinton and Quad Cities including incremental accelerated depreciation and amortization from June 2, 2016 through December 6, 2016. In December 2016, as a result of reversing its retirement decision for Clinton and Quad Cities, Exelon and Generation updated the expected economic useful life for both facilities, to 2027 for Clinton, commensurate with the end of the Illinois ZES, and to 2032 for Quad Cities, the end of its current operating license. Depreciation was therefore adjusted beginning December 7, 2016, to reflect these extended useful life estimates.

[(c)] Reflects incremental accelerated depreciation of plant assets, including any ARC.

[(d)] Primarily includes materials and supplies inventory reserve adjustments, employee related costs and CWIP impairments.

[(e)] In June 2016, as a result of the retirement decision for Clinton and Quad Cities, Exelon and Generation recognized one-time charges of $146 million. In December 2016, as a result of reversing its retirement decision for Clinton and Quad Cities, Exelon and Generation reversed approximately $120 million of these one-time charges initially recorded in June 2016.

[(f)] For Quad Cities based on the regulatory agreement with the Illinois Commerce Commission, decommissioning-related activities are offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. The offset results in an equal adjustment to the noncurrent payables to ComEd at Generation and an adjustment to the regulatory liabilities at ComEd. Likewise, ComEd has recorded an equal noncurrent affiliate receivable from Generation and corresponding regulatory liability.

Although Salem is committed to operate through May 2021, the plant faces continued economic challenges and PSEG, as the operator of the plant, is exploring all options. The following table provides the balance sheet amounts as of December 31, 2017 for Generation's ownership share of the significant assets and liabilities associated with Salem.

(in millions)	**12/31/2017**
Asset Balances	
Materials and supplies inventory	$ 44
Nuclear fuel inventory, net	113
Completed plant, net	439
Construction work in progress	33
Liability Balances	
Asset retirement obligation	(442)
NRC License Renewal Term	2036 (unit 1)
	2040 (unit 2)

On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. See Note 28 — Subsequent Events for additional information regarding the early retirement of Oyster Creek.

9. Jointly Owned Electric Utility Plant

Exelon's, Generation's, PECO's, BGE's, PHI's and ACE's undivided ownership interests in jointly owned electric plants and transmission facilities at December 31, 2017 and 2016 were as follows:

	Nuclear Generation				**Fossil-Fuel Generation**	**Transmission**		**Other**
	Quad Cities	**Peach Bottom**	**Salem[a]**	**Nine Mile Point Unit 2**	**Wyman**	**PA[b]**	**NJ/ DE[c]**	**Other[d]**
Operator	Generation	Generation	PSEG Nuclear	Generation	FP&L	First Energy	PSEG/ DPL	various
Ownership interest	75.00%	50.00%	42.59%	82.00%	5.89%	various	various	various
Exelon's share at December 31, 2017:								
Plant[e]	$1,074	$1,417	$631	$839	$ 3	$27	$102	$15
Accumulated depreciation[e]	550	461	205	97	3	15	52	13
Construction work in progress	35	18	33	55	—	—	—	—
Exelon's share at December 31, 2016:								
Plant[e]	$1,054	$1,384	$596	$830	$ 3	$27	$ 97	$15
Accumulated depreciation[e]	515	407	186	68	3	15	52	13
Construction work in progress	—	16	41	37	—	—	—	—

[a] Generation also owns a proportionate share in the fossil-fuel combustion turbine at Salem, which is fully depreciated. The gross book value was $3 million at December 31, 2017 and 2016.

[b] PECO, BGE, Pepco, DPL and ACE own a 22%, 7%, 27%, 9% and 8% share, respectively, in 127 miles of 500kV lines located in Pennsylvania as well as a 20.72%, 10.56%, 9.72%, 3.72% and 3.83% share, respectively, of a 500kV substation immediately outside of the Conemaugh fossil-generating station which supplies power to the 500k Vlines including, but not limited to, the lines noted above.

[c] PECO, DPL and ACE own a 42.55%, 1% and 13.9% share, respectively in 151.3 miles of 500kV lines located in New Jersey and Delaware Station. PECO, DPL and ACE also own a 42.55%, 7.45% and 7.45% share, respectively, in 2.5 miles of 500kV line located over the Delaware River. ACE also has a 21.78% share in a 500kV New Freedom Switching

[d] Generation, DPL and ACE own a 44.24%, 4.83% and 11.91% share, respectively in assets located at Merrill Creek Reservoir located in New Jersey. Pepco, DPL and ACE own a 11.9%, 7.4% and 6.6% share, respectively, in Valley Forge Corporate Center.

[e] Excludes asset retirement costs.

Exelon's, Generation's, PECO's, BGE's, Pepco's, DPL's and ACE's undivided ownership interests are financed with their funds and all operations are accounted for as if such participating interests were wholly owned facilities. Exelon's, Generation's, PECO's, BGE's, Pepco's, DPL's and ACE's share of direct expenses of the jointly owned plants are included in Purchased power and fuel and Operating and maintenance expenses on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and in Operating and maintenance expenses on PECO's, BGE's, Pepco, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income.

10. Intangible Assets

Goodwill

Exelon's gross amount of goodwill, accumulated impairment losses and carrying amount of goodwill for the years ended December 31, 2017 and 2016 were as follows:

	Balance at January 1, 2016	**Goodwill from business combination**	**Impairment losses**	**Measurement period adjustments[a]**	**Balance at December 31, 2016**	**Impairment losses**	**Balance at December 31, 2017**
Gross amount	$4,655	$4,016	$—	$(11)	$8,660	$—	$8,660
Accumulated impairment loss	1,983	—	—	—	1,983	—	1,983
Carrying amount	2,672	4,016	—	(11)	6,677	—	6,677

[a] Represents various measurement period adjustments to the valuation of the fair value of the PHI assets acquired and liabilities assumed as a result of the merger.

Goodwill is not amortized, but is subject to an assessment for impairment at least annually, or more frequently if events occur or circumstances change that would more likely than not reduce the fair value of the Exelon, Generation, ComEd, PHI and DPL reporting unit below its carrying amount. Under the authoritative guidance for goodwill, a reporting unit is an operating segment or one level below an operating segment (known as a component) and is the level at which goodwill is tested for impairment. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and its operating results are regularly reviewed by segment management. Generation's operating segments are Mid-Atlantic, Midwest, New England, New York, ERCOT and all other power regions referred to collectively as "Other Power Regions", PHI's operating segments are Pepco, DPL and ACE, and ComEd and DPL have a single operating segment. See Note 25 — Segment Information for additional information. There is no level below these operating segments for which operating results are regularly reviewed by segment management. Therefore, the ComEd, Pepco, DPL and ACE operating segments are also considered reporting units for goodwill impairment testing purposes. Exelon's and ComEd's $2.6 billion of goodwill has been assigned entirely to the ComEd reporting unit, while Exelon's and PHI's $4 billion of goodwill has been assigned to the Pepco, DPL and ACE reporting units in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. DPL's $8 million of goodwill is assigned entirely to the DPL reporting unit.

Entities assessing goodwill for impairment have the option of first performing a qualitative assessment to determine whether a quantitative assessment is necessary. In performing a qualitative assessment, entities should assess, among other things, macroeconomic conditions, industry and market considerations, overall financial performance, cost factors and entity-specific events. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, no further testing is required.

If an entity bypasses the qualitative assessment or performs the qualitative assessment, but determines that it is more likely than not that its fair value is less than its carrying amount, a quantitative two-step, fair value-based test is performed. Exelon's, Generation's, ComEd's, PHI's and DPL's accounting policy is to perform a quantitative test of goodwill at least once every three years. The first step in the quantitative test compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation accounting guidance in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and a charge to operating expense.

Application of the goodwill impairment test requires management judgment, including the identification of reporting units and determining the fair value of the reporting unit, which management estimates using a weighted combination of a discounted cash flow analysis and a market multiples analysis. Significant assumptions used in these fair value analyses include discount and growth rates, utility sector market performance and transactions, projected operating and capital cash flows for Generation's, ComEd's, Pepco's, DPL's and ACE's businesses and the fair value of debt. In applying the second step (if needed), management must estimate the fair value of specific assets and liabilities of the reporting unit.

2017 and 2016 Goodwill Impairment Assessment. Generation performed a quantitative test as of November 1, 2017, for its 2017 annual goodwill impairment assessment. The first step of the test comparing the estimated fair value of Generation's reporting unit with goodwill to its carrying value, including goodwill, indicated no impairments of goodwill; therefore, the second step was not required. Generation performed a qualitative test as of November 1, 2016, for its 2016 annual goodwill impairment assessment. Based on the qualitative factors assessed, Generation concluded that the fair value of its reporting units is more likely than not greater than the carrying amount, and no further testing was required.

As of November 1, 2017, ComEd, PHI and DPL each qualitatively determined that it was more likely than not that the fair value of its reporting units exceeded their carrying values and, therefore, did not perform a quantitative assessment. As part of their qualitative assessments, ComEd, PHI and DPL evaluated, among other things, management's best estimate of projected operating and capital cash flows for their businesses, outcomes of recent regulatory proceedings, changes in certain market conditions, including the discount rate and regulated utility peer company EBITDA multiples, while also considering, the passing margin from their last quantitative assessments.

ComEd, PHI and DPL performed quantitative tests as of November 1, 2016, for their 2016 annual goodwill impairment assessments. The first step of the tests comparing the estimated fair values of the ComEd, Pepco, DPL and ACE reporting units to their carrying values, including goodwill, indicated no impairments of goodwill; therefore, no second steps were required.

While the annual assessments indicated no impairments, certain assumptions used to estimate reporting unit fair values are highly sensitive to changes. Adverse regulatory actions or changes in significant assumptions could potentially result in future impairments of ComEd's, PHI's or DPL's goodwill, which could be material. Based on the results of the annual goodwill test performed as of November 1, 2016, the estimated fair values of the ComEd, Pepco, DPL and ACE reporting units would have needed to decrease by more than 30%, 10%, 10% and 10%, respectively, for ComEd and PHI to fail the first step of their respective impairment tests. The $8 million of goodwill recorded at DPL is related to DPL's 1995 acquisition of the Conowingo Power Company and the fair value of the DPL reporting unit would have needed to decrease by more than 50% for DPL to fail the first step of the impairment test.

Other Intangible Assets and Liabilities

Exelon's other intangible assets and liabilities, included in Unamortized energy contract assets and liabilities and Other deferred debits and other assets in their Consolidated Balance Sheets, consisted of the following as of December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Software License[a]	$ 95	$ (25)	$ 70	$ 95	$ (15)	$ 80
Unamortized Energy Contracts[b]	1,938	(1,574)	364	1,926	(1,543)	383
Customer Relationships	305	(133)	172	299	(109)	190
Trade Name	243	(148)	95	243	(125)	118
Service Contract Backlog	—	—	—	9	(7)	2
Chicago Settlement Agreements[c]	162	(141)	21	162	(133)	29
Unamortized Energy Contracts[b]	(1,515)	766	(749)	(1,515)	430	(1,085)
DC Sponsorship Agreement[d]	—	—	—	25	—	25
Total	$ 1,228	$ (1,255)	$ (27)	$ 1,244	$(1,502)	$ (258)

[a] On May 31, 2015, Exelon entered into a long-term software license agreement. Exelon is required to make payments starting August 2015 through May 2024. The intangible asset recognized as a result of these payments is being amortized on a straight-line basis over the contract term.

[b] Includes unamortized energy contract assets and liabilities on Exelon's, Generations and PHI's Consolidated Balance Sheets.

[c] In March 1999 and February 2003, ComEd entered into separate agreements with the City of Chicago and Midwest Generation, LLC. Under the terms of the settlement, ComEd agreed to make payments to the City of Chicago. The intangible asset recognized as a result of the settlement agreement is being amortized ratably over the remaining term of the City of Chicago franchise agreement.

[d] PHI entered into a sponsorship agreement with the District of Columbia for future sponsorship rights associated with public property within the District of Columbia. In December 2017, the asset was written off. See Note 7 - Impairment of Long-Lived Assets and Intangibles for additional information.

The following table summarizes the estimated future amortization expense related to intangible assets and liabilities as of December 31, 2017:

For the Years Ending December 31,	Exelon	Generation	ComEd	PHI
2018	$10	$62	$ 7	$(189)
2019	10	57	7	(119)
2020	10	68	7	(115)
2021	10	77	—	(92)
2022	10	54	—	(89)

The following table summarizes the amortization expense related to intangible assets and liabilities for each of the years ended December 31, 2017, 2016 and 2015:

For the Years Ended December 31,	
2017[a]	$92
2016[a]	87
2015[a]	76

[a] At Exelon, amortization of unamortized energy contracts totaling $35 million, $35 million and $22 million for the years ended December 31, 2017, 2016 and 2015, respectively, was recorded in Operating revenues or Purchased power and fuel expense within Exelon's Consolidated Statements of Operations and Comprehensive Income.

Acquired Intangible Assets and Liabilities

Accounting guidance for business combinations requires the acquirer to separately recognize identifiable intangible assets in the application of purchase accounting.

Unamortized Energy Contracts. Unamortized energy contract assets and liabilities represent the remaining unamortized fair value of non-derivative energy contracts that Exelon and Generation have acquired. The valuation of unamortized energy contracts was estimated by applying either the market approach or the income approach depending on the nature of the underlying contract. The market approach was utilized when prices and other relevant information generated by market transactions involving comparable transactions were available. Otherwise, the income approach, which is based upon discounted projected future cash flows associated with the underlying contracts, was utilized. The fair value is based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key estimates and inputs include forecasted power and fuel prices and the discount rate. The Exelon Wind unamortized energy contracts are amortized on a straight-line basis over the period in which the associated contract revenues are recognized as a decrease in Operating revenues within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. In the case of Antelope Valley, Constellation, CENG, Integrys and ConEdison, the fair value amounts are amortized over the life of the contract in relation to the present value of the underlying cash flows as of the acquisition dates through either Operating revenues or Purchased power and fuel expense within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. At PHI, offsetting regulatory assets or liabilities were also recorded. The unamortized energy contract assets and liabilities and any corresponding regulatory assets or liabilities, respectively, are amortized over the life of the contract in relation to the expected realization of the underlying cash flows.

Customer Relationships. The customer relationship intangibles were determined based on a "multi-period excess method" of the income approach. Under this method, the intangible asset's fair value is determined to be the estimated future cash flows that will be earned on the current customer base, taking into account expected contract renewals based on customer attrition rates and costs to retain those customers. The fair value is based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key assumptions include the customer attrition rate and the discount rate. The accounting guidance requires that customer-based intangibles be amortized over the period expected to be benefited using the pattern of economic benefit. The amortization of the customer relationships recorded in Depreciation and amortization expense within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Service Contract Backlog. The service contract backlog intangibles were determined based on a "multi-period excess method" of the income approach. Under this method, the intangible asset's fair value is determined to be the estimated future cash flows that will be earned on the contracts. The fair value is based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key assumptions include estimated revenues and expenses to complete the contracts as well as the discount rate. The accounting guidance requires that customer-based intangibles be amortized over the period expected to be benefited using the pattern of economic benefit. The amortization of the service contract backlog is recorded in Depreciation and amortization expense within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Trade Name. The Constellation trade name intangible was determined based on the relief from royalty method of income approach whereby fair value is determined to be the present value of the license fees avoided by owning the assets. The fair value is based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key assumptions include the hypothetical royalty rate and the discount rate. The Constellation trade name intangible is amortized on a straight-line basis over a period of 10 years. The amortization of the trade name is recorded in Depreciation and amortization expense within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Renewable Energy Credits and Alternative Energy Credits

Exelon's, Generation's, ComEd's, PECO's, PHI's, DPL's and ACE's other intangible assets, included in Other current assets and Other deferred debits and other assets on the Consolidated Balance Sheets, include RECs (Exelon, Generation, ComEd, PHI, DPL and ACE) and AECs (Exelon and PECO). Purchased RECs are recorded at cost on the date they are purchased. The cost of RECs purchased on a stand-alone basis is based on the transaction price, while the cost of RECs acquired through PPAs represents the difference between the total contract price and the market price of energy at contract inception. Generally, revenue for RECs that are part of a bundled power sale is recognized when the power is produced and delivered to the customer, otherwise, the revenue is recognized upon physical transfer of the REC.

The following table summarizes the current and noncurrent Renewable and Alternative Energy Credits for the years ended December 31, 2017 and 2016:

	As of December 31,	
	2017	2016
Current AEC's	$ 1	$ 1
Noncurrent AEC's	—	—
Current REC's	321	330
Noncurrent REC's	27	29

11. Fair Value of Financial Assets and Liabilities

Fair Value of Financial Liabilities Recorded at the Carrying Amount

The following tables present the carrying amounts and fair values of Exelon's short-term liabilities, long-term debt, SNF obligation, and trust preferred securities (long-term debt to financing trusts or junior subordinated debentures) as of December 31, 2017 and 2016:

	December 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 929	$—	$ 929	$ —	$ 929
Long-term debt (including amounts due within one year)[(a)]	34,264	—	34,735	1,970	36,705
Long-term debt to financing trusts[(b)]	389	—	—	431	431
SNF obligation	1,147	—	936	—	936

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 1,267	$ —	$ 1,267	$ —	$ 1,267
Long-term debt (including amounts due within one year)[(a)]	34,005	1,113	31,741	1,959	34,813
Long-term debt to financing trusts[(b)]	641	—	—	667	667
SNF obligation	1,024	—	732	—	732

Short-Term Liabilities. The short-term liabilities included in the tables above are comprised of dividends payable (included in Other current liabilities) (Level 1) and short-term borrowings (Level 2). The Registrants' carrying amounts of the short-term liabilities are representative of fair value because of the short-term nature of these instruments.

Long-Term Debt. The fair value amounts of Exelon's taxable debt securities (Level 2) and private placement taxable debt securities (Level 3) are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves. In order to incorporate the credit risk of the Registrants into the discount rates, Exelon obtains pricing (i.e., U.S. Treasury rate plus credit spread) based on trades of existing Exelon debt securities as well as debt securities of other issuers in the utility sector with similar credit ratings in both the primary and secondary market, across the Registrants' debt maturity spectrum. The credit spreads of various tenors obtained from this information are added to the appropriate benchmark U.S. Treasury rates in order to determine the current market yields for the various tenors. The yields are then converted into discount rates of various tenors that are used for discounting the respective cash flows of the same tenor for each bond or note. Due to low trading volume of private placement debt, qualitative factors such as market conditions, low volume of investors and investor demand, this debt is classified as Level 3. The fair value of Exelon's equity units (Level 1) are valued based on publicly traded securities issued by Exelon.

The fair value of Generation's and Pepco's non-government-backed fixed rate nonrecourse debt (Level 3) is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles. Given the low trading volume in the nonrecourse debt market, the price quotes used to determine fair value will reflect certain qualitative factors, such as market conditions, investor demand, new developments that might significantly impact the project cash flows or off-taker credit, and other circumstances related to the project (e.g., political and regulatory environment). The fair value of Generation's government-backed fixed rate project financing debt (Level 3) is largely based on a discounted cash flow methodology that is similar to the taxable debt securities methodology described above. Due to the lack of market trading data on similar debt, the discount rates are derived based on the original loan interest rate spread to the applicable Treasury rate as well as a current market curve derived from government-backed securities. Variable rate financing debt resets on a monthly or quarterly basis and the carrying value approximates fair value (Level 2). When trading data is available on variable rate financing debt, the fair value is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles (Level 2). Generation, Pepco, DPL and ACE also have tax-exempt debt (Level 2). Due to low trading volume in this market, qualitative factors, such as market conditions, investor demand, and circumstances related to the issuer (e.g., conduit issuer political and regulatory environment), may be incorporated into the credit spreads that are used to obtain the fair value as described above. Variable rate tax-exempt debt (Level 2) resets on a regular basis and the carrying value approximates fair value.

SNF Obligation. The carrying amount of Generation's SNF obligation (Level 2) is derived from a contract with the DOE to provide for disposal of SNF from Generation's nuclear generating stations. When determining the fair value of the obligation, the future carrying amount of the SNF obligation is calculated by compounding the current book value of the SNF obligation at the 13-week Treasury rate. The compounded obligation amount is discounted back to present value using Generation's discount rate, which is calculated using the same methodology as described above for the taxable debt securities, and an estimated maturity date of 2030. The carrying amount also includes $114 million as of December 31, 2017 for the one-time fee obligation associated with closing of the FitzPatrick acquisition on March 31, 2017. The fair value was determined using a similar methodology, however the New York Power Authority's (NYPA) discount rate is used in place of Generation's given the contractual right to reimbursement from NYPA for the obligation; see Note 4 - Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick.

Long-Term Debt to Financing Trusts. Exelon's long-term debt to financing trusts is valued based on publicly traded securities issued by the financing trusts. Due to low trading volume of these securities, qualitative factors, such as market conditions, investor demand, and circumstances related to each issue, this debt is classified as Level 3.

Recurring Fair Value Measurements

Exelon records the fair value of assets and liabilities in accordance with the hierarchy established by the authoritative guidance for fair value measurements. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the Registrants have the ability to liquidate as of the reporting date.
- Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 — unobservable inputs, such as internally developed pricing models or third-party valuations for the asset or liability due to little or no market activity for the asset or liability.

Transfers in and out of levels are recognized as of the end of the reporting period when the transfer occurred. Given derivatives categorized within Level 1 are valued using exchange-based quoted prices within observable periods, transfers between Level 2 and Level 1 were not material. Additionally, there were no material transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016 for Cash equivalents, Nuclear decommissioning trust fund investments, Pledged assets for Zion Station decommissioning, Rabbi trust investments, and Deferred compensation obligations. For derivative contracts, transfers into Level 2 from Level 3 generally occur when the contract tenor becomes more observable and due to changes in market liquidity or assumptions for certain commodity contracts.

In accordance with the applicable guidance on fair value measurement, certain investments that are measured at fair value using the NAV per share as a practical expedient are no longer classified within the fair value hierarchy and are included under "Not subject to leveling" in the table below.

The following tables present assets and liabilities measured and recorded at fair value on Exelon's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2017 and 2016:

As of December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets					
Cash equivalents[(a)]	$ 656	$ —	$ —	$ —	$ 656
NDT fund investments					
Cash equivalents[(b)]	135	85	—	—	220
Equities	4,163	915	—	2,176	7,254
Fixed income					
Corporate debt	—	1,614	251	—	1,865
U.S. Treasury and agencies	1,917	52	—	—	1,969
Foreign governments	—	82	—	—	82
State and municipal debt	—	263	—	—	263
Other[(c)]	—	47	—	510	557
Fixed income subtotal	1,917	2,058	251	510	4,736
Middle market lending	—	—	397	131	528
Private equity	—	—	—	222	222
Real estate	—	—	—	471	471
NDT fund investments subtotal[(d)]	6,215	3,058	648	3,510	13,431
Pledged assets for Zion Station decommissioning					
Cash equivalents	2	—	—	—	2
Equities	—	1	—	—	1
Middle market lending	—	—	12	24	36
Pledged assets for Zion Station decommissioning subtotal	2	1	12	24	39
Rabbi trust investments					
Cash equivalents	77	—	—	—	77
Mutual funds	58	—	—	—	58
Fixed income	—	12	—	—	12
Life insurance contracts	—	71	22	—	93
Rabbi trust investments subtotal	135	83	22	—	240
Commodity derivative assets					
Economic hedges	557	2,378	1,290	—	4,225
Proprietary trading	2	31	35	—	68
Effect of netting and allocation of collateral[(e)(f)]	(585	(1,769)	(635)	—	(2,989)
Commodity derivative assets subtotal	(26	640	690	—	1,304
Interest rate and foreign currency derivative assets					
Derivatives designated as hedging instruments	—	6	—	—	6
Economic hedges	—	10	—	—	10
Effect of netting and allocation of collateral	(2	(5)	—	—	(7)
Interest rate and foreign currency derivative assets subtotal	(2	11	—	—	9
Other investments	—	—	37	—	37
Total assets	6,980	3,793	1,409	3,534	15,716
Liabilities					
Commodity derivative liabilities					
Economic hedges	(713	(2,226)	(1,101)	—	(4,040)
Proprietary trading	(2	(42)	(9)	—	(53)
Effect of netting and allocation of collateral[(e)(f)]	651	2,089	716	—	3,456
Commodity derivative liabilities subtotal	(64	(179)	(394)	—	(637)
Interest rate and foreign currency derivative liabilities					
Derivatives designated as hedging instruments	—	(2)	—	—	(2)
Economic hedges	(1	(8)	—	—	(9)
Effect of netting and allocation of collateral	2	5	—	—	7
Interest rate and foreign currency derivative liabilities subtotal	1	(5)	—	—	(4)
Deferred compensation obligation	—	(145)	—	—	(145)
Total liabilities	(63	(329)	(394)	—	(786)
Total net assets	$6,917	$ 3,464	$ 1,015	$ 3,534	$14,930

As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets					
Cash equivalents[a]	$ 373	$ —	$ —	$ —	$ 373
NDT fund investments					
Cash equivalents[b]	110	19	—	—	129
Equities	3,551	452	—	2,011	6,014
Fixed income					
Corporate debt	—	1,554	250	—	1,804
U.S. Treasury and agencies	1,291	29	—	—	1,320
Foreign governments	—	37	—	—	37
State and municipal debt	—	264	—	—	264
Other[c]	—	59	—	493	552
Fixed income subtotal	1,291	1,943	250	493	3,977
Middle market lending	—	—	427	71	498
Private equity	—	—	—	148	148
Real estate	—	—	—	326	326
NDT fund investments subtotal[d]	4,952	2,414	677	3,049	11,092
Pledged assets for Zion Station decommissioning					
Cash equivalents	11	—	—	—	11
Equities	—	2	—	—	2
Fixed Income - U.S. Treasury and agencies	16	1	—	—	17
Middle market lending	—	—	19	64	83
Pledged assets for Zion Station decommissioning subtotal	27	3	19	64	113
Rabbi trust investments					
Cash equivalents	74	—	—	—	74
Mutual funds	50	—	—	—	50
Fixed income	—	16	—	—	16
Life insurance contracts	—	64	20	—	84
Rabbi trust investments subtotal	124	80	20	—	224
Commodity derivative assets					
Economic hedges	1,358	2,505	1,229	—	5,092
Proprietary trading	3	50	23	—	76
Effect of netting and allocation of collateral[e][f]	(1,164)	(2,142)	(481)	—	(3,787)
Commodity derivative assets subtotal	197	413	771	—	1,381
Interest rate and foreign currency derivative assets					
Derivatives designated as hedging instruments	—	16	—	—	16
Economic hedges	—	28	—	—	28
Proprietary trading	3	2	—	—	5
Effect of netting and allocation of collateral	(2)	(19)	—	—	(21)
Interest rate and foreign currency derivative assets subtotal	1	27	—	—	28
Other investments	—	—	42	—	42
Total assets	5,674	2,937	1,529	3,113	13,253
Liabilities					
Commodity derivative liabilities					
Economic hedges	(1,267)	(2,378)	(1,052)	—	(4,697)
Proprietary trading	(3)	(50)	(26)	—	(79)
Effect of netting and allocation of collateral[e][f]	1,233	2,339	542	—	4,114
Commodity derivative liabilities subtotal	(37)	(89)	(536)	—	(662)
Interest rate and foreign currency derivative liabilities					
Derivatives designated as hedging instruments	—	(10)	—	—	(10)
Economic hedges	—	(21)	—	—	(21)
Proprietary trading	(4)	—	—	—	(4)
Effect of netting and allocation of collateral	4	19	—	—	23
Interest rate and foreign currency derivative liabilities subtotal	—	(12)	—	—	(12)
Deferred compensation obligation	—	(136)	—	—	(136)
Total liabilities	(37)	(237)	(536)	—	(810)
Total net assets	$ 5,637	$ 2,700	$ 993	$3,113	$12,443

(a) Generation excludes cash of $259 million and $252 million at December 31, 2017 and 2016 and restricted cash of $127 million and $157 million at December 31, 2017 and 2016. Exelon excludes cash of $389 million and $360 million at December 31, 2017 and 2016 and restricted cash of $145 million and $180 million at December 31, 2017 and 2016 and includes long-term restricted cash of $85 million and $25 million at December 31, 2017 and 2016, which is reported in Other deferred debits on the Consolidated Balance Sheets.

(b) Includes $77 million and $29 million of cash received from outstanding repurchase agreements at December 31, 2017 and 2016, respectively, and is offset by an obligation to repay upon settlement of the agreement as discussed in (d) below.

(c) Includes derivative instruments of less than $1 million and $(2) million, which have a total notional amount of $811 million and $933 million at December 31, 2017 and 2016, respectively. The notional principal amounts for these instruments provide one measure of the transaction volume outstanding as of the fiscal years ended and do not represent the amount of the company's exposure to credit or market loss.

(d) Excludes net liabilities of $82 million and $31 million at December 31, 2017 and 2016, respectively. These items consist of receivables related to pending securities sales, interest and dividend receivables, repurchase agreement obligations, and payables related to pending securities purchases. The repurchase agreements are generally short-term in nature with durations generally of 30 days or less.

(e) Collateral posted/(received) from counterparties totaled $65 million, $320 million and $81 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of December 31, 2017. Collateral posted/(received) from counterparties totaled $71 million, $197 million and $61 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of December 31, 2016.

(f) Of the collateral posted/(received), $(117) million and $(158) million represents variation margin on the exchanges as of December 31, 2017 and 2016, respectively.

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended December 31, 2017 and 2016:

							Successor		
	Generation					**ComEd**	**PHI**		**Exelon**
For the year ended December 31, 2017	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of January 1, 2017	$ 677	$19	$493	$ 42	$1,231	$(258)	$20	$—	$ 993
Total realized / unrealized gains (losses)									
Included in net income	3	—	(90)[a]	3	(84)	—	3	—	(81)
Included in noncurrent payables to affiliates	6	—	—	—	6	—	—	(6)	—
Included in payable for Zion Station decommissioning	—	(8)	—	—	(8)	—	—	—	(8)
Included in regulatory assets/liabilities	—	—	—	—	—	2[b]	—	6	8
Change in collateral	—	—	20	—	20	—	—	—	20
Purchases, sales, issuances and settlements									
Purchases	64	1	178	5	248	—	—	—	248
Sales	—	—	(16)	—	(16)	—	—	—	(16)
Issuances	—	—	—	—	—	—	(1)	—	(1)
Settlements	(102)	—	(8)[c]	—	(110)	—	—	—	(110)
Transfers into Level 3	—	—	(6)	—	(6)	—	—	—	(6)
Transfers out of Level 3	—	—	(50)	(11)	(61)	—	—	—	(61)
Other miscellaneous	—	—	31[d]	(2)	29	—	—	—	29
Balance as of December 31, 2017	$ 648	$12	$552	$ 37	$1,249	$(256)	$22	$—	$1,015
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of December 31, 2017	$ 1	$—	$254	$ 3	$ 258	$ —	$ 3	$—	$ 261

	Generation					ComEd	*Successor* PHI[f]		Exelon
For the year ended December 31, 2016	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of January 1, 2016	$ 670	$22	$1,051	$33	$1,776	$(247)	$ —	$ —	$1,529
Included due to merger	—	—	—	—	—	—	20	—	20
Total realized / unrealized gains (losses)									
Included in net income	7	—	(568)[a]	1	(560)	—	3	—	(557)
Included in noncurrent payables to affiliates	16	—	—	—	16	—	—	(16)	—
Included in regulatory assets/liabilities	—	—	—	—	—	(11)[b]	—	16	5
Change in collateral	—	—	(141)	—	(141)	—	—	—	(141)
Purchases, sales, issuances and settlements									
Purchases	143	2	342[e]	7	494	—	—	—	494
Sales	(1)	(5)	(9)	—	(15)	—	—	—	(15)
Issuances	—	—	—	—	—	—	(3)	—	(3)
Settlements	(144)	—	—	—	(144)	—	—	—	(144)
Transfers into Level 3	—	—	1	1	2	—	—	—	2
Transfers out of Level 3	(14)	—	(183)	—	(197)	—	—	—	(197)
Balance as of December 31, 2016	$ 677	$19	$ 493	$42	$1,231	$(258)	$20	$ —	$ 993
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities held as of December 31, 2016	$ 5	$—	$ 109	$—	$ 114	$ —	$ 2	$ —	$ 116

[a] Includes a reduction for the reclassification of $352 million and $677 million of realized gains due to the settlement of derivative contracts for the years ended December 31, 2017 and 2016, respectively.

[b] Includes $18 million of decreases in fair value and an increase for realized losses due to settlements of $20 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the year ended December 31, 2017. Includes $29 million of decreases in fair value and an increase for realized losses due to settlements of $18 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the year ended December 31, 2016.

[c] Exelon includes the settlement value for any open contracts that were net settled prior to their scheduled maturity within this line item.

[d] As a result of the bankruptcy filing for EGTP on November 7, 2017, the net mark-to-market commodity contracts were deconsolidated from Exelon's and Generation's consolidated financial statements.

[e] Includes $168 million of fair value from contracts acquired as a result of portfolio acquisitions.

[f] Successor period represents activity from March 24, 2016 to December 31, 2016. See tables below for PHI's predecessor periods, as well as activity for Pepco for the years ended December 31, 2017 and 2016.

PHI	*Predecessor* January 1, 2016 to March 23, 2016 Preferred Stock	Life Insurance Contracts
Beginning Balance	$ 18	$19
Total realized / unrealized (losses) gains		
Included in net income	(18)	1
Ending Balance	$ —	$20
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ —	$ 1

Pepco	Life Insurance Contracts For the year ended December 31, 2017	2016
Balance as of January 1	$20	$19
Total realized / unrealized gains (losses)		
Included in net income	3	3
Purchases, sales, issuances and settlements		
Issuances	(1)	(3)
Balance as of December 31	$22	$19
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ 3	$ 3

The following tables present the income statement classification of the total realized and unrealized gains (losses) included in income for Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended December 31, 2017 and 2016:

	Operating Revenues	Purchased Power and Fuel	Operating and Maintenance	Other, net[(a)]
Total gains (losses) included in net income for the year ended December 31, 2017	$ 28	$(126)	$3	$6
Change in the unrealized gains (losses) relating to assets and liabilities held for the year ended December 31, 2017	290	(36)	3	4

	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]
Total gains (losses) included in net income for the year ended December 31, 2016	$(477)	$(91)	$10
Change in the unrealized gains (losses) relating to assets and liabilities held for the year ended December 31, 2016	154	(45)	7

[(a)] Other, net activity consists of realized and unrealized gains (losses) included in income for the NDT funds held by Generation, accrued interest on a convertible promissory note at Generation and the life insurance contracts held by PHI and Pepco.

Valuation Techniques Used to Determine Fair Value

The following describes the valuation techniques used to measure the fair value of the assets and liabilities shown in the tables above.

Cash Equivalents. The Registrants' cash equivalents include investments with original maturities of three months or less when purchased. The cash equivalents shown in the fair value tables are comprised of investments in mutual and money market funds. The fair values of the shares of these funds are based on observable market prices and, therefore, have been categorized in Level 1 in the fair value hierarchy.

Preferred Stock Derivative. In connection with entering into the PHI Merger Agreement, PHI entered into a Subscription Agreement with Exelon dated April 29, 2014, pursuant to which PHI issued to Exelon shares of preferred stock. The preferred stock contained embedded features requiring separate accounting consideration to reflect the potential value to PHI that any issued and outstanding preferred stock could be called and redeemed at a nominal par value upon a termination of the merger agreement under certain circumstances due to the failure to obtain required regulatory approvals. The embedded call and redemption features on the shares of the preferred stock in the event of such a termination were separately accounted for as derivatives. These preferred stock derivatives were valued quarterly using quantitative and qualitative factors, including management's assessment of the likelihood of a Regulatory Termination and therefore, were categorized in Level 3 in the fair value hierarchy. As a result of the PHI Merger, the PHI preferred stock derivative was reduced to zero as of March 23, 2016. The write-off was charged to Other, net on the PHI Consolidated Statement of Operations and Comprehensive Income.

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning. The trust fund investments have been established to satisfy Generation's and CENG's nuclear decommissioning obligations as required by the NRC. The NDT funds hold debt and equity securities directly and indirectly through commingled funds and mutual funds, which are included in Equities and Fixed Income. Generation's and CENG's NDT fund investments policies outline investment guidelines for the trusts and limit the trust funds' exposures to investments in highly illiquid markets and other alternative investments. Investments with maturities of three months or less when purchased, including certain short-term fixed income securities are considered cash equivalents and included in the recurring fair value measurements hierarchy as Level 1 or Level 2.

With respect to individually held equity securities, the trustees obtain prices from pricing services, whose prices are generally obtained from direct feeds from market exchanges, which Generation is able to independently corroborate. The fair values of equity securities held directly by the trust funds which are based on quoted prices in active markets are categorized in Level 1. Certain equity securities have been categorized as Level 2 because they are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities. Equity securities held individually are primarily traded on the New York Stock Exchange and NASDAQ-Global Select Market, which contain only actively traded securities due to the volume trading requirements imposed by these exchanges.

For fixed income securities, multiple prices from pricing services are obtained whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. With respect to individually held fixed income securities, the trustees monitor prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and the trustees determine that another price source is considered to be preferable. Generation has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, Generation selectively corroborates the fair values of securities by comparison to other market-based price sources. U.S. Treasury securities are categorized as Level 1 because they trade in a highly liquid and transparent market. The fair values of fixed income securities, excluding U.S. Treasury securities, are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The fair values of private placement fixed income securities, which are included in Corporate debt, are determined using a third-party valuation that contains significant unobservable inputs and are categorized in Level 3.

Equity and fixed income commingled funds and mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives such as holding short-term fixed income securities or tracking the performance of certain equity indices by purchasing equity securities to replicate the capitalization and characteristics of the indices. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For commingled funds and mutual funds, which are not publicly quoted, the funds are valued using NAV as a practical expedient for fair value, which is primarily derived from the quoted prices in active markets on the underlying securities, and are not classified within the fair value hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Derivative instruments consisting primarily of futures and interest rate swaps to manage risk are recorded at fair value. Over the counter derivatives are valued daily based on quoted prices in active markets and trade in open markets, and have been categorized as Level 1. Derivative instruments other than over the counter derivatives are valued based on external price data of comparable securities and have been categorized as Level 2.

Middle market lending are investments in loans or managed funds which lend to private companies. Generation elected the fair value option for its investments in certain limited partnerships that invest in middle market lending managed funds. The fair value of these loans is determined using a combination of valuation models including cost models, market models, and income models. Investments in loans are categorized as Level 3 because the fair value of these securities is based largely on inputs that are unobservable and utilize complex valuation models. Managed funds are valued using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. Investments in middle market lending typically cannot be redeemed until maturity of the term loan.

Private equity and real estate investments include those in limited partnerships that invest in operating companies and real estate holding companies that are not publicly traded on a stock exchange, such as, leveraged buyouts, growth capital, venture capital, distressed investments, investments in natural resources, and direct investments in pools of real estate properties. The fair value of private equity and real estate investments is determined using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. These investments typically cannot be redeemed and are generally liquidated over a period of 8 to 10 years from the initial investment date. Private equity and real estate valuations are reported by the fund manager and are based on the valuation of the underlying investments, which include inputs such as cost, operating results, discounted future cash flows, market based comparable data, and independent appraisals from sources with professional qualifications. These valuation inputs are unobservable.

As of December 31, 2017, Generation has outstanding commitments to invest in fixed income, middle market lending, private equity and real estate investments of approximately $65 million, $363 million, $220 million and $118 million, respectively. These commitments will be funded by Generation's existing nuclear decommissioning trust funds.

Concentrations of Credit Risk. Generation evaluated its NDT portfolios for the existence of significant concentrations of credit risk as of December 31, 2017. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, and individual fund. As of December 31, 2017, there were no significant concentrations (generally defined as greater than 10 percent) of risk in Generation's NDT assets.

See Note 15 — Asset Retirement Obligations for further discussion on the NDT fund investments.

Rabbi Trust Investments. The Rabbi trusts were established to hold assets related to deferred compensation plans existing for certain active and retired members of Exelon's executive management and directors. The Rabbi trusts' assets are included in investments in the Registrants' Consolidated Balance Sheets and consist primarily of money market funds, mutual funds, fixed income securities and life insurance policies. The mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with Exelon's overall investment strategy. Money market funds and mutual funds are publicly quoted and have been categorized as Level 1 given the clear observability of the prices. The fair values of fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The life insurance policies are valued using the cash surrender value of the policies, net of loans against those policies, which is provided by a third-party. Certain life insurance policies, which consist primarily of mutual funds that are priced based on observable market data, have been categorized as Level 2 because the life insurance policies can be liquidated at the reporting date for the value of the underlying assets. Life insurance policies that are valued using unobservable inputs have been categorized as Level 3.

Mark-to-Market Derivatives. Derivative contracts are traded in both exchange-based and non-exchange-based markets. Exchange-based derivatives that are valued using unadjusted quoted prices in active markets are categorized in Level 1 in the fair value hierarchy. Certain derivatives' pricing is verified using indicative price quotations available through brokers or over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask, mid-point prices and are obtained from sources that the Registrants believe provide the most liquid market for the commodity. The price quotations are reviewed and corroborated to ensure the prices are observable and representative of an orderly transaction between market participants. This includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration. The remainder of derivative contracts are valued using the Black model, an industry standard option valuation model. The Black model takes into account inputs such as contract terms, including maturity, and market parameters, including assumptions of the future prices of energy, interest rates, volatility, credit worthiness and credit spread. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs are generally observable. Such instruments are categorized in Level 2. The Registrants' derivatives are predominantly at liquid trading points. For derivatives that trade in less liquid markets with limited pricing information model inputs generally would include both observable and unobservable inputs. These valuations may include an estimated basis adjustment from an illiquid trading point to a liquid trading point for which active price quotations are available. Such instruments are categorized in Level 3.

Exelon may utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. In addition, the Registrants may utilize interest rate derivatives to lock in interest rate levels in anticipation of future financings. These interest rate derivatives are typically designated as cash flow hedges. Exelon determines the current fair value by calculating the net present value of expected payments and receipts under the swap agreement, based on and discounted by the market's expectation of future interest rates. Additional inputs to the net present value calculation may include the contract terms, counterparty credit risk and other market parameters. As these inputs are based on observable data and valuations of similar instruments, the interest rate swaps are categorized in Level 2 in the fair value hierarchy. See Note 12 — Derivative Financial Instruments for further discussion on mark-to-market derivatives.

Deferred Compensation Obligations. The Registrants' deferred compensation plans allow participants to defer certain cash compensation into a notional investment account. The Registrants include such plans in other current and noncurrent liabilities in their Consolidated Balance Sheets. The value of the Registrants' deferred compensation obligations is based on the market value of the participants' notional investment accounts. The underlying notional investments are comprised primarily of equities, mutual funds, commingled funds and fixed income securities which are based on directly and indirectly observable market prices. Since the deferred compensation obligations themselves are not exchanged in an active market, they are categorized as Level 2 in the fair value hierarchy.

The value of certain employment agreement obligations (which are included with the Deferred Compensation Obligation in the tables above) are based on a known and certain stream of payments to be made over time and are categorized as Level 2 within the fair value hierarchy.

Additional Information Regarding Level 3 Fair Value Measurements

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning. For middle market lending and certain corporate debt securities investments, the fair value is determined using a combination of valuation models including cost models, market models and income models. The valuation estimates are based on discounting the forecasted cash flows, market-based comparable data, credit and liquidity factors, as well as other factors that may impact value. Significant judgment is required in the application of discounts or premiums applied for factors such as size, marketability, credit risk and relative performance.

Because Generation relies on third-party fund managers to develop the quantitative unobservable inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Generation. This includes information regarding the sensitivity of the fair values to changes in the unobservable inputs. Generation gains an understanding of the fund managers' inputs and assumptions used in preparing the valuations. Generation performed procedures to assess the reasonableness of the valuations.

Rabbi Trust Investments - Life insurance contracts. For life insurance policies categorized as Level 3, the fair value is determined based on the cash surrender value of the policy, which contains unobservable inputs and assumptions. Because Exelon relies on its third-party insurance provider to develop the inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Exelon. Exelon gains an understanding of the types of inputs and assumptions used in preparing the valuations and performs procedures to assess the reasonableness of the valuations.

Mark-to-Market Derivatives. For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities. Forward price curves for the power market utilized by the front office to manage the portfolio, are reviewed and verified by the middle office, and used for financial reporting by the back office. The Registrants consider credit and nonperformance risk in the valuation of derivative contracts categorized in Level 2 and 3, including both historical and current market data in its assessment of credit and nonperformance risk by counterparty. Due to master netting agreements and collateral posting requirements, the impacts of credit and nonperformance risk were not material to the financial statements.

Disclosed below is detail surrounding the Registrants' significant Level 3 valuations. The calculated fair value includes marketability discounts for margining provisions and other attributes. Generation's Level 3 balance generally consists of forward sales and purchases of power and natural gas and certain transmission congestion contracts. Generation utilizes various inputs and factors including market data and assumptions that market participants would use in pricing assets or liabilities as well as assumptions about the risks inherent in the inputs to the valuation technique. The inputs and factors include forward commodity prices, commodity price volatility, contractual volumes, delivery location, interest rates, credit quality of counterparties and credit enhancements.

For commodity derivatives, the primary input to the valuation models is the forward commodity price curve for each instrument. Forward commodity price curves are derived by risk management for liquid locations and by the traders and portfolio managers for illiquid locations. All locations are reviewed and verified by risk management considering published exchange transaction prices, executed bilateral transactions, broker quotes, and other observable or public data sources. The relevant forward commodity curve used to value each of the derivatives depends on a number of factors, including commodity type, delivery location, and delivery period. Price volatility varies by commodity and location. When appropriate, Generation discounts future cash flows using risk free interest rates with adjustments to reflect the credit quality of each counterparty for assets and Generation's own credit quality for liabilities. The level of observability of a forward commodity price varies generally due to the delivery location and delivery period. Certain delivery locations including PJM West Hub (for power) and Henry Hub (for natural gas) are more liquid and prices are observable for up to three years in the future. The observability period of volatility is generally shorter than the underlying power curve used in option valuations. The forward curve for a less liquid location is estimated by using the forward curve from the liquid location and applying a spread to represent the cost to transport the commodity to the delivery location. This spread does not typically represent a majority of the instrument's market price. As a result, the change in fair value is closely tied to liquid market movements and not a change in the applied spread. The change in fair value associated with a change in the spread is generally immaterial. An average spread calculated across all Level 3 power and gas delivery locations is approximately $2.99 and $0.42 for power and natural gas, respectively. Many of the commodity derivatives are short term in nature and thus a majority of the fair value may be based on observable inputs even though the contract as a whole must be classified as Level 3.

On December 17, 2010, ComEd entered into several 20-year floating to fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. See Note 12 — Derivative Financial Instruments for more information. The fair value of these swaps has been designated as a Level 3 valuation due to the long tenure of the positions and internal modeling assumptions. The modeling assumptions include using natural gas heat rates to project long term forward power curves adjusted by a renewable factor that incorporates time of day and seasonality factors to reflect accurate renewable energy pricing. In addition, marketability reserves are applied to the positions based on the tenor and supplier risk.

The following tables present the significant inputs to the forward curve used to value these positions:

Type of trade	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives—Economic hedges (Exelon and Generation)[a][b]	$ 445	Discounted Cash Flow	Forward power price	$ 3 - $ 124
			Forward gas price	$1.27 - $12.80
		Option Model	Volatility percentage	11% - 139%
Mark-to-market derivatives—Proprietary trading (Exelon and Generation)[a][b]	$ 26	Discounted Cash Flow	Forward power price	$ 14 - $ 94
Mark-to-market derivatives (Exelon and ComEd)	$(256)	Discounted Cash Flow	Forward heat rate[c]	9x - 10x
			Marketability reserve	4% - 8%
			Renewable factor	88% - 120%

[a] The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.

[b] The fair values do not include cash collateral posted on level three positions of $81 million as of December 31, 2017.

[c] Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.

Type of trade	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives—Economic hedges (Exelon and Generation)[a][b]	$ 435	Discounted Cash Flow	Forward power price	$ 11 - $ 130
			Forward gas price	$1.72 - $9.20
		Option Model	Volatility percentage	8% - 173%
Mark-to-market derivatives—Proprietary trading (Exelon and Generation)[a][b]	$ (3)	Discounted Cash Flow	Forward power price	$ 19 - $ 79
Mark-to-market derivatives (Exelon and ComEd)	$(258)	Discounted Cash Flow	Forward heat rate[c]	8x - 9x
			Marketability reserve	3% - 8%
			Renewable factor	89% - 121%

[a] The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.

[b] The fair values do not include cash collateral posted on level three positions of $61 million as of December 31, 2016

[c] Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.

The inputs listed above would have a direct impact on the fair values of the above instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of Generation's commodity derivatives are forward commodity prices and for options is price volatility. Increases (decreases) in the forward commodity price in isolation would result in significantly higher (lower) fair values for long positions (contracts that give Generation the obligation or option to purchase a commodity), with offsetting impacts to short positions (contracts that give Generation the obligation or right to sell a commodity). Increases (decreases) in volatility would increase (decrease) the value for the holder of the option (writer of the option). Generally, a change in the estimate of forward commodity prices is unrelated to a change in the estimate of volatility of prices. An increase to the reserves listed above would decrease the fair value of the positions. An increase to the heat rate or renewable factors would increase the fair value accordingly. Generally, interrelationships exist between market prices of natural gas and power. As such, an increase in natural gas pricing would potentially have a similar impact on forward power markets.

12. Derivative Financial Instruments

The Registrants use derivative instruments to manage commodity price risk, interest rate risk and foreign exchange risk related to ongoing business operations.

Commodity Price Risk

To the extent the total amount of power Generation produces and purchases differs from the amount of power it has contracted to sell, Exelon and Generation are exposed to market fluctuations in the prices of electricity, fossil fuels and other commodities. Each of the Registrants employ established policies and procedures to manage their risks associated with market fluctuations in commodity prices by entering into physical and financial derivative contracts, including swaps, futures, forwards, options and short-term and long-term commitments to purchase and sell energy and commodity products. The Registrants believe these instruments, which are either determined to be non-derivative or classified as economic hedges, mitigate exposure to fluctuations in commodity prices.

Derivative authoritative guidance requires that derivative instruments be recognized as either assets or liabilities at fair value, with changes in fair value of the derivative recognized in earnings immediately. Other accounting treatments are available through special election and designation, provided they meet specific, restrictive criteria both at the time of designation and on an ongoing basis. These alternative permissible accounting treatments include normal purchases and normal sales (NPNS), cash flow hedges and fair value hedges. For Generation, all derivative economic hedges related to commodities are recorded at fair value through earnings for the consolidated company, referred to as economic hedges in the following tables. Additionally, Generation is exposed to certain market risks through its proprietary trading activities. The proprietary trading activities are a complement to Generation's energy marketing portfolio but represent a small portion of Generation's overall energy marketing activities.

Fair value authoritative guidance and disclosures about offsetting assets and liabilities requires the fair value of derivative instruments to be shown in the Notes to the Consolidated Financial Statements on a gross basis, even when the derivative instruments are subject to legally enforceable master netting agreements and qualify for net presentation in the Consolidated Balance Sheet. A master netting agreement is an agreement between two counterparties that may have derivative and non-derivative contracts with each other providing for the net settlement of all referencing contracts via one payment stream, which takes place as the contracts deliver, when collateral is requested or in the event of default. Generation's use of cash collateral is generally unrestricted unless Generation is downgraded below investment grade (i.e., to BB+ or Ba1). In the table below, Generation's energy related economic hedges and proprietary trading derivatives are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral including initial margin on exchange positions, is aggregated in the collateral and netting column. As of December 31, 2017 and 2016, $4 million and $8 million of cash collateral held, respectively, was not offset against derivative positions because such collateral was not associated with any energy-related derivatives, were associated with accrual positions, or had no positions to offset as of the balance sheet date. Excluded from the tables below are economic hedges that qualify for the NPNS scope exception and other non-derivative contracts that are accounted for under the accrual method of accounting.

ComEd's use of cash collateral is generally unrestricted unless ComEd is downgraded below investment grade (i.e., to BB+ or Ba1).

Cash collateral held by BGE and PECO must be deposited in a non-affiliate major U.S. commercial bank or foreign bank with a U.S. branch office that meet certain qualifications.

In the table below, DPL's economic hedges are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral, including margin on exchange positions, is aggregated in the collateral and netting column.

The following table provides a summary of the derivative fair value balances related to commodity contracts recorded by the Registrants as of December 31, 2017:

	Generation				ComEd	DPL			*Successor* PHI	Exelon
Description	**Economic Hedges**	**Proprietary Trading**	**Collateral and Netting**[a][e]	**Subtotal**[b]	**Economic Hedges**[c]	**Economic Hedges**[d]	**Collateral and Netting**[a]	**Subtotal**	**Subtotal**	**Total Derivatives**
Mark-to-market derivative assets (current assets)	$ 3,061	$ 56	$(2,144)	$ 973	$ —	$—	$—	$—	$ —	$ 973
Mark-to-market derivative assets (noncurrent assets)	1,164	12	(845)	331	—	—	—	—	—	331
Total mark-to-market derivative assets	4,225	68	(2,989)	1,304	—	—	—	—	—	1,304
Mark-to-market derivative liabilities (current liabilities)	(2,646)	(43)	2,480	(209)	(21)	(1)	1	—	—	(230)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,137)	(10)	975	(172)	(235)	—	—	—	—	(407)
Total mark-to-market derivative liabilities	(3,783)	(53)	3,455	(381)	(256)	(1)	1	—	—	(637)
Total mark-to-market derivative net assets (liabilities)	$ 442	$ 15	$ 466	$ 923	$(256)	$ (1)	$ 1	$—	$ —	$ 667

[a] Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative authoritative guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

[b] Current and noncurrent assets are shown net of collateral of $169 million and $53 million, respectively, and current and noncurrent liabilities are shown net of collateral of $167 million and $77 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $466 million at December 31, 2017.

[c] Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

[d] Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

[e] Of the collateral posted/(received), $(117) million represents variation margin on the exchanges.

The following table provides a summary of the derivative fair value balances related to commodity contracts recorded by the Registrants as of December 31, 2016:

	Generation				ComEd	DPL			*Successor* PHI	Exelon
Description	Economic Hedges	Proprietary Trading	Collateral and Netting[a][e]	Subtotal[b]	Economic Hedges[c]	Economic Hedges[d]	Collateral and Netting[a]	Subtotal	Subtotal	Total Derivatives
Mark-to-market derivative assets (current assets)	$ 3,623	$ 55	$(2,769)	$ 909	$ —	$ 2	$(2)	$—	$—	$ 909
Mark-to-market derivative assets (noncurrent assets)	1,467	21	(1,016)	472	—	—	—	—	—	472
Total mark-to-market derivative assets	5,090	76	(3,785)	1,381	—	2	(2)	—	—	1,381
Mark-to-market derivative liabilities (current liabilities)	(3,165)	(54)	2,964	(255)	(19)	—	—	—	—	(274)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,274)	(25)	1,150	(149)	(239)	—	—	—	—	(388)
Total mark-to-market derivative liabilities	(4,439)	(79)	4,114	(404)	(258)	—	—	—	—	(662)
Total mark-to-market derivative net assets (liabilities)	$ 651	$ (3)	$ 329	$ 977	$(258)	$ 2	$(2)	$—	$—	$ 719

[a] Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative authoritative guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, and letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

[b] Current and noncurrent assets are shown net of collateral of $100 million and $72 million, respectively, and current and noncurrent liabilities are shown net of collateral of $95 million and $62 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $329 million at December 31, 2016.

[c] Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

[d] Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

[e] Of the collateral posted/(received), $(158) million represents variation margin on the exchanges.

Economic Hedges (Commodity Price Risk)

Within Exelon, Generation has the most exposure to commodity price risk. As such, Generation uses a variety of derivative and non-derivative instruments to manage the commodity price risk of its electric generation facilities, including power and gas sales, fuel and power purchases, natural gas transportation and pipeline capacity agreements and other energy-related products marketed and purchased. To manage these risks, Generation may enter into fixed-price derivative or non-derivative contracts to hedge the variability in future cash flows from expected sales of power and gas and purchases of power and fuel. The objectives for executing such hedges include fixing the price for a portion of anticipated future electricity sales at a level that provides an acceptable return. Generation is also exposed to differences between the locational settlement prices of certain economic hedges and the hedged generating units. This price difference is actively managed through other instruments which include derivative congestion products, whose changes in fair value are recognized in earnings each period, and auction revenue rights, which are accounted for on an accrual basis. For the years ended December 31, 2017, 2016 and 2015, Exelon and Generation recognized the following net pre-tax commodity mark-to-market gains (losses) which are also located in the "Net fair value changes related to derivatives" on the Consolidated Statements of Cash Flows.

	For the Years Ended December 31,		
	2017	2016	2015
Income Statement Location		Gain (Loss)	
Operating revenues	$(126)	$(490)	$196
Purchased power and fuel	(43)	459	54
Total Exelon and Generation	$(169)	$ (31)	$250

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation's owned and contracted generation positions which have not been hedged. Generation hedges commodity price risk on a ratable basis over three-year periods. As of December 31, 2017, the percentage of expected generation hedged is 85%-88%, 55%-58% and 26%-29% for 2018, 2019 and 2020, respectively.

On December 17, 2010, ComEd entered into several 20-year floating-to-fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. Delivery under the contracts began in June 2012. These contracts are designed to lock in a portion of the long-term commodity price risk resulting from the renewable energy resource procurement requirements in the Illinois Settlement Legislation. ComEd has not elected hedge accounting for these derivative financial instruments. ComEd records the fair value of the swap contracts on its balance sheet. Because ComEd receives full cost recovery for energy procurement and related costs from retail customers, the change in fair value each period is recorded by ComEd as a regulatory asset or liability. See Note 3 — Regulatory Matters for additional information.

PECO has contracts to procure electric supply that were executed through the competitive procurement process outlined in its PAPUC-approved DSP Programs, which are further discussed in Note 3 — Regulatory Matters. Based on Pennsylvania legislation and the DSP Programs permitting PECO to recover its electric supply procurement costs from retail customers with no mark-up, PECO's commodity price risk related to electric supply procurement is limited. PECO locked in fixed prices for a significant portion of its commodity price risk through full requirements contracts. PECO has certain full requirements contracts that are considered derivatives and qualify for the NPNS scope exception under current derivative authoritative guidance.

PECO's natural gas procurement policy is designed to achieve a reasonable balance of long-term and short-term gas purchases under different pricing approaches to achieve system supply reliability at the least cost. PECO's reliability strategy is two-fold. First, PECO must assure that there is sufficient transportation capacity to satisfy delivery requirements. Second, PECO must ensure that a firm source of supply exists to utilize the capacity resources. All of PECO's natural gas supply and asset management agreements that are derivatives either qualify for the NPNS scope exception and have been designated as such, or have no mark-to-market balances because the derivatives are index priced. Additionally, in accordance with the 2016 PAPUC PGC settlement and to reduce the exposure of PECO and its customers to natural gas price volatility, PECO has continued its program to purchase natural gas for both winter and summer supplies using a layered approach of locking-in prices ahead of each season with long-term gas purchase agreements (those with primary terms of at least twelve months). Under the terms of the 2016 PGC settlement, PECO is required to lock in (i.e., economically hedge) the price of a minimum volume of its long-term gas commodity purchases. PECO's gas-hedging program is designed to cover about 20% of planned natural gas purchases in support of projected firm sales. The hedging program for natural gas procurement has no direct impact on PECO's results of operations and financial position as natural gas costs are fully recovered from customers under the PGC.

BGE has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC. The SOS rates charged recover BGE's wholesale power supply costs and include an administrative fee. BGE's commodity price risk related to electric supply procurement is limited. BGE locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of BGE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other BGE full requirements contracts are not derivatives.

BGE provides natural gas to its customers under a MBR mechanism approved by the MDPSC. Under this mechanism, BGE's actual cost of gas is compared to a market index (a measure of the market price of gas in a given period). The difference between BGE's actual cost and the market index is shared equally between shareholders and customers. BGE must also secure fixed price contracts for at least 10%, but not more than 20%, of forecasted system supply requirements for flowing (i.e., non-storage) gas for the November through March period. These fixed-price contracts are not subject to sharing under the MBR mechanism. BGE also ensures it has sufficient pipeline transportation capacity to meet customer requirements. BGE's natural gas supply and asset management agreements qualify for the NPNS scope exception and result in physical delivery.

Pepco has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and DCPSC. The SOS rates charged recover Pepco's wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for residential and commercial rate classes. Pepco's commodity price risk related to electric supply procurement is limited. Pepco locks in fixed prices for its SOS requirements through full requirements contracts. Certain of Pepco's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other Pepco full requirements contracts are not derivatives.

DPL has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and the DPSC. The SOS rates charged recover DPL's wholesale power supply costs. In Delaware, DPL is also entitled to recover a Reasonable Allowance for Retail Margin (RARM). The RARM includes a fixed annual margin of approximately $2.75 million, plus an incremental cost component and a cash working capital allowance. In Maryland, DPL charges an administrative fee intended to allow it to recover its administrative costs. DPL locks in fixed prices for its SOS requirements through full requirements contracts. DPL's commodity price risk related to electric supply procurement is limited. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

DPL provides natural gas to its customers under an Annual GCR mechanism approved by the DPSC. Under this mechanism, DPL's Annual GCR Filing establishes a future GCR for firm bundled sales customers by using a forecast of demand and commodity costs. The actual costs are trued up against forecast on a monthly basis and any shortfall or excess is carried forward as a recovery balance in the next GCR filing. The demand portion of the GCR is based upon DPL's firm transportation and storage contracts. DPL has firm deliverability of swing and seasonal storage; a liquefied natural gas facility and firm transportation capacity to meet customer demand and provide a reserve margin. The commodity portion of the GCR includes a commission approved hedging program which is intended to reduce gas commodity price volatility while limiting the firm natural gas customers' exposure to adverse changes in the market price of natural gas. The hedge program requires that DPL hedge, on a non-discretionary basis, an amount equal to 50% of estimated purchase requirements for each month, including estimated monthly purchases for storage injections. The 50% hedge monthly target is achieved by hedging 1/12th of the 50% target each month beginning 12-months prior to the month in which the physical gas is to be purchased. Currently, DPL uses only exchange traded futures for its gas hedging program, which are considered derivatives, however, it retains the capability to employ other physical and financial hedges if needed. DPL has not elected hedge accounting for these derivative financial instruments. Because of the DPSC-approved fuel adjustment clause for DPL's derivatives, the change in fair value of the derivatives each period, in addition to all premiums paid and other transaction costs incurred as part of the Gas Hedging Program, are fully recoverable and are recorded by DPL as regulatory assets or liabilities. DPL's physical gas purchases are currently all daily, monthly or intra-month transactions. From time to time, DPL will enter into seasonal purchase or sale arrangements, however, there are none currently in the portfolio. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

ACE has contracts to procure BGS electric supply that are executed through a competitive procurement process approved by the NJBPU. The BGS rates charged recover ACE's wholesale power supply costs. ACE does not make any profit or incur any loss on the supply component of the BGS it supplies to customers. ACE's commodity price risk related to electric supply procurement is limited. ACE locks in fixed prices for its BGS requirements through full requirements contracts. Certain of ACE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other ACE full requirements contracts are not derivatives.

Proprietary Trading (Commodity Price Risk)

Generation also executes commodity derivatives for proprietary trading purposes. Proprietary trading includes all contracts entered into with the intent of benefiting from shifts or changes in market prices as opposed to those executed with the intent of hedging or managing risk. Proprietary trading activities are subject to limits established by Exelon's RMC. The proprietary trading portfolio is subject to a risk management policy that includes stringent risk management limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon's RMC monitor the financial risks of the proprietary trading activities. The proprietary trading activities are a complement to Generation's energy marketing portfolio, but represent a small portion of Generation's overall revenue from energy marketing activities. Gains and losses associated with proprietary trading are reported as Operating revenues in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. For the years ended December 31, 2017, 2016 and 2015, Exelon and Generation recognized the following net pre-tax commodity mark-to-market gains (losses) which are also included in the "Net fair value changes related to derivatives" on the Consolidated Statements of Cash Flows. The Utility Registrants do not execute derivatives for proprietary trading purposes.

	For the Years Ended December 31,		
	2017	2016	2015
Income Statement Location	Gain (Loss)		
Operating revenues	$6	$2	$(6)

Interest Rate and Foreign Exchange Risk

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels, which are typically designated as cash flow hedges to manage interest rate risk.

To manage foreign exchange rate exposure associated with international commodity purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are treated as economic hedges. Below is a summary of the interest rate and foreign exchange hedge balances as of December 31, 2017:

	Generation					Exelon Corporate	Exelon
Description	Derivatives Designated as Hedging Instruments	Economic Hedges	Proprietary Trading	Collateral and Netting(a)	Subtotal	Derivatives Designated as Hedging Instruments	Total
Mark-to-market derivative assets (current assets)	$—	$10	$—	$(7)	$ 3	$—	$ 3
Mark-to-market derivative assets (noncurrent assets)	3	—	—	—	3	3	6
Total mark-to-market derivative assets	3	10	—	(7)	6	3	9
Mark-to-market derivative liabilities (current liabilities)	(2)	(7)	—	7	(2)	—	(2)
Mark-to-market derivative liabilities (noncurrent liabilities)	—	(2)	—	—	(2)	—	(2)
Total mark-to-market derivative liabilities	(2)	(9)	—	7	(4)	—	(4)
Total mark-to-market derivative net assets (liabilities)	$ 1	$ 1	$—	$—	$ 2	$ 3	$ 5

(a) Exelon and Generation net all available amounts allowed under the derivative authoritative guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral, which are not reflected in the table above.

The following table provides a summary of the interest rate and foreign exchange hedge balances recorded by the Registrants as of December 31, 2016:

	Generation					Exelon Corporate	Exelon
Description	Derivatives Designated as Hedging Instruments	Economic Hedges	Proprietary Trading(a)	Collateral and Netting(b)	Subtotal	Derivatives Designated as Hedging Instruments	Total
Mark-to-market derivative assets (current assets)	$ —	$ 17	$ 4	$(13)	$ 8	$—	$ 8
Mark-to-market derivative assets (noncurrent assets)	—	11	1	(8)	4	16	20
Total mark-to-market derivative assets	—	28	5	(21)	12	16	28
Mark-to-market derivative liabilities (current liabilities)	(7)	(13)	(2)	14	(8)	—	(8)
Mark-to-market derivative liabilities (noncurrent liabilities)	(3)	(8)	(2)	9	(4)	—	(4)
Total mark-to-market derivative liabilities	(10)	(21)	(4)	23	(12)	—	(12)
Total mark-to-market derivative net assets (liabilities)	$(10)	$ 7	$ 1	$ 2	$ —	$16	$ 16

(a) Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the proprietary trading activity in the above table is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize proprietary trading interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates.

[b] Exelon and Generation net all available amounts allowed under the derivative authoritative guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral, which are not reflected in the table above.

Fair Value Hedges (Interest Rate Risk)

For derivative instruments that qualify and are designated as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings immediately. Exelon and Generation include the gain or loss on the hedged items and the offsetting loss or gain on the related interest rate swaps as follows:

	Income Statement Location	Year Ended December 31, Gain (Loss) on Swaps 2017	2016	2015	Gain (Loss) on Borrowings 2017	2016	2015
Generation	Interest expense[a]	$ —	$—	$(1)	$ —	$ —	$ —
Exelon	Interest expense	(13)	(9)	3	28	23	14

[a] For the year ended December 31, 2015, the loss on Generation swaps included $(1) million realized in earnings with an immaterial amount excluded from hedge effectiveness testing.

The table below provides the notional amounts of fixed-to-floating hedges outstanding held by Exelon at December 31, 2017 and 2016.

	For the Years Ended December 31, 2017	2016
Fixed-to-floating hedges	$800	$800

During the years ended December 31, 2017, 2016 and 2015, the impact on the results of operations due to ineffectiveness from fair value hedges were gains of $15 million, $14 million and $17 million, respectively.

Cash Flow Hedges (Interest Rate Risk)

For derivative instruments that qualify and are designated as cash flow hedges, the gain or loss on the effective portion of the derivative will be deferred in AOCI and reclassified into earnings when the underlying transaction occurs. To mitigate interest rate risk, Exelon and Generation enter into floating-to-fixed interest rate swaps to manage a portion of interest rate exposure associated with debt issuances. The table below provides the notional amounts of floating-to-fixed hedges outstanding held by Exelon and Generation at December 31, 2017 and 2016.

	For the Years Ended December 31, 2017	2016
Floating-to-fixed hedges	$636	$659

The tables below provide the activity of OCI related to cash flow hedges for the years ended December 31, 2017 and 2016, containing information about the changes in the fair value of cash flow hedges and the reclassification from AOCI into results of operations. The amounts reclassified from AOCI, when combined with the impacts of the hedged transactions, result in the ultimate recognition of net revenues or expenses at the contractual price.

		Total Cash Flow Hedge AOCI Activity, Net of Income Tax	
		Generation	Exelon
For the Year Ended December 31, 2017	Income Statement Location	Total Cash Flow Hedges	Total Cash Flow Hedges
AOCI derivative loss at December 31, 2016		$(19)	$(17)
Effective portion of changes in fair value		(1)	(1)
Reclassifications from AOCI to net income	Interest expense	4[a]	4[a]
AOCI derivative loss at December 31, 2017		$(16)	$(14)

		Total Cash Flow Hedge AOCI Activity, Net of Income Tax	
		Generation	Exelon
For the Year Ended December 31, 2016	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
AOCI derivative loss at December 31, 2015		$(21)	$(19)
Effective portion of changes in fair value		(6)	(6)
Reclassifications from AOCI to net income	Interest expense	8(b)	8(b)
AOCI derivative loss at December 31, 2016		$(19)	$(17)

(a) Amount is net of related income tax expense of $1 million for the year ended December 31, 2017.

(b) Amount is net of related income tax expense of $5 million for the year ended December 31, 2016.

During the years ended December 31, 2017, 2016 and 2015, the impact on the results of operations due to the ineffectiveness from cash flow hedges that continue to be designated in hedging relationships was immaterial. The estimated amount of existing gains and losses that are reported in AOCI at the reporting date that are expected to be reclassified into earnings within the next twelve months is immaterial.

Economic Hedges (Interest Rate and Foreign Exchange Risk)

Exelon and Generation executes these instruments to mitigate exposure to fluctuations in interest rates or foreign exchange but for which the fair value or cash flow hedge elections were not made. Generation also enters into interest rate derivative contracts and foreign exchange currency swaps (“treasury”) to manage the exposure related to the interest rate component of commodity positions and international purchases of commodities in currencies other than U.S. Dollars.

At December 31, 2017 and 2016, Generation had immaterial notional amounts of interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The following table provides notional amounts outstanding held by Exelon and Generation at December 31, 2017 and 2016 related to foreign currency exchange rate swaps that are marked-to-market to manage the exposure associated with international purchases of commodities in currencies other than U.S. dollars.

	For the Years Ended December 31,	
	2017	**2016**
Foreign currency exchange rate swaps	$94	$85

For the years ended December 31, 2017, 2016 and 2015, Exelon recognized the following net pre-tax mark-to-market gains (losses) in the Consolidated Statements of Operations and Comprehensive Income and are included in “Net fair value changes related to derivatives” in Exelon’s and Generation’s Consolidated Statements of Cash Flows.

		For the Years Ended December 31,		
		2017	**2016**	**2016**
	Income Statement Location		**Gain (Loss)**	
Exelon	Operating Revenues	$(6)	$(10)	$ 7
Exelon	Interest Expense	(3)	—	100
Total Exelon		$(9)	$(10)	$107

Proprietary Trading (Interest Rate and Foreign Exchange Risk)

Generation also executes derivative contracts for proprietary trading purposes to hedge risk associated with the interest rate and foreign exchange components of underlying commodity positions. Gains and losses associated with proprietary trading are reported as Operating revenues in Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income and are included in “Net fair value changes related to derivatives” in Exelon’s and Generation’s Consolidated Statements of Cash Flows. For the years ended December 31, 2017, 2016 and 2015, Exelon and Generation recognized the following net pre-tax commodity mark-to-market gains (losses).

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Income Statement Location		**Gain (Loss)**	
Operating revenues	$(1)	$(1)	$(2)

Credit Risk, Collateral and Contingent-Related Features

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties on executed derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. For commodity derivatives, Generation enters into enabling agreements that allow for payment netting with its counterparties, which reduces Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. Typically, each enabling agreement is for a specific commodity and so, with respect to each individual counterparty, netting is limited to transactions involving that specific commodity product, except where master netting agreements exist with a counterparty that allow for cross product netting. In addition to payment netting language in the enabling agreement, Generation's credit department establishes credit limits, margining thresholds and collateral requirements for each counterparty, which are defined in the derivative contracts. Counterparty credit limits are based on an internal credit review process that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings by credit rating agencies, and risk management capabilities. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with Generation as specified in each enabling agreement. Generation's credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

The following tables provide information on Generation's credit exposure for all derivative instruments, NPNS, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of December 31, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties. The figures in the tables below exclude credit risk exposure from individual retail counterparties, nuclear fuel procurement contracts and exposure through RTOs, ISOs, NYMEX, ICE, NASDAQ, NGX and Nodal commodity exchanges. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $28 million, $22 million, $24 million, $36 million, $12 million and $6 million as of December 31, 2017, respectively.

Rating as of December 31, 2017	Total Exposure Before Credit Collateral	Credit Collateral[a]	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 738	$ 4	$ 734	1	$244
Non-investment grade	90	12	78	—	—
No external ratings					
Internally rated — investment grade	253	—	253	—	—
Internally rated — non-investment grade	83	11	72	—	—
Total	$1,164	$27	$1,137	1	$244

Net Credit Exposure by Type of Counterparty	December 31, 2017
Financial institutions	$ 41
Investor-owned utilities, marketers, power producers	558
Energy cooperatives and municipalities	452
Other	86
Total	$1,137

[a] As of December 31, 2017, credit collateral held from counterparties where Generation had credit exposure included $8 million of cash and $19 million of letters of credit. The credit collateral does not include non-liquid collateral.

ComEd's power procurement contracts provide suppliers with a certain amount of unsecured credit. The credit position is based on daily, updated forward market prices compared to the benchmark prices. The benchmark prices are the forward prices of energy projected through the contract term and are set at the point of supplier bid submittals. If the forward market price of energy exceeds the benchmark price on a given day, the suppliers are required to post collateral for the secured credit portion after adjusting for any unpaid deliveries and unsecured credit allowed under the contract. The unsecured credit used by the suppliers represents ComEd's net credit exposure. As of December 31, 2017, ComEd's net credit exposure to suppliers was approximately $1 million.

ComEd is permitted to recover its costs of procuring energy through the Illinois Settlement Legislation. ComEd's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters for additional information.

PECO's unsecured credit used by the suppliers represents PECO's net credit exposure. As of December 31, 2017, PECO had no net credit exposure to suppliers.

PECO's natural gas procurement plan is reviewed and approved annually on a prospective basis by the PAPUC. PECO's counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the PGC, which allows PECO to adjust rates quarterly to reflect realized natural gas prices. PECO does not obtain collateral from suppliers under its natural gas supply and asset management agreements. As of December 31, 2017, PECO had no material credit exposure under its natural gas supply and asset management agreements with investment grade suppliers.

BGE is permitted to recover its costs of procuring energy through the MDPSC-approved procurement tariffs. BGE's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters for additional information.

BGE's full requirement wholesale electric power agreements that govern the terms of its electric supply procurement contracts, which define a supplier's performance assurance requirements, allow a supplier, or its guarantor, to meet its credit requirements with a certain amount of unsecured credit. As of December 31, 2017, BGE had no net credit exposure to suppliers.

BGE's regulated gas business is exposed to market-price risk. At December 31, 2017, BGE had credit exposure of $4 million related to off-system sales which is mitigated by parental guarantees, letters of credit, or right to offset clauses within other contracts with those third-party suppliers.

Pepco's, DPL's and ACE's power procurement contracts provide suppliers with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents Pepco's, DPL's and ACE's net credit exposure. As of December 31, 2017, Pepco's, DPL's and ACE's net credit exposures to suppliers were immaterial.

Pepco is permitted to recover its costs of procuring energy through the MDPSC-approved and DCPSC-approved procurement tariffs. DPL is permitted to recover its costs of procuring energy through the MDPSC-approved and DPSC-approved procurement tariffs. ACE is permitted to recover its costs of procuring energy through the NJBPU-approved procurement tariffs. Pepco's, DPL's and ACE's counterparty credit risks are mitigated by their ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters for additional information.

DPL's natural gas procurement plan is reviewed and approved annually on a prospective basis by the DPSC. DPL's counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the GCR, which allows DPL to adjust rates annually to reflect realized natural gas prices. To the extent that the fair value of the transactions in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. Exchange-traded contracts are required to be fully collateralized without regard to the credit rating of the holder. As of December 31, 2017, DPL's credit exposure under its natural gas supply and asset management agreements was immaterial.

Collateral

As part of the normal course of business, Generation routinely enters into physically or financially settled contracts for the purchase and sale of electric capacity, electricity, fuels, emissions allowances and other energy-related products. Certain of Generation's derivative instruments contain provisions that require Generation to post collateral. Generation also enters into commodity transactions on exchanges. The exchanges act as the counterparty to each trade. Transactions on the exchanges must adhere to comprehensive collateral and margining requirements. This collateral may be posted in the form of cash or credit support with thresholds contingent upon Generation's credit rating from each of the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit-risk-related contingent features stipulate that if Generation were to be downgraded or lose its investment grade credit rating (based on its senior unsecured debt rating), it would be required to provide additional collateral. This incremental collateral requirement allows for the offsetting of derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master netting agreements. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. In this case, Generation believes an amount of several months of future payments (i.e., capacity payments) rather than a calculation of fair value is the best estimate for the contingent collateral obligation, which has been factored into the disclosure below.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on the exchanges that are fully collateralized) is detailed in the table below:

	For the Years Ended December 31,	
Credit-Risk Related Contingent Feature	**2017**	**2016**
Gross fair value of derivative contracts containing this feature[(a)]	$(926)	$(960)
Offsetting fair value of in-the-money contracts under master netting arrangements[(b)]	577	627
Net fair value of derivative contracts containing this feature[(c)]	$(349)	$(333)

[(a)] Amount represents the gross fair value of out-of-the-money derivative contracts containing credit-risk-related contingent features ignoring the effects of master netting agreements.

[(b)] Amount represents the offsetting fair value of in-the-money derivative contracts under legally enforceable master netting agreements with the same counterparty, which reduces the amount of any liability for which a Registrant could potentially be required to post collateral.

[(c)] Amount represents the net fair value of out-of-the-money derivative contracts containing credit-risk related contingent features after considering the mitigating effects of offsetting positions under master netting arrangements and reflects the actual net liability upon which any potential contingent collateral obligations would be based.

Generation had cash collateral posted of $497 million and letters of credit posted of $293 million, and cash collateral held of $35 million and letters of credit held of $33 million as of December 31, 2017 for external counterparties with derivative positions. Generation had cash collateral posted of $347 million and letters of credit posted of $284 million and cash collateral held of $24 million and letters of credit held of $28 million at December 31, 2016 for external counterparties with derivative positions. In the event of a credit downgrade below investment grade (i.e., to BB+ by S&P or Ba1 by Moody's), Generation would have been required to post additional collateral of $1.8 billion and $1.9 billion as of December 31, 2017 and 2016, respectively. These amounts represent the potential additional collateral required after giving consideration to offsetting derivative and non-derivative positions under master netting agreements.

Generation's and Exelon's interest rate swaps contain provisions that, in the event of a merger, if Generation's debt ratings were to materially weaken, it would be in violation of these provisions, resulting in the ability of the counterparty to terminate the agreement prior to maturity. Collateralization would not be required under any circumstance. Termination of the agreement could result in a settlement payment by Exelon or the counterparty on any interest rate swap in a net liability position. The settlement amount would be equal to the fair value of the swap on the termination date. As of December 31, 2017, Generation's and Exelon's swaps were in an asset position with a fair value of $2 million and $5 million, respectively.

See Note 25 — Segment Information for further information regarding the letters of credit supporting the cash collateral.

Generation entered into supply forward contracts with certain utilities, including PECO and BGE, with one-sided collateral postings only from Generation. If market prices fall below the benchmark price levels in these contracts, the utilities are not required to post collateral. However, when market prices rise above the benchmark price levels, counterparty suppliers, including Generation, are required to post collateral once certain unsecured credit limits are exceeded. Under the terms of ComEd's standard block energy contracts, collateral postings are one-sided from suppliers, including Generation, should exposures between market prices and benchmark prices exceed established unsecured credit limits outlined in the contracts. As of December 31, 2017, ComEd held approximately $10 million in collateral from suppliers in association with energy procurement contracts. Under the terms of ComEd's renewable energy certificate (REC) contracts, collateral postings are required to cover a percentage of the REC contract value. As of December 31, 2017, ComEd held approximately $2 million in collateral from suppliers for REC contract obligations. Under the terms of ComEd's long-term renewable energy contracts, collateral postings are required from suppliers for both RECs and energy. The REC portion is a fixed value and the energy portion is one-sided from suppliers should the forward market prices exceed contract prices. As of December 31, 2017, ComEd held approximately $19 million in collateral from suppliers for the long-term renewable energy contracts. If ComEd lost its investment grade credit rating as of December 31, 2017, it would have been required to post approximately $14 million of collateral to its counterparties. See Note 3 — Regulatory Matters for additional information.

PECO's natural gas procurement contracts contain provisions that could require PECO to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon PECO's credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of December 31, 2017, PECO was not required to post collateral for any of these agreements. If PECO lost its investment grade credit rating as of December 31, 2017, PECO could have been required to post approximately $34 million of collateral to its counterparties.

PECO's supplier master agreements that govern the terms of its DSP Program contracts do not contain provisions that would require PECO to post collateral.

BGE's natural gas procurement contracts contain provisions that could require BGE to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon BGE's credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of December 31, 2017, BGE was not required to post collateral for any of these agreements. If BGE lost its investment grade credit rating as of December 31, 2017, BGE could have been required to post approximately $66 million of collateral to its counterparties.

DPL's natural gas procurement contracts contain provisions that could require DPL to post collateral. To the extent that the fair value of the natural gas derivative transaction in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. The DPL obligations are standalone, without the guaranty of PHI. If DPL lost its investment grade credit rating as of December 31, 2017, DPL could have been required to post an additional amount of approximately $11 million of collateral to its natural gas counterparties.

BGE's, Pepco's, DPL's and ACE's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require BGE, Pepco, DPL or ACE to post collateral.

13. Debt and Credit Agreements

Short-Term Borrowings

Exelon, ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the intercompany money pool. PHI meets its short-term liquidity requirements primarily through the issuance of short-term notes and the Exelon intercompany money pool. Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. The Registrants may use their respective credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit.

Commercial Paper

The following table reflects the Registrants' commercial paper programs supported by the revolving credit agreements and bilateral credit agreements at December 31, 2017 and 2016:

	Maximum Program Size at December 31,		Outstanding Commercial Paper at December 31,		Average Interest Rate on Commercial Paper Borrowings for the Year Ended December 31,	
Commercial Paper Issuer	**2017(a)(b)(c)**	**2016(a)(b)(c)**	**2017**	**2016**	**2017**	**2016**
Exelon Corporate	$ 600	$ 600	$ —	$ —	1.16%	0.70%
Generation	5,300	5,300	—	620	1.23%	0.94%
ComEd	1,000	1,000	—	—	1.24%	0.77%
PECO	600	600	—	—	1.13%	N/A
BGE	600	600	77	45	1.28%	0.77%
Pepco	500	500	26	23	1.06%	0.71%
DPL	500	500	216	—	1.48%	0.68%
ACE	350	350	108	—	1.43%	0.65%
Total	$9,450	$9,450	$427	$688		

(a) Excludes $480 million and $500 million in bilateral credit facilities that do not back Generation's commercial paper program at December 31, 2017 and 2016, respectively.

(b) Excludes additional credit facility agreements for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE with aggregate commitments of $49 million, $34 million, $34 million, $5 million, $2 million, $2 million and $2 million, respectively, arranged with minority and community banks located primarily within utilities' service territories. These facilities expire on October 12, 2018. These facilities are solely utilized to issue letters of credit. As of December 31, 2017, letters of credit issued under these facilities totaled $5 million and $2 million for Generation and BGE, respectively.

(c) Pepco, DPL and ACE's revolving credit facility is subject to available borrowing capacity. The borrowing capacity may be increased or decreased during the term of the facility, except that (i) the sum of the borrowing capacity must equal the total amount of the facility, and (ii) the aggregate amount of credit used at any given time by each of Pepco, DPL or ACE may not exceed $900 million or the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of the borrowing reallocations may not exceed eight per year during the term of the facility.

In order to maintain their respective commercial paper programs in the amounts indicated above, each Registrant must have credit facilities in place, at least equal to the amount of its commercial paper program. While the amount of outstanding commercial paper does not reduce available capacity under a Registrant's credit facility, a Registrant does not issue commercial paper in an aggregate amount exceeding the then available capacity under its credit facility.

At December 31, 2017, the Registrants had the following aggregate bank commitments, credit facility borrowings and available capacity under their respective credit facilities:

					Available Capacity at December 31, 2017	
Borrower	**Facility Type**	**Aggregate Bank Commitment[a][b]**	**Facility Draws**	**Outstanding Letters of Credit[c]**	**Actual**	**To Support Additional Commercial Paper[b][d]**
Exelon Corporate	Syndicated Revolver	$ 600	$—	$ 45	$ 555	$ 555
Generation	Syndicated Revolver	5,300	—	868	4,432	4,432
Generation	Bilaterals	480	—	231	249	—
ComEd	Syndicated Revolver	1,000	—	2	998	998
PECO	Syndicated Revolver	600	—	1	599	599
BGE	Syndicated Revolver	600	—	—	600	523
Pepco	Syndicated Revolver	300	—	—	300	274
DPL	Syndicated Revolver	300	—	—	300	84
ACE	Syndicated Revolver	300	—	—	300	192
Total		$9,480	$—	$1,147	$ 8,333	$7,657

[a] Excludes additional credit facility agreements for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE with aggregate commitments of $49 million, $34 million, $34 million, $5 million, $2 million, $2 million and $2 million, respectively, arranged with minority and community banks located primarily within utilities' service territories. These facilities expire on October 12, 2018. These facilities are solely utilized to issue letters of credit. As of December 31, 2017, letters of credit issued under these facilities totaled $5 million and $2 million for Generation and BGE, respectively.

[b] Pepco, DPL and ACE's revolving credit facility is subject to available borrowing capacity. The borrowing capacity may be increased or decreased during the term of the facility, except that (i) the sum of the borrowing capacity must equal the total amount of the facility, and (ii) the aggregate amount of credit used at any given time by each of Pepco, DPL or ACE may not exceed $900 million or the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of the borrowing reallocations may not exceed eight per year during the term of the facility.

[c] Excludes nonrecourse debt letters of credit, see discussion below on Antelope Valley Solar Ranch One and Continental Wind.

[d] Excludes $480 million in bilateral credit facilities that do not back Generation's commercial paper program.

The following tables present the short-term borrowings activity for Exelon during 2017, 2016 and 2015.

	2017	**2016**	**2015**
Average borrowings	$ 823	$ 1,125	$ 499
Maximum borrowings outstanding	2,147	3,076	739
Average interest rates, computed on a daily basis	1.32%	0.88%	0.53%
Average interest rates, at December 31	1.24%	1.12%	0.88%

Short-Term Loan Agreements

On July 30, 2015, PHI entered into a $300 million term loan agreement. The net proceeds of the loan were used to repay PHI's outstanding commercial paper and for general corporate purposes. Pursuant to the loan agreement, loans made thereunder bear interest at a variable rate equal to LIBOR plus 0.95%, and all indebtedness thereunder is unsecured. On April 4, 2016, PHI repaid $300 million of its term loan in full.

On January 13, 2016, PHI entered into a $500 million term loan agreement, which was amended on March 28, 2016. The net proceeds of the loan were used to repay PHI's outstanding commercial paper, and for general corporate purposes. Pursuant to the loan agreement, as amended, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1%, and all indebtedness thereunder is unsecured. On March 23, 2017, the aggregate principal amount of all loans, together with any accrued but unpaid interest due under the loan agreement was fully repaid and the loan terminated. On March 23, 2017, Exelon Corporate entered into a similar type term loan for $500 million which expires on March 22, 2018. Pursuant to the loan agreement, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1% and all indebtedness thereunder is unsecured. The loan agreement is reflected in Exelon's Consolidated Balance Sheet within Short-Term borrowings.

On February 22, 2016, Generation and EDF entered into separate member revolving promissory notes with CENG to finance short-term working capital needs. The notes are scheduled to mature on January 31, 2017 and bear interest at a variable rate equal to LIBOR plus 1.75%. On July 25, 2016, CENG paid off the outstanding balances under each note.

Credit Agreement

On January 5, 2016, Generation entered into a credit agreement establishing a $150 million bilateral credit facility, scheduled to mature in January of 2019. This facility will solely be utilized by Generation to issue lines of credit. This facility does not back Generation's commercial paper program.

On April 1, 2016, the credit agreement for CENG's $100 million bilateral credit facility was amended to increase the overall facility size to $200 million. This facility is utilized by CENG to fund working capital and capital projects. The facility does not back Generation's commercial paper program.

On May 26, 2016, Exelon Corporate, Generation, ComEd, PECO and BGE entered into amendments to each of their respective syndicated revolving credit facilities, which extended the maturity of each of the facilities to May 26, 2021. Exelon Corporate also increased the size of its facility from $500 million to $600 million. On May 26, 2016, PHI, Pepco, DPL and ACE entered into an amendment to their Second Amended and Restated Credit Agreement dated as of August 1, 2011, which (i) extended the maturity date of the facility to May 26, 2021, (ii) removed PHI as a borrower under the facility, (iii) decreased the size of the facility from $1.5 billion to $900 million and (iv) aligned its financial covenant from debt to capitalization leverage ratio to interest coverage ratio. On May 26, 2017, each of the Registrants' respective syndicated revolving credit facilities had their maturity dates extended to May 26, 2022.

On January 9, 2017, the credit agreement for Generation's $75 million bilateral credit facility was amended and restated to increase the facility size to $100 million and extend the maturity to January 2019. This facility will solely be used by Generation to issue letters of credit.

Borrowings under Exelon Corporate's, Generation's, ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's revolving credit agreements bear interest at a rate based upon either the prime rate or a LIBOR-based rate, plus an adder based upon the particular Registrant's credit rating.

The adders for the prime based borrowings and LIBOR-based borrowings are presented in the following table:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Prime based borrowings	27.5	27.5	7.5	0.0	0.0	7.5	7.5	7.5
LIBOR-based borrowings	127.5	127.5	107.5	90.0	100.0	107.5	107.5	107.5

The maximum adders for prime rate borrowings and LIBOR-based rate borrowings are 90 basis points and 165 basis points, respectively. The credit agreements also require the borrower to pay a facility fee based upon the aggregate commitments. The fee varies depending upon the respective credit ratings of the borrower.

Each revolving credit agreement for Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter.

The following table summarizes the minimum thresholds reflected in the credit agreements for the year ended December 31, 2017:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Credit agreement threshold	2.50 to 1	3.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1

At December 31, 2017, the interest coverage ratios at the Registrants were as follows:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Interest coverage ratio	6.34	9.02	11.68	7.99	10.50	6.35	8.69	5.57

An event of default under Exelon, Generation, ComEd, PECO or BGE's indebtedness will not constitute an event of default under any of the others' credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $100 million in the aggregate by Generation will constitute an event of default under the Exelon Corporate credit facility. An event of default under Pepco, DPL or ACE's indebtedness will not constitute an event of default with respect to the other PHI Utilities under the PHI Utilities' combined credit facility.

The absence of a material adverse change in Exelon's or PHI's business, property, results of operations or financial condition is not a condition to the availability of credit under any of the borrowers' credit agreement. None of the credit agreements include any rating triggers.

Variable Rate Demand Bonds

DPL has outstanding obligations in respect of Variable Rate Demand Bonds (VRDB). VRDBs are subject to repayment on the demand of the holders and, for this reason, are accounted for as short-term debt in accordance with GAAP. However, bonds submitted for purchase are remarketed by a remarketing agent on a best efforts basis. PHI expects that any bonds submitted for purchase will be remarketed successfully due to the creditworthiness of the issuer and, as applicable, the credit support, and because the remarketing resets the interest rate to the then-current market rate. The bonds may be converted to a fixed-rate, fixed-term option to establish a maturity which corresponds to the date of final maturity of the bonds. On this basis, PHI views VRDBs as a source of long-term financing. As of December 31, 2017 and December 31, 2016, $79 million and $105 million, respectively, in variable rate demand bonds issued by DPL were outstanding and are included in the Long-term debt due within one year on Exelon's, PHI's and DPL's Consolidated Balance Sheet.

Long-Term Debt

The following table presents the outstanding long-term debt at Exelon as of December 31, 2017 and 2016:

			December 31,	
	Rates	Maturity Date	2017	2016
Long-term debt				
Rate stabilization bonds	5.82%	2017	$ —	$ 41
First mortgage bonds[a]	1.70% - 7.90%	2018 - 2047	15,197	14,123
Senior unsecured notes	2.45% - 7.60%	2019 - 2046	11,285	11,868
Unsecured notes	2.40% - 6.35%	2021 - 2047	2,600	2,300
Pollution control notes	2.50% - 2.70%	2025 - 2036	435	435
Nuclear fuel procurement contracts	3.15% - 3.35%	2018 - 2020	82	105
Notes payable and other[b][c]	2.61% - 8.88%	2018 - 2053	405	576
Junior subordinated notes	3.50%	2022	1,150	1,150
Contract payment - junior subordinated notes	2.50%	2017	—	19
Long-term software licensing agreement	3.95%	2024	79	103
Unsecured Tax-Exempt Bonds	5.40%	2031	112	112
Medium-Terms Notes (unsecured)	6.81% - 7.72%	2018 - 2027	26	40
Transition bonds	5.05% - 5.55%	2020 - 2023	90	124
Nonrecourse debt:				
Fixed rates	2.29% - 6.00%	2031 - 2037	1,331	1,400
Variable rates	3.18% - 4.00%	2019 - 2024	865	915
Total long-term debt			33,657	33,311
Unamortized debt discount and premium, net			(57)	(68)
Unamortized debt issuance costs			(201)	(200)
Fair value adjustment			865	962
Long-term debt due within one year			(2,088)	(2,430)
Long-term debt			$ 32,176	$ 31,575
Long-term debt to financing trusts[d]				
Subordinated debentures to ComEd Financing III	6.35%	2033	$ 206	$ 206
Subordinated debentures to PECO Trust III	7.38%	2028	81	81
Subordinated debentures to PECO Trust IV	5.75%	2033	103	103
Subordinated debentures to BGE Capital Trust II	6.20%	2043	—	258
Total long-term debt to financing trusts			390	648
Unamortized debt issuance costs			(1)	(7)
Long-term debt to financing trusts			$ 389	$ 641

[a] Substantially all of ComEd's assets other than expressly excepted property and substantially all of PECO's, Pepco's, DPL's and ACE's assets are subject to the liens of their respective mortgage indentures.

[b] Includes capital lease obligations of $53 million and $69 million at December 31, 2017 and 2016, respectively. Lease payments of $18 million, $20 million, $5 million, $1 million, $1 million and $8 million will be made in 2018, 2019, 2020, 2021, 2022 and thereafter, respectively.

[c] Includes financing related to Albany Green Energy, LLC (AGE). During the third quarter of 2017, Generation retired $228 million of its outstanding debt balance. As of December 31, 2016, $198 million was outstanding.

[d] Amounts owed to these financing trusts are recorded as Long-term debt to financing trusts within Exelon's Consolidated Balance Sheets.

Long-term debt maturities at Exelon in the periods 2018 through 2022 and thereafter are as follows:

Year	
2018	$ 2,075
2019	959
2020	3,564
2021	1,513
2022	3,084
Thereafter	22,852
Total	$34,047

(a) Includes $390 million due to ComEd and PECO financing trusts.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes used debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon issued approximately 33 million shares of common stock from treasury stock and received $1.15 billion upon settlement of the forward equity purchase contract. When reissuing treasury stock Exelon uses the average price paid to repurchase shares to calculate a gain or loss on issuance and records gains or losses directly to retained earnings. A loss on reissuance of treasury shares of $1.05 billion was recorded to retained earnings as of December 31, 2017. See Note 21 — Earnings Per Share for further information on the issuance of common stock.

Nonrecourse Debt

Exelon and Generation have issued nonrecourse debt financing, in which approximately $3 billion of generating assets have been pledged as collateral at December 31, 2017. Borrowings under these agreements are secured by the assets and equity of each respective project. The lenders do not have recourse against Exelon or Generation in the event of a default. If a specific project financing entity does not maintain compliance with its specific nonrecourse debt financing covenants, there could be a requirement to accelerate repayment of the associated debt or other borrowings earlier than the stated maturity dates. In these instances, if such repayment was not satisfied, the lenders or security holders would generally have rights to foreclose against the project-specific assets and related collateral. The potential requirement to satisfy its associated debt or other borrowings earlier than otherwise anticipated could lead to impairments due to a higher likelihood of disposing of the respective project-specific assets significantly before the end of their useful lives.

Denver Airport. In June 2011, Generation entered into a 20-year, $7 million solar loan agreement to finance a solar construction project in Denver, Colorado. The agreement is scheduled to mature on June 30, 2031. The agreement bears interest at a fixed rate of 5.50% annually with interest payable annually. As of December 31, 2017, $6 million was outstanding.

CEU Upstream. In July 2011, CEU Holdings, LLC, a wholly owned subsidiary of Generation, entered into a 5-year reserve based lending agreement (RBL) associated with certain Upstream oil and gas properties. The lenders do not have recourse against Exelon or Generation in the event of default pursuant to the RBL. Borrowings under this arrangement are secured by the assets and equity of CEU Holdings.

In December 2016, substantially all of the Upstream natural gas and oil exploration and production assets were sold for $37 million. The proceeds were used to reduce the debt balance by $31 million. The remaining proceeds of $6 million were being held in escrow. In addition, during 2016, $15 million of the debt was repaid using CEU Holding's cash, resulting in an outstanding debt balance of $22 million at December 31, 2016. During 2017, additional assets were sold for $1 million and the remaining $6 million in escrow was released and applied to the debt balance resulting in an outstanding amount of $15 million at December 31, 2017. Upon final resolution, CEU Holdings will be released of its obligations regardless of the amount of asset sale proceeds received. The ultimate resolution of this matter has no direct effect on any Exelon or Generation credit facilities or other debt of an Exelon entity. At December 31, 2017, the outstanding debt balance of $15 million was classified within Long term debt due within one year on Exelon's and Generation's Consolidated Balance Sheets. See Note 4 — Mergers, Acquisitions and Dispositions and Note 7 — Impairment of Long-Lived Assets and Intangibles for additional information.

Holyoke Solar Cooperative. In October 2011, Generation entered into a 20-year, $11 million solar loan agreement related to a solar construction project in Holyoke, Massachusetts. The agreement is scheduled to mature on December 2031. The agreement bears interest at a fixed rate of 5.25% annually with interest payable monthly. As of December 31, 2017, $9 million was outstanding.

Antelope Valley Solar Ranch One. In December 2011, the DOE Loan Programs Office issued a guarantee for up to $646 million for a nonrecourse loan from the Federal Financing Bank to support the financing of the construction of the Antelope Valley facility. The project became fully operational in the first half of 2014. The loan will mature on January 5, 2037. Interest rates on the loan were fixed upon each advance at a spread of 37.5 basis points above U.S. Treasuries of comparable maturity. The advances were completed as of December 31, 2015 and the outstanding loan balance will bear interest at an average blended interest rate of 2.82%. As of December 31, 2017, $530 million was outstanding. In addition, Generation has issued letters of credit to support its equity investment in the project. As of December 31, 2017, Generation had $105 million in letters of credit outstanding related to the project.

Continental Wind. In September 2013, Continental Wind, LLC (Continental Wind), an indirect subsidiary of Exelon and Generation, completed the issuance and sale of $613 million senior secured notes. Continental Wind owns and operates a portfolio of wind farms in Idaho, Kansas, Michigan, Oregon, New Mexico and Texas with a total net capacity of 667MW. The net proceeds were distributed to Generation for its general business purposes. The notes are scheduled to mature on February 28, 2033. The notes bear interest at a fixed rate of 6.00% with interest payable semi-annually. As of December 31, 2017, $512 million was outstanding.

In addition, Continental Wind entered into a $131 million letter of credit facility and $10 million working capital revolver facility. Continental Wind has issued letters of credit to satisfy certain of its credit support and security obligations. As of December 31, 2017, the Continental Wind letter of credit facility had $114 million in letters of credit outstanding related to the project.

ExGen Texas Power. In September 2014, EGTP, an indirect subsidiary of Exelon and Generation, issued $675 million aggregate principal amount of a nonrecourse senior secured term loan. The net proceeds were distributed to Generation for general business purposes. The loan was scheduled to mature on September 18, 2021. In addition to the financing, EGTP entered into various interest rate swaps with an initial notional amount of approximately $505 million at an interest rate of 2.34% to hedge a portion of the interest rate exposure in connection with this financing, as required by the debt covenants.

On May 2, 2017, as a result of the negative impacts of certain market conditions and the seasonality of its cash flows, EGTP entered into a consent agreement with its lenders, which permitted EGTP to draw on its revolving credit facility and initiate an orderly sales process of its assets. On November 7, 2017, the debtors filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. As a result, Exelon and Generation deconsolidated the nonrecourse senior secured term loan, the revolving credit facility, and the interest rate swaps from their consolidated financial statements as of December 31, 2017. Due to their nonrecourse nature, these borrowings are secured solely by the assets of EGTP and its subsidiaries.

Renewable Power Generation. In March 2016, RPG, an indirect subsidiary of Exelon and Generation, issued $150 million aggregate principal amount of a nonrecourse senior secured notes. The net proceeds were distributed to Generation for paydown of long term debt obligations at Sacramento PV Energy and Constellation Solar Horizons and for general business purposes. The loan is scheduled to mature on March 31, 2035. The term loan bears interest at a fixed rate of 4.11% payable semi-annually. As of December 31, 2017, $127 million was outstanding.

SolGen. In September 2016, SolGen, LLC (SolGen), an indirect subsidiary of Exelon and Generation, issued $150 million aggregate principal amount of a nonrecourse senior secured notes. The net proceeds were distributed to Generation for general business purposes. The loan is scheduled to mature on September 30, 2036. The term loan bears interest at a fixed rate of 3.93% payable semi-annually. As of December 31, 2017, $147 million was outstanding.

ExGen Renewables IV. In November 2017, EGR IV, an indirect subsidiary of Exelon and Generation, entered into an $850 million nonrecourse senior secured term loan credit facility agreement. The net proceeds of $785 million, after the initial funding of $50 million for debt service and liquidity reserves as well as deductions for original discount and estimated costs, fees and expenses incurred in connection with the execution and delivery of the credit facility agreement, were distributed to Generation for general corporate purposes. The $50 million of debt service and liquidity reserves was treated as restricted cash on Exelon's and Generation's Consolidated Balance Sheets and Consolidated Statements of Cash Flows. The loan is scheduled to mature on November 28, 2024. The term loan bears interest at a variable rate equal to LIBOR + 3%, subject to a 1% LIBOR floor with interest payable quarterly. As of December 31, 2017, $850 million was outstanding. In addition to the financing, EGR IV entered into interest rate swaps with an initial notional amount of $636 million at an interest rate of 2.32% to manage a portion of the interest rate exposure in connection with the financing.

14. Income Taxes

Corporate Tax Reform

On December 22, 2017, President Trump signed the TCJA into law. The TCJA makes many significant changes to the Internal Revenue Code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) creating a 30% limitation on deductible interest expense (not applicable to regulated utilities); (3) allowing 100% expensing for the cost of qualified property (not applicable to regulated utilities); (4) eliminating the domestic production activities deduction; (5) eliminating the corporate alternative minimum tax and changing how existing alternative minimum tax credits can be realized; and (6) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. The most significant change that impacts the Registrants is the reduction of the corporate federal income tax rate from 35% to 21% beginning January 1, 2018.

Pursuant to the enactment of the TCJA, the Registrants remeasured their existing deferred income tax balances as of December 31, 2017 to reflect the decrease in the corporate income tax rate from 35% to 21%, which resulted in a material decrease to their net deferred income tax liability balances as shown in the table below. Generation recorded a corresponding net decrease to income tax expense, while the Utility Registrants recorded corresponding regulatory liabilities or assets to the extent such amounts are probable of settlement or recovery through customer rates and an adjustment to income tax expense for all other amounts. The amount and timing of potential settlements of the established net regulatory liabilities will be determined by the Utility Registrants' respective rate regulators, subject to certain IRS "normalization" rules. See Note 3 — Regulatory Matters for further information.

The Registrants have completed their assessment of the majority of the applicable provisions in the TCJA and have recorded the associated impacts as of December 31, 2017. As discussed further below, under SAB 118 issued by the SEC in December 2017, the Registrants have recorded provisional income tax amounts as of December 31, 2017 for changes pursuant to the TCJA related to depreciation for which the impacts could not be finalized upon issuance of the Registrants' financial statements, but for which reasonable estimates could be determined.

For property acquired and placed-in-service after September 27, 2017, the TCJA repeals 50% bonus depreciation for all taxpayers and in addition provides for 100% expensing for taxpayers other than regulated utilities. As a result, Generation will be required to evaluate the contractual terms of its fourth quarter 2017 capital additions and determine if they qualify for 100% expensing under the TCJA as compared to 50% bonus depreciation under prior tax law. Similarly, the Utility Registrants will be required to evaluate the contractual terms of their fourth quarter 2017 capital additions to determine whether they still qualify for the prior tax law's 50% bonus depreciation as compared to no bonus depreciation pursuant to the TCJA. As of December 31, 2017, the Registrants have not completed this analysis but were able to record a reasonable estimate of the effects of these changes based on capital costs incurred at each of the Registrants prior to and after the beginning of the fourth quarter of 2017.

At Generation, any required changes to the provisional estimates during the measurement period related to the above item would result in an adjustment to current income tax expense at 35% and a corresponding adjustment to deferred income tax expense at 21% and such changes could be material to Generation's future results of operations. At the Utility Registrants, any required changes to the provisional estimates would result in the recording of regulatory assets or liabilities to the extent such amounts are probable of settlement or recovery through customer rates and a net change to income tax expense for any other amounts.

The Registrants expect any final adjustments to the provisional amounts to be recorded by the third quarter of 2018, which could be material to the Registrants' future results of operations or financial positions. The accounting for all other applicable provisions of the TCJA is considered complete based on our current interpretation of the provisions of the TCJA as enacted as of December 31, 2017.

While the Registrants have recorded the impacts of the TCJA based on their interpretation of the provisions as enacted, it is expected that technical corrections or other forms of guidance will be issued during 2018, which could result in material changes to previously finalized provisions. At this time, most states have not provided guidance regarding TCJA impacts and may issue guidance in 2018 which may impact estimates.

The one-time impacts recorded by the Registrants to remeasure their deferred income tax balances at the 21% corporate federal income tax rate as of December 31, 2017 are presented below:

						Successor			
	Exelon[b]	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Net Decrease to Deferred Income Tax Liability Balances	$8,624	$1,895	$2,819	$1,407	$1,120	$1,944	$968	$540	$456

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**[c]	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Net Regulatory Liability Recorded[a]	$7,315	N/A	$2,818	$1,394	$1,124	$1,979	$976	$545	$458

						Successor			
	Exelon[b]	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Net Deferred Income Tax Benefit/ (Expense) Recorded	$1,309	$1,895	$1	$13	$(4)	$(35)	$(8)	$(5)	$(2)

[a] Reflects the net regulatory liabilities recorded on a pre-tax basis before taking into consideration the income tax benefits associated with the ultimate settlement with customers.

[b] Amounts do not sum across due to deferred tax adjustments recorded at the Exelon Corporation parent company, primarily related to certain employee compensation plans.

[c] Given the regulatory treatment of income tax benefits related to electric and gas distribution repairs, PECO remains in an overall net regulatory asset position as of December 31, 2017 after recording the impacts related to the TCJA. Refer to Note 3 - Regulatory Matters for additional information.

The net regulatory liabilities above include (1) amounts subject to IRS "normalization" rules that are required to be passed back to customers generally over the remaining useful life of the underlying assets giving rise to the associated deferred income taxes, and (2) amounts for which the timing of settlement with customers is subject to determinations by the rate regulators.

The table below sets forth the Registrants' estimated categorization of their net regulatory liabilities as of December 31, 2017. The amounts in the table below are shown on an after-tax basis reflecting future net cash outflows after taking into consideration the income tax benefits associated with the ultimate settlement with customers.

					Successor			
	Exelon	**ComEd**	**PECO**[a]	**BGE**	**PHI**	**PEPCO**	**DPL**	**ACE**
Subject to IRS Normalization Rules	$3,040	$1,400	$533	$459	$ 648	$299	$ 195	$ 153
Subject to Rate Regulator Determination	1,694	573	43	324	754	391	194	170
Net Regulatory Liabilities	$4,734	$1,973	$576	$783	$1,402	$690	$ 389	$ 323

[a] Given the regulatory treatment of income tax benefits related to electric and gas distribution repairs, PECO remains in an overall net regulatory asset position as of December 31, 2017 after recording the impacts related to the TCJA. As a result, the amount of customer benefits resulting from the TCJA subject to the discretion of PECO's rate regulators are lower relative to the other Utility Registrants. Refer to Note 3 - Regulatory Matters for additional information.

The net regulatory liability amounts subject to the IRS normalization rules generally relate to property, plant and equipment with remaining useful lives ranging from 30 to 40 years across the Utility Registrants. For the other amounts, rate regulators could require the passing back of amounts to customers over shorter time frames.

Components of Income Tax Expense or Benefit

Income tax expense (benefit) from continuing operations is comprised of the following components:

	For the Years Ended December 31,		
	2017	2016	2015
Included in operations:			
Federal			
Current	$ 194	$ 60	$ 407
Deferred	(469)	607	566
Investment tax credit amortization	(25)	(24)	(22)
State			
Current	14	39	(86)
Deferred	161	79	208
Total	$(125)	$761	$1,073

Rate Reconciliation

The effective income tax rate from continuing operations varies from the U.S. Federal statutory rate principally due to the following:

	For the Years Ended December 31,		
	2017	2016	2015
U.S. Federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
State income taxes, net of Federal income tax benefit[c]	2.3	3.3	3.7
Qualified nuclear decommissioning trust fund income (loss)	3.8	3.4	(0.4)
Amortization of investment tax credit, including deferred taxes on basis difference	(0.9)	(1.2)	(0.9)
Plant basis differences[a]	(1.7)	(4.8)	(1.5)
Production tax credits and other credits	(1.8)	(3.6)	(1.9)
Noncontrolling interests	0.1	(0.2)	0.3
Like-kind exchange	(1.2)	—	—
Merger expenses	(3.7)	5.5	—
FitzPatrick bargain purchase gain	(2.2)	—	—
Tax Cut and Jobs Act of 2017[b]	(33.1)	—	—
Statute of limitations expiration	—	(0.4)	(1.4)
Penalties	—	1.9	—
Domestic production activities deduction	—	—	(0.7)
Other[d][e]	0.1	(0.6)	—
Effective income tax rate	(3.3)%	38.3%	32.2%

[a] Includes the charges related to the transmission-related income tax regulatory asset for Exelon, ComEd, BGE, PHI, Pepco, DPL, and ACE of $35 million, $3 million, $5 million, $27 million, $14 million, $6 million, and $7 million, respectively (See Footnote 3 - Regulatory Matters).

[b] Included are impacts for TJCA other than the corporate rate change, including revisions further limiting tax deductions for compensation of certain highest paid executives, the write-off of foreign tax credit carryforwards, and loss of a 2015 domestic production activities deduction due to an NOL carryback.

[c] In 2016, includes a remeasurement of uncertain state income tax positions for Pepco and DPL.

[d] At PECO in 2016, includes a cumulative adjustment related to an anticipated gas repairs tax return accounting method change. The method change request was filed and accepted in 2017. No change to the results recorded as of December 31, 2016.

[e] In 2015, includes impacts of the PHI Global Settlement for Pepco, DPL, ACE and PHI.

Tax Differences and Carryforwards

The tax effects of temporary differences and carryforwards, which give rise to significant portions of the deferred tax assets (liabilities), as of December 31, 2017 and 2016 are presented below:

	As of December 31,	
	2017[(a)]	2016
Plant basis differences	$(12,490)	$(17,966)
Accrual based contracts	150	434
Derivatives and other financial instruments	(85)	(179)
Deferred pension and postretirement obligation	1,463	2,287
Nuclear decommissioning activities	(553)	(509)
Deferred debt refinancing costs	217	325
Regulatory assets and liabilities	(688)	(3,319)
Tax loss carryforward	344	189
Tax credit carryforward	861	446
Investment in partnerships	(434)	(650)
Other, net	746	1,485
Deferred income tax liabilities (net)	$(10,469)	$(17,457)
Unamortized investment tax credits	(732)	(658)
Total deferred income tax liabilities (net) and unamortized investment tax credits	$(11,201)	$(18,115)

(a) Includes remeasurement impacts related to the TCJA.

The following table provides Exelon's carryforwards and any corresponding valuation allowances as of December 31, 2017:

Federal	
Federal net operating loss	$ 624(a)
Deferred taxes on Federal net operating loss	131
Federal general business credits carryforwards	861(b)
State	
State net operating losses	3,555(c)
Deferred taxes on state tax attributes (net)	233
Valuation allowance on state tax attributes	29

(a) Exelon's federal net operating loss will begin expiring in 2034.

(b) Exelon's federal general business credit carryforwards will begin expiring in 2033.

(c) Exelon's state net operating losses and credit carryforwards, which are presented on a post-apportioned basis, will begin expiring in 2018.

Tabular Reconciliation of Unrecognized Tax Benefits

The following tables provide a reconciliation of Exelon's unrecognized tax benefits as of December 31, 2017, 2016 and 2015:

Unrecognized tax benefits at January 1, 2017	$ 916
Increases based on tax positions related to 2017	—
Decreases based on tax positions related to 2017	—
Change to positions that only affect timing	—
Increases based on tax positions prior to 2017	28
Decreases based on tax positions prior to 2017	(196)
Decrease from settlements with taxing authorities	(5)
Decreases from expiration of statute of limitations	—
Unrecognized tax benefits at December 31, 2017	$ 743

Unrecognized tax benefits at January 1, 2016	$1,078
Merger balance transfer	22
Increases based on tax positions related to 2016	108
Decreases based on tax positions related to 2016	—
Change to positions that only affect timing	(332)
Increases based on tax positions prior to 2016	88
Decreases based on tax positions prior to 2016	(21)
Decrease from settlements with taxing authorities	(27)
Decreases from expiration of statute of limitations	—
Unrecognized tax benefits at December 31, 2016	$ 916

Unrecognized tax benefits at January 1, 2015	$1,829
Increases based on tax positions related to 2015	108
Decreases based on tax positions related to 2015	—
Change to positions that only affect timing	(705)
Increases based on tax positions prior to 2015	79
Decreases based on tax positions prior to 2015	(116)
Decreases from settlements with taxing authorities	(31)
Decreases from expiration of statute of limitations	(86)
Unrecognized tax benefits at December 31, 2015	$1,078

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL, and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, in the first quarter of 2017 resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

Exelon reduced the liability related to the uncertain tax position associated with the like-kind exchange in the second quarter of 2017. Please see the Other Income Tax Matters section below for additional details related to the like-kind exchange adjustments made in the second quarter of 2017.

Exelon and Generation have $7 million of unrecognized tax benefits at December 31, 2017 for which the ultimate tax benefit is highly certain, but for which there is uncertainty about the timing of such benefits.

Exelon, Generation, and ComEd had $83 million, $7 million, and $(12) million of unrecognized tax benefits at December 31, 2016 for which the ultimate tax benefit is highly certain, but for which there is uncertainty about the timing of such benefits.

Exelon, Generation, and ComEd had $415 million, $20 million and $142 million of unrecognized tax benefits at December 31, 2015 for which the ultimate tax benefit is highly certain, but for which there is uncertainty about the timing of such benefits.

The disallowance of such positions would not materially affect the annual effective tax rate but would accelerate the payment of cash to, or defer the receipt of the cash tax benefit from, the taxing authority to an earlier or later period respectively.

Unrecognized Tax Benefits that if Recognized would Affect the Effective Tax Rate

Exelon, Generation, ComEd and PHI have $523 million, $461 million, $2 million, and $32 million, respectively, of unrecognized tax benefits at December 31, 2017 that, if recognized, would decrease the effective tax rate. BGE, PHI, Pepco, DPL, and ACE have $120 million, $94 million, $59 million, $21 million, and $14 million of unrecognized tax benefits at December 31, 2017 that, if recognized, may be included in future base rates and that portion would have no impact to the effective tax rate.

Exelon, Generation, PHI, Pepco, DPL, and ACE had $633 million, $483 million, $93 million, $21 million, $16 million, and $22 million, respectively, of unrecognized tax benefits at December 31, 2016 that, if recognized, would decrease the effective tax rate. BGE, PHI, Pepco and DPL had $120 million, $80 million, $59 million, and $21 million of unrecognized tax benefits at December 31, 2016 that, if recognized, may be included in future base rates and that portion would have no impact to the effective tax rate.

Exelon, Generation, and PHI had $538 million, $509 million, and $11 million, respectively, of unrecognized tax benefits at December 31, 2015 that, if recognized, would decrease the effective tax rate. BGE, PHI, Pepco and DPL had $120 million, $11 million, $8 million and $3 million of unrecognized tax benefits at December 31, 2015 that, if recognized, may be included in future base rates and that portion would have no impact to the effective tax rate.

Reasonably Possible the Total Amount of Unrecognized Tax Benefits could Significantly Increase or Decrease within 12 Months after the Reporting Date

Like-Kind Exchange

As of December 31, 2017, Exelon and ComEd have approximately $39 million and $2 million, respectively, of unrecognized federal and state income tax benefits that could significantly decrease within the 12 months after the reporting date due to a final resolution of the like-kind exchange litigation described below. The recognition of these unrecognized tax benefits would decrease Exelon and ComEd's effective tax rate.

Settlement of Income Tax Audits, Refund Claims, and Litigation

As of December 31, 2017, Exelon, Generation, BGE, PHI, Pepco, DPL, and ACE have approximately $683 million, $469 million, $120 million, $94 million, $59 million, $21 million, $14 million respectively, of unrecognized federal and state tax benefits that could significantly decrease within the 12 months after the reporting date as a result of completing audits, potential settlements, refund claims, and the outcomes of pending court cases. Of the above unrecognized tax benefits, Exelon and Generation have $462 million that, if recognized, would decrease the effective tax rate. The unrecognized tax benefit related to BGE, Pepco, DPL and ACE, if recognized, may be included in future base rates and that portion would have no impact to the effective tax rate.

Total Amounts of Interest and Penalties Recognized

The following table represents the net interest and penalties receivable (payable), including interest and penalties related to tax positions reflected in Exelon's Consolidated Balance Sheets.

	As of December 31,	
	2017	2016
Net interest receivable (payable)[a]	$ 233	(507)
Net penalties receivable (payable)	$ (17)	(106)

[a] Change in balance attributable to Like-Kind Exchange interest payments, see Other Tax Matters for further discussion.

The following tables set forth the net interest and penalty expense, including interest and penalties related to tax positions, recognized in Interest expense, net and Other, net in Other income and deductions in Exelon's Consolidated Statements of Operations and Comprehensive Income.

	For the Years Ended December 31,		
	2017	2016	2015
Net interest expense (income)	$37	$165	$(13)
Net penalty expense (income)	(2)	106	—

Description of Tax Years Open to Assessment by Major Jurisdiction

Taxpayer	Open Years
Exelon (and predecessors) and subsidiaries consolidated Federal income tax returns	1999, 2001-2016
PHI Holdings and subsidiaries consolidated Federal income tax returns	2013-2016
Exelon and subsidiaries Illinois unitary income tax returns	2013-2016
Constellation Illinois unitary income tax returns	2011-March 2012
Constellation combined New York corporate income tax returns	2010-March 2012
Exelon combined New York corporate income tax returns	2011-2016
Exelon New Jersey corporate income tax returns	2013-2015
Various separate company (excluding PECO) Pennsylvania corporate net income tax returns	2011-2016
PECO Pennsylvania separate company returns	2010-2016
DPL Delaware separate company returns	Same as Federal
ACE New Jersey separate company returns	2013-2016
Exelon and subsidiaries District of Columbia corporate income tax returns	2014-2016
PHI Holdings and subsidiaries District of Columbia corporate income tax returns	2014-2016
Various separate company Maryland corporate net income tax returns	Same as Federal

Other Tax Matters

Like-Kind Exchange

Exelon, through its ComEd subsidiary, took a position on its 1999 income tax return to defer approximately $1.2 billion of tax gain on the sale of ComEd's fossil generating assets. The gain was deferred by reinvesting a portion of the proceeds from the sale in qualifying replacement property under the like-kind exchange provisions of the IRC. The like-kind exchange replacement property purchased by Exelon included interests in three municipal-owned electric generation facilities which were properly leased back to the municipalities.

The IRS disagreed with this position and asserted that the entire gain of approximately $1.2 billion was taxable in 1999. Exelon was unable to reach agreement with the IRS regarding the dispute over the like-kind exchange position. The IRS asserted that the Exelon purchase and leaseback transaction was substantially similar to a leasing transaction, known as a SILO, which the IRS does not respect as the acquisition of an ownership interest in property. A SILO is a "listed transaction" that the IRS has identified as a potentially abusive tax shelter under guidance issued in 2005. Accordingly, the IRS asserted that the sale of the fossil plants followed by the purchase and leaseback of the municipal owned generation facilities did not qualify as a like-kind exchange and the gain on the sale is fully subject to tax. The IRS also asserted a penalty of approximately $90 million for a substantial understatement of tax.

On September 30, 2013, the IRS issued a notice of deficiency to Exelon for the like-kind exchange position. Exelon filed a petition on December 13, 2013 to initiate litigation in the United States Tax Court (Tax Court) and the trial took place in August of 2015. Exelon was not required to remit any part of the asserted tax or penalty in order to litigate the issue.

On September 19, 2016, the Tax Court rejected Exelon's position in the case and ruled that Exelon was not entitled to defer gain on the transaction. In addition, contrary to Exelon's evaluation that the penalty was unwarranted, the Tax Court ruled that Exelon is liable for the penalty and interest due on the asserted penalty. In June of 2017, the IRS finalized its computation of tax, penalties and interest owed by Exelon pursuant to the Tax Court's decision. In September of 2017, Exelon appealed this decision to the U.S. Court of Appeals for the Seventh Circuit.

In the first quarter of 2013, Exelon concluded that it was no longer more likely than not that the like-kind exchange position would be sustained and recorded charges to earnings representing the amount of interest expense (after-tax) and incremental state income tax expense that would be payable in the event Exelon is unsuccessful in litigation. Exelon agreed to hold ComEd harmless from any unfavorable impacts on ComEd's equity of the after-tax interest and penalty amounts.

Prior to the Tax Court's decision, however, Exelon did not believe it was likely a penalty would be assessed based on applicable case law and the facts of the transaction. As a result, no charge had been recorded for the penalty or for after-tax interest on the penalty. While it has strong arguments on appeal with respect to both the merits and the penalty, Exelon has determined that, pursuant to the applicable authoritative guidance, it is no longer more likely than not to avoid ultimate imposition of the penalty. As a result, in the third quarter of 2016, Exelon and ComEd recorded a charge to earnings of approximately $106 million and $86 million, respectively, of penalty and approximately $94 million and $64 million, respectively, of after-tax interest. Exelon and ComEd recorded the penalty and pre-tax interest due on the asserted penalty to Other, net and Interest expense, net, respectively, on their Consolidated Statements of Operations. Consistent with Exelon's agreement to continue to hold ComEd harmless from any unfavorable impact on its equity from the like-kind exchange position, ComEd recorded on its Consolidated Balance Sheets as of September 30, 2016, an additional $150 million receivable and non-cash equity contributions from Exelon.

As a result of the IRS's finalization of its computation in the second quarter of 2017, Exelon recorded a benefit to earnings of approximately $26 million, consisting of an income tax benefit of $50 million and a reduction of penalties of $2 million, partially offset by after-tax interest expense of $26 million, while ComEd recorded a charge to earnings of approximately $23 million, consisting of income tax expense of $15 million and after-tax interest expense of $8 million.

In the second quarter of 2017, Exelon amended its agreement with ComEd to also hold ComEd harmless for the unfavorable impacts on its equity from the additional income tax amounts owed by ComEd as a result of the IRS's finalization of its computation related to the like-kind exchange position. Accordingly, in the second quarter of 2017, ComEd recorded an additional receivable and non-cash equity contribution from Exelon for the total $23 million. As of June 30, 2017, ComEd had a total receivable from Exelon pursuant to the hold harmless agreement of $369 million, which was included in Current Receivables from Affiliates on ComEd's Consolidated Balance Sheet.

In the fourth quarter of 2017, the IRS assessed the tax, penalties and interest of approximately $1.3 billion related to the like-kind exchange, including $300 million attributable to ComEd. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts on ComEd's equity from the like-kind exchange position. Following a final appellate decision, which is expected in 2018, Exelon expects to receive approximately $60 million related to final interest computations.

Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings. As a result of the IRS's assessment of the tax, penalties and interest in the fourth quarter of 2017, the deposit is no longer available to Exelon and thus was reclassified from a current asset and is now reflected as an offset to the related liabilities for the tax, penalties, and interest that are included on Exelon's balance sheet as current liabilities. The remaining amount due of approximately $20 million was paid in the fourth quarter of 2017. The $300 million payable discussed above attributable to ComEd, net of ComEd's receivable pursuant to the hold harmless agreement, was settled with Exelon in the third quarter of 2017. No recovery will be sought from ComEd customers for any interest, penalty, or additional income tax payment amounts resulting from the like-kind exchange tax position.

As previously disclosed, in the first quarter of 2014, Exelon entered into an agreement to terminate its investment in one of the three municipal-owned electric generation properties in exchange for a net early termination amount of $335 million. In the first quarter of 2016, Exelon terminated its interests in the remaining two municipal-owned electric generation properties in exchange for $360 million.

Long-Term State Tax Apportionment

Exelon, Generation and PHI periodically review events that may significantly impact how income is apportioned among the states and, therefore, the calculation of their respective deferred state income taxes. Events that may require Exelon, Generation and PHI to update their long-term state tax apportionment include significant changes in tax law and/or significant operational changes. Exelon's, PHI's and Pepco's long-term marginal state income tax rate were revised in the first quarter of 2017 as a result of a statutory rate change in Washington, D.C. As a result, Exelon, PHI and Pepco recorded a one-time decrease to Deferred income tax liability of $28 million, $8 million and $8 million, respectively, on their Consolidated Balance Sheets. Because income taxes are recovered through customer rates, Exelon, PHI and Pepco recorded a corresponding regulatory liability of $8 million, in the Consolidated Balance Sheets. In addition, Exelon recorded a decrease to Income tax expense of $20 million, net of federal taxes, in the Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2017.

In the third quarter of 2017, Exelon reviewed and updated its marginal state income tax rates based on 2016 state apportionment rates. In addition, Exelon, Generation and ComEd recorded the impacts of Illinois' statutory rate change, which increased the total corporate income tax rate from 7.75% to 9.5% effective July 1, 2017. As a result of the rate changes, in the third quarter of 2017, Exelon, Generation and ComEd recorded a one-time increase to Deferred income taxes of approximately $250 million, $20 million and $270 million, respectively, on their Consolidated Balance Sheets. Because income taxes are recovered through customer rates, each of Exelon and ComEd recorded a corresponding regulatory asset of $272 million. Further, Exelon recorded a decrease to Income tax expense of approximately $20 million and Generation recorded an increase to Income tax expense of approximately $20 million (each net of federal taxes) in their Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2017. The Illinois statutory rate increase is not expected to have a material ongoing impact to Exelon's, Generation's or ComEd's future results of operations.

Allocation of Tax Benefits

Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE are all party to an agreement with Exelon and other subsidiaries of Exelon that provides for the allocation of consolidated tax liabilities and benefits (Tax Sharing Agreement). The Tax Sharing Agreement provides that each party is allocated an amount of tax similar to that which would be owed had the party been separately subject to tax. In addition, any net benefit attributable to Exelon is reallocated to the other Registrants. That allocation is treated as a contribution to the capital of the party receiving the benefit. During 2017, Generation, PECO, BGE, and PHI recorded an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement of $102 million, $16 million, $10 million and $7 million respectively. ComEd, Pepco, DPL, and ACE did not record an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement as a result of a tax net operating loss.

During 2016, Generation, PECO and BGE recorded an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement of $94 million, $18 million and $8 million respectively. ComEd did not record an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement as a result of a tax net operating loss. PHI, Pepco, DPL and ACE did not record an allocation of Federal tax benefits from Exelon as they were not a part of Exelon's 2015 consolidated tax return.

During 2015, Generation, PECO and BGE recorded an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement of $57 million, $16 million and $7 million respectively. ComEd did not record an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement as a result of a tax net operating loss.

15. Asset Retirement Obligations

Nuclear Decommissioning Asset Retirement Obligations

Generation has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. To estimate its decommissioning obligation related to its nuclear generating stations for financial accounting and reporting purposes, Generation uses a probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple outcome scenarios that include significant estimates and assumptions, and are based on decommissioning cost studies, cost escalation rates, probabilistic cash flow models and discount rates. Generation updates its ARO annually unless circumstances warrant more frequent updates, based on its review of updated cost studies and its annual evaluation of cost escalation factors and probabilities assigned to various scenarios.

The following table provides a rollforward of the nuclear decommissioning ARO reflected on Exelon's Consolidated Balance Sheets, from January 1, 2016 to December 31, 2017:

Nuclear decommissioning ARO at January 1, 2016	$8,246
Accretion expense	436
Net increase for changes in and timing of estimated future cash flows	61
Costs incurred related to decommissioning plants	(9)
Nuclear decommissioning ARO at December 31, 2016[(a)]	8,734
Accretion Expense	458
Acquisition of FitzPatrick	444
Net increase for changes in and timing of estimated future cash flows	34
Costs incurred related to decommissioning plants	(8)
Nuclear decommissioning ARO at December 31, 2017[(a)]	9,662

(a) Includes $13 million and $10 million as the current portion of the ARO at December 31, 2017 and 2016, respectively, which is included in Other current liabilities on Exelon's and Generation's Consolidated Balance Sheets.

During 2017, Generation's total nuclear ARO increased by approximately $928 million, primarily reflecting year-to-date accretion of the ARO liability due to the passage of time, the recording of the fair value of the ARO, including subsequent purchase accounting adjustments, for the acquisition of FitzPatrick (see Note 4—Mergers, Acquisitions and Dispositions), the announced early retirement of TMI, and impacts of ARO updates completed during 2017 to reflect changes in amounts and timing of estimated decommissioning cash flows.

The net $34 million increase in the ARO during 2017 for changes in the amounts and timing of estimated decommissioning cash flows was driven by multiple adjustments throughout the year, some with offsetting impacts. These adjustments include a $178 million increase due to higher assumed probabilities of early retirement of Salem and a $138 million increase in TMI's ARO liability associated with the May 30, 2017 announcement to early retire the unit on September 30, 2019. The increase in the ARO liability for TMI incorporates the early shutdown date, increases the probabilities of longer term decommissioning scenarios, and reflects an increase in the estimated costs to decommission based on an updated decommissioning cost study. See Note 8—Early Nuclear Plant Retirements for additional information regarding Salem and TMI. These increases in the ARO were partially offset by a $180 million decrease for refinements in estimated fleet wide labor costs expected to be incurred for certain on-site personnel during decommissioning as well as net decreases resulting from updates to the cost studies of Clinton, Quad Cities and Dresden.

During 2016, Generation's ARO increased by approximately $488 million, primarily reflecting year-to-date accretion of the ARO liability of approximately $436 million due to the passage of time and impacts of ARO updates completed during 2016 to reflect changes in amounts and timing of estimated decommissioning cash flows. The $61 million increase in the ARO during 2016 for changes in the amounts and timing of estimated decommissioning cash flows was driven by multiple adjustments throughout the year, some with offsetting impacts. These adjustments include increases of $288 million resulting from the change in the assumed DOE spent fuel acceptance date for disposal from 2025 to 2030 as well as increases resulting from updates to the cost studies of Oyster Creek, Zion, Calvert Cliffs, Ginna and Nine Mile Point. These increases were partially offset by a decrease of $165 million resulting from changes to the decommissioning scenarios and their probabilities as well as reductions in estimated cost escalation rates, primarily for labor, energy and waste burial costs. Most of the increase to the ARO resulting from the June 2, 2016, announcement to early retire Clinton and Quad Cities was reversed pursuant to the December 7, 2016, enactment of the Illinois FEJA. See Note 8—Early Nuclear Plant Retirements for additional information.

Nuclear Decommissioning Trust Fund Investments

NDT funds have been established for each generation station unit to satisfy Generation's nuclear decommissioning obligations. Generally, NDT funds established for a particular unit may not be used to fund the decommissioning obligations of any other unit.

The NDT funds associated with Generation's nuclear units have been funded with amounts collected from the previous owners and their respective utility customers. PECO is authorized to collect funds, in revenues, for decommissioning the former PECO nuclear plants through regulated rates, and these collections are scheduled through the operating lives of the former PECO plants. The amounts collected from PECO customers are remitted to Generation and deposited into the NDT funds for the unit for which funds are collected. Every five years, PECO files a rate adjustment with the PAPUC that reflects PECO's calculations of the estimated amount needed to decommission each of the former PECO units based on updated fund balances and estimated decommissioning costs. The rate adjustment is used to determine the amount collectible from PECO customers. On March 31, 2017, PECO filed its Nuclear Decommissioning Cost Adjustment (NDCA) with the PAPUC proposing an annual recovery from customers of approximately $4 million. This amount reflects a decrease from the current approved annual collection of approximately $24 million primarily due to the removal of the collections for Limerick Units 1 and 2 as a result of the NRC approving the extension of the operating licenses for an additional 20 years. On August 8, 2017, the PAPUC approved the filing and the new rates became effective January 1, 2018.

Any shortfall of funds necessary for decommissioning, determined for each generating station unit, is ultimately required to be funded by Generation, with the exception of a shortfall for the current decommissioning activities at Zion Station, where certain decommissioning activities have been transferred to a third-party (see Zion Station Decommissioning below) and the CENG units, where any shortfall is required to be funded by both Generation and EDF. Generation, through PECO, has recourse to collect additional amounts from PECO customers related to a shortfall of NDT funds for the former PECO units, subject to certain limitations and thresholds, as prescribed by an order from the PAPUC. Generally, PECO, and likewise Generation will not be allowed to collect amounts associated with the first $50 million of any shortfall of trust funds compared to decommissioning costs, as well as 5% of any additional shortfalls, on an aggregate basis for all former PECO units. The initial $50 million and up to 5% of any additional shortfalls would be borne by Generation. No recourse exists to collect additional amounts from utility customers for any of Generation's other nuclear units. With respect to the former ComEd and PECO units, any funds remaining in the NDTs after all decommissioning has been completed are required to be refunded to ComEd's or PECO's customers, subject to certain limitations that allow sharing of excess funds with Generation related to the former PECO units. With respect to Generation's other nuclear units, Generation retains any funds remaining after decommissioning. However, in connection with CENG's acquisition of the Nine Mile Point and Ginna plants and settlements with certain regulatory agencies, CENG is subject to certain conditions pertaining to nuclear decommissioning trust funds that, if met, could possibly result in obligations to make payments to certain third parties (clawbacks). For Nine Mile Point and Ginna, the clawback provisions are triggered only in the event that the required decommissioning activities are discontinued or not started or completed in a timely manner. In the event that the clawback provisions are triggered for Nine Mile Point, then, depending upon the triggering event, an amount equal to 50% of the total amount withdrawn from the funds for non-decommissioning activities or 50% of any excess funds in the trust funds above the amounts required for decommissioning (including spent fuel management and decommissioning) is to be paid to the Nine Mile Point sellers. In the event that the clawback provisions are triggered for Ginna, then an amount equal to any estimated cost savings realized by not completing any of the required decommissioning activities is to be paid to the Ginna sellers. Generation expects to comply with applicable regulations and timely commence and complete all required decommissioning activities.

At December 31, 2017 and 2016, Exelon and Generation had NDT fund investments totaling $13,349 million and $11,061 million, respectively. The increase is primarily driven by improved market performance and the acquisition of FitzPatrick. For additional information related to the NDT fund investments, refer to Note 11—Fair Value of Financial Assets and Liabilities.

The following table provides unrealized gains on NDT funds for 2017, 2016 and 2015:

	For the Years Ended December 31,		
	2017	2016	2015
Net unrealized gains (losses) on decommissioning trust funds—Regulatory Agreement Units[a]	$455	$216	$ (282)
Net unrealized gains (losses) on decommissioning trust funds—Non-Regulatory Agreement Units[b][c]	521	194	(197)

[a] Net unrealized gains (losses) related to Generation's NDT funds associated with Regulatory Agreement Units are included in Regulatory liabilities on Exelon's Consolidated Balance Sheets and Noncurrent payables to affiliates on Generation's Consolidated Balance Sheets.

[b] Excludes $(10) million, $(1) million and $7 million of net unrealized gains (losses) related to the Zion Station pledged assets in 2017, 2016 and 2015, respectively. Net unrealized gains related to Zion Station pledged assets are included in the Other current liabilities and Payable for Zion Station decommissioning on Exelon's and Generation's Consolidated Balance Sheets in 2017 and 2016, respectively.

[c] Net unrealized gains (losses) related to Generation's NDT funds with Non-Regulatory Agreement Units are included within Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Interest and dividends on NDT fund investments are recognized when earned and are included in Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. Interest and dividends earned on the NDT fund investments for the Regulatory Agreement Units are eliminated within Other, net in Exelon's and Generation's Consolidated Statement of Operations and Comprehensive Income.

Accounting Implications of the Regulatory Agreements with ComEd and PECO

Based on the regulatory agreement with the ICC that dictates Generation's obligations related to the shortfall or excess of NDT funds necessary for decommissioning the former ComEd units on a unit-by-unit basis, as long as funds held in the NDT funds are expected to exceed the total estimated decommissioning obligation, decommissioning-related activities, including realized and unrealized gains and losses on the NDT funds and accretion of the decommissioning obligation, are generally offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. The offset of decommissioning-related activities within the Consolidated Statement of Operations and Comprehensive Income results in an equal adjustment to the noncurrent payables to affiliates at Generation and an adjustment to the regulatory liabilities at Exelon. Likewise, ComEd has recorded an equal noncurrent affiliate receivable from Generation and corresponding regulatory liability. Should the expected value of the NDT fund for any former ComEd unit fall below the amount of the expected decommissioning obligation for that unit, the accounting to offset decommissioning-related activities in the Consolidated Statement of Operations and Comprehensive Income for that unit would be discontinued, the decommissioning-related activities would be recognized in the Consolidated Statements of Operations and Comprehensive Income and the adverse impact to Exelon's and Generation's results of operations and financial positions could be material. As of December 31, 2017, the NDT funds of each of the former ComEd units, except for Zion (see Zion Station Decommissioning below), are expected to exceed the related decommissioning obligation for each of the units. For the purposes of making this determination, the decommissioning obligation referred to is different, as described below, from the calculation used in the NRC minimum funding obligation filings based on NRC guidelines.

Based on the regulatory agreement supported by the PAPUC that dictates Generation's rights and obligations related to the shortfall or excess of trust funds necessary for decommissioning the former PECO units, regardless of whether the funds held in the NDT funds are expected to exceed or fall short of the total estimated decommissioning obligation, decommissioning-related activities are generally offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. The offset of decommissioning-related activities within the Consolidated Statement of Operations and Comprehensive Income results in an equal adjustment to the noncurrent payables to affiliates at Generation and an adjustment to the regulatory liabilities at Exelon. Likewise, PECO has recorded an equal noncurrent affiliate receivable from Generation and a corresponding regulatory liability. Any changes to the PECO regulatory agreements could impact Exelon's and Generation's ability to offset decommissioning-related activities within the Consolidated Statement of Operations and Comprehensive Income, and the impact to Exelon's and Generation's results of operations and financial positions could be material.

The decommissioning-related activities related to the Non-Regulatory Agreement Units are reflected in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Refer to Note 3—Regulatory Matters and Note 26—Related Party Transactions for information regarding regulatory liabilities at ComEd and PECO and intercompany balances between Generation, ComEd and PECO reflecting the obligation to refund to customers any decommissioning-related assets in excess of the related decommissioning obligations.

Zion Station Decommissioning

On September 1, 2010, Generation completed an Asset Sale Agreement (ASA) with EnergySolutions Inc. and its wholly owned subsidiaries, EnergySolutions, LLC (EnergySolutions) and ZionSolutions, under which ZionSolutions has assumed responsibility for decommissioning Zion Station, which is located in Zion, Illinois and ceased operation in 1998. Specifically, Generation transferred to ZionSolutions substantially all of the assets (other than land) associated with Zion Station, including assets held in related NDT funds. In consideration for Generation's transfer of those assets, ZionSolutions assumed decommissioning and other liabilities, excluding the obligation to dispose of SNF and decommission the SNF dry storage facility, associated with Zion Station. Pursuant to the ASA, ZionSolutions will periodically request reimbursement from the Zion Station-related NDT funds for costs incurred related to its decommissioning efforts at Zion Station. During 2013, EnergySolutions entered a definitive acquisition agreement and was acquired by another company. Generation reviewed the acquisition as it relates to the ASA to decommission Zion Station. Based on that review, Generation determined that the acquisition will not adversely impact decommissioning activities under the ASA.

ZionSolutions is subject to certain restrictions on its ability to request reimbursements from the Zion Station NDT funds as defined within the ASA. Therefore, the transfer of the Zion Station assets did not qualify for asset sale accounting treatment and, as a result, the related NDT funds were reclassified to Pledged assets for Zion Station decommissioning within Generation's and Exelon's Consolidated Balance Sheets and will continue to be measured in the same manner as prior to the completion of the transaction. Additionally, the transferred ARO for decommissioning was replaced with a Payable for Zion Station decommissioning in Generation's and Exelon's Consolidated Balance Sheets. Changes in the value of the Zion Station NDT assets, net of applicable taxes, will be recorded as a change in the Payable to ZionSolutions. At no point will the payable to ZionSolutions exceed the project budget of the costs remaining to decommission Zion Station. Generation has retained its obligation for the SNF. Following ZionSolutions' completion of its contractual obligations and transfer of the NRC license to Generation, Generation will store the SNF at Zion Station until it is transferred to the DOE for ultimate disposal, and will complete all remaining decommissioning activities associated with the SNF dry storage facility. Generation has a liability of approximately $114 million, which is included within the nuclear decommissioning ARO at December 31, 2017. Generation also has retained NDT assets to fund its obligation to maintain the SNF at Zion Station until transfer to the DOE and to complete all remaining decommissioning activities for the SNF storage facility. Any shortage of funds necessary to maintain the SNF and decommission the SNF storage facility is ultimately required to be funded by Generation. Any Zion Station NDT funds remaining after the completion of all decommissioning activities will be returned to ComEd customers in accordance with the applicable orders. The following table provides the pledged assets and payables to ZionSolutions, and withdrawals by ZionSolutions at December 31, 2017 and 2016:

	2017	2016
Carrying value of Zion Station pledged assets[(a)]	$ 39	$ 113
Payable to Zion Solutions[(b)]	37	104
Current portion of payable to Zion Solutions[(c)]	37	90
Cumulative withdrawals by Zion Solutions to pay decommissioning costs[(d)]	942	878

[(a)] Included in Other current assets within Exelon's and Generation's Consolidated Balance Sheets in 2017.

[(b)] Excludes a liability recorded within Exelon's and Generation's Consolidated Balance Sheets related to the tax obligation on the unrealized activity associated with the Zion Station NDT Funds. The NDT Funds will be utilized to satisfy the tax obligations as gains and losses are realized.

[(c)] Included in Other current liabilities within Exelon's and Generation's Consolidated Balance Sheets.

[(d)] Includes project expenses to decommission Zion Station and estimated tax payments on Zion Station NDT fund earnings.

ZionSolutions leased the land associated with Zion Station from Generation pursuant to a Lease Agreement. Under the Lease Agreement, ZionSolutions has committed to complete the required decommissioning work according to an established schedule and constructed a dry cask storage facility on the land and has loaded the SNF from the SNF pools onto the dry cask storage facility at Zion Station. Rent payable under the Lease Agreement is $1.00 per year, although the Lease Agreement requires ZionSolutions to pay property taxes associated with Zion Station and penalty rents may accrue if there are unexcused delays in the progress of decommissioning work at Zion Station or the construction of the dry cask SNF storage facility. To reduce the risk of default by ZionSolutions, EnergySolutions provided a $200 million letter of credit to be used to fund decommissioning costs in the event the NDT assets are insufficient. In accordance with the terms of the ASA, the letter of credit was reduced to $98 million in August 2017 due to the completion of key decommissioning milestones. EnergySolutions and its parent company have also provided a performance guarantee and EnergySolutions has entered into other agreements that will provide rights and remedies for Generation and the NRC in the case of other specified events of default, including a special purpose easement for disposal capacity at the EnergySolutions site in Clive, Utah, for all LLRW volume of Zion Station.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in specified minimum amounts to decommission the facility at the end of its life. The estimated decommissioning obligations as calculated using the NRC methodology differ from the ARO recorded on Generation's and Exelon's Consolidated Balance Sheets primarily due to differences in the type of costs included in the estimates, the basis for estimating such costs, and assumptions regarding the decommissioning alternatives to be used, potential license renewals, decommissioning cost escalation, and the growth rate in the NDT funds. Under NRC regulations, if the minimum funding requirements calculated under the NRC methodology are less than the future value of the NDT funds, also calculated under the NRC methodology, then the NRC requires either further funding or other financial guarantees.

Key assumptions used in the minimum funding calculation using the NRC methodology at December 31, 2017 include: (1) consideration of costs only for the removal of radiological contamination at each unit; (2) the option on a unit-by-unit basis to use generic, non-site specific cost estimates; (3) consideration of only one decommissioning scenario for each unit; (4) the plants cease operation at the end of their current license lives (with no assumed license renewals for those units that have not already received renewals and with an assumed end-of-operations date of 2018 for Oyster Creek and 2019 for TMI); (5) the assumption of current nominal dollar cost estimates that are neither escalated through the anticipated period of decommissioning, nor discounted using the CARFR; and (6) assumed annual after-tax returns on the NDT funds of 2% (3% for the former PECO units, as specified by the PAPUC).

In contrast, the key criteria and assumptions used by Generation to determine the ARO and to forecast the target growth in the NDT funds at December 31, 2017 include: (1) the use of site specific cost estimates that are updated at least once every five years; (2) the inclusion in the ARO estimate of all legally unavoidable costs required to decommission the unit (e.g., radiological decommissioning and full site restoration for certain units, on-site spent fuel maintenance and storage subsequent to ceasing operations and until DOE acceptance, and disposal of certain low-level radioactive waste); (3) the consideration of multiple scenarios where decommissioning and site restoration activities, as applicable, are completed under four possible scenarios ranging from 10 to 70 years after the cessation of plant operations; (4) the consideration of multiple end of life scenarios; (5) the measurement of the obligation at the present value of the future estimated costs and an annual average accretion of the ARO of approximately 5% through a period of approximately 30 years after the end of the extended lives of the units; and (6) an estimated targeted annual pre-tax return on the NDT funds of 4.8% to 6.4% (as compared to a historical 5-year annual average pre-tax return of approximately 8%).

Generation is required to provide to the NRC a biennial report by unit (annually for units that have been retired or are within five years of the current approved license life), based on values as of December 31, addressing Generation's ability to meet the NRC minimum funding levels. Depending on the value of the trust funds, Generation may be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional contributions to the trusts, which could be significant, to ensure that the trusts are adequately funded and that NRC minimum funding requirements are met. As a result, Exelon's and Generation's cash flows and financial positions may be significantly adversely affected.

Generation filed its biennial decommissioning funding status report with the NRC on March 31, 2017 for all units except for Zion Station which is included in a separate report to the NRC submitted by ZionSolutions (see Zion Station Decommissioning above) and FitzPatrick which is still owned by Entergy as of the NRC reporting period. This status report demonstrated adequate decommissioning funding assurance for all units except for Peach Bottom Unit 1. As a former PECO plant, financial assurance for decommissioning Peach Bottom Unit 1 is provided by the NDT fund in addition to collections from PECO ratepayers. As discussed under Nuclear Decommissioning Trust Fund Investments above, the amount collected from PECO ratepayers has been adjusted in the March 31, 2017 filing to the PAPUC which was approved on August 8, 2017 and effective on January 1, 2018.

Generation will file its next decommissioning funding status report with the NRC by March 31, 2018 for shutdown reactors and reactors within five years of shutdown. This report will reflect the status of decommissioning funding assurance as of December 31, 2017 and will include the early retirement of TMI announced on May 30, 2017, in addition to an adjustment for the February 2, 2018 announced retirement date for Oyster Creek. A shortfall at any unit could necessitate that Exelon post a parental guarantee for Generation's share of the funding assurance. However, the amount of any required guarantee will ultimately depend on the decommissioning approach adopted, the associated level of costs, and the decommissioning trust fund investment performance going forward.

As the future values of trust funds change due to market conditions, the NRC minimum funding status of Generation's units will change. In addition, if changes occur to the regulatory agreement with the PAPUC that currently allows amounts to be collected from PECO customers for decommissioning the former PECO units, the NRC minimum funding status of those plants could change at subsequent NRC filing dates.

Non-Nuclear Asset Retirement Obligations

Generation has AROs for plant closure costs associated with its fossil and renewable generating facilities, including asbestos abatement, removal of certain storage tanks, restoring leased land to the condition it was in prior to construction of renewable generating stations and other decommissioning-related activities. PHI and the Utility Registrants have AROs primarily associated with the abatement and disposal of equipment and buildings contaminated with asbestos and PCBs. See Note 1—Significant Accounting Policies for additional information on the Registrants' accounting policy for AROs.

The following table provides a rollforward of the non-nuclear AROs reflected on Exelon's Consolidated Balance Sheets from January 1, 2016 to December 31, 2017:

Non-nuclear AROs at January 1, 2016	$ 355
Merger with PHI(a)	8
Net increase due to changes in, and timing of, estimated future cash flows(b)	34
Development projects(c)	11
Accretion expense(d)	18
Sale of generating assets(e)	(22)
Payments	(11)
Non-nuclear AROs at December 31, 2016(f)	393
Net increase (decrease) due to changes in, and timing of, estimated future cash flows(b)	(11)
Development projects(c)	1
Accretion expense(d)	18
Deconsolidation of EGTP(g)	(7)
Payments	(10)
Non-nuclear AROs at December 31, 2017(f)	$ 384

(a) Following the completion of the PHI merger on March 23, 2016, PHI's AROs related to its unregulated business interests were transferred to Exelon and Generation.

(b) During the year ended December 31, 2017, ComEd recorded a decrease of $1 million in Operating and maintenance expense. Generation, PECO, BGE, Pepco, DPL and ACE did not record any adjustments in Operating and maintenance expense for the year ended December 31, 2017. During the year ended December 31, 2016, Generation recorded a increase of $1 million in Operating and maintenance expense. ComEd, PECO, BGE, Pepco, DPL and ACE did not record any adjustments in Operating and maintenance expense for the year ended December 31, 2016.

(c) Relates to new AROs recorded due to the construction of solar, wind and other non-nuclear generating sites.

(d) For ComEd, PECO and BGE, the majority of the accretion is recorded as an increase to a regulatory asset due to the associated regulatory treatment.

(e) Reflects a reduction to the ARO resulting primarily from the sales of the New Boston generating site and Upstream business in 2016. See Note 4—Mergers, Acquisitions and Dispositions for further information.

(f) Excludes the current portion of the ARO at December 31, 2017 for Generation, ComEd and BGE of $1 million, $2 million and $2 million, respectively. Excludes the current portion of the ARO at December 31, 2016 for Generation, ComEd and BGE of $1 million, $2 million and $3 million, respectively. This is included in Other current liabilities on the Registrants' respective Consolidated Balance Sheets.

(g) See Note 4—Mergers, Acquisitions and Dispositions for additional information.

16. Retirement Benefits

Exelon sponsors defined benefit pension plans and other postretirement benefit plans for essentially all current employees. Substantially all non-union employees and electing union employees hired on or after January 1, 2001 participate in cash balance pension plans. Effective January 1, 2009, substantially all newly-hired union-represented employees participate in cash balance pension plans. Effective February 1, 2018, most newly-hired Generation and BSC non-represented employees are not eligible for pension benefits, and will instead be eligible to receive an enhanced non-discretionary employer contribution in an Exelon defined contribution savings plan. Effective January 1, 2018, most newly-hired non-represented employees are not eligible for OPEB benefits and employees represented by Local 614 are not eligible for retiree health care benefits.

Effective March 23, 2016, Exelon became the sponsor of all of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets. As a result, PHI's benefit plan net obligation and related regulatory assets were transferred to Exelon.

The table below shows the pension and other postretirement benefit plans in which employees of each operating company participated at December 31, 2017:

	Operating Company[e]								
Name of Plan:	**Generation**	**ComEd**	**PECO**	**BGE**	**BSC**	**PHI**	**Pepco**	**DPL**	**ACE**
Qualified Pension Plans:									
Exelon Corporation Retirement Program[a]	X	X	X	X	X				
Exelon Corporation Cash Balance Pension Plan[a]	X	X	X	X	X				
Exelon Corporation Pension Plan for Bargaining Unit Employees[a]	X	X			X				
Exelon New England Union Employees Pension Plan[a]	X								
Exelon Employee Pension Plan for Clinton, TMI and Oyster Creek[a]	X	X	X		X				
Pension Plan of Constellation Energy Group, Inc.[b]	X	X	X	X	X				
Pension Plan of Constellation Energy Nuclear Group, LLC[c]	X	X		X	X				
Nine Mile Point Pension Plan[c]	X				X				
Constellation Mystic Power, LLC Union Employees Pension Plan Including Plan A and Plan B[b]	X								
Pepco Holdings LLC Retirement Plan[d]	X					X	X	X	X
Non-Qualified Pension Plans:									
Exelon Corporation Supplemental Pension Benefit Plan and 2000 Excess Benefit Plan[a]	X	X	X		X				
Exelon Corporation Supplemental Management Retirement Plan[a]	X	X	X	X	X				
Constellation Energy Group, Inc. Senior Executive Supplemental Plan[b]	X			X	X				
Constellation Energy Group, Inc. Supplemental Pension Plan[b]	X			X	X				
Constellation Energy Group, Inc. Benefits Restoration Plan[b]	X	X		X	X				
Constellation Energy Nuclear Plan, LLC Executive Retirement Plan[c]	X				X				
Constellation Energy Nuclear Plan, LLC Benefits Restoration Plan[c]	X				X				
Baltimore Gas & Electric Company Executive Benefit Plan[b]	X			X	X				
Baltimore Gas & Electric Company Manager Benefit Plan[b]	X	X		X	X				
Pepco Holdings LLC 2011 Supplemental Executive Retirement Plan[d]	X					X	X	X	X
Conectiv Supplemental Executive Retirement Plan[d]	X					X		X	X
Pepco Holdings LLC Combined Executive Retirement Plan[d]	X					X	X		
Atlantic City Electric Director Retirement Plan[d]									X

	Operating Company[e]								
Name of Plan:	**Generation**	**ComEd**	**PECO**	**BGE**	**BSC**	**PHI**	**Pepco**	**DPL**	**ACE**
Other Postretirement Benefit Plans:									
PECO Energy Company Retiree Medical Plan[a]	X	X	X	X	X				
Exelon Corporation Health Care Program[a]	X	X	X	X	X				
Exelon Corporation Employees' Life Insurance Plan[a]	X	X	X	X	X				
Exelon Corporation Health Reimbursement Arrangement Plan[a]	X	X	X	X	X				
Constellation Energy Group, Inc. Retiree Medical Plan[b]	X	X	X	X	X				
Constellation Energy Group, Inc. Retiree Dental Plan[b]	X			X	X				
Constellation Energy Group, Inc. Employee Life Insurance Plan and Family Life Insurance Plan[b]	X	X	X	X	X				
Constellation Mystic Power, LLC Post-Employment Medical Account Savings Plan[b]	X								
Exelon New England Union Post-Employment Medical Savings Account Plan[a]	X								
Retiree Medical Plan of Constellation Energy Nuclear Group LLC[c]	X			X	X				
Retiree Dental Plan of Constellation Energy Nuclear Group LLC[c]	X			X	X				
Nine Mile Point Nuclear Station, LLC Medical Care and Prescription Drug Plan for Retired Employees[c]	X				X				
Pepco Holdings LLC Welfare Plan for Retirees[d]	X					X	X	X	X

[a] These plans are collectively referred to as the legacy Exelon plans.
[b] These plans are collectively referred to as the legacy Constellation Energy Group (CEG) Plans.
[c] These plans are collectively referred to as the legacy CENG plans.
[d] These plans are collectively referred to as the legacy PHI plans.
[e] Employees generally remain in their legacy benefit plans when transferring between operating companies.

Exelon's traditional and cash balance pension plans are intended to be tax-qualified defined benefit plans. Exelon has elected that the trusts underlying these plans be treated as qualified trusts under the IRC. If certain conditions are met, Exelon can deduct payments made to the qualified trusts, subject to certain IRC limitations.

Benefit Obligations, Plan Assets and Funded Status

Exelon recognizes the overfunded or underfunded status of defined benefit pension and OPEB plans as an asset or liability on its balance sheet, with offsetting entries to AOCI and regulatory assets (liabilities), in accordance with the applicable authoritative guidance. The measurement date for the plans is December 31.

During the first quarter of 2017, Exelon received an updated valuation of its pension and other postretirement benefit obligations to reflect actual census data as of January 1, 2017. This valuation resulted in an increase to the pension obligation of $92 million and an increase to the other postretirement benefit obligation of $57 million. Additionally, accumulated other comprehensive loss increased by approximately $59 million (after tax), regulatory assets increased by approximately $57 million and regulatory liabilities increased by approximately $4 million.

In connection with the acquisition of FitzPatrick in the first quarter of 2017, Exelon recorded pension and OPEB obligations for FitzPatrick employees of $16 million and $17 million, respectively. Refer to Note 4 — Mergers, Acquisitions and Dispositions for additional discussion of the acquisition of FitzPatrick.

The following tables provide a rollforward of the changes in the benefit obligations and plan assets for the most recent two years for all plans combined:

	Pension Benefits		Other Postretirement Benefits	
Exelon	**2017**	**2016[(a)]**	**2017**	**2016[(a)]**
Change in benefit obligation:				
Net benefit obligation at beginning of year	$21,060	$17,753	$4,457	$3,938
Service cost	387	354	106	107
Interest cost	842	830	182	185
Plan participants' contributions	—	—	53	54
Actuarial loss (gain)	1,182	567	350	(136)
Plan amendments	9	(60)	—	—
Acquisitions/divestitures[(b)]	16	2,667	17	589
Settlements	(34)	—	—	—
Gross benefits paid	(1,125)	(1,051)	(309)	(280)
Net benefit obligation at end of year	$22,337	$21,060	$4,856	$4,457

	Pension Benefits		Other Postretirement Benefits	
Exelon	**2017**	**2016[(a)]**	**2017**	**2016[(a)]**
Change in plan assets:				
Fair value of net plan assets at beginning of year	$16,791	$14,347	$2,578	$2,293
Actual return on plan assets	2,600	1,061	346	128
Employer contributions	341	347	64	50
Plan participants' contributions	—	—	53	54
Gross benefits paid	(1,125)	(1,051)	(309)	(280)
Acquisitions/divestitures[(b)]	—	2,087	—	333
Settlements	(34)	—	—	—
Fair value of net plan assets at end of year	$18,573	$16,791	$2,732	$2,578

	Predecessor	
	Pension Benefits	**Other Postretirement Benefits**
PHI	**January 1, 2016 to March 23, 2016**	**January 1, 2016 to March 23, 2016**
Change in benefit obligation:		
Net benefit obligation at beginning of the period	$2,490	$ 563
Service cost	12	1
Interest cost	26	6
Actuarial (gain) loss	(30)	(5)
Gross benefits paid	(2)	(1)
Net benefit obligation at end of the period	$2,496	$ 564

	Predecessor	
	Pension Benefits	**Other Postretirement Benefits**
PHI	**January 1, 2016 to March 23, 2016**	**January 1, 2016 to March 23, 2016**
Change in plan assets:		
Fair value of net plan assets at beginning of the period	$2,018	$ 348
Employer and plan participant contributions	4	1
Gross benefits paid by plan	(2)	(1)
Fair value of net plan assets at end of the period	$2,020	$ 348

(a) 2016 amounts include PHI for the period of March 24, 2016 through December 31, 2016.

(b) Exelon recorded pension and OPEB obligations associated with its acquisition of Fitzpatrick on March 31, 2017. Effective March 23, 2016, Exelon became the sponsor of PHI's defined benefit pension and other postretirement benefit plans.

Exelon presents its benefit obligations and plan assets net on its balance sheet within the following line items:

Exelon	Pension Benefits		Other Postretirement Benefits	
	2017	2016(a)	2017	2016(a)
Other current liabilities	$ 28	$ 21	$ 31	$ 31
Pension obligations	3,736	4,248	—	—
Non-pension postretirement benefit obligations	—	—	2,093	1,848
Unfunded status (net benefit obligation less plan assets)	$3,764	$4,269	$2,124	$1,879

(a) Effective March 23, 2016, Exelon became the sponsor of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets.

The funded status of the pension and other postretirement benefit obligations refers to the difference between plan assets and estimated obligations of the plan. The funded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

The following tables provide the projected benefit obligations (PBO), accumulated benefit obligation (ABO), and fair value of plan assets for all pension plans with a PBO or ABO in excess of plan assets.

PBO IN EXCESS OF PLAN ASSETS

	Exelon	
	2017	2016
Projected benefit obligation	$ 22,337	$ 21,060
Fair value of net plan assets	18,573	16,791

ABO IN EXCESS OF PLAN ASSETS

	Exelon	
	2017	2016
Projected benefit obligation	$ 22,337	$ 21,060
Accumulated benefit obligation	21,153	19,930
Fair value of net plan assets	18,573	16,791

On a PBO basis, the Exelon plans were funded at 83% and 80% at December 31, 2017 and 2016, respectively. On an ABO basis, the Exelon plans were funded at 88% and 84% at December 31, 2017 and 2016, respectively. The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

Components of Net Periodic Benefit Costs

The majority of the 2017 pension benefit cost for the Exelon-sponsored plans is calculated using an expected long-term rate of return on plan assets of 7.00% and a discount rate of 4.04%. The majority of the 2017 other postretirement benefit cost is calculated using an expected long-term rate of return on plan assets of 6.58% for funded plans and a discount rate of 4.04%.

A portion of the net periodic benefit cost for all plans is capitalized within the Consolidated Balance Sheets. The following tables present the components of Exelon's net periodic benefit costs, prior to capitalization, for the years ended December 31, 2017, 2016 and 2015 and PHI's net periodic benefit costs, prior to capitalization, for the predecessor period of January 1, 2016 to March 23, 2016.

Exelon	Pension Benefits			Other Postretirement Benefits		
	2017(a)	2016(b)	2015	2017(a)	2016(b)	2015
Components of net periodic benefit cost:						
Service cost	$ 387	$ 354	$ 326	$ 106	$ 107	$ 119
Interest cost	842	830	710	182	185	167
Expected return on assets	(1,196)	(1,141)	(1,026)	(162)	(162)	(151)
Amortization of:						
Prior service cost (credit)	1	14	13	(188)	(185)	(174)
Actuarial loss	607	554	571	61	63	80
Settlement and other charges(c)	3	2	2	—	—	—
Net periodic benefit cost	$ 644	$ 613	$ 596	$ (1)	$ 8	$ 41

(a) FitzPatrick net benefit costs are included for the period after acquisition.

(b) PHI net periodic benefit costs for the period prior to the merger are not included in the table above.

(c) 2016 amount includes an additional termination benefit for PHI.

	Predecessor			
	Pension Benefits		Other Postretirement Benefits	
PHI	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
Components of net periodic benefit cost:				
Service cost	$ 12	$ 57	$ 1	$ 7
Interest cost	26	109	6	24
Expected return on assets	(30)	(140)	(5)	(22)
Amortization of:				
Prior service cost (credit)	—	2	(3)	(13)
Actuarial loss	14	65	2	8
Net periodic benefit cost	$ 22	$ 93	$ 1	$ 4

Components of AOCI and Regulatory Assets

Under the authoritative guidance for regulatory accounting, a portion of current year actuarial gains and losses and prior service costs (credits) is capitalized within Exelon's Consolidated Balance Sheets to reflect the expected regulatory recovery of these amounts, which would otherwise be recorded to AOCI. The following tables provide the components of AOCI and regulatory assets (liabilities) for the years ended December 31, 2017, 2016 and 2015 for all plans combined and the components of PHI's predecessor AOCI and regulatory assets (liabilities) for the period January 1, 2016 to March 23, 2016.

	Pension Benefits			Other Postretirement Benefits		
Exelon	**2017**	**2016[a]**	**2015**	**2017**	**2016[a]**	**2015**
Changes in plan assets and benefit obligations recognized in AOCI and regulatory assets (liabilities):						
Current year actuarial (gain) loss	$(222)	$ 644	$ 476	$166	$(101)	$(194)
Amortization of actuarial loss	(607)	(554)	(571)	(61)	(63)	(80)
Current year prior service cost (credit)	9	(60)	—	—	—	(23)
Amortization of prior service (cost) credit	(1)	(14)	(13)	188	185	174
Settlements	(3)	—	(2)	—	—	—
Acquisitions	—	994	—	—	94	—
Total recognized in AOCI and regulatory assets (liabilities)	$(824)	$1,010	$(110)	$293	$ 115	$(123)
Total recognized in AOCI	$(401)	$ 51	$ (64)	$168	$ 20	$ (63)
Total recognized in regulatory assets (liabilities)	$(423)	$ 959	$ (46)	$125	$ 95	$ (60)

	Predecessor			
	Pension Benefits		Other Postretirement Benefits	
PHI	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
Changes in plan assets and benefit obligations recognized in AOCI and regulatory assets (liabilities):				
Current year actuarial loss (gain)	$ —	$ 50	$—	$(39)
Amortization of actuarial loss	(14)	(65)	(2)	(8)
Amortization of prior service (cost) credit	—	(2)	3	13
Total recognized in AOCI and regulatory assets (liabilities)	$(14)	$(17)	$ 1	$(34)
Total recognized in AOCI	$ (1)	$(11)	$—	$ —
Total recognized in regulatory assets (liabilities)	$(13)	$ (6)	$ 1	$(34)

(a) 2016 amounts include PHI for the period of March 24, 2016 through December 31, 2016.

The following table provides the components of gross accumulated other comprehensive loss and regulatory assets (liabilities) that have not been recognized as components of periodic benefit cost at December 31, 2017 and 2016, respectively, for all plans combined:

	Exelon		Exelon	
	Pension Benefits		Other Postretirement Benefits	
	2017	2016[a]	2017	2016[a]
Prior service (credit) cost	$ (24)	$ (31)	$(522)	$(710)
Actuarial loss	7,556	8,387	829	724
Total[a]	$7,532	$8,356	$ 307	$ 14
Total included in AOCI	$3,896	$4,297	$ 125	$ (42)
Total included in regulatory assets (liabilities)	$3,636	$4,059	$ 182	$ 56

[a] Effective March 23, 2016, Exelon became the sponsor of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets.

The following table provides the impact to Exelon's AOCI and regulatory assets (liabilities) at December 31, 2017 as a result of the components of periodic benefit costs that are expected to be amortized in 2018. These estimates are subject to the completion of an actuarial valuation of Exelon's pension and other postretirement benefit obligations, which will reflect actual census data as of January 1, 2018 and actual claims activity as of December 31, 2017. The valuation is expected to be completed in the first quarter of 2018 for the majority of the benefit plans.

	Pension Benefits	Other Postretirement Benefits
Prior service cost (credit)	$ 2	$(186)
Actuarial loss	640	66
Total[a]	$642	$(120)

[a] Of the $642 million related to pension benefits at December 31, 2017, $317 million and $325 million are expected to be amortized from AOCI and regulatory assets in 2018, respectively. Of the $(120) million related to other postretirement benefits at December 31, 2017, $(65) million and $(55) million are expected to be amortized from AOCI and regulatory assets (liabilities) in 2018, respectively.

Average Remaining Service Period

For pension benefits, Exelon amortizes its unrecognized prior service costs and certain actuarial gains and losses, as applicable, based on participants' average remaining service periods. The average remaining service period of Exelon's defined benefit pension plan participants was 11.8 years, 11.9 years and 11.9 years for the years ended December 31, 2017, 2016 and 2015, respectively. For the predecessor period, the average remaining service period of PHI's defined benefit plans was approximately 11 years for the year ended December 31, 2015.

For other postretirement benefits, Exelon amortizes its unrecognized prior service costs over participants' average remaining service period to benefit eligibility age and amortizes certain actuarial gains and losses over participants' average remaining service period to expected retirement. The average remaining service period of postretirement benefit plan participants related to benefit eligibility age was 8.2 years, 9.0 years and 10.8 years for the years ended December 31, 2017, 2016 and 2015, respectively. The average remaining service period of postretirement benefit plan participants related to expected retirement was 9.6 years, 9.7 years and 9.7 years for the years ended December 31, 2017, 2016 and 2015, respectively. For the predecessor period, the average remaining service period of PHI's other postretirement benefit plans was approximately 11 years for the year ended December 31, 2015.

Assumptions

The measurement of the plan obligations and costs of providing benefits under Exelon's defined benefit and other postretirement plans involves various factors, including the development of valuation assumptions and inputs and accounting policy elections. The measurement of benefit obligations and costs is impacted by several assumptions and inputs, including the discount rate applied to benefit obligations, the long-term EROA, Exelon's expected level of contributions to the plans, the long-term expected investment rate credited to employees participating in cash balance plans and the anticipated rate of increase of health care costs. Additionally, assumptions related to plan participants include the incidence of mortality, the expected remaining service period, the level of compensation and rate of compensation increases, employee age and length of service, among other factors. When developing the required assumptions, Exelon considers historical information as well as future expectations.

Expected Rate of Return. In selecting the EROA, Exelon considers historical economic indicators (including inflation and GDP growth) that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by Exelon's target asset class allocations.

Mortality. For the December 31, 2014 actuarial valuation, Exelon changed its assumption of mortality to reflect more recent expectations of future improvements in life expectancy. The change was supported through completion of an experience study and supplemental analyses performed by Exelon's actuaries. There were no changes to the mortality assumption in 2015, 2016 or 2017.

The following assumptions were used to determine the benefit obligations for the plans at December 31, 2017, 2016 and 2015. Assumptions used to determine year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

	Pension Benefits			Other Postretirement Benefits		
Exelon	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Discount rate	3.62%(a)	4.04%(b)	4.29%(c)	3.61%(a)	4.04%(b)	4.29%(c)
Rate of compensation increase	(d)	(e)	(e)	(d)	(e)	(e)
Mortality table	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)
Health care cost trend on covered charges	N/A	N/A	N/A	5.00% with ultimate trend of 5.00% in 2017	5.00% with ultimate trend of 5.00% in 2017	5.50% decreasing to ultimate trend of 5.00% in 2017

	Predecessor		Predecessor	
	Pension Benefits		**Other Postretirement Benefits**	
PHI	**January 1, 2016 to March 23, 2016(f)**	**2015**	**January 1, 2016 to March 23, 2016(e)**	**2015**
Discount rate		4.65%/4.55%(g)		4.55%
Rate of compensation increase		5.00%		5.00%
Mortality table		RP-2014 table with improvement scale MP-2015		RP-2014 table with improvement scale MP-2015
Health care cost trend on covered charges		N/A		6.33% pre-65 and 5.40% post-65 decreasing to ultimate trend of 5.00% in 2020

(a) The discount rates above represent the blended rates used to determine the majority of Exelon's pension and other postretirement benefits obligations as of December 31, 2017. Certain benefit plans used individual rates ranging from 3.49% - 3.65% and 3.57% - 3.68% for pension and other postretirement plans, respectively.

(b) The discount rates above represent the blended rates used to determine the majority of Exelon's pension and other postretirement benefits obligations as of December 31, 2016. Certain benefit plans used individual rates ranging from 3.66% - 4.11% and 4.00% - 4.17% for pension and other postretirement plans, respectively.

(c) The discount rates above represent the blended rates used to determine the majority of Exelon's pension and other postretirement benefits obligations as of December 31, 2015. Certain benefit plans used individual rates ranging from 3.68% - 4.14% and 4.32% - 4.43% for pension and other postretirement plans, respectively.

(d) 3.25% through 2019 and 3.75% thereafter.

[e] The legacy Exelon, CEG and CENG pension and other postretirement plans used a rate of compensation increase of 3.25% through 2019 and 3.75% thereafter, while the legacy PHI pension and other postretirement plans used a weighted-average rate of compensation increase of 5% for all periods.

[f] Obligation was not remeasured during this period.

[g] The discount rate for the qualified and non-qualified pension plans was 4.65% and 4.55%, respectively.

The following assumptions were used to determine the net periodic benefit costs for the plans for the years ended December 31, 2017, 2016 and 2015, as well as for the PHI predecessor period January 1, 2016 to March 23, 2016:

	Pension Benefits			**Other Postretirement Benefits**		
Exelon	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Discount rate	4.04%[a]	4.29%[b]	3.94%[c]	4.04%[a]	4.29%[b]	3.92%[c]
Expected return on plan assets	7.00%[d]	7.00%[d]	7.00%[d]	6.58%[d]	6.71%[d]	6.50%[d]
Rate of compensation increase	[e]	[e]	[e]	[e]	[e]	[e]
Mortality table	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)
Health care cost trend on covered charges	N/A	N/A	N/A	5.00% decreasing to ultimate trend of 5.00% in 2017	5.50% decreasing to ultimate trend of 5.00% in 2017	6.00% decreasing to ultimate trend of 5.00% in 2017

	Predecessor Pension Benefits		**Predecessor Other Postretirement Benefits**	
PHI	**January 1, 2016 to March 23, 2016**	**2015**	**January 1, 2016 to March 23, 2016**	**2015**
Discount rate	4.65%/4.55%[f]	4.20%	4.55%	4.15%
Expected return on plan assets[g]	6.50%	6.50%	6.75%	6.75%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%
Mortality table	RP-2014 table with improvement scale MP-2015	RP-2014 table with improvement scale MP-2014	RP-2014 table with improvement scale MP-2015	RP-2014 table with improvement scale MP-2014
Health care cost trend on covered charges	N/A	N/A	6.33% pre-65 and 5.40% post-65 decreasing to ultimate trend of 5.00% in 2020	6.67% pre-65 and 5.50% post-65 decreasing to ultimate trend of 5.00% in 2020

[a] The discount rates above represent the blended rates used to establish the majority of Exelon's pension and other postretirement benefits costs for the year ended December 31, 2017. Certain benefit plans used individual rates ranging from 3.66%-4.11% and 4.00%-4.17% for pension and other postretirement plans, respectively.

(b) The discount rates above represent the blended rates used to establish the majority of Exelon's pension and other postretirement benefits costs for the year ended December 31, 2016. Certain benefit plans used individual rates ranging from 3.68%-4.14% and 4.32%-4.43% for pension and other postretirement plans, respectively.

(c) The discount rates above represent the blended rates used to establish the majority of Exelon's pension and other postretirement benefits costs for the year ended December 31, 2015. Certain benefit plans used the individual rates ranging from 3.29%-3.82% and 3.99%-4.06% for pension and other postretirement plans, respectively.

(d) Not applicable to pension and other postretirement benefit plans that do not have plan assets.

(e) The legacy Exelon, CEG and CENG pension and other postretirement plans used a rate of compensation increase of 3.25% through 2019 and 3.75% thereafter, while the legacy PHI pension and other postretirement plans used a weighted-average rate of compensation increase of 5% for all periods.

(f) The discount rate for the qualified and non-qualified pension plans was 4.65% and 4.55%, respectively.

(g) Expected return on other postretirement benefit plan assets is pre-tax.

Assumed health care cost trend rates impact the other postretirement benefit plan costs reported for Exelon's participant populations with plan designs that do not have a cap on cost growth. A one percentage point change in assumed health care cost trend rates would have the following effects:

Effect of a one percentage point increase in assumed health care cost trend:	
on 2017 total service and interest cost components	$ 9
on postretirement benefit obligation at December 31, 2017	125
Effect of a one percentage point decrease in assumed health care cost trend:	
on 2017 total service and interest cost components	(8)
on postretirement benefit obligation at December 31, 2017	(113)

Contributions

The following tables provide contributions to the pension and other postretirement benefit plans:

	Pension Benefits			Other Postretirement Benefits		
	2017(a)	2016(a)	2015(a)	2017	2016	2015
Exelon	$341	$347	$462	$64	$50	$40
Generation	137	140	231	11	12	14
ComEd	36	33	143	5	5	7
PECO	24	30	40	—	—	—
BGE	39	31	1	14	18	16
BSC(b)	38	39	47	2	3	3
Pepco	62	24	—	10	8	2
DPL	—	22	—	2	—	—
ACE	—	15	—	20	2	3
PHISCO(c)	5	17	—	—	2	—

	Pension Benefits				Other Postretirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
	2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015	2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$67	$74	$4	$—	$32	$12	$—	$5

(a) Exelon's and Generation's pension contributions include $21 million, $25 million and $36 million related to the legacy CENG plans that was funded by CENG as provided in an Employee Matters Agreement (EMA) between Exelon and CENG for the years ended December 31, 2017, 2016 and 2015, respectively.

(b) Includes $4 million, $6 million, and $5 million of pension contributions funded by Exelon Corporate, for the years ended December 31, 2017, 2016, and 2015, respectively.

(c) PHISCO's pension contributions for the year ended December 31, 2016 include $4 million of contributions made prior to the closing of Exelon's merger with PHI on March 23, 2016.

Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006 (the Act), management of the pension obligation and regulatory implications. The Act requires the attainment of certain funding levels to avoid benefit restrictions (such as an inability to pay lump sums or to accrue benefits prospectively), and at-risk status (which triggers higher minimum contribution requirements and participant notification). The projected contributions below reflect a funding strategy of contributing the greater of (1) $300 million (which has been updated for the inclusion of PHI) until the qualified plans are fully funded on an ABO basis, and (2) the minimum amounts under ERISA to avoid benefit restrictions and at-risk status. This level funding strategy helps minimize volatility of future period required pension contributions. Unlike the qualified pension plans, Exelon's non-qualified pension plans are not funded, given that they are not subject to statutory minimum contribution requirements.

While other postretirement plans are also not subject to statutory minimum contribution requirements, Exelon does fund certain of its plans. For Exelon's funded OPEB plans, contributions generally equal accounting costs, however, Exelon's management has historically considered several factors in determining the level of contributions to its other postretirement benefit plans, including liabilities management, levels of benefit claims paid and regulatory implications (amounts deemed prudent to meet regulatory expectations and best assure continued rate recovery). The amounts below include benefit payments related to unfunded plans.

The following table provides all registrants' planned contributions to the qualified pension plans, planned benefit payments to non-qualified pension plans, and planned contributions to other postretirement plans in 2018:

	Qualified Pension Plans	Non-Qualified Pension Plans	Other Postretirement Benefits
Exelon	$301	$30	$42
Generation	119	11	13
ComEd	38	2	3
PECO	17	1	—
BGE	41	1	16
BSC	36	7	1
PHI	50	8	9
Pepco	4	2	8
DPL	—	1	—
ACE	6	—	—
PHISCO	40	5	1

Estimated Future Benefit Payments

Estimated future benefit payments to participants in all of the pension plans and postretirement benefit plans at December 31, 2017 were:

	Pension Benefits	Other Postretirement Benefits
2018	$ 1,166	$ 256
2019	1,165	262
2020	1,210	270
2021	1,236	276
2022	1,265	284
2023 through 2027	6,671	1,509
Total estimated future benefit payments through 2027	$12,713	$ 2,857

Plan Assets

Investment Strategy. On a regular basis, Exelon evaluates its investment strategy to ensure that plan assets will be sufficient to pay plan benefits when due. As part of this ongoing evaluation, Exelon may make changes to its targeted asset allocation and investment strategy.

Exelon has developed and implemented a liability hedging investment strategy for its qualified pension plans that has reduced the volatility of its pension assets relative to its pension liabilities. Exelon is likely to continue to gradually increase the liability hedging portfolio as the funded status of its plans improves. The overall objective is to achieve attractive risk-adjusted returns that will balance the liquidity requirements of the plans' liabilities while striving to minimize the risk of significant losses. Trust assets for Exelon's other postretirement plans are managed in a diversified investment strategy that prioritizes maximizing liquidity and returns while minimizing asset volatility.

Actual asset returns have an impact on the costs reported for the Exelon-sponsored pension and other postretirement benefit plans. The actual asset returns across Exelon's pension and other postretirement benefit plans for the year ended December 31, 2017 were 16.10% and 14.70%, respectively, compared to an expected long-term return assumption of 7.00% and 6.58%, respectively.

Exelon used an EROA of 7.00% and 6.60% to estimate its 2018 pension and other postretirement benefit costs, respectively.

Exelon's pension and other postretirement benefit plan target asset allocations at December 31, 2017 and 2016 asset allocations were as follows:

Pension Plans

		Percentage of Plan Assets at December 31,	
Asset Category	**Target Allocation**	**2017**	**2016**
Equity securities	35%	35%	33%
Fixed income securities	38%	39	39
Alternative investments[a]	27%	26	28
Total		100%	100%

Other Postretirement Benefit Plans

		Percentage of Plan Assets at December 31,	
Asset Category	**Target Allocation**	**2017**	**2016**
Equity securities	46%	47%	47%
Fixed income securities	28%	28	29
Alternative investments[a]	26%	25	24
Total		100%	100%

[a] Alternative investments include private equity, hedge funds, real estate, and private credit.

Concentrations of Credit Risk. Exelon evaluated its pension and other postretirement benefit plans' asset portfolios for the existence of significant concentrations of credit risk as of December 31, 2017. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, and individual fund. As of December 31, 2017, there were no significant concentrations (defined as greater than 10% of plan assets) of risk in Exelon's pension and other postretirement benefit plan assets.

Fair Value Measurements

The following tables present pension and other postretirement benefit plan assets measured and recorded at fair value on Exelon's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy at December 31, 2017 and 2016:

December 31, 2017[a][b]	Level 1	Level 2	Level 3	Not subject to leveling	Total
Pension plan assets					
Cash equivalents	$ 585	$ —	$ —	$ —	$ 585
Equities[c]	3,565	—	2	3,077	6,644
Fixed income:					
U.S. Treasury and agencies	1,150	159	—	—	1,309
State and municipal debt	—	64	—	—	64
Corporate debt	—	3,931	232	—	4,163
Other[c]	—	447	—	756	1,203
Fixed income subtotal	1,150	4,601	232	756	6,739
Private equity	—	—	—	1,034	1,034
Hedge funds	—	—	—	1,770	1,770
Real estate	—	—	—	884	884
Private credit	—	—	—	919	919
Pension plan assets subtotal	$5,300	$4,601	$ 234	$ 8,440	$18,575
Other postretirement benefit plan assets					
Cash equivalents	$ 29	$ —	$ —	$ —	$ 29
Equities	523	2	—	764	1,289
Fixed income:					
U.S. Treasury and agencies	13	56	—	—	69
State and municipal debt	—	136	—	—	136
Corporate debt	—	47	—	—	47
Other	225	71	—	185	481
Fixed income subtotal	238	310	—	185	733
Hedge funds	—	—	—	430	430
Real estate	—	—	—	124	124
Private credit	—	—	—	123	123
Other postretirement benefit plan assets subtotal	$ 790	$ 312	$ —	$ 1,626	$ 2,728
Total pension and other postretirement benefit plan assets[d]	$6,090	$4,913	$ 234	$10,066	$21,303

December 31, 2016[a][e]	Level 1	Level 2	Level 3	Not subject to leveling	Total
Pension plan assets					
Cash equivalents	$ 325	$ —	$ —	$ —	$ 325
Equities[c]	3,144	—	2	2,535	5,681
Fixed income:					
U.S. Treasury and agencies	1,008	192	—	—	1,200
State and municipal debt	—	64	—	—	64
Corporate debt	—	3,641	206	—	3,847
Other[c]	—	340	—	748	1,088
Fixed income subtotal	1,008	4,237	206	748	6,199
Private equity	—	—	—	991	991
Hedge funds	—	—	—	1,962	1,962
Real estate	—	—	—	828	828
Private credit	—	—	—	833	833
Pension plan assets subtotal	$4,477	$4,237	$208	$7,897	$16,819
Other postretirement benefit plan assets					
Cash equivalents	$ 24	$ —	$ —	$ —	$ 24
Equities	547	2	—	644	1,193
Fixed income:					
U.S. Treasury and agencies	9	59	—	—	68
State and municipal debt	—	134	—	—	134
Corporate debt	—	43	—	—	43
Other	256	60	—	131	447
Fixed income subtotal	265	296	—	131	692
Hedge funds	—	—	—	445	445
Real estate	—	—	—	117	117
Private credit	—	—	—	107	107
Other postretirement benefit plan assets subtotal	$ 836	$ 298	$ —	$1,444	$ 2,578
Total pension and other postretirement benefit plan assets[d]	$5,313	$4,535	$208	$9,341	$19,397

[a] See Note 11—Fair Value of Financial Assets and Liabilities for a description of levels within the fair value hierarchy.

[b] Effective March 31, 2017, Exelon became sponsor of FitzPatrick's defined benefit pension and other postretirement benefit plans, and assumed FitzPatrick's benefit plan obligations.

[c] Includes derivative instruments of $6 million and $1 million, which have a total notional amount of $3,606 million and $2,918 million at December 31, 2017 and 2016, respectively. The notional principal amounts for these instruments provide one measure of the transaction volume outstanding as of the fiscal years ended and do not represent the amount of the company's exposure to credit or market loss.

[d] Excludes net assets of $2 million and net liabilities of $28 million at December 31, 2017 and 2016, respectively, which are required to reconcile to the fair value of net plan assets. These items consist primarily of receivables related to pending securities sales, interest and dividends receivable, and payables related to pending securities purchases.

[e] Effective March 23, 2016, Exelon became sponsor of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets.

The following table presents the reconciliation of Level 3 assets and liabilities measured at fair value for pension and other postretirement benefit plans for the years ended December 31, 2017 and 2016:

Pension Assets	Fixed Income	Equities	Total
Balance as of January 1, 2017	$206	$ 2	$ 208
Actual return on plan assets:			
Relating to assets sold during the period	11	—	11
Purchases, sales and settlements:			
Purchases	31	—	31
Sales	(16)	—	(16)
Settlements[(a)]	—	—	—
Balance as of December 31, 2017	$232	$ 2	$ 234

Pension Assets	Fixed Income	Equities	Total
Balance as of January 1, 2016	$165	$ 2	$ 167
Actual return on plan assets:			
Relating to assets still held at the reporting date	(2)	—	(2)
Purchases, sales and settlements:			
Purchases	69	—	69
Sales	(14)	—	(14)
Settlements[(a)]	(12)	—	(12)
Balance as of December 31, 2016	$206	$ 2	$ 208

(a) Represents cash settlements only.

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2017 for the pension and other postretirement benefit plan assets.

Valuation Techniques Used to Determine Fair Value

Cash equivalents. Investments with original maturities of three months or less when purchased, including certain short-term fixed income securities and money market funds, are considered cash equivalents. The fair values are based on observable market prices and, therefore, are included in the recurring fair value measurements hierarchy as Level 1.

Equities. Equities consist of individually held equity securities, equity mutual funds and equity commingled funds in domestic and foreign markets. With respect to individually held equity securities, the trustees obtain prices from pricing services, whose prices are generally obtained from direct feeds from market exchanges, which Exelon is able to independently corroborate. Equity securities held individually, including real estate investment trusts, rights and warrants, are primarily traded on exchanges that contain only actively traded securities due to the volume trading requirements imposed by these exchanges. Equity securities are valued based on quoted prices in active markets and are categorized as Level 1. Certain private placement equity securities are categorized as Level 3 because they are not publicly traded and are priced using significant unobservable inputs.

Equity commingled funds and mutual funds are maintained by investment companies, and certain investments are held in accordance with a stated set of fund objectives, which are consistent with the plans' overall investment strategy. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For equity commingled funds and mutual funds which are not publicly quoted, the fund administrators value the funds using the NAV per fund share, derived from the quoted prices in active markets of the underlying securities and are not classified within the fair value hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Fixed income. For fixed income securities, which consist primarily of corporate debt securities, foreign government securities, municipal bonds, asset and mortgage-backed securities, commingled funds, mutual funds and derivative instruments, the trustees obtain multiple prices from pricing vendors whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. With respect to individually held fixed income securities, the trustees monitor prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and the trustees determine that another price source is considered to be preferable. Exelon has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, Exelon selectively corroborates the fair values of securities by comparison to other market-based price sources. Investments in U.S. Treasury securities have been categorized as Level 1 because they trade in highly-liquid and transparent markets. Certain private placement fixed income securities have been categorized as Level 3 because they are priced using certain significant unobservable inputs and are typically illiquid. The remaining fixed income securities, including certain other fixed income investments, are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences and are categorized as Level 2.

Other fixed income investments primarily consist of fixed income commingled funds and mutual funds, which are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with Exelon's overall investment strategy. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For fixed income commingled funds and mutual funds which are not publicly quoted, the fund administrators value the funds using the NAV per fund share, derived from the quoted prices in active markets of the underlying securities and are not classified within the fair value hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Derivative instruments consisting primarily of futures and swaps to manage risk are recorded at fair value. Over-the-counter derivatives are valued daily based on quoted prices in active markets and trade in open markets, and have been categorized as Level 1. Derivative instruments other than over-the-counter derivatives are valued based on external price data of comparable securities and have been categorized as Level 2.

Private equity. Private equity investments include those in limited partnerships that invest in operating companies that are not publicly traded on a stock exchange such as leveraged buyouts, growth capital, venture capital, distressed investments and investments in natural resources. Private equity valuations are reported by the fund manager and are based on the valuation of the underlying investments, which include unobservable inputs such as cost, operating results, discounted future cash flows and market based comparable data. The fair value of private equity investments is determined using NAV or its equivalent as a practical expedient, and therefore, these investments are not classified within the fair value hierarchy.

Hedge funds. Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair value of hedge funds is determined using NAV or its equivalent as a practical expedient, and therefore, hedge funds are not classified within the fair value hierarchy. Exelon has the ability to redeem these investments at NAV or its equivalent subject to certain restrictions which may include a lock-up period or a gate.

Real estate. Real estate funds are funds with a direct investment in pools of real estate properties. These funds are valued by investment managers on a periodic basis using pricing models that use independent appraisals from sources with professional qualifications. These valuation inputs are not highly observable. The fair value of real estate investments is determined using NAV or its equivalent as a practical expedient, and therefore, these investments are not classified within the fair value hierarchy.

Private credit. Private credit investments primarily consist of limited partnerships that invest in private debt strategies. These investments are generally less liquid assets with an underlying term of 3 to 5 years and are intended to be held to maturity. The fair value of these investments is determined by the fund manager or administrator and include unobservable inputs such as cost, operating results, and discounted cash flows. The fair value of private credit investments is determined using NAV or its equivalent as a practical expedient, and therefore, these investments are not classified within the fair value hierarchy.

Defined Contribution Savings Plan

The Registrants participate in various 401(k) defined contribution savings plans that are sponsored by Exelon. The plans are qualified under applicable sections of the IRC and allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. All Registrants match a percentage of the employee contributions up to certain limits. The following table presents matching contributions to the savings plan for the years ended December 31, 2017, 2016 and 2015:

For the Year Ended December 31,	Exelon(a)	Generation(a)	ComEd	PECO	BGE	BSC(b)	Pepco(c)	DPL(c)	ACE	PHISCO(c)(d)
2017	$128	$55	$31	$10	$10	$ 9	$3	$2	$2	$6
2016	164	79	34	10	12	19	3	2	2	6
2015	148	80	32	11	14	11	3	2	2	6

	Successor		*Predecessor*	
PHI	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
Saving Plan Matching Contributions	$13	$10	$3	$14

(a) Includes $13 million and $9 million related to CENG for the years ended December 31, 2016 and December 31, 2015.

(b) These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These costs are not included in the Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE amounts above.

[c] Pepco's, DPL's and PHISCO's matching contributions include $1 million, $1 million and $1 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016, which is not included in Exelon's matching contributions for the year ended December 31, 2016.

[d] These amounts primarily represent amounts billed to Pepco, DPL, and ACE through intercompany allocations. These amounts are not included in Pepco, DPL or ACE amounts above.

17. Severance

The Registrants have an ongoing severance plan under which, in general, the longer an employee worked prior to termination the greater the amount of severance benefits. The Registrants record a liability and expense or regulatory asset for severance once terminations are probable of occurrence and the related severance benefits can be reasonably estimated. For severance benefits that are incremental to its ongoing severance plan ("one-time termination benefits"), the Registrants measure the obligation and record the expense at fair value at the communication date if there are no future service requirements, or, if future service is required to receive the termination benefit, ratably over the required service period.

Ongoing Severance Plans

The Registrants provide severance and health and welfare benefits under Exelon's ongoing severance benefit plans to terminated employees in the normal course of business. These benefits are accrued for when the benefits are considered probable and can be reasonably estimated.

For the years ended December 31, 2017 and 2016, the Registrants recorded the following severance costs associated with ongoing severance benefits within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income:

						Successor			
Year ended December 31,	**Exelon**	**Generation[a]**	**ComEd[a]**	**PECO[a]**	**BGE[a]**	**PHI[a]**	**Pepco[a]**	**DPL[a]**	**ACE[a]**
2017	$14	$ 6	$3	$1	$—	$4	$ 2	$ 1	$ 1
2016	19	13	3	1	1	1	—	—	—

[a] The amounts above for Generation, ComEd, PECO, BGE, and PHI include immaterial amounts billed by BSC for the years ended December 31, 2017 and 2016. Pepco, DPL, and ACE include immaterial amounts billed by PHISCO for the year ended December 31, 2017. Pepco, DPL, and ACE did not have any ongoing severance plans for the year ended December 31, 2016.

Cost Management Program-Related Severance

In August 2015, Exelon announced a cost management program focused on cost savings of approximately $400 million at BSC and Generation. Additionally, in November 2017, Exelon announced a new commitment for an additional $250 million of cost savings, primarily at Generation, to be achieved by 2020. These actions are in response to the continuing economic challenges confronting all parts of Exelon's business and industry, necessitating continued focus on cost management through enhanced efficiency and productivity. In connection with the program, certain positions have been identified for elimination and severance costs were recognized as both probable and estimable.

While there may be additional position eliminations identified leading to potential severance or other termination benefit changes, Exelon, Generation and BSC intend to manage any staff reductions through natural attrition to the extent possible to minimize impacts on employees. Any additional severance or other termination benefit charges related to this commitment will be recognized when such amounts are considered probable and can be reasonably estimated.

For the years ended December 31, 2017 and 2016, Exelon recorded the following severance costs related to the cost management program within Operating and maintenance expense in their Consolidated Statements of Operations:

2017	$ 6
2016	23

Early Plant Retirement-Related Severance

As a result of the Three Mile Island plant retirement decision, Exelon and Generation will incur certain employee-related costs, including severance benefit costs. Severance costs will be provided to management employees that are eligible under the Company's severance policy, to the extent that those employees are not redeployed to other locations. In June 2017, Exelon and Generation recognized severance costs of $17 million related to expected management employee severances resulting from the plant retirements within Operating and maintenance expense in their Consolidated Statements of Operation and Comprehensive Income. Approximately half of the employees at this location fall under a collective bargaining union agreement and are not eligible for severance benefits under an existing plan. The union and Exelon will negotiate terms of any severance benefits. If severance benefits are successfully negotiated, the amounts will be accrued as a one-time employee termination benefit once the established plan is communicated to employees. The final amount of the severance cost will ultimately depend on the specific employees severed. See Note 8 - Early Nuclear Plant Retirements for additional information regarding the announced early retirement of TMI. See Note 28 - Subsequent Events for additional information regarding the early retirement of Oyster Creek.

Severance Costs Related to the PHI Merger

Upon closing the PHI Merger, Exelon recorded a severance accrual for the anticipated employee position reductions as a result of the post-merger integration. Cash payments under the plan began in May 2016 and will continue through 2020.

For the year ended December 31, 2017, the PHI Merger severance costs were immaterial. For the year ended December 31, 2016, the Registrants recorded the following severance costs associated with the identified job reductions within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income, pursuant to the authoritative guidance for ongoing severance plans:

						Successor			
	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Severance Benefits									
Severance costs[(a)]	$57	$9	$2	$1	$1	$44	$21	$13	$10

(a) The amounts above for Generation, ComEd, PECO, BGE, Pepco, DPL, and ACE include $8 million, $2 million, $1 million, $1 million, $20 million, $12 million and $10 million, respectively, for amounts billed by BSC and/or PHISCO through intercompany allocations for the year ended December 31, 2016.

PHI, Pepco, DPL and ACE record regulatory assets for merger related integration costs which include a portion of the severance costs in the table above related to the PHI Merger. These regulatory assets are either currently being recovered in rates or are deemed probable of recovery in future rates. See Note 3 — Regulatory Matters for further information.

Severance Liability

Amounts included in the table below represent the severance liability recorded for employees of each Registrant and exclude amounts included at Exelon and billed through intercompany allocations:

Severance Liability	
Balance at December 31, 2015	$ 35
Severance charges[(a)]	99
Payments	(46)
Balance at December 31, 2016	$ 88
Severance charges[(a)]	35
Payments	(29)
Balance at December 31, 2017	$ 94

(a) Includes salary continuance and health and welfare severance benefits.

18. Mezzanine Equity

Contingently Redeemable Noncontrolling Interests

In November 2015, 2015 ESA Investco, LLC, a wholly owned subsidiary of Generation, entered into an arrangement to sell a portion of its equity to a tax equity investor. Pursuant to the operating agreement, in certain circumstances the equity contributed by the noncontrolling interests holder could be contingently redeemable. These circumstances were outside of the control of Generation and the noncontrolling interests holder resulting in a portion of the noncontrolling interests being considered contingently redeemable and thus was presented in mezzanine equity on the consolidated balance sheet.

There were no changes in the contingently redeemable noncontrolling interests for the year ended December 31, 2017. The following table summarizes the changes in the contingently redeemable noncontrolling interests for the year ended December 31, 2016:

	Contingently Redeemable NCI
Balance at December 31, 2015	$ 28
Cash received from noncontrolling interests	129
Release of contingency	(157)
Balance at December 31, 2016	$ —

Preferred Stock

In connection with the PHI Merger Agreement, Exelon purchased 18,000 originally issued shares of PHI preferred stock for a purchase price of $180 million. PHI excluded the preferred stock from equity at December 31, 2015 since the preferred stock contained conditions for redemption that were not solely within the control of PHI. Management determined that the preferred stock contained embedded features requiring separate accounting consideration to reflect the potential value to PHI that any issued and outstanding preferred stock could be called and redeemed at a nominal par value upon a termination of the merger agreement under certain circumstances due to the failure to obtain required regulatory approvals. The embedded call and redemption features on the shares of the preferred stock in the event of such a termination were separately accounted for as derivatives. As of December 31, 2015, the fair value of the derivative related to the preferred stock was estimated to be $18 million based on PHI's updated assessment and was included in current assets with a corresponding increase in preferred stock on the Consolidated Balance Sheet. Immediately prior to the merger date, PHI updated its assessment of the fair value of the derivative and reduced the fair value to zero, recording the $18 million decrease in fair value as a reduction of Other, net within PHI's predecessor period, January 1, 2016 to March 23, 2016, Statements of Operations and Comprehensive Income.

On March 23, 2016, the preferred stock was cancelled and the $180 million cash consideration previously received by PHI to issue the preferred stock was treated as additional merger purchase price consideration.

19. Shareholders' Equity

The following table presents common stock authorized and outstanding as of December 31, 2017 and 2016:

			December 31,	
			2017	2016
	Par Value	Shares Authorized	Shares Outstanding	
Common Stock				
Exelon	no par value	2,000,000,000	963,335,888	924,035,059
ComEd	$12.50	250,000,000	127,021,246	127,017,157
PECO	no par value	500,000,000	170,478,507	170,478,507
BGE	no par value	1,500	1,000	1,000
Pepco	$ 0.01	200,000,000	100	100
DPL	$ 2.25	1,000	1,000	1,000
ACE	$ 3.00	25,000,000	8,546,017	8,546,017

ComEd had 60,584 and 72,859 warrants outstanding to purchase ComEd common stock at December 31, 2017 and 2016, respectively. The warrants entitle the holders to convert such warrants into common stock of ComEd at a conversion rate of one share of common stock for three warrants. At December 31, 2017 and 2016, 20,195 and 24,286 shares of common stock, respectively, were reserved for the conversion of warrants.

Equity Securities Offering

In June 2014, Exelon marketed an equity offering of 57.5 million shares of its common stock at a public offering price of $35 per share. In connection with such offering, Exelon entered into forward sale agreements with two counterparties. In July 2015, Exelon settled the forward sale agreement by the issuance of 57.5 million shares of Exelon common stock. Exelon received net cash proceeds of $1.87 billion, which was calculated based on a forward price of $32.48 per share as specified in the forward sale agreements. The net proceeds were used to fund the merger with PHI and related costs and expenses, and for general corporate purposes. The forward sale agreements are classified as equity transactions. As a result, no amounts were recorded in the consolidated financial statements until the July 2015 settlement of the forward sale agreements. However, prior to the July 2015 settlement, incremental shares, if any, were included within the calculation of diluted EPS using the treasury stock method.

Concurrent with the forward equity transaction, Exelon also issued $1.15 billion of junior subordinated notes in the form of 23 million equity units. On June 1, 2017, Exelon settled the forward purchase contract, which was a component of the June 2014 equity units, through the issuance of Exelon common stock from treasury stock. See Note 13 — Debt and Credit Agreements for further information on the equity units.

Share Repurchases

Share Repurchase Programs

There currently is no Exelon Board of Director authority to repurchase shares. Any previous shares repurchased are held as treasury shares, at cost, unless cancelled or reissued at the discretion of Exelon's management. Under the previous share repurchase programs, 2 million and 35 million shares of common stock were held as treasury stock with a historical cost of $123 million and $2.3 billion at December 31, 2017 and 2016, respectively. During 2017, Exelon issued approximately 33 million shares of Exelon common stock from treasury stock in order to settle the forward purchase contract, which was a component of the June 2014 equity units discussed above. During 2016 and 2015, Exelon had no common stock repurchases.

Preferred and Preference Securities of Subsidiaries

At December 31, 2017 and 2016, Exelon was authorized to issue up to 100,000,000 shares of preferred securities, none of which were outstanding.

At December 31, 2017 and 2016, ComEd prior preferred securities and ComEd cumulative preference securities consisted of 850,000 shares and 6,810,451 shares authorized, respectively, none of which were outstanding.

BGE had $190 million of cumulative preference stock that was redeemable at its option at any time after October 1, 2015 for the redemption price of $100 per share, plus accrued and unpaid dividends. On July 3, 2016, BGE redeemed all 400,000 shares of its outstanding 7.125% Cumulative Preference Stock, 1993 Series and all 600,000 shares of its outstanding 6.990% Cumulative Preference Stock, 1995 Series for $100 million, plus accrued and unpaid dividends. On September 18, 2016, BGE redeemed the remaining 500,000 shares of its outstanding 6.970% Cumulative Preference Stock, 1993 Series and the remaining 400,000 shares of its outstanding 6.700% Cumulative Preference Stock, 1993 Series for $90 million, plus accrued and unpaid dividends.

20. Stock-Based Compensation Plans

Stock-Based Compensation Plans

Exelon grants stock-based awards through its LTIP, which primarily includes stock options, restricted stock units and performance share awards. At December 31, 2017, there were approximately 13 million shares authorized for issuance under the LTIP. For the years ended December 31, 2017, 2016 and 2015, exercised and distributed stock-based awards were primarily issued from authorized but unissued common stock shares.

ComEd, PECO, BGE and PHI grant cash awards. The following tables do not include expense related to these plans as they are not considered stock-based compensation plans under the applicable authoritative guidance.

In connection with the acquisition of PHI in March 2016, PHI's unvested time-based restricted stock units and performance-based restricted stock units issued prior to April 29, 2014 were immediately vested and paid in cash upon the close of the merger. PHI's remaining unvested time-based restricted stock units as of the close of the merger were cancelled. There were no remaining unvested performance-based restricted stock units as of the close of the merger.

For the years ended December 31, 2017, 2016 and 2015, there were no significant modifications to the granted stock based awards.

The following tables present the stock-based compensation expense included in Exelon's and PHI's Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2017, 2016 and 2015 and PHI's predecessor periods January 1, 2016 to March 23, 2016 and the year ended December 31, 2015:

EXELON

	Year Ended December 31,		
Components of Stock-Based Compensation Expense	**2017**	**2016[a]**	**2015**
Performance share awards	$107	$ 93	$ 41
Restricted stock units	77	75	71
Stock options	—	—	1
Other stock-based awards	7	7	6
Total stock-based compensation expense included in operating and maintenance expense	191	175	119
Income tax benefit	(74)	(68)	(46)
Total after-tax stock-based compensation expense	$117	$107	$ 73

[a] 2016 amounts include expense related to stock-based compensation granted to eligible PHI employees since the merger date of March 23, 2016.

PHI

	Predecessor	
	January 1 to March 23,	Year Ended December 31,
Components of Stock-Based Compensation Expense	**2016**	**2015**
Time-based restricted stock units	$ 2	$ 7
Performance-based restricted stock units	1	5
Time-based restricted stock awards	—	1
Total stock-based compensation expense included in operating and maintenance expense	3	13
Income tax benefit	(1)	(5)
Total after-tax stock-based compensation expense	$ 2	$ 8

The following tables present the Registrants' stock-based compensation expense (pre-tax) for the years ended December 31, 2017, 2016 and 2015, as well as for the PHI predecessor periods January 1, 2016 to March 23, 2016 and the year ended December 31, 2015:

	Year Ended December 31,		
Subsidiaries	**2017**	**2016**	**2015**
Exelon	$191	$175	$119
Generation	88	78	64
ComEd	7	8	6
PECO	3	3	3
BGE	1	1	3
BSC[a]	88	81	43
PHI Successor[b][c]	4	4	—

	Predecessor	
	January 1 to March 23,	For the Year Ended December 31,
	2016	**2015**
PHI	$3	$13

[a] These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These amounts are not included in the Generation, ComEd, PECO, BGE or PHI amounts above.

[b] Pepco's, DPL's and ACE's stock-based compensation expense for the years ended December 31, 2017 and 2016 was not material.

[c] These amounts primarily represent amounts billed to PHI's subsidiaries through PHISCO intercompany allocations.

There were no significant stock-based compensation costs capitalized during the years ended December 31, 2017, 2016 and 2015 for Exelon or PHI, or for PHI during the predecessor period January 1, 2016 to March 23, 2016.

Exelon and PHI receive a tax deduction based on the intrinsic value of the award on the exercise date for stock options and the distribution date for performance share awards and restricted stock units. For each award, throughout the requisite service period, Exelon and PHI recognize the tax benefit related to compensation costs. The following tables present information regarding Exelon's and PHI's tax benefits for the years ended December 31, 2017, 2016 and 2015 and PHI's predecessor periods January 1, 2016 to March 23, 2016 and the year ended December 31, 2015:

EXELON

	Year Ended December 31,		
	2017	2016	2015
Realized tax benefit when exercised/distributed:			
Restricted stock units	35	27	30
Performance share awards	29	18	18

PHI

	Predecessor	
	January 1 to March 23, 2016	For the Year Ended December 31, 2015
Realized tax benefit when exercised/distributed:		
Time-based restricted stock units	$—	$2
Performance-based restricted stock units	—	5

Stock Options

Non-qualified stock options to purchase shares of Exelon's common stock were granted under the LTIP through 2012. Due to changes in the LTIP, there were no stock options granted in 2017, 2016 or 2015. For all stock options granted through 2012, the exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. The vesting period of stock options is generally four years and all stock options will expire no later than ten years from the date of grant.

The value of stock options at the date of grant is expensed over the requisite service period using the straight-line method. The requisite service period for stock options is generally four years. However, certain stock options become fully vested upon the employee reaching retirement-eligibility. The value of the stock options granted to retirement-eligible employees is either recognized immediately upon the date of grant or through the date at which the employee reaches retirement eligibility.

The following table presents information with respect to stock option activity for the year ended December 31, 2017:

	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance of shares outstanding at December 31, 2016	12,531,591	$ 46.23	3.50	$ 13
Options exercised	(3,093,156)	34.69		
Options forfeited	—	—		
Options expired	(2,714,824)	55.78		
Balance of shares outstanding at December 31, 2017	6,723,611	$ 47.69	2.65	$ 7
Exercisable at December 31, 2017[a]	6,723,611	$ 47.69	2.65	$ 7

[a] Includes stock options issued to retirement eligible employees.

The following table summarizes additional information regarding stock options exercised for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
Intrinsic value[(a)]	$ 15	$11	$ —
Cash received for exercise price	107	19	—

(a) The difference between the market value on the date of exercise and the option exercise price.

At December 31, 2016, all stock options were vested and at December 31, 2017 there were no unrecognized compensation costs related to nonvested stock options.

Restricted Stock Units

Restricted stock units are granted under the LTIP with the majority being settled in a specific number of shares of common stock after the service condition has been met. The corresponding cost of services is measured based on the grant date fair value of the restricted stock unit issued.

The value of the restricted stock units is expensed over the requisite service period using the straight-line method. The requisite service period for restricted stock units is generally three to five years. However, certain restricted stock unit awards become fully vested upon the employee reaching retirement-eligibility. The value of the restricted stock units granted to retirement-eligible employees is either recognized immediately upon the date of grant or through the date at which the employee reaches retirement eligibility. Exelon processes forfeitures as they occur for employees who do not complete the requisite service period.

The following table summarizes Exelon's nonvested restricted stock unit activity for the year ended December 31, 2017:

EXELON

	Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested at December 31, 2016[(a)(c)]	3,824,416	$ 30.49
Granted	2,266,199	34.98
Vested	(1,736,965)	30.98
Forfeited	(92,938)	33.12
Undistributed vested awards[(b)]	(871,209)	34.09
Nonvested at December 31, 2017[(a)]	3,389,503	$ 32.24

(a) Excludes 1,488,383 and 1,319,372 of restricted stock units issued to retirement-eligible employees as of December 31, 2017 and 2016, respectively, as they are fully vested.

(b) Represents restricted stock units that vested but were not distributed to retirement-eligible employees during 2017.

(c) 2016 amounts include activity related to stock-based compensation granted to eligible PHI employees since the merger date of March 23, 2016.

For Exelon, the weighted average grant date fair value (per share) of restricted stock units granted for the years ended December 31, 2017, 2016 and 2015 was $34.98, $28.14 and $36.55, respectively. At December 31, 2017 and 2016, Exelon had obligations related to outstanding restricted stock units not yet settled of $108 million and $101 million, respectively, which are included in common stock in Exelon's Consolidated Balance Sheets. For the years ended December 31, 2017, 2016 and 2015, Exelon settled restricted stock units with fair value totaling $88 million, $68 million and $75 million, respectively. At December 31, 2017, $51 million of total unrecognized compensation costs related to nonvested restricted stock units are expected to be recognized over the remaining weighted-average period of 1.7 years.

For PHI, the weighted average grant date fair value (per share) of time-based restricted stock units granted for the year ended December 31, 2015 was $27.40 and for performance-based restricted stock units was $26.08 for the same period. For the year ended December 31, 2015, PHI settled time-based restricted stock units with fair value totaling $6 million and settled performance-based restricted stock units with fair value totaling $15 million, for the same period. There were no settled restricted stock units for the predecessor period January 1, 2016 to March 23, 2016.

Performance Share Awards

Performance share awards are granted under the LTIP. The performance share awards are settled 50% in common stock and 50% in cash at the end of the three-year performance period, except for awards granted to vice presidents and higher officers that are settled 100% in cash if certain ownership requirements are satisfied.

The common stock portion of the performance share awards is considered an equity award and is valued based on Exelon's stock price on the grant date. The cash portion of the performance share awards is considered a liability award which is remeasured each reporting period based on Exelon's current stock price. As the value of the common stock and cash portions of the awards are based on Exelon's stock price during the performance period, coupled with changes in the total shareholder return modifier and expected payout of the award, the compensation costs are subject to volatility until payout is established.

Effective January 2017 for nonretirement-eligible employees, stock-based compensation costs are recognized over the vesting period of three years using the straight-line method. For performance share awards granted to retirement-eligible employees, the value of the performance shares is recognized ratably over the vesting period, which is the year of grant.

In 2016 and prior, for nonretirement-eligible employees, stock-based compensation costs are recognized over the vesting period of three years using the graded-vesting method. For performance share awards granted to retirement-eligible employees, the value of the performance shares is recognized ratably over the vesting period, which is the year of grant.

Exelon processes forfeitures as they occur for employees who do not complete the requisite service period.

The following table summarizes Exelon's nonvested performance share awards activity for the year ended December 31, 2017:

	Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested at December 31, 2016[(a)(c)]	3,116,261	$ 30.77
Granted	1,632,186	35.00
Change in performance	545,793	30.97
Vested	(1,111,751)	29.11
Forfeited	(18,034)	33.74
Undistributed vested awards[(b)]	(1,207,489)	33.46
Nonvested at December 31, 2017[(a)]	2,956,966	$ 32.65

(a) Excludes 2,723,440 and 2,443,409 of performance share awards issued to retirement-eligible employees as of December 31, 2017 and 2016, respectively, as they are fully vested.

(b) Represents performance share awards that vested but were not distributed to retirement-eligible employees during 2017.

(c) 2016 amounts include activity related to stock-based compensation granted to eligible PHI employees since the merger date of March 23, 2016.

The following table summarizes the weighted average grant date fair value and the fair value of performance share awards granted and settled for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017[(a)]	2016	2015
Weighted average grant date fair value (per share)	$35.00	$28.85	$35.88
Fair value of performance shares settled	72	45	46
Fair value of performance shares settled in cash	56	28	29

(a) As of December 31, 2017, $41 million of total unrecognized compensation costs related to nonvested performance shares are expected to be recognized over the remaining weighted-average period of 1.5 years.

For PHI, the weighted average grant date fair value (per share) of performance-based restricted stock awards was $26.10 for the year ended December 31, 2015. There were no time-based restricted stock awards granted for the year ended December 31, 2015. There were no time-based share settlements or performance-based share settlements for the year-ended December 31, 2015 or the predecessor period January 1, 2016 to March 23, 2016.

The following table presents the balance sheet classification of obligations related to outstanding performance share awards not yet settled:

	December 31,	
	2017	2016
Current liabilities[a]	$ 57	$ 49
Deferred credits and other liabilities[b]	100	52
Common stock	26	40
Total	$ 183	$ 141

[a] Represents the current liability related to performance share awards expected to be settled in cash.

[b] Represents the long-term liability related to performance share awards expected to be settled in cash.

21. Earnings Per Share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding, including the effect of issuing common stock assuming (i) stock options are exercised, and (ii) performance share awards and restricted stock awards are fully vested under the treasury stock method.

The following table sets forth the components of basic and diluted earnings per share and shows the effect of these stock options, performance share awards and restricted stock awards on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Year Ended December 31,		
	2017	2016	2015
Net income attributable to common shareholders	$3,770	$1,134	$2,269
Weighted average common shares outstanding — basic	947	924	890
Assumed exercise and/or distributions of stock-based awards	2	3	3
Weighted average common shares outstanding — diluted	949	927	893

The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was approximately 8 million in 2017, 12 million in 2016, and 16 million in 2015. There were no equity units related to the PHI merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect for the years ended December 31, 2017 and 2016. The number of equity units related to the PHI merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect was 3 million for the year ended 2015. Refer to Note 19 —Shareholders' Equity for further information regarding the equity units and equity forward units.

On June 1, 2017, Exelon settled the forward purchase contract, which was a component of the June 2014 equity units, through the issuance of approximately 33 million shares of Exelon common stock from treasury stock. The issuance of shares on June 1, 2017 triggered full dilution in the EPS calculation, which prior to settlement were included in the calculation of diluted EPS using the treasury stock method. Refer to Note 19 — Shareholders' Equity for further information regarding share repurchases.

22. Changes in Accumulated Other Comprehensive Income

The following tables present changes in accumulated other comprehensive income (loss) (AOCI) by component for the years ended December 31, 2017 and 2016:

For the Year Ended December 31, 2017	Gains and (Losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon[a]						
Beginning balance	$(17)	$ 4	$(2,610)	$(30)	$(7)	$(2,660)
OCI before reclassifications	(1)	6	11	7	6	29
Amounts reclassified from AOCI[b]	4	—	140	—	—	144
Net current-period OCI	3	6	151	7	6	173
Ending balance	$(14)	$10	$(2,459)	$(23)	$(1)	$(2,487)

For the Year Ended December 31, 2016	Gains and (Losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon[a]						
Beginning balance	$(19)	$ 3	$(2,565)	$(40)	$(3)	$(2,624)
OCI before reclassifications	(6)	1	(182)	5	(4)	(186)
Amounts reclassified from AOCI[b]	8	—	137	5	—	150
Net current-period OCI	2	1	(45)	10	(4)	(36)
Ending balance	$(17)	$ 4	$(2,610)	$(30)	$(7)	$(2,660)

[a] All amounts are net of tax and noncontrolling interests. Amounts in parenthesis represent a decrease in AOCI.

[b] See next tables for details about these reclassifications.

[c] As a result of the PHI Merger, the PHI predecessor balances at March 23, 2016 were reduced to zero on March 24, 2016 due to purchase accounting adjustments applied to PHI.

ComEd, PECO, BGE, Pepco, DPL and ACE did not have any reclassifications out of AOCI to Net income during the years ended December 31, 2017 and 2016. The following tables present amounts reclassified out of AOCI to Net income for Exelon, Generation and PHI during the years ended December 31, 2017 and 2016:

FOR THE YEAR ENDED DECEMBER 31, 2017

Details about AOCI components	Items reclassified out of AOCI[a]	Affected line item in the Statement of Operations and Comprehensive Income
Gains and (losses) on cash flow hedges		
Other cash flow hedges	$ (5)	Interest expense
Total before tax	(5)	
Tax benefit	1	
Net of tax	$ (4)	Comprehensive income
Amortization of pension and other postretirement benefit plan items		
Prior service costs[b]	$ 92	
Actuarial losses[b]	(324)	
Total before tax	(232)	
Tax benefit	92	
Net of tax	$(140)	Comprehensive Income
Total Reclassifications	$(144)	Comprehensive income

FOR THE YEAR ENDED DECEMBER 31, 2016

Details about AOCI components	Items reclassified out of AOCI[a]	Affected line item in the Statement of Operations and Comprehensive Income
Loss on cash flow hedges		
Other cash flow hedges	$ (13)	Interest expense
Total before tax	(13)	
Tax benefit	5	
Net of tax	$ (8)	Comprehensive income
Amortization of pension and other postretirement benefit plan items		
Prior service costs[b]	$ 78	
Actuarial losses[b]	(302)	
Total before tax	(224)	
Tax benefit	87	
Net of tax	$(137)	Comprehensive Income
Losses on foreign currency translation		
Loss	$ (5)	Other income and (deductions)
Total before tax	(5)	
Tax benefit	—	
Net of tax	$ (5)	
Total Reclassifications	$(150)	Comprehensive income

[a] Amounts in parenthesis represent a decrease in net income.

[b] This AOCI component is included in the computation of net periodic pension and OPEB cost (see Note 16 — Retirement Benefits for additional details).

The following table presents income tax expense (benefit) allocated to each component of other comprehensive income (loss) during the years ended December 31, 2017 and 2016:

	For the Year Ended December 31,		
	2017	2016	2015
Pension and non-pension postretirement benefit plans:			
Prior service benefit reclassified to periodic benefit cost	$ 36	$ 30	$ 30
Actuarial loss reclassified to periodic benefit cost	(128)	(118)	(140)
Pension and non-pension postretirement benefit plans valuation adjustment	13	115	62
Change in unrealized loss on cash flow hedges	(7)	—	(6)
Change in unrealized (loss)/gain on equity investments	(3)	3	1
Change in unrealized loss on marketable securities	(1)	—	—
Total	$ (90)	$ 30	$ (53)

23. Commitments and Contingencies

Commitments

Constellation Merger Commitments

In February 2012, the MDPSC issued an Order approving the Exelon and Constellation merger. As part of the MDPSC Order, Exelon agreed to provide a package of benefits to BGE customers, the City of Baltimore and the State of Maryland, resulting in an estimated direct investment in the State of Maryland of approximately $1 billion.

The direct investment includes the construction of a new 21-story headquarters building in Baltimore for Generation's competitive energy business that was substantially complete in November 2016 and is now occupied by approximately 1,500 Exelon employees. Generation's investment includes leasehold improvements that are not expected to exceed $110 million. In addition, Generation entered into a 20-year operating lease as the primary lessee of the building.

The direct investment commitment also includes $450 million to $500 million relating to Exelon and Generation's development or assistance in the development of 285 - 300 MWs of new generation in Maryland, which is expected to be completed within a period of 10 years. The MDPSC order contemplates various options for complying with the new generation development commitments, including building or acquiring generating assets, making subsidy or compliance payments, or in circumstances in which the generation build is delayed or certain specified provisions are elected, making liquidated damages payments. Exelon and Generation have incurred $457 million towards satisfying the commitment for new generation development in the state of Maryland, with approximately 220 MW of the new generation commencing with commercial operations to date and an additional 10 MW commitment satisfied through a liquidated damages payment made in the fourth quarter of 2016. Additionally, during the fourth quarter of 2016, given continued declines in projected energy and capacity prices, Generation terminated rights to certain development projects originally intended to meet its remaining 55 MW commitment amount. The commitment will now most likely be satisfied via payment of liquidated damages or execution of a third party PPA, rather than by Generation constructing renewable generating assets. As a result, Exelon and Generation recorded a pre-tax $50 million loss contingency in Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2016.

Commercial Commitments

Exelon's commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Letters of credit (non-debt)[a]	$1,226	$1,056	$154	$16	$—	$—	$ —
Surety bonds[b]	1,381	1,293	66	16	6	—	—
Financing trust guarantees	378	—	—	—	—	—	378
Guaranteed lease residual values[c]	21	—	—	—	—	—	21
Total commercial commitments	$3,006	$2,349	$220	$32	$ 6	$—	$399

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[a] Letters of credit (non-debt)—Exelon and certain of its subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

[b] Surety bonds—Guarantees issued related to contract and commercial agreements, excluding bid bonds.

[c] Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $56 million, $16 million of which is a guarantee by Pepco, $23 million by DPL and $15 million by ACE. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

Leases

Minimum future operating lease payments, including lease payments for contracted generation, vehicles, real estate, computers, rail cars, operating equipment and office equipment, as of December 31, 2017 were:

	Exelon[a]
2018	$ 188
2019	129
2020	147
2021	142
2022	119
Remaining years	787
Total minimum future lease payments	$ 1,512

[a] Includes amounts related to shared use land arrangements.

The following table presents Exelon's rental expense under operating leases for the years ended December 31, 2017, 2016 and 2015:

For the Year Ended December 31,	
2017	$ 709
2016	777
2015	922

For information regarding capital lease obligations, see Note 13—Debt and Credit Agreements.

Nuclear Insurance

Generation is subject to liability, property damage and other risks associated with major incidents at any of its nuclear stations. Generation has mitigated its financial exposure to these risks through insurance and other industry risk-sharing provisions.

The Price-Anderson Act was enacted to ensure the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities and to limit the liability of nuclear reactor owners for such claims from any single incident. As of December 31, 2017, the current liability limit per incident is $13.4 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors at least once every five years with the last adjustment effective September 10, 2013. In accordance with the Price-Anderson Act, Generation maintains financial protection at levels equal to the amount of liability insurance available from private sources through the purchase of private nuclear energy liability insurance for public liability claims that could arise in the event of an incident. Effective January 1, 2017, the required amount of nuclear energy liability insurance purchased is $450 million for each operating site. Claims exceeding that amount are covered through mandatory participation in a financial protection pool, as required by the Price Anderson-Act, which provides the additional $13.0 billion per incident in funds available for public liability claims. Participation in this secondary financial protection pool requires the operator of each reactor to fund its proportionate share of costs for any single incident that exceeds the primary layer of financial protection. Exelon's share of this secondary layer would be approximately $2.8 billion, however any amounts payable under this secondary layer would be capped at $420 million per year.

In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay public liability claims exceeding the $13.4 billion limit for a single incident.

As part of the execution of the NOSA on April 1, 2014, Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF and its affiliates against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation's obligations under this indemnity. See Note 2 — Variable Interest Entities for additional information on Generation's operations relating to CENG.

Generation is required each year to report to the NRC the current levels and sources of property insurance that demonstrates Generation possesses sufficient financial resources to stabilize and decontaminate a reactor and reactor station site in the event of an accident. The property insurance maintained for each facility is currently provided through insurance policies purchased from NEIL, an industry mutual insurance company of which Generation is a member.

NEIL may declare distributions to its members as a result of favorable operating experience. In recent years NEIL has made distributions to its members, but Generation cannot predict the level of future distributions or if they will continue at all. Generation's portion of the distribution declared by NEIL is estimated to be $60 million for 2017, and was $21 million for 2016 and 2015. The distributions were recorded as a reduction to Operating and maintenance expense within Exelon and Generation's Consolidated Statements of Operations and Comprehensive Income.

Premiums paid to NEIL by its members are also subject to a potential assessment for adverse loss experience in the form of a retrospective premium obligation. NEIL has never assessed this retrospective premium since its formation in 1973, and Generation cannot predict the level of future assessments if any. The current maximum aggregate annual retrospective premium obligation for Generation is approximately $360 million. NEIL requires its members to maintain an investment grade credit rating or to ensure collectability of their annual retrospective premium obligation by providing a financial guarantee, letter of credit, deposit premium, or some other means of assurance.

NEIL provides "all risk" property damage, decontamination and premature decommissioning insurance for each station for losses resulting from damage to its nuclear plants, either due to accidents or acts of terrorism. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. In the event of an insured loss, Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. In the event that one or more acts of terrorism cause accidental property damage within a twelve-month period from the first accidental property damage under one or more policies for all insured plants, the maximum recovery by Exelon will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity and any other source, applicable to such losses.

For its insured losses, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Uninsured losses and other expenses, to the extent not recoverable from insurers or the nuclear industry, could also be borne by Generation. Any such losses could have a material adverse effect on Exelon's and Generation's financial conditions, results of operations and cash flows.

Spent Nuclear Fuel Obligation

Under the NWPA, the DOE is responsible for the development of a geologic repository for and the disposal of SNF and high-level radioactive waste. As required by the NWPA, Generation is a party to contracts with the DOE (Standard Contracts) to provide for disposal of SNF from Generation's nuclear generating stations. In accordance with the NWPA and the Standard Contracts, Generation historically had paid the DOE one mill ($0.001) per kWh of net nuclear generation for the cost of SNF disposal. On November 19, 2013, the D.C. Circuit Court ordered the DOE to submit to Congress a proposal to reduce the current SNF disposal fee to zero, unless and until there is a viable disposal program. On May 9, 2014, the DOE notified Generation that the SNF disposal fee remained in effect through May 15, 2014, after which time the fee was set to zero. As a result, for the year ended December 31, 2017, 2016 and 2015, Generation did not incur any expense in SNF disposal fees. Until a new fee structure is in effect, Exelon and Generation will not accrue any further costs related to SNF disposal fees. This fee may be adjusted prospectively to ensure full cost recovery. The NWPA and the Standard Contracts required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance has been, and is expected to be, delayed significantly.

The 2010 Federal budget (which became effective October 1, 2009) eliminated almost all funding for the creation of the Yucca Mountain repository while the Obama Administration devised a new strategy for long-term SNF management. The Blue Ribbon Commission (BRC) on America's Nuclear Future, appointed by the U.S. Energy Secretary, released a report on January 26, 2012, detailing comprehensive recommendations for creating a safe, long-term solution for managing and disposing of the nation's SNF and high-level radioactive waste.

In early 2013, the DOE issued an updated "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste" in response to the BRC recommendations. This strategy included a consolidated interim storage facility that was planned to be operational in 2025. However, due to continued delays on the part of the DOE, Generation currently assumes the DOE will begin accepting SNF in 2030 and uses that date for purposes of estimating the nuclear decommissioning asset retirement obligations. The SNF acceptance date assumption is based on management's estimates of the amount of time required for DOE to select a site location and develop the necessary infrastructure for long-term SNF storage.

In August 2004, Generation and the DOJ, in close consultation with the DOE, reached a settlement under which the government agreed to reimburse Generation, subject to certain damage limitations based on the extent of the government's breach, for costs associated with storage of SNF at Generation's nuclear stations pending the DOE's fulfillment of its obligations. Generation's settlement agreement does not include FitzPatrick and FitzPatrick does not currently have a settlement agreement in place. Calvert Cliffs, Ginna and Nine Mile Point each have separate settlement agreements in place with the DOE which were extended during 2017 to provide for the reimbursement of SNF storage costs through December 31, 2019. Generation submits annual reimbursement requests to the DOE for costs associated with the storage of SNF. In all cases, reimbursement requests are made only after costs are incurred and only for costs resulting from DOE delays in accepting the SNF.

Under the settlement agreements, Generation has received cumulative cash reimbursements for costs incurred as follows:

	Total	Net[a]
Cumulative cash reimbursements[b]	$ 1,167	$ 1,006

[a] Total after considering amounts due to co-owners of certain nuclear stations and to the former owner of Oyster Creek.

[b] Includes $53 and $49, respectively, for amounts received since April 1, 2014, for costs incurred under the CENG DOE Settlement Agreements prior to the consolidation of CENG.

As of December 31, 2017 and 2016, the amount of SNF storage costs for which reimbursement has been or will be requested from the DOE under the DOE settlement agreements is as follows:

	December 31, 2017	December 31, 2016
DOE receivable - current[a]	$ 94	$ 109
DOE receivable - noncurrent[b]	15	15
Amounts owed to co-owners[a][c]	(11)	(13)

[a] Recorded in Accounts receivable, other.

[b] Recorded in Deferred debits and other assets, other

[c] Non-CENG amounts owed to co-owners are recorded in Accounts receivable, other. CENG amounts owed to co-owners are recorded in Accounts payable. Represents amounts owed to the co-owners of Peach Bottom, Quad Cities, and Nine Mile Point Unit 2 generating facilities.

The Standard Contracts with the DOE also required the payment to the DOE of a one-time fee applicable to nuclear generation through April 6, 1983. The fee related to the former PECO units has been paid. Pursuant to the Standard Contracts, ComEd previously elected to defer payment of the one-time fee of $277 million for its units (which are now part of Generation), with interest to the date of payment, until just prior to the first delivery of SNF to the DOE. The unfunded liabilities for SNF disposal costs, including the one-time fee, were transferred to Generation as part of Exelon's 2001 corporate restructuring. A prior owner of FitzPatrick also elected to defer payment of the one-time fee of $34 million for the FitzPatrick unit. As part of the FitzPatrick acquisition on March 31, 2017, Generation assumed a SNF liability for the DOE one-time fee obligation with interest related to FitzPatrick along with an offsetting asset for the contractual right to reimbursement from NYPA, a prior owner of FitzPatrick, for amounts paid for the FitzPatrick DOE one-time fee obligation. The amounts were recorded at fair value. See Note 4 -Mergers, Acquisitions and Dispositions for additional information on the FitzPatrick acquisition. As of December 31, 2017 and 2016, the SNF liability for the one-time fee with interest was $1,147 million and $1,024 million, respectively, which is included in Exelon's and Generation's Consolidated Balance Sheets. Interest for Exelon's and Generation's SNF liabilities accrues at the 13-week Treasury Rate. The 13-week Treasury Rate in effect, for calculation of the interest accrual at December 31, 2017, was 1.149%. The outstanding one-time fee obligations for the Nine Mile Point, Ginna, Oyster Creek and TMI units remain with the former owners. The Clinton and Calvert Cliffs units have no outstanding obligation. See Note 11 — Fair Value of Financial Assets and Liabilities for additional information.

Environmental Remediation Matters

General. The Registrants' operations have in the past, and may in the future, require substantial expenditures to comply with environmental laws. Additionally, under Federal and state environmental laws, the Registrants are generally liable for the costs of remediating environmental contamination of property now or formerly owned by them and of property contaminated by hazardous substances generated by them. The Registrants own or lease a number of real estate parcels, including parcels on which their operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws. In addition, the Registrants are currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future. Unless otherwise disclosed, the Registrants cannot reasonably estimate whether they will incur significant liabilities for additional investigation and remediation costs at these or additional sites identified by the Registrants, environmental agencies or others, or whether such costs will be recoverable from third parties, including customers. Additional costs could have a material, unfavorable impact on the Registrants' financial conditions, results of operations and cash flows.

MGP Sites

ComEd, PECO, BGE and DPL have identified sites where former MGP activities have or may have resulted in actual site contamination. For almost all of these sites, there are additional PRPs that may share responsibility for the ultimate remediation of each location.

- ComEd has identified 42 sites, 19 of which have been remediated and approved by the Illinois EPA or the U.S. EPA and 23 that are currently under some degree of active study and/or remediation. ComEd expects the majority of the remediation at these sites to continue through at least 2022.
- PECO has identified 26 sites, 17 of which have been remediated in accordance with applicable PA DEP regulatory requirements and 9 that are currently under some degree of active study and/or remediation. PECO expects the majority of the remediation at these sites to continue through at least 2022.
- BGE has identified 13 former gas manufacturing or purification sites, 11 of which the remediation has been completed and approved by the MDE and 2 that require some level of remediation and/or ongoing monitoring. BGE has determined that a loss associated with these sites is probable and has recorded an estimated liability, which is included in the table below. However, it is reasonably possible that BGE's cost of remediation for one of its sites could be up to $13 million.
- DPL has identified 3 sites, 2 of which remediation has been completed and approved by the MDE or the Delaware Department of Natural Resources and Environmental Control. The remaining site is under study and the required cost at the site is not expected to be material.

The historical nature of the MGP sites and the fact that many of the sites have been buried and built over, impacts the ability to determine a precise estimate of the ultimate costs prior to initial sampling and determination of the exact scope and method of remedial activity. Management determines its best estimate of remediation costs using all available information at the time of each study, including probabilistic and deterministic modeling for ComEd and PECO, and the remediation standards currently required by the applicable state environmental agency. Prior to completion of any significant clean up, each site remediation plan is approved by the appropriate state environmental agency.

ComEd, pursuant to an ICC order, and PECO, pursuant to settlements of natural gas distribution rate cases with the PAPUC, are currently recovering environmental remediation costs of former MGP facility sites through customer rates. See Note 3 — Regulatory Matters for additional information regarding the associated regulatory assets. While BGE and DPL do not have riders for MGP clean-up costs, they have historically received recovery of actual clean-up costs in distribution rates.

As of December 31, 2017 and 2016, the Registrants had accrued the following undiscounted amounts for environmental liabilities in Other current liabilities and Other deferred credits and other liabilities within their respective Consolidated Balance Sheets:

December 31, 2017	Total environmental investigation and remediation reserve	Portion of total related to MGP investigation and remediation
Exelon	$ 466	$ 315
Generation	117	—
ComEd	285	283
PECO	30	28
BGE	5	4
PHI	29	—
Pepco	27	—
DPL	1	—
ACE	1	—

December 31, 2016	Total environmental investigation and remediation reserve	Portion of total related to MGP investigation and remediation
Exelon	$ 429	$ 325
Generation	72	—
ComEd	292	291
PECO	33	31
BGE	2	2
PHI	30	1
Pepco	27	—
DPL	2	1
ACE	1	—

During the third quarter of 2017, ComEd, PECO, BGE and DPL completed an annual study of their future estimated MGP remediation requirements. The study resulted in a $13 million and $2 million increase to environmental liabilities and related regulatory assets for ComEd and PECO, respectively, and no change at BGE and DPL.

Solid and Hazardous Waste

Cotter Corporation. The EPA has advised Cotter Corporation (Cotter), a former ComEd subsidiary, that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. In 2000, ComEd sold Cotter to an unaffiliated third-party. As part of the sale, ComEd agreed to indemnify Cotter for any liability arising in connection with the West Lake Landfill. In connection with Exelon's 2001 corporate restructuring, this responsibility to indemnify Cotter was transferred to Generation. On May 29, 2008, the EPA issued a Record of Decision (ROD) approving a landfill cover remediation approach. By letter dated January 11, 2010, the EPA requested that the PRPs perform a supplemental feasibility study for a remediation alternative that would involve complete excavation of the radiological contamination. On September 30, 2011, the PRPs submitted the supplemental feasibility study to the EPA for review. Since June 2012, the EPA has requested that the PRPs perform a series of additional analyses and groundwater and soil sampling as part of the supplemental feasibility study. This further analysis was focused on a partial excavation remedial option. The PRPs provided the draft final Remedial Investigation and Feasibility Study (RI/FS) to the EPA in January 2018, which formed the basis for EPA's proposed remedy selection, as further discussed below. There are currently three PRPs participating in the West Lake Landfill remediation proceeding. Investigation by Generation has identified a number of other parties who also may be PRPs and could be liable to contribute to the final remedy. Further investigation is ongoing. As of December 31, 2016, Generation had previously recorded an estimated liability for its anticipated share of a landfill cover remedy, which at the time was estimated to cost approximately $90 million in total.

On February 1, 2018, the EPA announced its proposed remedy involving partial excavation of the site with an enhanced landfill cover. The proposed remedy will be open for public comment through March 22, 2018 and Generation currently expects that a ROD will be issued during the third quarter of 2018. Thereafter, the EPA will seek to enter into a Consent Decree with the PRPs to effectuate the remedy, which Generation currently expects will occur in late 2018 or early 2019. The estimated cost of the remedy, taking into account the current EPA technical requirements and the total costs expected to be incurred by the PRPs in fully executing the remedy, is approximately $340 million, including cost escalation on an undiscounted basis, which would be allocated among the final group of PRPs. Generation has determined that a loss associated with the EPA's partial excavation and enhanced landfill cover remedy is probable and has recorded a liability as of December 31, 2017, included in the table above, that reflects management's best estimate of Cotter's allocable share of the ultimate cost for the entire remediation effort. Given the joint and several nature of this liability, the magnitude of Generation's ultimate liability will depend on the actual costs incurred to implement the ultimate required remediation remedy as well as on the nature and terms of any cost-sharing arrangements with the final group of PRPs. Therefore, it is reasonably possible that the ultimate cost and Generation's associated allocable share recorded as of December 31, 2017, could differ significantly once these uncertainties are resolved, which could have a material impact on Exelon's and Generation's future financial conditions, results of operations and cash flows.

On January 16, 2018, the PRPs were advised by the EPA that it will begin an additional investigation and evaluation of groundwater conditions at the West Lake Landfill. The PRPs have been provided with a draft statement of work that will form the basis of an Administrative Settlement Agreement and Order on Consent for the performance by the PRPs of the groundwater RI/FS and reimbursement of EPA's oversight costs. The purposes of this new RI/FS are to define the nature and extent of any groundwater contamination from the West Lake Landfill site, determine the potential risk posed to human health and the environment, and evaluate remedial alternatives. Generation estimates the undiscounted cost for the groundwater RI/FS for West Lake to be approximately $20 million and Generation has recorded a liability as of December 31, 2017, included in the table above, that reflects management's best estimate of Cotter's allocable share of the cost among the PRPs. At this time Generation cannot predict the likelihood or the extent to which, if any, remediation activities will be required and cannot estimate a reasonably possible range of loss for response costs beyond those associated with the RI/FS component. It is reasonably possible, however, that resolution of this matter could have a material, unfavorable impact on Exelon's and Generation's future results of operations and cash flows.

During December 2015, the EPA took two actions related to the West Lake Landfill designed to abate what it termed as imminent and dangerous conditions at the landfill. The first involved installation by the PRPs of a non-combustible surface cover to protect against surface fires in areas where radiological materials are believed to have been disposed. Generation has accrued what it believes to be an adequate amount to cover its anticipated liability for this interim action, and the work is expected to be completed in 2018. The second action involved EPA's public statement that it will require the PRPs to construct a barrier wall in an adjacent landfill to prevent a subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, Generation believes that the requirement to build a barrier wall is remote in light of other technologies that have been employed by the adjacent landfill owner. Finally, one of the other PRPs, the landfill owner and operator of the adjacent landfill, has indicated that it will be making a contribution claim against Cotter for costs that it has incurred to prevent the subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, Exelon and Generation do not possess sufficient information to assess this claim and therefore are unable to estimate a range of loss, if any. As such, no liability has been recorded for the potential contribution claim. It is reasonably possible, however, that resolution of this matter could have a material, unfavorable impact on Exelon's and Generation's financial conditions, results of operations and cash flows.

On August 8, 2011, Cotter was notified by the DOJ that Cotter is considered a PRP with respect to the government's clean-up costs for contamination attributable to low level radioactive residues at a former storage and reprocessing facility named Latty Avenue near St. Louis, Missouri. The Latty Avenue site is included in ComEd's indemnification responsibilities discussed above as part of the sale of Cotter. The radioactive residues had been generated initially in connection with the processing of uranium ores as part of the U.S. Government's Manhattan Project. Cotter purchased the residues in 1969 for initial processing at the Latty Avenue facility for the subsequent extraction of uranium and metals. In 1976, the NRC found that the Latty Avenue site had radiation levels exceeding NRC criteria for decontamination of land areas. Latty Avenue was investigated and remediated by the United States Army Corps of Engineers pursuant to funding under FUSRAP. The DOJ has not yet formally advised the PRPs of the amount that it is seeking, but it is believed to be approximately $90 million from all PRPs. The DOJ and the PRPs agreed to toll the statute of limitations until August 2018 so that settlement discussions could proceed. Generation has determined that a loss associated with this matter is probable under its indemnification agreement with Cotter and has recorded an estimated liability, which is included in the table above.

Commencing in February 2012, a number of lawsuits have been filed in the U.S. District Court for the Eastern District of Missouri. Among the defendants were Exelon, Generation and ComEd, all of which were subsequently dismissed from the case, as well as Cotter, which remains a defendant. The suits allege that individuals living in the North St. Louis area developed some form of cancer or other serious illness due to Cotter's negligent or reckless conduct in processing, transporting, storing, handling and/or disposing of radioactive materials. Plaintiffs are asserting public liability claims under the Price-Anderson Act. Their state law claims for negligence, strict liability, emotional distress, and medical monitoring have been dismissed. The complaints do not contain specific damage claims. In the event of a finding of liability against Cotter, it is reasonably possible that Generation would be financially responsible due to its indemnification responsibilities of Cotter described above. The court has dismissed a number of the lawsuits as untimely, and that ruling is currently on appeal. Pre-trial motions and discovery are proceeding in the remaining cases and a pre-trial scheduling order has been filed with the court. At this stage of the litigation, Generation cannot estimate a range of loss, if any. As such, no liability has been recorded for these lawsuits.

Benning Road Site. In September 2010, PHI received a letter from EPA identifying the Benning Road site as one of six land-based sites potentially contributing to contamination of the lower Anacostia River. A portion of the site was formerly the location of a Pepco Energy Services electric generating facility. That generating facility was deactivated in June 2012 and plant structure demolition was completed in July 2015. The remaining portion of the site consists of a Pepco transmission and distribution service center that remains in operation. In December 2011, the U.S. District Court for the District of Columbia approved a Consent Decree entered into by Pepco and Pepco Energy Services with the DOEE, which requires Pepco and Pepco Energy Services to conduct a Remediation Investigation (RI)/ Feasibility Study (FS) for the Benning Road site and an approximately 10 to 15-acre portion of the adjacent Anacostia River. The RI/FS will form the basis for the remedial actions for the Benning Road site and for the Anacostia River sediment associated with the site. The Consent Decree does not obligate Pepco or Pepco Energy Services to pay for or perform any remediation work, but it is anticipated that DOEE will look to Pepco and Pepco Energy Services to assume responsibility for cleanup of any conditions in the river that are determined to be attributable to past activities at the Benning Road site. Pursuant to Exelon's March 23, 2016 acquisition of PHI, Pepco Energy Services was transferred to Generation.

Since 2013, Pepco and Pepco Energy Services (now Generation) have been performing RI work and have submitted multiple draft RI reports to the DOEE. Once the RI work is completed, Pepco and Generation will issue a draft "final" RI report for review and comment by DOEE and the public. Pepco and Generation will then proceed to develop an FS to evaluate possible remedial alternatives for submission to DOEE. The Court has established a schedule for completion of the RI and FS, and approval by the DOEE, by May 6, 2019.

Upon DOEE's approval of the final RI and FS Reports, Pepco and Generation will have satisfied their obligations under the Consent Decree. At that point, DOEE will prepare a Proposed Plan regarding further response actions. After considering public comment on the Proposed Plan, DOEE will issue a Record of Decision identifying any further response actions determined to be necessary.

PHI, Pepco and Generation have determined that a loss associated with this matter is probable and have accrued an estimated liability, which is included in the table above.

Anacostia River Tidal Reach. Contemporaneous with the Benning RI/FS being performed by Pepco and Generation, DOEE and certain federal agencies have been conducting a separate RI/FS focused on the entire tidal reach of the Anacostia River extending from just north of the Maryland-D.C. boundary line to the confluence of the Anacostia and Potomac Rivers. In March 2016, DOEE released a draft of the river-wide RI Report for public review and comment. The river-wide RI incorporated the results of the river sampling performed by Pepco and Pepco Energy Services as part of the Benning RI/FS, as well as similar sampling efforts conducted by owners of other sites adjacent to this segment of the river and supplemental river sampling conducted by DOEE's contractor. DOEE asked Pepco, along with parties responsible for other sites along the river, to participate in a "Consultative Working Group" to provide input into the process for future remedial actions addressing the entire tidal reach of the river and to ensure proper coordination with the other river cleanup efforts currently underway, including cleanup of the river segment adjacent to the Benning Road site resulting from the Benning RI/FS. Pepco responded that it will participate in the Consultative Working Group but its participation is not an acceptance of any financial responsibility beyond the work that will be performed at the Benning Road site described above. DOEE has advised the Consultative Working Group that the federal and DOEE authorities are conducting the remedial investigation and that a feasibility study of potential remedies is being prepared. DOEE currently is working under a statutorily mandated date to complete the Record of Decision selecting the final remedy for the project by June 30, 2018. However, on January 11, 2018 the DOEE requested at a hearing of the District of Columbia Council Committee of the Environment that this statutory deadline be extended until December 31, 2019 to reflect the time necessary to complete the investigation. A recommendation by the Committee to the DC Council is expected in the near future. The District of Columbia Council will make the final determination to extend the deadline. An appropriate liability for Pepco's share of investigation costs has been accrued and is included in the table above. Although Pepco has determined that it is probable that costs for remediation will be incurred, Pepco cannot estimate the reasonably possible range of loss at this time and no liability has been accrued for those future costs.

Conectiv Energy Wholesale Power Generation Sites. In July 2010, PHI sold the wholesale power generation business of Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries (Conectiv Energy) to Calpine Corporation (Calpine). Under New Jersey's Industrial Site Recovery Act (ISRA), the transfer of ownership triggered an obligation on the part of Conectiv Energy to remediate any environmental contamination at each of the nine Conectiv Energy generating facility sites located in New Jersey. Under the terms of the sale, Calpine has assumed responsibility for performing the ISRA-required remediation and for the payment of all related ISRA compliance costs up to $10 million. Predecessor PHI was obligated to indemnify Calpine for any ISRA compliance remediation costs in excess of $10 million. According to PHI's estimates, the costs of ISRA-required remediation activities at the nine generating facility sites located in New Jersey are in the range of approximately $7 million to $18 million, and predecessor PHI recorded an estimated liability for its share of the estimated clean-up costs. Pursuant to Exelon's March 2016 acquisition of PHI, the Conectiv Energy legal entity was transferred to Generation and the liability for Predecessor PHI's share of the estimated clean-up costs was also transferred to Generation and is included in the table above as a liability of Generation. The responsibility to indemnify Calpine is shared by PHI and Generation.

Brandywine Fly Ash Disposal Site. In February 2013, Pepco received a letter from the MDE requesting that Pepco investigate the extent of waste on a Pepco right-of-way that traverses the Brandywine fly ash disposal site in Brandywine, Prince George's County, Maryland, owned by NRG Energy, Inc. (as successor to GenOn MD Ash Management, LLC) (NRG). In July 2013, while reserving its rights and related defenses under a 2000 agreement covering the sale of this site, Pepco indicated its willingness to investigate the extent of, and propose an appropriate closure plan to address, ash on the right-of-way. Pepco submitted a schedule for development of a closure plan to MDE on September 30, 2013 and, by letter dated October 18, 2013, MDE approved the schedule.

Pepco has determined that a loss associated with this matter is probable and has recorded an estimated liability, which is included in the table above. Pepco believes that the costs incurred in this matter may be recoverable from NRG under the 2000 sale agreement, but has not recorded an associated receivable for any potential recovery.

Litigation and Regulatory Matters

Asbestos Personal Injury Claims

Generation maintains estimated liabilities for claims associated with asbestos-related personal injury actions in certain facilities that are currently owned by Generation or were previously owned by ComEd and PECO. The estimated liabilities are recorded on an undiscounted basis and exclude the estimated legal costs associated with handling these matters, which could be material.

At December 31, 2017 and 2016, Generation had recorded estimated liabilities of approximately $78 million and $83 million, respectively, in total for asbestos-related bodily injury claims. As of December 31, 2017, approximately $21 million of this amount related to 230 open claims presented to Generation, while the remaining $57 million is for estimated future asbestos-related bodily injury claims anticipated to arise through 2050, based on actuarial assumptions and analyses, which are updated on an annual basis. On a quarterly basis, Generation monitors actual experience against the number of forecasted claims to be received and expected claim payments and evaluates whether adjustments to the estimated liabilities are necessary.

On November 22, 2013, the Supreme Court of Pennsylvania held that the Pennsylvania Workers Compensation Act does not apply to an employee's disability or death resulting from occupational disease, such as diseases related to asbestos exposure, which manifests more than 300 weeks after the employee's last employment-based exposure, and that therefore the exclusivity provision of the Act does not preclude such employee from suing his or her employer in court. The Supreme Court's ruling reverses previous rulings by the Pennsylvania Superior Court precluding current and former employees from suing their employers in court, despite the fact that the same employee was not eligible for workers compensation benefits for diseases that manifest more than 300 weeks after the employee's last employment-based exposure to asbestos. Since the Pennsylvania Supreme Court's ruling in November 2013, Exelon, Generation, and PECO have experienced an increase in asbestos-related personal injury claims brought by former PECO employees, all of which have been accrued for on a claim by claim basis. Those additional claims are taken into account in projecting estimated future asbestos-related bodily injury claims.

On November 4, 2015, the Illinois Supreme Court found that the provisions of the Illinois' Workers' Compensation Act and the Workers' Occupational Diseases Act barred an employee from bringing a direct civil action against an employer for latent diseases, including asbestos-related diseases that fall outside the 25-year limit of the statute of repose. The Illinois Supreme Court's ruling reversed previous rulings by the Illinois Court of Appeals, which initially ruled that the Illinois Worker's Compensation law should not apply in cases where the diagnosis of an asbestos related disease occurred after the 25-year maximum time period for filing a Worker's Compensation claim. As a result of this ruling, Exelon, Generation, and ComEd have not recorded an increase to the asbestos-related bodily injury liability as of December 31, 2017.

There is a reasonable possibility that Exelon may have additional exposure to estimated future asbestos-related bodily injury claims in excess of the amount accrued and the increases could have a material unfavorable impact on Exelon's, Generation's and PECO's financial conditions, results of operations and cash flows.

Fund Transfer Restrictions

Under applicable law, Exelon may borrow or receive an extension of credit from its subsidiaries. Under the terms of Exelon's intercompany money pool agreement, Exelon can lend to, but not borrow from the money pool.

The Federal Power Act declares it to be unlawful for any officer or director of any public utility "to participate in the making or paying of any dividends of such public utility from any funds properly included in capital account." What constitutes "funds properly included in capital account" is undefined in the Federal Power Act or the related regulations; however, FERC has consistently interpreted the provision to allow dividends to be paid as long as: (1) the source of the dividends is clearly disclosed; (2) the dividend is not excessive; and (3) there is no self-dealing on the part of corporate officials. While these restrictions may limit the absolute amount of dividends that a particular subsidiary may pay, Exelon does not believe these limitations are materially limiting because, under these limitations, the subsidiaries are allowed to pay dividends sufficient to meet Exelon's actual cash needs.

Under Illinois law, ComEd may not pay any dividend on its stock unless, among other things, "[its] earnings and earned surplus are sufficient to declare and pay same after provision is made for reasonable and proper reserves," or unless it has specific authorization from the ICC. ComEd has also agreed in connection with financings arranged through ComEd Financing III that it will not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debt securities issued to ComEd Financing III; (2) it defaults on its guarantee of the payment of distributions on the preferred trust securities of ComEd Financing III; or (3) an event of default occurs under the Indenture under which the subordinated debt securities are issued.

PECO's Articles of Incorporation prohibit payment of any dividend on, or other distribution to the holders of, common stock if, after giving effect thereto, the capital of PECO represented by its common stock together with its retained earnings is, in the aggregate, less than the involuntary liquidating value of its then outstanding preferred securities. On May 1, 2013, PECO redeemed all outstanding preferred securities. As a result, the above ratio calculation is no longer applicable. Additionally, PECO may not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debentures, which were issued to PEC L.P. or PECO Trust IV; (2) it defaults on its guarantee of the payment of distributions on the Series D Preferred Securities of PEC L.P. or the preferred trust securities of PECO Trust IV; or (3) an event of default occurs under the Indenture under which the subordinated debentures are issued.

BGE is subject to certain dividend restrictions established by the MDPSC. First, BGE was prohibited from paying a dividend on its common shares through the end of 2014. Second, BGE is prohibited from paying a dividend on its common shares if (a) after the dividend payment, BGE's equity ratio would be below 48% as calculated pursuant to the MDPSC's ratemaking precedents or (b) BGE's senior unsecured credit rating is rated by two of the three major credit rating agencies below investment grade. Finally, BGE must notify the MDPSC that it intends to declare a dividend on its common shares at least 30 days before such a dividend is paid.

Pepco is subject to certain dividend restrictions established by settlements approved in Maryland and the District of Columbia. Pepco is prohibited from paying a dividend on its common shares if (a) after the dividend payment, Pepco's equity ratio would be 48% as equity levels are calculated under the ratemaking precedents of the commissions and the Board or (b) Pepco's senior unsecured credit rating is rated by one of the three major credit rating agencies below investment grade.

DPL is subject to certain dividend restrictions established by settlements approved in Delaware and Maryland. DPL is prohibited from paying a dividend on its common shares if (a) after the dividend payment, DPL's equity ratio would be 48% as equity levels are calculated under the ratemaking precedents of the commissions and the Board or (b) DPL's senior unsecured credit rating is rated by one of the three major credit rating agencies below investment grade.

ACE is subject to certain dividend restrictions established by settlements approved in New Jersey. ACE is prohibited from paying a dividend on its common shares if (a) after the dividend payment, ACE's equity ratio would be 48% as equity levels are calculated under the ratemaking precedents of the commissions and the Board or (b) ACE's senior unsecured credit rating is rated by one of the three major credit rating agencies below investment grade.

Conduit Lease with City of Baltimore

On September 23, 2015, the Baltimore City Board of Estimates approved an increase in annual rental fees for access to the Baltimore City underground conduit system effective November 1, 2015, from $12 million to $42 million, subject to an annual increase thereafter based on the Consumer Price Index. BGE subsequently entered into litigation with the City regarding the amount of and basis for establishing the conduit fee. On November 30, 2016, the Baltimore City Board of Estimates approved a settlement agreement entered into between BGE and the City to resolve the disputes and pending litigation related to BGE's use of and payment for the underground conduit system. As a result of the settlement, the parties have entered into a six-year lease that reduces the annual expense to $25 million in the first three years and caps the annual expense in the last three years to not more than $29 million. BGE recorded a decrease to Operating and maintenance expense in the fourth quarter of 2016 of approximately $28 million for the reversal of the previously higher fees accrued as well as the settlement of prior year disputed fee true-up amounts.

Deere Wind Energy Assets

In 2013, Deere & Company (Deere) filed a lawsuit against Generation in the Delaware Superior Court relating to Generation's acquisition of the Deere wind energy assets. Under the purchase agreement, Deere was entitled to receive earn-out payments if certain specific wind projects already under development in Michigan met certain development and construction milestones following the sale. In the complaint, Deere sought to recover a $14 million earn-out payment associated with one such project, which was never completed. On June 2, 2016, the Delaware Superior Court entered summary judgment in favor of Deere. As a result, in the second quarter of 2016, Generation increased its accrued liability to $14 million. On January 17, 2017, Generation filed an appeal with the Delaware Supreme Court. On December 18, 2017, the Delaware Supreme Court reversed the Superior Court decision and entered final judgment in favor of Generation. As a result, in the fourth quarter of 2017, Generation reversed its previously established liability of $14 million.

City of Everett Tax Increment Financing Agreement

On April 10, 2017, the City of Everett petitioned the Massachusetts Economic Assistance Coordinating Council (EACC) to revoke the 1999 tax increment financing agreement (TIF Agreement) relating to Mystic 8 & 9 on the grounds that the total investment in Mystic 8 & 9 materially deviates from the investment set forth in the TIF Agreement. On October 31, 2017, a three-member panel of the EACC conducted an administrative hearing on the City's petition. On November 30, 2017, the hearing panel issued a tentative decision denying the City's petition, finding that there was no material misrepresentation that would justify revocation of the TIF Agreement. On December 13, 2017, the tentative decision was adopted by the full EACC. On January 12, 2018, the City filed a complaint in Massachusetts Superior Court requesting, among other things, that the court set aside the EACC's decision, grant the City's request to decertify the Project and the TIF Agreement, and award the City damages for alleged underpaid taxes over the period of the TIF Agreement. Generation vigorously contested the City's claims before the EACC and will continue to do so in the Massachusetts Superior Court proceeding. Generation continues to believe that the City's claim lacks merit. Accordingly, Generation has not recorded a liability for payment resulting from such a revocation, nor can Generation estimate a reasonably possible range of loss, if any, associated with any such revocation. Further, it is reasonably possible that property taxes assessed in future periods, including those following the expiration of the current TIF Agreement in 2019, could be material to Generation's results of operations and cash flows.

General

The Registrants are involved in various other litigation matters that are being defended and handled in the ordinary course of business. The assessment of whether a loss is probable or a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. The Registrants maintain accruals for such losses that are probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of reasonably possible loss, particularly where (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss.

Income Taxes

See Note 14 — Income Taxes for information regarding the Registrants' income tax refund claims and certain tax positions, including the 1999 sale of fossil-generating assets.

24. Supplemental Financial Information

Supplemental Statement of Operations Information

The following tables provide additional information about Exelon's Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2017, 2016 and 2015.

	For the Years Ended December 31,		
	2017	2016	2015
Taxes other than income			
Utility[a]	$ 898	$ 753	$ 474
Property	545	483	407
Payroll	230	226	201
Other	58	114	118
Total taxes other than income	$1,731	$1,576	$1,200

	For the Years Ended December 31,		
	2017	2016	2015
Other, Net			
Decommissioning-related activities:			
Net realized income on decommissioning trust funds[a]			
Regulatory agreement units	$ 488	$ 237	$ 232
Non-regulatory agreement units	209	126	156
Net unrealized gains on decommissioning trust funds			
Regulatory agreement units	455	216	(282)
Non-regulatory agreement units	521	194	(197)
Net unrealized losses on pledged assets			
Zion Station decommissioning	(10)	(1)	7
Regulatory offset to decommissioning trust fund-related activities[b]	(724)	(372)	21
Total decommissioning-related activities	939	400	(63)
Investment income	8	17	8
Long-term lease income	—	4	15
Interest income (expense) related to uncertain income tax positions	3	13	1
Penalty related to uncertain income tax positions[c]	2	(106)	—
AFUDC—Equity	73	64	24
Loss on debt extinguishment	—	(3)	—
Terminated interest rate swaps[d]	—	—	(26)
PHI merger related debt exchange[e]	—	—	(22)
Other	31	24	17
Other, net	$1,056	$ 413	$ (46)

[a] Includes investment income and realized gains and losses on sales of investments within the nuclear decommissioning trust funds.

[b] Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of net income taxes related to all NDT fund activity for those units. See Note 15 — Asset Retirement Obligations for additional information regarding the accounting for nuclear decommissioning.

[c] See Note 14—Income Taxes for discussion of the penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position.

[d] In January 2015, in connection with Generation's $750 million issuance of five-year Senior Unsecured Notes, Exelon terminated certain floating-to-fixed interest rate swaps. As the original forecasted transactions were a series of future interest payments over a ten-year period, a portion of the anticipated interest payments are probable not to occur. As a result, $26 million of anticipated payments were reclassified from AOCI to Other, net in Exelon's Consolidated Statements of Operations and Comprehensive Income.

[e] See Note 13—Debt and Credit Agreements and Note 4—Mergers, Acquisitions and Dispositions for additional information on the PHI merger related debt exchange.

Supplemental Cash Flow Information

The following tables provide additional information regarding Exelon's Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015.

	For the year ended December 31,		
	2017	2016	2015
Depreciation, amortization and accretion			
Property, plant and equipment	$3,293	$3,477	$2,227
Regulatory assets	478	407	170
Amortization of intangible assets, net	57	52	54
Amortization of energy contract assets and liabilities[a]	35	35	22
Nuclear fuel[b]	1,096	1,159	1,116
ARO accretion[c]	468	446	398
Total depreciation, amortization and accretion	$5,427	$5,576	$3,987

[a] Included in Operating revenues or Purchased power and fuel on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

[b] Included in Purchased power and fuel expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

[c] Included in Operating and maintenance expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

	For the year ended December 31,		
	2017	2016	2015
Cash paid (refunded) during the year:			
Interest (net of amount capitalized)	$2,430	$1,340	$ 930
Income taxes (net of refunds)	540	(441)	342
Other non-cash operating activities:			
Pension and non-pension postretirement benefit costs	$ 643	$ 619	$ 637
Loss from equity method investments	32	24	7
Provision for uncollectible accounts	125	155	120
Provision for excess and obsolete inventory	56	111	10
Stock-based compensation costs	88	(384)	97
Other decommissioning-related activity[a]	(313)	—	(82)
Energy-related options[b]	7	(11)	21
Amortization of regulatory asset related to debt costs	9	9	7
Amortization of rate stabilization deferral	(10)	76	73
Amortization of debt fair value adjustment	(18)	(11)	(17)
Merger-related commitments[c][d]	—	558	—
Severance costs	35	99	—
Amortization of debt costs	64	35	58
Provision for excess and obsolete inventory	—	12	—
Discrete impacts from EIMA and FEJA[e]	(52)	—	—
Discrete impacts from EIMA[f]	—	8	144
Lower of cost or market inventory adjustment	—	37	23
Baltimore City Conduit Lease Settlement	—	(28)	—
Cash Working Capital Order	—	(13)	—
Vacation accrual adjustment[g]	(68)	—	—
Asset Retirements Costs	—	2	—
Long-term incentive plan	109	70	24
Change in environmental liabilities	44	—	—
Other	(30)	(35)	(13)
Total other non-cash operating activities	$ 721	$1,333	$1,109

	For the year ended December 31,		
	2017	2016	2015
Non-cash investing and financing activities:			
Increase (decrease) in capital expenditures not paid	$ 42	$ (128)	$ 96
Change in PPE related to ARO update	29	191	885
Non-cash financing of capital projects	16	95	77
Indemnification of like-kind exchange position[h]	—	—	—
Dividends on stock compensation	7	6	6
Dissolution of financing trust due to long-term debt retirement	8	—	—
Fair value adjustment of long-term debt due to retirement	(5)	—	—
Fair value of pension and OPEB obligation transferred in connection with FitzPatrick	—	—	—
Sale of Upstream assets[c]	—	37	—
Pending FitzPatrick Acquisition[i]	—	(54)	—
Nuclear fuel procurement[j]	—	—	57
Long-term software licensing agreement[k]	—	—	95

[a] Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of operating revenues, ARO accretion, ARC amortization, investment income and income taxes related to all NDT fund activity for these units. See Note 15 —Asset Retirement Obligations for additional information regarding the accounting for nuclear decommissioning.

[b] Includes option premiums reclassified to realized at the settlement of the underlying contracts and recorded to results of operations.

[c] See Note 4 - Mergers, Acquisitions and Dispositions for more information.

[d] Excludes $5 million of forgiveness of Accounts receivable related to merger commitments recorded in connection with the PHI Merger, the balance is included within Provision for uncollectible accounts.

[e] Reflects the change in ComEd's distribution and energy efficiency formula rates. See Note 3 — Regulatory Matters for more information.

[f] Reflects the change in distribution rates pursuant to EIMA, which allows for the recovery of costs by a utility through a pre-established performance-based formula rate. See Note 3 — Regulatory Matters for more information.

[g] On December 1, 2017, Exelon adopted a single, standard vacation accrual policy for all non-represented, non-craft (represented and craft policies remained unchanged) employees effective January 1, 2018. To reflect the new policy, Exelon recorded a one-time, $68 million pre-tax credit to expense to reverse 2018 vacation cost originally accrued throughout 2017 that will now be accrued ratably over the year in 2018.

[h] See Note 14 — Income Taxes for discussion of the like-kind exchange tax position.

[i] Reflects the transfer of nuclear fuel to Entergy under the cost reimbursement provisions of the FitzPatrick acquisition agreements. See Note 4 - Mergers, Acquisitions and Dispositions for more information.

[j] Relates to the nuclear fuel procurement contracts for the purchase of fixed quantities of uranium, which was delivered to Generation in 2015. Generation is required to make payments starting September 30, 2018, with the final payment being due no later than September 30, 2020.

[k] Relates to a long-term software license agreement entered into on May 30, 2015. Exelon is required to make payments starting August of 2015 through May of 2024. See Note 13 - Debt and Credit Agreements.

Supplemental Balance Sheet Information

The following tables provide additional information about Exelon's assets and liabilities at December 31, 2017 and 2016.

	As of December 31,	
	2017	2016
Investments		
Equity method investments:		
Financing trusts[a]	$ 14	$ 22
Bloom	206	216
Net Power	76	57
Other equity method investments	1	16
Total equity method investments	297	311
Other investments:		
Employee benefit trusts and investments[b]	244	232
Other cost method investments	62	52
Other available for sale investments	37	34
Total investments	$640	$629

(a) Includes investments in affiliated financing trusts, which were not consolidated within the financial statements of Exelon and are shown as investments on the Consolidated Balance Sheets. See Note 1 — Significant Accounting Policies for additional information.

(b) The Registrants' investments in these marketable securities are recorded at fair market value.

The following tables provide additional information about Exelon's liabilities at December 31, 2017 and 2016.

	As of December 31,	
	2017	2016
Accrued expenses		
Compensation-related accruals[a]	$ 978	$1,199
Taxes accrued	373	723
Interest accrued	328	1,234
Severance accrued	58	44
Other accrued expenses	98	260
Total accrued expenses	$1,835	$3,460

(a) Primarily includes accrued payroll, bonuses and other incentives, vacation and benefits.

25. Segment Information

Operating segments for each of the Registrants are determined based on information used by the chief operating decision maker(s) (CODM) in deciding how to evaluate performance and allocate resources at each of the Registrants.

In the first quarter of 2016, following the consummation of the PHI Merger, three new reportable segments were added: Pepco, DPL and ACE. As a result, Exelon has twelve reportable segments, which include ComEd, PECO, BGE, PHI's three reportable segments consisting of Pepco, DPL, and ACE, and Generation's six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and all other power regions referred to collectively as "Other Power Regions", which includes activities in the South, West and Canada. ComEd, PECO, BGE, Pepco, DPL and ACE each represent a single reportable segment, and as such, no separate segment information is provided for these Registrants. Exelon, ComEd, PECO, BGE, Pepco, DPL and ACE's CODMs evaluate the performance of and allocate resources to ComEd, PECO, BGE, Pepco, DPL and ACE based on net income and return on equity.

Effective with the consummation of the PHI Merger, PHI's reportable segments have changed based on the information used by the CODM to evaluate performance and allocate resources. PHI's reportable segments consist of Pepco, DPL and ACE. PHI's Predecessor periods' segment information was recast in 2016 to conform to the current Exelon presentation. The reclassification of the segment information did not impact PHI's reported consolidated revenues or net income. PHI's CODM evaluates the performance of and allocates resources to Pepco, DPL and ACE based on net income and return on equity.

The basis for Generation's reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation's hedging strategies and risk metrics are also aligned to these same geographic regions. Descriptions of each of Generation's six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.
- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.
- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
- New York represents operations within ISO-NY, which covers the state of New York in its entirety.
- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.
- Other Power Regions:
    - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.
    - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado and parts of New Mexico, Wyoming and South Dakota.
    - Canada represents operations across the entire country of Canada and includes AESO, OIESO and the Canadian portion of MISO.

The CODMs for Exelon and Generation evaluate the performance of Generation's electric business activities and allocate resources based on revenues net of purchased power and fuel expense (RNF). Generation believes that RNF is a useful measurement of operational performance. RNF is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report. Generation's operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for Generation's owned generation and fuel costs associated with tolling agreements. The results of Generation's other business activities are not regularly reviewed by the CODM and are therefore not classified as operating segments or included in the regional reportable segment amounts. These activities include natural gas, as well as other miscellaneous business activities that are not significant to Generation's overall operating revenues or results of operations. Further, Generation's unrealized mark-to-market gains and losses on economic hedging activities and its amortization of certain intangible assets and liabilities relating to commodity contracts recorded at fair value from mergers and acquisitions are also excluded from the regional reportable segment amounts. Exelon and Generation do not use a measure of total assets in making decisions regarding allocating resources to or assessing the performance of these reportable segments.

An analysis and reconciliation of the Registrants' reportable segment information to the respective information in the consolidated financial statements for the years ended December 31, 2017, 2016, and 2015 is as follows:

	Successor							
	Generation[a]	ComEd	PECO	BGE	PHI[e]	Other[b]	Intersegment Eliminations	Exelon
Operating revenues[c]:								
2017								
Competitive businesses electric revenues	$15,300	$ —	$ —	$ —	$ —	$ —	$ (1,105)	$ 14,195
Competitive businesses natural gas revenues	2,575	—	—	—	—	—	—	2,575
Competitive businesses other revenues	591	—	—	—	—	—	(1)	590
Rate-regulated electric revenues	—	5,536	2,375	2,489	4,469	—	(29)	14,840
Rate-regulated natural gas revenues	—	—	495	687	161	—	(10)	1,333
Shared service and other revenues	—	—	—	—	49	1,831	(1,880)	—
2016								
Competitive businesses electric revenues	$15,390	$ —	$ —	$ —	$ —	$ —	$ (1,430)	$ 13,960
Competitive businesses natural gas revenues	2,146	—	—	—	—	—	—	2,146
Competitive businesses other revenues	215	—	—	—	—	—	(4)	211
Rate-regulated electric revenues	—	5,254	2,531	2,609	3,506	—	(31)	13,869
Rate-regulated natural gas revenues	—	—	463	624	92	—	(13)	1,166
Shared service and other revenues	—	—	—	—	45	1,648	(1,686)	7
2015								
Competitive businesses electric revenues	$15,944	$ —	$ —	$ —	$ —	$ —	$ (744)	$ 15,200
Competitive businesses natural gas revenues	2,433	—	—	—	—	—	—	2,433
Competitive businesses other revenues	758	—	—	—	—	—	(1)	757
Rate-regulated electric revenues	—	4,905	2,486	2,490	—	—	(5)	9,876
Rate-regulated natural gas revenues	—	—	546	645	—	—	(15)	1,176
Shared service and other revenues	—	—	—	—	—	1,372	(1,367)	5

	Successor							
	Generation[a]	ComEd	PECO	BGE	PHI[e]	Other[b]	Intersegment Eliminations	Exelon
Intersegment revenues[d]:								
2017	$ 1,110	$ 15	$ 7	$ 16	$ 50	$ 1,824	$ (3,020)	$ 2
2016	1,428	15	8	21	45	1,647	(3,159)	5
2015	745	4	2	14	—	1,367	(2,127)	5
Depreciation and amortization:								
2017	$ 1,457	$ 850	$ 286	$ 473	$ 675	$ 87	$ —	$ 3,828
2016	1,879	775	270	423	515	74	—	3,936
2015	1,054	707	260	366	—	63	—	2,450
Operating expenses[c]:								
2017	$17,993	$ 4,214	$ 2,215	$2,562	$ 3,911	$ 1,851	$ (3,026)	$ 29,720
2016	16,856	4,056	2,292	2,683	3,549	1,928	(3,164)	28,200
2015	16,872	3,889	2,404	2,578	—	1,444	(2,131)	25,056
Equity in earnings (losses) of unconsolidated affiliates:								
2017	$ (33)	$ —	$ —	$ —	$ —	$ 1	$ —	$ (32)
2016	(25)	—	—	—	—	1	—	(24)
2015	(8)	—	—	—	—	1	—	(7)
Interest expense, net:								
2017	$ 440	$ 361	$ 126	$ 105	$ 245	$ 283	$ —	$ 1,560
2016	364	461	123	103	195	290	—	1,536
2015	365	332	114	99	—	123	—	1,033
Income (loss) before income taxes:								
2017	$ 1,429	$ 984	$ 538	$ 525	$ 578	$ (296)	$ (2)	$ 3,756
2016	873	679	587	468	(58)	(555)	(5)	1,989
2015	1,850	706	521	477	—	(219)	(5)	3,330
Income taxes:								
2017	$ (1,375)	$ 417	$ 104	$ 218	$ 217	$ 294	$ —	$ (125)
2016	290	301	149	174	3	(156)	—	761
2015	502	280	143	189	—	(41)	—	1,073
Net income (loss):								
2017	$ 2,771	$ 567	$ 434	$ 307	$ 362	$ (590)	$ (2)	$ 3,849
2016	558	378	438	294	(61)	(398)	(5)	1,204
2015	1,340	426	378	288	—	(177)	(5)	2,250
Capital expenditures:								
2017	$ 2,259	$ 2,250	$ 732	$ 882	$ 1,396	$ 65	$ —	$ 7,584
2016	3,078	2,734	686	934	1,008	113	—	8,553
2015	3,841	2,398	601	719	—	65	—	7,624
Total assets:								
2017	$48,387	$29,726	$10,170	$9,104	$21,247	$ 8,618	$(10,552)	$116,700
2016	46,974	28,335	10,831	8,704	21,025	10,369	(11,334)	114,904

[a] Generation includes the six reportable segments shown below: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions. For the year ended December 31, 2017, intersegment revenues for Generation include revenue from sales to PECO of $138 million, sales to BGE of $388 million, sales to Pepco of $255 million, sales to DPL of $179 million and sales to ACE of $29 million in the Mid-Atlantic region, and sales to ComEd of $121 million in the Midwest region, which eliminate upon consolidation. For the year ended December 31, 2016, intersegment revenues for Generation include revenue from sales to PECO of $290 million and sales to BGE of $608 million in the Mid-Atlantic region, and sales to ComEd of $47 million in the Midwest region, which eliminate upon consolidation. For the Successor period of March 24, 2016 to December 31, 2016, intersegment revenues for Generation include revenue from sales to Pepco of $295 million, sales to DPL of $154 million and sales to ACE of $37 million in the Mid-Atlantic region, which eliminate upon consolidation. For the year ended December 31, 2015, intersegment revenues for Generation include revenue from sales to PECO of $224 million and sales to BGE of $502 million in the Mid-Atlantic region, and sales to ComEd of $18 million in the Midwest region, which eliminate upon consolidation.

[b] Other primarily includes Exelon's corporate operations, shared service entities and other financing and investment activities.

[c] Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 24 — Supplemental Financial Information for total utility taxes for the years ended December 31, 2017, 2016 and 2015.

[d] Intersegment revenues exclude sales to unconsolidated affiliates. The intersegment profit associated with Generation's sale of certain products and services by and between Exelon's segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in operating revenues in the Consolidated Statements of Operations and Comprehensive Income.

[e] Amounts included represent activity for PHI's successor period, March 24, 2016 through December 31, 2017. PHI includes the three reportable segments: Pepco, DPL and ACE. See tables below for PHI's predecessor periods, including Pepco, DPL and ACE, for January 1, 2016 to March 23, 2016 and for the year ended December 31, 2015.

SUCCESSOR AND PREDECESSOR PHI:

	Pepco	DPL	ACE	Other[b]	Intersegment Eliminations	PHI
Operating revenues[a]:						
December 31, 2017 - Successor						
Rate-regulated electric revenues	$2,158	$1,139	$1,186	$ —	$ (14)	$ 4,469
Rate-regulated natural gas revenues	—	161	—	—	—	161
Shared service and other revenues	—	—	—	52	(3)	49
March 24, 2016 to December 31, 2016 - Successor						
Rate-regulated electric revenues	$1,675	$ 850	$ 989	$ 5	$ (13)	$ 3,506
Rate-regulated natural gas revenues	—	92	—	—	—	92
Shared service and other revenues	—	—	—	45	—	45
January 1, 2016 to March 23, 2016 - Predecessor						
Rate-regulated electric revenues	$ 511	$ 279	$ 268	$ 42	$ (4)	$ 1,096
Rate-regulated natural gas revenues	—	56	—	1	—	57
Shared service and other revenues	—	—	—	—	—	—
December 31, 2015 - Predecessor						
Rate-regulated electric revenues	$2,129	$1,138	$1,295	$ 210	$ (2)	$ 4,770
Rate-regulated natural gas revenues	—	164	—	1	—	165
Shared service and other revenues	—	—	—	—	—	—
Intersegment revenues:						
December 31, 2017 - Successor	$ 6	$ 8	$ 2	$ 53	$ (19)	$ 50
March 24, 2016 to December 31, 2016 - Successor	4	5	2	47	(13)	45
January 1, 2016 to March 23, 2016 - Predecessor	1	2	1	—	(4)	—
December 31, 2015 - Predecessor	5	6	4	—	(15)	—
Depreciation and amortization:						
December 31, 2017 - Successor	$ 321	$ 167	$ 146	$ 42	$ (1)	$ 675
March 24, 2016 to December 31, 2016 - Successor	224	120	128	43	—	$ 515
January 1, 2016 to March 23, 2016 - Predecessor	71	37	37	11	(4)	$ 152
December 31, 2015 - Predecessor	256	148	175	45	—	$ 624
Operating expenses:						
December 31, 2017 - Successor	$1,760	$1,071	$1,029	$ 68	$ (17)	$ 3,911
March 24, 2016 to December 31, 2016 - Successor	1,577	952	1,000	33	(13)	$ 3,549
January 1, 2016 to March 23, 2016 - Predecessor	443	284	251	73	(3)	$ 1,048
December 31, 2015 - Predecessor	1,790	1,137	1,161	220	—	$ 4,308
Interest expense, net:						
December 31, 2017 - Successor	$ 121	$ 51	$ 61	$ 13	$ (1)	$ 245
March 24, 2016 to December 31, 2016 - Successor	98	38	47	12	—	$ 195
January 1, 2016 to March 23, 2016 - Predecessor	29	12	15	11	(2)	$ 65
December 31, 2015 - Predecessor	124	50	64	43	(1)	$ 280
Income (loss) before income taxes:						
December 31, 2017 - Successor	$ 310	$ 192	$ 103	$ 377	$ (404)	$ 578
March 24, 2016 to December 31, 2016 - Successor	36	(30)	(51)	(84)	71	$ (58)
January 1, 2016 to March 23, 2016 - Predecessor	47	43	5	59	(118)	$ 36
December 31, 2015 - Predecessor	289	125	73	23	(29)	$ 481
Income taxes:						
December 31, 2017 - Successor	$ 105	$ 71	$ 26	$ 15	$ —	$ 217
March 24, 2016 to December 31, 2016 - Successor	26	5	(5)	(23)	—	$ 3
January 1, 2016 to March 23, 2016 - Predecessor	15	17	1	(16)	—	$ 17
December 31, 2015 - Predecessor	102	49	33	(48)	27	$ 163

	Pepco	DPL	ACE	Other[b]	Intersegment Eliminations	PHI
Operating revenues[a]:						
Net income (loss):						
December 31, 2017 - Successor	$ 205	$ 121	$ 77	$ (91)	$ 50	$ 362
March 24, 2016 to December 31, 2016 - Successor	10	(35)	(47)	(34)	45	$ (61)
January 1, 2016 to March 23, 2016 - Predecessor	32	26	5	(44)	—	$ 19
December 31, 2015 - Predecessor	187	76	40	25	(1)	$ 327
Capital expenditures:						
December 31, 2017 - Successor	$ 628	$ 428	$ 312	$ 28	$ —	$ 1,396
March 24, 2016 to December 31, 2016 - Successor	489	277	218	24	—	$ 1,008
January 1, 2016 to March 23, 2016 - Predecessor	97	72	93	11	—	273
December 31, 2015 - Predecessor	544	352	300	34	—	1,230
Total assets:						
December 31, 2017 - Successor	$7,832	$4,357	$3,445	$10,600	$(4,987)	$21,247
December 31, 2016 - Successor	7,335	4,153	3,457	10,804	(4,724)	21,025

[a] Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 24 — Supplemental Financial Information for total utility taxes for the years ended December 31, 2017, 2016 and 2015.

[b] Other primarily includes PHI's corporate operations, shared service entities and other financing and investment activities. For the predecessor periods presented, Other includes the activity of PHI's unregulated businesses which were distributed to Exelon and Generation as a result of the PHI Merger.

GENERATION TOTAL REVENUES:

	2017			2016			2015		
	Revenues from external customers[a]	Intersegment revenues	Total revenues	Revenues from external customers[a]	Intersegment revenues	Total revenues	Revenues from external customers[a]	Intersegment revenues	Total revenues
Mid-Atlantic	$ 5,515	$ 25	$ 5,540	$ 6,212	$ (33)	$ 6,179	$ 5,974	$ (74)	$ 5,900
Midwest	4,206	(25)	4,181	4,402	10	4,412	4,712	(2)	4,710
New England	2,010	(8)	2,002	1,778	(9)	1,769	2,217	(5)	2,212
New York	1,535	(17)	1,518	1,198	(42)	1,156	996	(11)	985
ERCOT	958	4	962	831	6	837	863	(6)	857
Other Power Regions	1,076	(27)	1,049	969	(62)	907	1,182	(80)	1,102
Total Revenues for Reportable Segments	$15,300	$(48)	$15,252	$15,390	$(130)	$15,260	$15,944	$(178)	$15,766
Other[b]	3,166	48	3,214	2,361	130	2,491	3,191	178	3,369
Total Generation Consolidated Operating Revenues	$18,466	$ —	$18,466	$17,751	$ —	$17,751	$19,135	$ —	$19,135

[a] Includes all wholesale and retail electric sales to third parties and affiliated sales to the Utility Registrants.

[b] Other represents activities not allocated to a region. See text above for a description of included activities. Also includes a $38 million decrease to revenues, a $52 million decrease to revenues, and a $7 million increase to revenues for the amortization of intangible assets related to commodity contracts recorded at fair value for the years ended December 31, 2017, 2016, and 2015, respectively, unrealized mark-to-market losses of $131 million, losses of $500 million, and gains of $203 million for the years ended December 31, 2017, 2016, and 2015, respectively, and elimination of intersegment revenues.

GENERATION TOTAL REVENUES NET OF PURCHASED POWER AND FUEL EXPENSE:

	2017			2016			2015		
	RNF from external customers[a]	Intersegment RNF	Total RNF	RNF from external customers[a]	Intersegment RNF	Total RNF	RNF from external customers[a]	Intersegment RNF	Total RNF
Mid-Atlantic	$3,105	$ 109	$3,214	$3,282	$ 35	$3,317	$3,556	$ 15	$3,571
Midwest	2,810	10	2,820	2,969	2	2,971	2,912	(20)	2,892
New England	538	(24)	514	467	(29)	438	519	(58)	461
New York	975	1	976	761	(19)	742	584	50	634
ERCOT	575	(243)	332	412	(131)	281	425	(132)	293
Other Power Regions	476	(171)	305	483	(147)	336	440	(190)	250
Total Revenues net of purchased power and fuel expense for Reportable Segments	$8,479	$(318)	$8,161	$8,374	$(289)	$8,085	$8,436	$(335)	$8,101
Other[b]	297	318	615	547	289	836	678	335	1,013
Total Generation Revenues net of purchased power and fuel expense	$8,776	$ —	$8,776	$8,921	$ —	$8,921	$9,114	$ —	$9,114

[a] Includes purchases and sales from third parties and affiliated sales to the Utility Registrants.

[b] Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $54 million decrease in RNF, a $57 million decrease in RNF, and a $8 million increase in RNF for the amortization of intangible assets and liabilities related to commodity contracts for the years ended December 31, 2017, 2016, and 2015, respectively, unrealized mark-to-market losses of $175 million, losses of $41 million, and gains of $257 million for the years ended December 31, 2017, 2016, and 2015, respectively, accelerated nuclear fuel amortization associated with the announced early retirement decision for Clinton and Quad Cities as discussed in Note 8 - Early Nuclear Plant Retirements of $12 million and $60 million for the year ended December 31, 2017 and 2016, and the elimination of intersegment revenues net of purchased power and fuel expense.

26. Related Party Transactions

The financial statements of Exelon include related party transactions as presented in the tables below:

	For the Years Ended December 31,		
	2017	2016	2015
Operating revenues from affiliates:			
PECO[a]	$ 1	$ 1	$ 1
BGE[a]	4	4	4
Other	2	5	4
Total operating revenues from affiliates	$ 7	$ 10	$ 9
Interest expense to affiliates, net:			
ComEd Financing III	$ 14	$ 13	$13
PECO Trust III	6	6	6
PECO Trust IV	6	6	6
BGE Capital Trust II	10	16	16
Total interest expense to affiliates, net	$ 36	$ 41	$41
Earnings (losses) in equity method investments:			
Qualifying facilities and domestic power projects	$(33)	$(25)	$ (8)
Other	1	1	1
Total losses in equity method investments	$(32)	$(24)	$ (7)

	December 31, 2017	December 31, 2016
Payables to affiliates (current):		
ComEd Financing III	$ 4	$ 4
PECO Trust III	1	1
BGE Capital Trust II	—	3
Total payables to affiliates (current)	$ 5	$ 8
Long-term debt due to financing trusts:		
ComEd Financing III	$205	$205
PECO Trust III	81	81
PECO Trust IV	103	103
BGE Capital Trust II	—	252
Total long-term debt due to financing trusts	$389	$641

(a) The intersegment profit associated with the sale of certain products and services by and between Exelon's segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in operating revenues in the Consolidated Statements of Operations. See Note 3—Regulatory Matters for additional information.

27. Quarterly Data

The data shown below, which may not equal the total for the year due to the effects of rounding and dilution, includes all adjustments that Exelon considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Net Income Attributable to Common Shareholders	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$8,757	$7,573	$1,296	$ 483	$ 995	$173
June 30	7,623	6,910	232	647	80	267
September 30	8,769	9,002	1,475	1,267	824	490
December 31	8,381	7,875	1,258	714	1,871	204

	Average Basic Shares Outstanding (in millions)		Net Income per Basic Share	
	2017	2016	2017	2016
Quarter ended:				
March 31	928	923	$1.07	$0.19
June 30	934	924	0.09	0.29
September 30	962	925	0.86	0.53
December 31	964	925	1.94	0.22

	Average Diluted Shares Outstanding (in millions)		Net Income per Diluted Share	
	2017	2016	2017	2016
Quarter ended:				
March 31	930	925	$1.07	$0.19
June 30	936	926	0.09	0.29
September 30	965	927	0.85	0.53
December 31	967	928	1.93	0.22

The following table presents the New York Stock Exchange—Composite Common Stock Prices and dividends by quarter on a per share basis:

	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High price	$42.67	$38.78	$37.44	$37.19	$36.36	$37.70	$36.37	$35.95
Low price	37.55	35.37	33.30	34.47	29.82	32.86	33.18	26.26
Close	39.41	37.67	36.07	35.98	35.49	33.29	36.36	35.86
Dividends	0.328	0.328	0.328	0.328	0.318	0.318	0.318	0.310

28. Subsequent Events

Illinois ZEC Procurement

On January 25, 2018, the ICC announced that Generation's Clinton Unit 1, Quad Cities Unit 1 and Quad Cities Unit 2 nuclear plants were selected as the winning bidders through the IPA's ZEC procurement event. Generation executed the ZEC procurement contracts with Illinois utilities, including ComEd, effective January 26, 2018 and will begin recognizing revenue. Winning bidders will be entitled to compensation for the sale of ZECs retroactive to the June 1, 2017 effective date of FEJA. In the first quarter of 2018, Generation will recognize approximately $150 million of revenue and ComEd will record an obligation to Generation and corresponding reduction to its regulatory liability of approximately $100 million related to ZECs generated from June 1, 2017 through December 31, 2017.

Early Retirement of Oyster Creek Generating Station

On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. In 2010, Generation announced that Oyster Creek would retire by the end of 2019 as part of an agreement with the State of New Jersey to avoid significant costs associated with the construction of cooling towers to meet the State's then new environmental regulations. Since then, like other nuclear sites, Oyster Creek has continued to face rising operating costs amid a historically low wholesale power price environment. The decision to retire Oyster Creek in 2018 at the end of its current operating cycle involved consideration of several factors, including economic and operating efficiencies, and avoids a refueling outage scheduled for the fall of 2018 that would have required advanced purchasing of fuel fabrication and materials beginning in late February 2018.

Because of the decision to retire Oyster Creek in 2018, Exelon and Generation will recognize certain onetime charges in the first quarter of 2018 ranging from an estimated $25 million to $35 million (pre-tax) related to a materials and supplies inventory reserve adjustment, employee-related costs, and construction work-in-progress impairment, among other items. Estimated cash expenditures related to the one-time charges primarily for employee-related costs are expected to range from $5 million to $10 million.

In addition to these one-time charges, there will be financial impacts stemming from shortening the expected economic useful life of Oyster Creek primarily related to accelerated depreciation of plant assets (including any ARC), accelerated amortization of nuclear fuel, and additional ARO accretion expense associated with the changes in decommissioning timing and cost assumptions to reflect an earlier retirement date. The following table summarizes the estimated amount of expected incremental non-cash expense items expected to be incurred in 2018 because of the early retirement decision.

Income statement expense (pre-tax)	Projected[b] 2018
Depreciation and Amortization	
Accelerated depreciation[a]	$110 to $140
Accelerated nuclear fuel amortization	$40
Operating and Maintenance	
Increased ARO accretion	Up to $5

(a) Includes the accelerated depreciation of plant assets including any ARC.

(b) Actual results may differ based on incremental future capital additions, actual units of production for nuclear fuel amortization, future revised ARO assumptions, etc.

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Exelon®

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

☑ Filed by the Registrant ☐ Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

☐ Preliminary Proxy Statement
☐ Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
☐ Definitive Proxy Statement
☑ Definitive Additional Materials
☐ Soliciting Material Under Rule 14a-12

EXELON CORPORATION

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

☑ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
1) Title of each class of securities to which transaction applies:
2) Aggregate number of securities to which transaction applies:
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
4) Proposed maximum aggregate value of transaction:
5) Total fee paid:

☐ Fee paid previously with preliminary materials:

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
1) Amount previously paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:

*** Exercise Your *Right* to Vote ***

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 1, 2018.

EXELON CORPORATION

EXELON CORPORATION
10 SOUTH DEARBORN STREET
P.O. BOX 805398
CHICAGO, IL 60680-5398

Meeting Information

Meeting Type: Annual Meeting
For holders as of: March 2, 2018
Date: May 1, 2018 **Time:** 9:00 A.M. Eastern Time
Location: Offices of Pepco Holdings LLC
701 Ninth Street. NW
Washington. D.C.

You are receiving this communication because you hold shares in the company named above.

This is not a ballot. You cannot use this notice to vote these shares. This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. You may view the proxy materials online at *www.proxyvote.com* or easily request a paper copy (see reverse side).

We encourage you to access and review all of the important information contained in the proxy materials before voting.

See the reverse side of this notice to obtain proxy materials and voting instructions.

E39822-P04234-271932

— Before You Vote —

How to Access the Proxy Materials

Proxy Materials Available to VIEW or RECEIVE:
NOTICE AND PROXY STATEMENT ANNUAL REPORT

How to View Online:
Have the information that is printed in the box marked by the arrow ➔ XXXX XXXX XXXX XXXX (located on the following page) and visit: *www.proxyvote.com* .

How to Request and Receive a PAPER or E-MAIL Copy:
If you want to receive a paper or e-mail copy of these documents, you must request one. There is NO charge for requesting a copy. Please choose one of the following methods to make your request:

1) *BY INTERNET* :	www.proxyvote.com
2) *BY TELEPHONE* :	1-800-579-1639
3) *BY E-MAIL ** :	sendmaterial@proxyvote.com

* If requesting materials by e-mail, please send a blank e-mail with the information that is printed in the box marked by the arrow ➔ XXXX XXXX XXXX XXXX (located on the following page) in the subject line.

Requests, instructions and other inquiries sent to this e-mail address will NOT be forwarded to your investment advisor. Please make the request as instructed above on or before April 17, 2018 to facilitate timely delivery.

— How To Vote —

Please Choose One of the Following Voting Methods

Vote In Person: Many shareholder meetings have attendance requirements including, but not limited to, the possession of an attendance ticket issued by the entity holding the meeting. Please check the meeting materials for any special requirements for meeting attendance. At the meeting, you will need to request a ballot to vote these shares.

Vote By Internet: To vote now by Internet, go to *www.proxyvote.com* . Have the information that is printed in the box marked by the arrow ➔ XXXX XXXX XXXX XXXX (located on the following page) available and follow the instructions.

Vote By Mail: You can vote by mail by requesting a paper copy of the materials, which will include a proxy card.

E39823-P04234-Z71932

Voting Items

The Board of Directors recommends you vote FOR the following:

1 . Election of Directors

Nominees:

1a. Anthony K. Anderson

1b. Ann C. Berzin

1c. Christopher M. Crane

1d. Yves C. de Balmann

1e. Nicholas DeBenedictis

1f. Linda P. Jojo

1g. Paul L. Joskow

1h. Robert J. Lawless

1i. Richard W. Mies

1j. John W. Rogers, Jr.

1k. Mayo A. Shattuck III

1l. Stephen D. Steinour

The Board of Directors recommends you vote FOR proposals 2 and 3.

2 . Ratification of PricewaterhouseCoopers LLP as Exelon's Independent Auditor for 2018.

3. Advisory approval of executive compensation.

NOTE: Authority is also given to vote on all other matters that may properly come before the meeting or any adjournment thereof.

E39824-P04234-Z71932

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

☑ Filed by the Registrant ☐ Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

☐ Preliminary Proxy Statement
☐ Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
☑ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Under Rule 14a-12

EXELON CORPORATION

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

☑ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
1) Title of each class of securities to which transaction applies:
2) Aggregate number of securities to which transaction applies:
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
4) Proposed maximum aggregate value of transaction:
5) Total fee paid:

☐ Fee paid previously with preliminary materials:

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
1) Amount previously paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:

Exelon.

NOTICE OF THE ANNUAL MEETING AND 2018 PROXY STATEMENT

Exelon's Purpose:

Powering a cleaner and brighter future for our customers and communities

We are collaborating with national labs, leading universities, start-ups, venture funds and corporations in the development of new technologies to transform the way we produce and use energy.
We will continue to advocate for the economic and environmental health of our communities.

Photo Credit: National Labs

Exelon, our family of companies, the Exelon Foundation and our employees set an Exelon record in corporate philanthropy and volunteerism, committing **more than $52 million to nonprofits and volunteering 210,000 hours.**

In 2017, we were named to the Dow Jones Sustainability Index **for the 12th consecutive year.**

Exelon.

Notice of the Annual Meeting of Shareholders and 2018 Proxy Statement

March 21, 2018

Logistics

When
Tuesday, May 1, 2018,
at 9:00 a.m. Eastern Time

Where
Offices of Pepco Holdings LLC located at 701 Ninth Street, NW, Washington, D.C.

Who Can Vote
Holders of Exelon common stock as of 5:00 p.m. Eastern Time on March 2, 2018 are entitled to receive notice of the annual meeting and vote at the meeting

Items of Business

		Board Recommendation	Page
1	Elect 12 Director nominees named in the proxy statement	✓ **FOR** each Director nominee	▶12
2	Ratify appointment of PricewaterhouseCoopers LLP as Exelon's independent auditor for 2018	✓ **FOR**	▶41
3	Say on pay: advisory vote on the compensation of named executive officers	✓ **FOR**	▶44

Shareholders will also conduct any other business properly presented before the meeting.

The Board of Directors knows of no other matters to be presented for action at the annual meeting. If any matter is presented from the floor of the annual meeting, the individuals serving as proxies will vote such matters in the best interest of all shareholders. Your signed proxy card gives this authority to Thomas S. O'Neill and Carter C. Culver.

Advance Voting (before 11:59 p.m. Eastern Time on April 30, 2018)

Use the internet at
www.proxyvote.com
24 hours a day

Call toll-free
1-800-690-6903

Mark, date, sign and mail your proxy card in the postage-paid envelope provided

Date of Mailing: On or about March 21, 2018, these proxy materials and our annual report are being mailed or made available to shareholders.

Shareholders of Record: As of March 2, 2018, there were 964,986,919 shares of common stock outstanding and entitled to vote. Each share of common stock is entitled to one vote on each matter properly brought before the meeting.

Thomas S. O'Neill
Senior Vice President,
General Counsel and Corporate Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 1, 2018

The Notice of 2018 Annual Meeting, Proxy Statement, and 2017 Annual Report and the means to vote by Internet are available at www.proxyvote.com .

Table of Contents

Cautionary Statements Regarding Forward-Looking Information

This proxy statement contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by Exelon Corporation include those factors discussed herein, as well as the items discussed in (1) Exelon's 2017 Annual Report on Form 10-K in (a) ITEM 1A. Risk Factors, (b) ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) ITEM 8. Financial Statements and Supplementary Data: Note 24 and (2) other factors discussed in filings with the SEC by Exelon. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this proxy statement. Exelon does not undertake any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this proxy statement.

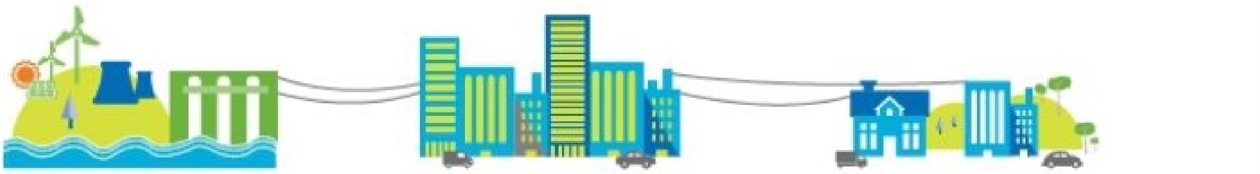
Proxy Statement Summary

This summary highlights selected information about the items to be voted on at the annual meeting of shareholders. This summary does not contain all of the information that you should consider in deciding how to vote. Please read the entire proxy statement before voting.

Exelon is America's Leading Energy Provider

We are a FORTUNE 100 company that works in key facets of the power business: power generation, competitive energy sales, transmission and delivery. As the nation's leading competitive power provider, Exelon does business in 48 states, D.C., and Canada and had 2017 revenues of $33.5 billion. We employ approximately 34,000 people nationwide.

The Exelon Family of Companies



Generation

Exelon is the largest competitive U.S. power generator, with more than 35,500 megawatts of nuclear, gas, wind, solar and hydroelectric generating capacity comprising one of the nation's cleanest and lowest-cost power generation fleets.

Energy Sales & Service

The Company's Constellation business unit provides energy products and services to approximately 2 million residential, public sector and business customers, including more than two-thirds of the Fortune 100.

Transmission & Delivery

Exelon's six utilities deliver electricity and natural gas to approximately 10 million customers in Delaware, the District of Columbia, Illinois, Maryland, New Jersey and Pennsylvania through its Delmarva Power, Pepco, ComEd, BGE, Atlantic City Electric and PECO subsidiaries.

Learn more at www.exeloncorp.com

Our Strategy

As the energy industry undergoes rapid changes, Exelon is executing a strategy to grow and diversify the Company. We're making targeted investments in our core markets and promising technologies with the potential to reshape the energy landscape.

The Exelon Strategic Plan

Grow our Regulated Utilities Business
to benefit customers and provide earnings stability to our investors.

Focus on Cash Flow
to support utility growth while reducing debt.

Optimize Exelon Generation value
by seeking fair compensation for the zero-carbon attributes of our fleet, closing uneconomic plants, monetizing assets and maximizing the value of our fleet through our generation to load matching strategy.

Retain a Strong Balance Sheet
with all businesses meeting investment grade metrics through the 2021 planning horizon.

Return Cash to Shareholders and meet Capital Allocation Priorities
with 5% dividend growth annually through 2020 (1) while prioritizing organic utility growth, debt reduction and modest contracted generation investments.

(1) Quarterly dividends are subject to declaration by the Board of Directors.

Learn more at http://www.exeloncorp.com/company/business-strategy

2017 Performance Highlights

"2017 was a great year for Exelon as our utilities delivered excellent performance in reliability and customer service, and our nuclear generation fleet produced the most power on record, all thanks to the great work of our people, who also set Company records for volunteerism and charitable giving."

Christopher Crane, CEO

Strong Financial and Operational Performance

- ✓ Achieved 2017 GAAP earnings per share (EPS) of $3.97 and adjusted (non-GAAP) operating EPS of $2.60 (see Appendix at A-1 for reconciliation)
  - Results would have been $2.73 absent the deferral of 9 cents in Illinois zero emissions credits (ZEC) revenues given the Illinois Power Agency's decision to delay the ZEC procurement by one month into 2018, and a 4 cent impairment due to an unexpected Federal Energy Regulatory Commission (FERC) decision regarding utility transmission formula rate mechanisms
- ✓ Deployed targeted level of capital of $5.3 billion into our utilities to improve reliability, replace aging infrastructure, and enhance customer experience
- ✓ Announced commitment to lower costs by $250 million on an annual run-rate basis by 2020
- ✓ Increased the annual dividend growth rate to 5% from 2.5% for 2018 through 2020, effective in the first quarter of 2018
- ✓ Utilities performed largely at first quartile levels with especially strong results across key metrics:
  - Baltimore Gas and Electric Company (BGE), Commonwealth Edison Company (ComEd) and PECO Energy Company (PECO) achieved first decile performance in the System Average Interruption Frequency Index (SAIFI)
  - BGE and ComEd achieved first decile performance in the Customer Average Interruption Duration Index (CAIDI)
  - Pepco Holdings, LLC (PHI) achieved best ever performance on SAIFI and CAIDI
- ✓ Completed the acquisition of the James A. FitzPatrick nuclear power plant in New York, preserving nearly 600 jobs
- ✓ Successfully executed PHI merger commitments to improve performance and reliability for our customers
- ✓ Continued total shareholder return (TSR) outperformance relative to the PHLX Utility Sector Index (UTY) in 2017
  - Building on Exelon's 2016 TSR of 32.8%, we continued to deliver strong TSR performance of 15.1% in 2017, outperforming the UTY by 2.3 percentage points. For the three years beginning with 2015, Exelon trailed the UTY index by 4.9 percentage points driven by Exelon's 2015 TSR of negative 22.1%

Regulatory & Policy

- ✓ Successful dismissal of legal challenges of New York and Illinois ZEC programs in federal district courts; appeals process is ongoing
- ✓ FERC recognized need to better understand power system resilience. Created "Grid Resilience in Regional Transmission Organizations and Independent System Operators" order to seek input from regional transmission organizations (RTOs) on how market rules may need to be changed
- ✓ Completed 11 distribution and 6 transmission rate cases with regulatory authorities, increasing annual revenue and rate base by an expected combined $396 million

Employees & Community

- ✓ 2017 awards and recognitions include: Billion Dollar Roundtable, Civic 50, Top 50 Companies for Diversity, Best Places to Work in 2017, CEO Action for Diversity & Inclusion, and UN's HeForShe
- ✓ Exelon and our employees set a new record in corporate philanthropy and volunteerism, committing over $52 million in giving and volunteering 210,000 hours
- ✓ Recognized by Dow Jones Sustainability Index for 12th consecutive year and by NewsWeek Green rankings for 9th consecutive year
- ✓ 2,200 employees, contractors and support personnel from Exelon's six utilities mobilized to assist residents in the southeastern U.S. impacted by Hurricane Irma

Exelon 2017 Summary Annual Report

- ✓ Learn more about Exelon from our 2017 Summary Annual Report at www.exeloncorp.com

Matters for Shareholder Voting

We are asking our shareholders to vote on the following matters:

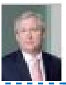
Proposal 1

Election of Directors

✓ The Board of Directors recommends a vote **FOR** each of the 12 Director nominees named in this proxy statement.

- The Board is composed of a diverse set of deeply talented and highly experienced professionals.
- Director skills and attributes comprise effective oversight abilities over Exelon's strategic goals and business performance.
- Exelon had a strong 2017 financially and operationally.
- Exelon's operational excellence and commitments to environmental stewardship inform our business conduct in a way that is sustainable for our customers, employees, and the communities we serve.
- For more information about the nominees' qualifications, skills, and experiences, please see pages 15-26.

DIRECTOR NOMINEES

Name and Age	Director Since	Exelon Committees	Other Current Public Company Boards
 **ANTHONY K. ANDERSON,** 62 Retired Vice Chair and Midwest Area Managing Partner of Ernst & Young Independent	2013	• Audit (Chair) • Finance and Risk • Generation Oversight	3
 **ANN C. BERZIN,** 66 Former Chairman and Chief Executive Officer of Financial Guaranty Insurance Company Independent	2012	• Audit • Finance and Risk	1
 **CHRISTOPHER M. CRANE,** 59 President and Chief Executive Officer of Exelon Corporation	2012	• Finance and Risk • Generation Oversight • Investment Oversight	0
 **YVES C. DE BALMANN,** 71 Former Co-Chairman of Bregal Investments LP Independent	2012	• Compensation and Leadership Development (Chair) • Corporate Governance • Finance and Risk	1
 **NICHOLAS DEBENEDICTIS,** 72 Chairman Emeritus, Aqua America Inc. Independent	2002	• Corporate Governance • Finance and Risk • Generation Oversight	3
 **LINDA P. JOJO,** 52 Executive Vice President, Technology and Chief Digital Officer of United Continental Holdings, Inc. Independent	2015	• Compensation and Leadership Development • Finance and Risk	0
 **PAUL L. JOSKOW,** Ph. D., 70 Professor of Economics Emeritus, Massachusetts Institute of Technology and President Emeritus of the Alfred P. Sloan Foundation Independent	2007	• Audit • Finance and Risk • Investment Oversight	0
 **ROBERT J. LAWLESS,** 71 Former Chairman of the Board of McCormick & Company, Inc. Independent	2012	• Corporate Governance (Chair) • Compensation and Leadership Development • Finance and Risk	0
 **RICHARD W. MIES,** 73 Retired Admiral, U.S. Navy and President and Chief Executive Officer of The Mies Group, Ltd. Independent	2009	• Generation Oversight (Chair) • Audit • Finance and Risk	1
 **JOHN W. ROGERS, JR.,** 59 Chairman and Chief Executive Officer of Ariel Investments, LLC Independent	2000	• Investment Oversight (Chair) • Corporate Governance	1
 **MAYO A. SHATTUCK III,** 63 Chairman of the Board Former Chairman, President and Chief Executive Officer of Constellation Energy Independent	2012	• Finance and Risk • Generation Oversight • Investment Oversight	3
 **STEPHEN D. STEINOUR,** 59 Chairman, President and Chief Executive Officer of Huntington Bancshares Incorporated Independent	2007	• Finance and Risk (Chair) • Audit	2

SUMMARY OF INDIVIDUAL DIRECTOR PRIMARY SKILLS, CORE COMPETENCIES AND ATTRIBUTES

The following matrix identifies the **primary** skills, core competencies and other attributes that each independent Director brings to bear in their service to Exelon's Board and Committees. Each Director possesses numerous other skills and competencies not identified below. We believe identifying primary skills is a more meaningful presentation of the key contributions and value that each independent Director brings to their service on the Board and to Exelon shareholders. See page 13 for more details.

	Anderson	Berzin	Crane	de Balmann	DeBenedictis	Jojo	Joskow	Lawless	Mies	Rogers	Shattuck	Steinour
Accounting and financial reporting experience	●	●	●					●				●
Corporate finance and capital management experience	●	●	●	●	●					●	●	●
CEO/executive management leadership skills	●	●	●	●	●		●	●	●	●	●	●
Human resource management and executive compensation knowledge and experience	●		●	●		●		●		●	●	
Innovation and technology experience			●			●	●		●			
Safety and security (including physical and cyber) competencies			●			●			●			
Industry experience and knowledge of Exelon's business			●		●	●	●		●		●	
Government/public policy and regulatory insights			●		●		●			●		
Risk oversight and risk management experience	●	●	●	●	●				●		●	●
Investor relations and investment management experience		●	●	●			●	●		●		●
Manufacturing, construction, engineering, and performance management experience			●			●		●				
Diverse attributes	●	●				●				●		

DIVERSITY, TENURE, AGE AND INDEPENDENCE

Directors'
Race/Ethnicity

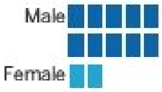
17%

Diverse

Directors'
Gender

17%

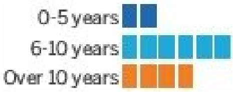
Female



Directors'
Average Tenure

8.6

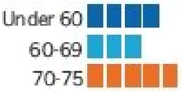
Years



Directors'
Average Age

65

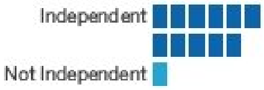
Years



Directors'
Independence

92%

Independent, including our Chairman



Governance Highlights

Exelon's Board is committed to maintaining the highest standards of corporate governance. We believe our strong corporate governance practices help us achieve our performance goals and maintain the trust and confidence of our shareholders, employees, customers, regulatory agencies and other stakeholders. A summary of our corporate governance practices are described below and more detail is presented on pages 27-37 and in our Corporate Governance Principles, which are available on the Exelon website at www.exeloncorp.com on the Governance page located under the Investors tab.

Board Accountability & Shareholder Rights

- ✓ Directors are elected annually by a majority of votes cast in uncontested elections. The average level of vote support for Directors in 2017 was 97%.
- ✓ Regular and ongoing shareholder engagement informs Board and Committee decisions on governance, compensation, and other matters.
- ✓ Eligible shareholders may nominate Directors through Exelon's "proxy access" bylaws.

Oversight of Risk Management

- ✓ The Board regularly reviews management's systematic approach to identifying and assessing risks faced by Exelon and each business unit taking into account emerging trends and developments and in connection with capital investments and business opportunities.
- ✓ Our Board's Finance and Risk Committee oversees Exelon's risk management strategy, policies and practices, financial condition and risk exposures.

Governance Practices

- ✓ Our Board and each of the Board's six Committees review their performance and effectiveness as a group on an annual basis. In addition, individual Directors undergo a periodic performance assessment that includes input from peers and select members of executive management.
- ✓ Continuing director education is provided during Board and Committee meetings and the Company encourages Director participation in externally offered director development opportunities.
- ✓ Independent Directors meet regularly in executive sessions without management.
- ✓ Robust stock ownership guidelines require Directors to hold at least 15,000 shares of Exelon common stock within five years after joining the Board; the CEO to hold shares valued at 6X his base salary, and Executive Vice Presidents and higher level officers to hold shares valued at 3X base salary. Hedging, pledging, and short sales are prohibited.
- ✓ Directors may not stand for election after age 75.
- ✓ Directors should not serve on the boards of more than four other public companies in addition to Exelon and its subsidiaries and any Director who serves as the CEO of a public company should not serve on more than two other public company boards in addition to Exelon.
- ✓ Political activities and contributions are transparent through annual reporting provided on www.exeloncorp.com

Purpose and Principles

In 2017, we set out to articulate our purpose as a Company—how and why we exist. Thousands of employees from across the Company provided input, and the result is a bold affirmation of our reason for being. It also gives us a renewed focus on the impact we have in the communities where we work and live. Each day we are working to power people's lives, to make them brighter and to build a better future. Our principles serve as our guide.

Purpose	**Powering a cleaner and brighter future for our customers and communities.**
Principles	✓ We put customer needs at the center of all we do by fueling innovation to improve the delivery of clean and affordable energy and services. ✓ We practice the highest level of safety and security to reliably deliver energy to our customers and communities. ✓ Our workforce is the foundation of our success. We succeed as a team of diverse individuals; respected, engaged and inspired to shape our nation's energy future. ✓ We return our success to the communities we are privileged to serve. ✓ We adhere to the highest standards–ethically and with uncompromising integrity–to drive value for our customers and shareholders.

Proposal 2

Ratify Appointment of PricewaterhouseCoopers LLP as independent auditor for 2018

✓ The Board of Directors recommends a vote **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP (PwC) as Exelon's independent auditor for 2018. The Board and Audit Committee believe the retention of PwC is in the best interests of Exelon and its shareholders based on the information presented in detail beginning on page 41.

Proposal 3

Say on Pay: Advisory Vote on the Compensation of the Named Executives

✓ The Board of Directors recommends a vote **FOR** this proposal based on the efforts of the Compensation and Leadership Development Committee and Board to design an executive compensation program that:

- Aligns the interests of Exelon executives with Company shareholders
- Provides market-aligned pay opportunities that foster the attraction, motivation, engagement, and retention of key talent needed to drive outstanding Company performance and customer service and long-term shareholder value
- Reflects the input received from shareholders on our executive compensation program

Although the vote on this proposal is non-binding, the Board and Compensation and Leadership Development Committee take vote results into consideration when evaluating Exelon's executive compensation program on an ongoing basis.

Details about our executive compensation program are provided at pages 45-61.

2017 Executive Compensation Highlights

Strong CEO Pay for Performance Closely Aligned to Total Shareholder Return (TSR)

From 2013 through 2017, CEO pay decreased at an annualized rate of 2.9% from $17.2M to $14.9M, while Exelon's TSR increased at an annualized rate of 10.6%. See more details at page 48.

2017 Say-on-Pay Vote Outcome and Shareholder Engagement

Exelon's 2017 Say-on-Pay vote received the affirmative support of 86% of votes cast. To gain this level of support, Exelon engaged in discussions with holders of nearly 45% of our outstanding shares representing almost two-thirds of the Company's institutional investors to discuss proposed changes and gather input. The Exelon team, which included the Chair of the Compensation and Leadership Development Committee for some of the discussions, sought input from portfolio managers and governance professionals representing very large institutional money managers as well as smaller investment and public pension funds to ensure that the input received represented a significant cross-section of our shareholder base.

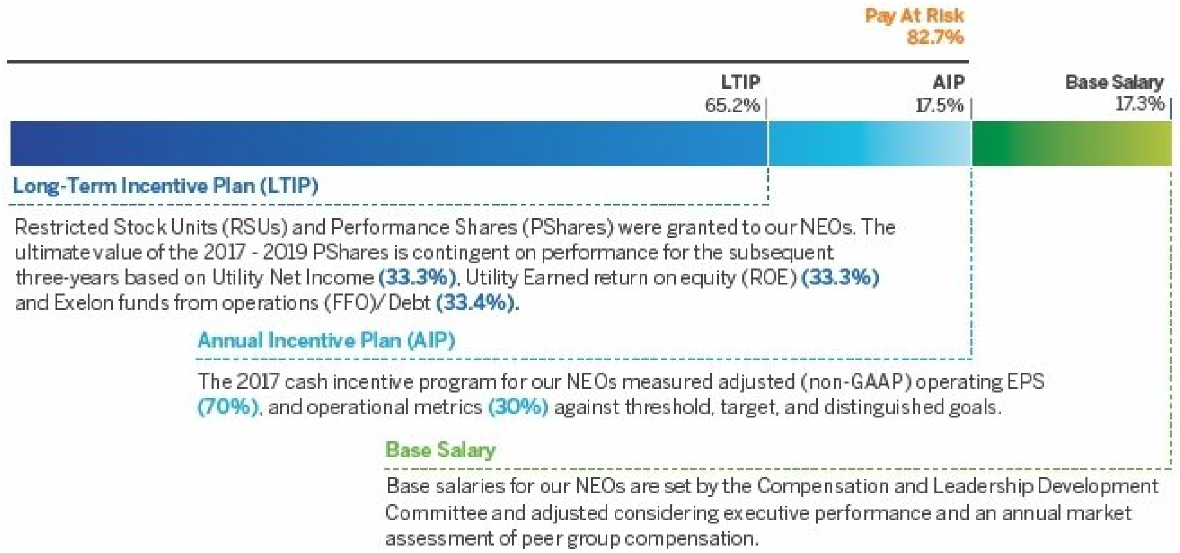
2017 Compensation Program

The goal of our executive compensation program is to retain and reward leaders who create long-term value for our shareholders by delivering on objectives that support the Company's long-term strategic plan.

To meet this goal, the majority of compensation paid to our named executive officers (NEOs) is tied to the achievement of short-and long-term financial and operational goals. Additionally, a significant portion is paid in the form of equity and all components except for salary are "at-risk."

The elements of our 2017 program were as follows:

AVERAGE NEO (INCLUDING CEO) TARGET COMPENSATION MIX



Long-Term Incentive Plan (LTIP)

Restricted Stock Units (RSUs) and Performance Shares (PShares) were granted to our NEOs. The ultimate value of the 2017 - 2019 PShares is contingent on performance for the subsequent three-years based on Utility Net Income **(33.3%)**, Utility Earned return on equity (ROE) **(33.3%)** and Exelon funds from operations (FFO)/Debt **(33.4%)**.

Annual Incentive Plan (AIP)

The 2017 cash incentive program for our NEOs measured adjusted (non-GAAP) operating EPS **(70%)**, and operational metrics **(30%)** against threshold, target, and distinguished goals.

Base Salary

Base salaries for our NEOs are set by the Compensation and Leadership Development Committee and adjusted considering executive performance and an annual market assessment of peer group compensation.

Strong Compensation Governance

What We Do

- ✓ Pay for performance
- ✓ Significant stock ownership requirements for Directors and executive officers
- ✓ Mitigate undue risk in compensation programs
- ✓ Require double-trigger for change-in-control benefits
- ✓ Retain an independent compensation consultant
- ✓ Provide limited, modest perquisites based on sound business rationale
- ✓ Seek shareholder feedback on executive compensation
- ✓ Prohibit hedging transactions, short sales, derivative transactions or pledging of Company stock
- ✓ Require executive officers to trade through 10b5-1 trading plans or obtain pre-approval before trading Exelon stock
- ✓ Annually assess our programs against peer companies and best practices
- ✓ Include appropriate level of stretch in incentive targets based on industry performance and/or Exelon's business plan
- ✓ Clawback provisions

What We Don't Do

- ✕ No guaranteed minimum payout of AIP or LTIP programs
- ✕ No employment agreements
- ✕ No excise tax gross-ups for change-in-control agreements
- ✕ No dividend-equivalents on PShares
- ✕ No inclusion of the value of LTIP awards in pension or severance calculations
- ✕ No additional credited service under supplemental pension plans since 2004
- ✕ No option re-pricing or buyouts

For a detailed discussion of our executive compensation program, please see page 45.

Board and Corporate Governance Matters

Proposal 1: Election of Directors

The Corporate Governance Committee collaborates with Exelon's Board Chair to determine the appropriate mix of skills and characteristics that our Board requires. The Board has determined that the current composition and size of the Board is appropriate for Exelon, considering the Company's size, geographic scope, and need to access a wide range of views and backgrounds to reflect the diversity and complexity of our business and the markets we serve. There are 12 nominees for Director at the 2018 annual meeting.

The Board of Directors unanimously recommends a vote "FOR" each of the Director nominees.

The Exelon Board of Directors

Director Qualifications and Nomination

Effective oversight of Exelon's strategic direction requires our Board to be composed of diverse individuals who possess attributes and core competencies important to the oversight of our Company. The Corporate Governance Committee identifies and recommends Director nominees for election to the Board and periodically also retains a board search firm to assist with the identification of potential candidates.

The Board values the diversity of thought that arises from Directors possessing different backgrounds, gender, age, race, and geographic experiences. The Board also deeply values the enhanced and thoughtful deliberations resulting from a balance of short- and long-tenured Directors that provides a mix of fresh perspectives and new ideas with deep and important utility and regulated industry and business cycle experiences.

The Corporate Governance Committee and the full Board determine the appropriate mix of skills and characteristics required to best fill the needs of the Board taking into account the short- and long-term strategies of the Company to determine the current and future skills and experiences required of the Board. All candidates should demonstrate the following attributes to qualify for Board service:

- ✓ Highest personal and professional ethics, integrity and values;
- ✓ An inquiring and independent mind, practical wisdom and mature judgment;
- ✓ Broad training and experience at the policy-making level in business, government, education or technology;
- ✓ Expertise that is useful to the enterprise and complementary to the background and experience of other Directors;
- ✓ Willingness to remain current with industry and other developments relevant to Exelon's strategic direction;
- ✓ Willingness to devote the required amount of time to carrying out the duties and responsibilities of Board membership and a commitment to serve over a period of years to develop knowledge about Exelon's principal operations;
- ✓ A commitment to representing the long-term interests of shareholders, customers, employees and communities served by the Company and its subsidiaries; and
- ✓ Involvement only in activities or interests that do not conflict with responsibilities to Exelon and its shareholders.

In addition, the Board as a whole should reflect core competencies in the following areas. Summarized below is a description of why each core competency is important for service on Exelon's Board.

Description of Skills, Core Competencies and Attributes

Accounting and financial reporting experience is important to Exelon's use of broad financial metrics used to accurately and transparently measure and report operating performance and assess financial merits of strategic opportunities.

Corporate finance and capital management experience is important to effectively oversee the financial affairs of Exelon's operations.

CEO/executive management leadership skills are important to gain a practical understanding of organizations and drivers of individual growth and development.

Human Resource management and executive compensation knowledge and experience help Exelon recruit, retain, and develop key talent essential to Company operations.

Innovation and Technology experience is important in overseeing Exelon's business in the rapidly changing energy markets, and physical and cyber threats against the security of our operations, assets, and systems.

Safety and security (including physical and cyber) competencies are critical to oversee safe and secure nuclear operations, power grids, and our other assets.

Industry experience and knowledge of Exelon's business help inform our views on energy markets and economics, technology, nuclear power, renewable energy, electric and gas transmission and distribution and the public policy and public safety implications of these aspects.

Government/Public Policy and Regulatory insights are important to help shape public policy initiatives and government regulation.

Risk Oversight and Risk Management experience inform Exelon's enterprise risk management of key risks with potential to impact public safety and shareholder value including its environmental impacts.

Investor Relations and Investment Management experience ensures strong alignment with investors and inform decision making on value-adding initiatives.

Manufacturing, construction, engineering, and performance management experience inform Exelon's ongoing commitment to maintaining and strengthening the reliability of the electric and gas transmission and distribution systems, smart grid and generation portfolio and assets.

Diverse attributes reflect the Company's commitment to diversity and inclusion through age, ethnicity, gender, race and sexual orientation.

Director Nominees

The Board nominates the 12 candidates named below for re-election as Directors. If elected by shareholders, each Director will serve a term ending with the 2019 annual meeting. Each nominee has agreed to be named in this proxy statement and to serve as a Director, if elected. If any Director is unable to stand for election at the annual meeting, the Board may reduce the number of Directors or designate a substitute. In that case, shares represented by proxies may be voted for a substitute Director. Exelon does not expect that any Director nominee will be unable to serve.

Nancy Gioia announced her decision to not stand for election at the 2018 annual shareholders meeting. The Board wishes to acknowledge Ms. Gioia's service and dedication to Exelon.

The Corporate Governance Committee and the Board believe the skills and experiences listed above are well represented among the Director nominees.

The Committee and Board also believe the nominees represent an effective mix of backgrounds, experience and diversity.

KEY BOARD FACTS

17%

Diversity of Race/Ethnicity

17%

Female

92%

Independent, including our Chairman

65 years

Average age

8.6 years

Average Tenure

The Corporate Governance Committee also considers whether each nominee has the time available, in light of other business and personal commitments. Among the criteria considered is whether any incumbent Director nominee demonstrates preparedness and engagement required for effective service to the Board and its Committees. The Board has adopted limits on other board memberships providing that Directors who serve as the CEO of a public company should not serve on more than two other public company boards in addition to Exelon and its subsidiary boards. Other Directors should not serve on the boards of more than four other public companies in addition to the Exelon Board and its subsidiary boards.

In connection with the nomination of Stephen Steinour, the Corporate Governance Committee considered Mr. Steinour's consistently demonstrated preparedness, engagement, and attention to Exelon Board stewardship and his vigorous leadership of the Finance and Risk Committee.

Anthony K. Anderson

Age: 62

Director since: 2013

Committee Memberships:
- Audit (Chair)
- Finance and Risk
- Generation Oversight

Career Highlights

Mr. Anderson served as the Vice Chair and Midwest Area Managing Partner of Ernst & Young (EY), a global assurance, tax, transaction and advisory services firm, until his retirement in 2012. During Mr. Anderson's 35-year career with EY, he oversaw a practice of 3,500 audit, tax, and transaction professionals serving clients throughout the Midwest and also served for six years in the Los Angeles area as managing partner of EY's Pacific Southwest region. Mr. Anderson also served as a member of EY's governing body, the Americas Executive Board.

Board Service

Mr. Anderson currently serves as a director of AAR Corp. (aerospace and defense), Avery Dennison (manufacturer of adhesive technologies, display graphics and packaging materials), and Marsh & McLennan Companies (global professional services firm). He is also a director of the Regional Transportation Authority (oversight body for regional transportation agencies), chairman of the board of the Perspectives Charter School, and on the board of directors for World Business Chicago.

Mr. Anderson previously served as a director of First American Financial Corporation from 2012 to 2016 and the Federal Reserve Bank of Chicago from 2008 to 2010. Mr. Anderson also previously served as a director of The Chicago Council on Global Affairs and as a director of the Chicago Urban League.

Primary Skills, Core Competencies and Attributes

Mr. Anderson's experience as the vice chair of a global professional services firm and his training and experience as an audit partner and certified public accountant enhance his contribution to the Exelon Board and add value to his leadership of the Audit Committee and service on the Finance and Risk Committee.

- Accounting and financial reporting experience
- Corporate finance and capital management experience
- CEO/executive management leadership skills
- Human resource management and executive compensation knowledge
- Risk oversight and risk management experience

Ann C. Berzin

Age: 66

Director since: 2012

Committee Memberships:
- Audit
- Finance and Risk

Career Highlights

Ms. Berzin served as Chairman and Chief Executive Officer of Financial Guaranty Insurance Company (FGIC), an insurer of municipal bonds, asset-backed securities and structured finance obligations, from 1992 to 2001. Ms. Berzin joined FGIC in 1985 as its General Counsel following seven years of securities law practice in New York City.

Board Service

Ms. Berzin currently serves as a director of Ingersoll-Rand plc (industrial manufacturing). Ms. Berzin previously served as a director of Kindred Healthcare, Inc. from 2006 to 2012 and as a director of Constellation Energy Group from 2008 to 2012 when Constellation merged with Exelon.

Ms. Berzin also serves on the board of Baltimore Gas and Electric Company, an Exelon subsidiary.

Primary Skills, Core Competencies and Attributes

Ms. Berzin has broad business and executive leadership experience, as well as expertise in the financial services sector, which is particularly valuable for her service on the Audit and Finance and Risk Committees.

- Accounting and financial reporting experience
- Corporate finance and capital management experience
- CEO/executive management leadership skills
- Risk oversight and risk management experience
- Investor relations and investment management experience

Christopher M. Crane

Age: 59

Director since: 2012

Committee Memberships:
- Finance and Risk
- Generation Oversight
- Investment Oversight

Career Highlights

Mr. Crane is President and Chief Executive Officer of Exelon Corporation. Previously, he served as President and Chief Operating Officer of Exelon and Exelon Generation from 2008 to 2012. In that role, he oversaw one of the U.S. industry's largest portfolios of electric generating capacity, with a multi-regional reach and the nation's largest fleet of nuclear power plants. He directed a broad range of activities including major acquisitions, transmission strategy, cost management initiatives, major capital programs, generation asset optimization and generation development. Mr. Crane is one of the leading executives in the electric utility and power industries.

Board Service

Mr. Crane is vice-chairman and a member of the executive committee of the Edison Electric Institute. He also serves as vice-chairman of the Institute of Nuclear Power Operations, the industry organization promoting the highest levels of safety and reliability in nuclear plant operation.

Mr. Crane previously served as vice chairman of the Nuclear Energy Institute, the nation's nuclear industry trade association. Mr. Crane served as a director of Aleris International Inc. from 2010 to 2013.

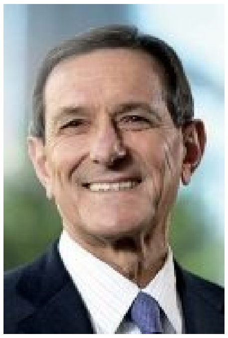
Mr. Crane also serves as Chair of the boards of directors of Exelon subsidiaries Baltimore Gas and Electric Company, Commonwealth Edison Company, PECO Energy Company, and Pepco Holdings LLC.

Primary Skills, Core Competencies and Attributes

In his role, Mr. Crane oversees a family of companies representing every stage of the energy business, including Exelon Generation, one of the largest, cleanest, and lowest-cost power generation fleets in the country. Mr. Crane also oversees Exelon's six utilities, which deliver electricity and natural gas to approximately 10 million customers in Delaware, the District of Columbia, Illinois, Maryland, New Jersey, and Pennsylvania.

- Accounting and financial reporting experience
- Corporate finance and capital management experience
- CEO/executive management leadership skills
- Human resource management and executive compensation knowledge
- Innovation and technology experience
- Safety and Security (including physical and cyber)
- Industry experience and knowledge of Exelon's business
- Government/ public policy and regulatory insights
- Risk oversight and risk management experience
- Investor relations and investment management experience
- Manufacturing, construction, engineering, and performance management experience

Yves C. de Balmann



Age: 71

Director since: 2012

Committee Memberships:

- Compensation and Leadership Development (Chair)
- Corporate Governance
- Finance and Risk

Career Highlights

Mr. de Balmann served as the Co-Chairman of Bregal Investments LP (private equity investing firm) from 2002 to 2012. Previously, he was Vice-Chairman of Bankers Trust Corporation, in charge of Global Investment Banking, until its merger with Deutsche Bank in 1999 at which time he became Co-Head of Deutsche Bank's Global Investment Bank and Co-Chairman and Co-Chief Executive Officer of Deutsche Banc Alex. Brown from 1999 to 2001. He remained a Senior Advisor to Deutsche Bank AG from 2001 to 2003.

Board Service

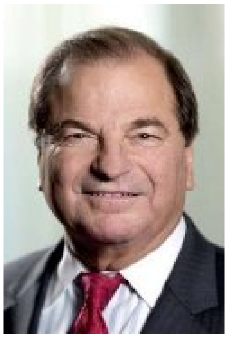
Mr. de Balmann currently serves as a director of ESI Group (virtual prototyping software and services) which is listed in compartment B of Euronext Paris. Previously, Mr. de Balmann served as a director of Laureate Education, Inc. and as the non-executive chairman of Conversant Intellectual Property Management. Mr. de Balmann also served as a director of Constellation Energy Group from 2003 to 2012 when Constellation merged with Exelon.

Primary Skills, Core Competencies and Attributes

Mr. de Balmann has extensive experience in corporate finance, including the derivatives and capital markets as well as industry experience as a director of Constellation Energy Group from 2003 to 2012. His background leading major organizations informs his leadership of the Compensation and Leadership Development Committee.

- Corporate finance and capital management experience
- CEO/executive management leadership skills
- Human resource management and executive compensation knowledge
- Risk oversight and risk management experience
- Investor relations and investment management experience

Nicholas DeBenedictis



Age: 72

Director since: 2002

Committee Memberships:
- Corporate Governance
- Finance and Risk
- Generation Oversight

Career Highlights

Mr. DeBenedictis currently serves as Chairman Emeritus of Aqua America Inc. (water utility operating in eight states) and served as its Chairman and Chief Executive Officer from 1993 to 2015. As CEO of Aqua America, Mr. DeBenedictis gained experience in dealing with many of the same development, land use, and utility regulatory issues that affect Exelon and its subsidiaries. Mr. DeBenedictis also has extensive experience in environmental regulation and economic development, having served in two cabinet positions in the Pennsylvania government: Secretary of the Pennsylvania Department of Environmental Resources and Director of the Office of Economic Development. He also spent eight years with the U.S. Environmental Protection Agency and was President of the Greater Philadelphia Chamber of Commerce for three years.

Board Service

In addition to serving as Chairman Emeritus of Aqua America, Mr. DeBenedictis has served as a director of MISTRAS Group (asset protection solutions) since 2015 and as a director of P.H. Glatfelter, Inc. (global supplier of specialty papers and engineered products) since 1995. Previously, Mr. DeBenedictis served as a director of Met-Pro Corporation from 1997 to 2010.

Mr. DeBenedictis also serves on the boards of Commonwealth Edison Company and PECO Energy Company, which are Exelon subsidiaries.

Primary Skills, Core Competencies and Attributes

As a leader in the greater Philadelphia business community, Mr. DeBenedictis has deep knowledge of the communities and local economies served by PECO. Mr. DeBenedictis' experiences as former CEO of a public company, service on other company boards, former utility executive, familiarity and experience with environmental regulations, and his educational background in environmental engineering and science, all provide valuable perspectives to Exelon's Board, Finance and Risk, Generation Oversight, and Corporate Governance Committees.

- Corporate finance and capital management experience
- CEO/executive management leadership skills
- Industry experience and knowledge of Exelon's business
- Government/ public policy and regulatory insights
- Risk oversight and risk management experience

Linda P. Jojo

Age: 52

Director since: 2015

Committee Memberships:
- Compensation and Leadership Development
- Finance and Risk

Career Highlights

Ms. Jojo is Executive Vice President, Technology and Chief Digital Officer of United Continental Holdings, Inc. (commercial airline). She is responsible for the effective implementation and management of technology strategy and solutions supporting United's global business. She has held her current position at United since 2014. Prior to joining United, she served as Executive Vice President and Chief Information Officer for Rogers Communications Inc. from 2011 to 2014 (wireless communication and media company), where she was responsible for all IT systems for both customer facing and business support systems. Prior to this, Ms. Jojo served in other senior officer roles at Energy Future Holdings Corporation (held a portfolio of competitive and regulated energy companies), Flowserve Corporation (suppliers of industrial and environmental machinery), General Electric, and General Electric Silicones.

Board Service

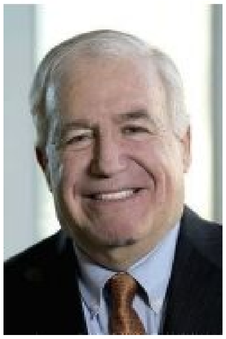
Ms. Jojo serves as vice-chair of the board of trustees of the Adler Planetarium in Chicago, Illinois.

Primary Skills, Core Competencies and Attributes

Ms. Jojo has a wealth of experience leading complex IT organizations and brings important information technology and innovation expertise to Exelon's Board. Ms. Jojo's educational background in computer science and industrial engineering also lend expertise to Exelon's risk oversight areas and cybersecurity initiatives.

- Human resource management and executive compensation knowledge
- Innovation and technology experience
- Safety and Security (including physical and cyber)
- Industry experience and knowledge of Exelon's business
- Manufacturing, construction, engineering, and performance management experience

Paul L. Joskow, Ph. D.



Age: 70

Director since: 2007

Committee Memberships:
- Audit
- Finance and Risk
- Investment Oversight

Career Highlights

Dr. Joskow is the Elizabeth and James Killian Professor of Economics, Emeritus at the Massachusetts Institute of Technology (MIT). He is also the President Emeritus of the Alfred P. Sloan Foundation, where he served as president for ten years until 2017. Dr. Joskow joined the MIT faculty in 1972. He served as head of the MIT Department of Economics from 1994 to 1998 and as Director of the MIT Center for Energy and Environmental Policy Research from 1999 to 2007. Dr. Joskow's teaching and research has been in the areas of industrial organization, energy and environmental economics, competition policy, and government regulation of industry. Much of his research and consulting activity has focused on the electric power industry, electricity pricing, fuel supply, demand, generating technology, and regulation.

Dr. Joskow has served on the U.S. Environmental Protection Agency's (EPA) Acid Rain Advisory Committee and on the Environmental Economics Committee of the EPA's Science Advisory Board. Dr. Joskow also served on the National Commission on Energy Policy, as a member of the Secretary of Energy Advisory Board, and as chair of the National Academies Board on Science, Technology and Economic Policy. He is a fellow of the American Academy of Arts and Sciences, a fellow of the Econometric Society and a distinguished fellow of the American Economic Association.

Board Service

Dr. Joskow currently serves as a member of the board of trustees of the Putnam Mutual Funds. He previously served as a director of New England Electric System from 1987 to 2000 until it was acquired by National Grid, following which he served as a director of National Grid plc from 2000 to 2007. Dr. Joskow served as a director of TransCanada Corporation from 2004 to 2013.

Primary Skills, Core Competencies and Attributes

Dr. Joskow's extensive background in economics and energy and his experience as a utility director offer a unique set of skills to the Company's Board of Directors.

- CEO/executive management leadership skills
- Industry experience and knowledge of Exelon's business
- Government/ public policy and regulatory insights
- Innovation and technology experience
- Investor relations and investment management experience

Robert J. Lawless

Age: 71

Director since: 2012

Committee Memberships:
- Corporate Governance (Chair)
- Compensation and Leadership Development
- Finance and Risk

Career Highlights
Mr. Lawless served as Chairman of McCormick & Company, Inc. (food manufacturing industry) from 1997 to 2009, having also served as its President until 2006, and its Chief Executive Officer until his retirement in 2008.

Board Service
Mr. Lawless currently serves as a director of The Baltimore Life Insurance Company (insurance provider). Mr. Lawless previously served as a director of Constellation Energy Group from 2002 to 2012 when Constellation merged with Exelon.

Primary Skills, Core Competencies and Attributes
Mr. Lawless has extensive executive leadership and strategic planning experience. As a former chief executive officer of a public company, he provides critical perspectives on governance and other public company issues that inform his leadership of the Corporate Governance Committee.

- Accounting and financial reporting experience
- CEO/executive management leadership skills
- Human resource management and executive compensation knowledge
- Investor relations and investment management experience
- Manufacturing, construction, engineering, and performance management experience

Richard W. Mies

Age: 73

Director since: 2009

Committee Memberships:

- Generation Oversight (Chair)
- Audit
- Finance and Risk

Career Highlights

Admiral Mies is President and Chief Executive Officer of The Mies Group, Ltd, a private consulting firm, providing strategic planning and risk assessment advice and assistance to clients on international security, energy, defense, and maritime issues. A graduate of the Naval Academy, he completed a 35-year career as a nuclear submariner in the US Navy. Admiral Mies has a wide range of operational command experience, having served as the senior operational commander of the US Submarine Force, and commander of the U.S. Strategic Command for four years prior to his retirement in 2002. Following his retirement, Admiral Mies served as a Senior Vice President of Science Applications International Corporation (SAIC), a provider of scientific and engineering applications for national security, energy, and the environment, and as President and Chief Executive Officer of Hicks and Associates, Inc., a subsidiary of SAIC from 2002 to 2007.

Board Service

From 2008 to 2010, Admiral Mies served as a director of McDermott International. In 2010, he transitioned to the board of Babcock and Wilcox (B&W), an equipment and technology provider to the energy industry, when that company spun off from McDermott International. Following the split of B&W into Babcock and Wilcox Enterprises and BWX Technologies, Inc. (BWXT), he transitioned to the board of BWXT, a supplier to the nuclear power industry, where he currently serves as a director. He is also a member of the board of governors for Los Alamos National Security, LLC and the board of governors for Lawrence Livermore National Security LLC. Admiral Mies previously served as a director of Mutual of Omaha from 2002 to 2014.

Primary Skills, Core Competencies and Attributes

Admiral Mies' extensive educational background in mechanical engineering and mathematics, and post-graduate studies and degrees in government administration and international relations at Oxford University, the Fletcher School of Law and Diplomacy, and Harvard University contribute to his insights and leadership of the Generation Oversight Committee and his service on the Finance and Risk, and Audit Committees. His deep leadership experience with nuclear power and strategic planning in the Navy and in business and through his experience on the boards of other companies enable his ability to provide thoughtful contributions to the Exelon Board.

- CEO/executive management leadership skills
- Innovation and technology experience
- Safety and Security (including physical and cyber)
- Industry experience and knowledge of Exelon's business
- Risk oversight and risk management experience

John W. Rogers, Jr.

Age: 59

Director since: 2000

Committee Memberships:
- Investment Oversight (Chair)
- Corporate Governance Committee
- Finance and Risk until April 2017

Career Highlights

Mr. Rogers is the Chairman and CEO of Ariel Investments, LLC, an institutional money management firm that he founded in 1983. Mr. Rogers also serves as trustee of the Ariel Investment Trust.

Board Service

Mr. Rogers has served as a director of McDonald's Corporation (global foodservice retailer) since 2003. He previously served as a director of Aon Corporation from 1993 to 2012; GATX Corporation from 1998 to 2004; Bank One Corporation from 1998 to 2004; and Bally Total Fitness from 2003 to 2006.

Primary Skills, Core Competencies and Attributes

Mr. Rogers' broad experience on the boards of a number of major public corporations doing business in a variety of industries has made him a leader in the Chicago business community with perspectives into Chicago business developments. His role in Chicago's and the nation's African-American community brings diversity to the Board and emphasis to Exelon's robust diversity initiatives and community outreach. His success in investment management and the financial markets, and board service at an insurance brokerage and services company, provide him with honed skills and expertise ideal to his leadership of the Investment Oversight Committee and its role in managing Exelon's extensive nuclear decommissioning, pension, and post-retirement benefit trust funds. Mr. Rogers' service on the boards and committees of other companies has provided experience that adds further depth to the Corporate Governance Committee. He was named one of six 2010 Outstanding Directors by the Outstanding Directors Exchange.

- Corporate finance and capital management experience
- CEO/executive management leadership skills
- Government/ public policy and regulatory insights
- Investor relations and investment management experience
- Human resource management and executive compensation knowledge

Mayo A. Shattuck III

Chairman of the Board

Age: 63

Director since: 2012

Committee Memberships:
- Finance and Risk
- Generation Oversight
- Investment Oversight

Career Highlights

Mr. Shattuck serves as the independent Board Chair of Exelon Corporation. He previously served as Executive Chair of Exelon from 2012 to 2013. Prior to joining Exelon, Mr. Shattuck was the Chairman, President and Chief Executive Officer of Constellation Energy from 2001 until 2012, when Constellation merged with Exelon. Prior to this, Mr. Shattuck was at Deutsche Bank, where he served as Chairman of the Board of Deutsche Bank Alex. Brown and, during his tenure, also served as Global Head of Investment Banking and Global Head of Private Banking. From 1997 to 1999, he served as Vice Chairman of Bankers Trust Corporation, which merged with Deutsche Bank in 1999. From 1991 until 1997, Mr. Shattuck was President and Chief Operating Officer and a Director of Alex. Brown Inc., which merged with Bankers Trust in 1997.

Mr. Shattuck is the past chairman of the Institute of Nuclear Power Operations and was previously a member of the executive committee of the board of Edison Electric Institute. He was also co-chairman of the Center for Strategic & International Studies Commission on Nuclear Policy in the United States.

Board Service

Mr. Shattuck currently serves as a director of Gap Inc. (clothing retailer), Capital One Financial Corporation (commercial banking services), and at Alarm.com Holdings, Inc. (cloud-based security and monitoring services).

Primary Skills, Core Competencies and Attributes

Mr. Shattuck's qualifications to serve as Board Chair include his extensive experience in business, and the energy industry in particular, gained from his service as Constellation Energy's Chief Executive Officer, which enables him to effectively identify strategic priorities and oversee the execution of strategic initiatives. His financial expertise from his years of experience in the financial services industry also brings valuable perspectives to the Board.

- Corporate finance and capital management experience
- CEO/executive management leadership skills
- Human resource management and executive compensation knowledge
- Industry experience and knowledge of Exelon's business
- Risk oversight and risk management experience

Stephen D. Steinour

Age: 59

Director since: 2007

Committee Memberships:
- Finance and Risk (Chair)
- Audit

Career Highlights

Mr. Steinour is Chairman, President and Chief Executive Officer of Huntington Bancshares Incorporated, a regional bank-holding company delivering a full suite of commercial and retail banking, investment management, and insurance services across the Midwest. Mr. Steinour joined Huntington in 2009 from CrossHarbor Capital (investment firm) where he served as Managing Partner. Previously, he served as President and CEO of Citizens Financial Group (commercial bank holding company), as Division Executive for Fleet Financial Group (asset management company), and as Executive Vice President at Bank of New England.

Board Service

Since 2014, Mr. Steinour has served as a director of L Brands, Inc. (fashion retailer). Mr. Steinour also serves on the board of directors of the Federal Reserve Bank of Cleveland and is a trustee of The Ohio State University Wexner Medical Center. He is a member of the Financial Services Roundtable and The Columbus Partnership. He is vice chair of the Columbus Downtown Development Corporation and is a member of the Ohio Business Roundtable.

In connection with the nomination of Mr. Steinour, the Corporate Governance Committee considered his consistently demonstrated preparedness, engagement, and attention to Exelon Board stewardship and his vigorous leadership of the Finance and Risk Committee.

Primary Skills, Core Competencies and Attributes

Mr. Steinour's experience leading Huntington Bancshares provides him with a strong background in mergers and acquisitions, including post-merger integration and conversions, business development, creation, and partnerships. His deep banking experience provides market experience important to Exelon Generation and the utility businesses and his experience in credit and risk management, credit and capital markets, enhances his value to the Exelon Board and its Finance and Risk and Audit Committees. Mr. Steinour's educational achievements in the Executive Program in Leadership at Stanford University's Graduate School of Business and economics also provide informed insights. Mr. Steinour was named to the 2016 "Directorship 100" list issued by the National Association of Corporate Directors.

- Accounting and financial reporting experience
- Corporate finance and capital management experience
- CEO/executive management leadership skills
- Risk oversight and risk management experience
- Investor relations and investment management experience

Director Independence

The Board has determined that all non-employee Directors who served on the Board in 2017 and all nominees for election, except for Mr. Crane, are independent according to applicable law and the listing standards of the New York Stock Exchange (NYSE), as incorporated into the Independence Standards for Directors found in Exelon's Corporate Governance Principles. The Board has also determined that the members of the Audit, Compensation and Leadership Development, and Corporate Governance Committees are independent within the meaning of applicable laws, the listing standards of the NYSE, and the Independence Standards for Directors. Mr. Crane is not considered independent because of his employment as President and Chief Executive Officer of Exelon.

Pursuant to Exelon's related person transactions policy, the Board also takes into account information provided by Directors about business and familial-based relationships with Exelon including other boards on which they may serve and charitable, civic, cultural and professional affiliations. Under the policy, all transactions and relationships are evaluated by Exelon's Office of Corporate Governance, and information is presented to the Corporate Governance Committee and Board for a determination of the materiality of such relationships on independence and for the approval of any related person transactions identified. Details related to all transactions reviewed are provided in the chart below.

When assessing the independence of Director nominees, the Corporate Governance Committee takes into account the impact that tenure may have on the independence of certain longer-tenured incumbent Board nominees. The Board places a high value on the perspectives and contributions that our longer serving Directors provide to Board discussions, having served Exelon during various industry developments and with different management teams over the years. The Board determined that the independence of the longer-tenured Directors has not been diminished by their years of service on the Board. Exelon's longer-tenured Directors continue to thoughtfully challenge management and provide reasoned, balanced, and insightful guidance to senior management and the Board and its decisions.

In January 2018, the Board amended the Corporate Governance Principles and, as part of the amendments, determined that certain categories of relationships do not affect a Director's independence. These Categorical Standards of Independence are set forth in Appendix A-4. The amended Corporate Governance Principles and Categorical Standards of Independence were not applied to the independence determinations made in January 2018, but will be applied in future determinations.

Director	Summary of Relationship
Anthony K. Anderson	Mr. Anderson serves as a director of Avery Dennison, a public company, which purchased power and gas in 2017 from Exelon subsidiary Constellation Energy, based on a competitively bid process.
Ann C. Berzin	Ms. Berzin serves as a director of Ingersoll Rand plc, a public company that provided equipment and services to Exelon Generation. In 2017, Exelon paid Ingersoll Rand approximately $574,000. In addition, Ingersoll Rand purchased power in 2017 from Exelon subsidiary, Constellation Energy, based on a competitively bid process.
Nicholas DeBenedictis	Mr. DeBenedictis serves as the Chairman Emeritus of Aqua America, a public water utility company that supplied water in 2017 to PECO, an Exelon subsidiary, under tariffed utility rates. Aqua America is also a customer of Exelon subsidiaries, PECO, ComEd, and Constellation Energy for which it paid approximately $14.1 million for power and gas at tariffed rates or through a competitively bid process in 2017. Mr. DeBenedictis serves as a director of Independence Blue Cross, a not-for-profit company that received approximately $51.8 million from Exelon in 2017 for health care coverage for Exelon employees. The transaction was the result of a competitively bid process. Mr. DeBenedictis serves as a director of MISTRAS Group, a public company which provides asset protection solutions. Exelon paid that company approximately $1.85 million in 2017. The transaction was the result of a competitively bid process. Mr. DeBenedictis serves on the advisory board of Pennoni Associates, Inc., a company which provides engineering consulting services for which Exelon paid approximately $5.3 million in 2017 at arms-length terms. Mr. DeBenedictis serves as a director of P.H. Glatfelter, a public manufacturing company to which Exelon paid $818,000 for Renewable Energy Credits in 2017. The transaction was effected through the use of a blind auction process. Mr. DeBenedictis also serves on the advisory board of PNC Bank, a company that provides financial services and participates in some Exelon credit facilities at arms-length terms for which Exelon paid $7.2 million in 2017.

Director	Summary of Relationship
Nancy L. Gioia	Ms. Gioia serves as a director of Meggitt, PLC, an aerospace manufacturer listed on the London Stock Exchange that received approximately $715,000 from Exelon in 2017 for consulting services. The transactions were the result of a competitively bid process.
Linda P. Jojo	Ms. Jojo is an employee of United Continental Holdings, a public company and commercial airline. In 2017, Exelon paid United approximately $5.7 million for regularly occurring employee travel at established market rates.
Richard W. Mies	Admiral Mies serves as a director of BWX Technologies, a public company that provides nuclear operations and technical services to Exelon Generation for which Exelon paid approximately $3 million in 2017. The transactions were the result of a competitively bid process. Admiral Mies also serves as a consultant to LEIDOS, a public company to which Exelon paid approximately $3.2 million in 2017 for consulting services, amounting to less than 2% of LEIDOS's consolidated gross revenues for 2017.
John W. Rogers, Jr.	Mr. Rogers serves as a director of McDonald's Corporation, a public company which purchased utility services at tariffed rates from Exelon's utility subsidiaries, and power and gas from Constellation Energy as the result of a competitive bid process in 2017.
Mayo A. Shattuck III	Mr. Shattuck serves as a director of Gap Inc., a public company which purchased power and gas from Constellation Energy, an Exelon subsidiary in 2017. The transactions were the result of a competitively bid process.
Stephen D. Steinour	Mr. Steinour is the Chairman, President and CEO of Huntington Bancshares, a public company which is a part of a syndicate of banks that participate in Exelon's credit facilities on similar terms. In 2017, Exelon paid Huntington Bancshares approximately $97,000 in fees.

Related Person Transactions

As referenced above, Exelon has a written policy for the review and approval or ratification of related person transactions. Transactions covered by the policy include commercial transactions for goods and services and the purchase of electricity or gas at non-tariffed rates from Exelon or any of its subsidiaries by an entity affiliated with a Director or officer of Exelon. The retail purchase of electricity or gas from Atlantic City Electric Company (ACE), Baltimore Gas and Electric Company (BGE), Commonwealth Edison Company (ComEd), Delmarva Power and Light Company (DPL), PECO Energy Company (PECO), or Potomac Electric Power Company (Pepco) at rates set by tariff, and transactions between or among Exelon or its subsidiaries are not considered. Charitable contributions approved in accordance with Exelon's Charitable Contribution Guidelines are deemed approved or ratified under the related persons transaction policy and do not require separate consideration and ratification.

As required by the policy, the Board reviewed all commercial, charitable, civic and other relationships with Exelon in 2017 that were disclosed by Directors and executive officers of Exelon, ACE, BGE, ComEd, DPL, PECO and Pepco, and by executive officers of Exelon Generation that required separate consideration and ratification. Exelon's Office of Corporate Governance conducted due diligence on each of these transactions to determine the specific circumstances of the particular transaction, including whether it was competitively bid or whether the consideration paid was based on tariffed rates.

The Corporate Governance Committee and the Board reviewed the analysis prepared by the Office of Corporate Governance, which identified those transactions that required approval or ratification under the policy, or disclosure under U.S. Securities and Exchange Commission (SEC) rules. The Committee recommended the Board's ratification of all transactions because the related person served only as a director of the affiliated company, was not an officer or employee of the affiliated company and did not have a pecuniary or material interest in the transaction. For some transactions, the value or cost of the transaction was very small, and the Board considered the de minimis nature of the transaction as a further reason for ratifying it. The Board ratified other transactions that were the result of a competitive bidding process and therefore were considered fairly priced, or arms-length, regardless of any relationship. The remaining transactions were approved by the Board, even though the Director is an executive officer of the affiliated company, because the transactions involved only retail electricity or gas purchases under tariffed rates, the price and terms were determined to be the result of a competitive bidding process, or were provided at market terms generally available.

None of the transactions reviewed were determined to be material related person transactions requiring disclosure under SEC rules.

The Board's Role and Responsibilities

Overview

Exelon's business, property and affairs are managed under the direction of the Board of Directors. All Directors stand for election by shareholders annually and must receive a majority of the votes cast in uncontested elections. The Board considers the interests of all of its constituencies, which include shareholders, customers, employees, annuitants, suppliers, the communities we serve, and the environment. The Board is committed to ensuring that Exelon conducts business in accordance with the highest standards of ethics, integrity, and transparency.

Board Oversight of Risk

The Company operates in a complex market and regulatory environment that involves significant risks, many of which are beyond its direct control. The Company has an Enterprise Risk Management group consisting of a Chief Enterprise Risk Officer, a Chief Commercial Risk Officer, a Chief Credit Officer, a Vice President of Enterprise Risk Management Operations, a Vice President of Enterprise Risk Management Analytics and a full-time staff of 124. The Enterprise Risk Management group draws upon other Company personnel for additional support on various matters related to identification, assessment, management, mitigation and monitoring through established key risk indicators of enterprise risks.

The Company also has a Risk Management Committee comprising select senior officers of the Company who meet regularly to discuss matters related to enterprise risk management generally and particular risks associated with new developments or proposed transactions under consideration.

The Chief Enterprise Risk Officer and the Risk Management Committee regularly meet with management of the Company to identify and evaluate the most significant risks of the businesses and appropriate steps to manage and mitigate those risks. In addition, the Chief Enterprise Risk Officer and the Enterprise Risk Management group perform a regular assessment of enterprise risks, drawing upon resources throughout the Company for an assessment of the probability and severity of identified risks as well as control effectiveness. These risk assessments, which also include the review of operating company-specific key risk indicators, are discussed at operating company risk management committees before being aggregated and discussed with the Board's Finance and Risk Committee and Audit Committee and, when appropriate, the BGE, ComEd, PECO and PHI boards of directors.

The Finance and Risk, Audit, and Generation Oversight Committees regularly report on the Committees' discussions of enterprise risks to the Board. Furthermore, the Board regularly discusses enterprise risks in connection with consideration of emerging trends or developments and in connection with the evaluation of capital investments and other business opportunities and business strategies.

Environmental, Social and Governance Oversight

Exelon's strategy to grow and diversify the Company through targeted investments in our core markets and promising technologies with the potential to reshape the energy landscape include efforts to power a cleaner, brighter future for our customers and communities. We are committed to building the next-generation energy company and applying innovative technologies to manage energy use and meet customer expectations for clean, reliable and affordable power. The Corporate Governance Committee oversees the Company's strategies and efforts to protect and improve the quality of the environment, sustainability policies and practices.

Director Attendance at Meetings of the Board of Directors and Shareholder Meetings

Attendance

The Board of Directors held five meetings during 2017, including a two-day strategy retreat with senior officers of Exelon and its subsidiary companies. Each incumbent Director nominee attended at least 75% of the combined Board and Committee meetings of which he or she was a member. Attendance at Board and Committee meetings during 2017 averaged 96.84% for incumbent Directors as a group.

While Exelon does not have a formal policy requiring attendance at the annual shareholders meeting, all Directors attended the 2017 annual shareholders meeting.

Board Structure

Board Leadership

Exelon’s bylaws permit the independent members of the Board to determine the leadership structure of the Board including whether the roles of Board Chair and Chief Executive Officer should be performed by the same individual or whether the roles should be performed by separate individuals. As a matter of policy, the Board believes that separation of these functions is not required, and whether to combine the roles or not is a matter for the Board’s sole discretion, taking into consideration the current and anticipated circumstances of the Company, the skills and experiences of the individual or individuals in question, and the leadership composition of the Board. The Board reviews its leadership structure periodically and as circumstances warrant. The Board separated the roles of Board Chair and Chief Executive Officer in 2012 upon the completion of its merger with Constellation Energy Group and named Mayo Shattuck as Board Chair and Christopher Crane as President and Chief Executive Officer of Exelon. We find that this leadership structure ensures independent oversight and promotes the Board’s ability to effectively represent the best interests of all shareholders.

Because the Board is committed to continued independent oversight at all times, the Corporate Governance Principles provide that the independent members of the Board shall select and elect a Lead Independent Director in the event the Board Chair and Chief Executive role are held by the same individual or the person holding the role of Board Chair is not independent under Exelon’s Independence Standards for Directors. At any time during which the position of Lead Independent Director may be required but is vacant due to timing considerations, the Chair of the Corporate Governance Committee shall serve as the Lead Independent Director.

Exelon’s Corporate Governance Principles provide a full outline of the responsibilities for each of the Board Chair, Chief Executive Officer, and any Lead Independent Director.

Board Committees

In 2017, six standing Committees assisted the Board in carrying out its duties: the Audit Committee, the Compensation and Leadership Development Committee, the Corporate Governance Committee, the Finance and Risk Committee, the Generation Oversight Committee and the Investment Oversight Committee. The Board Chair and CEO may attend all Committee meetings. All Committees meet regularly in executive session without management.

Committee membership and principal responsibilities for each Committee is described below:

	Audit	Compensation and Leadership Development	Corporate Governance	Finance and Risk	Generation Oversight	Investment Oversight
Anderson	C			👤	👤	
Berzin	👤			👤		
Crane				👤	👤	👤
de Balmann		C	👤	👤		
DeBenedictis			👤	👤	👤	
Gioia				👤 (1)	👤 (1)	
Jojo		👤		👤		
Joskow	👤			👤		👤
Lawless		👤	C	👤		
Mies	👤			👤	C	
Rogers			👤	👤 (2)		C
Shattuck				👤	👤	👤
Steinour	👤			C		
Meetings in 2017	**6**	**5**	**4**	**4**	**4**	**2**

C Chair
👤 Member

Notes:

(1) Ms. Gioia will serve on the Finance and Risk and Generation Oversight Committees through the end of her tenure.
(2) Mr. Rogers served on the Finance and Risk Committee until April 2017.

Each Committee is governed by a Board-approved charter stating its responsibilities. Each charter is reviewed annually and updated, as appropriate, to address changes in regulatory requirements, authoritative guidance, evolving oversight practices and investor feedback. The charters were last amended on January 30, 2018, and are available on the Exelon website at www.exeloncorp.com on the Governance page under the Investors tab. The charters are available in print to any shareholder who requests a copy from Exelon's Corporate Secretary as described on page 80 of this proxy statement.

Audit Committee

Meetings in 2017: 6

Independence: The Audit Committee is composed entirely of independent Directors.

Report: Pages 42-43

Primary Responsibilities:

The Audit Committee's primary responsibility is to assist the Board of Directors in fulfilling its responsibility to oversee and review the quality and integrity of the Company's financial statements and internal controls over financial reporting, the independent auditor's qualifications and independence, and the performance of the Company's internal audit function and of its independent auditor.

The Board of Directors has determined that each of the members of the Audit Committee is an "Audit Committee Financial Expert" for purposes of the SEC's rules.

The Audit Committee's principal duties include:

- ✓ Having sole authority to appoint, retain, or replace the independent auditor, subject to shareholder ratification, and to oversee the independence, compensation and performance of the independent auditor;
- ✓ Reviewing financial reporting and accounting policies and practices;
- ✓ Overseeing the work of the internal auditor and reviewing internal controls;
- ✓ With the advice and assistance of the Finance and Risk Committee, reviewing in a general manner the processes by which Exelon assesses and manages enterprise risk; and
- ✓ Reviewing policies and procedures with respect to internal audits of officers' and Directors' expenses, compliance with Exelon's Code of Business Conduct, and the receipt and response to complaints regarding accounting, internal controls or auditing matters.

Compensation and Leadership Development Committee

Meetings in 2017: 5

Independence: The Compensation and Leadership Development Committee is composed entirely of independent Directors.

Report: Page 62

Primary Responsibilities:

The primary responsibilities of the Committee are to:

- ✓ Assist the Board in the establishment of performance criteria, evaluation, and compensation setting for the CEO;
- ✓ Approve the compensation program design and plans for the compensation of all executive officers of Exelon, other than the CEO;
- ✓ Review and discuss with management Compensation Discussion and Analysis (CD&A) for inclusion in the Company's annual proxy statement and determine whether to recommend to the Board the inclusion of CD&A in the annual proxy statement;
- ✓ Prepare or cause to be prepared the Compensation Committee Report for inclusion in the annual proxy statement; and
- ✓ Develop leadership and succession planning policies and criteria for the Company.

The Compensation and Leadership Development Committee is responsible for setting the Company's general policy regarding executive compensation to ensure that compensation levels and performance targets for Exelon and its subsidiaries are consistent with Exelon's compensation philosophy and aligns with its strategic and operating objectives.

The Committee is careful to set goals that are sufficiently difficult to meaningfully incent management performance. In setting the goals, the Committee takes into account input from the Company's executive officers.

The Committee develops recommendations for the CEO's compensation and collaborates with the Board Chair and Corporate Governance Committee to determine the CEO's compensation in light of the performance achieved against criteria established by the Board. The Chairs of the Corporate Governance and Compensation and Leadership Development Committees sit on each other's Committees, which is helpful in the process for evaluating the performance and setting the compensation for the CEO.

The Compensation and Leadership Development Committee has delegated authority to the CEO to make off-cycle equity awards to eligible employees of up to 600,000 shares in the aggregate, and 20,000 shares per recipient in any year. Eligible employees include those below the level of Executive Vice President of Exelon and who are not subject to reporting obligations under Section 16 of the Securities Exchange Act of 1934, or were subject to the limitations of Internal Revenue Code Section 162(m) prior to the Tax Cuts and Jobs Act of 2017. Any awards made under this delegated authority are reviewed and ratified by the Compensation and Leadership Development Committee.

Compensation Consultant

The Compensation and Leadership Development Committee is authorized to retain and terminate, without Board or management approval, the services of an independent compensation consultant to provide advice and assistance, as the Committee deems appropriate. The Committee has sole authority to approve the consultant's fees and other retention terms, and reviews the independence of the consultant and any other services that the consultant or the consultant's firm may provide to the Company. The compensation consultant reports directly to the Committee.

The Committee first engaged Meridian Compensation Partners, LLC (Meridian) in 2016 as its consultant after conducting a request for proposal process. In reviewing the engagement in 2017, the Committee considered the following factors and determined that Meridian continued to be an independent consultant and had no conflicts of interest:

- ✓ Meridian performed no other services for the Company or its affiliates and received no other fees from the Company other than for executive compensation consulting for the Committee and Director compensation consulting for the Corporate Governance Committee;
- ✓ The amount of fees paid by the Company to Meridian in 2017 was less than 1% of Meridian's gross annual revenues;
- ✓ Meridian has formal written policies designed to prevent conflicts of interest, including an insider trading and stock ownership policy; and
- ✓ There were no relationships between Meridian and its consultants and Exelon and its officers, Directors or affiliates.

As part of its ongoing services to the Committee, Meridian supports the Committee in executing its duties and responsibilities with respect to Exelon's executive compensation programs by providing information and advice regarding market trends and competitive compensation programs and strategies that include:

- ✓ Market data for each senior executive position, including evaluating Exelon's compensation strategy and reviewing and confirming the peer group used to prepare the market data;
- ✓ An independent assessment of management recommendations for changes in the compensation structure;
- ✓ Assisting management to ensure that the Company's executive compensation programs are designed and administered consistent with the Committee's requirements; and
- ✓ Ad hoc support, including executive compensation and related corporate governance trends.

Meridian attends meetings of the Committee when requested. The Committee may directly or indirectly request Meridian to advise on other executive and non-executive compensation-related projects. The Committee has established a process for determining whether any significant additional services will be needed and whether a separate engagement for such services is necessary.

Corporate Governance Committee

Meetings in 2017: 4

Independence: The Corporate Governance Committee is composed entirely of independent Directors.

Primary Responsibilities:

In addition to its responsibilities described elsewhere in this proxy statement, the Corporate Governance Committee's principal responsibilities include:

- ✓ Identifying individuals qualified to become Board candidates;
- ✓ Recommending Board approval of Director nominees for election at the annual meeting of shareholders;
- ✓ Developing and recommend to the Board a set of governance guidelines applicable to the Company; and
- ✓ Overseeing the evaluation processes for the Board, Committees, each Director, and the CEO.

The Committee is responsible for taking a leadership role in shaping the corporate governance practices of Exelon including amongst other things:

- ✓ Board and Committee structure and composition issues;
- ✓ Performance criteria and evaluations of the CEO and Board Chair if employed by the Company;
- ✓ Oversight of Exelon's environmental strategies, including climate change and sustainability policies;
- ✓ Delegations of authority for Exelon and its subsidiaries;
- ✓ Oversight of Exelon's efforts to promote diversity among its contractors and suppliers; and
- ✓ Recommendations with respect to Director compensation.

The Committee utilizes an independent compensation consultant to assist it in its evaluation and recommendations to the Board with respect to Director compensation. The Chairs of the Corporate Governance and Compensation and Leadership Development Committees sit on each other's Committees which is helpful in the process for evaluating the performance and setting the compensation for the CEO. The Corporate Governance Committee may utilize other consultants, such as specialized search firms, to identify candidates for Director.

As part of the Corporate Governance Committee's role in monitoring and oversight of CEO succession planning, the Committee developed an emergency CEO succession plan, which is reviewed by the Committee and the full Board annually. In addition, CEO succession is a topic on the agenda for meetings of the full Board at least twice each year.

Finance and Risk Committee

Meetings in 2017: 4

Primary Responsibilities:

The Finance and Risk Committee's purpose and responsibilities include:

- ✓ Overseeing the Company's risk management functions;
- ✓ Overseeing matters relating to the financial condition and risk exposures by Exelon;
- ✓ Monitoring the financial condition, capital structure, financing plans and programs, dividend policy, treasury policies and liquidity and related financial risk at Exelon and its major subsidiaries;
- ✓ Overseeing or appraising of the capital management and planning process, including capital investments, acquisitions and divestitures;
- ✓ Overseeing Company-wide risk management strategy, policies, procedures, and mitigation efforts, including insurance programs;
- ✓ Overseeing the strategy and performance of risk management policies relating to risks associated with marketing and trading of energy and energy-related products; and
- ✓ Reviewing and approving risk policies relating to power marketing, hedging and the use of derivatives.

The Finance and Risk Committee includes members with experience in the economics of energy, nuclear operations, banking and investment management and security, reflecting experience in dealing with the range of risks that the Company faces.

Generation Oversight Committee

Meetings in 2017: 4

Primary Responsibilities:

The Generation Oversight Committee's purpose and responsibilities include:

- ✓ Advising and assisting the full Board in fulfilling its responsibilities to oversee the safe and reliable operation of all generating facilities owned or operated by Exelon or its subsidiaries with principal focus on nuclear safety and, including those facilities in which Exelon has significant equity or operational interests;
- ✓ Overseeing the management and operation of the Company's generating facilities and the overall organizational effectiveness (both corporate and stations) of the generation operations;
- ✓ Overseeing the establishment of and compliance with policies and procedures to manage and mitigate risks associated with the security and integrity of Exelon's generation assets; and
- ✓ Reviewing environmental, health and safety issues related to the Company's generating facilities.

Investment Oversight Committee

Meetings in 2017: 2

Primary Responsibilities:

The purpose and responsibilities of the Investment Oversight Committee include:

- ✓ Overseeing the management and investment of the assets held in trusts established or maintained by the Company or any subsidiary for the purpose of funding the expense of decommissioning nuclear facilities;
- ✓ Monitoring the performance of the nuclear decommissioning trusts and the trustees, investment managers and other advisors and service providers for the trusts;
- ✓ Overseeing the evaluation, selection and retention of investment advisory and management, consulting, accounting, financial, clerical or other services with respect to the nuclear decommissioning trusts;
- ✓ Overseeing the evaluation, selection and appointment of trustees and other fiduciaries for the nuclear decommissioning trusts;
- ✓ Overseeing the administration of the nuclear decommissioning trusts; and
- ✓ Monitoring and receiving periodic reports concerning the investment performance of the trusts under the pension and post-retirement welfare plans and the investment options under the savings plans.

The Investment Oversight Committee also provides general oversight of Exelon's investment management functions. The Committee includes members with experience in investment management, investment banking and the economics of energy and serves as a resource and advisory panel for Exelon's investment management team and the Board.

Board Processes and Policies

Board, Committee, and Individual Director Evaluations

Exelon has strong evaluation processes for its Board, six Board Committees, and individual Directors.

Board Evaluations

The Board conducts an annual assessment of its performance and effectiveness. The process is coordinated by the Board Chair and the chair of the Corporate Governance Committee taking into account the recommendations of the Corporate Governance Committee on the process and criteria to be used for Board, Committee, and individual Director evaluations. All Directors are interviewed by the Board Chair or the chair of the Corporate Governance Committee to discuss the following topics, among others that may arise:

- overall Board performance and areas of focus including strategic and business issues, challenges, and opportunities;
- Board meeting logistics;
- CEO, senior management and Director succession planning;
- accountability to shareholder views;
- Board Committee structure and composition;
- Board culture;
- Board composition; and
- management performance, including quality of materials, provided to the Directors.

Interviews also seek practical input on what the Board should continue doing, start doing, and stop doing. Following such interviews, the Board Chair and Chair of the Corporate Governance Committee collaborate to prepare and provide a summary of the assessment input provided and discussed with the Board.

Committee Evaluations

All six of the Board's Committees conduct annual assessments of their performance and take into consideration:

- the sufficiency of their charters;
- whether Committee members possess the right skills and experiences or whether additional education or training is required;
- whether there are sufficient meetings covering the right topics; and
- whether meeting materials are effective, among other matters.

A summary of all Committee assessment results is provided to the Corporate Governance Committee and Board for review and discussion.

Individual Director Evaluations

Individual Directors are assessed regularly taking into consideration experience, tenure, qualifications, and core competencies as well as contributions and performance. The process for individual Director performance assessments was recently strengthened to include peer and senior management input on the contributions and performance of six of the current twelve independent Directors, with the remaining six Directors undergoing such assessment next year. The Board was divided into two groups taking into account tenure and other diversity considerations to effectively and thoughtfully execute such assessments. All Directors were interviewed to provide input on each of the six Directors and four members of senior management also provided input, based on their regular interactions with Board members. Interviews were conducted by the chair of the Corporate Governance Committee in 2018, as the Board Chair volunteered to undergo assessment in 2018. Topics covered in the interviews included:

- meeting preparedness;
- meaningful and constructive participation and contributions;
- respectful, effective and candid communication skills;
- demonstrated independence;
- Company and industry knowledge;
- strategic foresight; and
- openness to new learnings and training.

Interviews also sought practical input on what Directors should continue doing, start doing, and stop doing. After discussing with the Corporate Governance Committee, the Chair of the Corporate Governance Committee collaborates with the Board Chair and feedback is conveyed separately to the individual Directors assessed for developmental opportunities.

Director Education

The Board has an orientation and onboarding program for new Directors and provides continuing education for all Directors that is overseen by the Corporate Governance Committee.

New Director Orientation	The orientation program is tailored to the needs of each new Director depending on his or her level of experience serving on other boards and knowledge of the Company or industry acquired before joining the Board. Materials provided to new Directors include information on the Company's vision, strategic direction, financial matters, corporate governance practices, Code of Business Conduct, and other key policies and practices. New Directors also meet with the CEO, senior executives and members of their staff for briefings on the executives' responsibilities, programs and challenges. New Directors are also invited for tours of various Company facilities, depending on their orientation needs. Incumbent Directors are also invited to participate in site visits.
Continuing Director Education	Continuing director education is provided during portions of Board and Committee meetings and is focused on topics necessary to enable the Board to consider effectively issues before them at that time (such as new regulatory or accounting standards). The education often takes the form of "white papers," covering timely subjects or topics, which a Director can review before the meeting and ask questions about during the meeting. The Audit Committee devotes a meeting each year to educating the Committee members about new accounting rules and standards, and topics that are necessary to having a good understanding of our accounting practices and financial statements. The Generation Oversight Committee uses site visits as a regular part of education for its members by holding each of its meetings at a different generating station (nuclear, fossil or hydro). Each Generation Oversight Committee meeting agenda includes a briefing by local plant management, a tour of the facility, and lunch with plant personnel.
Director Education Seminars	Continuing director education also involves individual Directors' attendance at education seminars and programs sponsored by other organizations. The Company covers the cost for any Director who wishes to attend external programs and seminars on topics relevant to their service as Directors.

Corporate Governance Principles

Our Corporate Governance Principles, together with the articles of incorporation, bylaws, Committee charters, and other policies and practices, provide the framework for the effective governance of Exelon. The Corporate Governance Principles address matters including the Board's responsibilities and role; Board structure, Director selection, evaluation, and other expectations; Board operations; Board Committees; and additional matters such as succession planning, executive stock ownership requirements, and our recoupment policy. The Corporate Governance Principles are reviewed periodically and were last amended in January 2018 to reflect evolving governance trends and to remain contemporary with the needs of the Company and its stakeholders.

Process for Communicating with the Board

Shareholders and other interested persons can communicate with any Director or the independent Directors as a group by writing to them, c/o Thomas S. O'Neill, Senior Vice President, General Counsel and Corporate Secretary, Exelon Corporation, 10 South Dearborn Street, P.O. Box 805398, Chicago, Illinois 60680-5398. The Board has instructed the Corporate Secretary to review communications initially and transmit a summary to the Directors and to exclude from transmittal any communications that are commercial advertisements, other forms of solicitation, general shareholder service matters or individual service or billing complaints. Under the Board policy, the Corporate Secretary will forward to the Directors any communication raising substantial issues. All communications are available to the Directors upon request. Shareholders may also report an ethics concern with the Exelon Ethics Hotline by calling 1-800-23-Ethic (1-800-233-8442). You may also report an ethics concern via email to EthicsOffice@ExelonCorp.com.

Directors' Compensation

Stock Ownership Requirements for Directors

Under Exelon's Corporate Governance Principles, all Directors are required to own, within five years of joining the Board, at least 15,000 shares of Exelon common stock or deferred stock units or shares accrued in the Exelon common stock fund of the Directors' deferred compensation plan.

Compensation of Non-Employee Directors

The Corporate Governance Committee is responsible for reviewing and making recommendations to the Board regarding its non-employee Director compensation program. The Committee is authorized to engage outside advisors and consultants in connection with its review and analysis of Director compensation.

In making Director compensation recommendations, the Corporate Governance Committee takes various factors into consideration, including responsibilities of Directors generally, Board leadership roles such as the Board Chair and Committee Chairs, and the form and amount of compensation paid to Directors at comparable companies.

The Board targets Director compensation to be at the median level of compensation paid at the peer group of companies used to benchmark executive compensation.

For service rendered to the Company in 2017, Exelon's non-employee Directors received the compensation shown in the following table and explained in the accompanying notes.

Name	Annual Board & Committee Retainers $	Stock Awards (Description Below) $	All Other Compensation (Note 1) $	Total Compensation $
Anderson	$ 165,000	$ 145,000	$ —	$ 310,000
Berzin	125,000	145,000	15,000	285,000
de Balmann	145,000	145,000	15,000	305,000
DeBenedictis	145,000	145,000	15,000	305,000
Gioia	145,000	145,000	5,300	295,300
Jojo	125,000	145,000	15,000	285,000
Joskow	125,000	145,000	—	270,000
Lawless	135,000	145,000	—	280,000
Mies	165,000	145,000	19,722	329,722
Rogers	135,000	145,000	15,000	295,000
Shattuck	445,000	145,000	15,000	605,000
Steinour	145,000	145,000	15,000	305,000
Total All Directors	2,000,000	1,740,000	130,022	3,870,022

(1) Values in this column represent gifts made by the Company or the Exelon Foundation as the matching portion of the Director's contributions to qualified not-for-profit organizations pursuant to Exelon's matching gift plan described below in Other Compensation. For Mr. Mies, the amount also includes $4,722, the incremental cost to the Company for travel from an Exelon Board meeting to another professional engagement.

Fees Earned or Paid in Cash

The following table sets forth the components of the cash compensation paid in 2017 to Exelon's non-employee Directors.

Role	Annual Cash Retainer
Non-Employee Director	$ 125,000
Board Chair	300,000
Chairs of Audit Committee, Compensation and Leadership Development Committee, Finance and Risk Committee and Generation Oversight Committee	20,000
Chairs of Corporate Governance Committee and Investment Oversight Committee	10,000
Generation Oversight Committee Member, including the Chair	20,000

In December 2017, the Corporate Governance Committee reviewed a director compensation study prepared by Meridian at the request of the Committee. The Meridian study indicated that the compensation paid to some Committee chairs should be adjusted to reflect the work load and responsibilities associated with the position and was below the median for the peer group. The Meridian study otherwise confirmed that Exelon's Director compensation and Director stock ownership requirements were appropriately set at about the median level of the peer group. The Committee also determined that the compensation paid to some Committee chairs should be adjusted to reflect the work load and responsibilities associated with the position. The Committee recommended that the compensation payable to the Chairs of the Audit and Finance and Risk Committee should be increased to $25,000 per year, the compensation payable to the Chair of the Corporate Governance Committee should be increased to $20,000 per year, and the compensation payable to the Chair of the Investment Oversight Committee should be increased to $15,000 per year. The Board approved the changes in Committee chair fees to be effective as of January 1, 2018.

No additional compensation is paid for meeting attendance.

Deferred Compensation

Directors may elect to defer any portion of cash compensation described above into a non-qualified multi-fund deferred compensation plan. Under the plan, each Director has an unfunded account where the dollar balance can be invested in one or more of several mutual funds, including one fund composed entirely of Exelon common stock. Fund balances (including amounts invested in the Exelon common stock fund) are settled in cash and may be distributed in a lump sum or in annual installment payments upon a Director reaching age 65, age 72, or upon retirement from the Board. These funds are identical to those that are available to Company employees who participate in the Exelon Employee Savings Plan.

Fees Paid in Stock Awards

A significant portion of Director compensation is paid in the form of deferred stock units to align the interests of Directors with the interests of shareholders. In 2017, Exelon's non-employee Directors received deferred stock units worth $145,000 that are paid quarterly in arrears. Deferred stock units are credited to a notional account maintained on the books of the Company at the end of each calendar quarter based upon the closing price of Exelon common stock on the day the quarterly dividend is paid. Deferred stock units earn dividend equivalents at the same level and at the same time that dividends are paid on shares of Exelon common stock. Dividend equivalents are reinvested in the deferred stock accounts as additional stock units. Deferred stock units are paid out to the Directors upon the end of Board service, when they are settled in shares of Exelon common stock, leaving these amounts at risk during the Director's entire tenure on the Board.

As of December 31, 2017, the non-employee Directors held the following amounts of deferred Exelon common stock units.

Name	Total Deferred Stock Units (Note 1) (#)
Anderson	17,982
Berzin	49,116
de Balmann	59,745
DeBenedictis	40,929
Gioia	7,237
Jojo	8,810
Joskow	33,985
Lawless	63,967
Mies	30,945
Rogers	56,454
Shattuck	17,693
Steinour	34,367
Total All Directors	**421,230**

(1) Total deferred stock units includes deferred stock units from the current Exelon deferred stock unit plan and stock units deferred from the equivalent plans for Unicom Corporation and Constellation Energy Group, Inc. for Exelon Directors who previously served as Directors of those predecessor companies.

Other Compensation

Exelon Directors may bring spouses or guests to Exelon or industry related events where it is customary and expected. Exelon pays the cost of spousal or guest travel, meals, lodging and related activities when invited to attend such events. The value of this spousal or guest related travel is calculated according to IRS regulations and imputed to the Director as additional taxable income. Directors also receive reimbursement to cover the additional taxes owed on such imputed income. However, in most cases there is no direct incremental cost to Exelon of providing transportation and lodging for a Director's spouse or guest when he or she accompanies the Director, and the only additional costs to Exelon are those for meals and activities and to reimburse the Director for the taxes on the imputed income. In 2017, there were no incremental costs to the Company for such perquisites.

Exelon and the Exelon Foundation have a matching gift program available to Directors, officers and employees that matches contributions to eligible not-for-profit organizations up to $15,000 per year for Directors, $10,000 per year for executives and up to $5,000 per year for other employees.

Audit Committee Matters

Proposal 2: Ratification of PricewaterhouseCoopers LLP as Exelon's Independent Auditor for 2018

The Audit Committee and the Board of Directors have concluded that retaining PricewaterhouseCoopers LLP (PwC) is in the best interests of the Company and its shareholders based on consideration of the factors set forth in the Report of the Audit Committee on pages 42-43 of this proxy statement. Representatives of PwC will attend the annual meeting to answer questions and will have the opportunity to make a statement.

The Board recommends a vote "FOR" the ratification of PricewaterhouseCoopers LLP as Exelon's Independent Auditor for 2018.

Auditor Fees

The following table presents fees for professional audit services rendered by PwC for the audit of Exelon's annual financial statements for the years ended December 31, 2017 and 2016, and fees billed for other services rendered by PwC during those periods.

	Year Ended December 31,	
(in thousands)	**2017**	**2016**
Audit fees (1)	$28,483	$24,986
Audit related fees (2)	2,207	3,656
Tax fees (3)	1,205	1,943
All other fees (4)	379	836

(1) Audit fees include financial statement audits and reviews under statutory or regulatory requirements and services that generally only the auditor reasonably can provide, including issuance of comfort letters and consents for debt and equity issuances and other attest services required by statute or regulation.

(2) Audit related fees consist of assurance and related services that are traditionally performed by the auditor such as accounting assistance and due diligence in connection with proposed acquisitions or sales, consultations concerning financial accounting and reporting standards and audits of stand-alone financial statements or other assurance services not required by statute or regulation.

(3) Tax fees consist of tax compliance, tax planning and tax advice and consulting services, including assistance and representation in connection with tax audits and appeals, tax advice related to proposed acquisitions or sales, employee benefit plans and requests for rulings or technical advice from taxing authorities.

(4) All other fees primarily reflect accounting research software license costs.

Pre-approval Policies

The Exelon Audit Committee has a policy for pre-approval of audit and non-audit services. Under this policy, the Audit Committee pre-approves all audit and non-audit services to be provided by the independent auditor taking into account the nature, scope, and projected fees of each service as well any potential implications for auditor independence. The policy specifically sets forth services that the independent auditor is prohibited from performing by applicable law or regulation. Further, the Audit Committee may prohibit other services that in its view may compromise, or appear to compromise, the independence and objectivity of the independent auditor. Predictable and recurring audit and permitted non-audit services are considered for pre-approval by the Audit Committee on an annual basis.

For any services not covered by these initial pre-approvals, the Audit Committee has delegated authority to the Audit Committee Chair to pre-approve any audit or permitted non-audit service with fees in amounts less than $500,000. Services with fees exceeding $500,000 require full Committee pre-approval. The Audit Committee receives quarterly reports on the actual services provided by and fees incurred with the independent auditor. No services were provided pursuant to the de minimis exception to the pre-approval requirements contained in the SEC's rules.

Report of the Audit Committee

The Audit Committee's primary responsibility is to assist the Board of Directors in fulfilling its responsibility to oversee and review the quality and integrity of the Company's financial statements and internal controls over financial reporting, the independent auditor's qualifications and independence, and the performance of the Company's internal audit function and of its independent auditor.

The Audit Committee is composed entirely of independent Directors and satisfies the independence, financial experience and other qualification requirements of the New York Stock Exchange (NYSE) and applicable securities laws and regulations. The Board of Directors has determined that each of the members of the Audit Committee is an "audit committee financial expert" for purposes of the SEC's rules and also that each of the members of the Audit Committee is independent as defined by the rules of the NYSE and Exelon's Corporate Governance Principles.

Under its charter, the Audit Committee's principal duties include:

- Having sole authority to appoint, retain, or replace the independent auditor, subject to shareholder ratification, and to oversee the independence, compensation and performance of the independent auditor;
- Reviewing financial reporting and accounting policies and practices;
- Overseeing the work of the internal auditor and reviewing internal controls;
- With the advice and assistance of the Finance and Risk Committee, reviewing in a general manner the processes by which Exelon assesses and manages enterprise risk; and
- Reviewing policies and procedures with respect to internal audits of officers' and Directors' expenses, compliance with Exelon's Code of Business Conduct, and the receipt and response to complaints regarding accounting, internal controls or auditing matters.

Each member of the Audit Committee also serves on the Finance and Risk Committee. On occasion, the Audit and Finance and Risk Committees meet jointly to review areas of mutual interest between the two Committees.

The Audit Committee meets outside the presence of management for portions of its meetings to hold separate discussions with the independent auditor, the internal auditors, and the General Counsel.

The Audit Committee met six times in 2017, fulfilling its duties and responsibilities as outlined in its charter, as well as receiving periodic updates on the Company's financial performance and strategic initiatives, as well as other matters germane to its responsibilities.

Management has primary responsibility for preparing the Company's financial statements and establishing effective internal controls over financial reporting. PricewaterhouseCoopers LLP (PwC), the Company's independent auditor, is responsible for auditing those financial statements and expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles and on the effectiveness of the Company's internal controls over financial reporting based on criteria established in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

In this context, the Audit Committee has reviewed and discussed with management and PwC the Company's audited financial statements contained in the 2017 Annual Report on SEC Form 10-K, including the critical accounting policies applied by the Company in the preparation of these financial statements. The Audit Committee discussed with PwC the requirements of the Public Company Accounting Oversight Board (PCAOB), and had the opportunity to ask PwC questions relating to such matters. These discussions included the quality, and not just the acceptability, of the accounting principles utilized, the reasonableness of significant accounting judgments, and the clarity of disclosures in the financial statements.

At each of its meetings in 2017, the Audit Committee met with the Company's Chief Financial Officer and other senior members of the Company's financial management. The Audit Committee reviewed with PwC and the Company's internal auditor the overall scope and plans for their respective audits in 2017. The Audit Committee also received regular updates from the Company's internal auditor on internal controls and business risks and from the Company's General Counsel on compliance and ethics issues.

The Audit Committee met with the internal auditor and PwC, with and without management present, to discuss their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit Committee also met with the Company's General Counsel and Chief Compliance and Ethics Officer, with and without management present, to review and discuss compliance and ethics matters, including compliance with the Company's Code of Business Conduct.

On an ongoing basis, the Audit Committee considers the independence, qualifications, compensation and performance of PwC. Such consideration includes reviewing the written disclosures and the letter provided by PwC in accordance with applicable requirements of the PCAOB regarding PwC's communications with the Audit Committee concerning independence, and discussing with PwC their independence.

The Audit Committee is responsible for the approval of audit fees, and the Committee reviewed and pre-approved all fees paid to PwC in 2017. The Audit Committee has adopted a policy for pre-approval of services to be performed by the independent auditor. Further information on this policy and on the fees paid to PwC in 2017 and 2016 can be found in the section of this proxy statement titled “Ratification of PricewaterhouseCoopers LLP as Exelon’s Independent Auditor for 2018.” The Audit Committee periodically reviews the level of fees approved for payment to PwC and the pre-approved non-audit services PwC has provided to the Company to ensure their compatibility with independence. The Audit Committee also monitors the Company’s hiring of former employees of PwC.

The Audit Committee monitors the performance of PwC’s lead partner responsible for the audit, oversees the required rotation of PwC’s lead audit partner and, through the Audit Committee Chair, reviews and approves the selection of the lead audit partner. In addition, to help ensure auditor independence, the Audit Committee periodically considers whether there should be a rotation of the independent auditor.

PwC has served as the Company’s independent auditor since the Company’s formation in 2000. As in prior years, the Audit Committee and management engaged in a review of PwC in connection with the Audit Committee’s consideration of whether to recommend that shareholders ratify the selection of PwC as the Company’s independent auditor for 2018. In that review, the Audit Committee considered both the continued independence of PwC and whether retaining PwC is in the best interests of the Company and its shareholders. In addition to independence, other factors considered by the Audit Committee included:

- PwC’s historical and recent overall performance on the audit, including the quality of the Audit Committee’s ongoing discussions with PwC;
- PwC’s expertise and capability in handling the accounting, internal control, process and system risks and practices present in the Company’s utility and energy generation businesses, including relative to the corresponding expertise and capabilities of other audit firms; the quality, quantity and geographic location of PwC staff, and PwC’s ability to provide responsive service;
- PwC’s tenure as the Company’s independent auditor and its familiarity with its operations and businesses, accounting policies and practices, and internal control over financial reporting;
- the significant time commitment required to onboard and educate a new audit firm that could distract management’s focus on financial reporting and internal control;
- the appropriateness of PwC’s fees, relative to the Company’s financial statement risk and the size and complexity of its business and related internal control environment, and compared to fees incurred by peer companies;
- an assessment of PwC’s identification of its known significant legal risks and proceedings that may impair PwC’s ability to perform the audit; and
- external information on audit quality and performance, including recent PCAOB reports on PwC and its peer firms.

The Audit Committee concluded that PwC is independent from the Company and its management, and has retained PwC as the Company’s independent auditor for 2018. The Audit Committee and the Board believe that the continued retention of PwC is in the best interests of the Company and its shareholders and have recommended that shareholders ratify the appointment of PwC as the Company’s independent auditor for 2018.

In addition, in reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board, and the Board approved, that the audited financial statements be included in Exelon Corporation’s Annual Report on Form 10-K for the year ended December 31, 2017, for filing with the SEC.

THE AUDIT COMMITTEE

Anthony K. Anderson, *Chair*
Ann C. Berzin
Paul L. Joskow
Richard W. Mies
Stephen D. Steinour

Executive Compensation

Proposal 3: Say-on-Pay: Advisory Vote on Executive Compensation

We provide shareholders with a say-on-pay vote every year at the annual meeting of shareholders. While the vote is non-binding, the Board and Compensation and Leadership Development Committee (referred to as the “Compensation Committee” in the Executive Compensation and Compensation Discussion and Analysis sections) take the results of the vote into consideration when evaluating the executive compensation program. Accordingly, you may vote to approve or not approve the following advisory resolution on the executive compensation of the named executive officers at the 2018 annual meeting:

> RESOLVED, that the Company’s shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company’s proxy statement for the 2018 Annual Meeting of Shareholders pursuant to the rules of the SEC, including the Compensation Discussion and Analysis, the 2017 Summary Compensation Table and the other related tables and disclosure.

The Board of Directors recommends a vote FOR this proposal for the following reasons:

- Most of compensation is performance-based and contingent on achieving financial and operational results that align the interests of executives with those of the Company’s shareholders based on rigorous goals,
  - Exelon had strong financial and operational performance in 2017, achieving total shareholder return (TSR) of 15.1% that continued to build on the 2016 TSR of 32.8%.
  - The Company achieved the adoption of Zero Emission Credits (ZEC) policies in the states of New York and Illinois, thereby helping to safeguard the fair valuation of resilient and emissions-free nuclear power production in those states.
- The Company’s compensation framework provides market-aligned pay opportunities that foster the attraction, motivation, engagement and retention of key talent, to drive outstanding Company performance and long-term shareholder value.
- We continued to engage with shareholders in 2017. The feedback received was positive and highly supportive of the changes we implemented in 2016 to strengthen our executive compensation program over the past two years. In particular, many investors commented favorably on the demonstrated linkage between pay and performance and the alignment of our incentive compensation goals with the Company’s overall business strategies.

The Board of Directors unanimously recommends a vote “FOR” the approval of the compensation paid to the Company’s named executives, as disclosed in this proxy statement. ✓

Compensation Discussion & Analysis

“Our Committee strives to design and implement an executive compensation framework that motivates and rewards Exelon executives to achieve superior performance for the benefit of our shareholders and other key stakeholders.”

Yves C. de Balmann, Chair, Compensation and Leadership Development Committee

This Compensation Discussion and Analysis (CD&A) discusses Exelon’s 2017 executive compensation program. The program covers compensation for our named executive officers (NEOs) listed below:

Exelon’s Named Executive Officers

CHRISTOPHER M. CRANE
President and Chief Executive Officer, Exelon

JONATHAN W. THAYER
Senior EVP and Chief Financial Officer, Exelon

WILLIAM A. VON HOENE, JR.
Senior EVP and Chief Strategy Officer, Exelon

KENNETH W. CORNEW
Senior EVP and Chief Commercial Officer, Exelon; President and Chief Executive Officer, Exelon Generation

DENIS P. O’BRIEN
Senior EVP, Exelon; Chief Executive Officer, Exelon Utilities

Executive Summary

Business and Strategy Overview, Value Proposition and Performance Highlights

Business Overview

Exelon is composed of two primary businesses:

1

Regulated Utilities

We have regulated operations that consist of six utility subsidiaries, serving approximately 10 million electricity and gas customers, more than any other company in the industry. Our operational performance is top quartile or better across numerous metrics such as the frequency and duration of outages. We have significantly improved the operational performance of PHI since the 2016 acquisition consistent with our long-term strategy to increase investment in regulated assets for the benefit of our customers.

2

Electric Generation

We also operate a competitive generation business that comprises one of the largest and cleanest electric generation businesses in the country and the largest competitive retail supply business serving wholesale, commercial, and industrial customers. We are the largest producer of emissions-free energy in the U.S. and are a best-in-class operator in terms of outage days and operating costs for our nuclear fleet.

Exelon's Value Proposition

The value proposition articulated below provides more granular insights into our long-term strategic goals and the path to achieving these goals. Our continued focus on the following five key strategic initiatives is expected to drive strong operational and financial performance. The table below demonstrates the strong link between Exelon's value proposition and the compensation components or metrics used in our executive compensation program.

Strategic Business Objective	Compensation Component or Metric
1. Regulated utility growth with utility EPS rising 6-8% and rate base growth of 7.4% annually through 2021	**Adjusted (non-GAAP) Operating EPS** • Performance measure for annual incentive **Utility Net Income** • Performance share award measure
2. Strong free cash generation and maintaining a strong balance sheet to support utility growth while also reducing debt by $3 billion over the next 4 years	**Exelon FFO/Debt** • Performance share award measure
3. Invest in utilities where we can earn an appropriate return	**Utility Return on Equity** • Performance share award measure
4. Superior operational performance to support achievement of financial objectives	**Operational Metrics** • Outage duration, outage frequency, net fleetwide capacity factor and dispatch match are performance measures for the annual incentive
5. Create sustainable value for shareholders by executing business strategy	**Relative TSR** • Modifier for performance share award

Overview of 2017 Key Achievements on Objectives

Reported below are the achievements attained on our long-term strategic goals.

Strong Financial and Operational Performance

Strategic Business Objective	2017 Results
1. Regulated utility growth with utility EPS rising 6-8% and rate base growth of 7.4% annually through 2021	• Completed 11 distribution and 6 transmission rate cases with regulatory authorities, increasing annual revenue and rate base by an expected combined $396 million
2. Strong free cash generation and maintaining a strong balance sheet to support utility growth while also reducing debt by $3 billion over the next 4 years	• Deployed targeted level of capital of $5.3 billion into our utilities to improve reliability, replace aging infrastructure, and enhance customer experience
3. Invest in utilities where we can earn an appropriate return	

4. Superior operational performance to support achievement of financial objectives	• Utilities performed largely at first quartile levels with especially strong results across key metrics:
	  • BGE, ComEd and PECO achieved 1st decile performance in the System Average Interruption Frequency Index (SAIFI)
	  • BGE and ComEd achieved 1st decile performance in the Customer Average Interruption Duration Index (CAIDI)
	  • PHI achieved best ever performance on SAIFI and CAIDI

5. Create sustainable value for shareholders by executing business strategy	• Achieved 2017 adjusted (non-GAAP) operating EPS of $2.60 • Results would have been $2.73 absent the deferral of 9 cents in Illinois zero emissions credits (ZEC) revenues given the Illinois Power Agency's decision to delay the ZEC procurement by one month, into 2018, and a 4 cent impairment due to an unexpected FERC decision regarding utility transmission formula rate mechanisms • Achieved significant judicial success in defending ZEC programs in New York and Illinois • Announced commitment to lower costs by $250 million on an annual run-rate basis by 2020

Sustainable Business Practices

Exelon's sustainability practices – including our environmental and social initiatives – are a fundamental component of our strategy and operations. We achieved significant progress against our objectives in 2017, including:

- Expanded paid leave policy to allow both women and men to meet the dual demands of work and family;
- Signed the White House Equal Pay Pledge affirming our commitment to uphold fair treatment for all of our employees and aligning with our values;
- Increased diversity spending with suppliers by $432 million (a 29% increase from the prior year) demonstrating our strong commitment to diversity and inclusion initiatives;
- 2017 awards and recognitions include: Billion Dollar Roundtable, Civic 50, Top 50 Companies for Diversity, Best Places to Work in 2017, CEO Action for Diversity & Inclusion, and UN's HeForShe;
- Exelon and our employees set a new record in corporate philanthropy and volunteerism, committing over $52 million in giving and volunteering 210,000 hours;
- Recognized as having the lowest carbon dioxide emissions of the top 20 investor owned utilities; and
- Named to the Dow Jones Sustainability Index North America for the 12th consecutive year and by Newsweek Green rankings for 9th consecutive year.

Executive Compensation Program Highlights

What We Do

- ✓ Pay for performance – 90% of CEO pay and an average of 81% of NEO pay is at risk
- ✓ Significant stock ownership requirements for Directors and executive officers – 6X base salary for CEO and 3X for other NEOs
- ✓ Mitigate undue risk in compensation programs (e.g., incentive awards are capped) and conduct an annual risk assessment of the compensation programs
- ✓ Require double-trigger for change-in-control benefits – change-in-control plus termination
- ✓ Retain an independent compensation consultant to advise the Compensation Committee
- ✓ Evaluate management succession and leadership development efforts annually
- ✓ Provide limited perquisites based on sound business rationale
- ✓ Seek shareholder feedback on executive compensation programs, engaged with holders of approximately 45% of our shares in 2017
- ✓ Prohibit hedging transactions, short sales, derivative transactions or pledging of Company stock
- ✓ Require executive officers to trade through 10b5-1 trading plans or obtain pre-approval before trading Exelon stock
- ✓ Annually assess our programs against peer companies and best practices
- ✓ Set appropriate levels of "stretch" in incentive targets, based on industry performance and/or Exelon's business plan
- ✓ Provide for discretionary clawbacks of incentive compensation paid or payable to current and former executives under certain circumstances

What We Don't Do

- ✗ No guaranteed minimum payout of AIP or LTIP programs
- ✗ No employment agreements
- ✗ No excise tax gross-ups for change-in-control agreements
- ✗ No dividend-equivalents on PShares
- ✗ No inclusion of the value of LTIP awards in pension or severance calculations
- ✗ No additional credited service under supplemental pension plans since 2004
- ✗ No option re-pricing or buyouts

2017 CEO Pay Outcomes

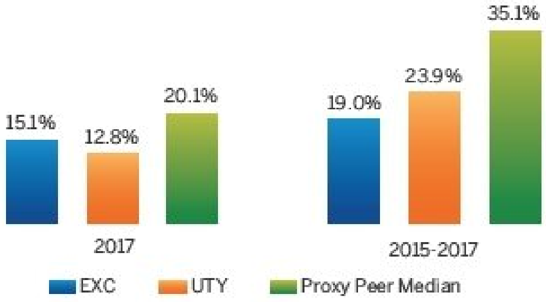
Strong CEO Pay for Performance Alignment Closely Aligned to Total Shareholder Return (TSR)

- Exelon’s TSR of 52.9% for the period January 1, 2016 through December 29, 2017 outperformed the PHLX Utility Sector Index (UTY) by 20.7 percentage points.
- Chart provides a comparison of the CEO total compensation as shown in the Summary Compensation Tables of Exelon’s annual proxy statements to Exelon’s stock price over a five-year period beginning December 31, 2012.
- CEO pay decreased at an annualized rate of 2.9%, from $17.2 million to $14.9 million, while Exelon’s stock price increased from $29.74 to $39.41 resulting in an annualized rate of increase for TSR of 10.6%.

Continued TSR Outperformance Relative to UTY in 2017

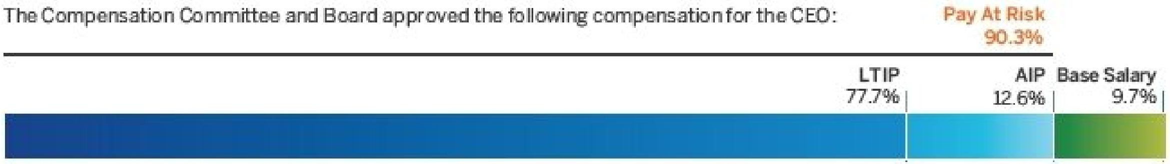
- Building on Exelon’s 2016 TSR of 32.8%, we continued to deliver strong TSR performance of 15.1% in 2017, outperforming the UTY by 2.3 percentage points.
- For the three-year period beginning in 2015, Exelon trailed the UTY index, dragged down by a negative 22.1% TSR for 2015.

ONE- AND THREE-YEAR TSR GROWTH



CEO

The Compensation Committee and Board approved the following compensation for the CEO:



2015-2017 PShare Payout

Three-year average performance was above target at 117.03% before the application of the TSR modifier of negative 4.94% as a result of underperforming the UTY, which resulted in an overall payout of 111.25%.

2017 AIP Award

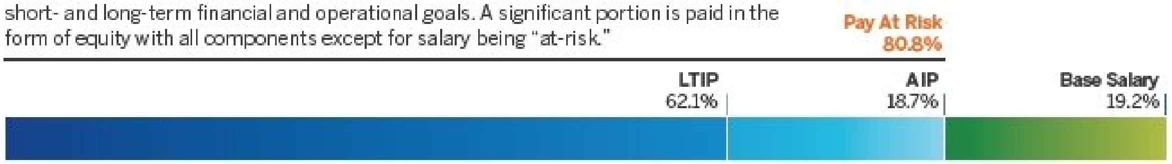
Payout was below target, set at actual performance of 96.72%.

2017 Base Salary

No increase in salary made in 2017.

NEOs

The majority of target compensation paid to our NEOs is tied to the achievement of short- and long-term financial and operational goals. A significant portion is paid in the form of equity with all components except for salary being “at-risk.”



Almost 78% of our CEO’s target total direct compensation is in the form of LTIP, which is nearly 6 percentage points higher than the average CEO in our peer group.

Goal Rigor

The 2017 EPS “Target” goal was set at $2.75, 7 cents above the 2016 actual results and 10 cents above the midpoint of our publicly disclosed 2017 earnings guidance range. 2017 operational metrics were set at challenging levels that corresponded to top quartile performance compared to industry standards.

Building on the 2017 goal rigor, the Compensation Committee set the adjusted (non-GAAP) operating EPS AIP target for 2018 at a level significantly higher than the Company’s actual performance in 2017, which is generally aligned with the midpoint of our publicly disclosed 2018 financial guidance. For 2018, maximum targets were set at levels that outperform Company historical metrics for three of the four operational metrics:

- best-ever for Dispatch Match
- best-ever for Nuclear Fleetwide Capacity Factor
- best-ever for outage frequency results (best-in-class)
- first decile of industry standards for outage duration goals

Compensation Philosophy and Practices

Exelon’s Executive Compensation Program Philosophy

The goal of our executive compensation program is to retain and reward leaders who create long-term value for our shareholders by delivering on objectives that support the Company’s long-term strategic plan. The executive compensation program is constructed to attract, motivate, engage and retain the high quality leaders who can effectively manage a company of Exelon’s size and complexity.

In designing the Company’s executive compensation program, the Compensation Committee strives to align the incentives of our NEOs with the interests of our shareholders. This is accomplished by using metrics and adopting goals directly linked to the Company’s strategy. We believe consistent execution of our strategy over multi-year periods will drive long-term shareholder value creation. Moreover our program is structured to motivate measured but sustainable and appropriate risk-taking.

Robust Goal Setting Process

Goal-setting process is competitive and well-defined	• The Compensation Committee annually reviews components, targets and payouts to ensure that they are challenging, contain appropriate stretch, and are designed to mitigate excessive risk • The Committee considers short- and long-term financial and operational results relative to our internal goals • Goals for the AIP, including Adjusted Operating EPS, are set in January • Exelon provides full-year guidance for EPS and other key financial metrics around the same time

Target levels are challenging to achieve and drive long-term growth and success	• EPS metric is aligned generally with external financial guidance
	  • Target goals are generally set near the mid-point of Exelon’s full-year EPS guidance
	  • Distinguished goals are generally set above Exelon’s full-year EPS guidance
	• Operational metrics are set at challenging levels (i.e., target typically corresponds to top quartile performance) compared to industry standards
	• Return and cash flow metrics are set based on internal business plan

Guiding Principles

The following principles guide and inform the Compensation Committee’s efforts to deliver a highly effective executive compensation program that drives shareholder value, operational performance, and fosters the attraction, motivation, of key talent.

Manage for the Long-term

The Board manages for the long-term and makes pay decisions that are in the best long-term interests of the Company and shareholders.

Alignment with Shareholders

Compensation is directly linked to performance and is aligned with shareholders by having a majority of NEO pay at risk in both short- and long-term incentives.

Extensive Shareholder Engagement

We engage directly with shareholders and take responsive actions to improve our compensation programs based on year-round feedback from shareholders.

Market Competitive

Our NEOs’ pay levels are set by taking into consideration multiple factors, including peer group market data, internal equity comparisons, experience, succession planning, performance and retention.

Stock Ownership Guidelines

Executives are required to meet and maintain significant stock ownership requirements. Since 2016, our CEO’s requirement is 6X base salary, while other NEOs are 3X base salary.

Balance

The portion of NEO pay at risk rewards the appropriate balance of short- and long-term financial and strategic business results.

Compensation Decisions - Roles of Board, Compensation Committee and CEO

- CEO compensation decisions are made by the independent members of the Board, based on recommendation of the Compensation Committee.
- Other NEO compensation decisions are made by the Compensation Committee, based on several factors including input from the CEO and the independent compensation consultant.

Setting Target Total Direct Compensation (TDC) for the CEO…

One of the Compensation Committee’s most important responsibilities is to recommend the CEO’s compensation to the independent Directors of the Board. The Compensation Committee fulfills this responsibility by analyzing peer group compensation and performance data with its independent compensation consultant. The Committee also reviews the various elements of the CEO’s compensation in the context of the target TDC which includes base salary, annual and long-term incentive target opportunities.

…and for Our NEOs

The Compensation Committee uses a variety of data to gauge market competitiveness, including peer group data and regression analysis. TDC can vary based on competencies and skills, scope of responsibilities, the executive’s experience and performance, retention, succession planning and the organizational structure of the businesses (e.g., internal alignment and reporting relationships).

Peer Groups Used for Benchmarking Executive Compensation

We use a blended peer group for assessing our executive compensation program that consists of two sub-groups: energy services peers and general industry peers. We use a blended peer group because (1) there are not enough energy services peers with size, scale and complexity comparable to Exelon to create a robust energy services-only peer group, and (2) Exelon's market for attracting talent includes general industry peers, with recent key executives hired from companies such as Johnson & Johnson and Proctor & Gamble. When selecting general industry peers, we look for capital asset-intensive companies with size, scale and complexity similar to Exelon, and we also consider the extent to which they may be subject to the effects of volatile commodity prices similar to Exelon's sensitivity to commodity price volatility. Exelon's revenues are at the 85th percentile of the following blended peer group comprising 20 companies.

- **Energy Services** – Beginning in 2017, we included the following 11 energy services companies in our peer group even though seven of these companies had 2016 revenues that were less than half of Exelon's revenues:

  - **American Electric Power Company, Inc.**
  - **Dominion Energy, Inc.**
  - **Duke Energy Corporation**
  - **Edison International**
  - **Entergy Corporation**
  - **FirstEnergy Corporation**
  - **NextEra Energy, Inc.**
  - **PG&E Corporation**
  - **Public Service Enterprise Group Inc.**
  - **Sempra Energy**
  - **The Southern Company**

- **General Industry** – Beginning in 2017, we included the following general industry peers in our peer group:

  - **3M Company**
  - **Deere & Company**
  - **DowDuPont**
  - **General Dynamics Corporation**
  - **Honeywell International Inc.**
  - **International Paper Company**
  - **Marathon Petroleum Company**
  - **Northrop Grumman Corporation**
  - **Valero Energy Corporation**

In 2017, a change was made to our general industry peer sub-group. Alcoa, Hess, and Johnson Controls were removed due to corporate transactions that significantly altered their comparability to Exelon. These companies were replaced with Marathon Petroleum and Valero Energy Corporation in the general industry peer group and Sempra Energy in the energy services peer group, which the Compensation Committee deemed to better reflect the overall composition and profile of the peer group.

To account for differences in the size of the compensation peer group companies, market data is statistically adjusted using a regression analysis by the Committee's independent consultant allowing for a comparison of the compensation levels to similarly-sized companies. Each element of our NEOs' compensation is then targeted to the median of the peer group. To the extent an NEO's total compensation exceeds the peer group median, it is due to outstanding performance, critical skills, experience and tenure. If an NEO's compensation is below the median, it is generally due to underperformance against relevant metrics or reflective of an individual who is newer in his or her role.

How the Peer Group is used

- As an input in developing compensation targets and pay mix
- To assess the competitiveness of compensation and benefit programs
- Benchmarks for incentive program design
- Benchmarks for stock ownership guidelines

2017 Say-on-Pay Vote Outcome and Shareholder Engagement

The Compensation Committee regularly reviews executive compensation, taking into consideration the input received through Exelon's robust engagement program with its investors. Feedback is typically solicited throughout the year in connection with the annual meeting of shareholders and the Compensation Committee's review of the executive compensation program.

During 2017, Exelon contacted the holders of nearly 50% of our outstanding shares, representing almost two-thirds of the Company's institutional investors. We engaged with portfolio managers and governance professionals from a significant cross-section of our shareholder base, representing approximately 45% of Exelon's outstanding shares. Mr. Yves de Balmann, Chair of the Compensation Committee, participated in most of the discussions held with shareholders, and feedback received was shared with the Compensation Committee, the Corporate Governance Committee, and the Board.

Feedback received in 2017 indicated that investors remain supportive of the extensive changes made to the executive compensation program in 2016. This support was reflected in our 2017 say-on-pay vote results. At the Company's annual meeting of shareholders held in April 2017, approximately 86% of the votes cast on the Company's say-on-pay proposal voted in favor of the proposal (up from approximately 38% in 2016). No additional substantive changes were made to the executive compensation program as a result of this feedback.

Actions Implemented in 2016 Demonstrate Responsiveness to Shareholders

Annual Incentive Plan (AIP)

- ✓ Capped future payouts at target if absolute TSR is negative for 12 months
- ✓ Moved operational metrics to AIP from PShare metrics to eliminate duplicate metrics used in LTIP
- ✓ Eliminated the individual performance multiplier component

Long-Term Incentive Plan (LTIP)

- ✓ Changed PShare performance periods from annual to three-year periods to align with long-term strategic goals and initiatives and shareholder interests
- ✓ Moved EPS and operational metrics from LTIP to AIP to parallel market practices and eliminate duplicate metrics used in annual and long-term plans; adopted new PShare financial and credit metrics connected with goal to support and drive utility performance
- ✓ Amended TSR modifier to compare to UTY market index to more closely correspond with shareholder return experience, and capped payouts at target where TSR is negative for the final 12 months of the measurement period

Compensation Decisions and Rationale

2017 Compensation Program Structure

The Compensation Committee designed Exelon's 2017 compensation program to motivate and reward leaders who create long-term value for our shareholders. The primary compensation elements include fixed and variable components that include:

Pay Element	Form	Performance			Purpose
Salary	Cash	Merit Based			• Provides portion of income stability at competitive, market-based levels
Annual Incentive Plan	Cash	• 1 Year • Adjusted Operating EPS **(70%)** Operational Goals **(30%)** *Outage Duration, Outage Frequency, Net Fleetwide Capacity Factor, Dispatch Match* • TSR Cap if negative 1-year absolute TSR			• Motivates executives to achieve key annual financial and operational objectives using adjusted operating EPS and operational goals that reflect commitment to become the leading diversified energy provider • Aligns with shareholder interests by capping payouts at target if 1-year absolute TSR is negative
Long-Term Incentive Plan	Performance Shares (**67%** of LTIP)	Cumulative Performance	2017-2019 Scorecard	• Utility Earned ROE (**33.3%**) • Utility Net Income (**33.3%**) • Exelon FFO/Debt (**33.4%**)	• Drives executive focus on long-term goals supporting utility growth, financial results, and capital stewardship to drive behavior and align with shareholder interests • Includes relative comparison of TSR to market index and caps payout at target if absolute TSR is negative to further align with shareholder interests
			2017-2019 Modifier	• Point- for-point relative TSR Modifier (3-year period) • TSR Cap if negative 1-year absolute TSR	
	Restricted Stock (**33%** of LTIP)	Vest One-Third Per Year Over 3 Years			

2017 Target Compensation

The table below lists the target value of the compensation elements for each NEO as of December 31, 2017.

	Cash Compensation			Long-Term Incentives			
Name	**Base**	**AIP Target**	**Target Total Cash**	**RSUs 33% of LTIP**	**PShares 67% of LTIP**	**Target Total LTIP**	**Target Total Direct Compensation**
Crane	$1,261,000	130%	$2,900,300	$3,332,901	$6,766,799	$10,099,700	$13,000,000
Thayer	807,900	95%	1,575,405	891,526	1,810,069	2,701,595	4,277,000
Von Hoene, Jr.	886,600	100%	1,773,200	963,864	1,956,936	2,920,800	4,694,000
Cornew	883,600	100%	1,767,200	963,204	1,955,596	2,918,800	4,686,000
O'Brien	824,700	95%	1,608,165	815,376	1,655,459	2,470,835	4,079,000

Total Cash Compensation (Base Salary and Annual Incentive Program)

2017 Base Salary Review and Adjustments

Base salaries for our NEOs are set by the Compensation Committee and adjusted following an annual market assessment of peer group compensation. Base salaries may be adjusted (1) as part of the annual merit review or (2) based on a promotion or significant change in job scope. The Compensation Committee considers the results of the annual market assessment in addition to the following factors when contemplating a merit review: individual performance, scope of responsibility, leadership skills and values, current compensation, internal equity, and legacy matters.

In January 2017, the Compensation Committee approved a 2.5% increase in base salary for each NEO (excluding the CEO) effective March 1, 2017, as part of its annual merit review.

2017 Annual Incentive Program (AIP) Award Determinations

In prior years, the AIP process included the application of an individual performance multiplier to the final award determination. Some shareholders voiced concern about the use of the discretionary individual performance multiplier, so this multiplier was removed in 2016 for AIP payout determinations made in 2017.

Accordingly, for 2017 the Compensation Committee used the following process to determine 2017 AIP awards for each NEO:

Step
1

Set AIP Target
- Expressed as percentage of base salary, as of 12/31/17
- CEO annual incentive target of 130%
- Other NEO annual incentive targets range from 95% to 100%

Step
2

Determine Performance Factor
- Based on 70% adjusted (non-GAAP) operating EPS and 30% operational metrics

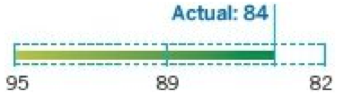
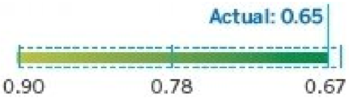
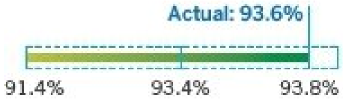
Step
3

Determine Negative TSR Cap
- If Exelon's absolute TSR for the year is negative, AIP payout will be capped at target (100%)

Step
4

Apply Final Multiplier
- Multiply the target award by the lesser of (i) the performance factor or (ii) the negative TSR cap if applicable
- Award can range from 0% to 200% of target (target of 100%)

2017 Performance. The following table includes the threshold, target, and distinguished or maximum performance goals and results achieved under the 2017 annual incentive plan (AIP).

Goals	Threshold	Target	Distinguished	Weighting	Weighted Payout as a % of Target
Financial (70%)					
Adjusted (non-GAAP) **Operating Earnings Per Share (EPS)***	 $2.56	$2.75	$3.04	70%	42.37%
Operational (30%)					
Outage Duration (CAIDI) Calculated as the total number of customer interruption minutes divided by the total number of customer interruptions	 95	89	82	7.5%	12.86%
Outage Frequency (SAIFI) Calculated as the total number of customer interruptions divided by the total number of customers served	 0.90	0.78	0.67	7.5%	15.00%
Net Fleetwide Capacity Factor The weighted average of the capacity factor of all Exelon nuclear units, calculated as the sum of net generation in megawatt hours divided by the sum of the hourly annual mean net megawatt rating, multiplied by the number of hours in a period**	 91.4%	93.4%	93.8%	7.5%	11.49%
Dispatch Match Measure the responsiveness of a fossil generating unit to the market	 95.2%	97.2%	98.6%	7.5%	15.00%
Formulaic Performance Calculation					96.72%

* Refer to Appendix at A-1 for our rationale for using a reconciliation of adjusted (non-GAAP) operating earnings per share to GAAP earnings per share.

** Starting in 2017 we introduced a capping feature on Net Fleetwide Capacity Factor to account for the lower spot pricing for energy and to ensure that this metric is self-funding. For every incremental dollar the Company makes after achieving target performance, participants receive half.

Performance Considerations. The AIP payout was calculated at 96.72% of target, based on the following performance outcomes:

- achieved outstanding operational performance on the four metrics, including best-in-class performance for Nuclear Fleetwide Capacity Factor and best-ever SAIFI performance;
- had an absolute TSR of 15.1%, outperforming the UTY; and
- delivered solid financial performance on operating EPS at $2.60, which would have been $2.69 if the 2017 ZEC credits revenue recognition was not postponed to 2018 as explained on page 46.

In determining the final payout for all NEOs (including the CEO), the Compensation Committee and Board concluded that this was the appropriate payout to reflect overall financial and operational performance. Furthermore, the Committee and Board decided to not adjust 2017 performance for the loss of 9 cents attributable to ZEC credits that were carried forward to 2018, even though those credits were included in the 2017 target of $2.75. This 2017 target was 7 cents above the 2016 actual operating EPS.

The following table shows how the formula was applied and the actual amounts awarded. The Compensation Committee made no changes to the NEOs targets for AIP.

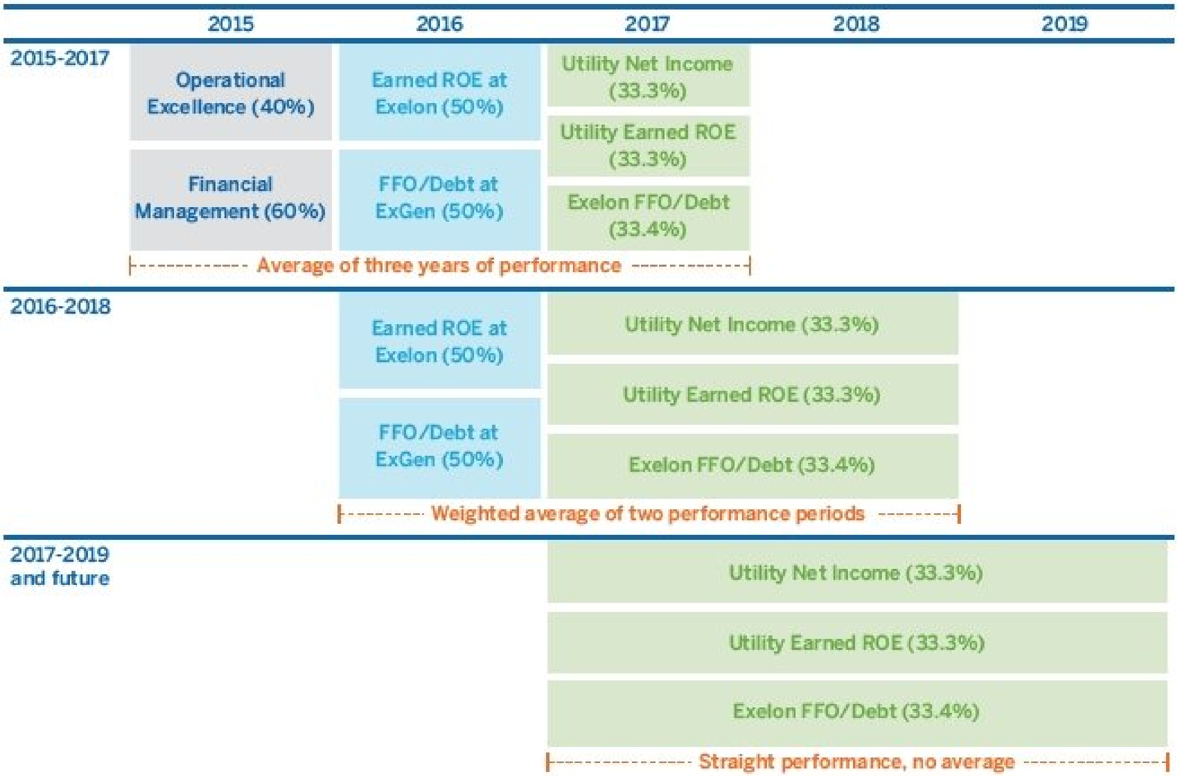
NEO	AIP Target	Formulaic Performance Factor	Actual Award
Crane	$1,639,300	96.72%	$1,585,531
Thayer	767,505	96.72%	742,331
Von Hoene, Jr.	886,600	96.72%	857,520
Cornew	883,600	96.72%	854,618
O'Brien	783,465	96.72%	757,767

2017 Long-Term Incentive Program (LTIP)

The Compensation Committee annually grants equity incentive awards at its meeting in January. On January 30, 2017, the Compensation Committee approved awards of restricted stock units (RSUs) and performance shares (PShares) shown in detail in the Grants of Plan-Based Awards table on page 65.

Restricted Stock Units. RSUs vest ratably over three years. Dividend equivalents with respect to RSUs are reinvested as additional RSUs, subject to the same vesting conditions as the underlying RSUs.

Performance Share Units. A target number of PShares is granted, the earning of which is contingent on performance for the subsequent three-years. Performance measures for the currently open cycles are summarized in the tables below. In addition to these financial measures, any earned award is subject to a total shareholder return modifier to compensate for relative performance achieved against the performance of the UTY index. See page 53 for the rationale behind the selection of the performance goals used for PShares.



Performance Share (PShare) Award Determinations

In prior years, the PShare determination process included the application of an individual performance multiplier to the final award determination. Some shareholders voiced concern about the use of the discretionary individual performance multiplier, so this multiplier was not applied to PShare payout determinations made in 2017.

Accordingly, the Compensation Committee uses the following process to determine PShare targets and awards:

Step 1

Establish PShare Target
Target set in January of the first year of the performance cycle

Step 2

Determine Performance Multiplier
Based on performance achieved over the cycle

Performance can range from 0% to 150% of target (target of 100%)

Step 3

Determine TSR Modifier
Subtract the performance of the UTY from Exelon's absolute TSR performance over the three-year performance period (e.g., 2017-2019)

Step 4

Calculate Final Multiplier
Multiply the performance multiplier by (1 + the TSR multiplier)

If Exelon's absolute TSR for the final 12 months of the measurement period is negative, PShare payout will be capped at target

Step 5

Apply Final Multiplier
Apply the final multiplier to determine the number of shares issued

Award can range from 0% to 200% of target (target of 100%) after application of the TSR modifier

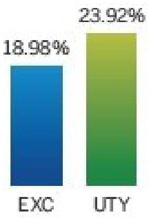
2015-2017 PShare Program Payout Determination

The Compensation Committee approved a payout of 111.25%, based on the average performance of 117.03% for the 2015, 2016 and 2017 scorecards and a TSR modifier of negative 4.94% based on 2015-2017 TSR performance. The 2015, 2016 and 2017 scorecards are presented in the Appendix at A-2; the 2017 award payout calculation is presented below:

Year	Scorecard Performance	Average Performance	TSR Modifier	Overall Award Payout
2015	122.48%	117.03%	-4.94%	111.25%*
2016	125.00%			
2017	103.61%			

* 117.03% X (100%-4.94%)

2015-2017 TSR Modifier and Cap Determination



To address shareholder concerns received in 2016, the following modifications were made to the TSR modifier and a TSR cap was added:

- Changed TSR modifier peer group from the competitive integrated companies (Entergy, FirstEnergy, NextEra Energy, and PSEG) to the UTY
- Changed to a point-for-point approach, where the UTY's absolute TSR performance is subtracted from Exelon's absolute TSR over the three-year period
- The modifier is no longer capped (positive or negative)
- Cap payout at target if TSR is negative for the final 12 months of the measurement period

For the 2015-2017 performance period, the TSR modifier was 18.98% for Exelon minus 23.92% for the UTY, resulting in a TSR modifier of negative 4.94%. Exelon's 2017 one-year absolute TSR was 15.11% so the TSR cap was not applicable.

The following table shows how the formula was applied and the actual amounts awarded.

NEO	Target Shares		Performance Factor		Actual Award
Crane	176,221	x	111.25%	=	196,046
Thayer	48,455	x	111.25%	=	53,906
Von Hoene, Jr.	53,112	x	111.25%	=	59,087
Cornew	52,359	x	111.25%	=	58,249
O'Brien	44,307	x	111.25%	=	49,292

Because all of the NEOs have achieved 200% or more of their stock ownership targets (as described on page 59), all of their PShare awards were settled in cash. For participants who have not achieved 200% of their stock ownership target, PShare awards are settled half in shares of Exelon common stock and half in cash.

Robust Goal-Setting Process and Rigorous Targets

The Compensation Committee strives to set challenging operational and financial performance targets that drive and motivate executives to achieve short- and long-term success and to help ensure key talent is retained. The Compensation Committee selects metrics that are directly tied to the Company's operational and financial strategies and are proven measures of long-term value creation. Operational targets are benchmarked and set at the top quartile or higher as compared to industry standards. Financial targets are based on our internal business plans and external market factors.

Goal-Setting for 2018

Exelon's goal-setting process employs a multi-layer approach and analysis that incorporates a blend of objective and subjective business considerations and other analytical methods to ensure that the goals are sufficiently rigorous. Such considerations include:

- **Recent History:** Goals generally reflect a logical progression of results from the recent past
- **Relative Performance:** Performance is evaluated against a relevant group of the Company's peers
- **Strategic Aspirations:** Near- and intermediate-term goals follow a trend line consistent with long-term aspirations
- **Shareholder Expectations:** Goals are aligned with externally communicated financial guidance and shareholder expectations
- **Sustainable Sharing:** Earned awards reflect a balanced degree of shared benefits between shareholders and participants

To ensure adequate rigor for the financial targets applicable to the PShares, we conducted statistical simulations to understand the level of difficulty of our payout range. We also conducted a sensitivity analysis of reasonable value ranges for several internal and external variables that are significant drivers of performance. We also examined historical levels of deviation of Company performance compared to plan.

Example: AIP Goal Rigor

The Compensation Committee set the adjusted (non-GAAP) operating EPS AIP target for 2018 at a level significantly higher than the Company's actual performance in 2017, which is generally aligned with the midpoint of our publicly disclosed 2018 financial guidance. For 2018, maximum targets were set at levels that outperform Company historical performance for three of the four operational metrics:

- best-ever for Dispatch Match
- best-ever for Nuclear Fleetwide Capacity Factor
- best-ever for outage frequency results (best-in-class)
- first decile of industry standards for outage duration goals

PShare Goal Setting

The three-performance metrics underlying the 2018-2020 PShare awards include the following:

Utility Earned ROE (33.3%)	**Utility Net Income (33.3%)**	**Exelon FFO/Debt (33.4%)**
Average utility ROE weighted by year-end rate base	Aggregate utility adjusted (non-GAAP) operating earnings, including Corporate	Funds from operations to total debt ratio

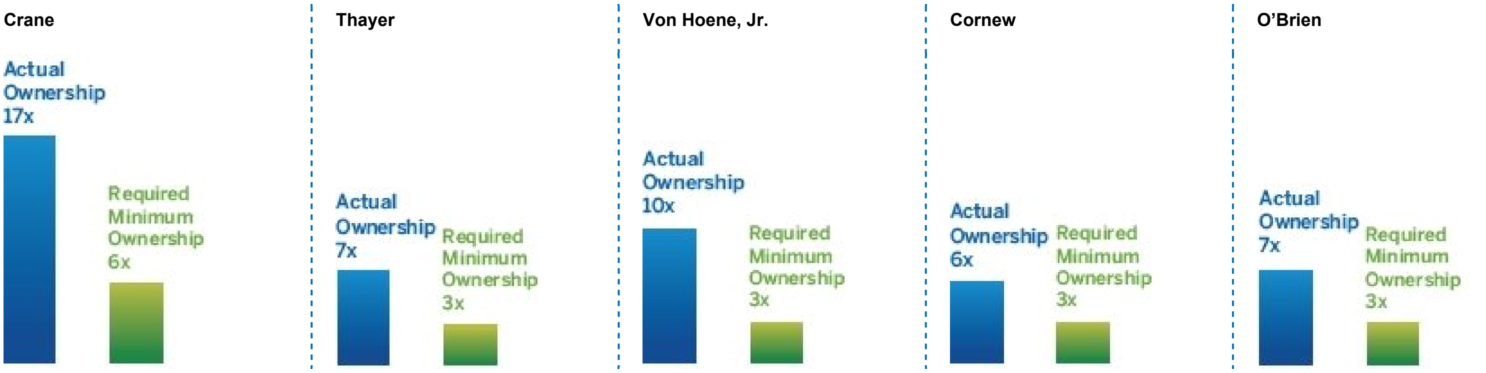
The Utility Return on Equity (ROE) and Utility Net Income use interpolation between threshold, target, and distinguished levels of performance whereas the Funds From Operations (FFO)/Debt metric uses a “stair-step” approach with no interpolation between the performance levels. Performance will be evaluated at the end of 2020 after the completion of the three-year performance period. This is part of the transition to the three-year performance period.

PShare targets were set based on external commitments and/or probabilistic modeling. The performance scale range for the Utility Net Income and Utility ROE metrics was based on the following probability levels of achievement: 95% for threshold and 5% for distinguished and the target is aligned with projected performance. The target for Exelon FFO/Debt metric is aligned with the expectations of credit rating agencies.

Governance Features of Our Executive Compensation Programs

Stock Ownership and Trading Requirements

To strengthen the alignment of executive interests with those of shareholders, officers of the Company are required to own certain amounts of Exelon common stock by the later of (1) five years following an adjustment made to the guidelines (last adjustments made in 2012) or (2) his or her employment or promotion to a new position. As of the annual measurement date of September 30, 2017, all NEOs had exceeded 200% of their stock ownership guidelines as shown in the following chart:



The following types of ownership count towards meeting the stock ownership guidelines: restricted shares and restricted stock units, shares held in the Exelon Deferral Plan, dividend reinvestment plan, 401(k) Employee Savings Plan, and common shares beneficially owned directly or indirectly. For additional details about NEO stock ownership, please see the Beneficial Ownership Table on page 77.

Exelon requires executive vice presidents and above who wish to sell Exelon common stock to do so only through the adoption of a stock trading plan meeting the requirements of SEC Rule 10b5-1(c). This requirement is designed to enable officers to diversify a portion of their holdings in excess of the applicable stock ownership requirements in an orderly manner as part of their personal financial plans. The use of Rule 10b5-1 stock trading plans serves to reduce the risks that such transactions will be viewed negatively or as commentary with respect to the future value of Exelon’s stock. In addition, the use of Rule 10b5-1 stock trading plans are believed to reduce the potential for accusations of trading on the basis of material, non-public information, which could damage the reputation of the Company. Exelon’s stock trading policy does not permit short sales, hedging or pledging.

Recoupment (Clawback) Policy

Consistent with developing best practices, the Board of Directors recently revised its recoupment policy to broaden the discretionary ability to clawback incentive compensation when deemed appropriate. Under the policy, the Board has sole discretion to recoup incentive compensation if it determines that:

- the incentive compensation was based on the achievement of financial or other results that were subsequently restated or corrected;
- the incentive plan participant engaged in fraud or intentional misconduct that caused or contributed to the need for restatement or correction;
- a lower incentive plan award would have been made to the participant based on the restated or corrected results; and
- recoupment is not precluded by applicable law or employment agreements.

The Board or Compensation Committee may also seek to recoup incentive compensation paid or payable to current or former incentive plan participants if, in its sole discretion, the Board or Compensation Committee determine that:

- the current or former incentive plan participant breached a restrictive covenant or engaged or participated in misconduct or intentional or reckless acts or omissions or serious neglect of responsibilities that caused or contributed to a significant financial loss or serious reputational harm to Exelon or its subsidiaries regardless of whether a financial statement restatement or correction of incentive plan results was required; and
- recoupment is not precluded by applicable law or employment agreements.

In addition, the terms of the annual incentive plan provide that the Compensation Committee and management may curtail awards if there is a “significant event,” which is defined as a single, high-profile event caused by a failure of Exelon that is determined to have been directly or indirectly caused by a human error or poor management attention. Significant events may include a single high-profile outage or another event that may result in negative customer and media impact or a significant adverse governmental or regulatory action. The Compensation Committee may also apply negative discretion to unvested equity incentive awards if a significant event or other occurrence is determined to have a similar impact on the Company. Similarly, the terms of the long-term incentive plan provide that the Compensation Committee may amend or adjust the performance measures or other terms and conditions of outstanding awards in the event of unusual or nonrecurring events affecting the Company or its financial statements or changes in law or accounting principles.

Risk Management Assessment of Compensation Policies and Practices

The Compensation Committee reviews Exelon’s compensation policies and practices as they relate to the Company’s risk management practices and risk-taking incentives. In 2017, the Compensation Committee partnered with Exelon’s Enterprise Risk Management group to apply the enterprise risk management policy and framework to the compensation risk assessment process to assess and validate that the controls in place continued to mitigate incentive compensation risks. Following this assessment, the Committee believes that its compensation policies and practices are not reasonably likely to have a material adverse effect on Exelon. In this regard, the Compensation Committee considered the following compensation program features in place to balance the degree of risk taking:

- the annual incentive plan includes multiple incentive performance measures with a balance of financial and non-financial metrics;
- long-term incentives include multiple vehicles and performance metrics and three-year overlapping performance periods that are aligned with long-term stock ownership requirements;
- incentive metrics, performance goals, and capital allocation require multiple approval levels and oversight;
- total compensation pay mix includes effective and market aligned balance of short- and long-term incentive compensation elements;
- incentive compensation is balanced by formulaic and discretionary funding;
- short- and long-term incentive awards contain award caps or modifiers;
- reasonable change-in-control and severance benefits are within common norms;
- clawback provisions exceed regulatory mandates; and
- consistent and meaningful stock ownership requirements create sustained and consistent ownership stakes.

Tax Consequences

Under Section 162(m) of the Internal Revenue Code (Code) applicable for tax years beginning before December 31, 2017, executive compensation in excess of $1 million paid to a CEO or other person among the three other highest compensated officers (excluding the CFO) is generally not deductible for purposes of corporate federal income taxes. However, qualified performance-based compensation, within the meaning of Section 162(m) and applicable regulations, remains deductible. Historically, the Compensation Committee's policy has been to seek to cause executive incentive compensation to qualify as "performance-based" in order to preserve its deductibility for federal income tax purposes to the extent possible.

Because it is not "qualified performance-based compensation" within the meaning of Section 162(m) applicable for tax years beginning before December 31, 2017, base salary is not eligible for a federal income tax deduction to the extent that it exceeds $1 million. Accordingly, Exelon is unable to deduct that portion of Mr. Crane's 2017 base salary in excess of $1 million. AIP awards and PShares payable to NEOs are intended to be qualified performance-based compensation under Section 162(m), and to be deductible for federal income tax purposes. Restricted stock and RSUs are not deductible by the Company for federal income tax purposes under the provisions of Section 162(m) to the extent an NEO's compensation that is not "qualified performance-based compensation" is in excess of $1 million.

In order to qualify payments under the AIP and performance share program as performance-based for Section 162(m) of the Code, the Compensation Committee uses a "plan-within-plan" two-step approach to determine the amount of the bonus payment. The first step is to fund the overall bonus pool. The pool is funded if the Company meets the pre-established performance metrics. The second step is accomplished when the Compensation Committee exercises "negative discretion" by making adjustments to the formula award funded by the overall pool. Negative discretion is used to reduce the amount funded by the pool to an amount equal to the target bonus (for AIP) or target equity (for the performance share program) adjusted for final Company performance and individual performance.

Under Section 4999 of the Code, there is an excise tax if change-in-control or severance benefits are greater than 2.99 times the five-year average amount of income reported on an individual's W-2. In April 2009, the Compensation Committee adopted a policy that no future employment or severance agreements that provide for benefits for NEOs on account of termination will include an excise tax gross-up. In 2016, the NEOs consented to the removal of the remaining legacy excise tax gross-up provisions for transactions resulting in a change-in-control, with no recompense for said removal.

On December 22, 2017, the Tax Cuts and Jobs Act (Tax Act) was signed into law, and includes significant changes to the executive compensation deduction rules in Section 162(m) of the Code. The changes include:

- expanding the covered employees as described in Section 162(m) to include the CFO, which had previously been excluded from the limitation;
- sustaining classification as a "covered employee" in perpetuity even after death through severance and post-death payments for all applicable "covered employees" identified for tax years beginning after December 31, 2016;
- removing the exception for performance-based compensation thereby making a larger portion of the executives' pay non-deductible for federal tax purposes; and
- expanding Section 162(m) to include corporations that have publicly traded equity and publicly traded debt, foreign private issuers that meet the new definition of a publicly held corporation and possibly large private C or S corporations.

The Tax Act will have expansive impacts to Exelon as our executive compensation is 60% to 65% performance-based, which may not be deductible for tax purposes beginning with the 2018 tax year. Also, Exelon has nine registrants with the SEC that could potentially fall within scope of 162(m). Without further IRS guidance clarifying technical aspects of the Tax Act, Exelon is unable to fully quantify the tax consequences of the legislation. Given the uncertainty, the SEC issued Staff Accounting Bulletin 118 which provides for a measurement period, not to extend beyond one year of the enactment date, for registrants to assess the financial impacts and report in their financial statements.

The Compensation Committee will review current executive compensation programs considering the expansive tax consequences, however the Committee will continue to focus on designing executive compensation programs that motivate executives to drive long-term performance and that align the interest of Exelon's executives with shareholders.

Report of the Compensation and Leadership Development Committee

The Compensation and Leadership Development Committee is accountable for ensuring that the decisions made about executive compensation are in the best long-term interests of our shareholders. We accomplish this objective by having robust executive compensation principles in place and considering feedback received from shareholders to continuously improve and strengthen our executive compensation programs. Input received from investors representing over 45% of Exelon's outstanding shares in 2017 was positive and resulted in no significant changes to our executive compensation program. Shareholders indicated continued satisfaction with the modifications implemented in 2016 that addressed concerns and better aligned the program with the Company's strategy.

The Compensation and Leadership Development Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained on pages 45-61 of this proxy statement. Based on such review and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in the 2018 Proxy Statement.

THE COMPENSATION AND LEADERSHIP
DEVELOPMENT COMMITTEE

Yves C. de Balmann, *Chair*
Robert J. Lawless
Linda P. Jojo

Executive Compensation Data

Summary Compensation Table

Year	Salary ($)	Stock Awards ($) (Note 1)	Non-Equity Incentive Plan Compensation ($) (Note 2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (Note 3)	All Other Compensation ($) (Note 4)	Total ($)
Christopher M. Crane President and Chief Executive Officer, Exelon						
2017	$1,261,000	$10,099,755	$1,585,531	$1,524,765	$386,808	$ 14,857,859
2016	1,255,515	10,099,718	1,639,300	1,836,211	400,958	15,231,702
2015	1,224,808	9,821,055	2,072,777	2,462,551	380,054	15,961,245
Jonathan W. Thayer Senior Executive Vice President and Chief Financial Officer, Exelon						
2017	804,339	2,701,654	742,331	144,688	119,146	4,512,158
2016	784,802	2,701,035	1,071,368	225,160	60,504	4,842,869
2015	794,556	2,700,466	947,006	229,066	90,194	4,761,288
William A. Von Hoene Jr. Senior Executive Vice President and Chief Strategy Officer, Exelon						
2017	882,696	2,920,829	857,520	202,125	374,057	5,237,227
2016	831,350	3,700,342	1,237,642	216,271	198,770	6,184,375
2015	755,296	2,296,821	835,753	163,284	111,890	4,163,044
Kenneth W. Cornew Senior Executive Vice President and Chief Commercial Officer, Exelon; President and Chief Executive Officer, Exelon Generation						
2017	878,865	2,918,832	854,618	235,324	87,667	4,975,306
2016	857,477	2,918,043	1,233,350	231,669	93,848	5,334,387
2015	836,558	2,918,046	1,090,185	191,460	93,485	5,129,734
Denis P. O'Brien Senior Executive Vice President, Exelon; Chief Executive Officer, Exelon Utilities						
2017	820,293	2,470,846	757,767	295,787	134,243	4,478,936
2016	800,378	2,470,066	1,093,660	325,832	95,567	4,785,503
2015	780,874	2,469,294	994,688	239,970	86,431	4,571,257

Notes to the Summary Compensation Table

(1) The amounts shown in this column include the aggregate grant date fair value of restricted stock unit and performance share unit awards for the 2017-2019 performance period granted on January 30, 2017. The grant date fair values of the stock awards have been computed in accordance with FASB ASC Topic 718 using the assumptions described in Note 20 of the Combined Notes to Consolidated Financial Statements included in Exelon's 2017 Annual Report on Form 10-K. The performance share unit awards are subject to performance conditions. For the 2017-2019 performance share unit award, the grant date fair value and the value assuming the highest level of performance, including the maximum total shareholder return multiplier, is as follows:

	Performance Share Unit Value	
	At Target	At Maximum
Crane	$6,766,820	$13,533,640
Thayer	1,810,096	3,620,192
Von Hoene Jr.	1,956,949	3,913,898
Cornew	1,955,617	3,911,234
O'Brien	1,655,465	3,310,930

(2) The amounts shown in this column for 2017 represent payments made pursuant to the Annual Incentive Plan.

(3) The amounts shown in this column represent the change in the accumulated pension benefit for the NEOs from December 31, 2016 to December 31, 2017. None of the NEOs had above market earnings in a non-qualified deferred compensation account in 2017.

(4) All Other Compensation: The following table describes the incremental cost of other benefits provided in 2017 that are shown in this column.

ALL OTHER COMPENSATION

Name	Perquisites ($) (Note 1)	Reimbursement for Income Taxes ($) (Note 2)	Company Contributions to Savings Plans ($) (Note 3)	Company Paid Term Life Insurance Premiums ($) (Note 4)	Total ($)
Crane	$152,380	$ 115,639	$ 75,495	$ 43,294	$ 386,808
Thayer	95,636	5,959	13,990	3,561	119,146
Von Hoene Jr.	201,182	115,578	51,337	5,960	374,057
Cornew	32,759	—	51,156	3,752	87,667
O’Brien	52,543	18,409	42,164	21,127	134,243

Notes to All Other Compensation Table

(1) Amounts reported for personal benefits provided to NEOs include: (1) transportation related benefits (including personal use of corporate aircraft, fleet services, rail passenger services, parking, spousal and family travel); (2) relocation/housing and living benefits related to changes in NEOs’ principal place of work as a result of regulatory commitments in connection with the 2016 acquisition of Pepco Holdings, Inc.; (3) other benefits (including personal financial planning, Company gifts, and matching charitable contributions, physical examinations, and event tickets).

- Amounts reported for the personal use of corporate aircraft are based on the aggregate incremental cost to Exelon and are calculated using the hourly incremental cost for flight services, including federal excise taxes, fuel charges, and domestic segment fees. Exelon’s Board-approved policy on corporate aircraft usage includes spousal/domestic partner and other family member usage when appropriate. Associated costs for meals and other related amenities for spouse/domestic partners are covered when attendance at Company or industry-related events is customary. Exelon also provides fleet services of Company cars and driver services for NEOs and other officers enabling the performance of duties among the Company’s various offices and facilities. Certain NEOs are also entitled to limited personal use of the Company’s cars and drivers including commuting to work locations. Costs reported represent estimated incremental costs based upon driver wages multiplied by the average overtime rate for drivers plus an additional amount for fuel. Costs related to NEO personal use is typically imputed as additional taxable income. Amounts reported in this column for Mr. Crane include $62,389 for personal use of corporate aircraft, $50,089 for spousal travel and $13,067 for other transportation related benefits. Amounts reported for Mr. Von Hoene include $48,164 for personal use of corporate aircraft, $8,518 for spousal travel and $13,367 for other transportation related benefits. Amounts reported for Messrs. Thayer, Cornew and O’Brien include $7,943, $8,212, and $2,400 respectively, for all other transportation benefits.
- Benefits are provided to Messrs. Von Hoene, O’Brien, and Thayer, each of whom is subject to state public service commission requirements to maintain principal workplaces in the District of Columbia pursuant to regulatory order in 2016 related to obtaining approval of the acquisition of Pepco Holdings Inc. Pursuant to these legacy obligations, Exelon provides transportation and relocation/housing and living benefits. Amounts reported for Messrs. Thayer, Von Hoene and O’Brien include $64,793, $114,042 and $23,303 respectively for such benefits. Mr. Thayer’s expense was paid in 2018, however was incurred in 2017.
- Limited personal financial planning benefits are provided with usage values imputed as additional taxable income. Executive officers may request Company matching gifts to qualified charitable organizations in amounts up to $10,000, and up to $15,000 for Messrs. Thayer and Cornew under the Constellation legacy policy. Executive officers may use Company-provided vendors for comprehensive physical examinations and related medical testing. Tickets to sporting or other events may be provided with values imputed as additional taxable income.

(2) Exelon provides reimbursements of tax obligations incurred when: employees are required to work outside their state of home residence and encounter double taxation in states and localities where tax credits are not permitted in home state tax filings; business-related spousal travel involves personal benefits and income is imputed to the employee and for required relocation and housing/living expenses incurred in compliance with regulatory requirements. Pursuant to our obligations under the 2016 regulatory order set forth in Note 1 above, amounts reported for Messrs. Von Hoene and O’Brien include $89,633 and $18,409 respectively related to such benefits.

(3) Each of the NEOs participated in the Company’s 401(k) and Deferred Compensation Plans. The amounts represent the Company matching contributions to the NEOs’ accounts.

(4) Exelon provides basic term life insurance, accidental death and disability insurance, and long-term disability insurance to all employees, including NEOs. The values shown in this column include the premiums paid during 2017 for additional term life insurance policies for the NEOs and for additional long-term disability insurance over and above the basic coverage provided to all employees.

Grants of Plan-Based Awards

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (Note 1)			Estimated Possible Payouts Under Equity Incentive Plan Awards (Note 2)			All Other Stock Awards: Number of Shares or Units (#) (Note 3)	Grant Date Fair Value of Stock and Option Awards ($) (Note 4)
Name	Grant Date	Threshold ($)	Plan ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)		
Crane	1/30/2017	$ 61,474	$1,639,300	$3,278,600					
	1/30/2017				32,186	193,117	386,234		$ 6,766,820
	1/30/2017							95,118	3,332,935
Thayer	1/30/2017	28,781	767,505	1,535,010					
	1/30/2017				8,610	51,658	103,316		1,810,096
	1/30/2017							25,444	891,558
Von Hoene Jr.	1/30/2017	33,248	886,600	1,773,200					
	1/30/2017				9,308	55,849	111,698		1,956,949
	1/30/2017							27,508	963,880
Cornew	1/30/2017	33,135	883,600	1,767,200					
	1/30/2017				9,302	55,811	111,622		1,955,617
	1/30/2017							27,489	963,215
O'Brien	1/30/2017	29,380	783,465	1,566,930					
	1/30/2017				7,874	47,245	94,490		1,655,465
	1/30/2017							23,270	815,381

Notes to Grants of Plan-Based Awards Table

(1) All NEOs have annual incentive plan target opportunities based on a fixed percentage of their base salary. Under the terms of the AIP, threshold performance earns 50% of the respective target, while performance at plan earns 100% of the respective target and the maximum payout is capped at 200% of target. For additional information about the terms of these programs, see Compensation Discussion and Analysis above.

(2) NEOs have a long-term performance share unit target opportunity that is a fixed number of performance share units commensurate with the officer's position. The possible payout at threshold for performance share unit awards was calculated at 16.67% of target. The possible maximum payout for performance share units was calculated at 150% of target, with an uncapped total shareholder return multiplier, capped at 200% of target. For additional information about the terms of this program, see discussion starting on page 56.

(3) This column shows restricted stock unit awards made during the year. The vesting dates of the awards are provided in footnote 2 to the Outstanding Equity Table below.

(4) This column shows the grant date fair value, calculated in accordance with FASB ASC Topic 718, of the performance share unit awards and restricted stock units granted to each NEO during 2017. Fair value of performance share unit awards granted on January 30, 2017 are based on an estimated payout of 100% of target.

Outstanding Equity Awards at Year End

	Option Awards (Note 1)				Stock Awards			
Name	Number of Securities Underlying Unexercised Options That Are Exercisable (#)	Number of Securities Underlying Unexercised Options That Are Not Exercisable (#)	Option Exercise or Base Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Yet Vested (#) (Note 2)	Market Value of Shares or Units of Stock That Have Not Yet Vested Based on 12/31 Closing Price $39.41 ($) (Note 2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Yet Vested (#) (Note 3)	Equity Incentive Plan Awards: Market or Payout Value or Unearned Shares, Units or Other Rights That Have Not Yet Vested ($) (Note 3)
Crane	285,000	—	$ 39.21	2-Apr-2022	414,685	$16,342,736	884,526	$ 34,859,170
	94,000	—	43.40	24-Jan-2021				
	53,000	—	46.09	24-Jan-2020				
	49,000	—	56.51	26-Jan-2019				
	28,000	—	73.29	27-Jan-2018				
Thayer	97,000	—	39.81	12-Mar-2022	142,633	5,621,167	236,578	9,323,539
	175,946	—	39.24	24-Feb-2022				
	125,429	—	32.46	25-Feb-2021				
	67,304	—	37.71	26-Feb-2020				
	8,676	—	101.05	21-Feb-2018				
Von Hoene Jr.	88,000	—	39.81	12-Mar-2022	138,225	5,447,447	248,826	9,806,233
	67,000	—	43.40	24-Jan-2021				
	33,000	—	46.09	24-Jan-2020				
	25,200	—	56.51	26-Jan-2019				
	19,000	—	73.29	27-Jan-2018				
Cornew	70,000	—	39.81	12-Mar-2022	151,697	5,978,379	255,590	10,072,802
	26,000	—	43.40	24-Jan-2021				
	13,300	—	46.09	24-Jan-2020				
	14,900	—	56.51	26-Jan-2019				
	11,000	—	73.29	27-Jan-2018				
O'Brien	102,000	—	39.81	12-Mar-2022	102,998	4,059,151	216,356	8,526,590
	49,000	—	43.40	24-Jan-2021				
	27,000	—	46.09	24-Jan-2020				
	30,700	—	56.51	26-Jan-2019				
	22,000	—	73.29	27-Jan-2018				

Notes to Outstanding Equity Table

(1) Non-qualified stock options were granted to NEOs pursuant to the Company's long-term incentive plans. Awards vest in four equal increments, beginning on the first anniversary of the grant date. All awards expire on the tenth anniversary of the grant date. For Mr. Thayer, stock options granted prior to March 12, 2012 were granted under the Constellation Energy Group Inc. Long Term Incentive Plan and were converted into the equivalent right to receive Exelon common stock. The number of stock options received upon conversion is equal to the original number of Constellation stock options multiplied by the merger exchange ratio (0.93) and rounded down to the nearest whole share. The exercise price for each converted share is equal to the original Constellation exercise price divided by the exchange ratio (0.93), rounded up to the nearest whole cent.

(2) The amount shown includes unvested restricted stock unit (RSU) awards and the performance share unit (PShare) award earned for the performance period beginning January 1, 2015 and ending December 31, 2017, which vested on January 29, 2018. The unvested restricted stock unit awards are composed of the final third of the award made in January 2015, which vested on January 29, 2018; two-thirds of the award made in January 2016, half of which vested on January 29, 2018 and half of which will vest on the date of the Compensation Committee's first regular meeting in 2019; and the full award granted on January 30, 2017, one-third of which vested on January 29, 2018 and one-third of which will vest on the date of each of the Compensation Committee's first regular meetings in

2019 and 2020, respectively. All RSU awards accrue additional shares through automatic dividend reinvestment. For Mr. Thayer and Mr. Cornew, the amount shown also includes an award of 30,000 retention stock units granted on January 28, 2013 which vested on January 28, 2018. For Mr. Von Hoene, the amount shown also includes an award of 20,000 retention stock units granted on October 21, 2013 that will vest on October 21, 2018. All shares are valued at $39.41, the closing price on December 29, 2017.

(3) The amount shown includes the target PShare awards granted on January 26, 2016 for the performance period ending December 31, 2018 and the target PShare awards granted on January 30, 2017 for the performance period ending December 31, 2019. These awards have been increased to reflect the highest level of performance for the period, 200%. All shares are valued at $39.41, the closing price on December 29, 2017.

Option Exercises and Stock Vested

	Option Awards		Stock Awards (Note 1)	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
Crane	—	$ —	378,031	$13,246,197
Thayer	167,669	2,809,042	104,613	3,665,638
Von Hoene Jr.	—	—	99,549	3,488,202
Cornew	—	—	113,013	3,959,985
O'Brien	—	—	95,686	3,352,831

Notes to Option Exercises and Stock Vested Table

(1) Share amounts are composed of the following tranches of prior awards that vested on January 30, 2017: the PShare awards granted for the period January 1, 2014 through December 31, 2016; the final third of the RSU awards granted in January 2014, the second third of the RSU awards granted in January 2015 (including a supplemental grant made to Mr. Thayer in July 2014) and the first third of the RSU awards granted in January 2016. All of these awards were valued at $35.04 upon vesting.

Pension Benefits

Exelon sponsors the Exelon Corporation Retirement Program, a traditional defined benefit pension plan that covers certain management employees who commenced employment prior to January 1, 2001 and certain collective bargaining unit employees. The Exelon Corporation Retirement Program includes the Service Annuity System (SAS), which is the legacy ComEd pension plan. Effective January 1, 2001, Exelon also established two cash balance defined benefit pension plans to reduce future retirement benefit costs and provide an option that is portable as the Company anticipated a workforce that was more mobile than the traditional utility workforce. The cash balance defined benefit pension plans cover management employees and certain collective bargaining unit employees hired on or after such date, as well as certain management employees hired prior to such date who elected to participate in a cash balance plan. Legacy Constellation employees participate in the Pension Plan of Constellation Energy Group, Inc. (Constellation Pension Plan). The Constellation Pension Plan includes a traditional pension formula referred to as the Enhanced Traditional Plan (ETP) and a Pension Equity Plan (PEP). Employees hired before January 1, 2000 participate in the ETP. Employees hired on or after January 1, 2000 and employees hired before that date who elected to do so participate in the PEP. Each of these plans is intended to be tax-qualified under Section 401(a) of the Code. An employee can participate in only one of the qualified pension plans.

For NEOs participating in the SAS, the annuity benefit payable at normal retirement age is equal to the sum of 1.25% of the participant's earnings as of December 25, 1994, reduced by a portion of the participant's Social Security benefit as of that date, plus 1.6% of the participant's highest average annual pay, multiplied by the participant's years of credited service (up to a maximum of 40 years). Pension-eligible compensation for the SAS's Final Average Pay Formula includes base pay and annual incentive awards. Benefits under the SAS are vested after five years of service.

The "normal retirement age" under the SAS is 65. The plan also offers an early retirement benefit prior to age 65, which is payable if a participant retires after attainment of age 50 and completion of 10 years of service. The annual pension payable under the plan is determined as of the early retirement date, reduced by 2% for each year of payment before age 60 to age 58, then 3% for each year before age 58 to age 50. In addition, under the SAS, the early retirement benefit is supplemented prior to age 65 by a temporary payment equal to 80% of the participant's estimated monthly Social Security benefit. The supplemental benefit is partially offset by a reduction in the regular annuity benefit.

Under the cash balance pension plan, a notional account is established for each participant, and the account balance grows as a result of annual benefit credits and annual investment credits. (Employees who participated in the SAS prior to January 1, 2001 and elected to participate in the cash balance plan also have a frozen transferred benefit from the former plan, and received a "transition" credit based on their age, service and compensation at the time of transfer.) Beginning January 1, 2008, the annual benefit credit under the plan is 7% of base pay and annual incentive award and beginning January 1, 2013 for employees hired on or after such date, the annual benefit credit is equal to a percentage of base pay and annual incentive award which varies between 3% and 8%, based upon age. Beginning in 2017, the annual investment credit is the third segment spot rate of interest on long-term investment grade corporate bonds. The segment rate will be determined as of November of the year for which the cash balance account receives the investment credit. Cash balance participants with pre-2008 balances receive an additional benefit credit ranging from 0.5% to 3.5% based on their pre-2008 service. Also, beginning in 2017, account balances for employees hired prior to January 1, 2013 will be subject to a minimum investment credit of 4%. For employees hired on or after January 1, 2013, the annual investment credit is the second segment spot rate of interest on long-term corporate bonds, determined as of November of the year for which the cash balance account receives the investment credit, subject to a minimum annual investment credit rate of 3.8% and a maximum annual investment credit rate of 7%. Benefits are vested after three years of service, and are payable in an annuity or a lump sum at any time following termination of employment. Apart from the benefit credits and the vesting requirement, and as described above, years of service are not relevant to a determination of accrued benefits under the cash balance pension plans.

For NEOs who participate in the PEP, a lump sum benefit amount is computed based on covered earnings multiplied by a total credit percentage. Covered earnings are equal to the average of the highest three of the last five twelve-month periods' base pay plus annual incentive awards. The total service credit percentage is equal to the sum of the credit percentages based on the following formula: 5% per year of service through age 39, 10% per year of service from age 40 to age 49, and 15% per year of service after age 49. No benefits are available under the PEP until a participant has at least three years of vesting service. Benefits payable under the PEP are paid as an annuity unless a participant elects a lump sum within 60 days after separation.

The Code limits to $270,000 the individual 2017 annual compensation that may be taken into account under the tax-qualified retirement plan. As permitted by Employee Retirement Income Security Act, Exelon sponsors three supplemental executive retirement plans (or SERPs) that allow the payment to a select group of management or highly-compensated individuals out of its general assets of any benefits calculated under provisions of the applicable qualified pension plan which may be above these limits. The SERPs offer a lump sum as an optional form of payment, which includes the value of the marital annuity, death benefits and other early retirement subsidies at a designated interest rate. The interest rate applicable for distributions to participants in the SAS in 2017 is 3.11%. For participants in the cash balance pension plan and the PEP, the lump sum is the value of the non-qualified account balance. The values of the lump sum amounts do not include the value of any pension benefits covered under the qualified pension plans, and the methods and assumptions used to determine the non-qualified lump sum amount are different from the assumptions used to generate the present values shown in the tables of benefits to be received upon retirement, termination due to death or disability, involuntary separation not related to a change in control, or upon a qualifying termination following a change in control which appear later in this proxy statement.

Under the terms of the SERPs, participants are provided the amount of benefits they would have received under the SAS, cash balance plan, ETP or PEP, as applicable, but for the application of the Code limits. In addition, certain executives previously received grants of additional credited service under a SERP. In particular, in 1998, Mr. Crane received an additional 10 years of credited service through September 28, 2008, the date of his tenth anniversary, as part of his employment offer that provided one additional year of service credit for each year of employment to a maximum of 10 additional years.

As of January 1, 2004, Exelon does not grant additional years of credited service to executives under the SERP for any period in which services are not actually performed, except that up to two years of service credits may be provided upon a qualifying termination of employment under severance or change in control agreements first entered into after such date, and performance-based grants or grants which make up for lost pension benefits from another employer may be (but have not been) provided. Service credits previously available under employment, change in control or severance agreements or arrangements (or any successor arrangements) are not affected by this policy.

The amount of the change in the pension value for each of the NEOs is the amount included in the Summary Compensation Table above. The present value of each NEO's accumulated pension benefit is shown in the following tables. The present value for cash balance and PEP participants is the account balance. The assumptions used in estimating the present values for SAS participants include the following: pension benefits are assumed to begin at each participant's earliest unreduced retirement age; the SERP lump sum amounts are determined using the rate of 5% for SAS participants at the assumed retirement age; the lump sum amounts are discounted from the assumed retirement date at the applicable discount rates of 4.04% as of December 31, 2016 and 3.62% as of December 31, 2017; and the applicable mortality tables. The applicable mortality table is the RP 2000-based table projected generationally using Exelon's best estimate of long-term mortality improvements. The December 31, 2017 mortality table is consistent with the mortality used in the Exelon December 31, 2017 pension disclosure.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Crane [1]	SAS	19.26	$ 1,312,415	$ —
	SERP	29.26	16,757,102	—
Thayer	PEP	15.00	293,333	—
	SERP	15.00	1,608,131	—
Von Hoene Jr.	Cash Balance	15.93	418,264	—
	SERP	15.93	1,267,201	—
Cornew	Cash Balance	23.59	706,119	—
	SERP	23.59	1,194,380	—
O’Brien	Cash Balance	35.51	1,514,210	—
	SERP	35.51	2,034,833	—

(1) Based on discount rates prescribed by the SEC proxy disclosure guidelines, Mr. Crane’s non-qualified SERP present value is $16,757,102. Based on lump sum plan rates for immediate distributions under the non-qualified plan, the comparable lump sum amount applicable for service through December 31, 2017 is $22,976,599. Note that, in any event, payments made upon termination may be delayed by six months in accordance with U.S. Treasury Department guidance.

Deferred Compensation Programs

Exelon offers deferred compensation plans to permit the deferral of certain cash compensation to facilitate tax and retirement planning and satisfaction of stock ownership requirements for executives and key managers. Exelon maintains non-qualified deferred compensation plans that are open to certain highly-compensated employees, including the NEOs.

The Exelon Deferred Compensation Plan is a non-qualified plan that permits legacy Exelon executives and key managers to defer receipt of base compensation and the Company to credit related matching contributions that would have been contributed to the Exelon Corporation Employee Savings Plan (the Company’s tax-qualified 401(k) plan) but for the applicable limits under the Code. The Constellation Deferred Compensation Plan is a non-qualified plan that permits legacy Constellation executives to defer receipt of base compensation and the Company to credit related matching contributions that would have been contributed to the Exelon Corporation Employee Savings Plan. The Deferred Compensation Plans permit participants to defer taxation of a portion of their income. The Exelon Deferred Compensation Plan benefits the Company by deferring the payment of a portion of its compensation expense, thus preserving cash.

The Exelon Employee Savings Plan is intended to be tax-qualified under Sections 401(a) and 401(k) of the Code. The Constellation Energy Group Employee Savings Plan was merged into Exelon’s Employee Savings Plan as of July 1, 2014. Exelon maintains the Employee Savings Plan to attract and retain qualified employees, including the NEOs, and to encourage employees to save some percentage of their cash compensation for their eventual retirement. The Employee Savings Plan permits employees to do so, and allows the Company to make matching contributions in a relatively tax-efficient manner. The Company maintains the excess matching feature of the Deferred Compensation Plans to enable key management employees to save for their eventual retirement to the extent they otherwise would have were it not for the limits established by the IRS.

The Stock Deferral Plan is a non-qualified plan that permitted legacy Exelon executives to defer performance share units prior to 2007.

The following table shows the amounts that NEOs have accumulated under both the Deferred Compensation Plans and the Stock Deferral Plan. The Exelon Deferred Compensation and Stock Deferral Plans were closed to new deferrals of base pay (other than excess Employee Savings Plan deferrals), annual incentive payments or performance share unit awards in 2007, and participants were granted a one-time election to receive a distribution of their accumulated balance in each plan during 2007. Existing balances will continue to accrue dividends or other earnings until payout upon termination. Balances in the Deferred Compensation Plan will be settled in cash upon the termination event selected by the officer and will be distributed either in a lump sum, or in annual installments. Share balances in the Stock Deferral Plan continue to earn the same dividends that are available to all shareholders, which are reinvested as additional shares in the plan. Balances in the plan are distributed in shares of Exelon stock in a lump sum or installments upon termination of employment.

The Deferred Compensation Plans continue in effect for those officers who participate in the Employee Savings Plan and who reach their statutory contribution limit during the year. After this limit is reached, their elected payroll contributions and Company matching contribution will be credited to their accounts in the Deferred Compensation Plans. The investment options under the Deferred Compensation Plans consist of a basket of investment fund benchmarks substantially the same as those funds available through the Employee Savings Plan. Deferred amounts represent unfunded unsecured obligations of the Company.

Name	Executive Contributions in 2017 ($) (Note 1)	Registrant Contributions in 2017 ($) (Note 2)	Aggregate Earnings in 2017 ($) (Note 3)	Aggregate Withdrawals/ Distributions ($) (Note 4)	Aggregate Balance at 12/31/17 ($) (Note 4)
Crane	$ 106,700	$ 63,999	$ 195,133	$ —	$ 1,681,456
Thayer	—	—	—	—	—
Von Hoene Jr.	42,966	35,405	74,397	—	608,232
Cornew	28,887	35,107	68,855	—	479,474
O'Brien (5)	37,746	28,390	421,661	—	3,136,200

(1) The full amount shown for executive contributions is included in the base salary figures for each NEO shown above in the Summary Compensation Table.

(2) The full amount shown under registrant contributions is included in the Company contributions to savings plans for each NEO shown above in the All Other Compensation Table.

(3) The amount shown under aggregate earnings reflects the NEO's gain or loss based upon the individual allocation of his notional account balance into the basket of mutual fund benchmarks. These gains or losses do not represent current income to the NEO and have not been included in any of the compensation tables shown above.

(4) For all NEOs the aggregate balance shown includes those amounts, both executive contributions and registrant contributions, that have been disclosed either as base salary as described in Note 1 or as Company contributions under all other compensation as described in Note 2 for the current fiscal year ending December 31, 2017. For Mr. Crane, all executive and registrant contributions included in the aggregate balance have previously been disclosed in Summary Compensation Tables. Mr. Thayer did not participate in the plan during 2017.

(5) For Mr. O'Brien the amounts shown for aggregate earnings in 2017 and aggregate balance at December 31, 2017 also include the aggregate earnings and aggregate balance respectively of his Stock Deferral Plan account.

Potential Payments upon Termination or Change in Control

Change in control employment agreements and severance plan covering named executive officers

Background

The Compensation Committee reviews Exelon's change in control and severance benefits policies to ensure that they are consistent with competitive practice and reasonable. In reviewing the policies, the Compensation Committee considers the advice of its compensation consultant. The Exelon benefits currently include multiples of change in control benefits ranging from two times base salary and annual bonus for corporate and subsidiary vice presidents to 2.99 times base salary and annual bonus for the CEO, executive vice presidents, presidents of certain business units and select senior vice presidents. In April 2009, the Compensation Committee adopted a policy that Exelon would not include excise tax gross-up payment provisions in senior executive employment, change in control, or severance plans, programs or agreements that are entered into, adopted or materially amended on or after April 2, 2009 (other than renewals of existing arrangements that are not materially amended or arrangements assumed pursuant to a corporate transaction). In October 2016, the NEOs covered by change in control agreements entered into prior to April 2, 2009, which provided for potential excise tax gross-up payments, agreed to waive those payments and the agreements were later amended to remove such gross-up payments. Therefore, no NEO is currently entitled to an excise tax gross-up payment upon any termination of employment from Exelon.

NEOs have entered into individual change in control employment agreements, which generally protect such executives' position and compensation levels for two years after a change in control of Exelon. The agreements are initially effective for a period of two years, and provide for a one-year extension each year thereafter until cancellation or termination of employment.

Quantification of Payments upon a Change in Control

During the 24-month period following a change in control, or, during the 18-month period following another significant corporate transaction affecting the executive's business unit in which Exelon shareholders retain between 60% and 66⅔% control (a significant acquisition), if a NEO resigns for good reason or if the executive's employment is terminated by Exelon other than for cause or disability, the executive is entitled to the following:

- the executive's annual incentive and PShare awards for the year in which termination occurs;
- severance payments equal to 2.99 times the sum of (1) the executive's base salary plus (2) the higher of the executive's target annual incentive for the year of termination or the executive's average annual incentive award payments for the two years preceding the termination, but not more than the annual incentive for the year of termination based on actual performance before the application of negative discretion;
- a benefit equal to the amount payable under the SERP determined as if (1) the SERP benefit were fully vested, (2) the executive had 2.99 additional years of age and years of service (2.0 years for executives who first entered into such agreements after 2003 or do not have such agreements) and (3) the severance pay constituted covered compensation for purposes of the SERP;
- a benefit equal to the actuarial equivalent present value of any non-vested accrued benefit under Exelon's qualified defined benefit retirement plan;
- all previously-awarded stock options, PShares, RSUs, or restricted shares become fully vested, and the stock options remain exercisable until the earlier of the fifth anniversary of the executive's termination date or the option's expiration date;
- life, disability, accident, health and other welfare benefit coverage continues during the severance pay period on the same terms and conditions applicable to active employees, followed by retiree health coverage if the executive has attained at least age 50 and completed at least 10 years of service (or any lesser eligibility requirement then in effect for regular employees); and
- outplacement and financial planning services for at least 12 months.

The change in control benefits are also provided if the executive is terminated other than for cause or disability, or terminates for good reason (1) after a tender offer or proxy contest commences, or after Exelon enters into an agreement which, if consummated, would cause a change in control, and within one year after such termination a change in control does occur, or (2) within two years after a sale or spin-off of the executive's business unit in contemplation of a change in control that actually occurs within 60 days after such sale or spin-off (a disaggregation).

A change in control under the individual change in control employment agreements generally occurs:

- when any person acquires 20% of Exelon's voting securities;
- when the incumbent members of the Exelon Board (or new members nominated by a majority of incumbent Directors) cease to constitute at least a majority of the members of the Exelon Board;
- upon consummation of a reorganization, merger or consolidation, or sale or other disposition of at least 50% of Exelon's operating assets (excluding a transaction where Exelon shareholders retain at least 60% of the voting power); or
- upon shareholder approval of a plan of complete liquidation or dissolution.

The term good reason under the individual change in control employment agreements generally includes any of the following occurring within two years after a change in control or disaggregation or within 18 months after a significant acquisition:

- a material reduction in salary, incentive compensation opportunity or aggregate benefits, unless such reduction is part of a policy, program or arrangement applicable to peer executives;
- failure of a successor to assume the agreement;
- a material breach of the agreement by Exelon; or
- any of the following, but only after a change in control or disaggregation: (1) a material adverse reduction in the executive's position, duties or responsibilities (other than a change in the position or level of officer to whom the executive reports or a change that is part of a policy, program or arrangement applicable to peer executives) or (2) a required relocation by more than 50 miles.

The term cause under the change in control employment agreements generally includes any of the following:

- refusal to perform or habitual neglect in the performance of duties or responsibilities or of specific directives of the officer to whom the executive reports which are not materially inconsistent with the scope and nature of the executive’s duties and responsibilities;
- willful or reckless commission of acts or omissions which have resulted in or are likely to result in a material loss or material damage to the reputation of Exelon or any of its affiliates, or that compromise the safety of any employee;
- commission of a felony or any crime involving dishonesty or moral turpitude;
- material violation of the code of business conduct, or of any statutory or common-law duty of loyalty; or
- any breach of the executive’s restrictive covenants.

If the amount payable to a NEO under a change in control agreement, inclusive of other parachute payments, would cause an excise tax to be imposed under Section 4999 of the Code, the payments to such executive shall be reduced to the maximum amount below which no such tax is imposed or, if the payment without such reduction would leave the executive with a greater amount after payment of such excise taxes, then no such reduction shall be applied.

If a NEO resigns for good reason or is terminated by Exelon other than for cause or disability, in each case under circumstances not involving a change in control or similar provision described above, the NEO may be eligible for the following non-change in control benefits under the Exelon Corporation Senior Management Severance Plan:

- prorated payment of the executive’s annual incentive and performance share unit awards for the year in which termination occurs;
- for a 24 month severance period, continued payment of an amount representing base salary and target annual incentive;
- a benefit equal to the amount payable under the SERP determined as if the severance payments were paid as ordinary base salary and annual incentive;
- during the severance period, continuation of health, basic life and other welfare benefits the executive was receiving immediately prior to the severance period on the same terms and conditions applicable to active employees, followed by retiree health coverage if the executive has attained at least age 50 and completed at least 10 years of service (or any lesser eligibility requirement then in effect for non-executive employees); and
- outplacement and financial planning services for twelve months.

Payments under the Senior Management Severance Plan are subject to reduction by Exelon to the extent necessary to avoid imposition of excise taxes imposed by Section 4999 of the Internal Revenue Code on excess parachute payments or under similar state or local law.

The term good reason under the Senior Management Severance Plan means either of the following:

- a material reduction of the executive’s salary (or, with respect to a change in control, incentive compensation opportunity or aggregate benefits) unless such reduction is part of a policy, program or arrangement applicable to peer executives of Exelon or of the business unit that employs the executive; or
- a material adverse reduction in the executive’s position or duties (other than a change in the position or level of officer to whom the executive reports) that is not applicable to peer executives of Exelon or of the executive’s business unit, but excluding under the non-change in control provisions of the plan any change (1) resulting from a reorganization or realignment of all or a significant portion of the business, operations or senior management of Exelon or of the executive’s business unit or (2) that generally places the executive in substantially the same level of responsibility.

The term cause under the Senior Management Severance Plan generally has the same meaning as the definition of such term under the individual change in control employment agreements.

Benefits under the change in control employment agreements and the Senior Management Severance Plan are subject to termination upon an executive’s violation of his or her restrictive covenants, and incentive payments under the agreements and the plan may be subject to the recoupment policy adopted by the Board of Directors.

Estimated Value of Benefits to be Received Upon Retirement

The following table shows the estimated value of payments and other benefits to be conferred upon the NEOs assuming they retired as of December 31, 2017. These payments and benefits are in addition to the present value of the accumulated benefits from each NEO's qualified and non-qualified pension plans shown in the tables within the Pension Benefit section and the aggregate balance due to each NEO that is shown in the tables within the Deferred Compensation section.

Name	Cash Payment ($) (Note 1)	Value of Unvested Equity Awards ($) (Note 2)	Total Value of All Payments and Benefits ($) (Note 3)
Crane	$1,586,000	$32,992,000	$34,578,000
Thayer	—	—	—
Von Hoene Jr.	858,000	9,327,000	10,185,000
Cornew	855,000	—	855,000
O'Brien	758,000	8,127,000	8,885,000

Notes to Benefits to be Received Upon Retirement Table

(1) Under the terms of the 2017 AIP, a pro-rated actual incentive award is payable upon retirement based on the number of days worked during the year of retirement. The amount above represents the executive's 2017 annual incentive payout (after Company/business unit performance was determined).
(2) Includes the value of the executives' unvested PShare awards granted in 2015, 2016, and 2017 assuming target performance and the accelerated portion of the executives' RSU awards that, per applicable awards agreements, would vest upon retirement. The value of the shares is based on Exelon's closing stock price on December 29, 2017 of $39.41.
(3) The estimate of total payments and benefits is based on a December 31, 2017 retirement date.

Estimated Value of Benefits to be Received Upon Termination due to Death or Disability

The following table shows the estimated value of payments and other benefits to be conferred upon the NEOs assuming their employment is terminated due to death or disability as of December 31, 2017. These payments and benefits are in addition to the present value of the accumulated benefits from the NEO's qualified and non-qualified pension plans shown in the tables within the Pension Benefit section and the aggregate balance due to each NEO that is shown in tables within the Deferred Compensation section.

Name	Cash Payment ($) (Note 1)	Value of Unvested Equity Awards ($) (Note 2)	Total Value of All Payments and Benefits ($) (Note 3)
Crane	$1,586,000	$32,992,000	$34,578,000
Thayer	742,000	10,068,000	10,810,000
Von Hoene Jr.	858,000	10,115,000	10,973,000
Cornew	855,000	10,782,000	11,637,000
O'Brien	758,000	8,127,000	8,885,000

Notes to Benefits to be Received Upon Termination due to Death or Disability Table

(1) Under the terms of the 2017 AIP, a pro-rated actual incentive award is payable upon death or disability based on the number of days worked during the year of termination. The amount above represents the executives' 2017 annual incentive payout (after Company/business unit performance was determined).
(2) Includes the value of the executives' unvested PShare awards granted in 2015, 2016, and 2017 assuming target performance and the accelerated portion of the executives' RSU awards that, per applicable awards agreements, would vest upon death or disability. The value of the shares is based on Exelon's closing stock price on December 29, 2017 of $39.41.
(3) The estimate of total payments and benefits is based on a December 31, 2017 termination due to death or disability.

Estimated Value of Benefits to be Received Upon Involuntary Separation Not Related to a Change in Control

The following table shows the estimated value of payments and other benefits to be conferred upon the NEOs assuming they were terminated as of December 31, 2017 under the terms of the Amended and Restated Senior Management Severance Plan. These payments and benefits are in addition to the present value of the accumulated benefits from the NEO's qualified and non-qualified pension plans shown in the tables within the Pension Benefit section and the aggregate balance due to each NEO that is shown in the tables within the Deferred Compensation section.

Name	Cash Payment ($) (Note 1)	Retirement Benefit Enhancement ($) (Note 2)	Value of Unvested Equity Awards ($) (Note 3)	Health and Welfare Benefit Continuation ($) (Note 4)	Perquisites And Other Benefits ($) (Note 5)	Total Value of All Payments and Benefits ($) (Note 6)
Crane	$7,387,000	$2,043,000	$32,992,000	$ 118,000	$ 40,000	$ 42,580,000
Thayer	3,893,000	346,000	10,050,000	32,000	40,000	14,361,000
Von Hoene Jr.	4,404,000	284,000	9,988,000	35,000	40,000	14,751,000
Cornew	4,389,000	336,000	10,764,000	39,000	40,000	15,568,000
O'Brien	3,974,000	322,000	8,127,000	74,000	40,000	12,537,000

Notes to Benefits to be Received Upon Involuntary Separation Not Related to a CIC Table

(1) Represents the estimated severance benefit equal to 2 times the sum of the executive's (i) current base salary and (ii) the target annual incentive for the year of termination. In addition, under Section 4.2 of the Senior Management Severance Plan, a pro-rated annual incentive award is payable upon involuntary separation or qualifying voluntary separation based on the days worked during the year of termination pursuant to the terms in the 2017 AIP. The amount above represents the executives' 2017 annual incentive payout (after Company/business unit performance was determined and negative discretion was applied).

(2) Represents the estimated retirement benefit enhancement that consists of a one-time lump sum payment based on the actuarial present value of a benefit under the non-qualified pension plan assuming that the severance pay period was taken into account for purposes of vesting, and the severance pay constituted covered compensation for purposes of the non-qualified pension plan.

(3) Includes the value of the executives' unvested PShare awards granted in 2015, 2016, and 2017 assuming target performance and the accelerated portion of the executives' RSU awards that, per applicable awards agreements, would vest upon an involuntary separation not related to a change of control. The value of the shares is based on Exelon's closing stock price on December 29, 2017 of $39.41.

(4) Estimated costs of healthcare, life insurance, and long-term disability coverage which continue during the severance period.

(5) Estimated costs of outplacement and financial planning services for up to 12 months for all NEOs.

(6) The estimate of total payments and benefits is based on a December 31, 2017 termination date. The executives are participants in the Senior Management Severance Plan and severance benefits are determined pursuant to Section 4 of the Severance Plan.

Estimated Value of Benefits to be Received Upon a Qualifying Termination following a Change in Control

The following table shows the estimated value of payments and other benefits to be conferred upon the NEOs assuming they were terminated upon a qualifying change in control as of December 31, 2017. The Company has entered into Change in Control agreements with each NEO. These payments and benefits are in addition to the present value of accumulated benefits from the NEO's qualified and non-qualified pension plans shown in the tables within the Pension Benefit section and the aggregate balance due to each NEO that is shown in tables within the Deferred Compensation section.

Name	Cash Payment ($) (Note 1)	Retirement Benefit Enhancement ($) (Note 2)	Value of Unvested Equity Awards ($) (Note 3)	Health and Welfare Benefit Continuation ($) (Note 4)	Perquisites and Other Benefits ($) (Note 5)	Potential Scaleback ($) (Note 6)	Total Value of All Payments and Benefits ($) (Note 7)
Crane	$ 10,959,000	$ 3,297,000	$ 32,992,000	$ 177,000	$40,000	Not required	$ 47,465,000
Thayer	6,201,000	486,000	10,068,000	48,000	40,000	Not required	16,843,000
Von Hoene Jr.	6,638,000	460,000	10,115,000	52,000	40,000	Not required	17,305,000
Cornew	7,000,000	581,000	10,782,000	58,000	40,000	Not required	18,461,000
O'Brien	6,406,000	376,000	8,127,000	111,000	40,000	Not required	15,060,000

Notes to Benefits to be Received Upon a Qualifying Termination following a CIC Table

(1) Represents the estimated cash severance benefit equal to 2.99 times the sum of the executive's (i) current base salary and (ii) Severance Incentive. Also, this amount includes an additional payment for Mr. O'Brien of $35,000. Under Section 4.1(a)(ii) of the CIC Employment Agreement, the executive's target incentive award is payable upon termination (but capped at actual performance). The amounts above represent the executives' 2017 target annual incentive.

(2) Represents the estimated retirement benefit enhancement that consists of a one-time lump sum payment based on the actuarial present value of a benefit under the non-qualified pension plan assuming that the severance pay period was taken into account for purposes of vesting, and the severance pay constituted covered compensation for purposes of the non-qualified pension plan.

(3) Includes the value of the executives' unvested PShares, all of which will vest upon termination at the actual level earned and awarded (it is assumed the 2015, 2016, and 2017 PShares are earned at target) and the accelerated portion of the executives' RSUs that would vest upon a qualifying termination following a change in control. The value of the shares is based on Exelon's closing stock price on December 29, 2017 of $39.41.

(4) Estimated costs of healthcare, life insurance and long-term disability coverage which continue during the severance period.

(5) Estimated costs of outplacement and financial planning services for up to 12 months for all NEOs.

(6) In 2009, the Compensation Committee adopted a policy that no future employment or severance agreements will provide for an excise tax gross-up payment. In 2016, the Compensation Committee also removed the excise tax gross-up payment from all existing agreements.

(7) The estimate of total payments and benefits is based on a December 31, 2017 termination date. The Company has entered into change in control employment agreement with all of the executives.

CEO Pay Ratio

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act and SEC rules, we are providing the following information about the relationship of annual total compensation, calculated pursuant to SEC rules, of our median employee and our CEO, Christopher M. Crane. For 2017, the ratio of annual total compensation of our CEO and the median of the annual total compensation of all employees was 127:1, demonstrating Exelon's commitment to balance equitable compensation stewardship with competitively based compensation that drives and rewards performance. The total annual compensation for Mr. Crane and the median employee is $14,857,859 and $117,176, respectively.

On December 8, 2017, our employee population consisted of approximately 34,972 individuals (excluding the CEO), which includes two employees based in the United Kingdom and eight employees based in Canada. We have chosen to exclude these ten employees as permitted under SEC rules from our determination of the "median employee," given the small number of our non-US based employees. The consistently applied compensation measure we used to identify the median employee was W-2 Box 1 wages for employees as of December 8, 2017. After identifying the median employee, the annual total compensation for the median employee was calculated using the same methodology used in compiling the Summary Compensation Table found on page 63 in this proxy statement for our NEOs. This ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K. We believe the methodology, assumptions, and estimates used in determining the ratio are reasonable given our specific employee population.

Because SEC rules provide flexibility in determining the methodology, assumptions, and estimates used to determine pay ratios and the fact that workforce composition issues differ significantly between companies, comparability of pay ratios amongst companies may be limited.

Ownership of Exelon Stock

Beneficial Ownership Table

The following table shows the ownership of Exelon common stock as of January 31, 2018 by each Director, each NEO in the Summary Compensation Table, and for all Directors and executive officers as a group.

Name of Beneficial Owner	Beneficial Ownership of Exelon Common Stock (Note 1)	Common Shares Underlying Vested Stock Options and Options that Vest Within 60 Days	Total Share Interest (Note 2)
Anthony K. Anderson	17,982	—	17,982
Ann C. Berzin	70,654	—	70,654
Yves, C. de Balmann	61,656	—	61,656
Nicholas DeBenedictis	50,929	—	50,929
Nancy L. Gioia	7,237	—	7,237
Linda P. Jojo	8,810	—	8,810
Paul L. Joskow	42,673	—	42,673
Robert J. Lawless	87,715	—	87,715
Richard W. Mies	30,945	—	30,945
John W. Rogers, Jr.	86,072	—	86,072
Mayo A. Shattuck III	297,447	—	297,447
Stephen D. Steinour	79,265	—	79,265
Christopher M. Crane	580,478	509,000	1,089,478
Jonathan W. Thayer	122,635	474,355	596,990
Kenneth W. Cornew	122,048	135,200	257,248
William A. Von Hoene, Jr.	212,280	232,200	444,480
Denis P. O'Brien	151,168	230,700	381,868
Total Directors & Executive Officers as a group (23 people) (Note 3)	2,465,444	2,002,046	4,467,490

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(1) Includes any shares as to which the individual has sole or shared voting power or investment power, Directors' deferred stock units, officers' RSUs and deferred shares held in the Stock Deferral Plan, and Directors' and officers' phantom shares held in a non-qualified deferred compensation plan which will be settled in cash on a 1 for 1 basis upon retirement or termination.

(2) Total share interest of Directors and executive officers, both individually and as a group, represents less than 1% of the outstanding shares of Exelon common stock.

(3) Total includes shares held by all Directors and NEOs as well as those executive officers listed in Item 1, Executive Officers of the Registrants in Exelon's 2017 Annual Report on Form 10-K filed on February 9, 2018, who are not NEOs for purposes of compensation disclosure.

Other Significant Owners of Exelon Stock

Shown in the table below are those owners who are known to Exelon to hold more than 5% of the outstanding common stock. This information is based on the most recent Schedule 13Gs filed with the SEC by The Vanguard Group on February 7, 2018, BlackRock, Inc. on January 24, 2018, FMR LLC on February 13, 2018, and State Street Corporation on February 14, 2018.

Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
The Vanguard Group (1) 100 Vanguard Blvd. Malvern, PA 19355	71,031,537	7.4 %
BlackRock, Inc. (2) 55 East 52 nd Street New York, NY 10055	70,837,596	7.4 %
FMR LLC (3) 245 Summer Street Boston, MA 02210	60,345,047	6.3%
State Street Corporation (4) State Street Financial Center One Lincoln Street Boston, MA 02111	57,252,056	6.0%

(1) The Vanguard Group disclosed in its Schedule 13G/A that it has sole power to vote or direct the vote of 1,352,693 shares, shared voting power over 217,759 shares, sole power to dispose or direct the disposition of 69,506,982 shares, and shared dispositive power over 1,524,555 shares.

(2) BlackRock, Inc. disclosed in its Schedule 13G/A that it has sole power to vote or to direct the vote of 61,565,341 shares and sole power to dispose or direct the disposition of 70,837,597 shares.

(3) FMR LLC disclosed in its Schedule 13G/A that it has sole power to vote or direct the vote of 7,478,149 shares and sole power to dispose or direct the disposal of 60,345,047 shares.

(4) State Street Corporation disclosed in its Schedule 13G that it has shared voting power over 48,517,010 shares and shared dispositive power over 57,252,056 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon signed affirmations received from Directors and officers, as well as administrative review of Company plans and accounts administered by private brokers on behalf of Directors and officers, Exelon believes that its Directors and officers made all required Section 16 filings on a timely basis during 2017.

Additional Information

Shareholder Proposals

If you wish to submit a proposal for possible inclusion in next year's proxy statement, you must submit it in writing to the Corporate Secretary, Exelon Corporation, 10 South Dearborn Street, P.O. Box 805398, Chicago, Illinois 60680-5398. Exelon must receive your proposal on or before November 21, 2018. Exelon will consider only proposals meeting the requirements of the applicable rules of the Securities and Exchange Commission. Under our bylaws, the proposal must also disclose fully all ownership interests the proponent has in Exelon and contain a representation as to whether the shareholder has any intention of delivering a proxy statement to the other shareholders of Exelon.

We strongly encourage any shareholder interested in submitting a proposal to contact our Corporate Secretary in advance of this deadline to discuss the proposal, and shareholders may want to consult knowledgeable counsel with regard to the detailed requirements of applicable securities laws. Submitting a shareholder proposal does not guarantee that we will include it in our proxy statement. Our Corporate Governance Committee reviews all shareholder proposals and makes recommendations to the Board for action on such proposals.

Additionally, under our bylaws, for a shareholder to bring any matter before the 2019 annual meeting that is not included in the 2018 proxy statement, the shareholder's written notice must be received by the Corporate Secretary not less than 120 days prior to the first anniversary of the mailing date of this proxy statement, which will be November 21, 2018.

Director Nominations

A shareholder who wishes to recommend a candidate (including a self-nomination) to be considered by the Corporate Governance Committee for nomination as a Director must submit the recommendation in writing to the Chair of the Corporate Governance Committee, c/o Thomas S. O'Neill, Senior Vice President, General Counsel and Corporate Secretary, Exelon Corporation, 10 South Dearborn Street, P.O. Box 805398, Chicago, Illinois 60680-5398. The Corporate Governance Committee will consider all recommended candidates and self-nominees when making its recommendation to the full Board of Directors to nominate a slate of Directors for election.

- **Nominations for 2018.** Under the Exelon's bylaws, the deadline has passed for a shareholder to nominate a candidate (or nominate himself or herself) for election to the Board at the 2018 annual meeting.
- **Nominations for 2019.** There are several ways a shareholder may nominate a candidate for election as a Director or to stand for election at the 2019 annual meeting. As noted above, a shareholder may submit a recommendation to the Corporate Governance Committee, which will consider the nomination when making recommendations to the Board for nominations for Director.

A shareholder may also use one of two alternative provisions of Exelon's bylaws to nominate a candidate for election as a Director. Under one provision of the bylaws currently in effect, a shareholder must comply with the following: (1) notice of the proposed nomination must be received by Exelon no later than November 21, 2018; (2) the notice must include information required under the bylaws, including: (a) information about the nominating shareholder, (b) information about the candidate that would be required to be included in a proxy statement under the rules of the SEC, (c) a representation as to whether the shareholder intends to deliver a proxy statement to the other shareholders of Exelon, and (d) the signed consent of the candidate to serve as a Director of Exelon, if elected. Under this procedure, any shareholder can nominate any number of candidates for director for election at the annual meeting, but the shareholder's nominees will not be included in Exelon's proxy statement or form of proxy for the meeting.

A shareholder who meets criteria in the Exelon bylaws may also nominate a limited number of candidates for election as Directors through provisions commonly referred to as "proxy access." Subject to the requirements set forth in the bylaws, any shareholder or group of up to 20 shareholders holding both investment and voting rights with respect to at least 3% of Exelon's outstanding common stock continuously for at least 3 years may nominate up to 20% of the Exelon Directors to be elected (2 Directors on Exelon's current Board of 13 Directors). The nominating shareholder(s) must comply with the following, among other detailed requirements specified in the bylaws: (1) notice of the proposed nomination and other required information must be received by Exelon no earlier than October 22, 2018 and no later than November 21, 2018; (2) the notice must include information required under the Bylaws, including: (a) information about the nominating shareholder(s), (b) information about the candidate(s) including information that would be required to be included in a proxy statement under the rules of the SEC, and (c) the signed consent of each candidate to serve as a Director of Exelon, if elected. Under this procedure, the shareholder's nominees will be included in the Exelon proxy statement and the form of proxy for the meeting.

A shareholder who wishes to submit a nomination is encouraged to seek the advice of legal counsel regarding the requirements of the SEC and Exelon's bylaws. Exelon will not consider any proposal or nomination that does not comply with the requirements of the SEC and Exelon's bylaws.

Exelon's bylaws are amended from time to time. Please review the bylaws posted on our website to determine if any changes to the nomination process or requirements have been made.

Availability of Corporate Documents

The Exelon Corporate Governance Principles, the Exelon Code of Business Conduct, the Exelon Amended and Restated bylaws, and the charters for the Audit, Corporate Governance, Compensation and Leadership Development and other Committees of the Board of Directors are available on the Exelon website at www.exeloncorp.com , on the Governance page under the Investors tab. Copies may be printed from the Exelon website and copies are available without charge to any shareholder who requests them by writing to Thomas S. O'Neill, Senior Vice President, General Counsel and Corporate Secretary, Exelon Corporation, 10 South Dearborn Street, P.O. Box 805398, Chicago, Illinois 60680-5398. In addition, our Articles of Incorporation, Compensation Consultant Independence Policy, Political Contributions Guidelines, biographical information concerning each Director, and all of our filings submitted to the SEC are available on our website. Access to this information is free of charge to any user with internet access. Information contained on our website is not part of this proxy statement.

Frequently Asked Questions

Can I access the Notice of Annual Meeting and Proxy Statement and the 2017 Financial Report on the Internet?

As permitted by SEC rules, we are making this proxy statement and our annual report available to shareholders electronically via the internet at www.proxyvote.com . On March 21, 2018, we began mailing to our shareholders a notice containing instructions on how to access this proxy statement and our annual report and how to vote online. If you received that notice, you will not receive a printed copy of the proxy materials unless you request it by following the instructions for requesting such materials contained on the notice.

In addition, shareholders may request to receive proxy materials in printed form or electronically by email on an ongoing basis. Exelon encourages shareholders to take advantage of the availability of the proxy materials on the internet in order to save Exelon the cost of producing and mailing documents to you, reduce the amount of mail you receive and help preserve resources.

Shareholders of record: If you vote on the internet at www.proxyvote.com , simply follow the prompts for enrolling in the electronic delivery service.

Beneficial owners: You also may be able to receive copies of these documents electronically. Please check the information provided in the proxy materials sent to you by your bank, broker or other holder of record regarding the availability of this service.

Do I need a ticket to attend the Annual Meeting?

You will need an admission ticket or proof of ownership to enter the annual meeting.

If you are a shareholder of record, the bottom half of your proxy card will serve as your admission ticket.

If your shares are held in the name of a bank, broker, or other holder of record and you plan to attend the meeting, you must present proof of your ownership of Exelon stock as you enter the meeting, such as a bank or brokerage account statement. If you would rather have an admission ticket, you can obtain one in advance by mailing a written request, along with proof of your ownership of Exelon stock, to:

> Annual Meeting Admission Tickets c/o Thomas S. O'Neill, Senior Vice President, General Counsel and Corporate Secretary, Exelon Corporation, 10 South Dearborn Street, P.O. Box 805398 Chicago, Illinois 60680-5398.

Shareholders also must present a form of personal photo identification in order to be admitted into the meeting.

No cameras, audio or video recording equipment, similar electronic devices, large bags, briefcases or packages will be permitted into the meeting or adjacent areas. Cell phones and similar wireless communication devices will be permitted in the meeting only if turned off. All items brought into the meeting will be subject to search.

Who is entitled to vote at the Annual Meeting?

Holders of Exelon common stock as of 5:00 p.m. New York Time on March 2, 2018 are entitled to receive notice of the annual meeting and to vote their shares at the meeting. As of that date, there were 964,986,919 shares of common stock outstanding and entitled to vote. Each share of common stock is entitled to one vote on each matter properly brought before the meeting.

What is the difference between holding shares as a shareholder of record and as a beneficial owner?

If your shares are registered directly in your name with Exelon's transfer agent, EQ (formerly Wells Fargo Shareowner Services), you are the "shareholder of record" of those shares. This Notice of Annual Meeting and Proxy Statement and accompanying documents have been provided directly to you by Exelon.

If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the "beneficial owner" of those shares. This Notice of Annual Meeting and Proxy Statement and the accompanying documents have been forwarded to you by your broker, bank or other holder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote your shares by using the voting instruction card or by following their instructions for voting by telephone or on the internet.

How do I vote?

Your vote is important. We encourage you to vote promptly. Internet and telephone voting are available through 11:59 p.m. Eastern Time on April 30, 2018. You may vote in the following ways:

By Internet

If you have internet access, you may vote by internet. You will need the control number included on your proxy card or voting instruction form (VIF), as applicable. You may vote in a secure manner at www.proxyvote.com 24 hours a day. You will be able to confirm that the system has properly recorded your votes, and you do not need to return your proxy card or VIF.

By Telephone

If you are located in the United States or Canada, you can vote by calling the toll-free telephone number (1-800-690-6903) and following the recorded instructions. You will need the control number included on your Notice Regarding the Availability of Proxy Materials, proxy card or VIF, as applicable. You may vote by telephone 24 hours a day. The telephone voting system has easy-to-follow instructions and allows you to confirm that the system has properly recorded your votes. If you vote by telephone, you do not need to return your proxy card or your VIF.

By Mail

If you are a holder of record and received a full paper set of materials, you can vote by marking, dating and signing your proxy card and returning it by mail in the postage-paid envelope provided. If you are a beneficial holder of shares held of record by a bank or broker or other street name, please complete and mail the VIF provided by the holder of record.

At the Annual Meeting

If you are a shareholder of record and attend the annual meeting in person, you may use a ballot provided at the meeting to cast your vote. If you are a beneficial owner, you will need to have a legal proxy from your broker, bank or other holder of record in order to vote by ballot at the meeting.

May I revoke a proxy?

Yes. You may revoke a proxy at any time before the proxy is exercised by filing with the Corporate Secretary a notice of revocation, or by submitting a later-dated proxy by mail, telephone or electronically through the Internet. You may also revoke your proxy by attending the annual meeting and voting in person.

What is householding and how does it affect me?

Exelon has adopted a procedure approved by the SEC called “householding.” Under this procedure, shareholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of this Notice of Annual Meeting and Proxy Statement and the 2017 Annual Report, unless we are notified that one or more of these shareholders wishes to continue receiving individual copies. This procedure will reduce our printing costs and postage fees. Shareholders who receive proxy materials in paper form will continue to receive separate proxy cards/voting instruction forms to vote their shares. Shareholders who receive the Notice of Internet Availability of Proxy Materials will receive instructions on submitting their proxy cards/voting instruction form via the internet.

If you would like to change your householding election, request that a single copy of the proxy materials be sent to your address, or request a separate copy of the proxy materials, please contact our distribution agent, Broadridge Financial Solutions, by calling (800) 542-1061 or by writing to Broadridge Householding Department, 51 Mercedes Way, Edgewood, NY 11717. We will promptly deliver the proxy materials to you upon receipt of your request. If you hold your shares in street name, please contact your bank, broker, or other record holder to request information about householding.

If you receive more than one proxy card/voting instruction form, your shares probably are registered in more than one account or you may hold shares both as a registered shareholder and through the Exelon 401(k) Savings Plan. You should vote each proxy card/voting instruction form you receive.

What are the voting requirements to elect the Directors and to approve each of the proposals discussed in the Proxy Statement?

The presence of the holders of a majority of the outstanding shares of common stock entitled to vote at the annual meeting, in person or represented by proxy, is necessary to constitute a quorum.

Election of Directors: Majority Vote Policy

Under our bylaws, Directors must be elected by a majority of votes cast in uncontested elections. This means that the number of votes cast "for" a Director nominee must exceed the number of votes cast "against" the nominee. An abstention will have no effect on the outcome of the vote because an abstention does not count as a vote cast. In contested elections, the vote standard would be a plurality of votes cast, in which case a withhold vote would have no effect on the vote's outcome. In either case, broker non-votes will have no effect on the outcome of the vote because they are not considered votes cast.

Our bylaws provide that, in an uncontested election, each Director nominee must submit to the Board before the annual meeting a letter of resignation that becomes effective only if the Director fails to receive a majority of the votes cast at the annual meeting. The resignation of a Director nominee who is not an incumbent Director is automatically accepted by the Board. The resignation of an incumbent Director is tendered to the independent Directors of the Board for a determination of whether or not to accept the resignation. The Board's decision and the basis for the decision would be disclosed within 90 days following the certification of the final vote results.

Ratification of PricewaterhouseCoopers as Independent Auditor

The appointment of PricewaterhouseCoopers LLP (PwC) as Exelon Corporation's independent auditor requires an affirmative vote of a majority of shares of common stock represented at the annual meeting and entitled to vote thereon in order to be adopted. An abstention will have the effect of a vote "against" the ratification of the independent auditor. If shareholders do not ratify the appointment of PwC, the Audit Committee will reconsider the appointment.

Executive Compensation

Under our bylaws, whenever any corporate action is to be taken by vote of the shareholders, it shall be authorized upon receiving an affirmative vote of a majority of the votes cast by all shareholders entitled to vote thereon, and abstentions will have the effect of a vote "against" the action. However, the vote on executive compensation is advisory and is not binding on the Company, the Board of Directors, or the Compensation and Leadership Development Committee in any way, as provided by law. Our Board and the Compensation and Leadership Development Committee will review the results of the vote and input from shareholders and will take them into account in making a determination concerning executive compensation consistent with our record of shareowner engagement.

Could other matters be decided at the Annual Meeting?

As of the date this proxy statement went to press, we knew of no matters to be raised at the annual meeting other than those referred to in this proxy statement.

Who will count the votes?

Representatives of Broadridge Financial Communications and Exelon's Office of Corporate Governance will tabulate the votes and act as inspectors of the election.

Where can I find the voting results?

We will report the voting results in a Form 8-K to be filed with the SEC within four business days following the end of our annual meeting.

Who will pay for the cost of this proxy solicitation?

Exelon will pay the cost of soliciting proxies. Proxies may be solicited on our behalf by Directors, officers or employees in person or by telephone, electronic transmission and facsimile transmission. We have hired Alliance Advisors to distribute and solicit proxies. We will pay Alliance Advisors a fee of $15,000 plus reasonable expenses for these services.

Appendix

2017 Adjusted (non-GAAP) Operating Earnings

Exelon reports its financial results in accordance with accounting principles generally accepted in the United States (GAAP). Exelon supplements the reporting of financial information determined in accordance with GAAP with certain non-GAAP financial measures, including adjusted (non-GAAP) operating earnings per share. Adjusted (non-GAAP) operating earnings per share exclude certain costs, expenses, gains and losses and other specified items, including mark-to-market adjustments from economic hedging activities, unrealized gains and losses from nuclear decommissioning trust fund investments, merger and integration costs, certain costs associated with the PHI acquisition, merger commitments related to the settlement of the PHI acquisition, the impairment of certain long-lived assets, plant retirements and divestitures, costs related to the cost management program, the non-controlling interest in Constellation Energy Nuclear Group, LLC, and other items as set forth in the reconciliation below.

The presentation of adjusted (non-GAAP) operating earnings per share is intended to enhance an investor's overall understanding of period over period financial results and provide an indication of Exelon's baseline operating performance by excluding items that are considered by management to be not directly related to the ongoing operations of the business. In addition, this information is among the primary indicators management uses as a basis for evaluating performance, allocating resources, setting incentive compensation targets and planning and forecasting of future periods. Accordingly, management uses adjusted (non-GAAP) operating earnings per share as a goal in its annual incentive plan. Adjusted (non-GAAP) operating earnings per share is not a presentation defined under GAAP and may not be comparable to other companies' presentations. Exelon reports adjusted (non-GAAP) operating earnings per share as supplemental information and in addition to earnings per share that are calculated and presented in accordance with GAAP. Adjusted (non-GAAP) operating earnings per share should not be deemed more useful than, a substitute for, or an alternative to earnings per share calculated and presented in accordance with GAAP.

A reconciliation of reported GAAP earnings per share to adjusted (non-GAAP) operating earnings per share for 2017 is presented below (amounts may not add due to rounding):

2017 GAAP Earnings (Loss) Per Share 2017	**$ 3.97**
Adjustments:	
Mark-to-market impact of economic hedging activities	0.11
Unrealized gains related to NDT fund investments	(0.34)
Amortization of commodity contract intangibles	0.04
Merger and integration costs	0.04
Merger commitments	(0.14)
Long-lived asset impairments	0.34
Plant retirements and divestitures	0.22
Reassessment of state deferred income taxes	(1.37)
Cost management program	0.04
Like-kind exchange tax position	(0.03)
Tax settlements	(0.01)
Bargain purchase gain	(0.25)
Gain on deconsolidation of business	(0.14)
Vacation policy change	(0.03)
Change in Environmental Remediation Liabilities	0.03
Noncontrolling interests	0.12
Adjusted (non-GAAP) Operating Earnings (Loss) Per Share	**$ 2.60**

2015 PShare Scorecard

The table below reflects the 2015 PShare Scorecard, which uses a “stair-step” approach with no interpolation between data performance levels. Applies to the second year of the 2014-2016 PShare program and the first year of the 2015-2017 PShare program.

2015 PShare Scorecard

Goals	Metrics	Metric Weighting	Operating Company	Threshold	Target	Target Calibrated to	Distinguished	Final Score	Actual Award vs. Metric Weighting
Financial Management	ROE	30.0%	**Exelon Corp**	7.25%	7.75%	**Budget**	8.50%	8.23%	37.5%
	FFO/Debt	30.0%	**ExGen HoldCo**	27.0%	30.0%	**Budget**	42.7%	33.1%	30.0%
Operational Excellence	Outage Duration (Average)	6.7%	**BGE**	100.0	88.0	**1st Quartile**	85.0	91.0	1.68%
			ComEd	93.0	83.0	**1st Quartile**	82.0	82.0	3.35%
			PECO	93.0	87.0	**1st Quartile**	85.0	84.0	3.35%
	Outage Frequency (Average)	6.7%	**BGE**	1.00	0.80	**1st Decile**	0.76	0.82	1.68%
			ComEd	0.87	0.77	**1st Decile**	0.74	0.78	1.68%
			PECO	0.87	0.77	**1st Decile**	0.74	0.70	3.35%
	Net Fleetwide Capacity Factor	13.3%	**Nuclear**	91.1%	93.1%	**1st Quartile**	93.6%	93.9%	19.95%
	Dispatch Match	13.3%	**Power**	94.3%	96.6%	**Internal Measure**	97.8%	98.6%	19.95%
							Committee Approved Performance		**122.48%**

2016 PShare Scorecard

The table below reflects the 2016 PShare Scorecard, which uses a “stair-step” approach with no interpolation between data performance levels. Performance was evaluated at the end of 2016. The 2016 scorecard applies to the first year of the 2016-2018 PShare program, the second year of the 2015-2017 PShare program and the final year of the 2014-2016 PShare program.

2016 PShare Scorecard

Metrics	Metric Weighting	Threshold	Target	Distinguished	Final Score	Actual Award vs. Metric Weighting
Exelon ROE	50.0%	6.60%	7.05 %	7.50 %	8.08 %	75.0 %
ExGen FFO/Debt	50.0%	27.0%	30.0 %	38.01 %	33.7 %	50.0 %
				Committee-Approved Performance		**125.00%**

2017 PShare Scorecard

The table below reflects the 2017 PShare Scorecard, which uses a “stair-step” approach with no interpolation between data performance levels for FFO/Debt. Utility Return on Equity and Utility Net Income use interpolation. Performance was evaluated at the end of 2017. The 2017 scorecard applies to the final year of the 2015-2017 PShare program.

2017 PShare Scorecard

Metrics	Metric Weighting	Threshold 50%	Target 100%	Distinguished 150%	Final Score	Actual Award vs. Metric Weighting
Utility ROE	33.3%	$1,459.00	$1,707.00	$1,979.00	$1,498.00	35.06%
Utility Net Income	33.3%	8.3%	9.5%	10.9%	9.4%	35.15%

Metric	Metric Weighting	Threshold 50%	75%	Target 100%	125%	Distinguished 150%	Final Score	Actual Award vs. Metric Weighting
Exelon FFO/ Debt	33.4%	>=16.0%	>=17.0%	>=18.0%	>=22.0%	>=24.0%	18.9%	33.4%
							Committee Approved Performance	**103.61%**

Exelon Corporation
Categorical Standards of Independence

In accordance with The Exelon Corporation Independence Standards for Directors, the Board has determined that the following categories of relationships do not affect an Exelon director's independence unless determined to affect a director's independence by reason of the independence standards set forth in Exelon's Corporate Governance Principles. The categorical standards are intended to assist the directors with independence determinations in connection with relationships not specifically covered by the independence standards set forth in the Corporate Governance Principles. The Board may determine that other relationships do not affect independence.

Immaterial position and ownership interest: The relationship arises solely from (1) such director's (or an immediate family member's) position as a director, trustee, advisory board member, or similar position with another company or organization; (2) such director's (or an immediate family member's) direct or indirect ownership of a 10% or less equity interest in another company or organization; or (3) a combination of the relationships described in clauses (1) and (2).

Immaterial business relationships: A director's (or an immediate family member's) relationship with another company that participates in a transaction with the Company or its consolidated subsidiaries where: the rates or charges involved are determined by competitive bid or are competitive with current prices generally available to the public for similar goods and services; the transaction involves the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority; the transaction involves services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture, or similar services, or commercial banking services provided on arm's length terms and in the ordinary course of business; the provider of goods or services in a transaction is determined by the purchaser to be the only practical source to obtain the goods or services; or the interest arises solely from direct or indirect ownership of debt or equity securities of the Company or its subsidiaries where all holders of the same class of securities have the same rights and receive the same benefits on a pro rata basis.

Immaterial transactions: A director's(or an immediate family member's) relationship with another company that has made payments to, or received payments from, the Company for property or services in an amount which, in the last fiscal year, does not exceed the greater of $1 million or 2% of such other company's consolidated gross revenues for such year.

Immaterial indebtedness: A director's relationship as an executive officer, or where any member of his or her immediate family is an executive officer, of any other company which is indebted to the Company, or to which the Company is indebted, in each case excluding normal trade debt, and the total principal amount of such indebtedness is less than the greater of $1 million or 2% of the total consolidated assets of such other company.

Immaterial investment: A director's (or an immediate family member's) relationship with another company (1) in which Exelon or any of its consolidated subsidiaries (including any benefit plan or arrangement sponsored by Exelon or its consolidated subsidiaries), or any nuclear decommissioning trust or other segregated investment fund maintained by Exelon or its subsidiaries makes investments or places funds for investment management or (2) which underwrites or invests in securities issued by Exelon or any of its consolidated subsidiaries, all in the ordinary course of such other company's business on terms and under circumstances similar to those available to or from entities unaffiliated with such director.

Immaterial non-profit relationships: A director's relationship as a current employee or where any member of his or her immediate family serves as executive officer of a charitable or educational organization which receives contributions from the Company or any of its consolidated subsidiaries in its most recent fiscal year of less than the greater of $1 million or 2% of that organization's consolidated gross revenues in that year. In any other circumstances, a director's relationship with a charity or educational organization to which the Company or any of its consolidated subsidiaries makes contributions where the aggregate contributions made by the Company or any of its consolidated subsidiaries to that organization in its most recent fiscal year were less than the greater of $1 million or 5% of that organization's consolidated gross receipts for that year.

2017 Exelon Recognition and Partnerships

Corporate & Foundation Giving

$52.1 million
Last year, Exelon and its employees set all-time records, committing more than $52.1 million to non-profit organizations and volunteering more than 210,000 hours

Civic 50
Exelon was named for the first time to the Civic 50, recognizing the most community-minded companies by Points of Light, the world's largest organization dedicated to volunteer service

Corporate Recognition

2017 Laurie D. Zelon Pro Bono Award
Awarded by the Pro Bono Institute for exemplary pro bono legal service and leadership

Kids in Need of Defense Innovation Award
Exelon's legal department and the Baltimore chapter of Organization of Latinos at Exelon (OLE) for their work with unaccompanied minors from Central America

Diversity & Inclusion

HeForShe
Exelon joined U.N. Women's HeForShe campaign, which is focused on gender equality. Pledge includes a $3 million commitment to develop new STEM programs for girls and young women and improving the retention of women at Exelon by 2020

Billion Dollar Roundtable
Exelon became the first energy company to join the Billion Dollar Roundtable, an organization that promotes supplier diversity for corporations achieving $1 billion or more in annual direct spending with minority and women-owned businesses

CEO Action for Diversity & Inclusion
Exelon joined 150 leading companies for the CEO Action for Diversity & Inclusion™, the largest CEO-driven commitment aimed at taking action to cultivate a workplace where diverse perspectives and experiences are welcomed and respected

Sustainability

Dow Jones Sustainability Index
Exelon named to Dow Jones Sustainability Index for 12th consecutive year

Newsweek Magazine's Green Rankings
Newsweek Magazine's Green Rankings recognized our leadership in sustainability, where we ranked third among utilities, No. 12 in the U.S. 500 and 24th among the Global 500

Land for People Award
Received the Trust for Public Land's national "Land for People Award" in recognition of Exelon's Exelon's deep support of environmental stewardship, creating new parks and promoting conservation

Carbon Reduction
A recent M.J. Bradley and Associates report noted Exelon's generation fleet had the lowest rate of emissions among the 20 largest public or privately held energy producers. Fortune also recognized Exelon as the second-lowest carbon emitter of all Fortune 100 companies

Workforce

DiversityInc Top 50
DiversityInc. named Exelon as one of the Top 50 companies for excellence in diversity

Indeed.com "50 Best Places to Work"
Indeed.com ranked Exelon No. 18 on its "50 Best Places to Work"

Human Rights Campaign "Best Places to Work"
For the third consecutive year, HRC's Corporate Equality Index gave Exelon a perfect rating on its best places to work for LGBTQ

2017 U.S. Veterans Magazine's "Best of the Best"
Most veteran-friendly companies

Historically Black Engineering Schools
Top Supporter recognition for five consecutive years

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This proxy statement was printed in a facility that uses exclusively vegetable based inks, 100% renewable wind energy and releases zero VOCs into the environment.

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VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on April 30, 2018. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on April 30, 2018. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E39820-P04234-Z71932 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

EXELON CORPORATION

The Board of Directors recommends you vote FOR the following:

		For	Against	Abstain
1.	Election of Directors			
	Nominees:			
1a.	Anthony K. Anderson	☐	☐	☐
1b.	Ann C. Berzin	☐	☐	☐
1c.	Christopher M. Crane	☐	☐	☐
1d.	Yves C. de Balmann	☐	☐	☐
1e.	Nicholas DeBenedictis	☐	☐	☐
1f.	Linda P. Jojo	☐	☐	☐
1g.	Paul L. Joskow	☐	☐	☐
1h.	Robert J. Lawless	☐	☐	☐
1i.	Richard W. Mies	☐	☐	☐
1j.	John W. Rogers, Jr.	☐	☐	☐
1k.	Mayo A. Shattuck III	☐	☐	☐
1l.	Stephen D. Steinour	☐	☐	☐

The Board of Directors recommends you vote FOR proposals 2 and 3.

		For	Against	Abstain
2.	Ratification of PricewaterhouseCoopers LLP as Exelon's Independent Auditor for 2018.	☐	☐	☐
3.	Advisory approval of executive compensation.	☐	☐	☐

NOTE: Authority is also given to vote on all other matters that may properly come before the meeting or any adjournment thereof.

For address changes and/or comments, please check this box and write them on the back where indicated. ☐

Please indicate if you plan to attend this meeting. ☐ Yes ☐ No

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

ADMISSION TICKET

To attend the annual meeting please detach and bring this ticket along with a valid photo ID and present them at the Shareholder Registration Table upon arrival. This ticket is not transferable.

No cameras, audio or video recording equipment, similar electronic devices, large bags, backpacks, briefcases or packages will be permitted in the meeting room or adjacent areas. Cell phones and similar wireless communication devices will be permitted in the meeting only if turned off. All items brought into the meeting will be subject to search.

NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING

Exelon's Notice and Proxy Statement and Annual Report are available online at www.proxyvote.com . The electronic documents have been prepared to offer easy viewing and are completely searchable. The website will allow you to view the materials as you vote the shares. We believe that you will find this method of viewing Exelon's information and voting the shares more convenient.

We encourage you to vote the shares at www.proxyvote.com
and then register for the electronic delivery of Exelon's proxy materials for 2019 and beyond.

IF YOU WISH TO ATTEND THE ANNUAL MEETING, DETACH AND BRING THIS ADMISSION TICKET ALONG WITH A PHOTO ID

E39821-P04234-Z71932

EXELON CORPORATION

2018 COMMON STOCK PROXY

This proxy is solicited on behalf of the Board of Directors
for the Annual Meeting of Shareholders to be held
on Tuesday, May 1, 2018 at 9:00 A.M. Eastern Time at
Offices of Pepco Holdings LLC
701 Ninth Street, NW
Washington, D.C.

THOMAS S. O'NEILL and CARTER C. CULVER, or either of them with power of substitution, are hereby appointed to vote as specified all shares of common stock which the shareholder(s) named on the proxy card is/are entitled to vote at the annual meeting described above or at any adjournment thereof, and in their sole discretion to vote upon all other matters that may be properly brought before the annual meeting. If the proxy card is signed and dated, but no votes are indicated, it will be voted as recommended by the Board of Directors.

The Northern Trust Company as trustee for the Exelon Employee Savings Plan, for which Northwest Plan Services, Inc. is the plan record keeper, or Vanguard Fiduciary Trust Company as trustee of the Pepco Holdings LLC Retirement Savings Plan, is hereby authorized to execute a proxy with the identical instructions for any shares of common stock held in the respective plan for the benefit of any shareholder(s) named on this card. For all shares for which no valid instruction is timely received, the trustee of the respective plan is instructed to vote the shares in the same proportion as the shares that were affirmatively voted by shareholders participating in the respective plan.

Address Changes/Comments: ______________________________

____

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

(Continued and to be signed on reverse side)

Q. III-F-2 Supply projected capital requirements and sources of the filing utility, its parent and system – consolidated – for the test year and each of 3 comparable future years.

A. III-F-2 Refer to Attachment III-F-2(a) - Public for the Company’s projected capital requirements and sources in 2018 and 2019.

Refer to Attachment III-F-2(a) – Non-Public Confidential for the Company’s projected capital requirements and sources in 2018 through 2022. The capital requirements for 2020 and beyond are confidential.

Forward looking data for Parent and on a system-consolidated basis are not applicable.

THIS ATTACHMENT IS CONFIDENTIAL IN REGARD TO THE LATEST YEAR-BY-YEAR FINANCIAL PROJECTIONS FOR THE COMPANY FOR 2020 THROUGH 2022 AND IS SUBMITTED ONLY IN THE NON-PUBLIC VERSION FILED WITH THE COMMISSION.

Q. III-F-3	State what coverage requirements or capital structure ratios are required in the most restrictive of applicable indentures/charter tests and how these measures have been computed.
A. III-F-3	There are no indenture provisions that impose coverage requirements or capital structure requirements on the Company. The credit agreement for the Company's revolving credit facilities requires that PECO maintain a ratio of 2.0 to 1.0 for cash from operations to interest expense for the twelve-month periods ending on the last day of any quarter. The interest coverage ratio excludes revenues and interest expense attributable to securitized debt, certain changes in working capital, distributions on preferred securities of subsidiaries, and interest on nonrecourse debt. The Company's Articles of Incorporation prohibit payment of any dividend on, or other distribution to, the holders of common stock if, after giving effect thereto, the capital of the Company represented by its common stock together with its retained earnings is, in the aggregate, less than the involuntary liquidating value of its then-outstanding preferred stock. The Company currently has no outstanding preferred stock.

Q. III-F-4

A schedule of comparative financial data shall be supplied for the test year, the most immediately available annual historical period, prior to the test year, and the 2 calendar years most immediately preceding the test year. Changes in Moody’s/S&P ratings, noted on this schedule, shall be accompanied by the Moody’s/S&P write-up of such change, if available. The following financial data and ratios shall be supplied for the utility’s parent, where applicable, if not available for the utility.

a. Times interest earned ratio – pre- and post-tax basis.
b. Preferred stock dividend coverage ratio – post-tax basis.
c. Times fixed charges earned ratio – pre-tax basis.
d. Earnings per share
e. Dividend per share
f. Average dividend yield (52-week high/low common stock price)
g. Average book value per share
h. Average market price per share
i. Market price-book value per ratio
j. Earnings-book value ratio (per share basis, average book value)
k. Dividend payout ratio
l. AFUDC as a percent of earnings available for common equity.
m. Construction work in progress as a percent of net utility plant.
n. Effective income tax rate.
o. Internal cash generations as a percent of total capital requirements.

A. III-F-4

a) Times interest earned ratio – pre and post-tax basis –

Refer to Exhibits BSY-1 and BSY-2 for the fully projected future test year (FPFTY) and the future test year (FTY), respectively. Refer to the response to SDR-ROR-23a for the preceding calendar years.

b) Preferred stock dividend coverage ratio – post-tax basis -

Refer to Exhibits BSY-1 and BSY-2 for the FPFTY and FTY, respectively. Refer to the response to SDR-ROR-23b for the preceding calendar years.

c) Times fixed charges earned ratio – pre-tax basis –

Refer to Exhibits BSY-1 and BSY-2 for the FPFTY and FTY, respectively. Refer to the response to SDR-ROR-23c for the preceding calendar years.

d) Earnings per share

Refer to Exhibit BSY-1 & BSY-2 for FPFTY and FTY, respectively.

	PECO Energy Consolidated (SEC)
2016	$2.58
2017	$2.55

e) Dividend per share

	PECO Energy Consolidated (SEC)
2016	$1.63
2017	$1.69

f) Average dividend yield (52-week high/low common stock price)

	Exelon Corporation (SEC)
2016	3.92%
2017	3.45%

g) Average book value per share

	PECO Energy Consolidated (SEC)
2016	$20.09
2017	$21.04

h) Average market price per share

	Exelon Corporation (SEC)
2016	$32.14
2017	$37.95

i) Market price-book value ratio

	Exelon Corporation (SEC)
2016	1.27
2017	1.27

j) Earnings-book value ratio (per share basis, average book value)

	PECO Energy Consolidated (SEC)
2016	0.13
2017	0.12

k) Dividend payout ratio

Refer to Exhibit BSY-1 & BSY-2 for FPFTY and FTY, respectively. Refer to the response to SDR-ROR-23d for the historical years.

l) AFUDC as a percent of earnings available for common equity

Refer to Exhibit BSY-1 & BSY-2 for FPFTY and FTY, respectively. Refer to the response to SDR-ROR-23e for the historical years.

m) Construction work in progress as a percent of net utility plant

Refer to Exhibit BSY-1 & BSY-2 for FPFTY and FTY, respectively. Refer to the response to SDR-ROR-23f for the historical years.

n) Effective income tax rate

Refer to Exhibit BSY-1 & BSY-2 for FPFTY and FTY, respectively. Refer to the response to SDR-ROR-23g for the historical years.

o) Internal cash generation as a percent of total capital requirements

Refer to Exhibit BSY-1 & BSY-2 for FPFTY and FTY, respectively. Refer to the response to SDR-ROR-23h for the historical years.

Changes in Moody's, S&P & Fitch Ratings for PECO

Refer to the response to SDR-ROR-3 for changes in Exelon & PECO's Credit Ratings History.

Q. IV-A-1 Provide a summary schedule of the individual rate effects. For each state jurisdictional rate, show the following information for the test period elected:

Rate schedule designation.

A. IV-A-1 Attachment IV-A-1(a) provides the information requested for IV-A-1 and for IV-A-2, IV-A-3, and IV-A-5, as also referenced in the responses to those additional filing requirements.

PECO Energy Company
Base Revenue 12 Months Ending December 31, 2019
($000)

Lines		Residential	Residential Heating	General Service	Primary Distribution	High Tension	Electric Propulsion	Lighting	Total
1	Customers Numbers	1,300,575	187,297	151,768	450	2,661	39	12,288	1,655,077
2	Delivery kWh	10,518,755,417	2,721,100,000	8,068,875,085	405,541,802	14,887,392,197	625,634,756	203,576,842	37,430,876,099
3	Budget Revenue	$ 1,230,469	$ 279,917	$ 374,107	$ 11,172	$ 250,703	$ 10,683	$ 20,982	$ 2,178,034
4	Less: Commodity	$ (418,108)	$ (109,879)	$ (92,584)	$ (862)	$ (31,629)	$ -	$ (708)	$ (653,769)
5	Total T&D	$ 812,361	$ 170,038	$ 281,523	$ 10,310	$ 219,074	$ 10,683	$ 20,274	$ 1,524,264
6	Less: Retail Transmission Revenue	(86,438)	(22,449)	(38,019)	(1,136)	(35,728)	(1,754)	(91)	(185,615)
7	Less: Act 129 Adjustments	(10,164)	(2,180)	(3,017)	(97)	(3,579)	-	(28)	$ (19,065)
8	Less: EE	(37,527)	(9,611)	(15,870)	(899)	(33,013)	(1,722)	(80)	$ (98,723)
9	Plus: CAP	171	17	-	-	-	-	-	$ 188
10	Plus: Annualization & Leap Year Adjustment	2,672	619	234	-	-	-	-	$ 3,524
11	Total Base Revenue @ Current Rate	$ 681,075	$ 136,434	$ 224,851	$ 8,178	$ 146,754	$ 7,207	$ 20,075	$ 1,224,574
12	Updated Commodity using PTC(1)	$ 645,814	$ 168,402	$ 451,048	$ 20,055	$ 736,204	$ 30,939	$ 9,823	$ 2,062,284
13	Transmission(1)	$ 110,202	$ 28,508	$ 84,908	$ 2,393	$ 82,972	$ 3,828	$ 265	$ 313,077
14	Total Bill with @ Current Rate	$ 1,437,092	$ 333,344	$ 760,807	$ 30,626	$ 965,930	$ 41,973	$ 30,163	$ 3,599,935
15	Proposed Base Revenue	$ 1,517,772	$ 353,420	$ 783,950	$ 31,436	$ 985,901	$ 43,133	$ 31,313	$ 3,746,926
16	Adjustment to PTC for Working Capital	$ (2,541)	$ (698)	$ (765)	$ (13)	$ (431)	$ (16)	$ (4)	$ (4,469)
17	Total Revenue @ Proposed Rate	1,515,230	352,722	783,185	31,423	985,471	43,117	31,310	3,742,457
18	Proposed Increase without Tax Reform Impact	$ 78,138	$ 19,378	$ 22,378	$ 797	$ 19,540	$ 1,144	$ 1,147	$ 142,522
19	Tax Reform Imapct	$ (38,537)	$ (7,822)	$ (12,818)	$ (523)	$ (9,393)	$ (458)	$ (1,071)	$ (70,623)
20	DSIC	$ 5,421	$ 1,102	$ 1,819	$ 38	$ 1,402	$ 67	$ 151	$ 10,000
21	Proposed Increase	$ 45,022	$ 12,658	$ 11,378	$ 311	$ 11,549	$ 753	$ 227	$ 81,899
22	% of Total Increase [Line 21/(Line 17-Line 8)]	2.9%	3.5%	1.4%	1.0%	1.1%	1.7%	0.7%	2.1%
23	% of Distribution Increase [Line 21/(Line 11-Line 8)]	6.3%	8.7%	4.7%	3.4%	6.4%	8.4%	1.1%	6.2%

Note:
1. Assuming no shopping for purpose of calculation.

Q. IV-A-2 Provide a summary schedule of the individual rate effects. For each state jurisdictional rate, show the following information for the test period elected:

For existing rates:

(a) Customers served as of end of period.
(b) Annual Kwh sales.
(c) Base rate revenues adjusted for any changes in base rate application that may have occurred during the test period.
(d) Tax surcharge revenues.
(e) Energy Cost adjustment clause revenues.
(f) Revenues received from other clauses or riders separately accounted for.
(g) Total of all revenues

A. IV-A-2 Refer to the response to IV-A-1.

Q. IV-A-3 Provide a summary schedule of the individual rate effects. For each state jurisdictional rate, show the following information for the test period elected. For proposed rates:

(a) Estimated number of customers whose charged for electric service will be increased or decreased as a result of this filing.
(b) Base rate revenues:
    (1) Annual dollar amount of increase or decrease.
    (2) Percentage change.
(c) Estimated tax surcharge revenues based on the assumption that the base rate changes proposed were in place.
(d) Estimated Energy cost adjustment clause revenues.
(e) Revenues received from other clauses or riders separately accounted for.
(f) Total of all revenues:
    (1) Amount of total annual dollar change.
    (2) Percentage change.

A. IV-A-3 Refer to the response to IV-A-1.

Q. IV-A-4 Supplement the revenue summary to obtain a complete revenue statement of the electric business, that is, show delayed payments, other electric revenues, FERC jurisdictional sales and revenues and all other appropriate revenue items and adjustments.

A. IV-A-4 The Company's sales forecast is based on budgeted sales for the future test year (FTY) ending December 31, 2018 and fully projected future test year (FPFTY) ending December 31, 2019, as adjusted by various annualization and normalization adjustments. The budget and adjustments thereto are described in PECO Statement No. 3, the direct testimony of Benjamin S. Yin, and are set forth in Schedule D-5 of Exhibits PECO Exhibits BSY-1 and BSY-2, for the FPFTY and FTY, respectively. For the Company's sales forecast refer to the responses for SDR-RR-6 and SDR-RR-7.

Q. IV-A-5 Develop the grand total sales and revenues as adjusted and the various increases and decreases and percent effects as described above.

A. IV-A-5 Refer to the response to IV-A-1.

Q. IV-B-1 Provide a description of changes proposed for the new tariff:

(1) For each rate schedule proposed to be modified.
(2) For each rate schedule proposed to be deleted.
(3) For each new rate schedule proposed to be added.

A. IV-B-1 Refer to PECO Statement Nos. 7 and 8, the direct testimony of Mark Kehl and Richard A. Schlesinger, for a description of the proposed rate changes.

Q. IV-C-1 The annual revenue effect of any proposed change to any rate must be supported by a billing analysis. This may consist of the use of bill frequency distributions or individual customer billing records for the most recent annual periods available. All billing determinants should be displayed. The blocking and corresponding prices of the existing rate and the proposed rate should be applied to the determinants to derive the base rate revenues under both present and proposed rates. The derived base rate revenues should form the basis for measuring the annual base rate effect of the rates in question for the test periods.

A. IV-C-1 Refer to PECO Statement No. 7, Exhibit MK-6 for a Proof of Revenue at proposed rates using projected billing determinants for the fully projected future test year.

Q. IV-D-1 Residential Bill Comparisons.

For each rate applicable to residential service provide a chart or tabulation which shows the dollar and percentage effect of the proposed base rate on monthly bills ranging from the use of zero kWh to 5,000 kWh at appropriate intervals.

A. IV-D-1 Refer to Attachment IV-D-1(a) for the requested information.

Attachment IV-D-1(a)

PECO
Comparison Of Monthly Bills
Rate R Residential Service

	Total Bill				Excluding Generation & Transmission			
Kwh Usage	Existing Rate	Proposed Rate	$ Change	% Change	Existing Rate	Proposed Rate	$ Change	% Change
0	8.45	12.50	4.05	47.9%	8.45	12.50	4.05	47.9%
50	15.18	19.17	3.99	26.3%	11.63	15.63	4.00	34.4%
100	21.91	25.85	3.94	18.0%	14.81	18.77	3.96	26.7%
150	28.64	32.52	3.88	13.5%	17.99	21.90	3.91	21.7%
200	35.37	39.20	3.83	10.8%	21.17	25.03	3.87	18.3%
250	42.10	45.87	3.77	9.0%	24.35	28.17	3.82	15.7%
300	48.82	52.54	3.72	7.6%	27.53	31.30	3.77	13.7%
350	55.55	59.22	3.67	6.6%	30.71	34.43	3.73	12.1%
400	62.28	65.89	3.61	5.8%	33.89	37.57	3.68	10.9%
450	69.01	72.57	3.56	5.2%	37.07	40.70	3.64	9.8%
500	75.74	79.24	3.50	4.6%	40.25	43.84	3.59	8.9%
550	82.47	85.91	3.44	4.2%	43.42	46.97	3.54	8.2%
600	89.20	92.58	3.38	3.8%	46.60	50.09	3.49	7.5%
650	95.93	99.25	3.32	3.5%	49.78	53.23	3.44	6.9%
700	102.65	105.93	3.28	3.2%	52.95	56.36	3.41	6.4%
750	109.38	112.60	3.22	2.9%	56.13	59.49	3.36	6.0%
800	116.10	119.27	3.17	2.7%	59.31	62.63	3.31	5.6%
850	122.83	125.95	3.12	2.5%	62.49	65.76	3.27	5.2%
900	129.56	132.62	3.06	2.4%	65.67	68.89	3.22	4.9%
950	136.29	139.30	3.01	2.2%	68.85	72.03	3.18	4.6%
1000	143.02	145.97	2.95	2.1%	72.03	75.16	3.13	4.3%
1100	156.48	159.32	2.84	1.8%	78.39	81.43	3.04	3.9%
1200	169.94	172.67	2.73	1.6%	84.75	87.69	2.95	3.5%
1300	183.39	186.01	2.62	1.4%	91.11	93.96	2.85	3.1%
1400	196.85	199.36	2.51	1.3%	97.47	100.23	2.76	2.8%
1500	210.31	212.71	2.40	1.1%	103.83	106.50	2.67	2.6%
2000	277.60	279.45	1.85	0.7%	135.62	137.83	2.21	1.6%
5000	681.32	679.87	-1.45	-0.2%	326.37	325.82	-0.55	-0.2%

PECO
Comparison Of Monthly Bills
Rate RH Residential Heating Service - Summer

	Total Bill				**Excluding Generation & Transmission**			
Kwh Usage	Existing Rate	Proposed Rate	$ Change	% Change	Existing Rate	Proposed Rate	$ Change	% Change
0	8.45	12.50	4.05	47.9%	8.45	12.50	4.05	47.9%
50	15.18	19.17	4.00	26.3%	11.63	15.63	4.00	34.4%
100	21.91	25.85	3.94	18.0%	14.81	18.77	3.96	26.7%
150	28.64	32.52	3.89	13.6%	17.99	21.90	3.91	21.7%
200	35.37	39.20	3.83	10.8%	21.17	25.03	3.87	18.3%
250	42.10	45.87	3.78	9.0%	24.35	28.17	3.82	15.7%
300	48.82	52.54	3.72	7.6%	27.53	31.30	3.77	13.7%
350	55.55	59.22	3.67	6.6%	30.71	34.43	3.73	12.1%
400	62.28	65.89	3.61	5.8%	33.89	37.57	3.68	10.9%
450	69.01	72.57	3.56	5.2%	37.07	40.70	3.64	9.8%
500	75.74	79.24	3.50	4.6%	40.25	43.84	3.59	8.9%
550	82.47	85.91	3.44	4.2%	43.42	46.97	3.54	8.2%
600	89.20	92.58	3.38	3.8%	46.60	50.09	3.49	7.5%
650	95.93	99.25	3.33	3.5%	49.78	53.23	3.44	6.9%
700	102.65	105.93	3.28	3.2%	52.95	56.36	3.41	6.4%
750	109.38	112.60	3.23	2.9%	56.13	59.49	3.36	6.0%
800	116.10	119.27	3.17	2.7%	59.31	62.63	3.31	5.6%
850	122.83	125.95	3.12	2.5%	62.49	65.76	3.27	5.2%
900	129.56	132.62	3.06	2.4%	65.67	68.89	3.22	4.9%
950	136.29	139.30	3.01	2.2%	68.85	72.03	3.18	4.6%
1000	143.02	145.97	2.95	2.1%	72.03	75.16	3.13	4.3%
1100	156.48	159.32	2.84	1.8%	78.39	81.43	3.04	3.9%
1200	169.94	172.67	2.73	1.6%	84.75	87.69	2.95	3.5%
1300	183.39	186.01	2.62	1.4%	91.11	93.96	2.85	3.1%
1400	196.85	199.36	2.51	1.3%	97.47	100.23	2.76	2.8%
1500	210.31	212.71	2.40	1.1%	103.83	106.50	2.67	2.6%
2000	277.60	279.45	1.85	0.7%	135.62	137.83	2.21	1.6%
2500	344.88	346.18	1.30	0.4%	167.41	169.16	1.75	1.0%
3000	412.17	412.92	0.75	0.2%	199.20	200.49	1.29	0.6%
5000	681.32	679.87	-1.45	-0.2%	326.37	325.82	-0.55	-0.2%

PECO
Comparison Of Monthly Bills
Rate RH Residential Heating Service - Winter

	Total Bill				Excluding Generation & Transmission			
Kwh Usage	Existing Rate	Proposed Rate	$ Change	% Change	Existing Rate	Proposed Rate	$ Change	% Change
0	8.45	12.50	4.05	47.9%	8.45	12.50	4.05	47.9%
50	14.27	18.46	4.19	29.4%	10.72	14.92	4.20	39.2%
100	20.10	24.43	4.33	21.6%	13.00	17.35	4.35	33.5%
150	25.92	30.39	4.47	17.3%	15.27	19.77	4.50	29.5%
200	31.74	36.36	4.62	14.5%	17.54	22.20	4.65	26.5%
250	37.57	42.32	4.76	12.7%	19.82	24.62	4.80	24.2%
300	43.39	48.29	4.90	11.3%	22.09	27.04	4.95	22.4%
350	49.21	54.25	5.04	10.2%	24.36	29.47	5.10	20.9%
400	55.03	60.22	5.18	9.4%	26.64	31.89	5.25	19.7%
450	60.86	66.18	5.32	8.7%	28.91	34.32	5.40	18.7%
500	66.68	72.15	5.47	8.2%	31.19	36.74	5.56	17.8%
550	72.50	78.11	5.61	7.7%	33.46	39.16	5.71	17.1%
600	78.33	84.07	5.75	7.3%	35.73	41.59	5.86	16.4%
650	84.15	90.04	5.89	7.0%	38.01	44.01	6.01	15.8%
700	89.97	96.00	6.03	6.7%	40.28	46.44	6.16	15.3%
750	95.80	101.97	6.17	6.4%	42.55	48.86	6.31	14.8%
800	101.62	107.92	6.30	6.2%	44.83	51.27	6.45	14.4%
850	107.44	113.89	6.45	6.0%	47.10	53.70	6.60	14.0%
900	113.26	119.85	6.59	5.8%	49.37	56.12	6.75	13.7%
950	119.08	125.82	6.74	5.7%	51.64	58.55	6.91	13.4%
1000	124.90	131.78	6.88	5.5%	53.91	60.97	7.06	13.1%
1500	183.13	191.43	8.30	4.5%	76.65	85.21	8.57	11.2%
2000	241.36	251.07	9.71	4.0%	99.38	109.45	10.07	10.1%
2350	282.12	292.82	10.70	3.8%	115.29	126.42	11.12	9.6%
2500	299.59	310.72	11.13	3.7%	122.12	133.69	11.58	9.5%
3300	392.75	406.14	13.39	3.4%	158.48	172.46	13.98	8.8%
4000	474.27	489.64	15.37	3.2%	190.31	206.40	16.09	8.5%
4500	532.50	549.29	16.79	3.2%	213.05	230.64	17.60	8.3%
5000	590.73	608.92	18.19	3.1%	235.78	254.87	19.09	8.1%

Q. IV-D-2 General Bill Comparisons.

For each rate that requires both a billing a demand (kW) and kWh’s as the billing determinants, provide a tabulation or graphical comparison showing the percentage effect of the proposed base rate on monthly bills using several representative demand (kW) levels, the monthly kWh for each demand selected to be in load factor increments of 10% starting at 0% and ending at 100% (730H) or by hours’ use increments that covers approximately 95% of the bills.

A. IV-D-2 Refer to Attachment IV-D-2(a) for the requested information.

PECO
Comparison of Monthly Bills
Rate HT High Tension
Demand = 50000 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**
0	$ 133,488.09	$ 142,687.18	$ 9,199.09	6.9%	$ 115,288.09	$ 124,487.18	$ 9,199.09	8.0%
50	$ 472,521.09	$ 495,068.80	$ 22,547.71	4.8%	$ 285,271.09	$ 308,268.80	$ 22,997.71	8.1%
100	$ 611,771.34	$ 633,869.05	$ 22,097.71	3.6%	$ 282,771.34	$ 305,769.05	$ 22,997.71	8.1%
150	$ 751,021.59	$ 772,669.30	$ 21,647.71	2.9%	$ 280,271.59	$ 303,269.30	$ 22,997.71	8.2%
200	$ 890,271.84	$ 911,469.55	$ 21,197.71	2.4%	$ 277,771.84	$ 300,769.55	$ 22,997.71	8.3%
250	$ 1,029,522.09	$ 1,050,269.80	$ 20,747.71	2.0%	$ 275,272.09	$ 298,269.80	$ 22,997.71	8.4%
300	$ 1,168,772.34	$ 1,189,070.05	$ 20,297.71	1.7%	$ 272,772.34	$ 295,770.05	$ 22,997.71	8.4%
400	$ 1,447,272.84	$ 1,466,670.55	$ 19,397.71	1.3%	$ 267,772.84	$ 290,770.55	$ 22,997.71	8.6%
500	$ 1,725,773.34	$ 1,744,271.05	$ 18,497.71	1.1%	$ 262,773.34	$ 285,771.05	$ 22,997.71	8.8%
600	$ 2,004,273.84	$ 2,021,871.55	$ 17,597.71	0.9%	$ 257,773.84	$ 280,771.55	$ 22,997.71	8.9%
700	$ 2,282,774.34	$ 2,299,472.05	$ 16,697.71	0.7%	$ 252,774.34	$ 275,772.05	$ 22,997.71	9.1%
730	$ 2,366,324.49	$ 2,382,752.20	$ 16,427.71	0.7%	$ 251,274.49	$ 274,272.20	$ 22,997.71	9.2%

PECO
Comparison of Monthly Bills
Rate HT High Tension
Demand = 1300 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**
0	$ 3,762.49	$ 4,001.68	$ 239.19	6.4%	$ 3,289.29	$ 3,528.48	$ 239.19	7.3%
50	$ 12,577.35	$ 13,163.60	$ 586.25	4.7%	$ 7,708.85	$ 8,306.80	$ 597.95	7.8%
100	$ 16,197.86	$ 16,772.41	$ 574.55	3.5%	$ 7,643.86	$ 8,241.81	$ 597.95	7.8%
150	$ 19,818.36	$ 20,381.21	$ 562.85	2.8%	$ 7,578.86	$ 8,176.81	$ 597.95	7.9%
200	$ 23,438.87	$ 23,990.02	$ 551.15	2.4%	$ 7,513.87	$ 8,111.82	$ 597.95	8.0%
250	$ 27,059.38	$ 27,598.83	$ 539.45	2.0%	$ 7,448.88	$ 8,046.83	$ 597.95	8.0%
300	$ 30,679.88	$ 31,207.63	$ 527.75	1.7%	$ 7,383.88	$ 7,981.83	$ 597.95	8.1%
400	$ 37,920.89	$ 38,425.24	$ 504.35	1.3%	$ 7,253.89	$ 7,851.84	$ 597.95	8.2%
500	$ 45,161.91	$ 45,642.86	$ 480.95	1.1%	$ 7,123.91	$ 7,721.86	$ 597.95	8.4%
600	$ 52,402.92	$ 52,860.47	$ 457.55	0.9%	$ 6,993.92	$ 7,591.87	$ 597.95	8.5%
700	$ 59,643.93	$ 60,078.08	$ 434.15	0.7%	$ 6,863.93	$ 7,461.88	$ 597.95	8.7%
730	$ 61,816.24	$ 62,243.37	$ 427.13	0.7%	$ 6,824.94	$ 7,422.89	$ 597.95	8.8%

PECO
Comparison of Monthly Bills
Rate HT High Tension
Demand = 500 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**
0	$ 1,631.48	$ 1,723.48	$ 92.00	5.6%	$ 1,449.48	$ 1,541.48	$ 92.00	6.3%
50	$ 5,021.81	$ 5,247.29	$ 225.48	4.5%	$ 3,149.31	$ 3,379.29	$ 229.98	7.3%
100	$ 6,414.31	$ 6,635.29	$ 220.98	3.4%	$ 3,124.31	$ 3,354.29	$ 229.98	7.4%
150	$ 7,806.81	$ 8,023.30	$ 216.49	2.8%	$ 3,099.31	$ 3,329.30	$ 229.99	7.4%
200	$ 9,199.31	$ 9,411.30	$ 211.99	2.3%	$ 3,074.31	$ 3,304.30	$ 229.99	7.5%
250	$ 10,591.82	$ 10,799.30	$ 207.48	2.0%	$ 3,049.32	$ 3,279.30	$ 229.98	7.5%
300	$ 11,984.32	$ 12,187.30	$ 202.98	1.7%	$ 3,024.32	$ 3,254.30	$ 229.98	7.6%
400	$ 14,769.32	$ 14,963.31	$ 193.99	1.3%	$ 2,974.32	$ 3,204.31	$ 229.99	7.7%
500	$ 17,554.33	$ 17,739.31	$ 184.98	1.1%	$ 2,924.33	$ 3,154.31	$ 229.98	7.9%
600	$ 20,339.33	$ 20,515.32	$ 175.99	0.9%	$ 2,874.33	$ 3,104.32	$ 229.99	8.0%
700	$ 23,124.34	$ 23,291.32	$ 166.98	0.7%	$ 2,824.34	$ 3,054.32	$ 229.98	8.1%
730	$ 23,959.84	$ 24,124.13	$ 164.29	0.7%	$ 2,809.34	$ 3,039.33	$ 229.99	8.2%

PECO
Comparison of Monthly Bills
Rate HT High Tension
Demand = 100 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	Existing Rate	Proposed Rate	$ Change	% Change	Existing Rate	Proposed Rate	$ Change	% Change
0	$ 565.97	$ 584.38	$ 18.41	3.3%	$ 529.57	$ 547.98	$ 18.41	3.5%
50	$ 1,244.03	$ 1,289.14	$ 45.11	3.6%	$ 869.53	$ 915.54	$ 46.01	5.3%
100	$ 1,522.53	$ 1,566.74	$ 44.21	2.9%	$ 864.53	$ 910.54	$ 46.01	5.3%
150	$ 1,801.03	$ 1,844.34	$ 43.31	2.4%	$ 859.53	$ 905.54	$ 46.01	5.4%
200	$ 2,079.53	$ 2,121.94	$ 42.41	2.0%	$ 854.53	$ 900.54	$ 46.01	5.4%
250	$ 2,358.04	$ 2,399.54	$ 41.50	1.8%	$ 849.54	$ 895.54	$ 46.00	5.4%
300	$ 2,636.54	$ 2,677.14	$ 40.60	1.5%	$ 844.54	$ 890.54	$ 46.00	5.4%
400	$ 3,193.54	$ 3,232.34	$ 38.80	1.2%	$ 834.54	$ 880.54	$ 46.00	5.5%
500	$ 3,750.54	$ 3,787.54	$ 37.00	1.0%	$ 824.54	$ 870.54	$ 46.00	5.6%
600	$ 4,307.54	$ 4,342.74	$ 35.20	0.8%	$ 814.54	$ 860.54	$ 46.00	5.6%
700	$ 4,864.54	$ 4,897.94	$ 33.40	0.7%	$ 804.54	$ 850.54	$ 46.00	5.7%
730	$ 5,031.64	$ 5,064.51	$ 32.87	0.7%	$ 801.54	$ 847.55	$ 46.01	5.7%

PECO
Comparison of Monthly Bills
Rate PD Primary Distribution Power
Demand = 500 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**
0	$ 2,075.90	$ 2,155.90	$ 80.00	3.9%	$ 1,893.90	$ 1,973.90	$ 80.00	4.2%
50	$ 6,198.41	$ 6,393.90	$ 195.49	3.2%	$ 4,265.66	$ 4,465.65	$ 199.99	4.7%
100	$ 7,651.17	$ 7,842.16	$ 190.99	2.5%	$ 4,240.67	$ 4,440.66	$ 199.99	4.7%
150	$ 9,103.92	$ 9,290.41	$ 186.49	2.0%	$ 4,215.67	$ 4,415.66	$ 199.99	4.7%
200	$ 10,556.67	$ 10,738.66	$ 181.99	1.7%	$ 4,190.67	$ 4,390.66	$ 199.99	4.8%
250	$ 12,009.42	$ 12,186.91	$ 177.49	1.5%	$ 4,165.67	$ 4,365.66	$ 199.99	4.8%
300	$ 13,462.18	$ 13,635.17	$ 172.99	1.3%	$ 4,140.68	$ 4,340.67	$ 199.99	4.8%
400	$ 16,367.68	$ 16,531.67	$ 163.99	1.0%	$ 4,090.68	$ 4,290.67	$ 199.99	4.9%
500	$ 19,273.19	$ 19,428.18	$ 154.99	0.8%	$ 4,040.69	$ 4,240.68	$ 199.99	4.9%
600	$ 22,178.69	$ 22,324.68	$ 145.99	0.7%	$ 3,990.69	$ 4,190.68	$ 199.99	5.0%
700	$ 25,084.20	$ 25,221.19	$ 136.99	0.5%	$ 3,940.70	$ 4,140.69	$ 199.99	5.1%
730	$ 25,955.85	$ 26,090.14	$ 134.29	0.5%	$ 3,925.70	$ 4,125.69	$ 199.99	5.1%

PECO
Comparison of Monthly Bills
Rate PD Primary Distribution Power
Demand = 175 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**
0	$ 919.00	$ 947.01	$ 28.01	3.0%	$ 855.30	$ 883.31	$ 28.01	3.3%
50	$ 2,361.88	$ 2,430.31	$ 68.43	2.9%	$ 1,685.42	$ 1,755.42	$ 70.00	4.2%
100	$ 2,870.35	$ 2,937.21	$ 66.86	2.3%	$ 1,676.67	$ 1,746.68	$ 70.01	4.2%
150	$ 3,378.81	$ 3,444.09	$ 65.28	1.9%	$ 1,667.92	$ 1,737.93	$ 70.01	4.2%
200	$ 3,887.27	$ 3,950.98	$ 63.71	1.6%	$ 1,659.17	$ 1,729.18	$ 70.01	4.2%
250	$ 4,395.73	$ 4,457.87	$ 62.14	1.4%	$ 1,650.42	$ 1,720.43	$ 70.01	4.2%
300	$ 4,904.21	$ 4,964.76	$ 60.55	1.2%	$ 1,641.68	$ 1,711.68	$ 70.00	4.3%
400	$ 5,921.13	$ 5,978.53	$ 57.40	1.0%	$ 1,624.18	$ 1,694.18	$ 70.00	4.3%
500	$ 6,938.06	$ 6,992.31	$ 54.25	0.8%	$ 1,606.68	$ 1,676.68	$ 70.00	4.4%
600	$ 7,954.98	$ 8,006.08	$ 51.10	0.6%	$ 1,589.18	$ 1,659.18	$ 70.00	4.4%
700	$ 8,971.91	$ 9,019.87	$ 47.96	0.5%	$ 1,571.68	$ 1,641.69	$ 70.01	4.5%
730	$ 9,276.98	$ 9,324.00	$ 47.02	0.5%	$ 1,566.43	$ 1,636.44	$ 70.01	4.5%

PECO
Comparison of Monthly Bills
Rate PD Primary Distribution Power
Demand = 125 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	Existing Rate	Proposed Rate	$ Change	% Change	Existing Rate	Proposed Rate	$ Change	% Change
0	$ 741.02	$ 761.03	$ 20.01	2.7%	$ 695.52	$ 715.53	$ 20.01	2.9%
50	$ 1,771.65	$ 1,820.53	$ 48.88	2.8%	$ 1,288.46	$ 1,338.47	$ 50.01	3.9%
100	$ 2,134.84	$ 2,182.60	$ 47.76	2.2%	$ 1,282.21	$ 1,332.22	$ 50.01	3.9%
150	$ 2,498.02	$ 2,544.66	$ 46.64	1.9%	$ 1,275.96	$ 1,325.97	$ 50.01	3.9%
200	$ 2,861.21	$ 2,906.72	$ 45.51	1.6%	$ 1,269.71	$ 1,319.72	$ 50.01	3.9%
250	$ 3,224.40	$ 3,268.78	$ 44.38	1.4%	$ 1,263.46	$ 1,313.47	$ 50.01	4.0%
300	$ 3,587.59	$ 3,630.85	$ 43.26	1.2%	$ 1,257.21	$ 1,307.22	$ 50.01	4.0%
400	$ 4,313.97	$ 4,354.97	$ 41.00	1.0%	$ 1,244.72	$ 1,294.72	$ 50.00	4.0%
500	$ 5,040.35	$ 5,079.10	$ 38.75	0.8%	$ 1,232.22	$ 1,282.22	$ 50.00	4.1%
600	$ 5,766.72	$ 5,803.22	$ 36.50	0.6%	$ 1,219.72	$ 1,269.72	$ 50.00	4.1%
700	$ 6,493.10	$ 6,527.35	$ 34.25	0.5%	$ 1,207.22	$ 1,257.22	$ 50.00	4.1%
730	$ 6,711.01	$ 6,744.58	$ 33.57	0.5%	$ 1,203.47	$ 1,253.47	$ 50.00	4.2%

PECO
Comparison of Monthly Bills
Rate PD Primary Distribution Power
Demand = 50 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	Existing Rate	Proposed Rate	$ Change	% Change	Existing Rate	Proposed Rate	$ Change	% Change
0	$ 474.04	$ 482.05	$ 8.01	1.7%	$ 455.84	$ 463.85	$ 8.01	1.8%
50	$ 886.30	$ 905.86	$ 19.56	2.2%	$ 693.02	$ 713.03	$ 20.01	2.9%
100	$ 1,031.57	$ 1,050.68	$ 19.11	1.9%	$ 690.52	$ 710.53	$ 20.01	2.9%
150	$ 1,176.85	$ 1,195.51	$ 18.66	1.6%	$ 688.02	$ 708.03	$ 20.01	2.9%
200	$ 1,322.12	$ 1,340.33	$ 18.21	1.4%	$ 685.52	$ 705.53	$ 20.01	2.9%
250	$ 1,467.40	$ 1,485.16	$ 17.76	1.2%	$ 683.02	$ 703.03	$ 20.01	2.9%
300	$ 1,612.67	$ 1,629.98	$ 17.31	1.1%	$ 680.52	$ 700.53	$ 20.01	2.9%
400	$ 1,903.22	$ 1,919.63	$ 16.41	0.9%	$ 675.52	$ 695.53	$ 20.01	3.0%
500	$ 2,193.77	$ 2,209.28	$ 15.51	0.7%	$ 670.52	$ 690.53	$ 20.01	3.0%
600	$ 2,484.32	$ 2,498.93	$ 14.61	0.6%	$ 665.52	$ 685.53	$ 20.01	3.0%
700	$ 2,774.87	$ 2,788.58	$ 13.71	0.5%	$ 660.52	$ 680.53	$ 20.01	3.0%
730	$ 2,862.04	$ 2,875.48	$ 13.44	0.5%	$ 659.02	$ 679.03	$ 20.01	3.0%

PECO
Comparison of Monthly Bills
Rate GS General Service Demand Measurement
Demand = 100 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**	**Existing Rate**	**Proposed Rate**	**$ Change**	**% Change**
0	$ 54.92	$ 56.35	$ 1.43	2.6%	$ 53.08	$ 54.50	$ 1.43	2.7%
50	$ 1,284.23	$ 1,332.17	$ 47.94	3.7%	$ 829.53	$ 878.37	$ 48.84	5.9%
100	$ 1,573.03	$ 1,620.07	$ 47.04	3.0%	$ 817.63	$ 866.47	$ 48.84	6.0%
150	$ 1,861.83	$ 1,907.97	$ 46.14	2.5%	$ 805.73	$ 854.57	$ 48.84	6.1%
200	$ 2,150.63	$ 2,195.88	$ 45.25	2.1%	$ 793.83	$ 842.68	$ 48.85	6.2%
250	$ 2,439.43	$ 2,483.78	$ 44.35	1.8%	$ 781.93	$ 830.78	$ 48.85	6.2%
300	$ 2,728.23	$ 2,771.68	$ 43.45	1.6%	$ 770.03	$ 818.88	$ 48.85	6.3%
400	$ 3,305.84	$ 3,347.48	$ 41.64	1.3%	$ 746.24	$ 795.08	$ 48.84	6.5%
500	$ 3,883.44	$ 3,923.28	$ 39.84	1.0%	$ 722.44	$ 771.28	$ 48.84	6.8%
600	$ 4,461.04	$ 4,499.09	$ 38.05	0.9%	$ 698.64	$ 747.49	$ 48.85	7.0%
700	$ 5,038.64	$ 5,074.89	$ 36.25	0.7%	$ 674.84	$ 723.69	$ 48.85	7.2%
730	$ 5,211.92	$ 5,247.63	$ 35.71	0.7%	$ 667.70	$ 716.55	$ 48.85	7.3%

PECO
Comparison of Monthly Bills
Rate GS General Service Demand Measurement
Demand = 13 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	Existing Rate	Proposed Rate	$ Change	% Change	Existing Rate	Proposed Rate	$ Change	% Change
0	$ 29.59	$ 30.52	$ 0.93	3.1%	$ 27.75	$ 28.67	$ 0.93	3.3%
50	$ 179.46	$ 185.94	$ 6.48	3.6%	$ 120.35	$ 126.94	$ 6.59	5.5%
100	$ 217.01	$ 223.36	$ 6.35	2.9%	$ 118.81	$ 125.40	$ 6.59	5.5%
150	$ 254.55	$ 260.79	$ 6.24	2.5%	$ 117.26	$ 123.85	$ 6.59	5.6%
200	$ 292.10	$ 298.22	$ 6.12	2.1%	$ 115.71	$ 122.30	$ 6.59	5.7%
250	$ 329.64	$ 335.65	$ 6.01	1.8%	$ 114.17	$ 120.76	$ 6.59	5.8%
300	$ 367.18	$ 373.07	$ 5.89	1.6%	$ 112.62	$ 119.21	$ 6.59	5.9%
400	$ 442.27	$ 447.93	$ 5.66	1.3%	$ 109.52	$ 116.11	$ 6.59	6.0%
500	$ 517.36	$ 522.78	$ 5.42	1.0%	$ 106.43	$ 113.02	$ 6.59	6.2%
600	$ 592.45	$ 597.63	$ 5.18	0.9%	$ 103.34	$ 109.93	$ 6.59	6.4%
700	$ 667.54	$ 672.49	$ 4.95	0.7%	$ 100.24	$ 106.83	$ 6.59	6.6%
730	$ 690.06	$ 694.94	$ 4.88	0.7%	$ 99.31	$ 105.90	$ 6.59	6.6%

PECO
Comparison of Monthly Bills
Rate GS General Service Demand Measurement
Demand = 9 kW

	Total Bill				Excluding Generation & Transmission			
Hrs Usage	Existing Rate	Proposed Rate	$ Change	% Change	Existing Rate	Proposed Rate	$ Change	% Change
0	$ 29.59	$ 30.52	$ 0.93	3.1%	$ 27.75	$ 28.67	$ 0.93	3.3%
50	$ 129.83	$ 134.42	$ 4.59	3.5%	$ 88.91	$ 93.58	$ 4.67	5.3%
100	$ 155.82	$ 160.33	$ 4.51	2.9%	$ 87.84	$ 92.51	$ 4.67	5.3%
150	$ 181.82	$ 186.24	$ 4.42	2.4%	$ 86.77	$ 91.44	$ 4.67	5.4%
200	$ 207.81	$ 212.15	$ 4.34	2.1%	$ 85.70	$ 90.37	$ 4.67	5.4%
250	$ 233.80	$ 238.07	$ 4.27	1.8%	$ 84.63	$ 89.30	$ 4.67	5.5%
300	$ 259.79	$ 263.98	$ 4.19	1.6%	$ 83.55	$ 88.22	$ 4.67	5.6%
400	$ 311.78	$ 315.80	$ 4.02	1.3%	$ 81.41	$ 86.08	$ 4.67	5.7%
500	$ 363.76	$ 367.62	$ 3.86	1.1%	$ 79.27	$ 83.94	$ 4.67	5.9%
600	$ 415.74	$ 419.44	$ 3.70	0.9%	$ 77.13	$ 81.80	$ 4.67	6.1%
700	$ 467.73	$ 471.26	$ 3.53	0.8%	$ 74.99	$ 79.66	$ 4.67	6.2%
730	$ 483.32	$ 486.81	$ 3.49	0.7%	$ 74.34	$ 79.01	$ 4.67	6.3%

Q. IV-E-1

Provide a cost study, which allocates the total cost of service to each proposed tariff rate schedule. Tariff rates schedules may be combined for this purpose provided that they are of a similar supply or end use nature. A statement describing which rates were combined and the reasons therefore should be submitted.

The rates of return for each tariff rate schedule as defined above should be determined at both determined at both the present and proposed rate levels. Base rate revenues should be used for this purpose unless there are good and sufficient reasons to include revenues derived from other sources. Should the latter be the case, an explanation of other revenue sources included and reasons therefore should accompany the cost allocation study.

The methods selected for use in allocating costs to rate classes should include cost analyses based on:

a. Peak responsibility.
b. Average and excess, on a non-coincident demand basis.
c. Company preferred method if different from the above-referenced methods, with rationale behind the selection. This study should include a statement of the sources and age of the load data used in the determination of demand responsibilities, a description of any special studies used to prepare the cost study, and the most recent overall system line loss study. The cost data used in the allocation study may be based on the test year.

A. IV-E-1

The testimony and exhibits of Company witness Jiang Ding, PECO Statement No. 6, provide the Company's complete class cost of service study.

Q. IV-E-2 Provide comparisons in either graphical or tabular form showing cost, as defined in the cost of service study, and proposed base rate revenues and usage for all residential and demand/energy rate schedules. Demand shall be for representative loads for each demand/energy rate schedule.

A. IV-E-2 Refer to Attachment IV-E-2(a) for the requested information.

PECO Energy Company
Residential Customer
Cost vs. Revenue

Customer Cost ($)	$	26.47
Demand ($/kW)	$	8.07
NCP (kW/kWh)		0.004
Energy ($/kWh)	$	0.00041
Customer Charge ($)	$	12.50
Variable Charge ($/kWh)[1]	$	0.05422

kWh		Cost		Revenue
100	$	29.77	$	17.92
200	$	33.08	$	23.34
300	$	36.38	$	28.77
400	$	39.69	$	34.19
500	$	42.99	$	39.61
600	$	46.30	$	45.03
650	$	47.95	$	47.74
700	$	49.61	$	50.45
800	$	52.91	$	55.88
900	$	56.22	$	61.30
1,000	$	59.52	$	66.72
1,250	$	67.79	$	80.27
1,500	$	76.05	$	93.83
1,750	$	84.32	$	107.38
2,000	$	92.58	$	120.94

1. Variable charge was adjusted for CAP disc

PECO Energy Company
Residential Heating Customer
Cost vs. Revenue

Customer Cost ($)	$	26.87
Demand ($/kW)	$	8.08
NCP (kW/kWh)		0.005
Energy ($/kWh)	$	0.00041
Customer Charge ($)	$	12.50
Variable Charge ($/kWh)[1]	$	0.04767

kWh		Cost		Revenue
750	$	55.74	$	48.25
1,000	$	65.37	$	60.17
1,250	$	74.99	$	72.09
1,350	$	78.84	$	76.85
1,500	$	84.62	$	84.00
1,750	$	94.24	$	95.92
2,000	$	103.87	$	107.84
2,250	$	113.49	$	119.76
2,500	$	123.11	$	131.67
2,750	$	132.74	$	143.59
3,000	$	142.36	$	155.51

1. Variable charge was weighted average of Summer and Winter charges, and was adjusted for CAP discounts.

PECO Energy Company
Rate General Service Customer
Cost vs. Revenue

Customer Cost ($)	$ 32.25	Customer Charge ($)[1]	$ 23.60
Demand ($/kW)	$ 7.97	Variable Charge ($/kW)	$ 7.94
NCP (x Billed Demand)	0.85	Decommissioning Cost($/kWh)	$ (0.00060)
Energy ($/kWh)	$ 0.00020		

5 kW			15 kW			100 kW		
Hours Use	**Cost**	**Revenue**	**Hours Use**	**Cost**	**Revenue**	**Hours Use**	**Cost**	**Revenue**
50	$ 66	$ 63	50	$ 134	$ 142	50	$ 708	$ 815
100	$ 66	$ 63	100	$ 134	$ 142	100	$ 709	$ 812
150	$ 66	$ 63	150	$ 134	$ 141	150	$ 710	$ 809
200	$ 66	$ 63	200	$ 134	$ 141	200	$ 711	$ 806
250	$ 66	$ 63	250	$ 134	$ 140	250	$ 712	$ 803
300	$ 66	$ 62	300	$ 134	$ 140	300	$ 713	$ 800
350	$ 66	$ 62	350	$ 135	$ 140	350	$ 714	$ 797
400	$ 66	$ 62	400	$ 135	$ 139	400	$ 715	$ 794
450	$ 66	$ 62	450	$ 135	$ 139	450	$ 716	$ 791
500	$ 66	$ 62	500	$ 135	$ 138	500	$ 717	$ 788
550	$ 67	$ 62	550	$ 135	$ 138	550	$ 718	$ 785
600	$ 67	$ 62	600	$ 135	$ 137	600	$ 719	$ 782
650	$ 67	$ 61	650	$ 135	$ 137	650	$ 720	$ 779
700	$ 67	$ 61	700	$ 136	$ 136	700	$ 721	$ 776

1. Customer charge was weighted average customer charges.

PECO Energy Company
Rate Primary Distribution Customer
Cost vs. Revenue

Customer Cost ($)	$ 310.77	Customer Charge ($)	$ 296.10
Demand ($/kW)	$ 7.09	Variable Charge ($/kW)	$ 7.42
NCP (x Billed Demand)	0.96	Decommissioning Cost($/kWh)	$ (0.00060)
Energy ($/kWh)	$ 0.00013		

100 kW			250 kW			500 kW		
Hours Use	**Cost**	**Revenue**	**Hours Use**	**Cost**	**Revenue**	**Hours Use**	**Cost**	**Revenue**
50	$ 989	$ 1,035	50	$ 2,007	$ 2,144	50	$ 3,703	$ 3,991
100	$ 990	$ 1,032	100	$ 2,009	$ 2,136	100	$ 3,707	$ 3,976
150	$ 991	$ 1,029	150	$ 2,010	$ 2,129	150	$ 3,710	$ 3,961
200	$ 991	$ 1,026	200	$ 2,012	$ 2,121	200	$ 3,713	$ 3,946
250	$ 992	$ 1,023	250	$ 2,013	$ 2,114	250	$ 3,716	$ 3,931
300	$ 992	$ 1,020	300	$ 2,015	$ 2,106	300	$ 3,719	$ 3,916
350	$ 993	$ 1,017	350	$ 2,017	$ 2,099	350	$ 3,722	$ 3,901
400	$ 994	$ 1,014	400	$ 2,018	$ 2,091	400	$ 3,726	$ 3,886
450	$ 994	$ 1,011	450	$ 2,020	$ 2,084	450	$ 3,729	$ 3,871
500	$ 995	$ 1,008	500	$ 2,021	$ 2,076	500	$ 3,732	$ 3,856
550	$ 996	$ 1,005	550	$ 2,023	$ 2,069	550	$ 3,735	$ 3,841
600	$ 996	$ 1,002	600	$ 2,025	$ 2,061	600	$ 3,738	$ 3,826
650	$ 997	$ 999	650	$ 2,026	$ 2,054	650	$ 3,741	$ 3,811
700	$ 998	$ 996	700	$ 2,028	$ 2,046	700	$ 3,745	$ 3,796

PECO Energy Company
Rate High Tension Customer
Cost vs. Revenue

Customer Cost ($)	$ 344.65	Customer Charge ($)	$ 299.63
Demand ($/kW)	$ 4.88	Variable Charge ($/kW)	$ 5.23
NCP (x Billed Demand)	0.92	Decommissioning Cost $(kWh)	$ (0.00060)
Energy ($/kWh)	$ 0.00013	High Voltage Discount ($/kW)[1]	$ (0.14)

500 kW			1000 kW			2500 kW		
Hours Use	**Cost**	**Revenue**	**Hours Use**	**Cost**	**Revenue**	**Hours Use**	**Cost**	**Revenue**
50	$ 2,590	$ 2,827	50	$ 4,836	$ 5,355	50	$ 11,572	$ 12,938
100	$ 2,593	$ 2,812	100	$ 4,842	$ 5,325	100	$ 11,588	$ 12,863
150	$ 2,596	$ 2,797	150	$ 4,848	$ 5,295	150	$ 11,604	$ 12,788
200	$ 2,600	$ 2,782	200	$ 4,855	$ 5,265	200	$ 11,620	$ 12,713
250	$ 2,603	$ 2,767	250	$ 4,861	$ 5,235	250	$ 11,636	$ 12,638
300	$ 2,606	$ 2,752	300	$ 4,867	$ 5,205	300	$ 11,652	$ 12,563
350	$ 2,609	$ 2,737	350	$ 4,874	$ 5,175	350	$ 11,668	$ 12,488
400	$ 2,612	$ 2,722	400	$ 4,880	$ 5,145	400	$ 11,684	$ 12,413
450	$ 2,616	$ 2,707	450	$ 4,887	$ 5,115	450	$ 11,699	$ 12,338
500	$ 2,619	$ 2,692	500	$ 4,893	$ 5,085	500	$ 11,715	$ 12,263
550	$ 2,622	$ 2,677	550	$ 4,899	$ 5,055	550	$ 11,731	$ 12,188
600	$ 2,625	$ 2,662	600	$ 4,906	$ 5,025	600	$ 11,747	$ 12,113
650	$ 2,628	$ 2,647	650	$ 4,912	$ 4,995	650	$ 11,763	$ 12,038
700	$ 2,632	$ 2,632	700	$ 4,918	$ 4,965	700	$ 11,779	$ 11,963

1. High voltage discount was weighted average of high voltage discounts.

Q. V-A-1	Provide supporting schedules which indicate the procedures and calculations employed to develop the original cost plant and applicable reserves to the test year end as submitted in the current proceeding.
A. V-A-1	Refer to V-A-3 for the procedures and calculations employed to develop the original cost plant and applicable reserves.

Q. V-A-2 Provide a comparison of calculated depreciation reserve versus book reserve at the end of the test year. Provide this comparison by functional group and by account if available.

A. V-A-2 Not applicable. In its final order at Docket No. R-842590, the Pennsylvania Public Utility Commission approved PECO's use of the book reserve remaining life method of depreciation and also approved PECO's adjusted book reserve as the measure of accrued depreciation for ratemaking. Accordingly, PECO's claim for the depreciated original cost of utility plant in service is based on its book reserve, and a calculated depreciation reserve is not employed.

Q. V-A-3 Provide supporting schedules which indicate the procedures and calculations employed to develop the original cost plant and applicable reserves to the test year end as submitted in the current proceeding.

A. V-A-3 Refer to Attachments V-A-3(a) and V-A-3(c) for the calculations and procedures, respectively, employed to develop the original cost of utility plant at December 31, 2018 and December 31, 2019. Also, refer to Attachments V-A-3(b) and V-A-3(c) for the calculations and procedures, respectively, employed to develop the reserves by account at December 31, 2018 and December 31, 2019.

PECO Energy Company
Plant Costs by Account

Calculation of Original Cost of Utility Plant
December 31, 2018 & December 31, 2019

	(A)	(B)	(C)	(A+B+C) = (I)	(J)	(K)	(I+J+K)
	Gross Cost 12/31/17	**Additions 2018**	**Retirements 2018**	**Gross Cost 12/31/18**	**Additions 2019**	**Retirements 2019**	**Gross Cost 12/31/19**
Intangible Plant							
E302 - Franchises and Consents	162,934	-	-	162,934	-	-	162,934
E303 - Misc Intangible Plant	151,584,420	21,324,547	(588,834)	172,320,133	18,010,565	(588,834)	189,741,864
Sub-Total Intangible Plant	**151,747,354**	**21,324,547**	**(588,834)**	**172,483,067**	**18,010,565**	**(588,834)**	**189,904,798**
Distribution Plant							
E360 - Land and Land Rights	42,883,588	-	-	42,883,588	-	-	42,883,588
E361 - Structures and Improvements	113,662,305	12,102,521	(335,999)	125,428,827	14,168,298	(335,999)	139,261,126
E362 - Station Equipment	1,033,989,100	60,673,117	(1,368,617)	1,093,293,600	71,208,079	(1,368,617)	1,163,133,062
E364 - Poles, Towers and Fixtures	685,536,322	34,264,935	(3,248,571)	716,552,686	40,717,827	(3,248,571)	754,021,942
E365 - Overhead Conductors, Devices	1,177,016,237	80,671,026	(5,539,337)	1,252,147,926	95,318,697	(5,539,337)	1,341,927,286
E366 - Underground Conduit	407,267,888	26,435,108	(287,392)	433,415,604	31,094,535	(287,392)	464,222,747
E367 - Undergrnd Conductors, Devics	1,187,119,385	92,569,013	(8,096,960)	1,271,591,438	109,262,925	(8,096,960)	1,372,757,403
E368 - Line Transformers	578,337,607	33,238,447	(8,066,974)	603,509,080	38,767,345	(8,066,974)	634,209,451
E369 - Services	410,589,531	10,946,002	(429,616)	421,105,917	12,857,545	(429,616)	433,533,846
E370 - Meters	304,938,954	19,392,077	(22,442)	324,308,589	22,592,266	(22,442)	346,878,413
E371 - Installs on Customer Premiss	13,772,346	-	-	13,772,346	-	-	13,772,346
E373 - Street Lighting,Signal Systm	62,823,959	5,364,861	(950,175)	67,238,645	6,259,169	(950,175)	72,547,639
E374 - ARO Costs Distribution Plt	1,938,911	-	(23,072)	1,915,839	-	(23,072)	1,892,767
Sub-Total Distribution Plant	**6,019,876,133**	**375,657,107**	**(28,369,155)**	**6,367,164,085**	**442,246,686**	**(28,369,155)**	**6,781,041,616**
General Plant							
E389 - Land and Land Rights	1,063,459	-	-	1,063,459	-	-	1,063,459
E390 - Structures and Improvements	49,660,751	1,354,800	(587,771)	50,427,780	271,917	(587,771)	50,111,926
E391 - Office Furniture, Equipment	15,879,377	3,148,949	(1,935,517)	17,092,809	1,081,933	(1,935,517)	16,239,225
E393 - Stores Equipment	46,470	-	(3,392)	43,078	-	(3,392)	39,686
E394 - Tools, Shop, Garage Equipmnt	32,073,779	2,817,827	(822,003)	34,069,603	987,843	(822,003)	34,235,443
E395 - Laboratory Equipment	419,715	-	-	419,715	-	-	419,715
E397 - Communication Equipment	154,699,047	7,634,923	(1,239,610)	161,094,360	2,976,806	(1,239,610)	162,831,556
E398 - Miscellaneous Equipment	865,598	-	(159,394)	706,204	-	(159,394)	546,810
E399.1 - ARO Costs General Plt	1,688,730	-	(8,208)	1,680,522	-	(8,208)	1,672,314
Sub-Total General Plant	**256,396,926**	**14,956,499**	**(4,755,895)**	**266,597,530**	**5,318,499**	**(4,755,895)**	**267,160,134**
Common Plant							
E301 - Organization Costs	677,136	-	-	677,136	-	-	677,136
E303 - Misc Intangible Plant	226,306,208	48,518,987	(4,494,736)	270,330,459	24,733,604	(4,494,736)	290,569,327
E389 - Land and Land Rights	6,783,056	147,505	(10,572)	6,919,989	147,505	(10,572)	7,056,922
E390 - Structures and Improvements	271,950,717	24,996,845	(1,114,306)	295,833,256	22,070,490	(1,114,306)	316,789,440
E391 - Office Furniture, Equipment	44,127,253	24,096,093	(6,314,848)	61,908,498	18,269,500	(6,314,848)	73,863,150
E392 - Transportation Equipment	121,146,672	9,881,041	(6,035,308)	124,992,405	10,164,077	(6,035,308)	129,121,174
E393 - Stores Equipment	1,253,293	868,880	-	2,122,173	773,733	-	2,895,906
E394 - Tools, Shop, Garage Equipmnt	2,589,961	(1,519)	(134,448)	2,453,994	(1,904)	(134,448)	2,317,642
E396 - Power Operated Equipment	185,066	-	-	185,066	-	-	185,066
E397 - Communication Equipment	32,006,547	3,268,721	(459,395)	34,815,873	2,910,668	(459,395)	37,267,146
E398 - Miscellaneous Equipment	1,679,306	25,043	-	1,704,349	22,301	-	1,726,650
E399 - Other Tangible Property	-	-	-	-	-	-	-
E399.1 - ARO Costs General Plt	1,269,336	-	(426,615)	842,721	-	(426,615)	416,106
Sub-Total Common Plant	**709,974,551**	**111,801,596**	**(18,990,228)**	**802,785,919**	**79,089,974**	**(18,990,228)**	**862,885,665**

(1) NOTE: Amounts for Intangible Plant, Electric General Plant and Common Plant are shown unallocated.

See Attachment V-A-3(c) for explanations of columnar heading letter references.

Attachment V-A-3(b)

PECO Energy Company

Plant Reserve by Account

Calculation of Plant Reserve by Account
December 31, 2018 & December 31, 2019

	(D)	(E)	(F)	(G)	(D+E+F+G) = (L)	(M)	(N)	(O)	P=(L+M+N+O)
	Reserve 12/31/17	**Depreciation 2018**	**Retirements 2018**	**2018 Net Salvage**	**Reserve 12/31/18**	**Depreciation 2019**	**Retirements 2019**	**2019 Net Salvage**	**Reserve 12/31/19**
Electric - Intangible Plant									
E303 - Misc Intangible Plant	93,824,262	17,699,655	(588,834)	-	110,935,083	18,186,020	(588,834)	-	128,532,269
Sub-Total Electric - Intangible Plant	**93,824,262**	**17,699,655**	**(588,834)**	**-**	**110,935,083**	**18,186,020**	**(588,834)**	**-**	**128,532,269**
Electric - Distribution Plant									
E361 - Structures and Improvements	37,110,641	2,315,281	(335,999)	(415,401)	38,674,522	2,747,729	(335,999)	(415,401)	40,670,851
E362 - Station Equipment	432,746,600	19,614,936	(1,368,617)	(3,165,239)	447,827,680	21,820,316	(1,368,617)	(3,165,239)	465,114,140
E364 - Poles, Towers and Fixtures	144,204,165	14,268,511	(3,248,571)	(4,837,437)	150,386,668	15,619,354	(3,248,571)	(4,837,437)	157,920,014
E365 - Overhead Conductors, Devices	256,315,214	24,726,463	(5,539,337)	(8,088,980)	267,413,360	27,792,794	(5,539,337)	(8,088,980)	281,577,837
E366 - Underground Conduit	156,650,276	6,363,091	(287,392)	(1,799,470)	160,926,505	7,338,492	(287,392)	(1,799,470)	166,178,135
E367 - Undergrnd Conductors, Devics	187,943,128	25,365,198	(8,096,960)	(8,590,536)	196,620,830	28,859,888	(8,096,960)	(8,590,536)	208,793,222
E368 - Line Transformers	186,555,510	12,566,108	(8,066,974)	(264,832)	190,789,812	13,723,523	(8,066,974)	(264,832)	196,181,529
E369 - Services	154,172,331	8,079,300	(429,616)	(637,312)	161,184,703	8,479,461	(429,616)	(637,312)	168,597,236
E370 - Meters	77,710,236	19,471,043	(22,442)	-	97,158,837	20,140,967	(22,442)	-	117,277,362
E371 - Installs on Customer Premiss	6,313,466	796,951	-	-	7,110,417	796,951	-	-	7,907,368
E373 - Street Lighting,Signal Systm	34,041,458	1,575,261	(950,175)	(54,347)	34,612,197	1,762,474	(950,175)	(54,347)	35,370,149
E374 - ARO Costs Distribution Plt	2,270,869	(250,275)	(23,072)	-	1,997,522	15,985	(23,072)	-	1,990,435
Sub-Total Electric - Distribution Plant	**1,676,033,894**	**134,891,868**	**(28,369,155)**	**(27,853,554)**	**1,754,703,053**	**149,097,934**	**(28,369,155)**	**(27,853,554)**	**1,847,578,278**
Electric - General Plant									
E390 - Structures and Improvements	11,272,571	1,467,882	(587,771)	(314,560)	11,838,122	1,546,160	(587,771)	(314,560)	12,481,951
E391 - Office Furniture, Equipment	5,403,336	2,844,674	(1,935,517)	(62,901)	6,249,592	2,992,578	(1,935,517)	(62,901)	7,243,752
E393 - Stores Equipment	2,948	4,034	(3,392)	-	3,590	4,034	(3,392)	-	4,232
E394 - Tools, Shop, Garage Equipmnt	8,989,047	2,357,016	(822,003)	(3,253)	10,520,807	2,489,299	(822,003)	(3,253)	12,184,850
E395 - Laboratory Equipment	276,841	20,264	-	-	297,105	20,264	-	-	317,369
E397 - Communication Equipment	36,500,830	8,744,422	(1,239,610)	(49,314)	43,956,328	9,051,101	(1,239,610)	(49,314)	51,718,505
E398 - Miscellaneous Equipment	726,118	77,060	(159,394)	-	643,784	62,420	(159,394)	-	546,810
E399.1 - ARO Costs General Plt	304,425	135,900	(8,208)	-	432,117	135,900	(8,208)	-	559,809
Sub-Total Electric - General Plant	**63,476,116**	**15,651,252**	**(4,755,895)**	**(430,028)**	**73,941,445**	**16,301,756**	**(4,755,895)**	**(430,028)**	**85,057,278**
Common - General Plant									
E303 - Misc Intangible Plant	180,170,326	20,400,981	(4,494,736)	-	196,076,571	27,123,235	(4,494,736)	-	218,705,070
E389 - Land and Land Rights	-	-	(10,572)	147,505	136,933	-	(10,572)	147,505	273,866
E390 - Structures and Improvements	73,134,853	5,832,705	(1,114,306)	(1,726,561)	76,126,691	6,705,584	(1,114,306)	(1,726,561)	79,991,408
E391 - Office Furniture, Equipment	13,936,066	7,122,919	(6,314,848)	(452,244)	14,291,893	11,683,848	(6,314,848)	(452,244)	19,208,649
E392 - Transportation Equipment	50,870,988	8,201,930	(6,035,308)	598,173	53,635,783	9,502,094	(6,035,308)	598,173	57,700,742
E393 - Stores Equipment	207,643	123,003	-	-	330,646	151,383	-	-	482,029
E394 - Tools, Shop, Garage Equipmnt	1,310,050	139,006	(134,448)	(5,037)	1,309,571	139,121	(134,448)	(5,037)	1,309,207
E396 - Power Operated Equipment	179,897	1,512	-	-	181,409	1,512	-	-	182,921
E397 - Communication Equipment	15,508,096	1,729,058	(459,395)	(1,013)	16,776,746	1,835,859	(459,395)	(1,013)	18,152,197
E398 - Miscellaneous Equipment	848,595	116,506	-	-	965,101	117,324	-	-	1,082,425
E399 - Other Tangible Property	-	-	-	-	-	-	-	-	-
E399.1 - ARO Costs General Plt	(195,881)	51,045	(426,615)	-	(571,451)	51,045	(426,615)	-	(947,021)
Sub-Total Common - General Plant	**335,970,633**	**43,718,665**	**(18,990,228)**	**(1,439,177)**	**359,259,893**	**57,311,005**	**(18,990,228)**	**(1,439,177)**	**396,141,493**

[1] NOTE: Amounts for Intangible Plant, Electric General Plant and Common Plant are shown unallocated.
See Attachment V-A-3(c) for explanations of columnar heading letter references.

PECO Energy Company
Attachment V-A-3 (a)&(b) References

(A) The amounts were reconciled to the general ledger balance at December 31, 2017.

(B) / (J) For purposes of estimating the 2018 and 2019 utility plant-in-service additions by utility account, the 2018 and 2019 budgeted capital expenditures are placed in-service in the period capital expenditure is forecasted to occur, except for large multiple year projects. For the large multiple year projects, the capital expenditures are placed in-service based on the estimated in-service dates. For example, if the total Electric Distribution capital budgets (with no multiple year projects planned) for 2018 and 2019 are $100M and $100M, respectively then the additions placed in service would be $100M and $100M for 2018 and 2019, respectively. However, assume $10M multiple year project has forecasted capital expenditures of $5M in 2018 and $5M in 2019 with an estimated in-service date in 2019. In this scenario, the 2018 additions will be $95M and the 2019 additions will be $105M. The product of this calculation is used as the estimate for the 2018 and 2019 additions to Electric Distribution plant included in Attachment V-A-3(a). This calculation is performed at a functional level of plant, including Electric Distribution, General and Common plant for purposes of this filing.

After calculating the total plant additions by functional group using the methodology described previously, PECO allocated the total additions to the account level, as follows; (1) three-year historical average ratios of plant additions by utility accounts to the total plant additions for the historical period were calculated; (2) those ratios, or percentages by account, were applied to the total estimated 2018 and 2019 forecasted placed in-service, to derive the additions at the account level. For purposes of this calculation, the three-year period covered 2015 through 2017.

(C) / (K) Retirements are estimated using a three-year historical average at the account level. Years 2015 through 2017 were used to calculate the average.

(D) The amounts were reconciled to the general ledger balance at December 31, 2017.

(E) Accrued depreciation is calculated by applying the 2018 account-level net book value (NBV) depreciation rates to the account-level NBV amounts at December 31, 2017 to determine “baseline” depreciation. Depreciation for the estimated 2018 plant additions (see Attachment V-A-3(a)) is calculated using monthly declining NBV with a mid-month convention multiplied by the 2018 weighted average composite depreciation rates (based on the 12/31/17 account level NBV and the 2018 account-level depreciation rates) for each functional account group’s additions (i.e. Electric Distribution, Electric Transmission, Electric General, Common).

(F) / (N) See (C) above.

(G) / (O) Net Salvage (salvage less cost of removal) is calculated using a historic three-year average of net salvage by account. For purposes of this filing, the three-year period covers the years from 2015 through 2017.

(M) Accrued depreciation is calculated by applying the 2018 account-level net book value (NBV) depreciation rates to the account-level NBV amounts at December 31, 2017 to determine “baseline” depreciation. Depreciation for the estimated 2019 plant additions (see Attachment V-A-3(a)) is calculated on a straightline basis using a mid-month convention multiplied by the 2018 weighted average composite depreciation rates (estimated using the 12/31/17 account level NBV and the 2018 account-level depreciation rates) for each functional account group’s additions (i.e. Electric Distribution, Electric Transmission, Electric General, Common).

(I) / (P) Original cost of plant for the future test year and the fully projected future test year are calculated by adding the estimated additions for the year to the ending balance of the prior year and subtracting the estimated retirements for the year. This will provide the gross cost of plant at the end of 2018 and 2019, respectively.

V-A-4
Page 1 of 1
Benjamin S. Yin

Q. V-A-4 Provide a schedule showing details of rate case adjustments.

A. V-A-4 Refer to Exhibits BSY-1 and BSY-2 for the fully projected future test year (FPFTY) and the future test year (FTY), respectively. Within each exhibit, Schedules D-3 and D-5 provide a summary of the ratemaking adjustments made to develop the Company's claims for revenues and expenses as well as references to the additional pages and schedules that show the details of each adjustment. A summary of the development of the Company's rate base claims is provided in Schedule C-1 of Exhibits BSY-1 and BSY-2 for the FPFTY and FTY, respectively, with references to additional schedules that show further detail. A summary of the development of the Company's claims for state and federal income tax is provided in Schedule D-18 of Exhibits BSY-1 and BSY-2 for the FPFTY and FTY, respectively, with references to additional schedules that show further detail.

V-B-1
Page 1 of 1
Scott A. Bailey

Q. V-B-1	Provide a comparison of calculated depreciation accruals versus book accruals by function and by account if available.
A. V-B-1	Not applicable. See the Company's response to V-A-2.

Q. V-B-2 Supply a schedule by account or by depreciable group showing the survivor curve or interim survivor curve and annual accrual rate estimated to be appropriate:

(a) For the purpose of this filing
(b) For the purpose of the most recent rate filing prior to the current proceeding
(c) Supply an explanation for any major change in annual accrual rate by account or by depreciable group.
(d) Supply a comprehensive statement of major changes made in depreciation methods, procedures and techniques and the effect of the changes upon accumulated and annual depreciation, if any.

A. V-B-2

(a) Refer to Exhibit SAB-4 – Part VI.
(b) Exhibit SAB-4 – Part VI is the schedule from the 2015 rate filing.
(c) Refer to Exhibit SAB-4 – Executive Summary
(d) There have been no major changes in depreciation methods, procedures, or techniques.

Q. V-C-1 Where the retirement rate actuarial method of mortality analysis is utilized, set forth representative examples including charts depicting the observed and estimated survivor curves and a tabular presentation of the observed and estimated life tables plotted on the chart. Other analysis results shall be subject to request.

A. V-C-1 Refer to Exhibit SAB-4 – Part VII.

Q. V-D-1 Provide the surviving original cost plant at the appropriate test year date or dates by account or functional property group and include claimed depreciation reserves. Provide annual depreciation accruals where appropriate. These calculations should be provided for plant in service as well as other categories of plant, including but not limited to, contributions in aid of construction, customers' advances for construction, and anticipated retirements associated with construction work in progress claims, if applicable.

A. V-D-1 Refer to PECO Exhibit BSY-1 for the original cost plant data and the related reserve and depreciation accrual data.

Construction costs are accounted for net of contribution in aid of construction ("CIAC") in the construction work in progress ("CWIP") account. Upon completion of the project and after applying all CIAC, the remaining costs, if any, are moved from CWIP to plant-in-service. PECO's capital expenditures budget is net of CIAC and included in plant additions using the conversion of capital to plant-in-service as described in the response to V-A-3.

PECO is making no claims for construction work in progress, and therefore, retirements from CWIP are not relevant for this proceeding.

Q. V-D-2	Provide representative examples of detail calculations by vintage at account or at a more detailed level, as performed for these purposes. Other vintage detail calculations shall be subject to request.
A. V-D-2	Refer to PECO Exhibit SAB-4 for the detailed depreciation calculations in Part VIII.

Q. V-E-1	Provide a description of the depreciation methods utilized in calculating annual depreciation amounts and depreciation reserves, together with a discussion of the significant factors which were considered in arriving at estimates of service life and forecast retirements by facilities, accounts or sub-accounts, as applicable.
A. V-E-1	Refer to PECO Exhibit SAB-4, which is a copy of the 2013 Depreciation Study Calculated Annual Depreciation Accruals Related to Electric and Common Plant as of December 31, 2013 that was submitted to the Pennsylvania Public Utility Commission in March 2015. See the Basis of the Study section in part I of the study for the information requested.

Q. VI-Statements Provide the following unadjusted detailed schedules by function and by FERC account for the claimed test year and for each of the 3 preceding comparable years:

A. Balance sheet, in the form available
B. Statement of income
C. Plant in service
D. Accumulated depreciation

A . VI-Statements

A. Refer to PECO Exhibits BSY-1 and BSY-2 for the fully projected future test year and future test year. Refer to SDR-ROR-2 for the 2016 and 2017 balance sheets. Refer to Attachment VI-Statements(a) for the 2015 balance sheet.

B. Refer to PECO Exhibits BSY-1 and BSY-2 for the fully projected future test year and future test year. Refer to SDR-GEN-1 for the 2016 and 2017 income statements. Refer to Attachment VI-Statements(a) for the 2015 income statement.

C. Refer to PECO Exhibits BSY-1 and BSY-2 for the fully projected future test year and future test year. Refer to Attachment VI-Statements(b) for the 2015, 2016, and 2017 plant in service schedules.

D. Refer to PECO Exhibits BSY-1 and BSY-2 for the fully projected future test year and future test year. Refer to Attachment VI-Statements(b) for the 2015, 2016, and 2017 accumulated depreciation schedules.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company Attachment VI Statements(a)	(1) ☒ An Original (2) ☐ A Resubmission	03/31/2016	End of 2015/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS) Page 1 of 7

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	10,073,568,455	9,581,687,311
3	Construction Work in Progress (107)	200-201	154,273,099	154,456,323
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		10,227,841,554	9,736,143,634
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	3,098,945,022	2,947,540,950
6	Net Utility Plant (Enter Total of line 4 less 5)		7,128,896,532	6,788,602,684
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		7,128,896,532	6,788,602,684
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		13,916,195	14,085,643
19	(Less) Accum. Prov. for Depr. and Amort. (122)		1,637,893	1,942,350
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	9,065,797	7,669,308
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		19,940,406	23,030,193
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		0	0
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		41,284,505	42,842,794
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		24,695,279	20,877,441
36	Special Deposits (132-134)		2,814,151	2,118,216
37	Working Fund (135)		77,766	308,013
38	Temporary Cash Investments (136)		264,145,984	5,012,896
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		226,123,651	270,335,429
41	Other Accounts Receivable (143)		153,409,495	148,951,276
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		82,890,719	99,905,939
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		10,109,493	10,386,464
45	Fuel Stock (151)	227	1,331,196	1,628,498
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	26,560,364	21,936,723
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report *(Mo, Da, Yr)*	Year/Period of Report
PECO Energy Company Attachment VI Statements(a)	(1) ☒ An Original (2) ☐ A Resubmission	03/31/2016	End of 2015/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Page 2 of 7

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		36,777,103	49,407,777
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		4,580,352	5,930,940
57	Prepayments (165)		22,407,729	23,359,711
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		928	765
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		105,202,585	139,979,022
62	Miscellaneous Current and Accrued Assets (174)		12,410,447	18,135,419
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		807,755,804	618,462,651
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		14,920,091	13,729,794
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,615,311,739	1,554,498,787
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	772,886,888	855,432,741
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		1,707,955	3,364,138
82	Accumulated Deferred Income Taxes (190)	234	148,097,951	186,857,367
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,552,924,624	2,613,882,827
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		10,530,861,465	10,063,790,956

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company Attachment VI Statements(a)	(1) ☒ An Original (2) ☐ A Resubmission	03/31/2016	end of 2015/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Page 3 of 7

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	1,423,004,251	1,423,004,251
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,031,801,693	1,016,480,140
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	86,742	86,742
11	Retained Earnings (215, 215.1, 216)	118-119	3,765,507,601	3,588,222,858
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-2,985,474,290	-2,907,789,738
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	1,244,689	1,435,998
16	Total Proprietary Capital (lines 2 through 15)		3,235,997,202	3,121,266,767
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,600,000,000	2,250,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	184,418,609	184,418,609
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		5,092,859	4,077,734
24	Total Long-Term Debt (lines 18 through 23)		2,779,325,750	2,430,340,875
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		36,295,614	36,222,489
29	Accumulated Provision for Pensions and Benefits (228.3)		305,320,494	306,886,609
30	Accumulated Miscellaneous Operating Provisions (228.4)		31,460,652	38,783,202
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		26,845,452	30,019,682
35	Total Other Noncurrent Liabilities (lines 26 through 34)		399,922,212	411,911,982
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		280,743,590	337,205,564
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		56,361,883	52,640,613
41	Customer Deposits (235)		57,880,863	52,244,557
42	Taxes Accrued (236)	262-263	3,514,216	2,816,644
43	Interest Accrued (237)		35,134,790	32,734,508
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company Attachment VI Statements(a)	(1) ☒ An Original (2) ☐ A Resubmission	03/31/2016	end of 2015/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued) Page 4 of 7

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		45,000	41,953
48	Miscellaneous Current and Accrued Liabilities (242)		95,980,512	83,596,024
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		529,660,854	561,279,863
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		5,579,276	800,476
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,807,531	2,273,161
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	1,167,635	1,158,151
60	Other Regulatory Liabilities (254)	278	638,893,623	747,669,961
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		2,902,050,799	2,750,060,455
64	Accum. Deferred Income Taxes-Other (283)		36,456,583	37,029,265
65	Total Deferred Credits (lines 56 through 64)		3,585,955,447	3,538,991,469
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		10,530,861,465	10,063,790,956

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company Attachment VI Statements(a)	(1) ☒ An Original (2) ☐ A Resubmission	03/31/2016	End of 2015/Q4

STATEMENT OF INCOME

Page 5 of 7

Quarterly

1. Report in column (c) the current year to date balance. Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k). Report in column (d) similar data for the previous year. This information is reported in the annual filing only.
2. Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter.
4. Report in column (h) the quarter to date amounts for electric utility function; in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter.
5. If additional columns are needed, place them in a footnote.

Annual or Quarterly if applicable

5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	3,035,283,037	3,097,650,406		
3	Operating Expenses					
4	Operation Expenses (401)	320-323	1,739,947,063	1,831,176,811		
5	Maintenance Expenses (402)	320-323	236,040,918	293,642,983		
6	Depreciation Expense (403)	336-337	207,861,850	198,010,417		
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337				
8	Amort. & Depl. of Utility Plant (404-405)	336-337	44,960,381	28,708,336		
9	Amort. of Utility Plant Acq. Adj. (406)	336-337				
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)					
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)		5,982,000	6,883,771		
13	(Less) Regulatory Credits (407.4)					
14	Taxes Other Than Income Taxes (408.1)	262-263	159,926,006	158,313,652		
15	Income Taxes - Federal (409.1)	262-263	58,127,019	21,139,501		
16	- Other (409.1)	262-263	13,050,916	20,880,329		
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	146,730,343	125,912,704		
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277	57,322,106	37,876,680		
19	Investment Tax Credit Adj. - Net (411.4)	266	-465,630	-490,204		
20	(Less) Gains from Disp. of Utility Plant (411.6)			308,476		
21	Losses from Disp. of Utility Plant (411.7)					
22	(Less) Gains from Disposition of Allowances (411.8)					
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)		65,898	66,637		
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		2,554,904,658	2,646,059,781		
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27		480,378,379	451,590,625		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company Attachment VI Statements(a)	(1) ☒ An Original (2) ☐ A Resubmission	03/31/2016	End of 2015/Q4

STATEMENT OF INCOME FOR THE YEAR (Continued) Page 6 of 7

9. Use page 122 for important notes regarding the statement of income for any account thereof.
10. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in material refund to the utility with respect to power or gas purchases. State for each year effected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power or gas purchases.
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts.
12. If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122.
13. Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also, give the appropriate dollar effect of such changes.
14. Explain in a footnote if the previous year's/quarter's figures are different from that reported in prior reports.
15. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		
Current Year to Date (in dollars) (g)	Previous Year to Date (in dollars) (h)	Current Year to Date (in dollars) (i)	Previous Year to Date (in dollars) (j)	Current Year to Date (in dollars) (k)	Previous Year to Date (in dollars) (l)	Line No.
						1
2,488,825,368	2,450,896,354	546,457,669	646,754,052			2
						3
1,418,784,007	1,415,042,158	321,163,056	416,134,653			4
203,640,752	266,856,000	32,400,166	26,786,983			5
165,825,066	158,848,799	42,036,784	39,161,618			6
						7
40,405,450	25,479,179	4,554,931	3,229,157			8
						9
						10
						11
		5,982,000	6,883,771			12
						13
154,089,475	151,774,631	5,836,531	6,539,021			14
56,094,448	11,987,574	2,032,571	9,151,927			15
11,468,950	14,869,581	1,581,966	6,010,748			16
117,565,027	104,388,744	29,165,316	21,523,960			17
43,444,852	28,570,235	13,877,254	9,306,445			18
-45,706	-46,361	-419,924	-443,843			19
	308,476					20
						21
						22
						23
13,227	15,900	52,671	50,737			24
2,124,395,844	2,120,337,494	430,508,814	525,722,287			25
364,429,524	330,558,860	115,948,855	121,031,765			26

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	03/31/2016	End of 2015/Q4

Attachment VI Statements(a)

STATEMENT OF INCOME FOR THE YEAR (continued)

Page 7 of 7

Line No.	Title of Account (a)	(Ref.) Page No. (b)	TOTAL Current Year (c)	TOTAL Previous Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
27	Net Utility Operating Income (Carried forward from page 114)		480,378,379	451,590,625		
28	Other Income and Deductions					
29	Other Income					
30	Nonutilty Operating Income					
31	Revenues From Merchandising, Jobbing and Contract Work (415)					
32	(Less) Costs and Exp. of Merchandising, Job. & Contract Work (416)					
33	Revenues From Nonutility Operations (417)		393,338	633,435		
34	(Less) Expenses of Nonutility Operations (417.1)		1,803,039	816,139		
35	Nonoperating Rental Income (418)		12,295	1,002,889		
36	Equity in Earnings of Subsidiary Companies (418.1)	119	-77,684,552	-77,697,447		
37	Interest and Dividend Income (419)		-1,860,766	-1,272,170		
38	Allowance for Other Funds Used During Construction (419.1)		5,427,002	6,125,333		
39	Miscellaneous Nonoperating Income (421)		441,340	129,205		
40	Gain on Disposition of Property (421.1)		1,827,143	495,140		
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		-73,247,239	-71,399,754		
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)		43,445	30,432		
44	Miscellaneous Amortization (425)					
45	Donations (426.1)		7,469,484	6,767,590		
46	Life Insurance (426.2)		-138,312	-1,437,669		
47	Penalties (426.3)		806,774	249,863		
48	Exp. for Certain Civic, Political & Related Activities (426.4)		1,518,663	1,441,861		
49	Other Deductions (426.5)		262,857	379,846		
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		9,962,911	7,431,923		
51	Taxes Applic. to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408.2)	262-263	313,997	593,294		
53	Income Taxes-Federal (409.2)	262-263	-71,874,847	-70,543,342		
54	Income Taxes-Other (409.2)	262-263	-22,792,062	-22,386,432		
55	Provision for Deferred Inc. Taxes (410.2)	234, 272-277	252,317	352,734		
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)	234, 272-277	249,247	323,768		
57	Investment Tax Credit Adj.-Net (411.5)					
58	(Less) Investment Tax Credits (420)					
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)		-94,349,842	-92,307,514		
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		11,139,692	13,475,837		
61	Interest Charges					
62	Interest on Long-Term Debt (427)		97,806,317	95,759,442		
63	Amort. of Debt Disc. and Expense (428)		1,954,134	2,055,707		
64	Amortization of Loss on Reaquired Debt (428.1)		1,815,493	2,587,431		
65	(Less) Amort. of Premium on Debt-Credit (429)					
66	(Less) Amortization of Gain on Reaquired Debt-Credit (429.1)					
67	Interest on Debt to Assoc. Companies (430)		11,932,558	11,913,556		
68	Other Interest Expense (431)		2,245,158	2,706,328		
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		1,835,780	2,190,617		
70	Net Interest Charges (Total of lines 62 thru 69)		113,917,880	112,831,847		
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		377,600,191	352,234,615		
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409.3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		377,600,191	352,234,615		

Attachment VI-Statements(b)

Electric Plant in Service and Accumulated Reserve
2015, 2016 and 2017

		Year	Values				
		2015		**2016**		**2017**	
Product	**Utility Account2**	**Sum of Sum of end_balance**	**Sum of Sum of Accum Depr**	**Sum of Sum of end_balance**	**Sum of Sum of Accum Depr**	**Sum of Sum of end_balance**	**Sum of Sum of Accum Depr**
Common	301 Organization	677,136	-	677,136	-	677,136	-
	303 Software	197,303,112	(159,256,247)	216,095,799	(168,044,123)	226,306,208	(180,170,326)
	389 Land and Land Rights	6,814,775	-	6,814,775	-	6,783,056	-
	390 Structures and Improvements	258,260,349	(68,424,987)	260,067,419	(70,975,013)	271,950,717	(73,134,853)
	391 Office Furniture and Equipment	29,829,139	(15,249,940)	34,257,002	(14,845,199)	44,127,253	(13,936,066)
	392 Automobiles	120,169	(108,084)	122,476	(114,110)	93,641	(92,676)
	392 Heavy Trucks	64,897,719	(25,625,203)	71,950,072	(28,249,622)	75,251,945	(30,514,199)
	392 Light Trucks	26,857,098	(13,936,609)	31,613,898	(14,451,916)	31,551,732	(14,085,640)
	392 Medium Trucks			-	-	4,348,813	(102,501)
	392 Other transprttn (off road)	5,068,973	(3,303,058)	5,010,814	(3,499,090)	5,071,551	(3,639,343)
	392 Tractors	353,657	(345,528)	353,657	(347,962)	279,351	(282,605)
	392 Trailers	3,322,503	(1,803,615)	4,655,917	(1,982,821)	4,549,639	(2,154,024)
	393 Stores Equipment	672,103	(29,209)	788,042	(120,902)	1,253,293	(207,643)
	394 Construction Tools	88,216	47,843	90,304	31,629	90,304	33,398
	394 Garage Equipment	2,266,746	(1,307,391)	2,410,084	(1,390,912)	2,499,657	(1,343,448)
	396 Power Operated Equipment	185,066	(175,386)	185,066	(177,952)	185,066	(179,897)
	397 Communication Equipment	31,480,547	(12,007,762)	31,866,737	(13,774,575)	32,006,547	(15,508,096)
	398 Miscellaneous Equipment	1,674,399	(630,635)	1,683,750	(734,122)	1,679,306	(848,595)
	399 Other Tangible Property					-	-
	399.1 Asset Retirement Costs	663,465	118,309	1,327,022	(350,636)	1,269,336	195,881
Common Total		**630,535,173**	**(302,037,503)**	**669,969,970**	**(319,027,326)**	**709,974,551**	**(335,970,633)**
Electric - Distribution	360 Land and Land Rights	41,996,609	-	42,591,180	-	42,883,588	-
	361 Structures and Improvements	92,632,300	(34,579,029)	102,548,514	(35,894,604)	113,662,305	(37,110,641)
	362 Station Equipment	958,311,571	(408,317,289)	991,407,664	(422,531,517)	1,033,989,100	(432,746,600)
	364 Poles, Towers and Fixtures	640,023,366	(134,736,060)	657,504,935	(140,266,168)	685,536,322	(144,204,165)
	365 Overhead Conductors & Devices	1,065,415,240	(240,886,831)	1,127,364,309	(249,086,111)	1,177,016,237	(256,315,214)
	366 Underground Conduit	375,168,741	(149,757,072)	389,538,709	(153,677,548)	407,267,888	(156,650,276)
	367 Underground Conductors & Devices	1,056,047,659	(179,447,593)	1,121,829,042	(187,194,528)	1,187,119,385	(187,943,128)
	368 Line Transformers	552,267,629	(180,505,884)	565,956,924	(182,377,603)	578,337,607	(186,555,510)
	369 Services	396,465,532	(140,758,525)	402,270,971	(147,372,006)	410,589,531	(154,172,331)
	370 Meters	288,246,273	(40,049,573)	297,110,100	(58,637,851)	304,938,954	(77,710,236)
	371 Installations on Customer Premises	13,772,346	(4,686,461)	13,772,346	(5,503,795)	13,772,346	(6,313,466)
	373 Street Lighting and Signal Systems	55,576,210	(33,405,658)	56,031,442	(33,424,725)	62,823,959	(34,041,458)
	374 Asset Retirement Costs for Distribution	3,068,186	(1,702,601)	3,157,032	(1,922,004)	1,938,911	(2,270,869)
Electric - Distribution Total		**5,538,991,662**	**(1,548,832,575)**	**5,771,083,168**	**(1,617,888,458)**	**6,019,876,133**	**(1,676,033,894)**
Electric - General Plant	389 Land and Land Rights	1,063,459	-	1,063,459	-	1,063,459	-
	390 Structures and Improvements	46,497,140	(9,817,455)	48,551,640	(10,157,393)	49,660,751	(11,272,571)
	391 Office Furniture and Equipment	11,090,496	(4,803,101)	11,197,246	(4,608,428)	15,879,377	(5,403,336)
	393 Stores Equipment	56,645	(4,167)	46,470	1,087	46,470	(2,948)
	394 Tools, Shop & Garage Equipment	26,128,851	(7,206,535)	29,181,433	(7,639,599)	32,073,779	(8,989,047)
	395 Laboratory Equipment	419,715	(236,295)	419,715	(256,570)	419,715	(276,841)
	397 Communication Equipment	132,787,500	(23,850,628)	144,056,045	(31,119,200)	154,699,047	(36,500,830)
	398 Miscellaneous Equipment	1,288,537	(908,881)	1,248,205	(996,718)	865,598	(726,118)
	399.1 Asset Retirement Costs	375,220	(286,762)	502,720	(308,915)	1,688,730	(304,425)
Electric - General Plant Total		**219,707,563**	**(47,113,824)**	**236,266,933**	**(55,085,737)**	**256,396,926**	**(63,476,116)**
PECO Electric - Intangible Plant	302 Franchises and Consents	162,934	-	162,934	-	162,934	-
	303 Miscellaneous Intangible Plant	101,806,621	(58,200,241)	128,214,346	(76,419,687)	151,584,420	(93,824,262)
PECO Electric - Intangible Plant Total		**101,969,555**	**(58,200,241)**	**128,377,280**	**(76,419,687)**	**151,747,354**	**(93,824,262)**
Electric - Transmission	350 Land and Land Rights	59,805,800	0	59,874,449	0.01	59,802,368	22
	352 Structures and Improvements	48,732,474	(18,857,306)	65,017,252	(19,582,885.06)	72,934,896	(19,892,165)
	353 Station Equipment	692,223,217	(180,689,922)	751,370,253	(186,679,803.62)	816,231,943	(187,978,143)
	354 Towers and Fixtures	256,178,462	(149,448,235)	265,613,315	(152,717,494.46)	266,736,648	(155,692,558)
	355 Poles and Fixtures	16,685,840	(2,538,990)	16,617,282	(2,586,883.30)	16,532,820	(2,840,646)
	356 Overhead Conductors and Devices	182,058,570	(75,902,547)	183,650,336	(78,583,585.22)	193,124,986	(80,958,192)
	357 Underground Conduit	13,606,035	(4,373,187)	14,742,962	(4,538,567.72)	14,955,807	(4,756,869)
	358 Underground Conductors & Devices	98,529,167	(41,479,542)	95,788,410	(40,895,567.71)	104,555,952	(42,490,539)
	359 Road and Trails	2,136,664	(2,031,770)	2,136,664	(2,040,233.70)	2,136,664	(2,048,416)
	359.1 Asset Retirement Costs for Transmiss	236,997	(154,356)	236,997	(158,593.69)	1,778	(19)
Electric - Transmission Total		**1,370,193,226**	**(475,475,853)**	**1,455,047,920**	**(487,783,614)**	**1,547,013,863**	**(496,657,526)**
Grand Total		**7,861,397,179**	**(2,431,659,996)**	**8,260,745,271**	**(2,556,204,823)**	**8,685,008,827**	**(2,665,962,431)**

Note: Amounts for Common Plant and Electric - General Plant are shown unallocated.

Q. SDR-COS-1 Please provide, in hard copy and on a computer disk, for each month of the most recent 10-year period, if available, for each rate class in the class cost of service study, the following:

a. generation level demand coincident with the system peak
b. generation level maximum class demand (i.e., non-coincident peak demand) for annual peak
c. number of customers, and
d. annual kWh at generation.

For the same period, provide:

e. date, time and level of monthly peak demand for both PA jurisdiction and total Company system loads covered by an integrated dispatch and total of all classes covered by the cost-of-service study.

A. SDR-COS-1 The following attachments provide the requested Information:

Attachment SDR-COS-1(a)
Attachment SDR-COS-1(b)
Attachment SDR-COS-1(c)
Attachment SDR-COS-1(d)
Attachment SDR-COS-1(e)

Attachment SDR-COS-1(a)

Part A - Peak (KW) by Rate Class - 1CP

Date	R	RH	GS	PD	HT	EP	Lighting
Oct-07	2,252,346	336,861	1,708,137	126,656	2,449,462	121,285	10,253
Nov-07	1,843,868	436,109	1,232,873	88,563	1,995,015	143,277	35,295
Dec-07	2,008,947	568,827	1,423,622	103,427	2,014,302	169,595	41,280
Jan-08	2,175,401	872,048	1,284,402	92,487	1,916,980	145,613	37,068
Feb-08	2,102,443	809,794	1,367,466	91,606	1,981,262	131,468	37,961
Mar-08	1,500,563	636,600	1,128,184	94,351	1,962,038	149,318	10,945
Apr-08	1,616,251	434,007	1,047,328	80,520	1,864,857	92,770	37,266
May-08	1,652,928	233,481	1,548,319	110,352	2,299,615	121,571	8,734
Jun-08	3,471,190	407,791	2,203,394	139,325	2,511,497	91,579	10,225
Jul-08	2,979,135	585,131	1,818,098	122,935	2,523,310	111,062	9,329
Aug-08	2,563,404	458,824	1,750,346	118,786	2,477,668	114,145	9,826
Sep-08	2,648,138	339,108	1,980,893	129,227	2,465,416	118,007	10,210
Oct-08	1,891,213	413,533	1,126,206	85,387	1,867,982	132,058	36,622
Nov-08	1,885,884	677,780	1,113,268	84,147	1,903,388	132,710	35,822
Dec-08	2,307,750	861,516	1,377,482	87,342	1,935,208	188,313	32,390
Jan-09	2,081,968	944,061	1,471,241	86,680	1,948,098	173,283	35,369
Feb-09	2,005,442	922,207	1,341,182	85,446	1,989,094	157,979	36,650
Mar-09	2,025,730	827,502	1,355,828	80,128	1,843,690	163,039	35,083
Apr-09	1,995,653	322,017	1,587,373	111,701	2,333,972	114,749	9,243
May-09	1,445,725	198,822	1,383,528	97,549	2,123,648	130,905	9,254
Jun-09	2,198,248	429,530	1,620,526	107,763	2,313,832	125,289	9,958
Jul-09	2,615,266	346,917	1,814,429	111,161	2,333,659	121,560	8,698
Aug-09	3,070,647	534,764	1,816,196	110,294	2,338,628	120,221	8,265
Sep-09	1,583,954	194,028	1,654,510	116,706	2,418,754	94,777	6,275
Oct-09	1,752,437	463,468	1,010,847	75,374	1,818,915	93,649	34,718
Nov-09	1,777,542	407,716	1,088,041	83,292	1,918,451	135,001	36,030
Dec-09	1,987,238	920,489	1,400,658	71,988	1,832,396	139,877	27,641
Jan-10	2,080,952	660,394	1,400,017	84,005	1,929,842	153,829	31,680
Feb-10	2,013,971	652,350	1,237,830	81,688	1,938,040	152,385	36,524
Mar-10	1,730,705	559,101	1,209,774	75,327	1,887,313	137,590	33,875
Apr-10	1,493,033	216,692	1,533,194	92,083	2,256,840	129,824	7,549
May-10	2,338,813	359,720	1,706,318	98,625	2,245,935	154,339	33,801
Jun-10	2,981,984	543,962	2,054,845	116,900	2,521,425	85,812	6,103
Jul-10	3,624,007	429,311	2,189,203	117,022	2,402,104	101,628	8,660
Aug-10	3,102,489	389,000	2,108,321	114,195	2,409,884	122,089	10,043
Sep-10	2,964,356	383,063	2,178,089	120,910	2,470,804	127,220	9,970
Oct-10	1,449,932	234,723	1,265,667	83,556	2,011,971	129,979	35,611
Nov-10	1,745,444	357,807	1,244,125	82,519	1,902,349	142,681	34,315
Dec-10	2,032,139	856,666	1,445,674	84,630	2,092,584	143,079	33,066
Jan-11	1,630,582	1,077,846	1,544,527	88,640	2,037,165	163,899	15,502
Feb-11	1,808,642	702,333	1,325,320	81,531	2,012,815	152,603	41,247
Mar-11	1,682,438	605,245	1,270,891	78,766	1,909,553	124,862	7,857
Apr-11	1,331,918	277,421	1,462,910	93,115	2,268,887	124,975	7,366
May-11	2,811,816	529,386	1,985,768	114,878	2,430,061	124,258	8,277
Jun-11	3,652,342	491,312	1,778,499	113,960	2,465,170	122,803	6,834
Jul-11	3,649,330	507,500	2,009,943	125,916	2,592,482	92,474	5,897
Aug-11	3,108,908	448,704	1,922,442	115,980	2,448,823	109,262	7,424
Sep-11	2,323,220	342,971	1,560,619	99,149	2,383,617	141,608	6,650
Oct-11	1,580,266	267,753	1,144,618	76,481	1,876,867	92,529	50,155
Nov-11	1,627,238	402,177	1,168,120	74,798	1,863,557	138,629	6,488
Dec-11	1,950,885	613,318	1,184,523	72,521	1,834,950	128,987	38,747
Jan-12	1,991,012	787,926	1,323,276	80,129	1,941,462	163,372	41,156
Feb-12	2,012,234	719,325	1,082,235	68,034	1,664,148	114,000	47,748
Mar-12	1,577,834	519,519	1,221,325	75,326	1,782,669	124,781	7,375
Apr-12	1,566,428	307,218	1,248,641	77,919	2,060,781	155,528	6,256
May-12	2,733,018	513,263	1,960,917	109,043	2,339,400	115,761	7,892
Jun-12	3,544,294	512,403	1,679,958	97,532	2,168,849	145,451	6,751
Jul-12	3,523,127	476,459	1,969,372	117,104	2,368,983	87,453	6,480
Aug-12	2,883,953	405,528	1,866,175	110,005	2,281,101	95,751	6,873
Sep-12	2,653,382	398,871	1,653,712	99,634	2,269,490	127,589	6,588

Part A - Peak (KW) by Rate Class - 1CP

Date	R	RH	GS	PD	HT	EP	Lighting
Oct-12	1,716,434	276,677	1,214,617	80,386	2,018,429	101,585	50,893
Nov-12	1,836,929	601,261	1,253,724	74,779	1,927,246	143,924	6,714
Dec-12	1,979,208	616,481	1,339,104	73,081	1,773,430	141,926	43,343
Jan-13	2,127,461	925,041	1,360,347	73,539	1,967,224	156,468	41,420
Feb-13	1,928,962	735,330	1,262,279	70,369	1,878,120	146,405	41,123
Mar-13	1,729,608	612,175	1,298,612	72,066	1,809,764	140,287	7,581
Apr-13	1,262,017	243,812	1,344,813	77,297	2,229,150	104,088	5,518
May-13	2,556,144	483,444	1,779,302	92,732	2,259,829	116,822	6,928
Jun-13	2,641,427	379,508	1,782,994	103,899	2,459,783	92,197	6,143
Jul-13	3,574,952	484,332	1,898,806	109,657	2,458,493	85,767	6,420
Aug-13	2,687,157	429,826	1,506,971	86,408	2,268,719	127,302	6,837
Sep-13	2,825,439	377,082	1,836,894	112,677	2,501,534	68,452	6,266
Oct-13	1,872,783	276,090	1,331,963	78,251	2,146,144	112,849	5,985
Nov-13	1,849,074	658,239	1,249,142	68,566	1,947,906	123,836	6,554
Dec-13	2,053,098	771,613	1,326,254	70,323	1,932,247	147,994	39,135
Jan-14	2,433,950	1,079,116	1,455,381	73,163	1,964,841	117,681	42,066
Feb-14	1,629,647	1,027,699	1,495,453	75,134	2,015,889	168,965	16,570
Mar-14	2,070,898	935,130	1,278,410	64,587	1,908,413	111,036	26,432
Apr-14	1,401,357	403,483	1,190,641	67,330	1,838,688	130,521	7,770
May-14	1,626,089	328,161	1,523,961	79,646	2,162,908	112,812	6,314
Jun-14	3,160,593	477,725	1,580,994	85,245	2,285,715	139,642	6,742
Jul-14	3,473,497	476,712	1,705,076	89,938	2,388,293	117,695	6,313
Aug-14	2,764,070	427,660	1,510,338	82,384	2,282,579	132,913	6,802
Sep-14	3,138,236	494,865	1,577,391	86,544	2,279,868	142,846	6,048
Oct-14	1,454,443	270,340	1,171,992	69,393	2,069,874	130,809	41,730
Nov-14	1,952,958	673,856	1,218,002	65,092	1,837,279	108,668	34,655
Dec-14	2,034,765	674,566	1,236,925	63,668	1,899,100	109,395	40,371
Jan-15	2,243,194	985,248	1,360,115	68,254	1,941,362	126,367	39,590
Feb-15	1,811,243	1,362,733	1,585,614	76,074	2,040,255	140,504	16,640
Mar-15	2,063,176	878,318	1,220,709	61,950	1,871,376	121,974	6,457
Apr-15	1,572,280	497,848	988,798	54,001	1,722,557	99,034	52,645
May-15	2,050,403	334,730	1,701,752	85,124	2,395,574	96,730	6,131
Jun-15	2,966,617	415,790	1,771,871	86,558	2,441,643	114,970	6,594
Jul-15	3,178,354	457,727	1,833,486	86,453	2,429,360	102,732	6,328
Aug-15	2,811,198	412,140	1,828,152	87,821	2,459,869	93,393	6,221
Sep-15	3,040,248	437,566	1,766,272	88,133	2,491,144	115,848	6,241
Oct-15	1,379,947	291,573	1,068,213	57,402	1,851,838	116,076	35,213
Nov-15	1,723,435	548,688	1,099,426	56,565	1,814,055	116,662	34,305
Dec-15	1,702,817	443,429	1,129,894	56,478	1,796,873	134,010	35,009
Jan-16	2,010,655	845,223	1,327,462	62,468	1,963,337	107,034	39,272
Feb-16	2,110,009	872,440	1,258,057	60,691	1,929,004	110,389	41,521
Mar-16	1,610,575	552,923	1,142,530	56,751	1,837,895	107,637	6,352
Apr-16	1,258,001	632,061	1,113,917	58,372	1,904,012	126,080	6,106
May-16	2,564,939	397,914	1,436,366	70,399	2,145,918	134,702	6,171
Jun-16	2,872,098	432,920	1,472,161	70,797	2,165,490	128,936	6,233
Jul-16	3,337,846	469,978	1,879,038	83,208	2,446,883	138,042	5,972
Aug-16	3,337,066	471,513	1,905,210	86,889	2,436,010	120,817	6,373
Sep-16	3,284,006	463,864	1,754,961	82,079	2,379,658	129,709	6,093
Oct-16	1,509,849	249,582	1,437,755	66,313	2,099,098	115,268	6,276
Nov-16	1,645,027	538,931	1,186,510	56,129	1,889,184	117,861	5,757
Dec-16	2,014,493	889,121	1,419,824	61,131	2,047,702	143,812	35,670
Jan-17	2,093,673	891,695	1,327,598	60,067	1,937,938	151,686	39,164
Feb-17	1,932,636	760,141	1,190,149	53,298	1,852,310	150,608	41,982
Mar-17	1,855,748	758,162	1,190,787	55,062	1,915,235	99,692	28,502
Apr-17	1,441,396	259,736	1,231,235	58,329	1,984,278	141,918	6,150
May-17	2,650,011	400,484	1,611,741	73,471	2,242,887	78,092	5,977
Jun-17	3,350,911	493,800	1,622,036	73,604	2,230,019	136,253	6,147
Jul-17	3,547,555	512,386	1,546,608	72,427	2,356,885	99,550	5,668
Aug-17	3,067,990	443,613	1,732,264	76,420	2,436,665	94,196	6,103
Sep-17	2,719,918	399,081	1,657,772	75,170	2,311,575	109,518	6,026

Date	HourEnding	PECO Monthly PeakDemand (MW)
10/3/2012	2000	5,459
11/27/2012	1800	5,845
12/26/2012	1800	5,967
1/23/2013	1900	6,652
2/4/2013	1900	6,063
3/6/2013	1900	5,670
4/10/2013	1600	5,267
5/31/2013	1700	7,295
6/24/2013	1400	7,466
7/19/2013	1500	8,618
8/27/2013	1800	7,113
9/11/2013	1500	7,728
10/4/2013	1700	5,824
11/25/2013	1800	5,903
12/17/2013	1800	6,341
1/7/2014	1900	7,166
2/12/2014	800	6,429
3/3/2014	2000	6,395
4/30/2014	1800	5,040
5/27/2014	1700	5,840
6/18/2014	1800	7,737
7/2/2014	1700	8,258
8/27/2014	1800	7,207
9/2/2014	1800	7,726
10/15/2014	1900	5,209
11/18/2014	1900	5,891
12/8/2014	1900	6,059
1/8/2015	1900	6,764
2/20/2015	800	7,033
3/5/2015	1900	6,224
4/9/2015	2100	4,987
5/27/2015	1600	6,670
6/23/2015	1700	7,804
7/20/2015	1600	8,094
8/17/2015	1500	7,699
9/9/2015	1700	7,945
10/28/2015	1900	4,800
11/23/2015	1900	5,393
12/21/2015	1800	5,299
1/19/2016	1900	6,355
2/15/2016	1900	6,382
3/3/2016	1900	5,315
4/6/2016	800	5,099
5/31/2016	1800	6,756
6/20/2016	1800	7,149
7/25/2016	1600	8,361
8/12/2016	1500	8,364
9/9/2016	1700	8,100
10/19/2016	1700	5,484
11/21/2016	1800	5,439
12/15/2016	1800	6,612
1/9/2017	1900	6,502
2/9/2017	1900	5,981
3/15/2017	2000	5,903
4/28/2017	1800	5,123
5/19/2017	1700	7,063
6/13/2017	1800	7,913
7/20/2017	1900	8,141
8/22/2017	1700	7,857
9/25/2017	1700	7,279

Attachment SDR-COS-1(b)

Part B - Peak (KW) by Rate Class - NCP

Date	R	RH	GS	PD	HT	EP	Lighting
Oct-07	2,461,468	533,789	1,831,190	140,333	2,545,804	156,420	45,664
Nov-07	2,029,433	620,302	1,420,971	111,567	2,112,721	156,444	48,088
Dec-07	2,313,964	976,387	1,527,049	112,134	2,103,444	169,595	50,432
Jan-08	2,318,512	1,077,928	1,560,114	112,062	2,109,404	165,116	51,269
Feb-08	2,190,813	1,101,062	1,646,396	122,549	2,166,073	178,003	54,992
Mar-08	1,922,071	745,197	1,432,359	108,679	2,090,309	168,569	51,571
Apr-08	1,758,778	621,346	1,382,062	110,656	2,313,281	162,764	48,487
May-08	1,943,164	459,426	1,623,769	121,615	2,376,646	159,954	44,883
Jun-08	3,557,019	682,928	2,365,838	150,052	2,605,613	157,882	53,271
Jul-08	3,573,213	642,677	2,133,121	136,495	2,628,223	154,149	45,965
Aug-08	2,685,737	458,824	2,004,186	132,952	2,533,660	156,412	44,858
Sep-08	3,043,579	553,471	2,052,637	143,509	2,568,225	155,167	49,097
Oct-08	1,891,213	588,375	1,427,755	107,925	2,323,908	154,555	45,816
Nov-08	2,145,866	820,823	1,435,028	104,698	2,152,392	160,288	50,237
Dec-08	2,342,988	1,081,077	1,661,186	109,867	2,093,129	200,337	46,395
Jan-09	2,299,638	1,174,278	1,763,421	112,102	2,133,377	188,623	51,137
Feb-09	2,069,041	1,136,735	1,620,714	110,443	2,120,017	184,968	54,003
Mar-09	2,069,887	1,147,018	1,472,206	103,722	2,034,904	174,885	51,149
Apr-09	2,201,114	580,446	1,780,090	125,425	2,423,191	160,364	47,409
May-09	1,961,548	437,270	1,445,530	113,204	2,256,807	160,871	43,991
Jun-09	2,373,143	441,059	1,807,991	119,460	2,394,185	153,820	46,602
Jul-09	2,753,386	532,659	1,906,229	123,497	2,483,862	154,986	43,668
Aug-09	3,289,544	647,009	2,056,212	130,466	2,529,788	161,125	46,494
Sep-09	1,980,478	393,932	1,700,233	116,706	2,418,754	160,473	43,954
Oct-09	1,834,523	563,326	1,317,555	98,190	2,210,845	170,378	44,792
Nov-09	1,920,528	560,741	1,343,804	96,585	2,046,147	163,267	45,584
Dec-09	2,361,145	930,818	1,704,165	95,751	2,070,658	177,579	41,316
Jan-10	2,386,380	999,073	1,731,352	98,348	2,088,743	170,086	48,249
Feb-10	2,120,653	931,009	1,698,050	101,137	2,118,993	184,308	50,828
Mar-10	1,770,147	810,067	1,498,758	95,081	2,046,410	160,363	50,613
Apr-10	1,743,674	506,750	1,642,852	103,508	2,373,689	163,116	42,106
May-10	2,595,344	502,697	2,045,305	124,695	2,415,171	168,925	42,951
Jun-10	3,509,919	690,047	2,190,769	121,587	2,533,411	162,104	45,168
Jul-10	3,816,175	773,228	2,324,326	124,433	2,589,727	155,151	49,500
Aug-10	3,171,668	637,219	2,252,148	127,302	2,548,631	185,930	45,928
Sep-10	3,032,607	588,911	2,253,541	129,015	2,573,116	157,732	43,813
Oct-10	1,576,098	488,869	1,411,545	97,486	2,269,056	192,234	46,148
Nov-10	1,989,937	605,341	1,427,454	90,484	2,039,288	157,759	42,443
Dec-10	2,278,426	945,666	1,592,084	97,036	2,176,193	163,550	39,337
Jan-11	2,144,394	1,111,121	1,693,223	101,700	2,163,104	175,260	43,701
Feb-11	1,927,267	928,616	1,572,238	100,743	2,102,055	160,569	48,187
Mar-11	1,753,899	746,925	1,473,785	99,398	2,067,671	154,479	58,325
Apr-11	1,765,571	532,254	1,609,745	109,155	2,353,781	162,522	57,174
May-11	3,120,751	642,384	2,475,359	153,718	2,568,704	159,930	76,609
Jun-11	3,654,738	521,228	1,945,767	128,567	2,593,565	161,518	69,728
Jul-11	4,173,680	666,297	2,038,992	129,857	2,655,654	151,927	71,009
Aug-11	3,282,912	478,762	1,937,228	120,139	2,492,544	159,683	68,016
Sep-11	2,483,747	405,421	1,674,109	115,907	2,459,582	202,397	57,189
Oct-11	1,697,575	543,878	1,402,112	96,659	2,162,266	163,280	55,744
Nov-11	1,720,924	506,941	1,323,970	88,632	2,049,178	162,855	48,138
Dec-11	2,067,288	697,720	1,423,730	88,135	2,022,406	166,335	42,412
Jan-12	2,076,819	923,075	1,516,485	93,636	2,035,123	163,372	44,970
Feb-12	2,012,234	729,480	1,416,874	93,476	1,964,038	168,338	47,748
Mar-12	1,753,699	620,342	1,413,895	93,670	2,139,590	157,312	55,015
Apr-12	1,780,631	401,072	1,537,269	100,629	2,216,598	164,701	58,607
May-12	3,011,919	572,885	2,441,315	143,091	2,483,950	161,249	69,076
Jun-12	3,594,451	517,004	1,900,216	114,766	2,370,474	158,404	70,364
Jul-12	3,746,787	598,437	1,969,372	118,060	2,442,322	152,495	67,278
Aug-12	3,442,041	544,442	1,944,312	113,478	2,465,013	157,998	73,605
Sep-12	2,674,125	415,716	1,927,064	123,899	2,465,531	157,584	56,886

Date	R	RH	GS	PD	HT	EP	Lighting
	Part B - Peak (KW) by Rate Class - NCP						
Oct-12	1,716,434	383,624	1,489,994	103,044	2,274,022	168,368	53,898
Nov-12	1,921,953	640,373	1,429,667	88,066	2,003,731	149,848	51,970
Dec-12	2,044,943	678,449	1,495,922	83,887	2,014,267	151,236	44,602
Jan-13	2,127,461	1,024,245	1,640,404	90,621	2,092,851	175,767	45,069
Feb-13	1,995,796	814,561	1,516,275	88,294	2,016,866	162,352	45,716
Mar-13	1,886,814	659,078	1,513,056	87,853	1,992,853	167,896	58,628
Apr-13	1,615,625	598,497	1,488,052	88,779	2,271,425	164,824	62,714
May-13	2,681,087	538,243	2,272,800	126,963	2,408,074	163,525	68,475
Jun-13	3,002,717	453,451	2,236,784	125,070	2,482,267	153,020	66,932
Jul-13	3,843,142	579,755	1,995,542	114,004	2,596,945	148,477	65,892
Aug-13	2,711,830	429,826	1,950,028	107,793	2,410,456	139,096	67,414
Sep-13	3,170,909	531,483	1,836,894	114,647	2,596,946	141,051	54,269
Oct-13	2,058,762	456,694	1,529,273	96,854	2,313,649	139,363	57,641
Nov-13	2,043,506	786,042	1,402,175	79,442	2,058,348	132,166	55,301
Dec-13	2,217,487	838,413	1,513,324	82,714	2,044,362	147,994	43,717
Jan-14	2,433,950	1,139,945	1,778,851	89,735	2,097,774	159,219	46,887
Feb-14	2,109,326	1,081,728	1,592,210	83,259	2,081,593	172,915	48,644
Mar-14	2,070,898	1,034,218	1,688,876	85,262	2,083,605	167,536	61,816
Apr-14	1,534,312	505,218	1,364,167	80,805	2,097,642	176,814	59,708
May-14	1,868,097	350,750	1,735,886	97,011	2,248,948	156,190	56,213
Jun-14	3,285,105	477,725	1,799,643	100,904	2,430,687	157,392	69,922
Jul-14	3,484,133	505,883	1,867,326	99,501	2,532,510	163,476	70,828
Aug-14	2,764,118	427,660	1,859,158	97,290	2,367,480	157,180	65,631
Sep-14	3,138,236	511,954	1,780,347	105,141	2,472,099	161,608	58,123
Oct-14	1,560,042	404,550	1,395,390	84,595	2,276,138	158,377	52,583
Nov-14	1,952,958	778,754	1,459,239	77,687	2,003,183	147,945	46,566
Dec-14	2,034,765	686,080	1,458,595	76,730	2,031,895	130,232	42,518
Jan-15	2,243,194	1,098,786	1,646,201	82,493	2,073,719	146,194	43,342
Feb-15	2,247,342	1,373,473	1,793,580	88,111	2,084,993	140,504	51,543
Mar-15	2,116,065	1,036,730	1,502,919	75,945	2,046,767	147,666	53,129
Apr-15	1,572,280	590,066	1,302,357	71,918	2,026,423	152,490	53,547
May-15	2,792,402	453,030	1,748,979	92,507	2,482,424	165,136	50,874
Jun-15	3,040,326	454,778	1,845,671	92,953	2,503,982	147,782	58,671
Jul-15	3,502,888	537,249	1,860,041	90,510	2,517,630	156,260	58,620
Aug-15	3,116,339	482,196	1,828,152	88,545	2,500,979	144,061	57,501
Sep-15	3,152,945	481,309	1,902,452	98,060	2,585,001	146,595	48,982
Oct-15	1,605,056	533,597	1,373,339	70,421	2,081,316	151,094	45,461
Nov-15	1,761,445	594,107	1,291,908	67,261	2,064,008	143,971	46,050
Dec-15	1,961,156	574,013	1,276,851	65,367	1,951,554	159,103	37,700
Jan-16	2,199,594	1,013,870	1,561,829	71,925	2,103,579	162,480	39,919
Feb-16	2,110,009	1,147,132	1,507,644	69,371	2,056,348	153,387	42,092
Mar-16	1,715,264	685,846	1,379,359	66,380	2,033,592	149,647	53,270
Apr-16	1,559,479	640,484	1,377,108	67,324	2,111,144	139,976	51,726
May-16	2,689,585	415,661	1,658,394	80,615	2,278,588	146,993	51,774
Jun-16	2,872,098	437,120	1,726,995	82,713	2,393,248	147,672	60,650
Jul-16	3,397,901	497,519	1,913,656	86,249	2,565,752	148,169	56,806
Aug-16	3,872,977	559,229	1,926,793	87,708	2,555,966	155,771	59,824
Sep-16	3,414,206	492,344	1,915,050	89,759	2,526,525	155,730	45,499
Oct-16	1,797,857	472,948	1,560,289	72,654	2,171,133	149,319	48,526
Nov-16	1,788,239	594,885	1,283,418	62,495	1,998,510	138,193	42,947
Dec-16	2,170,027	970,674	1,558,157	67,728	2,097,700	150,938	37,529
Jan-17	2,210,845	1,069,010	1,589,273	69,214	2,094,408	163,341	40,325
Feb-17	1,932,636	810,687	1,440,600	64,215	1,998,195	157,595	43,605
Mar-17	1,939,632	869,169	1,476,942	65,374	2,086,250	159,079	51,583
Apr-17	1,716,758	465,013	1,421,723	67,027	2,230,328	141,918	52,911
May-17	2,693,888	424,035	1,761,172	82,146	2,397,770	141,238	52,181
Jun-17	3,441,622	510,537	1,836,286	81,527	2,460,552	155,452	58,330
Jul-17	3,547,555	512,386	1,889,922	83,086	2,569,692	137,723	55,335
Aug-17	3,189,730	471,133	1,830,708	81,403	2,520,703	136,809	57,948
Sep-17	2,870,752	441,473	1,780,426	82,180	2,491,999	143,288	45,209

Part C - Customer Numbers by Rate Class

Date	R	RH	GS	PD	HT	EP	Lighting
Oct-07	1,327,400	149,888	153,675	651	2,455	3	4,268
Nov-07	1,331,628	150,363	154,035	650	2,457	3	4,270
Dec-07	1,327,961	150,438	154,137	648	2,454	3	4,269
Jan-08	1,334,779	151,399	154,378	644	2,454	3	4,268
Feb-08	1,335,177	152,030	154,519	644	2,458	3	4,278
Mar-08	1,334,002	152,699	154,602	640	2,464	3	4,274
Apr-08	1,334,903	153,269	154,748	639	2,462	3	4,270
May-08	1,331,356	153,003	154,914	640	2,476	3	4,260
Jun-08	1,329,995	152,994	154,973	638	2,472	3	4,264
Jul-08	1,331,272	153,689	155,234	635	2,474	3	4,277
Aug-08	1,330,325	153,725	155,318	635	2,475	3	4,277
Sep-08	1,332,179	154,261	155,695	634	2,477	3	4,269
Oct-08	1,331,653	155,077	155,904	636	2,479	3	4,265
Nov-08	1,330,196	155,500	156,190	636	2,481	3	4,266
Dec-08	1,328,782	156,094	156,121	634	2,477	3	4,260
Jan-09	1,328,157	156,860	156,155	632	2,478	3	4,253
Feb-09	1,328,047	158,044	156,260	631	2,485	3	4,253
Mar-09	1,327,677	158,953	156,159	629	2,487	3	4,246
Apr-09	1,327,413	159,258	156,051	629	2,496	3	4,245
May-09	1,322,565	158,665	155,958	627	2,491	3	4,242
Jun-09	1,320,788	158,752	156,107	625	2,496	3	4,241
Jul-09	1,319,482	158,667	156,032	623	2,503	3	4,241
Aug-09	1,318,258	158,681	155,957	624	2,505	3	4,239
Sep-09	1,320,273	159,495	155,929	621	2,507	3	4,244
Oct-09	1,320,071	159,825	156,019	620	2,514	3	4,233
Nov-09	1,320,155	160,336	156,175	616	2,512	3	4,233
Dec-09	1,321,969	161,225	156,402	617	2,510	3	4,232
Jan-10	1,321,882	162,259	156,434	615	2,512	3	4,231
Feb-10	1,321,848	163,388	156,444	613	2,505	3	4,236
Mar-10	1,322,118	164,369	156,445	613	2,506	3	4,234
Apr-10	1,322,156	164,677	156,455	612	2,509	3	4,224
May-10	1,320,000	164,084	156,488	609	2,514	3	4,222
Jun-10	1,318,181	163,935	156,492	608	2,518	3	4,221
Jul-10	1,316,826	163,844	156,462	607	2,519	3	4,215
Aug-10	1,317,566	164,174	156,608	606	2,520	3	4,214
Sep-10	1,319,300	164,638	156,646	603	2,521	3	4,215
Oct-10	1,319,351	165,062	156,559	602	2,522	3	4,212
Nov-10	1,320,428	165,625	156,722	603	2,528	5	4,202
Dec-10	1,323,376	166,484	157,112	601	2,549	5	4,210
Jan-11	1,323,723	167,115	148,370	599	2,551	5	12,919
Feb-11	1,324,137	168,011	148,370	598	2,553	5	12,910
Mar-11	1,325,205	168,903	148,301	598	2,557	5	12,893
Apr-11	1,326,406	169,389	148,329	598	2,555	5	12,884
May-11	1,325,025	169,395	148,252	595	2,555	5	12,881
Jun-11	1,323,289	169,119	148,242	593	2,560	5	12,881
Jul-11	1,322,309	168,961	148,219	591	2,568	5	12,876
Aug-11	1,322,179	169,053	148,224	584	2,566	5	12,905
Sep-11	1,322,218	169,252	148,312	581	2,566	5	12,901
Oct-11	1,323,207	169,576	148,455	574	2,571	5	12,903
Nov-11	1,324,046	169,825	148,594	567	2,572	5	12,900
Dec-11	1,324,581	170,189	148,686	561	2,580	5	12,899
Jan-12	1,325,817	170,871	148,722	560	2,579	5	12,886
Feb-12	1,326,639	171,621	148,833	560	2,581	5	12,878
Mar-12	1,327,505	172,049	148,867	558	2,583	5	12,867
Apr-12	1,327,787	172,278	148,851	558	2,581	5	12,863
May-12	1,326,259	172,024	148,834	555	2,586	5	12,853
Jun-12	1,323,956	171,701	148,949	547	2,590	5	12,845
Jul-12	1,323,223	171,453	148,906	546	2,591	5	12,842
Aug-12	1,323,328	171,374	148,899	542	2,594	5	12,823
Sep-12	1,323,094	171,509	148,943	539	2,594	5	12,816

Part C - Customer Numbers by Rate Class

Date	R	RH	GS	PD	HT	EP	Lighting
Oct-12	1,323,005	171,535	148,976	539	2,596	5	12,814
Nov-12	1,322,315	171,584	148,857	539	2,597	5	12,803
Dec-12	1,250,527	171,768	148,902	538	2,603	5	12,796
Jan-13	1,247,952	172,105	148,878	538	2,604	5	12,793
Feb-13	1,249,529	172,558	148,886	538	2,608	5	12,781
Mar-13	1,251,053	172,926	148,882	536	2,612	5	12,782
Apr-13	1,251,704	173,101	148,941	528	2,613	5	12,799
May-13	1,249,996	172,856	148,860	523	2,618	5	12,794
Jun-13	1,247,798	172,368	148,849	522	2,617	5	12,785
Jul-13	1,247,312	172,144	148,974	519	2,618	5	12,784
Aug-13	1,247,984	172,176	148,999	519	2,628	5	12,785
Sep-13	1,247,627	172,418	148,957	518	2,626	5	12,779
Oct-13	1,247,767	172,589	148,934	516	2,623	5	12,772
Nov-13	1,249,414	172,778	149,105	513	2,616	5	12,770
Dec-13	1,250,358	172,969	149,208	512	2,623	5	12,773
Jan-14	1,252,323	173,429	149,327	511	2,629	5	12,773
Feb-14	1,253,412	173,940	149,359	509	2,632	5	12,773
Mar-14	1,254,842	174,499	149,389	508	2,632	5	12,761
Apr-14	1,255,457	174,882	149,364	507	2,637	5	12,764
May-14	1,254,604	174,883	149,325	506	2,633	5	12,780
Jun-14	1,253,821	174,833	149,368	503	2,633	5	12,796
Jul-14	1,252,900	174,752	149,322	503	2,636	5	12,807
Aug-14	1,253,750	174,919	149,314	500	2,635	5	12,809
Sep-14	1,254,439	175,060	149,290	498	2,633	5	12,805
Oct-14	1,255,451	175,307	149,246	498	2,634	5	12,795
Nov-14	1,256,925	175,686	149,261	496	2,634	5	12,790
Dec-14	1,258,239	176,014	149,262	496	2,634	5	12,787
Jan-15	1,259,963	176,585	149,203	493	2,636	5	12,783
Feb-15	1,261,484	177,210	149,288	490	2,638	5	12,789
Mar-15	1,262,132	177,628	149,318	490	2,640	5	12,822
Apr-15	1,262,492	177,767	149,361	489	2,640	5	12,822
May-15	1,261,669	177,656	149,316	486	2,640	5	12,823
Jun-15	1,261,180	177,647	149,269	483	2,639	5	12,835
Jul-15	1,260,905	177,542	149,020	481	2,637	5	12,831
Aug-15	1,261,756	178,137	149,031	480	2,642	5	12,823
Sep-15	1,261,731	178,193	149,034	478	2,642	5	12,817
Oct-15	1,263,245	178,516	149,188	478	2,642	5	12,821
Nov-15	1,264,099	178,779	149,286	476	2,639	5	12,816
Dec-15	1,265,406	179,065	149,326	475	2,644	5	12,817
Jan-16	1,267,470	179,481	149,422	473	2,641	5	12,808
Feb-16	1,268,685	179,984	149,542	473	2,642	5	12,806
Mar-16	1,269,453	180,387	149,508	472	2,647	5	12,797
Apr-16	1,270,128	180,656	149,537	472	2,643	5	12,786
May-16	1,269,747	180,550	149,607	471	2,644	5	12,789
Jun-16	1,269,060	180,369	149,632	470	2,644	5	12,777
Jul-16	1,269,215	180,370	149,667	471	2,641	5	12,773
Aug-16	1,270,200	180,535	149,748	470	2,653	5	12,779
Sep-16	1,270,972	180,616	149,760	467	2,654	5	12,768
Oct-16	1,272,197	180,820	149,881	467	2,653	5	12,764
Nov-16	1,273,478	181,083	150,038	467	2,653	5	12,757
Dec-16	1,275,091	181,533	150,257	466	2,657	5	12,752
Jan-17	1,276,457	182,091	150,376	464	2,655	5	12,742
Feb-17	1,277,513	182,428	150,523	462	2,666	5	12,717
Mar-17	1,278,971	182,887	150,698	460	2,667	5	12,712
Apr-17	1,279,966	183,127	150,795	458	2,670	5	12,710
May-17	1,279,636	183,155	150,756	454	2,677	5	12,700
Jun-17	1,278,927	183,046	150,888	456	2,677	5	12,691
Jul-17	1,278,845	182,964	150,874	454	2,672	5	12,684
Aug-17	1,280,096	183,058	150,999	455	2,677	5	12,670
Sep-17	1,280,927	183,126	151,071	454	2,684	5	12,537

Attachment SDR-COS-1(d)

	Part D - Annual kWh by Rate Class						
Year	**R**	**RH**	**GS**	**PD**	**HT**	**EP**	**Lighting**
2007	12,324,460,905	2,969,637,198	9,091,899,295	773,168,177	16,510,168,430	778,632,149	225,469,672
2008	12,158,470,206	2,915,859,523	8,919,506,232	736,297,983	16,598,480,886	772,449,333	218,212,151
2009	11,632,251,120	2,986,296,141	8,681,563,824	678,826,587	15,964,843,383	785,190,953	211,777,550
2010	12,403,567,512	3,049,927,328	9,336,924,651	651,040,975	16,376,855,767	782,270,491	201,682,089
2011	12,052,031,761	2,964,754,686	9,123,329,716	625,818,675	15,936,496,767	777,266,870	227,359,345
2012	11,847,153,357	2,771,263,604	8,900,062,429	594,017,596	15,257,615,074	780,692,642	227,566,731
2013	11,697,710,070	3,013,635,276	8,929,916,466	553,540,528	15,512,710,658	764,449,155	225,865,725
2014	11,411,694,269	3,098,824,698	8,847,903,535	518,548,963	15,423,449,377	768,797,211	224,004,605
2015	11,986,777,578	3,045,008,326	8,955,851,099	498,002,269	15,390,159,140	718,346,431	225,703,354
2016	12,088,892,102	2,914,320,917	8,892,093,535	471,806,828	15,390,162,801	721,048,929	226,446,127

	Part E - Monthly Peak Demand (MW)	
Date	**HourEnding**	**PECO Monthly PeakDemand (MW)**
10/8/2007	1700	6,992
11/19/2007	1800	5,771
12/5/2007	1800	6,320
1/3/2008	1900	6,518
2/11/2008	1900	6,519
3/10/2008	800	5,472
4/3/2008	2100	5,167
5/27/2008	1700	5,975
6/10/2008	1700	8,824
7/18/2008	1700	8,139
8/1/2008	1700	7,480
9/4/2008	1700	7,683
10/28/2008	1900	5,549
11/19/2008	1900	5,823
12/22/2008	1900	6,777
1/16/2009	1900	6,728
2/5/2009	1900	6,525
3/2/2009	1900	6,314
4/27/2009	1700	6,486
5/22/2009	1700	5,389
6/26/2009	1700	6,792
7/28/2009	1700	7,347
8/10/2009	1700	7,994
9/24/2009	1500	6,067
10/15/2009	2000	5,243
11/30/2009	1800	5,440
12/29/2009	1900	6,374
1/4/2010	1800	6,333
2/1/2010	1900	6,109
3/3/2010	1900	5,632
4/7/2010	1700	5,723
5/26/2010	1800	6,938
6/28/2010	1500	8,296
7/6/2010	1700	8,864
8/11/2010	1700	8,246
9/2/2010	1700	8,247
10/27/2010	1900	5,194
11/29/2010	1800	5,504
12/14/2010	1800	6,680
1/24/2011	800	6,558
2/1/2011	1800	6,124
3/3/2011	1900	5,680
4/27/2011	1700	5,567
5/31/2011	1700	8,004
6/9/2011	1700	8,631
7/22/2011	1300	8,984
8/1/2011	1600	8,162
9/14/2011	1700	6,858
10/10/2011	2000	5,089
11/30/2011	1800	5,281
12/12/2011	1900	5,824
1/4/2012	1800	6,328
2/12/2012	1900	5,708
3/5/2012	1900	5,309
4/16/2012	1800	5,423
5/29/2012	1700	7,779
6/21/2012	1800	8,155
7/18/2012	1500	8,549
8/3/2012	1500	7,649
9/7/2012	1700	7,209

Date	HourEnding	PECO Monthly PeakDemand (MW)
10/3/2012	2000	5,459
11/27/2012	1800	5,845
12/26/2012	1800	5,967
1/23/2013	1900	6,652
2/4/2013	1900	6,063
3/6/2013	1900	5,670
4/10/2013	1600	5,267
5/31/2013	1700	7,295
6/24/2013	1400	7,466
7/19/2013	1500	8,618
8/27/2013	1800	7,113
9/11/2013	1500	7,728
10/4/2013	1700	5,824
11/25/2013	1800	5,903
12/17/2013	1800	6,341
1/7/2014	1900	7,166
2/12/2014	800	6,429
3/3/2014	2000	6,395
4/30/2014	1800	5,040
5/27/2014	1700	5,840
6/18/2014	1800	7,737
7/2/2014	1700	8,258
8/27/2014	1800	7,207
9/2/2014	1800	7,726
10/15/2014	1900	5,209
11/18/2014	1900	5,891
12/8/2014	1900	6,059
1/8/2015	1900	6,764
2/20/2015	800	7,033
3/5/2015	1900	6,224
4/9/2015	2100	4,987
5/27/2015	1600	6,670
6/23/2015	1700	7,804
7/20/2015	1600	8,094
8/17/2015	1500	7,699
9/9/2015	1700	7,945
10/28/2015	1900	4,800
11/23/2015	1900	5,393
12/21/2015	1800	5,299
1/19/2016	1900	6,355
2/15/2016	1900	6,382
3/3/2016	1900	5,315
4/6/2016	800	5,099
5/31/2016	1800	6,756
6/20/2016	1800	7,149
7/25/2016	1600	8,361
8/12/2016	1500	8,364
9/9/2016	1700	8,100
10/19/2016	1700	5,484
11/21/2016	1800	5,439
12/15/2016	1800	6,612
1/9/2017	1900	6,502
2/9/2017	1900	5,981
3/15/2017	2000	5,903
4/28/2017	1800	5,123
5/19/2017	1700	7,063
6/13/2017	1800	7,913
7/20/2017	1900	8,141
8/22/2017	1700	7,857
9/25/2017	1700	7,279

SDR-COS-2
Page 1 of 1
Jiang Ding

Q. SDR-COS-2 Please provide workpapers showing the development of each allocator (for those not already provided elsewhere) and direct assignment in the class cost-of-service study. Provide descriptions of the methods, the underlying data and calculations that show development of the allocator or direct assignment from the raw data. For any normalization (e.g., weather) please provide description of the normalization and equations used.

A. SDR-COS-2 Refer to the direct testimony and exhibits of Company witness Jiang Ding, PECO Statement No. 6, for descriptions of the methods used in development of the allocators. Refer to Exhibit JD-7 for development of external allocators.

Q. SDR-COS-3 Please describe the functionalization of plant into two or more functional components (e.g., distribution plant into demand and customer components) and provide all workpapers supporting the separation. If divisions are made separating plant into sub classification (e.g., primary and secondary distribution), describe the basis for the separation and provide workpapers supporting the division.

A. SDR-COS-3 Refer to the direct testimony (PECO Statement No. 6) and accompanying exhibits of Company witness Jiang Ding for a description of the functionalization of plant and the classification of distribution plant into demand and customer components. Refer to Exhibit JD-7 accompanying Ms. Ding's direct testimony, for the development of the bases for functionalizing plant and classifying distribution plant.

Q. SDR-COS-4

Please provide the analysis used to develop the class demands relied on in the preparation of the demand allocators for the class that are (or nearly are) 100 percent recorded by time of use. For other classes, provide explanation of method used to estimate class loads and supporting workpapers.

A. SDR-COS-4

The demand allocators used in the cost allocation study are shown in PECO Exhibit JD-7, page 14.

The loads used to develop the allocators were extracted from the hourly loads used to settle the PJM energy market in the PECO zone on a rate class basis. The loads cover the period from October 1, 2016 through September 30, 2017.

The loads used to settle the PJM energy market by class of service were primarily based on hourly metered usage by customer. Where hourly metered data was not available (e.g. unmetered services such as lighting), load shapes were used instead. A 2009 load study performed by DataRaker established the prevailing load shapes used by PECO for settlement.

See Attachment SDR-COS-4(a), which provides an overview of the DataRaker load study results.

Final Findings for PECO Load Study

September 2009

DataRaker

Advanced analytic solutions that create value from smart metering networks in electric, gas, and water.

Summary

- DataRaker collected and analyzed interval data for PECO load research meters for the time period 4/1/08-3/31/09.
- DataRaker utilized the technique known as Ratio Expansion to estimate rate class hourly loads for seven tariff classes (R, RH, OP, GS No Demand, GS Demand, HT, PD). In addition, tariff class hourly loads were estimated for three of the tariff classes (GS Demand, HT, and PD) after eliminating all customers with demand greater than 500 kW.
- Because of the availability of AMR data collected on a daily interval for essentially all population meters, DataRaker used the ratio of hourly load to daily load to estimate the hourly loads for each tariff class. This resulted in excellent confidence intervals for the estimates.

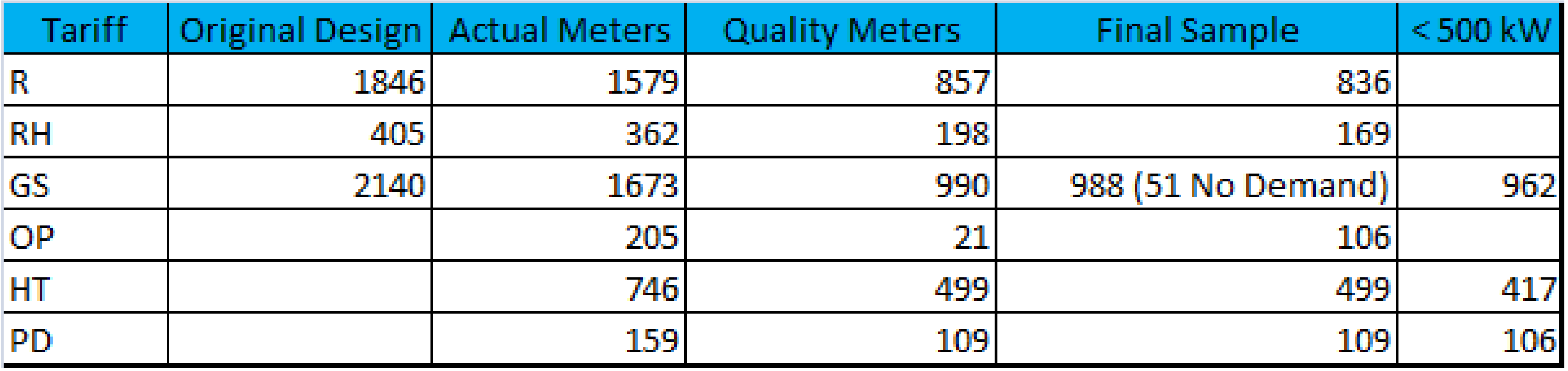
Summary (continued)

- The study derived average use per customer by hour for the study period. Regression analysis was performed to derive weather response functions.
  - Weather Response Functions are the relationship between hourly load and weather, season, and day-type.

Sample Data Collection

- The sample interval data was collected by the AMR system using an approach known as “interval-lite”. This approach collects all available data for each sample point without reinforcing the AMR network. The result is more missing data than would be the case with the more expensive approach with network reinforcement. For this reason, the population was over sampled (by a factor of 4).
- For this study, DataRaker only used sample meters that had 90% of intervals collected (or 92% of intervals in the best 11 months).
  - Because of data problems and a small sample, meters that had 50% or more of intervals collected were used for Tariff Class OP
- Further, DataRaker only used sample meters that did not switch tariff class between sample design (January 08) and the end of the study (April 09).

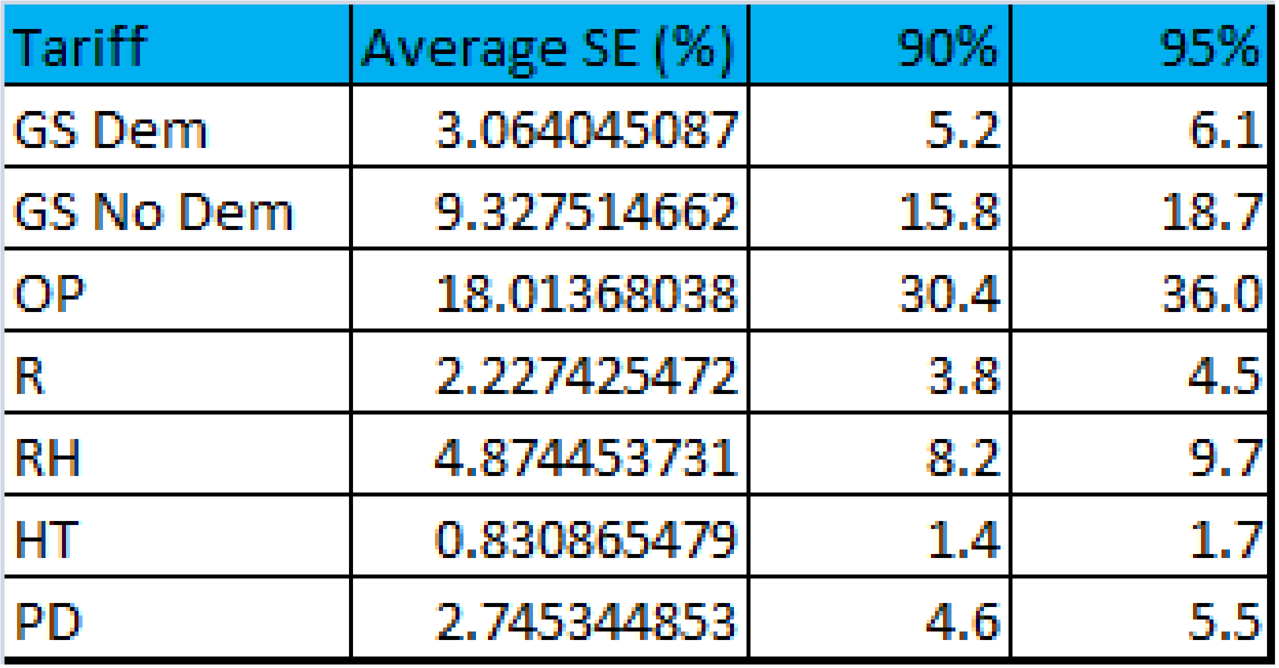
Sample Size



Tariff	Original Design	Actual Meters	Quality Meters	Final Sample	< 500 kW
R	1846	1579	857	836	
RH	405	362	198	169	
GS	2140	1673	990	988 (51 No Demand)	962
OP		205	21	106	
HT		746	499	499	417
PD		159	109	109	106

- Original Design means sample design. This sample was stepped up about four times to reflect the fact that data was collected using “interval lite” approach.
- Actual Meters means actually put in field as interval
- Quality Meters means enough interval data collected
- Final Sample means used in study
- < 500 kW means used in study for additional tariff profiles

Resulting Average Confidence Intervals



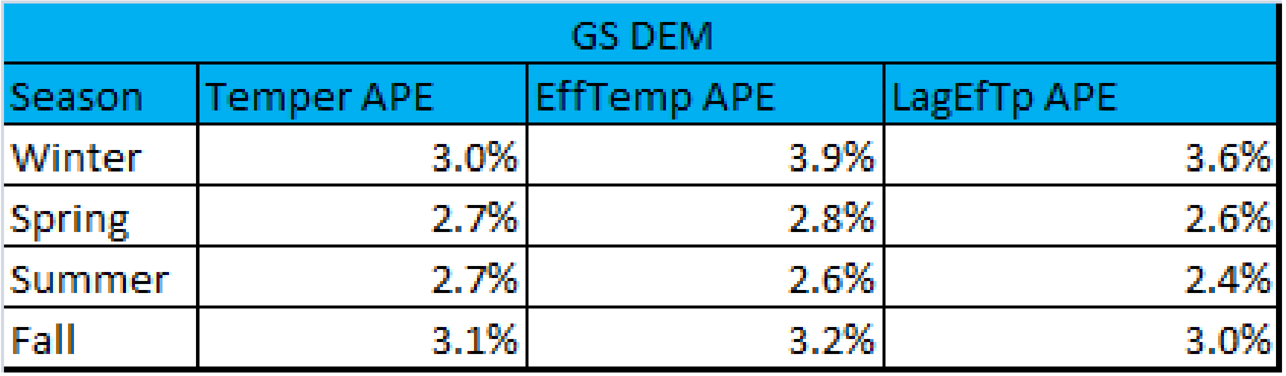
Tariff	Average SE (%)	90%	95%
GS Dem	3.064045087	5.2	6.1
GS No Dem	9.327514662	15.8	18.7
OP	18.01368038	30.4	36.0
R	2.227425472	3.8	4.5
RH	4.874453731	8.2	9.7
HT	0.830865479	1.4	1.7
PD	2.745344853	4.6	5.5

- Example: Average 90% Confidence Interval for R is +/- 3.8%
- General target for 90% Confidence is 10% or less

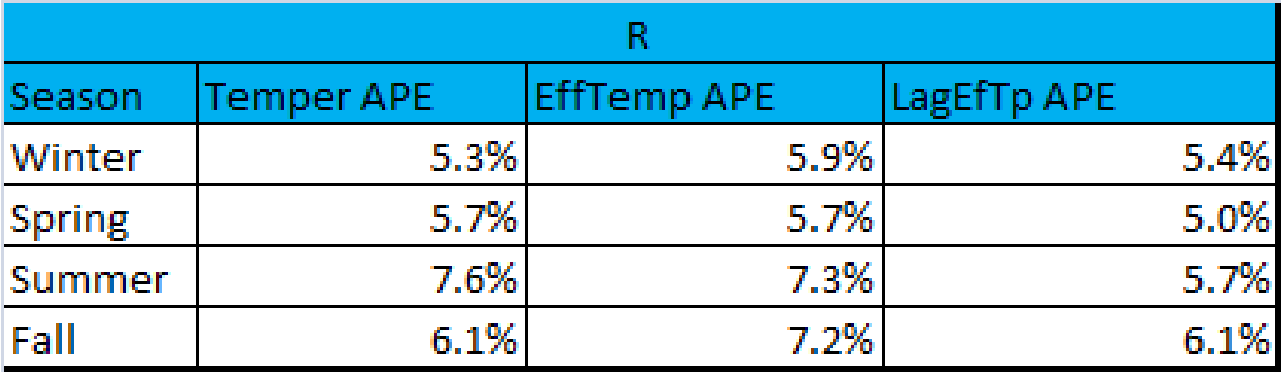
Creating Weather Response Functions

- Model is created for each hour of day
- Data can use up to 4 Seasons
  - Winter (December – February)
  - Spring (March – May)
  - Summer (June – August)
  - Fall (September – November)
- Data can use up to 3 Day-types
  - Weekdays
  - Saturday
  - Sunday
- Modeling determines final structure

Impact of Different Weather Variables



GS DEM			
Season	Temper APE	EffTemp APE	LagEfTp APE
Winter	3.0%	3.9%	3.6%
Spring	2.7%	2.8%	2.6%
Summer	2.7%	2.6%	2.4%
Fall	3.1%	3.2%	3.0%

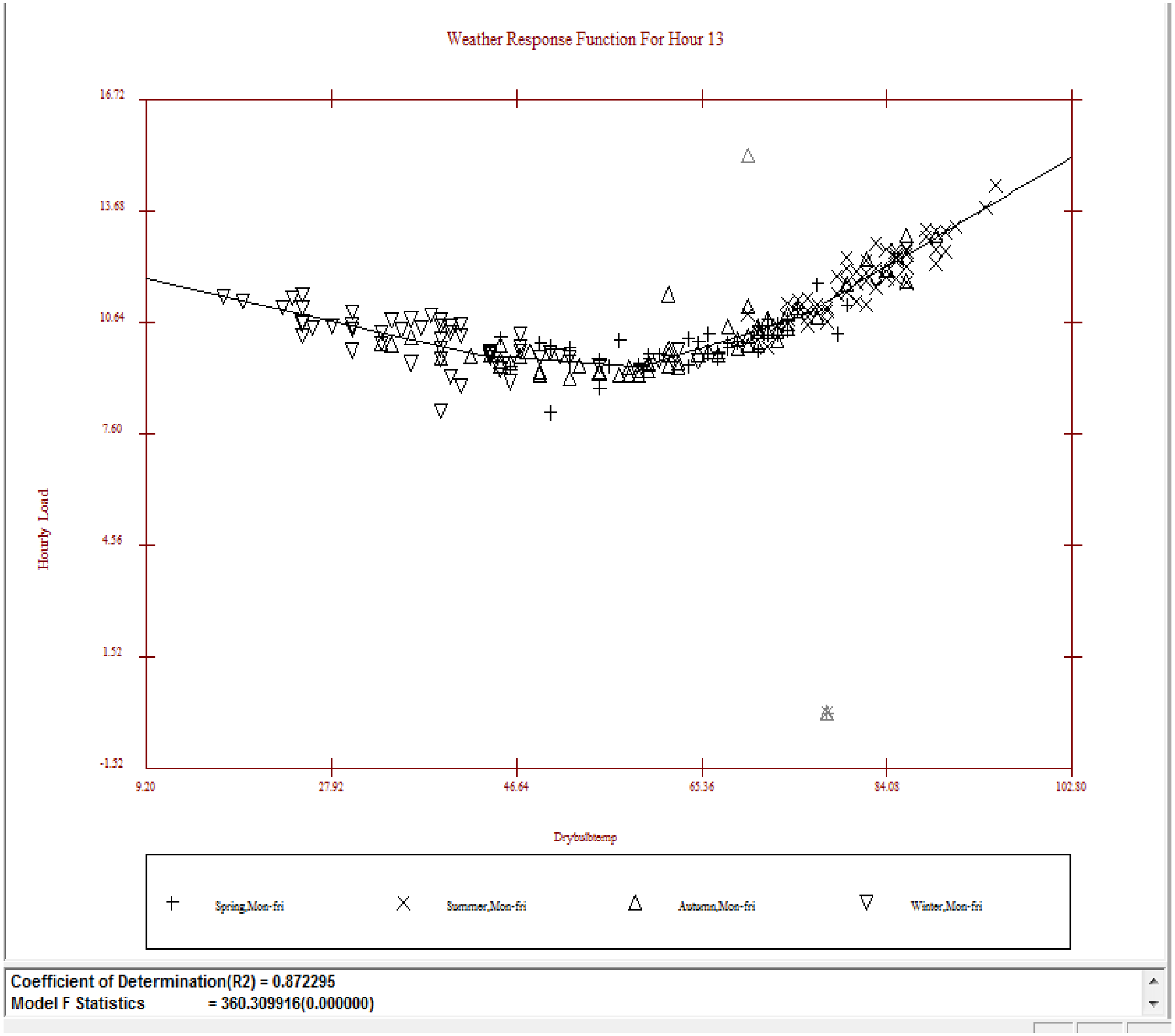


R			
Season	Temper APE	EffTemp APE	LagEfTp APE
Winter	5.3%	5.9%	5.4%
Spring	5.7%	5.7%	5.0%
Summer	7.6%	7.3%	5.7%
Fall	6.1%	7.2%	6.1%

Lag Improves Results

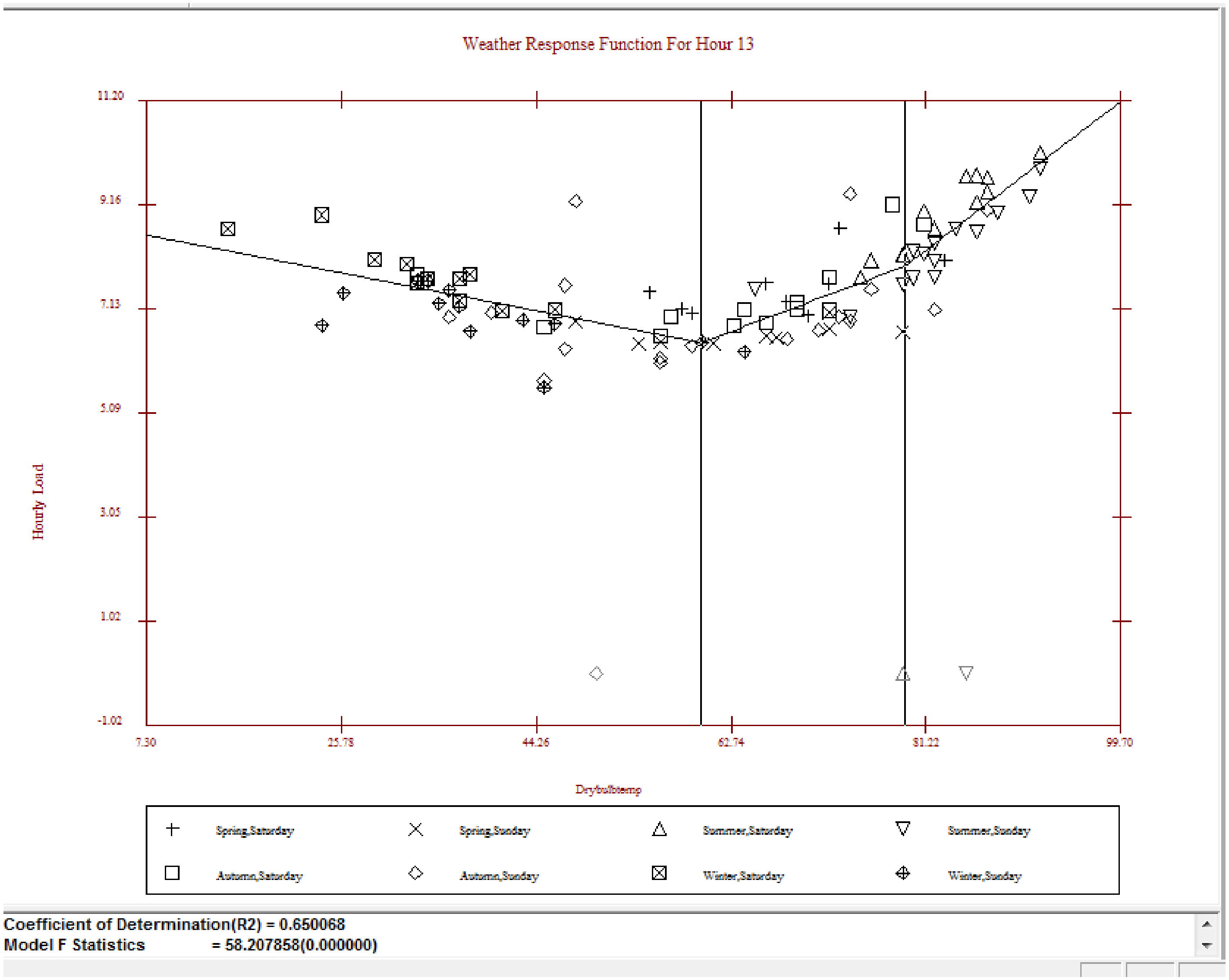
- Effective Temperature includes Relative Humidity in summer, and Wind Speed in winter.
- Lag weighs current (.7), 24 hour prior (.2), and 48 hour prior (.1)
- Final weather variable varies by time of year:
  - Summer (June-September) – Lagged Effective Temperature
  - Non-Summer - Lagged Dry Bulb Temperature

GS Demand - Weekdays



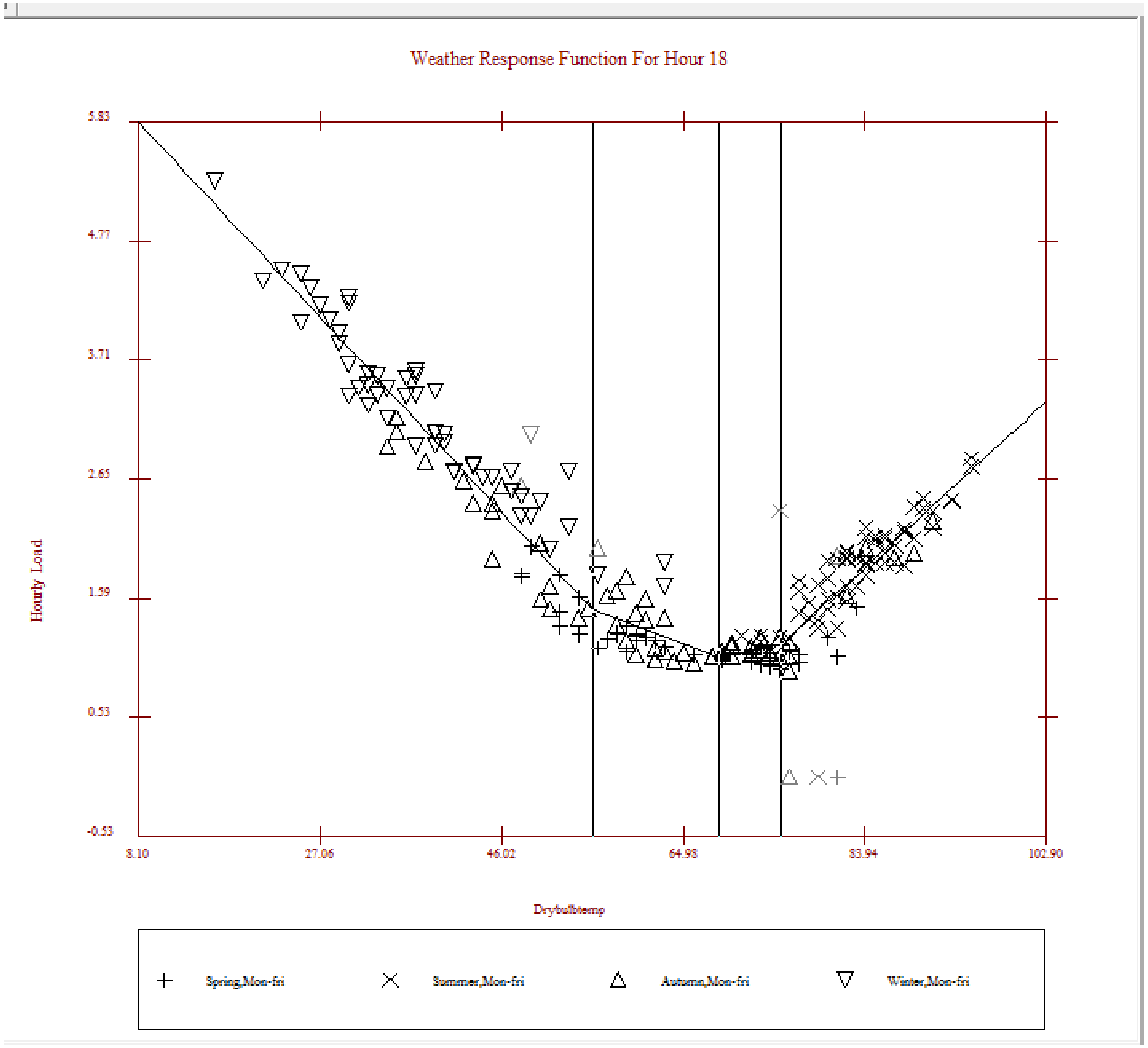
```
Coefficient of Determination(R2) = 0.872295
Model F Statistics           = 360.309916(0.000000)
```

GS Demand – Saturdays and Sundays

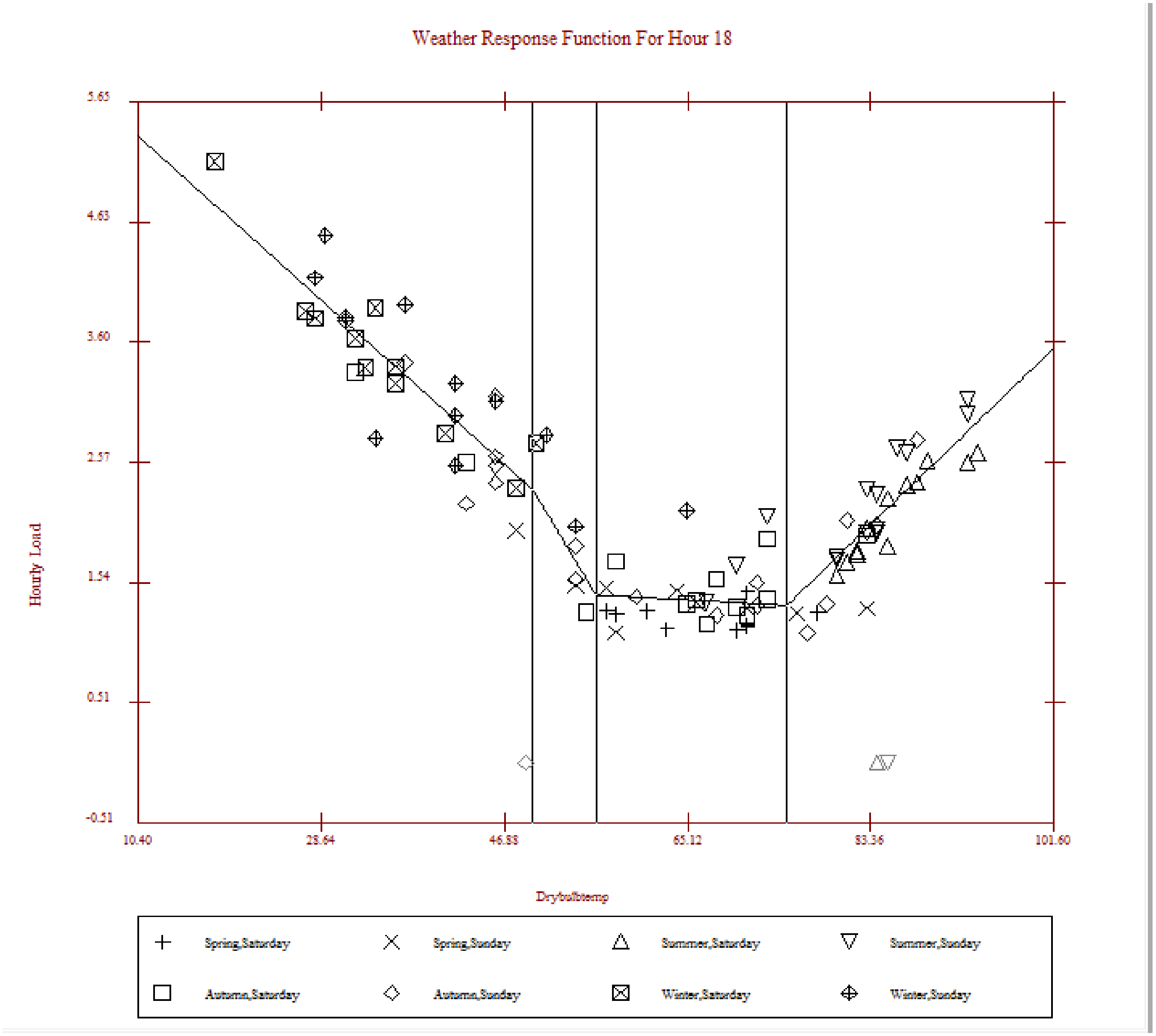


```
Coefficient of Determination(R2) = 0.650068
Model F Statistics          = 58.207858(0.000000)
```

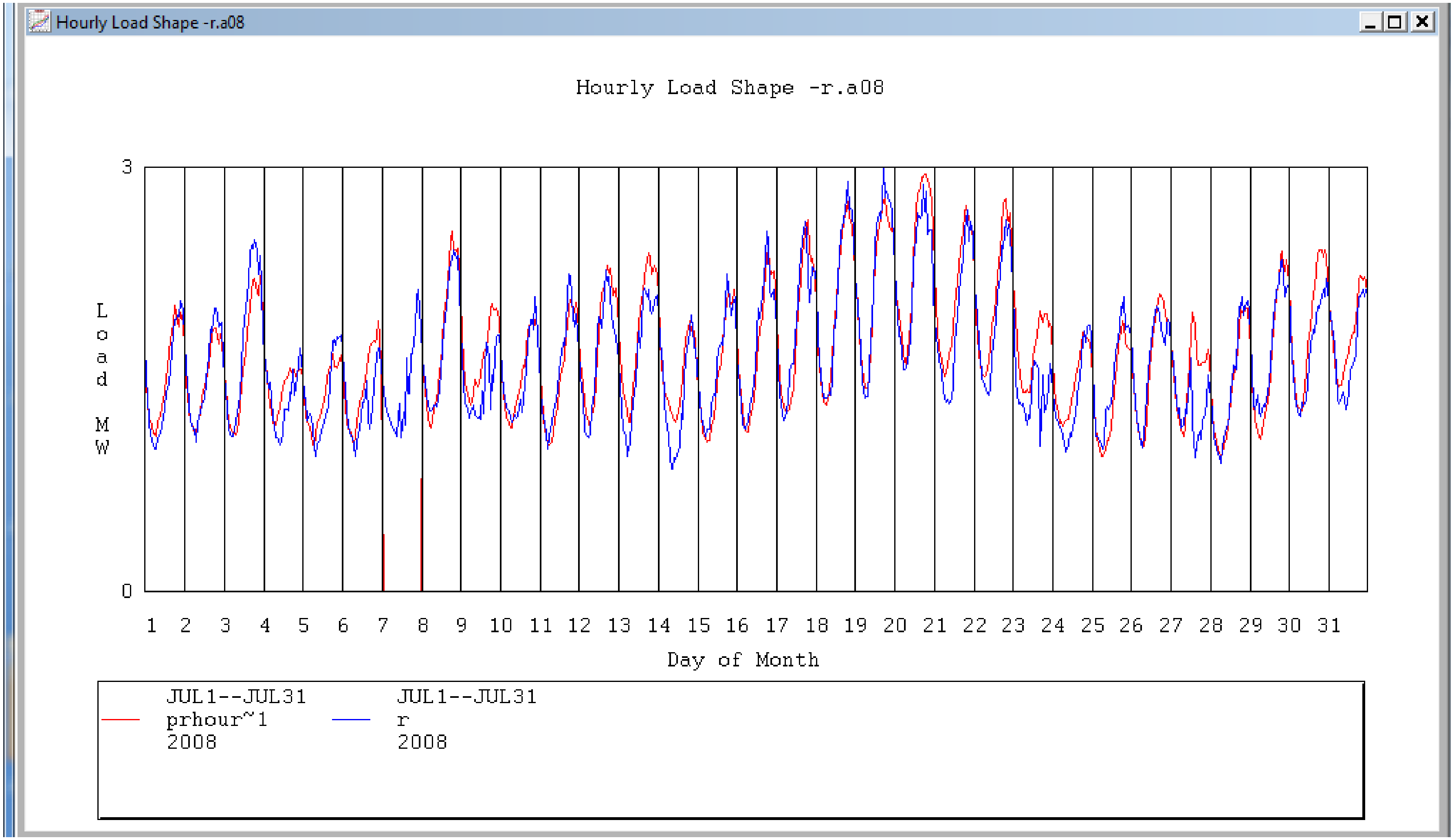
RH – Spring and Fall Weekdays are Different



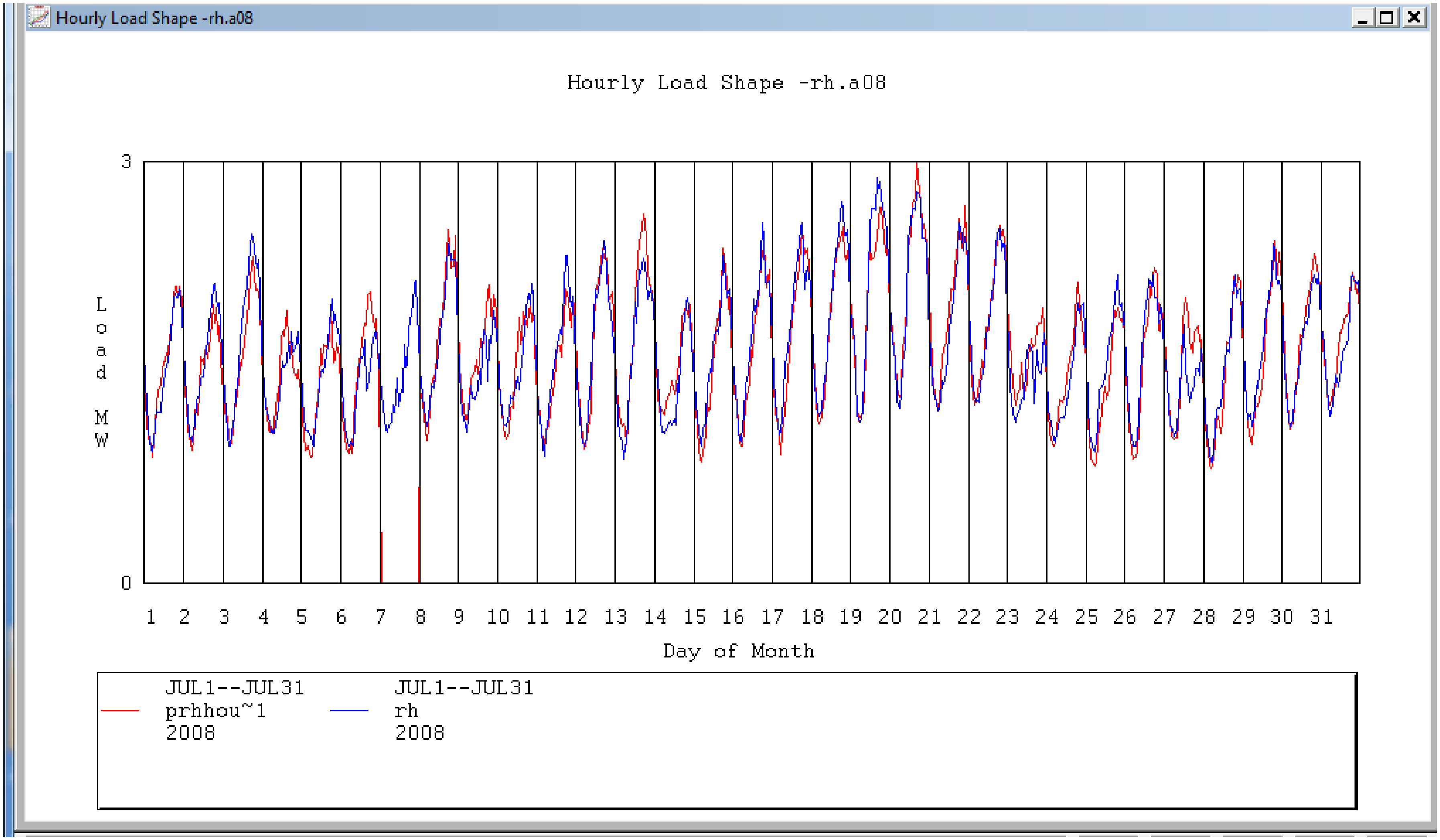
RH Winter Weekends are different



Backcast – R

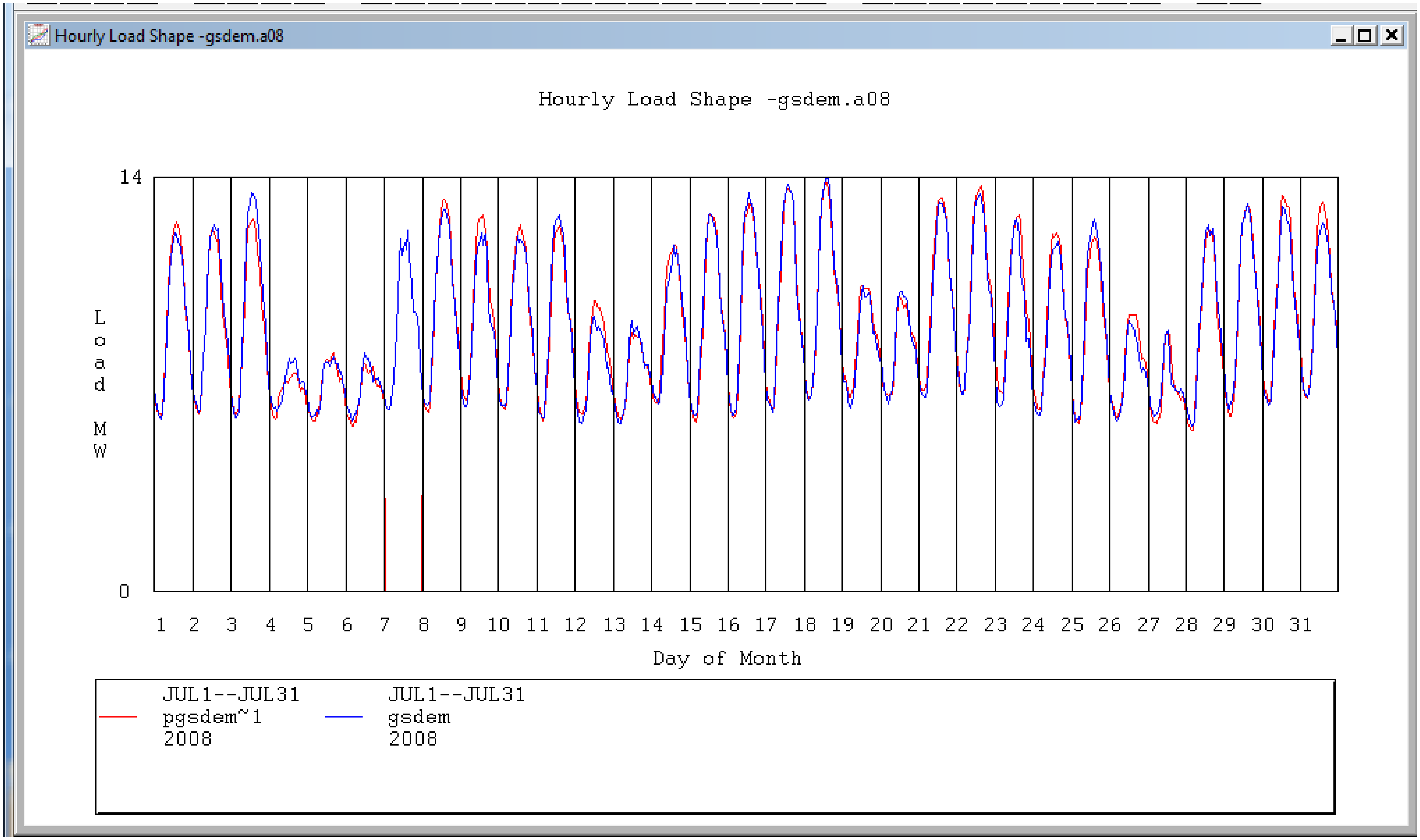

Hourly Load Shape -r.a08
Hourly Load Shape -r.a08
3
0
Load MW
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
Day of Month
JUL1--JUL31
prhour~1
2008
JUL1--JUL31
r
2008

Backcast RH

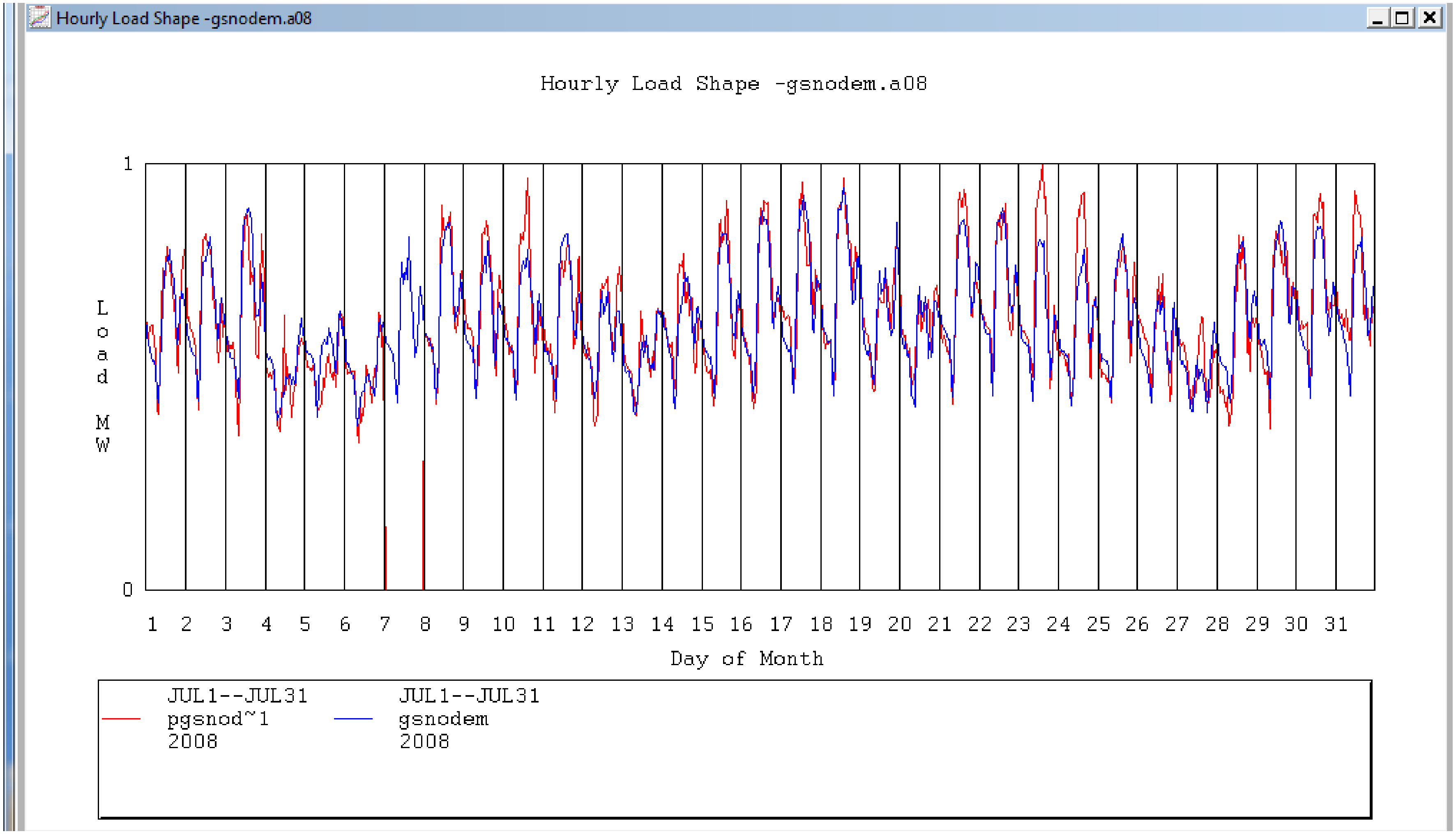


Hourly Load Shape -rh.a08
Hourly Load Shape -rh.a08
3
0
Load MW
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
Day of Month
JUL1--JUL31
prhhou~1
2008
JUL1--JUL31
rh
2008

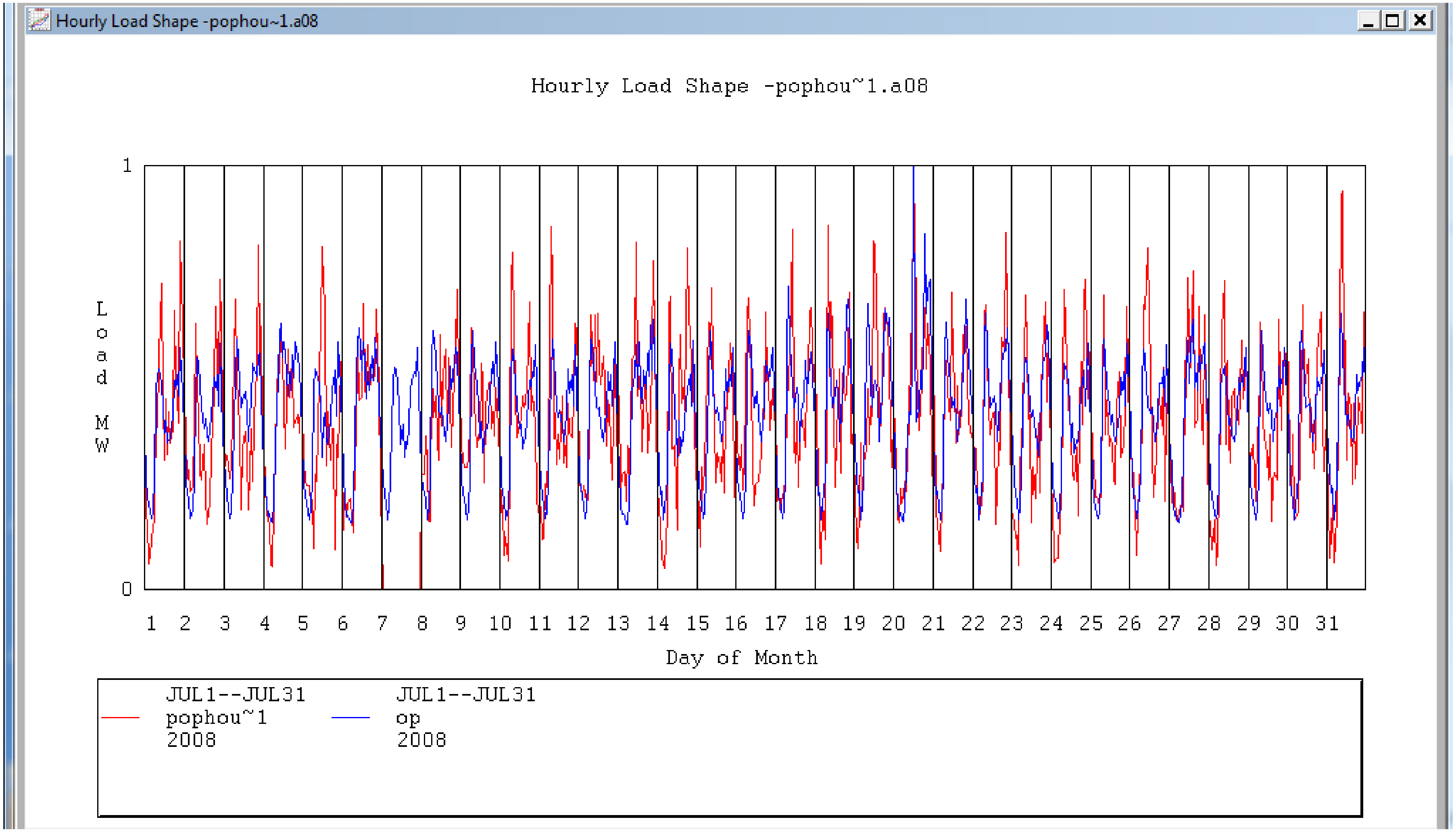
Backcast – GS Demand



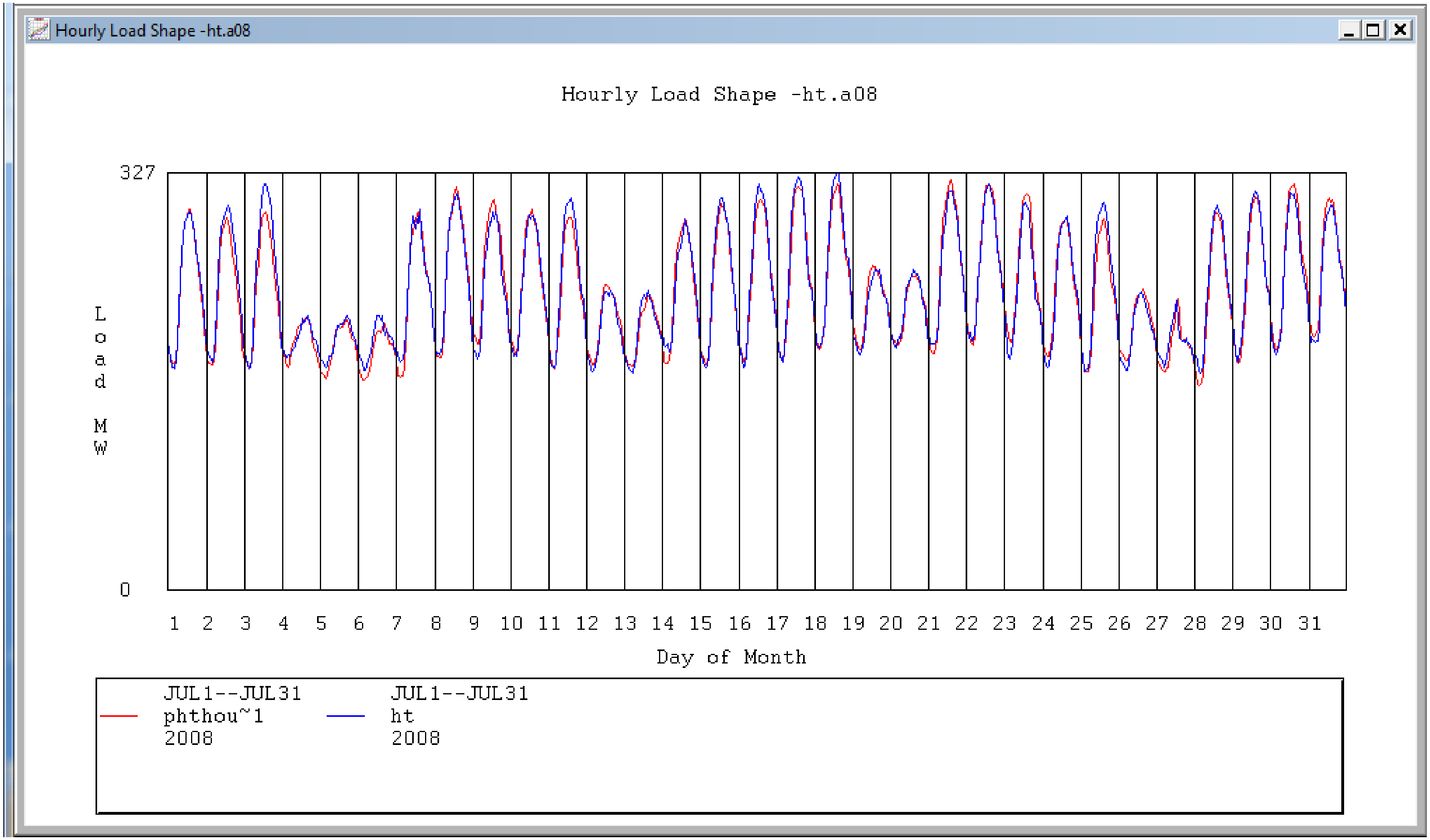
Backcast GS No Demand



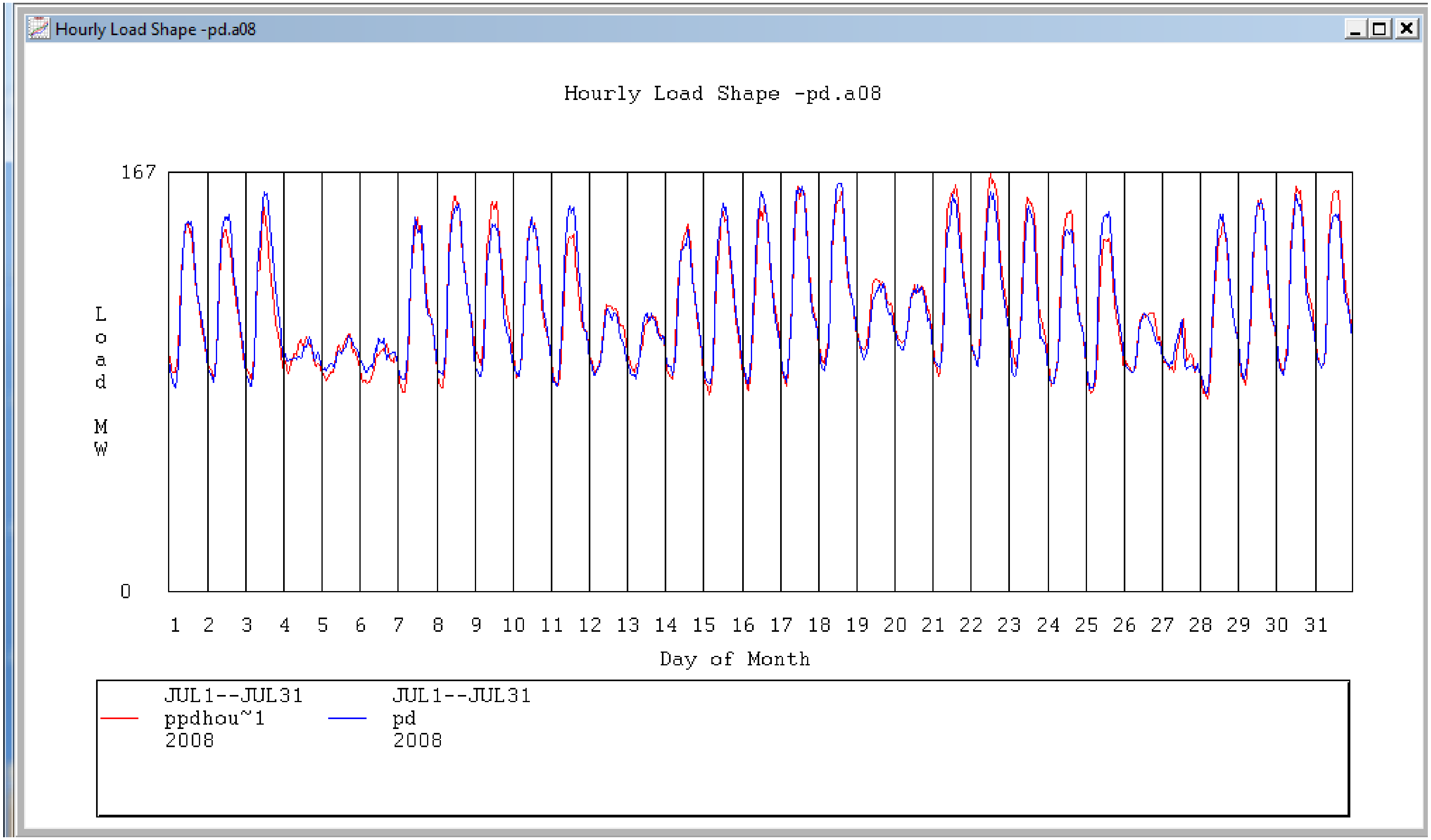
Backcast OP


Hourly Load Shape -pophou~1.a08
Hourly Load Shape -pophou~1.a08
Load MW
1
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
Day of Month
JUL1--JUL31
pophou~1
2008
JUL1--JUL31
op
2008

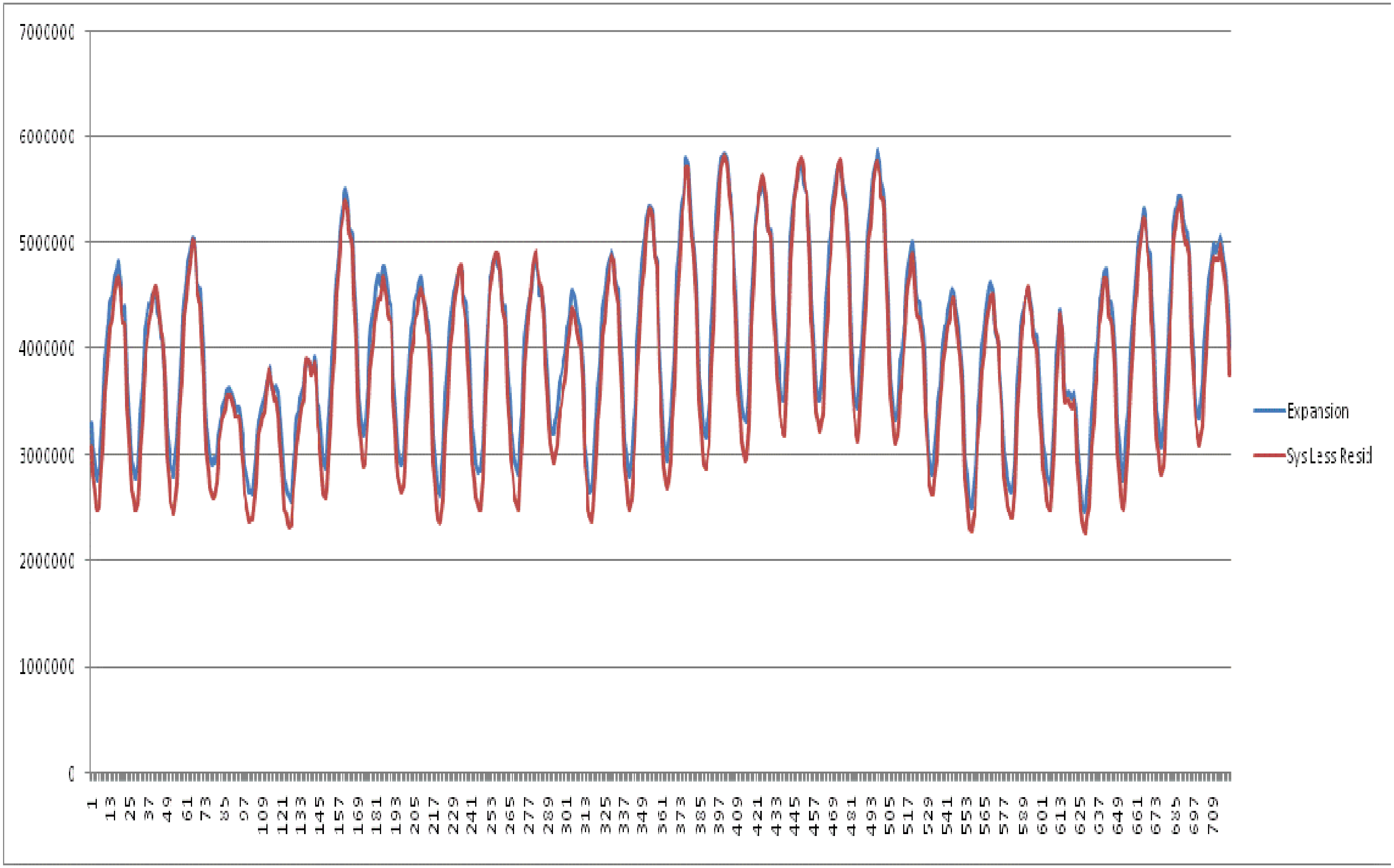
Backcast HT


Hourly Load Shape -ht.a08
Hourly Load Shape -ht.a08
327
0
Load MW
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
Day of Month
JUL1--JUL31
phthou~1
2008
JUL1--JUL31
ht
2008

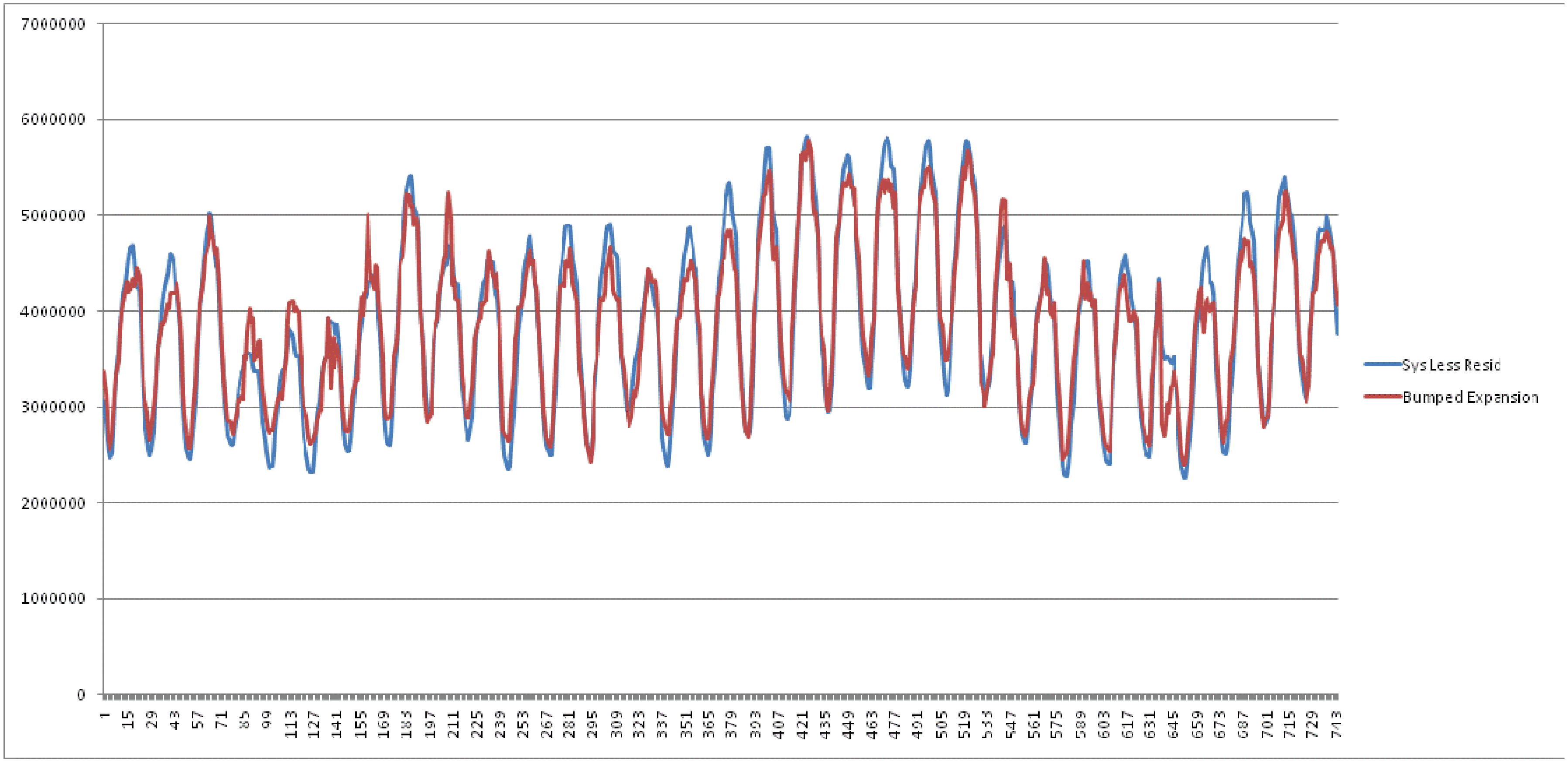
Backcast PD


Hourly Load Shape -pd.a08
Hourly Load Shape -pd.a08
167
0
L o a d M W
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
Day of Month
JUL1--JUL31
ppdhou~1
2008
JUL1--JUL31
pd
2008

System Reconciliation Using Customer Count – July 2008



System Reconciliation using Billing Data – July 2008



Deliverable

- DataRaker has delivered the WRFs and Load Shapes (hourly use per customer, 4/1/08-3/31/09) for 10 different groups of customers:
  - R
  - RH
  - OP
  - GS No Demand
  - GS Demand
  - GS Demand, <500 kW
  - HT
  - HT, <500 kW
  - PD
  - PD, <500 kW

Q. SDR-COS-5 Please provide the most recent Annual Resource Planning Report prepared for the Company, and all cost analysis covering selection of alternative forms of generating capacity if not already provided therein.

A. SDR-COS-5 Please see Confidential Attachment SDR-COS-5(a) for the most recent Annual Resource Planning Report.

THE ATTACHMENT IS CONFIDENTIAL AND IS SUBMITTED ONLY IN THE NON-PUBLIC VERSION OF THIS RESPONSE FILED WITH THE COMMISSION.

SDR-COS-6 For each customer taking interruptible service (do not identify customers by name), provide:

a. the amount of interruptible capacity under contract,
b. the amount of firm capacity under contract,
c. the time, duration, and amount of capacity reduction # for each requested interruption for the most recent three year period.
d. The maximum load imposed by the customer on the Company during each requested interruption for the last three year period, and
e. If credit is awarded on a basis of actual interruption (as contrasted to a simple credit or reduced monthly charge for each kW of interruptible service), please provide the amount received for each requested interruption.

A. SDR-COS-6 PECO's current demand response programs include the following:

1. "**PECO Smart A/C Saver" air conditioning cycling program**: This program is designed to interrupt air-conditioner usage on peak demand days for participating residential and small commercial and industrial ("C&I") customers. The program was implemented as part of PECO's Phase I Energy Efficiency & Conservation ("EE&C") plan approved by the Pennsylvania Public Utility Commission ("the Commission") to comply with the provisions of Act 129. The program continued under PECO's Phase II and Phase III EE&C plans approved by the Commission. The PECO Smart A/C Saver program costs and other EE&C program costs are recovered through the Energy Efficiency Program Cost Surcharge mechanism and therefore are not included in base rates.

2. **PECO Demand Response Aggregator (DRA):** This program is designed for Large Commercial and Industrial customers with load greater than 100 kW. Participants must have the ability to reduce their load when called upon by PECO. Such resources must be within the PECO service territory and may be also be participating in the markets operated by PJM Interconnection, L.L.C. ("PJM"). The PECO DRA program costs and other EE&C program costs are recovered

through the Energy Efficiency Program Cost Surcharge mechanism and therefore are not included in base rates.

a. **The amount of interruptible capacity under contract.**

PECO Smart A/C Saver program:

The PECO Smart A/C Saver program does not specify an amount of interruptible capacity under contract. However, program evaluations determine the associated reduction in peak demand. For 2015, the average program impact was 0.76 kW per residential A/C unit and 0.79 kW per C&I unit. For 2016, the average program impact was 0.72 kW per residential unit and 0.93 kW per C&I unit. For 2017, the average program impact was 0.52 kW per residential unit and 0.84 kW per C&I unit.

Demand Response Aggregator:

The amount of interruptible capacity is not applicable to the PECO Demand Response Aggregator program participants.

b. **The amount of firm capacity under contract.**

PECO Smart A/C Saver program:

The amount of firm capacity is not tracked and is not applicable to the PECO Smart A/C Saver program.

Demand Response Aggregator:

Per Act 129 Phase III requirements, PECO has contracted with various curtailment service providers (“CSPs”) to provide large commercial and industrial resources within the PECO territory that can supply firm electric load reduction when called upon by PECO. Currently these CSPs have 130 MW under contract.

c. **For the time, duration, and estimated amount of capacity reduction for each requested interruption for the most recent three year period.**

PECO Smart A/C Saver program:

In 2015, the program was initiated 3 times for a total duration of 4 hours.
In 2016, the program was initiated 3 times for a total duration of 4 hours.
In 2017, the program was initiated 3 times for a total duration of 12 hours.

The program delivered the following capacity reductions for three-year period from 2015 through 2017.

Program	2015		2016		2017	
	Participant Count	MW Performance	Participant Count	MW Performance	Participant Count	MW Performance
A/C Saver Residential	**71,979**	**60**	**71,188**	**60**	**69,634**	**14**
A/C Saver C&I	**2,912**	**2**	**2,878**	**2**	**2,807**	**0.8**
Totals	**74,891**	**62**	**74,066**	**62**	**72,441**	**14.8**

Demand Response Aggregator:
In 2017, the program was initiated 3 times for a total duration of 12 hours. The amount of capacity reduction for 2017 is 93 MW. There were no events in 2015 and 2016 that triggered the DRA program.

d. **The maximum load imposed by the customer on the Company during each requested interruption for the last three year period**

PECO Smart A/C Saver program:
The Company does not track this information.

Demand Response Aggregator:
The Company does not track this information.

e. **If credit is awarded on a basis of actual interruption (as contrasted to a simple credit or reduced monthly charge for each kW of interruptible service), please provide the amount received for each requested interruption.**

PECO Smart A/C Saver program:
Credits to participants of the PECO Smart A/C Saver program are not paid on the basis of actual interruption. Instead, monthly credits are provided

for the summer program months of June, July, August and September based on a fixed credit. In 2015, the credit per installed A/C Saver control device was fixed at $20 for residential and small C&I participants. For the summer of 2016 and 2017, the credit for both residential and small C&I participants was $10, per participating device, for the 4 summer program months.

Demand Response Aggregator:
Credits to participants of the PECO DRA program are not paid based on actual interruption. PECO has contracted with CSPs who are in charge of enrolling Large C&I customers and providing them with a financial incentive for reducing their load during times of peak demand for up to six events lasting four hours each during the performance period of June 1st through September 30th.

Q. SDR-COS-7	Please describe the generation planning criteria used by the Company. Provide any reports or documents that characterize the generation planning criteria.
A. SDR-COS-7	Not applicable. PECO does not own any generation assets but instead purchases power from wholesale generation suppliers or the PJM capacity and energy markets to serve its default service customers.

Q. SDR-COS-8 Provide any documentation, workpapers, and analysis to support the functionalization and classification of distribution plant into demand and customer-related components.

A. SDR-COS-8 Refer to the direct testimony (PECO Statement No. 6) and accompanying exhibits of Company witness Jiang Ding, for a description of the functionalization of plant and the classification of distribution plant into demand and customer components. Refer to Exhibit JD-7, which shows the development of the bases for functionalizing and classifying plant.

Q. SDR-COS-9 Please provide historic period actual and forecasted test period monthly resource availability (including imports and exports) to meet demand. For each resource, provide monthly capability and disposition (e.g., available, down for maintenance, etc.). Show the amount and percentage of reserves for each month.

A. SDR-COS-9 Not applicable. PECO does not own any generation assets but instead purchases power from wholesale generation suppliers and the PJM capacity and energy markets to serve its default service customers.

Q. SDR-COS-10 If a weather normalization adjustment is made; please supply the following information regarding normal degree days and the Company's weather normalization adjustment;

a. Which NOAA weather reporting station or stations were utilized?

b. If more than one weather reporting station was used, provide the weighting applied to each station in arriving at the composite total.

c. Supply the supporting NOAA data for normal degree days if the Company used anything other than the 30-year NOAA normals.

A. SDR-COS-10

a. KPHL, Philadelphia International Airport.

b. Only the Philadelphia weather reporting station was used.

c. NOAA uses a 30 year normals period from 1981 to 2010, whereas the Company updates its 30 year weather normals period annually to include more recent information. PECO currently uses 30 year normals information from 1987 to 2016.

	Monthly Normal Degree Days Base 65° Fahrenheit			
	NOAA 1981 - 2010		PECO 1987 - 2016	
	HDD	CDD	HDD	CDD
January	993	0	966	0
February	819	0	830	0
March	665	1	648	1
April	343	12	329	15
May	112	78	104	90
June	11	258	8	279
July	0	408	0	438
August	1	360	0	382
September	37	161	27	179
October	255	22	244	26
November	523	1	512	1
December	854	0	819	0
Annual	4,613	1,301	4,487	1,410

Q. SDR-COS-11 Provide a typical customer demand and usage profile for each of your service offerings.

A. SDR-COS-11 The following table provides average customer demand and usage profiles by rate class.

	Rate Class				
	Residential	**Residential Heating**	**General Service**	**Primary Distribution**	**High Tension**
Monthly Average Usage (kWh)	741	1,270	4,795	80,831	479,124
Average Coincident Peak Demand (kW)	2.8	2.8	10.3	157.5	883.6
Average Non-Coincident Peak Demand (kW)	2.8	5.9	12.5	180.7	963.4

Q. SDR-COS-12 Under present and proposed rates, provide a bill comparison (with calculations) showing a typical commercial customer and industrial customer demand and usage charges under firm and interruptible service.

A. SDR-COS-12 Please refer to the response to IV-D-2 for firm service bill comparisons. The Company does not offer interruptible distribution rates.

Q. SDR-COS-13 Provide a bill frequency analysis for each customer class.

A. SDR-COS-13 Refer to the response to IV-C-1. PECO used projected billing determinants to prove out revenue for the fully projected future test year at existing and proposed rates.

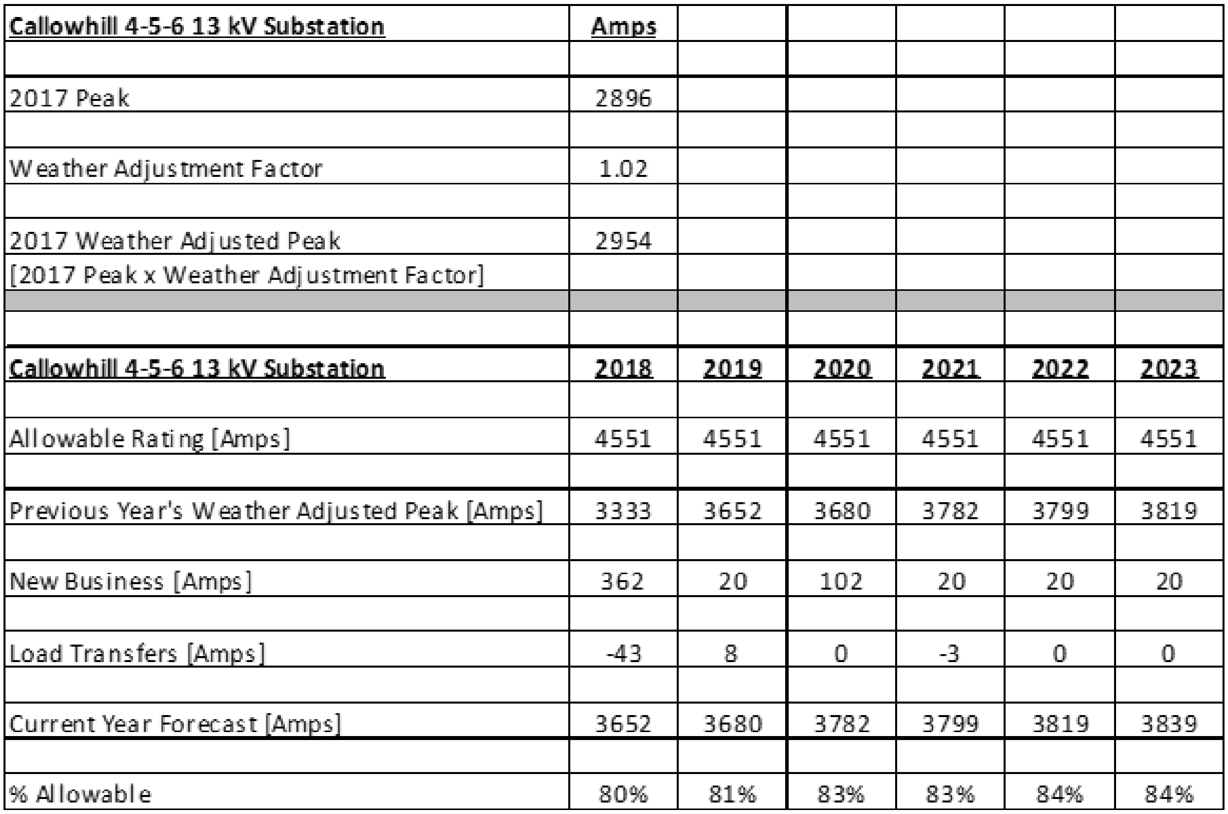
Q. SDR-COS-14 Does the Company have a design peak day? If so, explain in detail how the design peak day was calculated and supply the supporting calculations.

A. SDR-COS-14 Yes. The Company has a peak design day and actual loads from the peak day each year are weather corrected for each substation and feeder. The weather correction is based on Cooling Degree Days and 90/10 weather or weather conditions that can be expected once in 10 years based on 30 years of historical weather data.

To determine the weather correction factor, substation peak loads are regressed against days with high Cooling Degrees for three years. Factors by customer class [Residential, Commercial or Industrial] served by the substation and their response to hot weather are included when developing the weather correction factor. For the feeders, weighted average customer class factors that were developed from the substation regression analysis are applied to each feeder.

The actual peaks for each substation and feeder are corrected using the weather correction factor and then adjusted based on actual customer service requests, recent load growth or economic development in the area, load transfers between feeders and terminals, etc. to forecast peak demands for future years. Substation loads are forecast for 5 years in the future while feeder loads are forecast for 3 years in the future.

Shown below is an example of how the peak load is weather corrected and how new business requests and load transfers are used to forecast the peak load for future years.



Callowhill 4-5-6 13 kV Substation	**Amps**
2017 Peak	2896
Weather Adjustment Factor	1.02
2017 Weather Adjusted Peak [2017 Peak x Weather Adjustment Factor]	2954

Callowhill 4-5-6 13 kV Substation	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Allowable Rating [Amps]	4551	4551	4551	4551	4551	4551
Previous Year's Weather Adjusted Peak [Amps]	3333	3652	3680	3782	3799	3819
New Business [Amps]	362	20	102	20	20	20
Load Transfers [Amps]	-43	8	0	-3	0	0
Current Year Forecast [Amps]	3652	3680	3782	3799	3819	3839
% Allowable	80%	81%	83%	83%	84%	84%

Q. SDR-COS-15A Provide the Total and Peak day capacity (in MW) for the Company's system and provide the designated capacity.

A. SDR-COS-15A The weather adjusted, forecasted 2018 peak of all 13 kV and 34 kV substations is 8,939 MW. The total rating for these substations is 11,643 MW. Based on these values, on a system wide basis, these substations are loaded to 77% of capacity. The weather adjusted, forecasted 2019 peak of all 13 kV and 34 kV substations is 8,927 MW.

Q. SDR-COS-15B Also provide the amount of customers in each class and each customer's usage, by month, for the test year.

A. SDR-COS-15B Refer to Attachment SDR-COS-15B(a) for the number of customers in each class and the usage of an average customer in each class, by month, for 2018 and 2019.

PECO Energy Company

Electric Customer Numbers at the End of Each Month

Year	Month	R	RH	SCI	LCI	RR	SL	IC	Total
2018	1	1,285,754	184,390	151,431	3,111	5	9,683	3	1,634,377
2018	2	1,286,391	184,930	151,643	3,111	5	9,683	3	1,635,767
2018	3	1,287,593	185,375	151,859	3,111	5	9,683	3	1,637,629
2018	4	1,288,795	185,648	151,905	3,111	5	9,683	3	1,639,150
2018	5	1,288,358	185,350	151,935	3,111	5	9,683	3	1,638,445
2018	6	1,288,032	185,425	152,092	3,111	5	9,683	3	1,638,352
2018	7	1,288,038	185,352	152,115	3,111	5	9,683	3	1,638,308
2018	8	1,288,961	185,614	152,189	3,111	5	9,683	3	1,639,566
2018	9	1,290,202	185,657	152,281	3,111	5	9,683	3	1,640,943
2018	10	1,290,962	185,814	152,444	3,111	5	9,683	3	1,642,022
2018	11	1,291,882	186,129	152,497	3,111	5	9,683	3	1,643,310
2018	12	1,292,537	186,281	152,530	3,111	5	9,683	3	1,644,149

Average Electric Usage per Customer per Class at the End of Each Month (Kwh)

Year	Month	R	RH	SCI	LCI	RR	SL	IC	Total
2018	1	754.84	2,160.68	4,670.33	546,284.01	11,722,089.59	1,580.41	1,037,217.17	2,098.49
2018	2	611.52	1,756.16	4,163.68	492,896.29	9,878,222.30	1,564.02	1,037,217.17	1,811.00
2018	3	616.19	1,535.65	4,369.67	527,737.88	11,474,560.62	1,565.96	1,037,217.17	1,864.42
2018	4	521.36	962.73	3,924.71	502,015.77	9,954,559.88	1,591.47	1,037,217.17	1,643.08
2018	5	547.01	794.38	4,068.12	540,668.75	9,530,059.00	1,585.40	1,037,217.17	1,711.22
2018	6	768.26	897.84	4,667.25	564,077.51	10,678,140.11	1,585.79	1,037,217.17	1,988.28
2018	7	963.93	1,008.68	5,012.41	622,383.18	10,755,274.81	1,578.45	1,037,217.17	2,270.35
2018	8	901.38	950.37	4,968.64	607,402.22	10,590,718.59	1,584.07	1,037,217.17	2,189.04
2018	9	641.30	748.36	4,262.34	548,222.21	10,544,545.83	1,583.58	1,037,217.17	1,809.42
2018	10	548.00	812.36	3,979.94	531,252.18	10,443,337.37	1,579.17	1,037,217.17	1,695.03
2018	11	573.30	1,203.23	4,014.66	517,714.55	8,668,998.19	1,580.48	1,037,217.17	1,737.30
2018	12	733.36	1,924.56	4,766.43	530,260.70	10,281,245.03	1,602.98	1,037,217.17	2,036.86

Electric Customer Numbers at the End of Each Month

Year	Month	R	RH	SCI	LCI	RR	SL	IC	Total
2019	1	1,296,732	186,517	151,659	3,111	5	9,683	3	1,647,710
2019	2	1,298,169	187,056	151,714	3,111	5	9,683	3	1,649,741
2019	3	1,299,572	187,484	151,741	3,111	5	9,683	3	1,651,599
2019	4	1,300,774	187,692	151,752	3,111	5	9,683	3	1,653,020
2019	5	1,300,036	187,400	151,710	3,111	5	9,683	3	1,651,948
2019	6	1,299,634	187,204	151,732	3,111	5	9,683	3	1,651,372
2019	7	1,299,348	187,025	151,726	3,111	5	9,683	3	1,650,901
2019	8	1,300,831	187,102	151,766	3,111	5	9,683	3	1,652,501
2019	9	1,301,242	187,111	151,781	3,111	5	9,683	3	1,652,936
2019	10	1,302,281	187,293	151,827	3,111	5	9,683	3	1,654,203
2019	11	1,303,360	187,698	151,882	3,111	5	9,683	3	1,655,742
2019	12	1,304,915	187,982	151,921	3,111	5	9,683	3	1,657,620

Average Electric Usage per Customer per Class at the End of Each Month (Kwh)

Year	Month	R	RH	SCI	LCI	RR	SL	IC	Total
2019	1	746.69	2,124.41	4,664.96	543,315.00	11,779,061.22	1,560.54	1,037,217.17	2,078.58
2019	2	604.54	1,726.74	4,163.22	490,094.44	9,926,232.38	1,544.35	1,037,217.17	1,793.24
2019	3	609.07	1,510.09	4,374.61	524,762.60	11,530,329.22	1,546.27	1,037,217.17	1,846.36
2019	4	515.34	947.05	3,930.07	499,246.66	10,002,940.97	1,571.46	1,037,217.17	1,627.51
2019	5	540.82	781.41	4,075.60	537,609.17	9,576,376.94	1,565.46	1,037,217.17	1,695.48
2019	6	759.61	884.46	4,679.99	560,868.78	10,730,037.94	1,565.85	1,037,217.17	1,970.40
2019	7	953.28	994.21	5,027.05	618,820.95	10,807,547.53	1,558.60	1,037,217.17	2,250.37
2019	8	891.05	937.67	4,984.26	604,167.50	10,642,191.54	1,564.15	1,037,217.17	2,169.40
2019	9	634.36	738.50	4,277.90	545,621.96	10,595,794.37	1,563.67	1,037,217.17	1,794.40
2019	10	541.95	801.55	3,997.53	528,500.95	10,494,094.01	1,559.31	1,037,217.17	1,680.80
2019	11	566.91	1,186.67	4,032.34	515,200.87	8,711,131.21	1,560.60	1,037,217.17	1,722.20
2019	12	724.69	1,896.76	4,787.23	527,655.84	10,331,213.88	1,582.83	1,037,217.17	2,017.55

Q. SDR-COS-16 Provide a detailed description of the various meters used to meter the Company's usage. Include the manufacturer's name, the average age, and the advantages of utilizing that type of meter. Has the Company utilized any type of remote metering? Please explain.

A. SDR-COS-16 PECO currently utilizes two remote metering platforms: (1) Sensus FlexNet Advanced Metering Infrastructure ("Sensus AMI"); and (2) Itron MV-90 Automated Meter Reading ("MV-90 AMR") which is currently being changed out to Sensus AMI. The Sensus AMI platform is used to provide meter readings for nearly all of PECO's Electric Customers. The MV-90 AMR platform is used to readlarge Electric C&I customer meters (with demand >500kw) on a nightly basisvia hardwire telephony network.

PECO has installed meters from a variety of manufacturers. The following list categorizes meters by their compatability with a remote metering platform, and also provides the manufacturer, average age and the justification for selection:

<u>Meters Compatible with Sensus AMI</u>, with a FlexNet Communication Module. These meters were installed to meet the Act 129 Smart Meter requirements.

- Landis+Gyr Focus AXR and AXR-SD – These meters were purchased and installed between 2010 and 2017. Their average age is 5 years. They have a fully electronic, solid state design and serve residential and small commercial customers. The meter includes an internal service disconnect switch that is remotely operated via the AMI system. Installation of approximately 1.6 million meters is substantially complete as of November 2016.
- Aclara I210+C – Purchase and installation of these meters began in 2017 and is ongoing. The average is age is less than one year. They have a fully electronic, solid state design and serve residential and small commercial customers. The meter includes an internal service disconnect switch that is remotely operated via

the AMI system. The current population is less than 25,000.

- Sensus IconA – Purchase and installation of these meters began in 2010 and is ongoing. Their average age is less than 5 years. They have a fully electronic, solid state design and serve residential and small commercial customers. A small population (~10,000) of these meters will be used for large capacity residential applications (form 2se class 320 meters). These meters do not have an internal service disconnect switch.
- Elster A3R – Purchase and installation of these meters began in 2014 and is ongoing. Their average age is less than 5 years. Approximately 40,000 meters will be used in commercial and industrial applications and about 7,000 meters will be used in some specialized residential applications.
- Sensus Stratus – This meter was approved for use at PECO in January 2018. It includes an internal service disconnect switch that is remotely operated via the AMI system. PECO expects to purchase these meters in 2018 and deploy them in small quantities for ongoing maintenance purposes.

<u>Meters Compatible with the MV-90 AMR Platform (To Be Retired By End of 2018)</u>

- GE, KV2c – Purchase and installation of these meters began in 2012 and is ongoing.. Their average age is 6 years.
- Process Systems/Siemens, QUAD4 – This meter is a solid-state meter used for large commercial & industrial customers. These meters were purchased and installed between 1994 and 1998. Their average age is 25 years.
- Siemens/L+G, MaxSys 2510 – This meter is a replacement for the QUAD4 meter. The meters were purchased and installed between 1998 and 2008; their average age is 17 years.

- L+G, MaxSys Elite – This meter is a replacement for the MaxSys 2510. Purchase and installation of these meters began in 2009 and is ongoing. Their average age is 7 years.
- Schlumberger, Quantum – These meters are the first generation solid state meters used at PECO. They were purchased and installed between 1992 and 1997. Their average age is 23 years.
- Scientific Columbus, JEM2 Quantum – These meters are the first generation solid state meters used at PECO. They were purchased and installed between 1992 and 1997. Their average age is 23 years.
- GE, V63 – These meters are electromechanical meters and are some of the oldest meters on system. They were purchased and installed between 1988 and 1995. Their average age is 26 years.
- GE, V64 – These meters are electromechanical meters and are some of the oldest meters on system. They were purchased and installed between 1988 and 1995. Their average age is 26 years.
- Elster, A3Q – Purchase and installation of these meters began in 2005 and is ongoing. Their average age is 13 years.

Q. SDR-DEP-1	Provide the following in a complete electronic format:

a. The aged plant data necessary to complete a service life study based on Plant Mortality Data through the end of the historic test year.

b. The data necessary to calculate annual and accrued depreciation as of the end of the historic and future test years.

A. SDR-DEP-1

a. Refer to Attachment SDR-DEP-1(a) for aged plant data.

b. Refer to Attachment V-A-3(b) for the annual and accrued depreciation as of the end of the historic and future test years.

PECO Energy Company
Service Life Plant by Vintage
YTD 12/31/2017

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
Common	**Common**	PEC 390 Structure Building	1892	59
			1914	1,915
			1922	233
			1924	5,738
			1925	5,337
			1927	13,978
			1931	404
			1933	25
			1937	122
			1938	7,745
			1941	1,242
			1942	3,689
			1944	452,389
			1946	1,118
			1947	293
			1948	238
			1949	57,906
			1950	3,326
			1951	9,776
			1952	63,709
			1953	73,178
			1954	1,141
			1955	35,191
			1956	1,195,405
			1957	44,312
			1958	114,683
			1959	505,826
			1960	9,394
			1961	780,687
			1962	3,852
			1963	97,987
			1965	197,804
			1966	6,699
			1967	457,187
			1968	2,641,464
			1969	14,531
			1970	3,704,854
			1971	5,543
			1972	25,759,799
			1973	7,013
			1974	56,128
			1975	81,461
			1976	101,061
			1977	177,487
			1978	396,253
			1979	31,027
			1980	327,163
			1981	945,470
			1982	282,551
			1983	1,159,452
			1984	1,712,190
			1985	397,910
			1986	1,277,732
			1987	1,751,375
			1988	1,029,748
			1989	383,320
			1990	1,566,232
			1991	2,563,162
			1992	4,015,453
			1993	7,105,420
			1994	2,941,140
			1995	24,083,738
			1996	3,165,133
			1997	5,568,311
			1998	44,127,426

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			1999	2,083,459
			2000	417,130
			2001	761,042
			2002	2,521,196
			2003	18,357,388
			2004	1,796,159
			2005	1,203,888
			2006	513,882
			2007	1,089,907
			2008	5,279,715
			2009	6,738,384
			2010	6,262,288
			2011	2,957,205
			2012	3,600,141
			2013	6,485,267
			2014	2,558,289
			2015	1,454,401
			2016	2,231,997
			2017	8,415,424
		PEC 390 Structure Building Total		**216,259,296**
		PEC 390 Structure Improvement	1892	603
			1924	170
			1925	311
			1930	122
			1938	566
			1942	286
			1949	3,075
			1951	7,703
			1952	216
			1953	6,071
			1954	852
			1955	375
			1956	199,901
			1957	2,209
			1959	242
			1960	32,659
			1961	18,061
			1962	9,930
			1963	4,947
			1964	448
			1965	33,161
			1966	2,380
			1967	181,689
			1968	567,565
			1969	9,902
			1970	863,288
			1971	7,760
			1972	464,565
			1973	2,565
			1976	3,273
			1977	40,322
			1978	1,910
			1979	51,920
			1980	78,799
			1981	68,742
			1982	42,803
			1983	189,455
			1984	263,477
			1985	303,293
			1986	21,227
			1987	98,862
			1988	718,718
			1989	46,131
			1990	197,676
			1991	45,220
			1992	107,978
			1993	496,602
			1994	161,127
			1998	414,102
			2001	54,018

Sum of book_cost				
Segement	**Function**	**Utility_account**	**Vintage**	**Total**
			2002	336,022
			2003	4,259,629
			2004	966,359
			2005	375,738
			2007	3,657,095
			2008	1,412,993
			2009	7,935,866
			2010	18,758,027
			2011	4,770
			2012	1,199,363
			2013	437,416
			2014	2,153,020
			2015	2,235,416
			2016	1,661,050
			2017	3,862,865
		PEC 390 Structure Improvement Total		**55,082,907**
		PEC 390 Structure Special Purpose	1974	26,285
			1982	3,732
			1986	(6,356)
			1991	2,921
			2003	386,363
			2009	17,230
			2016	29,382
			2017	148,957
		PEC 390 Structure Special Purpose Total		**608,514**
		PEC 391 Computer Equipment	2012	(2,682)
			2013	2,003,443
			2014	4,093,235
			2015	5,077,191
			2016	9,223,024
			2017	8,172,315
		PEC 391 Computer Equipment Total		**28,566,526**
		PEC 391 Furniture and Appliances	2003	1,931,582
			2004	239,473
			2005	665,144
			2006	573,068
			2007	25,408
			2008	863,609
			2009	68,987
			2010	953,125
			2011	486,528
			2012	264,227
			2013	551,666
			2014	269,581
			2015	705,682
			2016	2,381,503
			2017	5,456,538
		PEC 391 Furniture and Appliances Total		**15,436,121**
		PEC 391 Office Machines	2008	34,288
			2009	61,698
			2012	23,764
			2013	4,856
		PEC 391 Office Machines Total		**124,606**
		PEC 392 Automobiles	2002	90,582
			2015	752
			2017	2,307
		PEC 392 Automobiles Total		**93,641**
		PEC 392 Heavy Trucks	1992	(345,714)
			1994	141,408
			1996	334,572
			1997	202,652
			2001	2,173
			2002	6,882
			2004	912,470
			2005	203,406
			2006	2,122,366
			2007	4,271,152
			2008	8,295,138
			2009	3,157,177
			2010	7,893,546

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			2011	4,044,378
			2012	4,696,834
			2013	7,492,010
			2014	10,424,414
			2015	3,593,131
			2016	9,193,523
			2017	8,610,427
		PEC 392 Heavy Trucks Total		**75,251,945**
		PEC 392 Light Trucks	2002	764,523
			2003	89,865
			2004	39,689
			2005	270,138
			2006	457,470
			2007	601,846
			2008	802,845
			2009	662,032
			2010	4,088,838
			2011	1,269,983
			2012	793,431
			2013	3,195,721
			2014	4,332,776
			2015	4,278,141
			2016	5,548,765
			2017	4,355,669
		PEC 392 Light Trucks Total		**31,551,732**
		PEC 392 Medium Trucks	2017	4,348,813
		PEC 392 Medium Trucks Total		**4,348,813**
		PEC 392 Other transprttn (off road)	1946	920
			1962	58
			1965	84,407
			1972	17,324
			1973	3,536
			1974	3,889
			1983	2,891
			1992	6,119
			1993	27,545
			1994	74,146
			1995	70,185
			1996	28,685
			2000	5,141
			2002	1,179,479
			2003	302,059
			2005	310,886
			2006	906,064
			2007	365,025
			2008	149,463
			2009	231,325
			2010	281,323
			2011	5,538
			2012	248,451
			2014	322,484
			2015	200,945
			2016	125,532
			2017	118,132
		PEC 392 Other transprttn (off road) Total		**5,071,551**
		PEC 392 Tractors	1995	177,147
			2002	44,306
			2009	57,898
		PEC 392 Tractors Total		**279,351**
		PEC 392 Trailers	1960	5,674
			1961	3,539
			1962	973
			1963	1,027
			1966	3,153
			1967	23,398
			1968	54,611
			1969	11,346
			1970	27,732
			1971	6,645
			1972	4,524

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			1973	67,710
			1974	814
			1975	25,352
			1976	1,545
			1978	24,007
			1988	18,644
			1994	125,649
			1995	132,686
			1996	209,721
			1997	239,239
			2000	67,159
			2001	16,383
			2002	174,202
			2003	23,050
			2004	9,379
			2005	23,623
			2006	77,184
			2007	634,158
			2008	(265,209)
			2009	7,165
			2010	308,074
			2011	45,337
			2012	98,806
			2013	70,130
			2014	303,237
			2015	445,680
			2016	850,548
			2017	672,746
		PEC 392 Trailers Total		**4,549,639**
		PEC 393 Stores Equipment	2003	14,210
			2006	134,383
			2007	270,799
			2008	83,816
			2009	54,743
			2010	60,242
			2011	5,183
			2013	46,417
			2014	770
			2015	770
			2016	115,924
			2017	466,037
		PEC 393 Stores Equipment Total		**1,253,293**
		PEC 394 Common Tools	2005	10,526
			2006	10,805
			2014	55,268
			2016	2,089
		PEC 394 Common Tools Total		**78,687**
		PEC 394 Construction Tools	2007	11,617
		PEC 394 Construction Tools Total		**11,617**
		PEC 394 Garage Equipment	1999	824,190
			2000	23,911
			2001	94,844
			2002	223,880
			2003	286,765
			2004	54,168
			2006	3,479
			2007	21,453
			2008	12,963
			2010	73,470
			2011	50,175
			2012	22,052
			2013	60,135
			2014	126,932
			2015	83,949
			2016	263,152
			2017	274,140
		PEC 394 Garage Equipment Total		**2,499,657**
		PEC 396 Power Operated Equipment	1973	28,015
			1977	11,827
			1980	3,955

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			1981	6,017
			1986	5,472
			1998	35,801
			2002	93,980
		PEC 396 Power Operated Equipment Total		**185,066**
		PEC 397 Communication Equipment	1996	14,419
			1997	2,320,209
			1998	7,398,704
			1999	1,031,171
			2001	122,376
			2002	50,892
			2003	598,741
			2005	50,000
			2006	7,909,520
			2007	6,682,064
			2008	1,390,893
			2009	69,266
			2012	760,397
			2013	34,962
			2014	1,089,079
			2015	1,889,808
			2016	386,159
			2017	126,086
		PEC 397 Communication Equipment Total		**31,924,746**
		PEC 397 Communictn Eqp-Fiber Optic	2003	45,272
			2016	36,529
		PEC 397 Communictn Eqp-Fiber Optic Total		**81,801**
		PEC 398 Miscellaneous Equipment	2003	481,231
			2004	13,659
			2007	20,664
			2008	29,625
			2009	18,269
			2010	511,436
			2011	22,622
			2012	67,989
			2014	497,038
			2015	16,773
		PEC 398 Miscellaneous Equipment Total		**1,679,306**
	Common Total			474,938,816
Common Total				474,938,816
Electric	**Electric - Distribution**	PEE 361 Structure Building	1914	21,464
			1915	345
			1917	254,105
			1918	67
			1920	145
			1922	1,381
			1923	3,521
			1924	311
			1925	97,172
			1926	4,708
			1927	13,204
			1928	10,857
			1929	146,885
			1930	42,954
			1931	59,892
			1932	60,130
			1933	1,441
			1934	1,539
			1935	451
			1936	156
			1937	193
			1938	7,687
			1939	1,939
			1940	966
			1941	6,325
			1942	183,461
			1943	17,501
			1944	54,197
			1945	12
			1946	1,660

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			1947	455,686
			1948	54,332
			1949	80,607
			1950	120,294
			1951	20,571
			1952	22,178
			1953	86,859
			1954	185,954
			1955	73,109
			1956	254,815
			1957	75,077
			1958	191,784
			1959	11,849
			1960	145,951
			1961	213,762
			1962	57,790
			1963	188,783
			1964	44,432
			1965	31,142
			1966	1,180,666
			1967	80,746
			1968	54,377
			1969	38,693
			1970	122,038
			1971	525,170
			1972	262,755
			1973	136,413
			1974	131,000
			1975	412,371
			1976	5,171
			1977	5,801
			1978	20,072
			1979	407,887
			1980	7,044
			1981	5,165
			1982	12,035
			1983	14,035
			1984	51,684
			1985	15,923
			1986	23,936
			1987	24,096
			1988	1,994,091
			1989	279,366
			1990	36,244
			1992	70,575
			1993	23,756
			1994	37,643
			1997	31,728
			2002	1,156,946
			2003	605,857
			2004	1,479,767
			2005	588,115
			2006	2,106,616
			2007	12,886,899
			2008	1,346,940
			2009	414,253
			2010	1,316,887
			2011	2,893,552
			2012	561,251
			2013	20,051
			2014	5,023,992
			2015	4,654,144
			2016	523,071
		PEE 361 Structure Building Total		**44,898,463**
		PEE 361 Structure Improvement	1913	110
			1914	1,630
			1916	233
			1917	74,755
			1918	43
			1922	648

Sum of book_cost				
Segement	Function	Utility_account	Vintage	Total
			1923	17,636
			1924	851
			1925	4,366
			1926	77,604
			1927	87,546
			1928	26,529
			1929	30,907
			1930	23,443
			1931	31,119
			1932	12,850
			1934	12
			1935	2,264
			1938	1,175
			1939	1,188
			1940	3,705
			1941	9,286
			1942	123,592
			1943	27,070
			1944	28,544
			1945	4,247
			1946	17,760
			1947	529,337
			1948	58,262
			1949	121,406
			1950	77,992
			1951	80,285
			1952	84,286
			1953	139,604
			1954	225,525
			1955	335,087
			1956	600,627
			1957	420,381
			1958	318,474
			1959	227,980
			1960	346,305
			1961	277,560
			1962	102,887
			1963	793,749
			1964	375,437
			1965	246,145
			1966	135,932
			1967	536,003
			1968	264,306
			1969	1,070,274
			1970	1,106,504
			1971	1,941,530
			1972	1,083,520
			1973	397,464
			1974	368,498
			1975	1,152,530
			1976	27,067
			1977	19,230
			1978	52,745
			1979	854,468
			1980	104,562
			1981	247,182
			1982	33,113
			1983	3,337
			1985	495,512
			1986	66,278
			1987	562,936
			1988	817,950
			1989	1,900,099
			1990	430,605
			1991	1,463,608
			1992	861,133
			1993	620,883
			1994	343,022
			1995	148,970
			1996	397,668

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			1997	15,071
			1998	56,877
			1999	116,952
			2000	130,331
			2002	412,904
			2003	229,552
			2004	232,797
			2005	149,362
			2007	399,164
			2008	1,300,513
			2009	1,454,140
			2010	2,289,891
			2011	5,984,937
			2012	1,574,005
			2013	1,540,785
			2014	1,143,211
			2015	6,355,359
			2016	1,613,519
			2017	9,016,221
		PEE 361 Structure Improvement Total		**57,492,964**
		PEE 361 Structure Special Purpose	1914	12,596
			1915	81
			1917	112,013
			1922	582
			1925	90,505
			1926	1,000
			1927	152
			1928	23
			1929	21
			1930	9,735
			1931	35
			1932	1,363
			1933	1,311
			1938	106
			1941	906
			1942	1,503
			1943	47
			1944	48,177
			1947	1,671,449
			1948	46,131
			1949	53,189
			1950	41,134
			1951	978
			1952	2,031
			1953	57,704
			1954	138,403
			1955	95,822
			1956	790
			1957	66,640
			1958	50,561
			1959	21,868
			1960	806
			1961	226,240
			1962	58,483
			1963	138,862
			1964	6,367
			1965	4,337
			1966	311
			1967	1,012
			1969	6,108
			1970	929
			1971	4
			1972	3,200
			1974	18,342
			1975	9,139
			1981	262,020
			1984	44,508
			1986	40,563
			1988	647,345
			1990	389,262

Sum of book_cost				
Segement	**Function**	**Utility_account**	**Vintage**	**Total**
			1991	38,817
			1992	22,362
			1993	27,424
			1994	32,662
			1995	172,461
			1996	1,375,253
			1997	60,261
			1998	570,768
			2004	52,934
			2009	8,591
			2010	213,370
			2011	1,892,749
			2015	1,305,484
			2016	1,113,050
		PEE 361 Structure Special Purpose Total		**11,270,880**
		PEE 362 Act129 CVR Sub Equip	2011	939,828
		PEE 362 Act129 CVR Sub Equip Total		**939,828**
		PEE 362 Station Equipment	1916	19,748
			1917	1,955
			1919	412
			1920	53,372
			1921	2,280
			1922	4,018
			1923	697,047
			1924	686,169
			1925	258,983
			1926	72,534
			1927	31,668
			1928	56,474
			1929	1,042,539
			1930	284,387
			1931	219,623
			1932	1,721,789
			1933	6,457
			1934	14
			1936	776
			1937	36,657
			1938	47,266
			1939	70,385
			1940	80,434
			1941	165,393
			1942	1,151,173
			1943	243,191
			1944	350,163
			1945	878,884
			1946	169,585
			1947	4,054,934
			1948	673,032
			1949	1,655,073
			1950	1,756,009
			1951	1,800,144
			1952	1,276,264
			1953	3,849,991
			1954	3,841,018
			1955	2,921,985
			1956	5,289,370
			1957	4,234,876
			1958	5,780,610
			1959	5,028,860
			1960	5,499,327
			1961	5,774,152
			1962	3,300,960
			1963	5,866,555
			1964	4,354,663
			1965	3,564,393
			1966	3,989,529
			1967	6,932,988
			1968	7,506,962
			1969	14,805,033
			1970	12,060,375

Sum of book_cost				
Segement	**Function**	**Utility_account**	**Vintage**	**Total**
			1971	16,181,672
			1972	16,108,536
			1973	7,705,334
			1974	15,235,256
			1975	9,387,005
			1976	545,155
			1977	2,832,556
			1978	1,202,352
			1979	3,938,621
			1980	2,385,613
			1981	4,736,173
			1982	1,637,415
			1983	4,181,230
			1984	7,878,125
			1985	6,619,404
			1986	8,497,962
			1987	15,301,799
			1988	26,673,473
			1989	29,758,226
			1990	38,153,685
			1991	24,190,700
			1992	33,500,400
			1993	29,221,525
			1994	7,160,102
			1995	15,347,853
			1996	18,476,991
			1997	7,429,838
			1998	36,989,230
			1999	13,396,581
			2000	10,668,936
			2001	35,164,038
			2002	7,493,063
			2003	16,891,657
			2004	17,298,272
			2005	10,352,667
			2006	32,022,494
			2007	32,329,632
			2008	40,030,627
			2009	28,534,700
			2010	28,650,361
			2011	49,901,380
			2012	17,470,605
			2013	19,889,311
			2014	29,021,542
			2015	37,622,482
			2016	45,755,273
			2017	45,108,937
		PEE 362 Station Equipment Total		**1,033,049,273**
		PEE 364 Poles, Towers and Fixtures	1924	(20,888)
			1928	6,784
			1929	30,982
			1930	7,631
			1931	7,641
			1932	5,157
			1933	7,298
			1934	8,968
			1935	18,292
			1936	21,766
			1937	8,579
			1938	19,040
			1939	11,711
			1941	(7,877)
			1942	121,080
			1943	58,219
			1944	77,326
			1945	85,335
			1946	101,743
			1947	105,782
			1948	203,484
			1949	245,705

Sum of book_cost				
Segement	Function	Utility_account	Vintage	Total
			1950	225,406
			1951	408,918
			1953	295,956
			1954	682,150
			1955	835,190
			1956	1,156,279
			1957	1,151,160
			1958	1,791,391
			1959	1,611,115
			1960	2,022,197
			1961	2,378,882
			1962	2,095,748
			1963	2,077,266
			1964	2,190,871
			1966	1,450,396
			1967	1,738,952
			1968	2,377,218
			1969	4,225,126
			1970	4,229,891
			1971	2,898,035
			1972	2,897,023
			1973	3,226,348
			1974	3,975,017
			1975	2,654,681
			1976	2,570,578
			1977	3,191,938
			1978	3,326,324
			1979	3,098,324
			1980	3,317,520
			1981	3,803,749
			1982	4,558,297
			1983	4,495,497
			1984	6,255,250
			1985	7,927,928
			1986	9,316,487
			1987	11,682,713
			1988	10,372,422
			1989	12,955,317
			1990	11,400,584
			1991	8,978,560
			1992	12,379,300
			1993	13,384,084
			1994	10,076,483
			1995	10,061,647
			1996	17,507,436
			1997	13,060,967
			1998	15,696,201
			1999	20,783,105
			2000	7,971,684
			2001	38,534,994
			2002	27,555,507
			2003	29,076,550
			2004	10,800,748
			2005	22,186,412
			2006	21,465,407
			2007	16,362,614
			2008	21,147,102
			2009	15,527,040
			2010	23,715,911
			2011	27,265,751
			2012	22,870,032
			2013	21,167,134
			2014	27,265,836
			2015	25,479,889
			2016	26,209,492
			2017	31,014,532
		PEE 364 Poles, Towers and Fixtures Total		**685,536,322**
		PEE 365 Act129 CVR OH Cndctrs	2010	403,974
			2011	471,953
		PEE 365 Act129 CVR OH Cndctrs Total		**875,927**

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
		PEE 365 Overhead Cndctrs & Devices	1931	78
			1932	41
			1933	154
			1934	254
			1935	94
			1936	124
			1937	232
			1938	470
			1939	7,991
			1940	3,552
			1941	(56,424)
			1942	74,631
			1943	9,042
			1944	16,849
			1945	16,403
			1946	29,926
			1947	25,800
			1948	50,325
			1949	152,450
			1950	217,723
			1951	394,975
			1952	69,101
			1953	142,226
			1954	70,133
			1955	211,659
			1956	642,112
			1957	856,620
			1958	1,037,996
			1959	1,704,545
			1960	2,330,341
			1961	3,585,214
			1962	3,154,954
			1963	4,221,815
			1964	5,322,722
			1965	2,426,935
			1966	3,008,622
			1967	3,290,757
			1968	3,683,297
			1969	7,846,167
			1970	7,749,407
			1971	5,258,207
			1972	4,718,904
			1973	6,269,198
			1974	6,370,501
			1975	4,026,271
			1976	4,380,393
			1977	3,930,209
			1978	4,586,975
			1979	5,375,458
			1980	6,308,462
			1981	5,923,776
			1982	5,693,845
			1983	5,567,299
			1984	7,816,891
			1985	8,694,824
			1986	10,469,005
			1987	15,284,830
			1988	14,502,872
			1989	23,491,002
			1990	19,668,703
			1991	14,033,291
			1992	19,584,338
			1993	21,500,425
			1994	20,623,055
			1995	26,808,359
			1996	36,438,694
			1997	21,843,998
			1998	34,088,041
			1999	18,104,872
			2000	2,933,308

Sum of book_cost				
Segement	**Function**	**Utility_account**	**Vintage**	**Total**
			2001	22,229,271
			2002	24,001,176
			2003	19,646,826
			2004	10,629,704
			2005	61,724,073
			2006	35,555,690
			2007	40,131,616
			2008	51,163,117
			2009	44,005,320
			2010	46,787,054
			2011	49,985,822
			2012	45,429,107
			2013	35,442,595
			2014	71,884,717
			2015	53,003,298
			2016	57,715,024
			2017	70,210,582
		PEE 365 Overhead Cndctrs & Devices Total		**1,176,140,308**
		PEE 366 Undergrnd Conduit & Manhole	1905	2,102,281
			1906	65,021
			1907	79,321
			1908	115,631
			1909	43,574
			1910	64,830
			1911	363,794
			1912	106,491
			1913	251,098
			1914	110,415
			1915	16,938
			1916	108,965
			1917	104,315
			1918	64,692
			1919	266,287
			1920	161,883
			1921	207,301
			1922	231,874
			1923	483,072
			1924	1,067,469
			1925	1,243,582
			1926	1,035,787
			1927	1,922,300
			1928	1,549,326
			1929	341,240
			1930	712,652
			1931	946,790
			1932	665,214
			1933	738,881
			1934	789,372
			1935	138,907
			1936	101,344
			1937	57,664
			1938	60,878
			1939	53,844
			1940	51,689
			1941	426,976
			1942	1,615,068
			1943	53,687
			1944	114,359
			1945	132,482
			1946	161,654
			1947	2,234,695
			1948	1,650,061
			1949	1,634,674
			1950	2,048,577
			1951	2,313,839
			1952	801,698
			1953	992,617
			1954	1,354,823
			1955	1,123,492
			1956	2,963,955

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			1957	1,718,094
			1958	910,862
			1959	1,620,296
			1960	1,606,604
			1961	2,438,499
			1962	2,009,027
			1963	2,555,045
			1964	4,665,532
			1965	3,920,741
			1966	3,586,243
			1967	5,218,430
			1968	6,677,713
			1969	7,206,335
			1970	9,421,543
			1971	6,715,834
			1972	5,376,130
			1973	3,793,579
			1974	4,490,099
			1975	2,406,111
			1976	4,656,426
			1977	1,365,572
			1978	1,027,980
			1979	1,992,615
			1980	1,966,354
			1981	2,608,635
			1982	2,324,256
			1983	2,638,557
			1984	3,132,811
			1985	2,741,344
			1986	2,947,266
			1987	6,228,572
			1988	5,187,889
			1989	5,767,624
			1990	17,886,005
			1991	4,243,151
			1992	3,738,378
			1993	7,757,718
			1994	3,397,378
			1995	5,302,380
			1996	5,185,194
			1997	5,522,606
			1998	3,094,799
			1999	2,533,618
			2000	920,580
			2001	14,913,974
			2002	7,197,923
			2003	9,069,566
			2004	4,264,823
			2005	5,710,775
			2006	5,013,925
			2007	11,781,024
			2008	4,876,761
			2009	12,644,106
			2010	7,734,731
			2011	16,308,669
			2012	7,897,629
			2013	8,980,502
			2014	14,049,943
			2015	20,317,407
			2016	26,029,201
			2017	13,925,123
		PEE 366 Undergrnd Conduit & Manhole Total		**407,267,888**
		PEE 367 Undergrnd Cndctrs & Devices	1924	2,171
			1925	110,674
			1926	111,404
			1927	123,983
			1928	119,828
			1929	115,427
			1930	170,592
			1931	130,528

Sum of book_cost				
Segement	**Function**	**Utility_account**	**Vintage**	**Total**
			1932	90,588
			1933	79,991
			1934	64,462
			1935	13,740
			1936	5,303
			1937	44,489
			1938	37,820
			1939	37,964
			1940	7,477
			1941	154,764
			1944	36,825
			1945	61,299
			1946	56,281
			1947	79,437
			1948	575,187
			1949	1,465,499
			1950	1,090,775
			1951	1,342,303
			1952	439,172
			1953	631,143
			1954	85,919
			1955	829,401
			1956	1,921,437
			1957	1,550,085
			1958	544,704
			1959	1,094,915
			1960	1,025,028
			1961	1,721,087
			1962	1,512,492
			1963	1,491,945
			1964	5,736,774
			1965	2,009,038
			1966	3,148,107
			1967	3,585,230
			1968	3,272,575
			1969	4,929,524
			1970	5,053,007
			1971	5,906,481
			1972	5,915,409
			1973	7,013,008
			1974	8,054,942
			1975	4,942,089
			1976	6,376,207
			1977	6,878,443
			1978	7,300,681
			1979	8,620,510
			1980	7,813,995
			1981	9,010,180
			1982	7,604,416
			1983	11,390,349
			1984	11,686,955
			1985	13,439,382
			1986	14,319,809
			1987	17,187,655
			1988	21,753,867
			1989	23,709,441
			1990	27,423,339
			1991	16,319,562
			1992	15,740,591
			1993	20,089,865
			1994	11,057,420
			1995	9,734,639
			1996	17,332,729
			1997	15,755,830
			1998	12,448,195
			1999	9,964,428
			2000	7,975,481
			2001	39,262,668
			2002	25,108,967
			2003	24,776,087

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			2004	7,062,046
			2005	53,032,212
			2006	43,773,825
			2007	55,966,017
			2008	46,059,640
			2009	57,429,124
			2010	35,964,521
			2011	53,816,379
			2012	36,909,227
			2013	45,452,485
			2014	46,193,337
			2015	56,818,454
			2016	72,596,619
			2017	77,421,484
		PEE 367 Undergrnd Cndctrs & Devices Total		**1,187,119,386**
		PEE 368 Line Transformers	1913	1
			1914	1
			1917	1
			1922	1
			1923	6
			1924	13
			1925	3
			1926	2
			1927	10
			1928	10
			1929	48
			1930	28
			1931	97
			1932	62
			1933	110
			1934	265
			1935	87
			1936	877
			1937	3,839
			1938	3,251
			1939	3,950
			1940	4,006
			1941	14,082
			1942	4,820
			1943	669
			1944	3,399
			1945	5,981
			1946	43,367
			1947	79,336
			1948	104,983
			1949	143,825
			1950	171,701
			1951	255,608
			1952	365,153
			1953	442,492
			1954	645,052
			1955	815,241
			1956	973,366
			1957	749,425
			1958	680,329
			1959	766,928
			1960	995,339
			1961	791,248
			1962	748,813
			1963	1,097,022
			1964	861,289
			1965	938,162
			1966	1,615,802
			1967	3,143,995
			1968	6,519,212
			1969	9,580,227
			1970	6,441,297
			1971	3,626,299
			1972	3,854,136
			1973	6,014,693

Sum of book_cost				
Segement	**Function**	**Utility_account**	**Vintage**	**Total**
			1974	5,833,584
			1975	2,449,856
			1976	1,634,509
			1977	2,947,847
			1978	4,662,196
			1979	4,116,749
			1980	3,709,781
			1981	4,263,627
			1982	5,122,146
			1983	4,652,262
			1984	7,520,129
			1985	10,728,724
			1986	11,237,039
			1987	11,683,339
			1988	13,420,607
			1989	18,557,357
			1990	15,625,592
			1991	9,225,965
			1992	9,394,142
			1993	9,474,051
			1994	12,095,065
			1995	13,727,548
			1996	7,506,573
			1997	12,502,146
			1998	11,267,266
			1999	9,884,472
			2001	25,823,777
			2002	11,447,456
			2003	4,095,124
			2004	10,841,785
			2005	15,749,065
			2006	11,589,446
			2007	15,582,668
			2008	16,490,036
			2009	13,106,067
			2010	18,982,024
			2011	21,276,011
			2012	20,277,195
			2013	19,021,577
			2014	28,871,729
			2015	21,629,766
			2016	25,954,705
			2017	21,846,648
		PEE 368 Line Transformers Total		**578,337,607**
		PEE 369 Aerial Services	1952	56,415
			1953	18,179
			1954	3,593
			1955	278,685
			1956	421,135
			1957	389,922
			1958	435,087
			1959	434,282
			1960	378,425
			1961	428,813
			1962	485,100
			1963	589,855
			1964	684,907
			1965	473,627
			1966	682,757
			1967	653,352
			1968	721,646
			1969	998,911
			1970	935,992
			1971	757,708
			1972	847,481
			1973	992,041
			1974	1,118,867
			1975	1,088,418
			1976	1,068,828
			1977	1,216,691

Sum of book_cost				
Segement	Function	Utility_account	Vintage	Total
			1978	1,232,561
			1979	1,234,426
			1980	1,461,900
			1981	967,259
			1982	1,334,847
			1983	1,304,697
			1984	1,591,659
			1985	1,495,069
			1986	1,740,766
			1987	1,874,460
			1988	1,976,543
			1989	2,291,527
			1990	1,895,672
			1991	1,480,579
			1992	1,492,597
			1993	1,661,707
			1994	1,532,668
			1995	3,095,218
			1996	1,390,993
			1997	3,153,006
			1998	2,688,649
			1999	3,001,973
			2000	2,083,350
			2001	8,453,928
			2002	7,558,651
			2003	4,192,458
			2004	5,602,118
			2005	5,943,571
			2006	5,282,820
			2007	4,111,380
			2008	4,814,246
			2009	4,787,005
			2010	4,363,202
			2011	3,950,194
			2012	3,739,278
			2013	3,844,078
			2014	4,550,666
			2015	4,305,648
			2016	6,206,046
			2017	7,186,214
		PEE 369 Aerial Services Total		**147,034,347**
		PEE 369 Underground Services	1940	7,541
			1941	12,332
			1942	5,628
			1943	1,325
			1944	4,582
			1945	5,684
			1946	18,907
			1947	22,198
			1948	31,881
			1949	45,361
			1952	46,078
			1953	112,844
			1954	98,537
			1955	70,195
			1956	96,024
			1957	82,708
			1958	70,885
			1959	103,139
			1960	179,679
			1961	196,382
			1962	170,455
			1963	112,769
			1964	157,792
			1965	245,670
			1966	257,594
			1967	214,648
			1968	282,709
			1969	278,282
			1970	307,969

Sum of book_cost

Segement	Function	Utility_account	Vintage	Total
			1971	454,578
			1972	638,461
			1973	1,599,263
			1974	1,490,587
			1975	1,409,730
			1976	2,070,491
			1977	2,535,015
			1978	4,269,911
			1979	4,477,873
			1980	5,001,488
			1981	4,954,432
			1982	2,978,672
			1983	5,748,400
			1984	7,561,225
			1985	7,940,429
			1986	9,730,710
			1987	11,258,118
			1988	11,366,486
			1989	10,688,149
			1990	10,389,274
			1991	7,579,207
			1992	8,434,643
			1993	10,195,507
			1994	5,402,076
			1995	9,648,823
			1996	3,958,644
			1997	9,494,948
			1998	5,674,068
			1999	9,400,039
			2000	1,216,290
			2001	11,333,086
			2002	11,357,398
			2003	8,143,214
			2004	1,419,710
			2005	11,643,465
			2006	6,515,590
			2007	4,969,648
			2008	4,829,252
			2009	3,797,918
			2010	1,819,009
			2011	6,136,548
			2012	1,118,129
			2013	1,432,948
			2014	1,735,574
			2015	1,501,695
			2016	2,676,347
			2017	2,318,318
		PEE 369 Underground Services Total		**263,555,183**
		PEE 370 AMI Mtr NonRcv	2012	8,179,212
			2013	38,386,997
		PEE 370 AMI Mtr NonRcv Total		**46,566,209**
		PEE 370 Meters	2017	1,785
		PEE 370 Meters Total		**1,785**
		PEE 370 Mtr UD PA	2012	3,249
			2013	67,146,074
			2014	85,541,676
			2015	28,563,213
			2016	4,638,106
		PEE 370 Mtr UD PA Total		**185,892,317**
		PEE 370 Smart Meters LCI	2013	(29,445)
			2014	(137,483)
			2015	1,962,083
			2016	931,641
			2017	974,720
		PEE 370 Smart Meters LCI Total		**3,701,516**
		PEE 370 Smart Meters RES	2011	2,442,708
			2012	14,408,825
			2013	15,412,598
			2014	1,094,949
			2015	7,208,468

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			2016	4,772,568
			2017	9,116,701
		PEE 370 Smart Meters RES Total		**54,456,816**
		PEE 370 Smart Meters SCI	2011	26,849
			2012	80,241
			2013	2,712,390
			2014	6,933,683
			2015	1,810,994
			2016	48,041
			2017	307,661
		PEE 370 Smart Meters SCI Total		**11,919,859**
		PEE 370.1 Meter Transformers	2013	239,280
			2014	482,214
			2015	1,038,877
			2016	244,755
			2017	395,327
		PEE 370.1 Meter Transformers Total		**2,400,452**
		PEE 371 Installs on Customers Prem	1994	19,065
			1995	36,306
			1996	24,136
			1997	51,638
			1998	742,576
			1999	156,402
		PEE 371 Installs on Customers Prem Total		**1,030,123**
		PEE 371 Res DLC Switches Ends 5-13	2010	2,631,143
			2011	7,305,107
			2012	2,805,973
		PEE 371 Res DLC Switches Ends 5-13 Total		**12,742,223**
		PEE 373 Aerial Street Lighting	1985	70
			1986	45
			1995	8,557
			1996	8,622
			1997	22,310
			1998	400,415
			1999	56,560
			2000	21,204
			2001	285,969
			2002	99,117
			2003	27,637
			2004	2,725
			2005	5,989
			2006	5,613
			2007	14,466
			2008	115,820
			2009	59,341
			2010	170,555
			2011	84,842
			2012	99,692
			2013	116,702
			2014	83,703
			2015	100,193
			2016	75,530
			2017	126,424
		PEE 373 Aerial Street Lighting Total		**1,992,101**
		PEE 373 Private Outdoor Lighting	1965	840
			1966	7,472
			1967	8,736
			1968	9,205
			1969	11,545
			1970	14,917
			1971	28,007
			1972	55,121
			1973	95,181
			1974	93,742
			1975	85,637
			1976	116,015
			1977	100,034
			1978	90,886
			1979	102,911
			1980	68,990

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			1981	85,402
			1982	103,329
			1983	93,250
			1984	90,923
			1985	177,432
			1986	139,650
			1987	162,746
			1988	247,965
			1989	178,106
			1990	218,922
			1991	137,323
			1992	123,795
			1993	165,557
			1994	65,943
			1995	153,962
			1996	145,037
			1997	354,736
			1998	1,030,878
			1999	795,348
			2000	8,020
			2001	97
			2002	7
			2003	(7)
		PEE 373 Private Outdoor Lighting Total		**5,367,662**
		PEE 373 Street Lighting&Signal Sys	1959	15,795
			1960	19,562
			1961	15,126
			1962	19,342
			1963	15,364
			1964	7,771
			1965	16,492
			1966	17,230
			1967	12,609
			1968	16,536
			1969	17,569
			1970	35,144
			1971	78,950
			1972	123,553
			1973	92,420
			1974	92,268
			1975	95,996
			1976	165,511
			1977	234,045
			1978	199,857
			1979	258,279
			1980	181,993
			1981	191,229
			1982	305,328
			1983	503,367
			1984	532,707
			1985	589,039
			1986	130,099
			1987	247,254
			1988	442,995
			1989	288,605
			1990	432,465
			1991	337,251
			1992	286,271
			1993	280,936
			1994	385,808
			1995	1,694,864
			1996	1,743,589
			1997	3,819,591
			1998	10,940,897
			1999	8,422,788
			2000	69,823
			2001	1,845,826
			2002	406,895
			2003	1,599,088
			2004	611,427

Sum of book_cost				
Segement	**Function**	**Utility_account**	**Vintage**	**Total**
			2005	339,092
			2006	182,026
			2007	103,692
			2008	148,816
			2009	220,601
			2010	393,053
			2011	400,339
			2012	547,169
			2013	358,108
			2014	361,820
			2015	396,779
			2016	378,307
			2017	535,655
		PEE 373 Street Lighting&Signal Sys Total		**42,205,014**
		PEE 373 Underground Street lighting	1914	0
			1915	0
			1916	1
			1917	1
			1918	1
			1919	1
			1971	1
			1974	0
			1978	1
			1979	1
			1980	1
			1981	160
			1982	4,104
			1983	5,542
			1984	4,653
			1985	7,781
			1986	5,800
			1987	5,396
			1988	2,481
			1989	10,762
			1990	23,025
			1991	19,883
			1992	15,570
			1993	10,785
			1994	3,738
			1995	44,331
			1996	79,309
			1997	36,214
			1998	190,193
			1999	29,538
			2000	1,083
			2001	48,032
			2002	23,993
			2003	7,082
			2004	24,904
			2005	6
			2006	11,025
			2007	67,625
			2008	217,799
			2009	252,564
			2010	301,303
			2011	402,492
			2012	354,900
			2013	585,368
			2014	1,062,349
			2015	971,597
			2016	1,397,018
			2017	7,030,765
		PEE 373 Underground Street lighting Total		**13,259,178**
	Electric - Distribution Total			**5,975,053,632**
	Electric - General Plant	PEE 390 Structure Building	1927	5,751
			1929	3,686
			1946	19,579
			1955	1,739,217
			1956	10,889
			1957	1,042

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			1958	451,980
			1959	10,995
			1960	833
			1961	141
			1962	1,494
			1964	35,896
			1966	417
			1967	2,285
			1968	2,468
			1969	2,600,431
			1970	976
			1972	6,218
			1973	6,651
			1974	868,939
			1976	1,406
			1978	5,146
			1979	37,528
			1980	495,094
			1981	96,737
			1982	208,168
			1983	63,628
			1984	377,758
			1985	330,524
			1986	1,192,014
			1987	217,750
			1988	726,379
			1989	568,915
			1990	176,600
			1991	1,029
			1992	2,748,208
			1993	2,125,327
			1994	200,335
			1995	87,741
			1996	52,142
			1997	824,468
			1998	5,149,516
			1999	499,295
			2001	672,472
			2002	150,399
			2003	2,522,867
			2004	21,899
			2005	443,060
			2006	229,770
			2007	386,940
			2008	187,650
			2009	579,746
			2010	6,265,993
			2011	564,025
			2012	12,136
			2013	553,357
			2014	375,212
			2015	812,973
			2016	171,038
			2017	359,848
		PEE 390 Structure Building Total		**36,264,978**
		PEE 390 Structure Improvement	1929	10,318
			1931	1,075
			1935	50
			1941	130
			1948	216
			1949	13,572
			1950	5,950
			1951	1,377
			1952	982
			1954	960
			1955	43,828
			1957	117
			1958	56,042
			1959	7,154
			1960	5,496

Sum of book_cost				
Segement	**Function**	**Utility_account**	**Vintage**	**Total**
			1961	10,555
			1963	35,103
			1966	6,733
			1968	9,046
			1969	324,884
			1970	2,558
			1971	27,058
			1973	2,667
			1974	409,370
			1975	3,533
			1979	11,904
			1980	19,800
			1981	23,642
			1982	168,345
			1983	73,286
			1984	52,376
			1985	273,485
			1986	342,516
			1987	77,637
			1989	3,620
			1990	166,003
			1992	9,922
			1993	182,906
			1994	36,244
			1995	41,356
			2002	22,082
			2003	1,266,401
			2004	79,047
			2009	6,023
			2011	2,210,700
			2012	2,698,712
			2014	1,560,366
			2015	1,484,729
			2016	749,133
			2017	761,646
		PEE 390 Structure Improvement Total		**13,300,654**
		PEE 390 Structure Special Purpose	1978	7,385
			1995	31,768
			2017	55,966
		PEE 390 Structure Special Purpose Total		**95,119**
		PEE 391 Computer Equipment	2014	27,421
			2015	3,342,407
			2016	2,950,106
			2017	5,699,884
		PEE 391 Computer Equipment Total		**12,019,818**
		PEE 391 Furniture and Appliances	2003	312,955
			2009	78,405
			2012	1,194
			2013	11,777
			2015	252,831
			2016	145,009
		PEE 391 Furniture and Appliances Total		**802,172**
		PEE 391 Office Machines	2008	58,817
			2011	83,462
		PEE 391 Office Machines Total		**142,279**
		PEE 391 Smart Meter Comp Equip	2013	89,558
			2014	2,246,207
			2015	579,344
		PEE 391 Smart Meter Comp Equip Total		**2,915,109**
		PEE 393 Stores Equipment	2008	1,657
			2013	44,814
		PEE 393 Stores Equipment Total		**46,471**
		PEE 394 Smart Meter Tools	2013	175,157
		PEE 394 Smart Meter Tools Total		**175,157**
		PEE 394 Tools, Shop & Garage Equip	2003	530,657
			2004	654,753
			2005	1,653,065
			2006	1,605,606
			2007	1,052,519
			2008	521,433

Sum of book_cost Segement	Function	Utility_account	Vintage	Total
			2009	967,257
			2010	1,954,316
			2011	2,711,265
			2012	1,690,963
			2013	2,446,001
			2014	3,347,957
			2015	3,157,791
			2016	4,440,980
			2017	5,164,059
		PEE 394 Tools, Shop & Garage Equip Total		**31,898,621**
		PEE 395 Laboratory Equip - Chemical	2003	55,889
			2005	3,993
		PEE 395 Laboratory Equip - Chemical Total		**59,883**
		PEE 395 Laboratory Equip - Meter	2007	101,382
		PEE 395 Laboratory Equip - Meter Total		**101,382**
		PEE 395 Laboratory Equip - Testing	1998	7,308
			2005	154,350
			2006	6,644
			2007	90,149
		PEE 395 Laboratory Equip - Testing Total		**258,451**
		PEE 397 Communication Equipment	1998	27,839
			2002	1,159,560
			2003	328,676
			2004	374
			2006	620,782
			2007	1,066,605
			2008	116,728
			2009	720,541
			2010	24,262,321
			2011	34,318,100
			2012	4,096,458
			2013	6,561,834
			2014	22,624,549
			2015	6,141,489
			2016	11,083,465
			2017	2,809,457
		PEE 397 Communication Equipment Total		**115,938,777**
		PEE 397 SM Comm Equip	2011	24,116,291
			2012	74,140
			2013	2,040,531
			2014	746,107
			2015	563,997
			2016	994,353
			2017	10,224,848
		PEE 397 SM Comm Equip Total		**38,760,267**
		PEE 398 Miscellaneous Equipment	2003	212,904
			2004	626,876
			2007	75,720
			2008	(49,903)
		PEE 398 Miscellaneous Equipment Total		**865,597**
	Electric - General Plant Total			**253,644,736**
Electric Total				**6,228,698,367**
Grand Total				**6,703,637,183**

SDR-DEP-2
Page 1 of 1
Scott A. Bailey

Q. SDR-DEP-2 Please explain and provide all the workpapers and supporting calculations showing how the book reserve as of the end of the historic test year was brought forward to determine the book reserve as of the end of the future test year.

A. SDR-DEP-2 Refer to V-A-3 for a roll forward of the book reserve as of the end of the historic test year to the end of the future test year and applicable explanations.

SDR-DEP-3
Page 1 of 1
Scott A. Bailey

Q. SDR-DEP-3 Provide:

a. A detailed explanation describing how the rate of depreciation was calculated.
b. The most recent depreciation study performed.
c. Provide the service life calculations for each account.
d. Provide the depreciation study filed in the last base rate proceeding. Also provide the service life calculations for each account.
e. A detailed Schedule depicting the accounts with service life changes from the last service life study to the present service life study.

A. SDR-DEP-3

a. Refer to Exhibit SAB-4, which is PECO's 2013 Depreciation Study Calculated Annual Depreciation Accruals Related to Electric and Common Plant as of December 31, 2013 (filed in 2015).

b. Refer to Exhibit SAB-4, which is PECO's 2013 Depreciation Study Calculated Annual Depreciation Accruals Related to Electric and Common Plant as of December 31, 2013 (filed in 2015).

c. Refer to Exhibit SAB-4 Part VII for service life calculations by account.

d. Exhibit SAB-4 is the depreciation study filed in the Company's 2015 base rate proceeding.

e. Refer to Attachment SDR-DEP-3(a), which identifies the accounts with service life changes from the last service life study to the current service life study.

Utility Account	2008 Service Life Study - Average Service Life	2013 Service Life Study - Average Service Life	Change
361 Structures and Improvements	50	50	-
362 Station Equipment	45	50	5
364 Poles, Towers and Fixtures	53	53	-
365 Overhead Cndctrs & Devices	52	52	-
366 Undergrnd Conduit & Manhole	65	65	-
367 Undergrnd Cndctrs & Devices	52	53	1
368 Line Transformers	45	46	1
369.1 Aerial Services	48	50	2
369.2 Underground Services	48	53	5
370 AMI Meters	20	N/A	N/A
370.1 Meter Instrument Transformers	N/A	35	N/A
370.2 Smart Meters	N/A	15	N/A
371 Installs on Customers Prem	35	35	-
371.1 Res DLC Switches	N/A	15	N/A
373 Street Lighting & Signal Systems	22	24	2
373.1 Aerial Street Lighting	22	24	2
373.2 UG Street Lighting	22	24	2
373.3 Private Outdoor Lighting	22	24	2

Q. SDR-DEP-4

a. Please explain the basis for, and provide all supporting documentation for the next salvage estimate for the test year.

b. Provide a detailed schedule, by month, listing the net salvage calculations (i.e. cost of removal less gross salvage = net salvage) for the last five years.

c. Provide the Company's definition of cost of removal and salvage.

A. SDR-DEP-4

a. The 2018 and 2019 net salvage amounts are based on a three-year average from 2015-2017. Refer to Attachment II-D-13(a) for the net salvage estimate for the test year.

b. Refer to Attachment SDR-DEP-4(a), which shows the 2013-2017 net salvage (net of cost of removal) that is closed to the Accumulated Reserve.

c. Definitions per Exelon Finance Policy CA-AC-12, Capitalization – Property, Plant & Equipment, Page 3:

- Removal - The cost of demolishing, dismantling, tearing down or removing property units is considered removal costs. Costs include direct labor costs, transportation costs, disposal costs, and certain other indirect costs associated with removing property units from service. The removal of property units are capitalized to accumulated depreciation.

- Salvage - The amount received for property units retired, less any expenses incurred in connection with the sale or in preparing the property for sale are considered salvage. The scrapping or salvaging of property units taken out of service will be recorded as a credit to accumulated depreciation.

PECO Energy Company
Net Salvage by Month
2013

			2013												2013 Total
Product Class	**depr_group_id**	**Values**	**Jan 13**	**Feb 13**	**Mar 13**	**Apr 13**	**May 13**	**Jun 13**	**Jul 13**	**Aug 13**	**Sep 13**	**Oct 13**	**Nov 13**	**Dec 13**	
Common	**PECO Common 3901 PA**	Sum of cost_of_removal	(583)		(1,729)			(633,409)			(457,473)				(1,093,194)
		Sum of salvage_cash	-		-			-			-				-
		Sum of Net Salvage	(583)		(1,729)			(633,409)			(457,473)				(1,093,194)
	PECO Common 3902 PA	Sum of cost_of_removal	(55,490)			(41,811)		(216,267)		(43,415)					(356,982)
		Sum of salvage_cash	-			-		-		-					-
		Sum of Net Salvage	(55,490)			(41,811)		(216,267)		(43,415)					(356,982)
	PECO Common 3903 PA	Sum of cost_of_removal						(4,681)							(4,681)
		Sum of salvage_cash						-							-
		Sum of Net Salvage						(4,681)							(4,681)
	PECO Common 3912 PA	Sum of cost_of_removal						(30,508)							(30,508)
		Sum of salvage_cash						-							-
		Sum of Net Salvage						(30,508)							(30,508)
	PECO Common 3922 PA	Sum of cost_of_removal			(180)			-			(633)				(813)
		Sum of salvage_cash			23,100			33,638			47,643				104,380
		Sum of Net Salvage			22,920			33,638			47,010				103,568
	PECO Common 3923 PA	Sum of cost_of_removal			(165)			-			(150)				(315)
		Sum of salvage_cash			70,150			59,940			153,610				283,700
		Sum of Net Salvage			69,985			59,940			153,460				283,385
	PECO Common 3924 PA	Sum of cost_of_removal									-				-
		Sum of salvage_cash									4,985				4,985
		Sum of Net Salvage									4,985				4,985
	PECO Common 3925 PA	Sum of cost_of_removal			(30)			-			-			(15)	(45)
		Sum of salvage_cash			4,015			735			15			-	4,765
		Sum of Net Salvage			3,985			735			15			(15)	4,720
	PECO Common 3926 PA	Sum of cost_of_removal						-			-			(45)	(45)
		Sum of salvage_cash						3,605			45			-	3,650
		Sum of Net Salvage						3,605			45			(45)	3,605
	PECO Common 3943 PA	Sum of cost_of_removal			-			(154)							(154)
		Sum of salvage_cash			1,835			-							1,835
		Sum of Net Salvage			1,835			(154)							1,681
	PECO Common 3980 PA	Sum of cost_of_removal						(7,188)							(7,188)
		Sum of salvage_cash						-							-
		Sum of Net Salvage						(7,188)							(7,188)
Common Sum of cost_of_removal			**(56,072)**		**(2,104)**	**(41,811)**		**(892,208)**		**(43,415)**	**(458,256)**			**(60)**	**(1,493,926)**
Common Sum of salvage_cash			**-**		**99,100**	**-**		**97,918**		**-**	**206,298**			**-**	**403,315**
Common Sum of Net Salvage			**(56,072)**		**96,996**	**(41,811)**		**(794,291)**		**(43,415)**	**(251,958)**			**(60)**	**(1,090,611)**
Electric - Distribution Plant	**PECO Electric 3611 PA**	Sum of cost_of_removal	(20,871)			(6,166)	(168,946)	(21,363)				(28,900)			(246,246)
		Sum of salvage_cash	-			-	1,428	-				-			1,428
		Sum of Net Salvage	(20,871)			(6,166)	(167,518)	(21,363)				(28,900)			(244,818)
	PECO Electric 3612 PA	Sum of cost_of_removal	(242,695)				(90,040)	(16,543)		(23,132)					(372,410)
		Sum of salvage_cash	-				12	-		-					12
		Sum of Net Salvage	(242,695)				(90,029)	(16,543)		(23,132)					(372,398)
	PECO Electric 3613 PA	Sum of cost_of_removal	(77,322)								(23,968)				(101,290)
		Sum of salvage_cash	-								-				-
		Sum of Net Salvage	(77,322)								(23,968)				(101,290)
	PECO Electric 3620 PA	Sum of cost_of_removal	(125,560)	(16,022)	(96,831)	(226,177)	(135,750)	(20,858)	(35,385)	(275,541)	(52,620)	(53,468)	(26,467)	(123,366)	(1,188,041)
		Sum of salvage_cash	-	-	-	-	1,976	-	-	-	-	-	-	-	1,976
		Sum of Net Salvage	(125,560)	(16,022)	(96,831)	(226,177)	(133,774)	(20,858)	(35,385)	(275,541)	(52,620)	(53,468)	(26,467)	(123,366)	(1,186,066)
	PECO Electric 3640 PA	Sum of cost_of_removal	(71,158)	(31,262)	(824,240)	(39,610)		(607,776)	(41,958)	(19,651)	(384,607)		(3,724)	(1,256,839)	(3,280,827)
		Sum of salvage_cash	-	-	-	-		-	-	-	-		-	-	-
		Sum of Net Salvage	(71,158)	(31,262)	(824,240)	(39,610)		(607,776)	(41,958)	(19,651)	(384,607)		(3,724)	(1,256,839)	(3,280,827)
	PECO Electric 3650 PA	Sum of cost_of_removal	(196,061)	(64,934)	(1,068,459)	(34,583)		(792,154)	(58,928)	(79,244)	(628,893)		(8,760)	(3,093,307)	(6,025,323)
		Sum of salvage_cash	-	-	93,469	-		114,592	-	-	82,395		-	168,526	458,983
		Sum of Net Salvage	(196,061)	(64,934)	(974,990)	(34,583)		(677,562)	(58,928)	(79,244)	(546,498)		(8,760)	(2,924,781)	(5,566,341)
	PECO Electric 3660 PA	Sum of cost_of_removal	(167,676)		(107,997)		(28,159)	(66,830)	(102,114)	(8,370)	(78,382)			(50,788)	(610,315)
		Sum of salvage_cash	-		-		-	-	-	-	-			-	-
		Sum of Net Salvage	(167,676)		(107,997)		(28,159)	(66,830)	(102,114)	(8,370)	(78,382)			(50,788)	(610,315)
	PECO Electric 3670 PA	Sum of cost_of_removal	(117,931)	(5,922)	(1,435,153)	(38,707)	(108,915)	(1,245,370)	(48,044)	(108,142)	(1,387,403)		(32,144)	(1,019,352)	(5,547,083)
		Sum of salvage_cash	-	-	93,469	-	-	114,592	-	-	82,395		-	168,526	458,983
		Sum of Net Salvage	(117,931)	(5,922)	(1,341,684)	(38,707)	(108,915)	(1,130,778)	(48,044)	(108,142)	(1,305,008)		(32,144)	(850,826)	(5,088,100)
	PECO Electric 3680 PA	Sum of cost_of_removal			(78,710)			(83,724)			(97,113)			(48,894)	(308,440)
		Sum of salvage_cash			175,960			124,181			97,600			171,988	569,728
		Sum of Net Salvage			97,251			40,457			486			123,094	261,288
	PECO Electric 3691 PA	Sum of cost_of_removal			(81,350)			(74,109)			(58,503)			(60,382)	(274,344)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(81,350)			(74,109)			(58,503)			(60,382)	(274,344)
	PECO Electric 3692 PA	Sum of cost_of_removal			(34,392)			(33,663)			(25,315)			(42,622)	(135,992)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(34,392)			(33,663)			(25,315)			(42,622)	(135,992)
	PECO Electric 3700 PA	Sum of cost_of_removal			(9,047)			(10,666)			(7,325)			(707)	(27,744)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(9,047)			(10,666)			(7,325)			(707)	(27,744)
	PECO Electric 3730 PA	Sum of cost_of_removal	-		(3,896)			(2,520)		(234)	(1,778)			(1,693)	(10,121)
		Sum of salvage_cash	76,973		-			-		-	-			-	76,973
		Sum of Net Salvage	76,973		(3,896)			(2,520)		(234)	(1,778)			(1,693)	66,852
	PECO Electric 3731 PA	Sum of cost_of_removal			(2,357)			(3)						(24)	(2,385)
		Sum of salvage_cash			-			-						-	-
		Sum of Net Salvage			(2,357)			(3)						(24)	(2,385)
	PECO Electric 3732 PA	Sum of cost_of_removal			(12,795)			(19,400)			(4,139)			(11,363)	(47,697)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(12,795)			(19,400)			(4,139)			(11,363)	(47,697)
Electric - Distribution Plant Sum of cost_of_removal			**(1,019,273)**	**(118,140)**	**(3,755,227)**	**(345,242)**	**(531,810)**	**(2,994,978)**	**(286,429)**	**(514,314)**	**(2,750,045)**	**(82,368)**	**(71,095)**	**(5,709,337)**	**(18,178,259)**
Electric - Distribution Plant Sum of salvage_cash			**76,973**	**-**	**362,899**	**-**	**3,416**	**353,364**	**-**	**-**	**262,390**	**-**	**-**	**509,040**	**1,568,083**
Electric - Distribution Plant Sum of Net Salvage			**(942,300)**	**(118,140)**	**(3,392,328)**	**(345,242)**	**(528,394)**	**(2,641,614)**	**(286,429)**	**(514,314)**	**(2,487,655)**	**(82,368)**	**(71,095)**	**(5,200,297)**	**(16,610,177)**
Electric - General Plant	**PECO Electric 3901 PA**	Sum of cost_of_removal									(3,034)				(3,034)
		Sum of salvage_cash									-				-
		Sum of Net Salvage									(3,034)				(3,034)
	PECO Electric 3902 PA	Sum of cost_of_removal						(68,726)							(68,726)
		Sum of salvage_cash						-							-
		Sum of Net Salvage						(68,726)							(68,726)
	PECO Electric 3970 PA	Sum of cost_of_removal	(2,923)											(1,647)	(4,570)
		Sum of salvage_cash	-											-	-
		Sum of Net Salvage	(2,923)											(1,647)	(4,570)
Electric - General Plant Sum of cost_of_removal			**(2,923)**					**(68,726)**			**(3,034)**			**(1,647)**	**(76,330)**
Electric - General Plant Sum of salvage_cash			**-**					**-**			**-**			**-**	**-**

Electric - General Plant Sum of Net Salvage			**(2,923)**					**(68,726)**			**(3,034)**			**(1,647)**	**(76,330)**
Electric - Transmission Plant	**PECO Electric 3521 PA**	Sum of cost_of_removal						(34,714)							(34,714)
		Sum of salvage_cash						-							-
		Sum of Net Salvage						(34,714)							(34,714)
	PECO Electric 3522 PA	Sum of cost_of_removal												(80,597)	(80,597)
		Sum of salvage_cash												-	-
		Sum of Net Salvage												(80,597)	(80,597)
	PECO Electric 3530 PA	Sum of cost_of_removal	(464,695)	(636,875)	(458,591)	(348,597)	(867,044)	(174,382)	(365,754)	(147,268)	(69,206)	(168,664)	(36,169)	(2,654,492)	(6,391,738)
		Sum of salvage_cash	-	-	1,303	11,500	50,747	-	-	-	-	-	-	-	63,550
		Sum of Net Salvage	(464,695)	(636,875)	(457,288)	(337,097)	(816,297)	(174,382)	(365,754)	(147,268)	(69,206)	(168,664)	(36,169)	(2,654,492)	(6,328,188)
	PECO Electric 3540 PA	Sum of cost_of_removal			(12,577)									(1,730)	(14,307)
		Sum of salvage_cash			-									-	-
		Sum of Net Salvage			(12,577)									(1,730)	(14,307)
	PECO Electric 3560 PA	Sum of cost_of_removal	(76,243)	(59,630)	(39,543)	(42,855)	0							(124)	(218,396)
		Sum of salvage_cash	-	-	-	-	-							-	-
		Sum of Net Salvage	(76,243)	(59,630)	(39,543)	(42,855)	0							(124)	(218,396)
	PECO Electric 3580 PA	Sum of cost_of_removal	(161,861)												(161,861)
		Sum of salvage_cash	-												-
		Sum of Net Salvage	(161,861)												(161,861)
Electric - Transmission Plant Sum of cost_of_removal			**(702,800)**	**(696,505)**	**(510,711)**	**(391,453)**	**(867,044)**	**(209,097)**	**(365,754)**	**(147,268)**	**(69,206)**	**(168,664)**	**(36,169)**	**(2,736,944)**	**(6,901,613)**
Electric - Transmission Plant Sum of salvage_cash			**-**	**-**	**1,303**	**11,500**	**50,747**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**63,550**
Electric - Transmission Plant Sum of Net Salvage			**(702,800)**	**(696,505)**	**(509,408)**	**(379,953)**	**(816,297)**	**(209,097)**	**(365,754)**	**(147,268)**	**(69,206)**	**(168,664)**	**(36,169)**	**(2,736,944)**	**(6,838,064)**
Total Sum of cost_of_removal			**(1,781,068)**	**(814,646)**	**(4,268,042)**	**(778,506)**	**(1,398,854)**	**(4,165,010)**	**(652,182)**	**(704,996)**	**(3,280,541)**	**(251,031)**	**(107,265)**	**(8,447,988)**	**(26,650,129)**
Total Sum of salvage_cash			**76,973**	**-**	**463,302**	**11,500**	**54,162**	**451,282**	**-**	**-**	**468,688**	**-**	**-**	**509,040**	**2,034,947**
Total Sum of Net Salvage			**(1,704,095)**	**(814,646)**	**(3,804,740)**	**(767,006)**	**(1,344,692)**	**(3,713,728)**	**(652,182)**	**(704,996)**	**(2,811,853)**	**(251,031)**	**(107,265)**	**(7,938,948)**	**(24,615,181)**

PECO Energy Company
Net Salvage by Month
2014

Product Class	depr_group_id	Values	2014												2014 Total
			Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	
Common	**PECO Common 3901 PA**	Sum of cost_of_removal	(22,956)	(5,078)	(796,257)	(5,777)	(21,742)		(137,855)	(9,118)	(22,098)	(3,443,048)		(19,326)	(4,483,256)
		Sum of salvage_cash	-	-	-	-	-		-	-	-	-		-	-
		Sum of Net Salvage	(22,956)	(5,078)	(796,257)	(5,777)	(21,742)		(137,855)	(9,118)	(22,098)	(3,443,048)		(19,326)	(4,483,256)
	PECO Common 3902 PA	Sum of cost_of_removal		(1,460)			(2,507)		(2,507)	(6,933)			(82,641)		(96,049)
		Sum of salvage_cash		-			-		-	-			-		-
		Sum of Net Salvage		(1,460)			(2,507)		(2,507)	(6,933)			(82,641)		(96,049)
	PECO Common 3911 PA	Sum of cost_of_removal				(1,214)									(1,214)
		Sum of salvage_cash				-									-
		Sum of Net Salvage				(1,214)									(1,214)
	PECO Common 3912 PA	Sum of cost_of_removal	(1,106)										(64,214)		(65,319)
		Sum of salvage_cash	-										-		-
		Sum of Net Salvage	(1,106)										(64,214)		(65,319)
	PECO Common 3922 PA	Sum of cost_of_removal			(255)			(135)			(30)			(135)	(555)
		Sum of salvage_cash			72,950			44,000			8,500			35,400	160,850
		Sum of Net Salvage			72,695			43,865			8,470			35,265	160,295
	PECO Common 3923 PA	Sum of cost_of_removal			(390)			(30)			(60)			(195)	(675)
		Sum of salvage_cash			155,750			24,000			20,000			92,000	291,750
		Sum of Net Salvage			155,360			23,970			19,940			91,805	291,075
	PECO Common 3925 PA	Sum of cost_of_removal			(15)			(15)							(30)
		Sum of salvage_cash			350			800							1,150
		Sum of Net Salvage			335			785							1,120
	PECO Common 3926 PA	Sum of cost_of_removal			(15)										(15)
		Sum of salvage_cash			1,300										1,300
		Sum of Net Salvage			1,285										1,285
	PECO Common 3943 PA	Sum of cost_of_removal			-			-			-			-	-
		Sum of salvage_cash			195			4,375			2,210			2,420	9,200
		Sum of Net Salvage			195			4,375			2,210			2,420	9,200
Common Sum of cost_of_removal			**(24,062)**	**(6,539)**	**(796,932)**	**(6,991)**	**(24,249)**	**(180)**	**(140,362)**	**(16,051)**	**(22,188)**	**(3,443,048)**	**(146,855)**	**(19,656)**	**(4,647,112)**
Common Sum of salvage_cash			**-**	**-**	**230,545**	**-**	**-**	**73,175**	**-**	**-**	**30,710**	**-**	**-**	**129,820**	**464,250**
Common Sum of Net Salvage			**(24,062)**	**(6,539)**	**(566,387)**	**(6,991)**	**(24,249)**	**72,995**	**(140,362)**	**(16,051)**	**8,522**	**(3,443,048)**	**(146,855)**	**110,164**	**(4,182,862)**
Electric - Distribution Plant	**PECO Electric 3611 PA**	Sum of cost_of_removal								(6,624)	(2,228)				(8,852)
		Sum of salvage_cash								-	-				-
		Sum of Net Salvage								(6,624)	(2,228)				(8,852)
	PECO Electric 3612 PA	Sum of cost_of_removal				(3,642)				(31,755)					(35,397)
		Sum of salvage_cash				-				-					-
		Sum of Net Salvage				(3,642)				(31,755)					(35,397)
	PECO Electric 3620 PA	Sum of cost_of_removal	(41,248)	(79,417)	(77,867)	(17,399)	(112,184)	(36,262)	(7,668)	(109,579)	(86,673)	(58,601)	(3,362)	(63,521)	(693,782)
		Sum of salvage_cash	-	-	-	-	-	-	-	-	-	-	-	5,377	5,377
		Sum of Net Salvage	(41,248)	(79,417)	(77,867)	(17,399)	(112,184)	(36,262)	(7,668)	(109,579)	(86,673)	(58,601)	(3,362)	(58,144)	(688,405)
	PECO Electric 3640 PA	Sum of cost_of_removal	(32,440)	(26,992)	(385,784)	(50,981)	(20,724)	(637,627)	(26,640)	(26,923)	(676,000)	(53,916)	(16,722)	(1,785,474)	(3,740,222)
		Sum of salvage_cash	-	-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage	(32,440)	(26,992)	(385,784)	(50,981)	(20,724)	(637,627)	(26,640)	(26,923)	(676,000)	(53,916)	(16,722)	(1,785,474)	(3,740,222)
	PECO Electric 3650 PA	Sum of cost_of_removal	(44,014)	(82,103)	(676,725)	(65,049)	(68,475)	(1,002,313)	(121,243)	(85,289)	(1,025,697)	(120,226)	(82,577)	(4,585,120)	(7,958,832)
		Sum of salvage_cash	-	-	37,341	-	-	51,281	5,950	-	59,652	-	-	66,984	221,209
		Sum of Net Salvage	(44,014)	(82,103)	(639,383)	(65,049)	(68,475)	(951,032)	(115,293)	(85,289)	(966,045)	(120,226)	(82,577)	(4,518,136)	(7,737,623)
	PECO Electric 3660 PA	Sum of cost_of_removal		(431)	(305,904)	(78,243)	(19,824)	(421,481)	(321,344)	(32,467)	(727,482)	(13)	(4)	(216,725)	(2,123,918)
		Sum of salvage_cash		-	-	-	-	-	421,539	-	-	-	-	-	421,539
		Sum of Net Salvage		(431)	(305,904)	(78,243)	(19,824)	(421,481)	100,195	(32,467)	(727,482)	(13)	(4)	(216,725)	(1,702,379)
	PECO Electric 3670 PA	Sum of cost_of_removal	(24,423)	(200,394)	(1,315,841)	(112,605)	(27,082)	(1,668,205)	(257,612)	(69,427)	(1,576,280)	(118,013)	(3)	(1,472,545)	(6,842,430)
		Sum of salvage_cash	-	-	37,341	-	-	51,281	330,172	-	59,652	-	-	66,984	545,430
		Sum of Net Salvage	(24,423)	(200,394)	(1,278,500)	(112,605)	(27,082)	(1,616,924)	72,560	(69,427)	(1,516,628)	(118,013)	(3)	(1,405,561)	(6,297,000)
	PECO Electric 3680 PA	Sum of cost_of_removal			(66,626)			(80,223)			(96,341)		(258)	(72,107)	(315,555)
		Sum of salvage_cash			81,036			80,573			88,751		-	140,257	390,617
		Sum of Net Salvage			14,411			351			(7,590)		(258)	68,149	75,062
	PECO Electric 3691 PA	Sum of cost_of_removal			(57,143)			(81,918)	68		(85,057)			(108,765)	(332,815)
		Sum of salvage_cash			-			-	-		-			-	-
		Sum of Net Salvage			(57,143)			(81,918)	68		(85,057)			(108,765)	(332,815)
	PECO Electric 3692 PA	Sum of cost_of_removal			(23,637)			(30,662)			(57,767)			(87,505)	(199,571)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(23,637)			(30,662)			(57,767)			(87,505)	(199,571)
	PECO Electric 3700 PA	Sum of cost_of_removal			(3,204)			(2,069)			(1,213)				(6,486)
		Sum of salvage_cash			-			-			-				-
		Sum of Net Salvage			(3,204)			(2,069)			(1,213)				(6,486)
	PECO Electric 3730 PA	Sum of cost_of_removal			(1,845)			(2,392)			(4,888)			(5,385)	(14,511)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(1,845)			(2,392)			(4,888)			(5,385)	(14,511)
	PECO Electric 3731 PA	Sum of cost_of_removal			(49)			(1,637)			(5,277)			(4,443)	(11,406)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(49)			(1,637)			(5,277)			(4,443)	(11,406)
	PECO Electric 3732 PA	Sum of cost_of_removal			(17,332)			(20,907)			(21,104)			(23,934)	(83,277)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(17,332)			(20,907)			(21,104)			(23,934)	(83,277)
Electric - Distribution Plant Sum of cost_of_removal			**(142,126)**	**(389,337)**	**(2,931,958)**	**(327,919)**	**(248,290)**	**(3,985,697)**	**(734,439)**	**(362,064)**	**(4,366,006)**	**(350,769)**	**(102,926)**	**(8,425,524)**	**(22,367,055)**
Electric - Distribution Plant Sum of salvage_cash			**-**	**-**	**155,719**	**-**	**-**	**183,136**	**757,662**	**-**	**208,055**	**-**	**-**	**279,602**	**1,584,173**
Electric - Distribution Plant Sum of Net Salvage			**(142,126)**	**(389,337)**	**(2,776,239)**	**(327,919)**	**(248,290)**	**(3,802,561)**	**23,223**	**(362,064)**	**(4,157,951)**	**(350,769)**	**(102,926)**	**(8,145,922)**	**(20,782,882)**
Electric - General Plant	**PECO Electric 3901 PA**	Sum of cost_of_removal				(46,632)									(46,632)
		Sum of salvage_cash				-									-
		Sum of Net Salvage				(46,632)									(46,632)
	PECO Electric 3940 PA	Sum of cost_of_removal												(5,963)	(5,963)
		Sum of salvage_cash												-	-
		Sum of Net Salvage												(5,963)	(5,963)
Electric - General Plant Sum of cost_of_removal						**(46,632)**								**(5,963)**	**(52,595)**
Electric - General Plant Sum of salvage_cash						**-**								**-**	**-**
Electric - General Plant Sum of Net Salvage						**(46,632)**								**(5,963)**	**(52,595)**
Electric - Transmission Plant	**PECO Electric 3522 PA**	Sum of cost_of_removal								(7,949)					(7,949)
		Sum of salvage_cash								-					-
		Sum of Net Salvage								(7,949)					(7,949)
	PECO Electric 3530 PA	Sum of cost_of_removal	(50,489)	(60,612)	(10,732)	(242,942)	(329,907)	(13,266)	(322,488)	(37,464)	(201,522)	(398,688)	(165,998)	(541,317)	(2,375,425)
		Sum of salvage_cash	-	-	-	-	679	-	-	-	-	-	193	-	872
		Sum of Net Salvage	(50,489)	(60,612)	(10,732)	(242,942)	(329,229)	(13,266)	(322,488)	(37,464)	(201,522)	(398,688)	(165,805)	(541,317)	(2,374,553)
	PECO Electric 3540 PA	Sum of cost_of_removal		(2,584,812)			(428,619)				(115,472)				(3,128,904)
		Sum of salvage_cash		22,171			17,116				-				39,286
		Sum of Net Salvage		(2,562,642)			(411,503)				(115,472)				(3,089,617)
	PECO Electric 3550 PA	Sum of cost_of_removal											(2,514)		(2,514)
		Sum of salvage_cash											-		-

		Sum of Net Salvage											(2,514)		(2,514)
	PECO Electric 3560 PA	Sum of cost_of_removal		(2,154,010)			(629,153)	(126)					(1,245)		(2,784,533)
		Sum of salvage_cash		18,475			16,055	-					-		34,531
		Sum of Net Salvage		(2,135,535)			(613,097)	(126)					(1,245)		(2,750,003)
	PECO Electric 3580 PA	Sum of cost_of_removal					(223,643)								(223,643)
		Sum of salvage_cash					-								-
		Sum of Net Salvage					(223,643)								(223,643)
Electric - Transmission Plant Sum of cost_of_removal			**(50,489)**	**(4,799,435)**	**(10,732)**	**(242,942)**	**(1,611,322)**	**(13,392)**	**(322,488)**	**(45,413)**	**(316,994)**	**(398,688)**	**(169,757)**	**(541,317)**	**(8,522,967)**
Electric - Transmission Plant Sum of salvage_cash			**-**	**40,646**	**-**	**-**	**33,850**	**-**	**-**	**-**	**-**	**-**	**193**	**-**	**74,689**
Electric - Transmission Plant Sum of Net Salvage			**(50,489)**	**(4,758,789)**	**(10,732)**	**(242,942)**	**(1,577,472)**	**(13,392)**	**(322,488)**	**(45,413)**	**(316,994)**	**(398,688)**	**(169,564)**	**(541,317)**	**(8,448,278)**
Total Sum of cost_of_removal			**(216,677)**	**(5,195,310)**	**(3,739,622)**	**(624,483)**	**(1,883,860)**	**(3,999,269)**	**(1,197,290)**	**(423,528)**	**(4,705,187)**	**(4,192,505)**	**(419,537)**	**(8,992,460)**	**(35,589,729)**
Total Sum of salvage_cash			**-**	**40,646**	**386,264**	**-**	**33,850**	**256,311**	**757,662**	**-**	**238,765**	**-**	**193**	**409,422**	**2,123,112**
Total Sum of Net Salvage			**(216,677)**	**(5,154,664)**	**(3,353,359)**	**(624,483)**	**(1,850,011)**	**(3,742,958)**	**(439,628)**	**(423,528)**	**(4,466,423)**	**(4,192,505)**	**(419,344)**	**(8,583,038)**	**(33,466,617)**

PECO Energy Company
Net Salvage by Month
2015

			2015												2015 Total
Product Class	**depr_group_id**	**Values**	**Jan 15**	**Feb 15**	**Mar 15**	**Apr 15**	**May 15**	**Jun 15**	**Jul 15**	**Aug 15**	**Sep 15**	**Oct 15**	**Nov 15**	**Dec 15**	
Common	**PECO Common 3901 PA**	Sum of cost_of_removal		(7,211)		(135,902)	(9,417)		(431,868)	(50,077)	(23,313)		(4,787)	(80,358)	(742,934)
		Sum of salvage_cash		-		-	-		-	-	-		-	-	-
		Sum of Net Salvage		(7,211)		(135,902)	(9,417)		(431,868)	(50,077)	(23,313)		(4,787)	(80,358)	(742,934)
	PECO Common 3902 PA	Sum of cost_of_removal	(9,682)	(61,273)		(322,847)					(296,576)		(4,310)		(694,688)
		Sum of salvage_cash	-	-		-					-		-		-
		Sum of Net Salvage	(9,682)	(61,273)		(322,847)					(296,576)		(4,310)		(694,688)
	PECO Common 3912 PA	Sum of cost_of_removal				(25,288)									(25,288)
		Sum of salvage_cash				-									-
		Sum of Net Salvage				(25,288)									(25,288)
	PECO Common 3922 PA	Sum of cost_of_removal			(300)			(619)			(240)			(105)	(1,264)
		Sum of salvage_cash			124,735			73,715			74,795			7,605	280,850
		Sum of Net Salvage			124,435			73,096			74,555			7,500	279,586
	PECO Common 3923 PA	Sum of cost_of_removal			(240)			(523)			(195)				(958)
		Sum of salvage_cash			224,370			82,480			82,755				389,605
		Sum of Net Salvage			224,130			81,957			82,560				388,647
	PECO Common 3925 PA	Sum of cost_of_removal			-						-				-
		Sum of salvage_cash			1,085						2,620				3,705
		Sum of Net Salvage			1,085						2,620				3,705
	PECO Common 3926 PA	Sum of cost_of_removal									-				-
		Sum of salvage_cash									4,270				4,270
		Sum of Net Salvage									4,270				4,270
	PECO Common 3943 PA	Sum of cost_of_removal			-						-				-
		Sum of salvage_cash			3,450						4,525				7,975
		Sum of Net Salvage			3,450						4,525				7,975
Common Sum of cost_of_removal			**(9,682)**	**(68,483)**	**(540)**	**(484,037)**	**(9,417)**	**(1,142)**	**(431,868)**	**(50,077)**	**(320,324)**		**(9,097)**	**(80,463)**	**(1,465,132)**
Common Sum of salvage_cash			**-**	**-**	**353,640**	**-**	**-**	**156,195**	**-**	**-**	**168,965**		**-**	**7,605**	**686,405**
Common Sum of Net Salvage			**(9,682)**	**(68,483)**	**353,100**	**(484,037)**	**(9,417)**	**155,053**	**(431,868)**	**(50,077)**	**(151,359)**		**(9,097)**	**(72,858)**	**(778,727)**
Electric - Distribution Plant	**PECO Electric 3611 PA**	Sum of cost_of_removal		(575)					(40,991)					(111,238)	(152,804)
		Sum of salvage_cash		-					-					-	-
		Sum of Net Salvage		(575)					(40,991)					(111,238)	(152,804)
	PECO Electric 3612 PA	Sum of cost_of_removal					(56,331)		(25,397)						(81,728)
		Sum of salvage_cash					-		-						-
		Sum of Net Salvage					(56,331)		(25,397)						(81,728)
	PECO Electric 3620 PA	Sum of cost_of_removal	(71,799)	(72,209)		(178,100)	(40,025)	(23,912)	(29,345)	(170,555)	(72,576)	(7,542)	(14,323)	(25,702)	(706,089)
		Sum of salvage_cash	-	-		-	-	-	-	-	-	-	-	588	588
		Sum of Net Salvage	(71,799)	(72,209)		(178,100)	(40,025)	(23,912)	(29,345)	(170,555)	(72,576)	(7,542)	(14,323)	(25,114)	(705,502)
	PECO Electric 3640 PA	Sum of cost_of_removal	(90,484)	(41,461)	(679,456)	(113,507)	(156,791)	(753,040)	(146,229)	(553,536)	(751,108)	(9,619)	(442,604)	(516,144)	(4,253,977)
		Sum of salvage_cash	-	-	-	-	-	-	-	3,075	-	-	-	5,734	8,808
		Sum of Net Salvage	(90,484)	(41,461)	(679,456)	(113,507)	(156,791)	(753,040)	(146,229)	(550,461)	(751,108)	(9,619)	(442,604)	(510,411)	(4,245,169)
	PECO Electric 3650 PA	Sum of cost_of_removal	(215,656)	(127,236)	(1,006,956)	(305,696)	(921,809)	(1,177,333)	(478,439)	(553,873)	(1,186,777)	(15,307)	(187,340)	(822,473)	(6,998,894)
		Sum of salvage_cash	-	-	45,636	-	-	248,183	-	3,075	150,265	-	-	99,200	546,359
		Sum of Net Salvage	(215,656)	(127,236)	(961,319)	(305,696)	(921,809)	(929,150)	(478,439)	(550,798)	(1,036,513)	(15,307)	(187,340)	(723,273)	(6,452,536)
	PECO Electric 3660 PA	Sum of cost_of_removal	(1,717)	(76,462)	(195,006)	(144,146)		(267,172)	(91,878)	(3,012)	(330,796)		(11,511)	(285,263)	(1,406,963)
		Sum of salvage_cash	-	-	-	-		-	-	-	-		-	1,911	1,911
		Sum of Net Salvage	(1,717)	(76,462)	(195,006)	(144,146)		(267,172)	(91,878)	(3,012)	(330,796)		(11,511)	(283,351)	(1,405,052)
	PECO Electric 3670 PA	Sum of cost_of_removal	(165,892)	(114,791)	(1,326,897)	(600,902)		(1,471,370)	(170,610)	(76,970)	(1,557,289)	(290)	(130,623)	(1,429,735)	(7,045,367)
		Sum of salvage_cash	-	-	45,636	-		248,183	-	-	150,265	-	-	91,873	535,958
		Sum of Net Salvage	(165,892)	(114,791)	(1,281,260)	(600,902)		(1,223,186)	(170,610)	(76,970)	(1,407,024)	(290)	(130,623)	(1,337,862)	(6,509,409)
	PECO Electric 3680 PA	Sum of cost_of_removal			(72,368)	(2,190)		(88,650)			(105,766)			(10,773)	(279,747)
		Sum of salvage_cash			104,252	-		78,080			169,029			47,319	398,679
		Sum of Net Salvage			31,884	(2,190)		(10,569)			63,263			36,546	118,932
	PECO Electric 3691 PA	Sum of cost_of_removal	(36)		(98,635)			(76,829)			(69,186)		(1)	(42,432)	(287,119)
		Sum of salvage_cash	-		-			-			-		-	-	-
		Sum of Net Salvage	(36)		(98,635)			(76,829)			(69,186)		(1)	(42,432)	(287,119)
	PECO Electric 3692 PA	Sum of cost_of_removal			(61,489)			(47,825)			(106,065)			(28,144)	(243,523)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(61,489)			(47,825)			(106,065)			(28,144)	(243,523)
	PECO Electric 3730 PA	Sum of cost_of_removal			(4,228)			(6,389)		-	(7,729)				(18,346)
		Sum of salvage_cash			-			-		113,825	-				113,825
		Sum of Net Salvage			(4,228)			(6,389)		113,825	(7,729)				95,479
	PECO Electric 3731 PA	Sum of cost_of_removal			(59)			(461)			(211)			(17)	(749)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(59)			(461)			(211)			(17)	(749)
	PECO Electric 3732 PA	Sum of cost_of_removal			(18,716)			(20,607)			(26,765)			(9,367)	(75,456)
		Sum of salvage_cash			-			-			-			-	-
		Sum of Net Salvage			(18,716)			(20,607)			(26,765)			(9,367)	(75,456)
Electric - Distribution Plant Sum of cost_of_removal			**(545,584)**	**(432,733)**	**(3,463,810)**	**(1,344,541)**	**(1,174,956)**	**(3,933,588)**	**(982,889)**	**(1,357,946)**	**(4,214,269)**	**(32,757)**	**(786,402)**	**(3,281,288)**	**(21,550,763)**
Electric - Distribution Plant Sum of salvage_cash			**-**	**-**	**195,524**	**-**	**-**	**574,447**	**-**	**119,975**	**469,558**	**-**	**-**	**246,624**	**1,606,129**
Electric - Distribution Plant Sum of Net Salvage			**(545,584)**	**(432,733)**	**(3,268,286)**	**(1,344,541)**	**(1,174,956)**	**(3,359,141)**	**(982,889)**	**(1,237,971)**	**(3,744,710)**	**(32,757)**	**(786,402)**	**(3,034,664)**	**(19,944,635)**
Electric - General Plant	**PECO Electric 3901 PA**	Sum of cost_of_removal				(71,981)				(24,334)	(16,216)			(61,519)	(174,050)
		Sum of salvage_cash				-				-	-			-	-
		Sum of Net Salvage				(71,981)				(24,334)	(16,216)			(61,519)	(174,050)
	PECO Electric 3913 PA	Sum of cost_of_removal	(2,256)												(2,256)
		Sum of salvage_cash	-												-
		Sum of Net Salvage	(2,256)												(2,256)
	PECO Electric 3940 PA	Sum of cost_of_removal				(211)									(211)
		Sum of salvage_cash				-									-
		Sum of Net Salvage				(211)									(211)
	PECO Electric 3970 PA	Sum of cost_of_removal	(3,021)												(3,021)
		Sum of salvage_cash	267												267
		Sum of Net Salvage	(2,754)												(2,754)
Electric - General Plant Sum of cost_of_removal			**(5,277)**			**(72,193)**				**(24,334)**	**(16,216)**			**(61,519)**	**(179,538)**
Electric - General Plant Sum of salvage_cash			**267**			**-**				**-**	**-**			**-**	**267**
Electric - General Plant Sum of Net Salvage			**(5,010)**			**(72,193)**				**(24,334)**	**(16,216)**			**(61,519)**	**(179,271)**
Electric - Transmission Plant	**PECO Electric 3521 PA**	Sum of cost_of_removal							(25,277)						(25,277)
		Sum of salvage_cash							-						-
		Sum of Net Salvage							(25,277)						(25,277)
	PECO Electric 3522 PA	Sum of cost_of_removal											(10,768)		(10,768)
		Sum of salvage_cash											-		-
		Sum of Net Salvage											(10,768)		(10,768)
	PECO Electric 3530 PA	Sum of cost_of_removal	(193,970)	(33,888)		(144,050)	(53,916)	(73,648)	(46,623)	(66,954)	(16,345)		(144,145)	(542,207)	(1,315,746)
		Sum of salvage_cash	1,296	-		-	-	-	-	-	-		-	-	1,296
		Sum of Net Salvage	(192,674)	(33,888)		(144,050)	(53,916)	(73,648)	(46,623)	(66,954)	(16,345)		(144,145)	(542,207)	(1,314,450)
	PECO Electric 3540 PA	Sum of cost_of_removal	0	(16,738)											(16,738)
		Sum of salvage_cash	-	-											-

		Sum of Net Salvage	0	(16,738)											(16,738)
	PECO Electric 3550 PA	Sum of cost_of_removal				(20,243)									(20,243)
		Sum of salvage_cash				-									-
		Sum of Net Salvage				(20,243)									(20,243)
	PECO Electric 3560 PA	Sum of cost_of_removal	(0)	(6,588)		(2,248)			(67,161)						(75,998)
		Sum of salvage_cash	-	-		-			-						-
		Sum of Net Salvage	(0)	(6,588)		(2,248)			(67,161)						(75,998)
	PECO Electric 3580 PA	Sum of cost_of_removal	(189,909)			(32,221)	(31,264)								(253,395)
		Sum of salvage_cash	16,806			-	-								16,806
		Sum of Net Salvage	(173,103)			(32,221)	(31,264)								(236,589)
Electric - Transmission Plant Sum of cost_of_removal			**(383,879)**	**(57,214)**		**(198,764)**	**(85,180)**	**(73,648)**	**(139,061)**	**(66,954)**	**(16,345)**		**(154,913)**	**(542,207)**	**(1,718,164)**
Electric - Transmission Plant Sum of salvage_cash			**18,102**	**-**		**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**18,102**
Electric - Transmission Plant Sum of Net Salvage			**(365,777)**	**(57,214)**		**(198,764)**	**(85,180)**	**(73,648)**	**(139,061)**	**(66,954)**	**(16,345)**		**(154,913)**	**(542,207)**	**(1,700,062)**
Total Sum of cost_of_removal			**(944,422)**	**(558,431)**	**(3,464,350)**	**(2,099,533)**	**(1,269,553)**	**(4,008,378)**	**(1,553,818)**	**(1,499,310)**	**(4,567,154)**	**(32,757)**	**(950,412)**	**(3,965,478)**	**(24,913,598)**
Total Sum of salvage_cash			**18,370**	**-**	**549,164**	**-**	**-**	**730,642**	**-**	**119,975**	**638,523**	**-**	**-**	**254,229**	**2,310,903**
Total Sum of Net Salvage			**(926,053)**	**(558,431)**	**(2,915,186)**	**(2,099,533)**	**(1,269,553)**	**(3,277,736)**	**(1,553,818)**	**(1,379,335)**	**(3,928,631)**	**(32,757)**	**(950,412)**	**(3,711,249)**	**(22,602,694)**

PECO Energy Company
Net Salvage by Month
2016

			2016												2016 Total
Product Class	**depr_group_id**	**Values**	**Jan 16**	**Feb 16**	**Mar 16**	**Apr 16**	**May 16**	**Jun 16**	**Jul 16**	**Aug 16**	**Sep 16**	**Oct 16**	**Nov 16**	**Dec 16**	
Common	**PECO Common 3901 PA**	Sum of cost_of_removal					(144,362)	(11,901)		(236,299)		(218,538)			(611,101)
		Sum of salvage_cash					-	-		-		-			-
		Sum of Net Salvage					(144,362)	(11,901)		(236,299)		(218,538)			(611,101)
	PECO Common 3902 PA	Sum of cost_of_removal		(1,907)			(34,205)			(11,853)	(73,388)	(39,866)			(161,218)
		Sum of salvage_cash		-			-			-	-	-			-
		Sum of Net Salvage		(1,907)			(34,205)			(11,853)	(73,388)	(39,866)			(161,218)
	PECO Common 3903 PA	Sum of cost_of_removal					(52,622)								(52,622)
		Sum of salvage_cash					-								-
		Sum of Net Salvage					(52,622)								(52,622)
	PECO Common 3912 PA	Sum of cost_of_removal	(2,772)			(4,300)	(22,409)				(30,035)	(5,807)			(65,324)
		Sum of salvage_cash	-			-	-				-	-			-
		Sum of Net Salvage	(2,772)			(4,300)	(22,409)				(30,035)	(5,807)			(65,324)
	PECO Common 3922 PA	Sum of cost_of_removal			(315)			(645)			(195)			(165)	(1,320)
		Sum of salvage_cash			173,360			25,640			26,350			28,600	253,950
		Sum of Net Salvage			173,045			24,995			26,155			28,435	252,630
	PECO Common 3923 PA	Sum of cost_of_removal			(45)			(405)			(135)			(120)	(705)
		Sum of salvage_cash			79,745			65,255			49,250			43,235	237,485
		Sum of Net Salvage			79,700			64,850			49,115			43,115	236,780
	PECO Common 3925 PA	Sum of cost_of_removal			(105)			-			(105)			(30)	(240)
		Sum of salvage_cash			1,560			19,765			-			10,700	32,025
		Sum of Net Salvage			1,455			19,765			(105)			10,670	31,785
	PECO Common 3926 PA	Sum of cost_of_removal			(15)			-						-	(15)
		Sum of salvage_cash			5,785			415						36,000	42,200
		Sum of Net Salvage			5,770			415						36,000	42,185
	PECO Common 3943 PA	Sum of cost_of_removal			-			-			-			-	-
		Sum of salvage_cash			4,510			5,665			6,090			4,150	20,415
		Sum of Net Salvage			4,510			5,665			6,090			4,150	20,415
	PECO Common 3970 PA	Sum of cost_of_removal										(3,039)			(3,039)
		Sum of salvage_cash										-			-
		Sum of Net Salvage										(3,039)			(3,039)
Common Sum of cost_of_removal			**(2,772)**	**(1,907)**	**(480)**	**(4,300)**	**(253,598)**	**(12,951)**		**(248,152)**	**(103,858)**	**(267,251)**		**(315)**	**(895,584)**
Common Sum of salvage_cash			**-**	**-**	**264,960**	**-**	**-**	**116,740**		**-**	**81,690**	**-**		**122,685**	**586,075**
Common Sum of Net Salvage			**(2,772)**	**(1,907)**	**264,480**	**(4,300)**	**(253,598)**	**103,789**		**(248,152)**	**(22,168)**	**(267,251)**		**122,370**	**(309,509)**
Electric - Distribution Plant	**PECO Electric 3611 PA**	Sum of cost_of_removal	(43,747)				(8,627)			(59,516)	(3,483)	(117,410)			(232,782)
		Sum of salvage_cash	-				-			-	-	-			-
		Sum of Net Salvage	(43,747)				(8,627)			(59,516)	(3,483)	(117,410)			(232,782)
	PECO Electric 3612 PA	Sum of cost_of_removal							(12,971)	(5,561)		-			(18,532)
		Sum of salvage_cash							-	-		213			213
		Sum of Net Salvage							(12,971)	(5,561)		213			(18,319)
	PECO Electric 3613 PA	Sum of cost_of_removal										-			-
		Sum of salvage_cash										1,547			1,547
		Sum of Net Salvage										1,547			1,547
	PECO Electric 3620 PA	Sum of cost_of_removal	(64,235)	(29,609)	(159,553)	(16,473)	(42,330)	(53,345)		(70,034)	(427,795)	(136,290)	(28,352)	(746,358)	(1,774,373)
		Sum of salvage_cash	2,388	-	39,715	-	3,756	-		-	6,550	9,624	-	2,299	64,332
		Sum of Net Salvage	(61,848)	(29,609)	(119,838)	(16,473)	(38,574)	(53,345)		(70,034)	(421,245)	(126,665)	(28,352)	(744,059)	(1,710,041)
	PECO Electric 3640 PA	Sum of cost_of_removal	(224,616)	(793,977)	(153,678)	(231,794)	(195,181)	(194,874)	(194,952)	(200,982)	(409,930)	(288,010)	(771,870)	(374,265)	(4,034,127)
		Sum of salvage_cash	-	94	-	-	-	-	-	-	-	5,379	878	-	6,352
		Sum of Net Salvage	(224,616)	(793,883)	(153,678)	(231,794)	(195,181)	(194,874)	(194,952)	(200,982)	(409,930)	(282,631)	(770,992)	(374,265)	(4,027,775)
	PECO Electric 3650 PA	Sum of cost_of_removal	(168,660)	(1,229,262)	(362,823)	(371,056)	(330,434)	(299,593)	(279,158)	(334,742)	(954,394)	(1,594,129)	(1,603,844)	(626,146)	(8,154,241)
		Sum of salvage_cash	-	57,346	5,572	-	-	-	-	84,122	-	149,535	1,705	61,770	360,050
		Sum of Net Salvage	(168,660)	(1,171,916)	(357,251)	(371,056)	(330,434)	(299,593)	(279,158)	(250,620)	(954,394)	(1,444,594)	(1,602,139)	(564,375)	(7,794,191)
	PECO Electric 3660 PA	Sum of cost_of_removal	(15,258)	(299,347)	(137,714)	(63,791)	(70,495)	(133,286)	(78,865)	(214,250)	(74,354)	(111,245)	(100,099)	(249,181)	(1,547,884)
		Sum of salvage_cash	-	74	-	-	-	-	-	-	-	-	-	-	74
		Sum of Net Salvage	(15,258)	(299,273)	(137,714)	(63,791)	(70,495)	(133,286)	(78,865)	(214,250)	(74,354)	(111,245)	(100,099)	(249,181)	(1,547,810)
	PECO Electric 3670 PA	Sum of cost_of_removal	(396,024)	(1,958,471)	(593,379)	(395,370)	(634,779)	(485,062)	(432,098)	(508,230)	(722,441)	(893,035)	(550,346)	(510,207)	(8,079,442)
		Sum of salvage_cash	-	57,068	5,572	-	-	-	-	84,121	-	18,988	-	61,770	227,520
		Sum of Net Salvage	(396,024)	(1,901,403)	(587,807)	(395,370)	(634,779)	(485,062)	(432,098)	(424,108)	(722,441)	(874,047)	(550,346)	(448,437)	(7,851,922)
	PECO Electric 3680 PA	Sum of cost_of_removal		(100,350)	(20,610)	(138,480)	(18,153)	(25,735)	(37,432)	(25,873)	(44,386)	(34,916)	(21,537)	(35,706)	(503,177)
		Sum of salvage_cash		52,291	2,621	922	1,494	2,814	-	6,488	3,330	-	2,483	14,968	87,412
		Sum of Net Salvage		(48,059)	(17,989)	(137,558)	(16,659)	(22,921)	(37,432)	(19,385)	(41,056)	(34,916)	(19,054)	(20,738)	(415,765)
	PECO Electric 3691 PA	Sum of cost_of_removal		(96,550)	(11,647)	(15,292)	(14,834)	(22,103)	(23,010)	(25,493)	(26,167)	(32,309)	(28,017)	(46,001)	(341,421)
		Sum of salvage_cash		-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage		(96,550)	(11,647)	(15,292)	(14,834)	(22,103)	(23,010)	(25,493)	(26,167)	(32,309)	(28,017)	(46,001)	(341,421)
	PECO Electric 3692 PA	Sum of cost_of_removal		(83,015)	(15,486)	(19,926)	(9,609)	(23,754)	(28,023)	(28,615)	(23,313)	(16,223)	(40,399)	(50,861)	(339,224)
		Sum of salvage_cash		-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage		(83,015)	(15,486)	(19,926)	(9,609)	(23,754)	(28,023)	(28,615)	(23,313)	(16,223)	(40,399)	(50,861)	(339,224)
	PECO Electric 3730 PA	Sum of cost_of_removal		(5,168)	(1,156)	(920)	(3,861)	(1,691)	(1,313)	(246)	(1,539)	(1,487)	(962)	(1,396)	(19,740)
		Sum of salvage_cash		-	-	-	-	-	-	17,115	5,560	-	-	-	22,675
		Sum of Net Salvage		(5,168)	(1,156)	(920)	(3,861)	(1,691)	(1,313)	16,870	4,021	(1,487)	(962)	(1,396)	2,935
	PECO Electric 3731 PA	Sum of cost_of_removal		(2,165)	(281)	(36)	(1,457)	(19)	(8)	(69)	(294)	(950)	(880)	(532)	(6,690)
		Sum of salvage_cash		-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage		(2,165)	(281)	(36)	(1,457)	(19)	(8)	(69)	(294)	(950)	(880)	(532)	(6,690)
	PECO Electric 3732 PA	Sum of cost_of_removal		(30,915)	(4,837)	(6,540)	(7,165)	(12,782)	(5,309)	(4,966)	(5,889)	(2,630)	(7,712)	(8,155)	(96,902)
		Sum of salvage_cash		-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage		(30,915)	(4,837)	(6,540)	(7,165)	(12,782)	(5,309)	(4,966)	(5,889)	(2,630)	(7,712)	(8,155)	(96,902)
Electric - Distribution Plant Sum of cost_of_removal			**(912,539)**	**(4,628,830)**	**(1,461,163)**	**(1,259,676)**	**(1,336,925)**	**(1,252,244)**	**(1,093,141)**	**(1,478,574)**	**(2,693,986)**	**(3,228,633)**	**(3,154,018)**	**(2,648,807)**	**(25,148,535)**
Electric - Distribution Plant Sum of salvage_cash			**2,388**	**166,873**	**53,480**	**922**	**5,250**	**2,814**	**-**	**191,847**	**15,440**	**185,286**	**5,067**	**140,808**	**770,175**
Electric - Distribution Plant Sum of Net Salvage			**(910,152)**	**(4,461,957)**	**(1,407,683)**	**(1,258,754)**	**(1,331,675)**	**(1,249,430)**	**(1,093,141)**	**(1,286,727)**	**(2,678,546)**	**(3,043,346)**	**(3,148,952)**	**(2,507,999)**	**(24,378,360)**
Electric - General Plant	**PECO Electric 3901 PA**	Sum of cost_of_removal						(4,343)		(97,759)		(35,381)	(302)		(137,785)
		Sum of salvage_cash						-		-		-	-		-
		Sum of Net Salvage						(4,343)		(97,759)		(35,381)	(302)		(137,785)
	PECO Electric 3902 PA	Sum of cost_of_removal					(353,973)					(37,514)			(391,487)
		Sum of salvage_cash					-					-			-
		Sum of Net Salvage					(353,973)					(37,514)			(391,487)
	PECO Electric 3913 PA	Sum of cost_of_removal										(67,691)			(67,691)
		Sum of salvage_cash										-			-
		Sum of Net Salvage										(67,691)			(67,691)
	PECO Electric 3970 PA	Sum of cost_of_removal										-			-
		Sum of salvage_cash										135			135
		Sum of Net Salvage										135			135
Electric - General Plant Sum of cost_of_removal							**(353,973)**	**(4,343)**		**(97,759)**		**(140,586)**	**(302)**		**(596,963)**
Electric - General Plant Sum of salvage_cash							**-**	**-**		**-**		**135**	**-**		**135**
Electric - General Plant Sum of Net Salvage							**(353,973)**	**(4,343)**		**(97,759)**		**(140,451)**	**(302)**		**(596,828)**
Electric - Transmission Plant	**PECO Electric 3521 PA**	Sum of cost_of_removal	(20,331)						(41,132)						(61,463)
		Sum of salvage_cash	-						-						-
		Sum of Net Salvage	(20,331)						(41,132)						(61,463)
	PECO Electric 3522 PA	Sum of cost_of_removal		(2,322)					(2,777)						(5,099)
		Sum of salvage_cash		3,053					-						3,053
		Sum of Net Salvage		731					(2,777)						(2,046)
	PECO Electric 3530 PA	Sum of cost_of_removal	(297,752)	(180,637)	(186,223)	(41,307)	(49,953)		(80,807)	(218,950)	(1,323,274)	(113,840)	(34,670)	(77,639)	(2,605,051)
		Sum of salvage_cash	-	693	24,326	-	-		-	274	69,740	113	-	-	95,146
		Sum of Net Salvage	(297,752)	(179,944)	(161,898)	(41,307)	(49,953)		(80,807)	(218,676)	(1,253,534)	(113,726)	(34,670)	(77,639)	(2,509,905)
	PECO Electric 3540 PA	Sum of cost_of_removal			(112,649)							-			(112,649)
		Sum of salvage_cash			-							3,545			3,545
		Sum of Net Salvage			(112,649)							3,545			(109,103)
	PECO Electric 3550 PA	Sum of cost_of_removal			(22,289)										(22,289)
		Sum of salvage_cash			-										-
		Sum of Net Salvage			(22,289)										(22,289)
	PECO Electric 3560 PA	Sum of cost_of_removal		(36,583)	(48,956)	26						-			(85,514)
		Sum of salvage_cash		373	13,900	-						877			15,150
		Sum of Net Salvage		(36,211)	(35,056)	26						877			(70,364)
	PECO Electric 3570 PA	Sum of cost_of_removal		(42,892)											(42,892)
		Sum of salvage_cash		437											437
		Sum of Net Salvage		(42,455)											(42,455)
	PECO Electric 3580 PA	Sum of cost_of_removal		(98,705)	(21,905)						(267,485)	(947,392)		(99,834)	(1,435,321)
		Sum of salvage_cash		1,005	-						163,286	873		-	165,164
		Sum of Net Salvage		(97,700)	(21,905)						(104,199)	(946,519)		(99,834)	(1,270,157)
Electric - Transmission Plant Sum of cost_of_removal			**(318,083)**	**(361,140)**	**(392,022)**	**(41,281)**	**(49,953)**		**(124,716)**	**(218,950)**	**(1,590,759)**	**(1,061,232)**	**(34,670)**	**(177,473)**	**(4,370,278)**
Electric - Transmission Plant Sum of salvage_cash			**-**	**5,561**	**38,226**	**-**	**-**		**-**	**274**	**233,026**	**5,409**	**-**	**-**	**282,495**
Electric - Transmission Plant Sum of Net Salvage			**(318,083)**	**(355,579)**	**(353,796)**	**(41,281)**	**(49,953)**		**(124,716)**	**(218,676)**	**(1,357,733)**	**(1,055,823)**	**(34,670)**	**(177,473)**	**(4,087,782)**
Total Sum of cost_of_removal			**(1,233,395)**	**(4,991,877)**	**(1,853,665)**	**(1,305,257)**	**(1,994,448)**	**(1,269,538)**	**(1,217,856)**	**(2,043,434)**	**(4,388,602)**	**(4,697,702)**	**(3,188,991)**	**(2,826,595)**	**(31,011,360)**
Total Sum of salvage_cash			**2,388**	**172,434**	**356,666**	**922**	**5,250**	**119,554**	**-**	**192,121**	**330,156**	**190,830**	**5,067**	**263,493**	**1,638,880**
Total Sum of Net Salvage			**(1,231,007)**	**(4,819,442)**	**(1,496,999)**	**(1,304,335)**	**(1,989,199)**	**(1,149,984)**	**(1,217,856)**	**(1,851,314)**	**(4,058,447)**	**(4,506,871)**	**(3,183,924)**	**(2,563,102)**	**(29,372,480)**

PECO Energy Company
Net Salvage by Month
2017

			2017												2017 Total
Product Class	**depr_group_id**	**Values**	**Jan 17**	**Feb 17**	**Mar 17**	**Apr 17**	**May 17**	**Jun 17**	**Jul 17**	**Aug 17**	**Sep 17**	**Oct 17**	**Nov 17**	**Dec 17**	
Common	**PECO Common 3892 PA**	Sum of Cost of Removal												-	-
		Sum of Salvage												442,515	442,515
		Sum of Net Salvage												442,515	442,515
	PECO Common 3901 PA	Sum of Cost of Removal	(669,431)	(41,180)	(1,829)	(849)	43,992	(409,465)	1,534	(22,646)		18,971		(714,042)	(1,794,945)
		Sum of Salvage	-	-	-	-	-	-	-	-		-		-	-
		Sum of Net Salvage	(669,431)	(41,180)	(1,829)	(849)	43,992	(409,465)	1,534	(22,646)		18,971		(714,042)	(1,794,945)
	PECO Common 3902 IL	Sum of Cost of Removal												(1,019,658)	(1,019,658)
		Sum of Salvage												-	-
		Sum of Net Salvage												(1,019,658)	(1,019,658)
	PECO Common 3902 PA	Sum of Cost of Removal	(416,680)	2,220	(297,015)	(25,206)	(4,788)	(12,413)	(9,723)		(2,075)	(2,630)	(16,624)	682,416	(102,518)
		Sum of Salvage	-	-	-	-	-	-	-		-	-	-	-	-
		Sum of Net Salvage	(416,680)	2,220	(297,015)	(25,206)	(4,788)	(12,413)	(9,723)		(2,075)	(2,630)	(16,624)	682,416	(102,518)
	PECO Common 3912 PA	Sum of Cost of Removal	(302,799)	(5,041)	(64,128)	(25,337)	(2,664)	(12,106)	(928)	(275)	(6,407)	(72,928)	6,932	(763,748)	(1,249,430)
		Sum of Salvage	-	-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage	(302,799)	(5,041)	(64,128)	(25,337)	(2,664)	(12,106)	(928)	(275)	(6,407)	(72,928)	6,932	(763,748)	(1,249,430)
	PECO Common 3913 IL	Sum of Cost of Removal												(16,688)	(16,688)
		Sum of Salvage												-	-
		Sum of Net Salvage												(16,688)	(16,688)
	PECO Common 3913 PA	Sum of Cost of Removal		(16,688)	(19,611)	19,611		(0)						16,688	-
		Sum of Salvage		-	-	-		-						-	-
		Sum of Net Salvage		(16,688)	(19,611)	19,611		(0)						16,688	-
	PECO Common 3921 PA	Sum of Cost of Removal	(3)		-									(5)	(8)
		Sum of Salvage	-		6,850									-	6,850
		Sum of Net Salvage	(3)		6,850									(5)	6,843
	PECO Common 3922 PA	Sum of Cost of Removal	(3)		(3,529)			(135)			(270)			(1,170)	(5,107)
		Sum of Salvage	-		108,400			-			74,100			30,671	213,171
		Sum of Net Salvage	(3)		104,871			(135)			73,830			29,501	208,064
	PECO Common 3923 PA	Sum of Cost of Removal	(3)		(584)			(60)			(105)			(90)	(842)
		Sum of Salvage	-		114,000			-			85,000			107,350	306,350
		Sum of Net Salvage	(3)		113,416			(60)			84,895			107,260	305,508
	PECO Common 3924 PA	Sum of Cost of Removal	(3)								(15)			3	(15)
		Sum of Salvage	-								8,000			-	8,000
		Sum of Net Salvage	(3)								7,985			3	7,985
	PECO Common 3925 PA	Sum of Cost of Removal	(3)		(90)			(15)			(15)				(123)
		Sum of Salvage	-		20,500			-			4,200				24,700
		Sum of Net Salvage	(3)		20,410			(15)			4,185				24,578
	PECO Common 3926 PA	Sum of Cost of Removal	(3)		(45)									3	(45)
		Sum of Salvage	-		2,000									-	2,000
		Sum of Net Salvage	(3)		1,955									3	1,955
	PECO Common 3942 PA	Sum of Cost of Removal									(18,000)	9	(0)		(17,991)
		Sum of Salvage									-	-	-		-
		Sum of Net Salvage									(18,000)	9	(0)		(17,991)
	PECO Common 3943 PA	Sum of Cost of Removal	-				-		-		-			(40,329)	(40,329)
		Sum of Salvage	3,875				680		3,155		4,560			2,550	14,820
		Sum of Net Salvage	3,875				680		3,155		4,560			(37,779)	(25,509)
Common Sum of Cost of Removal			**(1,388,925)**	**(60,689)**	**(386,831)**	**(31,782)**	**36,540**	**(434,193)**	**(9,118)**	**(22,921)**	**(26,888)**	**(56,579)**	**(9,693)**	**(1,856,621)**	**(4,247,699)**
Common Sum of Salvage			**3,875**	**-**	**251,750**	**-**	**680**	**-**	**3,155**	**-**	**175,860**	**-**	**-**	**583,086**	**1,018,406**
Common Sum of Net Salvage			**(1,385,050)**	**(60,689)**	**(135,081)**	**(31,782)**	**37,220**	**(434,193)**	**(5,963)**	**(22,921)**	**148,972**	**(56,579)**	**(9,693)**	**(1,273,536)**	**(3,229,293)**
Electric - Distribution Plant	**PECO Elec 3650 PA LTIIP**	Sum of Cost of Removal										(1,236)			(1,236)
		Sum of Salvage										-			-
		Sum of Net Salvage										(1,236)			(1,236)
	PECO Elec 3660 PA LTIIP	Sum of Cost of Removal							(23,228)						(23,228)
		Sum of Salvage							-						-
		Sum of Net Salvage							(23,228)						(23,228)
	PECO Elec 3670 PA LTIIP	Sum of Cost of Removal										(11,123)			(11,123)
		Sum of Salvage										-			-
		Sum of Net Salvage										(11,123)			(11,123)
	PECO Electric 3611 PA	Sum of Cost of Removal	(271,300)	6,735	34,411	(33,647)		33,647	(33,647)	(0)	33,647	(33,647)			(263,801)
		Sum of Salvage	-	-	0	(0)		-	-	-	-	-			-
		Sum of Net Salvage	(271,300)	6,735	34,411	(33,647)		33,647	(33,647)	(0)	33,647	(33,647)			(263,801)
	PECO Electric 3612 PA	Sum of Cost of Removal	(56,477)	354	14,574	(14,574)	(40)		(159,124)	(1,596)	(302)	(252,412)	(35,808)	2,436	(502,970)
		Sum of Salvage	-	-	0	(0)	-		3,479	786	-	7,947	30	-	12,241
		Sum of Net Salvage	(56,477)	354	14,574	(14,574)	(40)		(155,645)	(810)	(302)	(244,466)	(35,778)	2,436	(490,729)
	PECO Electric 3613 PA	Sum of Cost of Removal	(7,819)		231										(7,588)
		Sum of Salvage	-		-										-
		Sum of Net Salvage	(7,819)		231										(7,588)
	PECO Electric 3620 PA	Sum of Cost of Removal	(2,062,977)	(1,404,633)	(256,173)	(2,230,147)	(48,358)	(300,196)	140,462	(49,921)	(95,394)	(419,579)	(120,165)	(307,352)	(7,154,433)
		Sum of Salvage	63,864	8,255	848	0	-	(0)	1,133	-	(0)	0	159	0	74,258
		Sum of Net Salvage	(1,999,114)	(1,396,378)	(255,326)	(2,230,147)	(48,358)	(300,196)	141,595	(49,921)	(95,394)	(419,579)	(120,006)	(307,352)	(7,080,175)
	PECO Electric 3640 PA	Sum of Cost of Removal	(1,572,592)	(243,573)	(680,952)	(60,444)	(247,195)	(655,724)	(236,072)	(372,362)	(456,751)	(247,859)	(695,416)	(771,054)	(6,239,994)
		Sum of Salvage	613	-	(613)	613	-	(560)	568	7	-	-	-	-	629
		Sum of Net Salvage	(1,571,979)	(243,573)	(681,565)	(59,831)	(247,195)	(656,284)	(235,504)	(372,355)	(456,751)	(247,859)	(695,416)	(771,054)	(6,239,366)
	PECO Electric 3650 PA	Sum of Cost of Removal	(3,360,867)	(552,886)	(1,367,042)	377,393	(357,939)	(1,888,624)	285,312	(605,459)	(439,882)	(342,228)	(857,159)	(948,534)	(10,057,915)
		Sum of Salvage	1,027	-	38,371	(2,502)	-	3,447	(2,557)	12	-	-	1,141	-	38,939
		Sum of Net Salvage	(3,359,840)	(552,886)	(1,328,670)	374,890	(357,939)	(1,885,177)	282,754	(605,447)	(439,882)	(342,228)	(856,018)	(948,534)	(10,018,976)
	PECO Electric 3660 PA	Sum of Cost of Removal	(1,246,020)	(239,200)	91,590	(326,657)	(16,114)	(19,997)	(143,804)	(8,635)	(3,745)	(175,393)	(167,344)	(167,328)	(2,422,646)
		Sum of Salvage	322	-	(322)	322	-	(322)	322	4	-	-	-	-	326
		Sum of Net Salvage	(1,245,698)	(239,200)	91,268	(326,335)	(16,114)	(20,318)	(143,482)	(8,631)	(3,745)	(175,393)	(167,344)	(167,328)	(2,422,321)
	PECO Electric 3670 PA	Sum of Cost of Removal	(4,850,167)	(626,545)	(804,676)	(633,564)	(375,983)	(347,177)	(808,187)	(300,019)	(1,037,380)	(167,327)	(549,051)	(1,328,003)	(11,828,077)
		Sum of Salvage	1,642	-	34,227	1,642	-	(1,642)	1,642	21	-	330,687	60,704	-	428,923
		Sum of Net Salvage	(4,848,525)	(626,545)	(770,449)	(631,922)	(375,983)	(348,819)	(806,545)	(299,998)	(1,037,380)	163,360	(488,346)	(1,328,003)	(11,399,154)
	PECO Electric 3680 PA	Sum of Cost of Removal	(448,455)	(11,266)	282,047	(392,599)	(30,180)	343,102	(404,828)	(12,833)	323,603	(75,591)	(31,679)	(41,687)	(500,365)
		Sum of Salvage	44	2,701	(44)	44	-	(44)	44	(44)	-	-	-	-	2,701
		Sum of Net Salvage	(448,410)	(8,566)	282,002	(392,555)	(30,180)	343,058	(404,784)	(12,877)	323,603	(75,591)	(31,679)	(41,687)	(497,665)
	PECO Electric 3691 PA	Sum of Cost of Removal	(24,793)	(13,573)	(60,561)	(13,614)	(11,968)	(65,530)	(9,112)	(17,888)	(52,553)	(16,111)	(13,565)	(82,473)	(381,741)
		Sum of Salvage	-	-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage	(24,793)	(13,573)	(60,561)	(13,614)	(11,968)	(65,530)	(9,112)	(17,888)	(52,553)	(16,111)	(13,565)	(82,473)	(381,741)
	PECO Electric 3692 PA	Sum of Cost of Removal	(19,886)	(1,109)	(85,440)	(1,593)	(6,251)	(57,558)	(6,951)	(9,091)	(57,887)	(677)	(9,579)	(62,885)	(318,907)
		Sum of Salvage	-	-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage	(19,886)	(1,109)	(85,440)	(1,593)	(6,251)	(57,558)	(6,951)	(9,091)	(57,887)	(677)	(9,579)	(62,885)	(318,907)
	PECO Electric 3730 PA	Sum of Cost of Removal	(14,008)	10,202	(551)	(1,721)	(802)	(349)	(5,441)	(1,109)	(1,810)	(1,366)	(2,874)	(2,279)	(22,108)
		Sum of Salvage	162,288	-	112,998	16,941	-	-	-	-	-	17,191	-	-	309,418
		Sum of Net Salvage	148,280	10,202	112,447	15,220	(802)	(349)	(5,441)	(1,109)	(1,810)	15,825	(2,874)	(2,279)	287,310
	PECO Electric 3731 PA	Sum of Cost of Removal	(48)	63	(1,280)	3	(741)	(560)	(687)	(1,126)	(552)	(535)	(24)	(455)	(5,942)
		Sum of Salvage	-	-	-	-	-	-	-	-	-	-	-	-	-

		Sum of Net Salvage	(48)	63	(1,280)	3	(741)	(560)	(687)	(1,126)	(552)	(535)	(24)	(455)	(5,942)
	PECO Electric 3732 PA	Sum of Cost of Removal	(16,206)	(3,578)	(6,582)	(69,770)	(8,526)	(25,787)	(9,490)	(11,316)	(8,077)	(6,378)	(95,908)	(101,407)	(363,024)
		Sum of Salvage	-	-	-	-	-	-	-	-	-	-	-	-	-
		Sum of Net Salvage	(16,206)	(3,578)	(6,582)	(69,770)	(8,526)	(25,787)	(9,490)	(11,316)	(8,077)	(6,378)	(95,908)	(101,407)	(363,024)
Electric - Distribution Plant Sum of Cost of Removal			**(13,951,616)**	**(3,079,009)**	**(2,840,402)**	**(3,400,935)**	**(1,104,097)**	**(2,984,751)**	**(1,414,796)**	**(1,391,354)**	**(1,797,082)**	**(1,751,463)**	**(2,578,572)**	**(3,811,021)**	**(40,105,099)**
Electric - Distribution Plant Sum of Salvage			**229,800**	**10,955**	**185,465**	**17,060**	**-**	**880**	**4,630**	**786**	**(0)**	**355,824**	**62,034**	**0**	**867,433**
Electric - Distribution Plant Sum of Net Salvage			**(13,721,816)**	**(3,068,054)**	**(2,654,938)**	**(3,383,875)**	**(1,104,097)**	**(2,983,871)**	**(1,410,166)**	**(1,390,568)**	**(1,797,082)**	**(1,395,639)**	**(2,516,539)**	**(3,811,021)**	**(39,237,665)**
Electric - General Plant	**PECO Elec 3979 SM Comm Equip PA**	Sum of Cost of Removal												(40,356)	(40,356)
		Sum of Salvage												-	-
		Sum of Net Salvage												(40,356)	(40,356)
	PECO Electric 3901 PA	Sum of Cost of Removal	(48,810)	2,964						22,810	(719)	(183)		(18,655)	(42,593)
		Sum of Salvage	-	-						-	-	-		-	-
		Sum of Net Salvage	(48,810)	2,964						22,810	(719)	(183)		(18,655)	(42,593)
	PECO Electric 3902 PA	Sum of Cost of Removal	(143,712)	(0)	(20,774)	14,574	(215)					3,812	(26,853)	(24,596)	(197,764)
		Sum of Salvage	-	-	-	-	-					-	-	-	-
		Sum of Net Salvage	(143,712)	(0)	(20,774)	14,574	(215)					3,812	(26,853)	(24,596)	(197,764)
	PECO Electric 3913 PA	Sum of Cost of Removal	(19,611)		19,611	(19,611)								(99,146)	(118,758)
		Sum of Salvage	-		-	-								-	-
		Sum of Net Salvage	(19,611)		19,611	(19,611)								(99,146)	(118,758)
	PECO Electric 3940 PA	Sum of Cost of Removal	(9,547)												(9,547)
		Sum of Salvage	-												-
		Sum of Net Salvage	(9,547)												(9,547)
	PECO Electric 3970 PA	Sum of Cost of Removal	(116,283)	428	10,887	(10,887)	10,887								(104,968)
		Sum of Salvage	-	-	-	-	-								-
		Sum of Net Salvage	(116,283)	428	10,887	(10,887)	10,887								(104,968)
Electric - General Plant Sum of Cost of Removal			**(337,963)**	**3,391**	**9,724**	**(15,924)**	**10,672**			**22,810**	**(719)**	**3,629**	**(26,853)**	**(182,754)**	**(513,986)**
Electric - General Plant Sum of Salvage			**-**	**-**	**-**	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**
Electric - General Plant Sum of Net Salvage			**(337,963)**	**3,391**	**9,724**	**(15,924)**	**10,672**			**22,810**	**(719)**	**3,629**	**(26,853)**	**(182,754)**	**(513,986)**
Electric - Transmission Plant	**PECO Electric 3501 PA**	Sum of Cost of Removal	(22)		11	(11)									(22)
		Sum of Salvage	-		-	-									-
		Sum of Net Salvage	(22)		11	(11)									(22)
	PECO Electric 3521 PA	Sum of Cost of Removal	(57,274)										6,874	(205,892)	(256,292)
		Sum of Salvage	-										-	18,158	18,158
		Sum of Net Salvage	(57,274)										6,874	(187,734)	(238,134)
	PECO Electric 3522 MD	Sum of Cost of Removal												(90,007)	(90,007)
		Sum of Salvage												-	-
		Sum of Net Salvage												(90,007)	(90,007)
	PECO Electric 3522 PA	Sum of Cost of Removal	(285,473)	(0)	0	(1)		-	-	(10,051)	(187,966)	(46,218)	(15,140)	80,721	(464,127)
		Sum of Salvage	11,301	2,339	115	(115)		374	(513)	-	-	0	-	-	13,501
		Sum of Net Salvage	(274,171)	2,339	115	(116)		374	(513)	(10,051)	(187,966)	(46,218)	(15,140)	80,721	(450,626)
	PECO Electric 3523 PA	Sum of Cost of Removal											(6,874)		(6,874)
		Sum of Salvage											-		-
		Sum of Net Salvage											(6,874)		(6,874)
	PECO Electric 3530 NJ	Sum of Cost of Removal												(6,689,005)	(6,689,005)
		Sum of Salvage												34,696	34,696
		Sum of Net Salvage												(6,654,309)	(6,654,309)
	PECO Electric 3530 PA	Sum of Cost of Removal	(2,910,188)	(442,511)	(86,102)	(136,579)	(9,017)	(4,725,035)	(161,817)	19,560	(214,799)	323,451	(6,824)	6,226,581	(2,123,279)
		Sum of Salvage	76,411	1,162	4	801	4,959	24,284	31,985	3,969	15,461	(0)	-	(29,940)	129,096
		Sum of Net Salvage	(2,833,777)	(441,349)	(86,099)	(135,778)	(4,058)	(4,700,751)	(129,831)	23,529	(199,338)	323,451	(6,824)	6,196,642	(1,994,183)
	PECO Electric 3540 DE	Sum of Cost of Removal												-	-
		Sum of Salvage												16,208	16,208
		Sum of Net Salvage												16,208	16,208
	PECO Electric 3540 PA	Sum of Cost of Removal	(168,966)	(0)	0	(0)	-							(4,445)	(173,411)
		Sum of Salvage	34,020	0	(7,589)	12,639	0							-	39,069
		Sum of Net Salvage	(134,946)	(0)	(7,589)	12,639	0							(4,445)	(134,342)
	PECO Electric 3550 PA	Sum of Cost of Removal	(4,445)		0	(0)								4,445	-
		Sum of Salvage	-		(0)	0								-	-
		Sum of Net Salvage	(4,445)		0	(0)								4,445	-
	PECO Electric 3560 DE	Sum of Cost of Removal												(114,596)	(114,596)
		Sum of Salvage												16,208	16,208
		Sum of Net Salvage												(98,388)	(98,388)
	PECO Electric 3560 PA	Sum of Cost of Removal	(225,856)	(1,267)	(200)	(1,519)	(642)	(62)	(1,167)	(294)	(539)	(315)	667	52,235	(178,960)
		Sum of Salvage	14,789	(0)	14,322	(12,639)	(0)	16,208	-	-	(0)	-	-	(16,208)	16,472
		Sum of Net Salvage	(211,067)	(1,267)	14,122	(14,158)	(642)	16,146	(1,167)	(294)	(539)	(315)	667	36,026	(162,488)
	PECO Electric 3570 PA	Sum of Cost of Removal				(21,382)	(597)	(826)	1						(22,805)
		Sum of Salvage				2,246	17,014	-	-						19,260
		Sum of Net Salvage				(19,136)	16,417	(826)	1						(3,545)
	PECO Electric 3580 PA	Sum of Cost of Removal	(6,244)			(85,529)	(2,390)	(3,304)	2					-	(97,464)
		Sum of Salvage	-			8,985	68,056	16,208	-					(16,208)	77,041
		Sum of Net Salvage	(6,244)			(76,544)	65,666	12,905	2					(16,208)	(20,423)
Electric - Transmission Plant Sum of Cost of Removal			**(3,658,468)**	**(443,779)**	**(86,292)**	**(245,020)**	**(12,646)**	**(4,729,226)**	**(162,980)**	**9,215**	**(403,304)**	**276,918**	**(21,297)**	**(739,963)**	**(10,216,843)**
Electric - Transmission Plant Sum of Salvage			**136,522**	**3,501**	**6,851**	**11,917**	**90,029**	**57,074**	**31,472**	**3,969**	**15,461**	**(0)**	**-**	**22,915**	**379,712**
Electric - Transmission Plant Sum of Net Salvage			**(3,521,946)**	**(440,278)**	**(79,440)**	**(233,103)**	**77,383**	**(4,672,152)**	**(131,508)**	**13,184**	**(387,843)**	**276,918**	**(21,297)**	**(717,049)**	**(9,837,131)**
Total Sum of Cost of Removal			**(19,336,972)**	**(3,580,087)**	**(3,303,801)**	**(3,693,661)**	**(1,069,531)**	**(8,148,171)**	**(1,586,894)**	**(1,382,250)**	**(2,227,992)**	**(1,527,496)**	**(2,636,414)**	**(6,590,359)**	**(55,083,626)**
Total Sum of Salvage			**370,196**	**14,456**	**444,066**	**28,978**	**90,709**	**57,954**	**39,258**	**4,754**	**191,321**	**355,824**	**62,034**	**606,000**	**2,265,551**
Total Sum of Net Salvage			**(18,966,775)**	**(3,565,631)**	**(2,859,735)**	**(3,664,683)**	**(978,822)**	**(8,090,216)**	**(1,547,636)**	**(1,377,495)**	**(2,036,670)**	**(1,171,671)**	**(2,574,381)**	**(5,984,359)**	**(52,818,075)**

Q. SDR-GEN-1 Please provide a copy of the Company's detailed quarterly balance sheets and income statements for each quarter of the historic and future test years through the most recent quarter available.

A. SDR-GEN-1 Refer to Attachment SDR-ROR-2(a) for the quarterly balance sheets for Q1 through Q3 2017.
Refer to Attachment SDR-GEN-1(a) for the quarterly income statements for Q1 through Q3 2017

Refer to SDR-GEN-2 for quarterly balance sheet and income statement for Q4 2017

Refer to Exhibits BSY-1, Schedule B-1 and BSY-2, Schedule B-1 for balance sheets and income statements for the fully projected future test year and future test year, respectively.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/31/2017	End of 2017/Q1

STATEMENT OF INCOME

Quarterly

1. Report in column (c) the current year to date balance. Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k). Report in column (d) similar data for the previous year. This information is reported in the annual filing only.
2. Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter.
4. Report in column (h) the quarter to date amounts for electric utility function; in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter.
5. If additional columns are needed, place them in a footnote.

Annual or Quarterly if applicable

5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	796,362,218	841,356,186	796,362,218	841,356,186
3	Operating Expenses					
4	Operation Expenses (401)	320-323	431,319,970	473,022,884	431,319,970	473,022,884
5	Maintenance Expenses (402)	320-323	62,722,938	59,810,567	62,722,938	59,810,567
6	Depreciation Expense (403)	336-337	55,105,853	53,291,797	55,105,853	53,291,797
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337				
8	Amort. & Depl. of Utility Plant (404-405)	336-337	10,131,633	11,778,943	10,131,633	11,778,943
9	Amort. of Utility Plant Acq. Adj. (406)	336-337				
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)					
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)		4,576,293	1,495,500	4,576,293	1,495,500
13	(Less) Regulatory Credits (407.4)					
14	Taxes Other Than Income Taxes (408.1)	262-263	38,504,075	41,551,874	38,504,075	41,551,874
15	Income Taxes - Federal (409.1)	262-263	9,540,852	16,908,278	9,540,852	16,908,278
16	- Other (409.1)	262-263	7,119,320	10,303,325	7,119,320	10,303,325
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	36,809,749	33,859,443	36,809,749	33,859,443
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277	13,382,946	12,218,693	13,382,946	12,218,693
19	Investment Tax Credit Adj. - Net (411.4)	266	-110,588	-137,089	-110,588	-137,089
20	(Less) Gains from Disp. of Utility Plant (411.6)		155,606		155,606	
21	Losses from Disp. of Utility Plant (411.7)					
22	(Less) Gains from Disposition of Allowances (411.8)					
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)		12,285	15,498	12,285	15,498
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		642,193,828	689,682,327	642,193,828	689,682,327
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27		154,168,390	151,673,859	154,168,390	151,673,859

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/31/2017	End of 2017/Q1

STATEMENT OF INCOME FOR THE YEAR (Continued)

9. Use page 122 for important notes regarding the statement of income for any account thereof.
10. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in material refund to the utility with respect to power or gas purchases. State for each year effected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power or gas purchases.
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts.
12. If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122.
13. Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also, give the appropriate dollar effect of such changes.
14. Explain in a footnote if the previous year's/quarter's figures are different from that reported in prior reports.
15. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		
Current Year to Date (in dollars) (g)	Previous Year to Date (in dollars) (h)	Current Year to Date (in dollars) (i)	Previous Year to Date (in dollars) (j)	Current Year to Date (in dollars) (k)	Previous Year to Date (in dollars) (l)	Line No.
						1
590,287,267	644,255,209	206,074,951	197,100,977			2
						3
321,914,958	371,982,940	109,405,012	101,039,944			4
55,262,478	52,355,949	7,460,460	7,454,618			5
43,647,917	42,712,589	11,457,936	10,579,208			6
						7
8,383,709	10,610,283	1,747,924	1,168,660			8
						9
						10
						11
3,080,793		1,495,500	1,495,500			12
						13
36,958,013	40,038,506	1,546,062	1,513,368			14
2,161,012	8,683,345	7,379,840	8,224,933			15
3,879,822	6,569,548	3,239,498	3,733,777			16
30,783,482	26,398,246	6,026,267	7,461,197			17
11,201,595	9,514,305	2,181,351	2,704,388			18
-13,789	-14,457	-96,799	-122,632			19
155,606						20
						21
						22
						23
2,474	2,594	9,811	12,904			24
494,703,668	549,825,238	147,490,160	139,857,089			25
95,583,599	94,429,971	58,584,791	57,243,888			26

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/31/2017	End of 2017/Q1

Attachment SDR-GEN-1(a)

Page 3 of 9

STATEMENT OF INCOME FOR THE YEAR (continued)

Line No.	Title of Account (a)	(Ref.) Page No. (b)	TOTAL Current Year (c)	TOTAL Previous Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
27	Net Utility Operating Income (Carried forward from page 114)		154,168,390	151,673,859	154,168,390	151,673,859
28	Other Income and Deductions					
29	Other Income					
30	Nonutilty Operating Income					
31	Revenues From Merchandising, Jobbing and Contract Work (415)					
32	(Less) Costs and Exp. of Merchandising, Job. & Contract Work (416)					
33	Revenues From Nonutility Operations (417)		112,028	205,675	112,028	205,675
34	(Less) Expenses of Nonutility Operations (417.1)		425,134	399,788	425,134	399,788
35	Nonoperating Rental Income (418)		3,074	3,074	3,074	3,074
36	Equity in Earnings of Subsidiary Companies (418.1)	119	-24,303,965	-24,960,916	-24,303,965	-24,960,916
37	Interest and Dividend Income (419)		-33,338	-144,160	-33,338	-144,160
38	Allowance for Other Funds Used During Construction (419.1)		1,977,261	1,940,378	1,977,261	1,940,378
39	Miscellaneous Nonoperating Income (421)		-401,485	-191,401	-401,485	-191,401
40	Gain on Disposition of Property (421.1)			63,997		63,997
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		-23,071,559	-23,483,141	-23,071,559	-23,483,141
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)					
44	Miscellaneous Amortization (425)					
45	Donations (426.1)		1,143,441	2,250,024	1,143,441	2,250,024
46	Life Insurance (426.2)		-580,614	545,914	-580,614	545,914
47	Penalties (426.3)		431	2,547	431	2,547
48	Exp. for Certain Civic, Political & Related Activities (426.4)		398,326	386,055	398,326	386,055
49	Other Deductions (426.5)		91,370	237,187	91,370	237,187
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		1,052,954	3,421,727	1,052,954	3,421,727
51	Taxes Applic. to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408.2)	262-263	-19,477	17,693	-19,477	17,693
53	Income Taxes-Federal (409.2)	262-263	-21,696,972	-23,546,585	-21,696,972	-23,546,585
54	Income Taxes-Other (409.2)	262-263	-6,885,459	-7,472,121	-6,885,459	-7,472,121
55	Provision for Deferred Inc. Taxes (410.2)	234, 272-277		687,189		687,189
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)	234, 272-277		53,406		53,406
57	Investment Tax Credit Adj.-Net (411.5)					
58	(Less) Investment Tax Credits (420)					
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)		-28,601,908	-30,367,230	-28,601,908	-30,367,230
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		4,477,395	3,462,362	4,477,395	3,462,362
61	Interest Charges					
62	Interest on Long-Term Debt (427)		26,932,048	26,557,048	26,932,048	26,557,048
63	Amort. of Debt Disc. and Expense (428)		551,220	561,200	551,220	561,200
64	Amortization of Loss on Reaquired Debt (428.1)		266,921	400,256	266,921	400,256
65	(Less) Amort. of Premium on Debt-Credit (429)					
66	(Less) Amortization of Gain on Reaquired Debt-Credit (429.1)					
67	Interest on Debt to Assoc. Companies (430)		2,979,308	2,978,748	2,979,308	2,978,748
68	Other Interest Expense (431)		1,136,274	1,059,259	1,136,274	1,059,259
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		714,052	733,195	714,052	733,195
70	Net Interest Charges (Total of lines 62 thru 69)		31,151,719	30,823,316	31,151,719	30,823,316
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		127,494,066	124,312,905	127,494,066	124,312,905
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409.3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		127,494,066	124,312,905	127,494,066	124,312,905

Name of Respondent PECO Energy Company	This Report Is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report (Mo, Da, Yr) 08/28/2017	Year/Period of Report End of 2017/Q2

Attachment SDR-GEN-1(a)

STATEMENT OF INCOME

Page 4 of 9

Quarterly

1. Report in column (c) the current year to date balance. Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k). Report in column (d) similar data for the previous year. This information is reported in the annual filing only.
2. Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter.
4. Report in column (h) the quarter to date amounts for electric utility function; in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter.
5. If additional columns are needed, place them in a footnote.

Annual or Quarterly if applicable

5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	1,426,384,911	1,505,184,563	630,022,694	663,828,377
3	Operating Expenses					
4	Operation Expenses (401)	320-323	754,518,514	820,255,247	323,198,544	347,232,362
5	Maintenance Expenses (402)	320-323	123,027,229	118,160,852	60,304,290	58,350,286
6	Depreciation Expense (403)	336-337	110,675,616	106,347,070	55,569,764	53,055,272
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337				
8	Amort. & Depl. of Utility Plant (404-405)	336-337	19,819,280	23,599,963	9,687,647	11,821,020
9	Amort. of Utility Plant Acq. Adj. (406)	336-337				
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)					
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)		9,152,586	2,991,455	4,576,293	1,495,955
13	(Less) Regulatory Credits (407.4)					
14	Taxes Other Than Income Taxes (408.1)	262-263	74,168,712	79,640,062	35,664,638	38,088,187
15	Income Taxes - Federal (409.1)	262-263	15,263,236	15,304,951	5,722,385	-1,603,327
16	- Other (409.1)	262-263	11,770,812	12,245,213	4,651,491	1,941,890
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	59,622,151	71,687,160	22,812,402	37,827,717
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277	22,578,398	23,207,754	9,195,452	10,989,061
19	Investment Tax Credit Adj. - Net (411.4)	266	-186,995	-243,365	-76,407	-106,276
20	(Less) Gains from Disp. of Utility Plant (411.6)		155,606			
21	Losses from Disp. of Utility Plant (411.7)					
22	(Less) Gains from Disposition of Allowances (411.8)					
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)		24,734	30,988	12,449	15,489
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		1,155,121,871	1,226,811,842	512,928,044	537,129,514
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27		271,263,040	278,372,721	117,094,650	126,698,863

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/28/2017	End of 2017/Q2

STATEMENT OF INCOME FOR THE YEAR (Continued)

9. Use page 122 for important notes regarding the statement of income for any account thereof.
10. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in material refund to the utility with respect to power or gas purchases. State for each year effected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power or gas purchases.
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts.
12. If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122.
13. Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also, give the appropriate dollar effect of such changes.
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15. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		
Current Year to Date (in dollars) (g)	Previous Year to Date (in dollars) (h)	Current Year to Date (in dollars) (i)	Previous Year to Date (in dollars) (j)	Current Year to Date (in dollars) (k)	Previous Year to Date (in dollars) (l)	Line No.
						1
1,140,750,502	1,231,278,451	285,634,409	273,906,112			2
						3
595,128,312	675,897,415	159,390,202	144,357,832			4
108,632,474	103,322,719	14,394,755	14,838,133			5
87,588,057	85,102,451	23,087,559	21,244,619			6
						7
16,465,749	21,307,111	3,353,531	2,292,852			8
						9
						10
						11
6,161,586	455	2,991,000	2,991,000			12
						13
71,120,888	76,756,422	3,047,824	2,883,640			14
17,553,127	20,516,782	-2,289,891	-5,211,831			15
10,977,482	12,902,854	793,330	-657,641			16
50,223,480	56,272,676	9,398,671	15,414,484			17
18,879,274	15,591,222	3,699,124	7,616,532			18
-23,317	-25,664	-163,678	-217,701			19
155,606						20
						21
						22
						23
4,985	4,992	19,749	25,996			24
944,797,943	1,036,466,991	210,323,928	190,344,851			25
195,952,559	194,811,460	75,310,481	83,561,261			26

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/28/2017	End of 2017/Q2

Attachment SDR-GEN-1(a) Page 6 of 9

STATEMENT OF INCOME FOR THE YEAR (continued)

Line No.	Title of Account (a)	(Ref.) Page No. (b)	TOTAL Current Year (c)	TOTAL Previous Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
27	Net Utility Operating Income (Carried forward from page 114)		271,263,040	278,372,721	117,094,650	126,698,863
28	Other Income and Deductions					
29	Other Income					
30	Nonutilty Operating Income					
31	Revenues From Merchandising, Jobbing and Contract Work (415)					
32	(Less) Costs and Exp. of Merchandising, Job. & Contract Work (416)					
33	Revenues From Nonutility Operations (417)		208,891	337,128	96,863	131,453
34	(Less) Expenses of Nonutility Operations (417.1)		1,261,700	789,863	836,566	390,076
35	Nonoperating Rental Income (418)		6,147	6,147	3,073	3,074
36	Equity in Earnings of Subsidiary Companies (418.1)	119	-41,072,348	-44,247,216	-16,768,383	-19,286,299
37	Interest and Dividend Income (419)		-321,044	-563,770	-287,705	-419,611
38	Allowance for Other Funds Used During Construction (419.1)		4,167,123	4,098,552	2,189,862	2,158,174
39	Miscellaneous Nonoperating Income (421)		-635,090	-321,679	-233,606	-130,277
40	Gain on Disposition of Property (421.1)			86,746		22,749
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		-38,908,021	-41,393,955	-15,836,462	-17,910,813
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)			4,647		4,647
44	Miscellaneous Amortization (425)					
45	Donations (426.1)		4,294,132	3,707,118	3,150,691	1,457,095
46	Life Insurance (426.2)		-761,916	-97,784	-181,302	-643,698
47	Penalties (426.3)		681	3,530	250	983
48	Exp. for Certain Civic, Political & Related Activities (426.4)		739,088	767,165	340,762	381,110
49	Other Deductions (426.5)		194,900	377,630	103,530	140,444
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		4,466,885	4,762,306	3,413,931	1,340,581
51	Taxes Applic. to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408.2)	262-263	-70,478	17,046	-51,001	-647
53	Income Taxes-Federal (409.2)	262-263	-37,578,629	-41,305,587	-15,881,657	-17,759,002
54	Income Taxes-Other (409.2)	262-263	-11,925,235	-13,107,758	-5,039,776	-5,635,637
55	Provision for Deferred Inc. Taxes (410.2)	234, 272-277		1,219,920		532,731
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)	234, 272-277		94,809		41,403
57	Investment Tax Credit Adj.-Net (411.5)					
58	(Less) Investment Tax Credits (420)					
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)		-49,574,342	-53,271,188	-20,972,434	-22,903,958
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		6,199,436	7,114,927	1,722,041	3,652,564
61	Interest Charges					
62	Interest on Long-Term Debt (427)		53,864,096	53,114,096	26,932,048	26,557,048
63	Amort. of Debt Disc. and Expense (428)		1,079,221	1,122,601	528,001	561,401
64	Amortization of Loss on Reaquired Debt (428.1)		451,159	780,147	184,238	379,891
65	(Less) Amort. of Premium on Debt-Credit (429)					
66	(Less) Amortization of Gain on Reaquired Debt-Credit (429.1)					
67	Interest on Debt to Assoc. Companies (430)		5,962,022	5,957,508	2,982,714	2,978,760
68	Other Interest Expense (431)		2,250,404	2,084,378	1,114,130	1,025,119
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		1,503,704	1,533,566	789,652	800,371
70	Net Interest Charges (Total of lines 62 thru 69)		62,103,198	61,525,164	30,951,479	30,701,848
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		215,359,278	223,962,484	87,865,212	99,649,579
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409.3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		215,359,278	223,962,484	87,865,212	99,649,579

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	11/28/2017	End of 2017/Q3

STATEMENT OF INCOME

Quarterly

1. Report in column (c) the current year to date balance. Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k). Report in column (d) similar data for the previous year. This information is reported in the annual filing only.
2. Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter.
4. Report in column (h) the quarter to date amounts for electric utility function; in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter.
5. If additional columns are needed, place them in a footnote.

Annual or Quarterly if applicable

5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	2,140,678,706	2,293,532,804	714,293,794	788,348,241
3	Operating Expenses					
4	Operation Expenses (401)	320-323	1,127,806,554	1,231,653,410	373,288,040	411,398,163
5	Maintenance Expenses (402)	320-323	178,935,431	176,190,800	55,908,203	58,029,948
6	Depreciation Expense (403)	336-337	167,121,871	160,093,021	56,446,255	53,745,952
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337				
8	Amort. & Depl. of Utility Plant (404-405)	336-337	29,631,773	34,514,688	9,812,493	10,914,725
9	Amort. of Utility Plant Acq. Adj. (406)	336-337				
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)					
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)		13,728,879	4,545,068	4,576,293	1,553,614
13	(Less) Regulatory Credits (407.4)					
14	Taxes Other Than Income Taxes (408.1)	262-263	116,363,721	126,220,522	42,195,009	46,580,461
15	Income Taxes - Federal (409.1)	262-263	42,786,150	41,488,071	27,522,913	26,183,120
16	- Other (409.1)	262-263	18,693,915	25,896,536	6,923,103	13,651,320
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	90,304,097	102,685,784	30,681,946	30,998,624
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277	54,945,391	36,256,924	32,366,993	13,049,170
19	Investment Tax Credit Adj. - Net (411.4)	266	-285,855	-358,325	-98,860	-114,960
20	(Less) Gains from Disp. of Utility Plant (411.6)		155,606			
21	Losses from Disp. of Utility Plant (411.7)			709		709
22	(Less) Gains from Disposition of Allowances (411.8)					
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)		37,319	46,632	12,585	15,644
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		1,730,022,858	1,866,719,992	574,900,987	639,908,150
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27		410,655,848	426,812,812	139,392,807	148,440,091

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	11/28/2017	End of 2017/Q3

STATEMENT OF INCOME FOR THE YEAR (Continued)

9. Use page 122 for important notes regarding the statement of income for any account thereof.
10. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in material refund to the utility with respect to power or gas purchases. State for each year effected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power or gas purchases.
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts.
12. If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122.
13. Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also, give the appropriate dollar effect of such changes.
14. Explain in a footnote if the previous year's/quarter's figures are different from that reported in prior reports.
15. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		
Current Year to Date (in dollars) (g)	Previous Year to Date (in dollars) (h)	Current Year to Date (in dollars) (i)	Previous Year to Date (in dollars) (j)	Current Year to Date (in dollars) (k)	Previous Year to Date (in dollars) (l)	Line No.
						1
1,801,791,441	1,970,807,740	338,887,265	322,725,064			2
						3
930,032,716	1,055,090,454	197,773,838	176,562,956			4
157,353,380	153,969,664	21,582,051	22,221,136			5
132,091,360	128,056,977	35,030,511	32,036,044			6
						7
24,664,651	30,967,417	4,967,122	3,547,271			8
						9
						10
						11
9,242,379	58,568	4,486,500	4,486,500			12
						13
111,820,757	121,903,370	4,542,964	4,317,152			14
58,126,239	58,186,193	-15,340,089	-16,698,122			15
22,035,489	29,081,194	-3,341,574	-3,184,658			16
77,299,900	83,638,641	13,004,197	19,047,143			17
46,386,084	25,906,272	8,559,307	10,350,652			18
-35,645	-37,786	-250,210	-320,539			19
155,606						20
	709					21
						22
						23
7,492	7,353	29,827	39,279			24
1,476,097,028	1,635,016,482	253,925,830	231,703,510			25
325,694,413	335,791,258	84,961,435	91,021,554			26

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	11/28/2017	End of 2017/Q3

STATEMENT OF INCOME FOR THE YEAR (continued)

Line No.	Title of Account (a)	(Ref.) Page No. (b)	TOTAL		Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
			Current Year (c)	Previous Year (d)		
27	Net Utility Operating Income (Carried forward from page 114)		410,655,848	426,812,812	139,392,807	148,440,091
28	Other Income and Deductions					
29	Other Income					
30	Nonutilty Operating Income					
31	Revenues From Merchandising, Jobbing and Contract Work (415)					
32	(Less) Costs and Exp. of Merchandising, Job. & Contract Work (416)					
33	Revenues From Nonutility Operations (417)		347,418	436,510	138,528	99,382
34	(Less) Expenses of Nonutility Operations (417.1)		1,837,732	1,231,686	576,032	441,823
35	Nonoperating Rental Income (418)		9,221	9,221	3,074	3,074
36	Equity in Earnings of Subsidiary Companies (418.1)	119	-62,712,968	-65,108,836	-21,640,620	-20,861,620
37	Interest and Dividend Income (419)		-213,934	-686,346	107,110	-122,575
38	Allowance for Other Funds Used During Construction (419.1)		6,487,721	6,193,096	2,320,597	2,094,544
39	Miscellaneous Nonoperating Income (421)		-920,107	-543,842	-285,017	-222,163
40	Gain on Disposition of Property (421.1)		33,084	86,746	33,084	
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		-58,807,297	-60,845,137	-19,899,276	-19,451,181
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)			4,647		
44	Miscellaneous Amortization (425)					
45	Donations (426.1)		6,516,600	4,874,408	2,222,468	1,167,290
46	Life Insurance (426.2)		-994,404	-418,374	-232,488	-320,590
47	Penalties (426.3)		686	5,751	5	2,222
48	Exp. for Certain Civic, Political & Related Activities (426.4)		722,235	1,152,435	-16,853	385,270
49	Other Deductions (426.5)		289,092	482,501	94,192	104,869
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		6,534,209	6,101,368	2,067,324	1,339,061
51	Taxes Applic. to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408.2)	262-263	92,924	21,319	163,403	4,273
53	Income Taxes-Federal (409.2)	262-263	-57,756,895	-60,516,048	-20,178,266	-19,210,461
54	Income Taxes-Other (409.2)	262-263	-18,169,817	-19,204,004	-6,244,582	-6,096,244
55	Provision for Deferred Inc. Taxes (410.2)	234, 272-277	500,566	1,796,191	500,566	576,270
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)	234, 272-277		139,595		44,786
57	Investment Tax Credit Adj.-Net (411.5)					
58	(Less) Investment Tax Credits (420)					
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)		-75,333,222	-78,042,137	-25,758,879	-24,770,948
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		9,991,716	11,095,632	3,792,279	3,980,706
61	Interest Charges					
62	Interest on Long-Term Debt (427)		81,359,304	79,798,644	27,495,208	26,684,548
63	Amort. of Debt Disc. and Expense (428)		1,622,062	1,699,215	542,841	576,614
64	Amortization of Loss on Reaquired Debt (428.1)		635,396	1,125,259	184,237	345,112
65	(Less) Amort. of Premium on Debt-Credit (429)					
66	(Less) Amortization of Gain on Reaquired Debt-Credit (429.1)					
67	Interest on Debt to Assoc. Companies (430)		8,959,601	8,936,288	2,997,579	2,978,780
68	Other Interest Expense (431)		3,269,929	3,011,124	1,019,523	926,747
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		2,321,503	2,300,827	817,799	767,261
70	Net Interest Charges (Total of lines 62 thru 69)		93,524,789	92,269,703	31,421,589	30,744,540
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		327,122,775	345,638,741	111,763,497	121,676,257
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409.3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		327,122,775	345,638,741	111,763,497	121,676,257

Q. SDR-GEN-2 Please provide a copy of the Company’s most recent FERC Form 1 Annual Report.

A. SDR-GEN-2 PECO’s 2017 FERC Form 1 can be found on the Federal Energy regulatory Commission’s website at the link below:

http://www.ferc.gov/docs-filing/elibrary.asp

SDR-GEN-3
Page 1 of 1
Michael A. Innocenzo

Q. SDR-GEN-3 Provide an up-to-date detailed System map.

A. SDR-GEN-3 The requested “detailed System map” in response to this DFR contains Critical Energy Infrastructure Information (CEII) as defined by the Federal Energy Regulatory Commission’s (FERC) regulations. Consequently, the requested system map constitutes “Confidential Security Information” under 35 P.S. §§ 2141.1 *et seq*. and the Pennsylvania Public Utility Commission’s (Commission) regulations at 52 Pa. Code §§ 102.1 – 102.4. Therefore, an overall system map is not being provided. However, if the Commission determines that access to an overall system map is necessary to decide issues presented in this case, PECO will make the map available for review on a confidential basis, consistent with FERC regulations, to a Commission employee who is trained in handling CEII.

Q. SDR-OM-1 Please provide a budget variance or similar report providing a comparison of actual vs. budget revenues and expenses for the preceding three calendar years and current year-to-date. Include explanations of the variances in excess of 10% or over $1 million, whichever is less. Update as additional monthly reports become available.

A. SDR-OM-1 Refer to Attachment SDR-OM-1(a) for 2015 for a comparison of actual vs. budget operating and maintenance expense.

Refer to Attachment SDR-OM-1(b) for 2016 for a comparison of actual vs. budget operating and maintenance expenses.

Refer to Attachment SDR-OM-1(c) for 2017 for a comparison of actual vs. budget operating and maintenance expenses.

Refer to Attachment SDR-OM-1(d) for YTD January 2018 for a comparison of actual vs. budget operating and maintenance expenses.

Note: Results are GAAP based to align budget values.

PECO Energy Company
Electric Distribution O&M Dollars
2015 Actual vs Budget
(in Thousands)

	2015 Actuals	2015 Planned	Variance +Fav/-Unfav	% Change
Base Payroll	$ 108,413	$ 110,691	$ 2,278	2.1%
Contracting	217,198	240,332	23,134	9.6%
Overtime	19,561	17,671	(1,890)	-10.7%
Incentive	18,617	12,543	(6,074)	-48.4%
Materials	19,150	17,924	(1,226)	-6.8%
Travel, Meals, & Entertain.	3,397	3,672	275	7.5%
Transportation	11,362	12,029	667	5.5%
Bad Debt	28,033	50,126	22,093	44.1%
Pensions & Benefits	36,064	36,057	(7)	0.0%
Other, Net	47,806	52,041	4,235	8.1%
Subtotal	**$ 509,601**	**$ 553,085**	**$ 43,484**	**7.9%**
Storm Reserve	18,317	29,700	11,383	38.3%
Total	**$ 527,918**	**$ 582,786**	**$ 54,868**	**9.4%**

* Note: Results are GAAP based to align budget values

Summary
O&M is $55M lower than planned primarily due to Bad Debt expense being lower by $22M, storm activity costs being lower by $22M and BSC costs allocated to PECO and IT projects costs being lower by $8M.

Base Payroll
Base payroll costs were lower by $2M because of the timing of filling open positions that were vacated throughout the year due to transfers, retirements and resignations.

Contracting
Contracting cost were $23M lower primarily due to lower than expected minor storm costs, lower BSC costs allocated to PECO, lower IT Project costs and lower AMR meter-reading fees due to the acceleration of AMI deployment.

Overtime
Overtime that was higher by $2M can be attributed to a higher than budgeted spending for managing restorations during non-storm periods.

Incentive

Incentive compensation was higher by $6M because key performance indicator targets were exceeded

Materials

Materials costs were higher by $1M primarily due to more spending for aerial distribution maintenance.

Bad Debt

Bbad debt costs were lower by $22M primarily because of lower reserve requirements that were achieved through a variety of initiatives, including increasing oversight of high-balance accounts, requiring down payments for most types of payment arrangements, mandating deposits for delinquent accounts and continuing the use of AMI remote connect/disconnect functionality.

Other, net

Other spending was lower by $4M primarily because of lower Injuries and Damages claims and lower than expected costs for regulatory initiatives.

Storm Reserve

Additions to the storm reserve were lower by $11M because of lower than expected major storm costs.

PECO Energy Company
Electric Distribution O&M Dollars
2016 Actual vs Budget
(in Thousands)

	2016 Actuals	2016 Planned	Variance +Fav/-Unfav	% Change
Base Payroll	$ 112,332	$ 115,189	$ 2,857	2.5%
Contracting	244,800	230,251	(14,549)	-6.3%
Overtime	23,366	18,560	(4,806)	-25.9%
Incentive	17,450	12,432	(5,018)	-40.4%
Materials	17,844	17,666	(178)	-1.0%
Travel, Meals, & Entertain.	4,162	3,741	(421)	-11.3%
Transportation	10,905	12,465	1,560	12.5%
Bad Debt	28,393	50,195	21,802	43.4%
Pensions & Benefits	34,457	35,174	717	2.0%
Other, Net	51,941	53,900	1,959	3.6%
Subtotal	**$ 545,650**	**$ 549,573**	**$ 3,923**	**0.7%**
Storm Reserve	-	29,700	29,700	100.0%
Total	**$ 545,650**	**$ 579,271** [1]	**$ 33,621**	**5.8%**

[1] 2016 Budget in the above table matches the amount presented in the 2015 Distribution Rate Case Filing.

* Note: Results are GAAP based to align budget values

Summary

O&M was $34M lower than planned primarily because major storm activity costs were $30M lower and bad debt expense was $22M lower than budgeted, which were offset by BSC allocated costs that were $20M higher than planned for physical and cyber security initiatives and IT infrastructure upgrades.

Base Payroll

Base payroll was $3M lower than planned because of the timing of filling open positions that were vacated throughout the year due to transfers, retirements and resignations.

Contracting

Contracting costs were $15M higher than planned primarily due to higher BSC allocated costs for physical and cyber security initiatives and IT infrastructure upgrades.

Overtime

Overtime was $5M higher than planned because of higher than budgeted spending for managing restorations during non-storm periods.

Incentive

Incentive compensation was $5M higher than planned because key performance indicator targets were exceeded.

Travel, Meals and Entertainment

Travel, meals and entertainment costs were $0.4M higher than planned primarily due to employee engagement initiatives and training.

Transportation

Transportation costs were lower by $2M primarily due to lower than expected fuel costs.

Bad Debt

Bad debt costs were $22M lower than planned primarily because charge offs and reserve requirements were lower than expected.

Other, net

Other costs were $2M lower that planned primarily due to lower than expected costs for regulatory initiatives.

Storm Reserve

Additions to the storm reserve were lower by $30M due to the absence of major storm costs.

PECO Energy Company
Electric Distribution O&M Dollars
2017 Actual vs Budget
(in Thousands)

	2017 Actuals	**2017 Planned**	**Variance +Fav/-Unfav**	**% Change**
Base Payroll	$ 116,417	$ 118,891	$ 2,474	2.1%
Contracting	245,919	259,490	13,571	5.2%
Overtime	24,505	15,240	(9,265)	-60.8%
Incentive	16,764	13,205	(3,559)	-26.9%
Materials	17,043	20,616	3,573	17.3%
Travel, Meals, & Entertain.	4,331	3,689	(641)	-17.4%
Transportation	11,501	12,029	528	4.4%
Bad Debt	24,424	26,842	2,418	9.0%
Pensions & Benefits	32,757	32,431	(326)	-1.0%
Other, Net	47,543	48,828	1,285	2.6%
Subtotal	**$ 541,203**	**$ 551,261**	**$ 10,058**	**1.8%**
Storm Reserve	-	29,900	29,900	100.0%
Total	**$ 541,203**	**$ 581,161**	**$ 39,958**	**6.9%**

* Note: Results are GAAP based to align budget values

Summary

O&M is $40M lower than planned primarily because major storm activity costs were $30M lower and material costs were lower by $4M, base payroll costs were lower by $2M and bad debt expense was lower by $2M, as detailed below.

Base Payroll

Base payroll costs were $2M lower than planned because of the timing of filling positions that were vacated throughout the year due to transfers, retirements and resignations.

Contracting/Overtime

Contracting costs were lower by $14M and overtime was higher by $9M primarily because of the use of PECO resources (rather than contractor resources as planned) for managing non-storm outage restorations and for certain IT projects.

Incentive

Incentive compensations was $4M higher than planned because key performance indicator targets were exceeded.

Materials

Materials costs were $4M lower than planned because of lower materials costs for electric distribution corrective and preventative maintenance.

Travel, Meals and Entertainment

Travel, meals and entertainment costs were higher by $0.6M primarily due to increased spending for managing restorations during non-storm periods, electric distribution corrective maintenance and training.

Bad Debt

Bad debt expenses were lower by $2M primarily due to lower than expected net charge offs.

Other, net

Other costs were lower by $1M primarily due to lower Injuries and Damages claims and lower than expected costs for regulatory initiatives.

Storm Reserve

The additions to the storm reserve were lower by $30M because there were no major storm costs.

PECO Energy Company
Electric Distribution O&M Dollars
January 2018 YTD Actual vs Budget
(in Thousands)

	2018 Actuals	**2018 Planned**	**Variance +Fav/-Unfav**	**% Change**
Base Payroll	$ 11,365	$ 10,470	$ (896)	-8.6%
Contracting	18,940	20,244	1,304	6.4%
Overtime	2,429	1,328	(1,101)	-82.9%
Incentive	1,207	1,264	57	4.5%
Materials	1,467	1,503	37	2.4%
Travel, Meals, & Entertain.	222	297	75	25.2%
Transportation	1,017	919	(98)	-10.7%
Bad Debt	14,044	8,443	(5,601)	-66.3%
Pensions & Benefits	2,453	2,183	(270)	-12.4%
Other, Net	3,384	3,760	376	10.0%
Subtotal	**$ 56,528**	**$ 50,410**	**$ (6,118)**	**-12.1%**
Storm Reserve	-	1,000	1,000	100.0%
Total	**$ 56,528**	**$ 51,410**	**$ (5,118)**	**-10.0%**

* Note: Results are GAAP based to align budget values

Summary

O&M is $5M higher than planned primarily because bad debt expense that was higher by $6M was offset by $1M of lower storm costs attributable to the absence of a major storm in January.

Contracting/Overtime

Contracting costs were lower by $1M and overtime costs were higher by $1M primarily because of PECO's use of its own resources (rather than contractor resources, as planned) for electric distribution corrective maintenance work.

Travel, Meals and Entertainment

Travel, meals and entertainment costs were lower by $0.1M primarily because of lower than expected meals and travel for back-office support functions.

Bad Debt

Bad debt costs were higher by $6M primarily due to higher billings, higher accounts receivable volume and changes in the customer mix as a result of December and January temperatures.

Transportation
Transportation costs were $0.1M higher than planned primarily due to higher than expected minor storm activity.

Pensions & Benefits
Pensions and benefits were $0.3M higher than planned primarily due to higher than expected base payroll costs related to minor storm activity.

Other, net
Other costs were lower by $0.4M primarily due to lower Injuries and Damages claims.

Storm Reserve
Additions to the storm reserve were lower by $1M because there was no major storm costs in January.

SDR-OM-2
Page 1 of 1
Phillip S. Barnett

Q. SDR-OM-2 Please provide a detailed breakdown of unadjusted operation and maintenance expenses for the historic and future test years either by natural expense codes, FERC accounts, or both as available. Explain any variances in excess of 10 percent or over $1 million, whichever is less.

A. SDR-OM-2 Refer to Attachment SDR-OM-2(a) for a comparison of 2017 actual vs. 2018 budget and 2018 budget vs. 2019 budget for total Electric Distribution operation and maintenance expenses.

NOTE: Results are GAAP based to align with budget values.

PECO Energy Company
Electric Distribution O&M Dollars
2017 Actual vs 2018 Budget, 2018 Budget vs 2019 Budget
(in Thousands)

	2017	**2018**	**2019**	**Variance (+ Increase/- Decrease)**			
	Actuals	**Planned**	**Planned**	**17 vs '18**	**% Change**	**18 vs '19**	**% Change**
Base Payroll	$ 116,417	$ 120,044	$ 123,093	$ 3,627	3.1%	$ 3,048	2.5%
Contracting	245,919	255,174	263,483	9,255	3.8%	8,309	3.3%
Overtime	24,505	18,154	18,640	(6,351)	-25.9%	486	2.7%
Incentive	16,764	13,629	13,744	(3,134)	-18.7%	114	0.8%
Materials	17,043	19,651	19,827	2,608	15.3%	175	0.9%
Travel, Meals, & Entertain.	4,331	4,203	4,299	(127)	-2.9%	95	2.3%
Transportation	11,501	11,768	12,631	267	2.3%	863	7.3%
Bad Debt	24,424	25,028	25,065	604	2.5%	36	0.1%
Pensions & Benefits	32,757	27,106	24,647	(5,651)	-17.3%	(2,459)	-9.1%
Other, Net	47,543	49,074	47,482	1,531	3.2%	(1,592)	-3.2%
Subtotal	**$ 541,203**	**$ 543,832**	**$ 552,909**	**$ 2,629**	**0.5%**	**$ 9,077**	**1.7%**
Storm Reserve[1]	-	20,700	20,700	20,700	N/A	0	0.0%
Total	**$ 541,203**	**$ 564,532**	**$ 573,609**	**$ 23,329**	**4.3%**	**$ 9,077**	**1.6%**

[1] Planned amounts based on 5-year average of major storm costs from 2013 to 2017

* Note: Results are GAAP based to align budget values

Summary

Overall O&M adjusted for major storms has been held below the rate of inflation. Inflationary impacts to base payroll and contracting is being offset by reductions in BSC costs and pension and benefits.

Base Payroll

The increase of $4M between 2017 and 2018 is primarily driven by the 2.5% merit increase for management and union employees (See SDR-OM-29). The increase is also attributed to open positions vacated and filled within 2017 due to transfers, retirements and resignations (See II-D-10). The increase between 2018 and 2019 of $3M is primarily driven by the 2.5% merit increase for management and union employees (See SDR-OM-29).

Contracting/ Overtime

The combined increase of $3M from 2017 to 2018 is primarily driven by inflation of 2.5% (source: Global Insight Base Case Consumer Prices, May 2017), net contracting resources and overtime to complete non-storm outage restoration and other distribution corrective maintenance work, and vegetation management costs to address the Emerald Ash Borer, which are offsetting reductions in BSC costs. The increase of $9M from 2018 to 2019 is primarily driven by inflation of 2.5% and vegetation management costs to address the Emerald Ash Borer.

Incentive

The 2017 incentive payout was higher than budget primarily due to exceeding key performance indicator targets and 2018 assumes meeting these targets.

Materials

The increase of $3M from 2017 to 2018 is primarily driven by distribution corrective maintenance and substation preventative maintenance materials, which are budgeted based on historical averages.

Pension and Benefits

The decrease of $6M from 2017 to 2018 and the decrease of $2M from 2018 to 2019 are primarily due to the improved funded status of PECO's pension plans.

Other, Net

The increase of $2M between 2017 and 2018 is primarily driven by the reversal of a reserve in 2017 following the settlement of a long-term rental agreement for Right of Way access. The decrease of $2M between 2018 and 2019 is primarily driven by lower operational support costs in 2019.

Storm Reserve

There were no major storms in 2017. The 2018 budget is based on a five-year average of major storm costs from 2013 to 2017.

Q. SDR-OM-3	Provide the future test year budgeted claim for expenses related to the Low Income Usage Reduction Program (LIURP) with supporting calculations of the budgeted claim.
A. SDR-OM-3	The future test year (2018) and the fully projected future test year (2019) budgeted claims for expenses related to the Low Income Usage Reduction Program (LIURP) are $5,597,531 and $5,599,300, respectively. Refer to Attachment SDR-OM-3(a) for supporting calculations.

LIURP 2018 **2018 LIURP Projected Budget - Electric Audit Calculations**

	Heating			Baseload		
	Qty	**Avg Cost**	**Total**	**Qty**	**Avg Cost**	**Total**
January	56	$1,897	$106,128.03	533	$675	$359,938
February	57	$1,897	$107,306	552	$675	$372,765
March	81	$1,897	$153,561	524	$675	$353,490
April	74	$1,897	$140,626	501	$675	$338,428
May	79	$1,897	$149,321	472	$675	$318,730
June	75	$1,897	$142,436	474	$675	$319,627
July	74	$1,897	$140,759	476	$675	$321,322
August	75	$1,897	$142,433	474	$675	$319,621
September	76	$1,897	$143,916	471	$675	$318,164
October	77	$1,897	$145,202	469	$675	$316,828
November	78	$1,897	$147,415	466	$675	$314,662
December	68	$1,897	$128,261	439	$675	$296,592
	868	$1,897	$1,647,363	5,853	$675	$3,950,168

$5,597,531 Total

LIURP Annual Cost

Projected Administrative	$671,704	12%
Anticipated Conservation	$1,847,185	33%
Anticipated Weatherization	$3,078,642	55%
Grand Total	**$5,597,531**	

LIURP 2019

2019 LIURP Projected Budget - Electric Audit Calculations

	Heating			Baseload		
	Qty	**Avg Cost**	**Total**	**Qty**	**Avg Cost**	**Total**
January	72	$1,705	$123,380.84	516	$665	$342,740
February	86	$1,705	$146,742	502	$665	$333,736
March	88	$1,705	$149,267	540	$665	$358,877
April	83	$1,705	$141,824	508	$665	$337,587
May	81	$1,705	$138,492	496	$665	$329,657
June	82	$1,705	$140,414	484	$665	$321,626
July	82	$1,705	$140,553	484	$665	$321,487
August	82	$1,705	$140,409	484	$665	$321,614
September	82	$1,705	$140,290	484	$665	$321,744
October	80	$1,705	$135,549	491	$665	$326,413
November	83	$1,705	$140,718	483	$665	$321,341
December	76	$1,705	$130,266	443	$665	$294,572
	978	$1,705	$1,667,906	5,914	$665	$3,931,394

$5,599,300 Total

LIURP Annual Cost		
Projected Administrative	$671,916	12%
Anticipated Conservation	$1,847,769	33%
Anticipated Weatherization	$3,079,615	55%
Grand Total	**$5,599,300**	

Q. SDR-OM-4 Supply the following information regarding all expense claims in base rates related to the Customer Assistance Programs.

a. Supply a detailed listing of all expenses claimed. Supply all supporting calculations and indicate in which FERC account the expense is included.

b. Provide the supporting calculations for any foregone revenues or customers billing deficiency being claimed in this proceeding.

Supply a schedule reporting the following on a monthly basis for the most recent Customer Assistance Program (CAP):

(1) Number of customers in the CAP.
(2) Amount of billing deficiency.
(3) Amount of arrearage forgiveness (if applicable).
(4) Accumulated prior arrearages brought into the program.

A. SDR-OM-4

a. Refer to Attachment SDR-OM-4(a).

b. (1) Refer to Attachment SDR-OM-4(b).
(2) Refer to Attachment SDR-OM-4(c).
(3) Refer to Attachment SDR-OM-4(d).
(4) Refer to Attachment SDR-OM-4(e).

All data provided are budget data for the future test year (2018) and the fully projected future test year (2019).

Description	FERC Account	January	February	March	April	May	June	July	August	September	October	November	December	2018 Budget
Payroll	903000/908000	$ 8,733	$ 8,565	$ 9,417	$ 9,283	$ 9,387	$ 8,865	$ 8,082	$ 9,273	$ 8,182	$ 10,325	$ 8,521	$ 6,919	$ 105,552
Pension/Benefits	926000	$ 2,281	$ 2,237	$ 2,460	$ 2,425	$ 2,452	$ 2,316	$ 2,111	$ 2,422	$ 2,137	$ 2,697	$ 2,226	$ 1,807	$ 27,573
Bonus/Incentive	903000	$ 940	$ 922	$ 1,013	$ 999	$ 1,010	$ 954	$ 870	$ 998	$ 880	$ 1,111	$ 917	$ 744	$ 11,356
CAP Supervision/Management	903000 / 926000	$ 11,954	$ 11,724	$ 12,891	$ 12,707	$ 12,850	$ 12,134	$ 11,063	$ 12,693	$ 11,200	$ 14,133	$ 11,663	$ 9,470	$ 144,481
Payroll	903000	$ 6,542	$ 6,455	$ 7,072	$ 6,946	$ 7,049	$ 6,633	$ 6,085	$ 6,964	$ 6,167	$ 7,780	$ 6,373	$ 5,220	$ 79,286
Pension/Benefits	926000	$ 1,709	$ 1,686	$ 1,847	$ 1,815	$ 1,841	$ 1,733	$ 1,590	$ 1,819	$ 1,611	$ 2,032	$ 1,665	$ 1,364	$ 20,711
Bonus/Incentive	903000	$ 704	$ 694	$ 761	$ 747	$ 758	$ 714	$ 655	$ 749	$ 664	$ 837	$ 686	$ 562	$ 8,530
CAP Primary Staff	903000 / 926000	$ 8,955	$ 8,835	$ 9,680	$ 9,508	$ 9,649	$ 9,079	$ 8,330	$ 9,532	$ 8,442	$ 10,649	$ 8,724	$ 7,145	$ 108,528
Postage (CAP letter and application mailing)	903000	$ 17,099	$ 15,669	$ 18,735	$ 22,246	$ 22,301	$ 19,882	$ 17,472	$ 19,164	$ 19,184	$ 17,032	$ 18,924	$ 11,834	$ 219,541
Acquire (CAP applications)	903000	$ 3,000	$ -	$ -	$ 3,000	$ -	$ -	$ -	$ 4,000	$ -	$ 4,000	$ -	$ -	$ 14,000
Alorica (CAP call center)	903000	$ 179,943	$ 171,625	$ 181,651	$ 230,305	$ 249,900	$ 241,746	$ 216,324	$ 240,335	$ 196,053	$ 231,144	$ 144,244	$ 185,443	$ 2,468,713
Outside Contractors	903000	$ 182,943	$ 171,625	$ 181,651	$ 233,305	$ 249,900	$ 241,746	$ 216,324	$ 244,335	$ 196,053	$ 235,144	$ 144,244	$ 185,443	$ 2,482,713
Total 2018 CAP Program Costs (O&M)	903000 / 908000 / 926000	$ 220,951	$ 207,853	$ 222,957	$ 277,767	$ 294,700	$ 282,841	$ 253,188	$ 285,724	$ 234,879	$ 276,958	$ 183,554	$ 213,891	$ 2,955,262

Description	FERC Account	January	February	March	April	May	June	July	August	September	October	November	December	2019 Budget
Payroll	903000/908000	$ 9,175	$ 8,999	$ 9,214	$ 9,968	$ 9,622	$ 8,654	$ 8,661	$ 9,091	$ 8,806	$ 10,583	$ 8,336	$ 7,429	$ 108,539
Pension/Benefits	926000	$ 2,397	$ 2,351	$ 2,407	$ 2,604	$ 2,514	$ 2,261	$ 2,262	$ 2,375	$ 2,300	$ 2,765	$ 2,178	$ 1,941	$ 28,353
Bonus/Incentive	903000	$ 987	$ 968	$ 991	$ 1,072	$ 1,035	$ 931	$ 932	$ 978	$ 947	$ 1,139	$ 897	$ 799	$ 11,678
CAP Supervision/Management	903000 / 926000	$ 12,559	$ 12,317	$ 12,612	$ 13,645	$ 13,171	$ 11,845	$ 11,855	$ 12,445	$ 12,053	$ 14,486	$ 11,411	$ 10,169	$ 148,570
Payroll	903000	$ 6,873	$ 6,781	$ 6,919	$ 7,459	$ 7,226	$ 6,475	$ 6,521	$ 6,827	$ 6,638	$ 7,975	$ 6,235	$ 5,605	$ 81,532
Pension/Benefits	926000	$ 1,795	$ 1,771	$ 1,807	$ 1,948	$ 1,888	$ 1,691	$ 1,703	$ 1,783	$ 1,734	$ 2,083	$ 1,629	$ 1,464	$ 21,298
Bonus/Incentive	903000	$ 739	$ 730	$ 744	$ 803	$ 777	$ 697	$ 702	$ 735	$ 714	$ 858	$ 671	$ 603	$ 8,772
CAP Primary Staff	903000 / 926000	$ 9,408	$ 9,282	$ 9,471	$ 10,210	$ 9,891	$ 8,863	$ 8,926	$ 9,345	$ 9,086	$ 10,916	$ 8,535	$ 7,672	$ 111,603
Postage (CAP letter and application mailing)	903000	$ 17,099	$ 15,669	$ 18,735	$ 22,246	$ 22,301	$ 19,882	$ 17,472	$ 19,164	$ 19,184	$ 17,032	$ 18,924	$ 11,834	$ 219,541
Acquire (CAP applications)	903000	$ 3,075	$ -	$ -	$ 3,075	$ -	$ -	$ -	$ 4,100	$ -	$ 4,100	$ -	$ -	$ 14,350
Alorica (CAP call center)	903000	$ 184,441	$ 175,915	$ 186,192	$ 236,062	$ 256,147	$ 247,789	$ 221,732	$ 246,343	$ 200,954	$ 236,922	$ 147,850	$ 190,079	$ 2,530,426
Outside Contractors	903000	$ 187,516	$ 175,915	$ 186,192	$ 239,137	$ 256,147	$ 247,789	$ 221,732	$ 250,443	$ 200,954	$ 241,022	$ 147,850	$ 190,079	$ 2,544,776
Total 2019 CAP Program Costs (O&M)	903000 / 908000 / 926000	$ 226,582	$ 213,184	$ 227,010	$ 285,238	$ 301,510	$ 288,378	$ 259,985	$ 291,396	$ 241,277	$ 283,456	$ 186,720	$ 219,754	$ 3,024,490

Budget inputs are not developed to align with specific FERC account numbers. The above figures represent an estimated FERC accounting allocation.

Attachment SDR-OM-4(b)

CAP Enrollment (Elec and Combo)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	119,218	118,339	118,086	118,530	118,446	118,063	117,438	117,016	116,545	116,083	115,359	114,496
2019	114,694	114,294	114,542	115,510	115,972	116,153	116,034	116,081	116,027	115,926	115,567	115,040

Attachment SDR-OM-4(c)

Billing Deficiency (Shortfall) ($M)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2018	$ (7.2)	$ (6.8)	$ (5.1)	$ (4.7)	$ (3.9)	$ (4.5)	$ (6.4)	$ (6.5)	$ (4.8)	$ (3.8)	$ (4.8)	$ (6.2)	$ (64.7)
2019	$ (7.4)	$ (7.0)	$ (5.3)	$ (4.8)	$ (4.0)	$ (4.7)	$ (6.6)	$ (6.7)	$ (4.9)	$ (3.9)	$ (5.0)	$ (6.4)	$ (66.8)

Attachment SDR-OM-4(d)

Arrearage Forgiveness

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2018	$343,416	$296,668	$402,685	$405,713	$455,114	$451,339	$481,170	$390,613	$629,071	$444,111	$397,802	$383,790	$5,081,493
2019	$309,075	$267,001	$362,416	$365,142	$409,603	$406,205	$433,053	$351,552	$566,164	$399,700	$358,022	$345,411	$4,573,344

These are totals, including gas arrearages, since they are not tracked separately.

Attachment SDR-OM-4(e)

Accumulated Prior Arrearages

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2018	$516,259	$621,302	$761,730	$1,068,982	$1,370,755	$971,992	$693,917	$813,222	$650,041	$532,681	$497,657	$408,277	$8,906,814
2019	$562,206	$676,598	$829,524	$1,164,121	$1,492,752	$1,058,500	$755,676	$885,599	$707,894	$580,090	$541,948	$444,613	$9,699,520

These are totals, including gas arrearages, since they are not tracked separately.

Q. SDR-OM-5 Provide the following information regarding customer assistance participants.

a. The average annual usage of CAP customers
b. The average annual usage of budget-plus customers not selected as CAP customers.
c. The average annual usage of non-payment troubled customers, both heating and non-heating customers.
d. The projected revenue to be billed to CAP participants.

A. SDR-OM-5

a. Refer to Attachment SDR-OM-5(a) for the average annual usage of CAP customers in 2017.

b. The term “budget plus” is not applicable to PECO’s CAP program.

c. The average annual usage of non-payment troubled customers, both heating and non-heating customers, is 655 kWh.
A “payment troubled” customer is defined, for purposes of this analysis, as a customer who missed two or more payments in 2017. This definition is different from the definition used in PECO’s 2015 electric distribution base rate case. In that case, a payment troubled customer was defined as a customer on a payment agreement. The definition has been changed because changes to the Company’s CAP program that were implemented in 2016 have limited the ability of a CAP customer to enter into a payment agreement. If the same definition of “payment troubled” customer employed in the Company’s 2015 base rate case were applied in this case, the usage of non-payment troubled customers would be 634 kWh.

d. Revenue to be billed to CAP participants is the difference between revenue from those customers at non-discounted tariff rates and the CAP shortfall. Non-discounted CAP revenue is included in overall forecasts of residential heating and non-heating revenues, but is not broken out separately in such forecasts. Refer to SDR-OM-4 for the CAP shortfall.

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PECO Energy Company

Year	Month	Electric CAP Usage	Electric CAP Customers	Usage per Customer (kWh)
2017	1	127,980,695	131,708	972
2017	2	106,614,644	130,598	816
2017	3	93,353,731	129,930	718
2017	4	82,082,023	129,636	633
2017	5	65,018,656	129,121	504
2017	6	75,716,223	127,897	592
2017	7	109,219,984	126,343	864
2017	8	104,344,737	125,222	833
2017	9	81,721,042	123,840	660
2017	10	75,153,121	122,799	612
2017	11	68,523,506	121,149	566
2017	12	94,912,905	119,604	794
Total		**1,084,641,267**	**1,517,847**	**715**

Q. SDR-OM-6 Supply the following information as it related to the most recent heating season (2016-2017) the information is as follows:

a. Number of customers receiving LIHEAP grants.
b. The total amount of all LIHEAP grants.
c. Number of customers receiving crisis grants.
d. The total amount of all crisis grants.

A. SDR-OM-6

a. 48,252 (Includes both Cash and Crisis grants)
b. $15,019,482 (Includes both Cash and Crisis grants)
c. 7,168
d. $2,411,058

SDR-OM-7
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Michael A. Innocenzo

Q. SDR-OM-7

Please state whether the Company provides any type of allowances or incentive payments to builders or others for installing electric service or appliances. If yes, please provide complete details, including the amount of such payments or incentives in the historical and future test years and where such payments are included in the Company’s claim.

A. SDR-OM-7

The Company does not provide any such allowances or incentives to builders or others for installing electric service or appliances. Builders and developers are, however, entitled to a revenue credit against the customer advance /customer contribution required for extensions of the Company’s lines in accordance with the terms of Rule 7 of PECO’s Commission approved tariff and of Rule 10.8 under certain circumstances, for relocations in conjunction with new load.

Q. SDR-OM-8 Please provide an itemized breakdown of the Company’s ASM costs by component, by program in each month of the historic and future test years.

A. SDR-OM-8 Historically, PECO has not offered a demand response (DR) product targeting Ancillary Service Markets (ASM). PECO does not currently plan to offer any ancillary DR products in the future.

Q. SDR-OM-9 Has the Company included, in the future test year, any claims for advertising expenses related to direct cash grants and/or co-op advertising to builders or developers of residential housing that promotes electric usage over natural gas usage? If yes, provide the following:

a. A breakdown of expenses claimed and the FERC accounts wherein the expense has been included.
b. The results of any cost/benefit analysis conducted by the Company relative to these programs.
c. Examples of the co-op advertising.

A. SDR-OM-9 No, the Company has not included in its operating and maintenance expenses claimed for recovery in either its future test year or fully projected future test year any of the categories of advertising expenses identified in this question.

SDR-OM-10
Page 1 of 1
Benjamin S. Yin

Q. SDR-OM-10 Has the Company claimed any expenses related to cash incentives or grants to ratepayers either for replacing existing heating equipment or converting? If yes, provide details on the programs and the amount of expense included in the future test year.

A. SDR-OM-10 The Company has not claimed any expenses related to cash incentives or grants to ratepayers either for replacing or converting existing heating equipment.

Q. SDR-OM-11 Please provide a breakdown of FERC Account 926, Employee Benefits by benefit program or plan for the preceding three calendar years and the amounts projected for the FTY.

A. SDR-OM-11 Refer to Attachment SDR-OM-11(a) for the breakdown of FERC Account 926, Employee Pensions and Benefits, for Electric Distribution.

PECO Energy Company

Analysis of Employee Pensions and Benefits
Years Ended December 31,
(Thousands of Dollars)

Line No.	Expense	2015	2016	2017	2018	2019
Account 926 - Employee Pensions and Benefits Expense						
1	Pension	$ 17,207	$ 14,512	$ 12,953	$ 9,198	$ 5,646
2	Post Retirement Benefits	493	468	(9)	(604)	(489)
3	Medical*	12,862	13,242	13,265	13,317	14,124
4	401K	4,778	4,759	4,502	4,055	4,199
5	Employee Stock Purchase Plan (ESPP)	298	307	335	373	372
6	Disability Plan	167	258	262	318	330
7	Tuition Reimbursement	257	355	339	433	435
8	Workers Compensation**	91	588	-		
9	Other Benefit Plans	296	226	265	449	466
10	Total Account 926	$ 36,450	$ 34,715	$ 31,913	$ 27,539	$ 25,082

*Medical is defined as Medical, Dental and Vision
**Some workers compensation expenses in 2015 and 2016 were included in FERC Account 926 - Employee Pensions and Benefits instead of FERC Account 925 - Injuries and Damages, as is required under the FERC USoA. PECO’s revenue requirement model is not impacted, as both FERC Account 925 and FERC Account 926 are appropriately included within.

Q. SDR-OM-12 Please state whether the Company has included expenses related to SFAS No. 112 in its test year claim. If so, please provide complete details and include a copy of the actuarial study.

A. SDR-OM-12 With the exception of Exelon Business Services Company (BSC) severance expenses, there are no other ASC 712 (SFAS No. 112) related expenses included in the Company's test year claim. The 2019 BSC severance expense is $185,091 which is based on a historical trend. There is no actuarial study available for the severance expenses.

Q. SDR-OM-13 Please state whether any portion of the Company’s membership dues have been allocated “below the line”. If so, please identify any such amounts for the FTY.

A. SDR-OM-13 Refer to Attachment SDR-OM-13(a) for the portion of the Company’s membership dues that have been allocated “below the line”.

PECO ENERGY COMPANY
SOCIAL AND SERVICE ORGANIZATIONS
ELECTRIC DISTRIBUTION

Association	FY 2018 (dollars)	FY 2019 (dollars)
BSC Allocated	150,206	150,206
Barnes Foundation	18,905	18,905
Philadelphia Museum of Art	18,905	18,905
Philanthropy Network	7,902	7,902
Leadership Philadelphia	7,562	7,562
Pennsylvania Academy of the Fine Arts	7,562	7,562
Committee Of Seventy	3,850	3,850
Forum Exec Women	3,781	3,781
The Academy of Natural Sciences	3,781	3,781
Center City Proprietors Association	1,891	1,891
TOTAL	**224,345**	**224,345**

Q. SDR-OM-14 Please provide the level of each of the following which is included in the Company's cost of service by separate type and/or payee, which are incurred directly by the Company or are allocated or billed to the Company by affiliates or its parent company.

a. fines and penalties
b. contributions and donations
c. membership dues
d. lobbying expense
e. employee activity costs (e.g. picnics, parties, awards)
f. investor relations expenses

A. SDR-OM-14

a. None. These costs are not included in the Company's test year claim.
b. None. These costs are not included in the Company's test year claim.
c. Refer to Attachment SDR-OM-14(a).
d. None. These costs are not included in the Company's test year claim.
e. Refer to Attachment SDR-OM-14(b).
f. The budgeted allocations from Exelon Business Services Company to PECO Electric Distribution for investor relations expenses in 2018 and 2019 are $156,645 and $161,556, respectively.

c. Membership Dues (Electric Distribution Only)

Industry Organization	2018 Budget	2019 Budget
Electric Power Research Institute	518,381	523,000
Edison Electric Institute	487,203	501,107
Energy Association Of Pennsylvania	196,576	202,473
R&D Memberships	155,242	163,177
Select Greater Philadelphia	84,000	84,000
Greater Philadelphia Chamber	73,904	74,428
Electrical Assocation Of PA	62,909	64,482
Georgia Tech Research Corp.	47,406	48,000
Centre for Energy Advancement through Technological Innovation	39,974	40,000
Economy League Of Greater Philadelphia	25,163	25,793
3E Company	23,585	23,585
PA Business Council	17,614	18,054
IHS Global Inc	15,220	15,220
County EDC/City Commerce	15,120	15,120
Greater Philadelphia Hispanic Chamber Of Commerce	11,343	11,343
Costar	11,340	11,340
Pennsylvania Bio	8,400	8,400
World Trade Center Of Greater Phila	8,400	8,400
Power Systems Engineering Research Center	8,240	8,300
Salesforce	8,002	8,002
Independence Business Alliance	7,562	7,562
Greater Phila Alliance For Capital And Technologies	5,040	5,040
Philadelphia Convention & Visitors Bureau Foundation	4,991	4,991
Central Philadelphia Development Corp	4,648	4,719
Urban Land Institute	4,200	4,200
Delaware Valley Green Building Council	3,893	3,893
Wildlife Habitat Council	3,792	3,792
Delaware County Chamber Of Commerce	3,247	3,344
Main Line Chamber Of Commerce	2,974	3,063
Manufacturing Alliance Of Phila	2,100	2,100
Avian Power Line Interaction Committee	1,975	1,975
Chester County Chamber Of Business & Industry	1,844	1,899
Society Of Women Environmental Professionals	1,817	1,817
Bureau Of National Affairs	1,659	1,659
Solar Electric Power Assoc	1,654	1,654
Chester County Association Of Township Officials	1,586	1,634
Greater Valley Forge Transportation	1,586	1,634
Lower Bucks County Chamber Of Commerce	1,269	1,307
Industrial Asset Management Council	1,260	1,260
Pennsylvania Economic Development Association	1,260	1,260
Montgomery County Chamber Of Commerce	1,140	1,174
Greater Northeast Philadelphia Chamber Of Commerce	1,079	1,111
Other	88,798	87,465
Total	$ 1,967,397	$ 2,002,778

e. Employee Activity Costs (e.g. picnics, parties, awards) - Electric Distribution only

	2018 Budget	2019 Budget
Employee Recognition Awards	**$143,391**	**$154,609**
Employee Service Awards: pins and small gifts for years of service	**100,653**	**103,169**
Employee Compact:		
Employee Picnic, Celebration, Other Employee Compact expenses	**453,720**	**453,720**
Employee Network Groups	**7,562**	**7,562**
TOTAL EMPLOYEE ACTIVITY COSTS	**$705,326**	**$719,060**

Q. SDR-OM-15 If applicable, please provide a copy of the billing and payment terms for all contracts between the Company and its parent or an affiliated company for services. Further, to the extent that the parent or affiliated company provides service to non-affiliated companies, please provide the corresponding billing and payment terms.

A. SDR-OM-15 The Company has two over-arching agreements that govern the provision of services with affiliates, the General Services Agreement ("GSA")(Attachment SDR-OM-15(a)), which governs services provided by Exelon Business Services Company ("EBSC"), and the Mutual Services Agreement ("MSA")(Attachment SDR-OM-15(b)), which governs services provided by PECO to other affiliates or services received by PECO from non-EBSC affiliates, both of which were approved by the Commission on January 1, 2001 as part of the ComEd/Exelon merger, and then re-approved by the Commission in 2010 in G-2010-2211383.

The payment terms for services provided under the GSA are set forth in Exelon's Cost Allocation Manual (Attachment SDR-OM-15(c)) and Service Catalog (Attachment SDR-OM-15(d)).

The payment terms for services provided under the MSA are set forth in PECO's Cost Allocation Manual and associated work orders, known as Affiliate Level Arrangements ("ALAs"). A copy of the PECO Cost Allocation Manual and the ALA template showing the pricing rule table is also attached (Attachment SDR-OM-15(e) and (f)).

Since April of 2013, PECO has been providing the Commission with its Service Level Agreements ("SLAs") and ALAs, for informational purposes, as those arrangements are modified.

Exelon's parent and affiliated companies typically do not provide services to non-affiliated companies except in limited circumstances. For example, PECO's utility affiliates provide utility service to their customers pursuant to their regulated tariffs. PECO's affiliated generation company and retail sales affiliates sell generation services and related services through the markets, at market rates, to unaffiliated parties. In addition, Exelon Utility companies may provide mutual storm and emergency assistance to other utilities on a cost basis pursuant to industry-wide mutual assistance agreements.

Refer to Attachment SDR-OM-15(a) for Exelon’s GSA.
Refer Attachment SDR-OM-15(b) for PECO’s MSA.
Refer to Attachment SDR-OM-15(c) for Exelon’s Cost Allocation Manual.
Refer to Attachment SDR-OM-15(d) for Exelon’s Service Catalog.
Refer to Attachment SDR-OM-15(e) for PECO’s Cost Allocation Manual.
Refer to Attachment SDR-OM-15(f) for PECO’s ALA Template.

GENERAL SERVICES AGREEMENT

BETWEEN

EXELON BUSINESS SERVICES COMPANY

AND

EXELON CORPORATION; EXELON ENERGY DELIVERY COMPANY, LLC; COMMONWEALTH EDISON COMPANY; PECO ENERGY COMPANY; EXELON VENTURES COMPANY, LLC; EXELON GENERATION COMPANY, LLC; EXELON ENTERPRISES COMPANY, LLC; UNICOM INVESTMENT INC.; AND THE SUBSIDIARIES, AFFILIATES AND ASSOCIATES OF EACH LISTED ENTITY.

THIS AGREEMENT, made and entered into this 1st day of January, 2001, by and between the following Parties: EXELON BUSINESS SERVICES COMPANY ("Services Company"), EXELON CORPORATION; EXELON ENERGY DELIVERY COMPANY, LLC; COMMONWEALTH EDISON COMPANY; PECO ENERGY COMPANY; EXELON VENTURES COMPANY, LLC; EXELON GENERATION COMPANY, LLC; EXELON ENTERPRISES COMPANY, LLC; UNICOM INVESTMENT INC; AND THE SUBSIDIARIES, AFFILIATES AND ASSOCIATES OF EACH LISTED ENTITY (collectively, the "Client Companies");

WITNESSETH:

WHEREAS, Client Companies, including EXELON CORPORATION, which is registered under the terms of the Public Utility Holding Company Act of 1935 (the "Act") and its other subsidiaries, affiliates and associates desire to enter into this agreement providing for the performance by Services Company for the Client Companies of certain services as more particularly set forth herein;

WHEREAS, Services Company is organized, staffed and equipped and has filed with the Securities and Exchange Commission ("the SEC") to be a subsidiary service company under Section 13 of the Act to render to EXELON CORPORATION, and other subsidiaries, affiliates and associates of EXELON CORPORATION, certain services as herein provided; and

WHEREAS, to maximize efficiency, and to achieve merger related savings, the Client Companies desire to avail themselves of the advisory, professional, technical and other services of persons employed or to be retained by Services Company, and to compensate Services Company appropriately for such services;

NOW, THEREFORE, in consideration of these premises and of the mutual agreements set forth herein, the Parties agree as follows:

Section 1. Agreement to Provide Services

Services Company agrees to provide to Client Companies, upon the terms and conditions set forth herein, the services hereinafter referred to and described in Section 2, at such times, for such period and in such manner as Client Companies may from time to time request. Except with respect to "Corporate Governance Services" as defined in Section 7 hereof, the Services Company shall perform only those services as are requested by the Client Companies. Services Company will keep itself and its personnel available and competent to provide to Client Companies such services so long as it is authorized to do so by the appropriate federal and state regulatory agencies. In providing such services, Services Company may arrange, where it deems appropriate, for the services of such experts, consultants, advisers and other persons with necessary qualifications as are required for or pertinent to the provision of such services.

Section 2. Services to be Provided

The services expected to be provided by Services Company hereunder may, upon request by a Client Company, include the services as set out in Schedule 2, attached hereto and made a part hereof. In addition to those identified in Schedule 2, Services Company shall provide such additional general or special services, whether or not now contemplated, as Client Companies may request from time to time and Services Company determines it is able to provide.

Notwithstanding the foregoing paragraph, no change in the organization of the Services Company, the type and character of the companies to be serviced, the factors for allocating costs to associate companies, or in the broad general categories of services to be rendered subject to Section 13 of the Act, or any rule, regulation or order thereunder, shall be made unless and until the Services Company shall first have given the SEC written notice of the proposed change not less than 60 days prior to the proposed effectiveness of any such change. If, upon the receipt of any such notice, the SEC shall notify the Services Company within the 60-day period that a question exists as to whether the proposed change is consistent with the provisions of Section 13 of the Act, or of any rule, regulation or order thereunder, then the proposed change shall not become effective unless and until the Services Company shall have filed with the SEC an appropriate declaration regarding such proposed change and the SEC shall have permitted such declaration to become effective.

Section 3. Changes in Parties

New direct or indirect subsidiaries, affiliates and associates of EXELON CORPORATION, which may come into existence after the effective date of this Services Agreement, may become additional Client Companies of Services Company and subject to this General Services Agreement. In addition, entities which are, as of the effective date of this General Services Agreement, direct or indirect subsidiaries, affiliates and associates of EXELON CORPORATION, may thereafter leave the holding company system, in which case they will no longer be subject to this General Services Agreement. The parties hereto shall make such changes in the scope and character of the services to be provided and the method of assigning, distributing or allocating costs of such services as may become necessary to achieve a fair and equitable assignment, distribution, or allocation of Services Company costs among associate companies taking into account both the new subsidiaries and the subsidiaries which have left the holding company system, subject to the provisions of Section 2 above.

Section 4. Compensation of Services Company

As compensation for the services to be rendered hereunder, Client Companies listed in Attachment A hereto, as revised from time to time, shall pay to Services Company all costs which reasonably can be identified and related to particular services provided by Services Company for or on Client Company's behalf (except as may otherwise be permitted by the SEC). All other Client Companies and their affiliates and associates (see Attachment B) shall pay to Services Company charges for services that are to be no less than cost (except as may otherwise be permitted by the SEC), insofar as costs can reasonably be identified and related by Services Company to its performance of particular services for or on behalf of Client Company.

The services described herein or contemplated to be provided hereunder shall be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The factors for assigning or allocating Services Company costs to Client Company, as well as to other associate companies, are set forth in Schedules 1 and 2 attached hereto. Attachments A and B and Schedules 1 and 2 are each expressly incorporated herein and made a part hereof.

Any charges to the Client Companies on account of use of capital shall reflect a reasonable and efficient capital structure.

Section 5. Securities and Exchange Commission Rules

It is the intent of the Parties that the determination of the costs as used in this Agreement shall be consistent with, and in compliance with, the rules and regulations of the SEC, as they now exist or hereafter may be modified by the Commission.

Section 6. Service Review

The parties shall review each service covered by this Agreement on an as needed basis, to assess the quality of the service and to determine the continued need therefor, and shall, subject to the provisions of Section 2 above, amend the scope of services, delete services entirely from this Agreement, and/or decline services which are not "Corporate Governance Services," as defined in Section 7 hereof, as they determine to be necessary or desirable.

Section 7. Corporate Governance Services.

Whether or not requested by the Client Companies, the Services Company may provide to all Client Companies, and Client Companies shall pay Services Company for, "Corporate Governance Services." Corporate governance consists of those activities and services reasonably determined to be necessary for the lawful and effective management of Exelon System businesses. Corporate Governance Services may be supplied from functions such as accounting, finance, executive, strategic planning, legal, human resources/benefits, audit, corporate communications and public affairs, environmental, health and safety, government affairs and policy, and investor relations. Corporate Governance Services may include, but are not limited to, the following: planning and project evaluation; finance and treasury; accounting and analysis; risk management; tax; shareholder and investor relations; merger and acquisition services; strategic planning; diversity; employee and labor relations; HR planning and development; compensation and benefits; legal services in the areas of securities, PUHCA, employment, regulatory, contract, litigation and intellectual property laws; legal and administrative support to the Board of Directors; environmental compliance activities; ethics and compliance programs; management services for compliance with Federal laws, regulations and other policy requirements, including relationship management with the U.S. Congress and Federal agencies; corporate communications; branding; corporate events; charitable support; community relations and communications to local organizations; and communications to employees.

Section 8. Payment

Payment shall be by making remittance of the amount billed or by making appropriate accounting entries on the books of the companies involved. Invoices shall be prepared on a monthly basis for services provided hereunder.

Section 9. EXELON CORPORATION

Except as authorized by rule, regulation, or order of the SEC, nothing in this Agreement shall be read to permit EXELON CORPORATION, or any person employed by or acting for EXELON CORPORATION, to provide services for other Parties, or any companies associated with said Parties.

Section 10. Client Companies

Except as limited by law or order of the SEC, Client Companies, their subsidiaries, affiliates and associates may provide services described herein to other Client Companies, their subsidiaries, affiliates and associates on the same terms and conditions as set out for the Services Company.

Section 11. Effective Date and Termination

This Agreement is executed subject to the consent and approval of all applicable regulatory agencies, and if so approved in its entirety, shall be deemed effective from the date that the merger between PECO ENERGY COMPANY and UNICOM CORPORATION was consummated, and shall remain in effect from said date unless terminated by mutual agreement or by any Party giving at least 90 days' written notice to the other Parties prior to the beginning of any calendar year, each Party fully reserving the right to so terminate this Agreement.

This Agreement may also be terminated or modified to the extent that performance may conflict with any rule, regulation or order of the SEC adopted before or after the making of this Agreement. This Agreement shall be terminated with respect to any Client Company immediately upon such Client Company ceasing to be a member of the Exelon holding company system.

The Parties' obligations under this Agreement which by their nature are intended to continue beyond the termination or expiration of this Agreement shall survive such termination or expiration.

Section 12. Access to Records

Records will be maintained in accordance with 17 C.F.R. §257 and in any event no less than seven years following a transaction under this Agreement. The Client Company may request access to and inspect the accounts and records of the Services Company, provided that the scope of access and inspection is limited to accounts and records that are related to such transaction.

Section 13. Assignment

This Agreement and the rights hereunder may not be assigned without the mutual written consent of all Parties hereto.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their authorized officers as of the day and year first above written.

EXELON BUSINESS SERVICES COMPANY

By ____________________
Ruth Ann M. Gillis
Title: President

EXELON CORPORATION,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES, AFFILIATES AND ASSOCIATES

By ____________________
J. Barry Mitchell
Title: Senior Vice President and Treasurer

EXELON ENERGY DELIVERY COMPANY, LLC,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By ____________________
J. Barry Mitchell
Title: Vice President and Treasurer

COMMONWEALTH EDISON COMPANY,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By ____________________
J. Barry Mitchell
Title: Senior Vice President, Treasurer, and Chief Financial Officer

PECO ENERGY COMPANY,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By ____________________
J. Barry Mitchell
Title: Vice President, Treasurer, and Chief Financial Officer

EXELON VENTURES COMPANY LLC,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By ______________________
J. Barry Mitchell
Title: Vice President, Treasurer, and Chief Financial Officer

EXELON GENERATION COMPANY, LLC,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By ______________________
J. Barry Mitchell
Title: Vice President, Treasurer, and Chief Financial Officer

EXELON ENTERPRISES COMPANY, LLC,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By ______________________
J. Barry Mitchell
Title: Vice President and Treasurer

UNICOM INVESTMENT INC.,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By ______________________
J. Barry Mitchell
Title: Chairman, President and Chief Executive Officer,
Director, Vice President and Treasurer

BALTIMORE GAS AND ELECTRIC COMPANY,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(effective March 12, 2012)

By ______________________
Carim V. Khouzami
Title: Vice President, Chief Financial Officer and Treasurer

ATLANTIC CITY ELECTRIC COMPANY
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: Donna J. Kinzel

Name: Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer, and Treasurer

DELMARVA POWER & LIGHT COMPANY
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: Donna J. Kinzel

Name: Donna J. Kinzel

Its: Senior Vice President, Chief Financial Offr, and Treasurer

POTOMAC ELECTRIC POWER COMPANY
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: Donna J. Kinzel

Name: Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer, and Treasurer

PEPCO HOLDINGS LLC
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: Donna J. Kinzel

Name: Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer, and Treasurer

PHI SERVICE COMPANY
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: Donna J. Kinzel

Name: Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer, and Treasurer

Attachment A

Commonwealth Edison Company

Commonwealth Edison of Indiana, Inc.

PECO Energy Company

Exelon Generation Company, LLC

Baltimore Gas and Electric Company (effective March 12, 2012)

Atlantic City Electric Company (effective March 24, 2016)

Delmarva Power & Light Company (effective March 24, 2016)

Potomac Electric Power Company (effective March 24, 2016)

PEPCO Holdings LLC (effective March 24, 2016)

PHI Service Company (effective March 24, 2016)

Any subsidiary involved in directly providing goods, construction or services to the foregoing companies.

Service Agreement Schedule 1

Allocation Ratios:

General:

Direct charges shall be made so far as costs can be identified and related to the particular transactions involved without excessive effort or expense. Other elements of cost, including taxes, interest, other overhead, and compensation for the use of capital procured by the issuance of capital stock, shall be fairly and equitably allocated using the ratios set forth below.

Revenue Related Ratios:

Revenues
Sales - Units sold and/or transported
Number of Customers

Expenditure Related Ratios:

Total Expenditures
Operations and Maintenance Expenditures
Capital Expenditures
Service Company Billings
Service Company SLA Billings (Non-governance)

Labor/Payroll Related Ratios:

Labor / Payroll
Number of Employees

Units Related Ratios:

Usage	(for example: CPU's, square feet , number of vendor invoice payments)
Consumption	(for example: tons of coal, gallons of oil, MMBTU's)
Capacity	(for example: nameplate generating capacity, peak load, gas throughput)
Other units related	

Assets Related Ratios:

Total Assets
Current Assets
Gross Plant

Composite Ratios:

Total Average Assets and 12 months ended Gross Payroll
Modified Massachusetts Formula
Other composite ratios

Service Agreement Schedule 2

Services Including But Not Limited To:

General:

Direct charges shall be made so far as costs can be identified and related to the particular transactions involved without excessive effort or expense. Other elements of cost, including taxes, interest, other overhead, and compensation for the use of capital procured by the issuance of capital stock, shall be fairly and equitably allocated using the ratios set forth in Schedule 1.

Administrative & management services including but not limited to:

- accounting
  - bookkeeping
  - billing
  - accounts receivable
  - accounts payable
  - financial reporting
- audit
- claims
- communications
- customer operations
- customer services
- executive
- finance
- insurance
- information systems services
- investment advisory services
- legal
- library
- record keeping
- secretarial & other general office support
- real estate management
- security holder services
- tax
- treasury
- other administration & management services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Personnel services including but not limited to:

recruiting
training & evaluation services
payroll processing
employee benefits administration & processing
labor negotiations & management
other personnel services

Expected allocation ratios: Labor/Payroll Related, Units Related, Composite

Purchasing services including but not limited to:

preparation & analysis of product specifications
requests for proposals & similar solicitations
vendor & vendor-product evaluations
purchase order processing
receipt, handling, warehousing and disbursement of purchased items contract negotiation & administration
inventory management & disbursement
other purchasing services

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Facilities management services including but not limited to:

office space
warehouse & storage space
transportation facilities (including dock & port, rail sidings and truck facilities)
repair facilities
manufacturing & production facilities
fixtures, office furniture & equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Computer services including but not limited to:

computer equipment & networks
peripheral devices
storage media
software

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Communications services including but not limited to:

communications equipment
audio & video equipment
radio equipment
telecommunications equipment & networks
transmission & switching capability

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Machinery management services including but not limited to:

equipment
tools
parts & supplies

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Vehicle management services including but not limited to:

automobiles
trucks
vans
trailers
railcars
marine vessels
aircraft
transport equipment
material handling equipment
construction equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Operational services including but not limited to:

drafting & technical specification, development & evaluation
consulting
engineering
environmental
safety
nuclear
construction

design
resource planning
economic & strategic analysis
research
testing
training
customer solicitation
support & other marketing related services
public & governmental relations
other operational services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Exhibit B

Service Level Arrangement

Arrangement between ________________ Services Department and [Client Company]

Purpose

Governing Agreement

Term of Service

Scope of Services

Scope of Services

Service Responsibility Matrix

Services, Tasks		

Service Costing Schedule

Monthly Billing Table:

Service/Transaction	Estimated Monthly Billing

Performance Metrics & Performance Reporting

Signatures			
Manager Service Company		Name (Client) Title	
Signature	Date	Signature	Date

Exhibit C

Project Charter

Mission:

Objective

-
-

Business Need / Expected Benefits

-

Project Approach

-
-
-

Measures of Success / Effectiveness

-
-

Project Team

- Sponsor -
- Responsible Director –
- Project Manager –
- Project Team –

High Level Schedule

Activity or Deliverable	Start Date	End Date

High Level Cost Estimate

Item	Cost

Major Risks and Issues

-

Assumptions and Constraints

-

Project Charter Authorizing Signatures

Name / Title	Signature	Date

MUTUAL SERVICES AGREEMENT

BETWEEN

PECO ENERGY COMPANY

AND

EXELON CORPORATION AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR AFFILIATES WHOLLY OR PARTLY-OWNED BY EXELON CORPORATION

AND

EXELON GENERATION COMPANY, LLC AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR AFFILIATES WHOLLY OR PARTLY-OWNED BY EXELON GENERATION COMPANY, LLC

AND

EXELON ENTERPRISES, LLC AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR AFFILIATES WHOLLY OR PARTLY-OWNED BY EXELON ENTERPRISES COMPANY, LLC

AND

COMMONWEALTH EDISON COMPANY AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR AFFILIATES WHOLLY OR PARTLY-OWNED BY COMMONWEALTH EDISON COMPANY

THIS AGREEMENT, made and entered into this 1st day of January, 2001, by and between the following: PECO ENERGY COMPANY ("PECO"), a Pennsylvania Corporation; and Exelon Corporation ("Exelon") and any or all of its subsidiaries and/or affiliates wholly or partly-owned by Exelon Corporation; Exelon Generation Company, LLC ("Genco") and any or all of its subsidiaries and/or affiliates wholly or partly-owned by Genco; Exelon Enterprises Company, LLC ("Enterprises") and any or all of its subsidiaries and/or affiliates wholly or partly-owned by Enterprises; and Commonwealth Edison Company ("ComEd") and any or all of its subsidiaries and/or affiliates wholly or partly-owned by ComEd (hereinafter collectively the "Affiliates," PECO and its Affiliates are collectively referred to as "Parties.")

WITNESSETH:

WHEREAS, the Parties desire to enter into this Agreement providing for the performance of certain services as more particularly set forth herein; and

WHEREAS, to maximize efficiency, and to achieve cost savings, the Parties desire to avail themselves of the benefits of having services provided by the least cost provider thereof whenever possible, and to compensate such provider appropriately for such services;

NOW, THEREFORE, in consideration of these premises and of the mutual agreements set forth herein, the Parties agree as follows:

Section 1. Definitions

Commission – the Pennsylvania Public Utility Commission.

Providing Company – one or more Parties to this Agreement that have agreed to provide requested services to another Party in accordance with the terms of this Agreement.

Requesting Company – one or more Parties to this Agreement that are requesting services to be provided by another Party in accordance with the terms of this Agreement

Section 2. Agreement to Provide Services

PECO and Affiliates agree to provide, upon the terms and conditions set forth herein, services including but not limited to those services hereinafter referred to and described in Section 3, at such times, for such period and in such manner as Requesting Company may from time to time request and Providing Company concludes it is able and willing to provide. In providing such services, Providing Company may arrange, as it deems appropriate, for the services of such experts, consultants, advisers, and other persons with necessary qualifications as are required for or pertinent to the provision of the requested services.

Section 3. Services to be Provided

A Providing Company shall render services as Requesting Company may request from time to time and Providing Company determines it is able and willing to perform.

Section 4. New Affiliates

New direct or indirect affiliates of PECO, which may come into existence after the effective date of this Mutual Service Agreement, may become parties to this Agreement. The Parties hereto shall make such changes in the scope and character of the services to be provided and the method of assigning, distributing or allocating costs of such services as may become necessary to achieve a fair and equitable assignment, distribution, or allocation of costs among all Requesting Companies, including the new affiliates.

Section 5. Compensation of Providing Company

As compensation for the services to be provided hereunder, a Requesting Company shall generally pay to Providing Company charges for services that are no more than the cost thereof (except as otherwise directed or permitted by an appropriate regulatory authority), insofar as costs can reasonably be identified and related to the particular services in question or otherwise fairly and equitably allocated to such services. To the extent that PECO or its affiliated Electric Generation Supplier (as that term is defined in the Pennsylvania Public Utility Code) are participants in a particular transaction, the Requesting Company shall pay to Providing Company charges for services that comply with the Commission's decisions, rules and regulations, including the Commission-approved settlement of Docket Nos. R-00973953 and P-00971265 and Appendices G and H thereto. In addition, all transactions conducted hereunder shall be subject to the Public Utility Holding Company Act of 1935, as administered by the Securities and Exchange Commission.

Section 6. Service Requests

The services described herein or contemplated to be provided hereunder shall be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis.

Section 7. Payment

Payment shall be by making remittance of the amount billed or by making appropriate accounting entries on the books of the companies involved. Invoices shall be prepared on a monthly basis for services provided hereunder.

Section 8. Effective Date and Termination

This Agreement has been approved by the Commission in Docket No. A-110550F0147 and shall become effective as of the date of execution and shall remain in effect from said date unless terminated by the Commission or by mutual agreement. Any Party may withdraw from this Agreement by giving at least sixty days written notice to the other Parties prior to withdrawal.

Section 9. Access to Records

For the seven years following a transaction under this Agreement, the Requesting Company may request access to and inspect the accounts and records of the Providing Company, provided that the scope of access and inspection is limited to accounts and records that are related to such transaction.

Section 10. Assignment

This Agreement and the rights hereunder may not be assigned without the mutual written consent of all Parties hereto.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their authorized officers as of the day and year first above written.

PECO ENERGY COMPANY

By: ______________________
Craig L. Adams

Title: Senior Vice President and
Chief Operating Officer

Date: 7/16/2010

**EXELON GENERATION COMPANY,LLC
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR
AFFILIATES WHOLLY OR PARTLY-OWNED BY
EXELON GENERATION COMPANY, LLC**

By: ______________________
Doyle M. Beneby

Title: Senior Vice President

Date: ______________________

**EXELON ENTERPRISES COMPANY,LLC
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR
AFFILIATES WHOLLY OR PARTLY-OWNED BY
EXELON ENTERPRISES COMPANY, LLC**

By: ______________________
Carter C. Culver

Title: Chief Executive Officer and President

Date: ______________________

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their authorized officers as of the day and year first above written.

PECO ENERGY COMPANY

By: ____________________________
Craig L. Adams

Title: Senior Vice President and
Chief Operating Officer

Date: ____________________________

**EXELON GENERATION COMPANY,LLC
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR
AFFILIATES WHOLLY OR PARTLY-OWNED BY
EXELON GENERATION COMPANY, LLC**

By: ____________________________
Doyle N. Beneby

Title: Senior Vice President

Date: 7/14/2010

**EXELON ENTERPRISES COMPANY,LLC
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR
AFFILIATES WHOLLY OR PARTLY-OWNED BY
EXELON ENTERPRISES COMPANY, LLC**

By: ____________________________
Carter C. Culver

Title: Chief Executive Officer and President

Date: ____________________________

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their authorized officers as of the day and year first above written.

PECO ENERGY COMPANY

By: __________________________
Craig L. Adams

Title: Senior Vice President and
Chief Operating Officer

Date: __________________________

**EXELON GENERATION COMPANY,LLC
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR
AFFILIATES WHOLLY OR PARTLY-OWNED BY
EXELON GENERATION COMPANY, LLC**

By: __________________________
Doyle M. Beneby

Title: Senior Vice President

Date: __________________________

**EXELON ENTERPRISES COMPANY,LLC
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR
AFFILIATES WHOLLY OR PARTLY-OWNED BY
EXELON ENTERPRISES COMPANY, LLC**

By: __________________________
Carter C. Culver

Title: Chief Executive Officer and President

Date: July 27, 2010

**EXELON CORPORATION
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR
AFFILIATES WHOLLY OR PARTLYOWNED BY
EXELON CORPORATION**

By: Duane M DesParte
Duane M. DesParte

Title: Vice President and Corporate Controller

Date: 7-16-10

**COMMONWEALTH EDISON COMPANY
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR
AFFILIATES WHOLLY OR PARTLY-OWNED BY
COMMONWEALTH EDISON COMPANY**

By: ______________________
Joseph R. Trpik, Jr.

Title: Senior Vice President, Chief Financial Officer
and Treasurer

Date: ______________________

EXELON CORPORATION
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR AFFILIATES WHOLLY OR PARTLYOWNED BY EXELON CORPORATION

By: ______________________________
Duane M. DesParte

Title: Vice President and Corporate Controller

Date: ______________________________

COMMONWEALTH EDISON COMPANY
AND ANY OR ALL OF ITS SUBSIDIARIES AND/OR AFFILIATES WHOLLY OR PARTLY-OWNED BY COMMONWEALTH EDISON COMPANY

By: ______________________________
Joseph R. Trpik, Jr.

Title: Senior Vice President, Chief Financial Officer and Treasurer

Date: July 28, 2010

VERIFICATION

I, Richard A. Schlesinger, hereby declare that I am Manager, Retail Rates of PECO Energy Company; that, as such, I am authorized to make this verification on its behalf; that the facts set forth in the foregoing Request for Contract Approval are true and correct to the best of my knowledge, information and belief; and that I make this verification subject to the penalties of 18 Pa.C.S. §4904 pertaining to false statements to authorities.

Richard A. Schlesinger

Date: November 17, 2010

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PECO ENERGY COMPANY'S REQUEST FOR APPROVAL OF A CONTRACT WITH AN AFFILIATED INTEREST FILED IN COMPLIANCE WITH PECO'S IMPLEMENTATION PLAN OF THE MANAGEMENT EFFICIENCY INVESTIGATION AT DOCKET NO. D-2009-2128070	:	**DOCKET NO. __-________** **DOCKET NO. D-2009-2128070**

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a true copy of the enclosed **Request for Approval of a Contract** upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA FIRST CLASS MAIL DELIVERY

Irwin A. Popowsky
Tanya J. McCloskey
Office of Consumer Advocate
555 Walnut Street
Forum Place, Fifth Floor
Harrisburg, PA 17101

Johnnie E. Simms
Office of Trial Staff
Pennsylvania Public Utility
Commission
P.O. Box 3265
Harrisburg, PA 17120

William R. Lloyd, Jr.
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101

Paul T. Diskin, Manager
Bureau of Fixed Utility Services
Pennsylvania Public Utility
Commission
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, PA 17120

John Clista
Management Audit Supervisor
Bureau of Audits
Pennsylvania Public Utility Comission
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, PA 17120

Dated: November 17, 2010

Ward L. Smith
Ward.smith@exeloncorp.com

Counsel for PECO Energy Company

EXELON BUSINESS SERVICES COMPANY

ASSOCIATE TRANSACTION PROCEDURES MANUAL

January 2017

Introduction

Exelon Business Services Company, LLC (BSC or Services Company) provides a variety of administrative, management and support services to Exelon Corporation and other Exelon system companies and business units (Client Companies). BSC is subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC) pursuant to the Public Utility Holding Company Act of 2005 (PUHCA). In addition, each of the individual state regulated public utility companies have additional requirements related to associate transactions. Where applicable, these requirements have been incorporated into these Policies and Procedures.

Service Agreements and Work Orders

BSC has entered into a General Services Agreement or Service Agreement with Client Companies that is substantially similar to the General Services Agreement (GSA) attached hereto as Exhibit A. The Service Agreement sets forth in general terms the services to be performed by BSC directly or indirectly for Client Companies. BSC and each Client Company will prepare Work Orders, in the form of Service Level Arrangements (SLA), to specify the services to be performed by BSC for a Client Company. A sample SLA is attached hereto as Exhibit B. Additional documentation of work to be performed pursuant to SLAs may be used by the parties.

The purpose of the SLA is to establish service expectations between BSC and each Client Company. Each SLA will be reviewed and agreed upon on an as needed basis by authorized representatives of BSC and each Client Company. In conjunction with this review of SLAs, the allocation methods and ratios presented in Service Agreement Schedules 1 and 2, attached to the GSA, shall be reviewed and agreed upon by the parties.

An SLA typically contains the following elements:

1. Scope of Services
2. Service Level Expectations
3. Unit Cost Expectations
4. Performance Measures
5. Billing Process

Each SLA is approved by the individual(s) authorized to represent BSC and the Client Company related to the services to be provided.

BSC currently has three distinct processes related to SLAs.

1. The SLA process starts with the BSC Service Providers and the Client Companies representatives meeting to agree upon services to be provided over a future period of time, generally one to three years in duration. As BSC has been in operation for over ten years, most services have been defined and have been agreed to by the parties, and have been delivered efficiently and consistently to the Client Companies for a period of time. New service areas and services may be added in the future, or may be removed from the BSC services offerings. The SLA meetings focus on changes to service offerings and on refining the expected quantities to be consumed, as well as on improvements in providing the services or changes in the operational requirements around providing the services, including benchmarking and performance metrics, definition of responsibilities and other provisions between Service Providers and customer. The Service Providers are responsible for the over-all content in the Exelon BSC Service Catalog. Portions of the SLA template and Exelon BSC Service Catalog are reviewed by Legal. Early in the SLA process, the Legal review concentrates on the scope, governing agreement and certain terms and conditions. The Accounting review of the Exelon BSC Service Catalog and SLA drafts takes place near the end of the process and concentrates on the billing approach and pricing table sections of the Exelon BSC Service Catalog for compliance to the GSA and other PUHCA 2005 requirements. BSC Finance will check completed SLAs to make sure that changes are not made after Legal and Accounting review, or if such changes have been made, will obtain Legal and/or Accounting review of the changes. BSC Finance shall retain documentation evidencing the required SLA reviews in accordance with the record retention requirements. BSC works with the accounting and finance departments in the Client Companies to set-up the code block that the customer wants to be charged for the various services, and the level (company level, intermediate level, or department level) at which they wish to be billed. BSC Accounting works with BSC Finance to set up the appropriate accounting – cost capture pools on BSC's books. For most customers, the BSC Billing Systems journalize the actual monthly charges on the customer's books during the financial close.

2. The second process relates to change orders and other emergent work that appear after budgets have been locked down and the actual year has begun. Similar to the SLA process, BSC Accounting is involved to review any change orders for GSA and PUHCA compliance, and work with the customers' accounting departments to set-up and bill each item appropriately.

3. The third process relates to acquisitions or other new potential business for BSC. The BSC Service Providers interface with the M&A Team. The BSC support services costs are developed and include one-time and on-going support costs. Emergent work projects are set-up to collect one-time charges of adding the acquisition into BSC established services. BSC may prepare a proposal capturing integrated support service scope, schedule, budget, and assumptions. Linkage to an existing customer SLA is generally preferred, otherwise a new SLA may need to be created. For new SLA work, general terms and conditions are reviewed and signed by the controlling customer authorizing the work to proceed. BSC Finance and BSC Accounting gets involved in similar roles as mentioned above for the other processes.

Accounting Procedures

BSC will maintain processes which allow it to accumulate costs in Cost Centers and cost pools. Where possible, these costs will be charged out to Client Companies using direct charging methodologies, including time and materials and unit price (standard rate) basis. Cost Centers and cost pools collect resource costs for services and activities described in the Exelon BSC Service Catalog. This process supports the philosophy of billing costs to the Client Company on an appropriate basis. BSC will use this process to maintain accounting systems to record all of its costs.

Costs will be billed to Client Companies as work is performed and costs are incurred. When a service requested by a Client Company has not been previously specified, a new SLA may be created or the existing one revised. BSC Accounting is responsible for ensuring that all of the billing methodologies are consistent with the GSA.

Direct Costs are defined as those that can be identified as applicable to services performed for a single Client Company or group of Client Companies. Direct costs include the fully distributed cost of providing a particular service. The fully distributed costs include labor costs, labor related costs (such as pensions and benefit costs, and facility costs), IT costs, outside services where applicable, back office support costs of running BSC, and other non-labor costs such as materials and supplies. Direct Costs will be charged to the Client Company or Companies responsible for the activity.

BSC will use direct charging (e.g., standard costing or unit prices and/or time and materials) and cost allocations to bill Client Companies. Under a standard costing methodology, as product or service units are used by the Client Companies, the services are directly billed to Client Companies at standard rates. Standard rates are fully cost burdened billing unit rates used by a specific department for a specified service. These rates are established for a number of services offered by the Services Company including invoice processing cost per invoice, mainframe computing cost per CPU usage, and IT desktop support cost per desktop computer. In general, these standard rates are calculated by estimating the fully distributed cost of providing the service for the year divided by the expected number of units (selected as the unit of measurement) to be consumed by all associated customers.

Residual amounts or costs that cannot be directly billed using reasonable measures will remain in the Cost Center to be allocated to Client Companies on an appropriate basis.

Indirect Costs include those costs of a general nature such as general services, and other support costs which cannot be specifically identified to a specific client company or smaller group of companies or to a specific service and therefore must be allocated. An example of Indirect Costs includes most corporate governance services that benefit all companies, which consists of, for example, functions such as accounting, finance, executive, strategic planning, investor relations, government affairs and policy, and corporate communications. The allocation methods used to assign costs to Client Companies will be based on factors identified in Schedule 1 attached to the GSA.

Services and Service Level Arrangements (SLA)

Based on experience and discussions with the Client Companies, BSC has made available a list of service offerings that are defined in the Exelon BSC Service Catalog for the SLA period. Responsibilities of Client Companies for requesting services are defined in the Exelon BSC Service Catalog. A listing of current SLAs and the Exelon BSC Service Catalog can be found on the Exelon Intranet under Operating Companies – BSC (under Popular Links).

Services provided will be reviewed on an as needed basis by BSC and Client Companies. SLAs will be prepared for on-going and for special services, which benefit one or more Client Companies. Examples of on-going services are payroll processing and IT desktop support. SLAs will be approved by the individual(s) authorized to represent BSC and each Client Company in accordance with Company Capital Approval Policies. In all cases, the authorized approvers representing BSC and the Client Company will be different individuals.

When a new service or project is identified, BSC Finance and BSC Accounting will determine whether a new SLA shall be used or whether the costs shall be captured in an existing SLA. One or more of the following criteria should be considered in determining the need for a new SLA:

1. No existing SLA uses the billing methodology that is needed for the new service project.

2. No existing SLA charges costs to the benefiting Client Company for the new service or project.

3. There is a specific regulatory requirement to allocate costs in a specific manner regardless of amount for the new project/service.

4. No existing SLA captures similar activity or services.

5. The total estimated annual cost of the new service or project is greater than $500,000.

SLA (Work Order) Monitoring and Control

BSC Finance and BSC Accounting are responsible for reviewing, monitoring and maintaining the SLA (Work Order) and Exelon BSC Service Catalog documentation. BSC Finance and BSC Accounting will also authorize new SLAs as necessary. A formal annual review will be required of all SLAs including a review by legal. As part of the annual review, inactive SLAs will be removed.

Allocation Factors Update and Revisions

Allocation factors will be based on cost drivers specifically applicable to the service provided. BSC Accounting will have the primary responsibility for ensuring that allocation factors are correct, accurate and current. BSC Finance and the Service Providers will assist in gathering required usage and other data to calculate the allocation factors.

BSC Accounting will be responsible for evaluating new allocation methodologies and will consult the Legal Department as needed. Adequate supporting documentation shall be obtained from all associate companies/business units for the raw data used in the allocation methodologies, and maintained in accordance with record retention requirements set forth in the Exelon record retention policy and schedule.

A list of current allocations will be filed annually with the FERC on FERC Form No. 60.

Time Reporting

All BSC employees, including executives, shall keep, within reasonable cost, time records supporting labor charged to separately identifiable goods and services performed for Client Companies. Time records are kept in a timekeeping management system or manually on time sheets.

Employees will record time weekly in a minimum of one-hour increments. Departments may elect to record employees' time in increments smaller than an hour to meet special needs.

The employee's immediate supervisor will review and approve time reports. The BSC Controller's organization will be the authorized delegate for the review of executive time records. Time records will be maintained in accordance with record retention requirements set forth in the Exelon record retention policy and schedule.

Billing and Review

BSC shall prepare a monthly invoice report detailing the services / products provided by Service Area for each Client Company. Payment shall be made by the Client Company by making remittance or by making (offsetting) accounting entries of the amount billed. Payment term (or appropriate offsetting accounting entries) is within thirty days of receipt.

Dispute Resolution Procedure

In the event there is a dispute between the Client Company and BSC regarding a billing methodology and/or amount, representatives of the Services and Client Companies will meet to discuss the issue. If a resolution cannot be reached among the Parties, the issue will be referred to each Party's executive management for final resolution.

Internal Audit Control

Internal Audit, under the direction of the General Auditor, will conduct periodic reviews of BSC's business processes and systems to ensure that the services provided are properly documented and charged to the Client Companies on an appropriate basis. Reviews shall be performed such that all major service areas are evaluated over time. Internal Audit will also conduct reviews of transactions and SLA charge methods to assess whether they comply with regulatory requirements. Internal Audit will also review the BSC allocations and corporate governance costs every two years.

Internal Audit maintains an independent role and has direct contact to Exelon's Audit Committee. Audit findings, recommendations and progress toward resolution of findings are reported to the Audit Committee and Senior Management as appropriate.

Budgeting

Budgeting for BSC will be a joint effort between it and other Client Companies. Renewal / revision of SLAs for the upcoming budget period will provide the basis for preparing budgets.

Evaluation

BSC will review its costs for competitiveness on a regular basis. Benchmarking and other measurement techniques will be used to the extent deemed appropriate by senior management. Additionally, BSC will also initiate a customer review process to gauge the value and quality of the services provided. Results will be shared with the Client Companies to allow them to evaluate cost effectiveness and assess alternate options.

EXHIBIT A

GENERAL SERVICES AGREEMENT

BETWEEN

EXELON BUSINESS SERVICES COMPANY

AND

EXELON CORPORATION; EXELON ENERGY DELIVERY COMPANY, LLC; COMMONWEALTH EDISON COMPANY; PECO ENERGY COMPANY; EXELON VENTURES COMPANY, LLC; EXELON GENERATION COMPANY, LLC; EXELON ENTERPRISES COMPANY, LLC; UNICOM INVESTMENT INC.; AND THE SUBSIDIARIES, AFFILIATES AND ASSOCIATES OF EACH LISTED ENTITY.

THIS AGREEMENT, made and entered into this 1st day of January, 2001, by and between the following Parties: EXELON BUSINESS SERVICES COMPANY ("Services Company"), EXELON CORPORATION; EXELON ENERGY DELIVERY COMPANY, LLC; COMMONWEALTH EDISON COMPANY; PECO ENERGY COMPANY; EXELON VENTURES COMPANY, LLC; EXELON GENERATION COMPANY, LLC; EXELON ENTERPRISES COMPANY, LLC; UNICOM INVESTMENT INC; AND THE SUBSIDIARIES, AFFILIATES AND ASSOCIATES OF EACH LISTED ENTITY (collectively, the "Client Companies");

WITNESSETH:

WHEREAS, Client Companies, including EXELON CORPORATION, which is registered under the terms of the Public Utility Holding Company Act of 1935 (the "Act") and its other subsidiaries, affiliates and associates desire to enter into this agreement providing for the performance by Services Company for the Client Companies of certain services as more particularly set forth herein;

WHEREAS, Services Company is organized, staffed and equipped and has filed with the Securities and Exchange Commission ("the SEC") to be a subsidiary service company under Section 13 of the Act to render to EXELON CORPORATION, and other subsidiaries, affiliates and associates of EXELON CORPORATION, certain services as herein provided; and

WHEREAS, to maximize efficiency, and to achieve merger related savings, the Client Companies desire to avail themselves of the advisory, professional, technical and other services of persons employed or to be retained by Services Company, and to compensate Services Company appropriately for such services;

NOW, THEREFORE, in consideration of these premises and of the mutual agreements set forth herein, the Parties agree as follows:

Section 1. Agreement to Provide Services

Services Company agrees to provide to Client Companies, upon the terms and conditions set forth herein, the services hereinafter referred to and described in Section 2, at such times, for such period and in such manner as Client Companies may from time to time request. Except with respect to "Corporate Governance Services" as defined in Section 7 hereof, the Services Company shall perform only those services as are requested by the Client Companies. Services Company will keep itself and its personnel available and competent to provide to Client Companies such services so long as it is authorized to do so by the appropriate federal and state regulatory agencies. In providing such services, Services Company may arrange, where it deems appropriate, for the services of such experts, consultants, advisers and other persons with necessary qualifications as are required for or pertinent to the provision of such services.

Section 2. Services to be Provided

The services expected to be provided by Services Company hereunder may, upon request by a Client Company, include the services as set out in Schedule 2, attached hereto and made a part hereof. In addition to those identified in Schedule 2, Services Company shall provide such additional general or special services, whether or not now contemplated, as Client Companies may request from time to time and Services Company determines it is able to provide.

Notwithstanding the foregoing paragraph, no change in the organization of the Services Company, the type and character of the companies to be serviced, the factors for allocating costs to associate companies, or in the broad general categories of services to be rendered subject to Section 13 of the Act, or any rule, regulation or order thereunder, shall be made unless and until the Services Company shall first have given the SEC written notice of the proposed change not less than 60 days prior to the proposed effectiveness of any such change. If, upon the receipt of any such notice, the SEC shall notify the Services Company within the 60-day period that a question exists as to whether the proposed change is consistent with the provisions of Section 13 of the Act, or of any rule, regulation or order thereunder, then the proposed change shall not become effective unless and until the Services Company shall have filed with the SEC an appropriate declaration regarding such proposed change and the SEC shall have permitted such declaration to become effective.

Section 3. Changes in Parties

New direct or indirect subsidiaries, affiliates and associates of EXELON CORPORATION, which may come into existence after the effective date of this Services Agreement, may become additional Client Companies of Services Company and subject to this General Services Agreement. In addition, entities which are, as of the effective date of this General Services Agreement, direct or indirect subsidiaries, affiliates and associates of EXELON CORPORATION, may thereafter leave the holding company system, in which case they will no longer be subject to this General Services Agreement. The parties hereto shall make such changes in the scope and character of the services to be provided and the method of assigning, distributing or allocating costs of such services as may become necessary to achieve a fair and equitable assignment, distribution, or allocation of Services Company costs among associate companies taking into account both the new subsidiaries and the subsidiaries which have left the holding company system, subject to the provisions of Section 2 above.

Section 4. Compensation of Services Company

As compensation for the services to be rendered hereunder, Client Companies listed in Attachment A hereto, as revised from time to time, shall pay to Services Company all costs which reasonably can be identified and related to particular services provided by Services Company for or on Client Company's behalf (except as may otherwise be permitted by the SEC). All other Client Companies and their affiliates and associates (see Attachment B) shall pay to Services Company charges for services that are to be no less than cost (except as may otherwise be permitted by the SEC), insofar as costs can reasonably be identified and related by Services Company to its performance of particular services for or on behalf of Client Company.

The services described herein or contemplated to be provided hereunder shall be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The factors for assigning or allocating Services Company costs to Client Company, as well as to other associate companies, are set forth in Schedules 1 and 2 attached hereto. Attachments A and B and Schedules 1 and 2 are each expressly incorporated herein and made a part hereof.

Any charges to the Client Companies on account of use of capital shall reflect a reasonable and efficient capital structure.

Section 5. Securities and Exchange Commission Rules

It is the intent of the Parties that the determination of the costs as used in this Agreement shall be consistent with, and in compliance with, the rules and regulations of the SEC, as they now exist or hereafter may be modified by the Commission.

Section 6. Service Review

The parties shall review each service covered by this Agreement on an as needed basis, to assess the quality of the service and to determine the continued need therefor, and shall, subject to the provisions of Section 2 above, amend the scope of services, delete services entirely from this Agreement, and/or decline services which are not "Corporate Governance Services," as defined in Section 7 hereof, as they determine to be necessary or desirable.

Section 7. Corporate Governance Services.

Whether or not requested by the Client Companies, the Services Company may provide to all Client Companies, and Client Companies shall pay Services Company for, "Corporate Governance Services." Corporate governance consists of those activities and services reasonably determined to be necessary for the lawful and effective management of Exelon System businesses. Corporate Governance Services may be supplied from functions such as accounting, finance, executive, strategic planning, legal, human resources/benefits, audit, corporate communications and public affairs, environmental, health and safety, government affairs and policy, and investor relations. Corporate Governance Services may include, but are not limited to, the following: planning and project evaluation; finance and treasury; accounting and analysis; risk management; tax; shareholder and investor relations; merger and acquisition services; strategic planning; diversity; employee and labor relations; HR planning and development; compensation and benefits; legal services in the areas of securities, PUHCA, employment, regulatory, contract, litigation and intellectual property laws; legal and administrative support to the Board of Directors; environmental compliance activities; ethics and compliance programs; management services for compliance with Federal laws, regulations and other policy requirements, including relationship management with the U.S. Congress and Federal agencies; corporate communications; branding; corporate events; charitable support; community relations and communications to local organizations; and communications to employees.

Section 8. Payment

Payment shall be by making remittance of the amount billed or by making appropriate accounting entries on the books of the companies involved. Invoices shall be prepared on a monthly basis for services provided hereunder.

Section 9. EXELON CORPORATION

Except as authorized by rule, regulation, or order of the SEC, nothing in this Agreement shall be read to permit EXELON CORPORATION, or any person employed by or acting for EXELON CORPORATION, to provide services for other Parties, or any companies associated with said Parties.

Section 10. Client Companies

Except as limited by law or order of the SEC, Client Companies, their subsidiaries, affiliates and associates may provide services described herein to other Client Companies, their subsidiaries, affiliates and associates on the same terms and conditions as set out for the Services Company.

Section 11. Effective Date and Termination

This Agreement is executed subject to the consent and approval of all applicable regulatory agencies, and if so approved in its entirety, shall be deemed effective from the date that the merger between PECO ENERGY COMPANY and UNICOM CORPORATION was consummated, and shall remain in effect from said date unless terminated by mutual agreement or by any Party giving at least 90 days' written notice to the other Parties prior to the beginning of any calendar year, each Party fully reserving the right to so terminate this Agreement.

This Agreement may also be terminated or modified to the extent that performance may conflict with any rule, regulation or order of the SEC adopted before or after the making of this Agreement. This Agreement shall be terminated with respect to any Client Company immediately upon such Client Company ceasing to be a member of the Exelon holding company system.

The Parties' obligations under this Agreement which by their nature are intended to continue beyond the termination or expiration of this Agreement shall survive such termination or expiration.

Section 12. Access to Records

Records will be maintained in accordance with 17 C.F.R. §257 and in any event no less than seven years following a transaction under this Agreement. The Client Company may request access to and inspect the accounts and records of the Services Company, provided that the scope of access and inspection is limited to accounts and records that are related to such transaction.

Section 13. Assignment

This Agreement and the rights hereunder may not be assigned without the mutual written consent of all Parties hereto.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their authorized officers as of the day and year first above written.

EXELON BUSINESS SERVICES COMPANY

By /s/ Ruth Ann M. Gillis
Ruth Ann M. Gillis
Title: President

EXELON CORPORATION,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES, AFFILIATES AND ASSOCIATES

By /s/ J. Barry Mitchell
J. Barry Mitchell
Title: Senior Vice President and Treasurer

EXELON ENERGY DELIVERY COMPANY, LLC,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By /s/ J. Barry Mitchell
J. Barry Mitchell
Title: Vice President and Treasurer

COMMONWEALTH EDISON COMPANY,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By /s/ J. Barry Mitchell
J. Barry Mitchell
Title: Senior Vice President, Treasurer, and Chief Financial Officer

PECO ENERGY COMPANY,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By /s/ J. Barry Mitchell
J. Barry Mitchell
Title: Vice President, Treasurer, and Chief Financial Officer

EXELON VENTURES COMPANY LLC,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By /s/ J. Barry Mitchell
J. Barry Mitchell
Title: Vice President, Treasurer, and Chief Financial Officer

EXELON GENERATION COMPANY, LLC,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By /s/ J. Barry Mitchell
J. Barry Mitchell
Title: Vice President, Treasurer, and Chief Financial Officer

EXELON ENTERPRISES COMPANY, LLC,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By /s/ J. Barry Mitchell
J. Barry Mitchell
Title: Vice President and Treasurer

UNICOM INVESTMENT INC.,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES

By /s/ J. Barry Mitchell
J. Barry Mitchell
Title: Chairman, President and Chief Executive Officer,
Director, Vice President and Treasurer

BALTIMORE GAS AND ELECTRIC COMPANY,
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(effective March 12, 2012)

By /s/ Carim V. Khouzami
Carim V. Khouzami
Title: Vice President, Chief Financial Officer and Treasurer

ATLANTIC CITY ELECTRIC COMPANY
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: /s/ Donna J. Kinzel
Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer and Treasurer

DELMARVA POWER & LIGHT COMPANY
ON BEHALF OF ITSELF AND ITS
SUBSIDIARIES (Effective March 24, 2016)

By: /s/ Donna J. Kinzel
Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer and Treasurer

POTOMAC ELECTRIC POWER COMPANY
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: /s/ Donna J. Kinzel
Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer and Treasurer

PEPCO HOLDINGS LLC
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: /s/ Donna J. Kinzel
Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer and Treasurer

PHI SERVICE COMPANY
ON BEHALF OF ITSELF AND ITS SUBSIDIARIES
(Effective March 24, 2016)

By: /s/ Donna J. Kinzel
Donna J. Kinzel

Its: Senior Vice President, Chief Financial Officer and Treasurer

Attachment A

Commonwealth Edison Company

Commonwealth Edison of Indiana, Inc.

PECO Energy Company

Exelon Generation Company, LLC

Baltimore Gas and Electric Company (effective March 12, 2012)

Atlantic City Electric Company (effective March 24, 2016)

Delmarva Power & Light Company (effective March 24, 2016)

Potomac Electric Power Company (effective March 24, 2016)

PEPCO Holdings LLC (effective March 24, 2016)

PHI Service Company (effective March 24, 2016)

Any subsidiary involved in directly providing goods, construction or services to the foregoing companies.

Attachment B

All other Client Companies and their affiliates and associates not referred to in Attachment A.

Service Agreement Schedule 1

<u>Allocation Ratios:</u>

General:

Direct charges shall be made so far as costs can be identified and related to the particular transactions involved without excessive effort or expense. Other elements of cost, including taxes, interest, other overhead, and compensation for the use of capital procured by the issuance of capital stock, shall be fairly and equitably allocated using the ratios set forth below.

Revenue Related Ratios:

Revenues
Sales - Units sold and/or transported
Number of Customers

Expenditure Related Ratios:

Total Expenditures
Operations and Maintenance Expenditures
Capital Expenditures
Service Company Billings
Service Company SLA Billings (Non-governance)

Labor/Payroll Related Ratios:

Labor / Payroll
Number of Employees

Units Related Ratios:

Usage	(for example: CPU's, square feet , number of vendor invoice payments)
Consumption	(for example: tons of coal, gallons of oil, MMBTU's)
Capacity	(for example: nameplate generating capacity, peak load, gas throughput)
Other units related	

Assets Related Ratios:

Total Assets
Current Assets
Gross Plant

Composite Ratios:

Total Average Assets and 12 months ended Gross Payroll
Modified Massachusetts Formula
Other composite ratios

Service Agreement Schedule 2

<u>Services Including But Not Limited To:</u>

General:

Direct charges shall be made so far as costs can be identified and related to the particular transactions involved without excessive effort or expense. Other elements of cost, including taxes, interest, other overhead, and compensation for the use of capital procured by the issuance of capital stock, shall be fairly and equitably allocated using the ratios set forth in Schedule 1.

Administrative & management services including but not limited to:

accounting
    bookkeeping
    billing
    accounts receivable
    accounts payable
    financial reporting
audit
claims
communications
customer operations
customer services
executive
finance
insurance
information systems services
investment advisory services
legal
library
record keeping
secretarial & other general office support
real estate management
security holder services
tax
treasury
other administration & management services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Personnel services including but not limited to:

recruiting
training & evaluation services
payroll processing
employee benefits administration & processing
labor negotiations & management
other personnel services

Expected allocation ratios: Labor/Payroll Related, Units Related, Composite

Purchasing services including but not limited to:

preparation & analysis of product specifications
requests for proposals & similar solicitations
vendor & vendor-product evaluations
purchase order processing
receipt, handling, warehousing and disbursement of purchased items contract negotiation & administration
inventory management & disbursement
other purchasing services

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Facilities management services including but not limited to:

office space
warehouse & storage space
transportation facilities (including dock & port, rail sidings and truck facilities)
repair facilities
manufacturing & production facilities
fixtures, office furniture & equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Computer services including but not limited to:

computer equipment & networks
peripheral devices
storage media
software

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Communications services including but not limited to:

communications equipment
audio & video equipment
radio equipment
telecommunications equipment & networks
transmission & switching capability

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Machinery management services including but not limited to:

equipment
tools
parts & supplies

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Vehicle management services including but not limited to:

automobiles
trucks
vans
trailers
railcars
marine vessels
aircraft
transport equipment
material handling equipment
construction equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Operational services including but not limited to:

drafting & technical specification, development & evaluation
consulting
engineering
environmental
safety
nuclear
construction

design
resource planning
economic & strategic analysis
research
testing
training
customer solicitation
support & other marketing related services
public & governmental relations
other operational services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Exhibit B

Service Level Arrangement

Arrangement between __________________ Services Department and [Client Company]

Scope

Governing Agreement

Term of Service

Services

Scope of Services

Service Responsibility Matrix [Included in Service Catalog]

Services, Tasks		

Billing Approach [Included in Service Catalog]

Pricing Table:

Service, Product # and Description	Billing Approach, Basis, Service Owner

Performance Metrics & Performance Reporting [Included in Service Catalog]

Signatures	
Exelon Business Services Company, LLC ____________________ _______ Signature Date	Name (Client) Title ____________________ _______ Signature Date

1 2017 Exelon BSC Service Catalog

Exelon BSC Service Catalog - 2017

Contents

Introduction

This EBSC Service Catalog describes all EBSC Services and standard levels of service delivery offered and provided by EBSC Practice Areas to all Exelon's Client Companies.

Practice Areas are:

- Communications, Public Advocacy & Corporate Relations
- Corporate Development
- Corporate Strategy & Sustainability
- Corporate Transmission Analysis & Development (CTAD)
- Executives (Includes GCAs)
- Exelon Utilities (Includes Transmission Strategy & Compliance)
- Finance
- Government and Regulatory Affairs & Public Policy
- Human Resources
- Investments
- IT & Security
- Legal Services (Includes Corporate Governance)
- Real Estate
- Risk
- Supply
- Transportation

EBSC establishes a Service Level Arrangement (SLA) document with each Client Company to which they provide services. Each EBSC SLA between EBSC and a Client Company documents the specific list of EBSC Services by Practice Area provided to each Client Company as well as any additional Affiliate Specific Assumptions that may be uniquely requested by or provided to that Client Company.

Service Table Definition

Service Table includes:

- **Service ID and Service Name,** which identifies the service within the Inter-Company Billing system.
- **Service Description**, which describes the content and scope of the BSC Practice Area Services.
- **Service Owner,** leader accountable for the definition, direction and delivery of the service, typically a VP or higher.

FERC Account and Billing Approach Table includes:

- **Service ID and Service Name,** which identifies the service within the Inter-Company Billing system.
- **Major Client FERC Account,** identifies the account per the Federal Energy Regulatory Commission (FERC) uniform system of accounts **Billing Approach**, which includes Allocated and Direct:
    - **Allocated**: When the services provided are not specifically assignable to one specific client company and will benefit multiple client companies, the service cost is allocated to the client companies based on a cost causative method.
    - **Direct**: Typically used when resources or costs are attributable to service delivery to one specific customer. Examples include Time and Material costs that are tracked and billed to customers and **R*Q (Unit Based):** Used when service cost is tied to units of a service consumed by a customer (service driver). During the planning period, demand is forecasted, total cost of service delivery is budgeted, and Unit Price (Rounded) is determined by: [Service Budget] / [Total Forecasted Demand]. Monthly charge is based on [Actual monthly BU Demand] * [Unit Price]. Direct charges can also be billed through positive time reporting or projects billed to a specific customer.
- **Basis,** which describes the demand or allocation driver or basis of the billing method.

Performance Measurement Table:

The Performance Management section is optional and can be used to outline the standard by which the practice area monitors and reports performance, the level of service that will be expected to be met at a minimum, and target levels that will be expected to be met or exceeded on negotiated timelines (if applicable).

Responsibilities Table:

The Responsibilities section of the SLA is optional and can be used to provide clarity and ownership of the responsibilities between BSC and the Client Company and/or Identify who is responsible for each activity or decision that is required to provide or receive a service.

Communications, Public Advocacy & Corporate Relations

Communications, Public Advocacy & Corporate Relations Introduction

The Communications, Public Advocacy and Corporate Relations Practice Area enables Exelon and its operating companies to successfully pursue business goals and objectives by developing and providing strategic direction, management and support. This partnership helps strengthen and sustain a positive reputation among employees, customers, investors, policymakers and the communities we serve through execution of external and internal communications initiatives and programs.

Communications, Public Advocacy & Corporate Relations Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
668	Communications Operations	Management of external communications strategies and tactics impacting the parent company, Exelon Corporation, including media relations; shareholder/investor communications; internet development and enhancement and overall reputation management. Management of communications to all Exelon Corporation employees including: • Developing policies and standards, and providing direction and content for Exelon Corporation employee communications. • Creating and distributing company-wide communications vehicles such as newsletters, special bulletins, email notifications, and the intranet. Strategic issues management and tactical communications support to operating companies or business units that reinforces Exelon Corporation's vision and strategy. Lead interdepartmental teams to effectively manage issues with internal and external audiences. Development and implementation of public advocacy campaigns (in collaboration with federal and state Government & Regulatory Affairs) on behalf of Exelon Corporation and the Operating Companies to impact policy decisions affecting the company.	SVP Communications VP, Corporate Communications Director, Public Advocacy
610	Informational Advertising	Development and implementation of advertising for Exelon Corporation and the Operating Companies to educate/inform customers and enhance all stakeholders' perceptions of the companies in order to support their business objectives.	Director, External Communications
609	Promotional	Development and implementation of advertising for Exelon Corporation and the Operating	Director, External

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner
	Advertising	Companies to educate/inform customers and enhance all stakeholders' perceptions of the companies in order to support their business objectives.	Communications
611	Corporate Contributions	Governance, strategic and tactical management of Exelon Corporation's charitable contributions, sponsorships, employee volunteer program, and associated internal communications activities designed to enhance Exelon's corporate reputation.	VP, Corporate Relations
644	Lobbying & Influence Public Opinion	• Management services for compliance with federal, state and local campaign finance and lobbying laws, regulations and other policy requirements including relationship management with federal, state and local legislative and regulatory bodies and Administrative agencies • Direct lobbying activities (attempting to influence discretionary power of government officials) • Supporting lobbying activities, including preparation or planning activities, research and other background work that is intended, at the time of its preparation, for coordination with lobbying activities of others • Coordinate, and support as necessary, the development of positions, comments, testimony, etcetera for emerging environmental regulatory and legislative policy issues, in support of Exelon advocacy initiatives Communicate Exelon's economic, social and environmental performance through an annual corporate sustainability report, information on websites, speeches, etcetera	Director, Public Advocacy
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	SVP, Communications
833	BSC Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is "trued up" each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings.	SVP, Communications
733	BSC AV- Field Photography	• Field Photography • Studio Photography • Photo Printing • Digital Retouching • File Management. Services that are requested outside of standard business hours (8am – 5pm Local Time), will have overtime billed as an As Requested service.	VP, Corporate Communications
738	BSC AV - Creative Media and Video Services	• Video production, including conceptualization and production of videos for employee communications, training, safety awareness, presentations, and TV and radio marketing • Graphic design, including the conceptualization and design of print collateral for marketing	VP, Corporate Communications

BSC Communications, Public Advocacy & Corporate Relations

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner
		and employee communications (brochures, booklets, direct mail, advertisements, newsletters, displays, banners and posters) • Multimedia production including the design and production of Flash presentations and interactive CDs and DVDs; and photography. • Employee and leadership meeting support, CD and DVD duplication • Coordination of freelance photographers, writers, proofreaders and other talent. • Examples of jobs: video production; advertisements; booklets/brochures; calendars; catalogs; displays; flash/multimedia production; illustrations; logos; presentation templates; web graphics, among others. • Field and studio Photography • Photo Printing • Digital Retouching • File Management Services that are requested outside of standard business hours (8am – 5pm Local Time), will have overtime billed as an As Requested service.	
665	BSC Communications as requested	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	SVP, Communications

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
668	Communications Operations	426.5 – Other Deductions (Advertising Expenditures) 923 – Outside Service Employed (Communications Operations)	Direct - 529100	Time and Material
			Allocated - 529110	Modified Massachusetts Formula
610	Informational Advertising	909 – Informational and Instructional Advertising	Direct - 529100	Time and Material
			Allocated - 529110	Modified Massachusetts Formula
609	Promotional Advertising	930.1 – General Advertising Expenses	Direct - 529100	Time and Material
			Allocated - 529110	Modified Massachusetts Formula
611	Corporate Contributions	426.1 - Donations	Direct - 529100	Time and Material
			Allocated - 529110	Modified Massachusetts Formula
644	Lobbying &	426.4 - Exp-civic/political activities	Direct - 529100	Time and Materials

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
	Influence Public Opinion		Allocated - 529110	Modified Massachusetts Formula
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529110	Total Service Billings
733	BSC AV- IL Field Photography	923 – Outside Service Employed	Direct – 529100	Time and Materials
738	BSC AV - Creative Media and Video Services	923 – Outside Service Employed	Direct – 529100	Time and Materials
665	BSC Communications as requested	923 – Outside Service Employed	Direct – 529100	Time and Materials
			Allocated - 529110	Modified Massachusetts Formula

Performance Measurement

Service	Metric	Target	Metric Reporting Frequency
Communications Operations	Client Executive Satisfaction	1st Quartile	Annually

Responsibilities

Task / Responsibility	BSC Practice Area	Client Company
Communications Operations		
Identify and analyze client companies key initiatives and issues	X	
Develop communications strategies and plans in coordination with client companies to support business objectives and drive favorability	X	X
Implement and manage client companies communications strategies and plans	X	X
Develop internal communications strategies and plans in conjunction with Corporate Strategy and Human Resources	X	

Task / Responsibility	BSC Practice Area	Client Company
Manage creation, production and distribution of Exelon-wide employee communication vehicles	X	
Provide input, as requested, for Exelon-wide employee communications vehicles		X
Manage creation and production of Exelon Corporation's annual report	X	
Work with IT to develop and manage the governance, strategies and policies that guide content on the internet and intranet	X	
Develop and implement financial communications strategy with Investor Relations	X	
Public Advocacy		
Develop and manage process and activities in support of policy initiatives impacting Exelon Corporation and its operating companies	X	
Coordinate activities with Federal and State Government Affairs	X	
Review, aid in the development of and assure alignment in support of public advocacy strategies	X	X
Allocate resources as identified to support public advocacy initiatives	X	X
Informational & Promotional Advertising		
Develop and manage Exelon Corporation's and the Client Company's branding strategy (logo standards and guidelines, documentation templates)	X	
Develop overall Exelon Corporation advertising strategy and approach	X	
Review and approve campaign concepts	X	X
Manage advertising agencies, i.e., creation of campaigns, placement of advertisements and the budget	X	
Approve creative content and implementation of advertising campaigns	X	X
Approve cost of advertising campaigns	X	X
Approve selection of new advertising agencies upon termination of contracts	X	X
Corporate Contributions		
Manage Exelon Corporation's corporate contributions and sponsorship program; and the employee volunteer program	X	
Promote the employee volunteer program within the Client Company	X	X
Provide governance and support for charitable contributions, manage the Corporate Citizenship Review Committee process and provide systems and process necessary to track giving across Exelon Corporation	X	
Submit the appropriate contribution requests to the CCRC for review and approval		X
Media Production Services		
Identify scope of work and schedule required		X

Task / Responsibility	BSC Practice Area	Client Company
Develop approach and range of services to meet requested scope of work and schedule	X	
Develop bid (statement for work including items to be produced and estimated price) and timeline (schedule for delivery)	X	
Approve bid and timeline. Supply accounting information		X
Deliver services and production items as per approved bid and agreed timeline	X	

Additional Information

Issue Resolution

Severity Levels (Client View)

	Description
1	Crisis or emergency event that has the potential for an adverse, Exelon-wide impact on corporate reputation.
2	Crisis or emergency event that has the potential for adverse impact that is limited to the Client-Company's reputation.

End User Problem Response (Service Provider)

Severity of Problem	Response	Resolution
1	VP of Corporate Communications will respond within 1 hour.	Complete the execution of the applicable Communications plan
2	VP or Director of Client Company's Communication department will respond within 1 hour.	Complete the execution of the applicable Communications plan

Corporate Development

Corporate Development Introduction

The Corporate Development Practice Area will provide strategic expertise and governance in the evaluation and execution of merger and acquisition opportunities, evaluate company assets for divestiture opportunities, and provide financial and transactional support to restructuring projects.

Corporate Development Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
641	Corporate Development Services	• Evaluation, prioritization and execution of acquisition and merger opportunities • Evaluation, prioritization and execution of divestitures opportunities • Evaluation, prioritization and execution of generation, wind and solar development opportunities • Financial and transaction support to restructuring projects	SVP & Chief Development Officer
909	Development As Requested	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	SVP & Chief Development Officer
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	SVP & Chief Development Officer
833	BSC Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is "trued up" each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings.	SVP & Chief Development Officer

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
641	Corporate Development Services	923 – Outside Service Employed	Allocated - 529060	Modified Massachusetts Formula
			Direct - 529050	Time and Materials

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Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
909	Development As Requested	923 – Outside Service Employed	Direct - 529250	Time and Materials
			Allocated - 529060	
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529060	Total Service Billings

Corporate Strategy, Innovation & Sustainability

Corporate Strategy, Innovation & Sustainability Introduction

The Corporate Strategy, Innovation & Sustainability (CSIS) group provides: strategic support for senior leadership; program leadership for Exelon's sustainable growth strategy; and corporate-wide governance, oversight and support for the innovation, environment and safety functions.

CSIS will manage strategic issues of the company, set context for strategic decisions and long-term investments, articulate a corporate strategic plan, and support the development and communication of Exelon's vision, and de-risk opportunities for the business units by leading enterprise-focused technology development adoption. CSIS supports the chief executive officer, board of directors and Executive Committee in identifying and analyzing strategic issues, and coordinates with the business units and various corporate functions to address these issues.

CSIS will provide governance and oversight to ensure that Exelon maintains effective programs for enhancing environmental and safety performance and for complying with all applicable environmental laws, regulations, and meets voluntary environmental and safety commitments; support the implementation of the Exelon corporate environment and safety policies, the Environmental Management System Program and the Exelon Safety Management System; perform analysis of strategic environmental issues, support the management of specific environmental regulatory compliance issues that affect multiple operating companies and/or the EBSC, or that are considered significant to Exelon, and provide analysis and advocacy support to Federal Regulatory Affairs and Wholesale Market Policy and Federal Government Affairs and Public Policy on strategic environmental regulatory and legislative policy issues, respectively.

Corporate Strategy & Sustainability Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
227	Entrepreneurial Growth Board	• This service is used to accelerate adoption of new technologies and Innovation initiatives through the Innovation Peer Group and Exelon Growth Board.	SVP, Corporate Strategy, Chief Innovation & Sustainability Officer
317	Environmental Services	• Provide independent audits of compliance with environmental, health and safety regulations and Exelon environmental, health and safety policies. • Conduct audits of environmental management systems which will support continued ISO 14001 certification.	SVP, Corporate Strategy, Chief Innovation & Sustainability Officer

Corporate Strategy & Sustainability

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner
644	Lobbying & Influence Public Opinion	• Supporting environmental and safety policy and regulatory lobbying activities, including preparation or planning activities, research and other background work that is intended, at the time of its preparation, for coordination with lobbying activities of others • Coordinate, and support as necessary, the development of positions, comments, testimony, etcetera for emerging environmental and safety regulatory and legislative policy issues, in support of Exelon advocacy initiatives • Communicate Exelon's economic, social and environmental performance through an annual corporate sustainability report, information on websites, speeches, etcetera	SVP, Corporate Strategy, Chief Innovation & Sustainability Officer
654	Corporate Strategy Services	• Strategic issues analysis and management ○ Maintain forward-looking agenda of key issues facing the company ○ Establish ad hoc teams to analyze issues and develop options for response ○ Maintain proactive role in keeping focus "ahead of the curve" ○ Support CEO and Leadership Team to develop key focus areas, agenda and staff support for business meetings • Corporate Strategic Planning ○ Together with Financial Planning, implement a structured approach to strategic and long range planning that integrates analysis of strategic issues into the planning process ○ Corporate Strategic plan provides framework for aligning business planning with corporate objectives ○ Organize business content for Board Strategy Retreat • Vision, communications of vision and strategy, strategic literacy ○ Support senior leadership in defining and articulating a corporate vision ○ Cascade vision through organization, aligning and engaging employees ○ Partner with HR and Corporate Communications to drive strategic business literacy throughout the corporation ○ Provide for communications of key strategic issues by managing bi-annual Leadership Meetings ○ Environmental and Safety Performance Oversight ○ Compile, assess and present recommendations to senior leadership for improving Exelon's environmental and safety performance. ○ Maintain the Exelon GHG Inventory, including third-party verification, in support of publicly communicating Exelon's performance. ○ Develop and publish an annual Corporate Sustainability Report communicating Exelon's performance and plans for improving performance and addressing material	SVP, Corporate Strategy, Chief Innovation & Sustainability Officer

Service ID	Service Name	Service Description	Service Owner
		sustainability issues. • Evaluation of new technology ○ Lead the Technology Exchange – an enterprise-wide cross-functional coordination on the evaluation of new technologies – and present findings to the Executive Committee ○ Partner with the Operating Companies on the execution of a technology strategy identified by the efforts of the Technology Exchange ○ Establish external relationships and create/manage a platform for collaborative research & development (R&D) efforts and process which deliver robust technology opportunities in a timely manner to support growth. ○ For the Partnership R&D, provide Exelon oversight from conceptualization, formulation and demonstration of the area of development. Coordinate with legal on intellectual property development and protection. ○ Propose and maintain budgets and develop funding and milestone plans for assessing progress and movement to next steps. Report out to CEO regularly on projects and commercialization opportunities, including potential financial benefit analysis • Driving a culture of innovation across Exelon ○ Leveraging a common Exelon innovation methodology, process, toolset and metrics across the enterprise. ○ Administering and participating in Innovation Expos, Dancing w/Startups, Crowd Sourcing Challenges and various other innovation events ○ Rewarding and recognizing employees for their innovative ideas and efforts ○ Celebrating success and learning from those successes or failures ○ Focusing on innovation education that allows for out of the box thinking, forward looking. • Embracing disruptive emerging technology to drive productivity, efficiency, and cost savings ○ Acting as catalysts for emerging technology investigations ○ Sponsoring and funding pilots with OpCos ○ Facilitating the Innovation Peer Group and Innovation Working Group ○ Growing a robust ecosystem of partners ○ Recognizing scaling opportunities • Incubating entrepreneurial ideas for revenue growth ○ Support and facilitate the Exelorate Growth Board (our entrepreneurship program) ○ Sponsoring, funding, or deferring of entrepreneurial ideas through a series of checkpoints	

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner
		○ Execution of our internal incubator approach • Communications of Innovation vision ○ Facilitate the corporate-wide Innovation Peer Group and execute on the defined strategic initiatives ○ Publish a quarterly innovation update report to the executive committee ○ Participate in both internal and external conferences on innovation ○ Facilitate innovation working groups with members from all business units to drive the culture of innovation • Innovation funding, licensing and contracts ○ Oversight of IPG/EGB funding for innovation ○ Innovation platform license for Innovation Central ○ Innovation training (Big Think) Accelerator contract for new growth opportunities	
693	BSC Corp Strat As Req Srvcs	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	SVP, Corporate Strategy, Chief Innovation & Sustainability Officer
833	BSC Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is "trued up" each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings.	SVP, Corporate Strategy & Chief Sustainability Officer
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	SVP, Corporate Strategy, Chief Innovation & Sustainability Officer

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
227	Entrepreneurial Growth Board	923 – Outside Service Employed	Direct - 529200	Time and Materials
			Allocated - 529210	Cost Causative Method
317	Environmental Services	923 – Outside Service Employed	Direct - 529200	Time and Materials
			Allocated - 529210	Modified Massachusetts Formula
644	Lobbying & Influence Public Opinion	426.4 - Exp-civic/political activities	Direct - 529200	Time and Materials
			Allocated - 529210	Modified Massachusetts Formula
654	Corporate Strategy Services	923 – Outside Service Employed	Direct - 529200	Time and Materials
			Allocated - 529210	Modified Massachusetts Formula
693	BSC Corp Strat As Req Srvcs	923 – Outside Service Employed	Direct - 529200	Time and Materials
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529210	Total Service Billings
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method

Performance Measurement

Service	Metric	Metric Description	Target	Metric Reporting Frequency
All Services	Dow Jones Sustainability North America Index	Complete Dow Jones Sustainability Survey and maintain Dow Jones Sustainability North America Index rating	Maintain rating	Annual
All Services		Retain Environmental Management System (EMS) Certification for Corporate EH&S	Maintain Exelon Corporate EMS certification	Monthly
Innovation	Innovation Index (iNdex)	Complete Innovation Index (iNdex) to assess progress in building a culture of innovation.	Maintain target	Annual Quarterly

Innovation	Innovation Survey (iSurvey)	Complete Innovation Survey to assess progress, drive culture programs and determine areas for improvement	Maintain target	Yearly

Responsibilities

Task / Responsibility	BSC Practice Area	Client Company
Strategic issues analysis and management	X	X
Corporate strategic planning and Corporate strategic plan	X	X
Vision, communications of vision and strategy, strategic literacy	X	
Environment and Safety Program leadership, coordination and support	X	
Environment and Safety Function governance, oversight and support	X	X

Corporate Transmission Analysis & Development (CTAD)

Corporate Transmission Analysis & Development (CTAD) Introduction

The purpose of the Corporate Transmission Analysis and Development group (CTAD) is to provide the centralized transmission expertise in terms of business development, market intelligence, early stage commercial execution, economic analysis, production cost modeling and other relevant analytics. The organization has primary responsibility for supporting the Transmission Committee in providing analysis to determine the proper transmission, regulatory and corporate strategic positions for Exelon.

Corporate Transmission Analysis & Development (CTAD) Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
879	BSC Transmission Company Services	• Providing Economic Analysis capability companywide including management and oversight of all methods and model assumptions • Identifying transmission business development opportunities and managing early stage commercial opportunities; • Providing market intelligence and analytic support to strategic transmission studies and other initiatives as needed; • Supporting coordination of Exelon's participation in regional organized market stakeholder processes to ensure consistency of Exelon's positions with Exelon's corporate strategy to enhance the development of effective wholesale electricity markets across the United States; • Providing analysis to help the Transmission Committee establish transmission regulatory and corporate strategic positions for Exelon	VP Corporate Transmission Analysis & Development
948	Transmission Dev As Requested	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	VP Corporate Transmission Analysis & Development
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	VP Corporate Transmission Analysis & Development

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
879	BSC Transmission Company Services	560 – Operation Supervision and Engineering	Direct – 529420	Time and Material
948	Transmission Dev As Requested	923 – Outside Service Employed	Direct – 529420	Time and Materials
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method

Responsibilities

Task / Responsibility	Service Provided BSC	Client Company
Corporate Transmission Analysis & Development		
Per request for transmission economic analyses and studies, develop project scope, schedule and budget.	X	X
Perform economic analyses and studies per agreed to scope, schedule and budget	X	
Provide code block information for project charging		X

Executives (Includes GCAs)

Executives (Includes GCAs) Introduction

The Executives Practice Area will provide strategy, policy and governance for Exelon Companies to optimize overall shareholder value while protecting corporate-wide interests and allowing business unit autonomy and accountability.

Executives (Includes GCAs) Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
315	Executive Services	• Office of the Former Chairman and Chief Executive Officer, Exelon (John Rowe) • Office of the President and Chief Executive Officer, Exelon Company • Office of the Senior Executive Vice President and Chief Strategy Office, Exelon • Office of the Executive Vice President of Corporate Operations • Chairman of the Board/Board of Directors	Executive assistant to CEO/ Executive assistant to Sr EVP Chief Strategy Officer
876 **855** **831** **784** **832**	BSC GCA SLA, Other Corporate Charges, BSC Interest, BSC Severance, BSC Taxes	Costs incurred for the benefit of the service company as a whole. These costs are allocated as described in the costing section below: • Interest costs on loans from affiliated companies • Interest income earned • Depreciation • Permanent tax differences • Bank fees • Support services incurred by EBSC • Compensation for Board of Directors • Severance costs • Other costs not identifiable to a specific service provider	Executive assistant to CEO/ Executive assistant to Sr EVP Chief Strategy Officer
644	Lobbying & Influence Public Opinion	• Management services for compliance with federal, state and local campaign finance and lobbying laws, regulations and other policy requirements including relationship management with federal, state and local legislative and regulatory bodies and Administrative agencies • Direct lobbying activities (attempting to influence discretionary power of government officials) • Supporting lobbying activities, including preparation or planning activities, research and other background work that is intended, at the time of its preparation, for coordination with lobbying activities of others	Executive assistant to CEO/ Executive assistant to Sr EVP Chief Strategy Officer

BSC Executives

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Service ID	Service Name	Service Description	Service Owner
		• Coordinate, and support as necessary, the development of positions, comments, testimony, etcetera for emerging environmental regulatory and legislative policy issues, in support of Exelon advocacy initiatives • Communicate Exelon's economic, social and environmental performance through an annual corporate sustainability report, information on websites, speeches, etcetera	
611	Corporate Contribution	Governance, strategic and tactical management of Exelon Corporation's charitable contributions, sponsorships, employee volunteer program, and associated internal communications activities designed to enhance Exelon's corporate reputation.	Executive assistant to CEO/ Executive assistant to Sr EVP Chief Strategy Officer
694	BSC Executive As Req Srvcs	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	Executive assistant to CEO/ Executive assistant to Sr EVP Chief Strategy Officer
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	Executive assistant to CEO/ Executive assistant to Sr EVP Chief Strategy Officer
833	BSC Revenue Adjustments	The difference between actual cost and revenues from billings to the Client Companies is "trued up" each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings.	Executive assistant to CEO/ Executive assistant to Sr EVP Chief Strategy Officer

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
315	Executive Services	923 – Outside Services Employed	Direct - 529250	Time and Materials
			Allocated - 529260	Modified Massachusetts Formula
876 **855**	BSC GCA SLA, Other Corporate Charges,	923 – Outside Services Employed	Allocated - 529710	Total Service Billings

BSC Executives

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
831 **784** **832**	BSC Interest, BSC Severance, BSC Taxes	923 – Outside Services Employed	Allocated - 529710	Modified Massachusetts Formula
644	Lobbying & Influence Public Opinion	426.4 - Exp-civic/political activities	Direct - 529250 Allocated - 529260	Time and Materials Modified Massachusetts Formula
611	Corporate Contribution	426.1 - Donations	Direct - 529250 Allocated - 529260	Time and Materials Modified Massachusetts Formula
694	BSC Executive As Req Srvcs	923 – Outside Services Employed	Direct - 529250 Allocated - 529260	Time and Materials Modified Massachusetts Formula
904	BSC Costs to Achieve	923 – Outside Services Employed	Direct - 529700 Allocated - 529710	Fully Distributed Costs Cost Causative Method
833	BSC Revenue Adjustments	923 – Outside Services Employed	Allocated - 529260	Total Service Billings

BSC Executives

Exelon Utilities (Includes Transmission Strategy & Compliance)

Exelon Utilities Introduction

Exelon Utilities is comprised of a small utility-focused corporate governance and oversight function to facilitate collaboration among the utilities to achieve the highest standards of organizational effectiveness, operational excellence, financial discipline and efficiency, customer and stakeholder satisfaction, and NERC Compliance. The departments in Exelon Utilities that promote the collaboration include Utility Planning & Performance, Transmission Strategy & Compliance (TSC), Utility Oversight and Executive Services.

Exelon Utilities (Includes Transmission Strategy & Compliance) Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
664	BSC Ex Utility Policy & Compliance	• **Executive Services** ○ Functional leadership through standardized systems, processes, policies and general oversight in the areas of Utility Strategy & Business Planning, Utility Oversight, Utility Finance, and Transmission Strategy & Compliance. • **Utility Strategy & Business Planning** ○ **Strategy** 1. Utility-wide strategic initiatives and projects 2. Utility-wide performance and process improvement initiatives 3. Regulatory policy/issues alignment 4. SLA/ALA Coordination 5. Risk Management/Assessments ○ **Business Planning** 1. Business Planning process 2. Benchmarking reports and survey coordination 3. Performance Indicators 4. Annual Incentive Plan (AIP) coordination and analysis ○ **Provide Oversight of the Management Model Management Controls (including the document hierarchy)** • **Utility Oversight** ○ **Provide governance and oversight of the Peer Group structure and management system designed to achieve the following:** 1. Drive consistency, best practices and innovation in the Core Functions of the Management Model across the utilities	VP, Exelon Utilities

Service ID	Service Name	Service Description	Service Owner
		2. Track performance of the Client Utilities regarding KPIs, improvement initiatives, and industry standards 3. Analyze opportunities and develop recommendations on issues pertinent to leadership	
944	NERC CIP Program Services	• Provide **enterprise-wide NERC CIP program and project management oversight** to ensure sustained Exelon compliance • Provide consistent **NERC CIP program, project and initiative: scope definition, change control, planning, processes and tools,** to be leveraged across the enterprise • Develop and monitor common Exelon NERC CIP **compliance standards and metrics** • **Report NERC CIP status,** including compliance, program/project progress, issues and risks to Executive leadership and the broader enterprise • Develop and maintain **Integrated Program Plan** • **Manage and mitigate enterprise-wide NERC CIP issues and risks,** liaising with Exelon Legal for potential violations and internal compliance inquiries or investigations • Identify and **make recommendations on NERC CIP projects**, as well as enterprise-wide synergy, integration and automation opportunities, **providing budgeting and planning input** • Provide input on LRP budgets and strategic planning across the OpCos and business areas • Provide **enterprise-wide NERC CIP project/initiative management oversight**, including strategic NERC alignment across business areas (e.g., utilities, corporate areas), raising awareness of timing concerns, providing best practices and recommending solutions to issues/risks • Act as a **communications and change management center** for Exelon NERC CIP stakeholders, driving collaboration and a culture of compliance across the entities' business areas • Engage NERC CIP stakeholders, **understand change impacts, and provide training guidance** • **Understand industry NERC CIP regulatory changes** and help prepare Exelon for these, sharing information and impacts with appropriate stakeholders from an internal perspective	VP, Exelon Utilities IT

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner
		• Provide **quality assurance input** on key NERC CIP processes and artifacts, reviewing approach and consistency • Identify, collate and **share NERC CIP best practices and lessons learned** across the enterprise Provide an Exelon **NERC CIP Knowledge Repository**, containing best practices, templates and sample documents	
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	VP, Exelon Utilities
685	BSC Trans Strat and Compliance	Services provided by the TSC Office of the Vice President • Identify and analyze client companies key initiatives and issues • Develop communications strategies and plans in coordination with client companies to support business objectives and drive favorability • Provide governance and oversight for Transmission Strategies and NERC Compliance Programs of client companies to support business objectives and drive performance Services provided by the Transmission Strategy and NERC Compliance groups • Provide Governance and Oversight for implementation of FERC Regulations and NERC Reliability Standards and partner with the Business Units to ensure Compliance. • Provide Support for the development of business unit Transmission Planning and Rate Strategies • Manage interface to PJM, NERC and RRO.	VP, TSC
833	Revenue Adjustment Services	The difference between actual costs and revenues from billings to client companies is trued up each year by allocating it pro rata to the client companies based on their share of BSC total service billings	VP, Exelon Utilities

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis

664	BSC Ex Utility Policy & Compliance	923 – Outside Service Employed	Direct – 529370	Time and Materials
			Allocated – 529375	Utilities Cost Causative Method
685	BSC Trans Strat and Compliance	560 – Transmission Operations	Direct – 529370	Time and Materials
			Allocated – 529375	Utilities Cost Causative Method
951	NERC CIP Implementation Costs	923 – Outside Service Employed	Allocated – 529560	% of critical NERC cyber assets
904	BSC Costs to Achieve	923 – Outside Service Employed	Allocated - 529710	Cost Causative Method
			Direct – 529700	Fully Distributed Costs
833	Revenue Adjustment Services	923- Outside service employed	Allocated – 529375	Total Service Billings

Responsibilities

Task / Responsibility	**BSC Practice Area**	**Client Company**
Office of the Vice President Transmission Strategy and Compliance		
Identify and analyze client companies key initiatives and issues	X	X
Develop communications strategies and plans in coordination with client companies to support business objectives and drive favorability	X	X
Implement and manage client companies strategies and plans	X	X
Provide governance and oversight for Transmission Strategies and NERC Compliance Programs of client companies to support business objectives and drive performance	X	X
Transmission Strategy and NERC Compliance		
Provide Governance and Oversight on FERC Regulations and NERC Reliability Standards and partner with the Business Units to ensure Compliance.	X	X
Provide Support for the development of business unit Transmission Planning Rate Strategies	X	X
Manage interface to PJM, NERC and RFC committees	X	X

Additional Information

Issue Resolution for Transmission Strategy and Compliance

Severity Levels (Client View)

Severity of Problem	Description
1	Crisis or emergency event that has the potential for an adverse, Exelon-wide impact on corporate reputation
2	Crisis or emergency event that has the potential for adverse impact that is limited to the Client-Company's reputation

End User Problem Response (Service Provider)

Severity of Problem	Response	Resolution
1	VP of TSC will respond, as the event requires.	Complete the execution of the applicable plan
2	Director of Client Companies will respond, as the event requires.	Complete the execution of the applicable plan

Issue Resolution for Utilities

If a particular issue arises concerning any Exelon Utilities services the Vice Presidents can be contacted.

Finance

Finance Introduction

The Finance Functional Area will create collaborative processes between business units on business strategy and financial decisions; align finance functions through a common structure and standard policies, practices and processes; drive cost savings through the elimination of redundant and non-value added work; provide governance and risk management; and provide financial analysis and decision support to our business partners.

Finance Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
646	Internal Audit Services	• Review the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information. • Review the management systems established to ensure compliance with policies, plans, procedures, laws, regulations, and contracts that could have significant impact on operations and reports, and determine whether the organization is in compliance. • Review the means of safeguarding assets and, as appropriate, verify the existence of such assets. • Review established systems of internal control to ascertain whether they are functioning as designed. • Review and appraise the effectiveness and efficiency with which resources are employed and processes executed. • Review specific programs or initiatives to ascertain whether results are consistent with established objectives and goals and whether the programs or initiatives are being carried out as planned. • Coordinate with, and provide oversight of, other control and monitoring functions (e.g. risk management, compliance, security, legal, ethics, environmental, external auditors, etc.). • Investigate frauds, conflicts of interest and other irregularities. • Evaluate the degree of coordination between external auditors and Internal Audit	SVP, Audit & Controls
639	BSC Financial Controls Services	• Manage Sarbanes Oxley Act of 2002 (SOX) compliance program. • Provide program oversight, self-assessment training, and quality assurance over self-assessed activities, for SOX compliance. • Provide independent testing of those areas not self-assessed. • Provide internal controls consulting where applicable.	SVP, Audit & Controls

BSC Finance

684	BSC External Audit Services	Coordinate and support the independent auditor's provision of external audit services, including the audit of annual financial statements, testing of internal controls and the attestation of management's assessment on internal controls, as required by SOX, the review of interim financial statements, statutory audits, and other audit-related services. PricewaterhouseCoopers (PwC) provides the service and the Audit Committee of the Board of Directors of Exelon Corporation is responsible for the selection and oversight of the external auditor.	SVP & Corporate Controller
679	BSC Insurance Services	• Consulting work including contract reviews • Analyze risks and make recommendations to management • Administer the purchase of insurance policies • Interface with and influence the direction of industry mutual insurers • Coordinate and administer first-party claims	SVP, Treasurer
637	Tax Services	• Federal, state and local tax compliance (including transactional and property tax) • Tax Audit and Appeals • Tax planning and transaction support • Tax accounting and reporting • Tax forecasting • Tax legislative and regulatory	SVP & General Tax Officer
636	BSC Accounting Services	• Accounting, control and reporting policies • Technical accounting, control and reporting research and business decision support • Accounting monthly/quarterly close services including associated governance and control execution (e.g., account reconciliations) • Accounting for pension plans and other postretirement benefits including oversight of the related valuation work • External financial reporting and certification process • Support and perform applicable aspects of the SOX compliance program • Transaction processing ○ Exelon affiliate intercompany billings ○ Cash Reconciliation ○ Accounts Payable (system) Reconciliations ○ Property, plant and equipment ○ Payroll and third-party benefit vendors (union dues, 401(k) payments) funding requests ○ Unclaimed Property Administration • Financial systems	SVP & Corporate Controller

		○ Finance systems and applications administration and operations ○ Finance systems and applications enhancements, design, implementation and change management support ○ Help desk support ○ End-user training and process support ○ SOX systems controls compliance ○ Financial and management reporting and architecture support	
680	BSC Capital Markets Services	• Securities Issuance/Financing • Financial Derivatives Program • Liability Management Evaluation & Execution • Dividend Policy • Information Reporting • Credit metrics – Maintain relationship with ratings agencies to support credit ratings	SVP, Treasurer
681	BSC Cash Management Services	• Liquidity and credit support • Cash management • Payment Execution • Banking Relationships • Information Reporting • Cash Forecasting, Tracking and Reporting	SVP, Treasurer
634	Finance Executive Services	Functional leadership through standardized systems, processes, policies and general oversight in the areas of Forecasting, Planning and Project Evaluation, Internal Audit and Financial Controls, Treasury, Accounting and Analysis, Tax, and Shareholder and Investor Relations services. Finance Executive services include the EU CFO group and the Continuous Improvement Office, with a primary objective to establish and implement Continuous Improvement approach and methodology to improve efficiency, effectiveness and value across the enterprise._	SEVP, CFO Exelon
642	Financial Planning & Analysis	• Exelon Corporation long range planning and annual budgeting • BSC long range planning and annual budgeting • Management reporting, financial analysis and LE/QMM governance and administration • Income Statement, Balance Sheet and Cash Flow forecasting and reporting • Financial and economic analysis, and business decision support • Variance analysis • Business performance reporting and initiative tracking • Regulatory Proceeding Support • EBSC SLA process governance and oversight	VP, Corporate FP&A

640	Investor Relations	• Quarterly Earnings Release and Conference Call with Investment Community • Investor/Analyst calls • Investor Targeting Program • Investor/Analyst Meeting/Conference Coordination • Internal and External Messaging and Presentation Development	VP, Investor Relations
683	BSC Project Evaluation Services	• Provides the policy, procedures and guidelines governing the Capital Management Process • Develops recommendation of the capital deployment and investment evaluation standards • Organizes and coordinates the corporate review of projects requiring Exelon corporate approval per the Delegation of Authority (DOA) • Assists in the application of the Capital Management policies and procedures and the development of business cases for projects • Oversees the capital control process	SVP, Treasurer
786	BSC Fin Incremental Work	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	SEVP, CFO Exelon
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	SEVP, CFO Exelon
833	BSC Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is "trued up" each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings.	SEVP, CFO Exelon

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
646	Internal Audit Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
639	BSC Financial Controls Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
684	BSC External Audit Services	923 – Outside Service Employed	Direct - 529050	Time and Materials - PwC audit work
			Allocated - 529060	Modified Massachusetts Formula
679	BSC Insurance	923 – Outside Service Employed	Direct - 529050	Time and Materials

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
	Services		Allocated - 529060	Modified Massachusetts Formula
637	Tax Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
636	BSC Accounting Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
680	BSC Capital Markets Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
681	BSC Cash Management Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
634	Finance Executive Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
642	Financial Planning & Analysis	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
640	Investor Relations	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
683	BSC Project Evaluation Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
786	BSC Fin Incremental Work	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529060	Total Service Billings

Performance Measurement

Service	Metric	Metric Description	Metric Reporting Frequency

BSC Finance

Operational Excellence	Number of Significant events	Significant single high profile event caused by a failure of Finance and determined to have been directly or indirectly caused by human error or poor management attention (Determined by Exelon CFO)	Quarterly
Operational Excellence	Finance budget performance – Total Cost	Variance of Finance Total Cost budget to actuals	Quarterly
Employee Engagement	Retention of high-potential Finance key managers and above	Number of Finance high-potential key managers and above retained divided by Number of Finance and high-potential key managers and above from previous year	Quarterly
Employee Engagement	Employee Engagement Index score compared to prior year	Foster a collaborative environment that encourages a higher level of employee engagement	Quarterly

Government and Regulatory Affairs & Public Policy

Government and Regulatory Affairs & Public Policy Introduction

Government and Regulatory Affairs and Public Policy's mission is to effectively and efficiently provide advocacy and representation before many federal, state, regional and local agencies, legislative and regulatory bodies, and with various constituencies. It will enhance regulatory and policy issue management and coordination across the Exelon system.

Government and Regulatory Affairs & Public Policy Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
316	Government Affairs Services	• Executive Direction (Office of Executive Vice President) • Strategy development and advocacy related to federal, state and local legislative and regulatory initiatives. Federal, state and regional policy issue management in collaboration with Communications and Public Advocacy • Wholesale and retail market development activities • ISO/RTO interface • Political Action Committee administration and operation • Grassroots activities and initiatives • Federal, state, regional and local public affairs and plant support activities	EVP, Govt & Reg Affairs & Pub Policy
644	Lobbying & Influence Public Opinion	• Management services for compliance with federal, state and local campaign finance and lobbying laws, regulations and other policy requirements including relationship management with federal, state and local legislative and regulatory bodies and Administrative agencies • Direct lobbying activities (attempting to influence discretionary power of government officials) • Supporting lobbying activities, including preparation or planning activities, research and other background work that is intended, at the time of its preparation, for coordination with lobbying activities of others • Coordinate, and support as necessary, the development of positions, comments, and testimony for emerging environmental regulatory and legislative policy issues, in support of Exelon advocacy initiatives • Communicate Exelon's economic, social and environmental performance through an annual corporate sustainability report, information on websites, and speeches	EVP, Govt & Reg Affairs & Pub Policy

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner
695	BSC Gov Aff As Req Srvcs	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors	EVP, Govt & Reg Affairs & Pub Policy
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger	EVP, Govt & Reg Affairs & Pub Policy
833	BSC Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is "trued up" each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings	EVP, Govt & Reg Affairs & Pub Policy

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
316	Government Affair Services	923 – Outside Service Employed	Direct - 529600	Time and Materials
			Allocated - 529610	Modified Massachusetts Formula
644	Lobbying & Influence Public Opinion	426.4 - Exp-civic/political activities	Direct - 529600	Time and Materials
			Allocated - 529610	Modified Massachusetts Formula
695	BSC Gov Aff As Req Srvcs	923 – Outside Service Employed	Direct - 529600	Time and Materials
			Allocated - 529610	Modified Massachusetts Formula
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529610	Total Service Billings

Responsibilities

Government and Regulatory Affairs and Public Policy's responsibility is to provide our clients with:

- Advocacy on Federal, State, Local and Regional Public Policy Issues
- Regulatory Affairs and Compliance
- Political Analysis and Strategic Advice

BSC Government Affairs & Public Policy

- Information and Intelligence
- Timely Updates on Legislative and Regulatory Actions
- Outreach to Elected and Appointed Government Officials
- Legislative Expertise
- Market Development Support
- ISO/RTO Interface
- Market Initiatives and Analytic Support.
- Lobbying and Campaign Finance Compliance and Reporting Services as Appropriate

Government and Regulatory Affairs and Public Policy activity is cascaded throughout the Exelon organization as information is available. For additional information pertaining to Government and Regulatory Affairs and Public Policy, the Business Unit liaison should be contacted.

Human Resources

Human Resources Introduction

Human Resources (HR) Practice Area centralizes and consolidates HR governance and oversight as well as aligns HR strategies, practices and services with customer and business requirements. The organizational structure allows for the design and implementation of common policies, systems and processes that will support the strategic objectives of the company, drive high performance and employee engagement, enhance workforce effectiveness, and build a platform for growth through operational effectiveness and superior talent.

Human Resources Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
612	HR Mgmt & Administration	**HR OPERATIONS SUPPORT & COMPLIANCE** 1. Manage policies and programs to ensure compliance with external agencies, including I-9, NERC, etc. 2. Governance of on-boarding, off-boarding and cross-boarding processes 3. Governance and oversight of the contractor management process 4. Procurement and management of distribution of statutory compliance notices and postings 5. Establish and maintain the HR records/file management program 6. Provide subject matter expertise for non-compliance/non-mandatory workforce policies 7. Governance and oversight of HR's All Company (AC) and Department Only (DO) management model documents **HR Technology Strategy and Governance** The HR Technology strategy group is responsible for the development and implementation of an integrated Human Resources Information Technology Strategy across Exelon Corporation. 1. Establish HR technology strategy 2. Set and apply HR systems policies, standards, procedures and security parameters 7. Develop and submit HR technology content for website and other sites	Director, HR Shared Services
882	HR Diversity and Development	**TALENT ACQUISITION, DIVERSITY & INCLUSION, AND DEVELOPMENT PROGRAMS** Focus on training, development, diversity & inclusion and recruitment programs. Services include: Talent Acquisition 1. Establish enterprise-wide recruiting and staffing strategies to support operating company hiring forecasts	VP Talent Mgmt. & Org. Effective

Service ID	Service Name	Service Description	Service Owner
		2. Establish enterprise-wide recruiting programs strategies that help the operating companies achieve their recruiting pipeline development, including but not limited to high school outreach, university relations and the professional intern program, technical career track development, and national diversity events 3. Develop and govern common enterprise wide staffing policies, standards and procedures 4. Design enterprise wide recruiting and staffing processes and tools 5. Select and manage the relationship of enterprise wide recruiting related vendors, negotiate contracts and reconcile the corporate level maintenance bills 6. Govern and oversee the content of the Enwisen On-boarding tool 7. Govern and oversee all content related to corporate talent acquisition or the enterprise-wide recruiting function on the myHR portal 8. Govern the behavioral based recruiting techniques of the company, including the development of the interview guides and process 9. Govern and oversee relocation policies and relationship with the vendor, NEI 10. Govern all EEI testing practices, including the governing policy; the Director of Corporate Talent Acquisition will serve as the testing executive	
		Diversity & Inclusion 1. Establish corporate-wide diversity strategies 2. Counsel and support executive and business unit implementation of D&I strategies, including business plan integration 3. Communicate corporate wide D&I messages; provide subject matter expertise in the development of diversity communications (disbursement through Communications group) 4. Provide D&I management support, including education; provide subject matter expertise for diversity training/educational materials and D&I education modules in all leadership development programs (e.g., SDP and Power to Lead) 5. Oversee participation in appropriate D&I external surveys and benchmarking (e.g. Black Enterprise, HACR, Human Rights Campaign) 6. Develop and support appropriate OpCo D&I council and Employee Resource Group (ERG) activities 7. In partnership with OpCos, corporate relations, supplier diversity, external affairs and recruiting, develop and support D&I outreach (Recruiting, Community, and Vendors) 8. Support development and implementation of D&I metrics and reporting at OpCo and executive levels; monitor/test diversity efforts and alignment with policies and procedures 9. Ensure alignment regarding D&I strategies, goals and results; advise and consult management	VP Diversity & Inclusion

Service ID	Service Name	Service Description	Service Owner
		on diversity issues and lead executive leadership discussions 10. Develop Affirmative Action Plans provide training for HR teams and work with Legal, the OpCos and Practice Areas to respond to AAP audits 11. Prepare and submit EE0-1's and Vets 4212 Reports	VP Talent Mgmt. & Org. Effective
		Talent Management and Leadership Development 1. Develop enterprise core competencies 2. Design organizational development, performance management, management development, and learning strategies 3. Design and maintain organizational development methodologies, processes and tools for talent assessment, succession planning and performance reviews 4. Design and maintain oversight of leadership/management development programs and tools 5. Design and maintain oversight of employee development programs and tools 6. Develop leadership training programs/materials with subject matter expertise 7. Source leadership training and negotiate contracts 8. Conduct leadership training, as appropriate 9. Manage leadership training vendors 10. Manage leadership, organizational development, and learning vendors and consultants 11. Deliver SDP, Power to Lead, Leaders Developing Leaders, Manager Essentials, Emerging Leaders and Senior Leadership Experience, and Corporate Orientation Programs 12. Add Hi-Po programs, as approved 13. Add programs for directors and managers, as approved 14. Management, design and maintenance of on-line systems to support above activities ((e.g., content on myHR, Performance and Talent Management Platform 15. Development and oversight of succession planning processes 16. Design and enable exit and stay interview process	VP Talent Mgmt. & Org. Effective
		HR Strategy and Organizational Effectiveness Develop overall HR strategy aligned with Exelon Vision and strategic direction. Build and execute strategies designed to improve effectiveness of organization and HR function. Includes: employee engagement/change management, business plans, human capital metrics, and workforce planning.	
		Reporting & Analysis 1. Completion of annual external benchmarking surveys as required per our corporate memberships	

Service ID	Service Name	Service Description	Service Owner
		2. Governance and oversight of corporate related HR Metrics Organization Effectiveness & Planning 1. Governance and oversight of the Human Resources strategy and business planning which includes: HR strategic initiatives, Long Range Plan, Exelon HR Business Plan, Service Level Arrangements, and HR Risk Analysis 2. Continuous process improvement consulting support for HR 3. Employee Engagement a. Governance and oversight to the design and administration of the employee feedback survey program and development of strategies to address results b. Coordination and support of field administration in the implementation of survey results c. Development and delivery of tools, processes and resources supporting analysis, reporting and results planning for employee engagement surveys 4. Workforce Planning a. Governance and oversight of the Workforce Planning Process b. Data analysis, trend identification, corporate reporting c. Governance and oversight of company–wide strategic Workforce Planning initiatives d. Governance and oversight of Knowledge Management, Retention, and Transfer strategy and process	
619	Labor Mgmt	LABOR RELATIONS The Labor Relations function develops and manages enterprise–wide, as well as business unit specific, strategies in partnership with the senior business unit and corporate leadership. The focus maximizes employee and bargaining effectiveness to achieve greater operating efficiency while advocating fair treatment for all employees based on respect, decency and integrity. It is also an integral part of Labor Relations to serve as the primary conduit between Corporation and Union Leadership, where applicable. These principles will be used to guide dealings with the unionized workforce and to maintain a union-free environment where appropriate. Services Include: 1. Develop and Lead Labor Strategies a. Where employees are non-union, respect employee's legal right to be non-union, strive to retain that status and maintain a direct relationship between management and employees. b. Where a union represents employees, honor contracts and constructively engage the union. c. Recognize it is critical to our success to have First Line Supervisors who are well informed,	VP, Labor & Employee Relations

Service ID	Service Name	Service Description	Service Owner
		well trained and committed to Exelon goals and processes. d. Develop labor strategies focused at local union perspective while balancing impacts to other union contracts and union free efforts. 2. Consulting / Contract Administration a. Analyze impact of business unit initiatives on employee relations by advising management on labor/employee relations issues; interpretation of collective bargaining agreements, arbitration implications, and strategy formation. b. Develop and provide training/education to management concerning pertinent CBA matters and other labor relations issues. c. Respond to union/exempt employee questions related to labor communications. d. Support discipline/termination consensus calls for represented employees with HR Operations and Legal. e. Conduit between Corporation and Local/International Union Leadership. f. Provide labor guidance to Company leadership on cutting-edge labor matters and trends. g. Provide guidance on improved employee relations. h. Provide contract interpretation for line management, including but not limited to management rights, reorganization activities and workforce reductions. i. Supports business unit initiatives within contractual obligations. j. Administer and lead protocol strategy meetings. 3. Negotiations a. Develop labor relations strategy months prior to negotiations for contract expiration and enhance the Company's position at the bargaining table. b. Comply at all times with the National Labor Relations Act and engagement in good-faith bargaining. c. Use of effective negotiation tactics to achieve Company objectives during bargaining. d. Prepare all negotiation team members for negotiations, and establish negotiations support resources within the Company. e. Ensure appropriate communications. 4. Grievance/Arbitration Administration a. Assist with the resolution and/or advocacy of mid-term contractual disputes on behalf of the companies through the grievance and arbitration procedure. b. Ensure line management is in the best possible position to contractually answer grievance allegations. c. Manage grievance activity and assist in arbitration preparation with HR Operations, Line Management, and Legal.	

Service ID	Service Name	Service Description	Service Owner
		d. Ensure oversight and data integrity within the Grievance/Discipline Database system. e. Risk assessment and settlement/mediation efforts, where applicable. 5. Training/Education Develop and provide training/education to management, for example, first line supervision orientation, MARC training, Collective Bargaining Agreement interpretation, Employee Standards of Conduct application, post-negotiation updates, and maintenance of non-union status, where applicable. 6. Exelon: Contractor Vendor Liaison Serve as a liaison among Exelon Business Units, Trades Unions (Trades) and Contractor Vendors (Contractors). Efforts are focused on those Trades and Contractors which are part of the Exelon Amendment to the General Presidents Project Maintenance Agreement.	
880	HR Compensation	The Compensation function is responsible for developing corporate-wide competitive total compensation programs that attract, motivate and reward employees for achieving high levels of business performance and outstanding financial results. These programs will be anchored in competitive best practices, aligned with Exelon’s pay for performance compensation philosophy and will be flexible to address changing business priorities. • Compensation develops, governs, and communicates compensation strategy, policies and programs, ensures all regulatory requirements are met, conducts external benchmarking and analysis, designs and administers special programs, manages external vendors, and oversees the administration of all salaried employee compensation processes • Executive Compensation designs and administers all executive compensation and stock programs and prepares all compensation materials for the Board of Directors’ meetings Services Include: 1. Position Analysis and Evaluation a. Market Assessment and Surveys b. Base Salary Range Development 2. Base Pay Administration a. Annual Salary Planning and Compensation Guidelines b. Promotional and Special Increase Recommendations 3. Short-term Incentives	VP Compensation

Service ID	Service Name	Service Description	Service Owner
		a. Annual incentive program Design, Manage Performance Indicators Approved By a Panel of Senior Officers, AIP Award Processing and Communication b. Reward and Recognition Program Design and Administration 4. Compensation Programs a. Compensation Philosophy and Strategy b. ePrism, communication and System Training c. Compensation Vendor Management d. Annual Rate Case Data Support – Tier Two Responses e. Ensure Regulatory Compliance f. Respond to Legal Inquiries; Special Pay Studies g. Coordinate Proper Accounting with Finance, including LRP support h. Support Talent Management Cycle by Providing Guidelines i. Cash and Stock Retention Strategies 5. Executive Compensation a. Annual Executive Compensation Study b. Officer Compensation Recommendations c. Executive Annual and Long-Term Incentive Targets d. Executive Severance Plan Design and Administration e. Compensation Committee and Board Support f. Compensation Disclosures to Comply with SEC Requirements g. Shareholder Engagement Discussions h. Deferred Compensation Policy and systems i. Long-term Incentives (“LTI”) LTI Mix, Plan Design, Award Processing, Communication	
622	Benefits Administration	Benefits Strategy & Design: 1. Develop / maintain benefits strategy including health promotion / wellness 2. Design enterprise-wide benefit programs including health & welfare plans, LOA/STD/LTD, 401(k), pension, retirement and severance. Set policies, procedures, and standards; interpret policies 3. Benchmarking 4. Select and manage benefit vendors, negotiate contracts 5. Labor relations support 6. Executive SERP administration	Director, HR Shared Services

Service ID	Service Name	Service Description	Service Owner
		7. LRP support 8. Pension and OPEB valuation support 9. Cost analysis and management 10. Plan administration (including compliance, policy and appeals resolution) 11. Benefits communications development for active and retired employees, including required reporting such as Summary Plan Descriptions (SPDs) 12. Rate case assistance as it related to benefit costs 13. The Benefits Administration Services function which is responsible for the day-to-day administration of all health and welfare and retirement programs provides oversight of all vendors, as well as the outsourced benefits administrator, supports annual enrollment and addresses escalated issues. 14. Provide M&A Benefit Plan Due Diligence support 15. Benefit plan government filings 16. Plan Accounting and vendor payments 17. Consulting on international benefits BSC ESC Benefits Administration: 1. Administer benefit programs including Health & Welfare, Flexible Spending Accounts, Pension Plans, Defined Contribution plans, LTD and Life Insurance and other programs as described in the Service Responsibility Matrix 2. Manage outsourced benefits administration, including TPAs and insurance vendors 3. Monitor service provided by third party vendors through metrics and benchmarking 4. Ensure internal controls are in place to safeguard the Company's assets 5. Perform audits to ensure processes are performing as designed 6. Manage and deliver annual open enrollment, benefits web site, online instant estimates (eff.9/1/2013), statement of pension benefits (in 2014 and every three years following as required by regulations), life event changes and initiatives based on business need and process improvement while applying varying benefit eligibility logic 7. Administer severance plans based on business needs – produce personalized statements for HR and oversee plan administration, severance pay and benefits based on specific severance plan offering. 8. Provide interactive voice response and web enabled systems to provide information and process employee/retiree transactions 9. Provide Customer Service Representative support to process participant issues and transactions 10. Provide research and problem resolution for participant issues and benefit transactions	

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Service ID	Service Name	Service Description	Service Owner
		11. Support Employee Health and Benefits by implementing plan design and vendor changes 12. Implement benefit offerings for new employee groups as business dictates 13. Partner with Procurement to perform market place evaluation for TPA services and insurance providers 14. Oversee and audit payroll and HRIS interfaces for appropriate application of benefit related data. 15. Perform compliance function required by ERISA and other various regulations required to maintain qualified status of benefit programs (i.e. pay limits, non-discrimination testing, benefit maximums, etc.) 16. Deferred Compensation Enrollment and Administration Support Note: This assumes we will continue to move to plan design and vendor alignment for all companies; except where collective bargaining agreements make it impossible.	
625	Occupational Health Services (OHS)	1. Short Term Disability Case Management, Regulatory Medical Testing, Workplace Clinical Services, and Data Systems Administration. Interventions implemented to help control cost, reduce lost time, and increase productivity. To meet the requirements of medical disability plans, Workers' Compensation statutes, and Federal and State legislation and delivery of clinical services to minimize time away from the job. Services include: a. Establish occupational disability strategy a. Set occupational disability policies, standards, and procedures b. Oversee management of disability program c. Oversee management of FMLA program d. Provide guidance to HR/LR, legal, line management, and OHS on regulatory and policy issues e. Testify at grievance, arbitration or other legal hearings on testing and policy related issues f. Develop and implement nursing OHS training programs g. Establish policies, procedures, and standards for regulatory medical testing h. Establish policies, procedures, and standards for audit of regulatory testing program i. Select and manage medical testing-related vendors, negotiate contracts, and reconcile vendor bills j. Prepare and maintain department budget process, provide billing data for BSC customer billing k. Prepare for and provide pandemic medical response	VP Health and Benefits

Service ID	Service Name	Service Description	Service Owner
		2. Data Systems Administration Provide access to an integrated data management system (OHM) that enables the business unit to manage safety data. Also to provide reports on a monthly basis on disability issues within each business unit. Trending/tracking of data in multi-functional process. a. Monthly accident reporting b. Monthly disability reporting (PIR report) c. Trending/tracking of statistical data	
653	Workers' Compensation Admin	The Workers' Compensation Group focuses on minimizing the liabilities of our corporate clients by developing solutions for ongoing Workers' Compensation claims. Workers' Compensation controls claims costs through effective management of indemnity and medical benefits as well as continually strategizing litigation to minimize legal costs. Services include: 1. Provide and administer workers' compensation benefits to eligible employees within the guidelines of the various state laws 2. Manage and control lost time cases and medical only cases 3. Direct medical and vocational rehabilitation of workers' compensation cases 4. Direct Surveillance 5. Direct Third Party Administrator on workers' compensation claim handling and reserving 6. Litigation management 7. Medical services and contract management 8. Workers' Compensation claim file management 9. Data coordination with the finance department of all client companies 10. Work with the Safety Professionals from all client companies to ensure prompt accident reporting 11. Prepare and submit all required state reports to continue the privileged status of self-insurance in the appropriate jurisdictions 12. Review and coordinate with the legal department any potential wrongful discharge, ADA or FMLA issues 13. Provide an annual actuarial report for use by accounting departments of the client companies as well as various industrial accident boards	VP, Health and Benefits
700	BSC Fin-Payroll Processing	1. Prepare and reconcile Gross to Net Payroll transactions, encompassing on-cycle scheduled payroll processing and off-cycle non-scheduled payroll transactions 2. Process and electronically deposit net pay with full service Direct Deposit 3. Print Payroll Checks and provide electronic access to pay statements and W-2 forms	Director, HR Shared Services

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Service ID	Service Name	Service Description	Service Owner
		4. Support of Payroll and related time processing 5. Administer Garnishment and child support payroll deductions and related payments 6. Tax Jurisdiction Registrations 7. Employment Tax Filing for federal, state and local jurisdictions as appropriate for each company	
735	HR Service Center	1. Process employee transactions (Hire, Transfers and Terminations) 2. Union Wage Increases and time keeping system transactional support 3. Processing organizational structure changes, as requested 4. Provide oversight of vendor supporting HR-related (except for benefits questions) and address escalated issues. 5. Governance and oversight of HR's myHR Knowledgebase portal 6. Perform HR Services back-office related work	Director, HR Shared Services
740	BSC HR/Payroll Application Support	HR/Payroll Application Maintenance 1. Provide core HR system (HR/Payroll System) training and helpdesk support and user query support 2. HR System support includes core HR/payroll, ETL, ePeople Comp, eTime, Recruiting and all other HR /Payroll Systems except for Performance Management 3. Maintain HRPC security, user defined tables and data integrity 4. Provide consulting services for HR solutions 5. Implementation of mass core HR system data changes 6. Provide support for applications interfacing with the core HR system Requests for support and enhancements will follow a defined intake process and be prioritized against existing work requests. System upgrades and implementations may create block out periods where no new enhancements can be implemented. Efforts requiring supplemental resources to complete and/or backfill employee resources may be billed As Requested	Director, HR Shared Services
787	Incremental Services	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	SVP & Chief HR Officer, Exelon
881	HR Leadership Support	Cost associated with SVP HR's governance and oversight of HR Practice Area	SVP & Chief HR Officer, Exelon

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Service ID	Service Name	Service Description	Service Owner
657	BSC HR Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is “trued up” each year by allocating it pro rata to the Client Companies based on their share of Total HR Service Billings.	SVP & Chief HR Officer, Exelon
904	BSC Costs to Achieve	Direct Costs associated with establishing combined operations as a result of Exelon M&A activity	SVP & Chief HR Officer, Exelon

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
612	HR Mgmt & Administration	923 – Outside Service Employed	Direct - 529150	Unit Price - Cost Per Employee
882	HR Diversity and Development	923 – Outside Service Employed	Direct - 529150	Unit Price - Cost Per Employee
619	Labor Mgmt	923 – Outside Service Employed	Direct - 529150	Cost per represented employee or Time and Material
880	HR Compensation	923 – Outside Service Employed	Direct - 529150	Unit Price - Cost Per Employee
622	Benefits Strategy & Design	923 – Outside Service Employed	Direct - 529150	Unit Price - Cost Per Employee
625	Occupational Health Services (OHS)	923 – Outside Service Employed	Direct - 529150	Unit Price - Cost Per Employee or Time and Material
653	Workers' Compensation Admin	923 – Outside Service Employed	Direct - 529150	Unit Price - Cost Per Employee
700	BSC Fin-Payroll Processing	923 – Outside Service Employed	Direct – 529150	Unit Price - Per paychecks processed
735	BSC Service Center	923 – Outside Service Employed	Direct – 529150	Unit Price - Cost Per Employee

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
740	BSC HR/Payroll Application Support	923 – Outside Service Employed	Direct – 529150	Unit Price - Cost Per Employee
787	Incremental Services	923 – Outside Service Employed	Direct – 529150	Time and Materials
881	HR Leadership Support	923 – Outside Service Employed	Direct – 529150	Unit Price - Cost Per Employee
657	BSC HR Revenue Adjustment	923 – Outside Service Employed	Allocated - 529160	Total HR Service Billings
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs

Performance Measurement

The performance measurement section outlines the minimum standard performance metrics across HR Services.

Service	Metric	Metric Description	Target	Metric Reporting Frequency
Recruiting	Quality of Hire (E01-E04)	The average quality rating of all hiring managers on a 1-10 scale regarding selected candidate	8 on a 10 point scale where 10 is the best	Quarterly
Recruiting	Hiring Manager Satisfaction	Hiring manager satisfaction with the recruitment process on a 1-10 scale	7 on a 10-point scale where 10 is best	Quarterly
Diversity & Inclusion	Advancement Parity between white men and women/POC	Compare rates of promotions into key manager and executive positions between the advancement rate of white men versus women and people of color (POC)	80%	Quarterly

Service	Metric	Metric Description	Target	Metric Reporting Frequency
Compliance	Affirmative Action Plans	Percent compliance of enterprise- development and communication of affirmative action plans enterprise-wide	100%	Annual
Development	Executive/Key Manager Internal Fill Rate	Percent of executive and key managers vacancies filled with internal candidates	70%	Quarterly
Diversity & Inclusion	D&I Scorecard	Development and distribution of D&I Scorecard to report progress on corporate D&I goals	100%	Quarterly
Benefits Administration	Client Satisfaction		88% satisfied or higher	Quarterly
Benefits Web Site	7 days per week excluding the hours of 12am – 5am one day per month		99% System availability	Monthly
Occupational Health Services	Duration of Disability	Meet national disability guidelines for duration of disability per Presley Reed (Occupational Disability Guidelines)	Meet expected disability duration	Quarterly
Occupational Health Services	Absence Management Service Level %	Legacy Constellation ONLY: Percentage of calls answered within service commitment level (85% within 30 seconds)	≥ 85%	Quarterly
Occupational Health Services	Vendor Average Speed	Legacy Constellation ONLY: Average seconds to answer per call	≤ 35 seconds	Quarterly
Occupational Health Services	Vendor Abandonment Rate	Legacy Constellation ONLY: Percentage of calls dropped while waiting to be answered	< 5%	Quarterly
Workers' Compensation Claim Administration	Cost of claim per man hour worked		30 cents per hour worked	Quarterly

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Service	Metric	Metric Description	Target	Metric Reporting Frequency
Labor Management	Ensure oversight and data integrity within the Grievance/Discipline Database system by timely generating client-requested reports		80% or higher	On a monthly and quarterly basis, as requested
Labor Management	Outcome of arbitration hearings and National Relations Board filings		70% or higher	Annually
Payroll Processing	Payroll cost per check per month		<= Budgeted $	Monthly
	Payroll errors incurred per month		< 0.02% (less than 1 check in 5000)	Monthly
	Direct Deposit Participation		97%	Monthly
BSC HR/Service Center	Client Satisfaction		88% satisfied or higher	Quarterly

** SLAs subject to working days (M-F). Payroll confirm lockout days occur every Tuesday/Thursday of confirm weeks and may impact the available working days for a transaction*

Responsibilities

Task / Responsibility	BSC Practice Area	Client Company
Talent Acquisition / Recruiting		
1. Develop and implement sourcing strategies	X	X
2. Candidate screening and recommendations		X
3. Interview support	X	

Task / Responsibility	BSC Practice Area	Client Company
4. Debrief of interviews and final candidate selection		X
5. Development and negotiation of employment offer		X
6. Initiation and monitoring of pre-employment requirements		X
7. Request for Employee ID		X
8. Fees related to usage of vendors		X
9. Enterprise wide vendor management and license fees	X	
10. Deliver behavioral based interview training		X
11. Support and attend recruiting events		X
12. Initiation of pre-day 1 on-boarding		X
Talent Management & Development		
1. Design, deliver and manage leadership and management training programs	X	
2. Support the identification of appropriate program attendees, their attendance and the follow up to reinforce learning and performance		X
3. Oversight and management of processes, programs and deliverables associated with the talent management & org effectiveness processes (succession planning, performance management)	X	
4. Active participation/support in data collection and action planning relating to the talent management process, including business talent reviews		X
Labor Management		
1. The Labor Relations function develops and manages enterprise–wide, as well as business unit specific, strategies in partnership with the senior business unit and corporate leadership. The focus maximizes employee and bargaining effectiveness to achieve greater operating efficiency while advocating fair treatment for all employees based on respect, decency and integrity. It is also an integral part of Labor Relations to serve as the primary conduit between Corporation and Union Leadership, where applicable. These principles will be used to guide dealings with the unionized workforce and to maintain a union-free environment where appropriate.	X (1)	
2. Support strategy and operate effectively within principles of strategy		X (1)
(1) In order for Labor Relations to provide effective training and reporting, the business unit should take advantage of all offered training opportunities and adhere to data entry requirements		
Compensation		

Task / Responsibility	BSC Practice Area	Client Company
1. Develop/design compensation programs, comply with regulators, consult with business and shareholders	X	
2. Communicate and administer comp programs	X	X
3. Manage market compensation surveys and pay structures	X	
4. Manage annual compensation planning	X	
5. Provide pay and incentive guidelines recommendations for employees and recommendations for executives	X	X
6. Design and administer special pay programs	X	X
Benefits Design, Governance and Administration		
1. Design benefit strategy to address employee needs while controlling cost	X	
2. Communicate benefit programs	X	
3. Administer plans in compliance with applicable law	X	
4. Compliance, policy, and appeals resolution	x	
5. Support labor relations/negotiations	X	X
6. Monitor, measure and manage vendors responsible for program administration	X	
7. Provide answers to benefit program questions. Investigate and resolve issues relating to benefits programs. Monitor measure and manage vendors responsible for program administration.	X	
8. Maintain employee and retiree 401(k) benefits records. Provide vendor relation interface with HRIS and benefit vendors.	X	
9. Administration of COBRA program, employee notification, billing, vendor interface, problem resolution.	X	
10. Ensure that the survivor(s) receive applicable benefits due to death of employee, retiree, spouse or child (ren).	X	
11. Flexible Spend Accounts vendor management of and high level problem resolution – health care, commuter and dependent care.	X	
12. Provide annual open enrollment, maintain employee and retiree health & welfare benefits records. Provide interface with HRIS and benefit vendors.	X	
13. Administer severance plans, produce personalized statements for HR and oversee plan administration based on specific severance plan offering as business dictates.	X	
14. Administration of life insurance program, employee notification, billing, vendor interface, problem resolution.	X	
15. LTD Vendor management and high level problem resolution.	X	
16. Perform function of General Secretary and administer MBA short term absence program in coordination with IBEW Local 15 and Corporate Employee Health and Benefits. Authorize the issuance of disability benefit payments. Communicate	X	

Task / Responsibility	BSC Practice Area	Client Company
activities to employees, OHS, MBA and Labor Relations.		
17. Provide vendor management and high-level problem resolution for Qualified Domestic Relations Orders.	X	
18. Administer pension plans – vendor management, database management, issuance of pension checks, death claims, pension estimates, QDROs and final pension calculations.	X	
19. Manage outsourced benefit administration service providers by monitoring performance guarantee results, data audit and benchmarking.	X	
Note: Many of the benefits offered by Exelon are governed by ERISA. As such, the Company has an obligation to administer its benefit plans in accordance with ERISA and other federal regulations. BSC Benefits Administration Services offers expertise in benefits administration and oversees Exelon's obligations to keep the benefit offerings complaints with the necessary rules and regulations		
Corporate Diversity		
1. Establish corporate-wide diversity and inclusion strategies	X	
2. Establish business-specific diversity and inclusion strategies		X
3. Develop and coordinate corporate-wide diversity and inclusion activities	X	
Workforce Planning		
1. Workforce Planning process design and development	X	
2. Governance and oversight of process implementation	X	X
3. Workforce Planning data analysis, trend identification, corp. reporting	X	
HR Technology Strategy and Governance		
1. Establish HR Technology Strategy	X	
2. Set and apply HR systems, policies, standards, procedures, and security parameters	X	
3. Develop and submit HR technology content for website and other collateral	X	
4. Initiate reports for specific available HR data		X
5. Develop specific business OpCo actions and interventions based on data		X
Occupational Health Services (OHS)		
STD and LTD Case Management		
1. Identification and reporting of employee absence	X	X
2. Administer Medical Disability Certification	X	X

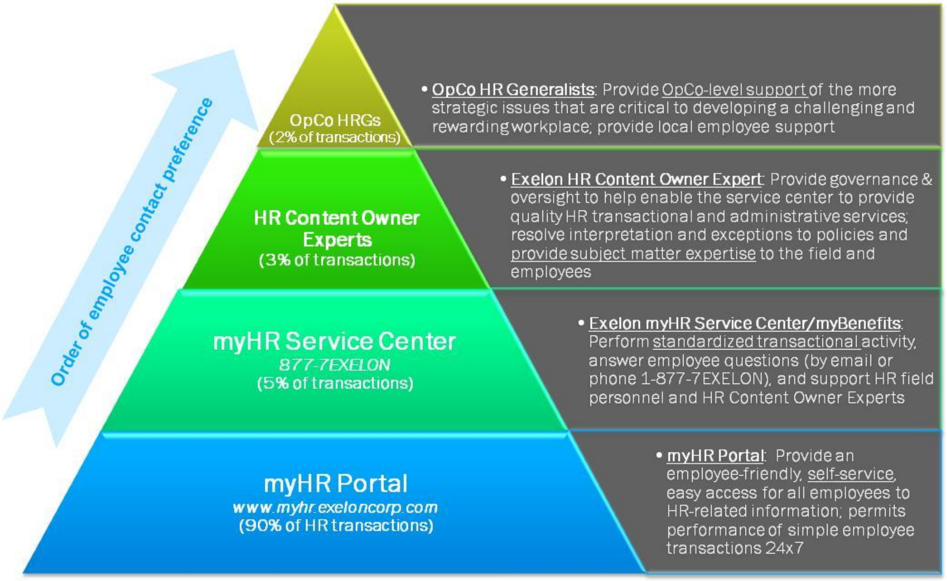
Task / Responsibility	BSC Practice Area	Client Company
3. Administer referral to Medical Disability Retirement and LTD	X	
4. Transitional Return to Work Program	X	X
5. Coordinate and Oversee Limited Duty cases	X	X
6. Maintain relationships with external clinics for urgent and emergency care for employees	X	X
7. Provide utilization reports on a monthly and as needed basis	X	X
8. Medical Records management	X	
Regulatory Medical Testing Administration		
9. Identify and assist business unit with scheduling mechanism	X	X
10. Implement Testing		X
11. Reporting qualified/not qualified	X	X
12. Maintain medical testing in compliance with Regulatory and Company Policy	X	X
13. Records management	X	
Workplace Clinical Services		
14. Immunization programs	X	X
15. Health Education/Wellness	X	X
16. Executive Health program	X	X
Medical Consulting Services		
17. Provide direction, advice, education and contract management for unique medical issues that affect business units	X	
Worker Compensation		
1. Report all industrial injuries and diseases within 24 hours of notice		X
2. Provide prompt statistical information to the financial departments of the business units.	X	
3. Direct Third Party Administrator (TPA), PMA Group	X	
4. Manage lost time and medical only claims to a conclusion	X	
5. Provide Physicians Panel for injured workers' in accordance with Pennsylvania Law.	X	
6. Resolve claims through mediation and negotiation	X	
7. Direct proper investigation of the workers' compensation claim.	X	
8. Conduct annual litigation reviews	X	
9. Provide the business units with annual audited reserves	X	
10. Advise the business units of all catastrophic claims within 24 hours of the event.	X	
Payroll Services		

Task / Responsibility	BSC Practice Area	Client Company
11. On-time, accurate timekeeping and variation input	X	X
12. Support of time collection, labor distribution and validation	X	
13. On-time, accurate processing of regular payroll cycles	X	
14. On-time accurate processing of other employee payments, including Annual Incentive Plan and special awards	X	X
15. Timely notification of additional pay items in the prescribed format		X
16. Tax filings and deposits and government reporting	X	
17. Form W-2 statements and special handling of payroll related items	X	
18. Benefit deductions withholding	X	X
19. Garnishment and child support payroll deductions as directed and related payments to third parties	X	
20. Direct Deposit Services	X	
21. Maintenance and enhancement of PeopleSoft payroll module	X	
HR/Payroll Application Support Services– Provide HRPC (HR/Payroll System) training and helpdesk support and user query support		
22. Answer user questions on HRPC functionality	X	
23. Provide regular updates to user community	X	
24. Provide job aids and input into HRPC training	X	
25. Requests for special reports and queries	X	
26. **Payroll Corrections**	X	
HR/Payroll Application Support Services– Maintain HRPC security, user defined tables and data integrity		
27. **Define and submit update request for locations, job codes, positions mgmt., etc.**		X
28. **Update location, job codes, companies, position management, etc.**	X	
29. **Monitor system for irregularities**	X	
30. **Manage unusual pay rules**	X	
31. **Audit and maintain HRPC security roles and rules**	X	
HR/Payroll Application Support Services– HRPC Interface Support		

Task / Responsibility	BSC Practice Area	Client Company
32. **Provide subject matter expertise on PeopleSoft HR data**	X	
HR/Payroll Application Support Services– Development of new functionality & complex data queries		
33. **Negotiated packages – priced separately**	X	X
BSC HR/Service Center		
34. **Processing of Union Wage Increases**	X	
35. **Timekeeping system security and transaction support**	X	
36. **Entry of Employee Profile Changes (Hire, transfer, Terminations etc.)**	X	

Additional Information

- Exelon HR Service Delivery Model (in order of employee contact preference)
    1. **myHR Portal:** Provide an employee-friendly, self-service, easy access for all employees to HR-related information; permits performance of simple employee transactions 24x7
    2. **myHR Service Center:** Answer employee questions (by phone 1-877-7EXELON)
    3. **Exelon HR Content Owner Experts:** Help enable the service center to provide quality HR transactional and administrative services; resolve interpretation and exceptions to policies and provide subject matter expertise to the field and employees
    4. **OpCo HR Generalists:** Provide OpCo-level support of the more strategic issues that are critical to developing a challenging and rewarding workplace; provide local employee support



- **OpCo HR Generalists**: Provide OpCo-level support of the more strategic issues that are critical to developing a challenging and rewarding workplace; provide local employee support
- **Exelon HR Content Owner Expert**: Provide governance & oversight to help enable the service center to provide quality HR transactional and administrative services; resolve interpretation and exceptions to policies and provide subject matter expertise to the field and employees
- **Exelon myHR Service Center/myBenefits**: Perform standardized transactional activity, answer employee questions (by email or phone 1-877-7EXELON), and support HR field personnel and HR Content Owner Experts
- **myHR Portal**: Provide an employee-friendly, self-service, easy access for all employees to HR-related information; permits performance of simple employee transactions 24x7

Business Benefits of Exelon's HR Service Delivery Model

- ✓ Aligned to Cost Containment Principles – Utilizes technology for self-service & eliminates need to build, revise, and maintain multiple Employee Handbooks across Exelon
- ✓ User-Friendly & Intuitive – Provide employees, managers, HR and Business Operations with user-friendly, intuitive and quick access to people-related knowledge and tools
- ✓ Relevant Content – Provide meaningful and current content to users
- ✓ Seamless End-To-End Processes – Seamlessly integrate with current systems and processes from a user perspective to help maximize the User Experience
- ✓ Maximize HR Effectiveness – Maximize knowledge and capabilities of HR, Business Operations and vendors; Leverage consolidation and consistency; Reduce overall operating costs
- ✓ Support Organizational Scalability – Provide a sustainable, flexible, portable and scalable solution to grow organically as efficiencies are captured

- ✓ Effective Controls – Establish and maintain rigorous governance and controls to eliminate redundancy of efforts; Comply with HR-related laws and regulations

- Problem Management & Escalation Process Overview
  If a particular issue arises concerning any of the services in this SLA, then the service Owner should be contacted. Additional client support is available via the Director, Strategic Planning & Organization Effectiveness or the VP Talent Management & Organization Effectiveness.

Investments

Investments Introduction

The services provided by the Investment Office include:

- Determining the investment strategy and asset allocation of Exelon's pension funds, VEBA post retirement funds and nuclear decommissioning funds
- Hiring / firing investment managers
- Managing daily investment activities
- Investment manager due diligence and monitoring
- Operational and back office activities
- Maintaining a well diversified investment menu for the Employee Savings Plans

Investments Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
677	Benefit Trust Services	Administration, oversight, and activities related to Exelon's benefits trusts.	Chief Investment Officer
682	BSC Investments Services	Investment Oversight and Management of Pension, Post-Retirement and Nuclear Decommissioning Trust Assets and Employee Savings Plan menu.	Chief Investment Officer
833	BSC Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is "trued up" each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings.	Chief Investment Officer
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	Chief Investment Officer

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
677	Benefit Trust Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
682	BSC Investments Services	923 – Outside Service Employed	Direct - 529050	Time and Materials
			Allocated - 529060	Modified Massachusetts Formula
833	BSC Revenue	923 – Outside Service Employed	Allocated - 529060	Total Service Billings

BSC Investments

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Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
	Adjustment			
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method

Performance Measurement

Service	Metric	Metric Description	Target	Metric Reporting Frequency
Investments		Fund performance relative to the respective benchmark portfolio		Annually
Investments		Continued reduction in select risk metrics.		Annually

IT

IT Introduction

IT services include standard IT Services, across Client Engaging IT Departments, directly aligned with the Client Company, and those provided by Supporting IT Departments.

Client Engaging IT Departments include

- Enterprise Wide Solutions
- Exelon Utilities: IT BGE, IT ComEd, IT PECO, and IT PHI
- IT Generation
- IT Wholesale & IT Retail

Supporting IT Departments include

- Office of CIO
- Enterprise Wide Solutions
- Cloud & Infrastructure

IT Service Owners include:

- VP, Office of CIO, General IT Services, providing IT governance, strategy, innovation, and business operations.
- VP, Enterprise-Wide Solutions, providing development and maintenance of applications used across the enterprise.
- VPs, Cloud & Infrastructure, providing enterprise data network, PCs, communication tools like email, phones, video conferencing, and infrastructure hosting platforms used by applications.
- VP, IT Generation, providing development and maintenance of applications specifically used by generation business areas of Exelon.
- VP, IT Wholesale, providing development and maintenance of applications specifically used by the wholesale business area.
- VP, IT Retail, providing development and maintenance of applications specifically used by the retail business area.
- VP, IT BGE, VP, IT ComEd, and VP, IT PECO, VP, IT PHI, providing development and maintenance of applications specifically used by the utility businesses.

IT Services Table

Service Table (See Appendix A for Technical Services Table)

BSC IT

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
322	BSC BU Specific IT Projects	Exelon IT Project Delivery Services provides deliverables for IT projects including planning, design, asset acquisition, and implementation of solutions	IT VP (Project Specific)	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +/-10%
410	Client Services	Client Services cover escalated IT Service Desk incidents related to desktop and laptop support including requests, installation, move, add, change, and/or replacement of desktop PCs/Monitors, the installation of peripherals/memory, loaner support, hardware break/fix, technology refresh, manual patching, desk side support, executive support. Conduct initial triage of site server maintenance and application issues and provide increased escalation as appropriate. Review company-owned mobile device activation and troubleshooting as well as support for virus intrusion/incidents, internet/LAN access, basic printer support, remote access, end user device procurement, resource/ asset management, asset management disposal, and digital certificate creation and installation. As available, Client Services can provide basic A/V support, which includes Level 1 functional support.	IT VP (Opco Specific)	% of Incidents resolved in 24 hours
430	IT Operations/ NERC CIP Compliance	Provides CIP operational compliance for C&I owned assets as well as Standard Owner program administration for PECO, ComEd, BGE, Power, and Commercial. Additional resources may be required for special projects and will be billed time & materials.	VPs, Cloud & Infrastructure	
439	Call Center Services	This service includes engineering and 3rd level support for call center based technologies, including software and integration with telephony systems.	VPs, Opco IT (business specific)	Refer to standard operations support model for application hosted.
463	Oracle Support Services	The service provides a comprehensive deal structure that includes perpetual unlimited licenses for Oracle's entire catalog of "on premise" software at a fixed price for use across the Exelon Enterprise. The deal also provides opportunities to obtain incremental value based on terms and pre-set pricing. Purchase of the incremental opportunities is completely at Exelon's discretion	IT VP, Chief Technology Officer	

Comment [FDL1]: May need to valididate. This originally had service desk metrics which do not apply. Another potential target would be % of incidents resolved in 2 business days (not dependent on hardware replacement)

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
505	Financials Portfolio Application Support	The service covers general areas of support and support providers. The service scope includes Financials (For Financial Services Group), Business Intelligence Architecture (For Financial Services Group), Technical Infrastructure (For Financial Services Group), Other Applications (For Tax Dept), Treasury Systems, and AP Finance. Detailed list of applications included in Enterprise Finance Portfolio Applications	VP, Enterprise Wide Solutions	EPS Availability 99.75% OLVM Code Block Validation Response Time < 250 ms 99.0% EPM, Hyperion Batch Runs Complete between 5 pm and 7 am 90% GL Standard < 8 min 90% Incident Response / Resolution 98%
506	PassPort Portfolio Application Support	PassPort supports numerous business processes including those associated with work management, supply chain, design engineering and safety and compliance. Bolt-on applications extend the functionality of PassPort and enable interfaces to other Exelon computer systems. PassPort and its bolt-on applications are collectively referred to as the PassPort Portfolio.	VP, Enterprise Wide Solutions	Passport Availability for each supported BU = 99.5% Response time <1 second 85.0% Response time <2 second 95.0% Critical Nightly Weekday Batch Window complete by 5 am Incident Resolution Sev 1 – 100% Sev 2 – 90% Sev 3 – 85% Sev 4 – 75% EDMS Availability 99.0% Documentum Power 98.5% Hyperion Infrastructure, NewCAP, All Replication Services Availability 99.0% Data Replication <2 hr delay
507	HR Portfolio Application Support	The Service covers general areas of support and support providers. The service scope includes HRPC, Etalent, HRPulse, ePeople Comp, and SHARE	VP, Enterprise Wide Solutions	See IT Service Details, IT Enterprise-Wide Solutions

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
508	eBusiness Support (Web Infrastructure, Application Maintenance & Support)	Detailed list of applications included in Enterprise Web Infrastructure & Applications in the IT Services Details section of this IT Service Catalog	VP, Enterprise Wide Solutions	Internet Server Availability 98.0% Others Application Availability of 98.5% of scheduled hours
509	Learning Management Portfolio Application Support	The Learning Management Portfolio service covers general areas of support and support providers. The service includes support for Learning Management Portfolio Application (LMS).	VP, Enterprise Wide Solutions	See IT Service Details, IT Enterprise-Wide Solutions
510	Corporate Portfolio Application Support	This service covers general areas of support and support providers. Detailed list of applications included in Enterprise Corporate Application Portfolio	VP, Enterprise Wide Solutions	Standard Availability M-F, 7AM to 7PM (CT); Critical Availability Sa-Su, as requested Application Availability 98% Incident Response / Resolution 98%
547	Application and Technical Service Delivery - Accounting Finance Risk and WS Ops	The Accounting Finance Risk and WS Ops service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the Accounting Finance Risk and WS Ops business process. The applications that make up this portfolio are listed in appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A
548	Application and Technical Service Delivery - Asset & Trading Op	The Asset & Trading Op service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the Asset & Trading Op business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
549	Application and Technical Service Delivery - BGE Home	The BGE Home service is provided to support and maintain application services, which include costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the BGE Home business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A
550	Application and Technical Service Delivery - Billing & Payment Processing	The Billing & Payment Processing service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Billing & Payment Processing business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
551	Application and Technical Service Delivery - Business Operations	The Business Operations service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Power, Wind to support the Business Operations business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Power, Wind	Application service level agreements are available in Appendix A
552	Application and Technical Service Delivery - Chemistry	The Chemistry service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Nuclear to support the Chemistry business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Nuclear	Application service level agreements are available in Appendix A
553	Application and Technical Service Delivery - Compliance [NERC]	The Compliance [NERC] service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Power to support the Compliance [NERC] business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Power	Application service level agreements are available in Appendix A

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
554	Application and Technical Service Delivery - Customer Care Center	The Customer Care Center service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Customer Care Center business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
555	Application and Technical Service Delivery - Customer Solutions	The Customer Solutions service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Customer Solutions business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
556	Application and Technical Service Delivery - Distributed Energy	The Distributed Energy service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the Distributed Energy business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A
557	Application and Technical Service Delivery - End User Services	The End User Services service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the end user services used by ComEd, PECO, BGE, PHI, Power, Wind, Commercial, Nuclear. The end user services that make up this product are listed in Appendix AB.	IT VP of ComEd, PECO, BGE, PHI, Power, Wind, Commercial, Nuclear	Application service level agreements are available in Appendix AB
558	Application and Technical Service Delivery - Energy Procurement	The Energy Procurement service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Energy Procurement business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
559	Application and Technical Service Delivery - Engineering	The Engineering service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, compliance and technical services necessary to maintain the applications used by Power, Nuclear to support the Engineering business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Power, Nuclear	Application service level agreements are available in Appendix A
560	Application and Technical Service Delivery - Environmental	The Environmental service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Power to support the Environmental business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Power	Application service level agreements are available in Appendix A
561	Application and Technical Service Delivery - Infrastructure	The Infrastructure service is provided to support and maintain application services, which include costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the Infrastructure business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A
562	Application and Technical Service Delivery - IT Management & Compliance	The IT Management & Compliance serviceis provided to support and maintain the governance and management of the IT services delivered in ComEd, EWS, PECO, BGE, PHI, Power, Nuclear and CIIO.	IT VP of ComEd, EWS, PECO, BGE, PHI, Power, Nuclear, CIIO	
563	Application and Technical Service Delivery - Maintenance	The Maintenance service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Power to support the Maintenance business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Power	Application service level agreements are available in Appendix A

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
564	Application and Technical Service Delivery - Mass Markets	The Mass Markets service is provided to support and maintain application services, which include costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the Mass Markets business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A
565	Application and Technical Service Delivery - Meter Services	The Meter Services service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Meter Services business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
566	Application and Technical Service Delivery - Modeling Valuation and Analytics	The Modeling Valuation and Analytics service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the Modeling Valuation and Analytics business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A
567	Application and Technical Service Delivery - Nuclear Cyber Security	The Nuclear Cyber Security service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Nuclear to support the Nuclear Cyber Security business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Nuclear	Application service level agreements are available in Appendix A
568	Application and Technical Service Delivery - Operate & Restore (Electric)	The Operate & Restore (Electric) service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Operate & Restore (Electric) business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
569	Application and Technical Service Delivery - Operate & Restore (Gas)	The Operate & Restore (Gas) service is provided to support and maintain application services, which include costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by PECO, BGE, PHI to support the Operate & Restore (Gas) business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of PECO, BGE, PHI	Application service level agreements are available in Appendix A
570	Application and Technical Service Delivery - Operations	The Operations service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI, Power, Wind, and Nuclear to support the Operations business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI, Power, Wind, Nuclear	Application service level agreements are available in Appendix A
571	Application and Technical Service Delivery - Operations Support	The Operations Support service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, and Nuclear to support the Operations Support business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI, Nuclear	Application service level agreements are available in Appendix A
572	Application and Technical Service Delivery - Power - C&I	The Power - C&I service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the Power - C&I business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A
573	Application and Technical Service Delivery - Project & Work Management	The Project & Work Management service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Project & Work Management business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
574	Application and Technical Service Delivery - Rad Protection	The Rad Protection service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Nuclear to support the Rad Protection business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Nuclear	Application service level agreements are available in Appendix A
575	Application and Technical Service Delivery - Retail Gas	The Retail Gas service is provided to support and maintain application services, which include costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Commercial to support the Retail Gas business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Commercial	Application service level agreements are available in Appendix A
576	Application and Technical Service Delivery - Security	The Security service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, compliance and technical services necessary to maintain the applications used by EWS, Nuclear to support the Security business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of EWS, Nuclear	Application service level agreements are available in Appendix A
577	Application and Technical Service Delivery - Site Support	The Site Support service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Nuclear to support the Site Support business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Nuclear	Application service level agreements are available in Appendix A
578	Application and Technical Service Delivery - Smart Meter Smart Grid	The Smart Meter Smart Grid service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Smart Meter Smart Grid business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
579	Application and Technical Service Delivery - Training	The Training service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Nuclear to support the Training business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Nuclear	Application service level agreements are available in Appendix A
580	Application and Technical Service Delivery - UCOMM	The UCOMM service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the UCOMM business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
581	Application and Technical Service Delivery - Work Control	The Work Control service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by Nuclear to support the Work Control business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of Nuclear	Application service level agreements are available in Appendix A
582	Application and Technical Service Delivery - Work Management	The Work Management service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI, Power to support the Work Management business process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI, Power	Application service level agreements are available in Appendix A
583	Application and Technical Service Delivery - EU Support Services	The EU Support Services is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Support Services process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
584	Application and Technical Service Delivery - Outage Management & Geospatial	The Outage Management & Geospatial service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Outage Management & Geospatial process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
585	Application and Technical Service Delivery - Smart Meter Operations	The Smart Meter Operations service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to Smart Meter Operations process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
586	Application and Technical Service Delivery - BI and Data Analytics	The BI and Data Analytics service is provided to support and maintain application services, which include costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the BI and Data Analytics process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
587	Application and Technical Service - Workforce & Mobile Technology	The Work Control service is provided to support and maintain application services, which includes costs of all the infrastructure, labor, licenses, maintenance, support, management, project work, compliance and technical services necessary to maintain the applications used by ComEd, PECO, BGE, PHI to support the Workforce & Mobile Technology process. The applications that make up this portfolio are listed in Appendix A.	IT VP of ComEd, PECO, BGE, PHI	Application service level agreements are available in Appendix A
663	BSC Ex Utility Info Technology	This service is provided to support and maintain application services, which includes cost associated with the Exelon Utilities (EU) IT Team and includes the EU IT Convergence Project Assessment and General EU Project PMO Activities.	VP, BGE IT, VP, ComEd IT, VP, PECO IT, and VP, PHI IT	
775	IT Governance	This service is provided to support governance and oversight functions, which include costs associated with enterprise-wide governance functions and	SVP, CIIO Exelon	

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		includes the IT PMO, IT Emerging Technologies, IT Business Operations and Governance groups.		
777	C&I Projects	This service includes the planning, design, and implementation of C&I projects that are allocated to one or more business units	VPs, Cloud & Infrastructure	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +10%
854	Legal Application Support	The Service covers general areas of support and support providers for the Legal applications	VP, Enterprise Wide Solutions	Server Total Availability 98.8% Server Scheduled Availability 99.5% Create/Change/Disable: within 24 business hours; delete in 90 days
869	BU IT Support	Provide Site IT Support for Nuclear IT Operation and Maintenance. Areas of support are Client Support, Server Administration, Cyber Security, Infrastructure and Real Time Systems Support	VP, IT Generation	24/7 support for Operational issues in accordance with Application Service Level agreements.
885	BSC IT Services Rev Adjust	BSC IT Services Revenue Adjustment- "Revenue Adjustment Services" reflects the following "true up" mechanism: The difference between actual cost and revenues from billings to the Client Companies is "trued up" each month by allocating it pro rata to the Client Companies based on their share of IT Total Service Billings	SVP, CIIO Exelon	Not Applicable
901	BSC Other PA Tech Projects	This service is comprised of planning, design, and implementation of IT projects that support BSC Practice Areas other than Finance or Human Resources.	IT VP (Project Specific)	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +10%

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
902	BSC HR Tech Projects	This service is comprised of planning, design, and implementation of IT projects that support the Human Resources Practice Areas of BSC.	IT VP (Project Specific)	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +10%
903	BSC Finance Tech Projects	This service is comprised of planning, design, and implementation of IT projects that support the Finance Practice Areas of BSC.	IT VP (Project Specific)	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +10%
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	IT VP (Project Specific)	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +10%
906	Enterprise Wide IT Projects	This service is comprised of planning, design, and implementation of IT projects related to licensing, upgrade and expansion of technology platforms including Oracle database, SQL Server database, SharePoint, and others.	VP, Enterprise Wide Solutions	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +10%
943	IT Controls & Compliance Services	• Annual Audit Planning coordinating the audit schedule for BSC IT • Nuclear Digital Technology Systems Quality Assurance Program (DTSQA) Administration. Program is a 10 CFR 50 Appendix B requirement per NRC that defines system quality assurance requirements for the procurement, development, and maintenance of software used in safety-related functions at the legacy EXC nuclear power plants. DTSQA is with 3,500	IT VP of Nuclear	

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		applications across the fleet. • Privacy: assessment of protective measures relating to personal identifiable information (PII) • HIPPA Compliance covers the provision of logical controls and establishment and execution of procedures to comply with health information privacy policy. • Produces Access Control Lists (ACL's) for review of administrative access to: mainframes; UNIX servers; Windows servers; Databases; and all Sarbanes-Oxley (SOX) and Critical Infrastructure (CIP) applications. • Provides support for Sarbanes-Oxley (SOX) controls and NERC-CIP requirements related to security access and change management control evidence. • Govern the IT Security exception process when it is not possible to adhere to policy or procedure and evaluates the merits of each exception request.		
944	NERC CIP Program Services	• Provide **enterprise-wide NERC CIP program and project management oversight** to ensure sustained Exelon compliance • Provide consistent **NERC CIP program, project and initiative: scope definition, change control, planning, processes and tools,** to be leveraged across the enterprise • Develop and monitor common Exelon NERC CIP **compliance standards and metrics** • **Report NERC CIP status,** including compliance, program/project progress, issues and risks to Executive leadership and the broader enterprise • Develop and maintain **Integrated Program Plan** • **Manage and mitigate enterprise-wide NERC CIP issues and risks,** liaising with Exelon Legal for potential violations and internal compliance inquiries or investigations • Identify and **make recommendations on NERC CIP projects**, as well as enterprise-wide synergy, integration and automation opportunities,	VP, Exelon Utilities IT	

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		providing budgeting and planning input • Provide input on LRP budgets and strategic planning across the OpCos and business areas • Provide **enterprise-wide NERC CIP project/initiative management oversight**, including strategic NERC alignment across business areas (e.g., utilities, corporate areas), raising awareness of timing concerns, providing best practices and recommending solutions to issues/risks • Act as a **communications and change management center** for Exelon NERC CIP stakeholders, driving collaboration and a culture of compliance across the entities' business areas • Engage NERC CIP stakeholders, **understand change impacts, and provide training guidance** • **Understand industry NERC CIP regulatory changes** and help prepare Exelon for these, sharing information and impacts with appropriate stakeholders from an internal perspective • Provide **quality assurance input** on key NERC CIP processes and artifacts, reviewing approach and consistency • Identify, collate and **share NERC CIP best practices and lessons learned** across the enterprise • Provide an Exelon **NERC CIP Knowledge Repository**, containing best practices, templates and sample documents		
951	NERC CIP Implementation Costs	The NERC CIP Implementation Program (VIP) is an integrated Program to support the on-going compliance NERC CIP standards. Our Program Team works together across the projects to ensure consistency and full coverage of the NERC CIP standards. Program Support Functions include: • Program Integration • Program Management Office (PMO)	VP, Exelon Utilities IT	

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		- Finance - Architecture - Communications & Change Management		
F89	Maximo Support	Maximo Support provides management and support for the Maximo application	VP, Enterprise Wide Solutions	Based on individual Application Availability

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FERC Account and Billing Approach Table (See Appendix A for Technical Services Table)

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
322	BSC BU Specific IT Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated – 529560	Time and Materials or Cost Causative Method
410	Client Services	923 – Outside Services Employed	Direct – 529550	Time and Materials
430	IT Operations/ NERC CIP Compliance	923 – Outside Services Employed	Direct – 529550 Allocated – 529560	Time and Materials or Cost Causative Method
439	Call Center Services	923 – Outside Services Employed	Direct – 529550	Time and Material
463	Oracle Support Services	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated – 529560	Weighted allocation based on application usage
505	Financials Portfolio Application Support	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Direct (to BSC Finance) – 529550	Time and Materials
506	PassPort Portfolio Application Support	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Allocated (general application maintenance) - 529560	Based on Passport users
			Direct (BU specific instance support) – 529550	Time and Materials
507	HR Portfolio Application Support	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Direct (to BSC HR) – 529550	Time and Materials
508	eBusiness Support (Web Infrastructure, Application Maintenance & Support)	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Allocated – 529560	Cost causative method
509	Learning Management Portfolio Application Support	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Allocated – 529560	Number of LMS users
510	Corporate Portfolio Application Support	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Allocated – 529560	% of cost attributable to each portfolio

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
663	BSC Ex Utility Info Technology	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Allocated - 529560	Cost causative method
775	IT Governance	923 – Outside Services Employed	Allocated – 529560	% of total IT Service Billings
777	C&I Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated – 529560	Time and Materials or Cost Causative Method
854	Legal Application	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Direct - 529550	Time and Materials
869	BU IT Support	923 – Outside Service Employed	Direct – 529550	Time and Materials
885	BSC IT Services Rev Adjust	923 – Outside Service Employed	Allocated – 529560	% of Total IT Service Billings to each OpCo
901	BSC Other PA Tech Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated - 529560	Time and Materials or Cost Causative Method
902	BSC HR Tech Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated – 529560	Time and Materials or Cost Causative Method (typically % of total headcount)
903	BSC Finance Tech Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated - 529560	Time and Materials or Cost Causative Method (typically Modified Massachusetts Formula)
904	BSC Costs to Achieve	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated – 529560	Time and Materials or Cost Causative Method
906	Enterprise Wide Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated - 529560	Time and Materials or Cost Causative Method
943	IT Controls & Compliance Services	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529550 Allocated - 529560	Time and Materials or Cost Causative Method
944	NERC CIP Program Services	923 – Outside Service Employed	Allocated – 529560	% of critical NERC cyber assets

BSC IT

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
951	NERC CIP Implementation Costs	923 – Outside Service Employed	Allocated – 529560	% of critical NERC cyber assets
F89	Maximo Support	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Allocated – 529560	Based on Maximo users
			Direct – 529550	Time & Materials
547	Application and Technical Service Delivery - Accounting Finance Risk and WS Ops	923 – Outside Service Employed	Direct – 529550	Time and Materials
548	Application and Technical Service Delivery - Asset & Trading Op	923 – Outside Service Employed	Direct – 529550	Time and Materials
549	Application and Technical Service Delivery - BGE Home	923 – Outside Service Employed	Direct – 529550	Time and Materials
550	Application and Technical Service Delivery - Billing & Payment Processing	923 – Outside Service Employed	Direct – 529550	Time and Materials or Number of Customers
551	Application and Technical Service Delivery - Business Operations	923 – Outside Service Employed	Direct – 529550	Time and Materials
552	Application and Technical Service Delivery - Chemistry	923 – Outside Service Employed	Direct – 529550	Time and Materials
553	Application and Technical Service Delivery - Compliance	923 – Outside Service Employed	Direct – 529550	Time and Materials

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Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
	[NERC]			
554	Application and Technical Service Delivery - Customer Care Center	923 – Outside Service Employed	Direct – 529550	Time and Materials or Number of Customers
555	Application and Technical Service Delivery - Customer Solutions	923 – Outside Service Employed	Direct – 529550	Time and Materials
556	Application and Technical Service Delivery - Distributed Energy	923 – Outside Service Employed	Direct – 529550	Time and Materials
557	Application and Technical Service Delivery - End User Services	923 – Outside Service Employed	Direct – 529550	Time and Materials
558	Application and Technical Service Delivery - Energy Procurement	923 – Outside Service Employed	Direct – 529550	Time and Materials
559	Application and Technical Service Delivery - Engineering	923 – Outside Service Employed	Direct – 529550	Time and Materials
560	Application and Technical Service Delivery - Environmental	923 – Outside Service Employed	Direct – 529550	Time and Materials
561	Application and Technical Service Delivery -	923 – Outside Service Employed	Direct – 529550	Time and Materials

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Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
	Infrastructure			
562	Application and Technical Service Delivery - IT Management & Compliance	923 – Outside Service Employed	Allocated – 529360	Time and Materials
563	Application and Technical Service Delivery - Maintenance	923 – Outside Service Employed	Direct – 529550	Time and Materials
564	Application and Technical Service Delivery - Mass Markets	923 – Outside Service Employed	Direct – 529550	Time and Materials
565	Application and Technical Service Delivery - Meter Services	923 – Outside Service Employed	Direct – 529550	Time and Materials
566	Application and Technical Service Delivery - Modeling Valuation and Analytics	923 – Outside Service Employed	Direct – 529550	Time and Materials
567	Application and Technical Service Delivery - Nuclear Cyber Security	923 – Outside Service Employed	Direct – 529550	Time and Materials
568	Application and Technical Service Delivery - Operate & Restore (Electric)	923 – Outside Service Employed	Direct – 529550	Time and Materials

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
569	Application and Technical Service Delivery - Operate & Restore (Gas)	923 – Outside Service Employed	Direct – 529550	Time and Materials
570	Application and Technical Service Delivery - Operations	923 – Outside Service Employed	Direct – 529550	Time and Materials
571	Application and Technical Service Delivery - Operations Support	923 – Outside Service Employed	Direct – 529550	Time and Materials or Number of Customers
572	Application and Technical Service Delivery - Power - C&I	923 – Outside Service Employed	Direct – 529550	Time and Materials
573	Application and Technical Service Delivery - Project & Work Management	923 – Outside Service Employed	Direct – 529550	Time and Materials
574	Application and Technical Service Delivery - Rad Protection	923 – Outside Service Employed	Direct – 529550	Time and Materials
575	Application and Technical Service Delivery - Retail Gas	923 – Outside Service Employed	Direct – 529550	Time and Materials
576	Application and Technical Service Delivery - Security	923 – Outside Service Employed	Direct – 529550	Time and Materials
577	Application and Technical Service Delivery - Site Support	923 – Outside Service Employed	Direct – 529550	Time and Materials

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Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
578	Application and Technical Service Delivery - Smart Meter Smart Grid	923 – Outside Service Employed	Direct – 529550	Time and Materials
579	Application and Technical Service Delivery - Training	923 – Outside Service Employed	Direct – 529550	Time and Materials
580	Application and Technical Service Delivery - UCOMM	923 – Outside Service Employed	Direct – 529550	Time and Materials
581	Application and Technical Service Delivery - Work Control	923 – Outside Service Employed	Direct – 529550	Time and Materials
582	Application and Technical Service Delivery - Work Management	923 – Outside Service Employed	Direct – 529550	Time and Materials
583	Application and Technical Service Delivery - EU Support Services	923 – Outside Service Employed	Direct – 529550	Time and Materials
584	Application and Technical Service Delivery - Outage Management & Geospatial	923 – Outside Service Employed	Direct – 529550	Time and Materials
585	Application and Technical Service Delivery - Smart Meter Operations	923 – Outside Service Employed	Direct – 529550	Time and Materials

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
586	Application and Technical Service Delivery - BI and Data Analytics	923 – Outside Service Employed	Direct – 529550	Time and Materials
587	Application and Technical Service - Workforce & Mobile Technology	923 – Outside Service Employed	Direct – 529550	Time and Materials

IT As Requested Services Introduction

Periodically, the OpCos may request additional IT project or non-standard IT support services that were not identified during the budget/LRP cycle. These costs will be funded directly by the operations area of the OpCo requesting the incremental project or non-standard support. Note, additional non-standard services may be created depending on what support is requested over the course of the SLA period.

IT & Security As Requested Services Table

As Requested Service Table

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
779 (As Requested)	As Requested IT Projects	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	IT VP (Project Specific)	TBD

As Requested FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
779 (As Requested)	As Requested IT Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Direct – 529500 or 529550 Allocated – 529560	Time and Materials or Cost Causative Method

Performance Measurement

The performance management section outlines the standard performance metrics across IT Services, the level of service will be expected to meet at a minimum, and target levels that will be expected to be met or exceeded on negotiated timelines (if applicable).

IT will monitor its service levels and performance using both cost and quality metrics on an on-going basis. IT will facilitate the definition of metrics, provide templates for data input and measurement, and consolidate the inputs to calculate end-to-end process metrics where data is available.

IT will make metrics available to Client Companies and facilitate monthly/periodic meetings with Client Company Business leaders to review metrics and discuss IT performance to service level metrics.

BSC IT

General information covered by performance management and reporting of IT service delivery includes the following:

- Project reporting, including estimated percentage deliverables progress towards completion compared to percent of project spend; key milestones and delays
- Financial reporting on all IT spend associated with Client Company, including budgets, actual costs, and forecasts. Detailed past, current, and expected internal and external audit activity associated with IT that supports Client Company
- Control assessments and analyses of actual events
- Risk assessments, including risks to financial outcomes, risks from personnel changes, risks to successful delivery of projects, security risks, audit risks, and other assessments, whether accurately quantifiable or not
- Other issues or concerns as appropriate

Standard IT Operational Metrics include:

End User Computing	**Target**
Service Desk Resolution • **The percentage of calls resolved by the Service Desk without escalation to Level 2 or Level 3.** • **Calculated by the aggregated number of Service Desk Resolutions completed by the Service Desk divided by the total number of interactions received by the IT Service Desk during the month**	70%
End-User Computing Resolution Rate • **% of End-User Incident Tickets Closed in 24 Hours not requiring a hardware replacement**	70%
Average Wait Time for Client for Service Desk • **Data comes from Cisco Call Manager** • **Includes front-end message**	60 secs
Infrastructure Availability	Target
MTTR for Major Infrastructure Incidents • **MTTR – Mean Time to Restore is the elapsed time from incident detection by or reported to the ITOC until client service is restored or workaround is in place.**	240 mins
Number of Major Incidents Associated with Infrastructure	24 annually

Responsibilities

The BSC IT responsibilities along with the Client Company are different based on the type of service. For example, responsibilities related to the delivery of a personal computer will be different than that of requesting changes to an application, which is owned by Client Company.

BSC IT

The responsibilities are general in nature and not necessarily intended to be an all inclusive list of responsibilities between Exelon IT and Client Company for every aspect of IT service delivery and support. Responsibilities have been grouped by different types, as applicable, and include:

1. End User Tools
2. Application Support
3. IT Project Delivery
4. Technology Refresh & Capital Investments/Depreciation

End User Tools

Task / Responsibility	**Cloud & Infrastructure**	**Client Company**
PC Support, Procurement and Installation		
Manage vendor relationships – HW and SW	X	
Develop and maintain a written, mutually agreed upon procurement process	X	
Request Personal Computer Standard hardware or software using standard procedures		X
Provide funding to purchase PC hardware and software		X
Procure PC hardware and software	X	
Test business unit applications with Exelon image	X	X
Fund remediation of business unit applications for desktop changes as required		X
Desk Side Support		
Install PC HW and SW		X
Coordinate PC Refresh project based on life-cycle policies	X	X
Support via IT Service Desk tickets PC HW and SW		X
Repair workstation HW or base / premium software	X	
Asset Management and Software License Management		
Provide implementation and administration of the Asset Management System	X	
Monitor PCs for compliance with Asset Management policies and guidelines	X	X
Monitor software installations for licenses for requirement compliance	X	X
Adhere to written, mutually agreed upon asset management policies and guidelines	X	X
Ensure that asset management process is integrated with the Client Order Fulfillment (COF) and Install/Change/Move/Surplus (ICMS) process; Provide training as appropriate	X (Standard)	X (Limited)

Task / Responsibility	Cloud & Infrastructure	Client Company
Provide web based asset reporting capability that has an accuracy of no less than 95%	X	
Client Order Fulfillment (COF) and Install/Change/Move/Surplus (IMCS) Services (formerly IMAC)		
Request and appropriately fund request of services from IT		X
Fulfill request for service		X
Adhere to mutually agreed upon COF and ICMS policies and guidelines	X	X
Routine IT Service Desk Services		
Provide single point of contact Help Desk support to all EBSC IT customers on a 24 x 7 basis	X	
Contact IT Service Desk to report issues with IT Services or request IT Services		X
Provide 1st level problem resolution	X	
Formal problem escalation shall be established and followed; EBSC and customer shall approve this process	X	X

Application Support

Task / Responsibility	Cloud & Infrastructure	Client Company
General Support		
Lead effort to resolve production problems; Perform all corrective maintenance including application break fix; Provide support for resolution of infrastructure or administrative problems	X	
Perform preventive maintenance tasks, including performance tuning and database reorganization	X	
Provide disaster recovery (DR) for the application if in scope for application; Develop disaster recovery plan and procedures	X	X
Participate in disaster recovery exercises	X	X
Provide ongoing monitoring of systems to ensure applications and systems working correctly and performing to goals	X	
Application Upgrades		
Lead the effort to apply application or infrastructure upgrades; Plan and manage upgrades including development, test, and installation/rollout		X
User Support		
Provide administrative support for the system or application; Perform administrative tasks such as adding new users, modifying existing users or groups		X
Provide a script for Service Desk use in problem solving; Track the resolution of support calls to the	X	X

Task / Responsibility	Cloud & Infrastructure	Client Company
Service Desk		
Provide level-1 support; Receive and track trouble tickets; Diagnose, solve or refer to appropriate support queue for resolution; Provide basic troubleshooting and end-user problem resolution related to system access	X	
Provide level-2 support; Receive and track trouble tickets; Diagnose, solve or refer to appropriate support queue for resolution; Provide basic troubleshooting, end-user problem resolution related to functional aspects		X
Provide level-3 support. Receive and track trouble tickets; Diagnose, solve or refer to appropriate support queue for resolution; Provide code related analysis/resolution and data integrity verification	X	
Provide CWI (Consulting What If) support on an as-needed basis (up to 8 hours per request covered under maintenance); Yearly CWI to not exceed 5% of total support labor budget	X	
Estimating Activities		
Provide high level estimate for changes or enhancements associated with the supported application(s)	X	
Small Enhancements		
Provide services to develop, test, and implement application small enhancements supported in this SLA exclusively using maintenance team's approved budget; Small enhancements include only changes to an existing application and cannot introduce a new application into the environment	X	
Prioritize both enhancements, and any estimating activities, on an ongoing basis; Lights-on-maintenance has a higher priority over enhancements and estimating activities		X

IT Project Delivery Services

Task / Responsibility	Exelon BSC IT	Client Company
Request service and provide business justification as necessary; Provide business unit participation as required	Support	Primary
Request service and provide business unit participation as required		Primary
Project planning, requirements gathering and initial scoping	Support	Primary
Develop and approve business case prior to project initiation		Primary
Ensure project is prioritized and approved as a part of IT spending		Primary

Task / Responsibility	Exelon BSC IT	Client Company
Ensure Total cost of ownership is included in future year's Long Range Plan (LRP)		Primary
Request and obtain Exelon IT approval and authorization to initiate new Projects	Support	Primary
Provide strategic objectives for IT strategy and planning consulting services		Primary
Perform functional acceptance testing, product configuration and security administration, end user development and testing, and end user communications	Support	Primary
Provide strategy development methods, processes, facilitation and development of the IT strategy and plans	Primary	
Provide status reporting of schedule, scope, and budget on agreed intervals	Primary	
Adhere to schedule, budget and progress reporting processes as required by the Exelon IT Project Management Office	Primary	
Plan, execute and manage project. Develop project schedule and budget; Execute project according to project schedule; Manage and monitor schedule, risks, budget and deliverables; Manage and monitor quality of deliverables	Primary	
Perform Business Change management; Analyze impact, determine requirements, establish and execute change management plan	Support	Primary
Analyze business problem. Design and engineer solution to address business problem	Primary	Support
Design, acquire and install systems software and infrastructure required to support the project	Primary	
Plan and execute testing (unit, system and integration)	Primary	Support
Perform functional acceptance testing, business parameter administrations, end user development and testing, and end user communications		Primary
Accept development or installation of new products or enhancements to existing products. Accept delivery of outcomes from project as applicable		Primary
Transition development to the ongoing support team providing agreed to transition deliverables	Primary	
Plan, execute and manage project schedule, budget, risks and deliverables. Analyze business problem. Design and engineer solution to address business problem	Primary	

Additional Information

Service Desk and Request Fulfillment

End users contact IT Service Desk for support and to request an IT asset or service. All requests for IT services are to be submitted using one of the following methods:

BSC IT

1. Calling the IT Service Desk (either 1.877.9EXELON (1.877.939.3566) or legacy Constellation at x4300).
2. Via the Service Manager Self-Service on-line portal 24x7. On-line Service Requests are automatically classified as “Routine”.
3. Via an eMail to “IT Support Center”, describing the incident or request. On-line Service Requests are automatically classified as “Routine”.

Requests for support are documented and tracked as interactions within the Service Desk. If the interaction is not resolved, an ‘incident’ is created and dispatched to the appropriate support team. Incidents affecting systems or multiple users will be escalated to the ITOC for coordination and escalation based based on severity and urgency.

Requests for an IT asset or service creates an IT Service Request, or ‘non-incident’. Service Requests are directed to the appropriate IT service owner for fulfillment.

The IT Service Desk provides 7x24 support. Client Services Support Hours are Monday – Friday, 7:30 AM – 5:00 PM, local time to their location, with after-hours support on-call for urgent issues only.

Requests for services not associated with an operational issue (e.g. new remote access token, additional space in a home drive) will be processed Monday through Friday 8:00am to 5:00pm, local time to client location.

Service Operations Support Model

IT Operations Services supports a vast variety of technologies in the enterprise computing environment. To do this efficiently and effectively, a standard operations support model is used to drive consistent support and delivery expectations. Applications must be registered in IT’s Asset Manager/Application Portfolio Manager database to subscribe to the standard Service Operations Support Model.

C&I offers two operational support offerings: Full Support and Limited Support.

- **Full Support** applies to applications where C&I is providing Infrastructure as a Service (IaaS) support for the application hosting environment. Full support provides event monitoring, incident management, incident communications, problem management, security patching, and routine operational maintenance. This applies to both Physical and Virtual devices. Data Center facilities costs are above and beyond this support.
- **Limited Support** applies to applications and infrastructure where C&I provides monitoring and escalation services but is not responsible for incident resolution and other operational tasks for the equipment. This applies to P/SaaS applications and Opco IT-supported equipment.

BSC IT

This includes Event Monitoring, Incident Escalation, Incident Communications, and Problem Management. Data Center facilities costs are above and beyond this support for devices hosted in enterprise data centers.

- **Data Center Support** applies to applications and infrastructure where equipment resides in our Enterprise Data Centers. These charges cover the costs of space, power, and general network connectivity.

Incidents are prioritized based on Business Value (Urgency) and Impact (Severity). The following table defines Incident priorities for IT Incident Management:

		Application Business Value (Urgency)		
		High	**Medium**	**Low**
Severity (Impact)	**SEV-1** (Application or Infrastructure Unavailable)	Major	Minor	Routine
	SEV-2 (Application or Infrastructure not performing as expected)	Minor	Minor	Routine
	SEV-3 (Non-client impacting system events)	Routine	Routine	Routine
	SEV-4 (Individual User Issues)	User	User	User

Note: User Incidents are escalated by the Service Desk during normal business hours unless the business requests off-hours escalation.

The following table defines the Incident Management Targets for Incidents:

Service Level Commitment Details				
	Support Hours	**Target Resolution**	**Status Updates**	**Level of Effort**
Major	24 x 7 x 365	4 hours	4 hours	Worked continuously until workaround or resolved
Minor	24 x 7 x 365	8 hours	Open/Close	Escalated 24x7 Maybe deferred until next business day by service owner in off hours

Routine	Business Hours Monday thru Friday 7AM to 7PM ET	24 hours	None	Worked Business Hours Only
User	Business Hours Monday thru Friday 7AM to 7PM ET	2 business days	None	Worked Business Hours Only

Incident Management & Escalation Process Overview

This section provides an overview of the process steps that IT will take to resolve an Incident – service not available or performing as espected reported by an end-user or via system events to the IT Operations Center (ITOC). The purpose is to add clarity to the delivery of “Incident Response” of the Standard Operations Support Model. The support workflow for an incident follows a standard process based on support levels of IT Teams, severity/urgency of the incident, and the resolution target. This section also describes how the Client Company management may escalation issues.

The IT Service Desk can be considered **Level 0** support organization. All end user interactions, and any created incidents, are to originate via contact with the IT Service Desk. If the interaction between the end user and the IT Service Desk does not result in resolution of the issue, the interaction ticket is escalated to an incident ticket and transferred to the supporting Client Services team or designated support team for resolution.

Client Services Deskside Support (CSDS) can be considered **Level 1** support organization. Single instances of end user incidents which cannot be resolved by the IT Service Desk are transferred to CSDS as the **Level 1** support team. CSDS are structured by the Operating Company that they support. CSDS are positioned to be the single point of client support and requests for end user tools, such as the PC, telephone, printers. They provide initial contact and desktop support for the most critical business unit applications. The CSDS support responsibilities and response metrics are based on the individual business units.
BSC IT

IT Operations Center (ITOC) can be considered **Level 2** support organization for all Incidents from monitored system events or end-user reported incidents transferred from the IT Service Desk, that impact multiple users. The ITOC supports all Business Units. The ITOC is positioned to be the single point of contact and coordination for all infrastructure and application based incidents or system events. The ITOC support responsibilities and response metrics are included in the “Operations Services-Standard” service, within the IT Service Table for VPs, Cloud & Infrastructure.

For incidents experienced by a single end user, Client Services may need to transfer the ticket to a **Level 3** support organization. For system Incidents, the ITOC may need to transfer the ticket to a **Level 3** support organization. Level 3 support organizations include Application Support teams and Technical Engineering teams. The support responsibilities and levels of support may vary, based on the operations support model of the application.

Escalation of operational issues follows a standard process via the

- IT Service Desk
- IT Operations Center
- Director, IT Service Operations and Network Management
- VP, Cloud and Infrastructure Operations

Escalation of performance issues related to an IT Service is via the IT Director responsible for that service.

Technology Refresh & Capital Investments/Depreciation

The ongoing refresh and upgrade of technology is based on ownership of the IT Asset, and how it is reflected on either BSC books or the Client Company books. There are generally two approaches that are leveraged for technology assets:

1. For information technology that is and will most likely always be shared or changed/leveraged across Client Companies, BSC will own the technology asset.
   a. BSC is responsible for the funding of the original investment, as capital funding, probably via a project, and must plan for and budget capital investment for future refresh and upgrades to maintain the health of the IT Asset.
   b. The IT asset investment is on BSC’s books as an IT Asset.

c. BSC will record depreciation, and track this depreciation at the IT Asset Class level, such that it can be appropriately recovered from the Client Companies that leverage the shared environment, based on the Depreciation IT Services. These IT services are by asset class, and billed out by rate x quantity of the appropriate shared asset counts.
d. This is applicable to hardware infrastructure, shared PCs within BSC, as well as enterprise/infrastructure software packages, and generally includes, but is not limited to,
   i. Shared data network (networking equipment supporting more than one business unit's network traffic)
   ii. Data Center technologies for all virtual environments housed in corporate data centers
   iii. Servers/Storage for applications and IT services (Note: in situations where physical servers are dedicated to and maintained by a Client Company, these may be owned by the Client Company)
e. During annual LRP process, Client Companies and BSC will collaborate to adequately forecast demand for technology assets.

2. For information technology that is wholly dedicated or uniquely designed to support a single Client Company, the Client Company will own the technology asset.
   a. The Client Company is responsible for the funding of the original investment, as capital funding, probably via a project, and must plan for and budget capital investment for future refresh and upgrades to maintain health of the IT Asset.
   b. For Client Company owned assets, the Client Company is expected to adhere to recommended refresh guidelines (governed by Cloud & Infrastructure) to prevent interfering with the reliability of the overall enterprise infrastructure.
   c. The IT asset investment is on the Client Company books as an IT Asset.
   d. The Client Company will hold the depreciation and must budget accordingly.
   e. In the event an Op Co does not comply with a recommended refresh schedule, support will be on a best effort basis. IT will not be accountable for performance metrics related to service support.
   f. This is applicable to hardware infrastructure, PCs, as well as software packages, and generally includes, but is not limited to,
      i. Personal Computers
      ii. Dedicated servers/storage for an Opco's use
      iii. Dedicated network equipment for specific Client Company Real-Time/SCADA systems
      iv. Dedicated network equipment for specific Client Company locations
      v. Application software specific to a business unit

3. Enterprise IT application software assets will be allocated and recorded on an OpCo's books at the time of purchase/ development; using an appropriate, approved cost-causative allocation method as set forth in Exelon's General Services Agreement. Generally, BSC will purchase assets on behalf of the OpCo's, with the amount recorded at the OpCo level representing a beneficial ownership right in or right-to-use the IT asset.

Enterprise Demand Manager (EDM) / formally Application Work Request (AWR) Management

The standard model for requesting changes to an IT application is via the Enterprise Demand Manager (EDM) in 2016. For 2015, the engagement model current in place with Client Companies will continue to be leveraged. The level of service for requested changes to an IT service is based on the metric of Work Requests Delivered On-Time. Work Requests Delivered On-Time is defined as the delivery of a work request (EDM) to the user acceptance test (UAT) environment by the commitment date. The standard method for tracking an application (or IT service) work request is via the Project & Portfolio Management (PPM) tool as Enterprise Demand Manager (EDM). With not all Application/Service delivery teams using standard EDM process and tracking, IT will measure this level of service within the overall team. For those teams capable of consistently using PPM/EDM, the commitment date is negotiated between the Requesting Demand Manager, the Application/Service Delivery Manager, and the Service Provider based on criticality and prioritization. Expected performance level is at 90% of work requests are delivered on time with a minimum performance level of 85% of work requests delivered on time.

Successful user acceptance testing (UAT) is defined as the delivery of a work request to the UAT which passes UAT testing (i.e. accepted by the Client UAT tester) in a certain number of cycles based on complexity. The intention of this measure is twofold. First it functionally measures the quality of code provided by the IT Service Owner. Second, it measures the ability of the IT Service Owner to minimize the number of cycles that users are required to go through until a successful test is achieved, maximizing productivity and minimizing negative impact to the business. Expected performance level is at 90% of work requests are delivered on time with a minimum performance level of 85% of work requests delivered on time.

The following conditions must be met in order for a UAT cycle to be considered successful, in addition to tester's approval that the change meets the documented requirements:

- No code change required by the IT Service Owner's development staff within one cycle
- No additional work required by System Administrators or Database Administrators within one cycle
- No additional application configuration work required by personnel within one cycle

Work requests are tracked in Exelon's PPM tool as Enterprise Demand Manager [EDM's}. The date that code is delivered into the appropriate UAT environment is tracked in the EDM, as is the subsequent pass/fail (acceptance or rejection) of the UAT. A successful UAT will be identified by a lack of failure in the workflow of the UAT. In order to measure this accurately and enforce the intent of the measure, this assumes that the UAT will immediately fail the UAT **if** any further code, database or application configuration work be required before they can begin or resume testing once the service provider has indicated that the work item is ready for UAT.

IT Service Details

IT Application Portfolio Management database is the system of record for all applications and their support levels. Always refer to APM for the most recent listing and categorization. For specific information related to "High" Business Value applications, refer to the Business Unit-specific Service Level Agreements. NOTE: For Medium and Low Business Value applications, refer to your Business Unit's application list from the APM tool to confirm Support Service Level and DR rating.

Legal Services

Legal Services Introduction

BSC Legal Services will provide a full range of legal services, including representation, advice, counseling, training and other support, to meet the legal needs of our Affiliates and their Subsidiaries.

BSC Legal services will provide governance, management and support services for Exelon Corporation and its Subsidiaries, including services for the Exelon Board of Directors and the Subsidiaries' boards of directors, as required, legal counseling for securities matters and corporate finance, manage the Ethics and Compliance Program, including the Audit Committee's process for receiving and investigating concerns about potential violations of the Code of Business Conduct, manage the shareholder service function, coordinate the development of corporate policies and the Management Model, and coordinate records management, subsidiary management and the FERC Interlock processes.

Legal Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
914	EBSC Legal – Legal Operations and Administration	Legal Operations and Administration provides practical, proactive and creative solutions to the current and future legal needs of Exelon and is responsible for the business functions of Exelon Legal which includes financial management, client billing, business planning and analysis, human resources, systems management and general administration.	EVP/SVP & General Counsel
915	EBSC Legal – Corporate & Commercial	Corporate & Commercial provides support for, commercial contract negotiations (including purchases of materials and services, consulting services, confidentiality agreements, and licenses); intellectual property matters; antitrust, strategic transactions (including mergers, acquisitions, divestitures, and joint ventures); limited tax advisory services; securities and financing matters (including issuance of debt and equity securities, negotiation of credit agreements, financial reporting, and issues relating to disclosures of business and financial information); credit and collection matters and bankruptcy; real estate matters (including utility easements, right-of-way vegetation maintenance, recovery of utility relocation costs, purchases and sales, local planning and zoning board approvals, landlord-tenant disputes and condemnation proceedings); subsidiary management and other corporate legal matters.	

Service ID	Service Name	Service Description	Service Owner
916	EBSC Legal – Environmental Health & Safety	Environmental, Health & Safety, a subgroup of Corporate & Commercial, supports compliance with federal, state and local environmental, health & safety laws and requirements (including enforcement actions, permitting and licensing); environmental, health & safety audits, site remediation, hazardous substance and waste management; environmental aspects of transactions and due diligence; environmental cost recovery litigation; and support for strategic initiatives related to environmental and energy policies.	
917	EBSC Legal – Labor & Employment Group	Labor & Employment Group represents the companies before agencies, arbitrators and state and federal courts in a wide range of labor and employment related matters (including collective bargaining, grievance and arbitration processing, equal employment, affirmative action, covenants not to compete, defamation, immigration, severance, subpoenas, Unfair Labor Practices, whistleblower claims, wrongful discharge claims); and develops, supports and implements policies and training initiatives to ensure compliance with labor and employment laws.	
918	EBSC Legal – Compensation and Benefits	Compensation and Benefits, a subgroup of Labor & Employment, provides support for all employee benefit and compensation matters including ERISA, employment contracts, workers compensation plans, retirement, health care and welfare plans, executive compensation, severance benefits, and related litigation.	
919	EBSC Legal – Litigation	Litigation provides support for litigation and dispute resolution of all types of matters (including breach of contract, commercial disputes, personal injury and property damage, building code violations, class actions, decontamination and decommissioning, insurance coverage disputes, mechanics liens, shareholder derivative, OSHA, tax, tariffs, subpoenas and liability avoidance) in all forums, including state and federal courts, both at the trial and appellate levels, municipal courts, administrative agencies, and in arbitrations and mediations.	
920	EBSC Legal – Exelon Generation Wholesale & Retail	Wholesale & Retail provides support across all matters impacting the wholesale and retail commercial business lines, including negotiation and management of transactional documentation, issues relating to entry into new markets and new product lines, litigation support, and mergers and acquisition support.	
921	EBSC Legal – Exelon Generation Regulatory	Regulatory is responsible for federal and state, regulatory and compliance matters affecting the Exelon competitive businesses. The scope of the representation includes power and gas, wholesale and retail. The group represents the competitive businesses in state and federal regulatory proceedings and in related appellate proceedings, on matters including approvals for mergers and acquisitions, market design, cost recovery, infrastructure development, renewable energy policies, procurement processes, restructuring initiatives, capacity market rules, gas pipeline and storage rates, competitive retail access rules, and other regulatory matters affecting the competitive	

Service ID	Service Name	Service Description	Service Owner
		businesses' ability to transact in the market or the value proposition for such activity. The group also represents the company before federal agencies on issues related to derivatives and financial reform. Finally, the group is responsible for the retail and wholesale compliance programs for the competitive businesses, which includes the development of policies and procedures for prevention, detection, and correction of compliance issues.	
923	EBSC Legal – Exelon Generation Legal Group	Exelon Generation Legal Group provides support for matters across all areas related to or impacting generation issues, including commercial contracts, representation before the Nuclear Regulatory Commission ("NRC"), FERC and NRC compliance issues, plant licensing and re-licensing, employment, environmental compliance, and property tax.	
651	EBSC Legal – Legal Governance	Legal Governance ensures that the business strategies, policies, procedures and programs of Exelon and its subsidiaries are developed and applied in full recognition of legal implications and risk and are legally sound; ensures that the legal affairs of the companies are attended to effectively, efficiently, and on a timely basis; oversees the Legal practice groups/areas, and oversees and provides legal services support for corporate governance matters.	
789	BSC Legal Incremental Work	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	
833	BSC Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is "trued up" each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings.	
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	EVP/SVP & General Counsel
648	Corporate Secretary	• Plans and prepares for all aspects of the Company's board and board committee meetings as	SVP, Deputy Gen. Counsel

Service ID	Service Name	Service Description	Service Owner
		requested • Makes arrangements for all directors' travel, lodging and other services necessary for their service to the Company as requested • Administers the compensation programs and related deferral programs for directors • Provides legal counsel on financing activities and compliance with federal securities laws and stock exchange listing standards • Manages the daily administration of all of Exelon's equity compensation plans • Manages the Company's Ethics and Compliance program, training, and reporting hotline and Code of Business Conduct (COBC) Certification • Coordinates the Company's Enterprise Records Management function, including all related contracts. • Provides governance and oversight of records and information management • Directs COBC violation investigations and reporting to the Board's Audit Committee • Administers Exelon's Securities Trading Procedure (Stock Trading Clearance) • Maintains Corporate Policies and Procedures Website • Maintains official corporate records of the Board of Directors and shareholders • Manages Privacy Compliance Program • Manages FERC Interlock Compliance • Manages the Company's Shareholder Services function, including the transfer agent contract	
692	BSC Corp Sec/Gov As Requested Services	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors.	SVP, Deputy Gen. Counsel

In addition, certain Legal services may be purchased from third-party sources on behalf of the Client Company or provided directly to (embedded in) the Client Company.

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis

BSC Legal Services

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
914	EBSC Legal – Legal Operations and Administration	923 – Outside Service Employed	Direct – 529200/ Allocated - 529210	Direct - Time and Materials Allocated - Modified Massachusetts Formula
915	EBSC Legal – Corporate & Commercial			
916	EBSC Legal – Environmental Health & Safety			
917	EBSC Legal – Labor & Employment Group			
918	EBSC Legal – Compensation and Benefits			
919	EBSC Legal – Litigation			
920	EBSC Legal – Exelon Generation Wholesale & Retail	923 – Outside Service Employed	Direct – 529200/ Allocated – 529210	Direct - Time and Materials Allocated – Cost Causative Method
921	EBSC Legal – Exelon Generation Regulatory			
923	EBSC Legal – Exelon Generation Legal Group	923 – Outside Service Employed	Direct – 529200 Allocated 529210	Direct - Time and Materials Allocated – Cost Causative Method
651	EBSC Legal – Legal Governance	923 – Outside Service Employed	Direct – 529200 Allocated - 529210	Direct - Time and Materials Allocated - Modified Massachusetts Formula
789	BSC Legal Incremental Work	923 – Outside Service Employed	Direct - 529200 Allocated - 529210	Time and Materials Modified Massachusetts Formula
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529210	Total Service Billings
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700 Allocated - 529710	Fully Distributed Costs Cost Causative Method
648	Corporate Secretary	923 – Outside Service Employed	Direct - 529200 Allocated - 529210	Time and Materials Modified Massachusetts Formula
692	BSC Corp Sec/Gov As Requested Services	923 – Outside Service Employed	Allocated - 529210	Time and Materials

Performance Measurement

Service	Metric	Metric Description	Target	Metric Reporting Frequency
Legal Services		Legal will conduct an annual Client Satisfaction Survey, to measure satisfaction on various factors such as quality, legal knowledge, cost and responsiveness.	> 4.14	Annual
Legal Services		Operating Expense vs. Budget	100% Spend	Annual

Responsibilities

Task / Responsibility	BSC Practice Area	Client Company
Notify Legal of new matter or request for service		X
Advise client of potential legal issues that come to the attention of the Legal Area	X	
Advise Legal Area of business objectives		X
Provide Legal with requested and necessary information on a timely basis		X
Have run appropriate conflicts check for matters requiring outside counsel	X	
Open new matter in legal matter management system	X	
Assign appropriate legal resources to matter	X	
Provide monthly billing summary and other requested reporting for each matter	X	
Authorize settlement or other disposition of legal matter	X	X
Create case budgets for major lawsuits, transactions and other matters as requested by client	X	
Develop and Distribute Billing Guidelines for outside counsel	X	

Task / Responsibility	BSC Practice Area	Client Company
Develop Model Retention Agreement for outside counsel	X	
Obtain Retention Agreement for new matters assigned to outside counsel	X	
Manage the relationship with outside counsel	X	
Recommend reserve amounts as needed	X	
Budget for and fund recommended reserve amount		x

Real Estate

Real Estate Introduction

The BSC Real Estate (RE&F) practice area provides overall strategy development and implementation for Exelon's non-utility property holdings with regards to portfolio & real estate planning, lease management, occupancy & project management, land management, and property management for the facilities that support the Company's non-utility operations.

Real Estate Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
600	Real Estate Services	• Real Estate Portfolio & Asset Management Strategy ○ Develop and execute real estate and portfolio strategies ○ Manage and/or deliver transactions associated with the Company's facilities and related land and infrastructure properties • Lease and Records Administration ○ Manage the company's property and lease records for Exelon's non-utility facilities, land and infrastructure property holdings ○ Administer lease payments, billing and receivables for all non-utility facilities leases, land-related obligations, easements, and infrastructure agreements for which the Company is landlord, licensee, or tenant • Land Management ○ Manage land real estate-related processes for the company's non-utility land obligations and holdings. ○ Maintain landowner, municipal and key stakeholder relations in support of land management activities. • Property Management ○ Deliver on-site property management services for the non-utility office and disaster recovery locations, including occupancy, move, project, and facilities management for these locations	VP, Real Estate & Facilities
606	Project Design & Construction	Manage Real Estate & Facilities related projects throughout the project life-cycle (initiation, pre-construction, execution & control, and close-out).	VP, Real Estate & Facilities
697	BSC Mail & Reception Services	Provide mail delivery and reception services at non-utility facilities.	VP, Real Estate & Facilities
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	VP, Real Estate & Facilities
833	BSC Revenue	The difference between actual costs and revenues from billings to the client companies is	VP, Real Estate &

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Service ID	Service Name	Service Description	Service Owner
	Adjustment	trued-up each year by allocating it pro rata to the client companies based on their share of BSC total service billings.	Facilities
605	Baltimore Mail & Reception Services	Provide mail delivery and reception services for Baltimore non-utility facilities.	VP, Real Estate & Facilities

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
600	Real Estate Services	923 – Outside Service Employed	Direct 529320	Time and Materials
			Allocated - 529330	Managed Square Footage
606	Project Design & Construction	923 – Outside Service Employed	Direct - 529320	Time and Materials
697	BSC Mail & Reception Services	923 – Outside Service Employed	Allocated - 529330	Headcount
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529710	Total Service Billings
605	Baltimore Mail & Reception Services	923 – Outside Service Employed	Allocated - 529330	Headcount

Performance Measurement

Service	Metric	Target	Metric Reporting Frequency
Real Estate Services	Occupant Satisfaction Survey	85% Satisfaction Rate	Semi-Annually
Real Estate Portfolio & Asset Management Strategy	• New leases, lease renewals and terminations • Lease synergy savings	• On Track • On Track	Semi-Annually
Lease Administration	• Lease payments paid on time; no late fees • Planned lease audits	• On Track • On Track	Semi-Annually
Land Management	• Lease payments paid on time; no late fees	• On Track	Semi-Annually
Project Management	• Approved Project Authorization Form (PAF)	• 100%	Quarterly

	• PAF Performance	• On Track	
Property Management	• Operating budget/actual performance • HQ utilization	• On track • Report Out	Quarterly

Responsibilities

EBSC RE&F will perform the services and functions described below, working closely with our clients to assure that goals and objectives are aligned, and that our clients' are engaged at the appropriate levels of their organization.

Task / Responsibility	BSC Practice Area	Client Company
Real Estate Portfolio & Asset Management & Strategy		
Develop asset plans for facilities, incorporating business requirements, real estate considerations, market dynamics and values, and internal economic considerations	X	
Develop portfolio strategy for Exelon facilities and approved business cases which may include buy, hold, sell, or lease options. Develop and execute implementation plans in support of the strategies.	X	
Manage facilities related transactions (sale, purchase, lease, sublease, etc.) and the service providers associated with executing portfolio and asset strategies	X	
Define lease audit strategy and manage lease audit performance to recover costs from landlords	X	
Work with landlords to address or resolve lease and tenant related concerns and issues	X	
Lease Administration		
Perform lease/property administration, payment, or billing services for all facilities for which the Company is landlord or tenant, in compliance with Sarbanes-Oxley	X	
Perform lease/property administration, payment, or billing services for easement, infrastructure, agreements for which the Company is landlord or tenant, in compliance with Sarbanes-Oxley and FASB	X	
Maintain property and lease information and files for owned, leased, and external tenant leases and properties. Develop and report on property and lease data, as required	X	
Perform and participate in monthly, quarterly, and year-end financial close processes in support of lease administration services	X	
Land Management		
Manage landowner obligations and contractual compliance, including variable revenue based calculations, and payment processing for wind and solar obligations.	X	
Perform site due diligence and land owner/document curative work for existing and acquisition projects, development projects and financing projects.	X	

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Task / Responsibility	BSC Practice Area	Client Company
Occupancy Planning & Project Management		
Develop occupancy plans and activities for facilities, including development of workplace standards, policies and strategies, space programs and space planning	X	
Develop and manage occupancy or capital improvement projects for locations without an on-site Exelon property manager	X	
Manage BCP alternate location assignment, as required by department plans	X	
Manage landlord relations, vendors and contracted services in support of locations without an on-site Exelon property manager	X	
Property Management		
Provide on-site management of office or headquarters sites, including management of service providers, work orders and service requests, and landlord related billing or operational activities	X	
On-site managers maintain and develop occupancy plans, implementation of occupancy or capital improvement projects, and move related activities	X	
For Chase Tower, Candler, and Pratt, provide mail delivery services within leased floors	X	
For Candler and Pratt, provide receptionist services	X	
Budgeting and Billing		
Define and track the allocation of lease and facilities costs by OpCo	X	
Develop OpCo RE&F budgets (held by OpCo) associated with lease and facility services	X	

Risk

Risk Introduction

The BSC Risk Management has responsibility for Enterprise Risk Management and Credit Risk Management governance and oversight.

Risk Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
638	BSC Risk Management Services	• Risk management, governance and oversight. • Responsible for the development of a comprehensive enterprise risk framework with polices/processes and implementation of enterprise reporting of risk metrics and limits. • Understand and assist in mitigating all potential enterprise wide risks. • Assist CFO's and/or VP's in managing risks at the OpCos	EVP, Chief Risk Officer
950	BSC Credit Risk Services	• Credit risk management, governance and oversight • Responsible for the development of a comprehensive credit risk framework with polices/processes and implementation of enterprise reporting of credit exposures, metrics and limits • Provide credit services to all Exelon OpCos • Understand and assist in mitigating all potential enterprise wide credit risks. • Responsible for the development and implementation of enterprise wide bankruptcy and litigation risk policies and procedures • Consolidate bad debt reporting across all Exelon OpCos that includes variance analysis and key drivers reporting	SVP, Enterprise Credit Risk
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	EVP, Chief Risk Officer
833	BSC Revenue Adjustment	The difference between actual costs and revenues from billings to the client companies is trued-up each year by allocating it pro rata to the client companies based on their share of BSC total service billings.	EVP, Chief Risk Officer

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
638	BSC Risk Management Services	923 – Outside Service Employed	Allocated - 529060	Modified Massachusetts Formula
			Direct - 529050	Fully Distributed Costs

BSC Risk

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950	BSC Credit Risk Services	923 – Outside Service Employed	Allocated - 529060	Modified Massachusetts Formula
			Direct - 529050	Fully Distributed Costs
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529060	Total Service Billings

Security

Security Introduction

The BSC Security has responsibility for Corporate and Information Security Services governance and oversight.

Security Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
444	IT Cyber Security Projects	Exelon IT Project Delivery Services provides deliverables for IT projects including planning, design, and implementation of solutions	VP, Corporate & Information Security Services	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +10%
445	IT Physical Security Projects	Exelon IT Project Delivery Services provides deliverables for IT projects including planning, design, and implementation of solutions	VP, Corporate & Information Security Services	90% IT Projects completed on time, on budget, based on agreement out of Detailed Design, with tolerance of +10%
930	Business Continuity Services	**Business Continuity** The Business Continuity Services Program encompasses governance, oversight, support, and perform functions; in addition to an established 'all-hazard" methodology; annual business continuity plan reviews and consultation with all business functions; new business continuity plan development; major exercise design and facilitation; business impact analysis; Business Unit scorecards; LDRPS system administration; Business Continuity Planners assist with minor updates throughout the year to their respective business continuity	VP, Corporate & Information Security Services	See Corporate and Information Security Services Performance Metrics Table

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		plan(s). **Crisis Management** • Facilitate effective Business Unit and Corporate response to emergencies; on-call support; maintain and automate Business Unit crisis management notification protocols; support corporate crisis management team; provide situational awareness and monitor adverse conditions; maintain and staff incident command center; administer Company's automated mass notification system "(includes support for multiple functions within BGE, CENG ERO, and BSC) and conduct site notification drills; administer quick-ship PC retainer; provision GETS/WPS for BSC.		
940	Corporate Security and Analysis	Overall security coordination of all CISS services provided throughout the enterprise to include security Governance and Oversight of the entire Exelon security infrastructure. **Corporate Security and Analysis** • Corporate Security Strategic Planning and Analysis covers security policies development and alignment with policies and strategic initiatives; threats / risks assessments and recommendations; strategic liaison with EEI, AGA, FERC, NERC, DHS, LLEA; and development and administration of budgets and contracts. • Foreign Travel Program Management-Provides Security Services for international travelers to include tracking of employees worldwide, emergency alerts to employees, a hotline for international travel issues as well as political and medical emergency extraction services. • Security Intelligence Services -Provides Intelligence gathering and analytical services across the corporation. This includes analysis of cyber and physical threats as well as tracking of special events and threats to determine the potential impact and development of mitigation strategies. Security Awareness and Analytical Training on demand includes the development and delivery of security-related training addressing common cyber threats, requested reports and special event and analytical project support.	VP, Corporate & Information Security Services	See Corporate and Information Security Services Performance Metrics Table

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
941	Access Management	**Access Management** • Physical Access provisioning/de-provisioning of employee & contractor physical access to facilities for Exelon non-nuclear business units. Includes the setup of request workflows, access levels, and approvers groups, as well as encompasses all reporting required for SOX and CIP compliance. • Logical Access provisioning and revocation of Active Directory accounts in Exelon domains, as well as cyber access to applications, file shares, and designated email functions in Exelon domains. Additionally, it covers workflow development and approver group creation, conversions for contractors to employees, affiliate transfers, and new large scale application deployment in Exelon domains. Also includes the creation of AD accounts, accounts not assigned to a person, the setup of new locations, and all reporting required for SOX and Critical Infrastructure Protection (CIP) compliance in Exelon domains. **Employee Background Check** • Employee Background Information Check of new hire employees, the requesting of additional supporting materials, compiling conditional clearance risk factors, acquiring sign off on conditional clearances, following through on completion of conditionals, invoking CISS interviews with applicants who may have adverse findings on their report and providing adjudications of background check reports on new hire employees. Also includes post-employment checks of employees and contractors under regulatory requirements, tracking dates for necessary renewals, launching the requests for information, requesting additional supporting materials, engaging the Personnel Risk Assessment Committee for any adverse findings and adjudication of the report.	VP, Corporate & Information Security Services	See Corporate and Information Security Services Performance Metrics Table
942	Exelon Security Center Operations	**ESOC** • Exelon Security Operations Center includes operation of the 24-hr hub for all emergencies reporting including access control monitoring, security officer dispatch, 911, and other emergency responses; video surveillance including active and passive monitoring; alarm point monitoring including video alarm and duress alarm; and technical project management/ implementation. • Oversight of all Physical Security Systems utilized throughout the	VP, Corporate & Information Security Services	

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		corporation (other than Nuclear).		
945	Information Security Services	Develop, maintain and enforce a security strategy, policy and standards framework that aligns Exelon business need, legislative and regulatory requirements, and industry standard practices. • Monitor compliance to Exelon IT Security policies, procedures, standards, guidelines, and processes. • Review Exelon IT and client processes to validate against Management Model requirements as defined and documented. • Advise Exelon Executives of significant information security risks, requirements, and goals within Exelon, and changes in technical, legal, and regulatory arenas. • Develop and support a risk management methodology/program to be used for both internal risk assessments and security solution/asset prioritization. • Provide application risk consulting services related to the engineering, design, implementation and support of secure applications. • Determine security controls necessary to mitigate risks and meet corporate policy and Business Unit objectives. • Monitor significant changes in the exposure of information assets to threats. • Develop and implement a User Awareness program to ensure that Exelon IT users understand requirements in protecting Exelon Corporation assets and information. • Respond as part of the Computer Emergency Response Team. • Provide governance and oversight to Operational Security in review and measurement of Exelon's current state security practices and mechanisms. • IT SOX Security covers the maintenance of IT SOX controls and monitoring of systems and applications to ensuring compliance.	VP, Corporate & Information Security Services	

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		• Cyber Security Operations Services • Cyber Investigations and Testing Services cover the collection of cyber evidence in support of formal investigations; the design, implementation and monitoring of discovering indicators of a compromise or lapse of cyber security; and tracking of public vulnerability disclosures and routine scans to detect previously unknown vulnerabilities. • Liaison to multiple governmental, non-governmental and industry groups regarding Security Policy, Regulation, Standards, Benchmarking and Best Practices.		
946	Executive Security and Transportation	Administers and carries out the executive protection program, responsible for planning security surrounding official functions, 24/7 emergency response and secure transportation of executives as assigned.	VP, Corporate & Information Security Services	
947	Security Client Services	**Field Operations** • Field and Office Operations within Corporate Security Client Services covers security governance and oversight to include corporate and utility emergency response; investigations or independent assessments of alleged policy violations and/or criminal activity; executive protection; guard force management; security (threat/risk) assessment of facilities and critical operating processes; NERC CIP physical security operating compliance with regulatory policies; security screenings of brokers, counter parties and M&A activity; and observance of policies and procedures to ensure safety in the workplace. • Law Enforcement and Regulatory Agency Liaison covers day to day coordination necessary with Federal, State, and Local law enforcement, including Intelligence Agencies, Homeland Security, and Regulatory Agencies to maintain effective working relationships and to ensure fulfillment of required compliance and operational activities. • Develop and provide security related training materials to business units to include Workplace Violence, Street Awareness, Security in the Field, Fraud detection, General Security Awareness and Sabotage Awareness/Reporting.	VP, Corporate & Information Security Services	

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		Government-Mandated Security Services (Business Unit- Specific) • CFATS (Chemical Facilities Anti-Terrorism Standards) Compliance includes the performance of security assessments and development of security plans to ensure compliance with chemical of interest (COI) security regulatory standards. • NERC CIP compliance covers activities necessary to ensure operational compliance of registered entities regarding Critical Infrastructure Protection NERC requirements. • Maritime Security compliance covers the internal audit and security program management and Transportation Worker Identification Credential (TWIC) maritime regulatory requirements. • Nuclear Regulatory Compliance covers activities necessary to ensure operational compliance of the Nuclear Generation Station when provide investigative assistance for Nuclear Regulatory Commission Allegation or potential Security Coverage from labor disputes at the generation station. • Dam Sector Compliance includes the performance of security assessments and security measure to ensure compliance with Hydro FERC standards.		
949	CISS NERC CIP Services	CISS Services for the NERC CIP assets and related compliance processes, including, but are not limited to: • Exelon Security Operations Center Services • Access Management Services • Exelon Cyber Security Operations Center Services • Vulnerability Assessment Services • Mock Audit Support (Evidence gathering, RSAWs, Document maps, audit support) • RFC Audit Support (Evidence gathering, RSAWs, Document maps, audit support) • Manage Security related CIP process and procedures, perform regular reviews and updates • Remediation of internal/external audit findings	VP, Corporate & Information Security Services	

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		• Support NERC CIP Steering Committee, Status and ad-hoc meetings • Provide CIP specific Security Consulting Services		

FERC Account and Billing Approach Table (See Appendix A for Technical Services Table)

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
444	IT Cyber Security Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Direct - 529350 Allocated – 529360	Time and Materials or Cost Causative Method
445	IT Physical Security Projects	FERC Accounting to be determined with FERC Reporting groups during each individual project creation	Allocated – 529360	Time and Materials or Cost Causative Method
930	Business Continuity Services	923 – Outside Service Employed	Allocated – 529360	Modified Massachusetts Formula
940	Corporate Security and Analysis	923 – Outside Service Employed	Allocated – 529360	Modified Massachusetts Formula
941	Access Management	923 – Outside Service Employed	Allocated – 529360	% of Total IT Infrastructure Billings
942	Security Center Operations	923 – Outside Service Employed	Allocated – 529360	Alarm Points Monitored
945	Information Security Services	923 – Outside Service Employed	Allocated – 529360	% of Total IT Infrastructure Billings
946	Executive Security and Transportation	923 – Outside Service Employed	Allocated – 529360	Modified Massachusetts Formula
			Direct – 529350	Time & Materials
947	Security Client Services	923 – Outside Service Employed	Allocated – 529360	Modified Massachusetts Formula
949	CISS NERC CIP Services	923 – Outside Service Employed	Allocated – 529360	Number of NERC registered critical assets

Responsibilities

Corporate and Information Security

Task / Responsibility	Exelon BSC IT	Client Company
Report all security related concerns to the Exelon Security Center.		X
All Legacy Exelon Card Access systems must be connected to the ESC at the direction of Corporate and Information Security Services.		X
Corporate and Information Security Services must be notified of all foreign travel on behalf of Exelon, This notification occurs automatically when utilizing approved travel services (TS24 and Travel Destinations). Travel plans made outside of the normal corporate travel services should be emailed to Internationaltravel@exeloncorp.com		X
Security for Corporate Events shall be coordinated through Corporate and Information Security Services.	X	
Corporate and Information Security Services shall provide materials to support training for Violence in the workplace and other security related topics as requested.	X	
Security system design changes or requests for changes will be coordinated by Corporate and Information Security Services.	X	
All costs for new security equipment or systems, as well as repairs or maintenance to those systems or equipment shall be borne by the OPCO.		X
All costs for armed or unarmed guards shall be borne by the business unit requesting this service.		X

Corporate and Information Security Services Performance Metrics Table

Service Transaction	Metric	Metric Description	Expected Level (2013)
Employee Background Information Check	Average # of days to complete adjudication	Avg. number of days to complete adjudication for Employee Background Information Check upon receipt of closed and completed reports	≤ 5 business days Completion rate: 75%

Service Transaction	Metric	Metric Description	Expected Level (2013)
Physical and Logical Access	Completion time for routine access requests	Avg. number of days for completion of routine logical and physical access requests from “Ready” in AMU’s queue	≤ 5 business days
	Completion time for ICAR access requests	Avg. number of days for completion of routine logical and physical access requests from “Ready” in AMU’s queue	≤ 10 business days
	Response for urgent / high requests processed through Service Manager	Percent of urgent/high-priority Service Manager tickets completed in 4 hours excluding requests for items not “Ready” in the ARS queue	≤ 4 hours Completion rate: 75%
	Response for normal priority requests processed through Service Manager	Percentage of regular Service Manager tickets completed in 48 hours excluding requests for items not “Ready” in the ARS queue	≤ 48 hours Completion rate: 75%
	Review and update of Business Units Plans	Percentage of Business Unit Plans reviewed and updated annually	100% reviewed and updated annually
Foreign Travel Program	Real time Tracking and Alerting of International Travelers	Percentage of International travelers tracked and alerted through the Corporate and Information Security Services Foreign Travel Program	100%
	Pre Travel Briefing of International Travelers	Percentage of International travelers receiving international travel pre-trip briefings	100%

Service Transaction	Metric	Metric Description	Expected Level (2013)
	International Travel Alerts	Alerts sent to International Travelers regarding co-located events resulting in increased risk	< 4 hours dependent on world events
Business Continuity Governance, Planning and Consulting	Exercise of BC Plans	Percentage of Business Unit business continuity plans exercised in accordance with the frequency established by leadership and consistent with the criticality of the function	≥ 90%
	BC Plan Approval	Percentage of Business Unit business continuity plans reviewed and approved by leaders (plan owners) within the past 12 months	≥ 90%
	BC Plans Updated	Percentage of Business Unit business continuity plans updated within the past 12 months	≥ 90%
	CS IT Systems	Based on IT metrics and service levels	
Security Operations Center	Enter incoming events into the Case Management system (PPM2000)	ESC Operators will enter all incoming events into the PPM2000 case management system	< 24 hours

Supply

Supply Introduction

BSC Supply / Accounts Payable will provide Strategic Sourcing, Supply Operational Support, Accounts Payable invoice processing, the Credit Card Program / Expense Reimbursement, and Supply Business Operations and Technical Services from BSC Supply to the OpCos and Subsidiaries. This does not apply to embedded Supply Services.

Supply Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
628	Strategic Sourcing for Materials	Supply negotiates strategic contracts for materials used within specific business unit and enterprise-wide, acting as an authorized agent. Strategic contracts are designed to provide materials that meet business unit specifications and requirements, to take advantage of Exelon's marketplace leverage, and to optimize processes for fulfilling orders and delivering materials to users. Supply supports the business units in managing supplier performance and creates and manages supplier performance against various metrics including expenditures, savings, quality, supplier performance, process improvements, payment channels and business placed with diverse suppliers. Strategic Supply seeks to create value for its business units by minimizing the total cost of ownership of the material's complete lifecycle (from procurement through disposal). In addition, Strategic Supply partners with the business units in forecasting and managing demand, developing spend projections/budgets, and alignment of supplier's contractual requirements to business unit needs and goals. Excludes sourcing of nuclear fuel throughout the life cycle of the material.	Director, Utility Strategic Sourcing Materials; Director, Genco Strategic Sourcing Materials

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Service ID	Service Name	Service Description	Service Owner
671	Strategic Sourcing for Services	Supply negotiates strategic contracts for services used within specific business units and enterprise-wide, acting as an authorized agent. Strategic contracts are designed to provide services that meet business unit specifications and requirements, to take advantage of Exelon's marketplace leverage, and to optimize processes for fulfilling orders and delivering services to users. Supply supports the business units in managing supplier performance and reports metrics on such parameters as expenditures, savings, supplier performance, process improvements, payment channels and business placed with diverse suppliers. In addition, Strategic Supply partners with its clients in forecasting and managing demand, developing spend projections/budgets, and alignment of supplier's contractual requirements to business unit needs and goals.	Director, Utility Strategic Sourcing Services; Director Genco Strategic Sourcing Services
676	Operations Management	Centralized support of the day-to-day field operations, enabling implementation of and compliance to standardized processes and procedures based on best practices, as well as continuous improvement. Handles emergent issues of complexity requiring off-location assistance, including support in resolving complex materials and services issues. Coordinates common projects affecting multiple locations and provides oversight and recommendations for routine program assessments, outage readiness, and outside organizational assessments including central purchasing and central procurement engineering.	VP, Supply Operations & Sourcing – Genco; VP, Supply Operations & Sourcing – Exelon Utilities; VP Supply Integration
678	Supply Technical Services Support	Provide leadership to identify technological options to improve business processes;, manage the performance and effectiveness of Supply systems; implement technology infrastructure; provide data for decision-making; standardize/automate collection and reporting of data; establish and lead cross-functional business/technology teams; ensure Exelon procure-to-pay systems are Sarbanes-Oxley compliant and aligned with compliance and policy requirements; provide governance, oversight, and lead cross functional project teams in the development and implementation of high impact/high risk process improvements and strategic projects; manage multiple projects that are complex, high risk and have high organizational impact; and administer and strengthen the reliability of the annual IRS filing process, for Exelon domestic and majority of foreign transactions	VP, Business Operations and Technical Support

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Service ID	Service Name	Service Description	Service Owner
687	Supply Site Operations	Support of the day-to-day field operations, enabling implementation of and compliance to standardized processes and procedures based on best practices, as well as continuous improvement. Handles emergent issues, including support in resolving complex materials and services issues. Coordinates with the business on common projects, including support of operations and maintenance, at the site. Centralized support of day to day procurement, procurement engineering and reverse engineering activities to enable application of synergies, implementation of a standardized supply chain model, adaptation of best practices and continuous improvement.	VP, Supply Operations & Sourcing – Genco; VP, Supply Operation & Sourcing - Exelon Utilities; VP Supply Integration
631	Supply Operations Support	Provides governance and oversight for the Sourcing and Operations groups supporting each business unit which also includes business planning, management review meetings, client meetings, and project management activities.	VP, Supply Operations & Sourcing – Genco; VP, Supply Operation & Sourcing - Exelon Utilities; VP Supply Integration
632	Investment Recovery	Management of the risk associated with the disposition of surplus and obsolete assets. Ensures that materials and equipment are disposed of in compliance with all applicable federal, state, and local regulations and in a manner that is most appropriate and returns the best possible value, using a consistent pricing strategy for the disposition of inventory and non-inventory assets.	VP, Business Operations and Technical Support
633	Inventory Management	Management of site and enterprise-wide inventory in a consistent, standardized manner that fully complies with all applicable regulatory requirements and aligns with Business Unit needs. Working with the business unit to ensure support of operations and maintenance while keeping inventory to a minimum by implementing strategies for virtual inventory, surplus inventory, and optimum stocking practices. Goals will be established and measured to monitor progress and maintain alignment with business and financial needs.	VP, Business Operations and Technical Support

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Service ID	Service Name	Service Description	Service Owner
670	Strategic Sourcing for Shared Materials and Services	Supply negotiates strategic contracts for materials and services used across multiple Business Units, acting as an authorized agent. Strategic contracts are designed to provide materials and services that meet business unit specifications and requirements, to take advantage of Exelon's marketplace leverage, and to optimize processes for fulfilling orders and delivering materials and services to users. Supply supports the business units in managing supplier performance and reports metrics on such parameters as expenditures, savings, supplier performance, process improvements, payment channels and business placed with diverse suppliers. In addition, Strategic Supply partners with its clients in forecasting and managing demand, developing spend projections/budgets, and alignment of supplier's contractual requirements to business unit needs and goals.	VP, Supply Corporate Sourcing
630	Supply Business Operations Support	Provides the development and management of corporate policy (management model) and strategy, management review meetings, training, business planning and performance indicators, communication, market analysis, e-business tool and support, records management, workforce development, contract and AP audit, benchmarking, , SLA/ALA content management and project management support.	VP, Business Operations and Technical Support
788	Supply Incremental Work	As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors BSC will budget overtime for planned outages and emergency response activities (i.e. unplanned maintenance outages). Client will be responsible for the following financial transactions: • Budget overtime dollars for business unit directed overtime, • Labor costs for non-supply functions performed by supply (e.g. storm duty), • Cost of expediting materials, cost of disposition of shelf life expired items and obsolescence, • Client Requested Vendor Audits, including NUPIC, • Associated adjustments due to inventory cycle count discrepancies, • Power Lab Charges, • Rentals of supplementary handling equipment, • Client Requested Vendor Audits (non-labor costs), • Maintenance for non-Supply Inhabited Facilities,	VP, Genco Supply Operations & Sourcing; VP, Utilities Supply Operations & Sourcing; Directors of Genco Supply Operations; Directors/Manager of Utilities Supply Operations Director, Business Operations & Technical Support

Service ID	Service Name	Service Description	Service Owner
		• Third party freight, shipping, and • Expedited manufacture. • Additional services requested by CENG. Billing will be at a time and material basis. • As requested services represent emergent work requiring additional resources relative to the plan and are services specifically requested by a Client Company, Exelon's CEO or Board of Directors for Accounts Payable for the given Service Period. As requested services include: • Project - A unique activity, or set of activities, that accomplishes a measurable objective, and has specific beginning and end dates, and an identified funding source. • Enhancement - Development, testing, and implementation activities which are smaller than the minimum size of a project. Small enhancements include only changes to an existing application and cannot introduce a new application into the environment. • Consulting - Providing specialist advice and expertise independent of an identified project or enhancement AND one or more of the following exists: • Discretionary and applies to a single/small number (2-3) OpCos • Regulatory and only applies to one OpCo without the potential to apply to others • Is outside the standard platform • Requires outside services to complete	
342	BSC Accounts Payable Transactions	Transaction Processing • Support of Accounts Payable transactions requiring EBSC AP resources for entry processing (i.e. Invoices received via US Mail and email) • Support of Non-Accounts Payable processed transactions not requiring EBSC AP resources for entry processing (i.e. Invoices received via Electronic Data Interchange (EDI), Contract Invoice Automation (CIA)) • Associated AP & non-AP Support Services ○ Timely processing of supplier invoices ○ Storage of invoices to enable short-term availability and long-term archival storage ○ Facilitate resolution of invoice discrepancies ○ Reconciliation of cash disbursements to cash system & maintenance of files daily ○ Perform tax reporting as required by law (1099's) ○ Disburse same day check requests internally and externally as requested	Manager, Accounts Payable

Service ID	Service Name	Service Description	Service Owner
		○ Process cancelled checks and stop payments ○ Provide support to internal and external audits ○ Duplicate Payment identification and recovery ○ Process add/change/remove Vendor Maintenance requests ○ Manage/Govern Voucher Process • Distribute standard invoice aging report • End user training and process support	
324	Credit Card Program / Expense Reimbursement Services	• Credit Card Transactions (Supply and Travel & Entertainment card administration) ○ Process new/add/change requests ○ User system and process support ○ Administration of Credit Card Program ○ Administration of Out of Pocket Reimbursement Program ○ Issue Management Reports documenting card usage and compliance ○ Administration of file transfers, including management of accounting anomalies ○ Monthly reconciliation of credit card clearing accounts ○ Provide support to internal and external audits • Credit Card Rebate • Twice a year rebate received directly from credit card provider • Make payments to Bank Card provider under Exelon Credit Card Program	Manager, Accounts Payable
346	BSC AP Services Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is “trued up” each year by allocating it pro rata to the Client Companies based on their share of Total AP Service Billings.	Manager, Accounts Payable
833	BSC Revenue Adjustment	The difference between actual cost and revenues from billings to the Client Companies is “trued up” each year by allocating it pro rata to the Client Companies based on their share of Total Service Billings.	Chief Supply Officer
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	Chief Supply Officer

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FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
628	Strategic Sourcing for Materials	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Sourced Materials
671	Strategic Sourcing for Services	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Sourced Services
676	Operations Management	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Sourced Materials and Services
678	Supply Technical Services Support	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Billed and Embedded Costs
687	Supply Site Operations	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Sourced Materials
631	Supply Operations Support	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Sourced Materials and Services
632	Investment Recovery	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Sourced Materials
633	Inventory Management	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Sourced Materials
670	Strategic Sourcing for Shared Materials and Services	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Sourced Materials and Services
630	Supply Business	923 – Outside Service Employed	Direct - 529450	Time and Materials

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
	Operations Support		Allocated - 529460	Total Supply Billed and Embedded Costs
788	Supply Incremental Work	923 – Outside Service Employed	Direct - 529450	Time and Materials
			Allocated - 529460	Total Supply Billed and Embedded Costs
342	BSC Accounts Payable Transactions	923 – Outside Service Employed	Direct – 529450	Unit Price – Per # of AP transactions processed
324	Credit Card Program / Expense Reimbursement Services	923 – Outside Service Employed	Direct – 529450	Rebate and/or Costs based on ratio of Credit Card spend
346	BSC AP Services Revenue Adjustment	923 – Outside Service Employed	Allocated – 529460	Total AP Service Billings
833	BSC Revenue Adjustment	923 – Outside Service Employed	Allocated - 529460	Total Service Billings
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method

Performance Measurement

Service	Metric	Metric Description	Target	Metric Reporting Frequency	Applicable OpCos
All	OSHA Recordables	OSHA Recordables	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE

BSC Supply

					Genco
All	Total Billed - Actual vs. budget	Measures total billing versus budget ($ in thousands), excluding "Incremental Services"	Actual < Budget	Monthly	ComEd PECO BGE Genco
Operations	Clearing accounts - Actual vs. Budget	Measures actual cost versus budget and revenues versus budget ($ in thousands) Includes costs and revenues for all material handling/transportation items budgeted to Supply	Actual < Budget	Monthly	ComEd PECO BGE Genco
[633] Inventory Management	Expense Inventory Levels	Measures current PassPort inventory on-hand value of all expense items with Capital Asset Indicator = 'N'	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE
[633] Inventory Management	Capital Expense Levels	Measures current PassPort inventory on-hand value of all capital items with Capital Asset Indicator = 'Y'	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE
Operations	Jobs deferred due to material issues	Measures the number of jobs delayed due to work management delay codes for material availability	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE
Operations	Line item Fill Rate	Fill Rate is the percentage of line items filled (issued or received) on time Note: On Time = whichever is greater between (14 days + 2 day grace period) OR (requested need date + 2 day grace period). The 14-day window is a minimum lead time allowed to eliminate the effects of zero lead time requests	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE
Operations	Parts Availability	% of line items planned in accordance with the Work Week Management process that are available at T-1 (excludes sites that use Maximo)	To be aligned with Affiliate goals	Monthly	Genco

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[633] Inventory Management	Inventory Accuracy	Measures the accuracy of system-wide transformer, wire and cable and warehouse inventory. Measurements take into account the variance adjustment by Material Coordinator	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE Genco
[632] Investment Recovery	Investment Recovery Revenue	Revenue received from the disposition of surplus and obsolete assets	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE Genco
[671] Strategic Sourcing for Services **[628] Strategic Sourcing for Materials** **[670] Strategic Sourcing for Shared Materials and Services**	Strategic Sourcing Savings	Measuring First Cost (i.e., unit pricing reduction based savings), Process, Project, Avoided, and Organizational savings achieved through Strategic Sourcing Savings $ and % from approved business case and negotiated deals	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE Genco
[671] Strategic Sourcing for Services **[628] Strategic Sourcing for Materials** **[670] Strategic Sourcing for Shared Materials and Services**	Diversity Spend	Spend with certified Tier 1 and 2 diversity suppliers	To be aligned with Affiliate goals	Monthly	ComEd PECO BGE Genco
Operations	Emergency Response	Time from request to delivery at job site	To be aligned with Affiliate goals	As required	ComEd PECO BGE

Payroll Processing	Payroll cost per check per month		<= Budgeted $	Monthly	ComEd PECO BGE Genco
Payroll Processing	Payroll errors incurred per month		< 0.02% (less than 1 check in 5000)	Monthly	ComEd PECO BGE Genco
Payroll Processing	Direct Deposit Participation		97%	Monthly	ComEd PECO BGE Genco
Accounts Payable	Invoice Processing		Invoice Entry Cycle Time	< 3 days	ComEd PECO BGE Genco CENG
Accounts Payable	Invoice Processing		Discounts Available and Lost	< 7%	ComEd PECO BGE Genco CENG

Responsibilities

BSC Supply and Client Responsibilities are delineated in Supply Procedures located on the BSC Management Model Website and in the Exelon Nuclear Electronic Document Management System (EDMS). Applicable Procedures are:

- ❑ “SM-AC-XX” for All Supply
- ❑ “SM-EP-XX” for Exelon Power
- ❑ “SM-AA-XX” for Exelon Nuclear only
- ❑ “SM-CE-XX” for ComEd only
- ❑ “SM-PE-XX” for PECO only
- ❑ CNG-SC-1.01-1001, Processing New Item Requests, Requisitions, Request for Quotations, Issuing Purchase Orders and Revisions

BSC Supply

Additional Exelon Management Model documents that may be applicable to BSC Supply employees, including embedded personnel, are contained in the Utilities (ED or EU) branch of the Exelon Management Model (XX-ED-## or XX-EU-##) or the Nuclear (AA) branch of the Exelon Management Model (XX-AA-##); housed in Electronic Data Management System tool (EDMS).

BSC Management Model Website Link: http://managementmodel.exeloncorp.com/WebPages/BSC/DocumentMatrix.aspx?View=%7B62E17E26-0E53-4072-963A-8F34BE25B2A6%7D&SelectedID=9

Accounts Payable / Credit Card Services Task / Responsibility	EBSC	Client Company
Accounts Payable – Invoice Processing Services		
Provide accurate information for Invoice Entry (i.e. PO/Contract #, Rel, Code Block)		X
Receive and prepare manual invoices for entry	X	
Timely approval of invoices		X
Archive invoices	X	
Enter manual Invoices	X	
Process invoices for payment as defined in documented processes	X	
Respond to vendor and internal inquiries	Primary	Support
Administer processing of discrepant invoices as defined in documented processes	Primary	Support
Disburse emergency check requests internally and externally as requested	X	
Establish and maintain procedures for A/P process	X	
Issue 1099’s as required by law	X	
Identify and recover potential duplicate payments and unrecovered credits	Primary	Support
Process cancelled checks and stop payments	X	
Provide accurate information for Vendor Maintenance (i.e. TIN, W-9, Remit, Address)		X
Process vendor add/change requests and respond to routine user questions	X	
Enter/Create voucher(s)		X

Accounts Payable / Credit Card Services Task / Responsibility	EBSC	Client Company
Respond to routine Voucher user questions & requests	X	
Provide support to internal and external audits	Primary	Support
Reconcile daily cash disbursements as defined in documented processes	X	
Expense Reimbursement Services		
Use Credit Card in accordance with policy	X	X
Process card add/change requests and respond to routine user questions & requests	X	
Update system with card add/change requests received from client	X	
Process Credit Card payment requests	X	
Retention of records	X	
Management of monthly file posting to General Ledger	X	
Resolution of code block anomalies		X
Reconcile clearing accounts related to monthly payment to Credit Card provider	X	
Inadvertent process administration and reconciliation	X	
Respond to routine Out of Pocket reimbursement user questions & requests	X	

Transportation

Transportation Introduction

Transportation area provides private flight transportation to authorized executives.

Transportation Services Table

Service Table

Service ID	Service Name	Service Description	Service Owner
783	BSC Use of Corporate Jet	Provide and coordinate private flight transportation to authorized executives, services include Executive Aviation Accounting Services which includes the payment of monthly maintenance and flight charge invoices, billing passengers for flight hours, maintaining passenger documentation and records, preparing executive reports, and support of internal and external audits.	Transportation Director
667	BSC Corp Jet Adjustment	The difference between actual costs and revenues from billings to the Client Companies is “trued up” each year by allocating it pro rata to the Client Companies based on their share of Total Transportation Service Billings.	Transportation Director
904	BSC Costs to Achieve	Costs associated with establishing combined operations as a result of a merger.	Transportation Director
934	BSC Use of Corporate Helicopter	Provide and coordinate private flight transportation to authorized executives, services include Executive Aviation Accounting Services which includes the payment of monthly maintenance and flight charge invoices, billing passengers for flight hours, maintaining passenger documentation and records, preparing executive reports, and support of internal and external audits.	Transportation Director

FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
783	BSC Use of Corporate Jet	923 – Outside Services Employed	Direct - 529250	Unit price - Per occupied flight hour (variable costs) Office of CEO (fixed costs)
667	BSC Corp Jet Adjustment	923 – Outside Services Employed	Allocated - 529260	Total Transportation Service Billings

BSC Transport

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
934	BSC Use of Corporate Helicopter	923 – Outside Services Employed	Direct - 529250	Unit price - Per occupied flight hour (variable costs) Office of CEO (fixed costs)
904	BSC Costs to Achieve	923 – Outside Service Employed	Direct - 529700	Fully Distributed Costs
			Allocated - 529710	Cost Causative Method

Responsibilities

Task / Responsibility	EBSC	Client Company
Executive Transportation		
Timely Notification	X	
Transport the client to his/her destination; assist with any bags	X	

Appendix A

Appendix A Introduction

The APM Master Sheet linked below provides list of applications included in the enterprise corporate application portfolio.
http://teamapps.exeloncorp.com/sites/ITArchitectureAndTransformation/BusinessPlanning/myPF/Pages/APM-Master-Sheet.aspx

IT Technical Services Table

Below is a list of the IT Technical Services required to support, align, and allocate to the IT Portfolio Services Cost model. These are Rate x Quantity services that include I&O Hardware and Labor costs

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
401	Linux - Virtual	A service provided to application services, indicating the type of Linux-based server technical infrastructure used by the application. This is considered the standard and most applicable Linux platform. The application team and server engineering team determine the appropriate type and size of the server for the application and business criticality of the application.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted. Delivery cycle time < 10 business days
402	Linux - Physical	A service provided to application services, indicating the type of Linux-based server technical infrastructure used by the application. This is considered the standard, and most applicable, Linux platform. The application team and server engineering team determine the appropriate type and size of the server for the application and business criticality of the application.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted. Delivery cycle time ≤6 weeks
403	Mainframe Services	A service provided to administer and schedule the mainframe hosting environment. This is based on the CPU minutes used by the end-users using the application asset.	VPs, Cloud & Infrastructure	Based on application custom metrics
404	UNIX High End	A service provided to application services, indicating the type of UNIX-based server technical infrastructure used by the application. The application team and server engineering team determine the appropriate	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		type and size of the server for the application and business criticality of the application.		Delivery cycle time ≤6 weeks
405	UNIX Low End	A service provided to application services, indicating the type of UNIX-based server technical infrastructure used by the application. This is considered the low-end of the UNIX platform. The application team and server engineering team determine the appropriate type and size of the server for the application and business criticality of the application.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted. Delivery cycle time ≤6 weeks
406	UNIX Standard	A service provided to application services, indicating the type of UNIX-based server technical infrastructure used by the application. This is considered the standard, and most applicable, UNIX platform. The application team and server engineering team determine the appropriate type and size of the server for the application and business criticality of the application.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted. Delivery cycle time ≤6 weeks
455	Unix Premium	A service provided to application services, indicating the type of UNIX-based server technical infrastructure used by the application. This is considered the largest UNIX platform available to applications. This is for specialized UNIX platforms that may be required in certain situations by applications. Architecture and Engineering approval required for the use of this service.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
456	Unix Virtual	A service provided to application services, indicating the type of UNIX-based server technical infrastructure used by the application. A 'virtual' server is the preferred environment for applications. The application team and server engineering determine the appropriate type and size of the server for the application and business criticality of the application.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
407	Wintel Physical Server	A service provided to application services, indicating the type of server technical infrastructure used by the application. A 'physical' server provides a stand-alone technology platform for an application, when a virtual environment does not support the application. The application team and server engineering team determine the appropriate type and size of the server for the application and business criticality of the application.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted. Delivery cycle time ≤6 weeks

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Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
409	Wintel Virtual	A service provided to application services, indicating the type of server technical infrastructure used by the application. The application team and server engineering team determine the appropriate type and size of the server for the application and business criticality of the application.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted. Delivery cycle time < 10 business days
411	(User) Login LAN Account	Access to the Exelon Enterprise Data Network, which is a Personal LAN Login User Account, and allows the end user access to the network (including to access cloud-hosted SaaS applications) and the IT Service Desk to report issues and request services. This service includes the costs to manage the network (both wired and wireless), active directory, enterprise testing & tools, the Service Desk, and service & asset management tools (includes governance and reporting of IT asset information in support of IT billing and other IT services). This service also allocates the C&I management costs. NOTE: Specialized project testing that is requested outside of standard project work will be billed as an As Requested service.	VPs, Cloud & Infrastructure	Response is based on severity of incident reported. Site Network Availability is dependent on site network design and configuration and will align with MC0, MC8, BC24 classifications. Site Availability – Continuous 99.93% (some exceptions based on site network design and configuration) Site Availability – Normal 99.5% (some exceptions based on site network design and configuration)
412	PC Services – Base	This service includes the software operating system for a personal computer, virtual computer, or a rugged PC, including enterprise desktop tools like Microsoft Office products (Word, PowerPoint, Excel), NitroPro for PDF and other desktop software. Technology refresh expectations apply – see **Technology Refresh & Capital Investments/Depreciation** description in this Service Catalog. Client Companies own PC hardware, per Technology Refresh Responsibilities.	VPs, Cloud & Infrastructure	80% of incidents resolved in ≤ 1 business day
417	Remote Access	Access to the Exelon Enterprise Data Network as well as access to registered applications from remote locations or internally leveraging devices other than a traditional personal computer. BSC owns Remote Access infrastructure, per Technology Refresh Responsibilities.	VPs, Cloud & Infrastructure	Premium Level of Service

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
418 - 423	Depreciation – Shared Infrastructure	Costs of depreciation of shared infrastructure across IT asset classes: 418 - Depreciation Shared Network 419 - Depreciation Shared PC 420 - Depreciation Shared Storage 421- Depreciation Shared Telecom 422 - Depreciation Shared UNIX 423 - Depreciation Shared Wintel/Linux	VPs, Cloud & Infrastructure	Not applicable
429	Disaster Recovery Program Management	This service provides program coordination for applications with defined Disaster Recovery plans. It includes supporting application teams developing playbooks and facilitating DR exercises.	VPs, Cloud & Infrastructure	Completed DR Drills
431	Virtual Hosting Support	This service provides the day to day operations and support of virtual infrastructure assets installed in the data centers, including IT Operations Center, Tier 2 Operational Support, Infrastructure Base Monitoring, Release and Problem Management, Data Center Management. This is aligned with the Standard Operations Support Model. The assumption is that Basic applications are single server, Standard applications are clustered, and Premium applications are n+1.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
446	Hosting Operations - Limited	This service includes limited monitoring and Tier 1 notification to the appropriate application or infrastructure team. The cost associated with this effort will be adjusted depending on the number of applications supported. All external applications must be registered in the APM Application Registry to qualify for this service.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
434	Storage-Archival	This offering includes data backup and restore services as outlined in the Data Backup and Retention Standards policy document. Non-standard backup and restore requirements will be handled as exceptions. This storage tier is for important business information that is accessed on an infrequent basis or as a result of a data retention policy that requires the data to be available and accessible online. Also used for on-line disaster recovery (DR) copy.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
437	Storage - Standard	This storage tier is the standard storage offering for general purpose data storage. SAN Tier 2 storage provides a high level performance and availability. Primary use for SAN storage would be database environments (Oracle and/or SQL). NAS Tier 2 storage is a versatile platform that offers simplified file sharing capabilities for Wintel and UNIX environments.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
454	Storage-High Performance	This storage tier is a high performance storage offering for specialized business situations. This storage is for high performance computing only and requires Architectural and Engineering approval.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
465	Storage Backup – Physical	This service provides backup service to physical servers	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
466	Storage Backup – Virtual	This service provides backup service to virtual servers and file shares	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
440	eMail & Messaging – Personal	Assigned email account (i.e., first.name@exeloncorp.com) other communication tools, such as Microsoft Lync for Instant Messaging, Presence, Web Conferencing, Audio Conferencing for personal and work team collaboration, and includes mobile email. BSC owns eMail/Messaging infrastructure, per Technology Refresh Responsibilities.	VPs, Cloud & Infrastructure	Premium Level of Service
442	Telephony – Desktop	This service provides an internal Exelon telephone number with access to enterprise audio conferencing and voice mail solutions, if appropriate. Includes non-labor back-end support. Client Company pays directly for circuits and usage. BSC owns central telephony infrastructure supporting infrastructure, per Technology Refresh Responsibilities. Client Company owns responsibility for individual phone systems at their locations.	VPs, Cloud & Infrastructure	Premium Level of Service
443	Unified Communications – Video Conference	Video Conference (VC) Unit Services include services covered under existing maintenance contracts. VC Units include vendor maintenance and on-site support for incidents reported through the Service Desk with an expected response of 8x5 NBD (Next Business Day). This service does not include out of warranty parts and labor which will be billed through the time and material service offering. Support to audio/visual conference	VPs, Cloud & Infrastructure	Response time of 8x5 (Next Business Day)

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
		equipment is also covered in locations where video conference rooms are also supported. Audio/Visual Conference Rooms are generally not covered under any maintenance contracts. Routine replacement of items such as bulbs/lamps, projectors, screens, displays, and cables are the responsibility of the BU owning the room. BUs wanting full warranty support for these rooms can purchase an agreement separately and will be billed directly. Access to this service is dependent on network capacity at a particular site. BSC owns Video Conference supporting infrastructure, per Technology Refresh Responsibilities. Client Company owns responsibility for individual Video Conference unit, and facilities where video conference is located.		
472	Oracle Database Services	Includes RDBMS (all versions), HA (VCS,RAC), DR (Dataguard, Active Dataguard, Golden Gate), Partitioning, Advanced Compression. Covers license software maintenance charges and all associated depreciation charges as well as the labor required to support all database environments and databases. Also includes C&I server allocation charges	VPs, Cloud & Infrastructure	Aligned to supported Application
468	SQL Server IaaS	Includes SQL Server Standard & Enterprise Edition (all versions), HA, DR, SQL Server Reporting Services, Analysis Services and Integration Services. Covers license software maintenance charges as well as labor required to support all database environments and databases.	VPs, Cloud & Infrastructure	Aligned to supported Application
469	SQL Server DBaaS	Includes SQL Server Enterprise Edition (all versions), HA, DR, SQL Server Analysis Services and Integration Services. Covers license software maintenance charges as well as labor required to support all database environments and databases. Also includes C&I server costs. This is a shared environment with other BU applications.	VPs, Cloud & Infrastructure	Aligned to supported Application
849	IBM Websphere Enterprise Integration Services	A Service provided to Business Application owners based on usage of the number of IBM Queue Managers, IBM Broker Instances , Java Virtual Machines(JVM), WebSphere Partner Gateway(WPG) Documents and Tivoli Monitoring. This is considered the IBM WebSphere Standard.	VPs, Cloud & Infrastructure	Application Availability of 98.5% of scheduled hours
470	Sharepoint - Hosting	Includes license and labor to support the corporate SharePoint platforms (all versions), HA/DR, Monitoring and Backup. Includes storage, server and cloud consumption (for IaaS and Office365) environments	VPs, Cloud & Infrastructure	Aligned to supported Application

2017 Exelon BSC Service Catalog

Service ID	Service Name	Service Description	Service Owner	Performance Level / Metric with Target
F87	TIBCO Enterprise Integration Services	Includes the license and labor to support the Tibco Middleware software (all versions), HA/ DR, Architecture, Engineering, Projects, and Monitoring (HP Diag, Hawk, BSM etc).	VPs, Cloud & Infrastructure	Application Availability of 98.5% of scheduled hours
451	Data Center Operations	This service includes monitoring and facilities support for data center hosted applications.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
447	Load Balancing	This service provides load balancing for applications (required for High/Gold and available for Medium/Silver/-or Low/Bronze), which allows application teams to distribute the load for an application across multiple server environments.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
448	Mobile Device Support	This service provides software and support to mobile devices to provide and monitor company services, such as eMail.	VPs, Cloud & Infrastructure	
450	Network Operations	This service provides network operations support, including monitoring, support, and compliance.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
452	Premium Desktop-Adobe	This service includes the application license and maintenance cost for premium software application: Adobe	VPs, Cloud & Infrastructure	
464	Java App Hosting Services	Hosting services for a java based application including maintenance and support services on the shared infrastructure.	VPs, Cloud & Infrastructure	Business Hours M-F 7 AM – 6 PM CT 99% uptime 24 x 7 98% uptime
467	Physical Hosting Support	This service provides the day to day operations and support of physical infrastructure assets installed in the data centers, including IT Operations Center, Tier 2 Operational Support, Infrastructure Base Monitoring, Release and Problem Management, Data Center Management. This is aligned with the Standard Operations Support Model.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
473	P/SaaS Ops Support	This service provides monitoring and problem management for cloud-hosted solutions.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.
474	Web Hosting Premium	This service provides platform support for high complexity websites. The application and engineering teams will determine whether applications warrant this level of support.	VPs, Cloud & Infrastructure	Refer to standard operations support model for application hosted.

IT Technical Services
FERC Account and Billing Approach Table

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
401	Linux - Virtual	923 – Outside Services Employed	Direct (R*Q) - 529550	**2017 Update:** # of “compute units" = # CPU + # gb RAM. 0-1999 gb RAM = 1; 2000-2099 gb = 2, etc e.g., 2CPU + 4gb RAM = 6 “compute units”
402	Linux - Physical	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Servers
403	Mainframe Services	923 – Outside Services Employed	Direct (R*Q) - 529550	CPU Usage (MIPS)
404	UNIX High End	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Servers
405	UNIX Low End	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Servers
406	UNIX Standard	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Servers
407	Wintel Physical Server	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Servers
409	Wintel Virtual	923 – Outside Services Employed	Direct (R*Q) - 529550	# of “compute units" = # CPU + # gb RAM. 0-1999 gb RAM = 1; 2000-2099 gb = 2, etc e.g., 2CPU + 4gb RAM = 6 “compute units”
411	(User) Login LAN Account	923 – Outside Services Employed	Direct (R*Q) - 529550	Count of Active Directory Accounts (LAN IDs)
412	PC Services – Base	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Desktops, Laptops, Virtual PCs, & Rugged PCs
417	Remote Access	923 – Outside Services Employed	Direct (R*Q) - 529550	# Remote Access Tokens
418	Depreciation Shared Network	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Personal AD Accounts
419	Depreciation Shared PC	923 – Outside Services Employed	Direct (R*Q) - 529550	# of PCs
420	Depreciation Shared Storage	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Storage Units across all types
421	Depreciation Shared Telecom	923 – Outside Services Employed	Direct (R*Q) – 529500	# of Telephone Ports
422	Depreciation Shared	923 – Outside Services Employed	Direct (R*Q) - 529550	# of UNIX Servers hosting BU-based

2017 Exelon BSC Service Catalog

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
	UNIX/Linux			Applications
423	Depreciation Shared Wintel	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Wintel instances hosting BU-based Applications
429	Disaster Recovery Program Management	923 – Outside services employed	Direct (R*Q) - 529550	# of applications participating in DR Program
431	Virtual Hosting Support	923 – Outside Services Employed	Direct (R*Q) – 529550	# of Servers
434	Storage-Archival	923 – Outside services employed	Direct (R*Q) – 529550	# of Gigabytes of Archival Storage
437	Storage - Standard	923 – Outside services employed	Direct (R*Q) – 529550	# of Gigabytes of Standard storage
440	eMail & Messaging – Personal	923 – Outside Services Employed	Direct (R*Q) – 529550	# eMail Accounts
442	Telephony – Desktop	923 – Outside Services Employed	Direct (R*Q) - 529500	# telephone ports
443	Unified Communications – Video Conference	923 – Outside Services Employed	Direct (R*Q) - 529500	# video conference units
845	BSC Database Services - Licenses & Support	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Direct (R*Q) - 529500	Allocation based on number of CPUs licensed. For shared servers, costs are sub-allocated by database count
849	BSC Middleware	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Allocated – 529560	Based on the number of QMANAGERS being used over a 12 month period by each Business OpCo.
F87	TIBCO Enterprise Integration Services	FERC Accounting to be determined with FERC Reporting groups during each individual project creation.	Direct (R*Q) - 529500	# production services deployed in the corporate TIBCO environment.
446	Hosting Operations - Limited	923 – Outside Services Employed	Direct (R*Q) – 529550	# of monitoring points
451	Data Center Operations	923 – Outside Services Employed	Direct (R*Q) – 529550	# of Servers/Network
447	Load Balancing	923 – Outside Services Employed	Direct (R*Q) – 529550	# of Applications with Load Balancing
448	Mobile Device Support	923 – Outside Services Employed	Direct (R*Q) – 529550	# of Mobile devices per OpCo
450	Network Operations	923 – Outside Services Employed	Direct (R*Q) – 529550	# of LAN IDs
452	Premium Desktop-Adobe	923 – Outside Services Employed	Direct (R*Q) – 529550	# of Adobe installs
454	Storage-High Performance	923 – Outside Services Employed	Direct (R*Q) – 529550	# gb of High Performance Storage
455	Unix Premium	923 – Outside Services Employed	Direct (R*Q) – 529550	# of Servers

2017 Exelon BSC Service Catalog

Service ID	Service Name	Major Client FERC Account	Billing Approach	Basis
456	Unix Virtual	923 – Outside Services Employed	Direct (R*Q) – 529550	# of Servers
457	Wintel Servers Non Standard	923 – Outside Services Employed	Direct (R*Q) – 529550	# of Servers
464	Java App Hosting Services	923 – Outside Services Employed	Direct (R*Q) - 529550	# of JVM
465	Storage Backup – Physical	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Gigabytes of Backup Physical storage
466	Storage Backup – Virtual	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Gigabytes of Backup Virtual storage
467	Physical Hosting Support	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Servers
468	SQL Server IaaS	923 – Outside Services Employed	Direct (R*Q) - 529550	# of server Cores
469	SQL Server DBaaS	923 – Outside Services Employed	Direct (R*Q) - 529550	# of SQL databases
470	Sharepoint - Hosting	923 – Outside Services Employed	Direct (R*Q) - 529550	# of instances
472	Oracle Database Services	923 – Outside Services Employed	Direct (R*Q) - 529550	# of licensed cores
473	P/SaaS Ops Support	923 – Outside Services Employed	Direct (R*Q) - 529550	# of APM Applications listed as PaaS/SaaS
474	Web Hosting Premium	923 – Outside Services Employed	Direct (R*Q) - 529550	# of Website page views

PECO ENERGY COMPANY
MUTUAL SERVICES AGREEMENT AND ASSET TRANSFER AGREEMENT
COST ALLOCATION MANUAL

Policies and Guidelines
for
Associated Company Transactions
in Accordance
with
the Mutual Services and Asset Transfer Agreement

March 2009

TABLE OF CONTENTS

SECTION I

INTRODUCTION AND CORPORATE STRUCTURE

A. SCOPE

This Mutual Services Agreement ("MSA") and Asset Transfer Agreement Cost Allocation Manual ("Manual") applies to transactions between PECO Energy Company ("PECO") and the Exelon Entities (as defined in Section II).

In previous years, transactions between PECO and the Exelon Entities were governed by the PUHCA rules of the SEC. After PUHCA 1935 was repealed effective February 8, 2006, these transactions were subject to the MSA. The MSA rules generally require such transactions to be priced at cost.

In 2008, the Federal Energy Regulatory Commission (FERC) issued new pricing rules for affiliate transactions involving non-power goods and services. The provision of non-power goods and services, including any goods, equipment (including machinery), materials, supplies, appliances, or similar property (including oil, coal, steam, but not including electric energy, natural or manufactured gas, utility assets, intangible property, or tangible assets such as real property, buildings, and the like) will be subject to the following pricing:

- For services provided by PECO to another affiliate (except to another state-regulated utility), the pricing standard is the higher of Fully Distributed Cost or Fair Market Value.
- For services provided by another affiliate (except by another state-regulated utility or EBSC) to PECO, the pricing standard is the lower of Fully Distributed Cost or Fair Market Value.
- EBSC will charge Fully Distributed Cost to all affiliates.
- Services between PECO and ComEd will be priced at Fully Distributed Cost, except that if there is a Prevailing Price for the service, it may only be provided if Fully Distributed Cost equals Prevailing Price.

The overall objective of the Cost Allocation System is to establish cost allocation methodologies that apportion costs between PECO and the Exelon Entities so as to preclude cross-subsidization of the Exelon Entities by PECO customers. Cross-subsidization results under cost-based regulation when the prices of a regulated company's regulated services improperly reflect the costs of associated activities.

In the event of a conflict between this Manual, the MSA and FERC, the order of priority shall be FERC, MSA, and this Manual.

Each PECO department is responsible for implementation within its organization of the policies and guidelines for associated company transactions set forth in the MSA and this Manual. All intercompany transactions shall be adequately documented. Continual monitoring and internal controls shall be maintained to assure that policy guidelines described in this Manual are observed and that potential or actual deviations are detected and corrected.

Please contact PECO’s General Accounting Department and/or BSC’s Legal Department to resolve any conflict between this Manual, FERC and the MSA rules.

SECTION II

DEFINITIONS

Set forth below is a definition of terms that are used throughout this Manual.

Acquiring Party: A Party who desires to acquire real property, interests in real property, tangible personal property or intangible assets from a Selling Party.

Client Company: A Party who desires to receive services or goods and has requested another Party to provide services and or goods in accordance with the terms of an Approved Services Agreement.

ComEd:_Commonwealth Edison Company, PECO's affiliate.

EBSC: Exelon Business Services Company, LLC.

Exelon Entities: Exelon and all of its subsidiaries other than PECO are Exelon Entities.

Fair Market Value: The resultant price set by an arms-length transaction between a willing buyer and a willing seller, both of whom are adequately informed of the appropriate facts, and neither of whom is under any compulsion to buy or sell.

FERC: Federal Energy Regulatory Commission.

Fully Distributed Cost: Fully Distributed Cost includes the actual direct costs or allocated costs incurred by a Providing Company to provide a service or facility, plus indirect costs and other appropriate overheads. See Section IX, Fully Distributed Cost Method, for a detailed discussion as well as examples of fully distributed cost.

MSA: Mutual Services Agreement approved by the PaPUC under which PECO provides non-power services to Exelon Entities or receives non-power services from Exelon Entities other than EBSC.

PaPUC: The Pennsylvania Public Utility Commission.

Party: Party means each, and Parties means all, of the entities who are from time to time a party to the MSA.

Prevailing Price: In the case of services or facilities provided by ComEd to an Exelon Entity, Prevailing Price will only apply to services or facilities provided for sale to the general public. This includes electric service, service provided under an ICC approved pricing mechanism such as Rate CS, and Competitive Services provided to the general public. Prevailing Price is generally defined as the price that has been charged to the general public. When PECO provides a service or facility to ComEd, Prevailing Price is defined as the price charged to nonassociates if such transactions with nonassociates constitute a substantial portion of PECO's total revenues from such transactions.

Providing Company: A Party who has been requested to, and who is able and willing to, furnish facilities and/or provide services to a Requesting Company under the terms of the MSA.

PUHCA: The Public Utility Holding Company Act of 1935 ("PUHCA") was enacted in 1935 to combat abuses commonly arising in utility holding companies in the early part of the 1900's. PUHCA, enforced by the SEC, focused most specifically on the practices of the holding company extracting excessive charges from its regulated utilities for services and of unfairly allocating costs to different utilities in different states. The Energy Policy Act of 2005 repealed PUCHA 1935 effective February 8, 2006, and replaced it with PUHCA 2005.

SEC: Securities and Exchange Commission

Selling Party: A Party who is willing to sell and transfer real property, interests in real property, tangible personal property or intangible assets to an Acquiring Party.

Service Company: Any associate company within a holding company system organized specifically for the purpose of providing non-power goods or services or the sale of goods or construction work to any public utility in the same holding company system. The Service Company (EBSC) provides most administrative and general services to the subsidiaries of Exelon.

SECTION III

TRANSACTIONS INVOLVING THE PROVISION OF SERVICES AND FACILITIES

Transactions involving the provision of services and facilities between PECO and the Exelon Entities (other than services PECO receives from EBSC) will be governed by the following pricing rules:

- For services provided by PECO to another affiliate (except to another utility), the pricing standard is the higher of Fully Distributed Cost or Fair Market Value.
- For services provided by another affiliate (except by another utility or EBSC) to PECO, the pricing standard is the lower of Fully Distributed Cost or Fair Market Value.
- EBSC will charge Fully Distributed Cost to all affiliates.
- Services between PECO and ComEd will be priced at Fully Distributed Cost, except that if there is a Prevailing Price for the service, it may only be provided if Fully Distributed Cost equals Prevailing Price.

According tothe MSA, the provision of services or facilities by PECO to an Exelon Entity, or by an Exelon Entity to PECO, shall be charged to the requesting Exelon Entity at an amount not to exceed the Fully Distributed Cost incurred by the providing Exelon Entity.

For transactions between PECO and ComEd, the Providing Company’s Prevailing Price will be limited to not more than Fully Distributed Cost as a means to resolve pricing conflicts between ComEd’s Affiliated Interests Agreement (AIA) and the MSA which governs PECO’s intercompany transactions. Under the MSA, the pricing of transactions is limited to “no more than cost”.

Supporting documentation used in the determination of Fair Market Value or Prevailing Price must be forwarded to PECO’s General Accounting Department.

Notwithstanding the state rules, where the FERC rules are more protective of PECO and ComEd, those must be applied. Thus, the pricing rules summarized in the bullet points above take into account both state and FERC rules, and give priority to the more protective FERC rules.

SECTION IV

SALES OF TANGIBLE AND INTANGIBLE PERSONAL PROPERTY

A. GENERAL

The purpose of this section is to assign a monetary value (price), and record all tangible or intangible personal property sold and transferred between PECO and the Exelon Entities.

Parties should evidence their agreement with respect to the sale of tangible or intangible personal property by entering into an agreement or other written memorandum.

For tangible or intangible personal property sales between PECO and the Exelon Entities, the following requires a separatePaPUC approval:

- For tangible and intangible personal property purchases, sales, leases or exchanges between PECO and the Exelon Entities, a PaPUC approval is required pursuant to 66 Pa.C.S. § 2102. There are no exceptions to this requirement. In addition, if the transaction involves property that is "used or useful in the public service," an additional approval may be required pursuant to 66 Pa.C.S. § 1102. Since each transaction covered under this heading requires that a filing be made with the Commission to obtain § 2102 approval, Legal should be contacted to determine whether the Company should also request § 1102 approval for the transaction.

For sales of FERC jurisdictional facilities (*i.e.*, facilities used for the transmission of electric energy in interstate commerce or sales of electric energy at wholesale in interstate commerce), separate approval by the FERC may be required (notify BSC Legal for guidance).

B. VALUATION OF PROPERTY

The following general principles shall be used to establish a sale price for tangible or intangible personal property transactions.

> Sales of tangible or intangible personal property shall be charged by the Selling Party to the Acquiring Party at:
>
> 1) The fair market value of tangible or intangible personal property to be sold as evidenced by the price at which nonassociated vendors offer the same or similar assets for sale by reference to quoted market prices or the value ascribed to the asset by an independent appraisal or other objective valuation technique.
>
> Or, if no such fair market value is objectively or practicably determinable,
>
> 2) The historical cost of the asset to the Selling Party, less all applicable valuation reserves (e.g. accumulated depreciation).
>
> The determination of fair market value must be adequately documented to ensure that a

proper audit trail exists.

Supporting documentation used in the determination of prevailing price must be forwarded to PECO's General Accounting Department.

C. SALE OF PROPERTY

- Contact the appropriate Engineering Department, Life Cycle Management Department or Procurement Department to obtain the procedure for the sale of tangible personal property.

- Contact PECO's General Accounting Department for all accounting transactions, for historical cost calculations, and to determine any impact the transfer has on ratemaking.

- Notify PECO's Tax Office for tax implications and to obtain the most favorable tax treatment for any property sale.

- Notify BSC's Legal Department to review the contract concerning the transfer.

- Contact the Secretary's Office for:
  - Approval of the sale by the Board of Directors (Board).
  - Release of property from any mortgage indenture.

  Note: Board approval is required for sales of property over $10 million; for sales of $10 million and below, Board action is required only to obtain the mortgage release.

SECTION V

SALES OF REAL PROPERTY

A. GENERAL

The purpose of this section is to assign a monetary value (price), and record all real property sold and transferred between PECO and the Exelon Companies.

Parties should evidence their agreement with respect to the sale of real property by entering into an agreement or other written memorandum.

For real property purchases, sales, leases or exchanges between PECO and the Exelon Entities, a PaPUC approval is required pursuant to 66 Pa. C.S. § 2102. There are no exceptions to this requirement. In addition, if the transaction involves real property with an undepreciated book value of greater than $50,000, a PUC approval is required pursuant to 66 Pa.C.S. § 1102.

Real property includes the following: land, buildings and other forms of real property.

B. VALUATION OF PROPERTY

The following general principles shall be used to establish a sale price for real property sales between PECO and the Exelon Entities.

Sales of real property shall be charged by the Selling Party to the Acquiring Party at:

1) The fair market value of the real property to be sold as evidenced bythe price at which nonassociated vendors offer the same or similar assets for sale by reference to quoted market prices or the value ascribed to the asset by an independent appraisal or other objective valuation technique.

Or, if no such fair market value is objectively or practicably determinable,

2) The historical cost of the asset to the Selling Party, less all applicable valuation reserves.

The determination of fair market value must be adequately documented to ensure that a proper audit trail exists.

Supporting documentation used in the determination of prevailing price must be forwarded to PECO's General Accounting Department.

C. SALE OF PROPERTY

- Contact PECO's Real Estate Department to obtain the procedure and approval for the sale of real property.

- Contact PECO’s General Accounting Department for all accounting transactions, historical cost calculations, and to determine any impact the transfer has on current or future ratemaking proceedings.

- Notify PECO’s Tax Office for tax implications and to obtain the most favorable tax treatment for any property sale.

- Notify BSC’s Legal Department to review the contract concerning the transfer.

- Contact the Secretary’s Office for:
  - Approval of the sale by the Board of Directors (Board).
  - Release of property from any mortgage indenture.

  Note: Board approval is required for sales of property over $10 million; for sales of $10 million and below, Board action is required only to obtain the mortgage release.

SECTION VI

SALES/ACQUISITIONS OF FERC JURISDICTIONAL FACILITIES

Sales and/or acquisitions of “FERC jurisdictional facilities” generally require FERC approval (subject to thresholds). “FERC jurisdictional facilities” are the facilities used for the transmission of electric energy in interstate commerce, sales of electric energy at wholesale in interstate commerce (such as contracts), or existing generation facilities. FERC jurisdictional facilities do not include, for example, vehicles, computers, intangibles, land held for future use and obsolete or used inventory unconnected to the electric system. “Sales” and “acquisitions” include lease transactions. Employees must contact both BSC Legal, PECO Regulatory and the Director of PECO Accounting early in the consideration of any proposed sale/lease/acquisition of FERC jurisdictional facilities.

SECTION VII

WORK ORDERS

The Work Order Form is to be completed by a Providing Company when providing a service or facility to a Client Company. A Work Order Form must be completed for **all** services provided to Client Companies.

A separate form is not intended to be completed for each specific and separate instance where ongoing services or facilities are involved. It is intended to capture a blanket of services. For example, a Work Order Form would be prepared to provide fleet services for the time period that fleet services are provided. It would not be necessary to complete a Work Order Form for each separate vehicle. If a service or facility is provided for a finite period of time then that should be mentioned on the Work Order Form. If the service is to be provided for an undetermined time period, then the Work Order Form is valid until such time that a cancellation is requested. PECO reviews and updates all Affiliate Level Arrangements and Work Orders on an annual basis.

If at a later date there is a need to expand the scope of services related to an existing Work Order, you may prepare a Work Order Form and indicate on the form that an existing Work Order Form is being revised. Merely indicate the additional services and refer to the existing Work Order number.

Work Order Requirements

1. Each company within the holding company system must have a current Service Agreement signed by a management representative with responsibility for the service received or provided. The same employee cannot sign on behalf of both parties.
2. The Service Agreement should describe the scope of services, billing procedures and allocation methods.
3. Services should be directly charged to one benefiting company whenever possible. When more than one company benefits from a service provided, cost causative allocations must be used to distribute costs in a fair and equitable method.
4. Specific services to be provided must be evidenced by signed work orders and Affiliate Level Arrangements (ALAs) or Service Level Arrangements (SLAs). Work Orders provide the key to where the services are recorded on both the Providing Company's and the Client Company's books. Work orders, ALAs and SLAs should include the following data.
    - Work order control number (Determined by the Providing Company)
    - Purchase Order Number of Client Company, if applicable
    - Name or title of Work Order
    - Description of work to be performed
    - Start and completion date
    - Other Client Companies benefiting from the service (for purposes of allocations)
    - Allocation factors (if applicable)
    - Providing Company's code block data to capture costs of work order
    - Client Company's code block data for billing purposes (including FERC account if for a FERC jurisdictional utility)

  - Budgeted / expected cost to be charged to Client Company
  - Authorization signatures and dates

5. Changes to work orders must be documented.
6. The Providing Company must maintain a control log of all authorized work orders.

For services provided by PECO, Work Order numbers will be issued by PECO’s General Accounting Department. Therefore, when preparing a Work Order Form, please contact PECO’s General Accounting Department.

A copy of the completed, approved Work Order Form must be sent to PECO’s General Accounting Department.

Originals of the completed, approved form including any supporting documentation should be kept by the Providing Department. A copy of the Work Order Form should be maintained by the Requesting Department.

Work Order

[
WO # ___________
ALA Reference No. ___________
Current Date ___________
Effective Period ___________

1. Providing Company: _________________________
2. Providing Department: _________________________
3. Client Company or Companies: _________________________
4. Client Department: _________________________
5. Project Type (circle one): New Work Order Revised Work Order
6. Work Order Title: _________________________
7. Allocation Method: _________________________

8. ***Providing*** Companies Reclassification Code Block:

Business Unit	**Dept**	**Account**	**Sub Account**	**Project**	**Product**	**Customer Segment**	**Operating Unit**	**Charging Dept**	**Affiliate**

9. ***Receiving*** Companies Distribution Code Block:

Business Unit	**Dept**	**Account**	**Sub Account**	**Project**	**Product**	**Customer Segment**	**Operating Unit**	**Charging Dept**	**Affiliate**

10. In the space below, describe the services/facilities which will be charged to this Project.
Include budgeted/expected cost to be charged to Client Company.

(attach additional sheets if necessary)

11. Approvals
Requesting Co. Mgr: ___________________
(Signature)
____
(Print Name)
____
(Date)
Requesting Co. Contact:
___________________ Primary
___________________ Secondary
Contact's phone number:
___________________ Primary
___________________ Secondary
Accounting Contact:
____
___________________ (phone #)

Approvals
Providing Co. Mgr: _____________________________
(Signature)
____
(Print Name)
____
(Date)
Providing Co. Contact:
_____________________________ Primary
_____________________________ Secondary
Contact's phone number:
_____________________________ Primary
_____________________________ Secondary
Accounting Contact:
____
_____________________________ (phone #)

INSTRUCTIONS FOR COMPLETING PECO WORK ORDER FORM

Work order number	The work order number is an eight digit code consisting of the ALA reference number (4 digits) and a 4 digit identifier provided by the PECO General Accounting Department. For example: CP01-0088.
ALA Reference Number	The ALA reference number is derived as follows: the first digit is the providing company code, the second digit is the receiving company code and the final 2 digits are numeric indicating the number of the ALA between the 2 entities. For example: CP01 where the provider is CED the receiving Company is PED and this is the first ALA between the two entities. ALA reference numbers are 4 digit identifier provided by the CED – Financial Reporting Department. The Company Codes are: C = CED P = PED E = Enterprises G = Genco B = BSG X = Corp. Center
Effective Period	The time period which the Work Order is in effect.
1. & 3. Providing/Receiving	Select companies providing/requesting services.
2. Providing Department	Identify the department responsible for providing the work to be done.
4. Client Department	Identify the department requiring the work to be done.
5. Work Order Type	One of the two types of Work Orders should be marked. A “New” or a “Revised” Work Order may be selected.
6. Work Request Title	Choose an abbreviated title to define the work to be provided.
7. Allocation Method	If the Work Order is for work that will benefit more than one department, indicate the basis of allocation. Refer to Section IX of the Affiliated Interests Agreement, Cost Allocation Methods, for more information on allocation methods.

7. Providing Company – Reclass	Providing companies reclassification code block to remove the charges from their O&Ms to be billed to an affiliate. (Debit of reclass JE.)
9. Receiving Company Distribution	Code block that the receiving company will charge to record the cost of monthly ALA services received.
10. Description of Services	Brief description of service or facility provided including budgeted or expected costs to be charged to Client Company.
11. Approvals	Both the Receiving Company and the Providing Company must indicate their approval by indicating the name and providing a signature by the appropriate Department Head or Manager. Responsible contacts should be identified by complete name and their phone number.

SECTION VIII

FULLY DISTRIBUTED COST METHOD

A. OVERVIEW

Under the fully distributed cost methodology, direct costs incurred by one Party for the provision of services to another Party are increased for indirect costs and other appropriate overheads. The objective is to assign direct costs along with the appropriate indirect costs and overheads to the benefiting Exelon Entity or Entities to prevent cross-subsidization of associates by PECO customers.

B. COMPONENTS OF FULLY DISTRIBUTED COST

Fully distributed cost is the direct costs or allocated costs (cost pools allocated to a Exelon Entity based on a cost causative measure), adjustments to direct labor costs, indirect costs and other appropriate overheads incurred by a Party to provide a service or facility to another Party.

1) Direct Costs and Allocated Costs

Direct costs consist of direct labor, direct materials and purchased services, and the direct costs of facilities, equipment, machinery, furniture and fixtures. Allocated costs are incurred for the provision of services or facilities which are not directly assignable to a specific Exelon Entity or Entities but jointly benefit more than one Party. Costs to be allocated shall be accumulated in cost pools and allocated between the appropriate Parties based on an appropriate cost causative measure that ensures an equitable allocation.

2) Direct Labor Adjustments, Indirect Costs and Other Overheads

Elements of and the current rate for PECO's Loading Factors are presented below.

Administrative and General Loading Factor 49.6 %

- Administrative and General Salaries (FERC Acct 920)
- Office Supplies (FERC Acct 921)
- Outside Services Employed (FERC Acct 923)
- Property Insurance (FERC Acct 924)
- Injuries and Damages (FERC Acct 925)
- Employee Pensions and Benefits (FERC Acct 926)
- Regulatory Commission Expenses (FERC Acct 928)
- Advertising Expenses (FERC Acct 930)
- Rents and Plant Maintenance (FERC Acct 931 and 935)

Studies to update PECO's Direct Labor Adjustment Rates and the Loading Factors will be performed by PECO's General Accounting Department annually during the second quarter and will be based on actual financial data of the prior calendar year.

The new Direct Labor Adjustment Rates and the Loading Factors will go into effect July 1st of each year.

C. FULLY DISTRIBUTED COST CALCULATION

Different adjustments are applied to direct labor charges depending on which PECO employees are charging payroll to the Exelon Entities and how their time is captured. See example calculations below.

Please note that this Section currently covers only PECO's loading factors for use in its fully distributed cost calculation. If an Exelon Entity provides a service to PECO at its fully distributed cost, then the Exelon Entity would need to calculate its own loading factors.

EXAMPLE CALCULATIONS OF FULLY DISTRIBUTED COST FOR PECO 2008 RATES

LABOR

		Payroll Costs
Direct Charges		
Direct PECO Payroll Charge		$ 100.00
Total Direct Labor Charges		$ 100.00
Indirect Charges		
1.) Adjust for Fringe, Pension, AIP and Payroll Taxes	79.97%	79.97
2.) Adjust for A&G Loading Rate	49.60%	49.60
3.) Indirect Charges (if appropriate)		0.00
Adjusted Direct Labor Charges		$ 229.57

The Fringe, Pension AIP and Payroll Taxes rates applied in this example were in effect as of 1/31/2009. These rates are updated each month based on a communication sent out by PECO General Accounting.

SECTION IX

COST ALLOCATION METHODS

Whenever possible, costs of services or facilities specifically attributable to a Party should be charged directly to such Party. These services shall be charged directly using the appropriate pricing basis. See Section III, Transactions Involving the Provision of Services and Facilities for more information. When a transaction pertains to one Client Company and the transaction is charged to such Client Company, no further allocation is necessary. For each separately identifiable good or service, a determination needs to be made of those costs that can be directly charged to that particular good or service.

For costs incurred for transactions involving the provision of services which are not directly assignable to a specific Client Company and which have joint benefit to more than one Party, an allocation method must be used to distribute the costs to the benefiting companies. Cost pools will be allocated to the Client Companies based on the respective cost causative measures.

Each Providing Company will have the primary responsibility for ensuring that the allocation factors are proper, accurate and kept up to date.

To the greatest extent possible, the allocation factors will be based on cost drivers specifically applicable to the service provided. PECO Accounting will be advised / consulted regarding allocations factors utilized in associate transactions.

PECO Accounting will be responsible for evaluating new allocation methodologies and determining if any approval is required. PECO Accounting will coordinate approval efforts, if necessary, with the Legal Department.

SECTION X

ACCOUNTING AND INTERCOMPANY BILLING

A. Overview

For PECO and the Exelon Entities, code block must be used to record the accounting distribution for intercompany transactions. The specific accounting varies according to which Exelon Entity is involved in the transaction with PECO and whether the service, facility or goods are being charged at Fully Distributed Cost ormarket price.

B. Services/Facilities charged at FULLY DISTRIBUTED COST

When the provision of a service is directly assignable to a Client Company and is charged at Fully Distributed Cost, the Providing Company shall charge the related direct and indirect costs to a unique code block combination. The codeblock combination should be stated on each work order supplied as part of the ALA process.

If costs cannot be directly charged but must be allocated based on a cost causative measure (see Section IX, Cost Allocation Methods), contact PECO’s General Accounting Department and Service Company Accounting to determine an appropriate code block combination to ‘pool’ such costs for allocation to the benefiting companies. [Is this consistent with PECO’s practice?]

C. Services/Facilities charged at MARKET PRICE

When a service is provided to a Client Company at the Providing Company’s market price rather than its Fully Distributed Cost, the Providing Company must record both its expenses associated with the provision of service and the related intercompany revenues. The Client Company will record the intercompany expenses.

D. Accounting for direct labor costs

Positive time reporting methodology should be utilized. Under a positive time reporting methodology, an employee shall report in each pay period the number of hours in providing separately identifiable goods and services to Client Companies.

PECO employees prepare Weekly Time Reports to report the hours spent providing a service to a particular Party to an appropriate code block combination. These Weekly Time Reports are signed by both the employee and an appropriate supervisor who can attest that the time reported is accounted for accurately. All hours billed must be supported by timesheets.

When billing direct labor costs the fully distributed cost methodology should be utilized. Under the fully distributed cost methodology, direct costs incurred by one Party for the provision of services to another Party are increased for indirect costs and other appropriate overheads. The objective is to assign direct costs along with the appropriate indirect costs and overheads to the benefiting Exelon Entity or Entities to prevent cross-subsidization of associates by PECO customers.

Fully distributed cost are the actual labor costs plus the addition of applicable overheads (Fringes, AIP, Pension, Payroll Tax and A&G factor). All applicable overhead rates are distributed monthly prior to the start of the accounting close. The Fringe, AIP, Pension and Payroll Tax rates are established at the beginning of the year based on budgeted costs, there are adjustments on a monthly basis to the secondary rates of the respective allocation rates. The A&G rate is updated yearly based on actual financial data of the prior calendar year. The rate is updated in June by the General Accounting Department as part of PECO's development of its billing rates.

E. ACCOUNTING ON PAYMENT DOCUMENTS, MATERIAL REQUISITION, JOURNAL ENTRIES, ETC.

Costs incurred for services provided to an Exelon Entity, which are paid by means of a PECO Payment Request should be charged to such Exelon Entity by entering the appropriate code block combination on the accounting distribution line. Enter the appropriate code block combination in the Journal Entry System, the Passport System, Transportation System and any other system used for transactional reporting.

When using a journal entry to correct for any historical payroll charges to a Client Company, use the appropriate sub accounts. This is necessary so that the correct labor adjustments, indirects and overheads are added.

F. INTERCOMPANY BILLINGS AND PAYMENTS

1) Billings

- Tariffed services provided by PECO to an Exelon Entity will be billed to the Exelon Entity in the same manner as all other customers of the tariffed service (e.g. Exelon Generation will be sent a PECO electric bill for electric service).

- All other services or facilities which are provided by PECO to Exelon Entities, whether charged at market price or at fully distributed cost, will be invoiced and billed by PECO's functional area. PECO will separately invoice each of the Exelon Entities on a monthly basis for the services and facilities provided to the respective Exelon Entity during such month. Each invoice will include descriptions of the charges by reference to the Work Orders, if applicable, as well as total indirects calculated on all direct costs billed during the month. Upon request, an explanation and/or documentation will be provided to justify charges.

- Services or facilities which are provided by the Exelon Entities to PECO, whether charged at market price or at fully distributed cost, will be invoiced and billed by each respective Exelon Entity. PECO will be invoiced from each of the Exelon Entities on a monthly basis for the services and facilities provided by the Exelon Entities during such month. Each invoice will include descriptions of the charges by reference to the Work Orders and total indirects, if applicable, calculated on all direct costs billed during the month. Upon request, an explanation and/or documentation will be provided to justify charges.

- PECO's Real Estate Department will be responsible for collecting the payment from the Exelon Entity for the sale of real property, which is due at the closing of the sale and transfer of the property. Real Estate must communicate the accounting information related to the property sale to PECO's General Accounting Department.

2) Payments

With the exception of real property and intangible asset sales, payments from Exelon Entities should be made in accordance with Exelon's Intercompany Cash Settlement Policy.

G. INTERNAL CONTROL RESPONSIBILITIES AND RECORD RETENTION

Each PECO department that enters into an associated company transaction subject to the MSA shall have primary responsibility for assuring that the policies and guidelines detailed in the MSA and this Manual are appropriately implemented and maintained.

Also, each PECO department shall establish unique code block elements in the general ledger system, which shall be used to record, associated company transactions.

PECO's General Accounting Department shall have responsibility, in addition to those responsibilities indicated elsewhere herein, for overall monitoring of procedures and controls associated with associated company transactions. In this role, an accountant will monitor Work Order Forms, transactions, billings, allocation methodologies, etc. to assure compliance with the MSA and this Manual or any other applicable manuals, and that actions will be taken to correct deficiencies as they are identified. Reviews will be performed of operating results to assure they properly reflect associated company transactions that occurred during the period reviewed based on known activity as obtained from completed Work Order Forms and other sources. PECO's General Accounting Department shall direct any participant to implement and/or revise any procedure as required to assure associated company transactions are carried out in accordance with the provisions and intent of the MSA and this Manual or any other applicable manuals.

Internal Audit will also perform periodic compliance reviews of the associated company transaction processes to further provide assurance regarding the actual operating effectiveness of the policies and guidelines as outlined in the MSA and this Manual or any other applicable manuals.

Supporting documentation for intercompany transactions will be retained per the record retention schedule.

SECTION XI

BUDGETING

The goal of the budget cycle is to develop a corporate budget for the entire Exelon organization that accurately reflects the activities performed and the resources necessary to accomplish those activities. A great deal of interactive communication needs to occur not only among the various departments within a company but also between the companies. Two-way communication should be ongoing throughout the budget cycle.

This section provides budget guidelines only with respect to transactions between PECO and the Exelon Entities.

PECO and the Exelon Entities shall be responsible for preparing their own budgets for revenues, capital and operating expenditures and employee headcount. Providing Companies are also responsible for renewing or revising Affiliate Level Arrangements and Work Orders for the upcoming budget period that will provide the basis for preparing annual budgets. These Affiliate Level Arrangements and Work Orders will provide details of the direct costs of services to be provided to Client Companies.

Budgeting for the costs of facilities and services provided by PECO to an Exelon Entity will depend on whether the Exelon Entity will be charged PECO’s fully distributed cost or PECO’s market price for such facility or service.

If PECO is providing a service at its fully distributed cost, then such costs will be the budget responsibility of the Exelon Entity receiving the service. The PECO department providing the service will still be responsible for preparing or revising Affiliate Level Arrangements and Work Orders.

If PECO is providing a service at its market price, then the PECO Business Unit must budget for both the revenues and expenses (including any applicable overheads charged on PECO’s books) associated with the provision of the services. The PECO department providing the service will be accountable for the profit or loss on the service they provide and the Exelon Entity will have budget responsibility for the market price of the service provided.

[Insert effective years in the format of year-year] Affiliate Level Arrangement–ALA[1] No. [enter ALA/SLA number][2]

Affiliate Level Arrangement ("ALA")[1] between [insert provider business unit full company name – Area/Department providing service] ("[insert provider business unit abbreviated name]") and [insert receiver business unit full company name] ("[insert receiver business unit abbreviated name]")

Purpose

The purpose of this ALA[1] is to **[Insert a high-level summary of the business objectives that the providing business unit is intended to address. An overview of the services covered by the ALA[1] should be presented. An overall description of the contents of the ALA should be discussed.]**

This document has been reviewed by **[insert business units] [insert business units departments that are required to review]** and Project Managers for each of the Exelon Utilities, including a review for compliance with regulatory provisions, if any.

Governing Agreement

This Affiliate Level Arrangement ("ALA")[1] is governed by the provisions of the **[insert governing agreement of the provider][3]** or **[insert governing agreement of the receiver][3]**, as appropriate.

Terms and Conditions

This document commences on **[insert date in the format of month day, year]** and extends until the end of **[insert date in the format of month day, year]**.

Scope of Services

This document constitutes an arrangement between the **[insert receiver business unit]** and **[insert provider business unit]** for the **[insert a high level description of the service]**. This document specifies the service expectations between **[insert provider business unit]** and **[insert receiver business unit]** and provides:

- A description of the service to be delivered
- The billing approach for the services
- The metrics by which the effectiveness of the services is monitored
- The roles and responsibilities of both parties

This document has been reviewed by **[insert provider business unit]** and **[insert receiver business unit]** Accounting, **[insert Area/Department providing service]**, and Legal including a review for compliance with regulatory provisions, if any.

Scope of Services
(Provide a detailed breakdown of the scope of services provided)

Service Responsibility Matrix

(Provide a breakdown of responsibilities between the Service Provider, the Customer, and any 3rd parties, which must be honored in order for the services to be provided.)

Services, Tasks	***(Service Provider)***	***(Customer)***
(List Service)		
(List Breakdown)		
(List Service)		
(List Breakdown)		
(List Service)		
(List Breakdown)		

Service Costing Schedule

Rules of Costs to be Billed:

This section provides rules of costs to be billed by provider of services to recipient of services.

	Provider of Services				
	ComEd	**PECO**	**BGE**	**Genco**	**BSC**
Recipient of Services					
ComEd	N/A	Fully Distributed Cost[4,5]	Fully Distributed Cost[4,5]	Lower of Fully Distributed Cost[3] or FMV[6]	See GSA and SLA[1]
PECO	Fully Distributed Cost[4,5]	N/A	Fully Distributed Cost[4,5]	Lower of Fully Distributed Cost[3] or FMV[6]	See GSA and SLA[1]
BGE	Fully Distributed Cost[4,5]	Fully Distributed Cost[4,5]	N/A	Lower of Fully Distributed Cost[3] or FMV[6]	See GSA and SLA[1]
Genco	Higher of Fully Distributed Cost[3] or FMV[6]	Higher of Fully Distributed Cost[3] or FMV[6]	Higher of Fully Distributed Cost[3] or FMV[6]	N/A	See GSA and SLA[1]
BSC	Higher of Fully Distributed Cost[3] or FMV[6]	Higher of Fully Distributed Cost[3] or FMV[6]	Higher of Fully Distributed Cost[3] or FMV[6]	Lower of Fully Distributed Cost[3] or FMV[6]	N/A

Charging Table:

Select one cost method per service/transaction.

Service/Transaction	**Fully Distributed Cost[4]**	**Prevailing Price[5]**	**FMV[6]**
(List Service/Transaction)			
(List Service/Transaction)			

Monthly Billing Table:

*This section provides a monthly cost estimate for **[insert customer]** based on estimated transaction volumes.*

Service/Transaction	**Estimated Transactions Per Month (Quantity)**	**Billing Per Transaction (Rate)**	**Estimated Monthly Billing**
(List Service/Transaction)			
(List Service/Transaction)			
(List Service/Transaction)			
(List Service/Transaction)			
		Total	

[Insert allocation rate for billings determined by BSC]

Performance Metrics & Performance Reporting

(Describe the specific criteria, which will be used to measure the performance of the services provided.)

Process Performance Metrics	**Performance Target**	**Reporting Frequency**

Customer Service Performance Metrics[7]	**Performance Target**	**Reporting Frequency**

Signatures	
[insert name of VP/Director/Manager in the format of First, Last] **[insert title]** **[insert provider business unit company name]**	**[insert affiliate name of VP/Director/Manager in the format of First, Last]** **[insert title]** **[insert affiliate business unit company name]**
________________________ __________ Signature Date	________________________ __________ Signature Date

Endnotes to Template

[1] **ALA/SLA:** Affiliated Level Agreement (ALA) if the providing company is ComEd, PECO, BGE, or Genco. Service Level Agreement (SLA) if the providing company is BSC.

[2] **ALA Number:** The ALA reference number is derived as follows: the first digit is the providing company code, the second digit is the receiving company code and the final 2 digits are numeric indicating the number of the ALA between the 2 entities. For example: PC01, where the provider is PECO the receiving Company is ComEd and this is the first ALA between the two entities. The Company Codes are:

The Company Codes are:
B = BSC
C = ComEd
G = Genco
M = BGE
P = PECO
S = PHISCO
A = ACE
D = DPL
H = Exelon Corporation - Holdco
E = Pepco

[3] **Goverance:** This section should reference the governance of both the provider and the receiver.

> ComEd – The governance is the Affiliated Interest Agreement ("AIA") and the Cost Allocation Manual ("CAM") as approved by the Illinois Commerce Commission, as appropriate.
>
> PECO – The governance is the PECO Mutual Services Agreement ("MSA") and the Cost Allocation Manual ("CAM") as filed with or approved by the Pennsylvania Public Utility Commission, as appropriate.
>
> BGE – The governance is the General Services Agreement ("GSA") and the BGE Cost Allocation Manual ("CAM"), both as filed with Maryland Public Service Commission.
>
> Genco – There is no governance as this is not a regulated utility.
>
> BSC – The governance is the General Services Agreement ("GSA") and the BSC Cost Allocation Manual ("CAM").
>
> ACE, DPL, Pepco and PHISCO – The governance is the PHI CAM , as approved by the New Jersey Board of Public Utilities and as filed with the DPSC, the District of Columbia Public Service Commission and the MPSC.

[4] **Fully Distributed Cost:** Fully Distributed Cost includes the actual direct costs or allocated costs incurred by a Providing Company to provide a service or facility, plus indirect costs and other appropriate overheads.

[5] **Prevailing Price:** Services will be priced at Fully Distributed Cost, except that if there is a Prevailing Price for the service, it may only be provided if Fully Distributed Cost is equal to or less than the Prevailing Price. Prevailing Price is generally defined as the price that has been charged to the general public. In the case of services or facilities provided by ComEd to an Exelon Entity, Prevailing Price will only apply to services or facilities provided for sale to the general public. This includes electric service, service provided under an ICC approved pricing mechanism such as Rate CS, and Competitive Services provided to the general public.

[6] **Fair Market Value:** The resultant price set by an arms-length transaction between a willing buyer and a willing seller, both of whom are adequately informed of the appropriate facts, and neither of whom is under any compulsion to buy or sell.

[7] **Customer Service Performance Metrics:** Customer service performance metrics are for Nuclear only.

Q. SDR-OM-16 Please provide the annual level of outside services employees for the preceding three calendar years. Include in your response a breakdown of the test year amount indicating the service provider and the type of service performed.

A. SDR-OM-16

2015 - $69,104,451
2016 - $75,353,432
2017 -$78,193,015
2018 - $78,876,000
2019 - $78,545,000

Refer to Attachment SDR-OM-16(a) for the breakdown of the 2017 information by service provider and type of service.

PECO does not budget at the FERC account level. The 2018-2019 totals agree with the Revenue Requirement Model.

PECO Energy Company
Outside Services (FERC 923)
For the Year Ended December 31, 2017
Presentation Basis - Electric Distribution ONLY

Function	Service	Vendor	Total ($)
BSC	Business Center Services	BSC	4,957,807
	Communication Services	BSC	1,164,627
	Executive Services	BSC	5,083,310
	Financial Services	BSC	12,281,025
	HR Services	BSC	4,913,215
	IT Non Telecom Services	BSC	20,326,470
	Legal Gov Services	BSC	5,783,813
	Other Services	BSC	282,986
	Regulatory & Govermental Services	BSC	1,891,215
	Security Services	BSC	5,296,067
	Supply Services	BSC	437,549
BSC Total			62,418,084
Contracting, Professional	Accounting And Audit	KPMG LLP	65,035
	Governmental, Legal & External Affair	ALSTON & BIRD	11,820
		ACCRUALS AND REVERSALS	(114,629)
		BALLARD SPAHR ANDREWS & INGERSOLL LLP	107,771
		BLANK ROME LLP	191,954
		CITY OF WILMINGTON	1,846
		DILWORTH PAXSON LLP	58,474
		GREENBERG TRAURIG LLP	12,667
		GRIESING LAW LLC	27,304
		JACKSON LEWIS PC	46,555
		KELLER AND HECKMAN	4,091
		KIRKPATRICK & LOCKHART PRESTON	21,146
		LAW FIRM OF RUSSELL R. JOHNSON	8,830
		MORGAN, LEWIS & BOCKIUS,LLP	452,957
		PEPPER HAMILTON LLP	1,377
		PONTOON SOLUTIONS INC	20,004
		REED SMITH, LLP	138,977
		REGER RIZZO & DARNALL LLP	14,951
		RIGHT MANAGEMENT,INC	5,321
		SAUL EWING LLP	36,442
		SIDLEY & AUSTIN	3,470
		TROUTMAN SANDERS LLP	9,263
		VAN NESS FELDMAN	74,148
		WATSON & RENNER	70,962
		JENNER & BLOCK LLP	3,701
		SALMON, RICCHEZZA, SINGER & TURCHI LLP	22,407
		K&L GATES LLP	527
		STEPTOE & JOHNSON LLP	358,328
		VANNESS FELDMAN	96,322
		OTHER (1)	(14,234)
	Other Professional	ACCENTURE	39,925
		ATLANTIC RESOURCE PARTNERS PHILADELPHIA LLC	80,130
		BEACON HILL STAFFING GROUP LLC	19,127
		BLACK & VEATCH CORPORATION	209,371
		CONSULTING TOXICOLOGISTS LLC	4,566
		DREXEL UNIVERSITY	13,720
		EAST HILL VIDEO PRODUCTION COMPANY LLC	8,411
		ECOVA INC	18,050
		JD POWER AND ASSOC	(126)
		L K H & S	153,045
		MEDTOX LABORATORIES INC	34,069
		NATIONAL ECONOMIC RESEARCH ASSOCS INC	(35,625)
		NERA INC	49,593
		PENNSFORD LLC	7,460
		PHILADELPHIA YOUTH NETWORK	6,849
		PONTOON SOLUTIONS INC	(13,340)
		PROFESSIONAL ON-SITE TESTING	295
		RECTOR COMMUNICATIONS INC	826
		RIGHT MANAGEMENT,INC	36,749
		RR DONNELLEY & SONS COMPANY	5,670
		THE FELICITY GROUP, LIMITED	34,139

PECO Energy Company
Outside Services (FERC 923)
For the Year Ended December 31, 2017
Presentation Basis - Electric Distribution ONLY

Function	Service	Vendor	Total ($)
		THE NORTHBRIDGE GROUP	59,679
		TIERNEY COMMUNICATIONS	287
		VANTAGE LEADERSHIP CONSULTING, LLC	58,354
		LAFATA CONTRACTING SERVICES	9,274
		GLOBAL HR RESEARCH LLC	1,598
		ABSO	155,933
		STEPHEN A ALBERTINI	3,601
		SPRING MILL COUNTRY CLUB	499
		TANGENT ENERGY SOLUTIONS INC	3,017
		HUMAN SYSTEMS TECHNOLOGY CORP	491
		AFRICAN AMERICAN CHILDRENS	1,777
		XPLORA SEARCH GROUP INC	16,742
		TOMMY`S PAVING AND EXCAVATING	79
		AULD & ASSOCIATES	69,843
		NAVIGANT CONSULTING INC	141,319
		GRID ONE SOLUTIONS, INC.	(18)
		ROUNDARCH ISOBAR INC	3,780
		SUE MOSBY	4,608
		OTHER (1)	25,341
	Staff Augmentation	ACCENTURE	6,001
		PONTOON SOLUTIONS INC	1,515,113
		OTHER (1)	(65,832)
Contracting, Professional Total			4,422,174
Contracting, Services	Advanced Meter Infrastructure	ABSOLUTE PEST CONTROL	338
		ACCENTURE	72,960
		ASPLUNDH TREE EXPERT COMPANY	20,395
		ACCRUALS AND REVERSALS	(168,367)
		BALLARD SPAHR ANDREWS & INGERSOLL LLP	180,732
		BLACK AND VEATCH MANAGEMENT CONSULTING LLC	1,590,538
		CONTRACT CALLERS INC	97,681
		CSI INTERNATIONAL INC	3,695
		I B ABEL INC	9,019
		INCOHO CONSULTING LLC	37,182
		KORN FERRY HAY GROUP INC	125
		LANDIS & GYR TECHNOLOGY INC	89,937
		ORACLE AMERICA INC	1,212,437
		PAUL RESTALL COMPANY, INC	207
		PONTOON SOLUTIONS INC	283,121
		PRISTINE TOWER CO LLC	8,000
		RIGGS DISTLER & COMPANY INC	217,180
		RIGHT MANAGEMENT,INC	5,250
		SENSUS USA INC	3,536,217
		TYNDALE COMPANY, INC.	2,202
		VANTAGE LEADERSHIP CONSULTING, LLC	17,949
		WEEDS INC	400
		OTHER (1)	4,010
	Advertising Services	ICF RESOURCES LLC	20,000
		RECTOR COMMUNICATIONS INC	3,554
		TIERNEY COMMUNICATIONS	13,934
		STATISTA INC	13,230
		OTHER (1)	1,692
	Communication Services	RECTOR COMMUNICATIONS INC	34,976
		TIERNEY COMMUNICATIONS	17,067
		OTHER (1)	4,180
	IT Non Telecom Services	AMERICAN TOWER SYSTEMS, L.P.	17,853
		CENTER SQUARE VENTURES II LLC	40
		OTHER (1)	(17,894)
	IT Services	BLACK AND VEATCH MANAGEMENT CONSULTING LLC	37,415
		GE ENERGY MANAGEMENT SERVICES INC	19,921
		INCOHO CONSULTING LLC	53,240
		OLENICK AND ASSOCIATES	151,760
		PATRICK ENGINEERING INC	95,582
		PONTOON SOLUTIONS INC	81,382
		PROJETECH, INC	5,119
		PROTOTYPE DESIGN LLC	28,340

PECO Energy Company
Outside Services (FERC 923)
For the Year Ended December 31, 2017
Presentation Basis - Electric Distribution ONLY

Function	Service	Vendor	Total ($)
		RR DONNELLEY & SONS COMPANY	65,256
		TELVENT USA LLC	228,491
		WEST MONROE PARTNERS, LLC	13,622
		ABB ENTERPRISE SOFTWARE INC	2,566
		OTHER (1)	(1,416)
	Other Services	ACCRUALS AND REVERSALS	51,759
		CENERO LLC	165,070
		CSI INTERNATIONAL INC	1,189
		DELOITTE CONSULTING LLP	37,800
		DREXEL UNIVERSITY	98,930
		FLEISHMAN-HILLARD INC	6,392
		G&C ENVIRONMENTAL SERVICES INC	333,511
		GLOBAL RENTAL COMPANY INC.	(638)
		HIGHER THAN 7 PRODUCTIONS LLC	2,358
		IEI GROUP, LTD	6,294
		NORRISTOWN ZOOLOGICAL SOCIETY	202,715
		PAUL RESTALL COMPANY, INC	63,520
		PENNSYLVANIA CONFERENCE FOR WOMEN	761
		PONTOON SOLUTIONS INC	75,726
		RECTOR COMMUNICATIONS INC	40,821
		TALLEY MANAGEMENT GROUP INC	12,631
		TIERNEY COMMUNICATIONS	(91,327)
		MEYER DESIGN INC	13,282
		LANARD & AXILBUND COLLIERS INT	630
		THE AYCO COMPANY	53,564
		LAFATA CONTRACTING SERVICES	1,850
		GALLOP PRINTING	6,694
		ROUSSEY LTD	18,152
		IRON MOUNTAIN INFORMATION	93,468
		FIRST QUARTILE CONSULTING	22,933
		MARY W TREISBACH	2,381
		COMERICA BANK	3,402
		THE NASDAQ OMX GROUP INC	465
		ROBERT E DIETERS	9,394
		JR RESOURCES INC	1,936
		BLACK BOX CORPORATION OF PENNSYLVANIA	921
		LIFELINE MUSIC COALITION, INC.	381
		WTT TENNIS LLC	11,340
		REPLICA GLOBAL LLC	242
		MOODY'S ANALYTICS INC	16,936
		ECONSULT SOLUTIONS INC	1,134
		IRIS DESIGNS INC	7,368
		RADISSON-VALLEY FORGE HOTEL	49,349
		BLACKBAUD INC	20,388
		SAGUE AUTO SERVICE INC	287
		SOLAR ELECTRIC POWER ASSOC	(18,503)
		REED GROUP	1,838
		PAT THOMAS TOURS	3,772
		A. POMERANTZ & COMPANY	5,679
		NEI GLOBAL RELOCATION COMPANY	15,683
		MADELEINE B BRANN	342
		SAMANTHA HYMAN	342
		CHRIST CENTER INTERNATIONAL	4,166
		ESRI	7,407
		E SOURCE COMPANIES LLC	601
		DANA DIORIO BAND	1,522
		JAN HARGRAVE	6,323
		ITRON INC	10,090
		ALL4 INC	6,101
		HANGER CONSULTING	1,903
		OTHER (1)	173,218
	Security Services	CSI INTERNATIONAL INC	34
		ADMIRAL SECURITY SERVICES	496,930
Contracting, Services Total			10,172,576
DSP Expense (2)	Customer Referral Program	ALLCONNECT INC	671,820
	Program Administration - GSA Administrative Costs	AMORTIZATION	508,362
DSP Expense (2)			1,180,182
Grand Total			78,193,015

PECO Energy Company
Outside Services (FERC 923)
For the Year Ended December 31, 2017
Presentation Basis - Electric Distribution ONLY

Function	Service	Vendor	Total ($)

(1) Non-affiliate vendor charges of $1,000 or less are grouped and reported as Other

(2) Relates to administration costs of the Default Service Program which are recovered through the Generation Supply Adjustment.

Q. SDR-OM-17 Please describe each budgeted or planned cost savings program to be implemented during the present and subsequent year. Please identify the cost of implementing the program and the anticipated annual savings.

A. SDR-OM-17 PECO has limited the increase in O&M expense to 1.7% annually from 2016, when its current base rates became effective, through 2019. The increase in O&M expense is 0.4% annually over the same period after adjusting for variable expenses related to the reserve for major storms. Savings have been embedded through the Company's budgeting process, which sets O&M targets designed to control O&M growth, while providing funding to achieve operational goals and regulatory mandates. Examples of cost management improvement initiatives that have helped contain O&M growth are discussed in the direct testimony of Phillip S. Barnett, PECO Statement No. 2.

Q. SDR-OM-18 Please explain how the Company has treated reserve accruals and balances for ratemaking purposes and provide the requested level of any self-funded reserve accruals by type of item (e.g. injuries and damages).

A. SDR-OM-18 The Company's ratemaking claims are based on normalized levels of expense and revenue using the Company's budgeted test year data representing an estimate of the level of revenue and expense that will be incurred during the future test year ending (FTY) December 31, 2018 and during the fully projected future test year (FPFTY) ending December 31, 2019, and not reserve accruals or balances.

The budgeted levels were adjusted appropriately to reflect known and measurable changes anticipated to occur within the FTY and the FPFTY or, with respect to wage and salary increases, shortly after the end of the FPFTY.

Similarly, the Company's rate base claim is not based on a reserve accrual or balance methodology. For example, the Company's plant in service claim for the FPFTY (2019) is based on December 31, 2017 original cost plant balances, adjusted for plant additions expected to be placed in service during the FTY and the FPFTY.

For details, refer to PECO Statement No. 2, the direct testimony of Phillip S. Barnett, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. SDR-OM-19 Submit a listing of all amortization claims included in the total operation and maintenance expenses. Include the following information:

a. Total expense being amortized.
b. Length of amortization (months or years).
c. Remaining unamortized balance.
d. Commission Docket where amortization initially claimed or approved.

A. SDR-OM-19 Refer to Exhibits BSY-1 and BSY-2 and PECO Statement No. 3, the direct testimony of Benjamin S. Yin, for detail regarding AMI Program Expenses, CAP Arrearage, and Energy Efficiency and Demand Response regulatory programs and the treatment of the related amortization claims in the revenue requirement model. Refer to SDR-GEN-2 for the most recent FERC Form 1, page 232, for further detail regarding these and other programs not discussed in the direct testimony of Benjamin S. Yin.

SDR-OM-20
Page 1 of 1
Phillip S. Barnett

Q. SDR-OM-20 Provide the total amount of pension expense included in the future test year and explain the basis for the claim (e.g. FASB 87 or ERISA). Include a schedule of actual payments to the pension fund for the past five years.

A. SDR-OM-20 Pension costs for financial reporting purposes are based on ASC 715 (formerly FAS 87) and the total ASC 715 costs are allocated to capital and expense. The pension expense for electric distribution in 2018 and 2019 is $9,198,000 and $5,646,000, respectively.

The ratemaking expense claims of $11,825,000 in the FTY and $13,055,000 for the FPFTY are based upon a five-year average. The Company considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under the Employee Retirement Income Security Act of 1974, as amended (ERISA) and contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006 (the Act). Refer to Attachment SDR-OM-20(a) for further explanation of this claim.

Refer to Attachment SDR-OM-20(b) for a schedule of actual payments to the pension fund for the past five years.

PECO - Electric Operations
Before The Pennsylvania Public Utility Commission
Future Test Year Ended December 31, 2018
($ in Thousands)

Line No	Description	[1] Reference	[2] Amount	[4] Amount	[5] Total
	PENSION COSTS				
1	Pension Contribution in (per Towers Watson)				
2	2014		$ 11,384		
3	2015		40,421		
4	2016		29,781		
5	2017		23,545		
6	2018		23,898		
7	Average Pension Contribution	Sum (L2 to L6) / 5	$ 25,806		
8	Percent to Electric Distribution		72.19%		
9	Total Amount to Electric Distribution	L7 * L8		$ 18,628	
10	Pension Capitalization Factor		36.52%		
11	Pension Contribution To Be Capitalized	L9 * L10		$ 6,803	
12	Pension Contribution To Be Expensed	L9 - L11			$ 11,825

PECO - Electric Operations
Before The Pennsylvania Public Utility Commission
Fully Projected Future Test Year Ended December 31, 2019
($ in Thousands)

Line No	Description	[1] Reference	[2] Amount	[3] Amount	[4] Total
	PENSION COSTS				
1	Pension Contribution in (per Towers Watson)				
2	2015		$ 40,421		
3	2016		29,781		
4	2017		23,545		
5	2018		23,898		
6	2019		23,757		
7	Average Pension Contribution	Sum (L2 to L6) / 5	$ 28,280		
8	Percent to Electric Distribution		72.98%		
9	Total Amount to Electric Distribution	L7 * L8		$ 20,639	
10	Pension Capitalization Factor		36.74%		
11	Pension Contribution To Be Capitalized	L9 * L10		$ 7,584	
12	Pension Contribution To Be Expensed	L9 - L11			$ 13,055

PECO Distribution Payments to the Pension Fund
($ in thousands)

	2017	2016	2015	2014	2013
Pension	$ 16,908	$ 21,386	$ 29,027	$ 8,175	$ 8,491

SDR-OM-21
Page 1 of 1
Phillip S. Barnett

Q. SDR-OM-21 Please provide a copy of the Company’s most recent pension plan actuarial study.

A. SDR-OM-21 Exelon is the sponsor of the pension plans. PECO and Exelon’s other subsidiaries participate in the Exelon plans, which employ multiemployer accounting, and which require recording allocated costs and contributions in PECO’s financial statements. Exelon’s most recent actuarial study, which includes the forecasted allocation of costs and contributions to PECO and Exelon’s other subsidiaries, was prepared with data through December 31, 2017 and is dated March 14, 2018.

Refer to Confidential Attachment SDR-OM-21(a), which is the letter that accompanied the actuarial study, and Confidential Attachment SDR-OM-21(b), which contains the sections of the March 14, 2018 study that are applicable to PECO for 2018 and 2019. Note that information related to Exelon’s other subsidiaries has been redacted from Attachments SDR-OM-21(a) and (b).

Q. SDR-OM-22 Provide the following information with regards to the claim for rate case expenses:

a. A description of the estimated rate case expenses.
b. An explanation of and the supporting rationale for the claimed normalization period.
c. Provide a summary detailing expenses incurred to date. Update this response as additional invoices are received.

A. SDR-OM-22 Refer to PECO Exhibits BSY-1 and BSY-2, Schedule D-7, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin, for the response to parts a and b.

Refer to the table below for the summary showing the Company's 2018 Electric Rate Case expenses incurred as of February 28, 2018.

2018 Electric Rate Case Expense through February 28, 2018

Legal Support	$ 284,601
IT Support	25,663
Contracting Support	14,005
	$ 324,269

Q. SDR-OM-23 Supply the following information for the last five base rate filings:

a. Docket No.
b. Date filed.
c. Dates rates became effective.

A. SDR-OM-23 Refer to the information below for the applicable electric base rate cases:

Docket No.	Date Filed	Rate Effective Date
R-2015-2468981	3/27/2015	1/1/2016
R-2010-2161575	3/31/2010	1/1/2011
R-891364	7/21/1989	4/20/1990
R-850152	9/27/1985	6/27/1986
R-842590	4/27/1984	1/25/198

SDR-OM-24
Page 1 of 1
Benjamin S. Yin

Q. SDR-OM-24 Please provide a comparison of the estimated rate case expenses reflected in the Company’s filing with the actual expenses incurred by the Company’s last two rate cases according to the same categories.

A. SDR-OM-24 Schedule D-7 of PECO Exhibits BSY-1and BSY-2, for the fully projected future test year and future test year, respectively, contain estimated rate case expenses for the current case.

Actual rate case expenses for the Company's previous base rate case at Docket No. R-2015-2468981, which was filed in March 2015, are provided below:

(Thousand$)	
External Consultants	$289
External Legal	$772
Materials, IT Costs,	$118
Travel, Copies, Etc.	$150
Total	$1,329

Actual rate case expenses for the Company's base rate case prior to the previous case at Docket No. R-2010-2161575, which was filed in March 2010, are provided below:

(Thousand$)	
External Consultants	$812
External Legal	$614
Materials, IT Costs,	
Travel, Copies, Etc.	$7
Total	$1,433

Q. SDR-OM-25 Please explain what assumptions are made in the projected expenses for the FTY with regard to the level or number of employee vacancies. For example, are all budgeted positions assumed to be filled or is an historical average level of vacancies reflected?

A. SDR-OM-25 The Company includes a labor reduction in the budget for estimated vacancies throughout the year based on recent trends and current resource staffing plans. The Company's budget data was used as the basis for its future test year and fully projected future test year employee expense claims. Please refer to PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. SDR-OM-26 Please identify all budgeted employee positions for the FTY which are not currently filled. For each position, provide the wage expense included in the FTY, whether the position is a new position or a position vacated by the departure or transfer of a previous employee, and the date at which the position is expected to be filled.

A. SDR-OM-26 There are 17 budgeted distribution employee positions for the FTY that are not currently filled: (as of 1/31/2018):

Work Type	# Positions	Wage Exp in Budget	New or Vacated	Expected Date To Be Filled By
Field Ops	17	$1,584,740	Departure/Transfer	May 31st, 2018

As it is difficult to project what positions might remain open in 2019, PECO has prepared this response to address 2018 only.
The majority of open positions will be filled by members of the classes completing Energy Technician School in March 2018 and Aerial Line School in May 2018.

Q. SDR-OM-27 Please provide the following labor data for the preceding three calendar years and the current year-to-date including monthly data for most recent twelve months.

a. Number of budgeted and actual employees broken down between category type used by the Company (e.g. union, non-union, salaried, hourly, temporary, etc.);
b. Regular payroll broken down between expensed, capitalized, and other;
c. Overtime payroll broken down between expensed, capitalized, and other
d. Temporary payroll broken down between expensed, capitalized, and other; and
e. Other payroll (specify) broken down between expensed, capitalized and other.

A. SDR-OM-27

a. Refer to Table 1 in Attachment SDR-OM-27(a) for a comparison of PECO's actual and budgeted electric distribution employee headcount at December 31, 2015 and at December 31, 2016 and monthly for calendar year 2017 and YTD (January 2018).
Refer to Table 2 in Attachment SDR-OM-27(a) for PECO's actual electric distribution employee headcount shown separately for (1) salaried and hourly employees; and (2) unionized and non-unionized employees.
Temporary employees are not included in the Company's official headcount.
b. Refer to Attachment SDR-OM-27(b).
c. Refer to Attachment SDR-OM-27(b).
d. Refer to Attachment SDR-OM-27(b).
Payroll dollars for temporary employees are included within Base Payroll.
e. Refer to Attachment SDR-OM-27(b).

Table 1

PECO Distribution Headcount

Regular			
Yr/Month	Actual	Budget	Variance
Dec-15	1,780	1,747	(33)
Dec-16	1,840	1,880	41
Jan-17	1,816	1,882	66
Feb-17	1,829	1,882	53
Mar-17	1,834	1,875	41
Apr-17	1,825	1,875	50
May-17	1,823	1,882	58
Jun-17	1,837	1,882	45
Jul-17	1,832	1,878	46
Aug-17	1,828	1,879	51
Sep-17	1,862	1,879	17
Oct-17	1,876	1,879	3
Nov-17	1,886	1,880	(6)
Dec-17	1,886	1,882	(4)
Jan-18	1,881	1,878	(3)
Feb-18		1,883	
Mar-18		1,883	
Apr-18		1,902	
May-18		1,898	
Jun-18		1,893	
Jul-18		1,891	
Aug-18		1,888	
Sep-18		1,883	
Oct-18		1,880	
Nov-18		1,878	
Dec-18		1,877	
Jan-19		1,880	
Feb-19		1,881	
Mar-19		1,873	
Apr-19		1,872	
May-19		1,869	
Jun-19		1,879	
Jul-19		1,877	
Aug-19		1,875	
Sep-19		1,904	
Oct-19		1,901	
Nov-19		1,899	
Dec-19		1,898	

Temporary	
Yr/Month	Actual
Dec-15	63
Dec-16	57
Jan-17	57
Feb-17	52
Mar-17	50
Apr-17	65
May-17	73
Jun-17	85
Jul-17	86
Aug-17	121
Sep-17	62
Oct-17	70
Nov-17	65
Dec-17	65
Jan-18	63

Note: Temporary headcount is not included in the Company’s official headcount

Table 2

PECO Distribution Headcount

	Regular							**Temporary**			
	Salary/Hourly				**Non-Union/Union**						
Actual / Budget	Yr/Month	Total	Salaried	Hourly	Total	Non-Union	Union	Yr/Month	Total	Non-Union	Union
Actual	Dec-15	1,780	687	1,093	1,780	868	912	Dec-15	63	54	9
Actual	Dec-16	1,840	730	1,110	1,840	913	926	Dec-16	57	53	5
Actual	Jan-17	1,816	719	1,097	1,816	899	916	Jan-17	57	53	4
Actual	Feb-17	1,829	718	1,111	1,829	900	929	Feb-17	52	52	-
Actual	Mar-17	1,834	719	1,115	1,834	899	935	Mar-17	50	50	-
Actual	Apr-17	1,825	714	1,111	1,825	894	930	Apr-17	65	65	-
Actual	May-17	1,823	711	1,113	1,823	891	932	May-17	73	71	2
Actual	Jun-17	1,837	723	1,114	1,837	903	934	Jun-17	85	83	2
Actual	Jul-17	1,832	726	1,106	1,832	912	920	Jul-17	86	83	3
Actual	Aug-17	1,828	728	1,100	1,828	912	916	Aug-17	121	118	3
Actual	Sep-17	1,862	731	1,131	1,862	916	946	Sep-17	62	60	2
Actual	Oct-17	1,876	734	1,142	1,876	920	956	Oct-17	70	68	2
Actual	Nov-17	1,886	743	1,143	1,886	930	956	Nov-17	65	63	2
Actual	Dec-17	1,886	743	1,143	1,886	930	956	Dec-17	65	63	2
Actual	Jan-18	1,881	744	1,137	1,881	931	950	Jan-18	63	61	2
Budget	Dec-15	1,747	682	1,065	1,747	856	891				
Budget	Dec-16	1,880	745	1,135	1,880	934	947				
Budget	Jan-17	1,882	747	1,135	1,882	934	948				
Budget	Feb-17	1,882	742	1,140	1,882	929	953				
Budget	Mar-17	1,875	740	1,135	1,875	923	952				
Budget	Apr-17	1,875	736	1,139	1,875	921	953				
Budget	May-17	1,882	735	1,147	1,882	921	961				
Budget	Jun-17	1,882	743	1,139	1,882	926	956				
Budget	Jul-17	1,878	744	1,134	1,878	934	944				
Budget	Aug-17	1,879	747	1,131	1,879	935	943				
Budget	Sep-17	1,879	743	1,136	1,879	928	951				
Budget	Oct-17	1,879	738	1,141	1,879	923	955				
Budget	Nov-17	1,880	741	1,139	1,880	927	953				
Budget	Dec-17	1,882	742	1,140	1,882	928	954				
Budget	Jan-18	1,878	743	1,135	1,878	927	952				

Note: Temporary headcount is not included in the Company’s official headcount

PECO
Distribution Labor Data
(Thousands of Dollars)

	2015 Actual	2016 Actual	2017 Actual
Capital Base Payroll	$ 51,304	$ 56,628	$ 56,638
Capital Overtime	15,090	16,618	16,344
Capital Pensions & Benefits	17,314	17,721	16,122
Expense Base Payroll	108,427	112,332	116,417
Expense Overtime	22,749	23,366	24,505
Expense Pensions & Benefits	36,064	34,457	32,757
Total	**$ 250,948**	**$ 261,122**	**$ 262,783**

Notes: Payroll dollars for temporary employees are included within Base Payroll

Q. SDR-OM-28 Please provide a copy of all incentive/bonus plans and provide the level of such expenses for the preceding three calendar years and included in the FTY.

(Specific information by individual should be treated in a confidential manner.)

A. SDR-OM-28 Refer to the enclosed attachments:

Confidential Attachment SDR-OM-28(a) - 2015 Annual Incentive Plan for all PECO employees below executive.
Confidential Attachment SDR-OM-28(b) - 2015 Key Performance Indicators for PECO goal groups.
Confidential Attachment SDR-OM-28(c) - 2015 Annual Incentive Plan for those represented by a collective bargaining agreement.
Confidential Attachment SDR-OM-28(d) - 2015 Restricted Stock Program.
Confidential Attachment SDR-OM-28(e) - 2015 Long-Term Performance Program.
Confidential Attachment SDR-OM-28(f) - 2015-2017 Performance Share Award Program.
Confidential Attachment SDR-OM-28(g) - 2015-2017 Long-Term Performance Cash Award Program.
Confidential Attachment SDR-OM-28(h) - 2016 Annual Incentive Plan for those represented by a collective bargaining agreement.
Confidential Attachment SDR-OM-28(i) - 2016 Annual Incentive Plan for all PECO employees below executive.
Confidential Attachment SDR-OM-28(j) - 2016 Key Performance Indicators for PECO goal groups.
Confidential Attachment SDR-OM-28(k) - 2016 Restricted Stock Program.
Confidential Attachment SDR-OM-28(l) - 2016 Long-Term Performance Program.
Confidential Attachment SDR-OM-28(m) - 2016-2018 Performance Share Award Program.
Confidential Attachment SDR-OM-28(n) - 2016-2018 Long-Term Performance Cash Award Program.

Confidential Attachment SDR-OM-28(o) - 2017 Annual Incentive Plan for all PECO employees below executive.
Confidential Attachment SDR-OM-28(p) - 2017 Key Performance Indicators for PECO goal groups.
Confidential Attachment SDR-OM-28(q) - 2017 Annual Incentive Plan for those represented by a collective bargaining agreement.
Confidential Attachment SDR-OM-28(r) - 2017 Restricted Stock Program.
Confidential Attachment SDR-OM-28(s) - 2017 Long-Term Performance Program.
Confidential Attachment SDR-OM-28(t) - 2017-2019 Performance Share Award Program.
Confidential Attachment SDR-OM-28(u) - 2017-2019 Long-Term Performance Cash Award Program.

2018 Incentive information will not be available until April/May.

The incentive/bonus expenses (non-capitalized) allocated for Electric Distribution for 2015 – 2017 were $18,414,000, $21,768,000 and $20,952,000 respectively.

The incentive/bonus expenses for 2018 and 2019 are $16,711,000 and $16,890,000 respectively.

THE ATTACHMENTS ARE CONFIDENTIAL AND ARE SUBMITTED ONLY IN THE NON-PUBLIC VERSION OF THIS RESPONSE FILED WITH THE COMISSION.

Q. SDR-OM-29 Please provide the percentage wage rate increases granted by the Company by date and employee classification for the preceding three calendar years and the current year-to-date.

(Specific information by individual should be treated in a confidential manner.)

A. SDR-OM-29 The data below shows the average wage increases for hourly employees and the average merit increases for management employees.

	Average Wage Increase for Hourly Employees	Average Merit Increase Pool for Management Employees
2015	2.5%	2.5%
2016	2.5%	2.5%
2017	2.5%	2.5%
2018	2.5%	2.5%

Q. SDR-OM-30	Please identify the amount of overtime and show the percent of payroll for each of the two preceding calendar years.
A. SDR-OM-30	Overtime expense as a percentage of payroll is shown below for the two preceding calendar years.

	2016	2017
Overtime ($1,000's)	$23,366	$24,505
OT % of Payroll	17.2%	17.4%

Q. SDR-OM-31 Provide the average starting salary for union, non-union, and the Company as a whole including the supporting calculations.

A. SDR-OM-31 The average starting annual earnings for unionized employees is as follows:

Union (2018)	$50,920*
Union (2019)	$52,196*

Starting wages and salaries for non-unionized employees vary depending on the level of experience and market-reference range for the appropriate job classification. Therefore, a standard starting salary is not available.

*See the table below for the calculations supporting the determination of average starting earnings for unionized positions. Average annual earnings were calculated based on 2080 hours per work year and average hourly wage rates of $24.48 and $25.09 for 2018 and 2019 respectively.

		1/1/2018		1/1/2019	
Title	**Grade**	**Starting Hourly Wage**	**Starting Annual Earnings**	**Starting Hourly Wage**	**Starting Annual Earnings**
Billing Consultant	NE1	$15.76	$32,781	$16.15	$33,592
Customer Service Center Clerk	NE1	$10.42	$21,674	$10.68	$22,214
Equipment Update Clerk	NE1	$16.23	$33,758	$16.64	$34,611
Mapping Records Clerk	NE1	$16.23	$33,758	$16.64	$34,611
Materials Process Clerk	NE1	$16.23	$33,758	$16.64	$34,611
Meter Process Clerk	NE1	$16.23	$33,758	$16.64	$34,611
Work Process Clerk	NE1	$16.23	$33,758	$16.64	$34,611
Corporate Operator (Customer Consultant II)	NE1	$13.50	$28,080	$13.84	$28,787
Contractor Liaison	NE2	$19.36	$40,269	$19.84	$41,267
Customer Consultant	NE2	$16.68	$34,694	$17.10	$35,568
Customer Consultant-PT	NE2	$16.68	$34,694	$17.10	$35,568
High Bill Consultant	NE3	$24.97	$51,938	$25.59	$53,227
Small Business Consultant	NE3	$20.75	$43,160	$21.27	$44,242
Facilities Drafter	NE3	$21.00	$43,680	$21.53	$44,782
Engineering Assistant	NE3	$24.99	$51,979	$25.61	$53,269
Lab Tech	NE3	$25.87	$53,810	$26.52	$55,162
Design & Construction Consultant	NE4	$26.75	$55,640	$27.42	$57,034
Metering DCC	NE4	$26.75	$55,640	$27.42	$57,034
Designer	NE4	$26.75	$55,640	$27.42	$57,034
Maintenance Assistant	NE4	$47.95	$99,736	$49.15	$102,232
Designer T&S	NE4	$29.87	$62,130	$30.62	$63,690
Line School Apprentice	P2D	$21.29	$44,283	$21.82	$45,386
Plant Mechanic B	P2G	$21.29	$44,283	$21.82	$45,386
Engineering Tech C	P4I	$28.34	$58,947	$29.05	$60,424
Tech Maintenance C	P41	$28.34	$58,947	$29.05	$60,424
Energy Tech (Entry)	P2A	$21.29	$44,283	$21.82	$45,386
Revenue Protection Technician	P5E	$36.34	$75,587	$37.25	$77,480
Tool Mechanic	P4H	$27.80	$57,824	$28.50	$59,280
Equipment Operator Helper	P1A	$18.22	$37,898	$18.68	$38,854
Truck Driver	P3	$24.21	$50,357	$24.82	$51,626
Equipment Operator Transportation	P5	$31.13	$64,750	$31.91	$66,373
General Utility Worker	P2	$18.20	$37,856	$18.66	$38,813
General Facilities Mechanic	P4	$39.64	$82,451	$40.63	$84,510
Facilities PM Technician	P5	$43.59	$90,667	$44.68	$92,934
High Rise Mechanic	P6	$47.95	$99,736	$49.15	$102,232
Union Average		$24.48	$50,920	$25.09	$52,196

Notes

Starting hourly wages were obtained from the 2015-2021 Collective Bargaining Agreements between PECO and Local 614 of the IBEW.

Q. SDR-OM-32 Provide the operation and maintenance expense allocation percentage for payroll and benefits.

A. SDR-OM-32 Refer to Attachment SDR-OM-32(a).

PECO Energy Company

Presentation Basis: Electric Distribution Only

Payroll Data

(In Thousands)

	2017
Operating and Maintenance Expense	$ 158,815
Capital	79,138
Balance at end of year	$ 237,953
Percentage Charged to Operation and Maintenance Expense	**66.74%**

Benefits Data

(In Thousands)

	2017
Operating and Maintenance Expense	$ 31,913
Capital	17,567
Balance at end of year	$ 49,480
Percentage Charged to Operation and Maintenance Expense	**64.50%**

Notes: (1) Benefits include fringe benefits (Medical, Dental, Vision, 401K, and other benefit plans) and Pension/Post-Retirement benefits.

Q. SDR-OM-33 Provide an explanation of the budgeting process for payroll.

A. SDR-OM-33 Payroll is budgeted on the basis of the headcount reflected in the staffing plans approved by the PECO CEO and Vice President of Human Resources. That headcount is reduced by a vacancy rate for positions that may be unfilled at any point in time over the course of a year. The result is the net headcount, which is entered into the budget system at the department and position level. Next, the current average labor rates are entered into the budget system by job level, as adjusted for projected wage increases. The headcount and labor rates generate the total payroll. The net headcount is then assigned to specific projects based on the budgeted work plan. This process assures that the work force is fully and properly utilized and also splits the payroll among capital, O&M.

SDR-OM-34
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Q. SDR-OM-34 Please identify the amount of postretirement benefits expenses under SFAS No. 106 which were recorded in the historical test year and are projected for the future test year. Please identify the total amount and the portion charged to O&M. Explain how the future test year expense was projected.

A. SDR-OM-34 Refer to Attachment SDR-OM-34(a) for 2017, 2018 and 2019.

PECO Energy
Postretirement Benefits Other than Pension ASC 715 (formerly SFAS No. 106) Costs
(in thousands)

	For the years ended December 31,		
	2017 Historical Test Year	2018 Future Test Year	2019 Fully Projected Future Test Year
Total Postretirement Benefit Other than Pension Costs	$ (19) A	$ (1,464) A	$ (1,180) A
Operating & Maintenance			
Electric Distribution	$ (11) B	$ (668) B	$ (538) B
Electric Transmission	(1)	(78)	(62)
Gas	(3)	(186)	(147)
Total Operating & Maintenance	$ (15)	$ (932)	$ (747)
Total Capital	$ (4)	$ (532)	$ (433)
Total Company Activity - Operating & Maintenance and Capital	$ (19)	$ (1,464)	$ (1,180)
Total Company Costs per Towers Watson	$ (19)	$ (1,464)	$ (1,180)
Variance	*$ (0)*	*$ -*	*$ -*

A - The OPEB costs are based on acturial studies done by Towers Watson for PECO
B - The above costs were allocated based on PECO's labor profile.

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Q. SDR-OM-35 Please provide a copy of the Company's most recent SFAS No. 106 actuarial report.

A. SDR-OM-35 Exelon is the sponsor of the postretirement plans. PECO and Exelon's other subsidiaries participate in the Exelon plans, which employ multiemployer accounting, and which require recording allocated costs and contributions in PECO's financial statements. Exelon's most recent actuarial study, which includes the forecasted allocation of costs and contributions to PECO and the other subsidiaries, was prepared with data through December 31, 2017 and is dated March 14, 2018.

Refer to Confidential Attachment SDR-OM-21(a), which is the letter that accompanied the actuarial study, and Confidential Attachment SDR-OM-21(b), which is a copy of the sections of the March 14, 2018 study that are applicable to PECO for 2018 and 2019. Note that information related to Exelon's other subsidiaries has been redacted from Attachments SDR-OM-21 (a) and (b).

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Q. SDR-OM-36 Please reconcile the historical and future test year Accounting Standards Codification (ASC) 715 (formerly SFAS No. 106) postretirement benefits other than pension expense levels with the amount identified in the actuarial report.

A. SDR-OM-36 Refer to the attachment to the response to SDR-OM-34(a).

Q. SDR-OM-37	Please identify the actual or projected amounts contributed to Accounting Standards Codification (ASC) 715 (formerly SFAS No. 106) postretirement benefits other than pension funds for the historic and future test years. Identify the actual or projected dates and amounts of the contributions.
A. SDR-OM-37	Refer to Attachment SDR-OM-37(a) for total Company contributions.

PECO Energy

Attachment SDR-OM-37(a)

Postretirement Benefits Other than Pension ASC 715 (formerly SFAS No. 106) Contributions
(in thousands)

	For the Years Ended December 31,		
	2017 Actuals	**2018 Projected**	**2019 Projected**
Total Company PBOP Contributions	$ -	$ 2	$ 2

Q. SDR-OM-38 Please explain the funding options or plans which are being used for SFAS No. 106 costs. Identify the portion of the costs which are eligible for tax preferred funding.

A. SDR-OM-38 The two tax preferred trusts used to fund post-retirement benefits are the Medical/Dental Trust and the Life Insurance Trust. The Life Insurance Trust is used to pay life insurance benefits and the Medical/Dental Trust is used to pay medical and dental benefits. The 401(h) account that was previously used to fund post-retirement medical and dental benefits was fully utilized as of 11/30/2015.

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Q. SDR-OM-39 Is the Company studying and/or anticipating any changes to its postretirement benefits offered to employees as a result of SFAS No. 106 or for other reasons? If yes, please provide such study and/or explain the anticipated change.

A. SDR-OM-39 PECO stopped offering other post-employment benefits (OPEBs) (retiree healthcare and life insurance) to most non-represented employees hired on or after January 1, 2018, and stopped offering retiree health care benefits to employees represented by Local 614 of the IBEW hired on or after January 1, 2018, in accordance with the Company’s collective bargaining agreements with that bargaining unit. At this time, the Company is not anticipating any additional changes with regard to OPEB eligibility for its employees. The Company will continue to regularly review the competitiveness and cost of its postretirement benefits as part of its ongoing efforts to assess whether changes should be made to these benefits; however, no additional changes are being considered at this time.

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Q. SDR-OM-40 Identify the total revenues for the year in which bad debt write-offs for the preceding three calendar years are associated. If the Company relates bad debts to other than total sales to ultimate customers, please specify what revenues are utilized.

A. SDR-OM-40

Billed Revenue (PECO & EGS)
($000)

Type	2017	2016	2015	
PECO [1]	2,138,790	2,307,283	2,290,159	
EGS Billings	[2]	1,150,508	1,222,377	1,280,132
Total	3,289,298	3,529,660	3,570,291	

1. Amounts billed by PECO for distribution service and default service.
2. Amounts billed by PECO on behalf of EGSs pursuant to EGS consolidated billing.

Q. SDR-OM-41 Provide the following information, for the future test year and the three previous years, by customer class:

a. Total gross write-offs of uncollectible accounts.
b. Total recoveries of uncollectible accounts.
c. Net write-offs of uncollectible accounts.
d. Total revenues.

A. SDR-OM-41 Refer to attachment SDR-OM-41(a)

PECO - Electric
2019 Charge-Off Analysis (excluding Late Payment Charges)
2018 Rate Case

	B+C A Gross Write Offs	**B Recoveries**	**C Net Write Offs**	**D Billed Revenue PECO & Supplier**
Residential				
Residential	35,293,498	12,440,385	22,084,954	1,980,919,079
In-Program Arrearage Forgiveness Program*	3,518,994	63,949	3,347,563	
Commercial				
LC&I	569,929	195,217	362,658	561,261,953
SC&I	2,177,387	594,624	1,546,046	720,719,012
Other				
Railroads	-	-	-	11,031,205
Street Lighting	2,694	-	2,694	27,690,786
Not Specified	-	-	-	-
Total of Rate Schedules	41,562,502	13,294,175	27,343,915	3,301,622,035

*The amounts relate to the in-program arrearage forgiveness program (Docket No. M-2012-2290911). All associated billings are previously included within residential billings.

	B+C A Gross Write Offs	B Recoveries	C Net Write Offs	D Billed Revenue PECO & Supplier
Residential				
Residential	35,673,319	12,356,941	22,553,372	1,942,789,664
In-Program Arrearage Forgiveness Program*	4,668,903	63,520	4,463,417	
Commercial				
LC&I	576,231	193,908	370,350	553,271,645
SC&I	2,205,943	590,636	1,578,837	715,851,806
Other				
Railroads	-	-	-	9,556,388
Street Lighting	2,751	-	2,751	25,809,881
Not Specified	-	-	-	-
Total of Rate Schedules	43,127,148	13,205,004	28,968,727	3,247,279,384

*The amounts relate to the in-program arrearage forgiveness program (Docket No. M-2012-2290911). All associated billings are previously included within residential billings.

	B+C **A** **Gross Write Offs**	**B** **Recoveries**	**C** **Net Write Offs**	**D** **Billed Revenue PECO & Supplier**
Residential				
Residential	39,392,525	14,539,224	24,853,301	1,946,046,752
In-Program Arrearage Forgiveness Program*	7,101,613	225,136	6,876,477	
Commercial				
LC&I	1,286,205	91,670	1,194,534	724,653,462
SC&I	2,426,253	745,449	1,680,804	583,775,509
Other				
Railroads	-	-	-	9,529,473
Street Lighting	5,461	-	5,461	25,293,194
Not Specified	-	-	-	-
Total of Rate Schedules	50,212,057	15,601,480	34,610,577	3,289,298,389

*The amounts relate to the in-program arrearage forgiveness program (Docket No. M-2012-2290911). All associated billings are previously included within residential billings.

	B+C A Gross Write Offs	**B Recoveries**	**C Net Write Offs**	**D Billed Revenue PECO & Supplier**
Residential				
Residential	52,227,882	15,587,153	36,640,729	2,111,761,885
In-Program Arrearage Forgiveness Program*	187,327	7	187,319	
Commercial				
LC&I	635,735	556,762	78,973	617,509,321
SC&I	3,234,871	610,801	2,624,070	789,200,642
Other				
Railroads	-	-	-	10,169,349
Street Lighting	3,523	-	3,523	28,687,506
Not Specified	-	-	-	
Total of Rate Schedules	56,289,337	16,754,724	39,534,613	3,557,328,702

*The amounts relate to the in-program arrearage forgiveness program (Docket No. M-2012-2290911). All associated billings are previously included within residential billings.

	B+C A Gross Write Offs	B Recoveries	C Net Write Offs	D Billed Revenue PECO & Supplier
Residential				
Residential	60,734,335	15,383,878	45,350,457	2,138,945,158
Commercial				
LC&I	93,214	80,529	12,685	621,476,479
SC&I	4,018,265	813,033	3,205,232	810,438,734
Other				
Railroads	-	-	-	9,349,691
Street Lighting	2,445	-	2,445	27,810,160
Not Specified	-	-	-	
Total of Rate Schedules	64,848,259	16,277,440	48,570,818	3,608,020,223

Q. SDR-OM-42 Please provide a comparison of the actual and budgeted vegetation control/tree trimming costs for the preceding two calendar years. Explain any variance in excess of 10%.

A. SDR-OM-42 Shown below is a comparison of the 2016-2017 actual and budgeted vegetation control/tree trimming costs.

Year	Budget	Actual	Variance	Variance %
2016	41,139,223	42,075,965	(936,742)	-2%
2017	41,233,123	42,857,376	(1,624,253)	-4%

There are no variances in excess of 10%.

Q. SDR-OM-43 Please identify the budgeted level of tree trimming costs for the FTY.

A. SDR-OM-43 The budgeted Electric Distribution vegetation control/tree trimming costs are $43,808,152 for 2018 and $47,504,496 for 2019, which includes $2.0 million in 2018 and $5.0 million in 2019 for emerald ash borer tree removal, as discussed in Mr. Innocenzo’s direct testimony.

Q. SDR-OM-44 Please provide all workpapers and supporting documentation, to the extent not otherwise provided, for the adjustments to rate base and operating income reflected in the Company’s filing.

A. SDR-OM-44 Refer to Exhibit BSY-1, Exhibit BSY-2, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. SDR-RB-1

a. Provide a detailed explanation of the Procedures utilized to determine the level of Total Rate Base Elements.

b. Explain in detail the test that the Company utilized to ensure that non used and useful plant was eliminated from its claim.

A. SDR-RB-1

a. Refer to PECO Exhibits BSY-1 and BSY-2, Schedules C-1 to C-12, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin, for the procedures utilized to determine the level of total rate base elements for the test year.

b. To ensure that only plant used in utility operations is included in the current proceeding, the PECO Plant Accounting Department works with operations to perform a detailed review of assets before they are placed in service (moved from account 107 to account 106) and again before the assets are unitized (moved from account 106 to account 101). Additionally, PECO Plant Accounting holds formal annual meetings with representatives of PECO's Real Estate Department to discuss the classification of PECO's land assets. The focus of these meetings includes the review of PECO's Plant Held for Future Use and Non-Utility Plant to identify any changes in status of that property. This assessment also involves potential changes to the classification of utility property. Land that is not used and useful in the Company's utility business is recorded in either account 105, Plant Held for Future Use, or account 121, Non-Utility Plant. Neither of these accounts is included in the Company's claim.

Q. SDR-RB-2 Please provide a detailed comparison of actual and budgeted construction expenditures for the preceding three calendar years and the current year-to-date. Update as additional data become available.

A. SDR-RB-2 Shown below is a comparison of 2015–2017 and year to date January 2018 actual and budgeted electric distribution capital expenditures.

	Actual	Plan	Variance	
2015	367,263,009	355,903,332	(11,359,677)	(1)
2016	405,115,793	331,949,600	(73,166,193)	(2), (5)
2017	466,076,609	474,837,867	8,761,258	(3)
1/31/2018	35,483,124	31,055,424	(4,427,700)	(4)

(1) 2015 actual spend was $11.4M greater than planned primarily due to Smart Grid / Smart Meter deployment, corrective maintenance, and a June storm.

(2) 2016 actual spend was $73.2M greater than planned primarily due to implementation of electric LTIIP, corrective maintenance, and IT projects.

(3) 2017 actual spend was $8.8M less than planned primarily due to the timing of IT project spending.

(4) January 2018 spend was $4.4M greater than planned primarily due to corrective maintenance and the timing of IT project spending.

(5) 2016 Budget in the above table matches the amount presented in the 2015 Distribution Rate Case Filing. Refer to Exhibit PSB-2. The final Board of Directors approved budget was $394M due to the addition of the LTIIP and other distribution items.

SDR-RB-3
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Q. SDR-RB-3 Please provide a detailed comparison by function of actual and budgeted plant additions and retirements for the preceding three calendar years and the current year-to-date. Update as additional data become available.

A. SDR-RB-3 For periods covered in this response, plant additions were estimated in the manner described in the response to V-A-3. PECO does not budget plant retirements.

Refer to Attachment SDR-RB-3(a) for 2015 through 2017 and current year-to-date actual and budgeted plant additions by function.

PECO Energy Company
Actual -vs Budget Plant Additions by Function
(in millions)

Function	Actual	Budget	Variance	
2015	$ 306,521,321	$ 274,208,165	$ (32,313,156)	
2016	$ 297,123,850	$ 319,370,674	$ 22,246,824	
2017	$ 400,075,855	$ 407,636,206	$ 7,560,351	
2018 YTD (As of 01/31/18)	$ 26,130,574	$ 50,634,710	$ 24,504,136	A

A - Variance due to timing of capital additions to occur later in the year

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Q. SDR-RB-4 For each future test year plant addition of greater than $100,000, provide a schedule showing: a complete description of the project, anticipated retirements related to the plant addition, budgeted cost of total project, starting date of project and original anticipated in-service date.

A. SDR-RB-4 PECO does not forecast monthly plant additions and retirements at either a project or utility account level of detail.

Refer to V-A-3 for an explanation of the methodology used to forecast plant additions and retirements for the fully projected future test year and the future test year.

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Q. SDR-RB-5 Provide a schedule of the total cost of plant additions and retirements by plant account for each quarter of the historic test year and Company's estimated quarterly plant additions and retirements for the future (pro forma) test year. Also, provide the Company's projected capital additions and/or construction expenditures for the two calendar years subsequent to the future test year.

A. SDR-RB-5 Refer to Attachment SDR-RB-5(a) for the total cost of additions and retirements by plant account for each quarter of the historic test year (2017)

Refer to Attachment SDR-RB-5(b) for estimated quarterly plant additions for the future test year (2018) and fully projected future test year (2019). Retirements are estimated using a three-year average at the account level. Years 2015 - 2017 were used to calculate the average.

Refer to Attachment SDR-RB-5(c) for the Company's projected capital additions for the two calendar years subsequent to the fully projected future test year (2020 and 2021).

Attachment SDR-RB-5(a)
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PECO
Plant In Service Additions and Retirements
Quarterly as of 12/31/2017

Product	func_class	Utility Account	end_month 03/2017 Sum of additions	Sum of retirements	06/2017 Sum of additions	Sum of retirements	09/2017 Sum of additions	Sum of retirements	12/2017 Sum of additions	Sum of retirements	Total Sum of additions	Total Sum of retirements
Common	**PECO Common - General Plant**	301 Organization	-	-	-	-	-	-	-	-	-	-
		303 Software	2,007,644	(4,324,919)	1,528,359	-	2,160,300	-	8,839,025	-	14,535,328	(4,324,919)
		389 Land and Land Rights	-	-	-	-	-	-	-	-	-	-
		390 Structures and Improvements	1,283,730	(3,378)	4,212,074	(106,159)	110,355	(35,545)	6,426,489	(4,266)	12,032,647	(149,349)
		391 Office Furniture and Equipment	4,071,267	-	683,921	-	797,722	(6,221,198)	10,538,539	-	16,091,450	(6,221,198)
		392 Automobiles	-	-	-	(28,835)	-	-	-	-	-	(28,835)
		392 Heavy Trucks	787,649	-	795,811	(1,723,047)	2,250,322	-	2,275,974	(1,084,835)	6,109,755	(2,807,883)
		392 Light Trucks	219,663	-	1,019,141	(1,481,439)	323,413	-	1,105,870	(1,248,813)	2,668,086	(2,730,253)
		392 Medium Trucks	108,986	-	660,903	-	210,616	-	3,368,309	-	4,348,813	-
		392 Other transprttn (off road)	-	-	-	(57,396)	-	-	118,132	-	118,132	(57,396)
		392 Tractors	-	-	-	-	-	-	-	(74,306)	-	(74,306)
		392 Trailers	315,729	-	(367,132)	(98,412)	16,574	-	34,474	(7,509)	(356)	(105,922)
		393 Stores Equipment	-	-	-	-	-	-	465,251	-	465,251	-
		394 Construction Tools	-	-	-	-	-	-	-	-	-	-
		394 Garage Equipment	3,990	-	3,990	-	11,987	(144,813)	214,419	-	234,386	(144,813)
		396 Power Operated Equipment	-	-	-	-	-	-	-	-	-	-
		397 Communication Equipment	77,636	-	998	-	5,593	-	55,584	-	139,811	-
		398 Miscellaneous Equipment	-	-	-	-	-	-	-	-	-	-
		399 Other Tangible Property	-	-	-	-	-	-	-	-	-	-
		399.1 Asset Retirement Costs	-	(2,266)	-	(21,320)	-	-	-	(1,370)	-	(24,955)
	PECO Common - General Plant Total		**8,876,293**	**(4,330,563)**	**8,538,064**	**(3,516,608)**	**5,886,881**	**(6,401,557)**	**33,442,065**	**(2,421,100)**	**56,743,302**	**(16,669,828)**
Common Total			**8,876,293**	**(4,330,563)**	**8,538,064**	**(3,516,608)**	**5,886,881**	**(6,401,557)**	**33,442,065**	**(2,421,100)**	**56,743,302**	**(16,669,828)**
Electric	**PECO Electric - Distribution Plant**	360 Land and Land Rights	59,928	-	110,092	-	58,876	-	72,370	-	301,265	-
		361 Structures and Improvements	266,538	(41,139)	1,452,246	(25,083)	3,673,849	(15,715)	5,803,095	-	11,195,728	(81,937)
		362 Station Equipment	10,562,129	(163,144)	8,669,827	(745,924)	3,621,716	(111,691)	20,965,760	(217,237)	43,819,432	(1,237,996)
		364 Poles, Towers and Fixtures	6,343,234	(826,949)	5,541,970	(649,596)	7,528,723	(1,099,568)	12,019,883	(826,310)	31,433,810	(3,402,423)
		365 Overhead Conductors & Devices	15,457,292	(1,385,277)	12,595,576	(1,057,579)	(777,096)	(2,280,259)	28,367,754	(1,268,482)	55,643,525	(5,991,597)
		366 Underground Conduit	5,124,835	(127,028)	3,884,711	(124,886)	7,173,779	(225,584)	2,088,367	(65,015)	18,271,691	(542,512)
		367 Underground Conductors & Devices	11,586,884	(1,757,509)	13,663,252	(3,862,981)	19,279,463	(3,057,917)	31,951,618	(2,512,467)	76,481,216	(11,190,873)
		368 Line Transformers	4,861,528	(1,840,479)	4,689,014	(1,665,214)	3,764,682	(2,219,467)	6,539,147	(1,748,527)	19,854,370	(7,473,687)
		369 Services	1,908,226	(107,260)	2,362,236	(143,127)	2,009,305	(78,729)	2,456,567	(88,660)	8,736,336	(417,776)
		370 Meters	1,398,926	(6,340)	1,628,193	(106)	1,745,262	(523)	3,063,859	(417)	7,836,240	(7,386)
		371 Installations on Customer Premises	-	-	-	-	-	-	-	-	-	-
		373 Street Lighting and Signal Systems	431,653	(162,004)	1,994,084	(104,208)	613,417	(117,329)	4,418,935	(282,032)	7,458,090	(665,573)
		374 Asset Retirement Costs for Distribution Plant	-	3,835	-	(3,955)	-	(4,632)	-	(8,667)	-	(13,419)
	PECO Electric - Distribution Plant Total		**58,001,174**	**(6,413,294)**	**56,591,199**	**(8,382,659)**	**48,691,976**	**(9,211,414)**	**117,747,355**	**(7,017,814)**	**281,031,703**	**(31,025,179)**
	PECO Electric - General Plant	389 Land and Land Rights	-	-	-	-	-	-	-	-	-	-
		390 Structures and Improvements	60,627	-	(41,598)	(3,702)	35,265	-	1,058,519	-	1,112,813	(3,702)
		391 Office Furniture and Equipment	1,710,005	-	3,086,938	-	49,464	(2,011,977)	1,847,701	-	6,694,108	(2,011,977)
		393 Stores Equipment	-	-	-	-	-	-	-	-	-	-
		394 Tools, Shop & Garage Equipment	769,686	-	2,061,748	-	(100,150)	(889,361)	1,050,423	-	3,781,707	(889,361)
		395 Laboratory Equipment	-	-	-	-	-	-	-	-	-	-
		397 Communication Equipment	2,790,135	(8,570)	4,855,293	(2,835,810)	1,806,960	-	4,034,995	-	13,487,382	(2,844,380)
		398 Miscellaneous Equipment	-	-	-	-	-	(382,607)	-	-	-	(382,607)
		399.1 Asset Retirement Costs	-	-	-	-	-	-	1,226,404	(24,623)	1,226,404	(24,623)
	PECO Electric - General Plant Total		**5,330,453**	**(8,570)**	**9,962,381**	**(2,839,513)**	**1,791,538**	**(3,283,945)**	**9,218,041**	**(24,623)**	**26,302,414**	**(6,156,650)**
	PECO Electric - Intangible Plant	302 Franchises and Consents	-	-	-	-	-	-	-	-	-	-
		303 Miscellaneous Intangible Plant	13,065,073	(1,071,505)	3,592,989	(525,461)	2,839,785	-	5,469,191	-	24,967,039	(1,596,965)
	PECO Electric - Intangible Plant Total		**13,065,073**	**(1,071,505)**	**3,592,989**	**(525,461)**	**2,839,785**	**-**	**5,469,191**	**-**	**24,967,039**	**(1,596,965)**
	PECO Electric - Transmission Plant	350 Land and Land Rights	-	-	-	-	-	-	-	-	-	-
		352 Structures and Improvements	1,371,192	-	45,932	(118,000)	2,401,478	(38,206)	4,312,627	(57,378)	8,131,229	(213,585)
		353 Station Equipment	3,797,760	(206,754)	35,916,764	(1,244,306)	778,949	(1,700,436)	28,213,175	(693,462)	68,706,648	(3,844,958)
		354 Towers and Fixtures	10,814	(415,637)	1,454,250	-	-	(4,807)	84,462	(5,749)	1,549,527	(426,194)
		355 Poles and Fixtures	-	-	-	-	-	-	(84,462)	-	(84,462)	-
		356 Overhead Conductors and Devices	31,775	(250,618)	6,909,841	(12,363)	(106,495)	(132,895)	3,035,406	-	9,870,527	(395,877)
		357 Underground Conduit	-	-	247,772	-	(34,927)	-	-	-	212,845	-
		358 Underground Conductors & Devices	-	-	8,900,883	-	(133,057)	-	(284)	-	8,767,542	-
		359 Road and Trails	-	-	-	-	-	-	-	-	-	-
		359.1 Asset Retirement Costs for Transmission Plant	-	-	-	-	-	-	-	-	-	-
	PECO Electric - Transmission Plant Total		**5,211,541**	**(873,009)**	**53,475,442**	**(1,374,669)**	**2,905,948**	**(1,876,345)**	**35,560,924**	**(756,590)**	**97,153,856**	**(4,880,614)**
Electric Total			**81,608,240**	**(8,366,378)**	**123,622,012**	**(13,122,302)**	**56,229,247**	**(14,371,704)**	**167,995,511**	**(7,799,027)**	**429,455,012**	**(43,659,409)**
Grand Total			**90,484,533**	**(12,696,941)**	**132,160,076**	**(16,638,910)**	**62,116,128**	**(20,773,261)**	**201,437,576**	**(10,220,127)**	**486,198,315**	**(60,329,237)**

Attachment SDR-RB-5(b)
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PECO Energy Company
Plant In Service Additions and Retirements
Quarterly 2018-2019

Total Projected Additions	Q1-2018	Q2-2018	Q3-2018	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019
Common	17,157,278	27,978,591	35,842,145	30,823,582	16,789,658	19,846,996	20,965,315	21,488,005
Electric - Transmission	12,998,891	26,302,440	13,829,705	48,923,695	6,414,197	32,803,367	16,961,804	64,408,838
Electric - Distribution	68,499,474	89,204,065	65,407,240	152,546,328	92,729,580	119,311,956	96,015,162	134,189,988
Electric - General Plant	3,037,743	8,088,219	2,260,690	1,569,847	1,066,963	1,451,776	1,444,342	1,355,418
Electric - Intangible Plant	1,042,483	13,050,729	2,502,700	4,728,635	1,320,335	7,097,324	5,216,094	4,376,812
Total	**102,735,869**	**164,624,044**	**119,842,480**	**238,592,087**	**118,320,733**	**180,511,419**	**140,602,717**	**225,819,061**

Total Projected Retirements	Q1-2018	Q2-2018	Q3-2018	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019
Common	(4,747,557)	(4,747,557)	(4,747,557)	(4,747,557)	(4,747,557)	(4,747,557)	(4,747,557)	(4,747,557)
Electric - Transmission	(1,181,717)	(1,181,717)	(1,181,717)	(1,181,717)	(1,181,717)	(1,181,717)	(1,181,717)	(1,181,717)
Electric - Distribution	(7,092,289)	(7,092,289)	(7,092,289)	(7,092,288)	(7,092,289)	(7,092,289)	(7,092,289)	(7,092,288)
Electric - General Plant	(1,188,974)	(1,188,974)	(1,188,974)	(1,188,973)	(1,188,974)	(1,188,974)	(1,188,974)	(1,188,973)
Electric - Intangible Plant	(147,209)	(147,209)	(147,208)	(147,208)	(147,209)	(147,209)	(147,208)	(147,208)
Total	**(14,357,746)**	**(14,357,746)**	**(14,357,745)**	**(14,357,743)**	**(14,357,746)**	**(14,357,746)**	**(14,357,745)**	**(14,357,743)**

NOTE: Amounts for Common Plant and Electric - General Plant are shown unallocated.

Attachment SDR-RB-5(c)

PECO Energy Company
Plant In Service Additions and Retirements
Annually 2020-2021

Total Projected Additions	**2020**		**2021**
Common	101,022,711		41,788,300
Electric - Transmission	53,354,998		37,381,320
Electric - Distribution	410,039,522		465,046,439
Electric - General Plant	4,468,220		4,649,875
Electric - Intangible Plant	13,329,711		827,245
Total	**582,215,162**		**549,693,179**

Total Projected Retirements	**2020**		**2021**
Common	(18,990,229)		(18,990,229)
Electric - Transmission	(4,726,867)		(4,726,867)
Electric - Distribution	(28,369,154)		(28,369,154)
Electric - General Plant	(4,755,894)		(4,755,894)
Electric - Intangible Plant	(588,834)		(588,834)
Total	**(57,430,978)**		**(57,430,978)**

NOTE: Amounts for Common Plant and Electric - General Plant are shown unallocated.

SDR-RB-6
Page 1 of 1
Scott A. Bailey

Q. SDR-RB-6 Please provide the actual monthly balance of each of the following items for each month of the historic and future test years to date. Update as additional monthly balances become available.

a. Electric Plant in Service
b. Plant Held for Future Use, if a claim is made for AFUDC treatment
c. CWIP – Pollution Control Expenditures
d. Accumulated Depreciation and Amortization
e. Plant Materials and Supplies
f. Fuel Supplies
g. Accumulated deferred income taxes broken down by Accounts 190, 282 and 283

A. SDR-RB-6

a. Refer to Attachment SDR-RB-6(b).
b. No claims are being made for AFUDC treatment on Plant Held for Future Use.
c. All pollution control expenditures have been unitized to Plant in Service. There are no pollution control programs in CWIP.
d. Refer to Attachment SDR-RB-6(c).
e. Refer to Attachment SDR-RB-6(a).
f. Refer to Attachment SDR-RB-6(a).
g. Refer to Attachment SDR-RB-6(a).

PECO
Actual Monthly Balance by Account for Historic Period
Presentation Basis - Total Company unless noted
(in thousands)

				2017												2018
	Account			**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
a.	Electric Plant in Service			(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
b.	Plant held for Future Use, if a claim is made for AFUDC treatment			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
c.	CWIP - Pollution Control Expenditures			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
d.	Accumulated Depreciation and Amortization			(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
e.	Plant Materials and Supplies (Distribution only)			13,295	15,091	15,853	15,846	15,975	16,474	16,790	16,716	17,008	16,260	16,562	16,982	17,356
f.	Fuel Supplies (Distribution only)			-	-	-	-	-	-	-	-	-	-	-	-	-
g.	Accumulated deferred income taxes broken down by Accts 190,282, and 283	**190**	All			135,366			131,436			147,058				
			Electric												146,712	146,712
			Gas												29,819	29,819
			Non-utility												13,515	13,515
		282	All			(3,159,727)			(3,207,079)			(3,265,711)				
			Electric												(1,366,458)	(1,366,458)
			Gas												(470,045)	(470,045)
			Non-utility												-	-
		283	All			(50,678)			(50,510)			(50,439)				
			Electric												(122,737)	(122,737)
			Gas												(19,230)	(19,230)
			Non-utility												-	-

(a) - Refer to Attachment SDR-RB-6(b).
(b) - Refer to Attachment SDR-RB-6(c).

Attachment SDR-RB-6(b)
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PECO
Electric Plant in Service
YTD 2017 and January 2018

Sum of end_bal			**end_month**												
Product	**func_class**	**Utility Account**	**01/2017**	**02/2017**	**03/2017**	**04/2017**	**05/2017**	**06/2017**	**07/2017**	**08/2017**	**09/2017**	**10/2017**	**11/2017**	**12/2017**	**01/2018**
Common	PECO Common - General Plant	301 Organization	677,136	677,136	677,136	677,136	677,136	677,136	677,136	677,136	677,136	677,136	677,136	677,136	677,136
		303 Software	216,374,471	217,746,771	213,778,524	213,913,529	214,095,825	215,306,882	215,423,408	216,356,170	217,467,182	217,925,415	221,383,121	226,306,208	230,206,405
		389 Land and Land Rights	6,814,775	6,814,775	6,814,775	6,814,775	6,814,775	6,814,775	6,814,775	6,814,775	6,814,775	6,814,775	6,783,056	6,783,056	6,783,056
		390 Structures and Improvements	259,967,991	260,130,705	261,347,770	261,276,402	260,882,152	265,453,686	265,486,076	265,520,194	265,528,495	265,448,496	265,533,061	271,950,717	272,464,982
		391 Office Furniture and Equipment	37,438,878	37,758,413	38,328,269	39,226,095	39,343,785	39,012,190	32,939,175	33,369,273	33,588,714	34,522,112	36,018,600	44,127,253	44,341,865
		392 Automobiles	122,476	122,476	122,476	122,476	122,476	93,641	93,641	93,641	93,641	93,641	93,641	93,641	93,641
		392 Heavy Trucks	72,603,163	72,603,129	72,737,721	72,759,650	73,319,959	71,810,485	71,810,485	72,711,121	74,060,806	73,199,346	73,916,938	75,251,945	76,178,056
		392 Light Trucks	31,678,761	31,757,350	31,833,561	32,449,533	32,474,264	31,371,263	31,381,668	31,596,164	31,694,675	30,815,107	30,722,301	31,551,732	32,037,589
		392 Medium Trucks			108,986	769,889	769,889	769,889	879,437	879,436	980,504	980,505	1,810,412	4,348,813	4,725,705
		392 Other transprttn (off road)	5,010,814	5,010,814	5,010,814	5,010,814	5,010,814	4,953,419	4,953,419	4,953,419	4,953,419	4,953,419	4,953,419	5,071,551	5,071,551
		392 Tractors	353,657	353,657	353,657	353,657	353,657	353,657	353,657	353,657	353,657	279,351	279,351	279,351	279,351
		392 Trailers	4,580,828	4,578,444	4,971,646	4,584,651	4,597,464	4,506,102	4,492,917	4,522,675	4,522,675	4,549,639	4,549,639	4,549,639	4,549,639
		393 Stores Equipment	788,042	788,042	788,042	788,042	788,042	788,042	788,042	788,042	788,042	788,042	788,042	1,253,293	1,251,466
		394 Construction Tools	90,304	90,304	90,304	90,304	90,304	90,304	90,304	90,304	90,304	90,304	90,304	90,304	90,304
		394 Garage Equipment	2,408,397	2,414,074	2,414,074	2,414,074	2,418,064	2,418,064	2,273,251	2,273,251	2,285,238	2,285,238	2,366,518	2,499,657	2,499,657
		396 Power Operated Equipment	185,066	185,066	185,066	185,066	185,066	185,066	185,066	185,066	185,066	185,066	185,066	185,066	185,066
		397 Communication Equipment	31,937,457	31,940,707	31,944,372	31,945,371	31,945,371	31,945,371	31,945,371	31,945,371	31,950,964	31,950,964	31,950,964	32,006,547	31,997,847
		398 Miscellaneous Equipment	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306	1,679,306
		399 Other Tangible Property	-	-	-	-	-	-	-	-	-	-	-	-	-
		399.1 Asset Retirement Costs	1,273,651	2,402,207	1,324,989	1,324,989	1,303,113	1,303,113	1,303,113	1,303,113	858,131	856,405	2,487,327	1,269,336	1,269,336
	PECO Common - General Plant Total		**673,985,173**	**677,053,378**	**674,511,489**	**676,385,759**	**676,871,462**	**679,532,389**	**673,570,244**	**676,112,114**	**678,572,730**	**678,094,266**	**686,268,202**	**709,974,551**	**716,381,959**
Common Total			**673,985,173**	**677,053,378**	**674,511,489**	**676,385,759**	**676,871,462**	**679,532,389**	**673,570,244**	**676,112,114**	**678,572,730**	**678,094,266**	**686,268,202**	**709,974,551**	**716,381,959**
Electric	**PECO Electric - Distribution Plant**	360 Land and Land Rights	42,612,047	42,631,110	42,651,107	42,670,126	42,690,332	42,761,199	42,780,029	42,798,896	42,820,074	42,851,208	42,861,914	42,883,588	42,910,834
		361 Structures and Improvements	102,801,884	102,776,216	102,773,915	104,169,634	104,202,378	104,201,078	107,770,645	107,798,465	107,859,212	112,464,931	113,640,122	113,662,305	113,650,381
		362 Station Equipment	998,859,967	1,001,725,340	1,001,806,650	1,005,355,748	1,005,755,191	1,009,730,553	1,010,002,936	1,011,956,737	1,013,240,578	1,016,583,663	1,018,064,814	1,033,989,100	1,032,715,689
		364 Poles, Towers and Fixtures	659,894,448	661,516,239	663,021,219	664,312,197	666,372,171	667,913,593	669,887,705	673,526,281	674,342,748	676,585,867	679,633,655	685,536,322	686,698,424
		365 Overhead Conductors & Devices	1,130,526,439	1,135,003,900	1,141,436,322	1,143,748,841	1,147,881,293	1,152,974,319	1,156,892,012	1,151,721,109	1,149,916,964	1,152,719,816	1,167,295,272	1,177,016,237	1,184,895,356
		366 Underground Conduit	390,669,508	393,125,439	394,536,517	394,820,430	394,909,948	398,296,341	401,083,289	403,899,986	405,244,536	405,645,394	406,092,654	407,267,888	407,756,484
		367 Underground Conductors & Devices	1,124,156,882	1,129,152,031	1,131,658,418	1,136,130,404	1,138,721,002	1,141,458,689	1,143,733,542	1,153,658,020	1,157,680,235	1,166,136,157	1,170,863,696	1,187,119,385	1,189,700,162
		368 Line Transformers	567,481,289	569,246,738	568,977,973	570,464,557	571,871,411	572,001,772	574,495,053	574,611,241	573,546,987	575,392,926	578,131,010	578,337,607	580,379,248
		369 Services	402,915,568	403,559,725	404,071,936	404,584,416	405,703,287	406,291,046	407,014,753	407,620,078	408,221,622	408,971,319	409,803,044	410,589,531	411,392,566
		370 Meters	297,389,626	297,732,693	298,502,689	299,195,787	299,697,516	300,130,775	300,916,076	300,928,069	301,875,514	302,610,774	303,393,390	304,938,954	304,075,962
		371 Installations on Customer Premises	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346	13,772,346
		373 Street Lighting and Signal Systems	56,235,227	56,147,770	56,301,092	57,653,473	57,790,356	58,190,968	58,347,468	58,576,619	58,687,056	58,810,467	60,655,051	62,823,959	61,741,918
		374 Asset Retirement Costs for Distributio	3,154,881	3,161,021	3,160,867	3,158,876	3,157,716	3,156,913	3,153,811	3,152,378	3,152,280	3,150,716	1,942,421	1,938,911	1,935,568
	PECO Electric - Distribution Plant Total		**5,790,470,113**	**5,809,550,568**	**5,822,671,050**	**5,840,036,835**	**5,852,524,947**	**5,870,879,590**	**5,889,849,666**	**5,904,020,224**	**5,910,360,152**	**5,935,695,584**	**5,966,149,389**	**6,019,876,133**	**6,031,624,940**
	PECO Electric - General Plant	389 Land and Land Rights	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459	1,063,459
		390 Structures and Improvements	48,599,319	48,587,466	48,612,266	48,612,266	48,566,965	48,566,965	48,566,965	48,498,535	48,602,230	48,755,238	48,857,340	49,660,751	49,747,810
		391 Office Furniture and Equipment	11,223,434	11,212,904	12,907,252	12,942,252	13,264,292	15,994,190	14,025,493	14,050,127	14,031,677	14,026,698	13,954,753	15,879,377	16,058,709
		393 Stores Equipment	46,471	46,471	46,471	46,471	46,471	46,471	46,471	46,471	46,471	46,471	46,471	46,470	46,471
		394 Tools, Shop & Garage Equipment	29,411,594	29,631,958	29,951,118	30,558,987	31,182,170	32,012,866	30,483,135	30,570,259	31,023,355	31,484,760	31,607,160	32,073,779	32,325,146
		395 Laboratory Equipment	419,715	419,715	419,715	419,715	419,715	419,715	419,715	419,715	419,715	419,715	419,715	419,715	419,715
		397 Communication Equipment	150,073,674	152,619,929	146,837,608	146,850,298	147,019,510	148,857,090	149,497,784	150,202,119	150,664,050	153,473,022	154,145,140	154,699,047	155,060,493
		398 Miscellaneous Equipment	1,248,205	1,248,205	1,248,205	1,248,205	1,248,205	1,248,205	865,597	865,597	865,597	865,597	865,597	865,598	865,597
		399.1 Asset Retirement Costs	502,719	502,719	502,719	502,719	502,719	502,719	502,719	502,719	502,719	502,719	486,949	1,688,730	1,688,729
	PECO Electric - General Plant Total		**242,588,591**	**245,332,826**	**241,588,813**	**242,244,371**	**243,313,506**	**248,711,681**	**245,471,339**	**246,219,002**	**247,219,273**	**250,637,680**	**251,446,583**	**256,396,926**	**257,276,129**
	PECO Electric - Intangible Plant	302 Franchises and Consents	162,934	162,934	162,934	162,934	162,934	162,934	162,934	162,934	162,934	162,934	162,934	162,934	162,934
		303 Miscellaneous Intangible Plant	140,947,325	142,217,384	140,207,915	139,709,416	141,804,909	143,275,443	143,418,250	143,683,532	146,115,229	146,032,846	146,471,995	151,584,420	151,618,414
	PECO Electric - Intangible Plant Total		**141,110,259**	**142,380,318**	**140,370,849**	**139,872,350**	**141,967,843**	**143,438,378**	**143,581,184**	**143,846,466**	**146,278,163**	**146,195,780**	**146,634,929**	**151,747,354**	**151,781,348**
	PECO Electric - Transmission Plant	350 Land and Land Rights	59,860,317	59,804,949	59,804,949	59,804,949	59,804,949	59,804,949	59,804,949	59,804,949	59,804,949	59,804,949	59,802,366	59,802,368	59,802,366
		352 Structures and Improvements	66,343,475	66,387,786	66,388,444	66,384,649	66,316,376	66,316,376	68,362,712	68,921,469	68,679,648	70,484,849	71,226,783	72,934,896	72,925,852
		353 Station Equipment	750,663,352	753,142,673	754,961,257	754,503,484	778,479,194	789,633,716	787,273,916	787,127,207	788,712,229	789,823,533	792,600,250	816,231,943	818,766,058
		354 Towers and Fixtures	265,608,909	265,208,494	265,208,494	265,208,494	266,662,744	266,662,744	266,657,937	266,657,937	266,657,937	266,657,937	266,657,937	266,736,648	264,918,782
		355 Poles and Fixtures	16,617,283	16,617,283	16,617,283	16,617,283	16,617,283	16,617,283	16,617,283	16,617,283	16,617,283	16,617,283	16,617,283	16,532,820	16,532,820
		356 Overhead Conductors and Devices	183,654,623	183,441,929	183,431,494	183,445,164	182,415,180	190,328,971	190,181,984	190,196,055	190,089,581	190,104,751	190,085,781	193,124,986	191,223,511
		357 Underground Conduit	14,742,962	14,742,962	14,742,962	15,110,988	14,977,040	14,990,735	14,955,781	14,955,808	14,955,808	14,955,808	14,955,808	14,955,807	14,955,808
		358 Underground Conductors & Devices	95,788,410	95,788,410	95,788,410	97,260,513	96,724,721	104,689,293	104,550,643	104,556,239	104,556,236	104,555,952	104,555,952	104,555,952	104,555,952
		359 Road and Trails	2,136,663	2,136,663	2,136,663	2,136,663	2,136,663	2,136,663	2,136,663	2,136,663	2,136,663	2,136,663	2,136,663	2,136,664	2,136,663
		359.1 Asset Retirement Costs for Transmi	236,999	236,999	236,999	236,999	236,999	236,999	236,999	236,999	236,999	236,999	1,780	1,778	1,230
	PECO Electric - Transmission Plant Total		**1,455,652,993**	**1,457,508,148**	**1,459,316,955**	**1,460,709,186**	**1,484,371,149**	**1,511,417,728**	**1,510,778,867**	**1,511,210,609**	**1,512,447,331**	**1,515,378,723**	**1,518,640,601**	**1,547,013,862**	**1,545,819,042**
Electric Total			**7,629,821,956**	**7,654,771,860**	**7,663,947,666**	**7,682,862,742**	**7,722,177,445**	**7,774,447,377**	**7,789,681,056**	**7,805,296,300**	**7,816,304,920**	**7,847,907,766**	**7,882,871,503**	**7,975,034,274**	**7,986,501,459**
Grand Total			**8,303,807,130**	**8,331,825,237**	**8,338,459,155**	**8,359,248,501**	**8,399,048,907**	**8,453,979,765**	**8,463,251,300**	**8,481,408,414**	**8,494,877,650**	**8,526,002,031**	**8,569,139,705**	**8,685,008,826**	**8,702,883,417**

Note: Amounts for Common Plant and Electric - General Plant are shown unallocated.

Attachment SDR-RB-6(c)

PECO
Accumulated Depreciation and Amortization by Month
YTD 2017 and January 2018

Sum of Amount			**Month**												
Business Segment	**Functional Classification**	**Utility Account**	**01/2017**	**02/2017**	**03/2017**	**04/2017**	**05/2017**	**06/2017**	**07/2017**	**08/2017**	**09/2017**	**10/2017**	**11/2017**	**12/2017**	**01/2018**
Common	**General Plant - Common**	303 Software	169,426,222	170,816,648	167,863,337	169,203,350	170,542,222	171,868,079	173,216,394	174,550,047	175,912,625	177,173,732	178,664,206	180,170,326	181,719,415
		390 Structures and Improvements	70,323,051	70,779,850	70,912,133	71,287,097	71,650,831	71,663,621	72,094,046	72,474,409	72,909,639	73,357,948	73,744,403	73,134,853	73,483,381
		391 Office Furniture and Equipment	15,076,640	15,623,094	16,100,750	16,656,343	17,211,338	17,737,326	12,034,930	12,631,971	13,131,889	13,564,324	14,093,855	13,936,066	14,491,889
		392 Automobiles	114,260	114,409	121,344	121,364	121,384	92,569	92,589	92,608	92,627	92,645	92,663	92,676	92,692
		392 Heavy Trucks	28,651,336	29,052,367	29,563,251	29,957,289	30,350,388	29,020,325	29,410,756	29,801,734	30,283,919	29,599,538	30,000,631	30,514,199	30,938,792
		392 Light Trucks	14,632,240	14,811,428	15,093,868	15,272,656	15,452,928	14,151,850	14,332,493	14,512,421	14,765,546	13,696,214	13,875,261	14,085,640	14,270,410
		392 Medium Trucks	-	-	568	5,139	13,105	20,989	29,360	38,215	47,504	57,223	71,163	102,501	151,772
		392 Other transprttn (off road)	3,516,406	3,533,527	3,552,395	3,569,103	3,585,620	3,544,552	3,560,693	3,576,648	3,592,421	3,608,013	3,623,427	3,639,343	3,656,862
		392 Tractors	348,142	348,318	348,489	348,654	348,814	348,969	349,118	349,263	357,242	282,821	282,710	282,605	282,500
		392 Trailers	2,004,788	2,026,252	2,069,490	2,092,070	2,112,901	2,035,214	2,055,756	2,076,196	2,100,757	2,113,581	2,133,887	2,154,025	2,174,845
		393 Stores Equipment	128,355	135,725	143,013	150,219	157,345	164,391	171,358	178,248	185,060	191,797	198,458	207,643	216,861
		394 Construction Tools	(30,179)	(28,747)	(27,345)	(25,939)	(24,562)	(23,203)	(21,861)	(20,537)	(37,229)	(35,929)	(34,656)	(33,398)	(31,928)
		394 Garage Equipment	1,405,392	1,415,906	1,426,321	1,436,607	1,447,486	1,457,600	1,325,951	1,335,855	1,350,259	1,360,043	1,370,148	1,343,448	1,354,230
		396 Power Operated Equipment	178,139	178,321	178,498	178,670	178,838	179,002	179,161	179,316	179,467	179,614	179,757	179,897	180,044
		397 Communication Equipment	13,925,406	14,075,291	14,223,956	14,371,405	14,517,630	14,662,639	14,806,442	14,949,048	15,090,490	15,230,779	15,369,901	15,508,096	15,644,804
		398 Miscellaneous Equipment	744,243	754,255	764,158	773,954	783,644	793,229	802,710	812,088	821,365	830,541	839,617	848,595	858,804
	Asset Retirement Obligation	399.1 Asset Retirement Costs	392,731	495,704	(213,262)	(208,724)	(226,063)	(221,525)	(216,988)	(212,450)	(187,668)	(203,375)	(198,943)	(195,881)	(191,450)
	General Plant - Common Total		**320,837,174**	**324,132,347**	**322,120,964**	**325,189,257**	**328,223,851**	**327,495,627**	**324,222,908**	**327,325,081**	**330,595,914**	**331,099,507**	**334,306,488**	**335,970,634**	**339,293,923**
Common Total			**320,837,174**	**324,132,347**	**322,120,964**	**325,189,257**	**328,223,851**	**327,495,627**	**324,222,908**	**327,325,081**	**330,595,914**	**331,099,507**	**334,306,488**	**335,970,634**	**339,293,923**
	Distribution	360 Land and Land Rights	-	-	-	-	-	-	-	-	-	-	-	-	-
		361 Structures and Improvements	35,681,983	35,853,115	36,065,938	36,182,632	36,323,823	36,523,463	36,491,102	36,662,138	36,869,522	36,770,795	36,921,104	37,110,641	37,285,118
		362 Station Equipment	422,010,832	422,054,018	423,317,892	421,906,671	423,376,942	424,624,699	426,308,108	427,776,349	429,155,360	430,138,906	431,498,163	432,746,600	433,650,439
		364 Poles, Towers and Fixtures	139,495,948	140,166,743	140,297,715	141,199,619	141,902,784	142,060,308	142,810,663	142,968,017	143,301,930	144,022,102	144,306,364	144,204,165	144,829,881
		365 Overhead Conductors & Devices	247,146,623	248,183,690	248,195,589	250,199,665	251,453,186	251,070,371	253,058,080	253,413,078	253,859,973	255,044,788	255,880,661	256,315,214	256,929,635
		366 Underground Conduit	152,902,666	153,136,164	153,611,699	153,694,672	154,156,409	154,595,164	154,821,272	155,232,376	155,699,048	155,986,048	156,320,577	156,650,276	156,948,057
		367 Underground Conductors & Devices	183,615,434	184,556,485	184,935,731	185,330,715	186,388,576	185,523,222	185,503,871	185,806,963	186,167,899	186,976,121	188,030,475	187,943,128	188,732,218
		368 Line Transformers	182,958,643	183,953,211	183,399,689	184,013,541	184,990,916	184,677,953	185,285,428	186,285,584	185,401,886	186,339,848	187,325,116	186,555,510	187,543,394
		369 Services	147,959,777	148,580,432	149,035,424	149,634,774	150,250,147	150,713,733	151,349,804	151,966,418	152,462,606	153,092,608	153,719,522	154,172,331	154,798,705
		370 Meters	60,262,014	61,883,305	63,496,906	65,104,138	66,704,358	68,296,828	69,882,251	71,459,923	73,029,977	74,594,488	76,151,676	77,710,236	79,375,276
		371 Installations on Customer Premises	5,574,507	5,644,614	5,714,119	5,783,029	5,851,348	5,919,082	5,986,235	6,052,813	6,118,820	6,184,261	6,249,141	6,313,466	6,383,381
		373 Street Lighting and Signal Systems	33,607,013	33,639,998	33,830,986	33,842,090	33,931,434	33,971,603	34,025,415	34,106,780	34,157,189	34,127,387	34,110,388	34,041,458	31,836,060
		374 Asset Retirement Costs for Distribution Plant	1,959,819	2,005,926	2,045,738	2,083,714	2,122,520	2,161,683	2,198,548	2,237,082	2,276,950	2,315,352	2,300,584	2,270,869	2,241,321
	Distribution Total		**1,613,175,259**	**1,619,657,700**	**1,623,947,425**	**1,628,975,260**	**1,637,452,443**	**1,640,138,107**	**1,647,720,777**	**1,653,967,519**	**1,658,501,162**	**1,665,592,704**	**1,672,813,772**	**1,676,033,893**	**1,680,553,485**
	General Plant - Electric	390 Structures and Improvements	10,081,592	10,200,975	10,296,288	10,426,633	10,538,087	10,653,060	10,767,684	10,904,666	11,017,826	11,135,377	11,200,762	11,272,571	11,377,590
		391 Office Furniture and Equipment	4,769,627	4,945,549	5,254,871	5,447,120	5,658,394	5,907,916	4,178,308	4,453,611	4,721,161	4,980,755	5,231,850	5,403,336	5,658,249
		393 Stores Equipment	(737)	(389)	(44)	298	638	975	1,310	1,643	1,973	2,300	2,625	2,948	3,299
		394 Tools, Shop & Garage Equipment	7,810,696	7,991,712	8,173,469	8,357,575	8,545,280	8,737,483	8,039,515	8,227,005	8,415,184	8,605,607	8,796,877	8,989,047	9,183,529
		395 Laboratory Equipment	258,369	260,147	261,904	263,641	265,359	267,056	268,735	270,393	272,033	273,654	275,257	276,841	278,658
		397 Communication Equipment	31,685,535	32,404,812	33,113,885	33,773,532	34,451,589	32,298,900	32,999,061	33,698,673	34,397,601	35,105,529	35,823,194	36,500,830	37,214,180
		398 Miscellaneous Equipment	1,008,773	1,020,251	1,031,178	1,041,581	1,051,486	1,060,915	687,286	695,833	703,971	711,719	719,095	726,118	735,157
		399.1 Asset Retirement Costs	309,794	310,672	311,551	312,430	313,309	314,188	314,896	315,605	316,313	317,021	317,703	304,425	315,771
	General Plant - Electric Total		**55,923,649**	**57,133,730**	**58,443,101**	**59,622,810**	**60,824,142**	**59,240,495**	**57,256,796**	**58,567,429**	**59,846,062**	**61,131,963**	**62,367,362**	**63,476,116**	**64,766,434**
	Intangible-Miscellaneous - Electric	303 Miscellaneous Intangible Plant	78,061,284	79,550,762	80,016,293	81,021,403	82,588,295	84,172,457	85,676,129	87,265,651	88,877,223	90,519,804	92,153,419	93,824,262	95,539,205
	Intangible-Miscellaneous - Electric Total		**78,061,284**	**79,550,762**	**80,016,293**	**81,021,403**	**82,588,295**	**84,172,457**	**85,676,129**	**87,265,651**	**88,877,223**	**90,519,804**	**92,153,419**	**93,824,262**	**95,539,205**
	Transmission	350 Land and Land Rights	(22)	(22)	(11)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)
		352 Structures and Improvements	19,356,012	19,464,240	19,570,055	19,557,826	19,663,819	19,769,868	19,838,954	19,939,468	19,862,175	19,871,047	19,971,288	19,892,165	20,013,558
		353 Station Equipment	184,901,184	185,542,918	186,436,247	186,564,095	187,541,014	183,761,480	184,336,767	185,455,319	185,267,907	186,205,463	187,359,190	187,978,143	188,734,657
		354 Towers and Fixtures	152,875,914	152,755,924	153,042,031	153,347,599	153,641,613	153,936,708	154,226,231	154,519,800	154,812,602	155,104,639	155,395,914	155,692,558	154,168,473
		355 Poles and Fixtures	2,603,768	2,625,065	2,646,330	2,667,562	2,688,763	2,709,931	2,731,067	2,752,170	2,773,242	2,794,282	2,815,289	2,840,646	2,861,861
		356 Overhead Conductors and Devices	78,619,273	78,613,710	78,873,705	79,104,848	79,335,420	79,602,702	79,861,201	80,119,807	80,244,772	80,502,359	80,760,319	80,958,192	79,354,385
		357 Underground Conduit	4,556,935	4,575,269	4,593,570	4,593,033	4,628,226	4,646,035	4,664,617	4,683,134	4,701,618	4,720,068	4,738,485	4,756,869	4,775,467
		358 Underground Conductors & Devices	41,015,001	41,140,390	41,262,903	41,307,912	41,500,078	41,648,498	41,792,664	41,936,345	42,079,186	42,222,217	42,364,921	42,490,539	42,628,041
		359 Road and Trails	2,040,944	2,041,648	2,042,348	2,043,042	2,043,731	2,044,415	2,045,094	2,045,769	2,046,438	2,047,102	2,047,761	2,048,416	2,049,101
		359.1 Asset Retirement Costs for Transmission Plant	158,947	159,300	159,653	160,006	160,360	160,713	161,066	161,419	161,772	162,125	10	19	(521)
	Transmission Total		**486,127,954**	**486,918,442**	**488,626,831**	**489,345,903**	**491,203,001**	**488,280,326**	**489,657,640**	**491,613,209**	**491,949,690**	**493,629,281**	**495,453,156**	**496,657,526**	**494,585,000**
Electric Total			**2,233,288,146**	**2,243,260,635**	**2,251,033,650**	**2,258,965,376**	**2,272,067,880**	**2,271,831,386**	**2,280,311,341**	**2,291,413,809**	**2,299,174,136**	**2,310,873,751**	**2,322,787,709**	**2,329,991,798**	**2,335,444,124**
Grand Total			**2,554,125,319**	**2,567,392,982**	**2,573,154,615**	**2,584,154,632**	**2,600,291,731**	**2,599,327,013**	**2,604,534,249**	**2,618,738,890**	**2,629,770,050**	**2,641,973,258**	**2,657,094,197**	**2,665,962,432**	**2,674,738,047**

Q. SDR-RB-7 If a claim for AFUDC treatment on Future Use Property is made, please indicate for each property included in Property Held for Future Use, the following:

a. The original cost and date of purchase,
b. The planned use of the property,
c. The date first included in rate base,
d. The date on which the item is expected to be placed in service.

A. SDR-RB-7 Not applicable. The Company is not making a claim for AFUDC on Future Use Property.

SDR-RB-8
Page 1 of 1
Benjamin Yin

Q. SDR-RB-8 If the Company has included any costs associated with canceled construction projects or obsolete inventory in the FTY, please separately identify the items, provide the related amounts, and explain the reason for the cancellation or obsolescence.

A. SDR-RB-8 The Company has not included any costs associated with canceled construction projects or obsolete inventory in the future test year and fully projected future test year.

Q. SDR-RB-9 Please provide workpapers showing the development of the allocation of common utility plant, etc. (if applicable). Include all calculations performed to develop the allocation and all supporting documents, studies, or other information used. Common utility plant refers to any plant in service, which is used as a common facility between the Company and an affiliate or non-affiliate and from which a billing results.

A. SDR-RB-9 Refer to Attachment SDR-RB-9(a) for Common Utility Plant Calculations.

PECO Energy Company
Development of Factors for Allocation of Common Plant
Data as of December 31, 2016

		Plant in Service as of Dec 31, 2016	Total Revenue YTD Dec 2016	Total Customers Month-ended Dec 2016
Electric	**A**	$ 7,590,779,745	$ 2,469,277,946	1,619,646
Gas	**B**	2,348,125,255	463,380,763	517,065
Subtotal	**C**	$ 9,938,905,001	$ 2,932,658,709	2,136,711
Common		669,965,526		
Total		$ 10,608,870,527	$ 2,932,658,709	2,136,711

Allocation Factors:		Plant in Service	Total Revenue	Total Customers	Allocation
Electric	**A/C =**	76.37%	84.20%	75.80%	**78.79%**
Gas	**B/C =**	23.63%	15.80%	24.20%	**21.21%**
Total		100.00%	100.00%	100.00%	**100.00%**

PECO Energy Company
General Plant Allocation Factor - Transmission and Distribution
Data as of December 31, 2016

			O&M Direct Payroll Distribution YTD Dec 2016
Transmission	**A**		$ 14,070,158
Electric Distribution:			
Distribution		77,446,125	
Customer Accounts		31,173,617	
Customer Service & Informational exps		1,176,731	
Sales		503,508	
Electric Distribution Total	**B**		110,299,981
Total Transmission and Electric Distribution	**C**		$ 124,370,139

Allocation Factors:

Transmission	**A/C =**	**11.31%**
Electric Distribution	**B/C =**	**88.69%**
Total		**100.00%**

Q. SDR-RB-10 Provide a detailed schedule, on a yearly basis for the last five calendar years, the amount of the initially approved construction budget, (by the Board of Directors) and the actual corresponding amount of completed construction.

A. SDR-RB-10 Shown below are the 2013–2017 actual and budgeted electric distribution capital expenditures.

	Actual	Budget	Variance
2013	413,803,014	427,575,858	13,772,844
2014	453,946,427	410,061,484	(43,884,943)
2015	367,263,009	355,903,332	(11,359,677)
2016	405,115,793	331,949,600 (1)	(73,166,193)
2017	466,076,609	474,837,867	8,761,258

(1) 2016 Budget in the above table matches the amount presented in the 2015 Distribution Rate Case Filing. Refer to Exhibit PSB-2. The final Board of Directors approved budget was $394M due to the addition of the LTIIP and other distribution items.

Q. SDR-RB-11 Provide a detailed schedule, for the last five rate cases, of the amount of forecasted completed plant in service as claimed by the Company and the corresponding amount of plant in service actually completed by the Company by the end of the test year.

A. SDR-RB-11 The requested information is shown in the table below:

Docket No.	Test Year End	Forecasted (Thousand$)	Actual (Thousand$)
R-2015-2468981	12/31/2016	$6,582,669	$6,557,410 (a)
R-2010-2161575	12/31/2010	$4,963,804	$4,928,556 (b)
R-891364	3/31/1990	$12,133,093	$12,219,838 (c)
R-850152	6/30/1986	$8,855,780	$8,823,712 (d)
R-842590	12/31/1984	$4,823,004	$4,803,509 (e)

(a) 2016 FERC Form No. 1, includes distribution and allocated intangible, general and common plant
(b) 2010 FERC Form No. 1, includes distribution and allocated intangible, general and common plant
(c) 1990 FERC Form No. 1, includes electric and allocated common plant
(d) 1986 FERC Form No. 1, includes electric and allocated common plant
(e) 1984 FERC Form No. 1, includes electric and allocated common plant

Q. SDR-RB-12 Explain in detail. What accounts were the contributions in aid of construction contributed for? Did the Company depreciate any of the contribution in Aid of construction?

A. SDR-RB-12 Contributions in aid of construction (CIAC) originate from three primary sources: Commercial New Business, Government mandated projects and Independent Power Producers’ connections to the Company’s transmission infrastructure. The predominant accounts associated with these activities are as follows:

- 353 – Station Equipment
- 354 – Towers and Fixtures
- 355 – Poles and Fixtures
- 356 – Overhead Conductors and Devices
- 357 – Underground Conduit
- 358 – Underground Conductors and Devices
- 362 – Station Equipment
- 364 – Poles, Towers, and Fixtures
- 365 – Overhead Conductors and Devices
- 366 – Underground Conduit and Manhole
- 367 – Underground Conductors and Devices
- 368 – Line Transformers
- 369.1 – Aerial Services
- 369.2 – Underground Services
- 370 – Meters

CIAC is credited to the Company’s internal construction costs at a project level on a dollar for dollar basis as incurred. The effect of this accounting results in a reduction of the Company funded project costs, thereby reducing the depreciable cost of the project upon completion. The timing of applying the CIAC funds to the project costs is controlled to insure no inadvertent depreciation is recognized on project costs placed in service with unapplied CIAC.

Q. SDR-RB-13 Please provide all workpapers and supporting documentation relied upon to derive the projected balance of customer advances.

A. SDR-RB-13 Refer to Schedule C-9 of PECO Exhibits BSY-1 and BSY-2 for the amounts of customer advances that are being deducted from rate base for the fully projected future test year and the future test year, respectively. The amounts are the same in both instances and are based on the average of actual customer deposits for the thirteen months ended December 31, 2017.

SDR-RB-14
Page 1 of 1
Benjamin Yin

Q. SDR-RB-14 Please provide the same information requested in the previous question with regard to projected balance of customer deposits.

A. SDR-RB-14 Refer to Schedule C-7 in PECO Exhibits BSY-1 and BSY-2 for the amounts of customer deposits that the Company is deducting from rate base for the fully projected future test year and the future test year, respectively. The amounts are the same in both instances, and reflect an average of actual customer deposits recorded for the thirteen months ending December 31, 2017.

Q. SDR-RB-15 Please provide the actual balances of customer advances and customer deposits for each month from the commencement of the HTY through the most recent month available. Update as additional monthly balances become available.

A. SDR-RB-15 Refer to Attachment SDR-RB-15(a).

Customer Advances
Thirteen Months Ended January 31, 2018
Electric Portion

Customer Advances for Construction Monthly Balances	
Month	**Electric Distribution**
Jan-17	(325,048)
Feb-17	(300,000)
Mar-17	(300,000)
Apr-17	(856,912)
May-17	(784,193)
Jun-17	(666,060)
Jul-17	(1,952,794)
Aug-17	(1,501,000)
Sep-17	(1,615,303)
Oct-17	(1,645,177)
Nov-17	(1,724,774)
Dec-17	(373,774)
Jan-18	(1,290,337)

Customer Deposits
Thirteen Months Ended January 31, 2018
Electric Portion

Month	Total	Residential	Small C&I	Large C&I	Street and Highway Lighting
Jan-17	$ 48,996,991	$ 19,728,587	$ 26,495,569	$ 2,770,748	$ 2,087
Feb-17	$ 49,158,152	$ 19,888,894	$ 26,451,227	$ 2,815,945	$ 2,085
Mar-17	$ 49,703,549	$ 20,113,543	$ 26,592,556	$ 2,995,360	$ 2,089
Apr-17	$ 50,120,379	$ 20,404,632	$ 26,733,880	$ 2,979,781	$ 2,086
May-17	$ 50,386,039	$ 20,617,904	$ 26,723,887	$ 3,042,159	$ 2,089
Jun-17	$ 50,755,874	$ 20,857,010	$ 26,875,037	$ 3,021,736	$ 2,091
Jul-17	$ 50,903,861	$ 21,030,923	$ 26,868,079	$ 3,002,770	$ 2,089
Aug-17	$ 51,218,435	$ 21,212,243	$ 26,938,175	$ 3,066,415	$ 1,602
Sep-17	$ 51,368,125	$ 21,383,734	$ 26,895,858	$ 3,086,931	$ 1,603
Oct-17	$ 51,633,523	$ 21,654,026	$ 26,903,092	$ 3,074,801	$ 1,604
Nov-17	$ 52,832,270	$ 21,763,407	$ 26,843,372	$ 4,223,888	$ 1,602
Dec-17	$ 52,958,508	$ 21,764,716	$ 26,885,752	$ 4,306,442	$ 1,599
Jan-18	$ 51,618,431	$ 21,227,270	$ 26,076,591	$ 4,312,971	$ 1,599

Q. SDR-RB-16 If a claim for prepayments is included in the Work Capital Account, please provide a breakdown of the monthly balance of prepayments by type of prepayment for the preceding three calendar years and the current year-to-date. Update as additional monthly balances become available.

A. SDR-RB-16 Refer to Exhibit BSY-1 and Exhibit BSY-2, Schedule C-4, for the monthly balances of prepaid expenses for the year 2017 and to Attachment SDR-RB-16(a) for the monthly balances of prepaid expenses for 2015 and 2016.

Attachment SDR-RB-16(a)
Page 1 of 2

PECO - Electric Operations
Before The Pennsylvania Public Utility Commission
Historical Test Year Ended December 31, 2016
($ in Thousands)

Average Prepaid Expense

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]
			ELECTRIC	DISTRIBUTION ELECTRIC				ELECTRIC & GAS				ELECTRIC DIST & GAS		
Line No	Description	TOTAL	EPRI Dues	Prepaid Rents & Pole Attachments	EEI Dues	PUC Assessment Electric	Business Support Systems	VEBA Adjust	Facilities Contracts	IT Service Contracts	Fleet Activities	Land Leasing	Customer & Research	Postage
1	December, 2015	$ 9,269	$ -	$ 393	$ 0	$ 4,592	$ -	$ 2,451	$ 38	$ 850	$ 325	$ 29	$ 18	$ 573
2	January, 2016	8,927	-	326	428	3,827	-	2,451	205	641	333	29	9	679
3	February	8,956	-	324	543	3,061	104	2,451	183	1,393	335	29	0	533
4	March	6,917	-	254	489	2,296	104	1,336	161	1,322	325	29	65	535
5	April	6,107	-	220	434	1,531	-	1,336	139	1,441	334	29	43	599
6	May	5,593	-	220	380	765	-	1,336	117	1,687	334	29	22	703
7	June	11,194	-	331	322	6,000	-	1,527	171	1,584	300	28	176	755
8	July	9,985	-	267	269	5,235	-	1,527	149	1,437	298	28	149	628
9	August	8,931	-	261	215	4,469	-	1,527	126	1,205	277	28	142	681
10	September	8,065	-	226	161	4,451	-	934	104	1,023	270	28	111	755
11	October	8,646	-	347	107	5,406	-	934	82	814	271	28	80	575
12	November	8,059	-	298	54	4,731	-	934	60	740	295	28	49	870
13	December, 2016	6,740	-	393	0	4,055	-	798	38	712	294	28	81	341
14	TOTAL	$ 107,389	$ -	$ 3,862	$ 3,402	$ 50,420	$ 208	$ 19,541	$ 1,574	$ 14,849	$ 3,991	$ 370	$ 945	$ 8,227
15	Distribution Pct	Exp Factor	88.69%	100.00%	100.00%	100.00%	100.00%	69.876%	69.876%	69.876%	69.876%	76.714%	76.714%	76.714%
16	Distribution Amt	L14 * L15	$ -	$ 3,862	$ 3,402	$ 50,420	$ 208	$ 13,654	$ 1,100	$ 10,376	$ 2,789	$ 284	$ 725	$ 6,312
17	Number of Months	13												
18	Monthly Average	L16 / L17	$ -	$ 297	$ 262	$ 3,878	$ 16	$ 1,050	$ 85	$ 798	$ 215	$ 22	$ 56	$ 486
19	Rate Case Amount	$ 7,164												
	Sum L18													

Attachment SDR-RB-16(a)

PECO - Electric Operations
Before The Pennsylvania Public Utility Commission
Historical Test Year Ended December 31, 2015
($ in Thousands)

Average Prepaid Expense

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]
			ELECTRIC	DISTRIBUTION ELECTRIC				ELECTRIC & GAS				ELECTRIC DIST & GAS		
Line No	Description	TOTAL	EPRI Dues	Prepaid Rents & Pole Attachments	EEI Dues	PUC Assessment Electric	Business Support Systems	VEBA Adjust	Facilities Contracts	IT Service Contracts	Fleet Activities	Land Leasing	Customer & Research	Postage
1	December, 2014	$ 11,488	$ -	$ 252	$ 0	$ 4,017	$ -	$ 3,353	$ 253	$ 947	$ 333	$ 31	$ 891	$ 1,412
2	January, 2015	10,423	-	259	619	3,348	-	3,353	229	809	340	31	94	1,341
3	February	10,520	-	215	563	2,678	-	3,353	204	1,577	347	31	197	1,354
4	March	9,336	-	187	506	2,009	-	2,932	180	1,803	339	31	124	1,224
5	April	8,423	-	211	450	1,339	-	2,932	156	1,601	351	31	135	1,217
6	May	7,610	-	170	394	670	-	2,932	208	1,435	355	31	102	1,315
7	June	13,344	-	273	338	6,064	-	3,018	183	1,628	325	30	71	1,414
8	July	12,334	-	248	281	5,277	-	3,018	159	1,534	326	30	62	1,398
9	August	11,235	-	241	225	4,489	-	3,018	135	1,230	308	30	140	1,418
10	September	11,748	-	199	169	6,716	-	2,521	111	1,050	302	30	109	542
11	October	10,994	-	321	113	5,970	-	2,521	86	1,017	303	30	79	554
12	November	10,148	-	282	56	5,224	-	2,521	62	867	327	30	48	731
13	December, 2015	9,149	-	388	0	4,477	-	2,451	38	850	325	29	18	573
14	TOTAL	$ 136,751	$ -	$ 3,245	$ 3,714	$ 52,279	$ -	$37,923	$ 2,004	$ 16,347	$ 4,281	$ 395	$ 2,071	$ 14,493
15	Distribution Pct	Exp Factor	88.69%	100.00%	100.00%	100.00%	100.00%	69.876%	69.876%	69.876%	69.876%	76.714%	76.714%	76.714%
16	Distribution Amt	L14 * L15	$ -	$ 3,245	$ 3,714	$ 52,279	$ -	$26,499	$ 1,401	$ 11,423	$ 2,991	$ 303	$ 1,589	$ 11,118
17	Number of Months	13												
18	Monthly Average	L16 / L17	$ -	$ 250	$ 286	$ 4,021	$ -	$ 2,038	$ 108	$ 879	$ 230	$ 23	$ 122	$ 855
19	Rate Case Amount Sum L18	$ 8,812												

Q. SDR-RB-17	Please provide a copy of the workpapers supporting how the lead/lag days were determined for the lead/lag cash working capital analysis.
A. SDR-RB-17	Refer to Schedule C-4 of PECO Exhibits BSY-1 and BSY-2 and PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

SDR-RB-18
Page 1 of 1
Michael A. Innocenzo

Q. SDR-RB-18 Please identify the amount of Clean Air Act Amendment (CAAA) permit fees included in test year expenses and the category in which they are included in the lead/lag working capital study.

A. SDR-RB-18 Not applicable. PECO does not own any generation but instead purchases power from wholesale generation suppliers and the PJM capacity and energy markets to serve its default service customers.

Q. SDR-RB-19 Please provide the actual or projected payment dates for the CAAA permit fees for each state to which fees are paid for the preceding three calendar years and the current year.

A. SDR-RB-19 Not applicable. PECO does not own any generation but instead purchases power from wholesale generation suppliers and the PJM capacity and energy markets to serve its default service customers.

Q. SDR-RB-20 Has the Company claimed any construction work in progress? If so, provide a detailed schedule. Also provide a schedule listing the estimated completion date of CWIP and the estimated in service date.

A. SDR-RB-20 Not applicable. The Company has not claimed any construction work in progress.

SDR-RB-21
Page 1 of 1
Michael A. Innocenzo

Q. SDR-RB-21 Please explain how the Company determined the projected future test year tonnage or gallons of fuel inventory at each power station and provide workpapers supporting the derivation of those amounts.

A. SDR-RB-21 Not applicable. PECO does not own any generation but instead purchases power from wholesale generation suppliers and the PJM capacity and energy markets to serve its default service customers.

SDR-RB-22
Page 1 of 1
Michael A Innocenzo

Q. SDR-RB-22 Please explain and provide all workpapers showing the derivation of the estimated 13-month average inventory value of the fuel at each power station.

A. SDR-RB-22 Not applicable. PECO does not own any generation but instead purchases power from wholesale generation suppliers and the PJM capacity and energy markets to serve its default service customers.

Q. SDR-RB-23 Please provide the actual fuel inventory in tons or gallons and dollars at each power station at the end of each month from the commencement of the HTY through the most recent month available. Update as additional data become available.

A. SDR-RB-23 Not applicable. PECO does not own any generation but instead purchases power from wholesale generation suppliers and the PJM capacity and energy markets to serve its default service customers.

Q. SDR-RB-24 Please explain how the materials and supplies balances for the FTY were projected including inventory valuation method. Provide all supporting workpapers. If the Company uses a model to calculate material and Supply levels, supply an illustrative example of how the monthly balances are derived.

A. SDR-RB-24 Refer to Schedule C-11 of PECO Exhibits BSY-1 and BSY-2 for the Company's claim for materials and supplies, which is based on the average of recorded month end balances for electric operations for the thirteen months ended December 31, 2017.

Q. SDR-ROR-1 Please supply copies of the following documents for the Company and, if applicable, its parent:

a. Most recent Annual Report to shareholders (including any statistical supplements);
b. Most recent SEC Form 10-K;
c. All SEC Form 10-Q reports issued within last year.

A. SDR-ROR-1 Refer to the following attachments.

a. See the response to III-F-1 for the 2017 Exelon Corporation Annual Report

b. 2017 Exelon Corporation Form 10-K is provided as Attachment SDR-ROR-1(a)

c. Q1 2017 Exelon Corporation Form 10-Q is provided as Attachment SDR-ROR-1(b)
Q2 2017 Exelon Corporation Form 10-Q is provided as Attachment SDR-ROR-1(c)
Q3 2017 Exelon Corporation Form 10-Q is provided as Attachment SDR-ROR-1(d)

THE REQUESTED DOCUMENTS ARE VOLUMINOUS. THEREFORE, THEY ARE BEING PROVIDED ONLY IN ELECTRONIC FORM ON THE CD ACCOMPANYING THE COMPANY'S FILING.

10-K 1 exc-20171231x10k.htm FORM 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number	Name of Registrant; State or Other Jurisdiction of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street P.O. Box 805379 Chicago, Illinois 60680-5379 (800) 483-3220	23-2990190
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company) 300 Exelon Way Kennett Square, Pennsylvania 19348-2473 (610) 765-5959	23-3064219
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation) 440 South LaSalle Street Chicago, Illinois 60605-1028 (312) 394-4321	36-0938600
000-16844	PECO ENERGY COMPANY (a Pennsylvania corporation) P.O. Box 8699 2301 Market Street Philadelphia, Pennsylvania 19101-8699 (215) 841-4000	23-0970240
1-1910	BALTIMORE GAS AND ELECTRIC COMPANY (a Maryland corporation) 2 Center Plaza 110 West Fayette Street Baltimore, Maryland 21201-3708 (410) 234-5000	52-0280210
001-31403	PEPCO HOLDINGS LLC (a Delaware limited liability company) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	52-2297449
001-01072	POTOMAC ELECTRIC POWER COMPANY (a District of Columbia and Virginia corporation) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	53-0127880
001-01405	DELMARVA POWER & LIGHT COMPANY (a Delaware and Virginia corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	51-0084283

001-03559	ATLANTIC CITY ELECTRIC COMPANY (a New Jersey corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	21-0398280

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
EXELON CORPORATION:	
Common Stock, without par value	New York and Chicago
Series A Junior Subordinated Debentures	New York
Corporate Units	New York
PECO ENERGY COMPANY:	
Trust Receipts of PECO Energy Capital Trust III, each representing a 7.38% Cumulative Preferred Security, Series D, $25 stated value, issued by PECO Energy Capital, L.P. and unconditionally guaranteed by PECO Energy Company	New York

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class

COMMONWEALTH EDISON COMPANY:

Common Stock Purchase Warrants, 1971 Warrants and Series B Warrants

POTOMAC ELECTRIC POWER COMPANY:

Common Stock, $.01 par value

DELMARVA POWER & LIGHT COMPANY:

Common Stock, $2.25 par value

ATLANTIC CITY ELECTRIC COMPANY:

Common Stock, $3.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Exelon Corporation	Yes ¶	No ☐
Exelon Generation Company, LLC	Yes ¶	No ☐
Commonwealth Edison Company	Yes ¶	No ☐
PECO Energy Company	Yes ¶	No ☐
Baltimore Gas and Electric Company	Yes ¶	No ☐
Pepco Holdings LLC	Yes ¶	No ☐
Potomac Electric Power Company	Yes ☐	No ¶
Delmarva Power & Light Company	Yes ☐	No ¶
Atlantic City Electric Company	Yes ☐	No ¶

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Exelon Corporation	Yes ☐	No ¶
Exelon Generation Company, LLC	Yes ☐	No ¶
Commonwealth Edison Company	Yes ☐	No ¶
PECO Energy Company	Yes ☐	No ¶
Baltimore Gas and Electric Company	Yes ☐	No ¶
Pepco Holdings LLC	Yes ☐	No ¶
Potomac Electric Power Company	Yes ☐	No ¶
Delmarva Power & Light Company	Yes ☐	No ¶
Atlantic City Electric Company	Yes ☐	No ¶

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Ļ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Ļ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	**Accelerated Filer**	**Non-accelerated Filer**	**Smaller Reporting Company**	**Emerging Growth Company**
Exelon Corporation	¶				
Exelon Generation Company, LLC			¶		
Commonwealth Edison Company			¶		
PECO Energy Company			¶		
Baltimore Gas and Electric Company			¶		
Pepco Holdings LLC			¶		
Potomac Electric Power Company			¶		
Delmarva Power & Light Company			¶		
Atlantic City Electric Company			¶		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ¶

The estimated aggregate market value of the voting and non-voting common equity held by nonaffiliates of each registrant as of June 30, 2017 was as follows:

Exelon Corporation Common Stock, without par value	$34,604,071,959
Exelon Generation Company, LLC	Not applicable
Commonwealth Edison Company Common Stock, $12.50 par value	No established market
PECO Energy Company Common Stock, without par value	None
Baltimore Gas and Electric Company, without par value	None
Pepco Holdings LLC	Not applicable
Potomac Electric Power Company	None
Delmarva Power & Light Company	None
Atlantic City Electric Company	None

The number of shares outstanding of each registrant's common stock as of January 31, 2018 was as follows:

Exelon Corporation Common Stock, without par value	965,029,399
Exelon Generation Company, LLC	Not applicable
Commonwealth Edison Company Common Stock, $12.50 par value	127,021,256
PECO Energy Company Common Stock, without par value	170,478,507
Baltimore Gas and Electric Company Common Stock, without par value	1,000
Pepco Holdings LLC	Not applicable
Potomac Electric Power Company Common Stock, $0.01 par value	100
Delmarva Power & Light Company Common Stock, $2.25 par value	1,000
Atlantic City Electric Company Common Stock, $3.00 par value	8,546,017

Documents Incorporated by Reference

Portions of the Exelon Proxy Statement for the 2018 Annual Meeting of Shareholders and the Commonwealth Edison Company 2018 Information Statement are incorporated by reference in Part III.

Exelon Generation Company, LLC, PECO Energy Company, Baltimore Gas and Electric Company, Pepco Holdings LLC, Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and are therefore filing this Form in the reduced disclosure format.

TABLE OF CONTENTS

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GLOSSARY OF TERMS AND ABBREVIATIONS

Exelon Corporation and Related Entities	
Exelon	Exelon Corporation
Generation	Exelon Generation Company, LLC
ComEd	Commonwealth Edison Company
PECO	PECO Energy Company
BGE	Baltimore Gas and Electric Company
Pepco Holdings or PHI	Pepco Holdings LLC (formerly Pepco Holdings, Inc.)
Pepco	Potomac Electric Power Company
DPL	Delmarva Power & Light Company
ACE	Atlantic City Electric Company
Registrants	Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, collectively
Utility Registrants	ComEd, PECO, BGE, Pepco, DPL and ACE, collectively
Legacy PHI	PHI, Pepco, DPL, ACE, PES and PCI collectively
ACE Funding or ATF	Atlantic City Electric Transition Funding LLC
Antelope Valley	Antelope Valley Solar Ranch One
BondCo	RSB BondCo LLC
BSC	Exelon Business Services Company, LLC
CENG	Constellation Energy Nuclear Group, LLC
ConEdison Solutions	The competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc., a subsidiary of Consolidated Edison, Inc
Constellation	Constellation Energy Group, Inc.
EEDC	Exelon Energy Delivery Company, LLC
EGR IV	ExGen Renewables IV, LLC
EGTP	ExGen Texas Power, LLC
Entergy	Entergy Nuclear FitzPatrick, LLC
Exelon Corporate	Exelon in its corporate capacity as a holding company
Exelon Transmission Company	Exelon Transmission Company, LLC
Exelon Wind	Exelon Wind, LLC and Exelon Generation Acquisition Company, LLC
FitzPatrick	James A. FitzPatrick nuclear generating station
PCI	Potomac Capital Investment Corporation and its subsidiaries
PEC L.P.	PECO Energy Capital, L.P.
PECO Trust III	PECO Capital Trust III
PECO Trust IV	PECO Energy Capital Trust IV
Pepco Energy Services or PES	Pepco Energy Services, Inc. and its subsidiaries
PHI Corporate	PHI in its corporate capacity as a holding company
PHISCO	PHI Service Company
RPG	Renewable Power Generation
SolGen	SolGen, LLC
TMI	Three Mile Island nuclear facility
UII	Unicom Investments, Inc.

GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations

AEC	Alternative Energy Credit that is issued for each megawatt hour of generation from a qualified alternative energy source
AESO	Alberta Electric Systems Operator
AFUDC	Allowance for Funds Used During Construction
AGE	Albany Green Energy Project
AMI	Advanced Metering Infrastructure
AMP	Advanced Metering Program
AOCI	Accumulated Other Comprehensive Income
ARC	Asset Retirement Cost
ARO	Asset Retirement Obligation
ARP	Alternative Revenue Program
CAISO	California ISO
CAP	Customer Assistance Program
CCGTs	Combined-Cycle gas turbines
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
CES	Clean Energy Standard
Clean Air Act	Clean Air Act of 1963, as amended
Clean Water Act	Federal Water Pollution Control Amendments of 1972, as amended
Conectiv	Conectiv, LLC, a wholly owned subsidiary of PHI and the parent of DPL and ACE during the Predecessor periods
Conectiv Energy	Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries, which were sold to Calpine in July 2010
CSAPR	Cross-State Air Pollution Rule
CTA	Consolidated tax adjustment
D.C. Circuit Court	United States Court of Appeals for the District of Columbia Circuit
DCPSC	District of Columbia Public Service Commission
Default Electricity Supply	The supply of electricity by PHI's electric utility subsidiaries at regulated rates to retail customers who do not elect to purchase electricity from a competitive supplier, and which, depending on the jurisdiction, is also known as Standard Offer Service or BGS
DOE	United States Department of Energy
DOJ	United States Department of Justice
DPSC	Delaware Public Service Commission
DRP	Direct Stock Purchase and Dividend Reinvestment Plan
DSP	Default Service Provider
DSP Program	Default Service Provider Program
EDF	Electricite de France SA and its subsidiaries
EE&C	Energy Efficiency and Conservation/Demand Response
EIMA	Energy Infrastructure Modernization Act (Illinois Senate Bill 1652 and Illinois House Bill 3036)
EmPower Maryland	A Maryland demand-side management program for Pepco and DPL
EPA	United States Environmental Protection Agency
EPSA	Electric Power Supply Association

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations

ERCOT	Electric Reliability Council of Texas
ERISA	Employee Retirement Income Security Act of 1974, as amended
EROA	Expected Rate of Return on Assets
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FEJA	Illinois Public Act 99-0906 or Future Energy Jobs Act
FERC	Federal Energy Regulatory Commission
FRCC	Florida Reliability Coordinating Council
GAAP	Generally Accepted Accounting Principles in the United States
GCR	Gas Cost Rate
GHG	Greenhouse Gas
GSA	Generation Supply Adjustment
GWh	Gigawatt hour
IBEW	International Brotherhood of Electrical Workers
ICC	Illinois Commerce Commission
ICE	Intercontinental Exchange
Illinois EPA	Illinois Environmental Protection Agency
Illinois Settlement Legislation	Legislation enacted in 2007 affecting electric utilities in Illinois
Integrys	Integrys Energy Services, Inc.
IPA	Illinois Power Agency
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISO	Independent System Operator
ISO-NE	ISO New England Inc.
ISO-NY	ISO New York
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LLRW	Low-Level Radioactive Waste
LT Plan	Long-Term renewable resources procurement plan
LTIP	Long-Term Incentive Plan
MAPP	Mid-Atlantic Power Pathway
MATS	U.S. EPA Mercury and Air Toxics Rule
MBR	Market Based Rates Incentive
MDE	Maryland Department of the Environment
MDPSC	Maryland Public Service Commission
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator, Inc.
mmcf	Million Cubic Feet
Moody's	Moody's Investor Service
MOPR	Minimum Offer Price Rule

GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations

MRV	Market-Related Value
MW	Megawatt
MWh	Megawatt hour
n.m.	not meaningful
NAAQS	National Ambient Air Quality Standards
NAV	Net Asset Value
NDT	Nuclear Decommissioning Trust
NEIL	Nuclear Electric Insurance Limited
NERC	North American Electric Reliability Corporation
NGS	Natural Gas Supplier
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
Non-Regulatory Agreements Units	Nuclear generating units or portions thereof whose decommissioning-related activities are not subject to contractual elimination under regulatory accounting
NOSA	Nuclear Operating Services Agreement
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NUGs	Non-utility generators
NWPA	Nuclear Waste Policy Act of 1982
NYMEX	New York Mercantile Exchange
NYPSC	New York Public Service Commission
OCI	Other Comprehensive Income
OIESO	Ontario Independent Electricity System Operator
OPC	Office of People's Counsel
OPEB	Other Postretirement Employee Benefits
PA DEP	Pennsylvania Department of Environmental Protection
PAPUC	Pennsylvania Public Utility Commission
PGC	Purchased Gas Cost Clause
PJM	PJM Interconnection, LLC
POLR	Provider of Last Resort
POR	Purchase of Receivables
PPA	Power Purchase Agreement
Price-Anderson Act	Price-Anderson Nuclear Industries Indemnity Act of 1957
Preferred Stock	Originally issued shares of non-voting, non-convertible and non-transferable Series A preferred stock, par value $0.01 per share
PRP	Potentially Responsible Parties
PSEG	Public Service Enterprise Group Incorporated
PV	Photovoltaic
RCRA	Resource Conservation and Recovery Act of 1976, as amended
REC	Renewable Energy Credit which is issued for each megawatt hour of generation from a qualified renewable energy source

GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations

Regulatory Agreement Units	Nuclear generating units or portions thereof whose decommissioning-related activities are subject to contractual elimination under regulatory accounting
RES	Retail Electric Suppliers
RFP	Request for Proposal
Rider	Reconcilable Surcharge Recovery Mechanism
RGGI	Regional Greenhouse Gas Initiative
RMC	Risk Management Committee
ROE	Return on equity
RPM	PJM Reliability Pricing Model
RPS	Renewable Energy Portfolio Standards
RSSA	Reliability Support Services Agreement
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Services
SEC	United States Securities and Exchange Commission
Senate Bill 1	Maryland Senate Bill 1
SERC	SERC Reliability Corporation (formerly Southeast Electric Reliability Council)
SGIG	Smart Grid Investment Grant from DOE
SILO	Sale-In, Lease-Out
SNF	Spent Nuclear Fuel
SOS	Standard Offer Service
SPFPA	Security, Police and Fire Professionals of America
SPP	Southwest Power Pool
TCJA	Tax Cuts and Jobs Act
Transition Bond Charge	Revenue ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds and related taxes, expenses and fees
Transition Bonds	Transition Bonds issued by ACE Funding
Upstream	Natural gas and oil exploration and production activities
VIE	Variable Interest Entity
WECC	Western Electric Coordinating Council
ZEC	Zero Emission Credit
ZES	Zero Emission Standard

FILING FORMAT

This combined Annual Report on Form 10-K is being filed separately by Exelon Corporation, Exelon Generation Company, LLC, Commonwealth Edison Company, PECO Energy Company, Baltimore Gas and Electric Company, Pepco Holdings LLC, Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company (Registrants). Information contained herein relating to any individual Registrant is filed by such Registrant on its own behalf. No Registrant makes any representation as to information relating to any other Registrant.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by the Registrants include those factors discussed herein, including those factors discussed with respect to the Registrants discussed in (a) ITEM 1A. Risk Factors, (b) ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) ITEM 8. Financial Statements and Supplementary Data: Note 23, Commitments and Contingencies; and (d) other factors discussed in filings with the SEC by the Registrants. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Report.

WHERE TO FIND MORE INFORMATION

The public may read and copy any reports or other information that the Registrants file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These documents are also available to the public from commercial document retrieval services, the website maintained by the SEC at www.sec.gov and the Registrants' website at www.exeloncorp.com. Information contained on the Registrants' website shall not be deemed incorporated into, or to be a part of, this Report.

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PART I

ITEM 1. BUSINESS

General

Corporate Structure and Business and Other Information

Exelon, incorporated in Pennsylvania in February 1999, is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO, BGE, PHI, Pepco, DPL and ACE in the energy delivery businesses discussed below. Exelon's principal executive offices are located at 10 South Dearborn Street, Chicago, Illinois 60603.

Name of Registrant	State/Jurisdiction and Year of Incorporation	Business	Service Territories	Address of Principal Executive Offices
Exelon Generation Company, LLC	Pennsylvania (2000)	Generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity to both wholesale and retail customers. Generation also sells natural gas, renewable energy and other energy-related products and services.	Six reportable segments: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions	300 Exelon Way, Kennett Square, Pennsylvania 19348
Commonwealth Edison Company	Illinois (1913)	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	Northern Illinois, including the City of Chicago	440 South LaSalle Street, Chicago, Illinois 60605
PECO Energy Company	Pennsylvania (1929)	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Southeastern Pennsylvania, including the City of Philadelphia (electricity) Pennsylvania counties surrounding the City of Philadelphia (natural gas)	2301 Market Street, Philadelphia, Pennsylvania 19103
Baltimore Gas and Electric Company	Maryland (1906)	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Central Maryland, including the City of Baltimore (electricity and natural gas)	110 West Fayette Street, Baltimore, Maryland 21201
Pepco Holdings LLC	Delaware (2016)	Utility services holding company engaged, through its reportable segments Pepco, DPL and ACE	Service Territories of Pepco, DPL and ACE	701 Ninth Street, N.W., Washington, D.C. 20068
Potomac Electric Power Company	District of Columbia (1896) Virginia (1949)	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	District of Columbia and Major portions of Montgomery and Prince George's Counties, Maryland	701 Ninth Street, N.W., Washington, D.C. 20068
Delmarva Power & Light Company	Delaware (1909) Virginia (1979)	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Portions of Delaware and Maryland (electricity) Portions of New Castle County, Delaware (natural gas)	500 North Wakefield Drive, Newark, Delaware 19702

Atlantic City Electric Company	New Jersey (1924)	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	Portions of Southern New Jersey	500 North Wakefield Drive, Newark, Delaware 19702

Business Services

Through its business services subsidiary BSC, Exelon provides its operating subsidiaries with a variety of corporate governance support services including corporate strategy and development, legal, human resources, information technology, finance, real estate, security, corporate communications and supply at cost. The costs of these services are directly charged or allocated to the applicable operating segments. The services are provided pursuant to service agreements. Additionally, the results of Exelon's corporate operations include interest costs and income from various investment and financing activities.

PHI Service Company (PHISCO), a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, finance, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHISCO and the participating operating subsidiaries.

Operating Segments

See Note 25 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information on Exelon's operating segments.

Merger with Pepco Holdings, Inc. (Exelon)

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon's interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). Following the completion of the PHI Merger, Exelon and PHI completed a series of internal corporate organization restructuring transactions resulting in the transfer of PHI's unregulated business interests to Exelon and Generation and the transfer of PHI, Pepco, DPL and ACE to a special purpose subsidiary of EEDC. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional information on the PHI transaction.

Generation

Generation, one of the largest competitive electric generation companies in the United States as measured by owned and contracted MW, physically delivers and markets power across multiple geographic regions through its customer-facing business, Constellation. Constellation sells electricity and natural gas, including renewable energy, in competitive energy markets to both wholesale and retail customers. The retail sales include commercial, industrial and residential customers. Generation leverages its energy generation portfolio to ensure delivery of energy to both wholesale and retail customers under long-term and short-term contracts, and in wholesale power markets. Generation operates in well-developed energy markets and employs an integrated hedging strategy to manage commodity price volatility. Generation's fleet also provides geographic and supply source diversity. Generation's customers include distribution utilities, municipalities, cooperatives, financial institutions, and commercial, industrial, governmental, and residential customers in competitive markets. Generation's customer-facing activities foster development and delivery of other innovative energy-related products and services for its customers.

Generation is a public utility under the Federal Power Act and is subject to FERC’s exclusive ratemaking jurisdiction over wholesale sales of electricity and the transmission of electricity in interstate commerce. Under the Federal Power Act, FERC has the authority to grant or deny market-based rates for sales of energy, capacity and ancillary services to ensure that such sales are just and reasonable. FERC's jurisdiction over ratemaking includes the authority to suspend the market-based rates of utilities and set cost-based rates should FERC find that its previous grant of market-based rates authority is no longer just and reasonable. Other matters subject to FERC jurisdiction include, but are not limited to, third-party financings; review of mergers; dispositions of jurisdictional facilities and acquisitions of securities of another public utility or an existing operational generating facility; affiliate transactions; intercompany financings and cash management arrangements; certain internal corporate reorganizations; and certain holding company acquisitions of public utility and holding company securities.

RTOs and ISOs exist in a number of regions to provide transmission service across multiple transmission systems. FERC has approved PJM, MISO, ISO-NE and SPP as RTOs and CAISO and ISO-NY as ISOs. These entities are responsible for regional planning, managing transmission congestion, developing wholesale markets for energy and capacity, maintaining reliability, market monitoring, the scheduling of physical power sales brokered through ICE and NYMEX and the elimination or reduction of redundant transmission charges imposed by multiple transmission providers when wholesale customers take transmission service across several transmission systems. ERCOT is not subject to regulation by FERC but performs a similar function in Texas to that performed by RTOs in markets regulated by FERC.

Specific operations of Generation are also subject to the jurisdiction of various other Federal, state, regional and local agencies, including the NRC and Federal and state environmental protection agencies. Additionally, Generation is subject to NERC mandatory reliability standards, which protect the nation's bulk power system against potential disruptions from cyber and physical security breaches.

Constellation Energy Nuclear Group, LLC

Generation owns a 50.01% interest in CENG, a joint venture with EDF. CENG is governed by a board of ten directors, five of which are appointed by Generation and five by EDF. CENG owns a total of five nuclear generating facilities on three sites, Calvert Cliffs, R.E. Ginna (Ginna) and Nine Mile Point. CENG's ownership share in the total capacity of these units is 4,026 MW. See ITEM 2. PROPERTIES for additional information on these sites.

Generation and EDF entered into a Put Option Agreement on April 1, 2014, pursuant to which EDF has the option, exercisable beginning on January 1, 2016 and thereafter until June 30, 2022, to sell its 49.99% interest in CENG to Generation for a fair market value price determined by agreement of the parties, or absent agreement, a third-party arbitration process. The appraisers determining fair market value of EDF's 49.99% interest in CENG under the Put Option Agreement are instructed to take into account all rights and obligations under the CENG Operating Agreement, including Generation's rights with respect to any unpaid aggregate preferred distributions and the related return, and the value of Generation's rights to other distributions. In addition, under limited circumstances, the period for exercise of the put option may be extended for 18 months. In order to exercise its option, EDF must give 60-days advance written notice to Generation stating that it is exercising its option. To date, EDF has not given notice to Generation that it is exercising its option.

Prior to April 1, 2014, Exelon and Generation accounted for their investment in CENG under the equity method of accounting. The transfer of the nuclear operating licenses and the execution of the NOSA on April 1, 2014, resulted in the derecognition of the equity method investment in CENG and the recording of all assets, liabilities and EDF's noncontrolling interests in CENG at fair value on a fully consolidated basis in Exelon's and Generation's Consolidated Balance Sheets. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for further information regarding the CENG consolidation.

Acquisitions

James A. FitzPatrick Nuclear Generating Station

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick nuclear generating station located in Scriba, New York from Entergy Nuclear FitzPatrick LLC (Entergy) for a total purchase price consideration of $289 million, resulting in an after-tax bargain purchase gain of $233 million in 2017.

ConEdison Solutions

On September 1, 2016, Generation acquired the competitive retail electric and natural gas business activities of ConEdison Solutions, a subsidiary of Consolidated Edison, Inc., for a purchase price of $257 million including net working capital of $204 million. The renewable energy, sustainable services and energy efficiency businesses of ConEdison were excluded from the transaction.

Integrys Energy Services, Inc.

On November 1, 2014, Generation acquired the competitive retail electric and natural gas business activities of Integrys Energy Group, Inc. through the purchase of all of the stock of its wholly owned subsidiary, Integrys Energy Services, Inc. (Integrys) for a purchase price of $332 million, including net working capital. The generation and solar asset businesses of Integrys were excluded from the transaction.

Dispositions

ExGen Texas Power, LLC.

On May 2, 2017, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP, including the revolving credit facility. As a result, Exelon and Generation classified certain EGTP assets and liabilities as held for sale at their respective fair values less costs to sell and recorded associated pre-tax impairment charges of $460 million. On November 7, 2017, EGTP and all of its wholly owned subsidiaries filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. As a result of the bankruptcy filing, EGTP's assets and liabilities were deconsolidated from Exelon and Generation's consolidated financial statements. Exelon and Generation recorded a pre-tax gain upon deconsolidation of $213 million in the fourth quarter of 2017.

Asset Divestitures

During 2015 and 2014, Generation sold certain generating assets with total pre-tax proceeds of $1.8 billion (after-tax proceeds of approximately $1.4 billion). Proceeds were used primarily to finance a portion of the acquisition of PHI.

See Note 4 — Mergers, Acquisitions and Dispositions and Note 7 — Impairment of Long-Lived Assets and Intangibles of the Combined Notes to Consolidated Financial Statements for additional information on acquisitions and dispositions.

Generating Resources

At December 31, 2017, the generating resources of Generation consisted of the following:

Type of Capacity	MW
Owned generation assets[(a)(b)]	
Nuclear	20,310
Fossil (primarily natural gas and oil)	11,723
Renewable[(c)]	3,135
Owned generation assets[(e)]	35,168
Long-term power purchase contracts[(d)]	5,285
Total generating resources	40,453

(a) See "Fuel" for sources of fuels used in electric generation.
(b) Net generation capacity is stated at proportionate ownership share. See ITEM 2. PROPERTIES—Generation for additional information.
(c) Includes wind, hydroelectric and solar generating assets.
(d) Electric supply procured under site specific agreements.
(e) Includes EGTP generating assets that were deconsolidated from Generation's consolidated financial statements. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional information.

Generation has six reportable segments, the Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions, representing the different geographical areas in which Generation's generating resources are located and Generation's customer-facing activities are conducted.

- Mid-Atlantic represents operations in the eastern half of PJM, which includes Pennsylvania, New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of North Carolina (approximately 33% of capacity).

- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Indiana, Ohio, Michigan, Kentucky and Tennessee; and the United States footprint of MISO (excluding MISO's Southern Region), which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin and the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM; and parts of Montana, Missouri and Kentucky (approximately 34% of capacity).

- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont (approximately 6% of capacity).

- New York represents the operations within ISO-NY, which covers the state of New York in its entirety (approximately 6% of capacity).

- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas (approximately 16% of capacity).

- Other Power Regions is an aggregate of regions not considered individually significant (approximately 5% of capacity).

See Note 25 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information on revenues from external customers and revenues net of purchased power and fuel expense for each of Generation's reportable segments.

Nuclear Facilities

Generation has ownership interests in fifteen nuclear generating stations currently in service, consisting of 25 units with an aggregate of 20,310 MW of capacity. Generation wholly owns all of its nuclear generating stations, except for undivided ownership interests in three jointly-owned nuclear stations: Quad Cities (75% ownership), Peach Bottom (50% ownership), and Salem (42.59% ownership), which are consolidated on Exelon's and Generation's financial statements relative to its proportionate ownership interest in each unit, and a 50.01% membership interest in CENG, which owns Calvert Cliffs, Nine Mile Point [excluding Long Island Power Authority's 18% undivided ownership interest in Nine Mile Point Unit 2] and Ginna nuclear stations. CENG is 100% consolidated on Exelon's and Generation's financial statements.

Generation's nuclear generating stations are all operated by Generation, with the exception of the two units at Salem, which are operated by PSEG Nuclear, LLC (PSEG Nuclear), an indirect, wholly owned subsidiary of PSEG. In 2017, 2016 and 2015 electric supply (in GWh) generated from the nuclear generating facilities was 69%, 67% and 68%, respectively, of Generation's total electric supply, which also includes fossil, hydroelectric and renewable generation and electric supply purchased for resale. Generation's wholesale and retail power marketing activities are, in part, supplied by the output from the nuclear generating stations. See ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for further discussion of Generation's electric supply sources.

Nuclear Operations

Capacity factors, which are significantly affected by the number and duration of refueling and non-refueling outages, can have a significant impact on Generation's results of operations. As the largest generator of nuclear power in the United States, Generation can negotiate favorable terms for the materials and services that its business requires. Generation's operations from its nuclear plants have historically had minimal environmental impact and the plants have a safe operating history.

During 2017, 2016 and 2015, the nuclear generating facilities operated by Generation achieved capacity factors of 94.1%, 94.6% and 93.7%, respectively. The capacity factors reflect ownership percentage of stations operated by Generation and include CENG. Generation manages its scheduled refueling outages to minimize their duration and to maintain high nuclear generating capacity factors, resulting in a stable generation base for Generation's wholesale and retail power marketing activities. During scheduled refueling outages, Generation performs maintenance and equipment upgrades in order to minimize the occurrence of unplanned outages and to maintain safe, reliable operations.

In addition to the maintenance and equipment upgrades performed by Generation during scheduled refueling outages, Generation has extensive operating and security procedures in place to ensure the safe operation of the nuclear units. Generation also has extensive safety systems in place to protect the plant, personnel and surrounding area in the unlikely event of an accident or other incident.

Regulation of Nuclear Power Generation

Generation is subject to the jurisdiction of the NRC with respect to the operation of its nuclear generating stations, including the licensing for operation of each unit. The NRC subjects nuclear generating stations to continuing review and regulation covering, among other things, operations, maintenance, emergency planning, security and environmental and radiological aspects of those stations. As part of its reactor oversight process, the NRC continuously assesses unit performance indicators and inspection results, and communicates its assessment on a semi-annual basis. All nuclear generating stations operated by Generation, except for Clinton, are categorized by the NRC in the Licensee Response Column, which is the highest of five performance bands. As of February 1, 2018, the NRC categorized Clinton in the Regulatory Response Column, which is the second highest of five performance bands. The NRC may modify, suspend or revoke operating licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under such

Act or the terms of the operating licenses. Changes in regulations by the NRC may require a substantial increase in capital expenditures and/or operating costs for nuclear generating facilities.

Licenses

Generation has original 40-year operating licenses from the NRC for each of its nuclear units and has received 20-year operating license renewals from the NRC for all its nuclear units except Clinton. Additionally, PSEG has received 20-year operating license renewals for Salem Units 1 and 2. On May 30, 2017, Exelon announced that Generation will permanently cease generation operations at TMI on or about September 30, 2019. On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. In 2010, Generation had previously agreed to permanently cease generation operations at Oyster Creek by the end of 2019. See Note 8 — Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements for additional information regarding the early retirement of TMI. See Note 28 — Subsequent Events of the Combined Notes to Consolidated Financial Statements for additional information regarding the early retirement of Oyster Creek.

The following table summarizes the current operating license expiration dates for Generation's nuclear facilities in service:

Station	Unit	In-Service Date[(a)]	Current License Expiration
Braidwood	1	1988	2046
	2	1988	2047
Byron	1	1985	2044
	2	1987	2046
Calvert Cliffs	1	1975	2034
	2	1977	2036
Clinton(b)	1	1987	2026
Dresden	2	1970	2029
	3	1971	2031
FitzPatrick	1	1974	2034
LaSalle	1	1984	2042
	2	1984	2043
Limerick	1	1986	2044
	2	1990	2049
Nine Mile Point	1	1969	2029
	2	1988	2046
Oyster Creek(c)	1	1969	2029
Peach Bottom(d)	2	1974	2033
	3	1974	2034
Quad Cities	1	1973	2032
	2	1973	2032
Ginna	1	1970	2029
Salem	1	1977	2036
	2	1981	2040
Three Mile Island(e)	1	1974	2034

(a) Denotes year in which nuclear unit began commercial operations.

(b) Although timing has been delayed, Generation currently plans to seek license renewal for Clinton and has advised the NRC that any license renewal application would not be filed until the first quarter of 2021.

(c) Generation had previously announced and notified the NRC that it will permanently cease generation operations at Oyster Creek by the end of 2019. On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018.

(d) On June 7, 2016, Generation announced that it will submit a second 20-year license renewal application to NRC for Peach Bottom Units 2 and 3 in 2018.

(e) On May 30, 2017, Exelon announced that Generation will permanently cease generation operations at TMI on or about September 30, 2019 and has notified the NRC.

The operating license renewal process takes approximately four to five years from the commencement of the renewal process, which includes approximately two years for Generation to develop the application and approximately two years for the NRC to review the application. To date, each granted license renewal has been for 20 years beyond the original operating license expiration. Depreciation provisions are based on the estimated useful lives of the stations, which reflect the actual renewal of operating licenses for all of Generation's operating nuclear generating stations except for Oyster Creek, TMI and Clinton. In 2017, Oyster Creek and TMI depreciation provisions were based on

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their 2019 expected shutdown dates. Beginning February 2018, Oyster Creek depreciation provisions will be based on its announced shutdown date of 2018. Clinton depreciation provisions are based on 2027 which is the last year of the Illinois Zero Emissions Standard. See Note 3 - Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional detail on the new Illinois legislation and Note 8 — Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements for additional detail on early retirements.

Nuclear Waste Storage and Disposal

There are no facilities for the reprocessing or permanent disposal of SNF currently in operation in the United States, nor has the NRC licensed any such facilities. Generation currently stores all SNF generated by its nuclear generating facilities on-site in storage pools or in dry cask storage facilities. Since Generation's SNF storage pools generally do not have sufficient storage capacity for the life of the respective plant, Generation has developed dry cask storage facilities to support operations.

As of December 31, 2017, Generation had approximately 84,100 SNF assemblies (20,600 tons) stored on site in SNF pools or dry cask storage (this includes SNF assemblies at Zion Station, for which Generation retains ownership even though the responsibility for decommissioning Zion Station has been assumed by another party; see Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding Zion Station Decommissioning). All currently operating Generation-owned nuclear sites have on-site dry cask storage, except for TMI, where such storage is projected to be in operation in 2021. On-site dry cask storage in concert with on-site storage pools will be capable of meeting all current and future SNF storage requirements at Generation's sites through the end of the license renewal periods and through decommissioning.

For a discussion of matters associated with Generation's contracts with the DOE for the disposal of SNF, see Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements.

As a by-product of their operations, nuclear generating units produce LLRW. LLRW is accumulated at each generating station and permanently disposed of at licensed disposal facilities. The Federal Low-Level Radioactive Waste Policy Act of 1980 provides that states may enter into agreements to provide regional disposal facilities for LLRW and restrict use of those facilities to waste generated within the region. Illinois and Kentucky have entered into such an agreement, although neither state currently has an operational site and none is anticipated to be operational until after 2020.

Generation ships its Class A LLRW, which represents 93% of LLRW generated at its stations, to disposal facilities in Utah and South Carolina, which have enough storage capacity to store all Class A LLRW for the life of all stations in Generation's nuclear fleet. The disposal facility in South Carolina at present is only receiving LLRW from LLRW generators in South Carolina, New Jersey (which includes Oyster Creek and Salem) and Connecticut.

Generation utilizes on-site storage capacity at all its stations to store and stage for shipping Class B and Class C LLRW. Generation has a contract through 2032 to ship Class B and Class C LLRW to a disposal facility in Texas. The agreement provides for disposal of all current Class B and Class C LLRW currently stored at each station as well as the Class B and Class C LLRW generated during the term of the agreement. However, because the production of LLRW from Generation's nuclear fleet will exceed the capacity at the Texas site (3.9 million curies for 15 years beginning in 2012), Generation will still be required to utilize on-site storage at its stations for Class B and Class C LLRW. Generation currently has enough storage capacity to store all Class B and Class C LLRW for the life of all stations in Generation's nuclear fleet. Generation continues to pursue alternative disposal strategies for LLRW, including an LLRW reduction program to minimize on-site storage and cost impacts.

Nuclear Insurance

Generation is subject to liability, property damage and other risks associated with major incidents at any of its nuclear stations, including the CENG nuclear stations. Generation has reduced its financial exposure to these risks through insurance and other industry risk-sharing provisions. See “Nuclear Insurance” within Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for details.

For information regarding property insurance, see ITEM 2. PROPERTIES — Generation. Generation is self-insured to the extent that any losses may exceed the amount of insurance maintained or are within the policy deductible for its insured losses. Such losses could have a material adverse effect on Exelon’s and Generation’s future financial conditions and results of operations and cash flows.

Decommissioning

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in specified minimum amounts at the end of the life of the facility to decommission the facility. The ultimate decommissioning obligation will be funded by the NDTs. The NDTs are recorded on Exelon’s and Generation’s Consolidated Balance Sheets at December 31, 2017 at fair value of approximately $13.3 billion and have an estimated targeted annual pre-tax return of 4.8% to 6.4%, while the Nuclear AROs are recorded on Exelon’s and Generation’s Consolidated Balance Sheets at December 31, 2017 at approximately $9.7 billion and have an estimated annual average accretion of the ARO of approximately 5% through a period of approximately 30 years after the end of the extended lives of the units. See ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Exelon Corporation, Executive Overview; ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Critical Accounting Policies and Estimates, Nuclear Decommissioning, Asset Retirement Obligations and Nuclear Decommissioning Trust Fund Investments; and Note 3 — Regulatory Matters, Note 11 — Fair Value of Financial Assets and Liabilities and Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding Generation’s NDT funds and its decommissioning obligations.

Zion Station Decommissioning. On December 11, 2007, Generation entered into an Asset Sale Agreement (ASA) with EnergySolutions, Inc. and its wholly owned subsidiaries, EnergySolutions, LLC (EnergySolutions) and ZionSolutions, LLC (ZionSolutions) under which ZionSolutions assumed responsibility for decommissioning Zion Station, which is in Zion, Illinois, and ceased operation in 1998.

On September 1, 2010, Generation and EnergySolutions completed the transactions contemplated by the ASA. Specifically, Generation transferred to ZionSolutions substantially all of the assets (other than land) associated with Zion Station, including assets held in related NDT funds. In consideration for Generation’s transfer of those assets, ZionSolutions assumed decommissioning and other liabilities, excluding the obligation to dispose of SNF, associated with Zion Station. Pursuant to the ASA, ZionSolutions will periodically request reimbursement from the Zion Station-related NDT funds for costs incurred related to the decommissioning efforts at Zion Station. However, ZionSolutions is subject to certain restrictions on its ability to request reimbursement; specifically, if certain milestones as defined in the ASA are not met, all or a portion of requested reimbursements shall be deferred until such milestones are met. See Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding Zion Station decommissioning and see Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for a discussion of variable interest entity considerations related to ZionSolutions.

Fossil and Renewable Facilities (including Hydroelectric)

At December 31, 2017, Generation had ownership interests in 14,858 MW of capacity in generating facilities currently in service, consisting of 11,723 MW of natural gas and oil, and 3,135 MW of renewables (wind, hydroelectric and solar). Generation wholly owns all of its fossil and renewable generating stations, with the exception of: (1) Wyman; (2) certain wind project entities and a biomass project entity with minority interest owners; and (3) ExGen Renewables Partners, LLC which is owned 49% by another owner. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for additional information regarding certain of these entities which are VIEs. Generation's fossil and renewable generating stations are all operated by Generation, with the exception of LaPorte and Wyman, which are operated by third parties. In 2017, 2016 and 2015, electric supply (in GWh) generated from owned fossil and renewable generating facilities was 12%, 10% and 8%, respectively, of Generation's total electric supply. The majority of this output was dispatched to support Generation's wholesale and retail power marketing activities. For additional information regarding Generation's electric generating facilities, see ITEM 2. PROPERTIES — Exelon Generation Company, LLC and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Exelon Corporation, Executive Overview for additional information on Generation Renewable Development.

Licenses

Fossil and renewable generation plants are generally not licensed, and, therefore, the decision on when to retire plants is, fundamentally, a commercial one. FERC has the exclusive authority to license most non-Federal hydropower projects located on navigable waterways or Federal lands, or connected to the interstate electric grid, which include Generation's Conowingo Hydroelectric Project (Conowingo) and Muddy Run Pumped Storage Facility Project (Muddy Run). On August 29, 2012 and August 30, 2012, Generation submitted hydroelectric license applications to the FERC for 46-year licenses for the Conowingo and Muddy Run, respectively. On December 22, 2015, FERC issued a new 40-year license for Muddy Run. The license term expires on December 1, 2055. Based on the FERC procedural schedule, the FERC licensing process for Conowingo was not completed prior to the expiration of the plant's license on September 1, 2014. The FERC is required to issue annual licenses for Conowingo until the new long-term license is issued. On September 10, 2014, FERC issued an annual license for Conowingo, effective as of the expiration of the previous license. The annual license renews automatically absent any further FERC action. The stations are currently being depreciated over their estimated useful lives, which includes actual and anticipated license renewal periods. Refer to Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Insurance

Generation maintains business interruption insurance for its renewable projects, but not for its fossil and hydroelectric operations unless required by contract or financing agreements. Refer to Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information on financing agreements. Generation maintains both property damage and liability insurance. For property damage and liability claims for these operations, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon's and Generation's future financial conditions and their results of operations and cash flows. For information regarding property insurance, see ITEM 2. PROPERTIES — Exelon Generation Company, LLC.

Long-Term Power Purchase Contracts

In addition to energy produced by owned generation assets, Generation sources electricity from plants it does not own under long-term contracts. The following tables summarize Generation's long-term contracts to purchase unit-specific physical power with an original term in excess of one year in duration, by region, in effect as of December 31, 2017:

Region	Number of Agreements	Expiration Dates	Capacity (MW)
Mid-Atlantic	14	2019 - 2032	237
Midwest	4	2019 - 2026	834
New England	7	2018	40
ERCOT	5	2020 - 2031	1,524
Other Power Regions	12	2018 - 2030	2,650
Total	42		5,285

	2018	2019	2020	2021	2022	Thereafter	Total
Capacity Expiring (MW)	141	644	1,020	815	298	2,367	5,285

Fuel

The following table shows sources of electric supply in GWh for 2017 and 2016:

	Source of Electric Supply	
	2017	2016
Nuclear[(a)]	182,843	176,799
Purchases — non-trading portfolio	51,595	59,987
Fossil (primarily natural gas and oil)	22,546	19,830
Renewable[(b)]	7,848	6,324
Total supply	264,832	262,940

(a) Includes the proportionate share of output where Generation has an undivided ownership interest in jointly-owned generating plants and includes the total output of plants that are fully consolidated (e.g., CENG). Nuclear generation for 2017 and 2016 includes physical volumes of 34,761 GWh and 33,444 GWh, respectively, for CENG.

(b) Includes wind, hydroelectric and solar generating assets.

The fuel costs per MWh for nuclear generation are less than those for fossil-fuel generation. Consequently, nuclear generation is generally the most cost-effective way for Generation to meet its wholesale and retail load servicing requirements.

The cycle of production and utilization of nuclear fuel includes the mining and milling of uranium ore into uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride, the enrichment of the uranium hexafluoride and the fabrication of fuel assemblies. Generation has inventory in various forms and does not anticipate difficulty in obtaining the necessary uranium concentrates or conversion, enrichment or fabrication services to meet the nuclear fuel requirements of its nuclear units.

Natural gas is procured through long-term and short-term contracts, as well as spot-market purchases. Fuel oil inventories are managed so that in the winter months sufficient volumes of fuel are available in the event of extreme weather conditions and during the remaining months to take advantage of favorable market pricing.

Generation uses financial instruments to mitigate price risk associated with certain commodity price exposures, using both over-the-counter and exchange-traded instruments. See ITEM 1A. RISK FACTORS, ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

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AND RESULTS OF OPERATIONS, Critical Accounting Policies and Estimates and Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding derivative financial instruments.

Power Marketing

Generation's integrated business operations include physical delivery and marketing of power. Generation largely obtains physical power supply from its generating assets and power purchase agreements in multiple geographic regions. Power purchase agreements, including tolling arrangements, are commitments related to power generation of specific generation plants and/or dispatch similar to an owned asset depending on the type of underlying asset. The commodity risks associated with the output from generating assets and PPAs are managed using various commodity transactions including sales to customers. The main objective is to obtain low-cost energy supply to meet physical delivery obligations to both wholesale and retail customers. Generation sells electricity, natural gas and other energy related products and solutions to various customers, including distribution utilities, municipalities, cooperatives, and commercial, industrial, governmental and residential customers in competitive markets. Where necessary, Generation may also purchase transmission service to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs.

Price and Supply Risk Management

Generation also manages the price and supply risks for energy and fuel associated with generation assets and the risks of power marketing activities. Generation implements a three-year ratable sales plan to align its hedging strategy with its financial objectives. Generation may also enter into transactions that are outside of this ratable sales plan. Generation is exposed to commodity price risk in 2018 and beyond for portions of its electricity portfolio that are unhedged. As of December 31, 2017, the percentage of expected generation hedged is 85%-88%, 55%-58% and 26%-29% for 2018, 2019, and 2020, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts, including sales to ComEd, PECO, BGE, Pepco, DPL and ACE to serve their retail load. A portion of Generation's hedging strategy may be implemented through the use of fuel products based on assumed correlations between power and fuel prices. The risk management group and Exelon's RMC monitor the financial risks of the wholesale and retail power marketing activities. Generation also uses financial and commodity contracts for proprietary trading purposes, but this activity accounts for only a small portion of Generation's efforts. The proprietary trading portfolio is subject to a risk management policy that includes stringent risk management limits. See ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK for additional information.

Capital Expenditures

Generation's business is capital intensive and requires significant investments primarily in nuclear fuel and energy generation assets. Generation's estimated capital expenditures for 2018 are approximately $2.1 billion, which includes Generation's share of the investment in nuclear fuel for the co-owned Salem plant.

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ComEd, PECO, BGE, Pepco, DPL and ACE

Utility Operations

Service Territories and Franchise Agreements

The following table presents the size of service territories, populations of each service territory and the number of customers within each service territory for the Utility Registrants as of December 31, 2017:

	Service Territories (in square miles)			Service Territory Population (in millions)			Number of Customers (in millions)		
	Total	**Electric**	**Natural gas**	**Total**	**Electric**	**Natural gas**	**Total**	**Electric**	**Natural gas**
ComEd	11,400	11,400	n/a	9.4 (a)	9.4	n/a	4.0	4.0	n/a
PECO	2,100	1,900	1,900	4.0 (b)	4.0	2.4	1.6	1.6	0.5
BGE	3,250	2,300	3,050	3.1 (c)	3.0	2.9	1.3	1.3	0.7
Pepco	640	640	n/a	2.4 (d)	2.4	n/a	0.9	0.9	n/a
DPL	5,400	5,400	275	1.4 (e)	1.4	0.6	0.5	0.5	0.1
ACE	2,800	2,800	n/a	1.1 (f)	1.1	n/a	0.6	0.6	n/a

(a) Includes approximately 2.7 million in the city of Chicago.
(b) Includes approximately 1.6 million in the city of Philadelphia.
(c) Includes approximately 0.6 million in the city of Baltimore.
(d) Includes approximately 0.7 million in the District of Columbia.
(e) Includes approximately 0.1 million in the city of Wilmington.
(f) Includes approximately 0.1 million in the city of Atlantic City.

The Utility Registrants have the necessary authorizations to perform their current business of providing regulated electric and natural gas distribution services in the various municipalities and territories in which they now supply such services. These authorizations include charters, franchises, permits, and certificates of public convenience issued by local and state governments and state utility commissions. ComEd's, BGE's and ACE's rights are generally non-exclusive; while PECO's, Pepco's and DPL's rights are generally exclusive. Certain authorizations are perpetual while others have varying expiration dates. The Utility Registrants anticipate working with the appropriate governmental bodies to extend or replace the authorizations prior to their expirations.

Utility Regulations

State utility commissions regulate the Utility Registrants' electric and gas distribution rates and service, issuances of certain securities, and certain other aspects of the business. The following table outlines the state commissions responsible for utility oversight.

Registrant	**Commission**
ComEd	ICC
PECO	PAPUC
BGE	MDPSC
Pepco	DCPSC/MDPSC
DPL	DPSC/MDPSC
ACE	NJBPU

The Utility Registrants are public utilities under the Federal Power Act subject to regulation by FERC related to transmission rates and certain other aspects of the utilities' business. The U.S. Department of Transportation also regulates pipeline safety and other areas of gas operations for PECO, BGE and DPL. Additionally, the Utility Registrants are subject to NERC mandatory reliability standards, which protect the nation's bulk power system against potential disruptions from cyber and physical security breaches.

Seasonality Impacts on Delivery Volumes

The Utility Registrants' electric distribution volumes are generally higher during the summer and winter months when temperature extremes create demand for either summer cooling or winter heating. For PECO, BGE and DPL, natural gas distribution volumes are generally higher during the winter months when cold temperatures create demand for winter heating.

ComEd, BGE, Pepco and DPL Maryland have electric distribution decoupling mechanisms and BGE has a natural gas decoupling mechanism that eliminate the favorable and unfavorable impacts of weather and customer usage patterns on electric distribution and natural gas delivery volumes. As a result, ComEd's, BGE's, Pepco's and DPL's Maryland electric distribution revenues and BGE's natural gas revenues are not materially impacted by delivery volumes. PECO's and ACE's electric distribution revenues and DPL's Delaware electric distribution and natural gas revenues are impacted by delivery volumes.

Electric and Natural Gas Distribution Services

The Utility Registrants are allowed to recover reasonable costs and fair and prudent capital expenditures associated with electric and natural gas distribution services and earn a return on those capital expenditures, subject to commission approval. ComEd recovers costs through a performance-based rate formula. ComEd is required to file an update to the performance-based rate formula on an annual basis. PECO's, BGE's and DPL's electric and gas distribution costs and Pepco's and ACE's electric distribution costs are recovered through traditional rate case proceedings. In certain instances, the Utility Registrants use specific recovery mechanisms as approved by their respective regulatory agencies.

ComEd, Pepco and ACE customers have the choice to purchase electricity, and PECO, BGE and DPL customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers. The Utility Registrants remain the distribution service providers for all customers and are obligated to deliver electricity and natural gas to customers in their respective service territories while charging a regulated rate for distribution service. In addition, the Utility Registrants also retain significant default service obligations to provide electricity to certain groups of customers in their respective service areas who do not choose a competitive electric generation supplier. PECO and BGE also retain significant default service obligations to provide natural gas to certain groups of customers in their respective service areas who do not choose a competitive natural gas supplier. For natural gas, DPL does not retain default service obligations.

For customers that choose to purchase electric generation or natural gas from competitive suppliers, the Utility Registrants act as the billing agent and therefore do not record Operating revenues or Purchased power and fuel expense related to the electricity and/or natural gas. Refer to ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Results of Operations for further information. For customers that choose to purchase electric generation or natural gas from a Utility Registrant, the Utility Registrants are permitted to recover the electricity and natural gas procurement costs without mark-up and therefore record equal and offsetting amounts of Operating revenues and Purchased power and fuel expense related to the electricity and/or natural gas. As a result, fluctuations in electricity or natural gas sales and procurement costs

have no impact on the Utility Registrants' Revenues net of purchased power and fuel expense, which is a non-GAAP measure used to evaluate operational performance, or Net Income.

Procurement-Related Proceedings

The Utility Registrants' electric supply for its customers is primarily procured through contracts as required by the ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU. The Utility Registrants procure electricity supply from various approved bidders, including Generation. RTO spot market purchases and sales are utilized to balance the utility electric load and supply as required. Charges incurred for electric supply procured through contracts with Generation are included in Purchased power from affiliates on the Utility Registrants' Statements of Operations and Comprehensive Income.

PECO's, BGE's and DPL's natural gas supplies are purchased from a number of suppliers for terms of up to three years. PECO, BGE and DPL have annual firm supply and transportation contracts of 132,000 mmcf, 128,000 mmcf and 58,000 mmcf, respectively. In addition, to supplement gas supply at times of heavy winter demands and in the event of temporary emergencies, PECO, BGE and DPL have available storage capacity from the following sources:

	Peak Natural Gas Sources (in mmcf)		
	Liquefied Natural Gas Facility	**Propane-Air Plant**	**Underground Storage Service Agreements** [(a)]
PECO	1,200	150	18,000
BGE	1,056	550	22,000
DPL	257	n/a	3,800

(a) Natural gas from underground storage represents approximately 28%, 46% and 34% of PECO's, BGE's and DPL's 2017-2018 heating season planned supplies, respectively.

PECO, BGE and DPL have long-term interstate pipeline contracts and also participate in the interstate markets by releasing pipeline capacity or bundling pipeline capacity with gas for off-system sales. Off-system gas sales are low-margin direct sales of gas to wholesale suppliers of natural gas. Earnings from these activities are shared between the utilities and customers. PECO, BGE and DPL make these sales as part of a program to balance its supply and cost of natural gas. The off-system gas sales are not material to PECO, BGE and DPL.

Refer to ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK, Commodity Price, for further information regarding Utility Registrants' contracts to procure electric supply and natural gas.

Energy Efficiency Programs

The Utility Registrants are allowed to recover costs associated with energy efficiency and demand response programs. Each commission approved program seeks to meet mandated electric consumption reduction targets and implement demand response measures to reduce peak demand. The programs are designed to meet standards required by each respective regulatory agency.

The Utility Registrants are allowed to earn a return on their energy efficiency costs. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further information.

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Capital Investment

The Utility Registrants' businesses are capital intensive and require significant investments, primarily in electric transmission and distribution and natural gas transportation and distribution facilities, to ensure the adequate capacity, reliability and efficiency of their systems. ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's most recent estimates of capital expenditures for plant additions and improvements for 2018 are as follows:

	Projected 2018 Capital Expenditure Spending			
(in millions)	**Transmission**	**Distribution**	**Gas**	**Total**
ComEd	$ 375	$ 1,750	N/A	$ 2,125
PECO	125	450	$ 225	800
BGE	175	425	400	1,000
Pepco	125	600	N/A	725
DPL	150	200	50	400
ACE	175	200	N/A	375

ComEd, PECO, BGE, Pepco and DPL have AMI smart meter and smart grid deployment programs within their respective service territories to enhance their distribution systems. PECO, BGE, Pepco and DPL have completed the installation and activation of smart meters and smart grid in their respective service territories. ComEd expects to complete its smart meter and smart grid deployment in 2018.

Transmission Services

Under FERC's open access transmission policy, the Utility Registrants, as owners of transmission facilities, are required to provide open access to their transmission facilities under filed tariffs at cost-based rates approved by FERC. The Utility Registrants and their affiliates are required to comply with FERC's Standards of Conduct regulation governing the communication of non-public transmission information between the transmission owner's employees and wholesale merchant employees.

PJM is the regional grid operator and operates pursuant to FERC-approved tariffs. PJM is the transmission provider under, and the administrator of, the PJM Open Access Transmission Tariff (PJM Tariff). PJM operates the PJM energy, capacity and other markets, and, through central dispatch, controls the day-to-day operations of the bulk power system for the region. The Utility Registrants are members of PJM and provide regional transmission service pursuant to the PJM Tariff. The Utility Registrants and the other transmission owners in PJM have turned over control of their transmission facilities to PJM, and their transmission systems are under the dispatch control of PJM. Under the PJM Tariff, transmission service is provided on a region-wide, open-access basis using the transmission facilities of the PJM transmission owners at rates based on the costs of transmission service.

ComEd's transmission rates are established based on a formula that was approved by FERC in January 2008. BGE's, Pepco's, DPL's and ACE's transmission rates are established based on a formula that was approved by FERC in April 2006. FERC's orders establish the agreed-upon treatment of costs and revenues in the determination of network service transmission rates and the process for updating the formula rate calculation on an annual basis.

On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The new formula was accepted by FERC effective as of December 1, 2017, subject to refund and set for hearing and settlement judge proceedings, which are currently ongoing. See Note 3

— Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional detail regarding the transmission formula late.

See Note 3 — Regulatory Matters, Note 25—Segment Information of the Combined Notes to Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Liquidity and Capital Resources for additional information regarding transmission services.

Employees

As of December 31, 2017, Exelon and its subsidiaries had 34,621 employees in the following companies, of which 11,845 or 34% were covered by collective bargaining agreements (CBAs):

	IBEW Local 15[(a)]	IBEW Local 614[(b)]	Other CBAs	Total Employees Covered by CBAs	Total Employees
Generation[(c)]	1,660	97	2,729	4,486	15,011
ComEd	3,515	—	—	3,515	6,280
PECO	—	1,148	—	1,148	2,534
BGE[(d)]	—	—	—	—	3,022
PHI[(e)]	—	—	322	322	1,320
Pepco[(e)]	—	—	1,151	1,151	1,582
DPL[(e)]	—	—	688	688	944
ACE[(e)]	—	—	421	421	647
Other[(f)]	65	—	49	114	3,281
Total	5,240	1,245	5,360	11,845	34,621

(a) A separate CBA between ComEd and IBEW Local 15 covers approximately 65 employees in ComEd's System Services Group and was renewed in 2016. Generation's and ComEd's separate CBAs with IBEW Local 15 will expire in 2022.

(b) PECO craft and call center employees in the Philadelphia service territory are covered by CBAs with IBEW Local 614, both expiring in 2021. Additionally, Exelon Power, an operating unit of Generation, has an agreement covering 97 employees, which was renewed in 2016 and expiring in 2019.

(c) During 2017, Generation finalized CBAs with the Security Officer unions at LaSalle, Limerick and Quad Cities, which all will expire in 2020 and Dresden expiring in 2021. Additionally, during 2017, Generation acquired and combined two CBAs at FitzPatrick into one CBA covering both craft and security employees, which will expire in 2023. During 2016, Generation finalized its CBA with the Security Officer union at Oyster Creek, expiring in 2022 and New Energy IUOE Local 95-95A, which will expire in 2021. Also, during 2016, Generation finalized a 5-year agreement with the New England ENEH, UWUA Local 369, which will expire in 2022. During 2015, Generation finalized its CBA with Clinton Local 51 which will expire in 2020; its two CBAs with Local 369 at Mystic 7 and Mystic 8/9, both expiring in 2020; and four Security Officer unions at Braidwood, Byron, Clinton and TMI, all expiring between 2018 and 2021, respectively. During 2014, Generation finalized CBAs with TMI Local 777 and Oyster Creek Local 1289, expiring in 2019 and 2021, respectively and CENG finalized its CBA with Nine Mile Point which will expire in 2020. Additionally, during 2014, an agreement was negotiated with Las Vegas District Energy and IUOE Local 501, which will expire in 2018.

(d) In January 2017, an election was held at BGE which resulted in union representation for 1,394 employees at the end of the year. BGE and IBEW Local 410 are negotiating an initial agreement which could result in some modifications to wages, hours and other terms and conditions of employment. No agreement has been finalized to date and management cannot predict the outcome of such negotiations.

(e) PHI's utility subsidiaries are parties to five CBAs with four local unions. CBAs are generally renegotiated every three to five years. All of these CBAs were renegotiated in 2014 and were extended through various dates ranging from October 2018 through June 2020.

(f) Other includes shared services employees at BSC.

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Environmental Regulation

General

The Registrants are subject to comprehensive and complex legislation regarding environmental matters by the federal government and various state and local jurisdictions in which they operate their facilities. The Registrants are also subject to environmental regulations administered by the EPA and various state and local environmental protection agencies. Federal, state and local regulation includes the authority to regulate air, water, and solid and hazardous waste disposal.

The Exelon Board of Directors is responsible for overseeing the management of environmental matters. Exelon has a management team to address environmental compliance and strategy, including the CEO; the Senior Vice President, Corporate Strategy and Chief Sustainability Officer; the Senior Vice President, Competitive Market Policy; and the Director, Safety & Sustainability, as well as senior management of Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE. Performance of those individuals directly involved in environmental compliance and strategy is reviewed and affects compensation as part of the annual individual performance review process. The Exelon Board of Directors has delegated to its Generation Oversight Committee and the Corporate Governance Committee the authority to oversee Exelon’s compliance with health, environmental and safety laws and regulations and its strategies and efforts to protect and improve the quality of the environment, including Exelon’s internal climate change and sustainability policies and programs, as discussed in further detail below. The respective Boards of ComEd, PECO, BGE, Pepco, DPL and ACE oversee environmental, health and safety issues related to these companies.

Air Quality

Air quality regulations promulgated by the EPA and the various state and local environmental agencies impose restrictions on emission of particulates, sulfur dioxide (SO_2), nitrogen oxides (NO_x), mercury and other air pollutants and require permits for operation of emitting sources. Such permits have been obtained as needed by Exelon’s subsidiaries. However, due to its low emitting generation fleet comprised of nuclear, natural gas, hydroelectric, wind and solar, compliance with the Federal Clean Air Act does not have a material impact on Generation’s operations.

See ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for additional information regarding clean air regulation in the forms of the CSAPR, the regulation of hazardous air pollutants from coal- and oil-fired electric generating facilities under MATS, and regulation of GHG emissions.

Water Quality

Under the federal Clean Water Act, NPDES permits for discharges into waterways are required to be obtained from the EPA or from the state environmental agency to which the permit program has been delegated and must be renewed periodically. Certain of Exelon’s facilities discharge stormwater and industrial wastewater into waterways and are therefore subject to these regulations and operate under NPDES permits or pending applications for renewals of such permits after being granted an administrative extension. Generation is also subject to the jurisdiction of the Delaware River Basin Commission and the Susquehanna River Basin Commission, regional agencies that primarily regulate water usage.

Section 316(b) of the Clean Water Act

Section 316(b) requires that the cooling water intake structures at electric power plants reflect the best technology available to minimize adverse environmental impacts, and is implemented through state-level NPDES permit programs. All of Generation’s power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems (e.g., cooling towers) are potentially most affected by recent changes to the regulations. For Generation, those facilities are Calvert Cliffs, Clinton, Dresden, Eddystone, Fairless Hills, FitzPatrick, Ginna, Gould Street, Mountain Creek, Handley, Mystic 7, Nine Mile Point Unit 1, Peach Bottom, Quad Cities, Riverside and Salem.

On October 14, 2014, the EPA's Section 316(b) rule became effective. The rule requires that a series of studies and analyses be performed to determine the best technology available to minimize adverse impacts on aquatic life, followed by an implementation period for the selected technology. The timing of the various requirements for each facility is related to the status of its current NPDES permit and the subsequent renewal period. There is no fixed compliance schedule, as this is left to the discretion of the state permitting director.

Until the compliance requirements are determined by the applicable state permitting director on a site-specific basis for each plant, Generation cannot estimate the effect that compliance with the rule will have on the operation of its generating facilities and its future results of operations, cash flows, and financial position. Should a state permitting director determine that a facility must install cooling towers to comply with the rule, that facility's economic viability could be called into question. However, the potential impact of the rule has been significantly reduced since the final rule does not mandate cooling towers as a national standard and sets forth technologies that are presumptively compliant, and the state permitting director is required to apply a cost-benefit test and can take into consideration site-specific factors, such as those that would make cooling towers infeasible.

Pursuant to discussions with the NJDEP in 2010 regarding the application of Section 316(b) to Oyster Creek, Generation agreed to permanently cease generation operations at Oyster Creek by December 31, 2019, ten years before the expiration of its operating license in 2029. The agreement only applies to Oyster Creek based on its unique circumstances and does not set any precedent for the ultimate compliance requirements for Section 316(b) at Exelon's other plants. On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018.

New York Facilities

In July 2011, the New York Department of Environmental Conservation (DEC) issued a policy regarding the best available technology for cooling water intake structures. Through its policy, the DEC established closed-cycle cooling or its equivalent as the performance goal for all existing facilities, but also provided that the DEC will select a feasible technology whose costs are not wholly disproportionate to the environmental benefits to be gained and allows for a site-specific determination where the entrainment performance goal cannot be achieved (i.e., the requirement most likely to support cooling towers). The R.E Ginna and Nine Mile Point Unit 1 power generation facilities received renewals of their state water discharge permits in 2014 and cooling towers were not required. These facilities are now engaged in the required analyses to enable the environmental agency to determine the best technology available in the next permit renewal cycles.

Salem

On July 28, 2016, the NJDEP issued a final permit for Salem that did not require the installation of cooling towers and allows Salem to continue to operate utilizing the existing cooling water system with certain required system modifications. However, the permit is being challenged by an environmental organization, and if successful, could result in additional costs for Clean Water Act compliance. Potential cooling water system modification costs could be material and could adversely impact the economic competitiveness of this facility.

Solid and Hazardous Waste

CERCLA provides for immediate response and removal actions coordinated by the EPA in the event of threatened releases of hazardous substances and authorizes the EPA either to clean up sites at which hazardous substances have created actual or potential environmental hazards or to order persons responsible for the situation to do so. Under CERCLA, generators and transporters of hazardous substances, as well as past and present owners and operators of hazardous waste sites, are strictly, jointly and severally liable for the cleanup costs of waste at sites, most of which are listed by the EPA on the National Priorities List (NPL). These PRPs can be ordered to perform a cleanup, can be sued for costs associated with an EPA-directed cleanup, may voluntarily settle with the EPA concerning their liability for cleanup costs, or may voluntarily begin a site investigation and site remediation under state oversight prior to listing on the NPL. Various states, including Delaware, Illinois, Maryland, New Jersey and Pennsylvania and the District of Columbia have also enacted statutes that contain provisions substantially similar to CERCLA. In addition, RCRA governs treatment, storage and disposal of solid and hazardous wastes and cleanup of sites where such activities were conducted.

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE and their subsidiaries are, or could become in the future, parties to proceedings initiated by the EPA, state agencies and/or other responsible parties under CERCLA and RCRA with respect to a number of sites, including MGP sites, or may undertake to investigate and remediate sites for which they may be subject to enforcement actions by an agency or third-party.

See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information regarding solid and hazardous waste regulation and legislation.

Environmental Remediation

ComEd’s and PECO’s environmental liabilities primarily arise from contamination at former MGP sites. ComEd, pursuant to an ICC order, and PECO, pursuant to settlements of natural gas distribution rate cases with the PAPUC, have an on-going process to recover environmental remediation costs of the MGP sites through a provision within customer rates. BGE, ACE, Pepco and DPL do not have material contingent liabilities relating to MGP sites. The amount to be expended in 2018 for compliance with environmental remediation related to contamination at former MGP sites and other gas purification sites is expected to total $48 million, consisting of $42 million and $6 million at ComEd and PECO respectively. The Utility Registrants also have contingent liabilities for environmental remediation of non-MGP contaminants (e.g., PCBs). As of December 31, 2017, the Utility Registrants have established appropriate contingent liabilities for environmental remediation requirements.

The Registrants’ operations have in the past, and may in the future, require substantial expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, the Registrants are generally liable for the costs of remediating environmental contamination of property now or formerly owned by them and of property contaminated by hazardous substances generated by them. The Registrants own or lease a number of real estate parcels, including parcels on which their operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws.

In addition, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE may be required to make significant additional expenditures not presently determinable for other environmental remediation costs.

See Notes 3 — Regulatory Matters and 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information regarding the Registrants’ environmental remediation efforts and related impacts to the Registrants' results of operations, cash flows and financial positions.

Global Climate Change

Exelon has utility and generation assets, and customers, that are and will be further subject to the impacts of climate change. Accordingly, Exelon is engaged in a variety of initiatives to understand and mitigate these impacts, including investments in resiliency, partnering with federal, state and local governments to minimize impacts, and, importantly, advocating for public policy that reduces emissions that cause climate change. Exelon, as a producer of electricity from predominantly low- and zero-carbon generating facilities (such as nuclear, hydroelectric, natural gas, wind and solar photovoltaic), has a relatively small greenhouse gas (GHG) emission profile, or carbon footprint, compared to other domestic generators of electricity (Exelon neither owns or operates any coal-fueled generating assets). Exelon's natural gas and biomass fired generating plants produce GHG emissions, most notably, CO_2. However, Generation's owned-asset emission intensity, or rate of carbon dioxide equivalent (CO_2e) emitted per unit of electricity generated, is among the lowest in the industry. In 2017, while fossil fuel powered approximately 33 percent of Exelon's owned generating capacity, fossil fuel-fired generation represents less than 12 percent of Exelon's overall generation on a MWh basis. Other GHG emission sources at Exelon include natural gas (methane) leakage on the natural gas systems, sulfur hexafluoride (SF_6) leakage from electric transmission and distribution operations, refrigerant leakage from chilling and cooling equipment, and fossil fuel combustion in motor vehicles. Exelon facilities and operations are subject to the global impacts of climate change and Exelon believes its operations could be significantly affected by the physical risks of climate change. See ITEM 1A. RISK FACTORS for information regarding the market and financial, regulatory and legislative, and operational risks associated with climate change.

Climate Change Regulation

Exelon is or may become subject to additional climate change regulation or legislation at the federal, regional and state levels.

International Climate Change Agreements. At the international level, the United States is a Party to the United Nations Framework Convention on Climate Change (UNFCCC). The Parties to the UNFCCC adopted the Paris Agreement at the 21st session of the UNFCCC Conference of the Parties (COP 21) on December 12, 2015, and it became effective on November 4, 2016. Under the Paris Agreement, the Parties agreed to try to limit the global average temperature increase to 2°C (3.6°F) above pre-industrial levels. In doing so, Parties developed their own national reduction commitments. The United States submitted a non-binding target of 17% below 2005 emission levels by 2020 and 26% to 28% below 2005 levels by 2025. President Trump has stated his intention to withdraw the U.S. from the Paris Agreement, but no formal action has been initiated.

Federal Climate Change Legislation and Regulation. It is highly unlikely whether federal legislation to reduce GHG emissions will be enacted in the near-term. If such legislation is adopted, Exelon may incur costs either to further limit or offset the GHG emissions from its operations or to procure emission allowances or credits. More importantly, continued inaction could negatively impact the value of Exelon's low-carbon fleet.

Under the Obama Administration, the EPA proposed and finalized regulations for fossil fuel-fired power plants, referred to as the Clean Power Plan, which are currently being litigated. However, the Trump Administration has proposed a repeal of the Clean Power Plan, and is expected to seek broad public comment on whether and how to regulate GHGs at the federal level. Details are not yet known and are likely to be further informed by the public comment process.

Given this uncertainty, Exelon and Generation cannot at this time predict the future of the Clean Power Plan, or its repeal and/or replacement, or individual state responses to Clean Power Plan developments or how developments will impact their future results of operations, cash flows and financial positions.

Regional and State Climate Change Legislation and Regulation. A number of states in which Exelon operates have state and regional programs to reduce GHG emissions, including from the power sector. As the nation's largest generator of carbon-free electricity, our fleet supports these efforts to produce safe, reliable electricity with minimal GHGs. Notably, nine northeast and mid-Atlantic states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont) currently participate in the Regional Greenhouse Gas Initiative (RGGI), which is in the process of strengthening its requirements. The program requires most fossil fuel-fired power plants in the region to hold allowances, purchased at auction, for each ton of CO_2 emissions. Non-emitting resources do not have to purchase or hold these allowances.

Many states in which Exelon subsidiaries operate also have state-specific programs to address GHGs, including from power plants. Most notable of these, besides RGGI, are through renewable and other portfolio standards. Additionally, in response to a court decision clarifying obligations under the Global Warming Solutions Act, the Massachusetts Department of Environmental Protection in 2017 finalized regulations establishing a statewide cap on CO_2 emissions from fossil fuel power plants (Massachusetts remains in RGGI as well). The effect of this new obligation and potential for market illiquidity in the early years represent a risk to Generation's Massachusetts fossil facilities, including Medway and Mystic. At the same time, the District of Columbia is considering a plan to incorporate the cost of carbon into electricity, via consumption, as well as directly into the cost of transportation and home heating fuels. Details remain to be developed, but the specifics could have implications for Pepco's operations.

Regardless of whether GHG regulation occurs at the local, state, or federal level, Exelon remains one of the largest, lowest-carbon electric generators in the United States, relying mainly on nuclear, natural gas, hydropower, wind, and solar. The extent that the low-carbon generating fleet will continue to be a competitive advantage for Exelon depends on what, if anything, replaces the Clean Power Plan at the federal level, new or expanded state action on greenhouse gas emissions or direct support of clean energy technologies, including nuclear, as well as potential market reforms that value our fleet's emission-free attributes.

Renewable and Alternative Energy Portfolio Standards

Thirty-nine states and the District of Columbia, incorporating the vast majority of Exelon operations as well as all utility operations, have adopted some form of RPS requirement. These standards impose varying levels of mandates for procurement of renewable or clean electricity (the definition of which varies by state) and/or energy efficiency. These are generally expressed as a percentage of annual electric load, often increasing by year. Exelon's utilities comply with these various requirements through purchasing qualifying renewables, implementing efficiency programs, acquiring sufficient credits (e.g., RECs), paying an alternative compliance payment, and/or a combination of these compliance alternatives. The Utility Registrants are permitted to recover from retail customers the costs of complying with their state RPS requirements, including the procurement of RECs or other alternative energy resources. New York and Illinois adopted standards targeted at preserving the zero-carbon attributes of certain Exelon's nuclear-powered generating facilities. Generation owns multiple facilities participating in these programs within both states. Other states in which Generation and our utilities operate are considering similar programs.

See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on renewable portfolio standards.

Executive Officers of the Registrants as of February 9, 2018

Exelon

Name	Age	Position	Period
Crane, Christopher M.	59	Chief Executive Officer, Exelon	2012 - Present
		Chairman, ComEd, PECO & BGE	2012 - Present
		Chairman, PHI	2016 - Present
		President, Exelon	2008 - Present
		President, Generation	2008 - 2013
Cornew, Kenneth W.	52	Senior Executive Vice President and Chief Commercial Officer, Exelon	2013 - Present
		President and CEO, Generation	2013 - Present
		Executive Vice President and Chief Commercial Officer, Exelon	2012 - 2013
		President and Chief Executive Officer, Constellation	2012 - 2013
O’Brien, Denis P.	57	Senior Executive Vice President, Exelon; Chief Executive Officer, Exelon Utilities	2012 - Present
		Vice Chairman, ComEd, PECO & BGE	2012 - Present
		Vice Chairman, PHI	2016 - Present
Pramaggiore, Anne R.	59	Chief Executive Officer, ComEd	2012 - Present
		President, ComEd	2009 - Present
Adams, Craig L.	65	President and Chief Executive Officer, PECO	2012 - Present
Butler, Calvin G.	48	Chief Executive Officer, BGE	2014 - Present
		Senior Vice President, Regulatory and External Affairs, BGE	2013 - 2014
		Senior Vice President, Corporate Affairs, Exelon	2011 - 2013
David M. Velazquez	58	President and Chief Executive Officer, PHI	2016 - Present
		President and Chief Executive Officer, Pepco, DPL & ACE	2009 - Present
		Executive Vice President, Pepco Holdings, Inc.	2009 - 2016
Von Hoene Jr., William A.	64	Senior Executive Vice President and Chief Strategy Officer, Exelon	2012 - Present
Thayer, Jonathan W.	46	Senior Executive Vice President and Chief Financial Officer, Exelon	2012 - Present
Aliabadi, Paymon	55	Executive Vice President and Chief Risk Officer, Exelon	2013 - Present
		Managing Director, Gleam Capital Management	2012 - 2013
DesParte, Duane M.	54	Senior Vice President and Corporate Controller, Exelon	2008 - Present

Generation

Name	Age	Position	Period
Cornew, Kenneth W.	52	Senior Executive Vice President and Chief Commercial Officer, Exelon	2013 - Present
		President and CEO, Generation	2013 - Present
		Executive Vice President and Chief Commercial Officer, Exelon	2012 - 2013
		President and Chief Executive Officer, Constellation	2012 - 2013
Pacilio, Michael J.	57	Executive Vice President and Chief Operating Officer, Generation	2015 - Present
		President, Exelon Nuclear; Senior Vice President and Chief Nuclear Officer, Generation	2010 - 2015
Hanson, Bryan C	52	President and Chief Nuclear Officer, Exelon Nuclear; Senior Vice President, Generation	2015 - Present
Nigro, Joseph	53	Executive Vice President, Exelon; Chief Executive Officer, Constellation	2013 - Present
		Senior Vice President, Portfolio Management and Strategy	2012 - 2013
DeGregorio, Ronald	55	Senior Vice President, Generation; President, Exelon Power	2012 - Present
Wright, Bryan P.	51	Senior Vice President and Chief Financial Officer, Generation	2013 - Present
		Senior Vice President, Corporate Finance, Exelon	2012 - 2013
Bauer, Matthew N.	41	Vice President and Controller, Generation	2016 - Present
		Vice President and Controller, BGE	2014 - 2016
		Vice President of Power Finance, Exelon Power	2012 - 2014

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ComEd

Name	Age	Position	Period
Pramaggiore, Anne R.	59	Chief Executive Officer, ComEd	2012 - Present
		President, ComEd	2009 - Present
Donnelly, Terence R.	57	Executive Vice President and Chief Operating Officer, ComEd	2012 - Present
Trpik Jr., Joseph R.	48	Senior Vice President, Chief Financial Officer and Treasurer, ComEd	2009 - Present
Jensen, Val	62	Senior Vice President, Customer Operations, ComEd	2012 - Present
Gomez, Veronica	48	Senior Vice President, Regulatory and Energy Policy and General Counsel, ComEd	2017 - Present
		Vice President and Deputy General Counsel, Litigation, Exelon	2012 - 2017
Marquez Jr., Fidel	56	Senior Vice President, Governmental & External Affairs, Exelon	2012 - Present
McGuire, Timothy M.	59	Senior Vice President, Distribution Operations, ComEd	2016 - Present
		Vice President, Transmission and Substations, ComEd	2010 - 2016
Kozel, Gerald J.	45	Vice President, Controller, ComEd	2013 - Present
		Assistant Corporate Controller, Exelon	2012 - 2013

PECO

Name	Age	Position	Period
Adams, Craig L.	65	President and Chief Executive Officer, PECO	2012 - Present
Barnett, Phillip S.	54	Senior Vice President and Chief Financial Officer, PECO	2007 - Present
		Treasurer, PECO	2012 - Present
Innocenzo, Michael A.	52	Senior Vice President and Chief Operations Officer, PECO	2012 - Present
Murphy, Elizabeth A.	58	Senior Vice President, Governmental & External Affairs, PECO	2016 - Present
		Vice President, Governmental & External Affairs, PECO	2012 - 2016
Webster Jr., Richard G.	56	Vice President, Regulatory Policy and Strategy, PECO	2012 - Present
Jiruska, Frank J.	57	Vice President, Customer Operations, PECO	2013 - Present
Diaz Jr., Romulo L.	71	Vice President and General Counsel, PECO	2012 - Present
Bailey, Scott A.	41	Vice President and Controller, PECO	2012 - Present

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BGE

Name	Age	Position	Period
Butler, Calvin G.	48	Chief Executive Officer, BGE	2014 - Present
		Senior Vice President, Regulatory and External Affairs, BGE	2013 - 2014
		Senior Vice President, Corporate Affairs, Exelon	2011 - 2013
Woerner, Stephen J.	50	President, BGE	2014 - Present
		Chief Operating Officer, BGE	2012 - Present
		Senior Vice President, BGE	2009 - 2014
Vahos, David M.	45	Senior Vice President, Chief Financial Officer and Treasurer, BGE	2016 - Present
		Vice President, Chief Financial Officer and Treasurer, BGE	2014 - 2016
		Vice President and Controller, BGE	2012 - 2014
Núñez, Alexander G.	46	Senior Vice President, Regulatory and External Affairs, BGE	2016 - Present
		Vice President, Governmental & External Affairs, BGE	2013 - 2016
		Director, State Affairs, BGE	2012 - 2013
Case, Mark D.	56	Vice President, Regulatory Policy and Strategy, BGE	2012 - Present
Biagiotti, Robert D.	48	Vice President, Customer Operations, BGE	2015 - Present
		Vice President, Gas Distribution, BGE	2011 - 2015
Gahagan, Daniel P.	64	Vice President and General Counsel, BGE	2007 - Present
Andrew W. Holmes	49	Vice President and Controller, BGE	2016 - Present
		Director, Generation Accounting, Exelon	2013 - 2016
		Director, Derivatives and Technical Accounting, Exelon	2008 - 2013

PHI, Pepco, DPL and ACE

Name	Age	Position	Period
Velazquez, David M.	58	President and Chief Executive Officer, PHI	2016 - Present
		Executive Vice President, Pepco Holdings, Inc.	2009-2016
		President and Chief Executive Officer, Pepco, DPL & ACE	2009 - Present
Anthony, J. Tyler	53	Senior Vice President and Chief Operating Officer, PHI, Pepco, DPL & ACE	2016 - Present
		Senior Vice President, Distribution Operations, ComEd	2010 - 2016
Kinzel, Donna J.	50	Senior Vice President, Chief Financial Officer and Treasurer, PHI, Pepco, DPL & ACE	2016 - Present
		Vice President, Treasurer and Chief Risk Officer, Pepco Holdings	2012 - 2016
Bonney, Paul R.	59	Senior Vice President, Legal and Regulatory Strategy, PHI, Pepco, DPL & ACE	2016 - Present
		Senior Vice President and General Counsel, Constellation	2012 - 2016
Lavinson, Melissa A.	48	Senior Vice President, Governmental & External Affairs, PHI, Pepco, DPL & ACE	2018 - Present
		Vice President, Federal Affairs and Policy, and Chief Sustainability Officer, PG&E Corporation	2015 - 2018
		Vice President, Federal Affairs, PG&E Corporation	2012 - 2015
Stark, Wendy E.	45	Vice President and General Counsel, PHI, Pepco DPL & ACE	2016 - Present
		Deputy General Counsel, Pepco Holdings, Inc.	2012 - Present
McGowan, Kevin M.	56	Vice President, Regulatory Policy and Strategy, PHI, Pepco, DPL & ACE	2016 - Present
		Vice President, Regulatory Affairs, Pepco Holdings, Inc.	2012 - 2016
Aiken, Robert M.	51	Vice President and Controller, PHI, Pepco, DPL & ACE	2016 - Present
		Vice President and Controller, Generation	2012 - 2016

ITEM 1A. RISK FACTORS

Each of the Registrants operates in a market and regulatory environment that poses significant risks, many of which are beyond that Registrant's control. Management of each Registrant regularly meets with the Chief Risk Officer and the Registrant's Risk Management Committee (RMC), which comprises officers of the Registrant, to identify and evaluate the most significant risks of the Registrant's business and the appropriate steps to manage and mitigate those risks. The Chief Risk Officer and senior executives of the Registrants discuss those risks with the Finance and Risk Committee and Audit Committee of the Exelon Board of Directors and the ComEd, PECO, BGE and PHI boards of directors. In addition, the Generation Oversight Committee of the Exelon Board of Directors evaluates risks related to the generation business. The risk factors discussed below could adversely affect one or more of the Registrants' results of operations, cash flows or financial positions and the market prices of their publicly traded securities. Each of the Registrants has disclosed the known material risks that affect its business at this time. However, there may be further risks and uncertainties that are not presently known or that are not currently believed by a Registrant to be material that could adversely affect its performance or financial condition in the future.

Exelon's results of operations, cash flows and financial position are affected to a significant degree by: (1) Generation's position as a predominantly nuclear generator selling power into competitive energy markets with a concentration in select regions and (2) the role of the Utility Registrants as operators of electric transmission and distribution systems in six of the largest metropolitan areas in the United States. Factors that affect the results of operations, cash flows or financial positions of the Registrants fall primarily under the following categories, all of which are discussed in further detail below:

- ***Market and Financial Factors.*** Exelon's and Generation's results of operations are affected by price fluctuations in the energy markets. Power prices are a function of supply and demand, which in turn are driven by factors such as (1) the price of fuels, in particular the price of natural gas, which affects the prices that Generation can obtain for the output of its power plants, (2) the presence of other generation resources in the markets in which Generation's output is sold, (3) the demand for electricity in the markets where the Registrants conduct their business, (4) the impacts of on-going competition in the retail channel and (5) emerging technologies.

- ***Regulatory and Legislative Factors.*** The regulatory and legislative factors that affect the Registrants include changes to the laws and regulations that govern competitive markets and utility cost recovery, tax policy, zero emission credit programs and environmental policy. In particular, Exelon's and Generation's financial performance could be affected by changes in the design of competitive wholesale power markets or Generation's ability to sell power in those markets. In addition, potential regulation and legislation, including regulation or legislation regarding climate change and renewable portfolio standards (RPS), could have significant effects on the Registrants. Also, returns for the Utility Registrants are influenced significantly by state regulation and regulatory proceedings.

- ***Operational Factors.*** The Registrants' operational performance is subject to those factors inherent in running the nation's largest fleet of nuclear power reactors and large electric and gas distribution systems. The safe, secure and effective operation of the nuclear facilities and the ability to effectively manage the associated decommissioning obligations as well as the ability to maintain the availability, reliability, safety and security of its energy delivery systems are fundamental to Exelon's ability to achieve value-added growth for customers, communities and shareholders. Additionally, the operating costs of the Registrants and the opinions of their customers, regulators and shareholders are affected by those companies' ability to maintain the reliability, safety and efficiency of their energy delivery systems.

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- ***Risks Related to the PHI Merger.*** Exelon is subject to additional risks related to the merger with PHI, which closed on March 23, 2016.

A discussion of each of these risk categories and other risk factors is included below.

Market and Financial Factors

Generation is exposed to depressed prices in the wholesale and retail power markets, which could negatively affect its results of operations, cash flows or financial position (Exelon and Generation).

Generation is exposed to commodity price risk for the unhedged portion of its electricity generation supply portfolio. Generation's earnings and cash flows are therefore exposed to variability of spot and forward market prices in the markets in which it operates.

Price of Fuels

The spot market price of electricity for each hour is generally determined by the marginal cost of supplying the next unit of electricity to the market during that hour. Thus, the market price of power is affected by the market price of the marginal fuel used to generate the electricity unit. Often, the next unit of electricity will be supplied from generating stations fueled by fossil fuels. Consequently, changes in the market price of fossil fuels often result in comparable changes to the market price of power. For example, the use of technologies to recover natural gas from shale deposits has increased natural gas supply and reserves, placing downward pressure on natural gas prices and, therefore, on power prices. The continued addition of supply from new alternative generation resources, such as wind and solar, whether mandated through RPS or otherwise subsidized or encouraged through climate legislation or regulation, could displace a higher marginal cost plant, further reducing power prices. In addition, further delay or elimination of EPA air quality regulations could prolong the duration for which the cost of pollution from fossil fuel generation is not factored into market prices.

Demand and Supply

The market price for electricity is also affected by changes in the demand for electricity and the available supply of electricity. Unfavorable economic conditions, milder than normal weather, and the growth of energy efficiency and demand response programs could each depress demand. The result is that higher-cost generating resources do not run as frequently, putting downward pressure on electricity market prices. The tepid economic environment in recent years and growing energy efficiency and demand response initiatives have limited the demand for electricity in Generation's markets. In addition, in some markets, the supply of electricity through wind or solar generation, when combined with other base-load generation such as nuclear, could often exceed demand during some hours of the day, resulting in loss of revenue for base-load generating plants such as Exelon's nuclear plants. Increased supply in excess of demand is furthered by the continuation of RPS mandates and subsidies for renewable energy.

Retail Competition

Generation's retail operations compete for customers in a competitive environment, which affects the margins that Generation can earn and the volumes that it is able to serve. In periods of sustained low natural gas and power prices and low market volatility, retail competitors can aggressively pursue market share because the barriers to entry can be low and wholesale generators (including Generation) use their retail operations to hedge generation output. Increased or more aggressive competition could adversely affect overall gross margins and profitability in Generation's retail operations.

Sustained low market prices or depressed demand and over-supply could adversely affect Exelon's and Generation's results of operations, cash flows or financial positions and such impacts could be emphasized given Generation’s concentration of base-load electric generating capacity within primarily two geographic market regions, namely the Midwest and the Mid-Atlantic. These impacts could adversely affect Exelon’s and Generation’s ability to fund regulated utility growth for the benefit of customers, reduce debt and provide attractive shareholder returns. In addition, such conditions may no longer support the continued operation of certain generating facilities, which could adversely affect Exelon’s and Generation’s result of operations through accelerated depreciation expense, impairment charges related to inventory that cannot be used at other nuclear units and cancellation of in-flight capital projects, accelerated amortization of plant specific nuclear fuel costs, severance costs, accelerated asset retirement obligation expense related to future decommissioning activities, and additional funding of decommissioning costs, which can be offset in whole or in part by reduced operating and maintenance expenses. A slow recovery in market conditions could result in a prolonged depression of or further decline in commodity prices, including low forward natural gas and power prices and low market volatility, which could also adversely affect Exelon’s and Generation’s results of operations, cash flows or financial positions. See Note 8 — Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements for additional information.

In addition to price fluctuations, Generation is exposed to other risks in the power markets that are beyond its control and could negatively affect its results of operations (Exelon and Generation).

Credit Risk

In the bilateral markets, Generation is exposed to the risk that counterparties that owe Generation money, or are obligated to purchase energy or fuel from Generation, will not perform under their obligations for operational or financial reasons. In the event the counterparties to these arrangements fail to perform, Generation could be forced to purchase or sell energy or fuel in the wholesale markets at less favorable prices and incur additional losses, to the extent of amounts, if any, already paid to the counterparties. In the spot markets, Generation is exposed to risk as a result of default sharing mechanisms that exist within certain markets, primarily RTOs and ISOs, the purpose of which is to spread such risk across all market participants. Generation is also a party to agreements with entities in the energy sector that have experienced rating downgrades or other financial difficulties. In addition, Generation’s retail sales subject it to credit risk through competitive electricity and natural gas supply activities to serve commercial and industrial companies, governmental entities and residential customers. Retail credit risk results when customers default on their contractual obligations. This risk represents the loss that could be incurred due to the nonpayment of a customer’s account balance, as well as the loss from the resale of energy previously committed to serve the customer.

Market Designs

The wholesale markets vary from region to region with distinct rules, practices and procedures. Changes in these market rules, problems with rule implementation, or failure of any of these markets could adversely affect Generation’s business. In addition, a significant decrease in market participation could affect market liquidity and have a detrimental effect on market stability.

The Registrants are potentially affected by emerging technologies that could over time affect or transform the energy industry, including technologies related to energy generation, distribution and consumption (All Registrants).

Some of these technologies include, but are not limited to, further development or applications of technologies related to shale gas production, cost-effective renewable energy technologies, energy efficiency, distributed generation and energy storage devices. Such developments could affect the price of energy, levels of customer-owned generation, customer expectations and current business models and make portions of our electric system power supply and transmission and/or distribution facilities obsolete prior to the end of their useful lives. Such technologies could also result in further declines in commodity prices or demand for delivered energy. Each of these factors could materially affect the Registrants' results of operations, cash flows or financial positions through, among other things, reduced operating revenues, increased operating and maintenance expenses, and increased capital expenditures, as well as potential asset impairment charges or accelerated depreciation and decommissioning expenses over shortened remaining asset useful lives.

Market performance and other factors could decrease the value of NDT funds and employee benefit plan assets and could increase the related employee benefit plan obligations, which then could require significant additional funding (All Registrants).

Disruptions in the capital markets and their actual or perceived effects on particular businesses and the greater economy could adversely affect the value of the investments held within Generation's NDTs and Exelon's employee benefit plan trusts. The Registrants have significant obligations in these areas and Exelon and Generation hold substantial assets in these trusts to meet those obligations. The asset values are subject to market fluctuations and will yield uncertain returns, which could fall below the Registrants' projected return rates. A decline in the market value of the NDT fund investments could increase Generation's funding requirements to decommission its nuclear plants. A decline in the market value of the pension and OPEB plan assets will increase the funding requirements associated with Exelon's pension and OPEB plan obligations. Additionally, Exelon's pension and OPEB plan liabilities are sensitive to changes in interest rates. As interest rates decrease, the liabilities increase, potentially increasing benefit costs and funding requirements. Changes in demographics, including increased numbers of retirements or changes in life expectancy assumptions or changes to Social Security or Medicare eligibility requirements could also increase the costs and funding requirements of the obligations related to the pension and OPEB plans. If future increases in pension and other postretirement costs as a result of reduced plan assets or other factors cannot be recovered, or cannot be recovered in a timely manner, from the Utility Registrants' customers, the results of operations, cash flows or financial positions of the Utility Registrants could be negatively affected. Ultimately, if the Registrants are unable to manage the investments within the NDT funds and benefit plan assets, and are unable to manage the related benefit plan liabilities, their results of operations, cash flows or financial positions could be negatively impacted.

Unstable capital and credit markets and increased volatility in commodity markets could adversely affect the Registrants' businesses in several ways, including the availability and cost of short-term funds for liquidity requirements, the Registrants' ability to meet long-term commitments, Generation's ability to hedge effectively its generation portfolio, and the competitiveness and liquidity of energy markets; each could negatively impact the Registrants' results of operations, cash flows or financial positions (All Registrants).

The Registrants rely on the capital markets, particularly for publicly offered debt, as well as the banking and commercial paper markets, to meet their financial commitments and short-term liquidity needs if internal funds are not available from the Registrants' respective operations. Disruptions in the capital and credit markets in the United States or abroad could adversely affect the Registrants' ability to access the capital markets or draw on their respective bank revolving credit facilities. The Registrants' access to funds under their credit facilities depends on the ability of the banks that are parties to the facilities to meet their funding commitments. Those banks may not be able to meet their funding commitments to the Registrants if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from the Registrants and other borrowers within a short period of time. The inability to access capital markets or credit facilities, and longer-term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could result in the deferral of discretionary capital

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expenditures, changes to Generation's hedging strategy in order to reduce collateral posting requirements, or a reduction in dividend payments or other discretionary uses of cash.

In addition, the Registrants have exposure to worldwide financial markets, including Europe, Canada and Asia. Disruptions in these markets could reduce or restrict the Registrants' ability to secure sufficient liquidity or secure liquidity at reasonable terms. As of December 31, 2017, approximately 19%, or $1.8 billion, 19%, or $1.8 billion, and 17%, or $1.6 billion of the Registrants' available credit facilities were with European, Canadian and Asian banks, respectively. The credit facilities include $9.5 billion in aggregate total commitments of which $8.3 billion was available as of December 31, 2017. As of December 31, 2017, there were no borrowings under Generation's bilateral credit facilities. See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information on the credit facilities.

The strength and depth of competition in energy markets depend heavily on active participation by multiple trading parties, which could be adversely affected by disruptions in the capital and credit markets and legislative and regulatory initiatives that could affect participants in commodities transactions. Reduced capital and liquidity and failures of significant institutions that participate in the energy markets could diminish the liquidity and competitiveness of energy markets that are important to the respective businesses of the Registrants. Perceived weaknesses in the competitive strength of the energy markets could lead to pressures for greater regulation of those markets or attempts to replace market structures with other mechanisms for the sale of power, including the requirement of long-term contracts, which could have a material adverse effect on Exelon's and Generation's results of operations, cash flows or financial positions.

If any of the Registrants were to experience a downgrade in its credit ratings to below investment grade or otherwise fail to satisfy the credit standards in its agreements with its counterparties, it would be required to provide significant amounts of collateral under its agreements with counterparties and could experience higher borrowing costs (All Registrants).

Generation's business is subject to credit quality standards that could require market participants to post collateral for their obligations. If Generation were to be downgraded or lose its investment grade credit rating (based on its senior unsecured debt rating) or otherwise fail to satisfy the credit standards of trading counterparties, it would be required under its hedging arrangements to provide collateral in the form of letters of credit or cash, which could have a material adverse effect upon its liquidity. The amount of collateral required to be provided by Generation at any point in time depends on a variety of factors, including (1) the notional amount of the applicable hedge, (2) the nature of counterparty and related agreements, and (3) changes in power or other commodity prices. In addition, if Generation were downgraded, it could experience higher borrowing costs as a result of the downgrade. Generation could experience a downgrade in its ratings if any of the credit rating agencies concludes that the level of business or financial risk and overall creditworthiness of the power generation industry in general, or Generation in particular, has deteriorated. Changes in ratings methodologies by the credit rating agencies could also have a negative impact on the ratings of Generation. Generation has project-specific financing arrangements and must meet the requirements of various agreements relating to those financings. Failure to meet those arrangements could give rise to a project-specific financing default which, if not cured or waived, could result in the specific project being required to repay the associated debt or other borrowings earlier than otherwise anticipated, and if such repayment were not made, the lenders or security holders would generally have broad remedies, including rights to foreclose against the project assets and related collateral or to force the Exelon subsidiaries in the project-specific financings to enter into bankruptcy proceedings.

The Utility Registrants' operating agreements with PJM and PECO's, BGE's and DPL's natural gas procurement contracts contain collateral provisions that are affected by their credit rating and market

prices. If certain wholesale market conditions were to exist and the Utility Registrants were to lose their investment grade credit ratings (based on their senior unsecured debt ratings), they would be required to provide collateral in the forms of letters of credit or cash, which could have a material adverse effect upon their remaining sources of liquidity. PJM collateral posting requirements will generally increase as market prices rise and decrease as market prices fall. Collateral posting requirements for PECO, BGE and DPL, with respect to their natural gas supply contracts, will generally increase as forward market prices fall and decrease as forward market prices rise. Given the relationship to forward market prices, contract collateral requirements can be volatile. In addition, if the Utility Registrants were downgraded, they could experience higher borrowing costs as a result of the downgrade.

A Utility Registrant could experience a downgrade in its ratings if any of the credit rating agencies concludes that the level of business or financial risk and overall creditworthiness of the utility industry in general, or a Utility Registrant in particular, has deteriorated. A Utility Registrant could experience a downgrade if its current regulatory environment becomes less predictable by materially lowering returns for the Utility Registrant or adopting other measures to limit utility rates. Additionally, the ratings for a Utility Registrant could be downgraded if its financial results are weakened from current levels due to weaker operating performance or due to a failure to properly manage its capital structure. In addition, changes in ratings methodologies by the agencies could also have a negative impact on the ratings of the Utility Registrants.

The Utility Registrants conduct their respective businesses and operate under governance models and other arrangements and procedures intended to assure that the Utility Registrants are treated as separate, independent companies, distinct from Exelon and other Exelon subsidiaries in order to isolate the Utility Registrants from Exelon and other Exelon subsidiaries in the event of financial difficulty at Exelon or another Exelon subsidiary. These measures (commonly referred to as “ring-fencing”) could help avoid or limit a downgrade in the credit ratings of the Utility Registrants in the event of a reduction in the credit rating of Exelon. Despite these ring-fencing measures, the credit ratings of the Utility Registrants could remain linked, to some degree, to the credit ratings of Exelon. Consequently, a reduction in the credit rating of Exelon could result in a reduction of the credit rating of some or all of the Utility Registrants. A reduction in the credit rating of a Utility Registrant could have a material adverse effect on the Utility Registrant.

See ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Liquidity and Capital Resources — Credit Matters — Market Conditions and Security Ratings for further information regarding the potential impacts of credit downgrades on the Registrants’ cash flows.

Generation’s financial performance could be negatively affected by price volatility, availability and other risk factors associated with the procurement of nuclear and fossil fuel (Exelon and Generation).

Generation depends on nuclear fuel and fossil fuels to operate most of its generating facilities. Nuclear fuel is obtained predominantly through long-term uranium supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. Natural gas and oil are procured for generating plants through annual, short-term and spot-market purchases. The supply markets for nuclear fuel, natural gas and oil are subject to price fluctuations, availability restrictions and counterparty default that could negatively affect the results of operations, cash flows or financial position for Generation.

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Generation's risk management policies cannot fully eliminate the risk associated with its commodity trading activities (Exelon and Generation).

Generation's asset-based power position as well as its power marketing, fuel procurement and other commodity trading activities expose Generation to risks of commodity price movements. Generation buys and sells energy and other products and enters into financial contracts to manage risk and hedge various positions in Generation's power generation portfolio. Generation is exposed to volatility in financial results for unhedged positions as well as the risk of ineffective hedges. Generation attempts to manage this exposure through enforcement of established risk limits and risk management procedures. These risk limits and risk management procedures may not work as planned and cannot eliminate all risks associated with these activities. Even when its policies and procedures are followed, and decisions are made based on projections and estimates of future performance, results of operations could be diminished if the judgments and assumptions underlying those decisions prove to be incorrect. Factors, such as future prices and demand for power and other energy-related commodities, become more difficult to predict and the calculations become less reliable the further into the future estimates are made. As a result, Generation cannot predict the impact that its commodity trading activities and risk management decisions could have on its business, results of operations, cash flows or financial position.

Financial performance and load requirements could be adversely affected if Generation is unable to effectively manage its power portfolio (Exelon and Generation).

A significant portion of Generation's power portfolio is used to provide power under procurement contracts with the Utility Registrants and other customers. To the extent portions of the power portfolio are not needed for that purpose, Generation's output is sold in the wholesale power markets. To the extent its power portfolio is not sufficient to meet the requirements of its customers under the related agreements, Generation must purchase power in the wholesale power markets. Generation's financial results could be negatively affected if it is unable to cost-effectively meet the load requirements of its customers, manage its power portfolio or effectively address the changes in the wholesale power markets.

Challenges to tax positions taken by the Registrants as well as tax law changes and the inherent difficulty in quantifying potential tax effects of business decisions, could impact the Registrants' results of operations, cash flows or financial positions. (All Registrants).

Corporate Tax Reform

On December 22, 2017, President Trump signed into law the TCJA. See Note 14 - Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information.

While the Registrants' current tax accounting and future expectations are based on management's present understanding of the provisions under the TCJA, further interpretive guidance of the TCJA's provisions could result in further adjustments that could have a material impact to the Registrants' future results of operations, cash flows or financial positions.

In addition, as allowed under SEC Staff Accounting Bulletin No. 118 (SAB 118), the Registrants have recorded provisional income tax amounts as of December 31, 2017 for changes pursuant to the TCJA related to depreciation for which the impacts could not be finalized upon issuance of the Registrants' financial statements, but reasonable estimates could be determined. However, the provisional amounts may change as the Registrants finalize their analysis and computations and such changes could be material to the Registrants' future results of operations, cash flows or financial positions.

The Utility Registrants have made their best estimate regarding the probability and timing of settlements of net regulatory liabilities established pursuant to the TCJA. However, the amount and timing of the settlements may change based on decisions and actions by the rate regulators, which could have a material impact on the Utility Registrants' future results of operations, cash flows or financial positions.

Tax reserves

The Registrants are required to make judgments in order to estimate their obligations to taxing authorities. These tax obligations include income, real estate, sales and use and employment-related taxes and ongoing appeal issues related to these tax matters. These judgments include reserves established for potential adverse outcomes regarding tax positions that have been taken that could be subject to challenge by the tax authorities. See Note 1 — Significant Accounting Policies and Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information.

Increases in customer rates, including increases in the cost of purchased power and increases in natural gas prices for the Utility Registrants, and the impact of economic downturns could lead to greater expense for uncollectible customer balances. Additionally, increased rates could lead to decreased volumes delivered. Both of these factors could decrease Generation's and the Utility Registrants' results from operations, cash flows or financial positions (All Registrants).

The impacts of economic downturns on the Utility Registrants' customers, such as unemployment for residential customers and less demand for products and services provided by commercial and industrial customers, and the related regulatory limitations on residential service terminations, could result in an increase in the number of uncollectible customer balances', which would negatively affect the Utility Registrants' results of operations, cash flows or financial positions. Generation's customer-facing energy delivery activities face similar economic downturn risks, such as lower volumes sold and increased expense for uncollectible customer balances which could negatively affect Generation's results of operations, cash flows or financial position. See ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK for further discussion of the Registrants' credit risk.

The Utility Registrants' current procurement plans include purchasing power through contracted suppliers and in the spot market. ComEd's, PECO's and ACE's costs of purchased power are charged to customers without a return or profit component. BGE's, Pepco's and DPL's SOS rates charged to customers recover their wholesale power supply costs and include a return component. For PECO and DPL, purchased natural gas costs are charged to customers with no return or profit component. For BGE, purchased natural gas costs are charged to customers using a MBR mechanism that compares the actual cost of gas to a market index. The difference between the actual cost and the market index is shared equally between shareholders and customers. Purchased power and natural gas prices fluctuate based on their relevant supply and demand. Significantly higher rates related to purchased power and natural gas could result in declines in customer usage, lower revenues and potentially additional uncollectible accounts expense for the Utility Registrants. In addition, any challenges by the regulators or the Utility Registrants as to the recoverability of these costs could have a material adverse effect on the Registrants' results of operations, cash flows or financial positions. Also, the Utility Registrants' cash flows could be adversely affected by differences between the time period when electricity and natural gas are purchased and the ultimate recovery from customers.

The effects of weather could impact the Registrants' results of operations, cash flows or financial positions (All Registrants).

Weather conditions directly influence the demand for electricity and natural gas and affect the price of energy commodities. Temperatures above normal levels in the summer tend to increase summer cooling electricity demand and revenues, and temperatures below normal levels in the winter tend to increase winter heating electricity and gas demand and revenues. Moderate temperatures adversely affect the usage of energy and resulting revenues at PECO, DPL and ACE. Due to revenue decoupling,

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BGE, Pepco and DPL Maryland recognize revenues at MDPSC and DCPSC-approved levels per customer, regardless of what actual distribution volumes are for a billing period, and are not affected by actual weather with the exception of major storms. Pursuant to the Future Energy Jobs Act (FEJA), beginning in 2017, customer rates for ComEd are adjusted to eliminate the favorable and unfavorable impacts of weather and customer usage patterns on distribution revenue.

Extreme weather conditions or damage resulting from storms could stress the Utility Registrants' transmission and distribution systems, communication systems and technology, resulting in increased maintenance and capital costs and limiting each company's ability to meet peak customer demand. These extreme conditions could have detrimental effects on the Utility Registrants' results of operations, cash flows or financial positions. First and third quarter financial results, in particular, are substantially dependent on weather conditions, and could make period comparisons less relevant.

Generation's operations are also affected by weather, which affects demand for electricity as well as operating conditions. To the extent that weather is warmer in the summer or colder in the winter than assumed, Generation could require greater resources to meet its contractual commitments. Extreme weather conditions or storms could affect the availability of generation and its transmission, limiting Generation's ability to source or send power to where it is sold. In addition, drought-like conditions limiting water usage could impact Generation's ability to run certain generating assets at full capacity. These conditions, which cannot be accurately predicted, could have an adverse effect by causing Generation to seek additional capacity at a time when wholesale markets are tight or to seek to sell excess capacity at a time when markets are weak.

Certain long-lived assets and other assets recorded on the Registrants' statements of financial position could become impaired, which would result in write-offs of the impaired amounts (All Registrants).

Long-lived assets represent the single largest asset class on the Registrants' statements of financial position. Specifically, long-lived assets account for 64%, 51%, 70%, 79%, 84%, 77%, 82% and 79% of total assets for Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE, respectively, as of December 31, 2017. In addition, Exelon and Generation have significant balances related to unamortized energy contracts, as further disclosed in Note 10 — Intangible Assets of the Combined Notes to Consolidated Financial Statements. The Registrants evaluate the recoverability of the carrying value of long-lived assets to be held and used whenever events or circumstances indicating a potential impairment exist. Factors such as the business climate, including current and future energy and market conditions, environmental regulation, and the condition of assets are considered when evaluating long-lived assets for potential impairment. An impairment would require the Registrants to reduce the carrying value of the long-lived asset to fair value through a non-cash charge to expense by the amount of the impairment, and such an impairment could have a material adverse impact on the Registrants' results of operations, cash flows or financial positions.

As of December 31, 2017, Exelon's $6.7 billion carrying amount of goodwill primarily consists of $2.6 billion at ComEd relating to the acquisition of ComEd in 2000 upon the formation of Exelon and $4.0 billion at PHI primarily resulting from Exelon's acquisition of PHI in the first quarter of 2016. Under GAAP, goodwill remains at its recorded amount unless it is determined to be impaired, which is generally based upon an annual analysis that compares the implied fair value of the goodwill to its carrying value. If an impairment occurs, the amount of the impaired goodwill will be written-off to expense, which will also reduce equity. The actual timing and amounts of any goodwill impairments will depend on many sensitive, interrelated and uncertain variables. Such an impairment would result in a non-cash charge to expense, which could have a material adverse impact on Exelon's, ComEd's, and PHI's results of operations.

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Regulatory actions or changes in significant assumptions, including discount and growth rates, utility sector market performance and transactions, projected operating and capital cash flows for ComEd's, Pepco's, DPL's, and ACE's business, and the fair value of debt, could potentially result in future impairments of Exelon's, PHI's, and ComEd's goodwill, which could be material.

See ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Critical Accounting Policies and Estimates and Note 6 — Property, Plant and Equipment, Note 7 — Impairment of Long-Lived Assets and Intangibles and Note 10 — Intangible Assets of the Combined Notes to the Consolidated Financial Statements for additional discussion on long-lived asset and goodwill impairments.

Exelon and its subsidiaries at times guarantee the performance of third parties, which could result in substantial costs in the event of non-performance by such third parties. In addition, the Registrants could have rights under agreements which obligate third parties to indemnify the Registrants for various obligations, and the Registrants could incur substantial costs in the event that the applicable Registrant is unable to enforce those agreements or the applicable third-party is otherwise unable to perform. The Registrants could also incur substantial costs in the event that third parties are entitled to indemnification related to environmental or other risks in connection with the acquisition and divestiture of assets (All Registrants).

Some of the Registrants have issued guarantees of the performance of third parties, which obligate the Registrant or its subsidiaries to perform in the event that the third parties do not perform. In the event of non-performance by those third parties, a Registrant could incur substantial cost to fulfill its obligations under these guarantees. Such performance guarantees could have a material impact on the results of operations, cash flows or financial position of the Registrant. Some of the Registrants have issued indemnities to third parties regarding environmental or other matters in connection with purchases and sales of assets and a Registrant could incur substantial costs to fulfill its obligations under these indemnities and such costs could adversely affect a Registrant's results of operations, cash flows or financial position.

Some of the Registrants have entered into various agreements with counterparties that require those counterparties to reimburse a Registrant and hold it harmless against specified obligations and claims. To the extent that any of these counterparties are affected by deterioration in their creditworthiness or the agreements are otherwise determined to be unenforceable, the affected Registrant could be held responsible for the obligations, which could adversely impact that Registrant's results of operations, cash flows or financial position. Each of the Utility Registrants has transferred its former generation business to a third party and in each case the transferee may have agreed to assume certain obligations and to indemnify the applicable Utility Registrant for such obligations. In connection with the restructurings under which ComEd, PECO and BGE transferred their generating assets to Generation, Generation assumed certain of ComEd's, PECO's and BGE's rights and obligations with respect to their former generation businesses. Further, ComEd, PECO and BGE may have entered into agreements with third parties under which the third-party agreed to indemnify ComEd, PECO or BGE for certain obligations related to their respective former generation businesses that have been assumed by Generation as part of the restructuring. If the third-party, Generation or the transferee of Pepco's, DPL's or ACE's generation facilities experienced events that reduced its creditworthiness or the indemnity arrangement became unenforceable, the applicable Utility Registrant could be liable for any existing or future claims, which could impact that Utility Registrant's results of operations, cash flows or financial position. In addition, the Utility Registrants may have residual liability under certain laws in connection with their former generation facilities. For example, under CERCLA, former owners of property may retain certain liability for environmental claims and remediation. The third parties to whom the Utility Registrants transferred their former generation facilities may have agreed to indemnify the Utility Registrants for all or a portion

of such liability but if such third parties fail or are unable to perform under the indemnity, the applicable Utility Registrant may be liable for certain remediation costs.

Regulatory and Legislative Factors

The Registrants' generation and energy delivery businesses are highly regulated and could be subject to regulatory and legislative actions that adversely affect their results of operations, cash flows or financial positions. Fundamental changes in regulation or legislation or violation of tariffs or market rules and anti-manipulation laws, could disrupt the Registrants' business plans and adversely affect their operations, cash flows or financial results (All Registrants).

Substantially all aspects of the businesses of the Registrants are subject to comprehensive Federal or state regulation and legislation. Further, Exelon's and Generation's results of operations, cash flows or financial positions are significantly affected by Generation's sales and purchases of commodities at market-based rates, as opposed to cost-based or other similarly regulated rates, and Exelon's and the Utility Registrants' results of operations, cash flows or financial positions are heavily dependent on the ability of the Utility Registrants to recover their costs for the retail purchase and distribution of power and natural gas to their customers. Similarly, there is risk that financial market regulations could increase the Registrants' compliance costs and limit their ability to engage in certain transactions. In the planning and management of operations, the Registrants must address the effects of regulation on their businesses and changes in the regulatory framework, including initiatives by Federal and state legislatures, RTOs, exchanges, ratemaking agencies and taxing authorities. Additionally, the Registrants need to be cognizant and understand rule changes or Registrant actions that could result in potential violation of tariffs, market rules and anti-manipulation laws. Fundamental changes in regulations or other adverse legislative actions affecting the Registrants' businesses would require changes in their business planning models and operations and could negatively impact their respective results of operations, cash flows or financial positions.

State and federal regulatory and legislative developments related to emissions, climate change, tax reform, capacity market mitigation, energy price information, resilience, fuel diversity and RPS could also significantly affect Exelon's and Generation's results of operations, cash flows or financial positions. Various legislative and regulatory proposals to address climate change through GHG emission reductions, if enacted, could result in increased costs to entities that generate electricity through carbon-emitting fossil fuels, which could increase the market price at which all generators in a region, including Generation, could sell their output, thereby increasing the revenue Generation could realize from its low-carbon nuclear assets. Conversely, existing or new regulations intended to reduce GHG emissions could be rolled back, allowing fossil fueled facilities which were otherwise scheduled to retire to continue to operate if economical. This could result in decreases in market prices thereby reducing Generation's revenues. However, national regulation or legislation addressing climate change through an RPS could also increase the pace of development of wind energy facilities in the Midwest, which could put downward pressure on wholesale market prices for electricity from Generation's Midwest nuclear assets, partially offsetting any additional value Exelon and Generation might derive from Generation's nuclear assets under a carbon constrained regulatory regime that might exist in the future. Similarly, final regulations under Section 111(d) of the Clean Air Act may not provide sufficient incentives for states to utilize carbon-free nuclear power as a means of meeting GHG reduction requirements, while continuing a policy of favoring renewable energy sources. Current state level climate change and renewable regulation is already providing incentives for regional wind development. The Registrants cannot predict when or whether any of these various legislative and regulatory proposals could become law or what their effect will be on the Registrants.

Legislative and regulatory efforts in Illinois and New York to preserve the environmental attributes and reliability benefits of zero-emission nuclear-powered generating facilities through zero emission credit programs are subject to legal challenges and, if overturned, could negatively impact Exelon's and Generation's results of operations, cash flows or financial positions and result in the early retirement of certain of Generation's nuclear plants.

Generation could be negatively affected by possible Federal or state legislative or regulatory actions that could affect the scope and functioning of the wholesale markets (Exelon and Generation).

Federal and state legislative and regulatory bodies are facing pressures to address consumer concerns, or are themselves raising concerns, that energy prices in wholesale markets are too high or insufficient generation is being built because the competitive model is not working and, therefore, are considering some form of re-regulation or some other means of reducing wholesale market prices or subsidizing new generation. Generation is dependent on robust and competitive wholesale energy markets to achieve its business objectives.

Approximately 61% of Generation's generating resources, which include directly owned assets and capacity obtained through long-term contracts, are located in the area encompassed by PJM. Generation's future results of operations will depend on (1) FERC's continued adherence to and support for, policies that favor the preservation of competitive wholesale power markets and recognize the value of zero-carbon electricity and resiliency and (2) the absence of material changes to market structures that would limit or otherwise negatively affect market competition. Generation could also be adversely affected by state laws, regulations or initiatives designed to reduce wholesale prices artificially below competitive levels or to subsidize existing or new generation.

FERC's requirements for market-based rate authority, established in Order 697 and 816 and related subsequent orders, could pose a risk that Generation may no longer satisfy FERC's tests for market-based rates. Since Order 697 became final in June 2007, Generation has obtained orders affirming Generation's authority to sell at market-based rates and none denying that authority.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) was enacted in July 2010. The part of the Act that affects Exelon most significantly is Title VII, which is known as the Dodd-Frank Wall Street Transparency and Accountability Act (Dodd-Frank). Dodd-Frank requires a new regulatory regime for over-the-counter swaps (swaps), including mandatory clearing for certain categories of swaps, incentives to shift swap activity to exchange trading, margin and capital requirements, and other obligations designed to promote transparency. The primary aim of Dodd-Frank is to regulate the key intermediaries in the swaps market, which entities are swap dealers (SDs), major swap participants (MSPs), or certain other financial entities, but the law also applies to a lesser degree to end-users of swaps. The CFTC's Dodd-Frank regulations generally preserved the ability of end users in the energy industry to hedge their risks using swaps without being subject to mandatory clearing, and many of the other substantive regulations that apply to SDs, MSPs, and other financial entities. Generation manages, and expects to be able to continue to manage, its commercial activity to ensure that it does not have to register as an SD or MSP or other type of covered financial entity.

There are some rulemaking proceedings that have not yet been finalized, in particular, proposed rules on position limits that would apply to both Exchange-traded futures contracts and economically-equivalent over-the-counter swaps. It is possible that those rules will be finalized by the end of 2018. Although the company would incur some costs associated with monitoring and compliance with such rules, it does not expect the rules to have a material impact on its business operations.

The Utility Registrants could also be subject to some Dodd-Frank requirements to the extent they were to enter into swaps. However, at this time, management of the Utility Registrants continue to expect that their companies will not be materially affected by Dodd-Frank.

Generation’s affiliation with the Utility Registrants, together with the presence of a substantial percentage of Generation’s physical asset base within the Utility Registrants' service territories, could increase Generation’s cost of doing business to the extent future complaints or challenges regarding the Utility Registrants' retail rates result in settlements or legislative or regulatory requirements funded in part by Generation (Exelon and Generation).

Generation has significant generating resources within the service areas of the Utility Registrants and makes significant sales to each of them. Those facts tend to cause Generation to be directly affected by developments in those markets. Government officials, legislators and advocacy groups are aware of Generation’s affiliation with the Utility Registrants and its sales to each of them. In periods of rising utility rates, particularly when driven by increased costs of energy production and supply, those officials and advocacy groups could question or challenge costs and transactions incurred by the Utility Registrants with Generation, irrespective of any previous regulatory processes or approvals underlying those transactions. These challenges could increase the time, complexity and cost of the associated regulatory proceedings, and the occurrence of such challenges could subject Generation to a level of scrutiny not faced by other unaffiliated competitors in those markets. In addition, government officials and legislators could seek ways to force Generation to contribute to efforts to mitigate potential or actual rate increases, through measures such as generation-based taxes and contributions to rate-relief packages.

The Registrants could incur substantial costs to fulfill their obligations related to environmental and other matters (All Registrants).

The businesses which the Registrants operate are subject to extensive environmental regulation and legislation by local, state and Federal authorities. These laws and regulations affect the manner in which the Registrants conduct their operations and make capital expenditures including how they handle air and water emissions and solid waste disposal. Violations of these emission and disposal requirements could subject the Registrants to enforcement actions, capital expenditures to bring existing facilities into compliance, additional operating costs for remediation and clean-up costs, civil penalties and exposure to third parties’ claims for alleged health or property damages or operating restrictions to achieve compliance. In addition, the Registrants are subject to liability under these laws for the remediation costs for environmental contamination of property now or formerly owned by the Registrants and of property contaminated by hazardous substances they generate. The Registrants have incurred and expect to incur significant costs related to environmental compliance, site remediation and clean-up. Remediation activities associated with MGP operations conducted by predecessor companies are one component of such costs. Also, the Registrants are currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and could be subject to additional proceedings in the future.

If application of Section 316(b) of the Clean Water Act, which establishes a national requirement for reducing the adverse impacts to aquatic organisms at existing generating stations, requires the retrofitting of cooling water intake structures at Salem or other Exelon power plants, this development could result in material costs of compliance. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information.

Additionally, Generation is subject to exposure for asbestos-related personal injury liability alleged at certain current and formerly owned generation facilities. Future legislative action could require Generation to make a material contribution to a fund to settle lawsuits for alleged asbestos-related disease and exposure.

In some cases, a third-party who has acquired assets from a Registrant has assumed the liability the Registrant could otherwise have for environmental matters related to the transferred property. If the transferee is unable, or fails, to discharge the assumed liability, a regulatory authority or injured person

could attempt to hold the Registrant responsible, and the Registrant's remedies against the transferee could be limited by the financial resources of the transferee. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information.

Changes in the Utility Registrants' respective terms and conditions of service, including their respective rates, are subject to regulatory approval proceedings and/or negotiated settlements that are at times contentious, lengthy and subject to appeal, which lead to uncertainty as to the ultimate result and which could introduce time delays in effectuating rate changes (Exelon and the Utility Registrants).

The Utility Registrants are required to engage in regulatory approval proceedings as a part of the process of establishing the terms and rates for their respective services. These proceedings typically involve multiple parties, including governmental bodies and officials, consumer advocacy groups and various consumers of energy, who have differing concerns but who have the common objective of limiting rate increases or even reducing rates. The proceedings generally have timelines that may not be limited by statute. Decisions are subject to appeal, potentially leading to additional uncertainty associated with the approval proceedings. The potential duration of such proceedings creates a risk that rates ultimately approved by the applicable regulatory body may not be sufficient for a Utility Registrant to recover its costs by the time the rates become effective. Established rates are also subject to subsequent prudency reviews by state regulators, whereby various portions of rates could be adjusted, subject to refund or disallowed, including recovery mechanisms for costs associated with the procurement of electricity or gas, bad debt, MGP remediation, smart grid infrastructure, and energy efficiency and demand response programs.

In certain instances, the Utility Registrants could agree to negotiated settlements related to various rate matters, customer initiatives or franchise agreements. These settlements are subject to regulatory approval.

The Utility Registrants cannot predict the ultimate outcomes of any settlements or the actions by Illinois, Pennsylvania, Maryland, the District of Columbia, Delaware, New Jersey or Federal regulators in establishing rates, including the extent, if any, to which certain costs such as significant capital projects will be recovered or what rates of return will be allowed. Nevertheless, the expectation is that the Utility Registrants will continue to be obligated to deliver electricity to customers in their respective service territories and will also retain significant default service obligations, referred to as POLR, DSP, SOS and BGS, to provide electricity and natural gas to certain groups of customers in their respective service areas who do not choose an alternative supplier. The ultimate outcome and timing of regulatory rate proceedings have a significant effect on the ability of the Utility Registrants, as applicable, to recover their costs or earn an adequate return and could have a material adverse effect on the Utility Registrants' results of operations, cash flows or financial positions. See Note 3 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for information regarding rate proceedings.

Federal or additional state RPS and/or energy conservation legislation, along with energy conservation by customers, could negatively affect the results of operations, cash flows or financial positions of Generation and the Utility Registrants (All Registrants).

Changes to current state legislation or the development of Federal legislation that requires the use of renewable and alternate fuel sources, such as wind, solar, biomass and geothermal, could significantly impact Generation and the Utility Registrants, especially if timely cost recovery is not allowed for Utility Registrants. The impact could include increased costs for RECs and purchased power and increased rates for customers.

Federal and state legislation mandating the implementation of energy conservation programs that require the implementation of new technologies, such as smart meters and smart grid, have increased capital expenditures and could significantly impact the Utility Registrants if timely cost recovery is not allowed. Furthermore, regulated energy consumption reduction targets and declines in customer energy consumption resulting from the implementation of new energy conservation technologies could lead to a decline in the revenues of Exelon, Generation and the Utility Registrants. For additional information, see ITEM 1. BUSINESS — Environmental Regulation — Renewable and Alternative Energy Portfolio Standards.

The impact of not meeting the criteria of the FASB guidance for accounting for the effects of certain types of regulation could be material to Exelon and the Utility Registrants (Exelon and the Utility Registrants).

As of December 31, 2017, Exelon and the Utility Registrants have concluded that the operations of the Utility Registrants meet the criteria of the authoritative guidance for accounting for the effects of certain types of regulation. If it is concluded in a future period that a separable portion of their businesses no longer meets the criteria, Exelon, and the Utility Registrants would be required to eliminate the financial statement effects of regulation for that part of their business. That action would include the elimination of any or all regulatory assets and liabilities that had been recorded in their Consolidated Balance Sheets and the recognition of a one-time charge in their Consolidated Statements of Operations and Comprehensive Income. The impact of not meeting the criteria of the authoritative guidance could be material to the financial statements of Exelon and the Utility Registrants. The impacts and resolution of the above items could lead to an impairment of ComEd’s or PHI’s goodwill, which could be significant and at least partially offset the gains at ComEd discussed above. A significant decrease in equity as a result of any changes could limit the ability of the Utility Registrants to pay dividends under Federal and state law and no longer meeting the regulatory accounting criteria could cause significant volatility in future results of operations. See Notes 1 — Significant Accounting Policies, 3 — Regulatory Matters and 10 — Intangible Assets of the Combined Notes to Consolidated Financial Statements for additional information regarding accounting for the effects of regulation, regulatory matters and ComEd’s and PHI’s goodwill, respectively.

Exelon and Generation could incur material costs of compliance if Federal and/or state regulation or legislation is adopted to address climate change (Exelon and Generation).

Various stakeholders, including legislators and regulators, shareholders and non-governmental organizations, as well as other companies in many business sectors, including utilities, are considering ways to address the effect of GHG emissions on climate change. If carbon reduction regulation or legislation becomes effective, Exelon and Generation could incur costs either to limit further the GHG emissions from their operations or to procure emission allowance credits. For example, a Federal RPS could increase the cost of compliance by mandating the purchase or construction of more expensive supply alternatives. For more information regarding climate change, see ITEM 1. BUSINESS — Global Climate Change and Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements.

The Registrants could be subject to higher costs and/or penalties related to mandatory reliability standards, including the likely exposure of the Utility Registrants to the results of PJM’s RTEP and NERC compliance requirements (All Registrants).

As a result of the Energy Policy Act of 2005, users, owners and operators of the bulk power transmission system, including Generation and the Utility Registrants, are subject to mandatory reliability standards promulgated by NERC and enforced by FERC. As operators of natural gas distribution systems, PECO, BGE and DPL are also subject to mandatory reliability standards of the U.S. Department of Transportation. The standards are based on the functions that need to be performed to ensure the

bulk power system operates reliably and are guided by reliability and market interface principles. Compliance with or changes in the reliability standards could subject the Registrants to higher operating costs and/or increased capital expenditures. In addition, the ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU impose certain distribution reliability standards on the Utility Registrants. If the Registrants were found not to be in compliance with the mandatory reliability standards, they could be subject to remediation costs as well as sanctions, which could include substantial monetary penalties.

The Utility Registrants as transmission owners are subject to NERC compliance requirements. NERC provides guidance to transmission owners regarding assessments of transmission lines. The results of these assessments could require the Utility Registrants to incur incremental capital or operating and maintenance expenditures to ensure their transmission lines meet NERC standards.

See Note 3 — Regulatory Matters and Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information.

The Registrants could be subject to adverse publicity and reputational risks, which make them vulnerable to negative customer perception and could lead to increased regulatory oversight or other consequences (All Registrants).

The Registrants have large consumer customer bases and as a result could be the subject of public criticism focused on the operability of their assets and infrastructure and quality of their service. Adverse publicity of this nature could render legislatures and other governing bodies, public service commissions and other regulatory authorities, and government officials less likely to view energy companies such as Exelon and its subsidiaries in a favorable light, and could cause Exelon and its subsidiaries to be susceptible to less favorable legislative and regulatory outcomes, as well as increased regulatory oversight and more stringent legislative or regulatory requirements (e.g. disallowances of costs, lower ROEs). The imposition of any of the foregoing could have a material negative impact on the Registrants' business, results of operations, cash flows or financial positions.

The Registrants cannot predict the outcome of the legal proceedings relating to their business activities. An adverse determination could negatively impact their results of operations, cash flows or financial positions (All Registrants).

The Registrants are involved in legal proceedings, claims and litigation arising out of their business operations, the most significant of which are summarized in Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements. Adverse outcomes in these proceedings could require significant expenditures, result in lost revenue or restrict existing business activities, any of which could have a material adverse effect on the Registrants' results of operations, cash flows or financial positions.

Generation could be negatively affected by possible Nuclear Regulatory Commission actions that could affect the operations and profitability of its nuclear generating fleet (Exelon and Generation).

Regulatory risk

A change in the Atomic Energy Act or the applicable regulations or licenses could require a substantial increase in capital expenditures or could result in increased operating or decommissioning costs and significantly affect Generation's results of operations, cash flows or financial position. Events at nuclear plants owned by others, as well as those owned by Generation, could cause the NRC to initiate such actions.

Spent nuclear fuel storage

The approval of a national repository for the storage of SNF, such as the one previously considered at Yucca Mountain, Nevada, and the timing of such facility opening, will significantly affect the costs associated with storage of SNF, and the ultimate amounts received from the DOE to reimburse Generation for these costs. The NRC's temporary storage rule (also referred to as the "waste confidence decision") recognizes that licensees can safely store SNF at nuclear power plants for up to 60 years beyond the original and renewed licensed operating life of the plants.

Any regulatory action relating to the timing and availability of a repository for SNF could adversely affect Generation's ability to decommission fully its nuclear units. Through May 15, 2014, in accordance with the NWPA and Generation's contract with the DOE, Generation paid the DOE a fee per kWh of net nuclear generation for the cost of SNF disposal. This fee was discontinued effective May 16, 2014. Until such time as a new fee structure is in effect, Exelon and Generation will not accrue any further costs related to SNF disposal fees. Generation cannot predict what, if any, fee will be established in the future for SNF disposal. However, such a fee could be material to Generation's results of operations, cash flows or financial position. Generation currently estimates 2030 to be the earliest date when the DOE will begin accepting SNF, which could be delayed by further regulatory action. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information on the SNF obligation.

Operational Factors

The Registrants' employees, contractors, customers and the general public could be exposed to a risk of injury due to the nature of the energy industry (All Registrants).

Employees and contractors throughout the organization work in, and customers and the general public could be exposed to, potentially dangerous environments near their operations. As a result, employees, contractors, customers and the general public are at some risk for serious injury, including loss of life. These risks include nuclear accidents, dam failure, gas explosions, pole strikes and electric contact cases.

Natural disasters, war, acts and threats of terrorism, pandemic and other significant events could negatively impact the Registrants' results of operations, their ability to raise capital and their future growth (All Registrants).

Generation's fleet of power plants and the Utility Registrants' distribution and transmission infrastructures could be affected by natural disasters, such as seismic activity, fires resulting from natural causes such as lightning, extreme weather events, changes in temperature and precipitation patterns, changes to ground and surface water availability, sea level rise and other related phenomena. Severe weather or other natural disasters could be destructive, which could result in increased costs, including supply chain costs. An extreme weather event within the Registrants' service areas can also directly affect their capital assets, causing disruption in service to customers due to downed wires and poles or damage to other operating equipment.

Natural disasters and other significant events increase the risk to Generation that the NRC or other regulatory or legislative bodies could change the laws or regulations governing, among other things, operations, maintenance, licensed lives, decommissioning, SNF storage, insurance, emergency planning, security and environmental and radiological matters. In addition, natural disasters could affect the availability of a secure and economical supply of water in some locations, which is essential for Generation's continued operation, particularly the cooling of generating units. Additionally, natural disasters and other events that have an adverse effect on the economy in general could adversely affect the Registrants’ results of operations, cash flows or financial positions and their ability to raise capital.

The impact that potential terrorist attacks could have on the industry and on Exelon is uncertain. As owner-operators of infrastructure facilities, such as nuclear, fossil and hydroelectric generation facilities and electric and gas transmission and distribution facilities, the Registrants face a risk that their operations would be direct targets or indirect casualties of an act of terror. Any retaliatory military strikes or sustained military campaign could affect their operations in unpredictable ways, such as changes in insurance markets and disruptions of fuel supplies and markets, particularly oil. Furthermore, these catastrophic events could compromise the physical or cyber security of Exelon's facilities, which could adversely affect Exelon's ability to manage its business effectively. Instability in the financial markets as a result of terrorism, war, natural disasters, pandemic, credit crises, recession or other factors also could result in a decline in energy consumption or interruption of fuel or the supply chain, which could adversely affect the Registrants' results of operations, cash flows or financial positions and their ability to raise capital. In addition, the implementation of security guidelines and measures has resulted in and is expected to continue to result in increased costs.

The Registrants could be significantly affected by the outbreak of a pandemic. Exelon has plans in place to respond to a pandemic. However, depending on the severity of a pandemic and the resulting impacts to workforce and other resource availability, the ability to operate Exelon's generating and transmission and distribution assets could be affected, resulting in decreased service levels and increased costs.

In addition, Exelon maintains a level of insurance coverage consistent with industry practices against property, casualty and cybersecurity losses subject to unforeseen occurrences or catastrophic events that could damage or destroy assets or interrupt operations. However, there can be no assurance that the amount of insurance will be adequate to address such property and casualty losses.

Generation's financial performance could be negatively affected by matters arising from its ownership and operation of nuclear facilities (Exelon and Generation).

Nuclear capacity factors

Capacity factors for generating units, particularly capacity factors for nuclear generating units, significantly affect Generation's results of operations. Nuclear plant operations involve substantial fixed operating costs but produce electricity at low variable costs due to nuclear fuel costs typically being lower than fossil fuel costs. Consequently, to be successful, Generation must consistently operate its nuclear facilities at high capacity factors. Lower capacity factors increase Generation's operating costs by requiring Generation to produce additional energy from primarily its fossil facilities or purchase additional energy in the spot or forward markets in order to satisfy Generation's obligations to committed third-party sales, including the Utility Registrants. These sources generally have higher costs than Generation incurs to produce energy from its nuclear stations.

Nuclear refueling outages

In general, refueling outages are planned to occur once every 18 to 24 months. The total number of refueling outages, along with their duration, could have a significant impact on Generation's results of operations. When refueling outages last longer than anticipated or Generation experiences unplanned outages, capacity factors decrease and Generation faces lower margins due to higher energy replacement costs and/or lower energy sales and higher operating and maintenance costs.

Nuclear fuel quality

The quality of nuclear fuel utilized by Generation could affect the efficiency and costs of Generation’s operations. Remediation actions could result in increased costs due to accelerated fuel amortization, increased outage costs and/or increased costs due to decreased generation capabilities.

Operational risk

Operations at any of Generation’s nuclear generation plants could degrade to the point where Generation has to shut down the plant or operate at less than full capacity. If this were to happen, identifying and correcting the causes could require significant time and expense. Generation could choose to close a plant rather than incur the expense of restarting it or returning the plant to full capacity. In either event, Generation could lose revenue and incur increased fuel and purchased power expense to meet supply commitments. For plants operated but not wholly owned by Generation, Generation could also incur liability to the co-owners. For nuclear plants not operated and not wholly owned by Generation, from which Generation receives a portion of the plants’ output, Generation’s results of operations are dependent on the operational performance of the operators and could be adversely affected by a significant event at those plants. Additionally, poor operating performance at nuclear plants not owned by Generation could result in increased regulation and reduced public support for nuclear-fueled energy, which could significantly affect Generation’s results of operations, cash flows or financial position. In addition, closure of generating plants owned by others, or extended interruptions of generating plants or failure of transmission lines, could affect transmission systems that could adversely affect the sale and delivery of electricity in markets served by Generation.

Nuclear major incident risk

Although the safety record of nuclear reactors generally has been very good, accidents and other unforeseen problems have occurred both in the United States and abroad. The consequences of a major incident could be severe and include loss of life and property damage. Any resulting liability from a nuclear plant major incident within the United States, owned or operated by Generation or owned by others, could exceed Generation’s resources, including insurance coverage. Uninsured losses and other expenses, to the extent not recovered from insurers or the nuclear industry, could be borne by Generation and could have a material adverse effect on Generation’s results of operations, cash flows or financial position. Additionally, an accident or other significant event at a nuclear plant within the United States or abroad, whether owned Generation or others, could result in increased regulation and reduced public support for nuclear-fueled energy and significantly adversely affect Generation’s results of operations, cash flows or financial position.

Nuclear insurance

As required by the Price-Anderson Act, Generation carries the maximum available amount of nuclear liability insurance, $450 million for each operating site. Claims exceeding that amount are covered through mandatory participation in a financial protection pool. In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay claims exceeding the $13.4 billion limit for a single incident.

Generation is a member of an industry mutual insurance company, NEIL, which provides property and business interruption insurance for Generation’s nuclear operations. In previous years, NEIL has made distributions to its members but Generation cannot predict the level of future distributions or if they will occur at all. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional discussion of nuclear insurance.

Decommissioning obligation and funding

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in certain minimum amounts at the end of the life of the facility to decommission the facility. Generation is required to provide to the NRC a biennial report by unit (annually for units that have been retired and units that are within five years of retirement) addressing Generation’s ability to meet the NRC-estimated funding levels including scheduled contributions to and earnings on

the decommissioning trust funds. The NRC funding levels are based upon the assumption that decommissioning will commence after the end of the current licensed life of each unit.

Generation recognizes as a liability the present value of the estimated future costs to decommission its nuclear facilities. The estimated liability is based on assumptions in the approach and timing of decommissioning the nuclear facilities, estimation of decommissioning costs and Federal and state regulatory requirements. No assurance can be given that the costs of such decommissioning will not substantially exceed such liability, as facts, circumstances or our estimates may change, including changes in the approach and timing of decommissioning activities, changes in decommissioning costs, changes in Federal or state regulatory requirements on the decommissioning of such facilities, other changes in our estimates or Generation’s ability to effectively execute on its planned decommissioning activities.

The performance of capital markets could significantly affect the value of the trust funds. Currently, Generation is making contributions to certain trust funds of the former PECO units based on amounts being collected by PECO from its customers and remitted to Generation. While Generation, through PECO, has recourse to collect additional amounts from PECO customers (subject to certain limitations and thresholds), it has no recourse to collect additional amounts from utility customers for any of its other nuclear units if there is a shortfall of funds necessary for decommissioning. If circumstances changed such that Generation would be unable to continue to make contributions to the trust funds of the former PECO units based on amounts collected from PECO customers, or if Generation no longer had recourse to collect additional amounts from PECO customers if there was a shortfall of funds for decommissioning, the adequacy of the trust funds related to the former PECO units could be negatively affected and Exelon’s and Generation’s results of operations, cash flows or financial positions could be significantly affected. See Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information.

Forecasting trust fund investment earnings and costs to decommission nuclear generating stations requires significant judgment, and actual results could differ significantly from current estimates. Ultimately, if the investments held by Generation’s NDTs are not sufficient to fund the decommissioning of Generation’s nuclear units, Generation could be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional contributions to the trusts, which could be significant, to ensure that the trusts are adequately funded and that current and future NRC minimum funding requirements are met. As a result, Generation’s results of operations, cash flows or financial position could be significantly adversely affected. Additionally, if the pledged assets are not sufficient to fund the Zion Station decommissioning activities under the Asset Sale Agreement (ASA), Generation could have to seek remedies available under the ASA to reduce the risk of default by ZionSolutions and its parent. See Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information.

For nuclear units that are subject to regulatory agreements with either the ICC or the PAPUC, decommissioning-related activities are generally offset within Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income. The offset of decommissioning-related activities within the Consolidated Statements of Operations and Comprehensive Income results in an equal adjustment to the noncurrent payables to affiliates at Generation and an adjustment to the regulatory liabilities at Exelon. Likewise, ComEd and PECO have recorded an equal noncurrent affiliate receivable from Generation and a corresponding regulatory liability.

In the case of the nuclear units subject to the regulatory agreements with the ICC, if the funds held in the NDT funds for any former ComEd unit are expected to not exceed the total decommissioning obligation for that unit, the accounting to offset decommissioning-related activities in the Consolidated Statement of Operations and Comprehensive Income for that unit would be discontinued, the decommissioning-related activities would be recognized in the Consolidated Statements of Operations

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and Comprehensive Income and the adverse impact to Exelon's and Generation's results of operations, cash flows or financial positions could be material. Additionally, any remaining balances in noncurrent payables to affiliates at Generation and ComEd's noncurrent affiliate receivable from Generation and corresponding regulatory liability may need to be reversed and could have a material impact on Generation's Consolidated Statements of Operations and Comprehensive Income.

In the case of the nuclear units subject to the regulatory agreements with the PAPUC, any changes to the PECO regulatory agreements could impact Exelon's and Generation's ability to offset decommissioning-related activities within the Consolidated Statement of Operations and Comprehensive Income, and the impact to Exelon's and Generation's results of operations, cash flows and financial positions could be material. Additionally, any remaining balances in noncurrent payables to affiliates at Generation and PECO's noncurrent affiliate receivable from Generation and corresponding regulatory liability may need to be reversed and could have a material impact on Generation's Consolidated Statement of Operations and Comprehensive Income.

Generation's financial performance could be negatively affected by risks arising from its ownership and operation of hydroelectric facilities (Exelon and Generation).

FERC has the exclusive authority to license most non-Federal hydropower projects located on navigable waterways, Federal lands or connected to the interstate electric grid. The license for the Muddy Run Pumped Storage Project expires on December 1, 2055. The license for the Conowingo Hydroelectric Project expired on September 1, 2014. FERC issued an annual license, effective as of the expiration of the previous license. If FERC does not issue a license prior to the expiration of the annual license, the annual license renews automatically. Generation cannot predict whether it will receive all the regulatory approvals for the renewed licenses of its hydroelectric facilities. If FERC does not issue new operating licenses for Generation's hydroelectric facilities or a station cannot be operated through the end of its operating license, Generation's results of operations could be adversely affected by increased depreciation rates and accelerated future decommissioning costs, since depreciation rates and decommissioning cost estimates currently include assumptions that license renewal will be received. Generation could also lose revenue and incur increased fuel and purchased power expense to meet supply commitments. In addition, conditions could be imposed as part of the license renewal process that could adversely affect operations, could require a substantial increase in capital expenditures or could result in increased operating costs and significantly affect Generation's results of operations, cash flows or financial position. Similar effects could result from a change in the Federal Power Act or the applicable regulations due to events at hydroelectric facilities owned by others, as well as those owned by Generation.

The Registrants' businesses are capital intensive, and their assets could require significant expenditures to maintain and are subject to operational failure, which could result in potential liability (All Registrants).

The Registrants' businesses are capital intensive and require significant investments by Generation in electric generating facilities and by the Utility Registrants in transmission and distribution infrastructure projects. These operational systems and infrastructure have been in service for many years. Equipment, even if maintained in accordance with good utility practices, is subject to operational failure, including events that are beyond the Registrants' control, and could require significant expenditures to operate efficiently. The Registrants' respective results of operations, cash flows or financial positions could be adversely affected if they were unable to effectively manage their capital projects or raise the necessary capital. Furthermore, operational failure of electric or gas systems, generation facilities or infrastructure could result in potential liability if such failure results in damage to property or injury to individuals. See ITEM 1. BUSINESS for further information regarding the Registrants' potential future capital expenditures.

The Utility Registrants' operating costs, and customers’ and regulators’ opinions of the Utility Registrants are affected by their ability to maintain the availability and reliability of their delivery and operational systems (Exelon and the Utility Registrants).

Failures of the equipment or facilities, including information systems, used in the Utility Registrants’ delivery systems could interrupt the electric transmission and electric and natural gas delivery, which could negatively impact related revenues, and increase maintenance and capital expenditures. Equipment or facilities failures can be due to a number of factors, including natural causes such as weather or information systems failure. Specifically, if the implementation of advanced metering infrastructure, smart grid or other technologies in the Utility Registrants’ service territory fail to perform as intended or are not successfully integrated with billing and other information systems, the Utility Registrants’ results of operations, cash flows or financial positions could be negatively impacted. Furthermore, if any of the financial, accounting, or other data processing systems fail or have other significant shortcomings, the Utility Registrants’ financial results could be negatively impacted. If an employee or third party causes the operational systems to fail, either as a result of inadvertent error or by deliberately tampering with or manipulating the operational systems, the Utility Registrants’ financial results could also be negatively impacted. In addition, dependence upon automated systems could further increase the risk that operational system flaws or internal and/or external tampering or manipulation of those systems will result in losses that are difficult to detect.

The aforementioned failures or those of other utilities, including prolonged or repeated failures, could affect customer satisfaction and the level of regulatory oversight and the Utility Registrants’ maintenance and capital expenditures. Regulated utilities, which are required to provide service to all customers within their service territory, have generally been afforded liability protections against claims by customers relating to failure of service. Under Illinois law, however, ComEd could be required to pay damages to its customers in some circumstances involving extended outages affecting large numbers of its customers, and those damages could be material to ComEd’s results of operations, cash flows or financial position.

The Utility Registrants' respective ability to deliver electricity, their operating costs and their capital expenditures could be negatively impacted by transmission congestion and failures of neighboring transmission systems (Exelon and the Utility Registrants).

Demand for electricity within the Utility Registrants’ service areas could stress available transmission capacity requiring alternative routing or curtailment of electricity usage with consequent effects on operating costs, revenues and results of operations. Also, insufficient availability of electric supply to meet customer demand could jeopardize the Utility Registrants’ ability to comply with reliability standards and strain customer and regulatory agency relationships. As with all utilities, potential concerns over transmission capacity or generation facility retirements could result in PJM or FERC requiring the Utility Registrants to upgrade or expand their respective transmission systems through additional capital expenditures.

The electricity transmission facilities of the Utility Registrants are interconnected with the transmission facilities of neighboring utilities and are part of the interstate power transmission grid that is operated by PJM RTO. Although PJM’s systems and operations are designed to ensure the reliable operation of the transmission grid and prevent the operations of one utility from having an adverse impact on the operations of the other utilities, there can be no assurance that service interruptions at other utilities will not cause interruptions in the Utility Registrants’ service areas. If the Utility Registrants were to suffer such a service interruption, it could have a negative impact on their and Exelon’s results of operations, cash flows and financial positions.

The Registrants are subject to physical security and cybersecurity risks (All Registrants).

The Registrants face physical security and cybersecurity risks as the owner-operators of generation, transmission and distribution facilities and as participants in commodities trading. Threat sources continue to seek to exploit potential vulnerabilities in the electric and natural gas utility industry associated with protection of sensitive and confidential information, grid infrastructure and other energy infrastructures, and such attacks and disruptions, both physical and cyber, are becoming increasingly sophisticated and dynamic. Continued implementation of advanced digital technologies increases the potentially unfavorable impacts of such attacks. A security breach of the physical assets or information systems of the Registrants, their competitors, vendors, business partners and interconnected entities in RTOs and ISOs, or regulators could impact the operation of the generation fleet and/or reliability of the transmission and distribution system or result in the theft or inappropriate release of certain types of information, including critical infrastructure information, sensitive customer, vendor and employee data, trading or other confidential data. The risk of these system-related events and security breaches occurring continues to intensify, and while the Registrants have been, and will likely continue to be, subjected to physical and cyber-attacks, to date none has directly experienced a material breach or disruption to its network or information systems or our service operations. However, as such attacks continue to increase in sophistication and frequency, the Registrants may be unable to prevent all such attacks in the future. If a significant breach were to occur, the reputation of Exelon or another Registrant and its customer supply activities could be adversely affected, customer confidence in the Registrants or others in the industry could be diminished, or Exelon and its subsidiaries could be subject to legal claims, loss of revenues, increased costs, operations shutdown, etc., any of which could contribute to the loss of customers and have a negative impact on the business and/or results of operations, cash flows or financial positions. Moreover, the amount and scope of insurance maintained against losses resulting from any such events or security breaches may not be sufficient to cover losses or otherwise adequately compensate for any disruptions to business that could result. The Utility Registrants’ deployment of smart meters throughout their service territories could increase the risk of damage from an intentional disruption of the system by third parties. In addition, new or updated security regulations or unforeseen threat sources could require changes in current measures taken by the Registrants or their business operations and could adversely affect their results of operations, cash flows or financial positions.

Failure to attract and retain an appropriately qualified workforce could negatively impact the Registrants’ results of operations, cash flows or financial positions (All Registrants).

Certain events, such as an employee strike, loss of contract resources due to a major event, and an aging workforce without appropriate replacements, could lead to operating challenges and increased costs for the Registrants. The challenges include lack of resources, loss of knowledge and a lengthy time period associated with skill development. In this case, costs, including costs for contractors to replace employees, productivity costs and safety costs, could arise. The Registrants are particularly affected due to the specialized knowledge required of the technical and support employees for their generation, transmission and distribution operations. If the Registrants are unable to successfully attract and retain an appropriately qualified workforce, their results of operations, cash flows or financial positions could be negatively impacted.

The Registrants could make investments in new business initiatives, including initiatives mandated by regulators, and markets that may not be successful, and acquisitions could not achieve the intended financial results (All Registrants).

Generation could continue to pursue growth in its existing businesses and markets and further diversification across the competitive energy value chain. This could include investment opportunities in renewables, development of natural gas generation, nuclear advisory or operating services for third

parties, distributed generation, potential expansion of the existing wholesale gas businesses and entry into liquefied natural gas. Such initiatives could involve significant risks and uncertainties, including distraction of management from current operations, inadequate return on capital, and unidentified issues not discovered in the diligence performed prior to launching an initiative or entering a market. As these markets mature, there could be new market entrants or expansion by established competitors that increase competition for customers and resources. Additionally, it is possible that FERC, state public utility commissions or others could impose certain other restrictions on such transactions. All of these factors could result in higher costs or lower revenues than expected, resulting in lower than planned returns on investment.

The Utility Registrants face risks associated with their regulatory-mandated Smart Grid and utility of the future initiatives and other non-regulatory mandated initiatives. These risks include, but are not limited to, cost recovery, regulatory concerns, cybersecurity and obsolescence of technology. Due to these risks, no assurance can be given that such initiatives will be successful and will not have a material adverse effect on the Utility Registrants' results of operations, cash flows or financial positions.

The Registrants may not realize or achieve the anticipated cost savings through the cost management efforts which could impact the Registrants' results of operations (All Registrants).

The Registrants' future financial performance and level of profitability is dependent, in part, on various cost reduction initiatives. The Registrants may encounter challenges in executing these cost reduction initiatives and not achieve the intended cost savings.

Risks Related to the PHI Merger

The merger may not achieve its anticipated results, and Exelon could be unable to integrate the operations of PHI in the manner expected (Exelon and PHI).

Exelon and PHI entered into the merger agreement with the expectation that the merger will result in various benefits, including, among other things, cost savings and operating efficiencies. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether the businesses of Exelon and PHI can be integrated in an efficient, effective and timely manner.

It is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees, the disruption of Exelon's businesses, processes and systems or inconsistencies in standards, controls, procedures, practices and policies, any of which could adversely affect the combined company's ability to achieve the anticipated benefits of the merger as and when expected. Exelon could have difficulty addressing possible differences in corporate cultures and management philosophies. Failure to achieve these anticipated benefits could result in increased costs and could adversely affect Exelon's and PHI's future business, prospects, results of operations, cash flows or financial conditions.

The merger may not be accretive to earnings and could cause dilution to Exelon's earnings per share, which could negatively affect the market price of Exelon's common stock (Exelon).

The timing and amount of accretion expected could be significantly adversely affected by a number of uncertainties, including market conditions, risks related to Exelon's businesses and whether the business of PHI is integrated in an efficient and effective manner. Exelon also could encounter additional transaction and integration-related costs, could fail to realize all of the benefits anticipated in the merger or be subject to other factors that affect preliminary estimates. Any of these factors could cause a decrease

in Exelon’s adjusted earnings per share or decrease or delay the expected accretive effect of the merger and contribute to a decrease in the price of Exelon’s common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

All Registrants

None.

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ITEM 2. PROPERTIES

Generation

The following table describes Generation’s interests in net electric generating capacity by station at December 31, 2017:

Station[a]	Region	Location	No. of Units	Percent Owned[b]	Primary Fuel Type	Primary Dispatch Type[c]	Net Generation Capacity (MW) [d]
Braidwood	Midwest	Braidwood, IL	2		Uranium	Base-load	2,381
Byron	Midwest	Byron, IL	2		Uranium	Base-load	2,347
LaSalle	Midwest	Seneca, IL	2		Uranium	Base-load	2,320
Dresden	Midwest	Morris, IL	2		Uranium	Base-load	1,845
Quad Cities	Midwest	Cordova, IL	2	75	Uranium	Base-load	1,403 (f)
Clinton	Midwest	Clinton, IL	1		Uranium	Base-load	1,069
Michigan Wind 2	Midwest	Sanilac Co., MI	50	51	Wind	Base-load	46 (f)(h)
Beebe	Midwest	Gratiot Co., MI	34	51	Wind	Base-load	42 (f)(h)
Michigan Wind 1	Midwest	Huron Co., MI	46	51	Wind	Base-load	35 (f)(h)
Harvest 2	Midwest	Huron Co., MI	33	51	Wind	Base-load	30 (f)(h)
Harvest	Midwest	Huron Co., MI	32	51	Wind	Base-load	27 (f)(h)
Beebe 1B	Midwest	Gratiot Co., MI	21	51	Wind	Base-load	26 (f)(h)
Ewington	Midwest	Jackson Co., MN	10	99	Wind	Base-load	20 (f)
Marshall	Midwest	Lyon Co., MN	9	99	Wind	Base-load	19 (f)
City Solar	Midwest	Chicago, IL	1		Solar	Base-load	9
AgriWind	Midwest	Bureau Co., IL	4	99	Wind	Base-load	8 (f)
Cisco	Midwest	Jackson Co., MN	4	99	Wind	Base-load	8 (f)
Solar Ohio	Midwest	Toledo, OH	2		Solar	Base-load	4
Blue Breezes	Midwest	Faribault Co., MN	2		Wind	Base-load	3
CP Windfarm	Midwest	Faribault Co., MN	2	51	Wind	Base-load	2 (f)(h)
Southeast Chicago	Midwest	Chicago, IL	8		Gas	Peaking	296
Clinton Battery Storage	Midwest	Blanchester, OH	1		Energy Storage	Peaking	10
Total Midwest							11,950
Limerick	Mid-Atlantic	Sanatoga, PA	2		Uranium	Base-load	2,317
Peach Bottom	Mid-Atlantic	Delta, PA	2	50	Uranium	Base-load	1,303 (f)
Salem	Mid-Atlantic	Lower Alloways Creek Township, NJ	2	42.59	Uranium	Base-load	1,007 (f)
Calvert Cliffs	Mid-Atlantic	Lusby, MD	2	50.01	Uranium	Base-load	888 (f)(g)
Three Mile Island	Mid-Atlantic	Middletown, PA	1		Uranium	Base-load	837 (k)
Oyster Creek	Mid-Atlantic	Forked River, NJ	1		Uranium	Base-load	625 (e)
Conowingo	Mid-Atlantic	Darlington, MD	11		Hydroelectric	Base-load	572
Criterion	Mid-Atlantic	Oakland, MD	28	51	Wind	Base-load	36 (f)(h)
Fair Wind	Mid-Atlantic	Garrett County, MD	12		Wind	Base-load	30
Solar Maryland MC	Mid-Atlantic	Various, MD	17		Solar	Base-load	29

Fourmile	Mid-Atlantic	Garrett County, MD	16	51	Wind	Base-load	20	(f)(h)
Solar New Jersey 1	Mid-Atlantic	Various, NJ	5		Solar	Base-load	18	
Solar New Jersey 2	Mid-Atlantic	Various, NJ	2		Solar	Base-load	11	

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Station(a)	Region	Location	No. of Units	Percent Owned(b)	Primary Fuel Type	Primary Dispatch Type(c)	Net Generation Capacity (MW) (d)
Solar Horizons	Mid-Atlantic	Emmitsburg, MD	1	51	Solar	Base-load	8 (f)(h)
Solar Maryland	Mid-Atlantic	Various, MD	11		Solar	Base-load	8
Solar Maryland 2	Mid-Atlantic	Various, MD	3		Solar	Base-load	8
Solar Federal	Mid-Atlantic	Trenton, NJ	1		Solar	Base-load	5
Solar New Jersey 3	Mid-Atlantic	Middle Township, NJ	5	51	Solar	Base-load	1 (f)(h)
Solar DC	Mid-Atlantic	District of Columbia	1		Solar	Base-load	1
Muddy Run	Mid-Atlantic	Drumore, PA	8		Hydroelectric	Intermediate	1,070
Eddystone 3, 4	Mid-Atlantic	Eddystone, PA	2		Oil/Gas	Intermediate	760
Perryman	Mid-Atlantic	Aberdeen, MD	5		Oil/Gas	Peaking	404
Croydon	Mid-Atlantic	West Bristol, PA	8		Oil	Peaking	391
Handsome Lake	Mid-Atlantic	Kennerdell, PA	5		Gas	Peaking	268
Notch Cliff	Mid-Atlantic	Baltimore, MD	8		Gas	Peaking	117
Westport	Mid-Atlantic	Baltimore, MD	1		Gas	Peaking	116
Richmond	Mid-Atlantic	Philadelphia, PA	2		Oil	Peaking	98
Gould Street	Mid-Atlantic	Baltimore, MD	1		Gas	Peaking	97
Philadelphia Road	Mid-Atlantic	Baltimore, MD	4		Oil	Peaking	61
Eddystone	Mid-Atlantic	Eddystone, PA	4		Oil	Peaking	60
Fairless Hills	Mid-Atlantic	Fairless Hills, PA	2		Landfill Gas	Peaking	60
Delaware	Mid-Atlantic	Philadelphia, PA	4		Oil	Peaking	56
Southwark	Mid-Atlantic	Philadelphia, PA	4		Oil	Peaking	52
Falls	Mid-Atlantic	Morrisville, PA	3		Oil	Peaking	51
Moser	Mid-Atlantic	Lower PottsgroveTwp., PA	3		Oil	Peaking	51
Riverside	Mid-Atlantic	Baltimore, MD	2		Oil/Gas	Peaking	39
Chester	Mid-Atlantic	Chester, PA	3		Oil	Peaking	39
Schuylkill	Mid-Atlantic	Philadelphia, PA	2		Oil	Peaking	30
Salem	Mid-Atlantic	Lower Alloways Creek Township, NJ	1	42.59	Oil	Peaking	16 (f)
Pennsbury	Mid-Atlantic	Morrisville, PA	2		Landfill Gas	Peaking	6
Total Mid-Atlantic							11,566
Whitetail	ERCOT	Webb County, TX	57	51	Wind	Base-load	46 (f)(h)
Sendero	ERCOT	Jim Hogg and Zapata County, TX	39	51	Wind	Base-load	40 (f)(h)
Colorado Bend II	ERCOT	Wharton, TX	3		Gas	Intermediate	1,088
Wolf Hollow II	ERCOT	Granbury, TX	3		Gas	Intermediate	1,064
Wolf Hollow 1, 2, 3	ERCOT	Granbury, TX	3		Gas	Intermediate	705 (l)
Mountain Creek 8	ERCOT	Dallas, TX	1		Gas	Intermediate	568 (l)
Colorado Bend	ERCOT	Wharton, TX	6		Gas	Intermediate	468 (l)
Handley 3	ERCOT	Fort Worth, TX	1		Gas	Intermediate	395 (l)
Handley 4, 5	ERCOT	Fort Worth, TX	2		Gas	Peaking	870 (l)
Mountain Creek 6, 7	ERCOT	Dallas, TX	2		Gas	Peaking	240 (l)
LaPorte	ERCOT	Laporte, TX	4		Gas	Peaking	152 (l)
Total ERCOT							5,636
Solar Massachusetts	New England	Various, MA	10		Solar	Base-load	7

Holyoke Solar	New England	Various, MA	2	Solar	Base-load	5

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Station(a)	Region	Location	No. of Units	Percent Owned(b)	Primary Fuel Type	Primary Dispatch Type(c)	Net Generation Capacity (MW) (d)
Solar Net Metering	New England	Uxbridge, MA	1		Solar	Base-load	2
Solar Connecticut	New England	Various, CT	1		Solar	Base-load	1
Mystic 8, 9	New England	Charlestown, MA	6		Gas	Intermediate	1,417
Mystic 7	New England	Charlestown, MA	1		Oil/Gas	Intermediate	575
Wyman	New England	Yarmouth, ME	1	5.9	Oil	Intermediate	36 (f)
West Medway	New England	West Medway, MA	3		Oil	Peaking	124
Framingham	New England	Framingham, MA	3		Oil	Peaking	30
Mystic Jet	New England	Charlestown, MA	1		Oil	Peaking	9
Total New England							2,206
Nine Mile Point	New York	Scriba, NY	2	50.01	Uranium	Base-load	838 (f)(g)
FitzPatrick	New York	Scriba, NY	1		Uranium	Base-load	842
Ginna	New York	Ontario, NY	1	50.01	Uranium	Base-load	288 (f)(g)
Solar New York	New York	Bethlehem, NY	1		Solar	Base-load	3
Total New York							1,971
AVSR	Other	Lancaster, CA	1		Solar	Base-load	242
Bluestem	Other	Beaver County, OK	60	51	Wind	Base-load	101 (f)(h) (i)
Exelon Wind 4	Other	Gruver, TX	38		Wind	Base-load	80
Shooting Star	Other	Kiowa County, KS	65	51	Wind	Base-load	53 (f)(h)
Albany Green Energy	Other	Albany, GA	1	99	Biomass	Base-load	46 (j)
Solar Arizona	Other	Various, AZ	127		Solar	Base-load	46
Bluegrass Ridge	Other	King City, MO	27	51	Wind	Base-load	29 (f)(h)
California PV Energy 2	Other	Various, CA	89		Solar	Base-load	27
Conception	Other	Barnard, MO	24	51	Wind	Base-load	26 (f)(h)
Cow Branch	Other	Rock Port, MO	24	51	Wind	Base-load	26 (f)(h)
Solar Arizona 2	Other	Various, AZ	25		Solar	Base-load	23
California PV Energy	Other	Various, CA	53		Solar	Base-load	21
Mountain Home	Other	Glenns Ferry, ID	20	51	Wind	Base-load	21 (f)(h)
High Mesa	Other	Elmore Co., ID	19	51	Wind	Base-load	20 (f)(h)
Echo 1	Other	Echo, OR	21	50.49	Wind	Base-load	17 (f)(h)
Sacramento PV Energy	Other	Sacramento, CA	4	51	Solar	Base-load	15 (f)(h)
Cassia	Other	Buhl, ID	14	51	Wind	Base-load	15 (f)(h)
Wildcat	Other	Lovington, NM	13	51	Wind	Base-load	14 (f)(h)
Echo 2	Other	Echo, OR	10	51	Wind	Base-load	10 (f)(h)
Exelon Wind 5	Other	Texhoma, TX	8		Wind	Base-load	10
Exelon Wind 6	Other	Texhoma, TX	8		Wind	Base-load	10
Exelon Wind 7	Other	Sunray, TX	8		Wind	Base-load	10
Exelon Wind 8	Other	Sunray, TX	8		Wind	Base-load	10
Exelon Wind 9	Other	Sunray, TX	8		Wind	Base-load	10
Exelon Wind 10	Other	Dumas, TX	8		Wind	Base-load	10

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Station(a)	Region	Location	No. of Units	Percent Owned(b)	Primary Fuel Type	Primary Dispatch Type(c)	Net Generation Capacity (MW)(d)
Exelon Wind 11	Other	Dumas, TX	8		Wind	Base-load	10
High Plains	Other	Panhandle, TX	8	99.5	Wind	Base-load	10 (f)
Tuana Springs	Other	Hagerman, ID	8	51	Wind	Base-load	9 (f)(h)
Solar Georgia	Other	Various, GA	10		Solar	Base-load	8
Solar Georgia 2	Other	Various, GA	6		Solar	Base-load	8
Greensburg	Other	Greensburg, KS	10	51	Wind	Base-load	7 (f)(h)
Outback Solar	Other	Christmas Valley, OR	1		Solar	Base-load	6
Echo 3	Other	Echo, OR	6	50.49	Wind	Base-load	5 (f)(h)
Three Mile Canyon	Other	Boardman, OR	6	51	Wind	Base-load	5 (f)(h)
Loess Hills	Other	Rock Port, MO	4		Wind	Base-load	5
Mohave Sunrise Solar	Other	Fort Mohave, AZ	1		Solar	Base-load	5
Denver Airport Solar	Other	Denver, CO	1	51	Solar	Base-load	2 (f)(h)
Hillabee	Other	Alexander City, AL	3		Gas	Intermediate	753
Grande Prairie	Other	Alberta, Canada	1		Gas	Peaking	105
SEGS 4, 5, 6	Other	Boron, CA	3	4.2-12.2	Solar	Peaking	9 (f)
Total Other							1,839
Total							35,168

(a) All nuclear stations are boiling water reactors except Braidwood, Byron, Calvert Cliffs, Ginna, Salem and Three Mile Island, which are pressurized water reactors.

(b) 100%, unless otherwise indicated.

(c) Base-load units are plants that normally operate to take all or part of the minimum continuous load of a system and, consequently, produce electricity at an essentially constant rate. Intermediate units are plants that normally operate to take load of a system during the daytime higher load hours and, consequently, produce electricity by cycling on and off daily. Peaking units consist of lower-efficiency, quick response steam units, gas turbines and diesels normally used during the maximum load periods.

(d) For nuclear stations, capacity reflects the annual mean rating. Fossil stations reflect a summer rating. Wind and solar facilities reflect name plate capacity.

(e) Generation had previously agreed to permanently cease generation operations at Oyster Creek by the end of 2019. On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. See Note 28 — Subsequent Events of the Combined Notes to Consolidated Financial Statements for additional information regarding the early retirement of Oyster Creek.

(f) Net generation capacity is stated at proportionate ownership share.

(g) Reflects Generation’s 50.01% interest in CENG, a joint venture with EDF. For Nine Mile Point, the co-owner owns 18% of Unit 2. Thus, Exelon’s ownership is 50.01% of 82% of Nine Mile Point Unit 2.

(h) Reflects the sale of 49% of ExGen Renewables Partners to a third party on July 6, 2017. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for additional information.

(i) ExGen Renewables Partners owns 100% of the Class A membership interests and a tax equity investor owns 100% of the Class B membership interests of the entity that owns the Bluestem generating assets.

(j) Generation directly owns a 50% interest in the Albany Green Energy station and an additional 49% through the consolidation of a Variable Interest Entity.

(k) Generation has announced it will permanently cease generation operations at TMI on or about September 30, 2019. See Note 8 — Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements for additional information regarding the early retirement of TMI.

(l) As a result of the EGTP bankruptcy and deconsolidation on November 7, 2017, Generation deconsolidated EGTP’s assets and liabilities from Generation’s consolidated financial statements. As of December 31, 2017, these assets were still under Generation’s ownership and included in the table. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional information.

The net generation capability available for operation at any time may be less due to regulatory restrictions, transmission congestion, fuel restrictions, efficiency of cooling facilities, level of water supplies or generating units being temporarily out of service for inspection, maintenance, refueling, repairs or modifications required by regulatory authorities.

Generation maintains property insurance against loss or damage to its principal plants and properties by fire or other perils, subject to certain exceptions. For additional information regarding

nuclear insurance of generating facilities, see ITEM 1. BUSINESS — Exelon Generation Company, LLC. For its insured losses, Generation is self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on Generation's consolidated financial condition or results of operations.

ComEd

ComEd's electric substations and a portion of its transmission rights of way are located on property that ComEd owns. A significant portion of its electric transmission and distribution facilities is located above or underneath highways, streets, other public places or property that others own. ComEd believes that it has satisfactory rights to use those places or property in the form of permits, grants, easements, licenses and franchise rights; however, it has not necessarily undertaken to examine the underlying title to the land upon which the rights rest.

Transmission and Distribution

ComEd's high voltage electric transmission lines owned and in service at December 31, 2017 were as follows:

Voltage (Volts)	Circuit Miles
765,000	90
345,000	2,718
138,000	2,209

ComEd's electric distribution system includes 35,383 circuit miles of overhead lines and 31,798 circuit miles of underground lines.

First Mortgage and Insurance

The principal properties of ComEd are subject to the lien of ComEd's Mortgage dated July 1, 1923, as amended and supplemented, under which ComEd's First Mortgage Bonds are issued.

ComEd maintains property insurance against loss or damage to its properties by fire or other perils, subject to certain exceptions. For its insured losses, ComEd is self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on the consolidated financial condition or results of operations of ComEd.

PECO

PECO's electric substations and a significant portion of its transmission lines are located on property that PECO owns. A significant portion of its electric transmission and distribution facilities is located above or underneath highways, streets, other public places or property that others own. PECO believes that it has satisfactory rights to use those places or property in the form of permits, grants, easements and licenses; however, it has not necessarily undertaken to examine the underlying title to the land upon which the rights rest.

Transmission and Distribution

PECO's high voltage electric transmission lines owned and in service at December 31, 2017 were as follows:

Voltage (Volts)	Circuit Miles
500,000	188(a)
230,000	548
138,000	135
69,000	181

(a) In addition, PECO has a 22.00% ownership interest in 127 miles of 500 kV lines located in Pennsylvania and a 42.55% ownership interest in 131 miles of 500 kV lines located in Delaware and New Jersey.

PECO's electric distribution system includes 12,957 circuit miles of overhead lines and 9,322 circuit miles of underground lines.

Gas

The following table sets forth PECO's natural gas pipeline miles at December 31, 2017:

	Pipeline Miles
Transmission	30
Distribution	6,889
Service piping	6,328
Total	13,247

PECO has an LNG facility located in West Conshohocken, Pennsylvania that has a storage capacity of 1,200 mmcf and a send-out capacity of 157 mmcf/day and a propane-air plant located in Chester, Pennsylvania, with a tank storage capacity of 105 mmcf and a peaking capability of 25 mmcf/day. In addition, PECO owns 31 natural gas city gate stations and direct pipeline customer delivery points at various locations throughout its gas service territory.

First Mortgage and Insurance

The principal properties of PECO are subject to the lien of PECO's Mortgage dated May 1, 1923, as amended and supplemented, under which PECO's first and refunding mortgage bonds are issued.

PECO maintains property insurance against loss or damage to its properties by fire or other perils, subject to certain exceptions. For its insured losses, PECO is self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on the consolidated financial condition or results of operations of PECO.

BGE

BGE’s electric substations and a significant portion of its transmission lines are located on property that BGE owns. A significant portion of its electric transmission and distribution facilities is located above or underneath highways, streets, other public places or property that others own. BGE believes that it has satisfactory rights to use those places or property in the form of permits, grants, easements and licenses; however, it has not necessarily undertaken to examine the underlying title to the land upon which the rights rest.

Transmission and Distribution

BGE’s high voltage electric transmission lines owned and in service at December 31, 2017 were as follows:

Voltage (Volts)	Circuit Miles
500,000	218
230,000	352
138,000	55
115,000	713

BGE’s electric distribution system includes 9,169 circuit miles of overhead lines and 17,209 circuit miles of underground lines.

Gas

The following table sets forth BGE’s natural gas pipeline miles at December 31, 2017:

	Pipeline Miles
Transmission	161
Distribution	7,306
Service piping	6,263
Total	13,730

BGE has an LNG facility located in Baltimore, Maryland that has a storage capacity of 1,056 mmcf and a send-out capacity of 332 mmcf/day and a propane-air plant located in Baltimore, Maryland, with a storage capacity of 550 mmcf and a send-out capacity of 85 mmcf/day. In addition, BGE owns 12 natural gas city gate stations and 20 direct pipeline customer delivery points at various locations throughout its gas service territory.

Property Insurance

BGE owns its principal headquarters building located in downtown Baltimore. BGE maintains property insurance against loss or damage to its properties by fire or other perils, subject to certain exceptions. For its insured losses, BGE is self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on the consolidated financial condition or results of operations of BGE.

Pepco

Pepco’s electric substations and a significant portion of its transmission lines are located on property that Pepco owns. A significant portion of its electric transmission and distribution facilities is located above or underneath highways, streets, other public places or property that others own. Pepco believes that it has satisfactory rights to use those places or property in the form of permits, grants, easements and licenses; however, it has not necessarily undertaken to examine the underlying title to the land upon which the rights rest.

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Transmission and Distribution

Pepco's high voltage electric transmission lines owned and in service at December 31, 2017 were as follows:

Voltage (Volts)	Circuit Miles
500,000	142
230,000	767
138,000	61
115,000	38

Pepco's electric distribution system includes approximately 4,105 circuit miles of overhead lines and 6,844 circuit miles of underground lines. Pepco also operates a distribution system control center in Bethesda, Maryland. The computer equipment and systems contained in Pepco's control center are financed through a sale and leaseback transaction.

First Mortgage and Insurance

The principal properties of Pepco are subject to the lien of Pepco's mortgage dated July 1, 1935, as amended and supplemented, under which Pepco First Mortgage Bonds are issued.

Pepco maintains property insurance against loss or damage to its properties by fire or other perils, subject to certain exceptions. For its insured losses, Pepco is self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on the consolidated financial condition or results of operations of Pepco.

DPL

DPL's electric substations and a significant portion of its transmission lines are located on property that DPL owns. A significant portion of its electric transmission and distribution facilities is located above or underneath highways, streets, other public places or property that others own. DPL believes that it has satisfactory rights to use those places or property in the form of permits, grants, easements and licenses; however, it has not necessarily undertaken to examine the underlying title to the land upon which the rights rest.

Transmission and Distribution

DPL's high voltage electric transmission lines owned and in service at December 31, 2017 were as follows:

Voltage (Volts)	Circuit Miles
500,000	16
230,000	470
138,000	557
69,000	576

DPL’s electric distribution system includes approximately 6,028 circuit miles of overhead lines and 6,103 circuit miles of underground lines. DPL also owns and operates a distribution system control center in New Castle, Delaware.

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Gas

The following table sets forth DPL's natural gas pipeline miles at December 31, 2017:

	Pipeline Miles
Transmission [(a)]	8
Distribution	2,061
Service piping	1,393
Total	3,462

(a) DPL has a 10% undivided interest in approximately 8 miles of natural gas transmission mains located in Delaware which are used by DPL for its natural gas operations and by 90% owner for distribution of natural gas to its electric generating facilities.

DPL owns a liquefied natural gas facility located in Wilmington, Delaware, with a storage capacity of approximately 3,045 mmcf and an emergency sendout capability of 36,000 Mcf per day. DPL owns 4 natural gas city gate stations at various locations in New Castle County, Delaware. These stations have a total primary delivery point contractual entitlement of 158,485 Mcf per day.

First Mortgage and Insurance

The principal properties of DPL are subject to the lien of DPL's mortgage dated October 1, 1947, as amended and supplemented, under which DPL First Mortgage Bonds are issued.

DPL maintains property insurance against loss or damage to its properties by fire or other perils, subject to certain exceptions. For its insured losses, DPL is self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on the consolidated financial condition or results of operations of DPL.

ACE

ACE's electric substations and a significant portion of its transmission lines are located on property that ACE owns. A significant portion of its electric transmission and distribution facilities is located above or underneath highways, streets, other public places or property that others own. ACE believes that it has satisfactory rights to use those places or property in the form of permits, grants, easements and licenses; however, it has not necessarily undertaken to examine the underlying title to the land upon which the rights rest.

Transmission and Distribution

ACE's high voltage electric transmission lines owned and in service at December 31, 2017 were as follows:

Voltage (Volts)	Circuit Miles
500,000	281
230,000	237
138,000	268

69,000	652

ACE's electric distribution system includes approximately 7,378 circuit miles of overhead lines and 2,900 circuit miles of underground lines. ACE also owns and operates a distribution system control center in Mays Landing, New Jersey.

First Mortgage and Insurance

The principal properties of ACE are subject to the lien of ACE's mortgage dated January 15, 1937, as amended and supplemented, under which ACE First Mortgage Bonds are issued.

ACE maintains property insurance against loss or damage to its properties by fire or other perils, subject to certain exceptions. For its insured losses, ACE is self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on the consolidated financial condition or results of operations of ACE.

Exelon

Security Measures

The Registrants have initiated and work to maintain security measures. On a continuing basis, the Registrants evaluate enhanced security measures at certain critical locations, enhanced response and recovery plans, long-term design changes and redundancy measures. Additionally, the energy industry has strategic relationships with governmental authorities to ensure that emergency plans are in place and critical infrastructure vulnerabilities are addressed in order to maintain the reliability of the country's energy systems.

ITEM 3. LEGAL PROCEEDINGS

All Registrants

The Registrants are parties to various lawsuits and regulatory proceedings in the ordinary course of their respective businesses. For information regarding material lawsuits and proceedings, see Note 3 — Regulatory Matters and Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements. Such descriptions are incorporated herein by these references.

ITEM 4. MINE SAFETY DISCLOSURES

All Registrants

Not Applicable to the Registrants.

PART II

(Dollars in millions except per share data, unless otherwise noted)

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Exelon

Exelon's common stock is listed on the New York Stock Exchange. As of January 31, 2018, there were 965,029,399 shares of common stock outstanding and approximately 104,909 record holders of common stock.

The following table presents the New York Stock Exchange—Composite Common Stock Prices and dividends by quarter on a per share basis:

	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High price	$ 42.67	$ 38.78	$ 37.44	$ 37.19	$ 36.36	$ 37.70	$ 36.37	$ 35.95
Low price	37.55	35.37	33.30	34.47	29.82	32.86	33.18	26.26
Close	39.41	37.67	36.07	35.98	35.49	33.29	36.36	35.86
Dividends	0.328	0.328	0.328	0.328	0.318	0.318	0.318	0.310

Stock Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of $100 in Exelon common stock, as compared with the S&P 500 Stock Index and the S&P Utility Index, for the period 2013 through 2017.

This performance chart assumes:

- $100 invested on December 31, 2012 in Exelon common stock, in the S&P 500 Stock Index and in the S&P Utility Index; and
- All dividends are reinvested.

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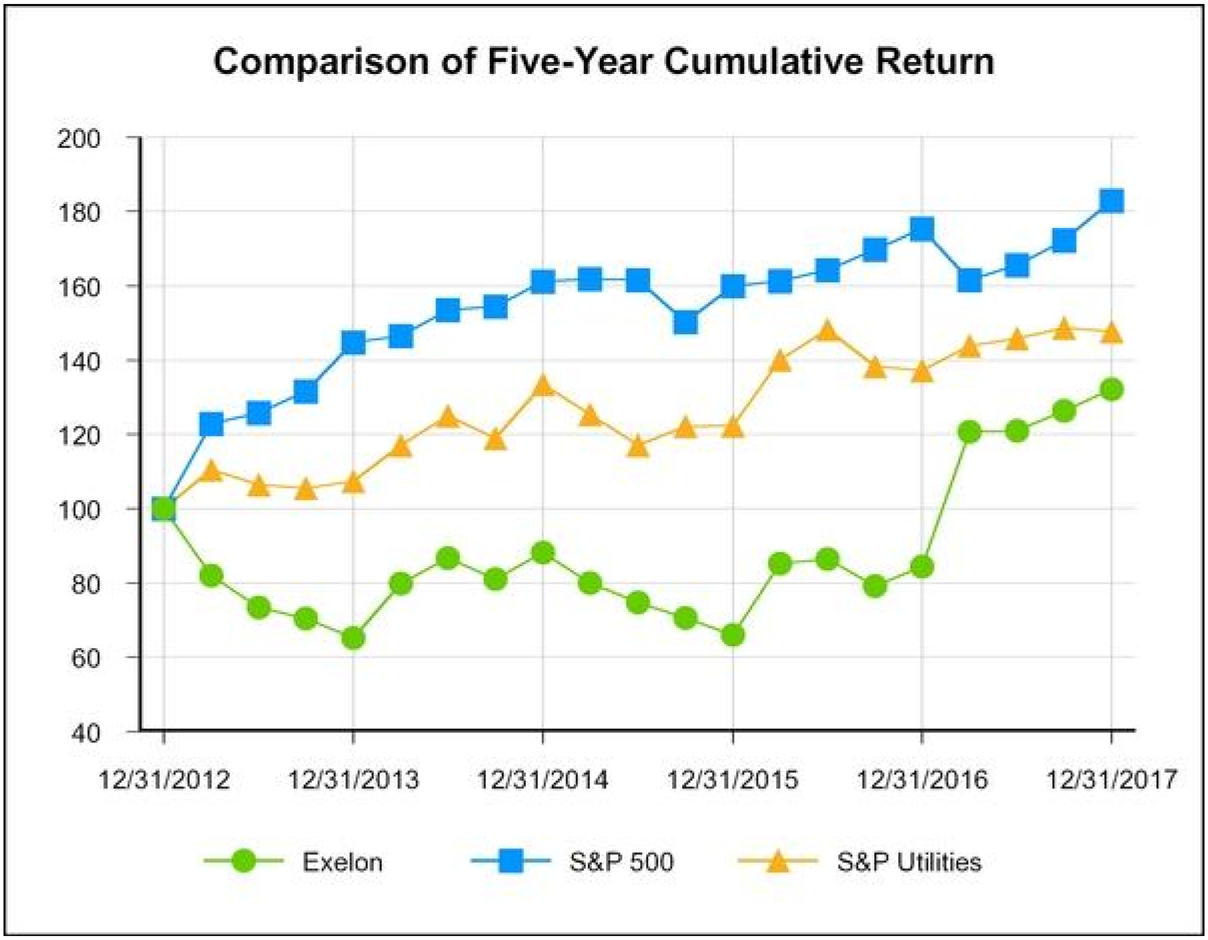

Comparison of Five-Year Cumulative Return

Value of Investment at December 31,						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Exelon Corporation	$100	$65.11	$88.14	$66.01	$84.36	$132.16
S&P 500	$100	$144.74	$161.22	$160.05	$175.31	$182.82
S&P Utilities	$100	$107.43	$133.52	$122.32	$137.24	[redacted]

Generation

As of January 31, 2018, Exelon indirectly held the entire membership interest in Generation.

ComEd

As of January 31, 2018, there were 127,021,256 outstanding shares of common stock, $12.50 par value, of ComEd, of which 127,002,904 shares were indirectly held by Exelon. At January 31, 2018, in addition to Exelon, there were 294 record holders of ComEd common stock. There is no established market for shares of the common stock of ComEd.

PECO

As of January 31, 2018, there were 170,478,507 outstanding shares of common stock, without par value, of PECO, all of which were indirectly held by Exelon.

BGE

As of January 31, 2018, there were 1,000 outstanding shares of common stock, without par value, of BGE, all of which were indirectly held by Exelon.

PHI

As of January 31, 2018, Exelon indirectly held the entire membership interest in PHI.

Pepco

As of January 31, 2018, there were 100 outstanding shares of common stock, $0.01 par value, of Pepco, all of which were indirectly held by Exelon.

DPL

As of January 31, 2018, there were 1,000 outstanding shares of common stock, $2.25 par value, of DPL, all of which were indirectly held by Exelon.

ACE

As of January 31, 2018, there were 8,546,017 outstanding shares of common stock, $3.00 par value, of ACE, all of which were indirectly held by Exelon.

All Registrants

Dividends

Under applicable Federal law, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE may limit the dividends that these companies can distribute to Exelon.

The Federal Power Act declares it to be unlawful for any officer or director of any public utility “to participate in the making or paying of any dividends of such public utility from any funds properly included in capital account.” What constitutes “funds properly included in capital account” is undefined in the Federal Power Act or the related regulations; however, FERC has consistently interpreted the provision to allow dividends to be paid as long as (1) the source of the dividends is clearly disclosed, (2) the dividend is not excessive and (3) there is no self-dealing on the part of corporate officials. While these restrictions may limit the absolute amount of dividends that a particular subsidiary may pay, Exelon does not believe these limitations are materially limiting because, under these limitations, the subsidiaries are allowed to pay dividends sufficient to meet Exelon’s actual cash needs.

Under Illinois law, ComEd may not pay any dividend on its stock unless, among other things, “[its] earnings and earned surplus are sufficient to declare and pay same after provision is made for reasonable and proper reserves,” or unless it has specific authorization from the ICC. ComEd has also agreed in connection with a financing arranged through ComEd Financing III that ComEd will not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment

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periods on the subordinated debt securities issued to ComEd Financing III; (2) it defaults on its guarantee of the payment of distributions on the preferred trust securities of ComEd Financing III; or (3) an event of default occurs under the Indenture under which the subordinated debt securities are issued. No such event has occurred.

PECO has agreed in connection with financings arranged through PEC L.P. and PECO Trust IV that PECO will not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debentures which were issued to PEC L.P. or PECO Trust IV; (2) it defaults on its guarantee of the payment of distributions on the Series D Preferred Securities of PEC L.P. or the preferred trust securities of PECO Trust IV; or (3) an event of default occurs under the Indenture under which the subordinated debentures are issued. No such event has occurred.

BGE is subject to certain dividend restrictions established by the MDPSC. First, in connection with the Constellation merger, BGE was prohibited from paying a dividend on its common shares through the end of 2014. Second, BGE is prohibited from paying a dividend on its common shares if (a) after the dividend payment, BGE’s equity ratio would be below 48% as calculated pursuant to the MDPSC’s ratemaking precedents or (b) BGE’s senior unsecured credit rating is rated by two of the three major credit rating agencies below investment grade. Finally, BGE must notify the MDPSC that it intends to declare a dividend on its common shares at least 30 days before such a dividend is paid and notify the MDPSC that BGE’s equity ratio is at least 48% within five business days after dividend payment.

Pepco is subject to certain dividend restrictions limits imposed by: (i) state corporate laws, which impose limitations on the funds that can be used to pay dividends, and (ii) the prior rights of holders of future preferred stock, if any, and existing and future mortgage bonds and other long-term debt issued by Pepco and any other restrictions imposed in connection with the incurrence of liabilities.

DPL is subject to certain dividend restrictions imposed by: (i) state corporate laws, which impose limitations on the funds that can be used to pay dividends, and (ii) the prior rights of holders of existing and future preferred stock, mortgage bonds and other long-term debt issued by DPL and any other restrictions imposed in connection with the incurrence of liabilities.

ACE is subject to dividend restrictions imposed by: (i) state corporate laws, which impose limitations on the funds that can be used to pay dividends and the regulatory requirement that ACE obtain the prior approval of the NJBPU before dividends can be paid if its equity as a percent of its total capitalization, excluding securitization debt, falls below 30%; (ii) the prior rights of holders of existing and future preferred stock, mortgage bonds and other long-term debt issued by ACE and any other restrictions imposed in connection with the incurrence of liabilities; and (iii) certain provisions of the charter of ACE which impose restrictions on payment of common stock dividends for the benefit of preferred stockholders. Currently, the restriction in the ACE charter does not limit its ability to pay common stock dividends.

Exelon’s Board of Directors approved an updated dividend policy providing an increase of 5% each year for the period covering 2018 through 2020, beginning with the March 2018 dividend.

At December 31, 2017, Exelon had retained earnings of $13,503 million, including Generation’s undistributed earnings of $4,310 million, ComEd’s retained earnings of $1,132 million consisting of retained earnings appropriated for future dividends of $2,771 million, partially offset by $1,639 million of unappropriated accumulated deficits, PECO’s retained earnings of $1,087 million, BGE’s retained earnings of $1,536 million, and PHI’s undistributed earnings of $(10) million.

The following table sets forth Exelon's quarterly cash dividends per share paid during 2017 and 2016:

	2017				2016			
(per share)	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Exelon	$ 0.328	$ 0.328	$ 0.328	$ 0.328	$ 0.318	$ 0.318	$ 0.318	$ 0.310

The following table sets forth Generation's and PHI's quarterly distributions and ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's quarterly common dividend payments:

	2017				2016			
(in millions)	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Generation	$ 165	$ 164	$ 166	$ 164	$ 755	$ 56	$ 56	$ 55
ComEd	106	105	106	105	94	92	92	91
PECO	72	72	72	72	69	69	70	69
BGE	50	49	50	49	45	44	45	45
PHI	44	136	62	69	99	50	16	108
Pepco	—	75	28	30	44	37	16	39
DPL	30	28	24	30	15	1	—	38
ACE	15	31	12	10	39	13	—	11

First Quarter 2018 Dividend

On January 30, 2018, the Exelon Board of Directors declared a first quarter 2018 regular quarterly dividend of $0.3450 per share on Exelon's common stock payable on March 9, 2018, to shareholders of record of Exelon at the end of the day on February 15, 2018.

ITEM 6. SELECTED FINANCIAL DATA

Exelon

The selected financial data presented below has been derived from the audited consolidated financial statements of Exelon. This data is qualified in its entirety by reference to and should be read in conjunction with Exelon's Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	For the Years Ended December 31,				
(In millions, except per share data)	2017	2016[(a)]	2015	2014[(b)]	2013
Statement of Operations data:					
Operating revenues	$ 33,531	$ 31,360	$ 29,447	$ 27,429	$ 24,888
Operating income	4,260	3,112	4,409	3,096	3,669
Net income	3,849	1,204	2,250	1,820	1,729
Net income attributable to common shareholders	3,770	1,134	2,269	1,623	1,719
Earnings per average common share (diluted):					
Net income	$ 3.97	$ 1.22	$ 2.54	$ 1.88	$ 2.00
Dividends per common share	$ 1.31	$ 1.26	$ 1.24	$ 1.24	$ 1.46

(a) The 2016 financial results include the activity of PHI from the merger effective date of March 24, 2016 through December 31, 2016.
(b) On April 1, 2014, Generation assumed operational control of CENG's nuclear fleet. As a result, the 2014 financial results include CENG's results of operations on a fully consolidated basis.

	December 31,				
(In millions)	2017	2016	2015	2014	2013
Balance Sheet data:					
Current assets	$ 11,834	$ 12,412	$ 15,334	$ 11,853	$ 9,562
Property, plant and equipment, net	74,202	71,555	57,439	52,170	47,330
Total assets	116,700	114,904	95,384	86,416	79,243
Current liabilities	10,796	13,457	9,118	8,762	7,686
Long-term debt, including long-term debt to financing trusts	32,565	32,216	24,286	19,853	18,165
Shareholders' equity	29,857	25,837	25,793	22,608	22,732

Generation

The selected financial data presented below has been derived from the audited consolidated financial statements of Generation. This data is qualified in its entirety by reference to and should be read in conjunction with Generation's Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	For the Years Ended December 31,				
(In millions)	2017	2016	2015	2014[(a)]	2013
Statement of Operations data:					
Operating revenues	$ 18,466	$ 17,751	$ 19,135	$ 17,393	$ 15,360
Operating income	921	836	2,275	1,176	1,677
Net income	2,771	558	1,340	1,019	1,060

(a) On April 1, 2014, Generation assumed operational control of CENG's nuclear fleet. As a result, the 2014 financial results include CENG's results of operations on a fully consolidated basis.

	December 31,				
(In millions)	2017	2016	2015	2014	2013
Balance Sheet data:					
Current assets	$ 6,820	$ 6,528	$ 6,342	$ 7,311	$ 5,964
Property, plant and equipment, net	24,906	25,585	25,843	23,028	20,111
Total assets	48,387	46,974	46,529	44,951	40,700
Current liabilities	4,189	5,683	4,933	4,459	3,842
Long-term debt, including long-term debt to affiliate	8,644	8,124	8,869	7,582	7,111
Member's equity	13,630	11,482	11,635	12,718	12,725

ComEd

The selected financial data presented below has been derived from the audited consolidated financial statements of ComEd. This data is qualified in its entirety by reference to and should be read in conjunction with ComEd's Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	For the Years Ended December 31,				
(In millions)	2017	2016	2015	2014	2013
Statement of Operations data:					
Operating revenues	$ 5,536	$ 5,254	$ 4,905	$ 4,564	$ 4,464
Operating income	1,323	1,205	1,017	980	954
Net income	567	378	426	408	249

(In millions)	December 31, 2017	2016	2015	2014	2013
Balance Sheet data:					
Current assets	$ 1,364	$ 1,554	$ 1,518	$ 1,723	$ 1,540
Property, plant and equipment, net	20,723	19,335	17,502	15,793	14,666
Total assets	29,726	28,335	26,532	25,358	24,089
Current liabilities	2,294	2,938	2,766	1,923	2,032
Long-term debt, including long-term debt to financing trusts	6,966	6,813	6,049	5,870	5,235
Shareholders’ equity	9,542	8,725	8,243	7,907	7,528

PECO

The selected financial data presented below has been derived from the audited consolidated financial statements of PECO. This data is qualified in its entirety by reference to and should be read in conjunction with PECO’s Consolidated Financial Statements and ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

(In millions)	For the Years Ended December 31, 2017	2016	2015	2014	2013
Statement of Operations data:					
Operating revenues	$ 2,870	$ 2,994	$ 3,032	$ 3,094	$ 3,100
Operating income	655	702	630	572	666
Net income	434	438	378	352	395

(In millions)	December 31, 2017	2016	2015	2014	2013
Balance Sheet data:					
Current assets	$ 822	$ 757	$ 842	$ 645	$ 821
Property, plant and equipment, net	8,053	7,565	7,141	6,801	6,384
Total assets	10,170	10,831	10,367	9,860	9,521
Current liabilities	1,267	727	944	653	889
Long-term debt, including long-term debt to financing trusts	2,587	2,764	2,464	2,416	2,120
Shareholder’s equity	3,577	3,415	3,236	3,121	3,065

BGE

The selected financial data presented below has been derived from the audited consolidated financial statements of BGE. This data is qualified in its entirety by reference to and should be read in conjunction with BGE's Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	For the Years Ended December 31,				
(In millions)	2017	2016	2015	2014	2013
Statement of Operations data:					
Operating revenues	$ 3,176	$ 3,233	$ 3,135	$ 3,165	$ 3,065
Operating income	614	550	558	439	449
Net income	307	294	288	211	210

	December 31,				
(In millions)	2017	2016	2015	2014	2013
Balance Sheet data:					
Current assets	$ 811	$ 842	$ 845	$ 951	$ 1,009
Property, plant and equipment, net	7,602	7,040	6,597	6,204	5,864
Total assets	9,104	8,704	8,295	8,056	7,839
Current liabilities	760	707	1,134	794	800
Long-term debt, including long-term debt to financing trusts and variable interest entities	2,577	2,533	1,732	2,109	2,179
Shareholder's equity	3,141	2,848	2,687	2,563	2,365

PHI

The selected financial data presented below has been derived from the audited consolidated financial statements of PHI. This data is qualified in its entirety by reference to and should be read in conjunction with PHI's Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	Successor		*Predecessor*		
	For the Year Ended December 31,	March 24 to December 31	January 1 to March 23,	For the Years Ended December 31,	
(In millions)	2017	2016	2016	2015	2014
Statement of Operations data[(a)]**:**					
Operating revenues	$ 4,679	$ 3,643	$ 1,153	$ 4,935	$ 4,808
Operating income	769	93	105	673	605
Net income (loss) from continuing operations	362	(61)	19	318	242
Net income (loss)	362	(61)	19	327	242

	Successor		Predecessor
(In millions)	December 31, 2017	December 31, 2016	December 31, 2015
Balance Sheet data[(a)]:			
Current assets	$ 1,551	$ 1,838	$ 1,474
Property, plant and equipment, net	12,498	11,598	10,864
Total assets	21,247	21,025	16,188
Current liabilities	1,931	2,284	2,327
Long-term debt	5,478	5,645	4,823
Preferred Stock	—	—	183
Member's equity/Shareholders' equity	8,825	8,016	4,413

(a) As a result of the PHI Merger in 2016, Exelon has elected to present PHI's selected financial data for the periods reflected above.

Pepco

The selected financial data presented below has been derived from the audited consolidated financial statements of Pepco. This data is qualified in its entirety by reference to and should be read in conjunction with Pepco's Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	For the Years Ended December 31,			
(In millions)	2017	2016	2015	2014
Statement of Operations data[(a)]:				
Operating revenues	$ 2,158	$ 2,186	$ 2,129	$ 2,055
Operating income	399	174	385	349
Net income	205	42	187	171

	December 31,		
(In millions)	2017	2016	2015
Balance Sheet data[(a)]:			
Current assets	$ 710	$ 684	$ 726
Property, plant and equipment, net	6,001	5,571	5,162
Total assets	7,832	7,335	6,908
Current liabilities	550	596	455
Long-term debt	2,521	2,333	2,340
Shareholders' equity	2,533	2,300	2,240

(a) As a result of the PHI Merger in 2016, Exelon has elected to present Pepco's selected financial data for the periods reflected above.

DPL

The selected financial data presented below has been derived from the audited consolidated financial statements of DPL. This data is qualified in its entirety by reference to and should be read in conjunction with DPL's Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	For the Years Ended December 31,			
(In millions)	2017	2016	2015	2014
Statement of Operations data[a]:				
Operating revenues	$ 1,300	$ 1,277	$ 1,302	$ 1,282
Operating income	229	50	165	207
Net income (loss)	121	(9)	76	104

	December 31,		
(In millions)	2017	2016	2015
Balance Sheet data[a]:			
Current assets	$ 325	$ 370	$ 388
Property, plant and equipment, net	3,579	3,273	3,070
Total assets	4,357	4,153	3,969
Current liabilities	547	381	564
Long-term debt	1,217	1,221	1,061
Shareholders' equity	1,335	1,326	1,237

(a) As a result of the PHI Merger in 2016, Exelon has elected to present DPL's selected financial data for the periods reflected above.

ACE

The selected financial data presented below has been derived from the audited consolidated financial statements of ACE. This data is qualified in its entirety by reference to and should be read in conjunction with ACE's Consolidated Financial Statements and ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	For the Years Ended December 31,			
(In millions)	2017	2016	2015	2014
Statement of Operations data[a]:				
Operating revenues	$ 1,186	$ 1,257	$ 1,295	$ 1,210
Operating income	157	7	134	137
Net income (loss)	77	(42)	40	46

(In millions)	December 31, 2017	2016	2015
Balance Sheet data[a]:			
Current assets	$ 258	$ 399	$ 546
Property, plant and equipment, net	2,706	2,521	2,322
Total assets	3,445	3,457	3,387
Current liabilities	619	320	297
Long-term debt	840	1,120	1,153
Shareholders' equity	1,043	1,034	1,000

(a) As a result of the PHI Merger in 2016, Exelon has elected to present ACE's selected financial data for the periods reflected above.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Exelon

Executive Overview

Exelon, a utility services holding company, operates through the following principal subsidiaries:

- *Generation,* whose integrated business consists of the generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services.

- *ComEd,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in northern Illinois, including the City of Chicago.

- *PECO,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of distribution services in the Pennsylvania counties surrounding the City of Philadelphia.

- *BGE,* whose business consists of the purchase and regulated retail sale of electricity and natural gas and the provision of electricity distribution and transmission and gas distribution services in central Maryland, including the City of Baltimore.

- *Pepco,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission in the District of Columbia and major portions of Prince George's County and Montgomery County in Maryland.

- *DPL,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.

- *ACE,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in southern New Jersey.

Pepco, DPL and ACE are operating companies of PHI, which is a utility services holding company and a wholly owned subsidiary of Exelon.

Exelon has twelve reportable segments consisting of Generation's six reportable segments (Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions in Generation), ComEd, PECO, BGE and PHI's three utility reportable segments (Pepco, DPL and ACE). See Note 25 - Segment Information of the

Combined Notes to Consolidated Financial Statements for additional information regarding Exelon’s reportable segments.

Through its business services subsidiary BSC, Exelon provides its operating subsidiaries with a variety of corporate governance support services including corporate strategy and development, legal, human resources, information technology, finance, real estate, security, corporate communications and supply at cost. The costs of these services are directly charged or allocated to the applicable operating segments. The services are provided pursuant to service agreements. Additionally, the results of Exelon’s corporate operations include interest costs and income from various investment and financing activities.

PHISCO, a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, finance, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHISCO and the participating operating subsidiaries.

Exelon’s consolidated financial information includes the results of its eight separate operating subsidiary registrants, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, which, along with Exelon, are collectively referred to as the Registrants. The following combined Management’s Discussion and Analysis of Financial Condition and Results of Operations is separately filed by Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE. However, none of the Registrants makes any representation as to information related solely to any of the other Registrants.

Financial Results of Operations

GAAP Results of Operations

The following table sets forth Exelon's GAAP consolidated results of operations for the year ended December 31, 2017 compared to the same period in 2016. 2016 amounts include the operations of PHI, Pepco, DPL and ACE from March 24, 2016 through December 31, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	For the Years Ended December 31,								
	2017							2016	Favorable (Unfavorable) Variance
	Generation	ComEd	PECO	BGE	PHI	Other	Exelon	Exelon[b]	
Operating revenues	$ 18,466	$ 5,536	$ 2,870	$ 3,176	$ 4,679	$ (1,196)	$ 33,531	$ 31,360	$ 2,171
Purchased power and fuel expense	9,690	1,641	969	1,133	1,716	(1,114)	14,035	12,640	(1,395)
Revenue net of purchased power and fuel expense[a]	8,776	3,895	1,901	2,043	2,963	(82)	19,496	18,720	776
Other operating expenses									
Operating and maintenance	6,291	1,427	806	716	1,068	(182)	10,126	10,048	(78)
Depreciation and amortization	1,457	850	286	473	675	87	3,828	3,936	108
Taxes other than income	555	296	154	240	452	34	1,731	1,576	(155)
Total other operating expenses	8,303	2,573	1,246	1,429	2,195	(61)	15,685	15,560	(125)
Gain (Loss) on sales of assets	2	1	—	—	1	(1)	3	(48)	51
Bargain purchase gain	233	—	—	—	—	—	233	—	233
Gain on deconsolidation of business	213	—	—	—	—	—	213	—	213
Operating income (loss)	921	1,323	655	614	769	(22)	4,260	3,112	1,148
Other income and (deductions)									
Interest expense, net	(440)	(361)	(126)	(105)	(245)	(283)	(1,560)	(1,536)	(24)
Other, net	948	22	9	16	54	7	1,056	413	643
Total other income and (deductions)	508	(339)	(117)	(89)	(191)	(276)	(504)	(1,123)	619
Income (loss) before income taxes	1,429	984	538	525	578	(298)	3,756	1,989	1,767
Income taxes	(1,375)	417	104	218	217	294	(125)	761	886
Equity in (losses) earnings of unconsolidated affiliates	(33)	—	—	—	1	—	(32)	(24)	(8)
Net income (loss)	2,771	567	434	307	362	(592)	3,849	1,204	2,645
Net income attributable to noncontrolling interests and preference stock dividends	77	—	—	—	—	2	79	70	(9)
Net income (loss) attributable to common shareholders	$ 2,694	$ 567	$ 434	$ 307	$ 362	$ (594)	$ 3,770	$ 1,134	$ 2,636

(a) The Registrants' evaluate operating performance using the measure of revenues net of purchased power and fuel expense. The Registrant's believe that revenues net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b)

As a result of the PHI Merger, Exelon includes the consolidated results of PHI, Pepco, DPL and ACE from March 24, 2016 through December 31, 2016.

Exelon's Net income attributable to common shareholders was $3,770 million for the year ended December 31, 2017 as compared to $1,134 million for the year ended December 31, 2016, and diluted earnings per average common share were $3.97 for the year ended December 31, 2017 as compared to $1.22 for the year ended December 31, 2016.

Revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed below, increased by $776 million as compared to 2016. The year-over-year increase was primarily due to the following favorable factors:

- Increase of $104 million at BGE primarily due to the impacts of the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016 and an increase in transmission formula rate revenues;
- Increase of $99 million at ComEd primarily due to increased electric distribution and transmission formula rate revenues (reflecting the impacts of increased capital investment and higher allowed electric distribution ROE), partially offset by lower revenues resulting from the change to defer and recover over time energy efficiency costs pursuant to FEJA and the impact of favorable weather conditions in 2016; and
- Increase of $767 million in Revenue net of purchased power and fuel due to the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016, as well as distribution rate increases effective in 2016 and 2017.

The year-over-year increase in Revenue net of purchased power and fuel expense was partially offset by the following unfavorable factors:

- Decrease of $134 million at Generation due to mark-to-market losses of $175 million in 2017 compared to mark-to-market losses of $41 million in 2016;
- Decrease of $46 million at PECO primarily due to unfavorable weather conditions; and
- Decrease of $11 million at Generation primarily due to lower realized energy prices, the impacts of lower load volumes delivered due to mild weather in the third quarter 2017, the conclusion of the Ginna Reliability Support Services Agreement and the impact of declining natural gas prices on Generation's natural gas portfolio, partially offset by the impact of the New York CES, increased nuclear volumes primarily as a result of the acquisition of FitzPatrick, higher capacity prices, the addition of two combined-cycle gas turbines in Texas and lower nuclear fuel prices.

Operating and maintenance expense increased by $78 million as compared to 2016. The year-over-year increase was primarily due to the following unfavorable factors:

- Increase of $307 million at Generation due to higher asset impairment charges;
- Increase of $127 million at Generation primarily due to Generation's decision in 2017 to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities;
- Increase of $104 million at Generation due to increased nuclear refueling outage costs;

- Increase of $84 million at Generation due to the annual update of the Generation nuclear decommissioning obligation related to the non-regulatory units in 2017 versus 2016; and

- Increase of $253 million at PHI due to the inclusion of PHI’s results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016.

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The year-over-year increase in Operating and maintenance expense was partially offset by the following favorable factors:

- Decrease of $665 million at Exelon due to merger commitment and other merger-related costs of $73 million in 2017 compared to $738 million in 2016;
- Decrease of $85 million at ComEd due to the change to defer and recover over time energy efficiency costs pursuant to the Illinois Future Energy Jobs Act; and
- Decrease of $21 million at BGE primarily due to certain disallowances contained in the June and July 2016 rate orders, partially offset by the impact of the favorable 2016 settlement of the Baltimore City conduit fee dispute.

Depreciation and amortization expense decreased by $108 million primarily due to lower accelerated depreciation and amortization expense as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities, partially offset by increased depreciation expense as a result of ongoing capital expenditures across all operating companies and the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016.

Taxes other than income increased by $155 million primarily due to increased real estate taxes and sales and use taxes at Generation, as well as the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016.

Gain (Loss) on sales of assets increased by $51 million primarily due to certain Generation projects and contracts being terminated or renegotiated in 2016, partially offset by a gain associated with Generation's sale of the retired New Boston generating site in 2016.

Bargain purchase gain increased by $233 million due to the gain associated with Generation's acquisition of FitzPatrick in 2017.

Gain on deconsolidation of business increased by $213 million due to the deconsolidation of EGTP's net liabilities, which included the previously impaired assets and related debt, as a result of the November 2017 bankruptcy filing.

Interest expense, net increased by $24 million primarily due to the inclusion of PHI's results for the year ended December 31, 2017 compared to the period March 24, 2016 to December 31, 2016, partially offset by additional interest related to Exelon's like-kind exchange tax position recorded in 2016 compared to 2017.

Other, net increased by $643 million primarily due to higher net unrealized and realized gains on NDT funds at Generation for the year ended December 31, 2017 as compared to the same period in 2016 and the penalty recorded in 2016 related to Exelon's like-kind exchange tax position.

Exelon's effective income tax rates for the years ended December 31, 2017 and 2016 were (3.3)% and 38.3%, respectively. Exelon's effective income tax rate for the year ended December 31, 2017 includes the impact of the Tax Cuts and Jobs Act. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

For further detail regarding the financial results for the years ended December 31, 2017 and 2016, including explanation of the non-GAAP measure revenues net of purchased power and fuel expense, see the discussions of Results of Operations by Segment below.

Adjusted (non-GAAP) Operating Earnings

Exelon’s Adjusted (non-GAAP) operating earnings for the year ended December 31, 2017 were $2,471 million, or $2.60 per diluted share, compared with Adjusted (non-GAAP) operating earnings of $2,488 million, or $2.68 per diluted share, for the same period in 2016. In addition to net income, Exelon evaluates its operating performance using the measure of Adjusted (non-GAAP) operating earnings because management believes it represents earnings directly related to the ongoing operations of the business. Adjusted (non-GAAP) operating earnings exclude certain costs, expenses, gains and losses and other specified items. This information is intended to enhance an investor’s overall understanding of year-to-year operating results and provide an indication of Exelon’s baseline operating performance excluding items that are considered by management to be not directly related to the ongoing operations of the business. In addition, this information is among the primary indicators management uses as a basis for evaluating performance, allocating resources, setting incentive compensation targets and planning and forecasting of future periods. Adjusted (non-GAAP) operating earnings is not a presentation defined under GAAP and may not be comparable to other companies’ presentations or deemed more useful than the GAAP information provided elsewhere in this report.

The following table provides a reconciliation between Net income attributable to common shareholders as determined in accordance with GAAP and Adjusted (non-GAAP) operating earnings for the year ended December 31, 2017 as compared to 2016:

	For the years ended December 31,			
	2017		2016	
(All amounts after tax; in millions, except per share amounts)		Earnings per Diluted Share		Earnings per Diluted Share
Net Income Attributable to Common Shareholders	$ 3,770	$ 3.97	$ 1,134	$ 1.22
Mark-to-Market Impact of Economic Hedging Activities[(a)] (net of taxes of $68 and $18, respectively)	107	0.11	24	0.03
Unrealized Gains Related to NDT Fund Investments[(b)] (net of taxes of $204 and $77, respectively)	(318)	(0.34)	(118)	(0.13)
Amortization of Commodity Contract Intangibles[(c)] (net of taxes of $22 and $22, respectively)	34	0.04	35	0.04
Merger and Integration Costs[(d)] (net of taxes of $25 and $50, respectively)	40	0.04	114	0.12
Merger Commitments[(e)] (net of taxes of $137 and $126, respectively)	(137)	(0.14)	437	0.47
Long-Lived Asset Impairments[(f)] (net of taxes of $204 and $68, respectively)	321	0.34	103	0.11
Plant Retirements and Divestitures[(g)] (net of taxes of $134 and $273, respectively)	207	0.22	432	0.47
Reassessment of Deferred Income Taxes[(h)] (entire amount represents tax expense)	(1,299)	(1.37)	10	0.01
Cost Management Program[(i)] (net of taxes of $21 and $21, respectively)	34	0.04	34	0.04
Like-Kind Exchange Tax Position[(j)] (net of taxes of $66 and $61, respectively)	(26)	(0.03)	199	0.21
Asset Retirement Obligation[(k)] (net of taxes of $1 and $13, respectively)	(2)	—	(75)	(0.08)
Tax Settlements[(l)] (net of taxes of $1 and $0, respectively)	(5)	(0.01)	—	—
Bargain Purchase Gain[(m)] (net of taxes of $0 and $0, respectively)	(233)	(0.25)	—	—
Gain on Deconsolidation of Business[(n)] (net of taxes of $83 and $0, respectively)	(130)	(0.14)	—	—
Vacation Policy Change[(o)] (net of taxes of $21 and $0, respectively)	(33)	(0.03)	—	—
Curtailment of Generation Growth and Development Activities[(p)] (net of taxes of $0 and $35, respectively)	—	—	57	0.06
Change in Environmental Remediation Liabilities (net of taxes of $17 and $0, respectively)	27	0.03	—	—
Noncontrolling Interests[(q)] (net of taxes of $24 and $9, respectively)	114	0.12	102	0.11
Adjusted (non-GAAP) Operating Earnings	$ 2,471	$ 2.60	$ 2,488	$ 2.68

(a) Reflects the impact of net gains and losses on Generation's economic hedging activities. See Note 12 - Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation's hedging activities.

(b) Reflects the impact of net unrealized gains on Generation's NDT fund investments for Non-Regulatory Agreement Units. See Note 15 - Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation's NDT fund investments.

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(c) Represents the non-cash amortization of intangible assets, net, primarily related to commodity contracts recorded at fair value related to, in 2017, the ConEdison Solutions and FitzPatrick acquisitions, and in 2016, the Integrys and ConEdison Solutions acquisitions.
(d) Primarily reflects certain costs incurred for the PHI acquisition in 2017 and 2016 and Generation's FitzPatrick acquisition in 2017, including professional fees, employee-related expenses and integration activities. See Note 4 - Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to merger and acquisition costs.
(e) Represents costs incurred as part of the settlement orders approving the PHI acquisition, and in 2017, a decrease in reserves for uncertain tax positions related to the deductibility of certain merger commitments associated with the 2012 CEG and 2016 PHI acquisitions, and in 2016, a charge related to a 2012 CEG merger commitment. See Note 4 - Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to PHI Merger commitments.
(f) Primarily reflects charges to earnings in 2017 related to impairments of EGTP assets and the PHI District of Columbia sponsorship intangible asset, and in 2016, impairments of Upstream assets and certain wind projects at Generation.
(g) Primarily reflects in 2017 accelerated depreciation and amortization expenses, increases to materials and supplies inventory reserves, construction work in progress impairments and charges for severance reserves associated with Generation's decision to early retire the Three Mile Island nuclear facility. Primarily reflects in 2016 accelerated depreciation and amortization expenses through December 2016 and construction work in progress impairments associated with Generation's previous decision to early retire the Clinton and Quad Cities nuclear facilities, partially offset by a gain associated with Generation's sale of the New Boston generating site.
(h) Reflects in 2017 one-time non-cash impacts associated with remeasurements of deferred income taxes as a result of the Tax Cuts and Jobs Act (including impacts on pension obligations), changes in the Illinois and District of Columbia statutory tax rates and changes in forecasted apportionment, and in 2016, the non-cash impact of the remeasurement of deferred income taxes as a result of changes in forecasted apportionment related to the PHI acquisition.
(i) Represents severance and reorganization costs related to a cost management program.
(j) Represents in 2017 adjustments to income tax, penalties and interest expenses as a result of the finalization of the IRS tax computation related to Exelon's like-kind exchange tax position, and in 2016, the recognition of a penalty and associated interest expense as a result of a tax court decision on Exelon's like-kind exchange tax position.
(k) Reflects a non-cash benefit pursuant to the annual update of the Generation nuclear decommissioning obligation related to the non-regulatory units.
(l) Reflects benefits related to the favorable settlement in 2017 of certain income tax positions related to PHI's unregulated business interests that were transferred to Generation.
(m) Represents the excess of the fair value of assets and liabilities acquired over the purchase price for the FitzPatrick acquisition.
(n) Represents the gain recorded upon deconsolidation of EGTP's net liabilities, which included the previously impaired assets and related debt, as a result of the November 2017 bankruptcy filing.
(o) Represents the reversal of previously accrued vacation expenses as a result of a change in Exelon's vacation vesting policy.
(p) Reflects the the one-time recognition for a loss on sale of assets and asset impairment charges pursuant to Generation's strategic decision in the fourth quarter of 2016 to narrow the scope and scale of its growth and development activities.
(q) Represents elimination from Generation's results of the noncontrolling interests related to certain exclusion items, primarily related to the impact of unrealized gains and losses on NDT fund investments at CENG.

Note:
Unless otherwise noted, the income tax impact of each reconciling item between GAAP Net Income and Adjusted (non-GAAP) Operating Earnings is based on the marginal statutory federal and state income tax rates for each Registrant, taking into account whether the income or expense item is taxable or deductible, respectively, in whole or in part. For all items except the unrealized gains and losses related to NDT fund investments, the marginal statutory income tax rates ranged from 39 percent to 41 percent. Under IRS regulations, NDT fund investment returns are taxed at differing rates for investments in qualified vs. non-qualified funds. The tax rates applied to unrealized gains and losses related to NDT Fund investments were 47.4 percent and 48.7 percent for the years ended December 31, 2017 and 2016, respectively.

Merger, Integration and Acquisition Costs

As a result of the PHI Merger that was completed on March 23, 2016, the Registrants have incurred costs associated with evaluating, structuring and executing the PHI Merger transaction itself, and will continue to incur cost associated with meeting the various commitments set forth by regulators and agreed-upon with other interested parties as part of the merger approval process, and integrating the former PHI businesses into Exelon. In addition, as a result of the acquisition of the FitzPatrick nuclear generating station on March 31, 2017, Exelon and Generation incurred costs associated with evaluating, structuring and executing the transaction and integrating FitzPatrick into Exelon.

The table below presents the one-time pre-tax charges recognized for the PHI Merger included in the Registrant's respective Consolidated Statements of Operations and Comprehensive Income.

	For the Year Ended December 31, 2016					*Successor* March 24, 2016 to December 31, 2016
	Exelon	Generation	Pepco	DPL	ACE	PHI
Merger commitments (a)	$ 513	$ 3	$ 126	$ 86	$ 111	$ 323
Changes in accounting and tax related policies and estimates	—	—	25	15	5	—
Total	$ 513	$ 3	$ 151	$ 101	$ 116	$ 323

(a) See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for more information.

In addition to the one-time PHI Merger charges discussed above, for the years ended December 31, 2017 and 2016, expense has been recognized for the PHI Merger and Generation's FitzPatrick acquisition as follows:

	Pre-tax Expense								
	For the Year Ended December 31, 2017								
Merger, Integration and Acquisition Expense:	Exelon(a)	Generation(a)	ComEd	PECO	BGE	PHI(a)	Pepco(a)	DPL(a)	ACE(a)
Transaction(b)	$ 6	$ 5	$ —	$ —	$ —	$ —	$ —	$ —	—
Other(c)(d)	67	75	1	4	4	(18)	(6)	(7)	(6)
Total	$ 73	$ 80	$ 1	$ 4	$ 4	$ (18)	$ (6)	$ (7)	$ (6)

	Pre-tax Expense								
	For the Year Ended December 31, 2016								
Merger Integration and Acquisition Expense:	Exelon(a)	Generation(a)	ComEd	PECO	BGE	PHI(a)	Pepco(a)	DPL(a)	ACE(a)
Transaction(b)	$ 34	$ 2	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Employee-related (e)	77	10	2	1	1	64	30	18	15
Other(c)(d)	52	44	(8)	4	(2)	5	(2)	2	4
Total	$ 163	$ 56	$ (6)	$ 5	$ (1)	$ 69	$ 28	$ 20	$ 19

(a) For Exelon, Generation, PHI, Pepco, DPL and ACE, includes the operations of the acquired businesses beginning on March 24, 2016.

(b) External, third party costs paid to advisors, consultants, lawyers and other experts to assist in the due diligence and regulatory approval processes and in the closing of transactions.

(c) Costs to integrate PHI processes and systems into Exelon. For the year ended December 31, 2017, also includes costs to integrate FitzPatrick processes and systems into Exelon.

(d) For the year ended December 31, 2017, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $24 million, $8 million, $8 million, and $8 million incurred at PHI, Pepco, DPL, and ACE, respectively, that have been recorded as a regulatory asset for anticipated recovery. For the year ended December 31, 2016, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $8 million, $6 million, $11 million, and $4 million incurred at ComEd, BGE, Pepco, and DPL, respectively, that have been recorded as a regulatory asset for anticipated recovery. For the Successor period March 24, 2016 to December 31, 2016, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $16 million incurred at PHI that have been recorded as a regulatory asset for anticipated recovery. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for more information.

(e) Costs primarily for employee severance, pension and OPEB expense and retention bonuses.

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Significant 2017 Transactions and Recent Developments

Corporate Tax Reform

On December 22, 2017, President Trump signed the TCJA into law. The TCJA makes many significant changes to the Internal Revenue Code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) creating a 30% limitation on deductible interest expense (not applicable to regulated utilities); (3) allowing 100% expensing for the cost of qualified property (not applicable to regulated utilities); (4) eliminating the domestic production activities deduction; (5) eliminating the corporate alternative minimum tax and changing how existing alternative minimum tax credits can be realized; and (6) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The most significant change that impacts the Registrants is the reduction of the corporate federal income tax rate from 35% to 21% beginning January 1, 2018. Adjusted non-GAAP operating earnings per share for Exelon is expected to increase by approximately $0.10 on a run-rate basis in 2019 relative to Exelon's projections before the TCJA. For the Utility Registrants, the amount and timing of when certain income tax benefits resulting from the TCJA are provided to customers may vary from jurisdiction to jurisdiction.

Beginning in 2018, Generation will incur lower income tax expense, which will decrease its projected effective income tax rate, even with the elimination of the domestic production activities deduction, and increase its net income. Generation's operating cash inflows are also expected to increase beginning in 2018 reflecting the lower income tax rates and full expensing of capital investments. Generation's projected effective income tax rate in 2018, 2019, and 2020 is expected to be approximately 22%.

Beginning in 2018, the Utility Registrants will incur lower income tax expense, which will generally decrease their projected effective income tax rates. The TCJA is expected to lead to lower customer rates over time due to lower income tax expense recoveries and the settlement of deferred income tax net regulatory liabilities. The TCJA is expected to lead to an incremental increase in rate base of approximately $1.7 billion by 2020 relative to previous expectations across the Utility Registrants. The increased rate base will be funded consistent with each utility jurisdiction, using a combination of third party debt financings and equity funding from Exelon generally consistent with existing capitalization ratio structures. To fund any additional equity contributions to the Utility Registrants, Exelon would have available to it its typical sources, including, but not limited to, the increased operating cash flows at Generation referenced above, which over time are expected to exceed the incremental equity needs at the Utility Registrants. The TCJA is generally expected to result in lower operating cash inflows for the Utility Registrants as a result of the elimination of bonus depreciation and lower customer rates.

Exelon Corporate expects that the interest on its debt will continue to be fully tax deductible albeit at a lower tax rate.

The Utility Registrants continue to work with their state regulatory commissions to determine the amount and timing of the passing back of TCJA income tax savings benefits to customers; with filings either made, or expected to be made, at Pepco, DPL and ACE, and approved filings at ComEd and BGE. The amounts being passed back or proposed to be passed back to customers reflect the benefit of lower income tax expense beginning January 1, 2018 (Feb. 1, 2018 for DPL Delaware), and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. To date, neither the PAPUC nor FERC has yet issued guidance on how and when to reflect the impacts of the TCJA in customer rates. Refer to Note 3 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information on their filings.

Early Nuclear Plant Retirements

On May 30, 2017, Generation announced it will permanently cease generation operations at Three Mile Island Generating Station (TMI) on or about September 30, 2019. The TMI nuclear plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning year and will not receive capacity revenue for that period, the third consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019. In 2017, as a result of the plant retirement decision of TMI, Exelon and Generation recognized one-time charges in Operating and maintenance expense of $77 million related to materials and supplies inventory reserve adjustments, employee-related costs and construction work-in-progress (CWIP) impairments, among other items. In addition to these one-time charges, there will be ongoing annual incremental non-cash charges to earnings stemming from shortening the expected economic useful life of TMI primarily related to accelerated depreciation of plant assets (including any asset retirement costs (ARC)), accelerated amortization of nuclear fuel, and additional asset retirement obligation (ARO) accretion expense associated with the changes in decommissioning timing and cost assumptions. During the year ended December 31, 2017, both Exelon's and Generation's results include an incremental $262 million of pre-tax expense for these items.

The following table summarizes the estimated annual amount and timing of expected incremental non-cash expense items through 2019.

	Actual	Projected[(a)]	
Income statement expense (pre-tax)	**2017**	**2018**	**2019**
Depreciation and Amortization			
Accelerated depreciation[(b)]	$ 250	$ 440	$ 330
Accelerated nuclear fuel amortization	12	20	5
Total	$ 262	$ 460	$ 335

(a) Actual results may differ based on incremental future capital additions, actual units of production for nuclear fuel amortization, future revised ARO assumptions, etc.

(b) Reflects incremental accelerated depreciation of plant assets, including any ARC.

On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. In 2010, Generation announced that Oyster Creek would retire by the end of 2019 as part of an agreement with the State of New Jersey to avoid significant costs associated with the construction of cooling towers to meet the State's then new environmental regulations. Since then, like other nuclear sites, Oyster Creek has continued to face rising operating costs amid a historically low wholesale power price environment. The decision to retire Oyster Creek in 2018 at the end of its current operating cycle involved consideration of several factors, including economic and operating efficiencies, and avoids a refueling outage scheduled for the fall of 2018 that would have required advanced purchasing of fuel fabrication and materials beginning in late February 2018.

Because of the decision to retire Oyster Creek in 2018, Exelon and Generation will recognize certain one-time charges in the first quarter of 2018 ranging from an estimated $25 million to $35 million (pre-tax) related to a materials and supplies inventory reserve adjustment, employee-related costs, and construction work-in-progress impairment, among other items. Estimated cash expenditures related to the one-time charges primarily for employee-related costs are expected to range from $5 million to $10 million.

In addition to these one-time charges, there will be financial impacts stemming from shortening the expected economic useful life of Oyster Creek primarily related to accelerated depreciation of plant assets (including any ARC), accelerated amortization of nuclear fuel, and additional ARO accretion expense associated with the changes in decommissioning timing and cost assumptions to reflect an earlier retirement date. The following table summarizes the estimated amount of expected incremental non-cash expense items expected to be incurred in 2018 because of the early retirement decision.

Income statement expense (pre-tax)	Projected[b] 2018
Depreciation and Amortization	
Accelerated depreciation[a]	\$110 to \$140
Accelerated nuclear fuel amortization	\$40
Operating and Maintenance	
Increased ARO accretion	Up to \$5

(a) Includes the accelerated depreciation of plant assets including any ARC.
(b) Actual results may differ based on incremental future capital additions, actual units of production for nuclear fuel amortization, future revised ARO assumptions, etc.

EGTP Consent Agreement and Bankruptcy

On May 2, 2017, EGTP, an indirect subsidiary of Exelon and Generation, entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries. As a result, Exelon and Generation classified certain EGTP assets and liabilities as held for sale at their respective fair values less costs to sell and recorded a \$460 million pre-tax impairment loss during 2017. On November 7, 2017, EGTP and all of its wholly owned subsidiaries filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. As a result, Exelon and Generation deconsolidated EGTP's assets and liabilities from their consolidated financial statements and recorded a \$213 million pre-tax gain. See Note 4 — Mergers, Acquisitions and Dispositions, Note 7 — Impairment of Long-Lived Assets and Intangibles and Note 13 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for additional information regarding EGTP and the associated nonrecourse debt.

Acquisition of James A. FitzPatrick Nuclear Generating Station

On March 31, 2017, Generation acquired the 842 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station for a total purchase price of \$289 million. In accounting for the acquisition as a business combination, Exelon and Generation recorded an after-tax bargain purchase gain of \$233 million which is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information regarding the Generation's acquisition of FitzPatrick and related costs.

Illinois Future Energy Jobs Act

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA was effective on June 1, 2017, and includes, among other provisions, (1) a Zero Emission Standard (ZES) providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for

ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute and (7) support for low income rooftop and community solar programs. FEJA establishes new or adjusts existing rate recovery mechanisms for ComEd to recover costs associated with the new or expanded energy efficiency and RPS requirements. Regulatory or legal challenges over the validity of FEJA are possible. See Note 3 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA. See Note 8 — Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information regarding the economic challenges facing Generation's Clinton and Quad Cities nuclear plants and the expected benefits of the ZES.

Illinois ZEC Procurement

On January 25, 2018, the ICC announced that Generation's Clinton Unit 1, Quad Cities Unit 1 and Quad Cities Unit 2 nuclear plants were selected as the winning bidders through the IPA's ZEC procurement event. Generation executed the ZEC procurement contracts with Illinois utilities, including ComEd, effective January 26, 2018 and will begin recognizing revenue. Winning bidders will be entitled to compensation for the sale of ZECs retroactive to the June 1, 2017 effective date of FEJA. In the first quarter of 2018, Generation will recognize approximately $150 million of revenue and ComEd will record an obligation to Generation and corresponding reduction to its regulatory liability of approximately $100 million related to ZECs generated from June 1, 2017 through December 31, 2017.

Dismissal of Litigation Challenging ZEC Programs

On July 14, 2017, the U.S. District Court for the Northern District of Illinois dismissed two lawsuits challenging the ZEC program contained in FEJA. On July 17, 2017, the plaintiffs appealed the court's decisions to the U.S. Court of Appeals for the Seventh Circuit. Briefs were fully submitted on December 12, 2017 and the Court heard oral argument on January 3, 2018. At the argument, the Court asked for supplemental briefing, which was filed on January 26, 2018.

Additionally, on July 25, 2017, the U.S. District Court for the Southern District of New York dismissed a lawsuit challenging the ZEC program contained in the New York CES. On August 24, 2017, the plaintiffs appealed the decision to the Second Circuit. Briefing in the appeal was completed in December 2017, and oral argument is expected to take place in March 2018.

In addition, on November 30, 2016, a group of parties, including certain environmental groups and individuals, filed a Petition in New York State court seeking to invalidate the ZEC program. The Petition, which was amended on January 13, 2017, argued that the NYPSC did not have authority to establish the program and that it violated certain technical provisions of the State Administrative Procedures Act (SAPA) when adopting the ZEC program. On February 15, 2017, Generation and CENG filed a motion to dismiss the state court action. The NYPSC also filed a motion to dismiss the state court action. On March 24, 2017, the plaintiffs filed a memorandum of law opposing the motions to dismiss, and Generation and CENG filed a reply brief on April 28, 2017. Oral argument was held on June 19, 2017. On January 22, 2018, the court denied the motions to dismiss without commenting on the merits of the case. The case will now proceed to summary judgment upon filing of the full record.

The court decisions to date have upheld the ZEC programs which support Illinois's and New York's efforts to advance clean energy and preserve affordable and reliable energy resources for customers. See Note 3 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA and the New York CES.

Merger Commitment Unrecognized Tax Benefits

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS

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National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, as of December 31, 2017, resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

Combined-Cycle Gas Turbine Projects

In June 2017, Generation commenced commercial operations of two new combined-cycle gas turbines (CCGTs) at the Colorado Bend II and Wolf Hollow II Generating Stations in Texas. The two new CCGTs have added nearly 2,200 MWs of capacity to Generation's fleet, enhancing Generation's strategy to match generation to customer load. Generation invested approximately $1.5 billion over the past three years to complete the new plant construction, which utilizes new General Electric technology to make them among the cleanest, most efficient CCGTs in the nation.

Utility Rates and Rate Proceedings

The Utility Registrants file rate cases with their regulatory commissions seeking increases or decreases to their electric transmission and distribution, and gas distribution rates to recover their costs and earn a fair return on their investments. The outcomes of these regulatory proceedings impact the Utility Registrants' current and future results of operations, cash flows and financial position.

The following tables show the Utility Registrants' completed and pending distribution rate case proceedings in 2017.

Completed Distribution Rate Case Proceedings

Company	Jurisdiction	Approved Revenue Requirement Increase (in millions)	Approved Return on Equity	Completion Date	Rate Effective Date
ComEd	Illinois (Electric)[(a)]	$ 96 [(b)]	8.4% [(c)]	December 6, 2017	January 1, 2018
Pepco	District of Columbia (Electric)	$ 37	9.5%	July 25, 2017	August 15, 2017
Pepco	Maryland (Electric)	$ 32	9.5%	October 27, 2017	October 20, 2017
DPL	Maryland (Electric)	$ 38	9.6%	February 15, 2017	February 15, 2017
DPL	Delaware (Electric)	$ 31.5	9.7%	May 23, 2017	June 1, 2017
DPL	Delaware (Natural Gas)	$ 4.9	9.7%	June 6, 2017	July 1, 2017
ACE	New Jersey (Electric)	$ 43	9.6%	September 22, 2017	October 1, 2017

(a) Pursuant to EIMA, ComEd's electric distribution rates are established through a performance-based formula through which ComEd is required to file an annual update on or before May 1, with resulting rates effective in January of the following year. ComEd's annual electric distribution formula rate update is based on prior year actual costs and current year projected capital additions (initial year revenue requirement). The update also reconciles any differences between the revenue requirement in effect for the prior year and actual costs incurred for the year (annual reconciliation).

(b) Reflects an increase of $78 million for the initial revenue requirement for 2017 and an increase of $18 million related to the annual reconciliation.

(c) ComEd's allowed ROE under its electric distribution formula rate is the annual average rate on 30-year treasury notes plus 580 basis points and is subject to reduction if ComEd does not deliver certain reliability and customer service benefits. The initial revenue requirement for 2017 reflects an allowed ROE of 8.40%, while the annual reconciliation reflects an allowed ROE of 8.34%, which is inclusive of a 6-basis-point performance penalty.

Pending Distribution Rate Case Proceedings

Company	Jurisdiction	Requested Revenue Requirement Increase (in millions)	Requested Return on Equity	Filing Date	Expected Completion Timing
Pepco	Maryland (Electric)	$ 11 [(a)]	10.1%	January 2, 2018 (Updated February 5, 2018)	Third quarter 2018
Pepco	District of Columbia (Electric)	$ 66 [(b)]	10.1%	December 19, 2017	Fourth quarter 2018
DPL	Maryland (Electric)	$ 19 [(b)(c)]	10.1% [(c)]	July 14, 2017 (Updated on November 16, 2017)	First quarter 2018
DPL	Delaware (Electric)	$ 31 [(b)]	10.1%	August 17, 2017 (Updated on October 18, 2017)	Third quarter 2018
DPL	Delaware (Natural Gas)	$ 11 [(b)]	10.1%	August 17, 2017 (Updated on November 7, 2017)	Fourth quarter 2018

(a) On February 5, 2018, Pepco filed with the MDPSC an update to its current distribution rate case to reflect approximately $31 million in TCJA tax savings, thereby reducing the requested annual base rate increase to $11 million.
(b) By mid-February, Pepco and DPL will update their current distribution rate cases to reflect the TCJA impacts.
(c) On December 18, 2017, a settlement agreement was filed with the MDPSC wherein DPL will be granted a rate increase of $13 million, and a ROE of 9.5% solely for purposes of calculating AFUDC and regulatory asset carrying costs. On January 5, 2018, the MDPSC held a hearing on the settlement agreement. DPL expects a decision in the matter in the first quarter of 2018, but cannot predict whether the MDPSC will approve the settlement agreement as filed or how much of the requested increase will be approved.

Transmission Formula Rates

The following total increases/(decreases) were included in ComEd's, BGE's, Pepco's, DPL's and ACE's 2017 annual electric transmission formula rate filings:

	2017				
Annual Transmission Filings[(a)]	ComEd	BGE	Pepco	DPL	ACE
Initial revenue requirement increase	$ 44	$ 31	$ 5	$ 6	$ 20
Annual reconciliation increase (decrease)	(33)	3	15	8	22
Dedicated facilities decrease[(b)]	—	(8)	—	—	—
Total revenue requirement increase	$ 11	$ 26	$ 20	$ 14	$ 42
Allowed return on rate base[(c)]	8.43%	7.47%	7.92%	7.16%	8.02%
Allowed ROE[(d)]	11.50%	10.50%	10.50%	10.50%	10.50%

(a) All rates are effective June 2017.
(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.
(c) Represents the weighted average debt and equity return on transmission rate bases.
(d) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50%, inclusive of a 50-basis-point incentive adder for being a member of a RTO, and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, Pepco, DPL and ACE, the rate of return on common equity is 10.50%, inclusive of a 50-basis-point incentive adder for being a member of a RTO.

PECO Transmission Formula Rate. On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50-basis-point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. On June 27, 2017, FERC issued an Order accepting the filing and suspending the proposed rates until December 1, 2017, subject to refund, and set the matter for hearing and settlement judge procedures. PECO cannot predict the final outcome of the settlement or hearing proceedings, or the transmission formula FERC may approve.

See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further details on these regulatory proceedings.

Westinghouse Electric Company LLC Bankruptcy

On March 29, 2017, Westinghouse Electric Company LLC (Westinghouse) and its affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. In the petitions and supporting documents, Westinghouse makes clear that its requests for relief center on one business area that is losing money - the construction of nuclear power plants in Georgia and South Carolina. On January 4, 2018, Westinghouse announced its agreement to be acquired by Brookfield Business Partners. The deal, which requires bankruptcy court and regulatory approvals, is expected to close in in the third quarter of 2018. Brookfield has informally indicated to Generation that it will assume all of Exelon's contracts with Westinghouse. Generation is monitoring the bankruptcy and pending sale proceedings to ensure that its rights are protected.

ExGen Renewables Holdings, LLC Transaction

On July 6, 2017, ExGen Renewables Holdings, LLC, a wholly owned subsidiary of Generation, completed the sale of a 49% interest of ExGen Renewables Partners, LLC, a newly formed owner and operator of approximately 1,439 megawatts of Generation's operating wind and solar electric generating facilities. ExGen Renewables Holdings will be the managing member of ExGen Renewables Partners, LLC, and have day-to-day control and management over its renewable generation portfolio. The closing of the transaction was subject to certain regulatory approvals, including the Federal Energy Regulatory Commission (FERC) and the Public Utility Commission of Texas (PUCT) which were received during the second quarter of 2017. The sale price was $400 million plus immaterial working capital and other customary post-closing adjustments. The net proceeds, after approximately $100 million of income taxes, will be used to pay down debt and for general corporate purposes. Generation will continue to consolidate ExGen Renewables Partners, LLC and will record a noncontrolling interest on its Consolidated Balance Sheet for the investor's equity share as well as earnings attributable to the noncontrolling interest in the Consolidated Statements of Operations and Comprehensive Income each period going forward.

Hurricanes Harvey, Irma and Maria Impacts

Although Exelon subsidiaries provided substantial assistance to recovery efforts following Hurricanes Harvey and Irma, Hurricanes Harvey, Irma and Maria are not expected to have a material impact on the Registrants' businesses or financial results given the limited operations in the areas affected by the storms.

Exelon’s Strategy and Outlook for 2018 and Beyond

Exelon’s value proposition and competitive advantage come from its scope and its core strengths of operational excellence and financial discipline. Exelon leverages its integrated business model to create value. Exelon’s regulated and competitive businesses feature a mix of attributes that, when combined, offer shareholders and customers a unique value proposition:

- Exelon’s utilities provide a foundation for steadily growing earnings, which translates to a stable currency in our stock.

- Generation’s competitive businesses provide free cash flow to invest primarily in the utilities and in long-term, contracted assets and to reduce debt.

Exelon believes its strategy provides a platform for optimal success in an energy industry experiencing fundamental and sweeping change.

Exelon’s utility strategy is to improve reliability and operations and enhance the customer experience, while ensuring ratemaking mechanisms provide the utilities fair financial returns. The Exelon utilities only invest in rate base where it provides a benefit to customers and the community by improving reliability and the service experience or otherwise meeting customer needs. The Exelon utilities make these investments at the lowest reasonable cost to customers. Exelon seeks to leverage its scale and expertise across the utilities platform through enhanced standardization and sharing of resources and best practices to achieve improved operational and financial results. Additionally, the Utility Registrants anticipate making significant future investments in smart meter technology, transmission projects, gas infrastructure, and electric system improvement projects, providing greater reliability and improved service for our customers and a stable return for the company.

Generation’s competitive businesses create value for customers by providing innovative energy solutions and reliable, clean and affordable energy. Generation’s electricity generation strategy is to pursue opportunities that provide stable revenues and generation to load matching to reduce earnings volatility. Generation leverages its energy generation portfolio to deliver energy to both wholesale and retail customers. Generation’s customer-facing activities foster development and delivery of other innovative energy-related products and services for its customers. Generation operates in well-developed energy markets and employs an integrated hedging strategy to manage commodity price volatility. Its generation fleet, including its nuclear plants which consistently operate at high capacity factors, also provide geographic and supply source diversity. These factors help Generation mitigate the current challenging conditions in competitive energy markets.

Exelon’s financial priorities are to maintain investment grade credit metrics at each of the Registrants, to maintain optimal capital structure and to return value to Exelon’s shareholders with an attractive dividend throughout the energy commodity market cycle and through stable earnings growth. Exelon’s Board of Directors approved an updated dividend policy providing an increase of 5% each year for the period covering 2018 through 2020, beginning with the March 2018 dividend.

Various market, financial, regulatory, legislative and operational factors could affect the Registrants’ success in pursuing their strategies. Exelon continues to assess infrastructure, operational, commercial, policy, and legal solutions to these issues. One key issue is ensuring the ability to properly value nuclear generation assets in the market, solutions to which Exelon is actively pursuing in a variety of jurisdictions and venues. See ITEM 1A. RISK FACTORS for additional information regarding market and financial factors.

Continually optimizing the cost structure is a key component of Exelon's financial strategy. In August 2015, Exelon announced a cost management program focused on cost savings of approximately $400 million at BSC and Generation, of which approximately 60% of run-rate savings was achieved by the end of 2017 with the remainder to be fully realized in 2018. At least 75% of the savings are expected to be related to Generation, with the remaining amount related to the Utility Registrants. Additionally, in November 2017, Exelon announced a new commitment for an additional $250 million of cost savings, primarily at Generation, to be achieved by 2020. These actions are in response to the continuing economic challenges confronting all parts of Exelon's business and industry, necessitating continued focus on cost management through enhanced efficiency and productivity.

Growth Opportunities

Management continually evaluates growth opportunities aligned with Exelon's businesses, assets and markets, leveraging Exelon's expertise in those areas and offering sustainable returns.

Regulated Energy Businesses. The PHI merger provides an opportunity to accelerate Exelon's regulated growth to provide stable cash flows, earnings accretion, and dividend support. Additionally, the Utility Registrants anticipate investing approximately $26 billion over the next five years in electric and natural gas infrastructure improvements and modernization projects, including smart meter and smart grid initiatives, storm hardening, advanced reliability technologies, and transmission projects, which is projected to result in an increase to current rate base of approximately $15 billion by the end of 2022. The Utility Registrants invest in rate base where beneficial to customers and the community by increasing reliability and the service experience or otherwise meeting customer needs. These investments are made at the lowest reasonable cost to customers.

See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on the Smart Meter and Smart Grid Initiatives and infrastructure development and enhancement programs.

Competitive Energy Businesses. Generation continually assesses the optimal structure and composition of its generation assets as well as explores wholesale and retail opportunities within the power and gas sectors. Generation's long-term growth strategy is to ensure appropriate valuation of its generation assets, in part through public policy efforts, identify and capitalize on opportunities that provide generation to load matching as a means to provide stable earnings, and identify emerging technologies where strategic investments provide the option for significant future growth or influence in market development.

Liquidity Considerations

Each of the Registrants annually evaluates its financing plan, dividend practices and credit line sizing, focusing on maintaining its investment grade ratings while meeting its cash needs to fund capital requirements, retire debt, pay dividends, fund pension and OPEB obligations and invest in new and existing ventures. A broad spectrum of financing alternatives beyond the core financing options can be used to meet its needs and fund growth including monetizing assets in the portfolio via project financing, asset sales, and the use of other financing structures (e.g., joint ventures, minority partners, etc.). The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have unsecured syndicated revolving credit facilities with aggregate bank commitments of $0.6 billion, $5.3 billion, $1.0 billion, $0.6 billion, $0.6 billion, $0.5 billion, $0.5 billion and $0.4 billion, respectively. Generation also has bilateral credit facilities with aggregate maximum availability of $0.5 billion. See Liquidity and Capital Resources — Credit Matters — Exelon Credit Facilities below.

For further detail regarding the Registrants' liquidity for the year ended December 31, 2017, see Liquidity and Capital Resources discussion below.

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Project Financing

Generation utilizes individual project financings as a means to finance the construction of various generating asset projects. Project financing is based upon a nonrecourse financial structure, in which project debt and equity used to finance the project are paid back from the cash generated by the newly constructed asset once operational. Borrowings under these agreements are secured by the assets and equity of each respective project. The lenders do not have recourse against Exelon or Generation in the event of a default. If a specific project financing entity does not maintain compliance with its specific debt financing covenants, there could be a requirement to accelerate repayment of the associated debt or other project-related borrowings earlier than the stated maturity dates. In these instances, if such repayment was not satisfied, or restructured, the lenders or security holders would generally have rights to foreclose against the project-specific assets and related collateral. The potential requirement to satisfy its associated debt or other borrowings earlier than otherwise anticipated could lead to impairments due to a higher likelihood of disposing of the respective project-specific assets significantly before the end of their useful lives. See Note 13 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for additional information on nonrecourse debt.

Other Key Business Drivers and Management Strategies

Utility Rates and Rate Proceedings

The Utility Registrants file rate cases with their regulatory commissions seeking increases or decreases to their electric transmission and distribution, and gas distribution rates to recover their costs and earn a fair return on their investments. The outcomes of these regulatory proceedings impact the Utility Registrants' current and future results of operations, cash flows and financial positions. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further details on these regulatory proceedings.

Power Markets

Price of Fuels

The use of new technologies to recover natural gas from shale deposits is increasing natural gas supply and reserves, which places downward pressure on natural gas prices and, therefore, on wholesale and retail power prices, which results in a reduction in Exelon's revenues. Forward natural gas prices have declined significantly over the last several years; in part reflecting an increase in supply due to strong natural gas production (due to shale gas development).

Capacity Market Changes in PJM

In the wake of the January 2014 Polar Vortex that blanketed much of the Eastern and Midwestern United States, it became clear that while a major outage event was narrowly avoided, resources in PJM were not providing the level of reliability expected by customers. As a result, on December 12, 2014, PJM filed at FERC a proposal to make significant changes to its current capacity market construct, the Reliability Pricing Model (RPM). PJM's proposed changes generally sought to improve resource performance and reliability largely by limiting the excuses for non-performance and by increasing the penalties for performance failures. The proposal permits suppliers to include in capacity market offers additional costs and risk so they can meet these higher performance requirements. While offers are expected to put upward pressure on capacity clearing prices, operational improvements made as a result of PJM's proposal are expected to improve reliability, to reduce energy production costs as a result of more efficient operations and to reduce the need for out of market energy payments to suppliers. Generation participated actively in PJM's stakeholder process through which PJM developed the proposal and also actively participated in the FERC proceeding including filing comments. On June 9, 2015, FERC approved PJM’s filing largely as proposed by PJM, including transitional auction rules for delivery years 2016/2017 through 2017/2018. As a result of this and several related orders, PJM hosted its 2018/2019 Base Residual Auction (results posted on August 21, 2015) and its transitional auction for delivery year 2016/2017 (results posted on August 31, 2015) and its transitional auction for delivery years 2017/2018 (results posted on September 9, 2015). On May 10, 2016, FERC largely denied rehearing, and a number of parties appealed to the U.S. Court of Appeals for the DC Circuit for review of the decision. On June 20, 2017, the DC Circuit denied all the appeals.

MISO Capacity Market Results

On April 14, 2015, the MISO released the results of its capacity auction covering the June 2015 through May 2016 delivery year. As a result of the auction, capacity prices for the zone 4 region in downstate Illinois increased to $150 per MW per day beginning in June 2015, an increase from the prior pricing of $16.75 per MW per day that was in effect from June 2014 to May 2015. Generation had an offer that was selected in the auction. However, due to Generation’s ratable hedging strategy, the results of the capacity auction have not had a material impact on Exelon’s and Generation’s consolidated results of operations and cash flows.

Additionally, in late May and June 2015, separate complaints were filed at the FERC by each of the State of Illinois, the Southwest Electric Cooperative, Public Citizens, Inc., and the Illinois Industrial Energy Consumers challenging the results of this MISO capacity auction for the 2015/2016 delivery in MISO delivery zone 4. The complaints allege generally that 1) the results of the capacity auction for zone 4 are not just and reasonable, 2) the results should be suspended, set for hearing and replaced with a new just and reasonable rate, 3) a refund date should be established and that 4) certain alleged behavior by one of the market participants other than Exelon or Generation, be investigated.

On October 1, 2015, FERC announced that it was conducting a non-public investigation (that does not involve Exelon or Generation) into whether market manipulation or other potential violations occurred related to the auction. On December 31, 2015, FERC issued a decision that certain of the rules governing the establishment of capacity prices in downstate Illinois are “not just and reasonable” on a prospective basis. FERC ordered that certain rules be changed prior to the April 2016 auction which set capacity prices for the 2016/2017 planning year. In response to this order, MISO filed certain rule changes with FERC. On March 18, 2016, FERC largely denied rehearing of its December 31, 2015 order. FERC continues to conduct its non-public investigation to determine if the April 2015 auction results were manipulated and, if so, whether refunds are appropriate. FERC did establish May 28, 2015, the day the first complaint was filed, as the date from which refunds (if ordered) would be calculated, and it also made clear that the findings in the December 31, 2015 order do not prejudge the investigation or related proceedings. Generation cannot predict the impact the FERC order may ultimately have on future auction results, capacity pricing or decisions related to the potential early retirement of the Clinton nuclear plant, however, such impacts could be material to Generation’s future results of operations and cash flows. See Note 8 - Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information on the impacts of the MISO announcement.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs

PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program - resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that require subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact certain subsidized resources could have on capacity markets (such as the New

Jersey (LCAPP) and Maryland (CfD) programs). However, in Exelon's view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. The EPSA parties have filed motions to expedite both proceedings. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation's facilities in NYISO and PJM expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon's and Generation's future cash flows and results of operations. On August 30, 2017, EPSA filed motions to lodge the district court decisions dismissing the complaints and urging FERC to act expeditiously on its requests to expand the MOPR. On September 14, 2017, Exelon filed a response in each docket noting that it does not oppose the motions to lodge but arguing that the requests to expedite a decision on the requests to expand the MOPR have no merit. The timing of FERC's decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

DOE Notice of Proposed Rulemaking

On August 23, 2017, the DOE staff released its report on the reliability of the electric grid. One aspect of the wide-ranging report is the DOE's recognition that the electricity markets do not currently value the resiliency provided by baseload generation, such as nuclear plants. On September 28, 2017, the DOE issued a Notice of Proposed Rulemaking (NOPR) that would entitle certain eligible resilient generating units (i.e., those located in organized markets, with a 90-day supply of fuel on site, not already subject to state cost of service regulation and satisfying certain other requirements) to recover fully allocated costs and earn a fair return on equity on their investment. The DOE's NOPR recommended that the FERC take comments for 45 days after publication in the Federal Register and issue a final order 60 days after such publication. On January 8, 2018, the FERC issued an order terminating the rulemaking docket that was initiated to address the proposed rule in the DOE NOPR, concluding the proposed rule did not sufficiently demonstrate there is a resiliency issue and that it proposed a remedy that did not appear to be just, reasonable and nondiscriminatory as required under the Federal Power Act. At the same time, the FERC initiated a new proceeding to consider resiliency challenges to the bulk power system and evaluate whether additional FERC action to address resiliency would be appropriate. The FERC directed each RTO and ISO to respond within 60 days to 24 specific questions about how they assess and mitigate threats to resiliency. Interested parties may submit reply comments within 30 days after the due date of the RTO/ISO responses. Exelon has been and will continue to be an active participant in these proceedings, but cannot predict the final outcome or its potential financial impact, if any, on Exelon or Generation.

Energy Demand

Modest economic growth partially offset by energy efficiency initiatives is resulting in flat to declining load growth in electricity for the utilities. There is decrease in projected load for electricity for ComEd, PECO, BGE, and DPL, and an increase in projected load for electricity for Pepco and ACE. ComEd, PECO, BGE, Pepco, DPL, and ACE are projecting load volumes to increase (decrease) by (0.5)%, (0.5)%, (0.6)%, 1.5%, (1.5)% and 1.5%, respectively, in 2018 compared to 2017.

Retail Competition

Generation’s retail operations compete for customers in a competitive environment, which affect the margins that Generation can earn and the volumes that it is able to serve. The market experienced high price volatility in the first quarter of 2014 which contributed to bankruptcies and consolidations within the industry during the year. However, forward natural gas and power prices are expected to remain low and thus we expect retail competitors to stay aggressive in their pursuit of market share, and that wholesale generators (including Generation) will continue to use their retail operations to hedge generation output.

Strategic Policy Alignment

As part of its strategic business planning process, Exelon routinely reviews its hedging policy, dividend policy, operating and capital costs, capital spending plans, strength of its balance sheet and credit metrics, and sufficiency of its liquidity position, by performing various stress tests with differing variables, such as commodity price movements, increases in margin-related transactions, changes in hedging practices, and the impacts of hypothetical credit downgrades.

Exelon’s Board of Directors declared first, second, third and fourth quarter 2017 dividends of $0.3275 per share each on Exelon’s common stock, and the first quarter 2018 dividends declared was $0.3450 per share. The dividends for the first, second, third and fourth quarter 2017 were paid on March 10, 2017, June 9, 2017, September 8, 2017 and December 8, 2017, respectively. The first quarter 2018 dividend is payable on March 9, 2018.

Exelon’s Board of Directors approved an updated dividend policy providing an increase of 5% each year for the period covering 2018 through 2020, beginning with the March 2018 dividend.

Hedging Strategy

Exelon’s policy to hedge commodity risk on a ratable basis over three-year periods is intended to reduce the financial impact of market price volatility. Generation is exposed to commodity price risk associated with the unhedged portion of its electricity portfolio. Generation enters into non-derivative and derivative contracts, including financially-settled swaps, futures contracts and swap options, and physical options and physical forward contracts, all with credit-approved counterparties, to hedge this anticipated exposure. Generation has hedges in place that significantly mitigate this risk for 2018 and 2019. However, Generation is exposed to relatively greater commodity price risk in the subsequent years with respect to which a larger portion of its electricity portfolio is currently unhedged. As of December 31, 2017, the percentage of expected generation hedged is 85%-88%, 55%-58% and 26%-29% for 2018, 2019, and 2020 respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products, and options. Equivalent sales represent all hedging products, such as wholesale and retail sales of power, options and swaps. Generation has been and will continue to be proactive in using hedging strategies to mitigate commodity price risk in subsequent years as well.

Generation procures oil and natural gas through long-term and short-term contracts and spot-market purchases. Nuclear fuel is obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services, coal, oil and natural gas are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation’s procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 59% of Generation's uranium concentrate requirements from 2018 through 2022 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrate can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon's and Generation's results of operations, cash flows and financial positions.

The Utility Registrants mitigate commodity price risk through regulatory mechanisms that allow them to recover procurement costs from retail customers.

Environmental Legislative and Regulatory Developments

Exelon was actively involved in the Obama Administration's development and implementation of environmental regulations for the electric industry, in pursuit of its business strategy to provide reliable, clean, affordable and innovative energy products. These efforts have most frequently involved air, water and waste controls for fossil-fueled electric generating units, as set forth in the discussion below. These regulations have had a disproportionate adverse impact on coal-fired power plants, requiring significant expenditures of capital and variable operating and maintenance expense, and have resulted in the retirement of older, marginal facilities. Due to its low emission generation portfolio, Generation has not been significantly affected by these regulations, representing a competitive advantage relative to electric generators that are more reliant on fossil fuel plants.

Through the issuance of a series of Executive Orders (EO), President Trump has initiated review of a number of EPA and other regulations issued during the Obama Administration, with the expectation that the Administration will seek repeal or significant revision of these rules. Under these EOs, each executive agency is required to evaluate existing regulations and make recommendations regarding repeal, replacement, or modification. The Administration's actions are intended to result in less stringent compliance requirements under air, water, and waste regulations. The exact nature, extent, and timing of the regulatory changes are unknown, as well as the ultimate impact on Exelon's and its subsidiaries results of operations and cash flows.

In particular, the Administration has targeted existing EPA regulations for repeal, including notably the Clean Power Plan, as well as revoking many Executive Orders, reports, and guidance issued by the Obama Administration on the topic of climate change or the regulation of greenhouse gases. The Executive Order also disbanded the Interagency Working Group that developed the social cost of carbon used in rulemakings, and withdrew all technical support documents supporting the calculation. Other regulations that have been specifically identified for review are the Clean Water Act rule relating to jurisdictional waters of the U.S., the Steam Electric Effluent Guidelines relating to waste water discharges from coal-fired power plants, and the 2015 National Ambient Air Quality Standard (NAAQS) for ozone. The review of final rules could extend over several years as formal notice and comment rulemaking process proceeds.

Air Quality

Mercury and Air Toxics Standard Rule (MATS). On December 16, 2011, the EPA signed a final rule to reduce emissions of toxic air pollutants from power plants and signed revisions to the NSPS for electric generating units. The final rule, known as MATS, requires coal-fired electric generation plants to achieve high removal rates of mercury, acid gases and other metals, and to make capital investments in pollution control equipment and incur higher operating expenses. The initial compliance deadline to meet the new standards was April 16, 2015; however, facilities may have been granted an additional one or two-year extension in limited cases. Numerous entities challenged MATS in the D.C. Circuit Court, and Exelon intervened in support of the rule. In April 2014, the D.C. Circuit Court issued an opinion upholding MATS in its entirety. On appeal, the U.S. Supreme Court decided in June 2015 that the EPA unreasonably refused to consider costs in determining whether it is appropriate and necessary to regulate hazardous air pollutants emitted by electric utilities. The U.S. Supreme Court, however, did not vacate the rule; rather, it was remanded to the D.C. Circuit Court to take further action consistent with the U.S. Supreme Court's opinion on this single issue. On April 27, 2017, the D.C. Circuit granted EPA's motion to hold the litigation in abeyance, pending EPA's review of the MATS rule pursuant to President Trump's EO discussed above. Following EPA's review and determination of its course of action for the MATS rule, the parties will have 30 days to file motions on future proceedings. Notwithstanding the Court's order to hold the litigation in abeyance, the MATS rule remains in effect. Exelon will continue to participate in the remanded proceedings before the D.C. Circuit Court as an intervenor in support of the rule.

Clean Power Plan. On April 28, 2017, the D.C. Circuit Court issued orders in separate litigation related to the EPA's actions under the Clean Power Plan (CPP) to amend Clean Air Act Section 111(d) regulation of existing fossil-fired electric generating units and Section 111(b) regulation of new fossil-fired electric generating units. In both cases, the Court has determined to hold the litigation in abeyance pending a determination whether the rule should be remanded to the EPA. On October 10, 2017, EPA issued a proposed rule to repeal the CPP in its entirety, based on a proposed change in the Agency's legal interpretation of Clean Air Act Section 111(d) regarding actions that the Agency can consider when establishing the Best System of Emission Reduction ("BSER") for existing power plants. Under the proposed interpretation, the Agency exceeded its authority under the Clean Air Act by regulating beyond individual sources of GHG emissions. The EPA has also indicated its intent to issue an advance notice of proposed rulemaking to solicit information on systems of emission reduction that are in accord with the Agency's proposed revised legal interpretation; namely, only by regulating emission reductions that can be implemented at and to individual sources.

2015 Ozone National Ambient Air Quality Standards (NAAQS). On April 11, 2017, the D.C. Circuit ordered that the consolidated 2015 ozone NAAQS litigation be held in abeyance pending EPA's further review of the 2015 Rule. EPA did not meet the October 1, 2017 deadline to promulgate initial designations for areas in attainment or non-attainment of the standard. A number of states and environmental organizations have notified the EPA of their intent to file suit to compel EPA to issue the designations.

Climate Change. Exelon supports comprehensive climate change legislation or regulation, including a cap-and-trade program for GHG emissions, which balances the need to protect consumers, business and the economy with the urgent need to reduce national GHG emissions. In the absence of Federal legislation, the EPA is moving forward with the regulation of GHG emissions under the Clean Air Act. In addition, there have been recent developments in the international regulation of GHG emissions pursuant to the United Nations Framework Convention on Climate Change ("UNFCCC" or "Convention"). See ITEM 1. BUSINESS, "Global Climate Change" for further discussion.

Water Quality

Section 316(b) requires that the cooling water intake structures at electric power plants reflect the best technology available to minimize adverse environmental impacts, and is implemented through state-level NPDES permit programs. All of Generation's power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems (e.g., cooling towers) are potentially most affected by recent changes to the regulations. For Generation, those facilities are Calvert Cliffs, Clinton, Dresden, Eddystone, Fairless Hills, FitzPatrick, Ginna, Gould Street, Mountain Creek, Handley, Mystic 7, Nine Mile Point Unit 1, Peach Bottom, Quad Cities, and Salem. See ITEM 1. BUSINESS, "Water Quality" for further discussion.

Solid and Hazardous Waste

In October 2015, the first federal regulation for the disposal of coal combustion residuals (CCR) from power plants became effective. The rule classifies CCR as non-hazardous waste under RCRA. Under the regulation, CCR will continue to be regulated by most states subject to coordination with the federal regulations. Generation has previously recorded accruals consistent with state regulation for its owned coal ash sites, and as such, the regulation is not expected to impact Exelon's and Generation's financial results. Generation does not have sufficient information to reasonably assess the potential likelihood or magnitude of any remediation requirements that may be asserted under the new federal regulations for coal ash disposal sites formerly owned by Generation. For these reasons, Generation is unable to predict whether and to what extent it may ultimately be held responsible for remediation and other costs relating to formerly owned coal ash disposal sites under the new regulations.

See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further detail related to environmental matters, including the impact of environmental regulation.

Employees

In January 2017, an election was held at BGE which resulted in union representation for approximately 1,394 employees. BGE and IBEW Local 410 are negotiating an initial agreement which could result in some modifications to wages, hours and other terms and conditions of employment. No agreement has been finalized to date and management cannot predict the outcome of such negotiations. In April 2017, Exelon Nuclear Security successfully ratified its CBA with the SPFPA Local 238 at Quad Cities to an extension of three years. In June 2017, Exelon Nuclear Security successfully ratified its CBA with the UGSOA Local 12 at Limerick to an extension of three years.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the amounts of assets and liabilities reported in the financial statements. Management discusses these policies, estimates and assumptions with its Accounting and Disclosure Governance Committee on a regular basis and provides periodic updates on management decisions to the Audit Committee of the Exelon Board of Directors. Management believes that the accounting policies described below require significant judgment in their application, or incorporate estimates and assumptions that are inherently uncertain and that may change in subsequent periods. Additional discussion of the application of these accounting policies can be found in the Combined Notes to Consolidated Financial Statements.

Nuclear Decommissioning Asset Retirement Obligations (Exelon and Generation)

Generation's ARO associated with decommissioning its nuclear units was $9.7 billion at December 31, 2017. The authoritative guidance requires that Generation estimate its obligation for the future decommissioning of its nuclear generating plants. To estimate that liability, Generation uses an internally-developed, probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple decommissioning outcome scenarios.

As a result of recent nuclear plant retirements in the industry, nuclear operators and third-party service providers are obtaining more information about costs associated with decommissioning activities. At the same time, regulators are gaining more information about decommissioning activities which could result in changes to existing decommissioning requirements. In addition, as more nuclear plants are retired, it is possible that technological advances will be identified that could create efficiencies and lead to a reduction in decommissioning costs. The availability of decommissioning trust funds could impact the timing of the decommissioning activities. Additionally, certain factors such as changes in regulatory requirements during plant operations or the profitability of a nuclear plant could impact the timing of plant retirements. These factors could result in material changes to Generation’s current estimates as more information becomes available and could change the timing of plant retirements and the probability assigned to the decommissioning outcome scenarios.

The nuclear decommissioning obligation is adjusted on a regular basis due to the passage of time and revisions to the key assumptions for the expected timing and/or estimated amounts of the future undiscounted cash flows required to decommission the nuclear plants, based upon the following methodologies and significant estimates and assumptions:

Decommissioning Cost Studies

Generation uses unit-by-unit decommissioning cost studies to provide a marketplace assessment of the expected costs (in current year dollars) and timing of decommissioning activities, which are validated by comparison to current decommissioning projects within the industry and other estimates. Decommissioning cost studies are updated, on a rotational basis, for each of Generation's nuclear units at least every five years, unless circumstances warrant more frequent updates (such as a change in assumed operating life for a nuclear plant). As part of the annual cost study update process, Generation evaluates newly assumed costs or substantive changes in previously assumed costs to determine if the cost estimate impacts are sufficiently material to warrant application of the updated estimates to the AROs across the nuclear fleet outside of the normal five-year rotating cost study update cycle.

Cost Escalation Factors

Generation uses cost escalation factors to escalate the decommissioning costs from the decommissioning cost studies discussed above through the assumed decommissioning period for each of the units. Cost escalation studies, updated on an annual basis, are used to determine escalation factors, and are based on inflation indices for labor, equipment and materials, energy, LLRW disposal and other costs. All of the nuclear AROs are adjusted each year for the updated cost escalation factors.

Probabilistic Cash Flow Models

Generation's probabilistic cash flow models include the assignment of probabilities to various scenarios for decommissioning cost levels, decommissioning approaches, and timing of plant shutdown on a unit-by-unit basis. Probabilities assigned to cost levels include an assessment of the likelihood of costs 20% higher (high-cost scenario) or 15% lower (low-cost scenario) than the base cost scenario. Probabilities are also assigned to four different decommissioning approaches.

1. DECON - a method of decommissioning shortly after the cessation of operation in which the equipment, structures, and portions of a facility and site containing radioactive contaminants are removed and safely buried in a LLRW landfill or decontaminated to a level that permits property to be released for unrestricted use. Spent fuel is transferred to dry cask storage as soon as possible until DOE acceptance for disposal.

2. Delayed DECON - similar to the DECON scenario but with a delay to allow for spent fuel to be removed from the site prior to onset of decommissioning activities. Spent fuel is retained in existing location (either wet or dry storage) until DOE acceptance for disposal.

3. Shortened SAFSTOR - similar to the DECON scenario but with generally a 30-year delay prior to onset of decommissioning activities. Spent fuel is transferred to dry cask storage as soon as possible until DOE acceptance for disposal.

4. SAFSTOR - a method of decommissioning in which the nuclear facility is placed and maintained in such condition that the nuclear facility can be safely stored and subsequently decontaminated to levels

that permit release for unrestricted use generally within 60 years after cessation of operations. Spent fuel is transferred to dry cask storage as soon as possible until DOE acceptance for disposal.

The actual decommissioning approach selected once a nuclear facility is shutdown will be determined by Generation at the time of shutdown and may be influenced by multiple factors including the funding status of the nuclear decommissioning trust fund at the time of shutdown.

The assumed plant shutdown timing scenarios include the following four alternatives: (1) the probability of operating through the original 40-year nuclear license term, (2) the probability of operating through an extended 60-year nuclear license term (regardless of whether such 20-year license extension has been received for each unit), (3) the probability of a second, 20-year license renewal for some nuclear units, and (4) the probability of early plant retirement for certain sites due to changing market conditions and regulatory environments. The successful operation of nuclear plants in the U.S. beyond the initial 40-year license terms has prompted the NRC to consider regulatory and technical requirements for potential plant operations for an 80-year nuclear operating term. As power market and regulatory environment developments occur, Generation evaluates and incorporates, as necessary, the impacts of such developments into its nuclear ARO assumptions and estimates.

Generation's probabilistic cash flow models also include an assessment of the timing of DOE acceptance of SNF for disposal. Generation currently assumes DOE will begin accepting SNF in 2030. The SNF acceptance date assumption is based on management's estimates of the amount of time required for DOE to select a site location and develop the necessary infrastructure for long-term SNF storage. For more information regarding the estimated date that DOE will begin accepting SNF, see Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements.

License Renewals

Except for its Clinton unit, Generation has successfully obtained initial 20-year operating license renewal extensions (i.e., extending the total license term to 60 years) for all of its operating nuclear units (including the two Salem units co-owned by Generation, but operated by PSEG). Generation intends to apply for an initial license renewal for the Clinton unit. Clinton depreciation provisions are based on 2027 which is the last year of the Illinois Zero Emissions Standard. No prior Generation initial license extension application has been denied. Generation intends to apply for a second 20-year renewal for the Peach Bottom Units 2 and 3.

Discount Rates

The probability-weighted estimated future cash flows for the various assumed scenarios are discounted using credit-adjusted, risk-free rates (CARFR) applicable to the various businesses in which each of the nuclear units originally operated. The authoritative guidance required Generation to establish an ARO at fair value at the time of the initial adoption. Subsequent to the initial adoption, the ARO is adjusted for changes to estimated costs, timing of future cash flows and modifications to decommissioning assumptions, as described above. The ARO is not required or permitted to be re-measured for changes in the CARFR that occur in isolation. Increases in the ARO as a result of upward revisions in estimated undiscounted cash flows are considered new obligations and are measured using a current CARFR as the increase creates a new cost layer within the ARO. Any decrease in the estimated undiscounted future cash flows relating to the ARO are treated as a modification of an existing ARO cost layer and, therefore, is measured using the average historical CARFR rates used in creating the initial ARO cost layers. If Generation's future nominal cash flows associated with the ARO were to be discounted at current prevailing CARFR, the obligation would increase from approximately $9.7 billion to approximately $10.3 billion.

To illustrate the significant impact that changes in the CARFR, when combined with changes in projected amounts and expected timing of cash flows, can have on the valuation of the ARO: i) had Generation used the

2016 CARFR rather than the 2017 CARFR in performing its annual 2017 ARO update, Generation would have increased the ARO by an additional $10 million; and ii) if the CARFR used in performing the annual 2017 ARO update are increased by 50 basis points or decreased by 50 basis points, the ARO would have decreased by $170 million and increased by $30 million, respectively, as compared to the actual decrease of $69 million.

ARO Sensitivities

Changes in the assumptions underlying the ARO could materially affect the decommissioning obligation. The impact to the ARO of a change in any one of these assumptions is highly dependent on how the other assumptions may correspondingly change.

The following table illustrates the effects of changing certain ARO assumptions while holding all other assumptions constant (dollars in millions):

Change in ARO Assumption	Increase (Decrease) to ARO at December 31, 2017
Cost escalation studies	
Uniform increase in escalation rates of 50 basis points	$ 1,690
Probabilistic cash flow models	
Increase the estimated costs to decommission the nuclear plants by 10 percent	700
Increase the likelihood of the DECON scenario by 10 percentage points and decrease the likelihood of the SAFSTOR scenario by 10 percentage points	500
Shorten each unit's probability weighted operating life assumption by 10%(a)	660
Extend the estimated date for DOE acceptance of SNF to 2035	130

(a) Timing sensitivity does not include any sites for which an early plant retirement has been announced.

For more information regarding accounting for nuclear decommissioning obligations, see Note 1 — Significant Accounting Policies, Note 8 — Early Nuclear Plant Retirements and Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements.

Goodwill (Exelon, Generation, ComEd, PHI and DPL)

As of December 31, 2017, Exelon's $6.7 billion carrying amount of goodwill primarily consists of $2.6 billion at ComEd relating to the acquisition of ComEd in 2000 as part of the formation of Exelon and $4 billion at PHI pursuant to Exelon's acquisition of PHI in the first quarter of 2016. DPL has $8 million of goodwill as of December 31, 2017, related to its 1995 acquisition of the Conowingo Power Company. Generation also has goodwill of $47 million as of December 31, 2017. Under the provisions of the authoritative guidance for goodwill, these entities are required to perform an assessment for possible impairment of their goodwill at least annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting units below their carrying amount. Under the authoritative guidance, a reporting unit is an operating segment or one level below an operating segment (known as a component) and is the level at which goodwill is tested for impairment. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and its operating results are regularly reviewed by segment management. ComEd has a single operating segment, and PHI's operating segments are Pepco, DPL and ACE. See Note 25 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information. There is no level below these operating segments for which operating results are regularly reviewed by segment management. Therefore, the ComEd, Pepco, DPL and ACE operating segments are also considered reporting units for goodwill impairment testing purposes. Exelon's and ComEd's $2.6 billion of goodwill has been assigned entirely to the ComEd reporting unit, while Exelon's and PHI's $4 billion of goodwill has been assigned to the Pepco, DPL and ACE reporting units in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. DPL's $8 million of goodwill is assigned entirely to the DPL reporting unit.

Entities assessing goodwill for impairment have the option of first performing a qualitative assessment to determine whether a quantitative assessment is necessary. In performing a qualitative assessment, entities should assess, among other things, macroeconomic conditions, industry and market considerations including regulatory and political developments, overall financial performance, cost factors, and entity-specific conditions and events. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, no further testing is required. If an entity bypasses the qualitative assessment, or performs the qualitative assessment but determines that it is more likely than not that its fair value is less than its carrying amount, a quantitative two-step, fair value-based test is performed.

Exelon's, ComEd's and PHI's accounting policy is to perform a quantitative test of goodwill at least once every three years, or more frequently if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The first step in the quantitative test compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation authoritative guidance in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and a charge to operating expense. In January 2017, the FASB issued a new standard, effective January 1, 2020 with early adoption permitted, that simplifies the accounting for goodwill impairment by removing the second step of the test and, instead, measuring goodwill impairment at the amount by which a reporting unit's carrying value exceeds its fair value (currently the first step in the test). Exelon, Generation, ComEd, PHI and DPL have not determined whether to early adopt this standard.

Application of the goodwill impairment test requires management judgment, including the identification of reporting units and determining the fair value of the reporting unit, which management estimates using a weighted combination of a discounted cash flow analysis and a market multiples analysis. Significant assumptions used in these fair value analyses include discount and growth rates,

utility sector market performance and transactions, projected operating and capital cash flows for ComEd's, Pepco's, DPL's and ACE's businesses and the fair value of debt. In applying the second step (if needed), management must estimate the fair value of specific assets and liabilities of the reporting unit.

For their 2017 annual goodwill impairment assessments, Exelon, ComEd, PHI and DPL each qualitatively determined that it was more likely than not that the fair value of their respective reporting unit exceeded their respective carrying value. Therefore, ComEd, PHI and DPL did not perform quantitative assessments. As part of their qualitative assessments, ComEd, PHI and DPL evaluated, among other things, management's best estimate of projected operating and capital cash flows for their businesses, outcomes of recent regulatory proceedings, changes in certain market conditions, including the discount rate and regulated utility peer EBITDA multiples, and the passing margin from their last quantitative assessments performed as of November 1, 2016.

ComEd, PHI and DPL performed quantitative tests as of November 1, 2016, for their 2016 annual goodwill impairment assessments. The first step of the tests comparing the estimated fair values of the ComEd, Pepco, DPL and ACE reporting units to their carrying values, including goodwill, indicated no impairments of goodwill; therefore, no second steps were required.

While the annual assessments indicated no impairments, certain assumptions used to estimate reporting unit fair values are highly sensitive to changes. Adverse regulatory actions or changes in significant assumptions could potentially result in future impairments of Exelon's, ComEd's, PHI's or DPL's goodwill, which could be material. Based on the results of the annual goodwill tests performed as of November 1, 2016, the estimated fair values of the ComEd, Pepco, DPL and ACE reporting units would have needed to decrease by more than 30%, 10%, 10% and 10%, respectively, for Exelon, ComEd and PHI to have failed the first step of their respective impairment tests. For the $8 million of goodwill recorded at DPL related to DPL's 1995 acquisition of the Conowingo Power Company, the fair value of the DPL reporting unit would have needed to decrease by more than 50% for DPL to fail the first step of the impairment test.

See Note 1 — Significant Accounting Policies, Note 10 — Intangible Assets and Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information.

Purchase Accounting (Exelon, Generation and PHI)

In January 2017, the FASB issued a new standard, effective January 1, 2018 with early adoption permitted, that clarifies the definition of a business with the objective of addressing whether acquisitions/dispositions should be accounted for as acquisitions/dispositions of assets or as acquisitions/dispositions of businesses. The Registrants did not early adopt this new standard. See Note 1-Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for further information.

In accordance with authoritative guidance, the assets acquired and liabilities assumed in an acquired business are recorded at their estimated fair values on the date of acquisition. The difference between the purchase price amount and the net fair value of assets acquired and liabilities assumed is recognized as goodwill on the balance sheet if the purchase price exceeds the estimated net fair value or as a bargain purchase gain on the income statement if the purchase price is less than the estimated net fair value. Determining the fair value of assets acquired and liabilities assumed requires management's judgment, often utilizes independent valuation experts and involves the use of significant estimates and assumptions with respect to the timing and amounts of future cash inflows and outflows, discount rates, market prices and asset lives, among other items. The judgments made in the determination of the estimated fair value assigned to the assets acquired and liabilities assumed, as well as the estimated useful life of each asset and the duration of each liability, could significantly impact the financial statements in periods after acquisition, such as through depreciation and amortization expense. Authoritative guidance provides that the allocation of the purchase price may be modified up to one year after the acquisition date as more information is obtained about the fair value of assets acquired and liabilities assumed. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional information.

Unamortized Energy Contract Assets and Liabilities (Exelon, Generation and PHI)

Unamortized energy contract assets and liabilities represent the remaining unamortized balances of non-derivative energy contracts that Generation has acquired and the electricity contracts Exelon has acquired as part of the PHI acquisition. The initial amount recorded represents the fair value of the contracts at the time of acquisition. At PHI, offsetting regulatory assets or liabilities were also recorded. The unamortized energy contract assets and liabilities and any corresponding regulatory assets or liabilities, respectively, are amortized over the life of the contract in relation to the expected realization of the underlying cash flows. Amortization of the unamortized energy contract assets and liabilities is recorded through purchased power and fuel expense or operating revenues, depending on the nature of the underlying contract. Refer to Note 3 — Regulatory Matters, Note 4 — Mergers, Acquisitions and Dispositions and Note 10 — Intangible Assets of the Combined Notes to Consolidated Financial Statements for further discussion.

Impairment of Long-lived Assets (All Registrants)

All Registrants regularly monitor and evaluate their long-lived assets and asset groups, excluding goodwill, for impairment when circumstances indicate the carrying value of those assets may not be recoverable. Indicators of potential impairment may include a deteriorating business climate, including declines in energy prices, condition of the asset, an asset remaining idle for more than a short period of time, specific regulatory disallowance, advances in technology or plans to dispose of a long-lived asset significantly before the end of its useful life, among others.

The review of long-lived assets and asset groups for impairment utilizes significant assumptions about operating strategies and estimates of future cash flows, which require assessments of current and projected market conditions. For the generation business, forecasting future cash flows requires assumptions regarding forecasted commodity prices for the sale of power and purchases of fuel and the expected operations of assets. A variation in the assumptions used could lead to a different conclusion regarding the recoverability of an asset or asset group and, thus, could have a significant impact on the consolidated financial statements. An impairment evaluation is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets or asset groups are largely independent of the cash flows of other assets and liabilities. For the generation business, the lowest level of independent cash flows is determined by the evaluation of several factors, including the geographic dispatch of the generation units and the hedging strategies related to those units as well as the associated intangible assets or liabilities recorded on the balance sheet. The cash flows from the generating units are generally evaluated at a regional portfolio level with cash flows generated from the customer supply and risk management activities, including cash flows from related intangible assets and liabilities on the balance sheet. In certain cases, generating assets may be evaluated on an individual basis where those assets are contracted on a long-term basis with a third party and operations are independent of other generating assets (typically contracted renewables).

On a quarterly basis, Generation assesses its long-lived assets or asset groups for indicators of impairment. If indicators are present for a long-lived asset or asset group, a comparison of the undiscounted expected future cash flows to the carrying value is performed. When the undiscounted cash flow analysis indicates the carrying value of a long-lived asset or asset group is not recoverable, the amount of the impairment loss is determined by measuring the excess of the carrying amount of the long-lived asset or asset group over its fair value. The fair value of the long-lived asset or asset group is dependent upon a market participant’s view of the exit price of the assets. This includes significant assumptions of the estimated future cash flows generated by the assets and market discount rates.

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Events and circumstances often do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material. The determination of fair value is driven by both internal assumptions that include significant unobservable inputs (Level 3) such as revenue and generation forecasts, projected capital, and maintenance expenditures and discount rates, as well as information from various public, financial and industry sources.

Generation evaluates its equity method investments and other investments in debt and equity securities to determine whether or not they are impaired based on whether the investment has experienced a decline in value that is not temporary in nature. Beginning January 1, 2018, the authoritative guidance eliminates the available-for-sale and cost method classifications for equity securities and requires that all equity investments (other than those accounted for using the equity method of accounting) be measured and recorded at fair value with any changes in fair value recorded through earnings. Investments in equity securities without readily determinable fair values must be qualitatively assessed for impairment each reporting period and fair value determined if any significant impairment indicators exist. If the fair value is less than the carrying value, the impairment is recorded through earnings immediately in the period in which it is identified without regard to whether the decline in value is temporary in nature. The new authoritative guidance does not impact the classification or measurement of investments in debt securities. See Note 1-Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for further information.

See Note 7 — Impairment of Long-Lived Assets and Intangibles of the Combined Notes to Consolidated Financial Statements for a discussion of asset impairment evaluations made by Exelon.

Depreciable Lives of Property, Plant and Equipment (All Registrants)

The Registrants have significant investments in electric generation assets and electric and natural gas transmission and distribution assets. These assets are generally depreciated on a straight-line basis, using the group, composite or unitary methods of depreciation. The group approach is typically for groups of similar assets that have approximately the same useful lives and the composite approach is used for heterogeneous assets that have different lives. Under both methods, a reporting entity depreciates the assets over the average life of the assets in the group. The estimation of asset useful lives requires management judgment, supported by formal depreciation studies of historical asset retirement experience. Depreciation studies are generally completed every five years, or more frequently if required by a rate regulator or if an event, regulatory action, or change in retirement patterns indicate an update is necessary.

For the Utility Registrants, depreciation studies generally serve as the basis for amounts allowed in customer rates for recovery of depreciation costs. Generally, the Utility Registrants adjust their depreciation rates for financial reporting purposes concurrent with adjustments to depreciation rates reflected in customer rates, unless the depreciation rates reflected in customer rates do not align with management's judgment as to an appropriate estimated useful life or have not been updated on a timely basis. Depreciation expense for ComEd, BGE, Pepco, DPL and ACE includes an estimated cost of dismantling and removing plant from service upon retirement. Actual incurred removal costs are applied against a related regulatory liability or recorded to a regulatory asset if in excess of previously collected removal costs. PECO's removal costs are capitalized to accumulated depreciation when incurred, and recorded to depreciation expense over the life of the new asset constructed consistent with PECO's regulatory recovery method. Estimates for such removal costs are also evaluated in the periodic depreciation studies.

At Generation, along with depreciation study results, management considers expected future energy market conditions and generation plant operating costs and capital investment requirements in determining the estimated service lives of its generating facilities. See Note 8 — Early Nuclear Plant

Retirements of the Combined Notes to the Consolidated Financial Statements for additional information on expected and potential early nuclear plant retirements.

Generation completed a depreciation rate study during the first quarter of 2015, which resulted in revised depreciation rates effective January 1, 2015.

ComEd is required to file an electric distribution depreciation rate study at least every five years with the ICC. ComEd completed an electric distribution and transmission depreciation study and filed the updated depreciation rates with both the ICC and FERC in January 2014, resulting in new depreciation rates effective first quarter 2014.

PECO is required to file electric distribution and gas depreciation rate studies at least every five years with the PAPUC. In March 2015, PECO filed a depreciation rate study with the PAPUC for both its electric distribution and gas assets, resulting in new depreciation rates for electric transmission assets effective January 1, 2015, for gas distribution assets effective July 1, 2015, and for electric distribution assets effective January 1, 2016.

The MDPSC does not mandate the frequency or timing of BGE’s electric distribution or gas depreciation studies. In July 2014, BGE filed revised depreciation rates with the MDPSC for both its electric distribution and gas assets, which became effective December 15, 2014. In addition, BGE’s electric transmission depreciation rates were updated effective April 1, 2015.

The MDPSC does not mandate the frequency or timing of Pepco’s electric distribution depreciation studies, while the DCPSC directs Pepco as to when it should file an electric distribution depreciation study. In 2016 and 2013, Pepco filed revised electric distribution depreciation rates with the MDPSC and DCPSC, respectively, with the new rates effective November 15, 2016 and April 16, 2014, respectively. On December 19, 2017, Pepco filed an electric distribution rate application which included revised depreciation rates. Pepco expects a decision in the fourth quarter of 2018.

Neither the DPSC nor the MDPSC mandates the frequency or timing of DPL’s electric distribution or gas depreciation studies. On July 20, 2016, DPL filed revised electric depreciation rates with the MDPSC as part of the electric distribution base rate filing, resulting in new depreciation rates effective on April 20, 2017. On May 17, 2016, DPL filed revised electric and natural gas depreciation rates with the DPSC as part of the electric and natural gas base rate case filing, resulting in new electric depreciation rates effective June 1, 2017 and new gas depreciation rates effective July 1, 2017.

The NJBPU does not mandate the frequency or timing of ACE’s electric distribution depreciation studies. In 2012, ACE filed revised electric distribution depreciation rates with the NJBPU, with the new rates effective July 1, 2013. ACE expects to perform an electric distribution depreciation study in 2018.

While FERC does not mandate the frequency or timing of electric transmission depreciation studies, the Utility Registrants and Generation perform studies on all assets every 5 years. Pepco, DPL and ACE last performed transmission depreciation studies in 1988, 1990, and 2003, respectively, but are adopting Exelon’s practice and are currently evaluating the timing of the next study.

Changes in estimated useful lives of electric generation assets and of electric and natural gas transmission and distribution assets could have a significant impact on the Registrants’ future results of operations. See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial

Statements for information regarding depreciation and estimated service lives of the property, plant and equipment of the Registrants.

Defined Benefit Pension and Other Postretirement Employee Benefits (All Registrants)

Exelon sponsors defined benefit pension plans and other postretirement employee benefit plans for substantially all current employees. See Note 16 — Retirement Benefits of the Combined Notes to

Consolidated Financial Statements for additional information regarding the accounting for the defined benefit pension plans and other postretirement benefit plans.

The measurement of the plan obligations and costs of providing benefits involves various factors, including the development of valuation assumptions and inputs and accounting policy elections. When developing the required assumptions, Exelon considers historical information as well as future expectations. The measurement of benefit obligations and costs is affected by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, the anticipated rate of increase of health care costs, Exelon’s expected level of contributions to the plans, the incidence of participant mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the long-term expected investment rate credited to employees of certain plans, among others. The assumptions are updated annually and upon any interim remeasurement of the plan obligations. Exelon amortizes actuarial gains or losses in excess of a corridor of 10% of the greater of the projected benefit obligation or the market-related value (MRV) of plan assets over the expected average remaining service period of plan participants. Pension and other postretirement benefit costs attributed to the operating companies are labor costs and are ultimately allocated to projects within the operating companies, some of which are capitalized.

Pension and other postretirement benefit plan assets include equity securities, including U.S. and international securities, and fixed income securities, as well as certain alternative investment classes such as real estate, private equity and hedge funds. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for information on fair value measurements of pension and other postretirement plan assets, including valuation techniques and classification under the fair value hierarchy in accordance with authoritative guidance.

Expected Rate of Return on Plan Assets

In determining the EROA, Exelon considers historical economic indicators (including inflation and GDP growth) that impact asset returns, as well as expectation regarding future long-term capital market performance, weighted by Exelon’s target asset class allocations. Exelon calculates the amount of expected return on pension and other postretirement benefit plan assets by multiplying the EROA by the MRV of plan assets at the beginning of the year, taking into consideration anticipated contributions and benefit payments to be made during the year. In determining MRV, the authoritative guidance for pensions and postretirement benefits allows the use of either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. For the majority of pension plan assets, Exelon uses a calculated value that adjusts for 20% of the difference between fair value and expected MRV of plan assets. Use of this calculated value approach enables less volatile expected asset returns to be recognized as a component of pension cost from year to year. For other postretirement benefit plan assets and certain pension plan assets, Exelon uses fair value to calculate the MRV. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for further information regarding Exelon’s EROA assumptions.

Discount Rate

At December 31, 2017 and 2016, the discount rates were determined by developing a spot rate curve based on the yield to maturity of a universe of high-quality non-callable (or callable with make whole provisions) bonds with similar maturities to the related pension and other postretirement benefit obligations. The spot rates are used to discount the estimated future benefit distribution amounts under the pension and other postretirement benefit plans. The discount rate is the single level rate that produces the same result as the spot rate curve. Exelon utilizes an analytical tool developed by its actuaries to determine the discount rates. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for further information regarding Exelon’s discount rate assumptions.

Health Care Cost Trend Rate

Assumed health care cost trend rates impact the costs reported for Exelon's other postretirement benefit plans for participant populations with plan designs that do not have a cap on cost growth. Authoritative guidance requires that annual health care cost estimates be developed using past and present health care cost trends (both for Exelon and across the broader economy), as well as expectations of health care cost escalation, changes in health care utilization and delivery patterns, technological advances and changes in the health status of plan participants. Therefore, the trend rate assumption is subject to significant uncertainty. Exelon assumes an ultimate health care cost trend rate of 5.00% has been reached in 2017 for its other postretirement benefit plans.

Mortality

The mortality assumption is composed of a base table that represents the current expectation of life expectancy of the population adjusted by an improvement scale that attempts to anticipate future improvements in life expectancy. Exelon's mortality assumption is supported by an actuarial experience study of Exelon's plan participants and utilizes the IRS's RP-2000 base table and the Scale BB 2-Dimensional improvement scale with long-term improvements of 0.75%.

Sensitivity to Changes in Key Assumptions

The following tables illustrate the effects of changing certain of the actuarial assumptions discussed above, while holding all other assumptions constant (dollars in millions):

	Actual Assumption					
Actuarial Assumption	**Pension**	**OPEB**	**Change in Assumption**	**Pension**	**OPEB**	**Total**
Change in 2017 cost:						
Discount rate [(a)]	4.04%	4.04%	0.5%	$ (72)	$ (16)	$ (88)
	4.04%	4.04%	(0.5)%	89	19	108
EROA	7.00%	6.58%	0.5%	(85)	(12)	(97)
	7.00%	6.58%	(0.5)%	85	12	97
Health care cost trend rate	NA	5.00%	1.00%	N/A	9	9
	NA	5.00%	(1.00)%	N/A	(8)	(8)
Change in benefit obligation at December 31, 2017:						
Discount rate [(a)]	3.62%	3.61%	0.5%	(1,183)	(252)	(1,435)
	3.62%	3.61%	(0.5)%	1,371	291	1,662
Health care cost trend rate	NA	5.00%	1.00%	N/A	125	125
	NA	5.00%	(1.00)%	N/A	(113)	(113)

(a) In general, the discount rate will have a larger impact on the pension and other postretirement benefit cost and obligation as the rate moves closer to 0%. Therefore, the discount rate sensitivities above cannot necessarily be extrapolated for larger increases or decreases in the discount rate. Additionally, Exelon utilizes a liability-driven investment strategy for its pension asset portfolio. The sensitivities shown above do not reflect the offsetting impact that changes in discount rates may have on pension asset returns.

Regulatory Accounting (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

Exelon and the Utility Registrants account for their regulated electric and gas operations in accordance with the authoritative guidance, which requires Exelon and the Utility Registrants to reflect the effects of cost-based rate regulation in their financial statements. This authoritative guidance is applicable to entities with regulated operations that meet the following criteria: (1) rates are established or approved by a third-party regulator; (2) rates are designed to recover the entities’ cost of providing services or products; and (3) a reasonable expectation that rates designed to recover costs can be charged to and collected from customers. Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent (1) revenue or gains that have been deferred because it is probable such amounts will be returned to customers through future regulated rates; or (2) billings in advance of expenditures for approved regulatory programs. As of December 31, 2017, Exelon and the Utility Registrants have concluded that the operations of each such Registrant meet the criteria to apply the authoritative guidance. If it is concluded in a future period that a separable portion of operations no longer meets the criteria of this authoritative guidance, Exelon and the Utility Registrants would be required to eliminate any associated regulatory assets and liabilities and the impact would be recognized in the Consolidated Statements of Operations and Comprehensive Income and could be material. At December 31, 2017, the gain (loss) could have been as much as $1.1 billion, $5.3 billion, $280 million, $592 million, $(1.1) billion, $(59) million, $321 million and $(8) million (before taxes) as a result of the elimination of regulatory assets and liabilities of Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, respectively. Further, Exelon would record a charge against OCI (before taxes) of up to $3.8 billion, $2.4 billion, $544 million,$177 million, $407 million, $202 million and $92 million related to Exelon’s, ComEd’s, BGE’s, PHI’s, Pepco’s, DPL’s and ACE’s respective portions of the deferred costs associated with Exelon’s pension and other postretirement benefit plans that are recorded as regulatory assets on Exelon’s Consolidated Balance Sheets. Exelon also has a net regulatory liability of $(31) million (before taxes) related to PECO’s portion of the deferred costs associated with Exelon’s other postretirement benefit plans that would result in an increase in OCI if reversed. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information regarding regulatory matters, including the regulatory assets and liabilities tables of Exelon and the Utility Registrants.

For each regulatory jurisdiction in which they conduct business, Exelon and the Utility Registrants assess whether the regulatory assets and liabilities continue to meet the criteria for probable future recovery or settlement at each balance sheet date and when regulatory events occur. This assessment includes consideration of recent rate orders, historical regulatory treatment for similar costs in each Registrant’s jurisdictions, and factors such as changes in applicable regulatory and political environments. Furthermore, each Registrant makes other judgments related to the financial statement impact of their regulatory environments, such as the types of adjustments to rate base that will be acceptable to regulatory bodies, if any, for which costs will be recoverable through rates. Refer to the revenue recognition discussion below for additional information on the annual revenue reconciliations associated with ICC-approved electric distribution and energy efficiency formula rates for ComEd, and FERC transmission formula rate tariffs for ComEd, PECO, BGE, Pepco, DPL and ACE. Additionally, estimates are made in accordance with the authoritative guidance for contingencies as to the amount of revenues billed under certain regulatory orders that may ultimately be refunded to customers upon finalization of applicable regulatory or judicial processes. These assessments are based, to the extent possible, on past relevant experience with regulatory bodies in each Registrant’s jurisdictions, known circumstances specific to a particular matter and hearings held with the applicable regulatory body. If the assessments and estimates made by Exelon and the Utility Registrants for regulatory assets and regulatory liabilities are ultimately different than actual regulatory outcomes, the impact on their results of operations, cash flows and financial positions could be material.

The Registrants treat the impacts of a final rate order received after the balance sheet date but prior to the issuance of the financial statements as a non-recognized subsequent event, as the receipt of a final rate order is a separate and distinct event that has future impacts on the parties affected by the order.

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Accounting for Derivative Instruments (All Registrants)

The Registrants use derivative instruments to manage commodity price risk, foreign currency exchange risk and interest rate risk related to ongoing business operations. The Registrants' derivative activities are in accordance with Exelon's Risk Management Policy (RMP). See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding the Registrants' derivative instruments.

The Registrants account for derivative financial instruments under the applicable authoritative guidance. Determining whether a contract qualifies as a derivative requires that management exercise significant judgment, including assessing market liquidity as well as determining whether a contract has one or more underlyings and one or more notional quantities. Changes in management's assessment of contracts and the liquidity of their markets, and changes in authoritative guidance, could result in previously excluded contracts becoming in scope to new authoritative guidance. Generation has determined that contracts to purchase uranium, contracts to purchase and sell capacity in certain ISO's, certain emission products, ZECs and RECs do not meet the definition of a derivative as they do not provide for net settlement and the uranium, certain capacity, emission and ZEC and REC markets are not sufficiently liquid to conclude that physical forward contracts are readily convertible to cash. If these markets become sufficiently liquid, then Generation would be required to account for these contracts as derivative instruments. In this case, if market prices differ from the underlying prices of the contracts, Generation would be required to record mark-to-market gains or losses, which could have a material impact to Exelon's and Generation's results of operations and financial positions.

Under current authoritative guidance, all derivatives are recognized on the balance sheet at their fair value, except for certain derivatives that qualify for, and are elected under, the normal purchases and normal sales exception. Further, derivatives that qualify and are designated for hedge accounting are classified as either fair value or cash flow hedges. For fair value hedges, changes in fair values for both the derivative and the underlying hedged exposure are recognized in earnings immediately. For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the hedged cash flows of the underlying exposure is deferred in AOCI and reclassified into earnings when the underlying transaction occurs. Gains and losses from the ineffective portion of any hedge are recognized in earnings immediately. The Registrants rarely elect hedge accounting for commodity transactions. Economic commodity hedges are recorded at fair value through earnings. In addition, for commodity derivatives executed for proprietary trading purposes, changes in the fair value of the derivatives are recognized in earnings immediately. For economic hedges that are not designated for hedge accounting for the Utility Registrants, changes in the fair value each period are generally recorded with a corresponding offsetting regulatory asset or liability given likelihood of recovering the associated costs through customer rates.

Normal Purchases and Normal Sales Exception

As part of Generation's energy marketing business, Generation enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy-related products in the retail and wholesale markets with the intent and ability to deliver or take delivery. While some of these contracts are considered derivative financial instruments under the authoritative guidance, certain of these qualifying transactions have been designated by Generation as normal purchases and normal sales transactions, which are thus not required to be recorded at fair value, but rather on an accrual basis of accounting. Determining whether a contract qualifies for the normal purchases and normal sales exception requires judgment on whether the contract will physically deliver and requires that management ensure compliance with all of the associated qualification and documentation requirements. Revenues and expenses on contracts that qualify as normal purchases and normal sales are recognized when the underlying physical transaction is completed. Contracts that qualify for the normal purchases and normal sales exception

are those for which physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time and the contract is not financially settled on a net basis. The contracts that ComEd has entered into with suppliers as part of ComEd's energy procurement process, PECO's full requirement contracts under the PAPUC-approved DSP program, most of PECO's natural gas supply agreements, all of BGE's full requirement contracts and natural gas supply agreements that are derivatives and certain Pepco, DPL and ACE full requirement contracts qualify for and are accounted for under the normal purchases and normal sales exception.

Commodity Contracts

Identification of a commodity contract as an economic hedge requires Generation to determine that the contract is in accordance with the RMP. Generation reassesses its economic hedges on a regular basis to determine if they continue to be within the guidelines of the RMP.

As a part of the authoritative guidance, the Registrants make estimates and assumptions concerning future commodity prices, load requirements, interest rates, the timing of future transactions and their probable cash flows, the fair value of contracts and the expected changes in the fair value in deciding whether or not to enter into derivative transactions, and in determining the initial accounting treatment for derivative transactions. Under the authoritative guidance for fair value measurements, the Registrants categorize these derivatives under a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Derivative contracts are traded in both exchange-based and non-exchange-based markets. Exchange-based derivatives that are valued using unadjusted quoted prices in active markets are generally categorized in Level 1 in the fair value hierarchy.

Certain derivatives' pricing is verified using indicative price quotations available through brokers or over-the-counter, on-line exchanges. The price quotations reflect the average of the bid-ask mid-point from markets that the Registrants believe provide the most liquid market for the commodity. The price quotations are reviewed and corroborated to ensure the prices are observable and representative of an orderly transaction between market participants. The Registrant's derivatives are traded predominately at liquid trading points. The remaining derivative contracts are valued using models that consider inputs such as contract terms, including maturity, and market parameters, and assumptions of the future prices of energy, interest rates, volatility, credit worthiness and credit spread. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, the model inputs are generally observable. Such instruments are categorized in Level 2.

For derivatives that trade in less liquid markets with limited pricing information, the model inputs generally would include both observable and unobservable inputs and are categorized in Level 3.

The Registrants consider nonperformance risk, including credit risk in the valuation of derivative contracts, including both historical and current market data in its assessment of nonperformance risk, including credit risk. The impacts of nonperformance and credit risk to date have generally not been material to the financial statements.

Interest Rate and Foreign Exchange Derivative Instruments

The Registrants may utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, to achieve the targeted level of variable-rate debt as a percent of total debt. Additionally, the Registrants may use forward-starting interest rate swaps and treasury rate locks to lock in interest-rate levels and floating to fixed swaps for project financing. In addition, Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the economic hedge and proprietary trading activity is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges. The fair value of the agreements is calculated by discounting the future net cash flows to the present value based on observable inputs and are primarily categorized in Level 2 in the fair value hierarchy. Certain exchange based interest rate derivatives that are valued using unadjusted quoted prices in active markets are categorized in Level 1 in the fair value hierarchy.

See ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK and Note 11 — Fair Value of Financial Assets and Liabilities and Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding the Registrants' derivative instruments.

Taxation (All Registrants)

Significant management judgment is required in determining the Registrants' provisions for income taxes, primarily due to the uncertainty related to tax positions taken, as well as deferred tax assets and liabilities and valuation allowances. In accordance with applicable authoritative guidance, the Registrants account for uncertain income tax positions using a benefit recognition model with a two-step approach including a more-likely-than-not recognition threshold and a measurement approach based on the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. If it is not more-likely-than-not that the benefit of the tax position will be sustained on its technical merits, no benefit is recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant judgment is required to determine whether the recognition threshold has been met and, if so, the appropriate amount of tax benefits to be recorded in the Registrants' consolidated financial statements.

The Registrants evaluate quarterly the probability of realizing deferred tax assets by reviewing a forecast of future taxable income and their intent and ability to implement tax planning strategies, if necessary, to realize deferred tax assets. The Registrants also evaluate for negative evidence that could indicate the Registrant's inability to realize its deferred tax assets, such as historical operating loss or tax credit carryforward expiration. Based on the combined assessment, the Registrants record valuation allowances for deferred tax assets when they conclude it is more-likely-than-not such benefit will not be realized in future periods.

Actual income taxes could vary from estimated amounts due to the future impacts of various items, including future changes in income tax laws, the Registrants' forecasted financial condition and results of operations, failure to successfully implement tax planning strategies, as well as results of audits and examinations of filed tax returns by taxing authorities. The Registrants have recorded the provisional income tax amounts as of December 31, 2017 for changes pursuant to the TCJA related to depreciation for which the impacts could not be finalized upon issuance of the Registrants' financial statements, but for which reasonable estimates could be determined. In accordance with SAB 118, additional remeasurement may occur based on technical corrections or other forms of guidance issued, which may result in material changes to previously finalized provisions. While the Registrants believe the resulting tax balances as of December 31, 2017 and 2016 are appropriately accounted for in accordance with the applicable authoritative guidance, the ultimate outcome of tax matters could result in favorable or unfavorable adjustments that could be material to their consolidated financial statements. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding taxes.

Accounting for Loss Contingencies (All Registrants)

In the preparation of their financial statements, the Registrants make judgments regarding the future outcome of contingent events and record liabilities for loss contingencies that are probable and can be reasonably estimated based upon available information. The amount recorded may differ from the actual expense incurred when the uncertainty is resolved. Such difference could have a significant impact on the Registrants' consolidated financial statements.

Environmental Costs

Environmental investigation and remediation liabilities are based upon estimates with respect to the number of sites for which the Registrants will be responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties, the timing of the remediation work and changes in technology, regulations and the requirements of local governmental authorities. Periodic studies are conducted at the Utility Registrants to determine future remediation requirements for MGP sites and estimates are adjusted accordingly. In addition, periodic reviews are performed at each of the Registrants to assess the adequacy of other environmental reserves. These matters, if resolved in a manner different from the estimate, could have a significant impact on the Registrants' results of operations, cash flows and financial positions. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further information.

Other, Including Personal Injury Claims

The Registrants are self-insured for general liability, automotive liability, workers' compensation, and personal injury claims to the extent that losses are within policy deductibles or exceed the amount of insurance maintained. The Registrants have reserves for both open claims asserted and an estimate of claims incurred but not reported (IBNR). The IBNR reserve is estimated based on actuarial assumptions and analysis and is updated annually. Future events, such as the number of new claims to be filed each year, the average cost of disposing of claims, as well as the numerous uncertainties surrounding litigation and possible state and national legislative measures could cause the actual costs to be higher or lower than estimated. Accordingly, these claims, if resolved in a manner different from the estimate, could have a material impact on the Registrants' results of operations, cash flows and financial positions.

Revenue Recognition (All Registrants)

Sources of Revenue and Determination of Accounting Treatment

The Registrants earn revenues from various business activities including: the sale of energy and energy-related products, such as natural gas, capacity, and other commodities in non-regulated markets (wholesale and retail)*;* the sale and delivery of electricity and natural gas in regulated markets; and the provision of other energy-related non-regulated products and services.

The accounting treatment for revenue recognition is based on the nature of the underlying transaction and applicable authoritative guidance. The Registrants primarily use accrual, mark-to-market, and Alternative Revenue Program (ARP) accounting as discussed in more detail below. Beginning on January 1, 2018, the Registrants will begin applying the Revenue from Contracts with Customers guidance to recognize revenue. See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for additional information.

Accrual Accounting

Under accrual accounting, the Registrants recognize revenues in the period when services are rendered or energy is delivered to customers. The Registrants generally use accrual accounting to recognize revenues for sales of electricity, natural gas and other commodities as part of their physical delivery activities. The Registrants enter into these sales transactions using a variety of instruments, including non-derivative agreements, derivatives that qualify for and are designated as normal purchases and normal sales (NPNS) of commodities that will be physically delivered, sales to utility customers under regulated service tariffs and spot-market sales, including settlements with independent system operators.

The determination of Generation's and the Utility Registrants' energy sales to individual customers is based on systematic readings of customer meters generally on a monthly basis. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and corresponding unbilled revenue is recorded. The measurement of unbilled revenue is affected by the following factors: daily customer usage measured by energy or gas throughput volume, customer usage by class, losses of energy during delivery to customers and applicable customer rates. Increases or decreases in volumes delivered to the utilities' customers and favorable or unfavorable rate mix due to changes in usage patterns in customers classes in the period could be significant to the calculation of unbilled revenue. In addition, unbilled revenues may fluctuate monthly as a result of customers electing to use an alternate supplier, since unbilled commodity receivables are not recorded for these customers. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date also impact the measurement of unbilled revenue, however, total operating revenues would remain materially unchanged. See Note 5 — Accounts Receivable of the Combined Notes to Consolidated Financial Statements for additional information on unbilled revenue.

Mark-to-Market Accounting

The Registrants record revenues and expenses using the mark-to-market method of accounting for transactions that meet the definition of a derivative for which they are not permitted, or have not elected, the NPNS exception. These mark-to-market transactions primarily relate to commodity price risk management activities. Mark-to-market revenues and expenses include: inception gains or losses on new transactions where the fair value is observable and realized; and unrealized gains and losses from changes in the fair value of open contracts.

Alternative Revenue Program Accounting

Certain of the Utility Registrants' ratemaking mechanisms qualify as ARPs if they meet certain criteria. At each balance sheet date, the Utility Registrants with such mechanisms, including ComEd's electric distribution and energy efficiency formulas, and ComEd's, PECO's, BGE's, Pepco's, DPL's, and ACE's FERC transmission formula rates, record ARP revenues for any differences between the prior year revenue requirement in effect in rates and their best estimate of the current year revenue requirement that is probable of approval by the ICC or FERC. Estimates of the current year revenue requirement are based on actual and/or forecasted costs and investment in rate base for the period and the rates of return on common equity and associated regulatory capital structure allowed under the applicable tariff. ComEd, BGE, Pepco, and DPL also have decoupling mechanisms which qualify as ARPs. The Utility Registrants recognize and record an offsetting regulatory asset or liability once the condition or event allowing for the automatic adjustment of future rates occurs.

The Utility Registrants' ARP revenues include both: (i) the recognition of “originating” ARP revenues (when the regulator-specified condition or event allowing for additional billing or refund has occurred) and (ii) an equal and offsetting reversal of the “originating” ARP revenues as those amounts are reflected in the price of utility service

See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further information.

Allowance for Uncollectible Accounts (All Registrants)

The allowance for uncollectible accounts reflects the Registrants' best estimates of losses on the accounts receivable balances. For Generation, the allowance is based on accounts receivable aging historical experience and other currently available information. ComEd, PECO, BGE, Pepco, DPL and ACE, estimate the allowance for uncollectible accounts on customer receivables by applying loss rates developed specifically for each company to the outstanding receivable balance by customer risk segment. Risk segments represent a group of customers with similar credit quality indicators that are comprised based on various attributes, including delinquency of their balances and payment history. Loss rates applied to the accounts receivable balances are based on a historical average of charge-offs as a percentage of accounts receivable in each risk segment. The Utility Registrants' customer accounts are generally considered delinquent if the amount billed is not received by the time the next bill is issued, which normally occurs on a monthly basis. Utility Registrants' customer accounts are written off consistent with approved regulatory requirements. Utility Registrants' allowances for uncollectible accounts will continue to be affected by changes in volume, prices and economic conditions as well as changes in ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU regulations. See Note 5 — Accounts Receivable of the Combined Notes to Consolidated Financial Statements for additional information regarding accounts receivable.

Results of Operations by Business Segment

The comparisons of operating results and other statistical information for the years ended December 31, 2017, 2016 and 2015 set forth below include intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

Net Income (Loss) Attributable to Common Shareholders by Registrant

	For the Years Ended December 31,		Favorable (unfavorable) 2017 vs. 2016 variance	For the Year Ended December 31, 2015	Favorable (unfavorable) 2016 vs. 2015 variance
	2017	2016			
Exelon	$ 3,770	$ 1,134	$ 2,636	$ 2,269	$ (1,135)
Generation	2,694	496	2,198	1,372	(876)
ComEd	567	378	189	426	(48)
PECO	434	438	(4)	378	60
BGE	307	286	21	275	11
Pepco	205	42	163	187	(145)
DPL	121	(9)	130	76	(85)
ACE	77	(42)	119	40	(82)

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$ 362	$ (61)	$ 19	$ 327

Results of Operations—Generation

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$ 18,466	$ 17,751	$ 715	$ 19,135	$ (1,384)
Purchased power and fuel expense	9,690	8,830	(860)	10,021	1,191
Revenues net of purchased power and fuel expense[(a)]	8,776	8,921	(145)	9,114	(193)
Other operating expenses					
Operating and maintenance	6,291	5,641	(650)	5,308	(333)
Depreciation and amortization	1,457	1,879	422	1,054	(825)
Taxes other than income	555	506	(49)	489	(17)
Total other operating expenses	8,303	8,026	(277)	6,851	(1,175)
Gain (Loss) on sales of assets	2	(59)	61	12	(71)
Bargain purchase gain	233	—	233	—	—
Gain on deconsolidation of business	213	—	213	—	—
Operating income	921	836	85	2,275	(1,439)
Other income and (deductions)					
Interest expense	(440)	(364)	(76)	(365)	1
Other, net	948	401	547	(60)	461
Total other income and (deductions)	508	37	471	(425)	462
Income before income taxes	1,429	873	556	1,850	(977)
Income taxes	(1,375)	290	1,665	502	212
Equity in losses of unconsolidated affiliates	(33)	(25)	(8)	(8)	(17)
Net income	2,771	558	2,213	1,340	(782)
Net income (loss) attributable to noncontrolling interests	77	62	15	(32)	94
Net income attributable to membership interest	$ 2,694	$ 496	$ 2,198	$ 1,372	$ (876)

(a) Generation evaluates its operating performance using the measure of revenues net of purchased power and fuel expense. Generation believes that revenues net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Membership Interest

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Generation's Net income attributable to membership interest increased compared to the same period in 2016, primarily due to lower Depreciation and amortization, a Bargain purchase gain in 2017, a Gain on deconsolidation of business in 2017, higher Other income and decreased Income taxes, partially offset by lower Revenues net of purchased power and fuel expense and higher Operating and maintenance expense. The decrease in Depreciation and amortization expense is primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire Clinton and Quad Cities nuclear facilities. The Bargain purchase gain is due to the acquisition of the FitzPatrick nuclear facility. The Gain on deconsolidation of business in 2017 is due to the deconsolidation of EGTP's net liabilities, which included the previously impaired assets and related debt, as a result of the November 2017 bankruptcy filing. The increase in Other income is primarily due to higher realized NDT fund gains. The decrease in Income taxes primarily relates to the one-time non-cash impacts associated with the Tax Cuts and Jobs Act. The decrease in Revenues net of purchased power and fuel expense primarily reflects lower realized energy prices, the impacts of lower load volumes delivered due to mild weather in the third quarter 2017, the conclusion of the Ginna Reliability Support Services Agreement and the impact of declining natural gas prices on Generation's natural gas portfolio, partially offset by the impact of the New York CES, higher capacity prices, the addition of two combined-cycle gas turbines in Texas and lower nuclear fuel prices. The increase in Operating and maintenance expense is primarily related to the impairment of EGTP in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Generation's Net income attributable to membership interest decreased compared to the same period in 2015, primarily due to lower Revenues net of purchased power and fuel expense, higher Operating and maintenance expense, higher Depreciation and amortization expense, and Losses on sales of assets in 2016, partially offset by increased Other income and decreased Income tax expense. The decrease in Revenues net of purchased power and fuel expense primarily relates to lower mark-to-market results in 2016 compared to 2015 and lower realized energy prices, partially offset by the Ginna Reliability Support Services Agreement and a decrease in outage days at higher capacity units despite an increase in overall outage days. The increase in Operating and maintenance expense is primarily related to the impairment of Upstream assets and certain wind projects, and increased costs related to the implementation of the cost management program. The increase in Depreciation and amortization expense is primarily related to accelerated depreciation and amortization expense related to the previous decision to early retire the Clinton and Quad Cities nuclear generating facilities, increased nuclear decommissioning amortization and increased depreciation expense due to ongoing capital expenditures. The increase in Losses on sales of assets is primarily due to Generation's strategic decision to narrow the scope and scale of its growth and development activities. The increase in Other income is primarily due to the change in realized and unrealized gains and losses on NDT funds.

Revenues Net of Purchased Power and Fuel Expense

The basis for Generation's reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation's hedging strategies and risk metrics are also aligned with these same geographic regions. Descriptions of each of Generation's six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.

- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.

- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

- New York represents operations within ISO-NY, which covers the state of New York in its entirety.

- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.

- Other Power Regions:

  - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.

  - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado, and parts of New Mexico, Wyoming and South Dakota.

  - Canada represents operations across the entire country of Canada and includes the AESO, OIESO and the Canadian portion of MISO.

The following business activities are not allocated to a region, and are reported under Other: natural gas, as well as other miscellaneous business activities that are not significant to Generation's overall operating revenues or results of operations. Further, the following activities are not allocated to a region, and are reported in Other: amortization of certain intangible assets relating to commodity contracts recorded at fair value from mergers and acquisitions; accelerated nuclear fuel amortization associated with nuclear decommissioning; and other miscellaneous revenues.

Generation evaluates the operating performance of electric business activities using the measure of Revenue net of purchased power and fuel expense, which is a non-GAAP measurement. Generation's operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for owned generation and fuel costs associated with tolling agreements.

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For the years ended December 31, 2017 compared to 2016 and December 31, 2016 compared to 2015, Generation's Revenue net of purchased power and fuel expense by region were as follows:

			2017 vs. 2016			2016 vs. 2015	
	2017	2016	Variance	% Change	2015	Variance	% Change
Mid-Atlantic[(a)]	$ 3,214	$ 3,317	$ (103)	(3.1)%	$ 3,571	$ (254)	(7.1)%
Midwest[(b)]	2,820	2,971	(151)	(5.1)%	2,892	79	2.7 %
New England	514	438	76	17.4 %	461	(23)	(5.0)%
New York[(d)]	976	742	234	31.5 %	634	108	17.0 %
ERCOT	332	281	51	18.1 %	293	(12)	(4.1)%
Other Power Regions	305	336	(31)	(9.2)%	250	86	34.4 %
Total electric revenues net of purchased power and fuel expense	8,161	8,085	76	0.9 %	8,101	(16)	(0.2)%
Proprietary Trading	18	15	3	n.m.	1	14	n.m.
Mark-to-market gains (losses)	(175)	(41)	(134)	326.8 %	257	(298)	(116.0)%
Other[(c)]	772	862	(90)	(10.4)%	755	107	14.2 %
Total revenue net of purchased power and fuel expense	$ 8,776	$ 8,921	$ (145)	(1.6)%	$ 9,114	$ (193)	(2.1)%

(a) Results of transactions with PECO and BGE are included in the Mid-Atlantic region. Results of transactions with Pepco, DPL, and ACE are included in the Mid-Atlantic region beginning on March 24, 2016, the day after the PHI merger was completed.

(b) Results of transactions with ComEd are included in the Midwest region.

(c) Other represents activities not allocated to a region. See text above for a description of included activities. Includes amortization of intangible assets related to commodity contracts recorded at fair value of a $54 million decrease to RNF, an $57 million decrease to RNF, and an $8 million increase to RNF for the years ended December 31, 2017, 2016, and 2015, respectively, and accelerated nuclear fuel amortization associated with announced early plant retirements, as discussed in Note 8 - Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements, of $12 million and $60 million for the years ended December 31, 2017 and 2016, respectively.

(d) Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Generation's supply sources by region are summarized below:

Supply Source (GWh)	2017	2016	2017 vs. 2016 Variance	2017 vs. 2016 % Change	2015	2016 vs. 2015 Variance	2016 vs. 2015 % Change
Nuclear Generation[a]							
Mid-Atlantic	64,466	63,447	1,019	1.6 %	63,283	164	0.3 %
Midwest	93,344	94,668	(1,324)	(1.4)%	93,422	1,246	1.3 %
New York[c]	25,033	18,684	6,349	34.0 %	18,769	(85)	(0.5)%
Total Nuclear Generation	182,843	176,799	6,044	3.4 %	175,474	1,325	0.8 %
Fossil and Renewables							
Mid-Atlantic	2,789	2,731	58	2.1 %	2,774	(43)	(1.6)%
Midwest	1,482	1,488	(6)	(0.4)%	1,547	(59)	(3.8)%
New England	7,179	6,968	211	3.0 %	2,983	3,985	133.6 %
New York	3	3	—	— %	3	—	— %
ERCOT	12,072	6,785	5,287	77.9 %	5,763	1,022	17.7 %
Other Power Regions	6,869	8,179	(1,310)	(16.0)%	7,848	331	4.2 %
Total Fossil and Renewables	30,394	26,154	4,240	16.2 %	20,918	5,236	25.0 %
Purchased Power							
Mid-Atlantic	9,801	16,874	(7,073)	(41.9)%	8,160	8,714	106.8 %
Midwest	1,373	2,255	(882)	(39.1)%	2,325	(70)	(3.0)%
New England	18,517	16,632	1,885	11.3 %	24,309	(7,677)	(31.6)%
New York	28	—	28	— %	—	—	— %
ERCOT	7,346	10,637	(3,291)	(30.9)%	10,070	567	5.6 %
Other Power Regions	14,530	13,589	941	6.9 %	18,773	(5,184)	(27.6)%
Total Purchased Power	51,595	59,987	(8,392)	(14.0)%	63,637	(3,650)	(5.7)%
Total Supply/Sales by Region							
Mid-Atlantic[b]	77,056	83,052	(5,996)	(7.2)%	74,217	8,835	11.9 %
Midwest[b]	96,199	98,411	(2,212)	(2.2)%	97,294	1,117	1.1 %
New England	25,696	23,600	2,096	8.9 %	27,292	(3,692)	(13.5)%
New York	25,064	18,687	6,377	34.1 %	18,772	(85)	(0.5)%
ERCOT	19,418	17,422	1,996	11.5 %	15,833	1,589	10.0 %
Other Power Regions	21,399	21,768	(369)	(1.7)%	26,621	(4,853)	(18.2)%
Total Supply/Sales by Region	264,832	262,940	1,892	0.7 %	260,029	2,911	1.1 %

(a) Includes the proportionate share of output where Generation has an undivided ownership interest in jointly-owned generating plants and includes the total output of plants that are fully consolidated (e.g. CENG).

(b) Includes affiliate sales to PECO and BGE in the Mid-Atlantic region and affiliate sales to ComEd in the Midwest region. As a result of the PHI Merger, includes affiliate sales to Pepco, DPL and ACE in the Mid-Atlantic region beginning on March 24, 2016.

(c) Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Mid-Atlantic

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $103 million decrease in revenues net of purchased power and fuel expense in the Mid-Atlantic primarily reflects lower load volumes, lower realized energy prices and decreased capacity prices, partially offset by the absence of oil inventory write-downs in 2017 and decreased nuclear outage days.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $254 million decrease in revenues net of purchased power and fuel expense in the Mid-Atlantic was primarily due to lower realized energy prices, decreased capacity prices and higher oil inventory write-downs in 2016, partially offset by increased load volumes served.

Midwest

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $151 million decrease in revenues net of purchased power and fuel expense in the Midwest primarily reflects lower realized energy prices and increased nuclear outage days, partially offset by decreased fuel prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $79 million increase in revenues net of purchased power and fuel expense in the Midwest was primarily due to decreased nuclear outage days and decreased nuclear fuel prices.

New England

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $76 million increase in revenues net of purchased power and fuel expense in New England was driven by increased capacity prices, partially offset by lower realized energy prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $23 million decrease in revenues net of purchased power and fuel expense in New England was primarily due to lower realized energy prices and higher oil inventory write-downs in 2016, partially offset by increased capacity prices.

New York

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $234 million increase in revenues net of purchased power and fuel expense in New York was primarily due to the impact of the New York CES and the acquisition of Fitzpatrick, partially offset by the conclusion of the Ginna Reliability Support Service Agreement and lower realized energy prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $108 million increase in revenues net of purchased power and fuel expense in New York was primarily due to the impact of the Ginna Reliability Support Service Agreement, partially offset by lower realized energy prices.

ERCOT

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $51 million increase in revenues net of purchased power and fuel expense in ERCOT was primarily due to the addition of two combined-cycle gas turbines in Texas, partially offset by lower realized energy prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $12 million decrease in revenues net of purchased power and fuel expense in ERCOT was primarily due to lower realized energy prices, partially offset by increased output from renewable assets.

Other Power Regions

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $31 million decrease in revenues net of purchased power and fuel expense in Other Power Regions was primarily due to lower realized energy prices.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $86 million increase in revenues net of purchased power and fuel expense in Other Power Regions was primarily due to higher realized energy prices.

Proprietary Trading

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $3 million increase in revenues net of purchased power and fuel expense in Proprietary trading was primarily due to congestion activity.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $14 million increase in revenues net of purchased power and fuel expense in Proprietary trading was primarily due to congestion activity.

Mark-to-market

Generation is exposed to market risks associated with changes in commodity prices and executes economic hedges to mitigate exposure to these fluctuations. See Note 11 — Fair Value of Financial Assets and Liabilities and Note 12 — Derivative Financial Instruments of the Combined Notes to the Consolidated Financial Statements for information on gains and losses associated with mark-to-market derivatives.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**.** Mark-to-market losses on economic hedging activities were $175 million in 2017 compared to losses of $41 million in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**.** Mark-to-market losses on economic hedging activities were $41 million in 2016 compared to gains of $257 million in 2015.

Other

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The $90 million decrease in other revenue net of purchased power and fuel was primarily due to the impacts of declining natural gas prices on Generation's natural gas portfolio and the decline in revenues related to the distributed generation business, partially offset by a decrease in accelerated nuclear fuel amortization associated with announced early plant retirements as discussed in Note 8 — Early Nuclear Plant Retirements of the Combined Notes to the Financial Statements.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The $107 million increase in other revenue net of purchased power and fuel was primarily due to revenue related to the inclusion of Pepco Energy Services results in 2016 and revenue related to energy efficiency projects, partially offset by the amortization of energy contracts recorded at fair value associated with prior acquisitions, and accelerated nuclear fuel amortization associated with the initial early retirement decision for Clinton and Quad Cities as discussed in Note 8 — Early Nuclear Plant Retirements of the Combined Notes to the Financial Statements.

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Nuclear Fleet Capacity Factor

The following table presents nuclear fleet operating data for 2017, as compared to 2016 and 2015, for the Generation-operated plants. The nuclear fleet capacity factor presented in the table is defined as the ratio of the actual output of a plant over a period of time to its output if the plant had operated at full average annual mean capacity for that time period. Generation considers capacity factor to be a useful measure to analyze the nuclear fleet performance between periods. Generation has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, these measures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or be more useful than the GAAP information provided elsewhere in this report.

	2017	2016	2015
Nuclear fleet capacity factor(a)	94.1%	94.6%	93.7%
Refueling outage days(a)	293	245	290
Non-refueling outage days(a)	53	63	82

(a) Excludes Salem, which is operated by PSEG Nuclear, LLC. Reflects ownership percentage of stations operated by Exelon. Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The nuclear fleet capacity factor, which excludes Salem, decreased in 2017 compared to 2016 primarily due to increased refueling outage days, partially offset by fewer non-refueling outage days.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The nuclear fleet capacity factor, which excludes Salem, increased in 2016 compared to 2015 primarily due to fewer refueling and non-refueling outage days.

Operating and Maintenance Expense

The changes in operating and maintenance expense for 2017 compared to 2016, consisted of the following:

	Increase (Decrease)[a]
Impairment and related charges of certain generating assets[b]	$ 307
Merger and integration costs	13
ARO update[c]	84
Pension and non-pension postretirement benefits expense	10
Corporate allocations	23
Plant retirements and divestitures[d]	127
Accretion expense[e]	35
Nuclear refueling outage costs, including the co-owned Salem plant[f]	104
Merger commitments[g]	(53)
Labor, other benefits, contracting and materials[h]	52
Cost management program	(2)
Curtailment of Generation growth and development activities[j]	(24)
Vacation policy change[i]	(40)
Allowance for uncollectible accounts	33
Change in Environmental Remediation Liabilities	44
Other	(63)
Increase in operating and maintenance expense	$ 650

(a) The 2017 financial results include Generation's acquisition of the FitzPatrick nuclear generating station from March 31, 2017.

(b) Primarily reflects charges to earnings related to impairments as a result of the EGTP assets in 2017 and impairment of Upstream assets and certain wind projects in 2016.

(c) Primarily reflects the non-cash benefit pursuant to the annual update of the Generation nuclear decommissioning obligation related to the non-regulatory units in 2017 compared to 2016.

(d) Primarily represents the announcement of the early retirement of Generation's TMI nuclear facility in 2017 compared to the previous decision to early retire Generation's Clinton and Quad Cities nuclear facilities in 2016.

(e) Reflects the impact of increased accretion expenses primarily due to the acquisition of FitzPatrick on March 31, 2017.

(f) Primarily reflects an increase in the number of nuclear outage days during 2017 compared to 2016.

(g) Primarily represents costs incurred as part of the settlement orders approving the PHI acquisition during 2016.

(h) Reflects increased salaries, wages and contracting costs primarily related to the acquisition of the FitzPatrick nuclear facility beginning on March 31, 2017.

(i) Represents the reversal of previously accrued vacation expenses as a result of a change in Exelon's vacation vesting policy.

(j) Reflects the one-time recognition for a loss on sale of assets and asset impairment charges pursuant to Generation's strategic decision in the fourth quarter of 2016 to narrow the scope and scale of its growth and development activities.

The changes in operating and maintenance expense for 2016 compared to 2015, consisted of the following:

	Increase (Decrease)
Impairment and related charges of certain generating assets [(a)]	$ 161
Merger and integration costs	27
Midwest Generation bankruptcy charges	10
ARO update[(b)]	(79)
Pension and non-pension postretirement benefits expense[(c)]	(42)
Corporate allocations[(d)]	(12)
Plant retirements and divestitures[(e)]	(50)
Accretion expense	(21)
Nuclear refueling outage costs, including the co-owned Salem plant[(f)]	(61)
Merger commitments	53
Labor, other benefits, contracting and materials[(g)]	185
Cost management program[(h)]	43
Curtailment of Generation growth and development activities[(i)]	24
Other	95
Increase in operating and maintenance expense	$ 333

(a) Reflects increased impairments in 2016 compared to 2015, primarily related to the impairments of certain Upstream assets and wind generating assets in 2016.
(b) Reflects a non-cash benefit pursuant to the annual update of the Generation nuclear decommissioning obligation related to the non-regulatory units.
(c) Reflects the favorable impact of higher pension and OPEB discount rates.
(d) Reflects a decreased share of corporate allocated costs.
(e) Reflects the impact of the Generation's previous decision to early retire the Clinton and Quad Cities nuclear facilities.
(f) Reflects the favorable impacts of decreased nuclear outages in 2016.
(g) Reflects an increase of labor, other benefits, contracting and materials costs primarily due to increased contracting costs related to energy efficiency projects and the inclusion of Pepco Energy Services results in 2016. Also includes cost of sales of our other business activities that are not allocated to a region.
(h) Represents the 2016 severance expense and reorganization costs related to a cost management program.
(i) Reflects the one-time recognition for asset impairment charges pursuant to Generation's strategic decision in the fourth quarter of 2016 to narrow the scope and scale of its growth and development activities.

Depreciation and Amortization

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Depreciation and amortization expense decreased primarily due to accelerated depreciation and increased nuclear decommissioning amortization related to the previous decision to early retire the Clinton and Quad Cities nuclear facilities in 2016 compared to the decision to early retire the Three Mile Island nuclear facility in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Depreciation and amortization expense increased primarily due to accelerated depreciation and increased nuclear decommissioning amortization related to the previous decision to early retire the Clinton and Quad Cities nuclear facilities in 2016, and increased depreciation expense due to ongoing capital expenditures.

Taxes Other Than Income

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in taxes other than income was primarily due to increased real estate taxes and sales and use taxes.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The increase in taxes other than income was primarily due to an increase in gross receipts tax.

Gain (Loss) on Sales of Assets

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in gain (loss) on sales of assets is primarily due to certain Generation projects and contracts being terminated or renegotiated in 2016, partially offset by a gain associated with Generation's sale of the retired New Boston generating site in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The decrease in gain (loss) on sales of assets is primarily related to the one-time recognition for a loss on sale of assets pursuant to Generation's strategic decision in the fourth quarter of 2016 to narrow the scope and scale of its growth and development activities, partially offset by a gain associated with Generation's sale of the retired New Boston generating site in 2016.

Bargain Purchase Gain

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in the Bargain purchase gain is related to the result of the gain associated with the FitzPatrick acquisition. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information.

Gain on Deconsolidation of Business

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in the Gain on deconsolidation of business is related to the deconsolidation of EGTP's net liabilities, which included the previously impaired assets and related debt, as a result of the November 2017 bankruptcy filing. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information.

Interest Expense

The changes in interest expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Interest expense on long-term debt	$ —	$ 8
Interest expense on interest rate swaps	(2)	1
Interest expense on tax settlements	12	16
Other interest expense	66	(26)
(Decrease) increase in interest expense, net	$ 76	$ (1)

Other, Net

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in Other, net primarily reflects the net increase in realized and unrealized gains related to the NDT fund investments of Generation’s Non-Regulatory Agreement Units as described in the table below. Other, net also reflects $209 million and $80 million for the years ended December 31, 2017 and 2016, respectively, related to the contractual elimination of income tax expense associated with the NDT fund investments of the Regulatory Agreement Units. Refer to Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding NDT fund investments.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The increase in Other, net primarily reflects the net increase in realized and unrealized gains related to the NDT fund investments of Generation’s Non-Regulatory Agreement Units as described in the table below. Other, net also reflects $80 million and $(22) million for the years ended December 31, 2016 and 2015, respectively, related to the contractual elimination of income tax expense associated with the NDT fund investments of the Regulatory Agreement Units. Refer to Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information regarding NDT fund investments.

The following table provides unrealized and realized gains (losses) on the NDT funds of the Non-Regulatory Agreement Units recognized in Other, net for 2017, 2016 and 2015:

	2017	2016	2015
Net unrealized gains (losses) on decommissioning trust funds	$ 521	$ 194	$ (197)
Net realized gains on sale of decommissioning trust funds	95	35	66

Effective Income Tax Rate

Generation’s effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were (96.2)%, 33.2% and 27.1%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Results of Operations—ComEd

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$ 5,536	$ 5,254	$ 282	$ 4,905	$ 349
Purchased power expense	1,641	1,458	(183)	1,319	(139)
Revenues net of purchased power expense[(a)(b)]	3,895	3,796	99	3,586	210
Other operating expenses					
Operating and maintenance	1,427	1,530	103	1,567	37
Depreciation and amortization	850	775	(75)	707	(68)
Taxes other than income	296	293	(3)	296	3
Total other operating expenses	2,573	2,598	25	2,570	(28)
Gain on sales of assets	1	7	(6)	1	6
Operating income	1,323	1,205	118	1,017	188
Other income and (deductions)					
Interest expense, net	(361)	(461)	100	(332)	(129)
Other, net	22	(65)	87	21	(86)
Total other income and (deductions)	(339)	(526)	187	(311)	(215)
Income before income taxes	984	679	305	706	(27)
Income taxes	417	301	(116)	280	(21)
Net income	$ 567	$ 378	$ 189	$ 426	$ (48)

(a) ComEd evaluates its operating performance using the measure of Revenue net of purchased power expense. ComEd believes that Revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. In general, ComEd only earns margin based on the delivery and transmission of electricity. ComEd has included its discussion of Revenue net of purchased power expense below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) For regulatory recovery mechanisms, including ComEd's electric distribution and transmission formula rates, and riders, revenues increase and decrease i) as fully recoverable costs fluctuate (with no impact on net earnings), and ii) pursuant to changes in rate base, capital structure and ROE (which impact net earnings).

Net Income

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. ComEd's Net income for the year ended December 31, 2017 was higher than the same period in 2016 primarily due to the recognition of the penalty and the after-tax interest due on the asserted penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in 2016 and increased electric distribution and transmission formula rate earnings (reflecting the impacts of increased capital investment and higher allowed electric distribution ROE). The higher Net income was partially offset by the impact of weather conditions in 2016. See Revenue Decoupling discussion below for additional information on the impact of weather.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. ComEd's Net income for the year ended December 31, 2016 was lower than the same period in 2015 primarily due to the recognition of the penalty and the after-tax interest due on the asserted penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position, partially offset by increased electric

distribution and transmission formula rate earnings (reflecting the impacts of increased capital investment, partially offset by lower allowed electric distribution ROE) and favorable weather.

Revenues Net of Purchased Power Expense

There are certain drivers of Operating revenues that are fully offset by their impact on Purchased power expense, such as commodity, REC and ZEC procurement costs and participation in customer choice programs. ComEd is permitted to recover electricity, REC and ZEC procurement costs from retail customers without mark-up. Therefore, fluctuations in these costs have no impact on Revenue net of purchased power expense. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on ComEd's electricity procurement process.

All ComEd customers have the choice to purchase electricity from a competitive electric generation supplier. Customer choice programs do not impact ComEd's volume of deliveries, but do affect ComEd's Operating revenues related to supplied energy, which is fully offset in Purchased power expense. Therefore, customer choice programs have no impact on Revenue net of purchased power expense.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the years ended December 31, 2017, 2016 and 2015, consisted of the following:

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Electric	70%	72%	76%

Retail customers purchasing electric generation from competitive electric generation suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of customers	**% of total retail customers**	**Number of customers**	**% of total retail customers**	**Number of customers**	**% of total retail customers**
Electric	1,371,700	34%	1,502,900	38%	1,655,400	42%

The changes in ComEd’s Revenue net of purchased power expense for the year ended December 31, 2017, compared to the same period in 2016, and for the year ended December 31, 2016, compared to the same period in 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Weather[(a)]	$ (36)	$ 54
Volume[(a)]	(5)	(2)
Pricing and customer mix[(a)]	(18)	14
Electric distribution revenue	170	69
Transmission revenue	60	97
Energy efficiency revenue[(b)]	16	—
Regulatory required programs[(b)]	(85)	(31)
Uncollectible accounts recovery, net	(7)	(13)
Other	4	22
Total increase	$ 99	$ 210

(a) For the year ended December 31, 2017, compared to the same period in 2016, the changes reflect the 2016 impacts of weather, volume and pricing and customer mix. As further described below, pursuant to the revenue decoupling provision in FEJA, ComEd began recording an adjustment to revenue in the first quarter of 2017 to eliminate the favorable or unfavorable impacts associated with variations in delivery volumes associated with above or below normal weather, number of customers or usage per customer.

(b) Beginning on June 1, 2017, ComEd is deferring energy efficiency costs as a regulatory asset that will be recovered through the energy efficiency formula rate over the weighted average useful life of the related energy efficiency measures.

Revenue Decoupling. The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as “favorable weather conditions” because these weather conditions result in increased customer usage. Conversely, mild weather reduces demand.

Under EIMA, ComEd’s electric distribution formula rate provided for an adjustment to future billings if its earned ROE fell outside a 50-basis-point collar of its allowed ROE, which partially eliminated the impacts of weather and load on ComEd’s revenue. As allowed under FEJA, ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to Operating revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began recognizing the impacts of this change beginning in the first quarter of 2017. For the year ended December 31, 2017, ComEd recorded an increase to Electric distribution revenues of approximately $32 million to eliminate weather and load impacts.

For the year ended December 31, 2016, favorable weather conditions increased Operating revenues net of purchased power expense when compared to the prior year.

For the year ended December 31, 2016, the increase in Revenue net of purchased power as a result of pricing and customer mix is primarily attributable to higher overall effective rates due to decreased usage across all major customer classes and change in customer mix.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in ComEd's service territory with cooling degree days generally having a more significant impact to ComEd, particularly during the summer months. The changes in heating and cooling degree days in ComEd's service territory for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Heating Degree-Days	5,435	5,715	6,198	(4.9)%	(12.3)%
Cooling Degree-Days	991	1,157	893	(14.3)%	11.0 %

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	2016	2015	Normal	2016 vs. 2015	2016 vs. Normal
Heating Degree-Days	5,715	6,091	6,198	(6.2)%	(7.8)%
Cooling Degree-Days	1,157	806	893	43.5 %	29.6 %

Electric Distribution Revenue. EIMA and FEJA provide for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Electric distribution revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered and allowed ROE. ComEd's allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. In addition, ComEd's allowed ROE is subject to reduction if ComEd does not deliver the reliability and customer service benefits to which it has committed over the ten-year life of the investment program. During the year ended December 31, 2017, electric distribution revenue increased $170 million, primarily due to increased capital investment, increased Depreciation expense, higher allowed ROE due to an increase in treasury rates and revenue decoupling impacts (as described above). During the year ended December 31, 2016, electric distribution revenue increased $69 million, primarily due to increased capital investment and Depreciation expense, partially offset by lower allowed ROE due to a decrease in treasury rates. See Operating and Maintenance Expense below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Transmission Revenue. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and the highest daily peak load, which is updated annually in January based on the prior calendar year. Generally, increases/decreases in the highest daily peak load will result in higher/lower transmission revenue. For the years ended December 31, 2017 and 2016, ComEd recorded increased transmission revenue due to increased capital investment, higher Depreciation expense and increased highest daily peak load. See Operating and Maintenance Expense below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Energy Efficiency Revenue. Beginning June 1, 2017, FEJA provides for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Under FEJA, energy efficiency revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered, and allowed ROE. ComEd's allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. Beginning January 1, 2018, ComEd's allowed ROE is subject to a maximum downward or upward adjustment of 200 basis points if ComEd's cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual

incremental savings goal. See Depreciation and amortization expense discussions below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in Operating revenues collected under approved rate riders to recover costs incurred for regulatory programs such as ComEd's purchased power administrative costs and energy efficiency and demand response through June 1, 2017 pursuant to FEJA. The riders are designed to provide full and current cost recovery. An equal and offsetting amount has been included in Operating and maintenance expense. See Operating and maintenance expense discussion below for additional information on included programs.

Uncollectible Accounts Recovery, Net. Uncollectible accounts recovery, net, represents recoveries under ComEd's uncollectible accounts tariff. See Operating and maintenance expense discussion below for additional information on this tariff.

Other. Other revenue, which can vary period to period, includes rental revenue, revenue related to late payment charges, assistance provided to other utilities through mutual assistance programs, recoveries of environmental costs associated with MGP sites, and recoveries of energy procurement costs.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016	2017 vs. 2016	2016	2015	2016 vs. 2015
Operating and maintenance expense—baseline	$ 1,329	$ 1,347	$ (18)	$ 1,347	$ 1,353	$ (6)
Operating and maintenance expense—regulatory required programs[a]	98	183	(85)	183	214	(31)
Total operating and maintenance expense	$ 1,427	$ 1,530	$ (103)	$ 1,530	$ 1,567	$ (37)

(a) Operating and maintenance expense for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for year ended December 31, 2017, compared to the same period in 2016, and for the year ended December 31, 2016, compared to the same period in 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ (41)	$ 12
Pension and non-pension postretirement benefits expense[(a)]	3	(24)
Storm-related costs	2	(9)
Uncollectible accounts expense—provision[(b)]	(6)	5
Uncollectible accounts expense—recovery, net[(b)]	(1)	(18)
BSC costs[(c)]	44	29
Other	(19)	(1)
	(18)	(6)
Regulatory required programs		
Energy efficiency and demand response programs[(d)]	(85)	(31)
Decrease in operating and maintenance expense	$ (103)	$ (37)

(a) Primarily reflects the favorable impact of higher assumed pension and OPEB discount rates for the year ended December 31, 2016.

(b) ComEd is allowed to recover from or refund to customers the difference between the utility's annual uncollectible accounts expense and the amounts collected in rates annually through a rider mechanism. ComEd recorded a net decrease in 2017 and 2016 in Operating and maintenance expense related to uncollectible accounts due to the timing of regulatory cost recovery. An equal and offsetting amount has been recognized in Operating revenues for the periods presented.

(c) Primarily reflects increased information technology support services from BSC in 2017 and 2016. For the year ended December 31, 2017, includes the $8 million write-off of a regulatory asset related to Constellation merger and integration costs for which recovery is no longer expected.

(d) Beginning on June 1, 2017 ComEd is deferring energy efficiency costs as a regulatory asset that will be recovered through the energy efficiency over the weighted average useful life of the related energy efficiency measures.

Depreciation and Amortization Expense

The increases in Depreciation and amortization expense for 2017 compared to 2016, and 2016 compared to 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[(a)]	$ 60	$ 58
Regulatory asset amortization[(b)]	7	(5)
Other	8	15
Total increase	$ 75	$ 68

(a) Primarily reflects ongoing capital expenditures for the years ended December 31, 2017 and 2016.

(b) Beginning in June 2017, includes amortization of ComEd's energy efficiency formula rate regulatory asset.

Taxes Other Than Income

Taxes other than income, which can vary year to year, include municipal and state utility taxes, real estate taxes, and payroll taxes. Taxes other than income taxes remained relatively consistent for the year ended December 31, 2017, compared to the same period in 2016, and for the year ended December 31, 2016, compared to the same period in 2015.

Gain on Sale of Assets

Gain on sale of assets decreased during the year ended December 31, 2017, compared to the same period in 2016, and increased during the year ended December 31, 2016, compared to the same period in 2015, primarily due to the sale of land during March 2016.

Interest Expense, Net

The increase (decrease) in Interest expense, net, for the year ended 2017, compared to the same period in 2016, and for the year ended 2016, compared to the same period in 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Interest expense related to uncertain tax positions[(a)]	$ (104)	$ 109
Interest expense on debt (including financing trusts)[(b)]	6	24
Other	(2)	(4)
Increase (decrease) in interest expense, net	$ (100)	$ 129

(a) Primarily reflects the recognition of after-tax interest related to the Tax Court's decision on Exelon's like-kind exchange tax position in the 2016. For the year ended December 31, 2017, the decrease was partially offset by additional interest recorded in 2017 related to Exelon's like-kind exchange tax position. See Note 14—Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information.

(b) Primarily reflects an increase in interest expense due to the issuance of First Mortgage Bonds for the years ended December 31, 2016. See Note 13—Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information on ComEd's debt obligations.

Other, Net

The increase (decrease) in Other, net, for the year ended 2017 compared to the same period in 2016, and for the year ended 2016 compared to the same period in 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Other income and deductions, net[(a)]	$ 88	$ (94)
AFUDC equity	(2)	9
Other	1	(1)
Increase (decrease) in Other, net	$ 87	$ (86)

(a) Primarily reflects the recognition of the penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in 2016. See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information.

Effective Income Tax Rate

ComEd's effective income tax rates for the years ended December 31, 2017, 2016 and 2015, were 42.4%, 44.3% and 39.7%, respectively. The decrease in the effective income tax rate for the year ended December 31, 2017 compared to the same period in 2016 is primarily due to the recognition of a non-deductible penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in the third quarter of 2016. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

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ComEd Electric Operating Statistics and Revenue Detail

Retail Deliveries to customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries [(a)]							
Residential	26,292	27,790	(5.4)%	(0.9)%	26,496	4.9 %	(0.6)%
Small commercial & industrial	31,332	31,975	(2.0)%	(0.7)%	31,717	0.8 %	(0.3)%
Large commercial & industrial	27,467	27,842	(1.3)%	(0.5)%	27,210	2.3 %	1.5 %
Public authorities & electric railroads	1,286	1,298	(0.9)%	(0.3)%	1,309	(0.8)%	(0.8)%
Total retail deliveries	86,377	88,905	(2.8)%	(0.7)%	86,732	2.5 %	0.2 %

Number of Electric Customers	As of December 31, 2017	2016	2015
Residential	3,624,372	3,595,376	3,550,239
Small commercial & industrial	378,345	374,644	370,932
Large commercial & industrial	1,959	2,007	1,976
Public authorities & electric railroads	4,775	4,750	4,820
Total	4,009,451	3,976,777	3,927,967

Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[(a)]					
Residential	$ 2,746	$ 2,597	5.7 %	$ 2,360	10.0 %
Small commercial & industrial	1,376	1,316	4.6 %	1,337	(1.6)%
Large commercial & industrial	461	462	(0.2)%	443	4.3 %
Public authorities & electric railroads	44	45	(2.2)%	42	7.1 %
Total retail	4,627	4,420	4.7 %	4,182	5.7 %
Other revenue[(b)]	909	834	9.0 %	723	15.4 %
Total electric revenue[(c)]	$ 5,536	$ 5,254	5.4 %	$ 4,905	7.1 %

(a) Reflects delivery revenue and volume from customers purchasing electricity directly from ComEd and customers purchasing electricity from a competitive electric generation supplier, as all customers are assessed delivery charges. For customers purchasing electricity from ComEd, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes transmission revenue from PJM. Other revenue also includes rental revenue, revenue related to late payment charges, revenue from other utilities for mutual assistance programs and recoveries of remediation costs associated with MGP sites.

(c) Includes operating revenues from affiliates totaling $15 million, $15 million, and $4 million for the years ended December 31, 2017, 2016, and 2015, respectively.

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Results of Operations—PECO

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$ 2,870	$ 2,994	$ (124)	$ 3,032	$ (38)
Purchased power and fuel expense	969	1,047	78	1,190	143
Revenues net of purchased power and fuel expense [(a)]	1,901	1,947	(46)	1,842	105
Other operating expenses					
Operating and maintenance	806	811	5	794	(17)
Depreciation and amortization	286	270	(16)	260	(10)
Taxes other than income	154	164	10	160	(4)
Total other operating expenses	1,246	1,245	(1)	1,214	(31)
Gain on sales of assets	—	—	—	2	(2)
Operating income	655	702	(47)	630	72
Other income and (deductions)					
Interest expense, net	(126)	(123)	(3)	(114)	(9)
Other, net	9	8	1	5	3
Total other income and (deductions)	(117)	(115)	(2)	(109)	(6)
Income before income taxes	538	587	(49)	521	66
Income taxes	104	149	45	143	(6)
Net income	$ 434	$ 438	$ (4)	$ 378	$ 60

(a) PECO evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. PECO believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. PECO has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenue net of purchased power expense and revenue net of fuel expense figures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. PECO's net income for the year ended December 31, 2017 was lower than the same period in 2016, primarily due to a decrease in Revenues net of purchased power and fuel expense as a result of unfavorable weather in PECO's service territory, partially offset by the one-time non-cash impacts associated with the Tax Cuts and Jobs Act in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. PECO's net income for the year ended December 31, 2016 was higher than the same period in 2015, primarily due to an increase in Revenues net of purchased power and fuel expense as a result of increased electric distribution revenue pursuant to the 2015 PAPUC authorized electric distribution rate increase effective January 1, 2016.

Revenues Net of Purchased Power and Fuel Expense

Electric and natural gas revenue and purchased power and fuel expense are affected by fluctuations in commodity procurement costs. PECO's electric supply and natural gas cost rates charged to customers

are subject to adjustments as specified in the PAPUC-approved tariffs that are designed to recover or refund the difference between the actual cost of electric supply and natural gas and the amount included in rates in accordance with PECO's GSA and PGC, respectively. Therefore, fluctuations in electric supply and natural gas procurement costs have no impact on electric and natural gas revenues net of purchased power and fuel expense.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All PECO customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customer's choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service. Customer Choice Program activity has no impact on electric and natural gas revenue net of purchase power and fuel expense.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the years ended December 31, 2017, 2016, and 2015 consisted of the following:

	For the Years Ended December 31, 2017	2016	2015
Electric	71%	70%	70%
Natural Gas	26%	26%	25%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at December 31, 2017, 2016, and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	565,900	35%	587,200	36%	563,400	35%
Natural Gas	83,800	16%	81,300	16%	81,100	16%

The changes in PECO's Operating revenues net of purchased power and fuel expense for the years ended December 31, 2017 and December 31, 2016 compared to the same periods in 2016 and 2015, respectively, consisted of the following:

	2017 vs. 2016			2016 vs. 2015		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Weather	$ (28)	$ 4	$ (24)	$ 1	$ (12)	$ (11)
Volume	(18)	3	(15)	6	4	10
Pricing	8	2	10	160	(1)	159
Regulatory required programs	(31)	—	(31)	(46)	—	(46)
Other	14	—	14	(7)	—	(7)
Total increase (decrease)	$ (55)	$ 9	$ (46)	$ 114	$ (9)	$ 105

Weather. The demand for electricity and natural gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as “favorable weather conditions” because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. For the year ended December 31, 2017 compared to the same period in 2016, and the year ended December 31, 2016 compared to the same period in 2015 Operating revenues net of purchased power and fuel expense was reduced by the impact of unfavorable weather conditions in PECO’s service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in PECO’s service territory. The changes in heating and cooling degree days in PECO’s service territory for the years ended December 31, 2017 and December 31, 2016 compared to the same periods in 2016 and 2015, respectively, and normal weather consisted of the following:

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	3,949	4,041	4,603	(2.3)%	(14.2)%
Cooling Degree-Days	1,490	1,726	1,290	(13.7)%	15.5 %

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	4,041	4,245	4,603	(4.8)%	(12.2)%
Cooling Degree-Days	1,726	1,720	1,290	0.3 %	33.8 %

Volume. The decrease in Operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2017 compared to the same period in 2016, was driven by electric and primarily reflects the impact of energy efficiency initiatives on customer usages for residential and small commercial and industrial electric classes, partially offset by solid customer growth. Additionally, the decrease represents a shift in the volume profile across classes from residential and small commercial and industrial to large commercial and industrial.

The increase in Operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2016 compared to the same period in 2015, primarily reflects the impact of moderate economic and customer growth partially offset by energy efficiency initiatives on customer usages for gas and residential and small commercial and industrial electric classes. Additionally, the increase represents a shift in the volume profile across classes from large commercial and industrial classes to residential and small commercial and industrial classes for electric.

Pricing. The increase in Operating revenues net of purchased power expense as a result of pricing for the year ended December 31, 2017 compared to the same period in 2016 reflects higher overall effective rates due to decreased usage in the residential and small commercial and industrial customer classes. Operating revenues net of fuel expense as a result of pricing remained relatively consistent.

The increase in Operating revenues net of purchased power and fuel expense as a result of pricing for the year ended December 31, 2016 compared to the same period in 2015 reflects an increase in

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electric distribution rates charged to customers. The increase in electric distribution rates was effective January 1, 2016 in accordance with the 2015 PAPUC approved electric distribution rate case settlement. See Note 3 — Regulatory Matters for further information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as smart meter, energy efficiency and the GSA. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Income taxes. Refer to the Operating and maintenance expense discussion below for additional information on included programs.

Other. Other revenue, which can vary period to period, primarily includes wholesale transmission revenue, rental revenue, revenue related to late payment charges and assistance provided to other utilities through mutual assistance programs.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016	2017 vs. 2016	2016	2015	2016 vs. 2015
Operating and maintenance expense—baseline	$ 746	$ 740	$ 6	$ 740	$ 685	$ 55
Operating and maintenance expense—regulatory required programs [(a)]	60	71	(11)	71	109	(38)
Total operating and maintenance expense	$ 806	$ 811	$ (5)	$ 811	$ 794	$ 17

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ 17	$ 22
Storm-related costs	(7)	(9)
Pension and non-pension postretirement benefits expense	(3)	(4)
PHI merger integration costs	—	6
BSC costs	4	36 [(a)]
Uncollectible accounts expense	(5)	1
Other	—	3
	6	55
Regulatory required programs		
Smart meter	—	(28)
Energy efficiency	(10)	(7)
GSA	—	(2)
Other	(1)	(1)
	(11)	(38)
Increase (decrease) in operating and maintenance expense	$ (5)	$ 17

(a) Primarily reflects increased information technology support services from BSC during 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for 2017 compared to 2016 and 2016 compared to 2015, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense	$ 17	$ 5
Regulatory asset amortization	(1)	5
Increase in depreciation and amortization expense	$ 16	$ 10

Taxes Other Than Income

Taxes other than income, which can vary year to year, include municipal and state utility taxes, real estate taxes, and payroll taxes. Taxes other than income decreased for the year ended December 31, 2017, compared to the same period in 2016, primarily due to a decrease in gross receipts tax driven by decreases in electric revenue.

Taxes other than income increased for the year ended December 31, 2016, compared to the same period in 2015, primarily due to an increase in gross receipts tax driven by increases in electric revenue, which was impacted primarily by the new distribution rates that went into effect in January 2016.

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Interest Expense, Net

The increase in Interest expense, net for the year ended December 31, 2017, compared to the same period in 2016, primarily reflects an increase in interest expense due to the issuance of First and Refunding Mortgage Bonds in September 2017.

The increase in Interest expense, net for the year ended December 31, 2016, compared to the same period in 2015, primarily reflects an increase in interest expense due to the issuance of First and Refunding Mortgage Bonds in October 2015.

Other, Net

Other, net remained relatively consistent for the year ended December 31, 2017, compared to the same period in 2016, and the year ended December 31, 2016, compared to the same period in 2015.

Effective Income Tax Rate

PECO's effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were 19.3%, 25.4% and 27.4%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for further discussion of the change in effective income tax rates.

PECO Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries [(a)]							
Residential	13,024	13,664	(4.7)%	(1.8)%	13,630	0.2 %	0.4 %
Small commercial & industrial	7,968	8,099	(1.6)%	(1.1)%	8,118	(0.2)%	0.5 %
Large commercial & industrial	15,426	15,263	1.1 %	1.4 %	15,365	(0.7)%	(1.4)%
Public authorities & electric railroads	809	890	(9.1)%	(9.1)%	881	1.0 %	1.0 %
Total electric retail deliveries	37,227	37,916	(1.8)%	(0.5)%	37,994	(0.2)%	(0.3)%

	As of December 31,		
Number of Electric Customers	2017	2016	2015
Residential	1,469,916	1,456,585	1,444,338
Small commercial & industrial	151,552	150,142	149,200
Large commercial & industrial	3,112	3,096	3,091
Public authorities & electric railroads	9,569	9,823	9,805
Total	1,634,149	1,619,646	1,606,434

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Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales [(a)]					
Residential	$ 1,505	$ 1,631	(7.7)%	$ 1,599	2.0 %
Small commercial & industrial	401	430	(6.7)%	428	0.5 %
Large commercial & industrial	223	234	(4.7)%	221	5.9 %
Public authorities & electric railroads	30	32	(6.3)%	31	3.2 %
Total retail	2,159	2,327	(7.2)%	2,279	2.1 %
Other revenue [(b)]	216	204	5.9 %	207	(1.4)%
Total electric operating revenues [(c)]	$ 2,375	$ 2,531	(6.2)%	$ 2,486	1.8 %

(a) Reflects delivery volumes and revenue from customers purchasing electricity directly from PECO and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from PECO, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenue.

(c) Total electric revenue includes operating revenues from affiliates totaling $6 million, $7 million and $1 million for the years ended December 31, 2017, 2016, and 2015, respectively.

PECO Gas Operating Statistics and Revenue Detail

Deliveries to customers (in mmcf)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries [(a)]							
Retail sales	58,457	56,447	3.6 %	1.2 %	59,003	(4.3)%	1.5 %
Transportation and other	26,382	27,630	(4.5)%	(2.3)%	27,879	(0.9)%	(0.1)%
Total natural gas deliveries	84,839	84,077	0.9 %	0.1 %	86,882	(3.2)%	1.0 %

	As of December 31,		
Number of Gas Customers	2017	2016	2015
Residential	477,213	472,606	467,263
Commercial & industrial	43,892	43,668	43,160
Total retail	521,105	516,274	510,423
Transportation	771	790	827
Total	521,876	517,064	511,250

Gas revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales [(a)]					
Retail sales	$ 462	$ 430	7.4%	$ 511	(15.9)%
Transportation and other	33	33	—%	35	(5.7)%
Total natural gas operating revenues [(b)]	$ 495	$ 463	6.9%	$ 546	(15.2)%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from PECO and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from PECO, revenue also reflects the cost of natural gas.

(b) Total natural gas revenue includes operating revenues from affiliates totaling $1 million for the years ended December 31, 2017, 2016 and 2015.

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Results of Operations—BGE

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$ 3,176	$ 3,233	$ (57)	$ 3,135	$ 98
Purchased power and fuel expense	1,133	1,294	161	1,305	11
Revenues net of purchased power and fuel expense[(a)]	2,043	1,939	104	1,830	109
Other operating expenses					
Operating and maintenance	716	737	21	683	(54)
Depreciation and amortization	473	423	(50)	366	(57)
Taxes other than income	240	229	(11)	224	(5)
Total other operating expenses	1,429	1,389	(40)	1,273	(116)
Gain on sales of assets	—	—	—	1	(1)
Operating income	614	550	64	558	(8)
Other income and (deductions)					
Interest expense, net	(105)	(103)	(2)	(99)	(4)
Other, net	16	21	(5)	18	3
Total other income and (deductions)	(89)	(82)	(7)	(81)	(1)
Income before income taxes	525	468	57	477	(9)
Income taxes	218	174	(44)	189	15
Net income	307	294	13	288	6
Preference stock dividends	—	8	8	13	5
Net income attributable to common shareholder	$ 307	$ 286	$ 21	$ 275	$ 11

(a) BGE evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. BGE believes revenues net of purchased power and fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. BGE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenues net of purchased power and fuel expense figures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Common Shareholder

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Net income attributable to common shareholder was higher primarily due to an increase in Revenues net of purchased power and fuel expense and lower Operating and maintenance expense, partially offset by higher Depreciation and amortization expense and higher income tax expense. The increase in Revenues net of purchased power and fuel expense was primarily due to the impacts of the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016 and an increase in transmission formula rate revenues. The lower Operating and maintenance expense was primarily due to the absence of cost disallowances resulting from the 2016 distribution rate orders issued by the MDPSC and

decreased storm costs in 2017 partially offset by the favorable 2016 settlement of the Baltimore City conduit fee dispute. These items were partially offset by an increase in Depreciation and amortization expense primarily related to the initiation of cost recovery of the AMI programs under the distribution rate orders and the impacts of increased capital investment and higher income tax expense primarily resulting from higher taxable income as well as a 2016 favorable adjustment and 2017 impairment of certain transmission-related income tax regulatory assets.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Net income attributable to common shareholder was higher primarily due to lower income tax expense and decreased preference stock dividends partially offset by slightly lower operating income. The lower income tax expense was driven by a one-time adjustment associated with transmission-related regulatory assets. The slight decrease in operating income was driven by an increase in Operating and maintenance expense as a result of cost disallowances which reduced certain regulatory assets and other long-lived assets stemming from the distribution rate orders issued by the MDPSC in June 2016 and July 2016 and increased storm costs. This increase in Operating and maintenance expense was offset by an increase in Revenues net of purchased power and fuel expense, primarily as a result of an increase in transmission formula rate revenues and higher electric and natural gas revenues as a result of the distribution rate orders issued by the MDPSC in June 2016 and July 2016.

Revenues Net of Purchased Power and Fuel Expense

There are certain drivers to Operating revenues that are offset by their impact on Purchased power and fuel expense, such as commodity procurement costs and programs allowing customers to select a competitive electric or natural gas supplier. Operating revenues and Purchased power and fuel expense are affected by fluctuations in commodity procurement costs. BGE’s electric and natural gas rates charged to customers are subject to periodic adjustments that are designed to recover or refund the difference between the actual cost of purchased electric power and purchased natural gas and the amount included in rates in accordance with the MDPSC’s market-based SOS and gas commodity programs, respectively. Therefore, fluctuations in electric supply and natural gas procurement costs have no impact on Revenues net of purchased power and fuel expense.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in the number of customers electing to use a competitive supplier for electricity and/or natural gas. All BGE customers have the choice to purchase electricity and natural gas from competitive suppliers. The customers’ choice of suppliers does not impact the volume of deliveries, but does affect revenue collected from customers related to supplied electricity and natural gas.

Retail deliveries purchased from competitive electricity and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Electric	60%	59%	61%
Natural Gas	55%	57%	56%

The number of retail customers purchasing electricity and natural gas from competitive suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of Customers	% of total retail customers	Number of Customers	% of total retail customers	Number of Customers	% of total retail customers
Electric	341,000	27%	337,000	27%	343,000	27%
Natural Gas	151,000	22%	151,000	23%	154,000	23%

The changes in BGE's Operating revenues net of purchased power and fuel expense for the year ended December 31, 2017 compared to the same period in 2016 and for the year ended December 31, 2016 compared to the same period in 2015, respectively, consisted of the following:

	2017 vs. 2016			2016 vs. 2015		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Distribution rate increase	$ 21	$ 29	$ 50	$ 24	$ 22	$ 46
Regulatory required programs	17	3	20	10	(5)	5
Transmission revenue	18	—	18	30	—	30
Other, net	5	11	16	24	4	28
Total increase	$ 61	$ 43	$ 104	$ 88	$ 21	$ 109

Distribution Rate Increase. During the years ended December 31, 2017 and December 31, 2016, the increases in distribution revenues were primarily due to the impact of the electric and natural gas distribution rate changes that became effective in June 2016 in accordance with the electric and natural gas distribution rate case orders in June 2016 and July 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Revenue Decoupling. The demand for electricity and natural gas is affected by weather and usage conditions. The MDPSC allows BGE to record a monthly adjustment to its electric and natural gas distribution revenue from all residential customers, commercial electric customers, the majority of large industrial electric customers, and all firm service natural gas customers to eliminate the effect of abnormal weather and usage patterns per customer on BGE's electric and natural gas distribution volumes, thereby recovering a specified dollar amount of distribution revenue per customer, by customer class, regardless of fluctuations in actual consumption levels. This allows BGE to recognize revenue at MDPSC-approved distribution charges per customer, regardless of what BGE's actual distribution volumes were for a billing period. Therefore, while this revenue is affected by customer growth (i.e., increase in the number of customers), it will not be affected by volatility in actual weather or usage conditions (i.e., changes in consumption per customer). BGE bills or credits customers in subsequent months for the difference between approved revenue levels under revenue decoupling and actual customer billings.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in BGE's service territory. The changes in heating and cooling degree days in BGE's service territory for the year ended December 31, 2017 compared to the same period in 2016 and for the year ended December 31, 2016 compared to the same period in 2015, respectively, and normal weather consisted of the following:

	For the Year Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	4,190	4,427	4,666	(5.4)%	(10.2)%
Cooling Degree-Days	940	998	875	(5.8)%	7.4 %

	For the Year Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	4,427	4,666	4,684	(5.1)%	(5.5)%
Cooling Degree-Days	998	924	876	8.0 %	13.9 %

Regulatory Required Programs. Revenue from regulatory required programs are billings for the costs of various legislative and/or regulatory programs that are recoverable from customers on a full and current basis. These programs are designed to provide full cost recovery, as well as a return in certain instances. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in BGE's Consolidated Statements of Operations and Comprehensive Income.

Transmission Revenue. Under a FERC approved formula, transmission revenue varies from year to year based upon rate adjustments to reflect fluctuations in the underlying costs, capital investments being recovered and other billing determinants. During the years ended December 31, 2017 and 2016, the increase in transmission revenue was primarily due to increases in capital investment and operating and maintenance expense recoveries. See Operating and Maintenance Expense below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Other, Net. Other net revenue, which can vary from period to period, primarily includes late payment fees and other miscellaneous revenue such as service application fees, assistance provided to other utilities through BGE's mutual assistance program and recoveries of electric supply and natural gas procurement costs.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	2016	2017 vs. 2016	2016	2015	2016 vs. 2015
Operating and maintenance expense—baseline	$ 672	$ 701	$ (29)	$ 701	$ 636	$ 65
Operating and maintenance expense—regulatory required programs[(a)]	44	36	8	36	47	(11)
Total operating and maintenance expense	$ 716	$ 737	$ (21)	$ 737	$ 683	$ 54

(a) Operating and maintenance expense for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the year ended December 31, 2017 compared to the same period in 2016 and the year ended December 31, 2016 compared to the same period in 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Impairment on long-lived assets and losses on regulatory assets[(a)]	$ (50)	$ 52
Labor, other benefits, contracting and materials	(11)	7
Storm-related costs	(13)	18
Uncollectible accounts expense	7	(14)
BSC costs	16	11
Conduit lease settlement[(b)]	15	(15)
Other	7	6
	$ (29)	$ 65
Regulatory Required Programs		
Other	8	(11)
	8	(11)
Total (decrease) increase	$ (21)	$ 54

(a) See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.
(b) See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information.

Depreciation and Amortization

The changes in Depreciation and amortization expense for the year ended December 31, 2017 compared to the same period in 2016 and December 31, 2016 compared to the same period in 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[a]	$ 13	$ 10
Regulatory asset amortization[b]	25	31
Regulatory required programs[c]	12	16
Increase in depreciation and amortization expense	$ 50	$ 57

(a) Depreciation expense increased due to ongoing capital expenditures.

(b) Regulatory asset amortization increased primarily due to an increase in regulatory asset amortization related to energy efficiency programs and the initiation of cost recovery of the AMI programs under the final electric and natural gas distribution rate case order issued by the MDPSC in June 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

(c) Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

Taxes Other Than Income

Taxes other than income, which can vary period to period, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income taxes increased for the year ended December 31, 2017 compared to the same period in 2016, and for the year ended December 31, 2016 compared to the same period in 2015, primarily due to an increase in property taxes.

Interest Expense, Net

Interest expense, net remained relatively consistent for the year ended December 31, 2017 compared to the same period in 2016, and for the year ended December 31, 2016 compared to the same period in 2015.

Other, Net

Other, net remained relatively consistent for the year ended December 31, 2017, compared to the same period in 2016, and the year ended December 31, 2016, compared to the same period in 2015.

Effective Income Tax Rate

BGE’s effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were 41.5%, 37.2% and 39.6%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

BGE Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries[a]							
Residential	12,094	12,740	(5.1)%	(2.8)%	12,598	1.1 %	(3.2)%
Small commercial & industrial	2,921	3,040	(3.9)%	(4.9)%	3,119	(2.5)%	2.7 %
Large commercial & industrial	13,688	13,957	(1.9)%	(2.4)%	14,293	(2.4)%	(1.6)%
Public authorities & electric railroads	268	283	(5.3)%	(3.0)%	294	(3.7)%	(8.9)%
Total electric deliveries	28,971	30,020	(3.5)%	(2.8)%	30,304	(0.9)%	(1.9)%

	As of December 31,		
Number of Electric Customers	2017	2016	2015
Residential	1,160,783	1,150,096	1,137,934
Small commercial & industrial	113,594	113,230	113,138
Large commercial & industrial	12,155	12,053	11,906
Public authorities & electric railroads	272	280	285
Total	1,286,804	1,275,659	1,263,263

Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[a]					
Residential	$ 1,428	$ 1,554	(8.1)%	$ 1,449	7.2 %
Small commercial & industrial	266	277	(4.0)%	273	1.5 %
Large commercial & industrial	450	449	0.2 %	469	(4.3)%
Public authorities & electric railroads	31	35	(11.4)%	32	9.4 %
Total retail	2,175	2,315	(6.0)%	2,223	4.1 %
Other revenue[b][c]	314	294	6.8 %	267	10.1 %
Total electric revenue	$ 2,489	$ 2,609	(4.6)%	$ 2,490	4.8 %

(a) Reflects delivery volumes and revenue from customers purchasing electricity directly from BGE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from BGE, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes wholesale transmission revenue and late payment charges.

(c) Includes operating revenues from affiliates totaling $5 million, $7 million and less than $1 million for the years ended 2017, 2016 and 2015, respectively.

BGE Natural Gas Operating Statistics and Revenue Detail

Deliveries to customers (in mmcf)	2017	2016	% Change 2017 vs. 2016	Weather-Normal % Change	2015	% Change 2016 vs. 2015	Weather-Normal % Change
Retail Deliveries[a]							
Retail sales	89,337	96,808	(7.7)%	(4.2)%	96,618	0.2 %	3.5%
Transportation and other[b]	3,615	5,977	(39.5)%	n/a	6,238	(4.2)%	n/a
Total natural gas deliveries	92,952	102,785	(9.6)%	(4.2)%	102,856	(0.1)%	3.5%

	As of December 31,		
Number of Gas Customers	2017	2016	2015
Residential	629,690	623,647	616,994
Commercial & industrial	44,247	44,255	44,119
Total	673,937	667,902	661,113

Natural Gas revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[a]					
Retail sales	$ 655	$ 593	10.5%	$ 607	(2.3)%
Transportation and other[b]	32	31	3.2%	38	(18.4)%
Total natural gas revenues[c]	$ 687	$ 624	10.1%	$ 645	(3.3)%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from BGE and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from BGE, revenue also reflects the cost of natural gas.

(b) Transportation and other natural gas revenue includes off-system revenue of 3,615 mmcfs ($21 million), 5,977 mmcfs ($23 million), and 6,238 mmcfs ($35 million) for the years ended 2017, 2016 and 2015, respectively.

(c) Includes operating revenues from affiliates totaling $11 million, $14 million, and $14 million for the years ended 2017, 2016 and 2015, respectively.

Results of Operations—PHI

PHI's results of operations include the results of its three reportable segments, Pepco, DPL and ACE for all periods presented below. For "Predecessor" reporting periods, PHI's results of operations also include the results of PES and PCI. See Note 25 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information regarding PHI's reportable segments. All material intercompany accounts and transactions have been eliminated in consolidation. A separate specific discussion of the results of operations for Pepco, DPL and ACE is presented elsewhere in this report.

As a result of the PHI Merger, the following consolidated financial results present two separate reporting periods for 2016. The "Predecessor" reporting periods represent PHI's results of operations for the period of January 1, 2016 to March 23, 2016 and the year ended December 31, 2015. The "Successor" reporting periods represents PHI's results of operations for the year ended December 31, 2017 and for the period of March 24, 2016 to December 31, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	Successor		Predecessor	
	For the Year Ended December 31,	March 24 to December 31,	January 1 to March 23,	For the Year Ended December 31,
	2017	2016	2016	2015
Operating revenues	$ 4,679	$ 3,643	$ 1,153	$ 4,935
Purchased power and fuel	1,716	1,447	497	2,073
Revenues net of purchased power and fuel expense[(a)]	2,963	2,196	656	2,862
Other operating expenses				
Operating and maintenance	1,068	1,233	294	1,156
Depreciation and amortization	675	515	152	624
Taxes other than income	452	354	105	455
Total other operating expenses	2,195	2,102	551	2,235
Gain (loss) on sales of assets	1	(1)	—	46
Operating income	769	93	105	673
Other income and (deductions)				
Interest expense, net	(245)	(195)	(65)	(280)
Other, net	54	44	(4)	88
Total other income and (deductions)	(191)	(151)	(69)	(192)
Income (loss) before income taxes	578	(58)	36	481
Income taxes	217	3	17	163
Equity in earnings of unconsolidated affiliates	1	—	—	—
Net income (loss) from continuing operations	362	(61)	19	318
Net income from discontinued operations	—	—	—	9
Net income (loss) attributable to membership interest/common shareholders	$ 362	$ (61)	$ 19	$ 327

(a) PHI evaluates its operating performance using the measure of revenue net of purchased power and fuel expense for electric and natural gas sales. PHI believes revenue net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. PHI has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Successor Year Ended December 31, 2017

PHI's Net income was $362 million for the year ended December 31, 2017. There were no significant changes in the underlying trends affecting PHI's results of operations during the Successor year except for the impact of increases in electric distribution and natural gas rates within Revenue net of purchased power expense (Pepco electric distribution rates effective November 2016 and October 2017 in Maryland, Pepco electric distribution rates effective August 2017 in the District of Columbia, DPL electric distribution rates effective February 2017 in Maryland, DPL electric distribution and natural gas rates effective July 2016 and December 2016 in Delaware, and ACE electric distribution rates effective August 2016 and

October 2017 in New Jersey). Operating and maintenance expense incurred included the deferral of merger-related, rate case, and customer billing system costs to regulatory assets and lower uncollectible accounts expense, partially offset by a pre-tax impairment charge of $25 million. Income taxes expense incurred included unrecognized tax benefits of $59 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017, and was offset by a $27 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $35 million associated with the Tax Cuts and Jobs Act in 2017. For more information on 2017 results please refer to Results of Operations for Pepco, DPL, and ACE.

PHI's effective income tax rate for the year ended December 31, 2017 was 37.5%. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of effective income tax rates.

Successor Period of March 24, 2016 to December 31, 2016

PHI's Net loss for the Successor period of March 24, 2016 to December 31, 2016 was $61 million. There were no significant changes in the underlying trends affecting PHI's results of operations during the Successor period March 24, 2016 to December 31, 2016 except for the pre-tax recording of $392 million of non-recurring merger-related costs including merger integration and merger commitments within Operating and maintenance expense. For more information on 2016 results please refer to Results of Operations for Pepco, DPL and ACE.

PHI's effective income tax rate for the period of March 24, 2016 to December 31, 2016 was (5.2)%. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Predecessor Period of January 1, 2016 to March 23, 2016

PHI's Net income for the Predecessor period of January 1, 2016 to March 23, 2016 was $19 million. There were no significant changes in the underlying trends affecting PHI's results of operations during the Predecessor period of January 1, 2016 to March 23, 2016 except for the pre-tax recording of $29 million of non-recurring merger-related costs within Operating and maintenance expense and $18 million of preferred stock derivative expense within Other, net.

PHI's effective income tax rate for the period of January 1, 2016 to March 23, 2016 was 47.2%. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Predecessor Period Year Ended December 31, 2015

PHI's Net income was $327 million for the year ended December 31, 2015. There were no significant changes in the underlying trends affecting PHI's results of operations during the Predecessor year except for the impact of increases in electric distribution rates within Revenue net of purchased power expense (Pepco electric distribution rates effective April 2014 in the District of Columbia, Pepco electric distribution rates effective July 2014 in Maryland, and ACE electric distribution rates effective September 2014), partially offset by Operating and maintenance costs incurred due to the implementation of a new customer information system for Pepco, DPL, and ACE in 2015. Gain (loss) on sales of assets were $46 million, primarily due to 2015 gains recorded at Pepco associated with the sale of unimproved land, held as non-utility property.

PHI’s effective income tax rate for the year ended December 31, 2015 was 33.9%. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Results of Operations—Pepco

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$ 2,158	$ 2,186	$ (28)	$ 2,129	$ 57
Purchased power expense	614	706	92	719	13
Revenues net of purchased power expense[(a)]	1,544	1,480	64	1,410	70
Other operating expenses					
Operating and maintenance	454	642	188	439	(203)
Depreciation and amortization	321	295	(26)	256	(39)
Taxes other than income	371	377	6	376	(1)
Total other operating expenses	1,146	1,314	168	1,071	(243)
Gain on sales of assets	1	8	(7)	46	(38)
Operating income	399	174	225	385	(211)
Other income and (deductions)					
Interest expense, net	(121)	(127)	6	(124)	(3)
Other, net	32	36	(4)	28	8
Total other income and (deductions)	(89)	(91)	2	(96)	5
Income before income taxes	310	83	227	289	(206)
Income taxes	105	41	(64)	102	61
Net income	$ 205	$ 42	$ 163	$ 187	$ (145)

(a) Pepco evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. Pepco believes revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Pepco has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. Pepco's Net income for the year ended December 31, 2017, was higher than the same period in 2016, primarily due to a decrease in Operating and maintenance expense due to merger-related costs recognized in March 2016 and an increase in Revenue net of purchased power expense as a result of the distribution rate increases approved by the MDPSC effective November 2016 and October 2017 and an electric distribution rate increase approved by the DCPSC effective August 2017, partially offset by higher depreciation expense due to increased depreciation rates in Maryland effective November 2016. Income taxes expense incurred included unrecognized tax benefits of $21 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017. This decrease was offset by an increase in income taxes due to the $14 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $8 million associated with the Tax Cuts and Jobs Act in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. Pepco's Net income for the year ended December 31, 2016, was lower than the same period in 2015, primarily due to an increase in Operating and maintenance expense due to merger-related costs.

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Operating Revenue Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to Pepco's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that Pepco receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All Pepco customers have the choice to purchase electricity from competitive electric generation suppliers. The customers' choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the years ended December 31, 2017, 2016 and 2015 respectively, consisted of the following:

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Electric	66%	65%	65%

Retail customers purchasing electric generation from competitive electric generation suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		**December 31, 2016**		**December 31, 2015**	
	Number of customers	**% of total retail customers**	**Number of customers**	**% of total retail customers**	**Number of customers**	**% of total retail customers**
Electric	179,184	21%	176,372	21%	173,222	21%

Retail deliveries purchased from competitive electric generation suppliers represented 73% of Pepco's retail kWh sales to the District of Columbia customers and 60% of Pepco's retail kWh sales to Maryland customers for the year ended December 31, 2017; 73% of Pepco's retail kWh sales to the District of Columbia customers and 59% of Pepco's retail kWh sales to Maryland customers for the year ended December 31, 2016; and 71% of Pepco's retail kWh sales to the District of Columbia customers and 60% of Pepco's retail kWh sales to Maryland customers for year ended December 31, 2015.

Operating revenues include transmission enhancement credits that Pepco receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by Pepco to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

The changes in Pepco’s Operating revenues net of purchased power expense for the years ended December 31, 2017 and 2016 compared to the same periods in 2016 and 2015, respectively, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Volume	$ 16	$ 15
Distribution rate increase	66	5
Regulatory required programs	(12)	38
Transmission revenues	9	(1)
Other	(15)	13
Total increase	$ 64	$ 70

Volume. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2017 compared to the same period in 2016 primarily reflects the impact of residential customer growth. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2016 compared to the same period in 2015 primarily reflects the impact of moderate economic and customer growth.

Distribution Rate Increase. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2017 compared to the same period in 2016 was primarily due to the impact of the higher electric distribution rates charged to customers in Maryland that became effective in November 2016 and October 2017 and higher electric distribution rates charged to customers in the District of Columbia that became effective August 2017. The increase in distribution revenue for the year ended December 31, 2016 compared to the same period in 2015 was primarily due to the impact of the new electric distribution rates charged to customers in Maryland that became effective in November 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Revenue Decoupling. Pepco’s results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of Pepco in Maryland and in the District of Columbia, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland and the District of Columbia to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in Pepco's service territory. The changes in heating and cooling degree days in Pepco's service territory for the years ended December 31, 2017 and December 31, 2016 compared to same periods in 2016 and 2015, respectively, and normal weather consisted of the following:

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	3,312	3,624	3,869	(8.6)%	(14.4)%
Cooling Degree-Days	1,767	1,936	1,653	(8.7)%	6.9 %

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	3,624	3,657	3,887	(0.9)%	(6.8)%
Cooling Degree-Days	1,936	1,936	1,626	— %	19.1 %

Regulatory Required Programs. This represents the change in Operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in Pepco's Consolidated Statements of Operations and Comprehensive Income. Revenue from regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to lower demand-side management program surcharge revenue due to a decrease in kWh sales and a rate decrease effective January 2017. Revenue from regulatory required programs increased for the year ended December 31, 2016 compared to the same period in 2015 primarily due to higher demand-side management program surcharge revenue due to a rate increase effective February 2016. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. Transmission revenue increased for the year ended December 31, 2017 compared to the same period in 2016 due to higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses. Transmission revenue decreased for the year ended December 31, 2016 compared to the same period in 2015 due to lower revenue related to the MAPP abandonment recovery period that ended in March 2016, partially offset by higher rates effective June 1, 2016 and June 1, 2015 related to increases in transmission plant investment and operating expenses.

Other. The decrease in other operating revenue net of purchased power expense for the year ended December 31, 2017 compared to the same period in 2016 is primarily due to lower pass-through revenue (which is substantially offset in Taxes other than income) primarily the result of lower sales that resulted in a decrease in utility taxes that are collected by Pepco on behalf of the jurisdiction. The increase in other operating revenue net of purchased power expense for the year ended December 31, 2016 compared to the same period in 2015 is primarily due to higher pass-through revenue (which is substantially offset in Taxes other than income) primarily the result of higher sales that resulted in an increase in utility taxes that are collected by Pepco on behalf of the jurisdiction.

Operating and Maintenance Expense

	Year Ended December 31, 2017	Year Ended December 31, 2016	Increase (Decrease) 2017 vs. 2016	Year Ended December 31, 2016	Year Ended December 31, 2015	Increase (Decrease) 2016 vs. 2015
Operating and maintenance expense - baseline	$ 449	$ 631	$ (182)	$ 631	$ 427	$ 204
Operating and maintenance expense - regulatory required programs[a]	5	11	(6)	11	12	(1)
Total operating and maintenance expense	$ 454	$ 642	$ (188)	$ 642	$ 439	$ 203

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ 16	$ 7
Storm-related costs	(1)	6
Remeasurement of AMI-related regulatory asset[a]	(7)	7
Deferral of billing system transition costs to regulatory asset	—	(7)
Deferral of merger-related costs to regulatory asset	—	(11)
Uncollectible accounts expense - provision	(11)	8
BSC and PHISCO allocations[b]	(24)	53
Merger commitments[c]	(132)	126
Write-off of construction work in progress[d]	(14)	13
Other	(9)	2
	(182)	204
Regulatory required programs		
Purchased power administrative costs	(6)	(1)
Total (decrease) increase	$ (188)	$ 203

(a) Related to a remeasurement of a regulatory asset for legacy meters recognized in 2016.
(b) Primarily related to merger severance and compensation costs recognized in 2016
(c) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.
(d) Primarily resulting from a review of capital projects during the fourth quarter of 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[a]	$ 28	$ 11
Regulatory asset amortization[b]	8	(11)
Regulatory required programs (c)	(10)	39
Total increase	$ 26	$ 39

(a) Depreciation expense increased primarily due to higher depreciation rates in Maryland effective November 2016 and ongoing capital expenditures.

(b) Regulatory asset amortization increased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to higher amortization of AMI-related regulatory assets, partially offset by lower amortization of MAPP abandonment costs. Regulatory asset amortization decreased for the year ended December 31, 2016 compared to the same period in 2015 primarily due to lower amortization of MAPP abandonment costs.

(c) Regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to an EmPower Maryland surcharge rate decrease effective February 2016 and increased for the year ended December 31, 2016 compared to the same period in 2015 due to an EmPower Maryland surcharge rate increase effective February 2015. Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to lower utility taxes that are collected and passed through by Pepco (which is substantially offset in Operating revenues), partially offset by higher property taxes. Taxes other than income for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher utility taxes that are collected and passed through by Pepco, partially offset by lower property taxes in Maryland.

Gain on Sales of Assets

Gain on sales of assets for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to higher gains recorded in 2016 at Pepco associated with the sale of land. Gain on sale of assets for the year ended December 31, 2016 compared to the same period in 2015 decreased primarily due to higher gains recorded in 2015 at Pepco associated with the sale of land held as non-utility property.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to the recording of interest expense for an uncertain tax position in 2016, partially offset by higher interest expense associated with the issuance of long term debt in May 2017. Interest expense, net for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to the recording of interest expense for an uncertain tax position in 2016, partially offset by an increase in capitalized AFUDC debt.

Other, Net

Other, net for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to the September 2016 reversal of contributions in aid of construction tax gross-up reserves due to the determination that there is no legal obligation to refund customers per contract term. Other, net for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher income from AFUDC equity.

Effective Income Tax Rate

Pepco's effective income tax rates for the years ended December 31, 2017, 2016, and 2015 were 33.9%, 49.4%, and 35.3%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates. In the first quarter of 2017, Pepco decreased its liability for unrecognized tax benefits by $21 million resulting in a benefit to Income taxes and corresponding decrease to its effective tax rate. This decrease was offset by an increase in income taxes due to the $14 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $8 million associated with the Tax Cuts and Jobs Act in 2017.

As a result of the merger, Pepco recorded an after-tax charge of $31 million during the year ended December 31, 2016 as a result of the assessment and remeasurement of certain federal and state uncertain tax positions.

Pepco Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather - Normal % Change	2015	% Change 2016 vs. 2015	Weather - Normal % Change
Retail Deliveries[(a)]							
Residential	7,831	8,372	(6.5)%	(2.5)%	8,452	(0.9)%	(0.3)%
Small commercial & industrial	1,303	1,459	(10.7)%	(9.0)%	1,471	(0.8)%	(0.6)%
Large commercial & industrial	14,988	15,559	(3.7)%	(2.5)%	15,351	1.4 %	1.6 %
Public authorities & electric railroads	734	724	1.4 %	1.4 %	714	1.4 %	1.7 %
Total retail deliveries	24,856	26,114	(4.8)%	(2.8)%	25,988	0.5 %	0.9 %

	As of December 31,		
Number of Electric Customers	2017	2016	2015
Residential	792,211	780,652	767,392
Small commercial & industrial	53,489	53,529	53,838
Large commercial & industrial	21,732	21,391	20,976
Public authorities & electric railroads	144	130	129
Total	867,576	855,702	842,335

Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[(a)]					
Residential	$ 956	$ 1,000	(4.4)%	$ 970	3.1 %
Small commercial & industrial	147	150	(2.0)%	153	(2.0)%
Large commercial & industrial	810	803	0.9 %	777	3.3 %
Public authorities & electric railroads	33	32	3.1 %	30	6.7 %
Total retail	1,946	1,985	(2.0)%	1,930	2.8 %
Other revenue[(b)]	212	201	5.5 %	199	1.0 %
Total electric revenue[(c)]	$ 2,158	$ 2,186	(1.3)%	$ 2,129	2.7 %

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from Pepco and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from Pepco, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $6 million for the year ended December 31, 2017 and $5 million for the years ended December 31, 2016 and 2015, respectively.

Results of Operations—DPL

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$ 1,300	$ 1,277	$ 23	$ 1,302	$ (25)
Purchased power and fuel expense	532	583	51	634	51
Revenues net of purchased power and fuel expense[(a)]	768	694	74	668	26
Other operating expenses					
Operating and maintenance	315	441	126	304	(137)
Depreciation and amortization	167	157	(10)	148	(9)
Taxes other than income	57	55	(2)	51	(4)
Total other operating expenses	539	653	114	503	(150)
Gain on sales of assets	—	9	(9)	—	9
Operating income	229	50	179	165	(115)
Other income and (deductions)					
Interest expense, net	(51)	(50)	(1)	(50)	—
Other, net	14	13	1	10	3
Total other income and (deductions)	(37)	(37)	—	(40)	3
Income before income taxes	192	13	179	125	(112)
Income taxes	71	22	(49)	49	27
Net income (loss)	$ 121	$ (9)	$ 130	$ 76	$ (85)

(a) DPL evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. DPL believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements because they provide information that can be used to evaluate its operational performance. DPL has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense and Revenue net of fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in Net income was driven primarily by a decrease in Operating and maintenance expense primarily due to merger-related costs recognized in March 2016 and an increase in Revenues net of purchased power and fuel expense as a result of the distribution rate increases approved by the DPSC effective July and December 2016 and a distribution rate increase approved by the MDPSC effective February 2017, partially offset by higher depreciation expense due to increased depreciation rates in Maryland effective February 2017. Income taxes expense incurred included unrecognized tax benefits of $16 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017. This decrease was offset by an increase in income taxes due to the $6 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $5 million associated with the Tax Cuts and Jobs Act in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The decrease in Net income was driven primarily by an increase in Operating and maintenance expense primarily due to merger-related costs.

Operating Revenue Net of Purchased Power and Fuel Expense

Operating revenues include revenue from the distribution and supply of electricity and natural gas to DPL's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that DPL receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric and natural gas revenues and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All DPL customers have the choice to purchase electricity and gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the years ended December 31, 2017, 2016 and 2015, consisted of the following:

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Electric	52%	51%	51%
Natural Gas	33%	28%	31%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		**December 31, 2016**		**December 31, 2015**	
	Number of customers	**% of total retail customers**	**Number of customers**	**% of total retail customers**	**Number of customers**	**% of total retail customers**
Electric	77,790	14.9%	78,675	15.2%	77,603	15.1%
Natural Gas	154	0.1%	156	0.1%	159	0.1%

Retail deliveries purchased from competitive electric generation suppliers represented 54% of DPL’s retail kWh sales to Delaware customers and 48% of DPL retail kWh sales to Maryland customers for the year ended December 31, 2017; 53% of DPL's retail kWh sales to Delaware customers and 48% of DPL's retail kWh sales to Maryland customers for the year ended December 31, 2016; and 53% of DPL's retail kWh sales to Delaware customers and 47% of DPL's retail kWh sales to Maryland customers for the year ended December 31, 2015.

Operating revenues include transmission enhancement credits that DPL receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Natural gas operating revenues includes sources that are subject to price regulation (Regulated Gas Revenue) and those that generally are not subject to price regulation (Other Gas Revenue). Regulated gas revenue includes the revenue DPL receives from on-system natural gas delivered sales and the transportation of natural gas for customers within its service territory at regulated rates. Other gas revenue consists of off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers. Off-system sales are made possible when low demand for natural gas by regulated customers creates excess pipeline capacity.

Purchased power expense consists of the cost of electricity purchased by DPL to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders. Purchased fuel expense consists of the cost of gas purchased by DPL to fulfill its obligation to regulated gas customers and, as such, is recoverable from customers in accordance with the terms of public service commission orders. It also includes the cost of gas purchased for off-system sales.

The changes in DPL's Operating revenues net of purchased power and fuel expense for the years ended December 31, 2017 and 2016 compared to the same periods in 2016 and 2015, respectively, consisted of the following:

	2017 vs. 2016			2016 vs. 2015		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Weather	$ (7)	$ (13)	$ (20)	$ —	$ —	$ —
Volume	2	11	13	2	2	4
Distribution rate increase	65	4	69	2	1	3
Regulatory required programs	(3)	—	(3)	10	—	10
Transmission revenues	10	—	10	8	—	8
Other	6	(1)	5	1	—	1
Increase in revenue net of purchased power expense	$ 73	$ 1	$ 74	$ 23	$ 3	$ 26

Revenue Decoupling. DPL's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of DPL in Maryland, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland to fluctuate from period to period are changes

in the number of customers and changes in the approved distribution charge per customer. A modified fixed variable rate design, which would provide for a charge not tied to a customer's volumetric consumption of electricity or natural gas, has been proposed for DPL electricity and natural gas customers in Delaware. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

Weather. The demand for electricity and natural gas in areas not subject to the BSA is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. During the year ended December 31, 2017 compared to the same period in 2016, operating revenues net of purchased power and fuel expenses was lower due to the impact of unfavorable weather conditions in DPL's service territory. During the year ended December 31, 2016 compared to the same period in 2015, weather was not a significant impact.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in DPL's electric service territory and a 30-year period in DPL's natural gas service territory. The changes in heating and cooling degree days in DPL's service territory for the years ended December 31, 2017 and December 31, 2016 compared to same periods in 2016 and 2015, respectively, and normal weather consisted of the following:

Electric Service Territory	**For the Years Ended December 31,**			**% Change**	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	4,077	4,319	4,519	(5.6)%	(9.8)%
Cooling Degree-Days	1,300	1,453	1,210	(10.5)%	7.4 %

	For the Years Ended December 31,			**% Change**	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	4,319	4,421	4,572	(2.3)%	(5.5)%
Cooling Degree-Days	1,453	1,328	1,188	9.4 %	22.3 %

Natural Gas Service Territory	**For the Years Ended December 31,**			**% Change**	
Heating and Cooling Degree-Days	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	4,203	4,454	4,739	(5.6)%	(11.3)%

	For the Years Ended December 31,			**% Change**	
Heating and Cooling Degree-Days	**2016**	**2015**	**Normal**	**2016 vs. 2015**	**2016 vs. Normal**
Heating Degree-Days	4,454	4,618	4,754	(3.6)%	(6.3)%

Volume. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2017 compared to the same period in 2016, primarily reflects the impact of customer growth. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects

of weather, for the year ended December 31, 2016 compared to the same period in 2015, primarily reflects the impact of moderate economic and customer growth.

Distribution Rate Increase. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2017 compared to the same period in 2016 was primarily due to the impact of the higher electric distribution and natural gas rates charged to Delaware customers that became effective in July and December 2016 and the impact of higher electric distribution rates charged to Maryland customers that became effective in February 2017. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2016 compared to the same period in 2015 was primarily due to the impact of the new electric distribution rates charged to Delaware customers that became effective in July 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in DPL's Consolidated Statements of Operations and Comprehensive Income. Revenue from regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to lower demand-side management program surcharge revenue due to a decrease in kWh sales and a rate decrease effective January 2017. Revenue from regulatory required programs increased for the year ended December 31, 2016 compared to the same period in 2015 primarily due to higher demand-side management program surcharge revenue due to a rate increase effective February 2016. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. Transmission revenue increased for the year ended December 31, 2017 compared to the same period in 2016 due to higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses. Transmission revenue increased for the year ended December 31, 2016 compared to the same period in 2015 due to higher rates effective June 1, 2016 and June 1, 2015 related to increases in transmission plant investment and operating expenses, partially offset by lower revenue related to the MAPP abandonment recovery period that ended in March 2016.

Other. Other revenue, which can vary period to period, includes rental revenue, revenue related to late payment charges, assistance provided to other utilities through mutual assistance programs, and recoveries of other taxes.

Operating and Maintenance Expense

	Year Ended December 31, 2017	Year Ended December 31, 2016	Increase (Decrease)	Year Ended December 31, 2016	Year Ended December 31, 2015	Increase (Decrease)
Operating and maintenance expense - baseline	$ 306	$ 425	$ (119)	$ 425	$ 289	$ 136
Operating and maintenance expense - regulatory required programs[(a)]	9	16	(7)	16	15	1
Total operating and maintenance expense	$ 315	$ 441	$ (126)	$ 441	$ 304	$ 137

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ 4	$ 1
Storm-related costs	4	5
Deferral of billing system transition costs to regulatory asset	2	(2)
Deferral of merger-related costs to regulatory asset	(6)	(4)
Uncollectible accounts expense - provision	(10)	3
BSC and PHISCO allocations[(a)]	(15)	34
Merger commitments[(b)]	(88)	86
Write-off of construction work in progress[(c)]	(3)	4
Other	(7)	9
	(119)	136
Regulatory required programs		
Purchased power administrative costs	(7)	1
Total (decrease) increase	$ (126)	$ 137

(a) Primarily related to merger severance and compensation costs recognized in 2016.
(b) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.
(c) Primarily resulting from a review of capital projects during the fourth quarter of 2016.

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Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[(a)]	$ 14	$ 7
Regulatory asset amortization [(b)]	—	(7)
Regulatory required programs[(c)]	(4)	9
Total increase	$ 10	$ 9

(a) Depreciation expense increased due to higher depreciation rates in Maryland effective February 2017 and due to ongoing capital expenditures.

(b) Regulatory asset amortization decreased for the year ended December 31, 2016 compared to the same period in 2015 primarily due to lower amortization of MAPP abandonment costs.

(c) Regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to an EmPower Maryland surcharge rate decrease effective February 2016 and increased for the year ended December 31, 2016 compared to the same period in 2015 due to an EmPower Maryland surcharge rate increase effective February 2015. Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. A partially offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the year ended December 31, 2017 compared to the same period in 2016 remained relatively constant. Taxes other than income for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher property taxes in Maryland related to higher property assessments and rate increases.

Gain on Sales of Assets

Gain on sales of assets for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to gains recorded in 2016 at DPL associated with the sale of land held as non-utility property. Gain on sales of assets for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to gains recorded in 2016 at DPL associated with the sale of land held as non-utility property.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2017 compared to the same period in 2016 and for the year ended December 31, 2016 compared to the same period in 2015 remained relatively constant.

Other, Net

Other, net for the year ended December 31, 2017 compared to the same period in 2016 remained relatively constant. Other, net for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher income from AFUDC equity.

Effective Income Tax Rate

DPL’s effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were 37.0%, 169.2% and 39.2%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates. In the first quarter of 2017, DPL decreased its liability for unrecognized tax benefits by $16 million resulting in a benefit to Income taxes and corresponding decrease to its effective tax rate. This decrease was offset by an increase in income taxes due to the $6 million December 2017 impairment of certain transmission-related income tax regulatory assets and the one-time non-cash impacts of $5 million associated with the Tax Cuts and Jobs Act in 2017.

As a result of the merger, DPL recorded an after-tax charge of $23 million during the year ended December 31, 2016 as a result of the assessment and remeasurement of certain federal and state uncertain tax positions.

DPL Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather - Normal % Change	2015	% Change 2016 vs. 2015	Weather - Normal % Change
Retail Deliveries[a]							
Residential	5,010	5,181	(3.3)%	(0.3)%	5,337	(2.9)%	(2.9)%
Small commercial & industrial	2,237	2,290	(2.3)%	(0.9)%	2,311	(0.9)%	(1.3)%
Large commercial & industrial	4,585	4,623	(0.8)%	0.3 %	4,781	(3.3)%	(3.9)%
Public authorities & electric railroads	44	46	(4.3)%	(8.3)%	45	2.2 %	6.7 %
Total retail deliveries	11,876	12,140	(2.2)%	(0.2)%	12,474	(2.7)%	(2.9)%

	As of December 31,		
Number of Electric Customers	2017	2016	2015
Residential	459,389	456,181	453,145
Small commercial & industrial	60,697	60,173	59,714
Large commercial & industrial	1,400	1,411	1,410
Public authorities & electric railroads	629	643	643
Total	522,115	518,408	514,912

Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[a]					
Residential	$ 660	$ 668	(1.2)%	$ 681	(1.9)%
Small commercial & industrial	185	187	(1.1)%	192	(2.6)%
Large commercial & industrial	102	98	4.1 %	101	(3.0)%
Public authorities & electric railroads	14	13	7.7 %	12	8.3 %
Total retail	961	966	(0.5)%	986	(2.0)%
Other revenue[b]	178	163	9.2 %	152	7.2 %
Total electric revenue[c]	$ 1,139	$ 1,129	0.9 %	$ 1,138	(0.8)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from DPL and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from DPL, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $8 million, $7 million and $6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

DPL Gas Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in mmcf)	2017	2016	% Change 2017 vs. 2016	Weather Normal % change	2015	% Change 2016 vs. 2015	Weather Normal % change
Retail Deliveries							
Residential	13,107	13,341	(1.8)%	5.2%	13,816	(3.4)%	(0.4)%
Transportation & other	6,538	6,201	5.4 %	6.9%	6,193	0.1 %	1.4 %
Total gas deliveries	19,645	19,542	0.5 %	5.7%	20,009	(2.3)%	0.1 %

Number of Gas Customers	As of December 31, 2017	2016	2015
Residential	122,347	120,951	119,771
Commercial & industrial	9,853	9,801	9,712
Transportation & other	154	156	159
Total	132,354	130,908	129,642

Gas Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[(a)]					
Retail sales	$ 136	$ 127	7.1%	$ 143	(11.2)%
Transportation & other[(b)]	25	21	19.0%	21	— %
Total gas revenues	$ 161	$ 148	8.8%	$ 164	(9.8)%

(a) Reflects delivery volumes and revenues from customers purchasing natural gas directly from DPL and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from DPL, revenue also reflects the cost of natural gas.

(b) Transportation and other revenue includes off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers.

Results of Operations—ACE

	2017	2016	Favorable (unfavorable) 2017 vs. 2016 variance	2015	Favorable (unfavorable) 2016 vs. 2015 variance
Operating revenues	$ 1,186	$ 1,257	$ (71)	$ 1,295	$ (38)
Purchased power expense	570	651	81	708	57
Revenues net of purchased power expense[a]	616	606	10	587	19
Other operating expenses					
Operating and maintenance	307	428	121	271	(157)
Depreciation and amortization	146	165	19	175	10
Taxes other than income	6	7	1	7	—
Total other operating expenses	459	600	141	453	(147)
Gain on sales of assets	—	1	(1)	—	1
Operating income	157	7	150	134	(127)
Other income and (deductions)					
Interest expense, net	(61)	(62)	1	(64)	2
Other, net	7	9	(2)	3	6
Total other income and (deductions)	(54)	(53)	(1)	(61)	8
Income (loss) before income taxes	103	(46)	149	73	(119)
Income taxes	26	(4)	(30)	33	37
Net income (loss)	$ 77	$ (42)	$ 119	$ 40	$ (82)

(a) ACE evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. ACE believes Revenue net of purchased power expense is a useful measurement of its performance because it provides information that can be used to evaluate its operational performance. ACE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016. The increase in Net income was primarily due to a decrease in Operating and maintenance expense primarily due to merger-related costs recognized in March 2016 and an increase in Revenues net of purchased power expense resulting from impact of distribution rate increases approved by the NJBPU effective August 2016 and October 2017 and an increase in transmission formula rate revenues, partially offset by lower customer usage. Income taxes expense incurred included unrecognized tax benefits of $22 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017. This decrease was offset by an increase in income taxes due to the December 2017 impairment of certain transmission-related income tax regulatory assets of $7 million and the one-time non-cash impacts of $2 million associated with the Tax Cuts and Jobs Act in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015. The decrease in Net income was driven primarily by an increase in Operating and maintenance expense primarily due to merger-related costs.

Revenues Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to ACE's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that ACE receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All ACE customers have the choice to purchase electricity from competitive electric generation suppliers. The customer's choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the years ended December 31, 2017, 2016 and 2015, consisted of the following:

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Electric	48%	47%	45%

Retail customers purchasing electric generation from competitive electric generation suppliers at December 31, 2017, 2016 and 2015 consisted of the following:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of customers	**% of total retail customers**	**Number of customers**	**% of total retail customers**	**Number of customers**	**% of total retail customers**
Electric	86,155	16%	94,562	17%	78,299	14%

Operating revenues include revenue from Transition Bond Charges that ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds, revenue from the resale in the PJM wholesale markets for energy and capacity purchased under contracts with unaffiliated NUGs, and revenue from transmission enhancement credits.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by ACE to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

The changes in ACE's Operating revenues net of purchased power expense for the years ended December 31, 2017 and 2016 compared to the same periods in 2016 and 2015, respectively, consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Weather	$ (3)	$ (3)
Volume	(20)	1
Distribution rate increase	40	14
Regulatory required programs	(24)	(14)
Transmission revenues	22	23
Other	(5)	(2)
Increase in revenue net of purchased power expense	$ 10	$ 19

Weather. The demand for electricity is affected by weather conditions. With respect to the electric business, very warm weather in summer months and very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity. Conversely, mild weather reduces demand. During the year ended December 31, 2017 compared to the same period in 2016, operating revenues net of purchased power and fuel expense was lower due to the impact of unfavorable winter weather conditions in ACE's service territory. During the year ended December 31, 2016 compared to the same period in 2015, operating revenues net of purchased power and fuel expense was lower due to the impact of unfavorable winter weather conditions in ACE's service territory.

For retail customers of ACE, distribution revenues are not decoupled for the distribution of electricity by ACE, and thus are subject to variability due to changes in customer consumption. Therefore, changes in customer usage (due to weather conditions, energy prices, energy savings programs or other reasons) from period to period have a direct impact on reported distribution revenue for customers in ACE's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in ACE's service territory. The changes in heating and cooling degree days in ACE's service territory for the years ended December 31, 2017 and December 31, 2016 compared to same periods in 2016 and 2015, respectively, and normal weather consisted of the following:

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Heating Degree-Days	4,206	4,487	4,713	(6.3)%	(10.8)%
Cooling Degree-Days	1,228	1,303	1,115	(5.8)%	10.1 %

	For the Years Ended December 31,			% Change	
Heating and Cooling Degree-Days	2016	2015	Normal	2016 vs. 2015	2016 vs. Normal
Heating Degree-Days	4,487	4,671	4,768	(3.9)%	(5.9)%
Cooling Degree-Days	1,303	1,259	1,093	3.5 %	19.2 %

Volume. The decrease in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2017 compared to the same period in 2016, primarily reflects lower average customer usage, partially offset by the impact of customer growth. The increase in operating revenues net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the year ended December 31, 2016 compared to the same period in 2015, primarily reflects the impact of moderate economic and customer growth, partially offset by lower average customer usage.

Distribution Rate Increase. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2017 compared to the same period in 2016 was primarily due to the impact of the new electric distribution rates charged to customers that became effective in August 2016 and October 2017. The increase in electric operating revenues net of purchased power expense for the year ended December 31, 2016 compared to the same period in 2015 was primarily due to the impact of the new electric distribution rates charged to customers that became effective in August 2016. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in ACE’s Consolidated Statements of Operations and Comprehensive Income. Revenue from regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 due to a rate decrease effective October 2016 for the ACE Transition Bond Charge and Market Transition Charge Tax. Revenue from required regulatory programs decreased for the year ended December 31, 2016 compared to the same period in 2015 due to rate decreases effective October 2016 and October 2015 for the ACE Market Transition charge tax. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. Transmission revenue increased for the year ended December 31, 2017 compared to the same period in 2016 due to higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses. Transmission revenue increased for the year ended December 31, 2016 compared to the same period in 2015 due to higher rates effective June 1, 2016 and June 1, 2015 related to increases in transmission plant investment and operating expenses.

Operating and Maintenance Expense

	Year Ended December 31,		Increase (Decrease)	Year Ended December 31,		Increase (Decrease)
	2017	**2016**	**2017 vs. 2016**	**2016**	**2015**	**2016 vs. 2015**
Operating and maintenance expense - baseline	$ 303	$ 424	$ (121)	$ 424	$ 267	$ 157
Operating and maintenance expense - regulatory required programs[(a)]	4	4	—	4	4	—
Total operating and maintenance expense	$ 307	$ 428	$ (121)	$ 428	$ 271	$ 157

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Baseline		
Labor, other benefits, contracting and materials	$ 9	$ 6
BSC and PHISCO allocations[(a)]	(11)	26
Merger commitments[(b)]	(111)	111
Deferral of merger-related costs to regulatory asset	(9)	—
Other	1	14
Total (decrease) increase	$ (121)	$ 157

(a) Primarily related to merger severance and compensation costs recognized in 2016.
(b) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for 2017 compared to 2016 and 2016 compared to 2015 consisted of the following:

	Increase (Decrease) 2017 vs. 2016	Increase (Decrease) 2016 vs. 2015
Depreciation expense[(a)]	$ 6	$ 6
Regulatory asset amortization	(2)	(4)
Required regulatory programs[(b)]	(24)	(12)
Other	1	—
Total decrease	$ (19)	$ (10)

(a) Depreciation expense increased due to ongoing capital expenditures.

(b) Regulatory required programs decreased for the year ended December 31, 2017 compared to the same period in 2016 primarily as a result of lower revenue due to a rate decrease effective October 2016 for the ACE Transition Bond Charge and Market Transition Charge Tax. Required regulatory programs amortization decreased for the year ended December 31, 2016 compared to the same period in 2015 primarily as a result of lower revenue due to a rate decrease effective October 2015 for the ACE Market Transition charge tax. Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the year ended December 31, 2017 compared to the same period in 2016, remained constant. Taxes other than income for the year ended December 31, 2016 compared to the same period in 2015, remained constant.

Interest Expense, Net

Interest expense, net remained relatively consistent for the year ended December 31, 2017, compared to the same period in 2016, and the year ended December 31, 2016, compared to the same period in 2015.

Gain on Sales of Assets

Gain on sales of assets for the year ended December 31, 2017 compared to the same period in 2016 decreased primarily due to gains recorded in 2016 at ACE associated with the sale of property. Gain on sales of assets for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to gains recorded in 2016 at ACE associated with the sale of property.

Other, Net

Other, net for the year ended December 31, 2017 compared to the same period in 2016 remained relatively constant. Other, net for the year ended December 31, 2016 compared to the same period in 2015 increased primarily due to higher income from AFUDC equity.

Effective Income Tax Rate

ACE's effective income tax rates for the years ended December 31, 2017, 2016 and 2015 were 25.2%, 8.7%, and 45.2%, respectively. See Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates. In the first quarter of 2017, ACE decreased its liability for unrecognized tax benefits by $22 million resulting in a benefit to Income taxes and corresponding decrease to its effective tax rate. This decrease was offset by an increase in income taxes due to the December 2017 impairment of certain transmission-related income tax regulatory assets of $7 million and the one-time non-cash impacts of $2 million associated with the Tax Cuts and Jobs Act in 2017.

As a result of the merger, ACE recorded an after-tax charge of $22 million during the year ended December 31, 2016 as a result of the assessment and remeasurement of certain federal and state uncertain tax positions.

ACE Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	2017	2016	% Change 2017 vs. 2016	Weather - Normal % Change	2015	% Change 2016 vs. 2015	Weather - Normal % Change
Retail Deliveries[a]							
Residential	3,853	4,153	(7.2)%	(6.2)%	4,322	(3.9)%	(2.9)%
Small commercial & industrial	1,286	1,455	(11.6)%	(11.1)%	1,288	13.0 %	13.5 %
Large commercial & industrial	3,399	3,402	(0.1)%	0.4 %	3,594	(5.3)%	(5.2)%
Public authorities & electric railroads	47	49	(4.1)%	(4.1)%	45	8.9 %	8.9 %
Total retail deliveries	8,585	9,059	(5.2)%	(4.5)%	9,249	(2.1)%	(1.4)%

	As of December 31,		
Number of Electric Customers	2017	2016	2015
Residential	487,168	484,240	482,000
Small commercial & industrial	61,013	61,008	60,745
Large commercial & industrial	3,684	3,763	3,871
Public authorities & electric railroads	636	610	529
Total	552,501	549,621	547,145

Electric Revenue	2017	2016	% Change 2017 vs. 2016	2015	% Change 2016 vs. 2015
Retail Sales[a]					
Residential	$ 619	$ 664	(6.8)%	$ 690	(3.8)%
Small commercial & industrial	166	183	(9.3)%	175	4.6 %
Large commercial & industrial	189	201	(6.0)%	213	(5.6)%
Public authorities & electric railroads	13	13	— %	12	8.3 %
Total retail	987	1,061	(7.0)%	1,090	(2.7)%
Other revenue[b]	199	196	1.5 %	205	(4.4)%
Total electric revenue[c]	$ 1,186	$ 1,257	(5.6)%	$ 1,295	(2.9)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from ACE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from ACE, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $2 million, $3 million and $4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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Liquidity and Capital Resources

Exelon activity presented below includes the activity of PHI, Pepco, DPL and ACE, from the PHI Merger effective date of March 24, 2016 through December 31, 2017. Exelon prior year activity is unadjusted for the effects of the PHI Merger. Due to the application of push-down accounting to the PHI entity, PHI's activity is presented in two separate reporting periods, the legacy PHI activity through March 23, 2016 (Predecessor), and PHI activity for the remainder of the period after the PHI merger date (Successor). For each of Pepco, DPL and ACE the activity presented below include its activity for the years ended December 31, 2017, 2016 and 2015. All results included throughout the liquidity and capital resources section are presented on a GAAP basis.

The Registrants' operating and capital expenditures requirements are provided by internally generated cash flows from operations as well as funds from external sources in the capital markets and through bank borrowings. The Registrants' businesses are capital intensive and require considerable capital resources. Each Registrant's access to external financing on reasonable terms depends on its credit ratings and current overall capital market business conditions, including that of the utility industry in general. If these conditions deteriorate to the extent that the Registrants no longer have access to the capital markets at reasonable terms, the Registrants have access to unsecured revolving credit facilities with aggregate bank commitments of $9 billion. In addition, Generation has $480 million in bilateral facilities with banks which have various expirations between January 2019 and December 2019. The Registrants utilize their credit facilities to support their commercial paper programs, provide for other short-term borrowings and to issue letters of credit. See the "Credit Matters" section below for further discussion. The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

The Registrants primarily use their capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay dividends, fund pension and other postretirement benefit obligations and invest in new and existing ventures. The Registrants spend a significant amount of cash on capital improvements and construction projects that have a long-term return on investment. Additionally, ComEd, PECO, BGE, Pepco, DPL and ACE operate in rate-regulated environments in which the amount of new investment recovery may be delayed or limited and where such recovery takes place over an extended period of time. See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further discussion of the Registrants' debt and credit agreements.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that sufficient funds will be available in certain minimum amounts to decommission the facility. These NRC minimum funding levels are based upon the assumption that decommissioning activities will commence after the end of the current licensed life of each unit. If a unit fails the NRC minimum funding test, then the plant's owners or parent companies would be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional cash contributions to the NDT fund to ensure sufficient funds are available. See Note 15 - Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for additional information on the NRC minimum funding requirements.

If a nuclear plant were to early retire there is a risk that it will no longer meet the NRC minimum funding requirements due to the earlier commencement of decommissioning activities and a shorter time period over which the NDT fund investments could appreciate in value. A shortfall could require Exelon to post parental guarantees for Generation's share of the obligations. However, the amount of any required guarantees will ultimately depend on the decommissioning approach adopted at each site, the associated level of costs, and the decommissioning trust fund investment performance going forward.

Within two years after shutting down a plant, Generation must submit a post-shutdown decommissioning activities report (PSDAR) to the NRC that includes the planned option for decommissioning the site. As discussed in Note 15 - Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements, Generation filed its biennial decommissioning funding status report with the NRC on March 31, 2017 and demonstrated adequate funding assurance for all nuclear units currently operating. As of December 31, 2017, across the four alternative decommissioning approaches available, Generation estimates a parental guarantee of up to $90 million from Exelon could be required for TMI, dependent upon the ultimate decommissioning approach selected. For Oyster Creek, none of the alternative decommissioning approaches available would require Exelon to post a parental guarantee. In the event PSEG decides to early retire Salem, Generation estimates a parental guarantee of up to $45 million from Exelon could be required for Salem, dependent upon the ultimate decommissioning approach selected.

Upon issuance of any required financial guarantees, each site would be able to utilize the respective NDT funds for radiological decommissioning costs, which represent the majority of the total expected decommissioning costs. However, the NRC must approve an additional exemption in order for the plant's owner(s) to utilize the NDT fund to pay for non-radiological decommissioning costs (i.e., spent fuel management and site restoration costs). If a unit does not receive this exemption, the costs would be borne by the owner(s). While the ultimate amounts may vary greatly and could be reduced by alternate decommissioning scenarios and/or reimbursement of certain costs under the United States Department of Energy reimbursement agreements or future litigation, across the four alternative decommissioning approaches available, if TMI or Oyster Creek were to fail to obtain the exemption, Generation estimates it could incur spent fuel management and site restoration costs over the next ten years of up to $225 million and $200 million net of taxes, respectively, dependent upon the ultimate decommissioning approach selected. In the event PSEG decides to early retire Salem and Salem were to fail to obtain the exemption, Generation estimates it could incur spent fuel management and site restoration costs over the next ten years of up to $80 million net of taxes.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes used debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon issued approximately 33 million shares of common stock from treasury stock and received $1.15 billion upon settlement of the forward equity purchase contract. When reissuing treasury stock Exelon uses the average price paid to repurchase shares to calculate a gain or loss on issuance and records gains or losses directly to retained earnings. A loss on reissuance of treasury shares of $1.05 billion was recorded to retained earnings as of December 31, 2017. See Note 21 — Earnings Per Share of the Combined Notes to Consolidated Financial Statements for further information on the issuance of common stock.

Cash Flows from Operating Activities

General

Generation's cash flows from operating activities primarily result from the sale of electric energy and energy-related products and services to customers. Generation's future cash flows from operating activities may be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as to obtain collections from customers.

The Utility Registrants’ cash flows from operating activities primarily result from the transmission and distribution of electricity and, in the case of PECO, BGE and DPL, gas distribution services. The Utility Registrants’ distribution services are provided to an established and diverse base of retail customers. The Utility Registrants’ future cash flows may be affected by the economy, weather conditions, future legislative initiatives, future regulatory proceedings with respect to their rates or operations, competitive suppliers, and their ability to achieve operating cost reductions.

See Notes 3 — Regulatory Matters and 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further discussion of regulatory and legal proceedings and proposed legislation.

The following table provides a summary of the major items affecting Exelon’s cash flows from operations for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2017 vs. 2016 Variance	2015	2016 vs. 2015 Variance
Net income	$ 3,849	$ 1,204	$ 2,645	2,250	$ (1,046)
Add (subtract):					
Non-cash operating activities[(a)]	5,446	7,722	(2,276)	5,630	2,092
Pension and non-pension postretirement benefit contributions	(405)	(397)	(8)	(502)	105
Income taxes	299	(674)	973	97	(771)
Changes in working capital and other noncurrent assets and liabilities[(b)]	(1,579)	(275)	(1,304)	(264)	(11)
Option premiums received (paid), net	28	(66)	94	58	— (124)
Collateral received (posted), net	(158)	931	(1,089)	347	584
Net cash flows provided by operations	$ 7,480	$ 8,445	$ (965)	$ 7,616	$ 829

(a) Represents depreciation, amortization, depletion and accretion, net fair value changes related to derivatives, deferred income taxes, provision for uncollectible accounts, pension and non-pension postretirement benefit expense, equity in earnings and losses of unconsolidated affiliates and investments, decommissioning-related items, stock compensation expense, impairment of long-lived assets, and other non-cash charges. See Note 24 —Supplemental Financial Information of the Combined Notes to Consolidated Financial Statements for further detail on non-cash operating activity.

(b) Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper, income taxes and the current portion of long-term debt.

Pension and Other Postretirement Benefits

Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006 (the Act), management of the pension obligation and regulatory implications. The Act requires the attainment of certain funding levels to avoid benefit restrictions (such as an inability to pay lump sums or to accrue benefits prospectively), and at-risk status (which triggers higher minimum contribution requirements and participant notification). The projected contributions below reflect a funding strategy of contributing the greater of (1) $300 million (updated for the inclusion of PHI) until the qualified plans are fully funded on an ABO basis, and (2) the minimum amounts under ERISA to avoid benefit restrictions and at-risk status. This level funding strategy helps minimize volatility of future period required pension contributions. Unlike the qualified pension plans, Exelon's non-qualified pension plans are not funded given that they are not subject to statutory minimum contribution requirements.

While other postretirement plans are also not subject to statutory minimum contribution requirements, Exelon does fund certain of its plans. For Exelon's funded OPEB plans, contributions generally equal accounting costs, however, Exelon's management has historically considered several factors in determining the level of contributions to its other postretirement benefit plans, including liabilities management, levels of benefit claims paid and regulatory implications (amounts deemed prudent to meet regulatory expectations and best assure continued rate recovery). The amounts below include benefit payments related to unfunded plans.

The following table provides all registrants' planned contributions to the qualified pension plans, planned benefit payments to non-qualified pension plans, and planned contributions to other postretirement plans in 2018:

	Qualified Pension Plans	Non-Qualified Pension Plans	Other Postretirement Benefits
Exelon	$ 301	$ 30	$ 42
Generation	119	11	13
ComEd	38	2	3
PECO	17	1	—
BGE	41	1	16
BSC	36	7	1
PHI	50	8	9
Pepco	4	2	8
DPL	—	1	—
ACE	6	—	—
PHISCO	40	5	1

To the extent interest rates decline significantly or the pension and OPEB plans earn less than the expected asset returns, annual pension contribution requirements in future years could increase. Conversely, to the extent interest rates increase significantly or the pension and OPEB plans earn greater than the expected asset returns, annual pension and OPEB contribution requirements in future years could decrease. Additionally, expected contributions could change if Exelon changes its pension or OPEB funding strategy.

On October 3, 2017, the US Department of Treasury and IRS released final regulations updating the mortality tables to be used for defined benefit pension plan funding, as well as the valuation of lump sum and other accelerated distribution options, effective for plan years beginning in 2018. The new mortality tables reflect improved projected life expectancy as compared to the existing table, which is generally expected to increase minimum pension funding requirements, Pension Benefit Guaranty Corporation premiums and the value of lump sum distributions. The IRS permits plan sponsors the option of delaying use of the new mortality tables for determining minimum funding requirements until 2019, which Exelon intends to utilize. The one-year delay does not apply for use of the mortality tables to determine the present value of lump sum distributions. The estimated impact of the new mortality tables along with other current assumptions and market information are reflected in the estimated future pension contributions in the "Contractual Obligations" section below.

The EMA requires CENG to fund the obligation related to pre-transfer service of employees, including the underfunded balance of the pension and other postretirement welfare benefit plans

measured as of July 14, 2014 by making periodic payments to Generation. These payments will be made on an agreed payment schedule or upon the occurrence of certain specified events, such as EDF's disposition of a majority of its interest in CENG. However, in the event that EDF exercises its rights under the Put Option, all payments not made as of the put closing date shall accelerate to be paid immediately prior to such closing date. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for additional information regarding the investment in CENG.

Tax Matters

The Registrants' future cash flows from operating activities may be affected by the following tax matters:

- Pursuant to the TCJA, beginning in 2018 Generation is expected to have higher operating cash flows in the range of approximately $1.2 billion to $1.6 billion for the period from 2018 to 2021, reflecting the reduction in the corporate federal income tax rate and full expensing of capital investments.

  The TCJA is generally expected to result in lower operating cash flows for the Utility Registrants as a result of the elimination of bonus depreciation and lower customer rates. Increased operating cash flows for the Utility Registrants from lower corporate federal income tax rates is expected to be more than offset over time by lower customer rates resulting from lower income tax expense recoveries and the settlement of deferred income tax net regulatory liabilities established pursuant to the TCJA. The amount and timing of settlement of the net regulatory liabilities will be determined by the Utility Registrants' respective rate regulators, subject to certain IRS "normalization" rules. The table below sets forth the Registrants' estimated categorization of their net regulatory liabilities as of December 31, 2017. The amounts in the table below are shown on an after-tax basis reflecting future net cash outflows after taking into consideration the income tax benefits associated with the ultimate settlement with customers.

					Successor			
	Exelon	ComEd	PECO[a]	BGE	PHI	PEPCO	DPL	ACE
Subject to IRS Normalization Rules	$ 3,040	$ 1,400	$ 533	$ 459	$ 648	$ 299	$ 195	$ 153
Subject to Rate Regulator Determination	1,694	573	43	324	754	391	194	170
Net Regulatory Liabilities	$ 4,734	$ 1,973	$ 576	$ 783	$ 1,402	$ 690	$ 389	$ 323

(a) Given the regulatory treatment of income tax benefits related to electric and gas distribution repairs, PECO remains in an overall net regulatory asset position as of December 31, 2017 after recording the impacts related to the TCJA. As a result, the amount of customer benefits resulting from the TCJA subject to the discretion of PECO's rate regulators are lower relative to the other Utility Registrants. Refer to Note 3 - Regulatory Matters for additional information.

  Net regulatory liability amounts subject to normalization rules generally may not be passed back to customers any faster than over the remaining useful lives of the underlying assets giving rise to the associated deferred income taxes. Such deferred income taxes generally relate to property, plant and equipment with remaining useful lives ranging from 30 to 40 years across the Utility Registrants. For the remaining amounts, rate regulators could require the passing back of amounts to customers over shorter time frames, which could materially decrease operating cash outflows at each of the Utility Registrants in the near term.

  The Utility Registrants expect to fund any such required incremental operating cash outflows using a combination of third party debt financings and equity funding from Exelon in combinations generally consistent with existing capitalization ratio structures. To fund any additional equity contributions to the Utility Registrants, Exelon would have available to it its typical sources, including, but not limited to, the increased operating cash flows at Generation

referenced above, which over time are expected to exceed the incremental equity needs at the Utility Registrants.

The Utility Registrants continue to work with their state regulatory commissions to determine the amount and timing of the passing back of TCJA income tax savings benefits to customers; with filings either made, or expected to be made, at Pepco, DPL and ACE, and approved filings at ComEd and BGE. The amounts being passed back or proposed to be passed back to customers reflect the benefit of lower income tax expense beginning January 1, 2018 (Feb. 1, 2018 for DPL Delaware), and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. To date, neither the PAPUC nor FERC has yet issued guidance on how and when to reflect the impacts of the TCJA in customer rates. Refer to Note 3 - Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information on their filings.

In general, most states use federal taxable income as the starting point for computing state corporate income tax. Now that the TCJA has been enacted, state governments are beginning to analyze the impact of the TCJA on their state revenues. Exelon is uncertain regarding what the state governments will do, and there is a possibility that state corporate income taxes could change due to the enactment of the TCJA. In 2018, Exelon will be closely monitoring the states’ responses to the TCJA as these could have an impact on Exelon’s future cash flows.

See Note 14 - Income Taxes of the Combined Notes to Consolidated Financial Information for further information on the amounts of the net regulatory liabilities subject to determinations by rate regulators.

- Exelon appealed the Tax Court’s like-kind exchange decision in the third quarter of 2017. In the fourth quarter of 2017, the IRS assessed the tax, penalties and interest of approximately $1.3 billion related to the like-kind exchange, including $300 million attributable to ComEd. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total estimated net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon’s agreement to hold ComEd harmless from any unfavorable impacts on ComEd’s equity from the like-kind exchange position.

  Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings. As a result of the IRS’s assessment of the tax, penalties and interest in the fourth quarter of 2017, the deposit is no longer available to Exelon and thus was reclassified from a current asset and is now reflected as an offset to the related liabilities for the tax, penalties, and interest that are included on Exelon’s balance sheet as current liabilities. The remaining amount due of approximately $20 million was paid in the fourth quarter of 2017. In the third quarter of 2017, the $300 million payable discussed above attributable to ComEd, net of ComEd’s receivable pursuant to the hold harmless agreement, was settled with Exelon. See Note 14 - Income Taxes of the Combined Notes to Consolidated Financial Statements for further discussion of the like-kind exchange tax position.

- State and local governments continue to face increasing financial challenges, which may increase the risk of additional income tax, property taxes and other taxes or the imposition, extension or permanence of temporary tax increases. On July 6, 2017, Illinois enacted Senate Bill 9, which permanently increased Illinois’ total corporate income tax rate from 7.75% to 9.50% effective July 1, 2017. The rate increase is not expected to have a material ongoing impact to Exelon's, Generation's or ComEd's future cash taxes. See Note 14 - Income Taxes of the Combined Notes to Consolidated Financial Statements for further discussion of the Illinois tax rate change.

Cash flows provided by operations for the year ended December 31, 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$ 7,480	$ 8,445	$ 7,616
Generation	3,299	4,444	4,199
ComEd	1,527	2,505	1,896
PECO	755	829	770
BGE	821	945	782
Pepco	407	651	373
DPL	321	310	266
ACE	206	385	256

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$ 950	$ 888	$ 264	$ 939

Changes in Registrants' cash flows from operations were generally consistent with changes in each Registrant's respective results of operations, as adjusted by changes in working capital in the normal course of business, except as discussed below. In addition, significant operating cash flow impacts for the Registrants for 2017, 2016 and 2015 were as follows:

Generation

- Depending upon whether Generation is in a net mark-to-market liability or asset position, collateral may be required to be posted with or collected from its counterparties. In addition, the collateral posting and collection requirements differ depending on whether the transactions are on an exchange or in the OTC markets. During 2017, 2016 and 2015, Generation had net collections/(payments) of counterparty cash collateral of $(129) million, $923 million and $407 million, respectively, primarily due to market conditions that resulted in changes to Generation's net mark-to-market position.

- During 2017, 2016 and 2015, Generation had net collections/(payments) of approximately $28 million, $(66) million and $58 million, respectively, related to purchases and sales of options. The level of option activity in a given year may vary due to several factors, including changes in market conditions as well as changes in hedging strategy.

ComEd

- During 2017, 2016, and 2015 ComEd (posted)/received approximately $(27 million), $7 million, and $(31 million) of cash collateral with/from PJM, respectively. ComEd's collateral posted with PJM has increased from 2017 to 2016, primarily due to an increase in ComEd's RPM credit requirements and peak market activity with PJM. The collateral posted with PJM decreased from 2016 to 2015 due to lower PJM billings.

For further discussion regarding changes in non-cash operating activities, please refer to Note 24 — Supplemental Financial Information of the Combined Notes to Consolidated Financial Statements.

Cash Flows from Investing Activities

Cash flows used in investing activities for the year ended December 31, 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$ (7,934)	$ (15,503)	$ (7,822)
Generation [(a)]	(2,592)	(3,851)	(4,069)
ComEd	(2,296)	(2,685)	(2,362)
PECO	(597)	(798)	(588)
BGE	(849)	(910)	(675)
Pepco	(630)	(647)	(477)
DPL	(429)	(336)	(345)
ACE	(310)	(309)	(306)

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$ (1,396)	$ (1,030)	$ (343)	$ (1,161)

Significant investing cash flow impacts for the Registrants for 2017, 2016 and 2015 were as follows:

Exelon

- During 2017, Exelon had additional expenditures of $23 million and $178 million relating to the ConEdison Solutions and the acquisitions of the FitzPatrick nuclear generating station, respectively. During 2016, Exelon had expenditures of $6.6 billion, $235 million, and $58 million relating to the acquisitions of PHI, ConEdison Solutions and the acquisitions of the FitzPatrick nuclear generating station, respectively.
- During 2017, Exelon had proceeds of $219 million from sales of long-lived assets.
- During 2016, Exelon had proceeds of $360 million as a result of early termination of direct financing leases.

Generation

- During 2017, Generation had additional expenditures of $23 million and $178 million relating to the ConEdison Solutions and the acquisitions of the FitzPatrick nuclear generating station, respectively. During 2016, Generation had expenditures of $235 million, and $58 million relating to the acquisitions of ConEdison Solutions and the acquisitions of the FitzPatrick nuclear generating station, respectively.
- During 2017, Generation had proceeds of $218 million from sales of long-lived assets.

Capital Expenditure Spending

Generation

Generation has entered into several agreements to acquire equity interests in privately held development stage entities which develop energy-related technology. The agreements contain a series of scheduled investment commitments, including in-kind services contributions. There are anticipated expenditures to fund anticipated planned capital and operating needs of the associated companies.

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Capital expenditures by Registrant for the year ended December 31, 2017, 2016 and 2015 and projected amounts for 2018 are as follows:

	Projected 2018 [(a)]	2017	2016	2015
Exelon[(b)]	$ 7,825	$ 7,584	$ 8,553	$ 7,624
Generation	2,100	2,259	3,078	3,841
ComEd[(c)]	2,125	2,250	2,734	2,398
PECO	800	732	686	601
BGE	1,000	882	934	719
Pepco	725	628	586	544
DPL	400	428	349	352
ACE	375	312	311	300

		Successor		*Predecessor*	
	Projected 2018 (a)	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI[(d)]	$ 1,500	$ 1,396	$ 1,008	$ 273	$ 1,230

(a) Total projected capital expenditures do not include adjustments for non-cash activity.
(b) Includes corporate operations, BSC and PHISCO rounded to the nearest $25 million.
(c) The capital expenditures and 2018 projections include $86 million of expected incremental spending pursuant to EIMA, ComEd has committed to invest approximately $2.6 billion over a ten-year period to modernize and storm-harden its distribution system and to implement smart grid technology.
(d) Includes PHISCO rounded to the nearest $25 million.

Projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Generation

Approximately 40% and 10% of the projected 2018 capital expenditures at Generation are for the acquisition of nuclear fuel, and the construction of new natural gas plants and solar facilities, respectively, with the remaining amounts reflecting investment in renewable energy and additions and upgrades to existing facilities (including material condition improvements during nuclear refueling outages). Generation anticipates that they will fund capital expenditures with internally generated funds and borrowings.

ComEd, PECO, BGE, Pepco, DPL and ACE

Projected 2018 capital expenditures at the Utility Registrants are for continuing projects to maintain and improve operations, including enhancing reliability and adding capacity to the transmission and distribution systems such as ComEd's reliability related investments required under EIMA, and the Utility Registrants' construction commitments under PJM's RTEP.

The Utility Registrants as transmission owners are subject to NERC compliance requirements. NERC provides guidance to transmission owners regarding assessments of transmission lines. The results of these assessments could require the Utility Registrants to incur incremental capital or operating and maintenance expenditures to ensure their transmission lines meet NERC standards. In 2010, NERC provided guidance to transmission owners that recommended the Utility Registrants perform assessments of their transmission lines. ComEd, PECO and BGE submitted their final bi-annual reports to NERC in January 2014. ComEd, PECO and

BGE will be incurring incremental capital expenditures associated with this guidance following the completion of the assessments. Specific projects and expenditures are identified as the assessments are completed. ComEd's, PECO's and BGE's forecasted 2018 capital expenditures above reflect capital spending for remediation to be completed through 2019. Pepco, DPL and ACE have substantially completed their assessments and thus do not expect significant capital expenditures related to this guidance in 2018.

The Utility Registrants anticipate that they will fund their capital expenditures with a combination of internally generated funds and borrowings and additional capital contributions from parent.

Cash Flows from Financing Activities

Cash flows provided by (used in) financing activities for the year ended December 31, 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$ 717	$ 1,191	$ 4,830
Generation	(581)	(734)	(479)
ComEd	789	169	467
PECO	50	(263)	83
BGE	22	(21)	(162)
Pepco	219	—	103
DPL	64	67	80
ACE	5	22	51

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
PHI	$ 306	$ (7)	$ 372	$ 233

Debt

See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further details of the Registrants' debt issuances and retirements. Debt activity for 2017, 2016 and 2015 by Registrant was as follows:

During the year ended December 31, 2017, the following long-term debt was issued:

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Exelon Corporate	Junior Subordinated Notes	3.50%	June 1, 2022	$ 1,150	Refinance Exelon's Junior Subordinated Notes issued in June 2014.
Generation	Albany Green Energy Project Financing [(a)]	LIBOR + 1.25%	November 17, 2017	$ 14	Albany Green Energy biomass generation development.
Generation	Energy Efficiency Project Financing [(a)]	3.90%	February 1, 2018	$ 19	Funding to install energy conservation measures for the Naval Station Great Lakes project.
Generation	Energy Efficiency Project Financing [(a)]	3.72%	May 1, 2018	$ 5	Funding to install energy conservation measures for the Smithsonian Zoo project.

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Generation	Energy Efficiency Project Financing [(a)]	2.61%	September 30, 2018	$ 13	Funding to install energy conservation measures for the Pensacola project.
Generation	Energy Efficiency Project Financing [(a)]	3.53%	April 1, 2019	$ 8	Funding to install energy conservation measures for the State Department project.
Generation	Senior Notes	2.95%	January 15, 2020	$ 250	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	Senior Notes	3.40%	March 15, 2022	$ 500	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	ExGen Texas Power Nonrecourse Debt [(b)(c)]	LIBOR + 4.75%	September 18, 2021	$ 6	General corporate purposes.
Generation	ExGen Renewables IV, Nonrecourse Debt [(b)]	LIBOR + 3.00%	November 30, 2024	$ 850	General corporate purposes.
ComEd	First Mortgage Bonds, Series 122	2.95%	August 15, 2027	$ 350	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
ComEd	First Mortgage Bonds, Series 123	3.75%	August 15, 2047	$ 650	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
PECO	First and Refunding Mortgage Bonds	3.70%	September 15, 2047	$ 325	General corporate purposes.
BGE	Senior Notes	3.75%	August 15, 2047	$ 300	Redeem $250 million in principal amount of the 6.20% Deferrable Interest Subordinated Debentures due October 15, 2043 issued by BGE's affiliate BGE Capital Trust II, repay commercial paper obligations and for general corporate purposes.
Pepco	Energy Efficiency Project Financing [(a)]	3.30%	December 15, 2017	$ 2	Funding to install energy conservation measures for the DOE Germantown project.
Pepco	First Mortgage Bonds	4.15%	March 15, 2043	$ 200	Funding to repay outstanding commercial paper and for general corporate purposes.

(a) For Energy Efficiency Project Financing, the maturity dates represent the expected date of project completion, upon which the respective customer assumes the outstanding debt.
(b) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.
(c) As a result of the bankruptcy filing for EGTP on November 7, 2017, the nonrecourse debt was deconsolidated from Exelon's and Generation's consolidated financial statements. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for further discussion.

During the year ended December 31, 2016, the following long term debt was issued:

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Exelon Corporate	Senior Unsecured Notes	2.45%	April 15, 2021	$ 300	Repay commercial paper issued by PHI and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	3.40%	April 15, 2026	$ 750	Repay commercial paper issued by PHI and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	4.45%	April 15, 2046	$ 750	Repay commercial paper issued by PHI and for general corporate purposes.
Generation	Renewable Power Generation Nonrecourse Debt (a)	4.11%	March 31, 2035	$ 150	Paydown long-term debt obligations at Sacramento PV Energy and Constellation Solar Horizons and for general corporate purposes.
Generation	Albany Green Energy Project Financing (b)	LIBOR + 1.25%	November 17, 2017	$ 98	Albany Green Energy biomass generation development
Generation	Energy Efficiency Project Financing (b)	3.17%	December 31, 2017	$ 16	Funding to install energy conservation measures in Brooklyn, NY.
Generation	Energy Efficiency Project Financing (b)	3.90%	January 31, 2018	$ 19	Funding to install energy conservation measures for the Naval Station Great Lakes project.
Generation	Energy Efficiency Project Financing (b)	3.52%	April 30, 2018	$ 14	Funding to install energy conservation measures for the Smithsonian Zoo project.
Generation	SolGen Nonrecourse Debt (a)	3.93%	September 30, 2036	$ 150	General corporate purposes.
Generation	Energy Efficiency Project Financing (b)	3.46%	October 1, 2018	$ 36	Funding to install energy conservation measures or the Marine Corps Logistics Base project.
Generation	Energy Efficiency Project Financing (b)	2.61%	September 30, 2018	$ 4	Funding to install energy conservation measures for the Pensacola project
ComEd	First Mortgage Bonds, Series 120	2.55%	June 15, 2026	$ 500	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
ComEd	First Mortgage Bonds, Series 121	3.65%	June 15, 2046	$ 700	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
PECO	First Mortgage Bonds	1.70%	September 15, 2021	$ 300	Refinance maturing mortgage bonds.
BGE	Notes	2.40%	August 15, 2026	$ 350	Redeem the $190M of outstanding preference shares and for general corporate purposes.

BGE	Notes	3.50%	August 15, 2046	$	500	Redeem the $190M of outstanding preference shares and for general corporate purposes.
Pepco	Energy Efficiency Project Financing[(b)]	3.30%	December 15, 2017	$	4	Funding to install energy conservation measures for the DOE Germantown project.
DPL	First Mortgage Bonds	4.15%	May 15, 2045	$	175	Refinance maturing mortgage bonds, repay commercial paper and for general corporate purposes.

(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) For Energy Efficiency Project Financing, the maturity dates represent the expected date of project completion, upon which the respective customer assumes the outstanding debt.

During the year ended December 31, 2015, the following long term-debt was issued:

Company	Type	Interest Rate	Maturity	Amount		Use of Proceeds
Exelon Corporate	Senior Unsecured Notes	1.55%	June 9, 2017	$	550	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	2.85%	June 15, 2020	$	900	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	3.95%	June 15, 2025	$	1,250	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	4.95%	June 15, 2035	$	500	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Senior Unsecured Notes	5.10%	June 15, 2045	$	1,000	Finance a portion of the pending merger with PHI and related costs and expenses and for general corporate purposes.
Exelon Corporate	Long-Term Software License Agreement	3.95%	May 1, 2024	$	111	Procurement of software licenses.
Generation	Senior Unsecured Notes	2.95%	January 15, 2020	$	750	Fund the optional redemption of Exelon's $550 million, 4.550% Senior Notes and for general corporate purposes.
Generation	AVSR DOE Nonrecourse Debt[(a)]	2.29 - 2.96%	January 5, 2037	$	39	Antelope Valley solar development.
Generation	Energy Efficiency Project Financing[(b)]	3.71%	July 31, 2017	$	42	Funding to install energy conservation measures in Coleman, Florida.

Generation	Energy Efficiency Project Financing[b]	3.55%	November 15, 2016	$	19	Funding to install energy conservation measures in Frederick, Maryland.
Generation	Tax Exempt Pollution Control Revenue Bonds	2.50 - 2.70%	2019 - 2020	$	435	General corporate purposes.
Generation	Albany Green Energy Project Financing[b]	LIBOR + 1.25%	November 17, 2017	$	100	Albany Green Energy biomass generation development.
Generation	Nuclear Fuel Purchase Contract	3.15%	September 30, 2020	$	57	Procurement of uranium.
ComEd	First Mortgage Bonds, Series 118	3.70%	March 1, 2045	$	400	Refinance maturing mortgage bonds, repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
ComEd	First Mortgage Bonds, Series 119	4.35%	November 15, 2045	$	450	Repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
PECO	First and Refunding Mortgage Bonds	3.15%	October 15, 2025	$	350	General corporate purposes
Pepco	First Mortgage Bonds	4.15%	March 15, 2043	$	200	Repay outstanding commercial paper obligations and general corporate purposes
DPL	First Mortgage Bonds	4.15%	May 15, 2045	$	200	Repay outstanding commercial paper obligations and general corporate purposes
ACE	First Mortgage Bonds	3.50%	December 1, 2025	$	150	Repay outstanding commercial paper obligations and general corporate purposes

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(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) For Energy Efficiency Project Financing, the maturity dates represent the expected date of project completion, upon which the respective customer assumes the outstanding debt.

During the year ended December 31, 2017, the following long-term debt was retired and/or redeemed:

Company	Type	Interest Rate	Maturity	Amount
Exelon Corporate	Long-Term Software License Agreement	3.95%	May 1, 2024	$ 24
Exelon Corporate	Senior Notes	1.55%	June 9, 2017	$ 550
Generation	Senior Notes - Exelon Wind	2.00%	July 31, 2017	$ 1
Generation	CEU Upstream Nonrecourse Debt [(a)]	LIBOR + 2.25%	January 14, 2019	$ 6
Generation	SolGen Nonrecourse Debt [(a)]	3.93%	September 30, 2036	$ 2
Generation	AVSR DOE Nonrecourse Debt [(a)]	2.29% - 3.56%	January 5, 2037	$ 22
Generation	Kennett Square Capital Lease	7.83%	September 20, 2020	$ 2
Generation	Continental Wind Nonrecourse Debt [(a)]	6.00%	February 28, 2033	$ 31
Generation	PES - PGOV Notes Payable	6.70-7.60%	2017 - 2018	$ 1
Generation	ExGen Texas Power Nonrecourse Debt [(a)(b)]	LIBOR + 4.75%	September 18, 2021	$ 665
Generation	Renewable Power Generation Nonrecourse Debt [(a)]	4.11%	March 31, 2035	$ 14
Generation	NUKEM	3.25% - 3.35%	June 30, 2018	$ 23
Generation	ExGen Renewables I, Nonrecourse Debt	LIBOR + 4.25%	February 6, 2021	$ 233
Generation	Senior Notes	6.20%	October 1, 2017	$ 700
Generation	Albany Green Energy Project Financing	LIBOR + 1.25%	November 17, 2017	$ 212
ComEd	First Mortgage Bonds	6.15%	September 15, 2017	$ 425
BGE	Rate Stabilization Bonds	5.82%	April 1, 2017	$ 41
BGE	Capital Trust Preferred Securities	6.20%	October 15, 2043	$ 258
PHI	Senior Notes	6.13%	June 1, 2017	$ 81
DPL	Medium Term Notes, Unsecured	7.56% - 7.58%	February 1, 2017	$ 14
DPL	Variable Rate Demand Bonds	Variable	October 1, 2017	$ 26
Pepco	Third Party Financing	6.97% - 7.99%	2018 - 2022	$ 1
ACE	Transition Bonds	5.05% - 5.55%	2020 - 2023	$ 35

(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) As a result of the bankruptcy filing for EGTP on November 7, 2017, the nonrecourse debt was deconsolidated from Exelon's and Generation's consolidated financial statements. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further discussion.

During the year ended December 31, 2016, the following long-term debt was retired and/or redeemed:

Company	Type	Interest Rate	Maturity	Amount
Exelon Corporate	Long Term Software License Agreement	3.95%	May 1, 2024	$ 8
Exelon Corporate	Senior Notes	4.95%	June 15, 2035	$ 1
Generation	AVSR DOE Nonrecourse Debt [(a)]	2.29% - 3.56%	January 5, 2037	$ 22
Generation	Kennett Square Capital Lease	7.83%	September 20, 2020	$ 4
Generation	Continental Wind Nonrecourse Debt [(a)]	6.00%	February 28, 2033	$ 29
Generation	CEU Upstream Nonrecourse Debt [(a)]	LIBOR + 2.25%	January 14, 2019	$ 46
Generation	ExGen Texas Power Nonrecourse Debt [(a)(b)]	5.00%	September 18, 2021	$ 7
Generation	Sacramento Solar Nonrecourse Debt	LIBOR + 2.25%	December 31, 2030	$ 33
Generation	Clean Horizons Nonrecourse Debt	LIBOR + 2.25%	September 7, 2030	$ 32
Generation	ExGen Renewables I, Nonrecourse Debt	LIBOR + 4.25%	February 6, 2021	$ 24
Generation	PES - PGOV Notes Payable	6.70% - 7.46%	2017-2018	$ 1
Generation	NUKEM	3.35%	June 30, 2018	$ 12
Generation	NUKEM	3.25%	July 1, 2018	$ 10
Generation	Renewable Power Generation Nonrecourse Debt [(a)]	4.11%	March 31, 2035	$ 9
Generation	SolGen Nonrecourse Debt [(a)]	3.93%	September 30, 2036	$ 2
ComEd	First Mortgage Bonds, Series 104	5.95%	August 15, 2016	$ 415
ComEd	First Mortgage Bonds, Series 111	1.95%	August 1, 2016	$ 250
PECO	First and Refunding Mortgage Bonds	1.20%	October 15, 2016	$ 300
BGE	Rate Stabilization Bonds	5.72%	April 1, 2016	$ 1
BGE	Rate Stabilization Bonds	5.82%	April 1, 2017	$ 38
BGE	Notes	5.90%	October 1, 2016	$ 300
BGE	Rate Stabilization Bonds	5.82%	April 1, 2017	$ 40
PHI	Senior Unsecured Notes	5.90%	December 12, 2016	$ 190
DPL	First Mortgage Bonds	5.22%	December 30, 2016	$ 100
ACE	Transition Bonds	5.05%	October 20, 2020	$ 12
ACE	Transition Bonds	5.55%	October 20, 2023	$ 34
ACE	First Mortgage Bonds	7.68%	August 23, 2016	$ 2

(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) As a result of the bankruptcy filing for EGTP on November 7, 2017, the nonrecourse debt was deconsolidated from Exelon's and Generation's consolidated financial statements. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further discussion.

During the year ended December 31, 2015, the following long-term debt was retired and/or redeemed:

Company	Type	Interest Rate	Maturity	Amount
Exelon Corporate	Senior Unsecured Notes	4.55%	June 15, 2015	$ 550
Exelon Corporate	Senior Notes	4.90%	June 15, 2015	$ 800
Exelon Corporate	Senior Unsecured Notes	3.95%	June 15, 2025	$ 443
Exelon Corporate	Senior Unsecured Notes	4.95%	June 15, 2035	$ 167
Exelon Corporate	Senior Unsecured Notes	5.10%	June 15, 2045	$ 259
Exelon Corporate	Long-Term Software License Agreement	3.95%	May 1, 2024	$ 1
Generation	Senior Unsecured Notes	4.55%	June 15, 2015	$ 550
Generation	CEU Upstream Nonrecourse Debt (a)	LIBOR + 2.25%	January 14, 2019	$ 9
Generation	AVSR DOE Nonrecourse Debt (a)	2.29%-3.56%	January 5, 2037	$ 23
Generation	Kennett Square Capital Lease	7.83%	September 20, 2020	$ 3
Generation	Continental Wind Nonrecourse Debt	6.00%	February 28, 2033	$ 20
Generation	ExGen Texas Power Nonrecourse Debt (a)(b)	LIBOR + 4.75%	September 8, 2021	$ 5
Generation	ExGen Renewables I Nonrecourse Debt	LIBOR + 4.25%	February 6, 2021	$ 24
Generation	Constellation Solar Horizons Nonrecourse Debt	2.56%	September 7, 2030	$ 2
Generation	Sacramento PV Energy Nonrecourse Debt	2.58%	December 31, 2030	$ 2
Generation	Energy Efficiency Project (b)	3.55%	November 15, 2016	$ 19
ComEd	First Mortgage Bonds, Series 101	4.70%	April 15, 2015	$ 260
BGE	Rate Stabilization Bonds	5.72%	April 1, 2016	$ 75
PHI	Senior Unsecured Notes	2.70%	October 1, 2015	$ 250
PHI (c)	Energy Efficiency Project Financing	4.68%	February 10, 2015	$ 7
PHI (c)	Energy Efficiency Project Financing	8.87%	June 1, 2021	$ 5
PHI (c)	Energy Efficiency Project Financing	7.61%	August 1, 2015	$ 1
PHI (c)	PES - PGOV Notes Payable	6.70%	2017-2018	$ 1
Pepco	Energy Efficiency Project Financing	3.12%	February 20, 2015	$ 12
DPL	Senior Unsecured Notes	5.00%	June 1, 2015	$ 100
ACE	Secured Medium-Term Notes Series C	7.68%	August 24, 2015	$ 15
ACE	Transition Bonds	5.05%	October 20, 2020	$ 12
ACE	Transition Bonds	5.55%	October 20, 2023	$ 32

(a) See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of nonrecourse debt.

(b) As a result of the bankruptcy filing for EGTP on November 7, 2017, the nonrecourse debt was deconsolidated from Exelon's and Generation's consolidated financial statements. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further discussion.

(c) Represents Pepco Energy Services energy efficiency project financing. As of the date of the merger, PES financing was included with Generation.

From time to time and as market conditions warrant, the Registrants may engage in long-term debt retirements via tender offers, open market repurchases or other viable options to reduce debt on their respective balance sheets.

Dividends

Cash dividend payments and distributions for the year ended December 31, 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$ 1,236	$ 1,166	$ 1,105
Generation	659	922	2,474
ComEd	422	369	299
PECO	288	277	279
BGE[(a)]	198	187	171
Pepco	133	136	146
DPL	112	54	92
ACE	68	63	12

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
PHI	$ 311	$ 273	$ —	$ 275

(a) Includes dividends paid on BGE's preference stock during 2016 and 2015.

Quarterly dividends declared by the Exelon Board of Directors during the year ended December 31, 2017 and for the first quarter of 2018 were as follows:

Period	Declaration Date	Shareholder of Record Date	Dividend Payable Date	Cash per Share
First Quarter 2017	January 31, 2017	February 15, 2017	March 10, 2017	$ 0.3275
Second Quarter 2017	April 25, 2017	May 15, 2017	June 9, 2017	$ 0.3275
Third Quarter 2017	July 25, 2017	August 15, 2017	September 8, 2017	$ 0.3275
Fourth Quarter 2017	September 25, 2017	November 15, 2017	December 8, 2017	$ 0.3275
First Quarter 2018[(a)]	January 30, 2018	February 15, 2018	March 9, 2018	$ 0.3450

(a) Exelon's Board of Directors approved an updated dividend policy providing an increase of 5% each year for the period covering 2018 through 2020, beginning with the March 2018 dividend.

Short-Term Borrowings

Short-term borrowings incurred (repaid) during 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Exelon	$ (261)	$ (353)	$ 80
Generation	(620)	620	—
ComEd	—	(294)	(10)
BGE	32	(165)	90
Pepco	3	(41)	(40)
DPL	216	(105)	(1)
ACE	108	(5)	(122)

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
PHI	$ 328	$ (515)	$ (121)	$ 34

Retirement of Long-Term Debt to Financing Affiliates

On August 28, 2017, BGE redeemed all of the outstanding shares of BGE Capital Trust II 6.20% Preferred Securities. See Note 13 — Debt and Credit Agreements for further discussion.

Contributions from Parent/Member

Contributions from Parent/Member (Exelon) during 2017, 2016 and 2015 by Registrant were as follows:

	2017	2016	2015
Generation	$ 102	$ 142	$ 47
ComEd(a)(b)	672	473	209
PECO(b)	16	18	16
BGE(b)	184	61	7
Pepco(c)	161	187	112
DPL(c)	—	152	75
ACE(c)	—	139	95

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
PHI(b)	$ 758	$ 1,251	$ —	$ —

(a) Additional contributions from parent or external debt financing may be required as a result of increased capital investment in infrastructure improvements and modernization pursuant to EIMA, transmission upgrades and expansions and Exelon's agreement to indemnify ComEd for any unfavorable after-tax impacts associated with ComEd's LKE tax matter.

(b) Contribution paid by Exelon.

(c) Contribution paid by PHI.

Pursuant to the orders approving the merger, Exelon made equity contributions of $73 million, $46 million and $49 million to Pepco, DPL and ACE, respectively, in the second quarter of 2016 to fund the after-tax amount of the customer bill credit and the customer base rate credit.

Redemptions of Preference Stock. BGE had $190 million of cumulative preference stock that was redeemable at its option at any time after October 1, 2015 for the redemption price of $100 per share, plus accrued and unpaid dividends. On July 3, 2016, BGE redeemed all 400,000 shares of its outstanding 7.125% Cumulative Preference Stock, 1993 Series and all 600,000 shares of its outstanding 6.990% Cumulative Preference Stock, 1995 Series for $100 million, plus accrued and unpaid dividends. On September 18, 2016, BGE redeemed the remaining 500,000 shares of its outstanding 6.970% Cumulative Preference Stock, 1993 Series and the remaining 400,000 shares of its outstanding 6.700% Cumulative Preference Stock, 1993 Series for $90 million, plus accrued and unpaid dividends. As of December 31, 2017, BGE no longer has any preferred stock outstanding. See Note 21 - Earnings Per Share of the Combined Notes to Consolidated Financial Statements for further details.

Other

For the year ended December 31, 2017, other financing activities primarily consists of debt issuance costs. See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements' for additional information.

Credit Matters

Market Conditions

The Registrants fund liquidity needs for capital investment, working capital, energy hedging and other financial commitments through cash flows from continuing operations, public debt offerings, commercial paper markets and large, diversified credit facilities. The credit facilities include $9.5 billion in aggregate total commitments of which $8.3 billion was available as of December 31, 2017, and of which no financial institution has more than 7% of the aggregate commitments for Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE. The Registrants had access to the commercial paper market during 2017 to fund their short-term liquidity needs, when necessary. The Registrants routinely review the sufficiency of their liquidity position, including appropriate sizing of credit facility commitments, by performing various stress test scenarios, such as commodity price movements, increases in margin-related transactions, changes in hedging levels and the impacts of hypothetical credit downgrades. The Registrants have continued to closely monitor events in the financial markets and the financial institutions associated with the credit facilities, including monitoring credit ratings and outlooks, credit default swap levels, capital raising and merger activity. See PART I. ITEM 1A. RISK FACTORS for further information regarding the effects of uncertainty in the capital and credit markets.

The Registrants believe their cash flow from operating activities, access to credit markets and their credit facilities provide sufficient liquidity. If Generation lost its investment grade credit rating as of December 31, 2017, it would have been required to provide incremental collateral of $1.8 billion to meet collateral obligations for derivatives, non-derivatives, normal purchases and normal sales contracts and applicable payables and receivables, net of the contractual right of offset under master netting agreements, which is well within its current available credit facility capacities of $4.7 billion.

The following table presents the incremental collateral that each Utility Registrant would have been required to provide in the event each Utility Registrant lost its investment grade credit rating at December 31, 2017 and available credit facility capacity prior to any incremental collateral at December 31, 2017:

	PJM Credit Policy Collateral	Other Incremental Collateral Required[(a)]	Available Credit Facility Capacity Prior to Any Incremental Collateral
ComEd	$ 18	$ —	$ 998
PECO	3	34	599
BGE	3	66	600
Pepco	4	—	300
DPL	1	11	300
ACE	—	—	300

(a) Represents incremental collateral related to natural gas procurement contracts.

Exelon Credit Facilities

Exelon, ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the intercompany money pool. PHI meets its short-term liquidity requirements primarily through the issuance of short-term notes and the Exelon intercompany money pool. Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. The Registrants may use their respective credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit.

See Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for discussion of the Registrants' credit facilities and short term borrowing activity.

Other Credit Matters

Capital Structure. At December 31, 2017, the capital structures of the Registrants consisted of the following:

	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Long-term debt	51%	32%	44%	44%	45%	39%	50%	46%	49%
Long-term debt to affiliates[(a)]	1%	4%	1%	3%	—%	—%	—%	—%	—%
Common equity	47%	—%	55%	53%	54%	—	49%	46%	46%
Member's equity	—%	64%	—%	—%	—%	59%	—	—	—
Commercial paper and notes payable	1%	—%	—	—%	1%	2%	1%	8%	5%

(a) Includes approximately $389 million, $205 million and $184 million owed to unconsolidated affiliates of Exelon, ComEd, and PECO respectively. These special purpose entities were created for the sole purposes of issuing mandatorily redeemable trust preferred securities of ComEd and PECO. See Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements for additional information regarding the authoritative guidance for VIEs.

Security Ratings

The Registrants' access to the capital markets, including the commercial paper market, and their respective financing costs in those markets, may depend on the securities ratings of the entity that is accessing the capital markets.

The Registrants' borrowings are not subject to default or prepayment as a result of a downgrading of securities, although such a downgrading of a Registrant's securities could increase fees and interest charges under that Registrant's credit agreements.

As part of the normal course of business, the Registrants enter into contracts that contain express provisions or otherwise permit the Registrants and their counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if the Registrants are downgraded by a credit rating agency, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include the posting of collateral. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on collateral provisions.

Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, both Exelon and PHI operate an intercompany money pool. Maximum amounts contributed to and borrowed from the money pool by participant and the net contribution or borrowing as of December 31, 2017, are presented in the following tables:

Exelon Intercompany Money Pool	**For the Year Ended December 31, 2017**		**As of December 31, 2017**
Contributed (borrowed)	**Maximum Contributed**	**Maximum Borrowed**	**Contributed (Borrowed)**
Exelon Corporate	$ 579	$ —	$ 217
Generation	20	(589)	(54)
PECO	336	(22)	—
BSC	—	(423)	(217)
PHI Corporate	—	(47)	—
PCI	55	—	54

PHI Intercompany Money Pool	**For the Year Ended December 31, 2017**		**As of December 31, 2017**
Contributed (borrowed)	**Maximum Contributed**	**Maximum Borrowed**	**Contributed (Borrowed)**
PHI Corporate	$ 9	$ (2)	$ 1
Pepco	—	—	—
DPL	—	—	—
ACE	—	—	—
PHISCO	3	(9)	—

Investments in Nuclear Decommissioning Trust Funds. Exelon, Generation and CENG maintain trust funds, as required by the NRC, to fund certain costs of decommissioning nuclear plants. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to offset inflationary increases in decommissioning costs. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocations in accordance with

Generation's NDT fund investment policy. Generation's and CENG's investment policies establish limits on the concentration of holdings in any one company and also in any one industry. See Note 15 — Asset Retirement Obligations of the Combined Notes to Consolidated Financial Statements for further information regarding the trust funds, the NRC's minimum funding requirements and related liquidity ramifications.

Shelf Registration Statements. Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have a currently effective combined shelf registration statement unlimited in amount, filed with the SEC, that will expire in August 2019. The ability of each Registrant to sell securities off the shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, as applicable, the current financial condition of the Registrant, its securities ratings and market conditions.

Regulatory Authorizations. ComEd, PECO, BGE, Pepco, DPL and ACE are required to obtain short-term and long-term financing authority from Federal and State Commissions as follows:

	Short-term Financing Authority[a]			Long-term Financing Authority[a]		
	Commission	Expiration Date	Amount	Commission	Expiration Date [c]	Amount
ComEd[b]	FERC	December 31, 2019	$ 2,500	ICC	2019	$ 1,383
PECO	FERC	December 31, 2019	1,500	PAPUC	December 31, 2018	1,275
BGE	FERC	December 31, 2019	700	MDPSC	N/A	700
Pepco	FERC	December 31, 2019	500	MDPSC	September 25, 2017	—
				DCPSC	December 31, 2020	600
DPL	FERC	December 31, 2019	500	MDPSC	December 31, 2017	—
				DPSC	December 31, 2020	350
ACE	NJBPU	December 31, 2019	350	NJBPU	December 31, 2019	350

(a) Generation currently has blanket financing authority it received from FERC in connection with its market-based rate authority.
(b) ComEd had $1,140 million available in long-term debt refinancing authority and $243 million available in new money long term debt financing authority from the ICC as of December 31, 2017 and has an expiration date of June 1, 2019 and March 1, 2019, respectively.
(c) Pepco and DPL are currently in the process of renewing their long-term financing authority with the MDPSC.

Exelon's ability to pay dividends on its common stock depends on the receipt of dividends paid by its operating subsidiaries. The payments of dividends to Exelon by its subsidiaries in turn depend on their results of operations and cash flows and other items affecting retained earnings. The Federal Power Act declares it to be unlawful for any officer or director of any public utility "to participate in the making or paying of any dividends of such public utility from any funds properly included in capital account." In addition, under Illinois law, ComEd may not pay any dividend on its stock, unless, among other things, its earnings and earned surplus are sufficient to declare and pay a dividend after provision is made for reasonable and proper reserves, or unless ComEd has specific authorization from the ICC. BGE is subject to certain dividend restrictions established by the MDPSC. First, BGE was prohibited from paying a dividend on its common shares through the end of 2014. Second, BGE is prohibited from paying a dividend on its common shares if (a) after the dividend payment, BGE's equity ratio would be below 48% as calculated pursuant to the MDPSC's ratemaking precedents or (b) BGE's senior unsecured credit rating is rated by two of the three major credit rating agencies below investment grade. Finally, BGE must notify the MDPSC that it intends to declare a dividend on its common shares at least 30 days before such a dividend is paid. Pepco, DPL and ACE are subject to certain dividend restrictions established by settlements approved in NJ, DE, MD and the DC. Pepco, DPL and ACE are prohibited from paying a dividend on their common shares if (a) after the dividend payment, Pepco's, DPL's or ACE's equity ratio would be below 48% as equity levels are calculated under the ratemaking precedents of the Commissions and the Board or (b) Pepco's, DPL's or ACE's senior unsecured credit rating is rated by one of the three major credit rating agencies below investment grade. At December 31, 2017, Exelon had retained earnings of $13,503 million, including Generation's undistributed earnings of $4,310 million, ComEd's retained earnings of $1,132 million consisting of retained earnings appropriated for future dividends of $2,771 million partially offset by $1,639 million of unappropriated retained deficit, PECO's retained earnings of $1,087 million and BGE's retained earnings $1,536 million. At December 31, 2017, Pepco had retained earnings of $1,063 million, DPL had retained earnings of $571 million and ACE had retained earnings of $131 million. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for additional information regarding fund transfer restrictions.

Contractual Obligations and Off-Balance Sheet Arrangements

The following tables summarize the Registrants' future estimated cash payments as of December 31, 2017 under existing contractual obligations, including payments due by period. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for information regarding the Registrants' commercial and other commitments, representing commitments potentially triggered by future events.

Exelon

		Payment due within			
	Total	2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
Long-term debt[(a)]	$ 33,994	$ 2,057	$ 4,459	$ 4,574	$ 22,904
Interest payments on long-term debt[(b)]	15,999	1,346	2,579	2,231	9,843
Capital leases	53	18	25	2	8
Operating leases[(c)]	1,512	188	276	261	787
Purchase power obligations[(d)]	1,153	358	498	103	194
Fuel purchase agreements[(e)]	7,270	1,229	2,241	1,385	2,415
Electric supply procurement[(e)]	3,417	2,213	1,204	—	—
AEC purchase commitments[(e)]	3	1	2	—	—
Curtailment services commitments[(e)]	119	52	54	13	—
Long-term renewable energy and REC commitments[(f)]	1,666	111	224	235	1,096
Other purchase obligations[(g)]	7,765	4,844	1,585	561	775
DC PLUG obligation[(h)]	188	28	60	60	40
Construction commitments[(i)]	57	56	1	—	—
PJM regional transmission expansion commitments[(j)]	569	179	270	120	—
SNF obligation[(k)]	1,147	—	—	—	1,147
Pension contributions[(l)]	1,393	301	493	386	213
Total contractual obligations	$ 76,305	$ 12,981	$ 13,971	$ 9,931	$ 39,422

(a) Includes $390 million due after 2023 to ComEd and PECO financing trusts.

(b) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2017. Includes estimated interest payments due to ComEd, PECO, BGE, PHI, Pepco, DPL and ACE financing trusts.

(c) Excludes Generation's contingent operating lease payments associated with contracted generation agreements. These amounts are included within purchase power obligations. Includes estimated cash payments for service fees related to PECO's meter reading operating lease.

(d) Purchase power obligations include contingent operating lease payments associated with contracted generation agreements. Amounts presented represent Generation's expected payments under these arrangements at December 31, 2017, including those related to CENG. Expected payments include certain fixed capacity charges which may be reduced based on plant availability. Expected payments exclude renewable PPA contracts that are contingent in nature. Contained within Purchase power obligations are Net Capacity Purchases of $106 million, $99 million, $40 million, $31 million, $19 million and $171 million for 2018, 2019, 2020, 2021, 2022 and thereafter, respectively.

(e) Represents commitments to purchase nuclear fuel, natural gas and related transportation, storage capacity and services, procure electric renewable energy and RECs, procure electric supply, and purchase AECs and curtailment services.

(f) Primarily related to ComEd 20-year contracts for renewable energy and RECs beginning in June 2012. ComEd is permitted to recover its renewable energy and REC costs from retail customers with no mark-up. The commitments represent the earliest and maximum settlements with suppliers for renewable energy and RECs under the existing contract terms. See Note 3—Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

(g) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.

(h) Related to DC PLUG project costs for assets funded by the District of Columbia for which the District of Columbia has assessed a charge on Pepco. Pepco will recover this charge from customers through a volumetric distribution rider. See Note 3 — Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

(i) Represents commitments for Generation's ongoing investments in new natural gas and biomass generation construction.

(j) Under their operating agreements with PJM, ComEd, PECO, BGE, Pepco, DPL and ACE are committed to the construction of transmission facilities to maintain system reliability. These amounts represent ComEd, PECO, BGE, Pepco, DPL and ACE's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

(k) See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further information regarding SNF obligations.

(l) These amounts represent Exelon's expected contributions to its qualified pension plans. The projected contributions reflect a funding strategy of contributing the greater of $300 million (which has been updated for the inclusion of PHI) until the qualified plans are fully funded on an accumulated benefit obligation basis, and the minimum amounts under ERISA to avoid benefit restrictions and at-risk status thereafter. The remaining qualified pension plans' contributions are generally based on the estimated minimum pension contributions required under ERISA and the Pension Protection Act of 2006, as well as contributions necessary to avoid benefit restrictions and at-risk status. These amounts represent estimates that are based on assumptions that are subject to change. Qualified pension contributions for years after 2023 are not included. See Note 16 — Retirement Benefits of the Combined Notes to Consolidated Financial Statements for further information regarding estimated future pension benefit payments.

Generation

		Payment due within			
	Total	2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
Long-term debt	$ 8,937	$ 341	$ 2,747	$ 1,023	$ 4,826
Interest payments on long-term debt[(a)]	4,808	391	705	530	3,182
Capital leases	18	5	11	2	—
Operating leases[(b)]	817	74	76	94	573
Purchase power obligations[(c)]	1,153	358	498	103	194
Fuel purchase agreements[(d)]	6,147	1,000	1,909	1,184	2,054
Other purchase obligations[(e)]	1,456	398	249	181	628
Construction commitments[(f)]	57	56	1	—	—
SNF obligation[(g)]	1,147	—	—	—	1,147
Total contractual obligations	$ 24,540	$ 2,623	$ 6,196	$ 3,117	$ 12,604

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2017.

(b) Excludes Generation's contingent operating lease payments associated with contracted generation agreements. These amounts are included within purchase power obligations.

(c) Purchase power obligations include contingent operating lease payments associated with contracted generation agreements. Amounts presented represent Generation's expected payments under these arrangements at December 31, 2017. Expected

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payments include certain fixed capacity charges which may be reduced based on plant availability. Expected payments exclude renewable PPA contracts that are contingent in nature. Contained within Purchase power obligations are Net Capacity Purchases of $106 million, $99 million, $40 million, $31 million, $19 million and $171 million for 2018, 2019, 2020, 2021, 2022 and thereafter, respectively.

(d) Represents commitments to purchase fuel supplies for nuclear and fossil generation, including those related to CENG.

(e) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.

(f) Represents commitments for Generation's ongoing investments in new natural gas generation construction. As of December 31, 2017, the commitments relate to the construction of a new dual fuel, natural peaking facility in Massachusetts. Achievement of commercial operation related to this project is expected in 2018.

(g) See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further information regarding SNF obligations.

ComEd

		Payment due within			
	Total	2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
Long-term debt[a]	$ 7,874	$ 840	$ 800	$ 350	$ 5,884
Interest payments on long-term debt[b]	4,937	269	517	469	3,682
Capital leases	8	—	—	—	8
Operating leases[c]	23	7	10	6	—
Electric supply procurement	741	476	265	—	—
Long-term renewable energy and REC commitments[d]	1,321	82	166	177	896
Other purchase obligations[e]	1,035	927	82	16	10
PJM regional transmission expansion commitments[f]	164	36	104	24	—
Total contractual obligations	$ 16,103	$ 2,637	$ 1,944	$ 1,042	$ 10,480

(a) Includes $206 million due after 2023 to a ComEd financing trust.

(b) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2017. Includes estimated interest payments due to the ComEd financing trust.

(c) Amounts related to certain real estate leases and railroad licenses effectively have indefinite payment periods. As a result, ComEd, has excluded these payments from the remaining years as such amounts would not be meaningful. ComEd's average annual obligation for these arrangements, included in each of the years 2018-2022, was $2 million.

(d) Primarily related to ComEd 20-year contracts for renewable energy and RECs beginning in June 2012. ComEd is permitted to recover its renewable energy and REC costs from retail customers with no mark-up. The commitments represent the maximum and earliest settlements with suppliers for renewable energy and RECs under the existing contract terms. See Note 3—Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

(e) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.

(f) Under its operating agreement with PJM, ComEd is committed to the construction of transmission facilities to maintain system reliability. These amounts represent ComEd's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

In January 2018, ComEd entered into 10-year ZEC procurement contracts with Generation. The following table summarizes ComEd's future estimated cash payments under the executed contract. See Note 3 — Regulatory Matters and Note 28 — Subsequent Events of the Combined Notes to Consolidated Financial Statements for more information.

		Payment due within			
	Total	2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
ZEC commitments[(a)]	$ 1,589	$ 271	$ 327	$ 314	$ 677

(a) Annual ZEC commitment amounts will be published by the IPA each May prior to the start of the subsequent planning year. Amounts presented in the table represent management's estimate of ComEd's obligation based on forward energy prices and load forecasts. ComEd is permitted to recover its ZEC costs from retail customers with no mark-up.

PECO

		Payment due within			
	Total	2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
Long-term debt[(a)]	$ 3,109	$ 500	$ —	$ 650	$ 1,959
Interest payments on long-term debt[(b)]	1,916	105	210	202	1,399
Operating leases[(c)]	25	5	10	10	—
Fuel purchase agreements[(d)]	339	113	151	35	40
Electric supply procurement[(d)]	526	420	106	—	—
AEC purchase commitments[(d)]	6	2	4	—	—
Other purchase obligations[(e)]	465	257	157	46	5
PJM regional transmission expansion commitments[(f)]	53	16	29	8	—
Total contractual obligations	$ 6,439	$ 1,418	$ 667	$ 951	$ 3,403

(a) Includes $184 million due after 2023 to PECO financing trusts.

(b) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances.

(c) Includes estimated cash payments for service fees related to PECO's meter reading operating lease. Amounts related to certain real estate leases and railroad licenses effectively have indefinite payment periods. As a result, PECO has excluded these payments from the remaining years as such amounts would not be meaningful. PECO's average annual obligation for these arrangements, included in each of the years 2018-2022, was $5 million.

(d) Represents commitments to purchase natural gas and related transportation, storage capacity and services, procure electric supply, and purchase AECs.

(e) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.

(f) Under its operating agreement with PJM, PECO is committed to the construction of transmission facilities to maintain system reliability. These amounts represent PECO's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

BGE

	Total	Payment due within 2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
Long-term debt	$ 2,600	$ —	$ —	$ 550	$ 2,050
Interest payments on long-term debt[(a)]	1,689	101	201	186	1,201
Operating leases[(b)(c)(d)]	170	34	68	49	19
Fuel purchase agreements[(e)]	514	86	121	106	201
Electric supply procurement[(e)]	1,026	645	381	—	—
Curtailment services commitments[(e)]	50	22	21	7	—
Other purchase obligations[(f)]	453	394	50	4	5
PJM regional transmission expansion commitments[(g)]	118	35	70	13	—
Total contractual obligations	$ 6,620	$ 1,317	$ 912	$ 915	$ 3,476

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances.

(b) Amounts related to certain real estate leases and railroad licenses effectively have indefinite payment periods. As a result, BGE has excluded these payments from the remaining years as such amounts would not be meaningful. BGE's average annual obligation for these arrangements, included in each of the years 2018—2022, was $1 million, respectively.

(c) Includes all future lease payments on a 99-year real estate lease that expires in 2106.

(d) The BGE column above includes minimum future lease payments associated with a 6-year lease for the Baltimore City conduit system that became effective during the fourth quarter of 2016. BGE's total commitments under the lease agreement are $25 million, $26 million, $28 million , $28 million and $14 million related to years 2018, 2019, 2020, 2021and 2022, respectively.

(e) Represents commitments to purchase natural gas and related transportation, storage capacity and services, procure electric supply, and curtailment services.

(f) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the BGE and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.

(g) Under its operating agreement with PJM, BGE is committed to the construction of transmission facilities to maintain system reliability. These amounts represent BGE's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

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PHI

		Payment due within			
	Total	2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
Long-term debt	$ 5,162	$ 370	$ 12	$ 551	$ 4,229
Interest payments on long-term debt[(a)]	1,328	231	461	433	203
Capital leases	27	13	14	—	—
Operating leases	415	56	86	79	194
Fuel purchase agreements[(b)]	270	30	60	60	120
Long-term renewable energy and REC commitments[(b)]	345	29	58	58	200
Electric supply procurement[(b)]	1,720	1,060	660	—	—
Curtailment services commitments[(b)]	69	30	33	6	—
Other purchase obligations[(c)]	3,434	2,368	822	196	48
DC PLUG obligation[(d)]	188	28	60	60	40
PJM regional transmission expansion commitments[(e)]	234	92	67	75	—
Total contractual obligations	$ 13,192	$ 4,307	$ 2,333	$ 1,518	$ 5,034

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances.

(b) Represents commitments to purchase natural gas and related transportation, storage capacity and services, procure electric renewable energy and RECs, procure electric supply, and curtailment services.

(c) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.

(d) Related to DC PLUG project costs for assets funded by the District of Columbia for which the District of Columbia has assessed a charge on Pepco. Pepco will recover this charge from customers through a volumetric distribution rider. See Note 3 — Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.

(e) Under its operating agreement with PJM, PHI is committed to the construction of transmission facilities to maintain system reliability. These amounts represent PHI's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

Pepco

	Total	Payment due within 2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
Long-term debt	$ 2,543	$ 6	$ —	$ 312	$ 2,225
Interest payments on long-term debt[a]	755	129	259	251	116
Capital leases	27	13	14	—	—
Operating leases	38	8	13	9	8
Electric supply procurement[b]	675	433	242	—	—
Curtailment services commitments[b]	26	13	10	3	—
Other purchase obligations[c]	1,676	995	497	146	38
DC PLUG obligation[d]	188	28	60	60	40
PJM regional transmission expansion commitments[e]	86	5	38	43	—
Total contractual obligations	$ 6,014	$ 1,630	$ 1,133	$ 824	$ 2,427

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances.
(b) Represents commitments to purchase procure electric supply and curtailment services.
(c) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.
(d) Related to DC PLUG project costs for assets funded by the District of Columbia for which the District of Columbia has assessed a charge on Pepco. Pepco will recover this charge from customers through a volumetric distribution rider. See Note 3 — Regulatory Matters of Combined Notes to Consolidated Financial Statements for additional information.
(e) Under its operating agreement with PJM, Pepco is committed to the construction of transmission facilities to maintain system reliability. These amounts represent Pepco's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

DPL

	Total	Payment due within 2018	2019 - 2020	2021 - 2022	Due 2023 and beyond
Long-term debt	$ 1,309	$ 83	$ 12	$ —	$ 1,214
Interest payments on long-term debt[a]	288	49	97	96	46
Operating leases[b]	121	20	23	24	54
Fuel purchase agreements[c]	270	30	60	60	120
Long-term renewable energy and associated REC commitments[c]	345	29	58	58	200
Electric supply procurement[c]	504	312	192	—	—
Curtailment services commitments[c]	36	14	19	3	—
Other purchase obligations[d]	963	776	152	32	3
PJM regional transmission expansion commitments[e]	27	19	3	5	—
Total contractual obligations	$ 3,863	$ 1,332	$ 616	$ 278	$ 1,637

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances.

(b) Amounts related to certain real estate leases and railroad licenses effectively have indefinite payment periods. As a result, DPL has excluded these payments from the remaining years as such amounts would not be meaningful. DPL's average annual obligation for these arrangements, included in each of the years 2018-2022, was $2 million.
(c) Represents commitments to purchase natural gas and related transportation, storage capacity and services, procure electric renewable energy and RECs, procure electric supply, and curtailment services.
(d) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.
(e) Under its operating agreement with PJM, DPL is committed to the construction of transmission facilities to maintain system reliability. These amounts represent DPL's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

ACE

		Payment due within			
	Total	**2018**	**2019 - 2020**	**2021 - 2022**	**Due 2023 and beyond**
Long-term debt	$ 1,127	$ 281	$ —	$ 239	$ 607
Interest payments on long-term debt [(a)]	201	39	77	58	27
Operating leases	57	9	16	13	19
Electric supply procurement [(b)]	541	315	226	—	—
Curtailment services commitments [(b)]	7	3	4	—	—
Other purchase obligations [(c)]	581	439	124	15	3
PJM regional transmission expansion commitments [(d)]	121	68	26	27	—
Total contractual obligations	$ 2,635	$ 1,154	$ 473	$ 352	$ 656

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2017 and do not reflect anticipated future refinancing, early redemptions or debt issuances.
(b) Represents commitments to procure electric supply and curtailment services.
(c) Represents the future estimated value at December 31, 2017 of the cash flows associated with all contracts, both cancellable and non-cancellable, entered into between the Registrants and third-parties for the provision of services and materials, entered into in the normal course of business not specifically reflected elsewhere in this table. These estimates are subject to significant variability from period to period.
(d) Under its operating agreement with PJM, ACE is committed to the construction of transmission facilities to maintain system reliability. These amounts represent ACE's expected portion of the costs to pay for the completion of the required construction projects. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for discussion of the Registrants' other commitments potentially triggered by future events.

For additional information regarding:

- commercial paper, see Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements.
- long-term debt, see Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements.
- liabilities related to uncertain tax positions, see Note 14 — Income Taxes of the Combined Notes to Consolidated Financial Statements.
- capital lease obligations, see Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements.

- operating leases and rate relief commitments, see Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements.

- the nuclear decommissioning and SNF obligations, see Notes 15 — Asset Retirement Obligations and 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements.

- regulatory commitments, see Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

- variable interest entities, see Note 2 — Variable Interest Entities of the Combined Notes to Consolidated Financial Statements.

- nuclear insurance, see Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements.

- new accounting pronouncements, see Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Registrants are exposed to market risks associated with adverse changes in commodity prices, counterparty credit, interest rates and equity prices. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities.

Commodity Price Risk (All Registrants)

Commodity price risk is associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather conditions, governmental regulatory and environmental policies and other factors. To the extent the total amount of energy Exelon generates and purchases differs from the amount of energy it has contracted to sell, Exelon is exposed to market fluctuations in commodity prices. Exelon seeks to mitigate its commodity price risk through the sale and purchase of electricity, fossil fuel and other commodities.

Generation

Electricity available from Generation's owned or contracted generation supply in excess of Generation's obligations to customers, including portions of the Utility Registrants' retail load, is sold into the wholesale markets. To reduce commodity price risk caused by market fluctuations, Generation enters into non-derivative contracts as well as derivative contracts, including swaps, futures, forwards and options, with approved counterparties to hedge anticipated exposures. Generation uses derivative instruments as economic hedges to mitigate exposure to fluctuations in commodity prices. Generation expects the settlement of the majority of its economic hedges will occur during 2018 through 2020.

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation's owned and contracted generation positions which have not been hedged. Exelon's hedging program involves the hedging of commodity price risk for Exelon's expected generation, typically on a ratable basis over three-year periods. As of December 31, 2017, the percentage of expected generation hedged is 85%-88%, 55%-58% and 26%-29% for 2018, 2019 and 2020, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts, including Generation’s sales to ComEd, PECO and BGE to serve their retail load.

A portion of Generation’s hedging strategy may be accomplished with fuel products based on assumed correlations between power and fuel prices, which routinely change in the market. Market price risk exposure is the risk of a change in the value of unhedged positions. The forecasted market price risk exposure for Generation’s entire economic hedge portfolio associated with a $5 reduction in the annual average around-the-clock energy price based on December 31, 2017 market conditions and hedged position would be decreases in pre-tax net income of approximately $110 million, $400 million and $630 million, respectively, for 2018, 2019 and 2020. Power price sensitivities are derived by adjusting power price assumptions while keeping all other price inputs constant. Generation actively manages its portfolio to mitigate market price risk exposure for its unhedged position. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation’s portfolio. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Proprietary Trading Activities

Proprietary trading portfolio activity for the year ended December 31, 2017, resulted in pre-tax gains of $18 million due to net mark-to-market gains of $5 million and realized gains of $13 million. Generation has not segregated proprietary trading activity within the following discussion because of the relative size of the proprietary trading portfolio in comparison to Generation’s total Revenue net of purchased power and fuel expense. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Fuel Procurement

Generation procures natural gas through long-term and short-term contracts, and spot-market purchases. Nuclear fuel assemblies are obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation’s procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 59% of Generation’s uranium concentrate requirements from 2018 through 2022 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrates can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon’s and Generation’s results of operations, cash flows and financial positions.

ComEd

ComEd entered into 20-year contracts for renewable energy and RECs beginning in June 2012. ComEd is permitted to recover its renewable energy and REC costs from retail customers with no mark-up. The annual commitments represent the maximum settlements with suppliers for renewable energy and RECs under the existing contract terms. Pursuant to the ICC’s Order on December 19, 2012, ComEd’s commitments under the existing long-term contracts were reduced for the June 2013 through May 2014 procurement period. In addition, the ICC’s December 18, 2013 Order approved the reduction of ComEd’s commitments under those contracts for the June 2014 through May 2015 procurement period, and the amount of the reduction was approved by the ICC in March 2014.

ComEd has block energy contracts to procure electric supply that are executed through a competitive procurement process, which is further discussed in Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements. The block energy contracts are considered derivatives and qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result are accounted for on an accrual basis of accounting. ComEd does not execute derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

PECO, BGE, Pepco, DPL and ACE

PECO, BGE, Pepco, DPL and ACE have contracts to procure electric supply that are executed through a competitive procurement process, which are further discussed in Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements. PECO, BGE, Pepco, DPL and ACE have certain full requirements contracts, which are considered derivatives and qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result are accounted for on an accrual basis of accounting. Other full requirements contracts are not derivatives.

PECO, BGE and DPL have also executed derivative natural gas contracts, which either qualify for the normal purchases and normal sales exception or have no mark-to-market balances because the derivatives are index priced, to hedge their long-term price risk in the natural gas market. The hedging programs for natural gas procurement have no direct impact on their results of operations or financial position.

PECO, BGE, Pepco, DPL and ACE do not execute derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Trading and Non-Trading Marketing Activities

The following tables detail Exelon’s, Generation’s, ComEd’s, PHI’s and DPL’s trading and non-trading marketing activities is included to address the recommended disclosures by the energy industry’s Committee of Chief Risk Officers (CCRO).

The following table provides detail on changes in Exelon’s, Generation’s, ComEd’s, PHI’s and DPL’s commodity mark-to-market net asset or liability balance sheet position from December 31, 2015 to December 31, 2017. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings. This table excludes all NPNS contracts and does not segregate proprietary trading activity. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of December 31, 2017 and 2016.

					Successor	*Predecessor*
					March 24 to December 31,	**January 1 to March 23,**
	Exelon	**Generation**	**ComEd**	**DPL**	**PHI**	**PHI**
Total mark-to-market energy contract net assets (liabilities) at December 31, 2015[a]	$1,506	$ 1,753	$ (247)	$—	$ —	$ —
Total change in fair value during 2016 of contracts recorded in result of operations	236	236	—	—		—
Reclassification to be realized at settlement of contracts recorded in results of operations	(265)	(265)	—	—	—	—
Contracts received at acquisition date[b]	(59)	(59)	—	—	—	—
Changes in fair value—recorded through regulatory assets and liabilities[c]	(8)	—	(11)	4	3	1
Changes in allocated collateral	(908)	(905)	—	(4)	(3)	(1)
Changes in net option premium paid	66	66	—	—	—	—
Option premium amortization	11	11	—	—	—	—
Upfront payments and amortizations[d]	140	140	—	—		
Total mark-to-market energy contract net assets (liabilities) at December 31, 2016[a]	$ 719	$ 977	$ (258)	$—	$ —	$ —

(a) Amounts are shown net of collateral paid to and received from counterparties.

(b) Includes fair value from contracts received at acquisition of ConEdison Solutions of $(59) million.

(c) For ComEd and DPL, the changes in fair value are recorded as a change in regulatory assets or liabilities. As of December 31, 2016, ComEd recorded a regulatory liability of $258 million, respectively, related to its mark-to-market derivative liabilities with Generation and unaffiliated suppliers. ComEd recorded $29 million of decreases in fair value and an increase for realized losses due to settlements of $18 million in purchased power expense associated with floating-to-fixed energy swap suppliers for the year ended December 31, 2016.

(d) Includes derivative contracts acquired or sold by Generation through upfront payments or receipts of cash, excluding option premiums, and the associated amortizations.

	Exelon	Generation	ComEd	DPL	*Successor* PHI
Total mark-to-market energy contract net assets (liabilities) at December 31, 2016[(a)]	$ 719	$ 977	$ (258)	$ —	$ —
Total change in fair value during 2016 of contracts recorded in result of operations	110	110	—	—	—
Reclassification to be realized at settlement of contracts recorded in results of operations	(273)	(273)	—	—	—
Changes in fair value—recorded through regulatory assets and liabilities[(c)]	(1)	—	2	(3)	(3)
Changes in allocated collateral	140	137	—	3	3
Changes in net option premium received	(28)	(28)	—	—	—
Option premium amortization	(7)	(7)	—	—	—
Upfront payments and amortizations[(b)]	(24)	(24)	—	—	—
Other miscellaneous[(d)]	31	31	—	—	—
Total mark-to-market energy contract net assets (liabilities) at December 31, 2017[(a)]	$ 667	$ 923	$ (256)	$ —	$ —

(a) Amounts are shown net of collateral paid to and received from counterparties.

(b) Includes derivative contracts acquired or sold by Generation through upfront payments or receipts of cash, excluding option premiums, and the associated amortizations.

(c) For ComEd and DPL, the changes in fair value are recorded as a change in regulatory assets or liabilities. As of December 31, 2017, ComEd recorded a regulatory liability of $256 million, related to its mark-to-market derivative liabilities with Generation and unaffiliated suppliers. For the year ended December 31, 2017, ComEd also recorded $18 million of decreases in fair value and realized losses due to settlements of $20 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the year ended December 31, 2017.

(d) As a result of the bankruptcy filing for EGTP on November 7, 2017, the net mark-to-market commodity contracts were deconsolidated from Exelon's and Generation consolidated financial statements.

Fair Values

The following tables present maturity and source of fair value for Exelon, Generation and ComEd mark-to-market commodity contract net assets (liabilities). The tables provide two fundamental pieces of information. First, the tables provide the source of fair value used in determining the carrying amount of the Registrants' total mark-to-market net assets (liabilities), net of allocated collateral. Second, the tables show the maturity, by year, of the Registrants' commodity contract net assets (liabilities) net of allocated collateral, giving an indication of when these mark-to-market amounts will settle and either generate or require cash. See Note 11 — Fair Value of Financial Assets and Liabilities of the Combined Notes to Consolidated Financial Statements for additional information regarding fair value measurements and the fair value hierarchy.

Exelon

	Maturities Within						
	2018	2019	2020	2021	2022	2023 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts[a][b]:							
Actively quoted prices (Level 1)	$ (32)	$ (43)	$ (15)	$ 2	$ (2)	$ —	$ (90)
Prices provided by external sources (Level 2)	462	(6)	(1)	6	—	—	461
Prices based on model or other valuation methods (Level 3)[c]	315	130	23	(27)	(58)	(87)	296
Total	$ 745	$ 81	$ 7	$ (19)	$ (60)	$ (87)	$ 667

(a) Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in results of operations.

(b) Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $466 million at December 31, 2017.

(c) Includes ComEd's net assets (liabilities) associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Generation

	Maturities Within						
	2018	2019	2020	2021	2022	2023 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts[a][b]:							
Actively quoted prices (Level 1)	$ (32)	$ (43)	$ (15)	$ 2	$ (2)	$ —	$ (90)
Prices provided by external sources (Level 2)	462	(6)	(1)	6	—	—	461
Prices based on model or other valuation methods (Level 3)[c]	336	152	44	(6)	(37)	63	552
Total	$ 766	$ 103	$ 28	$ 2	$ (39)	$ 63	$ 923

(a) Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in the results of operations.

(b) Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $466 million at December 31, 2017.

ComEd

	Maturities Within						
	2018	2019	2020	2021	2022	2023 and Beyond	Fair Value
Prices based on model or other valuation methods (Level 3)[(a)]	$ (21)	$ (22)	$ (21)	$ (21)	$ (21)	$ (150)	$ (256)

(a) Represents ComEd's net liabilities associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Credit Risk, Collateral and Contingent Related Features (All Registrants)

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that execute derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. See Note 12—Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for a detailed discussion of credit risk, collateral, and contingent related features.

Generation

The following tables provide information on Generation's credit exposure for all derivative instruments, normal purchases and normal sales agreements, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of December 31, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the duration of a company's credit risk by credit rating of the counterparties. The figures in the tables below exclude credit risk exposure from individual retail customers, uranium procurement contracts, and exposure through RTOs, ISOs and commodity exchanges, which are discussed below. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $28 million, $22 million, $24 million, $36 million, $12 million and $6 million respectively. See Note 26 — Related Party Transactions of the Combined Notes to Consolidated Financial Statements for additional information.

Rating as of December 31, 2017	Total Exposure Before Credit Collateral	Credit Collateral [(a)]	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 738	$ 4	$ 734	1	$ 244
Non-investment grade	90	12	78	—	—
No external ratings					
Internally rated—investment grade	253	—	253	—	—
Internally rated—non-investment grade	83	11	72	—	—
Total	$ 1,164	$ 27	$ 1,137	1	$ 244

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Rating as of December 31, 2017	Maturity of Credit Risk Exposure Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	Total Exposure Before Credit Collateral
Investment grade	$ 657	$ 80	$ 1	$ 738
Non-investment grade	74	16	—	90
No external ratings				
Internally rated—investment grade	191	30	32	253
Internally rated—non-investment grade	79	4	—	83
Total	$ 1,001	$ 130	$ 33	$ 1,164

Net Credit Exposure by Type of Counterparty	As of December 31, 2017
Financial institutions	$ 41
Investor-owned utilities, marketers, power producers	558
Energy cooperatives and municipalities	452
Other	86
Total	$ 1,137

(a) As of December 31, 2017, credit collateral held from counterparties where Generation had credit exposure included $8 million of cash and $19 million of letters of credit.

The Utility Registrants

Credit risk for the Utility Registrants is governed by credit and collection policies, which are aligned with state regulatory requirements. The Utility Registrants are currently obligated to provide service to all electric customers within their franchised territories. The Utility Registrants record a provision for uncollectible accounts, based upon historical experience, to provide for the potential loss from nonpayment by these customers. The Utility Registrants will monitor nonpayment from customers and will make any necessary adjustments to the provision for uncollectible accounts. See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for the allowance for uncollectible accounts policy. The Utility Registrants did not have any customers representing over 10% of their revenues as of December 31, 2017. See Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

As of December 31, 2017, ComEd’s net credit exposure to suppliers was approximately $1 million. PECO and BGE had no net credit exposure to suppliers as of December 31, 2017. As of December 31, 2017 Pepco, DPL and ACE’s net credit exposures were immaterial. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Collateral (All Registrants)

Generation

As part of the normal course of business, Generation routinely enters into physical or financial contracts for the sale and purchase of electricity, natural gas and other commodities. In accordance with the contracts and applicable law, if Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on Generation’s net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. See Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for information regarding collateral requirements. See Note 23 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for information regarding the letters of credit supporting the cash collateral.

Generation transacts output through bilateral contracts. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon’s and Generation’s results of operations, cash flows and financial positions. As market prices rise above or fall below contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. To post collateral, Generation depends on access to bank credit facilities, which serve as liquidity sources to fund collateral requirements. See ITEM 7. Liquidity and Capital Resources — Credit Matters — Exelon Credit Facilities for additional information.

The Utility Registrants

As of December 31, 2017, ComEd held $10 million in collateral from suppliers in association with energy procurement contracts, approximately $2 million in collateral from suppliers for REC contract obligations and approximately $19 million in collateral from suppliers for long-term renewable energy contracts. BGE is not required to post collateral under its electric supply contracts but was holding an immaterial amount of collateral under its electric supply procurement contracts. BGE was not required to post collateral under its natural gas procurement contracts, but was holding an immaterial amount of collateral under its natural gas procurement contracts. PECO, Pepco, DPL and ACE were not required to post collateral under their energy and/or natural gas procurement contracts. See Note 3 — Regulatory Matters and Note 12 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

RTOs and ISOs (All Registrants)

All Registrants participate in all, or some, of the established, wholesale spot energy markets that are administered by PJM, ISO-NE, ISO-NY, CAISO, MISO, SPP, AESO, OIESO and ERCOT. ERCOT is not subject to regulation by FERC but performs a similar function in Texas to that performed by RTOs in markets regulated by FERC. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot energy markets that are administered by the RTOs or ISOs, as applicable. In areas where there is no spot energy market, electricity is purchased and sold solely through bilateral agreements. For sales into the spot markets administered by an RTO or ISO, the RTO or ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the RTOs and ISOs may, under certain circumstances, require that losses arising from the default of one member on spot energy market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on the Registrants’ results of operations, cash flows and financial positions.

Exchange Traded Transactions (Exelon, Generation, PHI and DPL)

Generation enters into commodity transactions on NYMEX, ICE, NASDAQ, NGX and the Nodal exchange ("the Exchanges"). DPL enters into commodity transactions on ICE. The Exchange clearinghouses act as the counterparty to each trade. Transactions on the Exchanges must adhere to comprehensive collateral and margining requirements. As a result, transactions on Exchanges are significantly collateralized and have limited counterparty credit risk.

Interest Rate and Foreign Exchange Risk (All Registrants)

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants may also utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels, which are typically designated as cash flow hedges. These strategies are employed to manage interest rate risks. At December 31, 2017, Exelon had $800 million of notional amounts of fixed-to-floating hedges outstanding and Exelon and Generation had $636 million of notional amounts of floating-to-fixed hedges outstanding. Assuming the fair value and cash flow interest rate hedges are 100% effective, a hypothetical 50 basis point increase in the interest rates associated with unhedged variable-rate debt (excluding Commercial Paper) and fixed-to-floating swaps would result in approximately a $6 million decrease in Exelon Consolidated pre-tax income for the year ended December 31, 2017. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges. See Note 12—Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Equity Price Risk (Exelon and Generation)

Exelon and Generation maintain trust funds, as required by the NRC, to fund certain costs of decommissioning its nuclear plants. As of December 31, 2017, Generation's decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate Generation for inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's NDT fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $662 million reduction in the fair value of the trust assets. This calculation holds all other variables constant and assumes only the discussed changes in interest rates and equity prices. See ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for further discussion of equity price risk as a result of the current capital and credit market conditions.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Generation

General

Generation's integrated business consists of the generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services. Generation has six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions. These segments are discussed in further detail in ITEM 1. BUSINESS — Exelon Generation Company, LLC of this Form 10-K.

Executive Overview

A discussion of items pertinent to Generation's executive overview is set forth under ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Exelon Corporation — Executive Overview of this Form 10-K.

Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 and Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

A discussion of Generation's results of operations for 2017 compared to 2016 and 2016 compared to 2015 is set forth under Results of Operations—Generation in EXELON CORPORATION — Results of Operations of this Form 10-K.

Liquidity and Capital Resources

Generation's business is capital intensive and requires considerable capital resources. Generation's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of long-term debt, commercial paper, participation in the intercompany money pool or capital contributions from Exelon. Generation's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where Generation no longer has access to the capital markets at reasonable terms, Generation has access to credit facilities in the aggregate of $5.8 billion that Generation currently utilizes to support its commercial paper program and to issue letters of credit.

See EXELON CORPORATION — Liquidity and Capital Resources and Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Capital resources are used primarily to fund Generation’s capital requirements, including construction, retirement of debt, the payment of distributions to Exelon, contributions to Exelon’s pension plans and investments in new and existing ventures. Future acquisitions could require external financing or borrowings or capital contributions from Exelon.

Cash Flows from Operating Activities

A discussion of items pertinent to Generation's cash flows from operating activities is set forth under Cash Flows from Operating Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Investing Activities

A discussion of items pertinent to Generation's cash flows from investing activities is set forth under Cash Flows from Investing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Financing Activities

A discussion of items pertinent to Generation's cash flows from financing activities is set forth under Cash Flows from Financing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Credit Matters

A discussion of credit matters pertinent to Generation is set forth under Credit Matters in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Contractual Obligations and Off-Balance Sheet Arrangements

A discussion of Generation's contractual obligations, commercial commitments and off-balance sheet arrangements is set forth under Contractual Obligations and Off-Balance Sheet Arrangements in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Critical Accounting Policies and Estimates

See All Registrants — Critical Accounting Policies and Estimates above for a discussion of Generation's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Generation

Generation is exposed to market risks associated with commodity price, credit, interest rates and equity price. These risks are described above under Quantitative and Qualitative Disclosures about Market Risk — Exelon.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ComEd

General

ComEd operates in a single business segment and its operations consist of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. This segment is discussed in further detail in ITEM 1. BUSINESS—ComEd of this Form 10-K.

Executive Overview

A discussion of items pertinent to ComEd's executive overview is set forth under EXELON CORPORATION—Executive Overview of this Form 10-K.

Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 and Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

A discussion of ComEd's results of operations for 2017 compared to 2016 and for 2016 compared to 2015 is set forth under Results of Operations—ComEd in EXELON CORPORATION — Results of Operations of this Form 10-K.

Liquidity and Capital Resources

ComEd's business is capital intensive and requires considerable capital resources. ComEd's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of long-term debt, commercial paper or credit facility borrowings. ComEd's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. At December 31, 2017, ComEd had access to a revolving credit facility with aggregate bank commitments of $1 billion.

See EXELON CORPORATION — Liquidity and Capital Resources and Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Capital resources are used primarily to fund ComEd's capital requirements, including construction, retirement of debt, and contributions to Exelon's pension plans. Additionally, ComEd operates in rate-regulated environments in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time.

Cash Flows from Operating Activities

A discussion of items pertinent to ComEd’s cash flows from operating activities is set forth under Cash Flows from Operating Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Investing Activities

A discussion of items pertinent to ComEd's cash flows from investing activities is set forth under Cash Flows from Investing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Financing Activities

A discussion of items pertinent to ComEd's cash flows from financing activities is set forth under Cash Flows from Financing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Credit Matters

A discussion of credit matters pertinent to ComEd is set forth under Credit Matters in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Contractual Obligations and Off-Balance Sheet Arrangements

A discussion of ComEd's contractual obligations, commercial commitments and off-balance sheet arrangements is set forth under Contractual Obligations and Off-Balance Sheet Arrangements in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Critical Accounting Policies and Estimates

See All Registrants — Critical Accounting Policies and Estimates above for a discussion of ComEd's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ComEd

ComEd is exposed to market risks associated with commodity price, credit and interest rates. These risks are described above under Quantitative and Qualitative Disclosures about Market Risk— Exelon.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PECO

General

PECO operates in a single business segment and its operations consist of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services in southeastern Pennsylvania including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of distribution service in Pennsylvania in the counties surrounding the City of Philadelphia. This segment is discussed in further detail in ITEM 1. BUSINESS—PECO of this Form 10-K.

Executive Overview

A discussion of items pertinent to PECO's executive overview is set forth under EXELON CORPORATION—Executive Overview of this Form 10-K.

Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 and Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

A discussion of PECO's results of operations for 2017 compared to 2016 and for 2016 compared to 2015 is set forth under Results of Operations—PECO in EXELON CORPORATION — Results of Operations of this Form 10-K.

Liquidity and Capital Resources

PECO's business is capital intensive and requires considerable capital resources. PECO's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of long-term debt, commercial paper or participation in the intercompany money pool. PECO's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where PECO no longer has access to the capital markets at reasonable terms, PECO has access to a revolving credit facility. At December 31, 2017, PECO had access to a revolving credit facility with aggregate bank commitments of $600 million.

See EXELON CORPORATION — Liquidity and Capital Resources and Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Capital resources are used primarily to fund PECO's capital requirements, including construction, retirement of debt, the payment of dividends and contributions to Exelon's pension plans. Additionally, PECO operates in a rate-regulated environment in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time.

Cash Flows from Operating Activities

A discussion of items pertinent to PECO’s cash flows from operating activities is set forth under Cash Flows from Operating Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Investing Activities

A discussion of items pertinent to PECO's cash flows from investing activities is set forth under Cash Flows from Investing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Financing Activities

A discussion of items pertinent to PECO's cash flows from financing activities is set forth under Cash Flows from Financing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Credit Matters

A discussion of credit matters pertinent to PECO is set forth under Credit Matters in "EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Contractual Obligations and Off-Balance Sheet Arrangements

A discussion of PECO's contractual obligations, commercial commitments and off-balance sheet arrangements is set forth under Contractual Obligations and Off-Balance Sheet Arrangements in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Critical Accounting Policies and Estimates

See All Registrants — Critical Accounting Policies and Estimates above for a discussion of PECO's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PECO

PECO is exposed to market risks associated with credit and interest rates. These risks are described above under Quantitative and Qualitative Disclosures about Market Risk—Exelon.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BGE

General

BGE operates in a single business segment and its operations consist of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services in central Maryland, including the City of Baltimore, and the purchase and regulated retail sale of natural gas and the provision of distribution service in central Maryland, including the City of Baltimore. This segment is discussed in further detail in ITEM 1. BUSINESS—BGE of this Form 10-K.

Executive Overview

A discussion of items pertinent to BGE's executive overview is set forth under EXELON CORPORATION — Executive Overview of this Form 10-K.

Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 and Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

A discussion of BGE's results of operations for 2017 compared to 2016 and for 2016 compared to 2015 is set forth under Results of Operations—BGE in EXELON CORPORATION — Results of Operations of this Form 10-K.

Liquidity and Capital Resources

BGE's business is capital intensive and requires considerable capital resources. BGE's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of long-term debt or commercial paper. BGE's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where BGE no longer has access to the capital markets at reasonable terms, BGE has access to a revolving credit facility. At December 31, 2017, BGE had access to a revolving credit facility with aggregate bank commitments of $600 million.

See EXELON CORPORATION — Liquidity and Capital Resources and Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Capital resources are used primarily to fund BGE's capital requirements, including construction, retirement of debt, the payment of dividends and contributions to Exelon's pension plans. Additionally, BGE operates in a rate-regulated environment in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time.

Cash Flows from Operating Activities

A discussion of items pertinent to BGE's cash flows from operating activities is set forth under Cash Flows from Operating Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Investing Activities

A discussion of items pertinent to BGE’s cash flows from investing activities is set forth under “Cash Flows from Investing Activities” in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Financing Activities

A discussion of items pertinent to BGE’s cash flows from financing activities is set forth under “Cash Flows from Financing Activities” in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Credit Matters

A discussion of credit matters pertinent to BGE is set forth under Credit Matters in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Contractual Obligations and Off-Balance Sheet Arrangements

A discussion of BGE’s contractual obligations, commercial commitments and off-balance sheet arrangements is set forth under Contractual Obligations and Off-Balance Sheet Arrangements in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Critical Accounting Policies and Estimates

See All Registrants — Critical Accounting Policies and Estimates above for a discussion of BGE’s critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

BGE

BGE is exposed to market risks associated with credit and interest rates. These risks are described above under Quantitative and Qualitative Disclosures about Market Risk—Exelon.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PHI

General

PHI has three reportable segments Pepco, DPL, and ACE. Its operations consist of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services, and to a lesser extent, the purchase and regulated retail sale and supply of natural gas in Delaware. This segment is discussed in further detail in ITEM 1. BUSINESS — PHI of this Form 10-K.

Executive Overview

A discussion of items pertinent to PHI's executive overview is set forth under EXELON CORPORATION — Executive Overview of this Form 10-K.

Results of Operations

Successor Period Year Ended December 31, 2017, Successor Period of March 24, 2016 to December 31, 2016 and Predecessor Period of January 1, 2016 to March 23, 2016, Predecessor Period Year Ended December 31, 2015

A discussion of PHI's results of operations for 2017 compared to 2016, March 24, 2016 to December 31, 2016 and January 1, 2016 to March 23, 2016, and the year ended December 31, 2015 is set forth under Results of Operations—PHI in EXELON CORPORATION — Results of Operations of this Form 10-K.

Liquidity and Capital Resources

PHI's business is capital intensive and requires considerable capital resources. PHI's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of long-term debt or commercial paper, borrowings from the Exelon money pool or capital contributions from Exelon. PHI's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general.

See EXELON CORPORATION — Liquidity and Capital Resources and Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Capital resources are used primarily to fund PHI's capital requirements, including construction, retirement of debt, the payment of dividends and contributions to Exelon's pension plans. Additionally, PHI operates in a rate-regulated environment in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time.

Cash Flows from Operating Activities

A discussion of items pertinent to PHI’s cash flows from operating activities is set forth under Cash Flows from Operating Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Investing Activities

A discussion of items pertinent to PHI’s cash flows from investing activities is set forth under “Cash Flows from Investing Activities” in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Financing Activities

A discussion of items pertinent to PHI’s cash flows from financing activities is set forth under “Cash Flows from Financing Activities” in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Credit Matters

A discussion of credit matters pertinent to PHI is set forth under Credit Matters in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Contractual Obligations and Off-Balance Sheet Arrangements

A discussion of PHI’s contractual obligations, commercial commitments and off-balance sheet arrangements is set forth under Contractual Obligations and Off-Balance Sheet Arrangements in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Critical Accounting Policies and Estimates

See All Registrants — Critical Accounting Policies and Estimates above for a discussion of PHI’s critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PHI

PHI is exposed to market risks associated with commodity price, credit and interest rates. These risks are described above under Quantitative and Qualitative Disclosures about Market Risk — Exelon.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pepco

General

Pepco operates in a single business segment and its operations consist of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in District of Columbia and major portions of Prince George’s County and Montgomery County in Maryland. This segment is discussed in further detail in ITEM 1. BUSINESS — Pepco of this Form 10-K.

Executive Overview

A discussion of items pertinent to Pepco’s executive overview is set forth under EXELON CORPORATION — Executive Overview of this Form 10-K.

Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 and Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

A discussion of Pepco’s results of operations for 2017 compared to 2016 and for 2016 compared to 2015 is set forth under Results of Operations—Pepco in EXELON CORPORATION — Results of Operations of this Form 10-K.

Liquidity and Capital Resources

Pepco’s business is capital intensive and requires considerable capital resources. Pepco’s capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of long-term debt, commercial paper or credit facility borrowings. Pepco’s access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. At December 31, 2017, Pepco had access to a revolving credit facility with aggregate bank commitments of $300 million.

See EXELON CORPORATION — Liquidity and Capital Resources and Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Capital resources are used primarily to fund Pepco’s capital requirements, including construction, retirement of debt, and contributions to Exelon’s pension plans. Additionally, Pepco operates in rate-regulated environments in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time.

Cash Flows from Operating Activities

A discussion of items pertinent to Pepco’s cash flows from operating activities is set forth under Cash Flows from Operating Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Investing Activities

A discussion of items pertinent to Pepco’s cash flows from investing activities is set forth under Cash Flows from Investing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Financing Activities

A discussion of items pertinent to Pepco’s cash flows from financing activities is set forth under Cash Flows from Financing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Credit Matters

A discussion of credit matters pertinent to Pepco is set forth under Credit Matters in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Contractual Obligations and Off-Balance Sheet Arrangements

A discussion of Pepco’s contractual obligations, commercial commitments and off-balance sheet arrangements is set forth under Contractual Obligations and Off-Balance Sheet Arrangements in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Critical Accounting Policies and Estimates

See All Registrants — Critical Accounting Policies and Estimates above for a discussion of Pepco’s critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Pepco

Pepco is exposed to market risks associated with credit and interest rates. These risks are described above under Quantitative and Qualitative Disclosures about Market Risk— Exelon.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DPL

General

DPL operates in a single business segment and its operations consist of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale and supply of natural gas in New Castle County, Delaware. This segment is discussed in further detail in ITEM 1. BUSINESS — DPL of this Form 10-K.

Executive Overview

A discussion of items pertinent to DPL's executive overview is set forth under EXELON CORPORATION — Executive Overview of this Form 10-K.

Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 and Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

A discussion of DPL's results of operations for 2017 compared to 2016 and for 2016 compared to 2015 is set forth under Results of Operations—DPL in EXELON CORPORATION — Results of Operations of this Form 10-K.

Liquidity and Capital Resources

DPL's business is capital intensive and requires considerable capital resources. DPL's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of long-term debt or commercial paper. DPL's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where DPL no longer has access to the capital markets at reasonable terms, DPL has access to a revolving credit facility. At December 31, 2017, DPL had access to a revolving credit facility with aggregate bank commitments of $300 million.

See EXELON CORPORATION — Liquidity and Capital Resources and Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Capital resources are used primarily to fund DPL's capital requirements, including construction, retirement of debt, the payment of dividends and contributions to Exelon's pension plans. Additionally, DPL operates in a rate-regulated environment in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time.

Cash Flows from Operating Activities

A discussion of items pertinent to DPL's cash flows from operating activities is set forth under Cash Flows from Operating Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Investing Activities

A discussion of items pertinent to DPL’s cash flows from investing activities is set forth under Cash Flows from Investing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Financing Activities

A discussion of items pertinent to DPL’s cash flows from financing activities is set forth under Cash Flows from Financing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Credit Matters

A discussion of credit matters pertinent to DPL is set forth under Credit Matters in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Contractual Obligations and Off-Balance Sheet Arrangements

A discussion of DPL’s contractual obligations, commercial commitments and off-balance sheet arrangements is set forth under Contractual Obligations and Off-Balance Sheet Arrangements in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Critical Accounting Policies and Estimates

See All Registrants — Critical Accounting Policies and Estimates above for a discussion of DPL’s critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

DPL

DPL is exposed to market risks associated with commodity price, credit and interest rates. These risks are described above under Quantitative and Qualitative Disclosures about Market Risk—Exelon.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ACE

General

ACE operates in a single business segment and its operations consist of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in portions of southern New Jersey. This segment is discussed in further detail in ITEM 1. BUSINESS — ACE of this Form 10-K.

Executive Overview

A discussion of items pertinent to ACE’s executive overview is set forth under EXELON CORPORATION — Executive Overview of this Form 10-K.

Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 and Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

A discussion of ACE’s results of operations for 2017 compared to 2016 and for 2016 compared to 2015 is set forth under Results of Operations—ACE in EXELON CORPORATION — Results of Operations of this Form 10-K.

Liquidity and Capital Resources

ACE’s business is capital intensive and requires considerable capital resources. ACE’s capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of long-term debt, commercial paper or credit facility borrowings. ACE’s access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. At December 31, 2017, ACE had access to a revolving credit facility with aggregate bank commitments of $300 million.

See EXELON CORPORATION — Liquidity and Capital Resources and Note 13 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Capital resources are used primarily to fund ACE’s capital requirements, including construction, retirement of debt, and contributions to Exelon’s pension plans. Additionally, ACE operates in rate-regulated environments in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time.

Cash Flows from Operating Activities

A discussion of items pertinent to ACE’s cash flows from operating activities is set forth under Cash Flows from Operating Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

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Cash Flows from Investing Activities

A discussion of items pertinent to ACE's cash flows from investing activities is set forth under Cash Flows from Investing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Cash Flows from Financing Activities

A discussion of items pertinent to ACE's cash flows from financing activities is set forth under Cash Flows from Financing Activities in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Credit Matters

A discussion of credit matters pertinent to ACE is set forth under Credit Matters in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Contractual Obligations and Off-Balance Sheet Arrangements

A discussion of ACE's contractual obligations, commercial commitments and off-balance sheet arrangements is set forth under Contractual Obligations and Off-Balance Sheet Arrangements in EXELON CORPORATION — Liquidity and Capital Resources of this Form 10-K.

Critical Accounting Policies and Estimates

See All Registrants — Critical Accounting Policies and Estimates above for a discussion of ACE's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ACE

ACE is exposed to market risks associated with credit and interest rates. These risks are described above under Quantitative and Qualitative Disclosures about Market Risk— Exelon.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

The management of Exelon Corporation (Exelon) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Exelon's management conducted an assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Exelon's management concluded that, as of December 31, 2017, Exelon's internal control over financial reporting was effective.

The effectiveness of Exelon's internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

February 9, 2018

Management’s Report on Internal Control Over Financial Reporting

The management of Exelon Generation Company, LLC (Generation) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Generation’s management conducted an assessment of the effectiveness of Generation’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Generation’s management concluded that, as of December 31, 2017, Generation’s internal control over financial reporting was effective.

The effectiveness of Generation’s internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

February 9, 2018

Management’s Report on Internal Control Over Financial Reporting

The management of Commonwealth Edison Company (ComEd) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ComEd’s management conducted an assessment of the effectiveness of ComEd’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, ComEd’s management concluded that, as of December 31, 2017, ComEd’s internal control over financial reporting was effective.

The effectiveness of ComEd’s internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

February 9, 2018

Management’s Report on Internal Control Over Financial Reporting

The management of PECO Energy Company (PECO) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PECO’s management conducted an assessment of the effectiveness of PECO’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, PECO’s management concluded that, as of December 31, 2017, PECO’s internal control over financial reporting was effective.

The effectiveness of PECO’s internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

February 9, 2018

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Management's Report on Internal Control Over Financial Reporting

The management of Baltimore Gas and Electric Company (BGE) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BGE's management conducted an assessment of the effectiveness of BGE's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, BGE's management concluded that, as of December 31, 2017, BGE's internal control over financial reporting was effective.

The effectiveness of BGE's internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

February 9, 2018

Management’s Report on Internal Control Over Financial Reporting

The management of Pepco Holdings LLC (PHI) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PHI’s management conducted an assessment of the effectiveness of PHI’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, PHI’s management concluded that, as of December 31, 2017, PHI’s internal control over financial reporting was effective.

The effectiveness of PHI’s internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

February 9, 2018

Management’s Report on Internal Control Over Financial Reporting

The management of Potomac Electric Power Company (Pepco) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Pepco’s management conducted an assessment of the effectiveness of Pepco’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Pepco’s management concluded that, as of December 31, 2017, Pepco’s internal control over financial reporting was effective.

February 9, 2018

Management’s Report on Internal Control Over Financial Reporting

The management of Delmarva Power & Light Company (DPL) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

DPL’s management conducted an assessment of the effectiveness of DPL’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, DPL’s management concluded that, as of December 31, 2017, DPL’s internal control over financial reporting was effective.

February 9, 2018

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Management's Report on Internal Control Over Financial Reporting

The management of Atlantic City Electric Company (ACE) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ACE's management conducted an assessment of the effectiveness of ACE's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, ACE's management concluded that, as of December 31, 2017, ACE's internal control over financial reporting was effective.

February 9, 2018

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Exelon Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedules listed in the index appearing under Item 15(a)(2), of Exelon Corporation and its subsidiaries (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016**,** and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 9, 2018

We have served as the Company's auditor since 2000.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Member of Exelon Generation Company, LLC

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Exelon Generation Company, LLC and its subsidiaries (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Baltimore, Maryland
February 9, 2018

We have served as the Company’s auditor since 2001.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Commonwealth Edison Company

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Commonwealth Edison Company and its subsidiaries (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016**,** and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 9, 2018

We have served as the Company’s auditor since 2000.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of PECO Energy Company

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of PECO Energy Company and its subsidiaries (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016**,** and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 9, 2018

We have served as the Company's auditor since 1932.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Baltimore Gas and Electric Company

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Baltimore Gas and Electric Company and its subsidiaries (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016**,** and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Baltimore, Maryland
February 9, 2018

We have served as the Company's auditor since at least 1993. We have not determined the specific year we began serving as auditor of the Company.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Member of Pepco Holdings LLC

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Pepco Holdings LLC and its subsidiaries (Successor) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016**,** and the results of their operations and their cash flows for the year ended December 31, 2017, for the period from March 24, 2016 to December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Washington, D.C.
February 9, 2018

We have served as the Company's auditor since 2001.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Member of Pepco Holdings LLC

In our opinion, the financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the results of operations and the cash flows of Pepco Holdings LLC and its subsidiaries (formerly Pepco Holdings, Inc.) (Predecessor) for the period January 1, 2016 to March 23, 2016 and for the year ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related financial statements. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Company changed the manner in which it accounts for interest on uncertain tax positions in 2016.

/s/ PricewaterhouseCoopers LLP
Washington, D.C.
February 13, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Potomac Electric Power Company

Opinion on the Financial Statements

We have audited the financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Potomac Electric Power Company (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Washington, D.C.
February 9, 2018

We have served as the Company's auditor since at least 1993. We have not determined the specific year we began serving as auditor of the Company.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Delmarva Power & Light Company

Opinion on the Financial Statements

We have audited the financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Delmarva Power & Light Company (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Washington, D.C.
February 9, 2018

We have served as the Company’s auditor since at least 1993. We have not determined the specific year we began serving as auditor of the Company.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Atlantic City Electric Company

Opinion on the Financial Statements

We have audited the consolidated financial statements, including the related notes, as listed in the index appearing under Item 15(a)(1), and the financial statement schedule listed in the index appearing under Item 15(a)(2), of Atlantic City Electric Company and its subsidiary (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Washington, D.C.
February 9, 2018

We have served as the Company's auditor since 1998.

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Operations and Comprehensive Income

	For the Years Ended December 31,		
(In millions, except per share data)	2017	2016	2015
Operating revenues			
Competitive businesses revenues	$ 17,360	$ 16,324	$ 18,395
Rate-regulated utility revenues	16,171	15,036	11,052
Total operating revenues	33,531	31,360	29,447
Operating expenses			
Competitive businesses purchased power and fuel	9,668	8,817	10,007
Rate-regulated utility purchased power and fuel	4,367	3,823	3,077
Operating and maintenance	10,126	10,048	8,322
Depreciation and amortization	3,828	3,936	2,450
Taxes other than income	1,731	1,576	1,200
Total operating expenses	29,720	28,200	25,056
Gain (Loss) on sales of assets	3	(48)	18
Bargain purchase gain	233	—	—
Gain on deconsolidation of business	213	—	—
Operating income	4,260	3,112	4,409
Other income and (deductions)			
Interest expense, net	(1,524)	(1,495)	(992)
Interest expense to affiliates	(36)	(41)	(41)
Other, net	1,056	413	(46)
Total other income and (deductions)	(504)	(1,123)	(1,079)
Income before income taxes	3,756	1,989	3,330
Income taxes	(125)	761	1,073
Equity in losses of unconsolidated affiliates	(32)	(24)	(7)
Net income	3,849	1,204	2,250
Net income (loss) attributable to noncontrolling interests and preference stock dividends	79	70	(19)
Net income attributable to common shareholders	$ 3,770	$ 1,134	$ 2,269
Comprehensive income, net of income taxes			
Net income	$ 3,849	$ 1,204	$ 2,250
Other comprehensive income (loss), net of income taxes			
Pension and non-pension postretirement benefit plans:			
Prior service benefit reclassified to periodic benefit cost	(56)	(48)	(46)
Actuarial loss reclassified to periodic benefit cost	197	184	220
Pension and non-pension postretirement benefit plan valuation adjustment	10	(181)	(99)
Unrealized gain on cash flow hedges	3	2	9
Unrealized gain on marketable securities	6	1	—
Unrealized gain (loss) on equity investments	4	(4)	(3)
Unrealized gain (loss) on foreign currency translation	7	10	(21)
Other comprehensive income (loss)	171	(36)	60
Comprehensive income	4,020	1,168	2,310
Comprehensive income (loss) attributable to noncontrolling interests and preference stock dividends	77	70	(19)
Comprehensive income attributable to common shareholders	$ 3,943	$ 1,098	$ 2,329

Average shares of common stock outstanding:			
Basic	947	924	890
Diluted	949	927	893
Earnings per average common share:			
Basic	$ 3.98	$ 1.23	$ 2.55
Diluted	$ 3.97	$ 1.22	$ 2.54
Dividends per common share	$ 1.31	$ 1.26	$ 1.24

Exelon Corporation and Subsidiary Companies
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
(In millions)	2017	2016	2015
Cash flows from operating activities			
Net income	$ 3,849	$ 1,204	$ 2,250
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	5,427	5,576	3,987
Impairment losses of long-lived assets, intangibles and regulatory assets	573	306	36
Gain on deconsolidation of business	(213)	—	—
(Gain) Loss on sales of assets	(3)	48	(18)
Bargain purchase gain	(233)	—	—
Deferred income taxes and amortization of investment tax credits	(361)	664	752
Net fair value changes related to derivatives	151	24	(367)
Net realized and unrealized (gains) losses on nuclear decommissioning trust fund investments	(616)	(229)	131
Other non-cash operating activities	721	1,333	1,109
Changes in assets and liabilities:			
Accounts receivable	(426)	(432)	240
Inventories	(72)	7	4
Accounts payable and accrued expenses	(390)	771	(121)
Option premiums received (paid), net	28	(66)	58
Collateral (posted) received, net	(158)	931	347
Income taxes	299	576	97
Pension and non-pension postretirement benefit contributions	(405)	(397)	(502)
Deposit with IRS	—	(1,250)	—
Other assets and liabilities	(691)	(621)	(387)
Net cash flows provided by operating activities	7,480	8,445	7,616
Cash flows from investing activities			
Capital expenditures	(7,584)	(8,553)	(7,624)
Proceeds from termination of direct financing lease investment	—	360	—
Proceeds from nuclear decommissioning trust fund sales	7,845	9,496	6,895
Investment in nuclear decommissioning trust funds	(8,113)	(9,738)	(7,147)
Acquisitions of businesses, net	(208)	(6,934)	(40)
Proceeds from sales of long-lived assets	219	61	147
Change in restricted cash	(50)	(42)	66
Other investing activities	(43)	(153)	(119)
Net cash flows used in investing activities	(7,934)	(15,503)	(7,822)
Cash flows from financing activities			
Changes in short-term borrowings	(261)	(353)	80
Proceeds from short-term borrowings with maturities greater than 90 days	621	240	—
Repayments on short-term borrowings with maturities greater than 90 days	(700)	(462)	—
Issuance of long-term debt	3,470	4,716	6,709
Retirement of long-term debt	(2,490)	(1,936)	(2,687)
Retirement of long-term debt to financing trust	(250)	—	—
Restricted proceeds from issuance of long-term debt	(50)	—	—

Issuance of common stock	—	—	1,868
Common stock issued from treasury stock	1,150	—	—
Redemption of preference stock	—	(190)	—
Dividends paid on common stock	(1,236)	(1,166)	(1,105)
Proceeds from employee stock plans	150	55	32
Sale of noncontrolling interests	396	372	32
Other financing activities	(83)	(85)	(99)
Net cash flows provided by financing activities	717	1,191	4,830
Increase (Decrease) in cash and cash equivalents	263	(5,867)	4,624
Cash and cash equivalents at beginning of period	635	6,502	1,878
Cash and cash equivalents at end of period	$ 898	$ 635	$ 6,502

See the Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 898	$ 635
Restricted cash and cash equivalents	207	253
Deposit with IRS	—	1,250
Accounts receivable, net		
Customer	4,401	4,158
Other	1,132	1,201
Mark-to-market derivative assets	976	917
Unamortized energy contract assets	60	88
Inventories, net		
Fossil fuel and emission allowances	340	364
Materials and supplies	1,311	1,274
Regulatory assets	1,267	1,342
Other	1,242	930
Total current assets	11,834	12,412
Property, plant and equipment, net	74,202	71,555
Deferred debits and other assets		
Regulatory assets	8,021	10,046
Nuclear decommissioning trust funds	13,272	11,061
Investments	640	629
Goodwill	6,677	6,677
Mark-to-market derivative assets	337	492
Unamortized energy contract assets	395	447
Pledged assets for Zion Station decommissioning	—	113
Other	1,322	1,472
Total deferred debits and other assets	30,664	30,937
Total assets[(a)]	$ 116,700	$ 114,904

See the Combined Notes to Consolidated Financial Statements

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Exelon Corporation and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 929	$ 1,267
Long-term debt due within one year	2,088	2,430
Accounts payable	3,532	3,441
Accrued expenses	1,835	3,460
Payables to affiliates	5	8
Regulatory liabilities	523	602
Mark-to-market derivative liabilities	232	282
Unamortized energy contract liabilities	231	407
Renewable energy credit obligation	352	428
PHI Merger related obligation	87	151
Other	982	981
Total current liabilities	10,796	13,457
Long-term debt	32,176	31,575
Long-term debt to financing trusts	389	641
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	11,222	18,138
Asset retirement obligations	10,029	9,111
Pension obligations	3,736	4,248
Non-pension postretirement benefit obligations	2,093	1,848
Spent nuclear fuel obligation	1,147	1,024
Regulatory liabilities	9,865	4,187
Mark-to-market derivative liabilities	409	392
Unamortized energy contract liabilities	609	830
Payable for Zion Station decommissioning	—	14
Other	2,097	1,827
Total deferred credits and other liabilities	41,207	41,619
Total liabilities[(a)]	84,568	87,292
Commitments and contingencies		
Shareholders' equity		
Common stock (No par value, 2000 shares authorized, 963 shares and 924 shares outstanding at December 31, 2017 and 2016, respectively)	18,964	18,794
Treasury stock, at cost (2 shares and 35 shares at December 31, 2017 and 2016, respectively)	(123)	(2,327)
Retained earnings	13,503	12,030
Accumulated other comprehensive loss, net	(2,487)	(2,660)
Total shareholders' equity	29,857	25,837
Noncontrolling interests	2,275	1,775
Total equity	32,132	27,612
Total liabilities and equity	$ 116,700	$ 114,904

(a) Exelon's consolidated assets include $9,565 million and $8,893 million at December 31, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Exelon's consolidated liabilities include $3,612 million and $3,356 million at December 31, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Exelon. See Note 2–Variable Interest Entities.

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Exelon Corporation and Subsidiary Companies
Consolidated Statements of Changes in Equity

	Shareholders' Equity							
(In millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Preference Stock	Total Equity
Balance, December 31, 2014	894,568	$ 16,709	$ (2,327)	$ 10,910	$ (2,684)	$ 1,332	$ 193	$ 24,133
Net income (loss)	—	—	—	2,269	—	(32)	13	2,250
Long-term incentive plan activity	1,430	70	—	—	—	—	—	70
Employee stock purchase plan issuances	1,170	32	—	—	—	—	—	32
Issuance of common stock	57,500	1,868	—	—	—	—	—	1,868
Tax benefit on stock compensation	—	(3)	—	—	—	—	—	(3)
Acquisition of noncontrolling interests	—	—	—	—	—	4	—	4
Adjustment of contingently redeemable noncontrolling interests due to release of contingency	—	—	—	—	—	4	—	4
Common stock dividends	—	—	—	(1,111)	—	—	—	(1,111)
Preference stock dividends	—	—	—	—	—	—	(13)	(13)
Other comprehensive income, net of income taxes	—	—	—	—	60	—	—	60
Balance, December 31, 2015	954,668	$ 18,676	$ (2,327)	$ 12,068	$ (2,624)	$ 1,308	$ 193	$ 27,294
Net income	—	—	—	1,134	—	62	8	1,204
Long-term incentive plan activity	2,868	85	—	—	—	—	—	85
Employee stock purchase plan issuances	1,242	55	—	—	—	—	—	55
Tax benefit on stock compensation	—	(18)	—	—	—	—	—	(18)
Changes in equity of noncontrolling interests	—	—	—	—	—	5	—	5
Sale of noncontrolling interest	—	(4)	—	—	—	243	—	239
Adjustment of contingently redeemable noncontrolling interests due to release of contingency	—	—	—	—	—	157	—	157
Common stock dividends	—	—	—	(1,172)	—	—	—	(1,172)
Redemption of preference stock	—	—	—	—	—	—	(193)	(193)
Preference stock dividends	—	—	—	—	—	—	(8)	(8)
Other comprehensive loss, net of income taxes	—	—	—	—	(36)	—	—	(36)
Balance, December 31, 2016	958,778	$ 18,794	$ (2,327)	$ 12,030	$ (2,660)	$ 1,775	$ —	$ 27,612
Net income	—	—	—	3,770	—	79	—	3,849
Long-term incentive plan activity	5,066	56	—	—	—	—	—	56
Employee stock purchase plan issuances	1,324	150	—	—	—	—	—	150
Common stock issued from treasury stock	—	—	2,204	(1,054)	—	—	—	1,150
Changes in equity of noncontrolling interests	—	—	—	—	—	(20)	—	(20)
Sale of noncontrolling interests	—	(36)	—	—	—	443	—	407
Common stock dividends	—	—	—	(1,243)	—	—	—	(1,243)
Other comprehensive income, net of income taxes	—	—	—	—	173	(2)	—	171
Balance, December 31, 2017	965,168	$ 18,964	$ (123)	$ 13,503	$ (2,487)	$ 2,275	$ —	$ 32,132

See the Combined Notes to Consolidated Financial Statements

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Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Statements of Operations and Comprehensive Income

(In millions)	For the Years Ended December 31, 2017	2016	2015
Operating revenues			
Operating revenues	$ 17,351	$ 16,312	$ 18,386
Operating revenues from affiliates	1,115	1,439	749
Total operating revenues	18,466	17,751	19,135
Operating expenses			
Purchased power and fuel	9,671	8,818	10,007
Purchased power and fuel from affiliates	19	12	14
Operating and maintenance	5,594	4,978	4,688
Operating and maintenance from affiliates	697	663	620
Depreciation and amortization	1,457	1,879	1,054
Taxes other than income	555	506	489
Total operating expenses	17,993	16,856	16,872
Gain (Loss) on sales of assets	2	(59)	12
Bargain purchase gain	233	—	—
Gain on deconsolidation of business	213	—	—
Operating income	921	836	2,275
Other income and (deductions)			
Interest expense, net	(401)	(325)	(322)
Interest expense to affiliates	(39)	(39)	(43)
Other, net	948	401	(60)
Total other income and (deductions)	508	37	(425)
Income before income taxes	1,429	873	1,850
Income taxes	(1,375)	290	502
Equity in losses of unconsolidated affiliates	(33)	(25)	(8)
Net income	2,771	558	1,340
Net income (loss) attributable to noncontrolling interests	77	62	(32)
Net income attributable to membership interest	$ 2,694	$ 496	$ 1,372
Comprehensive income, net of income taxes			
Net income	$ 2,771	$ 558	$ 1,340
Other comprehensive income (loss), net of income taxes			
Unrealized gain (loss) on cash flow hedges	3	2	(3)
Unrealized gain (loss) on equity investments	4	(4)	(3)
Unrealized gain (loss) on foreign currency translation	7	10	(21)
Unrealized gain on marketable securities	1	1	—
Other comprehensive income (loss)	15	9	(27)
Comprehensive income	$ 2,786	$ 567	$ 1,313
Comprehensive income (loss) attributable to noncontrolling interests	75	62	(32)
Comprehensive income attributable to membership interest	$ 2,711	$ 505	$ 1,345

See the Combined Notes to Consolidated Financial Statements

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Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net income	$ 2,771	$ 558	$ 1,340
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	3,056	3,519	2,589
Impairment losses of long-lived assets	510	243	12
Gain on deconsolidation of business	(213)	—	—
(Gain) Loss on sales of assets	(2)	59	(12)
Bargain purchase gain	(233)	—	—
Deferred income taxes and amortization of investment tax credits	(2,022)	(269)	49
Net fair value changes related to derivatives	167	40	(249)
Net realized and unrealized (gains) losses on nuclear decommissioning trust fund investments	(616)	(229)	131
Other non-cash operating activities	112	15	268
Changes in assets and liabilities:			
Accounts receivable	(276)	(152)	194
Receivables from and payables to affiliates, net	(7)	(21)	15
Inventories	(29)	(4)	16
Accounts payable and accrued expenses	2	29	(149)
Option premiums received (paid), net	28	(66)	58
Collateral (posted) received, net	(129)	923	407
Income taxes	496	182	(18)
Pension and non-pension postretirement benefit contributions	(148)	(152)	(245)
Other assets and liabilities	(168)	(231)	(207)
Net cash flows provided by operating activities	3,299	4,444	4,199
Cash flows from investing activities			
Capital expenditures	(2,259)	(3,078)	(3,841)
Proceeds from nuclear decommissioning trust fund sales	7,845	9,496	6,895
Investment in nuclear decommissioning trust funds	(8,113)	(9,738)	(7,147)
Proceeds from sales of long-lived assets	218	37	147
Acquisitions of businesses, net	(208)	(293)	(40)
Change in restricted cash	(17)	(35)	35
Other investing activities	(58)	(240)	(118)
Net cash flows used in investing activities	(2,592)	(3,851)	(4,069)
Cash flows from financing activities			
Change in short-term borrowings	(620)	620	—
Proceeds from short-term borrowings with maturities greater than 90 days	121	240	—
Repayments of short-term borrowings with maturities greater than 90 days	(200)	(162)	—
Issuance of long-term debt	1,645	388	1,309
Retirement of long-term debt	(1,261)	(202)	(89)
Restricted proceeds from issuance of long-term debt	(50)	—	—
Retirement of long-term debt to affiliate	—	—	(550)
Changes in Exelon intercompany money pool	(1)	(1,191)	1,252
Distributions to member	(659)	(922)	(2,474)

Contributions from member	102	142	47
Sale of noncontrolling interests	396	372	32
Other financing activities	(54)	(19)	(6)
Net cash flows used in financing activities	(581)	(734)	(479)
Increase (Decrease) in cash and cash equivalents	126	(141)	(349)
Cash and cash equivalents at beginning of period	290	431	780
Cash and cash equivalents at end of period	$ 416	$ 290	$ 431

See the Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 416	$ 290
Restricted cash and cash equivalents	138	158
Accounts receivable, net		
Customer	2,653	2,433
Other	321	558
Mark-to-market derivative assets	976	917
Receivables from affiliates	140	156
Unamortized energy contract assets	60	88
Inventories, net		
Fossil fuel and emission allowances	264	292
Materials and supplies	937	935
Other	915	701
Total current assets	6,820	6,528
Property, plant and equipment, net	24,906	25,585
Deferred debits and other assets		
Nuclear decommissioning trust funds	13,272	11,061
Investments	433	418
Goodwill	47	47
Mark-to-market derivative assets	334	476
Prepaid pension asset	1,502	1,595
Pledged assets for Zion Station decommissioning	—	113
Unamortized energy contract assets	395	447
Deferred income taxes	16	16
Other	662	688
Total deferred debits and other assets	16,661	14,861
Total assets[(a)]	$ 48,387	$ 46,974

See the Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	$ 2	$ 699
Long-term debt due within one year	346	1,117
Accounts payable	1,773	1,610
Accrued expenses	1,020	989
Payables to affiliates	123	137
Borrowings from Exelon intercompany money pool	54	55
Mark-to-market derivative liabilities	211	263
Unamortized energy contract liabilities	43	72
Renewable energy credit obligation	352	428
Other	265	313
Total current liabilities	4,189	5,683
Long-term debt	7,734	7,202
Long-term debt to affiliate	910	922
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	3,798	5,585
Asset retirement obligations	9,844	8,922
Non-pension postretirement benefit obligations	916	930
Spent nuclear fuel obligation	1,147	1,024
Payables to affiliates	3,065	2,608
Mark-to-market derivative liabilities	174	153
Unamortized energy contract liabilities	48	80
Payable for Zion Station decommissioning	—	14
Other	658	595
Total deferred credits and other liabilities	19,650	19,911
Total liabilities[a]	32,483	33,718
Equity		
Member's equity		
Membership interest	9,357	9,261
Undistributed earnings	4,310	2,275
Accumulated other comprehensive loss, net	(37)	(54)
Total member's equity	13,630	11,482
Noncontrolling interests	2,274	1,774
Total equity	15,904	13,256
Total liabilities and equity	$ 48,387	$ 46,974

(a) Generation's consolidated assets include $9,524 million and $8,817 million at December 31, 2017 and 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Generation's consolidated liabilities include $3,510 million and $3,170 million at December 31, 2017 and 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Generation. See Note 2–Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Statements of Changes in Equity

	Member's Equity				
(In millions)	Membership Interest	Undistributed Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interests	Total Equity
Balance, December 31, 2014	$ 8,951	$ 3,803	$ (36)	$ 1,333	$ 14,051
Net income (loss)	—	1,372	—	(32)	1,340
Acquisition of noncontrolling interests	(1)	—	—	2	1
Adjustment of contingently redeemable noncontrolling interests due to release of contingency	—	—	—	4	4
Allocation of tax benefit from member	47	—	—	—	47
Distribution to member	—	(2,474)	—	—	(2,474)
Other comprehensive loss, net of income taxes	—	—	(27)	—	(27)
Balance, December 31, 2015	$ 8,997	$ 2,701	$ (63)	$ 1,307	$ 12,942
Net income	—	496	—	62	558
Sale of noncontrolling interests	(4)	—	—	243	239
Adjustment of contingently redeemable noncontrolling interests due to release of contingency	—	—	—	157	157
Changes in equity of noncontrolling interests	—	—	—	5	5
Allocation of tax benefit from member	98	—	—	—	98
Contribution from member	170	—	—	—	170
Distribution to member	—	(922)	—	—	(922)
Other comprehensive income, net of income taxes	—	—	9	—	9
Balance, December 31, 2016	$ 9,261	$ 2,275	$ (54)	$ 1,774	$ 13,256
Net income	—	2,694	—	77	2,771
Sale of noncontrolling interests	(36)	—	—	443	407
Changes in equity of noncontrolling interests	—	—	—	(18)	(18)
Distribution of net retirement benefit obligation to member	33	—	—	—	33
Allocation of tax benefit from member	99	—	—	—	99
Distribution to member	—	(659)	—	—	(659)
Other comprehensive income, net of income taxes	—	—	17	(2)	15
Balance, December 31, 2017	$ 9,357	$ 4,310	$ (37)	$ 2,274	$ 15,904

See the Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Statements of Operations and Comprehensive Income

(In millions)	For the Years Ended December 31, 2017	2016	2015
Operating revenues			
Electric operating revenues	$ 5,521	$ 5,239	$ 4,901
Operating revenues from affiliates	15	15	4
Total operating revenues	5,536	5,254	4,905
Operating expenses			
Purchased power	1,533	1,411	1,301
Purchased power from affiliate	108	47	18
Operating and maintenance	1,157	1,303	1,372
Operating and maintenance from affiliate	270	227	195
Depreciation and amortization	850	775	707
Taxes other than income	296	293	296
Total operating expenses	4,214	4,056	3,889
Gain on sales of assets	1	7	1
Operating income	1,323	1,205	1,017
Other income and (deductions)			
Interest expense, net	(348)	(448)	(319)
Interest expense to affiliates	(13)	(13)	(13)
Other, net	22	(65)	21
Total other income and (deductions)	(339)	(526)	(311)
Income before income taxes	984	679	706
Income taxes	417	301	280
Net income	$ 567	$ 378	$ 426
Comprehensive income	$ 567	$ 378	$ 426

See the Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net income	$ 567	$ 378	$ 426
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion	850	775	707
Deferred income taxes and amortization of investment tax credits	659	439	353
Other non-cash operating activities	164	215	416
Changes in assets and liabilities:			
Accounts receivable	(59)	(25)	(93)
Receivables from and payables to affiliates, net	8	3	(19)
Inventories	4	1	(40)
Accounts payable and accrued expenses	(297)	339	68
Counterparty collateral received (posted), net and cash deposits	(26)	7	(33)
Income taxes	(308)	306	192
Pension and non-pension postretirement benefit contributions	(41)	(38)	(150)
Other assets and liabilities	6	105	69
Net cash flows provided by operating activities	1,527	2,505	1,896
Cash flows from investing activities			
Capital expenditures	(2,250)	(2,734)	(2,398)
Change in restricted cash	(66)	—	2
Other investing activities	20	49	34
Net cash flows used in investing activities	(2,296)	(2,685)	(2,362)
Cash flows from financing activities			
Changes in short-term borrowings	—	(294)	(10)
Issuance of long-term debt	1,000	1,200	850
Retirement of long-term debt	(425)	(665)	(260)
Contributions from parent	651	315	202
Dividends paid on common stock	(422)	(369)	(299)
Other financing activities	(15)	(18)	(16)
Net cash flows provided by financing activities	789	169	467
Increase (Decrease) in cash and cash equivalents	20	(11)	1
Cash and cash equivalents at beginning of period	56	67	66
Cash and cash equivalents at end of period	$ 76	$ 56	$ 67

See the Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 76	$ 56
Restricted cash	5	2
Accounts receivable, net		
Customer	559	528
Other	266	218
Receivables from affiliates	13	356
Inventories, net	152	159
Regulatory assets	225	190
Other	68	45
Total current assets	1,364	1,554
Property, plant and equipment, net	20,723	19,335
Deferred debits and other assets		
Regulatory assets	1,054	977
Investments	6	6
Goodwill	2,625	2,625
Receivable from affiliates	2,528	2,170
Prepaid pension asset	1,188	1,343
Other	238	325
Total deferred debits and other assets	7,639	7,446
Total assets	$ 29,726	$ 28,335

See the Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Long-term debt due within one year	$ 840	$ 425
Accounts payable	568	645
Accrued expenses	327	1,250
Payables to affiliates	74	65
Customer deposits	112	121
Regulatory liabilities	249	329
Mark-to-market derivative liability	21	19
Other	103	84
Total current liabilities	2,294	2,938
Long-term debt	6,761	6,608
Long-term debt to financing trust	205	205
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	3,469	5,364
Asset retirement obligations	111	119
Non-pension postretirement benefits obligations	219	239
Regulatory liabilities	6,328	3,369
Mark-to-market derivative liability	235	239
Other	562	529
Total deferred credits and other liabilities	10,924	9,859
Total liabilities	20,184	19,610
Commitments and contingencies		
Shareholders' equity		
Common stock	1,588	1,588
Other paid-in capital	6,822	6,150
Retained deficit unappropriated	(1,639)	(1,639)
Retained earnings appropriated	2,771	2,626
Total shareholders' equity	9,542	8,725
Total liabilities and shareholders' equity	$ 29,726	$ 28,335

See the Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity

(In millions)	Common Stock	Other Paid-In Capital	Retained Deficit Unappropriated	Retained Earnings Appropriated	Total Shareholders' Equity
Balance, December 31, 2014	$ 1,588	$ 5,468	$ (1,639)	$ 2,490	$ 7,907
Net income	—	—	426	—	426
Common stock dividends	—	—	—	(299)	(299)
Contribution from parent	—	202	—	—	202
Parent tax matter indemnification	—	7	—	—	7
Appropriation of retained earnings for future dividends	—	—	(426)	426	—
Balance, December 31, 2015	$ 1,588	$ 5,677	$ (1,639)	$ 2,617	$ 8,243
Net income	—	—	378	—	378
Common stock dividends	—	—	—	(369)	(369)
Contribution from parent	—	315	—	—	315
Parent tax matter indemnification	—	158	—	—	158
Appropriation of retained earnings for future dividends	—	—	(378)	378	—
Balance, December 31, 2016	$ 1,588	$ 6,150	$ (1,639)	$ 2,626	$ 8,725
Net income	—	—	567	—	567
Common stock dividends	—	—	—	(422)	(422)
Contribution from parent	—	651	—	—	651
Parent tax matter indemnification	—	21	—	—	21
Appropriation of retained earnings for future dividends	—	—	(567)	567	—
Balance, December 31, 2017	$ 1,588	$ 6,822	$ (1,639)	$ 2,771	$ 9,542

See the Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Statements of Operations and Comprehensive Income

(In millions)	For the Years Ended December 31, 2017	2016	2015
Operating revenues			
Electric operating revenues	$ 2,369	$ 2,524	$ 2,485
Natural gas operating revenues	494	462	545
Operating revenues from affiliates	7	8	2
Total operating revenues	2,870	2,994	3,032
Operating expenses			
Purchased power	648	598	735
Purchased fuel	186	162	235
Purchased power from affiliate	135	287	220
Operating and maintenance	657	665	684
Operating and maintenance from affiliates	149	146	110
Depreciation and amortization	286	270	260
Taxes other than income	154	164	160
Total operating expenses	2,215	2,292	2,404
Gain on sales of assets	—	—	2
Operating income	655	702	630
Other income and (deductions)			
Interest expense, net	(115)	(111)	(102)
Interest expense to affiliates, net	(11)	(12)	(12)
Other, net	9	8	5
Total other income and (deductions)	(117)	(115)	(109)
Income before income taxes	538	587	521
Income taxes	104	149	143
Net income	$ 434	$ 438	$ 378
Comprehensive income	$ 434	$ 438	$ 378

See the Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net income	$ 434	$ 438	$ 378
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion	286	270	260
Deferred income taxes and amortization of investment tax credits	19	78	90
Other non-cash operating activities	54	65	70
Changes in assets and liabilities:			
Accounts receivable	(44)	(71)	37
Receivables from and payables to affiliates, net	(6)	6	3
Inventories	1	6	10
Accounts payable and accrued expenses	6	67	(25)
Income taxes	34	8	(9)
Pension and non-pension postretirement benefit contributions	(24)	(30)	(40)
Other assets and liabilities	(5)	(8)	(4)
Net cash flows provided by operating activities	755	829	770
Cash flows from investing activities			
Capital expenditures	(732)	(686)	(601)
Changes in intercompany money pool	131	(131)	—
Change in restricted cash	—	(1)	(1)
Other investing activities	4	20	14
Net cash flows used in investing activities	(597)	(798)	(588)
Cash flows from financing activities			
Issuance of long-term debt	325	300	350
Retirement of long-term debt	—	(300)	—
Contributions from parent	16	18	16
Dividends paid on common stock	(288)	(277)	(279)
Other financing activities	(3)	(4)	(4)
Net cash flows provided by (used in) financing activities	50	(263)	83
Increase (Decrease) in cash and cash equivalents	208	(232)	265
Cash and cash equivalents at beginning of period	63	295	30
Cash and cash equivalents at end of period	$ 271	$ 63	$ 295

See the Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 271	$ 63
Restricted cash and cash equivalents	4	4
Accounts receivable, net		
Customer	327	306
Other	105	131
Receivables from affiliates	—	4
Receivable from Exelon intercompany pool	—	131
Inventories, net		
Fossil fuel	31	35
Materials and supplies	30	27
Prepaid utility taxes	8	9
Regulatory assets	29	29
Other	17	18
Total current assets	822	757
Property, plant and equipment, net	8,053	7,565
Deferred debits and other assets		
Regulatory assets	381	1,681
Investments	25	25
Receivable from affiliates	537	438
Prepaid pension asset	340	345
Other	12	20
Total deferred debits and other assets	1,295	2,509
Total assets	$ 10,170	$ 10,831

See the Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 500	$ —
Accounts payable	370	342
Accrued expenses	114	104
Payables to affiliates	53	63
Customer deposits	66	61
Regulatory liabilities	141	127
Other	23	30
Total current liabilities	1,267	727
Long-term debt	2,403	2,580
Long-term debt to financing trusts	184	184
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	1,789	3,006
Asset retirement obligations	27	28
Non-pension postretirement benefits obligations	288	289
Regulatory liabilities	549	517
Other	86	85
Total deferred credits and other liabilities	2,739	3,925
Total liabilities	6,593	7,416
Commitments and contingencies		
Shareholder's equity		
Common stock	2,489	2,473
Retained earnings	1,087	941
Accumulated other comprehensive income, net	1	1
Total shareholder's equity	3,577	3,415
Total liabilities and shareholder's equity	$ 10,170	$ 10,831

See the Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Statements of Changes in Shareholder's Equity

(In millions)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholder's Equity
Balance, December 31, 2014	$ 2,439	$ 681	$ 1	$ 3,121
Net income	—	378	—	378
Common stock dividends	—	(279)	—	(279)
Allocation of tax benefit from parent	16	—	—	16
Balance, December 31, 2015	$ 2,455	$ 780	$ 1	$ 3,236
Net income	—	438	—	438
Common stock dividends	—	(277)	—	(277)
Allocation of tax benefit from parent	18	—	—	18
Balance, December 31, 2016	$ 2,473	$ 941	$ 1	$ 3,415
Net income	—	434	—	434
Common stock dividends	—	(288)	—	(288)
Allocation of tax benefit from parent	16	—	—	16
Balance, December 31, 2017	$ 2,489	$ 1,087	$ 1	$ 3,577

See the Combined Notes to Consolidated Financial Statements

Baltimore Gas and Electric Company and Subsidiary Companies
Consolidated Statements of Operations and Comprehensive Income

(In millions)	For the Years Ended December 31, 2017	2016	2015
Operating revenues			
Electric operating revenues	$ 2,484	$ 2,603	$ 2,490
Natural gas operating revenues	676	609	631
Operating revenues from affiliates	16	21	14
Total operating revenues	3,176	3,233	3,135
Operating expenses			
Purchased power	566	528	602
Purchased fuel	183	162	205
Purchased power from affiliate	384	604	498
Operating and maintenance	563	605	565
Operating and maintenance from affiliates	153	132	118
Depreciation and amortization	473	423	366
Taxes other than income	240	229	224
Total operating expenses	2,562	2,683	2,578
Gain on sales of assets	—	—	1
Operating income	614	550	558
Other income and (deductions)			
Interest expense, net	(95)	(87)	(83)
Interest expense to affiliates	(10)	(16)	(16)
Other, net	16	21	18
Total other income and (deductions)	(89)	(82)	(81)
Income before income taxes	525	468	477
Income taxes	218	174	189
Net income	307	294	288
Preference stock dividends	—	8	13
Net income attributable to common shareholder	$ 307	$ 286	$ 275
Comprehensive income	$ 307	$ 294	$ 288
Comprehensive income attributable to preference stock dividends	—	8	13
Comprehensive income attributable to common shareholder	$ 307	$ 286	$ 275

See the Combined Notes to Consolidated Financial Statements

Baltimore Gas and Electric Company and Subsidiary Companies
Consolidated Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net income	$ 307	$ 294	$ 288
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	473	423	366
Impairment losses on long-lived assets and regulatory assets	7	52	—
Deferred income taxes and amortization of investment tax credits	145	118	165
Other non-cash operating activities	65	88	137
Changes in assets and liabilities:			
Accounts receivable	(5)	(98)	84
Receivables from and payables to affiliates, net	(4)	3	(2)
Inventories	(9)	1	18
Accounts payable and accrued expenses	(15)	138	(3)
Collateral received (posted), net	—	—	(27)
Income taxes	60	18	(54)
Pension and non-pension postretirement benefit contributions	(53)	(49)	(17)
Other assets and liabilities	(150)	(43)	(173)
Net cash flows provided by operating activities	821	945	782
Cash flows from investing activities			
Capital expenditures	(882)	(934)	(719)
Change in restricted cash	26	—	26
Other investing activities	7	24	18
Net cash flows used in investing activities	(849)	(910)	(675)
Cash flows from financing activities			
Changes in short-term borrowings	32	(165)	90
Issuance of long-term debt	300	850	—
Retirement of long-term debt	(41)	(379)	(75)
Retirement of long-term debt to financing trust	(250)	—	—
Redemption of preference stock	—	(190)	—
Dividends paid on preference stock	—	(8)	(13)
Dividends paid on common stock	(198)	(179)	(158)
Contributions from parent	184	61	7
Other financing activities	(5)	(11)	(13)
Net cash flows provided by (used in) financing activities	22	(21)	(162)
(Decrease) Increase in cash and cash equivalents	(6)	14	(55)
Cash and cash equivalents at beginning of period	23	9	64
Cash and cash equivalents at end of period	$ 17	$ 23	$ 9

See the Combined Notes to Consolidated Financial Statements

Baltimore Gas and Electric Company and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 17	$ 23
Restricted cash and cash equivalents	1	24
Accounts receivable, net		
Customer	375	395
Other	94	102
Receivable from affiliates	1	—
Inventories, net		
Gas held in storage	37	30
Materials and supplies	40	38
Prepaid utility taxes	69	15
Regulatory assets	174	208
Other	3	7
Total current assets	811	842
Property, plant and equipment, net	7,602	7,040
Deferred debits and other assets		
Regulatory assets	397	504
Investments	5	12
Prepaid pension asset	285	297
Other	4	9
Total deferred debits and other assets	691	822
Total assets[(a)]	$ 9,104	$ 8,704

See the Combined Notes to Consolidated Financial Statements

Baltimore Gas and Electric Company and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 77	$ 45
Long-term debt due within one year	—	41
Accounts payable	265	205
Accrued expenses	164	175
Payables to affiliates	52	55
Customer deposits	116	110
Regulatory liabilities	62	50
Other	24	26
Total current liabilities	760	707
Long-term debt	2,577	2,281
Long-term debt to financing trust	—	252
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	1,244	2,219
Asset retirement obligations	23	21
Non-pension postretirement benefits obligations	202	205
Regulatory liabilities	1,101	110
Other	56	61
Total deferred credits and other liabilities	2,626	2,616
Total liabilities[(a)]	5,963	5,856
Commitments and contingencies		
Shareholder's equity		
Common stock	1,605	1,421
Retained earnings	1,536	1,427
Total shareholder’s equity	3,141	2,848
Total liabilities and shareholder's equity	$ 9,104	$ 8,704

(a) BGE’s consolidated assets include $26 million at December 31, 2016 of BGE’s consolidated VIE that can only be used to settle the liabilities of the VIE. BGE’s consolidated liabilities include $42 million at December 31, 2016 of BGE’s consolidated VIE for which the VIE creditors do not have recourse to BGE. BGE no longer has interests in any VIEs as of December 31, 2017. See Note 2 - Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

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Baltimore Gas and Electric Company and Subsidiary Companies
Consolidated Statements of Changes in Shareholder's Equity

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity	Preference stock not subject to mandatory redemption	Total Equity
Balance, December 31, 2014	$ 1,360	$ 1,203	$ 2,563	$ 190	$ 2,753
Net income	—	288	288	—	288
Preference stock dividends	—	(13)	(13)	—	(13)
Common stock dividends	—	(158)	(158)	—	(158)
Contribution from parent	7	—	7	—	7
Balance, December 31, 2015	$ 1,367	$ 1,320	$ 2,687	$ 190	$ 2,877
Net income	—	294	294	—	294
Preference stock dividends	—	(8)	(8)	—	(8)
Common stock dividends	—	(179)	(179)	—	(179)
Distribution to parent	(7)	—	(7)	—	(7)
Contribution from parent	61	—	61	—	61
Redemption of preference stock	—	—	—	(190)	(190)
Balance, December 31, 2016	$ 1,421	$ 1,427	$ 2,848	$ —	$ 2,848
Net income	—	307	307	—	307
Common stock dividends	—	(198)	(198)	—	(198)
Contribution from parent	184	—	184	—	184
Balance, December 31, 2017	$ 1,605	$ 1,536	$ 3,141	$ —	$ 3,141

See the Combined Notes to Consolidated Financial Statements

Pepco Holdings LLC and Subsidiary Companies
Consolidated Statements of Operations and Comprehensive Income (Loss)

	Successor		Predecessor	
	For the Year Ended December 31,	March 24 to December 31,	January 1 to March 23,	For the Year Ended December 31,
(In millions)	2017	2016	2016	2015
Operating revenues				
Electric operating revenues	$ 4,468	$ 3,506	$ 1,096	$ 4,770
Natural gas operating revenues	161	92	57	165
Operating revenues from affiliates	50	45	—	—
Total operating revenues	4,679	3,643	1,153	4,935
Operating expenses				
Purchased power	1,182	925	471	1,986
Purchased fuel	71	36	26	87
Purchased power and fuel from affiliates	463	486	—	—
Operating and maintenance	918	1,144	294	1,156
Operating and maintenance from affiliates	150	89	—	—
Depreciation, amortization and accretion	675	515	152	624
Taxes other than income	452	354	105	455
Total operating expenses	3,911	3,549	1,048	4,308
Gain (loss) on sales of assets	1	(1)	—	46
Operating income	769	93	105	673
Other income and (deductions)				
Interest expense, net	(245)	(195)	(65)	(280)
Other, net	54	44	(4)	88
Total other income and (deductions)	(191)	(151)	(69)	(192)
Income (loss) before income taxes	578	(58)	36	481
Income taxes	217	3	17	163
Equity in earnings of unconsolidated affiliates	1	—	—	—
Net income (loss) from continuing operations	362	(61)	19	318
Net income from discontinued operations	—	—	—	9
Net income (loss) attributable to membership interest/common shareholders	$ 362	$ (61)	$ 19	$ 327
Comprehensive income (loss), net of income taxes				
Net income (loss)	$ 362	$ (61)	$ 19	$ 327
Other comprehensive income (loss), net of income taxes				
Pension and non-pension postretirement benefit plans:				
Actuarial loss reclassified to periodic cost	—	—	1	9
Unrealized loss on cash flow hedges	—	—	—	1
Other comprehensive income	—	—	1	10
Comprehensive income (loss)	$ 362	$ (61)	$ 20	$ 337

See the Combined Notes to Consolidated Financial Statements

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Pepco Holdings LLC and Subsidiary Companies
Consolidated Statements of Cash Flows

	Successor		*Predecessor*	
	For the Year Ended December 31,	**March 24 to December 31,**	**January 1 to March 23,**	**For the Year Ended December 31,**
(In millions)	**2017**	**2016**	**2016**	**2015**
Cash flows from operating activities				
Net income (loss)	$ 362	$ (61)	$ 19	$ 327
Income from discontinued operations, net of income taxes	—	—	—	(9)
Adjustments to reconcile net income (loss) to net cash from operating activities:				
Depreciation and amortization	675	515	152	624
Impairment losses on intangibles and regulatory assets	52	—	—	—
(Gain) loss on sales of assets	(1)	1	—	(46)
Deferred income taxes and amortization of investment tax credits	252	295	19	134
Net fair value changes related to derivatives	—	—	18	—
Other non-cash operating activities	59	514	46	167
Changes in assets and liabilities:				
Accounts receivable	(26)	(21)	(28)	(105)
Receivables from and payables to affiliates, net	(2)	42	—	—
Inventories	(37)	3	(4)	—
Accounts payable and accrued expenses	(106)	19	42	(41)
Income taxes	79	(22)	12	8
Pension and non-pension postretirement benefit contributions	(99)	(86)	(4)	(21)
Other assets and liabilities	(258)	(311)	(8)	(99)
Net cash flows provided by operating activities	950	888	264	939
Cash flows from investing activities				
Capital expenditures	(1,396)	(1,008)	(273)	(1,230)
Proceeds from sales of long-lived assets	1	24	—	54
Changes in restricted cash	1	(37)	3	6
Purchases of investments	—	—	(68)	—
Other investing activities	(2)	(9)	(5)	9
Net cash flows used in investing activities	(1,396)	(1,030)	(343)	(1,161)
Cash flows from financing activities				
Changes in short-term borrowings	328	(515)	(121)	34
Proceeds from short-term borrowings with maturities greater than 90 days	—	—	500	300
Repayments of short-term borrowings with maturities greater than 90 days	(500)	(300)	—	—
Issuance of long-term debt	202	179	—	558
Retirement of long-term debt	(169)	(338)	(11)	(430)
Issuance of preferred stock	—	—	—	54
Dividends paid on common stock	—	—	—	(275)
Common stock issued for the Direct Stock Purchase and Dividend Reinvestment Plan and employee-related compensation	—	—	2	18
Distribution to member	(311)	(273)	—	—
Contributions from member	758	1,251	—	—
Change in Exelon intercompany money pool	—	(6)	—	—

Other financing activities	(2)	(5)	2	(26)
Net cash flows provided by (used in) financing activities	306	(7)	372	233
(Decrease) Increase in cash and cash equivalents	(140)	(149)	293	11
Cash and cash equivalents at beginning of period	170	319	26	15
Cash and cash equivalents at end of period	$ 30	$ 170	$ 319	$ 26

See the Combined Notes to Consolidated Financial Statements

Pepco Holdings LLC and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	*Successor* **December 31,** **2017**	**2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 30	$ 170
Restricted cash and cash equivalents	42	43
Accounts receivable, net		
Customer	486	496
Other	206	283
Inventories, net		
Gas held in storage	7	6
Materials and supplies	151	116
Regulatory assets	554	653
Other	75	71
Total current assets	1,551	1,838
Property, plant and equipment, net	12,498	11,598
Deferred debits and other assets		
Regulatory assets	2,493	2,851
Investments	132	133
Goodwill	4,005	4,005
Long-term note receivable	4	4
Prepaid pension asset	490	509
Deferred income taxes	4	6
Other	70	81
Total deferred debits and other assets	7,198	7,589
Total assets[(a)]	$ 21,247	$ 21,025

See the Combined Notes to Consolidated Financial Statements

Pepco Holdings LLC and Subsidiary Companies
Consolidated Balance Sheets

(In millions)	Successor December 31, 2017	Successor December 31, 2016
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	$ 350	$ 522
Long-term debt due within one year	396	253
Accounts payable	348	458
Accrued expenses	261	272
Payables to affiliates	90	94
Unamortized energy contract liabilities	188	335
Customer deposits	119	123
Merger related obligation	42	101
Regulatory liabilities	56	79
Other	81	47
Total current liabilities	1,931	2,284
Long-term debt	5,478	5,645
Deferred credits and other liabilities		
Regulatory liabilities	1,872	158
Deferred income taxes and unamortized investment tax credits	2,070	3,775
Asset retirement obligations	16	14
Non-pension postretirement benefit obligations	105	134
Unamortized energy contract liabilities	561	750
Other	389	249
Total deferred credits and other liabilities	5,013	5,080
Total liabilities[a]	12,422	13,009
Commitments and contingencies		
Member's equity		
Membership interest	8,835	8,077
Undistributed (losses)	(10)	(61)
Total member's equity	8,825	8,016
Total liabilities and member's equity	$ 21,247	$ 21,025

(a) PHI's consolidated total assets include $41 million and $49 million at December 31, 2017 and 2016, respectively, of PHI's consolidated VIE that can only be used to settle the liabilities of the VIE. PHI's consolidated total liabilities include $102 million and $143 million at December 31, 2017 and 2016, respectively, of PHI's consolidated VIE for which the VIE creditors do not have recourse to PHI. See Note 2 - Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

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Pepco Holdings LLC and Subsidiary Companies
Consolidated Statements of Changes in Equity

(In millions, except share data)	Common Stock (a)	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total Shareholders' Equity
Predecessor				
Balance, December 31, 2014	$ 3,803	$ 565	$ (46)	$ 4,322
Net income	—	327	—	327
Common stock dividends	—	(275)	—	(275)
Original issue shares, net	15	—	—	15
DRP original issue shares	11	—	—	11
Net activity related to stock-based awards	3	—	—	3
Other comprehensive income, net of income taxes	—	—	10	10
Balance, December 31, 2015	$ 3,832	$ 617	$ (36)	$ 4,413
Net income	—	19	—	19
Original issue shares, net	3	—	—	3
Net activity related to stock-based awards	3	—	—	3
Other comprehensive income, net of income taxes	—	—	1	1
Balance, March 23, 2016	$ 3,838	$ 636	$ (35)	$ 4,439

Successor	Membership Interest	Undistributed Losses	Accumulated Other Comprehensive Loss, net	Total Member's Equity
Balance, March 24, 2016[b]	$ 7,200	$ —	$ —	$ 7,200
Net loss	—	(61)	—	(61)
Distribution to member[c]	(400)	—	—	(400)
Contribution from member	1,251	—	—	1,251
Measurement period adjustment of Exelon's deferred tax liabilities to reflect unitary state income tax consequences of the merger	35	—	—	35
Distribution of net retirement benefit obligation to member	53	—	—	53
Assumption of member liabilities[d]	(62)	—	—	(62)
Balance, December 31, 2016	$ 8,077	$ (61)	$ —	$ 8,016
Net Income	—	362	—	362
Distribution to member	—	(311)	—	(311)
Contribution from member	751	—	—	751
Allocation of tax benefit from member	7	—	—	7
Balance, December 31, 2017	$ 8,835	$ (10)	$ —	$ 8,825

(a) At March 23, 2016 and December 31, 2015, PHI's (predecessor) shareholders' equity included $3,835 million and $3,829 million of other paid-in capital, and $3 million and $3 million of common stock, respectively.

(b) The March 24, 2016, beginning balance differs from the PHI Merger total purchase price by $59 million related to an acquisition accounting adjustment recorded at Exelon Corporate to reflect unitary state income tax consequences of the merger.

(c) Distribution to member includes $235 million of net assets associated with PHI's unregulated business interests and $165 million of cash, each of which were distributed by PHI to Exelon.

(d) The liabilities assumed include $29 million for PHI stock-based compensation awards and $33 million for a merger related obligation, each assumed by PHI from Exelon. See Note 4 — Mergers, Acquisitions and Dispositions.

Potomac Electric Power Company
Statements of Operations and Comprehensive Income

(In millions)	For the Years Ended December 31, 2017	2016	2015
Operating revenues			
Electric operating revenues	$ 2,152	$ 2,181	$ 2,124
Operating revenues from affiliates	6	5	5
Total operating revenues	2,158	2,186	2,129
Operating expenses			
Purchased power	359	411	719
Purchased power from affiliates	255	295	—
Operating and maintenance	396	607	435
Operating and maintenance from affiliates	58	35	4
Depreciation and amortization	321	295	256
Taxes other than income	371	377	376
Total operating expenses	1,760	2,020	1,790
Gain on sales of assets	1	8	46
Operating income	399	174	385
Other income and (deductions)			
Interest expense, net	(121)	(127)	(124)
Other, net	32	36	28
Total other income and (deductions)	(89)	(91)	(96)
Income before income taxes	310	83	289
Income taxes	105	41	102
Net income	$ 205	$ 42	$ 187
Comprehensive income	$ 205	$ 42	$ 187

See the Combined Notes to Consolidated Financial Statements

Potomac Electric Power Company
Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net income	$ 205	$ 42	$ 187
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	321	295	256
Impairment losses on regulatory assets	14	—	—
Gain on sales of assets	(1)	(8)	(46)
Deferred income taxes and amortization of investment tax credits	113	153	150
Other non-cash operating activities	(5)	183	54
Changes in assets and liabilities:			
Accounts receivable	(20)	(41)	(43)
Receivables from and payables to affiliates, net	—	44	—
Inventories	(24)	1	(5)
Accounts payable and accrued expenses	(63)	32	(21)
Income taxes	81	110	(46)
Pension and non-pension postretirement benefit contributions	(72)	(32)	(14)
Other assets and liabilities	(142)	(128)	(99)
Net cash flows provided by operating activities	407	651	373
Cash flows from investing activities			
Capital expenditures	(628)	(586)	(544)
Proceeds from sale of long-lived assets	1	12	54
Purchases of investments	—	(30)	—
Changes in restricted cash	(2)	(31)	3
Other investing activities	(1)	(12)	10
Net cash flows used in investing activities	(630)	(647)	(477)
Cash flows from financing activities			
Changes in short-term borrowings	3	(41)	(40)
Issuance of long-term debt	202	4	208
Retirement of long-term debt	(13)	(11)	(22)
Dividends paid on common stock	(133)	(136)	(146)
Contributions from parent	161	187	112
Other financing activities	(1)	(3)	(9)
Net cash flows provided by financing activities	219	—	103
(Decrease) Increase in cash and cash equivalents	(4)	4	(1)
Cash and cash equivalents at beginning of period	9	5	6
Cash and cash equivalents at end of period	$ 5	$ 9	$ 5

See the Combined Notes to Consolidated Financial Statements

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Potomac Electric Power Company
Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 5	$ 9
Restricted cash and cash equivalents	35	33
Accounts receivable, net		
Customer	250	235
Other	87	150
Inventories, net	87	63
Regulatory assets	213	162
Other	33	32
Total current assets	710	684
Property, plant and equipment, net	6,001	5,571
Deferred debits and other assets		
Regulatory assets	678	690
Investments	102	102
Prepaid pension asset	322	282
Other	19	6
Total deferred debits and other assets	1,121	1,080
Total assets	$ 7,832	$ 7,335

See the Combined Notes to Consolidated Financial Statements

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Potomac Electric Power Company
Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 26	$ 23
Long-term debt due within one year	19	16
Accounts payable	139	209
Accrued expenses	137	113
Payables to affiliates	74	74
Customer deposits	54	53
Regulatory liabilities	3	11
Merger related obligation	42	68
Current portion of DC PLUG obligation	28	—
Other	28	29
Total current liabilities	550 —	596
Long-term debt	2,521	2,333
Deferred credits and other liabilities		
Regulatory liabilities	829	20
Deferred income taxes and unamortized investment tax credits	1,063	1,910
Non-pension postretirement benefit obligations	36	43
Other	300	133
Total deferred credits and other liabilities	2,228	2,106
Total liabilities	5,299	5,035
Commitments and contingencies		
Shareholder's equity		
Common stock	1,470	1,309
Retained earnings	1,063	991
Total shareholder’s equity	2,533	2,300
Total liabilities and shareholder's equity	$ 7,832	$ 7,335

See the Combined Notes to Consolidated Financial Statements

Potomac Electric Power Company
Statements of Changes in Shareholder's Equity

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2014	$ 1,010	$ 1,077	$ 2,087
Net income	—	187	187
Common stock dividends	—	(146)	(146)
Contribution from Parent	112	—	112
Balance, December 31, 2015	$ 1,122	$ 1,118	$ 2,240
Net income	—	42	42
Common stock dividends	—	(169)	(169)
Contribution from Parent	187	—	187
Balance, December 31, 2016	$ 1,309	$ 991	$ 2,300
Net income	—	205	205
Common stock dividends	—	(133)	(133)
Contribution from Parent	161	—	161
Balance, December 31, 2017	$ 1,470	$ 1,063	$ 2,533

See the Combined Notes to Consolidated Financial Statements

Delmarva Power & Light Company
Statements of Operations and Comprehensive Income (Loss)

(In millions)	For the Years Ended December 31, 2017	2016	2015
Operating revenues			
Electric operating revenues	$ 1,131	$ 1,122	$ 1,132
Natural gas operating revenues	161	148	164
Operating revenues from affiliates	8	7	6
Total operating revenues	1,300	1,277	1,302
Operating expenses			
Purchased power	282	369	555
Purchased fuel	71	60	79
Purchased power from affiliate	179	154	—
Operating and maintenance	283	422	303
Operating and maintenance from affiliates	32	19	1
Depreciation and amortization	167	157	148
Taxes other than income	57	55	51
Total operating expenses	1,071	1,236	1,137
Gain on sales of assets	—	9	—
Operating income	229	50	165
Other income and (deductions)			
Interest expense, net	(51)	(50)	(50)
Other, net	14	13	10
Total other income and (deductions)	(37)	(37)	(40)
Income before income taxes	192	13	125
Income taxes	71	22	49
Net income (loss)	$ 121	$ (9)	$ 76
Comprehensive income (loss)	$ 121	$ (9)	$ 76

See the Combined Notes to Consolidated Financial Statements

Delmarva Power & Light Company
Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net income (loss)	$ 121	$ (9)	$ 76
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Depreciation and amortization	167	157	148
Impairment losses on regulatory assets	6	—	—
Deferred income taxes and amortization of investment tax credits	89	109	73
Other non-cash operating activities	9	114	33
Changes in assets and liabilities:			
Accounts receivable	(22)	(5)	(24)
Receivables from and payables to affiliates, net	11	13	3
Inventories	(5)	—	6
Accounts payable and accrued expenses	(8)	(4)	(8)
Collateral (posted) received, net	—	1	(1)
Income taxes	26	28	(26)
Pension and non-pension postretirement benefit contributions	(2)	(22)	—
Other assets and liabilities	(71)	(72)	(14)
Net cash flows provided by operating activities	321	310	266
Cash flows from investing activities			
Capital expenditures	(428)	(349)	(352)
Proceeds from sales of long-lived assets	—	9	—
Change in restricted cash	—	—	5
Other investing activities	(1)	4	2
Net cash flows used in investing activities	(429)	(336)	(345)
Cash flows from financing activities			
Change in short-term borrowings	216	(105)	(1)
Issuance of long-term debt	—	175	200
Retirement of long-term debt	(40)	(100)	(100)
Dividends paid on common stock	(112)	(54)	(92)
Contributions from parent	—	152	75
Other financing activities	—	(1)	(2)
Net cash flows provided by financing activities	64	67	80
(Decrease) Increase in cash and cash equivalents	(44)	41	1
Cash and cash equivalents at beginning of period	46	5	4
Cash and cash equivalents at end of period	$ 2	$ 46	$ 5

See the Combined Notes to Consolidated Financial Statements

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Delmarva Power & Light Company
Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 2	$ 46
Accounts receivable, net		
Customer	146	136
Other	38	63
Receivables from affiliates	—	3
Inventories, net		
Gas held in storage	7	7
Materials and supplies	36	32
Regulatory assets	69	59
Other	27	24
Total current assets	325	370
Property, plant and equipment, net	3,579	3,273
Deferred debits and other assets		
Regulatory assets	245	289
Goodwill	8	8
Prepaid pension asset	193	206
Other	7	7
Total deferred debits and other assets	453	510
Total assets	$ 4,357	$ 4,153

See the Combined Notes to Consolidated Financial Statements

Delmarva Power & Light Company
Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 216	$ —
Long-term debt due within one year	83	119
Accounts payable	82	88
Accrued expenses	35	36
Payables to affiliates	46	38
Customer deposits	35	36
Regulatory liabilities	42	43
Merger related obligation	—	13
Other	8	8
Total current liabilities	547	381
Long-term debt	1,217	1,221
Deferred credits and other liabilities		
Regulatory liabilities	593	97
Deferred income taxes and unamortized investment tax credits	603	1,056
Non-pension postretirement benefit obligations	14	19
Other	48	53
Total deferred credits and other liabilities	1,258	1,225
Total liabilities	3,022	2,827
Commitments and contingencies		
Shareholder's equity		
Common stock	764	764
Retained earnings	571	562
Total shareholder’s equity	1,335	1,326
Total liabilities and shareholder's equity	$ 4,357	$ 4,153

See the Combined Notes to Consolidated Financial Statements

Delmarva Power & Light Company
Statements of Changes in Shareholder's Equity

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2014	$ 537	$ 641	$ 1,178
Net income	—	76	76
Common stock dividends	—	(92)	(92)
Contribution from parent	75	—	75
Balance, December 31, 2015	$ 612	$ 625	$ 1,237
Net loss	—	(9)	(9)
Common stock dividends	—	(54)	(54)
Contribution from parent	152	—	152
Balance, December 31, 2016	$ 764	$ 562	$ 1,326
Net income	—	121	121
Common stock dividends	—	(112)	(112)
Balance, December 31, 2017	$ 764	$ 571	$ 1,335

See the Combined Notes to Consolidated Financial Statements

Atlantic City Electric Company and Subsidiary Company
Consolidated Statements of Operations and Comprehensive Income (Loss)

	For the Years Ended December 31,		
(In millions)	2017	2016	2015
Operating revenues			
Electric operating revenues	$ 1,184	$ 1,254	$ 1,291
Operating revenues from affiliates	2	3	4
Total operating revenues	1,186	1,257	1,295
Operating expenses			
Purchased power	541	614	708
Purchased power from affiliates	29	37	—
Operating and maintenance	279	410	268
Operating and maintenance from affiliates	28	18	3
Depreciation and amortization	146	165	175
Taxes other than income	6	7	7
Total operating expenses	1,029	1,251	1,161
Gain on sale of assets	—	1	—
Operating income	157	7	134
Other income and (deductions)			
Interest expense, net	(61)	(62)	(64)
Other, net	7	9	3
Total other income and (deductions)	(54)	(53)	(61)
Income (loss) before income taxes	103	(46)	73
Income taxes	26	(4)	33
Net income (loss)	$ 77	$ (42)	$ 40
Comprehensive income (loss)	$ 77	$ (42)	$ 40

See the Combined Notes to Consolidated Financial Statements

Atlantic City Electric Company and Subsidiary Company
Consolidated Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net income (loss)	$ 77	$ (42)	$ 40
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	146	165	175
Impairment losses on regulatory assets	7	—	—
Deferred income taxes and amortization of investment tax credits	32	22	31
Other non-cash operating activities	17	155	37
Changes in assets and liabilities:			
Accounts receivable	14	(8)	(67)
Receivables from and payables to affiliates, net	—	13	1
Inventories	(7)	(1)	(1)
Accounts payable and accrued expenses	(2)	9	9
Income taxes	(11)	174	(34)
Pension and non-pension postretirement benefit contributions	(20)	(17)	(2)
Other assets and liabilities	(47)	(85)	67
Net cash flows provided by operating activities	206	385	256
Cash flows from investing activities			
Capital expenditures	(312)	(311)	(300)
Proceeds from sale of long-lived assets	—	2	—
Changes in restricted cash	3	(2)	(6)
Other investing activities	(1)	2	—
Net cash flows used in investing activities	(310)	(309)	(306)
Cash flows from financing activities			
Change in short-term borrowings	108	(5)	(122)
Issuance of long-term debt	—	—	150
Retirement of long-term debt	(35)	(48)	(58)
Dividends paid on common stock	(68)	(63)	(12)
Contributions from parent	—	139	95
Other financing activities	—	(1)	(2)
Net cash flows provided by financing activities	5	22	51
(Decrease) Increase in cash and cash equivalents	(99)	98	1
Cash and cash equivalents at beginning of period	101	3	2
Cash and cash equivalents at end of period	$ 2	$ 101	$ 3

See the Combined Notes to Consolidated Financial Statements

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Atlantic City Electric Company and Subsidiary Company
Consolidated Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 2	$ 101
Restricted cash and cash equivalents	6	9
Accounts receivable, net		
Customer	92	125
Other	56	44
Inventories, net	29	22
Regulatory assets	71	96
Other	2	2
Total current assets	258	399
Property, plant and equipment, net	2,706	2,521
Deferred debits and other assets		
Regulatory assets	359	405
Long-term note receivable	4	4
Prepaid pension asset	73	84
Other	45	44
Total deferred debits and other assets	481	537
Total assets(a)	$ 3,445	$ 3,457

See the Combined Notes to Consolidated Financial Statements

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Atlantic City Electric Company and Subsidiary Company
Consolidated Balance Sheets

(In millions)	December 31, 2017	2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 108	$ —
Long-term debt due within one year	281	35
Accounts payable	118	132
Accrued expenses	33	38
Payables to affiliates	29	29
Customer deposits	31	33
Regulatory liabilities	11	25
Merger related obligation	—	20
Other	8	8
Total current liabilities	619	320
Long-term debt	840	1,120
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	493	917
Non-pension postretirement benefit obligations	14	34
Regulatory liabilities	411	—
Other	25	32
Total deferred credits and other liabilities	943	983
Total liabilities[a]	2,402	2,423
Commitments and contingencies		
Shareholder's equity		
Common stock	912	912
Retained earnings	131	122
Total shareholder’s equity	1,043	1,034
Total liabilities and shareholder's equity	$ 3,445	$ 3,457

(a) ACE’s consolidated assets include $29 million and $32 million at December 31, 2017 and 2016, respectively, of ACE’s consolidated VIE that can only be used to settle the liabilities of the VIE. ACE’s consolidated liabilities include $90 million and $126 million at December 31, 2017 and 2016, respectively, of ACE’s consolidated VIE for which the VIE creditors do not have recourse to ACE. See Note 2 - Variable Interest Entities.

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Atlantic City Electric Company and Subsidiary Company
Consolidated Statements of Changes in Shareholder's Equity

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2014	$ 678	$ 199	$ 877
Net income	—	40	40
Common stock dividends	—	(12)	(12)
Contribution from parent	95	—	95
Balance, December 31, 2015	$ 773	$ 227	$ 1,000
Net loss	—	(42)	(42)
Common stock dividends	—	(63)	(63)
Contribution from parent	139	—	139
Balance, December 31, 2016	$ 912	$ 122	$ 1,034
Net income	—	77	77
Common stock dividends	—	(68)	(68)
Balance, December 31, 2017	$ 912	$ 131	$ 1,043

See the Combined Notes to Consolidated Financial Statements

Combined Notes to Consolidated Financial Statements
(Dollars in millions, except per share data unless otherwise noted)

Index to Combined Notes to Consolidated Financial Statements

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

Applicable Notes

Registrant	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Exelon Corporation	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Exelon Generation Company, LLC	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•		•		•	•	•	•	•	•	•
Commonwealth Edison Company	•	•	•		•	•				•	•	•	•	•	•	•	•		•	•			•	•	•	•	•	•
PECO Energy Company	•	•	•		•	•			•	•	•	•	•	•	•	•	•		•	•		•	•	•	•	•	•	
Baltimore Gas and Electric Company	•	•	•		•	•			•		•	•	•	•	•	•	•		•	•			•	•	•	•	•	
Pepco Holdings LLC	•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•	•		•		•	•	•	•	•	•	
Potomac Electric Power Company	•	•	•	•	•	•			•	•	•	•	•	•	•	•	•		•	•			•	•	•	•	•	
Delmarva Power & Light Company	•	•	•	•	•	•			•	•	•	•	•	•	•	•	•		•	•			•	•	•	•	•	
Atlantic City Electric Company	•	•	•		•	•			•	•	•	•	•	•	•	•	•		•	•			•	•	•	•	•	

1. Significant Accounting Policies (All Registrants)

Description of Business (All Registrants)

Exelon is a utility services holding company engaged through its principal subsidiaries in the energy generation and energy distribution and transmission businesses. Prior to March 23, 2016, Exelon's principal, wholly owned subsidiaries included Generation, ComEd, PECO and BGE. On March 23, 2016, in conjunction with the Amended and Restated Agreement and Plan of Merger (the PHI Merger Agreement), Purple Acquisition Corp, a wholly owned subsidiary of Exelon, merged with and into PHI, with PHI continuing as the surviving entity as a wholly owned subsidiary of Exelon. PHI is a utility services holding company engaged through its principal wholly owned subsidiaries, Pepco, DPL and ACE, in the energy distribution and transmission businesses. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further information regarding the merger transaction.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Name of Registrant	Business	Service Territories
Exelon Generation Company, LLC	Generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity to both wholesale and retail customers. Generation also sells natural gas, renewable energy and other energy-related products and services.	Six reportable segments: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions
Commonwealth Edison Company	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	Northern Illinois, including the City of Chicago
PECO Energy Company	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Southeastern Pennsylvania, including the City of Philadelphia (electricity) Pennsylvania counties surrounding the City of Philadelphia (natural gas)
Baltimore Gas and Electric Company	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Central Maryland, including the City of Baltimore (electricity and natural gas)
Pepco Holdings LLC	Utility services holding company engaged, through its reportable segments Pepco, DPL and ACE	Service Territories of Pepco, DPL and ACE
Potomac Electric Power Company	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	District of Columbia, and major portions of Montgomery and Prince George's Counties, Maryland.
Delmarva Power & Light Company	Purchase and regulated retail sale of electricity and natural gas Transmission and distribution of electricity and distribution of natural gas to retail customers	Portions of Delaware and Maryland (electricity) Portions of New Castle County, Delaware (natural gas)
Atlantic City Electric Company	Purchase and regulated retail sale of electricity Transmission and distribution of electricity to retail customers	Portions of Southern New Jersey

Basis of Presentation (All Registrants)

This is a combined annual report of all Registrants. The Notes to the Consolidated Financial Statements apply to the Registrants as indicated above in the Index to Combined Notes to Consolidated Financial Statements and parenthetically next to each corresponding disclosure. When appropriate, the Registrants are named specifically for their related activities and disclosures. Each of the Registrant's Consolidated Financial Statements includes the accounts of its subsidiaries. All intercompany transactions have been eliminated.

As a result of the acquisition of PHI, Exelon's financial reporting reflects PHI's consolidated financial results subsequent to the March 23, 2016, acquisition date. Exelon has accounted for the merger transaction applying the acquisition method of accounting, which requires the assets acquired and liabilities assumed by Exelon to be reported in Exelon's financial statements at fair value, with any excess of the purchase price over the fair value of net assets acquired reported as goodwill. Exelon has pushed-down the application of the acquisition method of accounting to the consolidated financial statements of PHI such that the assets and liabilities of PHI are similarly recorded at their respective fair values, and goodwill has been established as of the acquisition date. Accordingly, the consolidated financial statements of PHI for periods before and after the March 23, 2016, acquisition date reflect different bases of accounting, and the results of operations and the financial positions of the predecessor and successor periods are not comparable. The acquisition method of accounting has not been pushed down to PHI's wholly owned subsidiary utility registrants, Pepco, DPL and ACE.

For financial statement purposes, beginning on March 24, 2016, disclosures related to Exelon now also apply to PHI, Pepco, DPL and ACE, unless otherwise noted.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Through its business services subsidiary, BSC, Exelon provides its subsidiaries with a variety of support services at cost, including legal, human resources, financial, information technology and supply management services. The costs of BSC, including support services, are directly charged or allocated to the applicable subsidiaries using a cost-causative allocation method. Corporate governance-type costs that cannot be directly assigned are allocated based on a Modified Massachusetts Formula, which is a method that utilizes a combination of gross revenues, total assets and direct labor costs for the allocation base. The results of Exelon's corporate operations are presented as "Other" within the consolidated financial statements and include intercompany eliminations unless otherwise disclosed.

PHISCO, a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, accounting, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHISCO and the participating operating subsidiaries.

Exelon owns 100% of its significant consolidated subsidiaries, including PHI, either directly or indirectly, except for ComEd, of which Exelon owns more than 99%. As of December 31, 2017, Exelon owned none of BGE's preferred securities, which BGE redeemed in 2016. Exelon has reflected the third-party interests in ComEd, which totaled less than $1 million at December 31, 2017 and December 31, 2016, as equity, in its consolidated financial statements. BGE is subject to certain ring-fencing measures established by order of the MDPSC. As part of this arrangement, BGE common stock is held directly by RF Holdco LLC, which is an indirect subsidiary of Exelon. GSS Holdings (BGE Utility), an unrelated party, holds a nominal non-economic interest in RF Holdco LLC with limited voting rights on specified matters. PHI is subject to some ring-fencing measures established by orders of the DCPSC, DPSC, MDPSC and NJBPU, pursuant to which all of the membership interest in PHI is held directly by PH Holdco LLC, which is an indirect subsidiary of Exelon. GSS Holdings (PH Utility), Inc., an unrelated party, holds a nominal non-economic interest in PH Holdco LLC with limited voting rights on specified matters. PHI owns 100% of its subsidiaries including Pepco, DPL and ACE.

Generation owns 100% of its significant consolidated subsidiaries, either directly or indirectly, except for certain consolidated VIEs, including CENG and ExGen Renewables Partners, LLC, of which Generation holds a 50.01% and 51% interest, respectively. The remaining interests in these consolidated VIEs are included in noncontrolling interests on Exelon's and Generation's Consolidated Balance Sheets. See Note 2 — Variable Interest Entities for further discussion of Exelon's and Generation's consolidated VIEs.

The Registrants consolidate the accounts of entities in which a Registrant has a controlling financial interest, after the elimination of intercompany transactions. A controlling financial interest is evidenced by either a voting interest greater than 50% in which the Registrant can exercise control over the operations and policies of the investee, or the results of a model that identifies the Registrant or one of its subsidiaries as the primary beneficiary of a VIE. Where the Registrants do not have a controlling financial interest in an entity, proportionate consolidation, equity method accounting or cost method accounting is applied. The Registrants apply proportionate consolidation when they have an undivided interest in an asset and are proportionately liable for their share of each liability associated with the asset. The Registrants proportionately consolidate their undivided ownership interests in jointly owned electric plants and transmission facilities. Under proportionate consolidation, the Registrants separately record their proportionate share of the assets, liabilities, revenues and expenses related to the undivided interest in the asset. The Registrants apply equity method accounting when they have significant influence over an investee through an ownership in common stock, which generally approximates a 20% to 50% voting interest. The Registrants apply equity method accounting to certain investments and joint ventures, including certain financing trusts of ComEd, PECO and BGE. Under equity method accounting, the Registrants report their interest in the entity as an investment and the Registrants' percentage share of the earnings from the entity as single line items in their financial statements. The Registrants use cost

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

method accounting if they lack significant influence, which generally results when they hold less than 20% of the common stock of an entity. Under cost method accounting, the Registrants report their investments at cost and recognize income only to the extent dividends or distributions are received.

The accompanying consolidated financial statements have been prepared in accordance with GAAP for annual financial statements and in accordance with the instructions to Form 10-K and Regulation S-X promulgated by the SEC.

Use of Estimates (All Registrants)

The preparation of financial statements of each of the Registrants in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Areas in which significant estimates have been made include, but are not limited to, the accounting for nuclear decommissioning costs and other AROs, pension and other postretirement benefits, the application of purchase accounting, inventory reserves, allowance for uncollectible accounts, goodwill and asset impairments, derivative instruments, unamortized energy contracts, fixed asset depreciation, environmental costs and other loss contingencies, taxes and unbilled energy revenues. Actual results could differ from those estimates.

Reclassifications (All Registrants)

Certain prior year amounts in the Registrants’ Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows, Consolidated Balance Sheets and Consolidated Statements of Changes in Shareholders’ Equity have been reclassified between line items for comparative purposes. The reclassifications did not affect any of the Registrants’ net income, cash flows from operating activities or financial positions.

Accounting for the Effects of Regulation (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

The Registrants apply the authoritative guidance for accounting for certain types of regulation, which requires them to record in their consolidated financial statements the effects of cost-based rate regulation for entities with regulated operations that meet the following criteria: 1) rates are established or approved by a third-party regulator; (2) rates are designed to recover the entities’ cost of providing services or products; and (3) there is a reasonable expectation that rates designed to recover costs can be charged to and collected from customers. Exelon and the Utility Registrants account for their regulated operations in accordance with regulatory and legislative guidance from the regulatory authorities having jurisdiction, principally the ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU, under state public utility laws and the FERC under various Federal laws. Regulatory assets and liabilities are amortized and the related expense or revenue is recognized in the Consolidated Statements of Operations consistent with the recovery or refund included in customer rates. Exelon believes that it is probable that its currently recorded regulatory assets and liabilities will be recovered and settled, respectively, in future rates. Exelon and the Utility Registrants continue to evaluate their respective abilities to continue to apply the authoritative guidance for accounting for certain types of regulation, including consideration of current events in their respective regulatory and political environments. If a separable portion of the Registrants’ business was no longer able to meet the criteria discussed above, the affected entities would be required to eliminate from their consolidated financial statements the effects of regulation for that portion, which could have a material impact on their results of operations and financial positions. See Note 3 — Regulatory Matters for additional information.

With the exception of income tax-related regulatory assets and liabilities, the Registrants classify regulatory assets and liabilities with a recovery or settlement period greater than one year as both current and non-current in their Consolidated Balance Sheets, with the current portion representing the amount expected to be recovered from or settled to customers over the next twelve-month period as of the balance sheet date. Income tax-related regulatory assets and liabilities are classified entirely as non-

Combined Notes to Consolidated Financial Statements - (Continued)
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current on the Registrants' Consolidated Balance Sheets to align with the classification of the related deferred income tax balances.

The Registrants treat the impacts of a final rate order received after the balance sheet date but prior to the issuance of the financial statements as a non-recognized subsequent event, as the receipt of a final rate order is a separate and distinct event that has future impacts on the parties affected by the order.

Revenues (All Registrants)

Operating Revenues

Operating revenues are recorded as service is rendered or energy is delivered to customers. At the end of each month, the Registrants accrue an estimate for the unbilled amount of energy delivered or services provided to customers. ComEd records its best estimate of its electric distribution, energy efficiency and transmission revenue impacts resulting from changes in rates that ComEd believes are probable of approval by the ICC and FERC in accordance with its formula rate mechanisms. PECO, BGE, Pepco, DPL and ACE record their best estimate of the transmission revenue impacts resulting from changes in rates that they each believe are probable of approval by FERC in accordance with their formula rate mechanisms. See Note 3 — Regulatory Matters and Note 5 — Accounts Receivable for further information.

RTOs and ISOs

In RTO and ISO markets that facilitate the dispatch of energy and energy-related products, the Registrants generally report sales and purchases conducted on a net hourly basis in either revenues or purchased power on their Consolidated Statements of Operations and Comprehensive Income, the classification of which depends on the net hourly activity. In addition, capacity revenue and expense classification is based on the net sale or purchase position of Exelon in the different RTOs and ISOs.

Option Contracts, Swaps and Commodity Derivatives

Certain option contracts and swap arrangements that meet the definition of derivative instruments are recorded at fair value with subsequent changes in fair value recognized as revenue or expense. The classification of revenue or expense is based on the intent of the transaction. For example, gas transactions may be used to hedge the sale of power. This will result in the change in fair value recorded through revenue. To the extent a Utility Registrant receives full cost recovery for energy procurement and related costs from retail customers, it records the fair value of its energy swap contracts with unaffiliated suppliers as well as an offsetting regulatory asset or liability on its Consolidated Balance Sheets. Refer to Note 3 — Regulatory Matters and Note 12 — Derivative Financial Instruments for further information.

Income Taxes (All Registrants)

Deferred Federal and state income taxes are recorded on significant temporary differences between the book and tax basis of assets and liabilities and for tax benefits carried forward. Investment tax credits have been deferred on the Registrants' Consolidated Balance Sheets and are recognized in book income over the life of the related property. In accordance with applicable authoritative guidance, the Registrants account for uncertain income tax positions using a benefit recognition model with a two-step approach; a more-likely-than-not recognition criterion; and a measurement approach that measures the position as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. If it is not more-likely-than-not that the benefit of the tax position will be sustained on its technical merits, no benefit is recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. The Registrants recognize accrued interest related to unrecognized tax benefits in Interest expense or Other income and deductions (interest income) and recognize penalties related to unrecognized tax benefits in Other, net on their Consolidated Statements of Operations and Comprehensive Income.

In the first quarter of 2016, PHI, Pepco, DPL and ACE changed their accounting for classification of interest on uncertain tax positions. PHI, Pepco, DPL and ACE have reclassified interest on uncertain tax positions as Interest expense from Income tax expense in the Consolidated Statements of Operations and Comprehensive Income. GAAP does not address the preferability of one acceptable method of accounting over the other for the classification of interest on uncertain tax positions. However, PHI, Pepco, DPL and ACE believe this change is preferable for comparability of their financial statements with the financial statements of the other Registrants in the combined filing, for consistency with FERC classification and for a more appropriate representation of the effective tax rate as they manage the settlement of uncertain tax positions and interest expense separately. PHI, Pepco, DPL and ACE applied the change retrospectively. The reclassification in the Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2015 was $34 million and $4 million for PHI and Pepco, respectively. The impact on all other PHI Registrants for the year ended December 31, 2015 was less than $1 million.

Pursuant to the IRC and relevant state taxing authorities, Exelon and its subsidiaries file consolidated or combined income tax returns for Federal and certain state jurisdictions where allowed or required. See Note 14 — Income Taxes for further information.

Taxes Directly Imposed on Revenue-Producing Transactions (All Registrants)

The Registrants collect certain taxes from customers such as sales and gross receipts taxes, along with other taxes, surcharges and fees that are levied by state or local governments on the sale or distribution of gas and electricity. Some of these taxes are imposed on the customer, but paid by the Registrants, while others are imposed on the Registrants. Where these taxes are imposed on the customer, such as sales taxes, they are reported on a net basis with no impact to the Consolidated Statements of Operations and Comprehensive Income. However, where these taxes are imposed on the Registrants, such as gross receipts taxes or other surcharges or fees, they are reported on a gross basis. Accordingly, revenues are recognized for the taxes collected from customers along with an offsetting expense. See Note 24 — Supplemental Financial Information for Generation’s, ComEd’s, PECO’s, BGE’s, Pepco’s, DPL’s and ACE’s utility taxes that are presented on a gross basis.

Cash and Cash Equivalents (All Registrants)

The Registrants consider investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents (All Registrants)

Restricted cash and cash equivalents represent funds that are restricted to satisfy designated current liabilities. As of December 31, 2017 and 2016, Exelon Corporate’s restricted cash and cash equivalents primarily represented restricted funds for payment of medical, dental, vision and long-term disability benefits. Generation’s restricted cash and cash equivalents primarily included cash at various project-specific nonrecourse financing structures for debt service and financing of operations of the underlying entities, see Note 13 — Debt and Credit Agreements for additional information on Generation’s project- specific financing structures. ComEd’s restricted cash primarily represented cash collateral held from suppliers associated with ComEd’s energy and REC procurement contracts, any over-recovered RPS costs and alternative compliance payments received from RES pursuant to FEJA and certain funds set aside for the remediation of one of ComEd’s MGP sites. PECO’s restricted cash primarily represented funds from the sales of assets that were subject to PECO’s mortgage indenture. BGE’s restricted cash primarily represented funds restricted for certain energy conservation incentive programs. PHI Corporate’s restricted cash and cash equivalents primarily represented funds restricted for the payment of merger commitments and cash collateral held from its utility suppliers. Pepco’s restricted cash and cash equivalents primarily represented funds restricted for the payment of merger commitments and collateral held from its utility suppliers. DPL’s restricted cash and cash equivalents primarily represented cash collateral held from suppliers associated with procurement contracts. ACE’s restricted cash and cash equivalents primarily represented funds restricted at its consolidated variable interest entity for repayment of transition bonds and cash collateral held from suppliers.

Restricted cash and cash equivalents not available to satisfy current liabilities are classified as noncurrent assets.

Allowance for Uncollectible Accounts (All Registrants)

The allowance for uncollectible accounts reflects the Registrants’ best estimates of losses on the customers’ accounts receivable balances. For Generation, the allowance is based on accounts receivable aging historical experience and other currently available information. ComEd, PECO, BGE, Pepco, DPL and ACE estimate the allowance for uncollectible accounts on customer receivables by applying loss rates developed specifically for each company to the outstanding receivable balance by customer risk segment. Risk segments represent a group of customers with similar credit quality indicators that are comprised based on various attributes, including delinquency of their balances and payment history. Loss rates applied to the accounts receivable balances are based on a historical average of charge-offs as a percentage of accounts receivable in each risk segment. Utility Registrants’ customer accounts are generally considered delinquent if the amount billed is not received by the time the next bill is issued, which normally occurs on a monthly basis. Utility Registrants’ customer accounts are written off consistent with approved regulatory requirements. Utility Registrants’ allowances for uncollectible accounts will continue to be affected by changes in volume, prices and economic conditions as well as changes in ICC, PAPUC, MDPSC, DCPSC, DPSC and NJBPU regulations. See Note 3 — Regulatory Matters for additional information regarding the regulatory recovery of uncollectible accounts receivable at ComEd and ACE.

Variable Interest Entities (All Registrants)

Exelon accounts for its investments in and arrangements with VIEs based on the authoritative guidance which includes the following specific requirements:

- requires an entity to qualitatively assess whether it should consolidate a VIE based on whether the entity has a controlling financial interest, meaning (1) has the power to direct the activities that most significantly impact the VIE’s economic performance, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE,

- requires an ongoing reconsideration of this assessment instead of only upon certain triggering events, and

- requires the entity that consolidates a VIE (the primary beneficiary) to disclose (1) the assets of the consolidated VIE, if they can be used to only settle specific obligations of the consolidated VIE, and (2) the liabilities of a consolidated VIE for which creditors do not have recourse to the general credit of the primary beneficiary.

See Note 2 — Variable Interest Entities for additional information.

Inventories (All Registrants)

Inventory is recorded at the lower of weighted average cost or net realizable value. Provisions are recorded for excess and obsolete inventory.

Combined Notes to Consolidated Financial Statements - (Continued)
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Fossil Fuel

Fossil fuel inventory includes natural gas held in storage, propane and oil. The costs of natural gas, propane and oil are generally included in inventory when purchased and charged to purchased power and fuel expense at weighted average cost when used or sold.

Materials and Supplies

Materials and supplies inventory generally includes transmission, distribution and generating plant materials. Materials are generally charged to inventory when purchased and expensed or capitalized to property, plant and equipment, as appropriate, at weighted average cost when installed or used.

Emission Allowances

Emission allowances are included in inventory (for emission allowances exercisable in the current year) and other deferred debits (for emission allowances that are exercisable beyond one year) and charged to purchased power and fuel expense at weighted average cost as they are used in operations.

Marketable Securities (All Registrants)

All marketable securities are reported at fair value. Marketable securities held in the NDT funds are classified as trading securities, and all other securities are classified as available-for-sale securities. Realized and unrealized gains and losses, net of tax, on Generation’s NDT funds associated with the Regulatory Agreement Units are included in regulatory liabilities at Exelon, ComEd and PECO and in Noncurrent payables to affiliates at Generation and in Noncurrent receivables from affiliates at ComEd and PECO. Realized and unrealized gains and losses, net of tax, on Generation’s NDT funds associated with the Non-Regulatory Agreement Units are included in earnings at Exelon and Generation. Unrealized gains and losses, net of tax, for Exelon’s available-for-sale securities are reported in OCI. Exelon’s and Generation’s NDT funds, which are designated to satisfy future decommissioning obligations, are classified as either noncurrent or current assets, depending on the timing of the decommissioning activities and income taxes on trust earnings. Beginning January 1, 2018, the authoritative guidance eliminates the available-for-sale classification for equity securities and requires that all equity investments (other than those accounted for using the equity method of accounting) be measured and recorded at fair value with any changes in fair value recorded through earnings. The new authoritative guidance does not impact the classification or measurement of investments in debt securities. See Note 3 — Regulatory Matters for additional information regarding ComEd’s and PECO’s regulatory assets and liabilities and Note 11 — Fair Value of Financial Assets and Liabilities and Note 15 — Asset Retirement Obligations for information regarding marketable securities held by NDT funds.

Property, Plant and Equipment (All Registrants)

Property, plant and equipment is recorded at original cost. Original cost includes construction-related direct labor and material costs. The Utility Registrants also include indirect construction costs including labor and related costs of departments associated with supporting construction activities. When appropriate, original cost also includes capitalized interest for Generation, Exelon Corporate and PHI and AFUDC for regulated property at ComEd, PECO, BGE, Pepco, DPL and ACE. The cost of repairs and maintenance, including planned major maintenance activities and minor replacements of property, is charged to Operating and maintenance expense as incurred.

Third parties reimburse the Utility Registrants for all or a portion of expenditures for certain capital projects. Such contributions in aid of construction costs (CIAC) are recorded as a reduction to Property, plant and equipment. DOE SGIG and other funds reimbursed to the Utility Registrants have been accounted for as CIAC.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

For Generation, upon retirement, the cost of property is generally charged to accumulated depreciation in accordance with the composite and group methods of depreciation. Upon replacement of an asset, the costs to remove the asset, net of salvage, are capitalized to gross plant when incurred as part of the cost of the newly-installed asset and recorded to depreciation expense over the life of the new asset. Removal costs, net of salvage, incurred for property that will not be replaced is charged to Operating and maintenance expense as incurred.

For the Utility Registrants, upon retirement, the cost of property, net of salvage, is charged to accumulated depreciation consistent with the composite and group methods of depreciation. Depreciation expense at ComEd, BGE, Pepco, DPL and ACE includes the estimated cost of dismantling and removing plant from service upon retirement. Actual incurred removal costs are applied against a related regulatory liability or recorded to a regulatory asset if in excess of previously collected removal costs. PECO’s removal costs are capitalized to accumulated depreciation when incurred, and recorded to depreciation expense over the life of the new asset constructed consistent with PECO’s regulatory recovery method.

See Note 6 — Property, Plant and Equipment, Note 9 — Jointly Owned Electric Utility Plant and Note 24 — Supplemental Financial Information for additional information regarding property, plant and equipment.

Nuclear Fuel (Exelon and Generation)

The cost of nuclear fuel is capitalized within Property, plant and equipment and charged to fuel expense using the unit-of-production method. Prior to May 16, 2014, the estimated disposal cost of SNF was established per the Standard Waste Contract with the DOE and was expensed through fuel expense at one mill ($0.001) per kWh of net nuclear generation. Effective May 16, 2014, the SNF disposal fee was set to zero by the DOE and Exelon and Generation are not accruing any further costs related to SNF disposal fees until a new fee structure goes into effect. Certain on-site SNF storage costs are being reimbursed by the DOE since a DOE (or government-owned) long-term storage facility has not been completed. See Note 23 — Commitments and Contingencies for additional information regarding the SNF disposal fee.

Nuclear Outage Costs (Exelon and Generation)

Costs associated with nuclear outages, including planned major maintenance activities, are expensed to Operating and maintenance expense or capitalized to Property, plant and equipment (based on the nature of the activities) in the period incurred.

New Site Development Costs (Exelon and Generation)

New site development costs represent the costs incurred in the assessment and design of new power generating facilities. Such costs are capitalized when management considers project completion to be probable, primarily based on management’s determination that the project is economically and operationally feasible, management and/or the Exelon Board of Directors has approved the project and has committed to a plan to develop it, and Exelon and Generation have received the required regulatory approvals or management believes the receipt of required regulatory approvals is probable. As of December 31, 2017 and 2016, Generation has capitalized $228 million and $1.7 billion, respectively, to Property, plant and equipment, net on its Consolidated Balance Sheets. Capitalized development costs are charged to Operating and maintenance expense when project completion is no longer probable. New site development costs incurred prior to a project's completion being deemed probable are expensed as incurred. Approximately $4 million, $30 million and $22 million of costs were expensed by Exelon and Generation for the years ended December 31, 2017, 2016 and 2015, respectively. These costs are primarily related to the possible development of new power generating facilities with the exception of

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approximately $13 million of costs expensed in 2016 which relate to projects for which completion is no longer probable.

Capitalized Software Costs (All Registrants)

Costs incurred during the application development stage of software projects that are internally developed or purchased for operational use are capitalized within Property, plant and equipment. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, generally not to exceed five years. Certain other capitalized software costs are being amortized over longer lives based on the expected life or pursuant to prescribed regulatory requirements. The following table presents net unamortized capitalized software costs and amortization of capitalized software costs by year:

						Successor			
Net unamortized software costs	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
December 31, 2017	$ 834	$ 173	$ 227	$ 111	$ 179	$ 133	$ 2	$ 1	$ 1
December 31, 2016	808	173	213	91	164	153	1	1	1

Amortization of capitalized software costs	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**
2017	$ 270	$ 73	$ 73	$ 39	$ 46	$ —	$ —	$ —
2016	255	72	62	33	44	—	—	—
2015	208	73	47	33	46	(2)	—	—

	Successor		*Predecessor*	
PHI	**For the Year Ended December 31, 2017**	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
Amortization of capitalized software costs	$ 34	$ 29	$ 8	$ 36

Depreciation and Amortization (All Registrants)

Except for the amortization of nuclear fuel, depreciation is generally recorded over the estimated service lives of property, plant and equipment on a straight-line basis using the group, composite or unitary methods of depreciation. The group approach is typically for groups of similar assets that have approximately the same useful lives and the composite approach is used for dissimilar assets that have different lives. Under both methods, a reporting entity depreciates the assets over the average life of the assets in the group. The Utility Registrants' depreciation expense includes the estimated cost of dismantling and removing plant from service upon retirement, which is consistent with each utility's regulatory recovery method. The estimated service lives for the Utility Registrants are primarily based on each company's most recent depreciation studies of historical asset retirement and removal cost experience. At Generation, along with depreciation study results, management considers expected future energy market conditions and generation plant operating costs and capital investment requirements in determining the estimated service lives of its generating facilities. For its nuclear generating facilities, except for Oyster Creek, Clinton and TMI, Generation estimates each unit will operate through the full term of its initial 20-year operating license renewal period. See Note 8 — Early Nuclear Plant Retirements for additional information on the impacts of expected and potential early plant retirements. The estimated service lives of Generation's hydroelectric generating facilities are based on the remaining useful lives of the stations, which assume a license renewal extension of 40 years.

See Note 6 — Property, Plant and Equipment for further information regarding depreciation.

Amortization of regulatory assets and liabilities are recorded over the recovery or refund period specified in the related legislation or regulatory order or agreement. When the recovery or refund period is less than one year, amortization is recorded to the line item in which the deferred cost or income would have originally been recorded in the Registrants' Consolidated Statements of Operations and Comprehensive Income. Amortization of ComEd's electric distribution and energy efficiency formula rate regulatory assets and ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's transmission formula rate regulatory assets is recorded to Operating revenues.

Amortization of income tax related regulatory assets and liabilities are generally recorded to Income tax expense. With the exception of the regulatory assets and liabilities discussed above, when the recovery period is more than one year, the amortization is generally recorded to Depreciation and amortization in the Registrants' Consolidated Statements of Operations and Comprehensive Income.

See Note 3 — Regulatory Matters and Note 24 — Supplemental Financial Information for additional information regarding Generation's nuclear fuel, Generation's ARC and the amortization of the Utility Registrants' regulatory assets.

Asset Retirement Obligations (All Registrants)

The authoritative guidance for accounting for AROs requires the recognition of a liability for a legal obligation to perform an asset retirement activity even though the timing and/or method of settlement may be conditional on a future event. To estimate its decommissioning obligation related to its nuclear generating stations, Generation uses a probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple outcome scenarios that include significant estimates and assumptions, and are based on decommissioning cost studies, cost escalation rates, probabilistic future cash flow models and discount rates. Generation generally updates its ARO annually, unless circumstances warrant more frequent updates, based on its review of updated cost studies and its annual evaluation of cost escalation factors and probabilities assigned to various decommissioning scenarios. Decommissioning cost studies are updated, on a rotational basis, for each of Generation's nuclear units at least every five years unless circumstances warrant more frequent updates (such as a change in assumed operating life for a nuclear plant). As part of the annual cost study update process, Generation evaluates newly assumed costs or substantive changes in previously assumed costs to determine if the cost estimate impacts are sufficiently material to warrant application of the updated estimates to the AROs across the nuclear fleet outside of the normal five-year rotating cost study update cycle. The liabilities associated with Exelon's non-nuclear AROs are adjusted on an ongoing rotational basis, at least once every five years unless circumstances warrant more frequent updates. Changes to the recorded value of an ARO result from the passage of new laws and regulations, revisions to either the timing or amount of estimated undiscounted cash flows, and estimates of cost escalation factors. AROs are accreted throughout each year to reflect the time value of money for these present value obligations through a charge to Operating and maintenance expense in the Consolidated Statements of Operations and Comprehensive Income or, in the case of the Utility Registrants' accretion, through an increase to regulatory assets. See Note 15 — Asset Retirement Obligations for additional information.

Capitalized Interest and AFUDC (All Registrants)

During construction, Exelon and Generation capitalize the costs of debt funds used to finance non-regulated construction projects. Capitalization of debt funds is recorded as a charge to construction work in progress and as a non-cash credit to interest expense.

Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE apply the authoritative guidance for accounting for certain types of regulation to calculate AFUDC, which is the cost, during the period of construction, of debt and equity funds used to finance construction projects for regulated operations. AFUDC is recorded to construction work in progress and as a non-cash credit to AFUDC that is included in interest expense for debt-related funds and other income and deductions for equity-related funds. The rates used for capitalizing AFUDC are computed under a method prescribed by regulatory authorities.

The following table summarizes total incurred interest, capitalized interest and credits to AFUDC by year:

		Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
2017	Total incurred interest[(a)]	$ 1,658	$ 502	$ 369	$ 130	$ 111	$ 133	$ 54	$ 64
	Capitalized interest	63	63	—	—	—	—	—	—
	Credits to AFUDC debt and equity	108	—	20	12	22	34	10	9
2016	Total incurred interest[(a)]	$ 1,678	$ 472	$ 469	$ 127	$ 114	$ 137	$ 52	$ 65
	Capitalized interest	108	107	—	—	—	—	—	—
	Credits to AFUDC debt and equity	98	—	22	11	30	29	7	9
2015	Total incurred interest[(a)]	$ 1,170	$ 445	$ 336	$ 116	$ 113	$ 131	$ 51	$ 65
	Capitalized interest	79	79	—	—	—	—	—	—
	Credits to AFUDC debt and equity	44	—	9	7	28	19	2	2

	Successor		*Predecessor*	
PHI	**For the Year Ended December 31, 2017**	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
Total incurred interest[(a)]	$ 263	$ 207	$ 68	$ 289
Credits to AFUDC debt and equity	54	35	10	23

(a) Includes interest expense to affiliates.

Guarantees (All Registrants)

The Registrants recognize, at the inception of a guarantee, a liability for the fair market value of the obligations they have undertaken by issuing the guarantee, including the ongoing obligation to perform over the term of the guarantee in the event that the specified triggering events or conditions occur.

The liability that is initially recognized at the inception of the guarantee is reduced as the Registrants are released from risk under the guarantee. Depending on the nature of the guarantee, the release from risk of the Registrant may be recognized only upon the expiration or settlement of the guarantee or by a systematic and rational amortization method over the term of the guarantee. See Note 23 — Commitments and Contingencies for additional information.

Asset Impairments (All Registrants)

Long-Lived Assets

The Registrants evaluate the carrying value of their long-lived assets or asset groups, excluding goodwill, when circumstances indicate the carrying value of those assets may not be recoverable. Indicators of impairment may include a deteriorating business climate, including, but not limited to, declines in energy prices, condition of the asset, specific regulatory disallowance, or plans to dispose of a long-lived asset significantly before the end of its useful life. The Registrants determine if long-lived assets and asset groups are impaired by comparing the undiscounted expected future cash flows to the carrying value. When the undiscounted cash flow analysis indicates a long-lived asset or asset group is not recoverable, the amount of the impairment loss is determined by measuring the excess of the carrying amount of the long-lived asset or asset group over its fair value.

Cash flows for long-lived assets and asset groups are determined at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The cash flows from the generating units are generally evaluated at a regional portfolio level along with cash flows generated from the customer supply and risk management activities, including cash flows from related intangible assets and liabilities on the balance sheet. In certain cases, generating assets may be evaluated on an individual basis where those assets are contracted on a long-term basis with a third party and operations are independent of other generation assets (typically contracted renewables). See Note 7 — Impairment of Long-Lived Assets and Intangibles for additional information.

Goodwill

Goodwill represents the excess of the purchase price paid over the estimated fair value of the net assets acquired and liabilities assumed in the acquisition of a business. Goodwill is not amortized, but is tested for impairment at least annually or in an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. See Note 10 — Intangible Assets for additional information regarding Exelon’s, Generation’s, ComEd’s, PHI’s and DPL’s goodwill.

Equity Method Investments

Exelon and Generation regularly monitor and evaluate equity method investments to determine whether they are impaired. An impairment is recorded when the investment has experienced a decline in value that is other-than-temporary in nature. Additionally, if the entity in which Generation holds an investment recognizes an impairment loss, Exelon and Generation would record their proportionate share of that impairment loss and evaluate the investment for an other-than-temporary decline in value.

Debt and Equity Security Investments

Declines in the fair value of Exelon’s debt and equity investments below the cost basis are reviewed to determine if such decline is other-than-temporary. For available-for-sale securities and cost investments, if the decline is determined to be other-than-temporary, the cost basis is written down to fair value as a new cost basis. For equity securities and cost investments, the amount of the impairment loss is included in earnings. For debt securities, the amount of the impairment loss is included in earnings or separated between earnings and OCI depending on whether Exelon intends to sell the debt securities before recovery of its cost basis. Beginning January 1, 2018, the authoritative guidance eliminates the available-for-sale and cost method classifications for equity securities and requires that all equity investments (other than those accounted for using the equity method of accounting) be measured and recorded at fair value with any changes in fair value recorded through earnings. Investments in equity securities without readily determinable fair values must be qualitatively assessed for impairment each reporting period and fair value determined if any significant impairment indicators exist. If fair value is less than carrying value, the impairment is recorded through earnings immediately in the period in which it is identified without regard to whether the decline in value is temporary in nature. The new authoritative guidance does not impact the classification or measurement of investments in debt securities.

Derivative Financial Instruments (All Registrants)

All derivatives are recognized on the balance sheet at their fair value unless they qualify for certain exceptions, including the normal purchases and normal sales exception. Additionally, derivatives that qualify and are designated for hedge accounting are classified as either hedges of the fair value of a

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recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or hedges of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For fair value hedges, changes in fair values for both the derivative and the underlying hedged exposure are recognized in earnings each period. For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the cost or value of the underlying exposure is deferred in AOCI and later reclassified into earnings when the underlying transaction occurs. Gains and losses from the ineffective portion of any hedge are recognized in earnings immediately. For derivative contracts intended to serve as economic hedges and that are not designated or do not qualify for hedge accounting or the normal purchases and normal sales exception, changes in the fair value of the derivatives are recognized in earnings each period, except for the Utility Registrants where changes in fair value may be recorded as a regulatory asset or liability if there is an ability to recover or return the associated costs. See Note 3 — Regulatory Matters and Note 12 — Derivative Financial Instruments for additional information. Amounts classified in earnings are included in revenue, purchased power and fuel, interest expense or other, net on the Consolidated Statements of Operations and Comprehensive Income based on the activity the transaction is economically hedging. For energy-related derivatives entered into for proprietary trading purposes, which are subject to Exelon’s Risk Management Policy, changes in the fair value of the derivatives are recognized in earnings each period. All amounts classified in earnings related to proprietary trading are included in revenue on the Consolidated Statements of Operations and Comprehensive Income. Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing cash flows in the Consolidated Statements of Cash Flows, depending on the nature of each transaction.

As part of Generation’s energy marketing business, Generation enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy-related products in the energy markets with the intent and ability to deliver or take delivery of the underlying physical commodity. Normal purchases and normal sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time and will not be financially settled. Revenues and expenses on derivative contracts that qualify, and are designated, as normal purchases and normal sales are recognized when the underlying physical transaction is completed. While these contracts are considered derivative financial instruments, they are not required to be recorded at fair value, but rather are recorded on an accrual basis of accounting. See Note 12 — Derivative Financial Instruments for additional information.

Retirement Benefits (All Registrants)

Exelon sponsors defined benefit pension plans and other postretirement benefit plans for essentially all employees.

The measurement of the plan obligations and costs of providing benefits under these plans involve various factors, including numerous assumptions and inputs and accounting elections. The assumptions are reviewed annually and at any interim remeasurement of the plan obligations. The impact of assumption changes or experience different from that assumed on pension and other postretirement benefit obligations is recognized over time rather than immediately recognized in the Consolidated Statements of Operations and Comprehensive Income. Gains or losses in excess of the greater of ten percent of the projected benefit obligation or the MRV of plan assets are amortized over the expected average remaining service period of plan participants. See Note 16 — Retirement Benefits for additional information.

Equity Investment Earnings (Losses) of Unconsolidated Affiliates (Exelon and Generation)

Exelon and Generation include equity in earnings from equity method investments in qualifying facilities and power projects in Equity in earnings (losses) of unconsolidated affiliates within their Consolidated Statements of Operations and Comprehensive Income.

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New Accounting Standards (All Registrants)

New Accounting Standards Issued and Adopted as of January 1, 2018: The following new authoritative accounting guidance issued by the FASB has been adopted as of January 1, 2018 and will be reflected by the Registrants in their consolidated financial statements beginning in the first quarter of 2018. Unless otherwise indicated, adoption of the new guidance in each instance will have no or insignificant impacts on the Registrants' Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows, Consolidated Balance Sheets and disclosures.

Revenue from Contracts with Customers (Issued May 2014 and subsequently amended to address implementation questions; Adopted January 1, 2018): Changes the criteria for recognizing revenue from a contract with a customer. The new revenue recognition guidance, including subsequent amendments, is effective for annual reporting periods beginning on or after December 15, 2017, with the option to early adopt the standard for annual periods beginning on or after December 15, 2016. The Registrants did not early adopt this standard.

The new standard replaces existing guidance on revenue recognition, including most industry specific guidance, with a five-step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method). The Registrants will apply the new guidance using the full retrospective method, which will not have a material impact on previously issued financial statements.

In coordination with the AICPA Power and Utilities Industry Task Force, the Registrants reached conclusions on the following key accounting issues:

- The Utility Registrants' tariff sale contracts, including those with lower credit quality customers, are generally deemed to be probable of collection under the guidance and, thus, the timing of revenue recognition will continue to be concurrent with the delivery of electricity or natural gas, consistent with current practice;

- Consistent with current industry practice, revenues recognized from sales of bundled energy commodities (i.e., contracts involving the delivery of multiple energy commodities such as electricity, capacity, ancillary services, etc.) are generally expected to be recognized upon delivery to the customer in an amount based on the invoice price given that it corresponds directly with the value of the commodities transferred to the customer; and

- Contributions in aid of construction are outside of the scope of the standard and, therefore, will continue to be accounted for as a reduction to Property, Plant, and Equipment.

In assessing the impacts of the new revenue guidance, the Registrants identified the following items that will be accounted for differently:

- Costs to acquire certain contracts (e.g., sales commissions associated with retail power contracts) will be deferred and amortized ratably over the term of the contract rather than being expensed as incurred; and

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

- Variable consideration within certain contracts (e.g., performance bonuses) will be estimated and recognized as revenue over the term of the contract rather than being recognized when realized.

Based on an assessment of existing contracts and revenue streams, the new guidance, including the identified changes above, will not have a material impact on the amount and timing of the Registrants' revenue recognition.

One of the new disclosure requirements is to present disaggregated revenue into categories that show how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows. In order to comply with this new disclosure requirement, Generation will disclose disaggregated revenue by operating segment and provide further differentiation by major products (i.e., electric power and gas) and the Utility Registrants will disclose disaggregated revenue by major customer class (i.e., residential and commercial and industrial) separately for electric and gas in the Combined Notes to Consolidated Financial Statements. In addition, pursuant to the requirements of the new standard, Exelon and the Utility Registrants will present alternative revenue program revenue separately from revenue from contracts with customers on the face of their Consolidated Statements of Operations and Comprehensive Income.

Recognition and Measurement of Financial Assets and Financial Liabilities (Issued January 2016; Adopted January 1, 2018): Eliminates the available-for-sale and cost method classification for equity securities and requires that all equity investments (other than those accounted for using the equity method of accounting) be measured and recorded at fair value with any changes in fair value recorded through earnings and, for equity investments without a readily determinable fair value, provides a measurement alternative of cost less impairment plus or minus adjustments for observable price changes in identical or similar assets. In addition, equity investments without readily determinable fair values must be qualitatively assessed for impairment each reporting period and fair value determined if any significant impairment indicators exist. If fair value is less than carrying value, the impairment is recorded through net income immediately in the period in which it is identified. The guidance does not impact the classification or measurement of investments in debt securities. The guidance also amends several disclosure requirements, including requiring i) financial assets and financial liabilities to be presented separately in the balance sheet or note, grouped by measurement category and form, ii) disclosure of the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and iii) for financial assets and liabilities measured at amortized cost, disclosure of the fair value of the amount that would be received to sell the asset or paid to transfer the liability. The guidance is effective January 1, 2018 and must be applied using a modified retrospective transition approach with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption. The Registrants recorded an insignificant adjustment to opening retained earnings as of January 1, 2018 related to unrealized gains/losses on available for sale equity securities.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Issued August 2016; Adopted January 1, 2018) and Restricted Cash (Issued November 2016; Adopted January 1, 2018): In 2016, the FASB issued two standards impacting the Statement of Cash Flows. The first adds or clarifies guidance on the classification of certain cash receipts and payments on the statement of cash flows as follows: debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and bank-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, and the application of the predominance principle to separately identifiable cash flows. The second states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows (instead of being presented as

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cash flow activities). The new standards are effective on January 1, 2018 and must be applied on a full retrospective basis. Adoption of the second standard will result in a change in presentation of restricted cash on the face of the Statement of Cash Flows; otherwise this guidance will not have a significant impact on the Registrants' Consolidated Statements of Cash Flows and disclosures.

Intra-Entity Transfers of Assets Other Than Inventory (Issued October 2016; Adopted January 1, 2018): Requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs (current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party). The standard is effective January 1, 2018 with early adoption permitted. The guidance requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Clarifying the Definition of a Business (Issued January 2017; Adopted January 1, 2018): Clarifies the definition of a business with the objective of addressing whether acquisitions (or dispositions) should be accounted for as acquisitions/dispositions of assets or as acquisitions/dispositions of businesses. If substantially all the fair value of the assets acquired/disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. If the fair value of the assets acquired/disposed of is not concentrated in a single identifiable asset or a group of similar identifiable assets, then an entity must evaluate whether an input and a substantive process exist, which together significantly contribute to the ability to produce outputs. The standard also revises the definition of outputs to focus on goods and services to customers. The standard will likely result in more acquisitions being accounted for as asset acquisitions. The standard is effective January 1, 2018, with early adoption permitted, and must be applied on a prospective basis. The Registrants did not early adopt the guidance.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Issued March 2017; Adopted January 1, 2018): Changes the accounting and presentation of pension and OPEB costs at the plan sponsor (i.e., Exelon) level. The guidance requires plan sponsors to report the service cost and other non-service cost components of net periodic pension cost and net periodic OPEB cost (together, net benefit cost) separately. Under the new guidance, service cost is presented as part of income from operations and the other non-service cost components are classified outside of income from operations on the Consolidated Statements of Operations and Comprehensive Income. Additionally, service cost is the only component eligible for capitalization. Under prior GAAP, the total amount of net benefit cost was recorded as part of income from operations and all components were eligible for capitalization.

Generation, ComEd, PECO, BGE, BSC, PHI, Pepco, DPL, ACE and PHISCO participate in Exelon's single employer pension and OPEB plans and apply multi-employer accounting. Multi-employer accounting is not impacted by this standard; therefore, Exelon's subsidiary financial statements will not change upon its adoption. On Exelon's consolidated financial statements, non-service cost components of pension and OPEB cost capitalizable under a regulatory framework are prospectively reported as regulatory assets (currently, they are capitalizable under pension and OPEB accounting guidance and reported as PP&E). These regulatory assets are amortized outside of operating income.

The presentation of the service cost component and the other non-service cost components of net benefit cost will be applied retrospectively in the Exelon consolidated financial statements beginning in the first quarter of 2018. On Exelon's consolidated financial statements, service cost will continue to be reported in Operating and maintenance and Non-service cost will be reported outside of operating income. The prospective change in the capitalization eligibility is not expected to have a significant impact on Exelon's consolidated net income.

New Accounting Standards Issued and Not Yet Adopted as of December 31, 2017: The following new authoritative accounting guidance issued by the FASB has not yet been adopted and

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reflected by the Registrants in their consolidated financial statements as of December 31, 2017. Unless otherwise indicated, the Registrants are currently assessing the impacts such guidance may have (which could be material) on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures, as well as the potential to early adopt where applicable. The Registrants have assessed other FASB issuances of new standards which are not listed below given the current expectation such standards will not significantly impact the Registrants' financial reporting.

Leases (Issued February 2016): Increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective January 1, 2019. Early adoption is permitted, however the Registrants will not early adopt the standard. The issued guidance required a modified retrospective transition approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented (January 1, 2017). In January 2018, the FASB proposed amending the standard to give entities another option for transition. The proposed transition method would allow entities to initially apply the requirements of the standard in the period of adoption (January 1, 2019). The Registrants will assess this transition option when the FASB issues the standard.

The new guidance requires lessees to recognize both the right-of-use assets and lease liabilities in the balance sheet for most leases, whereas today only finance lease liabilities (referred to as capital leases) are recognized in the balance sheet. In addition, the definition of a lease has been revised when an arrangement conveys the right to control the use of the identified asset which may change the classification of an arrangement as a lease. Quantitative and qualitative disclosures related to the amount, timing and judgments of an entity's accounting for leases and the related cash flows are also expanded. Disclosure requirements apply to both lessees and lessors, whereas current disclosures relate only to lessees. Significant changes to lease systems, processes and procedures are required to implement the requirements of the new standard. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. Lessor accounting is also largely unchanged.

The standard provides a number of transition practical expedients that entities may elect. These include a "package of three" expedients that must be taken together and allow entities to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. In January 2018, the FASB issued additional guidance which provides another optional transition practical expedient. This practical expedient allows entities to not evaluate land easements under the new guidance at adoption if they were not previously accounted for as leases.

The Registrants have assessed the lease standard and are executing a detailed implementation plan in preparation for adoption on January 1, 2019. Key activities in the implementation plan include:

- Developing a complete lease inventory and abstracting the required data attributes into a lease accounting system that supports the Registrants' lease portfolios and integrates with existing systems.
- Evaluating the transition practical expedients available under the guidance.
- Identifying, assessing and documenting technical accounting issues, policy considerations and financial reporting implications. Includes completing a detailed contract assessment for a sample of transactions to determine whether they are leases under the new guidance.

- Identifying and implementing changes to processes and controls to ensure all impacts of the new guidance are effectively addressed.

Accounting and implementation issues continue to be identified and evaluated by the implementation team.

Impairment of Financial Instruments (Issued June 2016): Provides for a new Current Expected Credit Loss (CECL) impairment model for specified financial instruments including loans, trade receivables, debt securities classified as held-to-maturity investments and net investments in leases recognized by a lessor. Under the new guidance, on initial recognition and at each reporting period, an entity is required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. The standard does not make changes to the existing impairment models for non-financial assets such as fixed assets, intangibles and goodwill. The standard will be effective January 1, 2020 (with early adoption as of January 1, 2019 permitted) and, for most debt instruments, requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Goodwill Impairment (Issued January 2017): Simplifies the accounting for goodwill impairment by removing Step 2 of the current test, which requires calculation of a hypothetical purchase price allocation. Under the revised guidance, goodwill impairment will be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill (currently Step 1 of the two-step impairment test). Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Exelon, Generation, ComEd, PHI, and DPL have goodwill as of December 31, 2017. This updated guidance is not currently expected to impact the Registrants' financial reporting. The standard is effective January 1, 2020, with early adoption permitted, and must be applied on a prospective basis.

Derivatives and Hedging (Issued September 2017): Allows more financial and nonfinancial hedging strategies to be eligible for hedge accounting. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. There are also amendments related to effectiveness testing and disclosure requirements. The guidance is effective January 1, 2019 and early adoption is permitted with a modified retrospective transition approach. The Registrants are currently assessing this standard but do not currently expect a significant impact given the limited activity for which the Registrants elect hedge accounting and because the Registrants do not anticipate increasing their use of hedge accounting as a result of this standard.

2. Variable Interest Entities (All Registrants)

A VIE is a legal entity that possesses any of the following characteristics: an insufficient amount of equity at risk to finance its activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest), or equity owners who do not have the obligation to absorb expected losses or the right to receive the expected residual returns of the entity. Companies are required to consolidate a VIE if they are its primary beneficiary, which is the enterprise that has the power to direct the activities that most significantly affect the entity's economic performance.

At December 31, 2017, Exelon, Generation, PHI and ACE collectively consolidated five VIEs or VIE groups for which the applicable Registrant was the primary beneficiary. At December 31, 2016, Exelon, Generation, BGE, PHI and ACE collectively consolidated nine VIEs or VIE groups for which the applicable Registrant was the primary beneficiary (*see Consolidated Variable Interest Entities below)*. As of December 31, 2017 and 2016, Exelon and Generation collectively had significant interests in seven and eight other VIEs, respectively, for which the applicable Registrant does not have the power to direct

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the entities' activities and, accordingly, was not the primary beneficiary (*see Unconsolidated Variable Interest Entities below)*.

Consolidated Variable Interest Entities

The carrying amounts and classification of the consolidated VIEs' assets and liabilities included in the Registrants' consolidated financial statements at December 31, 2017 and 2016 are as follows:

	December 31, 2017			
			Successor	
	Exelon[(a)]	**Generation**	**PHI[(a)]**	**ACE**
Current assets	$ 630	$ 620	$ 10	6
Noncurrent assets	9,317	9,286	31	23
Total assets	$ 9,947	$ 9,906	$ 41	$ 29
Current liabilities	$ 306	$ 270	$ 36	32
Noncurrent liabilities	3,312	3,246	66	58
Total liabilities	$ 3,618	$ 3,516	$ 102	$ 90

	December 31, 2016				
				Successor	
	Exelon[(a)(b)]	**Generation**	**BGE**	**PHI[(a)]**	**ACE**
Current assets	$ 954	$ 916	$ 23	$ 14	$ 9
Noncurrent assets	8,563	8,525	3	35	23
Total assets	$ 9,517	$ 9,441	$ 26	$ 49	$ 32

Current liabilities	$ 885	$ 802	$ 42	$ 42	$ 37
Noncurrent liabilities	2,713	2,612	—	101	89
Total liabilities	$ 3,598	$ 3,414	$ 42	$ 143	$ 126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.

Except as specifically noted below, the assets in the table above are restricted for settlement of the VIE obligations and the liabilities in the table can only be settled using VIE resources.

As of December 31, 2017, Exelon’s and Generation’s consolidated VIEs consist of:

Investments in Other Energy Related Companies

During 2015, Generation sold 69% of its equity interest in a company to a tax equity investor. The company holds an equity method investment in a distributed energy company that is an unconsolidated VIE (see unconsolidated VIE section for additional details). Generation and the tax equity investor contributed a total of $227 million of equity in proportion to their ownership interests to the company. The company meets the definition of a VIE because it has a similar structure to a limited partnership and the limited partners do not have kick-out rights with respect to the general partner. Generation is the primary beneficiary because Generation manages the day-to-day activities of the entity.

During 2015, Generation formed a limited liability company to build, own, and operate a backup generator. While Generation owns 100% of the backup generator company, it was determined that the entity is a VIE because the customer absorbs price variability from the entity through the fixed price

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backup generator agreement. Generation provides operating and capital funding to the backup generator company.

During the fourth quarter of 2017 Generation acquired a controlling financial interest in an energy development company. The company is in the development stage and requires additional subordinated financial support from the equity holders to fund activities. Generation is the majority owner with a 62% equity interest and has the power to direct the activities that most significantly affect the economic performance of the company.

Renewable Energy Project Companies

In July 2017, Generation entered into an arrangement to sell a 49% interest in ExGen Renewable Partners, LLC (the Renewable JV) to an outside investor for $400 million of cash plus immaterial working capital and other customary post-closing adjustments. The Renewable JV meets the definition of a VIE because the Renewable JV has a similar structure to a limited partnership and the limited partners do not have kick out rights with respect to the general partner. Generation is the primarily beneficiary because Generation manages the day-to-day activities of the entity; therefore, Generation will continue to consolidate the Renewable JV. The Renewable JV is a collection of wind and solar project entities and some of these project entities are VIEs that are consolidated by the Renewable JV. The details relating to these VIEs are discussed below.

Generation owns a number of limited liability companies that build, own, and operate solar and wind power facilities some of which are owned by the Renewable JV. While Generation or the Renewable JV owns 100% of the solar entities and 100% of the majority of the wind entities, it has been determined that certain of the solar and wind entities are VIEs because the entities require additional subordinated financial support in the form of a parental guarantee of debt, loans from the customers in order to obtain the necessary funds for construction of the solar facilities, or the customers absorb price variability from the entities through the fixed price power and/or REC purchase agreements. Generation is the primary beneficiary of these solar and wind entities that qualify as VIEs because Generation controls the design, construction, and operation of the facilities. Generation provides operating and capital funding to the solar and wind entities for ongoing construction, operations and maintenance and there is limited recourse related to Generation related to certain solar and wind entities.

While Generation or the Renewable JV owns 100% of the majority of the wind entities, six of the projects have noncontrolling equity interests of 1% held by third parties and one of the projects has noncontrolling equity interests related to its Class B Membership Interest (see additional details below). The entities with noncontrolling equity interests of 1% held by third parties meet the definition of a VIE because the entities have noncontrolling equity interest holders that absorb variability from the wind projects. Generation’s or the Renewable JV’s current economic interests in five of these projects is significantly greater than its stated contractual governance rights and all of these projects have reversionary interest provisions that provide the noncontrolling interest holder with a purchase option, certain of which are considered bargain purchase prices, which, if exercised, transfers ownership of the projects to the noncontrolling interest holder upon either the passage of time or the achievement of targeted financial returns. The ownership agreements with the noncontrolling interests state that Generation or the Renewable JV are to provide financial support to the projects in proportion to its current 99% economic interests in the projects. Generation provides operating and capital funding to the wind project entities for ongoing construction, operations and maintenance and there is limited recourse to Generation related to certain wind project entities. However, no additional support to these projects beyond what was contractually required has been provided during 2017. Generation is the primary beneficiary of these wind entities because Generation controls the design, construction, and operation of the facilities.

In December 2016, Generation sold 100% of the Class B Membership Interests to a tax equity investor and retained 100% of the Class A Membership Interests of its equity interest in one of its wind

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entities that was previously consolidated under the voting interest model. The wind entity meets the definition of a VIE because the company has a similar structure to a limited partnership and the limited partners do not have kick-out rights with respect to the general partner. While Generation is the minority interest holder, Generation is the primary beneficiary, because Generation manages the day-to-day activities of the entity. Therefore, the entity continues to be consolidated by Generation.

The renewable energy project companies VIE group was previously separated into two VIE groups for solar project limited liability companies and wind project companies as of December 31, 2016.

Retail Power and Gas Companies

In March 2014, Generation began consolidating retail power and gas VIEs for which Generation is the primary beneficiary as a result of energy supply contracts that give Generation the power to direct the activities that most significantly affect the economic performance of the entities. Generation does not have an equity ownership interest in these entities, but provides approximately $30 million in credit support for the retail power and gas companies for which Generation is the sole supplier of energy. These entities are included in Generation's consolidated financial statements, and the consolidation of the VIEs do not have a material impact on Generation's financial results or financial condition.

CENG

CENG is a joint venture between Generation and EDF. On April 1, 2014, Generation, CENG, and subsidiaries of CENG executed the Nuclear Operating Services Agreement (NOSA) pursuant to which Generation now conducts all activities associated with the operations of the CENG fleet and provides corporate and administrative services to CENG and the CENG fleet for the remaining life of the CENG nuclear plants as if they were a part of the Generation nuclear fleet, subject to the CENG member rights of EDF. As a result of executing the NOSA, CENG qualifies as a VIE due to the disproportionate relationship between Generation's 50.01% equity ownership interest and its role in conducting the operational activities of CENG and the CENG fleet conveyed through the NOSA. Further, since Generation is conducting the operational activities of CENG and the CENG fleet, Generation qualifies as the primary beneficiary of CENG and, therefore, is required to consolidate the results of operations and financial position of CENG.

Exelon and Generation, where indicated, provide the following support to CENG (see Note 26 — Related Party Transactions for additional information regarding Generation's and Exelon's transactions with CENG):

- under power purchase agreements with CENG, Generation purchased or will purchase 50.01% of the available output generated by the CENG nuclear plants not subject to other contractual agreements from January 2015 through the end of the operating life of each respective plant. However, pursuant to amendments dated March 31, 2015, the energy obligations under the Ginna Nuclear Power Plant (Ginna) PPAs were suspended during the term of the Reliability Support Services Agreement (RSSA), through the end of March 31, 2017. With the expiration of the RSSA, the PPA was reinstated beginning April 1, 2017. (see Note 3 — Regulatory Matters for additional details),
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Generation provided a $400 million loan to CENG. As of December 31, 2017, the remaining obligation is $333 million, including accrued interest, which reflects the principal payment made in January 2015,

- Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their

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operations. Exelon guarantees Generation's obligations under this Indemnity Agreement. (See Note 23 — Commitments and Contingencies for more details),

- Generation and EDF share in the $637 million of contingent payment obligations for the payment of contingent retrospective premium adjustments for the nuclear liability insurance, and
- Exelon has executed an agreement to provide up to $245 million to support the operations of CENG as well as a $165 million guarantee of CENG's cash pooling agreement with its subsidiaries.

As of December 31, 2016, Exelon and Generation had the following consolidated VIEs that are no longer VIEs as of December 31, 2017:

Retail Gas Group

During 2009, Constellation formed a retail gas group to enter into a collateralized gas supply agreement with a third-party gas supplier. The retail gas group was determined to be a VIE because there was not sufficient equity to fund the group's activities without additional credit support and a $75 million parental guarantee provided by Generation. As the primary beneficiary, Generation consolidated the retail gas group. During the second quarter of 2017, the collateral structure was terminated with the third-party gas supplier except for the $75 million parental guarantee provided by Generation. Although the parental guarantee remains, this is considered customary and reasonable for the unsecured position Generation has with the third-party gas supplier. As a result of the termination, the retail gas group no longer met the definition of a VIE. However, the retail gas group continues to be consolidated by Generation under the voting interest model.

Other Generating Facilities

Prior to 2017, Generation owned 90% of a biomass fueled, combined heat and power company. In the second quarter of 2015, the entity was deemed to be a VIE because the entity required additional subordinated financial support in the form of a parental guarantee provided by Generation for up to $275 million in support of the payment obligations related to the Engineering, Procurement and Construction contract for the facility in support of one of its other generating facilities. During the third quarter of 2017, the ownership of the entity increased to 99%, all payment obligations related to the EPC contract were satisfied, and the parental guarantee provided by Generation was terminated. As a result, the entity is now sufficiently capitalized and no longer meets the definition of a VIE. However, the biomass facility continues to be consolidated by Generation under the voting interest model.

As of December 31, 2017 and 2016, Exelon's and ACE's consolidated VIE consists of:

ACE Transition Funding

A special purpose entity formed by ACE for the purpose of securitizing authorized portions of ACE's recoverable stranded costs through the issuance and sale of transition bonds. Proceeds from the sale of each series of transition bonds by ATF were transferred to ACE in exchange for the transfer by ACE to ATF of the right to collect a non-bypassable Transition Bond Charge from ACE customers pursuant to bondable stranded costs rate orders issued by the NJBPU in an amount sufficient to fund the principal and interest payments on transition bonds and related taxes, expenses and fees. During the three years ended December 31, 2017, 2016 and 2015, ACE transferred $48 million, $60 million and $61 million to ATF, respectively.

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As of December 31, 2016, Exelon and BGE had the following consolidated VIE that is no longer a VIE as of December 31, 2017:

RSB BondCo LLC.

In 2007, BGE formed RSB BondCo LLC (BondCo), a special purpose bankruptcy remote limited liability company, to acquire and hold rate stabilization property and to issue and service bonds secured by the rate stabilization property. In June 2007, BondCo purchased rate stabilization property from BGE, including the right to assess, collect, and receive non-bypassable rate stabilization charges payable by all residential electric customers of BGE. These charges were assessed in order to recover previously incurred power purchase costs that BGE deferred pursuant to Senate Bill 1. In the second quarter of 2017 the rate stabilization bonds were fully redeemed and BGE remitted its final payment to BondCo. Upon redemption of the bonds, BondCo no longer meets the definition of a variable interest entity.

BondCo's assets were restricted and could only be used to settle the obligations of BondCo. Further, BGE was required to remit all payments it received from customers for rate stabilization charges to BondCo. During 2017, 2016 and 2015, BGE remitted $22 million, $86 million and $86 million, respectively, to BondCo.

For each of the consolidated VIEs noted above, except as otherwise noted:

- the assets of the VIEs are restricted and can only be used to settle obligations of the respective VIE;
- Exelon, Generation, BGE, PHI and ACE did not provide any additional material financial support to the VIEs;
- Exelon, Generation, BGE, PHI and ACE did not have any material contractual commitments or obligations to provide financial support to the VIEs; and
- the creditors of the VIEs did not have recourse to Exelon's, Generation's, BGE's, PHI's or ACE's general credit.

As of December 31, 2017 and 2016, ComEd, PECO, Pepco and DPL do not have any material consolidated VIEs.

Combined Notes to Consolidated Financial Statements - (Continued)
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Assets and Liabilities of Consolidated VIEs

Included within the balances above are assets and liabilities of certain consolidated VIEs for which the assets can only be used to settle obligations of those VIEs, and liabilities that creditors, or beneficiaries, do not have recourse to the general credit of the Registrants. As of December 31, 2017 and 2016, these assets and liabilities primarily consisted of the following:

	December 31, 2017			
			Successor	
	Exelon[a]	Generation	PHI[a]	ACE
Cash and cash equivalents	$ 126	$ 126	$ —	$ —
Restricted cash	64	58	6	6
Accounts receivable, net				
Customer	138	138	—	—
Other	25	25	—	—
Inventory				
Materials and supplies	205	205	—	—
Other current assets	45	41	4	—
Total current assets	603	593	10	6
Property, plant and equipment, net	6,186	6,186	—	—
Nuclear decommissioning trust funds	2,502	2,502	—	—
Other noncurrent assets	274	243	31	23
Total noncurrent assets	8,962	8,931	31	23
Total assets	$ 9,565	$ 9,524	$ 41	$ 29
Long-term debt due within one year	$ 102	$ 67	$ 35	$ 31
Accounts payable	114	114	—	—
Accrued expenses	65	64	1	1
Unamortized energy contract liabilities	18	18	—	—
Other current liabilities	7	7	—	—
Total current liabilities	306	270	36	32
Long-term debt	1,154	1,088	66	58
Asset retirement obligations	2,035	2,035	—	—
Unamortized energy contract liabilities	5	5	—	—
Other noncurrent liabilities	112	112	—	—
Noncurrent liabilities	3,306	3,240	66	58
Total liabilities	$ 3,612	$ 3,510	$ 102	$ 90

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	December 31, 2016				
				Successor	
	Exelon[(a)(b)]	Generation	BGE	PHI[(a)]	ACE
Cash and cash equivalents	$ 150	$ 150	$ —	$ —	$ —
Restricted cash	59	27	23	9	9
Accounts receivable, net					
Customer	371	371	—	—	—
Other	48	48	—	—	—
Mark-to-market derivative assets	31	31	—	—	—
Inventory					
Materials and supplies	199	199	—	—	—
Other current assets	50	44	—	5	—
Total current assets	908	870	23	14	9
Property, plant and equipment, net	5,415	5,415	—	—	—
Nuclear decommissioning trust funds	2,185	2,185	—	—	—
Goodwill	47	47	—	—	—
Mark-to-market derivative assets	23	23	—	—	—
Other noncurrent assets	315	277	3	35	23
Total noncurrent assets	7,985	7,947	3	35	23
Total assets	$ 8,893	$ 8,817	$ 26	$ 49	$ 32
Long-term debt due within one year	$ 181	$ 99	$ 41	$ 40	$ 35
Accounts payable	269	269	—	—	—
Accrued expenses	119	116	1	2	2
Mark-to-market derivative liabilities	60	60	—	—	—
Unamortized energy contract liabilities	15	15	—	—	—
Other current liabilities	30	30	—	—	—
Total current liabilities	674	589	42	42	37
Long-term debt	641	540	—	101	89
Asset retirement obligations	1,904	1,904	—	—	—
Pension obligation(c)	9	9	—	—	—
Unamortized energy contract liabilities	22	22	—	—	—
Other noncurrent liabilities	106	106	—	—	—
Noncurrent liabilities	2,682	2,581	—	101	89
Total liabilities	$ 3,356	$ 3,170	$ 42	$ 143	$ 126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.
(c) Includes the CNEG retail gas pension obligation, which is presented as a net asset balance within the Prepaid pension asset line item on Generation’s balance sheet. See Note 16 - Retirement Benefits for additional details.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Unconsolidated Variable Interest Entities

Exelon's and Generation's variable interests in unconsolidated VIEs generally include equity investments and energy purchase and sale contracts. For the equity investments, the carrying amount of the investments is reflected on Exelon's and Generation's Consolidated Balance Sheets in Investments. For the energy purchase and sale contracts (commercial agreements), the carrying amount of assets and liabilities in Exelon's and Generation's Consolidated Balance Sheets that relate to their involvement with the VIEs are predominately related to working capital accounts and generally represent the amounts owed by, or owed to, Exelon and Generation for the deliveries associated with the current billing cycles under the commercial agreements. Further, Exelon and Generation have not provided material debt or equity support, liquidity arrangements or performance guarantees associated with these commercial agreements.

As of December 31, 2017 and 2016, Exelon and Generation had significant unconsolidated variable interests in seven and eight VIEs, respectively, for which Exelon or Generation, as applicable, was not the primary beneficiary. These interests include certain equity method investments and certain commercial agreements. Exelon and Generation only include unconsolidated VIEs that are individually material in the tables below. However, Generation has several individually immaterial VIEs that in aggregate represent a total investment of $8 million. These immaterial VIEs are equity and debt securities in energy development companies. The maximum exposure to loss related to these securities is limited to the $8 million included in Investments on Exelon's and Generation's Consolidated Balance Sheets.

The following tables present summary information about Exelon and Generation's significant unconsolidated VIE entities:

December 31, 2017	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[(a)]	$ 625	$ 509	$ 1,134
Total liabilities[(a)]	37	228	265
Exelon's ownership interest in VIE[(a)]	—	251	251
Other ownership interests in VIE[(a)]	588	30	618
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	251	251
Contract intangible asset	8	—	8
Debt and payment guarantees	—	—	—
Net assets pledged for Zion Station decommissioning[(b)]	2	—	2

Combined Notes to Consolidated Financial Statements - (Continued)
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December 31, 2016	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[(a)]	$ 638	$ 567	$ 1,205
Total liabilities[(a)]	215	287	502
Exelon's ownership interest in VIE[(a)]	—	248	248
Other ownership interests in VIE[(a)]	423	32	455
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	264	264
Contract intangible asset	9	—	9
Debt and payment guarantees	—	3	3
Net assets pledged for Zion Station decommissioning[(b)]	9	—	9

(a) These items represent amounts on the unconsolidated VIE balance sheets, not on Exelon's or Generation's Consolidated Balance Sheets. These items are included to provide information regarding the relative size of the unconsolidated VIEs.

(b) These items represent amounts on Exelon's and Generation's Consolidated Balance Sheets related to the asset sale agreement with ZionSolutions, LLC. The net assets pledged for Zion Station decommissioning includes gross pledged assets of $39 million and $113 million as of December 31, 2017 and December 31, 2016, respectively; offset by payables to ZionSolutions LLC of $37 million and $104 million as of December 31, 2017 and December 31, 2016, respectively. These items are included to provide information regarding the relative size of the ZionSolutions LLC unconsolidated VIE.

For each unconsolidated VIE, Exelon and Generation assessed the risk of a loss equal to their maximum exposure to be remote and accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss. In addition, there are no agreements with, or commitments by, third parties that would materially affect the fair value or risk of their variable interests in these variable interest entities.

As of December 31, 2017, Exelon's and Generation's unconsolidated VIEs consist of:

Energy Purchase and Sale Agreements

Generation has several energy purchase and sale agreements with generating facilities. Generation has evaluated the significant agreements, ownership structures and risks of each entity, and determined that certain of the entities are VIEs because the entity absorbs risk through the sale of fixed price power and renewable energy credits. Generation has reviewed the entities and has determined that Generation is not the primary beneficiary of the VIEs because Generation does not have the power to direct the activities that most significantly impact the VIEs economic performance.

ZionSolutions

Generation has an asset sale agreement with EnergySolutions, Inc. and certain of its subsidiaries, including ZionSolutions, LLC (ZionSolutions), which is further discussed in Note 15 — Asset Retirement Obligations. Under this agreement, ZionSolutions can put the assets and liabilities back to Generation when decommissioning activities under the asset sale agreement are complete. Generation has evaluated this agreement and determined that, through the put option, it has a variable interest in ZionSolutions but is not the primary beneficiary. As a result, Generation has concluded that consolidation is not required. Other than the asset sale agreement, Exelon and Generation do not have any contractual or other obligations to provide additional financial support and ZionSolutions' creditors do not have any recourse to Exelon's or Generation's general credit.

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Investment in Distributed Energy Companies

In July 2014, Generation entered into an arrangement to purchase a 90% equity interest and 90% of the tax attributes of a distributed energy company. Generation contributed a total $85 million of equity. The distributed energy company meets the definition of a VIE because the company has a similar structure to a limited partnership and the limited partners do not have kick-out rights of the general partner. Generation is not the primary beneficiary; therefore, the investment continues to be recorded using the equity method.

During 2015, a company that is consolidated by Generation as a VIE entered into an arrangement to purchase a 90% equity interest and 99% of the tax attributes of another distributed energy company (see additional details in the Consolidated Variable Interest Entities section above). The equity holders (of which Generation is one) contributed to the distributed energy company a total of $227 million of equity in proportion to their ownership interests. The equity holders provided a parental guarantee of up to $275 million in support of equity contributions to the distributed energy company. As all equity contributions were made as of the first quarter of 2017, there is no further payment obligation under the parental guarantee. The distributed energy company meets the definition of a VIE because the company has a similar structure to a limited partnership and the limited partners do not have kick-out rights of the general partner. Generation is not the primary beneficiary; therefore, the investment is recorded using the equity method.

Both distributed energy companies from the 2015 and 2014 arrangements are considered related parties to Generation.

As of December 31, 2016, Exelon and Generation had the following unconsolidated VIE that is no longer a VIE as of December 31, 2017:

Investment in Energy Generating Facility

As of December 31, 2016, Generation had an equity investment in an energy generating facility. The entity was a VIE because Generation guaranteed the debt of the entity, provided equity support, and provided operating services to the entity. Generation was not the primary beneficiary of the entity because Generation did not have the power to direct the activities that most significantly impacted the VIE's economic performance. During 2017, Generation sold its equity investment in the entity; therefore, the entity is no longer a VIE as of December 31, 2017.

ComEd, PECO and BGE

The financing trust of ComEd, ComEd Financing III, and the financing trusts of PECO, PECO Trust III and PECO Trust IV, are not consolidated in Exelon's, ComEd's, or PECO's financial statements. These financing trusts were created to issue mandatorily redeemable trust preferred securities. ComEd and PECO have concluded that they do not have a significant variable interest in ComEd Financing III, PECO Trust III, or PECO Trust IV as each Registrant financed its equity interest in the financing trusts through the issuance of subordinated debt and, therefore, has no equity at risk.

The financing trust of BGE, BGE Capital Trust II, was created for the purpose of issuing mandatorily redeemable trust preferred securities. In the third quarter of 2017, BGE redeemed the securities pursuant to the optional redemption provisions of the Indenture, under which the subordinated debt securities were issued, and dissolved BGE Capital Trust II. Prior to dissolution, the BGE Capital Trust II was not consolidated in Exelon's or BGE's financial statements. BGE concluded it did not have a significant variable interest in BGE Capital Trust II as BGE financed its equity interest in the financing trust through the issuance of subordinated debt and, therefore, had no equity at risk. See Note 13 — Debt and Credit Agreements for additional information.

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3. Regulatory Matters (All Registrants)

The following matters below discuss the status of material regulatory and legislative proceedings of the Registrants.

Illinois Regulatory Matters

Tax Cuts and Jobs Act (Exelon and ComEd). On January 18, 2018, the ICC approved ComEd's petition filed on January 5, 2018 seeking approval to pass back to customers beginning February 1, 2018 $201 million in tax savings resulting from the enactment of the TCJA through a reduction in electric distribution rates. The amounts being passed back to customers reflect the benefit of lower income tax rates beginning January 1, 2018 and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. Refer to Note 14 - Income Taxes for more detail on Corporate Tax Reform.

Electric Distribution Formula Rate (Exelon and ComEd). ComEd's electric distribution rates are established through a performance-based formula rate. ComEd is required to file an annual update to the performance-based formula rate on or before May 1, with resulting rates effective in January of the following year. This annual electric distribution formula rate update is based on prior year actual costs and current year projected capital additions (initial revenue requirement). The update also reconciles any differences between the revenue requirement in effect for the prior year and actual costs incurred for that year (annual reconciliation). Throughout each year, ComEd records regulatory assets or regulatory liabilities and corresponding increases or decreases to Operating revenues for any differences between the revenue requirement in effect and ComEd's best estimate of the revenue requirement expected to be approved by the ICC for that year's reconciliation. The regulatory asset associated with electric distribution formula rate is amortized to Operating revenues in ComEd's Consolidated Statement of Operations and Comprehensive Income as the associated amounts are recovered through rates. Changes to the distribution formula rate as a result of FEJA are discussed below.

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For each of the following years, the ICC approved the following total increases/(decreases) in ComEd's electric distributions formula rate filings:

Annual Electric Distribution Filings	**2017**	**2016**	**2015**
ComEd's requested total revenue requirement increase (decrease)	$ 96	$ 138	$ (50)
Final ICC Order			
Initial revenue requirement increase	$ 78	$ 134	$ 85
Annual reconciliation increase (decrease)	18	(7)	(152)
Total revenue requirement increase (decrease)	$ 96	$ 127 [a]	$ (67)
Allowed Return on Rate Base:			
Initial revenue requirement	6.47%	6.71%	7.05%
Annual reconciliation	6.45%	6.69%	7.02%
Allowed ROE:			
Initial revenue requirement	8.40%	8.64%	9.14%
Annual reconciliation	8.34% [b]	8.59% [b]	9.09% [b]
Effective date of rates	January 2018	January 2017	January 2016

(a) On March 22, 2017, the ICC issued an order approving ComEd's proposal to reduce the 2016 revenue requirement by $18 million, which was reflected in customer rates beginning in April 2017. This reduction is not reflected in the 2016 revenue requirement amounts above.
(b) Includes a reduction of 6 basis points in 2017 and 5 basis points in 2016 and 2015 for a reliability performance metric penalty.

Illinois Future Energy Jobs Act (Exelon, Generation and ComEd)

Background

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA went into effect on June 1, 2017, and includes, among other provisions, (1) a ZES providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute to (i) mandate net metering for community generation projects, and establish billing procedures for subscribers to those projects, (ii) provide immediately for netting at the energy-only rate for nonresidential customers, and (iii) transition from netting at the full retail rate to the energy-only rate for certain residential net metering customers once the net meter customer load equals 5% of total peak demand supplied in the previous year and (7) support for low income rooftop and community solar programs.

Zero Emission Standard

FEJA includes a ZES that provides compensation through the procurement of ZECs targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet specific eligibility criteria.

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On September 11, 2017, the ICC approved the IPA's ZES Procurement Plan filed with the ICC on July 31, 2017. Bidders interested in participating in the procurement process had 14 days following the ICC's approval of the plan to submit the required eligibility information and become qualified bidders. Generation's Clinton and Quad Cities nuclear plants timely submitted the required eligibility information to the ICC and responded to follow up questions. Winning bidders will contract directly with Illinois utilities, including ComEd, for 10-year terms extending through May 31, 2027. The ZEC price will be based upon the current social cost of carbon as determined by the Federal government and is initially established at $16.50 per MWh of production, subject to annual future adjustments determined by the IPA for specified escalation and pricing adjustment mechanisms designed to lower the ZEC price based on increases in underlying energy and capacity prices. Illinois utilities will be required to purchase all ZECs delivered by the zero-emissions nuclear-powered generating facilities, subject to annual cost caps. For the initial delivery year, June 1, 2017 to May 31, 2018, the ZEC annual cost cap is set at $235 million (ComEd's share is approximately $170 million). For subsequent delivery years, the IPA-approved targeted ZEC procurement amounts will change based on forward energy and capacity prices. ZECs delivered to Illinois utilities in excess of the annual cost cap will be paid in subsequent years if the payments do not exceed the prescribed annual cost cap for that year.

ComEd recovers all costs associated with purchasing ZECs through a rate rider that provides for an annual reconciliation and true-up to actual costs incurred by ComEd to purchase ZECs, with any difference to be credited to or collected from ComEd's retail customers in subsequent periods with interest. ComEd began billing its retail customers under its new ZEC rate rider on June 1, 2017.

On February 14, 2017, two lawsuits were filed in the Northern District of Illinois against the IPA alleging that the state's ZEC program violates certain provisions of the U.S. Constitution. One lawsuit was filed by customers of ComEd, led by the Village of Old Mill Creek, and the other was brought by the EPSA and three other electric suppliers. Both lawsuits argue that the Illinois ZEC program will distort PJM's FERC-approved energy and capacity market auction system of setting wholesale prices, and seek a permanent injunction preventing the implementation of the program. Exelon intervened and filed motions to dismiss in both lawsuits. In addition, on March 31, 2017, plaintiffs in both lawsuits filed motions for preliminary injunction with the court; the court stayed briefing on the motions for preliminary injunction until the resolution of the motions to dismiss. On July 14, 2017, the district court granted the motions to dismiss. On July 17, 2017, the plaintiffs appealed the decision to the Seventh Circuit. Briefs were fully submitted on December 12, 2017, the Court heard oral argument on January 3, 2018. At the argument, the Court asked for supplemental briefing, which was filed on January 26, 2018. Exelon cannot predict the outcome of these lawsuits. It is possible that resolution of these matters could have a material, unfavorable impact on Exelon's and Generation's results of operations, cash flows and financial positions.

See Note 8 — Early Nuclear Plant Retirements for additional information regarding the economic challenges facing Generation's Clinton and Quad Cities nuclear plants and the expected benefits of the ZES.

ComEd Electric Distribution Rates

FEJA extended the sunset date for ComEd's performance-based electric distribution formula rate from 2019 to the end of 2022, allowed ComEd to revise the electric distribution formula rate to eliminate the ROE collar, and allowed ComEd to implement a decoupling tariff if the electric distribution formula rate is terminated at any time. ComEd revised its electric distribution formula rate to eliminate the ROE collar, which eliminates any unfavorable or favorable impacts of weather or load from ComEd's electric distribution formula rate revenues beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to ComEd’s electric distribution formula rate revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began reflecting the impacts of this change in its electric distribution services costs regulatory asset in the first quarter

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2017. As of December 31, 2017, ComEd recorded an increase to its electric distribution services costs regulatory asset of approximately $32 million for this change.

FEJA requires ComEd to make non-recoverable contributions to low income energy assistance programs of $10 million per year for 5 years as long as the electric distribution formula rate remains in effect. With the exception of these contributions, ComEd will recover from customers, subject to certain caps explained below, the costs it incurs pursuant to FEJA either through its electric distribution formula rate or other recovery mechanisms.

Energy Efficiency

Prior to FEJA, Illinois law required ComEd to implement cost-effective energy efficiency measures and, for a 10-year period ending May 31, 2018, cost-effective demand response measures to reduce peak demand by 0.1% over the prior year for eligible retail customers.

Beginning January 1, 2018, FEJA provides for new cumulative annual energy efficiency MWh savings goals for ComEd, which are designed to achieve 21.5% of cumulative persisting annual MWh savings by 2030, as compared to the deemed baseline of 88 million MWhs of electric power and energy sales. FEJA deems the cumulative persisting annual MWh savings to be 6.6% from 2012 through the end of 2017. ComEd expects to spend approximately $350 million to $400 million annually through 2030 to achieve these energy efficiency MWh savings goals. In addition, FEJA extends the peak demand reduction requirement from 2018 to 2026. Because the new requirements apply beginning in 2018, FEJA extends the existing energy efficiency plans, which were due to end on May 31, 2017, through December 31, 2017. FEJA also exempts customers with demands over 10 MW from energy efficiency plans and requirements beginning June 1, 2017. On September 11, 2017, the ICC approved ComEd’s 2018-2021 energy efficiency plan with minor modifications filed by ComEd with the ICC on June 30, 2017.

As allowed by FEJA, ComEd cancelled its existing energy efficiency rate rider effective June 2, 2017. On August 1, 2017, ComEd filed with the ICC a reconciliation of revenues and costs incurred through the cancellation date. On August 30, 2017, the ICC approved ComEd’s request, filed on August 1, 2017, to issue an $80 million credit on retail customers’ bills in October 2017 for the majority of the over-recoveries with any final adjustment applicable to the over-recoveries to be billed or credited in the future. As of December 31, 2017, ComEd’s over-recoveries associated with its former energy efficiency rate rider were $4 million and are expected to be refunded to customers in future rates.

FEJA allows ComEd to defer energy efficiency costs (except for any voltage optimization costs which are recovered through the electric distribution formula rate) as a separate regulatory asset that is recovered through the energy efficiency formula rate over the weighted average useful life, as approved by the ICC, of the related energy efficiency measures. ComEd earns a return on the energy efficiency regulatory asset at a rate equal to its weighted average cost of capital, which is based on a year-end capital structure and calculated using the same methodology applicable to ComEd’s electric distribution formula rate. Beginning January 1, 2018 through December 31, 2030, the return on equity that ComEd earns on its energy efficiency regulatory asset is subject to a maximum downward or upward adjustment of 200 basis points if ComEd’s cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. ComEd is required to file an update to its energy efficiency formula rate on or before June 1 each year, with resulting rates effective in January of the following year. The annual update will be based on projected current year energy efficiency costs, PJM capacity revenues, and the projected year-end regulatory asset balance less any related deferred income taxes. The update will also include a reconciliation of any differences between the revenue requirement in effect for the prior year and the revenue requirement based on actual prior year costs and actual year-end energy efficiency regulatory asset balances less any related deferred income taxes. ComEd records a regulatory asset or liability and corresponding increase or decrease to

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Operating revenues for any differences between the revenue requirement in effect and ComEd's best estimate of the revenue requirement expected to be approved by the ICC for that year's reconciliation.

On August 15, 2017, the ICC approved ComEd's new initial energy efficiency formula rate filed pursuant to FEJA. The order establishes the formula under which energy efficiency rates will be calculated going forward and the revenue requirement used to set the initial rates for the period October 1, 2017 through December 31, 2017. The initial revenue requirement is based on projected costs and projected PJM capacity revenues for the period from June 1, 2017 through December 31, 2017, and projected year-end 2017 energy efficiency regulatory asset balances (less related deferred income taxes). The approved energy efficiency formula rate also provides for revenue decoupling to effectively offset the favorable or unfavorable impacts to ComEd's energy efficiency formula rate revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer.

On September 11, 2017, the ICC approved ComEd's annual energy efficiency formula rate. The order establishes the revenue requirement used to set rates that will take effect in January 2018. The revenue requirement for 2018 is based on projected 2018 energy efficiency costs and PJM capacity revenues, and year-end 2018 energy efficiency regulatory asset balances (less related deferred income taxes).

For each of the following years, the ICC approved the following total increases/(decreases) in ComEd's requested energy efficiency revenue requirement:

Annual Energy Efficiency Filings	Initial	2017
ComEd's requested total revenue requirement (decrease) increase	$ (7) [(a)]	$ 12
Allowed Return on Rate Base:		
Initial revenue requirement	6.47%	6.47%
Allowed ROE:		
Initial revenue requirement	8.40%	8.40%
Effective date of rates [(b)]	October 2017	January 2018

(a) Reflects higher projected PJM capacity revenues compared to projected energy efficiency costs.
(b) An ICC order on the annual reconciliation of any differences between the revenue requirement in effect and the revenue requirement based on actual costs for 2017 and 2018 is expected in December 2018 and December 2019, respectively.

Renewable Portfolio Standard

Existing Illinois law requires ComEd to purchase each year an increasing percentage of renewable energy resources for the customers for which it supplies electricity. This obligation is satisfied through the procurement of RECs. FEJA revises the Illinois RPS to require ComEd to procure RECs for all retail customers by June 2019, regardless of the customers' electricity supplier, and provides support for low-income rooftop and community solar programs, which will be funded by the existing Renewable Energy Resources Fund and ongoing RPS collections. FEJA also requires ComEd to use RPS collections to fund utility job training and workforce development programs in the amounts of $10 million in each of the years 2017, 2021, and 2025. ComEd recorded a $20 million noncurrent liability as of December 31, 2017 associated with this obligation. ComEd will recover all costs associated with purchasing RECs and funding utility job training and workforce development programs through a new RPS rate rider that provides for a reconciliation and true-up to actual costs, with any difference between revenues and expenses to be credited to or collected from ComEd’s retail customers in subsequent periods with

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interest. The first reconciliation and true-up for RECs will occur in 2021 and cover revenues and costs for the four-year period beginning June 1, 2017 through May 31, 2021. Subsequently, the RPS rate rider will provide for an annual reconciliation and true-up. ComEd began billing its retail customers under its new RPS rate rider on June 1, 2017 and recorded a related regulatory liability of $21 million as of December 31, 2017. ComEd also recorded a regulatory liability of $41 million for alternative compliance payments received from RES to purchase RECs on behalf of the RES in the future.

As of December 31, 2017, ComEd had received $62 million of over-recovered RPS costs and alternative compliance payments from RES, which are deposited into a separate interest-bearing bank account pursuant to FEJA. The current portion is classified as Restricted cash and the non-current portion is classified as other deferred debits on Exelon’s and ComEd’s Balance Sheets.

Customer Rate Increase Limitations

FEJA includes provisions intended to limit the average impact on ComEd customer rates for recovery of costs incurred under FEJA as follows: (1) for a typical ComEd residential customer, the average impact must be less than $0.25 cents per month, (2) for nonresidential customers with a peak demand less than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois commercial retail customers during 2015, and (3) for nonresidential customers with a peak demand greater than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois industrial retail customers during 2015.

On June 30, 2017, ComEd submitted a 10-year projection to the ICC of customer rate impacts for residential customers and nonresidential customers with a peak demand less than 10 MW. Such projections indicate that customer rate impacts will not exceed the limitations set by FEJA discussed below. Thereafter, beginning in 2018, ComEd must submit a report to the ICC for residential customers and nonresidential customers with a peak demand less than 10 MW by February 15th and June 30th of each year, respectively. For nonresidential customers with a peak demand greater than 10 MW, ComEd must submit a report to the ICC by May 1 of each year if a rate reduction will be necessary in the following year. For residential customers, the reports will include the actual costs incurred under FEJA during the preceding year and a rolling 10-year customer rate impact projection. The reports for nonresidential customers with a peak demand less than 10 MW will also include the actual costs incurred under FEJA during the preceding year, as well as the average annual rate increase from January 1, 2017 through the end of the preceding year and the average annual rate increase projected for the remainder of the 10-year period.

If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the first four years, ComEd is required to decrease costs associated with FEJA investments, including reductions to ZEC contract quantities. If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the last six years, ComEd is required to demonstrate how it will reduce FEJA investments to ensure compliance. If the actual residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations for any one year, ComEd is required to submit a corrective action plan to decrease future year costs to reduce customer rates to ensure future compliance. If the actual residential customer or nonresidential customer rate exceeds the limitations for two consecutive years, ComEd can offer to credit customers for amounts billed in excess of the limitations or ComEd can terminate FEJA investments. If ComEd chooses to terminate FEJA investments, the ICC shall order termination of ZEC contracts and further initiate proceedings to reduce energy efficiency savings goals and terminate support for low-income rooftop and community solar programs. ComEd is allowed to fully recover all costs incurred as of and up to the date of the programs’ termination.

Renewable Energy Resources (Exelon and ComEd). In accordance with FEJA, beginning with the plan or plans to be implemented in the 2017 delivery year, the IPA filed its long term renewable

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resource procurement plan (LT Plan) with the ICC on December 4, 2017. The LT Plan requires a certain percentage of electricity sales be met with a climbing percentage of REC procurement. The 2017 delivery year requirement was 13%, with the obligation increasing by at least 1.5% each year thereafter to at least 25% by the 2025 delivery year; and continuing at no less than 25% for each delivery year thereafter.

Each RES and each Illinois utility, which includes ComEd, is responsible for the renewable resource obligation for the customers to which it supplies power. Over time, this will change and ComEd will procure renewable resources based on the retail load of substantially all customers in its service territory. For the delivery year beginning June 1, 2017, the LT Plan shall include cost effective renewable energy resources procured by ComEd for the retail load it supplies and for 50% of the retail customer load supplied by RES in ComEd's service territory on February 28, 2017. ComEd's procurement for RES supplied retail customer load will increase to 75% June 1, 2018 and to 100% beginning June 1, 2019. All goals are subject to rate impact criteria set forth by Illinois legislation. As of December 31, 2017, ComEd had purchased renewable energy resources or equivalents, such as RECs, in accordance with the IPA Plan. ComEd currently retires all RECs upon transfer and acceptance. ComEd is permitted to recover procurement costs of RECs from retail customers without mark-up through rates.

Pennsylvania Regulatory Matters

Tax Cuts and Jobs Act (Exelon and PECO). PECO is working with the PAPUC and stakeholders on behalf of its distribution customers to determine the proper regulatory mechanisms and timing to reflect the tax benefits from the TCJA.

2015 Pennsylvania Electric Distribution Rate Case (Exelon and PECO). On March 27, 2015, PECO filed a petition with the PAPUC requesting an increase of $190 million to its annual service revenues for electric delivery, which requested an ROE of 10.95%. On September 10, 2015, PECO and interested parties filed with the PAPUC a petition for joint settlement for an increase of $127 million in annual distribution service revenue. No overall ROE was specified in the settlement. On December 17, 2015, the PAPUC approved the settlement of PECO's electric distribution rate case, which included the approval of the In-Program Arrearage Forgiveness ("IPAF") Program. The approved electric delivery rates became effective on January 1, 2016.

The IPAF Program provides for forgiveness of a portion of the eligible arrearage balance of its low-income Customer Assistance Program (CAP) accounts receivable at program inception. The forgiveness will be granted to the extent CAP customers remain current over the duration of the five-year payment agreement term. The Settlement guarantees PECO's recovery of two-thirds of the arrearage balance through a combination of customer payments and rate recovery, including through future rates cases if necessary. The remaining one-third of the arrearage balance has been absorbed by PECO through bad debt expense on its Consolidated Statements of Operations. In October 2016, the IPAF was fully implemented. PECO recorded a regulatory asset representing previously incurred bad debt expense associated with the eligible accounts receivable balances, which is included in the Regulatory assets table below.

Maryland Regulatory Matters

Tax Cuts and Jobs Act (Exelon, BGE, PHI, Pepco and DPL). On January 12, 2018, the MDPSC issued an order that directed each of BGE, Pepco and DPL to track the impacts of the TCJA beginning January 1, 2018 and file by February 15, 2018 how and when they expect to pass through such impacts to their customers.

On January 31, 2018, the MDPSC approved BGE’s petition to pass back to customers beginning February 1, 2018 $103 million in tax savings resulting from the enactment of the TCJA through a reduction in distribution rates, of which $72 million and $31 million were related to electric and natural gas, respectively. On February 5, 2018, Pepco filed with the MDPSC an update to its current distribution rate case to reflect $31 million in TCJA tax savings. By mid-February 2018, DPL is planning to file with the MDPSC seeking approval to pass back to customers beginning in 2018 $13 million in TCJA tax savings through a reduction in electric distribution rates. The amounts being passed back or proposed to be passed back to customers reflect the annual benefit of lower income tax rates and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. Refer to Note 14 — Income Taxes for more detail on Corporate Tax Reform.

After the filings due by February 15, 2018, it is expected that the MDPSC will address the treatment of the TCJA tax savings tracked by BGE, Pepco and DPL for the period January 1, 2018 through the effective date of their respective $103 million, $31 million and $13 million customer rate adjustments described above.

2018 Maryland Electric Distribution Rates (Exelon, PHI and Pepco). On January 2, 2018, Pepco filed an application with the MDPSC to increase its annual electric distribution base rates by $41 million, reflecting a requested ROE of 10.1%. On February 5, 2018, Pepco filed with the MDPSC an update to its current distribution rate case to reflect $31 million in TCJA tax savings, thereby reducing the requested annual base rate increase to $11 million. Pepco expects a decision in the matter in the third quarter of 2018, but cannot predict how much of the requested increase the MDPSC will approve.

2017 Maryland Electric Distribution Rates (Exelon, PHI and Pepco). On March 24, 2017, Pepco filed an application with the MDPSC to increase its annual electric distribution base rates by $69 million, which was updated to $67 million on August 24, 2017, reflecting a requested ROE of 10.1%. The application included a request for an income tax adjustment to reflect full normalization of removal costs associated with pre-1981 property, which accounted for $18 million of the requested increase. On October 20, 2017, the MDPSC approved an increase in Pepco electric distribution rates of $34 million, reflecting a ROE of 9.5%. On October 27, 2017, the MDPSC issued an errata order revising the approved increase in Pepco electric distribution rates to $32 million. The errata order corrected a number of computational errors in the original order but did not alter any of the findings. The new rates became effective for services rendered on or after October 20, 2017. In its decision, the MDPSC denied Pepco's request regarding the income tax adjustment without prejudice to Pepco filing another similar proposal with additional information. On November 20, 2017, an interested party in the proceeding filed a request for rehearing. On December 4, 2017, Pepco filed its response in opposition to the request for rehearing. Pepco cannot predict the outcome of this matter or when it will be decided.

2016 Maryland Electric Distribution Base Rates (Exelon, PHI and Pepco). On November 15, 2016, the MDPSC approved an increase in electric distribution base rates of $53 million based on a ROE of 9.55%. The new rates became effective for services rendered on or after November 15, 2016. MDPSC also approved Pepco's recovery of substantially all of its capital investment and regulatory assets associated with its AMI program as part of the newly effective rates as well as a recovery over a five-year period of transition costs related to a new billing system implemented in 2015. As a result, during the fourth quarter of 2016, Exelon, PHI and Pepco established a regulatory asset of $13 million, wrote-off $3 million in disallowed AMI costs and recorded a pre-tax credit to net income for $10 million. Additionally, the MDPSC denied Pepco's request to extend its Grid Resiliency Program surcharge for new system reliability and safety improvement projects, with costs for such programs to be recovered going forward through base rates.

2017 Maryland Electric Distribution Rates (Exelon, PHI and DPL). On July 14, 2017, DPL filed an application with the MDPSC to increase its annual electric distribution base rates by $27 million, which was updated to $19 million on November 16, 2017, reflecting a requested ROE of 10.1%. On December 18, 2017, a settlement agreement was filed with the MDPSC wherein DPL will be granted a rate increase of $13 million, and a ROE of 9.5% solely for purposes of calculating AFUDC and regulatory asset carrying costs. On January 5, 2018, the MDPSC held a hearing on the settlement agreement.

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DPL expects a decision in the matter in the first quarter of 2018, but cannot predict whether the MDPSC will approve the settlement agreement as filed or how much of the requested increase will be approved.

2016 Maryland Electric Distribution Base Rates (Exelon, PHI and DPL). On February 15, 2017, the MDPSC approved an increase in DPL electric distribution rates of $38 million reflecting a ROE of 9.6%. The new rates became effective for services rendered on or after February 15, 2017. The MDPSC also denied DPL's request to continue its Grid Resiliency Program, through which DPL proposed to invest $5 million a year for two years to improve priority feeders and install single-phase reclosing fuse technology. The final order did not result in the recognition of any incremental regulatory assets or liabilities.

2015 Maryland Electric and Natural Gas Distribution Base Rates (Exelon and BGE). On November 6, 2015, and as amended through the course of the proceeding, BGE filed for electric and natural gas distribution base rate increases with the MDPSC, ultimately requesting annual increases of $116 million and $78 million, respectively, of which $104 million and $37 million were related to recovery of electric and natural gas smart grid initiative costs, respectively. BGE also proposed to recover an annual increase of approximately $30 million for Baltimore City underground conduit fees through a surcharge.

On June 3, 2016, the MDPSC issued an order in which the MDPSC found compelling evidence to conclude that BGE's smart grid initiative overall was cost beneficial to customers. However, the June 3 order contained several cost disallowances and adjustments, including not allowing BGE to defer or recover through a surcharge the $30 million increase in annual Baltimore City underground conduit fees. On June 30, 2016, BGE filed a petition for rehearing of the June 3 order requesting that the MDPSC modify its order to reverse certain decisions including the decision associated with the Baltimore City underground conduit fees. OPC also subsequently filed for a petition for rehearing of the June 3 order.

On July 29, 2016, the MDPSC issued an order on the petitions for rehearing that reversed certain of its prior cost disallowances and adjustments related to the smart grid initiative. Through the combination of the orders, the MDPSC authorized electric and natural gas rate increases of $44 million and $48 million, respectively, and an allowed ROE for the electric and natural gas distribution businesses of 9.75% and 9.65%, respectively. The new electric and natural gas base rates took effect for service rendered on or after June 4, 2016. However, MDPSC's July 29 order on the petition on rehearing still did not allow BGE to defer or recover through a surcharge the increase in Baltimore City underground conduit fees.

On August 26, 2016, BGE filed an appeal of the MDPSC's orders with the Circuit Court for Baltimore County. On August 29, 2016, the residential consumer advocate also filed an appeal of the MDPSC's order but with the Circuit Court for Baltimore City. On November 15, 2016, Baltimore County Circuit Court issued an order deciding that the cases should be consolidated and should proceed in Baltimore County Circuit Court. However, on January 9, 2017, BGE filed to withdraw its appeal of the MDPSC's orders and on January 10, 2017, the residential consumer advocate filed to withdraw its appeal as well. Refer to the Smart Meter and Smart Grid Investments disclosure below for further details on the impact of the ultimate disallowances contained in the orders to BGE. See Conduit Lease with City of Baltimore in Litigation and Regulatory Matters of Note 23 - Commitments and Contingencies for information about the settlement agreement related to BGE's use of the City-owned underground conduit system.

Cash Working Capital Order (Exelon and BGE). On November 17, 2016, the MDPSC rendered a decision in the proceeding to review BGE's request to recover its cash working capital (CWC) requirement for its Provider of Last Resort service, also known as Standard Offer Service (SOS), as well as other components that make up the Administrative Charge, the mechanism that enables BGE to recover all of its SOS-related costs. The Administrative Charge is now comprised of five components: CWC, uncollectibles, incremental costs, return, and an administrative adjustment, which is an adder to the utility's SOS rate to act as a proxy for retail suppliers' costs. The Commission accepted BGE's

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positions on recovery of CWC and pass-through recovery of BGE's actual uncollectibles and incremental costs. The order also grants BGE a return on the SOS. The Commission ruled that the level of the administrative adjustment will be determined in BGE's next rate case. On December 16, 2016, MDPSC Staff requested clarification concerning the amount of return on the SOS awarded to BGE and on December 19, 2016, the residential consumer advocate sought rehearing of the return awarded. On January 24, 2017, the MDPSC issued an order denying the MDPSC Staff request for clarification and the residential consumer advocate request for rehearing. On February 22, 2017, the residential consumer advocate filed an appeal of the MDPSC's orders with the Circuit Court for Baltimore City. The residential consumer advocate filed its Memorandum on Appeal on June 5, 2017 and subsequent Reply Memoranda were filed by BGE and the MDPSC on July 7, 2017 and July 12, 2017, respectively. On August 7, 2017, following oral argument by the parties, a decision was issued from the Circuit Court affirming the decision of the MDPSC. On September 5, 2017, the residential consumer advocate filed an appeal of the Circuit Court's decision to the Maryland Court of Special Appeals. BGE cannot predict the outcome of this appeal.

Smart Meter and Smart Grid Investments (Exelon and BGE). In August 2010, the MDPSC approved a comprehensive smart grid initiative for BGE that included the planned installation of 2 million residential and commercial electric and natural gas smart meters at an expected total cost of $480 million of which $200 million was funded by SGIG. The MDPSC's approval ordered BGE to defer the associated incremental costs, depreciation and amortization, and an appropriate return, in a regulatory asset until such time as a cost-effective advanced metering system is implemented. Refer to AMI programs in the Regulatory Assets and Liabilities section below for further details.

As part of the 2015 electric and natural gas distribution rate case filed on November 6, 2015, BGE sought recovery of its smart grid initiative costs, supported by evidence demonstrating that BGE had, in fact, implemented a cost-beneficial advanced metering system. On June 3, 2016, the MDPSC issued an order concluding that the smart grid initiative overall is cost beneficial to its customers. However, the June 3 order contained several cost disallowances and adjustments including disallowances of certain program and meter installation costs and denial of recovery of any return on unrecovered costs for non-AMI meters replaced under the program. On June 30, 2016, BGE filed a petition for rehearing of the June 3 order requesting that the MDPSC modify its order to reverse certain decisions and change certain of the cost disallowances and adjustments to enable BGE to defer those costs for recovery through future electric and natural gas rates. The residential consumer advocate also subsequently filed for a petition for rehearing of the June 3 order. On July 29, 2016, the MDPSC issued an order on the petitions for rehearing that reversed certain of its prior cost disallowances and adjustments related to the smart grid initiative.

As a combined result of the MDPSC orders in BGE's 2015 electric and natural gas distribution rate case, BGE recorded a $52 million charge in June 2016 to Operating and maintenance expense in Exelon's and BGE's Consolidated Statements of Operations and Comprehensive Income reducing certain regulatory assets and other long-lived assets and reclassified $56 million of non-AMI plant costs from Property, plant and equipment, net to Regulatory assets on Exelon's and BGE's Consolidated Balance Sheets.

The Maryland Strategic Infrastructure Development and Enhancement Program (Exelon and BGE). In 2013, legislation intended to accelerate gas infrastructure replacements in Maryland was signed into law. The law established a mechanism, separate from base rate proceedings, for gas companies to promptly recover reasonable and prudent costs of eligible infrastructure replacement projects incurred after June 1, 2013. The monthly surcharge and infrastructure replacement costs must be approved by the MDPSC and are subject to a cap and require an annual true-up of the surcharge revenues against actual expenditures. Investment levels in excess of the cap would be recoverable in a subsequent gas base rate proceeding at which time all costs for the infrastructure replacement projects would be rolled into gas distribution rates. Irrespective of the cap, BGE is required to file a gas rate case every five years under this legislation.

On August 2, 2013, BGE filed its infrastructure replacement plan and associated surcharge. On January 29, 2014, the MDPSC issued a decision conditionally approving the first five years of BGE's plan and surcharge. On July 1, 2016, BGE filed an amendment to its infrastructure replacement plan, which the MDPSC conditionally approved in an order dated November 23, 2016. The revised surcharge reflecting the costs of the amendment became effective January 1, 2017. On November 1, 2017, BGE filed a surcharge update to be effective January 1, 2018 along with its 2018 project list and projected capital estimates of $136 million to be included in the 2018 surcharge calculation. The MDPSC subsequently approved BGE's 2018 project list and the proposed surcharge for 2018. As of December 31, 2017, BGE recorded a regulatory liability of less than $1 million, representing the difference between the surcharge revenues and program costs.

On December 1, 2017 (and as amended on January 22, 2018), BGE filed an application with the MDPSC seeking approval for a new infrastructure replacement plan and associated surcharge, effective for the five-year period from 2019 through 2023. BGE's new plan calls for capital expenditures over the 2019-2023 timeframe of $963 million, with an associated revenue requirement of $242 million. BGE expects a decision in the matter by May 31, 2018, but cannot predict whether the MDPSC will approve the plan as filed.

Delaware Regulatory Matters

Tax Cuts and Jobs Act (Exelon, PHI and DPL). On January 16, 2018, the DPSC opened a docket to examine the impacts of the TCJA on the cost of service and rates of all regulated public utilities in Delaware, which includes DPL. The DPSC also stated the TCJA benefits would be addressed in DPL's pending rate case.

In response, by mid-February 2018, DPL is planning to file with the DPSC updates to its electric and gas distribution rate cases described below to reflect approximately $26 million in tax savings resulting from the enactment of the TCJA, of which $19 million and $7 million are related to electric and natural gas, respectively. The updated requests for amounts being passed back to customers would reflect the annual benefit of lower income tax rates and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. Refer to Note 14 - Income Taxes for more detail on Corporate Tax Reform. DPL expects a decision in the matter in the third quarter of 2018 for the electric distribution proceeding and in the fourth quarter of 2018 for the gas distribution proceeding, but cannot predict how much of the requested increase the DPSC will approve. It is expected that the DPSC will address in a future rate proceeding DPL's treatment of the TCJA tax savings for the period February 1, 2018 through the effective date of any customer rate adjustments in the pending rate proceedings.

2017 Delaware Electric and Natural Gas Distribution Rates (Exelon, PHI and DPL). On August 17, 2017, DPL filed applications with the DPSC to increase its annual electric and natural gas distribution base rates by $24 million and $13 million respectively, reflecting a requested ROE of 10.1%. DPL filed updated testimony on October 18, 2017, to request a $31 million increase in electric distribution rates, and updated testimony on November 7, 2017, to request an $11 million increase in natural gas distribution rates. While the DPSC is not required to issue a decision on the applications within a specified period of time, Delaware law allows DPL to put into effect $2.5 million of the rate increases for both electric and natural gas two months after filing the application and the entire requested rate increases seven months after filing, subject to a cap and a refund obligation based on the final DPSC order. On October 24, 2017, the Staff of the DPSC and the Public

Advocate filed a joint motion to dismiss DPL’s electric distribution base rate application without prejudice to refiling, arguing that the amount of the requested increase to $31 million required additional time to review and additional public notice. In November 2017, the DPSC denied the joint motion to dismiss.

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2016 Delaware Electric and Natural Gas Distribution Base Rates (Exelon, PHI and DPL). On May 17, 2016, DPL filed applications with the DPSC to increase its annual electric and natural gas distribution base rates by $63 million, which was updated to $60 million on March 8, 2017, and $22 million, respectively, reflecting a requested ROE of 10.6%. Delaware law allowed DPL to put into effect $2.5 million of each of the rate increases effective July 16, 2016. On December 17, 2016, the DPSC approved that an additional $30 million in electric distribution rates and an additional $10 million in gas distribution rates effective December 17, 2016, subject to refund based on the final DPSC orders.

On March 8, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate, Delaware Electric Users Group and the DPSC Staff in its electric distribution rate proceeding, which provides for an increase in DPL annual electric distribution base rates of $31.5 million reflecting a ROE of 9.7% compared to the $32 million increase previously put into effect. On May 23, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective June 1, 2017. Pursuant to the settlement agreement, no refund of the interim rates put into effect on July 16, 2016 and December 17, 2016 (as discussed above) is required.

On April 6, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate and the DPSC Staff in its natural gas distribution rate proceeding, which provides for an increase in DPL annual natural gas distribution base rates of $4.9 million reflecting a ROE of 9.7%. The settlement agreement also provides that DPL will refund amounts collected under the temporary rates effective July 16, 2016 and December 17, 2016 (as discussed above) in excess of the $4.9 million, and that the new rates will be effective within thirty days of DPSC approval of the settlement agreement. On June 6, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective July 1, 2017. Pursuant to the settlement agreement, a rate refund plus interest of approximately $5 million was issued to customers beginning in August 2017. This was a one-time refund and was included on customer bills from mid-August through mid-September.

District of Columbia Regulatory Matters

Tax Cuts and Jobs Act (Exelon, PHI and Pepco). On January 23, 2018, the DCPSC opened a rate proceeding directing Pepco to track the impacts of the TCJA beginning January 1, 2018 and file its plan to reduce the current revenue requirement by customer class by February 12, 2018. The DCPSC stated it will address the impact of the TCJA on future rates within Pepco's pending electric distribution rate case discussed below and Pepco will accordingly update its current distribution rate case in February 2018.

Separately, on February 6, 2018, Pepco filed with the DCPSC seeking approval to pass back to customers beginning in 2018 $39 million in tax savings resulting from the enactment of the TCJA through a reduction in electric distribution rates. The amounts being passed back to customers would reflect the annual benefit of lower income tax rates and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. It is expected that the DCPSC will address in a future rate proceeding Pepco's treatment of the TCJA tax savings for the period January 1, 2018 through the effective date of any customer rate adjustments. Refer to Note 14 - Income Taxes for more detail on Corporate Tax Reform.

2017 District of Columbia Electric Distribution Base Rates (Exelon, PHI and Pepco). On December 19, 2017, Pepco filed an application with the DCPSC to increase its annual electric distribution base rates by $66 million, reflecting a requested ROE of 10.1%. By mid-February, Pepco will update its current distribution rate case to reflect the TCJA impacts from January 1, 2018 through the effective date of the $39 million customer rate adjustment described above. Pepco expects a decision in the matter in the fourth quarter of 2018, but cannot predict how much of the requested increase the DCPSC will approve.

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2016 District of Columbia Electric Distribution Base Rates (Exelon, PHI and Pepco). On June 30, 2016, Pepco filed an application with the DCPSC to increase its annual electric distribution base rates by $86 million, which was updated to $77 million on February 1, 2017, reflecting a requested ROE of 10.6%.

On July 25, 2017, the DCPSC approved an increase in Pepco electric distribution base rates of $37 million reflecting a ROE of 9.5%. The new rates became effective for services rendered on or after August 15, 2017. In its decision, the DCPSC ordered that the $26 million customer rate credit created as a result of the Exelon and PHI merger will be provided primarily to residential customers and some small commercial customers to offset the impact of this increase until that amount has been exhausted, which is expected to take approximately two years. Additionally, the Commission is holding approximately $6 million to $7 million of the customer rate credit for use toward a possible new class of customers for certain senior citizens and disabled persons. The DCPSC also held that Pepco’s bill stabilization adjustment, which decouples distribution revenues from utility customers from the amount of electricity delivered, will continue to be in place and that no refund of previously collected funds is required. Several parties filed requests that the DCPSC reconsider the order on various issues, and on October 6, 2017, the Commission issued an order denying each of the requests.

District of Columbia Power Line Undergrounding Initiative (Exelon, PHI and Pepco). The District of Columbia government enacted on an emergency basis (effective May 17, 2017) and thereafter on a permanent basis (effective July 11, 2017) legislation to amend the Electric Company Infrastructure Improvement Financing Act of 2014 (as amended) (the Infrastructure Improvement Financing Act) to authorize the District of Columbia Power Line Undergrounding (DC PLUG) initiative, a projected six year, $500 million project to place underground some of the District of Columbia’s most outage-prone power lines with $250 million of the project costs funded by Pepco and $250 million funded by the District of Columbia.

The $250 million of project costs funded by Pepco will be recovered through a volumetric surcharge on the electric bill of substantially all of Pepco’s customers in the District of Columbia. Pepco will earn a return on these project costs.

The $250 million of project costs funded by the District of Columbia will come from two sources. Project costs of $187.5 million will be funded through a charge assessed on Pepco by the District of Columbia; Pepco will recover this charge from customers through a volumetric distribution rider. The remaining costs up to $62.5 million are to be funded by the existing capital projects program of the District Department of Transportation (DDOT). Ownership and responsibility for the operation and maintenance of all the assets funded by the District of Columbia will be transferred to Pepco for a nominal amount upon completion. Pepco will not recover or earn a return on the cost of the assets transferred to it by the District of Columbia.

In accordance with the Infrastructure Improvement Financing Act, Pepco filed an application for approval of the first two-year plan in the DC PLUG initiative (the First Biennial Plan) on July 3, 2017. After the initial application, Pepco will be required to make two additional applications. On November 9, 2017, the DCPSC issued an order approving the First Biennial Plan and the application for a financing order. Pursuant to that order, Pepco is obligated to pay $187.5 million to the District of Columbia over the six-year project term, of which it expects to pay $27.5 million in 2018. Pepco recorded an obligation and offsetting regulatory asset in November. On December 11, 2017, an interested party filed for reconsideration of the DCPSC’s November 9 order and on January 18, 2018, the DCPSC denied the interested party’s request. Rates for the DC PLUG initiative went into effect on February 7, 2018.

New Jersey Regulatory Matters

***Tax Cuts and Jobs Act (Exelon, PHI and ACE)*.** On January 31, 2018, the NJBPU issued an order mandating that New Jersey utility companies, including ACE, pass any economic benefit from the

TCJA to rate payers. The order directed New Jersey utility companies to file by March 2, 2018 proposed tariff sheets reflecting TCJA benefits, with new rates to be implemented effective April 1, 2018. In addition, the NJBPU directed New Jersey utility companies to file by March 2, 2018 a Petition with the NJBPU outlining how they propose to refund any over-collection associated with revised rates not being in place from January 1, 2018 through March 31, 2018, with interest.

ACE estimates that approximately $23 million in TCJA savings will be passed back to ACE customers, reflecting the annual benefit of lower income tax rates and the settlement of a portion of deferred income tax regulatory liabilities established upon enactment of the TCJA. Refer to Note 14 - Income Taxes for more detail on Corporate Tax Reform.

New Jersey Consolidated Tax Adjustment (Exelon, PHI and ACE). The Consolidated Tax Adjustment (CTA) is a New Jersey ratemaking policy that requires utilities that are part of a consolidated tax group to share with customers the tax benefits that came from losses at unregulated affiliates through a reduction in rate base. In 2013, the NJBPU opened a generic proceeding to review the policy. In 2014, the NJBPU issued a decision which retained the CTA, but in a highly modified format that significantly reduced the impact of the CTA to ACE. On September 18, 2017, the Appellate Division of the Superior Court of New Jersey reversed the NJBPU's decision in adopting the revised CTA policy and held that NJBPU's actions related to the CTA constituted a rulemaking that should have been undertaken pursuant to the requirements of the Administrative Procedures Act. The Court did not address the merits of the CTA methodology itself. No party filed an appeal of the Court's decision, and the NJBPU has issued a proposed rule for comment, consistent with the requirements of the Administrative Procedures Act. The substance of the proposed rule is consistent with the NJBPU's decision in the generic proceeding. If the NJBPU were to apply the CTA in its unmodified form, it could have a material prospective impact to ACE through a reduction in rate base in future rate cases.

2017 New Jersey Electric Distribution Rates (Exelon, PHI and ACE). On March 30, 2017, ACE filed an application with the NJBPU to increase its annual electric distribution rates by $70 million (before New Jersey sales and use tax), which was updated to $73 million on July 14, 2017, reflecting a requested ROE of 10.1%. The application also requests approval of a rate surcharge mechanism called the "System Renewal Recovery Charge," which would permit more timely recovery of certain costs associated with reliability and system renewal-related capital investments.

On September 8, 2017, ACE entered into a settlement agreement with the NJBPU staff, the New Jersey Division of Rate Counsel and Wal-Mart Stores, Inc. in its electric distribution rate proceeding, which provides for an increase in ACE annual electric distribution base rates of $43 million (before New Jersey sales and use tax) reflecting a ROE of 9.6%. In addition, pursuant to the settlement agreement, ACE agreed to withdraw its request for approval of a System Renewal Recovery Charge without prejudice to its right to refile. On September 22, 2017, the NJBPU issued an order approving the settlement agreement, with the new rates effective on October 1, 2017.

2016 New Jersey Electric Distribution Base Rates (Exelon, PHI and ACE). On August 24, 2016, the NJBPU issued an order approving a stipulation of settlement among ACE, the New Jersey Division of Rate Counsel, NJBPU Staff and Unimin Corporation, which, among other things, provided that a determination on ACE's grid resiliency program, PowerAhead, would be separated into a phase II of the rate proceeding and decided at a later date. PowerAhead includes capital investments to enhance the resiliency of the system through improvements focused on improving the distribution system's ability to withstand major storm events. A stipulation of settlement with respect to the PowerAhead program (the PowerAhead Stipulation) was approved by the NJBPU on May 31, 2017. As adopted, the PowerAhead program includes an approved investment level of $79 million to be recovered through the cost recovery mechanism described in the PowerAhead Stipulation. The NJBPU order adopting the PowerAhead Stipulation was effective on June 10, 2017.

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2017 Update and Reconciliation of Certain Under-Recovered Balances (Exelon, PHI and ACE). On February 1, 2017, ACE submitted its 2017 annual petition with the NJBPU seeking to reconcile and update (i) charges related to the recovery of above-market costs associated with ACE's long-term power purchase contracts with the non-utility generators and (ii) costs related to surcharges for the New Jersey Societal Benefit Program (a statewide public interest program that is intended to benefit low income customers and address other public policy goals) and ACE's uncollectible accounts. As filed, the net impact of adjusting the charges as proposed would have been an overall annual rate decrease of approximately $29 million (revised to approximately $32 million in April 2017, based upon an update for actuals through March 2017), including New Jersey sales and use tax. On May 31, 2017, the NJBPU approved a stipulation of settlement entered into by the parties providing for an overall annual rate decrease of approximately $32 million, effective June 1, 2017. The rate decrease was placed into effect provisionally, subject to a review by NJBPU and the Division of Rate Counsel of the final underlying costs for reasonableness and prudence. This rate decrease will have no effect on ACE's operating income, since these revenues provide for recovery of deferred costs under an approved deferral mechanism. On November 1, 2017, ACE entered into a Stipulation of Final Rates with the NJBPU staff and the New Jersey Division of Rate Counsel which was unchanged from the provisional rates. On November 21, 2017, the NJBPU issued an order approving the Stipulation of Final Rates as filed.

2016 Update and Reconciliation of Certain Under-Recovered Balances (Exelon, PHI and ACE). On February 1, 2016, ACE submitted its 2016 annual petition with the NJBPU seeking to reconcile and update (i) charges related to the recovery of above-market costs associated with ACE's long-term power purchase contracts with the non-utility generators and (ii) costs related to surcharges for the New Jersey Societal Benefit Program (a statewide public interest program that is intended to benefit low income customers and address other public policy goals) and ACE's uncollectible accounts.

As filed, the net impact of adjusting the charges as proposed would have been an overall annual rate increase of $9 million (revised to $19 million in April 2016, based upon an update for actuals through March 2016), including New Jersey sales and use tax.

On November 30, 2016, the NJBPU approved a stipulation of settlement entered into by the parties providing for an overall annual rate increase of $1 million effective January 1, 2017. This settlement included a credit of approximately $10 million to the Non-Utility Generation charge deferral balance and a credit of approximately $7 million to the Uncollectible deferral balance. These credits were directed to be applied to the deferral balances in an NJBPU order dated October 31, 2016. That order approved the Joint Recommendation for Settlement of the Most Favored Nation Provision, which was a condition of the merger between Exelon Corporation and Pepco Holdings, Inc. This rate increase will have no effect on ACE's operating income, since these revenues provide for recovery of deferred costs under an approved deferral mechanism.

New York Regulatory Matters

New York Clean Energy Standard (Exelon and Generation). On August 1, 2016, the New York Public Service Commission (NYPSC) issued an order establishing the New York CES, a component of which is a Tier 3 ZEC program targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet the criteria demonstrating public necessity as determined by the NYPSC. The New York State Energy Research and Development Authority (NYSERDA) will centrally procure the ZECs from eligible plants through a 12-year contract, to be administered in six two-year tranches, extending from April 1, 2017 through March 31, 2029. ZEC payments will be made to the eligible resources based upon the number of MWh produced, subject to specified caps and minimum performance requirements. The price to be paid for the ZECs under each tranche will be administratively determined using a formula based on the social cost of carbon as determined in 2016 by the federal government, subject to pricing adjustments designed to lower the ZEC price based on increases in underlying energy and capacity prices. The ZEC price for the first tranche has been set at $17.48 per

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MWh of production. Following the first tranche, the price will be updated bi-annually. Each Load Serving Entity (LSE) shall be required to purchase an amount of ZECs equivalent to its load ratio share of the total electric energy in the New York Control Area. Cost recovery from ratepayers shall be incorporated into the commodity charges on customer bills.

The NYPSC initially identified three plants eligible for the ZEC program: the FitzPatrick, Ginna, and Nine Mile Point nuclear facilities. As issued, the order also provided that the duration of the program beyond the first tranche was conditional upon a buyer purchasing the FitzPatrick facility and taking title prior to September 1, 2018. On November 18, 2016, the required contracts with NYSERDA were executed for Ginna and Nine Mile Point, in addition to Entergy's execution of the required contract for the FitzPatrick facility. On March 31, 2017, Generation closed on the acquisition of FitzPatrick. Generation is currently recognizing revenue for the sale of New York ZECs in the month following generation when the ZECs are transferred to NYSERDA. For the year ended December 31, 2017, Generation has recognized $311 million of ZEC revenue.

Several parties filed with the NYPSC requests for rehearing or reconsideration of the New York CES. Generation and CENG also filed a request for clarification, or in the alternative limited rehearing, that the condition limiting the duration of the program beyond the first tranche be limited to the eligibility of the FitzPatrick plant only and have no bearing on Ginna or Nine Mile Point's eligibility for the full 12-year duration. On December 15, 2016, the NYPSC approved Exelon's petition to clarify this condition and denied all petitions for rehearing of the New York CES. Parties had until mid-April 2017 to appeal to New York State court the denials of the requests for rehearing.

On October 19, 2016, a coalition of fossil-generation companies filed a complaint in federal district court against the NYPSC alleging that the ZEC program violates certain provisions of the U.S. Constitution; specifically, that the ZEC program interferes with FERC's jurisdiction over wholesale rates and that it discriminates against out of state competitors. On December 9, 2016, Generation and CENG filed a motion to intervene in the case and to dismiss the lawsuit. The State also filed a motion to dismiss. On July 25, 2017, the court granted both motions to dismiss. On August 24, 2017, plaintiffs appealed the decision to the Second Circuit. Plaintiffs-Appellants' initial brief was filed on October 13, 2017. Briefing in the appeal was completed in December 2017, and oral argument is expected to take place in March 2018.

In addition, on November 30, 2016, a group of parties, including certain environmental groups and individuals, filed a Petition in New York State court seeking to invalidate the ZEC program. The Petition, which was amended on January 13, 2017, argued that the NYPSC did not have authority to establish the program and that it violated certain technical provisions of the State Administrative Procedures Act (SAPA) when adopting the ZEC program. On February 15, 2017, Generation and CENG filed a motion to dismiss the state court action. The NYPSC also filed a motion to dismiss the state court action. On March 24, 2017, the plaintiffs filed a memorandum of law opposing the motions to dismiss, and Generation and CENG filed a reply brief on April 28, 2017. Oral argument was held on June 19, 2017. On January 22, 2018, the court denied the motions to dismiss without commenting on the merits of the case. The case will now proceed to summary judgment upon filing of the full record.

Other legal challenges remain possible, the outcomes of which remain uncertain. See Note 8 - Early Nuclear Plant Retirements for additional information relative to Ginna and Nine Mile Point, and Note 4 - Mergers, Acquisitions and Dispositions for additional information on Generation's proposed acquisition of FitzPatrick.

Ginna Nuclear Power Plant Reliability Support Services Agreement (Exelon and Generation). In November 2014, in response to a petition filed by Ginna Nuclear Power Plant (Ginna) regarding the possible retirement of Ginna, the NYPSC directed Ginna and Rochester Gas & Electric Company (RG&E) to negotiate a Reliability Support Services Agreement (RSSA) to support the continued operation of Ginna to maintain the reliability of the RG&E transmission grid for a specified period of time. During 2015

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and 2016, Ginna and RG&E made filings with the NYPSC and FERC for their approval of the proposed RSSA. Although the RSSA was still subject to regulatory approvals, on April 1, 2015, Ginna began delivering the power and capacity from the Ginna plant into the ISO-NY consistent with the technical provisions of the RSSA.

On March 22, 2016, Ginna submitted a compliance filing with FERC with revisions to the RSSA requested by FERC. On April 8, 2016, FERC accepted the compliance filing and on April 20, 2016, the NYPSC accepted the revised RSSA with a term expiring on March 31, 2017. In April 2016, Generation began recognizing revenue based on the final approved pricing contained in the RSSA and also recognized a one-time revenue adjustment of approximately $101 million representing the net cumulative previously unrecognized amount of revenue retroactive from the April 1, 2015 effective date through March 31, 2016. A 49.99% portion of the one-time adjustment was removed from Generation’s results of operations as a result of the noncontrolling interests in CENG.

The RSSA required Ginna to continue operating through the RSSA term. On September 30, 2016, Ginna filed the required notice with the NYPSC of its intent to continue operating beyond the March 31, 2017 expiry of the RSSA, conditioned upon successful execution of an agreement between Ginna and NYSERDA for the sale of ZECs under the New York CES. As stated previously, on November 18, 2016 the required contract with NYSERDA was executed by Generation and CENG for Ginna. Upon the expiry of the RSSA on March 31, 2017, Ginna was required to make refund payments of $20 million to RG&E related to capital expenditures. Ginna paid RG&E the $20 million in June 2017. Additionally, the provisions of the RSSA provided for a one-time payment of $12 million to be paid from RG&E to Ginna at the end of the contract. This $12 million was recognized in revenue as of March 31, 2017. RG&E paid the $12 million to Ginna in May 2017. Subject to prevailing over any administrative or legal challenges, it is expected the New York CES will allow Ginna to continue to operate through the end of its current operating license in 2029. See Note 8 - Early Nuclear Plant Retirements for further information regarding the impacts of a decision to early retire one or more nuclear plants.

Federal Regulatory Matters

Tax Cuts and Jobs Act (All Registrants). To date, the FERC has not yet issued guidance to utilities on how and when to reflect the impacts of the TCJA in customer rates. However, pursuant to their respective transmission formula rates, ComEd, BGE, Pepco, DPL and ACE will begin passing back to customers on June 1, 2018, the benefit of lower income tax rates effective January 1, 2018. ComEd’s, BGE’s, Pepco’s, DPL’s and ACE’s transmission formula rates currently do not provide for the pass back or recovery of income tax-related regulatory liabilities or assets. As discussed above, on December 13, 2016 (and as amended on March 13, 2017), BGE filed with FERC to begin recovering certain existing and future transmission-related income tax regulatory assets through its transmission formula rate. On November 16, 2017, FERC issued an order rejecting BGE’s proposed revisions to its transmission formula rate and on December 18, 2017, BGE filed for clarification and rehearing of FERC’s order. ComEd, Pepco, DPL and ACE also have similar transmission-related income tax regulatory assets and liabilities, for which FERC approval is required, separate from their transmission formula rate mechanisms, to pass back or recover those regulatory liabilities and assets through customer rates. PECO is currently in settlement discussions regarding its transmission formula rate and expects to pass back TCJA benefits to customers through its annual formula rate update.

Refer to Deferred income taxes in the Regulatory Assets and Liabilities section below for the balances of transmission-related income tax regulatory assets as of December 31, 2017 and 2016.

Transmission Formula Rate (Exelon, ComEd, BGE, PHI, Pepco, DPL and ACE). ComEd's, BGE's, Pepco's, DPL's and ACE's transmission rates are each established based on a FERC-approved formula. ComEd, BGE, Pepco, DPL and ACE are required to file an annual update to the FERC-approved formula on or before May 15, with the resulting rates effective on June 1 of the same year. The annual formula rate update is based on prior year actual costs and current year projected capital additions. The

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update also reconciles any differences between the revenue requirement in effect beginning June 1 of the prior year and actual costs incurred for that year. ComEd, BGE, Pepco, DPL, and ACE record regulatory assets or regulatory liabilities and corresponding increases or decreases to operating revenues for any differences between the revenue requirement in effect and ComEd's, BGE's, Pepco's, DPL's and ACE's best estimate of the revenue requirement expected to be filed with the FERC for that year's reconciliation. The regulatory asset associated with transmission true-up is amortized to Operating revenues within their Consolidated Statements of Operations of Comprehensive Income as the associated amounts are recovered through rates.

For each of the following years, the following total increases/(decreases) were included in ComEd's, BGE's, Pepco's, DPL's and ACE's electric transmission formula rate filings:

	ComEd			BGE		
Annual Transmission Filings[a]	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Initial revenue requirement increase	$ 44	$ 90	$ 68	$ 31	$ 12	$ —
Annual reconciliation increase (decrease)	(33)	4	18	3	3	(3)
Dedicated facilities (decrease) increase[b]	—	—	—	(8)	13	13
Total revenue requirement increase	$ 11	$ 94	$ 86	$ 26	$ 28	$ 10
Allowed return on rate base[d]	8.43%	8.47%	8.61%	7.47%	8.09%	8.46%
Allowed ROE[e]	11.50%	11.50%	11.50%	10.50%	10.50%	11.30%

	Pepco			DPL			ACE		
Annual Transmission Filings[a]	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Initial revenue requirement increase (decrease)	$ 5	$ 2	$ 10	$ 6	$ 8	$ 15	$ 20	$ 8	$ 10
Annual reconciliation (decrease) increase	15	(10)	(3)	8	(10)	(1)	22	(14)	2
MAPP abandonment recovery (decrease) increase[c]	—	(15)	(2)	—	(12)	(2)	—	—	—
Total revenue requirement (decrease) increase	$ 20	$ (23)	$ 5	$ 14	$ (14)	$ 12	$ 42	$ (6)	$ 12
Allowed return on rate base[d]	7.92%	7.88%	8.36%	7.16%	7.21%	7.80%	8.02%	7.83%	8.51%
Allowed ROE[e]	10.50%	10.50%	11.30%	10.50%	10.50%	11.30%	10.50%	10.50%	11.30%

(a) The time period for any challenges to the annual transmission formula rate update flings expired with no challenges submitted.

(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.

(c) In 2012, PJM terminated the MAPP transmission line construction project planned for the Pepco and DPL service territories. Pursuant to a FERC approved settlement agreement, the abandonment costs associated with MAPP were being recovered in transmission rates over a three-year period that ended in May 2016.

(d) Represents to the weighted average debt and equity return on transmission rate bases.

(e) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50%, inclusive of a 50-basis-point incentive adder for being a member of a RTO, and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, Pepco, DPL and ACE, the rate of return on common equity is 10.50%, inclusive of a 50-basis-point incentive adder for being a member of a RTO.

Transmission Formula Rate (Exelon and PECO). On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50 basis point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. On June 27, 2017, FERC issued an Order accepting the filing and suspending the proposed rates until December 1, 2017, subject to refund, and set the matter for hearing and settlement judge procedures. The parties currently are engaged in settlement discussions. PECO cannot predict the final outcome of the settlement or hearing proceedings, or the transmission formula FERC may approve.

Transmission-Related Income Tax Regulatory Assets (Exelon, ComEd, BGE, PHI, Pepco, DPL and ACE). On December 13, 2016 (and as amended on March 13, 2017), BGE filed with FERC to begin recovering certain existing and future transmission-related income tax regulatory assets through its transmission formula rate. BGE's existing regulatory assets included (1) amounts that, if BGE's transmission formula rate provided for recovery, would have been previously amortized and (2) amounts that would be amortized and recovered prospectively. On November 16, 2017, FERC issued an order rejecting BGE's proposed revisions to its transmission formula rate to recover these transmission-related income tax regulatory assets. On December 18, 2017, BGE filed for clarification and rehearing of FERC's order, still seeking full recovery of its existing transmission-related income tax regulatory asset amounts.

ComEd, Pepco, DPL and ACE have similar transmission-related income tax regulatory assets also requiring FERC approval separate from their transmission formula rate mechanisms. Similar regulatory assets at PECO are not subject to the same FERC transmission rate recovery formula and, thus, are not impacted by the November 16, 2017 FERC order.

Each of BGE, ComEd, Pepco, DPL and ACE believe there is sufficient basis to support full recovery of their existing transmission-related income tax regulatory assets, and each intends to further pursue such full recovery with FERC. However, upon further consideration of the November 16, 2017 FERC order, management of each company concluded that the portion of the total transmission-related income tax regulatory assets that would have been previously amortized and recovered through rates had the transmission formula rate provided for such recovery was no longer probable of recovery. As a result, Exelon, ComEd, BGE, PHI, Pepco, DPL and ACE recorded the following charges to Income tax expense within their Consolidated Statements of Operations and Comprehensive Income in the fourth quarter 2017, reducing their associated transmission-related income tax regulatory assets.

	For the year ended December 31, 2017
Exelon[(a)]	$ 35
ComEd	3
BGE	5
PHI[(a)]	27
Pepco	14

DPL	6
ACE	7

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(a) Exelon reflects the consolidated regulatory asset impairments of ComEd, BGE, Pepco, DPL and ACE, and PHI reflects the consolidated regulatory asset impairments of Pepco, DPL and ACE.

To the extent any of the companies are ultimately successful with the FERC allowing future recovery of these amounts, the associated regulatory assets will be reestablished, with corresponding decreases to Income tax expense. To the extent all or a portion of the prospective amortization amounts were no longer considered probable of recovery, Exelon, ComEd, BGE, PHI, Pepco, DPL and ACE would record additional charges to Income tax expense, which could be up to approximately $81 million, $41 million, $22 million, $18 million, $8 million, $7 million and $3 million, respectively, as of December 31, 2017.

Refer to Deferred income taxes in the Regulatory Assets and Liabilities section below for the balances of these transmission-related income tax regulatory assets as of December 31, 2017 and 2016.

PJM Transmission Rate Design and Operating Agreements (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). PJM Transmission Rate Design specifies the rates for transmission service charged to customers within PJM. Currently, ComEd, PECO, BGE, Pepco, DPL and ACE incur costs based on the existing rate design, which charges customers based on the cost of the existing transmission facilities within their load zone and the cost of new transmission facilities based on those who benefit from those facilities. In April 2007, FERC issued an order concluding that PJM's current rate design for existing facilities is just and reasonable and should not be changed. In the same order, FERC held that the costs of new facilities 500 kV and above should be socialized across the entire PJM footprint and that the costs of new facilities less than 500 kV should be allocated to the customers of the new facilities who caused the need for those facilities. A number of parties appealed to the U.S. Court of Appeals for the Seventh Circuit for review of the decision.

In August 2009, the court issued its decision affirming the FERC's order with regard to the existing facilities, but remanded to FERC the issue of the cost allocation associated with the new facilities 500 kV and above (Cost Allocation Issue) for further consideration by the FERC. On remand, FERC reaffirmed its earlier decision to socialize the costs of new facilities 500 kV and above. A number of parties filed appeals of these orders. In June 2014, the court again remanded the Cost Allocation Issue to FERC. On December 18, 2014, FERC issued an order setting an evidentiary hearing and settlement proceeding regarding the Cost Allocation Issue. On June 15, 2016, a number of parties, including Exelon and the Utility Registrants, filed a proposed Settlement with FERC. If the Settlement is approved, 50% of the costs of the 500 kV and above facilities approved by the PJM Board on or before February 1, 2013 will be socialized across PJM and 50% will be allocated according to a formula that calculates the flows on the transmission facilities. Each state that is a party in this proceeding either signed, or did not oppose, the settlement. The Settlement is opposed by a number of merchant transmission owners and New York load-serving entities. The Settlement includes provisions for monthly credits or charges that are expected to be mostly refunded or recovered through customer rates over a 10-year period based on negotiated numbers for charges prior to January 1, 2016.

Exelon expects that the Settlement will not have a material impact on the results of operations, cash flows and financial position of Generation, ComEd, PECO, BGE, Pepco, DPL or ACE. The Settlement is subject to approval by FERC. The FERC is not required to issue a decision on the matter within a specified period of time.

The Utility Registrants are committed to the construction of transmission facilities under their operating agreements with PJM to maintain system reliability. The Utility Registrants will work with PJM to continue to evaluate the scope and timing of any required construction projects. The Utility Registrants' estimated commitments are as follows:

	Total	2018	2019	2020	2021	2022
ComEd	$ 164	$ 36	$ 60	$ 44	$ 24	$ —
PECO	53	16	19	10	5	3
BGE	118	35	35	35	13	—
Pepco	86	5	11	27	33	10
DPL	27	19	2	1	2	3
ACE	121	68	20	6	21	6

DOE Notice of Proposed Rulemaking (Exelon and Generation). On August 23, 2017, the DOE staff released its report on the reliability of the electric grid. One aspect of the wide-ranging report is the DOE's recognition that the electricity markets do not currently value the resiliency provided by baseload generation, such as nuclear plants. On September 28, 2017, the DOE issued a Notice of Proposed Rulemaking (NOPR) that would entitle certain eligible resilient generating units (i.e., those located in organized markets, with a 90-day supply of fuel on site, not already subject to state cost of service regulation and satisfying certain other requirements) to recover fully allocated costs and earn a fair return on equity on their investment. The DOE's NOPR recommended that the FERC take comments for 45 days after publication in the Federal Register and issue a final order 60 days after such publication. On January 8, 2018, the FERC issued an order terminating the rulemaking docket that was initiated to address the proposed rule in the DOE NOPR, concluding the proposed rule did not sufficiently demonstrate there is a resiliency issue and that it proposed a remedy that did not appear to be just, reasonable and nondiscriminatory as required under the Federal Power Act. At the same time, the FERC initiated a new proceeding to consider resiliency challenges to the bulk power system and evaluate whether additional FERC action to address resiliency would be appropriate. The FERC directed each RTO and ISO to respond within 60 days to 24 specific questions about how they assess and mitigate threats to resiliency. Interested parties may submit reply comments within 30 days after the due date of the RTO/ISO responses. Exelon has been and will continue to be an active participant in these proceedings, but cannot predict the final outcome or its potential financial impact, if any, on Exelon or Generation.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs (Exelon and Generation). PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program - resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that require subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs). However, in Exelon's view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. The EPSA parties have filed motions to expedite both proceedings. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like

the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation's facilities in NYISO and PJM expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon's and Generation's future cash flows and results of operations. On August 30, 2017, EPSA filed motions to lodge the district court decisions dismissing the complaints and urging FERC to act expeditiously on its requests to expand the MOPR. On September 14, 2017, Exelon filed a response in each docket noting that it does not oppose the motions to lodge but arguing that the requests to expedite a decision on the requests to expand the MOPR have no merit. The timing of FERC's decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

Operating License Renewals (Exelon and Generation). On August 29, 2012, Generation submitted a hydroelectric license application to FERC for a 46-year license for the Conowingo Hydroelectric Project (Conowingo). In connection with Generation's efforts to obtain a water quality certification pursuant to Section 401 of the Clean Water Act with Maryland Department of the Environment (MDE) for Conowingo, Generation continues to work with MDE and other stakeholders to resolve water quality licensing issues, including: (1) water quality, (2) fish habitat, and (3) sediment.

On April 21, 2016, Exelon and the US Fish and Wildlife Service of the US Department of the Interior executed a Settlement Agreement resolving all fish passage issues between the parties. The financial impact of the Settlement Agreement is estimated to be $3 million to $7 million per year, on average, over the 46-year life of the new license, including both capital and operating costs. The actual timing and amount of these costs are not currently fixed and may vary significantly from year to year throughout the life of the new license.

Resolution of the remaining issues relating to Conowingo involving various stakeholders may have a material effect on Exelon's and Generation's results of operations and financial positions through an increase in capital expenditures and operating costs. As of December 31, 2017, $31 million of direct costs associated with Conowingo licensing efforts have been capitalized.

Regulatory Assets and Liabilities (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE each prepare their consolidated financial statements in accordance with the authoritative guidance for accounting for certain types of regulation. Under this guidance, regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates or represent billings in advance of expenditures for approved regulatory programs.

As a result of applying the acquisition method of accounting and pushing it down to the consolidated financial statements of PHI, certain regulatory assets and liabilities were established at Exelon and PHI to offset the impacts of fair valuing the acquired assets and liabilities assumed which are subject to regulatory recovery. In total, Exelon and PHI recorded a net $2.4 billion regulatory asset reflecting adjustments recorded as a result of the acquisition method of accounting. See Note 4 - Mergers, Acquisitions and Dispositions for additional information.

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The following tables provide information about the regulatory assets and liabilities of Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE as of December 31, 2017 and December 31, 2016:

December 31, 2017	Exelon	ComEd	PECO	BGE	Successor PHI	Pepco	DPL	ACE
Regulatory assets								
Pension and other postretirement benefits	$ 3,848	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes	306	—	297	—	9	9	—	—
AMI programs	640	155	36	214	235	158	77	—
Electric distribution formula rate	244	244	—	—	—	—	—	—
Energy efficiency costs	166	166	—	—	—	—	—	—
Debt costs	116	37	1	11	73	15	8	5
Fair value of long-term debt	758	—	—	—	619	—	—	—
Fair value of PHI's unamortized energy contracts	750	—	—	—	750	—	—	—
Asset retirement obligations	109	73	22	14	—	—	—	—
MGP remediation costs	295	273	22	—	—	—	—	—
Under-recovered uncollectible accounts	61	61	—	—	—	—	—	—
Renewable energy	258	256	—	—	2	—	1	1
Energy and transmission programs	82	6	1	23	52	11	15	26
Deferred storm costs	27	—	—	—	27	7	5	15
Energy efficiency and demand response programs	596	—	1	285	310	229	81	—
Merger integration costs	45	—	—	6	39	20	10	9
Under-recovered revenue decoupling	55	—	—	14	41	38	3	—
COPCO acquisition adjustment	5	—	—	—	5	—	5	—
Workers compensation and long-term disability costs	35	—	—	—	35	35	—	—
Vacation accrual	19	—	6	—	13	—	8	5
Securitized stranded costs	79	—	—	—	79	—	—	79
CAP arrearage	8	—	8	—	—	—	—	—
Removal costs	529	—	—	—	529	150	93	286
DC PLUG charge	190	—	—	—	190	190	—	—
Other	67	8	16	4	39	29	8	4
Total regulatory assets	9,288	1,279	410	571	3,047	891	314	430
Less: current portion	1,267	225	29	174	554	213	69	71
Total noncurrent regulatory assets	$ 8,021	$ 1,054	$ 381	$ 397	$ 2,493	$ 678	$ 245	$ 359

Combined Notes to Consolidated Financial Statements - (Continued)
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					Successor			
December 31, 2017	Exelon	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Regulatory liabilities								
Other postretirement benefits	$ 30	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes	5,241	2,479	—	1,032	$ 1,730	809	510	411
Nuclear decommissioning	3,064	2,528	536	—	—	—	—	—
Removal costs	1,573	1,338	—	105	130	20	110	—
Deferred rent	36	—	—	—	36	—	—	—
Energy efficiency and demand response programs	23	4	19	—	—	—	—	—
DLC program costs	7	—	7	—	—	—	—	—
Electric distribution tax repairs	35	—	35	—	—	—	—	—
Gas distribution tax repairs	9	—	9	—	—	—	—	—
Energy and transmission programs	111	47	60	—	4	—	1	3
Renewable portfolio standards costs	63	63	—	—	—	—	—	—
Zero emission credit costs	112	112	—	—	—	—	—	—
Over-recovered uncollectible accounts	2	—	—	—	2	—	—	2
Other	82	6	24	26	26	3	14	6
Total regulatory liabilities	10,388	6,577	690	1,163	1,928	832	635	422
Less: current portion	523	249	141	62	56	3	42	11
Total noncurrent regulatory liabilities	$ 9,865	$ 6,328	$ 549	$ 1,101	$ 1,872	$ 829	$ 593	$ 411

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					Successor			
December 31, 2016	Exelon	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Regulatory assets								
Pension and other postretirement benefits	$ 4,162	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes	2,016	75	1,583	98	260	171	38	51
AMI programs	701	164	49	230	258	174	84	—
Electric distribution formula rate	188	188	—	—	—	—	—	—
Debt costs	124	42	1	7	81	17	9	6
Fair value of long-term debt	812	—	—	—	671	—	—	—
Fair value of PHI's unamortized energy contracts	1,085	—	—	—	1,085	—	—	—
Asset retirement obligations	111	76	23	12	—	—	—	—
MGP remediation costs	305	278	26	1	—	—	—	—
Under-recovered uncollectible accounts	56	56	—	—	—	—	—	—
Renewable energy	260	258	—	—	2	—	—	2
Energy and transmission programs	89	23	—	38	28	6	5	17
Deferred storm costs	36	—	—	1	35	12	5	18
Electric generation-related regulatory asset	10	—	—	10	—	—	—	—
Rate stabilization deferral	7	—	—	7	—	—	—	—
Energy efficiency and demand response programs	621	—	1	285	335	250	85	—
Merger integration costs	25	—	—	10	15	11	4	—
Under-recovered revenue decoupling	27	—	—	3	24	21	3	—
COPCO acquisition adjustment	8	—	—	—	8	—	8	—
Workers compensation and long-term disability costs	34	—	—	—	34	34	—	—
Vacation accrual	31	—	7	—	24	—	14	10
Securitized stranded costs	138	—	—	—	138	—	—	138
CAP arrearage	11	—	11	—	—	—	—	—
Removal costs	477	—	—	—	477	134	88	255
Other	54	7	9	10	29	22	5	4
Total regulatory assets	11,388	1,167	1,710	712	3,504	852	348	501
Less: current portion	1,342	190	29	208	653	162	59	96
Total noncurrent regulatory assets	$ 10,046	$ 977	$ 1,681	$ 504	$ 2,851	$ 690	$ 289	$ 405

Combined Notes to Consolidated Financial Statements - (Continued)
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					Successor			
December 31, 2016	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Regulatory liabilities								
Other postretirement benefits	$ 47	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nuclear decommissioning	2,607	2,169	438	—	—	—	—	—
Removal costs	1,601	1,324	—	141	136	18	118	—
Deferred rent	39	—	—	—	39	—	—	—
Energy efficiency and demand response programs	185	141	41	—	3	3	—	—
DLC program costs	8	—	8	—	—	—	—	—
Electric distribution tax repairs	76	—	76	—	—	—	—	—
Gas distribution tax repairs	20	—	20	—	—	—	—	—
Energy and transmission programs	134	60	56	—	18	8	5	5
Other	72	4	5	19	41	2	17	20
Total regulatory liabilities	4,789	3,698	644	160	237	31	140	25
Less: current portion	602	329	127	50	79	11	43	25
Total noncurrent regulatory liabilities	$ 4,187	$ 3,369	$ 517	$ 110	$ 158	$ 20	$ 97	$ —

Descriptions of the regulatory assets and liabilities included in the tables above are summarized below, including their recovery and amortization periods. Unless otherwise noted, the Utility Registrants are not earning or paying a return on these amounts.

Pension and other postretirement benefits. PECO's regulatory recovery for pension is based on cash contributions and, thus, is not included in the regulatory asset balances above. Otherwise, these amounts represent the Utility Registrants' portion of deferred costs associated with Exelon's pension and other postretirement benefit plans, which are recovered through customer rates. These amounts are generally amortized over the plan participants' average remaining service periods, subject to applicable cost recognition policies allowed under the authoritative guidance for pensions and postretirement benefits. See Note 16 - Retirement Benefits for additional information. These amounts also include regulatory assets established at the Constellation and PHI merger dates of $440 million and $953 million, respectively, as of December 31, 2017 and $492 million and $1,027 million, respectively, as of December 31, 2016 related to the rate regulated portions of the deferred costs associated with legacy Constellation's and PHI's pension and other postretirement benefit plans that are being amortized and recovered over approximately 12 years and 3 to 15 years, respectively (as established at the respective acquisition dates).

Deferred income taxes. These amounts represent deferred income taxes that are recoverable or refundable through customer rates, primarily associated with accelerated depreciation, the equity component of the allowance for funds used during construction, and the effects of income tax rate changes, including those resulting from the TCJA. These amounts are being amortized over the period in which the related deferred income taxes reverse, which is generally based on the expected life of the underlying assets, but may vary for certain deferred income taxes based on the determination of the rate regulators. These amounts include transmission-related regulatory liabilities that require FERC approval separate from the transmission formula rate of $484 million, $137 million, $147 million, $148 million and $147 million for ComEd, BGE, Pepco, DPL and ACE, respectively, as of December 31, 2017. The December 31, 2017 balances reflect the impact of regulatory liabilities recorded in the fourth quarter, 2017 associated with the income tax rate reductions under the TCJA of $553 million, $174 million, $161 million, $160 million and $152 million for ComEd, BGE, Pepco, DPL and ACE, respectively, as well as the impact of impairment charges discussed above. As of December 31, 2016 the comparative amounts are a regulatory asset of $22 million, $38 million, $31 million, $20 million and $19 million for ComEd, BGE, Pepco, DPL and ACE, respectively. See Note 14 — Income Taxes and the Transmission-Related Income Tax Regulatory Assets section above for additional information.

Combined Notes to Consolidated Financial Statements - (Continued)
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AMI programs. For ComEd, this amount primarily represents accelerated depreciation costs resulting from the early retirements of non-AMI meters, which will be amortized over an average ten-year period pursuant to the ICC approved AMI Deployment plan. ComEd is earning a return on the regulatory asset.

For PECO, this amount primarily represents accelerated depreciation on PECO's non-AMI meter assets over a 10-year period ending December 31, 2020. Recovery of smart meter costs are reflected in base rates effective January 1, 2016.

For BGE, this amount represents AMI costs associated with the installation of smart meters and the early retirement of legacy meters. The incremental costs associated with the installation, along with depreciation, amortization, and an appropriate return, had been building in a regulatory asset since the MDPSC approved the comprehensive smart grid initiative for BGE in August 2010 through approval of the program in BGE's rate order issued June 2016. As of December 31, 2017, the balance of BGE's regulatory asset was $214 million, which consists of three major components, including $129 million of unamortized incremental deployment costs of the AMI program, $53 million of unamortized costs of the non-AMI meters replaced under the program, and $32 million related to post-test year incremental program deployment costs incurred prior to approval became effective June 2016. As of December 31, 2016, the balance of BGE's regulatory asset was $230 million, which consists of three major components, including $144 million of unamortized incremental deployment costs of the AMI program, $54 million of unamortized costs of the non-AMI meters replaced under the program, and $32 million related to post-test year incremental program deployment costs incurred prior to approval became effective June 2016. The balances above reflect the impact of the cost allowances and adjustments in BGE's 2015 electric and natural gas distribution rate case. The incremental deployment costs for the AMI program and the non-AMI meter components of the regulatory asset are being amortized and recovered through rates over a 10-year period, which began in June 2016, while the post-test year incremental program deployment costs have not yet been approved for recovery by the MDPSC. A return on the regulatory asset is currently included in rates, except for the portion representing the unamortized cost of the retired non-AMI meters and the portion related to post-test year incremental program deployment costs.

For PHI, this amount represents AMI costs associated with the installation of smart meters and the early retirement of legacy meters throughout the service territories for Pepco and DPL. An AMI program has not been approved by the NJBPU for ACE in New Jersey. Pepco has received approval for recovery of deferred AMI program costs from the DCPSC and the MDPSC in its District of Columbia and Maryland service territories. Pepco does earn a return on the AMI deployment costs, but not on the early retirement of legacy meters. DPL has received approval for recovery of deferred AMI program costs from the DPSC and the MDPSC in its Delaware and Maryland service territories. DPL earns a return on the AMI deployment costs, but not on the early retirement of legacy meters.

Electric Distribution Formula Rate. These amounts represent under recoveries related to electric distribution services costs recoverable through ComEd's performance based formula rate. Under (over) recoveries for the annual reconciliations are recoverable (refundable) over a one-year period and costs for certain one-time events, such as large storms, are recoverable over a five-year period. ComEd earns and pays a return on under and over-recovered costs, respectively. As of December 31, 2017, the regulatory asset was comprised of $186 million for the 2016 and 2017 annual reconciliations and $58 million related to significant one-time events. As of December 31, 2016, the regulatory asset of $188 million was comprised of $134 million for the 2015 and 2016 annual reconciliations and $54 million related to significant one-time events.

Energy efficiency costs. These amounts represent deferred energy efficiency costs beginning June 1, 2017 that will be recovered through ComEd's energy efficiency formula rate tariff over the weighted average useful life of the related energy efficiency measures. The balance also includes the reconciliation of the difference of the revenue requirement in effect for the prior year and the revenue

Combined Notes to Consolidated Financial Statements - (Continued)
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requirement based on actual prior year costs. ComEd earns a return on the energy efficiency regulatory asset.

Debt costs. The Utility Registrants' debt costs are used in the determination of their weighted average cost of capital, which is applied to rate base for rate-making purposes. Consistent with the treatment for ratemaking purposes, ComEd's, PECO's, and Pepco's recoverable losses or refundable gains on reacquired long-term debt are deferred and amortized to interest expense over the life of the new debt issued to finance the debt redemption or over the life of the original debt issuance if the debt is not refinanced, while BGE's, DPL's, and ACE's recoverable losses or refundable gains on reacquired long-term debt are deferred and amortized to interest expense over the life of the original debt issuance even if the debt was refinanced. The regulatory asset for Pepco, DPL and ACE as of March 23, 2016 was eliminated at Exelon and PHI as part of acquisition accounting.

Fair value of long-term debt. These amounts represent the unamortized regulatory assets recorded at Exelon for the difference between the carrying value and fair value of the long-term debt of BGE as of the Constellation merger date based on the MDPSC practice to allow BGE to recover its debt costs through rates and at Exelon and PHI for the difference between carrying value and fair value of long-term debt of Pepco, DPL and ACE as of the PHI Merger date. Exelon is amortizing the regulatory asset and the associated fair value over the life of the underlying debt.

Fair value of PHI's unamortized energy contracts. These amounts represent the regulatory asset recorded at Exelon and PHI offsetting the fair value adjustments related to Pepco's, DPL's and ACE's electricity and natural gas energy supply contracts recorded at PHI as of the PHI Merger date. Pepco, DPL and ACE are allowed full recovery of the costs of these contracts through their respective rate making processes.

Asset retirement obligations. These costs represent future legally required removal costs associated with existing asset retirement obligations. PECO will begin to earn a return on, and a recovery of, these costs once the removal activities have been performed. ComEd and BGE will recover these costs through future depreciation rates and will earn a return on these costs once the removal activities have been performed. The recovery period will be over the expected life of the related assets. See Note 15 — Asset Retirement Obligations for additional information.

MGP remediation costs. ComEd is allowed recovery of these costs under ICC approved rates. For PECO, these costs are recoverable through rates as affirmed in the 2010 approved natural gas distribution rate case settlement. The period of recovery for both ComEd and PECO will depend on the timing of the actual expenditures, currently estimated to be completed in 2022 for both ComEd and PECO. While BGE does not have a rider for MGP clean-up costs, BGE has historically received recovery of actual clean-up costs on a site-specific basis in distribution rates. For BGE, $5 million of clean-up costs incurred during the period from July 2000 through November 2005 and an additional $1 million from December 2005 through November 2010 are recoverable through rates in accordance with MDPSC orders. BGE is earning a return on this regulatory asset and these costs are being amortized over 10-year periods that began in January 2006 and December 2010, respectively. The recovery period for the 10-year period that began January 2006 was extended for an additional 24 months, in accordance with the MDPSC approved 2014 electric and natural gas distribution rate case order. See Note 23 — Commitments and Contingencies for additional information.

Under-recovered uncollectible accounts. These amounts represent the difference between ComEd's annual uncollectible accounts expense and revenues collected in rates through an ICC-approved rider. The difference between net uncollectible account charge-offs and revenues collected through the rider each calendar year is recovered or refunded over a twelve-month period beginning in June of the following calendar year.

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Renewable energy. In December 2010, ComEd entered into several 20-year floating-to-fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs through 2032 in order to meet a portion of its obligations under the Illinois RPS. Delivery under the contracts began in June 2012. Since the swap contracts were deemed prudent by the Illinois Settlement Legislation, ensuring ComEd of full recovery in rates, the changes in fair value each period as well as an offsetting regulatory asset or liability are recorded by ComEd. ComEd does not earn (pay) a return on the regulatory asset (liability). Recovery of these costs will continue through 2032. The basis for the mark-to-market derivative asset or liability position is based on the difference between ComEd's cost to purchase energy at the market price and the contracted price.

Beginning with the 2012 compliance year the DPSC required DPL to be responsible for the RPS compliance obligation with respect to energy delivered to all end use customers, including RES supplied customers. This obligation has been met by DPL entering into long term contract(s) for the procurement of renewable energy. This energy is then sold into the market at current energy prices to offset the net cost to customers. An RPS surcharge is billed to customers to ensure recovery of the procurement costs with any variance recorded as an asset or liability. The balance at year end represents an under-recovery of the net procurement costs. These costs will be recovered over the life of the contracts, which range from 15 to 20 years.

In 2008 the NJBPU directed ACE to file a program for the purchase of Solar Renewable Energy Credits (SREC's). In 2009 the NJBPU approved ACE's SREC based contracting program and authorized ACE to enter into long-term contracts to purchase SREC's generated by solar generation projects. ACE is required to auction the purchased SREC's under Purchase and Sale Agreements (PSA) with the solar project developers. In 2015 the NJBPU authorized a "phase II" SREC program. A Regional Greenhouse Gas Initiative (RGGI) surcharge rider ensures recovery of the SREC costs. The balance at year end represents an under-recovery of the SREC costs. These costs will be recovered over the life of the contracts, which range from 15 to 20 years.

Energy and transmission programs. These amounts represent under (over) recoveries related to energy and transmission costs recoverable (refundable) under ComEd's ICC and/or FERC-approved rates. Under (over) recoveries are recoverable (refundable) over a one-year period or less. ComEd earns a return or interest on under-recovered costs and pays interest on over-recovered costs to customers. As of December 31, 2017, ComEd's regulatory asset of $6 million represents transmission costs recoverable through its FERC approved formula rate. As of December 31, 2017, ComEd's regulatory liability of $47 million included $14 million related to over-recovered energy costs and $33 million associated with revenues received for renewable energy requirements. As of December 31, 2016, ComEd's regulatory asset of $23 million included $15 million associated with transmission costs recoverable through its FERC-approved formula rate tariff and $8 million of Constellation merger and integration costs to be recovered upon FERC approval. As of December 31, 2016, ComEd's regulatory liability of $60 million included $30 million related to over-recovered energy costs and $30 million associated with revenues received for renewable energy requirements. See *Transmission Formula Rate* above for further details.

The PECO energy costs represent the electric and gas supply related costs recoverable (refundable) under PECO's GSA and PGC, respectively. PECO earns interest on the under-recovered energy and natural gas costs and pays interest on over-recovered energy and natural gas costs to customers. In addition, the DSP Program costs are presented on a net basis with PECO's GSA under (over)-recovered energy costs. These amounts represent recoverable administrative costs incurred relating to the filing and procurement associated with PECO's PAPUC-approved DSP programs for the procurement of electric supply. The filings and procurements of these DSP Programs are recoverable through the GSA over each respective term. DSP III has a 24-month term that began June 1, 2015, and DSP IV has a 48-month term that began June 1, 2017. The independent evaluator costs associated with conducting procurements are recoverable over a 12-month period after the PAPUC approves the results

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of the procurements. PECO is not earning a return on these costs. Certain costs included in PECO's original DSP program related to information technology improvements were recovered over a 5-year period that began January 1, 2011. PECO earns a return on the recovery of information technology costs. The PECO transmission costs represent the electric transmission costs recoverable (refundable) under the TSC under which PECO earns interest on under-recovered costs and pays interest on over-recovered costs to customers. As of December 31, 2017, PECO's regulatory liability of $60 million included $36 million related to over-recovered costs under the DSP program, $12 million related to over-recovered non-bypassable transmission service charges and $12 million related to the over-recovered natural gas costs under the PGC. As of December 31, 2016, PECO's regulatory liability of $56 million included $34 million related to over-recovered costs under the DSP program, $10 million related to over-recovered non-bypassable transmission service charges, $8 million related to the over-recovered natural gas costs under the PGC and $4 million related to over-recovered electric transmission costs.

The BGE energy costs represent the electric supply, gas supply, and transmission related costs recoverable (refundable) from (to) customers under BGE's market-based SOS program, MBR program, and FERC approved transmission rates, respectively. BGE earns or pays interest to customers on under-recovered or over-recovered FERC transmission formula-related costs. BGE does not earn or pay interest to customers on under-recovered or over-recovered SOS and MBR costs. The recovery or refund period is a twelve-month period beginning in June of the following calendar year. As of December 31, 2017, BGE's regulatory asset of $23 million included $7 million of costs associated with transmission costs recoverable through its FERC approved formula rate, $5 million related to under-recovered electric energy costs, $3 million of abandonment costs to be recovered upon FERC approval, and $8 million related to under-recovered natural gas costs. As of December 31, 2016, BGE's regulatory asset of $38 million included $4 million of costs associated with transmission costs recoverable through its FERC approved formula rate, $28 million related to under-recovered electric energy costs, $3 million of abandonment costs to be recovered upon FERC approval and $3 million related to under-recovered natural gas costs.

The Pepco energy costs represent the electric supply and transmission related costs recoverable (refundable) from (to) customers under Pepco's market-based SOS program and FERC approved transmission rates. Pepco earns or pays interest to customers on under-recovered or over-recovered FERC transmission formula-related costs. Pepco does not earn or pay interest to customers on under- or over-recovered SOS costs. The asset is being amortized and recovered over the life of the associated assets. As of December 31, 2017, Pepco's regulatory asset of $11 million included $3 million of transmission costs recoverable through its FERC approved formula rate and $8 million of under-recovered electric energy costs. As of December 31, 2017, Pepco's regulatory liability was zero. As of December 31, 2016, Pepco's regulatory asset of $6 million related to under-recovered electric energy costs. As of December 31, 2016, Pepco's regulatory liability of $8 million included $5 million of over-recovered transmission costs and $3 million of over-recovered electric energy costs.

The DPL energy costs represent the electric supply, gas supply, and transmission related costs recoverable (refundable) from (to) customers under DPL's market-based SOS program, GCR and FERC approved transmission rates. DPL earns or pays interest to customers on under-recovered or over-recovered FERC transmission formula-related costs. In Delaware, DPL earns interest on under-recovered costs and pays interest to customers on over-recovered SOS and GCR costs. In Maryland, DPL does not earn or pay interest to customers on under- or over-recovered SOS costs. The asset is being amortized and recovered over the life of the associated assets. As of December 31, 2017, DPL's regulatory asset of $15 million included $8 million of transmission costs recoverable through its FERC approved formula rate and $7 million of under-recovered electric energy costs. As of December 31, 2017, DPL's regulatory liability of $1 million related to over-recovered electric energy costs. As of December 31, 2016, DPL’s regulatory asset of $5 million included $1 million of transmission costs recoverable through its FERC approved formula rate and $4 million of under-recovered electric energy

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costs. As of December 31, 2016, DPL's regulatory liability of $5 million included $2 million of over-recovered electric energy costs and $3 million of over-recovered transmission costs.

The ACE energy costs represent the electric supply and transmission related costs recoverable (refundable) from (to) customers under ACE's market-based BGS program and FERC approved transmission rates. ACE earns or pays interest to customers on under-recovered or over-recovered FERC transmission formula-related costs. ACE earns interest on under-recovered and pays interest to customers on over-recovered BGS costs. As of December 31, 2017, ACE's regulatory asset of $26 million included $11 million of transmission costs recoverable through its FERC approved formula rate and $15 million of under-recovered electric energy costs. As of December 31, 2017, ACE's regulatory liability of $3 million related to over-recovered electric energy costs. As of December 31, 2016, ACE's regulatory asset of $17 million included $6 million of transmission costs recoverable through its FERC approved formula rate and $11 million of under-recovered electric energy costs. As of December 31, 2016, ACE's regulatory liability of $5 million included $4 million of over-recovered transmission costs and $1 million of over-recovered electric energy costs.

Deferred storm costs. In the MDPSC's March 2011 rate order, BGE was authorized to defer $16 million in storm costs incurred in February 2010. BGE earns a return on this regulatory asset and the original recovery period of five years was extended for an additional 25 months, in accordance with the MDPSC 2014 electric and natural gas distribution rate case order. This regulatory asset has now been fully amortized as of December 31, 2017.

For Pepco, DPL and ACE, amounts represent total incremental storm restoration costs incurred for repair work due to major storm events in 2017, 2016, 2015, 2012 and 2011 recoverable from customers in the Maryland and New Jersey jurisdictions. These incremental storm restoration costs are amortized over a three or five year period dependent on jurisdiction.

Electric generation-related regulatory asset. As a result of the deregulation of electric generation, BGE ceased to meet the requirements for accounting for a regulated business for the previous electric generation portion of its business. As a result, BGE wrote-off its entire individual, generation-related regulatory assets and liabilities and established a single, generation-related regulatory asset to be collected through its regulated rates, which is being amortized on a basis that approximates the pre-existing individual regulatory asset amortization schedules. The portion of this regulatory asset that does not earn a regulated rate of return was $9 million as of December 31, 2016. This regulatory asset has now been fully amortized as of December 31, 2017.

Rate stabilization deferral. In June 2006, Senate Bill 1 was enacted in Maryland and imposed a rate stabilization measure that capped rate increases by BGE for residential electric customers at 15% from July 1, 2006, to May 31, 2007. As a result, BGE recorded a regulatory asset on its Consolidated Balance Sheets equal to the difference between the costs to purchase power and the revenues collected from customers, as well as related carrying charges based on short-term interest rates from July 1, 2006 to May 31, 2007. In addition, as required by Senate Bill 1, the MDPSC approved a plan that allowed residential electric customers the option to further defer the transition to market rates from June 1, 2007 to January 1, 2008. During 2007, BGE deferred $306 million of electricity purchased for resale expenses and certain applicable carrying charges, which are calculated using the implied interest rates of the rate stabilization bonds, as a regulatory asset related to the rate stabilization plans. During 2017 and 2016, BGE recovered $7 million and $81 million, respectively, of electricity purchased for resale expenses and carrying charges related to the rate stabilization plan regulatory asset. BGE began amortizing the regulatory asset associated with the deferral which ended in May 2007 to earnings over a period not to exceed ten years when collection from customers began in June 2007. This regulatory asset has now been fully amortized as of December 31, 2017.

Energy efficiency and demand response programs. For ComEd, these amounts represent over recoveries related to ComEd's ICC-approved Energy Efficiency and Demand Response Plan under

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the energy efficiency rate rider cancelled on June 2, 2017. ComEd expects to refund these over recoveries in future rates. ComEd earns a return on the capital investment incurred under the program, but does not earn or pay a return or interest on under or over recoveries, respectively. For PECO, these amounts represent over recoveries of program costs related to both Phase II and Phase III of its PAPUC-approved EE&C Plan. PECO began recovering the costs of its Phase II and Phase III EE&C Plans through a surcharge in June 2013 and June 2016, respectively, based on projected spending under the programs. Phase II of the program began on June 1, 2013 and expired on May 31, 2016. Phase III of the program began on June 1, 2016 and will expire on May 31, 2021. PECO earns a return on the capital portion of the EE&C Plan. For BGE, these amounts represent under (over) recoveries related to BGE's Smart Energy Savers Program⊩, which includes both MDPSC-approved demand response and energy efficiency programs. For the BGE Peak Rewards℠ demand response program which began in January 2008, actual marketing and customer bonus costs incurred in the demand response program are being recovered over a 5-year amortization period from the date incurred pursuant to an order by the MDPSC. Fixed assets related to the demand response program are recovered over the life of the equipment. Also included in the demand response program are customer bill credits related to BGE's Smart Energy Rewards program which began in July 2013 and are being recovered through the surcharge. Actual costs incurred in the energy efficiency program are being amortized over a 5-year period with recovery beginning in 2010 pursuant to an order by the MDPSC. BGE earns a rate of return on the capital investments and deferred costs incurred under the program and earns (pays) interest on under (over) collections.

For Pepco, DPL and ACE, amounts represent recoverable costs associated with customer direct load control and energy efficiency and conservation programs in all jurisdictions that are being recovered from customers. These programs are designed to reduce customers' energy consumption. Pepco Maryland and DPL Maryland energy efficiency program costs are recovered over 5 years and the direct load control program costs are recovered over 5 years and 15 years, depending on the type. ACE costs are recovered over 10 years. Pepco, DPL and ACE earn a return on these regulatory assets.

Merger integration costs. These amounts include integration costs to achieve distribution synergies related to the Constellation merger transaction. As a result of the MDPSC's February 2013 rate order, BGE deferred $8 million related to non-severance merger integration costs incurred during 2012 and the first quarter of 2013. Of these costs, $4 million was authorized to be amortized over a 5-year period that began in March 2013. The recovery of the remaining $4 million was deferred. In the MDPSC's December 2013 rate order, BGE was authorized to recover the remaining $4 million and an additional $4 million of non-severance merger integration costs incurred during 2013. These costs are being amortized over a 5-year period that began in December 2013. BGE is earning a return on this regulatory asset.

These amounts also include integration costs to achieve distribution synergies related to the PHI acquisition. As of December 31, 2017 and 2016, BGE's regulatory asset of $6 million and $10 million, respectively, included $4 million and $6 million, respectively, of previously incurred PHI integration costs as authorized by the June 2016 rate case order. As of December 31, 2017, Pepco's regulatory asset of $20 million represents previously incurred PHI integration costs, including $11 million authorized for recovery in Maryland and $9 million expected to be recovered in the District of Columbia service territory. As of December 31, 2016, Pepco's regulatory asset of $11 million represents previously incurred PHI integration costs authorized for recovery in Maryland. As of December 31, 2017, DPL's regulatory asset of $10 million represents previously incurred PHI integration costs, including $4 million authorized for recovery in Maryland, $5 million authorized for recovery in Delaware electric rates, and $1 million expected to be recovered in electric and gas rates in the Maryland and Delaware service territories. As of December 31, 2016, DPL's regulatory asset of $4 million represents previously incurred PHI integration costs expected to be recovered in the Maryland service territory.

As of December 31, 2017, ACE’s regulatory asset of $9 million represents previously incurred PHI integration costs expected to be recovered in the New Jersey service territory. Pepco and DPL are earning a return on the regulatory

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assets being recovered in Maryland and these costs are being amortized over five years. DPL is earning a return on the regulatory asset being recovered in Delaware and the cost is being amortized over five years. Amounts deferred for Pepco in the District of Columbia and ACE in New Jersey do not earn a return.

Under (Over)-recovered electric and gas revenue decoupling. For BGE, these amounts represent the electric and gas distribution costs recoverable from or (refundable) to customers under BGE's decoupling mechanisms and are being recovered over the life of the associated assets. As of December 31, 2017, BGE had a regulatory asset of $10 million related to under-recovered electric revenue decoupling and $4 million related to under-recovered natural gas revenue decoupling. As of December 31, 2016, BGE had a regulatory asset of $2 million related to under-recovered natural gas revenue decoupling and $1 million related to under-recovered electric revenue decoupling.

For Pepco and DPL, these amounts represent the electric distribution costs recoverable from customers under Pepco's Maryland and District of Columbia decoupling mechanisms and DPL's Maryland decoupling mechanism. Pepco and DPL earn a return on these regulatory assets.

COPCO acquisition adjustment. On July 19, 2007, the MDPSC issued an order which provided for the recovery of a portion of DPL's goodwill. As a result of this order, $41 million in DPL goodwill was transferred to a regulatory asset. In February 2017 the MDPSC ruled that the remaining amortization be extended for an additional three years, and this item is now amortized from August 2007 through February 2020. DPL earns a return on these regulatory assets.

Workers compensation and long-term disability costs. These amounts represent accrued workers' compensation and long-term disability costs for Pepco, which are recoverable from customers when actual claims are paid to employees. The recovery period for these regulatory assets is over the life of the associated assets.

Vacation accrual. These amounts represent accrued vacation costs for PECO, DPL and ACE. PECO, DPL and ACE and the costs are recoverable from customers when actual payments are made to employees or when vacation is taken.

Securitized stranded costs. These amounts represent certain contract termination payments under a contract between ACE and an unaffiliated non-utility generator and costs associated with the regulated operations of ACE's electricity generation business that are no longer recoverable through customer rates (collectively referred to as "stranded costs"). The stranded costs are amortized over the life of Transition Bonds issued by Atlantic City Electric Transition Funding LLC (ACE Funding) to securitize the recoverability of these stranded costs. These bonds mature between 2018 and 2023. A customer surcharge is collected by ACE to fund principal and interest payments on the Transition Bonds. PHI earns a return on these regulatory assets.

CAP arrearage. These amounts represent the guaranteed recovery of PECO's previously incurred bad debt expense associated with the eligible CAP accounts receivable balances under the IPAF Program as provided by the 2015 electric distribution rate case settlement. These costs are amortized as recovery is received through a combination of customer payments over the duration of the five-year payment agreement term and rate recovery, including through future rate cases if necessary.

Removal costs. These amounts represent funds ComEd, BGE, PHI, Pepco, DPL and ACE have received from customers through depreciation rates to cover the future non-legally required cost of removal of property, plant and equipment which reduces rate base for ratemaking purposes. This liability is reduced as costs are incurred. PHI, Pepco, DPL, and ACE have a regulatory asset which represents removal costs incurred in excess of amounts received from customers through depreciation rates recoverable from ratepayers. The recovery period of these regulatory assets is over the life of the associated assets.

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DC PLUG charge. On November 9, 2017, the DCPSC issued an order approving the First Biennial Plan and the application for a financing order. As a result, Pepco's obligation of $187 million will be recovered from customers and therefore, a $187 million regulatory asset was established. Pepco will recover $60 million over a two-year period and the remainder will be recovered based on future biennial plans filed with the DCPSC. In addition, $3 million of previously deferred costs from the first Triennial Plan were approved for recovery from customers over a one year recovery period.

Nuclear decommissioning. These amounts represent estimated future nuclear decommissioning costs for the Regulatory Agreement Units that exceed (regulatory asset) or are less than (regulatory liability) the associated decommissioning trust fund assets. Exelon believes the trust fund assets, including prospective earnings thereon and any future collections from customers, will be sufficient to fund the associated future decommissioning costs at the time of decommissioning. See Note 15 — Asset Retirement Obligations for additional information.

Deferred rent. Represents the regulatory liability recorded at Exelon and PHI for deferred rent related to a lease. The costs of the lease are recoverable through the ratemaking process at Pepco, DPL and ACE.

DLC program costs. The DLC program costs include equipment, installation, and information technology costs necessary to implement the DLC Program under PECO's EE&C Phase I Plans. PECO received full cost recovery through Phase I collections and will amortize the costs as a credit to the income statement to offset the related depreciation expense during the same period through September 2025, which is the remaining useful life of the assets.

Electric distribution tax repairs. PECO's 2010 electric distribution rate case settlement required that the expected cash benefit from the application of Revenue Procedure 2011-43, which was issued on August 19, 2011, to prior tax years be refunded to customers over a seven-year period. Credits began being reflected in customer bills on January 1, 2012. PECO's 2015 electric distribution rate case settlement requires PECO to pay interest on the unamortized balance of the tax-effected catch-up deduction beginning January 1, 2016.

Gas distribution tax repairs. PECO's 2010 natural gas distribution rate case settlement required that the expected cash benefit from the application of new tax repairs deduction methodologies for 2010 and prior tax years be refunded to customers over a seven-year period. In September 2012, PECO filed an application with the IRS to change its method of accounting for gas distribution repairs for the 2011 tax year. Credits began being reflected in customer bills on January 1, 2013. No interest will be paid to customers.

Renewable portfolio standards costs. Beginning June 1, 2017, ComEd recovers all costs associated with purchasing renewable energy credits through a new tariff rate rider that provides for a reconciliation and true-up to actual costs, with any difference to be credited to or collected from ComEd's retail customers in subsequent periods with interest. In addition, this balance includes the over recovery of renewable energy credits associated with RPS alternative compliance payments recovered under supply base rates. These collections were required under the Illinois Public Utilities Act to be used for renewable energy purchases in accordance with ICC procurement orders. The amortization period is in accordance with the applicable ICC procurement orders.

Zero emission credit costs. Beginning June 1, 2017, ComEd recovers all costs associated with purchasing ZECs through a new tariff rate rider that provides for an annual reconciliation and true-up to actual costs incurred by ComEd to purchase ZECs, with any difference to be credited to or collected from ComEd's retail customers in subsequent periods with interest.

Over-recovered uncollectible accounts. These amounts represent the difference between ACE's annual uncollectible accounts expense and revenues collected in rates through an NJBPU-approved

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rider. The difference between GAAP uncollectible expense and revenues collected through the rider each calendar year is recovered or refunded over a twelve-month period beginning in June of the following calendar year.

Capitalized Ratemaking Amounts Not Recognized (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

The following table illustrates our authorized amounts capitalized for ratemaking purposes related to earnings on shareholders' investment that are not recognized for financial reporting purposes on our Consolidated Balance Sheets. These amounts will be recognized as revenues in our Consolidated Statements of Operations and Comprehensive Income in the periods they are billable to our customers.

					Successor			
	Exelon	**ComEd[(a)]**	**PECO**	**BGE[(b)]**	**PHI**	**Pepco[(c)]**	**DPL[(c)]**	**ACE**
December 31, 2017	$ 69	$ 6	$ —	$ 53	$ 10	$ 6	$ 4	$ —
December 31, 2016	$ 72	$ 5	$ —	$ 57	$ 10	$ 6	$ 4	$ —

(a) Reflects ComEd's unrecognized equity returns earned for ratemaking purposes on its under-recovered distribution services costs regulatory assets.

(b) BGE's authorized amounts capitalized for ratemaking purposes primarily relate to earnings on shareholders' investment on its AMI programs

(c) Pepco's and DPL's authorized amounts capitalized for ratemaking purposes relate to earnings on shareholders' investment on their respective AMI Programs and Energy Efficiency and Demand Response Programs. The earnings on energy efficiency are on Pepco DC and DPL DE programs only.

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Purchase of Receivables Programs (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

ComEd, PECO, BGE, Pepco, DPL and ACE are required, under separate legislation and regulations in Illinois, Pennsylvania, Maryland, District of Columbia and New Jersey, to purchase certain receivables from retail electric and natural gas suppliers that participate in the utilities' consolidated billing. ComEd, BGE, Pepco and DPL purchase receivables at a discount primarily to recover uncollectible accounts expense from the suppliers. PECO is required to purchase receivables at face value and is permitted to recover uncollectible accounts expense, including those from Third Party Suppliers, from customers through distribution rates. ACE purchases receivables at face value. ACE recovers all uncollectible accounts expense, including those from Third Party Suppliers, through the Societal Benefits Charge (SBC) rider, which includes uncollectible accounts expense as a component. The SBC is filed annually with the NJBPU. Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE do not record unbilled commodity receivables under the POR programs. Purchased billed receivables are classified in Other accounts receivable, net on Exelon's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets. The following tables provide information about the purchased receivables of those companies as of December 31, 2017 and December 31, 2016.

					Successor			
As of December 31, 2017	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Purchased receivables	$ 298	$ 87	$ 70	$ 58	$ 83	$ 56	$ 9	$ 18
Allowance for uncollectible accounts [(a)]	(31)	(14)	(5)	(3)	(9)	(5)	(1)	(3)
Purchased receivables, net	$ 267	$ 73	$ 65	$ 55	$ 74	$ 51	$ 8	$ 15

					Successor			
As of December 31, 2016	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Purchased receivables	$ 313	$ 87	$ 72	$ 59	$ 95	$ 63	$ 10	$ 22
Allowance for uncollectible accounts [(a)]	(37)	(14)	(6)	(4)	(13)	(7)	(2)	(4)
Purchased receivables, net	$ 276	$ 73	$ 66	$ 55	$ 82	$ 56	$ 8	$ 18

(a) For ComEd, BGE, Pepco and DPL, reflects the incremental allowance for uncollectible accounts recorded, which is in addition to the purchase discount. For ComEd, the incremental uncollectible accounts expense is recovered through its Purchase of Receivables with Consolidated Billing tariff.

4. Mergers, Acquisitions and Dispositions (Exelon, Generation, PHI, Pepco and DPL)

Acquisition of James A. FitzPatrick Nuclear Generating Station (Exelon and Generation)

On March 31, 2017, Generation acquired the 842 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station located in Scriba, New York from Entergy Nuclear FitzPatrick LLC (Entergy) for a total purchase price of $289 million, which consisted of a cash purchase price of $110 million and a net cost reimbursement to and on behalf of Entergy of $179 million. As part of the acquisition agreements, Generation provided nuclear fuel and reimbursed Entergy for incremental costs to prepare for and conduct a plant refueling outage; and Generation reimbursed Entergy for incremental costs to operate and maintain the plant for the period after the refueling outage through the acquisition closing date. These reimbursements covered costs that Entergy otherwise would have avoided had it shut down the plant as originally intended in January 2017. The amounts reimbursed by Generation were offset by FitzPatrick's electricity and capacity sales revenues for this same post-outage period. As part of the transaction, Generation received the FitzPatrick NDT fund assets and assumed the obligation to decommission FitzPatrick. The NRC license for FitzPatrick expires in 2034. In 2017, the final purchase price consideration of $289 million (including $235 million of cash and $54 million of nuclear fuel) was remitted to and on behalf of Entergy.

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The fair values of FitzPatrick's assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The valuations performed in the first quarter of 2017 to determine the fair value of the FitzPatrick assets acquired and liabilities assumed were preliminary. Accounting guidance provides that the allocation of the purchase price may be modified up to one year from the date of the acquisition to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date.

During the third quarter of 2017, certain modifications were made to the initial preliminary valuation amounts for acquired property, plant and equipment, the decommissioning ARO, pension and OPEB obligations and related deferred tax liabilities, resulting in a $3 million net increase in assets acquired and liabilities assumed. Additionally, in the third quarter a purchase price settlement payment of $4 million was received from Entergy. These resulted in an adjustment to the after-tax bargain purchase gain recorded at Generation. For the year ended December 31, 2017, the after-tax bargain purchase gain of $233 million is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and primarily reflects differences in strategies between Generation and Entergy for the intended use and ultimate decommissioning of the plant. There are no further adjustments expected to be made to the allocation of the purchase price. See Note 15 - Asset Retirement Obligations and Note 16 - Retirement Benefits for additional information regarding the FitzPatrick decommissioning ARO and pension and OPEB updates.

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The following table summarizes the final acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the FitzPatrick acquisition by Generation as of December 31, 2017:

Cash paid for purchase price	$	110
Cash paid for net cost reimbursement		125
Nuclear fuel transfer		54
Total consideration transferred	$	289
Identifiable assets acquired and liabilities assumed		
Current assets	$	60
Property, plant and equipment		298
Nuclear decommissioning trust funds		807
Other assets[(a)]		114
Total assets	$	1,279
Current liabilities	$	6
Nuclear decommissioning ARO		444
Pension and OPEB obligations		33
Deferred income taxes		149
Spent nuclear fuel obligation		110
Other liabilities		15
Total liabilities	$	757
Total net identifiable assets, at fair value	$	522
Bargain purchase gain (after-tax)	$	233

(a) Includes a $110 million asset associated with a contractual right to reimbursement from the New York Power Authority (NYPA), a prior owner of FitzPatrick, associated with the DOE one-time fee obligation. See Note 23-Commitments and Contingencies for additional background regarding SNF obligations to the DOE.

For the year ended December 31, 2017, Exelon and Generation incurred $57 million of merger and integration related costs which are included within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Acquisition of ConEdison Solutions (Exelon and Generation)

On September 1, 2016, Generation acquired the competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc. (ConEdison Solutions), a subsidiary of Consolidated Edison, Inc. for a purchase price of $257 million including net working capital of $204 million. The renewable energy, sustainable services and energy efficiency businesses of ConEdison Solutions are excluded from the transaction.

The fair values of ConEdison Solutions' assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The purchase price equaled the estimated fair value of the net assets acquired and the liabilities

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assumed and, therefore, no goodwill or bargain purchase was recorded as of the acquisition date. The purchase price allocation is now final.

The following table summarizes the final acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the ConEdison Solutions acquisition by Generation:

Total consideration transferred	$	257
Identifiable assets acquired and liabilities assumed		
Working capital assets	$	204
Property, plant and equipment		2
Mark-to-market derivative assets		6
Unamortized energy contract assets		100
Customer relationships		9
Other assets		1
Total assets	$	322
Mark-to-market derivative liabilities	$	65
Total liabilities	$	65
Total net identifiable assets, at fair value	$	257

Merger with Pepco Holdings, Inc. (Exelon)

Description of Transaction

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon's interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). Following the completion of the PHI Merger, Exelon and PHI completed a series of internal corporate organization restructuring transactions resulting in the transfer of PHI's unregulated business interests to Exelon and Generation and the transfer of PHI, Pepco, DPL and ACE to a special purpose subsidiary of EEDC.

Regulatory Matters

Approval of the merger in Delaware, New Jersey, Maryland and the District of Columbia was conditioned upon Exelon and PHI agreeing to certain commitments including where applicable: customer rate credits, funding for energy efficiency and delivery system modernization programs, a green sustainability fund, workforce development initiatives, charitable contributions, renewable generation and other required commitments. In addition, the orders approving the merger in Delaware, New Jersey, and Maryland include a “most favored nation” provision which, generally, requires allocation of merger benefits proportionally across all the jurisdictions.

During the third and fourth quarters of 2016, Exelon and PHI filed proposals in Delaware, New Jersey and Maryland for amounts and allocations reflecting the application of the most favored nation provision, resulting in a total nominal cost of commitments of $513 million excluding renewable generation commitments (approximately $444 million on a net present value basis amount, excluding renewable

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generation commitments and charitable contributions). These filings reflected agreements reached with certain parties to the merger proceedings in these jurisdictions. In 2016, the DPSC and NJBPU approved the amounts and allocations of the additional merger benefits for Delaware and New Jersey, respectively. On April 12, 2017, the MDPSC issued an order approving the amounts of the additional merger benefits for Maryland, but amending the proposed allocations of the benefits. The amended allocations do not have a material effect on any of the Registrants' financial statements. No changes in commitment cost levels are required in the District of Columbia.

During the second quarter of 2017, Exelon finalized the application of $8 million funding for low- and moderate-income customers in the Pepco Maryland and DPL Maryland service territories. This resulted in an adjustment to merger commitment costs recorded at Exelon Corporate, Pepco, and DPL. Exelon Corporate recorded an increase of $8 million and Pepco and DPL recorded a decrease of $6 million and $2 million, respectively, in Operating and maintenance expense.

The following amounts represent total commitment costs for Exelon, PHI, Pepco, DPL and ACE that have been recorded since the acquisition date:

					Successor	
Description	**Expected Payment Period**	**Pepco**	**DPL**	**ACE**	**PHI**	**Exelon**
Rate credits	2016 - 2017	$ 91	$ 67	$ 101	$ 259	$ 259
Energy efficiency	2016 - 2021	—	—	—	—	122
Charitable contributions	2016 - 2026	28	12	10	50	50
Delivery system modernization	Q2 2017	—	—	—	—	22
Green sustainability fund	Q2 2017	—	—	—	—	14
Workforce development	2016 - 2020	—	—	—	—	17
Other		1	5	—	6	29
Total		$ 120	$ 84	$ 111	$ 315	$ 513

Pursuant to the orders approving the merger, Exelon made $73 million, $46 million and $49 million of equity contributions to Pepco, DPL and ACE, respectively, in the second quarter of 2016 to fund the after-tax amounts of the customer bill credit and the customer base rate credit commitments.

In addition, Exelon is committed to develop or to assist in the commercial development of approximately 37 MWs of new generation in Maryland, District of Columbia, and Delaware, 27 MWs of which are expected to be completed by 2018. These investments are expected to total approximately $137 million, are expected to be primarily capital in nature, and will generate future earnings at Exelon and Generation. Investment costs will be recognized as incurred and recorded on Exelon's and Generation's financial statements. Exelon has also committed to purchase 100 MWs of wind energy in PJM, to procure 120 MWs of wind RECs for the purpose of meeting Delaware's renewable portfolio standards, and to maintain and promote energy efficiency and demand response programs in the PHI jurisdictions.

Pursuant to the various jurisdictions' merger approval conditions, over specified periods Pepco, DPL and ACE are not permitted to reduce employment levels due to involuntary attrition associated with the merger integration process and have made other commitments regarding hiring and relocation of positions.

In July 2015, the OPC, Public Citizen, Inc., the Sierra Club and the Chesapeake Climate Action Network (CCAN) filed motions to stay the MDPSC order approving the merger. The Circuit Court judge issued an order denying the motions for stay on August 12, 2015. On January 8, 2016, the Circuit Court judge affirmed the MDPSC’s order approving the merger and denied the petitions for judicial review filed

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by the OPC, the Sierra Club, CCAN and Public Citizen, Inc. On January 19, 2016, the OPC filed a notice of appeal to the Maryland Court of Special Appeals, and on January 21, the Sierra Club and CCAN filed notices of appeal. On January 27, 2017, the Maryland Court of Special Appeals affirmed the Circuit Court's judgment that the MDPSC did not err in approving the merger. The OPC and Sierra Club filed petitions seeking further review in the Court of Appeals of Maryland, which is the highest court in Maryland. On June 21, 2017, the Court of Appeals granted discretionary review of the January 27, 2017 decision by the Maryland Court of Special Appeals. The Maryland Court of Appeals will review the OPC argument that the MDPSC did not properly consider the acquisition premium paid to PHI shareholders under Maryland's merger approval standard and the Sierra Club's argument that the merger would harm the renewable and distributed generation markets. The two lower courts examining these issues rejected these arguments, which Exelon believes are without merit. All briefs have been filed and oral arguments were presented to the court on October 10, 2017.

Between March 25, 2016 and April 22, 2016, various parties filed motions with the DCPSC to reconsider its March 23, 2016 order approving the merger. On June 17, 2016, the DCPSC denied all motions. In August 2016, the District Legal Entity of Columbia Office of People's Counsel, the District of Columbia Government, and Public Citizen jointly with DC Sun each filed petitions for judicial review of the DCPSC's March 23, 2016 order with the District of Columbia Court of Appeals. On July 20, 2017, the Court issued an opinion rejecting all of appellants' arguments and affirming the Commission's decision approving the merger.

Accounting for the Merger Transaction

The total purchase price consideration of approximately $7.1 billion for the PHI Merger consisted of cash paid to PHI shareholders, cash paid for PHI preferred securities and cash paid for PHI stock-based compensation equity awards as follows:

(In millions of dollars, except per share data)	Total Consideration
Cash paid to PHI shareholders at $27.25 per share (254 million shares outstanding at March 23, 2016)	$ 6,933
Cash paid for PHI preferred stock	180
Cash paid for PHI stock-based compensation equity awards[(a)]	29
Total purchase price	$ 7,142

(a) PHI's unvested time-based restricted stock units and performance-based restricted stock units issued prior to April 29, 2014 were immediately vested and paid in cash upon the close of the merger. PHI's remaining unvested time-based restricted stock units as of the close of the merger were cancelled. There were no remaining unvested performance-based restricted stock units as of the close of the merger.

PHI shareholders received $27.25 of cash in exchange for each share of PHI common stock outstanding as of the effective date of the merger. In connection with the Merger Agreement, Exelon entered into a Subscription Agreement under which it purchased $180 million of a new class of nonvoting, nonconvertible and nontransferable preferred securities of PHI prior to December 31, 2015. On March 23, 2016, the preferred securities were cancelled for no consideration to Exelon, and accordingly, the $180 million cash consideration previously paid to acquire the preferred securities was treated as purchase price consideration.

The preliminary valuations performed in the first quarter of 2016 were updated in the second, third, and fourth quarters of 2016. There were no adjustments to the purchase price allocation in the first quarter of 2017 and the purchase price allocation is now final.

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Exelon applied push-down accounting to PHI, and accordingly, the PHI assets acquired and liabilities assumed were recorded at their estimated fair values on Exelon's and PHI's Consolidated Balance Sheets as follows:

Purchase Price Allocation[(a)]		
Current assets	$	1,441
Property, plant and equipment		11,088
Regulatory assets		5,015
Other assets		248
Goodwill		4,005
Total assets	$	21,797
Current liabilities	$	2,752
Unamortized energy contracts		1,515
Regulatory liabilities		297
Long-term debt, including current maturities		5,636
Deferred income taxes		3,447
Pension and OPEB obligations		821
Other liabilities		187
Total liabilities	$	14,655
Total purchase price	$	7,142

(a) Amounts shown reflect the final purchase price allocation and the correction of a reporting error identified and corrected in the second quarter of 2016. The error had resulted in a gross up of certain assets and liabilities related to legacy PHI intercompany and income tax receivable and payable balances.

On its successor financial statements, PHI has recorded, beginning March 24, 2016, Membership interest equity of $7.2 billion, which is greater than the total $7.1 billion purchase price, reflecting the impact of a $59 million deferred tax liability recorded only at Exelon Corporate to reflect unitary state income tax consequences of the merger.

The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed totaled $4.0 billion, which was recognized as goodwill by PHI and Exelon at the acquisition date, reflecting the value associated with enhancing Exelon's regulated utility portfolio of businesses, including the ability to leverage experience and best practices across the utilities and the opportunities for synergies. For purposes of future required impairment assessments, the goodwill has been assigned to PHI's reportable units Pepco, DPL and ACE in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. None of this goodwill is expected to be tax deductible.

Immediately following closing of the merger, $235 million of net assets included in the table above associated with PHI's unregulated business interests were distributed by PHI to Exelon. Exelon contributed $163 million of such net assets to Generation.

The fair values of PHI's assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows, future market prices and impacts of utility rate regulation. There were also judgments made to determine the expected useful lives assigned to each class of assets acquired.

Through its wholly owned rate regulated utility subsidiaries, most of PHI's assets and liabilities are subject to cost-of-service rate regulation. Under such regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. In applying the acquisition method of accounting, for regulated assets and liabilities included in rate base or otherwise earning a return (primarily property, plant and equipment and regulatory assets earning a return), no fair value adjustments were recorded as historical cost is viewed as a reasonable proxy for fair value.

Fair value adjustments were applied to the historical cost bases of other assets and liabilities subject to rate regulation but not earning a return (including debt instruments and pension and OPEB obligations). In these instances, a corresponding offsetting regulatory asset or liability was also established, as the underlying utility asset and liability amounts are recoverable from or refundable to customers at historical cost (and not at fair value) through the rate setting process. Similar treatment was applied for fair value adjustments to record intangible assets and liabilities, such as for electricity and gas energy supply contracts as further described below. Regulatory assets and liabilities established to offset fair value adjustments are amortized in amounts and over time frames consistent with the realization or settlement of the fair value adjustments, with no impact on reported net income. See Note 3 - Regulatory Matters for additional information regarding the fair value of regulatory assets and liabilities established by Exelon and PHI.

Fair value adjustments were recorded at Exelon and PHI for the difference between the contract price and the market price of electricity and gas energy supply contracts of PHI's wholly owned rate regulated utility subsidiaries. These adjustments are intangible assets and liabilities classified as unamortized energy contracts on Exelon's and PHI's Consolidated Balance Sheets as of December 31, 2017. The difference between the contract price and the market price at the acquisition date of the Merger was recognized for each contract as either an intangible asset or liability. In total, Exelon and PHI recorded a net $1.5 billion liability reflecting out-of-the-money contracts. The valuation of the acquired intangible assets and liabilities was estimated by applying either the market approach or the income approach depending on the nature of the underlying contract. The market approach was utilized when prices and other relevant information generated by market transactions involving comparable transactions were available. Otherwise the income approach, which is based upon discounted projected future cash flows associated with the underlying contracts, was utilized. In certain instances, the valuations were based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key estimates and inputs include forecasted power prices and the discount rate. The unamortized energy contract fair value adjustment amounts and the corresponding offsetting regulatory asset and liability amounts are amortized through Purchased power and fuel expense or Operating revenues, as applicable, over the life of the applicable contract in relation to the present value of the underlying cash flows as of the merger date.

As mentioned, under cost-of-service rate regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. Historical cost information therefore is the most relevant presentation for the financial statements of PHI's rate regulated utility subsidiary registrants, Pepco, DPL and ACE. As such, Exelon and PHI did not push-down the application of acquisition accounting to PHI's utility registrants, and therefore the financial statements of Pepco, DPL and ACE do not reflect the revaluation of any assets and liabilities.

The current impact of PHI, including its unregulated businesses, on Exelon's Consolidated Statements of Operations and Comprehensive Income includes Operating revenues of $4,829 million and Net income of $364 million during the year ended December 31, 2017, and Operating revenues of $3,785 million and Net loss of $(66) million for the year ended December 31, 2016.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

For the periods ended December 31, 2017 and 2016, the Registrants have recognized costs to achieve the PHI acquisition as follows:

	For the Year Ended December 31,	
Acquisition, Integration and Financing Costs[a]	**2017**	**2016**
Exelon	$ 16	$ 143
Generation	22	37
ComEd[b]	1	(6)
PECO	4	5
BGE[b]	4	(1)
Pepco[b]	(6)	28
DPL[b]	(7)	20
ACE[b]	(6)	19

	Successor		*Predecessor*
Acquisition, Integration and Financing Costs[a]	**For the Year Ended December 31, 2017**	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**
PHI[b]	$ (18)	$ 69	$ 29

(a) The costs incurred are classified primarily within Operating and maintenance expense in the Registrants' respective Consolidated Statements of Operations and Comprehensive Income, with the exception of the financing costs, which are included within Interest expense. Costs do not include merger commitments discussed above.

(b) For the year ended December 31, 2017, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $24 million, $8 million, $8 million, and $8 million incurred at PHI, Pepco, DPL, and ACE, respectively, that have been recorded as a regulatory asset for anticipated recovery. For the year ended December 31, 2016, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $8 million, $6 million, $11 million, and $4 million incurred at ComEd, BGE, Pepco, and DPL, respectively, that have been recorded as a regulatory asset for anticipated recovery. For the Successor period March 24, 2016 to December 31, 2016, includes deferrals of previously incurred integration costs to achieve distribution synergies related to the PHI acquisition of $16 million incurred at PHI that have been recorded as a regulatory asset for anticipated recovery. See Note 3 - Regulatory Matters for more information.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Pro-forma Impact of the Merger

The following unaudited pro-forma financial information reflects the consolidated results of operations of Exelon as if the merger with PHI had taken place on January 1, 2015. The unaudited pro forma information was calculated after applying Exelon's accounting policies and adjusting PHI's results to reflect purchase accounting adjustments.

The unaudited pro-forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the merger events taken place on the dates indicated, or the future consolidated results of operations of the combined company.

	Year Ended December 31,	
	2016[(a)]	2015[(b)]
Total operating revenues	$ 32,342	$ 33,823
Net income attributable to common shareholders	1,562	2,618
Basic earnings per share	$ 1.69	$ 2.85
Diluted earnings per share	1.69	2.84

(a) The amounts above exclude non-recurring costs directly related to the merger of $680 million and intercompany revenue of $171 million for the year ended December 31, 2016.

(b) The amounts above exclude non-recurring costs directly related to the merger of $92 million and intercompany revenue of $559 million for the year ended December 31, 2015.

Asset Dispositions (Exelon, Generation, PHI, Pepco and DPL)

EGTP, a Delaware limited liability company, was formed in 2014 with the purpose of financing a portfolio of assets comprised of two combined-cycle gas turbines (CCGTs) and three peaking/simple cycle facilities consisting of approximately 3.4 GW of generation capacity in ERCOT North and Houston Zones. EGTP is an indirect wholly owned subsidiary of Exelon and Generation. Each of the aforementioned facilities are held through a wholly owned direct subsidiary of EGTP. EGTP also owns two equity method investments in shared facility companies. EGTP, its direct parent and its wholly owned subsidiaries secured a nonrecourse senior secured term loan facility, a revolving loan facility and certain commodity and interest rate swaps.

EGTP's operating cash flows were negatively impacted by certain market conditions and the seasonality of its cash flows. On May 2, 2017, as a result of the negative impacts of certain market conditions and the seasonality of its cash flows, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries. As a result, Exelon and Generation classified certain of EGTP assets and liabilities as held for sale at their respective fair values less costs to sell and recorded a $460 million pre-tax impairment loss. See Note 13 - Debt and Credit Agreements for details regarding the nonrecourse debt associated with EGTP and Note 7 - Impairment of Long-Lived Assets and Intangibles for further information.

On November 7, 2017, EGTP and all of its wholly owned subsidiaries (collectively with EGTP, the "Debtors") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. The Debtors sought Bankruptcy Court authorization to jointly administer the Chapter 11 cases. The Debtors are continuing to manage their assets and operate their businesses as "debtors in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. As a result of the bankruptcy filing, Exelon and Generation deconsolidated EGTP's

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

assets and liabilities from their consolidated financial statements, resulting in a pre-tax gain upon deconsolidation of $213 million. Concurrently with the Chapter 11 filings, Generation entered into an asset purchase agreement to acquire one of EGTP's generating plants, the Handley Generating Station, for approximately $60 million, subject to a potential adjustment for fuel oil and assumption of certain liabilities. In the Chapter 11 Filings, EGTP requested that the proposed acquisition of the Handley Generating Station be consummated through a court-approved and supervised sales process. The acquisition was approved by the Bankruptcy Court in January 2018 and the transaction is expected to be completed in the first half of 2018.

In December 2017, Pepco Building Services, Inc. entered into a purchase and sale agreement to sell its interest in an electrical contracting business that primarily installs, maintains and repairs underground and high-voltage cable transmission and distribution systems. The closing of the sale is expected to be completed in the first quarter of 2018. As a result, as of December 31, 2017, certain assets and liabilities were classified as held for sale at their respective fair values less costs to sell and included in the Other current assets and Other current liabilities balances on Exelon's and Generation's Consolidated Balance Sheet.

During the fourth quarter 2016, as part of its continual assessment of growth and development opportunities, Generation reevaluated and in certain instances terminated or renegotiated certain projects and contracts. As a result, a pre-tax loss of $69 million was recorded within Loss on sale of assets and pre-tax impairment charges of $23 million was recorded within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

In July 2016, DPL completed the sale of a 9-acre land parcel located on South Madison Street in Wilmington, DE, resulting in a pre-tax gain of approximately $4 million. In December 2016, DPL completed the sale of a 48-acre land parcel located in Middletown, DE, resulting in a pre-tax gain of approximately $5 million. Due to the fair value adjustments recorded at Exelon and PHI as part of purchase accounting, no gain was recorded in Exelon's and PHI's Consolidated Statements of Operations and Comprehensive Income.

On June 16, 2016, Generation initiated the sales process of its Upstream business by executing a forbearance agreement with the lenders of the nonrecourse debt. See Note 13 - Debt and Credit Agreements for more information. In December 2016, Generation sold substantially all of the Upstream assets for $37 million which resulted in a pre-tax loss on sale of $10 million which is included in Gain (loss) on sales of assets on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2016.

On May 2, 2016, Pepco completed the sale of the New York Avenue land parcel, located in Washington, D.C., resulting in a pre-tax gain of approximately $8 million at Pepco. Due to the fair value adjustments recorded at Exelon and PHI as part of purchase accounting, no gain was recorded in Exelon's and PHI's Consolidated Statements of Operations and Comprehensive Income.

On April 21, 2016, Generation completed the sale of the retired New Boston generating site, located in Boston, Massachusetts, resulting in a pre-tax gain of approximately $32 million.

On November 10, 2015, Pepco completed the sale of a 3.5-acre parcel of unimproved land (held as non-utility property) in the Buzzard Point area of southeast Washington, D.C., resulting in a pre-tax gain of $37 million.

On December 31, 2015, Pepco completed the sale of a 3.8-acre parcel of unimproved land (held as non-utility property) in the NoMa area of northeast Washington, D.C., resulting in a pre-tax gain of $9 million. The purchase and sale agreement also provided the third party with a 90-day option to purchase the remaining 1.8-acre land parcel.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

5. Accounts Receivable (All Registrants)

Accounts receivable at December 31, 2017 and 2016 included estimated unbilled revenues, representing an estimate for the unbilled amount of energy or services provided to customers, and is net of an allowance for uncollectible accounts as follows:

						Successor			
2017	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Unbilled customer revenues	$ 1,858	$ 1,017 [a]	$ 242	$ 162	$ 205	$ 232	$ 133	$ 68	$ 31
Allowance for uncollectible accounts [b]	(322)	(114)	(73)	(56) [c]	(24)	(55)	(21)	(16)	(18)

						Successor			
2016	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Unbilled customer revenues	$1,673	$ 910 [a]	$ 219	$ 140	$ 182	$ 222	$ 123	$ 58	$ 41
Allowance for uncollectible accounts[b]	(334)	(91)	(70)	(61) [c]	(32)	(80) [d]	(29) [d]	(24) [d]	(27) [d]

(a) Represents unbilled portion of retail receivables estimated under Exelon's unbilled critical accounting policy.

(b) Includes the estimated allowance for uncollectible accounts on billed customer and other accounts receivable.

(c) Excludes the non-current allowance for uncollectible accounts of $15 million and $23 million at December 31, 2017 and 2016, respectively, related to PECO's current installment plan receivables described below.

(d) At December 31, 2016, as explained in Note 1 — Significant Accounting Policies, PHI, Pepco, DPL and ACE estimated the allowance for uncollectible accounts on customer receivables by applying loss rates to the outstanding receivable balance by risk segment. The change in estimate resulted in an overall increase of $30 million, $14 million, $8 million, and $8 million in the allowance for uncollectible accounts with $20 million, $8 million, $4 million, and $8 million deferred as a regulatory asset on PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets at December 31, 2016, respectively. This also resulted in a $10 million, $6 million, and $4 million pre-tax charge to provision for uncollectible accounts expense for the year ended December 31, 2016, which is included in Operating and maintenance expense on PHI's, Pepco's and DPL's Consolidated Statements of Operations and Comprehensive Income, respectively.

PECO Installment Plan Receivables (Exelon and PECO)

PECO enters into payment agreements with certain delinquent customers, primarily residential, seeking to restore their service, as required by the PAPUC. Customers with past due balances that meet certain income criteria are provided the option to enter into an installment payment plan, some of which have terms greater than one year, to repay past due balances in addition to paying for their ongoing service on a current basis. The receivable balance for these payment agreement receivables is recorded in accounts receivable for the current portion and other deferred debits and other assets for the noncurrent portion. The net receivable balance for installment plans with terms greater than one year was $11 million and $9 million at December 31, 2017 and 2016, respectively. The allowance for uncollectible accounts reserve methodology and assessment of the credit quality of the installment plan receivables are consistent with the customer accounts receivable methodology discussed in Note 1—Significant Accounting Policies. The allowance for uncollectible accounts balance associated with these receivables at December 31, 2017 of $11 million consists of $3 million and $8 million for medium risk and high-risk segments, respectively. The allowance for uncollectible accounts balance associated with these receivables at December 31, 2016 of $13 million consists of $1 million, $3 million and $9 million for low risk, medium risk and high risk-segments, respectively. The balance of the payment agreement is billed to the customer in equal monthly installments over the term of the agreement. Installment receivables outstanding as of December 31, 2017 and 2016 include balances not yet presented on the customer bill, accounts currently billed and an immaterial amount of past due receivables. When a customer defaults on its payment agreement, the terms of which are defined by plan type, the entire balance of the agreement becomes due and the balance is reclassified to current customer accounts receivable and reserved for in accordance with the methodology discussed in Note 1—Significant Accounting Policies.

6. Property, Plant and Equipment (All Registrants)

Exelon

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)	2017	2016
Asset Category			
Electric—transmission and distribution	5-90	$ 49,506	$ 45,698
Electric—generation	2-56	29,019	27,193
Gas—transportation and distribution	5-90	5,050	4,642
Common—electric and gas	5-75	1,447	1,312
Nuclear fuel [(a)]	1-8	6,420	6,546
Construction work in progress	N/A	2,825	4,306
Other property, plant and equipment [(b)]	2-50	999	1,027
Total property, plant and equipment		95,266	90,724
Less: accumulated depreciation [(c)]		21,064	19,169
Property, plant and equipment, net		$ 74,202	$ 71,555

(a) Includes nuclear fuel that is in the fabrication and installation phase of $1,196 million and $1,326 million at December 31, 2017 and 2016, respectively.

(b) Includes Generation's buildings under capital lease with a net carrying value of $7 million and $10 million at December 31, 2017 and 2016, respectively. The original cost basis of the buildings was $47 million and $52 million, and total accumulated amortization was $40 million and $42 million, as of December 31, 2017 and 2016, respectively. Also includes ComEd's buildings under capital lease with a net carrying value at both December 31, 2017 and 2016, of $7 million. The original cost basis of the buildings was $8 million and total accumulated amortization was $1 million as of both December 31, 2017 and 2016. Includes land held for future use and non-utility property at ComEd, PECO, BGE, Pepco, DPL and ACE of $44 million, $21 million, $26 million, $59 million, $15 million and $27 million, respectively, at December 31, 2017. Includes the original cost and progress payments associated with Generation's turbine equipment held for future use with a carrying value of $0 million and $17 million as of December 31, 2017 and 2016, respectively. Generation's turbine equipment was impaired by $11 million and the remaining $6 million was moved to the assets held for sale account at December 31, 2017.

(c) Includes accumulated amortization of nuclear fuel in the reactor core at Generation of $3,159 million and $3,186 million as of December 31, 2017 and 2016, respectively.

The following table presents the annual depreciation provisions as a percentage of average service life for each asset category.

Average Service Life Percentage by Asset Category	2017	2016	2015
Electric—transmission and distribution	2.75%	2.73%	2.83%
Electric—generation[(a)]	4.36% [(a)]	5.94% [(a)]	3.47%
Gas	2.10%	2.17%	2.17%
Common—electric and gas	7.05%	7.41%	7.79%

(a) See Note 8 — Early Nuclear Plant Retirements for additional information on the accelerated net depreciation and amortization of Clinton, Quad Cities and TMI.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Generation

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)	2017	2016
Asset Category			
Electric—generation	2-56	$ 29,019	$ 27,193
Nuclear fuel [(a)]	1-8	6,420	6,546
Construction work in progress	N/A	838	2,332
Other property, plant and equipment [(b)]	2-3	57	76
Total property, plant and equipment		36,334	36,147
Less: accumulated depreciation [(c)]		11,428	10,562
Property, plant and equipment, net		$ 24,906	$ 25,585

(a) Includes nuclear fuel that is in the fabrication and installation phase of $1,196 million and $1,326 million at December 31, 2017 and 2016, respectively.

(b) Includes buildings under capital lease with a net carrying value of $7 million and $10 million at December 31, 2017 and 2016, respectively. The original cost basis of the buildings was $47 million and $52 million, and total accumulated amortization was $40 million and $42 million, as of December 31, 2017 and 2016, respectively. Includes the original cost and progress payments associated with Generation's turbine equipment held for future use with a carrying value of $0 million and $17 million as of December 31, 2017 and 2016, respectively. Generation's turbine equipment was impaired by $11 million and the remaining $6 million was moved to the assets held for sale account at December 31, 2017.

(c) Includes accumulated amortization of nuclear fuel in the reactor core of $3,159 million and $3,186 million as of December 31, 2017 and 2016, respectively.

The annual depreciation provisions as a percentage of average service life for electric generation assets were 4.36%, 5.94% and 3.47% for the years ended December 31, 2017, 2016 and 2015, respectively. See Note 8 — Early Nuclear Plant Retirements for additional information on the accelerated net depreciation and amortization of Clinton, Quad Cities and TMI.

License Renewals

Generation's depreciation provisions are based on the estimated useful lives of its generating stations, which reflect the renewal of the licenses for all nuclear generating stations (except for Oyster Creek, Clinton and TMI) and the hydroelectric generating stations. As a result, the receipt of license renewals has no material impact on the Consolidated Statements of Operations and Comprehensive Income. Clinton depreciation provisions are based on 2027 which is the last year of the Illinois ZECs. In 2017, Oyster Creek and TMI depreciation provisions were based on their 2019 expected shutdown dates. Beginning February 2018, Oyster Creek depreciation provisions will be based on its announced shutdown date of 2018. See Note 3 — Regulatory Matters for additional information regarding license renewals and the Illinois ZECs. See Note 8 — Early Nuclear Plant Retirements for additional information on the impacts of expected and potential early plant retirement.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

ComEd

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)	2017	2016
Asset Category			
Electric—transmission and distribution	5-80	$ 24,423	$ 22,636
Construction work in progress	N/A	517	569
Other property, plant and equipment [(a), (b)]	36-50	52	67
Total property, plant and equipment		24,992	23,272
Less: accumulated depreciation		4,269	3,937
Property, plant and equipment, net		$ 20,723	$ 19,335

(a) Includes buildings under capital lease with a net carrying value at both December 31, 2017 and 2016 of $7 million. The original cost basis of the buildings was $8 million and total accumulated amortization was $1 million as of both December 31, 2017 and 2016.

(b) Includes land held for future use and non-utility property.

The annual depreciation provisions as a percentage of average service life for electric transmission and distribution assets were 2.99%, 3.03% and 3.03% for the years ended December 31, 2017, 2016 and 2015, respectively.

PECO

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)	2017	2016
Asset Category			
Electric—transmission and distribution	5-65	$ 7,975	$ 7,591
Gas—transportation and distribution	5-70	2,504	2,348
Common—electric and gas	5-50	710	670
Construction work in progress	N/A	254	188
Other property, plant and equipment [(a)]	50	21	21
Total property, plant and equipment		11,464	10,818
Less: accumulated depreciation		3,411	3,253
Property, plant and equipment, net		$ 8,053	$ 7,565

(a) Represents land held for future use and non-utility property.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following table presents the annual depreciation provisions as a percentage of average service life for each asset category.

Average Service Life Percentage by Asset Category	2017	2016	2015
Electric—transmission and distribution	2.37%	2.32%	2.39%
Gas	1.89%	1.82%	1.87%
Common—electric and gas	5.47%	5.11%	5.16%

BGE

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)	2017	2016
Asset Category			
Electric—transmission and distribution	5-90	$ 7,464	$ 7,067
Gas—distribution	5-90	2,379	2,170
Common—electric and gas	5-40	771	707
Construction work in progress	N/A	367	318
Other property, plant and equipment [(a)]	20	26	32
Total property, plant and equipment		11,007	10,294
Less: accumulated depreciation		3,405	3,254
Property, plant and equipment, net		$ 7,602	$ 7,040

(a) Represents land held for future use and non-utility property.

The following table presents the annual depreciation provisions as a percentage of average service life for each asset category.

Average Service Life Percentage by Asset Category	2017	2016	2015
Electric—transmission and distribution	2.58%	2.56%	2.62%
Gas	2.33%	2.45%	2.50%
Common—electric and gas	8.64%	9.45%	10.35%

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Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

PHI

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)	*Successor* 2017	2016
Asset Category			
Electric—transmission and distribution	5-75	$ 11,517	$ 10,315
Gas—distribution	5-75	449	414
Common—electric and gas	5-75	82	65
Construction work in progress	N/A	835	892
Other property, plant and equipment [(a)]	3-43	102	107
Total property, plant and equipment		12,985	11,793
Less: accumulated depreciation		487 —	195
Property, plant and equipment, net		$ 12,498	$ 11,598

(a) Represents plant held for future use and non-utility property. Utility plant is generally subject to a first mortgage lien.

The following table presents the annual depreciation provisions as a percentage of average service life for each asset category.

Average Service Life Percentage by Asset Category	2017	2016	2015
Electric—transmission and distribution	2.63%	2.52%	2.48%
Gas	2.07%	2.57%	2.55%
Common—electric and gas	6.50%	8.12%	5.19%

Pepco

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)	2017	2016
Asset Category			
Electric—transmission and distribution	5-75	$ 8,646	$ 8,018
Construction work in progress	N/A	473	537
Other property, plant and equipment [(a)]	25-33	59	66
Total property, plant and equipment		9,178	8,621
Less: accumulated depreciation		3,177 —	3,050
Property, plant and equipment, net		$ 6,001	$ 5,571

(a) Represents plant held for future use and non-utility property. Utility plant is generally subject to a first mortgage lien.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The annual depreciation provisions as a percentage of average service life for electric transmission and distribution assets were 2.35%, 2.17% and 2.13% for the years ended December 31, 2017, 2016 and 2015, respectively.

DPL

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)		2017		2016
Asset Category					
Electric—transmission and distribution	5-70	$	3,875	$	3,574
Gas—distribution	5-75		614		580
Common—electric and gas	5-75		117		115
Construction work in progress	N/A		205		163
Other property, plant and equipment [(a)]	10-43		15		16
Total property, plant and equipment			4,826		4,448
Less: accumulated depreciation			1,247	—	1,175
Property, plant and equipment, net		$	3,579	$	3,273

(a) Represents plant held for future use and non-utility property. Utility plant is generally subject to a first mortgage lien.

The following table presents the annual depreciation provisions as a percentage of average service life for each asset category.

Average Service Life Percentage by Asset Category	2017	2016	2015
Electric—transmission and distribution	2.75%	2.49%	2.44%
Gas	2.07%	2.57%	2.55%
Common—electric and gas	4.14%	4.99%	4.24%

ACE

The following table presents a summary of property, plant and equipment by asset category as of December 31, 2017 and 2016:

	Average Service Life (years)		2017		2016
Asset Category					
Electric—transmission and distribution	5-60	$	3,607	$	3,341
Construction work in progress	N/A		138		169
Other property, plant and equipment [(a)]	13-15		27		27
Total property, plant and equipment			3,772		3,537

Less: accumulated depreciation	1,066 —	1,016
Property, plant and equipment, net	$ 2,706	$ 2,521

(a) Represents plant held for future use and non-utility property. Utility plant is generally subject to a first mortgage lien.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The annual depreciation provisions as a percentage of average service life for electric transmission and distribution assets were 2.46%, 2.45% and 2.46% for the years ended December 31, 2017, 2016 and 2015, respectively.

See Note 1 — Significant Accounting Policies for further information regarding property, plant and equipment policies and accounting for capitalized software costs for the Registrants. See Note 13 — Debt and Credit Agreements for further information regarding Exelon's, ComEd's and PECO's property, plant and equipment subject to mortgage liens.

7. Impairment of Long-Lived Assets and Intangibles (Exelon, Generation and PHI)

Long-Lived Assets (Exelon, Generation and PHI)

Registrants evaluate long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At Generation, EGTP's operating cash flows have been negatively impacted by certain market conditions and the seasonality of its cash flows. On May 2, 2017, EGTP entered into a consent agreement with its lenders to initiate an orderly sales process to sell the assets of its wholly owned subsidiaries. As a result, Exelon and Generation classified certain of EGTP's assets and liabilities as held for sale at their respective fair values less costs to sell and recorded a pre-tax impairment charge of $460 million within Operating and maintenance expense on their Consolidated Statements of Operations and Comprehensive Income during 2017. On November 7, 2017, EGTP and its wholly owned subsidiaries filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware and, as a result, Exelon and Generation deconsolidated EGTP's assets and liabilities from their consolidated financial statements. See Note 4 — Mergers, Acquisitions and Dispositions and Note 13 — Debt and Credit Agreements, for further information.

In the third quarter of 2015, PHI entered into a sponsorship agreement with the District of Columbia for future sponsorship rights associated with public property within the District of Columbia and paid the District of Columbia $25 million, which Exelon and PHI had recorded as a finite-lived intangible asset as of December 31, 2016. The specific sponsorship rights were to be determined over time through future negotiations. In the fourth quarter of 2017, based upon the lack of currently available sponsorship opportunities, the asset was written off and a pre-tax impairment charge of $25 million was recorded within Operating and maintenance expense in Exelon's and PHI's Consolidated Statements of Operations and Comprehensive Income.

During the first quarter of 2016, significant changes in Generation's intended use of the Upstream oil and gas assets, developments with nonrecourse debt held by its Upstream subsidiary CEU Holdings, LLC (as described in Note 13 — Debt and Credit Agreements) and continued declines in both production volumes and commodity prices suggested that the carrying value may be impaired. Generation concluded that the estimated undiscounted future cash flows and fair value of its Upstream properties were less than their carrying values. As a result, a pre-tax impairment charge of $119 million was recorded in March 2016 within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. On June 16, 2016, Generation initiated the sales process of its Upstream natural gas and oil exploration and production business by executing a forbearance agreement with the lenders of the nonrecourse debt, see Note 13 — Debt and Credit Agreements for additional information. An additional pre-tax impairment charge of $15 million was recorded in September 2016 within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income due to further declines in fair value. In December 2016, Generation sold substantially all of the Upstream Assets. See Note 4 — Mergers, Acquisitions and Dispositions for additional information.

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In the second quarter of 2016, updates to Exelon’s long-term view of energy and capacity prices suggested that the carrying value of a group of merchant wind assets, located in West Texas, may be impaired. Upon review, the estimated undiscounted future cash flows and fair value of the group were less than their carrying value. The fair value analysis was based on the income approach using significant unobservable inputs (Level 3) including revenue and generation forecasts, projected capital and maintenance expenditures and discount rates. As a result of the fair value analysis, long-lived merchant wind assets held and used with a carrying amount of approximately $60 million were written down to their fair value of $24 million and a pre-tax impairment charge of $36 million was recorded during the second quarter of 2016 in Operating and maintenance expense in Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income.

Also in the second quarter of 2016, updates to Exelon’s long-term view, as described above, in conjunction with the retirement announcements of the Quad Cities and Clinton nuclear plants in Illinois suggested that the carrying value of our Midwest asset group may be impaired. Generation completed a comprehensive review of the estimated undiscounted future cash flows of the Midwest asset group and no impairment charge was required.

The fair value analysis used in the above impairments was primarily based on the income approach using significant unobservable inputs (Level 3) including revenue, generation and production forecasts, projected capital and maintenance expenditures and discount rates. Changes in the assumptions described above could potentially result in future impairments of Exelon’s long-lived assets, which could be material.

Like-Kind Exchange Transaction (Exelon)

In June 2000, UII, LLC (formerly Unicom Investments, Inc.) (UII), a wholly owned subsidiary of Exelon Corporation, entered into transactions pursuant to which UII invested in coal-fired generating station leases (Headleases) with the Municipal Electric Authority of Georgia (MEAG). The generating stations were leased back to MEAG as part of the transactions (Leases).

Pursuant to the applicable authoritative guidance, Exelon is required to review the estimated residual values of its direct financing lease investments at least annually and record an impairment charge if the review indicates an other-than-temporary decline in the fair value of the residual values below their carrying values. Exelon estimates the fair value of the residual values of its direct financing lease investments based on the income approach, which uses a discounted cash flow analysis, taking into consideration significant unobservable inputs (Level 3) including the expected revenues to be generated and costs to be incurred to operate the plants over their remaining useful lives subsequent to the lease end dates. Significant assumptions used in estimating the fair value include fundamental energy and capacity prices, fixed and variable costs, capital expenditure requirements, discount rates, tax rates and the estimated remaining useful lives of the plants. The estimated fair values also reflect the cash flows associated with the service contract option discussed above given that a market participant would take into consideration all of the terms and conditions contained in the lease agreements.

All the Headleases were terminated by the second quarter of 2016, and no events occurred prior to the termination that required Exelon to review the estimated residual values of the direct financing lease investments in 2016. On March 31, 2016, UII and MEAG finalized an agreement to terminate the MEAG Headleases, the MEAG Leases, and other related agreements prior to their expiration dates. As a result of the lease termination, UII received an early termination payment of $360 million from MEAG and wrote-off the $356 million net investment in the MEAG Headleases and the Leases. The transaction resulted in a pre-tax gain of $4 million which is reflected in Operating and maintenance expense in Exelon’s Consolidated Statements of Operations and Comprehensive Income. See Note 14 — Income Taxes for additional information.

8. Early Nuclear Plant Retirements (Exelon and Generation)

Exelon and Generation continue to evaluate the current and expected economic value of each of Generation's nuclear plants. Factors that will continue to affect the economic value of Generation's nuclear plants include, but are not limited to: market power prices, results of capacity auctions, potential legislative and regulatory solutions to ensure nuclear plants are fairly compensated for their carbon-free emissions, and the impact of final rules from the EPA requiring reduction of carbon and other emissions and the efforts of states to implement those final rules. The precise timing of an early retirement date for any nuclear plant, and the resulting financial statement impacts, may be affected by a number of factors, including the status of potential regulatory or legislative solutions, results of any transmission system reliability study assessments, the nature of any co-owner requirements and stipulations, and decommissioning trust fund requirements, among other factors. However, the earliest retirement date for any plant would usually be the first year in which the unit does not have capacity or other obligations, where applicable, and just prior to its next scheduled nuclear refueling outage.

In 2015 and 2016, Generation identified the Quad Cities, Clinton, Ginna, Nine Mile Point and Three Mile Island (TMI) nuclear plants as having the greatest risk of early retirement based on economic valuation and other factors. In 2017, PSEG has made public similar financial challenges facing its New Jersey nuclear plants including Salem, of which Generation owns a 42.59% ownership interest.

In Illinois, the Clinton and Quad Cities nuclear plants continued to face significant economic challenges and risk of retirement before the end of each unit's respective operating license period (2026 for Clinton and 2032 for Quad Cities). In April 2016, Clinton cleared the MISO primary reliability auction as a price taker for the 2016-2017 planning year. The resulting capacity price was insufficient to cover cash operating costs and a risk-adjusted rate of return to shareholders. In May 2016, Quad Cities did not clear in the PJM capacity auction for the 2019-2020 planning year. Based on these capacity auction results, and given the lack of progress on Illinois energy legislation and MISO market reforms, on June 2, 2016 Generation announced it would shut down the Clinton and Quad Cities nuclear plants on June 1, 2017 and June 1, 2018, respectively.

On December 7, 2016, Illinois FEJA was signed into law by the Governor of Illinois and included a ZES that provides compensation through the procurement of ZECs targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet specific eligibility criteria, much like the solution implemented with the New York CES. The Illinois ZES will have a 10-year duration extending from June 1, 2017 through May 31, 2027. See Note 3 - Regulatory Matters for additional discussion on the Illinois FEJA and the ZES. With the passage of the Illinois ZES, and subject to prevailing over any related potential administrative or legal challenges, in December 2016 Generation reversed its June 2016 decision to permanently cease generation operations at the Clinton and Quad Cities nuclear generating plants.

In New York, the Ginna and Nine Mile Point nuclear plants continue to face significant economic challenges and risk of retirement before the end of each unit's respective operating license period (2029 for Ginna and Nine Mile Point Unit 1, and 2046 for Nine Mile Point Unit 2). On August 1, 2016, the NYPSC issued an order adopting the CES, which would provide payments to Ginna and Nine Mile Point for the environmental attributes of their production. On November 18, 2016, Ginna and Nine Mile Point executed the necessary contracts with NYSERDA, as required under the CES. Subject to prevailing over any administrative or legal challenges, the New York CES will allow Ginna and Nine Mile Point to continue to operate at least through the life of the program (March 31, 2029). The assumed useful life for depreciation purposes is through the end of their current operating licenses. The approved RSSA required Ginna to operate through the RSSA term expiring on March 31, 2017 and required notification to the NYPSC if Ginna did not plan to retire shortly after the expiration of the RSSA. On September 30, 2016, Ginna filed the required notice with the NYPSC of its intent to continue operating beyond the expiry

Combined Notes to Consolidated Financial Statements - (Continued)
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of the RSSA. Refer to Note 3 - Regulatory Matters for additional discussion on the Ginna RSSA and the New York CES.

Assuming the successful implementation of the Illinois ZES and the New York CES and the continued effectiveness of these programs, Generation and CENG, through its ownership of Ginna and Nine Mile Point, no longer consider Clinton, Quad Cities, Ginna or Nine Mile Point to be at heightened risk for early retirement. However, to the extent either the Illinois ZES or the New York CES programs do not operate as expected over their full terms, each of these plants could again be at heightened risk for early retirement, which could have a material impact on Exelon’s and Generation’s future results of operations, cash flows and financial positions.

In Pennsylvania, the TMI nuclear plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning year, the third consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019 and is licensed to operate through 2034. On May 30, 2017, based on these capacity auction results, prolonged periods of low wholesale power prices, and the absence of federal or state policies that place a value on nuclear energy for its ability to produce electricity without air pollution, Exelon announced that Generation will permanently cease generation operations at TMI on or about September 30, 2019. Generation has filed the required market and regulatory notifications to shut down the plant. PJM has subsequently notified Generation that it has not identified any reliability issues and has approved the deactivation of TMI as proposed.

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(Dollars in millions, except per share data unless otherwise noted)

As a result of these plant retirement decisions, Exelon and Generation recognized one-time charges in Operating and maintenance expense related to materials and supplies inventory reserve adjustments, employee-related costs and CWIP impairments, among other items. In addition to these one-time charges, annual incremental non-cash charges to earnings stemming from shortening the expected economic useful lives primarily related to accelerated depreciation of plant assets (including any ARC), accelerated amortization of nuclear fuel, and additional ARO accretion expense associated with the changes in decommissioning timing and cost assumptions were also recorded. See Note 15 — Asset Retirement Obligations for additional detail on changes to the nuclear decommissioning ARO balances. The total annual impact of these charges by year are summarized in the table below.

Income statement expense (pre-tax)	**2017[a]**	**2016[b]**
Depreciation and Amortization		
Accelerated depreciation[c]	$ 250	$ 712
Accelerated nuclear fuel amortization	12	60
Operating and Maintenance		
One-time charges[d,e]	77	26
Change in ARO accretion, net of any contractual offset[f]	—	2
Contractual offset for ARC depreciation[f]	—	(86)
Total	$ 339	$ 714

(a) Reflects incremental charges for TMI including incremental accelerated depreciation and amortization from May 30, 2017 through December 31, 2017.

(b) Reflects incremental charges for Clinton and Quad Cities including incremental accelerated depreciation and amortization from June 2, 2016 through December 6, 2016. In December 2016, as a result of reversing its retirement decision for Clinton and Quad Cities, Exelon and Generation updated the expected economic useful life for both facilities, to 2027 for Clinton, commensurate with the end of the Illinois ZES, and to 2032 for Quad Cities, the end of its current operating license. Depreciation was therefore adjusted beginning December 7, 2016, to reflect these extended useful life estimates.

(c) Reflects incremental accelerated depreciation of plant assets, including any ARC.

(d) Primarily includes materials and supplies inventory reserve adjustments, employee related costs and CWIP impairments.

(e) In June 2016, as a result of the retirement decision for Clinton and Quad Cities, Exelon and Generation recognized one-time charges of $146 million. In December 2016, as a result of reversing its retirement decision for Clinton and Quad Cities, Exelon and Generation reversed approximately $120 million of these one-time charges initially recorded in June 2016.

(f) For Quad Cities based on the regulatory agreement with the Illinois Commerce Commission, decommissioning-related activities are offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. The offset results in an equal adjustment to the noncurrent payables to ComEd at Generation and an adjustment to the regulatory liabilities at ComEd. Likewise, ComEd has recorded an equal noncurrent affiliate receivable from Generation and corresponding regulatory liability.

Although Salem is committed to operate through May 2021, the plant faces continued economic challenges and PSEG, as the operator of the plant, is exploring all options. The following table provides the balance sheet amounts as of December 31, 2017 for Generation's ownership share of the significant assets and liabilities associated with Salem.

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(in millions)	12/31/2017
Asset Balances	
Materials and supplies inventory	$ 44
Nuclear fuel inventory, net	113
Completed plant, net	439
Construction work in progress	33
Liability Balances	
Asset retirement obligation	(442)
NRC License Renewal Term	2036 (unit 1) 2040 (unit 2)

On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. See Note 28 — Subsequent Events for additional information regarding the early retirement of Oyster Creek.

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9. Jointly Owned Electric Utility Plant (Exelon, Generation, PECO, BGE, PHI, Pepco, DPL and ACE)

Exelon's, Generation's, PECO's, BGE's, PHI's and ACE's undivided ownership interests in jointly owned electric plants and transmission facilities at December 31, 2017 and 2016 were as follows:

	Nuclear Generation				Fossil-Fuel Generation	Transmission		Other
	Quad Cities	**Peach Bottom**	**Salem[a]**	**Nine Mile Point Unit 2**	**Wyman**	**PA[b]**	**NJ/ DE[c]**	**Other[d]**
Operator	Generation	Generation	PSEG Nuclear	Generation	FP&L	First Energy	PSEG/ DPL	various
Ownership interest	75.00%	50.00%	42.59%	82.00%	5.89%	various	various	various
Exelon's share at December 31, 2017:								
Plant[e]	$ 1,074	$ 1,417	$ 631	$ 839	$ 3	$ 27	$ 102	$ 15
Accumulated depreciation[e]	550	461	205	97	3	15	52	13
Construction work in progress	35	18	33	55	—	—	—	—
Exelon's share at December 31, 2016:								
Plant[e]	$ 1,054	$ 1,384	$ 596	$ 830	$ 3	$ 27	$ 97	$ 15
Accumulated depreciation[e]	515	407	186	68	3	15	52	13
Construction work in progress	—	16	41	37	—	—	—	—

(a) Generation also owns a proportionate share in the fossil-fuel combustion turbine at Salem, which is fully depreciated. The gross book value was $3 million at December 31, 2017 and 2016.

(b) PECO, BGE, Pepco, DPL and ACE own a 22%, 7%, 27%, 9% and 8% share, respectively, in 127 miles of 500kV lines located in Pennsylvania as well as a 20.72%, 10.56%, 9.72%, 3.72% and 3.83% share, respectively, of a 500kV substation immediately outside of the Conemaugh fossil-generating station which supplies power to the 500kV lines including, but not limited to, the lines noted above.

(c) PECO, DPL and ACE own a 42.55%, 1% and 13.9% share, respectively in 151.3 miles of 500kV lines located in New Jersey and Delaware Station. PECO, DPL and ACE also own a 42.55%, 7.45% and 7.45% share, respectively, in 2.5 miles of 500kV line located over the Delaware River. ACE also has a 21.78% share in a 500kV New Freedom Switching

(d) Generation, DPL and ACE own a 44.24%, 4.83% and 11.91% share, respectively in assets located at Merrill Creek Reservoir located in New Jersey. Pepco, DPL and ACE own a 11.9%, 7.4% and 6.6% share, respectively, in Valley Forge Corporate Center.

(e) Excludes asset retirement costs.

Exelon's, Generation's, PECO's, BGE's, Pepco's, DPL's and ACE's undivided ownership interests are financed with their funds and all operations are accounted for as if such participating interests were wholly owned facilities. Exelon's, Generation's, PECO's, BGE's, Pepco's, DPL's and ACE's share of direct expenses of the jointly owned plants are included in Purchased power and fuel and Operating and maintenance expenses on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and in Operating and maintenance expenses on PECO's, BGE's, Pepco, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income.

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10. Intangible Assets (Exelon, Generation, ComEd, PECO, PHI, Pepco, DPL and ACE)

Goodwill

Exelon's, Generation's, ComEd's, PHI's and DPL's gross amount of goodwill, accumulated impairment losses and carrying amount of goodwill for the years ended December 31, 2017 and 2016 were as follows:

	Balance at January 1, 2016	Goodwill from business combination	Impairment losses	Measurement period adjustments (b)	Balance at December 31, 2016	Impairment losses	Balance at December 31, 2017
Exelon							
Gross amount	$ 4,655	$ 4,016	$ —	$ (11)	$ 8,660	$ —	$ 8,660
Accumulated impairment loss	1,983	—	—	—	1,983	—	1,983
Carrying amount	2,672	4,016	—	(11)	6,677	—	6,677
Generation							
Gross amount	47	—	—	—	47	—	47
Carrying amount	47	—	—	—	47	—	47
ComEd[(a)]							
Gross amount	4,608	—	—	—	4,608	—	4,608
Accumulated impairment loss	1,983	—	—	—	1,983	—	1,983
Carrying amount	2,625	—	—	—	2,625	—	2,625
DPL							
Gross amount	8	—	—	—	8	—	8
Carrying amount	8	—	—	—	8	—	8

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For the Year Ended December 31, 2017	Beginning Balance	Goodwill from business combination	Impairment losses	Measurement period adjustments (b)	Ending Balance
PHI - *Successor*					
Gross amount	$ 4,005	$ —	$ —	$ —	$ 4,005
Accumulated impairment loss	—	—	—	—	—
Carrying Amount	4,005	—	—	—	4,005
March 24, 2016 to December 31, 2016					
PHI - *Successor*					
Gross amount	—	4,016	—	(11)	4,005
Accumulated impairment loss	—	—	—	—	—
Carrying amount	—	4,016	—	(11)	4,005
January 1, 2016 to March 23, 2016					
PHI - *Predecessor*					
Gross amount	1,418	—	—	—	1,418
Accumulated impairment loss	12	—	—	—	12
Carrying amount	1,406	—	—	—	1,406

(a) Reflects goodwill recorded in 2000 from the PECO/Unicom (predecessor parent company of ComEd) merger net of amortization, resolution of tax matters and other non-impairment-related changes as allowed under previous authoritative guidance.

(b) Represents various measurement period adjustments to the valuation of the fair value of the PHI assets acquired and liabilities assumed as a result of the merger.

Goodwill is not amortized, but is subject to an assessment for impairment at least annually, or more frequently if events occur or circumstances change that would more likely than not reduce the fair value of the Exelon, Generation, ComEd, PHI and DPL reporting unit below its carrying amount. Under the authoritative guidance for goodwill, a reporting unit is an operating segment or one level below an operating segment (known as a component) and is the level at which goodwill is tested for impairment. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and its operating results are regularly reviewed by segment management. Generation's operating segments are Mid-Atlantic, Midwest, New England, New York, ERCOT and all other power regions referred to collectively as "Other Power Regions", PHI's operating segments are Pepco, DPL and ACE, and ComEd and DPL have a single operating segment. See Note 25 — Segment Information for additional information. There is no level below these operating segments for which operating results are regularly reviewed by segment management. Therefore, the ComEd, Pepco, DPL and ACE operating segments are also considered reporting units for goodwill impairment testing purposes. Exelon's and ComEd's $2.6 billion of goodwill has been assigned entirely to the ComEd reporting unit, while Exelon's and PHI's $4 billion of goodwill has been assigned to the Pepco, DPL and ACE reporting units in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. DPL's $8 million of goodwill is assigned entirely to the DPL reporting unit.

Entities assessing goodwill for impairment have the option of first performing a qualitative assessment to determine whether a quantitative assessment is necessary. In performing a qualitative assessment, entities should assess, among other things, macroeconomic conditions, industry and market considerations, overall financial performance, cost factors and entity-specific events. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, no further testing is required.

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If an entity bypasses the qualitative assessment or performs the qualitative assessment, but determines that it is more likely than not that its fair value is less than its carrying amount, a quantitative two-step, fair value-based test is performed. Exelon’s, Generation’s, ComEd’s, PHI’s and DPL’s accounting policy is to perform a quantitative test of goodwill at least once every three years. The first step in the quantitative test compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation accounting guidance in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and a charge to operating expense.

Application of the goodwill impairment test requires management judgment, including the identification of reporting units and determining the fair value of the reporting unit, which management estimates using a weighted combination of a discounted cash flow analysis and a market multiples analysis. Significant assumptions used in these fair value analyses include discount and growth rates, utility sector market performance and transactions, projected operating and capital cash flows for Generation’s, ComEd’s, Pepco’s, DPL’s and ACE’s businesses and the fair value of debt. In applying the second step (if needed), management must estimate the fair value of specific assets and liabilities of the reporting unit.

2017 and 2016 Goodwill Impairment Assessment. Generation performed a quantitative test as of November 1, 2017, for its 2017 annual goodwill impairment assessment. The first step of the test comparing the estimated fair value of Generation’s reporting unit with goodwill to its carrying value, including goodwill, indicated no impairments of goodwill; therefore, the second step was not required. Generation performed a qualitative test as of November 1, 2016, for its 2016 annual goodwill impairment assessment. Based on the qualitative factors assessed, Generation concluded that the fair value of its reporting units is more likely than not greater than the carrying amount, and no further testing was required.

As of November 1, 2017, ComEd, PHI and DPL each qualitatively determined that it was more likely than not that the fair value of its reporting units exceeded their carrying values and, therefore, did not perform a quantitative assessment. As part of their qualitative assessments, ComEd, PHI and DPL evaluated, among other things, management’s best estimate of projected operating and capital cash flows for their businesses, outcomes of recent regulatory proceedings, changes in certain market conditions, including the discount rate and regulated utility peer company EBITDA multiples, while also considering, the passing margin from their last quantitative assessments.

ComEd, PHI and DPL performed quantitative tests as of November 1, 2016, for their 2016 annual goodwill impairment assessments. The first step of the tests comparing the estimated fair values of the ComEd, Pepco, DPL and ACE reporting units to their carrying values, including goodwill, indicated no impairments of goodwill; therefore, no second steps were required.

While the annual assessments indicated no impairments, certain assumptions used to estimate reporting unit fair values are highly sensitive to changes. Adverse regulatory actions or changes in significant assumptions could potentially result in future impairments of ComEd’s, PHI’s or DPL’s goodwill, which could be material. Based on the results of the annual goodwill test performed as of November 1, 2016, the estimated fair values of the ComEd, Pepco, DPL and ACE reporting units would have needed to decrease by more than 30%, 10%, 10% and 10%, respectively, for ComEd and PHI to fail the first step of their respective impairment tests. The $8 million of goodwill recorded at DPL is related to DPL’s 1995 acquisition of the Conowingo Power

Company and the fair value of the DPL reporting unit would have needed to decrease by more than 50% for DPL to fail the first step of the impairment test.

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Other Intangible Assets and Liabilities

Exelon’s, Generation’s, ComEd’s and PHI’s other intangible assets and liabilities, included in Unamortized energy contract assets and liabilities and Other deferred debits and other assets in their Consolidated Balance Sheets, consisted of the following as of December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Exelon						
Software License[a]	$ 95	$ (25)	$ 70	$ 95	$ (15)	$ 80
Generation						
Unamortized Energy Contracts[b]	1,938	(1,574)	364	1,926	(1,543)	383
Customer Relationships	305	(133)	172	299	(109)	190
Trade Name	243	(148)	95	243	(125)	118
Service Contract Backlog	—	—	—	9	(7)	2
ComEd						
Chicago Settlement Agreements[c]	162	(141)	21	162	(133)	29
PHI						
Unamortized Energy Contracts[b]	(1,515)	766	(749)	(1,515)	430	(1,085)
Pepco						
DC Sponsorship Agreement[d]	—	—	—	25	—	25
Total	$ 1,228	$ (1,255)	$ (27)	$1,244	$ (1,502)	$ (258)

(a) On May 31, 2015, Exelon entered into a long-term software license agreement. Exelon is required to make payments starting August 2015 through May 2024. The intangible asset recognized as a result of these payments is being amortized on a straight-line basis over the contract term.

(b) Includes unamortized energy contract assets and liabilities on Exelon’s, Generations and PHI’s Consolidated Balance Sheets.

(c) In March 1999 and February 2003, ComEd entered into separate agreements with the City of Chicago and Midwest Generation, LLC. Under the terms of the settlement, ComEd agreed to make payments to the City of Chicago. The intangible asset recognized as a result of the settlement agreement is being amortized ratably over the remaining term of the City of Chicago franchise agreement.

(d) PHI entered into a sponsorship agreement with the District of Columbia for future sponsorship rights associated with public property within the District of Columbia. In December 2017, the asset was written off. See Note 7 - Impairment of Long-Lived Assets and Intangibles for additional information.

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The following table summarizes the estimated future amortization expense related to intangible assets and liabilities as of December 31, 2017:

For the Years Ending December 31,	Exelon	Generation	ComEd	PHI
2018	$ 10	$ 62	$ 7	$ (189)
2019	10	57	7	(119)
2020	10	68	7	(115)
2021	10	77	—	(92)
2022	10	54	—	(89)

The following table summarizes the amortization expense related to intangible assets and liabilities for each of the years ended December 31, 2017, 2016 and 2015:

For the Years Ended December 31,	Exelon [(a)]	Generation [(a)]	ComEd
2017	$ 92	$ 83	$ 7
2016	87	79	7
2015	76	69	7

(a) At Exelon, amortization of unamortized energy contracts totaling $35 million, $35 million and $22 million for the years ended December 31, 2017, 2016 and 2015, respectively, was recorded in Operating revenues or Purchased power and fuel expense within Exelon's Consolidated Statements of Operations and Comprehensive Income. At Generation, amortization of unamortized energy contracts totaling $35 million, $35 million and $22 million for the years ended December 31, 2017, 2016 and 2015, respectively, was recorded in Operating revenues or Purchased power and fuel expense within Generation's Consolidated Statements of Operations and Comprehensive Income

Acquired Intangible Assets and Liabilities

Accounting guidance for business combinations requires the acquirer to separately recognize identifiable intangible assets in the application of purchase accounting.

Unamortized Energy Contracts. Unamortized energy contract assets and liabilities represent the remaining unamortized fair value of non-derivative energy contracts that Exelon and Generation have acquired. The valuation of unamortized energy contracts was estimated by applying either the market approach or the income approach depending on the nature of the underlying contract. The market approach was utilized when prices and other relevant information generated by market transactions involving comparable transactions were available. Otherwise, the income approach, which is based upon discounted projected future cash flows associated with the underlying contracts, was utilized. The fair value is based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key estimates and inputs include forecasted power and fuel prices and the discount rate. The Exelon Wind unamortized energy contracts are amortized on a straight-line basis over the period in which the associated contract revenues are recognized as a decrease in Operating revenues within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. In the case of Antelope Valley, Constellation, CENG, Integrys and ConEdison, the fair value amounts are amortized over the life of the contract in relation to the present value of the underlying cash flows as of the acquisition dates through either Operating revenues or Purchased power and fuel expense within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. At PHI, offsetting regulatory assets or liabilities were also recorded. The unamortized energy contract assets and liabilities and any corresponding regulatory assets or liabilities, respectively, are amortized over the life of the contract in relation to the expected realization of the underlying cash flows.

Customer Relationships. The customer relationship intangibles were determined based on a “multi-period excess method” of the income approach. Under this method, the intangible asset’s fair value is determined to be the estimated future cash flows that will be earned on the current customer base, taking into account expected contract renewals based on customer attrition rates and costs to retain those customers. The fair value is based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key assumptions include the customer attrition rate and the discount rate. The accounting guidance requires that customer-based intangibles be amortized over the period expected to be benefited using the pattern of economic benefit. The amortization of the customer relationships recorded in Depreciation and amortization expense within Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income.

Service Contract Backlog. The service contract backlog intangibles were determined based on a “multi-period excess method” of the income approach. Under this method, the intangible asset’s fair value is determined to be the estimated future cash flows that will be earned on the contracts. The fair value is based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key assumptions include estimated revenues and expenses to complete the contracts as well as the discount rate. The accounting guidance requires that customer-based intangibles be amortized over the period expected to be benefited using the pattern of economic benefit. The amortization of the service contract backlog is recorded in Depreciation and amortization expense within Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income.

Trade Name. The Constellation trade name intangible was determined based on the relief from royalty method of income approach whereby fair value is determined to be the present value of the license fees avoided by owning the assets. The fair value is based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key assumptions include the hypothetical royalty rate and the discount rate. The Constellation trade name intangible is amortized on a straight-line basis over a period of 10 years. The amortization of the trade name is recorded in Depreciation and amortization expense within Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income.

Renewable Energy Credits and Alternative Energy Credits (Exelon, Generation, PECO, PHI, DPL and ACE)

Exelon’s, Generation’s, ComEd’s, PECO’s, PHI’s, DPL’s and ACE’s other intangible assets, included in Other current assets and Other deferred debits and other assets on the Consolidated Balance Sheets, include RECs (Exelon, Generation, ComEd, PHI, DPL and ACE) and AECs (Exelon and PECO). Purchased RECs are recorded at cost on the date they are purchased. The cost of RECs purchased on a stand-alone basis is based on the transaction price, while the cost of RECs acquired through PPAs represents the difference between the total contract price and the market price of energy at contract inception. Generally, revenue for RECs that are part of a bundled power sale is recognized when the power is produced and delivered to the customer, otherwise, the revenue is recognized upon physical transfer of the REC.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following table summarizes the current and noncurrent Renewable and Alternative Energy Credits for the years ended December 31, 2017 and 2016:

	As of December 31, 2017					
				Successor		
	Exelon	Generation	PECO	PHI	DPL	ACE
Current AEC's	$ 1	$ —	$ 1	$ —	$ —	$ —
Noncurrent AEC's	—	—	—	—	—	—
Current REC's	321	312	—	9	8	1
Noncurrent REC's	27	27	—	—	—	—

	As of December 31, 2016					
				Successor		
	Exelon	Generation	PECO	PHI	DPL	ACE
Current AEC's	$ 1	$ —	$ 1	$ —	$ —	$ —
Noncurrent AEC's	—	—	—	—	—	—
Current REC's	330	318	—	12	11	1
Noncurrent REC's	29	29	—	—	—	—

11. Fair Value of Financial Assets and Liabilities (All Registrants)

Fair Value of Financial Liabilities Recorded at the Carrying Amount

The following tables present the carrying amounts and fair values of the Registrants' short-term liabilities, long-term debt, SNF obligation, and trust preferred securities (long-term debt to financing trusts or junior subordinated debentures) as of December 31, 2017 and 2016:

Exelon

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 929	$ —	$ 929	$ —	$ 929
Long-term debt (including amounts due within one year)[(a)]	34,264	—	34,735	1,970	36,705
Long-term debt to financing trusts[(b)]	389	—	—	431	431
SNF obligation	1,147	—	936	—	936

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 1,267	$ —	$ 1,267	$ —	$ 1,267

Long-term debt (including amounts due within one year)[(a)]	34,005	1,113	31,741	1,959	34,813
Long-term debt to financing trusts[(b)]	641	—	—	667	667
SNF obligation	1,024	—	732	—	732

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Generation

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 2	$ —	$ 2	$ —	$ 2
Long-term debt (including amounts due within one year)[(a)]	8,990	—	7,839	1,673	9,512
SNF obligation	1,147	—	936	—	936

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 699	$ —	$ 699	$ —	$ 699
Long-term debt (including amounts due within one year)[(a)]	9,241	—	7,482	1,670	9,152
SNF obligation	1,024	—	732	—	732

ComEd

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 7,601	$ —	$ 8,418	$ —	$ 8,418
Long-term debt to financing trusts[(b)]	205	—	—	227	227

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 7,033	$ —	$ 7,585	$ —	$ 7,585
Long-term debt to financing trusts[(b)]	205	—	—	215	215

PECO

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 2,903	$ —	$ 3,194	$ —	$ 3,194
Long-term debt to financing trusts	184	—	—	204	204

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 2,580	$ —	$ 2,794	$ —	$ 2,794
Long-term debt to financing trusts	184	—	—	192	192

BGE

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 77	$ —	$ 77	$ —	$ 77
Long-term debt (including amounts due within one year)[(a)]	2,577	—	2,825	—	2,825

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 45	$ —	$ 45	$ —	$ 45
Long-term debt (including amounts due within one year)[(a)]	2,322	—	2,467	—	2,467
Long-term debt to financing trusts[(b)]	252	—	—	260	260

PHI (Successor)

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 350	$ —	$ 350	$ —	$ 350
Long-term debt (including amounts due within one year)[(a)]	5,874	—	5,722	297	6,019

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 522	$ —	$ 522	$ —	$ 522
Long-term debt (including amounts due within one year)[(a)]	5,898	—	5,520	289	5,809

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Pepco

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 26	$ —	$ 26	$ —	$ 26
Long-term debt (including amounts due within one year)[(a)]	2,540	—	3,114	9	3,123

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 23	$ —	$ 23	$ —	$ 23
Long-term debt (including amounts due within one year)[(a)]	2,349	—	2,788	8	2,796

DPL

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 216	$ —	$ 216	$ —	$ 216
Long-term debt (including amounts due within one year)[(a)]	1,300	—	1,393	—	1,393

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 1,340	$ —	$ 1,383	$ —	$ 1,383

ACE

	December 31, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 108	$ —	$ 108	$ —	$ 108
Long-term debt (including amounts due within one year)[(a)]	1,121	—	949	288	1,237

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
	$ 1,155	$ —	$ 1,007	$ 280	$ 1,287

Long-term debt (including amounts due within one year)[(a)]

Combined Notes to Consolidated Financial Statements - (Continued)
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(a) Includes unamortized debt issuance costs which are not fair valued of $201 million, $60 million, $52 million, $17 million, $17 million, $6 million, $32 million, $11 million and $5 million for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE respectively, as of December 31, 2017. Includes unamortized debt issuance costs which are not fair valued of $200 million, $64 million, $46 million, $15 million, $15 million, $2 million, $30 million, $11 million and $6 million for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE respectively, as of December 31, 2016.

(b) Includes unamortized debt issuance costs which are not fair valued of $1 million and $1 million for Exelon and ComEd, respectively, as of December 31, 2017. Includes unamortized debt issuance costs which are not fair valued of $7 million, $1 million, and $6 million for Exelon, ComEd and BGE, respectively, as of December 31, 2016.

Short-Term Liabilities. The short-term liabilities included in the tables above are comprised of dividends payable (included in Other current liabilities) (Level 1) and short-term borrowings (Level 2). The Registrants' carrying amounts of the short-term liabilities are representative of fair value because of the short-term nature of these instruments.

Long-Term Debt. The fair value amounts of Exelon's taxable debt securities (Level 2) and private placement taxable debt securities (Level 3) are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves. In order to incorporate the credit risk of the Registrants into the discount rates, Exelon obtains pricing (i.e., U.S. Treasury rate plus credit spread) based on trades of existing Exelon debt securities as well as debt securities of other issuers in the utility sector with similar credit ratings in both the primary and secondary market, across the Registrants' debt maturity spectrum. The credit spreads of various tenors obtained from this information are added to the appropriate benchmark U.S. Treasury rates in order to determine the current market yields for the various tenors. The yields are then converted into discount rates of various tenors that are used for discounting the respective cash flows of the same tenor for each bond or note. Due to low trading volume of private placement debt, qualitative factors such as market conditions, low volume of investors and investor demand, this debt is classified as Level 3. The fair value of Exelon's equity units (Level 1) are valued based on publicly traded securities issued by Exelon.

The fair value of Generation's and Pepco's non-government-backed fixed rate nonrecourse debt (Level 3) is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles. Given the low trading volume in the nonrecourse debt market, the price quotes used to determine fair value will reflect certain qualitative factors, such as market conditions, investor demand, new developments that might significantly impact the project cash flows or off-taker credit, and other circumstances related to the project (e.g., political and regulatory environment). The fair value of Generation's government-backed fixed rate project financing debt (Level 3) is largely based on a discounted cash flow methodology that is similar to the taxable debt securities methodology described above. Due to the lack of market trading data on similar debt, the discount rates are derived based on the original loan interest rate spread to the applicable Treasury rate as well as a current market curve derived from government-backed securities. Variable rate financing debt resets on a monthly or quarterly basis and the carrying value approximates fair value (Level 2). When trading data is available on variable rate financing debt, the fair value is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles (Level 2). Generation, Pepco, DPL and ACE also have tax-exempt debt (Level 2). Due to low trading volume in this market, qualitative factors, such as market conditions, investor demand, and circumstances related to the issuer (e.g., conduit issuer political and regulatory environment), may be incorporated into the credit spreads that are used to obtain the fair value as described above. Variable rate tax-exempt debt (Level 2) resets on a regular basis and the carrying value approximates fair value.

***SNF Obligation*.** The carrying amount of Generation's SNF obligation (Level 2) is derived from a contract with the DOE to provide for disposal of SNF from Generation's nuclear generating stations. When determining the fair value of the obligation, the future carrying amount of the SNF obligation is calculated by compounding the current book value of the SNF obligation at the 13-week Treasury rate. The compounded obligation amount is discounted back to present value using Generation’s discount

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rate, which is calculated using the same methodology as described above for the taxable debt securities, and an estimated maturity date of 2030. The carrying amount also includes $114 million as of December 31, 2017 for the one-time fee obligation associated with closing of the FitzPatrick acquisition on March 31, 2017. The fair value was determined using a similar methodology, however the New York Power Authority's (NYPA) discount rate is used in place of Generation's given the contractual right to reimbursement from NYPA for the obligation; see Note 4 - Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick.

Long-Term Debt to Financing Trusts. Exelon's long-term debt to financing trusts is valued based on publicly traded securities issued by the financing trusts. Due to low trading volume of these securities, qualitative factors, such as market conditions, investor demand, and circumstances related to each issue, this debt is classified as Level 3.

Recurring Fair Value Measurements

Exelon records the fair value of assets and liabilities in accordance with the hierarchy established by the authoritative guidance for fair value measurements. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the Registrants have the ability to liquidate as of the reporting date.
- Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 — unobservable inputs, such as internally developed pricing models or third-party valuations for the asset or liability due to little or no market activity for the asset or liability.

Transfers in and out of levels are recognized as of the end of the reporting period when the transfer occurred. Given derivatives categorized within Level 1 are valued using exchange-based quoted prices within observable periods, transfers between Level 2 and Level 1 were not material. Additionally, there were no material transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016 for Cash equivalents, Nuclear decommissioning trust fund investments, Pledged assets for Zion Station decommissioning, Rabbi trust investments, and Deferred compensation obligations. For derivative contracts, transfers into Level 2 from Level 3 generally occur when the contract tenor becomes more observable and due to changes in market liquidity or assumptions for certain commodity contracts.

Generation and Exelon

In accordance with the applicable guidance on fair value measurement, certain investments that are measured at fair value using the NAV per share as a practical expedient are no longer classified within the fair value hierarchy and are included under "Not subject to leveling" in the table below.

The following tables present assets and liabilities measured and recorded at fair value on Exelon's and Generation's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2017 and 2016:

	Generation					**Exelon**				
As of December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets										
Cash equivalents[(a)]	$ 168	$ —	$ —	$ —	$ 168	$ 656	$ —	$ —	$ —	$ 656

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Generation					Exelon				
As of December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
NDT fund investments										
Cash equivalents[b]	135	85	—	—	220	135	85	—	—	220
Equities	4,163	915	—	2,176	7,254	4,163	915	—	2,176	7,254
Fixed income										
Corporate debt	—	1,614	251	—	1,865	—	1,614	251	—	1,865
U.S. Treasury and agencies	1,917	52	—	—	1,969	1,917	52	—	—	1,969
Foreign governments	—	82	—	—	82	—	82	—	—	82
State and municipal debt	—	263	—	—	263	—	263	—	—	263
Other[c]	—	47	—	510	557	—	47	—	510	557
Fixed income subtotal	1,917	2,058	251	510	4,736	1,917	2,058	251	510	4,736
Middle market lending	—	—	397	131	528	—	—	397	131	528
Private equity	—	—	—	222	222	—	—	—	222	222
Real estate	—	—	—	471	471	—	—	—	471	471
NDT fund investments subtotal[d]	6,215	3,058	648	3,510	13,431	6,215	3,058	648	3,510	13,431
Pledged assets for Zion Station decommissioning										
Cash equivalents	2	—	—	—	2	2	—	—	—	2
Equities	—	1	—	—	1	—	1	—	—	1
Middle market lending	—	—	12	24	36	—	—	12	24	36
Pledged assets for Zion Station decommissioning subtotal	2	1	12	24	39	2	1	12	24	39
Rabbi trust investments										
Cash equivalents	5	—	—	—	5	77	—	—	—	77
Mutual funds	23	—	—	—	23	58	—	—	—	58
Fixed income	—	—	—	—	—	—	12	—	—	12
Life insurance contracts	—	22	—	—	22	—	71	22	—	93
Rabbi trust investments subtotal	28	22	—	—	50	135	83	22	—	240
Commodity derivative assets										
Economic hedges	557	2,378	1,290	—	4,225	557	2,378	1,290	—	4,225
	2	31	35	—	68	2	31	35	—	68

Proprietary trading										
Effect of netting and allocation of collateral[(e)(f)]	(585)	(1,769)	(635)	—	(2,989)	(585)	(1,769)	(635)	—	(2,989)
Commodity derivative assets subtotal	(26)	640	690	—	1,304	(26)	640	690	—	1,304

Combined Notes to Consolidated Financial Statements - (Continued)
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	Generation					Exelon				
As of December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Interest rate and foreign currency derivative assets										
Derivatives designated as hedging instruments	—	3	—	—	3	—	6	—	—	6
Economic hedges	—	10	—	—	10	—	10	—	—	10
Effect of netting and allocation of collateral	(2)	(5)	—	—	(7)	(2)	(5)	—	—	(7)
Interest rate and foreign currency derivative assets subtotal	(2)	8	—	—	6	(2)	11	—	—	9
Other investments	—	—	37	—	37	—	—	37	—	37
Total assets	6,385	3,729	1,387	3,534	15,035	6,980	3,793	1,409	3,534	15,716
Liabilities										
Commodity derivative liabilities										
Economic hedges	(712)	(2,226)	(845)	—	(3,783)	(713)	(2,226)	(1,101)	—	(4,040)
Proprietary trading	(2)	(42)	(9)	—	(53)	(2)	(42)	(9)	—	(53)
Effect of netting and allocation of collateral(e)(f)	650	2,089	716	—	3,455	651	2,089	716	—	3,456
Commodity derivative liabilities subtotal	(64)	(179)	(138)	—	(381)	(64)	(179)	(394)	—	(637)
Interest rate and foreign currency derivative liabilities										
Derivatives designated as hedging instruments	—	(2)	—	—	(2)	—	(2)	—	—	(2)
Economic hedges	(1)	(8)	—	—	(9)	(1)	(8)	—	—	(9)
Effect of netting and allocation of collateral	2	5	—	—	7	2	5	—	—	7
Interest rate and foreign currency derivative liabilities subtotal	1	(5)	—	—	(4)	1	(5)	—	—	(4)
Deferred compensation obligation	—	(38)	—	—	(38)	—	(145)	—	—	(145)
Total liabilities	(63)	(222)	(138)	—	(423)	(63)	(329)	(394)	—	(786)
Total net assets	$ 6,322	$ 3,507	$ 1,249	$ 3,534	$ 14,612	$ 6,917	$ 3,464	$ 1,015	$ 3,534	$ 14,930

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets										

Cash equivalents[(a)]	$ 39	$ —	$ —	$ —	$ 39	$ 373	$ —	$ —	$ —	$ 373
NDT fund investments										

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Cash equivalents[b]	110	19	—	—	129	110	19	—	—	129
Equities	3,551	452	—	2,011	6,014	3,551	452	—	2,011	6,014
Fixed income										
Corporate debt	—	1,554	250	—	1,804	—	1,554	250	—	1,804
U.S. Treasury and agencies	1,291	29	—	—	1,320	1,291	29	—	—	1,320
Foreign governments	—	37	—	—	37	—	37	—	—	37
State and municipal debt	—	264	—	—	264	—	264	—	—	264
Other[c]	—	59	—	493	552	—	59	—	493	552
Fixed income subtotal	1,291	1,943	250	493	3,977	1,291	1,943	250	493	3,977
Middle market lending	—	—	427	71	498	—	—	427	71	498
Private equity	—	—	—	148	148	—	—	—	148	148
Real estate	—	—	—	326	326	—	—	—	326	326
NDT fund investments subtotal[d]	4,952	2,414	677	3,049	11,092	4,952	2,414	677	3,049	11,092
Pledged assets for Zion Station decommissioning										
Cash equivalents	11	—	—	—	11	11	—	—	—	11
Equities	—	2	—	—	2	—	2	—	—	2
Fixed Income - U.S. Treasury and agencies	16	1	—	—	17	16	1	—	—	17
Middle market lending	—	—	19	64	83	—	—	19	64	83
Pledged assets for Zion Station decommissioning subtotal	27	3	19	64	113	27	3	19	64	113
Rabbi trust investments										
Cash equivalents	2	—	—	—	2	74	—	—	—	74
Mutual funds	19	—	—	—	19	50	—	—	—	50
Fixed income	—	—	—	—	—	—	16	—	—	16
Life insurance contracts	—	18	—	—	18	—	64	20	—	84
Rabbi trust investments subtotal	21	18	—	—	39	124	80	20	—	224
Commodity derivative assets										
Economic hedges	1,356	2,505	1,229	—	5,090	1,358	2,505	1,229	—	5,092

Proprietary trading	3	50	23	—	76	3	50	23	—	76
Effect of netting and allocation of collateral[e][f]	(1,162)	(2,142)	(481)	—	(3,785)	(1,164)	(2,142)	(481)	—	(3,787)
Commodity derivative assets subtotal	197	413	771	—	1,381	197	413	771	—	1,381

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Interest rate and foreign currency derivative assets										
Derivatives designated as hedging instruments	—	—	—	—	—	—	16	—	—	16
Economic hedges	—	28	—	—	28	—	28	—	—	28
Proprietary trading	3	2	—	—	5	3	2	—	—	5
Effect of netting and allocation of collateral	(2)	(19)	—	—	(21)	(2)	(19)	—	—	(21)
Interest rate and foreign currency derivative assets subtotal	1	11	—	—	12	1	27	—	—	28
Other investments	—	—	42	—	42	—	—	42	—	42
Total assets	5,237	2,859	1,509	3,113	12,718	5,674	2,937	1,529	3,113	13,253
Liabilities										
Commodity derivative liabilities										
Economic hedges	(1,267)	(2,378)	(794)	—	(4,439)	(1,267)	(2,378)	(1,052)	—	(4,697)
Proprietary trading	(3)	(50)	(26)	—	(79)	(3)	(50)	(26)	—	(79)
Effect of netting and allocation of collateral[(e)(f)]	1,233	2,339	542	—	4,114	1,233	2,339	542	—	4,114
Commodity derivative liabilities subtotal	(37)	(89)	(278)	—	(404)	(37)	(89)	(536)	—	(662)
Interest rate and foreign currency derivative liabilities										
Derivatives designated as hedging instruments	—	(10)	—	—	(10)	—	(10)	—	—	(10)
Economic hedges	—	(21)	—	—	(21)	—	(21)	—	—	(21)
Proprietary trading	(4)	—	—	—	(4)	(4)	—	—	—	(4)
Effect of netting and allocation of collateral	4	19	—	—	23	4	19	—	—	23
Interest rate and foreign currency derivative liabilities subtotal	—	(12)	—	—	(12)	—	(12)	—	—	(12)
Deferred compensation obligation	—	(34)	—	—	(34)	—	(136)	—	—	(136)
Total liabilities	(37)	(135)	(278)	—	(450)	(37)	(237)	(536)	—	(810)
Total net assets	$ 5,200	$ 2,724	$ 1,231	$ 3,113	$ 12,268	$ 5,637	$ 2,700	$ 993	$ 3,113	$ 12,443

(a) Generation excludes cash of $259 million and $252 million at December 31, 2017 and 2016 and restricted cash of $127 million and $157 million at December 31, 2017 and 2016. Exelon excludes cash of $389 million and $360 million at December 31, 2017 and 2016 and restricted cash of $145 million and $180 million at December 31, 2017 and 2016 and includes long-term restricted cash of $85 million and $25 million at December 31, 2017 and 2016, which is reported in Other deferred debits on the Consolidated Balance Sheets.

(b) Includes $77 million and $29 million of cash received from outstanding repurchase agreements at December 31, 2017 and 2016, respectively, and is offset by an obligation to repay upon settlement of the agreement as discussed in (d) below.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

(c) Includes derivative instruments of less than $1 million and $(2) million, which have a total notional amount of $811 million and $933 million at December 31, 2017 and 2016, respectively. The notional principal amounts for these instruments provide one measure of the transaction volume outstanding as of the fiscal years ended and do not represent the amount of the company's exposure to credit or market loss.

(d) Excludes net liabilities of $82 million and $31 million at December 31, 2017 and 2016, respectively. These items consist of receivables related to pending securities sales, interest and dividend receivables, repurchase agreement obligations, and payables related to pending securities purchases. The repurchase agreements are generally short-term in nature with durations generally of 30 days or less.

(e) Collateral posted/(received) from counterparties totaled $65 million, $320 million and $81 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of December 31, 2017. Collateral posted/(received) from counterparties totaled $71 million, $197 million and $61 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of December 31, 2016.

(f) Of the collateral posted/(received), $(117) million and $(158) million represents variation margin on the exchanges as of December 31, 2017 and 2016, respectively.

ComEd, PECO and BGE

The following tables present assets and liabilities measured and recorded at fair value on ComEd's, PECO's and BGE's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2017 and 2016:

	ComEd				PECO				BGE			
As of December 31, 2017	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Cash equivalents[a]	$ 98	$ —	$ —	$ 98	$ 228	$ —	$ —	$ 228	$ —	$ —	$ —	$ —
Rabbi trust investments												
Mutual funds	—	—	—	—	7	—	—	7	6	—	—	6
Life insurance contracts	—	—	—	—	—	10	—	10	—	—	—	—
Rabbi trust investments subtotal	—	—	—	—	7	10	—	17	6	—	—	6
Total assets	98	—	—	98	235	10	—	245	6	—	—	6
Liabilities												
Deferred compensation obligation	—	(8)	—	(8)	—	(11)	—	(11)	—	(5)	—	(5)
Mark-to-market derivative liabilities[b]	—	—	(256)	(256)	—	—	—	—	—	—	—	—
Total liabilities	—	(8)	(256)	(264)	—	(11)	—	(11)	—	(5)	—	(5)
Total net assets (liabilities)	$ 98	$ (8)	$ (256)	$ (166)	$ 235	$ (1)	$ —	$ 234	$ 6	$ (5)	$ —	$ 1

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	ComEd				PECO				BGE			
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[a]	$ 20	$ —	$ —	$ 20	$ 45	$ —	$ —	$ 45	$ 36	$ —	$ —	$ 36
Rabbi trust investments												
Mutual funds	—	—	—	—	7	—	—	7	4	—	—	4
Life insurance contracts	—	—	—	—	—	10	—	10	—	—	—	—
Rabbi trust investments subtotal	—	—	—	—	7	10	—	17	4	—	—	4
Total assets	20	—	—	20	52	10	—	62	40	—	—	40
Liabilities												
Deferred compensation obligation	—	(8)	—	(8)	—	(11)	—	(11)	—	(4)	—	(4)
Mark-to-market derivative liabilities[b]	—	—	(258)	(258)	—	—	—	—	—	—	—	—
Total liabilities	—	(8)	(258)	(266)	—	(11)	—	(11)	—	(4)	—	(4)
Total net assets (liabilities)	$ 20	$ (8)	$ (258)	$(246)	$ 52	$ (1)	$ —	$ 51	$ 40	$ (4)	$ —	$ 36

(a) ComEd excludes cash of $45 million and $36 million at December 31, 2017 and 2016 and restricted cash of $2 million at December 31, 2016 and includes long-term restricted cash of $62 million at December 31, 2017, which is reported in Other deferred debits on the Consolidated Balance Sheets. PECO excludes cash of $47 million and $22 million at December 31, 2017 and 2016. BGE excludes cash of $17 million and $13 million at December 31, 2017 and 2016 and restricted cash of $1 million at December 31, 2017 and includes long-term restricted cash of $2 million at December 31, 2016, which is reported in Other deferred debits on the Consolidated Balance Sheets.

(b) The Level 3 balance consists of the current and noncurrent liability of $21 million and $235 million, respectively, at December 31, 2017, and $19 million and $239 million, respectively, at December 31, 2016, related to floating-to-fixed energy swap contracts with unaffiliated suppliers.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

PHI, Pepco, DPL and ACE

The following tables present assets and liabilities measured and recorded at fair value on PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2017 and 2016:

	Successor							
	As of December 31, 2017				**As of December 31, 2016**			
PHI	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents[(a)]	$ 83	$ —	$ —	$ 83	$ 217	$ —	$ —	$ 217
Mark-to-market derivative assets[(b)]	—	—	—	—	2	—	—	2
Effect of netting and allocation of collateral	—	—	—	—	(2)	—	—	(2)
Mark-to-market derivative assets subtotal	—	—	—	—	—	—	—	—
Rabbi trust investments								
Cash equivalents	72	—	—	72	73	—	—	73
Fixed income	—	12	—	12	—	16	—	16
Life insurance contracts	—	23	22	45	—	22	20	42
Rabbi trust investments subtotal	72	35	22	129	73	38	20	131
Total assets	155	35	22	212	290	38	20	348
Liabilities								
Deferred compensation obligation	—	(25)	—	(25)	—	(28)	—	(28)
Mark-to-market derivative liabilities[(b)]	(1)	—	—	(1)	—	—	—	—
Effect of netting and allocation of collateral	1	—	—	1	—	—	—	—
Mark-to-market derivative liabilities subtotal	—	—	—	—	—	—	—	—
Total liabilities	—	(25)	—	(25)	—	(28)	—	(28)
Total net assets	$ 155	$ 10	$ 22	$ 187	$ 290	$ 10	$ 20	$ 320

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

As of December 31, 2017	Pepco				DPL				ACE			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Cash equivalents[a]	$ 36	$ —	$ —	$ 36	$ —	$ —	$ —	$ —	$ 29	$ —	$ —	$ 29
Rabbi trust investments												
Cash equivalents	44	—	—	44	—	—	—	—	—	—	—	—
Fixed income	—	12	—	12	—	—	—	—	—	—	—	—
Life insurance contracts	—	23	22	45	—	—	—	—	—	—	—	—
Rabbi trust investments subtotal	44	35	22	101	—	—	—	—	—	—	—	—
Total assets	80	35	22	137	—	—	—	—	29	—	—	29
Liabilities												
Deferred compensation obligation	—	(4)	—	(4)	—	(1)	—	(1)	—	—	—	—
Mark-to-market derivative liabilities [b]	—	—	—	—	(1)	—	—	(1)	—	—	—	—
Effect of netting and allocation of collateral	—	—	—	—	1	—	—	1	—	—	—	—
Mark-to-market derivative liabilities subtotal	—	—	—	—	—	—	—	—	—	—	—	—
Total liabilities	—	(4)	—	(4)	—	(1)	—	(1)	—	—	—	—
Total net assets (liabilities)	$ 80	$ 31	$ 22	$ 133	$ —	$ (1)	$ —	$ (1)	$ 29	$ —	$ —	$ 29

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Pepco				DPL				ACE			
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[a]	$ 33	$ —	$ —	$ 33	$ 42	$ —	$ —	$ 42	$ 130	$ —	$ —	$ 130
Mark-to-market derivative assets[b]	—	—	—	—	2	—	—	2	—	—	—	—
Effect of netting and allocation of collateral	—	—	—	—	(2)	—	—	(2)	—	—	—	—
Mark-to-market derivative assets subtotal	—	—	—	—	—	—	—	—	—	—	—	—
Rabbi trust investments												
Cash equivalents	43	—	—	43	—	—	—	—	—	—	—	—
Fixed income	—	16	—	16	—	—	—	—	—	—	—	—
Life insurance contracts	—	22	19	41	—	—	—	—	—	—	—	—
Rabbi trust investments subtotal	43	38	19	100	—	—	—	—	—	—	—	—
Total assets	76	38	19	133	42	—	—	42	130	—	—	130
Liabilities												
Deferred compensation obligation	—	(5)	—	(5)	—	(1)	—	(1)	—	—	—	—
Total liabilities	—	(5)	—	(5)	—	(1)	—	(1)	—	—	—	—
Total net assets (liabilities)	$ 76	$ 33	$ 19	$ 128	$ 42	$ (1)	$ —	$ 41	$ 130	$ —	$ —	$ 130

(a) PHI excludes cash of $12 million and $19 million at December 31, 2017 and 2016 and includes long term restricted cash of $23 million at both December 31, 2017 and 2016 which is reported in Other deferred debits on the Consolidated Balance Sheets. Pepco excludes cash of $4 million and $9 million at December 31, 2017 and 2016. DPL excludes cash of $2 million and $4 million at December 31, 2017 and 2016. ACE excludes cash of $2 million and $3 million at December 31, 2017 and 2016 and includes long-term restricted cash of $23 million at both December 31, 2017 and 2016 which is reported in Other deferred debits on the Consolidated Balance Sheets.

(b) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended December 31, 2017 and 2016:

							Successor		
	Generation					**ComEd**	**PHI**		**Exelon**
For the year ended December 31, 2017	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of January 1, 2017	$ 677	$ 19	$ 493	$ 42	$ 1,231	$ (258)	$ 20	$ —	$ 993
Total realized / unrealized gains (losses)									
Included in net income	3	—	(90) [a]	3	(84)	—	3	—	(81)
Included in noncurrent payables to affiliates	6	—	—	—	6	—	—	(6)	—
Included in payable for Zion Station decommissioning	—	(8)	—	—	(8)	—	—	—	(8)
Included in regulatory assets/liabilities	—	—	—	—	—	2 [b]	—	6	8
Change in collateral	—	—	20	—	20	—	—	—	20
Purchases, sales, issuances and settlements									
Purchases	64	1	178	5	248	—	—	—	248
Sales	—	—	(16)	—	(16)	—	—	—	(16)
Issuances	—	—	—	—	—	—	(1)	—	(1)
Settlements	(102)	—	(8) [c]	—	(110)	—	—	—	(110)
Transfers into Level 3	—	—	(6)	—	(6)	—	—	—	(6)
Transfers out of Level 3	—	—	(50)	(11)	(61)	—	—	—	(61)
Other miscellaneous	—	—	31 [d]	(2)	29	—	—	—	29
Balance as of December 31, 2017	$ 648	$ 12	$ 552	$ 37	$ 1,249	$ (256)	$ 22	$ —	$ 1,015
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of December 31, 2017	$ 1	$ —	$ 254	$ 3	$ 258	$ —	$ 3	$ —	$ 261

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

							Successor		
	Generation					**ComEd**	**PHI[f]**		**Exelon**
For the year ended December 31, 2016	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of January 1, 2016	$ 670	$ 22	$ 1,051	$ 33	$ 1,776	$ (247)	$ —	$ —	$ 1,529
Included due to merger	—	—	—	—	—	—	20	—	20
Total realized / unrealized gains (losses)									
Included in net income	7	—	(568) [a]	1	(560)	—	3	—	(557)
Included in noncurrent payables to affiliates	16	—	—	—	16	—	—	(16)	—
Included in regulatory assets/liabilities	—	—	—	—	—	(11) [b]	—	16	5
Change in collateral	—	—	(141)	—	(141)	—	—	—	(141)
Purchases, sales, issuances and settlements									
Purchases	143	2	342 [e]	7	494	—	—	—	494
Sales	(1)	(5)	(9)	—	(15)	—	—	—	(15)
Issuances	—	—	—	—	—	—	(3)	—	(3)
Settlements	(144)	—	—	—	(144)	—	—	—	(144)
Transfers into Level 3	—	—	1	1	2	—	—	—	2
Transfers out of Level 3	(14)	—	(183)	—	(197)	—	—	—	(197)
Balance as of December 31, 2016	$ 677	$ 19	$ 493	$ 42	$ 1,231	$ (258)	$ 20	$ —	$ 993
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities held as of December 31, 2016	$ 5	$ —	$ 109	$ —	$ 114	$ —	$ 2	$ —	$ 116

(a) Includes a reduction for the reclassification of $352 million and $677 million of realized gains due to the settlement of derivative contracts for the years ended December 31, 2017 and 2016, respectively.

(b) Includes $18 million of decreases in fair value and an increase for realized losses due to settlements of $20 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the year ended December 31, 2017. Includes $29 million of decreases in fair value and an increase for realized losses due to settlements of $18 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the year ended December 31, 2016.

(c) Exelon includes the settlement value for any open contracts that were net settled prior to their scheduled maturity within this line item.

(d) As a result of the bankruptcy filing for EGTP on November 7, 2017, the net mark-to-market commodity contracts were deconsolidated from Exelon's and Generation's consolidated financial statements.

(e) Includes $168 million of fair value from contracts acquired as a result of portfolio acquisitions.

(f) Successor period represents activity from March 24, 2016 to December 31, 2016. See tables below for PHI's predecessor periods, as well as activity for Pepco for the years ended December 31, 2017 and 2016.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Predecessor	
	January 1, 2016 to March 23, 2016	
PHI	**Preferred Stock**	**Life Insurance Contracts**
Beginning Balance	$ 18	$ 19
Total realized / unrealized (losses) gains		
Included in net income	(18)	1
Ending Balance	$ —	$ 20
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ —	$ 1

	Life Insurance Contracts	
	For the year ended December 31,	
Pepco	**2017**	**2016**
Balance as of January 1	$ 20	$ 19
Total realized / unrealized gains (losses)		
Included in net income	3	3
Purchases, sales, issuances and settlements		
Issuances	(1)	(3)
Balance as of December 31	$ 22	$ 19
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ 3	$ 3

The following tables present the income statement classification of the total realized and unrealized gains (losses) included in income for Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended December 31, 2017 and 2016:

				Successor				
	Generation			**PHI**	**Exelon**			
	Operating Revenues	**Purchased Power and Fuel**	**Other, net**[(a)]	**Operating and Maintenance**	**Operating Revenues**	**Purchased Power and Fuel**	**Operating and Maintenance**	**Other, net**[(a)]
Total gains (losses) included in net income for the year ended December 31, 2017	$ 28	$ (126)	$ 6	$ 3	$ 28	$ (126)	$ 3	$ 6
Change in the unrealized gains (losses) relating to assets and liabilities held for the year ended December 31, 2017	290	(36)	4	3	290	(36)	3	4

				Successor			
	Generation			**PHI**[(b)]	**Exelon**		
	Operating Revenues	**Purchased Power and Fuel**	**Other, net**[(a)]	**Other, net**[(a)]	**Operating Revenues**	**Purchased Power and Fuel**	**Other, net**[(a)]
Total gains (losses) included in net income for the year ended December 31, 2016	$ (477)	$ (91)	$ 7	$ 3	$ (477)	$ (91)	$ 10

Change in the unrealized gains (losses) relating to assets and liabilities held for the year ended December 31, 2016	154	(45)	5	2	154	(45)	7

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Predecessor PHI	Pepco		
	January 1, 2016 to March 23, 2016	December 31, 2017	December 31, 2017	December 31, 2016
	Other, net[(a)]	Operating and Maintenance	Other, net[(a)]	
Total (losses) gains included in net income	$ (17)	$ 3	$ —	$ 3
Change in the unrealized gains (losses) relating to assets and liabilities held	1	3	—	3

(a) Other, net activity consists of realized and unrealized gains (losses) included in income for the NDT funds held by Generation, accrued interest on a convertible promissory note at Generation and the life insurance contracts held by PHI and Pepco.

(b) Successor period represents activity from March 24, 2016 to December 31, 2016. See the subsequent table for PHI's predecessor periods, as well as activity for Pepco for the year ended December 31, 2017 and 2016.

Valuation Techniques Used to Determine Fair Value

The following describes the valuation techniques used to measure the fair value of the assets and liabilities shown in the tables above.

Cash Equivalents (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). The Registrants' cash equivalents include investments with original maturities of three months or less when purchased. The cash equivalents shown in the fair value tables are comprised of investments in mutual and money market funds. The fair values of the shares of these funds are based on observable market prices and, therefore, have been categorized in Level 1 in the fair value hierarchy.

Preferred Stock Derivative (PHI). In connection with entering into the PHI Merger Agreement, PHI entered into a Subscription Agreement with Exelon dated April 29, 2014, pursuant to which PHI issued to Exelon shares of preferred stock. The preferred stock contained embedded features requiring separate accounting consideration to reflect the potential value to PHI that any issued and outstanding preferred stock could be called and redeemed at a nominal par value upon a termination of the merger agreement under certain circumstances due to the failure to obtain required regulatory approvals. The embedded call and redemption features on the shares of the preferred stock in the event of such a termination were separately accounted for as derivatives. These preferred stock derivatives were valued quarterly using quantitative and qualitative factors, including management's assessment of the likelihood of a Regulatory Termination and therefore, were categorized in Level 3 in the fair value hierarchy. As a result of the PHI Merger, the PHI preferred stock derivative was reduced to zero as of March 23, 2016. The write-off was charged to Other, net on the PHI Consolidated Statement of Operations and Comprehensive Income.

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning (Exelon and Generation). The trust fund investments have been established to satisfy Generation's and CENG's nuclear decommissioning obligations as required by the NRC. The NDT funds hold debt and equity securities directly and indirectly through commingled funds and mutual funds, which are included in Equities and Fixed Income. Generation's and CENG's NDT fund investments policies outline investment guidelines for the trusts and limit the trust funds' exposures to investments in highly illiquid markets and other alternative investments. Investments with maturities of three months or less when purchased, including certain short-term fixed income securities are considered cash equivalents and included in the recurring fair value measurements hierarchy as Level 1 or Level 2.

With respect to individually held equity securities, the trustees obtain prices from pricing services, whose prices are generally obtained from direct feeds from market exchanges, which Generation is able to independently corroborate. The fair values of equity securities held directly by the trust funds which are based on quoted prices in active markets are categorized in Level 1. Certain equity securities have been categorized as Level 2 because they are based on evaluated prices that reflect observable market

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

information, such as actual trade information or similar securities. Equity securities held individually are primarily traded on the New York Stock Exchange and NASDAQ-Global Select Market, which contain only actively traded securities due to the volume trading requirements imposed by these exchanges.

For fixed income securities, multiple prices from pricing services are obtained whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. With respect to individually held fixed income securities, the trustees monitor prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and the trustees determine that another price source is considered to be preferable. Generation has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, Generation selectively corroborates the fair values of securities by comparison to other market-based price sources. U.S. Treasury securities are categorized as Level 1 because they trade in a highly liquid and transparent market. The fair values of fixed income securities, excluding U.S. Treasury securities, are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The fair values of private placement fixed income securities, which are included in Corporate debt, are determined using a third-party valuation that contains significant unobservable inputs and are categorized in Level 3.

Equity and fixed income commingled funds and mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives such as holding short-term fixed income securities or tracking the performance of certain equity indices by purchasing equity securities to replicate the capitalization and characteristics of the indices. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For commingled funds and mutual funds, which are not publicly quoted, the funds are valued using NAV as a practical expedient for fair value, which is primarily derived from the quoted prices in active markets on the underlying securities, and are not classified within the fair value hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Derivative instruments consisting primarily of futures and interest rate swaps to manage risk are recorded at fair value. Over the counter derivatives are valued daily based on quoted prices in active markets and trade in open markets, and have been categorized as Level 1. Derivative instruments other than over the counter derivatives are valued based on external price data of comparable securities and have been categorized as Level 2.

Middle market lending are investments in loans or managed funds which lend to private companies. Generation elected the fair value option for its investments in certain limited partnerships that invest in middle market lending managed funds. The fair value of these loans is determined using a combination of valuation models including cost models, market models, and income models. Investments in loans are categorized as Level 3 because the fair value of these securities is based largely on inputs that are unobservable and utilize complex valuation models. Managed funds are valued using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. Investments in middle market lending typically cannot be redeemed until maturity of the term loan.

Private equity and real estate investments include those in limited partnerships that invest in operating companies and real estate holding companies that are not publicly traded on a stock exchange, such as, leveraged buyouts, growth capital, venture capital, distressed investments, investments in natural resources, and direct investments in pools of real estate properties. The fair value of private equity and real estate investments is determined using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. These investments typically cannot be redeemed and are generally liquidated over a period of 8 to 10 years from the initial investment date.

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Private equity and real estate valuations are reported by the fund manager and are based on the valuation of the underlying investments, which include inputs such as cost, operating results, discounted future cash flows, market based comparable data, and independent appraisals from sources with professional qualifications. These valuation inputs are unobservable.

As of December 31, 2017, Generation has outstanding commitments to invest in fixed income, middle market lending, private equity and real estate investments of approximately $65 million, $363 million, $220 million and $118 million, respectively. These commitments will be funded by Generation's existing nuclear decommissioning trust funds.

Concentrations of Credit Risk. Generation evaluated its NDT portfolios for the existence of significant concentrations of credit risk as of December 31, 2017. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, and individual fund. As of December 31, 2017, there were no significant concentrations (generally defined as greater than 10 percent) of risk in Generation's NDT assets.

See Note 15 — Asset Retirement Obligations for further discussion on the NDT fund investments.

Rabbi Trust Investments (Exelon, Generation, PECO, BGE, PHI, Pepco, DPL and ACE). The Rabbi trusts were established to hold assets related to deferred compensation plans existing for certain active and retired members of Exelon's executive management and directors. The Rabbi trusts' assets are included in investments in the Registrants' Consolidated Balance Sheets and consist primarily of money market funds, mutual funds, fixed income securities and life insurance policies. The mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with Exelon's overall investment strategy. Money market funds and mutual funds are publicly quoted and have been categorized as Level 1 given the clear observability of the prices. The fair values of fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The life insurance policies are valued using the cash surrender value of the policies, net of loans against those policies, which is provided by a third-party. Certain life insurance policies, which consist primarily of mutual funds that are priced based on observable market data, have been categorized as Level 2 because the life insurance policies can be liquidated at the reporting date for the value of the underlying assets. Life insurance policies that are valued using unobservable inputs have been categorized as Level 3.

Mark-to-Market Derivatives (Exelon, Generation, ComEd, PHI and DPL)**.** Derivative contracts are traded in both exchange-based and non-exchange-based markets. Exchange-based derivatives that are valued using unadjusted quoted prices in active markets are categorized in Level 1 in the fair value hierarchy. Certain derivatives' pricing is verified using indicative price quotations available through brokers or over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask, mid-point prices and are obtained from sources that the Registrants believe provide the most liquid market for the commodity. The price quotations are reviewed and corroborated to ensure the prices are observable and representative of an orderly transaction between market participants. This includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration. The remainder of derivative contracts are valued using the Black model, an industry standard option valuation model. The Black model takes into account inputs such as contract terms, including maturity, and market parameters, including assumptions of the future prices of energy, interest rates, volatility, credit worthiness and credit spread. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs are generally observable. Such instruments are categorized in Level 2. The Registrants' derivatives are predominantly at liquid trading points. For derivatives that trade in less liquid markets with limited pricing information model inputs generally would include both observable and unobservable inputs. These valuations may include an estimated basis adjustment from an illiquid trading point to a liquid trading point for which active price quotations are available. Such instruments are categorized in Level 3.

Exelon may utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. In addition, the Registrants may utilize interest rate derivatives to lock in interest rate levels in anticipation of future financings. These interest rate derivatives are typically designated as cash flow hedges. Exelon determines the current fair value by calculating the net present value of expected payments and receipts under the swap agreement, based on and discounted by the market's expectation of future interest rates. Additional inputs to the net present value calculation may include the contract terms, counterparty credit risk and other market parameters. As these inputs are based on observable data and valuations of similar instruments, the interest rate swaps are categorized in Level 2 in the fair value hierarchy. See Note 12 — Derivative Financial Instruments for further discussion on mark-to-market derivatives.

Deferred Compensation Obligations (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). The Registrants' deferred compensation plans allow participants to defer certain cash compensation into a notional investment account. The Registrants include such plans in other current and noncurrent liabilities in their Consolidated Balance Sheets. The value of the Registrants' deferred compensation obligations is based on the market value of the participants' notional investment accounts. The underlying notional investments are comprised primarily of equities, mutual funds, commingled funds and fixed income securities which are based on directly and indirectly observable market prices. Since the deferred compensation obligations themselves are not exchanged in an active market, they are categorized as Level 2 in the fair value hierarchy.

The value of certain employment agreement obligations (which are included with the Deferred Compensation Obligation in the tables above) are based on a known and certain stream of payments to be made over time and are categorized as Level 2 within the fair value hierarchy.

Additional Information Regarding Level 3 Fair Value Measurements (Exelon, Generation, ComEd, PHI, Pepco, DPL and ACE)

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning (Exelon and Generation). For middle market lending and certain corporate debt securities investments, the fair value is determined using a combination of valuation models including cost models, market models and income models. The valuation estimates are based on discounting the forecasted cash flows, market-based comparable data, credit and liquidity factors, as well as other factors that may impact value. Significant judgment is required in the application of discounts or premiums applied for factors such as size, marketability, credit risk and relative performance.

Because Generation relies on third-party fund managers to develop the quantitative unobservable inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Generation. This includes information regarding the sensitivity of the fair values to changes in the unobservable inputs. Generation gains an understanding of the fund managers' inputs and assumptions used in preparing the valuations. Generation performed procedures to assess the reasonableness of the valuations.

Rabbi Trust Investments - Life insurance contracts (Exelon, PHI, Pepco, DPL and ACE). For life insurance policies categorized as Level 3, the fair value is determined based on the cash surrender value of the policy, which contains unobservable inputs and assumptions. Because Exelon relies on its third-party insurance provider to develop the inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Exelon. Exelon gains an understanding of the types of inputs

Combined Notes to Consolidated Financial Statements - (Continued)
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and assumptions used in preparing the valuations and performs procedures to assess the reasonableness of the valuations.

Mark-to-Market Derivatives (Exelon, Generation and ComEd). For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities. Forward price curves for the power market utilized by the front office to manage the portfolio, are reviewed and verified by the middle office, and used for financial reporting by the back office. The Registrants consider credit and nonperformance risk in the valuation of derivative contracts categorized in Level 2 and 3, including both historical and current market data in its assessment of credit and nonperformance risk by counterparty. Due to master netting agreements and collateral posting requirements, the impacts of credit and nonperformance risk were not material to the financial statements.

Disclosed below is detail surrounding the Registrants' significant Level 3 valuations. The calculated fair value includes marketability discounts for margining provisions and other attributes. Generation's Level 3 balance generally consists of forward sales and purchases of power and natural gas and certain transmission congestion contracts. Generation utilizes various inputs and factors including market data and assumptions that market participants would use in pricing assets or liabilities as well as assumptions about the risks inherent in the inputs to the valuation technique. The inputs and factors include forward commodity prices, commodity price volatility, contractual volumes, delivery location, interest rates, credit quality of counterparties and credit enhancements.

For commodity derivatives, the primary input to the valuation models is the forward commodity price curve for each instrument. Forward commodity price curves are derived by risk management for liquid locations and by the traders and portfolio managers for illiquid locations. All locations are reviewed and verified by risk management considering published exchange transaction prices, executed bilateral transactions, broker quotes, and other observable or public data sources. The relevant forward commodity curve used to value each of the derivatives depends on a number of factors, including commodity type, delivery location, and delivery period. Price volatility varies by commodity and location. When appropriate, Generation discounts future cash flows using risk free interest rates with adjustments to reflect the credit quality of each counterparty for assets and Generation's own credit quality for liabilities. The level of observability of a forward commodity price varies generally due to the delivery location and delivery period. Certain delivery locations including PJM West Hub (for power) and Henry Hub (for natural gas) are more liquid and prices are observable for up to three years in the future. The observability period of volatility is generally shorter than the underlying power curve used in option valuations. The forward curve for a less liquid location is estimated by using the forward curve from the liquid location and applying a spread to represent the cost to transport the commodity to the delivery location. This spread does not typically represent a majority of the instrument's market price. As a result, the change in fair value is closely tied to liquid market movements and not a change in the applied spread. The change in fair value associated with a change in the spread is generally immaterial. An average spread calculated across all Level 3 power and gas delivery locations is approximately $2.99 and $0.42 for power and natural gas, respectively. Many of the commodity derivatives are short term in nature and thus a majority of the

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fair value may be based on observable inputs even though the contract as a whole must be classified as Level 3.

On December 17, 2010, ComEd entered into several 20-year floating to fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. See Note 12 — Derivative Financial Instruments for more information. The fair value of these swaps has been designated as a Level 3 valuation due to the long tenure of the positions and internal modeling assumptions. The modeling assumptions include using natural gas heat rates to project long term forward power curves adjusted by a renewable factor that incorporates time of day and seasonality factors to reflect accurate renewable energy pricing. In addition, marketability reserves are applied to the positions based on the tenor and supplier risk.

The following tables present the significant inputs to the forward curve used to value these positions:

Type of trade	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives—Economic hedges (Exelon and Generation)[a][b]	$ 445	Discounted Cash Flow	Forward power price	$3 - $124
			Forward gas price	$1.27 - $12.80
		Option Model	Volatility percentage	11% - 139%
Mark-to-market derivatives—Proprietary trading (Exelon and Generation)[a][b]	$ 26	Discounted Cash Flow	Forward power price	$14 - $94
Mark-to-market derivatives (Exelon and ComEd)	$ (256)	Discounted Cash Flow	Forward heat rate[c]	9x - 10x
			Marketability reserve	4% - 8%
			Renewable factor	88% - 120%

(a) The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.
(b) The fair values do not include cash collateral posted on level three positions of $81 million as of December 31, 2017.
(c) Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.

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Type of trade	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range		
Mark-to-market derivatives—Economic hedges (Exelon and Generation)[(a)(b)]	$ 435	Discounted Cash Flow	Forward power price	$11	-	$130
			Forward gas price	$1.72	-	$9.20
		Option Model	Volatility percentage	8%	-	173%
Mark-to-market derivatives—Proprietary trading (Exelon and Generation)[(a)(b)]	$ (3)	Discounted Cash Flow	Forward power price	$19	-	$79
Mark-to-market derivatives (Exelon and ComEd)	$ (258)	Discounted Cash Flow	Forward heat rate[(c)]	8x	-	9x
			Marketability reserve	3%	-	8%
			Renewable factor	89%	-	121%

(a) The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.
(b) The fair values do not include cash collateral posted on level three positions of $61 million as of December 31, 2016
(c) Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.

The inputs listed above would have a direct impact on the fair values of the above instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of Generation's commodity derivatives are forward commodity prices and for options is price volatility. Increases (decreases) in the forward commodity price in isolation would result in significantly higher (lower) fair values for long positions (contracts that give Generation the obligation or option to purchase a commodity), with offsetting impacts to short positions (contracts that give Generation the obligation or right to sell a commodity). Increases (decreases) in volatility would increase (decrease) the value for the holder of the option (writer of the option). Generally, a change in the estimate of forward commodity prices is unrelated to a change in the estimate of volatility of prices. An increase to the reserves listed above would decrease the fair value of the positions. An increase to the heat rate or renewable factors would increase the fair value accordingly. Generally, interrelationships exist between market prices of natural gas and power. As such, an increase in natural gas pricing would potentially have a similar impact on forward power markets.

12. Derivative Financial Instruments (All Registrants)

The Registrants use derivative instruments to manage commodity price risk, interest rate risk and foreign exchange risk related to ongoing business operations.

Commodity Price Risk (All Registrants)

To the extent the total amount of power Generation produces and purchases differs from the amount of power it has contracted to sell, Exelon and Generation are exposed to market fluctuations in the prices of electricity, fossil fuels and other commodities. Each of the Registrants employ established policies and procedures to manage their risks associated with market fluctuations in commodity prices by entering into physical and financial derivative contracts, including swaps, futures, forwards, options and short-term and long-term commitments to purchase and sell energy and commodity products. The Registrants believe these instruments, which are either determined to be non-derivative or classified as economic hedges, mitigate exposure to fluctuations in commodity prices.

Derivative authoritative guidance requires that derivative instruments be recognized as either assets or liabilities at fair value, with changes in fair value of the derivative recognized in earnings immediately. Other accounting treatments are available through special election and designation, provided they meet specific, restrictive criteria both at the time of designation and on an ongoing basis. These alternative permissible accounting treatments include normal purchases and normal sales (NPNS), cash flow hedges and fair value hedges. For Generation, all derivative economic hedges related to commodities are recorded at fair value through earnings for the consolidated company, referred to as economic hedges in the following tables. Additionally, Generation is exposed to certain market risks through its proprietary trading activities. The proprietary trading activities are a complement to Generation's energy marketing portfolio but represent a small portion of Generation's overall energy marketing activities.

Fair value authoritative guidance and disclosures about offsetting assets and liabilities requires the fair value of derivative instruments to be shown in the Notes to the Consolidated Financial Statements on a gross basis, even when the derivative instruments are subject to legally enforceable master netting agreements and qualify for net presentation in the Consolidated Balance Sheet. A master netting agreement is an agreement between two counterparties that may have derivative and non-derivative contracts with each other providing for the net settlement of all referencing contracts via one payment stream, which takes place as the contracts deliver, when collateral is requested or in the event of default. Generation's use of cash collateral is generally unrestricted unless Generation is downgraded below investment grade (i.e., to BB+ or Ba1). In the table below, Generation's energy related economic hedges and proprietary trading derivatives are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral including initial margin on exchange positions, is aggregated in the collateral and netting column. As of December 31, 2017 and 2016, $4 million and $8 million of cash collateral held, respectively, was not offset against derivative positions because such collateral was not associated with any energy-related derivatives, were associated with accrual positions, or had no positions to offset as of the balance sheet date. Excluded from the tables below are economic hedges that qualify for the NPNS scope exception and other non-derivative contracts that are accounted for under the accrual method of accounting.

ComEd's use of cash collateral is generally unrestricted unless ComEd is downgraded below investment grade (i.e., to BB+ or Ba1).

Cash collateral held by BGE and PECO must be deposited in a non-affiliate major U.S. commercial bank or foreign bank with a U.S. branch office that meet certain qualifications.

In the table below, DPL's economic hedges are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral, including margin on exchange positions, is aggregated in the collateral and netting column.

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The following table provides a summary of the derivative fair value balances related to commodity contracts recorded by the Registrants as of December 31, 2017:

	Generation				ComEd	DPL			*Successor* PHI	Exelon
Description	**Economic Hedges**	**Proprietary Trading**	**Collateral and Netting[(a)(e)]**	**Subtotal[(b)]**	**Economic Hedges[(c)]**	**Economic Hedges[(d)]**	**Collateral and Netting[(a)]**	**Subtotal**	**Subtotal**	**Total Derivatives**
Mark-to-market derivative assets (current assets)	$ 3,061	$ 56	$ (2,144)	$ 973	$ —	$ —	$ —	$ —	$ —	$ 973
Mark-to-market derivative assets (noncurrent assets)	1,164	12	(845)	331	—	—	—	—	—	331
Total mark-to-market derivative assets	4,225	68	(2,989)	1,304	—	—	—	—	—	1,304
Mark-to-market derivative liabilities (current liabilities)	(2,646)	(43)	2,480	(209)	(21)	(1)	1	—	—	(230)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,137)	(10)	975	(172)	(235)	—	—	—	—	(407)
Total mark-to-market derivative liabilities	(3,783)	(53)	3,455	(381)	(256)	(1)	1	—	—	(637)
Total mark-to-market derivative net assets (liabilities)	$ 442	$ 15	$ 466	$ 923	$ (256)	$ (1)	$ 1	$ —	$ —	$ 667

(a) Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative authoritative guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

(b) Current and noncurrent assets are shown net of collateral of $169 million and $53 million, respectively, and current and noncurrent liabilities are shown net of collateral of $167 million and $77 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $466 million at December 31, 2017.

(c) Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

(d) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

(e) Of the collateral posted/(received), $(117) million represents variation margin on the exchanges.

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The following table provides a summary of the derivative fair value balances related to commodity contracts recorded by the Registrants as of December 31, 2016:

									Successor	
	Generation				**ComEd**	**DPL**			**PHI**	**Exelon**
Description	**Economic Hedges**	**Proprietary Trading**	**Collateral and Netting**[(a)(e)]	**Subtotal**[(b)]	**Economic Hedges**[(c)]	**Economic Hedges**[(d)]	**Collateral and Netting**[(a)]	**Subtotal**	**Subtotal**	**Total Derivatives**
Mark-to-market derivative assets (current assets)	$ 3,623	$ 55	$ (2,769)	$ 909	$ —	$ 2	$ (2)	$ —	$ —	$ 909
Mark-to-market derivative assets (noncurrent assets)	1,467	21	(1,016)	472	—	—	—	—	—	472
Total mark-to-market derivative assets	5,090	76	(3,785)	1,381	—	2	(2)	—	—	1,381
Mark-to-market derivative liabilities (current liabilities)	(3,165)	(54)	2,964	(255)	(19)	—	—	—	—	(274)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,274)	(25)	1,150	(149)	(239)	—	—	—	—	(388)
Total mark-to-market derivative liabilities	(4,439)	(79)	4,114	(404)	(258)	—	—	—	—	(662)
Total mark-to-market derivative net assets (liabilities)	$ 651	$ (3)	$ 329	$ 977	$ (258)	$ 2	$ (2)	$ —	$ —	$ 719

(a) Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative authoritative guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, and letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

(b) Current and noncurrent assets are shown net of collateral of $100 million and $72 million, respectively, and current and noncurrent liabilities are shown net of collateral of $95 million and $62 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $329 million at December 31, 2016.

(c) Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

(d) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

(e) Of the collateral posted/(received), $(158) million represents variation margin on the exchanges.

Economic Hedges (Commodity Price Risk)

Within Exelon, Generation has the most exposure to commodity price risk. As such, Generation uses a variety of derivative and non-derivative instruments to manage the commodity price risk of its electric generation facilities, including power and gas sales, fuel and power purchases, natural gas transportation and pipeline capacity agreements and other energy-related products marketed and purchased. To manage these risks, Generation may enter into fixed-price derivative or non-derivative contracts to hedge the variability in future cash flows from expected sales of power and gas and purchases of power and fuel. The objectives for executing such hedges include fixing the price for a portion of anticipated future electricity sales at a level that provides an acceptable return. Generation is also exposed to differences between the locational settlement prices of certain economic hedges and the hedged generating units. This price difference is actively managed through other instruments which include derivative congestion products, whose changes in fair value are recognized in earnings each period, and auction revenue rights, which are accounted for on an accrual basis. For the years ended December 31, 2017, 2016 and 2015, Exelon and Generation recognized the following net pre-tax commodity mark-to-market gains (losses) which are also located in the "Net fair value changes related to derivatives" on the Consolidated Statements of Cash Flows.

	For the Years Ended December 31,		
	2017	2016	2015
Income Statement Location	Gain (Loss)		
Operating revenues	$ (126)	$ (490)	$ 196
Purchased power and fuel	(43)	459	54
Total Exelon and Generation	$ (169)	$ (31)	$ 250

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation’s owned and contracted generation positions which have not been hedged. Generation hedges commodity price risk on a ratable basis over three-year periods. As of December 31, 2017, the percentage of expected generation hedged is 85%-88%, 55%-58% and 26%-29% for 2018, 2019 and 2020, respectively.

On December 17, 2010, ComEd entered into several 20-year floating-to-fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. Delivery under the contracts began in June 2012. These contracts are designed to lock in a portion of the long-term commodity price risk resulting from the renewable energy resource procurement requirements in the Illinois Settlement Legislation. ComEd has not elected hedge accounting for these derivative financial instruments. ComEd records the fair value of the swap contracts on its balance sheet. Because ComEd receives full cost recovery for energy procurement and related costs from retail customers, the change in fair value each period is recorded by ComEd as a regulatory asset or liability. See Note 3 — Regulatory Matters for additional information.

PECO has contracts to procure electric supply that were executed through the competitive procurement process outlined in its PAPUC-approved DSP Programs, which are further discussed in Note 3 — Regulatory Matters. Based on Pennsylvania legislation and the DSP Programs permitting PECO to recover its electric supply procurement costs from retail customers with no mark-up, PECO’s commodity price risk related to electric supply procurement is limited. PECO locked in fixed prices for a significant portion of its commodity price risk through full requirements contracts. PECO has certain full requirements contracts that are considered derivatives and qualify for the NPNS scope exception under current derivative authoritative guidance.

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PECO's natural gas procurement policy is designed to achieve a reasonable balance of long-term and short-term gas purchases under different pricing approaches to achieve system supply reliability at the least cost. PECO's reliability strategy is two-fold. First, PECO must assure that there is sufficient transportation capacity to satisfy delivery requirements. Second, PECO must ensure that a firm source of supply exists to utilize the capacity resources. All of PECO's natural gas supply and asset management agreements that are derivatives either qualify for the NPNS scope exception and have been designated as such, or have no mark-to-market balances because the derivatives are index priced. Additionally, in accordance with the 2016 PAPUC PGC settlement and to reduce the exposure of PECO and its customers to natural gas price volatility, PECO has continued its program to purchase natural gas for both winter and summer supplies using a layered approach of locking-in prices ahead of each season with long-term gas purchase agreements (those with primary terms of at least twelve months). Under the terms of the 2016 PGC settlement, PECO is required to lock in (i.e., economically hedge) the price of a minimum volume of its long-term gas commodity purchases. PECO's gas-hedging program is designed to cover about 20% of planned natural gas purchases in support of projected firm sales. The hedging program for natural gas procurement has no direct impact on PECO's results of operations and financial position as natural gas costs are fully recovered from customers under the PGC.

BGE has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC. The SOS rates charged recover BGE's wholesale power supply costs and include an administrative fee. BGE's commodity price risk related to electric supply procurement is limited. BGE locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of BGE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other BGE full requirements contracts are not derivatives.

BGE provides natural gas to its customers under a MBR mechanism approved by the MDPSC. Under this mechanism, BGE's actual cost of gas is compared to a market index (a measure of the market price of gas in a given period). The difference between BGE's actual cost and the market index is shared equally between shareholders and customers. BGE must also secure fixed price contracts for at least 10%, but not more than 20%, of forecasted system supply requirements for flowing (i.e., non-storage) gas for the November through March period. These fixed-price contracts are not subject to sharing under the MBR mechanism. BGE also ensures it has sufficient pipeline transportation capacity to meet customer requirements. BGE's natural gas supply and asset management agreements qualify for the NPNS scope exception and result in physical delivery.

Pepco has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and DCPSC. The SOS rates charged recover Pepco's wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for residential and commercial rate classes. Pepco's commodity price risk related to electric supply procurement is limited. Pepco locks in fixed prices for its SOS requirements through full requirements contracts. Certain of Pepco's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other Pepco full requirements contracts are not derivatives.

DPL has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and the DPSC. The SOS rates charged recover DPL's wholesale power supply costs. In Delaware, DPL is also entitled to recover a Reasonable Allowance for Retail Margin (RARM). The RARM includes a fixed annual margin of approximately $2.75 million, plus an incremental cost component and a cash working capital allowance. In Maryland, DPL charges an administrative fee intended to allow it to recover its administrative costs. DPL locks in fixed prices for its SOS requirements through full requirements contracts. DPL's commodity price risk related to electric supply procurement is limited. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

DPL provides natural gas to its customers under an Annual GCR mechanism approved by the DPSC. Under this mechanism, DPL's Annual GCR Filing establishes a future GCR for firm bundled sales customers by using a forecast of demand and commodity costs. The actual costs are trued up against forecast on a monthly basis and any shortfall or excess is carried forward as a recovery balance in the next GCR filing. The demand portion of the GCR is based upon DPL's firm transportation and storage contracts. DPL has firm deliverability of swing and seasonal storage; a liquefied natural gas facility and firm transportation capacity to meet customer demand and provide a reserve margin. The commodity portion of the GCR includes a commission approved hedging program which is intended to reduce gas commodity price volatility while limiting the firm natural gas customers' exposure to adverse changes in the market price of natural gas. The hedge program requires that DPL hedge, on a non-discretionary basis, an amount equal to 50% of estimated purchase requirements for each month, including estimated monthly purchases for storage injections. The 50% hedge monthly target is achieved by hedging 1/12th of the 50% target each month beginning 12-months prior to the month in which the physical gas is to be purchased. Currently, DPL uses only exchange traded futures for its gas hedging program, which are considered derivatives, however, it retains the capability to employ other physical and financial hedges if needed. DPL has not elected hedge accounting for these derivative financial instruments. Because of the DPSC-approved fuel adjustment clause for DPL's derivatives, the change in fair value of the derivatives each period, in addition to all premiums paid and other transaction costs incurred as part of the Gas Hedging Program, are fully recoverable and are recorded by DPL as regulatory assets or liabilities. DPL's physical gas purchases are currently all daily, monthly or intra-month transactions. From time to time, DPL will enter into seasonal purchase or sale arrangements, however, there are none currently in the portfolio. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

ACE has contracts to procure BGS electric supply that are executed through a competitive procurement process approved by the NJBPU. The BGS rates charged recover ACE's wholesale power supply costs. ACE does not make any profit or incur any loss on the supply component of the BGS it supplies to customers. ACE's commodity price risk related to electric supply procurement is limited. ACE locks in fixed prices for its BGS requirements through full requirements contracts. Certain of ACE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other ACE full requirements contracts are not derivatives.

Proprietary Trading (Commodity Price Risk)

Generation also executes commodity derivatives for proprietary trading purposes. Proprietary trading includes all contracts entered into with the intent of benefiting from shifts or changes in market prices as opposed to those executed with the intent of hedging or managing risk. Proprietary trading activities are subject to limits established by Exelon's RMC. The proprietary trading portfolio is subject to a risk management policy that includes stringent risk management limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon's RMC monitor the financial risks of the proprietary trading activities. The proprietary trading activities are a complement to Generation's energy marketing portfolio, but represent a small portion of Generation's overall revenue from energy marketing activities. Gains and losses associated with proprietary trading are reported as Operating revenues in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. For the years ended December 31, 2017, 2016 and 2015, Exelon and Generation recognized the following net pre-tax commodity mark-to-market gains (losses) which are also included in the "Net fair value changes related to derivatives" on the Consolidated Statements of Cash Flows. The Utility Registrants do not execute derivatives for proprietary trading purposes.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	For the Years Ended December 31,		
	2017	2016	2015
Income Statement Location	Gain (Loss)		
Operating revenues	$ 6	$ 2	$ (6)

Interest Rate and Foreign Exchange Risk (All Registrants)

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels, which are typically designated as cash flow hedges to manage interest rate risk. To manage foreign exchange rate exposure associated with international commodity purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are treated as economic hedges. Below is a summary of the interest rate and foreign exchange hedge balances as of December 31, 2017:

	Generation					Exelon Corporate	Exelon
Description	Derivatives Designated as Hedging Instruments	Economic Hedges	Proprietary Trading	Collateral and Netting[(a)]	Subtotal	Derivatives Designated as Hedging Instruments	Total
Mark-to-market derivative assets (current assets)	$ —	$ 10	$ —	$ (7)	$ 3	$ —	$ 3
Mark-to-market derivative assets (noncurrent assets)	3	—	—	—	3	3	6
Total mark-to-market derivative assets	3	10	—	(7)	6	3	9
Mark-to-market derivative liabilities (current liabilities)	(2)	(7)	—	7	(2)	—	(2)
Mark-to-market derivative liabilities (noncurrent liabilities)	—	(2)	—	—	(2)	—	(2)
Total mark-to-market derivative liabilities	(2)	(9)	—	7	(4)	—	(4)
Total mark-to-market derivative net assets (liabilities)	$ 1	$ 1	$ —	$ —	$ 2	$ 3	$ 5

(a) Exelon and Generation net all available amounts allowed under the derivative authoritative guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral, which are not reflected in the table above.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following table provides a summary of the interest rate and foreign exchange hedge balances recorded by the Registrants as of December 31, 2016:

	Generation					Exelon Corporate	Exelon
Description	Derivatives Designated as Hedging Instruments	Economic Hedges	Proprietary Trading[a]	Collateral and Netting[b]	Subtotal	Derivatives Designated as Hedging Instruments	Total
Mark-to-market derivative assets (current assets)	$ —	$ 17	$ 4	$ (13)	$ 8	$ —	$ 8
Mark-to-market derivative assets (noncurrent assets)	—	11	1	(8)	4	16	20
Total mark-to-market derivative assets	—	28	5	(21)	12	16	28
Mark-to-market derivative liabilities (current liabilities)	(7)	(13)	(2)	14	(8)	—	(8)
Mark-to-market derivative liabilities (noncurrent liabilities)	(3)	(8)	(2)	9	(4)	—	(4)
Total mark-to-market derivative liabilities	(10)	(21)	(4)	23	(12)	—	(12)
Total mark-to-market derivative net assets (liabilities)	$ (10)	$ 7	$ 1	$ 2	$ —	$ 16	$ 16

(a) Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the proprietary trading activity in the above table is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize proprietary trading interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates.

(b) Exelon and Generation net all available amounts allowed under the derivative authoritative guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral, which are not reflected in the table above.

Fair Value Hedges (Interest Rate Risk)

For derivative instruments that qualify and are designated as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings immediately. Exelon and Generation include the gain or loss on the hedged items and the offsetting loss or gain on the related interest rate swaps as follows:

		Year Ended December 31,					
		2017	2016	2015	2017	2016	2015
	Income Statement Location	Gain (Loss) on Swaps			Gain (Loss) on Borrowings		
Generation	Interest expense[a]	$ —	$ —	$ (1)	$ —	$ —	$ —
Exelon	Interest expense	(13)	(9)	3	28	23	14

(a) For the year ended December 31, 2015, the loss on Generation swaps included $(1) million realized in earnings with an immaterial amount excluded from hedge effectiveness testing.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The table below provides the notional amounts of fixed-to-floating hedges outstanding held by Exelon at December 31, 2017 and 2016.

	For the Years Ended December 31,	
	2017	2016
Fixed-to-floating hedges	$ 800	$ 800

During the years ended December 31, 2017, 2016 and 2015, the impact on the results of operations due to ineffectiveness from fair value hedges were gains of $15 million, $14 million and $17 million, respectively.

Cash Flow Hedges (Interest Rate Risk)

For derivative instruments that qualify and are designated as cash flow hedges, the gain or loss on the effective portion of the derivative will be deferred in AOCI and reclassified into earnings when the underlying transaction occurs. To mitigate interest rate risk, Exelon and Generation enter into floating-to-fixed interest rate swaps to manage a portion of interest rate exposure associated with debt issuances. The table below provides the notional amounts of floating-to-fixed hedges outstanding held by Exelon and Generation at December 31, 2017 and 2016.

	For the Years Ended December 31,	
	2017	2016
Floating-to-fixed hedges	$ 636	$ 659

The tables below provide the activity of OCI related to cash flow hedges for the years ended December 31, 2017 and 2016, containing information about the changes in the fair value of cash flow hedges and the reclassification from AOCI into results of operations. The amounts reclassified from AOCI, when combined with the impacts of the hedged transactions, result in the ultimate recognition of net revenues or expenses at the contractual price.

		Total Cash Flow Hedge AOCI Activity, Net of Income Tax	
		Generation	Exelon
For the Year Ended December 31, 2017	Income Statement Location	Total Cash Flow Hedges	Total Cash Flow Hedges
AOCI derivative loss at December 31, 2016		$ (19)	$ (17)
Effective portion of changes in fair value		(1)	(1)
Reclassifications from AOCI to net income	Interest expense	4 [(a)]	4 [(a)]
AOCI derivative loss at December 31, 2017		$ (16)	$ (14)

Combined Notes to Consolidated Financial Statements - (Continued)
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For the Year Ended December 31, 2016	Income Statement Location	Total Cash Flow Hedge AOCI Activity, Net of Income Tax Generation Total Cash Flow Hedges	Total Cash Flow Hedge AOCI Activity, Net of Income Tax Exelon Total Cash Flow Hedges
AOCI derivative loss at December 31, 2015		$ (21)	$ (19)
Effective portion of changes in fair value		(6)	(6)
Reclassifications from AOCI to net income	Interest expense	8 [(b)]	8 [(b)]
AOCI derivative loss at December 31, 2016		$ (19)	$ (17)

(a) Amount is net of related income tax expense of $1 million for the year ended December 31, 2017.
(b) Amount is net of related income tax expense of $5 million for the year ended December 31, 2016.

During the years ended December 31, 2017, 2016 and 2015, the impact on the results of operations due to the ineffectiveness from cash flow hedges that continue to be designated in hedging relationships was immaterial. The estimated amount of existing gains and losses that are reported in AOCI at the reporting date that are expected to be reclassified into earnings within the next twelve months is immaterial.

Economic Hedges (Interest Rate and Foreign Exchange Risk)

Exelon and Generation executes these instruments to mitigate exposure to fluctuations in interest rates or foreign exchange but for which the fair value or cash flow hedge elections were not made. Generation also enters into interest rate derivative contracts and foreign exchange currency swaps ("treasury") to manage the exposure related to the interest rate component of commodity positions and international purchases of commodities in currencies other than U.S. Dollars.

At December 31, 2017 and 2016, Generation had immaterial notional amounts of interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The following table provides notional amounts outstanding held by Exelon and Generation at December 31, 2017 and 2016 related to foreign currency exchange rate swaps that are marked-to-market to manage the exposure associated with international purchases of commodities in currencies other than U.S. dollars.

	For the Years Ended December 31, 2017	For the Years Ended December 31, 2016
Foreign currency exchange rate swaps	$ 94	$ 85

For the years ended December 31, 2017, 2016 and 2015, Exelon and Generation recognized the following net pre-tax mark-to-market gains (losses) in the Consolidated Statements of Operations and Comprehensive Income and are included in “Net fair value changes related to derivatives” in Exelon’s and Generation’s Consolidated Statements of Cash Flows.

Income Statement Location	For the Years Ended December 31, 2017	2016	2015
	Gain (Loss)		

Generation	Operating Revenues	$ (6)	$ (10)	$ 7
Generation	Interest Expense	(3)	—	—
Total Generation		$ (9)	$ (10)	$ 7

Combined Notes to Consolidated Financial Statements - (Continued)
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		For the Years Ended December 31,		
		2017	2016	2015
	Income Statement Location	Gain (Loss)		
Exelon	Operating Revenues	$ (6)	$ (10)	$ 7
Exelon	Interest Expense	(3)	—	100
Total Exelon		$ (9)	$ (10)	$ 107

Proprietary Trading (Interest Rate and Foreign Exchange Risk)

Generation also executes derivative contracts for proprietary trading purposes to hedge risk associated with the interest rate and foreign exchange components of underlying commodity positions. Gains and losses associated with proprietary trading are reported as Operating revenues in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and are included in "Net fair value changes related to derivatives" in Exelon's and Generation's Consolidated Statements of Cash Flows. For the years ended December 31, 2017, 2016 and 2015, Exelon and Generation recognized the following net pre-tax commodity mark-to-market gains (losses).

	For the Years Ended December 31,		
	2017	2016	2015
Income Statement Location	Gain (Loss)		
Operating revenues	$ (1)	$ (1)	$ (2)

Credit Risk, Collateral and Contingent-Related Features (All Registrants)

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties on executed derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. For commodity derivatives, Generation enters into enabling agreements that allow for payment netting with its counterparties, which reduces Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. Typically, each enabling agreement is for a specific commodity and so, with respect to each individual counterparty, netting is limited to transactions involving that specific commodity product, except where master netting agreements exist with a counterparty that allow for cross product netting. In addition to payment netting language in the enabling agreement, Generation's credit department establishes credit limits, margining thresholds and collateral requirements for each counterparty, which are defined in the derivative contracts. Counterparty credit limits are based on an internal credit review process that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings by credit rating agencies, and risk management capabilities. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with Generation as specified in each enabling agreement. Generation's credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

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The following tables provide information on Generation’s credit exposure for all derivative instruments, NPNS, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of December 31, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties. The figures in the tables below exclude credit risk exposure from individual retail counterparties, nuclear fuel procurement contracts and exposure through RTOs, ISOs, NYMEX, ICE, NASDAQ, NGX and Nodal commodity exchanges. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $28 million, $22 million, $24 million, $36 million, $12 million and $6 million as of December 31, 2017, respectively.

Rating as of December 31, 2017	Total Exposure Before Credit Collateral	Credit Collateral [(a)]	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 738	$ 4	$ 734	1	$ 244
Non-investment grade	90	12	78	—	—
No external ratings					
Internally rated — investment grade	253	—	253	—	—
Internally rated — non-investment grade	83	11	72	—	—
Total	$ 1,164	$ 27	$ 1,137	1	$ 244

Net Credit Exposure by Type of Counterparty	December 31, 2017
Financial institutions	$ 41
Investor-owned utilities, marketers, power producers	558
Energy cooperatives and municipalities	452
Other	86
Total	$ 1,137

(a) As of December 31, 2017, credit collateral held from counterparties where Generation had credit exposure included $8 million of cash and $19 million of letters of credit. The credit collateral does not include non-liquid collateral.

ComEd’s power procurement contracts provide suppliers with a certain amount of unsecured credit. The credit position is based on daily, updated forward market prices compared to the benchmark prices. The benchmark prices are the forward prices of energy projected through the contract term and are set at the point of supplier bid submittals. If the forward market price of energy exceeds the benchmark price on a given day, the suppliers are required to post collateral for the secured credit portion after adjusting for any unpaid deliveries and unsecured credit allowed under the contract. The unsecured credit used by the suppliers represents ComEd’s net credit exposure. As of December 31, 2017, ComEd’s net credit exposure to suppliers was approximately $1 million.

ComEd is permitted to recover its costs of procuring energy through the Illinois Settlement Legislation. ComEd’s counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters for additional information.

PECO’s unsecured credit used by the suppliers represents PECO’s net credit exposure. As of December 31, 2017, PECO had no net credit exposure to suppliers.

PECO’s natural gas procurement plan is reviewed and approved annually on a prospective basis by the PAPUC. PECO’s counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the PGC, which allows

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PECO to adjust rates quarterly to reflect realized natural gas prices. PECO does not obtain collateral from suppliers under its natural gas supply and asset management agreements. As of December 31, 2017, PECO had no material credit exposure under its natural gas supply and asset management agreements with investment grade suppliers.

BGE is permitted to recover its costs of procuring energy through the MDPSC-approved procurement tariffs. BGE's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters for additional information.

BGE's full requirement wholesale electric power agreements that govern the terms of its electric supply procurement contracts, which define a supplier's performance assurance requirements, allow a supplier, or its guarantor, to meet its credit requirements with a certain amount of unsecured credit. As of December 31, 2017, BGE had no net credit exposure to suppliers.

BGE's regulated gas business is exposed to market-price risk. At December 31, 2017, BGE had credit exposure of $4 million related to off-system sales which is mitigated by parental guarantees, letters of credit, or right to offset clauses within other contracts with those third-party suppliers.

Pepco's, DPL's and ACE's power procurement contracts provide suppliers with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents Pepco's, DPL's and ACE's net credit exposure. As of December 31, 2017, Pepco's, DPL's and ACE's net credit exposures to suppliers were immaterial.

Pepco is permitted to recover its costs of procuring energy through the MDPSC-approved and DCPSC-approved procurement tariffs. DPL is permitted to recover its costs of procuring energy through the MDPSC-approved and DPSC-approved procurement tariffs. ACE is permitted to recover its costs of procuring energy through the NJBPU-approved procurement tariffs. Pepco's, DPL's and ACE's counterparty credit risks are mitigated by their ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters for additional information.

DPL's natural gas procurement plan is reviewed and approved annually on a prospective basis by the DPSC. DPL's counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the GCR, which allows DPL to adjust rates annually to reflect realized natural gas prices. To the extent that the fair value of the transactions in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. Exchange-traded contracts are required to be fully collateralized without regard to the credit rating of the holder. As of December 31, 2017, DPL's credit exposure under its natural gas supply and asset management agreements was immaterial.

Collateral (All Registrants)

As part of the normal course of business, Generation routinely enters into physically or financially settled contracts for the purchase and sale of electric capacity, electricity, fuels, emissions allowances and other energy-related products. Certain of Generation’s derivative instruments contain provisions that require Generation to post collateral. Generation also enters into commodity transactions on exchanges. The exchanges act as the counterparty to each trade. Transactions on the exchanges must adhere to comprehensive collateral and margining requirements. This collateral may be posted in the form of cash or credit support with thresholds contingent upon Generation’s credit rating from each of

Combined Notes to Consolidated Financial Statements - (Continued)
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the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit-risk-related contingent features stipulate that if Generation were to be downgraded or lose its investment grade credit rating (based on its senior unsecured debt rating), it would be required to provide additional collateral. This incremental collateral requirement allows for the offsetting of derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master netting agreements. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. In this case, Generation believes an amount of several months of future payments (i.e., capacity payments) rather than a calculation of fair value is the best estimate for the contingent collateral obligation, which has been factored into the disclosure below.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on the exchanges that are fully collateralized) is detailed in the table below:

	For the Years Ended December 31,	
Credit-Risk Related Contingent Feature	**2017**	**2016**
Gross fair value of derivative contracts containing this feature[a]	$ (926)	$ (960)
Offsetting fair value of in-the-money contracts under master netting arrangements[b]	577	627
Net fair value of derivative contracts containing this feature[c]	$ (349)	$ (333)

(a) Amount represents the gross fair value of out-of-the-money derivative contracts containing credit-risk-related contingent features ignoring the effects of master netting agreements.

(b) Amount represents the offsetting fair value of in-the-money derivative contracts under legally enforceable master netting agreements with the same counterparty, which reduces the amount of any liability for which a Registrant could potentially be required to post collateral.

(c) Amount represents the net fair value of out-of-the-money derivative contracts containing credit-risk related contingent features after considering the mitigating effects of offsetting positions under master netting arrangements and reflects the actual net liability upon which any potential contingent collateral obligations would be based.

Generation had cash collateral posted of $497 million and letters of credit posted of $293 million, and cash collateral held of $35 million and letters of credit held of $33 million as of December 31, 2017 for external counterparties with derivative positions. Generation had cash collateral posted of $347 million and letters of credit posted of $284 million and cash collateral held of $24 million and letters of credit held of $28 million at December 31, 2016 for external counterparties with derivative positions. In the event of a credit downgrade below investment grade (i.e., to BB+ by S&P or Ba1 by Moody's), Generation would have been required to post additional collateral of $1.8 billion and $1.9 billion as of December 31, 2017 and 2016, respectively. These amounts represent the potential additional collateral required after giving consideration to offsetting derivative and non-derivative positions under master netting agreements.

Generation's and Exelon's interest rate swaps contain provisions that, in the event of a merger, if Generation's debt ratings were to materially weaken, it would be in violation of these provisions, resulting in the ability of the counterparty to terminate the agreement prior to maturity. Collateralization would not be required under any circumstance. Termination of the agreement could result in a settlement payment by Exelon or the counterparty on any interest rate swap in a net liability position. The settlement amount would be equal to the fair value of the swap on the termination date. As of December 31, 2017, Generation's and Exelon's swaps were in an asset position with a fair value of $2 million and $5 million, respectively.

See Note 25 — Segment Information for further information regarding the letters of credit supporting the cash collateral.

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Generation entered into supply forward contracts with certain utilities, including PECO and BGE, with one-sided collateral postings only from Generation. If market prices fall below the benchmark price levels in these contracts, the utilities are not required to post collateral. However, when market prices rise above the benchmark price levels, counterparty suppliers, including Generation, are required to post collateral once certain unsecured credit limits are exceeded. Under the terms of ComEd's standard block energy contracts, collateral postings are one-sided from suppliers, including Generation, should exposures between market prices and benchmark prices exceed established unsecured credit limits outlined in the contracts. As of December 31, 2017, ComEd held approximately $10 million in collateral from suppliers in association with energy procurement contracts. Under the terms of ComEd's renewable energy certificate (REC) contracts, collateral postings are required to cover a percentage of the REC contract value. As of December 31, 2017, ComEd held approximately $2 million in collateral from suppliers for REC contract obligations. Under the terms of ComEd's long-term renewable energy contracts, collateral postings are required from suppliers for both RECs and energy. The REC portion is a fixed value and the energy portion is one-sided from suppliers should the forward market prices exceed contract prices. As of December 31, 2017, ComEd held approximately $19 million in collateral from suppliers for the long-term renewable energy contracts. If ComEd lost its investment grade credit rating as of December 31, 2017, it would have been required to post approximately $14 million of collateral to its counterparties. See Note 3 — Regulatory Matters for additional information.

PECO's natural gas procurement contracts contain provisions that could require PECO to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon PECO's credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of December 31, 2017, PECO was not required to post collateral for any of these agreements. If PECO lost its investment grade credit rating as of December 31, 2017, PECO could have been required to post approximately $34 million of collateral to its counterparties.

PECO's supplier master agreements that govern the terms of its DSP Program contracts do not contain provisions that would require PECO to post collateral.

BGE's natural gas procurement contracts contain provisions that could require BGE to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon BGE's credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of December 31, 2017, BGE was not required to post collateral for any of these agreements. If BGE lost its investment grade credit rating as of December 31, 2017, BGE could have been required to post approximately $66 million of collateral to its counterparties.

DPL's natural gas procurement contracts contain provisions that could require DPL to post collateral. To the extent that the fair value of the natural gas derivative transaction in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. The DPL obligations are standalone, without the guaranty of PHI. If DPL lost its investment grade credit rating as of December 31, 2017, DPL could have been required to post an additional amount of approximately $11 million of collateral to its natural gas counterparties.

BGE's, Pepco's, DPL's and ACE's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require BGE, Pepco, DPL or ACE to post collateral.

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13. Debt and Credit Agreements (All Registrants)

Short-Term Borrowings

Exelon, ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the intercompany money pool. PHI meets its short-term liquidity requirements primarily through the issuance of short-term notes and the Exelon intercompany money pool. Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. The Registrants may use their respective credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit.

Commercial Paper

The following table reflects the Registrants' commercial paper programs supported by the revolving credit agreements and bilateral credit agreements at December 31, 2017 and 2016:

	Maximum Program Size at December 31,		Outstanding Commercial Paper at December 31,		Average Interest Rate on Commercial Paper Borrowings for the Year Ended December 31,	
Commercial Paper Issuer	**2017(a)(b)(c)**	**2016(a)(b)(c)**	**2017**	**2016**	**2017**	**2016**
Exelon Corporate	$ 600	$ 600	$ —	$ —	1.16%	0.70%
Generation	5,300	5,300	—	620	1.23%	0.94%
ComEd	1,000	1,000	—	—	1.24%	0.77%
PECO	600	600	—	—	1.13%	N/A
BGE	600	600	77	45	1.28%	0.77%
Pepco	500	500	26	23	1.06%	0.71%
DPL	500	500	216	—	1.48%	0.68%
ACE	350	350	108	—	1.43%	0.65%
Total	$ 9,450	$ 9,450	$ 427	$ 688		

(a) Excludes $480 million and $500 million in bilateral credit facilities that do not back Generation's commercial paper program at December 31, 2017 and 2016, respectively.

(b) Excludes additional credit facility agreements for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE with aggregate commitments of $49 million, $34 million, $34 million, $5 million, $2 million, $2 million and $2 million, respectively, arranged with minority and community banks located primarily within utilities' service territories. These facilities expire on October 12, 2018. These facilities are solely utilized to issue letters of credit. As of December 31, 2017, letters of credit issued under these facilities totaled $5 million and $2 million for Generation and BGE, respectively.

(c) Pepco, DPL and ACE's revolving credit facility is subject to available borrowing capacity. The borrowing capacity may be increased or decreased during the term of the facility, except that (i) the sum of the borrowing capacity must equal the total amount of the facility, and (ii) the aggregate amount of credit used at any given time by each of Pepco, DPL or ACE may not exceed $900 million or the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of the borrowing reallocations may not exceed eight per year during the term of the facility.

In order to maintain their respective commercial paper programs in the amounts indicated above, each Registrant must have credit facilities in place, at least equal to the amount of its commercial paper program. While the amount of outstanding commercial paper does not reduce available capacity under a Registrant's credit facility, a Registrant does not issue commercial paper in an aggregate amount exceeding the then available capacity under its credit facility.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

At December 31, 2017, the Registrants had the following aggregate bank commitments, credit facility borrowings and available capacity under their respective credit facilities:

					Available Capacity at December 31, 2017	
Borrower	**Facility Type**	**Aggregate Bank Commitment**[(a)(b)]	**Facility Draws**	**Outstanding Letters of Credit**[(c)]	**Actual**	**To Support Additional Commercial Paper**[(b)(d)]
Exelon Corporate	Syndicated Revolver	$ 600	$ —	$ 45	$ 555	$ 555
Generation	Syndicated Revolver	5,300	—	868	4,432	4,432
Generation	Bilaterals	480	—	231	249	—
ComEd	Syndicated Revolver	1,000	—	2	998	998
PECO	Syndicated Revolver	600	—	1	599	599
BGE	Syndicated Revolver	600	—	—	600	523
Pepco	Syndicated Revolver	300	—	—	300	274
DPL	Syndicated Revolver	300	—	—	300	84
ACE	Syndicated Revolver	300	—	—	300	192
Total		$ 9,480	$ —	$ 1,147	$ 8,333	$ 7,657

(a) Excludes additional credit facility agreements for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE with aggregate commitments of $49 million, $34 million, $34 million, $5 million, $2 million, $2 million and $2 million, respectively, arranged with minority and community banks located primarily within utilities' service territories. These facilities expire on October 12, 2018. These facilities are solely utilized to issue letters of credit. As of December 31, 2017, letters of credit issued under these facilities totaled $5 million and $2 million for Generation and BGE, respectively.

(b) Pepco, DPL and ACE's revolving credit facility is subject to available borrowing capacity. The borrowing capacity may be increased or decreased during the term of the facility, except that (i) the sum of the borrowing capacity must equal the total amount of the facility, and (ii) the aggregate amount of credit used at any given time by each of Pepco, DPL or ACE may not exceed $900 million or the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of the borrowing reallocations may not exceed eight per year during the term of the facility.

(c) Excludes nonrecourse debt letters of credit, see discussion below on Antelope Valley Solar Ranch One and Continental Wind.

(d) Excludes $480 million in bilateral credit facilities that do not back Generation's commercial paper program.

The following tables present the short-term borrowings activity for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE during 2017, 2016 and 2015.

Exelon

	2017	2016	2015
Average borrowings	$ 823	$ 1,125	$ 499
Maximum borrowings outstanding	2,147	3,076	739
Average interest rates, computed on a daily basis	1.32%	0.88%	0.53%
Average interest rates, at December 31	1.24%	1.12%	0.88%

Generation

	2017	2016	2015
Average borrowings	$ 405	$ 536	$ 1
Maximum borrowings outstanding	1,455	1,735	50
Average interest rates, computed on a daily basis	1.23%	0.94%	0.49%
Average interest rates, at December 31	1.23%	1.14%	N/A

ComEd

	2017	2016	2015
Average borrowings	$ 200	$ 256	$ 461
Maximum borrowings outstanding	470	755	684
Average interest rates, computed on a daily basis	1.24%	0.77%	0.53%
Average interest rates, at December 31	1.24%	N/A	0.89%

PECO

	2017	2016	2015
Average borrowings	$ 2	$ —	$ —
Maximum borrowings outstanding	60	—	—
Average interest rates, computed on a daily basis	1.13%	N/A	N/A
Average interest rates, at December 31	1.13%	N/A	N/A

BGE

	2017	2016	2015
Average borrowings	$ 54	$ 143	$ 37
Maximum borrowings outstanding	165	369	210
Average interest rates, computed on a daily basis	1.28%	0.77%	0.48%
Average interest rates, computed at December 31	1.28%	0.95%	0.87%

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

PHI Corporate

	Successor		Predecessor
	2017	2016	2015
Average borrowings	N/A	$ 153	$ 444
Maximum borrowings outstanding	N/A	559	784
Average interest rates, computed on a daily basis	N/A	1.03%	0.90%
Average interest rates, computed at December 31	N/A	N/A	1.22%

Pepco

	2017	2016	2015
Average borrowings	$ 51	$ 4	$ 34
Maximum borrowings outstanding	197	73	190
Average interest rates, computed on a daily basis	1.06%	0.71%	0.44%
Average interest rates, computed at December 31	1.06%	0.90%	0.68%

DPL

	2017	2016	2015
Average borrowings	$ 40	$ 33	$ 81
Maximum borrowings outstanding	216	116	179
Average interest rates, computed on a daily basis	1.48%	0.68%	0.47%
Average interest rates, computed at December 31	1.48%	N/A	0.79%

ACE

	2017	2016	2015
Average borrowings	$ 30	$ —	$ 175
Maximum borrowings outstanding	133	5	253
Average interest rates, computed on a daily basis	1.43%	0.65%	0.46%
Average interest rates, computed at December 31	1.43%	N/A	0.65%

Short-Term Loan Agreements

On July 30, 2015, PHI entered into a $300 million term loan agreement. The net proceeds of the loan were used to repay PHI's outstanding commercial paper and for general corporate purposes. Pursuant to the loan agreement, loans made thereunder bear interest at a variable rate equal to LIBOR plus 0.95%, and all indebtedness thereunder is unsecured. On April 4, 2016, PHI repaid $300 million of its term loan in full.

On January 13, 2016, PHI entered into a $500 million term loan agreement, which was amended on March 28, 2016. The net proceeds of the loan were used to repay PHI's outstanding commercial paper, and for general corporate purposes. Pursuant to the loan agreement, as amended, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1%, and all indebtedness thereunder is unsecured. On March 23, 2017, the aggregate principal amount of all loans, together with any accrued but unpaid interest due under the loan agreement was fully repaid and the loan terminated. On March 23, 2017, Exelon Corporate entered into a similar type term loan for $500 million which expires on March 22, 2018. Pursuant to the loan agreement, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1% and all indebtedness thereunder is unsecured. The loan agreement is reflected in Exelon's Consolidated Balance Sheet within Short-Term borrowings.

On February 22, 2016, Generation and EDF entered into separate member revolving promissory notes with CENG to finance short-term working capital needs. The notes are scheduled to mature on January 31, 2017 and bear interest at a variable rate equal to LIBOR plus 1.75%. On July 25, 2016, CENG paid off the outstanding balances under each note.

Credit Agreement

On January 5, 2016, Generation entered into a credit agreement establishing a $150 million bilateral credit facility, scheduled to mature in January of 2019. This facility will solely be utilized by Generation to issue lines of credit. This facility does not back Generation's commercial paper program.

On April 1, 2016, the credit agreement for CENG's $100 million bilateral credit facility was amended to increase the overall facility size to $200 million. This facility is utilized by CENG to fund working capital and capital projects. The facility does not back Generation's commercial paper program.

On May 26, 2016, Exelon Corporate, Generation, ComEd, PECO and BGE entered into amendments to each of their respective syndicated revolving credit facilities, which extended the maturity of each of the facilities to May 26, 2021. Exelon Corporate also increased the size of its facility from $500 million to $600 million. On May 26, 2016, PHI, Pepco, DPL and ACE entered into an amendment to their Second Amended and Restated Credit Agreement dated as of August 1, 2011, which (i) extended the maturity date of the facility to May 26, 2021, (ii) removed PHI as a borrower under the facility, (iii) decreased the size of the facility from $1.5 billion to $900 million and (iv) aligned its financial covenant from debt to capitalization leverage ratio to interest coverage ratio. On May 26, 2017, each of the Registrants' respective syndicated revolving credit facilities had their maturity dates extended to May 26, 2022.

On January 9, 2017, the credit agreement for Generation's $75 million bilateral credit facility was amended and restated to increase the facility size to $100 million and extend the maturity to January 2019. This facility will solely be used by Generation to issue letters of credit.

Borrowings under Exelon Corporate's, Generation's, ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's revolving credit agreements bear interest at a rate based upon either the prime rate or a LIBOR-based rate, plus an adder based upon the particular Registrant's credit rating. The adders for the prime based borrowings and LIBOR-based borrowings are presented in the following table:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Prime based borrowings	27.5	27.5	7.5	0.0	0.0	7.5	7.5	7.5
LIBOR-based borrowings	127.5	127.5	107.5	90.0	100.0	107.5	107.5	107.5

The maximum adders for prime rate borrowings and LIBOR-based rate borrowings are 90 basis points and 165 basis points, respectively. The credit agreements also require the borrower to pay a facility fee based upon the aggregate commitments. The fee varies depending upon the respective credit ratings of the borrower.

Each revolving credit agreement for Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The following table summarizes the minimum thresholds reflected in the credit agreements for the year ended December 31, 2017:

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Credit agreement threshold	2.50 to 1	3.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1

At December 31, 2017, the interest coverage ratios at the Registrants were as follows:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Interest coverage ratio	6.34	9.02	11.68	7.99	10.50	6.35	8.69	5.57

An event of default under Exelon, Generation, ComEd, PECO or BGE’s indebtedness will not constitute an event of default under any of the others’ credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $100 million in the aggregate by Generation will constitute an event of default under the Exelon Corporate credit facility. An event of default under Pepco, DPL or ACE’s indebtedness will not constitute an event of default with respect to the other PHI Utilities under the PHI Utilities’ combined credit facility.

The absence of a material adverse change in Exelon’s or PHI’s business, property, results of operations or financial condition is not a condition to the availability of credit under any of the borrowers’ credit agreement. None of the credit agreements include any rating triggers.

Variable Rate Demand Bonds

DPL has outstanding obligations in respect of Variable Rate Demand Bonds (VRDB). VRDBs are subject to repayment on the demand of the holders and, for this reason, are accounted for as short-term debt in accordance with GAAP. However, bonds submitted for purchase are remarketed by a remarketing agent on a best efforts basis. PHI expects that any bonds submitted for purchase will be remarketed successfully due to the creditworthiness of the issuer and, as applicable, the credit support, and because the remarketing resets the interest rate to the then-current market rate. The bonds may be converted to a fixed-rate, fixed-term option to establish a maturity which corresponds to the date of final maturity of the bonds. On this basis, PHI views VRDBs as a source of long-term financing. As of December 31, 2017 and December 31, 2016, $79 million and $105 million, respectively, in variable rate demand bonds issued by DPL were outstanding and are included in the Long-term debt due within one year on Exelon’s, PHI’s and DPL’s Consolidated Balance Sheet.

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Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Long-Term Debt

The following tables present the outstanding long-term debt at the Registrants as of December 31, 2017 and 2016:

Exelon

	Rates	Maturity Date	December 31, 2017	December 31, 2016
Long-term debt				
Rate stabilization bonds	5.82%	2017	$ —	$ 41
First mortgage bonds[a]	1.70% - 7.90%	2018 - 2047	15,197	14,123
Senior unsecured notes	2.45% - 7.60%	2019 - 2046	11,285	11,868
Unsecured notes	2.40% - 6.35%	2021 - 2047	2,600	2,300
Pollution control notes	2.50% - 2.70%	2025 - 2036	435	435
Nuclear fuel procurement contracts	3.15% - 3.35%	2018 - 2020	82	105
Notes payable and other[b][c]	2.61% - 8.88%	2018 - 2053	405	576
Junior subordinated notes	3.50%	2022	1,150	1,150
Contract payment - junior subordinated notes	2.50%	2017	—	19
Long-term software licensing agreement	3.95%	2024	79	103
Unsecured Tax-Exempt Bonds	5.40% —	2031	112	112
Medium-Terms Notes (unsecured)	6.81% - 7.72% —	2018 - 2027	26	40
Transition bonds	5.05% - 5.55% —	2020 - 2023	90	124
Nonrecourse debt:				
Fixed rates	2.29% - 6.00%	2031 - 2037	1,331	1,400
Variable rates	3.18% - 4.00%	2019 - 2024	865	915
Total long-term debt			33,657	33,311
Unamortized debt discount and premium, net			(57)	(68)
Unamortized debt issuance costs			(201)	(200)
Fair value adjustment			865	962
Long-term debt due within one year			(2,088)	(2,430)
Long-term debt			$ 32,176	$ 31,575
Long-term debt to financing trusts[d]				
Subordinated debentures to ComEd Financing III	6.35%	2033	$ 206	$ 206
Subordinated debentures to PECO Trust III	7.38%	2028	81	81
Subordinated debentures to PECO Trust IV	5.75%	2033	103	103
Subordinated debentures to BGE Capital Trust II	6.20%	2043	—	258
Total long-term debt to financing trusts			390	648
Unamortized debt issuance costs			(1)	(7)
Long-term debt to financing trusts			$ 389	$ 641

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(a) Substantially all of ComEd's assets other than expressly excepted property and substantially all of PECO's, Pepco's, DPL's and ACE's assets are subject to the liens of their respective mortgage indentures.

(b) Includes capital lease obligations of $53 million and $69 million at December 31, 2017 and 2016, respectively. Lease payments of $18 million, $20 million, $5 million, $1 million, $1 million and $8 million will be made in 2018, 2019, 2020, 2021, 2022 and thereafter, respectively.

(c) Includes financing related to Albany Green Energy, LLC (AGE). During the third quarter of 2017, Generation retired $228 million of its outstanding debt balance. As of December 31, 2016, $198 million was outstanding.

(d) Amounts owed to these financing trusts are recorded as Long-term debt to financing trusts within Exelon's Consolidated Balance Sheets.

Generation

	Rates		Maturity Date	December 31, 2017	December 31, 2016
Long-term debt					
Senior unsecured notes	2.95% -	7.60%	2019 - 2042	$ 6,019	$ 5,971
Pollution control notes	2.50% -	2.70%	2025 - 2036	435	435
Nuclear fuel procurement contracts	3.15% -	3.35%	2018 - 2020	82	105
Notes payable and other[(a)(b)]	2.61% -	8.88%	2018 - 2019	223	382
Nonrecourse debt:					
Fixed rates	2.29% -	6.00%	2031 - 2037	1,331	1,400
Variable rates	3.18% -	4.00%	2019 - 2024	865	915
Total long-term debt				8,955	9,208
Unamortized debt discount and premium, net				(8)	(17)
Unamortized debt issuance costs				(60)	(65)
Fair value adjustment				103	115
Long-term debt due within one year				(346)	(1,117)
Long-term debt				$ 8,644	$ 8,124

(a) Includes Generation's capital lease obligations of $18 million and $22 million at December 31, 2017 and 2016, respectively. Generation will make lease payments of $5 million, $6 million, $5 million, $1 million and $1 million in 2018, 2019, 2020, 2021 and 2022 respectively. The capital lease matures in 2022.

(b) Includes financing related to Albany Green Energy, LLC (AGE). During the third quarter of 2017, Generation retired $228 million of its outstanding debt balance. As of December 31, 2016, $198 million was outstanding.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

ComEd

	Rates		Maturity Date	December 31, 2017	December 31, 2016
Long-term debt					
First mortgage bonds[a]	2.15% -	6.45%	2018 - 2047	$ 7,529	$ 6,954
Notes payable and other[b]	6.95% -	7.49%	2018 - 2053	147	147
Total long-term debt				7,676	7,101
Unamortized debt discount and premium, net				(23)	(22)
Unamortized debt issuance costs				(52)	(46)
Long-term debt due within one year				(840)	(425)
Long-term debt				$ 6,761	$ 6,608
Long-term debt to financing trust[c]					
Subordinated debentures to ComEd Financing III		6.35%	2033	$ 206	$ 206
Total long-term debt to financing trusts				206	206
Unamortized debt issuance costs				(1)	(1)
Long-term debt to financing trusts				$ 205	$ 205

(a) Substantially all of ComEd's assets, other than expressly excepted property, are subject to the lien of its mortgage indenture.
(b) Includes ComEd's capital lease obligations of $8 million at both December 31, 2017 and 2016, respectively. Lease payments of less than $1 million annually will be made from 2018 through expiration at 2053.
(c) Amount owed to this financing trust is recorded as Long-term debt to financing trust within ComEd's Consolidated Balance Sheets.

PECO

	Rates		Maturity Date	December 31, 2017	December 31, 2016
Long-term debt					
First mortgage bonds[a]	1.70% -	5.95%	2018 - 2047	$ 2,925	$ 2,600
Total long-term debt				2,925	2,600
Unamortized debt discount and premium, net				(5)	(5)
Unamortized debt issuance costs				(17)	(15)
Long-term debt due within one year				(500)	—
Long-term debt				$ 2,403	$ 2,580
Long-term debt to financing trusts[b]					
Subordinated debentures to PECO Trust III		7.38%	2028	$ 81	$ 81
Subordinated debentures to PECO Trust IV		5.75%	2033	103	103
Long-term debt to financing trusts				$ 184	$ 184

(a) Substantially all of PECO's assets are subject to the lien of its mortgage indenture.
(b) Amounts owed to this financing trust are recorded as Long-term debt to financing trusts within PECO's Consolidated Balance Sheets.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

BGE

	Rates		Maturity Date	December 31, 2017	December 31, 2016
Long-term debt					
Rate stabilization bonds		5.82%	2017	$ —	$ 41
Unsecured notes	2.40% -	6.35%	2021 - 2047	2,600	2,300
Total long-term debt				2,600	2,341
Unamortized debt discount and premium, net				(6)	(4)
Unamortized debt issuance costs				(17)	(15)
Long-term debt due within one year				—	(41)
Long-term debt				$ 2,577	$ 2,281
Long-term debt to financing trusts[(a)]					
Subordinated debentures to BGE Capital Trust II		6.20%	2043	$ —	$ 258
Total long-term debt to financing trusts				—	258
Unamortized debt issuance costs				—	(6)
Long-term debt to financing trusts				$ —	$ 252

(a) Amounts owed to this financing trust are recorded as Long-term debt to financing trusts within BGE's Consolidated Balance Sheets. On August 28, 2017, BGE redeemed all of the outstanding shares of BGE Capital Trust II 6.20% Preferred Securities ("Securities"), pursuant to the optional redemption provisions of the Indenture under which the Securities were issued. The redemption price per share was $25.19, which equaled the stated value per share plus accrued and unpaid dividends to, but excluding, the redemption date. No dividends on the Securities redeemed were accrued on or after the redemption date, nor did any interest accrue on amounts held to pay the redemption price.

PHI

	Rates		Maturity Date	*Successor* December 31, 2017	*Successor* December 31, 2016
Long-term debt					
First mortgage bonds[(a)]	3.05% -	7.90%	2018 - 2045	$ 4,743	$ 4,569
Senior unsecured notes		7.45%	2017 - 2032	185	266
Unsecured Tax-Exempt Bonds		5.40%	2031	112	112
Medium-Terms Notes (unsecured)	6.81% -	7.72%	2018 - 2027	26	40
Transition bonds[(b)]	5.05% -	5.55%	2020 - 2023	90	124
Notes payable and other [(c)]	6.20% -	8.88%	2018 - 2022	33	46
Total long-term debt				5,189	5,157
Unamortized debt discount and premium, net				5	1
Unamortized debt issuance costs				(6)	(2)
Fair value adjustment				686	742
Long-term debt due within one year				(396)	(253)
Long-term debt				$ 5,478	$ 5,645

(a) Substantially all of Pepco’s, DPL’s, and ACE’s assets are subject to the lien of its respective mortgage indenture.

(b) Transition bonds are recorded as part of Long-term debt within ACE’s Consolidated Balance Sheets.

(c) Includes Pepco’s capital lease obligations of $27 million and $39 million at December 31, 2017 and 2016, respectively.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Pepco

	Rates		Maturity Date	December 31, 2017	December 31, 2016
Long-term debt					
First mortgage bonds[a]	3.05% -	7.90%	2022 - 2043	$ 2,535	$ 2,335
Notes payable and other[b]	6.20% -	8.88%	2018 - 2022	35	46
Total long-term debt				2,570	2,381
Unamortized debt discount and premium, net				2	(2)
Unamortized debt issuance costs				(32)	(30)
Long-term debt due within one year				(19)	(16)
Long-term debt				$ 2,521	$ 2,333

(a) Substantially all of Pepco's assets are subject to the lien of its respective mortgage indenture.

(b) Includes capital lease obligations of $27 million and $39 million at December 31, 2017 and 2016, respectively. Lease payments of $13 million and $14 million will be made in 2018 and 2019, respectively.

DPL

	Rates		Maturity Date	December 31, 2017	December 31, 2016
Long-term debt					
First mortgage bonds[a]	3.50% -	4.15%	2023 - 2045	$ 1,171	$ 1,196
Unsecured Tax-Exempt Bonds		5.40%	2024 - 2031	112	112
Medium-Terms Notes (unsecured)	6.81% -	7.72%	2018 - 2027	26	40
Total long-term debt				1,309	1,348
Unamortized debt discount and premium, net				2	2
Unamortized debt issuance costs				(11)	(10)
Long-term debt due within one year				(83)	(119)
Long-term debt				$ 1,217	$ 1,221

(a) Substantially all of DPL's assets are subject to the lien of its respective mortgage indenture.

ACE

	Rates		Maturity Date	December 31, 2017	December 31, 2016
Long-term debt					
First mortgage bonds[a]	3.38% -	7.75%	2018 - 2036	$ 1,037	$ 1,038
Transition bonds[b]	5.05% -	5.55%	2020 - 2023	90	124
Total long-term debt				1,127	1,162
Unamortized debt discount and premium, net				(1)	(1)
Unamortized debt issuance costs				(5)	(6)

Long-term debt due within one year	(281)	(35)
Long-term debt	$ 840	$ 1,120

(a) Substantially all of ACE's assets are subject to the lien of its respective mortgage indenture.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

(b) Maturities of ACE’s Transition Bonds outstanding at December 31, 2017 are $31 million in 2018, $18 million in 2019, $20 million in 2020 and $21 million in 2021.

Long-term debt maturities at Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE in the periods 2018 through 2022 and thereafter are as follows:

Year	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
2018	$ 2,075	$ 346	$ 840	$ 500	$ —	$ 383	$ 19	$ 83	$ 281
2019	959	615	300	—	—	44	14	12	18
2020	3,564	2,144	500	—	—	20	—	—	20
2021	1,513	1	350	300	300	262	2	—	260
2022	3,084	1,024	—	350	250	310	310	—	—
Thereafter	22,852 (a)	4,825	5,892 (b)	1,959 (c)	2,050	4,170	2,225	1,214	548
Total	$ 34,047	$ 8,955	$ 7,882	$ 3,109	$ 2,600	$ 5,189	$ 2,570	$ 1,309	$ 1,127

(a) Includes $390 million due to ComEd and PECO financing trusts.
(b) Includes $206 million due to ComEd financing trust.
(c) Includes $184 million due to PECO financing trusts.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon’s $1.15 billion of 2.50% junior subordinated notes due in 2024 (“2024 notes”) and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 (“Remarketing”). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes used debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon issued approximately 33 million shares of common stock from treasury stock and received $1.15 billion upon settlement of the forward equity purchase contract. When reissuing treasury stock Exelon uses the average price paid to repurchase shares to calculate a gain or loss on issuance and records gains or losses directly to retained earnings. A loss on reissuance of treasury shares of $1.05 billion was recorded to retained earnings as of December 31, 2017. See Note 21 — Earnings Per Share for further information on the issuance of common stock.

Nonrecourse Debt

Exelon and Generation have issued nonrecourse debt financing, in which approximately $3 billion of generating assets have been pledged as collateral at December 31, 2017. Borrowings under these agreements are secured by the assets and equity of each respective project. The lenders do not have recourse against Exelon or Generation in the event of a default. If a specific project financing entity does not maintain compliance with its specific nonrecourse debt financing covenants, there could be a requirement to accelerate repayment of the associated debt or other borrowings earlier than the stated maturity dates. In these instances, if such repayment was not satisfied, the lenders or security holders would generally have rights to foreclose against the project-specific assets and related collateral. The potential requirement to satisfy its associated debt or other borrowings earlier than otherwise anticipated could lead to impairments due to a higher likelihood of disposing of the respective project-specific assets significantly before the end of their useful lives.

Denver Airport. In June 2011, Generation entered into a 20-year, $7 million solar loan agreement to finance a solar construction project in Denver, Colorado. The agreement is scheduled to mature on

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June 30, 2031. The agreement bears interest at a fixed rate of 5.50% annually with interest payable annually. As of December 31, 2017, $6 million was outstanding.

CEU Upstream. In July 2011, CEU Holdings, LLC, a wholly owned subsidiary of Generation, entered into a 5-year reserve based lending agreement (RBL) associated with certain Upstream oil and gas properties. The lenders do not have recourse against Exelon or Generation in the event of default pursuant to the RBL. Borrowings under this arrangement are secured by the assets and equity of CEU Holdings.

In December 2016, substantially all of the Upstream natural gas and oil exploration and production assets were sold for $37 million. The proceeds were used to reduce the debt balance by $31 million. The remaining proceeds of $6 million were being held in escrow. In addition, during 2016, $15 million of the debt was repaid using CEU Holding's cash, resulting in an outstanding debt balance of $22 million at December 31, 2016. During 2017, additional assets were sold for $1 million and the remaining $6 million in escrow was released and applied to the debt balance resulting in an outstanding amount of $15 million at December 31, 2017. Upon final resolution, CEU Holdings will be released of its obligations regardless of the amount of asset sale proceeds received. The ultimate resolution of this matter has no direct effect on any Exelon or Generation credit facilities or other debt of an Exelon entity. At December 31, 2017, the outstanding debt balance of $15 million was classified within Long term debt due within one year on Exelon's and Generation's Consolidated Balance Sheets. See Note 4 — Mergers, Acquisitions and Dispositions and Note 7 — Impairment of Long-Lived Assets and Intangibles for additional information.

Holyoke Solar Cooperative. In October 2011, Generation entered into a 20-year, $11 million solar loan agreement related to a solar construction project in Holyoke, Massachusetts. The agreement is scheduled to mature on December 2031. The agreement bears interest at a fixed rate of 5.25% annually with interest payable monthly. As of December 31, 2017, $9 million was outstanding.

Antelope Valley Solar Ranch One. In December 2011, the DOE Loan Programs Office issued a guarantee for up to $646 million for a nonrecourse loan from the Federal Financing Bank to support the financing of the construction of the Antelope Valley facility. The project became fully operational in the first half of 2014. The loan will mature on January 5, 2037. Interest rates on the loan were fixed upon each advance at a spread of 37.5 basis points above U.S. Treasuries of comparable maturity. The advances were completed as of December 31, 2015 and the outstanding loan balance will bear interest at an average blended interest rate of 2.82%. As of December 31, 2017, $530 million was outstanding. In addition, Generation has issued letters of credit to support its equity investment in the project. As of December 31, 2017, Generation had $105 million in letters of credit outstanding related to the project.

Continental Wind. In September 2013, Continental Wind, LLC (Continental Wind), an indirect subsidiary of Exelon and Generation, completed the issuance and sale of $613 million senior secured notes. Continental Wind owns and operates a portfolio of wind farms in Idaho, Kansas, Michigan, Oregon, New Mexico and Texas with a total net capacity of 667MW. The net proceeds were distributed to Generation for its general business purposes. The notes are scheduled to mature on February 28, 2033. The notes bear interest at a fixed rate of 6.00% with interest payable semi-annually. As of December 31, 2017, $512 million was outstanding.

In addition, Continental Wind entered into a $131 million letter of credit facility and $10 million working capital revolver facility. Continental Wind has issued letters of credit to satisfy certain of its credit support and security obligations. As of December 31, 2017, the Continental Wind letter of credit facility had $114 million in letters of credit outstanding related to the project.

ExGen Texas Power. In September 2014, EGTP, an indirect subsidiary of Exelon and Generation, issued $675 million aggregate principal amount of a nonrecourse senior secured term loan. The net proceeds were distributed to Generation for general business purposes. The loan was scheduled to

Combined Notes to Consolidated Financial Statements - (Continued)
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mature on September 18, 2021. In addition to the financing, EGTP entered into various interest rate swaps with an initial notional amount of approximately $505 million at an interest rate of 2.34% to hedge a portion of the interest rate exposure in connection with this financing, as required by the debt covenants.

On May 2, 2017, as a result of the negative impacts of certain market conditions and the seasonality of its cash flows, EGTP entered into a consent agreement with its lenders, which permitted EGTP to draw on its revolving credit facility and initiate an orderly sales process of its assets. On November 7, 2017, the debtors filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. As a result, Exelon and Generation deconsolidated the nonrecourse senior secured term loan, the revolving credit facility, and the interest rate swaps from their consolidated financial statements as of December 31, 2017. Due to their nonrecourse nature, these borrowings are secured solely by the assets of EGTP and its subsidiaries.

Renewable Power Generation. In March 2016, RPG, an indirect subsidiary of Exelon and Generation, issued $150 million aggregate principal amount of a nonrecourse senior secured notes. The net proceeds were distributed to Generation for paydown of long term debt obligations at Sacramento PV Energy and Constellation Solar Horizons and for general business purposes. The loan is scheduled to mature on March 31, 2035. The term loan bears interest at a fixed rate of 4.11% payable semi-annually. As of December 31, 2017, $127 million was outstanding.

SolGen. In September 2016, SolGen, LLC (SolGen), an indirect subsidiary of Exelon and Generation, issued $150 million aggregate principal amount of a nonrecourse senior secured notes. The net proceeds were distributed to Generation for general business purposes. The loan is scheduled to mature on September 30, 2036. The term loan bears interest at a fixed rate of 3.93% payable semi-annually. As of December 31, 2017, $147 million was outstanding.

ExGen Renewables IV. In November 2017, EGR IV, an indirect subsidiary of Exelon and Generation, entered into an $850 million nonrecourse senior secured term loan credit facility agreement. The net proceeds of $785 million, after the initial funding of $50 million for debt service and liquidity reserves as well as deductions for original discount and estimated costs, fees and expenses incurred in connection with the execution and delivery of the credit facility agreement, were distributed to Generation for general corporate purposes. The $50 million of debt service and liquidity reserves was treated as restricted cash on Exelon’s and Generation’s Consolidated Balance Sheets and Consolidated Statements of Cash Flows. The loan is scheduled to mature on November 28, 2024. The term loan bears interest at a variable rate equal to LIBOR + 3%, subject to a 1% LIBOR floor with interest payable quarterly. As of December 31, 2017, $850 million was outstanding. In addition to the financing, EGR IV entered into interest rate swaps with an initial notional amount of $636 million at an interest rate of 2.32% to manage a portion of the interest rate exposure in connection with the financing.

14. Income Taxes (All Registrants)

Corporate Tax Reform (All Registrants)

On December 22, 2017, President Trump signed the TCJA into law. The TCJA makes many significant changes to the Internal Revenue Code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) creating a 30% limitation on deductible interest expense (not applicable to regulated utilities); (3) allowing 100% expensing for the cost of qualified property (not applicable to regulated utilities); (4) eliminating the domestic production activities deduction; (5) eliminating the corporate alternative minimum tax and changing how existing alternative minimum tax credits can be realized; and (6) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. The most significant change that impacts the Registrants is the reduction of the corporate federal income tax rate from 35% to 21% beginning January 1, 2018.

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Pursuant to the enactment of the TCJA, the Registrants remeasured their existing deferred income tax balances as of December 31, 2017 to reflect the decrease in the corporate income tax rate from 35% to 21%, which resulted in a material decrease to their net deferred income tax liability balances as shown in the table below. Generation recorded a corresponding net decrease to income tax expense, while the Utility Registrants recorded corresponding regulatory liabilities or assets to the extent such amounts are probable of settlement or recovery through customer rates and an adjustment to income tax expense for all other amounts. The amount and timing of potential settlements of the established net regulatory liabilities will be determined by the Utility Registrants' respective rate regulators, subject to certain IRS "normalization" rules. See Note 3 — Regulatory Matters for further information.

The Registrants have completed their assessment of the majority of the applicable provisions in the TCJA and have recorded the associated impacts as of December 31, 2017. As discussed further below, under SAB 118 issued by the SEC in December 2017, the Registrants have recorded provisional income tax amounts as of December 31, 2017 for changes pursuant to the TCJA related to depreciation for which the impacts could not be finalized upon issuance of the Registrants' financial statements, but for which reasonable estimates could be determined.

For property acquired and placed-in-service after September 27, 2017, the TCJA repeals 50% bonus depreciation for all taxpayers and in addition provides for 100% expensing for taxpayers other than regulated utilities. As a result, Generation will be required to evaluate the contractual terms of its fourth quarter 2017 capital additions and determine if they qualify for 100% expensing under the TCJA as compared to 50% bonus depreciation under prior tax law. Similarly, the Utility Registrants will be required to evaluate the contractual terms of their fourth quarter 2017 capital additions to determine whether they still qualify for the prior tax law's 50% bonus depreciation as compared to no bonus depreciation pursuant to the TCJA. As of December 31, 2017, the Registrants have not completed this analysis but were able to record a reasonable estimate of the effects of these changes based on capital costs incurred at each of the Registrants prior to and after the beginning of the fourth quarter of 2017.

At Generation, any required changes to the provisional estimates during the measurement period related to the above item would result in an adjustment to current income tax expense at 35% and a corresponding adjustment to deferred income tax expense at 21% and such changes could be material to Generation's future results of operations. At the Utility Registrants, any required changes to the provisional estimates would result in the recording of regulatory assets or liabilities to the extent such amounts are probable of settlement or recovery through customer rates and a net change to income tax expense for any other amounts.

The Registrants expect any final adjustments to the provisional amounts to be recorded by the third quarter of 2018, which could be material to the Registrants' future results of operations or financial positions. The accounting for all other applicable provisions of the TCJA is considered complete based on our current interpretation of the provisions of the TCJA as enacted as of December 31, 2017.

While the Registrants have recorded the impacts of the TCJA based on their interpretation of the provisions as enacted, it is expected that technical corrections or other forms of guidance will be issued during 2018, which could result in material changes to previously finalized provisions. At this time, most states have not provided guidance regarding TCJA impacts and may issue guidance in 2018 which may impact estimates.

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The one-time impacts recorded by the Registrants to remeasure their deferred income tax balances at the 21% corporate federal income tax rate as of December 31, 2017 are presented below:

						Successor			
	Exelon[b]	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Net Decrease to Deferred Income Tax Liability Balances	$8,624	$1,895	$2,819	$1,407	$1,120	$1,944	$968	$540	$456

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO[c]**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Net Regulatory Liability Recorded[a]	$7,315	N/A	$2,818	$1,394	$1,124	$1,979	$976	$545	$458

						Successor			
	Exelon[b]	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Net Deferred Income Tax Benefit/(Expense) Recorded	$1,309	$1,895	$1	$13	$(4)	$(35)	$(8)	$(5)	$(2)

(a) Reflects the net regulatory liabilities recorded on a pre-tax basis before taking into consideration the income tax benefits associated with the ultimate settlement with customers.

(b) Amounts do not sum across due to deferred tax adjustments recorded at the Exelon Corporation parent company, primarily related to certain employee compensation plans.

(c) Given the regulatory treatment of income tax benefits related to electric and gas distribution repairs, PECO remains in an overall net regulatory asset position as of December 31, 2017 after recording the impacts related to the TCJA. Refer to Note 3 - Regulatory Matters for additional information.

The net regulatory liabilities above include (1) amounts subject to IRS "normalization" rules that are required to be passed back to customers generally over the remaining useful life of the underlying assets giving rise to the associated deferred income taxes, and (2) amounts for which the timing of settlement with customers is subject to determinations by the rate regulators. The table below sets forth the Registrants' estimated categorization of their net regulatory liabilities as of December 31, 2017. The amounts in the table below are shown on an after-tax basis reflecting future net cash outflows after taking into consideration the income tax benefits associated with the ultimate settlement with customers.

					Successor			
	Exelon	**ComEd**	**PECO[a]**	**BGE**	**PHI**	**PEPCO**	**DPL**	**ACE**
Subject to IRS Normalization Rules	$3,040	$1,400	$533	$459	$648	$299	$195	$153
Subject to Rate Regulator Determination	1,694	573	43	324	754	391	194	170
Net Regulatory Liabilities	$4,734	$1,973	$576	$783	$1,402	$690	$389	$ 323

(a) Given the regulatory treatment of income tax benefits related to electric and gas distribution repairs, PECO remains in an overall net regulatory asset position as of December 31, 2017 after recording the impacts related to the TCJA. As a result, the amount of customer benefits resulting from the TCJA subject to the discretion of PECO's rate regulators are lower relative to the other Utility Registrants. Refer to Note 3 - Regulatory Matters for additional information.

The net regulatory liability amounts subject to the IRS normalization rules generally relate to property, plant and equipment with remaining useful lives ranging from 30 to 40 years across the Utility Registrants. For the other amounts, rate regulators could require the passing back of amounts to customers over shorter time frames.

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Components of Income Tax Expense or Benefit

Income tax expense (benefit) from continuing operations is comprised of the following components:

	For the year ended December 31, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Included in operations:									
Federal									
Current	$ 194	$ 584	$ (191)	$ 71	$ 74	$ (60)	$ (20)	$ (24)	$ (12)
Deferred	(469)	(2,003)	523	28	101	250	114	82	34
Investment tax credit amortization	(25)	(21)	(2)	—	(1)	(1)	—	—	—
State									
Current	14	65	(49)	14	(5)	(4)	(2)	—	—
Deferred	161	—	136	(9)	49	32	13	13	4
Total	$ (125)	$ (1,375)	$ 417	$ 104	$ 218	$ 217	$ 105	$ 71	$ 26

	For the Year Ended December 31, 2016								*Successor* **March 24, 2016 to December 31, 2016**	*Predecessor* **January 1, 2016 to March 23, 2016**
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Included in operations:										
Federal										
Current	$ 60	$ 513	$ (135)	$ 63	$ 51	$ (118)	$ (88)	$ (26)	$ (281)	$ —
Deferred	607	(247)	379	72	88	136	97	22	283	10
Investment tax credit amortization	(24)	(20)	(2)	—	(1)	—	—	—	(1)	—
State										
Current	39	45	(4)	9	5	7	1	—	(11)	—
Deferred	79	(1)	63	5	31	16	12	—	13	7
Total	$ 761	$ 290	$ 301	$ 149	$174	$ 41	$ 22	$ (4)	$ 3	$ 17

	For the Year Ended December 31, 2015								
						Predecessor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Included in operations:									
Federal									
Current	$ 407	$ 546	$ (80)	$ 64	$ 25	$ 12	$ (54)	$ (27)	$ (2)
Deferred	566	16	310	69	126	103	126	73	27
Investment tax credit amortization	(22)	(19)	(2)	—	(1)	(1)	—	—	—
State									
Current	(86)	(90)	7	(10)	—	17	6	2	3

Deferred	208	49	45	20	39	32	24	1	5
Total	$ 1,073	$ 502	$ 280	$ 143	$ 189	$ 163	$ 102	$ 49	$ 33

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Rate Reconciliation

The effective income tax rate from continuing operations varies from the U.S. Federal statutory rate principally due to the following:

	For the Year Ended December 31, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
U.S. Federal statutory rate	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	2.3	3.0	5.7	0.6	5.4	4.8	3.2	5.4	5.6
Qualified nuclear decommissioning trust fund income	3.8	10.0	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(0.9)	(2.2)	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)	(0.4)
Plant basis differences[(a)]	(1.7)	—	0.3	(13.8)	0.1	1.1	(0.4)	2.0	3.6
Production tax credits and other credits	(1.8)	(4.8)	—	—	—	—	—	—	—
Noncontrolling interests	0.1	0.3	—	—	—	—	—	—	—
Like-kind exchange	(1.2)	—	1.3	—	—	—	—	—	—
Merger expenses	(3.7)	(1.3)	—	—	—	(9.5)	(6.3)	(7.8)	(19.8)
FitzPatrick bargain purchase gain	(2.2)	(5.7)	—	—	—	—	—	—	—
Tax Cut and Jobs Act of 2017[(b)]	(33.1)	(130.1)	0.1	(2.3)	0.9	6.4	2.7	2.5	1.6
Other	0.1	(0.4)	0.2	(0.1)	0.2	(0.1)	(0.2)	0.1	(0.4)
Effective income tax rate	(3.3)%	(96.2)%	42.4 %	19.3 %	41.5 %	37.5 %	33.9 %	37.0 %	25.2 %

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	For the Year Ended December 31, 2016								*Successor* March 24, 2016 to December 31, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL [(c)]**	**ACE [(c)]**	**PHI [(c)]**	**PHI**
U.S. Federal statutory rate	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %
Increase (decrease) due to:										
State income taxes, net of Federal income tax benefit [(d)]	3.3	3.3	5.6	1.3	5.0	15.7	52.7	6.2	5.8	11.9
Qualified nuclear decommissioning trust fund income	3.4	7.8	—	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(1.2)	(2.3)	(0.3)	(0.1)	(0.1)	(0.2)	(3.7)	0.8	1.4	(0.9)
Plant basis differences	(4.8)	—	(0.6)	(9.6)	(2.7)	(22.8)	(25.5)	10.3	39.0	(13.5)
Production tax credits and other credits	(3.6)	(8.2)	—	—	—	—	—	—	—	—
Noncontrolling interests	(0.2)	(0.3)	—	—	—	—	—	—	—	—
Statute of limitations expiration	(0.4)	(1.7)	—	—	—	—	—	—	—	—
Penalties	1.9	—	4.5	—	—	—	—	—	(0.7)	—
Merger Expenses	5.5	1.1	—	—	—	23.5	112.9	(44.9)	(89.0)	11.1
Other [(e)]	(0.6)	(1.5)	0.1	(1.2)	—	(1.8)	(2.2)	1.3	3.3	3.6
Effective income tax rate	38.3 %	33.2 %	44.3 %	25.4 %	37.2 %	49.4 %	169.2 %	8.7 %	(5.2)%	47.2 %

Combined Notes to Consolidated Financial Statements - (Continued)
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	For the Year Ended December 31, 2015								
						Predecessor			
	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
U.S. Federal statutory rate	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	3.7	1.0	4.9	1.0	5.3	6.6	6.7	1.7	5.7
Qualified nuclear decommissioning trust fund loss	(0.4)	(0.8)	—	—	—	—	—	—	—
Domestic production activities deduction	(0.7)	(1.3)	—	—	—	—	—	—	—
Health care reform legislation	—	—	—	—	0.1	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(0.9)	(1.5)	(0.3)	(0.1)	(0.1)	(0.2)	(0.1)	(0.4)	(0.6)
Plant basis differences	(1.5)	—	(0.1)	(8.7)	(0.7)	(4.3)	(5.8)	(2.3)	(1.3)
Production tax credits and other credits	(1.9)	(3.4)	—	—	—	—	—	—	—
Noncontrolling interests	0.3	0.5	—	—	—	—	—	—	—
Statute of limitations expiration	(1.4)	(2.4)	—	—	—	—	—	—	—
Other [(f)]	—	—	0.2	0.2	—	(3.2)	(0.5)	5.2	6.4
Effective income tax rate	32.2 %	27.1 %	39.7 %	27.4 %	39.6 %	33.9 %	35.3 %	39.2 %	45.2 %

(a) Includes the charges related to the transmission-related income tax regulatory asset for Exelon, ComEd, BGE, PHI, Pepco, DPL, and ACE of $35 million, $3 million, $5 million, $27 million, $14 million, $6 million, and $7 million, respectively (See Footnote 3 - Regulatory Matters).

(b) Included are impacts for TJCA other than the corporate rate change, including revisions further limiting tax deductions for compensation of certain highest paid executives, the write-off of foreign tax credit carryforwards, and loss of a 2015 domestic production activities deduction due to an NOL carryback.

(c) DPL and ACE recognized a loss before income taxes for the year ended December 31, 2016, and PHI recognized a loss before income taxes for the period of March 24, 2016, through December 31, 2016. As a result, positive percentages represent an income tax benefit for the periods presented.

(d) Includes a remeasurement of uncertain state income tax positions for Pepco and DPL.

(e) At PECO, includes a cumulative adjustment related to an anticipated gas repairs tax return accounting method change. The method change request was filed and accepted in 2017. No change to the results recorded as of December 31, 2016.

(f) Includes impacts of the PHI Global Settlement for Pepco, DPL, ACE and PHI.

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Tax Differences and Carryforwards

The tax effects of temporary differences and carryforwards, which give rise to significant portions of the deferred tax assets (liabilities), as of December 31, 2017 and 2016 are presented below:

	As of December 31, 2017 [(a)]								
						Successor			
	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Plant basis differences	$ (12,490)	$ (2,819)	$ (3,825)	$ (1,762)	$ (1,368)	$ (2,521)	$ (1,152)	$ (717)	$ (607)
Accrual based contracts	150	(66)	—	—	—	216	—	—	—
Derivatives and other financial instruments	(85)	(66)	(2)	—	—	3	—	—	—
Deferred pension and postretirement obligation	1,463	(205)	(285)	(15)	(29)	(130)	(78)	(51)	(18)
Nuclear decommissioning activities	(553)	(553)	—	—	—	—	—	—	—
Deferred debt refinancing costs	217	26	(8)	(1)	(3)	203	(4)	(2)	(1)
Regulatory assets and liabilities	(688)	—	489	(90)	136	(184)	39	88	86
Tax loss carryforward	344	76	33	9	11	156	40	68	35
Tax credit carryforward	861	868	1	—	—	6	—	—	—
Investment in partnerships	(434)	(416)	—	—	—	—	—	—	—
Other, net	746	78	141	71	13	193	94	14	16
Deferred income tax liabilities (net)	$ (10,469)	$ (3,077)	$ (3,456)	$ (1,788)	$ (1,240)	$ (2,058)	$ (1,061)	$ (600)	$ (489)
Unamortized investment tax credits	(732)	(705)	(13)	(1)	(4)	(8)	(2)	(3)	(4)
Total deferred income tax liabilities (net) and unamortized investment tax credits	$ (11,201)	$ (3,782)	$ (3,469)	$ (1,789)	$ (1,244)	$ (2,066)	$ (1,063)	$ (603)	$ (493)

(a) Includes remeasurement impacts related to the TCJA.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	As of December 31, 2016								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Plant basis differences	$ (17,966)	$ (4,192)	$ (5,034)	$ (3,095)	$ (1,977)	$ (3,586)	$ (1,678)	$ (973)	$ (869)
Accrual based contracts	434	(115)	—	—	—	548	—	—	—
Derivatives and other financial instruments	(179)	(162)	(3)	—	—	(1)	—	—	—
Deferred pension and postretirement obligation	2,287	(316)	(453)	(18)	(43)	(111)	(122)	(74)	(21)
Nuclear decommissioning activities	(509)	(509)	—	—	—	—	—	—	—
Deferred debt refinancing costs	325	44	(13)	(1)	(3)	293	(7)	(4)	(2)
Regulatory assets and liabilities	(3,319)	—	(226)	10	(240)	(1,205)	(194)	(75)	(69)
Tax loss carryforward	189	61	29	—	22	77	27	39	14
Tax credit carryforward	446	493	—	—	—	—	—	—	—
Investment in partnerships	(650)	(650)	—	—	—	—	—	—	—
Other, net	1,485	403	351	99	27	225	66	34	34
Deferred income tax liabilities (net)	$ (17,457)	$ (4,943)	$ (5,349)	$ (3,005)	$ (2,214)	$ (3,760)	$ (1,908)	$ (1,053)	$ (913)
Unamortized investment tax credits	(658)	(626)	(15)	(1)	(5)	(9)	(2)	(3)	(4)
Total deferred income tax liabilities (net) and unamortized investment tax credits	$ (18,115)	$ (5,569)	$ (5,364)	$ (3,006)	$ (2,219)	$ (3,769)	$ (1,910)	$ (1,056)	$ (917)

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following table provides the Registrants' carryforwards and any corresponding valuation allowances as of December 31, 2017:

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Federal									
Federal net operating loss	$ 624 (a)	$ —	$ 156	$ 7	$ —	$ 261	$ 82	$ 81	$ 63
Deferred taxes on Federal net operating loss	131	—	33	1	—	55	17	17	13
Federal general business credits carryforwards	861 (b)	868	1	—	1	5	—	—	—
State									
State net operating losses	3,555 (c)	1,479 (c)	—	98 (e)	177 (d)	1,440 (f)	347 (g)	753 (h)	299 (i)
Deferred taxes on state tax attributes (net)	233	97	—	8	12	98	23	51	21
Valuation allowance on state tax attributes	29	23	—	—	1	5	—	—	—

(a) Exelon's federal net operating loss will begin expiring in 2034.
(b) Exelon's federal general business credit carryforwards will begin expiring in 2033.
(c) Exelon's and Generation's state net operating losses and credit carryforwards, which are presented on a post-apportioned basis, will begin expiring in 2018.
(d) BGE's state net operating loss carryforwards, which are presented on a post-apportioned basis, will begin expiring in 2026.
(e) PECO's state net operating loss carryforwards, which are presented on a post-apportioned basis, will begin expiring in 2031.
(f) PHI's state net operating loss carryforwards, which are presented on a post-apportioned basis, will begin expiring in 2036.
(g) Pepco's state net operating loss carryforwards, which are presented on a post-apportioned basis, will begin expiring in 2028.
(h) DPL's state net operating loss carryforwards, which are presented on a post-apportioned basis, will begin expiring in 2027.
(i) ACE's state net operating loss carryforwards, which are presented on a post-apportioned basis, will begin expiring in 2031.

Tabular Reconciliation of Unrecognized Tax Benefits

The following tables provide a reconciliation of the Registrants' unrecognized tax benefits as of December 31, 2017, 2016 and 2015:

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Unrecognized tax benefits at January 1, 2017	$ 916	$ 490	$ (12)	$ —	$ 120	$ 172	$ 80	$ 37	$ 22
Increases based on tax positions related to 2017	—	—	—	—	—	—	—	—	—
Decreases based on tax positions related to 2017	—	—	—	—	—	—	—	—	—
Change to positions that only affect timing	—	—	—	—	—	—	—	—	—
Increases based on tax positions prior to 2017	28	—	14	—	—	14	—	—	14
Decreases based on tax positions prior to 2017	(196)	(17)	—	—	—	(61)	(21)	(16)	(22)
Decrease from settlements with taxing authorities	(5)	(5)	—	—	—	—	—	—	—
Decreases from expiration of statute of limitations	—	—	—	—	—	—	—	—	—
Unrecognized tax benefits at December 31, 2017	$ 743	$ 468	$ 2	$ —	$ 120	$ 125	$ 59	$ 21	$ 14

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Unrecognized tax benefits at January 1, 2016	$ 1,078	$ 534	$ 142	$ —	$ 120	$ 22	$ 8	$ 3	$ —
Merger balance transfer	22	5	—	—	—	(5)	—	—	—
Increases based on tax positions related to 2016	108	10	—	—	—	59	21	16	22
Decreases based on tax positions related to 2016	—	—	—	—	—	—	—	—	—
Change to positions that only affect timing	(332)	(12)	(154)	—	—	—	—	—	—
Increases based on tax positions prior to 2016	88	—	—	—	—	96	51	18	—
Decreases based on tax positions prior to 2016	(21)	(20)	—	—	—	—	—	—	—
Decrease from settlements with taxing authorities	(27)	(27)	—	—	—	—	—	—	—
Decreases from expiration of statute of limitations	—	—	—	—	—	—	—	—	—
Unrecognized tax benefits at December 31, 2016	$ 916	$ 490	$ (12)	$ —	$ 120	$ 172	$ 80	$ 37	$ 22

						Predecessor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Unrecognized tax benefits at January 1, 2015	$ 1,829	$ 1,357	$ 149	$ 44	$ —	$ 702	$ —	$ —	$ —
Increases based on tax positions related to 2015	108	—	—	—	106	—	—	—	—
Decreases based on tax positions related to 2015	—	—	—	—	—	—	—	—	—
Change to positions that only affect timing	(705)	(659)	(7)	(44)	—	(688)	—	—	—
Increases based on tax positions prior to 2015	79	65	—	—	14	11	8	3	—
Decreases based on tax positions prior to 2015	(116)	(112)	—	—	—	—	—	—	—
Decreases from settlements with taxing authorities	(31)	(31)	—	—	—	—	—	—	—
Decreases from expiration of statute of limitations	(86)	(86)	—	—	—	(3)	—	—	—
Unrecognized tax benefits at December 31, 2015	$ 1,078	$ 534	$ 142	$ —	$ 120	$ 22	$ 8	$ 3	$ —

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL, and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, in the first quarter of 2017 resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

Exelon reduced the liability related to the uncertain tax position associated with the like-kind exchange in the second quarter of 2017. Please see the Other Income Tax Matters section below for additional details related to the like-kind exchange adjustments made in the second quarter of 2017.

Exelon and Generation have $7 million of unrecognized tax benefits at December 31, 2017 for which the ultimate tax benefit is highly certain, but for which there is uncertainty about the timing of such benefits.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Exelon, Generation, and ComEd had $83 million, $7 million, and $(12) million of unrecognized tax benefits at December 31, 2016 for which the ultimate tax benefit is highly certain, but for which there is uncertainty about the timing of such benefits.

Exelon, Generation, and ComEd had $415 million, $20 million and $142 million of unrecognized tax benefits at December 31, 2015 for which the ultimate tax benefit is highly certain, but for which there is uncertainty about the timing of such benefits.

The disallowance of such positions would not materially affect the annual effective tax rate but would accelerate the payment of cash to, or defer the receipt of the cash tax benefit from, the taxing authority to an earlier or later period respectively.

Unrecognized tax benefits that if recognized would affect the effective tax rate

Exelon, Generation, ComEd and PHI have $523 million, $461 million, $2 million, and $32 million, respectively, of unrecognized tax benefits at December 31, 2017 that, if recognized, would decrease the effective tax rate. BGE, PHI, Pepco, DPL, and ACE have $120 million, $94 million, $59 million, $21 million, and $14 million of unrecognized tax benefits at December 31, 2017 that, if recognized, may be included in future base rates and that portion would have no impact to the effective tax rate.

Exelon, Generation, PHI, Pepco, DPL, and ACE had $633 million, $483 million, $93 million, $21 million, $16 million, and $22 million, respectively, of unrecognized tax benefits at December 31, 2016 that, if recognized, would decrease the effective tax rate. BGE, PHI, Pepco and DPL had $120 million, $80 million, $59 million, and $21 million of unrecognized tax benefits at December 31, 2016 that, if recognized, may be included in future base rates and that portion would have no impact to the effective tax rate.

Exelon, Generation, and PHI had $538 million, $509 million, and $11 million, respectively, of unrecognized tax benefits at December 31, 2015 that, if recognized, would decrease the effective tax rate. BGE, PHI, Pepco and DPL had $120 million, $11 million, $8 million and $3 million of unrecognized tax benefits at December 31, 2015 that, if recognized, may be included in future base rates and that portion would have no impact to the effective tax rate.

Reasonably possible the total amount of unrecognized tax benefits could significantly increase or decrease within 12 months after the reporting date

Like-Kind Exchange

As of December 31, 2017, Exelon and ComEd have approximately $39 million and $2 million, respectively, of unrecognized federal and state income tax benefits that could significantly decrease within the 12 months after the reporting date due to a final resolution of the like-kind exchange litigation described below. The recognition of these unrecognized tax benefits would decrease Exelon and ComEd’s effective tax rate.

Settlement of Income Tax Audits, Refund Claims, and Litigation

As of December 31, 2017, Exelon, Generation, BGE, PHI, Pepco, DPL, and ACE have approximately $683 million, $469 million, $120 million, $94 million, $59 million, $21 million, $14 million respectively, of unrecognized federal and state tax benefits that could significantly decrease within the 12 months after the reporting date as a result of completing audits, potential settlements, refund claims, and the outcomes of pending court cases. Of the above unrecognized tax benefits, Exelon and Generation have $462 million that, if recognized, would decrease the effective tax rate. The unrecognized tax benefit related to BGE, Pepco, DPL and ACE, if recognized, may be included in future base rates and that portion would have no impact to the effective tax rate.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Total amounts of interest and penalties recognized

The following tables represent the net interest and penalties receivable (payable), including interest and penalties related to tax positions reflected in the Registrants' Consolidated Balance Sheets.

						Successor			
Net interest receivable (payable) as of	**Exelon**[(a)]	**Generation**	**ComEd**[(a)]	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
December 31, 2017	$ 233	$ (3)	$ 4	$ —	$ —	$ 2	$ —	$ —	$ —
December 31, 2016	(507)	46	(384)	8	(1)	2	1	—	1

						Successor			
Net penalties receivable (payable) as of	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
December 31, 2017	$ (17)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2016	(106)	—	(86)	—	—	—	—	—	—

(a) Change in balance attributable to Like-Kind Exchange interest payments, see Other Tax Matters for further discussion.

The following tables set forth the net interest and penalty expense, including interest and penalties related to tax positions, recognized in Interest expense, net and Other, net in Other income and deductions in the Registrants' Consolidated Statements of Operations and Comprehensive Income.

Net interest expense (income) for the years ended	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**
December 31, 2017	$ 37	$ (1)	$ 11	$ —	$ —	$ —	$ —	$ —
December 31, 2016	165	(13)	117	—	—	6	—	(1)
December 31, 2015	(13)	(31)	7	—	—	(4)	—	—

Net penalty expense (income) for the years ended	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**
December 31, 2017	$ (2)	$ —	$ — $—	$ —	$ —	$ —	$ —	$ —
December 31, 2016	106	—	86	—	—	—	—	—
December 31, 2015	—	—	—	—	—	—	—	—

	Successor		*Predecessor*	
PHI	**December 31, 2017**	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**	**December 31, 2015**
Net interest expense (income)	$ —	$ (2)	$ —	$ (34)

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Description of tax years open to assessment by major jurisdiction

Taxpayer	Open Years
Exelon (and predecessors) and subsidiaries consolidated Federal income tax returns	1999, 2001-2016
PHI Holdings and subsidiaries consolidated Federal income tax returns	2013-2016
Exelon and subsidiaries Illinois unitary income tax returns	2013-2016
Constellation Illinois unitary income tax returns	2011-March 2012
Constellation combined New York corporate income tax returns	2010-March 2012
Exelon combined New York corporate income tax returns	2011-2016
Exelon New Jersey corporate income tax returns	2013-2015
Various separate company (excluding PECO) Pennsylvania corporate net income tax returns	2011-2016
PECO Pennsylvania separate company returns	2010-2016
DPL Delaware separate company returns	Same as Federal
ACE New Jersey separate company returns	2013-2016
Exelon and subsidiaries District of Columbia corporate income tax returns	2014-2016
PHI Holdings and subsidiaries District of Columbia corporate income tax returns	2014-2016
Various separate company Maryland corporate net income tax returns	Same as Federal

Other Tax Matters

Like-Kind Exchange

Exelon, through its ComEd subsidiary, took a position on its 1999 income tax return to defer approximately $1.2 billion of tax gain on the sale of ComEd’s fossil generating assets. The gain was deferred by reinvesting a portion of the proceeds from the sale in qualifying replacement property under the like-kind exchange provisions of the IRC. The like-kind exchange replacement property purchased by Exelon included interests in three municipal-owned electric generation facilities which were properly leased back to the municipalities.

The IRS disagreed with this position and asserted that the entire gain of approximately $1.2 billion was taxable in 1999. Exelon was unable to reach agreement with the IRS regarding the dispute over the like-kind exchange position. The IRS asserted that the Exelon purchase and leaseback transaction was substantially similar to a leasing transaction, known as a SILO, which the IRS does not respect as the acquisition of an ownership interest in property. A SILO is a “listed transaction” that the IRS has identified as a potentially abusive tax shelter under guidance issued in 2005. Accordingly, the IRS asserted that the sale of the fossil plants followed by the purchase and leaseback of the municipal owned generation facilities did not qualify as a like-kind exchange and the gain on the sale is fully subject to tax. The IRS also asserted a penalty of approximately $90 million for a substantial understatement of tax.

On September 30, 2013, the IRS issued a notice of deficiency to Exelon for the like-kind exchange position. Exelon filed a petition on December 13, 2013 to initiate litigation in the United States Tax Court (Tax Court) and the trial took place in August of 2015. Exelon was not required to remit any part of the asserted tax or penalty in order to litigate the issue.

On September 19, 2016, the Tax Court rejected Exelon’s position in the case and ruled that Exelon was not entitled to defer gain on the transaction. In addition, contrary to Exelon’s evaluation that the penalty was unwarranted, the Tax Court ruled that Exelon is liable for the penalty and interest due on

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the asserted penalty. In June of 2017, the IRS finalized its computation of tax, penalties and interest owed by Exelon pursuant to the Tax Court's decision. In September of 2017, Exelon appealed this decision to the U.S. Court of Appeals for the Seventh Circuit.

In the first quarter of 2013, Exelon concluded that it was no longer more likely than not that the like-kind exchange position would be sustained and recorded charges to earnings representing the amount of interest expense (after-tax) and incremental state income tax expense that would be payable in the event Exelon is unsuccessful in litigation. Exelon agreed to hold ComEd harmless from any unfavorable impacts on ComEd's equity of the after-tax interest and penalty amounts.

Prior to the Tax Court's decision, however, Exelon did not believe it was likely a penalty would be assessed based on applicable case law and the facts of the transaction. As a result, no charge had been recorded for the penalty or for after-tax interest on the penalty. While it has strong arguments on appeal with respect to both the merits and the penalty, Exelon has determined that, pursuant to the applicable authoritative guidance, it is no longer more likely than not to avoid ultimate imposition of the penalty. As a result, in the third quarter of 2016, Exelon and ComEd recorded a charge to earnings of approximately $106 million and $86 million, respectively, of penalty and approximately $94 million and $64 million, respectively, of after-tax interest. Exelon and ComEd recorded the penalty and pre-tax interest due on the asserted penalty to Other, net and Interest expense, net, respectively, on their Consolidated Statements of Operations. Consistent with Exelon's agreement to continue to hold ComEd harmless from any unfavorable impact on its equity from the like-kind exchange position, ComEd recorded on its Consolidated Balance Sheets as of September 30, 2016, an additional $150 million receivable and non-cash equity contributions from Exelon.

As a result of the IRS's finalization of its computation in the second quarter of 2017, Exelon recorded a benefit to earnings of approximately $26 million, consisting of an income tax benefit of $50 million and a reduction of penalties of $2 million, partially offset by after-tax interest expense of $26 million, while ComEd recorded a charge to earnings of approximately $23 million, consisting of income tax expense of $15 million and after-tax interest expense of $8 million.

In the second quarter of 2017, Exelon amended its agreement with ComEd to also hold ComEd harmless for the unfavorable impacts on its equity from the additional income tax amounts owed by ComEd as a result of the IRS's finalization of its computation related to the like-kind exchange position. Accordingly, in the second quarter of 2017, ComEd recorded an additional receivable and non-cash equity contribution from Exelon for the total $23 million. As of June 30, 2017, ComEd had a total receivable from Exelon pursuant to the hold harmless agreement of $369 million, which was included in Current Receivables from Affiliates on ComEd's Consolidated Balance Sheet.

In the fourth quarter of 2017, the IRS assessed the tax, penalties and interest of approximately $1.3 billion related to the like-kind exchange, including $300 million attributable to ComEd. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts on ComEd's equity from the like-kind exchange position. Following a final appellate decision, which is expected in 2018, Exelon expects to receive approximately $60 million related to final interest computations.

Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings. As a result of the IRS's assessment of the tax, penalties and interest in the fourth quarter of 2017, the deposit is no longer available to Exelon and thus was reclassified from a current asset and is now reflected as an offset to the related liabilities for the tax, penalties, and interest that are included on

Combined Notes to Consolidated Financial Statements - (Continued)
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Exelon's balance sheet as current liabilities. The remaining amount due of approximately $20 million was paid in the fourth quarter of 2017. The $300 million payable discussed above attributable to ComEd, net of ComEd's receivable pursuant to the hold harmless agreement, was settled with Exelon in the third quarter of 2017. No recovery will be sought from ComEd customers for any interest, penalty, or additional income tax payment amounts resulting from the like-kind exchange tax position.

As previously disclosed, in the first quarter of 2014, Exelon entered into an agreement to terminate its investment in one of the three municipal-owned electric generation properties in exchange for a net early termination amount of $335 million. In the first quarter of 2016, Exelon terminated its interests in the remaining two municipal-owned electric generation properties in exchange for $360 million.

Long-Term State Tax Apportionment (Exelon, Generation and PHI)

Exelon, Generation and PHI periodically review events that may significantly impact how income is apportioned among the states and, therefore, the calculation of their respective deferred state income taxes. Events that may require Exelon, Generation and PHI to update their long-term state tax apportionment include significant changes in tax law and/or significant operational changes. Exelon's, PHI's and Pepco's long-term marginal state income tax rate were revised in the first quarter of 2017 as a result of a statutory rate change in Washington, D.C. As a result, Exelon, PHI and Pepco recorded a one-time decrease to Deferred income tax liability of $28 million, $8 million and $8 million, respectively, on their Consolidated Balance Sheets. Because income taxes are recovered through customer rates, Exelon, PHI and Pepco recorded a corresponding regulatory liability of $8 million, in the Consolidated Balance Sheets. In addition, Exelon recorded a decrease to Income tax expense of $20 million, net of federal taxes, in the Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2017.

In the third quarter of 2017, Exelon reviewed and updated its marginal state income tax rates based on 2016 state apportionment rates. In addition, Exelon, Generation and ComEd recorded the impacts of Illinois' statutory rate change, which increased the total corporate income tax rate from 7.75% to 9.5% effective July 1, 2017. As a result of the rate changes, in the third quarter of 2017, Exelon, Generation and ComEd recorded a one-time increase to Deferred income taxes of approximately $250 million, $20 million and $270 million, respectively, on their Consolidated Balance Sheets. Because income taxes are recovered through customer rates, each of Exelon and ComEd recorded a corresponding regulatory asset of $272 million. Further, Exelon recorded a decrease to Income tax expense of approximately $20 million and Generation recorded an increase to Income tax expense of approximately $20 million (each net of federal taxes) in their Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2017. The Illinois statutory rate increase is not expected to have a material ongoing impact to Exelon's, Generation's or ComEd's future results of operations.

Allocation of Tax Benefits (All Registrants)

Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE are all party to an agreement with Exelon and other subsidiaries of Exelon that provides for the allocation of consolidated tax liabilities and benefits (Tax Sharing Agreement). The Tax Sharing Agreement provides that each party is allocated an amount of tax similar to that which would be owed had the party been separately subject to tax. In addition, any net benefit attributable to Exelon is reallocated to the other Registrants. That allocation is treated as a contribution to the capital of the party receiving the benefit. During 2017, Generation, PECO, BGE, and PHI recorded an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement of $102 million, $16 million,

$10 million and $7 million respectively. ComEd, Pepco, DPL, and ACE did not record an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement as a result of a tax net operating loss.

During 2016, Generation, PECO and BGE recorded an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement of $94 million, $18 million and $8 million respectively. ComEd did not record an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement as a result of a tax net operating loss. PHI, Pepco, DPL and ACE did not record an allocation of Federal tax benefits from Exelon as they were not a part of Exelon's 2015 consolidated tax return.

During 2015, Generation, PECO and BGE recorded an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement of $57 million, $16 million and $7 million respectively. ComEd did not record an allocation of Federal tax benefits from Exelon under the Tax Sharing Agreement as a result of a tax net operating loss.

15. Asset Retirement Obligations (All Registrants)

Nuclear Decommissioning Asset Retirement Obligations

Generation has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. To estimate its decommissioning obligation related to its nuclear generating stations for financial accounting and reporting purposes, Generation uses a probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple outcome scenarios that include significant estimates and assumptions, and are based on decommissioning cost studies, cost escalation rates, probabilistic cash flow models and discount rates. Generation updates its ARO annually unless circumstances warrant more frequent updates, based on its review of updated cost studies and its annual evaluation of cost escalation factors and probabilities assigned to various scenarios.

The following table provides a rollforward of the nuclear decommissioning ARO reflected on Exelon's and Generation's Consolidated Balance Sheets, from January 1, 2016 to December 31, 2017:

	Exelon and Generation
Nuclear decommissioning ARO at January 1, 2016	$ 8,246
Accretion expense	436
Net increase for changes in and timing of estimated future cash flows	61
Costs incurred related to decommissioning plants	(9)
Nuclear decommissioning ARO at December 31, 2016 (a)	8,734
Accretion Expense	458
Acquisition of FitzPatrick	444
Net increase for changes in and timing of estimated future cash flows	34
Costs incurred related to decommissioning plants	(8)
Nuclear decommissioning ARO at December 31, 2017 (a)	$ 9,662

(a) Includes $13 million and $10 million as the current portion of the ARO at December 31, 2017 and 2016, respectively, which is included in Other current liabilities on Exelon's and Generation's Consolidated Balance Sheets.

During 2017, Generation's total nuclear ARO increased by approximately $928 million, primarily reflecting year-to-date accretion of the ARO liability due to the passage of time, the recording of the fair value of the

ARO, including subsequent purchase accounting adjustments, for the acquisition of FitzPatrick (see Note 4—Mergers, Acquisitions and Dispositions), the announced early retirement of TMI, and impacts of ARO updates completed during 2017 to reflect changes in amounts and timing of estimated decommissioning cash flows.

The net $34 million increase in the ARO during 2017 for changes in the amounts and timing of estimated decommissioning cash flows was driven by multiple adjustments throughout the year, some with offsetting impacts. These adjustments include a $178 million increase due to higher assumed probabilities of early retirement of Salem and a $138 million increase in TMI's ARO liability associated with the May 30, 2017 announcement to early retire the unit on September 30, 2019. The increase in the ARO liability for TMI incorporates the early shutdown date, increases the probabilities of longer term decommissioning scenarios, and reflects an increase in the estimated costs to decommission based on an updated decommissioning cost study. See Note 8—Early Nuclear Plant Retirements for additional information regarding Salem and TMI. These increases in the ARO were partially offset by a $180 million decrease for refinements in estimated fleet wide labor costs expected to be incurred for certain on-site personnel during decommissioning as well as net decreases resulting from updates to the cost studies of Clinton, Quad Cities and Dresden.

During 2016, Generation's ARO increased by approximately $488 million, primarily reflecting year-to-date accretion of the ARO liability of approximately $436 million due to the passage of time and impacts of ARO updates completed during 2016 to reflect changes in amounts and timing of estimated decommissioning cash flows. The $61 million increase in the ARO during 2016 for changes in the amounts and timing of estimated decommissioning cash flows was driven by multiple adjustments throughout the year, some with offsetting impacts. These adjustments include increases of $288 million resulting from the change in the assumed DOE spent fuel acceptance date for disposal from 2025 to 2030 as well as increases resulting from updates to the cost studies of Oyster Creek, Zion, Calvert Cliffs, Ginna and Nine Mile Point. These increases were partially offset by a decrease of $165 million resulting from changes to the decommissioning scenarios and their probabilities as well as reductions in estimated cost escalation rates, primarily for labor, energy and waste burial costs. Most of the increase to the ARO resulting from the June 2, 2016, announcement to early retire Clinton and Quad Cities was reversed pursuant to the December 7, 2016, enactment of the Illinois FEJA. See Note 8—Early Nuclear Plant Retirements for additional information.

Nuclear Decommissioning Trust Fund Investments

NDT funds have been established for each generation station unit to satisfy Generation's nuclear decommissioning obligations. Generally, NDT funds established for a particular unit may not be used to fund the decommissioning obligations of any other unit.

The NDT funds associated with Generation's nuclear units have been funded with amounts collected from the previous owners and their respective utility customers. PECO is authorized to collect funds, in revenues, for decommissioning the former PECO nuclear plants through regulated rates, and these collections are scheduled through the operating lives of the former PECO plants. The amounts collected from PECO customers are remitted to Generation and deposited into the NDT funds for the unit for which funds are collected. Every five years, PECO files a rate adjustment with the PAPUC that reflects PECO's calculations of the estimated amount needed to decommission each of the former PECO units based on updated fund balances and estimated decommissioning costs. The rate adjustment is used to determine the amount collectible from PECO customers. On March 31, 2017, PECO filed its Nuclear Decommissioning Cost Adjustment (NDCA) with the PAPUC proposing an annual recovery from customers of approximately $4 million. This amount reflects a decrease from the current approved annual collection of approximately $24 million primarily due to the removal of the collections for Limerick Units 1 and 2 as a result of the NRC approving the extension of the operating licenses for an additional 20 years. On August 8, 2017, the PAPUC approved the filing and the new rates became effective January 1, 2018.

Any shortfall of funds necessary for decommissioning, determined for each generating station unit, is ultimately required to be funded by Generation, with the exception of a shortfall for the current decommissioning activities at Zion Station, where certain decommissioning activities have been

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transferred to a third-party (see Zion Station Decommissioning below) and the CENG units, where any shortfall is required to be funded by both Generation and EDF. Generation, through PECO, has recourse to collect additional amounts from PECO customers related to a shortfall of NDT funds for the former PECO units, subject to certain limitations and thresholds, as prescribed by an order from the PAPUC. Generally, PECO, and likewise Generation will not be allowed to collect amounts associated with the first $50 million of any shortfall of trust funds compared to decommissioning costs, as well as 5% of any additional shortfalls, on an aggregate basis for all former PECO units. The initial $50 million and up to 5% of any additional shortfalls would be borne by Generation. No recourse exists to collect additional amounts from utility customers for any of Generation’s other nuclear units. With respect to the former ComEd and PECO units, any funds remaining in the NDTs after all decommissioning has been completed are required to be refunded to ComEd’s or PECO’s customers, subject to certain limitations that allow sharing of excess funds with Generation related to the former PECO units. With respect to Generation’s other nuclear units, Generation retains any funds remaining after decommissioning. However, in connection with CENG’s acquisition of the Nine Mile Point and Ginna plants and settlements with certain regulatory agencies, CENG is subject to certain conditions pertaining to nuclear decommissioning trust funds that, if met, could possibly result in obligations to make payments to certain third parties (clawbacks). For Nine Mile Point and Ginna, the clawback provisions are triggered only in the event that the required decommissioning activities are discontinued or not started or completed in a timely manner. In the event that the clawback provisions are triggered for Nine Mile Point, then, depending upon the triggering event, an amount equal to 50% of the total amount withdrawn from the funds for non-decommissioning activities or 50% of any excess funds in the trust funds above the amounts required for decommissioning (including spent fuel management and decommissioning) is to be paid to the Nine Mile Point sellers. In the event that the clawback provisions are triggered for Ginna, then an amount equal to any estimated cost savings realized by not completing any of the required decommissioning activities is to be paid to the Ginna sellers. Generation expects to comply with applicable regulations and timely commence and complete all required decommissioning activities.

At December 31, 2017 and 2016, Exelon and Generation had NDT fund investments totaling $13,349 million and $11,061 million, respectively. The increase is primarily driven by improved market performance and the acquisition of FitzPatrick. For additional information related to the NDT fund investments, refer to Note 11—Fair Value of Financial Assets and Liabilities.

The following table provides unrealized gains on NDT funds for 2017, 2016 and 2015:

	Exelon and Generation		
	For the Years Ended December 31,		
	2017	2016	2015
Net unrealized gains (losses) on decommissioning trust funds—Regulatory Agreement Units [a]	$ 455	$ 216	$ (282)
Net unrealized gains (losses) on decommissioning trust funds—Non-Regulatory Agreement Units [b][c]	521	194	(197)

(a) Net unrealized gains (losses) related to Generation’s NDT funds associated with Regulatory Agreement Units are included in Regulatory liabilities on Exelon’s Consolidated Balance Sheets and Noncurrent payables to affiliates on Generation’s Consolidated Balance Sheets.

(b) Excludes $(10) million, $(1) million and $7 million of net unrealized gains (losses) related to the Zion Station pledged assets in 2017, 2016 and 2015, respectively. Net unrealized gains related to Zion Station pledged assets are included in the Other current liabilities and Payable for Zion Station decommissioning on Exelon’s and Generation’s Consolidated Balance Sheets in 2017 and 2016, respectively.

(c) Net unrealized gains (losses) related to Generation’s NDT funds with Non-Regulatory Agreement Units are included within Other, net in Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income.

Interest and dividends on NDT fund investments are recognized when earned and are included in Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. Interest and dividends earned on the NDT fund investments for the Regulatory Agreement

Units are eliminated within Other, net in Exelon's and Generation's Consolidated Statement of Operations and Comprehensive Income.

Accounting Implications of the Regulatory Agreements with ComEd and PECO

Based on the regulatory agreement with the ICC that dictates Generation's obligations related to the shortfall or excess of NDT funds necessary for decommissioning the former ComEd units on a unit-by-unit basis, as long as funds held in the NDT funds are expected to exceed the total estimated decommissioning obligation, decommissioning-related activities, including realized and unrealized gains and losses on the NDT funds and accretion of the decommissioning obligation, are generally offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. The offset of decommissioning-related activities within the Consolidated Statement of Operations and Comprehensive Income results in an equal adjustment to the noncurrent payables to affiliates at Generation and an adjustment to the regulatory liabilities at Exelon. Likewise, ComEd has recorded an equal noncurrent affiliate receivable from Generation and corresponding regulatory liability. Should the expected value of the NDT fund for any former ComEd unit fall below the amount of the expected decommissioning obligation for that unit, the accounting to offset decommissioning-related activities in the Consolidated Statement of Operations and Comprehensive Income for that unit would be discontinued, the decommissioning-related activities would be recognized in the Consolidated Statements of Operations and Comprehensive Income and the adverse impact to Exelon's and Generation's results of operations and financial positions could be material. As of December 31, 2017, the NDT funds of each of the former ComEd units, except for Zion (see Zion Station Decommissioning below), are expected to exceed the related decommissioning obligation for each of the units. For the purposes of making this determination, the decommissioning obligation referred to is different, as described below, from the calculation used in the NRC minimum funding obligation filings based on NRC guidelines.

Based on the regulatory agreement supported by the PAPUC that dictates Generation's rights and obligations related to the shortfall or excess of trust funds necessary for decommissioning the former PECO units, regardless of whether the funds held in the NDT funds are expected to exceed or fall short of the total estimated decommissioning obligation, decommissioning-related activities are generally offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. The offset of decommissioning-related activities within the Consolidated Statement of Operations and Comprehensive Income results in an equal adjustment to the noncurrent payables to affiliates at Generation and an adjustment to the regulatory liabilities at Exelon. Likewise, PECO has recorded an equal noncurrent affiliate receivable from Generation and a corresponding regulatory liability. Any changes to the PECO regulatory agreements could impact Exelon's and Generation's ability to offset decommissioning-related activities within the Consolidated Statement of Operations and Comprehensive Income, and the impact to Exelon's and Generation's results of operations and financial positions could be material.

The decommissioning-related activities related to the Non-Regulatory Agreement Units are reflected in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Refer to Note 3—Regulatory Matters and Note 26—Related Party Transactions for information regarding regulatory liabilities at ComEd and PECO and intercompany balances between Generation, ComEd and PECO reflecting the obligation to refund to customers any decommissioning-related assets in excess of the related decommissioning obligations.

Zion Station Decommissioning

On September 1, 2010, Generation completed an Asset Sale Agreement (ASA) with EnergySolutions Inc. and its wholly owned subsidiaries, EnergySolutions, LLC (EnergySolutions) and

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ZionSolutions, under which ZionSolutions has assumed responsibility for decommissioning Zion Station, which is located in Zion, Illinois and ceased operation in 1998. Specifically, Generation transferred to ZionSolutions substantially all of the assets (other than land) associated with Zion Station, including assets held in related NDT funds. In consideration for Generation's transfer of those assets, ZionSolutions assumed decommissioning and other liabilities, excluding the obligation to dispose of SNF and decommission the SNF dry storage facility, associated with Zion Station. Pursuant to the ASA, ZionSolutions will periodically request reimbursement from the Zion Station-related NDT funds for costs incurred related to its decommissioning efforts at Zion Station. During 2013, EnergySolutions entered a definitive acquisition agreement and was acquired by another company. Generation reviewed the acquisition as it relates to the ASA to decommission Zion Station. Based on that review, Generation determined that the acquisition will not adversely impact decommissioning activities under the ASA.

ZionSolutions is subject to certain restrictions on its ability to request reimbursements from the Zion Station NDT funds as defined within the ASA. Therefore, the transfer of the Zion Station assets did not qualify for asset sale accounting treatment and, as a result, the related NDT funds were reclassified to Pledged assets for Zion Station decommissioning within Generation's and Exelon's Consolidated Balance Sheets and will continue to be measured in the same manner as prior to the completion of the transaction. Additionally, the transferred ARO for decommissioning was replaced with a Payable for Zion Station decommissioning in Generation's and Exelon's Consolidated Balance Sheets. Changes in the value of the Zion Station NDT assets, net of applicable taxes, will be recorded as a change in the Payable to ZionSolutions. At no point will the payable to ZionSolutions exceed the project budget of the costs remaining to decommission Zion Station. Generation has retained its obligation for the SNF. Following ZionSolutions' completion of its contractual obligations and transfer of the NRC license to Generation, Generation will store the SNF at Zion Station until it is transferred to the DOE for ultimate disposal, and will complete all remaining decommissioning activities associated with the SNF dry storage facility. Generation has a liability of approximately $114 million, which is included within the nuclear decommissioning ARO at December 31, 2017. Generation also has retained NDT assets to fund its obligation to maintain the SNF at Zion Station until transfer to the DOE and to complete all remaining decommissioning activities for the SNF storage facility. Any shortage of funds necessary to maintain the SNF and decommission the SNF storage facility is ultimately required to be funded by Generation. Any Zion Station NDT funds remaining after the completion of all decommissioning activities will be returned to ComEd customers in accordance with the applicable orders. The following table provides the pledged assets and payables to ZionSolutions, and withdrawals by ZionSolutions at December 31, 2017 and 2016:

	Exelon and Generation	
	2017	2016
Carrying value of Zion Station pledged assets [a]	$ 39	$ 113
Payable to Zion Solutions [b]	37	104
Current portion of payable to Zion Solutions [c]	37	90
Cumulative withdrawals by Zion Solutions to pay decommissioning costs [d]	942	878

(a) Included in Other current assets within Exelon's and Generation's Consolidated Balance Sheets in 2017.

(b) Excludes a liability recorded within Exelon's and Generation's Consolidated Balance Sheets related to the tax obligation on the unrealized activity associated with the Zion Station NDT Funds. The NDT Funds will be utilized to satisfy the tax obligations as gains and losses are realized.

(c) Included in Other current liabilities within Exelon's and Generation's Consolidated Balance Sheets.

(d) Includes project expenses to decommission Zion Station and estimated tax payments on Zion Station NDT fund earnings.

ZionSolutions leased the land associated with Zion Station from Generation pursuant to a Lease Agreement. Under the Lease Agreement, ZionSolutions has committed to complete the required decommissioning work according to an established schedule and constructed a dry cask storage facility on the land and has loaded the SNF from the SNF pools onto the dry cask storage facility at Zion Station.

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Rent payable under the Lease Agreement is $1.00 per year, although the Lease Agreement requires ZionSolutions to pay property taxes associated with Zion Station and penalty rents may accrue if there are unexcused delays in the progress of decommissioning work at Zion Station or the construction of the dry cask SNF storage facility. To reduce the risk of default by ZionSolutions, EnergySolutions provided a $200 million letter of credit to be used to fund decommissioning costs in the event the NDT assets are insufficient. In accordance with the terms of the ASA, the letter of credit was reduced to $98 million in August 2017 due to the completion of key decommissioning milestones. EnergySolutions and its parent company have also provided a performance guarantee and EnergySolutions has entered into other agreements that will provide rights and remedies for Generation and the NRC in the case of other specified events of default, including a special purpose easement for disposal capacity at the EnergySolutions site in Clive, Utah, for all LLRW volume of Zion Station.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in specified minimum amounts to decommission the facility at the end of its life. The estimated decommissioning obligations as calculated using the NRC methodology differ from the ARO recorded on Generation’s and Exelon’s Consolidated Balance Sheets primarily due to differences in the type of costs included in the estimates, the basis for estimating such costs, and assumptions regarding the decommissioning alternatives to be used, potential license renewals, decommissioning cost escalation, and the growth rate in the NDT funds. Under NRC regulations, if the minimum funding requirements calculated under the NRC methodology are less than the future value of the NDT funds, also calculated under the NRC methodology, then the NRC requires either further funding or other financial guarantees.

Key assumptions used in the minimum funding calculation using the NRC methodology at December 31, 2017 include: (1) consideration of costs only for the removal of radiological contamination at each unit; (2) the option on a unit-by-unit basis to use generic, non-site specific cost estimates; (3) consideration of only one decommissioning scenario for each unit; (4) the plants cease operation at the end of their current license lives (with no assumed license renewals for those units that have not already received renewals and with an assumed end-of-operations date of 2018 for Oyster Creek and 2019 for TMI); (5) the assumption of current nominal dollar cost estimates that are neither escalated through the anticipated period of decommissioning, nor discounted using the CARFR; and (6) assumed annual after-tax returns on the NDT funds of 2% (3% for the former PECO units, as specified by the PAPUC).

In contrast, the key criteria and assumptions used by Generation to determine the ARO and to forecast the target growth in the NDT funds at December 31, 2017 include: (1) the use of site specific cost estimates that are updated at least once every five years; (2) the inclusion in the ARO estimate of all legally unavoidable costs required to decommission the unit (e.g., radiological decommissioning and full site restoration for certain units, on-site spent fuel maintenance and storage subsequent to ceasing operations and until DOE acceptance, and disposal of certain low-level radioactive waste); (3) the consideration of multiple scenarios where decommissioning and site restoration activities, as applicable, are completed under four possible scenarios ranging from 10 to 70 years after the cessation of plant operations; (4) the consideration of multiple end of life scenarios; (5) the measurement of the obligation at the present value of the future estimated costs and an annual average accretion of the ARO of approximately 5% through a period of approximately 30 years after the end of the extended lives of the units; and (6) an estimated targeted annual pre-tax return on the NDT funds of 4.8% to 6.4% (as compared to a historical 5-year annual average pre-tax return of approximately 8%).

Generation is required to provide to the NRC a biennial report by unit (annually for units that have been retired or are within five years of the current approved license life), based on values as of December 31, addressing Generation’s ability to meet the NRC minimum funding levels. Depending on the value of the trust funds, Generation may be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional contributions to the trusts, which could be significant, to ensure that the trusts are adequately funded and that NRC minimum funding requirements are met. As a result, Exelon's and Generation's cash flows and financial positions may be significantly adversely affected.

Generation filed its biennial decommissioning funding status report with the NRC on March 31, 2017 for all units except for Zion Station which is included in a separate report to the NRC submitted by ZionSolutions (see Zion Station Decommissioning above) and FitzPatrick which is still owned by Entergy as of the NRC reporting period. This status report demonstrated adequate decommissioning funding assurance for all units except for Peach Bottom Unit 1. As a former PECO plant, financial assurance for decommissioning Peach Bottom Unit 1 is provided by the NDT fund in addition to collections from PECO ratepayers. As discussed under Nuclear Decommissioning Trust Fund Investments above, the amount collected from PECO ratepayers has been adjusted in the March 31, 2017 filing to the PAPUC which was approved on August 8, 2017 and effective on January 1, 2018.

Generation will file its next decommissioning funding status report with the NRC by March 31, 2018 for shutdown reactors and reactors within five years of shutdown. This report will reflect the status of decommissioning funding assurance as of December 31, 2017 and will include the early retirement of TMI announced on May 30, 2017, in addition to an adjustment for the February 2, 2018 announced retirement date for Oyster Creek. A shortfall at any unit could necessitate that Exelon post a parental guarantee for Generation's share of the funding assurance. However, the amount of any required guarantee will ultimately depend on the decommissioning approach adopted, the associated level of costs, and the decommissioning trust fund investment performance going forward.

As the future values of trust funds change due to market conditions, the NRC minimum funding status of Generation's units will change. In addition, if changes occur to the regulatory agreement with the PAPUC that currently allows amounts to be collected from PECO customers for decommissioning the former PECO units, the NRC minimum funding status of those plants could change at subsequent NRC filing dates.

Non-Nuclear Asset Retirement Obligations (All Registrants)

Generation has AROs for plant closure costs associated with its fossil and renewable generating facilities, including asbestos abatement, removal of certain storage tanks, restoring leased land to the condition it was in prior to construction of renewable generating stations and other decommissioning-related activities. PHI and the Utility Registrants have AROs primarily associated with the abatement and disposal of equipment and buildings contaminated with asbestos and PCBs. See Note 1—Significant Accounting Policies for additional information on the Registrants' accounting policy for AROs.

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The following table provides a rollforward of the non-nuclear AROs reflected on the Registrants' Consolidated Balance Sheets from January 1, 2016 to December 31, 2017:

	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI[(g)]	Pepco	DPL	ACE
Non-nuclear AROs at January 1, 2016	$ 355	$ 197	$ 113	$ 27	$ 18	$ —	$ —	$ —	$ —
Merger with PHI[(a)]	8	1	—	—	—	—	—	—	—
Net increase due to changes in, and timing of, estimated future cash flows [(b)]	34	8	4	1	7	14	2	9	3
Development projects[(c)]	11	11	—	—	—	—	—	—	—
Accretion expense[(d)]	18	10	7	1	—	—	—	—	—
Sale of generating assets[(e)]	(22)	(22)	—	—	—	—	—	—	—
Payments	(11)	(6)	(3)	(1)	(1)	—	—	—	—
Non-nuclear AROs at December 31, 2016[(f)]	393	199	121	28	24	14	2	9	3
Net increase (decrease) due to changes in, and timing of, estimated future cash flows[(b)]	(11)	(1)	(13)	(1)	2	2	1	1	—
Development projects[(c)]	1	1	—	—	—	—	—	—	—
Accretion expense[(d)]	18	10	7	1	—	—	—	—	—
Deconsolidation of EGTP[(h)]	(7)	(7)	—	—	—	—	—	—	—
Payments	(10)	(5)	(2)	(1)	(2)	—	—	—	—
Non-nuclear AROs at December 31, 2017[(f)]	$ 384	$ 197	$ 113	$ 27	$ 24	$ 16	$ 3	$ 10	$ 3

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	Predecessor PHI[g] 2016
Non-nuclear AROs at January 1, 2016	$ 8
Accretion expense	—
Non-nuclear AROs at March 23, 2016	$ 8

(a) Following the completion of the PHI merger on March 23, 2016, PHI's AROs related to its unregulated business interests were transferred to Exelon and Generation.

(b) During the year ended December 31, 2017, ComEd recorded a decrease of $1 million in Operating and maintenance expense. Generation, PECO, BGE, Pepco, DPL and ACE did not record any adjustments in Operating and maintenance expense for the year ended December 31, 2017. During the year ended December 31, 2016, Generation recorded a increase of $1 million in Operating and maintenance expense. ComEd, PECO, BGE, Pepco, DPL and ACE did not record any adjustments in Operating and maintenance expense for the year ended December 31, 2016.

(c) Relates to new AROs recorded due to the construction of solar, wind and other non-nuclear generating sites.

(d) For ComEd, PECO and BGE, the majority of the accretion is recorded as an increase to a regulatory asset due to the associated regulatory treatment.

(e) Reflects a reduction to the ARO resulting primarily from the sales of the New Boston generating site and Upstream business in 2016. See Note 4—Mergers, Acquisitions and Dispositions for further information.

(f) Excludes the current portion of the ARO at December 31, 2017 for Generation, ComEd and BGE of $1 million, $2 million and $2 million, respectively. Excludes the current portion of the ARO at December 31, 2016 for Generation, ComEd and BGE of $1 million, $2 million and $3 million, respectively. This is included in Other current liabilities on the Registrants' respective Consolidated Balance Sheets.

(g) For PHI, the successor period includes activity for the year ended December 31, 2017 and the period of March 24, 2016 through December 31, 2016. The PHI predecessor periods include activity for the period of January 1, 2016 through March 23, 2016.

(h) See Note 4—Mergers, Acquisitions and Dispositions for additional information.

16. Retirement Benefits (All Registrants)

Exelon sponsors defined benefit pension plans and other postretirement benefit plans for essentially all current employees. Substantially all non-union employees and electing union employees hired on or after January 1, 2001 participate in cash balance pension plans. Effective January 1, 2009, substantially all newly-hired union-represented employees participate in cash balance pension plans. Effective February 1, 2018, most newly-hired Generation and BSC non-represented employees are not eligible for pension benefits, and will instead be eligible to receive an enhanced non-discretionary employer contribution in an Exelon defined contribution savings plan. Effective January 1, 2018, most newly-hired non-represented employees are not eligible for OPEB benefits and employees represented by Local 614 are not eligible for retiree health care benefits.

Effective March 23, 2016, Exelon became the sponsor of all of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets. As a result, PHI's benefit plan net obligation and related regulatory assets were transferred to Exelon.

The table below shows the pension and other postretirement benefit plans in which employees of each operating company participated at December 31, 2017:

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	Operating Company[e]								
Name of Plan:	**Generation**	**ComEd**	**PECO**	**BGE**	**BSC**	**PHI**	**Pepco**	**DPL**	**ACE**
Qualified Pension Plans:									
Exelon Corporation Retirement Program[a]	X	X	X	X	X				
Exelon Corporation Cash Balance Pension Plan[a]	X	X	X	X	X				
Exelon Corporation Pension Plan for Bargaining Unit Employees[a]	X	X			X				
Exelon New England Union Employees Pension Plan[a]	X								
Exelon Employee Pension Plan for Clinton, TMI and Oyster Creek[a]	X	X	X		X				
Pension Plan of Constellation Energy Group, Inc.[b]	X	X	X	X	X				
Pension Plan of Constellation Energy Nuclear Group, LLC[c]	X	X		X	X				
Nine Mile Point Pension Plan[c]	X				X				
Constellation Mystic Power, LLC Union Employees Pension Plan Including Plan A and Plan B[b]	X								
Pepco Holdings LLC Retirement Plan[d]	X					X	X	X	X
Non-Qualified Pension Plans:									
Exelon Corporation Supplemental Pension Benefit Plan and 2000 Excess Benefit Plan[a]	X	X	X		X				
Exelon Corporation Supplemental Management Retirement Plan[a]	X	X	X	X	X				
Constellation Energy Group, Inc. Senior Executive Supplemental Plan[b]	X			X	X				
Constellation Energy Group, Inc. Supplemental Pension Plan[b]	X			X	X				
Constellation Energy Group, Inc. Benefits Restoration Plan[b]	X	X		X	X				
Constellation Energy Nuclear Plan, LLC Executive Retirement Plan[c]	X				X				
Constellation Energy Nuclear Plan, LLC Benefits Restoration Plan[c]	X				X				
Baltimore Gas & Electric Company Executive Benefit Plan[b]	X			X	X				
Baltimore Gas & Electric Company Manager Benefit Plan[b]	X	X		X	X				
Pepco Holdings LLC 2011 Supplemental Executive Retirement Plan[d]	X					X	X	X	X
Conectiv Supplemental Executive Retirement Plan [d]	X					X		X	X
Pepco Holdings LLC Combined Executive Retirement Plan [d]	X					X	X		

Atlantic City Electric Director Retirement Plan (d)	X

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	Operating Company[(e)]								
Name of Plan:	Generation	ComEd	PECO	BGE	BSC	PHI	Pepco	DPL	ACE
Other Postretirement Benefit Plans:									
PECO Energy Company Retiree Medical Plan[(a)]	X	X	X	X	X				
Exelon Corporation Health Care Program[(a)]	X	X	X	X	X				
Exelon Corporation Employees' Life Insurance Plan[(a)]	X	X	X	X	X				
Exelon Corporation Health Reimbursement Arrangement Plan[(a)]	X	X	X	X	X				
Constellation Energy Group, Inc. Retiree Medical Plan[(b)]	X	X	X	X	X				
Constellation Energy Group, Inc. Retiree Dental Plan[(b)]	X			X	X				
Constellation Energy Group, Inc. Employee Life Insurance Plan and Family Life Insurance Plan[(b)]	X	X	X	X	X				
Constellation Mystic Power, LLC Post-Employment Medical Account Savings Plan[(b)]	X								
Exelon New England Union Post-Employment Medical Savings Account Plan[(a)]	X								
Retiree Medical Plan of Constellation Energy Nuclear Group LLC[(c)]	X			X	X				
Retiree Dental Plan of Constellation Energy Nuclear Group LLC[(c)]	X			X	X				
Nine Mile Point Nuclear Station, LLC Medical Care and Prescription Drug Plan for Retired Employees[(c)]	X				X				
Pepco Holdings LLC Welfare Plan for Retirees[(d)]	X					X	X	X	X

(a) These plans are collectively referred to as the legacy Exelon plans.
(b) These plans are collectively referred to as the legacy Constellation Energy Group (CEG) Plans.
(c) These plans are collectively referred to as the legacy CENG plans.
(d) These plans are collectively referred to as the legacy PHI plans.
(e) Employees generally remain in their legacy benefit plans when transferring between operating companies.

Exelon's traditional and cash balance pension plans are intended to be tax-qualified defined benefit plans. Exelon has elected that the trusts underlying these plans be treated as qualified trusts under the IRC. If certain conditions are met, Exelon can deduct payments made to the qualified trusts, subject to certain IRC limitations.

Benefit Obligations, Plan Assets and Funded Status

Exelon recognizes the overfunded or underfunded status of defined benefit pension and OPEB plans as an asset or liability on its balance sheet, with offsetting entries to AOCI and regulatory assets (liabilities), in accordance with the applicable authoritative guidance. The measurement date for the plans is December 31.

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During the first quarter of 2017, Exelon received an updated valuation of its pension and other postretirement benefit obligations to reflect actual census data as of January 1, 2017. This valuation resulted in an increase to the pension obligation of $92 million and an increase to the other postretirement benefit obligation of $57 million. Additionally, accumulated other comprehensive loss increased by approximately $59 million (after tax), regulatory assets increased by approximately $57 million and regulatory liabilities increased by approximately $4 million.

In connection with the acquisition of FitzPatrick in the first quarter of 2017, Exelon recorded pension and OPEB obligations for FitzPatrick employees of $16 million and $17 million, respectively. Refer to Note 4 — Mergers, Acquisitions and Dispositions for additional discussion of the acquisition of FitzPatrick.

The following tables provide a rollforward of the changes in the benefit obligations and plan assets for the most recent two years for all plans combined:

	Pension Benefits		**Other Postretirement Benefits**	
Exelon	**2017**	**2016[(a)]**	**2017**	**2016[(a)]**
Change in benefit obligation:				
Net benefit obligation at beginning of year	$ 21,060	$ 17,753	$ 4,457	$ 3,938
Service cost	387	354	106	107
Interest cost	842	830	182	185
Plan participants' contributions	—	—	53	54
Actuarial loss (gain)	1,182	567	350	(136)
Plan amendments	9	(60)	—	—
Acquisitions/divestitures[(b)]	16	2,667	17	589
Settlements	(34)	—	—	—
Gross benefits paid	(1,125)	(1,051)	(309)	(280)
Net benefit obligation at end of year	$ 22,337	$ 21,060	$ 4,856	$ 4,457

	Pension Benefits		**Other Postretirement Benefits**	
Exelon	**2017**	**2016[(a)]**	**2017**	**2016[(a)]**
Change in plan assets:				
Fair value of net plan assets at beginning of year	$ 16,791	$ 14,347	$ 2,578	$ 2,293
Actual return on plan assets	2,600	1,061	346	128
Employer contributions	341	347	64	50
Plan participants' contributions	—	—	53	54
Gross benefits paid	(1,125)	(1,051)	(309)	(280)
Acquisitions/divestitures[(b)]	—	2,087	—	333
Settlements	(34)	—	—	—
Fair value of net plan assets at end of year	$ 18,573	$ 16,791	$ 2,732	$ 2,578

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	Predecessor	
	Pension Benefits	**Other Postretirement Benefits**
PHI	**January 1, 2016 to March 23, 2016**	**January 1, 2016 to March 23, 2016**
Change in benefit obligation:		
Net benefit obligation at beginning of the period	$ 2,490	$ 563
Service cost	12	1
Interest cost	26	6
Actuarial (gain) loss	(30)	(5)
Gross benefits paid	(2)	(1)
Net benefit obligation at end of the period	$ 2,496	$ 564

	Predecessor	
	Pension Benefits	**Other Postretirement Benefits**
PHI	**January 1, 2016 to March 23, 2016**	**January 1, 2016 to March 23, 2016**
Change in plan assets:		
Fair value of net plan assets at beginning of the period	$ 2,018	$ 348
Employer and plan participant contributions	4	1
Gross benefits paid by plan	(2)	(1)
Fair value of net plan assets at end of the period	$ 2,020	$ 348

(a) 2016 amounts include PHI for the period of March 24, 2016 through December 31, 2016.
(b) Exelon recorded pension and OPEB obligations associated with its acquisition of Fitzpatrick on March 31, 2017. Effective March 23, 2016, Exelon became the sponsor of PHI's defined benefit pension and other postretirement benefit plans.

Exelon presents its benefit obligations and plan assets net on its balance sheet within the following line items:

	Pension Benefits		**Other Postretirement Benefits**	
Exelon	**2017**	**2016[(a)]**	**2017**	**2016[(a)]**
Other current liabilities	$ 28	$ 21	$ 31	$ 31
Pension obligations	3,736	4,248	—	—
Non-pension postretirement benefit obligations	—	—	2,093	1,848
Unfunded status (net benefit obligation less plan assets)	$ 3,764	$ 4,269	$ 2,124	$ 1,879

(a) Effective March 23, 2016, Exelon became the sponsor of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets.

The funded status of the pension and other postretirement benefit obligations refers to the difference between plan assets and estimated obligations of the plan. The funded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

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The following tables provide the projected benefit obligations (PBO), accumulated benefit obligation (ABO), and fair value of plan assets for all pension plans with a PBO or ABO in excess of plan assets.

PBO in excess of plan assets

	Exelon	
	2017	**2016**
Projected benefit obligation	$ 22,337	$ 21,060
Fair value of net plan assets	18,573	16,791

ABO in excess of plan assets

	Exelon	
	2017	**2016**
Projected benefit obligation	$ 22,337	$ 21,060
Accumulated benefit obligation	21,153	19,930
Fair value of net plan assets	18,573	16,791

On a PBO basis, the Exelon plans were funded at 83% and 80% at December 31, 2017 and 2016, respectively. On an ABO basis, the Exelon plans were funded at 88% and 84% at December 31, 2017 and 2016, respectively. The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

Components of Net Periodic Benefit Costs

The majority of the 2017 pension benefit cost for the Exelon-sponsored plans is calculated using an expected long-term rate of return on plan assets of 7.00% and a discount rate of 4.04%. The majority of the 2017 other postretirement benefit cost is calculated using an expected long-term rate of return on plan assets of 6.58% for funded plans and a discount rate of 4.04%.

A portion of the net periodic benefit cost for all plans is capitalized within the Consolidated Balance Sheets. The following tables present the components of Exelon's net periodic benefit costs, prior to capitalization, for the years ended December 31, 2017, 2016 and 2015 and PHI's net periodic benefit costs, prior to capitalization, for the predecessor period of January 1, 2016 to March 23, 2016.

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Exelon	Pension Benefits 2017[(a)]	Pension Benefits 2016[(b)]	Pension Benefits 2015	Other Postretirement Benefits 2017[(a)]	Other Postretirement Benefits 2016[(b)]	Other Postretirement Benefits 2015
Components of net periodic benefit cost:						
Service cost	$ 387	$ 354	$ 326	$ 106	$ 107	$ 119
Interest cost	842	830	710	182	185	167
Expected return on assets	(1,196)	(1,141)	(1,026)	(162)	(162)	(151)
Amortization of:						
Prior service cost (credit)	1	14	13	(188)	(185)	(174)
Actuarial loss	607	554	571	61	63	80
Settlement and other charges[(c)]	3	2	2	—	—	—
Net periodic benefit cost	$ 644	$ 613	$ 596	$ (1)	$ 8	$ 41

(a) FitzPatrick net benefit costs are included for the period after acquisition.
(b) PHI net periodic benefit costs for the period prior to the merger are not included in the table above.
(c) 2016 amount includes an additional termination benefit for PHI.

	Predecessor			
	Pension Benefits		Other Postretirement Benefits	
PHI	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
Components of net periodic benefit cost:				
Service cost	$ 12	$ 57	$ 1	$ 7
Interest cost	26	109	6	24
Expected return on assets	(30)	(140)	(5)	(22)
Amortization of:				
Prior service cost (credit)	—	2	(3)	(13)
Actuarial loss	14	65	2	8
Net periodic benefit cost	$ 22	$ 93	$ 1	$ 4

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Components of AOCI and Regulatory Assets

Under the authoritative guidance for regulatory accounting, a portion of current year actuarial gains and losses and prior service costs (credits) is capitalized within Exelon's Consolidated Balance Sheets to reflect the expected regulatory recovery of these amounts, which would otherwise be recorded to AOCI. The following tables provide the components of AOCI and regulatory assets (liabilities) for the years ended December 31, 2017, 2016 and 2015 for all plans combined and the components of PHI's predecessor AOCI and regulatory assets (liabilities) for the period January 1, 2016 to March 23, 2016.

	Pension Benefits			Other Postretirement Benefits		
Exelon	**2017**	**2016[(a)]**	**2015**	**2017**	**2016[(a)]**	**2015**
Changes in plan assets and benefit obligations recognized in AOCI and regulatory assets (liabilities):						
Current year actuarial (gain) loss	$ (222)	$ 644	$ 476	$ 166	$ (101)	$ (194)
Amortization of actuarial loss	(607)	(554)	(571)	(61)	(63)	(80)
Current year prior service cost (credit)	9	(60)	—	—	—	(23)
Amortization of prior service (cost) credit	(1)	(14)	(13)	188	185	174
Settlements	(3)	—	(2)	—	—	—
Acquisitions	—	994	—	—	94	—
Total recognized in AOCI and regulatory assets (liabilities)	$ (824)	$ 1,010	$ (110)	$ 293	$ 115	$ (123)
Total recognized in AOCI	$ (401)	$ 51	$ (64)	$ 168	$ 20	$ (63)
Total recognized in regulatory assets (liabilities)	$ (423)	$ 959	$ (46)	$ 125	$ 95	$ (60)

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	Predecessor			
	Pension Benefits		**Other Postretirement Benefits**	
PHI	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
Changes in plan assets and benefit obligations recognized in AOCI and regulatory assets (liabilities):				
Current year actuarial loss (gain)	$ —	$ 50	$ —	$ (39)
Amortization of actuarial loss	(14)	(65)	(2)	(8)
Amortization of prior service (cost) credit	—	(2)	3	13
Total recognized in AOCI and regulatory assets (liabilities)	$ (14)	$ (17)	$ 1	$ (34)
Total recognized in AOCI	$ (1)	$ (11)	$ —	$ —
Total recognized in regulatory assets (liabilities)	$ (13)	$ (6)	$ 1	$ (34)

(a) 2016 amounts include PHI for the period of March 24, 2016 through December 31, 2016.

The following table provides the components of gross accumulated other comprehensive loss and regulatory assets (liabilities) that have not been recognized as components of periodic benefit cost at December 31, 2017 and 2016, respectively, for all plans combined:

	Exelon		**Exelon**	
	Pension Benefits		**Other Postretirement Benefits**	
	2017	**2016[(a)]**	**2017**	**2016[(a)]**
Prior service (credit) cost	$ (24)	$ (31)	$ (522)	$ (710)
Actuarial loss	7,556	8,387	829	724
Total [(a)]	$ 7,532	$ 8,356	$ 307	$ 14
Total included in AOCI	$ 3,896	$ 4,297	$ 125	$ (42)
Total included in regulatory assets (liabilities)	$ 3,636	$ 4,059	$ 182	$ 56

(a) Effective March 23, 2016, Exelon became the sponsor of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets.

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The following table provides the impact to Exelon's AOCI and regulatory assets (liabilities) at December 31, 2017 as a result of the components of periodic benefit costs that are expected to be amortized in 2018. These estimates are subject to the completion of an actuarial valuation of Exelon's pension and other postretirement benefit obligations, which will reflect actual census data as of January 1, 2018 and actual claims activity as of December 31, 2017. The valuation is expected to be completed in the first quarter of 2018 for the majority of the benefit plans.

	Pension Benefits	Other Postretirement Benefits
Prior service cost (credit)	$ 2	$ (186)
Actuarial loss	640	66
Total [(a)]	$ 642	$ (120)

(a) Of the $642 million related to pension benefits at December 31, 2017, $317 million and $325 million are expected to be amortized from AOCI and regulatory assets in 2018, respectively. Of the $(120) million related to other postretirement benefits at December 31, 2017, $(65) million and $(55) million are expected to be amortized from AOCI and regulatory assets (liabilities) in 2018, respectively.

Average Remaining Service Period

For pension benefits, Exelon amortizes its unrecognized prior service costs and certain actuarial gains and losses, as applicable, based on participants' average remaining service periods. The average remaining service period of Exelon's defined benefit pension plan participants was 11.8 years, 11.9 years and 11.9 years for the years ended December 31, 2017, 2016 and 2015, respectively. For the predecessor period, the average remaining service period of PHI's defined benefit plans was approximately 11 years for the year ended December 31, 2015.

For other postretirement benefits, Exelon amortizes its unrecognized prior service costs over participants' average remaining service period to benefit eligibility age and amortizes certain actuarial gains and losses over participants' average remaining service period to expected retirement. The average remaining service period of postretirement benefit plan participants related to benefit eligibility age was 8.2 years, 9.0 years and 10.8 years for the years ended December 31, 2017, 2016 and 2015, respectively. The average remaining service period of postretirement benefit plan participants related to expected retirement was 9.6 years, 9.7 years and 9.7 years for the years ended December 31, 2017, 2016 and 2015, respectively. For the predecessor period, the average remaining service period of PHI's other postretirement benefit plans was approximately 11 years for the year ended December 31, 2015.

Assumptions

The measurement of the plan obligations and costs of providing benefits under Exelon's defined benefit and other postretirement plans involves various factors, including the development of valuation assumptions and inputs and accounting policy elections. The measurement of benefit obligations and costs is impacted by several assumptions and inputs, including the discount rate applied to benefit obligations, the long-term EROA, Exelon's expected level of contributions to the plans, the long-term expected investment rate credited to employees participating in cash balance plans and the anticipated rate of increase of health care costs. Additionally, assumptions related to plan participants include the incidence of mortality, the expected remaining service period, the level of compensation and rate of compensation increases, employee age and length of service, among other factors. When developing the required assumptions, Exelon considers historical information as well as future expectations.

Expected Rate of Return. In selecting the EROA, Exelon considers historical economic indicators (including inflation and GDP growth) that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by Exelon’s target asset class allocations.

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Mortality. For the December 31, 2014 actuarial valuation, Exelon changed its assumption of mortality to reflect more recent expectations of future improvements in life expectancy. The change was supported through completion of an experience study and supplemental analyses performed by Exelon’s actuaries. There were no changes to the mortality assumption in 2015, 2016 or 2017.

The following assumptions were used to determine the benefit obligations for the plans at December 31, 2017, 2016 and 2015. Assumptions used to determine year-end benefit obligations are the assumptions used to estimate the subsequent year’s net periodic benefit costs.

	Pension Benefits			**Other Postretirement Benefits**		
Exelon	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Discount rate	3.62% (a)	4.04% (b)	4.29% (c)	3.61% (a)	4.04% (b)	4.29% (c)
Rate of compensation increase	(d)	(e)	(e)	(d)	(e)	(e)
Mortality table	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)
Health care cost trend on covered charges	N/A	N/A	N/A	5.00% with ultimate trend of 5.00% in 2017	5.00% with ultimate trend of 5.00% in 2017	5.50% decreasing to ultimate trend of 5.00% in 2017

	Predecessor		*Predecessor*	
	Pension Benefits		**Other Postretirement Benefits**	
PHI	**January 1, 2016 to March 23, 2016(f)**	**2015**	**January 1, 2016 to March 23, 2016(e)**	**2015**
Discount rate		4.65%/4.55% (g)		4.55%
Rate of compensation increase		5.00%		5.00%
Mortality table		RP-2014 table with improvement scale MP-2015		RP-2014 table with improvement scale MP-2015
Health care cost trend on covered charges		N/A		6.33% pre-65 and 5.40% post-65 decreasing to ultimate trend of 5.00% in 2020

(a) The discount rates above represent the blended rates used to determine the majority of Exelon’s pension and other postretirement benefits obligations as of December 31, 2017. Certain benefit plans used individual rates ranging from 3.49% - 3.65% and 3.57% - 3.68% for pension and other postretirement plans, respectively.

(b) The discount rates above represent the blended rates used to determine the majority of Exelon’s pension and other postretirement benefits obligations as of December 31, 2016. Certain benefit plans used individual rates ranging from 3.66% - 4.11% and 4.00% - 4.17% for pension and other postretirement plans, respectively.

(c) The discount rates above represent the blended rates used to determine the majority of Exelon’s pension and other postretirement benefits obligations as of December 31, 2015. Certain benefit plans used individual rates ranging from 3.68% - 4.14% and 4.32% - 4.43% for pension and other postretirement plans, respectively.

(d) 3.25% through 2019 and 3.75% thereafter.

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(e) The legacy Exelon, CEG and CENG pension and other postretirement plans used a rate of compensation increase of 3.25% through 2019 and 3.75% thereafter, while the legacy PHI pension and other postretirement plans used a weighted-average rate of compensation increase of 5% for all periods.
(f) Obligation was not remeasured during this period.
(g) The discount rate for the qualified and non-qualified pension plans was 4.65% and 4.55%, respectively.

The following assumptions were used to determine the net periodic benefit costs for the plans for the years ended December 31, 2017, 2016 and 2015, as well as for the PHI predecessor period January 1, 2016 to March 23, 2016:

	Pension Benefits			Other Postretirement Benefits		
Exelon	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Discount rate	4.04% [a]	4.29% [b]	3.94% [c]	4.04% [a]	4.29% [b]	3.92% [c]
Expected return on plan assets	7.00% [d]	7.00% [d]	7.00% [d]	6.58% [d]	6.71% [d]	6.50% [d]
Rate of compensation increase	[e]	[e]	[e]	[e]	[e]	[e]
Mortality table	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)	RP-2000 table projected to 2012 with improvement scale AA, with Scale BB-2D improvements (adjusted)
Health care cost trend on covered charges	N/A	N/A	N/A	5.00% decreasing to ultimate trend of 5.00% in 2017	5.50% decreasing to ultimate trend of 5.00% in 2017	6.00% decreasing to ultimate trend of 5.00% in 2017

	Predecessor		*Predecessor*	
	Pension Benefits		**Other Postretirement Benefits**	
PHI	**January 1, 2016 to March 23, 2016**	**2015**	**January 1, 2016 to March 23, 2016**	**2015**
Discount rate	4.65%/4.55% [f]	4.20%	4.55%	4.15%
Expected return on plan assets[g]	6.50%	6.50%	6.75%	6.75%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%
Mortality table	RP-2014 table with improvement scale MP-2015	RP-2014 table with improvement scale MP-2014	RP-2014 table with improvement scale MP-2015	RP-2014 table with improvement scale MP-2014
Health care cost trend on covered charges	N/A	N/A	6.33% pre-65 and 5.40% post-65 decreasing to ultimate trend of 5.00% in 2020	6.67% pre-65 and 5.50% post-65 decreasing to ultimate trend of 5.00% in 2020

(a) The discount rates above represent the blended rates used to establish the majority of Exelon's pension and other postretirement benefits costs for the year ended December 31, 2017. Certain benefit plans used individual rates ranging from 3.66%-4.11% and 4.00%-4.17% for pension and other postretirement plans, respectively.
(b) The discount rates above represent the blended rates used to establish the majority of Exelon's pension and other postretirement benefits costs for the year ended December 31, 2016. Certain benefit plans used individual rates ranging from 3.68%-4.14% and 4.32%-4.43% for pension and other postretirement plans, respectively.
(c) The discount rates above represent the blended rates used to establish the majority of Exelon's pension and other postretirement benefits costs for the year ended December 31, 2015. Certain benefit plans used the individual rates ranging from 3.29%-3.82% and 3.99%-4.06% for pension and other postretirement plans, respectively.

(d) Not applicable to pension and other postretirement benefit plans that do not have plan assets.

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(e) The legacy Exelon, CEG and CENG pension and other postretirement plans used a rate of compensation increase of 3.25% through 2019 and 3.75% thereafter, while the legacy PHI pension and other postretirement plans used a weighted-average rate of compensation increase of 5% for all periods.
(f) The discount rate for the qualified and non-qualified pension plans was 4.65% and 4.55%, respectively.
(g) Expected return on other postretirement benefit plan assets is pre-tax.

Assumed health care cost trend rates impact the other postretirement benefit plan costs reported for Exelon's participant populations with plan designs that do not have a cap on cost growth. A one percentage point change in assumed health care cost trend rates would have the following effects:

Effect of a one percentage point increase in assumed health care cost trend:	
on 2017 total service and interest cost components	$ 9
on postretirement benefit obligation at December 31, 2017	125
Effect of a one percentage point decrease in assumed health care cost trend:	
on 2017 total service and interest cost components	(8)
on postretirement benefit obligation at December 31, 2017	(113)

Contributions

The following tables provide contributions to the pension and other postretirement benefit plans:

	Pension Benefits			Other Postretirement Benefits		
	2017[(a)]	2016[(a)]	2015[(a)]	2017	2016	2015
Exelon	$ 341	$ 347	$ 462	$ 64	$ 50	$ 40
Generation	137	140	231	11	12	14
ComEd	36	33	143	5	5	7
PECO	24	30	40	—	—	—
BGE	39	31	1	14	18	16
BSC[(b)]	38	39	47	2	3	3
Pepco	62	24	—	10	8	2
DPL	—	22	—	2	—	—
ACE	—	15	—	20	2	3
PHISCO [(c)]	5	17	—	—	2	—

	Pension Benefits				Other Postretirement Benefits			
	Successor		*Predecessor*		*Successor*		*Predecessor*	
	2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015	2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI	$ 67	$ 74	$ 4	$ —	$ 32	$ 12	$ —	$ 5

(a) Exelon's and Generation's pension contributions include $21 million, $25 million and $36 million related to the legacy CENG plans that was funded by CENG as provided in an Employee Matters Agreement (EMA) between Exelon and CENG for the years ended December 31, 2017, 2016 and 2015, respectively.
(b) Includes $4 million, $6 million, and $5 million of pension contributions funded by Exelon Corporate, for the years ended December 31, 2017, 2016, and 2015, respectively.
(c)

PHISCO’s pension contributions for the year ended December 31, 2016 include $4 million of contributions made prior to the closing of Exelon’s merger with PHI on March 23, 2016.

Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006 (the Act),

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management of the pension obligation and regulatory implications. The Act requires the attainment of certain funding levels to avoid benefit restrictions (such as an inability to pay lump sums or to accrue benefits prospectively), and at-risk status (which triggers higher minimum contribution requirements and participant notification). The projected contributions below reflect a funding strategy of contributing the greater of (1) $300 million (which has been updated for the inclusion of PHI) until the qualified plans are fully funded on an ABO basis, and (2) the minimum amounts under ERISA to avoid benefit restrictions and at-risk status. This level funding strategy helps minimize volatility of future period required pension contributions. Unlike the qualified pension plans, Exelon's non-qualified pension plans are not funded, given that they are not subject to statutory minimum contribution requirements.

While other postretirement plans are also not subject to statutory minimum contribution requirements, Exelon does fund certain of its plans. For Exelon's funded OPEB plans, contributions generally equal accounting costs, however, Exelon's management has historically considered several factors in determining the level of contributions to its other postretirement benefit plans, including liabilities management, levels of benefit claims paid and regulatory implications (amounts deemed prudent to meet regulatory expectations and best assure continued rate recovery). The amounts below include benefit payments related to unfunded plans.

The following table provides all registrants' planned contributions to the qualified pension plans, planned benefit payments to non-qualified pension plans, and planned contributions to other postretirement plans in 2018:

	Qualified Pension Plans	Non-Qualified Pension Plans	Other Postretirement Benefits
Exelon	$ 301	$ 30	$ 42
Generation	119	11	13
ComEd	38	2	3
PECO	17	1	—
BGE	41	1	16
BSC	36	7	1
PHI	50	8	9
Pepco	4	2	8
DPL	—	1	—
ACE	6	—	—
PHISCO	40	5	1

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Estimated Future Benefit Payments

Estimated future benefit payments to participants in all of the pension plans and postretirement benefit plans at December 31, 2017 were:

	Pension Benefits	Other Postretirement Benefits
2018	$ 1,166	$ 256
2019	1,165	262
2020	1,210	270
2021	1,236	276
2022	1,265	284
2023 through 2027	6,671	1,509
Total estimated future benefit payments through 2027	$ 12,713	$ 2,857

Allocation to Exelon Subsidiaries

All registrants account for their participation in Exelon's pension and other postretirement benefit plans by applying multi-employer accounting. Employee-related assets and liabilities, including both pension and postretirement liabilities, for the legacy Exelon plans were allocated by Exelon to its subsidiaries based on the number of active employees as of January 1, 2001 as part of Exelon's corporate restructuring. The obligation for Generation, ComEd and PECO reflects the initial allocation and the cumulative costs incurred and contributions made since January 1, 2001. Historically, Exelon has allocated the components of pension and other postretirement costs to the subsidiaries in the legacy Exelon plans based upon several factors, including the measures of active employee participation in each plan. Pension and other postretirement benefit contributions were allocated to legacy Exelon subsidiaries in proportion to active service costs recognized and total costs recognized, respectively. Beginning in 2015, Exelon began allocating costs related to its legacy Exelon pension and other postretirement benefit plans to its subsidiaries based on both active and retired employee participation and contributions are allocated based on accounting cost. The impact of this allocation methodology change was not material to any Registrant. For legacy CEG, legacy CENG, FitzPatrick, and legacy PHI plans, components of pension and other postretirement benefit costs and contributions have been, and will continue to be, allocated to the subsidiaries based on employee participation (both active and retired).

The amounts below were included in capital expenditures and operating and maintenance expense for the years ended December 31, 2017, 2016 and 2015, respectively, for each of the entities allocated portion of the pension and other postretirement benefit plan costs. These amounts include the recognized contractual termination benefit charges, curtailment gains, and settlement charges:

For the Years Ended December 31,	Exelon	Generation[(a)]	ComEd	PECO	BGE	BSC[(b)]	Pepco[(c)]	DPL[(c)]	ACE[(c)]	PHISCO[(c)(d)]
2017	$ 643	$ 227	$ 176	$ 29	$ 64	$ 53	$ 25	$ 13	$ 13	$ 43
2016	621	218	166	33	68	48	31	18	15	47
2015	637	269	206	39	66	57	30	15	15	37

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

PHI	*Successor* **For the Year Ended December 31, 2017**	*Successor* **March 24, 2016 to December 31, 2016**	*Predecessor* **January 1, 2016 to March 23, 2016**	*Predecessor* **For the Year Ended December 31, 2015**
Pension and Other Postretirement Benefit Costs	$ 94	$ 88	$ 23	$ 97

(a) FitzPatrick net benefit costs are included for the period after acquisition.

(b) These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These amounts are not included in the Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE amounts above.

(c) Pepco's, DPL's, ACE's and PHISCO's pension and postretirement benefit costs for the year ended December 31, 2016 include $7 million, $4 million, $3 million and $9 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016.

(d) These amounts represent amounts billed to Pepco, DPL and ACE through intercompany allocations. These amounts are not included in Pepco, DPL or ACE amounts above.

Plan Assets

Investment Strategy. On a regular basis, Exelon evaluates its investment strategy to ensure that plan assets will be sufficient to pay plan benefits when due. As part of this ongoing evaluation, Exelon may make changes to its targeted asset allocation and investment strategy.

Exelon has developed and implemented a liability hedging investment strategy for its qualified pension plans that has reduced the volatility of its pension assets relative to its pension liabilities. Exelon is likely to continue to gradually increase the liability hedging portfolio as the funded status of its plans improves. The overall objective is to achieve attractive risk-adjusted returns that will balance the liquidity requirements of the plans' liabilities while striving to minimize the risk of significant losses. Trust assets for Exelon's other postretirement plans are managed in a diversified investment strategy that prioritizes maximizing liquidity and returns while minimizing asset volatility.

Actual asset returns have an impact on the costs reported for the Exelon-sponsored pension and other postretirement benefit plans. The actual asset returns across Exelon's pension and other postretirement benefit plans for the year ended December 31, 2017 were 16.10% and 14.70%, respectively, compared to an expected long-term return assumption of 7.00% and 6.58%, respectively.

Exelon used an EROA of 7.00% and 6.60% to estimate its 2018 pension and other postretirement benefit costs, respectively.

Exelon's pension and other postretirement benefit plan target asset allocations at December 31, 2017 and 2016 asset allocations were as follows:

Pension Plans

		Exelon **Percentage of Plan Assets at December 31,**	
Asset Category	**Target Allocation**	**2017**	**2016**
Equity securities	35%	35%	33%

Fixed income securities	38%	39	39
Alternative investments[(a)]	27%	26	28
Total		100%	100%

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Other Postretirement Benefit Plans

		Exelon	
		Percentage of Plan Assets at December 31,	
Asset Category	**Target Allocation**	**2017**	**2016**
Equity securities	46%	47%	47%
Fixed income securities	28%	28	29
Alternative investments[(a)]	26%	25	24
Total		100%	100%

(a) Alternative investments include private equity, hedge funds, real estate, and private credit.

Concentrations of Credit Risk. Exelon evaluated its pension and other postretirement benefit plans' asset portfolios for the existence of significant concentrations of credit risk as of December 31, 2017. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, and individual fund. As of December 31, 2017, there were no significant concentrations (defined as greater than 10% of plan assets) of risk in Exelon's pension and other postretirement benefit plan assets.

Fair Value Measurements

The following tables present pension and other postretirement benefit plan assets measured and recorded at fair value on the Registrants' Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy at December 31, 2017 and 2016:

Exelon

December 31, 2017[(a)(b)]	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Pension plan assets					
Cash equivalents	$ 585	$ —	$ —	$ —	$ 585
Equities[(c)]	3,565	—	2	3,077	6,644
Fixed income:					
U.S. Treasury and agencies	1,150	159	—	—	1,309
State and municipal debt	—	64	—	—	64
Corporate debt	—	3,931	232	—	4,163
Other[(c)]	—	447	—	756	1,203
Fixed income subtotal	1,150	4,601	232	756	6,739
Private equity	—	—	—	1,034	1,034
Hedge funds	—	—	—	1,770	1,770
Real estate	—	—	—	884	884
Private credit	—	—	—	919	919
Pension plan assets subtotal	$ 5,300	$ 4,601	$ 234	$ 8,440	$18,575

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Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

December 31, 2017(a)(b)	Level 1	Level 2	Level 3	Not subject to leveling	Total
Other postretirement benefit plan assets					
Cash equivalents	$ 29	$ —	$ —	$ —	$ 29
Equities	523	2	—	764	1,289
Fixed income:					
U.S. Treasury and agencies	13	56	—	—	69
State and municipal debt	—	136	—	—	136
Corporate debt	—	47	—	—	47
Other	225	71	—	185	481
Fixed income subtotal	238	310	—	185	733
Hedge funds	—	—	—	430	430
Real estate	—	—	—	124	124
Private credit	—	—	—	123	123
Other postretirement benefit plan assets subtotal	$ 790	$ 312	$ —	$ 1,626	$ 2,728
Total pension and other postretirement benefit plan assets(d)	$ 6,090	$ 4,913	$ 234	$ 10,066	$ 21,303

December 31, 2016(a)(e)	Level 1	Level 2	Level 3	Not subject to leveling	Total
Pension plan assets					
Cash equivalents	$ 325	$ —	$ —	$ —	$ 325
Equities(c)	3,144	—	2	2,535	5,681
Fixed income:					
U.S. Treasury and agencies	1,008	192	—	—	1,200
State and municipal debt	—	64	—	—	64
Corporate debt	—	3,641	206	—	3,847
Other(c)	—	340	—	748	1,088
Fixed income subtotal	1,008	4,237	206	748	6,199
Private equity	—	—	—	991	991
Hedge funds	—	—	—	1,962	1,962
Real estate	—	—	—	828	828
Private credit	—	—	—	833	833
Pension plan assets subtotal	$ 4,477	$ 4,237	$ 208	$ 7,897	$ 16,819

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

December 31, 2016[(a)(e)]	Level 1	Level 2	Level 3	Not subject to leveling	Total
Other postretirement benefit plan assets					
Cash equivalents	$ 24	$ —	$ —	$ —	$ 24
Equities	547	2	—	644	1,193
Fixed income:					
U.S. Treasury and agencies	9	59	—	—	68
State and municipal debt	—	134	—	—	134
Corporate debt	—	43	—	—	43
Other	256	60	—	131	447
Fixed income subtotal	265	296	—	131	692
Hedge funds	—	—	—	445	445
Real estate	—	—	—	117	117
Private credit	—	—	—	107	107
Other postretirement benefit plan assets subtotal	$ 836	$ 298	$ —	$ 1,444	$ 2,578
Total pension and other postretirement benefit plan assets[(d)]	$ 5,313	$ 4,535	$ 208	$ 9,341	$ 19,397

(a) See Note 11—Fair Value of Financial Assets and Liabilities for a description of levels within the fair value hierarchy.

(b) Effective March 31, 2017, Exelon became sponsor of FitzPatrick's defined benefit pension and other postretirement benefit plans, and assumed FitzPatrick's benefit plan obligations.

(c) Includes derivative instruments of $6 million and $1 million, which have a total notional amount of $3,606 million and $2,918 million at December 31, 2017 and 2016, respectively. The notional principal amounts for these instruments provide one measure of the transaction volume outstanding as of the fiscal years ended and do not represent the amount of the company's exposure to credit or market loss.

(d) Excludes net assets of $2 million and net liabilities of $28 million at December 31, 2017 and 2016, respectively, which are required to reconcile to the fair value of net plan assets. These items consist primarily of receivables related to pending securities sales, interest and dividends receivable, and payables related to pending securities purchases.

(e) Effective March 23, 2016, Exelon became sponsor of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets.

The following table presents the reconciliation of Level 3 assets and liabilities measured at fair value for pension and other postretirement benefit plans for the years ended December 31, 2017 and 2016:

Exelon

	Fixed Income	Equities	Total
Pension Assets			
Balance as of January 1, 2017	$ 206	$ 2	$ 208
Actual return on plan assets:			
Relating to assets sold during the period	11	—	11
Purchases, sales and settlements:			
Purchases	31	—	31
Sales	(16)	—	(16)
Settlements[(a)]	—	—	—
Balance as of December 31, 2017	$ 232	$ 2	$ 234

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	Fixed income	Equities	Total
Pension Assets			
Balance as of January 1, 2016	$ 165	$ 2	$ 167
Actual return on plan assets:			
Relating to assets still held at the reporting date	(2)	—	(2)
Purchases, sales and settlements:			
Purchases	69	—	69
Sales	(14)	—	(14)
Settlements[(a)]	(12)	—	(12)
Balance as of December 31, 2016	$ 206	$ 2	$ 208

(a) Represents cash settlements only.

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2017 for the pension and other postretirement benefit plan assets.

Valuation Techniques Used to Determine Fair Value

Cash equivalents. Investments with original maturities of three months or less when purchased, including certain short-term fixed income securities and money market funds, are considered cash equivalents. The fair values are based on observable market prices and, therefore, are included in the recurring fair value measurements hierarchy as Level 1.

Equities. Equities consist of individually held equity securities, equity mutual funds and equity commingled funds in domestic and foreign markets. With respect to individually held equity securities, the trustees obtain prices from pricing services, whose prices are generally obtained from direct feeds from market exchanges, which Exelon is able to independently corroborate. Equity securities held individually, including real estate investment trusts, rights and warrants, are primarily traded on exchanges that contain only actively traded securities due to the volume trading requirements imposed by these exchanges. Equity securities are valued based on quoted prices in active markets and are categorized as Level 1. Certain private placement equity securities are categorized as Level 3 because they are not publicly traded and are priced using significant unobservable inputs.

Equity commingled funds and mutual funds are maintained by investment companies, and certain investments are held in accordance with a stated set of fund objectives, which are consistent with the plans' overall investment strategy. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For equity commingled funds and mutual funds which are not publicly quoted, the fund administrators value the funds using the NAV per fund share, derived from the quoted prices in active markets of the underlying securities and are not classified within the fair value hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Fixed income. For fixed income securities, which consist primarily of corporate debt securities, foreign government securities, municipal bonds, asset and mortgage-backed securities, commingled funds, mutual funds and derivative instruments, the trustees obtain multiple prices from pricing vendors whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. With respect to individually held fixed income securities, the trustees monitor prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and the trustees determine that another price source is considered to be preferable. Exelon has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, Exelon selectively corroborates the fair values of securities by comparison to other market-based price sources. Investments in U.S. Treasury securities have been categorized as Level 1 because they trade in highly-liquid and transparent markets. Certain private placement fixed income securities have been categorized as Level 3 because they are priced using certain significant unobservable inputs and are typically illiquid. The remaining fixed income securities, including certain other fixed income investments, are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences and are categorized as Level 2.

Other fixed income investments primarily consist of fixed income commingled funds and mutual funds, which are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with Exelon’s overall investment strategy. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For fixed income commingled funds and mutual funds which are not publicly quoted, the fund administrators value the funds using the NAV per fund share, derived from the quoted prices in active markets of the underlying securities and are not classified within the fair value hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Derivative instruments consisting primarily of futures and swaps to manage risk are recorded at fair value. Over-the-counter derivatives are valued daily based on quoted prices in active markets and trade in open markets, and have been categorized as Level 1. Derivative instruments other than over-the-counter derivatives are valued based on external price data of comparable securities and have been categorized as Level 2.

Private equity. Private equity investments include those in limited partnerships that invest in operating companies that are not publicly traded on a stock exchange such as leveraged buyouts, growth capital, venture capital, distressed investments and investments in natural resources. Private equity valuations are reported by the fund manager and are based on the valuation of the underlying investments, which include unobservable inputs such as cost, operating results, discounted future cash flows and market based comparable data. The fair value of private equity investments is determined using NAV or its equivalent as a practical expedient, and therefore, these investments are not classified within the fair value hierarchy.

Hedge funds. Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair value of hedge funds is determined using NAV or its equivalent as a practical expedient, and therefore, hedge funds are not classified within the fair value hierarchy. Exelon has the ability to redeem these investments at NAV or its equivalent subject to certain restrictions which may include a lock-up period or a gate.

Real estate. Real estate funds are funds with a direct investment in pools of real estate properties. These funds are valued by investment managers on a periodic basis using pricing models that use independent appraisals from sources with professional qualifications. These valuation inputs are not highly observable. The fair value of real estate investments is determined using NAV or its equivalent as a practical expedient, and therefore, these investments are not classified within the fair value hierarchy.

Private credit. Private credit investments primarily consist of limited partnerships that invest in private debt strategies. These investments are generally less liquid assets with an underlying term of 3 to 5 years and are intended to be held to maturity. The fair value of these investments is determined by the fund manager or administrator and include unobservable inputs such as cost, operating results, and discounted cash flows. The fair value of private credit investments is determined using NAV or its equivalent as a practical expedient, and therefore, these investments are not classified within the fair value hierarchy.

Defined Contribution Savings Plan (All Registrants)

The Registrants participate in various 401(k) defined contribution savings plans that are sponsored by Exelon. The plans are qualified under applicable sections of the IRC and allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. All Registrants match a percentage of the employee contributions up to certain limits. The following table presents matching contributions to the savings plan for the years ended December 31, 2017, 2016 and 2015:

For the Year Ended December 31,	Exelon[a]	Generation[a]	ComEd	PECO	BGE	BSC[b]	Pepco[c]	DPL[c]	ACE	PHISCO[c][d]
2017	$ 128	$ 55	$ 31	$ 10	$ 10	$ 9	$ 3	$ 2	$ 2	$ 6
2016	164	79	34	10	12	19	3	2	2	6
2015	148	80	32	11	14	11	3	2	2	6

	Successor		*Predecessor*	
PHI	**For the Year Ended December 31, 2017**	**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**	**For the Year Ended December 31, 2015**
Saving Plan Matching Contributions	$ 13	$ 10	$ 3	$ 14

(a) Includes $13 million and $9 million related to CENG for the years ended December 31, 2016 and December 31, 2015.

(b) These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These costs are not included in the Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE amounts above.

(c) Pepco's, DPL's and PHISCO's matching contributions include $1 million, $1 million and $1 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016, which is not included in Exelon's matching contributions for the year ended December 31, 2016.

(d) These amounts primarily represent amounts billed to Pepco, DPL, and ACE through intercompany allocations. These amounts are not included in Pepco, DPL or ACE amounts above.

17. Severance (All Registrants)

The Registrants have an ongoing severance plan under which, in general, the longer an employee worked prior to termination the greater the amount of severance benefits. The Registrants record a liability and expense or regulatory asset for severance once terminations are probable of occurrence and the related severance benefits can be reasonably estimated. For severance benefits that are incremental to its ongoing severance plan ("one-time termination benefits"), the Registrants measure the obligation and record the expense at fair value at the communication date if there are no future service requirements, or, if future service is required to receive the termination benefit, ratably over the required service period.

Ongoing Severance Plans

The Registrants provide severance and health and welfare benefits under Exelon's ongoing severance benefit plans to terminated employees in the normal course of business. These benefits are accrued for when the benefits are considered probable and can be reasonably estimated.

For the years ended December 31, 2017 and 2016, the Registrants recorded the following severance costs associated with ongoing severance benefits within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income:

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

						Successor			
	Exelon	**Generation(a)**	**ComEd(a)**	**PECO(a)**	**BGE(a)**	**PHI(a)**	**Pepco(a)**	**DPL(a)**	**ACE(a)**
Year ended December 31,									
2017	$ 14	$ 6	$ 3	$ 1	$ —	$ 4	$ 2	$ 1	$ 1
2016	19	13	3	1	1	1	—	—	—

(a) The amounts above for Generation, ComEd, PECO, BGE, and PHI include immaterial amounts billed by BSC for the years ended December 31, 2017 and 2016. Pepco, DPL, and ACE include immaterial amounts billed by PHISCO for the year ended December 31, 2017. Pepco, DPL, and ACE did not have any ongoing severance plans for the year ended December 31, 2016.

Cost Management Program-Related Severance

In August 2015, Exelon announced a cost management program focused on cost savings of approximately $400 million at BSC and Generation. Additionally, in November 2017, Exelon announced a new commitment for an additional $250 million of cost savings, primarily at Generation, to be achieved by 2020. These actions are in response to the continuing economic challenges confronting all parts of Exelon's business and industry, necessitating continued focus on cost management through enhanced efficiency and productivity. In connection with the program, certain positions have been identified for elimination and severance costs were recognized as both probable and estimable.

While there may be additional position eliminations identified leading to potential severance or other termination benefit changes, Exelon, Generation and BSC intend to manage any staff reductions through natural attrition to the extent possible to minimize impacts on employees. Any additional severance or other termination benefit charges related to this commitment will be recognized when such amounts are considered probable and can be reasonably estimated.

For the years ended December 31, 2017 and 2016, the Registrants recorded the following severance costs related to the cost management program within Operating and maintenance expense in their Consolidated Statements of Operations:

	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**
2017(a)	$ 6	$ 9	$ (1)	$ (1)	$ (1)
2016(b)	23	18	3	1	1

(a) The amounts for Generation, ComEd, PECO, and BGE include $(4) million, $(2) million, $(1) million, and $(1) million, respectively, for amounts billed by BSC through intercompany allocations for the year ended December 31, 2017.

(b) The amounts above for Generation, ComEd, PECO and BGE include $7 million, $3 million, $1 million, and $1 million, respectively, for amounts billed by BSC through intercompany allocations for the year ended December 31, 2016.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Early Plant Retirement-Related Severance (Exelon and Generation)

As a result of the Three Mile Island plant retirement decision, Exelon and Generation will incur certain employee-related costs, including severance benefit costs. Severance costs will be provided to management employees that are eligible under the Company's severance policy, to the extent that those employees are not redeployed to other locations. In June 2017, Exelon and Generation recognized severance costs of $17 million related to expected management employee severances resulting from the plant retirements within Operating and maintenance expense in their Consolidated Statements of Operation and Comprehensive Income. Approximately half of the employees at this location fall under a collective bargaining union agreement and are not eligible for severance benefits under an existing plan. The union and Exelon will negotiate terms of any severance benefits. If severance benefits are successfully negotiated, the amounts will be accrued as a one-time employee termination benefit once the established plan is communicated to employees. The final amount of the severance cost will ultimately depend on the specific employees severed. See Note 8 - Early Nuclear Plant Retirements for additional information regarding the announced early retirement of TMI. See Note 28 - Subsequent Events for additional information regarding the early retirement of Oyster Creek.

Severance Costs Related to the PHI Merger

Upon closing the PHI Merger, Exelon recorded a severance accrual for the anticipated employee position reductions as a result of the post-merger integration. Cash payments under the plan began in May 2016 and will continue through 2020.

For the year ended December 31, 2017, the PHI Merger severance costs were immaterial. For the year ended December 31, 2016, the Registrants recorded the following severance costs associated with the identified job reductions within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income, pursuant to the authoritative guidance for ongoing severance plans:

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Severance Benefits									
Severance costs[(a)]	$ 57	$ 9	$ 2	$ 1	$ 1	$ 44	$ 21	$ 13	$ 10

(a) The amounts above for Generation, ComEd, PECO, BGE, Pepco, DPL, and ACE include $8 million, $2 million, $1 million, $1 million, $20 million, $12 million and $10 million, respectively, for amounts billed by BSC and/or PHISCO through intercompany allocations for the year ended December 31, 2016.

PHI, Pepco, DPL and ACE record regulatory assets for merger related integration costs which include a portion of the severance costs in the table above related to the PHI Merger. These regulatory assets are either currently being recovered in rates or are deemed probable of recovery in future rates. See Note 3 — Regulatory Matters for further information.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Severance Liability

Amounts included in the table below represent the severance liability recorded for employees of each Registrant and exclude amounts included at Exelon and billed through intercompany allocations:

						Successor			
Severance Liability	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Balance at December 31, 2015	$ 35	$ 23	$ 3	$ —	$ 1	$ —	$ —	$—	$—
Severance charges[a]	99	22	2	—	—	56	1	1	—
Payments	(46)	(9)	(2)	—	(1)	(27)	(1)	(1)	—
Balance at December 31, 2016	$ 88	$ 36	$ 3	$ —	$ —	$ 29	$ —	$—	$—
Severance charges[a]	35	31	2	—	—	3	—	—	—
Payments	(29)	(9)	(2)	—	—	(12)	—	—	—
Balance at December 31, 2017	$ 94	$ 58	$ 3	$ —	$ —	$ 20	$ —	$—	$—

(a) Includes salary continuance and health and welfare severance benefits.

18. Mezzanine Equity (Exelon, Generation and PHI)

Contingently Redeemable Noncontrolling Interests (Exelon and Generation)

In November 2015, 2015 ESA Investco, LLC, a wholly owned subsidiary of Generation, entered into an arrangement to sell a portion of its equity to a tax equity investor. Pursuant to the operating agreement, in certain circumstances the equity contributed by the noncontrolling interests holder could be contingently redeemable. These circumstances were outside of the control of Generation and the noncontrolling interests holder resulting in a portion of the noncontrolling interests being considered contingently redeemable and thus was presented in mezzanine equity on the consolidated balance sheet.

There were no changes in the contingently redeemable noncontrolling interests for the year ended December 31, 2017. The following table summarizes the changes in the contingently redeemable noncontrolling interests for the year ended December 31, 2016:

	Contingently Redeemable NCI
Balance at December 31, 2015	$ 28
Cash received from noncontrolling interests	129
Release of contingency	(157)
Balance at December 31, 2016	$ —

Preferred Stock (PHI)

In connection with the PHI Merger Agreement, Exelon purchased 18,000 originally issued shares of PHI preferred stock for a purchase price of $180 million. PHI excluded the preferred stock from equity at December 31, 2015 since the preferred stock contained conditions for redemption that were not solely within the control of PHI. Management determined that the preferred stock contained embedded features requiring separate accounting consideration to reflect the potential value to PHI that any issued and outstanding preferred stock could be called and redeemed at a nominal par value upon a termination of the merger agreement under certain circumstances due to the failure to obtain required regulatory approvals. The embedded call and redemption features on the shares of the preferred stock in the event of such a termination were separately accounted for as derivatives. As of December 31, 2015, the fair

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

value of the derivative related to the preferred stock was estimated to be $18 million based on PHI's updated assessment and was included in current assets with a corresponding increase in preferred stock on the Consolidated Balance Sheet. Immediately prior to the merger date, PHI updated its assessment of the fair value of the derivative and reduced the fair value to zero, recording the $18 million decrease in fair value as a reduction of Other, net within PHI's predecessor period, January 1, 2016 to March 23, 2016, Statements of Operations and Comprehensive Income.

On March 23, 2016, the preferred stock was cancelled and the $180 million cash consideration previously received by PHI to issue the preferred stock was treated as additional merger purchase price consideration.

19. Shareholders' Equity (Exelon, ComEd, PECO, BGE, Pepco, DPL and ACE)

The following table presents common stock authorized and outstanding as of December 31, 2017 and 2016:

				December 31,	
				2017	2016
	Par Value		Shares Authorized	Shares Outstanding	
Common Stock					
Exelon		no par value	2,000,000,000	963,335,888	924,035,059
ComEd	$	12.50	250,000,000	127,021,246	127,017,157
PECO		no par value	500,000,000	170,478,507	170,478,507
BGE		no par value	1,500	1,000	1,000
Pepco	$	0.01	200,000,000	100	100
DPL	$	2.25	1,000	1,000	1,000
ACE	$	3.00	25,000,000	8,546,017	8,546,017

ComEd had 60,584 and 72,859 warrants outstanding to purchase ComEd common stock at December 31, 2017 and 2016, respectively. The warrants entitle the holders to convert such warrants into common stock of ComEd at a conversion rate of one share of common stock for three warrants. At December 31, 2017 and 2016, 20,195 and 24,286 shares of common stock, respectively, were reserved for the conversion of warrants.

Equity Securities Offering

In June 2014, Exelon marketed an equity offering of 57.5 million shares of its common stock at a public offering price of $35 per share. In connection with such offering, Exelon entered into forward sale agreements with two counterparties. In July 2015, Exelon settled the forward sale agreement by the issuance of 57.5 million shares of Exelon common stock. Exelon received net cash proceeds of $1.87 billion, which was calculated based on a forward price of $32.48 per share as specified in the forward sale agreements. The net proceeds were used to fund the merger with PHI and related costs and expenses, and for general corporate purposes. The forward sale agreements are classified as equity transactions. As a result, no amounts were recorded in the consolidated financial statements until the July 2015 settlement of the forward sale agreements. However, prior to the July 2015 settlement, incremental shares, if any, were included within the calculation of diluted EPS using the treasury stock method.

Concurrent with the forward equity transaction, Exelon also issued $1.15 billion of junior subordinated notes in the form of 23 million equity units. On June 1, 2017, Exelon settled the forward purchase contract, which was a component of the June 2014 equity units, through the issuance of Exelon common stock from treasury stock. See Note 13 — Debt and Credit Agreements for further information on the equity units.

Share Repurchases

Share Repurchase Programs

There currently is no Exelon Board of Director authority to repurchase shares. Any previous shares repurchased are held as treasury shares, at cost, unless cancelled or reissued at the discretion of Exelon's management. Under the previous share repurchase programs, 2 million and 35 million shares of common stock were held as treasury stock with a historical cost of $123 million and $2.3 billion at December 31, 2017 and 2016, respectively. During 2017, Exelon issued approximately 33 million shares of Exelon common stock from treasury stock in order to settle the forward purchase contract, which was a component of the June 2014 equity units discussed above. During 2016 and 2015, Exelon had no common stock repurchases.

Preferred and Preference Securities of Subsidiaries

At December 31, 2017 and 2016, Exelon was authorized to issue up to 100,000,000 shares of preferred securities, none of which were outstanding.

At December 31, 2017 and 2016, ComEd prior preferred securities and ComEd cumulative preference securities consisted of 850,000 shares and 6,810,451 shares authorized, respectively, none of which were outstanding.

BGE had $190 million of cumulative preference stock that was redeemable at its option at any time after October 1, 2015 for the redemption price of $100 per share, plus accrued and unpaid dividends. On July 3, 2016, BGE redeemed all 400,000 shares of its outstanding 7.125% Cumulative Preference Stock, 1993 Series and all 600,000 shares of its outstanding 6.990% Cumulative Preference Stock, 1995 Series for $100 million, plus accrued and unpaid dividends. On September 18, 2016, BGE redeemed the remaining 500,000 shares of its outstanding 6.970% Cumulative Preference Stock, 1993 Series and the remaining 400,000 shares of its outstanding 6.700% Cumulative Preference Stock, 1993 Series for $90 million, plus accrued and unpaid dividends.

20. Stock-Based Compensation Plans (All Registrants)

Stock-Based Compensation Plans

Exelon grants stock-based awards through its LTIP, which primarily includes stock options, restricted stock units and performance share awards. At December 31, 2017, there were approximately 13 million shares authorized for issuance under the LTIP. For the years ended December 31, 2017, 2016 and 2015, exercised and distributed stock-based awards were primarily issued from authorized but unissued common stock shares.

ComEd, PECO, BGE and PHI grant cash awards. The following tables do not include expense related to these plans as they are not considered stock-based compensation plans under the applicable authoritative guidance.

In connection with the acquisition of PHI in March 2016, PHI’s unvested time-based restricted stock units and performance-based restricted stock units issued prior to April 29, 2014 were immediately vested and paid in cash upon the close of the merger. PHI’s remaining unvested time-based restricted stock units as of the close of the merger were cancelled. There were no remaining unvested performance-based restricted stock units as of the close of the merger.

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Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

For the years ended December 31, 2017, 2016 and 2015, there were no significant modifications to the granted stock based awards.

The following tables present the stock-based compensation expense included in Exelon's and PHI's Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2017, 2016 and 2015 and PHI's predecessor periods January 1, 2016 to March 23, 2016 and the year ended December 31, 2015:

Exelon

	Year Ended December 31,		
Components of Stock-Based Compensation Expense	**2017**	**2016[(a)]**	**2015**
Performance share awards	$ 107	$ 93	$ 41
Restricted stock units	77	75	71
Stock options	—	—	1
Other stock-based awards	7	7	6
Total stock-based compensation expense included in operating and maintenance expense	191	175	119
Income tax benefit	(74)	(68)	(46)
Total after-tax stock-based compensation expense	$ 117	$ 107	$ 73

(a) 2016 amounts include expense related to stock-based compensation granted to eligible PHI employees since the merger date of March 23, 2016.

PHI

	Predecessor	
	January 1 to March 23,	Year Ended December 31,
Components of Stock-Based Compensation Expense	**2016**	**2015**
Time-based restricted stock units	$ 2	$ 7
Performance-based restricted stock units	1	5
Time-based restricted stock awards	—	1
Total stock-based compensation expense included in operating and maintenance expense	3	13
Income tax benefit	(1)	(5)
Total after-tax stock-based compensation expense	$ 2	$ 8

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following tables present the Registrants' stock-based compensation expense (pre-tax) for the years ended December 31, 2017, 2016 and 2015, as well as for the PHI predecessor periods January 1, 2016 to March 23, 2016 and the year ended December 31, 2015:

	Year Ended December 31,		
Subsidiaries	**2017**	**2016**	**2015**
Exelon	$ 191	$ 175	$ 119
Generation	88	78	64
ComEd	7	8	6
PECO	3	3	3
BGE	1	1	3
BSC[a]	88	81	43
PHI Successor[b][c]	4	4	—

	Predecessor	
	January 1 to March 23,	**For the Year Ended December 31,**
	2016	**2015**
PHI	$ 3	$ 13

(a) These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These amounts are not included in the Generation, ComEd, PECO, BGE or PHI amounts above.
(b) Pepco's, DPL's and ACE's stock-based compensation expense for the years ended December 31, 2017 and 2016 was not material.
(c) These amounts primarily represent amounts billed to PHI's subsidiaries through PHISCO intercompany allocations.

There were no significant stock-based compensation costs capitalized during the years ended December 31, 2017, 2016 and 2015 for Exelon or PHI, or for PHI during the predecessor period January 1, 2016 to March 23, 2016.

Exelon and PHI receive a tax deduction based on the intrinsic value of the award on the exercise date for stock options and the distribution date for performance share awards and restricted stock units. For each award, throughout the requisite service period, Exelon and PHI recognize the tax benefit related to compensation costs. The following tables present information regarding Exelon's and PHI's tax benefits for the years ended December 31, 2017, 2016 and 2015 and PHI's predecessor periods January 1, 2016 to March 23, 2016 and the year ended December 31, 2015:

Exelon	Year Ended December 31,		
	2017	**2016**	**2015**
Realized tax benefit when exercised/distributed:			
Restricted stock units	35	27	30
Performance share awards	29	18	18

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

PHI

	Predecessor	
	January 1 to March 23, 2016	For the Year Ended December 31, 2015
Realized tax benefit when exercised/distributed:		
Time-based restricted stock units	$ —	$ 2
Performance-based restricted stock units	—	5

Stock Options

Non-qualified stock options to purchase shares of Exelon's common stock were granted under the LTIP through 2012. Due to changes in the LTIP, there were no stock options granted in 2017, 2016 or 2015. For all stock options granted through 2012, the exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. The vesting period of stock options is generally four years and all stock options will expire no later than ten years from the date of grant.

The value of stock options at the date of grant is expensed over the requisite service period using the straight-line method. The requisite service period for stock options is generally four years. However, certain stock options become fully vested upon the employee reaching retirement-eligibility. The value of the stock options granted to retirement-eligible employees is either recognized immediately upon the date of grant or through the date at which the employee reaches retirement eligibility.

The following table presents information with respect to stock option activity for the year ended December 31, 2017:

	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance of shares outstanding at December 31, 2016	12,531,591	$ 46.23	3.50	$ 13
Options exercised	(3,093,156)	34.69		
Options forfeited	—	—		
Options expired	(2,714,824)	55.78		
Balance of shares outstanding at December 31, 2017	6,723,611	$ 47.69	2.65	$ 7
Exercisable at December 31, 2017[(a)]	6,723,611	$ 47.69	2.65	$ 7

(a) Includes stock options issued to retirement eligible employees.

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The following table summarizes additional information regarding stock options exercised for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31, 2017	2016	2015
Intrinsic value[a]	$ 15	$ 11	$ —
Cash received for exercise price	107	19	—

(a) The difference between the market value on the date of exercise and the option exercise price.

At December 31, 2016, all stock options were vested and at December 31, 2017 there were no unrecognized compensation costs related to nonvested stock options.

Restricted Stock Units

Restricted stock units are granted under the LTIP with the majority being settled in a specific number of shares of common stock after the service condition has been met. The corresponding cost of services is measured based on the grant date fair value of the restricted stock unit issued.

The value of the restricted stock units is expensed over the requisite service period using the straight-line method. The requisite service period for restricted stock units is generally three to five years. However, certain restricted stock unit awards become fully vested upon the employee reaching retirement-eligibility. The value of the restricted stock units granted to retirement-eligible employees is either recognized immediately upon the date of grant or through the date at which the employee reaches retirement eligibility. Exelon processes forfeitures as they occur for employees who do not complete the requisite service period.

The following table summarizes Exelon's nonvested restricted stock unit activity for the year ended December 31, 2017:

Exelon

	Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested at December 31, 2016[a][c]	3,824,416	$ 30.49
Granted	2,266,199	34.98
Vested	(1,736,965)	30.98
Forfeited	(92,938)	33.12
Undistributed vested awards [b]	(871,209)	34.09
Nonvested at December 31, 2017[a]	3,389,503	$ 32.24

(a) Excludes 1,488,383 and 1,319,372 of restricted stock units issued to retirement-eligible employees as of December 31, 2017 and 2016, respectively, as they are fully vested.
(b) Represents restricted stock units that vested but were not distributed to retirement-eligible employees during 2017.
(c) 2016 amounts include activity related to stock-based compensation granted to eligible PHI employees since the merger date of March 23, 2016.

For Exelon, the weighted average grant date fair value (per share) of restricted stock units granted for the years ended December 31, 2017, 2016 and 2015 was $34.98, $28.14 and $36.55, respectively. At December 31, 2017 and 2016, Exelon had obligations related to outstanding restricted stock units not yet settled of $108 million and $101 million, respectively, which are included in common stock in Exelon's Consolidated Balance Sheets. For the years ended December 31, 2017, 2016 and 2015, Exelon settled restricted stock units with fair value totaling $88 million, $68 million and $75 million, respectively. At December 31, 2017, $51 million of total unrecognized compensation costs related to nonvested restricted stock units are expected to be recognized over the remaining weighted-average period of 1.7 years.

For PHI, the weighted average grant date fair value (per share) of time-based restricted stock units granted for the year ended December 31, 2015 was $27.40 and for performance-based restricted stock units was $26.08 for the same period. For the year ended December 31, 2015, PHI settled time-based restricted stock units with fair value totaling $6 million and settled performance-based restricted stock units with fair value totaling $15 million, for the same period. There were no settled restricted stock units for the predecessor period January 1, 2016 to March 23, 2016.

Performance Share Awards

Performance share awards are granted under the LTIP. The performance share awards are settled 50% in common stock and 50% in cash at the end of the three-year performance period, except for awards granted to vice presidents and higher officers that are settled 100% in cash if certain ownership requirements are satisfied.

The common stock portion of the performance share awards is considered an equity award and is valued based on Exelon’s stock price on the grant date. The cash portion of the performance share awards is considered a liability award which is remeasured each reporting period based on Exelon’s current stock price. As the value of the common stock and cash portions of the awards are based on Exelon’s stock price during the performance period, coupled with changes in the total shareholder return modifier and expected payout of the award, the compensation costs are subject to volatility until payout is established.

Effective January 2017 for nonretirement-eligible employees, stock-based compensation costs are recognized over the vesting period of three years using the straight-line method. For performance share awards granted to retirement-eligible employees, the value of the performance shares is recognized ratably over the vesting period, which is the year of grant.

In 2016 and prior, for nonretirement-eligible employees, stock-based compensation costs are recognized over the vesting period of three years using the graded-vesting method. For performance share awards granted to retirement-eligible employees, the value of the performance shares is recognized ratably over the vesting period, which is the year of grant.

Exelon processes forfeitures as they occur for employees who do not complete the requisite service period.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following table summarizes Exelon's nonvested performance share awards activity for the year ended December 31, 2017:

Exelon

	Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested at December 31, 2016[(a)(c)]	3,116,261	$ 30.77
Granted	1,632,186	35.00
Change in performance	545,793	30.97
Vested	(1,111,751)	29.11
Forfeited	(18,034)	33.74
Undistributed vested awards [(b)]	(1,207,489)	33.46
Nonvested at December 31, 2017[(a)]	2,956,966	$ 32.65

(a) Excludes 2,723,440 and 2,443,409 of performance share awards issued to retirement-eligible employees as of December 31, 2017 and 2016, respectively, as they are fully vested.
(b) Represents performance share awards that vested but were not distributed to retirement-eligible employees during 2017.
(c) 2016 amounts include activity related to stock-based compensation granted to eligible PHI employees since the merger date of March 23, 2016.

The following table summarizes the weighted average grant date fair value and the fair value of performance share awards granted and settled for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017[(a)]	2016	2015
Weighted average grant date fair value (per share)	$ 35.00	$ 28.85	$ 35.88
Fair value of performance shares settled	72	45	46
Fair value of performance shares settled in cash	56	28	29

(a) As of December 31, 2017, $41 million of total unrecognized compensation costs related to nonvested performance shares are expected to be recognized over the remaining weighted-average period of 1.5 years.

For PHI, the weighted average grant date fair value (per share) of performance-based restricted stock awards was $26.10 for the year ended December 31, 2015. There were no time-based restricted stock awards granted for the year ended December 31, 2015. There were no time-based share settlements or performance-based share settlements for the year-ended December 31, 2015 or the predecessor period January 1, 2016 to March 23, 2016.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following table presents the balance sheet classification of obligations related to outstanding performance share awards not yet settled:

	December 31,	
	2017	2016
Current liabilities[(a)]	$ 57	$ 49
Deferred credits and other liabilities[(b)]	100	52
Common stock	26	40
Total	$ 183	$ 141

(a) Represents the current liability related to performance share awards expected to be settled in cash.
(b) Represents the long-term liability related to performance share awards expected to be settled in cash.

21. Earnings Per Share (Exelon)

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding, including the effect of issuing common stock assuming (i) stock options are exercised, and (ii) performance share awards and restricted stock awards are fully vested under the treasury stock method.

The following table sets forth the components of basic and diluted earnings per share and shows the effect of these stock options, performance share awards and restricted stock awards on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Year Ended December 31,		
	2017	2016	2015
Net income attributable to common shareholders	$ 3,770	$ 1,134	$ 2,269
Weighted average common shares outstanding — basic	947	924	890
Assumed exercise and/or distributions of stock-based awards	2	3	3
Weighted average common shares outstanding — diluted	949	927	893

The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was approximately 8 million in 2017, 12 million in 2016, and 16 million in 2015. There were no equity units related to the PHI merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect for the years ended December 31, 2017 and 2016. The number of equity units related to the PHI merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect was 3 million for the year ended 2015. Refer to Note 19 — Shareholders' Equity for further information regarding the equity units and equity forward units.

On June 1, 2017, Exelon settled the forward purchase contract, which was a component of the June 2014 equity units, through the issuance of approximately 33 million shares of Exelon common stock from treasury stock. The issuance of shares on June 1, 2017 triggered full dilution in the EPS calculation, which prior to settlement were included in the calculation of diluted EPS using the treasury stock method. Refer to Note 19 — Shareholders' Equity for further information regarding share repurchases.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

22. Changes in Accumulated Other Comprehensive Income (Exelon, Generation, PECO and PHI)

The following tables present changes in accumulated other comprehensive income (loss) (AOCI) by component for the years ended December 31, 2017 and 2016:

For the Year Ended December 31, 2017	Gains and (Losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon[a]						
Beginning balance	$ (17)	$ 4	$ (2,610)	$ (30)	$ (7)	$(2,660)
OCI before reclassifications	(1)	6	11	7	6	29
Amounts reclassified from AOCI[b]	4	—	140	—	—	144
Net current-period OCI	3	6	151	7	6	173
Ending balance	$ (14)	$ 10	$ (2,459)	$ (23)	$ (1)	$(2,487)
Generation[a]						
Beginning balance	$ (19)	$ 2	$ —	$ (30)	$ (7)	$ (54)
OCI before reclassifications	(1)	1	—	7	6	13
Amounts reclassified from AOCI[b]	4	—	—	—	—	4
Net current-period OCI	3	1	—	7	6	17
Ending balance	$ (16)	$ 3	$ —	$ (23)	$ (1)	$ (37)
PECO[a]						
Beginning balance	$ —	$ 1	$ —	$ —	$ —	$ 1
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI[b]	—	—	—	—	—	—
Net current-period OCI	—	—	—	—	—	—
Ending balance	$ —	$ 1	$ —	$ —	$ —	$ 1

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Combined Notes to Consolidated Financial Statements - (Continued)
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For the Year Ended December 31, 2016	Gains and (Losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon[a]						
Beginning balance	$ (19)	$ 3	$ (2,565)	$ (40)	$ (3)	$ (2,624)
OCI before reclassifications	(6)	1	(182)	5	(4)	(186)
Amounts reclassified from AOCI[b]	8	—	137	5	—	150
Net current-period OCI	2	1	(45)	10	(4)	(36)
Ending balance	$ (17)	$ 4	$ (2,610)	$ (30)	$ (7)	$ (2,660)
Generation[a]						
Beginning balance	$ (21)	$ 1	$ —	$ (40)	$ (3)	$ (63)
OCI before reclassifications	(6)	1	—	5	(4)	(4)
Amounts reclassified from AOCI[b]	8	—	—	5	—	13
Net current-period OCI	2	1	—	10	(4)	9
Ending balance	$ (19)	$ 2	$ —	$ (30)	$ (7)	$ (54)
PECO[a]						
Beginning balance	$ —	$ 1	$ —	$ —	$ —	$ 1
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI[b]	—	—	—	—	—	—
Net current-period OCI	—	—	—	—	—	—
Ending balance	$ —	$ 1	$ —	$ —	$ —	$ 1
PHI Predecessor[a]						
Beginning balance January 1, 2016	$ (8)	$ —	$ (28)	$ —	$ —	$ (36)
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI[b]	—	—	1	—	—	1
Net current-period OCI	—	—	1	—	—	1
Ending balance March 23, 2016[c]	$ (8)	$ —	$ (27)	$ —	$ —	$ (35)

(a) All amounts are net of tax and noncontrolling interests. Amounts in parenthesis represent a decrease in AOCI.
(b) See next tables for details about these reclassifications.
(c) As a result of the PHI Merger, the PHI predecessor balances at March 23, 2016 were reduced to zero on March 24, 2016 due to purchase accounting adjustments applied to PHI.

Combined Notes to Consolidated Financial Statements - (Continued)
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ComEd, PECO, BGE, Pepco, DPL and ACE did not have any reclassifications out of AOCI to Net income during the years ended December 31, 2017 and 2016. The following tables present amounts reclassified out of AOCI to Net income for Exelon, Generation and PHI during the years ended December 31, 2017 and 2016:

For the Year Ended December 31, 2017

Details about AOCI components	Items reclassified out of AOCI[(a)]		Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	
Gains and (losses) on cash flow hedges			
Other cash flow hedges	$ (5)	$ (5)	Interest expense
Total before tax	(5)	(5)	
Tax benefit	1	1	
Net of tax	$ (4)	$ (4)	Comprehensive income
Amortization of pension and other postretirement benefit plan items			
Prior service costs[(b)]	$ 92	$ —	
Actuarial losses[(b)]	(324)	—	
Total before tax	(232)	—	
Tax benefit	92	—	
Net of tax	$ (140)	$ —	Comprehensive Income
Total Reclassifications	$ (144)	$ (4)	Comprehensive income

Combined Notes to Consolidated Financial Statements - (Continued)
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For the Year Ended December 31, 2016

Details about AOCI components	Items reclassified out of AOCI[a]			Affected line item in the Statement of Operations and Comprehensive Income
			Predecessor January 1, 2016 to March 23, 2016	
	Exelon	Generation	PHI	
Loss on cash flow hedges				
Other cash flow hedges	$ (13)	$ (13)	$ —	Interest expense
Total before tax	(13)	(13)	—	
Tax benefit	5	5	—	
Net of tax	$ (8)	$ (8)	$ —	Comprehensive income
Amortization of pension and other postretirement benefit plan items				
Prior service costs[b]	$ 78	$ —	$ —	
Actuarial losses[b]	(302)	—	(1)	
Total before tax	(224)	—	(1)	
Tax benefit	87	—	—	
Net of tax	$ (137)	$ —	$ (1)	Comprehensive Income
Losses on foreign currency translation				
Loss	$ (5)	$ (5)	$ —	Other income and (deductions)
Total before tax	(5)	(5)	—	
Tax benefit	—	—	—	
Net of tax	$ (5)	$ (5)	$ —	
Total Reclassifications	$ (150)	$ (13)	$ (1)	Comprehensive income

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(a) Amounts in parenthesis represent a decrease in net income.

(b) This AOCI component is included in the computation of net periodic pension and OPEB cost (see Note 16 — Retirement Benefits for additional details).

Combined Notes to Consolidated Financial Statements - (Continued)
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The following table presents income tax expense (benefit) allocated to each component of other comprehensive income (loss) during the years ended December 31, 2017 and 2016:

	For the Year Ended December 31,		
	2017	2016	2015
Exelon			
Pension and non-pension postretirement benefit plans:			
Prior service benefit reclassified to periodic benefit cost	$ 36	$ 30	$ 30
Actuarial loss reclassified to periodic benefit cost	(128)	(118)	(140)
Pension and non-pension postretirement benefit plans valuation adjustment	13	115	62
Change in unrealized loss on cash flow hedges	(7)	—	(6)
Change in unrealized (loss)/gain on equity investments	(3)	3	1
Change in unrealized loss on marketable securities	(1)	—	—
Total	$ (90)	$ 30	$ (53)
Generation			
Change in unrealized (loss)/gain on cash flow hedges	$ (6)	$ (2)	$ 2
Change in unrealized (loss)/gain on equity investments	(3)	3	1
Change in unrealized loss marketable securities	(1)	—	—
Total	$ (10)	$ 1	$ 3

	Predecessor	
	January 1 to March 23,	For the Year Ended December 31,
PHI	2016	2015
Pension and non-pension postretirement benefit plans:		
Actuarial loss reclassified to periodic cost	$ —	$ 6

23. Commitments and Contingencies (All Registrants)

Commitments

Constellation Merger Commitments

In February 2012, the MDPSC issued an Order approving the Exelon and Constellation merger. As part of the MDPSC Order, Exelon agreed to provide a package of benefits to BGE customers, the City of Baltimore and the State of Maryland, resulting in an estimated direct investment in the State of Maryland of approximately $1 billion.

The direct investment includes the construction of a new 21-story headquarters building in Baltimore for Generation’s competitive energy business that was substantially complete in November 2016 and is now occupied by approximately 1,500 Exelon employees. Generation’s investment includes leasehold improvements that are not expected to exceed $110 million. In addition, Generation entered into a 20-year operating lease as the primary lessee of the building.

The direct investment commitment also includes $450 million to $500 million relating to Exelon and Generation’s development or assistance in the development of 285 - 300 MWs of new generation in Maryland, which is expected to be completed within a period of 10 years. The MDPSC order contemplates various options for complying with the new generation development commitments, including building or acquiring generating assets, making subsidy or compliance payments, or in circumstances in which the generation build is delayed or certain specified provisions are elected, making liquidated damages payments. Exelon and Generation have incurred $457 million towards satisfying the commitment for new generation development in the state of Maryland, with approximately 220 MW of the new generation commencing with commercial operations to date and an additional 10 MW commitment satisfied through a liquidated damages payment made in the fourth quarter of 2016. Additionally, during the fourth quarter of 2016, given continued declines in projected energy and capacity prices, Generation terminated rights to certain development projects originally intended to meet its remaining 55 MW commitment amount. The commitment will now most likely be satisfied via payment of liquidated damages or execution of a third party PPA, rather than by Generation constructing renewable generating assets. As a result, Exelon and Generation recorded a pre-tax $50 million loss contingency in Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2016.

Commercial Commitments

Exelon's commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Letters of credit (non-debt)[a]	$ 1,226	$ 1,056	$ 154	$ 16	$ —	$ —	$ —
Surety bonds[b]	1,381	1,293	66	16	6	—	—
Financing trust guarantees	378	—	—	—	—	—	378
Guaranteed lease residual values[c]	21	—	—	—	—	—	21
Total commercial commitments	$ 3,006	$ 2,349	$ 220	$ 32	$ 6	$ —	$ 399

(a) Letters of credit (non-debt)—Exelon and certain of its subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

(b) Surety bonds—Guarantees issued related to contract and commercial agreements, excluding bid bonds.

(c) Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $56 million, $16 million of which is a guarantee by Pepco, $23 million by DPL and $15 million by ACE. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

Generation's commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Letters of credit (non-debt)[a]	$ 1,177	$ 1,007	$ 154	$ 16	$ —	$ —	$ —
Surety bonds	1,209	1,164	45	—	—	—	—
Total commercial commitments	$ 2,386	$ 2,171	$ 199	$ 16	$ —	$ —	$ —

(a)

Letters of credit (non-debt)—Non-debt letters of credit maintained to provide credit support for certain transactions as requested by third parties.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

ComEd's commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Letters of credit (non-debt)[a]	$ 2	$ 2	$ —	$ —	$ —	$ —	$ —
Surety bonds[b]	10	8	2	—	—	—	—
Financing trust guarantees	200	—	—	—	—	—	200
Total commercial commitments	$ 212	$ 10	$ 2	$ —	$ —	$ —	$ 200

(a) Letters of credit (non-debt)—ComEd maintains non-debt letters of credit to provide credit support for certain transactions as requested by third parties.
(b) Surety bonds—Guarantees issued related to contract and commercial agreements, excluding bid bonds.

PECO's commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Surety bonds[a]	$ 9	$ 8	$ 1	$ —	$ —	$ —	$ —
Financing trust guarantees	178	—	—	—	—	—	178
Total commercial commitments	$ 187	$ 8	$ 1	$ —	$ —	$ —	$ 178

(a) Surety bonds—Guarantees issued related to contract and commercial agreements, excluding bid bonds.

BGE's commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Letters of credit (non-debt)[a]	$ 2	$ 2	$ —	$ —	$ —	$ —	$ —
Surety bonds[b]	11	10	1	—	—	—	—
Total commercial commitments	$ 13	$ 12	$ 1	$ —	$ —	$ —	$ —

(a) Letters of credit (non-debt)—BGE maintains non-debt letters of credit to provide credit support for certain transactions as requested by third parties.
(b) Surety bonds—Guarantees issued related to contract and commercial agreements, excluding bid bonds.

Combined Notes to Consolidated Financial Statements - (Continued)
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PHI commercial commitments (Successor) as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Surety bonds	$ 63	$ 48	$ 15	$ —	$ —	$ —	$ —
Guaranteed lease residual values[(a)]	21	—	—	—	—	—	21
Total commercial commitments	$ 84	$ 48	$ 15	$ —	$ —	$ —	$ 21

(a) Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $56 million. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

Pepco commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Surety bonds[(a)]	$ 54	$ 41	$ 13	$ —	$ —	$ —	$ —
Guaranteed lease residual values[(b)]	6	—	—	—	—	—	6
Total commercial commitments	$ 60	$ 41	$ 13	$ —	$ —	$ —	$ 6

(a) Surety bonds—Guarantees issued related to contract and commercial agreements, excluding bid bonds.

(b) Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $16 million. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

DPL commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Surety bonds[(a)]	$ 4	$ 3	$ 1	$ —	$ —	$ —	$ —
Guaranteed lease residual values[(b)]	8	—	—	—	—	—	8
Total commercial commitments	$ 12	$ 3	$ 1	$ —	$ —	$ —	$ 8

(a) Surety bonds—Guarantees issued related to contract and commercial agreements, excluding bid bonds.

(b) Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $23 million. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

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ACE commercial commitments as of December 31, 2017, representing commitments potentially triggered by future events, were as follows:

		Expiration within					
	Total	2018	2019	2020	2021	2022	2023 and beyond
Surety bonds	$ 4	$ 3	$ 1	$ —	$ —	$ —	$ —
Guaranteed lease residual values[(a)]	6	—	—	—	—	—	6
Total commercial commitments	$ 10	$ 3	$ 1	$ —	$ —	$ —	$ 6

(a) Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $15 million. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

Leases

Minimum future operating lease payments, including lease payments for contracted generation, vehicles, real estate, computers, rail cars, operating equipment and office equipment, as of December 31, 2017 were:

						Successor			
	Exelon[(a)]	Generation[(a)]	ComEd[(a)(c)]	PECO[(a)(c)]	BGE[(a)(c)(d)(e)]	PHI[(a)]	Pepco[(a)]	DPL[(a)(c)]	ACE[(a)]
2018	$ 188	$ 74	$ 7	$ 5	$ 34	$ 56	$ 8	$ 20	$ 9
2019	129	29	6	5	34	42	7	10	8
2020	147	47	4	5	34	44	6	13	8
2021	142	48	4	5	32	40	5	12	7
2022	119	46	2	5	17	39	4	12	6
Remaining years	787	573	—	—	19	194	8	54	19
Total minimum future lease payments	$ 1,512	$ 817	$ 23	$ 25	$ 170	$ 415	$ 38	$ 121	$ 57

(a) Includes amounts related to shared use land arrangements.
(b) Excludes Generation's contingent operating lease payments associated with contracted generation agreements.
(c) Amounts related to certain real estate leases and railroad licenses effectively have indefinite payment periods. As a result, ComEd, PECO, BGE and DPL have excluded these payments from the remaining years as such amounts would not be meaningful. ComEd's, PECO's, BGE's and DPL's average annual obligation for these arrangements, included in each of the years 2018—2022, was $2 million, $5 million, $1 million and $2 million, respectively. Also includes amounts related to shared use land arrangements.
(d) Includes all future lease payments on a 99-year real estate lease that expires in 2106.
(e) The BGE column above includes minimum future lease payments associated with a 6-year lease for the Baltimore City conduit system that became effective during the fourth quarter of 2016. BGE's total commitments under the lease agreement are $25 million, $26 million, $28 million , $28 million and $14 million related to years 2018, 2019, 2020, 2021and 2022, respectively.

Combined Notes to Consolidated Financial Statements - (Continued)
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The following table presents the Registrants' rental expense under operating leases for the years ended December 31, 2017, 2016 and 2015:

For the Year Ended December 31,	Exelon	Generation[(a)]	ComEd	PECO	BGE	Pepco	DPL	ACE
2017	$ 709	$ 578	$ 9	$ 9	$ 32	$ 11	$ 16	$ 14
2016	777	667	15	7	22	8	15	13
2015	922	851	12	9	32	7	14	13

	Successor		*Predecessor*	
	For the Year Ended December 31, 2017	March 24, 2016 to December 31, 2016	January 1, 2016 to March 23, 2016	For the Year Ended December 31, 2015
PHI				
Rental expense under operating leases	$ 63	$ 49	$ 12	$ 60

(a) Includes contingent operating lease payments associated with contracted generation agreements that are not included in the minimum future operating lease payments table above. Payments made under Generation's contracted generation lease agreements totaled $508 million, $604 million and $798 million during 2017, 2016 and 2015, respectively. Excludes contract amortization associated with purchase accounting and contract acquisitions.

For information regarding capital lease obligations, see Note 13—Debt and Credit Agreements.

Nuclear Insurance

Generation is subject to liability, property damage and other risks associated with major incidents at any of its nuclear stations. Generation has mitigated its financial exposure to these risks through insurance and other industry risk-sharing provisions.

The Price-Anderson Act was enacted to ensure the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities and to limit the liability of nuclear reactor owners for such claims from any single incident. As of December 31, 2017, the current liability limit per incident is $13.4 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors at least once every five years with the last adjustment effective September 10, 2013. In accordance with the Price-Anderson Act, Generation maintains financial protection at levels equal to the amount of liability insurance available from private sources through the purchase of private nuclear energy liability insurance for public liability claims that could arise in the event of an incident. Effective January 1, 2017, the required amount of nuclear energy liability insurance purchased is $450 million for each operating site. Claims exceeding that amount are covered through mandatory participation in a financial protection pool, as required by the Price Anderson-Act, which provides the additional $13.0 billion per incident in funds available for public liability claims. Participation in this secondary financial protection pool requires the operator of each reactor to fund its proportionate share of costs for any single incident that exceeds the primary layer of financial protection. Exelon's share of this secondary layer would be approximately $2.8 billion, however any amounts payable under this secondary layer would be capped at $420 million per year.

In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay public liability claims exceeding the $13.4 billion limit for a single incident.

As part of the execution of the NOSA on April 1, 2014, Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF and its affiliates against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation’s obligations under this indemnity. See Note 2 — Variable Interest Entities for additional information on Generation's operations relating to CENG.

Generation is required each year to report to the NRC the current levels and sources of property insurance that demonstrates Generation possesses sufficient financial resources to stabilize and decontaminate a reactor and reactor station site in the event of an accident. The property insurance maintained for each facility is currently provided through insurance policies purchased from NEIL, an industry mutual insurance company of which Generation is a member.

NEIL may declare distributions to its members as a result of favorable operating experience. In recent years NEIL has made distributions to its members, but Generation cannot predict the level of future distributions or if they will continue at all. Generation's portion of the distribution declared by NEIL is estimated to be $60 million for 2017, and was $21 million for 2016 and 2015. The distributions were recorded as a reduction to Operating and maintenance expense within Exelon and Generation's Consolidated Statements of Operations and Comprehensive Income.

Premiums paid to NEIL by its members are also subject to a potential assessment for adverse loss experience in the form of a retrospective premium obligation. NEIL has never assessed this retrospective premium since its formation in 1973, and Generation cannot predict the level of future assessments if any. The current maximum aggregate annual retrospective premium obligation for Generation is approximately $360 million. NEIL requires its members to maintain an investment grade credit rating or to ensure collectability of their annual retrospective premium obligation by providing a financial guarantee, letter of credit, deposit premium, or some other means of assurance.

NEIL provides "all risk" property damage, decontamination and premature decommissioning insurance for each station for losses resulting from damage to its nuclear plants, either due to accidents or acts of terrorism. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. In the event of an insured loss, Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. In the event that one or more acts of terrorism cause accidental property damage within a twelve-month period from the first accidental property damage under one or more policies for all insured plants, the maximum recovery by Exelon will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity and any other source, applicable to such losses.

For its insured losses, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Uninsured losses and other expenses, to the extent not recoverable from insurers or the nuclear industry, could also be borne by Generation. Any such losses could have a material adverse effect on Exelon's and Generation's financial conditions, results of operations and cash flows.

Spent Nuclear Fuel Obligation

Under the NWPA, the DOE is responsible for the development of a geologic repository for and the disposal of SNF and high-level radioactive waste. As required by the NWPA, Generation is a party to contracts with the DOE (Standard Contracts) to provide for disposal of SNF from Generation's nuclear generating stations. In accordance with the NWPA and the Standard Contracts, Generation historically had paid the DOE one mill ($0.001) per kWh of net nuclear generation for the cost of SNF disposal. On November 19, 2013, the D.C. Circuit Court ordered the DOE to submit to Congress a proposal to reduce the current SNF disposal fee to zero, unless and until there is a viable disposal program. On May 9, 2014, the DOE notified Generation that the SNF disposal fee remained in effect through May 15, 2014, after which time the fee was set to zero. As a result, for the year ended December 31, 2017, 2016 and 2015, Generation did not incur any expense in SNF disposal fees. Until a new fee structure is in effect,

Combined Notes to Consolidated Financial Statements - (Continued)
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Exelon and Generation will not accrue any further costs related to SNF disposal fees. This fee may be adjusted prospectively to ensure full cost recovery. The NWPA and the Standard Contracts required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance has been, and is expected to be, delayed significantly.

The 2010 Federal budget (which became effective October 1, 2009) eliminated almost all funding for the creation of the Yucca Mountain repository while the Obama Administration devised a new strategy for long-term SNF management. The Blue Ribbon Commission (BRC) on America’s Nuclear Future, appointed by the U.S. Energy Secretary, released a report on January 26, 2012, detailing comprehensive recommendations for creating a safe, long-term solution for managing and disposing of the nation’s SNF and high-level radioactive waste.

In early 2013, the DOE issued an updated “Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste” in response to the BRC recommendations. This strategy included a consolidated interim storage facility that was planned to be operational in 2025. However, due to continued delays on the part of the DOE, Generation currently assumes the DOE will begin accepting SNF in 2030 and uses that date for purposes of estimating the nuclear decommissioning asset retirement obligations. The SNF acceptance date assumption is based on management’s estimates of the amount of time required for DOE to select a site location and develop the necessary infrastructure for long-term SNF storage.

In August 2004, Generation and the DOJ, in close consultation with the DOE, reached a settlement under which the government agreed to reimburse Generation, subject to certain damage limitations based on the extent of the government’s breach, for costs associated with storage of SNF at Generation’s nuclear stations pending the DOE’s fulfillment of its obligations. Generation’s settlement agreement does not include FitzPatrick and FitzPatrick does not currently have a settlement agreement in place. Calvert Cliffs, Ginna and Nine Mile Point each have separate settlement agreements in place with the DOE which were extended during 2017 to provide for the reimbursement of SNF storage costs through December 31, 2019. Generation submits annual reimbursement requests to the DOE for costs associated with the storage of SNF. In all cases, reimbursement requests are made only after costs are incurred and only for costs resulting from DOE delays in accepting the SNF.

Under the settlement agreements, Generation has received cumulative cash reimbursements for costs incurred as follows:

	Total	Net(a)
Cumulative cash reimbursements(b)	$ 1,167	$ 1,006

(a) Total after considering amounts due to co-owners of certain nuclear stations and to the former owner of Oyster Creek.
(b) Includes $53 and $49, respectively, for amounts received since April 1, 2014, for costs incurred under the CENG DOE Settlement Agreements prior to the consolidation of CENG.

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As of December 31, 2017 and 2016, the amount of SNF storage costs for which reimbursement has been or will be requested from the DOE under the DOE settlement agreements is as follows:

	December 31, 2017	December 31, 2016
DOE receivable - current[a]	$ 94	$ 109
DOE receivable - noncurrent[b]	15	15
Amounts owed to co-owners[a][c]	(11)	(13)

(a) Recorded in Accounts receivable, other.
(b) Recorded in Deferred debits and other assets, other
(c) Non-CENG amounts owed to co-owners are recorded in Accounts receivable, other. CENG amounts owed to co-owners are recorded in Accounts payable. Represents amounts owed to the co-owners of Peach Bottom, Quad Cities, and Nine Mile Point Unit 2 generating facilities.

The Standard Contracts with the DOE also required the payment to the DOE of a one-time fee applicable to nuclear generation through April 6, 1983. The fee related to the former PECO units has been paid. Pursuant to the Standard Contracts, ComEd previously elected to defer payment of the one-time fee of $277 million for its units (which are now part of Generation), with interest to the date of payment, until just prior to the first delivery of SNF to the DOE. The unfunded liabilities for SNF disposal costs, including the one-time fee, were transferred to Generation as part of Exelon’s 2001 corporate restructuring. A prior owner of FitzPatrick also elected to defer payment of the one-time fee of $34 million for the FitzPatrick unit. As part of the FitzPatrick acquisition on March 31, 2017, Generation assumed a SNF liability for the DOE one-time fee obligation with interest related to FitzPatrick along with an offsetting asset for the contractual right to reimbursement from NYPA, a prior owner of FitzPatrick, for amounts paid for the FitzPatrick DOE one-time fee obligation. The amounts were recorded at fair value. See Note 4 - Mergers, Acquisitions and Dispositions for additional information on the FitzPatrick acquisition. As of December 31, 2017 and 2016, the SNF liability for the one-time fee with interest was $1,147 million and $1,024 million, respectively, which is included in Exelon’s and Generation’s Consolidated Balance Sheets. Interest for Exelon’s and Generation’s SNF liabilities accrues at the 13-week Treasury Rate. The 13-week Treasury Rate in effect, for calculation of the interest accrual at December 31, 2017, was 1.149%. The outstanding one-time fee obligations for the Nine Mile Point, Ginna, Oyster Creek and TMI units remain with the former owners. The Clinton and Calvert Cliffs units have no outstanding obligation. See Note 11 — Fair Value of Financial Assets and Liabilities for additional information.

Environmental Remediation Matters

General. The Registrants’ operations have in the past, and may in the future, require substantial expenditures to comply with environmental laws. Additionally, under Federal and state environmental laws, the Registrants are generally liable for the costs of remediating environmental contamination of property now or formerly owned by them and of property contaminated by hazardous substances generated by them. The Registrants own or lease a number of real estate parcels, including parcels on which their operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws. In addition, the Registrants are currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future. Unless otherwise disclosed, the Registrants cannot reasonably estimate whether they will incur significant liabilities for additional investigation and remediation costs at these or additional sites identified by the Registrants, environmental agencies or others, or whether such costs will be recoverable from third parties, including customers. Additional costs could have a material, unfavorable impact on the Registrants’ financial conditions, results of operations and cash flows.

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MGP Sites

ComEd, PECO, BGE and DPL have identified sites where former MGP activities have or may have resulted in actual site contamination. For almost all of these sites, there are additional PRPs that may share responsibility for the ultimate remediation of each location.

- ComEd has identified 42 sites, 19 of which have been remediated and approved by the Illinois EPA or the U.S. EPA and 23 that are currently under some degree of active study and/or remediation. ComEd expects the majority of the remediation at these sites to continue through at least 2022.

- PECO has identified 26 sites, 17 of which have been remediated in accordance with applicable PA DEP regulatory requirements and 9 that are currently under some degree of active study and/or remediation. PECO expects the majority of the remediation at these sites to continue through at least 2022.

- BGE has identified 13 former gas manufacturing or purification sites, 11 of which the remediation has been completed and approved by the MDE and 2 that require some level of remediation and/or ongoing monitoring. BGE has determined that a loss associated with these sites is probable and has recorded an estimated liability, which is included in the table below. However, it is reasonably possible that BGE’s cost of remediation for one of its sites could be up to $13 million.

- DPL has identified 3 sites, 2 of which remediation has been completed and approved by the MDE or the Delaware Department of Natural Resources and Environmental Control. The remaining site is under study and the required cost at the site is not expected to be material.

The historical nature of the MGP sites and the fact that many of the sites have been buried and built over, impacts the ability to determine a precise estimate of the ultimate costs prior to initial sampling and determination of the exact scope and method of remedial activity. Management determines its best estimate of remediation costs using all available information at the time of each study, including probabilistic and deterministic modeling for ComEd and PECO, and the remediation standards currently required by the applicable state environmental agency. Prior to completion of any significant clean up, each site remediation plan is approved by the appropriate state environmental agency.

ComEd, pursuant to an ICC order, and PECO, pursuant to settlements of natural gas distribution rate cases with the PAPUC, are currently recovering environmental remediation costs of former MGP facility sites through customer rates. See Note 3 — Regulatory Matters for additional information regarding the associated regulatory assets. While BGE and DPL do not have riders for MGP clean-up costs, they have historically received recovery of actual clean-up costs in distribution rates.

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As of December 31, 2017 and 2016, the Registrants had accrued the following undiscounted amounts for environmental liabilities in Other current liabilities and Other deferred credits and other liabilities within their respective Consolidated Balance Sheets:

December 31, 2017	**Total environmental investigation and remediation reserve**	**Portion of total related to MGP investigation and remediation**
Exelon	$ 466	$ 315
Generation	117	—
ComEd	285	283
PECO	30	28
BGE	5	4
PHI	29	—
Pepco	27	—
DPL	1	—
ACE	1	—

December 31, 2016	**Total environmental investigation and remediation reserve**	**Portion of total related to MGP investigation and remediation**
Exelon	$ 429	$ 325
Generation	72	—
ComEd	292	291
PECO	33	31
BGE	2	2
PHI	30	1
Pepco	27	—
DPL	2	1
ACE	1	—

During the third quarter of 2017, ComEd, PECO, BGE and DPL completed an annual study of their future estimated MGP remediation requirements. The study resulted in a $13 million and $2 million increase to environmental liabilities and related regulatory assets for ComEd and PECO, respectively, and no change at BGE and DPL.

Solid and Hazardous Waste

Cotter Corporation. The EPA has advised Cotter Corporation (Cotter), a former ComEd subsidiary, that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. In 2000, ComEd sold Cotter to an unaffiliated third-party. As part of the sale, ComEd agreed to indemnify Cotter for any liability arising in connection with the West Lake Landfill. In connection with Exelon's 2001 corporate restructuring, this responsibility to indemnify Cotter was transferred to Generation. On May 29, 2008, the EPA issued a Record of Decision (ROD) approving a landfill cover remediation approach. By letter dated January 11, 2010, the EPA requested that the PRPs perform a supplemental feasibility study for a remediation alternative that would involve complete excavation of the radiological contamination. On September 30, 2011, the PRPs submitted the supplemental feasibility study to the EPA for review. Since June

2012, the EPA has requested that the PRPs perform a series of additional analyses and groundwater and soil sampling as part of the supplemental feasibility study. This further analysis was focused on a partial excavation remedial option. The PRPs provided the draft final Remedial Investigation and Feasibility Study (RI/FS) to the EPA in January 2018, which formed the basis for EPA's proposed remedy selection, as further discussed below. There are currently three PRPs

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participating in the West Lake Landfill remediation proceeding. Investigation by Generation has identified a number of other parties who also may be PRPs and could be liable to contribute to the final remedy. Further investigation is ongoing. As of December 31, 2016, Generation had previously recorded an estimated liability for its anticipated share of a landfill cover remedy, which at the time was estimated to cost approximately $90 million in total.

On February 1, 2018, the EPA announced its proposed remedy involving partial excavation of the site with an enhanced landfill cover. The proposed remedy will be open for public comment through March 22, 2018 and Generation currently expects that a ROD will be issued during the third quarter of 2018. Thereafter, the EPA will seek to enter into a Consent Decree with the PRPs to effectuate the remedy, which Generation currently expects will occur in late 2018 or early 2019. The estimated cost of the remedy, taking into account the current EPA technical requirements and the total costs expected to be incurred by the PRPs in fully executing the remedy, is approximately $340 million, including cost escalation on an undiscounted basis, which would be allocated among the final group of PRPs. Generation has determined that a loss associated with the EPA's partial excavation and enhanced landfill cover remedy is probable and has recorded a liability as of December 31, 2017, included in the table above, that reflects management's best estimate of Cotter's allocable share of the ultimate cost for the entire remediation effort. Given the joint and several nature of this liability, the magnitude of Generation's ultimate liability will depend on the actual costs incurred to implement the ultimate required remediation remedy as well as on the nature and terms of any cost-sharing arrangements with the final group of PRPs. Therefore, it is reasonably possible that the ultimate cost and Generation's associated allocable share recorded as of December 31, 2017, could differ significantly once these uncertainties are resolved, which could have a material impact on Exelon's and Generation's future financial conditions, results of operations and cash flows.

On January 16, 2018, the PRPs were advised by the EPA that it will begin an additional investigation and evaluation of groundwater conditions at the West Lake Landfill. The PRPs have been provided with a draft statement of work that will form the basis of an Administrative Settlement Agreement and Order on Consent for the performance by the PRPs of the groundwater RI/FS and reimbursement of EPA's oversight costs. The purposes of this new RI/FS are to define the nature and extent of any groundwater contamination from the West Lake Landfill site, determine the potential risk posed to human health and the environment, and evaluate remedial alternatives. Generation estimates the undiscounted cost for the groundwater RI/FS for West Lake to be approximately $20 million and Generation has recorded a liability as of December 31, 2017, included in the table above, that reflects management's best estimate of Cotter's allocable share of the cost among the PRPs. At this time Generation cannot predict the likelihood or the extent to which, if any, remediation activities will be required and cannot estimate a reasonably possible range of loss for response costs beyond those associated with the RI/FS component. It is reasonably possible, however, that resolution of this matter could have a material, unfavorable impact on Exelon's and Generation's future results of operations and cash flows.

During December 2015, the EPA took two actions related to the West Lake Landfill designed to abate what it termed as imminent and dangerous conditions at the landfill. The first involved installation by the PRPs of a non-combustible surface cover to protect against surface fires in areas where radiological materials are believed to have been disposed. Generation has accrued what it believes to be an adequate amount to cover its anticipated liability for this interim action, and the work is expected to be completed in 2018. The second action involved EPA's public statement that it will require the PRPs to construct a barrier wall in an adjacent landfill to prevent a subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, Generation believes that the requirement to build a barrier wall is remote in light of other technologies that have been employed by the adjacent landfill owner. Finally, one of the other PRPs, the landfill owner and operator of the adjacent landfill, has indicated that it will be making a contribution claim against Cotter for costs that it has incurred to prevent the subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, Exelon

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(Dollars in millions, except per share data unless otherwise noted)

and Generation do not possess sufficient information to assess this claim and therefore are unable to estimate a range of loss, if any. As such, no liability has been recorded for the potential contribution claim. It is reasonably possible, however, that resolution of this matter could have a material, unfavorable impact on Exelon's and Generation's financial conditions, results of operations and cash flows.

On August 8, 2011, Cotter was notified by the DOJ that Cotter is considered a PRP with respect to the government's clean-up costs for contamination attributable to low level radioactive residues at a former storage and reprocessing facility named Latty Avenue near St. Louis, Missouri. The Latty Avenue site is included in ComEd's indemnification responsibilities discussed above as part of the sale of Cotter. The radioactive residues had been generated initially in connection with the processing of uranium ores as part of the U.S. Government's Manhattan Project. Cotter purchased the residues in 1969 for initial processing at the Latty Avenue facility for the subsequent extraction of uranium and metals. In 1976, the NRC found that the Latty Avenue site had radiation levels exceeding NRC criteria for decontamination of land areas. Latty Avenue was investigated and remediated by the United States Army Corps of Engineers pursuant to funding under FUSRAP. The DOJ has not yet formally advised the PRPs of the amount that it is seeking, but it is believed to be approximately $90 million from all PRPs. The DOJ and the PRPs agreed to toll the statute of limitations until August 2018 so that settlement discussions could proceed. Generation has determined that a loss associated with this matter is probable under its indemnification agreement with Cotter and has recorded an estimated liability, which is included in the table above.

Commencing in February 2012, a number of lawsuits have been filed in the U.S. District Court for the Eastern District of Missouri. Among the defendants were Exelon, Generation and ComEd, all of which were subsequently dismissed from the case, as well as Cotter, which remains a defendant. The suits allege that individuals living in the North St. Louis area developed some form of cancer or other serious illness due to Cotter's negligent or reckless conduct in processing, transporting, storing, handling and/or disposing of radioactive materials. Plaintiffs are asserting public liability claims under the Price-Anderson Act. Their state law claims for negligence, strict liability, emotional distress, and medical monitoring have been dismissed. The complaints do not contain specific damage claims. In the event of a finding of liability against Cotter, it is reasonably possible that Generation would be financially responsible due to its indemnification responsibilities of Cotter described above. The court has dismissed a number of the lawsuits as untimely, and that ruling is currently on appeal. Pre-trial motions and discovery are proceeding in the remaining cases and a pre-trial scheduling order has been filed with the court. At this stage of the litigation, Generation cannot estimate a range of loss, if any. As such, no liability has been recorded for these lawsuits.

Benning Road Site. In September 2010, PHI received a letter from EPA identifying the Benning Road site as one of six land-based sites potentially contributing to contamination of the lower Anacostia River. A portion of the site was formerly the location of a Pepco Energy Services electric generating facility. That generating facility was deactivated in June 2012 and plant structure demolition was completed in July 2015. The remaining portion of the site consists of a Pepco transmission and distribution service center that remains in operation. In December 2011, the U.S. District Court for the District of Columbia approved a Consent Decree entered into by Pepco and Pepco Energy Services with the DOEE, which requires Pepco and Pepco Energy Services to conduct a Remediation Investigation (RI)/ Feasibility Study (FS) for the Benning Road site and an approximately 10 to 15-acre portion of the adjacent Anacostia River. The RI/FS will form the basis for the remedial actions for the Benning Road site and for the Anacostia River sediment associated with the site. The Consent Decree does not obligate Pepco or Pepco Energy Services to pay for or perform any remediation work, but it is anticipated that DOEE will look to Pepco and Pepco Energy Services to assume responsibility for cleanup of any conditions in the river that are determined to be attributable to past activities at the Benning Road site. Pursuant to Exelon's March 23, 2016 acquisition of PHI, Pepco Energy Services was transferred to Generation.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Since 2013, Pepco and Pepco Energy Services (now Generation) have been performing RI work and have submitted multiple draft RI reports to the DOEE. Once the RI work is completed, Pepco and Generation will issue a draft “final” RI report for review and comment by DOEE and the public. Pepco and Generation will then proceed to develop an FS to evaluate possible remedial alternatives for submission to DOEE. The Court has established a schedule for completion of the RI and FS, and approval by the DOEE, by May 6, 2019.

Upon DOEE’s approval of the final RI and FS Reports, Pepco and Generation will have satisfied their obligations under the Consent Decree. At that point, DOEE will prepare a Proposed Plan regarding further response actions. After considering public comment on the Proposed Plan, DOEE will issue a Record of Decision identifying any further response actions determined to be necessary.

PHI, Pepco and Generation have determined that a loss associated with this matter is probable and have accrued an estimated liability, which is included in the table above.

Anacostia River Tidal Reach**.** Contemporaneous with the Benning RI/FS being performed by Pepco and Generation, DOEE and certain federal agencies have been conducting a separate RI/FS focused on the entire tidal reach of the Anacostia River extending from just north of the Maryland-D.C. boundary line to the confluence of the Anacostia and Potomac Rivers. In March 2016, DOEE released a draft of the river-wide RI Report for public review and comment. The river-wide RI incorporated the results of the river sampling performed by Pepco and Pepco Energy Services as part of the Benning RI/FS, as well as similar sampling efforts conducted by owners of other sites adjacent to this segment of the river and supplemental river sampling conducted by DOEE’s contractor. DOEE asked Pepco, along with parties responsible for other sites along the river, to participate in a “Consultative Working Group” to provide input into the process for future remedial actions addressing the entire tidal reach of the river and to ensure proper coordination with the other river cleanup efforts currently underway, including cleanup of the river segment adjacent to the Benning Road site resulting from the Benning RI/FS. Pepco responded that it will participate in the Consultative Working Group but its participation is not an acceptance of any financial responsibility beyond the work that will be performed at the Benning Road site described above. DOEE has advised the Consultative Working Group that the federal and DOEE authorities are conducting the remedial investigation and that a feasibility study of potential remedies is being prepared. DOEE currently is working under a statutorily mandated date to complete the Record of Decision selecting the final remedy for the project by June 30, 2018. However, on January 11, 2018 the DOEE requested at a hearing of the District of Columbia Council Committee of the Environment that this statutory deadline be extended until December 31, 2019 to reflect the time necessary to complete the investigation. A recommendation by the Committee to the DC Council is expected in the near future. The District of Columbia Council will make the final determination to extend the deadline. An appropriate liability for Pepco’s share of investigation costs has been accrued and is included in the table above. Although Pepco has determined that it is probable that costs for remediation will be incurred, Pepco cannot estimate the reasonably possible range of loss at this time and no liability has been accrued for those future costs.

Conectiv Energy Wholesale Power Generation Sites. In July 2010, PHI sold the wholesale power generation business of Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries (Conectiv Energy) to Calpine Corporation (Calpine). Under New Jersey’s Industrial Site Recovery Act (ISRA), the transfer of ownership triggered an obligation on the part of Conectiv Energy to remediate any environmental contamination at each of the nine Conectiv Energy generating facility sites located in New Jersey. Under the terms of the sale, Calpine has assumed responsibility for performing the ISRA-required remediation and for the payment of all related ISRA compliance costs up to $10 million. Predecessor PHI was obligated to indemnify Calpine for any ISRA compliance remediation costs in excess of $10 million. According to PHI’s estimates, the costs of ISRA-required remediation activities at the nine generating facility sites located in New Jersey are in the range of approximately $7 million to $18 million, and predecessor PHI recorded an estimated liability for its share of the estimated clean-up costs. Pursuant

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(Dollars in millions, except per share data unless otherwise noted)

to Exelon's March 2016 acquisition of PHI, the Conectiv Energy legal entity was transferred to Generation and the liability for Predecessor PHI's share of the estimated clean- up costs was also transferred to Generation and is included in the table above as a liability of Generation. The responsibility to indemnify Calpine is shared by PHI and Generation.

Brandywine Fly Ash Disposal Site. In February 2013, Pepco received a letter from the MDE requesting that Pepco investigate the extent of waste on a Pepco right-of-way that traverses the Brandywine fly ash disposal site in Brandywine, Prince George's County, Maryland, owned by NRG Energy, Inc. (as successor to GenOn MD Ash Management, LLC) (NRG). In July 2013, while reserving its rights and related defenses under a 2000 agreement covering the sale of this site, Pepco indicated its willingness to investigate the extent of, and propose an appropriate closure plan to address, ash on the right-of-way. Pepco submitted a schedule for development of a closure plan to MDE on September 30, 2013 and, by letter dated October 18, 2013, MDE approved the schedule.

Pepco has determined that a loss associated with this matter is probable and has recorded an estimated liability, which is included in the table above. Pepco believes that the costs incurred in this matter may be recoverable from NRG under the 2000 sale agreement, but has not recorded an associated receivable for any potential recovery.

Litigation and Regulatory Matters

Asbestos Personal Injury Claims

Exelon and Generation. Generation maintains estimated liabilities for claims associated with asbestos-related personal injury actions in certain facilities that are currently owned by Generation or were previously owned by ComEd and PECO. The estimated liabilities are recorded on an undiscounted basis and exclude the estimated legal costs associated with handling these matters, which could be material.

At December 31, 2017 and 2016, Generation had recorded estimated liabilities of approximately $78 million and $83 million, respectively, in total for asbestos-related bodily injury claims. As of December 31, 2017, approximately $21 million of this amount related to 230 open claims presented to Generation, while the remaining $57 million is for estimated future asbestos-related bodily injury claims anticipated to arise through 2050, based on actuarial assumptions and analyses, which are updated on an annual basis. On a quarterly basis, Generation monitors actual experience against the number of forecasted claims to be received and expected claim payments and evaluates whether adjustments to the estimated liabilities are necessary.

On November 22, 2013, the Supreme Court of Pennsylvania held that the Pennsylvania Workers Compensation Act does not apply to an employee's disability or death resulting from occupational disease, such as diseases related to asbestos exposure, which manifests more than 300 weeks after the employee's last employment-based exposure, and that therefore the exclusivity provision of the Act does not preclude such employee from suing his or her employer in court. The Supreme Court's ruling reverses previous rulings by the Pennsylvania Superior Court precluding current and former employees from suing their employers in court, despite the fact that the same employee was not eligible for workers compensation benefits for diseases that manifest more than 300 weeks after the employee's last employment-based exposure to asbestos. Since the Pennsylvania Supreme Court's ruling in November 2013, Exelon, Generation, and PECO have experienced an increase in asbestos-related personal injury claims brought by former PECO employees, all of which have been accrued for on a claim by claim basis. Those additional claims are taken into account in projecting estimated future asbestos-related bodily injury claims.

On November 4, 2015, the Illinois Supreme Court found that the provisions of the Illinois' Workers' Compensation Act and the Workers' Occupational Diseases Act barred an employee from bringing a direct civil action against an employer for latent diseases, including asbestos-related diseases that fall outside the 25-year limit of the statute of repose. The Illinois Supreme Court's ruling reversed previous rulings by the Illinois Court of Appeals, which initially ruled that the Illinois Worker's Compensation law should not apply in cases where the diagnosis of an asbestos related disease occurred after the 25-year maximum time period for filing a Worker's Compensation claim. As a result of this ruling, Exelon, Generation, and ComEd have not recorded an increase to the asbestos-related bodily injury liability as of December 31, 2017.

There is a reasonable possibility that Exelon may have additional exposure to estimated future asbestos-related bodily injury claims in excess of the amount accrued and the increases could have a material unfavorable impact on Exelon's, Generation's and PECO's financial conditions, results of operations and cash flows.

Fund Transfer Restrictions (Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE)

Under applicable law, Exelon may borrow or receive an extension of credit from its subsidiaries. Under the terms of Exelon's intercompany money pool agreement, Exelon can lend to, but not borrow from the money pool.

The Federal Power Act declares it to be unlawful for any officer or director of any public utility "to participate in the making or paying of any dividends of such public utility from any funds properly included in capital account." What constitutes "funds properly included in capital account" is undefined in the Federal Power Act or the related regulations; however, FERC has consistently interpreted the provision to allow dividends to be paid as long as: (1) the source of the dividends is clearly disclosed; (2) the dividend is not excessive; and (3) there is no self-dealing on the part of corporate officials. While these restrictions may limit the absolute amount of dividends that a particular subsidiary may pay, Exelon does not believe these limitations are materially limiting because, under these limitations, the subsidiaries are allowed to pay dividends sufficient to meet Exelon's actual cash needs.

Under Illinois law, ComEd may not pay any dividend on its stock unless, among other things, "[its] earnings and earned surplus are sufficient to declare and pay same after provision is made for reasonable and proper reserves," or unless it has specific authorization from the ICC. ComEd has also agreed in connection with financings arranged through ComEd Financing III that it will not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debt securities issued to ComEd Financing III; (2) it defaults on its guarantee of the payment of distributions on the preferred trust securities of ComEd Financing III; or (3) an event of default occurs under the Indenture under which the subordinated debt securities are issued.

PECO's Articles of Incorporation prohibit payment of any dividend on, or other distribution to the holders of, common stock if, after giving effect thereto, the capital of PECO represented by its common stock together with its retained earnings is, in the aggregate, less than the involuntary liquidating value of its then outstanding preferred securities. On May 1, 2013, PECO redeemed all outstanding preferred securities. As a result, the above ratio calculation is no longer applicable. Additionally, PECO may not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debentures, which were issued to PEC L.P. or PECO Trust IV; (2) it defaults on its guarantee of the payment of distributions on the Series D Preferred Securities of PEC L.P. or the preferred trust securities of PECO Trust IV; or (3) an event of default occurs under the Indenture under which the subordinated debentures are issued.

BGE is subject to certain dividend restrictions established by the MDPSC. First, BGE was prohibited from paying a dividend on its common shares through the end of 2014. Second, BGE is prohibited from paying a dividend on its common shares if (a) after the dividend payment, BGE's equity ratio would be below 48% as calculated pursuant to the MDPSC's ratemaking precedents or (b) BGE's senior unsecured credit rating is rated by two of the three major credit rating agencies below investment grade. Finally,

Combined Notes to Consolidated Financial Statements - (Continued)
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BGE must notify the MDPSC that it intends to declare a dividend on its common shares at least 30 days before such a dividend is paid.

Pepco is subject to certain dividend restrictions established by settlements approved in Maryland and the District of Columbia. Pepco is prohibited from paying a dividend on its common shares if (a) after the dividend payment, Pepco's equity ratio would be 48% as equity levels are calculated under the ratemaking precedents of the commissions and the Board or (b) Pepco's senior unsecured credit rating is rated by one of the three major credit rating agencies below investment grade.

DPL is subject to certain dividend restrictions established by settlements approved in Delaware and Maryland. DPL is prohibited from paying a dividend on its common shares if (a) after the dividend payment, DPL's equity ratio would be 48% as equity levels are calculated under the ratemaking precedents of the commissions and the Board or (b) DPL's senior unsecured credit rating is rated by one of the three major credit rating agencies below investment grade.

ACE is subject to certain dividend restrictions established by settlements approved in New Jersey. ACE is prohibited from paying a dividend on its common shares if (a) after the dividend payment, ACE's equity ratio would be 48% as equity levels are calculated under the ratemaking precedents of the commissions and the Board or (b) ACE's senior unsecured credit rating is rated by one of the three major credit rating agencies below investment grade.

Conduit Lease with City of Baltimore

On September 23, 2015, the Baltimore City Board of Estimates approved an increase in annual rental fees for access to the Baltimore City underground conduit system effective November 1, 2015, from $12 million to $42 million, subject to an annual increase thereafter based on the Consumer Price Index. BGE subsequently entered into litigation with the City regarding the amount of and basis for establishing the conduit fee. On November 30, 2016, the Baltimore City Board of Estimates approved a settlement agreement entered into between BGE and the City to resolve the disputes and pending litigation related to BGE's use of and payment for the underground conduit system. As a result of the settlement, the parties have entered into a six-year lease that reduces the annual expense to $25 million in the first three years and caps the annual expense in the last three years to not more than $29 million. BGE recorded a decrease to Operating and maintenance expense in the fourth quarter of 2016 of approximately $28 million for the reversal of the previously higher fees accrued as well as the settlement of prior year disputed fee true-up amounts.

Deere Wind Energy Assets

In 2013, Deere & Company (Deere) filed a lawsuit against Generation in the Delaware Superior Court relating to Generation's acquisition of the Deere wind energy assets. Under the purchase agreement, Deere was entitled to receive earn-out payments if certain specific wind projects already under development in Michigan met certain development and construction milestones following the sale. In the complaint, Deere sought to recover a $14 million earn-out payment associated with one such project, which was never completed. On June 2, 2016, the Delaware Superior Court entered summary judgment in favor of Deere. As a result, in the second quarter of 2016, Generation increased its accrued liability to $14 million. On January 17, 2017, Generation filed an appeal with the Delaware Supreme Court. On December 18, 2017, the Delaware

Supreme Court reversed the Superior Court decision and entered final judgment in favor of Generation. As a result, in the fourth quarter of 2017, Generation reversed its previously established liability of $14 million.

City of Everett Tax Increment Financing Agreement (Exelon)

On April 10, 2017, the City of Everett petitioned the Massachusetts Economic Assistance Coordinating Council (EACC) to revoke the 1999 tax increment financing agreement (TIF Agreement) relating to Mystic 8 & 9 on the grounds that the total investment in Mystic 8 & 9 materially deviates from the investment set forth in the TIF Agreement. On October 31, 2017, a three-member panel of the EACC conducted an administrative hearing on the City's petition. On November 30, 2017, the hearing panel issued a tentative decision denying the City's petition, finding that there was no material misrepresentation that would justify revocation of the TIF Agreement. On December 13, 2017, the tentative decision was adopted by the full EACC. On January 12, 2018, the City filed a complaint in Massachusetts Superior Court requesting, among other things, that the court set aside the EACC's decision, grant the City's request to decertify the Project and the TIF Agreement, and award the City damages for alleged underpaid taxes over the period of the TIF Agreement. Generation vigorously contested the City's claims before the EACC and will continue to do so in the Massachusetts Superior Court proceeding. Generation continues to believe that the City's claim lacks merit. Accordingly, Generation has not recorded a liability for payment resulting from such a revocation, nor can Generation estimate a reasonably possible range of loss, if any, associated with any such revocation. Further, it is reasonably possible that property taxes assessed in future periods, including those following the expiration of the current TIF Agreement in 2019, could be material to Generation's results of operations and cash flows.

General

The Registrants are involved in various other litigation matters that are being defended and handled in the ordinary course of business. The assessment of whether a loss is probable or a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. The Registrants maintain accruals for such losses that are probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of reasonably possible loss, particularly where (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss.

Income Taxes

See Note 14 — Income Taxes for information regarding the Registrants' income tax refund claims and certain tax positions, including the 1999 sale of fossil-generating assets.

24. Supplemental Financial Information (All Registrants)

Supplemental Statement of Operations Information

The following tables provide additional information about the Registrants' Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2017, 2016 and 2015.

For the year ended December 31, 2017

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Taxes other than income									

Utility[(a)]	$ 898	$ 126	$ 240	$ 125	$ 89	$ 318	$ 300	$ 18	$ —
Property	545	269	28	14	132	101	62	32	3
Payroll	230	121	26	15	15	26	6	4	2
Other	58	39	2	—	4	7	3	3	1
Total taxes other than income	$ 1,731	$ 555	$ 296	$ 154	$ 240	$ 452	$ 371	$ 57	$ 6

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Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	For the year ended December 31, 2016								*Successor* March 24, 2016 to December 31, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Taxes other than income										
Utility[a]	$ 753	$ 122	$ 242	$ 136	$ 85	$ 312	$ 18	$ —	$ 253	$ 78
Property	483	246	27	13	123	53	31	3	73	18
Payroll	226	117	28	15	17	8	5	3	23	8
Other	114	21	(4)	—	4	4	1	1	5	1
Total taxes other than income	$ 1,576	$ 506	$ 293	$ 164	$ 229	$ 377	$ 55	$ 7	$ 354	$ 105

	For the year ended December 31, 2015								
						Predecessor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Taxes other than income									
Utility[a]	$ 474	$ 105	$ 236	$ 133	$ 85	$ 326	$ 308	$ 18	$ —
Property	407	250	27	11	119	94	57	28	3
Payroll	201	118	28	14	16	27	6	4	2
Other	118	16	5	2	4	8	5	1	2
Total taxes other than income	$ 1,200	$ 489	$ 296	$ 160	$ 224	$ 455	$ 376	$ 51	$ 7

(a) Generation's utility tax represents gross receipts tax related to its retail operations and ComEd's, PECO's, BGE's, Pepco's, DPL's and ACE's utility taxes represent municipal and state utility taxes and gross receipts taxes related to their operating revenues. The offsetting collection of utility taxes from customers is recorded in revenues on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

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	For the year ended December 31, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[(a)]									
Regulatory agreement units	$ 488	$ 488	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	209	209	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds									
Regulatory agreement units	455	455	—	—	—	—	—	—	—
Non-regulatory agreement units	521	521	—	—	—	—	—	—	—
Net unrealized losses on pledged assets									
Zion Station decommissioning	(10)	(10)	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[(b)]	(724)	(724)	—	—	—	—	—	—	—
Total decommissioning-related activities	939	939	—	—	—	—	—	—	—
Investment income	8	6	—	—	—	2	1	—	—
Interest income (expense) related to uncertain income tax positions	3	(1)	—	—	—	—	—	—	—
Penalty related to uncertain income tax positions[(c)]	2	—	—	—	—	—	—	—	—
AFUDC—Equity	73	—	12	9	16	36	23	7	6
Other	31	4	10	—	—	16	8	7	1
Other, net	$ 1,056	$ 948	$ 22	$ 9	$ 16	$ 54	$ 32	$ 14	$ 7

Combined Notes to Consolidated Financial Statements - (Continued)
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	For the year ended December 31, 2016								Successor March 24, 2016 to December 31, 2016	Predecessor January 1, 2016 to March 23, 2016
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Other, Net										
Decommissioning-related activities:										
Net realized income on decommissioning trust funds[(a)]										
Regulatory agreement units	$ 237	$ 237	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	126	126	—	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds										
Regulatory agreement units	216	216	—	—	—	—	—	—	—	—
Non-regulatory agreement units	194	194	—	—	—	—	—	—	—	—
Net unrealized losses on pledged assets										
Zion Station decommissioning	(1)	(1)	—	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[(b)]	(372)	(372)	—	—	—	—	—	—	—	—
Total decommissioning-related activities	400	400	—	—	—	—	—	—	—	—
Investment income (loss)	17	8	—	(1)	2	1	—	1	1	—
Long-term lease income	4	—	—	—	—	—	—	—	—	—
Interest income (expense) related to uncertain income tax positions	13	—	—	—	—	1	—	—	(1)	—
Penalty related to uncertain income tax positions[(c)]	(106)	—	(86)	—	—	—	—	—	—	—
AFUDC—Equity	64	—	14	8	19	19	5	6	23	7
Loss on debt extinguishment	(3)	(2)	—	—	—	—	—	—	—	—
Other	24	(5)	7	1	—	15	8	2	21	(11)
Other, net	$ 413	$ 401	$ (65)	$ 8	$ 21	$ 36	$ 13	$ 9	$ 44	$ (4)

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	For the year ended December 31, 2015								
						Predecessor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[(a)]									
Regulatory agreement units	$ 232	$ 232	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	156	156	—	—	—	—	—	—	—
Net unrealized losses on decommissioning trust funds									
Regulatory agreement units	(282)	(282)	—	—	—	—	—	—	—
Non-regulatory agreement units	(197)	(197)	—	—	—	—	—	—	—
Net unrealized gains on pledged assets									
Zion Station decommissioning	7	7	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[(b)]	21	21	—	—	—	—	—	—	—
Total decommissioning-related activities	(63)	(63)	—	—	—	—	—	—	—
Investment income (loss)	8	3	—	(2)	4	—	—	—	—
Long-term lease income	15	—	—	—	—	—	—	—	—
Interest income related to uncertain income tax positions	1	1	—	—	—	34	5	—	—
AFUDC—Equity	24	—	5	5	14	14	12	1	1
Terminated interest rate swaps[(d)]	(26)	—	—	—	—	—	—	—	—
PHI merger related debt exchange[(e)]	(22)	—	—	—	—	—	—	—	—
Other	17	(1)	16	2	—	40	11	9	2
Other, net	$ (46)	$ (60)	$ 21	$ 5	$ 18	$ 88	$ 28	$ 10	$ 3

(a) Includes investment income and realized gains and losses on sales of investments within the nuclear decommissioning trust funds.

(b) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of net income taxes related to all NDT fund activity for those units. See Note 15 — Asset Retirement Obligations for additional information regarding the accounting for nuclear decommissioning.

(c) See Note 14—Income Taxes for discussion of the penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position.

(d) In January 2015, in connection with Generation's $750 million issuance of five-year Senior Unsecured Notes, Exelon terminated certain floating-to-fixed interest rate swaps. As the original forecasted transactions were a series of future interest payments over a ten-year period, a portion of the anticipated interest payments are probable not to occur. As a result, $26 million of anticipated payments were reclassified from AOCI to Other, net in Exelon's Consolidated Statements of Operations and Comprehensive Income.

(e) See Note 13—Debt and Credit Agreements and Note 4—Mergers, Acquisitions and Dispositions for additional information on the PHI merger related debt exchange.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Supplemental Cash Flow Information

The following tables provide additional information regarding the Registrants' Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015.

	For the year ended December 31, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Depreciation, amortization and accretion									
Property, plant and equipment	$ 3,293	$ 1,409	$ 777	$ 261	$ 312	$ 457	$ 203	$ 124	$ 89
Regulatory assets	478	—	73	25	161	218	118	43	57
Amortization of intangible assets, net	57	48	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities[(a)]	35	35	—	—	—	—	—	—	—
Nuclear fuel[(b)]	1,096	1,096	—	—	—	—	—	—	—
ARO accretion[(c)]	468	468	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$ 5,427	$ 3,056	$ 850	$ 286	$ 473	$ 675	$ 321	$ 167	$ 146

	For the year ended December 31, 2016								*Successor*	*Predecessor*
									March 24, 2016 to December 31, 2016	**January 1, 2016 to March 23, 2016**
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Depreciation, amortization and accretion										
Property, plant and equipment	$ 3,477	$ 1,835	$ 708	$ 244	$ 299	$ 175	$ 110	$ 82	$ 325	$ 94
Regulatory assets	407	—	67	26	124	120	47	83	190	58
Amortization of intangible assets, net	52	44	—	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities[(a)]	35	35	—	—	—	—	—	—	—	—
Nuclear fuel[(b)]	1,159	1,159	—	—	—	—	—	—	—	—
ARO accretion[(c)]	446	446	—	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$ 5,576	$ 3,519	$ 775	$ 270	$ 423	$ 295	$ 157	$ 165	$ 515	$ 152

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	For the year ended December 31, 2015								
									Predecessor
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**
Depreciation, amortization and accretion									
Property, plant and equipment	$ 2,227	$ 1,007	$ 635	$ 240	$ 289	$ 164	$ 103	$ 76	$ 392
Regulatory assets	170	—	72	20	77	92	45	99	232
Amortization of intangible assets, net	54	47	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities[(a)]	22	22	—	—	—	—	—	—	—
Nuclear fuel[(b)]	1,116	1,116	—	—	—	—	—	—	—
ARO accretion[(c)]	398	397	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$ 3,987	$ 2,589	$ 707	$ 260	$ 366	$ 256	$ 148	$ 175	$ 624

(a) Included in Operating revenues or Purchased power and fuel on the Registrants' Consolidated Statements of Operations and Comprehensive Income.
(b) Included in Purchased power and fuel expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.
(c) Included in Operating and maintenance expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

	For the year ended December 31, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Cash paid (refunded) during the year:									
Interest (net of amount capitalized)	$ 2,430	$ 391	$ 307	$ 103	$ 96	$ 236	$ 114	$ 49	$ 59
Income taxes (net of refunds)	540	337	83	47	(2)	(144)	(104)	(49)	(2)
Other non-cash operating activities:									
Pension and non-pension postretirement benefit costs	$ 643	$ 227	$ 176	$ 29	$ 62	$ 94	$ 25	$ 13	$ 13
Loss (Gain) from equity method investments	32	33	—	—	—	(1)	—	—	—
Provision for uncollectible accounts	125	38	34	26	8	19	8	3	8
Provision for excess and obsolete inventory	56	51	3	—	—	2	1	1	—
Stock-based compensation costs	88	—	—	—	—	—	—	—	—
Other decommissioning-related activity[(a)]	(313)	(313)	—	—	—	—	—	—	—
Energy-related options[(b)]	7	7	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	9	—	4	1	—	4	2	1	1
Amortization of rate stabilization deferral	(10)	—	—	—	7	(17)	(17)	—	—
Amortization of debt fair value adjustment	(18)	(12)	—	—	—	(6)	—	—	—
Merger-related commitments [(c)]	—	—	—	—	—	(8)	(6)	(2)	—
Severance costs	35	31	—	—	—	3	—	—	—

Amortization of debt costs	64	37	5	2	2	4	2	—	1

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Discrete impacts from EIMA and FEJA[d]	(52)	—	(52)	—	—	—	—	—	—
Vacation accrual adjustment[e]	(68)	(35)	(12)	—	—	(8)	(8)	—	—
Long-term incentive plan	109	—	—	—	—	—	—	—	—
Change in environmental liabilities	44	44	—	—	—	—	—	—	—
Other	(30)	4	6	(4)	(14)	(27)	(12)	(7)	(6)
Total other non-cash operating activities	$ 721	$ 112	$ 164	$ 54	$ 65	$ 59	$ (5)	$ 9	$ 17
Non-cash investing and financing activities:									
Increase (decrease) in capital expenditures not paid	$ 42	$ 73	$ (61)	$ 22	$ 23	$ (12)	$ 5	$ 4	$ (13)
Change in PPE related to ARO update	29	29	—	—	—	—	—	—	—
Non-cash financing of capital projects	16	16	—	—	—	—	—	—	—
Indemnification of like-kind exchange position [f]	—	—	21	—	—	—	—	—	—
Dividends on stock compensation	7	—	—	—	—	—	—	—	—
Dissolution of financing trust due to long-term debt retirement	8	—	—	—	8	—	—	—	—
Fair value adjustment of long-term debt due to retirement	(5)	—	—	—	—	—	—	—	—
Fair value of pension and OPEB obligation transferred in connection with FitzPatrick	—	33	—	—	—	—	—	—	—

(a) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of operating revenues, ARO accretion, ARC amortization, investment income and income taxes related to all NDT fund activity for these units. See Note 15 — Asset Retirement Obligations for additional information regarding the accounting for nuclear decommissioning.

(b) Includes option premiums reclassified to realized at the settlement of the underlying contracts and recorded to results of operations.

(c) See Note 4 - Mergers, Acquisitions and Dispositions for more information.

(d) Reflects the change in ComEd's distribution and energy efficiency formula rates . See Note 3 — Regulatory Matters for more information.

(e) On December 1, 2017, Exelon adopted a single, standard vacation accrual policy for all non-represented, non-craft (represented and craft policies remained unchanged) employees effective January 1, 2018. To reflect the new policy, Exelon recorded a one-time, $68 million pre-tax credit to expense to reverse 2018 vacation cost originally accrued throughout 2017 that will now be accrued ratably over the year in 2018.

(f) See Note 14 — Income Taxes for discussion of the like-kind exchange tax position.

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Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

									Successor	*Predecessor*
	For the year ended December 31, 2016								**March 24, 2016 to December 31, 2016**	**January 1, 2016 to March 23, 2016**
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Cash paid (refunded) during the year:										
Interest (net of amount capitalized)	$ 1,340	$ 339	$ 298	$ 104	$ 92	$ 118	$ 47	$ 62	$ 209	$ 43
Income taxes (net of refunds)	(441)	435	(444)	64	31	216	115	200	258	11
Other non-cash operating activities:										
Pension and non-pension postretirement benefit costs	$ 619	$ 218	$ 166	$ 33	$ 67	$ 31	$ 18	$ 15	$ 86	$ 23
Loss from equity method investments	24	25	—	—	—	—	—	—	—	—
Provision for uncollectible accounts	155	19	41	30	1	29	23	32	65	16
Stock-based compensation costs	111	—	—	—	—	—	—	—	—	3
Other decommissioning-related activity[(a)]	(384)	(384)	—	—	—	—	—	—	—	—
Energy-related options[(b)]	(11)	(11)	—	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	9	—	4	1	—	2	1	1	3	1
Amortization of rate stabilization deferral	76	—	—	—	81	(12)	2	—	(5)	5
Amortization of debt fair value adjustment	(11)	(11)	—	—	—	—	—	—	—	—
Merger-related commitments [(c)(d)]	558	53	—	—	—	125	82	110	317	—
Severance costs	99	22	—	—	—	—	—	—	56	—
Discrete impacts from EIMA[(e)]	8	—	8	—	—	—	—	—	—	—
Amortization of debt costs	35	17	4	3	1	—	—	—	1	—
Provision for excess and obsolete inventory	12	6	4	—	—	3	1	1	1	1
Lower of cost or market inventory adjustment	37	36	—	1	—	—	—	—	—	—
Baltimore City Conduit Lease Settlement	(28)	—	—	—	(28)	—	—	—	—	—
Cash Working Capital Order	(13)	—	—	—	(13)	—	—	—	—	—
Asset Retirement Costs	2	—	—	—	—	—	1	2	2	—
Long-term incentive plan	70	—	—	—	—	—	—	—	—	—
Other	(35)	25	(12)	(3)	(21)	5	(14)	(6)	(12)	(3)
Total other non-cash operating activities	$ 1,333	$ 15	$ 215	$ 65	$ 88	$ 183	$114	$155	$ 514	$ 46
Non-cash investing and financing activities:										

Increase (decrease) in capital expenditures not paid	$ (128)	$ 50	$ (91)	$ (11)	$(86)	$ 27	$ (12)	$ 11	$ 21	$ 11

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Change in PPE related to ARO update	191	191	—	—	—	—	—	—	—	—
Indemnification of like-kind exchange position[g]	—	—	158	—	—	—	—	—	—	—
Dividends on stock compensation	6	—	—	—	—	—	—	—	—	—
Non-cash financing of capital projects	95	95	—	—	—	—	—	—	—	—
Sale of Upstream assets[c]	37	37	—	—	—	—	—	—	—	—
Pending FitzPatrick Acquisition[h]	(54)	(54)	—	—	—	—	—	—	—	—
Fair value of net assets contributed to Generation in connection with the PHI merger, net of cash	—	119	—	—	—	—	—	—	—	—
Fair value of net assets distributed to Exelon in connection with the PHI Merger, net of cash [c][f]	—	—	—	—	—	—	—	—	127	—
Fair value of pension obligation transferred in connection with the PHI Merger [c][f]	—	—	—	—	—	—	—	—	53	—
Assumption of member purchase liability	—	—	—	—	—	—	—	—	29	—
Assumption of merger commitment liability	—	—	—	—	—	33	—	—	33	—

(a) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of operating revenues, ARO accretion, ARC amortization, investment income and income taxes related to all NDT fund activity for these units. See Note 15 — Asset Retirement Obligations for additional information regarding the accounting for nuclear decommissioning.

(b) Includes option premiums reclassified to realized at the settlement of the underlying contracts and recorded to results of operations.

(c) See Note 4 - Mergers, Acquisitions and Dispositions for more information.

(d) Excludes $5 million of forgiveness of Accounts receivable related to merger commitments recorded in connection with the PHI Merger, the balance is included within Provision for uncollectible accounts.

(e) Reflects the change in distribution rates pursuant to EIMA, which allows for the recovery of costs by a utility through a pre-established performance-based formula rate. See Note 3 — Regulatory Matters for more information.

(f) Immediately following closing of the PHI Merger, the net assets associated with PHI's unregulated business interests were distributed by PHI to Exelon. Exelon contributed a portion of such net assets to Generation.

(g) See Note 14 — Income Taxes for discussion of the like-kind exchange tax position.

(h) Reflects the transfer of nuclear fuel to Entergy under the cost reimbursement provisions of the FitzPatrick acquisition agreements. See Note 4 - Mergers, Acquisitions and Dispositions for more information.

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Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	For the year ended December 31, 2015								
						Predecessor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Cash paid (refunded) during the year:									
Interest (net of amount capitalized)	$ 930	$ 348	$ 308	$ 94	$ 120	$ 268	$ 116	$ 47	$ 63
Income taxes (net of refunds)	342	476	(265)	64	73	(13)	(6)	(5)	—
Other non-cash operating activities:									
Pension and non-pension postretirement benefit costs	$ 637	$ 269	$ 206	$ 39	$ 65	$ 97	$ 30	$ 15	$ 15
Loss from equity method investments	7	8	—	—	—	—	—	—	—
Provision for uncollectible accounts	120	22	53	30	15	61	21	20	20
Provision for excess and obsolete inventory	10	9	1	—	—	1	—	—	—
Stock-based compensation costs	97	—	—	—	—	13	—	—	—
Other decommissioning-related activity(a)	(82)	(82)	—	—	—	—	—	—	—
Energy-related options(b)	21	21	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	7	—	5	2	—	5	2	1	1
Amortization of rate stabilization deferral	73	—	—	—	73	(2)	1	(3)	—
Amortization of debt fair value adjustment	(17)	(17)	—	—	—	—	—	—	—
Discrete impacts from EIMA(c)	144	—	144	—	—	—	—	—	—
Amortization of debt costs	58	15	4	2	2	2	—	—	—
Lower of cost or market inventory adjustment	23	23	—	—	—	—	—	—	—
Long-term incentive plan	24	—	—	—	—	—	—	—	—
Other	(13)	—	3	(3)	(18)	(10)	—	—	1
Total other non-cash operating activities	$1,109	$ 268	$ 416	$ 70	$ 137	$ 167	$ 54	$ 33	$ 37
Non-cash investing and financing activities:									
Change in PPE related to ARO update	$ 885	$ 885	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Increase (decrease) in capital expenditures not paid	96	82	34	(13)	(9)	6	(1)	3	3
Nuclear fuel procurement(d)	57	57	—	—	—	—	—	—	—
Indemnification of like-kind exchange position(e)	—	—	7	—	—	—	—	—	—
Dividends on stock compensation	6	—	—	—	—	—	—	—	—
Non-cash financing of capital projects	77	77	—	—	—	—	—	—	—
Long-term software licensing agreement(f)	95	—	—	—	—	—	—	—	—

(a)

Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of operating revenues, ARO accretion, ARC amortization, investment income and income taxes related to all NDT fund activity for these units. See Note 15 — Asset Retirement Obligations for additional information regarding the accounting for nuclear decommissioning.

(b) Includes option premiums reclassified to realized at the settlement of the underlying contracts and recorded to results of operations.

(c) Reflects the change in distribution rates pursuant to EIMA, which allows for the recovery of costs by a utility through a pre-established performance-based formula rate. See Note 3 — Regulatory Matters for more information.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

(d) Relates to the nuclear fuel procurement contracts for the purchase of fixed quantities of uranium, which was delivered to Generation in 2015. Generation is required to make payments starting September 30, 2018, with the final payment being due no later than September 30, 2020.
(e) See Note 14 — Income Taxes for discussion of the like-kind exchange tax position.
(f) Relates to a long-term software license agreement entered into on May 30, 2015. Exelon is required to make payments starting August of 2015 through May of 2024. See Note 13 - Debt and Credit Agreements.

Supplemental Balance Sheet Information

The following tables provide additional information about assets and liabilities of the Registrants at December 31, 2017 and 2016.

						Successor			
December 31, 2017	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Investments									
Equity method investments:									
Financing trusts[a]	$ 14	$ —	$ 6	$ 8	$ —	$ —	$ —	$ —	$ —
Bloom	206	206	—	—	—	—	—	—	—
Net Power	76	76	—	—	—	—	—	—	—
Other equity method investments	1	1	—	—	—	—	—	—	—
Total equity method investments	297	283	6	8	—	—	—	—	—
Other investments:									
Employee benefit trusts and investments[b]	244	51	—	17	5	132	102	—	—
Other cost method investments	62	62	—	—	—	—	—	—	—
Other available for sale investments	37	37	—	—	—	—	—	—	—
Total investments	$ 640	$ 433	$ 6	$ 25	$ 5	$ 132	$ 102	$ —	$ —

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

December 31, 2016	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Investments									
Equity method investments:									
Financing trusts[a]	$ 22	$ —	$ 6	$ 8	$ 8	$ —	$ —	$ —	$ —
Bloom	216	216	—	—	—	—	—	—	—
Net Power	57	57	—	—	—	—	—	—	—
Other equity method investments	16	15	—	—	—	—	—	—	—
Total equity method investments	311	288	6	8	8	—	—	—	—
Other investments:									
Employee benefit trusts and investments[b]	232	44	—	17	4	133	102	—	—
Other cost method investments	52	52	—	—	—	—	—	—	—
Other available for sale investments	34	34	—	—	—	—	—	—	—
Total investments	$ 629	$ 418	$ 6	$ 25	$ 12	$ 133	$ 102	$ —	$ —

(a) Includes investments in affiliated financing trusts, which were not consolidated within the financial statements of Exelon and are shown as investments on the Consolidated Balance Sheets. See Note 1 — Significant Accounting Policies for additional information.

(b) The Registrants' investments in these marketable securities are recorded at fair market value.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following tables provide additional information about liabilities of the Registrants at December 31, 2017 and 2016.

						Successor			
December 31, 2017	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Accrued expenses									
Compensation-related accruals[(a)]	$ 978	$ 407	$ 158	$ 64	$ 58	$ 106	$ 29	$ 17	$ 11
Taxes accrued	373	444	60	15	71	61	68	4	5
Interest accrued	328	78	102	33	34	48	23	8	12
Severance accrued	58	30	2	—	—	17	—	—	—
Other accrued expenses	98	61	5	2	1	29	17	6	5
Total accrued expenses	$ 1,835	$ 1,020	$ 327	$ 114	$ 164	$ 261	$ 137	$ 35	$ 33

						Successor			
December 31, 2016	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Accrued expenses									
Compensation-related accruals[(a)]	$ 1,199	$ 557	$ 199	$ 67	$ 64	$ 112	$ 30	$ 17	$ 11
Taxes accrued	723	239	330	4	78	65	48	4	9
Interest accrued	1,234	82	609	30	31	49	21	8	12
Severance accrued	44	15	2	—	—	19	—	—	—
Other accrued expenses	260	96	110	3	2	27	14	7	6
Total accrued expenses	$ 3,460	$ 989	$ 1,250	$ 104	$ 175	$ 272	$ 113	$ 36	$ 38

(a) Primarily includes accrued payroll, bonuses and other incentives, vacation and benefits.

25. Segment Information (All Registrants)

Operating segments for each of the Registrants are determined based on information used by the chief operating decision maker(s) (CODM) in deciding how to evaluate performance and allocate resources at each of the Registrants.

In the first quarter of 2016, following the consummation of the PHI Merger, three new reportable segments were added: Pepco, DPL and ACE. As a result, Exelon has twelve reportable segments, which include ComEd, PECO, BGE, PHI's three reportable segments consisting of Pepco, DPL, and ACE, and Generation's six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and all other power regions referred to collectively as "Other Power Regions", which includes activities in the South, West and Canada. ComEd, PECO, BGE, Pepco, DPL and ACE each represent a single reportable segment, and as such, no separate segment information is provided for these Registrants. Exelon, ComEd, PECO, BGE, Pepco, DPL and ACE's CODMs evaluate the performance of and allocate resources to ComEd, PECO, BGE, Pepco, DPL and ACE based on net income and return on equity.

Effective with the consummation of the PHI Merger, PHI’s reportable segments have changed based on the information used by the CODM to evaluate performance and allocate resources. PHI’s reportable segments consist of Pepco, DPL and ACE. PHI’s Predecessor periods’ segment information was recast in 2016 to conform to the current Exelon presentation. The reclassification of the segment information did not impact PHI’s reported consolidated revenues or net income. PHI’s CODM evaluates the

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

performance of and allocates resources to Pepco, DPL and ACE based on net income and return on equity.

The basis for Generation's reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation's hedging strategies and risk metrics are also aligned to these same geographic regions. Descriptions of each of Generation's six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.

- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.

- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

- New York represents operations within ISO-NY, which covers the state of New York in its entirety.

- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.

- Other Power Regions:

  - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.

  - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado and parts of New Mexico, Wyoming and South Dakota.

  - Canada represents operations across the entire country of Canada and includes AESO, OIESO and the Canadian portion of MISO.

The CODMs for Exelon and Generation evaluate the performance of Generation's electric business activities and allocate resources based on revenues net of purchased power and fuel expense (RNF).

Generation believes that RNF is a useful measurement of operational performance. RNF is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report. Generation's operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for Generation's owned generation and fuel costs associated with tolling agreements. The results of Generation's other business activities are not regularly reviewed by the CODM and are therefore not classified as operating segments or included in

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

the regional reportable segment amounts. These activities include natural gas, as well as other miscellaneous business activities that are not significant to Generation’s overall operating revenues or results of operations. Further, Generation’s unrealized mark-to-market gains and losses on economic hedging activities and its amortization of certain intangible assets and liabilities relating to commodity contracts recorded at fair value from mergers and acquisitions are also excluded from the regional reportable segment amounts. Exelon and Generation do not use a measure of total assets in making decisions regarding allocating resources to or assessing the performance of these reportable segments.

An analysis and reconciliation of the Registrants’ reportable segment information to the respective information in the consolidated financial statements for the years ended December 31, 2017, 2016, and 2015 is as follows:

					Successor			
	Generation [a]	**ComEd**	**PECO**	**BGE**	**PHI [e]**	**Other [b]**	**Intersegment Eliminations**	**Exelon**
Operating revenues[c]:								
2017								
Competitive businesses electric revenues	$ 15,300	$ —	$ —	$ —	$ —	$ —	$ (1,105)	$ 14,195
Competitive businesses natural gas revenues	2,575	—	—	—	—	—	—	2,575
Competitive businesses other revenues	591	—	—	—	—	—	(1)	590
Rate-regulated electric revenues	—	5,536	2,375	2,489	4,469	—	(29)	14,840
Rate-regulated natural gas revenues	—	—	495	687	161	—	(10)	1,333
Shared service and other revenues	—	—	—	—	49	1,831	(1,880)	—
2016								
Competitive businesses electric revenues	$ 15,390	$ —	$ —	$ —	$ —	$ —	$ (1,430)	$ 13,960
Competitive businesses natural gas revenues	2,146	—	—	—	—	—	—	2,146
Competitive businesses other revenues	215	—	—	—	—	—	(4)	211
Rate-regulated electric revenues	—	5,254	2,531	2,609	3,506	—	(31)	13,869
Rate-regulated natural gas revenues	—	—	463	624	92	—	(13)	1,166
Shared service and other revenues	—	—	—	—	45	1,648	(1,686)	7
2015								
Competitive businesses electric revenues	$ 15,944	$ —	$ —	$ —	$ —	$ —	$ (744)	$ 15,200
	2,433	—	—	—	—	—	—	2,433

Competitive businesses natural gas revenues

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Competitive businesses other revenues	758	—	—	—	—	—	(1)	757
Rate-regulated electric revenues	—	4,905	2,486	2,490	—	—	(5)	9,876
Rate-regulated natural gas revenues	—	—	546	645	—	—	(15)	1,176
Shared service and other revenues	—	—	—	—	—	1,372	(1,367)	5
Intersegment revenues[(d)]**:**								
2017	$ 1,110	$ 15	$ 7	$ 16	$ 50	$ 1,824	$ (3,020)	$ 2
2016	1,428	15	8	21	45	1,647	(3,159)	5
2015	745	4	2	14	—	1,367	(2,127)	5
Depreciation and amortization:								
2017	$ 1,457	$ 850	$ 286	$ 473	$ 675	$ 87	$ —	$ 3,828
2016	1,879	775	270	423	515	74	—	3,936
2015	1,054	707	260	366	—	63	—	2,450
Operating expenses [(c)]**:**								
2017	$ 17,993	$ 4,214	$ 2,215	$ 2,562	$ 3,911	$ 1,851	$ (3,026)	$ 29,720
2016	16,856	4,056	2,292	2,683	3,549	1,928	(3,164)	28,200
2015	16,872	3,889	2,404	2,578	—	1,444	(2,131)	25,056
Equity in earnings (losses) of unconsolidated affiliates:								
2017	$ (33)	$ —	$ —	$ —	$ —	$ 1	$ —	$ (32)
2016	(25)	—	—	—	—	1	—	(24)
2015	(8)	—	—	—	—	1	—	(7)
Interest expense, net:								
2017	$ 440	$ 361	$ 126	$ 105	$ 245	$ 283	$ —	$ 1,560
2016	364	461	123	103	195	290	—	1,536
2015	365	332	114	99	—	123	—	1,033
Income (loss) before income taxes:								
2017	$ 1,429	$ 984	$ 538	$ 525	$ 578	$ (296)	$ (2)	$ 3,756
2016	873	679	587	468	(58)	(555)	(5)	1,989
2015	1,850	706	521	477	—	(219)	(5)	3,330
Income taxes:								
2017	$ (1,375)	$ 417	$ 104	$ 218	$ 217	$ 294	$ —	$ (125)
2016	290	301	149	174	3	(156)	—	761
2015	502	280	143	189	—	(41)	—	1,073
Net income (loss):								
2017	$ 2,771	$ 567	$ 434	$ 307	$ 362	$ (590)	$ (2)	$ 3,849
2016	558	378	438	294	(61)	(398)	(5)	1,204
2015	1,340	426	378	288	—	(177)	(5)	2,250

Capital expenditures:

2017	$ 2,259	$ 2,250	$ 732	$ 882	$ 1,396	$ 65	$ —	$ 7,584
2016	3,078	2,734	686	934	1,008	113	—	8,553
2015	3,841	2,398	601	719	—	65	—	7,624

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Total assets:								
2017	$ 48,387	$ 29,726	$10,170	$ 9,104	$ 21,247	$ 8,618	$ (10,552)	$116,700
2016	46,974	28,335	10,831	8,704	21,025	10,369	(11,334)	114,904

(a) Generation includes the six reportable segments shown below: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions. For the year ended December 31, 2017, intersegment revenues for Generation include revenue from sales to PECO of $138 million, sales to BGE of $388 million, sales to Pepco of $255 million, sales to DPL of $179 million and sales to ACE of $29 million in the Mid-Atlantic region, and sales to ComEd of $121 million in the Midwest region, which eliminate upon consolidation. For the year ended December 31, 2016, intersegment revenues for Generation include revenue from sales to PECO of $290 million and sales to BGE of $608 million in the Mid-Atlantic region, and sales to ComEd of $47 million in the Midwest region, which eliminate upon consolidation. For the Successor period of March 24, 2016 to December 31, 2016, intersegment revenues for Generation include revenue from sales to Pepco of $295 million, sales to DPL of $154 million and sales to ACE of $37 million in the Mid-Atlantic region, which eliminate upon consolidation. For the year ended December 31, 2015, intersegment revenues for Generation include revenue from sales to PECO of $224 million and sales to BGE of $502 million in the Mid-Atlantic region, and sales to ComEd of $18 million in the Midwest region, which eliminate upon consolidation.

(b) Other primarily includes Exelon's corporate operations, shared service entities and other financing and investment activities.

(c) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 24 — Supplemental Financial Information for total utility taxes for the years ended December 31, 2017, 2016 and 2015.

(d) Intersegment revenues exclude sales to unconsolidated affiliates. The intersegment profit associated with Generation's sale of certain products and services by and between Exelon's segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in operating revenues in the Consolidated Statements of Operations and Comprehensive Income.

(e) Amounts included represent activity for PHI's successor period, March 24, 2016 through December 31, 2017. PHI includes the three reportable segments: Pepco, DPL and ACE. See tables below for PHI's predecessor periods, including Pepco, DPL and ACE, for January 1, 2016 to March 23, 2016 and for the year ended December 31, 2015.

Successor and Predecessor PHI:

	Pepco	DPL	ACE	Other[b]	Intersegment Eliminations	PHI
Operating revenues[a]:						
December 31, 2017 - Successor						
Rate-regulated electric revenues	$ 2,158	$ 1,139	$ 1,186	$ —	$ (14)	$ 4,469
Rate-regulated natural gas revenues	—	161	—	—	—	161
Shared service and other revenues	—	—	—	52	(3)	49
March 24, 2016 to December 31, 2016 - Successor						
Rate-regulated electric revenues	$ 1,675	$ 850	$ 989	$ 5	$ (13)	$ 3,506
Rate-regulated natural gas revenues	—	92	—	—	—	92
Shared service and other revenues	—	—	—	45	—	45
January 1, 2016 to March 23, 2016 - Predecessor						
Rate-regulated electric revenues	$ 511	$ 279	$ 268	$ 42	$ (4)	$ 1,096
Rate-regulated natural gas revenues	—	56	—	1	—	57
Shared service and other revenues	—	—	—	—	—	—
December 31, 2015 - Predecessor						
Rate-regulated electric revenues	$ 2,129	$ 1,138	$ 1,295	$ 210	$ (2)	$ 4,770
Rate-regulated natural gas revenues	—	164	—	1	—	165
Shared service and other revenues	—	—	—	—	—	—
Intersegment revenues:						
December 31, 2017 - Successor	$ 6	$ 8	$ 2	$ 53	$ (19)	$ 50

March 24, 2016 to December 31, 2016 - Successor	4	5	2	47	(13)	45

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

January 1, 2016 to March 23, 2016 - Predecessor	1	2	1	—	(4)	—
December 31, 2015 - Predecessor	5	6	4	—	(15)	—
Depreciation and amortization:						
December 31, 2017 - Successor	$ 321	$ 167	$ 146	$ 42	$ (1)	$ 675
March 24, 2016 to December 31, 2016 - Successor	224	120	128	43	—	$ 515
January 1, 2016 to March 23, 2016 - Predecessor	71	37	37	11	(4)	$ 152
December 31, 2015 - Predecessor	256	148	175	45	—	$ 624
Operating expenses:						
December 31, 2017 - Successor	$ 1,760	$ 1,071	$ 1,029	$ 68	$ (17)	$ 3,911
March 24, 2016 to December 31, 2016 - Successor	1,577	952	1,000	33	(13)	$ 3,549
January 1, 2016 to March 23, 2016 - Predecessor	443	284	251	73	(3)	$ 1,048
December 31, 2015 - Predecessor	1,790	1,137	1,161	220	—	$ 4,308
Interest expense, net:						
December 31, 2017 - Successor	$ 121	$ 51	$ 61	$ 13	$ (1)	$ 245
March 24, 2016 to December 31, 2016 - Successor	98	38	47	12	—	$ 195
January 1, 2016 to March 23, 2016 - Predecessor	29	12	15	11	(2)	$ 65
December 31, 2015 - Predecessor	124	50	64	43	(1)	$ 280
Income (loss) before income taxes:						
December 31, 2017 - Successor	$ 310	$ 192	$ 103	$ 377	$ (404)	$ 578
March 24, 2016 to December 31, 2016 - Successor	36	(30)	(51)	(84)	71	$ (58)
January 1, 2016 to March 23, 2016 - Predecessor	47	43	5	59	(118)	$ 36
December 31, 2015 - Predecessor	289	125	73	23	(29)	$ 481
Income taxes:						
December 31, 2017 - Successor	$ 105	$ 71	$ 26	$ 15	$ —	$ 217
March 24, 2016 to December 31, 2016 - Successor	26	5	(5)	(23)	—	$ 3
January 1, 2016 to March 23, 2016 - Predecessor	15	17	1	(16)	—	$ 17
December 31, 2015 - Predecessor	102	49	33	(48)	27	$ 163
Net income (loss):						
December 31, 2017 - Successor	$ 205	$ 121	$ 77	$ (91)	$ 50	$ 362
March 24, 2016 to December 31, 2016 - Successor	10	(35)	(47)	(34)	45	$ (61)
January 1, 2016 to March 23, 2016 - Predecessor	32	26	5	(44)	—	$ 19
December 31, 2015 - Predecessor	187	76	40	25	(1)	$ 327
Capital expenditures:						

December 31, 2017 - Successor	$ 628	$ 428	$ 312	$ 28	$ —	$ 1,396
March 24, 2016 to December 31, 2016 - Successor	489	277	218	24	—	$ 1,008

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

January 1, 2016 to March 23, 2016 - Predecessor	97	72	93	11	—	273
December 31, 2015 - Predecessor	544	352	300	34	—	1,230
Total assets:						
December 31, 2017 - Successor	$ 7,832	$ 4,357	$ 3,445	$ 10,600	$ (4,987)	$21,247
December 31, 2016 - Successor	7,335	4,153	3,457	10,804	(4,724)	21,025

(a) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 24 — Supplemental Financial Information for total utility taxes for the years ended December 31, 2017, 2016 and 2015.

(b) Other primarily includes PHI's corporate operations, shared service entities and other financing and investment activities. For the predecessor periods presented, Other includes the activity of PHI's unregulated businesses which were distributed to Exelon and Generation as a result of the PHI Merger.

Generation total revenues:

	2017			2016			2015		
	Revenues from external customers(a)	Intersegment revenues	Total revenues	Revenues from external customers(a)	Intersegment revenues	Total revenues	Revenues from external customers(a)	Intersegment revenues	Total revenues
Mid-Atlantic	$ 5,515	$ 25	$ 5,540	$ 6,212	$ (33)	$ 6,179	$ 5,974	$ (74)	$ 5,900
Midwest	4,206	(25)	4,181	4,402	10	4,412	4,712	(2)	4,710
New England	2,010	(8)	2,002	1,778	(9)	1,769	2,217	(5)	2,212
New York	1,535	(17)	1,518	1,198	(42)	1,156	996	(11)	985
ERCOT	958	4	962	831	6	837	863	(6)	857
Other Power Regions	1,076	(27)	1,049	969	(62)	907	1,182	(80)	1,102
Total Revenues for Reportable Segments	$ 15,300	$ (48)	$15,252	$ 15,390	$ (130)	$15,260	$ 15,944	$ (178)	$15,766
Other (b)	3,166	48	3,214	2,361	130	2,491	3,191	178	3,369
Total Generation Consolidated Operating Revenues	$ 18,466	$ —	$18,466	$ 17,751	$ —	$17,751	$ 19,135	$ —	$19,135

(a) Includes all wholesale and retail electric sales to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Also includes a $38 million decrease to revenues, a $52 million decrease to revenues, and a $7 million increase to revenues for the amortization of intangible assets related to commodity contracts recorded at fair value for the years ended December 31, 2017, 2016, and 2015, respectively, unrealized mark-to-market losses of $131 million, losses of $500 million, and gains of $203 million for the years ended December 31, 2017, 2016, and 2015, respectively, and elimination of intersegment revenues.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Generation total revenues net of purchased power and fuel expense:

	2017			2016			2015		
	RNF from external customers[a]	Intersegment RNF	Total RNF	RNF from external customers[a]	Intersegment RNF	Total RNF	RNF from external customers[a]	Intersegment RNF	Total RNF
Mid-Atlantic	$ 3,105	$ 109	$ 3,214	$ 3,282	$ 35	$ 3,317	$ 3,556	$ 15	$ 3,571
Midwest	2,810	10	2,820	2,969	2	2,971	2,912	(20)	2,892
New England	538	(24)	514	467	(29)	438	519	(58)	461
New York	975	1	976	761	(19)	742	584	50	634
ERCOT	575	(243)	332	412	(131)	281	425	(132)	293
Other Power Regions	476	(171)	305	483	(147)	336	440	(190)	250
Total Revenues net of purchased power and fuel expense for Reportable Segments	$ 8,479	$ (318)	$ 8,161	$ 8,374	$ (289)	$ 8,085	$ 8,436	$ (335)	$ 8,101
Other [b]	297	318	615	547	289	836	678	335	1,013
Total Generation Revenues net of purchased power and fuel expense	$ 8,776	$ —	$ 8,776	$ 8,921	$ —	$ 8,921	$ 9,114	$ —	$ 9,114

(a) Includes purchases and sales from third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $54 million decrease in RNF, a $57 million decrease in RNF, and a $8 million increase in RNF for the amortization of intangible assets and liabilities related to commodity contracts for the years ended December 31, 2017, 2016, and 2015, respectively, unrealized mark-to-market losses of $175 million, losses of $41 million, and gains of $257 million for the years ended December 31, 2017, 2016, and 2015, respectively, accelerated nuclear fuel amortization associated with the announced early retirement decision for Clinton and Quad Cities as discussed in Note 8 - Early Nuclear Plant Retirements of $12 million and $60 million for the year ended December 31, 2017 and 2016, and the elimination of intersegment revenues net of purchased power and fuel expense.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

26. Related Party Transactions (All Registrants)

Exelon

The financial statements of Exelon include related party transactions as presented in the tables below:

	For the Years Ended December 31,		
	2017	2016	2015
Operating revenues from affiliates:			
PECO [(a)]	$ 1	$ 1	$ 1
BGE [(a)]	4	4	4
Other	2	5	4
Total operating revenues from affiliates	$ 7	$ 10	$ 9
Interest expense to affiliates, net:			
ComEd Financing III	$ 14	$ 13	$ 13
PECO Trust III	6	6	6
PECO Trust IV	6	6	6
BGE Capital Trust II	10	16	16
Total interest expense to affiliates, net	$ 36	$ 41	$ 41
Earnings (losses) in equity method investments:			
Qualifying facilities and domestic power projects	$ (33)	$ (25)	$ (8)
Other	1	1	1
Total losses in equity method investments	$ (32)	$ (24)	$ (7)

	December 31,	
	2017	2016
Payables to affiliates (current):		
ComEd Financing III	$ 4	$ 4
PECO Trust III	1	1
BGE Capital Trust II	—	3
Total payables to affiliates (current)	$ 5	$ 8
Long-term debt due to financing trusts:		
ComEd Financing III	$ 205	$ 205
PECO Trust III	81	81
PECO Trust IV	103	103
BGE Capital Trust II	—	252
Total long-term debt due to financing trusts	$ 389	$ 641

(a)

The intersegment profit associated with the sale of certain products and services by and between Exelon’s segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in operating revenues in the Consolidated Statements of Operations. See Note 3—Regulatory Matters for additional information.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Transactions involving Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE are further described in the tables below.

Generation

The financial statements of Generation include related party transactions as presented in the tables below:

	For the Years Ended December 31,		
	2017	2016	2015
Operating revenues from affiliates:			
ComEd [(a)]	$ 121	$ 47	$ 18
PECO [(b)]	138	290	224
BGE [(c)]	388	608	502
Pepco [(d)]	255	295	—
DPL [(e)]	179	154	—
ACE [(f)]	29	37	—
BSC	1	2	1
Other	4	6	4
Total operating revenues from affiliates	$ 1,115	$ 1,439	$ 749
Purchased power and fuel from affiliates:			
ComEd	$ 13	$ —	$ —
BGE	9	12	14
Other	(3)	—	—
Total purchased power and fuel from affiliates	$ 19	$ 12	$ 14
Operating and maintenance from affiliates:			
ComEd [(g)]	$ 7	$ 7	$ 4
PECO [(g)]	1	3	2
BGE [(g)]	1	1	—
Pepco	—	1	—
PHISCO	1	1	—
BSC [(h)]	689	650	614
Other	$ (2)	$ —	$ —
Total operating and maintenance from affiliates	$ 697	$ 663	$ 620
Interest expense to affiliates, net:			
Exelon Corporate [(i)]	$ 37	$ 39	$ 43
PCI	1	—	—
PECO	1	—	—
Total interest expense to affiliates, net:	39	39	43
Earnings (losses) in equity method investments			

Qualifying facilities and domestic power projects	$	(33)	$	(25)	$	(8)
Capitalized costs						
BSC [(h)]	$	98	$	98	$	76
Cash distribution paid to member	$	659	$	922	$	2,474
Contribution from member	$	102	$	142	$	47

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	December 31,	
	2017	2016
Receivables from affiliates (current):		
ComEd [(a)]	$ 28	$ 14
PECO [(b)]	26	33
BGE [(c)]	24	26
Pepco [(d)]	36	44
DPL [(e)]	12	16
ACE [(f)]	6	9
PHISCO [(h)]	1	5
PCI	—	8
Other	7	1
Total receivables from affiliates (current)	$ 140	$ 156
Intercompany money pool (current):		
PCI	$ 54	$ 55
Payables to affiliates (current):		
Exelon Corporate [(i)]	$ 21	$ 22
BSC [(h)]	74	99
ComEd	12	9
PECO [(b)]	4	—
Other	12	7
Total payables to affiliates (current)	$ 123	$ 137
Long-term debt due to affiliates (noncurrent):		
Exelon Corporate [(k)]	$ 910	$ 922
Payables to affiliates (noncurrent):		
BSC [(h)]	$ —	$ 1
ComEd [(j)]	2,528	2,169
PECO [(j)]	537	438
Total payables to affiliates (noncurrent)	$ 3,065	$ 2,608

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

(a) Generation has an ICC-approved RFP contract with ComEd to provide a portion of ComEd's electricity supply requirements. Generation also sells RECs to ComEd. In addition, Generation had revenue from ComEd associated with the settled portion of the financial swap contract established as part of the Illinois Settlement. See Note 3—Regulatory Matters for additional information.

(b) Generation provides electric supply to PECO under contracts executed through PECO's competitive procurement process. In addition, Generation has a ten-year agreement with PECO to sell solar AECs. See Note 3—Regulatory Matters for additional information.

(c) Generation provides a portion of BGE's energy requirements under its MDPSC-approved market-based SOS and gas commodity programs. See Note 3—Regulatory Matters for additional information.

(d) Generation provides electric supply to Pepco under contracts executed through Pepco's competitive procurement process approved by the MDPSC and DCPSC. See Note 3—Regulatory Matters for additional information.

(e) Generation provides a portion of DPL's energy requirements under its MDPSC and DPSC approved market based SOS and gas commodity programs. See Note 3—Regulatory Matters for additional information.

(f) Generation provides electric supply to ACE under contracts executed through ACE's competitive procurement process. See Note 3—Regulatory Matters for additional information.

(g) Generation requires electricity for its own use at its generating stations. Generation purchases electricity and distribution and transmission services from PECO and BGE and only distribution and transmission services from ComEd for the delivery of electricity to its generating stations.

(h) Generation receives a variety of corporate support services from BSC and PHISCO, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead. A portion of such services is capitalized.

(i) The balance consists of interest owed to Exelon Corporation related to the senior unsecured notes, as well as, expense related to certain invoices Exelon Corporation processed on behalf of Generation.

(j) Generation has long-term payables to ComEd and PECO as a result of the nuclear decommissioning contractual construct whereby, to the extent NDT funds are greater than the underlying ARO at the end of decommissioning, such amounts are due back to ComEd and PECO, as applicable, for payment to their respective customers. See Note 15—Asset Retirement Obligations.

(k) In connection with the debt obligations assumed by Exelon as part of the Constellation merger, Exelon and subsidiaries of Generation (former Constellation subsidiaries) assumed intercompany loan agreements that mirror the terms and amounts of the third-party debt obligations of Exelon, resulting in intercompany notes payable included in Long-term Debt to affiliate on Generation's Consolidated Balance Sheets and intercompany notes receivable at Exelon Corporate, which are eliminated in consolidation on Exelon's Consolidated Balance Sheets.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

ComEd

The financial statements of ComEd include related party transactions as presented in the tables below:

	For the Years Ended December 31, 2017	2016	2015
Operating revenues from affiliates			
Generation	$ 9	$ 7	$ 4
BSC	6	6	—
PECO	—	1	—
BGE	—	1	—
Total operating revenues from affiliates	$ 15	$ 15	$ 4
Purchased power from affiliate			
Generation [(a)]	$ 108	$ 47	$ 18
Operating and maintenance from affiliates			
BSC [(b)]	$ 270	$ 225	$ 195
PECO	—	1	—
BGE	—	1	—
Total operating and maintenance from affiliates	$ 270	$ 227	$ 195
Interest expense to affiliates, net:			
ComEd Financing III	$ 13	$ 13	$ 13
Capitalized costs			
BSC [(b)]	$ 118	$ 112	$ 103
Cash dividends paid to parent	$ 422	$ 369	$ 299
Contribution from parent	$ 651	$ 315	$ 202

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	December 31,	
	2017	2016
Prepaid voluntary employee beneficiary association trust [c]	$ 2	$ 5
Receivable from affiliates (current):		
Voluntary employee beneficiary association trust	$ 1	$ 2
Generation	12	9
Exelon Corporate [d]	—	345
Total receivable from affiliates (current)	$ 13	$ 356
Receivable from affiliates (noncurrent):		
Generation [e]	$ 2,528	$ 2,169
Other	—	1
Total receivable from affiliates (noncurrent)	$ 2,528	$ 2,170
Payables to affiliates (current):		
Generation [a]	$ 28	$ 14
BSC [b]	39	42
ComEd Financing III	4	4
PECO	—	2
Exelon Corporate	3	3
Total payables to affiliates (current)	$ 74	$ 65
Long-term debt to ComEd financing trust		
ComEd Financing III	$ 205	$ 205

(a) ComEd procures a portion of its electricity supply requirements from Generation under an ICC-approved RFP contract. ComEd also purchases RECs from Generation. In addition, purchased power expense includes the settled portion of the financial swap contract with Generation, which expired in 2013. See Note 3—Regulatory Matters and Note 12—Derivative Financial Instruments for additional information.

(b) ComEd receives a variety of corporate support services from BSC, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead. A portion of such services is capitalized.

(c) The voluntary employee benefit association trusts covering active employees are included in corporate operations and are funded by the Registrants. A prepayment to the active welfare plans has accumulated due to actuarially determined contribution rates, which are the basis for ComEd's contributions to the plans, being higher than actual claim expense incurred by the plans over time. The prepayment is included in other current assets.

(d) Represents indemnification from Exelon Corporate related to the like-kind exchange.

(e) ComEd has a long-term receivable from Generation as a result of the nuclear decommissioning contractual construct for generating facilities previously owned by ComEd. To the extent the assets associated with decommissioning are greater than the applicable ARO at the end of decommissioning, such amounts are due back to ComEd for payment to ComEd's customers.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

PECO

The financial statements of PECO include related party transactions as presented in the tables below:

	For the Years Ended December 31,		
	2017	2016	2015
Operating revenues from affiliates:			
Generation [(a)]	$ 1	$ 3	$ 2
BSC	5	3	—
ComEd	—	1	—
BGE	1	1	—
Total operating revenues from affiliates	$ 7	$ 8	$ 2
Purchased power from affiliate			
Generation [(b)]	$ 135	$ 287	$ 220
Operating and maintenance from affiliates:			
BSC [(c)]	$ 146	$ 142	$ 107
Generation	2	2	3
ComEd	—	1	—
BGE	1	1	—
Total operating and maintenance from affiliates	$ 149	$ 146	$ 110
Interest expense to affiliates, net:			
PECO Trust III	$ 6	$ 6	$ 6
PECO Trust IV	6	6	6
Generation	(1)	—	—
Total interest expense to affiliates, net:	$ 11	$ 12	$ 12
Capitalized costs			
BSC [(c)]	$ 59	$ 57	$ 40
Cash dividends paid to parent	$ 288	$ 277	$ 279
Contribution from parent	$ 16	$ 18	$ 16

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

	December 31, 2017	December 31, 2016
Prepaid voluntary employee beneficiary association trust [d]	$ —	$ 1
Receivable from affiliate (current):		
ComEd	$ —	$ 2
BGE	—	2
Total receivable from affiliates (current)	$ —	$ 4
Receivable from affiliate (noncurrent):		
Generation [e]	$ 537	$ 438
Payables to affiliates (current):		
Generation [b]	$ 22	$ 33
BSC [c]	29	28
Exelon Corporate	1	1
PECO Trust III	1	1
Total payables to affiliates (current)	$ 53	$ 63
Long-term debt to financing trusts:		
PECO Trust III	$ 81	$ 81
PECO Trust IV	103	103
Total long-term debt to financing trusts	$ 184	$ 184

(a) PECO provides energy to Generation for Generation’s own use.

(b) PECO purchases electric supply from Generation under contracts executed through its competitive procurement process. In addition, PECO has five-year and ten-year agreements with Generation to purchase non-solar and solar AECs, respectively. See Note 3—Regulatory Matters for additional information on AECs.

(c) PECO receives a variety of corporate support services from BSC, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead. A portion of such services is capitalized.

(d) The voluntary employee beneficiary association trusts covering active employees are included in corporate operations and are funded by the Registrants. A prepayment to the active welfare plans has accumulated due to actuarially determined contribution rates, which are the basis for PECO’s contributions to the plans, being higher than actual claim expense incurred by the plans over time.

(e) PECO has a long-term receivable from Generation as a result of the nuclear decommissioning contractual construct, whereby, to the extent the assets associated with decommissioning are greater than the applicable ARO at the end of decommissioning, such amounts are due back to PECO for payment to PECO’s customers.

BGE

The financial statements of BGE include related party transactions as presented in the tables below:

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Operating revenues from affiliates:			
Generation [(a)]	$ 10	$ 13	$ 14
BSC	5	6	—
ComEd	—	1	—
PECO	1	1	—
Total operating revenues from affiliates	$ 16	$ 21	$ 14
Purchased power from affiliate			
Generation [(b)]	$ 384	$ 604	$ 498
Operating and maintenance from affiliates:			
BSC [(c)]	$ 152	$ 130	$ 118
ComEd	—	1	—
PECO	1	1	—
Total operating and maintenance from affiliates	$ 153	$ 132	$ 118
Interest expense to affiliates, net:			
BGE Capital Trust II	$ 10	$ 16	$ 16
Capitalized costs			
BSC [(c)]	$ 54	$ 36	$ 28
Cash dividends paid to parent	$ 198	$ 179	$ 158
Contribution from parent	$ 184	$ 61	$ 7

	December 31,	
	2017	**2016**
Receivable from affiliates (current):		
Other	$ 1	$ —
Payables to affiliates (current):		
Generation [(b)]	$ 24	$ 26
BSC [(c)]	25	22
Exelon Corporate	1	1
PECO	—	2
BGE Capital Trust II	—	3
Other	2	1
Total payables to affiliates (current)	$ 52	$ 55
Long-term debt to BGE financing trust		

BGE Capital Trust II	$ —	$ 252

(a) BGE provides energy to Generation for Generation's own use.

(b) BGE procures a portion of its electricity and gas supply requirements from Generation under its MDPSC-approved market-based SOS and gas commodity programs. See Note 3—Regulatory Matters for additional information.

(c) BGE receives a variety of corporate support services from BSC, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead. A portion of such services is capitalized.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

PHI

The financial statements of PHI include related party transactions as presented in the tables below:

	Successor	
	For the Year Ended December 31, 2017	**March 24, 2016 to December 31, 2016**
Operating revenues from affiliates:		
BSC	$ 48	$ 44
PHISCO	2	—
Generation	—	1
Total operating revenues from affiliates	$ 50	$ 45
Purchased power from affiliate		
Generation	$ 463	$ 486
Operating and maintenance from affiliates:		
BSC[(a)]	$ 145	$ 86
Other	5	3
Total operating and maintenance from affiliates	$ 150	$ 89
Cash dividends paid to parent	$ 311	$ 273
Contribution from member	$ 758	$ 1,251

	Successor	
	December 31,	
	2017	**2016**
Payables to affiliates (current):		
Generation	$ 54	$ 74
BGE	1	—
BSC[(a)]	24	10
Exelon Corporate	6	6
Other	5	4
Total payables to affiliates (current)	$ 90	$ 94

(a) PHI receives a variety of corporate support services from BSC and PHISCO, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead. A portion of such services is capitalized.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Pepco

The financial statements of Pepco include related party transactions as presented in the tables below:

	For the Years Ended December 31, 2017	2016	2015
Operating revenues from affiliates:			
Generation [(a)]	$ —	$ 1	$ —
PHISCO	6	4	5
Total operating revenues from affiliates	$ 6	$ 5	$ 5
Purchased power from affiliate			
Generation [(b)]	$ 255	$ 295	$ —
Operating and maintenance:			
PHISCO [(c)]	$ 219	$ 263	$ 240
PES [(d)]	29	39	26
Total operating and maintenance	$ 248	$ 302	$ 266
Operating and maintenance from affiliates:			
BSC [(c)]	$ 53	$ 31	$ —
PHISCO [(c)]	5	4	4
Total operating and maintenance from affiliates	$ 58	$ 35	$ 4
Cash dividends paid to parent	$ 133	$ 136	$ 146
Contribution from parent	$ 161	$ 187	$ 112

	December 31, 2017	2016
Payables to affiliates (current):		
Generation [(b)]	$ 36	$ 44
BSC [(c)]	11	4
DPL	—	1
PHISCO [(c)]	27	25
Total payables to affiliates (current)	$ 74	$ 74

(a) Pepco provides energy to Generation for Generation's own use.

(b) Pepco procures a portion of its electricity and gas supply requirements from Generation under its MDPSC and DPSC approved market based SOS and gas commodity programs. See Note 3—Regulatory Matters for additional information.

(c) Pepco receives a variety of corporate support services from BSC and PHISCO, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead. A portion of such services is capitalized.

(d) PES performs underground transmission, distribution construction and maintenance services, including services that are treated as capital costs, for Pepco.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

DPL

The financial statements of DPL include related party transactions as presented in the tables below:

	For the Years Ended December 31,		
	2017	2016	2015
Operating revenues from affiliates:			
PHISCO	$ 6	$ 5	$ 5
Other	2	2	1
Total operating revenues from affiliates	$ 8	$ 7	$ 6
Purchased power from affiliate			
Generation [(a)]	$ 179	$ 154	$ —
Operating and maintenance:			
PHISCO [(b)]	$ 165	$ 194	$ 179
PES [(c)]	9	8	3
Total operating and maintenance	$ 174	$ 202	$ 182
Operating and maintenance from affiliates:			
BSC [(b)]	$ 31	$ 18	$ —
Other	1	1	1
Total operating and maintenance from affiliates	$ 32	$ 19	$ 1
Cash dividends paid to parent	$ 112	$ 54	$ 92
Contribution from parent	$ —	$ 152	$ 75

	December 31,	
	2017	2016
Receivables from affiliates (current):		
Pepco	$ —	$ 1
ACE	—	2
Total receivable from affiliates (current)	$ —	$ 3
Payables to affiliates (current):		
Generation [(a)]	$ 12	$ 16
BSC [(b)]	7	3
PHISCO [(b)]	27	19
Total payables to affiliates (current)	$ 46	$ 38

(a) DPL procures a portion of its electricity and gas supply requirements from Generation under its MDPSC and DPSC approved market based SOS and gas commodity programs. See Note 3—Regulatory Matters for additional information.

(b) DPL receives a variety of corporate support services from BSC and PHISCO, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead. A portion of such services is capitalized.

(c) PES performs underground transmission construction services, including services that are treated as capital costs, for DPL.

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ACE

The financial statements of ACE include related party transactions as presented in the tables below:

	For the Years Ended December 31, 2017	2016	2015
Operating revenues from affiliates:			
PHISCO	$ 1	$ 2	$ 2
Other	1	1	2
Total operating revenues from affiliates	$ 2	$ 3	$ 4
Purchased power from affiliate			
Generation [(a)]	$ 29	$ 37	$ —
Operating and maintenance:			
PHISCO [(b)]	$ 135	$ 155	$ 143
Operating and maintenance from affiliates:			
BSC [(b)]	$ 25	$ 15	$ —
Other	3	3	3
Total operating and maintenance from affiliates	$ 28	$ 18	$ 3
Cash dividends paid to parent	$ 68	$ 63	$ 12
Contribution from parent	$ —	$ 139	$ 95

	December 31, 2017	2016
Payables to affiliates (current):		
Generation [(a)]	$ 6	$ 9
BSC [(b)]	5	2
DPL	—	2
PHISCO [(b)]	18	16
Total payables to affiliates (current)	$ 29	$ 29

(a) ACE purchases electric supply from Generation under contracts executed through its competitive procurement process. See Note 3—Regulatory Matters for additional information.

(b) ACE receives a variety of corporate support services from BSC and PHISCO, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead. A portion of such services is capitalized.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

27. Quarterly Data (Unaudited) (All Registrants)

Exelon

The data shown below, which may not equal the total for the year due to the effects of rounding and dilution, includes all adjustments that Exelon considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Net Income Attributable to Common Shareholders	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 8,757	$ 7,573	$ 1,296	$ 483	$ 995	$ 173
June 30	7,623	6,910	232	647	80	267
September 30	8,769	9,002	1,475	1,267	824	490
December 31	8,381	7,875	1,258	714	1,871	204

	Average Basic Shares Outstanding (in millions)		Net Income per Basic Share	
	2017	2016	2017	2016
Quarter ended:				
March 31	928	923	$ 1.07	$ 0.19
June 30	934	924	0.09	0.29
September 30	962	925	0.86	0.53
December 31	964	925	1.94	0.22

	Average Diluted Shares Outstanding (in millions)		Net Income per Diluted Share	
	2017	2016	2017	2016
Quarter ended:				
March 31	930	925	$ 1.07	$ 0.19
June 30	936	926	0.09	0.29
September 30	965	927	0.85	0.53
December 31	967	928	1.93	0.22

The following table presents the New York Stock Exchange—Composite Common Stock Prices and dividends by quarter on a per share basis:

	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High price	$ 42.67	$ 38.78	$ 37.44	$ 37.19	$ 36.36	$ 37.70	$ 36.37	$ 35.95
Low price	37.55	35.37	33.30	34.47	29.82	32.86	33.18	26.26
Close	39.41	37.67	36.07	35.98	35.49	33.29	36.36	35.86

Dividends	0.328	0.328	0.328	0.328	0.318	0.318	0.318	0.310

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Generation

The data shown below includes all adjustments that Generation considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating (Loss) Income		Net (Loss) Income Attributable to Membership Interest	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 4,888	$ 4,739	$ 387	$ 415	$ 423	$ 310
June 30	4,174	3,589	(467)	(13)	(250)	(8)
September 30	4,751	5,035	500	342	305	236
December 31	4,654	4,388	501	94	2,215	(41)

ComEd

The data shown below includes all adjustments that ComEd considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Net Income	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 1,298	$ 1,249	$ 314	$ 274	$ 141	$ 115
June 30	1,357	1,286	319	324	118	145
September 30	1,571	1,497	404	389	189	37
December 31	1,309	1,223	286	217	120	80

PECO

The data shown below includes all adjustments that PECO considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Net Income Attributable to Common Shareholders	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 796	$ 841	$ 192	$ 196	$ 127	$ 124
June 30	630	664	137	152	88	100
September 30	715	788	169	204	112	122
December 31	729	701	157	150	107	92

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

BGE

The data shown below includes all adjustments that BGE considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Net Income Attributable to Common Shareholders	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 951	$ 929	$ 228	$ 187	$ 125	$ 98
June 30	674	680	98	59	45	31
September 30	738	812	124	115	62	54
December 31	813	812	163	190	76	103

PHI

The data shown below includes all adjustments that PHI considers necessary for a fair presentation of such amounts:

	Successor					
	Operating Revenues		Operating Income (Loss)		Net Income (Loss) Attributable to Membership Interest	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 1,175	$ 105 [(a)]	$ 180	$ (411) [(a)]	$ 140	$ (309) [(a)]
June 30	1,074	1,066	148	136	66	52
September 30	1,310	1,394	285	279	153	166
December 31	1,121	1,078	159	90	4	30

	Predecessor		
	Operating Revenues	Operating Income	Net Income Attributable to Membership Interest
January 1, 2016 - March 23, 2016	1,153	105	19

(a) Amounts for March 31, 2016 reflect the PHI Successor activity for the period March 24, 2016 to March 31, 2016.

Combined Notes to Consolidated Financial Statements - (Continued)
(Dollars in millions, except per share data unless otherwise noted)

Pepco

The data shown below includes all adjustments that Pepco considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income (Loss)		Net Income (Loss) Attributable to Common Shareholders	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 530	$ 551	$ 79	$ (105)	$ 58	$ (108)
June 30	514	509	84	97	43	49
September 30	604	635	149	132	87	79
December 31	510	491	87	51	17	23

DPL

The data shown below includes all adjustments that DPL considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income (Loss)		Net Income (Loss) Attributable to Common Shareholders	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 362	$ 362	$ 78	$ (72)	$ 57	$ (72)
June 30	282	281	41	30	19	12
September 30	327	331	59	72	31	44
December 31	330	303	52	20	14	7

ACE

The data shown below includes all adjustments that ACE considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income (Loss)		Net Income (Loss) Attributable to Common Shareholders	
	2017	2016	2017	2016	2017	2016
Quarter ended:						
March 31	$ 275	$ 291	$ 25	$ (121)	$ 28	$ (100)
June 30	270	270	25	19	8	3
September 30	370	421	79	83	41	47
December 31	271	275	28	26	—	8

28. Subsequent Events (Exelon, Generation and ComEd)

Illinois ZEC Procurement

On January 25, 2018, the ICC announced that Generation’s Clinton Unit 1, Quad Cities Unit 1 and Quad Cities Unit 2 nuclear plants were selected as the winning bidders through the IPA’s ZEC procurement event. Generation executed the ZEC procurement contracts with Illinois utilities, including

ComEd, effective January 26, 2018 and will begin recognizing revenue. Winning bidders will be entitled to compensation for the sale of ZECs retroactive to the June 1, 2017 effective date of FEJA. In the first quarter of 2018, Generation will recognize approximately $150 million of revenue and ComEd will record an obligation to Generation and corresponding reduction to its regulatory liability of approximately $100 million related to ZECs generated from June 1, 2017 through December 31, 2017.

Early Retirement of Oyster Creek Generating Station

On February 2, 2018, Exelon announced that Generation will permanently cease generation operations at Oyster Creek at the end of its current operating cycle in October 2018. In 2010, Generation announced that Oyster Creek would retire by the end of 2019 as part of an agreement with the State of New Jersey to avoid significant costs associated with the construction of cooling towers to meet the State’s then new environmental regulations. Since then, like other nuclear sites, Oyster Creek has continued to face rising operating costs amid a historically low wholesale power price environment. The decision to retire Oyster Creek in 2018 at the end of its current operating cycle involved consideration of several factors, including economic and operating efficiencies, and avoids a refueling outage scheduled for the fall of 2018 that would have required advanced purchasing of fuel fabrication and materials beginning in late February 2018.

Because of the decision to retire Oyster Creek in 2018, Exelon and Generation will recognize certain one-time charges in the first quarter of 2018 ranging from an estimated $25 million to $35 million (pre-tax) related to a materials and supplies inventory reserve adjustment, employee-related costs, and construction work-in-progress impairment, among other items. Estimated cash expenditures related to the one-time charges primarily for employee-related costs are expected to range from $5 million to $10 million.

In addition to these one-time charges, there will be financial impacts stemming from shortening the expected economic useful life of Oyster Creek primarily related to accelerated depreciation of plant assets (including any ARC), accelerated amortization of nuclear fuel, and additional ARO accretion expense associated with the changes in decommissioning timing and cost assumptions to reflect an earlier retirement date. The following table summarizes the estimated amount of expected incremental non-cash expense items expected to be incurred in 2018 because of the early retirement decision.

	Projected[b]
Income statement expense (pre-tax)	**2018**
Depreciation and Amortization	
Accelerated depreciation[a]	$110 to $140
Accelerated nuclear fuel amortization	$40
Operating and Maintenance	
Increased ARO accretion	Up to $5

(a) Includes the accelerated depreciation of plant assets including any ARC.
(b) Actual results may differ based on incremental future capital additions, actual units of production for nuclear fuel amortization, future revised ARO assumptions, etc.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

All Registrants

None.

ITEM 9A. CONTROLS AND PROCEDURES

All Registrants—Disclosure Controls and Procedures

During the fourth quarter of 2017, each registrant's management, including its principal executive officer and principal financial officer, evaluated the effectiveness of that registrant's disclosure controls and procedures related to the recording, processing, summarizing and reporting of information in that registrant's periodic reports that it files with the SEC. These disclosure controls and procedures have been designed by each registrant to ensure that (a) information relating to that registrant, including its consolidated subsidiaries, that is required to be included in filings under the Securities Exchange Act of 1934, is accumulated and made known to that registrant's management, including its principal executive officer and principal financial officer, by other employees of that registrant and its subsidiaries as appropriate to allow timely decisions regarding required disclosure, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people.

Accordingly, as of December 31, 2017, the principal executive officer and principal financial officer of each registrant concluded that such registrant's disclosure controls and procedures were effective to accomplish their objectives.

All Registrants—Changes in Internal Control Over Financial Reporting

Each registrant continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant. However, there have been no changes in internal control over financial reporting that occurred during the fourth quarter of 2017 that have materially affected, or are reasonably likely to materially affect, any of the registrant's internal control over financial reporting.

All Registrants—Internal Control Over Financial Reporting

Management is required to assess and report on the effectiveness of its internal control over financial reporting as of December 31, 2017. As a result of that assessment, management determined that there were no material weaknesses as of December 31, 2017 and, therefore, concluded that each registrant's internal control over financial reporting was effective. Management's Report on Internal Control Over Financial Reporting is included in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

ITEM 9B. OTHER INFORMATION

All Registrants

None.

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PART III

Exelon Generation Company, LLC, PECO Energy Company, Baltimore Gas and Electric Company, Pepco Holdings LLC, Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K for a reduced disclosure format. Accordingly, all items in this section relating to Generation, PECO, BGE, PHI, Pepco, DPL and ACE are not presented.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers

The information required by ITEM 10 relating to executive officers is set forth above in ITEM 1. BUSINESS—Executive Officers of the Registrants at February 9, 2018.

Directors, Director Nomination Process and Audit Committee

The information required under ITEM 10 concerning directors and nominees for election as directors at the annual meeting of shareholders (Item 401 of Regulation S-K), the director nomination process (Item 407(c)(3)), the audit committee (Item 407(d)(4) and (d)(5)) and the beneficial reporting compliance (Sec. 16(a)) is incorporated herein by reference to information to be contained in Exelon's definitive 2018 proxy statement (2018 Exelon Proxy Statement) and the ComEd information statement (2018 ComEd Information Statement) to be filed with the SEC before April 29, 2018 pursuant to Regulation 14A or 14C, as applicable, under the Securities Exchange Act of 1934.

Code of Ethics

Exelon's Code of Business Conduct is the code of ethics that applies to Exelon's and ComEd's Chief Executive Officer, Chief Financial Officer, Corporate Controller, and other finance organization employees. The Code of Business Conduct is filed as Exhibit 14 to this report and is available on Exelon's website at *www.exeloncorp.com*. The Code of Business Conduct will be made available, without charge, in print to any shareholder who requests such document from Carter C. Culver, Senior Vice President and Deputy General Counsel, Exelon Corporation, P.O. Box 805398, Chicago, Illinois 60680-5398.

If any substantive amendments to the Code of Business Conduct are made or any waivers are granted, including any implicit waiver, from a provision of the Code of Business Conduct, to its Chief Executive Officer, Chief Financial Officer or Corporate Controller, Exelon will disclose the nature of such amendment or waiver on Exelon's website, *www.exeloncorp.com*, or in a report on Form 8-K.

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ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth under *Executive Compensation Data* and *Report of the Compensation Committee* in the Exelon Proxy Statement for the 2018 Annual Meeting of Shareholders or the ComEd 2018 Information Statement, which are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The additional information required by this item will be set forth under *Ownership of Exelon Stock* in the Exelon Proxy Statement for the 2018 Annual Meeting of Shareholders or the ComEd 2018 Information Statement, which are incorporated herein by reference.

Securities Authorized for Issuance under Exelon Equity Compensation Plans

[A] Plan Category	[B] Number of securities to be issued upon exercise of outstanding Options, warrants and rights (Note 1)	[C] Weighted-average price of outstanding Options, warrants and rights (Note 2)	[D] Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [B]) (Note 3)
Equity compensation plans approved by security holders	21,755,400	$ 28.13	23,634,900

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(1) Balance includes stock options, unvested performance shares, and unvested restricted shares granted under the Exelon LTIP or predecessor company plans including shares awarded under those plans and deferred into the stock deferral plan, and deferred stock units granted to directors as part of their compensation. For performance shares granted in 2015, 2016 and 2017, the total includes the number of shares that could be granted, if the performance and total shareholder return modifier metrics were both at maximum, representing a total of 9,546,000 shares. If the performance and total shareholder return modifier metrics were at target, the number of securities to be issued for such awards would be 4,773,000. The deferred stock units granted to directors includes 384,900 shares to be issued upon the conversion of deferred stock units awarded to members of the Exelon Board of Directors, and 109,200 shares to be issued upon the conversion of stock units held by members of the Exelon Board of Directors that were earned under a legacy Constellation Energy Group plan. Conversion of the deferred stock units to shares will occur after the director terminates service to the Exelon board or the board of any of its subsidiary companies. See Note 20—Stock-Based Compensation Plans of the Combined Notes to Consolidated Financial Statements for additional information about the material features of the plans.

(2) Includes outstanding restricted stock units and performance shares that can be exercised for no consideration. Without such instruments, the weighted-average price of outstanding options, warrants and rights shown in column [C] would be $47.69.

(3) Includes 19,737,600 shares available for issuance from the company's employee stock purchase plan.

No ComEd securities are authorized for issuance under equity compensation plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The additional information required by this item will be set forth under *Related Persons Transactions* and *Director Independence* in the Exelon Proxy Statement for the 2018 Annual Meeting of Shareholders or the ComEd 2018 Information Statement, which are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be set forth under *The Ratification of PricewaterhouseCoopers LLP as Exelon's Independent Accountant for 2018* in the Exelon Proxy Statement for the 2018 Annual Meeting of Shareholders and the ComEd 2018 Information Statement, which are incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this report:

Exelon

1. Financial Statements:

   Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

   Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Balance Sheets at December 31, 2017 and 2016

   Consolidated Statements of Changes in Equity for the Years Ended December 31, 2017, 2016 and 2015

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

   Schedule I—Condensed Financial Information of Parent (Exelon Corporate) at December 31, 2017 and 2016 and for the Years Ended December 31, 2017, 2016 and 2015

   Schedule II—Valuation and Qualifying Accounts

   Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto.

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Condensed Statements of Operations and Other Comprehensive Income

	For the Years Ended December 31,		
(In millions)	2017	2016	2015
Operating expenses			
Operating and maintenance	$ 10	$ 221	$ —
Operating and maintenance from affiliates	25	51	43
Other	4	4	4
Total operating expenses	39	276	47
Operating loss	(39)	(276)	(47)
Other income and (deductions)			
Interest expense, net	(315)	(312)	(168)
Equity in earnings of investments	4,398	1,521	2,461
Interest income from affiliates, net	40	39	43
Other, net	1	7	(43)
Total other income	4,124	1,255	2,293
Income before income taxes	4,085	979	2,246
Income taxes	315	(155)	(23)
Net income	$ 3,770	$ 1,134	$ 2,269
Other comprehensive income (loss)			
Pension and non-pension postretirement benefit plans:			
Prior service benefit reclassified to periodic costs	$ (56)	$ (48)	$ (46)
Actuarial loss reclassified to periodic cost	197	184	220
Pension and non-pension postretirement benefit plan valuation adjustment	10	(181)	(99)
Unrealized gain on cash flow hedges	3	2	9
Unrealized gain on marketable securities	6	1	—
Unrealized gain (loss) on equity investments	6	(4)	(3)
Unrealized gain (loss) on foreign currency translation	7	10	(21)
Other comprehensive income (loss)	173	(36)	60
Comprehensive income	$ 3,943	$ 1,098	$ 2,329

See the Notes to Financial Statements

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Condensed Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2017	2016	2015
Net cash flows provided by operating activities	$ 1,921	$ 1,029	$ 3,071
Cash flows from investing activities			
Changes in Exelon intercompany money pool	(129)	1,390	(1,217)
Notes receivable from affiliates	—	—	550
Investment in affiliates	(1,717)	(1,757)	(212)
Acquisition of business	—	(6,962)	—
Other investing activities	(5)	5	(55)
Net cash flows used in investing activities	(1,851)	(7,324)	(934)
Cash flows from financing activities			
Issuance of long-term debt	—	1,800	4,200
Proceeds from short-term borrowings with maturities greater than 90 days	500	—	—
Retirement of long-term debt	(569)	(46)	(2,263)
Issuance of common stock	—	—	1,868
Common stock issued from treasury stock	1,150	—	—
Dividends paid on common stock	(1,236)	(1,166)	(1,105)
Proceeds from employee stock plans	150	55	32
Other financing activities	(9)	(20)	(58)
Net cash flows (used in) provided by financing activities	(14)	623	2,674
Increase (Decrease) in cash and cash equivalents	56	(5,672)	4,811
Cash and cash equivalents at beginning of period	18	5,690	879
Cash and cash equivalents at end of period	$ 74	$ 18	$ 5,690

See the Notes to Financial Statements

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Condensed Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 74	$ 18
Deposit with IRS	—	1,250
Accounts receivable, net		
Other accounts receivable	431	73
Accounts receivable from affiliates	33	48
Notes receivable from affiliates	217	88
Regulatory assets	284	263
Other	4	—
Total current assets	1,043	1,740
Property, plant and equipment, net	50	51
Deferred debits and other assets		
Regulatory assets	3,697	4,033
Investments in affiliates	39,272	34,869
Deferred income taxes	1,431	2,107
Notes receivable from affiliates	910	922
Other	234	256
Total deferred debits and other assets	45,544	42,187
Total assets	$ 46,637	$ 43,978

See the Notes to Financial Statements

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Condensed Balance Sheets

(In millions)	December 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 500	$ —
Long-term debt due within one year	—	570
Accounts payable	2	2
Accrued expenses	99	489
Payables to affiliates	360	706
Regulatory liabilities	16	16
Pension obligations	65	58
Other	46	50
Total current liabilities	1,088	1,891
Long-term debt	7,161	7,193
Deferred credits and other liabilities		
Regulatory liabilities	15	31
Pension obligations	7,792	8,608
Non-pension postretirement benefit obligations	322	7
Deferred income taxes	220	226
Other	180	182
Total deferred credits and other liabilities	8,529	9,054
Total liabilities	16,778	18,138
Commitments and contingencies		
Shareholders' equity		
Common stock (No par value, 2000 shares authorized, 963 shares and 924 shares outstanding at December 31, 2017 and 2016, respectively)	18,966	18,797
Treasury stock, at cost (2 shares and 35 shares at December 31, 2017 and 2016, respectively)	(123)	(2,327)
Retained earnings	13,503	12,030
Accumulated other comprehensive loss, net	(2,487)	(2,660)
Total shareholders' equity	29,859	25,840
Total liabilities and shareholders' equity	$ 46,637	$ 43,978

See the Notes to Financial Statements

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Notes to Financial Statements

1. Basis of Presentation

Exelon Corporate is a holding company that conducts substantially all of its business operations through its subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of Exelon Corporation.

Exelon Corporate owns 100% of all of its significant subsidiaries, either directly or indirectly, except for Commonwealth Edison Company (ComEd), of which Exelon Corporate owns more than 99%, and BGE, of which Exelon owns 100% of the common stock but none of BGE's preferred stock. BGE redeemed all of its outstanding preferred stock in 2016.

2. Mergers

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon's interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). See Note 4—Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional information on the PHI Merger.

3. Debt and Credit Agreements

Short-Term Borrowings

Exelon Corporate meets its short-term liquidity requirements primarily through the issuance of commercial paper. Exelon Corporate had no commercial paper borrowings at both December 31, 2017 and December 31, 2016.

Short-Term Loan Agreements

On March 23, 2017, Exelon Corporate entered into a $500 million term loan agreement which expires on March 22, 2018. Pursuant to the loan agreement, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1% and all indebtedness thereunder is unsecured. The loan agreement is reflected in Exelon's Consolidated Balance Sheet within Short-Term borrowings.

Credit Agreements

On May 26, 2016, Exelon Corporate amended and extended its syndicated revolving credit facility with aggregate bank commitments of $600 million through May 26, 2021. As of December 31, 2017, Exelon Corporation had available capacity under those commitments of $555 million. See Note 13—Debt and Credit

Agreements of the Combined Notes to Consolidated Financial Statements for further information regarding Exelon Corporation’s credit agreement.

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Notes to Financial Statements

Long-Term Debt

The following tables present the outstanding long-term debt for Exelon Corporate as of December 31, 2017 and December 31, 2016:

	Rates		Maturity Date	December 31, 2017		December 31, 2016	
Long-term debt							
Junior subordinated notes		3.50%	2022	$	1,150	$	1,150
Contract payment - junior subordinated notes		2.50%	2017		—		19
Senior unsecured notes[(a)]	2.45%	7.60%	2020 - 2046		5,889		6,439
Total long-term debt					7,039		7,608
Unamortized debt discount and premium, net					(8)		(8)
Unamortized debt issuance costs					(49)		(57)
Fair value adjustment of consolidated subsidiary					179		220
Long-term debt due within one year					—		(570)
Long-term debt				$	7,161	$	7,193

(a) Senior unsecured notes include mirror debt that is held on both Generation and Exelon Corporation's balance sheets.

The debt maturities for Exelon Corporate for the periods 2018, 2019, 2020, 2021, 2022 and thereafter are as follows:

2018	$	—
2019		—
2020		1,450
2021		300
2022		1,150
Remaining years		4,139
Total long-term debt	$	7,039

4. Commitments and Contingencies

See Note 23—Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for Exelon Corporate's commitments and contingencies related to environmental matters and fund transfer restrictions.

Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Notes to Financial Statements

5. Related Party Transactions

The financial statements of Exelon Corporate include related party transactions as presented in the tables below:

	For the Years Ended December 31,		
(In millions)	2017	2016	2015
Operating and maintenance from affiliates:			
BSC [(a)]	$ 23	$ 51	$ 43
Other	2	—	—
Total operating and maintenance from affiliates:	$ 25	$ 51	$ 43
Interest income from affiliates, net:			
Generation	$ 37	$ 39	$ 43
BSC	3	—	—
Total interest income from affiliates, net:	$ 40	$ 39	$ 43
Equity in earnings (losses) of investments:			
Exelon Energy Delivery Company, LLC[(b)]	$ 1,670	$ 1,041	$ 1,079
PCI	1	6	—
BSC	1	1	—
UII, LLC	41	(9)	20
Exelon Transmission Company, LLC	(10)	(13)	(8)
Exelon Enterprise	1	(1)	(1)
Generation	2,694	496	1,371
Total equity in earnings of investments	$ 4,398	$ 1,521	$ 2,461
Cash contributions received from affiliates	$ 1,879	$ 1,912	$ 3,209

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Exelon Corporation and Subsidiary Companies
Schedule I – Condensed Financial Information of Parent (Exelon Corporate)
Notes to Financial Statements

	December 31,	
(in millions)	**2017**	**2016**
Accounts receivable from affiliates (current):		
BSC[(a)]	$ 1	$ 15
Generation	21	22
ComEd	3	3
PECO	1	1
BGE	1	1
PHISCO	6	6
Total accounts receivable from affiliates (current)	$ 33	$ 48
Notes receivable from affiliates (current):		
BSC[(a)]	$ 217	$ 88
Investments in affiliates:		
BSC[(a)]	$ 196	$ 194
Exelon Energy Delivery Company, LLC[(b)]	25,082	23,003
PCI	78	77
UII, LLC	268	92
Exelon Transmission Company, LLC	1	5
Voluntary Employee Beneficiary Association trust	(4)	(5)
Exelon Enterprises	22	21
Generation	13,635	11,488
Other	(6)	(6)
Total investments in affiliates	$ 39,272	$ 34,869
Notes receivable from affiliates (non-current):		
Generation[(c)]	$ 910	$ 922
Accounts payable to affiliates (current):		
ComEd	$ —	$ 345
UII, LLC	360	361
Total accounts payable to affiliates (current)	$ 360	$ 706

(a) Exelon Corporate receives a variety of corporate support services from BSC, including legal, human resources, financial, information technology and supply management services. All services are provided at cost, including applicable overhead.

(b) Exelon Energy Delivery Company, LLC consists of ComEd, PECO, BGE, PHI, Pepco, DPL and ACE.

(c) In connection with the debt obligations assumed by Exelon as part of the Constellation merger, Exelon and subsidiaries of Generation (former Constellation subsidiaries) assumed intercompany loan agreements that mirror the terms and amounts of the third-party debt obligations of Exelon, resulting in intercompany notes payable included in Long-Term Debt to affiliate on Generation's Consolidated Balance Sheets and intercompany notes receivable at Exelon Corporate, which are eliminated in consolidation on Exelon's Consolidated Balance Sheets.

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Exelon Corporation and Subsidiary Companies

Schedule II – Valuation and Qualifying Accounts

(in millions)

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
For the year ended December 31, 2017					
Allowance for uncollectible accounts[a]	$ 334	$ 126	$ 27 [c]	$ 165 [d]	$ 322
Deferred tax valuation allowance	20	—	17	—	37
Reserve for obsolete materials	113	56	10	5	174
For the year ended December 31, 2016					
Allowance for uncollectible accounts[a]	$ 284	$ 162	$ 99 [b][c]	$ 211 [d]	$ 334
Deferred tax valuation allowance	13	—	10 [b]	3	20
Reserve for obsolete materials	105	12	1 [b]	5	113
For the year ended December 31, 2015					
Allowance for uncollectible accounts[a]	$ 311	$ 113	$ 27 [c]	$ 167 [d]	$ 284
Deferred tax valuation allowance	50	—	(27)	10	13
Reserve for obsolete materials	95	10	2	2	105

(a) Excludes the non-current allowance for uncollectible accounts related to PECO's installment plan receivables of $15 million, $23 million, and $8 million for the years ended December 31, 2017, 2016, and 2015, respectively.
(b) Primarily represents the addition of PHI's results as of March 23, 2016, the date of the merger
(c) Includes charges for late payments and non-service receivables.
(d) Write-off of individual accounts receivable.

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Exelon Generation Company, LLC and Subsidiary Companies

Generation

1. Financial Statements:

   Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

   Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Balance Sheets at December 31, 2017 and 2016

   Consolidated Statements of Changes in Equity for the Years Ended December 31, 2017, 2016 and 2015

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

   Schedule II – Valuation and Qualifying Accounts

   Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto

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Exelon Generation Company, LLC and Subsidiary Companies

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in millions)		
For the year ended December 31, 2017					
Allowance for uncollectible accounts	$ 91	$ 34	$ —	$ 11	$ 114
Deferred tax valuation allowance	9	—	14	—	23
Reserve for obsolete materials	106	51	9	—	166
For the year ended December 31, 2016					
Allowance for uncollectible accounts	$ 77	$ 19	$ 3	$ 8	$ 91
Deferred tax valuation allowance	11	—	—	2	9
Reserve for obsolete materials	102	6	—	2	106
For the year ended December 31, 2015					
Allowance for uncollectible accounts	$ 60	$ 22	$ —	$ 5	$ 77
Deferred tax valuation allowance	48	—	(27)	10	11
Reserve for obsolete materials	93	9	—	—	102

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Commonwealth Edison Company and Subsidiary Companies

ComEd

1. Financial Statements:

   Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

   Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Balance Sheets at December 31, 2017 and 2016

   Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2017, 2016 and 2015

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

   Schedule II – Valuation and Qualifying Accounts

   Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto

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Commonwealth Edison Company and Subsidiary Companies

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in millions)		
For the year ended December 31, 2017					
Allowance for uncollectible accounts	$ 70	$ 39	$ 20 (a)	$ 56 (b)	$ 73
Reserve for obsolete materials	4	3	1	3	5
For the year ended December 31, 2016					
Allowance for uncollectible accounts	$ 75	$ 45	$ 23 (a)	$ 73 (b)	$ 70
Reserve for obsolete materials	3	4	1	4	4
For the year ended December 31, 2015					
Allowance for uncollectible accounts	$ 84	$ 39	$ 18 (a)	$ 66 (b)	$ 75
Reserve for obsolete materials	2	1	2	2	3

(a) Primarily charges for late payments and non-service receivables.
(b) Write-off of individual accounts receivable.

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PECO Energy Company and Subsidiary Companies

PECO

1. Financial Statements:

   Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

   Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Balance Sheets at December 31, 2017 and 2016

   Consolidated Statements of Changes in Shareholder's Equity for the Years Ended December 31, 2017, 2016 and 2015

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

   Schedule II – Valuation and Qualifying Accounts

   Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto

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PECO Energy Company and Subsidiary Companies

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in millions)		
For the year ended December 31, 2017					
Allowance for uncollectible accounts[a]	$ 61	$ 26	$ 4 [b]	$ 35 [c]	$ 56
Reserve for obsolete materials	2	—	—	—	2
For the year ended December 31, 2016					
Allowance for uncollectible accounts[a]	$ 83	$ 32	$ 7 [b]	$ 61 [c]	$ 61
Reserve for obsolete materials	1	1	—	—	2
For the year ended December 31, 2015					
Allowance for uncollectible accounts[a]	$ 100	$ 37	$ 9 [b]	$ 63 [c]	$ 83
Reserve for obsolete materials	1	—	—	—	1

(a) Excludes the non-current allowance for uncollectible accounts related to PECO's installment plan receivables of $15 million, $23 million, and $8 million for the years ended December 31, 2017, 2016, and 2015, respectively.

(b) Primarily charges for late payments.

(c) Write-off of individual accounts receivable.

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Baltimore Gas and Electric Company and Subsidiary Companies

BGE

1. Financial Statements:

Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

Consolidated Balance Sheets at December 31, 2017 and 2016

Consolidated Statements of Changes in Shareholder's Equity for the Years Ended December 31, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts

Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto

Baltimore Gas and Electric Company and Subsidiary Companies

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in millions)		
For the year ended December 31, 2017					
Allowance for uncollectible accounts	$ 32	$ 8	$ (3)	$ 13 [(a)]	$ 24
Deferred tax valuation allowance	1	—	—	—	1
Reserve for obsolete materials	—	—	—	—	—
For the year ended December 31, 2016					
Allowance for uncollectible accounts	$ 49	$ 1	$ 9	$ 27 [(a)]	$ 32
Deferred tax valuation allowance	1	—	—	—	1
Reserve for obsolete materials	—	—	—	—	—
For the year ended December 31, 2015					
Allowance for uncollectible accounts	$ 67	$ 15	$ —	$ 33 [(a)]	$ 49
Deferred tax valuation allowance	1	—	—	—	1
Reserve for obsolete materials	—	—	—	—	—

(a) Write-off of individual accounts receivable.

Pepco Holdings LLC and Subsidiary Companies

PHI

1. *Successor Company Financial Statements:*

   Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

   Consolidated Statements of Operations and Comprehensive Income (Loss) for the Year Ended December 31, 2017 and for the Period March 24, 2016 to December 31, 2016

   Consolidated Statements of Cash Flows for the Year Ended December 31, 2017 and for the Period March 24, 2016 to December 31, 2016

   Consolidated Balance Sheets at December 31, 2017 and 2016

   Consolidated Statements of Changes in Equity for the Year Ended December 31, 2017 and for the Period March 24, 2016 to December 31, 2016

   Notes to Consolidated Financial Statements

   Predecessor Company Financial Statements:

   Report of Independent Registered Public Accounting Firm dated February 13, 2017 of PricewaterhouseCoopers LLP

   Consolidated Statements of Operations and Comprehensive Income (Loss) for the Period January 1, 2016 to March 23, 2016 and the Year Ended December 31, 2015

   Consolidated Statements of Cash Flows for the Period January 1, 2016 to March 23, 2016 and for the Year Ended December 31, 2015

   Consolidated Statements of Changes in Equity for the Period January 1, 2016 to March 23, 2016 and for the Year Ended December 31, 2015

   Notes to Consolidated Financial Statements

2. *Successor Financial Statement Schedules:*

   Schedule II – Valuation and Qualifying Accounts - For the Year Ended December 31, 2017 and the Period March 24, 2016 to December 31, 2016

   Predecessor Financial Statement Schedules:

   Schedule II – Valuation and Qualifying Accounts - For the Period January 1, 2016 to March 23, 2016 and For the Year Ended December 31, 2015

   Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto

Pepco Holdings LLC and Subsidiary Companies

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in millions)		
For the Year Ended December 31, 2017 *(Successor)*					
Allowance for uncollectible accounts	$ 80	$ 19	$ 6 [(a)]	$ 50 [(b)]	$ 55
Deferred tax valuation allowance	10	—	3	—	13
Reserve for obsolete materials	2	2	—	2	2
March 24, 2016 to December 31, 2016 *(Successor)*					
Allowance for uncollectible accounts	$ 52	$ 65	$ 5 [(a)]	$ 42 [(b)]	$ 80
Deferred tax valuation allowance	63	—	(53)	—	10
Reserve for obsolete materials	—	1	—	(1)	2
January 1, 2016 to March 23, 2016 *(Predecessor)*					
Allowance for uncollectible accounts	$ 56	$ 16	$ 2 [(a)]	$ 22 [(b)]	$ 52
Deferred tax valuation allowance	63	—	—	—	63
Reserve for obsolete materials	—	—	—	—	—
For the Year Ended December 31, 2015 *(Predecessor)*					
Allowance for uncollectible accounts	$ 40	$ 59	$ 5 [(a)]	$ 48 [(b)]	$ 56
Deferred tax valuation allowance	61	—	2	—	63
Reserve for obsolete materials	—	—	—	—	—

(a) Primarily charges for late payments.
(b) Write-off of individual accounts receivable.

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Potomac Electric Power Company

Pepco

1. Financial Statements:

   Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

   Statements of Operations and Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015

   Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

   Balance Sheets at December 31, 2017 and 2016

   Statements of Changes in Shareholder's Equity for the Years Ended December 31, 2017, 2016 and 2015

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

   Schedule II – Valuation and Qualifying Accounts

   Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto

Potomac Electric Power Company

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in millions)		
For the year ended December 31, 2017					
Allowance for uncollectible accounts	$ 29	$ 8	$ 2 [(a)]	$ 18 [(b)]	$ 21
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	1	1	—	1	1
For the year ended December 31, 2016					
Allowance for uncollectible accounts	$ 17	$ 29	$ 3 [(a)]	$ 20 [(b)]	$ 29
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	—	3	—	2	1
For the year ended December 31, 2015					
Allowance for uncollectible accounts	$ 16	$ 20	$ 1 [(a)]	$ 20 [(b)]	$ 17
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	—	—	—	—	—

(a) Primarily charges for late payments.
(b) Write-off of individual accounts receivable.

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Delmarva Power & Light Company

DPL

1. Financial Statements:

   Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

   Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2017, 2016 and 2015

   Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

   Balance Sheets at December 31, 2017 and 2016

   Statements of Changes in Shareholder’s Equity for the Years Ended December 31, 2017, 2016 and 2015

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

   Schedule II – Valuation and Qualifying Accounts

   Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto

Delmarva Power & Light Company

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in millions)		
For the year ended December 31, 2017					
Allowance for uncollectible accounts	$ 24	$ 3	$ 2 [(a)]	$ 13 [(b)]	$ 16
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	—	1	—	1	—
For the year ended December 31, 2016					
Allowance for uncollectible accounts	$ 17	$ 23	$ 2 [(a)]	$ 18 [(b)]	$ 24
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	—	1	—	1	—
For the year ended December 31, 2015					
Allowance for uncollectible accounts	$ 11	$ 20	$ 2 [(a)]	$ 16 [(b)]	$ 17
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	—	—	—	—	—

(a) Primarily charges for late payments.
(b) Write-off of individual accounts receivable.

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Atlantic City Electric Company and Subsidiary Company

ACE

1. Financial Statements:

   Report of Independent Registered Public Accounting Firm dated February 9, 2018 of PricewaterhouseCoopers LLP

   Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

   Consolidated Balance Sheets at December 31, 2017 and 2016

   Consolidated Statements of Changes in Shareholder's Equity for the Years Ended December 31, 2017, 2016 and 2015

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

   Schedule II – Valuation and Qualifying Accounts

   Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto

Atlantic City Electric Company and Subsidiary Company

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions and adjustments			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in millions)		
For the year ended December 31, 2017					
Allowance for uncollectible accounts	$ 27	$ 8	$ 2 (a)	$ 19 (b)	$ 18
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	1	—	—	—	1
For the year ended December 31, 2016					
Allowance for uncollectible accounts	$ 17	$ 32	$ 2 (a)	$ 24 (b)	$ 27
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	—	1	—	—	1
For the year ended December 31, 2015					
Allowance for uncollectible accounts	$ 9	$ 18	$ 2 (a)	$ 12 (b)	$ 17
Deferred tax valuation allowance	—	—	—	—	—
Reserve for obsolete materials	—	—	—	—	—

(a) Primarily charges for late payments.
(b) Write-off of individual accounts receivable.

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Exhibits required by Item 601 of Regulation S-K:

Certain of the following exhibits are incorporated herein by reference under Rule 12b-32 of the Securities and Exchange Act of 1934, as amended. Certain other instruments which would otherwise be required to be listed below have not been so listed because such instruments do not authorize securities in an amount which exceeds 10% of the total assets of the applicable registrant and its subsidiaries on a consolidated basis and the relevant registrant agrees to furnish a copy of any such instrument to the Commission upon request.

Exhibit No.	Description
2-1	Agreement and Plan of Merger dated as of April 28, 2011 by and among Exelon Corporation, Bolt Acquisition Corporation and Constellation Energy Group, Inc. (File No. 001-16169, Form 8-K dated April 28, 2011, Exhibit No. 2-1).
2-2	Distribution and Assignment Agreement, dated as of March 12, 2012, by and among Exelon Corporation, Constellation Energy Group, Inc. and RF HoldCo LLC (File No. 001-16169, Form 8-K dated March 14, 2012, Exhibit No. 2-3).
2-3	Contribution and Assignment Agreement, dated as of March 12, 2012, by and among Exelon Corporation, Exelon Energy Delivery Company, LLC and RF HoldCo LLC (File No. 001-16169, Form 8-K dated March 14, 2012, Exhibit No. 2-4).
2-4	Contribution Agreement, dated as of March 12, 2012, by and among Exelon Corporation, Exelon Ventures Company, LLC and Exelon Generation Company, LLC (File No. 001-16169, Form 8-K dated March 14, 2012, Exhibit No. 2-5).
2-5	Purchase Agreement dated as of August 8, 2012 by and between Constellation Power Source Generation, Inc. and Raven Power Holdings, LLC. (File No. 333-85496, Form 10-Q for the quarter ended September 30, 2012, Exhibit 2-1).
2-6	Master Agreement, dated as of October 26, 2010, by and between Electricite de France, S.A. and Constellation Energy Group, Inc. (Designated as Exhibit No. 2.1 to the Current Report on Form 8-K dated November 1, 2010, filed by Constellation Energy Group, Inc., File No. 1-12869).
2-7	Put Termination Agreement dated as of November 3, 2010, by and among EDF Inc. (formerly known as EDF Development, Inc.), E.D.F. International S.A., Constellation Nuclear, LLC, and Constellation Energy Nuclear Group, LLC. (Designated as Exhibit No. 2.1 to the Current Report on Form 8-K dated November 8, 2010, filed by Constellation Energy Group, Inc., File No. 1-12869).
2-8	Contribution Agreement, dated as of February 4, 2010, by and among Constellation Energy Group, Inc., Baltimore Gas and Electric Company and RF HoldCo LLC. (Designated as Exhibit No. 99.2 to the Current Report on Form 8-K dated February 4, 2010, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
2-9	Purchase Agreement, dated as of February 4, 2010, by and between RF HoldCo LLC and GSS Holdings (Baltimore Gas and Electric Company Utility), Inc. (Designated as Exhibit No. 99.3 to the Current Report on Form 8-K dated February 4, 2010, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
2-10-1	Agreement and Plan of Merger, dated as of April 29, 2014, by and among Exelon Corporation, Pepco Holdings, Inc. and Purple Acquisition Corp. (File No. 001-16169, Form 8-K dated April 30, 2014, Exhibit 2.1).
2-10-2	Amended and Restated Agreement and Plan of Merger, dated as of July 18, 2014, among Pepco Holdings, Inc., Exelon Corporation and Purple Acquisition Corp. (File No. 001-16169, Form 8-K dated July 21, 2014, Exhibit 2.1).

Exhibit No.	**Description**
2-10-3	Subscription Agreement for Series A Non-Voting Non-Convertible Preferred Stock, dated as of April 29, 2014, by and between Pepco Holdings, Inc. and Exelon Corporation (File No. 001-16169, Form 8-K dated April 30, 2014, Exhibit 2.2).
2-10-4	Letter Agreement, dated March 7, 2016, among Pepco Holdings, Inc., Exelon Corporation and Purple Acquisition Corp. (File No. 001-31403, Form 8-K dated March 7, 2016, Exhibit 2)
3-1	Amended and Restated Articles of Incorporation of Exelon Corporation, as amended May 8, 2007 (File No. 001-16169, Form 10-Q for the quarter ended September 30, 2008, Exhibit 3-1-2).
3-2	Exelon Corporation Amended and Restated Bylaws, as amended on April 26, 2016 (File No. 001-16169, Form 8-K dated April 29, 2016, Exhibit 4.1).
3-3	Certificate of Formation of Exelon Generation Company, LLC (Registration Statement No. 333-85496, Form S-4, Exhibit 3-1).
3-4	First Amended and Restated Operating Agreement of Exelon Generation Company, LLC executed as of January 1, 2001 (File No. 333-85496, 2003 Form 10-K, Exhibit 3-8).
3-5	Restated Articles of Incorporation of Commonwealth Edison Company Effective February 20, 1985, including Statements of Resolution Establishing Series, relating to the establishment of three new series of Commonwealth Edison Company preference stock known as the “$9.00 Cumulative Preference Stock,” the “$6.875 Cumulative Preference Stock” and the “$2.425 Cumulative Preference Stock” (File No. 1-1839, 1994 Form 10-K, Exhibit 3-2).
3-6	Commonwealth Edison Company Amended and Restated By-Laws, Effective January 23, 2006 As Further Amended January 28, 2008 and July 27, 2009. (File No. 001-1839, Form 8-K dated July 27, 2009, Exhibit 3.1).
3-7	Amended and Restated Articles of Incorporation of PECO Energy Company (File No. 1-01401, 2000 Form 10-K, Exhibit 3-3).
3-8	PECO Energy Company Amended Bylaws (File 000-16844, Form 8-K dated May 6, 2009, Exhibit 99.1).
3-9	Articles of Amendment to the Charter of Baltimore Gas and Electric Company as of February 2, 2010. (Designated as Exhibit No. 3.1 to the Current Report on Form 8-K dated February 4, 2010, filed by Baltimore Gas and Electric Company, File No. 1-1910).
3-10	Articles of Restatement to the Charter of Baltimore Gas and Electric Company, restated as of August 16, 1996. (Designated as Exhibit No. 3 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, filed by Baltimore Gas and Electric Company, File No. 1-1910).
3-11	Bylaws of Baltimore Gas and Electric Company, as amended and restated as of May 10, 2012. (File No. 1-16169, 2013 Form 10-K, Exhibit 3-11).
3-12	Operating Agreement, dated as of February 4, 2010, by and among RF HoldCo LLC, Constellation Energy Group, Inc. and GSS Holdings (BGE Utility), Inc. (Designated as Exhibit No. 99.1 to the Current Report on Form 8-K dated February 4, 2010, filed by Baltimore Gas and Electric Company, File Nos. 1-12869 and 1-1910).
3-13	Certificate of Conversion of Pepco Holdings LLC, dated March 23, 2016 (File No. 001-31403, Form 8-K dated March 24, 2016, Exhibit 3.1)

3-14	Certificate of Formation of Pepco Holdings LLC, dated March 23, 2016 (File No. 001-31403, Form 8-K dated March 24, 2016, Exhibit 3.2)

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Exhibit No.	**Description**
3-15	Limited Liability Company Agreement of Pepco Holdings LLC, dated March 23, 2016 (File No. 001-31403, Form 8-K dated March 24, 2016, Exhibit 3.3)
3-16	Potomac Electric Power Company Restated Articles of Incorporation and Articles of Restatement of (as filed in the District of Columbia) (File No. 001-31403, Form 10-Q dated May 5, 2006, Exhibit 3.1)
3-17	Potomac Electric Power Company Restated Articles of Incorporation and Articles of Restatement of (as filed in Virginia) (File No. 001-01072, Form 10-Q dated November 4, 2011, Exhibit 3.3)
3-18	Delmarva Power & Light Company Articles of Restatement of Certificate and Articles of Incorporation (filed in Delaware and Virginia 02/22/07) (File No. 001-01405, Form 10-K dated March 1, 2007, Exhibit 3.3)
3-19	Atlantic City Electric Company Restated Certificate of Incorporation (filed in New Jersey on August 9, 2002) (File No. 001-03559, Amendment No. 1 to Form U5B dated February 13, 2003, Exhibit B.8.1)
3-20	Bylaws of Potomac Electric Power Company (File No. 001-01072, Form 10-Q dated May 5, 2006, Exhibit 3.2)
3-21	Bylaws of Delmarva Power & Light Company (File No. 001-01405, Form 10-Q dated May 9, 2005, Exhibit 3.2.1)
3-22	Bylaws of Atlantic City Electric Company (File No. 001-03559, Form 10-Q dated May 9, 2005, Exhibit 3.2.2)
4-1	First and Refunding Mortgage dated May 1, 1923 between The Counties Gas and Electric Company (predecessor to PECO Energy Company) and Fidelity Trust Company, Trustee (U.S. Bank National Association, as current successor trustee), (Registration No. 2-2281, Exhibit B-1).(a)
4-1-2	Reserved.
4-1-3	Supplemental Indentures to PECO Energy Company’s First and Refunding Mortgage:

Dated as of	**File Reference**	**Exhibit No.**
May 1, 1927	2-2881(a)	B-1(c)
March 1, 1937	2-2881(a)	B-1(g)
December 1, 1941	2-4863(a)	B-1(h)
November 1, 1944	2-5472(a)	B-1(i)
December 1, 1946	2-6821(a)	7-1(j)
September 1, 1957	2-13562(a)	2(b)-17
May 1, 1958	2-14020(a)	2(b)-18
March 1, 1968	2-34051(a)	2(b)-24
March 1, 1981	2-72802(a)	4-46
March 1, 1981	2-72802(a)	4-47
December 1, 1984	1-01401, 1984 Form 10-K(a)	4-2(b)

March 1, 1993	1-01401, 1992 Form 10-K[(a)]	4(e)-86

May 1, 1993	1-01401, March 31, 1993 Form 10-Q[(a)]	4(e)-88
May 1, 1993	1-01401, March 31, 1993 Form 10-Q[(a)]	4(e)-89
April 15, 2004	0-6844, September 30, 2004 Form 10-Q[(a)]	4-1-1
September 15, 2006	000-16844, Form 8-K dated September 25, 2006	4.1
March 1, 2007	000-16844, Form 8-K dated March 19, 2007	4.1
March 15, 2009	000-16844, Form 8-K dated March 26, 2009	4.1
September 1, 2012	000-16844, Form 8-K dated September 17, 2012	4.1
September 15, 2013	000-16844, Form 8-K dated September 23, 2013	4.1
September 1, 2014	000-16844, Form 8-K dated September 15, 2014	4.1
September 15, 2015	000-16844, Form 8-K dated October 5, 2015	4.1
September 1, 2016	000-16844, Form 8-K dated September 21, 2016	4.1
September 1, 2017	000-16844, Form 8-K dated September 18, 2017	4.1

Exhibit No.	**Description**
4-2	Exelon Corporation Direct Stock Purchase Plan (Registration Statement No. 333-206474, Form S-3, Prospectus).
4-3	Mortgage of Commonwealth Edison Company to Illinois Merchants Trust Company, Trustee (BNY Mellon Trust Company of Illinois, as current successor Trustee), dated July 1, 1923, as supplemented and amended by Supplemental Indenture thereto dated August 1, 1944. (Registration No. 2-60201, Form S-7, Exhibit 2-1).[(a)]
4-3-1	Supplemental Indentures to Commonwealth Edison Company Mortgage.

Dated as of	**File Reference**	**Exhibit No.**
August 1, 1946	2-60201, Form S-7[(a)]	2-1
April 1, 1953	2-60201, Form S-7[(a)]	2-1
March 31, 1967	2-60201, Form S-7[(a)]	2-1
April 1, 1967	2-60201, Form S-7[(a)]	2-1

February 28, 1969	2-60201, Form S-7(a)	2-1
May 29, 1970	2-60201, Form S-7(a)	2-1
June 1, 1971	2-60201, Form S-7(a)	2-1

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Dated as of	**File Reference**	**Exhibit No.**
April 1, 1972	2-60201, Form S-7[(a)]	2-1
May 31, 1972	2-60201, Form S-7[(a)]	2-1
June 15, 1973	2-60201, Form S-7[(a)]	2-1
May 31, 1974	2-60201, Form S-7[(a)]	2-1
June 13, 1975	2-60201, Form S-7[(a)]	2-1
May 28, 1976	2-60201, Form S-7[(a)]	2-1
June 3, 1977	2-60201, Form S-7[(a)]	2-1
May 17, 1978	2-99665, Form S-3[(a)]	4-3
August 31, 1978	2-99665, Form S-3[(a)]	4-3
June 18, 1979	2-99665, Form S-3[(a)]	4-3
June 20, 1980	2-99665, Form S-3[(a)]	4-3
April 16, 1981	2-99665, Form S-3[(a)]	4-3
April 30, 1982	2-99665, Form S-3[(a)]	4-3
April 15, 1983	2-99665, Form S-3[(a)]	4-3
April 13, 1984	2-99665, Form S-3[(a)]	4-3
April 15, 1985	2-99665, Form S-3[(a)]	4-3
April 15, 1986	33-6879, Form S-3[(a)]	4-9
January 13, 2003	001-01839, Form 8-K datedFebruary 13, 2003	4-4
February 22, 2006	001-01839, Form 8-K dated March 6, 2006	4.1
August 1, 2006	001-01839, Form 8-K dated August 28, 2006	4.1
September 15, 2006	001-01839, Form 8-K dated October 2, 2006	4.1
March 1, 2007	001-01839, Form 8-K dated March 23, 2007	4.1
August 30, 2007	001-01839, Form 8-K dated September 10, 2007	4.1
December 20, 2007	001-01839, Form 8-K dated January 16, 2008	4.1
March 10, 2008	001-01839, Form 8-K dated March 27, 2008	4.1
July 12, 2010		4.1

	001-01839, Form 8-K dated August 2, 2010	
August 22, 2011	001-01839, Form 8-K dated September 7, 2011	4.1

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Dated as of	File Reference	Exhibit No.
September 17, 2012	001-01839, Form 8-K dated October 1, 2012	4.1
August 1, 2013	001-01839, Form 8-K dated August 19, 2013	4.1
January 2, 2014	001-01839, Form 8-K dated January 10, 2014	4.1
October 28, 2014	001-01839, Form 8-K dated November 10, 2014	4.1
February 18, 2015	001-01839, Form 8-K dated March 2, 2015	4.1
November 4, 2015	001-01839, Form 8-K dated November 19, 2015	4.1
June 15, 2016	001-01839, Form 8-K dated June 27, 2016	4.1
August 9, 2017	001-01839, Form 8-K dated August 23, 2017	4.1

Exhibit No.	Description
4-3-2	Instrument of Resignation, Appointment and Acceptance dated as of February 20, 2002, under the provisions of the Mortgage of Commonwealth Edison Company dated July 1, 1923, and Indentures Supplemental thereto, regarding corporate trustee (File No. 1-1839, 2001 Form 10-K, Exhibit 4-4-2).
4-3-3	Instrument dated as of January 31, 1996, under the provisions of the Mortgage of Commonwealth Edison Company dated July 1, 1923 and Indentures Supplemental thereto, regarding individual trustee (File No. 1-1839, 1995 Form 10-K, Exhibit 4-29).
4-4	Indenture dated as of September 1, 1987 between Commonwealth Edison Company and Citibank, N.A. (U.S. Bank National Association, as current successor trustee), Trustee relating to Notes (Registration No. 33-20619, Form S-3, Exhibit 4-13).[a]
4-5	Indenture dated December 19, 2003 between Exelon Generation Company, LLC and U.S. Bank National Association (File No. 333-85496, 2003 Form 10-K, Exhibit 4-6).
4-6	Indenture to Subordinated Debt Securities dated as of June 24, 2003 between PECO Energy Company, as Issuer, and U.S. Bank National Association, as Trustee (File No. 000-16844, June 30, 2003 Form 10-Q, Exhibit 4.1).
4-7	Form of 4.25% Senior Note due 2022 issued by Exelon Generation Company, LLC. (File 333-85496, Form 8-K dated June 18, 2012, Exhibit 4.1).
4-8	Form of 5.60% Senior Note due 2042 issued by Exelon Generation Company, LLC. (File 333-85496, Form 8-K dated June 18, 2012, Exhibit 4.2).
4-9	Form of 2.80% Senior Note due 2022 issued by Baltimore Gas and Electric Company. (File 1-1910, Form 8-K dated August 17, 2012, Exhibit 4.1).
4-10	Form of 3.35% Senior Note due 2023 Baltimore Gas and Electric Company. (File 1-1910, Form 8-K dated June 17, 2013, Exhibit 4.1).

4-11	Form of 6.000% Senior Secured Notes due 2033 issued by Exelon Generation Company, LLC (File No. 333-85496, Form 8-K dated September 30, 2013, Exhibit No. 4.1).

Exhibit No.	**Description**
4-12	Preferred Securities Guarantee Agreement between PECO Energy Company, as Guarantor, and U.S. Bank National Association, as Trustee, dated as of June 24, 2003 (File No. 000-16844, June 30, 2003 Form 10-Q, Exhibit 4.2).
4-13	PECO Energy Capital Trust IV Amended and Restated Declaration of Trust among PECO Energy Company, as Sponsor, U.S. Bank Trust National Association, as Delaware Trustee and Property Trustee, and J. Barry Mitchell, George R. Shicora and Charles S. Walls as Administrative Trustees dated as of June 24, 2003 (File No. 000-16844, June 30, 2003 Form 10-Q, Exhibit 4.3).
4-14	Indenture dated May 1, 2001 between Exelon Corporation and The Bank of New York Mellon Trust Company, National Association, as trustee (File No. 1-16169, June 30, 2005 Form 10-Q, Exhibit 4-10).
4-15	Form of $500,000,000 5.625% senior notes due 2035 dated June 9, 2005 issued by Exelon Corporation (File No. 1-16169, Form 8-K dated June 9, 2005, Exhibit 99.3).
4-16	Indenture dated as of September 28, 2007 from Exelon Generation Company, LLC to U.S. Bank National Association, as trustee (File 333-85496, Form 8-K dated September 28, 2007, Exhibit 4.1).
4-17	Form of 5.20% Exelon Generation Company, LLC Senior Note due 2019 (File 333-85496, Form 8-K dated September 23, 2009, Exhibit 4.1).
4-18	Form of 6.25% Exelon Generation Company, LLC Senior Note due 2039 (File 333-85496, Form 8-K dated September 23, 2009, Exhibit 4.2).
4-19	Form of 4.00% Exelon Generation Company, LLC Senior Note due 2020 (File No. 333-85496, Form 8-K dated September 30, 2010, Exhibit 4.1).
4-20	Form of 5.75% Exelon Generation Company, LLC Senior Note due 2041 (File No. 333-85496, Form 8-K dated September 30, 2010, Exhibit 4.2).
4-21	Indenture between Constellation Energy Group, Inc. and the Bank of New York, Trustee dated as of March 24, 1999. (Designated as Exhibit No. 4(a) to the Registration Statement on Form S-3 dated March 29, 1999, filed by Constellation Energy Group, Inc., File No. 333-75217.)
4-22	First Supplemental Indenture between Constellation Energy Group, Inc. and the Bank of New York, Trustee dated as of January 24, 2003. (Designated as Exhibit No. 4(b) to the Registration Statement on Form S-3 dated January 24, 2003, filed by Constellation Energy Group, Inc., File No. 333-102723).
4-23	Indenture dated as of July 24, 2006 between Constellation Energy Group, Inc. and Deutsche Bank Trust Company Americas, as trustee. (Designated as Exhibit No. 4(a) to the Registration Statement on Form S-3 filed July 24, 2006, filed by Constellation Energy Group, Inc., File No. 333-135991).
4-24	First Supplemental Indenture between Constellation Energy Group, Inc. and Deutsche Bank Trust Company Americas, as trustee, dated as of June 27, 2008. (Designated as Exhibit 4(a) to the Current Report on Form 8-K dated June 30, 2008, filed by Constellation Energy Group, Inc., File No. 1-12869).
4-25	Indenture dated June 19, 2008 between Constellation Energy Group, Inc. and Deutsche Bank Trust Company Americas, as trustee. (Designated as Exhibit No. 4(a) to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
4-26	

Indenture, dated as of September 30, 2013, among Continental Wind, LLC, the guarantors party thereto and Wilmington Trust, National Association, as trustee (File No. 333-85496, Form 8-K dated September 30, 2013, Exhibit No. 4.1).

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Exhibit No.	**Description**
4-27	Indenture dated July 1, 1985, between Baltimore Gas and Electric Company and The Bank of New York (Successor to Mercantile-Safe Deposit and Trust Company), Trustee. (Designated as Exhibit 4(a) to the Registration Statement on Form S-3, File No. 2-98443); as supplemented by Supplemental Indentures dated as of October 1, 1987 (Designated as Exhibit 4(a) to the Current Report on Form 8-K, dated November 13, 1987, File No. 1-1910) and as of January 26, 1993 (Designated as Exhibit 4(b) to the Current Report on Form 8-K, dated January 29, 1993, filed by Baltimore Gas and Electric Company, File No. 1-1910).(a)
4-28	Indenture and Security Agreement dated as of July 9, 2009, between Baltimore Gas and Electric Company and Deutsche Bank Trust Company Americas, as trustee (including form of Baltimore Gas and Electric Company Officer's Certificate and form of Senior Secured Bond) (Designated as Exhibit Nos. 4(u) and 4(u)(1) to Post-Effective Amendment No. 1 to the Registration Statement on Form S-3 dated July 9, 2009, filed by Constellation Energy Group, Inc., File Nos. 333-157637 and 333-157637-01).
4-29	Indenture dated as of July 24, 2006 between Baltimore Gas and Electric Company and Deutsche Bank Trust Company Americas, as trustee. (Designated as Exhibit 4(b) to the Registration Statement on Form S-3 filed July 24, 2006, filed by Constellation Energy Group, Inc., File No. 333-135991).
4-30	Supplemental Indenture No. 1, dated as of October 1, 2009, to the Indenture and Security Agreement dated as of July 9, 2009, between Baltimore Gas and Electric Company and Deutsche Bank Trust Company Americas, as trustee. (Designated as Exhibit No. 4(c) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
4-31	Baltimore Gas and Electric Company Deed of Easement and Right-of-Way Grant dated as of July 9, 2009 (Designated as Exhibit No. 4(u)(2) to Post-Effective Amendment No. 1 to the Registration Statement on Form S-3 dated July 9, 2009, filed by Constellation Energy Group, Inc., File Nos. 333-157637 and 333-157637-01).
4-32	Indenture dated as of June 29, 2007, by and between RSB BondCo LLC and Deutsche Bank Trust Company Americas, as Trustee and Securities Intermediary. (Designated as Exhibit 4.1 to the Current Report on Form 8-K dated July 5, 2007, filed by Baltimore Gas and Electric Company, File No. 1-1910).
4-33	Series Supplement to Indenture dated as of June 29, 2007 by and between RSB BondCo LLC and Deutsche Bank Trust Company Americas, as Trustee and Securities Intermediary (Designated as Exhibit No. 4(b) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, filed by Baltimore Gas and Electric Company, File No. 1-1910).
4-34	Replacement Capital Covenant dated June 27, 2008. (Designated as Exhibit No. 4(b) to the Current Report on Form 8-K dated June 30, 2008, filed by Constellation Energy Group, Inc., File No. 1-12869).
4-35	Amendment to Replacement Capital Covenant, dated as of March 12, 2012, amending the Replacement Capital Covenant, dated as of June 27, 2008 (File No. 001-16169, Form 8-K dated March 14, 2012, Exhibit No. 99.4).
4-36	Officers' Certificate, dated December 14, 2010, establishing the 5.15% Notes due December 1, 2020 of Constellation Energy Group, Inc., with the form of Notes attached thereto. (Designated as Exhibit No. 4 (b) to the Current Report on Form 8-K dated December 14, 2010, filed by Constellation Energy Group, Inc., File No. 1-12869).
4-37	Officers' Certificate, November 16, 2011, establishing the 3.50% Notes due November 15, 2021 of Baltimore Gas and Electric Company, with the form of Notes attached thereto. (Designated as

Exhibit No. 4(b) to the Current Report on Form 8-K dated November 16, 2011, filed by Baltimore Gas and Electric Company, File No. 1-1910).

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Exhibit No.	Description
4-38	Indenture, dated as of June 17, 2014, between Exelon Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee. (File No. 001-16169, Form 8-K dated June 23, 2014, Exhibit 4.1).
4-38-1	First Supplemental Indenture, dated as of June 17, 2014, between Exelon Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee.(File No. 001-16169, Form 8-K dated June 23, 2014, Exhibit 4.2).
4-38-2	Form of 2.50% Notes due 2024 (File No. 001-16169, Form 8-K dated June 23, 2014, Exhibit 4.1).
4-38-3	Purchase Contract and Pledge Agreement, between Exelon Corporation and The Bank of New York Mellon Trust Company, N.A., as Purchase Contract Agent, Collateral Agent, Custodial Agent and Securities Intermediary. (File No. 001-16169, Form 8-K dated June 23, 2014, Exhibit 4.4).
4-38-4	Form of Remarketing Agreement (File No. 001-16169, Form 8-K dated June 23, 2014, Exhibit 4.5).
4-38-5	Form of Corporate Unit (File No. 001-16169, Form 8-K dated June 23, 2014, Exhibit 4.6).
4-38-6	Form of Treasury Unit (File No. 001-16169, Form 8-K dated June 23, 2014, Exhibit 4.7).
4-39	Indenture, dated as of June 11, 2015, among Exelon Corporation and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to Exelon Corporation’s Current Report on Form 8-K, filed on June 11, 2015).
4-39-1	First Supplemental Indenture, dated as of June 11, 2015, among Exelon Corporation and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated herein by reference to Exhibit 4.2 to Exelon Corporation’s Current Report on Form 8-K, filed on June 11, 2015).
4-39-2	Second Supplemental Indenture, dated as of December 2, 2015, among Exelon Corporation and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to Exelon Corporation’s Current Report on Form 8-K, filed on December 2, 2015).
4-39-3	Registration Rights Agreement, dated as of December 2, 2015, among Exelon Corporation,Barclays Capital Inc. and Goldman, Sachs & Co. (incorporated herein by reference to Exhibit 1.1 to Exelon Corporation’s Current Report on Form 8-K, filed on December 2, 2015).
4-40	Form of Conversion Supplemental Indenture, dated March 23, 2016 (File No. 001-31403, Form 8-K dated March 24, 2016, Exhibit 4.1)
4-41	Third Supplemental Indenture, dated as of April 7, 2016, among Exelon Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (File No. 001-16169, Form 8-K dated April 7, 2016, Exhibit 4.2)
4-42	Mortgage and Deed of Trust, dated July 1, 1936, of Potomac Electric Power Company to The Bank of New York Mellon as successor trustee, securing First Mortgage Bonds of Potomac Electric Power Company, and Supplemental Indenture dated July 1, 1936 (File No. 2-2232, Registration Statement dated June 19, 1936, Exhibit B-4)[(a)]
4-42-1	Supplemental Indentures to Potomac Electric Power Company Mortgage.

Dated as of	File Reference	Exhibit No.
December 10, 1939	Form 8-K, 1/3/40[(a)]	B

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Dated as of	**File Reference**	**Exhibit No.**
July 15, 1942	2-5032, Amendment No 2. To Registration Statement, 8/24/42(a)	B-1
October 15, 1947	Form 8-K , 12/8/47(a)	A
December 31, 1948	Form 10-K, 4/13/49(a)	A-2
December 31, 1949	Form 8-K, 2/8/50(a)	(a)-1
February 15, 1951	Form 8-K, 3/9/51(a)	(a)
February 16, 1953	Form 8-K, 3/5/53(a)	(a)-1
March 15, 1954 and March 15, 1955	2-11627, Registration Statement, 5/2/55(a)	4-B
March 15, 1956	Form 10-K, 4/4/56(a)	C
April 1, 1957	2-13884, Registration Statement, 2/5/58(a)	4-B
May 1, 1958	2-14518, Registration Statement, 11/10/58(a)	2-B
May 1, 1959	2-15027, Amendment No. 1 to Registration Statement, 5/13/59(a)	4-B
May 2, 1960	2-17286, Registration Statement, 11/9/60(a)	2-B
April 3, 1961	Form 10-K, 4/24/61(a)	A-1
May 1, 1962	2-21037, Registration Statement, 1/25/63(a)	2-B
May 1, 1963	2-21961, Registration Statement, 12/19/63(a)	4-B
April 23, 1964	2-22344, Registration Statement, 4/24/64(a)	2-B
May 3, 1965	2-24655, Registration Statement, 3/16/66(a)	2-B
June 1, 1966	Form 10-K, 4/11/67(a)	1
April 28, 1967	2-26356, Post-Effective Amendment No. 1 to Registration Statement, 5/3/67 (a)	2-B
July 3, 1967	2-28080, Registration Statement, 1/25/68(a)	2-B
May 1, 1968	2-31896, Registration Statement, 2/28/69(a)	2-B

June 16, 1969	2-36094, Registration Statement, 1/27/70[(a)]	2-B

Dated as of	File Reference	Exhibit No.
May 15, 1970	2-38038, Registration Statement, 7/27/70(a)	2-B
September 1, 1971	2-45591, Registration Statement, 9/1/72(a)	2-C
June 17, 1981	Amendment No. 1 to Form 8-A, 6/18/81(a)	2
November 1, 1985	Form 8-A, 11/1/85(a)	2B
September 16, 1987	33-18229, Registration Statement, 10/30/87(a)	4-B
May 1, 1989	33-29382, Registration Statement, 6/16/89(a)	4-C
May 21, 1991	Form 10-K, 3/27/92(a)	4
May 7, 1992	Form 10-K, 3/26/93(a)	4
September 1, 1992	Form 10-K, 3/26/93(a)	4
November 1, 1992	Form 10-K, 3/26/93(a)	4
July 1, 1993	33-49973, Registration Statement, 8/11/93(a)	4.4
February 10, 1994	001-01072, Form 10-K, 3/25/94	4
February 11, 1994	001-01072, Form 10-K, 3/25/94	4
October 2, 1997	001-01072, Form 10-K, 3/27/98	4
November 17, 2003	001-01072, Form 10-K, 3/12/04	4.1
March 16, 2004	001-01072, Form 8-K, 3/23/04	4.3
May 24, 2005	001-01072, Form 8-K, 5/26/05	4.2
April 1, 2006	001-01072, Form 8-K, 4/17/06	4.1
November 13, 2007	001-01072, Form 8-K, 11/15/07	4.2
March 24, 2008	001-01072, Form 8-K, 3/28/08	4.1
December 3, 2008	001-01072, Form 8-K, 12/8/08	4.2
March 28, 2012	001-01072, Form 8-K, 3/29/12	4.2
March 11, 2013	001-01072, Form 8-K, 3/12/13	4.2
November 14, 2013		4.2

001-01072, Form 8-K,
11/15/13

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Dated as of	File Reference	Exhibit No.
March 11, 2014	001-01072, Form 8-K, 3/12/14	4.2
March 9, 2015	001-01072, Form 8-K, 3/10/15	4.3
May 15, 2017	001-01072, Form 8-K, 5/22/17	4.2

Exhibit No.	Description
4-43	Indenture, dated as of July 28, 1989, between Potomac Electric Power Company and The Bank of New York Mellon, Trustee, with respect to Medium-Term Note Program (File No. 001-01072, Form 8-K dated June 21, 1990, Exhibit 4)(a)
4-44	Senior Note Indenture, dated November 17, 2003 between Potomac Electric Power Company and The Bank of New York Mellon (File No. 001-01072, Form 8-K dated November 21, 2003, Exhibit 4.2)
4-44-1	Supplemental Indenture, dated March 3, 2008, to Senior Note Indenture between Potomac Electric Power Company and The Bank of New York Mellon (File No. 001-01072, Form 10-K dated March 2, 2009, Exhibit 4.3)
4-45	Mortgage and Deed of Trust of Delaware Power & Light Company to The Bank of New York Mellon (ultimate successor to the New York Trust Company), as trustee, dated as of October 1, 1943, and copies of the First through Sixty-Eighth Supplemental Indentures thereto (File No. 33-1763, Registration Statement dated November 27, 1985, Exhibit 4-A)(a)
4-45-1	Supplemental Indentures to Delmarva Power & Light Company Mortgage.

Dated as of	File Reference	Exhibit No.
January 1, 1986	33-39756, Registration Statement, 4/03/91(a)	4-B
June 1, 1986	33-24955, Registration Statement, 10/13/88(a)	4-B
January 1, 1987	33-24955, Registration Statement, 10/13/88(a)	4-B
September 1, 1987	33-24955, Registration Statement, 10/13/88(a)	4-B
October 1, 1987	33-24955, Registration Statement, 10/13/88(a)	4-B
January 1, 1988	33-24955, Registration Statement, 10/13/88(a)	4-B
December 1, 1988	33-39756, Registration Statement, 4/03/91(a)	4-D
January 1, 1989	33-39756, Registration Statement, 4/03/91(a)	4-E
March 1, 1990	33-39756, Registration Statement, 4/03/91(a)	4-F
January 1, 1991	33-46892, Registration Statement, 4/1/92(a)	4-E

July 1, 1991	33-46892, Registration Statement, 4/1/92[(a)]	4-F

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Dated as of	File Reference	Exhibit No.
February 1, 1992	33-49750, Registration Statement, 7/17/92(a)	4
May 1, 1992	33-57652, Registration Statement, 1/29/93(a)	4-G
October 1, 1992	33-63582, Registration Statement, 5/28/93(a)	4-H
January 1, 1993	33-50453, Registration Statement, 10/1/93(a)	99
June 1, 1993	33-53855, Registration Statement, 1/30/95(a)	4-J
July 1, 1993	33-53855, Registration Statement, 1/30/95(a)	4-K
October 1, 1993	33-53855, Registration Statement, 1/30/95(a)	4-L
January 1, 1994	33-53855, Registration Statement, 1/30/95(a)	4-M
October 1, 1994	33-53855, Registration Statement, 1/30/95(a)	4-N
January 1, 1995	333-00505, Registration Statement, 1/29/96(a)	4-K
June 1, 1995	333-00505, Registration Statement, 1/29/96(a)	4-L
January 1, 1996	333-24059, Registration Statement, 3/27/97(a)	4-L
January 1, 1997	001-01405, Form 10-K, 2/24/12	4.4
January 1, 1998	001-01405, Form 10-K, 2/24/12	4.4
January 1, 1999	001-01405, Form 10-K, 2/24/12	4.4
January 1, 2000	333-145691-02, Post Effective Amendment No. 1 to Registration Statement, 11/18/08	4.24(k)
January 1, 2001	001-01405, Form 10-K, 2/24/12	4.4
January 1, 2002	001-01405, Form 10-K, 2/24/12	4.4

January 1, 2003	001-01405, Form 10-K, 2/24/12	4.4
January 1, 2004	001-01405, Form 10-K, 2/24/12	4.4
January 1, 2005	001-01405, Form 10-K, 2/24/12	4.4

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Dated as of	**File Reference**	**Exhibit No.**
January 1, 2006	001-01405, Form 10-K, 2/24/12	4.4
January 1, 2007	001-01405, Form 10-K, 2/24/12	4.4
January 1, 2008	001-01405, Form 10-K, 2/24/12	4.4
January 1, 2009	001-01405, Form 10-K, 2/24/12	4.4
September 22, 2009	001-01405, Form 8-K, 10/1/09	4.4
January 1, 2010	001-01405, Form 10-K, 2/25/11	4.4
January 1, 2011	001-01405, Form 10-Q, 8/3/11	4.2
May 2, 2011	001-01405, Form 8-K, 6/3/11	4.2
January 1, 2012	001-01405, Form 10-Q, 8/7/12	4.3
June 19, 2012	001-01405, Form 8-K, 6/20/12	4.2
January 1, 2013	001-01405, Form 10-Q, 8/7/13	4.1
November 7, 2013	001-01405, Form 8-K, 11/8/13	4.2
January 1, 2014	001-01405, Form 10-K, 2/27/15	4.4
June 2, 2014	001-01405, Form 8-K, 6/3/14	4.3
January 1, 2015	001-01405, Form 10-K, 2/19/16	4.4
May 4, 2015	001-01405, Form 8-K, 5/5/15	4.2
January 1, 2016	Filed herewith.	
December 5, 2016	001-01405, Form 8-K, 12/12/16	4.2
April 5, 2017	001-01405, Form 10-Q, 5/3/17	4.5

Exhibit No.	**Description**
4-46	Indenture between Delmarva Power & Light Company and The Bank of New York Mellon Trust Company, N.A. (ultimate successor to Manufacturers Hanover Trust Company), as trustee, dated as of November 1, 1988 (File No. 33-46892, Registration Statement dated April 1, 1992, Exhibit 4-G)[(a)]
4-47	Mortgage and Deed of Trust, dated January 15, 1937, between Atlantic City Electric Company and The Bank of New York Mellon (formerly Irving Trust Company), as trustee (File No. 2-66280, Registration Statement dated December 21, 1979, Exhibit 2(a))[(a)]
4-47-1	Supplemental Indentures to Atlantic City Electric Company Mortgage.

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Dated as of	**File Reference**	**Exhibit No.**
June 1, 1949	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
July 1, 1950	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
November 1, 1950	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
March 1, 1952	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
January 1, 1953	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
March 1, 1954	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
March 1, 1955	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
January 1, 1957	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
April 1, 1958	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
April 1, 1959	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
March 1, 1961	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
July 1, 1962	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
March 1, 1963	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
February 1, 1966	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
April 1, 1970	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
September 1, 1970	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
May 1, 1971	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
April 1, 1972	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
June 1, 1973	2-66280, Registration Statement, 12/21/79[(a)]	2(b)

January 1, 1975	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
May 1, 1975	2-66280, Registration Statement, 12/21/79[(a)]	2(b)

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Dated as of	File Reference	Exhibit No.
December 1, 1976	2-66280, Registration Statement, 12/21/79[(a)]	2(b)
January 1, 1980	Form 10-K, 3/25/81[(a)]	4(e)
May 1, 1981	Form 10-Q, 8/10/81[(a)]	4(a)
November 1, 1983	Form 10-K, 3/30/84[(a)]	4(d)
April 15, 1984	Form 10-Q, 5/14/84[(a)]	4(a)
July 15, 1984	Form 10-Q, 8/13/84[(a)]	4(a)
October 1, 1985	Form 10-Q, 11/12/85[(a)]	4
May 1, 1986	Form 10-Q, 5/12/86[(a)]	4
July 15, 1987	Form 10-K, 3/28/88[(a)]	4(d)
October 1, 1989	Form 10-Q for quarter ended 9/30/89 [(A)]	4(a)
March 1, 1991	Form 10-K, 3/28/91[(a)]	4(d)(1)
May 1, 1992	33-49279, Registration Statement, 1/6/93[(a)]	4(b)
January 1, 1993	333-108861, Registration Statement, 9/17/03	4.05(hh)
August 1, 1993	Form 10-Q, 11/12/93[(a)]	4(a)
September 1, 1993	Form 10-Q, 11/12/93[(a)]	4(b)
November 1, 1993	Form 10-K, 3/29/94[(a)]	4(c)(1)
June 1, 1994	Form 10-Q, 8/14/94[(a)]	4(a)
October 1, 1994	Form 10-Q, 11/14/94[(a)]	4(a)
November 1, 1994	Form 10-K, 3/21/95[(a)]	4(c)(1)
March 1, 1997	001-03559, Form 8-K, 3/24/97	4(b)
April 1, 2004	001-03559, Form 8-K, 4/6/04	4.3
August 10, 2004	001-03559, Form 10-Q, 11/9/04	4
March 8, 2006	001-03559, Form 8-K, 3/17/06	4
November 6, 2008	001-03559, Form 8-K, 11/10/08	4.2
March 29, 2011	001-03559, Form 8-K, 4/1/11	4.2
August 18, 2014	001-03559, Form 8-K, 8/19/14	4.2
December 1, 2015	001-03559, Form 8-K, 12/2/15	4.2

Exhibit No.	Description

4-48	Indenture, dated as of March 1, 1997, between Atlantic City Electric Company and The Bank of New York Mellon, as trustee (File No. 001-03559, Form 8-K dated March 24, 1997, Exhibit 4.2)

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Exhibit No.	**Description**
4-49	Senior Note Indenture, dated as of April 1, 2004, between Atlantic City Electric Company and The Bank of New York Mellon, as trustee (File No. 001-03559, Form 8-K dated April 6, 2004, Exhibit 4.2)
4-50	Indenture, dated as of December 19, 2002 between Atlantic City Electric Transition Funding LLC and The Bank of New York Mellon, as trustee (File No. 333-59558, Form 8-K dated December 23, 2002, Exhibit 4.1)
4-51	2002-1 Series Supplement, dated as of December 19, 2002 between Atlantic City Electric Transition Funding LLC and The Bank of New York Mellon, as trustee (File No. 333-59558, Form 8-K dated December 23, 2002, Exhibit 4.2)
4-52	2003-1 Series Supplement, dated as of December 23, 2003 between Atlantic City Electric Transition Funding LLC and The Bank of New York Mellon, as trustee (File No. 333-59558, Form 8-K dated December 23, 2003, Exhibit 4.2)
4-53	Indenture, dated September 6, 2002, between Pepco Holdings, Inc. and The Bank of New York Mellon, as trustee (File No. 333-100478, Registration Statement on Form S-3 dated October 10, 2002, Exhibit 4.03)
4-54	Corporate Commercial Paper Master Note (File No. 001-31403, Form 10-K dated February 24, 2012, Exhibit 4.13)
4-55	Pepco Holdings, Inc. Certificate of Series A Non-Voting Non-Convertible Preferred Stock (File No. 001-31403, Form 8-k dated April 30, 2014, Exhibit 3.1)
4-56	Form of 2.400% notes due 2026 (File No. 001-01910, Form 8-K dated August 18, 2016, Exhibit 4.1)
4-57	Form of 3.500% notes due 2046 (File No. 001-01910, Form 8-K dated August 18, 2016, Exhibit 4.2)
4-58	Form of Exelon Generation Company, LLC 2.950% senior notes due 2020 (File No. 333-85496, Form 8-K dated March 10, 2017, Exhibit 4.1)
4-59	Form of Exelon Generation Company, LLC 3.400% notes due 2022 (File No. 333-85496, Form 8-K dated March 10, 2017, Exhibit 4.2)
4-60	Second Supplemental Indenture, dated April 3, 2017, between Exelon and The Bank of New York Mellon Trust Company, N.A., as trustee, to that certain Indenture (For Unsecured Subordinated Debt Securities), dated June 17, 2014 (File No. 001-16169, Form 8-K dated April 4, 2017, Exhibit 4.3)
4-61	Form of Exelon Corporation 3.497% junior subordinated notes due 2022 (File No. 001-16169, Form 8-K dated April 4, 2017, Exhibit 4.4)
4-62	Form of First Mortgage Bond, 4.15% Series due March 15, 2043 (File No. 001-01072, Form 8-K dated May 22, 2017, Exhibit 4.3)
4-63	BGE Form of 3.750% notes due 2047 (File No. 001-01910, Form 8-K dated August 24, 2017, Exhibit 4.1)
10-1	Facility Credit Agreement, dated as of February 6, 2014, among ExGen Renewables I Holding, LLC and Barclays Bank PLC (File No. 333-85496, Form 8-K dated February 12, 2014, Exhibit 10.1).

Exhibit No.	**Description**
10-1-1	Credit Agreement, dated as of September 18, 2014, among ExGen Texas Power, LLC, ExGen Texas Power Holdings, LLC, Wolf Hollow I Power, LLC, Colorado Bend I Power, LLC, Laporte Power, LLC, Handley Power, LLC and Mountain Creek Power, LLC, the lenders party thereto from time to time, Bank of America, N.A., as administrative agent and collateral agent, and Wilmington Trust, National Association, as depositary agent. (File No. 1-16169, Form 8-K dated September 18, 2014, Exhibit 10.1).
10-2	Exelon Corporation Non-Employee Directors' Deferred Stock Unit Plan (As Amended and Restated Effective January 1, 2011). * (File No. 001-16169, 2010 Form 10-K, Exhibit 10.1).
10-3	Form of Exelon Corporation Unfunded Deferred Compensation Plan for Directors (as amended and restated Effective March 12, 2012). * (File No. 1-16169, 2015 Form 10-K, Exhibit 10-3)
10-4	Reserved.
10-5	Form of Restricted Stock Award Agreement under the Exelon Corporation Long-Term Incentive Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-6-1).
10-6	Forms of Transferable Stock Option Award Agreement under the Exelon Corporation Long-Term Incentive Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-6-2).
10-7	Forms of Stock Option Award Agreement under the Exelon Corporation Long-Term Incentive Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-6-3).
10-8	Unicom Corporation Deferred Compensation Unit Plan, as amended *(File Nos. 1-11375 and 1-1839, 1995 Form 10-K, Exhibit 10-12).
10-9	Amendment Number One to the Unicom Corporation Deferred Compensation Unit Plan, as amended January 1, 2008 * (File No. 001-16169, 2008 Form 10-K, Exhibit 10.16).
10-10	Unicom Corporation Retirement Plan for Directors, as amended *(Registration Statement No. 333-49780, Form S-8, Exhibit 4-12).
10-11	Commonwealth Edison Company Retirement Plan for Directors, as amended *(Registration Statement No. 333-49780, Form S-8, Exhibit 4-13).
10-12	Exelon Corporation Supplemental Management Retirement Plan (As Amended and Restated Effective January 1, 2009) * (File No. 001-16169, 2008 Form 10-K, Exhibit 10.19).
10-13	PECO Energy Company Supplemental Pension Benefit Plan (As Amended and Restated Effective January 1, 2009) (File No. 000-16844, 2008 Form 10-K, Exhibit 10.20).
10-14	Exelon Corporation Annual Incentive Plan for Senior Executives (As Amended Effective January 1, 2014 * (File No. 1-16169, Exelon Proxy Statement dated April 1, 2014, Appendix A).
10-15	Form of change in control employment agreement for senior executives effective January 1, 2009 * (File No. 001-16169. 2008 Form 10-K, Exhibit 10.23).
10-16	Form of change in control employment agreement (amended and restated as of January 1, 2009) * (File No. 001-16169, 2008 Form 10-K, Exhibit 10.24).

10-17	Exelon Corporation Employee Stock Purchase Plan, as amended and restated effective July 1, 2013. (File No. 1-16169, Schedule 14A dated March 14, 2013 Appendix A).
10-18	Exelon Corporation 2006 Long-Term Incentive Plan (Registration Statement No. 333-122704, Form S-4, Joint Proxy Statement-Prospectus pursuant to Rule 424(b)(3) filed June 3, 2005, Annex H).

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Exhibit No.	**Description**
10-19	Form of Stock Option Grant Instrument under the Exelon Corporation 2006 Long-Term Incentive Plan (File No. 1-16169, Form 8-K filed January 27, 2006, Exhibit 99.2).
10-20	Exelon Corporation Employee Stock Purchase Plan for Unincorporated Subsidiaries (Registration Statement No. 333-122704, Form S-4, Joint Proxy Statement-Prospectus pursuant to Rule 424(b)(3) filed June 3, 2005, Annex I).
10-21	Exelon Corporation Senior Management Severance Plan (As Amended and Restated Effective April 1, 2013).* (File No. 001-16169, 2013 Form 10-K, Exhibit 10.21).
10-21-1	Exelon Corporation Senior Management Severance Plan (As Amended and Restated Effective November 1, 2015) * (File No. 1-16169, 2015 Form 10-K, Exhibit 10-21-1)
10-22	Form of Separation Agreement under Exelon Corporation Senior Management Severance Plan (As Amended and Restated Effective November 1, 2015) * Filed herewith.
10-23	Facility Credit Agreement, dated as of November 4, 2010, among Exelon Generation Company, LLC and UBS AG, Stamford Branch (File No. 333-85496, Form 8-K dated February 22, 2011, Exhibit No. 10-1).
10-24	Exelon Corporation Executive Death Benefits Plan dated as of January 1, 2003 * (File No. 1-16169, 2006 Form 10-K, Exhibit 10-52).
10-25	First Amendment to Exelon Corporation Executive Death Benefits Plan, Effective January 1, 2006 * (File No. 1-16169, 2006 Form 10-K, Exhibit 10-53).
10-26	Amendment Number One to the Exelon Corporation 2006 Long-Term Incentive Plan, Effective December 4, 2006 (File No. 1-16169, 2006 Form 10-K, Exhibit 10-54).
10-27	Amendment Number Two to the Exelon Corporation 2006 Long-Term Incentive Plan (As Amended and Restated Effective January 28, 2002), Effective December 4, 2006 (File No. 1-16169, 2006 Form 10-K, Exhibit 10-55).
10-28	Exelon Corporation Deferred Compensation Plan (As Amended and Restated Effective January 1, 2005) (File No. 1-16169, 2006 Form 10-K, Exhibit 10-56).
10-29	Exelon Corporation Stock Deferral Plan (As Amended and Restated Effective January 1, 2005) (File No. 1-16169, 2006 Form 10-K, Exhibit 10-57).
10-30	Commonwealth Edison Company Long-Term Incentive Plan, Effective January 1, 2007 (File No. 1-16169, March 31, 2007 Form 10-Q, Exhibit 10-1).
10-31	Amendment Number One to the Exelon Corporation Stock Deferral Plan (As Amended and Restated Effective January 1, 2005) (File No. 1-16169, June 30, 2007 Form 10-Q, Exhibit 10-3).
10-32	Restricted stock unit award agreement (File 1-16169, Form 8-K dated August 31, 2007, Exhibit 99.1).
10-33	Reserved.
10-34	Form of Exelon Corporation 2011 Long-Term Incentive Plan, as amended effective December 18, 2014. * (File No. 1-16169, 2015 Form 10-K, Exhibit 10-34)

10-34-1	Form of Exelon Corporation Long-Term Incentive Program, as amended and restated as of January 1, 2014. * (File No. 1-16169, 2015 Form 10-K, Exhibit 10-34-1)
10-34-2	Form of Exelon Corporation Long-Term Incentive Program, as amended and restated as of January 1, 2015. * (File No. 1-16169, 2015 Form 10-K, Exhibit 10-34-2)

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Exhibit No.	**Description**
10-34-3	Amendment Number Two to the Exelon Corporation 2011 Long-Term Incentive Plan (As Amended and Restated Effective January 21, 2014), Effective October 26, 2015. * (File No. 1-16169, 2015 Form 10-K, Exhibit 10-34-3)
10-35	Form of Change in Control Employment Agreement Effective February 10, 2011. * (File 1-16169, 2010 Form 10-K, Exhibit 10-44).
10-36	Credit Agreement for $500,000,000 dated as of March 23, 2011 between Exelon Corporation and Various Financial Institutions (File No. 001-16169, Form 8-K dated March 23, 2011, Exhibit No. 99.1).
10-37	Credit Agreement for $5,300,000,000 dated as of March 23, 2011 between Exelon Generation Company, LLC and Various Financial Institutions (File No. 333-85496, Form 8-K dated March 23, 2011, Exhibit No. 99.2).
10-38	Credit Agreement for $600,000,000 dated as of March 23, 2011 between PECO Energy Company and Various Financial Institutions (File No. 000-16844, Form 8-K dated March 23, 2011, Exhibit No. 99.3).
10-39	Credit Agreement dated as of March 28, 2012 among Commonwealth Edison Company, Various Financial Institutions, as Lenders, and JP Morgan Chase Bank, N.A., as Administrative Agent (File No. 001-01839, Form 8-K dated March 28, 2012, Exhibit No. 99-1).
10-40	Amendment No. 3 to Credit Agreement dated as of March 23, 2011 among Exelon Corporation, as Borrower, the various financial institutions named therein, as Lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent (File No. 001-16169, Form 8-K dated August 10, 2013, Exhibit No. 99-1).
10-41	Amendment No. 1 to Credit Agreement dated as of March 28, 2012 among Commonwealth Edison Company, as Borrower, the various financial institutions named therein, as Lenders and JPMorgan Chase Bank, N.A., as Administrative Agent (File No. 001-1839, Form 8-K dated August 10, 2013, Exhibit No. 99-2).
10-42	Amendment No. 1 to Credit Agreement, dated as of December 21, 2011, to the Credit Agreement dated as of March 23, 2011, among Exelon Generation Company, LLC, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (File No. 001-16169, Form 8-K dated March 14, 2012, Exhibit No. 4-6).
10-43	Constellation Energy Group, Inc. Nonqualified Deferred Compensation Plan, as amended and restated. * (Designated as Exhibit No. 10(b) to the Constellation Annual Report on Form 10-K for the year ended December 31, 2008, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-44	Constellation Energy Group, Inc. Deferred Compensation Plan for Non-Employee Directors, as amended and restated. * (Designated as Exhibit No. 10(c) to the Constellation Annual Report on Form 10-K for the year ended December 31, 2008, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-45	Constellation Energy Group, Inc. Benefits Restoration Plan, amended and restated effective June 1, 2010. * (Designated as Exhibit No. 10(b) to the Constellation Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-46	Constellation Energy Group, Inc. Supplemental Pension Plan, as amended and restated. * (Designated as Exhibit No. 10(e) to the Constellation Annual Report on Form 10-K for the year

	ended December 31, 2008, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-47	Constellation Energy Group, Inc. Senior Executive Supplemental Plan, as amended and restated. * (Designated as Exhibit No. 10(f) to the Constellation Annual Report on Form 10-K for the year ended December 31, 2008, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).

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Exhibit No.	**Description**
10-48	Executive Annual Incentive Plan of Constellation Energy Group, Inc., as amended and restated. * (Designated as Exhibit No. 10(d) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-49	Constellation Energy Group, Inc. Executive Supplemental Benefits Plan, as amended and restated. * (Designated as Exhibit No. 10(a) to the Constellation Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-50	Constellation Energy Group, Inc. 1995 Long-Term Incentive Plan, as amended and restated. * (Designated as Exhibit No. 10(b) to the Constellation Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-51	Constellation Energy Group, Inc. Executive Long-Term Incentive Plan, as amended and restated. * (Designated as Exhibit 10(b) to the Constellation Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-52	Constellation Energy Group, Inc. 2002 Senior Management Long-Term Incentive Plan, as amended and restated. * (Designated as Exhibit 10(a) to the Constellation Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-53	Constellation Energy Group, Inc. Management Long-Term Incentive Plan, as amended and restated. * (Designated as Exhibit 10(d) to the Constellation Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-54	Constellation Energy Group, Inc. Amended and Restated 2007 Long-Term Incentive Plan. * (Designated as Exhibit No. 10.1 to the Current Report on Form 8-K dated June 4, 2010, filed by Constellation Energy Group, Inc., File No. 1-12869).
10-55	Form of Grant Agreement for Stock Units with Sales Restriction. * (Designated as Exhibit No. 10 (x) to the Annual Report on Form 10-K for the year ended December 31, 2010, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-56	Rate Stabilization Property Servicing Agreement dated as of June 29, 2007 by and between RSB BondCo LLC and Baltimore Gas and Electric Company, as servicer (Designated as Exhibit 10.2 to the Current Report on Form 8-K dated July 5, 2007, filed by Baltimore Gas and Electric Company, File No. 1-1910).
10-57	Administration Agreement dated as of June 29, 2007 by and between RSB BondCo LLC and Baltimore Gas and Electric Company, as administrator (Designated as Exhibit 10.3 to the Current Report on Form 8-K dated July 5, 2007, filed by Baltimore Gas and Electric Company, File No. 1-1910).
10-58	Second Amended and Restated Operating Agreement, dated as of November 6, 2009, by and among Constellation Energy Nuclear Group, LLC, Constellation Nuclear, LLC, CE Nuclear, LLC, EDF Development Inc., and for certain limited purposes, E.D.F. International S.A. and Constellation Energy Group, Inc. (Designated as Exhibit No. 10.1 to the Current Report on Form 8-K dated November 12, 2009, filed by Constellation Energy Group, Inc., File No. 1-12869).
10-59	Amendment No. 1 to the Second Amended and Restated Operating Agreement of Constellation Energy Nuclear Group, LLC, by and among Constellation Nuclear, LLC, CE Nuclear, LLC, EDF Inc. (formerly known as EDF Development, Inc.), and E.D.F. International S.A. (Designated as

Exhibit No. 10(s) to the Annual Report on Form 10-K for the year ended December 31, 2010, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).

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Exhibit No.	**Description**
10-60	Amendment No. 2 to the Second Amended and Restated Operating Agreement of Constellation Energy Nuclear Group, LLC, by and among Constellation Nuclear, LLC, CE Nuclear, LLC, EDF Inc. (formerly known as EDF Development, Inc.), and E.D.F. International S.A. (Designated as Exhibit No. 10(t) to the Annual Report on Form 10-K for the year ended December 31, 2010, filed by Constellation Energy Group, Inc., File Nos. 1-12869 and 1-1910).
10-61	Amendment No. 3 to the Second Amended and Restated Operating Agreement of Constellation Energy Nuclear Group, LLC, by and among Constellation Nuclear, LLC, CE Nuclear, LLC, EDF Inc. (formerly known as EDF Development, Inc.), and E.D.F. International S.A. (Designated as Exhibit No. 10.1 to the Current Report on Form 8-K dated November 3, 2010, filed by Constellation Energy Group, Inc., File No. 1-12869).
10-62	Termination Agreement dated as of November 3, 2010, by and among EDF Inc. (formerly known as EDF Development, Inc.), E.D.F. International S.A., and Constellation Energy Group, Inc. (Designated as Exhibit No. 10.2 to the Current Report on Form 8-K dated November 3, 2010, filed by Constellation Energy Group, Inc., File No. 1-12869).
10-63	Settlement Agreement between EDF Inc., Exelon Corporation, Exelon Energy Delivery Company, LLC, Constellation Energy Group, Inc. and Baltimore Gas and Electric Company dated January 16, 2012. (Designated as Exhibit No. 10.1 to the Current Report on Form 8-K dated January 19, 2012, File Nos. 1-12869 and 1-1910).
10-64 - 10-70	Reserved.
10-71	Commitment Letter for $7.221 Billion Senior Unsecured Bridge Facility, dated April 29, 2014 (File No. 001-16169, Form 8-K dated April 30, 2014, Exhibit No. 10.1).
10-71-1	364-Day Bridge Term Loan Agreement, dated as of May 30, 2014, among Exelon Corporation, as Borrower, the various financial institutions named therein, as Lenders, and Barclays Bank PLC, as Administrative Agent (File No. 001-16169, Form 8-K dated April 30, 2014, Exhibit No. 10.1).
10-71-2	Amendment No. 4 to Credit Agreement, dated May 30, 2014, among Exelon Corporation, as Borrower, the financial institutions signatory therein, as Lenders and JPMorgan Chase Bank, N.A., as Administrative Agent. (File No. 001-16169, Form 8-K dated June 4, 2014, Exhibit 10.2).
10-71-3	Amendment No. 4 to Credit Agreement, dated May 30, 2014, among Exelon Generation Company, LLC, as Borrower, the financial institutions signatory therein, as Lenders and JPMorgan Chase Bank, N.A., as Administrative Agent. (File No. 001-16169, Form 8-K dated June 4, 2014, Exhibit 10.3).
10-71-4	Amendment No. 3 to Credit Agreement, dated May 30, 2014, among PECO Energy Company, as Borrower, the financial institutions signatory therein, as Lenders and JPMorgan Chase Bank, N.A., as Administrative Agent. (File No. 001-16169, Form 8-K dated June 4, 2014, Exhibit 10.4).
10-71-5	Amendment No. 2 to Credit Agreement, dated as of May 30, 2014, among Baltimore Gas and Electric Company, as Borrower, the financial institutions signatory therein, as Lenders and The Royal Bank of Scotland plc, as Administrative Agent. (File No. 001-16169, Form 8-K dated June 4, 2014, Exhibit 10.5).
10-72-1	

Confirmation of Base Issuer Forward Transaction, dated June 11, 2014, between Exelon Corporation and Barclays Capital, Inc., acting as Agent for Barclays Bank PLC (File No. 001-16169, Form 8-K dated June 17, 2014, Exhibit 10.1).

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Exhibit No.	Description
10-72-2	Confirmation of Base Issuer Forward Transaction, dated June 11, 2014, between Exelon Corporation and Goldman Sachs & Co. (File No. 001-16169, Form 8-K dated June 17, 2014, Exhibit 10.2).
10-72-3	Confirmation of Additional Issuer Forward Transaction, dated June 13, 2014, between Exelon Corporation and Barclays Capital, Inc., acting as Agent for Barclays Bank PLC (File No. 001-16169, Form 8-K dated June 17, 2014, Exhibit 10.3).
10-72-4	Confirmation of Additional Issuer Forward Transaction, dated June 13, 2014, between Exelon Corporation and Goldman Sachs & Co. (File No. 001-16169, Form 8-K dated June 17, 2014, Exhibit 10.4).
10-73	Bondable Transition Property Sale Agreement, dated as of December 19, 2002, between ACE Funding and ACE (File No. 333-59558, Form 8-K dated December 23, 2002, Exhibit 10.1)
10-74	Bondable Transition Property Servicing Agreement, dated as of December 19, 2002, between ACE Funding and ACE (File No. 333-59558, Form 8-K dated December 23, 2002, Exhibit 10.2)
10-75	Purchase Agreement, dated as of April 20, 2010, by and among Pepco Holdings, Inc., Conectiv, LLC, Conectiv Energy Holding Company, LLC and New Development Holdings, LLC (File No. 001-31403, Form 8-K dated July 8, 2010, Exhibit 2.1)
10-76	Purchase Agreement, dated March 9, 2015, among Potomac Electric Power Company and BNY Mellon Capital Markets, LLC, Morgan Stanley & Co. LLC, and RBS Securities Inc., as representatives of the several underwriters named therein (File No. 001-01072, Form 8-K dated March 10, 2015, Exhibit 1.1)
10-77	Purchase Agreement, May 4, 2015, among Delmarva Power & Light Company and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Scotia Capital (USA) Inc., as representatives of the several underwriters named therein (File No. 001-01405, Form 8-K dated May 5, 2015, Exhibit 1.1)
10-78	Bond Purchase Agreement, dated December 1, 2015, among Atlantic City Electric Company and the purchasers signatory thereto (File No. 001-03559, Form 8-K dated December 2, 2015, Exhibit 1.1)
10-79	$300,000,000 Term Loan Agreement by and among PHI, The Bank of Nova Scotia, as Administrative Agent, and the lenders party thereto, dated July 30, 2015 (File No. 001-31403, Form 8-K dated July 30, 2015, Exhibit 10)
10-80	First Amendment to Term Loan Agreement, dated as of October 29, 2015, by and among PHI, The Bank of Nova Scotia, as Administrative Agent, and the lenders party thereto (File No. 001-31403, Form 8-K dated October 29, 2015, Exhibit 10.2)
10-81	$500,000,000 Term Loan Agreement by and among PHI, The Bank of Nova Scotia, as Administrative Agent, and the lenders party thereto, dated January 13, 2016 (File No. 001-31403, Form 8-K dated January 14, 2016, Exhibit 10)
10-82	Second Amended and Restated Credit Agreement, dated as of August 1, 2011, by and among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company, the lenders party thereto, Wells Fargo Bank, National Association, as agent, issuer and swingline lender, Bank of America, N.A., as syndication agent and issuer, The Royal Bank of Scotland plc and Citicorp USA, Inc., as co-documentation agents, Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner and Smith Incorporated, as active joint lead arrangers and joint book runners, and Citigroup Global Markets Inc. and RBS Securities, Inc. as

passive joint lead arrangers and joint book runners (File No. 001-31403, Form 10-Q dated August 3, 2011, Exhibit 10.1)

Exhibit No.	Description
10-82-1	First Amendment, dated as of August 2, 2012, to Second Amended and Restated Credit Agreement, dated as of August 1, 2011, by and among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company, the various financial institutions party thereto, Wells Fargo Bank, National Association, as agent, issuer of letters of credit and swingline lender, Bank of America, N.A., as syndication agent and issuer of letters of credit, and The Royal Bank of Scotland plc and Citibank, N.A., as co-documentation agents (File No. 001-31403, Form 10-K dated March 1, 2013, Exhibit 10.25.1)
10-82-2	Amendment and Consent to Second Amended and Restated Credit Agreement, dated as of May 20, 2014, by and among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company, the various financial institutions from time to time party thereto, Bank of America, N.A. and Wells Fargo Bank, National Association (File No. 001-31403, Form 8-K dated May 20, 2014, Exhibit 10.1)
10-82-3	Third Amendment to Second Amended and Restated Credit Agreement, dated as of May 1, 2015, by and among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company, the various financial institutions from time to time party thereto, Bank of America, N.A. and Wells Fargo Bank, National Association (File No. 001-31403, Form 8-K dated May 1, 2015, Exhibit 10.1)
10-82-4	Consent, dated as of October 29, 2015, by and among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company, the various financial institutions from time to time party thereto, Bank of America, N.A. and Wells Fargo Bank, National Association (File No. 001-31403, Form 8-K dated October 29, 2015, Exhibit 10.1)
10-83	Asset Purchase and Sale Agreement for Generating Plants and Related Assets, dated as of June 7, 2000, by and between Pepco and Southern Energy, Inc. (File No. 001-01072, Form 8-K dated June 13, 2000, Exhibit 10)
10-83-1	Amendment No. 1 to the Asset Purchase and Sale Agreement for Generating Plants and Related Assets, dated September 18, 2000, by and between Potomac Electric Power Company and Southern Energy, Inc. (File No. 001-01072, Form 8-K dated December 19, 2000, Exhibit 10.2)
10-83-2	Amendment No. 1 to the Asset Purchase and Sale Agreement for Generating Plants and Related Assets, dated December 19, 2000, by and between Potomac Electric Power Company and Southern Energy, Inc. (File No. 001-01072, Form 8-K dated December 19, 2000, Exhibit 10.2)
10-84	First Amendment to Loan Agreement, by and between Pepco Holdings LLC and The Bank of Nova Scotia, as administrative agent and lender, dated March 28, 2016 (File No. 001-31403, Form 8-K dated March 28, 2016, Exhibit 10)
10-85	Amendment No. 7 to Credit Agreement, dated as of March 23, 2011, among Exelon Corporation, as Borrower, the various financial institutions named therein, as Lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent (File No. 001-16169, Form 8-K dated May 27, 2016, Exhibit 99.1)
10-86	Amendment No. 7 to Credit Agreement, dated as of March 23, 2011, among Exelon Generation Company, LLC, as Borrower, the various financial institutions named therein, as Lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent (File No. 333-85496, Form 8-K dated May 27, 2016, Exhibit 99.2)
10-87	Amendment No. 7 to Credit Agreement, dated as of March 23, 2011, among Exelon Generation Company, LLC, as Borrower, the various financial institutions named therein, as Lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent (File No. 333-85496, Form 8-K dated May 27, 2016, Exhibit 99.2)

Exhibit No.	Description
10-88	Amendment No. 6 to Credit Agreement, dated as of March 23, 2011, among PECO Energy Company, as Borrower, the various financial institutions named therein, as Lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent (File No. 000-16844, Form 8-K dated May 27, 2016, Exhibit 99.4)
10-89	Amendment No. 5 to Credit Agreement, dated as of March 23, 2011, among Baltimore Gas and Electric Company, as Borrower, the various financial institutions named therein, as Lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent (File No. 001-01910, Form 8-K dated May 27, 2016, Exhibit 99.5)
10-90	Fourth Amendment to Second Amended and Restated Credit Agreement, dated as of August 1, 2011, among Pepco Holdings LLC, Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company, as Borrowers, the various financial institutions named therein, as Lenders, and Wells Fargo Bank, National Association, as Administrative Agent (File No. 001-31403, Form 8-K dated May 27, 2016, Exhibit 99.6)
10-91	2016 Form of Exelon Corporation Change in Control Agreement (File No. 001-16169, Form 10-Q dated October 26, 2016, Exhibit 10.1)
10-92	Execution Version-ZEC Standard Contract by and between the NYSERDA and Nine Mile Point Nuclear Station, LLC dated Nov. 18, 2016 (File No. 001-16169, Form 8-K dated November 18, 2016, Exhibit 10.1)
10-93	Execution Version-ZEC Standard Contract by and between the NYSERDA and R. E. Ginna Nuclear Power Plant, LLC dated Nov. 18, 2016 (File No. 001-16169, Form 8-K dated November 18, 2016, Exhibit 10.2)
10-94	Credit Agreement, dated as of November 28, 2017, as thereafter amended and conformed among ExGen Renewables IV, LLC, ExGen Renewables IV Holding, LLC, Morgan Stanley Senior Funding, Inc. as administrative agent, Wilmington Trust, National Association, as depository bank and collateral agent, and the lenders and other agents party thereto. (Certain portions of this exhibit have been omitted by redacting a portion of text, as indicated by asterisks in the text. This exhibit has been filed separately with the U.S. Securities and Exchange Commission pursuant to a request for confidential treatment.)
12-1	Exelon Corporation Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
12-2	Exelon Generation Company, LLC Computation of Ratio of Earnings to Fixed Charges.
12-3	Commonwealth Edison Company Computation of Ratio of Earnings to Fixed Charges.
12-4	PECO Energy Company Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
12-5	Baltimore Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preference Stock Dividends.
12-6	Pepco Holdings LLC Computation of Ratio of Earnings to Fixed Charges.
12-7	Potomac Electric Power Company Computation of Ratio of Earnings to Fixed Charges.
12-8	Delmarva Power & Light Company Computation of Ratio of Earnings to Fixed Charges.
12-9	Atlantic City Electric Company Computation of Ratio of Earnings to Fixed Charges.
14	Exelon Code of Conduct, as amended March 12, 2012 (File No. 1-16169, Form 8-K dated March 14, 2012, Exhibit No. 14-1).

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Exhibit No.	Description
	Subsidiaries
21-1	Exelon Corporation
21-2	Exelon Generation Company, LLC
21-3	Commonwealth Edison Company
21-4	PECO Energy Company
21-5	Baltimore Gas and Electric Company
21-6	Pepco Holdings LLC
21-7	Potomac Electric Power Company
21-8	Delmarva Power & Light Company
21-9	Atlantic City Electric Company
	Consent of Independent Registered Public Accountants
23-1	Exelon Corporation
23-2	Exelon Generation Company, LLC
23-3	Commonwealth Edison Company
23-4	PECO Energy Company
23-5	Baltimore Gas and Electric Company
23-6	Potomac Electric Power Company
23-7	Delmarva Power & Light Company
23-8	Atlantic City Electric Company
	Power of Attorney (Exelon Corporation)
24-1	Anthony K. Anderson
24-2	Ann C. Berzin
24-3	Christopher M. Crane
24-4	Yves C. de Balmann
24-5	Nicholas DeBenedictis
24-6	Nancy L. Gioia
24-7	Linda P. Jojo
24-8	Paul Joskow
24-9	Robert J. Lawless
24-10	Richard W. Mies

24-11	Reserved.
24-12	John W. Rogers, Jr.

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Exhibit No.	Description
24-13	Mayo A. Shattuck III
24-14	Stephen D. Steinour
	Power of Attorney (Commonwealth Edison Company)
24-15	James W. Compton
24-16	Christopher M. Crane
24-17	A. Steven Crown
24-18	Nicholas DeBenedictis
24-19	Peter V. Fazio, Jr.
24-20	Michael H. Moskow
24-21	Denis P. O'Brien
24-22	Anne R. Pramaggiore
24-23	Reserved.
24-24	Reserved.
	Power of Attorney (PECO Energy Company)
24-25	Craig L. Adams
24-26	Christopher M. Crane
24-27	M. Walter D'Alessio
24-28	Nicholas DeBenedictis
24-29	Nelson A. Diaz
24-30	Rosemarie B. Greco
24-31	Charisse R. Lillie
24-32	Denis P. O'Brien
24-33	Reserved.
	Power of Attorney (Baltimore Gas and Electric Company)
24-34	Ann C. Berzin
24-35	Calvin G. Butler, Jr.
24-36	Christopher M. Crane
24-37	Michael E. Cryor
24-38	James R. Curtiss

24-39	Joseph Haskins, Jr.
24-40	Denis P. O’Brien

24-41	Michael D. Sullivan
24-42	Maria Harris Tildon
	Power of Attorney (Pepco Holdings LLC)
24-43	Christopher M. Crane
24-44	Linda Cropp
24-45	Michael E. Cryor
24-46	Ernest Dianastasis
24-47	Debra P. DiLorenzo
24-48	Denis P. O’Brien
24-49	David M. Velazquez
	Power of Attorney (Potomac Electric Power Company)
24-50	J. Tyler Anthony
24-51	Christopher M. Crane
24-52	Donna J. Kinzel
24-53	Kevin M. McGowan
24-54	Denis P. O’Brien
24-55	David M. Velazquez
	Power of Attorney (Delmarva Power & Light Company)
24-56	Denis P. O’Brien
24-57	David M. Velazquez
	Power of Attorney (Atlantic City Electric Company)
24-58	David M. Velazquez

Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as to the Annual Report on Form 10-K for the year ended December 31, 2017 filed by the following officers for the following registrants:

31-1	Filed by Christopher M. Crane for Exelon Corporation
31-2	Filed by Jonathan W. Thayer for Exelon Corporation
31-3	Filed by Kenneth W. Cornew for Exelon Generation Company, LLC
31-4	Filed by Bryan P. Wright for Exelon Generation Company, LLC
31-5	Filed by Anne R. Pramaggiore for Commonwealth Edison Company

31-6	Filed by Joseph R. Trpik, Jr. for Commonwealth Edison Company
31-7	Filed by Craig L. Adams for PECO Energy Company

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31-8	Filed by Phillip S. Barnett for PECO Energy Company
31-9	Filed by Calvin G. Butler, Jr. for Baltimore Gas and Electric Company
31-10	Filed by David M. Vahos for Baltimore Gas and Electric Company
31-11	Filed by David M. Velazquez for Pepco Holdings LLC
31-12	Filed by Donna J. Kinzel for Pepco Holdings LLC
31-13	Filed by David M. Velazquez for Potomac Electric Power Company
31-14	Filed by Donna J. Kinzel for Potomac Electric Power Company
31-15	Filed by David M. Velazquez for Delmarva Power & Light Company
31-16	Filed by Donna J. Kinzel for Delmarva Power & Light Company
31-17	Filed by David M. Velazquez for Atlantic City Electric Company
31-18	Filed by Donna J. Kinzel for Atlantic City Electric Company

Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code as to the Annual Report on Form 10-K for the year ended December 31, 2017 filed by the following officers for the following registrants:

32-1	Filed by Christopher M. Crane for Exelon Corporation
32-2	Filed by Jonathan W. Thayer for Exelon Corporation
32-3	Filed by Kenneth W. Cornew for Exelon Generation Company, LLC
32-4	Filed by Bryan P. Wright for Exelon Generation Company, LLC
32-5	Filed by Anne R. Pramaggiore for Commonwealth Edison Company
32-6	Filed by Joseph R. Trpik, Jr. for Commonwealth Edison Company
32-7	Filed by Craig L. Adams for PECO Energy Company
32-8	Filed by Phillip S. Barnett for PECO Energy Company
32-9	Filed by Calvin G. Butler, Jr. for Baltimore Gas and Electric Company
32-10	Filed by David M. Vahos for Baltimore Gas and Electric Company
32-11	Filed by David M. Velazquez for Pepco Holdings LLC
32-12	Filed by Donna J. Kinzel for Pepco Holdings LLC
32-13	Filed by David M. Velazquez for Potomac Electric Power Company
32-14	Filed by Donna J. Kinzel for Potomac Electric Power Company
32-15	Filed by David M. Velazquez for Delmarva Power & Light Company
32-16	Filed by Donna J. Kinzel for Delmarva Power & Light Company
32-17	Filed by David M. Velazquez for Atlantic City Electric Company
32-18	Filed by Donna J. Kinzel for Atlantic City Electric Company

101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema

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101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

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* Compensatory plan or arrangements in which directors or officers of the applicable registrant participate and which are not available to all employees.

(a) These filings are not available electronically on the SEC website as they were filed in paper previous to the electronic system that is currently in place.

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ITEM 16. FORM 10-K SUMMARY

All Registrants

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. The Registrants have elected not to include such summary information.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

EXELON CORPORATION

By:	/s/ CHRISTOPHER M. CRANE
Name:	**Christopher M. Crane**
Title:	**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	**Title**
/s/ CHRISTOPHER M. CRANE **Christopher M. Crane**	President and Chief Executive Officer (Principal Executive Officer) and Director
/s/ JONATHAN W. THAYER **Jonathan W. Thayer**	Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ DUANE M. DESPARTE **Duane M. DesParte**	Senior Vice President and Corporate Controller (Principal Accounting Officer)

This annual report has also been signed below by Thomas S. O'Neil, Attorney-in-Fact, on behalf of the following Directors on the date indicated:

Anthony K. Anderson
Ann C. Berzin
Christopher M. Crane
Yves C. de Balmann
Nicholas DeBenedictis
Nancy L. Gioia
Linda P. Jojo

Paul Joskow
Robert J. Lawless
Richard W. Mies
John W. Rogers, Jr.
Mayo A. Shattuck III
Stephen D. Steinour

By:	/s/ THOMAS S. O'NEILL	February 9, 2018
Name:	**Thomas S. O'Neill**	

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

EXELON GENERATION COMPANY, LLC

By: /s/ KENNETH W. CORNEW
Name: **Kenneth W. Cornew**
Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	**Title**
/s/ KENNETH W. CORNEW **Kenneth W. Cornew**	President and Chief Executive Officer (Principal Executive Officer)
/s/ BRYAN P. WRIGHT **Bryan P. Wright**	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ MATTHEW N. BAUER **Matthew N. Bauer**	Vice President and Controller (Principal Accounting Officer)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

COMMONWEALTH EDISON COMPANY

By:	/s/ ANNE R. PRAMAGGIORE
Name:	**Anne R. Pramaggiore**
Title:	**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	Title
/s/ ANNE R. PRAMAGGIORE **Anne R. Pramaggiore**	President and Chief Executive Officer (Principal Executive Officer) and Director
/s/ JOSEPH R. TRPIK, JR. **Joseph R. Trpik, Jr.**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ GERALD J. KOZEL **Gerald J. Kozel**	Vice President and Controller (Principal Accounting Officer)
/s/ CHRISTOPHER M. CRANE **Christopher M. Crane**	Chairman and Director

This annual report has also been signed below by Anne R. Pramaggiore, Attorney-in-Fact, on behalf of the following Directors on the date indicated:

James W. Compton
Christopher M. Crane
A. Steven Crown
Nicholas DeBenedictis
Peter V. Fazio, Jr.
Michael H. Moskow
Denis P. O'Brien

By:	/s/ ANNE R. PRAMAGGIORE	February 9, 2018
Name:	**Anne R. Pramaggiore**	

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

PECO ENERGY COMPANY

By: /s/ CRAIG L. ADAMS
Name: **Craig L. Adams**
Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	**Title**
/s/ CRAIG L. ADAMS **Craig L. Adams**	President and Chief Executive Officer (Principal Executive Officer) and Director
/s/ PHILLIP S. BARNETT **Phillip S. Barnett**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ SCOTT A. BAILEY **Scott A. Bailey**	Vice President and Controller (Principal Accounting Officer)
/s/ CHRISTOPHER M. CRANE **Christopher M. Crane**	Chairman and Director

This annual report has also been signed below by Craig L. Adams, Attorney-in-Fact, on behalf of the following Directors on the date indicated:

Christopher M. Crane
M. Walter D’Alessio
Nicholas DeBenedictis
Nelson A. Diaz

Rosemarie B. Greco
Charisse R. Lillie
Denis P. O'Brien

By: /s/ CRAIG L. ADAMS
Name: **Craig L. Adams**

February 9, 2018

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

BALTIMORE GAS AND ELECTRIC COMPANY

By: /s/ CALVIN G. BUTLER, JR.
Name: **Calvin G. Butler, Jr.**
Title: **Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	**Title**
/s/ CALVIN G. BUTLER, JR. **Calvin G. Butler, Jr.**	Chief Executive Officer (Principal Executive Officer) and Director
/s/ DAVID M. VAHOS **David M. Vahos**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ANDREW W. HOLMES **Andrew W. Holmes**	Vice President and Controller (Principal Accounting Officer)
/s/ CHRISTOPHER M. CRANE **Christopher M. Crane**	Chairman and Director

This annual report has also been signed below by Calvin G. Butler, Jr., Attorney-in-Fact, on behalf of the following Directors on the date indicated:

Ann C. Berzin
Christopher M. Crane
Michael E. Cryor
James R. Curtiss
Joseph Haskins, Jr.
Denis P. O'Brien
Michael D. Sullivan
Maria Harris Tildon

By: /s/ CALVIN G. BUTLER, JR. February 9, 2018
Name: **Calvin G. Butler, Jr.**

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

PEPCO HOLDINGS LLC

By:	/s/ DAVID M. VELAZQUEZ
Name:	**David M. Velazquez**
Title:	**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	**Title**
/s/ DAVID M. VELAZQUEZ **David M. Velazquez**	President and Chief Executive Officer (Principal Executive Officer)
/s/ DONNA J. KINZEL **Donna J. Kinzel**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ROBERT M. AIKEN **Robert M. Aiken**	Vice President and Controller (Principal Accounting Officer)
/s/ CHRISTOPHER M. CRANE **Christopher M. Crane**	Chairman and Director

This annual report has also been signed below by David M. Velazquez, Attorney-in-Fact, on behalf of the following Directors on the date indicated:

Christopher M. Crane	**Ernest Dianastasis**
Linda Cropp	**Debra P. DiLorenzo**
Michael E. Cryor	**Denis P. O'Brien**

By:	/s/ DAVID M. VELAZQUEZ	February 9, 2018
Name:	**David M. Velazquez**	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

POTOMAC ELECTRIC POWER COMPANY

By: /s/ DAVID M. VELAZQUEZ

Name: **David M. Velazquez**

Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	Title
/s/ DAVID M. VELAZQUEZ **David M. Velazquez**	President and Chief Executive Officer (Principal Executive Officer)
/s/ DONNA J. KINZEL **Donna J. Kinzel**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ROBERT M. AIKEN **Robert M. Aiken**	Vice President and Controller (Principal Accounting Officer)
/s/ CHRISTOPHER M. CRANE **Christopher M. Crane**	Chairman

This annual report has also been signed below by David M. Velazquez, Attorney-in-Fact, on behalf of the following Directors on the date indicated:

J. Tyler Anthony
Christopher M. Crane
Donna J. Kinzel
Kevin M. McGowan
Denis P. O'Brien

By: /s/ DAVID M. VELAZQUEZ February 9, 2018

Name: **David M. Velazquez**

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

DELMARVA POWER & LIGHT COMPANY

By:	/s/ DAVID M. VELAZQUEZ
Name:	**David M. Velazquez**
Title:	**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	Title
/s/ DAVID M. VELAZQUEZ **David M. Velazquez**	President and Chief Executive Officer (Principal Executive Officer)
/s/ DONNA J. KINZEL **Donna J. Kinzel**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ROBERT M. AIKEN **Robert M. Aiken**	Vice President and Controller (Principal Accounting Officer)
/s/ CHRISTOPHER M. CRANE **Christopher M. Crane**	Chairman

This annual report has also been signed below by David M. Velazquez, Attorney-in-Fact, on behalf of the following Directors on the date indicated:

Denis P. O'Brien

By:	/s/ DAVID M. VELAZQUEZ	February 9, 2018
Name:	**David M. Velazquez**	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 9th day of February, 2018.

ATLANTIC CITY ELECTRIC COMPANY

By: /s/ DAVID M. VELAZQUEZ

Name: **David M. Velazquez**

Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February, 2018.

Signature	**Title**
/s/ DAVID M. VELAZQUEZ **David M. Velazquez**	President and Chief Executive Officer (Principal Executive Officer)
/s/ DONNA J. KINZEL **Donna J. Kinzel**	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ROBERT M. AIKEN **Robert M. Aiken**	Vice President and Controller (Principal Accounting Officer)
/s/ CHRISTOPHER M. CRANE **Christopher M. Crane**	Chairman

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2017

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number	Name of Registrant; State or Other Jurisdiction of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street P.O. Box 805379 Chicago, Illinois 60680-5379 (800) 483-3220	23-2990190
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company) 300 Exelon Way Kennett Square, Pennsylvania 19348-2473 (610) 765-5959	23-3064219
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation) 440 South LaSalle Street Chicago, Illinois 60605-1028 (312) 394-4321	36-0938600
000-16844	PECO ENERGY COMPANY (a Pennsylvania corporation) P.O. Box 8699 2301 Market Street Philadelphia, Pennsylvania 19101-8699 (215) 841-4000	23-0970240
1-1910	BALTIMORE GAS AND ELECTRIC COMPANY (a Maryland corporation) 2 Center Plaza 110 West Fayette Street Baltimore, Maryland 21201-3708 (410) 234-5000	52-0280210
001-31403	PEPCO HOLDINGS LLC (a Delaware limited liability company) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	52-2297449
001-01072	POTOMAC ELECTRIC POWER COMPANY	53-0127880

	(a District of Columbia and Virginia corporation) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	
001-01405	DELMARVA POWER & LIGHT COMPANY (a Delaware and Virginia corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	51-0084283
001-03559	ATLANTIC CITY ELECTRIC COMPANY (a New Jersey corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	21-0398280

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
Exelon Corporation	☒				
Exelon Generation Company, LLC			☒		
Commonwealth Edison Company			☒		
PECO Energy Company			☒		
Baltimore Gas and Electric Company			☒		
Pepco Holdings LLC			☒		
Potomac Electric Power Company			☒		
Delmarva Power & Light Company			☒		
Atlantic City Electric Company			☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The number of shares outstanding of each registrant's common stock as of March 31, 2017 was:

Exelon Corporation Common Stock, without par value	926,096,660
Exelon Generation Company, LLC	not applicable
Commonwealth Edison Company Common Stock, $12.50 par value	127,017,158
PECO Energy Company Common Stock, without par value	170,478,507
Baltimore Gas and Electric Company Common Stock, without par value	1,000
Pepco Holdings LLC	not applicable
Potomac Electric Power Company Common Stock, $.01 par value	100
Delmarva Power & Light Company Common Stock, $2.25 par value	1,000
Atlantic City Electric Company Common Stock, $3.00 par value	8,546,017

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GLOSSARY OF TERMS AND ABBREVIATIONS

Exelon Corporation and Related Entities

Exelon	Exelon Corporation
Generation	Exelon Generation Company, LLC
ComEd	Commonwealth Edison Company
PECO	PECO Energy Company
BGE	Baltimore Gas and Electric Company
Pepco Holdings or PHI	Pepco Holdings LLC (formerly Pepco Holdings, Inc.)
Pepco	Potomac Electric Power Company
Pepco Energy Services or PES	Pepco Energy Services, Inc. and its subsidiaries
PCI	Potomac Capital Investment Corporation and its subsidiaries
DPL	Delmarva Power & Light Company
ACE	Atlantic City Electric Company
ACE Funding or ATF	Atlantic City Electric Transition Funding LLC
BSC	Exelon Business Services Company, LLC
PHISCO	PHI Service Company
Exelon Corporate	Exelon in its corporate capacity as a holding company
PHI Corporate	PHI in its corporate capacity as a holding company
Registrants	Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, collectively
Utility Registrants	ComEd, PECO, BGE, Pepco, DPL and ACE, collectively
AmerGen	AmerGen Energy Company, LLC
Antelope Valley	Antelope Valley Solar Ranch One
BondCo	RSB BondCo LLC
CENG	Constellation Energy Nuclear Group, LLC
ConEdison Solutions	The competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc., a subsidiary of Consolidated Edison, Inc.
Constellation	Constellation Energy Group, Inc.
EGTP	ExGen Texas Power, LLC
EGR	ExGen Renewables I, LLC
Entergy	Entergy Nuclear FitzPatrick LLC
Exelon Transmission Company	Exelon Transmission Company, LLC
Exelon Wind	Exelon Wind, LLC and Exelon Generation Acquisition Company, LLC
FitzPatrick	James A. FitzPatrick nuclear generating station
Legacy PHI	PHI, Pepco, DPL and ACE, collectively
PEC L.P.	PECO Energy Capital, L.P.
PECO Trust III	PECO Capital Trust III
PECO Trust IV	PECO Energy Capital Trust IV
PETT	PECO Energy Transition Trust
RPG	Renewable Power Generation
SolGen	SolGen, LLC
UII	Unicom Investments, Inc.
Ventures	Exelon Ventures Company, LLC

Other Terms and Abbreviations

Note "—" of the Exelon 2016 Form 10-K	Reference to specific Combined Note to Consolidated Financial Statements within Exelon's 2016 Annual Report on Form 10-K
Act 11	Pennsylvania Act 11 of 2012
Act 129	Pennsylvania Act 129 of 2008
AEC	Alternative Energy Credit that is issued for each megawatt hour of generation from a qualified alternative energy source

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
AEPS	Pennsylvania Alternative Energy Portfolio Standards
AEPS Act	Pennsylvania Alternative Energy Portfolio Standards Act of 2004, as amended
AESO	Alberta Electric Systems Operator
AFUDC	Allowance for Funds Used During Construction
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income
ARC	Asset Retirement Cost
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BGS	Basic Generation Service
Block Contracts	Forward Purchase Energy Block Contracts
CAIR	Clean Air Interstate Rule
CAISO	California ISO
CAMR	Federal Clean Air Mercury Rule
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
CES	Clean Energy Standard
CFL	Compact Fluorescent Light
Clean Air Act	Clean Air Act of 1963, as amended
Clean Water Act	Federal Water Pollution Control Amendments of 1972, as amended
Competition Act	Pennsylvania Electricity Generation Customer Choice and Competition Act of 1996
Conectiv	Conectiv, LLC, a wholly owned subsidiary of PHI and the parent of DPL and ACE
Conectiv Energy	Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries, which were sold to Calpine in July 2010
CPUC	California Public Utilities Commission
CSAPR	Cross-State Air Pollution Rule
D.C. Circuit Court	United States Court of Appeals for the District of Columbia Circuit
DCPSC	District of Columbia Public Service Commission
DC PLUG	District of Columbia Power Line Undergrounding
Default Electricity Supply	The supply of electricity by PHI's electric utility subsidiaries at regulated rates to retail customers who do not elect to purchase electricity from a competitive supplier, and which, depending on the jurisdiction, is also known as Standard Offer Service or BGS
DOE	United States Department of Energy
DOJ	United States Department of Justice
DPSC	Delaware Public Service Commission
DRP	Direct Stock Purchase and Dividend Reinvestment Plan
DSP	Default Service Provider
DSP Program	Default Service Provider Program
EDCs	Electric distribution companies
EDF	Electricite de France SA and its subsidiaries
EE&C	Energy Efficiency and Conservation/Demand Response
EGS	Electric Generation Supplier
EIMA	Energy Infrastructure Modernization Act (Illinois Senate Bill 1652 and Illinois House Bill 3036)

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
EmPower Maryland	A Maryland demand-side management program for Pepco and DPL
EPA	United States Environmental Protection Agency
EPSA	Electric Power Supply Association
ERCOT	Electric Reliability Council of Texas
ERISA	Employee Retirement Income Security Act of 1974, as amended
EROA	Expected Rate of Return on Assets
FASB	Financial Accounting Standards Board
FEJA	Illinois Public Act 99-0906 or Future Energy Jobs Act
FERC	Federal Energy Regulatory Commission
FRCC	Florida Reliability Coordinating Council
GAAP	Generally Accepted Accounting Principles in the United States
GCR	Gas Cost Rate
GHG	Greenhouse Gas
GSA	Generation Supply Adjustment
GWh	Gigawatt hour
Health Care Reform Acts	Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010
HSR Act	The Hart-Scott-Rodino Antitrust Improvements Act of 1976
IBEW	International Brotherhood of Electrical Workers
ICC	Illinois Commerce Commission
ICE	Intercontinental Exchange
Illinois Act	Illinois Electric Service Customer Choice and Rate Relief Law of 1997
Illinois EPA	Illinois Environmental Protection Agency
Illinois Settlement Legislation	Legislation enacted in 2007 affecting electric utilities in Illinois
Integrys	Integrys Energy Services, Inc.
IPA	Illinois Power Agency
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISO	Independent System Operator
ISO-NE	ISO New England Inc.
ISO-NY	ISO New York
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LLRW	Low-Level Radioactive Waste
LT Plan	Long-term renewable resources procurement plan
LTIP	Long-Term Incentive Plan
MAPP	Mid-Atlantic Power Pathway
MATS	U.S. EPA Mercury and Air Toxics Rule
MBR	Market Based Rates Incentive
MDE	Maryland Department of the Environment
MDPSC	Maryland Public Service Commission
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator, Inc.
mmcf	Million Cubic Feet
Moody's	Moody's Investor Service
MOPR	Minimum Offer Price Rule
MRV	Market-Related Value

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
MW	Megawatt
MWh	Megawatt hour
NAAQS	National Ambient Air Quality Standards
n.m.	not meaningful
NAV	Net Asset Value
NDT	Nuclear Decommissioning Trust
NEIL	Nuclear Electric Insurance Limited
NERC	North American Electric Reliability Corporation
NGS	Natural Gas Supplier
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
Non-Regulatory Agreements Units	Nuclear generating units or portions thereof whose decommissioning-related activities are not subject to contractual elimination under regulatory accounting
NOSA	Nuclear Operating Services Agreement
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NUGs	Non-utility generators
NWPA	Nuclear Waste Policy Act of 1982
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income
OIESO	Ontario Independent Electricity System Operator
OPC	Office of People’s Counsel
OPEB	Other Postretirement Employee Benefits
PA DEP	Pennsylvania Department of Environmental Protection
PAPUC	Pennsylvania Public Utility Commission
PGC	Purchased Gas Cost Clause
PJM	PJM Interconnection, LLC
POLR	Provider of Last Resort
POR	Purchase of Receivables
PPA	Power Purchase Agreement
Price-Anderson Act	Price-Anderson Nuclear Industries Indemnity Act of 1957
Preferred Stock	Originally issued shares of non-voting, non-convertible and non-transferable Series A preferred stock, par value $0.01 per share
PRP	Potentially Responsible Parties
PSEG	Public Service Enterprise Group Incorporated
PURTA	Pennsylvania Public Realty Tax Act
PV	Photovoltaic
RCRA	Resource Conservation and Recovery Act of 1976, as amended
REC	Renewable Energy Credit which is issued for each megawatt hour of generation from a qualified renewable energy source
Regulatory Agreement Units	Nuclear generating units or portions thereof whose decommissioning-related activities are subject to contractual elimination under regulatory accounting
RES	Retail Electric Suppliers
RFP	Request for Proposal
Rider	Reconcilable Surcharge Recovery Mechanism
RGGI	Regional Greenhouse Gas Initiative

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
RMC	Risk Management Committee
ROE	Return on equity
RPM	PJM Reliability Pricing Model
RPS	Renewable Energy Portfolio Standards
RSSA	Reliability Support Services Agreement
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Services
SEC	United States Securities and Exchange Commission
Senate Bill 1	Maryland Senate Bill 1
SERC	SERC Reliability Corporation (formerly Southeast Electric Reliability Council)
SGIG	Smart Grid Investment Grant from DOE
SILO	Sale-In, Lease-Out
SMPIP	Smart Meter Procurement and Installation Plan
SNF	Spent Nuclear Fuel
SOS	Standard Offer Service
SPFPA	Security, Police and Fire Professionals of America
SPP	Southwest Power Pool
Transition Bond Charge	Revenue ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds and related taxes, expenses and fees
Transition Bonds	Transition Bonds issued by ACE Funding
UGSOA	United Government Security Officers of America
Upstream	Natural gas exploration and production activities
VIE	Variable Interest Entity
WECC	Western Electric Coordinating Council
ZEC	Zero Emission Credit
ZES	Zero Emission Standard

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FILING FORMAT

This combined Form 10-Q is being filed separately by Exelon Corporation, Exelon Generation Company, LLC, Commonwealth Edison Company, PECO Energy Company, Baltimore Gas and Electric Company, Pepco Holdings LLC, Potomac Electric Power Company, Delmarva Power & Light Company, and Atlantic City Electric Company (Registrants). Information contained herein relating to any individual Registrant is filed by such Registrant on its own behalf. No Registrant makes any representation as to information relating to any other Registrant.

FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by Exelon Corporation, Exelon Generation Company, LLC, Commonwealth Edison Company, PECO Energy Company, Baltimore Gas and Electric Company, Pepco Holdings LLC (PHI), Potomac Electric Power Company, Delmarva Power & Light Company, and Atlantic City Electric Company (Registrants) include those factors discussed herein, as well as the items discussed in (1) the Registrants' combined 2016 Annual Report on Form 10-K in (a) ITEM 1A. Risk Factors, (b) ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) ITEM 8. Financial Statements and Supplementary Data: Note 24, Commitments and Contingencies; and (2) other factors discussed in filings with the SEC by the Registrants. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Report.

WHERE TO FIND MORE INFORMATION

The public may read and copy any reports or other information that the Registrants file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These documents are also available to the public from commercial document retrieval services, the website maintained by the SEC at www.sec.gov and the Registrants' websites at www.exeloncorp.com. Information contained on the Registrants' websites shall not be deemed incorporated into, or to be a part of, this Report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions, except per share data)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating revenues		
Competitive businesses revenues	$ 4,560	$ 4,473
Rate-regulated utility revenues	4,197	3,100
Total operating revenues	8,757	7,573
Operating expenses		
Competitive businesses purchased power and fuel	2,795	2,440
Rate-regulated utility purchased power and fuel	1,104	814
Operating and maintenance	2,460	2,835
Depreciation and amortization	896	685
Taxes other than income	436	325
Total operating expenses	7,691	7,099
Gain on sales of assets	4	9
Bargain purchase gain	226	—
Operating income	1,296	483
Other income and (deductions)		
Interest expense, net	(363)	(277)
Interest expense to affiliates	(10)	(10)
Other, net	283	114
Total other income and (deductions)	(90)	(173)
Income before income taxes	1,206	310
Income taxes	215	184
Equity in losses of unconsolidated affiliates	(10)	(3)
Net income	981	123
Net loss attributable to noncontrolling interests and preference stock dividends	(14)	(50)
Net income attributable to common shareholders	$ 995	$ 173
Comprehensive income, net of income taxes		
Net income	$ 981	$ 123
Other comprehensive income (loss), net of income taxes		
Pension and non-pension postretirement benefit plans:		
Prior service benefit reclassified to periodic benefit cost	(13)	(12)
Actuarial loss reclassified to periodic benefit cost	49	46
Pension and non-pension postretirement benefit plan valuation adjustment	(59)	(1)
Unrealized gain (loss) on cash flow hedges	6	(7)
Unrealized gain (loss) on equity investments	3	(3)
Unrealized gain on foreign currency translation	1	6
Unrealized gain (loss) on marketable securities	1	(1)
Other comprehensive (loss) income	(12)	28
Comprehensive income	969	151
Comprehensive loss attributable to noncontrolling interests and preference stock dividends	(16)	(50)
Comprehensive income attributable to common shareholders	$ 985	$ 201
Average shares of common stock outstanding:		
Basic	928	923
Diluted	930	925
Earnings per average common share:		
Basic	$ 1.07	$ 0.19
Diluted	$ 1.07	$ 0.19

Dividends declared per common share	$ 0.33	$ 0.31

See the Combined Notes to Consolidated Financial Statements

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income	$ 981	$ 123
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	1,274	1,063
Impairment of long-lived assets	10	119
Gain on sales of assets	(4)	(9)
Bargain purchase gain	(226)	—
Deferred income taxes and amortization of investment tax credits	189	127
Net fair value changes related to derivatives	47	(107)
Net realized and unrealized gains on nuclear decommissioning trust fund investments	(175)	(55)
Other non-cash operating activities	118	804
Changes in assets and liabilities:		
Accounts receivable	313	117
Inventories	109	142
Accounts payable and accrued expenses	(623)	(571)
Option premiums (paid) received, net	(6)	17
Collateral (posted) received, net	(110)	206
Income taxes	50	47
Pension and non-pension postretirement benefit contributions	(307)	(239)
Other assets and liabilities	(439)	(311)
Net cash flows provided by operating activities	1,201	1,473
Cash flows from investing activities		
Capital expenditures	(2,114)	(2,202)
Proceeds from nuclear decommissioning trust fund sales	1,767	2,240
Investment in nuclear decommissioning trust funds	(1,833)	(2,297)
Acquisition of businesses, net	(212)	(6,645)
Proceeds from termination of direct financing lease investment	—	360
Change in restricted cash	(1)	(2)
Other investing activities	(18)	(2)
Net cash flows used in investing activities	(2,411)	(8,548)
Cash flows from financing activities		
Changes in short-term borrowings	721	1,647
Proceeds from short-term borrowings with maturities greater than 90 days	560	123
Repayments on short-term borrowings with maturities greater than 90 days	(500)	—
Issuance of long-term debt	763	151
Retirement of long-term debt	(65)	(116)
Dividends paid on common stock	(303)	(287)
Proceeds from employee stock plans	12	9
Other financing activities	(4)	6
Net cash flows provided by financing activities	1,184	1,533
Decrease in cash and cash equivalents	(26)	(5,542)
Cash and cash equivalents at beginning of period	635	6,502
Cash and cash equivalents at end of period	$ 609	$ 960

See the Combined Notes to Consolidated Financial Statements

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 609	$ 635
Restricted cash and cash equivalents	254	253
Deposit with IRS	1,250	1,250
Accounts receivable, net		
Customer	3,886	4,158
Other	1,133	1,201
Mark-to-market derivative assets	847	917
Unamortized energy contract assets	103	88
Inventories, net		
Fossil fuel and emission allowances	249	364
Materials and supplies	1,312	1,274
Regulatory assets	1,330	1,342
Other	1,221	930
Total current assets	12,194	12,412
Property, plant and equipment, net	72,630	71,555
Deferred debits and other assets		
Regulatory assets	10,051	10,046
Nuclear decommissioning trust funds	12,362	11,061
Investments	648	629
Goodwill	6,677	6,677
Mark-to-market derivative assets	539	492
Unamortized energy contract assets	432	447
Pledged assets for Zion Station decommissioning	95	113
Other	1,440	1,472
Total deferred debits and other assets	32,244	30,937
Total assets(a)	$117,068	$ 114,904

See the Combined Notes to Consolidated Financial Statements

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 2,048	$ 1,267
Long-term debt due within one year	3,645	2,430
Accounts payable	3,011	3,441
Accrued expenses	3,007	3,460
Payables to affiliates	8	8
Regulatory liabilities	637	602
Mark-to-market derivative liabilities	228	282
Unamortized energy contract liabilities	388	407
Renewable energy credit obligation	400	428
PHI merger related obligation	123	151
Other	942	981
Total current liabilities	14,437	13,457
Long-term debt	31,044	31,575
Long-term debt to financing trusts	641	641
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	18,518	18,138
Asset retirement obligations	9,634	9,111
Pension obligations	4,082	4,248
Non-pension postretirement benefit obligations	1,928	1,848
Spent nuclear fuel obligation	1,136	1,024
Regulatory liabilities	4,302	4,187
Mark-to-market derivative liabilities	420	392
Unamortized energy contract liabilities	779	830
Payable for Zion Station decommissioning	3	14
Other	1,853	1,827
Total deferred credits and other liabilities	42,655	41,619
Total liabilities(a)	88,777	87,292
Commitments and contingencies		
Shareholders' equity		
Common stock (No par value, 2000 shares authorized, 926 shares and 924 shares outstanding at March 31, 2017 and December 31, 2016, respectively)	18,807	18,794
Treasury stock, at cost (35 shares at March 31, 2017 and December 31, 2016, respectively)	(2,327)	(2,327)
Retained earnings	12,720	12,030
Accumulated other comprehensive loss, net	(2,670)	(2,660)
Total shareholders' equity	26,530	25,837
Noncontrolling interests	1,761	1,775
Total equity	28,291	27,612
Total liabilities and shareholders' equity	$117,068	$ 114,904

(a) Exelon's consolidated assets include $9,148 million and $8,893 million at March 31, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Exelon's consolidated liabilities include $3,345 million and $3,356 million at March 31, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Exelon. See Note 3 — Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interests	Total Shareholders' Equity
Balance, December 31, 2016	958,778	$18,794	$(2,327)	$12,030	$ (2,660)	$ 1,775	$ 27,612
Net income (loss)	—	—	—	995	—	(14)	981
Long-term incentive plan activity	1,739	1	—	—	—	—	1
Employee stock purchase plan issuances	323	12	—	—	—	—	12
Changes in equity of noncontrolling interests	—	—	—	—	—	2	2
Common stock dividends	—	—	—	(305)	—	—	(305)
Other comprehensive loss, net of income taxes	—	—	—	—	(10)	(2)	(12)
Balance at March 31, 2017	960,840	$18,807	$(2,327)	$12,720	$ (2,670)	$ 1,761	$ 28,291

See the Combined Notes to Consolidated Financial Statements

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating revenues		
Operating revenues	$ 4,558	$ 4,471
Operating revenues from affiliates	330	268
Total operating revenues	4,888	4,739
Operating expenses		
Purchased power and fuel	2,796	2,440
Purchased power and fuel from affiliates	2	2
Operating and maintenance	1,309	1,296
Operating and maintenance from affiliates	179	171
Depreciation and amortization	302	289
Taxes other than income	143	126
Total operating expenses	4,731	4,324
Gain on sales of assets	4	—
Bargain purchase gain	226	—
Operating income	387	415
Other income and (deductions)		
Interest expense, net	(90)	(87)
Interest expense to affiliates	(10)	(10)
Other, net	259	93
Total other income and (deductions)	159	(4)
Income before income taxes	546	411
Income taxes	127	151
Equity in losses of unconsolidated affiliates	(10)	(3)
Net income	409	257
Net loss attributable to noncontrolling interests	(14)	(53)
Net income attributable to membership interest	$ 423	$ 310
Comprehensive income, net of income taxes		
Net income	$ 409	$ 257
Other comprehensive income (loss), net of income taxes		
Unrealized gain (loss) on cash flow hedges	6	(5)
Unrealized gain (loss) on equity investments	4	(2)
Unrealized gain on foreign currency translation	1	6
Other comprehensive income (loss)	11	(1)
Comprehensive income	420	256
Comprehensive loss attributable to noncontrolling interests	(16)	(53)
Comprehensive income attributable to membership interest	$ 436	$ 309

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net income	$ 409	$ 257
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	678	667
Impairment of long-lived assets	10	119
Gain on sales of assets	(4)	—
Bargain purchase gain	(226)	—
Deferred income taxes and amortization of investment tax credits	112	68
Net fair value changes related to derivatives	51	(106)
Net realized and unrealized gains on nuclear decommissioning trust fund investments	(175)	(55)
Other non-cash operating activities	(10)	51
Changes in assets and liabilities:		
Accounts receivable	195	173
Receivables from and payables to affiliates, net	23	(17)
Inventories	81	93
Accounts payable and accrued expenses	62	(363)
Option premiums (paid) received, net	(6)	17
Collateral (posted) received, net	(102)	198
Income taxes	(81)	(60)
Pension and non-pension postretirement benefit contributions	(110)	(112)
Other assets and liabilities	(167)	(148)
Net cash flows provided by operating activities	740	782
Cash flows from investing activities		
Capital expenditures	(923)	(1,125)
Proceeds from nuclear decommissioning trust fund sales	1,767	2,240
Investment in nuclear decommissioning trust funds	(1,833)	(2,297)
Acquisition of businesses, net	(212)	(1)
Change in restricted cash	18	4
Other investing activities	(29)	(25)
Net cash flows used in investing activities	(1,212)	(1,204)
Cash flows from financing activities		
Changes in short-term borrowings	(42)	1,377
Proceeds from short-term borrowings with maturities greater than 90 days	60	123
Issuance of long-term debt	762	151
Retirement of long-term debt	(30)	(94)
Changes in Exelon intercompany money pool	(1)	(1,183)
Distribution to member	(164)	(55)
Contribution from member	—	44
Other financing activities	(3)	5
Net cash flows provided by financing activities	582	368
Increase (Decrease) in cash and cash equivalents	110	(54)
Cash and cash equivalents at beginning of period	290	431
Cash and cash equivalents at end of period	$ 400	$ 377

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 400	$ 290
Restricted cash and cash equivalents	140	158
Accounts receivable, net		
Customer	2,278	2,433
Other	545	558
Mark-to-market derivative assets	847	917
Receivables from affiliates	141	156
Unamortized energy contract assets	103	88
Inventories, net		
Fossil fuel and emission allowances	222	292
Materials and supplies	957	935
Other	881	701
Total current assets	6,514	6,528
Property, plant and equipment, net	25,893	25,585
Deferred debits and other assets		
Nuclear decommissioning trust funds	12,362	11,061
Investments	435	418
Goodwill	47	47
Mark-to-market derivative assets	527	476
Prepaid pension asset	1,646	1,595
Pledged assets for Zion Station decommissioning	95	113
Unamortized energy contract assets	432	447
Deferred income taxes	10	16
Other	648	688
Total deferred debits and other assets	16,202	14,861
Total assets(a)	$ 48,609	$ 46,974

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	$ 717	$ 699
Long-term debt due within one year	1,156	1,117
Accounts payable	1,482	1,610
Accrued expenses	720	989
Payables to affiliates	145	137
Borrowings from Exelon intercompany money pool	54	55
Mark-to-market derivative liabilities	209	263
Unamortized energy contract liabilities	68	72
Renewable energy credit obligation	400	428
Other	286	313
Total current liabilities	5,237	5,683
Long-term debt	7,904	7,202
Long-term debt to affiliate	919	922
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	5,850	5,585
Asset retirement obligations	9,444	8,922
Non-pension postretirement benefit obligations	926	930
Spent nuclear fuel obligation	1,136	1,024
Payables to affiliates	2,776	2,608
Mark-to-market derivative liabilities	157	153
Unamortized energy contract liabilities	78	80
Payable for Zion Station decommissioning	3	14
Other	615	595
Total deferred credits and other liabilities	20,985	19,911
Total liabilities(a)	35,045	33,718
Commitments and contingencies		
Equity		
Member's equity		
Membership interest	9,310	9,261
Undistributed earnings	2,534	2,275
Accumulated other comprehensive loss, net	(41)	(54)
Total member's equity	11,803	11,482
Noncontrolling interests	1,761	1,774
Total equity	13,564	13,256
Total liabilities and equity	$ 48,609	$ 46,974

(a) Generation's consolidated assets include $9,059 million and $8,817 million at March 31, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Generation's consolidated liabilities include $3,174 million and $3,170 million at March 31, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Generation. See Note 3 — Variable Interest Entities.

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Member's Equity				
(In millions)	Membership Interest	Undistributed Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interests	Total Equity
Balance, December 31, 2016	$ 9,261	$ 2,275	$ (54)	$ 1,774	$13,256
Net income (loss)	—	423	—	(14)	409
Changes in equity of noncontrolling interests	—	—	—	3	3
Distribution of net retirement benefit obligation to member	49	—	—	—	49
Distribution to member	—	(164)	—	—	(164)
Other comprehensive income (loss), net of income taxes	—	—	13	(2)	11
Balance, March 31, 2017	$ 9,310	$ 2,534	$ (41)	$ 1,761	$13,564

See the Combined Notes to Consolidated Financial Statements

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating revenues		
Electric operating revenues	$ 1,293	$ 1,244
Operating revenues from affiliates	5	5
Total operating revenues	1,298	1,249
Operating expenses		
Purchased power	329	343
Purchased power from affiliate	5	5
Operating and maintenance	307	305
Operating and maintenance from affiliate	63	63
Depreciation and amortization	208	189
Taxes other than income	72	75
Total operating expenses	984	980
Gain on sale of assets	—	5
Operating income	314	274
Other income and (deductions)		
Interest expense, net	(82)	(83)
Interest expense to affiliates	(3)	(3)
Other, net	4	4
Total other income and (deductions)	(81)	(82)
Income before income taxes	233	192
Income taxes	92	77
Net income	$ 141	$ 115
Comprehensive income	$ 141	$ 115

See the Combined Notes to Consolidated Financial Statements

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net income	$ 141	$ 115
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	208	189
Deferred income taxes and amortization of investment tax credits	137	70
Other non-cash operating activities	31	32
Changes in assets and liabilities:		
Accounts receivable	92	69
Receivables from and payables to affiliates, net	(16)	—
Inventories	4	7
Accounts payable and accrued expenses	(327)	(207)
Collateral (posted) received, net	(7)	7
Income taxes	(34)	20
Pension and non-pension postretirement benefit contributions	(35)	(32)
Other assets and liabilities	(49)	14
Net cash flows provided by operating activities	145	284
Cash flows from investing activities		
Capital expenditures	(535)	(639)
Change in restricted cash	(1)	—
Other investing activities	7	13
Net cash flows used in investing activities	(529)	(626)
Cash flows from financing activities		
Changes in short-term borrowings	365	349
Contributions from parent	100	39
Dividends paid on common stock	(105)	(91)
Other financing activities	(1)	(1)
Net cash flows provided by financing activities	359	296
Decrease in cash and cash equivalents	(25)	(46)
Cash and cash equivalents at beginning of period	56	67
Cash and cash equivalents at end of period	$ 31	$ 21

See the Combined Notes to Consolidated Financial Statements

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 31	$ 56
Restricted cash	3	2
Accounts receivable, net		
Customer	461	528
Other	199	218
Receivables from affiliates	360	356
Inventories, net	154	159
Regulatory assets	183	190
Other	55	45
Total current assets	1,446	1,554
Property, plant and equipment, net	19,692	19,335
Deferred debits and other assets		
Regulatory assets	1,032	977
Investments	6	6
Goodwill	2,625	2,625
Receivables from affiliates	2,294	2,170
Prepaid pension asset	1,330	1,343
Other	331	325
Total deferred debits and other assets	7,618	7,446
Total assets	$28,756	$ 28,335

See the Combined Notes to Consolidated Financial Statements

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 365	$ —
Long-term debt due within one year	1,125	425
Accounts payable	518	645
Accrued expenses	1,061	1,250
Payables to affiliates	52	65
Customer deposits	117	121
Regulatory liabilities	311	329
Mark-to-market derivative liability	19	19
Other	77	84
Total current liabilities	3,645	2,938
Long-term debt	5,910	6,608
Long-term debt to financing trust	205	205
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	5,502	5,364
Asset retirement obligations	121	119
Non-pension postretirement benefits obligations	234	239
Regulatory liabilities	3,492	3,369
Mark-to-market derivative liability	263	239
Other	523	529
Total deferred credits and other liabilities	10,135	9,859
Total liabilities	19,895	19,610
Commitments and contingencies		
Shareholders' equity		
Common stock	1,588	1,588
Other paid-in capital	6,250	6,150
Retained deficit unappropriated	(1,639)	(1,639)
Retained earnings appropriated	2,662	2,626
Total shareholders' equity	8,861	8,725
Total liabilities and shareholders' equity	$28,756	$ 28,335

See the Combined Notes to Consolidated Financial Statements

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions)	Common Stock	Other Paid-In Capital	Retained Deficit Unappropriated	Retained Earnings Appropriated	Total Shareholders' Equity
Balance, December 31, 2016	$ 1,588	$6,150	$ (1,639)	$ 2,626	$ 8,725
Net income	—	—	141	—	141
Appropriation of retained earnings for future dividends	—	—	(141)	141	—
Common stock dividends	—	—	—	(105)	(105)
Contribution from parent	—	100	—	—	100
Balance, March 31, 2017	$ 1,588	$6,250	$ (1,639)	$ 2,662	$ 8,861

See the Combined Notes to Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
(In millions)	**2017**	**2016**
Operating revenues		
Electric operating revenues	$ 589	$ 643
Natural gas operating revenues	206	197
Operating revenues from affiliates	1	1
Total operating revenues	796	841
Operating expenses		
Purchased power	156	166
Purchased fuel	86	77
Purchased power from affiliate	45	78
Operating and maintenance	174	177
Operating and maintenance from affiliates	34	38
Depreciation and amortization	71	67
Taxes other than income	38	42
Total operating expenses	604	645
Operating income	192	196
Other income and (deductions)		
Interest expense, net	(28)	(28)
Interest expense to affiliates	(3)	(3)
Other, net	2	2
Total other income and (deductions)	(29)	(29)
Income before income taxes	163	167
Income taxes	36	43
Net income	$ 127	$ 124
Comprehensive income	$ 127	$ 124

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
(In millions)	2017	2016
Cash flows from operating activities		
Net income	$ 127	$ 124
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	71	67
Deferred income taxes and amortization of investment tax credits	24	23
Other non-cash operating activities	23	24
Changes in assets and liabilities:		
Accounts receivable	(25)	(51)
Receivables from and payables to affiliates, net	(10)	4
Inventories	19	24
Accounts payable and accrued expenses	(82)	18
Income taxes	25	29
Pension and non-pension postretirement benefit contributions	(23)	(29)
Other assets and liabilities	(85)	(95)
Net cash flows provided by operating activities	64	138
Cash flows from investing activities		
Capital expenditures	(159)	(195)
Changes in Exelon intercompany money pool	131	(160)
Other investing activities	1	4
Net cash flows used in investing activities	(27)	(351)
Cash flows from financing activities		
Dividends paid on common stock	(72)	(69)
Net cash flows used in financing activities	(72)	(69)
Decrease in cash and cash equivalents	(35)	(282)
Cash and cash equivalents at beginning of period	63	295
Cash and cash equivalents at end of period	$ 28	$ 13

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 28	$ 63
Restricted cash and cash equivalents	4	4
Accounts receivable, net		
Customer	314	306
Other	122	131
Receivables from affiliates	6	4
Receivable from Exelon intercompany pool	—	131
Inventories, net		
Fossil fuel	14	35
Materials and supplies	29	27
Prepaid utility taxes	100	9
Regulatory assets	40	29
Other	21	18
Total current assets	678	757
Property, plant and equipment, net	7,659	7,565
Deferred debits and other assets		
Regulatory assets	1,708	1,681
Investments	25	25
Receivable from affiliates	482	438
Prepaid pension asset	361	345
Other	19	20
Total deferred debits and other assets	2,595	2,509
Total assets	$10,932	$ 10,831

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 500	$ —
Accounts payable	288	342
Accrued expenses	92	104
Payables to affiliates	55	63
Customer deposits	62	61
Regulatory liabilities	161	127
Other	29	30
Total current liabilities	1,187	727
Long-term debt	2,080	2,580
Long-term debt to financing trusts	184	184
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	3,076	3,006
Asset retirement obligations	28	28
Non-pension postretirement benefits obligations	289	289
Regulatory liabilities	530	517
Other	88	85
Total deferred credits and other liabilities	4,011	3,925
Total liabilities	7,462	7,416
Commitments and contingencies		
Shareholder's equity		
Common stock	2,473	2,473
Retained earnings	996	941
Accumulated other comprehensive income, net	1	1
Total shareholder's equity	3,470	3,415
Total liabilities and shareholder's equity	$10,932	$ 10,831

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Shareholder's Equity
Balance, December 31, 2016	$ 2,473	$ 941	$ 1	$ 3,415
Net income	—	127	—	127
Common stock dividends	—	(72)	—	(72)
Balance, March 31, 2017	$ 2,473	$ 996	$ 1	$ 3,470

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
(In millions)	2017	2016
Operating revenues		
Electric operating revenues	$ 665	$ 678
Natural gas operating revenues	281	246
Operating revenues from affiliates	5	5
Total operating revenues	951	929
Operating expenses		
Purchased power	133	127
Purchased fuel	83	75
Purchased power from affiliate	134	171
Operating and maintenance	148	168
Operating and maintenance from affiliates	35	34
Depreciation and amortization	128	109
Taxes other than income	62	58
Total operating expenses	723	742
Operating income	228	187
Other income and (deductions)		
Interest expense, net	(23)	(20)
Interest expense to affiliates	(4)	(4)
Other, net	4	4
Total other income and (deductions)	(23)	(20)
Income before income taxes	205	167
Income taxes	80	66
Net income	125	101
Preference stock dividends	—	3
Net income attributable to common shareholder	$ 125	$ 98
Comprehensive income	$ 125	$ 101
Comprehensive income attributable to preference stock dividends	—	3
Comprehensive income attributable to common shareholder	$ 125	$ 98

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net income	$ 125	$ 101
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	128	109
Deferred income taxes and amortization of investment tax credits	72	26
Other non-cash operating activities	24	44
Changes in assets and liabilities:		
Accounts receivable	(7)	(44)
Receivables from and payables to affiliates, net	(7)	7
Inventories	17	17
Accounts payable and accrued expenses	(121)	3
Income taxes	33	78
Pension and non-pension postretirement benefit contributions	(44)	(38)
Other assets and liabilities	(52)	(30)
Net cash flows provided by operating activities	168	273
Cash flows from investing activities		
Capital expenditures	(166)	(176)
Change in restricted cash	(19)	(20)
Other investing activities	4	5
Net cash flows used in investing activities	(181)	(191)
Cash flows from financing activities		
Changes in short-term borrowings	50	(60)
Dividends paid on preference stock	—	(3)
Dividends paid on common stock	(49)	(45)
Contributions from parent	—	21
Other financing activities	—	1
Net cash flows provided by (used in) financing activities	1	(86)
Decrease in cash and cash equivalents	(12)	(4)
Cash and cash equivalents at beginning of period	23	9
Cash and cash equivalents at end of period	$ 11	$ 5

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 11	$ 23
Restricted cash and cash equivalents	43	24
Accounts receivable, net		
Customer	393	395
Other	79	102
Receivables from affiliates	1	—
Inventories, net		
Gas held in storage	10	30
Materials and supplies	41	38
Prepaid utility taxes	32	15
Regulatory assets	191	208
Other	11	7
Total current assets	812	842
Property, plant and equipment, net	7,166	7,040
Deferred debits and other assets		
Regulatory assets	499	504
Investments	12	12
Prepaid pension asset	322	297
Other	10	9
Total deferred debits and other assets	843	822
Total assets(a)	$ 8,821	$ 8,704

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 95	$ 45
Long-term debt due within one year	41	41
Accounts payable	186	205
Accrued expenses	120	175
Payables to affiliates	49	55
Customer deposits	112	110
Regulatory liabilities	67	50
Other	23	26
Total current liabilities	693	707
Long-term debt	2,282	2,281
Long-term debt to financing trust	252	252
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	2,295	2,219
Asset retirement obligations	20	21
Non-pension postretirement benefits obligations	202	205
Regulatory liabilities	94	110
Other	59	61
Total deferred credits and other liabilities	2,670	2,616
Total liabilities(a)	5,897	5,856
Commitments and contingencies		
Shareholders' equity		
Common stock	1,421	1,421
Retained earnings	1,503	1,427
Total shareholders' equity	2,924	2,848
Total liabilities and shareholders' equity	$ 8,821	$ 8,704

(a) BGE's consolidated assets include $45 million and $26 million at March 31, 2017 and December 31, 2016, respectively, of BGE's consolidated VIE that can only be used to settle the liabilities of the VIE. BGE's consolidated liabilities include $42 million and $42 million at March 31, 2017 and December 31, 2016, respectively, of BGE's consolidated VIE for which the VIE creditors do not have recourse to BGE. See Note 3 — Variable Interest Entities.

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholders' Equity
Balance, December 31, 2016	$ 1,421	$ 1,427	$ 2,848
Net income	—	125	125
Common stock dividends	—	(49)	(49)
Balance, March 31, 2017	$ 1,421	$ 1,503	$ 2,924

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Successor		*Predecessor*
(In millions)	**Three Months Ended March 31, 2017**	**March 24 to March 31, 2016**	**January 1 to March 23, 2016**
Operating revenues			
Electric operating revenues	$ 1,097	$ 90	$ 1,096
Natural gas operating revenues	66	3	57
Operating revenues from affiliates	12	12	—
Total operating revenues	1,175	105	1,153
Operating expenses			
Purchased power	288	26	471
Purchased fuel	29	1	26
Purchased power and fuel from affiliates	144	11	—
Operating and maintenance	223	447	294
Operating and maintenance from affiliates	33	2	—
Depreciation and amortization	167	14	152
Taxes other than income	111	15	105
Total operating expenses	995	516	1,048
Operating income (loss)	180	(411)	105
Other income and (deductions)			
Interest expense, net	(62)	(6)	(65)
Other, net	13	2	(4)
Total other income and (deductions)	(49)	(4)	(69)
Income (loss) before income taxes	131	(415)	36
Income taxes	(9)	(106)	17
Net income (loss)	$ 140	$ (309)	$ 19
Comprehensive income (loss), net of income taxes			
Net income (loss)	$ 140	$ (309)	$ 19
Other comprehensive income, net of income taxes			
Pension and non-pension postretirement benefit plans:			
Actuarial loss reclassified to periodic cost	—	—	1
Other comprehensive income	—	—	1
Comprehensive income (loss)	$ 140	$ (309)	$ 20

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	*Successor* Three Months Ended March 31, 2017	*Successor* March 24 to March 31, 2016	*Predecessor* January 1 to March 23, 2016
Cash flows from operating activities			
Net income (loss)	$ 140	$ (309)	$ 19
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Depreciation and amortization	167	14	152
Deferred income taxes and amortization of investment tax credits	13	(112)	19
Net fair value changes related to derivatives	—	—	18
Other non-cash operating activities	(8)	410	46
Changes in assets and liabilities:			
Accounts receivable	68	16	(28)
Receivables from and payables to affiliates, net	(8)	—	—
Inventories	(11)	—	(4)
Accounts payable and accrued expenses	(81)	(4)	42
Income taxes	55	7	12
Pension and non-pension postretirement benefit contributions	(66)	—	(4)
Other assets and liabilities	(75)	(25)	(8)
Net cash flows provided by (used in) operating activities	194	(3)	264
Cash flows from investing activities			
Capital expenditures	(320)	(29)	(273)
Changes in restricted cash	2	(1)	3
Purchases of investments	—	(2)	(68)
Other investing activities	(3)	2	(5)
Net cash flows used in investing activities	(321)	(30)	(343)
Cash flows from financing activities			
Changes in short-term borrowings	145	(20)	(121)
Proceeds from short-term borrowings with maturities greater than 90 days	—	—	500
Repayments of short-term borrowings with maturities greater than 90 days	(500)	—	—
Issuance of long-term debt	1	—	—
Retirement of long-term debt	(24)	—	(11)
Common stock issued for the Direct Stock Purchase and Dividend Reinvestment Plan and employee-related compensation	—	—	2
Distribution to member	(69)	(108)	—
Contribution from member	500	—	—
Change in Exelon intercompany money pool	13	(7)	—
Other financing activities	—	—	2
Net cash flows provided by (used in) financing activities	66	(135)	372
(Decrease) Increase in cash and cash equivalents	(61)	(168)	293
Cash and cash equivalents at beginning of period	170	319	26
Cash and cash equivalents at end of period	$ 109	$ 151	$ 319

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	Successor	
(In millions)	**March 31, 2017**	**December 31, 2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 109	$ 170
Restricted cash and cash equivalents	41	43
Accounts receivable, net		
Customer	440	496
Other	210	283
Inventories, net		
Gas held in storage	2	6
Materials and supplies	131	116
Regulatory assets	653	653
Other	64	71
Total current assets	1,650	1,838
Property, plant and equipment, net	11,801	11,598
Deferred debits and other assets		
Regulatory assets	2,791	2,851
Investments	133	133
Goodwill	4,005	4,005
Long-term note receivable	4	4
Prepaid pension asset	549	509
Deferred income taxes	5	6
Other	80	81
Total deferred debits and other assets	7,567	7,589
Total assets(a)	$21,018	$ 21,025

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	Successor March 31, 2017	Successor December 31, 2016
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 167	$ 522
Long-term debt due within one year	241	253
Accounts payable	386	458
Accrued expenses	269	272
Payables to affiliates	84	94
Unamortized energy contract liabilities	320	335
Borrowings from Exelon intercompany money pool	13	—
Customer deposits	121	123
Merger related obligation	74	101
Regulatory liabilities	82	79
Other	43	47
Total current liabilities	1,800	2,284
Long-term debt	5,619	5,645
Deferred credits and other liabilities		
Regulatory liabilities	154	158
Deferred income taxes and unamortized investment tax credits	3,789	3,775
Asset retirement obligations	14	14
Non-pension postretirement benefit obligations	129	134
Unamortized energy contract liabilities	701	750
Other	225	249
Total deferred credits and other liabilities	5,012	5,080
Total liabilities(a)	12,431	13,009
Commitments and contingencies		
Member's equity		
Membership interest	8,577	8,077
Undistributed earnings (losses)	10	(61)
Total member's equity	8,587	8,016
Total liabilities and member's equity	$21,018	$ 21,025

(a) PHI's consolidated total assets include $44 million and $49 million at March 31, 2017 and December 31, 2016, respectively, of PHI's consolidated VIE that can only be used to settle the liabilities of the VIE. PHI's consolidated total liabilities include $129 million and $143 million at March 31, 2017 and December 31, 2016, respectively, of PHI's consolidated VIE for which the VIE creditors do not have recourse to PHI. See Note 3—Variable Interest Entities.

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(In millions)	Membership Interest	Undistributed Earnings (Losses)	Member's Equity
Successor			
Balance, December 31, 2016	$ 8,077	$ (61)	$ 8,016
Net income	—	140	140
Distribution to member	—	(69)	(69)
Contribution from member	500	—	500
Balance, March 31, 2017	$ 8,577	$ 10	$ 8,587

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POTOMAC ELECTRIC POWER COMPANY
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating revenues		
Electric operating revenues	$ 529	$ 550
Operating revenues from affiliates	1	1
Total operating revenues	530	551
Operating expenses		
Purchased power	83	191
Purchased power from affiliates	83	6
Operating and maintenance	101	288
Operating and maintenance from affiliates	12	2
Depreciation and amortization	82	75
Taxes other than income	90	94
Total operating expenses	451	656
Operating income (loss)	79	(105)
Other income and (deductions)		
Interest expense, net	(29)	(37)
Other, net	8	9
Total other income and (deductions)	(21)	(28)
Income (loss) before income taxes	58	(133)
Income taxes	—	(25)
Net income (loss)	$ 58	$ (108)
Comprehensive income (loss)	$ 58	$ (108)

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POTOMAC ELECTRIC POWER COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net income (loss)	$ 58	$(108)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	82	75
Deferred income taxes and amortization of investment tax credits	5	(31)
Other non-cash operating activities	(15)	153
Changes in assets and liabilities:		
Accounts receivable	45	(24)
Receivables from and payables to affiliates, net	(6)	55
Inventories	(10)	1
Accounts payable and accrued expenses	(49)	(4)
Income taxes	20	151
Pension and non-pension postretirement benefit contributions	(64)	(1)
Other assets and liabilities	(37)	(9)
Net cash flows provided by operating activities	29	258
Cash flows from investing activities		
Capital expenditures	(139)	(109)
Purchases of investments	—	(31)
Changes in restricted cash	—	2
Other investing activities	(5)	2
Net cash flows used in investing activities	(144)	(136)
Cash flows from financing activities		
Changes in short-term borrowings	144	(64)
Issuance of long-term debt	1	—
Dividends paid on common stock	(30)	(39)
Other financing activities	(1)	—
Net cash flows provided by (used in) financing activities	114	(103)
(Decrease) Increase in cash and cash equivalents	(1)	19
Cash and cash equivalents at beginning of period	9	5
Cash and cash equivalents at end of period	$ 8	$ 24

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POTOMAC ELECTRIC POWER COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 8	$ 9
Restricted cash and cash equivalents	33	33
Accounts receivable, net		
Customer	199	235
Other	127	150
Inventories, net	73	63
Regulatory assets	173	162
Other	21	32
Total current assets	634	684
Property, plant and equipment, net	5,659	5,571
Deferred debits and other assets		
Regulatory assets	679	690
Investments	101	102
Prepaid pension asset	337	282
Other	7	6
Total deferred debits and other assets	1,124	1,080
Total assets	$ 7,417	$ 7,335

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POTOMAC ELECTRIC POWER COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 167	$ 23
Long-term debt due within one year	17	16
Accounts payable	141	209
Accrued expenses	125	113
Payables to affiliates	68	74
Customer deposits	53	53
Regulatory liabilities	10	11
Merger related obligation	47	68
Other	23	29
Total current liabilities	651	596
Long-term debt	2,333	2,333
Deferred credits and other liabilities		
Regulatory liabilities	19	20
Deferred income taxes and unamortized investment tax credits	1,913	1,910
Non-pension postretirement benefit obligations	41	43
Other	132	133
Total deferred credits and other liabilities	2,105	2,106
Total liabilities	5,089	5,035
Commitments and contingencies		
Shareholder's equity		
Common stock	1,309	1,309
Retained earnings	1,019	991
Total shareholder's equity	2,328	2,300
Total liabilities and shareholder's equity	$ 7,417	$ 7,335

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POTOMAC ELECTRIC POWER COMPANY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 1,309	$ 991	$ 2,300
Net income	—	58	58
Common stock dividends	—	(30)	(30)
Balance, March 31, 2017	$ 1,309	$ 1,019	$ 2,328

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DELMARVA POWER & LIGHT COMPANY
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating revenues		
Electric operating revenues	$ 294	$ 301
Natural gas operating revenues	66	59
Operating revenues from affiliates	2	2
Total operating revenues	362	362
Operating expenses		
Purchased power	77	147
Purchased fuel	29	25
Purchased power from affiliate	51	4
Operating and maintenance	66	204
Operating and maintenance from affiliates	7	—
Depreciation and amortization	39	39
Taxes other than income	15	15
Total operating expenses	284	434
Operating income (loss)	78	(72)
Other income and (deductions)		
Interest expense, net	(13)	(12)
Other, net	3	3
Total other income and (deductions)	(10)	(9)
Income (loss) before income taxes	68	(81)
Income taxes	11	(9)
Net income (loss)	$ 57	$ (72)
Comprehensive income (loss)	$ 57	$ (72)

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DELMARVA POWER & LIGHT COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net income (loss)	$ 57	$ (72)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	39	39
Deferred income taxes and amortization of investment tax credits	13	(4)
Other non-cash operating activities	(7)	118
Changes in assets and liabilities:		
Accounts receivable	6	4
Receivables from and payables to affiliates, net	1	20
Inventories	1	1
Accounts payable and accrued expenses	14	(3)
Income taxes	21	52
Other assets and liabilities	(23)	(8)
Net cash flows provided by operating activities	122	147
Cash flows from investing activities		
Capital expenditures	(82)	(81)
Other investing activities	2	—
Net cash flows used in investing activities	(80)	(81)
Cash flows from financing activities		
Changes in short-term borrowings	—	(30)
Retirement of long-term debt	(14)	—
Dividends paid on common stock	(30)	(38)
Net cash flows used in financing activities	(44)	(68)
Decrease in cash and cash equivalents	(2)	(2)
Cash and cash equivalents at beginning of period	46	5
Cash and cash equivalents at end of period	$ 44	$ 3

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DELMARVA POWER & LIGHT COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 44	$ 46
Accounts receivable, net		
Customer	131	136
Other	39	63
Receivables from affiliates	—	3
Inventories, net		
Gas held in storage	3	7
Materials and supplies	35	32
Regulatory assets	66	59
Other	21	24
Total current assets	339	370
Property, plant and equipment, net	3,334	3,273
Deferred debits and other assets		
Regulatory assets	301	289
Investments	1	—
Goodwill	8	8
Prepaid pension asset	203	206
Other	5	7
Total deferred debits and other assets	518	510
Total assets	$ 4,191	$ 4,153

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DELMARVA POWER & LIGHT COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 109	$ 119
Accounts payable	106	88
Accrued expenses	44	36
Payables to affiliates	36	38
Customer deposits	36	36
Regulatory liabilities	47	43
Merger related obligation	4	13
Other	6	8
Total current liabilities	388	381
Long-term debt	1,217	1,221
Deferred credits and other liabilities		
Regulatory liabilities	95	97
Deferred income taxes and unamortized investment tax credits	1,072	1,056
Non-pension postretirement benefit obligations	17	19
Other	49	53
Total deferred credits and other liabilities	1,233	1,225
Total liabilities	2,838	2,827
Commitments and contingencies		
Shareholder's equity		
Common stock	764	764
Retained earnings	589	562
Total shareholder's equity	1,353	1,326
Total liabilities and shareholder's equity	$ 4,191	$ 4,153

See the Combined Notes to Consolidated Financial Statements

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DELMARVA POWER & LIGHT COMPANY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 764	$ 562	$ 1,326
Net income	—	57	57
Common stock dividends	—	(30)	(30)
Balance, March 31, 2017	$ 764	$ 589	$ 1,353

See the Combined Notes to Consolidated Financial Statements

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating revenues		
Electric operating revenues	$ 274	$ 290
Operating revenues from affiliates	1	1
Total operating revenues	275	291
Operating expenses		
Purchased power	128	157
Purchased power from affiliates	9	1
Operating and maintenance	69	211
Operating and maintenance from affiliates	7	1
Depreciation and amortization	35	40
Taxes other than income	2	2
Total operating expenses	250	412
Operating income (loss)	25	(121)
Other income and (deductions)		
Interest expense, net	(15)	(16)
Other, net	2	4
Total other income and (deductions)	(13)	(12)
Income (loss) before income taxes	12	(133)
Income taxes	(16)	(33)
Net income (loss)	$ 28	$ (100)
Comprehensive income (loss)	$ 28	$ (100)

See the Combined Notes to Consolidated Financial Statements

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income (loss)	$ 28	$ (100)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	35	40
Deferred income taxes and amortization of investment tax credits	(7)	(33)
Other non-cash operating activities	2	132
Changes in assets and liabilities:		
Accounts receivable	14	5
Receivables from and payables to affiliates, net	(5)	20
Inventories	(1)	(2)
Accounts payable and accrued expenses	(5)	19
Income taxes	3	168
Other assets and liabilities	(6)	(3)
Net cash flows provided by operating activities	58	246
Cash flows from investing activities		
Capital expenditures	(88)	(101)
Changes in restricted cash	2	1
Other investing activities	1	—
Net cash flows used in investing activities	(85)	(100)
Cash flows from financing activities		
Changes in short-term borrowings	—	(5)
Retirement of long-term debt	(10)	(11)
Dividends paid on common stock	(10)	(11)
Net cash flows used in financing activities	(20)	(27)
(Decrease) Increase in cash and cash equivalents	(47)	119
Cash and cash equivalents at beginning of period	101	3
Cash and cash equivalents at end of period	$ 54	$ 122

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 54	$ 101
Restricted cash and cash equivalents	7	9
Accounts receivable, net		
Customer	111	125
Other	41	44
Inventories, net	23	22
Regulatory assets	94	96
Other	3	2
Total current assets	333	399
Property, plant and equipment, net	2,583	2,521
Deferred debits and other assets		
Regulatory assets	407	405
Long-term note receivable	4	4
Prepaid pension asset	82	84
Other	42	44
Total deferred debits and other assets	535	537
Total assets(a)	$ 3,451	$ 3,457

See the Combined Notes to Consolidated Financial Statements

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 33	$ 35
Accounts payable	125	132
Accrued expenses	50	38
Payables to affiliates	24	29
Customer deposits	32	33
Regulatory liabilities	25	25
Merger related obligation	22	20
Other	9	8
Total current liabilities	320	320
Long-term debt	1,112	1,120
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	911	917
Non-pension postretirement benefit obligations	33	34
Other	23	32
Total deferred credits and other liabilities	967	983
Total liabilities(a)	2,399	2,423
Commitments and contingencies		
Shareholder's equity		
Common stock	912	912
Retained earnings	140	122
Total shareholder's equity	1,052	1,034
Total liabilities and shareholder's equity	$ 3,451	$ 3,457

(a) ACE's consolidated total assets include $30 million and $32 million at March 31, 2017 and December 31, 2016, respectively, of ACE's consolidated VIE that can only be used to settle the liabilities of the VIE. ACE's consolidated total liabilities include $115 million and $126 million at March 31, 2017 and December 31, 2016, respectively, of ACE's consolidated VIE for which the VIE creditors do not have recourse to ACE. See Note 3 — Variable Interest Entities.

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 912	$ 122	$ 1,034
Net income	—	28	28
Common stock dividends	—	(10)	(10)
Balance, March 31, 2017	$ 912	$ 140	$ 1,052

See the Combined Notes to Consolidated Financial Statements

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share data, unless otherwise noted)

Index to Combined Notes To Consolidated Financial Statements

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

Applicable Notes

Registrant	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Exelon Corporation	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Exelon Generation Company, LLC	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•		•	•	•	•
Commonwealth Edison Company	•	•	•		•			•	•	•	•		•	•			•	•	•	
PECO Energy Company	•	•	•		•			•	•	•	•		•	•	•		•	•	•	
Baltimore Gas and Electric Company	•	•	•		•			•	•	•	•		•	•			•	•	•	
Pepco Holdings LLC	•	•	•	•	•			•	•	•	•		•	•	•		•	•	•	
Potomac Electric Power Company	•	•	•		•			•	•	•	•		•	•			•	•	•	
Delmarva Power & Light Company	•	•	•		•			•	•	•	•		•	•			•	•	•	
Atlantic City Electric Company	•	•	•		•			•	•	•	•		•	•			•	•	•	

1. Significant Accounting Policies (All Registrants)

Description of Business (All Registrants)

Exelon is a utility services holding company engaged through its principal subsidiaries in the energy generation and energy distribution and transmission businesses. Prior to March 23, 2016, Exelon's principal, wholly owned subsidiaries included Generation, ComEd, PECO and BGE. On March 23, 2016, in conjunction with the Amended and Restated Agreement and Plan of Merger (the PHI Merger Agreement), Purple Acquisition Corp, a wholly owned subsidiary of Exelon, merged with and into PHI, with PHI continuing as the surviving entity as a wholly owned subsidiary of Exelon. PHI is a utility services holding company engaged through its principal wholly owned subsidiaries, Pepco, DPL and ACE, in the energy distribution and transmission businesses. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further information regarding the merger transaction.

The energy generation business includes:

- *Generation*: Generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services. Generation has six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions.

The energy delivery businesses include:

- *ComEd*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in northern Illinois, including the City of Chicago.
- *PECO*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in the Pennsylvania counties surrounding the City of Philadelphia.
- *BGE*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in central Maryland, including the City of Baltimore, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in central Maryland, including the City of Baltimore.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

- *Pepco*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in the District of Columbia and major portions of Prince George's County and Montgomery County in Maryland.
- *DPL*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.
- *ACE*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in southern New Jersey.

Basis of Presentation (All Registrants)

As a result of the acquisition of PHI, Exelon's financial reporting reflects PHI's consolidated financial results subsequent to the March 23, 2016, acquisition date. Exelon has accounted for the merger transaction applying the acquisition method of accounting, which requires the assets acquired and liabilities assumed by Exelon to be reported in Exelon's financial statements at fair value, with any excess of the purchase price over the fair value of net assets acquired reported as goodwill. Exelon has pushed-down the application of the acquisition method of accounting to the consolidated financial statements of PHI such that the assets and liabilities of PHI are similarly recorded at their respective fair values, and goodwill has been established as of the acquisition date. Accordingly, the consolidated financial statements of PHI for periods before and after the March 23, 2016, acquisition date reflect different bases of accounting, and the financial positions and the results of operations of the predecessor and successor periods are not comparable. The acquisition method of accounting has not been pushed down to PHI's wholly-owned subsidiary utility registrants, Pepco, DPL and ACE.

For financial statement purposes, beginning on March 24, 2016, disclosures that had solely related to PHI, Pepco, DPL or ACE activities now also apply to Exelon, unless otherwise noted.

In the second quarter of 2016, an error was identified and corrected related to the PHI successor period Consolidated Statement of Cash Flows for the period March 24, 2016 to March 31, 2016. The $46 million classification error related to the presentation of changes in Receivables from and payables to affiliates, net within Cash flows from operating activities and Change in Exelon intercompany money pool within Cash flows from financing activities. As revised for the first quarter of 2017, the successor period statement of cash flows for the period March 24, 2016 to March 31, 2016 presents Cash flows used in operating activities of $3 million, a decrease of $46 million from the originally reported amount, and Cash flows used in financing activities of $135 million, a decrease of $46 million from the originally reported amount. Management has concluded that the error is not material to the previously issued financial statements.

Each of the Registrant's Consolidated Financial Statements includes the accounts of its subsidiaries. All intercompany transactions have been eliminated.

The accompanying consolidated financial statements as of March 31, 2017 and 2016 and for the three months then ended are unaudited but, in the opinion of the management of each Registrant include all adjustments that are considered necessary for a fair statement of the Registrants' respective financial statements in accordance with GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. The December 31, 2016 Consolidated Balance Sheets were derived from audited financial statements. Financial results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2017. These Combined Notes to Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

2. New Accounting Standards (All Registrants)

New Accounting Standards Issued and Not Yet Adopted: The following new authoritative accounting guidance issued by the FASB has not yet been adopted and reflected by the Registrants in their consolidated financial statements. Unless otherwise indicated, the Registrants are currently assessing the impacts such guidance may have (which could be material) on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures, as well as the potential to early adopt where applicable. The Registrants have assessed other FASB issuances of new standards which are not listed below given the current expectation such standards will not significantly impact the Registrants' financial reporting.

Revenue from Contracts with Customers (Issued May 2014 and subsequently amended to address implementation questions): Changes the criteria for recognizing revenue from a contract with a customer. The new revenue recognition guidance, including subsequent amendments, is effective for annual reporting periods beginning on or after December 15, 2017, with the option to early adopt the standard for annual periods beginning on or after December 15, 2016. The Registrants do not plan to early adopt the standard.

The new standard replaces existing guidance on revenue recognition, including most industry specific guidance, with a five step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows. In addition, the Registrants will be required to capitalize costs to acquire new contracts, and amortize such costs in a manner consistent with the transfer to the customer of the associated goods or services. Exelon currently expenses those costs as incurred. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method).

The Registrants continue to assess the impacts this guidance may have on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures. In performing this assessment, the Registrants have utilized a project implementation team comprised of both internal and external resources to conduct the following key activities:

- Actively participate in the AICPA Power and Utilities Industry Task Force (Industry Task Force) process to identify implementation issues and support the development of related implementation guidance;
- Evaluate existing contracts and revenue streams for potential changes in the amounts and timing of recognizing revenues under the new guidance;
- Evaluate and select the transition method; and
- Develop and implement the approach and process for complying with the new revenue recognition disclosure requirements.

While there continues to be some ongoing activities in all of these areas, the Registrants have substantially completed the evaluation of their collective contracts and revenue streams, as well as the evaluation of the

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

transition method. Based on the work completed thus far, the Registrants have reached the following preliminary conclusions:

- The Registrants expect to apply the new guidance using the full retrospective method, however this conclusion could change based on the outcome of open implementation issues discussed below;
- The Registrants currently anticipate that the implementation of the new guidance will not have a material impact on the amount and timing of revenue recognition; and
- The new guidance will result in more detailed disclosures of revenue compared to current guidance.

Notwithstanding the preliminary conclusions noted above, certain implementation issues continue to be debated and worked through the Industry Task Force process that could result in amendments to the standard or implementation guidance that could have a material impact on the Registrants' Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures. The contributions in aid of construction (CIAC) implementation issue previously disclosed has been resolved, subject to the completion of the public comment period, with the conclusion that CIAC is outside of the scope of ASC 606 and, therefore, the accounting by the Utility Registrants for CIAC will not change as a result of ASC 606. The open implementation issues that could be most impactful to the Registrants include: (1) the ability of the Utility Registrants to recognize revenue for certain contracts where collectability is in question and (2) primarily at Generation, bundled sales contracts and contracts with pricing provisions that may require recognition of revenue at prices other than the contract price (e.g., straight line or estimated future market prices). As part of the overall implementation project, the Registrants have developed alternative adoption plans that would be implemented in the event the ultimate resolution of the open implementation issues result in significant changes from current revenue recognition practices.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Issued March 2017): The new standard will require significant changes to the accounting and presentation of pension and OPEB costs at the plan sponsor (i.e., Exelon) level. This guidance requires plan sponsors to separate net periodic pension cost and net periodic OPEB cost (together, net benefit cost) into the service cost component and other components; service cost will be presented as part of income from operations and the other components will be classified outside of income from operations on the Consolidated Statements of Operations and Comprehensive Income. Additionally, service cost is the only component eligible for capitalization (whereas under current GAAP, all components of net benefit cost are classified as compensation cost and are eligible for capitalization).

Exelon is currently evaluating the impact of this standard, including coordinating with its industry group and advisors. Generation, ComEd, PECO, BGE, BSC, PHI, Pepco, DPL, ACE and PHISCO participate in Exelon's single employer plan and apply multi-employer accounting. Exelon is currently evaluating how the new standard will impact accounting and financial reporting for these registrants.

The standard will be effective January 1, 2018 and requires retrospective adoption for the presentation of the service cost component and the other components of net benefit cost and prospective adoption for the capitalization of only the service cost component of net benefit cost. Exelon will not early adopt this standard.

Leases (Issued February 2016): Increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance requires lessees to recognize both the right-of-use assets and lease liabilities in the balance sheet for most leases, whereas today only financing type lease liabilities (capital leases) are recognized in the balance sheet. This is expected to require significant changes to systems, processes and procedures in order to

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

recognize and measure leases recorded on the balance sheet that are currently classified as operating leases. In addition, the definition of a lease has been revised in regards to when an arrangement conveys the right to control the use of the identified asset under the arrangement which may result in changes to the classification of an arrangement as a lease. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. The accounting applied by a lessor is largely unchanged from that applied under current GAAP. The standard is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted, however the Registrants do not expect to early adopt the standard. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Refer to Note 24 — Commitments and Contingencies of the Combined Notes to the Consolidated Financial Statements in the Exelon 2016 Form 10-K for additional information regarding operating leases.

Impairment of Financial Instruments (Issued June 2016): Provides for a new Current Expected Credit Loss (CECL) impairment model for specified financial instruments including loans, trade receivables, debt securities classified as held-to-maturity investments and net investments in leases recognized by a lessor. Under the new guidance, on initial recognition and at each reporting period, an entity is required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. The standard does not make changes to the existing impairment models for non-financial assets such as fixed assets, intangibles and goodwill. The standard will be effective January 1, 2020 and, for most debt instruments, requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Goodwill Impairment (issued January 2017): Simplifies the accounting for goodwill impairment by removing Step 2 of the current test, which requires calculation of a hypothetical purchase price allocation. Under the revised guidance, goodwill impairment will be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill (currently Step 1 of the two step impairment test). Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Exelon, Generation, ComEd, PHI, and DPL have goodwill as of March 31, 2017. This updated guidance is not currently expected to impact the Registrants' financial reporting. The standard is effective January 1, 2020, with early adoption permitted, and must be adopted on a prospective basis.

Clarifying the Definition of a Business (issued January 2017): Clarifies the definition of a business with the objective of addressing whether acquisitions should be accounted for as acquisitions of assets or as acquisitions of businesses. If substantially all the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. If the fair value of the assets acquired is not concentrated in a single identifiable asset or a group of similar identifiable assets, then an entity must evaluate whether an input and a substantive process exist, which together significantly contribute to the ability to produce outputs. The standard also revises the definition of outputs to focus on goods and services to customers. The standard could result in more acquisitions being accounted for as asset acquisitions. The standard will be effective January 1, 2018 and will be applied prospectively.

Intra-Entity Transfers of Assets Other Than Inventory (Issued October 2016): Requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs (compared to current GAAP which prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party). The standard is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Issued August 2016) and Restricted Cash (Issued November 2016): In 2016, the FASB issued two standards impacting the Statement of Cash Flows. The first adds or clarifies guidance on the classification of certain cash receipts and payments on the statement of cash flows as follows: debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and bank-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, and the application of the predominance principle to separately identifiable cash flows. The second states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows (instead of being presented as cash flow activities). Exelon will adopt both standards on January 1, 2018 on a retrospective basis. Adoption of the second standard will result in a change in presentation of restricted cash on the face of the Statement of Cash Flows; otherwise the Registrants expect that adoption of the guidance will have insignificant impacts on the Registrants' Consolidated Statements of Cash Flows and disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities (Issued January 2016): (i) Requires all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies, to be carried at fair value through net income, (ii) requires an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected, (iii) amends several disclosure requirements, including the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and (iv) requires disclosure of the fair value of financial assets and liabilities measured at amortized cost at the amount that would be received to sell the asset or paid to transfer the liability. The standard is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The guidance is required to be applied retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method).

3. Variable Interest Entities (All Registrants)

A VIE is a legal entity that possesses any of the following characteristics: an insufficient amount of equity at risk to finance its activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest), or equity owners who do not have the obligation to absorb expected losses or the right to receive the expected residual returns of the entity. Companies are required to consolidate a VIE if they are its primary beneficiary, which is the enterprise that has the power to direct the activities that most significantly affect the entity's economic performance.

At March 31, 2017 and December 31, 2016, Exelon, Generation, BGE, PHI and ACE collectively consolidated nine VIEs or VIE groups, for which the applicable Registrant was the primary beneficiary (*see Consolidated Variable Interest Entities below)*. As of March 31, 2017 and December 31, 2016, Exelon and Generation collectively had significant interests in seven and eight, respectively, other VIEs for which the applicable Registrant does not have the power to direct the entities' activities and, accordingly, was not the primary beneficiary (*see Unconsolidated Variable Interest Entities below)*.

Consolidated Variable Interest Entities

Exelon's, Generation's, BGE's, PHI's and ACE's consolidated VIEs consist of:

- A retail gas group formed by Generation to enter into a collateralized gas supply agreement with a third-party gas supplier,

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

- a group of solar project limited liability companies formed by Generation to build, own and operate solar power facilities,
- several wind project companies designed by Generation to develop, construct and operate wind generation facilities,
- a group of companies formed by Generation to build, own and operate other generating facilities,
- certain retail power and gas companies for which Generation is the sole supplier of energy,
- CENG,
- 2015 ESA Investco, LLC, a company that holds an equity method investment in a distributed energy company,
- BondCo, a special purpose bankruptcy remote limited liability company formed by BGE to acquire, hold, issue and service bonds secured by rate stabilization property, and
- ATF, a special purpose entity formed by ACE for the purpose of securitizing authorized portions of ACE’s recoverable stranded costs through the issuance and sale of transition bonds.

As of March 31, 2017 and December 31, 2016, ComEd, PECO, Pepco and DPL did not have any material consolidated VIEs.

As of March 31, 2017 and December 31, 2016, Exelon, Generation, BGE, PHI and ACE provided the following support to their respective consolidated VIEs:

- Generation provides operating and capital funding to the solar and wind entities for ongoing construction, operations and maintenance of the solar and wind power facilities and there is limited recourse to Generation related to certain solar and wind entities.
- Generation provides approximately $27 million in credit support for the retail power and gas companies for which Generation is the sole supplier of energy.
- Generation provides a $75 million parental guarantee to a third-party gas supplier and provides limited recourse to other third-party gas suppliers and customers in support of its retail gas group.
- Generation provides operating and capital funding to the other generating facilities for ongoing construction, operations and maintenance and provides a parental guarantee of up to $275 million in support of the payment obligations related to the Engineering, Procurement and Construction contract in support of one of its other generating facilities.
- Generation and Exelon, where indicated, provide the following support to CENG (see Note 5 — Investment in Constellation Energy Nuclear Group, LLC and Note 27 — Related Party Transactions of the Exelon 2016 Form 10-K for additional information regarding Generation’s and Exelon’s transactions with CENG):
  - under the NOSA, Generation conducts all activities related to the operation of the CENG nuclear generation fleet owned by CENG subsidiaries (the CENG fleet) and provides corporate and administrative services for the remaining life and decommissioning of the CENG nuclear plants as if they were a part of the Generation nuclear fleet, subject to the CENG member rights of EDF,
  - under the Power Services Agency Agreement (PSAA), Generation provides scheduling, asset management, and billing services to the CENG fleet for the remaining operating life of the CENG nuclear plants,

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  - under power purchase agreements with CENG, Generation purchased or will purchase 50.01% of the available output generated by the CENG nuclear plants not subject to other contractual agreements from January 2015 through the end of the operating life of each respective plant. However, pursuant to amendments dated March 31, 2015, the energy obligations under the Ginna Nuclear Power Plant (Ginna) PPAs have been suspended during the term of the Reliability Support Services Agreement (RSSA) (see Note 5 — Regulatory Matters for additional details),
  - Generation provided a $400 million loan to CENG. As of March 31, 2017, the remaining obligation is $320 million, including accrued interest, which reflects the principal payment made in January 2015,
  - Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation's obligations under this Indemnity Agreement. (See Note 17 — Commitments and Contingencies for more details),
  - Generation and EDF share in the $637 million of contingent payment obligations for the payment of contingent retrospective premium adjustments for the nuclear liability insurance,
  - Generation provides a guarantee of approximately $8 million associated with hazardous waste management facilities and underground storage tanks. In addition, EDF executed a reimbursement agreement that provides reimbursement to Exelon for 49.99% of any amounts paid by Generation under this guarantee,
  - Generation and EDF are the members-insured with Nuclear Electric Insurance Limited and have assigned the loss benefits under the insurance and the NEIL premium costs to CENG and guarantee the obligations of CENG under these insurance programs in proportion to their respective member interests (see Note 17 — Commitments and Contingencies for more details), and
  - Exelon has executed an agreement to provide up to $245 million to support the operations of CENG as well as a $165 million guarantee of CENG's cash pooling agreement with its subsidiaries.
- In the case of BondCo, BGE is required to remit all payments it receives from all residential customers through non-bypassable, rate stabilization charges to BondCo. During the three months ended March 31, 2017 and 2016, BGE remitted $19 million and $20 million to BondCo, respectively.
- In the case of ATF, proceeds from the sale of each series of transition bonds by ATF were transferred to ACE in exchange for the transfer by ACE to ATF of the right to collect a non-bypassable Transition Bond Charge from ACE customers pursuant to bondable stranded costs rate orders issued by the NJBPU in an amount sufficient to fund the principal and interest payments on transition bonds and related taxes, expenses and fees. During the three months ended March 31, 2017 and 2016, ACE transferred $19 million and $14 million to ATF, respectively.

For each of the consolidated VIEs, except as otherwise noted:

- the assets of the VIEs are restricted and can only be used to settle obligations of the respective VIE;
- Exelon, Generation, BGE, PHI and ACE did not provide any additional material financial support to the VIEs;
- Exelon, Generation, BGE, PHI and ACE did not have any material contractual commitments or obligations to provide financial support to the VIEs; and

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(Dollars in millions, except per share data, unless otherwise noted)

- the creditors of the VIEs did not have recourse to Exelon's, Generation's, BGE's, PHI's or ACE's general credit.

The carrying amounts and classification of the consolidated VIEs' assets and liabilities included in the Registrants' consolidated financial statements at March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017					December 31, 2016				
	Exelon[(a)]	Generation	BGE	*Successor* PHI[(a)]	ACE	Exelon[(a)(b)]	Generation	BGE	*Successor* PHI[(a)]	ACE
Current assets	$1,018	$ 965	$42	$ 11	$ 7	$ 954	$ 916	$23	$ 14	$ 9
Noncurrent assets	8,891	8,855	3	33	23	8,563	8,525	3	35	23
Total assets	$9,909	$ 9,820	$45	$ 44	$ 30	$ 9,517	$ 9,441	$26	$ 49	$ 32
Current liabilities	$ 871	$ 791	$42	38	$ 34	$ 885	$ 802	$42	$ 42	$ 37
Noncurrent liabilities	2,745	2,654	—	91	81	2,713	2,612	—	101	89
Total liabilities	$3,616	$ 3,445	$42	$ 129	$115	$ 3,598	$ 3,414	$42	$ 143	$126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.

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Assets and Liabilities of Consolidated VIEs

Included within the balances above are assets and liabilities of certain consolidated VIEs for which the assets can only be used to settle obligations of those VIEs, and liabilities that creditors, or beneficiaries, do not have recourse to the general credit of the Registrants. As of March 31, 2017 and December 31, 2016, these assets and liabilities primarily consisted of the following:

	March 31, 2017					December 31, 2016				
	Exelon[(a)]	Generation	BGE	Successor PHI [(a)]	ACE	Exelon[(a)(b)]	Generation	BGE	Successor PHI [(a)]	ACE
Cash and cash equivalents	$ 199	$ 199	$—	$ —	$ —	$ 150	$ 150	$—	$ —	$ —
Restricted cash	124	75	42	7	7	59	27	23	9	9
Accounts receivable, net										
Customer	347	347	—	—	—	371	371	—	—	—
Other	23	23	—	—	—	48	48	—	—	—
Mark-to-market derivatives assets	41	41	—	—	—	31	31	—	—	—
Inventory										
Materials and supplies	191	191	—	—	—	199	199	—	—	—
Other current assets	58	54	—	4	—	50	44	—	5	—
Total current assets	983	930	42	11	7	908	870	23	14	9
Property, plant and equipment, net	5,425	5,425	—	—	—	5,415	5,415	—	—	—
Nuclear decommissioning trust funds	2,286	2,286	—	—	—	2,185	2,185	—	—	—
Goodwill	47	47	—	—	—	47	47	—	—	—
Mark-to-market derivatives assets	57	57	—	—	—	23	23	—	—	—
Other noncurrent assets	350	314	3	33	23	315	277	3	35	23
Total noncurrent assets	8,165	8,129	3	33	23	7,985	7,947	3	35	23
Total assets	$9,148	$ 9,059	$45	$ 44	$ 30	$ 8,893	$ 8,817	$26	$ 49	$ 32
Long-term debt due within one year	$ 237	$ 159	$41	$ 37	$ 33	$ 181	$ 99	$41	$ 40	$ 35
Accounts payable	275	275	—	—	—	269	269	—	—	—
Accrued expenses	85	83	1	1	1	119	116	1	2	2
Mark-to-market derivative liabilities	18	18	—	—	—	60	60	—	—	—
Unamortized energy contract liabilities	16	16	—	—	—	15	15	—	—	—
Other current liabilities	11	11	—	—	—	30	30	—	—	—
Total current liabilities	642	562	42	38	34	674	589	42	42	37
Long-term debt	626	535	—	91	81	641	540	—	101	89
Asset retirement obligations	1,929	1,929	—	—	—	1,904	1,904	—	—	—
Pension obligation[(c)]	8	8	—	—	—	9	9	—	—	—
Unamortized energy contract liabilities	18	18	—	—	—	22	22	—	—	—
Other noncurrent liabilities	122	122	—	—	—	106	106	—	—	—
Total noncurrent liabilities	2,703	2,612	—	91	81	2,682	2,581	—	101	89
Total liabilities	$3,345	$ 3,174	$42	$ 129	$115	$ 3,356	$ 3,170	$42	$ 143	$126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.
(c) Includes the CNEG retail gas pension obligation, which is presented as a net asset balance within the Prepaid pension asset line item on Generation's Consolidated Balance Sheets. See Note 13 — Retirement Benefits for additional details.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Unconsolidated Variable Interest Entities

Exelon’s and Generation’s variable interests in unconsolidated VIEs generally include equity investments and energy purchase and sale contracts. For the equity investments, the carrying amount of the investments is reflected on Exelon’s and Generation’s Consolidated Balance Sheets in Investments. For the energy purchase and sale contracts (commercial agreements), the carrying amount of assets and liabilities in Exelon’s and Generation’s Consolidated Balance Sheets that relate to their involvement with the VIEs are predominately related to working capital accounts and generally represent the amounts owed by, or owed to, Exelon and Generation for the deliveries associated with the current billing cycles under the commercial agreements. Further, Exelon and Generation have not provided material debt or equity support, liquidity arrangements or performance guarantees associated with these commercial agreements.

The Registrants’ unconsolidated VIEs consist of:

- Energy purchase and sale agreements with VIEs for which Generation has concluded that consolidation is not required.
- Asset sale agreement with ZionSolutions, LLC and EnergySolutions, Inc. in which Generation has a variable interest but has concluded that consolidation is not required.
- Equity investments in distributed energy companies and energy generating facilities for which Generation has concluded that consolidation is not required.

As of March 31, 2017 and December 31, 2016, Exelon and Generation had significant unconsolidated variable interests in seven and eight VIEs, respectively for which Exelon or Generation, as applicable, was not the primary beneficiary; including certain equity investments and certain commercial agreements. The decrease in the number of unconsolidated VIEs is due to the sale of an equity investment in an energy generating facility. Exelon and Generation only include unconsolidated VIEs that are individually material in the tables below. However, Generation has several individually immaterial VIEs that in aggregate represent a total investment of $16 million. These immaterial VIEs are equity and debt securities in energy development companies. The maximum exposure to loss related to these securities is limited to the $16 million included in Investments on Exelon’s and Generation’s Consolidated Balance Sheets. The risk of a loss was assessed to be remote and, accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss.

In June 2015, 2015 ESA Investco, LLC, then a wholly owned subsidiary of Generation, entered into an arrangement to purchase a 90% equity interest and 99% of the tax attributes of a distributed energy company, which is an unconsolidated VIE. In November 2015, Generation sold 69% of its equity interest in 2015 ESA Investco, LLC to a tax equity investor. Generation and the tax equity investor contributed a total of $227 million of equity incrementally from inception through the first quarter of 2017 in proportion of their ownership interests. Generation and the tax equity investor provided a parental guarantee of up to $275 million in proportion to their ownership interests in support of 2015 ESA Investco, LLC’s obligation to make equity contributions to the distributed energy company. As all equity contributions were made as of March 31, 2017, there is no further payment obligation under the parental guarantee.

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The following tables present summary information about Exelon and Generation's significant unconsolidated VIE entities:

March 31, 2017	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets(a)	$ 647	$ 541	$1,188
Total liabilities(a)	73	230	303
Exelon's ownership interest in VIE(a)	—	276	276
Other ownership interests in VIE(a)	574	36	610
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	279	279
Contract intangible asset	9	—	9
Debt and payment guarantees	—	—	—
Net assets pledged for Zion Station decommissioning(b)	7	—	7

December 31, 2016	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets(a)	$ 638	$ 567	$1,205
Total liabilities(a)	215	287	502
Exelon's ownership interest in VIE(a)	—	248	248
Other ownership interests in VIE(a)	423	32	455
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	264	264
Contract intangible asset	9	—	9
Debt and payment guarantees	—	3	3
Net assets pledged for Zion Station decommissioning(b)	9	—	9

(a) These items represent amounts on the unconsolidated VIE balance sheets, not on Exelon's or Generation's Consolidated Balance Sheets. These items are included to provide information regarding the relative size of the unconsolidated VIEs.

(b) These items represent amounts on Exelon's and Generation's Consolidated Balance Sheets related to the asset sale agreement with ZionSolutions, LLC. The net assets pledged for Zion Station decommissioning includes gross pledged assets of $95 million and $113 million as of March 31, 2017 and December 31, 2016, respectively; offset by payables to ZionSolutions LLC of $88 million and $104 million as of March 31, 2017 and December 31, 2016, respectively. These items are included to provide information regarding the relative size of the ZionSolutions LLC unconsolidated VIE.

For each of the unconsolidated VIEs, Exelon and Generation has assessed the risk of a loss equal to their maximum exposure to be remote and, accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss. In addition, there are no material agreements with, or commitments by, third parties that would affect the fair value or risk of their variable interests in these VIEs.

4. Mergers, Acquisitions and Dispositions (Exelon, Generation and PHI)

Acquisition of James A. FitzPatrick Nuclear Generating Station (Exelon and Generation)

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station located in Scriba, New York from Entergy Nuclear FitzPatrick LLC (Entergy) for a total purchase price of $293 million, which consisted of a cash purchase price of $110 million and a net cost reimbursement to and on behalf of Entergy of $183 million. As part of the acquisition agreements, Generation provided nuclear fuel and reimbursed Entergy for incremental costs to prepare for and conduct a plant refueling outage; and Generation reimbursed Entergy for incremental costs to operate and maintain the plant for the period

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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after the refueling outage through the acquisition closing date. These reimbursements covered costs that Entergy otherwise would have avoided had it shut down the plant as originally intended in January 2017. The amounts reimbursed by Generation were offset by FitzPatrick's electricity and capacity sales revenues for this same post-outage period. As part of the transaction, Generation received the FitzPatrick NDT fund assets and assumed the obligation to decommission FitzPatrick. The NRC license for FitzPatrick expires in 2034. As of March 31, 2017, Generation had remitted purchase price consideration of $302 million (including $248 million of cash and $54 million of nuclear fuel) to and on behalf of Entergy and has $9 million included in Accounts receivable, net — Other on Exelon's and Generation's Consolidated Balance Sheets, to be received during the second quarter of 2017.

The following table summarizes the acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the FitzPatrick acquisition by Generation as of March 31, 2017:

Cash paid for purchase price	$ 110
Cash paid for net cost reimbursement	129
Nuclear fuel transfer	54
Total consideration transferred	$ 293
Identifiable assets acquired and liabilities assumed	
Current assets	$ 58
Property, plant and equipment	278
Nuclear decommissioning trust funds	807
Other assets(a)	114
Total assets	$1,257
Current liabilities	$ 7
Asset retirement obligations	417
Pension and OPEB obligations	49
Deferred income taxes	144
Spent nuclear fuel obligation	110
Other liabilities	11
Total liabilities	$ 738
Total net identifiable assets, at fair value	$ 519
Bargain purchase gain (after-tax)	$ 226

(a) Includes a $110 million asset associated with a contractual right to reimbursement from the New York Power Authority (NYPA), a prior owner of FitzPatrick, associated with the DOE one-time fee obligation. See Note 24-Commitments and Contingencies of the Exelon 2016 Form 10-K for additional background regarding SNF obligations to the DOE.

The after-tax bargain purchase gain of $226 million is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and reflects differences in strategies between Generation and Entergy for the intended use and ultimate decommissioning of the plant.

The fair values of FitzPatrick's assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The valuations performed to assess the fair value of certain assets acquired and liabilities assumed are preliminary. Accounting guidance provides that the allocation of the purchase price may be modified up to one year from the date of the acquisition to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date; however, Generation expects to finalize these amounts by the end of 2017. The significant assets and liabilities for which preliminary valuation amounts are recognized at March 31, 2017 include the fair value of the decommissioning ARO, pension and OPEB obligations and related deferred tax liabilities. Any changes to the fair value assessments may materially impact the purchase price allocation and the amount of the recorded bargain purchase gain.

For the three months ended March 31, 2017, Exelon and Generation incurred $32 million of merger and integration related costs which are included within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Merger with Pepco Holdings, Inc. (Exelon)

Description of Transaction

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon's interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). Following the completion of the PHI Merger, Exelon and PHI completed a series of internal corporate organization restructuring transactions resulting in the transfer of PHI's unregulated business interests to Exelon and Generation and the transfer of PHI, Pepco, DPL and ACE to a special purpose subsidiary of EEDC.

Regulatory Matters

Approval of the merger in Delaware, New Jersey, Maryland and the District of Columbia was conditioned upon Exelon and PHI agreeing to certain commitments including where applicable: customer rate credits, funding for energy efficiency and delivery system modernization programs, a green sustainability fund, workforce development initiatives, charitable contributions, renewable generation and other required commitments. In addition, the orders approving the merger in Delaware, New Jersey, and Maryland include a "most favored nation" provision which, generally speaking, requires allocation of merger benefits proportionally across all the jurisdictions.

During the third and fourth quarters of 2016, Exelon and PHI filed proposals in Delaware, New Jersey and Maryland for amounts and allocations reflecting the application of the most favored nation provision, resulting in a total nominal cost of commitments of $513 million, excluding renewable generation commitments (approximately $444 million on a net present value basis amount, excluding renewable generation commitments and charitable contributions). These filings reflect agreements reached with certain parties to the merger proceedings in these jurisdictions. In 2016, the DPSC and NJBPU approved the amounts and allocations of the additional merger benefits for Delaware and New Jersey, respectively. On April 12, 2017, the MDPSC issued an order approving the amounts of the additional merger benefits for Maryland, but amending the proposed allocations of the benefits. The amended allocations do not have a material effect on any of the Registrants' financial statements. No changes in commitment cost levels are required in the District of Columbia.

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The following amounts represent total commitment costs for Exelon, PHI, Pepco, DPL and ACE that have been recorded since the acquisition date:

					Successor	
Description	**Expected Payment Period**	**Pepco**	**DPL**	**ACE**	**PHI**	**Exelon**
Rate credits	2016 — 2017	$ 91	$66	$101	$ 258	$ 258
Energy efficiency	2016 — 2021	—	—	—	—	122
Charitable contributions	2016 — 2026	28	12	10	50	50
Delivery system modernization	Q2 2016	—	—	—	—	22
Green sustainability fund	Q2 2016	—	—	—	—	14
Workforce development	2016 — 2020	—	—	—	—	17
Other		7	7	—	14	30
Total		$126	$85	$111	$ 322	$ 513

Pursuant to the orders approving the merger, Exelon made $73 million, $46 million and $49 million of equity contributions to Pepco, DPL and ACE, respectively, in the second quarter of 2016 to fund the after-tax amounts of the customer bill credit and the customer base rate credit commitments.

In addition, Exelon is committed to develop or to assist in the commercial development of approximately 37 MWs of new generation in Maryland, District of Columbia, and Delaware, 27 MWs of which are expected to be completed by 2018. These investments are expected to total approximately $137 million, are expected to be primarily capital in nature, and will generate future earnings at Exelon and Generation. Investment costs will be recognized as incurred and recorded on Exelon's and Generation's financial statements. Exelon has also committed to purchase 100 MWs of wind energy in PJM, to procure 120 MWs of wind RECs for the purpose of meeting Delaware's renewable portfolio standards, and to maintain and promote energy efficiency and demand response programs in the PHI jurisdictions.

Pursuant to the various jurisdictions' merger approval conditions, over specified periods Pepco, DPL and ACE are not permitted to reduce employment levels due to involuntary attrition associated with the merger integration process and have made other commitments regarding hiring and relocation of positions.

In July 2015, the OPC, Public Citizen, Inc., the Sierra Club and the Chesapeake Climate Action Network (CCAN) filed motions to stay the MDPSC order approving the merger. The Circuit Court judge issued an order denying the motions for stay on August 12, 2015. On January 8, 2016, the Circuit Court judge affirmed the MDPSC's order approving the merger and denied the petitions for judicial review filed by the OPC, the Sierra Club, CCAN and Public Citizen, Inc. On January 19, 2016, the OPC filed a notice of appeal to the Maryland Court of Special Appeals, and on January 21, the Sierra Club and CCAN filed a notice of appeal. On January 27, 2017, the Maryland Court of Special Appeals affirmed the Circuit Court's judgment. The OPC and Sierra Club have each filed petitions seeking further review in the Court of Appeals of Maryland. Exelon, along with Prince George's County and Montgomery County have filed answers opposing those petitions, which Exelon believes are without merit.

Between March 25, 2016 and April 22, 2016, various parties filed motions with the DCPSC to reconsider its March 23, 2016 order approving the merger. On June 17, 2016, the DCPSC denied all motions. In August 2016, the District of Columbia Office of People's Counsel, the District of Columbia Government, and Public Citizen jointly with DC Sun each filed petitions for judicial review of the DCPSC's March 23, 2016 order with the District of Columbia Court of Appeals. On September 9, 2016, the Court consolidated the appeals. The parties have filed briefs and the Court scheduled oral argument for May 2. A decision on this matter is expected in the second or third quarter of 2017. Exelon believes the matters are without merit.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Accounting for the Merger Transaction

The total purchase price consideration of approximately $7.1 billion for the PHI Merger consisted of cash paid to PHI shareholders, cash paid for PHI preferred securities and cash paid for PHI stock-based compensation equity awards as follows:

(In millions of dollars, except per share data)	Total Consideration
Cash paid to PHI shareholders at $27.25 per share (254 million shares outstanding at March 23, 2016)	$ 6,933
Cash paid for PHI preferred stock(a)	180
Cash paid for PHI stock-based compensation equity awards(b)	29
Total purchase price	$ 7,142

(a) As of December 31, 2015, the preferred stock was included in Other non-current assets on Exelon's Consolidated Balance Sheets.

(b) PHI's unvested time-based restricted stock units and performance-based restricted stock units issued prior to April 29, 2014 were immediately vested and paid in cash upon the close of the merger. PHI's remaining unvested time-based restricted stock units as of the close of the merger were cancelled. There were no remaining unvested performance-based restricted stock units as of the close of the merger.

PHI shareholders received $27.25 of cash in exchange for each share of PHI common stock outstanding as of the effective date of the merger. In connection with the Merger Agreement, Exelon entered into a Subscription Agreement under which it purchased $180 million of a new class of nonvoting, nonconvertible and nontransferable preferred securities of PHI prior to December 31, 2015. On March 23, 2016, the preferred securities were cancelled for no consideration to Exelon, and accordingly, the $180 million cash consideration previously paid to acquire the preferred securities was treated as purchase price consideration.

The preliminary valuations performed in the first quarter of 2016 were updated in the second, third, and fourth quarters of 2016. There were no adjustments to the purchase price allocation in the first quarter of 2017 and the purchase price allocation is now final.

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Exelon applied push-down accounting to PHI, and accordingly, the PHI assets acquired and liabilities assumed were recorded at their estimated fair values on Exelon's and PHI's Consolidated Balance Sheets as of March 23, 2016, as follows:

Purchase Price Allocation[(a)]	
Current assets	$ 1,441
Property, plant and equipment	11,088
Regulatory assets	5,015
Other assets	248
Goodwill	4,005
Total assets	$21,797
Current liabilities	$ 2,752
Unamortized energy contracts	1,515
Regulatory liabilities	297
Long-term debt, including current maturities	5,636
Deferred income taxes	3,447
Pension and OPEB obligations	821
Other liabilities	187
Total liabilities	$14,655
Total purchase price	$ 7,142

(a) Amounts shown reflect the final purchase price allocation and the correction of a reporting error identified and corrected in the second quarter of 2016. The error had resulted in a gross up of certain assets and liabilities related to legacy PHI intercompany and income tax receivable and payable balances.

On its successor financial statements, PHI has recorded, beginning March 24, 2016, Membership interest equity of $7.2 billion, which is greater than the total $7.1 billion purchase price, reflecting the impact of a $59 million deferred tax liability recorded only at Exelon Corporate to reflect unitary state income tax consequences of the merger.

The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed totaled $4.0 billion, which was recognized as goodwill by PHI and Exelon at the acquisition date, reflecting the value associated with enhancing Exelon's regulated utility portfolio of businesses, including the ability to leverage experience and best practices across the utilities and the opportunities for synergies. For purposes of future required impairment assessments, the goodwill has been preliminarily assigned to PHI's reportable units Pepco, DPL and ACE in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. None of this goodwill is expected to be tax deductible.

Immediately following closing of the merger, $235 million of net assets included in the table above associated with PHI's unregulated business interests were distributed by PHI to Exelon. Exelon contributed $163 million of such net assets to Generation.

The fair values of PHI's assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows, future market prices and impacts of utility rate regulation. There were also judgments made to determine the expected useful lives assigned to each class of assets acquired.

Through its wholly-owned rate regulated utility subsidiaries, most of PHI's assets and liabilities are subject to cost-of-service rate regulation. Under such regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. In applying the acquisition method of accounting, for regulated assets and liabilities included in rate base or otherwise earning a return (primarily property, plant and equipment and regulatory assets earning a return), no fair value adjustments were recorded as historical cost is viewed as a reasonable proxy for fair value.

Fair value adjustments were applied to the historical cost bases of other assets and liabilities subject to rate regulation but not earning a return (including debt instruments and pension and OPEB obligations). In these instances, a corresponding offsetting regulatory asset or liability was also established, as the underlying utility asset and liability amounts are recoverable from or refundable to customers at historical cost (and not at fair value) through the rate setting process. Similar treatment was applied for fair value adjustments to record intangible assets and liabilities, such as for electricity and gas energy supply contracts as further described below. Regulatory assets and liabilities established to offset fair value adjustments are amortized in amounts and over time frames consistent with the realization or settlement of the fair value adjustments, with no impact on reported net income. See Note 5 — Regulatory Matters for additional information regarding the fair value of regulatory assets and liabilities established by Exelon and PHI.

Fair value adjustments were recorded at Exelon and PHI for the difference between the contract price and the market price of electricity and gas energy supply contracts of PHI’s wholly-owned rate regulated utility subsidiaries. These adjustments are intangible assets and liabilities classified as unamortized energy contracts on Exelon’s and PHI’s Consolidated Balance Sheets as of March 31, 2017. The difference between the contract price and the market price at the acquisition date of the Merger was recognized for each contract as either an intangible asset or liability. In total, Exelon and PHI recorded a net $1.5 billion liability reflecting out-of-the-money contracts. The valuation of the acquired intangible assets and liabilities was estimated by applying either the market approach or the income approach depending on the nature of the underlying contract. The market approach was utilized when prices and other relevant information generated by market transactions involving comparable transactions were available. Otherwise the income approach, which is based upon discounted projected future cash flows associated with the underlying contracts, was utilized. In certain instances, the valuations were based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key estimates and inputs include forecasted power prices and the discount rate. The unamortized energy contract fair value adjustment amounts and the corresponding offsetting regulatory asset and liability amounts are amortized through Purchase power and fuel expense or Operating revenues, as applicable, over the life of the applicable contract in relation to the present value of the underlying cash flows as of the merger date.

As mentioned, under cost-of-service rate regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. Historical cost information therefore is the most relevant presentation for the financial statements of PHI’s rate regulated utility subsidiary registrants, Pepco, DPL and ACE. As such, Exelon and PHI did not push-down the application of acquisition accounting to PHI’s utility registrants, and therefore the financial statements of Pepco, DPL and ACE do not reflect the revaluation of any assets and liabilities.

The current impact of PHI, including its unregulated businesses, on Exelon’s Consolidated Statements of Operations and Comprehensive Income includes Operating revenues of $1.2 billion and Net income of $140 million during the three months ended March 31, 2017, and Operating revenues of $107 million and Net loss of $(315) million during the three months ended March 31, 2016.

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For the three months ended March 31, 2017 and 2016, the Registrants have recognized costs to achieve the PHI acquisition as follows:

Acquisition, Integration and Financing Costs[a]	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Exelon[b]	$ 9	$ 102
Generation	9	16
ComEd[c]	—	(8)
PECO	1	2
BGE	2	2
Pepco	1	27
DPL[d]	(7)	16
ACE	1	13

	Successor		Predecessor
Acquisition, Integration and Financing Costs[a]	Three Months Ended March 31, 2017	March 24, 2016 to March 31, 2016	January 1, 2016 to March 23, 2016
PHI[d]	$ (5)	$ 56	$ 29

(a) The costs incurred are classified primarily within Operating and maintenance expense in the Registrants' respective Consolidated Statements of Operations and Comprehensive Income, with the exception of the financing costs, which are included within Interest expense. Costs do not include merger commitments discussed above.

(b) Reflects costs (benefits) recorded at Exelon related to financing, including mark-to-market activity on forward-starting interest rate swaps.

(c) For the three months ended March 31, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $9 million, incurred at ComEd that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

(d) For the three months ended March 31, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million, incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

Pro-forma Impact of the Merger

The following unaudited pro forma financial information reflects the consolidated results of operations of Exelon as if the merger with PHI had taken place on January 1, 2015. The unaudited pro forma information was calculated after applying Exelon's accounting policies and adjusting PHI's results to reflect purchase accounting adjustments.

The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the merger events taken place on the dates indicated, or the future consolidated results of operations of the combined company.

	Three Months Ended March 31, 2016[a]	Year Ended December 31, 2016[b]
Total operating revenues	$ 8,556	$ 32,342
Net income attributable to common shareholders	577	1,562
Basic earnings per share	$ 0.63	$ 1.69
Diluted earnings per share	0.62	1.69

(a) The amounts above include adjustments for non-recurring costs directly related to the merger of $639 million and intercompany revenue of $170 million for the three months ended March 31, 2016.

(b) The amounts above include adjustments for non-recurring costs directly related to the merger of $680 million and intercompany revenue of $171 million for the year ended December 31, 2016.

5. Regulatory Matters (All Registrants)

Except for the matters noted below, the disclosures set forth in Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K reflect, in all material respects, the current status of regulatory and legislative proceedings of the Registrants. The following is an update to that discussion.

Illinois Regulatory Matters

Distribution Formula Rate (Exelon and ComEd). On April 13, 2017, ComEd filed its annual distribution formula rate with the ICC pursuant to EIMA. The filing establishes the revenue requirement used to set the rates that will take effect in January 2018 after the ICC's review and approval, which is due by December 2017. The revenue requirement requested is based on 2016 actual costs plus projected 2017 capital additions as well as an annual reconciliation of the revenue requirement in effect in 2016 to the actual costs incurred that year. ComEd's 2017 filing request includes a total increase to the revenue requirement of $96 million, reflecting an increase of $78 million for the initial revenue requirement for 2017 and an increase of $18 million related to the annual reconciliation for 2016. The revenue requirement for 2017 provides for a weighted average debt and equity return on distribution rate base of 6.47% inclusive of an allowed ROE of 8.40%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2016 provided for a weighted average debt and equity return on distribution rate base of 6.45% inclusive of an allowed ROE of 8.34%, reflecting the average rate on 30-year treasury notes plus 580 basis points less a performance metrics penalty of 6 basis points. See table below for ComEd's regulatory assets associated with its distribution formula rate. For additional information on ComEd's distribution formula rate filings see Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

On December 6, 2016, the ICC issued a final order approving the 2016 distribution formula rate, which included a total increase to the revenue requirement of $127 million, reflecting an increase of $134 million for the initial revenue requirement for 2016 and a decrease of $7 million related to the annual reconciliation for 2015. On December 20, 2016, the ICC granted ComEd's and other parties' joint application for rehearing on the impact that changing ComEd's OSHA recordable rate for 2014 and 2015 has on the revenue requirement approved in this order. On March 22, 2017, the ICC issued an order approving ComEd's proposal to reduce the 2016 revenue requirement by $18 million, which will be reflected in customer rates in 2017.

Illinois Future Energy Jobs Act (Exelon, Generation, and ComEd).

Background

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA is effective June 1, 2017, and includes, among other provisions, (1) a ZES providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute to (i) mandate net metering for community generation projects, and establish billing procedures for subscribers to those projects, (ii) provide immediately for netting at the energy-only rate for nonresidential customers, and

(iii) transition from netting at the full retail rate to the energy-only rate for certain residential net metering customers once the net meter customer load equals 5% of total peak demand supplied in the previous year and (7) support for low income rooftop and community solar programs.

Zero Emission Standard

FEJA includes a ZES that provides compensation through the procurement of ZECs targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet specific eligibility criteria. ZES will have a 10-year duration extending through May 31, 2027. Eligible generators may participate in a procurement event overseen by the IPA and selected generators will directly contract with Illinois utilities for the procurement of the ZECs based upon the number of MWh produced by the eligible facilities, subject to specified annual caps. The ZEC price will be based upon the current social cost of carbon as determined by the federal government and is initially established at $16.50 per MWh of production, subject to future adjustments based on specified escalation and pricing adjustment mechanisms designed to lower the ZEC price based on increases in underlying energy and capacity prices.

Illinois utilities, including ComEd, will be required to purchase from eligible nuclear facilities an amount of ZECs equivalent to 16% of the actual amount of electricity delivered in 2014. ComEd will recover all costs associated with purchasing ZECs through a new rate rider, which will provide for an annual reconciliation and true-up to actual costs incurred by ComEd to purchase ZECs, with any difference to be credited to or collected from ComEd’s retail customers in subsequent periods.

On February 14, 2017, two lawsuits were filed in the Northern District of Illinois against the IPA alleging that the state’s ZEC program violates certain provisions of the U.S. Constitution. One lawsuit was filed by customers of ComEd, led by the Village of Old Mill Creek, and the other was brought by the EPSA and three other electric suppliers. Both lawsuits argue that the Illinois ZEC program will distort FERC’s energy and capacity market auction system of setting wholesale prices, and seek a permanent injunction preventing the implementation of the program. Exelon intervened and filed motions to dismiss in both lawsuits. These motions are currently pending. In addition, on March 31, 2017, plaintiffs in both lawsuits filed motions for preliminary injunction with the court. Exelon cannot predict the outcome of these lawsuits. It is possible that resolution of these matters could have a material, unfavorable impact on Exelon’s and Generation’s results of operations, financial positions and cash flows.

See Note 7 — Early Nuclear Plant Retirements for the impacts of the provisions above on Generation’s Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive Income. These provisions do not impact ComEd’s Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income or Consolidated Statements of Cash Flows until second quarter of 2017.

ComEd Electric Distribution Rates

FEJA extends the sunset date for ComEd’s performance-based electric distribution formula rate from 2019 to the end of 2022, allows ComEd to revise the electric distribution formula rate to eliminate the ROE collar, and allows ComEd to implement a decoupling tariff if the electric distribution formula rate is terminated at any time. ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to Operating revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began reflecting the impacts of this change in its electric distribution services costs regulatory asset beginning in first quarter 2017. As of March 31, 2017, ComEd recorded an increase to Operating revenues and its electric distribution services costs regulatory asset of approximately $16 million for this change.

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FEJA requires ComEd to make non-recoverable contributions to low income energy assistance programs of $10 million per year for 5 years as long as the electric distribution formula rate remains in effect. With the exception of these contributions, ComEd will recover from customers, subject to certain caps explained below, the costs it incurs pursuant to FEJA either through its electric distribution formula rate or other recovery mechanisms.

Energy Efficiency

Existing Illinois law requires ComEd to implement cost-effective energy efficiency measures and, for a 10-year period ending May 31, 2018, cost-effective demand response measures to reduce peak demand by 0.1% over the prior year for eligible retail customers.

Beginning January 1, 2018, FEJA provides for new cumulative annual energy efficiency MWh savings goals for ComEd, which are designed to achieve 21.5% of cumulative persisting annual MWh savings by 2030, as compared to the deemed baseline of 88 million MWhs of electric power and energy sales. FEJA, deems the cumulative persisting annual MWh savings to be 6.6% from 2012 through the end of 2017. ComEd expects to spend approximately $250 million to $400 million annually from 2017 through 2030 to achieve these energy efficiency MWh savings goals. In addition, FEJA extends the peak demand reduction requirement from 2018 to 2026. Because the new requirements apply beginning in 2018, FEJA extends the existing energy efficiency plans, which were due to end on May 31, 2017, through December 31, 2017. FEJA also exempts customers with demands over 10 MW from energy efficiency plans and requirements beginning June 1, 2017.

FEJA allows ComEd to cancel its existing energy efficiency rate rider and replace it with an energy efficiency formula rate, and to defer energy efficiency costs (except for any voltage optimization costs which will be recovered through the electric distribution formula rate) as a separate regulatory asset that will be recovered through the energy efficiency formula rate over the weighted average useful life, as approved by the ICC, of the related energy efficiency measures. ComEd will earn a return on the energy efficiency regulatory asset at a rate equal to its weighted average cost of capital, which is based on a year-end capital structure and calculated using the same methodology applicable to ComEd’s electric distribution formula rate. Through December 31, 2030, the return on equity that ComEd earns on its energy efficiency regulatory asset is subject to a maximum downward or upward adjustment of 200 basis points if ComEd’s cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. ComEd will be required to file an update to its energy efficiency formula rate on or before June 1 each year, with resulting rates effective in January of the following year. The annual update will be based on projected current year energy efficiency costs and the related projected year-end regulatory asset balance less any related deferred taxes. The update will also include a reconciliation of any differences between the revenue requirement in effect for the prior year and the revenue requirement based on actual prior year costs and year-end energy efficiency regulatory asset balances less any related deferred taxes.

ComEd expects to cancel its existing energy efficiency rider after FEJA becomes effective on June 1, 2017, at which time it must perform a reconciliation of revenues and costs incurred through the cancellation date and issue a one-time credit on retail customers’ bills for any over-recoveries. As of March 31, 2017, ComEd’s over-recoveries associated with its existing energy efficiency rider of $139 million were reflected in Current regulatory liabilities on Exelon’s and ComEd’s Consolidated Balance Sheets. ComEd expects to provide a one-time credit to customers in the second half of 2017 to address this over-recovery.

Renewable Portfolio Standard

Existing Illinois law requires ComEd to purchase each year an increasing percentage of renewable energy resources for the customers for which it supplies electricity. This obligation is satisfied through the procurement

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of RECs. FEJA revises the Illinois RPS to require ComEd to procure RECs for all retail customers by June 2019, regardless of the customers' electricity supplier, and provides support for low-income rooftop and community solar programs, which will be funded by the existing Renewable Energy Resources Fund and ongoing RPS collections. ComEd will recover all costs associated with purchasing RECs through rate riders, which will provide for a reconciliation and true-up to actual costs, with any difference between revenues and expenses to be credited to or collected from ComEd's retail customers in subsequent periods. The first reconciliation and true-up for RECs will cover revenues and costs for the four year period beginning June 1, 2017 through May 31, 2021. Subsequently, the RPS rate rider will provide for an annual reconciliation and true-up.

Customer Rate Increase Limitations

FEJA includes provisions intended to limit the average impact on ComEd customer rates for recovery of costs incurred under FEJA as follows: (1) for a typical ComEd residential customer, the average impact must be less than $0.25 cents per month, (2) for nonresidential customers with a peak demand less than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois commercial retail customers during 2015, and (3) for nonresidential customers with a peak demand greater than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois industrial retail customers during 2015.

By June 30, 2017, ComEd must submit a 10-year projection to the ICC of customer rate impacts for residential customers and nonresidential customers with a peak demand less than 10 MW. Thereafter, beginning in 2018, ComEd must submit a report to the ICC for residential customers and nonresidential customers with a peak demand less than 10 MW by February 15th and June 30th of each year, respectively. For nonresidential customers with a peak demand greater than 10 MW, ComEd must submit a report to the ICC by May 1 of each year if a rate reduction will be necessary in the following year. For residential customers, the reports will include the actual costs incurred under FEJA during the preceding year and a rolling 10-year customer rate impact projection. The reports for nonresidential customers with a peak demand less than 10 MW will also include the actual costs incurred under FEJA during the preceding year, as well as the average annual rate increase from January 1, 2017 through the end of the preceding year and the average annual rate increase projected for the remainder of the 10-year period.

If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the first four years, ComEd is required to decrease costs associated with FEJA investments, including reductions to ZEC contract quantities. If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the last six years, ComEd is required to demonstrate how it will reduce FEJA investments to ensure compliance. If the actual residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations for any one year, ComEd is required to submit a corrective action plan to decrease future year costs to reduce customer rates to ensure future compliance. If the actual residential customer or nonresidential customer rate exceeds the limitations for two consecutive years, ComEd can offer to credit customers for amounts billed in excess of the limitations or ComEd can terminate FEJA investments. If ComEd chooses to terminate FEJA investments, the ICC shall order termination of ZEC contracts and further initiate proceedings to reduce energy efficiency savings goals and terminate support for low-income rooftop and community solar programs. ComEd is allowed to fully recover all costs incurred as of and up to the date of the programs' termination.

For the energy efficiency formula, ComEd will record a regulatory asset or liability and corresponding increase or decrease to Operating revenues for any differences between the revenue requirement in effect and ComEd's best estimate of the revenue requirement expected to be approved by the ICC for that year's

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reconciliation. For the other rate riders to be established under FEJA, ComEd will record a regulatory asset or liability for any differences between revenues and incurred expenses.

Other than recognizing the impacts of eliminating the ROE collar in its electric distribution formula rate, FEJA did not have any impacts on ComEd's Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income or Consolidated Statements of Cash Flows in first quarter 2017.

Energy Efficiency and Renewable Energy Resources (Exelon and ComEd). In accordance with legislation in effect on December 31, 2016, the IPA's Procurement Plans include the procurement of cost-effective renewable energy resources in amounts that equal or exceed a minimum target percentage of the total electricity that each electric utility supplies to its eligible retail customers. The June 1, 2016 target renewable energy resources obligation for the utilities was at least 11.5%. This obligation increases by at least 1.5% each year thereafter to an ultimate target of at least 25% by June 1, 2025. All goals are subject to rate impact criteria set forth by Illinois legislation. As of March 31, 2017, ComEd had purchased renewable energy resources or equivalents, such as RECs, in accordance with the IPA Procurement Plan. ComEd currently retires all RECs upon transfer and acceptance. ComEd is permitted to recover procurement costs of RECs from retail customers without mark-up through rates.

In accordance with FEJA that takes effect on June 1, 2017, beginning with the plan or plans to be implemented in the 2017 delivery year, the IPA shall develop a long term renewable resources procurement plan (LT Plan). The RPS target percentages for the overall service territory have not changed through June 1, 2025 although FEJA extended the 25% RPS target to delivery years after 2025. Currently, each RES and each utility is responsible for the renewable resource obligation of the customers it supplies power for. Over time, this will change and the utility will procure renewable resources based on the retail load of substantially all customers in its service territory. For the delivery year beginning June 1, 2017, the LT Plan shall include cost effective renewable energy resources procured by the utility for the retail load the utility supplies and for 50% of the retail customer load supplied by Retail Electric Suppliers in the utility service territory on February 28, 2017. Utility procurement for RES supplied retail customer load will increase to 75% June 1, 2018 and to 100% beginning June 1, 2019.

Grand Prairie Gateway Transmission Line (Exelon and ComEd). On December 2, 2013, ComEd filed a request to obtain the ICC's approval to construct a 60-mile overhead 345kV transmission line that traverses Ogle, DeKalb, Kane and DuPage Counties in Northern Illinois. On October 22, 2014, the ICC issued an Order approving ComEd's request. The City of Elgin and certain other parties each filed an appeal of the ICC Order in the Illinois Appellate Court for the Second District. ComEd then reached a settlement of the appeal filed by all parties except Elgin. On March 31, 2016, the Illinois Appellate Court issued its opinion affirming the ICC's grant of a certificate to ComEd to construct and operate the line. Elgin did not seek further review of the Illinois Appellate Court decision. ComEd acquired the necessary land rights across the project route through voluntary transactions. ComEd began construction of the line during 2015 and placed the line in-service on April 7, 2017.

Pennsylvania Regulatory Matters

Pennsylvania Procurement Proceedings (Exelon and PECO). Through PECO's PAPUC approved DSP Programs, PECO procures electric supply for its default electric customers through PAPUC approved competitive procurements.

On March 17, 2016, PECO filed its fourth DSP Program with the PAPUC proposing a 24-month term from June 1, 2017 through May 31, 2019, in compliance with electric generation procurement guidelines set forth in Act 129. On December 8, 2016, the PAPUC approved the fourth DSP Program for the modified 48-month term

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and deferred CAP Shopping to another proceeding. OCA and Low Income Advocates subsequently filed a Petition for Reconsideration and Clarification related to CAP Shopping. On March 16, 2017 the PAPUC granted reconsideration and consolidated the proceeding with the DSP II docket, which includes the pending CAP Shopping plan that would allow low-income CAP customers to purchase their generation supply from EGSs. PAPUC referred the consolidated proceedings to the Office of Administrative Law Judge for hearing and decision.

Pennsylvania Act 11 of 2012 (Exelon and PECO). In February 2012, Act 11 was signed into law, which provided the PAPUC authority to approve the implementation of a distribution system improvement charge (DSIC) in rates designed to recover capital project costs incurred to repair, improve or replace utilities' aging electric and natural gas distribution systems in Pennsylvania. Prior to recovering costs pursuant to a DSIC, the PAPUC's implementation order requires a utility to have a Long Term Infrastructure Improvement Plan (LTIIP) approved by the Commission, which outlines how the utility is planning to increase its investment for repairing, improving or replacing aging infrastructure. The PAPUC approved PECO's petition for its proposed electric DSIC and LTIIP on October 22, 2015 for spending of $275 million over a 5 year period through 2020. On March 1, 2017, PECO filed a petition with the PAPUC for approval of a Modified Gas LTIIP to increase expenditures to $762 million from the approved $534 million over the 10 year LTIIP period through 2022.

Maryland Regulatory Matters

2017 Maryland Electric Distribution Rates (Exelon, PHI and Pepco). On March 24, 2017, Pepco filed an application with the MDPSC requesting an increase of $69 million based on a ROE of 10.1%. The application includes a request for an income tax adjustment to reflect full normalization of removal costs associated with pre-1981 property, which accounts for $18 million of the requested increase. Pepco expects a decision in the matter in the fourth quarter of 2017, but cannot predict how much of the requested rate increase the MDPSC will approve or if it will approve the requested income tax adjustment.

2016 Maryland Electric Distribution Rates (Exelon, PHI and DPL). On February 15, 2017, the MDPSC approved an increase in DPL electric distribution rates of $38 million based on a ROE of 9.6%. The new rates became effective for services rendered on or after February 15, 2017. The MDPSC also denied DPL's request to continue its Grid Resiliency Program, through which DPL proposed to invest $4.6 million a year for two years to improve priority feeders and install single-phase reclosing fuse technology. The final order did not result in the recognition of any incremental regulatory assets or liabilities during the first quarter of 2017.

Cash Working Capital Order (Exelon and BGE). On November 17, 2016, the MDPSC rendered a decision in the proceeding to review BGE's request to recover its cash working capital (CWC) requirement for its Provider of Last Resort service, also known as Standard Offer Service (SOS), as well as other components that make up the Administrative Charge, the mechanism that enables BGE to recover all of its SOS-related costs. The Administrative Charge is now comprised of five components: CWC, uncollectibles, incremental costs, return, and an administrative adjustment, which is an adder to the utility's SOS rate to act as a proxy for retail suppliers' costs. The Commission accepted BGE positions on recovery of CWC and pass-through recovery of BGE's actual uncollectibles and incremental costs. The order also grants BGE a modest return on the SOS. The Commission ruled that the level of the administrative adjustment will be determined in BGE's next rate case. On December 16, 2016, MDPSC Staff requested clarification concerning the amount of return on the SOS awarded to BGE and on December 19, 2016, the residential consumer advocate sought rehearing of the return awarded. On January 24, 2017, the MDPSC issued an order denying the MDPSC Staff request for clarification and the residential consumer advocate request for rehearing. On February 22, 2017, the residential consumer advocate filed an appeal of the MDPSC's orders with the Circuit Court for Baltimore City. BGE cannot predict the outcome of this appeal.

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Smart Meter and Smart Grid Investments (Exelon and BGE). In August 2010, the MDPSC approved a comprehensive smart grid initiative for BGE that included the planned installation of 2 million residential and commercial electric and natural gas smart meters at an expected total cost of $480 million of which $200 million was funded by SGIG. The MDPSC's approval ordered BGE to defer the associated incremental costs, depreciation and amortization, and an appropriate return, in a regulatory asset until such time as a cost-effective advanced metering system is implemented. As of March 31, 2017 and December 31, 2016, the balance of BGE's regulatory asset was $225 million and $230 million, respectively, representing incremental program deployment costs. The current quarter balance of $225 million consists of three major components, including $140 million of unamortized incremental deployment costs of the AMI program, $53 million of unamortized costs of the non-AMI meters replaced under the program, and $32 million related to post-test year incremental program deployment costs incurred prior to approval became effective June 2016. The balance as of March 31, 2017 reflects the impact of the cost disallowances and adjustments discussed below. The incremental deployment costs for the AMI program and the non-AMI meter components of the regulatory asset are being recovered through rates and amortized to expense over a 10 year period, while the post-test year incremental program deployment costs have not yet been approved for recovery by the MDPSC. A return on the regulatory asset is currently included in rates, except for the $53 million portion representing the unamortized cost of the retired non-AMI meters and a $32 million portion related to post-test year incremental program deployment costs.

As a combined result of the MDPSC orders in BGE's 2015 electric and natural gas distribution rate case, BGE recorded a $52 million charge in June 2016 to Operating and maintenance expense in Exelon's and BGE's Consolidated Statements of Operations and Comprehensive Income reducing certain regulatory assets and other long-lived assets and reclassified $56 million of non-AMI plant costs from Property, plant and equipment, net to Regulatory assets on Exelon's and BGE's Consolidated Balance Sheets. For further information, see Note 3 —Regulatory Matters of the Exelon 2016 Form 10-K.

Delaware Regulatory Matters

Gas Cost Rates (Exelon, PHI and DPL). DPL makes an annual GCR filing with the DPSC for the purpose of allowing DPL to recover natural gas procurement costs through customer rates. In August 2016, DPL made its 2016-2017 GCR filing. The rates proposed in the 2016-2017 GCR filing resulted in a GCR increase of approximately 14%. On September 20, 2016, the DPSC issued an order allowing DPL to place the new rates into effect on November 1, 2016, subject to refund and pending final DPSC approval. A settlement agreement was reached by all parties. On April 20, 2017, the DPSC issued an order which approved the settlement agreement and made the rates approved as final effective November 1, 2016.

2016 Electric and Natural Gas Distribution Rates (Exelon, PHI and DPL). On May 17, 2016, DPL filed an application with the DPSC to increase its annual electric and natural gas distribution rates by $63 million (which was updated to $60 million on March 8, 2017) and $22 million, respectively, based on a requested ROE of 10.6%. While the DPSC is not required to issue a decision on the application within a specified period of time, Delaware law allowed DPL to put into effect $2.5 million of each of the rate increases two months after filing the applications which were effective July 16, 2016. On December 17, 2016, the DPSC approved that an additional $30 million in electric distribution rates be implemented effective December 17, 2016, subject to refund based on the final DPSC order, and an additional $10 million in natural gas distribution rates be implemented effective December 17, 2016, subject to refund based on the final DPSC order.

On March 8, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate, Delaware Electric Users Group and the DPSC Staff in its electric distribution rate proceeding, which provides for an increase in DPL electric distribution rates of $31.5 million based on an ROE of 9.7%. The settlement agreement also provides that the rates currently in effect, as approved by the DPSC, effective July 16, 2016 and

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December 17, 2016 (as discussed above), will remain in effect until the date of the final DPSC order and that no refund will be required. As a result, during the first quarter of 2017, DPL established a regulatory asset of $8 million for costs incurred to achieve the merger and reversed a regulatory liability of $1 million for electric revenues that are no longer subject to refund which resulted in an increase in net income of $5 million. DPL currently expects a final order on the settlement agreement during the second quarter of 2017.

On April 6, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate and the DPSC Staff in its natural gas distribution rate proceeding, which provides for an increase in DPL natural gas distribution rates of $4.9 million based on an ROE of 9.7%. The settlement agreement also provides that DPL will refund amounts in excess of the $4.9 million increase collected under the temporary rates effective July 16, 2016 and December 17, 2016 (as discussed above), and that the new rates will be effective within thirty days of DPSC approval of the settlement agreement. In the event that the final order reflects the settlement agreement, DPL does not expect the impact to be material to its financial statements. DPL currently expects a final order on the settlement agreement during the second quarter of 2017.

District of Columbia Regulatory Matters

2016 Electric Distribution Rates (Exelon, PHI and Pepco). On June 30, 2016, Pepco filed an application with the DCPSC to increase its annual electric distribution rates by $86 million, which was updated to $82 million on October 14, 2016, and further updated to approximately $77 million on February 1, 2017, based on a requested ROE of 10.6%. The DCPSC has issued a procedural schedule indicating a final decision will be issued by July 25, 2017. Any adjustments to its rates approved by the DCPSC are expected to take effect soon thereafter. Pepco cannot predict how much of the requested increase the DCPSC will approve.

On April 18, 2016, a party to a separate DCPSC proceeding filed a motion to suspend Pepco’s bill stabilization adjustment (BSA), which decouples distribution revenues from utility customers from the amount of electricity delivered. On September 9, 2016, the DCPSC denied the party’s motion and determined that the appropriate forum in which to determine whether the BSA continues to be just and reasonable is in Pepco’s rate case proceeding. In addition, the DCPSC stated that it was putting Pepco on notice that all funds collected for the BSA from January 2015 to the issuance of a decision in the rate case proceeding are subject to refund should the DCPSC determine that such funds were not justly or reasonably collected. On November 22, 2016, following Pepco’s October 7, 2016 request for reconsideration of the order, the DCPSC issued an order stating that its September 9, 2016 order was not final and confirming that issues related to the BSA, including potential remedial actions, would be addressed in Pepco’s rate case. Pepco cannot predict the outcome of this matter or the impact of a refund if ordered by the DCPSC.

District of Columbia Power Line Undergrounding Initiative (Exelon, PHI and Pepco). The Electric Company Infrastructure Improvement Financing Act of 2014 (the Improvement Financing Act) was the enabling legislation for the District of Columbia Power Line Undergrounding (DC PLUG) initiative, a $1 billion project to selectively place underground some of the District of Columbia’s most outage-prone power lines.

The Improvement Financing Act provides that: (i) Pepco is to fund approximately $500 million of the estimated cost to complete the DC PLUG initiative, recovering those costs through a volumetric surcharge on the electric bills of Pepco District of Columbia customers; (ii) $375 million of the DC PLUG initiative cost is to be funded by the District of Columbia through the issuance of securitized bonds, which bonds will be repaid through a volumetric surcharge (the DDOT surcharge) on the electric bills of Pepco District of Columbia customers that Pepco will remit to the District of Columbia; and (iii) the remaining costs up to $125 million are to be funded by the existing capital projects program of the District of Columbia Department of Transportation (DDOT). Pepco will not earn a return on or a return of the cost of the assets funded with the proceeds of the securitized bonds or

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assets that are constructed by DDOT under its capital projects program, but ownership and responsibility for the operation and maintenance of such assets will be transferred to Pepco for a nominal amount.

In June 2015, an agency of the federal government served by Pepco asserted that the DDOT surcharge constitutes a tax on end users from which the federal government is immune.

In March 2017, the Electric Company Infrastructure Improvement Financing Amendment Act of 2017 was introduced to the Council of the District of Columbia. The proposed amendment changes a portion of the funding structure for the DC PLUG initiative from securitized bonds issued by the District to a pay-as-you-go structure with the cost imposed on the electric company and recovered by the electric company through a rate rider. This amendment would reduce the overall project authorization from $1 billion to $500 million and would provide that: (i) Pepco is to fund approximately $250 million of the estimated cost to complete the DC PLUG initiative, recovering those costs through a volumetric surcharge on the electric bills of Pepco District of Columbia customers; (ii) $188 million of the DC PLUG initiative cost would be funded through a charge collected from Pepco by the District of Columbia and Pepco would recover this charge from customers through a volumetric distribution rider; and; (iii) the remaining costs up to $62 million are to be covered by the existing capital projects program of DDOT. Pepco will not earn a return on or a return of the cost of the assets funded by the charge collected from Pepco by the District of Columbia or assets that are constructed by DDOT under its capital projects program, but ownership and responsibility for the operation and maintenance of such assets will be transferred to Pepco for a nominal amount upon completion.

PHI believes that the proposed amendment addresses the assertion made by an agency of the federal government that the surcharge proposed in the Improvement Financing Act constitutes a tax on end users.

New Jersey Regulatory Matters

2017 Electric Distribution Rates (Exelon, PHI and ACE). On March 30, 2017, ACE submitted an application with the NJBPU to increase its electric distribution rates by approximately $70 million (before New Jersey sales and use tax), based upon a requested ROE of 10.1%. The application also requests approval of a rate surcharge mechanism called the “System Renewal Recovery Charge,” which would permit more timely recovery of certain costs associated with reliability and system renewal-related capital investments. ACE currently expects a decision in this matter in the first quarter of 2018, but cannot predict if the NJBPU will approve the application as filed.

2016 Electric Distribution Rates (Exelon, PHI and ACE). On August 24, 2016, the NJBPU issued an order approving a stipulation of settlement among ACE, the New Jersey Division of Rate Counsel, NJBPU Staff and Unimin Corporation, which, among other things, provided that a determination on ACE’s grid resiliency program, PowerAhead, would be separated into a phase II of the rate proceeding and decided at a later date PowerAhead includes capital investments to advance modernization of the electric grid through energy efficiency, increased distributed generation, and resiliency, focused on improving the distribution system’s ability to withstand major storm events. ACE currently expects this matter to conclude in the second quarter of 2017, but cannot predict if the NJBPU will approve the PowerAhead initiative.

Update and Reconciliation of Certain Under-Recovered Balances (Exelon, PHI and ACE). On February 1, 2017, ACE submitted its 2017 annual petition with the NJBPU seeking to reconcile and update (i) charges related to the recovery of above-market costs associated with ACE’s long-term power purchase contracts with the non-utility generators and (ii) costs related to surcharges for the New Jersey Societal Benefit Program (a statewide public interest program that is intended to benefit low income customers and address other public policy goals) and ACE’s uncollectible accounts. The net impact of adjusting the charges as proposed is an overall annual rate decrease of approximately $29 million (revised to approximately $32 million in April 2017, based upon an update for actuals through March 2017), including New Jersey sales and use tax. The matter is pending at the NJBPU. ACE has requested that the NJBPU place the new rates into effect by June 1, 2017. There is no assurance that NJBPU will put final rates in effect by the requested date.

New York Regulatory Matters

New York Clean Energy Standard (Exelon, Generation). On August 1, 2016, the New York Public Service Commission (NYPSC) issued an order establishing the CES, a component of which is the Tier 3 ZEC program targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet the criteria demonstrating public necessity as determined by the NYPSC. The New York State Energy Research and Development Authority (NYSERDA) will centrally procure the ZECs from eligible plants through a 12-year contract, to be administered in six two-year tranches, extending from April 1, 2017 through March 31, 2029. ZEC payments will be made to the eligible resources based upon the number of MWh produced, subject to specified caps and minimum performance requirements. The price to be paid for the ZECs under each tranche will be administratively determined using a formula based on the social cost of carbon as determined in 2016 by the federal government, subject to pricing adjustments designed to lower the ZEC price based on increase in underlying energy and capacity prices. The ZEC price for the first tranche has been set at $17.48 per MWh of production. Following the first tranche, the price will be updated bi-annually. Each Load Serving Entity (LSE) shall be required to purchase an amount of ZECs equivalent to its load ratio share of the total electric energy in the New York Control Area. Cost recovery from ratepayers shall be incorporated into the commodity charges on customer bills.

The NYPSC initially identified three plants eligible for the ZEC program: the FitzPatrick, Ginna, and Nine Mile Point nuclear facilities. As issued, the order also provided that the duration of the program beyond the first tranche was conditional upon a buyer purchasing the FitzPatrick facility and taking title prior to September 1, 2018. On November 18, 2016, the required contracts with NYSERDA were executed for Ginna and Nine Mile Point, in addition to Entergy’s execution of the required contract for the FitzPatrick facility. On March 31, 2017, Generation closed on the acquisition of FitzPatrick.

Several parties filed with the NYPSC requests for rehearing or reconsideration of the CES. Generation and CENG also filed a request for clarification, or in the alternative limited rehearing, that the condition limiting the duration of the program beyond the first tranche be limited to the eligibility of the FitzPatrick plant only and have no bearing on Ginna or Nine Mile Point’s eligibility for the full 12-year duration. On December 15, 2016, the NYPSC approved Generation’s and CENG’s petition to clarify this condition and denied all petitions for rehearing of the CES. Parties have until mid-April to appeal to New York State court the denials of the requests for rehearing. In addition, a Petition seeking to invalidate the ZEC program was filed in New York State court by certain environmental groups and other parties on November 30, 2016, and amended on January 13, 2017, arguing that the NYPSC violated certain technical provisions of the State Administrative Procedures Act (SAPA) when adopting the ZEC program. On February 15, 2017, Generation and CENG filed a motion to dismiss the state court action. The NYPSC also filed a motion to dismiss the state court action. On March 24, 2017, the plaintiffs filed a memorandum of law opposing the motions to dismiss, and Generation and CENG filed a reply brief on April 28, 2017. The motion is pending.

On October 19, 2016, a coalition of fossil generation companies filed a complaint in federal district court against the NYPSC alleging that the ZEC program violates certain provisions of the U.S. Constitution; specifically that the ZEC program interferes with FERC’s jurisdiction over wholesale rates and that it discriminates against out of state competitors. On December 9, 2016, Generation and CENG filed a motion to intervene in the case and to dismiss the lawsuit. The motion to intervene has been granted and the motion to dismiss is pending.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Other legal challenges remain possible, the outcomes of which remain uncertain. See Note 7 — Early Nuclear Plant Retirements for additional information relative to Ginna and Nine Mile Point. See Note 4 —Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick.

Ginna Nuclear Power Plant Reliability Support Services Agreement (Exelon and Generation). In November 2014, in response to a petition filed by Ginna Nuclear Power Plant (Ginna) regarding the possible retirement of Ginna, the NYPSC directed Ginna and Rochester Gas & Electric Company (RG&E) to negotiate a Reliability Support Services Agreement (RSSA) to support the continued operation of Ginna to maintain the reliability of the RG&E transmission grid for a specified period of time. During 2015 and 2016, Ginna and RG&E made filings with the NYPSC and FERC for their approval of the proposed RSSA. Although the RSSA was still subject to regulatory approvals, on April 1, 2015, Ginna began delivering the power and capacity from the Ginna plant into the ISO-NY consistent with the technical provisions of the RSSA.

On March 22, 2016, Ginna submitted a compliance filing with FERC with revisions to the RSSA requested by FERC. On April 8, 2016, FERC accepted the compliance filing and on April 20, 2016, the NYPSC accepted the revised RSSA with a term expiring on March 31, 2017. In April 2016, Generation began recognizing revenue based on the final approved pricing contained in the RSSA and also recognized a one-time revenue adjustment of approximately $101 million representing the net cumulative previously unrecognized amount of revenue retroactive from the April 1, 2015 effective date through March 31, 2016. A 49.99% portion of the one-time adjustment was removed from Generation's results of operations as a result of the noncontrolling interests in CENG.

The RSSA required Ginna to continue operating through the RSSA term. On September 30, 2016, Ginna filed the required notice with the NYPSC of its intent to continue operating beyond the March 31, 2017 expiry of the RSSA, conditioned upon successful execution of an agreement between Ginna and NYSERDA for the sale of ZECs under the CES. As stated previously, on November 18, 2016 the required contract with NYSERDA was executed by Generation and CENG for Ginna. Upon the expiry of the RSSA on March 31, 2017, Ginna is required to make refund payments of $20 million to RG&E related to capital expenditures. Ginna has been deferring recognition for a portion of the monthly revenue received under the RSSA related to this obligation, and Ginna expects to pay RGE the $20 million in June 2017. Additionally, the provisions of the RSSA provided for a one-time payment of $12 million to be paid from RGE to Ginna at the end of the contract. This $12 million was recognized in revenue as of March 31, 2017. Subject to prevailing over any administrative or legal challenges, it is expected the CES will allow Ginna to continue to operate through the end of its current operating license in 2029. See Note 7-Early Nuclear Plant Retirements for further information regarding the impacts of a decision to early retire one or more nuclear plants.

Federal Regulatory Matters

Transmission Formula Rate (Exelon, ComEd and BGE). The following total increases/(decreases) were included in ComEd's and BGE's electric transmission formula rate filings:

	2017	
Annual Transmission Filings[(a)]	**ComEd**	**BGE**
Initial revenue requirement increase	$ 44	$ 31
Annual reconciliation (decrease) increase	(33)	3
Dedicated facilities decrease[(b)]	—	(8)
Total revenue requirement increase	$ 11	$ 26
Allowed return on rate base[(c)]	8.43%	7.47%
Allowed ROE[(d)]	11.50%	10.50%

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(a) All rates are effective June 2017, subject to review by the FERC and other parties, which is due by fourth quarter 2017.

(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.

(c) Represents the weighted average debt and equity return on transmission rate bases.

(d) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50% and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, the rate of return on common equity is 10.50%, inclusive of a 50 basis point incentive adder for being a member of a regional transmission organization.

For additional information regarding transmission formula rate filings see Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

Transmission Formula Rate (Exelon and PECO) On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50 basis point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. PECO cannot predict how much, if any, of a transmission rate increase FERC may approve or when the rate increase may go into effect.

PJM Transmission Rate Design and Operating Agreements (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). PJM Transmission Rate Design specifies the rates for transmission service charged to customers within PJM. Currently, ComEd, PECO, BGE, Pepco, DPL and ACE incur costs based on the existing rate design, which charges customers based on the cost of the existing transmission facilities within their load zone and the cost of new transmission facilities based on those who benefit from those facilities. In April 2007, FERC issued an order concluding that PJM's current rate design for existing facilities is just and reasonable and should not be changed. In the same order, FERC held that the costs of new facilities 500 kV and above should be socialized across the entire PJM footprint and that the costs of new facilities less than 500 kV should be allocated to the customers of the new facilities who caused the need for those facilities. A number of parties appealed to the U.S. Court of Appeals for the Seventh Circuit for review of the decision.

In August 2009, the court issued its decision affirming the FERC's order with regard to the existing facilities, but remanded to FERC the issue of the cost allocation associated with the new facilities 500 kV and above (Cost Allocation Issue) for further consideration by the FERC. On remand, FERC reaffirmed its earlier decision to socialize the costs of new facilities 500 kV and above. A number of parties filed appeals of these orders. In June 2014, the court again remanded the Cost Allocation Issue to FERC. On December 18, 2014, FERC issued an order setting an evidentiary hearing and settlement proceeding regarding the Cost Allocation Issue. On June 15, 2016, a number of parties, including Exelon and the Utility Registrants filed a proposed Settlement with FERC. If the Settlement is approved, 50% of the costs of the 500 kV and above facilities approved by the PJM Board on or before February 1, 2013 will be socialized across PJM and 50% will be allocated according to a formula that calculates the flows on the transmission facilities. Each state that is a party in this proceeding either signed, or did not oppose, the settlement. The Settlement is opposed by a number of merchant transmission owners and New York load-serving entities. The Settlement includes provisions for monthly credits or charges that are expected to be mostly refunded or recovered through customer rates over a 10-year period based on negotiated numbers for charges prior to January 1, 2016.

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Exelon expects that the Settlement will not have a material impact on the results of operations, cash flows and financial position of Generation, ComEd, PECO, BGE, Pepco, DPL or ACE. The Settlement is subject to approval by FERC.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs (Exelon and Generation). PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program — resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that require subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs). However, in Exelon’s view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation’s facilities expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon’s and Generation’s future cash flows and results of operations. The timing of FERC’s decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

Operating License Renewals (Exelon and Generation). On August 29, 2012, Generation submitted a hydroelectric license application to FERC for a 46-year license for the Conowingo Hydroelectric Project (Conowingo). In connection with Generation’s efforts to obtain a water quality certification pursuant to Section 401 of the Clean Water Act with Maryland Department of the Environment (MDE) for Conowingo, Generation continues to work with MDE and other stakeholders to resolve water quality licensing issues, including: (1) water quality, (2) fish habitat, and (3) sediment. In addition, Generation continues to work with MDE and other Federal and Maryland state agencies to conduct and fund an additional sediment and nutrient monitoring study.

On April 21, 2016, Exelon and Interior executed a Settlement Agreement resolving all fish passage issues between the parties. Accordingly, on April 22, 2016, Exelon withdrew its Request for a Trial-Type Hearing and Alternative Prescription. The financial impact of the Settlement Agreement is estimated to be $3 million to $7 million per year, on average, over the 46-year life of the new license, including both capital and operating costs. The actual timing and amount of these costs are not currently fixed and may vary significantly from year to year throughout the life of the new license. Resolution of the remaining issues relating to Conowingo involving various stakeholders may have a material effect on Exelon’s and Generation’s results of operations and financial position through an increase in capital expenditures and operating costs. As of March 31, 2017, $29 million of direct costs associated with Conowingo licensing efforts have been capitalized. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information on Generation’s operating license renewal efforts.

Regulatory Assets and Liabilities (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE each prepare their consolidated financial statements in accordance with the authoritative guidance for accounting for certain types of regulation. Under this guidance, regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates or represent billings in advance of expenditures for approved regulatory programs.

As a result of applying the acquisition method of accounting and pushing it down to the consolidated financial statements of PHI, certain regulatory assets and liabilities were established at Exelon and PHI to offset the impacts of fair valuing the acquired assets and liabilities assumed which are subject to regulatory recovery. In total, Exelon and PHI recorded a net $2.4 billion regulatory asset reflecting adjustments recorded as a result of the acquisition method of accounting. See Note 4 — Mergers, Acquisitions and Dispositions for additional information.

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The following tables provide information about the regulatory assets and liabilities of Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE as of March 31, 2017 and December 31, 2016. For additional information on the specific regulatory assets and liabilities, refer to Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

March 31, 2017	Exelon	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Regulatory assets								
Pension and other postretirement benefits(a)	$ 4,152	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes(b)	2,055	76	1,617	101	261	169	40	52
AMI programs	689	165	46	225	253	170	83	—
Under-recovered distribution service costs(c)	211	211	—	—	—	—	—	—
Debt costs	122	41	1	7	80	17	9	6
Fair value of long-term debt	797	—	—	—	658	—	—	—
Fair value of PHI’s unamortized energy contracts	1,021	—	—	—	1,021	—	—	—
Severance	4	—	—	4	—	—	—	—
Asset retirement obligations	116	82	22	12	—	—	—	—
MGP remediation costs	296	271	25	—	—	—	—	—
Under-recovered uncollectible accounts	63	63	—	—	—	—	—	—
Renewable energy	285	282	—	—	3	—	1	2
Energy and transmission programs(d)(e)(f)(g)(h)(i)	71	18	—	19	34	6	5	23
Deferred storm costs	39	—	—	1	38	12	7	19
Electric generation-related regulatory asset	8	—	—	8	—	—	—	—
Energy efficiency and demand response programs	596	—	1	269	326	241	84	1
Merger integration costs(j)(k)	32	—	—	8	24	11	13	—
Under-recovered revenue decoupling(l)	76	—	—	31	45	36	9	—
COPCO acquisition adjustment	7	—	—	—	7	—	7	—
Recoverable Workers compensation and long-term disability cost	33	—	—	—	33	33	—	—
Vacation accrual	42	—	17	—	25	—	15	10
Securitized stranded costs	123	—	—	—	123	—	—	123
CAP arrearage	11	—	11	—	—	—	—	—
Removal costs	486	—	—	—	486	136	90	261
Other	46	6	8	5	27	21	4	4
Total regulatory assets	11,381	1,215	1,748	690	3,444	852	367	501
Less: current portion	1,330	183	40	191	653	173	66	94
Total non-current regulatory assets	$10,051	$1,032	$1,708	$499	$ 2,791	$679	$301	$407

March 31, 2017	Exelon	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Regulatory liabilities								
Other postretirement benefits	$ 48	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nuclear decommissioning	2,776	2,294	482	—	—	—	—	—
Removal costs	1,598	1,328	—	136	134	17	117	—
Deferred rent	39	—	—	—	39	—	—	—
Energy efficiency and demand response programs	185	139	44	—	2	2	—	—
DLC program costs	8	—	8	—	—	—	—	—
Electric distribution tax repairs	66	—	66	—	—	—	—	—
Gas distribution tax repairs	18	—	18	—	—	—	—	—
Energy and transmission programs(d)(e)(f)(g)(h)(i)	133	38	66	2	27	7	12	8
Rate stabilization deferral	3	—	—	3	—	—	—	—
Other	65	4	7	20	34	3	13	17
Total regulatory liabilities	4,939	3,803	691	161	236	29	142	25
Less: current portion	637	311	161	67	82	10	47	25

Total non-current regulatory liabilities	$ 4,302	$3,492	$ 530	$ 94	$ 154	$ 19	$ 95	$ —

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December 31, 2016	Exelon	ComEd	PECO	BGE	Successor PHI	Pepco	DPL	ACE
Regulatory assets								
Pension and other postretirement benefits(a)	$ 4,162	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes(b)	2,016	75	1,583	98	260	171	38	51
AMI programs	701	164	49	230	258	174	84	—
Under-recovered distribution service costs(c)	188	188	—	—	—	—	—	—
Debt costs	124	42	1	7	81	17	9	6
Fair value of long-term debt	812	—	—	—	671	—	—	—
Fair value of PHI's unamortized energy contracts	1,085	—	—	—	1,085	—	—	—
Severance	5	—	—	5	—	—	—	—
Asset retirement obligations	111	76	23	12	—	—	—	—
MGP remediation costs	305	278	26	1	—	—	—	—
Under-recovered uncollectible accounts	56	56	—	—	—	—	—	—
Renewable energy	260	258	—	—	2	—	—	2
Energy and transmission programs(d)(e)(f)(g)(h)(i)	89	23	—	38	28	6	5	17
Deferred storm costs	36	—	—	1	35	12	5	18
Electric generation-related regulatory asset	10	—	—	10	—	—	—	—
Rate stabilization deferral	7	—	—	7	—	—	—	—
Energy efficiency and demand response programs	621	—	1	285	335	250	85	—
Merger integration costs(j)(k)	25	—	—	10	15	11	4	—
Under-recovered revenue decoupling(l)	27	—	—	3	24	21	3	—
COPCO acquisition adjustment	8	—	—	—	8	—	8	—
Workers compensation and long-term disability costs	34	—	—	—	34	34	—	—
Vacation accrual	31	—	7	—	24	—	14	10
Securitized stranded costs	138	—	—	—	138	—	—	138
CAP arrearage	11	—	11	—	—	—	—	—
Removal costs	477	—	—	—	477	134	88	255
Other	49	7	9	5	29	22	5	4
Total regulatory assets	11,388	1,167	1,710	712	3,504	852	348	501
Less: current portion	1,342	190	29	208	653	162	59	96
Total non-current regulatory assets	$10,046	$ 977	$1,681	$504	$ 2,851	$690	$289	$405

December 31, 2016	Exelon	ComEd	PECO	BGE	Successor PHI	Pepco	DPL	ACE
Regulatory liabilities								
Other postretirement benefits	$ 47	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nuclear decommissioning	2,607	2,169	438	—	—	—	—	—
Removal costs	1,601	1,324	—	141	136	18	118	—
Deferred rent	39	—	—	—	39	—	—	—
Energy efficiency and demand response programs	185	141	41	—	3	3	—	—
DLC program costs	8	—	8	—	—	—	—	—
Electric distribution tax repairs	76	—	76	—	—	—	—	—
Gas distribution tax repairs	20	—	20	—	—	—	—	—
Energy and transmission programs(d)(e)(f)(g)(h)(i)	134	60	56	—	18	8	5	5
Other	72	4	5	19	41	2	17	20
Total regulatory liabilities	4,789	3,698	644	160	237	31	140	25
Less: current portion	602	329	127	50	79	11	43	25
Total non-current regulatory liabilities	$ 4,187	$3,369	$ 517	$110	$ 158	$ 20	$ 97	$ —

(a) As of March 31, 2017 and December 31, 2016, the pension and other postretirement benefits regulatory asset at Exelon includes regulatory assets of $1,087 million established at the date of the PHI Merger related to unrecognized costs that are probable of regulatory recovery. The regulatory assets are amortized over periods from 3 to 15 years, depending on the underlying component. Pepco, DPL and ACE are currently recovering these costs through base rates. Pepco, DPL and ACE are not earning a return on the recovery of these costs in base rates.

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(b) As of March 31, 2017, includes transmission-related regulatory assets that require FERC approval separate from the transmission formula rate of $22 million, $39 million, $31 million, $21 million and $20 million for ComEd, BGE, Pepco, DPL and ACE, respectively. As of December 31, 2016, includes transmission-related regulatory assets that require FERC approval separate from the transmission formula rate of $22 million, $38 million, $31 million, $20 million and $19 million for ComEd, BGE, Pepco, DPL and ACE, respectively.

(c) As of March 31, 2017, ComEd's regulatory asset of $211 million was comprised of $158 million for the 2015 — 2017 annual reconciliations and $53 million related to significant one-time events including $17 million of deferred storm costs, $10 million of Constellation and PHI merger and integration related costs and $26 million of smart meter related costs. As of December 31, 2016, ComEd's regulatory asset of $188 million was comprised of $134 million for the 2015 and 2016 annual reconciliations and $54 million related to significant one-time events, including $20 million of deferred storm costs and $11 million of Constellation and PHI merger and integration related costs, and $23 million of smart meter related costs. ComEd's 2015 annual reconciliation regulatory asset included a reduction of $8 million related to a ComEd-proposed refund to customers for the impact of changing its OSHA recordable rate for 2014 and 2015. See Note 4 — Merger, Acquisitions, and Dispositions of the Exelon 2016 Form 10-K for further information.

(d) As of March 31, 2017, ComEd's regulatory asset of $18 million included $10 million associated with transmission costs recoverable through its FERC approved formula rate and $8 million of Constellation merger and integration costs to be recovered upon FERC approval. As of March 31, 2017, ComEd's regulatory liability of $38 million included $6 million related to over-recovered energy costs and $32 million associated with revenues received for renewable energy requirements. As of December 31, 2016, ComEd's regulatory asset of $23 million included $15 million associated with transmission costs recoverable through its FERC approved formula rate and $8 million of Constellation merger and integration costs to be recovered upon FERC approval. As of December 31, 2016, ComEd's regulatory liability of $60 million included $30 million related to over-recovered energy costs and $30 million associated with revenues received for renewable energy requirements.

(e) As of March 31, 2017, PECO's regulatory liability of $66 million included $41 million related to over-recovered costs under the DSP program, $13 million related to the over-recovered natural gas costs under the PGC, $10 million related to over-recovered non-bypassable transmission service charges and $2 million related to over-recovered electric transmission costs. As of December 31, 2016, PECO's regulatory liability of $56 million included $34 million related to over-recovered costs under the DSP program, $10 million related to over-recovered non-bypassable transmission service charges, $8 million related to the over-recovered natural gas costs under the PGC and $4 million related to the over-recovered electric transmission costs.

(f) As of March 31, 2017, BGE's regulatory asset of $19 million included $3 million of costs associated with transmission costs recoverable through its FERC approved formula rate, $13 million related to under-recovered electric energy costs, and $3 million of abandonment costs to be recovered upon FERC approval. As of March 31, 2017, BGE's regulatory liability consisted of $2 million related to over-recovered natural gas costs. As of December 31, 2016, BGE's regulatory asset of $38 million included $4 million of costs associated with transmission costs recoverable through its FERC approved formula rate, $28 million related to under-recovered electric energy costs, $3 million of abandonment costs to be recovered upon FERC approval, and $3 million of under-recovered natural gas costs.

(g) As of March 31, 2017, Pepco's regulatory asset of $6 million included $2 million of transmission costs recoverable through its FERC approved formula rate and $4 million of under-recovered electric energy costs. As of March 31, 2017, Pepco's regulatory liability of $7 million included $2 million of over-recovered transmission costs and $5 million of over-recovered electric energy costs. As of December 31, 2016, Pepco's regulatory asset of $6 million related to under-recovered electric energy costs. As of December 31, 2016, Pepco's regulatory liability of $8 million included $5 million of over-recovered transmission costs and $3 million of over-recovered electric energy costs.

(h) As of March 31, 2017, DPL's regulatory asset of $5 million related to under-recovered electric energy costs. As of March 31, 2017, DPL's regulatory liability of $12 million included $9 million of over-recovered electric energy costs, $1 million of over-recovered transmission costs, and $2 million of over-recovered gas cost. As of December 31, 2016, DPL's regulatory asset of $5 million included $1 million of transmission costs recoverable through its FERC approved formula rate and $4 million of under-recovered electric energy costs. As of December 31, 2016, DPL's regulatory liability of $5 million included $2 million of over-recovered electric energy costs and $3 million of over-recovered transmission costs.

(i) As of March 31, 2017, ACE's regulatory asset of $23 million included $10 million of transmission costs recoverable through its FERC approved formula rate and $13 million of under-recovered electric energy costs. As of March 31, 2017, ACE's regulatory liability of $8 million included $2 million of over-recovered transmission costs and $6 million of over-

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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recovered electric energy costs. As of December 31, 2016, ACE's regulatory asset of $17 million included $6 million of transmission costs recoverable through its FERC approved formula rate and $11 million of under-recovered electric energy costs. As of December 31, 2016, ACE's regulatory liability of $5 million included $4 million of over-recovered transmission costs and $1 million of over-recovered electric energy costs.

(j) As of March 31, 2017, BGE's regulatory asset of $8 million included $6 million of previously incurred PHI acquisition costs as authorized by the June 2016 rate case order.

(k) As of March 31, 2017 and December 31, 2016, Pepco's regulatory asset of $11 million represents previously incurred PHI acquisition costs authorized for recovery by the November 2016 Maryland distribution rate case order. As of March 31, 2017, DPL's regulatory asset of $13 million represents previously incurred PHI acquisition costs, including $5 million authorized for recovery by the February 2017 Maryland distribution rate case order and $8 million expected to be recovered in electric and gas distribution rates in the Delaware service territory. As of December 31, 2016, DPL's regulatory asset of $4 million represents previously incurred PHI acquisition costs expected to be recovered in distribution rates in the Maryland service territory.

(l) Represents the electric and natural gas distribution costs recoverable from customers under BGE's decoupling mechanism. As of March 31, 2017, BGE had a regulatory asset of $25 million related to under-recovered electric revenue decoupling and $6 million related to under-recovered natural gas revenue decoupling. As of December 31, 2016, BGE had a regulatory asset of $2 million related to under-recovered natural gas revenue decoupling and $1 million related to under-recovered electric revenue decoupling.

Capitalized Ratemaking Amounts Not Recognized (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

The following table illustrates our authorized amounts capitalized for ratemaking purposes related to earnings on shareholders' investment that are not recognized for financial reporting purposes on our Consolidated Balance Sheets. These amounts will be recognized as revenues in our Consolidated Statements of Operations and Comprehensive Income in the periods they are billable to our customers.

	Exelon	ComEd(a)	PECO	BGE(b)	PHI	Pepco(c)	DPL(c)	ACE
March 31, 2017	$ 71	$ 5	$ —	$ 56	$10	$ 6	$ 4	$—
	Exelon	**ComEd(a)**	**PECO**	**BGE(b)**	**PHI**	**Pepco(b)**	**DPL(b)**	**ACE**
December 31, 2016	$ 72	$ 5	$ —	$ 57	$10	$ 6	$ 4	$—

(a) Reflects ComEd's unrecognized equity returns earned for ratemaking purposes on its under-recovered distribution services costs regulatory assets.

(b) BGE's authorized amounts capitalized for ratemaking purposes related to earnings on shareholders' investment on its AMI Programs.

(c) Pepco's and DPL's authorized amounts capitalized for ratemaking purposes related to earnings on shareholders' investment on their respective AMI Programs and Energy Efficiency and Demand Response Programs. The earnings on energy efficiency are on Pepco DC and DPL DE programs only.

Purchase of Receivables Programs (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

ComEd, PECO, BGE, Pepco, DPL and ACE are required, under separate legislation and regulations in Illinois, Pennsylvania, Maryland, District of Columbia and New Jersey, to purchase certain receivables from retail electric and natural gas suppliers that participate in the utilities' consolidated billing. ComEd, BGE, Pepco and DPL purchase receivables at a discount to recover primarily uncollectible accounts expense from the suppliers. PECO is required to purchase receivables at face value and is permitted to recover uncollectible accounts expense, including those from Third Party Suppliers, from customers through distribution rates. ACE purchases receivables at face value. ACE recovers all uncollectible accounts expense, including those from Third Party Suppliers, through the Societal Benefits Charge (SBC) rider, which includes uncollectible accounts expense as a component. The SBC is filed annually with the NJBPU. Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and

ACE do not record unbilled commodity receivables under the POR programs. Purchased billed receivables are classified in Other accounts receivable, net on Exelon's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets. The following tables provide information about the purchased receivables of those companies as of March 31, 2017 and December 31, 2016.

As of March 31, 2017	**Exelon**	**ComEd**	**PECO**	**BGE**	*Successor* **PHI**	**Pepco**	**DPL**	**ACE**
Purchased receivables(b)	$ 305	$ 85	$ 72	$59	$ 89	$ 58	$10	$21
Allowance for uncollectible accounts(a)	(36)	(14)	(7)	(4)	(11)	(6)	(2)	(3)
Purchased receivables, net	$ 269	$ 71	$ 65	$55	$ 78	$ 52	$ 8	$18

As of December 31, 2016	**Exelon**	**ComEd**	**PECO**	**BGE**	*Successor* **PHI**	**Pepco**	**DPL**	**ACE**
Purchased receivables(b)	$ 313	$ 87	$ 72	$59	$ 95	$ 63	$10	$22
Allowance for uncollectible accounts(a)	(37)	(14)	(6)	(4)	(13)	(7)	(2)	(4)
Purchased receivables, net	$ 276	$ 73	$ 66	$55	$ 82	$ 56	$ 8	$18

(a) For ComEd, BGE, Pepco and DPL, reflects the incremental allowance for uncollectible accounts recorded, which is in addition to the purchase discount. For ComEd, the incremental uncollectible accounts expense is recovered through its Purchase of Receivables with Consolidated Billing tariff.

(b) Pepco's electric POR program in Maryland included a discount on purchased receivables ranging from 0% to 2% depending on customer class, and Pepco's electric POR program in the District of Columbia included a discount on purchased receivables ranging from 0% to 6% depending on customer class. DPL's electric POR program in Maryland included a discount on purchased receivables ranging from 0% to 1% depending on customer class.

6. Impairment of Long-Lived Assets (Exelon and Generation)

Long-Lived Assets (Exelon and Generation)

Generation evaluates long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the first quarter of 2016, significant changes in Generation's intended use of the Upstream oil and gas assets, developments with nonrecourse debt held by its upstream subsidiary CEU Holdings, LLC (as described in Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K) and continued declines in both production volumes and commodity prices suggested that the carrying value may be impaired. Generation concluded that the estimated undiscounted future cash flows and fair value of its Upstream properties were less than their carrying values. As a result, a pre-tax impairment charge of $119 million was recorded in March 2016 within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. On June 16, 2016, Generation initiated the sales process of its Upstream business by executing a forbearance agreement with the lenders of the nonrecourse debt. An additional pre-tax impairment charge of $15 million was recorded in September 2016 within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income due to further declines in fair value. In December 2016, Generation sold substantially all of the Upstream Assets. See Note 4 — Merger, Acquisitions, and Dispositions of the Exelon 2016 Form 10-K for further information.

Like-Kind Exchange Transaction (Exelon)

In June 2000, UII, LLC (formerly Unicom Investments, Inc.) (UII), a wholly owned subsidiary of Exelon Corporation, entered into transactions pursuant to which UII invested in coal-fired generating station leases (Headleases) with the Municipal Electric Authority of Georgia (MEAG). The generating stations were leased back to MEAG as part of the transactions (Leases).

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On March 31, 2016, UII and MEAG finalized an agreement to terminate the MEAG Headleases, the MEAG Leases, and other related agreements prior to their expiration dates. As a result of the lease termination, UII received an early termination payment of $360 million from MEAG and wrote-off the $356 million net investment in the MEAG Headleases and the Leases. The transaction resulted in a pre-tax gain of $4 million which is reflected in Operating and maintenance expense in Exelon's Consolidated Statements of Operations and Comprehensive Income. See Note 11 — Income Taxes for additional information.

7. Early Nuclear Plant Retirements (Exelon and Generation)

Exelon and Generation continue to evaluate the current and expected economic value of each of Generation's nuclear plants. Factors that will continue to affect the economic value of Generation's nuclear plants include, but are not limited to: market power prices, results of capacity auctions, potential legislative and regulatory solutions to ensure nuclear plants are fairly compensated for their carbon-free emissions, and the impact of potential rules from the EPA requiring reduction of carbon and other emissions and the efforts of states to implement those final rules. In 2015 and 2016, Generation identified the Clinton, Quad Cities, Ginna, Nine Mile Point, and Three Mile Island (TMI) nuclear plants as having the greatest risk of early retirement based on economic valuation and other factors. PSEG has also recently made public similar financial challenges facing its New Jersey nuclear plants including Salem, of which Generation owns a 42.59% ownership interest. As previously disclosed, Exelon and Generation have committed to cease operation of the Oyster Creek nuclear plant by the end of 2019.

Based on insufficient capacity auction results and the lack of progress on Illinois energy legislation, on June 2, 2016, Generation announced a decision to shut down the Clinton and Quad Cities nuclear plants on June 1, 2017 and June 1, 2018, respectively. With the passage of the Illinois ZES on December 7, 2016, and subject to prevailing over any related administrative or legal challenges, Generation reversed this decision and revised the expected economic useful lives for both facilities; 2027 for Clinton and 2032 for Quad Cities. Refer to Note 5—Regulatory Matters for additional discussion on the Illinois ZES.

Exelon's and Generation's 2016 results included a net incremental $714 million of total pre-tax expense associated with the initial early retirement decision for Clinton and Quad Cities, as summarized in the table below.

Income statement expense (pre-tax)	Q2 2016	Q3 2016	Q4 2016	YTD 2016
Depreciation and amortization				
Accelerated depreciation[a]	$115	$344	$ 253	$712
Accelerated Nuclear Fuel amortization	9	28	23	60
Operating and maintenance				
One time charges[b]	141	5	(120)	26
ARO accretion, net of contractual offset[c]	—	2	—	2
Contractual offset for ARC depreciation[c]	(14)	(41)	(31)	(86)
Total	$251	$338	$ 125	$714

(a) Reflected incremental accelerated depreciation of plant assets, including any ARC, for the period June 2, 2016, through December 6, 2016.

(b) Primarily included materials and supplies inventory reserve adjustments, employee related costs and construction work-in-progress (CWIP) impairments.

(c) For Quad Cities based on the regulatory agreement with the Illinois Commerce Commission, decommissioning-related activities are offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The offset results in an equal adjustment to the noncurrent payables to ComEd at Generation and an adjustment to the regulatory liabilities at ComEd. Likewise, ComEd has recorded an equal noncurrent affiliate receivable from Generation and corresponding regulatory liability.

In New York, the Ginna, Nine Mile Point, and Generation's recently acquired FitzPatrick nuclear plant also faced significant economic challenges and risk of retirement before the end of each unit's respective operating license period (2029 for Ginna and Nine Mile Point Unit 1, 2046 for Nine Mile Point Unit 2, and 2034 for FitzPatrick). On August 1, 2016, the NYPSC issued an order adopting the CES that, subject to prevailing over any administrative or legal challenges, would allow Ginna, Nine Mile Point, and FitzPatrick to continue to operate at least through the life of the program (March 31, 2029). The assumed useful life for depreciation purposes for each facility is through the end of their current operating licenses. Ginna most recently operated under an RSSA which expired March 31, 2017 and has filed the required notice with the NYPSC of its intent to continue operating beyond the expiry of the RSSA. Refer to Note 4 — Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick and Note 5 — Regulatory Matters for additional discussion on the Ginna RSSA and the New York CES.

Assuming the successful implementation of the Illinois ZES and the New York CES and the continued effectiveness of these programs, Generation and CENG, through its ownership of Ginna and Nine Mile Point, no longer consider Clinton, Quad Cities, Ginna or Nine Mile Point to be at heightened risk for early retirement. However, to the extent either the Illinois ZES or the New York CES programs do not operate as expected over their full terms, each of these plants (and now including the newly acquired FitzPatrick) could again be at heightened risk for early retirement, which could have a material impact on Exelon's and Generation's future results of operations, cash flows and financial position.

The TMI nuclear plant did not clear in the May 2016 PJM capacity auction for the 2019-2020 planning year and will not receive capacity revenue for that period, the second consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019. TMI will be offered into the May 2017 PJM capacity auction for the 2020-2021 planning year, however the plant faces continued economic challenges and Exelon and Generation are exploring all options to return it to profitability, including the potential for a legislative solution in Pennsylvania similar to that passed in Illinois.

The following table provides the balance sheet amounts as of March 31, 2017 for significant assets and liabilities associated with TMI, the plant currently considered by management to be at the greatest risk of early retirement due to current economic valuations and other factors.

(in millions)	TMI
Asset Balances	
Materials and supplies inventory	$ 40
Nuclear fuel inventory, net	72
Completed plant, net	1,000
Construction work in progress	40
Liability Balances	
Asset retirement obligation	(572)
NRC License Renewal Term	2034

The precise timing of an early retirement date for any nuclear plant, and the resulting financial statement impacts, may be affected by a number of factors, including the status of potential regulatory or legislative solutions, results of any transmission system reliability study assessments, the nature of any co-owner

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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requirements and stipulations, and decommissioning trust fund requirements, among other factors. However, the earliest retirement date for any plant would usually be the first year in which the unit does not have capacity or other obligations, where applicable, and just prior to its next scheduled nuclear refueling outage.

8. Fair Value of Financial Assets and Liabilities (All Registrants)

Fair Value of Financial Liabilities Recorded at the Carrying Amount

The following tables present the carrying amounts and fair values of the Registrants' short-term liabilities, long-term debt, SNF obligation, and trust preferred securities (long-term debt to financing trusts or junior subordinated debentures) as of March 31, 2017 and December 31, 2016:

Exelon

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 2,048	$ —	$ 2,048	$ —	$ 2,048
Long-term debt (including amounts due within one year)(a)	34,689	1,135	32,562	1,962	35,659
Long-term debt to financing trusts(b)	641	—	—	677	677
SNF obligation	1,136	—	813	—	813

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 1,267	$ —	$ 1,267	$ —	$ 1,267
Long-term debt (including amounts due within one year)(a)	34,005	1,113	31,741	1,959	34,813
Long-term debt to financing trusts(b)	641	—	—	667	667
SNF obligation	1,024	—	732	—	732

Generation

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 717	$ —	$ 717	$ —	$ 717
Long-term debt (including amounts due within one year)(a)	9,979	—	8,200	1,671	9,871
SNF obligation	1,136	—	813	—	813

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 699	$ —	$ 699	$ —	$ 699
Long-term debt (including amounts due within one year)(a)	9,241	—	7,482	1,670	9,152
SNF obligation	1,024	—	732	—	732

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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ComEd

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 365	$ —	$ 365	$ —	$ 365
Long-term debt (including amounts due within one year)(a)	7,035	—	7,615	—	7,615
Long-term debt to financing trusts(b)	205	—	—	218	218

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)(a)	$ 7,033	$ —	$7,585	$ —	$7,585
Long-term debt to financing trusts(b)	205	—	—	215	215

PECO

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)(a)	$ 2,580	$ —	$2,806	$ —	$2,806
Long-term debt to financing trusts	184	—	—	193	193

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)(a)	$ 2,580	$ —	$2,794	$ —	$2,794
Long-term debt to financing trusts	184	—	—	192	192

BGE

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 95	$ —	$ 95	$ —	$ 95
Long-term debt (including amounts due within one year)(a)	2,323	—	2,501	—	2,501
Long-term debt to financing trusts(b)	252	—	—	266	266

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 45	$ —	$ 45	$ —	$ 45
Long-term debt (including amounts due within one year)(a)	2,322	—	2,467	—	2,467
Long-term debt to financing trusts(b)	252	—	—	260	260

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PHI (Successor)

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 167	$ —	$ 167	$ —	$ 167
Long-term debt (including amounts due within one year)(a)	5,860	—	5,510	291	5,801

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 522	$ —	$ 522	$ —	$ 522
Long-term debt (including amounts due within one year)(a)	5,898	—	5,520	289	5,809

Pepco

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 167	$ —	$ 167	$ —	$ 167
Long-term debt (including amounts due within one year)(a)	2,350	—	2,804	9	2,813

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 23	$ —	$ 23	$ —	$ 23
Long-term debt (including amounts due within one year)(a)	2,349	—	2,788	8	2,796

DPL

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)(a)	$ 1,326	$ —	$1,374	$ —	$1,374

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)(a)	$ 1,340	$ —	$1,383	$ —	$1,383

ACE

	March 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)(a)	$ 1,145	$ —	$ 989	$ 282	$1,271

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[a]	$ 1,155	$ —	$1,007	$ 280	$1,287

(a) Includes unamortized debt issuance costs which are not fair valued of $199 million, $67 million, $45 million, $15 million, $14 million, $2 million, $29 million, $11 million, and $5 million for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, respectively, as of March 31, 2017. Includes unamortized debt issuance costs of $200 million, $64 million, $46 million, $15 million, $15 million, $2 million, $30 million, $11 million, and $6 million for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, respectively, as of December 31, 2016.

(b) Includes unamortized debt issuance costs which are not fair valued of $7 million, $1 million, and $6 million for Exelon, ComEd and BGE, respectively, as of March 31, 2017 and December 31, 2016.

Short-Term Liabilities. The short-term liabilities included in the tables above are comprised of dividends payable (included in other current liabilities) (Level 1) and short-term borrowings (Level 2). The Registrants' carrying amounts of the short-term liabilities are representative of fair value because of the short-term nature of these instruments.

Long-Term Debt. The fair value amounts of Exelon's taxable debt securities (Level 2) and private placement taxable debt securities (Level 3) are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves. In order to incorporate the credit risk of the Registrants into the discount rates, Exelon obtains pricing (i.e., U.S. Treasury rate plus credit spread) based on trades of existing Exelon debt securities as well as debt securities of other issuers in the utility sector with similar credit ratings in both the primary and secondary market, across the Registrants' debt maturity spectrum. The credit spreads of various tenors obtained from this information are added to the appropriate benchmark U.S. Treasury rates in order to determine the current market yields for the various tenors. The yields are then converted into discount rates of various tenors that are used for discounting the respective cash flows of the same tenor for each bond or note. Due to low trading volume of private placement debt, qualitative factors such as market conditions, low volume of investors and investor demand, this debt is classified as Level 3. The fair value of Exelon's equity units (Level 1) are valued based on publicly traded securities issued by Exelon.

The fair value of Generation's and Pepco's non-government-backed fixed rate nonrecourse debt (Level 3) is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles. Given the low trading volume in the nonrecourse debt market, the price quotes used to determine fair value will reflect certain qualitative factors, such as market conditions, investor demand, new developments that might significantly impact the project cash flows or off-taker credit, and other circumstances related to the project (e.g., political and regulatory environment). The fair value of Generation's government-backed fixed rate project financing debt (Level 3) is largely based on a discounted cash flow methodology that is similar to the taxable debt securities methodology described above. Due to the lack of market trading data on similar debt, the discount rates are derived based on the original loan interest rate spread to the applicable Treasury rate as well as a current market curve derived from government-backed securities. Variable rate financing debt resets on a monthly or quarterly basis and the carrying value approximates fair value (Level 2). When trading data is available on variable rate financing debt, the fair value is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles (Level 2). Generation, Pepco, DPL and ACE also have tax-exempt debt (Level 2). Due to low trading volume in this market, qualitative factors, such as market conditions, investor demand, and circumstances related to the issuer (e.g., conduit issuer political and regulatory environment), may be incorporated into the credit spreads that are used to obtain the fair value as described above. Variable rate tax-exempt debt (Level 2) resets on a regular basis and the carrying value approximates fair value.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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SNF Obligation. The carrying amount of Generation's SNF obligation (Level 2) is derived from a contract with the DOE to provide for disposal of SNF from Generation's nuclear generating stations. When determining the fair value of the obligation, the future carrying amount of the SNF obligation is calculated by compounding the current book value of the SNF obligation at the 13-week Treasury rate. The compounded obligation amount is discounted back to present value using Generation's discount rate, which is calculated using the same methodology as described above for the taxable debt securities, and an estimated maturity date of 2030. This amount also includes $110 million for the fair value of the one-time fee obligation associated with FitzPatrick as of March 31, 2017. The fair value was determined using a similar methodology, however the New York Power Authority's (NYPA) discount rate is used in place of Generation's given the contractual right to reimbursement from NYPA for the obligation; see Note 4 — Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick.

Long-Term Debt to Financing Trusts. Exelon's long-term debt to financing trusts is valued based on publicly traded securities issued by the financing trusts. Due to low trading volume of these securities, qualitative factors, such as market conditions, investor demand, and circumstances related to each issue, this debt is classified as Level 3.

Recurring Fair Value Measurements

Exelon records the fair value of assets and liabilities in accordance with the hierarchy established by the authoritative guidance for fair value measurements. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the Registrants have the ability to liquidate as of the reporting date.
- Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 — unobservable inputs, such as internally developed pricing models or third-party valuations for the asset or liability due to little or no market activity for the asset or liability.

Transfers in and out of levels are recognized as of the end of the reporting period when the transfer occurred. Given derivatives categorized within Level 1 are valued using exchange-based quoted prices within observable periods, transfers between Level 2 and Level 1 were not material. Additionally, there were no material transfers between Level 1 and Level 2 during the three months ended March 31, 2017 for cash equivalents, nuclear decommissioning trust fund investments, pledged assets for Zion Station decommissioning, Rabbi trust investments, and deferred compensation obligations. For derivative contracts, transfers into Level 2 from Level 3 generally occur when the contract tenor becomes more observable and due to changes in market liquidity or assumptions for certain commodity contracts.

Generation and Exelon

In accordance with the applicable guidance on fair value measurement, certain investments that are measured at fair value using the NAV per share as a practical expedient are no longer classified within the fair value hierarchy and are included under "Not subject to leveling" in the table below.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following tables present assets and liabilities measured and recorded at fair value on Exelon's and Generation's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2017 and December 31, 2016:

	Generation					Exelon				
As of March 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets										
Cash equivalents[(a)]	$ 135	$ —	$ —	$ —	$ 135	$ 342	$ —	$ —	$ —	$ 342
NDT fund investments										
Cash equivalents[(b)]	160	21	—	—	181	160	21	—	—	181
Equities	4,113	505	1	2,089	6,708	4,113	505	1	2,089	6,708
Fixed income										
Corporate debt	—	1,749	255	—	2,004	—	1,749	255	—	2,004
U.S. Treasury and agencies	1,516	35	—	—	1,551	1,516	35	—	—	1,551
Foreign governments	—	57	—	—	57	—	57	—	—	57
State and municipal debt	—	241	—	—	241	—	241	—	—	241
Other[(c)]	—	52	—	484	536	—	52	—	484	536
Fixed income subtotal	1,516	2,134	255	484	4,389	1,516	2,134	255	484	4,389
Middle market lending	—	—	427	64	491	—	—	427	64	491
Private equity	—	—	—	158	158	—	—	—	158	158
Real estate	—	—	—	427	427	—	—	—	427	427
NDT fund investments subtotal[(d)]	5,789	2,660	683	3,222	12,354	5,789	2,660	683	3,222	12,354
Pledged assets for Zion Station decommissioning										
Cash equivalents	21	—	—	—	21	21	—	—	—	21
Equities	—	1	—	—	1	—	1	—	—	1
Fixed income — U.S. Treasury and agencies	8	1	—	—	9	8	1	—	—	9
Middle market lending	—	—	20	44	64	—	—	20	44	64
Pledged assets for Zion Station decommissioning subtotal[(e)]	29	2	20	44	95	29	2	20	44	95
Rabbi trust investments										
Cash equivalents	7	—	—	—	7	80	—	—	—	80
Mutual funds	20	—	—	—	20	53	—	—	—	53
Fixed income	—	—	—	—	—	—	15	—	—	15
Life insurance contracts	—	20	—	—	20	—	66	20	—	86
Rabbi trust investments subtotal	27	20	—	—	47	133	81	20	—	234
Commodity derivative assets										
Economic hedges	749	2,993	1,631	—	5,373	751	2,993	1,631	—	5,375
Proprietary trading	5	50	25	—	80	5	50	25	—	80
Effect of netting and allocation of collateral[(f)(g)]	(639)	(2,575)	(873)	—	(4,087)	(641)	(2,575)	(873)	—	(4,089)
Commodity derivative assets subtotal	115	468	783	—	1,366	115	468	783	—	1,366
Interest rate and foreign currency derivative assets										
Derivatives designated as hedging instruments	—	—	—	—	—	—	12	—	—	12
Economic hedges	—	22	—	—	22	—	22	—	—	22
Proprietary trading	3	1	—	—	4	3	1	—	—	4
Effect of netting and allocation of collateral	(4)	(14)	—	—	(18)	(4)	(14)	—	—	(18)
Interest rate and foreign currency derivative assets subtotal	(1)	9	—	—	8	(1)	21	—	—	20
Other investments	—	—	40	—	40	—	—	40	—	40
Total assets	6,094	3,159	1,526	3,266	14,045	6,407	3,232	1,546	3,266	14,451

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					Exelon				
As of March 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Liabilities										
Commodity derivative liabilities										
Economic hedges	(787)	(2,855)	(1,167)	—	(4,809)	(787)	(2,855)	(1,449)	—	(5,091)
Proprietary trading	(6)	(49)	(22)	—	(77)	(6)	(49)	(22)	—	(77)
Effect of netting and allocation of collateral[f][g]	714	2,846	971	—	4,531	714	2,846	971	—	4,531
Commodity derivative liabilities subtotal	(79)	(58)	(218)	—	(355)	(79)	(58)	(500)	—	(637)
Interest rate and foreign currency derivative liabilities										
Derivatives designated as hedging instruments	—	(1)	—	—	(1)	—	(1)	—	—	(1)
Economic hedges	—	(25)	—	—	(25)	—	(25)	—	—	(25)
Proprietary trading	(3)	—	—	—	(3)	(3)	—	—	—	(3)
Effect of netting and allocation of collateral	4	14	—	—	18	4	14	—	—	18
Interest rate and foreign currency derivative liabilities subtotal	1	(12)	—	—	(11)	1	(12)	—	—	(11)
Deferred compensation obligation	—	(35)	—	—	(35)	—	(135)	—	—	(135)
Total liabilities	(78)	(105)	(218)	—	(401)	(78)	(205)	(500)	—	(783)
Total net assets	$ 6,016	$ 3,054	$ 1,308	$ 3,266	$13,644	$ 6,329	$ 3,027	$ 1,046	$ 3,266	$13,668

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets										
Cash equivalents[a]	$ 39	$ —	$ —	$ —	$ 39	$ 373	$ —	$ —	$ —	$ 373
NDT fund investments										
Cash equivalents[b]	110	19	—	—	129	110	19	—	—	129
Equities	3,551	452	—	2,011	6,014	3,551	452	—	2,011	6,014
Fixed income										
Corporate debt	—	1,554	250	—	1,804	—	1,554	250	—	1,804
U.S. Treasury and agencies	1,291	29	—	—	1,320	1,291	29	—	—	1,320
Foreign governments	—	37	—	—	37	—	37	—	—	37
State and municipal debt	—	264	—	—	264	—	264	—	—	264
Other[c]	—	59	—	493	552	—	59	—	493	552
Fixed income subtotal	1,291	1,943	250	493	3,977	1,291	1,943	250	493	3,977
Middle market lending	—	—	427	71	498	—	—	427	71	498
Private equity	—	—	—	148	148	—	—	—	148	148
Real estate	—	—	—	326	326	—	—	—	326	326
NDT fund investments subtotal[d]	4,952	2,414	677	3,049	11,092	4,952	2,414	677	3,049	11,092
Pledged assets for Zion Station decommissioning										
Cash equivalents	11	—	—	—	11	11	—	—	—	11
Equities	—	2	—	—	2	—	2	—	—	2
Fixed Income — U.S. Treasury and agencies	16	1	—	—	17	16	1	—	—	17
Middle market lending	—	—	19	64	83	—	—	19	64	83
Pledged assets for Zion Station decommissioning subtotal[e]	27	3	19	64	113	27	3	19	64	113
Rabbi trust investments										
Cash equivalents	2	—	—	—	2	74	—	—	—	74
Mutual funds	19	—	—	—	19	50	—	—	—	50
Fixed income	—	—	—	—	—	—	16	—	—	16
Life insurance contracts	—	18	—	—	18	—	64	20	—	84
Rabbi trust investments subtotal	21	18	—	—	39	124	80	20	—	224

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Commodity derivative assets										
Economic hedges	1,356	2,505	1,229	—	5,090	1,358	2,505	1,229	—	5,092
Proprietary trading	3	50	23	—	76	3	50	23	—	76
Effect of netting and allocation of collateral(f)(g)	(1,162)	(2,142)	(481)	—	(3,785)	(1,164)	(2,142)	(481)	—	(3,787)
Commodity derivative assets subtotal	197	413	771	—	1,381	197	413	771	—	1,381
Interest rate and foreign currency derivative assets										
Derivatives designated as hedging instruments	—	—	—	—	—	—	16	—	—	16
Economic hedges	—	28	—	—	28	—	28	—	—	28
Proprietary trading	3	2	—	—	5	3	2	—	—	5
Effect of netting and allocation of collateral	(2)	(19)	—	—	(21)	(2)	(19)	—	—	(21)
Interest rate and foreign currency derivative assets subtotal	1	11	—	—	12	1	27	—	—	28
Other investments	—	—	42	—	42	—	—	42	—	42
Total assets	5,237	2,859	1,509	3,113	12,718	5,674	2,937	1,529	3,113	13,253
Liabilities										
Commodity derivative liabilities										
Economic hedges	(1,267)	(2,378)	(794)	—	(4,439)	(1,267)	(2,378)	(1,052)	—	(4,697)
Proprietary trading	(3)	(50)	(26)	—	(79)	(3)	(50)	(26)	—	(79)
Effect of netting and allocation of collateral(f)(g)	1,233	2,339	542	—	4,114	1,233	2,339	542	—	4,114
Commodity derivative liabilities subtotal	(37)	(89)	(278)	—	(404)	(37)	(89)	(536)	—	(662)
Interest rate and foreign currency derivative liabilities										
Derivatives designated as hedging instruments	—	(10)	—	—	(10)	—	(10)	—	—	(10)
Economic hedges	—	(21)	—	—	(21)	—	(21)	—	—	(21)
Proprietary trading	(4)	—	—	—	(4)	(4)	—	—	—	(4)
Effect of netting and allocation of collateral	4	19	—	—	23	4	19	—	—	23
Interest rate and foreign currency derivative liabilities subtotal	—	(12)	—	—	(12)	—	(12)	—	—	(12)
Deferred compensation obligation	—	(34)	—	—	(34)	—	(136)	—	—	(136)
Total liabilities	(37)	(135)	(278)	—	(450)	(37)	(237)	(536)	—	(810)
Total net assets	$ 5,200	$ 2,724	$ 1,231	$ 3,113	$12,268	$ 5,637	$ 2,700	$ 993	$ 3,113	$12,443

(a) Generation excludes cash of $267 million and $252 million at March 31, 2017 and December 31, 2016 and restricted cash of $138 million and $157 million at March 31, 2017 and December 31, 2016. Exelon excludes cash of $381 million and $360 million at March 31, 2017 and December 31, 2016 and restricted cash of $165 million and $180 million at March 31, 2017 and December 31, 2016 and includes long term restricted cash of $25 million at March 31, 2017 and December 31, 2016, which is reported in other deferred debits on the balance sheet.

(b) Includes less than $1 million and $29 million of cash received from outstanding repurchase agreements at March 31, 2017 and December 31, 2016, respectively, and is offset by an obligation to repay upon settlement of the agreement as discussed in (d) below.

(c) Includes derivative instruments of $(1) million and $(2) million, which have a total notional amount of $886 million and $933 million at March 31, 2017 and December 31, 2016, respectively. The notional principal amounts for these instruments provide one measure of the transaction volume outstanding as of the fiscal years ended and do not represent the amount of the company's exposure to credit or market loss.

(d) Excludes net assets (liabilities) of $8 million and $(31) million at March 31, 2017 and December 31, 2016, respectively. These items consist of receivables related to pending securities sales, interest and dividend receivables, repurchase agreement obligations, and payables related to pending securities purchases. The repurchase agreements are generally short-term in nature with durations generally of 30 days or less.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(e) Excludes net assets of less than $1 million at March 31, 2017 and December 31, 2016. These items consist of receivables related to pending securities sales, interest and dividend receivables, and payables related to pending securities purchases.

(f) Collateral posted/(received) from counterparties totaled $75 million, $271 million and $98 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of March 31, 2017. Collateral posted/(received) from counterparties, net of collateral paid to counterparties, totaled $71 million, $197 million and $61 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of December 31, 2016.

(g) Of the collateral posted/(received), $14 million represents variation margin on the exchanges as of March 31, 2017. Of the collateral posted/(received), $(158) million represents variation margin on the exchanges as of December 31, 2016.

ComEd, PECO and BGE

The following tables present assets and liabilities measured and recorded at fair value on ComEd’s, PECO’s and BGE’s Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2017 and December 31, 2016:

	ComEd				PECO				BGE			
As of March 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[a]	$ —	$ —	$ —	$ —	$ 5	$ —	$ —	$ 5	$ 45	$ —	$ —	$ 45
Rabbi trust investments												
Mutual funds	—	—	—	—	7	—	—	7	5	—	—	5
Life insurance contracts	—	—	—	—	—	10	—	10	—	—	—	—
Rabbi trust investments subtotal	—	—	—	—	7	10	—	17	5	—	—	5
Total assets	—	—	—	—	12	10	—	22	50	—	—	50
Liabilities												
Deferred compensation obligation	—	(8)	—	(8)	—	(11)	—	(11)	—	(4)	—	(4)
Mark-to-market derivative liabilities[b]	—	—	(282)	(282)	—	—	—	—	—	—	—	—
Total liabilities	—	(8)	(282)	(290)	—	(11)	—	(11)	—	(4)	—	(4)
Total net assets (liabilities)	$ —	$ (8)	$(282)	$(290)	$ 12	$ (1)	$ —	$ 11	$ 50	$ (4)	$ —	$ 46

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	ComEd				PECO				BGE			
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[(a)]	$ 20	$ —	$ —	$ 20	$ 45	$ —	$ —	$ 45	$ 36	$ —	$ —	$ 36
Rabbi trust investments												
Mutual funds	—	—	—	—	7	—	—	7	4	—	—	4
Life insurance contracts	—	—	—	—	—	10	—	10	—	—	—	—
Rabbi trust investments subtotal	—	—	—	—	7	10	—	17	4	—	—	4
Total assets	20	—	—	20	52	10	—	62	40	—	—	40
Liabilities												
Deferred compensation obligation	—	(8)	—	(8)	—	(11)	—	(11)	—	(4)	—	(4)
Mark-to-market derivative liabilities[(b)]	—	—	(258)	(258)	—	—	—	—	—	—	—	—
Total liabilities	—	(8)	(258)	(266)	—	(11)	—	(11)	—	(4)	—	(4)
Total net assets (liabilities)	$ 20	$ (8)	$(258)	$(246)	$ 52	$ (1)	$ —	$ 51	$ 40	$ (4)	$ —	$ 36

(a) ComEd excludes cash of $31 million and $36 million at March 31, 2017 and December 31, 2016 and restricted cash of $3 million and $2 million at March 31, 2017 and December 31, 2016. PECO excludes cash of $27 million and $22 million at March 31, 2017 and December 31, 2016. BGE excludes cash of $11 million and $13 million at March 31, 2017 and December 31, 2016 and includes long term restricted cash of $2 million at March 31, 2017 and December 31, 2016, which is reported in other deferred debits on the balance sheet.

(b) The Level 3 balance consists of the current and noncurrent liability of $19 million and $263 million, respectively, at March 31, 2017, and $19 million and $239 million, respectively, at December 31, 2016, related to floating-to-fixed energy swap contracts with unaffiliated suppliers.

PHI, Pepco, DPL and ACE

The following tables present assets and liabilities measured and recorded at fair value on PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2017 and December 31, 2016:

	Successor As of March 31, 2017				*Successor* As of December 31, 2016			
PHI	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents[a]	$ 154	$ —	$ —	$154	$ 217	$ —	$ —	$217
Mark-to-market derivative assets[b]	—	—	—	—	2	—	—	2
Effect of netting and allocation of collateral	—	—	—	—	(2)	—	—	(2)
Mark-to-market derivative assets subtotal	—	—	—	—	—	—	—	—
Rabbi trust investments								
Cash equivalents	74	—	—	74	73	—	—	73
Fixed income	—	15	—	15	—	16	—	16
Life insurance contracts	—	23	20	43	—	22	20	42
Rabbi trust investments subtotal	74	38	20	132	73	38	20	131
Total assets	228	38	20	286	290	38	20	348
Liabilities								
Deferred compensation obligation	—	(25)	—	(25)	—	(28)	—	(28)
Total liabilities	—	(25)	—	(25)	—	(28)	—	(28)
Total net assets	$ 228	$ 13	$ 20	$261	$ 290	$ 10	$ 20	$320

	Pepco				**DPL**				**ACE**			
As of March 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[a]	$ 33	$ —	$ —	$ 33	$ 39	$ —	$ —	$ 39	$ 80	$ —	$ —	$ 80
Rabbi trust investments												
Cash equivalents	43	—	—	43	1	—	—	1	—	—	—	—
Fixed income	—	15	—	15	—	—	—	—	—	—	—	—
Life insurance contracts	—	23	20	43	—	—	—	—	—	—	—	—
Rabbi trust investments subtotal	43	38	20	101	1	—	—	1	—	—	—	—
Total assets	76	38	20	134	40	—	—	40	80	—	—	80
Liabilities												
Deferred compensation obligation	—	(4)	—	(4)	—	(1)	—	(1)	—	—	—	—
Total liabilities	—	(4)	—	(4)	—	(1)	—	(1)	—	—	—	—
Total net assets (liabilities)	$ 76	$ 34	$ 20	$130	$ 40	$ (1)	$ —	$ 39	$ 80	$ —	$ —	$ 80

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Pepco				DPL				ACE			
As of December 31, 2016	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Cash equivalents[a]	$ 33	$ —	$ —	$ 33	$ 42	$ —	$ —	$ 42	$ 130	$ —	$ —	$130
Mark-to-market derivative assets[b]	—	—	—	—	2	—	—	2	—	—	—	—
Effect of netting and allocation of collateral	—	—	—	—	(2)	—	—	(2)	—	—	—	—
Mark-to-market derivative assets subtotal	—	—	—	—	—	—	—	—	—	—	—	—
Rabbi trust investments												
Cash equivalents	43	—	—	43	—	—	—	—	—	—	—	—
Fixed income	—	16	—	16	—	—	—	—	—	—	—	—
Life insurance contracts	—	22	19	41	—	—	—	—	—	—	—	—
Rabbi trust investments subtotal	43	38	19	100	—	—	—	—	—	—	—	—
Total assets	76	38	19	133	42	—	—	42	130	—	—	130
Liabilities												
Deferred compensation obligation	—	(5)	—	(5)	—	(1)	—	(1)	—	—	—	—
Total liabilities	—	(5)	—	(5)	—	(1)	—	(1)	—	—	—	—
Total net assets (liabilities)	$ 76	$ 33	$ 19	$128	$ 42	$ (1)	$ —	$ 41	$ 130	$ —	$ —	$130

(a) PHI excludes cash of $19 million and $19 million at March 31, 2017 and December 31, 2016 and includes long term restricted cash of $23 million and $23 million at March 31, 2017 and December 31, 2016 which is reported in other deferred debits on the balance sheet. Pepco excludes cash of $8 million and $9 million at March 31, 2017 and December 31, 2016. DPL excludes cash of $5 million and $4 million at March 31, 2017 and December 31, 2016. ACE excludes cash of $4 million and $3 million at March 31, 2017 and December 31, 2016 and includes long term restricted cash of $23 million and $23 million at March 31, 2017 and December 31, 2016 which is reported in other deferred debits on the balance sheet.

(b) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the three months ended March 31, 2017 and 2016:

	Generation					ComEd	*Successor* PHI		Exelon
Three Months Ended March 31, 2017	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives[a]**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of December 31, 2016	$ 677	$ 19	$ 493	$ 42	$ 1,231	$ (258)	$ 20	$ —	$ 993
Total realized / unrealized gains (losses)									
Included in net income	3	—	(43)[b]	1	(39)	—	1	—	(38)
Included in noncurrent payables to affiliates	9	—	—	—	9	—	—	(9)	—
Included in regulatory assets/liabilities	—	—	—	—	—	(24)	—	9	(15)
Change in collateral	—	—	38	—	38	—	—	—	38
Purchases, sales, issuances and settlements									
Purchases	17	1	69	2	89	—	—	—	89
Sales	—	—	(2)	—	(2)	—	—	—	(2)
Issuances	—	—	—	—	—	—	(1)	—	(1)
Settlements	(23)	—	—	—	(23)	—	—	—	(23)
Transfers into Level 3	—	—	(1)	—	(1)	—	—	—	(1)
Transfers out of Level 3	—	—	11	(5)	6	—	—	—	6
Balance as of March 31, 2017	$ 683	$ 20	$ 565	$ 40	$ 1,308	$ (282)	$ 20	$ —	$ 1,046
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of March 31, 2017	$ 2	$ —	$ 59	$ —	$ 61	$ —	$ 1	$ —	$ 62

(a) Includes $30 million of decreases in fair value and an increase for realized losses due to settlements of $6 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the three months ended March 31, 2017.

(b) Includes a reduction for the reclassification of $102 million of realized gains due to the settlement of derivative contracts for the three months ended March 31, 2017.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					ComEd	*Successor* PHI[c]		Exelon
Three Months Ended March 31, 2016	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives[a]**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of December 31, 2015	$ 670	$ 22	$ 1,051	$ 33	$ 1,776	$ (247)	$ —	$ —	$ 1,529
Included due to merger	—	—	—	—	—	—	20	—	20
Total realized / unrealized gains (losses)									
Included in net income	2	—	(6)[b]	—	(4)	—	—	—	(4)
Included in noncurrent payables to affiliates	4	—	—	—	4	—	—	(4)	—
Included in payable for Zion Station decommissioning	—	2	—	—	2	—	—	—	2
Included in regulatory assets	—	—	—	—	—	(18)	—	4	(14)
Change in collateral	—	—	(50)	—	(50)	—	—	—	(50)
Purchases, sales, issuances and settlements									
Purchases	34	1	59	3	97	—	—	—	97
Sales	—	—	(2)	—	(2)	—	—	—	(2)
Settlements	(26)	—	—	—	(26)	—	—	—	(26)
Transfers into Level 3	—	—	2	—	2	—	—	—	2
Transfers out of Level 3	—	—	(7)	—	(7)	—	—	—	(7)
Balance as of March 31, 2016	$ 684	$ 25	$ 1,047	$ 36	$ 1,792	$ (265)	$ 20	$ —	$ 1,547
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of March 31, 2016	$ 1	$ —	$ 219	$ —	$ 220	$ —	$ —	$ —	$ 220

(a) Includes $25 million of decreases in fair value and an increase for realized losses due to settlements of $7 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the three months ended March 31, 2016.

(b) Includes a reduction for the reclassification of $225 million of realized gains due to the settlement of derivative contracts recorded in results of operations for the three months ended March 31, 2016.

(c) Successor period represents activity from March 24, 2016 through March 31, 2016. See tables below for PHI's predecessor periods, as well as activity for Pepco for the three months ended March 31, 2017 and 2016.

	Predecessor January 1, 2016 to March 23, 2016	
PHI	**Preferred Stock**	**Life Insurance Contracts**
Beginning Balance	$ 18	$ 19
Total realized / unrealized gains (losses)		
Included in net income	(18)	1
Ending Balance	$ —	$ 20
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ —	$ 1

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Life Insurance Contracts Three Months Ended March 31,	
Pepco	**2017**	**2016**
Beginning Balance	$ 20	$ 19
Total realized / unrealized gains (losses)		
Included in net income	1	1
Purchases, sales, issuances and settlements		
Issuances	(1)	—
Ending Balance	$ 20	$ 20
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ 1	$ 1

The following tables present the income statement classification of the total realized and unrealized gains (losses) included in income for Level 3 assets and liabilities measured at fair value on a recurring basis during the three months ended March 31, 2017 and 2016:

	Generation			*Successor* PHI	Exelon		
	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]	Other, net[(a)]	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]
Total gains (losses) included in net income for the three months ended March 31, 2017	88	(131)	3	1	88	(131)	4
Change in the unrealized gains (losses) relating to assets and liabilities held for the three months ended March 31, 2017	140	(81)	2	1	140	(81)	3

	Generation			Exelon		
	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]
Total gains (losses) included in net income for the three months ended March 31, 2016	49	(55)	2	49	(55)	2
Change in the unrealized gains (losses) relating to assets and liabilities held for the three months ended March 31, 2016	254	(35)	1	254	(35)	1

	Predecessor PHI	Pepco	
	January 1, 2016 to March 23, 2016	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
		Other, net	
Total gains (losses)included in net income	$ (17)	$ 1	$ 1
Change in the unrealized gains (losses) relating to assets and liabilities held	1	1	1

(a) Other, net activity consists of realized and unrealized gains (losses) included in income for the NDT funds held by Generation and the life insurance contracts held by PHI and Pepco.

Valuation Techniques Used to Determine Fair Value

The following describes the valuation techniques used to measure the fair value of the assets and liabilities shown in the tables above.

Cash Equivalents (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). The Registrants' cash equivalents include investments with maturities of three months or less when purchased. The cash equivalents shown in the fair value tables are comprised of investments in mutual and money market funds. The fair values of the shares of these funds are based on observable market prices and, therefore, have been categorized in Level 1 in the fair value hierarchy.

Preferred Stock Derivative (PHI). In connection with entering into the PHI Merger Agreement, PHI entered into a Subscription Agreement with Exelon dated April 29, 2014, pursuant to which PHI issued to Exelon shares of Preferred stock. The Preferred stock contained embedded features requiring separate accounting consideration to reflect the potential value to PHI that any issued and outstanding Preferred stock could be called and redeemed at a nominal par value upon a termination of the merger agreement under certain circumstances due to the failure to obtain required regulatory approvals. The embedded call and redemption features on the shares of the Preferred stock in the event of such a termination were separately accounted for as derivatives. These Preferred stock derivatives were valued quarterly using quantitative and qualitative factors, including management's assessment of the likelihood of a Regulatory Termination and therefore, were categorized in Level 3 in the fair value hierarchy. As a result of the PHI Merger, the PHI Preferred stock derivative was reduced to zero as of March 23, 2016. The write-off was charged to Other, net on the PHI Consolidated Statement of Operations and Comprehensive Income.

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning (Exelon and Generation). The trust fund investments have been established to satisfy Generation's and CENG's nuclear decommissioning obligations as required by the NRC. The NDT funds hold debt and equity securities directly and indirectly through commingled funds and mutual funds, which are included in Equities and Fixed Income. Generation's and CENG's NDT fund investments policies outline investment guidelines for the trusts and limit the trust funds' exposures to investments in highly illiquid markets and other alternative investments. Investments with maturities of three months or less when purchased, including certain short-term fixed income securities are considered cash equivalents and included in the recurring fair value measurements hierarchy as Level 1 or Level 2.

With respect to individually held equity securities, the trustees obtain prices from pricing services, whose prices are generally obtained from direct feeds from market exchanges, which Generation is able to independently corroborate. The fair values of equity securities held directly by the trust funds which are based on quoted prices in active markets are categorized in Level 1. Certain equity securities have been categorized as Level 2 because they are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities. Equity securities held individually are primarily traded on the New York Stock Exchange and NASDAQ-Global Select Market, which contain only actively traded securities due to the volume trading requirements imposed by these exchanges.

For fixed income securities, multiple prices from pricing services are obtained whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. With respect to individually held fixed income securities, the trustees monitor prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and the trustees determine that another price source is considered to be preferable. Generation has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, Generation selectively corroborates the fair values of securities by comparison to other market-based price sources. U.S. Treasury securities are categorized as Level 1 because they trade in a highly liquid and transparent market. The fair values of fixed income securities, excluding U.S. Treasury securities, are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The fair values of private placement fixed income securities, which are included in Corporate debt, are determined using a third party valuation that contains significant unobservable inputs and are categorized in Level 3.

Equity and fixed income commingled funds and mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives such as holding short term fixed income securities or tracking the performance of certain equity indices by purchasing equity securities to replicate the capitalization and characteristics of the indices. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For commingled funds and mutual funds, which are not publicly quoted, the funds are valued using NAV as a practical expedient for fair value, which is primarily derived from the quoted prices in active markets on the underlying securities, and are not classified within the fair value hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Derivative instruments consisting primarily of futures and interest rate swaps to manage risk are recorded at fair value. Over the counter derivatives are valued daily based on quoted prices in active markets and trade in open markets, and have been categorized as Level 1. Derivative instruments other than over the counter derivatives are valued based on external price data of comparable securities and have been categorized as Level 2.

Middle market lending are investments in loans or managed funds which lend to private companies. Generation elected the fair value option for its investments in certain limited partnerships that invest in middle market lending managed funds. The fair value of these loans is determined using a combination of valuation models including cost models, market models and income models. Investments in loans are categorized as Level 3 because the fair value of these securities is based largely on inputs that are unobservable and utilize complex valuation models. Managed funds are valued using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. Investments in middle market lending typically cannot be redeemed until maturity of the term loan.

Private equity and real estate investments include those in limited partnerships that invest in operating companies and real estate holding companies that are not publicly traded on a stock exchange, such as, leveraged buyouts, growth capital, venture capital, distressed investments, investments in natural resources, and direct investments in pools of real estate properties. The fair value of private equity and real estate investments is determined using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. These investments typically cannot be redeemed and are generally liquidated over a period of 8 to 10 years from the initial investment date. Private equity and real estate valuations are reported by the fund manager and are based on the valuation of the underlying investments, which include inputs such as cost, operating results, discounted future cash flows, market based comparable data, and independent appraisals from sources with professional qualifications. These valuation inputs are unobservable.

As of March 31, 2017, Generation has outstanding commitments to invest in middle market lending, private equity investments and real estate investments of approximately $290 million, $120 million, and $107 million, respectively. These commitments will be funded by Generation’s existing nuclear decommissioning trust funds.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Concentrations of Credit Risk. Generation evaluated its NDT portfolios for the existence of significant concentrations of credit risk as of March 31, 2017. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, and individual fund. As of March 31, 2017, there were no significant concentrations (generally defined as greater than 10 percent) of risk in Generation's NDT assets.

See Note 12 — Nuclear Decommissioning for further discussion on the NDT fund investments.

Rabbi Trust Investments (Exelon, Generation, PECO, BGE, PHI, Pepco, DPL and ACE). The Rabbi trusts were established to hold assets related to deferred compensation plans existing for certain active and retired members of Exelon's executive management and directors. The Rabbi trusts assets are included in investments in the Registrants' Consolidated Balance Sheets and consist primarily of money market funds, mutual funds, fixed income securities and life insurance policies. The mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with Exelon's overall investment strategy. Money market funds and mutual funds are publicly quoted and have been categorized as Level 1 given the clear observability of the prices. The fair values of fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The life insurance policies are valued using the cash surrender value of the policies, net of loans against those policies, which is provided by a third-party. Certain life insurance policies, which consist primarily of mutual funds that are priced based on observable market data, have been categorized as Level 2 because the life insurance policies can be liquidated at the reporting date for the value of the underlying assets. Life insurance policies that are valued using unobservable inputs have been categorized as Level 3.

Mark-to-Market Derivatives (Exelon, Generation, ComEd, PHI and DPL). Derivative contracts are traded in both exchange-based and non-exchange-based markets. Exchange-based derivatives that are valued using unadjusted quoted prices in active markets are categorized in Level 1 in the fair value hierarchy. Certain derivatives' pricing is verified using indicative price quotations available through brokers or over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask, mid-point prices and are obtained from sources that the Registrants believe provide the most liquid market for the commodity. The price quotations are reviewed and corroborated to ensure the prices are observable and representative of an orderly transaction between market participants. This includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration. The remainder of derivative contracts are valued using the Black model, an industry standard option valuation model. The Black model takes into account inputs such as contract terms, including maturity, and market parameters, including assumptions of the future prices of energy, interest rates, volatility, credit worthiness and credit spread. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs are generally observable. Such instruments are categorized in Level 2. The Registrants' derivatives are predominately at liquid trading points. For derivatives that trade in less liquid markets with limited pricing information model inputs generally would include both observable and unobservable inputs. These valuations may include an estimated basis adjustment from an illiquid trading point to a liquid trading point for which active price quotations are available. Such instruments are categorized in Level 3.

Exelon may utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. In addition, the Registrants may utilize interest rate derivatives to lock in interest rate levels in anticipation of future financings. These interest rate derivatives are typically designated as cash flow hedges. Exelon determines the current fair value by calculating the net present value of expected payments and receipts under the swap agreement, based on and discounted by the market's expectation of future interest rates. Additional inputs to the net present value

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

calculation may include the contract terms, counterparty credit risk and other market parameters. As these inputs are based on observable data and valuations of similar instruments, the interest rate swaps are categorized in Level 2 in the fair value hierarchy. See Note 9—Derivative Financial Instruments for further discussion on mark-to-market derivatives.

Deferred Compensation Obligations (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). The Registrants' deferred compensation plans allow participants to defer certain cash compensation into a notional investment account. The Registrants include such plans in other current and noncurrent liabilities in their Consolidated Balance Sheets. The value of the Registrants' deferred compensation obligations is based on the market value of the participants' notional investment accounts. The underlying notional investments are comprised primarily of equities, mutual funds, commingled funds, and fixed income securities which are based on directly and indirectly observable market prices. Since the deferred compensation obligations themselves are not exchanged in an active market, they are categorized as Level 2 in the fair value hierarchy.

The value of certain employment agreement obligations (which are included with the Deferred Compensation Obligation in the tables above) are based on a known and certain stream of payments to be made over time and are categorized as Level 2 within the fair value hierarchy.

Additional Information Regarding Level 3 Fair Value Measurements (Exelon, Generation, ComEd, PHI, Pepco and DPL)

Mark-to-Market Derivatives (Exelon, Generation and ComEd). For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities. Forward price curves for the power market utilized by the front office to manage the portfolio, are reviewed and verified by the middle office, and used for financial reporting by the back office. The Registrants consider credit and nonperformance risk in the valuation of derivative contracts categorized in Level 2 and 3, including both historical and current market data in its assessment of credit and nonperformance risk by counterparty. Due to master netting agreements and collateral posting requirements, the impacts of credit and nonperformance risk were not material to the financial statements.

Disclosed below is detail surrounding the Registrants' significant Level 3 valuations. The calculated fair value includes marketability discounts for margining provisions and other attributes. Generation's Level 3 balance generally consists of forward sales and purchases of power and natural gas and certain transmission congestion contracts. Generation utilizes various inputs and factors including market data and assumptions that market participants would use in pricing assets or liabilities as well as assumptions about the risks inherent in the inputs to the valuation technique. The inputs and factors include forward commodity prices, commodity price volatility, contractual volumes, delivery location, interest rates, credit quality of counterparties and credit enhancements.

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For commodity derivatives, the primary input to the valuation models is the forward commodity price curve for each instrument. Forward commodity price curves are derived by risk management for liquid locations and by the traders and portfolio managers for illiquid locations. All locations are reviewed and verified by risk management considering published exchange transaction prices, executed bilateral transactions, broker quotes, and other observable or public data sources. The relevant forward commodity curve used to value each of the derivatives depends on a number of factors, including commodity type, delivery location, and delivery period. Price volatility varies by commodity and location. When appropriate, Generation discounts future cash flows using risk free interest rates with adjustments to reflect the credit quality of each counterparty for assets and Generation’s own credit quality for liabilities. The level of observability of a forward commodity price varies generally due to the delivery location and delivery period. Certain delivery locations including PJM West Hub (for power) and Henry Hub (for natural gas) are more liquid and prices are observable for up to three years in the future. The observability period of volatility is generally shorter than the underlying power curve used in option valuations. The forward curve for a less liquid location is estimated by using the forward curve from the liquid location and applying a spread to represent the cost to transport the commodity to the delivery location. This spread does not typically represent a majority of the instrument’s market price. As a result, the change in fair value is closely tied to liquid market movements and not a change in the applied spread. The change in fair value associated with a change in the spread is generally immaterial. An average spread calculated across all Level 3 power and gas delivery locations is approximately $2.67 and $0.40 for power and natural gas, respectively. Many of the commodity derivatives are short term in nature and thus a majority of the fair value may be based on observable inputs even though the contract as a whole must be classified as Level 3.

On December 17, 2010, ComEd entered into several 20-year floating to fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. See Note 9 — Derivative Financial Instruments for more information. The fair value of these swaps has been designated as a Level 3 valuation due to the long tenure of the positions and internal modeling assumptions. The modeling assumptions include using natural gas heat rates to project long term forward power curves adjusted by a renewable factor that incorporates time of day and seasonality factors to reflect accurate renewable energy pricing. In addition, marketability reserves are applied to the positions based on the tenor and supplier risk.

The table below discloses the significant inputs to the forward curve used to value these positions.

Type of trade	Fair Value at March 31, 2017	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives — Economic Hedges (Exelon and Generation)(a)(c)	$ 464	Discounted Cash Flow	Forward power price	$8 — $130
			Forward gas price	$1.92 — $9.87
		Option Model	Volatility percentage	13% — 112%
Mark-to-market derivatives — Proprietary trading (Exelon and Generation)(a)(c)	$ 3	Discounted Cash Flow	Forward power price	$15 — $67
Mark-to-market derivatives (Exelon and ComEd)	$ (282)	Discounted Cash Flow	Forward heat rate(b)	8x — 9x
			Marketability reserve	3% — 8%
			Renewable factor	88% — 121%

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(a) The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.
(b) Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.
(c) The fair values do not include cash collateral posted on level three positions of $98 million as of March 31, 2017.

Type of trade	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives — Economic Hedges (Exelon and Generation)[a][c]	$ 435	Discounted Cash Flow	Forward power price	$11 — $130
			Forward gas price	$1.72 — $9.2
		Option Model	Volatility percentage	8% — 173%
Mark-to-market derivatives — Proprietary trading (Exelon and Generation)[a][c]	$ (3)	Discounted Cash Flow	Forward power price	$19 — $79
Mark-to-market derivatives (Exelon and ComEd)	$ (258)	Discounted Cash Flow	Forward heat rate[b]	8x — 9x
			Marketability reserve	3% — 8%
			Renewable factor	89% — 121%

(a) The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.
(b) Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.
(c) The fair values do not include cash collateral posted on level three positions of $61 million as of December 31, 2016.

The inputs listed above would have a direct impact on the fair values of the above instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of Generation's commodity derivatives are forward commodity prices and for options is price volatility. Increases (decreases) in the forward commodity price in isolation would result in significantly higher (lower) fair values for long positions (contracts that give Generation the obligation or option to purchase a commodity), with offsetting impacts to short positions (contracts that give Generation the obligation or right to sell a commodity). Increases (decreases) in volatility would increase (decrease) the value for the holder of the option (writer of the option). Generally, a change in the estimate of forward commodity prices is unrelated to a change in the estimate of volatility of prices. An increase to the reserves listed above would decrease the fair value of the positions. An increase to the heat rate or renewable factors would increase the fair value accordingly. Generally, interrelationships exist between market prices of natural gas and power. As such, an increase in natural gas pricing would potentially have a similar impact on forward power markets.

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning (Exelon and Generation). For middle market lending and certain corporate debt securities investments, the fair value is determined using a combination of valuation models including cost models, market models and income models. The valuation estimates are based on discounting the forecasted cash flows, market-based comparable data, credit and liquidity factors, as well as other factors that may impact value. Significant judgment is required in the application of discounts or premiums applied for factors such as size, marketability, credit risk and relative performance.

Because Generation relies on third-party fund managers to develop the quantitative unobservable inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Generation. This includes information regarding the sensitivity of the fair values to changes in the unobservable inputs. Generation gains an understanding of the fund managers' inputs and assumptions used in preparing the valuations. Generation performed procedures to assess the reasonableness of the valuations.

Rabbi Trust Investments — Life insurance contracts (Exelon, PHI, Pepco, DPL and ACE). For life insurance policies categorized as Level 3, the fair value is determined based on the cash surrender value of the policy, which contains unobservable inputs and assumptions. Because Exelon relies on its third-party insurance provider to develop the inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Exelon. Exelon gains an understanding of the types of inputs and assumptions used in preparing the valuations and performs procedures to assess the reasonableness of the valuations.

9. Derivative Financial Instruments (All Registrants)

The Registrants use derivative instruments to manage commodity price risk, foreign currency exchange risk and interest rate risk related to ongoing business operations.

Commodity Price Risk (All Registrants)

To the extent the amount of energy Generation produces differs from the amount of energy it has contracted to sell, Exelon and Generation are exposed to market fluctuations in the prices of electricity, fossil fuels and other commodities. Each of the Registrants employ established policies and procedures to manage their risks associated with market fluctuations in commodity prices by entering into physical and financial derivative contracts, including swaps, futures, forwards, options and short-term and long-term commitments to purchase and sell energy and energy-related products. The Registrants believe these instruments, which are classified as either economic hedges or non-derivatives, mitigate exposure to fluctuations in commodity prices.

Derivative accounting guidance requires that derivative instruments be recognized as either assets or liabilities at fair value, with changes in fair value of the derivative recognized in earnings each period. Other accounting treatments are available through special election and designation, provided they meet specific, restrictive criteria both at the time of designation and on an ongoing basis. These alternative permissible accounting treatments include normal purchase normal sale (NPNS), cash flow hedge and fair value hedge. For Generation, all derivative economic hedges related to commodities are recorded at fair value through earnings for the combined company, referred to as economic hedges in the following tables. The Registrants have applied the NPNS scope exception to certain derivative contracts for the forward sale of generation, power procurement agreements, and natural gas supply agreements. Generation has also entered into bilateral long-term contractual obligations for sales of energy to load-serving entities, including electric utilities, municipalities, electric cooperatives and retail load aggregators, as well as contractual obligations to deliver energy to market participants who primarily focus on the resale of energy products for delivery. These non-derivative contracts are accounted for primarily under the accrual method of accounting. Additionally, Generation is exposed to certain market risks through its proprietary trading activities. The proprietary trading activities are a complement to Generation's energy marketing portfolio but represent a small portion of Generation's overall energy marketing activities.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Economic Hedging. The Registrants are exposed to commodity price risk primarily relating to changes in the market price of electricity, fossil fuels, and other commodities associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather conditions, governmental regulatory and environmental policies, and other factors. Within Exelon, Generation has the most exposure to commodity price risk. As such, Generation uses a variety of derivative and non-derivative instruments to manage the commodity price risk of its electric generation facilities, including power and gas sales, fuel and energy purchases, natural gas transportation and pipeline capacity agreements and other energy-related products marketed and purchased. In order to manage these risks, Generation may enter into fixed-price derivative or non-derivative contracts to hedge the variability in future cash flows from forecasted sales of energy and gas and purchases of fuel and energy. The objectives for entering into such hedges include fixing the price for a portion of anticipated future electricity sales at a level that provides an acceptable return on electric generation operations, fixing the price of a portion of anticipated fuel purchases for the operation of power plants, and fixing the price for a portion of anticipated energy purchases to supply load-serving customers. The portion of forecasted transactions hedged may vary based upon management’s policies and hedging objectives, the market, weather conditions, operational and other factors. Generation is also exposed to differences between the locational settlement prices of certain economic hedges and the hedged generating units. This price difference is actively managed through other instruments which include derivative congestion products, whose changes in fair value are recognized in earnings each period, and auction revenue rights, which are accounted for on an accrual basis.

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation’s owned and contracted generation positions that have not been hedged. Generation hedges commodity price risk on a ratable basis over three-year periods. As of March 31, 2017, the proportion of expected generation hedged for the major reportable segments is 97%-100%, 60%-63% and 30%-33% for 2017, 2018 and 2019, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products, and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts including Generation’s sales to ComEd, PECO, and BGE to serve their retail load.

On December 17, 2010, ComEd entered into several 20-year floating-to-fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. Delivery under the contracts began in June 2012. These contracts are designed to lock in a portion of the long-term commodity price risk resulting from the renewable energy resource procurement requirements in the Illinois Settlement Legislation. ComEd has not elected hedge accounting for these derivative financial instruments. ComEd records the fair value of the swap contracts on its balance sheet. Because ComEd receives full cost recovery for energy procurement and related costs from retail customers, the change in fair value each period is recorded by ComEd as a regulatory asset or liability. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO has contracts to procure electric supply that were executed through the competitive procurement process outlined in its PAPUC-approved DSP Programs, which are further discussed in Note 5 — Regulatory Matters. Based on Pennsylvania legislation and the DSP Programs permitting PECO to recover its electric supply procurement costs from retail customers with no mark-up, PECO’s price risk related to electric supply procurement is limited. PECO locked in fixed prices for a significant portion of its commodity price risk through full requirements contracts. PECO has certain full requirements contracts that are considered derivatives and qualify for the NPNS scope exception under current derivative authoritative guidance.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

PECO's natural gas procurement policy is designed to achieve a reasonable balance of long-term and short-term gas purchases under different pricing approaches in order to achieve system supply reliability at the least cost. PECO's reliability strategy is two-fold. First, PECO must assure that there is sufficient transportation capacity to satisfy delivery requirements. Second, PECO must ensure that a firm source of supply exists to utilize the capacity resources. All of PECO's natural gas supply and asset management agreements that are derivatives either qualify for the NPNS scope exception and have been designated as such, or have no mark-to-market balances because the derivatives are index priced. Additionally, in accordance with the 2016 PAPUC PGC settlement and to reduce the exposure of PECO and its customers to natural gas price volatility, PECO has continued its program to purchase natural gas for both winter and summer supplies using a layered approach of locking-in prices ahead of each season with long-term gas purchase agreements (those with primary terms of at least twelve months). Under the terms of the 2016 PGC settlement, PECO is required to lock in (i.e. economically hedge) the price of a minimum volume of its long-term gas commodity purchases. PECO's gas-hedging program is designed to cover about 25% of planned natural gas purchases in support of projected firm sales. The hedging program for natural gas procurement has no direct impact on PECO's financial position or results of operations as natural gas costs are fully recovered from customers under the PGC.

BGE has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC. The SOS rates charged recover BGE's wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for commercial and industrial rate classes. BGE's price risk related to electric supply procurement is limited. BGE locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of BGE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other BGE full requirements contracts are not derivatives.

BGE provides natural gas to its customers under a MBR mechanism approved by the MDPSC. Under this mechanism, BGE's actual cost of gas is compared to a market index (a measure of the market price of gas in a given period). The difference between BGE's actual cost and the market index is shared equally between shareholders and customers. BGE must also secure fixed price contracts for at least 10%, but not more than 20%, of forecasted system supply requirements for flowing (i.e. non-storage) gas for the November through March period. These fixed-price contracts are not subject to sharing under the MBR mechanism. BGE also ensures it has sufficient pipeline transportation capacity to meet customer requirements. All of BGE's natural gas supply and asset management agreements qualify for the NPNS scope exception and result in physical delivery.

Pepco has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and DCPSC. The SOS rates charged recover Pepco's wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for residential and commercial rate classes. Pepco's price risk related to electric supply procurement is limited. Pepco locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of Pepco's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other Pepco full requirements contracts are not derivatives.

DPL has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and the DPSC. The SOS rates charged recover DPL's wholesale power supply costs. In Delaware, DPL is also entitled to recover a Reasonable Allowance for Retail Margin (RARM). The RARM includes a fixed annual margin of approximately $2.75 million, plus an incremental cost component and a cash working capital allowance. In Maryland, DPL charges an administrative fee intended to allow it to recover its administrative costs. DPL locks in fixed prices for all of its SOS requirements through full requirements contracts. DPL's price risk related to electric supply procurement is limited. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

DPL provides natural gas to its customers under an Annual GCR mechanism approved by the DPSC. Under this mechanism, DPL's Annual GCR Filing establishes a future GCR for firm bundled sales customers by using a forecast of demand and commodity costs. The actual costs are trued up versus the forecast on a monthly basis and any shortfall or excess is carried forward as a recovery balance in the next GCR filing. The demand portion of the GCR is based upon DPL's firm transportation and storage contracts. DPL has firm deliverability of swing and seasonal storage; a liquefied natural gas facility and firm transportation capacity to meet customer demand and provide a reserve margin. The commodity portion of the GCR includes a commission approved hedging program which is intended to reduce gas commodity price volatility while limiting the firm natural gas customers' exposure to adverse changes in the market price of natural gas. The hedge program requires that DPL hedge, on a non-discretionary basis, an amount equal to fifty percent (50%) of estimated purchase requirements for each month, including estimated monthly purchases for storage injections. The fifty percent (50%) hedge monthly target is achieved by hedging 1/12th of the 50% target each month beginning 12-months prior to the month in which the physical gas is to be purchased. Currently, DPL uses only exchange traded futures for its gas hedging program, which are considered derivatives, however, it retains the capability to employ other physical and financial hedges if needed. DPL has not elected hedge accounting for these derivative financial instruments. Because of the DPSC-approved fuel adjustment clause for DPL's derivatives, the change in fair value of the derivatives each period, in addition to all premiums paid and other transaction costs incurred as part of the Gas Hedging Program, are fully recoverable and are recorded by DPL as regulatory assets or liabilities. DPL's physical gas purchases are currently all daily, monthly or intra-month transactions. From time to time, DPL will enter into seasonal purchase or sale arrangements, however, there are none currently in the portfolio. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

ACE has contracts to procure BGS electric supply that are executed through a competitive procurement process approved by the NJBPU. The BGS rates charged recover ACE's wholesale power supply costs. ACE does not make any profit or incur any loss on the supply component of the BGS it supplies to customers. ACE's price risk related to electric supply procurement is limited. ACE locks in fixed prices for all of its BGS requirements through full requirements contracts. Certain of ACE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other ACE full requirements contracts are not derivatives.

Proprietary Trading. Generation also enters into certain energy-related derivatives for proprietary trading purposes. Proprietary trading includes all contracts entered into with the intent of benefiting from shifts or changes in market prices as opposed to those entered into with the intent of hedging or managing risk. Proprietary trading activities are subject to limits established by Exelon's RMC. The proprietary trading activities, which included settled physical sales volumes of 1,850 GWhs and 1,220 GWhs for the three months ended March 31, 2017 and 2016, respectively, are a complement to Generation's energy marketing portfolio but represent a small portion of Generation's revenue from energy marketing activities. ComEd, PECO, BGE, PHI, Pepco, DPL and ACE do not enter into derivatives for proprietary trading purposes.

Interest Rate and Foreign Exchange Risk (Exelon, Generation, ComEd, PECO, BGE and PHI)

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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lock in rate levels in anticipation of future financings, which are typically designated as cash flow hedges. These strategies are employed to manage interest rate risks. At March 31, 2017, Exelon had $800 million of notional amounts of fixed-to-floating hedges outstanding, and Exelon and Generation had $657 million of notional amounts of floating-to-fixed hedges outstanding. Assuming the fair value and cash flow interest rate hedges are 100% effective, a hypothetical 50 bps increase in the interest rates associated with unhedged variable-rate debt (excluding Commercial Paper) and fixed-to-floating swaps would result in an approximately $2 million decrease in Exelon Consolidated pre-tax income for the three months ended March 31, 2017. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges. Below is a summary of the interest rate and foreign exchange hedge balances as of March 31, 2017:

	Generation					**Exelon Corporate**	**Exelon**
Description	**Derivatives Designated as Hedging Instruments**	**Economic Hedges**	**Proprietary Trading[a]**	**Collateral and Netting[b]**	**Subtotal**	**Derivatives Designated as Hedging Instruments**	**Total**
Mark-to-market derivative assets (current assets)	$ —	$ 15	$ 3	$ (13)	$ 5	$ —	$ 5
Mark-to-market derivative assets (noncurrent assets)	—	7	1	(5)	3	12	15
Total mark-to-market derivative assets	—	22	4	(18)	8	12	20
Mark-to-market derivative liabilities (current liabilities)	(1)	(17)	(2)	13	(7)	—	(7)
Mark-to-market derivative liabilities (noncurrent liabilities)	—	(8)	(1)	5	(4)	—	(4)
Total mark-to-market derivative liabilities	(1)	(25)	(3)	18	(11)	—	(11)
Total mark-to-market derivative net assets (liabilities)	$ (1)	$ (3)	$ 1	$ —	$ (3)	$ 12	$ 9

(a) Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the proprietary trading activity in the above table is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize proprietary trading interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates.

(b) Exelon and Generation net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following table provides a summary of the interest rate and foreign exchange hedge balances recorded by the Registrants as of December 31, 2016:

	Generation					Exelon Corporate	Exelon
Description	Derivatives Designated as Hedging Instruments	Economic Hedges	Proprietary Trading[a]	Collateral and Netting[b]	Subtotal	Derivatives Designated as Hedging Instruments	Total
Mark-to-market derivative assets (current assets)	$ —	$ 17	$ 4	$ (13)	$ 8	$ —	$ 8
Mark-to-market derivative assets (noncurrent assets)	—	11	1	(8)	4	16	20
Total mark-to-market derivative assets	—	28	5	(21)	12	16	28
Mark-to-market derivative liabilities (current liabilities)	(7)	(13)	(2)	14	(8)	—	(8)
Mark-to-market derivative liabilities (noncurrent liabilities)	(3)	(8)	(2)	9	(4)	—	(4)
Total mark-to-market derivative liabilities	(10)	(21)	(4)	23	(12)	—	(12)
Total mark-to-market derivative net assets (liabilities)	$ (10)	$ 7	$ 1	$ 2	$ —	$ 16	$ 16

(a) Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the proprietary trading activity in the above table is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize proprietary trading interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates.

(b) Exelon and Generation net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

Fair Value Hedges. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Exelon includes the gain or loss on the hedged items and the offsetting loss or gain on the related interest rate swaps in interest expense as follows:

		Three Months Ended March 31,			
	Income Statement Location	2017	2016	2017	2016
		Gain (loss) on Swaps		Gain (loss) on Borrowings	
Exelon	Interest expense	$ (4)	$ 17	$ 8	$ (15)

At March 31, 2017, Exelon had total outstanding fixed-to-floating fair value hedges related to interest rate swaps of $800 million, with a derivative asset of $12 million. At December 31, 2016, Exelon had total outstanding fixed-to-floating fair value hedges related to interest rate swaps of $800 million, with a derivative asset of $16 million. During the three months ended March 31, 2017 and 2016, the impact on the results of operations as a result of ineffectiveness from fair value hedges was a $4 million gain and a $2 million gain, respectively.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Cash Flow Hedges. During the first and second quarter of 2016, Exelon entered into $600 million and $100 million of floating-to-fixed forward starting interest rate swaps, respectively, to manage a portion of the interest rate exposure associated with an anticipated debt issuance. The swaps were designated as cash flow hedges. Exelon terminated the swaps during the second quarter of 2016 upon issuance of the debt. Exelon recognized a loss of $3 million related to the swaps and $3 million of AOCI will be amortized into Other, net in Exelon’s Consolidated Statement of Operations and Comprehensive Income over the term of the debt. See Note 10 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information.

During the first quarter of 2016, Exelon entered into a $100 million floating-to-fixed forward starting interest rate swaps to manage a portion of the interest rate exposure associated with an anticipated debt issuance. The swap was designated as a cash flow hedge. Exelon terminated the swap during the first quarter of 2016 upon issuance of the debt. Exelon did not recognize a gain or loss as a result of the termination of the swap and an immaterial amount of AOCI will be amortized into Other, net in Exelon’s Consolidated Statement of Operations and Comprehensive Income over the term of the debt.

During the first quarter of 2014, EGR, a subsidiary of Generation, entered into floating-to-fixed interest rate swaps to manage a portion of its interest rate exposure in connection with the long-term borrowings. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. The swaps have a notional amount of $164 million as of March 31, 2017 and expire in 2020. The swaps are designated as cash flow hedges. At March 31, 2017, the subsidiary had a $1 million derivative liability related to the swaps.

During the three months ended March 31, 2017 and 2016, the impact on the results of operations as a result of ineffectiveness from cash flow hedges in continuing designated hedge relationships was immaterial.

Economic Hedges. During the third quarter of 2014, EGTP, a subsidiary of Generation, entered into a floating-to-fixed interest rate swap to manage a portion of its interest rate exposure in connection with the long-term borrowing. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. The swaps have a notional amount of $494 million as of March 31, 2017 and expire in 2019. The swap was designated as a cash flow hedge in the fourth quarter of 2014. During the first quarter of 2017, the swap was de-designated. At March 31, 2017, the subsidiary had a $7 million derivative liability related to the swap.

During the third quarter of 2011, Sacramento PV Energy, a subsidiary of Generation entered into floating-to-fixed interest rate swaps to manage a portion of its interest rate exposure in connection with the long-term borrowings. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. During the first quarter of 2016, upon the termination of debt, Generation terminated the swaps. The total notional amount of the swaps were $25 million. No gain or loss was recognized as a result of the termination of the swaps.

During the third quarter of 2012, Constellation Solar Horizons, a subsidiary of Generation, entered into a floating-to-fixed interest rate swap to manage a portion of its interest rate exposure in connection with the long-term borrowings. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. During the first quarter of 2016, upon the termination of debt, Generation terminated the swap. The total notional amount of the swap was $24 million. No gain or loss was recognized as a result of the termination of the swap.

At March 31, 2017, Generation had immaterial notional amounts of interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions and $73 million in notional amounts of foreign currency exchange rate swaps that are marked-to-market to manage the exposure associated with international purchases of commodities in currencies other than U.S. dollars.

Fair Value Measurement and Accounting for the Offsetting of Amounts Related to Certain Contracts (Exelon, Generation, ComEd, PECO, BGE, PHI and DPL)

Fair value accounting guidance and disclosures about offsetting assets and liabilities requires the fair value of derivative instruments to be shown in the Notes to the Consolidated Financial Statements on a gross basis, even when the derivative instruments are subject to legally enforceable master netting agreements and qualify for net presentation in the Consolidated Balance Sheet. A master netting agreement is an agreement between two counterparties that may have derivative and non-derivative contracts with each other providing for the net settlement of all referencing contracts via one payment stream, which takes place as the contracts deliver, when collateral is requested or in the event of default. Generation’s use of cash collateral is generally unrestricted, unless Generation is downgraded below investment grade (i.e., to BB+ or Ba1). In the table below, Generation’s energy related economic hedges and proprietary trading derivatives are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral, including margin on exchange positions, is aggregated in the collateral and netting column. As of both March 31, 2017 and December 31, 2016, $8 million of cash collateral held was not offset against derivative positions because such collateral was not associated with any energy-related derivatives, were associated with accrual positions, or as of the balance sheet date there were no positions to offset. Excluded from the tables below are economic hedges that qualify for the NPNS scope exception and other non-derivative contracts that are accounted for under the accrual method of accounting.

ComEd’s use of cash collateral is generally unrestricted unless ComEd is downgraded below investment grade (i.e., to BB+ or Ba1).

Cash collateral held by PECO and BGE must be deposited in a non affiliate major U.S. commercial bank or foreign bank with a U.S. branch office that meet certain qualifications.

In the table below, DPL’s economic hedges are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral, is aggregated in the collateral and netting column.

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The following table provides a summary of the derivative fair value balances recorded by the Registrants as of March 31, 2017:

	Generation				ComEd	DPL			*Successor* PHI	Exelon
Derivatives	**Economic Hedges**	**Proprietary Trading**	**Collateral and Netting[a][e]**	**Subtotal[b]**	**Economic Hedges[c]**	**Economic Hedges[d]**	**Collateral and Netting[a]**	**Subtotal**	**Subtotal**	**Total Derivatives**
Mark-to-market derivative assets (current assets)	$ 3,398	$ 56	$ (2,612)	$ 842	$ —	$ —	$ —	$ —	$ —	$ 842
Mark-to-market derivative assets (noncurrent assets)	1,975	24	(1,475)	524	—	—	—	—	—	524
Total mark-to-market derivative assets	5,373	80	(4,087)	1,366	—	—	—	—	—	1,366
Mark-to-market derivative liabilities (current liabilities)	(3,029)	(49)	2,876	(202)	(19)	—	—	—	—	(221)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,780)	(28)	1,655	(153)	(263)	—	—	—	—	(416)
Total mark-to-market derivative liabilities	(4,809)	(77)	4,531	(355)	(282)	—	—	—	—	(637)
Total mark-to-market derivative net assets (liabilities)	$ 564	$ 3	$ 444	$ 1,011	$ (282)	$ —	$ —	$ —	$ —	$ 729

(a) Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

(b) Current and noncurrent assets are shown net of collateral of $128 million and $77 million, respectively, and current and noncurrent liabilities are shown net of collateral of $136 million and $103 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $444 million at March 31, 2017.

(c) Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

(d) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

(e) Of the collateral posted/(received), $14 million represents variation margin on the exchanges.

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The following table provides a summary of the derivative fair value balances recorded by the Registrants as of December 31, 2016:

	Generation				ComEd	DPL			*Successor* PHI	Exelon
Description	Economic Hedges	Proprietary Trading	Collateral and Netting[(a)(e)]	Subtotal[(b)]	Economic Hedges[(c)]	Economic Hedges[(d)]	Collateral and Netting[(a)]	Subtotal	Subtotal	Total Derivatives
Mark-to-market derivative assets (current assets)	$ 3,623	$ 55	$ (2,769)	$ 909	$ —	$ 2	$ (2)	$ —	$ —	$ 909
Mark-to-market derivative assets (noncurrent assets)	1,467	21	(1,016)	472	—	—	—	—	—	472
Total mark-to-market derivative assets	5,090	76	(3,785)	1,381	—	2	(2)	—	—	1,381
Mark-to-market derivative liabilities (current liabilities)	(3,165)	(54)	2,964	(255)	(19)	—	—	—	—	(274)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,274)	(25)	1,150	(149)	(239)	—	—	—	—	(388)
Total mark-to-market derivative liabilities	(4,439)	(79)	4,114	(404)	(258)	—	—	—	—	(662)
Total mark-to-market derivative net assets (liabilities)	$ 651	$ (3)	$ 329	$ 977	$ (258)	$ 2	$ (2)	$ —	$ —	$ 719

(a) Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, and letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

(b) Current and noncurrent assets are shown net of collateral of $100 million and $72 million, respectively, and current and noncurrent liabilities are shown net of collateral of $95 million and $62 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $329 million at December 31, 2016.

(c) Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

(d) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

(e) Of the collateral posted/(received), $(158) million represents variation margin on the exchanges.

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Cash Flow Hedges (Exelon and Generation). The tables below provide the activity of OCI related to cash flow hedges for the three months ended March 31, 2017 and 2016, containing information about the changes in the fair value of cash flow hedges and the reclassification from Accumulated OCI into results of operations. The amounts reclassified from OCI, when combined with the impacts of the hedged transactions, result in the ultimate recognition of net revenues or expenses at the contractual price.

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	Exelon
Three Months Ended March 31, 2017	Income Statement Location	Total Cash Flow Hedges	Total Cash Flow Hedges
Accumulated OCI derivative loss at December 31, 2016		$ (19)	$ (17)
Effective portion of changes in fair value		2	2
Reclassifications from AOCI to net income	Interest Expense	4[(a)]	4[(a)]
Accumulated OCI derivative loss at March 31, 2017		$ (13)	$ (11)

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	Exelon
Three Months Ended March 31, 2016	Income Statement Location	Total Cash Flow Hedges	Total Cash Flow Hedges
Accumulated OCI derivative loss at December 31, 2015		$ (21)	$ (19)
Effective portion of changes in fair value		(8)	(10)
Reclassifications from AOCI to net income	Interest Expense	3[(b)]	3[(b)]
Accumulated OCI derivative loss at March 31, 2016		$ (26)	$ (26)

(a) Amount is net of related income tax expense of $3 million for the three months ended March 31, 2017.
(b) Amount is net of related income tax expense of $2 million for the three months ended March 31, 2016.

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Economic Hedges (Exelon and Generation). These instruments represent hedges that economically mitigate exposure to fluctuations in commodity prices and include financial options, futures, swaps, physical forward sales and purchases, but for which the fair value or cash flow hedge elections were not made. Additionally, Generation enters into interest rate derivative contracts and foreign exchange currency swaps ("treasury") to manage the exposure related to the interest rate component of commodity positions and international purchases of commodities in currencies other than U.S. Dollars. For the three months ended March 31, 2017 and 2016, the following net pre-tax mark-to-market gains (losses) of certain purchase and sale contracts were reported in Operating revenues or Purchased power and fuel expense, or Interest expense at Exelon and Generation in the Consolidated Statements of Operations and Comprehensive Income and are included in "Net fair value changes related to derivatives" in Exelon's and Generation's Consolidated Statements of Cash Flows. In the tables below, "Change in fair value" represents the change in fair value of the derivative contracts held at the reporting date. The "Reclassification to realized" generally represents the recognized change in fair value that was reclassified from unrealized to realized when the transaction to which the derivative relates occurs.

	Generation			Exelon
Three Months Ended March 31, 2017	**Operating Revenues**	**Purchased Power and Fuel**	**Total**	**Total**
Change in fair value of commodity positions	$ 93	$ (135)	$(42)	$ (42)
Reclassification to realized of commodity positions	(47)	42	(5)	(5)
Net commodity mark-to-market gains (losses)	46	(93)	(47)	(47)
Change in fair value of treasury positions	(1)	—	(1)	(1)
Reclassification to realized of treasury positions	(1)	—	(1)	(1)
Net treasury mark-to-market gains (losses)	(2)	—	(2)	(2)
Net mark-to-market gains (losses)	$ 44	$ (93)	$(49)	$ (49)

	Generation			Exelon
Three Months Ended March 31, 2016	**Operating Revenues**	**Purchased Power and Fuel**	**Total**	**Total**
Change in fair value of commodity positions	$ 279	$ (127)	$152	$ 152
Reclassification to realized of commodity positions	(211)	167	(44)	(44)
Net commodity mark-to-market gains (losses)	68	40	108	108
Change in fair value of treasury positions	(3)	—	(3)	(3)
Reclassification to realized of treasury positions	(2)	—	(2)	(2)
Net treasury mark-to-market gains (losses)	(5)	—	(5)	(5)
Net mark-to-market gains (losses)	$ 63	$ 40	$103	$ 103

Proprietary Trading Activities (Exelon and Generation). For the three months ended March 31, 2017 and 2016, Exelon and Generation recognized the following net unrealized mark-to-market gains (losses), net realized mark-to-market gains (losses) and total net mark-to-market gains (losses) before income taxes relating to mark-to-market activity on commodity derivative instruments entered into for proprietary trading purposes and interest rate and foreign exchange derivative contracts to hedge risk associated with the interest rate and foreign exchange components of underlying commodity positions. Gains and losses associated with proprietary trading are reported as operating revenues in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and are included in "Net fair value changes related to derivatives" in Exelon's and

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Generation's Consolidated Statements of Cash Flows. In the tables below, "Change in fair value" represents the change in fair value of the derivative contracts held at the reporting date. The "Reclassification to realized" represents the recognized change in fair value that was reclassified to realized due to settlement of the derivative during the period.

	Three Months Ended March 31,	
	2017	2016
Change in fair value of commodity positions	$ —	$ 7
Reclassification to realized of commodity positions	(1)	(3)
Net commodity mark-to-market gains (losses)	(1)	4
Change in fair value of treasury positions	—	(2)
Reclassification to realized of treasury positions	(1)	1
Net treasury mark-to-market gains (losses)	(1)	(1)
Total net mark-to-market gains (losses)	$ (2)	$ 3

Credit Risk (All Registrants)

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that enter into derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. For energy-related derivative instruments, Generation enters into enabling agreements that allow for payment netting with its counterparties, which reduces Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. Typically, each enabling agreement is for a specific commodity and so, with respect to each individual counterparty, netting is limited to transactions involving that specific commodity product, except where master netting agreements exist with a counterparty that allow for cross product netting. In addition to payment netting language in the enabling agreement, Generation's credit department establishes credit limits, margining thresholds and collateral requirements for each counterparty, which are defined in the derivative contracts. Counterparty credit limits are based on an internal credit review process that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings by credit rating agencies and risk management capabilities. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with Generation as specified in each enabling agreement. Generation's credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

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The following tables provide information on Generation's credit exposure for all derivative instruments, NPNS and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of March 31, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties. The figures in the tables below exclude credit risk exposure from individual retail counterparties, Nuclear fuel procurement contracts and exposure through RTOs, ISOs, NYMEX, ICE, NASDAQ, NGX and Nodal commodity exchanges. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $13 million, $31 million,$24 million, $40 million, $13 million, and $7 million as of March 31, 2017, respectively.

Rating as of March 31, 2017	Total Exposure Before Credit Collateral	Credit Collateral[(a)]	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 964	$ 16	$ 948	1	$ 313
Non-investment grade	75	3	72	—	—
No external ratings					
Internally rated — investment grade	324	—	324	—	—
Internally rated — non-investment grade	127	14	113	—	—
Total	$ 1,490	$ 33	$ 1,457	1	$ 313

Net Credit Exposure by Type of Counterparty	As of March 31, 2017
Financial institutions	$ 101
Investor-owned utilities, marketers, power producers	600
Energy cooperatives and municipalities	663
Other	93
Total	$ 1,457

(a) As of March 31, 2017, credit collateral held from counterparties where Generation had credit exposure included $23 million of cash and $10 million of letters of credit. The credit collateral does not include non-liquid collateral.

ComEd's power procurement contracts provide suppliers with a certain amount of unsecured credit. The credit position is based on forward market prices compared to the benchmark prices. The benchmark prices are the forward prices of energy projected through the contract term and are set at the point of supplier bid submittals. If the forward market price of energy exceeds the benchmark price, the suppliers are required to post collateral for the secured credit portion after adjusting for any unpaid deliveries and unsecured credit allowed under the contract. The unsecured credit used by the suppliers represents ComEd's net credit exposure. As of March 31, 2017, ComEd's net credit exposure to suppliers was approximately $1 million.

ComEd is permitted to recover its costs of procuring energy through the Illinois Settlement Legislation. ComEd's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO's supplier master agreements that govern the terms of its electric supply procurement contracts, which define a supplier's performance assurance requirements, allow a supplier to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents PECO's net credit exposure. As of March 31, 2017, PECO had no material net credit exposure to suppliers.

PECO is permitted to recover its costs of procuring electric supply through its PAPUC-approved DSP Program. PECO's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 5 — Regulatory Matters for additional information.

PECO's natural gas procurement plan is reviewed and approved annually on a prospective basis by the PAPUC. PECO's counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the PGC, which allows PECO to adjust rates quarterly to reflect realized natural gas prices. PECO does not obtain collateral from suppliers under its natural gas supply and asset management agreements. As of March 31, 2017, PECO had no material credit exposure under its natural gas supply and asset management agreements with investment grade suppliers.

BGE is permitted to recover its costs of procuring energy through the MDPSC-approved procurement tariffs. BGE's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

BGE's full requirement wholesale electric power agreements that govern the terms of its electric supply procurement contracts, which define a supplier's performance assurance requirements, allow a supplier, or its guarantor, to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth, subject to an unsecured credit cap. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents BGE's net credit exposure. The seller's credit exposure is calculated each business day. As of March 31, 2017, BGE had no net credit exposure to suppliers.

BGE's regulated gas business is exposed to market-price risk. This market-price risk is mitigated by BGE's recovery of its costs to procure natural gas through a gas cost adjustment clause approved by the MDPSC. BGE does make off-system sales after BGE has satisfied its customers' demands, which are not covered by the gas cost adjustment clause. At March 31, 2017, BGE had credit exposure of $3 million related to off-system sales which is mitigated by parental guarantees, letters of credit or right to offset clauses within other contracts with those third-party suppliers.

Pepco's, DPL's and ACE's power procurement contracts provide suppliers with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents Pepco's, DPL's and ACE's net credit exposure. As of March 31, 2017, Pepco's, DPL's and ACE's net credit exposures to suppliers were immaterial.

Pepco is permitted to recover its costs of procuring energy through the MDPSC-approved and DCPSC-approved procurement tariffs. DPL is permitted to recover its costs of procuring energy through the MDPSC-approved and DPSC-approved procurement tariffs. ACE is permitted to recover its costs of procuring energy through the NJBPU-approved procurement tariffs. Pepco's, DPL's and ACE's counterparty credit risks are mitigated by their ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

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DPL's natural gas procurement plan is reviewed and approved annually on a prospective basis by the DPSC. DPL's counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the GCR, which allows DPL to adjust rates annually to reflect realized natural gas prices. To the extent that the fair value of the transactions in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. Exchange-traded contracts are required to be fully collateralized without regard to the credit rating of the holder. As of March 31, 2017, DPL had no credit exposure under its natural gas supply and asset management agreements with investment grade suppliers.

Collateral and Contingent-Related Features (All Registrants)

As part of the normal course of business, Generation routinely enters into physical or financially settled contracts for the purchase and sale of electric capacity, energy, fuels, emissions allowances and other energy-related products. Certain of Generation's derivative instruments contain provisions that require Generation to post collateral. Generation also enters into commodity transactions on exchanges (i.e., NYMEX, ICE). The exchanges act as the counterparty to each trade. Transactions on the exchanges must adhere to comprehensive collateral and margining requirements. This collateral may be posted in the form of cash or credit support with thresholds contingent upon Generation's credit rating from each of the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit-risk-related contingent features stipulate that if Generation were to be downgraded or lose its investment grade credit rating (based on its senior unsecured debt rating), it would be required to provide additional collateral. This incremental collateral requirement allows for the offsetting of derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master netting agreements. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. In this case, Generation believes an amount of several months of future payments (i.e., capacity payments) rather than a calculation of fair value is the best estimate for the contingent collateral obligation, which has been factored into the disclosure below.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on the exchanges that are fully collateralized) is detailed in the table below:

Credit-Risk Related Contingent Feature	March 31, 2017	December 31, 2016
Gross Fair Value of Derivative Contracts Containing this Feature[(a)]	$ (994)	$ (960)
Offsetting Fair Value of In-the-Money Contracts Under Master Netting Arrangements[(b)]	712	627
Net Fair Value of Derivative Contracts Containing This Feature[(c)]	$ (282)	$ (333)

(a) Amount represents the gross fair value of out-of-the-money derivative contracts containing credit-risk related contingent features ignoring the effects of master netting agreements.
(b) Amount represents the offsetting fair value of in-the-money derivative contracts under legally enforceable master netting agreements with the same counterparty, which reduces the amount of any liability for which a Registrant could potentially be required to post collateral.
(c) Amount represents the net fair value of out-of-the-money derivative contracts containing credit-risk related contingent features after considering the mitigating effects of offsetting positions under master netting arrangements and reflects the actual net liability upon which any potential contingent collateral obligations would be based.

Generation had cash collateral posted of $471 million and letters of credit posted of $273 million and cash collateral held of $35 million and letters of credit held of $32 million as of March 31, 2017 for external counterparties with derivative positions. Generation had cash collateral posted of $347 million and letters of credit posted of $284 million and cash collateral held of $24 million and letters of credit held of $28 million at December 31, 2016 for external counterparties with derivative positions. In the event of a credit downgrade below investment grade (i.e., to

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BB+ by S&P or Ba1 by Moody's), Generation would have been required to post additional collateral of $1.8 billion and $1.9 billion as of March 31, 2017 and December 31, 2016, respectively. These amounts represent the potential additional collateral required after giving consideration to offsetting derivative and non-derivative positions under master netting agreements.

Generation's and Exelon's interest rate swaps contain provisions that, in the event of a merger, if Generation's debt ratings were to materially weaken, it would be in violation of these provisions, resulting in the ability of the counterparty to terminate the agreement prior to maturity. Collateralization would not be required under any circumstance. Termination of the agreement could result in a settlement payment by Exelon or the counterparty on any interest rate swap in a net liability position. The settlement amount would be equal to the fair value of the swap on the termination date. As of March 31, 2017, Generation's swaps were in a liability position with a fair value of $3 million and Exelon's swaps were in an asset position, with a fair value of $9 million.

See Note 26 — Segment Information of the Exelon 2016 Form 10-K for further information regarding the letters of credit supporting the cash collateral.

Generation entered into supply forward contracts with certain utilities, including PECO and BGE, with one-sided collateral postings only from Generation. If market prices fall below the benchmark price levels in these contracts, the utilities are not required to post collateral. However, when market prices rise above the benchmark price levels, counterparty suppliers, including Generation, are required to post collateral once certain unsecured credit limits are exceeded. Under the terms of ComEd's standard block energy contracts, collateral postings are one-sided from suppliers, including Generation, should exposures between market prices and benchmark prices exceed established unsecured credit limits outlined in the contracts. As of March 31, 2017, ComEd held approximately $1 million in collateral from suppliers in association with energy procurement contracts. Under the terms of ComEd's annual renewable energy contracts, collateral postings are required to cover a fixed value for RECs only. In addition, under the terms of ComEd's long-term renewable energy contracts, collateral postings are required from suppliers for both RECs and energy. The REC portion is a fixed value and the energy portion is one-sided from suppliers should the forward market prices exceed contract prices. As of March 31, 2017, ComEd held approximately $19 million in the form of cash and letters of credit as margin for both the annual and long-term REC obligations. If ComEd lost its investment grade credit rating as of March 31, 2017, it would have been required to post approximately $10 million of collateral to its counterparties. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO's natural gas procurement contracts contain provisions that could require PECO to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon PECO's credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of March 31, 2017, PECO was not required to post collateral for any of these agreements. If PECO lost its investment grade credit rating as of March 31, 2017, PECO could have been required to post approximately $27 million of collateral to its counterparties.

PECO's supplier master agreements that govern the terms of its DSP Program contracts do not contain provisions that would require PECO to post collateral.

BGE's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require BGE to post collateral.

BGE's natural gas procurement contracts contain provisions that could require BGE to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon BGE's credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of March 31, 2017, BGE was not required to post collateral for any of these agreements. If

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BGE lost its investment grade credit rating as of March 31, 2017, BGE could have been required to post approximately $47 million of collateral to its counterparties.

Pepco's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require Pepco to post collateral.

DPL's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require DPL to post collateral.

DPL's natural gas procurement contracts contain provisions that could require DPL to post collateral. To the extent that the fair value of the natural gas derivative transaction in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. The DPL obligations are standalone, without the guaranty of PHI. If DPL lost its investment grade credit rating as of March 31, 2017, DPL could have been required to post an additional amount of approximately $11 million of collateral to its natural gas counterparties.

ACE's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require ACE to post collateral.

10. Debt and Credit Agreements (All Registrants)

Short-Term Borrowings

Exelon, Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the Exelon intercompany money pool. PHI meets its short-term liquidity requirement primarily through the issuance of short-term notes and the Exelon intercompany money pool.

Commercial Paper

The Registrants had the following amounts of commercial paper borrowings outstanding as of March 31, 2017 and December 31, 2016:

Commercial Paper Borrowings	March 31, 2017	December 31, 2016
Exelon Corporate	$ 204	$ —
Generation	579	620
ComEd	365	—
PECO	—	—
BGE	95	45
PHI Corporate	—	—
Pepco	167	23

Short-Term Loan Agreements

On January 13, 2016, PHI entered into a $500 million term loan agreement, which was amended on March 28, 2016. The net proceeds of the loan were used to repay PHI's outstanding commercial paper, and for

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general corporate purposes. Pursuant to the loan agreement, as amended, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1%, and all indebtedness thereunder is unsecured. On March 23, 2017, the aggregate principal amount of all loans, together with any accrued but unpaid interest due under the loan agreement was fully repaid and the loan terminated. On March 23, 2017, Exelon Corporate entered into a similar type term loan for $500 million which expires on March 22, 2018. Pursuant to the loan agreement, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1% and all indebtedness thereunder is unsecured. The loan agreement is reflected in Exelon's Consolidated Balance Sheet within Short-Term borrowings.

Credit Agreements

On January 5, 2016, Generation entered into a credit agreement establishing a $150 million bilateral credit facility, scheduled to mature in January 2019. This facility will solely be utilized by Generation to issue letters of credit. This facility does not back Generation's commercial paper program.

On January 9, 2017, the credit agreement for Generation's $75 million bilateral credit facility was amended and restated to increase the facility size to $100 million and extend the maturity to January 2019. This facility will solely be used by Generation to issue letters of credit.

On April 1, 2016, the credit agreement for CENG's $100 million bilateral credit facility was amended to increase the overall facility size to $200 million. This facility is utilized by CENG to fund working capital and capital projects. The facility does not back Generation's commercial paper program.

On May 26, 2016, Exelon Corporate, Generation, ComEd, PECO and BGE entered into amendments to each of their respective syndicated revolving credit facilities, which extended the maturity of each of the facilities to May 26, 2021. Exelon Corporate also increased the size of its facility from $500 million to $600 million. On May 26, 2016, PHI, Pepco, DPL and ACE entered into an amendment to their Second Amended and Restated Credit Agreement dated as of August 1, 2011, which (i) extended the maturity date of the facility to May 26, 2021, (ii) removed PHI as a borrower under the facility, (iii) decreased the size of the facility from $1.5 billion to $900 million and (iv) converted its financial covenant from a debt to capitalization leverage ratio to an interest coverage ratio.

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Long-Term Debt

Issuance of Long-Term Debt

During the three months ended March 31, 2017, the following long-term debt was issued:

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Generation	Energy Efficiency Project Financing	3.72%	April 30, 2018	$ 1	Funding to install energy conservation measures for the Smithsonian Zoo project
Generation	Energy Efficiency Project Financing	2.61%	September 30, 2018	$ 1	Funding to install energy conservation measures for the Pensacola project
Generation	Energy Efficiency Project Financing	3.90%	January 31, 2018	$ 6	Funding to install energy conservation measures for the Naval Station Great Lakes project
Generation	Albany Green Energy Project Financing	LIBOR + 1.25%	November 17, 2017	$ 13	Albany Green Energy biomass generation development
Generation	Senior Notes	2.95%	January 15, 2020	$ 250	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	Senior Notes	3.40%	March 15, 2022	$ 500	Repay outstanding commercial paper obligations and for general corporate purposes.
Pepco	Energy Efficiency Project Financing	3.30%	December 15, 2017	$ 1	Funding to install energy conservation measures for the DOE Germantown project

EGTP Nonrecourse Debt

In September 2014, EGTP, an indirect subsidiary of Exelon and Generation, issued $675 million aggregate principal amount of a nonrecourse senior secured term loan. The net proceeds were distributed to Generation for general business purposes. The loan is scheduled to mature on September 18, 2021. The term loan bears interest at a variable rate equal to LIBOR plus 4.75%, subject to a 1% LIBOR floor with interest payable quarterly. As of March 31, 2017, $658 million was outstanding. As part of the agreement, a revolving credit facility was established for the amount of $20 million available through, and scheduled to mature on September 18, 2019. In addition to the financing, EGTP entered into various interest rate swaps with an initial notional amount of approximately $505 million at an interest rate of 2.34% to hedge a portion of the interest rate exposure in connection with this financing, as required by the debt covenants. See Note 9 — Derivative Financial Instruments for additional information regarding interest rate swaps. See Note 20 — Subsequent Events for additional information regarding EGTP and the associated nonrecourse debt.

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Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes may use debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon will receive $1.15 billion upon settlement on June 1, 2017, of the forward equity purchase contract. Exelon currently expects the number of equity shares to be issued to range from 26 million to 33 million dependent on Exelon's stock price at the time of settlement pursuant to the equity unit terms. Until settlement of the equity purchase contract, earnings per share dilution resulting from the equity units is being determined under the treasury stock method.

For the three months ended March 31, 2017 and 2016, contract payments of $11 million related to the Contract Payment Obligation were included within Retirements of long-term debt in Exelon's Consolidated Statements of Cash Flows.

11. Income Taxes (All Registrants)

The effective income tax rate from continuing operations varies from the U.S. Federal statutory rate principally due to the following:

	Three Months Ended March 31, 2017								
									Successor
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	0.9	1.0	4.9	0.1	5.2	4.6	5.3	5.6	4.9
Qualified nuclear decommissioning trust fund income	3.4	7.6	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(0.4)	(0.7)	(0.2)	(0.1)	(0.1)	(0.1)	(0.3)	(0.4)	(0.2)
Plant basis differences	(2.4)	—	(0.2)	(13.2)	(0.9)	(5.8)	(1.9)	(3.4)	(3.8)
Production tax credits and other credits	(0.6)	(1.4)	—	—	—	—	—	—	—
Noncontrolling interests	(0.1)	(0.3)	—	—	—	—	—	—	—
Merger expenses(a)	(11.4)	(3.3)	—	—	—	(34.2)	(21.9)	(167.1)	(42.4)
Fitzpatrick bargain purchase gain	(6.6)	(14.5)	—	—	—	—	—	—	—
Other	—	(0.1)	—	0.3	(0.2)	0.5	—	(3.0)	(0.4)
Effective income tax rate	17.8%	23.3%	39.5%	22.1%	39.0%	0.0%	16.2%	(133.3)%	(6.9)%

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	Three Months Ended March 31, 2016								*Successor* March 24, 2016 to March 31, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**[b]	**DPL**[b]	**ACE**[b]	**PHI**[b]	**PHI**
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:										
State income taxes, net of Federal income tax benefit(c)	(1.1)	3.7	5.1	1.0	5.2	(2.5)	(2.7)	5.9	5.4	11.9
Qualified nuclear decommissioning trust fund income	5.6	4.2	—	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(1.6)	(1.0)	(0.3)	(0.1)	(0.1)	—	0.1	0.2	—	(0.9)
Plant basis differences	(5.5)	—	(0.1)	(9.3)	(0.6)	2.8	0.7	0.6	—	(13.5)
Production tax credits and other credits	(5.1)	(3.9)	—	—	—	—	—	—	—	—
Noncontrolling interests	0.5	0.3	—	—	—	—	—	—	—	—
Merger expenses	33.6	—	—	—	—	(16.5)	(22.1)	(17.0)	(15.1)	11.1
Other	(2.0)	(1.6)	0.4	(0.9)	—	—	0.1	0.1	0.2	3.6
Effective income tax rate	59.4%	36.7%	40.1%	25.7%	39.5%	18.8%	11.1%	24.8%	25.5%	47.2%

(a) Includes a remeasurement of uncertain federal and state income tax positions, see below.

(b) Pepco, DPL and ACE recognized a loss before income taxes for the three months ended March 31, 2016, and PHI recognized a loss before income taxes for the period of March 24, 2016, through March 31, 2016. As a result, positive percentages represent an income tax benefit for the periods presented.

(c) Includes a remeasurement of uncertain state income tax positions for Pepco and DPL.

Accounting for Uncertainty in Income Taxes

The Registrants have the following unrecognized tax benefits as of March 31, 2017 and December 31, 2016:

	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	*Successor* **PHI**	**Pepco**	**DPL**	**ACE**
March 31, 2017	$ 769	$ 470	$ (12)	$ —	$120	$ 112	$ 59	$21	$—

	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	*Successor* **PHI**	**Pepco**	**DPL**	**ACE**
December 31, 2016	$ 916	$ 490	$ (12)	$ —	$120	$ 172	$ 80	$37	$22

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL, and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million,

$16 million, and $22 million, respectively, as of March 31, 2017, resulting in a benefit to Income taxes on Exelon’s, Generation’s, PHI’s, Pepco’s, DPL’s and ACE’s Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Reasonably possible the total amount of unrecognized tax benefits could significantly increase or decrease within 12 months after the reporting date

Like-Kind Exchange

As of March 31, 2017, Exelon and ComEd have approximately $76 million and $(12) million, respectively, of unrecognized state income tax benefits that could significantly decrease and increase within the 12 months after the reporting date due to a final resolution of the like-kind exchange litigation described below. The recognition of these unrecognized tax benefits would decrease Exelon's effective tax rate and increase ComEd's effective tax rate.

Settlement of Income Tax Audits

As of March 31, 2017, Exelon, Generation, BGE, PHI, Pepco, and DPL have approximately $257 million, $57 million, $120 million, $80 million, $59 million, and $21 million of unrecognized federal and state tax benefits that could significantly decrease within the 12 months after the reporting date as a result of completing audits and potential settlements. Of the above unrecognized tax benefits, Exelon and Generation have $50 million that, if recognized, would decrease the effective tax rate. The unrecognized tax benefits related to BGE, DPL, and a portion of Pepco, if recognized, may be included in future regulated base rates and that portion would have no impact to the effective tax rate.

Other Income Tax Matters

Like-Kind Exchange (Exelon and ComEd)

Exelon, through its ComEd subsidiary, took a position on its 1999 income tax return to defer approximately $1.2 billion of tax gain on the sale of ComEd's fossil generating assets. The gain was deferred by reinvesting a portion of the proceeds from the sale in qualifying replacement property under the like-kind exchange provisions of the IRC. The like-kind exchange replacement property purchased by Exelon included interests in three municipal-owned electric generation facilities which were properly leased back to the municipalities.

The IRS disagreed with this position and asserted that the entire gain of approximately $1.2 billion was taxable in 1999. Exelon was unable to reach agreement with the IRS regarding the dispute over the like-kind exchange position. The IRS asserted that the Exelon purchase and leaseback transaction was substantially similar to a leasing transaction, known as a SILO, which the IRS does not respect as the acquisition of an ownership interest in property. A SILO is a "listed transaction" that the IRS has identified as a potentially abusive tax shelter under guidance issued in 2005. Accordingly, the IRS asserted that the sale of the fossil plants followed by the purchase and leaseback of the municipal owned generation facilities did not qualify as a like-kind exchange and the gain on the sale is fully subject to tax. The IRS also asserted a penalty of approximately $90 million for a substantial understatement of tax.

On September 30, 2013, the IRS issued a notice of deficiency to Exelon for the like-kind exchange position. Exelon filed a petition on December 13, 2013 to initiate litigation in the United States Tax Court and the trial took place in August of 2015. Exelon was not required to remit any part of the asserted tax or penalty in order to litigate the issue.

On September 19, 2016, the Tax Court rejected Exelon's position in the case and ruled that Exelon was not entitled to defer gain on the transaction. In addition, contrary to Exelon's evaluation that the penalty was unwarranted, the Tax Court ruled that Exelon is liable for the penalty and interest due on the asserted penalty. Exelon expects to timely appeal this decision to the U.S. Court of Appeals for the Seventh Circuit in 2017.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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In the first quarter of 2013, Exelon concluded that it was no longer more likely than not that the like-kind exchange position would be sustained and recorded charges to earnings representing the amount of interest expense (after-tax) and incremental state income tax expense that would be payable in the event Exelon is unsuccessful in litigation. Prior to the Tax Court's decision, however, Exelon did not believe it was likely a penalty would be assessed based on applicable case law and the facts of the transaction. As a result, no charge had been recorded for the penalty or for after-tax interest on the penalty. While it has strong arguments on appeal with respect to both the merits and the penalty, Exelon has determined that, pursuant to accounting standards, it is no longer more likely than not to avoid ultimate imposition of the penalty. As a result, in the third quarter of 2016, Exelon and ComEd recorded a charge to earnings of approximately $106 million and $86 million, respectively, of penalty and approximately $94 million and $64 million, respectively, of after-tax interest. Exelon and ComEd recorded the penalty and pre-tax interest due on the asserted penalty to Other, net and Interest expense, net, respectively, on their Consolidated Statements of Operations. Consistent with Exelon's agreement to continue to hold ComEd harmless from any unfavorable impact on its equity, ComEd recorded on its Consolidated Balance Sheets as of September 30, 2016, a $150 million receivable and non-cash equity contributions from Exelon. In addition, while further adjustments may be required, Exelon currently estimates that its income tax expense may decrease by as much as $50 million and ComEd's income tax expense may increase by as much as $20 million resulting from the IRS's completion of its calculation of tax, penalties, and interest in the second quarter of 2017.

In order to appeal the decision, Exelon is required to pay the tax, penalties and interest at the time Exelon files its appeal (expected in the third quarter of 2017). While the final calculation of tax, penalties and interest has not yet been finalized by the IRS, Exelon estimates that a payment of approximately $1.3 billion related to the like-kind exchange will be due, including $300 million from ComEd, in the third quarter of 2017. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total estimated net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts of after-tax interest or penalty amounts on ComEd's equity. Upon a final appellate decision, which could take up to several years, Exelon expects to receive approximately $80 million related to final interest computations.

Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. The remaining amount will be paid in the third quarter of 2017 at the time Exelon files its appeal of the Tax Court decision. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings. The deposit is reflected as a current asset and the related liabilities for the tax, penalty, and interest are included on Exelon's balance sheet as current obligations.

As of March 31, 2017, ComEd has a total receivable from Exelon pursuant to the hold harmless agreement of $345 million, which is included in Current Receivables from Affiliates on ComEd's Consolidated Balance Sheet. Under the agreement, Exelon will settle this receivable with ComEd no later than the time that the payments related to the like-kind exchange are due to the IRS, currently anticipated in the third quarter of 2017. Exelon will not seek recovery from ComEd customers for any interest or penalty payment amounts associated with the like-kind exchange tax position.

As previously disclosed, in the first quarter of 2014, Exelon entered into an agreement to terminate its investment in one of the three municipal-owned electric generation properties in exchange for a net early termination amount of $335 million. In the first quarter of 2016, Exelon terminated its interests in the remaining two municipal-owned electric generation properties in exchange for $360 million.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Long-Term Marginal State Income Tax Rate (Exelon, Generation and PHI)

Exelon, Generation and PHI periodically review events that may significantly impact how income is apportioned among the states and, therefore, the calculation of their respective deferred state income taxes. Events that may require Exelon, Generation and PHI to update their long-term state tax apportionment include significant changes in tax law and/or significant operational changes. Exelon and PHI's long-term marginal state income tax rate was revised in the first quarter of 2017 as a result of a statutory rate change pursuant to Exelon's marginal state income tax rate policy, resulting in the recording of a deferred state tax benefit for Exelon of $21 million, net of tax.

12. Nuclear Decommissioning (Exelon and Generation)

Nuclear Decommissioning Asset Retirement Obligations

Generation has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. To estimate its decommissioning obligation related to its nuclear generating stations for financial accounting and reporting purposes, Generation uses a probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple outcome scenarios that include significant estimates and assumptions, and are based on decommissioning cost studies, cost escalation rates, probabilistic cash flow models and discount rates. Generation updates its ARO annually, unless circumstances warrant more frequent updates, based on its review of updated cost studies and its annual evaluation of cost escalation factors and probabilities assigned to various scenarios.

The following table provides a rollforward of the nuclear decommissioning ARO reflected on Exelon's and Generation's Consolidated Balance Sheets from December 31, 2016 to March 31, 2017:

Nuclear decommissioning ARO at December 31, 2016[a]	$8,734
Acquisition of FitzPatrick	417
Accretion expense	109
Costs incurred to decommission retired plants	(1)
Nuclear decommissioning ARO at March 31, 2017[a][b]	$9,259

(a) Includes $11 million and $10 million for the current portion of the ARO at March 31, 2017 and December 31, 2016, respectively, which is included in Other current liabilities on Exelon's and Generation's Consolidated Balance Sheets.

(b) Includes the fair value of the FitzPatrick ARO liability as of March 31, 2017, the date of the acquisition. See Note 4 —Mergers, Acquisitions and Dispositions.

During the three months ended March 31, 2017, Generation's nuclear ARO increased by approximately $525 million. The increase is largely driven by the acquisition of FitzPatrick. The fair value of FitzPatrick's assets and liabilities, including the ARO, was determined based on significant estimates and assumptions that are judgmental in nature. The fair value of the ARO is considered an initial estimate and will be updated with inputs from a third party engineering firm with corresponding adjustments recorded by the end of 2017. For additional details on the acquisition of FitzPatrick, see Note 4 — Mergers, Acquisitions and Dispositions.

Nuclear Decommissioning Trust Fund Investments

NDT funds have been established for each generation station unit to satisfy Generation's nuclear decommissioning obligations. Generally, NDT funds established for a particular unit may not be used to fund the decommissioning obligations of any other unit.

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The NDT funds associated with Generation's nuclear units have been funded with amounts collected from the previous owners and their respective utility customers. PECO is authorized to collect funds, in revenues, for decommissioning the former PECO nuclear plants through regulated rates, and these collections are scheduled through the operating lives of the former PECO plants. The amounts collected from PECO customers are remitted to Generation and deposited into the NDT funds for the unit for which funds are collected. Every five years, PECO files a rate adjustment with the PAPUC that reflects PECO's calculations of the estimated amount needed to decommission each of the former PECO units based on updated fund balances and estimated decommissioning costs. The rate adjustment is used to determine the amount collectible from PECO customers. On March 31, 2017, PECO filed its Nuclear Decommissioning Cost Adjustment (NDCA) with the PAPUC proposing an annual recovery from customers of approximately $4 million which, if approved by the PAPUC, will be effective January 1, 2018. This amount reflects a decrease from the current approved annual collection of approximately $24 million primarily due to the removal of the collections for Limerick Units 1 and 2 as a result of the NRC approving the extension of the operating licenses for an additional 20 years. See Note 16 — Asset Retirement Obligations of Exelon's 2016 Form 10-K, for information regarding the amount collected from PECO ratepayers for decommissioning costs.

At March 31, 2017 and December 31, 2016, Exelon and Generation had NDT fund investments totaling $12,362 million and $11,061 million, respectively. The increase is primarily driven by the acquisition of FitzPatrick.

The following table provides unrealized gains on NDT funds for the three months ended March 31, 2017 and 2016:

	Exelon and Generation	
	Three Months Ended March 31,	
	2017	2016
Net unrealized gains on decommissioning trust funds — Regulatory Agreement Units[a]	$ 222	$ 79
Net unrealized gains on decommissioning trust funds — Non-Regulatory Agreement Units[b][c]	166	52

(a) Net unrealized gains related to Generation's NDT funds associated with Regulatory Agreement Units are included in Regulatory liabilities on Exelon's Consolidated Balance Sheets and Noncurrent payables to affiliates on Generation's Consolidated Balance Sheets.

(b) Excludes $(1) million and $2 million of net unrealized gains (losses) related to the Zion Station pledged assets for the three months ended March 31, 2017 and 2016 respectively. Net unrealized gains related to Zion Station pledged assets are included in the Payable for Zion Station decommissioning on Exelon's and Generation's Consolidated Balance Sheets.

(c) Net unrealized gains related to Generation's NDT funds with Non-Regulatory Agreement Units are included within Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Interest and dividends on NDT fund investments are recognized when earned and are included in Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. Interest and dividends earned on the NDT fund investments for the Regulatory Agreement Units are eliminated within Other, net in Exelon's and Generation's Consolidated Statement of Operations and Comprehensive Income.

Refer to Note 3 — Regulatory Matters and Note 27 — Related Party Transactions of the Exelon 2016 Form 10-K for information regarding regulatory liabilities at ComEd and PECO and intercompany balances between Generation, ComEd and PECO reflecting the obligation to refund to customers any decommissioning-related assets in excess of the related decommissioning obligations.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Zion Station Decommissioning

On September 1, 2010, Generation completed an Asset Sale Agreement (ASA) with EnergySolutions Inc. and its wholly owned subsidiaries, EnergySolutions, LLC (EnergySolutions) and ZionSolutions, under which ZionSolutions has assumed responsibility for completing certain decommissioning activities at Zion Station, which is located in Zion, Illinois and ceased operation in 1998. See Note 16 — Asset Retirement Obligations of the Exelon 2016 Form 10-K for information regarding the specific treatment of assets, including NDT funds, and decommissioning liabilities transferred in the transaction.

ZionSolutions is subject to certain restrictions on its ability to request reimbursements from the Zion Station NDT funds as defined within the ASA. Therefore, the transfer of the Zion Station assets did not qualify for asset sale accounting treatment and, as a result, the related NDT funds were reclassified to Pledged assets for Zion Station decommissioning within Generation's and Exelon's Consolidated Balance Sheets and will continue to be measured in the same manner as prior to the completion of the transaction. Additionally, the transferred ARO for decommissioning was replaced with a Payable for Zion Station decommissioning in Generation's and Exelon's Consolidated Balance Sheets. Changes in the value of the Zion Station NDT assets, net of applicable taxes, are recorded as a change in the Payable to ZionSolutions. At no point will the payable to ZionSolutions exceed the project budget of the costs remaining to decommission Zion Station. Generation has retained its obligation for the SNF. Following ZionSolutions' completion of its contractual obligations and transfer of the NRC license to Generation, Generation will store the SNF at Zion Station until it is transferred to the DOE for ultimate disposal, and will complete all remaining decommissioning activities associated with the SNF dry storage facility. Generation has a liability of approximately $112 million which is included within the nuclear decommissioning ARO at March 31, 2017. Generation also has retained NDT assets to fund its obligation to maintain the SNF at Zion Station until transfer to the DOE and to complete all remaining decommissioning activities for the SNF storage facility. Any shortage of funds necessary to maintain the SNF and decommission the SNF storage facility is ultimately required to be funded by Generation. Any Zion Station NDT funds remaining after the completion of all decommissioning activities will be returned to ComEd customers in accordance with the applicable orders. The following table provides the pledged assets and payables to ZionSolutions, and withdrawals by ZionSolutions at March 31, 2017 and December 31, 2016:

	Exelon and Generation	
	March 31, 2017	December 31, 2016
Carrying value of Zion Station pledged assets	$ 95	$ 113
Payable to Zion Solutions(a)	88	104
Current portion of payable to Zion Solutions(b)	85	90
Cumulative withdrawals by Zion Solutions to pay decommissioning costs(c)	895	878

(a) Excludes a liability recorded within Exelon's and Generation's Consolidated Balance Sheets related to the tax obligation on the unrealized activity associated with the Zion Station NDT funds. The NDT funds will be utilized to satisfy the tax obligations as gains and losses are realized.
(b) Included in Other current liabilities within Exelon's and Generation's Consolidated Balance Sheets.
(c) Includes project expenses to decommission Zion Station and estimated tax payments on Zion Station NDT fund earnings.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in specified minimum amounts to decommission the facility at the end of its life.

Generation filed its biennial decommissioning funding status report with the NRC on March 30, 2017 for all units except for Zion Station which is included in a separate report to the NRC submitted by EnergySolutions

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(see Zion Station Decommissioning above). The status report demonstrated adequate decommissioning funding assurance for all units except for Peach Bottom Unit 1. As a former PECO plant, financial assurance for decommissioning Peach Bottom Unit 1 is provided by the NDT fund in addition to collections from PECO ratepayers. As discussed under Nuclear Decommissioning Trust Fund Investments above, the amount collected from PECO ratepayers has been adjusted in the March 31, 2017 filing to the PAPUC which, if approved by the PAPUC, will be effective January 1, 2018.

13. Retirement Benefits (All Registrants)

Exelon sponsors defined benefit pension plans and other postretirement benefit plans for essentially all employees.

Effective March 31, 2017, in connection with the acquisition of FitzPatrick, Exelon established a new qualified pension plan and a new other postretirement employee benefit plan, and recorded benefit plan obligations of $38 million and $11 million, respectively. Refer to Note 4 — Mergers, Acquisitions and Dispositions for additional discussion of the acquisition of FitzPatrick.

Effective March 23, 2016, Exelon became the sponsor of all of PHI’s defined benefit pension and other postretirement benefit plans, and assumed PHI’s benefit plan obligations and related assets. As a result, PHI’s benefit plan net obligation and related regulatory assets were transferred to Exelon.

Defined Benefit Pension and Other Postretirement Benefits

During the first quarter of 2017, Exelon received an updated valuation of its pension and other postretirement benefit obligations to reflect actual census data as of January 1, 2017. This valuation resulted in an increase to the pension obligation of $92 million and an increase to the other postretirement benefit obligation of $57 million. Additionally, accumulated other comprehensive loss increased by approximately $59 million (after tax), regulatory assets increased by approximately $57 million and regulatory liabilities increased by approximately $4 million.

The majority of the 2017 pension benefit cost for Exelon-sponsored plans is calculated using an expected long-term rate of return on plan assets of 7.00% and a discount rate of 4.04%. The majority of the 2017 other postretirement benefit cost is calculated using an expected long-term rate of return on plan assets of 6.58% for funded plans and a discount rate of 4.04%.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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A portion of the net periodic benefit cost for all plans is capitalized within the Consolidated Balance Sheets. The following tables present the components of Exelon's net periodic benefit costs, prior to capitalization, for the three months ended March 31, 2017 and 2016 and PHI's net periodic benefit costs, prior to capitalization, for the predecessor period of January 1, 2016 to March 23, 2016.

	Pension Benefits Three Months Ended March 31,		Other Postretirement Benefits Three Months Ended March 31,	
	2017	2016[(a)]	2017	2016[(a)]
Components of net periodic benefit cost:				
Service cost	$ 95	$ 78	$ 26	$ 26
Interest cost	210	190	45	43
Expected return on assets	(299)	(263)	(41)	(38)
Amortization of:				
Prior service cost (benefit)	—	3	(47)	(44)
Actuarial loss	152	127	16	14
Net periodic benefit cost	$ 158	$ 135	$ (1)	$ 1

(a) PHI net periodic benefit costs for the period prior to the merger are not included in the table above.

	Predecessor PHI	
	Pension Benefits January 1, 2016 to March 23, 2016	Other Postretirement Benefits January 1, 2016 to March 23, 2016
Components of net periodic benefit cost:		
Service cost	$ 12	$ 1
Interest cost	26	6
Expected return on assets	(30)	(5)
Amortization of:		
Prior service cost (benefit)	—	(3)
Actuarial loss	14	2
Net periodic benefit cost	$ 22	$ 1

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The amounts below represent Exelon's, Generation's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's, ACE's, BSC's and PHISCO's allocated portion of the pension and postretirement benefit plan costs, which were included in Property, plant and equipment within the respective Consolidated Balance Sheets and Operating and maintenance expense within the Consolidated Statement of Operations and Comprehensive Income during the three months ended March 31, 2017 and 2016 and PHI's for the predecessor and successor periods of January 1, 2016 to March 23, 2016 and March 24, 2016 to March 31, 2016, respectively.

	Three Months Ended March 31,	
Pension and Other Postretirement Benefit Costs	**2017**	**2016**
Exelon	$ 157	$ 136
Generation	54	54
ComEd	44	41
PECO	7	8
BGE	16	16
BSC(a)	12	14
Pepco(b)	7	8
DPL(b)	3	5
ACE(b)	3	4
PHISCO(a)(b)	11	9

	Successor	*Predecessor*
Pension and Other Postretirement Benefit Costs	**March 24, 2016 to March 31, 2016**	**January 1, 2016 to March 23, 2016**
PHI	$ 3	$ 23

(a) These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These amounts are not included in the Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE amounts above.

(b) Pepco's, DPL's, ACE's and PHISCO's pension and postretirement benefit costs for the three months ended March 31, 2016 include $7 million, $4 million, $3 million and $9 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016.

Defined Contribution Savings Plans

The Registrants participate in various 401(k) defined contribution savings plans that are sponsored by Exelon. The plans are qualified under applicable sections of the IRC and allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. All Registrants match a percentage of the employee contributions up to certain limits. The following table presents the matching contributions to the savings plans during the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
Savings Plan Matching Contributions	**2017**	**2016**
Exelon	$ 30	$ 26
Generation	14	12
ComEd	7	6
PECO	2	2
BGE	2	1
BSC(a)	2	5
Pepco(b)	1	1
DPL(b)	1	1
PHISCO(a)(b)	1	1

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Savings Plan Matching Contributions	*Successor* March 24, 2016 to March 31, 2016	*Predecessor* January 1, 2016 to March 23, 2016
PHI	$ —	$ 3

(a) These amounts primarily represent amounts billed to Exelon and PHI's subsidiaries through intercompany allocations. These costs are not included in the Generation, ComEd, PECO, BGE, Pepco and DPL amounts above.

(b) Pepco's, DPL's and PHISCO's matching contributions for the three months ended March 31, 2016 include $1 million, $1 million and $1 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016, which is not included in Exelon's matching contributions for the three months ended March 31, 2016.

14. Severance (All Registrants)

The Registrants have an ongoing severance plan under which, in general, the longer an employee worked prior to termination the greater the amount of severance benefits. The Registrants record a liability and expense or regulatory asset for severance once terminations are probable of occurrence and the related severance benefits can be reasonably estimated. For severance benefits that are incremental to its ongoing severance plan ("one-time termination benefits"), the Registrants measure the obligation and record the expense at fair value at the communication date if there are no future service requirements, or, if future service is required to receive the termination benefit, ratably over the required service period.

Ongoing Severance Plans

The Registrants provide severance and health and welfare benefits under Exelon's ongoing severance benefit plans to terminated employees in the normal course of business. These benefits are accrued for when the benefits are considered probable and can be reasonably estimated.

For the three months ended March 31, 2017 and 2016, Exelon, Generation, and ComEd recorded the following severance costs (benefits) associated with these ongoing severance benefits within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income.

Three Months Ended	Exelon	Generation[(a)]	ComEd[(a)]
March 31, 2017	$ 4	$ 3	$ 1
March 31, 2016	2	2	—

(a) The amounts above for Generation include $1 million for amounts billed by BSC through intercompany allocations for both the three months ended March 31, 2017 and 2016. Amounts billed by BSC to ComEd were immaterial.

Cost Management Program-Related Severance

In August 2015, Exelon announced a cost management program focused on cost savings at BSC and Generation, including the elimination of approximately 500 positions. These actions are in response to the continuing economic challenges confronting all parts of Exelon's business and industry, necessitating continued focus on cost management through enhanced efficiency and productivity. Exelon expects that approximately 250 corporate support positions in BSC and approximately 250 positions located throughout Generation will be eliminated.

For the three months ended March 31, 2017 and 2016, the Registrants recorded the following severance costs related to the cost management program within Operating and maintenance expense in their Consolidated

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Statements of Operations and Comprehensive Income, pursuant to the authoritative guidance for ongoing severance plans:

Three Months Ended	Exelon	Generation	ComEd	PECO	BGE
March 31, 2017[a]	$ (1)	$ (1)	$ —	$ —	$—
March 31, 2016[b]	$ 17	$ 12	$ 3	$ 1	$ 1

(a) Amounts billed by BSC through intercompany allocations for the three months ended March 31, 2017 were immaterial.
(b) The amounts above for Generation, ComEd, PECO and BGE include $7 million, $3 million, $1 million and $1 million, respectively, for amounts billed by BSC through intercompany allocations for the three months ended March 31, 2016.

Severance Costs Related to the PHI Merger

Upon closing the PHI Merger, Exelon recorded a severance accrual for the anticipated employee position reductions as a result of the post-merger integration. Cash payments under the plan began in May 2016 and will continue through 2020.

For the three months ended March 31, 2017, the PHI merger severance costs were immaterial. For the three months ended March 31, 2016, the Registrants recorded the following severance costs associated with the identified job reductions within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income, pursuant to the authoritative guidance for ongoing severance plans:

						Successor			
Three Months Ended March 31, 2016	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Severance benefits[a]	$ 52	$ 10	$ 2	$ 1	$ 1	$ 37	$ 18	$11	$ 8

(a) The amounts above for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE include $9 million, $2 million, $1 million, $1 million, $18 million, $11 million and $8 million, respectively, for amounts billed by BSC and/or PHISCO through intercompany allocations for the three months ended March 31, 2016.

Severance Liability

Amounts included in the table below represent the severance liability recorded for the severance plans above for employees of each Registrant and exclude amounts included at Exelon and billed through intercompany allocations:

						Successor			
Severance Liability	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Balance at December 31, 2016	$ 88	$ 36	$ 3	$ —	$—	$ 29	$ —	$—	$—
Severance charges[a]	3	1	—	—	—	—	—	—	—
Payments	(10)	(3)	—	—	—	(5)	—	—	—
Balance at March 31, 2017	$ 81	$ 34	$ 3	$ —	$—	$ 24	$ —	$—	$—

(a) Includes salary continuance and health and welfare severance benefits.

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15. Changes in Accumulated Other Comprehensive Income (Exelon, Generation, PECO and PHI)

The following tables present changes in accumulated other comprehensive income (loss) (AOCI) by component for the three months ended March 31, 2017 and 2016:

Three Months Ended March 31, 2017	Gains and (losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon(a)						
Beginning balance	$ (17)	$ 4	$ (2,610)	$ (30)	$ (7)	$(2,660)
OCI before reclassifications	2	1	(59)	1	5	(50)
Amounts reclassified from AOCI(b)	4	—	36	—	—	40
Net current-period OCI	6	1	(23)	1	5	(10)
Ending balance	$ (11)	$ 5	$ (2,633)	$ (29)	$ (2)	$(2,670)
Generation(a)						
Beginning balance	$ (19)	$ 2	$ —	$ (30)	$ (7)	$ (54)
OCI before reclassifications	2	—	—	1	6	9
Amounts reclassified from AOCI(b)	4	—	—	—	—	4
Net current-period OCI	6	—	—	1	6	13
Ending balance	$ (13)	$ 2	$ —	$ (29)	$ (1)	$ (41)
PECO(a)						
Beginning balance	$ —	$ 1	$ —	$ —	$ —	$ 1
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI(b)	—	—	—	—	—	—
Net current-period OCI	—	—	—	—	—	—
Ending balance	$ —	$ 1	$ —	$ —	$ —	$ 1

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Three Months Ended March 31, 2016	Gains and (losses) on Hedging Activity	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon(a)						
Beginning balance	$ (19)	$ 3	$ (2,565)	$ (40)	$ (3)	$(2,624)
OCI before reclassifications	(10)	(1)	(1)	6	(3)	(9)
Amounts reclassified from AOCI(b)	3	—	34	—	—	37
Net current-period OCI	(7)	(1)	33	6	(3)	28
Ending balance	$ (26)	$ 2	$ (2,532)	$ (34)	$ (6)	$(2,596)
Generation(a)						
Beginning balance	$ (21)	$ 1	$ —	$ (40)	$ (3)	$ (63)
OCI before reclassifications	(8)	—	—	6	(2)	(4)
Amounts reclassified from AOCI(b)	3	—	—	—	—	3
Net current-period OCI	(5)	—	—	6	(2)	(1)
Ending balance	$ (26)	$ 1	$ —	$ (34)	$ (5)	$ (64)
PECO(a)						
Beginning balance	$ —	$ 1	$ —	$ —	$ —	$ 1
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI(b)	—	—	—	—	—	—
Net current-period OCI	—	—	—	—	—	—
Ending balance	$ —	$ 1	$ —	$ —	$ —	$ 1
PHI Predecessor(a)						
Beginning balance January 1, 2016	$ (8)	$ —	$ (28)	$ —	$ —	$ (36)
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI(b)	—	—	1	—	—	1
Net current-period OCI	—	—	1	—	—	1
Ending balance March 23, 2016(c)	$ (8)	$ —	$ (27)	$ —	$ —	$ (35)

(a) All amounts are net of tax and noncontrolling interest. Amounts in parenthesis represent a decrease in AOCI.
(b) See next tables for details about these reclassifications.
(c) As a result of the PHI Merger, the PHI predecessor balances at March 23, 2016 were reduced to zero on March 24, 2016 due to purchase accounting adjustments applied to PHI.

ComEd, PECO, BGE, Pepco, DPL and ACE did not have any reclassifications out of AOCI to Net income during the three months ended March 31, 2017 and 2016. The following tables present amounts reclassified out of AOCI to Net income for Exelon, Generation and PHI during the three months ended March 31, 2017 and 2016.

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Three Months Ended March 31, 2017

Details about AOCI components	Items reclassified out of AOCI(a)		Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	
Gains and (losses) on cash flow hedges			
Other cash flow hedges	$ (7)	$ (7)	Interest expense
Total before tax	(7)	(7)	
Tax benefit	3	3	
Net of tax	$ (4)	$ (4)	Comprehensive income
Amortization of pension and other postretirement benefit plan items			
Prior service costs(b)	$ 23	$ —	
Actuarial losses(b)	(81)	—	
Total before tax	(58)	—	
Tax benefit	22	—	
Net of tax	$ (36)	$ —	
Total Reclassifications	$ (40)	$ (4)	Comprehensive income

Three Months Ended March 31, 2016

Details about AOCI components	Items reclassified out of AOCI(a)			Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	*Predecessor* PHI	
Gains and (losses) on cash flow hedges				
Other cash flow hedges	$ (5)	$ (5)	—	Interest expense
Total before tax	(5)	(5)	—	
Tax expense	2	2	—	
Net of tax	$ (3)	$ (3)	$ —	Comprehensive income
Amortization of pension and other postretirement benefit plan items				
Prior service costs(b)	$ 20	$ —	$ —	
Actuarial losses(b)	(76)	—	(1)	
Total before tax	(56)	—	(1)	
Tax benefit	22	—	—	
Net of tax	$ (34)	$ —	$ (1)	
Total Reclassifications	$ (37)	$ (3)	$ (1)	Comprehensive income

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(a) Amounts in parenthesis represent a decrease in net income.
(b) This AOCI component is included in the computation of net periodic pension and OPEB cost (see Note 13 — Retirement Benefits for additional details).

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The following table presents income tax expense (benefit) allocated to each component of other comprehensive income (loss) during the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Exelon		
Pension and non-pension postretirement benefit plans:		
Prior service benefit reclassified to periodic benefit cost	$ 10	$ 7
Actuarial loss reclassified to periodic benefit cost	(32)	(30)
Pension and non-pension postretirement benefit plans valuation adjustment	—	—
Change in unrealized (loss)/gain on cash flow hedges	(1)	3
Change in unrealized (loss)/gain on equity investments	(4)	2
Change in unrealized (loss)/gain on marketable securities	(1)	1
Total	$ (28)	$ (17)
Generation		
Change in unrealized (loss)/gain on cash flow hedges	$ (1)	$ 2
Change in unrealized (loss)/gain on equity investments	(3)	2
Total	$ (4)	$ 4

PHI	*Predecessor* January 1, 2016 to March 23, 2016
Pension and non-pension postretirement benefit plans:	
Actuarial loss reclassified to periodic cost	$ —

16. Earnings Per Share and Equity (Exelon)

Earnings per Share

Diluted earnings per share is calculated by dividing Net income attributable to common shareholders by the weighted average number of shares of common stock outstanding, including shares to be issued upon exercise of stock options, performance share awards and restricted stock outstanding under Exelon's LTIPs considered to be common stock equivalents. The following table sets forth the components of basic and diluted earnings per share and shows the effect of these stock options, performance share awards and restricted stock on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Exelon		
Net income attributable to common shareholders	$ 995	$ 173
Weighted average common shares outstanding — basic	928	923
Assumed exercise and/or distributions of stock-based awards	2	2
Weighted average common shares outstanding — diluted	930	925

The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was approximately 9 million and 13 million for the three months ended March 31, 2017 and 2016, respectively. There were no equity units related to the PHI Merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect for the three months ended March 31, 2017. The number of equity units related to the PHI Merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect was 4 million for the three months ended March 31, 2016. Refer to Note 20 — Shareholders' Equity of the Exelon 2016 Form 10-K for further information regarding the equity units.

Under share repurchase programs, 35 million shares of common stock are held as treasury stock with a cost of $2.3 billion as of March 31, 2017. In 2008, Exelon management decided to defer indefinitely any share repurchases.

17. Commitments and Contingencies (*All Registrants*)

The following is an update to the current status of commitments and contingencies set forth in Note 24 of the Exelon 2016 Form 10-K . See Note 4 — Mergers, Acquisitions and Dispositions for further discussion on the PHI Merger commitments.

Commitments

Constellation Merger Commitments (Exelon and Generation)

In February 2012, the MDPSC issued an Order approving the Exelon and Constellation merger. As part of the MDPSC Order, Exelon agreed to provide a package of benefits to BGE customers, the City of Baltimore and the State of Maryland, resulting in an estimated direct investment in the State of Maryland of approximately $1 billion. The direct investment estimate includes $95 million to $120 million relating to the construction of a headquarters building in Baltimore for Generation's competitive energy businesses.

The direct investment commitment also includes $450 million to $550 million relating to Exelon and Generation's development or assistance in the development of 285 — 300 MWs of new generation in Maryland, which is expected to be completed within a period of 10 years. The MDPSC order contemplates various options for complying with the new generation development commitments, including building or acquiring generating assets, making subsidy or compliance payments, or in circumstances in which the generation build is delayed or certain specified provisions are elected, making liquidated damages payments. Exelon and Generation have incurred $456 million towards satisfying the commitment for new generation development in the state of Maryland, with approximately 220 MW of the new generation commencing with commercial operations to date. During the fourth quarter of 2016, given continued declines in projected energy and capacity prices, Generation terminated rights to certain development projects originally intended to meet its remaining 55 MW commitment amount. The commitment will now most likely be satisfied via payment of liquidated damages or execution of a third party PPA, rather than by Generation constructing renewable generating assets. As a result, Exelon and Generation recorded a pre-tax $50 million loss contingency in Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2016.

Equity Investment Commitments (Exelon and Generation)

As part of Generation's recent investments in technology development, Generation enters into equity purchase agreements that include commitments to invest additional equity through incremental payments to fund the anticipated needs of the planned operations of the associated companies. As of March 31, 2017, Generation's estimated commitments relating to its equity purchase agreements, including the in-kind services contributions, is anticipated to be as follows:

	Total
2017	$ 9
2018	7
2019	3
Total	$ 19

Commercial Commitments (All Registrants)

The Registrants' commercial commitments as of March 31, 2017 , representing commitments potentially triggered by future events were as follows:

	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Letters of credit (non-debt)(a)	$1,527	$ 1,440	$ 14	$ 23	$ 5	$ 1	$ 1	$—	$—
Surety bonds(b)	1,038	964	5	7	11	16	9	4	3
Financing trust guarantees	628	—	200	178	250	—	—	—	—
Guaranteed lease residual values(c)	19	—	—	—	—	19	5	7	5
Total commercial commitments	$3,212	$ 2,404	$ 219	$208	$266	$ 36	$ 15	$11	$ 8

(a) Letters of credit (non-debt) — Exelon and certain subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

(b) Surety bonds — Guarantees issued related to contract and commercial agreements, excluding bid bonds.

(c) Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $48 million, $14 million of which is a guarantee by Pepco, $17 million by DPL and $13 million by ACE. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

Nuclear Insurance (Exelon and Generation)

Generation is subject to liability, property damage and other risks associated with major incidents at any of its nuclear stations, including the CENG nuclear stations. Generation has mitigated its financial exposure to these risks through insurance and other industry risk-sharing provisions.

The Price-Anderson Act was enacted to ensure the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities and also to limit the liability of nuclear reactor owners for such claims from any single incident. As of March 31, 2017 , the current liability limit per incident is

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$13.4 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors at least once every five years with the last adjustment effective September 10, 2013. In accordance with the Price-Anderson Act, Generation maintains financial protection at levels equal to the amount of liability insurance available from private sources through the purchase of private nuclear energy liability insurance for public liability claims that could arise in the event of an incident. Effective January 1, 2017, the required amount of nuclear energy liability insurance purchased is $450 million for each operating site. Claims exceeding that amount are covered through mandatory participation in a financial protection pool, as required by the Price Anderson-Act, which provides the additional $13.0 billion per incident in funds available for public liability claims. Participation in this secondary financial protection pool requires the operator of each reactor to fund its proportionate share of costs for any single incident that exceeds the primary layer of financial protection. Exelon's share of this secondary layer would be approximately $2.8 billion, including CENG's related liability, however any amounts payable under this secondary layer would be capped at $420 million per year.

In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay public liability claims exceeding the $13.4 billion limit for a single incident.

As part of the execution of the NOSA on April 1, 2014, Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF and its affiliates against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation's obligations under this indemnity. See Note 5 —Investment in Constellation Energy Nuclear Group, LLC of the Exelon 2016 Form 10-K for additional information on Generation's operations relating to CENG.

Generation is required each year to report to the NRC the current levels and sources of property insurance that demonstrates Generation possesses sufficient financial resources to stabilize and decontaminate a reactor and reactor station site in the event of an accident. The property insurance maintained for each facility is currently provided through insurance policies purchased from NEIL, an industry mutual insurance company of which Generation is a member.

Premiums paid to NEIL by its members are also subject to a potential assessment for adverse loss experience in the form of a retrospective premium obligation. NEIL has never assessed this retrospective premium since its formation in 1973, and Generation cannot predict the level of future assessments if any. The current maximum aggregate annual retrospective premium obligation for Generation is approximately $373 million. NEIL requires its members to maintain an investment grade credit rating or to ensure collectability of their annual retrospective premium obligation by providing a financial guarantee, letter of credit, deposit premium, or some other means of assurance.

NEIL provides "all risk" property damage, decontamination and premature decommissioning insurance for each station for losses resulting from damage to its nuclear plants, either due to accidents or acts of terrorism. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. In the event of an insured loss, Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. In the event that one or more acts of terrorism cause accidental property damage within a twelve-month period from the first accidental property damage under one or more policies for all insured plants, the maximum recovery by Exelon will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity and any other source, applicable to such losses.

For its insured losses, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Uninsured losses and other expenses, to the extent not recoverable from insurers or the nuclear industry, could also be borne by Generation. Any such losses could have a material adverse effect on Exelon's and Generation's financial condition, results of operations and liquidity.

Environmental Issues *(All Registrants)*

General. The Registrants' operations have in the past, and may in the future, require substantial expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, the Registrants are generally liable for the costs of remediating environmental contamination of property now or formerly owned by them and of property contaminated by hazardous substances generated by them. The Registrants own or lease a number of real estate parcels, including parcels on which their operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws. In addition, the Registrants are currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

ComEd, PECO, BGE and DPL have identified sites where former MGP activities have or may have resulted in actual site contamination. For almost all of these sites, there are additional PRPs that may share responsibility for the ultimate remediation of each location.

- ComEd has identified 42 sites, 18 of which the remediation has been completed and approved by the Illinois EPA or the U.S. EPA and 24 that are currently under some degree of active study and/or remediation. ComEd expects the majority of the remediation at these sites to continue through at least 2021.
- PECO has identified 26 sites, 17 of which have been remediated in accordance with applicable PA DEP regulatory requirements. The remaining 9 sites are currently under some degree of active study and/or remediation. PECO expects the majority of the remediation at these sites to continue through at least 2022.
- BGE has identified 13 former gas manufacturing or purification sites that it currently owns or owned at one time through a predecessor's acquisition. Two gas manufacturing sites require some level of remediation and ongoing monitoring under the direction of the MDE. The required costs at these two sites are not considered material. The first phase of an investigation of an additional gas purification site (Riverside) was completed during the first quarter of 2015 at the direction of the MDE and investigations continue under MDE's direction. For more information, see the discussion of the Riverside site below.
- DPL has identified 2 sites, all of which the remediation has been completed and approved by the MDE or the Delaware Department of Natural Resources and Environmental Control.

ComEd, pursuant to an ICC order, and PECO, pursuant to settlements of natural gas distribution rate cases with the PAPUC, are currently recovering environmental remediation costs of former MGP facility sites through customer rates. ComEd and PECO have recorded regulatory assets for the recovery of these costs. See Note 5 —Regulatory Matters for additional information regarding the associated regulatory assets. BGE is authorized to recover, and is currently recovering, environmental costs for the remediation of the former MGP facility sites from customers; however, while BGE does not have a rider for MGP clean-up costs, BGE has historically received recovery of actual clean-up costs in distribution rates. DPL has historically received recovery of actual clean-up costs in distribution rates.

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As of Three Months Ended March 31, 2017 and December 31, 2016, the Registrants had accrued the following undiscounted amounts for environmental liabilities in Other current liabilities and Other deferred credits and other liabilities within their respective Consolidated Balance Sheets:

March 31, 2017	Total Environmental Investigation and Remediation Reserve	Portion of Total Related to MGP Investigation and Remediation
Exelon	$ 425	$ 319
Generation	71	—
ComEd	288	286
PECO	33	31
BGE	4	2
PHI (Successor)	29	—
Pepco	26	—
DPL	2	—
ACE	1	—

December 31, 2016	Total Environmental Investigation and Remediation Reserve	Portion of Total Related to MGP Investigation and Remediation
Exelon	$ 429	$ 325
Generation	72	—
ComEd	292	291
PECO	33	31
BGE	2	2
PHI (Successor)	30	1
Pepco	27	—
DPL	2	1
ACE	1	—

The historical nature of the MGP sites and the fact that many of the sites have been buried and built over, impacts the ability to determine a precise estimate of the ultimate costs prior to initial sampling and determination of the exact scope and method of remedial activity. Management determines its best estimate of remediation costs using all available information at the time of each study, including probabilistic and deterministic modeling for ComEd and PECO, and the remediation standards currently required by the applicable state environmental agency. Prior to completion of any significant clean up, each site remediation plan is approved by the appropriate state environmental agency.

The Registrants cannot reasonably estimate whether they will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by the Registrants, environmental agencies or others, or whether such costs will be recoverable from third parties, including customers.

Water Quality

Benning Road Site NPDES Permit Limit Exceedances. Pepco holds an NPDES permit issued by EPA with a July 19, 2009 effective date, which authorizes discharges from the Benning Road service facility. The 2009 permit for the first time imposed numerical limits on the allowable concentration of certain metals in storm water discharged from the site into the Anacostia River. The permit contemplated that Pepco would meet these limits over time through the use of best management practices (BMPs). The BMPs were effective in reducing metal concentrations in storm water discharges, but were not sufficient to meet all of the numerical limits for all metals.

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The 2009 permit remains in effect pending EPA's action on the Pepco renewal application, including resolution of the stormwater compliance issues. On October 30, 2015, EPA filed a Clean Water Act civil enforcement action against Pepco in federal district court, and in March 2016 the court granted a motion by the Anacostia Riverkeeper to intervene in this case as a plaintiff along with EPA. Since 2009 Pepco has installed runoff mitigation measures and implemented new operating procedures to comply with regulations. In January 2017, the parties agreed to a settlement in the form of a Consent Decree whereby Pepco will pay a civil penalty in the amount of $1.6 million, continue the BMPs to manage stormwater, construct a new stormwater treatment system, and make certain other capital improvements to the stormwater management system. The Consent Decree has been lodged with the Court and has been subject to a 30-day public comment period. Upon completion of its review of public comments, It is expected that the Court will approve the Consent Decree in the second quarter of 2017. Pepco has established appropriate accruals for the liabilities under the Consent Agreement, which is included in the table above.

Solid and Hazardous Waste

Cotter Corporation. The EPA has advised Cotter Corporation (Cotter), a former ComEd subsidiary, that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. In 2000, ComEd sold Cotter to an unaffiliated third-party. As part of the sale, ComEd agreed to indemnify Cotter for any liability arising in connection with the West Lake Landfill. In connection with Exelon's 2001 corporate restructuring, this responsibility to indemnify Cotter was transferred to Generation. On May 29, 2008, the EPA issued a Record of Decision approving the remediation option submitted by Cotter and the two other PRPs that required additional landfill cover. The current estimated cost of the landfill cover remediation for the site is approximately $90 million, including escalation, which will be allocated among all PRPs. Generation has accrued what it believes to be an adequate amount to cover its anticipated share of such liability, which is included in the table above. By letter dated January 11, 2010, the EPA requested that the PRPs perform a supplemental feasibility study for a remediation alternative that would involve complete excavation of the radiological contamination. On September 30, 2011, the PRPs submitted the supplemental feasibility study to the EPA for review. Since June 2012, the EPA has requested that the PRPs perform a series of additional analyses and groundwater and soil sampling as part of the supplemental feasibility study, that were completed in December 2016. While the EPA has not yet announced a schedule for selection of the final remedy, the PRPs believe that the EPA announcement of the proposed remedy will not take place until the end of 2017, or possibly the first quarter of 2018. Thereafter, the EPA will select a final remedy and seek to enter into a Consent Decree with the PRPs to effectuate the remedy. Recent investigation has identified a number of other parties who may be PRPs and could be liable to contribute to the final remedy. Further investigation is underway. Generation believes that a partial excavation remedy is reasonably possible, and the partial excavation costs, inclusive of a landfill cover, could range from approximately $225 million to $650 million; such costs would likely be shared by the final group of identified PRPs. Generation believes the likelihood that the EPA would require a complete excavation remedy is remote. The cost of a partial or complete excavation could have a material, unfavorable impact on Generation's and Exelon's future results of operations and cash flows.

During December 2015, the EPA took two actions related to the West Lake Landfill designed to abate what it termed as imminent and dangerous conditions at the landfill. The first involved installation by the PRPs of a non-combustible surface cover to protect against surface fires in areas where radiological materials are believed to have been disposed. Generation has accrued what it believes to be an adequate amount to cover its anticipated liability for this interim action. The second action involved EPA's public statement that it will require the PRPs to construct a barrier wall in an adjacent landfill to prevent a subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, EPA has not provided sufficient details related to the basis for and the requirements and design of a barrier wall to enable Generation to determine the likelihood such a remedy will ultimately be implemented, assess the degree to which

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Generation may have liability as a potentially responsible party, or develop a reasonable estimate of the potential incremental costs. It is reasonably possible, however, that resolution of this matter could have a material, unfavorable impact on Generation's and Exelon's future results of operations and cash flows. Finally, one of the other PRPs, the landfill owner and operator of the adjacent landfill, has indicated that it will be making a contribution claim against Cotter for costs that it has incurred to prevent the subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, Generation and Exelon do not possess sufficient information to assess this claim and are therefore unable to determine the impact on their future results of operations and cash flows.

On February 2, 2016, the U.S. Senate passed a bill to transfer remediation authority over the West Lake Landfill from the EPA to the U.S. Army Corps of Engineers, under the Formerly Utilized Sites Remedial Action Program (FUSRAP). The legislation was not passed in the U.S. House of Representatives, and would therefore require reintroduction in the Senate for consideration in the current session of Congress. Should such proposed legislation ultimately become law, it would be subject to annual funding appropriations in the U.S. Budget. Remediation under FUSRAP would not alter the liability of the PRPs, but would likely delay the determination of a final remedy and its implementation.

On August 8, 2011, Cotter was notified by the DOJ that Cotter is considered a PRP with respect to the government's clean-up costs for contamination attributable to low level radioactive residues at a former storage and reprocessing facility named Latty Avenue near St. Louis, Missouri. The Latty Avenue site is included in ComEd's indemnification responsibilities discussed above as part of the sale of Cotter. The radioactive residues had been generated initially in connection with the processing of uranium ores as part of the U.S. government's Manhattan Project. Cotter purchased the residues in 1969 for initial processing at the Latty Avenue facility for the subsequent extraction of uranium and metals. In 1976, the NRC found that the Latty Avenue site had radiation levels exceeding NRC criteria for decontamination of land areas. Latty Avenue was investigated and remediated by the United States Army Corps of Engineers pursuant to funding under the FUSRAP. The DOJ has not yet formally advised the PRPs of the amount that it is seeking, but it is believed to be approximately $90 million. The DOJ and the PRPs agreed to toll the statute of limitations until August 2017 so that settlement discussions could proceed. Based on Generation's preliminary review, it appears probable that Generation has liability to Cotter under the indemnification agreement and has established an appropriate accrual for this liability, which is included in the table above.

Commencing in February 2012, a number of lawsuits have been filed in the U.S. District Court for the Eastern District of Missouri. Among the defendants were Exelon, Generation and ComEd, all of which were subsequently dismissed from the case, as well as Cotter, which remains a defendant. The suits allege that individuals living in the North St. Louis area developed some form of cancer or other serious illness due to Cotter's negligent or reckless conduct in processing, transporting, storing, handling and/or disposing of radioactive materials. Plaintiffs are asserting public liability claims under the Price-Anderson Act. Their state law claims for negligence, strict liability, emotional distress, and medical monitoring have been dismissed. The complaints do not contain specific damage claims. In the event of a finding of liability against Cotter, it is reasonably possible that Exelon would be financially responsible due to its indemnification responsibilities of Cotter described above. The court has dismissed a number of lawsuits, and is expected to dismiss additional lawsuits based on a recent ruling. Pre-trial motions and discovery are proceeding in the remaining cases and a pre-trial scheduling order has been filed with the court. At this stage of the litigation, Generation and ComEd cannot estimate a range of loss, if any.

68th Street Dump. In 1999, the EPA proposed to add the 68th Street Dump in Baltimore, Maryland to the Superfund National Priorities List, and notified BGE and 19 others that they are PRPs at the site. In connection with BGE's 2000 corporate restructuring the responsibility for this liability was transferred to Constellation and as a result of the 2012 Exelon and CEG merger is now Generation's responsibility. In March 2004, the PRPs formed the 68th Street Coalition and entered into consent order negotiations with the U.S. EPA to investigate clean-up options for the site under the Superfund Alternative Sites Program. In May 2006, a settlement among the U.S. EPA and the PRPs with respect to investigation of the site became effective. The settlement requires the PRPs, over the course of several years, to identify contamination at the site and recommend clean-up options. The PRPs submitted their investigation of the range of clean-up options in the first quarter of 2011. Although the investigation and options provided to the U.S. EPA are still subject to U.S. EPA review and selection of a remedy, the range of estimated clean-up costs to be allocated among all of the PRPs is in the range of $50 million to $64 million. On September 30, 2013, EPA issued the Record of Decision identifying its preferred remedial alternative for the site. The estimated cost for the alternative chosen by EPA is consistent with the PRPs estimated range of costs noted above. Based on Generation's preliminary review, it appears probable that Generation has liability and has established an appropriate accrual for its share of the estimated clean-up costs which is included in the table above.

Rossville Ash Site. The Rossville Ash Site is a 32-acre property located in Rosedale, Baltimore County, Maryland, which was used for the placement of fly ash from 1983-2007. The property is owned by Constellation Power Source Generation, LLC (CPSG), a wholly-owned subsidiary of Generation. In 2008, CPSG investigated and remediated the property by entering it into the Maryland Voluntary Cleanup Program (VCP) to address any historic environmental concerns and ready the site for appropriate future redevelopment. The site was accepted into the program in 2010 and is currently going through the process to remediate the site and receive closure from MDE. Exelon currently estimates the cost to close the site to be approximately $4 million which has been fully reserved and included in the table above as of March 31, 2017.

Sauer Dump. On May 30, 2012, BGE was notified by the U.S. EPA that it is considered a PRP at the Sauer Dump Superfund site in Dundalk, Maryland. The U.S. EPA offered BGE and three other PRPs the opportunity to conduct an environmental investigation and present cleanup recommendations at the site. In addition, the U.S. EPA is seeking recovery from the PRPs of $1.7 million for past cleanup and investigation costs at the site. On March 11, 2013, BGE and three other PRPs signed an Administrative Settlement Agreement and Order on Consent with the U.S. EPA which requires the PRPs to conduct a remedial investigation and feasibility study at the site to determine what, if any, are the appropriate and recommended cleanup activities for the site. The ultimate outcome of this proceeding is uncertain. Since the U.S. EPA has not selected a cleanup remedy and the allocation of the cleanup costs among the PRPs has not been determined, an estimate of the range of BGE's reasonably possible loss, if any, cannot be determined. It is possible, however, that resolution of this matter could have a material, unfavorable impact on Exelon's and BGE's future results of operations and cash flows, and an appropriate accrual has been established and is included in the table above.

Riverside. In 2013, the MDE, at the request of EPA, conducted a site inspection and limited environmental sampling of certain portions of the 170 acre Riverside property owned by BGE. The site consists of several different parcels with different current and historical uses. The sampling included soil and groundwater samples for a number of potential environmental contaminants. The sampling confirmed the existence of contaminants consistent with the known historical uses of the various portions of the site. In March 2014, the MDE requested that BGE conduct an investigation which included a site-wide investigation of soils, sediment, groundwater, and surface water to complement the MDE sampling. The field investigation was completed in January 2015, and a final report was provided to MDE in June 2015. In November 2015, MDE provided BGE with its comments and recommendations on the report which require BGE to conduct further investigation and sampling at the site to better delineate the nature and extent of historic contamination, including off-site sediment and soil sampling. MDE did not request any interim remediation at this time and BGE anticipates completing the additional work requested by the end of the second quarter of 2017. BGE has established what it believes is an appropriate reserve based upon the investigation to date. The established reserve is included in the table above. As the

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investigation and potential remediation proceed, it is possible that additional reserves could be established, in amounts that could be material to BGE.

BGE is authorized to recover, and is currently recovering, environmental costs for the remediation of the former MGP facility sites from customers; however, while BGE does not have a rider for MGP clean-up costs, BGE has historically received recovery of actual clean-up costs in distribution rates.

Benning Road Site. In September 2010, PHI received a letter from EPA identifying the Benning Road site as one of six land-based sites potentially contributing to contamination of the lower Anacostia River. A portion of the site was formerly the location of a Pepco Energy Services electric generating facility. That generating facility was deactivated in June 2012 and plant structure demolition was completed in July 2015. The remaining portion of the site consists of a Pepco transmission and distribution service center that remains in operation. In December 2011, the U.S. District Court for the District of Columbia approved a consent decree entered into by Pepco and Pepco Energy Services with the DOEE, which requires Pepco and Pepco Energy Services to conduct a RI/FS for the Benning Road site and an approximately 10 to 15 acre portion of the adjacent Anacostia River. The RI/FS will form the basis for the remedial actions for the Benning Road site and for the Anacostia River sediment associated with the site. The consent decree does not obligate Pepco or Pepco Energy Services to pay for or perform any remediation work, but it is anticipated that DOEE will look to Pepco and Pepco Energy Services to assume responsibility for cleanup of any conditions in the river that are determined to be attributable to past activities at the Benning Road site.

The initial RI field work began in January 2013 and was completed in December 2014. In April 2015, Pepco and Pepco Energy Services submitted a draft RI Report to DOEE. After review, DOEE determined that additional field investigation and data analysis was required to complete the RI process (much of which was beyond the scope of the original DOEE-approved RI work plan). In the meantime, Pepco and Pepco Energy Services revised the draft RI Report to address DOEE’s comments and DOEE released the draft RI Report for public review in February 2016. Once the additional RI work has been completed, Pepco and Pepco Energy Services will issue a draft “final” RI report for review and comment by DOEE and the public. Pepco and Pepco Energy Services will then proceed to develop an FS to evaluate possible remedial alternatives for submission to DOEE. The Court has established a schedule for completion of the RI and FS, and approval by the DOEE, by June 2018.

Upon DOEE’s approval of the final RI and FS Reports, Pepco and Pepco Energy Services will have satisfied their obligations under the consent decree. At that point, DOEE will prepare a Proposed Plan regarding further response actions. After considering public comment on the Proposed Plan, DOEE will issue a Record of Decision identifying any further response actions determined to be necessary.

PHI, Pepco and Pepco Energy Services have determined that a loss associated with this matter for PHI, Pepco and Pepco Energy Services is probable and an estimated liability for this issue has been accrued, which is included in the table above. As the remedial investigation proceeds and potential remedies are identified, it is possible that additional accruals could be established in amounts that could be material to PHI, Pepco and Pepco Energy Services. Pursuant to Exelon’s March 2016 acquisition of PHI, Pepco Energy Services was transferred to Generation. The ultimate resolution of this matter is currently not expected to have any significant financial impact on Generation.

Anacostia River Tidal Reach. Contemporaneous with the Benning RI/FS being performed by Pepco and Pepco Energy Services, DOEE and certain federal agencies have been conducting a separate RI/FS focused on the entire tidal reach of the Anacostia River extending from just north of the Maryland-D.C. boundary line to the confluence of the Anacostia and Potomac Rivers. In March 2016, DOEE released a draft of the river-wide RI

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Report for public review and comment. The river-wide RI incorporated the results of the river sampling performed by Pepco and Pepco Energy Services as part of the Benning RI/FS, as well as similar sampling efforts conducted by owners of other sites adjacent to this segment of the river and supplemental river sampling conducted by DOEE's contractor. DOEE asked Pepco, along with parties responsible for other sites along the river, to participate in a "Consultative Working Group" to provide input into the process for future remedial actions addressing the entire tidal reach of the river and to ensure proper coordination with the other river cleanup efforts currently underway, including cleanup of the river segment adjacent to the Benning Road site resulting from the Benning Road RI/FS. Pepco responded that it will participate in the Consultative Working Group but its participation is not an acceptance of any financial responsibility beyond the work that will be performed at the Benning Road site described above. DOEE has advised the Consultative Working Group that the federal and DOEE authorities are conducting phase 2 of a remedial investigation. DOEE has targeted June 2018 as the date for remedy selection for clean-up of sediments in this section of the river. The Consultative Working Group and the other possible PRPs have provided input into the proposed clean-up process and schedule. At this time, it is not possible to predict the extent of Pepco's participation in the river-wide RI/FS process, and Pepco cannot estimate the reasonably possible range of loss for response costs beyond those associated with the Benning RI/FS component of the river-wide initiative. It is possible, however, that resolution of this matter could have a material, unfavorable impact on Exelon's and Pepco's future results of operations and cash flows.

Conectiv Energy Wholesale Power Generation Sites. In July 2010, PHI sold the wholesale power generation business of Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries (Conectiv Energy) to Calpine Corporation (Calpine). Under New Jersey's Industrial Site Recovery Act (ISRA), the transfer of ownership triggered an obligation on the part of Conectiv Energy to remediate any environmental contamination at each of the nine Conectiv Energy generating facility sites located in New Jersey. Under the terms of the sale, Calpine has assumed responsibility for performing the ISRA-required remediation and for the payment of all related ISRA compliance costs up to $10 million. PHI is obligated to indemnify Calpine for any ISRA compliance remediation costs in excess of $10 million. According to PHI's estimates, the costs of ISRA-required remediation activities at the 9 generating facility sites located in New Jersey are in the range of approximately $7 million to $18 million, and PHI has established an appropriate accrual for its share of the estimated clean-up costs, which is included in the table above. Pursuant to Exelon's March 2016 acquisition of PHI, Conectiv Energy was transferred to Generation, however, the responsibility to indemnify Calpine remained at PHI. The ultimate resolution of this matter is currently not expected to have any significant financial impact on PHI.

Rock Creek Mineral Oil Release. In late August 2015, a Pepco underground transmission line in the District of Columbia suffered a breach, resulting in the release of non-toxic mineral oil surrounding the transmission line into the surrounding soil, and a small amount reached Rock Creek through a storm drain. Pepco notified regulatory authorities, and Pepco and its spill response contractors placed booms in Rock Creek, blocked the storm drain to prevent the release of mineral oil into the creek and commenced remediation of soil around the transmission line and the Rock Creek shoreline. Pepco estimates that approximately 6,100 gallons of mineral oil were released and that its remediation efforts recovered approximately 80% of the amount released. Pepco's remediation efforts are ongoing under the direction of the DOEE, including the requirements of a February 29, 2016 compliance order which requires Pepco to prepare a full incident investigation report and prepare a removal action work plan to remove all impacted soils in the vicinity of the storm drain outfall, and in collaboration with the National Park Service, the Smithsonian Institution/National Zoo and EPA. Pepco's investigation presently indicates that the damage to Pepco's facilities occurred prior to the release of mineral oil when third-party excavators struck the Pepco underground transmission line while installing cable for another utility.

To the extent recovery is available against any party who contributed to this loss, PHI and Pepco will pursue such action. Exelon, PHI and Pepco continue to investigate the cause of the incident, the parties involved, and legal responsibility under District of Columbia law, but do not believe that the remediation costs to resolve this matter will have a material adverse effect on their respective financial condition, results of operations or cash flows.

Brandywine Fly Ash Disposal Site. In February 2013, Pepco received a letter from the MDE requesting that Pepco investigate the extent of waste on a Pepco right-of-way that traverses the Brandywine fly ash disposal site in Brandywine, Prince George's County, Maryland, owned by NRG Energy, Inc. (as successor to GenOn MD Ash Management, LLC) (NRG). In July 2013, while reserving its rights and related defenses under a 2000 agreement covering the sale of this site, Pepco indicated its willingness to investigate the extent of, and propose an appropriate closure plan to address, ash on the right-of-way. Pepco submitted a schedule for development of a closure plan to MDE on September 30, 2013 and, by letter dated October 18, 2013, MDE approved the schedule.

Exelon, PHI and Pepco have determined that a loss associated with this matter is probable and have estimated that the costs for implementation of a closure plan and cap on the site are in the range of approximately $3 million to $6 million, for which an appropriate reserve has been established and is included in the table above. Exelon, PHI and Pepco believe that the costs incurred in this matter will be recoverable from NRG under the 2000 sale agreement.

Litigation and Regulatory Matters

Asbestos Personal Injury Claims (Exelon, Generation, ComEd, PECO and BGE)

Exelon, Generation and PECO. Generation maintains a reserve for claims associated with asbestos-related personal injury actions in certain facilities that are currently owned by Generation or were previously owned by ComEd and PECO. The reserve is recorded on an undiscounted basis and excludes the estimated legal costs associated with handling these matters, which could be material.

At March 31, 2017 and December 31, 2016, Generation had reserved approximately $82 million and $83 million, respectively, in total for asbestos-related bodily injury claims. As of March 31, 2017, approximately $23 million of this amount related to 240 open claims presented to Generation, while the remaining $59 million of the reserve is for estimated future asbestos-related bodily injury claims anticipated to arise through 2050, based on actuarial assumptions and analyses, which are updated on an annual basis. On a quarterly basis, Generation monitors actual experience against the number of forecasted claims to be received and expected claim payments and evaluates whether an adjustment to the reserve is necessary.

On November 22, 2013, the Supreme Court of Pennsylvania held that the Pennsylvania Workers Compensation Act does not apply to an employee's disability or death resulting from occupational disease, such as diseases related to asbestos exposure, which manifests more than 300 weeks after the employee's last employment-based exposure, and that therefore the exclusivity provision of the Act does not preclude such employee from suing his or her employer in court. The Supreme Court's ruling reverses previous rulings by the Pennsylvania Superior Court precluding current and former employees from suing their employers in court, despite the fact that the same employee was not eligible for workers compensation benefits for diseases that manifest more than 300 weeks after the employee's last employment-based exposure to asbestos. Since the Pennsylvania Supreme Court's ruling in November 2013, Exelon, Generation, and PECO have experienced an increase in asbestos-related personal injury claims brought by former PECO employees, all of which have been reserved for on a claim by claim basis. Those additional claims are taken into account in projecting estimates of future asbestos-related bodily injury claims.

On November 4, 2015, the Illinois Supreme Court found that the provisions of the Illinois' Workers' Compensation Act and the Workers' Occupational Diseases Act barred an employee from bringing a direct civil

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

action against an employer for latent diseases, including asbestos-related diseases that fall outside the 25-year limit of the statute of repose. The Illinois Supreme Court's ruling reversed previous rulings by the Illinois Court of Appeals, which initially ruled that the Illinois Worker's Compensation law should not apply in cases where the diagnosis of an asbestos related disease occurred after the 25-year maximum time period for filing a Worker's Compensation claim. Since the Illinois Supreme Court's ruling in November 2015, Exelon, Generation, and ComEd have not experienced a significant increase in asbestos-related personal injury claims brought by former ComEd employees.

There is a reasonable possibility that Exelon may have additional exposure to estimated future asbestos-related bodily injury claims in excess of the amount accrued and the increases could have a material adverse effect on Exelon's, Generation's, ComEd's, PECO and BGE's future results of operations and cash flows.

BGE. Since 1993, BGE and certain Constellation (now Generation) subsidiaries have been involved in several actions concerning asbestos. The actions are based upon the theory of "premises liability," alleging that BGE and Generation knew of and exposed individuals to an asbestos hazard. In addition to BGE and Generation, numerous other parties are defendants in these cases.

To date, most asbestos claims which have been resolved relating to BGE and certain Constellation subsidiaries have been dismissed or resolved without any payment and a small minority of these cases has been resolved for amounts that were not material to BGE or Generation's financial results. Presently, there are an immaterial number of asbestos cases pending against BGE and certain Constellation subsidiaries.

Continuous Power Interruption (Exelon and ComEd)

Section 16-125 of the Illinois Public Utilities Act provides that in the event an electric utility, such as ComEd, experiences a continuous power interruption of four hours or more that affects (in ComEd's case) more than 30,000 customers, the utility may be liable for actual damages suffered by customers as a result of the interruption and may be responsible for reimbursement of local governmental emergency and contingency expenses incurred in connection with the interruption. Recovery of consequential damages is barred. The affected utility may seek from the ICC a waiver of these liabilities when the utility can show that the cause of the interruption was unpreventable damage due to weather events or conditions, customer tampering, or certain other causes enumerated in the law. As of March 31, 2017 and December 31, 2016, ComEd did not have any material liabilities recorded for these storm events.

Baltimore City Franchise Taxes (Exelon and BGE)

The City of Baltimore claims that BGE has maintained electric facilities in the City's public right-of-ways for over one hundred years without the proper franchise rights from the City. BGE has reviewed the City's claim and believes that it lacks merit. BGE has not recorded an accrual for payment of franchise fees for past periods as a range of loss, if any, cannot be reasonably estimated at this time. Franchise fees assessed in future periods may be material to BGE's results of operations and cash flows.

Conduit Lease with City of Baltimore (Exelon and BGE)

On September 23, 2015, the Baltimore City Board of Estimates approved an increase in annual rental fees for access to the Baltimore City underground conduit system effective November 1, 2015, from $12 million to $42 million, subject to an annual increase thereafter based on the Consumer Price Index. BGE subsequently entered into litigation with the City regarding the amount of and basis for establishing the conduit fee. On November 30, 2016, the Baltimore City Board of Estimates approved a settlement agreement entered into

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between BGE and the City to resolve the disputes and pending litigation related to BGE's use of and payment for the underground conduit system. As a result of the settlement, the parties have entered into a six-year lease that reduces the annual expense to $25 million in the first three years and caps the annual expense in the last three years to not more than $29 million. BGE recorded a credit to Operating and maintenance expense in the fourth quarter of approximately $28 million for the reversal of the previously higher fees accrued in the current year as well as the settlement of prior year disputed fee true-up amounts.

Deere Wind Energy Assets (Exelon and Generation)

In 2013, Deere & Company ("Deere") filed a lawsuit against Generation in the Delaware Superior Court relating to Generation's acquisition of the Deere wind energy assets. Under the purchase agreement, Deere was entitled to receive earn-out payments if certain specific wind projects already under development in Michigan met certain development and construction milestones following the sale. In the complaint, Deere seeks to recover a $14 million earn-out payment associated with one such project, which was never completed. Generation has filed counterclaims against Deere for breach of contract, with a right of recoupment and set off. On June 2, 2016, the Delaware Superior Court entered summary judgment in favor of Deere. On January 17, 2017, Generation filed an appeal of the Superior Court's summary judgment decision with the Supreme Court of Delaware. Generation has accrued an amount to cover its potential liability.

General (All Registrants)

The Registrants are involved in various other litigation matters that are being defended and handled in the ordinary course of business. The assessment of whether a loss is probable or a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. The Registrants maintain accruals for such losses that are probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of reasonably possible loss, particularly where (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss.

Income Taxes *(Exelon, Generation, ComEd, PECO and BGE)*

See Note 11 — Income Taxes for information regarding the Registrants' income tax refund claims and certain tax positions, including the 1999 sale of fossil generating assets.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

18. Supplemental Financial Information (All Registrants)

Supplemental Statement of Operations Information

The following tables provide additional information about the Registrants' Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2017 and 2016.

	Three Months Ended March 31, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[(a)]									
Regulatory agreement units	$ 68	$ 68	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	32	32	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds									
Regulatory agreement units	222	222	—	—	—	—	—	—	—
Non-regulatory agreement units	166	166	—	—	—	—	—	—	—
Net unrealized losses on pledged assets									
Zion Station decommissioning	(1)	(1)	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[(b)]	(234)	(234)	—	—	—	—	—	—	—
Total decommissioning-related activities	253	253	—	—	—	—	—	—	—
Investment income	2	2	—	—	—	—	—	—	—
Interest income related to uncertain income tax positions	1	—	—	—	—	—	—	—	—
AFUDC — Equity	17	—	2	2	4	9	5	2	2
Other	10	4	2	—	—	4	3	1	—
Other, net	$ 283	$ 259	$ 4	$ 2	$ 4	$ 13	$ 8	$ 3	$ 2

	Three Months Ended March 31, 2016								*Successor* March 24, 2016 to March 31, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Other, Net										
Decommissioning-related activities:										
Net realized income on decommissioning trust funds[(a)]										
Regulatory agreement units	$ 34	$ 34	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	21	21	—	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds										
Regulatory agreement units	79	79	—	—	—	—	—	—	—	—
Non-regulatory agreement units	52	52	—	—	—	—	—	—	—	—
Net unrealized gains on pledged assets										
Zion Station decommissioning	2	2	—	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[(b)]	(95)	(95)	—	—	—	—	—	—	—	—
Total decommissioning-related activities	93	93	—	—	—	—	—	—	—	—
Investment income	6	1	—	—	1	—	—	—	—	—
Long-term lease income	4	—	—	—	—	—	—	—	—	—
Interest income related to uncertain income tax positions	1	—	—	—	—	1	—	1	—	—
AFUDC—Equity	8	—	2	2	3	4	1	2	1	7
Loss on debt extinguishment	(2)	(2)	—	—	—	—	—	—	—	—
Other	4	1	2	—	—	4	2	1	1	(11)
Other, net	$ 114	$ 93	$ 4	$ 2	$ 4	$ 9	$ 3	$ 4	$ 2	$ (4)

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(a) Includes investment income and realized gains and losses on sales of investments of the trust funds.

(b) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of net income taxes related to all NDT fund activity for those units. See Note 16 — Asset Retirement Obligations of the Exelon 2016 Form 10-K for additional information regarding the accounting for nuclear decommissioning.

The following utility taxes are included in revenues and expenses for the three months ended March 31, 2017 and 2016. Generation's utility tax expense represents gross receipts tax related to its retail operations, and the utility registrants' utility tax expense represents municipal and state utility taxes and gross receipts taxes related to their operating revenues. The offsetting collection of utility taxes from customers is recorded in revenues on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

	Three Months Ended March 31, 2017								
	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Utility taxes	$ 224	$ 32	$ 59	$ 31	$26	$ 76	$ 71	$ 5	$—

	Three Months Ended March 31, 2016								*Successor* March 24, 2016 to March 31, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE	PHI	PHI
Utility taxes	$ 153	$ 28	$ 59	$ 35	$24	$ 79	$ 5	$—	$ 7	$ 77

Supplemental Cash Flow Information

The following tables provide additional information regarding the Registrants' Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016.

	Three Months Ended March 31, 2017								
	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Depreciation, amortization and accretion									
Property, plant and equipment(a)	$ 754	$ 289	$ 190	$ 64	$ 80	$ 112	$ 50	$30	$21
Amortization of regulatory assets(a)	128	—	18	7	48	55	32	9	14
Amortization of intangible assets, net(a)	14	13	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities(b)	2	2	—	—	—	—	—	—	—
Nuclear fuel(c)	264	264	—	—	—	—	—	—	—
ARO accretion(d)	112	110	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$1,274	$ 678	$ 208	$ 71	$128	$ 167	$ 82	$39	$35

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Three Months Ended March 31, 2016								*Successor* March 24, 2016 to March 31, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE	PHI	PHI
Depreciation, amortization and accretion										
Property, plant and equipment(a)	$ 606	$ 278	$ 170	$ 60	$ 75	$ 42	$27	$20	$ 9	$ 94
Amortization of regulatory assets(a)	65	—	19	7	34	33	12	20	5	58
Amortization of intangible assets, net(a)	14	11	—	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities(b)	(14)	(14)	—	—	—	—	—	—	—	—
Nuclear fuel(c)	283	283	—	—	—	—	—	—	—	—
ARO accretion(d)	109	109	—	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$1,063	$ 667	$ 189	$ 67	$109	$ 75	$39	$40	$ 14	$ 152

(a) Included in Depreciation and amortization on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

(b) Included in Operating revenues or Purchased power and fuel expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

(c) Included in Purchased power and fuel expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

(d) Included in Operating and maintenance expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

	Three Months Ended March 31, 2017								
	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Other non-cash operating activities:									
Pension and non-pension postretirement benefit costs	$ 157	$ 54	$ 44	$ 7	$16	$ 24	$ 7	$ 3	$ 3
Loss from equity method investments	10	10	—	—	—	—	—	—	—
Provision for uncollectible accounts	34	9	7	17	5	(4)	(5)	(1)	1
Stock-based compensation costs	31	—	—	—	—	—	—	—	—
Other decommissioning-related activity(a)	(84)	(84)	—	—	—	—	—	—	—
Energy-related options(b)	(4)	(4)	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	2	—	1	—	—	1	—	—	—
Amortization of rate stabilization deferral	(14)	—	—	—	7	(21)	(15)	(6)	—
Amortization of debt fair value adjustment	(5)	(3)	—	—	—	(2)	—	—	—
Discrete impacts from EIMA(c)	(24)	—	(24)	—	—	—	—	—	—
Amortization of debt costs	9	4	1	—	—	—	—	—	—
Provision for excess and obsolete inventory	2	1	1	—	—	—	—	—	—
Other	4	3	1	(1)	(4)	(6)	(2)	(3)	(2)
Total other non-cash operating activities	$ 118	$ (10)	$ 31	$ 23	$24	$ (8)	$(15)	$(7)	$ 2
Non-cash investing and financing activities:									
Change in capital expenditures not paid	$(298)	$ (354)	$ 25	$ —	$41	$ (5)	$ (6)	$ 9	$—
Non-cash financing of capital projects	10	10	—	—	—	—	—	—	—
Dividends on stock compensation	2	—	—	—	—	—	—	—	—

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

									Successor	*Predecessor*
	Three Months Ended March 31, 2016								March 24, 2016 to March 31, 2016	January 1, 2016 to March 23, 2016
	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE	PHI	PHI
Other non-cash operating activities:										
Pension and non-pension postretirement benefit costs	$ 136	$ 54	$ 41	$ 8	$ 16	$ 8	$ 5	$ 4	$ 3	$ 23
Loss from equity method investments	3	3	—	—	—	—	—	—	—	—
Provision for uncollectible accounts	41	6	9	16	12	5	5	7	(2)	16
Stock-based compensation costs	44	—	—	—	—	—	—	—	—	3
Other decommissioning-related activity[(a)]	(55)	(55)	—	—	—	—	—	—	—	—
Energy-related options[(b)]	(9)	(9)	—	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	1	—	1	—	—	1	—	—	—	1
Amortization of rate stabilization deferral	20	—	—	—	20	1	4	—	—	5
Amortization of debt fair value adjustment	(3)	(3)	—	—	—	—	—	—	—	—
Discrete impacts from EIMA[(c)]	(14)	—	(14)	—	—	—	—	—	—	—
Amortization of debt costs	8	4	1	1	1	—	—	—	—	—
Provision for excess and obsolete inventory	1	1	—	—	—	1	1	1	—	1
Merger-related commitments[(d)(e)]	503	3	—	—	—	138	100	120	358	—
Severance costs	69	4	—	—	—	—	—	—	52	—
Asset retirement costs	—	—	—	—	—	—	4	2	—	—
Lower of cost or net realizable value inventory adjustment	36	36	—	—	—	—	—	—	—	—
Other	23	7	(6)	(1)	(5)	(1)	(1)	(2)	(1)	(3)
Total other non-cash operating activities	$ 804	$ 51	$ 32	$ 24	$ 44	$ 153	$118	$132	$ 410	$ 46
Non-cash investing and financing activities:										
Change in capital expenditures not paid	$ (290)	$ (234)	$ 25	$ (65)	$ (4)	$ 9	$ 8	$ (9)	$ (7)	$ 11
Fair value of net assets contributed to Generation in connection with the PHI Merger, net of cash[(d)(f)]	—	119	—	—	—	—	—	—	—	—
Fair value of net assets distributed to Exelon in connection with the PHI Merger, net of cash[(d)(f)]	—	—	—	—	—	—	—	—	127	—
Fair value of pension obligation transferred in connection with the PHI Merger	—	—	—	—	—	—	—	—	45	—
Assumption of member purchase liability	—	—	—	—	—	—	—	—	29	—
Change in PPE related to ARO update	62	62	—	—	—	—	—	—	—	—
Indemnification of like-kind exchange position[(g)]	—	—	1	—	—	—	—	—	—	—
Non-cash financing of capital projects	31	31	—	—	—	—	—	—	—	—
Dividends on stock compensation	1	—	—	—	—	—	—	—	—	—

(a) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of operating revenues, ARO accretion, ARC amortization, investment income and income taxes related to all NDT fund activity for these units. See Note 16 — Asset Retirement Obligations of the Exelon 2016 Form 10-K for additional information regarding the accounting for nuclear decommissioning.

(b) Includes option premiums reclassified to realized at the settlement of the underlying contracts and recorded in Operating revenues.

(c) Reflects the change in distribution rates pursuant to EIMA, which allows for the recovery of costs by a utility through a pre-established performance-based formula rate tariff. See Note 5 — Regulatory Matters for more information.

(d) See Note 4 — Mergers, Acquisitions and Dispositions for additional information related to the merger with PHI.

(e) Excludes $5 million of forgiveness of Accounts receivable related to merger commitments recorded in connection with the PHI Merger, the balance is included within Provision for uncollectible accounts.

(f) Immediately following closing of the PHI Merger, the net assets associated with PHI's unregulated business interests were distributed by PHI to Exelon. Exelon contributed a portion of such net assets to Generation.

(g) See Note 11 — Income Taxes for discussion of the like-kind exchange tax position.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Supplemental Balance Sheet Information

The following tables provide additional information about assets and liabilities of the Registrants as of March 31, 2017 and December 31, 2016.

March 31, 2017	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Property, plant and equipment:									
Accumulated depreciation and amortization	$19,716(a)	$ 10,801(a)	$4,040	$3,293	$3,311	$ 281	$3,090	$1,195	$1,032
Accounts receivable:									
Allowance for uncollectible accounts	$ 346	$ 97	$ 80	$ 72	$ 35	$ 61	$ 18	$ 20	$ 23

December 31, 2016	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Property, plant and equipment:									
Accumulated depreciation and amortization	$19,169(b)	$ 10,562(b)	$3,937	$3,253	$3,254	$ 195	$3,050	$1,175	$1,016
Accounts receivable:									
Allowance for uncollectible accounts	$ 334	$ 91	$ 70	$ 61	$ 32	$ 80	$ 29	$ 24	$ 27

(a) Includes accumulated amortization of nuclear fuel in the reactor core of $3,171 million.
(b) Includes accumulated amortization of nuclear fuel in the reactor core of $3,186 million.

PECO Installment Plan Receivables (Exelon and PECO)

PECO enters into payment agreements with certain delinquent customers, primarily residential, seeking to restore their service, as required by the PAPUC. Customers with past due balances that meet certain income criteria are provided the option to enter into an installment payment plan, some of which have terms greater than one year, to repay past due balances in addition to paying for their ongoing service on a current basis. The receivable balance for these payment agreement receivables is recorded in accounts receivable for the current portion and other deferred debits and other assets for the noncurrent portion. The net receivable balance for installment plans with terms greater than one year was $9 million and $9 million as of March 31, 2017 and December 31, 2016, respectively. The allowance for uncollectible accounts reserve methodology and assessment of the credit quality of the installment plan receivables are consistent with the customer accounts receivable methodology discussed in Note 1 — Significant Accounting Policies of the Exelon 2016 Form 10-K. The allowance for uncollectible accounts balance associated with these receivables at March 31, 2017 of $11 million consists of $0 million, $3 million and $8 million for low risk, medium risk and high risk segments, respectively. The allowance for uncollectible accounts balance at December 31, 2016 of $13 million consists of $1 million, $3 million and $9 million for low risk, medium risk and high risk segments, respectively. The balance of the payment agreement is billed to the customer in equal monthly installments over the term of the agreement. Installment receivables outstanding as of March 31, 2017 and December 31, 2016 include balances not yet presented on the customer bill, accounts currently billed and an immaterial amount of past due receivables. When a customer defaults on its payment agreement, the terms of which are defined by plan type, the entire balance of the agreement becomes due and the balance is reclassified to current customer accounts receivable and reserved for in accordance with the methodology discussed in Note 1 — Significant Accounting Policies of the Exelon 2016 Form 10-K.

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19. Segment Information (All Registrants)

Operating segments for each of the Registrants are determined based on information used by the chief operating decision maker(s) (CODM) in deciding how to evaluate performance and allocate resources at each of the Registrants.

In the first quarter of 2016, following the consummation of the PHI Merger, three new reportable segments were added: Pepco, DPL and ACE. As a result, Exelon has twelve reportable segments, which include ComEd, PECO, BGE, PHI's three reportable segments consisting of Pepco, DPL, and ACE, and Generation's six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and all other power regions referred to collectively as "Other Power Regions", which includes activities in the South, West and Canada. ComEd, PECO, BGE, Pepco, DPL and ACE each represent a single reportable segment, and as such, no separate segment information is provided for these Registrants. Exelon, ComEd, PECO, BGE, Pepco, DPL and ACE's CODMs evaluate the performance of and allocate resources to ComEd, PECO, BGE, Pepco, DPL and ACE based on net income and return on equity.

Effective with the consummation of the PHI Merger, PHI's reportable segments have changed based on the information used by the CODM to evaluate performance and allocate resources. PHI's reportable segments consist of Pepco, DPL and ACE. PHI's Predecessor periods' segment information has been recast to conform to the current presentation. The reclassification of the segment information did not impact PHI's reported consolidated revenues or net income. PHI's CODM evaluates the performance of and allocates resources to Pepco, DPL and ACE based on net income and return on equity.

The basis for Generation's reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation's hedging strategies and risk metrics are also aligned to these same geographic regions. Descriptions of each of Generation's six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.
- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.
- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
- New York represents operations within ISO-NY, which covers the state of New York in its entirety.
- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.
- Other Power Regions:
  - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP,

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.

- West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado and parts of New Mexico, Wyoming and South Dakota.
- Canada represents operations across the entire country of Canada and includes AESO, OIESO and the Canadian portion of MISO.

The CODMs for Exelon and Generation evaluate the performance of Generation’s electric business activities and allocate resources based on revenues net of purchased power and fuel expense (RNF). Generation believes that RNF is a useful measurement of operational performance. RNF is not a presentation defined under GAAP and may not be comparable to other companies’ presentations or deemed more useful than the GAAP information provided elsewhere in this report. Generation’s operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for Generation’s owned generation and fuel costs associated with tolling agreements. The results of Generation’s other business activities are not regularly reviewed by the CODM and are therefore not classified as operating segments or included in the regional reportable segment amounts. These activities include natural gas, as well as other miscellaneous business activities that are not significant to Generation’s overall operating revenues or results of operations. Further, Generation’s unrealized mark-to-market gains and losses on economic hedging activities and its amortization of certain intangible assets and liabilities relating to commodity contracts recorded at fair value from mergers and acquisitions are also excluded from the regional reportable segment amounts. Exelon and Generation do not use a measure of total assets in making decisions regarding allocating resources to or assessing the performance of these reportable segments.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

An analysis and reconciliation of the Registrants' reportable segment information to the respective information in the consolidated financial statements for the three months ended March 31, 2017 and 2016 is as follows:

Three Months Ended March 31, 2017 and 2016

					Successor			
	Generation[a]	**ComEd**	**PECO**	**BGE**	**PHI[b]**	**Other[c]**	**Intersegment Eliminations**	**Exelon**
Operating revenues[d]:								
2017								
Competitive businesses electric revenues	$ 3,720	$ —	$ —	$ —	$ —	$ —	$ (328)	$ 3,392
Competitive businesses natural gas revenues	918	—	—	—	—	—	—	918
Competitive businesses other revenues	250	—	—	—	—	—	—	250
Rate-regulated electric revenues	—	1,298	590	667	1,097	—	(8)	3,644
Rate-regulated natural gas revenues	—	—	206	284	66	—	(3)	553
Shared service and other revenues	—	—	—	—	12	419	(431)	—
2016								
Competitive businesses electric revenues	$ 3,695	$ —	$ —	$ —	$ —	$ —	$ (266)	$ 3,429
Competitive businesses natural gas revenues	822	—	—	—	—	—	—	822
Competitive businesses other revenues	222	—	—	—	—	—	—	222
Rate-regulated electric revenues	—	1,249	644	680	90	—	(6)	2,657
Rate-regulated natural gas revenues	—	—	197	249	3	—	(5)	444
Shared service and other revenues	—	—	—	—	12	405	(418)	(1)
Intersegment revenues[e]:								
2017	$ 328	$ 5	$ 1	$ 5	$ 12	$ 419	$ (770)	$ —
2016	266	5	1	5	12	405	(695)	(1)
Net income (loss):								
2017	$ 409	$ 141	$ 127	$ 125	$ 140	$ 39	$ —	$ 981
2016	257	115	124	101	(309)	(164)	(1)	123
Total assets:								
March 31, 2017	$ 48,609	$28,756	$10,932	$8,821	$21,018	$10,700	$ (11,768)	$117,068
December 31, 2016	46,974	28,335	10,831	8,704	21,025	10,369	(11,334)	114,904

(a) Generation includes the six reportable segments shown below: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions. Intersegment revenues for Generation for the three months ended March 31, 2017 include revenue from sales to PECO of $45 million, sales to BGE of $134 million, sales to Pepco of $83 million, sales to DPL of $51 million, and sales to ACE of $9 million in the Mid-Atlantic region, and sales to ComEd of $5 million in the Midwest region. For the three months ended March 31, 2016, intersegment revenues for Generation include revenue from sales to PECO of $79 million and sales to BGE of $173 million in the Mid-Atlantic region, and sales to ComEd of $5 million in the Midwest region. For the Successor period of March 24, 2016 to March 31, 2016, intersegment revenues for Generation include revenue from sales to Pepco of $6 million, sales to DPL of $4 million, and sales to ACE of $1 million in the Mid-Atlantic region.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(b) Amounts included represent activity for PHI's successor period, March 24, 2016 through March 31, 2016. PHI includes the three reportable segments: Pepco, DPL and ACE. See tables below for PHI's predecessor periods, including Pepco, DPL and ACE, for January 1, 2016 to March 23, 2016 and for the three months ended March 31, 2016.

(c) Other primarily includes Exelon's corporate operations, shared service entities and other financing and investment activities.

(d) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 18 — Supplemental Financial Information for total utility taxes for the three months ended March 31, 2017 and 2016.

(e) Intersegment revenues exclude sales to unconsolidated affiliates. The intersegment profit associated with Generation's sale of certain products and services by and between Exelon's segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in Operating revenues in the Consolidated Statements of Operations and Comprehensive Income.

Successor and Predecessor PHI:

	Pepco	DPL	ACE	Other[b]	Intersegment Eliminations	PHI
Operating revenues[a]:						
Three Months Ended March 31, 2017 —Successor						
Rate-regulated electric revenues	$ 530	$ 296	$ 275	$ —	$ (4)	$ 1,097
Rate-regulated natural gas revenues	—	66	—	—	—	66
Shared service and other revenues	—	—	—	12	—	12
March 24, 2016 to March 31, 2016 —Successor						
Rate-regulated electric revenues	$ 40	$ 24	$ 23	$ 3	$ —	$ 90
Rate-regulated natural gas revenues	—	3	—	—	—	3
Shared service and other revenues	—	—	—	12	—	12
January 1, 2016 to March 23, 2016 —Predecessor						
Rate-regulated electric revenues	$ 511	$ 279	$ 268	$ 42	$ (4)	$ 1,096
Rate-regulated natural gas revenues	—	56	—	1	—	57
Shared service and other revenues	—	—	—	—	—	—
Intersegment revenues:						
Three Months Ended March 31, 2017 —Successor	$ 1	$ 2	$ 1	$ 13	$ (5)	$ 12
March 24, 2016 to March 31, 2016 —Successor	—	—	—	12	—	12
January 1, 2016 to March 23, 2016 —Predecessor	1	2	1	—	(4)	—
Net income (loss):						
Three Months Ended March 31, 2017 —Successor	$ 58	$ 57	$ 28	$ (15)	$ 12	$ 140
March 24, 2016 to March 31, 2016 —Successor	(140)	(98)	(105)	22	12	(309)
January 1, 2016 to March 23, 2016 —Predecessor	32	26	5	(44)	—	19
Total assets:						
March 31, 2017 — Successor	$7,417	$4,191	$3,451	$10,785	$ (4,826)	$21,018
December 31, 2016 — Successor	7,335	4,153	3,457	10,804	(4,724)	21,025

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(a) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 18 — Supplemental Financial Information for total utility taxes for the three months ended March 31, 2017 and 2016.

(b) Other primarily includes PHI's corporate operations, shared service entities and other financing and investment activities. For the predecessor periods presented, Other includes the activity of PHI's unregulated businesses which were distributed to Exelon and Generation as a result of the PHI Merger.

Generation total revenues:

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Revenues from external customers[a]	Intersegment revenues	Total Revenues	Revenues from external customers[a]	Intersegment revenues	Total Revenues
Mid-Atlantic	$ 1,429	$ (4)	$ 1,425	$ 1,532	$ (12)	$ 1,520
Midwest	1,051	2	1,053	1,089	6	1,095
New England	549	(2)	547	471	(1)	470
New York	310	(3)	307	218	(15)	203
ERCOT	192	(1)	191	163	—	163
Other Power Regions	189	(5)	184	222	1	223
Total Revenues for Reportable Segments	3,720	(13)	3,707	3,695	(21)	3,674
Other[b]	1,168	13	1,181	1,044	21	1,065
Total Generation Consolidated Operating Revenues	$ 4,888	$ —	$ 4,888	$ 4,739	$ —	$ 4,739

(a) Includes all wholesale and retail electric sales to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $3 million decrease to revenues and a $20 million increase to revenues for the amortization of intangible assets and liabilities related to commodity contracts recorded at fair value for the three months ended March 31, 2017 and 2016, respectively, unrealized mark-to-market gains of $44 million and $63 million for the three months ended March 31, 2017 and 2016, respectively, and elimination of intersegment revenues.

Generation total revenues net of purchased power and fuel expense:

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	RNF from external customers[(a)]	Intersegment RNF	Total RNF	RNF from external customers[(a)]	Intersegment RN	Total RNF
Mid-Atlantic	$ 755	$ 18	$ 773	$ 832	$ 9	$ 841
Midwest	704	11	715	715	3	718
New England	115	(4)	111	86	(5)	81
New York	153	—	153	141	(11)	130
ERCOT	94	(25)	69	81	(20)	61
Other Power Regions	108	(44)	64	86	(10)	76
Total Revenues net of purchased power and fuel expense for Reportable Segments	1,929	(44)	1,885	1,941	(34)	1,907
Other[(b)]	161	44	205	356	34	390
Total Generation Revenues net of purchased power and fuel expense	$ 2,090	$ —	$2,090	$ 2,297	$ —	$2,297

(a) Includes purchases and sales from/to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $3 million decrease to RNF and a $19 million increase to RNF for the amortization of intangible assets and liabilities related to commodity contracts for the three months ended March 31, 2017 and 2016, respectively, unrealized mark-to-market losses of $49 million and gains of $103 million for the three months ended March 31, 2017 and 2016, respectively, and the elimination of intersegment revenue net of purchased power and fuel expense.

20. Subsequent Events (Exelon and Generation)

EGTP, a Delaware limited liability company, was formed in 2014 with the purpose of financing a portfolio of assets comprised of two combined-cycle gas turbines (CCGTs) and three peaking/simple cycle facilities consisting of approximately 3.4 GW of generation capacity in ERCOT North and Houston Zones. EGTP is an indirect wholly owned subsidiary of Exelon and Generation. Each of the aforementioned facilities is held through a wholly-owned direct subsidiary of EGTP. EGTP also owns two equity method investments in shared facility companies. EGTP, its direct parent and its wholly owned subsidiaries secure a nonrecourse senior secured term loan facility, a revolving loan facility and certain commodity and interest rate swaps.

EGTP's operating cash flows have been negatively impacted by certain market conditions including, but not limited to: low power prices, higher fuel prices and the seasonality of its cash flows. Despite the declining operating cash flows, EGTP remained in compliance with its covenants related to the project financing through March 31, 2017. On May 2, 2017, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly-owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of administering the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP, including the revolving credit facility. As a result, in the second quarter, Exelon and Generation will reclassify certain EGTP's assets and liabilities on Exelon's and Generation's Consolidated Balance Sheets as held for sale at their respective fair values. Exelon and Generation estimate a pre-tax impairment charge upon reclassification ranging from $300 million to $400 million will be recognized in the second quarter of 2017. See Note 10 — Debt and Credit Agreements for details regarding the nonrecourse debt associated with EGTP. The resolution of this matter has no direct effect on any other Exelon or Generation debt or credit facilities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in millions except per share data, unless otherwise noted)

Exelon

Executive Overview

Exelon, a utility services holding company, operates through the following principal subsidiaries:

- *Generation,* whose integrated business consists of the generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services.
- *ComEd,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in northern Illinois, including the City of Chicago.
- *PECO,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in the Pennsylvania counties surrounding the City of Philadelphia.
- *BGE,* whose business consists of the purchase and regulated retail sale of electricity and natural gas and the provision of electricity distribution and transmission and natural gas distribution services in central Maryland, including the City of Baltimore.
- *Pepco,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission in the District of Columbia and major portions of Prince George's County and Montgomery County in Maryland.
- *DPL,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.
- *ACE,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in southern New Jersey.

Pepco, DPL and ACE are operating companies of PHI, which is a utility services holding company and a wholly owned subsidiary of Exelon.

Exelon has twelve reportable segments consisting of Generation's six reportable segments (Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions in Generation), ComEd, PECO, BGE and PHI's three utility reportable segments (Pepco, DPL and ACE). See Note 19 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information regarding Exelon's reportable segments.

Through its business services subsidiary BSC, Exelon provides its operating subsidiaries with a variety of support services at cost. The costs of these services are directly charged or allocated to the applicable operating segments. Additionally, the results of Exelon's corporate operations include costs for corporate governance and interest costs and income from various investment and financing activities.

PHI Service Company, a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, accounting, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHI Service Company and the participating operating subsidiaries.

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Exelon's consolidated financial information includes the results of its eight separate operating subsidiary registrants, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, which, along with Exelon, are collectively referred to as the Registrants. The following combined Management's Discussion and Analysis of Financial Condition and Results of Operations is separately filed by Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE. However, none of the Registrants makes any representation as to information related solely to any of the other Registrants.

Financial Results of Operations

GAAP Results of Operations

The following table sets forth Exelon's GAAP consolidated results of operations for the three months ended March 31, 2017 compared to the same period in 2016. The 2016 amounts include the operations of PHI, Pepco, DPL and ACE from March 24, 2016 through March 31, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	Three Months Ended March 31,								
	2017							2016	Favorable (Unfavorable) Variance
	Generation	ComEd	PECO	BGE	PHI	Other	Exelon	Exelon (b)	
Operating revenues	$ 4,888	$1,298	$796	$951	$1,175	$(351)	$8,757	$7,573	$ 1,184
Purchased power and fuel expense	2,798	334	287	350	461	(331)	3,899	3,254	(645)
Revenue net of purchased power and fuel expense (a)	2,090	964	509	601	714	(20)	4,858	4,319	539
Other operating expenses									
Operating and maintenance	1,488	370	208	183	256	(45)	2,460	2,835	375
Depreciation and amortization	302	208	71	128	167	20	896	685	(211)
Taxes other than income	143	72	38	62	111	10	436	325	(111)
Total other operating expenses	1,933	650	317	373	534	(15)	3,792	3,845	53
Gain on sales of assets	4	—	—	—	—	—	4	9	(5)
Bargain purchase gain	226	—	—	—	—	—	226	—	226
Operating income (loss)	387	314	192	228	180	(5)	1,296	483	813
Other income and (deductions)									
Interest expense, net	(100)	(85)	(31)	(27)	(62)	(68)	(373)	(287)	(86)
Other, net	259	4	2	4	13	1	283	114	169
Total other income and (deductions)	159	(81)	(29)	(23)	(49)	(67)	(90)	(173)	83
Income (loss) before income taxes	546	233	163	205	131	(72)	1,206	310	896
Income taxes	127	92	36	80	(9)	(111)	215	184	(31)
Equity in losses of unconsolidated affiliates	(10)	—	—	—	—	—	(10)	(3)	(7)
Net income	409	141	127	125	140	39	981	123	858
Net loss attributable to noncontrolling interests and preference stock dividends	(14)	—	—	—	—	—	(14)	(50)	(36)
Net income attributable to common shareholders	$ 423	$ 141	$127	$125	$ 140	$ 39	$ 995	$ 173	$ 822

(a) The Registrants evaluate operating performance using the measure of revenues net of purchased power and fuel expense. The Registrants believe that revenues net of purchased power and fuel expense is a useful measurement because it

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provides information that can be used to evaluate their operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) As a result of the PHI Merger, Exelon includes the consolidated results of PHI, Pepco, DPL and ACE from March 24, 2016 through March 31, 2016.

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Exelon's net income attributable to common shareholders was $995 million for the three months ended March 31, 2017 as compared to $173 million for the three months ended March 31, 2016, and diluted earnings per average common share were $1.07 for the three months ended March 31, 2017 as compared to $0.19 for the three months ended March 31, 2016.

Revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed below, increased by $539 million for the three months ended March 31, 2017 as compared to the same period in 2016. The year-over-year increase in revenue net of purchased power and fuel expense was primarily due to the following favorable factors:

- Increase of $63 million at ComEd primarily due to revenue decoupling impacts, increased capital investment, increased depreciation expense and higher allowed ROE due to an increase in treasury rates;
- Increase of $45 million at BGE primarily due to increased distribution revenue as a result of electric and natural gas rates increases effective in June 2016; and
- Increase of $647 million in revenue net of purchased power and fuel due to the inclusion of PHI's results for the three months ended March 31, 2017 compared to the period March 24, 2016 to March 31, 2016.

The year-over-year increase in revenue net of purchased power and fuel expense was partially offset by the following factors:

- Decrease of $152 million at Generation due to mark-to-market losses of $49 million in 2017 from economic hedging activities as compared to gains of $103 million in 2016; and
- Decrease of $55 million at Generation primarily due to the impacts of declining natural gas prices on Generation's natural gas portfolio, decreased capacity prices and lower realized energy prices, partially offset by the impact of the Ginna Reliability Support Services Agreement and the absence of oil inventory write downs in 2017.

Operating and maintenance expense decreased by $375 million for the three months ended March 31, 2017 as compared to the same period in 2016 primarily due to the following favorable factors:

- Decrease of $141 million at Corporate due to merger commitments of $1 million in 2017 compared to $142 million in 2016;
- Decrease of $109 million at Generation due to long-lived asset impairments of $10 million in 2017 compared to $119 million in 2016;
- Decrease of $34 million at Corporate due to the absence of certain merger and integration costs in 2017 compared to $34 million in 2016;
- Decrease of $12 million at BGE due to lower incremental storm costs in the first quarter of 2017 compared to the first quarter of 2016; and
- Decrease of $425 million at PHI primarily due to the deferral of previously expensed merger-related costs of $6 million for the three months ended March 31, 2017 compared to merger commitment and other merger-related costs of $419 million for the period March 24, 2016 to March 31, 2016.

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The year-over-year decrease in operating and maintenance expense was partially offset by the following unfavorable factors:

- Increase in Generation's labor, contracting and materials cost of $95 million primarily due to increased merger and integration costs, the inclusion of Pepco Energy Services results for the three months ended March 31, 2017 compared to the period March 24, 2016 to March 31, 2016 and increased contracting costs related to energy efficiency projects; and
- Increase of $28 million at Generation due to increased nuclear outage costs; and
- Increase of $232 million, exclusive of merger-related costs discussed above, in operating and maintenance expense due to the inclusion of PHI's results for the three months ended March 31, 2017 compared to the period March 24, 2016 to March 31, 2016.

Depreciation and amortization expense increased by $211 million primarily due to increased depreciation expense as a result of ongoing capital expenditures across all operating companies and the inclusion of PHI's results for the three months ended March 31, 2017 compared to the period March 24, 2016 to March 31, 2016.

Taxes other than income increased by $111 million primarily due to increased property and utility taxes as a result of the inclusion of PHI's results for the three months ended March 31, 2017 compared to the period March 24, 2016 to March 31, 2016.

Bargain purchase gain increased by $226 million due to the gain associated with the FitzPatrick acquisition.

Interest expense, net increased by $86 million primarily due to higher outstanding debt and the inclusion of PHI's results for the three months ended March 31, 2017 compared to the period March 24, 2016 to March 31, 2016.

Other, net increased by $169 million primarily due to the change in realized and unrealized gains and losses on NDT funds at Generation.

Exelon's effective income tax rates for the three months ended March 31, 2017 and 2016 were 17.8% and 59.4%, respectively. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

For further detail regarding the financial results for the three months ended March 31, 2017, including explanation of the non-GAAP measure revenue net of purchased power and fuel expense, see the discussions of Results of Operations by Segment below.

Adjusted (non-GAAP) Operating Earnings

Exelon's adjusted (non-GAAP) operating earnings for the three months ended March 31, 2017 were $605 million, or $0.65 per diluted share, compared with adjusted (non-GAAP) operating earnings of $632 million, or $0.68 per diluted share for the same period in 2016. In addition to net income, Exelon evaluates its operating performance using the measure of adjusted (non-GAAP) operating earnings because management believes it represents earnings directly related to the ongoing operations of the business. Adjusted (non-GAAP) operating earnings exclude certain costs, expenses, gains and losses and other specified items. This information is intended to enhance an investor's overall understanding of period-over-period operating results and provide an indication of Exelon's baseline operating performance excluding items that are considered by management to be not directly related to the ongoing operations of the business. In addition, this information is among the primary indicators management uses as a basis for evaluating performance, allocating resources, setting incentive compensation targets and planning and forecasting of future periods. Adjusted (non-GAAP) operating earnings is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

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The following table provides a reconciliation between net income attributable to common shareholders as determined in accordance with GAAP and adjusted (non-GAAP) operating earnings for the three months ended March 31, 2017 as compared to the same period in 2016. The footnotes below the table provide tax expense (benefit) impacts:

	Three Months Ended March 31,			
	2017		2016	
(All amounts after tax)		Earnings per Diluted Share		Earnings per Diluted Share
Net Income Attributable to Common Shareholders	$ 995	$ 1.07	$173	$ 0.19
Mark-to-Market Impact of Economic Hedging Activities(a)	30	0.03	(64)	(0.07)
Unrealized (Gains) Related to NDT Fund Investments(b)	(99)	(0.10)	(31)	(0.03)
Merger and Integration Costs(c)	25	0.03	76	0.08
Merger Commitments(d)	(137)	(0.15)	394	0.42
Long-Lived Asset Impairments(e)	—	—	71	0.07
Amortization of Commodity Contract Intangibles(f)	3	—	(12)	(0.01)
Cost Management Program(g)	4	—	14	0.02
Tax Settlements(h)	(5)	(0.01)	—	—
Reassessment of State Deferred Income Taxes(i)	(20)	(0.02)	—	—
Bargain Purchase Gain(j)	(226)	(0.24)	—	—
CENG Noncontrolling Interests(k)	35	0.04	11	0.01
Adjusted (non-GAAP) Operating Earnings	$ 605	$ 0.65	$632	$ 0.68

(a) Reflects the impact of net losses (gains) for the three months ended March 31, 2017 and 2016 (net of taxes of $19 million and $39 million, respectively), on Generation's economic hedging activities. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation's hedging activities.

(b) Reflects the impact of net unrealized (gains) losses for the three months ended March 31, 2017 and 2016 (net of taxes of $65 million and $19 million, respectively) on Generation's NDT fund investments for Non-Regulatory Agreement Units. See Note 12 — Nuclear Decommissioning of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation's NDT fund investments.

(c) Reflects certain costs incurred for the PHI acquisition for the three months ended March 31, 2017 and 2016 (net of taxes of $3 million and $26 million, respectively), and the FitzPatrick acquisition for the three months ended March 31, 2017 (net of taxes of $12 million), including professional fees, employee-related expenses, integration activities and upfront credit facilities fees. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to merger and acquisition costs.

(d) Represents a decrease in reserves for uncertain tax positions related to the deductibility of certain merger commitments associated with the 2012 CEG and 2016 PHI acquisitions for the three months ended March 31, 2017, and costs and adjustments incurred as part of the settlement orders approving the PHI acquisition for the three months ended March 31, 2016 (net of taxes of $114 million). See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to PHI Merger commitments.

(e) Reflects the impairment of Upstream assets at Generation for the three months ended March 31, 2016 (net of taxes of $49 million).

(f) Reflects the non-cash impact for the three months ended March 31, 2017 and 2016 (net of taxes of $2 million and $7 million, respectively), of the amortization of intangible assets, net, primarily related to commodity contracts recorded at fair value for the Integrys acquisition in 2016 and the ConEdison Solutions acquisition in 2017.

(g) Reflects reorganization costs, and in 2016 severance costs, related to a cost management program for the three months ended March 31, 2017 and 2016 (net of taxes of $3 million and $9 million, respectively).

(h) Reflects benefits related to the favorable settlement of certain income tax positions related to PHI's unregulated business interests for the three months ended March 31, 2017.

(i) Reflects the non-cash impact of the remeasurement of state deferred income taxes, primarily as a result of changes in forecasted apportionment related to the PHI acquisition in 2016 and a change in the statutory tax rate in 2017.

(j) Represents the excess of the fair value of assets and liabilities acquired over the purchase price for the FitzPatrick acquisition.

(k) Represents Generation's noncontrolling interest related to CENG exclusion items, primarily related to the impact of unrealized gains and losses on NDT fund investments and mark-to-market activity.

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Merger and Acquisition Costs

On March 23, 2016, the Exelon and PHI Merger was completed. On the merger date, PHI shareholders received $27.25 of cash in exchange for each share of PHI common stock. The resulting company retained the Exelon name and is headquartered in Chicago.

As a result of the PHI Merger, Exelon has incurred costs associated with evaluating, structuring and executing the PHI Merger transaction itself, and will continue to incur cost associated with meeting the various commitments set forth by regulators and agreed-upon with other interested parties as part of the merger approval process, and integrating the former PHI businesses into Exelon.

For the three months ended March 31, 2017 and 2016, expense has been recognized for the PHI Merger and FitzPatrick acquisition as follows:

	Pre-tax Expense								
	Three Months Ended March 31, 2017								
Merger, Integration and Acquisition Costs:	Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE
Transaction[b]	$ 1	$ 1	$ —	$ —	$—	$—	$ —	$—	$—
Other[d]	40	41	—	1	2	(5)	1	(7)	1
Total	$ 41	$ 42	$ —	$ 1	$ 2	$ (5)	$ 1	$ (7)	$ 1

	Pre-tax Expense								
	Three Months Ended March 31, 2016								
Merger and Integration Costs:	Exelon[a]	Generation[a]	ComEd	PECO	BGE	PHI[a]	Pepco[a]	DPL[a]	ACE[a]
Transaction[b]	$ 35	$ —	$ —	$ —	$—	$ —	$ —	$ —	$ —
Employee-Related[c]	71	12	1	1	1	56	27	16	13
Other[d]	(4)	4	(9)	1	1	—	—	—	—
Total	$ 102	$ 16	$ (8)	$ 2	$ 2	$ 56	$ 27	$ 16	$ 13

(a) For Exelon, Generation, PHI, Pepco, DPL, and ACE, includes the operations of the acquired businesses beginning on March 24, 2016.

(b) External, third party costs paid to advisors, consultants, lawyers and other experts to assist in the due diligence and regulatory approval processes and in the closing of transactions.

(c) Costs primarily for employee severance, pension and OPEB expense and retention bonuses.

(d) Costs to integrate PHI processes and systems into Exelon. For the three months ended March 31, 2017, also includes costs to integrate FitzPatrick processes and systems into Exelon. For the three months ended March 31, 2016, also includes the reversal of previously incurred acquisition, integration and financing costs of $9 million incurred at ComEd that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for more information.

As of March 31, 2017, Exelon expects to incur total PHI acquisition and integration related costs of approximately $700 million, excluding merger commitments. Of this amount, including costs incurred from 2014 through March 31, 2017, Exelon and PHI have incurred approximately $640 million. Included in this amount are costs to fund the merger of which $76 million has been expensed, $56 million has been paid and recorded as deferred debt issuance costs and $60 million has been incurred and charged to common stock. The remaining costs will be primarily within Operating and maintenance expense within Exelon’s Consolidated Statements of Operations and Comprehensive Income and will also include approximately $25 million for integration costs expected to be capitalized to Property, plant and equipment.

Significant 2017 Transactions and Developments

Acquisition of James A. FitzPatrick Nuclear Generating Station

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station for a total purchase price of $293 million. In accounting for the acquisition as a business combination, Exelon and Generation recorded an after-tax bargain purchase gain of $226 million which is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information regarding the Generation's acquisition of Fitzpatrick and related costs.

Generation Renewables Joint Venture Transaction

On March 31, 2017, ExGen Renewables Holdings, LLC, a wholly-owned subsidiary of Generation, entered into an arrangement to sell 49% of its sole membership interest of ExGen Renewables Partners, LLC, a newly formed owner and operator of approximately 1,296 megawatts of Generation's operating wind and solar electric generating facilities. This portfolio consists of 30 different projects located in 13 states and represents approximately 34.9% of Generation's renewable generation assets and 4.0% of Generation's total generation assets. The purchase price is $400 million, subject to certain working capital and other post-closing adjustments. These proceeds, net of approximately $115 million of income taxes on the sale, will be used by Generation to pay down debt and for general corporate purposes. Upon consummation of the transaction, ExGen Renewables Holdings will be the managing member and have day-to-day control and management over the joint venture and its renewable generation portfolio. Consummation of the transaction is expected in the late second quarter or early third quarter and is subject to various customary closing conditions, including receipt of regulatory approvals from the Federal Energy Regulatory Commission and Public Utility Commission of Texas.

Distribution Formula Rate

On April 13, 2017, ComEd filed its annual distribution formula rate with the ICC pursuant to EIMA. The filing establishes the revenue requirement used to set the rates that will take effect in January 2018 after the ICC's review and approval, which is due by December 2017. The revenue requirement requested is based on 2016 actual costs plus projected 2017 capital additions as well as an annual reconciliation of the revenue requirement in effect in 2016 to the actual costs incurred that year. ComEd's 2017 filing request includes a total increase to the revenue requirement of $96 million, reflecting an increase of $78 million for the initial revenue requirement for 2017 and a increase of $18 million related to the annual reconciliation for 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further information related to distribution formula rate updates.

Illinois Future Energy Jobs Act

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA is effective June 1, 2017, and includes, among other provisions, (1) a ZES providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute to (i) mandate net metering for community generation projects, and establish billing procedures for subscribers to those projects, (ii) provide immediately for netting at the energy-only rate for nonresidential customers, and (iii) transition from netting at the full retail rate to the energy-only rate for certain residential net metering customers once the net meter customer load equals 5% of total peak demand supplied in the previous year and (7) support for low income rooftop and community solar programs. FEJA establishes new or adjusts existing rate recovery mechanisms for ComEd to recover costs associated with the new or expanded energy efficiency and RPS requirements. Regulatory or legal challenges over the validity of FEJA are possible. See Note 5 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA. See Note 7 — Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for the impacts of ZES on Generation’s Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive Income.

Pepco Maryland Electric Distribution Rates

On March 24, 2017, Pepco filed an application with the MDPSC requesting an increase of $69 million based on a ROE of 10.1%. The application includes a request for an income tax adjustment to reflect full normalization of removal costs associated with pre-1981 property, which accounts for $18 million of the requested increase. Pepco expects a decision in the matter in the fourth quarter of 2017, but cannot predict how much of the requested rate increase the MDPSC will approve or if it will approve the requested income tax adjustment.

DPL Maryland Electric Distribution Rates

On February 15, 2017, the MDPSC approved an increase in DPL electric distribution rates of $38 million based on a ROE of 9.6%. The new rates became effective for services rendered on or after February 15, 2017. The MDPSC also denied DPL’s request to continue its Grid Resiliency Program, through which DPL proposed to invest $4.6 million a year for two years to improve priority feeders and install single-phase reclosing fuse technology. The final order did not result in the recognition of any incremental regulatory assets or liabilities during the first quarter of 2017.

DPL Delaware Electric and Natural Gas Distribution Rates

On March 8, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate, Delaware Electric Users Group and the DPSC Staff in its electric distribution rate proceeding, which provides for an increase in DPL electric distribution rates of $31.5 million based on an ROE of 9.7%. The settlement agreement also provides that the rates currently in effect, as approved by the DPSC, effective July 16, 2016 and December 17, 2016, will remain in effect until the date of the final DPSC order and that no refund will be required. As a result, during the first quarter of 2017, DPL established a regulatory asset of $8 million for costs incurred to achieve the merger and reversed a regulatory liability of $1 million for electric revenues that are no longer subject to refund which resulted in an increase in net income of $5 million. DPL currently expects a final order on the settlement agreement during the second quarter of 2017.

On April 6, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate and the DPSC Staff in its natural gas distribution rate proceeding, which provides for an increase in DPL natural gas distribution rates of $4.9 million based on an ROE of 9.7%. The settlement agreement also provides that DPL will refund amounts in excess of the $4.9 million increase collected under the temporary rates effective July 16, 2016 and December 17, 2016, and that the new rates will be effective within thirty days of DPSC approval of the settlement agreement. In the event that the final order reflects the settlement agreement, DPL does not expect the impact to be material to its financial statements. DPL currently expects a final order on the settlement agreement during the second quarter of 2017.

ACE New Jersey Electric Distribution Rates

On March 30, 2017, ACE submitted an application with the NJBPU to increase its electric distribution rates by approximately $70 million (before New Jersey sales and use tax), based upon a requested ROE of 10.1%. The application also requests approval of a rate surcharge mechanism called the “System Renewal Recovery Charge,” which would permit accelerated recovery of certain costs associated with reliability and system renewal-related capital investments. ACE currently expects a decision in this matter in the first quarter of 2018, but cannot predict if the NJBPU will approve the application as filed.

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Transmission Formula Rate

The following total increases/(decreases) were included in ComEd's and BGE's electric transmission formula rate filings:

	2017	
Annual Transmission Filings(a)	**ComEd**	**BGE**
Initial revenue requirement increase	$ 44	$ 31
Annual reconciliation (decrease) increase	(33)	3
Dedicated facilities decrease(b)	—	(8)
Total revenue requirement increase	$ 11	$ 26
Allowed return on rate base(c)	8.43%	7.47%
Allowed ROE(d)	11.50%	10.50%

(a) All rates are effective June 2017, subject to review by the FERC and other parties, which is due by fourth quarter 2017.

(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.

(c) Represents the weighted average debt and equity return on transmission rate bases.

(d) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50% and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, the rate of return on common equity is 10.50%, inclusive of a 50 basis point incentive adder for being a member of a regional transmission organization.

PECO Transmission Formula Rate

On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50 basis point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. PECO cannot predict how much, if any, of a transmission rate increase FERC may approve or when the rate increase may go into effect.

Westinghouse Electric Company LLC Bankruptcy

On March 29, 2017, Westinghouse Electric Company LLC (Westinghouse) and its affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. In the petitions and supporting documents, Westinghouse makes clear that its requests for relief center on one business area that is losing money — the construction of nuclear power plants in Georgia and South Carolina. Through the bankruptcy, Westinghouse seeks to reorganize around its profitable core business, which includes nuclear fuel fabrication and related services and other services provided to existing nuclear power plants in the U.S. and around the world. For these reasons, at this time, Generation does not anticipate disruption to the Westinghouse fuel fabrication contracts for Braidwood, Byron, or Ginna or other existing contracts for Generation's nuclear power plants. Generation is monitoring the bankruptcy proceeding to ensure that its rights are protected.

Merger Commitment Unrecognized Tax Benefits

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in

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2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL, and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, as of March 31, 2017, resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

EGTP Consent Agreement

In September 2014, EGTP, an indirect subsidiary of Exelon and Generation, issued $675 million aggregate principal amount of a nonrecourse senior secured term loan. On May 2, 2017, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly-owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of administering the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP, including the revolving credit facility. As a result, in the second quarter, Exelon and Generation will reclassify certain EGTP's assets and liabilities on Exelon's and Generation's Consolidated Balance Sheets as held for sale at their respective fair values. Exelon and Generation estimate a pre-tax impairment charge upon reclassification ranging from $300 million to $400 million will be recognized in the second quarter of 2017. See Note 10 — Debt and Credit Agreements and Note 20 — Subsequent Events for additional information regarding EGTP and the associated nonrecourse debt.

Exelon's Strategy and Outlook for 2017 and Beyond

Exelon's value proposition and competitive advantage come from its scope and its core strengths of operational excellence and financial discipline. Exelon leverages its integrated business model to create value. Exelon's regulated and competitive businesses feature a mix of attributes that, when combined, offer shareholders and customers a unique value proposition:

- Exelon's utilities provide a foundation for steadily growing earnings, which translates to a stable currency in our stock.
- Generation's competitive businesses provide free cash flow to invest primarily in the utilities and in long-term, contracted assets and to reduce debt.

Exelon believes its strategy provides a platform for optimal success in an energy industry experiencing fundamental and sweeping change.

Exelon's utility strategy is to improve reliability and operations and enhance the customer experience, while ensuring ratemaking mechanisms provide the utilities fair financial returns. The Exelon utilities only invest in rate base where it provides a benefit to customers and the community by improving reliability and the service experience or otherwise meeting customer needs. The Exelon utilities make these investments at the lowest reasonable cost to customers. Exelon seeks to leverage its scale and expertise across the utilities platform through enhanced standardization and sharing of resources and best practices to achieve improved operational and financial results. Additionally, the Utility Registrants anticipate making significant future investments in smart meter technology, transmission projects, gas infrastructure, and electric system improvement projects, providing greater reliability and improved service for our customers and a stable return for the company.

Generation's competitive businesses create value for customers by providing innovative energy solutions and reliable, clean and affordable energy. Generation's electricity generation strategy is to pursue opportunities that provide stable revenues and generation to load matching to reduce earnings volatility. Generation leverages its energy generation portfolio to deliver energy to both wholesale and retail customers. Generation's customer-facing activities foster development and delivery of other innovative energy-related products and services for its customers. Generation operates in well-developed energy markets and employs an integrated hedging strategy to manage commodity price volatility. Its generation fleet, including its nuclear plants which consistently operate at high capacity factors, also provide geographic and supply source diversity. These factors help Generation mitigate the current challenging conditions in competitive energy markets.

Exelon's financial priorities are to maintain investment grade credit metrics at each of the Registrants, to maintain optimal capital structure and to return value to Exelon's shareholders with an attractive dividend throughout the energy commodity market cycle and through stable earnings growth. Exelon's Board of Directors has approved a dividend policy providing a raise of 2.5% each year for three years, beginning with the June 2016 dividend.

Various market, financial, regulatory, legislative and operational factors could affect the Registrants' success in pursuing their strategies. Exelon continues to assess infrastructure, operational, commercial, policy, and legal solutions to these issues. See ITEM 1A. RISK FACTORS of the Exelon 2016 Form 10-K for additional information regarding market and financial factors.

Continually optimizing the cost structure is a key component of Exelon's financial strategy. Through a recent focused cost management program, the company has committed to reducing operation and maintenance expenses and capital costs by approximately $350 million and $50 million, respectively, of which approximately 35% of run-rate savings was achieved by the end of 2016. Approximately 60% of run-rate savings are expected to be achieved by the end of 2017 and fully realized in 2018. At least 75% of the savings are expected to be related to Generation, with the remaining amount related to the Utility Registrants.

Growth Opportunities

Management continually evaluates growth opportunities aligned with Exelon's businesses, assets and markets, leveraging Exelon's expertise in those areas and offering sustainable returns.

Regulated Energy Businesses. The PHI merger provides an opportunity to accelerate Exelon's regulated growth to provide stable cash flows, earnings accretion, and dividend support. Additionally, the Utility Registrants anticipate investing approximately $25 billion over the next five years in electric and natural gas infrastructure improvements and modernization projects, including smart meter and smart grid initiatives, storm hardening, advanced reliability technologies, and transmission projects, which is projected to result in an increase to current rate base of approximately $9 billion by the end of 2021. The Utility Registrants invest in rate base where beneficial to customers and the community by increasing reliability and the service experience or otherwise meeting customer needs. These investments are made at the lowest reasonable cost to customers.

See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on the Smart Meter and Smart Grid Initiatives and infrastructure development and enhancement programs.

Competitive Energy Businesses. Generation continually assesses the optimal structure and composition of its generation assets as well as explores wholesale and retail opportunities within the power and gas sectors. Generation's long-term growth strategy is to prioritize investments in long-term contracted generation across multiple technologies and identify and capitalize on opportunities that provide generation to load matching as a means to provide stable earnings, while identifying emerging technologies where strategic investments provide the option for significant future growth or influence in market development. As of March 31, 2017, Generation has currently approved plans to invest a total of approximately $600 million over the next two years to complete new plant construction currently in progress.

Liquidity Considerations

Each of the Registrants annually evaluates its financing plan, dividend practices and credit line sizing, focusing on maintaining its investment grade ratings while meeting its cash needs to fund capital requirements, retire debt, pay dividends, fund pension and OPEB obligations and invest in new and existing ventures. A broad spectrum of financing alternatives beyond the core financing options can be used to meet its needs and fund growth including monetizing assets in the portfolio via project financing, asset sales, and the use of other

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financing structures (e.g., joint ventures, minority partners, etc.). The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have unsecured syndicated revolving credit facilities with aggregate bank commitments of $0.6 billion, $5.3 billion, $1 billion, $0.6 billion, $0.6 billion, $0.3 billion, $0.3 billion and $0.3 billion, respectively. Generation also has bilateral credit facilities with aggregate maximum availability of $0.5 billion. See Liquidity and Capital Resources — Credit Matters — Exelon Credit Facilities below.

For further detail regarding the Registrants’ liquidity for the three months ended March 31, 2017, see Liquidity and Capital Resources discussion below.

Project Financing

Generation utilizes individual project financings as a means to finance the construction of various generating asset projects. Project financing is based upon a nonrecourse financial structure, in which project debt and equity used to finance the project are paid back from the cash generated by the newly constructed asset once operational. Borrowings under these agreements are secured by the assets and equity of each respective project. The lenders do not have recourse against Exelon or Generation in the event of a default. If a specific project financing entity does not maintain compliance with its specific debt financing covenants, there could be a requirement to accelerate repayment of the associated debt or other project-related borrowings earlier than the stated maturity dates. In these instances, if such repayment was not satisfied, or restructured, the lenders or security holders would generally have rights to foreclose against the project-specific assets and related collateral. The potential requirement to satisfy its associated debt or other borrowings earlier than otherwise anticipated could lead to impairments due to a higher likelihood of disposing of the respective project-specific assets significantly before the end of their useful lives. See Note 10 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for additional information on nonrecourse debt.

Other Key Business Drivers and Management Strategies

Utility Rates and Rate Proceedings

The Utility Registrants file rate cases with their regulatory commissions seeking increases or decreases to their electric transmission and distribution, and gas distribution rates to recover their costs and earn a fair return on their investments. The outcomes of these regulatory proceedings impact the Utility Registrants’ current and future results of operations, cash flows and financial position. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further details on these regulatory proceedings.

Power Markets

Price of Fuels

The use of new technologies to recover natural gas from shale deposits is increasing natural gas supply and reserves, which places downward pressure on natural gas prices and, therefore, on wholesale and retail power prices, which results in a reduction in Exelon’s revenues. Forward natural gas prices have declined significantly over the last several years; in part reflecting an increase in supply due to strong natural gas production (due to shale gas development).

Capacity Market Changes in PJM

In the wake of the January 2014 Polar Vortex that blanketed much of the Eastern and Midwestern United States, it became clear that while a major outage event was narrowly avoided, resources in PJM were not providing the level of reliability expected by customers. As a result, on December 12, 2014, PJM filed at FERC a proposal to make significant changes to its current capacity market construct, the Reliability Pricing Model (RPM). PJM’s proposed changes generally sought to improve resource performance and reliability largely by limiting the excuses for non-performance and by increasing the penalties for performance failures. The proposal permits suppliers to include in capacity market offers additional costs and risk so they can meet these higher performance requirements. While offers are expected to put upward pressure on capacity clearing prices, operational improvements made as a result of PJM's proposal are expected to improve reliability, to reduce energy production costs as a result of more efficient operations and to reduce the need for out of market energy payments to suppliers. Generation participated actively in PJM's stakeholder process through which PJM developed the proposal and also actively participated in the FERC proceeding including filing comments. On June 9, 2015, FERC approved PJM's filing largely as proposed by PJM, including transitional auction rules for delivery years 2016/2017 through 2017/2018. As a result of this and several related orders, PJM hosted its 2018/2019 Base Residual Auction (results posted on August 21, 2015) and its transitional auction for delivery year 2016/2017 (results posted on August 31, 2015) and its transitional auction for delivery years 2017/2018 (results posted on September 9, 2015). On May 10, 2016, FERC largely denied rehearing, and a number of parties appealed to the U.S. Court of Appeals for the DC Circuit for review of the decision. It is too early in the process to predict the appeal outcome.

MISO Capacity Market Results

On April 14, 2015, the Midcontinent Independent System Operator (MISO) released the results of its capacity auction covering the June 2015 through May 2016 delivery year. As a result of the auction, capacity prices for the zone 4 region in downstate Illinois increased to $150 per MW per day beginning in June 2015, an increase from the prior pricing of $16.75 per MW per day that was in effect from June 2014 to May 2015. Generation had an offer that was selected in the auction. However, due to Generation's ratable hedging strategy, the results of the capacity auction have not had a material impact on Exelon's and Generation's consolidated results of operations and cash flows.

Additionally, in late May and June 2015, separate complaints were filed at the FERC by each of the State of Illinois, the Southwest Electric Cooperative, Public Citizens, Inc., and the Illinois Industrial Energy Consumers challenging the results of this MISO capacity auction for the 2015/2016 delivery in MISO delivery zone 4. The complaints allege generally that 1) the results of the capacity auction for zone 4 are not just and reasonable, 2) the results should be suspended, set for hearing and replaced with a new just and reasonable rate, 3) a refund date should be established and that 4) certain alleged behavior by one of the market participants other than Exelon or Generation, be investigated.

On October 1, 2015, FERC announced that it was conducting a non-public investigation (that does not involve Exelon or Generation) into whether market manipulation or other potential violations occurred related to the auction. On December 31, 2015, FERC issued a decision that certain of the rules governing the establishment of capacity prices in downstate Illinois are "not just and reasonable" on a prospective basis. FERC ordered that certain rules be changed prior to the April 2016 auction which set capacity prices for the 2016/2017 planning year. In response to this order, MISO filed certain rule changes with FERC. On March 18, 2016, FERC largely denied rehearing of its December 31, 2015 order. FERC continues to conduct its non-public investigation to determine if the April 2015 auction results were manipulated and, if so, whether refunds are appropriate. FERC did establish May 28, 2015, the day the first complaint was filed, as the date from which refunds (if ordered) would be calculated, and it also made clear that the findings in the December 31, 2015 order do not prejudge the investigation or related proceedings. Generation cannot predict the impact the FERC order may ultimately have on future auction results, capacity pricing or decisions related to the potential early retirement of the Clinton nuclear plant, however, such impacts could be material to Generation's future results of operations and cash flows. See Note 7 — Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information on the impacts of the MISO announcement.

Subsidized Generation

The rate of expansion of subsidized generation, in the markets in which Generation's output is sold can negatively impact wholesale power prices, and in turn, Generation's results of operations.

Various states have attempted to implement or propose legislation, regulations or other policies to subsidize new generation development which may result in artificially depressed wholesale energy and capacity prices. For example, the New Jersey legislature enacted into law in January 2011, the Long Term Capacity Pilot Program Act (LCAPP). LCAPP provides eligible generators with 15-year fixed contracts for the sale of capacity in the PJM capacity market. Under LCAPP, the local utilities in New Jersey are required to pay (or receive) the difference between the price eligible generators receive in the capacity market and the price guaranteed under the 15-year contract. New Jersey ultimately selected three proposals to participate in LCAPP and build new generation in the state. In addition, on April 12, 2012, the MDPSC issued an order directing the Maryland electric utilities to enter into a 20-year contract for differences (CfD) with CPV Maryland, LLC (CPV), under which CPV was required to construct an approximately 700 MW combined cycle gas turbine in Waldorf, Maryland. The CfD mandated that utilities (including BGE, Pepco and DPL) pay (or receive) the difference between CPV's contract price and the revenues it receives for capacity and energy from clearing the unit in the PJM capacity market.

Exelon and others challenged the constitutionality and other aspects of the New Jersey legislation in federal court. The actions taken by the MDPSC were also challenged in federal court in an action to which Exelon was not a party. The federal trial courts in both the New Jersey and Maryland actions effectively invalidated the actions taken by the New Jersey legislature and the MDPSC, respectively. Each of those decisions was upheld by the U.S. Court of Appeals for the Third Circuit and the U.S. Court of Appeals for the Fourth Circuit, respectively. On April 19, 2016, the U.S. Supreme Court affirmed the decision of the U.S. Court of Appeals for the Fourth Circuit, and subsequently denied certiorari with respect to the appeal from the U.S. Court of Appeals for the Third Circuit, leaving in place that Court's decision. The matter is now considered closed.

As required under their contracts, generator developers who were selected in the New Jersey and Maryland programs (including CPV) offered and cleared in PJM's capacity market auctions. To the extent that the state-required customer subsidies are included under their respective contracts, Exelon believes that these projects may have artificially suppressed capacity prices in PJM in these auctions and may continue to do so in future auctions to the detriment of Exelon. While the court decisions are positive developments, continuation of these state efforts, if successful and unabated by an effective minimum offer price rule (MOPR) for future capacity auctions, could continue to result in artificially depressed wholesale capacity and/or energy prices. Other states could seek to establish programs, which could substantially impact Exelon's position and could have a significant effect on Exelon's financial results of operations, financial position and cash flows.

One such state is Ohio, where state-regulated utility companies FirstEnergy Ohio (FE) and AEP Ohio (AEP) initiated actions at the Public Utilities Commission of Ohio (PUCO) to obtain approval for Riders that would effectively allow these two companies to pass through to all customers in their service territories the differences between their costs and market revenues on PPAs entered into between the utility and its merchant generation affiliate for what was collectively more than 6,000MW of primarily coal-fired generation. Thus, the Riders were similar to the CfDs described above (except that the PPA Riders in Ohio would apply to existing generation facilities whereas the CfDs applied to new generation facilities). While FERC orders on April 27, 2016 largely alleviated the concerns related to the Riders by holding that the PPAs ran afoul of affiliate restrictions on FE and AEP, we continue to closely monitor developments in Ohio.

In addition, Exelon continues to monitor developments in Maryland, New Jersey, and other states and participates in stakeholder and other processes to ensure that similar state subsidies are not developed. Exelon remains active in advocating for competitive markets, while opposing policies that require taxpayers and/ or consumers to subsidize or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs

PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program — resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that required subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact of certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs. However, in Exelon's view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation's facilities expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon's and Generation's future cash flows and results of operations. The timing of FERC's decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

Energy Demand

Modest economic growth partially offset by energy efficiency initiatives is resulting in flat to declining load growth in electricity for the utilities. There is a decrease in projected load for electricity for ComEd, PECO, BGE, and ACE, and an essentially flat projected load for electricity for DPL. ComEd, PECO, BGE, Pepco, ACE and DPL are projecting load volumes to increase (decrease) by (0.1)%, (0.2)%, (2.4)%, (1.4)%, (1.9)%, and 0.0% respectively, in 2017 compared to 2016.

Retail Competition

Generation's retail operations compete for customers in a competitive environment, which affect the margins that Generation can earn and the volumes that it is able to serve. The market experienced high price volatility in the first quarter of 2014 which contributed to bankruptcies and consolidations within the industry during the year. However, forward natural gas and power prices are expected to remain low and thus we expect retail competitors to stay aggressive in their pursuit of market share, and that wholesale generators (including Generation) will continue to use their retail operations to hedge generation output.

Strategic Policy Alignment

As part of its strategic business planning process, Exelon routinely reviews its hedging policy, dividend policy, operating and capital costs, capital spending plans, strength of its balance sheet and credit metrics, and sufficiency of its liquidity position, by performing various stress tests with differing variables, such as commodity price movements, increases in margin-related transactions, changes in hedging practices, and the impacts of hypothetical credit downgrades.

Exelon's board of directors declared first quarter 2017 dividends of $0.3275 per share on Exelon's common stock. The first quarter 2017 dividend was paid on March 10, 2017. The dividend increased from fourth quarter 2016 amount to reflect the Board's decision to raise Exelon's dividend 2.5% each year for the next three years, beginning with the June 2016 dividend.

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Exelon’s Board of Directors declared the second quarter 2017 dividends of $0.3275 per share each on Exelon’s common stock and is payable on June 9, 2017.

All future quarterly dividends require approval by Exelon’s Board of Directors.

Hedging Strategy

Exelon’s policy to hedge commodity risk on a ratable basis over three-year periods is intended to reduce the financial impact of market price volatility. Generation is exposed to commodity price risk associated with the unhedged portion of its electricity portfolio. Generation enters into non-derivative and derivative contracts, including financially-settled swaps, futures contracts and swap options, and physical options and physical forward contracts, all with credit-approved counterparties, to hedge this anticipated exposure. Generation has hedges in place that significantly mitigate this risk for 2017 and 2018. However, Generation is exposed to relatively greater commodity price risk in the subsequent years with respect to which a larger portion of its electricity portfolio is currently unhedged. As of March 31, 2017, the percentage of expected generation hedged for the major reportable segments was 97%-100%, 60%-63% and 30%-33% for 2017, 2018, and 2019 respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products, and options. Equivalent sales represent all hedging products, such as wholesale and retail sales of power, options and swaps. Generation has been and will continue to be proactive in using hedging strategies to mitigate commodity price risk in subsequent years as well.

Generation procures oil and natural gas through long-term and short-term contracts and spot-market purchases. Nuclear fuel is obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services, coal, oil and natural gas are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation’s procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 49% of Generation’s uranium concentrate requirements from 2017 through 2021 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrate can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon’s and Generation’s results of operations, cash flows and financial position.

The Utility Registrants mitigate commodity price risk through regulatory mechanisms that allow them to recover procurement costs from retail customers.

Tax Matters

Potential Corporate Tax Reform

The results of the November 2016 U.S. elections have introduced greater uncertainty with respect to federal tax policies. President Trump has stated that one of his top priorities is comprehensive tax reform and House Republicans plan to advance their tax reform “blueprint”. Tax reform proposals call for a reduction in the corporate federal income tax rate from the current 35% to as low as 15%. Other proposals provide, among other items, for the immediate deduction of capital investment expenditures and full or partial elimination of debt interest expense deductions. It is uncertain whether, to what extent or when these or any other changes in federal tax policies will be enacted or the transition time frame for such changes. Further, for the Utility Registrants, regulators may impose rate reductions to provide the benefit of any income tax expense reductions to customers and refund "excess" deferred income taxes previously collected through rates. The amounts and timing of any such rate changes would be subject to the discretion of the rate regulator in each specific jurisdiction. For these reasons, the Registrants cannot predict the impact any potential changes may have on their future results of operations, cash flows or financial position, and such changes could be material.

See Note 11 — Income Taxes of the Combined Notes to the Consolidated Financial Statements for additional information

Environmental Legislative and Regulatory Developments

Exelon was actively involved in the Obama Administration's development and implementation of environmental regulations for the electric industry, in pursuit of its business strategy to provide reliable, clean, affordable and innovative energy products. These efforts have most frequently involved air, water and waste controls for fossil-fueled electric generating units, as set forth in the discussion below. These regulations have had a disproportionate adverse impact on coal-fired power plants, requiring significant expenditures of capital and variable operating and maintenance expense, and have resulted in the retirement of older, marginal facilities. Due to its low emission generation portfolio, Generation has not been significantly affected by these regulations, representing a competitive advantage relative to electric generators that are more reliant on fossil-fuel plants.

Through the issuance of a series of Executive Orders (EO), President Trump has initiated review of a number of EPA and other regulations issued during the Obama Administration, with the expectation that the Administration will seek repeal or significant revision of these rules. Under these EOs, each executive agency is required to evaluate existing regulations and make recommendations regarding repeal, replacement, or modification. The Administration's actions are intended to result in less stringent compliance requirements under air, water, and waste regulations. The exact nature, extent, and timing of the regulatory changes are unknown, as well as the ultimate impact on Exelon's and its subsidiaries results of operations and cash flows.

In particular, the Administration has targeted existing EPA regulations for repeal, including notably the Clean Power Plan, as well as revoking many Executive Orders, reports, and guidance issued by the Obama Administration on the topic of climate change or the regulation of greenhouse gases. The Executive Order also disbanded the Interagency Working Group that developed the social cost of carbon used in rulemakings, and withdrew all technical support documents supporting the calculation. Other regulations that have been specifically identified for review are the Clean Water Act rule relating to jurisdictional waters of the U.S., the Steam Electric Effluent Guidelines relating to waste water discharges from coal-fired power plants, and the 2015 National Ambient Air Quality Standard (NAAQS) for ozone. The review of final rules could extend over several years as formal notice and comment rulemaking process proceeds.

Air Quality

Mercury and Air Toxics Standard Rule (MATS). On December 16, 2011, the EPA signed a final rule to reduce emissions of toxic air pollutants from power plants and signed revisions to the NSPS for electric generating units. The final rule, known as MATS, requires coal-fired electric generation plants to achieve high removal rates of mercury, acid gases and other metals, and to make capital investments in pollution control equipment and incur higher operating expenses. The initial compliance deadline to meet the new standards was April 16, 2015; however, facilities may have been granted an additional one or two year extension in limited cases. Numerous entities challenged MATS in the D.C. Circuit Court, and Exelon intervened in support of the rule. In April 2014, the D.C. Circuit Court issued an opinion upholding MATS in its entirety. On appeal, the U.S. Supreme Court decided in June 2015 that the EPA unreasonably refused to consider costs in determining whether it is appropriate and necessary to regulate hazardous air pollutants emitted by electric utilities. The U.S. Supreme Court, however, did not vacate the rule; rather, it was remanded to the D.C. Circuit Court to take further action consistent with the U.S. Supreme Court's opinion on this single issue. As such, the MATS rule remains in effect. Exelon will continue to participate in the remanded proceedings before the D.C. Circuit Court as an intervenor in support of the rule.

Water Quality

Section 316(b) of the Clean Water Act requires that cooling water intake structures at electric power plants reflect the best technology available to minimize adverse environmental impacts, and is implemented through state-level NPDES permit programs. All of Generation's power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems (e.g., cooling towers) are potentially most affected by changes to the existing regulations. Those facilities are Calvert Cliffs, Clinton, Dresden, Eddystone, Fairless Hills, Fitzpatrick, Ginna, Gould Street, Handley, Mountain Creek, Mystic 7, Nine Mile Point Unit 1, Oyster Creek, Peach Bottom, Quad Cities, Riverside and Salem. See ITEM 1. — BUSINESS, "Water Quality" of the Exelon 2016 Form 10-K for further discussion.

Solid and Hazardous Waste

In October 2015, the first federal regulation for the disposal of coal combustion residuals (CCR) from power plants became effective. The rule classifies CCR as non-hazardous waste under RCRA. Under the regulation, CCR will continue to be regulated by most states subject to coordination with the federal regulations. Generation has previously recorded accruals consistent with state regulation for its owned coal ash sites, and as such, the regulation is not expected to impact Exelon's and Generation's financial results. Generation does not have sufficient information to reasonably assess the potential likelihood or magnitude of any remediation requirements that may be asserted under the new federal regulations for coal ash disposal sites formerly owned by Generation. For these reasons, Generation is unable to predict whether and to what extent it may ultimately be held responsible for remediation and other costs relating to formerly owned coal ash disposal sites under the new regulations.

See Note 17 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further detail related to environmental matters, including the impact of environmental regulation.

Employees

During 2016, BSC and ComEd extended the collective bargaining agreement (CBA) with IBEW Local 15 by three years; with an expiration date of September 30, 2022. Generation extended its CBA with both the IBEW Local 15 (covering the five Midwest nuclear plants) and IBEW Local 51 (Clinton) by three years; with expiration dates of April 30, 2022 and December 15, 2023, respectively. Additionally, Exelon Nuclear Security successfully ratified its CBA with the UGSOA Local 17 at Oyster Creek to an extension of five years, and Exelon Power successfully ratified its CBA with the IBEW Local 614 to a three year extension. In January 2017, an election was held at BGE which resulted in union representation for approximately 1,400 employees. BGE and IBEW Local 410 will begin negotiations for an initial agreement which could result in some modifications to wages, hours and other terms and conditions of employment. No agreement has been finalized to date and management cannot predict the outcome of such negotiations. In April 2017, Exelon Nuclear Security successfully ratified its CBA with the SPFPA Local 238 at Quad Cities to an extension of three years.

Critical Accounting Policies and Estimates

Management of each of the Registrants makes a number of significant estimates, assumptions and judgments in the preparation of its financial statements. See ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CRITICAL ACCOUNTING POLICIES AND ESTIMATES in Exelon's, Generation's, ComEd's, PECO's, BGE's, PHI's,

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Pepco's, DPL's and ACE's combined 2016 Form 10-K for a discussion of the estimates and judgments necessary in the Registrants' accounting for AROs, goodwill, purchase accounting, unamortized energy assets and liabilities, asset impairments, depreciable lives of property, plant and equipment, defined benefit pension and other postretirement benefits, regulatory accounting, derivative instruments, taxation, contingencies, revenue recognition, and allowance for uncollectible accounts. At March 31, 2017, the Registrants' critical accounting policies and estimates had not changed significantly from December 31, 2016.

Results of Operations By Business Segment

Net Income (Loss) Attributable to Common Shareholders by Registrant

	Three Months Ended March 31,		Favorable (Unfavorable) Variance
	2017	2016[(a)]	
Exelon	$ 995	$ 173	$ 822
Generation	423	310	113
ComEd	141	115	26
PECO	127	124	3
BGE	125	98	27
Pepco	58	(108)	166
DPL	57	(72)	129
ACE	28	(100)	128

(a) For Pepco, DPL and ACE, reflects that Registrant's operations for the three months ended March 31, 2016. For Exelon and Generation, includes the operations of the PHI acquired businesses for the period of March 24, 2016 through March 31, 2016.

	Successor		*Predecessor*
	Three Months Ended March 31, 2017	March 24, 2016 to March 31, 2016	January 1, 2016 to March 23, 2016
PHI	$ 140	$ (309)	$ 19

Results of Operations — Generation

	Three Months Ended March 31,		Favorable (Unfavorable) Variance
	2017	2016	
Operating revenues	$ 4,888	$ 4,739	$ 149
Purchased power and fuel expense	2,798	2,442	(356)
Revenues net of purchased power and fuel expense[(a)]	2,090	2,297	(207)
Other operating expenses			
Operating and maintenance	1,488	1,467	(21)
Depreciation and amortization	302	289	(13)
Taxes other than income	143	126	(17)
Total other operating expenses	1,933	1,882	(51)
Gain on sales of assets	4	—	4
Bargain purchase gain	226	—	226
Operating income	387	415	(28)
Other income and (deductions)			
Interest expense, net	(100)	(97)	(3)
Other, net	259	93	166
Total other income and (deductions)	159	(4)	163

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	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Favorable (Unfavorable) Variance
Income before income taxes	546	411	135
Income taxes	127	151	24
Equity in losses of unconsolidated affiliates	(10)	(3)	(7)
Net income	409	257	152
Net loss attributable to noncontrolling interests	(14)	(53)	(39)
Net income attributable to membership interest	$ 423	$ 310	$ 113

(a) Generation evaluates its operating performance using the measure of revenue net of purchased power and fuel expense. Generation believes that revenue net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Revenue net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Membership Interest

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Generation's net income attributable to membership interest for the three months ended March 31, 2017 increased compared to the same period in 2016, primarily due to a bargain purchase gain associated with the acquisition of FitzPatrick, increased other income, and lower income taxes, partially offset by lower revenue net of purchased power and fuel expense, higher operating and maintenance expense and higher depreciation and amortization expense . The bargain purchase gain relates to the excess of the fair value of assets and liabilities acquired over the purchase price related to the FitzPatrick acquisition. The increase in other income is primarily due to the change in realized and unrealized gains and losses on NDT funds. The decrease in revenues net of purchased power and fuel expense primarily relates to mark-to-market losses in 2017 compared to mark-to-market gains in 2016, the impacts of declining natural gas prices on Generation's natural gas portfolio, decreased capacity prices and lower realized energy prices, partially offset by the impact of the Ginna Reliability Support Services Agreement and the absence of oil inventory write downs in 2017. The increase in operating and maintenance expense is primarily related to an increase in the number of nuclear outage days in 2017.

Revenues Net of Purchased Power and Fuel Expense

The basis for Generation's reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation's hedging strategies and risk metrics are also aligned with these same geographic regions. Descriptions of each of Generation's six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.
- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.
- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
- New York represents operations within ISO-NY, which covers the state of New York in its entirety.

- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.
- Other Power Regions:
  - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.
  - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado, and parts of New Mexico, Wyoming and South Dakota.
  - Canada represents operations across the entire country of Canada and includes AESO, OIESO and the Canadian portion of MISO.

The following business activities are not allocated to a region, and are reported under Other: natural gas, as well as other miscellaneous business activities that are not significant to Generation's overall operating revenues or results of operations. Further, the following activities are not allocated to a region, and are reported in Other: amortization of certain intangible assets relating to commodity contracts recorded at fair value from mergers and acquisitions; accelerated nuclear fuel amortization associated with nuclear decommissioning; and other miscellaneous revenues.

Generation evaluates the operating performance of its electric business activities using the measure of revenue net of purchased power and fuel expense, which is a non-GAAP measurement. Generation's operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for owned generation and fuel costs associated with tolling agreements.

For the three months ended March 31, 2017 and 2016, Generation's revenue net of purchased power and fuel expense by region were as follows:

	Three Months Ended March 31,			
	2017	2016	Variance	% Change
Mid-Atlantic(a)	$ 773	$ 841	$ (68)	(8.1)%
Midwest(b)	715	718	(3)	(0.4)%
New England	111	81	30	37.0%
New York	153	130	23	17.7%
ERCOT	69	61	8	13.1%
Other Power Regions	64	76	(12)	(15.8)%
Total electric revenue net of purchased power and fuel expense	1,885	1,907	(22)	(1.2)%
Proprietary Trading	—	3	(3)	(100.0)%
Mark-to-market (losses) gains	(49)	103	(152)	(147.6)%
Other(c)	254	284	(30)	(10.6)%
Total revenue net of purchased power and fuel expense	$ 2,090	$ 2,297	$ (207)	(9.0)%

(a) Results of transactions with PECO and BGE are included in the Mid-Atlantic region. Results of transactions with Pepco, DPL, and ACE are included in the Mid-Atlantic region beginning on March 24, 2016, the day after the PHI merger was completed.

(b) Results of transactions with ComEd are included in the Midwest region.

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(c) Other represents activities not allocated to a region. See text above for a description of included activities. Includes amortization of intangible assets related to commodity contracts recorded at fair value of a $3 million decrease and $19 million increase to revenue net of purchased power and fuel expense for the three months ended March 31, 2017 and 2016, respectively.

Generation’s supply sources by region are summarized below:

Supply source (GWh)	Three Months Ended March 31, 2017	2016	Variance	% Change
Nuclear generation				
Mid-Atlantic[(a)]	16,545	16,208	337	2.1%
Midwest[(a)]	22,468	23,662	(1,194)	(5.0)%
New York[(a)]	4,491	4,932	(441)	(8.9)%
Total Nuclear Generation	43,504	44,802	(1,298)	(2.9)%
Fossil and Renewables				
Mid-Atlantic	836	898	(62)	(6.9)%
Midwest	418	449	(31)	(6.9)%
New England	2,077	1,924	153	8.0%
New York	1	1	—	—%
ERCOT	1,370	1,376	(6)	(0.4)%
Other Power Regions	1,423	2,147	(724)	(33.7)%
Total Fossil and Renewables	6,125	6,795	(670)	(9.9)%
Purchased Power				
Mid-Atlantic	3,398	3,755	(357)	(9.5)%
Midwest	388	706	(318)	(45.0)%
New England	5,064	4,155	909	21.9%
New York[(b)]	28	—	28	N/A
ERCOT	2,655	2,294	361	15.7%
Other Power Regions	2,384	2,600	(216)	(8.3)%
Total Purchased Power	13,917	13,510	407	3.0%
Total Supply/Sales by Region[(b)]				
Mid-Atlantic[(c)]	20,779	20,861	(82)	(0.4)%
Midwest[(c)]	23,274	24,817	(1,543)	(6.2)%
New England	7,141	6,079	1,062	17.5%
New York	4,520	4,933	(413)	(8.4)%
ERCOT	4,025	3,670	355	9.7%
Other Power Regions	3,807	4,747	(940)	(19.8)%
Total Supply/Sales by Region	63,546	65,107	(1,561)	(2.4)%

(a) Includes the proportionate share of output where Generation has an undivided ownership interest in jointly-owned generating plants and includes the total output of plants that are fully consolidated (e.g. CENG).

(b) Excludes physical proprietary trading volumes of 1,850 GWh and 1,220 GWh for the three months ended March 31, 2017 and 2016, respectively.

(c) Includes affiliate sales to PECO and BGE in the Mid-Atlantic region and affiliate sales to ComEd in the Midwest region. As a result of the PHI Merger, includes affiliate sales to Pepco, DPL and ACE in the Mid-Atlantic region beginning on March 24, 2016.

Mid-Atlantic

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The $68 million decrease in revenue net of purchased power and fuel expense in the Mid-Atlantic primarily reflects lower realized energy prices and decreased capacity prices, partially offset by the absence of oil inventory write-downs in 2017.

Midwest

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The $3 million decrease in revenue net of purchased power and fuel expense in the Midwest primarily reflects increased nuclear outage days and decreased capacity prices, partially offset by decreased nuclear fuel prices and higher realized energy prices.

New England

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The $30 million increase in revenue net of purchased power and fuel expense in New England was driven by the absence of oil inventory write-downs in 2017 and increased capacity prices.

New York

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The $23 million increase in revenue net of purchased power and fuel expense in New York was primarily due to the impact of the Ginna Reliability Support Service Agreement, partially offset by increased nuclear outage days.

ERCOT

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The $8 million increase in revenue net of purchased power and fuel expense in ERCOT was primarily due to higher realized energy prices.

Other Power Regions

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The $12 million decrease in revenue net of purchased power and fuel expense in Other Power Regions was primarily due to lower realized energy prices.

Proprietary Trading

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The $3 million decrease in revenue net of purchased power and fuel expense in Proprietary Trading was primarily due to congestion activity.

Mark-to-market

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Mark-to-market losses on economic hedging activities were $49 million for the three months ended March 31, 2017 compared to gains of $103 million for the three months ended March 31, 2016. See Notes 8—Fair Value of Financial Assets and Liabilities and 9 — Derivative Financial Instruments of the Combined Notes to the Consolidated Financial Statements for information on gains and losses associated with mark-to-market derivatives.

Other

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The $30 million decrease in other revenue net of purchased power and fuel was primarily due to the impacts of declining natural

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gas prices on Generation’s natural gas portfolio and amortization of energy contracts recorded at fair value associated with prior acquisitions, partially offset by revenue related to the inclusion of Pepco Energy Services results in 2017 and revenue related to energy efficiency projects.

Nuclear Fleet Capacity Factor

The following table presents nuclear fleet operating data for the three months ended March 31, 2017 as compared to the same period in 2016, for the Generation-operated plants. The nuclear fleet capacity factor presented in the table is defined as the ratio of the actual output of a plant over a period of time to its output if the plant had operated at full average annual mean capacity for that time period. Generation considers capacity factor to be a useful measure to analyze the nuclear fleet performance between periods. Generation has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, these measures are not a presentation defined under GAAP and may not be comparable to other companies’ presentations or be more useful than the GAAP information provided elsewhere in this report.

	Three Months Ended March 31,	
	2017	2016
Nuclear fleet capacity factor(a)	94.0%	95.8%

(a) Excludes Salem, which is operated by PSEG Nuclear, LLC. Reflects ownership percentage of stations operated by Exelon.

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The nuclear fleet capacity factor decreased primarily due to more refueling outage days, excluding Salem outages, during the three months ended March 31, 2017 compared to the same period in 2016. For the three months ended March 31, 2017 and 2016, planned refueling outage days totaled 95 and 70, respectively, and non-refueling outage days totaled 8 and 10, respectively.

Operating and Maintenance

The changes in operating and maintenance expense for the three months ended March 31, 2017 as compared to the same period in 2016, consisted of the following:

	Three Months Ended March 31, Increase (Decrease)
Labor, other benefits, contracting, materials(a)	$ 80
Nuclear refueling outage costs, including the co-owned Salem plants(b)	28
Corporate allocations	4
Merger and integration costs(c)	27
Merger commitments	(3)
Cost management program(d)	(14)
Long-Lived Asset Impairments(e)	(109)
Pension and non-pension postretirement benefits expense	(3)
Allowance for uncollectible accounts	3
Accretion expense	6
Other	2
Increase in operating and maintenance expense	$ 21

(a) Primarily reflects the inclusion of Pepco Energy Services results in 2017 and increased contracting costs related to energy efficiency projects.

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(b) Primarily reflects an increase in nuclear outage days in 2017 versus 2016.
(c) Reflects certain costs associated with mergers and acquisitions, including, if and when applicable, professional fees, employee-related expenses, integration activities and upfront credit facilities fees related to the PHI and FitzPatrick acquisitions.
(d) Represents reorganization costs, and in 2016 severance costs, related to a cost management program in 2016 and 2017.
(e) Primarily relates to the impairment of Upstream assets in 2016.

Depreciation and Amortization

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Depreciation and amortization expense increased primarily due to increased nuclear decommissioning amortization and ongoing capital expenditures.

Taxes Other Than Income

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Taxes other than income taxes, which can vary period to period, include non-income municipal and state utility taxes, real estate taxes and payroll taxes. The increase primarily relates to gross receipts and sales and use tax.

Gain on Sales of Assets

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Gain on sales of assets increased primarily as a result of the gain associated with Generation's sale of Conectiv Thermal Systems.

Bargain Purchase Gain

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Bargain purchase gain increased as a result of the gain associated with Generation's Fitzpatrick acquisition. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information.

Interest Expense, net

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Interest expense remained relatively stable.

Other, Net

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Other, net increased primarily due to the change in the realized and unrealized gains and losses related to NDT funds of Non-Regulatory Agreement Units as described in the table below. Other, net also reflects $56 million and $20 million for the three months ended March 31, 2017 and 2016, respectively, related to the contractual elimination of income tax expense (benefit) associated with the NDT funds of the Regulatory Agreement Units. Refer to Note 12 — Nuclear Decommissioning of the Combined Notes to the Consolidated Financial Statements for additional information regarding NDT funds.

The following table provides unrealized and realized gains and losses on the NDT funds of the Non-Regulatory Agreement Units recognized in Other, net for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
Net unrealized gains on decommissioning trust funds	$ 166	$ 52
Net realized gains on sale of decommissioning trust funds	9	3

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Equity in Losses of Unconsolidated Affiliates

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. The equity in losses of unconsolidated affiliates increased as a result of losses on equity investments.

Effective Income Tax Rate

Generation's effective income tax rate was 23.3% and 36.7% for the three months ended March 31, 2017 and 2016, respectively. See Note 11 — Income Taxes of the Combined Notes to the Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Results of Operations — ComEd

	Three Months Ended March 31,		Favorable (Unfavorable) Variance
	2017	2016	
Operating revenues	$ 1,298	$ 1,249	$ 49
Purchased power expense	334	348	14
Revenues net of purchased power expense(a)(b)	964	901	63
Other operating expenses			
Operating and maintenance	370	368	(2)
Depreciation and amortization	208	189	(19)
Taxes other than income	72	75	3
Total other operating expenses	650	632	(18)
Gain on sales of assets	—	5	(5)
Operating income	314	274	40
Other income and (deductions)			
Interest expense, net	(85)	(86)	1
Other, net	4	4	—
Total other income and (deductions)	(81)	(82)	1
Income before income taxes	233	192	41
Income taxes	92	77	(15)
Net income	$ 141	$ 115	$ 26

(a) ComEd evaluates its operating performance using the measure of Revenue net of purchased power expense. ComEd believes that Revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. In general, ComEd only earns margin based on the delivery and transmission of electricity. ComEd has included its discussion of Revenue net of purchased power expense below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) For regulatory recovery mechanisms, including ComEd's electric distribution and transmission formula rates, and riders, revenues increase and decrease i) as fully recoverable costs fluctuate (with no impact on net earnings), and ii) pursuant to changes in rate base, capital structure and ROE (which impact net earnings).

Net Income

Three months ended March 31, 2017 Compared to Three months ended March 31, 2016. ComEd's Net income for the three months ended March 31, 2017 was higher than the same period in 2016, primarily due to increased electric distribution and transmission formula rate earnings (reflecting the effects of increased capital investment and higher allowed electric distribution ROE).

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Revenues Net of Purchased Power Expense

There are certain drivers of Operating revenues that are fully offset by their impact on Purchased power expense, such as commodity procurement costs and participation in customer choice programs. ComEd is permitted to recover electricity procurement costs from retail customers without mark-up. Therefore, fluctuations in electricity procurement costs have no impact on Revenue net of purchased power expense. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information on ComEd's electricity procurement process.

All ComEd customers have the choice to purchase electricity from a competitive electric generation supplier. Customer choice programs do not impact ComEd's volume of deliveries, but do affect ComEd's Operating revenues related to supplied energy, which is fully offset in Purchased power expense. Therefore, customer choice programs have no impact on Revenue net of purchased power expense.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three months ended March 31, 2017 and 2016, consisted of the following:

	Three Months Ended March 31,	
	2017	2016
Electric	71%	73%

Retail customers purchasing electric generation from competitive electric generation suppliers at March 31, 2017 and 2016 consisted of the following:

March 31, 2017		March 31, 2016	
Number of customers	% of total retail customers	Number of customers	% of total retail customers
1,453,000	36%	1,649,700	42%

The changes in ComEd's Revenue net of purchased power expense for the three months ended March 31, 2017, compared to the same period in 2016 consisted of the following:

	Three Months Ended March 31, 2017 Increase (Decrease)
Weather[(a)]	$ 8
Volume[(a)]	(1)
Electric distribution revenue	24
Transmission revenue	17
Regulatory required programs	20
Uncollectible accounts recovery, net	(2)
Pricing and customer mix[(a)]	(3)
Total increase	$ 63

(a) These changes only reflect the 2016 impacts of weather, volume, and pricing and customer mix. As further described below, pursuant to the revenue decoupling provision in FEJA, ComEd began recording an adjustment to revenue in the first quarter of 2017 to eliminate the favorable or unfavorable impacts associated with variations in delivery volumes associated with above or below normal weather, number of customers or usage per customer.

Revenue Decoupling. The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased customer usage. Conversely, mild weather reduces demand.

Under EIMA, ComEd's electric distribution formula rate provided for an adjustment to future billings if its earned ROE fell outside a 50 bps collar of its allowed ROE, which partially eliminated the impacts of weather and load on ComEd's revenue. As allowed under FEJA, ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to Operating revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began recognizing the impacts of this change beginning in the first quarter of 2017. As of March 31, 2017, ComEd recorded an increase to Electric distribution revenues of approximately $16 million to eliminate the unfavorable weather and load impacts during the first quarter of 2017.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in ComEd's service territory with cooling degree days generally having a more significant impact to ComEd, particularly during the summer months. The changes in heating and cooling degree days in ComEd's service territory for the three months ended March 31, 2017 and 2016, consisted of the following:

Heating and Cooling Degree-Days				**% Change**	
Three Months Ended March 31,	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	2,650	2,900	3,141	(8.6)%	(15.6)%
Cooling Degree-Days	—	—	—	n/a	n/a

Electric Distribution Revenue. EIMA provides for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Under EIMA, electric distribution revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered, and allowed ROE. ComEd's allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. In addition, ComEd's allowed ROE is subject to reduction if ComEd does not deliver the reliability and customer service benefits to which it has committed over the ten-year life of the investment program. During the three months ended March 31, 2017, electric distribution revenue increased primarily due to revenue decoupling impacts (as described above), increased capital investment, increased Depreciation expense, and higher allowed ROE due to an increase in treasury rates, as compared to the same period in 2016. See Depreciation and amortization expense discussions below, and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Transmission Revenue. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered and the highest daily peak load, which is updated annually in January based on the prior calendar year. Generally, increases/decreases in the highest daily peak load will result in higher/lower transmission revenue. For the three months ended March 31, 2017, ComEd recorded increased transmission revenue due to increased capital investment, higher depreciation expense and increased highest daily peak load as compared to the same period in 2016. See Operating and maintenance expense below and Note 3 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in Operating revenues collected under approved riders to recover costs incurred for regulatory programs such as ComEd's energy efficiency and demand response and purchased power administrative costs. The riders are designed to provide full and current cost recovery. An equal and offsetting amount has been included in Operating and maintenance expense. See Operating and maintenance expense discussion below for additional information on included programs.

Uncollectible Accounts Recovery, Net. Uncollectible accounts recovery, net represents recoveries under ComEd's uncollectible accounts tariff. See Operating and maintenance expense discussion below for additional information on this tariff.

Other. Other revenue, which can vary period to period, includes rental revenue, revenue related to late payment charges, assistance provided to other utilities through mutual assistance programs, recoveries of environmental costs associated with MGP sites, and recoveries of energy procurement costs.

Operating and Maintenance Expense

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Increase (Decrease)
Operating and maintenance expense — baseline	$ 313	$ 331	$ (18)
Operating and maintenance expense — regulatory required programs[(a)]	57	37	20
Total operating and maintenance expense	$ 370	$ 368	$ 2

(a) Operating and maintenance expense for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The increase in Operating and maintenance expense for the three months ended March 31, 2017 compared to the same period in 2016, consisted of the following:

	Three Months Ended March 31, 2017 Increase (Decrease)
Baseline	
Labor, other benefits, contracting and materials	$ (6)
Pension and non-pension postretirement benefits expense	1
Storm-related costs	(7)
Uncollectible accounts expense — provision[(a)]	(3)
Uncollectible accounts expense — recovery, net[(a)]	1
BSC costs	1
Other	(5)
	(18)
Regulatory required programs	
Energy efficiency and demand response programs	20
Increase in operating and maintenance expense	$ 2

(a) ComEd is allowed to recover from or refund to customers the difference between the utility's annual uncollectible accounts expense and the amounts collected in rates annually through a rider mechanism. During the three months ended March 31, 2017, ComEd recorded a net decrease in Operating and maintenance expense related to uncollectible accounts due to the timing of regulatory cost recovery. An equal and offsetting decrease has been recognized in Operating revenues for the period presented.

Depreciation and Amortization Expense

The increase in Depreciation and amortization expense during the three months ended March 31, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended March 31, 2017 Increase (Decrease)
Depreciation expense[(a)]	$ 16
Regulatory asset amortization	(1)
Other	4
Total increase	$ 19

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(a) Primarily reflects ongoing capital expenditures for the three months ended March 31, 2017.

Taxes Other Than Income

Taxes other than income, which can vary year to year, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income taxes remained relatively consistent for the three months ended March 31, 2017, compared to the same period in 2016.

Gain on Sales of Assets

The decrease in Gain on sales of assets during the three months ended March 31, 2017, compared to the same period in 2016, is primarily due to the sale of land during March 2016.

Interest Expense, Net

Interest expense, net, remained relatively consistent during the three months ended March 31, 2017, compared to the same period in 2016.

Other, Net

Other, net, remained relatively consistent during the three months ended March 31, 2017, compared to the same period in 2016.

Effective Income Tax Rate

ComEd's effective income tax rate was 39.5% and 40.1% for the three months ended March 31, 2017 and 2016, respectively. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

ComEd Electric Operating Statistics and Revenue Detail

	Three Months Ended March 31,			
Retail Deliveries to Customers (in GWhs)	**2017**	**2016**	**% Change**	**Weather-Normal % Change**
Retail Deliveries[a]				
Residential	6,241	6,376	(2.1)%	0.3%
Small commercial & industrial	7,709	7,879	(2.2)%	(1.0)%
Large commercial & industrial	6,683	6,756	(1.1)%	(0.3)%
Public authorities & electric railroads	344	361	(4.7)%	(3.4)%
Total retail deliveries	20,977	21,372	(1.8)%	(0.4)%

	As of March 31,	
Number of Electric Customers	**2017**	**2016**
Residential	3,605,498	3,566,896
Small commercial & industrial	375,617	372,254
Large commercial & industrial	2,000	1,955
Public authorities & electric railroads	4,818	4,821
Total	3,987,933	3,945,926

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Electric Revenue	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Retail Sales[(a)]			
Residential	$ 627	$ 609	3.0%
Small commercial & industrial	335	321	4.4%
Large commercial & industrial	108	107	0.9%
Public authorities & electric railroads	12	12	—%
Total retail	1,082	1,049	3.1%
Other revenue[(b)]	216	200	8.0%
Total electric revenue[(c)]	$ 1,298	$ 1,249	3.9%

(a) Reflects delivery revenue and volume from customers purchasing electricity directly from ComEd and customers purchasing electricity from a competitive electric generation supplier, as all customers are assessed delivery charges. For customers purchasing electricity from ComEd, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes transmission revenue from PJM. Other revenue also includes rental revenue, revenue related to late payment charges, revenue from other utilities for mutual assistance programs and recoveries of remediation costs associated with MGP sites.

(c) Includes operating revenues from affiliates totaling $5 million and $5 million for the three months ended March 31, 2017 and 2016, respectively.

Results of Operations — PECO

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Favorable (Unfavorable) Variance
Operating revenues	$ 796	$ 841	$ (45)
Purchased power and fuel expense	287	321	34
Revenues net of purchased power and fuel expense[(a)]	509	520	(11)
Other operating expenses			
Operating and maintenance	208	215	7
Depreciation and amortization	71	67	(4)
Taxes other than income	38	42	4
Total other operating expenses	317	324	7
Operating income	192	196	(4)
Other income and (deductions)			
Interest expense, net	(31)	(31)	—
Other, net	2	2	—
Total other income and (deductions)	(29)	(29)	—
Income before income taxes	163	167	(4)
Income taxes	36	43	7
Net income	$ 127	$ 124	$ 3

(a) PECO evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. PECO believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. PECO has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenue net of purchased power expense and revenue net of fuel expense figures are not presentations defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. PECO's Net income increased from the same period in 2016, primarily due to lower income tax expense as a result of a higher tax repairs deduction.

Revenues Net of Purchased Power and Fuel Expense

Electric and natural gas revenue and purchased power and fuel expense are affected by fluctuations in commodity procurement costs. PECO's electric supply and natural gas cost rates charged to customers are subject to adjustments at least quarterly that are designed to recover or refund the difference between the actual cost of electric supply and natural gas and the amount included in rates in accordance with the PAPUC's GSA and PGC, respectively. Therefore, fluctuations in electric supply and natural gas procurement costs have no impact on electric and natural gas revenue net of purchased power and fuel expense.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All PECO customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service. Customer choice program activity has no impact on electric and natural gas revenue net of purchased power and fuel expense.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three months ended March 31, 2017 and 2016, consisted of the following:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Electric	70%	69%
Natural Gas	25%	25%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at March 31, 2017 and 2016 consisted of the following:

	March 31, 2017		March 31, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	589,700	36%	570,000	35%
Natural Gas	81,300	16%	80,600	16%

The changes in PECO's Operating revenues net of purchased power and fuel expense for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

	Three Months Ended March 31, 2017		
	Increase (Decrease)		
	Electric	Natural Gas	Total
Weather	$ 2	$ 1	$ 3
Volume	(5)	—	(5)
Pricing	(2)	—	(2)
Regulatory required programs	(9)	—	(9)
Other	3	(1)	2
Total decrease	$ (11)	$ —	$(11)

Weather. The demand for electricity and natural gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as “favorable weather conditions” because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. During the three months ended March 31, 2017 compared to the same period in 2016, Operating revenue net of purchased power and fuel expense was relatively consistent.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in PECO’s service territory. The changes in heating and cooling degree days in PECO’s service territory for the three months ended March 31, 2017 compared to the same periods in 2016 and normal weather consisted of the following:

Heating and Cooling Degree-Days Three Months Ended March 31,	2017	2016	Normal	% Change 2017 vs. 2016	% Change 2017 vs. Normal
Heating Degree-Days	2,094	2,137	2,476	(2.0)%	(15.4)%
Cooling Degree-Days	—	5	—	(100.0)%	n/a

Volume. The decrease in Operating revenue net of purchased power expense related to delivery volume, exclusive of the effects of weather, for the three months ended March 31, 2017 compared to the same period in 2016, primarily reflects the impacts of energy efficiency initiatives on customer usage as well as the impacts of an extra day of usage due to the leap year in 2016, partially offset by moderate economic and customer growth. Operating revenue net of purchased fuel expense related to delivery volume, exclusive of the effects of weather, for the three months ended March 31, 2017 compared to the same period in 2016, remained relatively consistent.

Pricing. Operating revenues net of purchased power and fuel expense as a result of pricing for the three months ended March 31, 2017 compared to the same period in 2016 remained relatively consistent.

Regulatory Required Programs. This represents the change in Operating revenue collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency and the GSA. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Income taxes. Refer to the Operating and maintenance expense discussion below for additional information on included programs.

Other. Other revenue, which can vary period to period, primarily includes wholesale transmission revenue, rental revenue, revenue related to late payment charges and assistance provided to other utilities through mutual assistance programs.

Operating and Maintenance Expense

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Increase (Decrease)
Operating and maintenance expense — baseline	$ 196	$ 195	$ 1
Operating and maintenance expense — regulatory required programs(a)	12	20	(8)
Total operating and maintenance expense	$ 208	$ 215	$ (7)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in operating revenue.

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The changes in Operating and maintenance expense for the three months ended March 31, 2017 compared to the same period in 2016, consisted of the following:

	Three months ended March 31, 2017 Increase (Decrease)
Baseline	
Labor, other benefits, contracting and materials	$ 3
Storm-related costs	(1)
Pension and non-pension postretirement benefits expense	(1)
BSC costs	(4)
Uncollectible accounts expense	1
Other	3
	1
Regulatory Required Programs	
Energy efficiency	(8)
	(8)
Total decrease	$ (7)

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three months ended March 31, 2017 compared to the same period in 2016, consisted of an increase of $4 million.

Taxes Other Than Income

Taxes other than income, which can vary period to period, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income decreased for the three months ended March 31, 2017 compared to the same period in 2016 due to a decrease in gross receipts tax driven by decreases in electric revenue, which was impacted primarily by energy efficiency programs.

Interest Expense, Net

Interest expense, net for the three months ended March 31, 2017 remained consistent compared to the same period in 2016.

Other, Net

Other, net for the three months ended March 31, 2017 remained consistent compared to the same period in 2016.

Effective Income Tax Rate

PECO’s effective income tax rate was 22.1% and 25.7% for the three months ended March 31, 2017 and 2016, respectively. See Note 11 — Income Taxes of the Combined Notes to the Consolidated Financial Statements for further discussion of the change in effective income tax rate.

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PECO Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change	Weather - Normal % Change
Retail Deliveries(a)				
Residential	3,378	3,415	(1.1)%	(1.5)%
Small commercial & industrial	1,976	2,025	(2.4)%	(3.0)%
Large commercial & industrial	3,626	3,594	0.9%	0.6%
Public authorities & electric railroads	224	227	(1.3)%	(1.3)%
Total retail deliveries	9,204	9,261	(0.6)%	(1.0)%

Number of Electric Customers	As of March 31, 2017	As of March 31, 2016
Residential	1,461,662	1,449,470
Small commercial & industrial	150,580	149,388
Large commercial & industrial	3,100	3,092
Public authorities & electric railroads	9,798	9,807
Total	1,625,140	1,611,757

Electric Revenue	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Retail Sales(a)			
Residential	$ 382	$ 410	(6.8)%
Small commercial & industrial	97	119	(18.5)%
Large commercial & industrial	52	58	(10.3)%
Public authorities & electric railroads	8	8	—%
Total retail	539	595	(9.4)%
Other revenue(b)	51	49	4.1%
Total electric revenue(c)	$ 590	$ 644	(8.4)%

(a) Reflects delivery volumes and revenue from customers purchasing electricity directly from PECO and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from PECO, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes transmission revenue from PJM and wholesale electric revenue, in addition to rental income.

(c) Includes operating revenues from affiliates totaling $1 million and $2 million for the three months ended March 31, 2017 and 2016, respectively.

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PECO Natural Gas Operating Statistics and Revenue Detail

Deliveries to Customers (in mmcf)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change	Weather - Normal % Change
Retail Delivery				
Retail sales[(a)]	27,211	27,111	0.4%	(0.4)%
Transportation and other	7,689	7,696	(0.1)%	(0.8)%
Total natural gas deliveries	34,900	34,807	0.3%	(0.4)%

Number of Natural Gas Customers	As of March 31, 2017	As of March 31, 2016
Residential	473,972	468,808
Commercial & industrial	43,709	43,313
Total retail	517,681	512,121
Transportation	775	817
Total	518,456	512,938

Natural Gas Revenue	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Retail Sales			
Retail sales[(a)]	$ 197	$ 187	5.3%
Transportation and other	9	10	(10.0)%
Total natural gas revenues[(b)]	$ 206	$ 197	4.6%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from PECO and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from PECO, revenue also reflects the cost of natural gas.

(b) Includes operating revenues from affiliates totaling less than $1 million for both three months ended March 31, 2017 and 2016.

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Results of Operations — BGE

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Favorable (Unfavorable) Variance
Operating revenues	$ 951	$ 929	$ 22
Purchased power and fuel expense	350	373	23
Revenues net of purchased power and fuel expense(a)	601	556	45
Other operating expenses			
Operating and maintenance	183	202	19
Depreciation and amortization	128	109	(19)
Taxes other than income	62	58	(4)
Total other operating expenses	373	369	(4)
Operating income	228	187	41
Other income and (deductions)			
Interest expense, net	(27)	(24)	(3)
Other, net	4	4	—
Total other income and (deductions)	(23)	(20)	(3)
Income before income taxes	205	167	38
Income taxes	80	66	(14)
Net income	125	101	24
Preference stock dividends	—	3	3
Net income attributable to common shareholder	$ 125	$ 98	$ 27

(a) BGE evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. BGE believes revenues net of purchased power and fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. BGE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenues net of purchased power and fuel expense figures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Common Shareholder

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. BGE's Net income attributable to common shareholder for the three months ended March 31, 2017 was higher than the same period in 2016, primarily due to an increase in Revenues net of purchased power and fuel, predominantly as a result of higher electric and natural gas revenues as a result of the distribution rate orders issued by the MDPSC in June 2016 and July 2016, and lower Operating and maintenance expense mostly due to decreased storm costs. These items were partially offset by an increase in Depreciation and amortization expense primarily related to increased amortization of AMI meters and Income tax expense driven by higher taxable income.

Revenues Net of Purchased Power and Fuel Expense

There are certain drivers to Operating revenues that are offset by their impact on Purchased power and fuel expense, such as commodity procurement costs and programs allowing customers to select a competitive electric or natural gas supplier. Operating revenues and Purchased power and fuel expense are affected by fluctuations in commodity procurement costs. BGE's electric and natural gas rates charged to customers are subject to periodic adjustments that are designed to recover or refund the difference between the actual cost of purchased electric

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power and purchased natural gas and the amount included in rates in accordance with the MDPSC's market-based SOS and gas commodity programs, respectively.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in the number of customers electing to use a competitive electric generation or natural gas supplier. All BGE customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but does affect revenue collected from customers related to supplied energy and natural gas service.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three months ended March 31, 2017 and 2016 consisted of the following:

	Three Months Ended March 31,	
	2017	2016
Electric	58%	57%
Natural Gas	48%	49%

The number of retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at March 31, 2017 and 2016 consisted of the following:

	March 31, 2017		March 31, 2016	
	Number of Customers	% of total retail customers	Number of customers	% of total retail customers
Electric	339,600	27%	341,800	27%
Natural Gas	149,300	22%	153,500	23%

The changes in BGE's operating revenues net of purchased power and fuel expense for the three months ended March 31, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended March 31, 2017		
	Increase (Decrease)		
	Electric	Gas	Total
Distribution rate increase	$ 12	$ 26	$ 38
Regulatory required programs	3	1	4
Transmission revenue	(1)	—	(1)
Other, net	3	1	4
Total increase	$ 17	$ 28	$ 45

Distribution Rate Increase. The increase in distribution revenues for the three months ended March 31, 2017, compared to the same period in 2016, was primarily due to the impact of the new electric and natural gas distribution rates charged to customers that became effective in June 2016 in accordance with the MDPSC approved electric and natural gas distribution rate case orders in June 2016 and July 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Revenue Decoupling. The demand for electricity and natural gas is affected by weather and usage conditions. The MDPSC allows BGE to record a monthly adjustment to its electric and natural gas distribution revenue from all residential customers, commercial electric customers, the majority of large industrial electric customers, and all firm service natural gas customers to eliminate the effect of abnormal weather and usage patterns per customer on BGE's electric and natural gas distribution volumes, thereby recovering a specified

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dollar amount of distribution revenue per customer, by customer class, regardless of changes in actual consumption levels. This allows BGE to recognize revenue at MDPSC-approved levels per customer, regardless of what BGE's actual distribution volumes were for a billing period. Therefore, while this revenue is affected by customer growth (i.e., increase in the number of customers), it will not be affected by actual weather or usage conditions (i.e., changes in consumption per customer). BGE bills or credits customers in subsequent months for the difference between approved revenue levels under revenue decoupling and actual customer billings.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in BGE's service territory. The changes in heating and cooling degree days in BGE's service territory for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

Heating and Cooling Degree-Days	2017	2016	Normal	% Change 2017 vs. 2016	% Change 2017 vs. Normal
Three Months Ended March 31,					
Heating Degree-Days	2,063	2,280	2,404	(9.5)%	(14.2)%
Cooling Degree-Days	—	—	—	n/a	n/a

Regulatory Required Programs. This represents the change in revenue collected under approved riders to recover costs incurred for the energy efficiency and demand response programs. The riders are designed to provide full recovery, as well as a return in certain instances. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in BGE's Consolidated Statements of Operations and Comprehensive Income.

Transmission Revenue. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered and other billing determinants. The transmission revenue stayed relatively consistent during the three months ended March 31, 2017 compared to the same period in 2016. See Operating and Maintenance Expense below and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Other, Net. Other net revenue, which can vary from period to period, includes commodity electric and gas revenue and other miscellaneous revenue such as service application and late payment fees; partially offset by commodity electric and gas purchased fuel and energy.

Operating and Maintenance Expense

The changes in operating and maintenance expense for the three months ended March 31, 2017 compared to the same period in 2016, consisted of the following:

	Increase (Decrease)
Storm-related costs	$ (12)
Uncollectible accounts expense[(a)]	(7)
City of Baltimore conduit fees	(4)
BSC costs	3
Other	1
Total decrease	$ (19)

(a) Uncollectible accounts decreased primarily due to milder weather and improved customer behavior for the three months ended March 31, 2017 compared to the same period in 2016.

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Depreciation and Amortization

The changes in depreciation and amortization expense for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

	Increase (Decrease)
Depreciation expense[(a)]	$ 4
Regulatory asset amortization[(b)]	14
Other	1
Total increase	$ 19

(a) Depreciation expense increased due to ongoing capital expenditures.

(b) Regulatory asset amortization increased for the three months ended March 31, 2017 compared to the same period in 2016 primarily due to an increase in regulatory asset amortization related to energy efficiency programs and the initiation of cost recovery of the AMI programs under the final electric and natural gas distribution rate case order issued by the MDPSC in June 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Taxes Other Than Income

Taxes other than income, which can vary period to period, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income for the three months ended March 31, 2017 compared to the same period in 2016 remained relatively consistent.

Interest Expense, Net

Interest expense, net increased during the three months ended March 31, 2017, compared to the same period in 2016 primarily due to the issuance of Notes in August 2016.

Effective Income Tax Rate

BGE's effective income tax rate was 39.0% and 39.5% for the three months ended March 31, 2017 and 2016, respectively. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

BGE Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change	Weather - Normal % Change
Retail Deliveries[(a)]				
Residential	3,127	3,479	(10.1)%	(6.6)%
Small commercial & industrial	748	774	(3.4)%	(3.2)%
Large commercial & industrial	3,268	3,219	1.5%	(1.7)%
Public authorities & electric railroads	68	71	(4.2)%	(4.8)%
Total electric deliveries	7,211	7,543	(4.4)%	(4.1)%

Number of Electric Customers	As of March 31, 2017	As of March 31, 2016
Residential	1,153,688	1,141,814
Small commercial & industrial	113,238	113,034
Large commercial & industrial	12,084	11,932
Public authorities & electric railroads	279	282
Total	1,279,289	1,267,062

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Electric Revenue	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Retail Sales[a]			
Residential	$ 405	$ 428	(5.4)%
Small commercial & industrial	72	73	(1.4)%
Large commercial & industrial	113	100	13.0%
Public authorities & electric railroads	7	9	(22.2)%
Total retail	597	610	(2.1)%
Other revenue[b]	70	70	—%
Total electric revenue	$ 667	$ 680	(1.9)%

(a) Reflects delivery volumes and revenue from customers purchasing electricity directly from BGE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from BGE, revenue also reflects the cost of energy and transmission.

(b) Includes operating revenues from affiliates totaling $2 million for the three months ended March 31, 2017 and 2016.

BGE Natural Gas Operating Statistics and Revenue Detail

Deliveries to Customers (in mmcf)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change	Weather - Normal % Change
Retail Deliveries[a]				
Retail sales	36,371	38,584	(5.7)%	2.3%
Transportation and other[b]	2,279	2,496	(8.7)%	n/a
Total natural gas deliveries	38,650	41,080	(5.9)%	2.3%

Number of Gas Customers	As of March 31, 2017	As of March 31, 2016
Residential	625,642	619,130
Commercial & industrial	44,237	44,224
Total	669,879	663,354

Natural Gas Revenue	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Retail Sales[a]			
Retail sales	$ 269	$ 238	13.0%
Transportation and other[b]	15	11	36.4%
Total natural gas revenues[c]	$ 284	$ 249	14.1%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from BGE and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. The cost of natural gas is charged to customers purchasing natural gas from BGE.

(b) Transportation and other gas revenue includes off-system revenue of 2,279 mmcfs ($12 million) and 2,496 mmcfs ($9 million) for the three months ended March 31, 2017 and 2016, respectively.

(c) Includes operating revenues from affiliates totaling $3 million for the three months ended March 31, 2017 and 2016.

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Results of Operations — PHI

PHI's results of operations include the results of its three reportable segments, Pepco, DPL and ACE for all periods presented below. For "Predecessor" reporting periods, PHI's results of operations also include the results of PES and PCI. See Note 19 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information regarding PHI's reportable segments. All material intercompany accounts and transactions have been eliminated in consolidation. A separate specific discussion of the results of operations for Pepco, DPL and ACE is presented elsewhere in this report.

As a result of the PHI Merger, the following consolidated financial results present two separate reporting periods for 2016. The "Predecessor" reporting period represents PHI's results of operations for the period from January 1, 2016 to March 23, 2016. The "Successor" reporting periods represent PHI's results of operations for the three months ended March 31, 2017 and for the period from March 24, 2016 to March 31, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	Successor		*Predecessor*
	Three Months Ended March 31, 2017	**March 24 to March 31, 2016**	**January 1 to March 23, 2016**
Operating revenues	$ 1,175	$ 105	$ 1,153
Purchased power and fuel expense	461	38	497
Revenue net of purchased power and fuel expense[(a)]	714	67	656
Other operating expenses			
Operating and maintenance	256	449	294
Depreciation and amortization	167	14	152
Taxes other than income	111	15	105
Total other operating expenses	534	478	551
Operating income (loss)	180	(411)	105
Other income and (deductions)			
Interest expense, net	(62)	(6)	(65)
Other, net	13	2	(4)
Total other income and (deductions)	(49)	(4)	(69)
Income (loss) before income taxes	131	(415)	36
Income taxes	(9)	(106)	17
Net income (loss)	$ 140	$ (309)	$ 19

(a) PHI evaluates its operating performance using the measure of revenue net of purchased power and fuel expense for electric and natural gas sales. PHI believes revenue net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. PHI has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Successor Period Three Months Ended March 31, 2017

PHI's net income for the Successor period of three months ended March 31, 2017 was $140 million. There were no significant changes in the underlying trends affecting PHI's operations during the Successor period of three months ended March 31, 2017 except for the impact of increases in electric distribution and natural gas rates within revenue net of purchased power expense (Pepco electric distribution rates effective November 2016 in Maryland, DPL electric distribution rates effective February 2017 in Maryland, DPL electric distribution and natural gas rates effective July 2016 and December 2016 in Delaware, and ACE electric distribution rates effective August 2016 in New Jersey). Lower uncollectible accounts expense and the deferral of merger-related costs to a regulatory asset contributed to lower Operating and maintenance expense. Income taxes were lower due to unrecognized tax benefits of $59 million for uncertain tax positions related to the deductibility of certain merger commitments.

PHI's effective income tax rate for the Successor period of three months ended March 31, 2017 was (6.9)%. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Successor Period March 24, 2016 to March 31, 2016

PHI's net loss for the Successor period from March 24, 2016 to March 31, 2016 was $309 million. There were no significant changes in the underlying trends affecting PHI's results of operations during the Successor period of March 24, 2016 to March 31, 2016 except for the pre-tax recording of $419 million of non-recurring merger-related costs within Operating and maintenance expense.

PHI's effective income tax rate for the Successor period of March 24, 2016 to March 31, 2016 was 25.5%. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Predecessor Period January 1, 2016 to March 23, 2016

PHI's net income for the Predecessor period of January 1, 2016 to March 23, 2016 was $19 million. There were no significant changes in the underlying trends affecting PHI's results of operations during the Predecessor period of January 1, 2016 to March 23, 2016 except for the pre-tax recording of $29 million of non-recurring merger-related costs within Operating and maintenance expense and $18 million of preferred stock derivative expense within Other, net.

PHI's effective income tax rate for the Predecessor period of January 1, 2016 to March 23, 2016 was 47.2%. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Results of Operations — Pepco

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Favorable (Unfavorable) Variance
Operating revenues	$ 530	$ 551	$ (21)
Purchased power expense	166	197	31
Revenue net of purchased power expense(a)	364	354	10
Other operating expenses			
Operating and maintenance	113	290	177
Depreciation and amortization	82	75	(7)
Taxes other than income	90	94	4
Total other operating expenses	285	459	174
Operating income (loss)	79	(105)	184
Other income and (deductions)			
Interest expense, net	(29)	(37)	8
Other, net	8	9	(1)
Total other income and (deductions)	(21)	(28)	7
Income (loss) before income taxes	58	(133)	191
Income taxes	—	(25)	(25)
Net income (loss)	$ 58	$ (108)	$ 166

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(a) Pepco evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. Pepco believes revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Pepco has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. Pepco's net income for the three months ended March 31, 2017, was higher than the same period in 2016, primarily due to an increase in revenue net of purchased power expense resulting from higher electric distribution revenues as a result of the distribution rate orders issued by the MDPSC in November 2016, lower Operating and maintenance expense due to merger-related costs recognized in March 2016 and lower uncollectible accounts expense, and a decrease in income tax reserves for uncertain tax positions related to the deductibility of certain merger commitments.

Operating Revenue Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to Pepco's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that Pepco receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All Pepco customers have the choice to purchase electricity from competitive electric generation suppliers. The customers' choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three months ended March 31, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended March 31,	
	2017	2016
Electric	64%	65%

Retail customers purchasing electric generation from competitive electric generation suppliers at March 31, 2017 and 2016 consisted of the following:

	March 31, 2017		March 31, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	179,241	21%	173,221	21%

Retail deliveries purchased from competitive electric generation suppliers represented 73% of Pepco's retail kWh sales to the District of Columbia customers and 58% of Pepco's retail kWh sales to Maryland customers for the three months ended March 31, 2017 and 73% of Pepco's retail kWh sales to the District of Columbia customers and 58% of Pepco's retail kWh sales to Maryland customers for the three months ended March 31, 2016.

Operating revenues include transmission enhancement credits that Pepco receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by Pepco to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

The changes in Pepco's operating revenues net of purchased power expense for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

	Increase (Decrease)
Volume	$ 4
Pricing — distribution revenues	16
Regulatory required programs	(10)
Transmission revenues	2
Other	(2)
Total increase	$ 10

Revenue Decoupling. Pepco's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of Pepco in Maryland and in the District of Columbia, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland and the District of Columbia to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

In accounting for the BSA in Maryland and the District of Columbia, a Revenue Decoupling Adjustment is recorded representing either (i) a positive adjustment equal to the amount by which revenue from Maryland and the District of Columbia retail distribution sales falls short of the revenue that Pepco is entitled to earn based on the approved distribution charge per customer or (ii) a negative adjustment equal to the amount by which revenue from such distribution sales exceeds the revenue that Pepco is entitled to earn based on the approved distribution charge per customer.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in Pepco's service territory. The changes in heating and cooling degree days in Pepco's service territory for the three months ended March 31, 2017 compared to the same period in 2016 and normal weather consisted of the following:

				% Change	
Three Months Ended March 31,	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Heating Degree-Days	1,748	2,010	2,138	(13.0)%	(18.2)%
Cooling Degree-Days	4	3	3	33.3%	33.3%

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Volume. The increase in operating revenue net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the three months ended March 31, 2017 compared to the same period in 2016, primarily reflects the impact of moderate economic and customer growth.

Pricing — Distribution Revenues. The increase in electric operating revenues net of purchased power expense as a result of pricing for the three months ended March 31, 2017 compared to the same period in 2016 was primarily due to the impact of the new electric distribution rates charged to customers in Maryland that became effective in November 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in operating and maintenance expense, depreciation and amortization expense and other taxes. Refer to the operating and maintenance expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered and other billing adjustments. The increase in revenue net of purchased power expense for the three months ended March 31, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2016 related to increases in transmission plant investment and operating expenses, partially offset by lower revenue related to the MAPP abandonment recovery period that ended in March 2016.

Operating and Maintenance Expense

	Three Months Ended March 31,		Increase (Decrease)
	2017	2016	
Operating and maintenance expense — baseline	$ 114	$ 287	$ (173)
Operating and maintenance expense — regulatory required programs(a)	(1)	3	(4)
Total operating and maintenance expense	$ 113	$ 290	$ (177)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in operating and maintenance expense for the three months ended March 31, 2017 compared to the same period in 2016, consisted of the following:

	Increase (Decrease)
Baseline	
Labor, other benefits, contracting and materials	$ 5
Storm-related costs	1
Uncollectible accounts expense	(9)
Deferral of merger-related costs to regulatory asset	(1)
BSC and PHISCO allocations(a)	(27)
Merger commitments(b)	(139)
Other	(3)
	(173)
Regulatory required programs	
Purchased power administrative costs	(4)
Total decrease	$ (177)

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(a) Primarily related to merger severance and compensation costs recognized in 2016.

(b) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in depreciation and amortization expense for the three months ended March 31, 2017 compared to the same period in 2016, consisted of the following:

	Increase (Decrease)
Depreciation expense[a]	$ 8
Regulatory asset amortization	(1)
Total increase	$ 7

(a) Depreciation expense increased due to higher depreciation rates in Maryland effective November 2016 and due to ongoing capital expenditures.

Taxes Other Than Income

Taxes other than income for the three months ended March 31, 2017 compared to the same period in 2016 decreased primarily due to lower utility taxes that are collected and passed through by Pepco, partially offset by higher property taxes in Maryland.

Interest Expense, Net

Interest expense, net for the three months ended March 31, 2017 compared to the same period in 2016 decreased primarily due to the recording of interest expense for an uncertain tax position in the first quarter of 2016 and an increase in capitalized AFUDC interest.

Other, Net

Other, net for the three months ended March 31, 2017 compared to the same period in 2016 remained relatively constant.

Effective Income Tax Rate

Pepco's effective income tax rate was 0.0% and 18.8% for the three months ended March 31, 2017 and 2016, respectively. In the first quarter of 2017, Pepco decreased its liability for unrecognized tax benefits by $21 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 11—Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates.

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Pepco Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change	Weather - Normal % Change
Retail Deliveries(a)				
Residential	2,000	2,218	(9.8)%	(4.4)%
Small commercial & industrial	326	381	(14.4)%	(12.4)%
Large commercial & industrial	3,485	3,945	(11.7)%	(10.8)%
Public authorities & electric railroads	190	189	0.5%	0.5%
Total retail deliveries	6,001	6,733	(10.9)%	(8.4)%

Number of Electric Customers	As of March 31, 2017	As of March 31, 2016
Residential	785,016	769,934
Small commercial & industrial	53,640	53,853
Large commercial & industrial	21,413	20,996
Public authorities & electric railroads	136	126
Total	860,205	844,909

Electric Revenue	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Retail Sales(a)			
Residential	$ 240	$ 255	(5.9)%
Small commercial & industrial	34	37	(8.1)%
Large commercial & industrial	195	200	(2.5)%
Public authorities & electric railroads	8	8	—%
Total retail	477	500	(4.6)%
Other revenue(b)	53	51	3.9%
Total electric revenue(c)	$ 530	$ 551	(3.8)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from Pepco and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from Pepco, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $1 million and $1 million for the three months ended March 31, 2017 and 2016, respectively.

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Results of Operations — DPL

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Favorable (Unfavorable) Variance
Operating revenues	$ 362	$ 362	$ —
Purchased power and fuel expense	157	176	19
Revenues net of purchased power and fuel expense(a)	205	186	19
Other operating expenses			
Operating and maintenance	73	204	131
Depreciation and amortization	39	39	—
Taxes other than income	15	15	—
Total other operating expenses	127	258	131
Operating income (loss)	78	(72)	150
Other income and (deductions)			
Interest expense, net	(13)	(12)	(1)
Other, net	3	3	—
Total other income and (deductions)	(10)	(9)	(1)
Income (loss) before income taxes	68	(81)	149
Income taxes	11	(9)	(20)
Net income (loss)	$ 57	$ (72)	$ 129

(a) DPL evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales and revenue net of fuel expense for natural gas sales. DPL believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements because they provide information that can be used to evaluate its operational performance. DPL has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense and Revenue net of fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. DPL's net income for the three months ended March 31, 2017, was higher than the same period in 2016 as a result of an increase in revenue net of purchased power and fuel expense primarily resulting from higher electric distribution and natural gas revenues as a result of the distribution rate orders issued by the DPSC in July 2016 and December 2016 and by the MDPSC in February 2017, lower Operating and maintenance expense due to merger-related costs recognized in March 2016, lower uncollectible accounts expense, and the deferral of merger-related costs to a regulatory asset in 2017, and a decrease in income tax reserves for uncertain tax positions related to the deductibility of certain merger commitments.

Revenues Net of Purchased Power and Fuel Expense

Operating revenues include revenue from the distribution and supply of electricity to DPL's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that DPL receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric and natural gas revenues and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All DPL customers have the choice to purchase electricity and

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natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three months ended March 31, 2017 and 2016, consisted of the following:

	Three Months Ended March 31,	
	2017	2016
Electric	50%	49%
Natural Gas	27%	25%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at March 31, 2017 and 2016 consisted of the following:

	March 31, 2017		March 31, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	79,270	15%	77,014	15%
Natural Gas	156	0.1%	158	0.1%

Retail deliveries purchased from competitive electric generation suppliers represented 53% of DPL's retail kWh sales to Delaware customers and 45% of DPL retail kWh sales to Maryland customers for the three months ended March 31, 2017 and 51% to Delaware customers and 44% to Maryland customers for the three months ended March 31, 2016.

Operating revenues include transmission enhancement credits that DPL receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Natural gas operating revenue includes sources that are subject to price regulation (Regulated Gas Revenue) and those that generally are not subject to price regulation (Other Gas Revenue). Regulated gas revenue includes the revenue DPL receives from on-system natural gas delivered sales and the transportation of natural gas for customers within its service territory at regulated rates. Other gas revenue consists of off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers. Off-system sales are made possible when low demand for natural gas by regulated customers creates excess pipeline capacity.

Purchased power expense consists of the cost of electricity purchased by DPL to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders. Purchased fuel expense consists of the cost of gas purchased by DPL to fulfill its obligation to regulated gas customers and, as such, is recoverable from customers in accordance with the terms of public service commission orders. It also includes the cost of gas purchased for off-system sales.

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The changes in DPL's operating revenues net of purchased power and fuel expense for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

	Increase (Decrease)		
	Electric	Gas	Total
Weather	$ (2)	$ (6)	$ (8)
Volume	(1)	6	5
Pricing — distribution revenues	19	3	22
Regulatory required programs	1	—	1
Transmission revenues	(2)	—	(2)
Other	1	—	1
Total increase	$ 16	$ 3	$ 19

Revenue Decoupling. DPL's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of DPL in Maryland, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. A modified fixed variable rate design, which would provide for a charge not tied to a customer's volumetric consumption of electricity or natural gas, has been proposed for DPL electricity and natural gas customers in Delaware. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

In accounting for the BSA in Maryland, a Revenue Decoupling Adjustment is recorded representing either (i) a positive adjustment equal to the amount by which revenue from Maryland retail distribution sales falls short of the revenue that DPL is entitled to earn based on the approved distribution charge per customer or (ii) a negative adjustment equal to the amount by which revenue from such distribution sales exceeds the revenue that DPL is entitled to earn based on the approved distribution charge per customer.

Weather. The demand for electricity and natural gas in areas not subject to the BSA is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. During the three months ended March 31, 2017 compared to the same period in 2016, operating revenue net of purchased power and fuel expense was lower due to the impact of unfavorable winter weather conditions in DPL's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in DPL's electric service territory and a 30-year period in DPL's natural gas service territory. The changes in heating and cooling degree days in DPL's service territory for the three months ended March 31, 2017 compared to the same period in 2016 and normal weather consisted of the following:

Electric Service Territory				% Change	
Three Months Ended March 31,	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Heating Degree-Days	2,002	2,247	2,417	(10.9)%	(17.2)%
Cooling Degree-Days	—	3	2	(100.0)%	(100.0)%

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Natural Gas Service Territory Three Months Ended March 31,	2017	2016	Normal	% Change 2017 vs. 2016	% Change 2017 vs. Normal
Heating Degree-Days	2,031	2,335	2,516	(13.0)%	(19.3)%

Volume. The increase in operating revenue net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the three months ended March 31, 2017 compared to the same period in 2016, primarily reflects the impact of customer growth and increased natural gas average customer usage.

Pricing — Distribution Revenues. The increase in electric operating revenues net of purchased power expense as a result of pricing for the three months ended March 31, 2017 compared to the same period in 2016 was primarily due to the impact of the new electric distribution and natural gas rates charged to Delaware customers that became effective in July and December 2016 and the impact of new electric distribution rates charged to Maryland customers that became effective in February 2017. See Note 5—Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in operating and maintenance expense, depreciation and amortization expense and income taxes. Refer to the operating and maintenance expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered and other billing adjustments. The decrease in revenue net of purchased power expense for the three months ended March 31, 2017 compared to the same period in 2016 is a result of lower revenue related to the MAPP abandonment recovery period that ended in March 2016, partially offset by higher rates effective June 1, 2016 related to increases in transmission plant investment and operating expenses.

Operating and Maintenance Expense

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Increase (Decrease)
Operating and maintenance expense — baseline	$ 72	$ 201	$ (129)
Operating and maintenance expense — regulatory required programs(a)	1	3	(2)
Total operating and maintenance expense	$ 73	$ 204	$ (131)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

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The changes in operating and maintenance expense for the three months ended March 31, 2017 compared to the same period in 2016, consisted of the following:

	Increase (Decrease)
Baseline	
Labor, other benefits, contracting and materials	$ (4)
Storm-related costs	7
Uncollectible accounts expense	(5)
Deferral of merger-related costs to regulatory asset	(9)
Write-off of construction work in progress	3
BSC and PHISCO allocations[(a)]	(16)
Merger commitments[(b)]	(103)
Other	(2)
	(129)
Regulatory required programs	
Purchased power administrative costs	(2)
Total decrease	$ (131)

(a) Primarily related to merger severance and compensation costs recognized in 2016.

(b) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in depreciation and amortization expense for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

	Increase (Decrease)
Depreciation expense[(a)]	$ 2
Regulatory asset amortization[(b)]	(2)
Total increase	$ —

(a) Depreciation expense increased due to higher depreciation rates in Maryland effective February 2017 and due to ongoing capital expenditures.

(b) Regulatory asset amortization decreased for the three months ended March 31, 2017 compared to the same period in 2016 due to lower amortization of MAPP abandonment costs.

Taxes Other Than Income

Taxes other than income for the three months ended March 31, 2017 compared to the same period in 2016 remained relatively constant.

Interest Expense, Net

Interest expense, net for the three months ended March 31, 2017 compared to the same period in 2016 remained relatively constant.

Other, Net

Other, net for the three months ended March 31, 2017 compared to the same period in 2016 remained relatively constant.

Effective Income Tax Rate

DPL’s effective income tax rate was 16.2% and 11.1% for the three months ended March 31, 2017 and 2016, respectively. In the first quarter of 2017, DPL decreased its liability for unrecognized tax benefits by

$16 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

DPL Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change	Weather - Normal % Change
Retail Deliveries(a)				
Residential	1,359	1,428	(4.8)%	(0.3)%
Small commercial & industrial	531	572	(7.2)%	(6.0)%
Large commercial & industrial	1,064	1,078	(1.3)%	(0.6)%
Public authorities & electric railroads	13	14	(7.1)%	(7.1)%
Total retail deliveries	2,967	3,092	(4.0)%	(1.5)%

Number of Electric Customers	As of March 31, 2017	As of March 31, 2016
Residential	457,663	453,670
Small commercial & industrial	60,289	59,860
Large commercial & industrial	1,411	1,418
Public authorities & electric railroads	642	643
Total	520,005	515,591

Electric Revenue	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Retail Sales(a)			
Residential	$ 181	$ 182	(0.5)%
Small commercial & industrial	45	49	(8.2)%
Large commercial & industrial	25	25	—%
Public authorities & electric railroads	4	4	—%
Total retail	255	260	(1.9)%
Other revenue(b)	41	43	(4.7)%
Total electric revenue(c)	$ 296	$ 303	(2.3)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from DPL and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from DPL, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $2 million and $2 million for the three months ended March 31, 2017 and 2016, respectively.

DPL Natural Gas Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in mmcf)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change	Weather - Normal % Change
Retail Deliveries				
Residential	5,932	6,060	(2.1)%	9.5%
Transportation & other	2,168	1,968	10.2%	13.7%
Total natural gas deliveries	8,100	8,028	0.9%	10.5%

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Number of Gas Customers	As of March 31, 2017	2016
Residential	121,362	120,046
Commercial & industrial	9,855	9,772
Transportation & other	156	158
Total	131,373	129,976

Natural Gas Revenue	Three Months Ended March 31, 2017	2016	% Change
Retail Sales[(a)]			
Retail sales	$ 59	$ 53	11.3%
Transportation & other[(b)]	7	6	16.7%
Total natural gas revenues	$ 66	$ 59	11.9%

(a) Reflects delivery volumes and revenues from customers purchasing natural gas directly from DPL and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from DPL, revenue also reflects the cost of natural gas.

(b) Transportation and other revenue includes off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers.

Results of Operations — ACE

	Three Months Ended March 31, 2017	2016	Favorable (Unfavorable) Variance
Operating revenues	$ 275	$ 291	$ (16)
Purchased power expense	137	158	21
Revenues net of purchased power expense[(a)]	138	133	5
Other operating expenses			
Operating and maintenance	76	212	136
Depreciation and amortization	35	40	5
Taxes other than income	2	2	—
Total other operating expenses	113	254	141
Operating income (loss)	25	(121)	146
Other income and (deductions)			
Interest expense, net	(15)	(16)	1
Other, net	2	4	(2)
Total other income and (deductions)	(13)	(12)	(1)
Income (loss) before income taxes	12	(133)	145
Income taxes	(16)	(33)	(17)
Net income (loss)	$ 28	$ (100)	$ 128

(a) ACE evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. ACE believes Revenue net of purchased power expense is a useful measurement of its performance because it provides information that can be used to evaluate its operational performance. ACE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

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Net Income (Loss)

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016. ACE's net income for the three months ended March 31, 2017, was higher than the same period in 2016, primarily due to an increase in operating revenue net of purchased power expense resulting from higher electric distribution revenues as a result of the distribution rate order issued by the NJBPU in August 2016, lower Operating and maintenance expense mostly due to merger-related costs recognized in March 2016 and a decrease in income tax reserves for uncertain tax positions related to the deductibility of certain merger commitments.

Revenues Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to ACE's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that ACE receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All ACE customers have the choice to purchase electricity from competitive electric generation suppliers. The customer's choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three months ended March 31, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended March 31,	
	2017	2016
Electric	49%	47%

Retail customers purchasing electric generation from competitive electric generation suppliers at March 31, 2017 and 2016 consisted of the following:

	March 31, 2017		March 31, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	93,896	17%	76,522	14%

Operating revenues include revenue from Transition Bond Charges that ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds, revenue from the resale in the PJM wholesale markets for energy and capacity purchased under contacts with unaffiliated NUGs, and revenue from transmission enhancement credits.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by ACE to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

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The changes in ACE's operating revenue net of purchased power expense for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

	Increase (Decrease)
Weather	(1)
Volume	(5)
Pricing — distribution revenues	10
Regulatory required programs	(5)
Transmission revenues	7
Other	(1)
Total increase	5

Weather. The demand for electricity is affected by weather conditions. With respect to the electric business, very warm weather in summer months and very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity. Conversely, mild weather reduces demand. During the three months ended March 31, 2017 compared to the same period in 2016, operating revenue net of purchased power and fuel expense was lower due to the impact of slightly unfavorable winter weather conditions in ACE's service territory.

For retail customers of ACE, distribution revenues are not decoupled from the distribution of electricity by ACE, and thus are subject to variability due to changes in customer consumption. Therefore, changes in customer usage (due to weather conditions, energy prices, energy savings programs or other reasons) from period to period have a direct impact on reported distribution revenue for customers in ACE's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in ACE's service territory. The changes in heating and cooling degree days in ACE's service territory for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

				% Change	
Three Months Ended March 31,	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Heating Degree-Days	2,150	2,270	2,488	(5.3)%	(13.6)%
Cooling Degree-Days	—	4	1	(100.0)%	(100.0)%

Volume. The decrease in operating revenue net of purchased power expense related to delivery volume, exclusive of the effects of weather, for the three months ended March 31, 2017 compared to the same period in 2016, primarily reflects lower average customer usage, partially offset by the impact of customer growth.

Pricing — Distribution Revenues. The increase in operating revenue net of purchased power expense for the three months ended March 31, 2017, compared to the same period in 2016, was primarily due to the impact of the new electric distribution base rate charged to customers that became effective in August 2016. See Note 5—Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in operating and maintenance expense, depreciation and amortization expense and income taxes. Refer to the depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered and other billing adjustments. The increase in revenue net of purchased power expense for the three months ended March 31, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2016 related to increases in transmission plant investment and operating expenses,

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Operating and Maintenance Expense

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Increase (Decrease)
Operating and maintenance expense — baseline	$ 75	$ 211	$ (136)
Operating and maintenance expense — regulatory required programs(a)	1	1	—
Total operating and maintenance expense	$ 76	$ 212	$ (136)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in operating and maintenance expense for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

	Increase (Decrease)
Baseline	
Labor, other benefits, contracting and materials	$ (2)
Storm-related costs	1
BSC and PHISCO allocations(a)	(13)
Uncollectible accounts expense	(1)
Merger commitments(b)	(120)
Other	(1)
Total decrease	$ (136)

(a) Primarily related to merger severance and compensation costs recognized in 2016.
(b) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in depreciation and amortization expense for the three months ended March 31, 2017 compared to the same period in 2016 consisted of the following:

	Increase (Decrease)
Depreciation expense(a)	$ 1
Regulatory asset amortization(b)	(6)
Total decrease	$ (5)

(a) Depreciation expense increased due to ongoing capital expenditures.
(b) Regulatory asset amortization decreased for the three months ended March 31, 2017 compared to the same period in 2016 as a result of lower revenue due to a rate decrease effective October 2016 for the ACE Market Transition charge tax.

Taxes Other Than Income

Taxes other than income for the three months ended March 31, 2017 compared to the same period in 2016, remained relatively constant.

Interest Expense, Net

Interest expense, net for the three months ended March 31, 2017 compared to the same period in 2016 remained relatively constant.

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Other, Net

Other, net for the three months ended March 31, 2017 compared to the same period in 2016 decreased primarily due to lower interest income on uncertain tax positions.

Effective Income Tax Rate

ACE's effective income tax rate was (133.3)% and 24.8% for the three months ended March 31, 2017 and 2016, respectively. In the first quarter of 2017, ACE decreased its liability for unrecognized tax benefits by $22 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

ACE Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change	Weather - Normal % Change
Retail Deliveries(a)				
Residential	879	938	(6.3)%	(4.4)%
Small commercial & industrial	283	289	(2.1)%	(1.4)%
Large commercial & industrial	765	820	(6.7)%	(6.9)%
Public authorities & electric railroads	13	15	(13.3)%	(13.3)%
Total retail deliveries	1,940	2,062	(5.9)%	(5.0)%

Number of Electric Customers	As of March 31, 2017	As of March 31, 2016
Residential	485,691	482,718
Small commercial & industrial	60,999	60,858
Large commercial & industrial	3,761	3,828
Public authorities & electric railroads	612	583
Total	551,063	547,987

Electric Revenue	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Retail Sales(a)			
Residential	$ 142	$ 150	(5.3)%
Small commercial & industrial	36	39	(7.7)%
Large commercial & industrial	45	51	(11.8)%
Public authorities & electric railroads	3	3	—%
Total retail	226	243	(7.0)%
Other revenue(b)	49	48	2.1%
Total electric revenue(c)	$ 275	$ 291	(5.5)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from ACE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from ACE, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $1 million and $1 million for the three months ended March 31, 2017 and 2016, respectively.

Liquidity and Capital Resources

Exelon activity presented below includes the activity of PHI, Pepco, DPL and ACE, from the PHI Merger effective date of March 24, 2016 through March 31, 2017. Exelon prior year activity is unadjusted for the effects of the PHI Merger. Due to the application of push-down accounting to the PHI entity, PHI's activity is presented in two separate reporting periods, the legacy PHI activity through March 23, 2016 (Predecessor), and PHI activity for the remainder of the period after the PHI merger date (Successor). For each of Pepco, DPL and ACE the activity presented below include its activity for the three months ended March 31, 2017 and 2016. All results included throughout the liquidity and capital resources section are presented on a GAAP basis.

The Registrants' operating and capital expenditures requirements are provided by internally generated cash flows from operations as well as funds from external sources in the capital markets and through bank borrowings. The Registrants' businesses are capital intensive and require considerable capital resources. Each Registrant's access to external financing on reasonable terms depends on its credit ratings and current overall capital market business conditions, including that of the utility industry in general. If these conditions deteriorate to the extent that the Registrants no longer have access to the capital markets at reasonable terms, the Registrants have access to unsecured revolving credit facilities with aggregate bank commitments of $9 billion. In addition, Generation has $525 million in bilateral facilities with banks which have various expirations between October 2017 and January 2019. The Registrants utilize their credit facilities to support their commercial paper programs, provide for other short-term borrowings and to issue letters of credit. See the "Credit Matters" section below for further discussion. The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

The Registrants primarily use their capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay dividends, fund pension and other postretirement benefit obligations and invest in new and existing ventures. The Registrants spend a significant amount of cash on capital improvements and construction projects that have a long-term return on investment. Additionally, ComEd, PECO, BGE, Pepco, DPL and ACE operate in rate-regulated environments in which the amount of new investment recovery may be delayed or limited and where such recovery takes place over an extended period of time. See Note 10 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further discussion of the Registrants' debt and credit agreements.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that sufficient funds will be available in certain minimum amounts to decommission the facility. These NRC minimum funding levels are based upon the assumption that decommissioning activities will commence after the end of the current licensed life of each unit. If a unit fails the NRC minimum funding test, then the plant's owners or parent companies would be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional cash contributions to the NDT fund to ensure sufficient funds are available. See Note 12 — Nuclear Decommissioning to the Combined Notes to Consolidated Financial Statements for additional information on the NRC minimum funding requirements.

If a nuclear plant were to early retire there is a risk that it will no longer meet the NRC minimum funding requirements due to the earlier commencement of decommissioning activities and a shorter time period over which the NDT fund investments could appreciate in value. A shortfall could require Exelon to post parental guarantees for Generation's share of the obligations. However, the amount of any required guarantees will ultimately depend on the decommissioning approach adopted at each site, the associated level of costs, and the decommissioning trust fund investment performance going forward. Within two years after shutting down a plant, Generation must submit a post-shutdown decommissioning activities report (PSDAR) to the NRC that includes the planned option for decommissioning the site. As discussed in Note 12 — Nuclear Decommissioning, Generation filed its biennial decommissioning funding status report with the NRC on March 31, 2017 and

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demonstrated adequate funding assurance for all nuclear units currently operating, as compared to previous estimates prior to the reversal of the early retirement decision for Clinton and Quad Cities. As of March 31, 2017, TMI passes the NRC minimum funding test based on its current license life. However, in the event of an early retirement of TMI, the most costly estimates could require parental guarantees of up to $35 million.

Upon issuance of any required financial guarantees, each site would be able to utilize the respective NDT funds for radiological decommissioning costs, which represent the majority of the total expected decommissioning costs. However, the NRC must approve an additional exemption in order for the plant's owner(s) to utilize the NDT fund to pay for non-radiological decommissioning costs (i.e. spent fuel management and site restoration costs). If a unit does not receive this exemption, the costs would be borne by the owner(s). While the ultimate amounts may vary greatly and could be reduced by alternate decommissioning scenarios and/or reimbursement of certain costs under the United States Department of Energy reimbursement agreements or future litigation, across the three alternative decommissioning approaches available, if an early retirement decision is made and TMI were to fail the exemption test, Generation could incur spent fuel management and site restoration costs over the next ten years of up to $145 million net of taxes.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes may use debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon will receive $1.15 billion upon settlement on June 1, 2017, of the forward equity purchase contract. Exelon currently expects the number of equity shares to be issued to range from 26 million to 33 million dependent on Exelon's stock price at the time of settlement pursuant to the equity unit terms. Until settlement of the equity purchase contract, earnings per share dilution resulting from the equity units is being determined under the treasury stock method.

For the three months ended March 31, 2017 and 2016, contract payments of $11 million related to the Contract Payment Obligation were included within Retirements of long-term debt in Exelon's Consolidated Statements of Cash Flows.

Cash Flows from Operating Activities

General

Generation's cash flows from operating activities primarily result from the sale of electric energy and energy-related products and services to customers. Generation's future cash flows from operating activities may be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as to obtain collections from customers.

The Utility Registrants' cash flows from operating activities primarily result from the transmission and distribution of electricity and, in the case of PECO, BGE, and DPL, gas distribution services. The Utility Registrants' distribution services are provided to an established and diverse base of retail customers. The Utility Registrants' future cash flows may be affected by the economy, weather conditions, future legislative initiatives, future regulatory proceedings with respect to their rates or operations, competitive suppliers, and their ability to achieve operating cost reductions.

See Notes 3 — Regulatory Matters and 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements of the Exelon 2016 Form 10-K for further discussion of regulatory and legal proceedings and proposed legislation.

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The following table provides a summary of the major items affecting Exelon's cash flows from operations for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016(c)	Variance
Net income	$ 981	$ 123	$ 858
Add (subtract):			
Non-cash operating activities(a)	1,233	1,942	(709)
Pension and non-pension postretirement benefit contributions	(307)	(239)	(68)
Income taxes	50	47	3
Changes in working capital and other noncurrent assets and liabilities(b)	(640)	(623)	(17)
Option premiums (paid) received, net	(6)	17	(23)
Collateral (posted) received, net	(110)	206	(316)
Net cash flows provided by operations	$ 1,201	$ 1,473	$ (272)

(a) Represents, when applicable, depreciation, amortization and accretion, net fair value changes related to derivatives, deferred income taxes, provision for uncollectible accounts, pension and other postretirement benefit expense, equity in earnings and losses of unconsolidated affiliates and investments, decommissioning-related items, stock compensation expense, impairment of long-lived assets, PHI merger commitment and severance charges, and other non-cash charges. See Note 18 — Supplemental Financial Information for further detail on non-cash operating activity.

(b) Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper, income taxes and the current portion of long-term debt.

(c) Includes PHI Consolidated activity from March 24, 2016 to December 31, 2016.

Pension and Other Postretirement Benefits

Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006, management of the pension obligation and regulatory implications. On July 6, 2012, President Obama signed into law the Moving Ahead for Progress in the Twenty-first Century Act, which contains a pension funding provision that results in lower pension contributions in the near term while increasing the premiums pension plans pay to the Pension Benefit Guaranty Corporation. On August 8, 2014, this funding relief was extended for five years. On November 2, 2015 the funding relief was extended for an additional three years and premiums pension plans pay to the Pension Benefit Guaranty Corporation were further increased.

OPEB funding generally follows accounting cost; however, Exelon's management has historically considered several factors in determining the level of contributions to its funded other postretirement benefit plans, including liabilities management, levels of benefit claims paid and regulatory implications (amounts deemed prudent to meet regulator expectations and best assure continued recovery).

To the extent interest rates decline significantly or the pension plans do not earn the expected asset return rates, annual pension contribution requirements in future years could increase. Additionally, expected contributions could change if Exelon changes its pension or OPEB funding strategy.

Tax Matters

The Registrants' future cash flows from operating activities may be affected by the following tax matters:

- In order to appeal the Tax Court's like-kind exchange decision, Exelon is required to pay the tax, penalty and interest at the time Exelon files its appeal (expected in the third quarter of 2017). While the final calculation of tax, penalties and interest has not yet been finalized by the IRS, Exelon estimates

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that a payment of approximately $1.3 billion related to the like-kind exchange will be due, including $300 million from ComEd, in the third quarter of 2017. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. Exelon's total estimated cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million would be attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts of the after-tax interest and penalty amounts on ComEd's equity. ComEd will fund the $300 million with a combination of debt and equity in a manner to maintain its current capital structure. Upon a final appellate decision, which could take up to several years, Exelon expects to receive $80 million related to final interest computations.

Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. The remaining amount will be paid in the third quarter of 2017 at the time Exelon files its appeal of the Tax Court decision. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings.

- State and local governments continue to face increasing financial challenges, which may increase the risk of additional income tax levies, property taxes and other taxes or the imposition, extension or permanence of temporary tax levies.

Cash flows from operations for the three months ended March 31, 2017 and 2016 by Registrant were as follows:

	Three Months Ended March 31,	
	2017	2016
Exelon	$ 1,201	$ 1,473
Generation	740	782
ComEd	145	284
PECO	64	138
BGE	168	273
Pepco	29	258
DPL	122	147
ACE	58	246

	Successor		*Predecessor*
	Three Months Ended March 31, 2017	March 24, 2016 to March 31, 2016	January 1, 2016 to March 23, 2016
PHI	$ 194	$ (3)	$ 264

Changes in the Registrants' cash flows from operations were generally consistent with changes in each Registrant's respective results of operations, as adjusted by changes in working capital in the normal course of business, except as discussed below. In addition, significant operating cash flow impacts for the Registrants for the three months ended March 31, 2017 and 2016 were as follows:

Generation

- Depending upon whether Generation is in a net mark-to-market liability or asset position, collateral may be required to be posted with or collected from its counterparties. In addition, the collateral posting and collection requirements differ depending on whether the transactions are on an exchange or in the OTC markets. During the three months ended March 31, 2017 and 2016, Generation had net (payments)/collections of counterparty cash collateral of $(102) million and $198 million, respectively, primarily due to market conditions that resulted in changes to Generation's net mark-to-market position.

- During the three months ended March 31, 2017 and 2016, Generation had net (payments)/collections of approximately $(6) million and $17 million, respectively, related to purchases and sales of options. The level of option activity in a given period may vary due to several factors, including changes in market conditions as well as changes in hedging strategy.

ComEd

- During three months ended March 31, 2017 and 2016, ComEd posted approximately $8 million and received a return of $7 million of cash collateral with PJM, respectively. ComEd's collateral posted with PJM has increased year over year primarily due to a reduction in ComEd's share of Exelon's unsecured credit with PJM. As of March 31, 2017 and 2016, ComEd had approximately $32 million and $24 million cash collateral posted with PJM, respectively.

For further discussion regarding changes in non-cash operating activities, please refer to Note 18 — Supplemental Financial Information of the Combined Notes to the Financial Statements.

Cash Flows from Investing Activities

Cash flows used in investing activities for the three months ended March 31, 2017 and 2016 by Registrant were as follows:

	Three Months Ended March 31,	
	2017	2016
Exelon	$(2,411)	$(8,548)
Generation	(1,212)	(1,204)
ComEd	(529)	(626)
PECO	(27)	(351)
BGE	(181)	(191)
Pepco	(144)	(136)
DPL	(80)	(81)
ACE	(85)	(100)

	Successor		*Predecessor*
	Three Months Ended March 31, 2017	March 24, 2016 to March 31, 2016	January 1, 2016 to March 23, 2016
PHI	$ (321)	$ (30)	$ (343)

Significant investing cash flow impacts for the Registrants for three months ended March 31, 2017 and 2016 were as follows:

Exelon

- During the three months ended March 31, 2017, Exelon had expenditures of $23 million and $182 million relating to the acquisitions of ConEdison Solutions and the FitzPatrick facility, respectively. During the three months ended March 31, 2016, Exelon had expenditures of $6.6 billion relating to the acquisition of PHI.
- During the three months ended March 31, 2016, Exelon had proceeds of $360 million as a result of early termination of direct financing leases.

Generation

- During the three months ended March 31, 2017, Exelon had expenditures of $23 million and $182 million relating to the acquisitions of ConEdison Solutions and the FitzPatrick facility, respectively.

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Capital Expenditure Spending

Generation

Generation has entered into several agreements to acquire equity interests in privately held and development stage entities which develop energy-related technologies. The agreements contain a series of scheduled investment commitments, including in-kind service contributions. There are approximately $19 million of anticipated expenditures remaining through 2019 to fund anticipated planned capital and operating needs of the associated companies. See Note 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements of the Exelon 2016 Form 10-K for further details of Generation's equity interests.

Capital expenditures by Registrant for the three months ended March 31, 2017 and 2016 and projected amounts for the full year 2017 are as follows:

	Projected Full Year 2017[a]	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Exelon[c]	$ 8,225	$2,114	$2,202
Generation	2,625	923	1,125
ComEd[b]	2,200	535	639
PECO	775	159	195
BGE	925	166	176
Pepco	600	139	109
DPL	400	82	81
ACE	325	88	101

	Projected Full Year 2017[a]	*Successor* Three Months Ended March 31, 2017	*Successor* March 24, 2016 to March 31, 2016	*Predecessor* January 1, 2016 to March 23, 2016
PHI[d]	$ 1,400	$ 320	$ 29	$ 273

(a) Total projected capital expenditures do not include adjustments for non-cash activity.

(b) The 2017 projections include approximately $280 million of expected incremental spending pursuant to EIMA, ComEd has committed to invest approximately $2.6 billion over a ten year period, through 2022, to modernize and storm-harden its distribution system and to implement smart grid technology.

(c) Includes corporate operations, BSC, and PHISCO rounded to the nearest $25 million.

(d) Includes PHISCO rounded to the nearest $25 million.

Projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Generation

Approximately 35% and 22% of the projected 2017 capital expenditures at Generation are for the acquisition of nuclear fuel and growth (primarily new plant construction and distributed generation), respectively, with the remaining amounts reflecting additions and upgrades to existing facilities (including material condition improvements during nuclear refueling outages). Generation anticipates that they will fund capital expenditures with internally generated funds and borrowings.

ComEd, PECO, BGE, Pepco, DPL and ACE

Approximately 89% of the projected 2017 capital expenditures at ComEd and 100% of the projected of the projected 2017 capital expenditures at PECO, BGE, Pepco, DPL, and ACE are for continuing projects to maintain and improve operations, including enhancing reliability and adding capacity to the transmission and distribution systems such as ComEd’s reliability related investments required under EIMA, and the Utility Registrants’ construction commitments under PJM’s RTEP. In addition to the capital expenditure for continuing projects, ComEd’s total expenditures include smart grid/smart meter technology required under EIMA.

The Utility Registrants as transmission owners are subject to NERC compliance requirements. NERC provides guidance to transmission owners regarding assessments of transmission lines. The results of these assessments could require the Utility Registrants to incur incremental capital or operating and maintenance expenditures to ensure their transmission lines meet NERC standards. In 2010, NERC provided guidance to transmission owners that recommended the Utility Registrants perform assessments of their transmission lines. ComEd, PECO and BGE submitted their final bi-annual reports to NERC in January 2014. ComEd, PECO and BGE will be incurring incremental capital expenditures associated with this guidance following the completion of the assessments. Specific projects and expenditures are identified as the assessments are completed. ComEd’s, PECO’s and BGE’s forecasted 2017 capital expenditures above reflect capital spending for remediation to be completed through 2018. Pepco, DPL and ACE have substantially completed their assessments and thus do not expect significant capital expenditures related to this guidance in 2017.

The Utility Registrants anticipate that they will fund their capital expenditures with a combination of internally generated funds and borrowings and additional capital contributions from parent, including ComEd’s capital expenditures associated with EIMA as further discussed in Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

Cash Flows from Financing Activities

Cash flows provided by (used in) financing activities for the three months ended March 31, 2017 and 2016 by Registrant were as follows:

	Three Months Ended March 31,	
	2017	2016
Exelon	$ 1,184	$ 1,533
Generation	582	368
ComEd	359	296
PECO	(72)	(69)
BGE	1	(86)
Pepco	114	(103)
DPL	(44)	(68)
ACE	(20)	(27)

	Successor		*Predecessor*
	Three Months Ended March 31, 2017	March 24, 2016 to March 31, 2016	January 1, 2016 to March 23, 2016
PHI	$ 66	$ (135)	$ 372

Debt

See Note 10 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further details of the Registrants’ debt issuances.

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Dividends

Cash dividend payments and distributions during the three months ended March 31, 2017 and 2016 by Registrant were as follows:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Exelon	$ 303	$ 287
Generation	164	55
ComEd	105	91
PECO	72	69
BGE(a)	49	48
Pepco	30	39
DPL	30	38
ACE	10	11

	Successor		*Predecessor*
	Three Months Ended March 31, 2017	March 24, 2016 to March 31, 2016	January 1, 2016 to March 23, 2016
PHI	$ 69	$ 108	$ —

(a) Includes dividends paid on BGE's preference stock.

Quarterly dividends declared by the Exelon Board of Directors during the three months ended March 31, 2017 and for the second quarter of 2017 were as follows:

Period	Declaration Date	Shareholder of Record Date	Dividend Payable Date	Cash per Share(a)
First Quarter 2017	January 31, 2017	February 15, 2017	March 10, 2017	$0.3275
Second Quarter 2017	April 25, 2017	May 15, 2017	June 9, 2017	$0.3275

(a) Exelon's Board of Directors approved a revised dividend policy. The approved policy will raise the dividend 2.5% each year for the next three years, beginning with the June 2016 dividend and subject to Board approval.

Short-Term Borrowings

Short-term borrowings incurred (repaid) during the three months ended March 31, 2017 and 2016 by Registrant were as follows:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Exelon	$ 781	$ 1,770
Generation	18	1,500
ComEd	365	349
BGE	50	(60)
Pepco	144	(64)
DPL	—	(30)
ACE	—	(5)

	Successor		*Predecessor*
	Three Months Ended March 31, 2017	March 24, 2016 to March 31, 2016	January 1, 2016 to March 23, 2016
PHI	$ (355)	$ (20)	$ 379

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Contributions from Parent/Member

Contributions received from Parent/Member for the three months ended March 31, 2017 and 2016 by Registrant were as follows:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Generation	$ —	$ 44
ComEd[(a)(b)]	100	39
BGE[(b)]	—	21

	Successor: Three Months Ended March 31, 2017	Successor: March 24, 2016 to March 31, 2016	Predecessor: January 1, 2016 to March 23, 2016
PHI[(b)]	$ 500	$ —	$ —

(a) Additional contributions from parent or external debt financing may be required as a result of increased capital investment in infrastructure improvements and modernization pursuant to EIMA and transmission upgrades.
(b) Contribution paid by Exelon.

Other

For the three months ended March 31, 2017, other financing activities primarily consist of debt issuance costs. See Note 10 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for further details of the Registrants’ debt issuances.

Credit Matters

The Registrants fund liquidity needs for capital investment, working capital, energy hedging and other financial commitments through cash flows from continuing operations, public debt offerings, commercial paper markets and large, diversified credit facilities. The credit facilities include $9.5 billion in aggregate total commitments of which $8.0 billion was available as of March 31, 2017, and of which no financial institution has more than 7% of the aggregate commitments for the Registrants. The Registrants had access to the commercial paper market during the first quarter of 2017 to fund their short-term liquidity needs, when necessary. The Registrants routinely review the sufficiency of their liquidity position, including appropriate sizing of credit facility commitments, by performing various stress test scenarios, such as commodity price movements, increases in margin-related transactions, changes in hedging levels and the impacts of hypothetical credit downgrades. The Registrants have continued to closely monitor events in the financial markets and the financial institutions associated with the credit facilities, including monitoring credit ratings and outlooks, credit default swap levels, capital raising and merger activity. See PART I. ITEM 1A. RISK FACTORS of the Exelon 2016 Form 10-K for further information regarding the effects of uncertainty in the capital and credit markets.

The Registrants believe their cash flow from operating activities, access to credit markets and their credit facilities provide sufficient liquidity. If Generation lost its investment grade credit rating as of March 31, 2017, it would have been required to provide incremental collateral of $1.8 billion to meet collateral obligations for derivatives, non-derivatives, normal purchase normal sales contracts and applicable payables and receivables, net of the contractual right of offset under master netting agreements, which is well within its current available credit facility capacities of $4.3 billion.

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The following table presents the incremental collateral that each utility registrant would have been required to provide in the event each Utility Registrant lost its investment grade credit rating at March 31, 2017 and available credit facility capacity prior to any incremental collateral at March 31, 2017:

	PJM Credit Policy Collateral	Other Incremental Collateral Required (a)	Available Credit Facility Capacity Prior to Any Incremental Collateral
ComEd	$ 11	$ —	$ 998
PECO	2	27	598
BGE	11	47	598
Pepco	6	—	300
DPL	4	11	300
ACE	—	—	300

(a) Represents incremental collateral related to natural gas procurement contracts.

Exelon Credit Facilities

Exelon, Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the Exelon intercompany money pool. PHI meets its short-term liquidity requirements primarily through the issuance of short-term notes and the Exelon intercompany money pool. The Registrants may use their respective credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit.

The following table reflects the Registrants' commercial paper programs supported by the revolving credit agreements and bilateral credit agreements at March 31, 2017:

Commercial Paper Programs

Commercial Paper Issuer	Maximum Program Size(a)(b)	Outstanding Commercial Paper at March 31, 2017	Average Interest Rate on Commercial Paper Borrowings for the Three Months Ended March 31, 2017
Exelon Corporate	$ 600	$ 204	1.15%
Generation	5,300	579	1.11%
ComEd	1,000	365	1.07%
PECO	600	—	1.12%
BGE	600	95	1.01%
Pepco	500	167	1.05%
DPL	500	—	—%
ACE	350	—	—%

(a) Excludes $525 million bilateral credit facilities that do not back Generation's commercial paper program.

(b) Excludes additional credit facility agreements for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE with aggregate commitments of $50 million, $34 million, $34 million, $5 million, $2 million, $2 million and $2 million, respectively, arranged with minority and community banks located primarily within utilities' service territories. These facilities expire on October 13, 2017. These facilities are solely utilized to issue letters of credit. As of March 31, 2017, letters of credit issued under these agreements for Generation, ComEd, PECO and BGE totaled $7 million, $12 million, $21 million and $2 million, respectively.

In order to maintain their respective commercial paper programs in the amounts indicated above, each Registrant must have credit facilities in place, at least equal to the amount of its commercial paper program.

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While the amount of its commercial paper outstanding does not reduce available capacity under a Registrant's credit facility, a Registrant does not issue commercial paper in an aggregate amount exceeding the then available capacity under its credit facility. At March 31, 2017, the Registrants had the following aggregate bank commitments, credit facility borrowings and available capacity under their respective credit facilities:

Credit Agreements

					Available Capacity at March 31, 2017	
Borrower	**Facility Type**	**Aggregate Bank Commitment** (a)(b)(c)	**Facility Draws**	**Outstanding Letters of Credit**	**Actual**	**To Support Additional Commercial Paper** (d)
Exelon Corporate	Syndicated Revolver	$ 600	$ —	$ 44	$ 556	$ 352
Generation(e)	Syndicated Revolver	5,300	—	1,039	4,261	3,683
Generation	Bilaterals	525	135	329	61	—
ComEd	Syndicated Revolver	1,000	—	2	998	633
PECO	Syndicated Revolver	600	—	2	598	598
BGE	Syndicated Revolver	600	—	3	598	503
Pepco	Syndicated Revolver	300	—	—	300	133
DPL	Syndicated Revolver	300	—	—	300	300
ACE	Syndicated Revolver	300	—	—	300	300

(a) Excludes $129 million of credit facility agreements arranged at minority and community banks at Generation, ComEd, PECO, BGE, Pepco, DPL and ACE. These facilities expire on October 13, 2017. These facilities are solely utilized to issue letters of credit. As of March 31, 2017, letters of credit issued under these agreements for Generation, ComEd, PECO and BGE totaled $7 million, $12 million, $21 million and $2 million, respectively.

(b) Pepco, DPL and ACE's revolving credit facility is subject to available borrowing capacity. The borrowing capacity may be increased or decreased during the term of the facility, except that (i) the sum of the borrowing capacity must equal the total amount of the facility, and (ii) the aggregate amount of credit used at any given time by each of Pepco, DPL or ACE may not exceed $900 million or the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of the borrowing reallocations may not exceed eight per year during the term of the facility

(c) Excludes nonrecourse debt letters of credit, see Note 14 — Debt and Credit Agreements in the Exelon 2016 Form 10-K for further information on Continental Wind nonrecourse debt.

(d) Excludes $525 million bilateral credit facilities that do not back Generation's commercial paper program.

(e) Excludes ExGen Texas Power Financing's $4 million of borrowed debt on its revolving credit facility.

As of March 31, 2017, there was $135 million of borrowings under Generation's bilateral credit facilities.

Borrowings under Exelon Corporate's, Generation's, ComEd's, PECO's, BGE's, Pepco's, DPL's, and ACE's revolving credit agreements bear interest at a rate based upon either the prime rate or a LIBOR-based rate, plus an adder based upon the particular Registrant's credit rating. The adders for the prime based borrowings and LIBOR-based borrowings are presented in the following table:

	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**
Prime based borrowings	27.5	27.5	7.5	0.0	0.0	7.5	7.5	7.5
LIBOR-based borrowings	127.5	127.5	107.5	90.0	100.0	107.5	107.5	107.5

The maximum adders for prime rate borrowings and LIBOR-based rate borrowings are 90 basis points and 165 basis points, respectively. The credit agreements also require the borrower to pay a facility fee based upon the aggregate commitments. The fee varies depending upon the respective credit ratings of the borrower.

Each revolving credit agreement for Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The following table summarizes the minimum thresholds reflected in the credit agreements for the three months ended March 31, 2017:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Credit agreement threshold	2.50 to 1	3.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1

At March 31, 2017, the interest coverage ratios at Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE were as follows:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Interest coverage ratio	6.64	11.29	7.25	8.84	10.85	6.93	8.69	6.23

An event of default under Exelon, Generation, ComEd, PECO or BGE's indebtedness will not constitute an event of default under any of the others' credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $100 million in the aggregate by Generation will constitute an event of default under the Exelon Corporate credit facility. An event of default under Pepco, DPL or ACE's indebtedness will not constitute an event of default under any of the others' credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $50 million in the aggregate will constitute an event of default under the credit facility.

The absence of a material adverse change in Exelon's or PHI's business, property, results of operations or financial condition is not a condition to the availability of credit under the credit agreement. The credit agreement does not include any rating triggers.

Security Ratings

The Registrants' access to the capital markets, including the commercial paper market, and their respective financing costs in those markets, may depend on the securities ratings of the entity that is accessing the capital markets.

The Registrants' borrowings are not subject to default or prepayment as a result of a downgrading of securities, although such a downgrading of a Registrant's securities could increase fees and interest charges under that Registrant's credit agreements.

As part of the normal course of business, the Registrants enter into contracts that contain express provisions or otherwise permit the Registrants and their counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if the Registrants are downgraded by a credit rating agency, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include the posting of collateral. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on collateral provisions.

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Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, both Exelon and PHI operate intercompany money pools. Maximum amounts contributed to and borrowed from the money pool by participant and the net contribution or borrowing as of March 31, 2017, are presented in the following table:

Exelon Intercompany Money Pool	**During the Three Months Ended March 31, 2017**		**As of March 31, 2017**
Contributed (borrowed)	**Maximum Contributed**	**Maximum Borrowed**	**Contributed (Borrowed)**
Exelon Corporate	$ 379	n/a	$ 330
Generation	—	(245)	(54)
PECO	180	—	—
BSC	—	(423)	(317)
PHI Corporate[(a)]	n/a	(47)	(13)
PCI[(a)]	55	—	54

(a) As a result of the merger, PHI Corporate and PCI began to participate in the Exelon Intercompany Money Pool effective March 24, 2016.

PHI Intercompany Money Pool	**During the Three Months Ended March 31, 2017**		**As of March 31, 2017**
Contributed (borrowed)	**Maximum Contributed**	**Maximum Borrowed**	**Contributed (Borrowed)**
PHI Corporate	$ 46	$ —	$ 32
Pepco	—	—	—
DPL	—	—	—
ACE	—	—	—
PHISCO	1	(46)	(32)

Investments in Nuclear Decommissioning Trust Funds

Exelon, Generation and CENG maintain trust funds, as required by the NRC, to fund certain costs of decommissioning nuclear plants. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to offset inflationary increases in decommissioning costs. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocations in accordance with Generation's NDT fund investment policy. Generation's and CENG's investment policies establish limits on the concentration of holdings in any one company and also in any one industry. See Note 12 — Nuclear Decommissioning of the Combined Notes to Consolidated Financial Statements for further information regarding the trust funds, the NRC's minimum funding requirements and related liquidity ramifications.

Shelf Registration Statements

Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have a currently effective combined shelf registration statement unlimited in amount, filed with the SEC, that will expire in August 2019. The ability of each Registrant to sell securities off the shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, as applicable, the current financial condition of the Registrant, its securities ratings and market conditions.

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Regulatory Authorizations

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE are required to obtain short-term and long-term financing authority from Federal and State Commissions as follows:

	Short-term Financing Authority[a]			Long-term Financing Authority		
	Commission	Expiration Date	Amount (in millions)	Commission	Expiration Date	Amount (in millions)
ComEd[b]	FERC	December 31, 2017	$ 2,500	ICC	2019	$ 2,383
PECO	FERC	December 31, 2017	1,500	PAPUC	December 31, 2018	1,600
BGE	FERC	December 31, 2017	700	MDPSC	N/A	1,000
Pepco	FERC	June 30, 2018	500	MDPSC / DCPSC	September 25, 2017	550
DPL	FERC	June 30, 2018	500	MDPSC / DPSC	December 31, 2017	125
ACE	NJPU	January 1, 2018	350	NJBPU	December 31, 2017	300

(a) Generation currently has blanket financing authority it received from FERC in connection with its market-based rate authority.

(b) ComEd had $1,565 million available in long-term debt refinancing authority and $818 million available in new money long term debt financing authority from the ICC as of March 31, 2017 and has an expiration date of June 1, 2019 and March 1, 2019, respectively.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments triggered by future events. See Note 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements in the Exelon 2016 Form 10-K.

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have obligations related to contracts for the purchase of power and fuel supplies, and ComEd, PECO, and BGE have obligations related to their financing trusts. The power and fuel purchase contracts and the financing trusts have been considered for consolidation in the Registrants' respective financial statements pursuant to the authoritative guidance for VIEs. See Note 1 — Significant Accounting Policies of the Combined Notes to Consolidated Financial Statements for further information.

For an in-depth discussion of the Registrants' contractual obligations and off-balance sheet arrangements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations and Off-Balance Sheet Arrangements" in the Exelon 2016 Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations and Commercial Commitments."

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Registrants are exposed to market risks associated with adverse changes in commodity prices, counterparty credit, interest rates and equity prices. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities. The following discussion serves as an update to ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK of Exelon's 2016 Annual Report on Form 10-K incorporated herein by reference.

Commodity Price Risk (All Registrants)

Commodity price risk is associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather conditions, governmental regulatory and environmental policies and other factors. To the extent the amount of energy Exelon generates differs from the amount of energy it has contracted to sell, Exelon has price risk from commodity price movements. Exelon seeks to mitigate its commodity price risk through the sale and purchase of electricity, fossil fuel and other commodities.

Generation

Normal Operations and Hedging Activities. Electricity available from Generation's owned or contracted generation supply in excess of Generation's obligations to customers, including portions of the Utility Registrants' retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into non-derivative contracts as well as derivative contracts, including forwards, futures, swaps and options, with approved counterparties to hedge anticipated exposures. Generation believes these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices. Generation expects the settlement of the majority of its economic hedges will occur during 2017 through 2019.

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation's owned and contracted generation positions which have not been hedged. Exelon's hedging program involves the hedging of commodity risk for Exelon's expected generation, typically on a ratable basis over a three-year period. As of March 31, 2017, the proportion of expected generation hedged is 97%-100%, 60%-63% and 30%-33% for 2017, 2018 and 2019, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts including Generation's sales to the Utility Registrants to serve their retail load.

A portion of Generation's hedging strategy may be accomplished with fuel products based on assumed correlations between power and fuel prices, which routinely change in the market. Market price risk exposure is the risk of a change in the value of unhedged positions. The forecasted market price risk exposure for Generation's entire non-proprietary trading portfolio associated with a $5 reduction in the annual average around-the-clock energy price based on March 31, 2017 market conditions and hedged position would be an increase in pre-tax net income of approximately $15 million for 2017 and decreases of approximately $350 million and $665 million, respectively, for 2018 and 2019. Power price sensitivities are derived by adjusting power price assumptions while keeping all other price inputs constant. Generation expects to actively manage its portfolio to mitigate market price risk exposure for its unhedged position. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio.

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Proprietary Trading Activities. Generation also enters into certain energy-related derivatives for proprietary trading purposes. Proprietary trading includes all contracts entered into with the intent of benefiting from shifts or changes in market prices as opposed to those entered into with the intent of hedging or managing risk. Proprietary trading activities are subject to limits established by Exelon's RMC. The proprietary trading portfolio is subject to a risk management policy that includes stringent risk management limits, including volume, stop loss and Value-at-Risk (VaR) limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon's RMC monitor the financial risks of the proprietary trading activities. The proprietary trading activities, which included physical volumes of 1,850 GWhs and 1,220 GWhs for the three months ended March 31, 2017 and 2016, respectively, are a complement to Generation's energy marketing portfolio, but represent a small portion of Generation's overall revenue from energy marketing activities. Proprietary trading portfolio activity for the three months ended March 31, 2017 resulted in immaterial pre-tax gains due to net mark-to-market losses of $2 million and realized gains of $2 million. Generation uses a 95% confidence interval, assuming standard normal distribution, one day holding period and a one-tailed statistical measure in calculating its VaR. The daily VaR on proprietary trading activity averaged $0.3 million of exposure during the quarter. Generation has not segregated proprietary trading activity within the following discussion because of the relative size of the proprietary trading portfolio in comparison to Generation's total Revenue net of purchase power and fuel expense for the three months ended March 31, 2017 of $2,090 million.

Fuel Procurement. Generation procures natural gas through long-term and short-term contracts and spot-market purchases. Nuclear fuel assemblies are obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation's procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 49% of Generation's uranium concentrate requirements from 2017 through 2021 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrates can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon's and Generation's results of operations, cash flows and financial positions.

ComEd

ComEd entered into 20-year contracts for renewable energy and RECs beginning in June 2012. ComEd is permitted to recover its renewable energy and REC costs from retail customers with no mark-up. The annual commitments represent the maximum settlements with suppliers for renewable energy and RECs under the existing contract terms. Pursuant to the ICC's Order on December 19, 2012, ComEd's commitments under the existing long-term contracts were reduced for the June 2013 through May 2014 procurement period. In addition, the ICC's December 18, 2013 Order approved the reduction of ComEd's commitments under those contracts for the June 2014 through May 2015 procurement period, and the amount of the reduction was approved by the ICC in March 2014. See Note 5 — Regulatory Matters and Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding energy procurement and derivatives. ComEd does not enter into derivatives for speculative or proprietary trading purposes.

PECO

PECO has contracts to procure electric supply that were executed through the competitive procurement process outlined in its PAPUC-approved DSP Programs, which are further discussed in Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements. PECO has certain full requirements contracts which are considered derivatives and qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result are accounted for on an accrual basis of accounting. Under the DSP Programs, PECO is permitted to recover its electric supply procurement costs from retail customers with no mark-up.

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PECO has also entered into derivative natural gas contracts, which either qualify for the normal purchases and normal sales exception or have no mark-to-market balances because the derivatives are index priced, to hedge its long-term price risk in the natural gas market. PECO's hedging program for natural gas procurement has no direct impact on its financial position or results of operations as natural gas costs are fully recovered from customers under the PGC.

PECO does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

BGE

BGE procures electric supply for default service customers through full requirements contracts pursuant to BGE's MDPSC-approved SOS program. BGE's full requirements contracts that are considered derivatives qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result, are accounted for on an accrual basis of accounting. Under the SOS program, BGE is permitted to recover its electricity procurement costs from retail customers, plus an administrative fee which includes a shareholder return component and an incremental cost component.

BGE has also entered into natural gas contracts, which qualify for the normal purchases and normal sales scope exception, to hedge its price risk in the natural gas market. The hedging program for natural gas procurement has no direct impact on BGE's financial position. However, under BGE's market-based rates incentive mechanism, BGE's actual cost of gas is compared to a market index (a measure of the market price of gas in a given period). The difference between BGE's actual cost and the market index is shared equally between shareholders and customers.

BGE does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Pepco

Pepco has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and DCPSC. The SOS rates charged recover Pepco's wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for residential and commercial rate classes. Pepco's price risk related to electric supply procurement is limited. Pepco locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of Pepco's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other Pepco full requirements contracts are not derivatives.

Pepco does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

DPL

DPL has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and the DPSC. The SOS rates charged recover DPL's wholesale power supply costs. In Delaware, DPL is also entitled to recover a Reasonable Allowance for Retail Margin (RARM). The RARM includes a fixed annual margin of approximately $2.75 million, plus an incremental cost component and a cash working capital allowance. In Maryland, DPL charges an administrative fee intended to allow it to recover

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its administrative costs. DPL locks in fixed prices for all of its SOS requirements through full requirements contracts. DPL's price risk related to electric supply procurement is limited. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

DPL provides natural gas to its customers under a GCR mechanism approved by the DPSC. The demand portion of the GCR is based upon DPL's firm transportation and storage contracts. DPL has firm deliverability of swing and seasonal storage; a liquefied natural gas facility and firm transportation capacity to meet customer demand and provide a reserve margin. The commodity portion of the GCR includes a commission approved hedging program which is intended to reduce gas commodity price volatility while limiting the firm natural gas customers' exposure to adverse changes in the market price of natural gas.

DPL does not enter into derivatives for speculative or proprietary trading purposes. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding energy procurement and derivatives.

ACE

ACE has contracts to procure BGS electric supply that are executed through a competitive procurement process approved by the NJBPU. The BGS rates charged recover ACE's wholesale power supply costs. ACE does not make any profit or incur any loss on the supply component of the BGS it supplies to customers. ACE's price risk related to electric supply procurement is limited. ACE locks in fixed prices for all of its BGS requirements through full requirements contracts. ACE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other ACE full requirements contracts are not derivatives.

ACE does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Trading and Non-Trading Marketing Activities. The following detailed presentation of Exelon's, Generation's, ComEd's, PHI's and DPL's trading and non-trading marketing activities is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officers (CCRO).

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The following table provides detail on changes in Exelon's, Generation's, ComEd's, PHI's and DPL's commodity mark-to-market net asset or liability balance sheet position from December 31, 2016 to March 31, 2017. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings. This table excludes all normal purchase and normal sales contracts and does not segregate proprietary trading activity. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of March 31, 2017 and December 31, 2016.

	Exelon	Generation	ComEd	PHI	DPL
Total mark-to-market energy contract net assets (liabilities) at December 31, 2016[(a)]	$ 719	$ 977	$ (258)	$—	$—
Total change in fair value during 2017 of contracts recorded in results of operations	(42)	(42)	—	—	—
Reclassification to realized of contracts recorded in results of operations	(6)	(6)	—	—	—
Contracts received at acquisition date	—	—	—	—	—
Changes in fair value — recorded through regulatory assets and liabilities[(b)]	(26)	—	(24)	(2)	(2)
Changes in allocated collateral	117	115	—	2	2
Changes in net option premium paid/(received)	6	6	—	—	—
Option premium amortization	4	4	—	—	—
Upfront payments and amortizations[(c)]	(43)	(43)	—	—	—
Total mark-to-market energy contract net assets (liabilities) at March 31, 2017[(a)]	$ 729	$ 1,011	$ (282)	$—	$—

(a) Amounts are shown net of collateral paid to and received from counterparties.

(b) For ComEd and DPL, the changes in fair value are recorded as a change in regulatory assets or liabilities. As of March 31, 2017, ComEd recorded a regulatory liability of $282 million related to its mark-to-market derivative liabilities with Generation and unaffiliated suppliers. For the three months ended March 31, 2017, ComEd also recorded $30 million of decreases in fair value and an increase for realized losses due to settlements of $6 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers.

(c) Includes derivative contracts acquired or sold by Generation through upfront payments or receipts of cash, excluding option premiums, and the associated amortization.

Fair Values. The following tables present maturity and source of fair value for Exelon, Generation and ComEd mark-to-market commodity contract net assets (liabilities). The tables provide two fundamental pieces of information. First, the tables provide the source of fair value used in determining the carrying amount of the Registrants' total mark-to-market net assets (liabilities), net of allocated collateral. Second, the tables show the maturity, by year, of the Registrants' commodity contract net assets (liabilities), net of allocated collateral, giving an indication of when these mark-to-market amounts will settle and either generate or require cash. See Note 8 — Fair Value of Financial Assets and Liabilities of the Combined Notes to Consolidated Financial Statements for additional information regarding fair value measurements and the fair value hierarchy.

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Exelon

	Maturities Within						
	2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts(a)(b):							
Actively quoted prices (Level 1)	$100	$ (8)	$(39)	$(16)	$ (1)	$ —	$ 36
Prices provided by external sources (Level 2)	283	121	8	(3)	1	—	410
Prices based on model or other valuation methods (Level 3)(c)	145	224	73	13	(29)	(143)	283
Total	$528	$337	$ 42	$ (6)	$(29)	$ (143)	$ 729

(a) Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in results of operations.

(b) Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $444 million at March 31, 2017.

(c) Includes ComEd’s net liabilities associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Generation

	Maturities Within						
	2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts(a)(b):							
Actively quoted prices (Level 1)	$100	$ (8)	$(39)	$(16)	$ (1)	$ —	$ 36
Prices provided by external sources (Level 2)	283	121	8	(3)	1	—	410
Prices based on model or other valuation methods (Level 3)	160	244	94	34	(7)	40	565
Total	$543	$357	$ 63	$ 15	$ (7)	$ 40	$ 1,011

(a) Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in the results of operations.

(b) Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $444 million at March 31, 2017.

ComEd

	Maturities Within						
	2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Commodity derivative contracts(a):							
Prices based on model or other valuation methods (Level 3)	$(15)	$(20)	$(21)	$(21)	$(22)	$ (183)	$ (282)

(a) Represents ComEd’s net liabilities associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Credit Risk, Collateral and Contingent Related Features (All Registrants)

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that enter into derivative instruments. The credit exposure of derivative contracts, before collateral, is represented

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by the fair value of contracts at the reporting date. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for a detailed discussion of credit risk, collateral and contingent related features.

Generation

The following tables provide information on Generation's credit exposure for all derivative instruments, normal purchase normal sales agreements, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of March 31, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the duration of a company's credit risk by credit rating of the counterparties. The figures in the tables below exclude credit risk exposure from individual retail customers, uranium procurement contracts, and exposure through RTOs, ISOs, NYMEX, ICE, NASDAQ, NGX and Nodal commodity exchanges, which are discussed below. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $13 million, $31 million, $24 million, $40 million, $13 million, and $7 million as of March 31, 2017, respectively.

Rating as of March 31, 2017	Total Exposure Before Credit Collateral	Credit Collateral (a)	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 964	$ 16	$ 948	1	$ 313
Non-investment grade	75	3	72	—	—
No external ratings					
Internally rated — investment grade	324	—	324	—	—
Internally rated — non-investment grade	127	14	113	—	—
Total	$ 1,490	$ 33	$ 1,457	1	$ 313

	Maturity of Credit Risk Exposure			
Rating as of March 31, 2017	Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	Total Exposure Before Credit Collateral
Investment grade	$ 753	$ 208	$ 3	$ 964
Non-investment grade	62	13	—	75
No external ratings				
Internally rated — investment grade	253	46	25	324
Internally rated — non-investment grade	93	34	—	127
Total	$ 1,161	$ 301	$ 28	$ 1,490

Net Credit Exposure by Type of Counterparty	As of March 31, 2017
Financial institutions	$ 101
Investor-owned utilities, marketers, power producers	600
Energy cooperatives and municipalities	663
Other	93
Total	$ 1,457

(a) As of March 31, 2017, credit collateral held from counterparties where Generation had credit exposure included $23 million of cash and $10 million of letters of credit.

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ComEd, PECO, BGE, PHI, Pepco, DPL and ACE

There have been no significant changes or additions to ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's or ACE's exposures to credit risk that are described in ITEM 1A. RISK FACTORS of Exelon's 2016 Annual Report on Form 10-K.

See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for information regarding credit exposure to suppliers.

Collateral (All Registrants)

Generation

As part of the normal course of business, Generation routinely enters into physical or financial contracts for the sale and purchase of electricity, natural gas and other commodities. These contracts either contain express provisions or otherwise permit Generation and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable law, if Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on Generation's net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. In this case, Generation believes an amount of several months of future payments (i.e., capacity payments) rather than a calculation of fair value is the best estimate for the contingent collateral obligation, which has been factored into the disclosure below. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for information regarding collateral requirements.

Generation transacts output through bilateral contracts. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon's and Generation's results of operations, cash flows and financial position. As market prices rise above or fall below contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. In order to post collateral, Generation depends on access to bank credit facilities, which serve as liquidity sources to fund collateral requirements. See Liquidity and Capital Resources — Credit Matters — Exelon Credit Facilities for additional information.

As of March 31, 2017, Generation had cash collateral of $471 million posted and cash collateral held of $35 million for external counterparties with derivative positions, of which $444 million and an immaterial amount in net cash collateral deposits were offset against energy derivative and interest rate and foreign exchange derivative related to underlying energy contracts, respectively. As of March 31, 2017, $8 million of cash collateral held was not offset against net derivative positions because it was not associated with energy-related derivatives or as of the balance sheet date there were no positions to offset. See Note 17 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for information regarding the letters of credit supporting the cash collateral.

ComEd

As of March 31, 2017, ComEd held $1 million in collateral from suppliers in association with energy procurement contracts and held approximately $19 million in the form of cash and letters of credit for both annual and long-term renewable energy contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements in this report and Note 3 — Regulatory Matters of the 2016 Exelon Form 10-K for additional information.

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PECO

As of March 31, 2017, PECO was not required to post collateral under its energy and natural gas procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

BGE

BGE is not required to post collateral under its electric supply contracts nor was it holding collateral under its electric supply procurement contracts as of March 31, 2017. As of March 31, 2017, BGE was not required to post collateral under its natural gas procurement contracts but was holding an immaterial amount of collateral under its natural gas procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Pepco

Pepco is not required to post collateral under its energy procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

DPL

DPL is not required to post collateral under its energy procurement contracts. As of March 31, 2017, DPL was not required to post collateral under its natural gas procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

ACE

ACE is not required to post collateral under its energy procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

RTOs and ISOs (All Registrants)

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE participate in all, or some, of the established wholesale spot energy markets that are administered by PJM, ISO-NE, ISO-NY, CAISO, MISO, SPP, AESO, OIESO and ERCOT. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot energy markets that are administered by the RTOs or ISOs, as applicable. In areas where there are no spot energy markets, electricity is purchased and sold solely through bilateral agreements. For sales into the spot energy markets administered by an RTO or ISO, the RTO or ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the RTOs and ISOs may, under certain circumstances, require that losses arising from the default of one member on spot energy market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on the Registrants' results of operations, cash flows and financial positions.

Exchange Traded Transactions (Exelon, Generation, PHI and DPL)

Generation enters into commodity transactions on NYMEX, ICE, NASDAQ, NGX and the Nodal exchange ("the Exchanges"). DPL enters into commodity transactions on ICE. The Exchange clearinghouses act as the counterparty to each trade. Transactions on the Exchanges must adhere to comprehensive collateral and margining requirements. As a result, transactions on the Exchanges are significantly collateralized and have limited counterparty credit risk.

Interest Rate and Foreign Exchange Risk (All Registrants)

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants may also utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels in anticipation of future financings, which are typically designated as cash flow hedges. These strategies are employed to manage interest rate risks. At March 31, 2017, Exelon had $800 million of notional amounts of fixed-to-floating hedges outstanding and Exelon and Generation had $657 million of notional amounts of floating-to-fixed hedges outstanding. Assuming the fair value and cash flow interest rate hedges are 100% effective, a hypothetical 50 bps increase in the interest rates associated with unhedged variable-rate debt (excluding Commercial Paper) and fixed-to-floating swaps would result in approximately a $2 million decrease in Exelon Consolidated pre-tax income for the three months ended March 31, 2017. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges.

Equity Price Risk (Exelon and Generation)

Generation maintains trust funds, as required by the NRC, to fund certain costs of decommissioning its nuclear plants. As of March 31, 2017, Generation's decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate Generation for inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's NDT fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $595 million reduction in the fair value of the trust assets. This calculation holds all other variables constant and assumes only the discussed changes in interest rates and equity prices. See ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for further discussion of equity price risk as a result of the current capital and credit market conditions.

Item 4. Controls and Procedures

During the first quarter of 2017, each of Exelon's, Generation's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's management, including its principal executive officer and principal financial officer, evaluated its disclosure controls and procedures related to the recording, processing, summarizing and reporting of information in its periodic reports that it files with the SEC. These disclosure controls and procedures have been designed by all Registrants to ensure that (a) material information relating to that Registrant, including its consolidated subsidiaries, is accumulated and made known to Exelon's management, including its principal executive officer and principal financial officer, by other employees of that Registrant and its subsidiaries as appropriate to allow timely decisions regarding required disclosure, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people.

Accordingly, as of March 31, 2017, the principal executive officer and principal financial officer of each of Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE concluded that such Registrant's disclosure controls and procedures were effective to accomplish its objectives. All Registrants continually strive to improve their disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Registrants are parties to various lawsuits and regulatory proceedings in the ordinary course of their respective businesses. For information regarding material lawsuits and proceedings, see (a) ITEM 3. LEGAL PROCEEDINGS of Exelon's 2016 Form 10-K and (b) Notes 5 — Regulatory Matters and 17 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements in PART I, ITEM 1. FINANCIAL STATEMENTS of this Report. Such descriptions are incorporated herein by these references.

Item 1A. Risk Factors

Risks Related to Exelon

At March 31, 2017, the Registrants' risk factors were consistent with the risk factors described in the Registrants' combined 2016 Form 10-K in ITEM 1A. RISK FACTORS.

Item 4. Mine Safety Disclosures

All Registrants

Not applicable to the Registrants.

Item 5. Other Information

Exelon and Generation

See Note 10 — Debt and Credit Agreements and Note 20 — Subsequent Events of the Combined Notes to the Consolidated Financial Statements for recent developments related to EGTP.

Item 6. Exhibits

Certain of the following exhibits are incorporated herein by reference under Rule 12b-32 of the Securities and Exchange Act of 1934, as amended. Certain other instruments which would otherwise be required to be listed below have not been so listed because such instruments do not authorize securities in an amount which exceeds 10% of the total assets of the applicable registrant and its subsidiaries on a consolidated basis and the relevant registrant agrees to furnish a copy of any such instrument to the Commission upon request.

Exhibit No.	Description
4.1	Form of Exelon Generation Company, LLC 2.950% senior notes due 2020 (File No. 333-85496, Form 8-K dated March 10, 2017, Exhibit 4.1)
4.2	Form of Exelon Generation Company, LLC 3.400% notes due 2022 (File No. 333-85496, Form 8-K dated March 10, 2017, Exhibit 4.2)
4.3	Second Supplemental Indenture, dated April 3, 2017, between Exelon and The Bank of New York Mellon Trust Company, N.A., as trustee, to that certain Indenture (For Unsecured Subordinated Debt Securities), dated June 17, 2014 (File No. 001-16169, Form 8-K dated April 4, 2017, Exhibit 4.3)
4.4	Form of Exelon Corporation 3.497% junior subordinated notes due 2022 (File No. 001-16169, Form 8-K dated April 4, 2017, Exhibit 4.4)
4.5	One Hundred and Nineteenth Supplemental Indenture, dated April 5, 2017, between DPL and The Bank of New York Mellon, trustee
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition

101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

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Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 filed by the following officers for the following companies:

31-1 — Filed by Christopher M. Crane for Exelon Corporation

31-2 — Filed by Jonathan W. Thayer for Exelon Corporation

31-3 — Filed by Kenneth W. Cornew for Exelon Generation Company, LLC

31-4 — Filed by Bryan P. Wright for Exelon Generation Company, LLC

31-5 — Filed by Anne R. Pramaggiore for Commonwealth Edison Company

31-6 — Filed by Joseph R. Trpik, Jr. for Commonwealth Edison Company

31-7 — Filed by Craig L. Adams for PECO Energy Company

31-8 — Filed by Phillip S. Barnett for PECO Energy Company

31-9 — Filed by Calvin G. Butler, Jr. for Baltimore Gas and Electric Company

31-10 — Filed by David M. Vahos for Baltimore Gas and Electric Company

31-11 — Filed by David M. Velazquez for Pepco Holdings LLC

31-12 — Filed by Donna J. Kinzel for Pepco Holdings LLC

31-13 — Filed by David M. Velazquez for Potomac Electric Power Company

31-14 — Filed by Donna J. Kinzel for Potomac Electric Power Company

31-15 — Filed by David M. Velazquez for Delmarva Power & Light Company

31-16 — Filed by Donna J. Kinzel for Delmarva Power & Light Company

31-17 — Filed by David M. Velazquez for Atlantic City Electric Company

31-18 — Filed by Donna J. Kinzel for Atlantic City Electric Company

Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes — Oxley Act of 2002) as to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 filed by the following officers for the following companies:

32-1 — Filed by Christopher M. Crane for Exelon Corporation

32-2 — Filed by Jonathan W. Thayer for Exelon Corporation

32-3 — Filed by Kenneth W. Cornew for Exelon Generation Company, LLC

32-4 — Filed by Bryan P. Wright for Exelon Generation Company, LLC

32-5 — Filed by Anne R. Pramaggiore for Commonwealth Edison Company

32-6 — Filed by Joseph R. Trpik, Jr. for Commonwealth Edison Company

32-7 — Filed by Craig L. Adams for PECO Energy Company

32-8 — Filed by Phillip S. Barnett for PECO Energy Company

32-9 — Filed by Calvin G. Butler, Jr. for Baltimore Gas and Electric Company

32-10 — Filed by David M. Vahos for Baltimore Gas and Electric Company

32-11 — Filed by David M. Velazquez for Pepco Holdings LLC

32-12 — Filed by Donna J. Kinzel for Pepco Holdings LLC

32-13 — Filed by David M. Velazquez for Potomac Electric Power Company

32-14 — Filed by Donna J. Kinzel for Potomac Electric Power Company

32-15	— Filed by David M. Velazquez for Delmarva Power & Light Company
32-16	— Filed by Donna J. Kinzel for Delmarva Power & Light Company
32-17	— Filed by David M. Velazquez for Atlantic City Electric Company
32-18	— Filed by Donna J. Kinzel for Atlantic City Electric Company

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SIGNATURES

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXELON CORPORATION

/S/ CHRISTOPHER M. CRANE	/S/ JONATHAN W. THAYER
Christopher M. Crane President and Chief Executive Officer (Principal Executive Officer) and Director	Jonathan W. Thayer Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ DUANE M. DESPARTE	
Duane M. DesParte Senior Vice President and Corporate Controller (Principal Accounting Officer)	

May 3, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXELON GENERATION COMPANY, LLC

/S/ KENNETH W. CORNEW	/S/ BRYAN P. WRIGHT
Kenneth W. Cornew President and Chief Executive Officer (Principal Executive Officer)	Bryan P. Wright Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ MATTHEW N. BAUER	
Matthew N. Bauer Vice President and Controller (Principal Accounting Officer)	

May 3, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMONWEALTH EDISON COMPANY

/S/ ANNE R. PRAMAGGIORE	/S/ JOSEPH R. TRPIK, JR.
Anne R. Pramaggiore President and Chief Executive Officer (Principal Executive Officer)	Joseph R. Trpik, Jr. Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/S/ GERALD J. KOZEL	
Gerald J. Kozel Vice President and Controller (Principal Accounting Officer)	

May 3, 2017

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Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PECO ENERGY COMPANY

/s/ Craig L. Adams	/s/ Phillip S. Barnett
Craig L. Adams President and Chief Executive Officer (Principal Executive Officer) and Director	Phillip S. Barnett Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ Scott A. Bailey	
Scott A. Bailey Vice President and Controller (Principal Accounting Officer)	

May 3, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BALTIMORE GAS AND ELECTRIC COMPANY

/s/ Calvin G. Butler, Jr.	/s/ David M. Vahos
Calvin G. Butler, Jr. Chief Executive Officer (Principal Executive Officer)	David M. Vahos Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ Andrew W. Holmes	
Andrew W. Holmes Vice President and Controller (Principal Accounting Officer)	

May 3, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEPCO HOLDINGS LLC

/s/ David M. Velazquez	/s/ Donna J. Kinzel
David M. Velazquez President and Chief Executive Officer (Principal Executive Officer)	Donna J. Kinzel Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ Robert M. Aiken	
Robert M. Aiken Vice President and Controller (Principal Accounting Officer)	

May 3, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POTOMAC ELECTRIC POWER COMPANY

/S/ DAVID M. VELAZQUEZ
David M. Velazquez
President and Chief Executive Officer
(Principal Executive Officer)

/S/ DONNA J. KINZEL
Donna J. Kinzel
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

/S/ ROBERT M. AIKEN
Robert M. Aiken
Vice President and Controller
(Principal Accounting Officer)

May 3, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELMARVA POWER & LIGHT COMPANY

/S/ DAVID M. VELAZQUEZ
David M. Velazquez
President and Chief Executive Officer
(Principal Executive Officer)

/S/ DONNA J. KINZEL
Donna J. Kinzel
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

/S/ ROBERT M. AIKEN
Robert M. Aiken
Vice President and Controller
(Principal Accounting Officer)

May 3, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATLANTIC CITY ELECTRIC COMPANY

/S/ DAVID M. VELAZQUEZ
David M. Velazquez
President and Chief Executive Officer
(Principal Executive Officer)

/S/ DONNA J. KINZEL
Donna J. Kinzel
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

/S/ ROBERT M. AIKEN
Robert M. Aiken
Vice President and Controller
(Principal Accounting Officer)

May 3, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number	Name of Registrant; State or Other Jurisdiction of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street P.O. Box 805379 Chicago, Illinois 60680-5379 (800) 483-3220	23-2990190
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company) 300 Exelon Way Kennett Square, Pennsylvania 19348-2473 (610) 765-5959	23-3064219
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation) 440 South LaSalle Street Chicago, Illinois 60605-1028 (312) 394-4321	36-0938600
000-16844	PECO ENERGY COMPANY (a Pennsylvania corporation) P.O. Box 8699 2301 Market Street Philadelphia, Pennsylvania 19101-8699 (215) 841-4000	23-0970240
1-1910	BALTIMORE GAS AND ELECTRIC COMPANY (a Maryland corporation) 2 Center Plaza 110 West Fayette Street Baltimore, Maryland 21201-3708 (410) 234-5000	52-0280210
001-31403	PEPCO HOLDINGS LLC (a Delaware limited liability company) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	52-2297449
001-01072	POTOMAC ELECTRIC POWER COMPANY	53-0127880

	(a District of Columbia and Virginia corporation) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	
001-01405	DELMARVA POWER & LIGHT COMPANY (a Delaware and Virginia corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	51-0084283
001-03559	ATLANTIC CITY ELECTRIC COMPANY (a New Jersey corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	21-0398280

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
Exelon Corporation	☒				
Exelon Generation Company, LLC			☒		
Commonwealth Edison Company			☒		
PECO Energy Company			☒		
Baltimore Gas and Electric Company			☒		
Pepco Holdings LLC			☒		
Potomac Electric Power Company			☒		
Delmarva Power & Light Company			☒		
Atlantic City Electric Company			☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The number of shares outstanding of each registrant's common stock as of June 30, 2017 was:

Exelon Corporation Common Stock, without par value	960,087,898
Exelon Generation Company, LLC	not applicable
Commonwealth Edison Company Common Stock, $12.50 par value	127,017,160
PECO Energy Company Common Stock, without par value	170,478,507
Baltimore Gas and Electric Company Common Stock, without par value	1,000
Pepco Holdings LLC	not applicable
Potomac Electric Power Company Common Stock, $.01 par value	100
Delmarva Power & Light Company Common Stock, $2.25 par value	1,000
Atlantic City Electric Company Common Stock, $3.00 par value	8,546,017

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GLOSSARY OF TERMS AND ABBREVIATIONS

Exelon Corporation and Related Entities	
Exelon	Exelon Corporation
Generation	Exelon Generation Company, LLC
ComEd	Commonwealth Edison Company
PECO	PECO Energy Company
BGE	Baltimore Gas and Electric Company
Pepco Holdings or PHI	Pepco Holdings LLC (formerly Pepco Holdings, Inc.)
Pepco	Potomac Electric Power Company
Pepco Energy Services or PES	Pepco Energy Services, Inc. and its subsidiaries
PCI	Potomac Capital Investment Corporation and its subsidiaries
DPL	Delmarva Power & Light Company
ACE	Atlantic City Electric Company
ACE Funding or ATF	Atlantic City Electric Transition Funding LLC
BSC	Exelon Business Services Company, LLC
PHISCO	PHI Service Company
Exelon Corporate	Exelon in its corporate capacity as a holding company
PHI Corporate	PHI in its corporate capacity as a holding company
Registrants	Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, collectively
Utility Registrants	ComEd, PECO, BGE, Pepco, DPL and ACE, collectively
AmerGen	AmerGen Energy Company, LLC
Antelope Valley	Antelope Valley Solar Ranch One
BondCo	RSB BondCo LLC
CENG	Constellation Energy Nuclear Group, LLC
ConEdison Solutions	The competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc., a subsidiary of Consolidated Edison, Inc.
Constellation	Constellation Energy Group, Inc.
EGTP	ExGen Texas Power, LLC
EGR	ExGen Renewables I, LLC
Entergy	Entergy Nuclear FitzPatrick, LLC
Exelon Transmission Company	Exelon Transmission Company, LLC
Exelon Wind	Exelon Wind, LLC and Exelon Generation Acquisition Company, LLC
FitzPatrick	James A. FitzPatrick nuclear generating station
Legacy PHI	PHI, Pepco, DPL and ACE, collectively
PEC L.P.	PECO Energy Capital, L.P.
PECO Trust III	PECO Capital Trust III
PECO Trust IV	PECO Energy Capital Trust IV
PETT	PECO Energy Transition Trust
RPG	Renewable Power Generation
SolGen	SolGen, LLC
TMI	Three Mile Island nuclear facility
UII	Unicom Investments, Inc.
Ventures	Exelon Ventures Company, LLC

Other Terms and Abbreviations	
Note "—" of the Exelon 2016 Form 10-K	Reference to specific Combined Note to Consolidated Financial Statements within Exelon's 2016 Annual Report on Form 10-K
Act 11	Pennsylvania Act 11 of 2012
Act 129	Pennsylvania Act 129 of 2008
AEC	Alternative Energy Credit that is issued for each megawatt hour of generation from a qualified alternative energy source

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
AEPS	Pennsylvania Alternative Energy Portfolio Standards
AEPS Act	Pennsylvania Alternative Energy Portfolio Standards Act of 2004, as amended
AESO	Alberta Electric Systems Operator
AFUDC	Allowance for Funds Used During Construction
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income
ARC	Asset Retirement Cost
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BGS	Basic Generation Service
Block Contracts	Forward Purchase Energy Block Contracts
CAIR	Clean Air Interstate Rule
CAISO	California ISO
CAMR	Federal Clean Air Mercury Rule
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
CES	Clean Energy Standard
CFL	Compact Fluorescent Light
Clean Air Act	Clean Air Act of 1963, as amended
Clean Water Act	Federal Water Pollution Control Amendments of 1972, as amended
Competition Act	Pennsylvania Electricity Generation Customer Choice and Competition Act of 1996
Conectiv	Conectiv, LLC, a wholly owned subsidiary of PHI and the parent of DPL and ACE
Conectiv Energy	Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries, which were sold to Calpine in July 2010
CPUC	California Public Utilities Commission
CSAPR	Cross-State Air Pollution Rule
D.C. Circuit Court	United States Court of Appeals for the District of Columbia Circuit
DCPSC	District of Columbia Public Service Commission
DC PLUG	District of Columbia Power Line Undergrounding
Default Electricity Supply	The supply of electricity by PHI’s electric utility subsidiaries at regulated rates to retail customers who do not elect to purchase electricity from a competitive supplier, and which, depending on the jurisdiction, is also known as Standard Offer Service or BGS
DOE	United States Department of Energy
DOJ	United States Department of Justice
DPSC	Delaware Public Service Commission
DRP	Direct Stock Purchase and Dividend Reinvestment Plan
DSP	Default Service Provider
DSP Program	Default Service Provider Program
EDCs	Electric distribution companies
EDF	Electricite de France SA and its subsidiaries
EE&C	Energy Efficiency and Conservation/Demand Response
EGS	Electric Generation Supplier
EIMA	Energy Infrastructure Modernization Act (Illinois Senate Bill 1652 and Illinois House Bill 3036)
EmPower Maryland	A Maryland demand-side management program for Pepco and DPL

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
EPA	United States Environmental Protection Agency
EPSA	Electric Power Supply Association
ERCOT	Electric Reliability Council of Texas
ERISA	Employee Retirement Income Security Act of 1974, as amended
EROA	Expected Rate of Return on Assets
FASB	Financial Accounting Standards Board
FEJA	Illinois Public Act 99-0906 or Future Energy Jobs Act
FERC	Federal Energy Regulatory Commission
FRCC	Florida Reliability Coordinating Council
GAAP	Generally Accepted Accounting Principles in the United States
GCR	Gas Cost Rate
GHG	Greenhouse Gas
GSA	Generation Supply Adjustment
GWh	Gigawatt hour
Health Care Reform Acts	Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010
HSR Act	The Hart-Scott-Rodino Antitrust Improvements Act of 1976
IBEW	International Brotherhood of Electrical Workers
ICC	Illinois Commerce Commission
ICE	Intercontinental Exchange
Illinois Act	Illinois Electric Service Customer Choice and Rate Relief Law of 1997
Illinois EPA	Illinois Environmental Protection Agency
Illinois Settlement Legislation	Legislation enacted in 2007 affecting electric utilities in Illinois
Integrys	Integrys Energy Services, Inc.
IPA	Illinois Power Agency
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISO	Independent System Operator
ISO-NE	Independent System Operator New England Inc.
ISO-NY	Independent System Operator New York
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LLRW	Low-Level Radioactive Waste
LT Plan	Long-term renewable resources procurement plan
LTIP	Long-Term Incentive Plan
MAPP	Mid-Atlantic Power Pathway
MATS	U.S. EPA Mercury and Air Toxics Rule
MBR	Market Based Rates Incentive
MDE	Maryland Department of the Environment
MDPSC	Maryland Public Service Commission
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator, Inc.
mmcf	Million Cubic Feet
Moody's	Moody's Investor Service
MOPR	Minimum Offer Price Rule
MRV	Market-Related Value
MW	Megawatt

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
MWh	Megawatt hour
NAAQS	National Ambient Air Quality Standards
n.m.	not meaningful
NAV	Net Asset Value
NDT	Nuclear Decommissioning Trust
NEIL	Nuclear Electric Insurance Limited
NERC	North American Electric Reliability Corporation
NGS	Natural Gas Supplier
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
Non-Regulatory Agreements Units	Nuclear generating units or portions thereof whose decommissioning-related activities are not subject to contractual elimination under regulatory accounting
NOSA	Nuclear Operating Services Agreement
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NUGs	Non-utility generators
NWPA	Nuclear Waste Policy Act of 1982
NYMEX	New York Mercantile Exchange
NYPSC	New York Public Service Commission
OCI	Other Comprehensive Income
OIESO	Ontario Independent Electricity System Operator
OPC	Office of People's Counsel
OPEB	Other Postretirement Employee Benefits
PA DEP	Pennsylvania Department of Environmental Protection
PAPUC	Pennsylvania Public Utility Commission
PGC	Purchased Gas Cost Clause
PJM	PJM Interconnection, LLC
POLR	Provider of Last Resort
POR	Purchase of Receivables
PPA	Power Purchase Agreement
Price-Anderson Act	Price-Anderson Nuclear Industries Indemnity Act of 1957
Preferred Stock	Originally issued shares of non-voting, non-convertible and non-transferable Series A preferred stock, par value $0.01 per share
PRP	Potentially Responsible Parties
PSEG	Public Service Enterprise Group Incorporated
PURTA	Pennsylvania Public Realty Tax Act
PV	Photovoltaic
RCRA	Resource Conservation and Recovery Act of 1976, as amended
REC	Renewable Energy Credit which is issued for each megawatt hour of generation from a qualified renewable energy source
Regulatory Agreement Units	Nuclear generating units or portions thereof whose decommissioning-related activities are subject to contractual elimination under regulatory accounting
RES	Retail Electric Suppliers
RFP	Request for Proposal
Rider	Reconcilable Surcharge Recovery Mechanism
RGGI	Regional Greenhouse Gas Initiative

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
RMC	Risk Management Committee
ROE	Return on equity
RPM	PJM Reliability Pricing Model
RPS	Renewable Energy Portfolio Standards
RSSA	Reliability Support Services Agreement
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
S&P	Standard & Poor’s Ratings Services
SEC	United States Securities and Exchange Commission
Senate Bill 1	Maryland Senate Bill 1
SERC	SERC Reliability Corporation (formerly Southeast Electric Reliability Council)
SGIG	Smart Grid Investment Grant from DOE
SILO	Sale-In, Lease-Out
SMPIP	Smart Meter Procurement and Installation Plan
SNF	Spent Nuclear Fuel
SOS	Standard Offer Service
SPFPA	Security, Police and Fire Professionals of America
SPP	Southwest Power Pool
Transition Bond Charge	Revenue ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds and related taxes, expenses and fees
Transition Bonds	Transition Bonds issued by ACE Funding
UGSOA	United Government Security Officers of America
Upstream	Natural gas exploration and production activities
VIE	Variable Interest Entity
WECC	Western Electric Coordinating Council
ZEC	Zero Emission Credit
ZES	Zero Emission Standard

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FILING FORMAT

This combined Form 10-Q is being filed separately by Exelon Corporation, Exelon Generation Company, LLC, Commonwealth Edison Company, PECO Energy Company, Baltimore Gas and Electric Company, Pepco Holdings LLC, Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company (Registrants). Information contained herein relating to any individual Registrant is filed by such Registrant on its own behalf. No Registrant makes any representation as to information relating to any other Registrant.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by the Registrants include those factors discussed herein, as well as the items discussed in (1) the Registrants' combined 2016 Annual Report on Form 10-K in (a) ITEM 1A. Risk Factors, (b) ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) ITEM 8. Financial Statements and Supplementary Data: Note 24, Commitments and Contingencies; (2) this Quarterly Report on Form 10-Q in (a) Part II, Other Information, ITEM 1A. Risk Factors; (b) Part 1, Financial Information, ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) Part I, Financial Information, ITEM 1. Financial Statements: Note 17, Commitments and Contingencies; and (3) other factors discussed in filings with the SEC by the Registrants. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Report.

WHERE TO FIND MORE INFORMATION

The public may read and copy any reports or other information that the Registrants file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These documents are also available to the public from commercial document retrieval services, the website maintained by the SEC at www.sec.gov and the Registrants' websites at www.exeloncorp.com. Information contained on the Registrants' websites shall not be deemed incorporated into, or to be a part of, this Report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share data)	2017	2016	2017	2016
Operating revenues				
Competitive businesses revenues	$ 3,908	$ 3,234	$ 8,468	$ 7,708
Rate-regulated utility revenues	3,715	3,676	7,913	6,777
Total operating revenues	7,623	6,910	16,381	14,485
Operating expenses				
Competitive businesses purchased power and fuel	2,158	1,576	4,952	4,016
Rate-regulated utility purchased power and fuel	928	878	2,033	1,692
Operating and maintenance	2,971	2,505	5,431	5,341
Depreciation and amortization	915	941	1,811	1,626
Taxes other than income	420	394	857	720
Total operating expenses	7,392	6,294	15,084	13,395
Gain on sales of assets	1	31	5	40
Bargain purchase gain	—	—	226	—
Operating income	232	647	1,528	1,130
Other income and (deductions)				
Interest expense, net	(426)	(366)	(789)	(643)
Interest expense to affiliates	(10)	(10)	(20)	(20)
Other, net	205	144	488	258
Total other income and (deductions)	(231)	(232)	(321)	(405)
Income before income taxes	1	415	1,207	725
Income taxes	(72)	102	143	285
Equity in losses of unconsolidated affiliates	(9)	(7)	(18)	(10)
Net income	64	306	1,046	430
Net (loss) income attributable to noncontrolling interests and preference stock dividends	(16)	39	(30)	(10)
Net income attributable to common shareholders	$ 80	$ 267	$ 1,076	$ 440
Comprehensive income, net of income taxes				
Net income	$ 64	$ 306	$ 1,046	$ 430
Other comprehensive income (loss), net of income taxes				
Pension and non-pension postretirement benefit plans:				
Prior service benefit reclassified to periodic benefit cost	(14)	(12)	(28)	(23)
Actuarial loss reclassified to periodic benefit cost	49	46	98	93
Pension and non-pension postretirement benefit plan valuation adjustment	(2)	(1)	(58)	(3)
Unrealized (loss) gain on cash flow hedges	(1)	—	5	(7)
Unrealized (loss) gain on equity investments	—	(4)	3	(7)
Unrealized gain on foreign currency translation	2	—	3	6
Unrealized gain on marketable securities	1	2	2	—
Other comprehensive income	35	31	25	59
Comprehensive income	99	337	1,071	489
Comprehensive (loss) income attributable to noncontrolling interests and preference stock dividends	(16)	39	(32)	(10)
Comprehensive income attributable to common shareholders	$ 115	$ 298	$ 1,103	$ 499
Average shares of common stock outstanding:				
Basic	934	924	931	923
Diluted	936	926	932	926
Earnings per average common share:				
Basic	$ 0.09	$ 0.29	$ 1.16	$ 0.48

Diluted	$ 0.09	$ 0.29	$ 1.15	$ 0.48
Dividends declared per common share	$ 0.33	$ 0.32	$ 0.66	$ 0.63

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net income	$ 1,046	$ 430
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	2,591	2,396
Impairment of long-lived assets and losses on regulatory assets	445	239
Gain on sales of assets	(5)	(40)
Bargain purchase gain	(226)	—
Deferred income taxes and amortization of investment tax credits	107	261
Net fair value changes related to derivatives	230	194
Net realized and unrealized gains on nuclear decommissioning trust fund investments	(284)	(114)
Other non-cash operating activities	415	1,056
Changes in assets and liabilities:		
Accounts receivable	342	86
Inventories	(23)	89
Accounts payable and accrued expenses	(811)	(363)
Option premiums paid, net	(8)	(10)
Collateral (posted) received, net	(173)	710
Income taxes	58	470
Pension and non-pension postretirement benefit contributions	(325)	(258)
Other assets and liabilities	(481)	(593)
Net cash flows provided by operating activities	2,898	4,553
Cash flows from investing activities		
Capital expenditures	(3,845)	(4,489)
Proceeds from nuclear decommissioning trust fund sales	5,213	4,977
Investment in nuclear decommissioning trust funds	(5,339)	(5,094)
Acquisition of businesses, net	(212)	(6,642)
Proceeds from sales of long-lived assets	211	45
Proceeds from termination of direct financing lease investment	—	360
Change in restricted cash	1	15
Other investing activities	(9)	(49)
Net cash flows used in investing activities	(3,980)	(10,877)
Cash flows from financing activities		
Changes in short-term borrowings	422	(798)
Proceeds from short-term borrowings with maturities greater than 90 days	576	194
Repayments on short-term borrowings with maturities greater than 90 days	(510)	(315)
Issuance of long-term debt	981	3,174
Retirement of long-term debt	(1,049)	(217)
Dividends paid on common stock	(607)	(582)
Common stock issued from treasury stock	1,150	—
Proceeds from employee stock plans	43	17
Other financing activities	(23)	(4)
Net cash flows provided by financing activities	983	1,469
Decrease in cash and cash equivalents	(99)	(4,855)
Cash and cash equivalents at beginning of period	635	6,502
Cash and cash equivalents at end of period	$ 536	$ 1,647

See the Combined Notes to Consolidated Financial Statements

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 536	$ 635
Restricted cash and cash equivalents	252	253
Deposit with IRS	1,250	1,250
Accounts receivable, net		
Customer	3,825	4,158
Other	958	1,201
Mark-to-market derivative assets	833	917
Unamortized energy contract assets	84	88
Inventories, net		
Fossil fuel and emission allowances	334	364
Materials and supplies	1,267	1,274
Regulatory assets	1,293	1,342
Other	1,600	930
Total current assets	12,232	12,412
Property, plant and equipment, net	72,748	71,555
Deferred debits and other assets		
Regulatory assets	9,945	10,046
Nuclear decommissioning trust funds	12,641	11,061
Investments	638	629
Goodwill	6,677	6,677
Mark-to-market derivative assets	464	492
Unamortized energy contract assets	419	447
Pledged assets for Zion Station decommissioning	75	113
Other	1,265	1,472
Total deferred debits and other assets	32,124	30,937
Total assets[(a)]	$117,104	$ 114,904

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 1,757	$ 1,267
Long-term debt due within one year	3,619	2,430
Accounts payable	3,134	3,441
Accrued expenses	2,878	3,460
Payables to affiliates	8	8
Regulatory liabilities	574	602
Mark-to-market derivative liabilities	244	282
Unamortized energy contract liabilities	340	407
Renewable energy credit obligation	308	428
PHI merger related obligation	126	151
Other	977	981
Total current liabilities	13,965	13,457
Long-term debt	30,315	31,575
Long-term debt to financing trusts	641	641
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	18,521	18,138
Asset retirement obligations	9,848	9,111
Pension obligations	4,082	4,248
Non-pension postretirement benefit obligations	1,955	1,848
Spent nuclear fuel obligation	1,139	1,024
Regulatory liabilities	4,398	4,187
Mark-to-market derivative liabilities	417	392
Unamortized energy contract liabilities	705	830
Payable for Zion Station decommissioning	—	14
Other	1,828	1,827
Total deferred credits and other liabilities	42,893	41,619
Total liabilities[(a)]	87,814	87,292
Commitments and contingencies		
Shareholders' equity		
Common stock (No par value, 2000 shares authorized, 960 shares and 924 shares outstanding at June 30, 2017 and December 31, 2016, respectively)	18,860	18,794
Treasury stock, at cost (2 shares and 35 shares at June 30, 2017 and December 31, 2016, respectively)	(123)	(2,327)
Retained earnings	11,442	12,030
Accumulated other comprehensive loss, net	(2,633)	(2,660)
Total shareholders' equity	27,546	25,837
Noncontrolling interests	1,744	1,775
Total equity	29,290	27,612
Total liabilities and shareholders' equity	$117,104	$ 114,904

(a) Exelon's consolidated assets include $8,385 million and $8,893 million at June 30, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Exelon's consolidated liabilities include $3,021 million and $3,356 million at June 30, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Exelon. See Note 3 — Variable Interest Entities.

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interests	Total Shareholders' Equity
Balance, December 31, 2016	958,778	$18,794	$(2,327)	$12,030	$ (2,660)	$ 1,775	$ 27,612
Net income (loss)	—	—	—	1,076	—	(30)	1,046
Long-term incentive plan activity	2,494	23	—	—	—	—	23
Employee stock purchase plan issuances	648	43	—	—	—	—	43
Common stock issued from treasury stock	—	—	2,204	(1,054)	—	—	1,150
Changes in equity of noncontrolling interests	—	—	—	—	—	1	1
Common stock dividends	—	—	—	(610)	—	—	(610)
Other comprehensive income (loss), net of income taxes	—	—	—	—	27	(2)	25
Balance, June 30, 2017	961,920	$18,860	$ (123)	$11,442	$ (2,633)	$ 1,744	$ 29,290

See the Combined Notes to Consolidated Financial Statements

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating revenues				
Operating revenues	$ 3,906	$ 3,231	$ 8,463	$ 7,702
Operating revenues from affiliates	268	358	598	627
Total operating revenues	4,174	3,589	9,061	8,329
Operating expenses				
Purchased power and fuel	2,156	1,575	4,952	4,015
Purchased power and fuel from affiliates	1	2	3	5
Operating and maintenance	1,824	1,369	3,132	2,665
Operating and maintenance from affiliates	186	161	365	332
Depreciation and amortization	334	408	637	697
Taxes other than income	140	118	282	244
Total operating expenses	4,641	3,633	9,371	7,958
Gain on sales of assets	—	31	4	31
Bargain purchase gain	—	—	226	—
Operating (loss) income	(467)	(13)	(80)	402
Other income and (deductions)				
Interest expense, net	(120)	(89)	(209)	(176)
Interest expense to affiliates	(9)	(10)	(19)	(20)
Other, net	181	117	440	210
Total other income and (deductions)	52	18	212	14
(Loss) income before income taxes	(415)	5	132	416
Income taxes	(158)	(31)	(31)	120
Equity in losses of unconsolidated affiliates	(9)	(8)	(19)	(11)
Net (loss) income	(266)	28	144	285
Net (loss) income attributable to noncontrolling interests	(16)	36	(30)	(17)
Net (loss) income attributable to membership interest	$ (250)	$ (8)	$ 174	$ 302
Comprehensive (loss) income, net of income taxes				
Net (loss) income	$ (266)	$ 28	$ 144	$ 285
Other comprehensive income (loss), net of income taxes				
Unrealized (loss) gain on cash flow hedges	(1)	1	5	(4)
Unrealized (loss) gain on equity investments	—	(2)	4	(4)
Unrealized gain on foreign currency translation	2	—	3	6
Unrealized gain on marketable securities	—	1	—	—
Other comprehensive income (loss)	1	—	12	(2)
Comprehensive (loss) income	(265)	28	156	283
Comprehensive (loss) income attributable to noncontrolling interests	(16)	36	(32)	(17)
Comprehensive (loss) income attributable to membership interest	$ (249)	$ (8)	$ 188	$ 300

See the Combined Notes to Consolidated Financial Statements

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net income	$ 144	$ 285
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	1,415	1,467
Impairment of long-lived assets	445	179
Gain on sales of assets	(4)	(31)
Bargain purchase gain	(226)	—
Deferred income taxes and amortization of investment tax credits	(173)	(59)
Net fair value changes related to derivatives	235	199
Net realized and unrealized gains on nuclear decommissioning trust fund investments	(284)	(114)
Other non-cash operating activities	121	169
Changes in assets and liabilities:		
Accounts receivable	192	123
Receivables from and payables to affiliates, net	8	(77)
Inventories	(5)	57
Accounts payable and accrued expenses	(328)	(228)
Option premiums paid, net	(8)	(10)
Collateral (posted) received, net	(163)	720
Income taxes	(99)	41
Pension and non-pension postretirement benefit contributions	(116)	(117)
Other assets and liabilities	(180)	(217)
Net cash flows provided by operating activities	974	2,387
Cash flows from investing activities		
Capital expenditures	(1,189)	(2,051)
Proceeds from nuclear decommissioning trust fund sales	5,213	4,977
Investment in nuclear decommissioning trust funds	(5,339)	(5,094)
Acquisition of businesses, net	(212)	(1)
Proceeds from sale of long-lived assets	210	30
Change in restricted cash	(8)	25
Other investing activities	(32)	(96)
Net cash flows used in investing activities	(1,357)	(2,210)
Cash flows from financing activities		
Changes in short-term borrowings	(51)	—
Proceeds from short-term borrowings with maturities greater than 90 days	76	194
Repayments of short-term borrowings with maturities greater than 90 days	(10)	(15)
Issuance of long-term debt	779	173
Retirement of long-term debt	(295)	(131)
Changes in Exelon intercompany money pool	196	(429)
Distribution to member	(330)	(111)
Contribution from member	—	45
Other financing activities	(7)	39
Net cash flows provided by (used in) financing activities	358	(235)
Decrease in cash and cash equivalents	(25)	(58)
Cash and cash equivalents at beginning of period	290	431
Cash and cash equivalents at end of period	$ 265	$ 373

See the Combined Notes to Consolidated Financial Statements

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 265	$ 290
Restricted cash and cash equivalents	166	158
Accounts receivable, net		
Customer	2,242	2,433
Other	447	558
Mark-to-market derivative assets	833	917
Receivables from affiliates	143	156
Unamortized energy contract assets	84	88
Inventories, net		
Fossil fuel and emission allowances	272	292
Materials and supplies	901	935
Other	1,241	701
Total current assets	6,594	6,528
Property, plant and equipment, net	25,261	25,585
Deferred debits and other assets		
Nuclear decommissioning trust funds	12,641	11,061
Investments	426	418
Goodwill	47	47
Mark-to-market derivative assets	453	476
Prepaid pension asset	1,590	1,595
Pledged assets for Zion Station decommissioning	75	113
Unamortized energy contract assets	418	447
Deferred income taxes	5	16
Other	620	688
Total deferred debits and other assets	16,275	14,861
Total assets(a)	$ 48,130	$ 46,974

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	$ 716	$ 699
Long-term debt due within one year	1,828	1,117
Accounts payable	1,527	1,610
Accrued expenses	722	989
Payables to affiliates	132	137
Borrowings from Exelon intercompany money pool	251	55
Mark-to-market derivative liabilities	225	263
Unamortized energy contract liabilities	61	72
Renewable energy credit obligation	308	428
Other	294	313
Total current liabilities	6,064	5,683
Long-term debt	7,010	7,202
Long-term debt to affiliate	916	922
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	5,578	5,585
Asset retirement obligations	9,655	8,922
Non-pension postretirement benefit obligations	922	930
Spent nuclear fuel obligation	1,139	1,024
Payables to affiliates	2,871	2,608
Mark-to-market derivative liabilities	180	153
Unamortized energy contract liabilities	67	80
Payable for Zion Station decommissioning	—	14
Other	598	595
Total deferred credits and other liabilities	21,010	19,911
Total liabilities(a)	35,000	33,718
Commitments and contingencies		
Equity		
Member's equity		
Membership interest	9,308	9,261
Undistributed earnings	2,119	2,275
Accumulated other comprehensive loss, net	(40)	(54)
Total member's equity	11,387	11,482
Noncontrolling interests	1,743	1,774
Total equity	13,130	13,256
Total liabilities and equity	$ 48,130	$ 46,974

(a) Generation's consolidated assets include $8,342 million and $8,817 million at June 30, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Generation's consolidated liabilities include $2,900 million and $3,170 million at June 30, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Generation. See Note 3 — Variable Interest Entities.

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Member's Equity				
(In millions)	Membership Interest	Undistributed Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interests	Total Equity
Balance, December 31, 2016	$ 9,261	$ 2,275	$ (54)	$ 1,774	$13,256
Net income (loss)	—	174	—	(30)	144
Changes in equity of noncontrolling interests	—	—	—	1	1
Distribution of net retirement benefit obligation to member	49	—	—	—	49
Allocation of tax benefit from member	(2)	—	—	—	(2)
Distribution to member	—	(330)	—	—	(330)
Other comprehensive income (loss), net of income taxes	—	—	14	(2)	12
Balance, June 30, 2017	$ 9,308	$ 2,119	$ (40)	$ 1,743	$13,130

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Operating revenues				
Electric operating revenues	$ 1,354	$ 1,283	$ 2,647	$ 2,527
Operating revenues from affiliates	3	3	9	8
Total operating revenues	1,357	1,286	2,656	2,535
Operating expenses				
Purchased power	360	326	689	668
Purchased power from affiliate	18	13	24	18
Operating and maintenance	312	318	620	623
Operating and maintenance from affiliate	65	50	127	113
Depreciation and amortization	211	190	419	379
Taxes other than income	72	65	144	141
Total operating expenses	1,038	962	2,023	1,942
Gain on sales of assets	—	—	—	5
Operating income	319	324	633	598
Other income and (deductions)				
Interest expense, net	(98)	(88)	(179)	(170)
Interest expense to affiliates	(3)	(3)	(6)	(7)
Other, net	4	3	8	7
Total other income and (deductions)	(97)	(88)	(177)	(170)
Income before income taxes	222	236	456	428
Income taxes	104	91	197	168
Net income	$ 118	$ 145	$ 259	$ 260
Comprehensive income	$ 118	$ 145	$ 259	$ 260

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
(In millions)	2017	2016
Cash flows from operating activities		
Net income	$ 259	$ 260
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	419	379
Deferred income taxes and amortization of investment tax credits	235	222
Other non-cash operating activities	58	83
Changes in assets and liabilities:		
Accounts receivable	12	(36)
Receivables from and payables to affiliates, net	(4)	1
Inventories	(2)	7
Accounts payable and accrued expenses	(182)	(42)
Collateral (posted) received, net	(8)	(10)
Income taxes	4	261
Pension and non-pension postretirement benefit contributions	(37)	(35)
Other assets and liabilities	34	38
Net cash flows provided by operating activities	788	1,128
Cash flows from investing activities		
Capital expenditures	(1,168)	(1,334)
Change in restricted cash	(10)	—
Other investing activities	12	21
Net cash flows used in investing activities	(1,166)	(1,313)
Cash flows from financing activities		
Changes in short-term borrowings	389	(259)
Issuance of long-term debt	—	1,200
Contributions from parent	184	113
Dividends paid on common stock	(211)	(183)
Other financing activities	(1)	(17)
Net cash flows provided by financing activities	361	854
(Decrease) increase in cash and cash equivalents	(17)	669
Cash and cash equivalents at beginning of period	56	67
Cash and cash equivalents at end of period	$ 39	$ 736

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 39	$ 56
Restricted cash	12	2
Accounts receivable, net		
Customer	529	528
Other	211	218
Receivables from affiliates	386	356
Inventories, net	160	159
Regulatory assets	182	190
Other	57	45
Total current assets	1,576	1,554
Property, plant and equipment, net	20,019	19,335
Deferred debits and other assets		
Regulatory assets	1,050	977
Investments	6	6
Goodwill	2,625	2,625
Receivables from affiliates	2,364	2,170
Prepaid pension asset	1,283	1,343
Other	237	325
Total deferred debits and other assets	7,565	7,446
Total assets	$29,160	$ 28,335

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 389	$ —
Long-term debt due within one year	1,125	425
Accounts payable	547	645
Accrued expenses	1,107	1,250
Payables to affiliates	67	65
Customer deposits	115	121
Regulatory liabilities	269	329
Mark-to-market derivative liability	19	19
Other	112	84
Total current liabilities	3,750	2,938
Long-term debt	5,911	6,608
Long-term debt to financing trust	205	205
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	5,600	5,364
Asset retirement obligations	122	119
Non-pension postretirement benefits obligations	229	239
Regulatory liabilities	3,585	3,369
Mark-to-market derivative liability	237	239
Other	541	529
Total deferred credits and other liabilities	10,314	9,859
Total liabilities	20,180	19,610
Commitments and contingencies		
Shareholders' equity		
Common stock	1,588	1,588
Other paid-in capital	6,357	6,150
Retained deficit unappropriated	(1,639)	(1,639)
Retained earnings appropriated	2,674	2,626
Total shareholders' equity	8,980	8,725
Total liabilities and shareholders' equity	$29,160	$ 28,335

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions)	Common Stock	Other Paid-In Capital	Retained Deficit Unappropriated	Retained Earnings Appropriated	Total Shareholders' Equity
Balance, December 31, 2016	$ 1,588	$6,150	$ (1,639)	$ 2,626	$ 8,725
Net income	—	—	259	—	259
Appropriation of retained earnings for future dividends	—	—	(259)	259	—
Common stock dividends	—	—	—	(211)	(211)
Contribution from parent	—	184	—	—	184
Parent tax matter indemnification	—	23	—	—	23
Balance, June 30, 2017	$ 1,588	$6,357	$ (1,639)	$ 2,674	$ 8,980

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Operating revenues				
Electric operating revenues	$ 548	$ 585	$ 1,138	$ 1,228
Natural gas operating revenues	80	77	285	273
Operating revenues from affiliates	2	2	3	4
Total operating revenues	630	664	1,426	1,505
Operating expenses				
Purchased power	136	130	292	295
Purchased fuel	27	23	113	100
Purchased power from affiliate	34	64	79	142
Operating and maintenance	153	157	326	333
Operating and maintenance from affiliates	37	33	72	72
Depreciation and amortization	71	67	141	134
Taxes other than income	35	38	74	80
Total operating expenses	493	512	1,097	1,156
Operating income	137	152	329	349
Other income and (deductions)				
Interest expense, net	(28)	(28)	(56)	(56)
Interest expense to affiliates	(3)	(3)	(6)	(6)
Other, net	2	2	3	4
Total other income and (deductions)	(29)	(29)	(59)	(58)
Income before income taxes	108	123	270	291
Income taxes	20	23	55	67
Net income	$ 88	$ 100	$ 215	$ 224
Comprehensive income	$ 88	$ 100	$ 215	$ 224

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net income	$ 215	$ 224
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	141	134
Deferred income taxes and amortization of investment tax credits	39	51
Other non-cash operating activities	22	27
Changes in assets and liabilities:		
Accounts receivable	26	(1)
Receivables from and payables to affiliates, net	(10)	(2)
Inventories	7	19
Accounts payable and accrued expenses	(30)	(19)
Income taxes	51	31
Pension and non-pension postretirement benefit contributions	(23)	(29)
Other assets and liabilities	(70)	(96)
Net cash flows provided by operating activities	368	339
Cash flows from investing activities		
Capital expenditures	(367)	(299)
Changes in Exelon intercompany money pool	121	—
Other investing activities	4	8
Net cash flows used in investing activities	(242)	(291)
Cash flows from financing activities		
Dividends paid on common stock	(144)	(139)
Other financing activities	—	(1)
Net cash flows used in financing activities	(144)	(140)
Decrease in cash and cash equivalents	(18)	(92)
Cash and cash equivalents at beginning of period	63	295
Cash and cash equivalents at end of period	$ 45	$ 203

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 45	$ 63
Restricted cash and cash equivalents	4	4
Accounts receivable, net		
Customer	258	306
Other	135	131
Receivables from affiliates	1	4
Receivable from Exelon intercompany pool	10	131
Inventories, net		
Fossil fuel	25	35
Materials and supplies	30	27
Prepaid utility taxes	77	9
Regulatory assets	46	29
Other	25	18
Total current assets	656	757
Property, plant and equipment, net	7,758	7,565
Deferred debits and other assets		
Regulatory assets	1,732	1,681
Investments	24	25
Receivable from affiliates	506	438
Prepaid pension asset	354	345
Other	11	20
Total deferred debits and other assets	2,627	2,509
Total assets	$11,041	$ 10,831

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 500	$ —
Accounts payable	278	342
Accrued expenses	136	104
Payables to affiliates	50	63
Customer deposits	63	61
Regulatory liabilities	155	127
Other	31	30
Total current liabilities	1,213	727
Long-term debt	2,080	2,580
Long-term debt to financing trusts	184	184
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	3,128	3,006
Asset retirement obligations	28	28
Non-pension postretirement benefits obligations	289	289
Regulatory liabilities	544	517
Other	89	85
Total deferred credits and other liabilities	4,078	3,925
Total liabilities	7,555	7,416
Commitments and contingencies		
Shareholder's equity		
Common stock	2,473	2,473
Retained earnings	1,012	941
Accumulated other comprehensive income, net	1	1
Total shareholder's equity	3,486	3,415
Total liabilities and shareholder's equity	$11,041	$ 10,831

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Shareholder's Equity
Balance, December 31, 2016	$ 2,473	$ 941	$ 1	$ 3,415
Net income	—	215	—	215
Common stock dividends	—	(144)	—	(144)
Balance, June 30, 2017	$ 2,473	$ 1,012	$ 1	$ 3,486

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Operating revenues				
Electric operating revenues	$ 569	$ 582	$ 1,234	$ 1,260
Natural gas operating revenues	102	94	383	340
Operating revenues from affiliates	3	4	8	9
Total operating revenues	674	680	1,625	1,609
Operating expenses				
Purchased power	115	108	248	235
Purchased fuel	22	20	105	95
Purchased power from affiliate	97	133	231	304
Operating and maintenance	135	177	284	345
Operating and maintenance from affiliates	39	31	73	65
Depreciation and amortization	112	97	239	206
Taxes other than income	56	55	119	114
Total operating expenses	576	621	1,299	1,364
Operating income	98	59	326	245
Other income and (deductions)				
Interest expense, net	(22)	(20)	(46)	(40)
Interest expense to affiliates	(4)	(4)	(8)	(8)
Other, net	4	5	8	11
Total other income and (deductions)	(22)	(19)	(46)	(37)
Income before income taxes	76	40	280	208
Income taxes	31	6	111	73
Net income	45	34	169	135
Preference stock dividends	—	3	—	6
Net income attributable to common shareholder	$ 45	$ 31	$ 169	$ 129
Comprehensive income	$ 45	$ 34	$ 169	$ 135
Comprehensive income attributable to preference stock dividends	—	3	—	6
Comprehensive income attributable to common shareholder	$ 45	$ 31	$ 169	$ 129

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net income	$ 169	$ 135
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	239	206
Impairment of long-lived assets and losses on regulatory assets	—	52
Deferred income taxes and amortization of investment tax credits	99	17
Other non-cash operating activities	35	60
Changes in assets and liabilities:		
Accounts receivable	77	11
Receivables from and payables to affiliates, net	(7)	6
Inventories	(5)	6
Accounts payable and accrued expenses	(83)	(5)
Income taxes	26	46
Pension and non-pension postretirement benefit contributions	(47)	(42)
Other assets and liabilities	(31)	(3)
Net cash flows provided by operating activities	472	489
Cash flows from investing activities		
Capital expenditures	(405)	(392)
Change in restricted cash	18	5
Other investing activities	4	12
Net cash flows used in investing activities	(383)	(375)
Cash flows from financing activities		
Changes in short-term borrowings	40	(2)
Retirement of long-term debt	(41)	(39)
Dividends paid on preference stock	—	(6)
Dividends paid on common stock	(99)	(90)
Contributions from parent	—	21
Other financing activities	—	(2)
Net cash flows used in financing activities	(100)	(118)
Decrease in cash and cash equivalents	(11)	(4)
Cash and cash equivalents at beginning of period	23	9
Cash and cash equivalents at end of period	$ 12	$ 5

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 12	$ 23
Restricted cash and cash equivalents	6	24
Accounts receivable, net		
Customer	312	395
Other	75	102
Receivables from affiliates	1	—
Inventories, net		
Gas held in storage	31	30
Materials and supplies	42	38
Prepaid utility taxes	—	15
Regulatory assets	197	208
Other	4	7
Total current assets	680	842
Property, plant and equipment, net	7,283	7,040
Deferred debits and other assets		
Regulatory assets	495	504
Investments	13	12
Prepaid pension asset	310	297
Other	5	9
Total deferred debits and other assets	823	822
Total assets[(a)]	$8,786	$ 8,704

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 85	$ 45
Long-term debt due within one year	—	41
Accounts payable	205	205
Accrued expenses	100	175
Payables to affiliates	49	55
Customer deposits	113	110
Regulatory liabilities	67	50
Other	21	26
Total current liabilities	640	707
Long-term debt	2,282	2,281
Long-term debt to financing trust	252	252
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	2,322	2,219
Asset retirement obligations	22	21
Non-pension postretirement benefits obligations	201	205
Regulatory liabilities	90	110
Other	59	61
Total deferred credits and other liabilities	2,694	2,616
Total liabilities(a)	5,868	5,856
Commitments and contingencies		
Shareholders' equity		
Common stock	1,421	1,421
Retained earnings	1,497	1,427
Total shareholders' equity	2,918	2,848
Total liabilities and shareholders' equity	$8,786	$ 8,704

(a) BGE's consolidated assets include $26 million at December 31, 2016 of BGE's consolidated VIE that can only be used to settle the liabilities of the VIE. BGE's consolidated liabilities include $42 million at December 31, 2016 of BGE's consolidated VIE for which the VIE creditors do not have recourse to BGE. BGE has no interests in any VIEs as of June 30, 2017. See Note 3 — Variable Interest Entities.

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholders' Equity
Balance, December 31, 2016	$ 1,421	$ 1,427	$ 2,848
Net income	—	169	169
Common stock dividends	—	(99)	(99)
Balance, June 30, 2017	$ 1,421	$ 1,497	$ 2,918

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Successor				*Predecessor*
	Three Months Ended June 30,		**Six Months Ended June 30,**	**March 24 to June 30,**	**January 1 to March 23,**
(In millions)	**2017**	**2016**	**2017**	**2016**	**2016**
Operating revenues					
Electric operating revenues	$1,040	$1,030	$ 2,138	$ 1,120	$ 1,096
Natural gas operating revenues	22	26	87	28	57
Operating revenues from affiliates	12	10	23	23	—
Total operating revenues	1,074	1,066	2,248	1,171	1,153
Operating expenses					
Purchased power	259	263	547	288	471
Purchased fuel	9	9	39	11	26
Purchased power and fuel from affiliates	115	144	259	155	—
Operating and maintenance	231	223	454	670	294
Operating and maintenance from affiliates	38	23	70	25	—
Depreciation and amortization	165	160	332	174	152
Taxes other than income	110	108	221	123	105
Total operating expenses	927	930	1,922	1,446	1,048
Gain on sales of assets	1	—	1	—	—
Operating income (loss)	148	136	327	(275)	105
Other income and (deductions)					
Interest expense, net	(59)	(66)	(122)	(71)	(65)
Other, net	13	11	26	12	(4)
Total other income and (deductions)	(46)	(55)	(96)	(59)	(69)
Income (loss) before income taxes	102	81	231	(334)	36
Income taxes	36	29	26	(77)	17
Net income (loss)	$ 66	$ 52	$ 205	$ (257)	$ 19
Comprehensive income (loss), net of income taxes					
Net income (loss)	$ 66	$ 52	$ 205	$ (257)	$ 19
Other comprehensive income, net of income taxes					
Pension and non-pension postretirement benefit plans:					
Actuarial loss reclassified to periodic cost	—	—	—	—	1
Other comprehensive income	—	—	—	—	1
Comprehensive income (loss)	$ 66	$ 52	$ 205	$ (257)	$ 20

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Successor		*Predecessor*
(In millions)	Six Months Ended June 30, 2017	March 24 to June 30, 2016	January 1 to March 23, 2016
Cash flows from operating activities			
Net income (loss)	$ 205	$ (257)	$ 19
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Depreciation and amortization	332	174	152
Gain on sale of long-lived assets	(1)	—	—
Deferred income taxes and amortization of investment tax credits	59	(16)	19
Net fair value changes related to derivatives	—	—	18
Other non-cash operating activities	28	444	46
Changes in assets and liabilities:			
Accounts receivable	(3)	56	(28)
Receivables from and payables to affiliates, net	(7)	39	—
Inventories	(19)	—	(4)
Accounts payable and accrued expenses	(61)	(35)	42
Income taxes	87	22	12
Pension and non-pension postretirement benefit contributions	(68)	(2)	(4)
Other assets and liabilities	(149)	(237)	(8)
Net cash flows provided by operating activities	403	188	264
Cash flows from investing activities			
Capital expenditures	(671)	(339)	(273)
Proceeds from sales of long-lived assets	1	15	—
Changes in restricted cash	3	(34)	3
Purchases of investments	—	—	(68)
Other investing activities	—	8	(5)
Net cash flows used in investing activities	(667)	(350)	(343)
Cash flows from financing activities			
Changes in short-term borrowings	45	(537)	(121)
Proceeds from short-term borrowings with maturities greater than 90 days	—	—	500
Repayments of short-term borrowings with maturities greater than 90 days	(500)	(300)	—
Issuance of long-term debt	202	1	—
Retirement of long-term debt	(120)	(16)	(11)
Common stock issued for the Direct Stock Purchase and Dividend Reinvestment Plan and employee-related compensation	—	—	2
Distribution to member	(131)	(124)	—
Contribution from member	751	1,088	—
Change in Exelon intercompany money pool	—	28	—
Other financing activities	(2)	(3)	2
Net cash flows provided by financing activities	245	137	372
(Decrease) increase in cash and cash equivalents	(19)	(25)	293
Cash and cash equivalents at beginning of period	170	319	26
Cash and cash equivalents at end of period	$ 151	$ 294	$ 319

See the Combined Notes to Consolidated Financial Statements

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	Successor	
(In millions)	**June 30, 2017**	**December 31, 2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 151	$ 170
Restricted cash and cash equivalents	40	43
Accounts receivable, net		
Customer	484	496
Other	199	283
Receivable from affiliates	1	—
Inventories, net		
Gas held in storage	6	6
Materials and supplies	134	116
Regulatory assets	605	653
Other	86	71
Total current assets	1,706	1,838
Property, plant and equipment, net	12,014	11,598
Deferred debits and other assets		
Regulatory assets	2,715	2,851
Investments	132	133
Goodwill	4,005	4,005
Long-term note receivable	4	4
Prepaid pension asset	529	509
Deferred income taxes	6	6
Other	79	81
Total deferred debits and other assets	7,470	7,589
Total assets(a)	$21,190	$ 21,025

See the Combined Notes to Consolidated Financial Statements

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	Successor June 30, 2017	Successor December 31, 2016
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 67	$ 522
Long-term debt due within one year	160	253
Accounts payable	415	458
Accrued expenses	259	272
Payables to affiliates	86	94
Unamortized energy contract liabilities	279	335
Customer deposits	119	123
Merger related obligation	73	101
Regulatory liabilities	68	79
Other	36	47
Total current liabilities	1,562	2,284
Long-term debt	5,792	5,645
Deferred credits and other liabilities		
Regulatory liabilities	151	158
Deferred income taxes and unamortized investment tax credits	3,844	3,775
Asset retirement obligations	14	14
Non-pension postretirement benefit obligations	135	134
Unamortized energy contract liabilities	638	750
Other	213	249
Total deferred credits and other liabilities	4,995	5,080
Total liabilities(a)	12,349	13,009
Commitments and contingencies		
Member's equity		
Membership interest	8,828	8,077
Undistributed earnings (losses)	13	(61)
Total member's equity	8,841	8,016
Total liabilities and member's equity	$21,190	$ 21,025

(a) PHI's consolidated total assets include $43 million and $49 million at June 30, 2017 and December 31, 2016, respectively, of PHI's consolidated VIE that can only be used to settle the liabilities of the VIE. PHI's consolidated total liabilities include $121 million and $143 million at June 30, 2017 and December 31, 2016, respectively, of PHI's consolidated VIE for which the VIE creditors do not have recourse to PHI. See Note 3 — Variable Interest Entities.

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(In millions)	Membership Interest	Undistributed Earnings (Losses)	Member's Equity
Successor			
Balance, December 31, 2016	$ 8,077	$ (61)	$ 8,016
Net income	—	205	205
Distribution to member	—	(131)	(131)
Contribution from member	751	—	751
Balance, June 30, 2017	$ 8,828	$ 13	$ 8,841

See the Combined Notes to Consolidated Financial Statements

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POTOMAC ELECTRIC POWER COMPANY
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating revenues				
Electric operating revenues	$513	$508	$1,042	$1,058
Operating revenues from affiliates	1	1	3	3
Total operating revenues	514	509	1,045	1,061
Operating expenses				
Purchased power	74	64	157	256
Purchased power from affiliates	69	88	152	95
Operating and maintenance	106	100	208	389
Operating and maintenance from affiliates	14	9	26	10
Depreciation and amortization	78	70	160	144
Taxes other than income	90	89	180	182
Total operating expenses	431	420	883	1,076
Gain on sales of assets	1	8	1	8
Operating income (loss)	84	97	163	(7)
Other income and (deductions)				
Interest expense, net	(28)	(31)	(58)	(68)
Other, net	7	6	15	14
Total other income and (deductions)	(21)	(25)	(43)	(54)
Income (loss) before income taxes	63	72	120	(61)
Income taxes	20	23	19	(1)
Net income (loss)	$ 43	$ 49	$ 101	$ (60)
Comprehensive income (loss)	$ 43	$ 49	$ 101	$ (60)

See the Combined Notes to Consolidated Financial Statements

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POTOMAC ELECTRIC POWER COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net income (loss)	$ 101	$ (60)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	160	144
Deferred income taxes and amortization of investment tax credits	35	20
Gain on sale of long-lived assets	(1)	—
Other non-cash operating activities	—	158
Changes in assets and liabilities:		
Accounts receivable	(33)	(41)
Receivables from and payables to affiliates, net	(4)	47
Inventories	(10)	1
Accounts payable and accrued expenses	(45)	(19)
Income taxes	46	165
Pension and non-pension postretirement benefit contributions	(65)	(3)
Other assets and liabilities	(55)	(47)
Net cash flows provided by operating activities	129	365
Cash flows from investing activities		
Capital expenditures	(291)	(256)
Proceeds from sale of long-lived asset	1	12
Purchases of investments	—	(31)
Changes in restricted cash	(1)	(31)
Other investing activities	(2)	(1)
Net cash flows used in investing activities	(293)	(307)
Cash flows from financing activities		
Changes in short-term borrowings	(23)	(64)
Issuance of long-term debt	202	1
Retirement of long-term debt	(7)	(5)
Dividends paid on common stock	(58)	(55)
Contribution from parent	161	187
Other financing activities	(1)	—
Net cash flows provided by financing activities	274	64
Increase in cash and cash equivalents	110	122
Cash and cash equivalents at beginning of period	9	5
Cash and cash equivalents at end of period	$ 119	$ 127

See the Combined Notes to Consolidated Financial Statements

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POTOMAC ELECTRIC POWER COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 119	$ 9
Restricted cash and cash equivalents	34	33
Accounts receivable, net		
Customer	256	235
Other	114	150
Inventories, net	73	63
Regulatory assets	165	162
Other	7	32
Total current assets	768	684
Property, plant and equipment, net	5,759	5,571
Deferred debits and other assets		
Regulatory assets	682	690
Investments	102	102
Prepaid pension asset	332	282
Other	5	6
Total deferred debits and other assets	1,121	1,080
Total assets	$7,648	$ 7,335

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POTOMAC ELECTRIC POWER COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ —	$ 23
Long-term debt due within one year	18	16
Accounts payable	157	209
Accrued expenses	117	113
Payables to affiliates	70	74
Customer deposits	53	53
Regulatory liabilities	5	11
Merger related obligation	49	68
Other	16	29
Total current liabilities	485	596
Long-term debt	2,527	2,333
Deferred credits and other liabilities		
Regulatory liabilities	17	20
Deferred income taxes and unamortized investment tax credits	1,950	1,910
Non-pension postretirement benefit obligations	40	43
Other	125	133
Total deferred credits and other liabilities	2,132	2,106
Total liabilities	5,144	5,035
Commitments and contingencies		
Shareholder's equity		
Common stock	1,470	1,309
Retained earnings	1,034	991
Total shareholder's equity	2,504	2,300
Total liabilities and shareholder's equity	$7,648	$ 7,335

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POTOMAC ELECTRIC POWER COMPANY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 1,309	$ 991	$ 2,300
Net income	—	101	101
Common stock dividends	—	(58)	(58)
Contribution from parent	161	—	161
Balance, June 30, 2017	$ 1,470	$ 1,034	$ 2,504

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DELMARVA POWER & LIGHT COMPANY
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating revenues				
Electric operating revenues	$ 258	$ 253	$ 553	$ 554
Natural gas operating revenues	22	26	87	85
Operating revenues from affiliates	2	2	4	4
Total operating revenues	282	281	644	643
Operating expenses				
Purchased power	64	70	141	216
Purchased fuel	9	9	38	35
Purchased power from affiliate	40	43	91	47
Operating and maintenance	66	73	133	277
Operating and maintenance from affiliates	8	5	15	6
Depreciation and amortization	40	38	79	76
Taxes other than income	14	13	28	28
Total operating expenses	241	251	525	685
Operating income (loss)	41	30	119	(42)
Other income and (deductions)				
Interest expense, net	(13)	(13)	(25)	(25)
Other, net	3	3	6	6
Total other income and (deductions)	(10)	(10)	(19)	(19)
Income (loss) before income taxes	31	20	100	(61)
Income taxes	12	8	24	(1)
Net income (loss)	$ 19	$ 12	$ 76	$ (60)
Comprehensive income (loss)	$ 19	$ 12	$ 76	$ (60)

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DELMARVA POWER & LIGHT COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net income (loss)	$ 76	$ (60)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	79	76
Deferred income taxes and amortization of investment tax credits	33	23
Other non-cash operating activities	(3)	121
Changes in assets and liabilities:		
Accounts receivable	12	30
Receivables from and payables to affiliates, net	(2)	15
Inventories	(3)	1
Accounts payable and accrued expenses	18	(2)
Collateral received	—	1
Income taxes	13	66
Other assets and liabilities	(29)	(51)
Net cash flows provided by operating activities	194	220
Cash flows from investing activities		
Capital expenditures	(192)	(182)
Changes in restricted cash	—	(1)
Other investing activities	1	3
Net cash flows used in investing activities	(191)	(180)
Cash flows from financing activities		
Changes in short-term borrowings	25	(105)
Retirement of long-term debt	(14)	—
Dividends paid on common stock	(54)	(38)
Contribution from parent	—	113
Net cash flows used in financing activities	(43)	(30)
(Decrease) Increase in cash and cash equivalents	(40)	10
Cash and cash equivalents at beginning of period	46	5
Cash and cash equivalents at end of period	$ 6	$ 15

See the Combined Notes to Consolidated Financial Statements

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DELMARVA POWER & LIGHT COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 6	$ 46
Accounts receivable, net		
Customer	124	136
Other	49	63
Receivables from affiliates	—	3
Inventories, net		
Gas held in storage	6	7
Materials and supplies	36	32
Regulatory assets	71	59
Other	19	24
Total current assets	311	370
Property, plant and equipment, net	3,412	3,273
Deferred debits and other assets		
Regulatory assets	299	289
Goodwill	8	8
Prepaid pension asset	200	206
Other	5	7
Total deferred debits and other assets	512	510
Total assets	$4,235	$ 4,153

See the Combined Notes to Consolidated Financial Statements

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DELMARVA POWER & LIGHT COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 25	$ —
Long-term debt due within one year	109	119
Accounts payable	125	88
Accrued expenses	35	36
Payables to affiliates	33	38
Customer deposits	35	36
Regulatory liabilities	43	43
Merger related obligation	3	13
Other	9	8
Total current liabilities	417	381
Long-term debt	1,217	1,221
Deferred credits and other liabilities		
Regulatory liabilities	95	97
Deferred income taxes and unamortized investment tax credits	1,092	1,056
Non-pension postretirement benefit obligations	20	19
Other	46	53
Total deferred credits and other liabilities	1,253	1,225
Total liabilities	2,887	2,827
Commitments and contingencies		
Shareholder's equity		
Common stock	764	764
Retained earnings	584	562
Total shareholder's equity	1,348	1,326
Total liabilities and shareholder's equity	$4,235	$ 4,153

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DELMARVA POWER & LIGHT COMPANY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 764	$ 562	$ 1,326
Net income	—	76	76
Common stock dividends	—	(54)	(54)
Balance, June 30, 2017	$ 764	$ 584	$ 1,348

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating revenues				
Electric operating revenues	$ 269	$ 269	$ 543	$ 559
Operating revenues from affiliates	1	1	1	2
Total operating revenues	270	270	544	561
Operating expenses				
Purchased power	121	129	250	285
Purchased power from affiliates	7	12	16	13
Operating and maintenance	71	63	139	275
Operating and maintenance from affiliates	7	5	13	5
Depreciation and amortization	37	41	72	81
Taxes other than income	2	2	4	4
Total operating expenses	245	252	494	663
Gain on sale of assets	—	1	—	1
Operating income (loss)	25	19	50	(101)
Other income and (deductions)				
Interest expense, net	(15)	(16)	(30)	(32)
Other, net	2	2	4	5
Total other income and (deductions)	(13)	(14)	(26)	(27)
Income (loss) before income taxes	12	5	24	(128)
Income taxes	4	2	(12)	(31)
Net income (loss)	$ 8	$ 3	$ 36	$ (97)
Comprehensive income (loss)	$ 8	$ 3	$ 36	$ (97)

See the Combined Notes to Consolidated Financial Statements

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net income (loss)	$ 36	$ (97)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	72	81
Deferred income taxes and amortization of investment tax credits	(8)	(28)
Other non-cash operating activities	7	138
Changes in assets and liabilities:		
Accounts receivable	18	31
Receivables from and payables to affiliates, net	(6)	8
Inventories	(3)	(2)
Accounts payable and accrued expenses	3	6
Income taxes	11	181
Other assets and liabilities	(53)	(110)
Net cash flows provided by operating activities	77	208
Cash flows from investing activities		
Capital expenditures	(175)	(164)
Proceeds from sale of long-lived asset	—	2
Changes in restricted cash	2	1
Other investing activities	—	1
Net cash flows used in investing activities	(173)	(160)
Cash flows from financing activities		
Changes in short-term borrowings	42	(5)
Retirement of long-term debt	(17)	(22)
Dividends paid on common stock	(22)	(11)
Contribution from parent	—	139
Other financing activities	(1)	(1)
Net cash flows provided by financing activities	2	100
(Decrease) Increase in cash and cash equivalents	(94)	148
Cash and cash equivalents at beginning of period	101	3
Cash and cash equivalents at end of period	$ 7	$ 151

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 7	$ 101
Restricted cash and cash equivalents	7	9
Accounts receivable, net		
Customer	103	125
Other	46	44
Inventories, net	25	22
Prepaid utility taxes	37	—
Regulatory assets	89	96
Other	4	2
Total current assets	318	399
Property, plant and equipment, net	2,628	2,521
Deferred debits and other assets		
Regulatory assets	406	405
Long-term note receivable	4	4
Prepaid pension asset	79	84
Other	43	44
Total deferred debits and other assets	532	537
Total assets(a)	$3,478	$ 3,457

See the Combined Notes to Consolidated Financial Statements

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	June 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 42	$ —
Long-term debt due within one year	33	35
Accounts payable	122	132
Accrued expenses	56	38
Payables to affiliates	23	29
Customer deposits	31	33
Regulatory liabilities	20	25
Merger related obligation	21	20
Other	8	8
Total current liabilities	356	320
Long-term debt	1,105	1,120
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	911	917
Non-pension postretirement benefit obligations	35	34
Other	23	32
Total deferred credits and other liabilities	969	983
Total liabilities(a)	2,430	2,423
Commitments and contingencies		
Shareholder's equity		
Common stock	912	912
Retained earnings	136	122
Total shareholder's equity	1,048	1,034
Total liabilities and shareholder's equity	$3,478	$ 3,457

(a) ACE's consolidated total assets include $30 million and $32 million at June 30, 2017 and December 31, 2016, respectively, of ACE's consolidated VIE that can only be used to settle the liabilities of the VIE. ACE's consolidated total liabilities include $108 million and $126 million at June 30, 2017 and December 31, 2016, respectively, of ACE's consolidated VIE for which the VIE creditors do not have recourse to ACE. See Note 3 — Variable Interest Entities.

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 912	$ 122	$ 1,034
Net income	—	36	36
Common stock dividends	—	(22)	(22)
Balance, June 30, 2017	$ 912	$ 136	$ 1,048

See the Combined Notes to Consolidated Financial Statements

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share data, unless otherwise noted)

Index to Combined Notes To Consolidated Financial Statements

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

Applicable Notes

Registrant	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Exelon Corporation	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Exelon Generation Company, LLC	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•		•	•	•	•
Commonwealth Edison Company	•	•	•		•			•	•	•	•		•	•			•	•	•	
PECO Energy Company	•	•	•		•			•	•	•	•		•	•	•		•	•	•	
Baltimore Gas and Electric Company	•	•	•		•			•	•	•	•		•	•			•	•	•	
Pepco Holdings LLC	•	•	•	•	•			•	•	•	•		•	•	•		•	•	•	
Potomac Electric Power Company	•	•	•	•	•			•	•	•	•		•	•			•	•	•	
Delmarva Power & Light Company	•	•	•		•			•	•	•	•		•	•			•	•	•	
Atlantic City Electric Company	•	•	•		•			•	•	•	•		•	•			•	•	•	

1. Basis of Presentation (All Registrants)

Description of Business (All Registrants)

Exelon is a utility services holding company engaged through its principal subsidiaries in the energy generation and energy distribution and transmission businesses. Prior to March 23, 2016, Exelon's principal, wholly owned subsidiaries included Generation, ComEd, PECO and BGE. On March 23, 2016, in conjunction with the Amended and Restated Agreement and Plan of Merger (the PHI Merger Agreement), Purple Acquisition Corp, a wholly owned subsidiary of Exelon, merged with and into PHI, with PHI continuing as the surviving entity as a wholly owned subsidiary of Exelon. PHI is a utility services holding company engaged through its principal wholly owned subsidiaries, Pepco, DPL and ACE, in the energy distribution and transmission businesses. Refer to Note 4 — Mergers, Acquisitions and Dispositions for further information regarding the merger transaction.

The energy generation business includes:

- *Generation*: Generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services. Generation has six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions.

The energy delivery businesses include:

- *ComEd*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in northern Illinois, including the City of Chicago.
- *PECO*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in the Pennsylvania counties surrounding the City of Philadelphia.
- *BGE*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in central Maryland, including the City of Baltimore, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in central Maryland, including the City of Baltimore.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

- *Pepco*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in the District of Columbia and major portions of Prince George's County and Montgomery County in Maryland.
- *DPL*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.
- *ACE*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in southern New Jersey.

Basis of Presentation (All Registrants)

As a result of the acquisition of PHI, Exelon's financial reporting reflects PHI's consolidated financial results subsequent to the March 23, 2016, acquisition date. Exelon has accounted for the merger transaction applying the acquisition method of accounting, which requires that identifiable assets acquired and liabilities assumed by Exelon to be reported in Exelon's financial statements at fair value, with any excess of the purchase price over the fair value of net assets acquired reported as goodwill. Exelon has pushed-down the application of the acquisition method of accounting to the consolidated financial statements of PHI such that the assets and liabilities of PHI are similarly recorded at their respective fair values, and goodwill has been established as of the acquisition date. Accordingly, the consolidated financial statements of PHI for periods before and after the March 23, 2016, acquisition date reflect different bases of accounting, and the financial positions and the results of operations of the predecessor and successor periods are not comparable. The acquisition method of accounting has not been pushed down to PHI's wholly owned subsidiary utility registrants, Pepco, DPL and ACE.

For financial statement purposes, beginning on March 24, 2016, disclosures related to Exelon now also apply to PHI, Pepco, DPL and ACE, unless otherwise noted.

Each of the Registrant's Consolidated Financial Statements includes the accounts of its subsidiaries. All intercompany transactions have been eliminated.

During preparation of the June 30, 2017 financial statements, errors were identified related to the Exelon, Generation, ComEd, PECO and BGE Consolidated Statements of Cash Flows for the three months ended March 31, 2017. These classification errors related to the presentation of changes in Account payable and accrued expenses and Accounts receivable within Cash flows provided by operating activities and Capital expenditures and Proceeds from sale of long-lived assets within Cash flows used in investing activities. These errors were corrected for the six months ended June 30, 2017, and will be revised within the first quarter 2018 Form 10-Q when the Consolidated Statements of Cash Flows for the three months ended March 31, 2017 will next be disclosed. As revised, the Cash flows provided by operating activities for the three months ended March 31, 2017 are $1,074 million, $420 million, $236 million, $106 million and $208 million for Exelon, Generation, ComEd, PECO and BGE, respectively, an increase (decrease) of $(127) million, $(320) million, $91 million, $42 million and $40 million for Exelon, Generation, ComEd, PECO and BGE, respectively, from the originally reported amounts. As revised, the Cash flows used in investing activities are $2,284 million, $892 million, $620 million, $69 million and $221 million for Exelon, Generation, ComEd, PECO and BGE, respectively, an increase (decrease) of $(127) million, $(320) million, $91 million, $42 million and $40 million for Exelon, Generation, ComEd, PECO and BGE, respectively, from the originally reported amounts. Management has concluded that the errors are not material to the previously issued financial statements.

The accompanying consolidated financial statements as of June 30, 2017 and 2016 and for the three and six months then ended are unaudited but, in the opinion of the management of each Registrant include all

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adjustments that are considered necessary for a fair statement of the Registrants' respective financial statements in accordance with GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. The December 31, 2016 Consolidated Balance Sheets were derived from audited financial statements. Financial results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2017. These Combined Notes to Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

2. New Accounting Standards (All Registrants)

New Accounting Standards Issued and Not Yet Adopted: The following new authoritative accounting guidance issued by the FASB has not yet been adopted and reflected by the Registrants in their consolidated financial statements. Unless otherwise indicated, the Registrants are currently assessing the impacts such guidance may have (which could be material) on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures, as well as the potential to early adopt where applicable. The Registrants have assessed other FASB issuances of new standards which are not listed below given the current expectation such standards will not significantly impact the Registrants' financial reporting.

Revenue from Contracts with Customers (Issued May 2014 and subsequently amended to address implementation questions): Changes the criteria for recognizing revenue from a contract with a customer. The new revenue recognition guidance, including subsequent amendments, is effective for annual reporting periods beginning on or after December 15, 2017, with the option to early adopt the standard for annual periods beginning on or after December 15, 2016. Exelon has not early adopted this standard.

The new standard replaces existing guidance on revenue recognition, including most industry specific guidance, with a five step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows. In addition, the Registrants will be required to capitalize costs to acquire new contracts, and amortize such costs in a manner consistent with the transfer to the customer of the associated goods or services. The Registrants currently expense those costs as incurred. These expenses are not expected to be material to the Registrants' financial statements. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method).

The Registrants continue to assess the impacts this guidance may have on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures. In conducting this assessment, the Registrants have performed the following key activities:

- Actively participate in the AICPA Power and Utilities Industry Task Force (Industry Task Force) process to identify implementation issues and support the development of related implementation guidance;

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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- Evaluate existing contracts and revenue streams for potential changes in the amounts and timing of recognizing revenues under the new guidance;
- Evaluate and select the transition method; and
- Develop and implement the approach and process for complying with the new revenue recognition disclosure requirements.

While there continues to be some ongoing activities in all of these areas, the Registrants have substantially completed the evaluation of their collective contracts and revenue streams, as well as the evaluation of the transition method. Based on the work completed thus far, the Registrants have reached the following preliminary conclusions:

- The Registrants expect to apply the new guidance using the full retrospective method;
- During the second quarter 2017, certain previously open implementation issues have been substantially resolved, including the collectability of utility tariff sale contracts and the accounting for bundled sales contracts. The Utility Registrants' tariff sale contracts, including those with lower credit quality customers, are generally deemed to be probable of collection under the guidance and, thus, the timing of revenue recognition will continue to be based on the electricity or natural gas supplied in the period, consistent with current practice. Revenues recognized from bundled sales contracts are generally expected to be recognized based on the invoice price, consistent with current practice; and
- Contributions in aid of construction are expected to be outside of the scope of the standard and, therefore, will continue to be accounted for as a reduction to Property, Plant, and Equipment.

The Registrants generally anticipate that the implementation of the new standard will not have a material impact on the amount and timing of revenue recognition. However, certain implementation issues continue to be evaluated through the Industry Task Force process that could have an impact on the Registrants' Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Issued March 2017): The new standard will require significant changes to the accounting and presentation of pension and OPEB costs at the plan sponsor (i.e., Exelon) level. This guidance requires plan sponsors to separate net periodic pension cost and net periodic OPEB cost (together, net benefit cost) into the service cost component and other components; service cost will be presented as part of income from operations and the other components will be classified outside of income from operations on the Consolidated Statements of Operations and Comprehensive Income. Additionally, service cost is the only component eligible for capitalization (whereas under current GAAP, all components of net benefit cost are eligible for capitalization).

Exelon is currently evaluating the impact of this standard on its consolidated financial statements, including coordinating with its industry group and advisors. Generation, ComEd, PECO, BGE, BSC, PHI, Pepco, DPL, ACE and PHISCO participate in Exelon's single employer plans and apply multi-employer accounting. Multi-employer accounting is not impacted by this standard, so there is no impact on Exelon's subsidiary financial statements.

The standard is effective January 1, 2018 and requires retrospective application for the presentation of the service cost component and the other components of net benefit cost and prospective application for the capitalization of only the service cost component of net benefit cost. Exelon will not early adopt this standard.

Leases (Issued February 2016): Increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing

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arrangements. The guidance requires lessees to recognize both the right-of-use assets and lease liabilities in the balance sheet for most leases, whereas today only financing type lease liabilities (capital leases) are recognized in the balance sheet. This is expected to require significant changes to systems, processes and procedures in order to recognize and measure leases recorded on the balance sheet that are currently classified as operating leases. In addition, the definition of a lease has been revised in regards to when an arrangement conveys the right to control the use of the identified asset under the arrangement which may result in changes to the classification of an arrangement as a lease. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. The accounting applied by a lessor is largely unchanged from that applied under current GAAP. The standard is effective January 1, 2019. Early adoption is permitted, however the Registrants do not expect to early adopt the standard. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Refer to Note 24 — Commitments and Contingencies of the Combined Notes to the Consolidated Financial Statements in the Exelon 2016 Form 10-K for additional information regarding operating leases.

Impairment of Financial Instruments (Issued June 2016): Provides for a new Current Expected Credit Loss (CECL) impairment model for specified financial instruments including loans, trade receivables, debt securities classified as held-to-maturity investments and net investments in leases recognized by a lessor. Under the new guidance, on initial recognition and at each reporting period, an entity is required to recognize an allowance that reflects the entity’s current estimate of credit losses expected to be incurred over the life of the financial instrument. The standard does not make changes to the existing impairment models for non-financial assets such as fixed assets, intangibles and goodwill. The standard will be effective January 1, 2020 (with early adoption as of January 1, 2019 permitted) and, for most debt instruments, requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Goodwill Impairment (issued January 2017): Simplifies the accounting for goodwill impairment by removing Step 2 of the current test, which requires calculation of a hypothetical purchase price allocation. Under the revised guidance, goodwill impairment will be measured as the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill (currently Step 1 of the two step impairment test). Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Exelon, Generation, ComEd, PHI, and DPL have goodwill as of June 30, 2017. This updated guidance is not currently expected to impact the Registrants’ financial reporting. The standard is effective January 1, 2020, with early adoption permitted, and must be applied on a prospective basis.

Clarifying the Definition of a Business (issued January 2017): Clarifies the definition of a business with the objective of addressing whether acquisitions should be accounted for as acquisitions of assets or as acquisitions of businesses. If substantially all the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. If the fair value of the assets acquired is not concentrated in a single identifiable asset or a group of similar identifiable assets, then an entity must evaluate whether an input and a substantive process exist, which together significantly contribute to the ability to produce outputs. The standard also revises the definition of outputs to focus on goods and services to customers. The standard could result in more acquisitions being accounted for as asset acquisitions. The standard is effective January 1, 2018, with early adoption permitted, and will be applied prospectively.

Intra-Entity Transfers of Assets Other Than Inventory (Issued October 2016): Requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs (current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party). The standard is effective January 1, 2018 with early adoption permitted. The guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Issued August 2016) and Restricted Cash (Issued November 2016): In 2016, the FASB issued two standards impacting the Statement of Cash Flows. The first adds or clarifies guidance on the classification of certain cash receipts and payments on the statement of cash flows as follows: debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and bank-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, and the application of the predominance principle to separately identifiable cash flows. The second states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows (instead of being presented as cash flow activities). Exelon will adopt both standards on January 1, 2018 on a retrospective basis. Adoption of the second standard will result in a change in presentation of restricted cash on the face of the Statement of Cash Flows; otherwise the Registrants expect that adoption of the guidance will have insignificant impacts on the Registrants' Consolidated Statements of Cash Flows and disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities (Issued January 2016): (i) Requires all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies, to be carried at fair value through net income, (ii) requires an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected, (iii) amends several disclosure requirements, including the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and (iv) requires disclosure of the fair value of financial assets and liabilities measured at amortized cost at the amount that would be received to sell the asset or paid to transfer the liability. The standard is effective January 1, 2018 with early adoption permitted. The guidance is required to be applied retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method).

3. Variable Interest Entities (All Registrants)

A VIE is a legal entity that possesses any of the following characteristics: an insufficient amount of equity at risk to finance its activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest) or equity owners who do not have the obligation to absorb expected losses or the right to receive the expected residual returns of the entity. Companies are required to consolidate a VIE if they are its primary beneficiary, which is the enterprise that has the power to direct the activities that most significantly affect the entity's economic performance.

At June 30, 2017 and December 31, 2016, Exelon, Generation, BGE, PHI and ACE collectively consolidated seven and nine VIEs or VIE groups, respectively, for which the applicable Registrant was the primary beneficiary (*see Consolidated Variable Interest Entities below*). As of June 30, 2017 and December 31, 2016, Exelon and Generation collectively had significant interests in seven and eight, respectively, other VIEs for which the applicable Registrant does not have the power to direct the entities' activities and, accordingly, was not the primary beneficiary (*see Unconsolidated Variable Interest Entities below*).

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Consolidated Variable Interest Entities

RSB BondCo LLC (BondCo) is a special purpose bankruptcy remote limited liability company formed by BGE to acquire, hold, issue and service bonds secured by rate stabilization property. BGE is required to remit all payments it receives from all residential customers through non-bypassable, rate stabilization charges to BondCo. On April 3, 2017, the rate stabilization bonds were fully redeemed. During the three and six months ended June 30, 2017, BGE remitted $3 million and $22 million to BondCo, respectively, with all of the final $3 million remitted through June 30, 2017 after the bonds were fully redeemed. During the three and six months ended June 30, 2016, BGE remitted $21 million and $42 million to BondCo, respectively.

Upon the redemption of the bonds, BondCo no longer meets the definition of a variable interest entity and is removed from the list of consolidated VIEs noted below. However, BondCo will continue to be consolidated by BGE under the voting interest model.

During 2009, Constellation formed a retail gas group to enter into a collateralized gas supply agreement with a third-party gas supplier. Upon assessment, the retail gas group was determined to be a VIE because there was not sufficient equity to fund the group’s activities without additional credit support and a $75 million parental guarantee provided by Generation. As the primary beneficiary, Generation consolidated the retail gas group. During the second quarter of 2017, the collateral structure was terminated with the third-party gas supplier except for the $75 million parental guarantee provided by Generation. Although the parental guarantee will remain, this is considered customary and reasonable for the unsecured position Generation has with the third-party gas supplier. As a result of the termination, the retail gas group no longer meets the definition of a VIE and is removed from the list of consolidated VIEs noted below. However, the retail gas group will continue to be consolidated by Generation under the voting interest model.

Exelon’s, Generation’s, PHI’s and ACE’s consolidated VIEs consist of:

- A group of solar project limited liability companies formed by Generation to build, own and operate solar power facilities,
- several wind project companies designed by Generation to develop, construct and operate wind generation facilities,
- a group of companies formed by Generation to build, own and operate other generating facilities,
- certain retail power and gas companies for which Generation is the sole supplier of energy,
- CENG,
- 2015 ESA Investco, LLC, a company that holds an equity method investment in a distributed energy company, and
- ATF, a special purpose entity formed by ACE for the purpose of securitizing authorized portions of ACE’s recoverable stranded costs through the issuance and sale of transition bonds.

As of June 30, 2017 and December 31, 2016, ComEd, PECO, Pepco and DPL did not have any material consolidated VIEs.

As of June 30, 2017 and December 31, 2016, Exelon, Generation, PHI and ACE provided the following support to their respective consolidated VIEs:

- Generation provides operating and capital funding to the solar and wind entities for ongoing construction, operations and maintenance of the solar and wind power facilities and there is limited recourse to Generation related to certain solar and wind entities.

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- Generation provides approximately $30 million in credit support for the retail power and gas companies for which Generation is the sole supplier of energy.
- Generation provides operating and capital funding to the other generating facilities for ongoing construction, operations and maintenance and provides a parental guarantee of up to $275 million in support of the payment obligations related to the Engineering, Procurement and Construction contract in support of one of its other generating facilities.
- Generation and Exelon, where indicated, provide the following support to CENG (see Note 5 —Investment in Constellation Energy Nuclear Group, LLC and Note 27—Related Party Transactions of the Exelon 2016 Form 10-K for additional information regarding Generation’s and Exelon’s transactions with CENG):
  - under the NOSA, Generation conducts all activities related to the operation of the CENG nuclear generation fleet owned by CENG subsidiaries (the CENG fleet) and provides corporate and administrative services for the remaining life and decommissioning of the CENG nuclear plants as if they were a part of the Generation nuclear fleet, subject to the CENG member rights of EDF,
  - under the Power Services Agency Agreement (PSAA), Generation provides scheduling, asset management and billing services to the CENG fleet for the remaining operating life of the CENG nuclear plants,
  - under power purchase agreements with CENG, Generation purchased or will purchase 50.01% of the available output generated by the CENG nuclear plants not subject to other contractual agreements from January 2015 through the end of the operating life of each respective plant. However, pursuant to amendments dated March 31, 2015, the energy obligations under the Ginna Nuclear Power Plant (Ginna) PPAs were suspended during the term of the Reliability Support Services Agreement (RSSA), through the end of March 31, 2017. With the expiration of the RSSA, the PPA was reinstated beginning April 1, 2017 (see Note 5 — Regulatory Matters for additional details),
  - Generation provided a $400 million loan to CENG. As of June 30, 2017, the remaining obligation is $324 million, including accrued interest, which reflects the principal payment made in January 2015,
  - Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation’s obligations under this Indemnity Agreement. (See Note 17 — Commitments and Contingencies for more details),
  - Generation and EDF share in the $637 million of contingent payment obligations for the payment of contingent retrospective premium adjustments for the nuclear liability insurance,
  - Generation provides a guarantee of approximately $8 million associated with hazardous waste management facilities and underground storage tanks. In addition, EDF executed a reimbursement agreement that provides reimbursement to Exelon for 49.99% of any amounts paid by Generation under this guarantee,
  - Generation and EDF are the members-insured with Nuclear Electric Insurance Limited and have assigned the loss benefits under the insurance and the NEIL premium costs to CENG and guarantee the obligations of CENG under these insurance programs in proportion to their respective member interests (see Note 17 — Commitments and Contingencies for more details), and
  - Exelon has executed an agreement to provide up to $245 million to support the operations of CENG as well as a $165 million guarantee of CENG’s cash pooling agreement with its subsidiaries.

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- In the case of ATF, proceeds from the sale of each series of transition bonds by ATF were transferred to ACE in exchange for the transfer by ACE to ATF of the right to collect a non-bypassable Transition Bond Charge from ACE customers pursuant to bondable stranded costs rate orders issued by the NJBPU in an amount sufficient to fund the principal and interest payments on transition bonds and related taxes, expenses and fees. During the three and six months ended June 30, 2017, ACE transferred $8 million and $27 million to ATF, respectively. During the three and six months ended June 30, 2016, ACE transferred $12 million and $26 million to ATF, respectively.

For each of the consolidated VIEs, except as otherwise noted:

- the assets of the VIEs are restricted and can only be used to settle obligations of the respective VIE;
- Exelon, Generation, PHI and ACE did not provide any additional material financial support to the VIEs;
- Exelon, Generation, PHI and ACE did not have any material contractual commitments or obligations to provide financial support to the VIEs; and
- the creditors of the VIEs did not have recourse to Exelon's, Generation's, PHI's or ACE's general credit.

The carrying amounts and classification of the consolidated VIEs' assets and liabilities included in the Registrants' consolidated financial statements at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017				December 31, 2016				
	Exelon(a)	Generation	*Successor* PHI (a)	ACE	Exelon(a)(b)	Generation	BGE	*Successor* PHI (a)	ACE
Current assets	$ 512	$ 501	$ 11	$ 7	$ 954	$ 916	$23	$ 14	$ 9
Noncurrent assets	8,617	8,585	32	23	8,563	8,525	3	35	23
Total assets	$9,129	$ 9,086	$ 43	$ 30	$ 9,517	$ 9,441	$26	$ 49	$ 32
Current liabilities	$ 573	$ 535	$ 38	$ 34	$ 885	$ 802	$42	$ 42	$ 37
Noncurrent liabilities	2,723	2,640	83	74	2,713	2,612	—	101	89
Total liabilities	$3,296	$ 3,175	$ 121	$108	$ 3,598	$ 3,414	$42	$ 143	$126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.

Assets and Liabilities of Consolidated VIEs

Included within the balances above are assets and liabilities of certain consolidated VIEs for which the assets can only be used to settle obligations of those VIEs, and liabilities that creditors or beneficiaries do not have recourse to the general credit of the Registrants. As of June 30, 2017 and December 31, 2016, these assets and liabilities primarily consisted of the following:

	June 30, 2017				December 31, 2016				
	Exelon (a)	Generation	*Successor* PHI (a)	ACE	Exelon(a)(b)	Generation	BGE	*Successor* PHI (a)	ACE
Cash and cash equivalents	$ 68	$ 68	$ —	$ —	$ 150	$ 150	$—	$ —	$ —
Restricted cash	55	48	7	7	59	27	23	9	9
Accounts receivable, net									
Customer	106	106	—	—	371	371	—	—	—
Other	24	24	—	—	48	48	—	—	—
Mark-to-market derivatives assets	—	—	—	—	31	31	—	—	—
Inventory									
Materials and supplies	193	193	—	—	199	199	—	—	—
Other current assets	38	34	4	—	50	44	—	5	—
Total current assets	484	473	11	7	908	870	23	14	9
Property, plant and equipment, net	5,293	5,293	—	—	5,415	5,415	—	—	—
Nuclear decommissioning trust funds	2,341	2,341	—	—	2,185	2,185	—	—	—
Goodwill	—	—	—	—	47	47	—	—	—
Mark-to-market derivative assets	—	—	—	—	23	23	—	—	—
Other noncurrent assets	267	235	32	23	315	277	3	35	23
Total noncurrent assets	7,901	7,869	32	23	7,985	7,947	3	35	23
Total assets	$ 8,385	$ 8,342	$ 43	$ 30	$ 8,893	$ 8,817	$26	$ 49	$ 32
Long-term debt due within one year	$ 191	$ 154	$ 37	$ 33	$ 181	$ 99	$41	$ 40	$ 35
Accounts payable	80	80	—	—	269	269	—	—	—
Accrued expenses	48	47	1	1	119	116	1	2	2
Mark-to-market derivative liabilities	—	—	—	—	60	60	—	—	—
Unamortized energy contract liabilities	16	16	—	—	15	15	—	—	—
Other current liabilities	5	5	—	—	30	30	—	—	—
Total current liabilities	340	302	38	34	674	589	42	42	37
Long-term debt	616	533	83	74	641	540	—	101	89
Asset retirement obligations	1,954	1,954	—	—	1,904	1,904	—	—	—
Pension obligation(c)	—	—	—	—	9	9	—	—	—
Unamortized energy contract liabilities	13	13	—	—	22	22	—	—	—
Other noncurrent liabilities	98	98	—	—	106	106	—	—	—
Total noncurrent liabilities	2,681	2,598	83	74	2,682	2,581	—	101	89
Total liabilities	$ 3,021	$ 2,900	$ 121	$108	$ 3,356	$ 3,170	$42	$ 143	$126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.
(c) Includes the CNEG retail gas pension obligation, which is presented as a net asset balance within the Prepaid pension asset line item on Generation's Consolidated Balance Sheets. See Note 13 — Retirement Benefits for additional details.

Unconsolidated Variable Interest Entities

Exelon's and Generation's variable interests in unconsolidated VIEs generally include equity investments and energy purchase and sale contracts. For the equity investments, the carrying amount of the investments is reflected on Exelon's and Generation's Consolidated Balance Sheets in Investments. For the energy purchase and sale contracts (commercial agreements), the carrying amount of assets and liabilities in Exelon's and Generation's Consolidated Balance Sheets that relate to their involvement with the VIEs are predominantly related to working capital accounts and generally represent the amounts owed by, or owed to, Exelon and Generation for the deliveries associated with the current billing cycles under the commercial agreements. Further, Exelon and Generation have not provided material debt or equity support, liquidity arrangements or performance guarantees associated with these commercial agreements.

The Registrants' unconsolidated VIEs consist of:

- Energy purchase and sale agreements with VIEs for which Generation has concluded that consolidation is not required.
- Asset sale agreement with ZionSolutions, LLC and EnergySolutions, Inc. in which Generation has a variable interest but has concluded that consolidation is not required.
- Equity investments in distributed energy companies and energy generating facilities for which Generation has concluded that consolidation is not required.

As of June 30, 2017 and December 31, 2016, Exelon and Generation had significant unconsolidated variable interests in seven and eight VIEs, respectively, for which Exelon or Generation, as applicable, was not the primary beneficiary; including certain equity investments and certain commercial agreements. The decrease in the number of unconsolidated VIEs is due to the sale of an equity investment in an energy generating facility. Exelon and Generation only include unconsolidated VIEs that are individually material in the tables below. However, Generation has several individually immaterial VIEs that in aggregate represent a total investment of $16 million. These immaterial VIEs are equity and debt securities in energy development companies. The maximum exposure to loss related to these securities is limited to the $16 million included in Investments on Exelon's and Generation's Consolidated Balance Sheets. The risk of a loss was assessed to be remote and, accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss.

In June 2015, 2015 ESA Investco, LLC, then a wholly owned subsidiary of Generation, entered into an arrangement to purchase a 90% equity interest and 99% of the tax attributes of a distributed energy company, which is an unconsolidated VIE. In November 2015, Generation sold 69% of its equity interest in 2015 ESA Investco, LLC to a tax equity investor. Generation and the tax equity investor contributed a total of $227 million of equity incrementally from inception through the first quarter of 2017 in proportion of their ownership interests. Generation and the tax equity investor provided a parental guarantee of up to $275 million in proportion to their ownership interests in support of 2015 ESA Investco, LLC's obligation to make equity contributions to the distributed energy company. As all equity contributions were made as of the first quarter 2017, there is no further payment obligation under the parental guarantee.

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The following tables present summary information about Exelon's and Generation's significant unconsolidated VIE entities:

June 30, 2017	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[a]	$ 641	$ 529	$1,170
Total liabilities[a]	64	229	293
Exelon's ownership interest in VIE[a]	—	268	268
Other ownership interests in VIE[a]	577	32	609
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	268	268
Contract intangible asset	9	—	9
Debt and payment guarantees	—	—	—
Net assets pledged for Zion Station decommissioning[b]	6	—	6

December 31, 2016	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[a]	$ 638	$ 567	$1,205
Total liabilities[a]	215	287	502
Exelon's ownership interest in VIE[a]	—	248	248
Other ownership interests in VIE[a]	423	32	455
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	264	264
Contract intangible asset	9	—	9
Debt and payment guarantees	—	3	3
Net assets pledged for Zion Station decommissioning[b]	9	—	9

(a) These items represent amounts on the unconsolidated VIE balance sheets, not on Exelon's or Generation's Consolidated Balance Sheets. These items are included to provide information regarding the relative size of the unconsolidated VIEs.

(b) These items represent amounts on Exelon's and Generation's Consolidated Balance Sheets related to the asset sale agreement with ZionSolutions, LLC. The net assets pledged for Zion Station decommissioning includes gross pledged assets of $75 million and $113 million as of June 30, 2017 and December 31, 2016, respectively; offset by payables to ZionSolutions LLC of $69 million and $104 million as of June 30, 2017 and December 31, 2016, respectively. These items are included to provide information regarding the relative size of the ZionSolutions LLC unconsolidated VIE. See Note 12 — Nuclear Decommissioning for additional details.

For each of the unconsolidated VIEs, Exelon and Generation have assessed the risk of a loss equal to their maximum exposure to be remote and, accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss. In addition, there are no material agreements with, or commitments by, third parties that would affect the fair value or risk of their variable interests in these VIEs.

4. Mergers, Acquisitions and Dispositions (Exelon, Generation, PHI and Pepco)

Acquisition of James A. FitzPatrick Nuclear Generating Station (Exelon and Generation)

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station located in Scriba, New York from Entergy Nuclear FitzPatrick LLC (Entergy) for a total purchase price of $293 million, which consisted of a cash purchase price of $110 million and a net cost reimbursement to and on behalf of Entergy of $183 million. As part of the acquisition agreements, Generation provided nuclear fuel and reimbursed Entergy for incremental costs to prepare for and conduct a plant refueling

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

outage; and Generation reimbursed Entergy for incremental costs to operate and maintain the plant for the period after the refueling outage through the acquisition closing date. These reimbursements covered costs that Entergy otherwise would have avoided had it shut down the plant as originally intended in January 2017. The amounts reimbursed by Generation were offset by FitzPatrick's electricity and capacity sales revenues for this same post-outage period. As part of the transaction, Generation received the FitzPatrick NDT fund assets and assumed the obligation to decommission FitzPatrick. The NRC license for FitzPatrick expires in 2034. As of June 30, 2017, Generation had remitted purchase price consideration of $293 million (including $239 million of cash and $54 million of nuclear fuel) to and on behalf of Entergy.

The following table summarizes the acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the FitzPatrick acquisition by Generation as of June 30, 2017:

Cash paid for purchase price	$ 110
Cash paid for net cost reimbursement	129
Nuclear fuel transfer	54
Total consideration transferred	$ 293
Identifiable assets acquired and liabilities assumed	
Current assets	$ 58
Property, plant and equipment	278
Nuclear decommissioning trust funds	807
Other assets(a)	114
Total assets	$1,257
Current liabilities	$ 7
Asset retirement obligations	417
Pension and OPEB obligations	49
Deferred income taxes	144
Spent nuclear fuel obligation	110
Other liabilities	11
Total liabilities	$ 738
Total net identifiable assets, at fair value	$ 519
Bargain purchase gain (after-tax)	$ 226

(a) Includes a $110 million asset associated with a contractual right to reimbursement from the New York Power Authority (NYPA), a prior owner of FitzPatrick, associated with the DOE one-time fee obligation. See Note 24-Commitments and Contingencies of the Exelon 2016 Form 10-K for additional background regarding SNF obligations to the DOE.

The after-tax bargain purchase gain of $226 million is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and reflects differences in strategies between Generation and Entergy for the intended use and ultimate decommissioning of the plant.

The fair values of FitzPatrick's assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The valuations performed to assess the fair value of certain assets acquired and liabilities assumed are preliminary. Accounting guidance provides that the allocation of the purchase price may be modified up to one year from the date of the acquisition to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date; however, Generation expects to finalize these amounts by the end of 2017. The significant

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assets and liabilities for which preliminary valuation amounts are recognized at June 30, 2017 include the fair value of the decommissioning ARO, pension and OPEB obligations and related deferred tax liabilities. Any changes to the fair value assessments may materially impact the purchase price allocation and the amount of the recorded bargain purchase gain.

For the three and six months ended June 30, 2017, Exelon and Generation incurred $16 million and $47 million, respectively, of merger and integration related costs which are included within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Merger with Pepco Holdings, Inc. (Exelon)

Description of Transaction

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon's interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). Following the completion of the PHI Merger, Exelon and PHI completed a series of internal corporate organization restructuring transactions resulting in the transfer of PHI's unregulated business interests to Exelon and Generation and the transfer of PHI, Pepco, DPL and ACE to a special purpose subsidiary of EEDC.

Regulatory Matters

Approval of the merger in Delaware, New Jersey, Maryland and the District of Columbia was conditioned upon Exelon and PHI agreeing to certain commitments including where applicable: customer rate credits, funding for energy efficiency and delivery system modernization programs, a green sustainability fund, workforce development initiatives, charitable contributions, renewable generation and other required commitments. In addition, the orders approving the merger in Delaware, New Jersey, and Maryland include a "most favored nation" provision which, generally speaking, requires allocation of merger benefits proportionally across all the jurisdictions.

During the third and fourth quarters of 2016, Exelon and PHI filed proposals in Delaware, New Jersey and Maryland for amounts and allocations reflecting the application of the most favored nation provision, resulting in a total nominal cost of commitments of $513 million, excluding renewable generation commitments (approximately $444 million on a net present value basis amount, excluding renewable generation commitments and charitable contributions). These filings reflect agreements reached with certain parties to the merger proceedings in these jurisdictions. In 2016, the DPSC and NJBPU approved the amounts and allocations of the additional merger benefits for Delaware and New Jersey, respectively. On April 12, 2017, the MDPSC issued an order approving the amounts of the additional merger benefits for Maryland, but amending the proposed allocations of the benefits. The amended allocations do not have a material effect on any of the Registrants' financial statements. No changes in commitment cost levels are required in the District of Columbia.

During the second quarter of 2017, Exelon finalized the application of $8 million funding for low- and moderate-income customers in the Pepco Maryland and DPL Maryland service territories. This resulted in an adjustment to merger commitment costs recorded at Exelon Corporate, Pepco, and DPL. Exelon Corporate recorded an increase of $8 million and Pepco and DPL recorded a decrease of $6 million and $2 million, respectively, in Operating and maintenance expense.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following amounts represent total commitment costs for Exelon, PHI, Pepco, DPL and ACE that have been recorded since the acquisition date:

					Successor	
Description	**Expected Payment Period**	**Pepco**	**DPL**	**ACE**	**PHI**	**Exelon**
Rate credits	2016 — 2017	$ 91	$67	$101	$ 259	$ 259
Energy efficiency	2016 — 2021	—	—	—	—	122
Charitable contributions	2016 — 2026	28	12	10	50	50
Delivery system modernization	Q2 2017	—	—	—	—	22
Green sustainability fund	Q2 2017	—	—	—	—	14
Workforce development	2016 — 2020	—	—	—	—	17
Other		1	5	—	6	29
Total		$120	$84	$111	$ 315	$ 513

Pursuant to the orders approving the merger, Exelon made $73 million, $46 million and $49 million of equity contributions to Pepco, DPL and ACE, respectively, in the second quarter of 2016 to fund the after-tax amounts of the customer bill credit and the customer base rate credit commitments.

In addition, Exelon is committed to develop or to assist in the commercial development of approximately 37 MWs of new generation in Maryland, District of Columbia, and Delaware, 27 MWs of which are expected to be completed by 2018. These investments are expected to total approximately $137 million, are expected to be primarily capital in nature, and will generate future earnings at Exelon and Generation. Investment costs will be recognized as incurred and recorded on Exelon’s and Generation’s financial statements. Exelon has also committed to purchase 100 MWs of wind energy in PJM, to procure 120 MWs of wind RECs for the purpose of meeting Delaware’s renewable portfolio standards, and to maintain and promote energy efficiency and demand response programs in the PHI jurisdictions.

Pursuant to the various jurisdictions’ merger approval conditions, over specified periods Pepco, DPL and ACE are not permitted to reduce employment levels due to involuntary attrition associated with the merger integration process and have made other commitments regarding hiring and relocation of positions.

In July 2015, the OPC, Public Citizen, Inc., the Sierra Club and the Chesapeake Climate Action Network (CCAN) filed motions to stay the MDPSC order approving the merger. The Circuit Court judge issued an order denying the motions for stay on August 12, 2015. On January 8, 2016, the Circuit Court judge affirmed the MDPSC’s order approving the merger and denied the petitions for judicial review filed by the OPC, the Sierra Club, CCAN and Public Citizen, Inc. On January 19, 2016, the OPC filed a notice of appeal to the Maryland Court of Special Appeals, and on January 21, the Sierra Club and CCAN filed notices of appeal. On January 27, 2017, the Maryland Court of Special Appeals affirmed the Circuit Court’s judgment that the MDPSC did not err in approving the merger. The OPC and Sierra Club filed petitions seeking further review in the Court of Appeals of Maryland, which is the highest court in Maryland. On June 21, 2017, the Court of Appeals granted discretionary review of the January 27, 2017 decision by the Maryland Court of Special Appeals. The Maryland Court of Appeals will review the OPC argument that the MDPSC did not properly consider the acquisition premium paid to PHI shareholders under Maryland’s merger approval standard and the Sierra Club’s argument that the merger would harm the renewable and distributed generation markets. The two lower courts examining these issues rejected these arguments, which Exelon believes are without merit. The petitioners’ briefs were filed on July 31, 2017, and briefs of Exelon and the MDPSC are due on August 30, 2017. The case is set for oral argument in October 2017.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Between March 25, 2016 and April 22, 2016, various parties filed motions with the DCPSC to reconsider its March 23, 2016 order approving the merger. On June 17, 2016, the DCPSC denied all motions. In August 2016, the District of Columbia Office of People's Counsel, the District of Columbia Government, and Public Citizen jointly with DC Sun each filed petitions for judicial review of the DCPSC's March 23, 2016 order with the District of Columbia Court of Appeals. On July 20, 2017, the Court issued an opinion rejecting all of appellants' arguments and affirming the Commission's decision approving the merger.

Accounting for the Merger Transaction

The total purchase price consideration of approximately $7.1 billion for the PHI Merger consisted of cash paid to PHI shareholders, cash paid for PHI preferred securities and cash paid for PHI stock-based compensation equity awards as follows:

(In millions of dollars, except per share data)	**Total Consideration**
Cash paid to PHI shareholders at $27.25 per share (254 million shares outstanding at March 23, 2016)	$ 6,933
Cash paid for PHI preferred stock	180
Cash paid for PHI stock-based compensation equity awards(a)	29
Total purchase price	$ 7,142

(a) PHI's unvested time-based restricted stock units and performance-based restricted stock units issued prior to April 29, 2014 were immediately vested and paid in cash upon the close of the merger. PHI's remaining unvested time-based restricted stock units as of the close of the merger were cancelled. There were no remaining unvested performance-based restricted stock units as of the close of the merger.

PHI shareholders received $27.25 of cash in exchange for each share of PHI common stock outstanding as of the effective date of the merger. In connection with the Merger Agreement, Exelon entered into a Subscription Agreement under which it purchased $180 million of a new class of nonvoting, nonconvertible and nontransferable preferred securities of PHI prior to December 31, 2015. On March 23, 2016, the preferred securities were cancelled for no consideration to Exelon, and accordingly, the $180 million cash consideration previously paid to acquire the preferred securities was treated as purchase price consideration.

The preliminary valuations performed in the first quarter of 2016 were updated in the second, third, and fourth quarters of 2016. There were no adjustments to the purchase price allocation in the first quarter of 2017 and the purchase price allocation is now final.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Exelon applied push-down accounting to PHI, and accordingly, the PHI assets acquired and liabilities assumed were recorded at their estimated fair values on Exelon's and PHI's Consolidated Balance Sheets as of March 23, 2016, as follows:

Purchase Price Allocation [(a)]	
Current assets	$ 1,441
Property, plant and equipment	11,088
Regulatory assets	5,015
Other assets	248
Goodwill	4,005
Total assets	$21,797
Current liabilities	$ 2,752
Unamortized energy contracts	1,515
Regulatory liabilities	297
Long-term debt, including current maturities	5,636
Deferred income taxes	3,447
Pension and OPEB obligations	821
Other liabilities	187
Total liabilities	$14,655
Total purchase price	$ 7,142

(a) Amounts shown reflect the final purchase price allocation and the correction of a reporting error identified and corrected in the second quarter of 2016. The error had resulted in a gross up of certain assets and liabilities related to legacy PHI intercompany and income tax receivable and payable balances.

On its successor financial statements, PHI has recorded, beginning March 24, 2016, Membership interest equity of $7.2 billion, which is greater than the total $7.1 billion purchase price, reflecting the impact of a $59 million deferred tax liability recorded only at Exelon Corporate to reflect unitary state income tax consequences of the merger.

The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed totaled $4.0 billion, which was recognized as goodwill by PHI and Exelon at the acquisition date, reflecting the value associated with enhancing Exelon's regulated utility portfolio of businesses, including the ability to leverage experience and best practices across the utilities and the opportunities for synergies. For purposes of future required impairment assessments, the goodwill has been preliminarily assigned to PHI's reportable units Pepco, DPL and ACE in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. None of this goodwill is expected to be tax deductible.

Immediately following closing of the merger, $235 million of net assets included in the table above associated with PHI's unregulated business interests were distributed by PHI to Exelon. Exelon contributed $163 million of such net assets to Generation.

The fair values of PHI's assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows, future market prices and impacts of utility rate regulation. There were also judgments made to determine the expected useful lives assigned to each class of assets acquired.

Through its wholly owned rate regulated utility subsidiaries, most of PHI's assets and liabilities are subject to cost-of-service rate regulation. Under such regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. In applying the acquisition method of accounting, for regulated assets and liabilities included in rate base or otherwise earning a return (primarily property, plant and equipment and regulatory assets earning a return), no fair value adjustments were recorded as historical cost is viewed as a reasonable proxy for fair value.

Fair value adjustments were applied to the historical cost bases of other assets and liabilities subject to rate regulation but not earning a return (including debt instruments and pension and OPEB obligations). In these instances, a corresponding offsetting regulatory asset or liability was also established, as the underlying utility asset and liability amounts are recoverable from or refundable to customers at historical cost (and not at fair value) through the rate setting process. Similar treatment was applied for fair value adjustments to record intangible assets and liabilities, such as for electricity and gas energy supply contracts as further described below. Regulatory assets and liabilities established to offset fair value adjustments are amortized in amounts and over time frames consistent with the realization or settlement of the fair value adjustments, with no impact on reported net income. See Note 5 — Regulatory Matters for additional information regarding the fair value of regulatory assets and liabilities established by Exelon and PHI.

Fair value adjustments were recorded at Exelon and PHI for the difference between the contract price and the market price of electricity and gas energy supply contracts of PHI's wholly owned rate regulated utility subsidiaries. These adjustments are intangible assets and liabilities classified as unamortized energy contracts on Exelon's and PHI's Consolidated Balance Sheets as of June 30, 2017. The difference between the contract price and the market price at the acquisition date of the Merger was recognized for each contract as either an intangible asset or liability. In total, Exelon and PHI recorded a net $1.5 billion liability reflecting out-of-the-money contracts. The valuation of the acquired intangible assets and liabilities was estimated by applying either the market approach or the income approach depending on the nature of the underlying contract. The market approach was utilized when prices and other relevant information generated by market transactions involving comparable transactions were available. Otherwise the income approach, which is based upon discounted projected future cash flows associated with the underlying contracts, was utilized. In certain instances, the valuations were based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key estimates and inputs include forecasted power prices and the discount rate. The unamortized energy contract fair value adjustment amounts and the corresponding offsetting regulatory asset and liability amounts are amortized through Purchase power and fuel expense or Operating revenues, as applicable, over the life of the applicable contract in relation to the present value of the underlying cash flows as of the merger date.

As mentioned, under cost-of-service rate regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. Historical cost information therefore is the most relevant presentation for the financial statements of PHI's rate regulated utility subsidiary registrants, Pepco, DPL and ACE. As such, Exelon and PHI did not push-down the application of acquisition accounting to PHI's utility registrants, and therefore the financial statements of Pepco, DPL and ACE do not reflect the revaluation of any assets and liabilities.

The current impact of PHI, including its unregulated businesses, on Exelon's Consolidated Statements of Operations and Comprehensive Income includes:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating revenues	$ 1,113	$ 1,112	$2,332	$1,219
Net income (loss)	61	52	202	(262)

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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For the three and six months ended June 30, 2017 and 2016, the Registrants have recognized costs to achieve the PHI acquisition as follows:

Acquisition, Integration and Financing Costs[a]	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Exelon[b]	$ 8	$ 1	$ 17	$ 103
Generation	4	4	13	20
ComEd[c]	—	1	1	(7)
PECO	1	1	2	2
BGE[d]	1	(5)	2	(4)
Pepco[e]	1	(4)	2	23
DPL[f]	—	—	(7)	16
ACE	1	2	2	15

	Successor				Predecessor
Acquisition, Integration and Financing Costs[a]	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	March 24, 2016 to June 30, 2016	January 1, 2016 to March 23, 2016
PHI[g]	$ 2	$ (1)	$ (2)	$ 55	$ 29

(a) The costs incurred are classified primarily within Operating and maintenance expense in the Registrants' respective Consolidated Statements of Operations and Comprehensive Income, with the exception of the financing costs, which are included within Interest expense. Costs do not include merger commitments discussed above.

(b) Reflects costs (benefits) recorded at Exelon related to financing, including mark-to-market activity on forward-starting interest rate swaps.

(c) For the six months ended June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million, incurred at ComEd that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

(d) For the three and six months ended June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $6 million incurred at BGE that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

(e) For the three and six months ended June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $9 million incurred at Pepco that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

(f) For the six months ended June 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. For the three and six months ended June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $3 million incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

(g) For the six months ended June 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at PHI that have been deferred and recorded as a regulatory asset for anticipated recovery. For the three months ended June 30, 2016 and the Successor period March 24, 2016 to June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $12 million incurred at PHI that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

Pro-forma Impact of the Merger

The following unaudited pro forma financial information reflects the consolidated results of operations of Exelon as if the merger with PHI had taken place on January 1, 2015. The unaudited pro forma information was calculated after applying Exelon's accounting policies and adjusting PHI's results to reflect purchase accounting adjustments.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the merger events taken place on the dates indicated, or the future consolidated results of operations of the combined company.

	Three Months Ended June 30, 2016[(a)]	Six Months Ended June 30, 2016[(a)]	Year Ended December 31, 2016[(b)]
Total operating revenues	$ 6,910	$ 15,466	$ 32,342
Net income attributable to common shareholders	268	845	1,562
Basic earnings per share	$ 0.29	$ 0.92	$ 1.69
Diluted earnings per share	0.29	0.91	1.69

(a) The amounts above include adjustments for non-recurring costs directly related to the merger of $1 million and $641 million for the three and six months ended June 30, 2016, respectively, and intercompany revenue of $170 million for the six months ended June 30, 2016.

(b) The amounts above include adjustments for non-recurring costs directly related to the merger of $680 million and intercompany revenue of $171 million for the year ended December 31, 2016.

Asset Divestitures (Exelon, Generation, PHI and Pepco)

EGTP, a Delaware limited liability company, was formed in 2014 with the purpose of financing a portfolio of assets comprised of two combined-cycle gas turbines (CCGTs) and three peaking/simple cycle facilities consisting of approximately 3.4 GW of generation capacity in ERCOT North and Houston Zones. EGTP is an indirect wholly owned subsidiary of Exelon and Generation. Each of the aforementioned facilities is held through a wholly owned direct subsidiary of EGTP. EGTP also owns two equity method investments in shared facility companies. EGTP, its direct parent and its wholly owned subsidiaries secured a nonrecourse senior secured term loan facility, a revolving loan facility and certain commodity and interest rate swaps.

On May 2, 2017, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP, including the revolving credit facility. See Note 10 — Debt and Credit Agreements for details regarding the nonrecourse debt associated with EGTP. As a result, certain EGTP assets and liabilities were classified as held for sale at their respective fair values less costs to sell and included in the other current assets and other current liabilities balances on Exelon's and Generation's Consolidated Balance Sheets. At June 30, 2017, a $418 million pre-tax impairment loss was recorded within Operating and maintenance expense on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 6 — Impairment of Long-Lived Assets for further information.

On April 21, 2016, Generation completed the sale of the retired New Boston generating site, located in Boston, Massachusetts, resulting in a pre-tax gain of approximately $32 million.

On May 2, 2016, Pepco completed the sale of the New York Avenue land parcel, located in Washington D.C., resulting in a pre-tax gain of approximately $8 million at Pepco. Due to the fair value adjustments recorded at Exelon and PHI as part of purchase accounting, no gain was recorded in the Exelon and PHI Consolidated Statements of Operations and Comprehensive Income.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

5. Regulatory Matters (All Registrants)

Except for the matters noted below, the disclosures set forth in Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K reflect, in all material respects, the current status of regulatory and legislative proceedings of the Registrants. The following is an update to that discussion.

Illinois Regulatory Matters

Distribution Formula Rate (Exelon and ComEd). On April 13, 2017, ComEd filed its annual distribution formula rate with the ICC pursuant to EIMA. The filing establishes the revenue requirement used to set the rates that will take effect in January 2018 after the ICC's review and approval, which is due by December 2017. The revenue requirement requested is based on 2016 actual costs plus projected 2017 capital additions as well as an annual reconciliation of the revenue requirement in effect in 2016 to the actual costs incurred that year. ComEd's 2017 filing request includes a total increase to the revenue requirement of $96 million, reflecting an increase of $78 million for the initial revenue requirement for 2017 and an increase of $18 million related to the annual reconciliation for 2016. The revenue requirement for 2017 provides for a weighted average debt and equity return on distribution rate base of 6.47% inclusive of an allowed ROE of 8.40%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2016 provided for a weighted average debt and equity return on distribution rate base of 6.45% inclusive of an allowed ROE of 8.34%, reflecting the average rate on 30-year treasury notes plus 580 basis points less a performance metrics penalty of 6 basis points. See table below for ComEd's regulatory assets associated with its distribution formula rate. For additional information on ComEd's distribution formula rate filings see Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

On December 6, 2016, the ICC issued a final order approving the 2016 distribution formula rate, which included a total increase to the revenue requirement of $127 million, reflecting an increase of $134 million for the initial revenue requirement for 2016 and a decrease of $7 million related to the annual reconciliation for 2015. On December 20, 2016, the ICC granted ComEd's and other parties' joint application for rehearing on the impact that changing ComEd's OSHA recordable rate for 2014 and 2015 had on the revenue requirement approved in this order. On March 22, 2017, the ICC issued an order approving ComEd's proposal to reduce the 2016 revenue requirement by $18 million, which was reflected in customer rates in April 2017.

Illinois Future Energy Jobs Act (Exelon, Generation, and ComEd).

Background

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA was effective June 1, 2017, and includes, among other provisions, (1) a Zero Emission Standard (ZES) providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute and (7) support for low income rooftop and community solar programs.

Zero Emission Standard

FEJA includes a ZES that provides compensation through the procurement of ZECs targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet specific eligibility criteria.

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On July 21, 2017, Exelon and others submitted comments on the IPA's draft Procurement Plan. The IPA filed the plan with the ICC on July 31, 2017. The ICC has 45 days to approve the plan. Once the plan is approved by the ICC, bidders interested in participating in the procurement process will have 14 days to submit the required eligibility information and become qualified bidders. Generation's Clinton and Quad Cities nuclear plants will participate in the procurement process. Winning bidders will contract directly with Illinois utilities, including ComEd, for 10-year terms extending through May 31, 2027. The ZEC price will be based upon the current social cost of carbon as determined by the Federal government and is initially established at $16.50 per MWh of production, subject to annual future adjustments determined by the IPA for specified escalation and pricing adjustment mechanisms designed to lower the ZEC price based on increases in underlying energy and capacity prices. Utilities will be required to purchase an amount of ZECs equivalent to 16% of the actual amount of electricity delivered in 2014, subject to specified annual caps. For the initial delivery year, June 1, 2017 — May 31, 2018, the targeted procurement of ZECs, after applying the cap, is set at $235 million (ComEd's share is approximately $170 million). For subsequent delivery years, the IPA-approved targeted ZEC procurement amounts will change based on forward energy and capacity prices

ComEd currently expects to enter into contracts with winning bidders in the fourth quarter 2017, at which time it will begin recording an associated obligation and expense for the procurement of ZEC's. Winning bidders will be entitled to compensation for the sale of ZECs retroactive to the June 1, 2017 effective date of FEJA.

ComEd will recover all costs associated with purchasing ZECs through a new rate rider that provides for an annual reconciliation and true-up to actual costs incurred by ComEd to purchase ZECs, with any difference to be credited to or collected from ComEd's retail customers in subsequent periods with interest. ComEd began billing its retail customers under its new ZEC rate rider on June 1, 2017 and recorded a regulatory liability of $22 million as of June 30, 2017 for revenues recorded in advance of incurring expenses.

On February 14, 2017, two lawsuits were filed in the Northern District of Illinois against the IPA alleging that the state's ZEC program violates certain provisions of the U.S. Constitution. One lawsuit was filed by customers of ComEd, led by the Village of Old Mill Creek, and the other was brought by the EPSA and three other electric suppliers. Both lawsuits argue that the Illinois ZEC program will distort PJM's FERC-approved energy and capacity market auction system of setting wholesale prices, and seek a permanent injunction preventing the implementation of the program. Exelon intervened and filed motions to dismiss in both lawsuits. In addition, on March 31, 2017, plaintiffs in both lawsuits filed motions for preliminary injunction with the court; the court stayed briefing on the motions for preliminary injunction until the resolution of the motions to dismiss. On July 14, 2017, the court granted the motions to dismiss and also dismissed the motions for preliminary injunction. On July 17, 2017, the plaintiffs appealed the court's decisions to the U.S. Court of Appeals for the Seventh Circuit. Exelon cannot predict the outcome of these lawsuits. It is possible that resolution of these matters could have a material, unfavorable impact on Exelon's and Generation's results of operations, financial positions and cash flows.

See Note 7 — Early Nuclear Plant Retirements for additional information regarding the economic challenges facing Generation's Clinton and Quad Cities nuclear plants and the expected benefits of the ZES.

ComEd Electric Distribution Rates

FEJA extends the sunset date for ComEd's performance-based electric distribution formula rate from 2019 to the end of 2022, allows ComEd to revise the electric distribution formula rate to eliminate the ROE collar, and allows ComEd to implement a decoupling tariff if the electric distribution formula rate is terminated at any time. ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the

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favorable or unfavorable impacts to Operating revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began reflecting the impacts of this change in its electric distribution services costs regulatory asset in first quarter 2017. As of June 30, 2017, ComEd recorded an increase to Operating revenues and its electric distribution services costs regulatory asset of approximately $36 million for this change.

FEJA requires ComEd to make non-recoverable contributions to low income energy assistance programs of $10 million per year for 5 years as long as the electric distribution formula rate remains in effect. With the exception of these contributions, ComEd will recover from customers, subject to certain caps explained below, the costs it incurs pursuant to FEJA either through its electric distribution formula rate or other recovery mechanisms.

Energy Efficiency

Prior to FEJA, Illinois law required ComEd to implement cost-effective energy efficiency measures and, for a 10-year period ending May 31, 2018, cost-effective demand response measures to reduce peak demand by 0.1% over the prior year for eligible retail customers.

Beginning January 1, 2018, FEJA provides for new cumulative annual energy efficiency MWh savings goals for ComEd, which are designed to achieve 21.5% of cumulative persisting annual MWh savings by 2030, as compared to the deemed baseline of 88 million MWhs of electric power and energy sales. FEJA deems the cumulative persisting annual MWh savings to be 6.6% from 2012 through the end of 2017. ComEd expects to spend approximately $250 million to $400 million annually from 2017 through 2030 to achieve these energy efficiency MWh savings goals. In addition, FEJA extends the peak demand reduction requirement from 2018 to 2026. Because the new requirements apply beginning in 2018, FEJA extends the existing energy efficiency plans, which were due to end on May 31, 2017, through December 31, 2017. FEJA also exempts customers with demands over 10 MW from energy efficiency plans and requirements beginning June 1, 2017. On June 30, 2017, ComEd filed its 2018 — 2021 energy efficiency plan with the ICC, which must be approved no later than September 14, 2017.

FEJA allows ComEd to cancel its existing energy efficiency rate rider and replace it with an energy efficiency formula rate, and to defer energy efficiency costs (except for any voltage optimization costs which will be recovered through the electric distribution formula rate) as a separate regulatory asset that will be recovered through the energy efficiency formula rate over the weighted average useful life, as approved by the ICC, of the related energy efficiency measures. ComEd will earn a return on the energy efficiency regulatory asset at a rate equal to its weighted average cost of capital, which is based on a year-end capital structure and calculated using the same methodology applicable to ComEd’s electric distribution formula rate. Beginning January 1, 2018 through December 31, 2030, the return on equity that ComEd earns on its energy efficiency regulatory asset is subject to a maximum downward or upward adjustment of 200 basis points if ComEd’s cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. ComEd will be required to file an update to its energy efficiency formula rate on or before June 1 each year, with resulting rates effective in January of the following year. The annual update will be based on projected current year energy efficiency costs, PJM capacity revenues, and the projected year-end regulatory asset balance less any related deferred income taxes. The update will also include a reconciliation of any differences between the revenue requirement in effect for the prior year and the revenue requirement based on actual prior year costs and actual year-end energy efficiency regulatory asset balances less any related deferred income taxes. ComEd will record a regulatory asset or liability and corresponding increase or decrease to Operating revenues for any differences between the revenue requirement in effect and ComEd’s best estimate of the revenue requirement expected to be approved by the ICC for that year’s reconciliation.

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ComEd cancelled its existing energy efficiency rate rider effective June 2, 2017. ComEd will perform a reconciliation of revenues and costs incurred through the cancellation date and issue a one-time credit on retail customers' bills for any over-recoveries. As of June 30, 2017, ComEd's over-recoveries associated with its former energy efficiency rate rider were $88 million, which were reflected in Current regulatory liabilities on Exelon's and ComEd's Consolidated Balance Sheets as ComEd expects to provide the one-time credit to customers within the next twelve months.

Initial Energy Efficiency Formula Rate Filing

On June 9, 2017, ComEd filed its new initial energy efficiency formula rate with the ICC pursuant to FEJA. The filing establishes the formula under which energy efficiency rates will be calculated going forward and the revenue requirement used to set the initial rates for the period October 1, 2017 through December 31, 2017 subject to the ICC's review and approval, which is required by August 23, 2017. The initial revenue requirement is based on projected costs and projected PJM capacity revenues for the period from June 1, 2017 through December 31, 2017, and projected year-end 2017 energy efficiency regulatory asset balances (less any related deferred income taxes). ComEd requested an initial decrease in revenue requirement of $7 million reflecting higher projected PJM capacity revenues compared to projected energy efficiency costs and provides for a weighted average debt and equity return of 6.47% inclusive of an allowed ROE of 8.40%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2017 will be included in ComEd's 2018 energy efficiency formula rate filing and reflected in customer rates beginning January 2019. As of June 30, 2017, under the new formula rate, Exelon and ComEd deferred $21 million of energy efficiency costs as a regulatory asset. ComEd also recorded a regulatory liability of $2 million for the 2017 energy efficiency formula rate annual reconciliation.

2017 Energy Efficiency Formula Rate Filing

On June 30, 2017, ComEd filed its annual energy efficiency formula rate with the ICC pursuant to FEJA. The filing establishes the revenue requirement used to set rates that will take effect in January 2018 after the ICC's review and approval, which is due no later than September 14, 2017. The revenue requirement for 2018 is based on projected 2018 energy efficiency costs and PJM capacity revenues, and year-end 2018 energy efficiency regulatory asset balances (less any related deferred income taxes). In its 2017 filing ComEd requested a total increase to the revenue requirement of $12 million and provides for a weighted average debt and equity return of 6.47% inclusive of an allowed ROE of 8.40%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2018 will be included in ComEd's 2019 energy efficiency formula rate filing, and reflected in customer rates beginning January 2020.

Renewable Portfolio Standard

Existing Illinois law requires ComEd to purchase each year an increasing percentage of renewable energy resources for the customers for which it supplies electricity. This obligation is satisfied through the procurement of RECs. FEJA revises the Illinois RPS to require ComEd to procure RECs for all retail customers by June 2019, regardless of the customers' electricity supplier, and provides support for low-income rooftop and community solar programs, which will be funded by the existing Renewable Energy Resources Fund and ongoing RPS collections. FEJA also requires ComEd to use RPS collections to fund utility job training and workforce development programs in the amounts of $10 million in each of the years 2017, 2021, and 2025. ComEd recorded a $10 million and $20 million current and non-current liability, respectively, as of June 30, 2017 associated with this obligation. ComEd will recover all costs associated with purchasing RECs and funding utility job training and workforce development programs through a new RPS rate rider that provides for a reconciliation and true-up to actual costs, with any difference between revenues and expenses to be credited to or

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collected from ComEd's retail customers in subsequent periods with interest. The first reconciliation and true-up for RECs will occur in 2021 and cover revenues and costs for the four year period beginning June 1, 2017 through May 31, 2021. Subsequently, the RPS rate rider will provide for an annual reconciliation and true-up. ComEd began billing its retail customers under its new RPS rate rider on June 1, 2017 and recorded a related regulatory asset of $19 million as of June 30, 2017. Any over-recovered RPS costs will be deposited into a separate interest bearing bank account pursuant to FEJA, which will be classified as Restricted cash on Exelon's and ComEd's Consolidated Balance Sheets.

Customer Rate Increase Limitations

FEJA includes provisions intended to limit the average impact on ComEd customer rates for recovery of costs incurred under FEJA as follows: (1) for a typical ComEd residential customer, the average impact must be less than $0.25 cents per month, (2) for nonresidential customers with a peak demand less than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois commercial retail customers during 2015, and (3) for nonresidential customers with a peak demand greater than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois industrial retail customers during 2015.

On June 30, 2017, ComEd submitted a 10-year projection to the ICC of customer rate impacts for residential customers and nonresidential customers with a peak demand less than 10 MW. Such projections indicate that customer rate impacts will not exceed the limitations set by FEJA discussed below. Thereafter, beginning in 2018, ComEd must submit a report to the ICC for residential customers and nonresidential customers with a peak demand less than 10 MW by February 15th and June 30th of each year, respectively. For nonresidential customers with a peak demand greater than 10 MW, ComEd must submit a report to the ICC by May 1 of each year if a rate reduction will be necessary in the following year. For residential customers, the reports will include the actual costs incurred under FEJA during the preceding year and a rolling 10-year customer rate impact projection. The reports for nonresidential customers with a peak demand less than 10 MW will also include the actual costs incurred under FEJA during the preceding year, as well as the average annual rate increase from January 1, 2017 through the end of the preceding year and the average annual rate increase projected for the remainder of the 10-year period.

If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the first four years, ComEd is required to decrease costs associated with FEJA investments, including reductions to ZEC contract quantities. If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the last six years, ComEd is required to demonstrate how it will reduce FEJA investments to ensure compliance. If the actual residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations for any one year, ComEd is required to submit a corrective action plan to decrease future year costs to reduce customer rates to ensure future compliance. If the actual residential customer or nonresidential customer rate exceeds the limitations for two consecutive years, ComEd can offer to credit customers for amounts billed in excess of the limitations or ComEd can terminate FEJA investments. If ComEd chooses to terminate FEJA investments, the ICC shall order termination of ZEC contracts and further initiate proceedings to reduce energy efficiency savings goals and terminate support for low-income rooftop and community solar programs. ComEd is allowed to fully recover all costs incurred as of and up to the date of the programs' termination.

For the energy efficiency formula, ComEd records a regulatory asset or liability and corresponding increase or decrease to Operating revenues for any differences between the revenue requirement in effect and ComEd's best estimate of the revenue requirement expected to be approved by the ICC for that year's reconciliation. For

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the other rate riders be established under FEJA, ComEd records a regulatory asset or liability for any differences between revenues and incurred expenses.

Renewable Energy Resources (Exelon and ComEd). In accordance with legislation in effect on December 31, 2016, the IPA's Procurement Plans include the procurement of cost-effective renewable energy resources in amounts that equal or exceed a minimum target percentage of the total electricity that each electric utility supplies to its eligible retail customers. The June 1, 2016 target renewable energy resources obligation for the utilities was at least 11.5%. This obligation increases by at least 1.5% each year thereafter to an ultimate target of at least 25% by June 1, 2025. All goals are subject to rate impact criteria set forth by Illinois legislation. As of June 30, 2017, ComEd had purchased renewable energy resources or equivalents, such as RECs, in accordance with the IPA Procurement Plan. ComEd currently retires all RECs upon transfer and acceptance. ComEd is permitted to recover procurement costs of RECs from retail customers without mark-up through rates.

In accordance with FEJA that took effect on June 1, 2017, beginning with the plan or plans to be implemented in the 2017 delivery year, the IPA shall develop a long term renewable resources procurement plan (LT Plan). The RPS target percentages for the overall service territory have not changed through June 1, 2025 although FEJA extended the 25% RPS target to delivery years after 2025. Currently, each RES and each utility is responsible for the renewable resource obligation of the customers it supplies power for. Over time, this will change and the utility will procure renewable resources based on the retail load of substantially all customers in its service territory. For the delivery year beginning June 1, 2017, the LT Plan shall include cost effective renewable energy resources procured by the utility for the retail load the utility supplies and for 50% of the retail customer load supplied by Retail Electric Suppliers in the utility service territory on February 28, 2017. Utility procurement for RES supplied retail customer load will increase to 75% June 1, 2018 and to 100% beginning June 1, 2019.

Pennsylvania Regulatory Matters

Pennsylvania Procurement Proceedings (Exelon and PECO). Through PECO's PAPUC approved DSP Programs, PECO procures electric supply for its default electric customers through PAPUC approved competitive procurements.

On March 17, 2016, PECO filed its fourth DSP Program with the PAPUC proposing a 24-month term from June 1, 2017 through May 31, 2019, in compliance with electric generation procurement guidelines set forth in Act 129. On December 8, 2016, the PAPUC approved the fourth DSP Program for the modified 48-month term and deferred CAP Shopping to another proceeding. OCA and Low Income Advocates subsequently filed a Petition for Reconsideration and Clarification related to CAP Shopping. On March 16, 2017, the PAPUC granted reconsideration and consolidated the proceeding with the DSP II docket, which includes the pending CAP Shopping plan that would allow low-income CAP customers to purchase their generation supply from EGSs. PAPUC referred the consolidated proceedings to the Office of Administrative Law Judge for hearing and decision.

Pennsylvania Act 11 of 2012 (Exelon and PECO). In February 2012, Act 11 was signed into law, which provided the PAPUC authority to approve the implementation of a distribution system improvement charge (DSIC) in rates designed to recover capital project costs incurred to repair, improve or replace utilities' aging electric and natural gas distribution systems in Pennsylvania. Prior to recovering costs pursuant to a DSIC, the PAPUC's implementation order requires a utility to have a Long Term Infrastructure Improvement Plan (LTIIP) approved by the Commission, which outlines how the utility is planning to increase its investment for repairing, improving or replacing aging infrastructure. The PAPUC approved PECO's petition for its proposed electric DSIC and LTIIP on October 22, 2015 for spending of $275 million over a 5 year period through 2020. The

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PAPUC approved PECO’s petition for its proposed modified gas LTIIP on June 14, 2017 for spending of $762 million over a 10 year period through 2022.

Maryland Regulatory Matters

2017 Maryland Electric Distribution Rates (Exelon, PHI and Pepco). On March 24, 2017, Pepco filed an application with the MDPSC requesting an increase of $69 million based on a ROE of 10.1%. The application includes a request for an income tax adjustment to reflect full normalization of removal costs associated with pre-1981 property, which accounts for $18 million of the requested increase. Pepco expects a decision in the matter in the fourth quarter of 2017, but cannot predict how much of the requested rate increase the MDPSC will approve or if it will approve the requested income tax adjustment.

2017 Maryland Electric Distribution Rates (Exelon, PHI and DPL). On July 14, 2017, DPL filed an application with the MDPSC to increase its annual electric distribution base rates by $27 million based on a requested ROE of 10.1%. DPL expects a decision on the matter in the first quarter of 2018. DPL cannot predict how much of the requested increase the MDPSC will approve.

2016 Maryland Electric Distribution Rates (Exelon, PHI and DPL). On February 15, 2017, the MDPSC approved an increase in DPL electric distribution rates of $38 million based on a ROE of 9.6%. The new rates became effective for services rendered on or after February 15, 2017. The MDPSC also denied DPL’s request to continue its Grid Resiliency Program, through which DPL proposed to invest $4.6 million a year for two years to improve priority feeders and install single-phase reclosing fuse technology. The final order did not result in the recognition of any incremental regulatory assets or liabilities.

Cash Working Capital Order (Exelon and BGE). On November 17, 2016, the MDPSC rendered a decision in the proceeding to review BGE’s request to recover its cash working capital (CWC) requirement for its Provider of Last Resort service, also known as Standard Offer Service (SOS), as well as other components that make up the Administrative Charge, the mechanism that enables BGE to recover all of its SOS-related costs. The Administrative Charge is now comprised of five components: CWC, uncollectibles, incremental costs, return, and an administrative adjustment, which is an adder to the utility’s SOS rate to act as a proxy for retail suppliers’ costs. The Commission accepted BGE’s positions on recovery of CWC and pass-through recovery of BGE’s actual uncollectibles and incremental costs. The order also grants BGE a return on the SOS. The Commission ruled that the level of the administrative adjustment will be determined in BGE’s next rate case. On December 16, 2016, MDPSC Staff requested clarification concerning the amount of return on the SOS awarded to BGE and on December 19, 2016, the residential consumer advocate sought rehearing of the return awarded. On January 24, 2017, the MDPSC issued an order denying the MDPSC Staff request for clarification and the residential consumer advocate request for rehearing. On February 22, 2017, the residential consumer advocate filed an appeal of the MDPSC’s orders with the Circuit Court for Baltimore City. The residential consumer advocate filed its Memorandum on Appeal on June 5, 2017 and subsequent Reply Memoranda were filed by BGE and the MDPSC on July 7, 2017 and July 12, 2017, respectively. Oral arguments are scheduled for August 7, 2017. BGE cannot predict the outcome of this appeal.

Smart Meter and Smart Grid Investments (Exelon and BGE). In August 2010, the MDPSC approved a comprehensive smart grid initiative for BGE that included the planned installation of 2 million residential and commercial electric and natural gas smart meters at an expected total cost of $480 million of which $200 million was funded by SGIG. The MDPSC’s approval ordered BGE to defer the associated incremental costs, depreciation and amortization, and an appropriate return, in a regulatory asset until such time as a cost-effective advanced metering system is implemented. As of June 30, 2017 and December 31, 2016, the balance of BGE’s regulatory asset was $225 million and $230 million, respectively, representing incremental program deployment

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costs. The current quarter balance of $225 million consists of three major components, including $137 million of unamortized incremental deployment costs of the AMI program, $56 million of unamortized costs of the non-AMI meters replaced under the program, and $32 million related to post-test year incremental program deployment costs incurred prior to approval became effective June 2016. The balance as of June 30, 2017 reflects the impact of the cost disallowances and adjustments in BGE's 2015 electric and natural gas distribution rate case. The incremental deployment costs for the AMI program and the non-AMI meter components of the regulatory asset are being recovered through rates and amortized to expense over a 10 year period, while the post-test year incremental program deployment costs have not yet been approved for recovery by the MDPSC. A return on the regulatory asset is currently included in rates, except for the $56 million portion representing the unamortized cost of the retired non-AMI meters and a $32 million portion related to post-test year incremental program deployment costs.

As a combined result of the MDPSC orders in BGE's 2015 electric and natural gas distribution rate case, BGE recorded a $52 million charge in June 2016 to Operating and maintenance expense in Exelon's and BGE's Consolidated Statements of Operations and Comprehensive Income reducing certain regulatory assets and other long-lived assets and reclassified $56 million of non-AMI plant costs from Property, plant and equipment, net to Regulatory assets on Exelon's and BGE's Consolidated Balance Sheets. For further information, see Note 3 —Regulatory Matters of the Exelon 2016 Form 10-K.

Delaware Regulatory Matters

Gas Cost Rates (Exelon, PHI and DPL). DPL makes an annual GCR filing with the DPSC for the purpose of allowing DPL to recover natural gas procurement costs through customer rates. In August 2016, DPL made its 2016-2017 GCR filing. The rates proposed in the 2016-2017 GCR filing resulted in a GCR increase of approximately 14%. On September 20, 2016, the DPSC issued an order allowing DPL to place the new rates into effect on November 1, 2016, subject to refund and pending final DPSC approval. A settlement agreement was reached by all parties. On April 20, 2017, the DPSC issued an order which approved the settlement agreement and made the rates approved as final effective November 1, 2016.

2016 Electric and Natural Gas Distribution Rates (Exelon, PHI and DPL). On May 17, 2016, DPL filed an application with the DPSC to increase its annual electric and natural gas distribution base rates by $63 million (which was updated to $60 million on March 8, 2017) and $22 million, respectively, based on a requested ROE of 10.6%. Delaware law allowed DPL to put into effect $2.5 million of each of the rate increases effective July 16, 2016. On December 17, 2016, the DPSC approved an additional $29.6 million in electric distribution rates and an additional $10.4 million in natural gas distribution rates effective December 17, 2016, subject to refund based on the final DPSC orders.

On March 8, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate, Delaware Electric Users Group and the DPSC Staff in its electric distribution rate proceeding, which provides for an increase in DPL annual electric distribution base rates of $31.5 million based on an ROE of 9.7% compared to the $32.1 million increase previously put into effect. On May 23, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective June 1, 2017. Pursuant to the settlement agreement, no refund of the interim rates put into effect on July 16, 2016 and December 17, 2016 (as discussed above) is required.

On April 6, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate and the DPSC Staff in its natural gas distribution rate proceeding, which provides for an increase in DPL annual natural gas distribution base rates of $4.9 million based on an ROE of 9.7%. The settlement agreement also provides that DPL will refund amounts collected under the temporary rates effective July 16, 2016 and December 17, 2016 (as discussed above) in excess of the $4.9 million, and that the new rates will be effective within thirty days of DPSC

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approval of the settlement agreement. On June 6, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective July 1, 2017. Pursuant to the settlement agreement, a rate refund plus interest of approximately $5 million will be issued to customers beginning in August 2017 for which a regulatory liability has been recorded as of June 30, 2017.

District of Columbia Regulatory Matters

2016 Electric Distribution Rates (Exelon, PHI and Pepco). On June 30, 2016, Pepco filed an application with the DCPSC to increase its annual electric distribution base rates by $86 million, as updated to approximately $77 million on February 1, 2017, based on a requested ROE of 10.6%.

On July 25, 2017, the DCPSC issued an order granting Pepco an increase to its annual electric distribution base rates of $36.9 million based on an ROE of 9.5%. The new rates will be effective August 15, 2017. In its decision, the DCPSC ordered that the $25.6 million customer rate credit created as a result of the Exelon and PHI merger will be provided primarily to residential customers and some small commercial customers to offset the impact of this increase until that amount has been exhausted, which is expected to take approximately two years. Additionally, the Commission is holding approximately $6 million to $7 million of the customer rate credit for use toward a possible new class of customers for certain senior citizens and disabled persons. The DCPSC also held that Pepco’s bill stabilization adjustment, which decouples distribution revenues from utility customers from the amount of electricity delivered, will continue to be in place and that no refund of previously collected funds is required. Parties have 30 days from the date of the order to file for reconsideration with the DCPSC.

District of Columbia Power Line Undergrounding Initiative (Exelon, PHI and Pepco). The District of Columbia government enacted on an emergency basis (effective May 17, 2017) and thereafter on a permanent basis (effective July 11, 2017) legislation to amend the Electric Company Infrastructure Improvement Financing Act of 2014 (as amended) (the Infrastructure Improvement Financing Act) to authorize the District of Columbia Power Line Undergrounding (DC PLUG) initiative, a projected six year, $500 million project to place underground some of the District of Columbia’s most outage-prone power lines with $250 million of the project costs funded by Pepco and $250 million funded by the District of Columbia.

The $250 million of project costs funded by Pepco will be recovered through a volumetric surcharge on the electric bill of substantially all of Pepco’s customers in the District of Columbia. Pepco will earn a return on these project costs.

The $250 million of project costs funded by the District of Columbia will come from two sources. Project costs of $187.5 million will be funded through a charge assessed on Pepco by the District of Columbia; Pepco will recover this charge from customers through a volumetric distribution rider. The remaining costs up to $62.5 million are to be funded by the existing capital projects program of the District Department of Transportation (DDOT). Ownership and responsibility for the operation and maintenance of all the assets funded by the District of Columbia will be transferred to Pepco for a nominal amount upon completion. Pepco will not recover or earn a return on the cost of the assets transferred to it by the District of Columbia.

In accordance with the Infrastructure Improvement Financing Act, Pepco filed an application for approval of the first two-year portion of the DC PLUG initiative (the First Biennial Plan) on July 3, 2017. After the initial application, Pepco will be required to make two updated applications, one every two years until the project is completed. Pepco anticipates that the DCPSC will issue an order approving the First Biennial Plan in the fourth quarter of 2017. Upon the issuance of a DCPSC order approving the First Biennial Plan, Pepco will become obligated to pay $187.5 million to the District of Columbia over the six year project term, at which time it will record an obligation and offsetting regulatory asset.

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New Jersey Regulatory Matters

2017 Electric Distribution Rates (Exelon, PHI and ACE). On March 30, 2017, ACE submitted an application with the NJBPU to increase its electric distribution rates by approximately $70 million (before New Jersey sales and use tax), which was updated to $72.6 million on July 14, 2017, based upon a requested ROE of 10.1%. The application also requests approval of a rate surcharge mechanism called the “System Renewal Recovery Charge,” which would permit more timely recovery of certain costs associated with reliability and system renewal-related capital investments. ACE currently expects a decision in this matter in the first quarter of 2018, but cannot predict how much of the requested increase the NJBPU will approve.

2016 Electric Distribution Rates (Exelon, PHI and ACE). On August 24, 2016, the NJBPU issued an order approving a stipulation of settlement among ACE, the New Jersey Division of Rate Counsel, NJBPU Staff and Unimin Corporation, which, among other things, provided that a determination on ACE’s grid resiliency program, PowerAhead, would be separated into a phase II of the rate proceeding and decided at a later date. PowerAhead includes capital investments to enhance the resiliency of the system through improvements focused on improving the distribution system’s ability to withstand major storm events. A stipulation of settlement with respect to the PowerAhead program (the PowerAhead Stipulation) was approved by the NJBPU on May 31, 2017. As adopted, the PowerAhead program includes an approved investment level of $79 million to be recovered through the cost recovery mechanism described in the PowerAhead Stipulation. The NJBPU order adopting the PowerAhead Stipulation was effective on June 10, 2017.

Update and Reconciliation of Certain Under-Recovered Balances (Exelon, PHI and ACE). On February 1, 2017, ACE submitted its 2017 annual petition with the NJBPU seeking to reconcile and update (i) charges related to the recovery of above-market costs associated with ACE’s long-term power purchase contracts with the non-utility generators and (ii) costs related to surcharges for the New Jersey Societal Benefit Program (a statewide public interest program that is intended to benefit low income customers and address other public policy goals) and ACE’s uncollectible accounts. As filed, the net impact of adjusting the charges as proposed would have been an overall annual rate decrease of approximately $29 million (revised to approximately $32 million in April 2017, based upon an update for actuals through March 2017), including New Jersey sales and use tax. On May 31, 2017, the NJBPU approved a stipulation of settlement entered into by the parties providing for an overall annual rate decrease of approximately $32 million, effective June 1, 2017. The rate decrease was placed into effect provisionally, subject to a review by NJBPU and the Division of Rate Counsel of the final underlying costs for reasonableness and prudence. This rate decrease will have no effect on ACE’s operating income, since these revenues provide for recovery of deferred costs under an approved deferral mechanism. The matter is pending at the NJBPU.

New York Regulatory Matters

New York Clean Energy Standard (Exelon, Generation). On August 1, 2016, the New York Public Service Commission (NYPSC) issued an order establishing the CES, a component of which is the Tier 3 ZEC program targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet the criteria demonstrating public necessity as determined by the NYPSC. The New York State Energy Research and Development Authority (NYSERDA) will centrally procure the ZECs from eligible plants through a 12-year contract, to be administered in six two-year tranches, extending from April 1, 2017 through March 31, 2029. ZEC payments will be made to the eligible resources based upon the number of MWh produced, subject to specified caps and minimum performance requirements. The price to be paid for the ZECs under each tranche will be administratively determined using a formula based on the social cost of carbon as determined in 2016 by the federal government, subject to pricing adjustments designed to lower the ZEC price based on increase in underlying energy and capacity prices. The ZEC price for the first tranche has been set at $17.48 per

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MWh of production. Following the first tranche, the price will be updated bi-annually. Each Load Serving Entity (LSE) shall be required to purchase an amount of ZECs equivalent to its load ratio share of the total electric energy in the New York Control Area. Cost recovery from ratepayers shall be incorporated into the commodity charges on customer bills.

The NYPSC initially identified three plants eligible for the ZEC program: the FitzPatrick, Ginna, and Nine Mile Point nuclear facilities. As issued, the order also provided that the duration of the program beyond the first tranche was conditional upon a buyer purchasing the FitzPatrick facility and taking title prior to September 1, 2018. On November 18, 2016, the required contracts with NYSERDA were executed for Ginna and Nine Mile Point, in addition to Entergy's execution of the required contract for the FitzPatrick facility. On March 31, 2017, Generation closed on the acquisition of FitzPatrick. Generation is currently recognizing revenue for the sale of New York ZECs in the month following generation when the ZECs are transferred to NYSERDA. For the three months ended June 30, 2017 Generation has recognized $73 million of ZEC revenue.

Several parties filed with the NYPSC requests for rehearing or reconsideration of the CES. Generation and CENG also filed a request for clarification, or in the alternative limited rehearing, that the condition limiting the duration of the program beyond the first tranche be limited to the eligibility of the FitzPatrick plant only and have no bearing on Ginna or Nine Mile Point's eligibility for the full 12-year duration. On December 15, 2016, the NYPSC approved Generation's and CENG's petition to clarify this condition and denied all petitions for rehearing of the CES. Parties had until mid-April to appeal to New York State court the denials of the requests for rehearing. A Petition seeking to invalidate the ZEC program was filed in New York State court by certain environmental groups and other parties on November 30, 2016, and amended on January 13, 2017, arguing that the NYPSC violated certain technical provisions of the State Administrative Procedures Act (SAPA) when adopting the ZEC program. On February 15, 2017, Generation and CENG filed a motion to dismiss the state court action. The NYPSC also filed a motion to dismiss the state court action. On March 24, 2017, the plaintiffs filed a memorandum of law opposing the motions to dismiss, and Generation and CENG filed a reply brief on April 28, 2017. Oral argument was held on June 19, 2017. The motion is pending.

On October 19, 2016, a coalition of fossil generation companies filed a complaint in federal district court against the NYPSC alleging that the ZEC program violates certain provisions of the U.S. Constitution; specifically that the ZEC program interferes with FERC's jurisdiction over wholesale rates and that it discriminates against out of state competitors. On December 9, 2016, Generation and CENG filed a motion to intervene in the case and to dismiss the lawsuit. The State also filed a motion to dismiss. Briefing has been completed on the motion to dismiss, and oral argument was held on March 29, 2017. The motion to intervene has been granted. On July 25, 2017, the court granted both motions to dismiss. Plaintiffs are expected to appeal.

Other legal challenges remain possible, the outcomes of which remain uncertain. See Note 7 — Early Nuclear Plant Retirements for additional information relative to Ginna and Nine Mile Point. See Note 4 —Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick.

Ginna Nuclear Power Plant Reliability Support Services Agreement (Exelon and Generation). In November 2014, in response to a petition filed by Ginna Nuclear Power Plant (Ginna) regarding the possible retirement of Ginna, the NYPSC directed Ginna and Rochester Gas & Electric Company (RG&E) to negotiate a Reliability Support Services Agreement (RSSA) to support the continued operation of Ginna to maintain the reliability of the RG&E transmission grid for a specified period of time. During 2015 and 2016, Ginna and RG&E made filings with the NYPSC and FERC for their approval of the proposed RSSA. Although the RSSA was still subject to regulatory approvals, on April 1, 2015, Ginna began delivering the power and capacity from the Ginna plant into the ISO-NY consistent with the technical provisions of the RSSA.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

On March 22, 2016, Ginna submitted a compliance filing with FERC with revisions to the RSSA requested by FERC. On April 8, 2016, FERC accepted the compliance filing and on April 20, 2016, the NYPSC accepted the revised RSSA with a term expiring on March 31, 2017. In April 2016, Generation began recognizing revenue based on the final approved pricing contained in the RSSA and also recognized a one-time revenue adjustment of approximately $101 million representing the net cumulative previously unrecognized amount of revenue retroactive from the April 1, 2015 effective date through March 31, 2016. A 49.99% portion of the one-time adjustment was removed from Generation's results of operations as a result of the noncontrolling interests in CENG.

The RSSA required Ginna to continue operating through the RSSA term. On September 30, 2016, Ginna filed the required notice with the NYPSC of its intent to continue operating beyond the March 31, 2017 expiry of the RSSA, conditioned upon successful execution of an agreement between Ginna and NYSERDA for the sale of ZECs under the CES. As stated previously, on November 18, 2016 the required contract with NYSERDA was executed by Generation and CENG for Ginna. Upon the expiry of the RSSA on March 31, 2017, Ginna was required to make refund payments of $20 million to RG&E related to capital expenditures. Ginna paid RGE the $20 million in June 2017. Additionally, the provisions of the RSSA provided for a one-time payment of $12 million to be paid from RGE to Ginna at the end of the contract. This $12 million was recognized in revenue as of March 31, 2017. RGE paid the $12 million to Ginna in May 2017. Subject to prevailing over any administrative or legal challenges, it is expected the CES will allow Ginna to continue to operate through the end of its current operating license in 2029. See Note 7-Early Nuclear Plant Retirements for further information regarding the impacts of a decision to early retire one or more nuclear plants.

Federal Regulatory Matters

Transmission Formula Rate (Exelon, ComEd, BGE, Pepco, DPL and ACE). The following total increases/(decreases) were included in ComEd's, BGE's, Pepco's, DPL's and ACE's electric transmission formula rate filings:

	2017				
Annual Transmission Filings [a]	**ComEd**	**BGE**	**Pepco**	**DPL**	**ACE**
Initial revenue requirement increase	$ 44	$ 31	$ 5	$ 6	$ 20
Annual reconciliation (decrease) increase	(33)	3	15	8	22
Dedicated facilities decrease [b]	—	(8)	—	—	—
Total revenue requirement increase	$ 11	$ 26	$ 20	$ 14	$ 42
Allowed return on rate base [c]	8.43%	7.47%	7.92%	7.16%	8.02%
Allowed ROE [d]	11.50%	10.50%	10.50%	10.50%	10.50%

(a) All rates are effective June 2017, subject to review by the FERC and other parties, which is due by fourth quarter 2017.
(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.
(c) Represents the weighted average debt and equity return on transmission rate bases.
(d) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50% and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, Pepco, DPL and ACE, the rate of return on common equity is 10.50%, inclusive of a 50 basis point incentive adder for being a member of a regional transmission organization.

For additional information regarding transmission formula rate filings see Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

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Transmission Formula Rate (Exelon and PECO) On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50 basis point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. On June 27, 2017, FERC issued an Order accepting the filing and suspending the proposed rates until December 1, 2017, subject to refund, and set the matter for hearing and settlement judge procedures. PECO cannot predict the final outcome of the settlement or hearing proceedings, or the transmission formula FERC may approve.

PJM Transmission Rate Design and Operating Agreements (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). PJM Transmission Rate Design specifies the rates for transmission service charged to customers within PJM. Currently, ComEd, PECO, BGE, Pepco, DPL and ACE incur costs based on the existing rate design, which charges customers based on the cost of the existing transmission facilities within their load zone and the cost of new transmission facilities based on those who benefit from those facilities. In April 2007, FERC issued an order concluding that PJM's current rate design for existing facilities is just and reasonable and should not be changed. In the same order, FERC held that the costs of new facilities 500 kV and above should be socialized across the entire PJM footprint and that the costs of new facilities less than 500 kV should be allocated to the customers of the new facilities who caused the need for those facilities. A number of parties appealed to the U.S. Court of Appeals for the Seventh Circuit for review of the decision.

In August 2009, the court issued its decision affirming the FERC's order with regard to the existing facilities, but remanded to FERC the issue of the cost allocation associated with the new facilities 500 kV and above (Cost Allocation Issue) for further consideration by the FERC. On remand, FERC reaffirmed its earlier decision to socialize the costs of new facilities 500 kV and above. A number of parties filed appeals of these orders. In June 2014, the court again remanded the Cost Allocation Issue to FERC. On December 18, 2014, FERC issued an order setting an evidentiary hearing and settlement proceeding regarding the Cost Allocation Issue. On June 15, 2016, a number of parties, including Exelon and the Utility Registrants, filed a proposed Settlement with FERC. If the Settlement is approved, 50% of the costs of the 500 kV and above facilities approved by the PJM Board on or before February 1, 2013 will be socialized across PJM and 50% will be allocated according to a formula that calculates the flows on the transmission facilities. Each state that is a party in this proceeding either signed, or did not oppose, the settlement. The Settlement is opposed by a number of merchant transmission owners and New York load-serving entities. The Settlement includes provisions for monthly credits or charges that are expected to be mostly refunded or recovered through customer rates over a 10-year period based on negotiated numbers for charges prior to January 1, 2016.

Exelon expects that the Settlement will not have a material impact on the results of operations, cash flows and financial position of Generation, ComEd, PECO, BGE, Pepco, DPL or ACE. The Settlement is subject to approval by FERC.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs (Exelon and Generation). PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program — resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that require subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity

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grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs). However, in Exelon's view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation's facilities in NYISO and PJM expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon's and Generation's future cash flows and results of operations. The timing of FERC's decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

Operating License Renewals (Exelon and Generation). On August 29, 2012, Generation submitted a hydroelectric license application to FERC for a 46-year license for the Conowingo Hydroelectric Project (Conowingo). In connection with Generation's efforts to obtain a water quality certification pursuant to Section 401 of the Clean Water Act with Maryland Department of the Environment (MDE) for Conowingo, Generation continues to work with MDE and other stakeholders to resolve water quality licensing issues, including: (1) water quality, (2) fish habitat, and (3) sediment. In addition, Generation continues to work with MDE and other Federal and Maryland state agencies to conduct and fund an additional sediment and nutrient monitoring study.

On April 21, 2016, Exelon and Interior executed a Settlement Agreement resolving all fish passage issues between the parties. The financial impact of the Settlement Agreement is estimated to be $3 million to $7 million per year, on average, over the 46-year life of the new license, including both capital and operating costs. The actual timing and amount of these costs are not currently fixed and may vary significantly from year to year throughout the life of the new license. Resolution of the remaining issues relating to Conowingo involving various stakeholders may have a material effect on Exelon's and Generation's results of operations and financial position through an increase in capital expenditures and operating costs. As of June 30, 2017, $29 million of direct costs associated with Conowingo licensing efforts have been capitalized. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information on Generation's operating license renewal efforts.

Regulatory Assets and Liabilities (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE each prepare their consolidated financial statements in accordance with the authoritative guidance for accounting for certain types of regulation. Under this guidance, regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates or represent billings in advance of expenditures for approved regulatory programs.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

As a result of applying the acquisition method of accounting and pushing it down to the consolidated financial statements of PHI, certain regulatory assets and liabilities were established at Exelon and PHI to offset the impacts of fair valuing the acquired assets and liabilities assumed which are subject to regulatory recovery. In total, Exelon and PHI recorded a net $2.4 billion regulatory asset reflecting adjustments recorded as a result of the acquisition method of accounting. See Note 4 — Mergers, Acquisitions and Dispositions for additional information.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following tables provide information about the regulatory assets and liabilities of Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE as of June 30, 2017 and December 31, 2016. For additional information on the specific regulatory assets and liabilities, refer to Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

June 30, 2017	Exelon	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Regulatory assets								
Pension and other postretirement benefits (a)	$ 4,086	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes (b)	2,091	76	1,645	100	270	176	41	53
AMI programs	679	163	43	225	248	167	81	—
Under-recovered distribution service costs (c)	239	239	—	—	—	—	—	—
Energy efficiency costs	19	19	—	—	—	—	—	—
Debt costs	117	39	1	7	77	16	8	6
Fair value of long-term debt	782	—	—	—	645	—	—	—
Fair value of PHI's unamortized energy contracts	918	—	—	—	918	—	—	—
Severance	3	—	—	3	—	—	—	—
Asset retirement obligations	119	84	23	12	—	—	—	—
MGP remediation costs	289	266	23	—	—	—	—	—
Under-recovered uncollectible accounts	55	55	—	—	—	—	—	—
Renewable energy	258	256	—	—	2	—	1	1
Energy and transmission programs (d)(e)(f)(g)(h)(i)	69	8	1	21	39	6	6	27
Deferred storm costs	34	—	—	—	34	10	6	18
Electric generation-related regulatory asset	5	—	—	5	—	—	—	—
Energy efficiency and demand response programs	590	—	1	271	318	236	82	—
Merger integration costs (j)(k)	32	—	—	7	25	12	13	—
Under-recovered revenue decoupling (l)	74	—	—	35	39	31	8	—
COPCO acquisition adjustment	6	—	—	—	6	—	6	—
Workers compensation and long-term disability cost	34	—	—	—	34	34	—	—
Vacation accrual	47	—	22	—	25	—	15	10
Securitized stranded costs	108	—	—	—	108	—	—	108
CAP arrearage	10	—	10	—	—	—	—	—
Removal costs	500	—	—	—	500	138	95	268
Renewable portfolio standards costs	19	19	—	—	—	—	—	—
Other	55	8	9	6	32	21	8	4
Total regulatory assets	11,238	1,232	1,778	692	3,320	847	370	495
Less: current portion	1,293	182	46	197	605	165	71	89
Total non-current regulatory assets	$ 9,945	$1,050	$1,732	$495	$ 2,715	$682	$299	$406

June 30, 2017	Exelon	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Regulatory liabilities								
Other postretirement benefits	$ 43	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nuclear decommissioning	2,870	2,364	506	—	—	—	—	—
Removal costs	1,592	1,332	—	129	131	18	113	—
Deferred rent	38	—	—	—	38	—	—	—
Energy efficiency and demand response programs	128	88	39	—	1	1	—	—
DLC program costs	8	—	8	—	—	—	—	—
Electric distribution tax repairs	59	—	59	—	—	—	—	—
Gas distribution tax repairs	16	—	16	—	—	—	—	—
Energy and transmission programs (d)(e)(f)(g)(h)(i)	123	40	61	—	22	2	12	8
Rate stabilization deferral	3	—	—	3	—	—	—	—
Zero emission credit costs	22	22	—	—	—	—	—	—
Other	70	8	10	25	27	1	13	12
Total regulatory liabilities	4,972	3,854	699	157	219	22	138	20

Less: current portion	574	269	155	67	68	5	43	20
Total non-current regulatory liabilities	$ 4,398	$3,585	$ 544	$ 90	$ 151	$ 17	$ 95	$ —

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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December 31, 2016	Exelon	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Regulatory assets								
Pension and other postretirement benefits (a)	$ 4,162	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes (b)	2,016	75	1,583	98	260	171	38	51
AMI programs	701	164	49	230	258	174	84	—
Under-recovered distribution service costs (c)	188	188	—	—	—	—	—	—
Debt costs	124	42	1	7	81	17	9	6
Fair value of long-term debt	812	—	—	—	671	—	—	—
Fair value of PHI's unamortized energy contracts	1,085	—	—	—	1,085	—	—	—
Severance	5	—	—	5	—	—	—	—
Asset retirement obligations	111	76	23	12	—	—	—	—
MGP remediation costs	305	278	26	1	—	—	—	—
Under-recovered uncollectible accounts	56	56	—	—	—	—	—	—
Renewable energy	260	258	—	—	2	—	—	2
Energy and transmission programs (d)(e)(f)(g)(h)(i)	89	23	—	38	28	6	5	17
Deferred storm costs	36	—	—	1	35	12	5	18
Electric generation-related regulatory asset	10	—	—	10	—	—	—	—
Rate stabilization deferral	7	—	—	7	—	—	—	—
Energy efficiency and demand response programs	621	—	1	285	335	250	85	—
Merger integration costs (j)(k)	25	—	—	10	15	11	4	—
Under-recovered revenue decoupling (l)	27	—	—	3	24	21	3	—
COPCO acquisition adjustment	8	—	—	—	8	—	8	—
Workers compensation and long-term disability costs	34	—	—	—	34	34	—	—
Vacation accrual	31	—	7	—	24	—	14	10
Securitized stranded costs	138	—	—	—	138	—	—	138
CAP arrearage	11	—	11	—	—	—	—	—
Removal costs	477	—	—	—	477	134	88	255
Other	49	7	9	5	29	22	5	4
Total regulatory assets	11,388	1,167	1,710	712	3,504	852	348	501
Less: current portion	1,342	190	29	208	653	162	59	96
Total non-current regulatory assets	$10,046	$ 977	$1,681	$504	$ 2,851	$690	$289	$405

December 31, 2016	Exelon	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Regulatory liabilities								
Other postretirement benefits	$ 47	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nuclear decommissioning	2,607	2,169	438	—	—	—	—	—
Removal costs	1,601	1,324	—	141	136	18	118	—
Deferred rent	39	—	—	—	39	—	—	—
Energy efficiency and demand response programs	185	141	41	—	3	3	—	—
DLC program costs	8	—	8	—	—	—	—	—
Electric distribution tax repairs	76	—	76	—	—	—	—	—
Gas distribution tax repairs	20	—	20	—	—	—	—	—
Energy and transmission programs (d)(e)(f)(g)(h)(i)	134	60	56	—	18	8	5	5
Other	72	4	5	19	41	2	17	20
Total regulatory liabilities	4,789	3,698	644	160	237	31	140	25
Less: current portion	602	329	127	50	79	11	43	25
Total non-current regulatory liabilities	$ 4,187	$3,369	$ 517	$110	$ 158	$ 20	$ 97	$ —

(a) As of June 30, 2017 and December 31, 2016, the pension and other postretirement benefits regulatory asset at Exelon includes regulatory assets of $1,025 million and $995 million, respectively, as a result of the PHI Merger related to unrecognized costs that are probable of regulatory recovery. The regulatory assets are amortized over periods from 3 to 15 years, depending on the underlying component. Pepco, DPL and ACE are currently recovering these costs through base rates. Pepco, DPL and ACE are not earning a return on the recovery of these costs in base rates.

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(b) As of June 30, 2017, includes transmission-related regulatory assets that require FERC approval separate from the transmission formula rate of $22 million, $41 million, $33 million, $22 million and $20 million for ComEd, BGE, Pepco, DPL and ACE, respectively. As of December 31, 2016, includes transmission-related regulatory assets that require FERC approval separate from the transmission formula rate of $22 million, $38 million, $31 million, $20 million and $19 million for ComEd, BGE, Pepco, DPL and ACE, respectively. On December 13, 2016, BGE filed with FERC to begin recovering these existing and any similar future regulatory assets through its transmission formula rate. On May 9, 2017, FERC accepted BGE's filing and made effective BGE's proposed modifications to its transmission formula rate, subject to refund and further Commission order. ComEd, Pepco, DPL, and ACE are expected to make similar filings with FERC and other parties in subsequent periods.

(c) As of June 30, 2017, ComEd's regulatory asset of $239 million was comprised of $184 million for the 2015 — 2017 annual reconciliations and $55 million related to significant one-time events including $14 million of deferred storm costs, $9 million of Constellation and PHI merger and integration related costs, $3 million of emerald ash borer costs, and $29 million of smart meter related costs. As of December 31, 2016, ComEd's regulatory asset of $188 million was comprised of $134 million for the 2015 and 2016 annual reconciliations and $54 million related to significant one-time events, including $20 million of deferred storm costs and $11 million of Constellation and PHI merger and integration related costs, and $23 million of smart meter related costs. See Note 4 — Merger, Acquisitions, and Dispositions of the Exelon 2016 Form 10-K for further information.

(d) As of June 30, 2017, ComEd's regulatory asset of $8 million reflects Constellation merger and integration costs to be recovered upon FERC approval. As of June 30, 2017, ComEd's regulatory liability of $40 million included $8 million related to over-recovered energy costs and $32 million associated with revenues received for renewable energy requirements. As of December 31, 2016, ComEd's regulatory asset of $23 million included $15 million associated with transmission costs recoverable through its FERC approved formula rate and $8 million of Constellation merger and integration costs to be recovered upon FERC approval. As of December 31, 2016, ComEd's regulatory liability of $60 million included $30 million related to over-recovered energy costs and $30 million associated with revenues received for renewable energy requirements.

(e) As of June 30, 2017, PECO's regulatory asset of $1 million related to under-recovered electric transmission costs. As of June 30, 2017, PECO's regulatory liability of $61 million included $36 million related to over-recovered costs under the DSP program, $16 million related to the over-recovered natural gas costs under the PGC and $9 million related to over-recovered non-bypassable transmission service charges. As of December 31, 2016, PECO's regulatory liability of $56 million included $34 million related to over-recovered costs under the DSP program, $10 million related to over-recovered non-bypassable transmission service charges, $8 million related to the over-recovered natural gas costs under the PGC and $4 million related to the over-recovered electric transmission costs.

(f) As of June 30, 2017, BGE's regulatory asset of $21 million included $10 million related to under-recovered electric energy costs, $5 million related to under-recovered natural gas costs, $4 million of costs associated with transmission costs recoverable through its FERC approved formula rate and $2 million of abandonment costs to be recovered upon FERC approval. As of December 31, 2016, BGE's regulatory asset of $38 million included $4 million of costs associated with transmission costs recoverable through its FERC approved formula rate, $28 million related to under-recovered electric energy costs, $3 million of abandonment costs to be recovered upon FERC approval, and $3 million of under-recovered natural gas costs.

(g) As of June 30, 2017, Pepco's regulatory asset of $6 million included $2 million of transmission costs recoverable through its FERC approved formula rate and $4 million of under-recovered electric energy costs. As of June 30, 2017, Pepco's regulatory liability of $2 million related to over-recovered electric energy costs. As of December 31, 2016, Pepco's regulatory asset of $6 million related to under-recovered electric energy costs. As of December 31, 2016, Pepco's regulatory liability of $8 million included $5 million of over-recovered transmission costs and $3 million of over-recovered electric energy costs.

(h) As of June 30, 2017, DPL's regulatory asset of $6 million related to under-recovered electric energy costs. As of June 30, 2017, DPL's regulatory liability of $12 million included $10 million of over-recovered electric energy costs and $2 million of over-recovered gas cost. As of December 31, 2016, DPL's regulatory asset of $5 million included $1 million of transmission costs recoverable through its FERC approved formula rate and $4 million of under-recovered electric energy costs. As of December 31, 2016, DPL's regulatory liability of $5 million included $2 million of over-recovered electric energy costs and $3 million of over-recovered transmission costs.

(i) As of June 30, 2017, ACE's regulatory asset of $27 million included $11 million of transmission costs recoverable through its FERC approved formula rate and $16 million of under-recovered electric energy costs. As of June 30, 2017,

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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ACE's regulatory liability of $8 million related to over-recovered electric energy costs. As of December 31, 2016, ACE's regulatory asset of $17 million included $6 million of transmission costs recoverable through its FERC approved formula rate and $11 million of under-recovered electric energy costs. As of December 31, 2016, ACE's regulatory liability of $5 million included $4 million of over-recovered transmission costs and $1 million of over-recovered electric energy costs.

(j) As of June 30, 2017 and December 31, 2016, BGE's regulatory asset of $7 million and $10 million, respectively, included $6 million of previously incurred PHI acquisition costs as authorized by the June 2016 rate case order.

(k) As of June 30, 2017 and December 31, 2016, Pepco's regulatory asset of $12 million and $11 million, respectively, represents previously incurred PHI acquisition costs authorized for recovery by the November 2016 Maryland distribution rate case order. As of June 30, 2017, DPL's regulatory asset of $13 million represents previously incurred PHI acquisition costs, including $4 million authorized for recovery by the February 2017 Maryland distribution rate case order, $6 million authorized for recovery by the May 2017 Delaware electric distribution rate case order, and $3 million expected to be recovered in electric and gas distribution rates in the Delaware service territory. As of December 31, 2016, DPL's regulatory asset of $4 million represents previously incurred PHI acquisition costs expected to be recovered in distribution rates in the Maryland service territory.

(l) Represents the electric and natural gas distribution costs recoverable from customers under BGE's decoupling mechanism. As of June 30, 2017, BGE had a regulatory asset of $24 million related to under-recovered electric revenue decoupling and $11 million related to under-recovered natural gas revenue decoupling. As of December 31, 2016, BGE had a regulatory asset of $2 million related to under-recovered natural gas revenue decoupling and $1 million related to under-recovered electric revenue decoupling.

Capitalized Ratemaking Amounts Not Recognized (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

The following table illustrates our authorized amounts capitalized for ratemaking purposes related to earnings on shareholders' investment that are not recognized for financial reporting purposes on our Consolidated Balance Sheets. These amounts will be recognized as revenues in our Consolidated Statements of Operations and Comprehensive Income in the periods they are billable to our customers.

	Exelon	ComEd[(a)]	PECO	BGE[(b)]	PHI	Pepco[(c)]	DPL[(c)]	ACE
June 30, 2017	$ 71	$ 6	$ —	$ 55	$10	$ 6	$ 4	$—
	Exelon	**ComEd[(a)]**	**PECO**	**BGE[(b)]**	**PHI**	**Pepco[(c)]**	**DPL[(c)]**	**ACE**
December 31, 2016	$ 72	$ 5	$ —	$ 57	$10	$ 6	$ 4	$—

(a) Reflects ComEd's unrecognized equity returns earned for ratemaking purposes on its under-recovered distribution services costs regulatory assets.

(b) BGE's authorized amounts capitalized for ratemaking purposes relate to earnings on shareholders' investment on its AMI Programs.

(c) Pepco's and DPL's authorized amounts capitalized for ratemaking purposes relate to earnings on shareholders' investment on their respective AMI Programs and Energy Efficiency and Demand Response Programs. The earnings on energy efficiency are on Pepco DC and DPL DE programs only.

Purchase of Receivables Programs (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

ComEd, PECO, BGE, Pepco, DPL and ACE are required, under separate legislation and regulations in Illinois, Pennsylvania, Maryland, District of Columbia and New Jersey, to purchase certain receivables from retail electric and natural gas suppliers that participate in the utilities' consolidated billing. ComEd, BGE, Pepco and DPL purchase receivables at a discount to recover primarily uncollectible accounts expense from the suppliers. PECO is required to purchase receivables at face value and is permitted to recover uncollectible accounts expense, including those from Third Party Suppliers, from customers through distribution rates. ACE purchases receivables at face value. ACE recovers all uncollectible accounts expense, including those from Third

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Party Suppliers, through the Societal Benefits Charge (SBC) rider, which includes uncollectible accounts expense as a component. The SBC is filed annually with the NJBPU. Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE do not record unbilled commodity receivables under the POR programs. Purchased billed receivables are classified in Other accounts receivable, net on Exelon's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets. The following tables provide information about the purchased receivables of those companies as of June 30, 2017 and December 31, 2016.

As of June 30, 2017	Exelon	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Purchased receivables(b)	$ 304	$ 85	$ 73	$53	$ 93	$ 61	$10	$22
Allowance for uncollectible accounts(a)	(31)	(12)	(5)	(3)	(11)	(6)	(2)	(3)
Purchased receivables, net	$ 273	$ 73	$ 68	$50	$ 82	$ 55	$ 8	$19

As of December 31, 2016	Exelon	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Purchased receivables(b)	$ 313	$ 87	$ 72	$59	$ 95	$ 63	$10	$22
Allowance for uncollectible accounts(a)	(37)	(14)	(6)	(4)	(13)	(7)	(2)	(4)
Purchased receivables, net	$ 276	$ 73	$ 66	$55	$ 82	$ 56	$ 8	$18

(a) For ComEd, BGE, Pepco and DPL, reflects the incremental allowance for uncollectible accounts recorded, which is in addition to the purchase discount. For ComEd, the incremental uncollectible accounts expense is recovered through its Purchase of Receivables with Consolidated Billing tariff.

(b) Pepco's electric POR program in Maryland included a discount on purchased receivables ranging from 0% to 2% depending on customer class. Pepco's electric POR program in the District of Columbia included a discount on purchased receivables ranging from 0% to 6% through April 6, 2017 and 0% to 2% effective April 7, 2017, depending on customer class. DPL's electric POR program in Maryland included a discount on purchased receivables ranging from 0% to 1% through May 31, 2017 and 0% to 4% effective June 1, 2017, depending on customer class.

6. Impairment of Long-Lived Assets (Exelon and Generation)

Long-Lived Assets (Exelon and Generation)

Generation evaluates long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. EGTP's operating cash flows have been negatively impacted by certain market conditions and the seasonality of its cash flows. On May 2, 2017, EGTP entered into a consent agreement with its lenders to initiate an orderly sales process to sell the assets of its wholly owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP. As a result, certain EGTP's assets and liabilities were classified as held for sale at their respective fair values less costs to sell and included in the other current assets and other current liabilities balances on Exelon's and Generation's Consolidated Balance Sheets at June 30, 2017. Additionally, a pre-tax impairment charge of $418 million was recorded in June 2017 within Operating and maintenance expense on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 4 — Mergers, Acquisitions and Dispositions for additional information.

During the first quarter of 2016, significant changes in Generation's intended use of the Upstream oil and gas assets, developments with nonrecourse debt held by its upstream subsidiary CEU Holdings, LLC (as described in Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K) and continued declines in both production volumes and commodity prices suggested that the carrying value may be impaired. Generation concluded that the estimated undiscounted future cash flows and fair value of its Upstream properties were less than their carrying values. As a result, a pre-tax impairment charge of $119 million was recorded in March 2016 within Operating and maintenance expense in Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income. On June 16, 2016, Generation initiated the sales process of its Upstream business by executing a forbearance agreement with the lenders of the nonrecourse debt. An additional pre-tax impairment charge of $15 million was recorded in September 2016 within Operating and maintenance expense in Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income due to further declines in fair value. In December 2016, Generation sold substantially all of the Upstream Assets. See Note 4 — Mergers, Acquisitions and Dispositions of the Exelon 2016 Form 10-K for further information.

In the second quarter of 2016, updates to the Company’s long-term view of energy and capacity prices suggested that the carrying value of a group of merchant wind assets, located in West Texas, may be impaired. Upon review, the estimated undiscounted future cash flows and fair value of the group were less than their carrying value. The fair value analysis was based on the income approach using significant unobservable inputs (Level 3) including revenue and generation forecasts, projected capital and maintenance expenditures and discount rates. As a result of the fair value analysis, long-lived assets held and used with a carrying amount of approximately $60 million were written down to their fair value of $24 million and a pre-tax impairment charge of $36 million was recorded during the second quarter in Operating and maintenance expense in Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income.

Also in the second quarter of 2016, updates to the Company’s long-term view, as described above, in conjunction with the previous decision to early retire the Clinton and Quad Cities nuclear facilities in Illinois suggested that the carrying value of our Midwest asset group may be impaired. Generation completed a comprehensive review of the estimated undiscounted future cash flows of the Midwest asset group and no impairment charge was required.

Like-Kind Exchange Transaction (Exelon)

In June 2000, UII, LLC (formerly Unicom Investments, Inc.) (UII), a wholly owned subsidiary of Exelon Corporation, entered into transactions pursuant to which UII invested in coal-fired generating station leases (Headleases) with the Municipal Electric Authority of Georgia (MEAG). The generating stations were leased back to MEAG as part of the transactions (Leases).

On March 31, 2016, UII and MEAG finalized an agreement to terminate the MEAG Headleases, the MEAG Leases, and other related agreements prior to their expiration dates. As a result of the lease termination, UII received an early termination payment of $360 million from MEAG and wrote-off the $356 million net investment in the MEAG Headleases and the Leases. The transaction resulted in a pre-tax gain of $4 million which is reflected in Operating and maintenance expense in Exelon’s Consolidated Statements of Operations and Comprehensive Income. See Note 11 — Income Taxes for additional information.

7. Early Nuclear Plant Retirements (Exelon and Generation)

Exelon and Generation continue to evaluate the current and expected economic value of each of Generation’s nuclear plants. Factors that will continue to affect the economic value of Generation’s nuclear plants include, but are not limited to: market power prices, results of capacity auctions, potential legislative and regulatory solutions to ensure nuclear plants are fairly compensated for their carbon-free emissions, and the impact of potential rules from the EPA requiring reduction of carbon and other emissions and the efforts of states to implement those final rules. The precise timing of an early retirement date for any nuclear plant, and the resulting financial statement impacts, may be affected by a number of factors, including the status of potential regulatory or legislative solutions, results of any transmission system reliability study assessments, the nature of

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any co-owner requirements and stipulations, and decommissioning trust fund requirements, among other factors. However, the earliest retirement date for any plant would usually be the first year in which the unit does not have capacity or other obligations, where applicable, and just prior to its next scheduled nuclear refueling outage.

In 2015 and 2016, Generation identified the Clinton, Quad Cities, Ginna, Nine Mile Point, and Three Mile Island (TMI) nuclear plants as having the greatest risk of early retirement based on economic valuation and other factors. PSEG has also recently made public similar financial challenges facing its New Jersey nuclear plants including Salem, of which Generation owns a 42.59% ownership interest. As previously disclosed, Exelon and Generation have committed to cease operation of the Oyster Creek nuclear plant by the end of 2019.

The TMI nuclear plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning year and will not receive capacity revenue for that period, the third consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019.

Based on these capacity auction results, prolonged periods of low wholesale power prices, and the absence of federal or state policies that place a value on nuclear energy for its ability to produce electricity without air pollution, Exelon announced that Generation will permanently cease generation operations at TMI on or about September 30, 2019. The current NRC license for TMI expires in 2034. Generation is proceeding with the market and regulatory notifications that must be made to shut down the plant, including filing of a deactivation notice with PJM on May 30, 2017 and notification to the NRC on June 20, 2017. PJM has subsequently notified Generation that it has not identified any reliability issues and has approved the deactivation of TMI as proposed.

In the second quarter of 2017, as a result of the plant retirement decision of TMI, Exelon and Generation recognized one-time charges in Operating and maintenance expense of $71 million related to materials and supplies inventory reserve adjustments, employee-related costs and construction work-in-progress (CWIP) impairments, among other items. In addition to these one-time charges, there will be ongoing annual incremental non-cash charges to earnings stemming from shortening the expected economic useful life of TMI primarily related to accelerated depreciation of plant assets (including any ARC), accelerated amortization of nuclear fuel, and additional ARO accretion expense associated with the changes in decommissioning timing and cost assumptions. Exelon's and Generation's second quarter 2017 results include an incremental $37 million of pre-tax expense for these items. Please refer to Note 12 — Nuclear Decommissioning for additional detail on changes to the nuclear decommissioning ARO balances resulting from the early retirement of TMI.

Income statement expense (pre-tax)	June 30, 2017
Depreciation and amortization	
Accelerated depreciation[(a)]	$ 35
Accelerated Nuclear Fuel amortization	2
Total	$ 37

(a) Reflects incremental accelerated depreciation of plant assets, including any ARC.

Based on insufficient capacity auction results and the lack of progress on Illinois energy legislation, on June 2, 2016, Generation announced a decision to shut down the Clinton and Quad Cities nuclear plants on June 1, 2017 and June 1, 2018, respectively. With the passage of the Illinois ZES on December 7, 2016, and subject to prevailing over any related administrative or legal challenges, Generation reversed this decision and revised the expected economic useful lives for both facilities; 2027 for Clinton and 2032 for Quad Cities. Refer to Note 5 — Regulatory Matters for additional discussion on the Illinois ZES.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Exelon's and Generation's 2016 results included a net incremental $714 million of total pre-tax expense associated with the initial early retirement decision for Clinton and Quad Cities, as summarized in the table below.

Income statement expense (pre-tax)	Q2 2016	Q3 2016	Q4 2016	YTD 2016
Depreciation and amortization				
Accelerated depreciation[(a)]	$115	$344	$ 253	$712
Accelerated Nuclear Fuel amortization	9	28	23	60
Operating and maintenance				
One time charges[(b)]	141	5	(120)	26
ARO accretion, net of contractual offset[(c)]	—	2	—	2
Contractual offset for ARC depreciation[(c)]	(14)	(41)	(31)	(86)
Total	$251	$338	$ 125	$714

(a) Reflects incremental accelerated depreciation of plant assets, including any ARC, for the period June 2, 2016, through December 6, 2016.

(b) Primarily includes materials and supplies inventory reserve adjustments, employee related costs and construction work-in-progress (CWIP) impairments.

(c) For Quad Cities based on the regulatory agreement with the Illinois Commerce Commission, decommissioning-related activities are offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. The offset results in an equal adjustment to the noncurrent payables to ComEd at Generation and an adjustment to the regulatory liabilities at ComEd. Likewise, ComEd has recorded an equal noncurrent affiliate receivable from Generation and corresponding regulatory liability.

In New York, the Ginna, Nine Mile Point, and Generation's recently acquired FitzPatrick nuclear plant also faced significant economic challenges and risk of retirement before the end of each unit's respective operating license period (2029 for Ginna and Nine Mile Point Unit 1, 2046 for Nine Mile Point Unit 2, and 2034 for FitzPatrick). On August 1, 2016, the NYPSC issued an order adopting the CES that, subject to prevailing over any administrative or legal challenges, would allow Ginna, Nine Mile Point, and FitzPatrick to continue to operate at least through the life of the program (March 31, 2029). The assumed useful life for depreciation purposes for each facility is through the end of their current operating licenses. Ginna most recently operated under an RSSA which expired March 31, 2017 and has filed the required notice with the NYPSC of its intent to continue operating beyond the expiry of the RSSA. Refer to Note 4 — Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick and Note 5 — Regulatory Matters for additional discussion on the Ginna RSSA and the New York CES.

Assuming the successful implementation of the Illinois ZES and the New York CES and the continued effectiveness of these programs, Generation and CENG, through its ownership of Ginna and Nine Mile Point, no longer consider Clinton, Quad Cities, Ginna or Nine Mile Point to be at heightened risk for early retirement. However, to the extent either the Illinois ZES or the New York CES programs do not operate as expected over their full terms, each of these plants (and now including the newly acquired FitzPatrick) could again be at heightened risk for early retirement, which could have a material impact on Exelon's and Generation's future results of operations, cash flows and financial position.

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8. Fair Value of Financial Assets and Liabilities (All Registrants)

Fair Value of Financial Liabilities Recorded at the Carrying Amount

The following tables present the carrying amounts and fair values of the Registrants' short-term liabilities, long-term debt, SNF obligation, and trust preferred securities (long-term debt to financing trusts or junior subordinated debentures) as of June 30, 2017 and December 31, 2016:

Exelon

	June 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 1,757	$ —	$ 1,757	$ —	$ 1,757
Long-term debt (including amounts due within one year)(a)	33,934	—	33,460	1,956	35,416
Long-term debt to financing trusts(b)	641	—	—	693	693
SNF obligation	1,139	—	830	—	830

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 1,267	$ —	$ 1,267	$ —	$ 1,267
Long-term debt (including amounts due within one year)(a)	34,005	1,113	31,741	1,959	34,813
Long-term debt to financing trusts(b)	641	—	—	667	667
SNF obligation	1,024	—	732	—	732

Generation

	June 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 716	$ —	$ 716	$ —	$ 716
Long-term debt (including amounts due within one year)(a)	9,754	—	8,061	1,661	9,722
SNF obligation	1,139	—	830	—	830

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 699	$ —	$ 699	$ —	$ 699
Long-term debt (including amounts due within one year)(a)	9,241	—	7,482	1,670	9,152
SNF obligation	1,024	—	732	—	732

ComEd

	June 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 389	$ —	$ 389	$ —	$ 389
Long-term debt (including amounts due within one year)(a)	7,036	—	7,728	—	7,728
Long-term debt to financing trusts(b)	205	—	—	223	223

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 7,033	$ —	$7,585	$ —	$7,585
Long-term debt to financing trusts[(b)]	205	—	—	215	215

PECO

	June 30, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 2,580	$ —	$2,834	$ —	$2,834
Long-term debt to financing trusts	184	—	—	199	199

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 2,580	$ —	$2,794	$ —	$2,794
Long-term debt to financing trusts	184	—	—	192	192

BGE

	June 30, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 85	$ —	$ 85	$ —	$ 85
Long-term debt (including amounts due within one year)[(a)]	2,282	—	2,497	—	2,497
Long-term debt to financing trusts[(b)]	252	—	—	271	271

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 45	$ —	$ 45	$ —	$ 45
Long-term debt (including amounts due within one year)[(a)]	2,322	—	2,467	—	2,467
Long-term debt to financing trusts[(b)]	252	—	—	260	260

PHI (Successor)

	June 30, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 67	$ —	$ 67	$ —	$ 67
Long-term debt (including amounts due within one year)[(a)]	5,952	—	5,707	295	6,002

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 522	$ —	$ 522	$ —	$ 522
Long-term debt (including amounts due within one year)[(a)]	5,898	—	5,520	289	5,809

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Pepco

	June 30, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[a]	$ 2,545	$ —	$3,065	$ 9	$3,074

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 23	$ —	$ 23	$ —	$ 23
Long-term debt (including amounts due within one year)[a]	2,349	—	2,788	8	2,796

DPL

	June 30, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 25	$ —	$ 25	$ —	$ 25
Long-term debt (including amounts due within one year)[a]	1,326	—	1,398	—	1,398

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[a]	$ 1,340	$ —	$1,383	$ —	$1,383

ACE

	June 30, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 42	$ —	$ 42	$ —	$ 42
Long-term debt (including amounts due within one year)[a]	1,138	—	980	286	1,266

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[a]	$ 1,155	$ —	$1,007	$ 280	$1,287

(a) Includes unamortized debt issuance costs which are not fair valued of $185 million, $53 million, $44 million, $15 million, $14 million, $6 million, $33 million, $11 million, and $5 million for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, respectively, as of June 30, 2017. Includes unamortized debt issuance costs of $200 million, $64 million, $46 million, $15 million, $15 million, $2 million, $30 million, $11 million, and $6 million for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, respectively, as of December 31, 2016.

(b) Includes unamortized debt issuance costs which are not fair valued of $7 million, $1 million, and $6 million for Exelon, ComEd and BGE, respectively, as of June 30, 2017 and December 31, 2016.

Short-Term Liabilities. The short-term liabilities included in the tables above are comprised of dividends payable (included in other current liabilities) (Level 1) and short-term borrowings (Level 2). The Registrants' carrying amounts of the short-term liabilities are representative of fair value because of the short-term nature of these instruments.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Long-Term Debt. The fair value amounts of Exelon's taxable debt securities (Level 2) and private placement taxable debt securities (Level 3) are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves. In order to incorporate the credit risk of the Registrants into the discount rates, Exelon obtains pricing (i.e., U.S. Treasury rate plus credit spread) based on trades of existing Exelon debt securities as well as debt securities of other issuers in the utility sector with similar credit ratings in both the primary and secondary market, across the Registrants' debt maturity spectrum. The credit spreads of various tenors obtained from this information are added to the appropriate benchmark U.S. Treasury rates in order to determine the current market yields for the various tenors. The yields are then converted into discount rates of various tenors that are used for discounting the respective cash flows of the same tenor for each bond or note. Due to low trading volume of private placement debt, qualitative factors such as market conditions, low volume of investors and investor demand, this debt is classified as Level 3. The fair value of Exelon's equity units (Level 1) are valued based on publicly traded securities issued by Exelon.

The fair value of Generation's and Pepco's non-government-backed fixed rate nonrecourse debt (Level 3) is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles. Given the low trading volume in the nonrecourse debt market, the price quotes used to determine fair value will reflect certain qualitative factors, such as market conditions, investor demand, new developments that might significantly impact the project cash flows or off-taker credit, and other circumstances related to the project (e.g., political and regulatory environment). The fair value of Generation's government-backed fixed rate project financing debt (Level 3) is largely based on a discounted cash flow methodology that is similar to the taxable debt securities methodology described above. Due to the lack of market trading data on similar debt, the discount rates are derived based on the original loan interest rate spread to the applicable Treasury rate as well as a current market curve derived from government-backed securities. Variable rate financing debt resets on a monthly or quarterly basis and the carrying value approximates fair value (Level 2). When trading data is available on variable rate financing debt, the fair value is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles (Level 2). Generation, Pepco, DPL and ACE also have tax-exempt debt (Level 2). Due to low trading volume in this market, qualitative factors, such as market conditions, investor demand, and circumstances related to the issuer (e.g., conduit issuer political and regulatory environment), may be incorporated into the credit spreads that are used to obtain the fair value as described above. Variable rate tax-exempt debt (Level 2) resets on a regular basis and the carrying value approximates fair value.

SNF Obligation. The carrying amount of Generation's SNF obligation (Level 2) is derived from a contract with the DOE to provide for disposal of SNF from Generation's nuclear generating stations. When determining the fair value of the obligation, the future carrying amount of the SNF obligation is calculated by compounding the current book value of the SNF obligation at the 13-week Treasury rate. The compounded obligation amount is discounted back to present value using Generation's discount rate, which is calculated using the same methodology as described above for the taxable debt securities, and an estimated maturity date of 2030. This amount also includes $110 million as of June 30, 2017 for the fair value of the one-time fee obligation associated with closing of the FitzPatrick acquisition on March 31, 2017. The fair value was determined using a similar methodology, however the New York Power Authority's (NYPA) discount rate is used in place of Generation's given the contractual right to reimbursement from NYPA for the obligation; see Note 4 — Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick.

Long-Term Debt to Financing Trusts. Exelon's long-term debt to financing trusts is valued based on publicly traded securities issued by the financing trusts. Due to low trading volume of these securities, qualitative factors, such as market conditions, investor demand, and circumstances related to each issue, this debt is classified as Level 3.

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Recurring Fair Value Measurements

Exelon records the fair value of assets and liabilities in accordance with the hierarchy established by the authoritative guidance for fair value measurements. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the Registrants have the ability to liquidate as of the reporting date.
- Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 — unobservable inputs, such as internally developed pricing models or third-party valuations for the asset or liability due to little or no market activity for the asset or liability.

Transfers in and out of levels are recognized as of the end of the reporting period when the transfer occurred. Given derivatives categorized within Level 1 are valued using exchange-based quoted prices within observable periods, transfers between Level 2 and Level 1 were not material. Additionally, there were no material transfers between Level 1 and Level 2 during the six months ended June 30, 2017 for cash equivalents, nuclear decommissioning trust fund investments, pledged assets for Zion Station decommissioning, Rabbi trust investments, and deferred compensation obligations. For derivative contracts, transfers into Level 2 from Level 3 generally occur when the contract tenor becomes more observable and due to changes in market liquidity or assumptions for certain commodity contracts.

Generation and Exelon

In accordance with the applicable guidance on fair value measurement, certain investments that are measured at fair value using the NAV per share as a practical expedient are no longer classified within the fair value hierarchy and are included under “Not subject to leveling” in the table below.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following tables present assets and liabilities measured and recorded at fair value on Exelon’s and Generation’s Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of June 30, 2017 and December 31, 2016:

	Generation					Exelon				
As of June 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets										
Cash equivalents[a]	$ 29	$ —	$ —	$ —	$ 29	$ 257	$ —	$ —	$ —	$ 257
NDT fund investments										
Cash equivalents[b]	117	67	—	—	184	117	67	—	—	184
Equities	3,980	717	—	2,104	6,801	3,980	717	—	2,104	6,801
Fixed income										
Corporate debt	—	1,656	255	—	1,911	—	1,656	255	—	1,911
U.S. Treasury and agencies	1,767	32	—	—	1,799	1,767	32	—	—	1,799
Foreign governments	—	51	—	—	51	—	51	—	—	51
State and municipal debt	—	232	—	—	232	—	232	—	—	232
Other[c]	—	46	—	502	548	—	46	—	502	548
Fixed income subtotal	1,767	2,017	255	502	4,541	1,767	2,017	255	502	4,541
Middle market lending	—	—	428	78	506	—	—	428	78	506
Private equity	—	—	—	197	197	—	—	—	197	197
Real estate	—	—	—	441	441	—	—	—	441	441
NDT fund investments subtotal[d]	5,864	2,801	683	3,322	12,670	5,864	2,801	683	3,322	12,670
Pledged assets for Zion Station decommissioning										
Cash equivalents	21	—	—	—	21	21	—	—	—	21
Middle market lending	—	—	21	33	54	—	—	21	33	54
Pledged assets for Zion Station decommissioning subtotal[e]	21	—	21	33	75	21	—	21	33	75
Rabbi trust investments										
Cash equivalents	5	—	—	—	5	78	—	—	—	78
Mutual funds	22	—	—	—	22	54	—	—	—	54
Fixed income	—	—	—	—	—	—	13	—	—	13
Life insurance contracts	—	20	—	—	20	—	67	21	—	88
Rabbi trust investments subtotal	27	20	—	—	47	132	80	21	—	233
Commodity derivative assets										
Economic hedges	632	2,698	1,604	—	4,934	632	2,698	1,604	—	4,934
Proprietary trading	3	47	31	—	81	3	47	31	—	81
Effect of netting and allocation of collateral[f] [g]	(627)	(2,343)	(767)	—	(3,737)	(627)	(2,343)	(767)	—	(3,737)
Commodity derivative assets subtotal	8	402	868	—	1,278	8	402	868	—	1,278
Interest rate and foreign currency derivative assets										
Derivatives designated as hedging instruments	—	—	—	—	—	—	11	—	—	11
Economic hedges	—	17	—	—	17	—	17	—	—	17
Proprietary trading	3	1	—	—	4	3	1	—	—	4
Effect of netting and allocation of collateral	(3)	(10)	—	—	(13)	(3)	(10)	—	—	(13)
Interest rate and foreign currency derivative assets subtotal	—	8	—	—	8	—	19	—	—	19
Other investments	—	—	41	—	41	—	—	41	—	41
Total assets	5,949	3,231	1,613	3,355	14,148	6,282	3,302	1,634	3,355	14,573

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					Exelon				
As of June 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Liabilities										
Commodity derivative liabilities										
Economic hedges	(697)	(2,691)	(1,151)	—	(4,539)	(697)	(2,691)	(1,407)	—	(4,795)
Proprietary trading	(4)	(48)	(25)	—	(77)	(4)	(48)	(25)	—	(77)
Effect of netting and allocation of collateral[(f) (g)]	698	2,627	897	—	4,222	698	2,627	897	—	4,222
Commodity derivative liabilities subtotal	(3)	(112)	(279)	—	(394)	(3)	(112)	(535)	—	(650)
Interest rate and foreign currency derivative liabilities										
Economic hedges	—	(20)	—	—	(20)	—	(20)	—	—	(20)
Proprietary trading	(4)	—	—	—	(4)	(4)	—	—	—	(4)
Effect of netting and allocation of collateral	3	10	—	—	13	3	10	—	—	13
Interest rate and foreign currency derivative liabilities subtotal	(1)	(10)	—	—	(11)	(1)	(10)	—	—	(11)
Deferred compensation obligation	—	(33)	—	—	(33)	—	(131)	—	—	(131)
Total liabilities	(4)	(155)	(279)	—	(438)	(4)	(253)	(535)	—	(792)
Total net assets	$ 5,945	$ 3,076	$ 1,334	$ 3,355	$13,710	$ 6,278	$ 3,049	$ 1,099	$ 3,355	$13,781

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets										
Cash equivalents[(a)]	$ 39	$ —	$ —	$ —	$ 39	$ 373	$ —	$ —	$ —	$ 373
NDT fund investments										
Cash equivalents[(b)]	110	19	—	—	129	110	19	—	—	129
Equities	3,551	452	—	2,011	6,014	3,551	452	—	2,011	6,014
Fixed income										
Corporate debt	—	1,554	250	—	1,804	—	1,554	250	—	1,804
U.S. Treasury and agencies	1,291	29	—	—	1,320	1,291	29	—	—	1,320
Foreign governments	—	37	—	—	37	—	37	—	—	37
State and municipal debt	—	264	—	—	264	—	264	—	—	264
Other[(c)]	—	59	—	493	552	—	59	—	493	552
Fixed income subtotal	1,291	1,943	250	493	3,977	1,291	1,943	250	493	3,977
Middle market lending	—	—	427	71	498	—	—	427	71	498
Private equity	—	—	—	148	148	—	—	—	148	148
Real estate	—	—	—	326	326	—	—	—	326	326
NDT fund investments subtotal[(d)]	4,952	2,414	677	3,049	11,092	4,952	2,414	677	3,049	11,092
Pledged assets for Zion Station decommissioning										
Cash equivalents	11	—	—	—	11	11	—	—	—	11
Equities	—	2	—	—	2	—	2	—	—	2
Fixed Income — U.S. Treasury and agencies	16	1	—	—	17	16	1	—	—	17
Middle market lending	—	—	19	64	83	—	—	19	64	83
Pledged assets for Zion Station decommissioning subtotal[(e)]	27	3	19	64	113	27	3	19	64	113
Rabbi trust investments										
Cash equivalents	2	—	—	—	2	74	—	—	—	74
Mutual funds	19	—	—	—	19	50	—	—	—	50
Fixed income	—	—	—	—	—	—	16	—	—	16
Life insurance contracts	—	18	—	—	18	—	64	20	—	84
Rabbi trust investments subtotal	21	18	—	—	39	124	80	20	—	224

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Commodity derivative assets										
Economic hedges	1,356	2,505	1,229	—	5,090	1,358	2,505	1,229	—	5,092
Proprietary trading	3	50	23	—	76	3	50	23	—	76
Effect of netting and allocation of collateral(f) (g)	(1,162)	(2,142)	(481)	—	(3,785)	(1,164)	(2,142)	(481)	—	(3,787)
Commodity derivative assets subtotal	197	413	771	—	1,381	197	413	771	—	1,381
Interest rate and foreign currency derivative assets										
Derivatives designated as hedging instruments	—	—	—	—	—	—	16	—	—	16
Economic hedges	—	28	—	—	28	—	28	—	—	28
Proprietary trading	3	2	—	—	5	3	2	—	—	5
Effect of netting and allocation of collateral	(2)	(19)	—	—	(21)	(2)	(19)	—	—	(21)
Interest rate and foreign currency derivative assets subtotal	1	11	—	—	12	1	27	—	—	28
Other investments	—	—	42	—	42	—	—	42	—	42
Total assets	5,237	2,859	1,509	3,113	12,718	5,674	2,937	1,529	3,113	13,253
Liabilities										
Commodity derivative liabilities										
Economic hedges	(1,267)	(2,378)	(794)	—	(4,439)	(1,267)	(2,378)	(1,052)	—	(4,697)
Proprietary trading	(3)	(50)	(26)	—	(79)	(3)	(50)	(26)	—	(79)
Effect of netting and allocation of collateral(f) (g)	1,233	2,339	542	—	4,114	1,233	2,339	542	—	4,114
Commodity derivative liabilities subtotal	(37)	(89)	(278)	—	(404)	(37)	(89)	(536)	—	(662)
Interest rate and foreign currency derivative liabilities										
Derivatives designated as hedging instruments	—	(10)	—	—	(10)	—	(10)	—	—	(10)
Economic hedges	—	(21)	—	—	(21)	—	(21)	—	—	(21)
Proprietary trading	(4)	—	—	—	(4)	(4)	—	—	—	(4)
Effect of netting and allocation of collateral	4	19	—	—	23	4	19	—	—	23
Interest rate and foreign currency derivative liabilities subtotal	—	(12)	—	—	(12)	—	(12)	—	—	(12)
Deferred compensation obligation	—	(34)	—	—	(34)	—	(136)	—	—	(136)
Total liabilities	(37)	(135)	(278)	—	(450)	(37)	(237)	(536)	—	(810)
Total net assets	$ 5,200	$ 2,724	$ 1,231	$ 3,113	$12,268	$ 5,637	$ 2,700	$ 993	$ 3,113	$12,443

(a) Generation excludes cash of $238 million and $252 million at June 30, 2017 and December 31, 2016 and restricted cash of $164 million and $157 million at June 30, 2017 and December 31, 2016. Exelon excludes cash of $353 million and $360 million at June 30, 2017 and December 31, 2016 and restricted cash of $203 million and $180 million at June 30, 2017 and December 31, 2016 and includes long term restricted cash of $25 million at June 30, 2017 and December 31, 2016, which is reported in other deferred debits on the balance sheet.

(b) Includes $48 million and $29 million of cash received from outstanding repurchase agreements at June 30, 2017 and December 31, 2016, respectively, and is offset by an obligation to repay upon settlement of the agreement as discussed in (d) below.

(c) Includes derivative instruments of $(1) million and $(2) million, which have a total notional amount of $771 million and $933 million at June 30, 2017 and December 31, 2016, respectively. The notional principal amounts for these instruments provide one measure of the transaction volume outstanding as of the fiscal years ended and do not represent the amount of the company's exposure to credit or market loss.

(d) Excludes net liabilities of $29 million and $31 million at June 30, 2017 and December 31, 2016, respectively. These items consist of receivables related to pending securities sales, interest and dividend receivables, repurchase agreement obligations, and payables related to pending securities purchases. The repurchase agreements are generally short-term in nature with durations generally of 30 days or less.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(e) Excludes net assets of less than $1 million at June 30, 2017 and December 31, 2016. These items consist of receivables related to pending securities sales, interest and dividend receivables, and payables related to pending securities purchases.

(f) Collateral posted/(received) from counterparties totaled $71 million, $284 million and $130 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of June 30, 2017. Collateral posted/(received) from counterparties, net of collateral paid to counterparties, totaled $71 million, $197 million and $61 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of December 31, 2016.

(g) Of the collateral posted/(received), $84 million represents variation margin on the exchanges as of June 30, 2017. Of the collateral posted/(received), $(158) million represents variation margin on the exchanges as of December 31, 2016.

ComEd, PECO and BGE

The following tables present assets and liabilities measured and recorded at fair value on ComEd's, PECO's and BGE's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of June 30, 2017 and December 31, 2016:

	ComEd				PECO				BGE			
As of June 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[a]	$ —	$ —	$ —	$ —	$ 28	$ —	$ —	$ 28	$ 5	$ —	$ —	$ 5
Rabbi trust investments												
Mutual funds	—	—	—	—	7	—	—	7	5	—	—	5
Life insurance contracts	—	—	—	—	—	10	—	10	—	—	—	—
Rabbi trust investments subtotal	—	—	—	—	7	10	—	17	5	—	—	5
Total assets	—	—	—	—	35	10	—	45	10	—	—	10
Liabilities												
Deferred compensation obligation	—	(7)	—	(7)	—	(10)	—	(10)	—	(4)	—	(4)
Mark-to-market derivative liabilities[b]	—	—	(256)	(256)	—	—	—	—	—	—	—	—
Total liabilities	—	(7)	(256)	(263)	—	(10)	—	(10)	—	(4)	—	(4)
Total net assets (liabilities)	$ —	$ (7)	$(256)	$(263)	$ 35	$ —	$ —	$ 35	$ 10	$ (4)	$ —	$ 6

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	ComEd				PECO				BGE			
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[a]	$ 20	$ —	$ —	$ 20	$ 45	$ —	$ —	$ 45	$ 36	$ —	$ —	$ 36
Rabbi trust investments												
Mutual funds	—	—	—	—	7	—	—	7	4	—	—	4
Life insurance contracts	—	—	—	—	—	10	—	10	—	—	—	—
Rabbi trust investments subtotal	—	—	—	—	7	10	—	17	4	—	—	4
Total assets	20	—	—	20	52	10	—	62	40	—	—	40
Liabilities												
Deferred compensation obligation	—	(8)	—	(8)	—	(11)	—	(11)	—	(4)	—	(4)
Mark-to-market derivative liabilities[b]	—	—	(258)	(258)	—	—	—	—	—	—	—	—
Total liabilities	—	(8)	(258)	(266)	—	(11)	—	(11)	—	(4)	—	(4)
Total net assets (liabilities)	$ 20	$ (8)	$(258)	$(246)	$ 52	$ (1)	$ —	$ 51	$ 40	$ (4)	$ —	$ 36

(a) ComEd excludes cash of $39 million and $36 million at June 30, 2017 and December 31, 2016 and restricted cash of $12 million and $2 million at June 30, 2017 and December 31, 2016. PECO excludes cash of $21 million and $22 million at June 30, 2017 and December 31, 2016. BGE excludes cash of $12 million and $13 million at June 30, 2017 and December 31, 2016 and restricted cash of $3 million at June 30, 2017 and includes long term restricted cash of $2 million at June 30, 2017 and December 31, 2016, which is reported in other deferred debits on the balance sheet.

(b) The Level 3 balance consists of the current and noncurrent liability of $19 million and $237 million, respectively, at June 30, 2017, and $19 million and $239 million, respectively, at December 31, 2016, related to floating-to-fixed energy swap contracts with unaffiliated suppliers.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

PHI, Pepco, DPL and ACE

The following tables present assets and liabilities measured and recorded at fair value on PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of June 30, 2017 and December 31, 2016:

	Successor							
	As of June 30, 2017				**As of December 31, 2016**			
PHI	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents[(a)]	$ 189	$ —	$ —	$189	$ 217	$ —	$ —	$217
Mark-to-market derivative assets[(b)]	—	—	—	—	2	—	—	2
Effect of netting and allocation of collateral	—	—	—	—	(2)	—	—	(2)
Mark-to-market derivative assets subtotal	—	—	—	—	—	—	—	—
Rabbi trust investments								
Cash equivalents	73	—	—	73	73	—	—	73
Fixed income	—	13	—	13	—	16	—	16
Life insurance contracts	—	23	21	44	—	22	20	42
Rabbi trust investments subtotal	73	36	21	130	73	38	20	131
Total assets	262	36	21	319	290	38	20	348
Liabilities								
Deferred compensation obligation	—	(24)	—	(24)	—	(28)	—	(28)
Total liabilities	—	(24)	—	(24)	—	(28)	—	(28)
Total net assets	$ 262	$ 12	$ 21	$295	$ 290	$ 10	$ 20	$320

	Pepco				**DPL**				**ACE**			
As of June 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[(a)]	$ 144	$ —	$ —	$144	$ —	$ —	$ —	$—	$ 29	$ —	$ —	$ 29
Rabbi trust investments												
Cash equivalents	43	—	—	43	—	—	—	—	—	—	—	—
Fixed income	—	13	—	13	—	—	—	—	—	—	—	—
Life insurance contracts	—	23	21	44	—	—	—	—	—	—	—	—
Rabbi trust investments subtotal	43	36	21	100	—	—	—	—	—	—	—	—
Total assets	187	36	21	244	—	—	—	—	29	—	—	29
Liabilities												
Deferred compensation obligation	—	(4)	—	(4)	—	(1)	—	(1)	—	—	—	—
Total liabilities	—	(4)	—	(4)	—	(1)	—	(1)	—	—	—	—
Total net assets (liabilities)	$ 187	$ 32	$ 21	$240	$ —	$ (1)	$ —	$ (1)	$ 29	$ —	$ —	$ 29

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Pepco				DPL				ACE			
As of December 31, 2016	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Cash equivalents[a]	$ 33	$ —	$ —	$ 33	$ 42	$ —	$ —	$ 42	$ 130	$ —	$ —	$130
Mark-to-market derivative assets[b]	—	—	—	—	2	—	—	2	—	—	—	—
Effect of netting and allocation of collateral	—	—	—	—	(2)	—	—	(2)	—	—	—	—
Mark-to-market derivative assets subtotal	—	—	—	—	—	—	—	—	—	—	—	—
Rabbi trust investments												
Cash equivalents	43	—	—	43	—	—	—	—	—	—	—	—
Fixed income	—	16	—	16	—	—	—	—	—	—	—	—
Life insurance contracts	—	22	19	41	—	—	—	—	—	—	—	—
Rabbi trust investments subtotal	43	38	19	100	—	—	—	—	—	—	—	—
Total assets	76	38	19	133	42	—	—	42	130	—	—	130
Liabilities												
Deferred compensation obligation	—	(5)	—	(5)	—	(1)	—	(1)	—	—	—	—
Total liabilities	—	(5)	—	(5)	—	(1)	—	(1)	—	—	—	—
Total net assets (liabilities)	$ 76	$ 33	$ 19	$128	$ 42	$ (1)	$ —	$ 41	$ 130	$ —	$ —	$130

(a) PHI excludes cash of $24 million and $19 million at June 30, 2017 and December 31, 2016 and includes long term restricted cash of $22 million and $23 million at June 30, 2017 and December 31, 2016 which is reported in other deferred debits on the balance sheet. Pepco excludes cash of $9 million at June 30, 2017 and December 31, 2016. DPL excludes cash of $6 million and $4 million at June 30, 2017 and December 31, 2016. ACE excludes cash of $7 million and $3 million at June 30, 2017 and December 31, 2016 and includes long term restricted cash of $22 million and $23 million at June 30, 2017 and December 31, 2016 which is reported in other deferred debits on the balance sheet.

(b) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the three and six months ended June 30, 2017 and 2016:

	Generation					ComEd	*Successor* PHI		Exelon
Three Months Ended June 30, 2017	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives[a]**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of March 31, 2017	$ 683	$ 20	$ 565	$ 40	$ 1,308	$ (282)	$ 20	$ —	$ 1,046
Total realized / unrealized gains (losses)									
Included in net income	1	—	(3)[b]	—	(2)	—	—	—	(2)
Included in noncurrent payables to affiliates	4	—	—	—	4	—	—	(4)	—
Included in payable for Zion Station decommissioning	—	1	—	—	1	—	—	—	1
Included in regulatory assets	—	—	—	—	—	26	—	4	30
Change in collateral	—	—	31	—	31	—	—	—	31
Purchases, sales, issuances and settlements									
Purchases	19	—	21	1	41	—	—	—	41
Sales	—	—	(13)	—	(13)	—	—	—	(13)
Settlements	(24)	—	—	—	(24)	—	—	—	(24)
Transfers into Level 3	—	—	(8)	—	(8)	—	—	—	(8)
Transfers out of Level 3	—	—	(4)	—	(4)	—	—	—	(4)
Balance at June 30, 2017	$ 683	$ 21	$ 589	$ 41	$ 1,334	$ (256)	$ 20	$ —	$ 1,098
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of June 30, 2017	$ —	$ —	$ 43	$ —	$ 43	$ —	$ —	$ —	$ 43

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					ComEd	Successor PHI		Exelon
Six Months Ended June 30, 2017	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives[a]**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of December 31, 2016	$ 677	$ 19	$ 493	$ 42	$ 1,231	$ (258)	$ 20	$ —	$ 993
Total realized / unrealized gains (losses)									
Included in net income	4	—	(46)[b]	1	(41)	—	1	—	(40)
Included in noncurrent payables to affiliates	13	—	—	—	13	—	—	(13)	—
Included in payable for Zion Station decommissioning	—	1	—	—	1	—	—	—	1
Included in regulatory assets	—	—	—	—	—	2	—	13	15
Change in collateral	—	—	69	—	69	—	—	—	69
Purchases, sales, issuances and settlements									
Purchases	36	1	90	3	130	—	—	—	130
Sales	—	—	(15)	—	(15)	—	—	—	(15)
Issuances	—	—	—	—	—	—	(1)	—	(1)
Settlements	(47)	—	—	—	(47)	—	—	—	(47)
Transfers into Level 3	—	—	(10)	—	(10)	—	—	—	(10)
Transfers out of Level 3	—	—	8	(5)	3	—	—	—	3
Balance as of June 30, 2017	$ 683	$ 21	$ 589	$ 41	$ 1,334	$ (256)	$ 20	$ —	$ 1,098
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of June 30, 2017	$ 2	$ —	$ 102	$ 1	$ 105	$ —	$ 1	$ —	$ 106

(a) Includes $25 million of increases in fair value and an increase for realized losses due to settlements of $1 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the three months ended June 30, 2017. Includes $5 million of decreases in fair value and an increase for realized losses due to settlements of $7 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the six months ended June 30, 2017.

(b) Includes a reduction for the reclassification of $46 million and $148 million of realized gains due to the settlement of derivative contracts for the three and six months ended June 30, 2017.

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	Generation					ComEd	*Successor* PHI		Exelon
Three Months Ended June 30, 2016	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives** [(a)]	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of March 31, 2016	$ 684	$ 25	$ 1,047	$ 36	$ 1,792	$ (265)	$ 20	$ —	$ 1,547
Total realized / unrealized gains (losses)									
Included in net income	4	—	(428)[(b)]	—	(424)	—	1	—	(423)
Included in noncurrent payables to affiliates	8	—	—	—	8	—	—	(8)	—
Included in regulatory assets	—	—	—	—	—	44	—	8	52
Change in collateral	—	—	(32)	—	(32)	—	—	—	(32)
Purchases, sales, issuances and settlements									
Purchases	85	—	23	1	109	—	—	—	109
Sales	(1)	—	(1)	—	(2)	—	—	—	(2)
Issuances	—	—	—	—	—	—	(1)	—	(1)
Settlements	(65)	—	—	—	(65)	—	—	—	(65)
Transfers into Level 3	—	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—	—
Balance as of June 30, 2016	$ 715	$ 25	$ 609	$ 37	$ 1,386	$ (221)	$ 20	$ —	$ 1,185
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of June 30, 2016	$ 3	$ —	$ (264)	$ —	$ (261)	$ —	$ 1	$ —	$ (260)

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					ComEd	*Successor* PHI[c]		Exelon
Six Months Ended June 30, 2016	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives[a]**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of December 31, 2015	$ 670	$ 22	$ 1,051	$ 33	$ 1,776	$ (247)	$ —	$ —	$ 1,529
Included due to merger	—	—	—	—	—	—	20	—	20
Total realized / unrealized gains (losses)									
Included in net income	6	—	(434)[b]	—	(428)	—	1	—	(427)
Included in noncurrent payables to affiliates	12	—	—	—	12	—	—	(12)	—
Included in payable for Zion Station decommissioning	—	2	—	—	2	—	—	—	2
Included in regulatory assets	—	—	—	—	—	26	—	12	38
Change in collateral	—	—	(82)	—	(82)	—	—	—	(82)
Purchases, sales, issuances and settlements									
Purchases	119	1	82	4	206	—	—	—	206
Sales	(1)	—	(3)	—	(4)	—	—	—	(4)
Issuances	—	—	—	—	—	—	(1)	—	(1)
Settlements	(91)	—	—	—	(91)	—	—	—	(91)
Transfers into Level 3	—	—	2	—	2	—	—	—	2
Transfers out of Level 3	—	—	(7)	—	(7)	—	—	—	(7)
Balance as of June 30, 2016	$ 715	$ 25	$ 609	$ 37	$ 1,386	$ (221)	$ 20	$ —	$ 1,185
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of June 30, 2016	$ 4	$ —	$ (45)	$ —	$ (41)	$ —	$ 1	$ —	$ (40)

(a) Includes $40 million of increases in fair value and an increase for realized losses due to settlements of $4 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the three months ended June 30, 2016. Includes $15 million of increases in fair value and an increase for realized losses due to settlements of $11 million for the six months ended June 30, 2016.

(b) Includes a reduction for the reclassification of $164 million and $389 million of realized gains due to the settlement of derivative contracts recorded in results of operations for the three and six months ended June 30, 2016.

(c) Successor period represents activity from March 24, 2016 through June 30, 2016. See tables below for PHI's predecessor periods, as well as activity for Pepco for the three and six months ended June 30, 2017 and 2016.

	Predecessor January 1, 2016 to March 23, 2016	
PHI	**Preferred Stock**	**Life Insurance Contracts**
Beginning Balance	$ 18	$ 19
Total realized / unrealized gains (losses)		
Included in net income	(18)	1
Ending Balance	$ —	$ 20
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ —	$ 1

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	Life Insurance Contracts			
	Three Months Ended June 30,		Six Months Ended June 30,	
Pepco	2017	2016	2017	2016
Beginning balance	$ 20	$ 20	$ 20	$ 19
Total realized / unrealized gains (losses)				
Included in net income	—	1	1	2
Purchases, sales, issuances and settlements				
Issuances	—	(1)	(1)	(1)
Ending balance	$ 20	$ 20	$ 20	$ 20
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ —	$ 1	$ —	$ 2

The following tables present the income statement classification of the total realized and unrealized gains (losses) included in income for Level 3 assets and liabilities measured at fair value on a recurring basis during the three and six months ended June 30, 2017 and 2016:

	Generation			*Successor* PHI	Exelon		
	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]	Other, net[(a)]	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]
Total gains (losses) included in net income for the three months ended June 30, 2017	$ (51)	$ 48	$ 1	$ —	$ (51)	$ 48	$ 1
Total gains (losses) included in net income for the six months ended June 30, 2017	37	(83)	5	1	37	(83)	6
Change in the unrealized gains (losses) relating to assets and liabilities held for the three months ended June 30, 2017	—	43	—	—	—	43	—
Change in the unrealized gains (losses) relating to assets and liabilities held for the six months ended June 30, 2017	140	(38)	3	1	140	(38)	4

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	Generation			*Successor* PHI	Exelon		
	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]	Other, net[(a)]	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]
Total gains (losses) included in net income for the three months ended June 30, 2016	$ (462)	$ 34	$ 4	$ 1	$ (462)	$ 34	$ 5
Total gains (losses) included in net income for the six months ended June 30, 2016	(413)	(21)	6	1	(413)	(21)	7
Change in the unrealized gains (losses) relating to assets and liabilities held for the three months ended June 30, 2016	(274)	10	3	1	(274)	10	4
Change in the unrealized gains (losses) relating to assets and liabilities held for the six months ended June 30, 2016	(20)	(25)	4	1	(20)	(25)	5

	Predecessor PHI	Pepco			
	January 1, 2016 to March 23, 2016	Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
	Other, net[(a)]	Other, net[(a)]			
Total gains (losses) included in net income	$ (17)	$ —	$ 1	$ 1	$ 2
Change in the unrealized gains (losses) relating to assets and liabilities held	1	—	1	1	2

(a) Other, net activity consists of realized and unrealized gains (losses) included in income for the NDT funds held by Generation, accrued interest on a convertible promissory note at Generation and the life insurance contracts held by PHI and Pepco.

Valuation Techniques Used to Determine Fair Value

The following describes the valuation techniques used to measure the fair value of the assets and liabilities shown in the tables above.

Cash Equivalents (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). The Registrants' cash equivalents include investments with maturities of three months or less when purchased. The cash equivalents shown in the fair value tables are comprised of investments in mutual and money market funds. The fair values of the shares of these funds are based on observable market prices and, therefore, have been categorized in Level 1 in the fair value hierarchy.

Preferred Stock Derivative (PHI). In connection with entering into the PHI Merger Agreement, PHI entered into a Subscription Agreement with Exelon dated April 29, 2014, pursuant to which PHI issued to Exelon shares of Preferred stock. The Preferred stock contained embedded features requiring separate accounting consideration to reflect the potential value to PHI that any issued and outstanding Preferred stock could be called and redeemed at a nominal par value upon a termination of the merger agreement under certain circumstances due to the failure to obtain required regulatory approvals. The embedded call and redemption features on the

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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shares of the Preferred stock in the event of such a termination were separately accounted for as derivatives. These Preferred stock derivatives were valued quarterly using quantitative and qualitative factors, including management's assessment of the likelihood of a Regulatory Termination and therefore, were categorized in Level 3 in the fair value hierarchy. As a result of the PHI Merger, the PHI Preferred stock derivative was reduced to zero as of March 23, 2016. The write-off was charged to Other, net on the PHI Consolidated Statement of Operations and Comprehensive Income.

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning (Exelon and Generation). The trust fund investments have been established to satisfy Generation's and CENG's nuclear decommissioning obligations as required by the NRC. The NDT funds hold debt and equity securities directly and indirectly through commingled funds and mutual funds, which are included in Equities and Fixed Income. Generation's and CENG's NDT fund investments policies outline investment guidelines for the trusts and limit the trust funds' exposures to investments in highly illiquid markets and other alternative investments. Investments with maturities of three months or less when purchased, including certain short-term fixed income securities are considered cash equivalents and included in the recurring fair value measurements hierarchy as Level 1 or Level 2.

With respect to individually held equity securities, the trustees obtain prices from pricing services, whose prices are generally obtained from direct feeds from market exchanges, which Generation is able to independently corroborate. The fair values of equity securities held directly by the trust funds which are based on quoted prices in active markets are categorized in Level 1. Certain equity securities have been categorized as Level 2 because they are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities. Equity securities held individually are primarily traded on the New York Stock Exchange and NASDAQ-Global Select Market, which contain only actively traded securities due to the volume trading requirements imposed by these exchanges.

For fixed income securities, multiple prices from pricing services are obtained whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. With respect to individually held fixed income securities, the trustees monitor prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and the trustees determine that another price source is considered to be preferable. Generation has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, Generation selectively corroborates the fair values of securities by comparison to other market-based price sources. U.S. Treasury securities are categorized as Level 1 because they trade in a highly liquid and transparent market. The fair values of fixed income securities, excluding U.S. Treasury securities, are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The fair values of private placement fixed income securities, which are included in Corporate debt, are determined using a third party valuation that contains significant unobservable inputs and are categorized in Level 3.

Equity and fixed income commingled funds and mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives such as holding short term fixed income securities or tracking the performance of certain equity indices by purchasing equity securities to replicate the capitalization and characteristics of the indices. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For commingled funds and mutual funds, which are not publicly quoted, the funds are valued using NAV as a practical expedient for fair value, which is primarily derived from the quoted prices in active markets on the underlying securities, and are not classified within the fair value

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hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Derivative instruments consisting primarily of futures and interest rate swaps to manage risk are recorded at fair value. Over the counter derivatives are valued daily based on quoted prices in active markets and trade in open markets, and have been categorized as Level 1. Derivative instruments other than over the counter derivatives are valued based on external price data of comparable securities and have been categorized as Level 2.

Middle market lending are investments in loans or managed funds which lend to private companies. Generation elected the fair value option for its investments in certain limited partnerships that invest in middle market lending managed funds. The fair value of these loans is determined using a combination of valuation models including cost models, market models and income models. Investments in loans are categorized as Level 3 because the fair value of these securities is based largely on inputs that are unobservable and utilize complex valuation models. Managed funds are valued using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. Investments in middle market lending typically cannot be redeemed until maturity of the term loan.

Private equity and real estate investments include those in limited partnerships that invest in operating companies and real estate holding companies that are not publicly traded on a stock exchange, such as, leveraged buyouts, growth capital, venture capital, distressed investments, investments in natural resources, and direct investments in pools of real estate properties. The fair value of private equity and real estate investments is determined using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. These investments typically cannot be redeemed and are generally liquidated over a period of 8 to 10 years from the initial investment date. Private equity and real estate valuations are reported by the fund manager and are based on the valuation of the underlying investments, which include inputs such as cost, operating results, discounted future cash flows, market based comparable data, and independent appraisals from sources with professional qualifications. These valuation inputs are unobservable.

As of June 30, 2017, Generation has outstanding commitments to invest in middle market lending, private equity investments and real estate investments of approximately $280 million, $218 million, and $98 million, respectively. These commitments will be funded by Generation’s existing nuclear decommissioning trust funds.

Concentrations of Credit Risk. Generation evaluated its NDT portfolios for the existence of significant concentrations of credit risk as of June 30, 2017. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, and individual fund. As of June 30, 2017, there were no significant concentrations (generally defined as greater than 10 percent) of risk in Generation’s NDT assets.

See Note 12 — Nuclear Decommissioning for further discussion on the NDT fund investments.

Rabbi Trust Investments (Exelon, Generation, PECO, BGE, PHI, Pepco, DPL and ACE). The Rabbi trusts were established to hold assets related to deferred compensation plans existing for certain active and retired members of Exelon’s executive management and directors. The Rabbi trusts assets are included in investments in the Registrants’ Consolidated Balance Sheets and consist primarily of money market funds, mutual funds, fixed income securities and life insurance policies. The mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with Exelon’s overall investment strategy. Money market funds and mutual funds are publicly quoted and have been categorized as Level 1 given the clear observability of the prices. The fair values of fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The life insurance policies are valued using the cash surrender value of the policies, net of loans against those policies, which is provided by a third-party. Certain life insurance policies, which consist primarily of mutual funds that are priced based on observable market data, have been categorized as Level 2 because the life insurance policies can be liquidated at the reporting date for the value of the underlying assets. Life insurance policies that are valued using unobservable inputs have been categorized as Level 3.

Mark-to-Market Derivatives (Exelon, Generation, ComEd, PHI and DPL). Derivative contracts are traded in both exchange-based and non-exchange-based markets. Exchange-based derivatives that are valued using unadjusted quoted prices in active markets are categorized in Level 1 in the fair value hierarchy. Certain derivatives’ pricing is verified using indicative price quotations available through brokers or over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask, mid-point prices and are obtained from sources that the Registrants believe provide the most liquid market for the commodity. The price quotations are reviewed and corroborated to ensure the prices are observable and representative of an orderly transaction between market participants. This includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration. The remainder of derivative contracts are valued using the Black model, an industry standard option valuation model. The Black model takes into account inputs such as contract terms, including maturity, and market parameters, including assumptions of the future prices of energy, interest rates, volatility, credit worthiness and credit spread. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs are generally observable. Such instruments are categorized in Level 2. The Registrants’ derivatives are predominantly at liquid trading points. For derivatives that trade in less liquid markets with limited pricing information model inputs generally would include both observable and unobservable inputs. These valuations may include an estimated basis adjustment from an illiquid trading point to a liquid trading point for which active price quotations are available. Such instruments are categorized in Level 3.

Exelon may utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. In addition, the Registrants may utilize interest rate derivatives to lock in interest rate levels in anticipation of future financings. These interest rate derivatives are typically designated as cash flow hedges. Exelon determines the current fair value by calculating the net present value of expected payments and receipts under the swap agreement, based on and discounted by the market’s expectation of future interest rates. Additional inputs to the net present value calculation may include the contract terms, counterparty credit risk and other market parameters. As these inputs are based on observable data and valuations of similar instruments, the interest rate swaps are categorized in Level 2 in the fair value hierarchy. See Note 9 — Derivative Financial Instruments for further discussion on mark-to-market derivatives.

Deferred Compensation Obligations (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). The Registrants’ deferred compensation plans allow participants to defer certain cash compensation into a notional investment account. The Registrants include such plans in other current and noncurrent liabilities in their Consolidated Balance Sheets. The value of the Registrants’ deferred compensation obligations is based on the market value of the participants’ notional investment accounts. The underlying notional investments are comprised primarily of equities, mutual funds, commingled funds, and fixed income securities which are based on directly and indirectly observable market prices. Since the deferred compensation obligations themselves are not exchanged in an active market, they are categorized as Level 2 in the fair value hierarchy.

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The value of certain employment agreement obligations (which are included with the Deferred Compensation Obligation in the tables above) are based on a known and certain stream of payments to be made over time and are categorized as Level 2 within the fair value hierarchy.

Additional Information Regarding Level 3 Fair Value Measurements (Exelon, Generation, ComEd, PHI, Pepco, DPL and ACE)

Mark-to-Market Derivatives (Exelon, Generation and ComEd). For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities. Forward price curves for the power market utilized by the front office to manage the portfolio, are reviewed and verified by the middle office, and used for financial reporting by the back office. The Registrants consider credit and nonperformance risk in the valuation of derivative contracts categorized in Level 2 and 3, including both historical and current market data in its assessment of credit and nonperformance risk by counterparty. Due to master netting agreements and collateral posting requirements, the impacts of credit and nonperformance risk were not material to the financial statements.

Disclosed below is detail surrounding the Registrants' significant Level 3 valuations. The calculated fair value includes marketability discounts for margining provisions and other attributes. Generation's Level 3 balance generally consists of forward sales and purchases of power and natural gas and certain transmission congestion contracts. Generation utilizes various inputs and factors including market data and assumptions that market participants would use in pricing assets or liabilities as well as assumptions about the risks inherent in the inputs to the valuation technique. The inputs and factors include forward commodity prices, commodity price volatility, contractual volumes, delivery location, interest rates, credit quality of counterparties and credit enhancements.

For commodity derivatives, the primary input to the valuation models is the forward commodity price curve for each instrument. Forward commodity price curves are derived by risk management for liquid locations and by the traders and portfolio managers for illiquid locations. All locations are reviewed and verified by risk management considering published exchange transaction prices, executed bilateral transactions, broker quotes, and other observable or public data sources. The relevant forward commodity curve used to value each of the derivatives depends on a number of factors, including commodity type, delivery location, and delivery period. Price volatility varies by commodity and location. When appropriate, Generation discounts future cash flows using risk free interest rates with adjustments to reflect the credit quality of each counterparty for assets and Generation's own credit quality for liabilities. The level of observability of a forward commodity price varies generally due to the delivery location and delivery period. Certain delivery locations including PJM West Hub (for power) and Henry Hub (for natural gas) are more liquid and prices are observable for up to three years in the future. The observability period of volatility is generally shorter than the underlying power curve used in option valuations. The forward curve for a less liquid location is estimated by using the forward curve from the liquid location and applying a spread to represent the cost to transport the commodity to the delivery location. This

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spread does not typically represent a majority of the instrument's market price. As a result, the change in fair value is closely tied to liquid market movements and not a change in the applied spread. The change in fair value associated with a change in the spread is generally immaterial. An average spread calculated across all Level 3 power and gas delivery locations is approximately $2.86 and $0.41 for power and natural gas, respectively. Many of the commodity derivatives are short term in nature and thus a majority of the fair value may be based on observable inputs even though the contract as a whole must be classified as Level 3.

On December 17, 2010, ComEd entered into several 20-year floating to fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. See Note 9 —Derivative Financial Instruments for more information. The fair value of these swaps has been designated as a Level 3 valuation due to the long tenure of the positions and internal modeling assumptions. The modeling assumptions include using natural gas heat rates to project long term forward power curves adjusted by a renewable factor that incorporates time of day and seasonality factors to reflect accurate renewable energy pricing. In addition, marketability reserves are applied to the positions based on the tenor and supplier risk.

The table below discloses the significant inputs to the forward curve used to value these positions.

Type of trade	Fair Value at June 30, 2017	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives — Economic Hedges (Exelon and Generation)(a)(c)	$ 453	Discounted Cash Flow	Forward power price	$8 — $124
			Forward gas price	$1.92 — $9.37
		Option Model	Volatility percentage	11% — 253%
Mark-to-market derivatives — Proprietary trading (Exelon and Generation)(a)(c)	$ 6	Discounted Cash Flow	Forward power price	$11 — $73
Mark-to-market derivatives (Exelon and ComEd)	$ (256)	Discounted Cash Flow	Forward heat rate(b)	9x — 10x
			Marketability reserve	3% — 8%
			Renewable factor	89% — 121%

(a) The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.

(b) Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.

(c) The fair values do not include cash collateral posted on level three positions of $130 million as of June 30, 2017.

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Type of trade	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives — Economic Hedges (Exelon and Generation)(a)(c)	$ 435	Discounted Cash Flow	Forward power price	$11 — $130
			Forward gas price	$1.72 — $9.2
		Option Model	Volatility percentage	8% — 173%
Mark-to-market derivatives — Proprietary trading (Exelon and Generation)(a)(c)	$ (3)	Discounted Cash Flow	Forward power price	$19 — $79
Mark-to-market derivatives (Exelon and ComEd)	$ (258)	Discounted Cash Flow	Forward heat rate(b)	8x — 9x
			Marketability reserve	3% — 8%
			Renewable factor	89% — 121%

(a) The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.

(b) Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.

(c) The fair values do not include cash collateral posted on level three positions of $61 million as of December 31, 2016.

The inputs listed above would have a direct impact on the fair values of the above instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of Generation's commodity derivatives are forward commodity prices and for options is price volatility. Increases (decreases) in the forward commodity price in isolation would result in significantly higher (lower) fair values for long positions (contracts that give Generation the obligation or option to purchase a commodity), with offsetting impacts to short positions (contracts that give Generation the obligation or right to sell a commodity). Increases (decreases) in volatility would increase (decrease) the value for the holder of the option (writer of the option). Generally, a change in the estimate of forward commodity prices is unrelated to a change in the estimate of volatility of prices. An increase to the reserves listed above would decrease the fair value of the positions. An increase to the heat rate or renewable factors would increase the fair value accordingly. Generally, interrelationships exist between market prices of natural gas and power. As such, an increase in natural gas pricing would potentially have a similar impact on forward power markets.

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning (Exelon and Generation). For middle market lending and certain corporate debt securities investments, the fair value is determined using a combination of valuation models including cost models, market models and income models. The valuation estimates are based on discounting the forecasted cash flows, market-based comparable data, credit and liquidity factors, as well as other factors that may impact value. Significant judgment is required in the application of discounts or premiums applied for factors such as size, marketability, credit risk and relative performance.

Because Generation relies on third-party fund managers to develop the quantitative unobservable inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Generation. This includes information regarding the sensitivity of the fair values to changes in the unobservable inputs. Generation gains an understanding of the fund managers' inputs and assumptions used in preparing the valuations. Generation performed procedures to assess the reasonableness of the valuations.

Rabbi Trust Investments — Life insurance contracts (Exelon, PHI, Pepco, DPL and ACE). For life insurance policies categorized as Level 3, the fair value is determined based on the cash surrender value of the policy, which contains unobservable inputs and assumptions. Because Exelon relies on its third-party insurance provider to develop the inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Exelon. Exelon gains an understanding of the types of inputs and assumptions used in preparing the valuations and performs procedures to assess the reasonableness of the valuations.

9. Derivative Financial Instruments (All Registrants)

The Registrants use derivative instruments to manage commodity price risk, foreign currency exchange risk and interest rate risk related to ongoing business operations.

Commodity Price Risk (All Registrants)

To the extent the amount of energy Generation produces differs from the amount of energy it has contracted to sell, Exelon and Generation are exposed to market fluctuations in the prices of electricity, fossil fuels, and other commodities. Each of the Registrants employ established policies and procedures to manage their risks associated with market fluctuations in commodity prices by entering into physical and financial derivative contracts, including swaps, futures, forwards, options, and short-term and long-term commitments to purchase and sell energy and energy-related products. The Registrants believe these instruments, which are classified as either economic hedges or non-derivatives, mitigate exposure to fluctuations in commodity prices.

Derivative accounting guidance requires that derivative instruments be recognized as either assets or liabilities at fair value, with changes in fair value of the derivative recognized in earnings each period. Other accounting treatments are available through special election and designation, provided they meet specific, restrictive criteria both at the time of designation and on an ongoing basis. These alternative permissible accounting treatments include normal purchase normal sale (NPNS), cash flow hedge, and fair value hedge. For Generation, all derivative economic hedges related to commodities are recorded at fair value through earnings for the combined company, referred to as economic hedges in the following tables. The Registrants have applied the NPNS scope exception to certain derivative contracts for the forward sale of generation, power procurement agreements, and natural gas supply agreements. Generation has also entered into bilateral long-term contractual obligations for sales of energy to load-serving entities, including electric utilities, municipalities, electric cooperatives, and retail load aggregators, as well as contractual obligations to deliver energy to market participants who primarily focus on the resale of energy products for delivery. These non-derivative contracts are accounted for primarily under the accrual method of accounting. Additionally, Generation is exposed to certain market risks through its proprietary trading activities. The proprietary trading activities are a complement to Generation's energy marketing portfolio but represent a small portion of Generation's overall energy marketing activities.

Economic Hedging. The Registrants are exposed to commodity price risk primarily relating to changes in the market price of electricity, fossil fuels, and other commodities associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather conditions, governmental regulatory and environmental policies, and other factors. Within Exelon, Generation has the most exposure to commodity price risk. As such, Generation uses a variety of derivative and non-derivative instruments to manage the commodity price risk of its electric generation facilities, including power and gas sales, fuel and energy

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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purchases, natural gas transportation and pipeline capacity agreements, and other energy-related products marketed and purchased. In order to manage these risks, Generation may enter into fixed-price derivative or non-derivative contracts to hedge the variability in future cash flows from forecasted sales of energy and gas and purchases of fuel and energy. The objectives for entering into such hedges include fixing the price for a portion of anticipated future electricity sales at a level that provides an acceptable return on electric generation operations, fixing the price of a portion of anticipated fuel purchases for the operation of power plants, and fixing the price for a portion of anticipated energy purchases to supply load-serving customers. The portion of forecasted transactions hedged may vary based upon management's policies and hedging objectives, the market, weather conditions, operational and other factors. Generation is also exposed to differences between the locational settlement prices of certain economic hedges and the hedged generating units. This price difference is actively managed through other instruments which include derivative congestion products, whose changes in fair value are recognized in earnings each period, and auction revenue rights, which are accounted for on an accrual basis.

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation's owned and contracted generation positions that have not been hedged. Generation hedges commodity price risk on a ratable basis over three-year periods. As of June 30, 2017, the percentage of expected generation hedged for the major reportable segments is 96%-99%, 71%-74%, and 39%-42% for 2017, 2018, and 2019, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products, and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts including Generation's sales to ComEd, PECO, and BGE to serve their retail load.

On December 17, 2010, ComEd entered into several 20-year floating-to-fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. Delivery under the contracts began in June 2012. These contracts are designed to lock in a portion of the long-term commodity price risk resulting from the renewable energy resource procurement requirements in the Illinois Settlement Legislation. ComEd has not elected hedge accounting for these derivative financial instruments. ComEd records the fair value of the swap contracts on its balance sheet. Because ComEd receives full cost recovery for energy procurement and related costs from retail customers, the change in fair value each period is recorded by ComEd as a regulatory asset or liability. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO has contracts to procure electric supply that were executed through the competitive procurement process outlined in its PAPUC-approved DSP Programs, which are further discussed in Note 5 — Regulatory Matters. Based on Pennsylvania legislation and the DSP Programs permitting PECO to recover its electric supply procurement costs from retail customers with no mark-up, PECO's price risk related to electric supply procurement is limited. PECO locked in fixed prices for a significant portion of its commodity price risk through full requirements contracts. PECO has certain full requirements contracts that are considered derivatives and qualify for the NPNS scope exception under current derivative authoritative guidance.

PECO's natural gas procurement policy is designed to achieve a reasonable balance of long-term and short-term gas purchases under different pricing approaches in order to achieve system supply reliability at the least cost. PECO's reliability strategy is two-fold. First, PECO must assure that there is sufficient transportation capacity to satisfy delivery requirements. Second, PECO must ensure that a firm source of supply exists to utilize the capacity resources. All of PECO's natural gas supply and asset management agreements that are derivatives

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either qualify for the NPNS scope exception and have been designated as such, or have no mark-to-market balances because the derivatives are index priced. Additionally, in accordance with the 2016 PAPUC PGC settlement and to reduce the exposure of PECO and its customers to natural gas price volatility, PECO has continued its program to purchase natural gas for both winter and summer supplies using a layered approach of locking-in prices ahead of each season with long-term gas purchase agreements (those with primary terms of at least twelve months). Under the terms of the 2016 PGC settlement, PECO is required to lock in (i.e. economically hedge) the price of a minimum volume of its long-term gas commodity purchases. PECO’s gas-hedging program is designed to cover about 20% of planned natural gas purchases in support of projected firm sales. The hedging program for natural gas procurement has no direct impact on PECO’s financial position or results of operations as natural gas costs are fully recovered from customers under the PGC.

BGE has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC. The SOS rates charged recover BGE’s wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for commercial and industrial rate classes. BGE’s price risk related to electric supply procurement is limited. BGE locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of BGE’s full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other BGE full requirements contracts are not derivatives.

BGE provides natural gas to its customers under a MBR mechanism approved by the MDPSC. Under this mechanism, BGE’s actual cost of gas is compared to a market index (a measure of the market price of gas in a given period). The difference between BGE’s actual cost and the market index is shared equally between shareholders and customers. BGE must also secure fixed price contracts for at least 10%, but not more than 20%, of forecasted system supply requirements for flowing (i.e. non-storage) gas for the November through March period. These fixed-price contracts are not subject to sharing under the MBR mechanism. BGE also ensures it has sufficient pipeline transportation capacity to meet customer requirements. All of BGE’s natural gas supply and asset management agreements qualify for the NPNS scope exception and result in physical delivery.

Pepco has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and DCPSC. The SOS rates charged recover Pepco’s wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for residential and commercial rate classes. Pepco’s price risk related to electric supply procurement is limited. Pepco locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of Pepco’s full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other Pepco full requirements contracts are not derivatives.

DPL has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and the DPSC. The SOS rates charged recover DPL’s wholesale power supply costs. In Delaware, DPL is also entitled to recover a Reasonable Allowance for Retail Margin (RARM). The RARM includes a fixed annual margin of approximately $2.75 million, plus an incremental cost component and a cash working capital allowance. In Maryland, DPL charges an administrative fee intended to allow it to recover its administrative costs. DPL locks in fixed prices for all of its SOS requirements through full requirements contracts. DPL’s price risk related to electric supply procurement is limited. Certain of DPL’s full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

DPL provides natural gas to its customers under an Annual GCR mechanism approved by the DPSC. Under this mechanism, DPL’s Annual GCR Filing establishes a future GCR for firm bundled sales customers by using a forecast of demand and commodity costs. The actual costs are trued up versus the forecast on a monthly basis and any shortfall or excess is carried forward as a recovery balance in the next GCR filing. The demand portion of the GCR is based upon DPL's firm transportation and storage contracts. DPL has firm deliverability of swing and seasonal storage; a liquefied natural gas facility and firm transportation capacity to meet customer demand and provide a reserve margin. The commodity portion of the GCR includes a commission approved hedging program which is intended to reduce gas commodity price volatility while limiting the firm natural gas customers' exposure to adverse changes in the market price of natural gas. The hedge program requires that DPL hedge, on a non-discretionary basis, an amount equal to fifty percent (50%) of estimated purchase requirements for each month, including estimated monthly purchases for storage injections. The fifty percent (50%) hedge monthly target is achieved by hedging 1/12th of the 50% target each month beginning 12-months prior to the month in which the physical gas is to be purchased. Currently, DPL uses only exchange traded futures for its gas hedging program, which are considered derivatives, however, it retains the capability to employ other physical and financial hedges if needed. DPL has not elected hedge accounting for these derivative financial instruments. Because of the DPSC-approved fuel adjustment clause for DPL's derivatives, the change in fair value of the derivatives each period, in addition to all premiums paid and other transaction costs incurred as part of the Gas Hedging Program, are fully recoverable and are recorded by DPL as regulatory assets or liabilities. DPL's physical gas purchases are currently all daily, monthly or intra-month transactions. From time to time, DPL will enter into seasonal purchase or sale arrangements, however, there are none currently in the portfolio. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

ACE has contracts to procure BGS electric supply that are executed through a competitive procurement process approved by the NJBPU. The BGS rates charged recover ACE's wholesale power supply costs. ACE does not make any profit or incur any loss on the supply component of the BGS it supplies to customers. ACE's price risk related to electric supply procurement is limited. ACE locks in fixed prices for all of its BGS requirements through full requirements contracts. Certain of ACE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other ACE full requirements contracts are not derivatives.

Proprietary Trading. Generation also enters into certain energy-related derivatives for proprietary trading purposes. Proprietary trading includes all contracts entered into with the intent of benefiting from shifts or changes in market prices as opposed to those entered into with the intent of hedging or managing risk. Proprietary trading activities are subject to limits established by Exelon's RMC. The proprietary trading activities, which included settled physical sales volumes of 2,312 GWhs and 4,162 GWhs for the three and six months ended June 30, 2017, respectively, and 1,289 GWhs and 2,509 GWhs and for the three and six months June 30, 2016, respectively, are a complement to Generation's energy marketing portfolio but represent a small portion of Generation's revenue from energy marketing activities. ComEd, PECO, BGE, PHI, Pepco, DPL and ACE do not enter into derivatives for proprietary trading purposes.

Interest Rate and Foreign Exchange Risk (Exelon, Generation, ComEd, PECO, BGE and PHI)

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels in anticipation of future financings, which are typically designated as cash flow hedges. These strategies are employed to manage interest rate risks. At June 30, 2017, Exelon had $800 million of notional amounts of fixed-to-floating hedges outstanding, and Exelon and Generation had $492 million of notional amounts of floating-to-fixed hedges outstanding. Assuming the interest rate hedges are 100% effective, a

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hypothetical 50 bps increase in the interest rates associated with unhedged variable-rate debt (excluding Commercial Paper) and fixed-to-floating swaps would result in an approximately $3 million decrease in Exelon Consolidated pre-tax income for the six months ended June 30, 2017. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges. Below is a summary of the interest rate and foreign exchange hedge balances as of June 30, 2017:

	Generation					Exelon Corporate	Exelon
Description	Derivatives Designated as Hedging Instruments	Economic Hedges	Proprietary Trading[(a)]	Collateral and Netting[(b)]	Subtotal	Derivatives Designated as Hedging Instruments	Total
Mark-to-market derivative assets (current assets)	$ —	$ 14	$ 3	$ (11)	$ 6	$ —	$ 6
Mark-to-market derivative assets (noncurrent assets)	—	3	1	(2)	2	11	13
Total mark-to-market derivative assets	—	17	4	(13)	8	11	19
Mark-to-market derivative liabilities (current liabilities)	—	(17)	(4)	11	(10)	—	(10)
Mark-to-market derivative liabilities (noncurrent liabilities)	—	(3)	—	2	(1)	—	(1)
Total mark-to-market derivative liabilities	—	(20)	(4)	13	(11)	—	(11)
Total mark-to-market derivative net assets (liabilities)	$ —	$ (3)	$ —	$ —	$ (3)	$ 11	$ 8

(a) Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the proprietary trading activity in the above table is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize proprietary trading interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates.

(b) Exelon and Generation net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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The following table provides a summary of the interest rate and foreign exchange hedge balances recorded by the Registrants as of December 31, 2016:

	Generation					Exelon Corporate	Exelon
Description	**Derivatives Designated as Hedging Instruments**	**Economic Hedges**	**Proprietary Trading**[(a)]	**Collateral and Netting**[(b)]	**Subtotal**	**Derivatives Designated as Hedging Instruments**	**Total**
Mark-to-market derivative assets (current assets)	$ —	$ 17	$ 4	$ (13)	$ 8	$ —	$ 8
Mark-to-market derivative assets (noncurrent assets)	—	11	1	(8)	4	16	20
Total mark-to-market derivative assets	—	28	5	(21)	12	16	28
Mark-to-market derivative liabilities (current liabilities)	(7)	(13)	(2)	14	(8)	—	(8)
Mark-to-market derivative liabilities (noncurrent liabilities)	(3)	(8)	(2)	9	(4)	—	(4)
Total mark-to-market derivative liabilities	(10)	(21)	(4)	23	(12)	—	(12)
Total mark-to-market derivative net assets (liabilities)	$ (10)	$ 7	$ 1	$ 2	$ —	$ 16	$ 16

(a) Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the proprietary trading activity in the above table is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize proprietary trading interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates.

(b) Exelon and Generation net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

Fair Value Hedges. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Exelon includes the gain or loss on the hedged items and the offsetting loss or gain on the related interest rate swaps in interest expense as follows:

		Three Months Ended June 30,			
	Income Statement Location	**2017**	**2016**	**2017**	**2016**
		Gain (loss) on Swaps		**Gain (loss) on Borrowings**	
Exelon	Interest expense	$ 1	$ 5	$ 2	$ (1)

		Six Months Ended June 30,			
	Income Statement Location	**2017**	**2016**	**2017**	**2016**
		Gain (loss) on Swaps		**Gain (loss) on Borrowings**	
Exelon	Interest expense	$ (4)	$ 22	$ 10	$ (16)

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At June 30, 2017, Exelon had total outstanding fixed-to-floating fair value hedges related to interest rate swaps of $800 million, with a derivative asset of $11 million. At December 31, 2016, Exelon had total outstanding fixed-to-floating fair value hedges related to interest rate swaps of $800 million, with a derivative asset of $16 million. During the three and six months ended June 30, 2017 and 2016, the impact on the results of operations as a result of ineffectiveness from fair value hedges was a $3 million gain, a $7 million gain, a $4 million gain, and a $6 million gain, respectively.

Cash Flow Hedges. During the first and second quarter of 2016, Exelon entered into $600 million and $100 million of floating-to-fixed forward starting interest rate swaps, respectively, to manage a portion of the interest rate exposure associated with an anticipated debt issuance. The swaps were designated as cash flow hedges. Exelon terminated the swaps during the second quarter of 2016 upon issuance of the debt. Exelon recognized a loss of $3 million related to the swaps and $3 million of AOCI will be amortized into Other, net in Exelon’s Consolidated Statement of Operations and Comprehensive Income over the term of the debt. See Note 10 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information.

During the first quarter of 2016, Exelon entered into a $100 million floating-to-fixed forward starting interest rate swaps to manage a portion of the interest rate exposure associated with an anticipated debt issuance. The swap was designated as a cash flow hedge. Exelon terminated the swap during the first quarter of 2016 upon issuance of the debt. Exelon did not recognize a gain or loss as a result of the termination of the swap and an immaterial amount of AOCI will be amortized into Other, net in Exelon’s Consolidated Statement of Operations and Comprehensive Income over the term of the debt.

During the first quarter of 2014, EGR, a subsidiary of Generation, entered into floating-to-fixed interest rate swaps to manage a portion of its interest rate exposure in connection with its long-term borrowings. The swaps were de-designated as cash flow hedges and, during the second quarter of 2017, upon termination of the debt, Generation terminated the swaps. The total notional amount of the swaps was $164 million. No gain or loss was recognized as a result of the termination of the swaps. See Note 10 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information.

During the three and six months ended June 30, 2017 and 2016, the impact on the results of operations as a result of ineffectiveness from cash flow hedges in continuing designated hedge relationships was immaterial.

Economic Hedges. During the third quarter of 2014, EGTP, a subsidiary of Generation, entered into a floating-to-fixed interest rate swap to manage a portion of its interest rate exposure in connection with the long-term borrowing. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. The swaps have a notional amount of $492 million as of June 30, 2017 and expire in 2019. The swap was designated as a cash flow hedge in the fourth quarter of 2014. During the first quarter of 2017, the swap was de-designated. At June 30, 2017, the subsidiary had a $8 million derivative liability related to the swap.

During the third quarter of 2011, Sacramento PV Energy, a subsidiary of Generation entered into floating-to-fixed interest rate swaps to manage a portion of its interest rate exposure in connection with the long-term borrowings. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. During the first quarter of 2016, upon the termination of debt, Generation terminated the swaps. The total notional amount of the swaps was $25 million. No gain or loss was recognized as a result of the termination of the swaps.

During the third quarter of 2012, Constellation Solar Horizons, a subsidiary of Generation, entered into a floating-to-fixed interest rate swap to manage a portion of its interest rate exposure in connection with the long-term borrowings. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. During the first quarter of 2016, upon the termination of debt, Generation terminated the swap. The total notional amount of the swap was $24 million. No gain or loss was recognized as a result of the termination of the swap.

At June 30, 2017, Generation had immaterial notional amounts of interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions and $103 million in notional amounts of foreign currency exchange rate swaps that are marked-to-market to manage the exposure associated with international purchases of commodities in currencies other than U.S. dollars.

Fair Value Measurement and Accounting for the Offsetting of Amounts Related to Certain Contracts (Exelon, Generation, ComEd, PECO, BGE, PHI and DPL)

Fair value accounting guidance and disclosures about offsetting assets and liabilities requires the fair value of derivative instruments to be shown in the Notes to the Consolidated Financial Statements on a gross basis, even when the derivative instruments are subject to legally enforceable master netting agreements and qualify for net presentation in the Consolidated Balance Sheet. A master netting agreement is an agreement between two counterparties that may have derivative and non-derivative contracts with each other providing for the net settlement of all referencing contracts via one payment stream, which takes place as the contracts deliver, when collateral is requested or in the event of default. Generation’s use of cash collateral is generally unrestricted, unless Generation is downgraded below investment grade (i.e., to BB+ or Ba1). In the table below, Generation’s energy related economic hedges and proprietary trading derivatives are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral, including margin on exchange positions, is aggregated in the collateral and netting column. As of June 30, 2017 and December 31, 2016, $2 million and $8 million of cash collateral held, respectively, was not offset against derivative positions because such collateral was not associated with any energy-related derivatives, were associated with accrual positions, or as of the balance sheet date there were no positions to offset. Excluded from the tables below are economic hedges that qualify for the NPNS scope exception and other non-derivative contracts that are accounted for under the accrual method of accounting.

ComEd’s use of cash collateral is generally unrestricted unless ComEd is downgraded below investment grade (i.e., to BB+ or Ba1).

Cash collateral held by PECO and BGE must be deposited in a non affiliate major U.S. commercial bank or foreign bank with a U.S. branch office that meet certain qualifications.

In the table below, DPL’s economic hedges are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral, is aggregated in the collateral and netting column.

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The following table provides a summary of the derivative fair value balances recorded by the Registrants as of June 30, 2017:

	Generation				ComEd	DPL			Successor PHI	Exelon
Derivatives	Economic Hedges	Proprietary Trading	Collateral and Netting(a) (e)	Subtotal(b)	Economic Hedges(c)	Economic Hedges(d)	Collateral and Netting(a)	Subtotal	Subtotal	Total Derivatives
Mark-to-market derivative assets (current assets)	$ 3,198	$ 58	$ (2,429)	$ 827	$ —	$ —	$ —	$ —	$ —	$ 827
Mark-to-market derivative assets (noncurrent assets)	1,736	23	(1,308)	451	—	—	—	—	—	451
Total mark-to-market derivative assets	4,934	81	(3,737)	1,278	—	—	—	—	—	1,278
Mark-to-market derivative liabilities (current liabilities)	(2,895)	(52)	2,732	(215)	(19)	—	—	—	—	(234)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,644)	(25)	1,490	(179)	(237)	—	—	—	—	(416)
Total mark-to-market derivative liabilities	(4,539)	(77)	4,222	(394)	(256)	—	—	—	—	(650)
Total mark-to-market derivative net assets (liabilities)	$ 395	$ 4	$ 485	$ 884	$ (256)	$ —	$ —	$ —	$ —	$ 628

(a) Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

(b) Current and noncurrent assets are shown net of collateral of $149 million and $74 million, respectively, and current and noncurrent liabilities are shown net of collateral of $155 million and $107 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $485 million at June 30, 2017.

(c) Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

(d) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

(e) Of the collateral posted/(received), $84 million represents variation margin on the exchanges.

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The following table provides a summary of the derivative fair value balances recorded by the Registrants as of December 31, 2016:

	Generation				ComEd	DPL			*Successor* PHI	Exelon
Description	Economic Hedges	Proprietary Trading	Collateral and Netting [(a)] [(e)]	Subtotal [(b)]	Economic Hedges[(c)]	Economic Hedges[(d)]	Collateral and Netting[(a)]	Subtotal	Subtotal	Total Derivatives
Mark-to-market derivative assets (current assets)	$ 3,623	$ 55	$ (2,769)	$ 909	$ —	$ 2	$ (2)	$ —	$ —	$ 909
Mark-to-market derivative assets (noncurrent assets)	1,467	21	(1,016)	472	—	—	—	—	—	472
Total mark-to-market derivative assets	5,090	76	(3,785)	1,381	—	2	(2)	—	—	1,381
Mark-to-market derivative liabilities (current liabilities)	(3,165)	(54)	2,964	(255)	(19)	—	—	—	—	(274)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,274)	(25)	1,150	(149)	(239)	—	—	—	—	(388)
Total mark-to-market derivative liabilities	(4,439)	(79)	4,114	(404)	(258)	—	—	—	—	(662)
Total mark-to-market derivative net assets (liabilities)	$ 651	$ (3)	$ 329	$ 977	$ (258)	$ 2	$ (2)	$ —	$ —	$ 719

(a) Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, and letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

(b) Current and noncurrent assets are shown net of collateral of $100 million and $72 million, respectively, and current and noncurrent liabilities are shown net of collateral of $95 million and $62 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $329 million at December 31, 2016.

(c) Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

(d) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

(e) Of the collateral posted/(received), $(158) million represents variation margin on the exchanges.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Cash Flow Hedges (Exelon and Generation). The tables below provide the activity of OCI related to cash flow hedges for the six months ended June 30, 2017 and 2016, containing information about the changes in the fair value of cash flow hedges and the reclassification from Accumulated OCI into results of operations. The amounts reclassified from OCI, when combined with the impacts of the hedged transactions, result in the ultimate recognition of net revenues or expenses at the contractual price.

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	Exelon
Three Months Ended June 30, 2017	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
Accumulated OCI derivative loss at March 31, 2017		$ (13)	$ (11)
Effective portion of changes in fair value		(1)	(1)
Accumulated OCI derivative loss at June 30, 2017		$ (14)	$ (12)

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	Exelon
Six Months Ended June 30, 2017	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
Accumulated OCI derivative loss at December 31, 2016		$ (19)	$ (17)
Effective portion of changes in fair value		1	1
Reclassifications from AOCI to net income	Interest Expense	4(a)	4(a)
Accumulated OCI derivative loss at June 30, 2017		$ (14)	$ (12)

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	Exelon
Three Months Ended June 30, 2016	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
Accumulated OCI derivative loss at March 31, 2016		$ (26)	$ (26)
Reclassifications from AOCI to net income	Interest Expense	1	—
Accumulated OCI derivative loss at June 30, 2016		$ (25)	$ (26)

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	Exelon
Six Months Ended June 30, 2016	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
Accumulated OCI derivative loss at December 31, 2015		$ (21)	$ (19)
Effective portion of changes in fair value		(7)	(10)
Reclassifications from AOCI to net income	Interest Expense	3(b)	3(b)
Accumulated OCI derivative loss at June 30, 2016		$ (25)	$ (26)

(a) Amount is net of related income tax expense of $3 million for the six months ended June 30, 2017.
(b) Amount is net of related income tax expense of $2 million for the six months ended June 30, 2016.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Economic Hedges (Exelon and Generation). These instruments represent hedges that economically mitigate exposure to fluctuations in commodity prices and include financial options, futures, swaps, physical forward sales and purchases, but for which the fair value or cash flow hedge elections were not made. Additionally, Generation enters into interest rate derivative contracts and foreign exchange currency swaps ("treasury") to manage the exposure related to the interest rate component of commodity positions and international purchases of commodities in currencies other than U.S. Dollars. For the three and six months ended June 30, 2017 and 2016, the following net pre-tax mark-to-market gains (losses) of certain purchase and sale contracts were reported in Operating revenues or Purchased power and fuel expense, or Interest expense at Exelon and Generation in the Consolidated Statements of Operations and Comprehensive Income and are included in "Net fair value changes related to derivatives" in Exelon's and Generation's Consolidated Statements of Cash Flows. In the tables below, "Change in fair value" represents the change in fair value of the derivative contracts held at the reporting date. The "Reclassification to realized" generally represents the recognized change in fair value that was reclassified from unrealized to realized when the transaction to which the derivative relates occurs.

	Generation			Exelon
Three Months Ended June 30, 2017	**Operating Revenues**	**Purchased Power and Fuel**	**Total**	**Total**
Change in fair value of commodity positions	$ (100)	$ (62)	$(162)	$(162)
Reclassification to realized at settlement of commodity positions	(41)	21	(20)	(20)
Net commodity mark-to-market gains (losses)	(141)	(41)	(182)	(182)
Change in fair value of treasury positions	(2)	—	(2)	(2)
Reclassification to realized at settlement of treasury positions	—	—	—	—
Net treasury mark-to-market gains (losses)	(2)	—	(2)	(2)
Net mark-to-market gains (losses)	$ (143)	$ (41)	$(184)	$(184)

	Generation			Exelon
Six Months Ended June 30, 2017	**Operating Revenues**	**Purchased Power and Fuel**	**Total**	**Total**
Change in fair value of commodity positions	$ (9)	$ (197)	$(206)	$(206)
Reclassification to realized of commodity positions	(87)	63	(24)	(24)
Net commodity mark-to-market gains (losses)	(96)	(134)	(230)	(230)
Change in fair value of treasury positions	(1)	—	(1)	(1)
Reclassification to realized of treasury positions	(2)	—	(2)	(2)
Net treasury mark-to-market gains (losses)	(3)	—	(3)	(3)
Net mark-to-market gains (losses)	$ (99)	$ (134)	$(233)	$(233)

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation			Exelon
Three Months Ended June 30, 2016	Operating Revenues	Purchased Power and Fuel	Total	Total
Change in fair value of commodity positions	$ (432)	$ 235	$(197)	$(197)
Reclassification to realized at settlement of commodity positions	(181)	76	(105)	(105)
Net commodity mark-to-market gains (losses)	(613)	311	(302)	(302)
Change in fair value of treasury positions	1	—	1	1
Reclassification to realized at settlement of treasury positions	(3)	—	(3)	(3)
Net treasury mark-to-market gains (losses)	(2)	—	(2)	(2)
Net mark-to-market gains (losses)	$ (615)	$ 311	$(304)	$(304)

	Generation			Exelon
Six Months Ended June 30, 2016	Operating Revenues	Purchased Power and Fuel	Total	Total
Change in fair value of commodity positions	$ (153)	$ 109	$ (44)	$ (44)
Reclassification to realized of commodity positions	(392)	243	(149)	(149)
Net commodity mark-to-market gains (losses)	(545)	352	(193)	(193)
Change in fair value of treasury positions	(4)	—	(4)	(4)
Reclassification to realized of treasury positions	(4)	—	(4)	(4)
Net treasury mark-to-market gains (losses)	(8)	—	(8)	(8)
Net mark-to-market gains (losses)	$ (553)	$ 352	$(201)	$(201)

Proprietary Trading Activities (Exelon and Generation). For the three and six months ended June 30, 2017 and 2016, Exelon and Generation recognized the following net unrealized mark-to-market gains (losses), net realized mark-to-market gains (losses) and total net mark-to-market gains (losses) before income taxes relating to mark-to-market activity on commodity derivative instruments entered into for proprietary trading purposes and interest rate and foreign exchange derivative contracts to hedge risk associated with the interest rate and foreign exchange components of underlying commodity positions. Gains and losses associated with proprietary trading are reported as operating revenues in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and are included in "Net fair value changes related to derivatives" in Exelon's and Generation's Consolidated Statements of Cash Flows. In the tables below, "Change in fair value" represents the change in fair value of the derivative contracts held at the reporting date. The "Reclassification to realized" represents the recognized change in fair value that was reclassified to realized due to settlement of the derivative during the period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Change in fair value of commodity positions	$ 6	$ 5	$ 6	$ 14
Reclassification to realized of commodity positions	(6)	(5)	(7)	(11)
Net commodity mark-to-market gains (losses)	—	—	(1)	3
Change in fair value of treasury positions	—	—	(1)	(2)
Reclassification to realized of treasury positions	—	(1)	—	1
Net treasury mark-to-market gains (losses)	—	(1)	(1)	(1)
Total net mark-to-market gains (losses)	$ —	$ (1)	$ (2)	$ 2

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Credit Risk (All Registrants)

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that enter into derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. For energy-related derivative instruments, Generation enters into enabling agreements that allow for payment netting with its counterparties, which reduces Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. Typically, each enabling agreement is for a specific commodity and so, with respect to each individual counterparty, netting is limited to transactions involving that specific commodity product, except where master netting agreements exist with a counterparty that allow for cross product netting. In addition to payment netting language in the enabling agreement, Generation's credit department establishes credit limits, margining thresholds and collateral requirements for each counterparty, which are defined in the derivative contracts. Counterparty credit limits are based on an internal credit review process that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings by credit rating agencies and risk management capabilities. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with Generation as specified in each enabling agreement. Generation's credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

The following tables provide information on Generation's credit exposure for all derivative instruments, NPNS and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of June 30, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties. The figures in the tables below exclude credit risk exposure from individual retail counterparties, Nuclear fuel procurement contracts and exposure through RTOs, ISOs, NYMEX, ICE, NASDAQ, NGX and Nodal commodity exchanges. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $23 million, $27 million, $21 million, $41 million, $12 million, and $6 million as of June 30, 2017, respectively.

Rating as of June 30, 2017	Total Exposure Before Credit Collateral	Credit Collateral (a)	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 878	$ 14	$ 864	1	$ 299
Non-investment grade	47	1	46	—	—
No external ratings					
Internally rated — investment grade	327	—	327	—	—
Internally rated — non-investment grade	123	14	109	—	—
Total	$ 1,375	$ 29	$ 1,346	1	$ 299

Net Credit Exposure by Type of Counterparty	As of June 30, 2017
Financial institutions	$ 89
Investor-owned utilities, marketers, power producers	563
Energy cooperatives and municipalities	560
Other	134
Total	$ 1,346

(a) As of June 30, 2017, credit collateral held from counterparties where Generation had credit exposure included $19 million of cash and $10 million of letters of credit. The credit collateral does not include non-liquid collateral.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

ComEd's power procurement contracts provide suppliers with a certain amount of unsecured credit. The credit position is based on forward market prices compared to the benchmark prices. The benchmark prices are the forward prices of energy projected through the contract term and are set at the point of supplier bid submittals. If the forward market price of energy exceeds the benchmark price, the suppliers are required to post collateral for the secured credit portion after adjusting for any unpaid deliveries and unsecured credit allowed under the contract. The unsecured credit used by the suppliers represents ComEd's net credit exposure. As of June 30, 2017, ComEd's net credit exposure to suppliers was approximately $1 million.

ComEd is permitted to recover its costs of procuring energy through the Illinois Settlement Legislation. ComEd's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO's supplier master agreements that govern the terms of its electric supply procurement contracts, which define a supplier's performance assurance requirements, allow a supplier to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents PECO's net credit exposure. As of June 30, 2017, PECO had no material net credit exposure to suppliers.

PECO is permitted to recover its costs of procuring electric supply through its PAPUC-approved DSP Program. PECO's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 5 — Regulatory Matters for additional information.

PECO's natural gas procurement plan is reviewed and approved annually on a prospective basis by the PAPUC. PECO's counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the PGC, which allows PECO to adjust rates quarterly to reflect realized natural gas prices. PECO does not obtain collateral from suppliers under its natural gas supply and asset management agreements. As of June 30, 2017, PECO had no material credit exposure under its natural gas supply and asset management agreements with investment grade suppliers.

BGE is permitted to recover its costs of procuring energy through the MDPSC-approved procurement tariffs. BGE's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

BGE's full requirement wholesale electric power agreements that govern the terms of its electric supply procurement contracts, which define a supplier's performance assurance requirements, allow a supplier, or its guarantor, to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth, subject to an unsecured credit cap. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents BGE's net credit exposure. The seller's credit exposure is calculated each business day. As of June 30, 2017, BGE had no net credit exposure to suppliers.

BGE's regulated gas business is exposed to market-price risk. This market-price risk is mitigated by BGE's recovery of its costs to procure natural gas through a gas cost adjustment clause approved by the MDPSC. BGE does make off-system sales after BGE has satisfied its customers’ demands, which are not covered by the gas cost adjustment clause. At June 30, 2017, BGE had credit exposure of less than $1 million related to off-system sales which is mitigated by parental guarantees, letters of credit or right to offset clauses within other contracts with those third-party suppliers.

Pepco’s, DPL’s and ACE’s power procurement contracts provide suppliers with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier’s lowest credit rating from the major credit rating agencies and the supplier’s tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier’s unsecured credit limit. The unsecured credit used by the suppliers represents Pepco’s, DPL’s and ACE’s net credit exposure. As of June 30, 2017, Pepco’s, DPL’s and ACE’s net credit exposures to suppliers were immaterial.

Pepco is permitted to recover its costs of procuring energy through the MDPSC-approved and DCPSC-approved procurement tariffs. DPL is permitted to recover its costs of procuring energy through the MDPSC-approved and DPSC-approved procurement tariffs. ACE is permitted to recover its costs of procuring energy through the NJBPU-approved procurement tariffs. Pepco’s, DPL’s and ACE’s counterparty credit risks are mitigated by their ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

DPL’s natural gas procurement plan is reviewed and approved annually on a prospective basis by the DPSC. DPL’s counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the GCR, which allows DPL to adjust rates annually to reflect realized natural gas prices. To the extent that the fair value of the transactions in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. Exchange-traded contracts are required to be fully collateralized without regard to the credit rating of the holder. As of June 30, 2017, DPL had no credit exposure under its natural gas supply and asset management agreements with investment grade suppliers.

Collateral and Contingent-Related Features (All Registrants)

As part of the normal course of business, Generation routinely enters into physical or financially settled contracts for the purchase and sale of electric capacity, energy, fuels, emissions allowances and other energy-related products. Certain of Generation’s derivative instruments contain provisions that require Generation to post collateral. Generation also enters into commodity transactions on exchanges (i.e., NYMEX, ICE). The exchanges act as the counterparty to each trade. Transactions on the exchanges must adhere to comprehensive collateral and margining requirements. This collateral may be posted in the form of cash or credit support with thresholds contingent upon Generation’s credit rating from each of the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit-risk-related contingent features stipulate that if Generation were to be downgraded or lose its investment grade credit rating (based on its senior unsecured debt rating), it would be required to provide additional collateral. This incremental collateral requirement allows for the offsetting of derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master netting agreements. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. In this case, Generation believes an amount of several months of future payments (i.e., capacity payments) rather than a calculation of fair value is the best estimate for the contingent collateral obligation, which has been factored into the disclosure below.

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The aggregate fair value of all derivative instruments with credit-risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on the exchanges that are fully collateralized) is detailed in the table below:

Credit-Risk Related Contingent Feature	June 30, 2017	December 31, 2016
Gross Fair Value of Derivative Contracts Containing this Feature[a]	$ (942)	$ (960)
Offsetting Fair Value of In-the-Money Contracts Under Master Netting Arrangements[b]	601	627
Net Fair Value of Derivative Contracts Containing This Feature[c]	$ (341)	$ (333)

(a) Amount represents the gross fair value of out-of-the-money derivative contracts containing credit-risk related contingent features ignoring the effects of master netting agreements.
(b) Amount represents the offsetting fair value of in-the-money derivative contracts under legally enforceable master netting agreements with the same counterparty, which reduces the amount of any liability for which a Registrant could potentially be required to post collateral.
(c) Amount represents the net fair value of out-of-the-money derivative contracts containing credit-risk related contingent features after considering the mitigating effects of offsetting positions under master netting arrangements and reflects the actual net liability upon which any potential contingent collateral obligations would be based.

Generation had cash collateral posted of $517 million and letters of credit posted of $278 million and cash collateral held of $34 million and letters of credit held of $21 million as of June 30, 2017 for external counterparties with derivative positions. Generation had cash collateral posted of $347 million and letters of credit posted of $284 million and cash collateral held of $24 million and letters of credit held of $28 million at December 31, 2016 for external counterparties with derivative positions. In the event of a credit downgrade below investment grade (i.e., to BB+ by S&P or Ba1 by Moody’s), Generation would have been required to post additional collateral of $1.8 billion and $1.9 billion as of June 30, 2017 and December 31, 2016, respectively. These amounts represent the potential additional collateral required after giving consideration to offsetting derivative and non-derivative positions under master netting agreements.

Generation’s and Exelon’s interest rate swaps contain provisions that, in the event of a merger, if Generation’s debt ratings were to materially weaken, it would be in violation of these provisions, resulting in the ability of the counterparty to terminate the agreement prior to maturity. Collateralization would not be required under any circumstance. Termination of the agreement could result in a settlement payment by Exelon or the counterparty on any interest rate swap in a net liability position. The settlement amount would be equal to the fair value of the swap on the termination date. As of June 30, 2017, Generation’s swaps were in a liability position with a fair value of $3 million and Exelon’s swaps were in an asset position, with a fair value of $8 million.

See Note 26 — Segment Information of the Exelon 2016 Form 10-K for further information regarding the letters of credit supporting the cash collateral.

Generation entered into supply forward contracts with certain utilities, including PECO and BGE, with one-sided collateral postings only from Generation. If market prices fall below the benchmark price levels in these contracts, the utilities are not required to post collateral. However, when market prices rise above the benchmark price levels, counterparty suppliers, including Generation, are required to post collateral once certain unsecured credit limits are exceeded. Under the terms of ComEd’s standard block energy contracts, collateral postings are one-sided from suppliers, including Generation, should exposures between market prices and benchmark prices exceed established unsecured credit limits outlined in the contracts. As of June 30, 2017, ComEd held approximately $13 million in collateral from suppliers in association with energy procurement contracts. Under the terms of ComEd’s annual renewable energy contracts, collateral postings are required to cover a fixed value for RECs only. In addition, under the terms of ComEd's long-term renewable energy contracts, collateral postings are required from suppliers for both RECs and energy. The REC portion is a fixed value and the energy portion is one-sided from suppliers should the forward market prices exceed contract prices. As of June 30, 2017, ComEd held approximately $19 million in the form of cash and letters of credit as margin for both the annual and long-term REC obligations. If ComEd lost its investment grade credit rating as of June 30, 2017, it would have been required to post approximately $12 million of collateral to its counterparties. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO's natural gas procurement contracts contain provisions that could require PECO to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon PECO's credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of June 30, 2017, PECO was not required to post collateral for any of these agreements. If PECO lost its investment grade credit rating as of June 30, 2017, PECO could have been required to post approximately $21 million of collateral to its counterparties.

PECO's supplier master agreements that govern the terms of its DSP Program contracts do not contain provisions that would require PECO to post collateral.

BGE's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require BGE to post collateral.

BGE's natural gas procurement contracts contain provisions that could require BGE to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon BGE's credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of June 30, 2017, BGE was not required to post collateral for any of these agreements. If BGE lost its investment grade credit rating as of June 30, 2017, BGE could have been required to post approximately $36 million of collateral to its counterparties.

Pepco's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require Pepco to post collateral.

DPL's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require DPL to post collateral.

DPL's natural gas procurement contracts contain provisions that could require DPL to post collateral. To the extent that the fair value of the natural gas derivative transaction in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. The DPL obligations are standalone, without the guaranty of PHI. If DPL lost its investment grade credit rating as of June 30, 2017, DPL could have been required to post an additional amount of approximately $10 million of collateral to its natural gas counterparties.

ACE's full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require ACE to post collateral.

10. Debt and Credit Agreements (All Registrants)

Short-Term Borrowings

Exelon, Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. ComEd and BGE meet their short-term liquidity requirements primarily

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the Exelon intercompany money pool. PHI meets its short-term liquidity requirement primarily through the issuance of short-term notes and the Exelon intercompany money pool.

Commercial Paper

The Registrants had the following amounts of commercial paper borrowings outstanding as of June 30, 2017 and December 31, 2016:

Commercial Paper Borrowings	June 30, 2017	December 31, 2016
Exelon Corporate	$ —	$ —
Generation	569	620
ComEd	389	—
BGE	85	45
Pepco	—	23
DPL	25	—
ACE	42	—

Short-Term Loan Agreements

On January 13, 2016, PHI entered into a $500 million term loan agreement, which was amended on March 28, 2016. The net proceeds of the loan were used to repay PHI's outstanding commercial paper, and for general corporate purposes. Pursuant to the loan agreement, as amended, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1%, and all indebtedness thereunder is unsecured. On March 23, 2017, the aggregate principal amount of all loans, together with any accrued but unpaid interest due under the loan agreement was fully repaid and the loan terminated. On March 23, 2017, Exelon Corporate entered into a similar type term loan for $500 million which expires on March 22, 2018. Pursuant to the loan agreement, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1% and all indebtedness thereunder is unsecured. The loan agreement is reflected in Exelon's Consolidated Balance Sheet within Short-Term borrowings.

Credit Agreements

On January 9, 2017, the credit agreement for Generation's $75 million bilateral credit facility was amended and restated to increase the facility size to $100 million and extend the maturity to January 2019. This facility will solely be used by Generation to issue letters of credit.

On May 26, 2016, Exelon Corporate, Generation, ComEd, PECO and BGE entered into amendments to each of their respective syndicated revolving credit facilities, which extended the maturity of each of the facilities to May 26, 2021. Exelon Corporate also increased the size of its facility from $500 million to $600 million. On May 26, 2016, PHI, Pepco, DPL and ACE entered into an amendment to their Second Amended and Restated Credit Agreement dated as of August 1, 2011, which (i) extended the maturity date of the facility to May 26, 2021, (ii) removed PHI as a borrower under the facility, (iii) decreased the size of the facility from $1.5 billion to $900 million and (iv) converted its financial covenant from a debt to capitalization leverage ratio to an interest coverage ratio. On May 26, 2017, each of the Registrants' respective syndicated revolving credit facilities had their maturity dates extended to May 26, 2022.

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Long-Term Debt

Issuance of Long-Term Debt

During the six months ended June 30, 2017, the following long-term debt was issued:

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Exelon	Junior Subordinated Notes (a)	3.50%	June 1, 2022	$1,150	Refinance Exelon's Junior Subordinated Notes issued in June 2014.
Generation	Albany Green Energy Project Financing	LIBOR + 1.25%	November 17, 2017	$ 13	Albany Green Energy biomass generation development.
Generation	Energy Efficiency Project Financing	3.90%	February 1, 2018	$ 12	Funding to install energy conservation measures for the Naval Station Great Lakes project.
Generation	Energy Efficiency Project Financing	2.61%	September 30, 2018	$ 6	Funding to install energy conservation measures for the Pensacola project.
Generation	Energy Efficiency Project Financing	3.53%	April 1, 2019	$ 8	Funding to install energy conservation measures for the State Department project.
Generation	Energy Efficiency Project Financing	3.72%	May 1, 2018	$ 3	Funding to install energy conservation measures for the Smithsonian Zoo project.
Generation	Senior Notes	2.95%	January 15, 2020	$ 250	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	Senior Notes	3.40%	March 15, 2022	$ 500	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	ExGen Texas Power Nonrecourse Debt	LIBOR + 4.75%	September 18, 2021	$ 6	Funding for general corporate purposes.
Pepco	Energy Efficiency Project Financing	3.30%	December 15, 2017	$ 1	Funding to install energy conservation measures for the DOE Germantown project.
Pepco	First Mortgage Bonds	4.15%	March 15, 2043	$ 200	Funding to repay outstanding commercial paper and for general corporate purposes.

(a) See the Junior Subordinated Notes discussion below for further information.

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EGTP Nonrecourse Debt

In September 2014, EGTP, an indirect subsidiary of Exelon and Generation, issued $675 million aggregate principal amount of a nonrecourse senior secured term loan. The net proceeds were distributed to Generation for general business purposes. The loan is scheduled to mature on September 18, 2021. The term loan bears interest at a variable rate equal to LIBOR plus 4.75%, subject to a 1% LIBOR floor with interest payable quarterly. As of June 30, 2017, $662 million was outstanding. As part of the agreement, a revolving credit facility was established for the amount of $20 million available through, and scheduled to mature on September 18, 2019. In addition to the financing, EGTP entered into various interest rate swaps with an initial notional amount of approximately $505 million at an interest rate of 2.34% to hedge a portion of the interest rate exposure in connection with this financing, as required by the debt covenants. See Note 9 — Derivative Financial Instruments for additional information regarding interest rate swaps.

On May 2, 2017, EGTP entered into a consent agreement with its lenders, which resulted in the outstanding debt balance being classified as Long-term debt due within one year on Exelon's and Generation's Consolidated Balance Sheets. See Note 4 — Mergers, Acquisitions and Dispositions and Note 6 — Impairment of Long-Lived Assets for more information.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes used debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon issued approximately 33 million shares of common stock from treasury stock and received $1.15 billion upon settlement of the forward equity purchase contract. When reissuing treasury stock Exelon uses the average price paid to repurchase shares to calculate a gain or loss on issuance and records gains or losses directly to retained earnings. A loss on reissuance of treasury shares of $1.05 billion was recorded to retained earnings as of June 30, 2017. See Note 16 — Earnings Per Share and Equity for further information on the issuance of common stock.

BGE Redemption of Trust Preferred Securities

On August 1, 2017, BGE announced that it intends to redeem all of the outstanding shares of BGE Capital Trust II 6.20% Preferred Securities, which totaled $258 million at June 30, 2017. The securities will be redeemed on August 28, 2017, pursuant to the optional redemption provisions of the Indenture under which the securities were issued. The redemption will be made to stockholders of record as of the close of business on August 25, 2017. The redemption price per share is $25.19, which equals the stated value per share plus accrued and unpaid dividends to, but excluding, the redemption date. No dividends on the Securities being redeemed will accrue on or after the redemption date, nor will any interest accrue on amounts held to pay the redemption price.

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11. Income Taxes (All Registrants)

The effective income tax rate from continuing operations varies from the U.S. Federal statutory rate principally due to the following:

	Three Months Ended June 30, 2017								
									Successor
	Exelon(a)	Generation(b)	ComEd	PECO	BGE	Pepco	DPL	ACE	PHI
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	(2,745.7)	5.6	5.8	(0.6)	5.0	3.2	4.6	5.6	4.3
Qualified nuclear decommissioning trust fund income	3,156.6	(6.3)	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(528.7)	0.9	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.4)	(0.1)
Plant basis differences	(2,764.4)	—	(0.2)	(16.0)	(0.3)	(6.2)	(1.7)	(3.3)	(4.8)
Production tax credits and other credits	(1,035.7)	2.0	—	—	—	—	—	—	—
Noncontrolling interests	84.7	(0.2)	—	—	—	—	—	—	—
Like-kind exchange (c)	(5,362.4)	—	5.9	—	—	—	—	—	—
Other	1,960.6	1.1	0.5	0.2	1.3	(0.2)	0.9	(3.6)	0.9
Effective income tax rate	(7,200.0)%	38.1%	46.8%	18.5%	40.8%	31.7%	38.7%	33.3%	35.3%

	Three Months Ended June 30, 2016								
									Successor
	Exelon	Generation(d)	ComEd	PECO	BGE(e)	Pepco	DPL	ACE	PHI
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	2.3	(116.7)	4.8	0.3	2.0	3.5	4.8	5.9	6.1
Qualified nuclear decommissioning trust fund income	5.7	591.2	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(1.8)	(157.8)	(0.2)	(0.1)	(0.4)	(0.1)	(0.6)	(1.6)	(0.3)
Plant basis differences(f)	(6.9)	—	(0.4)	(11.3)	(20.6)	(5.7)	(3.5)	(7.1)	(7.0)

Production tax credits and other credits	(5.8)	(603.0)	—	—	—	—	—	—	—
Noncontrolling interest	0.9	94.4	—	—	—	—	—	—	—
Statute of limitations expiration	(1.7)	(410.8)	—	—	—	—	—	—	—
Merger expenses	0.2	—	—	—	—	0.2	3.1	—	1.0
Other(g)	(3.3)	(52.3)	(0.6)	(5.2)	(1.0)	(1.0)	1.2	7.8	1.0
Effective income tax rate	24.6%	(620.0)%	38.6%	18.7%	15.0%	31.9%	40.0%	40.0%	35.8%

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Six Months Ended June 30, 2017								
									Successor
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	(1.0)	(13.6)	5.3	(0.1)	5.1	3.8	5.1	5.6	4.6
Qualified nuclear decommissioning trust fund income	5.6	51.2	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(0.7)	(5.4)	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)	(0.4)	(0.2)
Plant basis differences	(4.3)	—	(0.2)	(14.3)	(0.7)	(6.0)	(1.8)	(3.3)	(4.3)
Production tax credits and other credits	(1.4)	(12.3)	—	—	—	—	—	—	—
Noncontrolling interests	(0.1)	(0.5)	—	—	—	—	—	—	—
Merger expenses(h)	(11.4)	(13.7)	—	—	—	(16.2)	(15.1)	(85.3)	(23.8)
Fitzpatrick bargain purchase gain	(6.5)	(60.0)	—	—	—	—	—	—	—
Like-kind exchange(c)	(3.7)	—	2.9	—	—	—	—	—	—
Other	0.3	(4.2)	0.4	(0.1)	0.3	(0.7)	1.0	(1.6)	—
Effective income tax rate	11.8%	(23.5)%	43.2%	20.4%	39.6%	15.8%	24.0%	(50.0)%	11.3%

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	Six Months Ended June 30, 2016								*Successor* March 24, 2016 to June 30, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**(i)	**DPL**(i)	**ACE**(i)	**PHI**(i)	**PHI**
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:										
State income taxes, net of Federal income tax benefit(j)	0.8	2.6	4.9	0.7	4.6	(9.5)	(5.2)	5.9	5.2	11.9
Qualified nuclear decommissioning trust fund income	5.6	9.8	—	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(1.7)	(2.5)	(0.2)	(0.1)	(0.1)	0.1	0.4	0.1	0.1	(0.9)
Plant basis differences(f)	(6.3)	—	(0.3)	(10.2)	(4.5)	12.6	2.0	1.0	1.7	(13.5)
Production tax credits and other credits	(5.5)	(9.6)	—	—	—	—	—	—	—	—
Noncontrolling interest	0.7	1.2	—	—	—	—	—	—	—	—
Statute of limitations expiration	(1.0)	(3.9)	—	—	—	—	—	—	—	—
Merger expenses	14.5	—	—	—	—	(36.1)	(30.5)	(17.7)	(18.9)	11.1
Other(g)	(2.8)	(3.8)	(0.1)	(2.4)	0.1	(0.5)	(0.1)	(0.1)	—	3.6
Effective income tax rate	39.3%	28.8%	39.3%	23.0%	35.1%	1.6%	1.6%	24.2%	23.1%	47.2%

(a) The effective tax rate for the three months ended June 30, 2017 is disproportionately impacted due to the decline in consolidated pre-tax GAAP earnings as compared to the federal and state tax impacts of the Like-kind exchange, tax credits, Plant basis differences, and Qualified nuclear decommissioning trust fund income.

(b) Generation recognized a loss before income taxes for the three months ended June 30, 2017. As a result, positive percentages represent an income tax benefit for the period presented.

(c) See Like-Kind Exchange within the Other Income Tax Matters section below for further details.

(d) The effective tax rate for the three months ended June 30, 2016, is disproportionately impacted due to the decline in pre-tax GAAP earnings as compared to the changes in tax credits and other reconciling items. In three months ended June 30, 2016, due to the expiration of a statute of limitations, Generation recorded an income tax benefit of $16 million. The statute of limitations expired in the third quarter of 2015; therefore, this represents an out of period adjustment.

(e) The effective tax rate for the three months ended June 30, 2016 is disproportionately impacted due to the decline in pre-tax GAAP earnings and changes in other reconciling items.

(f) At BGE, includes a cumulative adjustment related to a regulatory asset.

(g) At PECO, includes a cumulative adjustment related to an anticipated gas repairs tax return accounting method change.

(h) Includes a remeasurement of uncertain federal and state income tax positions, see below.

(i) Pepco, DPL and ACE recognized a loss before income taxes for the six months ended June 30, 2016, and PHI recognized a loss before income taxes for the period of March 24, 2016, through June 30, 2016. As a result, positive percentages represent an income tax benefit for the periods presented.

(j) Includes a remeasurement of uncertain state income tax positions for Pepco and DPL.

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Accounting for Uncertainty in Income Taxes

The Registrants have the following unrecognized tax benefits as of June 30, 2017 and December 31, 2016:

	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
June 30, 2017	$ 730	$ 467	$ 2	$ —	$120	$ 112	$ 59	$21	$—

	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
December 31, 2016	$ 916	$ 490	$ (12)	$ —	$120	$ 172	$ 80	$37	$22

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL, and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, as of June 30, 2017, resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

Exelon reduced the liability related to the uncertain tax position associated with the like-kind exchange in the second quarter of 2017. Please see the Other Income Tax Matters section below for additional details related to the like-kind exchange adjustments made in the second quarter of 2017.

Reasonably possible the total amount of unrecognized tax benefits could significantly increase or decrease within 12 months after the reporting date

Like-Kind Exchange

As of June 30, 2017, Exelon and ComEd have approximately $39 million and $2 million, respectively, of unrecognized federal and state income tax benefits that could significantly decrease within the 12 months after the reporting date due to a final resolution of the like-kind exchange litigation described below. The recognition of these unrecognized tax benefits would decrease Exelon and ComEd's effective tax rate.

Settlement of Income Tax Audits

As of June 30, 2017, Exelon, Generation, BGE, PHI, Pepco, and DPL have approximately $257 million, $57 million, $120 million, $80 million, $59 million, and $21 million of unrecognized federal and state tax benefits that could significantly decrease within the 12 months after the reporting date as a result of completing audits and potential settlements. Of the above unrecognized tax benefits, Exelon and Generation have $50 million that, if recognized, would decrease the effective tax rate. The unrecognized tax benefits related to BGE, DPL, and a portion of Pepco, if recognized, may be included in future regulated base rates and that portion would have no impact to the effective tax rate.

Other Income Tax Matters

Like-Kind Exchange (Exelon and ComEd)

Exelon, through its ComEd subsidiary, took a position on its 1999 income tax return to defer approximately $1.2 billion of tax gain on the sale of ComEd's fossil generating assets. The gain was deferred by reinvesting a portion of the proceeds from the sale in qualifying replacement property under the like-kind exchange provisions of the IRC. The like-kind exchange replacement property purchased by Exelon included interests in three municipal-owned electric generation facilities which were properly leased back to the municipalities.

The IRS disagreed with this position and asserted that the entire gain of approximately $1.2 billion was taxable in 1999. Exelon was unable to reach agreement with the IRS regarding the dispute over the like-kind exchange position. The IRS asserted that the Exelon purchase and leaseback transaction was substantially similar to a leasing transaction, known as a SILO, which the IRS does not respect as the acquisition of an ownership interest in property. A SILO is a “listed transaction” that the IRS has identified as a potentially abusive tax shelter under guidance issued in 2005. Accordingly, the IRS asserted that the sale of the fossil plants followed by the purchase and leaseback of the municipal owned generation facilities did not qualify as a like-kind exchange and the gain on the sale is fully subject to tax. The IRS also asserted a penalty of approximately $90 million for a substantial understatement of tax.

On September 30, 2013, the IRS issued a notice of deficiency to Exelon for the like-kind exchange position. Exelon filed a petition on December 13, 2013 to initiate litigation in the United States Tax Court (Tax Court) and the trial took place in August of 2015. Exelon was not required to remit any part of the asserted tax or penalty in order to litigate the issue.

On September 19, 2016, the Tax Court rejected Exelon’s position in the case and ruled that Exelon was not entitled to defer gain on the transaction. In addition, contrary to Exelon’s evaluation that the penalty was unwarranted, the Tax Court ruled that Exelon is liable for the penalty and interest due on the asserted penalty. Exelon expects to timely appeal this decision to the U.S. Court of Appeals for the Seventh Circuit in the second half of 2017. In June of 2017, the IRS finalized its computation of tax, penalties and interest owed by Exelon pursuant to the Tax Court’s decision.

In the first quarter of 2013, Exelon concluded that it was no longer more likely than not that the like-kind exchange position would be sustained and recorded charges to earnings representing the amount of interest expense (after-tax) and incremental state income tax expense that would be payable in the event Exelon is unsuccessful in litigation. Exelon agreed to hold ComEd harmless from any unfavorable impacts on ComEd’s equity of the after-tax interest and penalty amounts.

Prior to the Tax Court’s decision, however, Exelon did not believe it was likely a penalty would be assessed based on applicable case law and the facts of the transaction. As a result, no charge had been recorded for the penalty or for after-tax interest on the penalty. While it has strong arguments on appeal with respect to both the merits and the penalty, Exelon has determined that, pursuant to accounting standards, it is no longer more likely than not to avoid ultimate imposition of the penalty. As a result, in the third quarter of 2016, Exelon and ComEd recorded a charge to earnings of approximately $106 million and $86 million, respectively, of penalty and approximately $94 million and $64 million, respectively, of after-tax interest. Exelon and ComEd recorded the penalty and pre-tax interest due on the asserted penalty to Other, net and Interest expense, net, respectively, on their Consolidated Statements of Operations. Consistent with Exelon’s agreement to continue to hold ComEd harmless from any unfavorable impact on its equity from the like-kind exchange position, ComEd recorded on its Consolidated Balance Sheets as of September 30, 2016, a $150 million receivable and non-cash equity contributions from Exelon.

As a result of the IRS’s finalization of its computation in the second quarter 2017, Exelon recorded a benefit to earnings of approximately $26 million, consisting of an income tax benefit of $50 million and a reduction of penalties of $2 million, partially offset by after-tax interest expense of $26 million, while ComEd recorded a charge to earnings of approximately $23 million, consisting of income tax expense of $15 million and after-tax interest expense of $8 million.

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In the second quarter of 2017, Exelon amended its agreement with ComEd to also hold ComEd harmless for the unfavorable impacts on its equity from the additional income tax amounts owed by ComEd as a result of the IRS's finalization of its computation related to the like-kind exchange position. Accordingly, in the second quarter of 2017, ComEd recorded an additional receivable and non-cash equity contribution from Exelon for the total $23 million.

In order to appeal the decision, Exelon is required to pay the tax, penalties and interest at the time Exelon files its appeal (expected in the second half of 2017). Exelon expects that a payment of approximately $1.3 billion related to the like-kind exchange will be due, including $300 million from ComEd, in the second half of 2017. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total estimated net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts on ComEd's equity from the like-kind exchange position. Upon a final appellate decision, which could take up to several years, Exelon expects to receive approximately $60 million related to final interest computations.

Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. The remaining amount will be paid in the second half of 2017 at the time Exelon files its appeal of the Tax Court decision. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings. The deposit is reflected as a current asset and the related liabilities for the tax, penalty, and interest are included on Exelon's balance sheet as current obligations.

As of June 30, 2017, ComEd has a total receivable from Exelon pursuant to the hold harmless agreement of $369 million, which is included in Current Receivables from Affiliates on ComEd's Consolidated Balance Sheet. Under the agreement, Exelon will settle this receivable with ComEd no later than the time that the payments related to the like-kind exchange are due to the IRS, currently anticipated in the second half of 2017. No recovery will be sought from ComEd customers for any interest, penalty or additional income tax payment amounts resulting from the like-kind exchange tax position.

As previously disclosed, in the first quarter of 2014, Exelon entered into an agreement to terminate its investment in one of the three municipal-owned electric generation properties in exchange for a net early termination amount of $335 million. In the first quarter of 2016, Exelon terminated its interests in the remaining two municipal-owned electric generation properties in exchange for $360 million.

Long-Term Marginal State Income Tax Rate (Exelon, Generation, ComEd, and PHI)

Exelon, Generation and PHI periodically review events that may significantly impact how income is apportioned among the states and, therefore, the calculation of their respective deferred state income taxes. Events that may require Exelon, Generation and PHI to update their long-term state tax apportionment include significant changes in tax law and/or significant operational changes. Exelon and PHI's long-term marginal state income tax rate was revised in the first quarter of 2017 as a result of a statutory rate change pursuant to Exelon's marginal state income tax rate policy, resulting in the recording of a deferred state tax benefit for Exelon of $21 million, net of tax.

On July 6, 2017, Illinois enacted Senate Bill 9, which permanently increased Illinois' total corporate income tax rate from 7.75% to 9.50% effective July 1, 2017. As a result of the rate change, in the third quarter of 2017, after taking into account regulatory recovery of tax increases at Exelon, Generation and ComEd expect to record an estimated one-time increase to deferred income taxes of approximately $180 million, $15 million and $250 million, respectively. At ComEd, the increase to the Illinois deferred income tax liability will be offset by a regulatory asset. Exelon expects to record a decrease to income tax expense of approximately $70 million (net of federal taxes) and Generation expects to record an increase to income tax expense of approximately $15 million (net of federal taxes). The rate increase is not expected to have a material ongoing impact to Exelon's, Generation's and ComEd's future results of operations.

12. Nuclear Decommissioning (Exelon and Generation)

Nuclear Decommissioning Asset Retirement Obligations

Generation has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. To estimate its decommissioning obligation related to its nuclear generating stations for financial accounting and reporting purposes, Generation uses a probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple outcome scenarios that include significant estimates and assumptions, and are based on decommissioning cost studies, cost escalation rates, probabilistic cash flow models and discount rates. Generation updates its ARO annually, unless circumstances warrant more frequent updates, based on its review of updated cost studies and its annual evaluation of cost escalation factors and probabilities assigned to various scenarios.

The following table provides a rollforward of the nuclear decommissioning ARO reflected on Exelon's and Generation's Consolidated Balance Sheets from December 31, 2016 to June 30, 2017:

Nuclear decommissioning ARO at December 31, 2016[a]	$8,734
Acquisition of FitzPatrick	417
Net increase due to changes in, and timing of, estimated cash flows	103
Accretion expense	225
Costs incurred to decommission retired plants	(3)
Nuclear decommissioning ARO at June 30, 2017[a][b]	$9,476

(a) Includes $12 million and $10 million for the current portion of the ARO at June 30, 2017 and December 31, 2016, respectively, which is included in Other current liabilities on Exelon's and Generation's Consolidated Balance Sheets.

(b) Includes the fair value of the FitzPatrick ARO liability as of March 31, 2017, the date of the acquisition. See Note 4 —Mergers, Acquisitions and Dispositions.

During the six months ended June 30, 2017, Generation's nuclear ARO increased by approximately $742 million. The increase is largely driven by the acquisition of FitzPatrick and the announced early retirement of TMI. The fair value of FitzPatrick's assets and liabilities, including the ARO, was determined based on significant estimates and assumptions that are judgmental in nature. The fair value of the ARO is considered an initial estimate and will be updated with inputs from a third party engineering firm with corresponding adjustments recorded by the end of 2017. For additional details on the acquisition of FitzPatrick, see Note 4 — Mergers, Acquisitions and Dispositions. Included in the $103 million net increase due to changes in, and timing of, estimated cash flows above, is $138 million associated with the May 30, 2017 announcement to early retire the TMI nuclear unit on September 30, 2019. Refer to Note 7 — Early Nuclear Plant Retirements for additional information regarding the announced early retirement of TMI. The increase in the ARO liability for TMI incorporates the early shutdown date, increases the probabilities of longer term decommissioning scenarios, and reflects an increase in the estimated costs to decommission based on updated decommissioning cost study reflecting the early retirement of the unit.

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Nuclear Decommissioning Trust Fund Investments

NDT funds have been established for each generation station unit to satisfy Generation's nuclear decommissioning obligations. Generally, NDT funds established for a particular unit may not be used to fund the decommissioning obligations of any other unit.

The NDT funds associated with Generation's nuclear units have been funded with amounts collected from the previous owners and their respective utility customers. PECO is authorized to collect funds, in revenues, for decommissioning the former PECO nuclear plants through regulated rates, and these collections are scheduled through the operating lives of the former PECO plants. The amounts collected from PECO customers are remitted to Generation and deposited into the NDT funds for the unit for which funds are collected. Every five years, PECO files a rate adjustment with the PAPUC that reflects PECO's calculations of the estimated amount needed to decommission each of the former PECO units based on updated fund balances and estimated decommissioning costs. The rate adjustment is used to determine the amount collectible from PECO customers. On March 31, 2017, PECO filed its Nuclear Decommissioning Cost Adjustment (NDCA) with the PAPUC proposing an annual recovery from customers of approximately $4 million which, if approved by the PAPUC, will be effective January 1, 2018. This amount reflects a decrease from the current approved annual collection of approximately $24 million primarily due to the removal of the collections for Limerick Units 1 and 2 as a result of the NRC approving the extension of the operating licenses for an additional 20 years. See Note 16 — Asset Retirement Obligations of Exelon's 2016 Form 10-K, for information regarding the amount collected from PECO ratepayers for decommissioning costs.

At June 30, 2017 and December 31, 2016, Exelon and Generation had NDT fund investments totaling $12,641 million and $11,061 million, respectively. The increase is primarily driven by the acquisition of FitzPatrick.

The following table provides unrealized gains on NDT funds for the three and six months ended June 30, 2017 and 2016:

	Exelon and Generation Three Months Ended June 30, 2017	Exelon and Generation Three Months Ended June 30, 2016	Exelon and Generation Six Months Ended June 30, 2017	Exelon and Generation Six Months Ended June 30, 2016
Net unrealized gains (losses) on decommissioning trust funds — Regulatory Agreement Units(a)	$ (13)	$ 52	$ 210	$ 131
Net unrealized gains on decommissioning trust funds — Non-Regulatory Agreement Units(b)(c)	70	48	235	100

(a) Net unrealized gains (losses) related to Generation's NDT funds associated with Regulatory Agreement Units are included in Regulatory liabilities on Exelon's Consolidated Balance Sheets and Noncurrent payables to affiliates on Generation's Consolidated Balance Sheets.

(b) Excludes $(2) million and $1 million of net unrealized gains (losses) related to the Zion Station pledged assets for the three months ended June 30, 2017 and 2016 respectively. Excludes $(2) million and $3 million of net unrealized gains (losses) related to the Zion Station pledged assets for the six months ended June 30, 2017 and 2016, respectively. Net unrealized gains (losses) related to Zion Station pledged assets are included in Other current liabilities and Payable for Zion Station decommissioning on Exelon's and Generation's Consolidated Balance Sheets in 2017 and 2016, respectively.

(c) Net unrealized gains related to Generation's NDT funds with Non-Regulatory Agreement Units are included within Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Interest and dividends on NDT fund investments are recognized when earned and are included in Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. Interest and dividends earned on the NDT fund investments for the Regulatory Agreement Units are eliminated within Other, net in Exelon's and Generation's Consolidated Statement of Operations and Comprehensive Income.

Refer to Note 3 — Regulatory Matters and Note 27 — Related Party Transactions of the Exelon 2016 Form 10-K for information regarding regulatory liabilities at ComEd and PECO and intercompany balances between Generation, ComEd and PECO reflecting the obligation to refund to customers any decommissioning-related assets in excess of the related decommissioning obligations.

Zion Station Decommissioning

On September 1, 2010, Generation completed an Asset Sale Agreement (ASA) with EnergySolutions Inc. and its wholly owned subsidiaries, EnergySolutions, LLC (EnergySolutions) and ZionSolutions, under which ZionSolutions has assumed responsibility for completing certain decommissioning activities at Zion Station, which is located in Zion, Illinois and ceased operation in 1998. See Note 16 — Asset Retirement Obligations of the Exelon 2016 Form 10-K for information regarding the specific treatment of assets, including NDT funds, and decommissioning liabilities transferred in the transaction.

ZionSolutions is subject to certain restrictions on its ability to request reimbursements from the Zion Station NDT funds as defined within the ASA. Therefore, the transfer of the Zion Station assets did not qualify for asset sale accounting treatment and, as a result, the related NDT funds were reclassified to Pledged assets for Zion Station decommissioning within Generation's and Exelon's Consolidated Balance Sheets and will continue to be measured in the same manner as prior to the completion of the transaction. Additionally, the transferred ARO for decommissioning was replaced with a Payable for Zion Station decommissioning in Generation's and Exelon's Consolidated Balance Sheets. Changes in the value of the Zion Station NDT assets, net of applicable taxes, are recorded as a change in the Payable to ZionSolutions. At no point will the payable to ZionSolutions exceed the project budget of the costs remaining to decommission Zion Station. Generation has retained its obligation for the SNF. Following ZionSolutions' completion of its contractual obligations and transfer of the NRC license to Generation, Generation will store the SNF at Zion Station until it is transferred to the DOE for ultimate disposal, and will complete all remaining decommissioning activities associated with the SNF dry storage facility. Generation has a liability of approximately $114 million which is included within the nuclear decommissioning ARO at June 30, 2017. Generation also has retained NDT assets to fund its obligation to maintain the SNF at Zion Station until transfer to the DOE and to complete all remaining decommissioning activities for the SNF storage facility. Any shortage of funds necessary to maintain the SNF and decommission the SNF storage facility is ultimately required to be funded by Generation. Any Zion Station NDT funds remaining after the completion of all decommissioning activities will be returned to ComEd customers in accordance with the applicable orders. The following table provides the pledged assets and payables to ZionSolutions, and withdrawals by ZionSolutions at June 30, 2017 and December 31, 2016:

	Exelon and Generation	
	June 30, 2017	December 31, 2016
Carrying value of Zion Station pledged assets	$ 75	$ 113
Payable to Zion Solutions(a)	69	104
Current portion of payable to Zion Solutions(b)	69	90
Cumulative withdrawals by Zion Solutions to pay decommissioning costs(c)	914	878

(a) Excludes a liability recorded within Exelon's and Generation's Consolidated Balance Sheets related to the tax obligation on the unrealized activity associated with the Zion Station NDT funds. The NDT funds will be utilized to satisfy the tax obligations as gains and losses are realized.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(b) Included in Other current liabilities within Exelon's and Generation's Consolidated Balance Sheets.
(c) Includes project expenses to decommission Zion Station and estimated tax payments on Zion Station NDT fund earnings.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in specified minimum amounts to decommission the facility at the end of its life.

Generation filed its biennial decommissioning funding status report with the NRC on March 30, 2017 for all units except for Zion Station which is included in a separate report to the NRC submitted by EnergySolutions (see Zion Station Decommissioning above). The status report demonstrated adequate decommissioning funding assurance for all units except for Peach Bottom Unit 1. As a former PECO plant, financial assurance for decommissioning Peach Bottom Unit 1 is provided by the NDT fund in addition to collections from PECO ratepayers. As discussed under Nuclear Decommissioning Trust Fund Investments above, the amount collected from PECO ratepayers has been adjusted in the March 31, 2017 filing to the PAPUC which, if approved by the PAPUC, will be effective January 1, 2018.

Generation will file its next decommissioning funding status report with the NRC by March 31, 2018 for shutdown reactors and reactors within five years of shutdown. This report will reflect the status of decommissioning funding assurance as of December 31, 2017 and will include the impact of the announced early retirement of TMI. A shortfall could require Exelon to post parental guarantee for Generation's share of the funding assurance. However, the amount of any required guarantee will ultimately depend on the decommissioning approach adopted at TMI, the associated level of costs, and the decommissioning trust fund investment performance going forward.

13. Retirement Benefits (All Registrants)

Exelon sponsors defined benefit pension plans and other postretirement benefit plans for essentially all employees.

Effective March 31, 2017, in connection with the acquisition of FitzPatrick, Exelon established a new qualified pension plan and a new other postretirement employee benefit plan, and recorded benefit plan obligations of $38 million and $11 million, respectively. Refer to Note 4 — Mergers, Acquisitions and Dispositions for additional discussion of the acquisition of FitzPatrick.

Effective March 23, 2016, Exelon became the sponsor of all of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets. As a result, PHI's benefit plan net obligation and related regulatory assets were transferred to Exelon.

Defined Benefit Pension and Other Postretirement Benefits

During the first quarter of 2017, Exelon received an updated valuation of its pension and other postretirement benefit obligations to reflect actual census data as of January 1, 2017. This valuation resulted in an increase to the pension obligation of $92 million and an increase to the other postretirement benefit obligation of $57 million. Additionally, accumulated other comprehensive loss increased by approximately $59 million (after tax), regulatory assets increased by approximately $57 million and regulatory liabilities increased by approximately $4 million.

The majority of the 2017 pension benefit cost for Exelon-sponsored plans is calculated using an expected long-term rate of return on plan assets of 7.00% and a discount rate of 4.04%. The majority of the 2017 other

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

postretirement benefit cost is calculated using an expected long-term rate of return on plan assets of 6.58% for funded plans and a discount rate of 4.04%.

A portion of the net periodic benefit cost for all plans is capitalized within the Consolidated Balance Sheets. The following tables present the components of Exelon's net periodic benefit costs, prior to capitalization, for the three and six months ended June 30, 2017 and 2016 and PHI's net periodic benefit costs, prior to capitalization, for the predecessor period of January 1, 2016 to March 23, 2016.

	Pension Benefits Three Months Ended June 30,		Other Postretirement Benefits Three Months Ended June 30,	
	2017[(a)]	2016[(b)]	2017[(a)]	2016[(b)]
Components of net periodic benefit cost:				
Service cost	$ 97	$ 91	$ 28	$ 28
Interest cost	211	212	46	48
Expected return on assets	(299)	(292)	(41)	(42)
Amortization of:				
Prior service cost (benefit)	1	4	(47)	(47)
Actuarial loss	150	142	15	16
Settlement charges	2	—	—	—
Net periodic benefit cost	$ 162	$ 157	$ 1	$ 3

	Pension Benefits Six Months Ended June 30,		Other Postretirement Benefits Six Months Ended June 30,	
	2017[(a)]	2016[(b)]	2017[(a)]	2016[(b)]
Components of net periodic benefit cost:				
Service cost	$ 191	$ 170	$ 54	$ 54
Interest cost	422	403	91	90
Expected return on assets	(598)	(555)	(82)	(80)
Amortization of:				
Prior service cost (benefit)	1	7	(94)	(91)
Actuarial loss	302	269	31	30
Settlement charges	2	—	—	—
Net periodic benefit cost	$ 320	$ 294	$ —	$ 3

(a) FitzPatrick net benefit costs are included for the period after acquisition.
(b) PHI net periodic benefit costs for the period prior to the merger are not included in the table above.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Predecessor PHI Pension Benefits January 1, 2016 to March 23, 2016	*Predecessor* PHI Other Postretirement Benefits January 1, 2016 to March 23, 2016
Components of net periodic benefit cost:		
Service cost	$ 12	$ 1
Interest cost	26	6
Expected return on assets	(30)	(5)
Amortization of:		
Prior service cost (benefit)	—	(3)
Actuarial loss	14	2
Net periodic benefit cost	$ 22	$ 1

The amounts below represent Exelon's, Generation's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's, ACE's, BSC's and PHISCO's allocated portion of the pension and postretirement benefit plan costs, which were included in Property, plant and equipment within the respective Consolidated Balance Sheets and Operating and maintenance expense within the Consolidated Statement of Operations and Comprehensive Income during the three and six months ended June 30, 2017 and 2016 and PHI's for the predecessor and successor periods of January 1, 2016 to March 23, 2016 and March 24, 2016 to June 30, 2016, respectively.

Pension and Other Postretirement Benefit Costs	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Exelon	$ 163	$ 160	$ 320	$ 297
Generation(c)	59	55	113	109
ComEd	44	42	87	83
PECO	7	8	14	17
BGE	16	18	32	33
BSC(a)	13	10	26	24
Pepco(b)	6	7	13	16
DPL(b)	3	4	6	9
ACE(b)	3	4	7	8
PHISCO(a)(b)	12	12	22	21

Pension and Other Postretirement Benefit Costs	*Successor* Three Months Ended June 30, 2017	*Successor* Three Months Ended June 30, 2016	*Successor* Six Months Ended June 30, 2017	*Successor* March 24, 2016 to June 30, 2016	*Predecessor* January 1, 2016 to March 23, 2016
PHI	$ 24	$ 27	$ 48	$ 31	$ 23

(a) These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These amounts are not included in the Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE amounts above.

(b) Pepco's, DPL's, ACE's and PHISCO's pension and postretirement benefit costs for the six months ended June 30, 2016 include $7 million, $4 million, $3 million and $9 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016.

(c) FitzPatrick net benefit costs are included for the period after acquisition.

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Defined Contribution Savings Plans

The Registrants participate in various 401(k) defined contribution savings plans that are sponsored by Exelon. The plans are qualified under applicable sections of the IRC and allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. All Registrants match a percentage of the employee contributions up to certain limits. The following table presents the matching contributions to the savings plans during the three and six months ended June 30, 2017 and 2016 and PHI's for the predecessor and successor periods of January 1, 2016 to March 23, 2016 and March 24, 2016 to June 30, 2016, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
Savings Plan Matching Contributions	**2017**	**2016**	**2017**	**2016**
Exelon	$ 33	$ 30	$ 63	$ 56
Generation	14	13	28	25
ComEd	8	7	15	13
PECO	2	2	4	4
BGE	3	2	4	3
BSC[a]	3	2	5	7
Pepco[b]	1	1	2	2
DPL[b]	1	—	1	1
PHISCO[a][b]	1	2	3	3
ACE	—	1	1	1

	Successor				*Predecessor*
Savings Plan Matching Contributions	**Three Months Ended June 30, 2017**	**Three Months Ended June 30, 2016**	**Six Months Ended June 30, 2017**	**March 24, 2016 to June 30, 2016**	**January 1, 2016 to March 23, 2016**
PHI	$ 3	$ 4	$ 7	$ 4	$ 3

(a) These amounts primarily represent amounts billed to Exelon and PHI's subsidiaries through intercompany allocations. These costs are not included in the Generation, ComEd, PECO, BGE, Pepco and DPL amounts above.

(b) Pepco's, DPL's and PHISCO's matching contributions for the six months ended June 30, 2016 include $1 million, $1 million and $1 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016, which is not included in Exelon's matching contributions for the six months ended June 30, 2016.

14. Severance (All Registrants)

The Registrants have an ongoing severance plan under which, in general, the longer an employee worked prior to termination the greater the amount of severance benefits. The Registrants record a liability and expense or regulatory asset for severance once terminations are probable of occurrence and the related severance benefits can be reasonably estimated. For severance benefits that are incremental to its ongoing severance plan ("one-time termination benefits"), the Registrants measure the obligation and record the expense at fair value at the communication date if there are no future service requirements, or, if future service is required to receive the termination benefit, ratably over the required service period.

Ongoing Severance Plans

The Registrants provide severance and health and welfare benefits under Exelon's ongoing severance benefit plans to terminated employees in the normal course of business. These benefits are accrued for when the benefits are considered probable and can be reasonably estimated.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

For the three and six months ended June 30, 2017 and 2016, Exelon, Generation, ComEd, PHI, Pepco, DPL, and ACE recorded the following severance costs associated with these ongoing severance benefits within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income.

	Exelon	Generation(a)	ComEd(a)	*Successor* PHI	Pepco(a)	DPL(a)	ACE(a)
Three Months Ended							
June 30, 2017	$ 5	$ 1	$ 1	$ 3	$ 1	$ 1	$ 1
June 30, 2016	2	1	1	—	—	—	—
Six Months Ended							
June 30, 2017	$ 9	$ 4	$ 2	$ 3	$ 1	$ 1	$ 1
June 30, 2016	4	3	1	—	—	—	—

(a) The amounts above for Generation include less than $1 million and $1 million for amounts billed by BSC through intercompany allocations for the three and six months ended June 30, 2017, respectively, and $1 million and $2 million for the three and six months ended June 30, 2016, respectively. The amounts above for ComEd include less than $1 million and $1 million for amounts billed by BSC through intercompany allocations for the three and six months ended June 30, 2017, respectively, and less than $1 million and $1 million for the three and six months ended June 30, 2016, respectively. Amounts billed by PHISCO to Pepco, DPL and ACE were $1 million, each, for both three and six months ended June 30, 2017. Pepco, DPL and ACE did not have any ongoing severance plans for the three and six months ended June 30, 2016.

Cost Management Program-Related Severance

In August 2015, Exelon announced a cost management program focused on cost savings at BSC and Generation, including the elimination of approximately 500 positions. These actions are in response to the continuing economic challenges confronting all parts of Exelon's business and industry, necessitating continued focus on cost management through enhanced efficiency and productivity. Exelon expects that approximately 250 corporate support positions in BSC and approximately 250 positions located throughout Generation will be eliminated.

For the three months ended June 30, 2017 and 2016, the amounts for severance costs related to the cost management program were immaterial. For the six months ended June 30, 2017 and 2016, the Registrants recorded the following severance costs related to the cost management program within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income, pursuant to the authoritative guidance for ongoing severance plans:

	Exelon	Generation	ComEd	PECO	BGE
Six Months Ended					
June 30, 2017(a)	$ (1)	$ (1)	$ —	$ —	$—
June 30, 2016(b)	$ 17	$ 12	$ 3	$ 1	$ 1

(a) Amounts billed by BSC through intercompany allocations for the six months ended June 30, 2017 were immaterial.

(b) The amounts above for Generation, ComEd, PECO and BGE include $7 million, $3 million, $1 million and $1 million, respectively, for amounts billed by BSC through intercompany allocations for the six months ended June 30, 2016.

Early Plant Retirement-Related Severance (Exelon and Generation)

As a result of the Three Mile Island plant retirement decision, Exelon and Generation will incur certain employee-related costs, including severance benefit costs. Severance costs will be provided to management employees that are eligible under Exelon's severance policy, to the extent that those employees are not redeployed to other locations. In June 2017, Exelon and Generation recognized severance costs of $17 million related to expected management employee severances resulting from the plant retirements within Operating and maintenance expense in their Consolidated Statements of Operation and Comprehensive Income. Approximately half of the employees at this location fall under a collective bargaining union agreement and are not eligible for severance benefits under an existing plan. The union and Exelon will negotiate terms of any severance benefits. If severance benefits are successfully negotiated, the amounts will be accrued as a one-time employee termination benefit once the established plan is communicated to employees. The final amount of the severance cost will ultimately depend on the specific employees severed. See Note — 7 Early Nuclear Plant Retirements for additional information regarding the announced early retirement of TMI.

Severance Costs Related to the PHI Merger

Upon closing the PHI Merger, Exelon recorded a severance accrual for the anticipated employee position reductions as a result of the post-merger integration. Cash payments under the plan began in May 2016 and will continue through 2020.

Pepco and DPL maintain regulatory assets for merger related integration costs which include a portion of the severance costs related to the PHI merger that is either currently being recovered in rates or is deemed probable of recovery if not currently being recovered in rates. As of June 30, 2017 and 2016, Pepco and DPL have regulatory assets of $12 million and $13 million, respectively, and $9 million and $3 million, respectively.

For the three and six months ended June 30, 2017, the PHI merger severance costs were immaterial. For the three and six months ended June 30, 2016, the Registrants recorded the following severance costs associated with the identified job reductions within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income, pursuant to the authoritative guidance for ongoing severance plans:

	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Three Months Ended June 30, 2016									
Severance costs (benefits)(a)	$ 2	$ (1)	$ (1)	$ —	$—	$ 4	$ 2	$ 1	$ 1
Six Months Ended June 30, 2016									
Severance costs(a)	$ 55	$ 9	$ 2	$ 1	$ 1	$ 42	$ 20	$12	$10

(a) The amounts above for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE include $(1) million, $(1) million, less than $1 million, less than $1 million, $2 million, $1 million and $1 million, respectively, for amounts billed by BSC and/or PHISCO through intercompany allocations for the three months ended June 30, 2016, and $8 million, $2 million, $1 million, $1 million, $19 million, $11 million and $10 million for the six months ended June 30, 2016.

Severance Liability

Amounts included in the table below represent the severance liability recorded for the severance plans above for employees of each Registrant and exclude amounts included at Exelon and billed through intercompany allocations:

Severance Liability	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Balance at December 31, 2016	$ 88	$ 36	$ 3	$ —	$—	$ 29	$ —	$—	$—
Severance charges[(a)]	25	17	1	—	—	3	—	—	—
Payments	(18)	(4)	(1)	—	—	(10)	—	—	—
Balance at June 30, 2017	$ 95	$ 49	$ 3	$ —	$—	$ 22	$ —	$—	$—

(a) Includes salary continuance and health and welfare severance benefits.

15. Changes in Accumulated Other Comprehensive Income (Exelon, Generation, PECO and PHI)

The following tables present changes in accumulated other comprehensive income (loss) (AOCI) by component for the six months ended June 30, 2017 and 2016:

Six Months Ended June 30, 2017	Gains and (losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon[(a)]						
Beginning balance	$ (17)	$ 4	$ (2,610)	$ (30)	$ (7)	$(2,660)
OCI before reclassifications	1	2	(58)	3	5	(47)
Amounts reclassified from AOCI[(b)]	4	—	70	—	—	74
Net current-period OCI	5	2	12	3	5	27
Ending balance	$ (12)	$ 6	$ (2,598)	$ (27)	$ (2)	$(2,633)
Generation[(a)]						
Beginning balance	$ (19)	$ 2	$ —	$ (30)	$ (7)	$ (54)
OCI before reclassifications	1	—	—	3	6	10
Amounts reclassified from AOCI[(b)]	4	—	—	—	—	4
Net current-period OCI	5	—	—	3	6	14
Ending balance	$ (14)	$ 2	$ —	$ (27)	$ (1)	$ (40)
PECO[(a)]						
Beginning balance	$ —	$ 1	$ —	$ —	$ —	$ 1
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI[(b)]	—	—	—	—	—	—
Net current-period OCI	—	—	—	—	—	—
Ending balance	$ —	$ 1	$ —	$ —	$ —	$ 1

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Six Months Ended June 30, 2016	Gains and (losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon(a)						
Beginning balance	$ (19)	$ 3	$ (2,565)	$ (40)	$ (3)	$(2,624)
OCI before reclassifications	(10)	—	(2)	6	(7)	(13)
Amounts reclassified from AOCI(b)	3	—	69	—	—	72
Net current-period OCI	(7)	—	67	6	(7)	59
Ending balance	$ (26)	$ 3	$ (2,498)	$ (34)	$ (10)	$(2,565)
Generation(a)						
Beginning balance	$ (21)	$ 1	$ —	$ (40)	$ (3)	$ (63)
OCI before reclassifications	(7)	—	—	6	(4)	(5)
Amounts reclassified from AOCI(b)	3	—	—	—	—	3
Net current-period OCI	(4)	—	—	6	(4)	(2)
Ending balance	$ (25)	$ 1	$ —	$ (34)	$ (7)	$ (65)
PECO(a)						
Beginning balance	$ —	$ 1	$ —	$ —	$ —	$ 1
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI(b)	—	—	—	—	—	—
Net current-period OCI	—	—	—	—	—	—
Ending balance	$ —	$ 1	$ —	$ —	$ —	$ 1
PHI Predecessor(a)						
Beginning balance January 1, 2016	$ (8)	$ —	$ (28)	$ —	$ —	$ (36)
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI(b)	—	—	1	—	—	1
Net current-period OCI	—	—	1	—	—	1
Ending balance March 23, 2016(c)	$ (8)	$ —	$ (27)	$ —	$ —	$ (35)

(a) All amounts are net of tax and noncontrolling interest. Amounts in parenthesis represent a decrease in AOCI.
(b) See next tables for details about these reclassifications.
(c) As a result of the PHI Merger, the PHI predecessor balances at March 23, 2016 were reduced to zero on March 24, 2016 due to purchase accounting adjustments applied to PHI.

ComEd, PECO, BGE, Pepco, DPL and ACE did not have any reclassifications out of AOCI to Net income during the three and six months ended June 30, 2017 and 2016. The following tables present amounts reclassified out of AOCI to Net income for Exelon, Generation and PHI during the three and six months ended June 30, 2017 and 2016.

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Three Months Ended June 30, 2017

Details about AOCI components	Items reclassified out of AOCI [a]		Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	
Gains (losses) on cash flow hedges			
Other cash flow hedges	$ —	$ —	Interest expense
Total before tax	—	—	
Tax benefit	—	—	
Net of tax	$ —	$ —	Comprehensive income
Amortization of pension and other postretirement benefit plan items			
Prior service costs[b]	$ 23	$ —	
Actuarial losses[b]	(81)	—	
Total before tax	(58)	—	
Tax benefit	24	—	
Net of tax	$ (34)	$ —	
Total Reclassifications for the period	$ (34)	$ —	Comprehensive income

Six Months Ended June 30, 2017

Details about AOCI components	Items reclassified out of AOCI [a]		Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	
Gains and (losses) on cash flow hedges			
Other cash flow hedges	$ (7)	$ (7)	Interest expense
Total before tax	(7)	(7)	
Tax benefit	3	3	
Net of tax	$ (4)	$ (4)	Comprehensive income
Amortization of pension and other postretirement benefit plan items			
Prior service costs[b]	$ 46	$ —	
Actuarial losses[b]	(162)	—	
Total before tax	(116)	—	
Tax benefit	46	—	
Net of tax	$ (70)	$ —	
Total Reclassifications	$ (74)	$ (4)	Comprehensive income

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Three Months Ended June 30, 2016

Details about AOCI components	Items reclassified out of AOCI[(a)] Exelon	Items reclassified out of AOCI[(a)] Generation	Affected line item in the Statement of Operations and Comprehensive Income
Amortization of pension and other postretirement benefit plan items			
Prior service costs[(b)]	$ 19	$ —	
Actuarial losses[(b)]	(75)	—	
Total before tax	(56)	—	
Tax benefit	22	—	
Net of tax	$ (34)	$ —	
Total Reclassifications for the period	$ (34)	$ —	Comprehensive income

Six Months Ended June 30, 2016

Details about AOCI components	Items reclassified out of AOCI[(a)] Exelon	Items reclassified out of AOCI[(a)] Generation	Items reclassified out of AOCI[(a)] *Predecessor* PHI	Affected line item in the Statement of Operations and Comprehensive Income
Gains and (losses) on cash flow hedges				
Other cash flow hedges	$ (5)	$ (5)	—	Interest expense
Total before tax	(5)	(5)	—	
Tax benefit	2	2	—	
Net of tax	$ (3)	$ (3)	$ —	Comprehensive income
Amortization of pension and other postretirement benefit plan items				
Prior service costs[(b)]	$ 38	$ —	$ —	
Actuarial losses[(b)]	(151)	—	(1)	
Total before tax	(113)	—	(1)	
Tax benefit	44	—	—	
Net of tax	$ (69)	$ —	$ (1)	
Total Reclassifications	$ (72)	$ (3)	$ (1)	Comprehensive income

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(a) Amounts in parenthesis represent a decrease in net income.

(b) This AOCI component is included in the computation of net periodic pension and OPEB cost (see Note 13 — Retirement Benefits for additional details).

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The following table presents income tax expense (benefit) allocated to each component of other comprehensive income (loss) during the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Exelon				
Pension and non-pension postretirement benefit plans:				
Prior service benefit reclassified to periodic benefit cost	$ 9	$ 7	$ 18	$ 15
Actuarial loss reclassified to periodic benefit cost	(32)	(30)	(64)	(60)
Pension and non-pension postretirement benefit plans valuation adjustment	1	—	3	1
Change in unrealized (loss)/gain on cash flow hedges	(2)	2	(3)	4
Change in unrealized (loss)/gain on equity investments	—	1	(3)	3
Change in unrealized (loss)/gain on marketable securities	—	(1)	(1)	—
Total	$ (24)	$ (21)	$ (50)	$ (37)
Generation				
Change in unrealized (loss)/gain on cash flow hedges	$ (2)	$ 1	$ (3)	$ 3
Change in unrealized (loss)/gain on equity investments	—	1	(2)	3
Total	$ (2)	$ 2	$ (5)	$ 6

	Predecessor
PHI	January 1, 2016 to March 23, 2016
Pension and non-pension postretirement benefit plans:	
Actuarial loss reclassified to periodic cost	$ —

16. Earnings Per Share and Equity (Exelon)

Earnings per Share

Diluted earnings per share is calculated by dividing Net income attributable to common shareholders by the weighted average number of shares of common stock outstanding, including shares to be issued upon exercise of stock options, performance share awards and restricted stock outstanding under Exelon's LTIPs considered to be common stock equivalents. The following table sets forth the components of basic and diluted earnings per share and shows the effect of these stock options, performance share awards and restricted stock on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Exelon				
Net income attributable to common shareholders	$ 80	$ 267	$ 1,076	$ 440
Weighted average common shares outstanding — basic	934	924	931	923
Assumed exercise and/or distributions of stock-based awards	2	2	1	3
Weighted average common shares outstanding — diluted	936	926	932	926

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The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was approximately 8 million and 9 million for the three and six months ended June 30, 2017, respectively, and 11 million and 12 million for the three and six months ended June 30, 2016, respectively. There were no equity units related to the PHI Merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect for the three and six months ended June 30, 2017. The number of equity units related to the PHI Merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect was under 1 million and 2 million for the three and six months ended June 30, 2016. Refer to Note 20 — Shareholders' Equity of the Exelon 2016 Form 10-K for further information regarding the equity units.

On June 1, 2017, Exelon settled the forward purchase contract, which was a component of the June 2014 equity units, through the issuance of approximately 33 million shares of Exelon common stock from treasury stock. The issuance of shares on June 1, 2017, triggered full dilution in the EPS calculation, which prior to settlement were included in the calculation of diluted EPS using the treasury stock method.

Prior to the June 2017 issuance Exelon had approximately 35 million shares of treasury stock with a cost of $2.3 billion. After issuance, Exelon has approximately 2 million shares of Treasury stock remaining, at a historical cost of $123 million. In 2008, Exelon management decided to defer indefinitely any share repurchases.

17. Commitments and Contingencies (*All Registrants*)

The following is an update to the current status of commitments and contingencies set forth in Note 24 of the Exelon 2016 Form 10-K . See Note 4 — Mergers, Acquisitions and Dispositions for further discussion on the PHI Merger commitments.

Commitments

Constellation Merger Commitments (Exelon and Generation)

In February 2012, the MDPSC issued an Order approving the Exelon and Constellation merger. As part of the MDPSC Order, Exelon agreed to provide a package of benefits to BGE customers, the City of Baltimore and the State of Maryland, resulting in an estimated direct investment in the State of Maryland of approximately $1 billion.

The direct investment includes the construction of a new 21-story headquarters building in Baltimore for Generation's competitive energy business that was substantially complete in November 2016 and is now occupied by approximately 1,500 Exelon employees. Generation's investment includes leasehold improvements that are not expected to exceed $110 million. In addition, Generation entered into a 20 year operating lease as the primary lessee of the building. Refer to Note 24 — Commitments and Contingencies of the Combined Notes to the Consolidated Financial Statements in the Exelon 2016 Form 10-K for additional information regarding Generation's future minimum lease payments.

The direct investment commitment also includes $450 million to $500 million relating to Exelon and Generation's development or assistance in the development of 285 — 300 MWs of new generation in Maryland, which is expected to be completed within a period of 10 years. The MDPSC order contemplates various options for complying with the new generation development commitments, including building or acquiring generating assets, making subsidy or compliance payments, or in circumstances in which the generation build is delayed or certain specified provisions are elected, making liquidated damages payments. Exelon and Generation have incurred $457 million towards satisfying the commitment for new generation development in the state of

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Maryland, with approximately 220 MW of the new generation commencing with commercial operations to date and an additional 10 MW commitment satisfied through a liquidated damages payment made in the fourth quarter of 2016. Additionally, during the fourth quarter of 2016, given continued declines in projected energy and capacity prices, Generation terminated rights to certain development projects originally intended to meet its remaining 55MW commitment amount. The commitment will now most likely be satisfied via payment of liquidated damages or execution of a third party PPA, rather than by Generation constructing renewable generating assets. As a result, Exelon and Generation recorded a pre-tax $50 million loss contingency in Operating and maintenance expense in Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2016.

Equity Investment Commitments (Exelon and Generation)

As part of Generation’s recent investments in technology development, Generation enters into equity purchase agreements that include commitments to invest additional equity through incremental payments to fund the anticipated needs of the planned operations of the associated companies. As of June 30, 2017, Generation’s estimated commitments relating to its equity purchase agreements, including the in-kind services contributions, is anticipated to be as follows:

	Total
2017 (remainder of year)	$ 8
2018	7
2019	3
Total	$ 18

Commercial Commitments (All Registrants)

The Registrants’ commercial commitments as of June 30, 2017 , representing commitments potentially triggered by future events were as follows:

	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Letters of credit (non-debt)(a)	$1,326	$ 1,243	$ 14	$ 23	$ 2	$ 1	$ 1	$—	$—
Surety bonds(b)	1,113	1,014	12	18	11	21	13	4	4
Financing trust guarantees	628	—	200	178	250	—	—	—	—
Guaranteed lease residual values(c)	19	—	—	—	—	19	6	7	5
Total commercial commitments	$3,086	$ 2,257	$ 226	$219	$263	$ 41	$ 20	$11	$ 9

(a) Letters of credit (non-debt) — Exelon and certain subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

(b) Surety bonds — Guarantees issued related to contract and commercial agreements, excluding bid bonds.

(c) Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $48 million, $14 million of which is a guarantee by Pepco, $18 million by DPL and $13 million by ACE. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

Nuclear Insurance (Exelon and Generation)

Generation is subject to liability, property damage and other risks associated with major incidents at any of its nuclear stations, including the CENG nuclear stations. Generation has mitigated its financial exposure to these risks through insurance and other industry risk-sharing provisions.

The Price-Anderson Act was enacted to ensure the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities and also to limit the liability of nuclear reactor owners for such claims from any single incident. As of June 30, 2017 , the current liability limit per incident is $13.4 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors at least once every five years with the last adjustment effective September 10, 2013. In accordance with the Price-Anderson Act, Generation maintains financial protection at levels equal to the amount of liability insurance available from private sources through the purchase of private nuclear energy liability insurance for public liability claims that could arise in the event of an incident. Effective January 1, 2017, the required amount of nuclear energy liability insurance purchased is $450 million for each operating site. Claims exceeding that amount are covered through mandatory participation in a financial protection pool, as required by the Price Anderson-Act, which provides the additional $13.0 billion per incident in funds available for public liability claims. Participation in this secondary financial protection pool requires the operator of each reactor to fund its proportionate share of costs for any single incident that exceeds the primary layer of financial protection. Exelon’s share of this secondary layer would be approximately $2.8 billion, including CENG’s related liability, however any amounts payable under this secondary layer would be capped at $420 million per year.

In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay public liability claims exceeding the $13.4 billion limit for a single incident.

As part of the execution of the NOSA on April 1, 2014, Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF and its affiliates against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation’s obligations under this indemnity. See Note 5 — Investment in Constellation Energy Nuclear Group, LLC of the Exelon 2016 Form 10-K for additional information on Generation’s operations relating to CENG.

Generation is required each year to report to the NRC the current levels and sources of property insurance that demonstrates Generation possesses sufficient financial resources to stabilize and decontaminate a reactor and reactor station site in the event of an accident. The property insurance maintained for each facility is currently provided through insurance policies purchased from NEIL, an industry mutual insurance company of which Generation is a member.

Premiums paid to NEIL by its members are also subject to a potential assessment for adverse loss experience in the form of a retrospective premium obligation. NEIL has never assessed this retrospective premium since its formation in 1973, and Generation cannot predict the level of future assessments if any. The current maximum aggregate annual retrospective premium obligation for Generation is approximately $360 million. NEIL requires its members to maintain an investment grade credit rating or to ensure collectability of their annual retrospective premium obligation by providing a financial guarantee, letter of credit, deposit premium, or some other means of assurance.

NEIL provides “all risk” property damage, decontamination and premature decommissioning insurance for each station for losses resulting from damage to its nuclear plants, either due to accidents or acts of terrorism. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. In the event of an insured loss, Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. In the event that one or more acts of terrorism cause accidental property damage within a twelve-month period from the first accidental property damage under one or more policies for all insured plants, the maximum recovery by Exelon will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity and any other source, applicable to such losses.

For its insured losses, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Uninsured losses and other expenses, to the extent not recoverable from insurers or the nuclear industry, could also be borne by Generation. Any such losses could have a material adverse effect on Exelon's and Generation's financial condition, results of operations and liquidity.

Environmental Issues *(All Registrants)*

General. The Registrants' operations have in the past, and may in the future, require substantial expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, the Registrants are generally liable for the costs of remediating environmental contamination of property now or formerly owned by them and of property contaminated by hazardous substances generated by them. The Registrants own or lease a number of real estate parcels, including parcels on which their operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws. In addition, the Registrants are currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

ComEd, PECO, BGE and DPL have identified sites where former MGP activities have or may have resulted in actual site contamination. For almost all of these sites, there are additional PRPs that may share responsibility for the ultimate remediation of each location.

- ComEd has identified 42 sites, 19 of which the remediation has been completed and approved by the Illinois EPA or the U.S. EPA and 23 that are currently under some degree of active study and/or remediation. ComEd expects the majority of the remediation at these sites to continue through at least 2021.
- PECO has identified 26 sites, 17 of which have been remediated in accordance with applicable PA DEP regulatory requirements. The remaining 9 sites are currently under some degree of active study and/or remediation. PECO expects the majority of the remediation at these sites to continue through at least 2022.
- BGE has identified 13 former gas manufacturing or purification sites that it currently owns or owned at one time through a predecessor's acquisition. Two of the gas manufacturing sites require some level of remediation and ongoing monitoring under the direction of the MDE. The required costs at these two sites are not considered material. In May 2017, BGE completed the additional work requested by MDE. All the sample testing produced results that were below the cleanup action level established by MDE and no further investigation is required. For more information, see the discussion of the Riverside site below.
- DPL has identified 2 sites, all of which the remediation has been completed and approved by the MDE or the Delaware Department of Natural Resources and Environmental Control.

ComEd, pursuant to an ICC order, and PECO, pursuant to settlements of natural gas distribution rate cases with the PAPUC, are currently recovering environmental remediation costs of former MGP facility sites through

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customer rates. ComEd and PECO have recorded regulatory assets for the recovery of these costs. See Note 5 — Regulatory Matters for additional information regarding the associated regulatory assets. BGE is authorized to recover, and is currently recovering, environmental costs for the remediation of the former MGP facility sites from customers; however, while BGE does not have a rider for MGP clean-up costs, BGE has historically received recovery of actual clean-up costs in distribution rates. DPL has historically received recovery of actual clean-up costs in distribution rates.

As of June 30, 2017 and December 31, 2016, the Registrants had accrued the following undiscounted amounts for environmental liabilities in Other current liabilities and Other deferred credits and other liabilities within their respective Consolidated Balance Sheets:

June 30, 2017	Total Environmental Investigation and Remediation Reserve	Portion of Total Related to MGP Investigation and Remediation
Exelon	$ 412	$ 315
Generation	67	—
ComEd	284	282
PECO	32	31
BGE	3	2
PHI (Successor)	26	—
Pepco	23	—
DPL	2	—
ACE	1	—

December 31, 2016	Total Environmental Investigation and Remediation Reserve	Portion of Total Related to MGP Investigation and Remediation
Exelon	$ 429	$ 325
Generation	72	—
ComEd	292	291
PECO	33	31
BGE	2	2
PHI (Successor)	30	1
Pepco	27	—
DPL	2	1
ACE	1	—

The historical nature of the MGP sites and the fact that many of the sites have been buried and built over, impacts the ability to determine a precise estimate of the ultimate costs prior to initial sampling and determination of the exact scope and method of remedial activity. Management determines its best estimate of remediation costs using all available information at the time of each study, including probabilistic and deterministic modeling for ComEd and PECO, and the remediation standards currently required by the applicable state environmental agency. Prior to completion of any significant clean up, each site remediation plan is approved by the appropriate state environmental agency.

The Registrants cannot reasonably estimate whether they will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by the Registrants, environmental agencies or others, or whether such costs will be recoverable from third parties, including customers.

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Water Quality

***Benning Road Site NPDES Permit Limit Exceedances*.** Pepco holds an NPDES permit issued by EPA with a July 19, 2009 effective date, which authorizes discharges from the Benning Road service facility. The 2009 permit for the first time imposed numerical limits on the allowable concentration of certain metals in storm water discharged from the site into the Anacostia River. The permit contemplated that Pepco would meet these limits over time through the use of best management practices (BMPs). The BMPs were effective in reducing metal concentrations in storm water discharges, but were not sufficient to meet all of the numerical limits for all metals.

The 2009 permit remains in effect pending EPA’s action on the Pepco renewal application, including resolution of the stormwater compliance issues. On October 30, 2015, EPA filed a Clean Water Act civil enforcement action against Pepco in federal district court, and in March 2016 the court granted a motion by the Anacostia Riverkeeper to intervene in this case as a plaintiff along with EPA. Since 2009 Pepco has installed runoff mitigation measures and implemented new operating procedures to comply with regulations. In January 2017, the parties agreed to a settlement in the form of a Consent Decree whereby Pepco will pay a civil penalty in the amount of $1.6 million, continue the BMPs to manage stormwater, construct a new stormwater treatment system, and make certain other capital improvements to the stormwater management system. On May 19, 2017, the Consent Decree was entered with the Court and became final. The Civil Penalty assessed under the Consent Decree of $1.6 million was paid on June 5, 2017 and other requirements of the Decree are now being implemented.

Solid and Hazardous Waste

Cotter Corporation. The EPA has advised Cotter Corporation (Cotter), a former ComEd subsidiary, that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. In 2000, ComEd sold Cotter to an unaffiliated third-party. As part of the sale, ComEd agreed to indemnify Cotter for any liability arising in connection with the West Lake Landfill. In connection with Exelon’s 2001 corporate restructuring, this responsibility to indemnify Cotter was transferred to Generation. On May 29, 2008, the EPA issued a Record of Decision approving the remediation option submitted by Cotter and the two other PRPs that required additional landfill cover. The current estimated cost of the landfill cover remediation for the site is approximately $90 million, including escalation, which will be allocated among all PRPs. Generation has accrued what it believes to be an adequate amount to cover its anticipated share of such liability, which is included in the table above. By letter dated January 11, 2010, the EPA requested that the PRPs perform a supplemental feasibility study for a remediation alternative that would involve complete excavation of the radiological contamination. On September 30, 2011, the PRPs submitted the supplemental feasibility study to the EPA for review. Since June 2012, the EPA has requested that the PRPs perform a series of additional analyses and groundwater and soil sampling as part of the supplemental feasibility study, that were completed in December 2016. The EPA has advised the PRPs that the EPA announcement of the proposed remedy will take place in the first quarter of 2018. Thereafter, the EPA will select a final remedy and seek to enter into a Consent Decree with the PRPs to effectuate the remedy. Recent investigation has identified a number of other parties who may be PRPs and could be liable to contribute to the final remedy. Further investigation is underway. Generation believes that a partial excavation remedy is reasonably possible, and the partial excavation costs, inclusive of a landfill cover, could range from approximately $225 million to $650 million; such costs would likely be shared by the final group of identified PRPs. Generation believes the likelihood that the EPA would require a complete excavation remedy is remote. The cost of a partial or complete excavation could have a material, unfavorable impact on Generation’s and Exelon’s future results of operations and cash flows.

During December 2015, the EPA took two actions related to the West Lake Landfill designed to abate what it termed as imminent and dangerous conditions at the landfill. The first involved installation by the PRPs of a

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non-combustible surface cover to protect against surface fires in areas where radiological materials are believed to have been disposed. Generation has accrued what it believes to be an adequate amount to cover its anticipated liability for this interim action. The second action involved EPA's public statement that it will require the PRPs to construct a barrier wall in an adjacent landfill to prevent a subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, EPA has not provided sufficient details related to the basis for and the requirements and design of a barrier wall to enable Generation to determine the likelihood such a remedy will ultimately be implemented, assess the degree to which Generation may have liability as a potentially responsible party, or develop a reasonable estimate of the potential incremental costs. It is reasonably possible, however, that resolution of this matter could have a material, unfavorable impact on Generation's and Exelon's future results of operations and cash flows. Finally, one of the other PRPs, the landfill owner and operator of the adjacent landfill, has indicated that it will be making a contribution claim against Cotter for costs that it has incurred to prevent the subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, Generation and Exelon do not possess sufficient information to assess this claim and are therefore unable to determine the impact on their future results of operations and cash flows.

On February 2, 2016, the U.S. Senate passed a bill to transfer remediation authority over the West Lake Landfill from the EPA to the U.S. Army Corps of Engineers, under the Formerly Utilized Sites Remedial Action Program (FUSRAP). The legislation was not passed in the U.S. House of Representatives, and would therefore require reintroduction in the Senate for consideration in the current session of Congress. Should such proposed legislation ultimately become law, it would be subject to annual funding appropriations in the U.S. Budget. Remediation under FUSRAP would not alter the liability of the PRPs, but would likely delay the determination of a final remedy and its implementation.

On August 8, 2011, Cotter was notified by the DOJ that Cotter is considered a PRP with respect to the government's clean-up costs for contamination attributable to low level radioactive residues at a former storage and reprocessing facility named Latty Avenue near St. Louis, Missouri. The Latty Avenue site is included in ComEd's indemnification responsibilities discussed above as part of the sale of Cotter. The radioactive residues had been generated initially in connection with the processing of uranium ores as part of the U.S. government's Manhattan Project. Cotter purchased the residues in 1969 for initial processing at the Latty Avenue facility for the subsequent extraction of uranium and metals. In 1976, the NRC found that the Latty Avenue site had radiation levels exceeding NRC criteria for decontamination of land areas. Latty Avenue was investigated and remediated by the United States Army Corps of Engineers pursuant to funding under the FUSRAP. The DOJ has not yet formally advised the PRPs of the amount that it is seeking, but it is believed to be approximately $90 million. The DOJ and the PRPs agreed to toll the statute of limitations until August 2018 so that settlement discussions could proceed. Based on Generation's preliminary review, it appears probable that Generation has liability to Cotter under the indemnification agreement and has established an appropriate accrual for this liability, which is included in the table above.

Commencing in February 2012, a number of lawsuits have been filed in the U.S. District Court for the Eastern District of Missouri. Among the defendants were Exelon, Generation and ComEd, all of which were subsequently dismissed from the case, as well as Cotter, which remains a defendant. The suits allege that individuals living in the North St. Louis area developed some form of cancer or other serious illness due to Cotter's negligent or reckless conduct in processing, transporting, storing, handling and/or disposing of radioactive materials. Plaintiffs are asserting public liability claims under the Price-Anderson Act. Their state law claims for negligence, strict liability, emotional distress, and medical monitoring have been dismissed. The complaints do not contain specific damage claims. In the event of a finding of liability against Cotter, it is reasonably possible that Exelon would be financially responsible due to its indemnification responsibilities of Cotter described above. The court has dismissed a number of lawsuits, and is expected to dismiss additional

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lawsuits based on a recent ruling. Pre-trial motions and discovery are proceeding in the remaining cases and a pre-trial scheduling order has been filed with the court. At this stage of the litigation, Generation and ComEd cannot estimate a range of loss, if any.

68th Street Dump. In 1999, the EPA proposed to add the 68th Street Dump in Baltimore, Maryland to the Superfund National Priorities List, and notified BGE and 19 others that they are PRPs at the site. In connection with BGE's 2000 corporate restructuring the responsibility for this liability was transferred to Constellation and as a result of the 2012 Exelon and CEG merger is now Generation's responsibility. In March 2004, the PRPs formed the 68th Street Coalition and entered into consent order negotiations with the U.S. EPA to investigate clean-up options for the site under the Superfund Alternative Sites Program. In May 2006, a settlement among the U.S. EPA and the PRPs with respect to investigation of the site became effective. The settlement requires the PRPs, over the course of several years, to identify contamination at the site and recommend clean-up options. The PRPs submitted their investigation of the range of clean-up options in the first quarter of 2011. On September 30, 2013, EPA issued the Record of Decision identifying its preferred remedial alternative for the site. The estimated cost for the alternative chosen by EPA is consistent with the PRPs estimated range of costs noted above. In July, 2017 the PRPs and EPA finalized the terms of a Consent Decree which is being executed by the Parties and will then be lodged with the Court and subject to a 30-day public comment period after which it is anticipated it will be approved by the Court without any significant change in the costs for cleanup. There will also be an ancillary agreement between the PRP's who will be performing the remedy and those who have elected to enter into cash settlements and become non-performing parties. Generation has elected to be a non-performing party and the settlement terms will provide contribution and all other protections against the performing parties. Generation has reached a preliminary settlement agreement for its share of the estimated clean-up costs, which is included in the table above and is immaterial to the Generation and Exelon financial statements.

Rossville Ash Site. The Rossville Ash Site is a 32-acre property located in Rosedale, Baltimore County, Maryland, which was used for the placement of fly ash from 1983-2007. The property is owned by Constellation Power Source Generation, LLC (CPSG), a wholly owned subsidiary of Generation. In 2008, CPSG investigated and remediated the property by entering it into the Maryland Voluntary Cleanup Program (VCP) to address any historic environmental concerns and ready the site for appropriate future redevelopment. The site was accepted into the program in 2010 and is currently going through the process to remediate the site and receive closure from MDE. Exelon currently estimates the cost to close the site to be approximately $2 million which has been fully reserved and included in the table above as of June 30, 2017.

Sauer Dump. On May 30, 2012, BGE was notified by the U.S. EPA that it is considered a PRP at the Sauer Dump Superfund site in Dundalk, Maryland. The U.S. EPA offered BGE and three other PRPs the opportunity to conduct an environmental investigation and present cleanup recommendations at the site. In addition, the U.S. EPA is seeking recovery from the PRPs of $1.7 million for past cleanup and investigation costs at the site. On March 11, 2013, BGE and three other PRPs signed an Administrative Settlement Agreement and Order on Consent with the U.S. EPA which requires the PRPs to conduct a remedial investigation and feasibility study at the site to determine what, if any, are the appropriate and recommended cleanup activities for the site. Although the ultimate outcome of this proceeding is uncertain based on the information complied to date, BGE has developed an estimate of the range of BGE's probable liability and has established an appropriate accrual that is included it in the table above. It is possible, however, that final resolution of this matter could have a material, unfavorable impact on BGE's future results of operations and cash flows.

Riverside. In 2013, the MDE, at the request of EPA, conducted a site inspection and limited environmental sampling of certain portions of the 170 acre Riverside property owned by BGE. The site consists of several different parcels with different current and historical uses. The sampling included soil and groundwater samples for a number of potential environmental contaminants. The sampling confirmed the existence of contaminants

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consistent with the known historical uses of the various portions of the site. In March 2014, the MDE requested that BGE conduct an investigation which included a site-wide investigation of soils, sediment, groundwater, and surface water to complement the MDE sampling. The field investigation was completed in January 2015, and a final report was provided to MDE in June 2015. In November 2015, MDE provided BGE with its comments and recommendations on the report which require BGE to conduct further investigation and sampling at the site to better delineate the nature and extent of historic contamination, including off-site sediment and soil sampling. MDE did not request any interim remediation at this time and in May 2017 BGE completed the additional work requested by MDE. All the sample testing produced results that were below the cleanup action level established by MDE and no further investigation is required. BGE has established what it believes is an appropriate reserve based upon the investigation to date. The established reserve is included in the table above. As the investigation and potential remediation proceed, it is possible that additional reserves could be established, in amounts that could be material to BGE.

BGE is authorized to recover, and is currently recovering, environmental costs for the remediation of the former MGP facility sites from customers; however, while BGE does not have a rider for MGP clean-up costs, BGE has historically received recovery of actual clean-up costs in distribution rates. Additionally, legislation was passed during the 2017 Maryland General Assembly session that should further support BGE's recovery of its clean-up costs.

Benning Road Site. In September 2010, PHI received a letter from EPA identifying the Benning Road site as one of six land-based sites potentially contributing to contamination of the lower Anacostia River. A portion of the site was formerly the location of a Pepco Energy Services electric generating facility. That generating facility was deactivated in June 2012 and plant structure demolition was completed in July 2015. The remaining portion of the site consists of a Pepco transmission and distribution service center that remains in operation. In December 2011, the U.S. District Court for the District of Columbia approved a consent decree entered into by Pepco and Pepco Energy Services with the DOEE, which requires Pepco and Pepco Energy Services to conduct a Remediation Investigation (RI)/ Feasibility Study (FS) for the Benning Road site and an approximately 10 to 15 acre portion of the adjacent Anacostia River. The RI/FS will form the basis for the remedial actions for the Benning Road site and for the Anacostia River sediment associated with the site. The consent decree does not obligate Pepco or Pepco Energy Services to pay for or perform any remediation work, but it is anticipated that DOEE will look to Pepco and Pepco Energy Services to assume responsibility for cleanup of any conditions in the river that are determined to be attributable to past activities at the Benning Road site.

The initial RI field work began in January 2013 and was completed in December 2014. In April 2015, Pepco and Pepco Energy Services submitted a draft RI Report to DOEE. After review, DOEE determined that additional field investigation and data analysis was required to complete the RI process (much of which was beyond the scope of the original DOEE-approved RI work plan). In the meantime, Pepco and Pepco Energy Services revised the draft RI Report to address DOEE's comments and DOEE released the draft RI Report for public review in February 2016. Once the additional RI work has been completed, Pepco and Pepco Energy Services will issue a draft "final" RI report for review and comment by DOEE and the public. Pepco and Pepco Energy Services will then proceed to develop an FS to evaluate possible remedial alternatives for submission to DOEE. The Court has established a schedule for completion of the RI and FS, and approval by the DOEE, by June 2018.

Upon DOEE's approval of the final RI and FS Reports, Pepco and Pepco Energy Services will have satisfied their obligations under the consent decree. At that point, DOEE will prepare a Proposed Plan regarding further response actions. After considering public comment on the Proposed Plan, DOEE will issue a Record of Decision identifying any further response actions determined to be necessary.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

PHI, Pepco and Pepco Energy Services have determined that a loss associated with this matter for PHI, Pepco and Pepco Energy Services is probable and an estimated liability for this issue has been accrued, which is included in the table above. As the remedial investigation proceeds and potential remedies are identified, it is possible that additional accruals could be established in amounts that could be material to PHI, Pepco and Pepco Energy Services. Pursuant to Exelon's March 2016 acquisition of PHI, Pepco Energy Services was transferred to Generation. The ultimate resolution of this matter is currently not expected to have any significant financial impact on Generation.

***Anacostia River Tidal Reach*.** Contemporaneous with the Benning RI/FS being performed by Pepco and Pepco Energy Services, DOEE and certain federal agencies have been conducting a separate RI/FS focused on the entire tidal reach of the Anacostia River extending from just north of the Maryland-D.C. boundary line to the confluence of the Anacostia and Potomac Rivers. In March 2016, DOEE released a draft of the river-wide RI Report for public review and comment. The river-wide RI incorporated the results of the river sampling performed by Pepco and Pepco Energy Services as part of the Benning RI/FS, as well as similar sampling efforts conducted by owners of other sites adjacent to this segment of the river and supplemental river sampling conducted by DOEE's contractor. DOEE asked Pepco, along with parties responsible for other sites along the river, to participate in a "Consultative Working Group" to provide input into the process for future remedial actions addressing the entire tidal reach of the river and to ensure proper coordination with the other river cleanup efforts currently underway, including cleanup of the river segment adjacent to the Benning Road site resulting from the Benning Road RI/FS. Pepco responded that it will participate in the Consultative Working Group but its participation is not an acceptance of any financial responsibility beyond the work that will be performed at the Benning Road site described above. DOEE has advised the Consultative Working Group that the federal and DOEE authorities are conducting phase 2 of a remedial investigation. DOEE has targeted June 2018 as the date for remedy selection for clean-up of sediments in this section of the river. The Consultative Working Group and the other possible PRPs have provided input into the proposed clean-up process and schedule. At this time, it is not possible to predict the extent of Pepco's participation in the river-wide RI/FS process, and Pepco cannot estimate the reasonably possible range of loss for response costs beyond those associated with the Benning RI/FS component of the river-wide initiative. It is possible, however, that resolution of this matter could have a material, unfavorable impact on Exelon's and Pepco's future results of operations and cash flows.

Conectiv Energy Wholesale Power Generation Sites. In July 2010, PHI sold the wholesale power generation business of Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries (Conectiv Energy) to Calpine Corporation (Calpine). Under New Jersey's Industrial Site Recovery Act (ISRA), the transfer of ownership to Calpine triggered an obligation on the part of Conectiv Energy to remediate any environmental contamination at each of the nine Conectiv Energy generating facility sites located in New Jersey. Under the terms of the sale, Calpine assumed responsibility for performing the ISRA-required remediation and for the payment of all related ISRA compliance costs up to $10 million. Predecessor PHI was obligated to indemnify Calpine for any ISRA compliance remediation costs in excess of $10 million. According to PHI's estimates, the costs of ISRA-required remediation activities at the 9 generating facility sites are in the range of approximately $7 million to $18 million, and predecessor PHI established an appropriate accrual for its share of the estimated clean-up costs. Pursuant to Exelon's March 2016 acquisition of PHI, the Conectiv Energy legal entity was transferred to Generation and the accrual for Predecessor PHI's share of the estimated clean-up costs was also transferred to Generation and is included in the table above as a liability of Generation. The responsibility to indemnify Calpine is shared by PHI and Generation. The ultimate resolution of this matter is currently not expected to have a material financial impact on PHI and Generation.

Rock Creek Mineral Oil Release. In late August 2015, a Pepco underground transmission line in the District of Columbia suffered a breach, resulting in the release of non-toxic mineral oil surrounding the

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

transmission line into the surrounding soil, and a small amount reached Rock Creek through a storm drain. Pepco notified regulatory authorities, and Pepco and its spill response contractors placed booms in Rock Creek, blocked the storm drain to prevent the release of mineral oil into the creek and commenced remediation of soil around the transmission line and the Rock Creek shoreline. Pepco estimates that approximately 6,100 gallons of mineral oil were released and that its remediation efforts recovered approximately 80% of the amount released. Pepco's remediation efforts are ongoing under the direction of the DOEE, including the requirements of a February 29, 2016 compliance order which requires Pepco to prepare a full incident investigation report and prepare a removal action work plan to remove all impacted soils in the vicinity of the storm drain outfall, and in collaboration with the National Park Service, the Smithsonian Institution/National Zoo and EPA. Pepco's investigation presently indicates that the damage to Pepco's facilities occurred prior to the release of mineral oil when third-party excavators struck the Pepco underground transmission line while installing cable for another utility.

To the extent recovery is available against any party who contributed to this loss, PHI and Pepco will pursue such action. Exelon, PHI and Pepco continue to investigate the cause of the incident, the parties involved, and legal responsibility under District of Columbia law, but do not believe that the remediation costs to resolve this matter will have a material adverse effect on their respective financial condition, results of operations or cash flows.

Brandywine Fly Ash Disposal Site. In February 2013, Pepco received a letter from the MDE requesting that Pepco investigate the extent of waste on a Pepco right-of-way that traverses the Brandywine fly ash disposal site in Brandywine, Prince George's County, Maryland, owned by NRG Energy, Inc. (as successor to GenOn MD Ash Management, LLC) (NRG). In July 2013, while reserving its rights and related defenses under a 2000 agreement covering the sale of this site, Pepco indicated its willingness to investigate the extent of, and propose an appropriate closure plan to address, ash on the right-of-way. Pepco submitted a schedule for development of a closure plan to MDE on September 30, 2013 and, by letter dated October 18, 2013, MDE approved the schedule.

Exelon, PHI and Pepco have determined that a loss associated with this matter is probable and have estimated that the costs for implementation of a closure plan and cap on the site are in the range of approximately $3 million to $6 million, for which an appropriate reserve has been established and is included in the table above. Exelon, PHI and Pepco believe that the costs incurred in this matter will be recoverable from NRG under the 2000 sale agreement.

Litigation and Regulatory Matters

Asbestos Personal Injury Claims (Exelon, Generation, ComEd, PECO and BGE)

Exelon, Generation and PECO. Generation maintains a reserve for claims associated with asbestos-related personal injury actions in certain facilities that are currently owned by Generation or were previously owned by ComEd and PECO. The reserve is recorded on an undiscounted basis and excludes the estimated legal costs associated with handling these matters, which could be material.

At June 30, 2017 and December 31, 2016, Generation had reserved approximately $81 million and $83 million, respectively, in total for asbestos-related bodily injury claims. As of June 30, 2017, approximately $21 million of this amount related to 224 open claims presented to Generation, while the remaining $59 million of the reserve is for estimated future asbestos-related bodily injury claims anticipated to arise through 2050, based on actuarial assumptions and analyses, which are updated on an annual basis. On a quarterly basis, Generation monitors actual experience against the number of forecasted claims to be received and expected claim payments and evaluates whether an adjustment to the reserve is necessary.

On November 22, 2013, the Supreme Court of Pennsylvania held that the Pennsylvania Workers Compensation Act does not apply to an employee's disability or death resulting from occupational disease, such as diseases related to asbestos exposure, which manifests more than 300 weeks after the employee's last employment-based exposure, and that therefore the exclusivity provision of the Act does not preclude such employee from suing his or her employer in court. The Supreme Court's ruling reverses previous rulings by the Pennsylvania Superior Court precluding current and former employees from suing their employers in court, despite the fact that the same employee was not eligible for workers compensation benefits for diseases that manifest more than 300 weeks after the employee's last employment-based exposure to asbestos. Since the Pennsylvania Supreme Court's ruling in November 2013, Exelon, Generation, and PECO have experienced an increase in asbestos-related personal injury claims brought by former PECO employees, all of which have been reserved for on a claim by claim basis. Those additional claims are taken into account in projecting estimates of future asbestos-related bodily injury claims.

On November 4, 2015, the Illinois Supreme Court found that the provisions of the Illinois' Workers' Compensation Act and the Workers' Occupational Diseases Act barred an employee from bringing a direct civil action against an employer for latent diseases, including asbestos-related diseases that fall outside the 25-year limit of the statute of repose. The Illinois Supreme Court's ruling reversed previous rulings by the Illinois Court of Appeals, which initially ruled that the Illinois Worker's Compensation law should not apply in cases where the diagnosis of an asbestos related disease occurred after the 25-year maximum time period for filing a Worker's Compensation claim. Since the Illinois Supreme Court's ruling in November 2015, Exelon, Generation, and ComEd have not experienced a significant increase in asbestos-related personal injury claims brought by former ComEd employees.

There is a reasonable possibility that Exelon may have additional exposure to estimated future asbestos-related bodily injury claims in excess of the amount accrued and the increases could have a material adverse effect on Exelon's, Generation's, ComEd's, PECO and BGE's future results of operations and cash flows.

BGE. Since 1993, BGE and certain Constellation (now Generation) subsidiaries have been involved in several actions concerning asbestos. The actions are based upon the theory of "premises liability," alleging that BGE and Generation knew of and exposed individuals to an asbestos hazard. In addition to BGE and Generation, numerous other parties are defendants in these cases.

To date, most asbestos claims which have been resolved relating to BGE and certain Constellation subsidiaries have been dismissed or resolved without any payment and a small minority of these cases has been resolved for amounts that were not material to BGE or Generation's financial results. Presently, there are an immaterial number of asbestos cases pending against BGE and certain Constellation subsidiaries.

Continuous Power Interruption (Exelon and ComEd)

Section 16-125 of the Illinois Public Utilities Act provides that in the event an electric utility, such as ComEd, experiences a continuous power interruption of four hours or more that affects (in ComEd's case) more than 30,000 customers, the utility may be liable for actual damages suffered by customers as a result of the interruption and may be responsible for reimbursement of local governmental emergency and contingency expenses incurred in connection with the interruption. Recovery of consequential damages is barred. The affected utility may seek from the ICC a waiver of these liabilities when the utility can show that the cause of the interruption was unpreventable damage due to weather events or conditions, customer tampering, or certain other causes enumerated in the law. As of June 30, 2017 and December 31, 2016, ComEd did not have any material liabilities recorded for these storm events.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Baltimore City Franchise Taxes (Exelon and BGE)

The City of Baltimore claims that BGE has maintained electric facilities in the City's public right-of-ways for over one hundred years without the proper franchise rights from the City. BGE has reviewed the City's claim and believes that it lacks merit. BGE has not recorded an accrual for payment of franchise fees for past periods as a range of loss, if any, cannot be reasonably estimated at this time. Franchise fees assessed in future periods may be material to BGE's results of operations and cash flows.

Conduit Lease with City of Baltimore (Exelon and BGE)

On September 23, 2015, the Baltimore City Board of Estimates approved an increase in annual rental fees for access to the Baltimore City underground conduit system effective November 1, 2015, from $12 million to $42 million, subject to an annual increase thereafter based on the Consumer Price Index. BGE subsequently entered into litigation with the City regarding the amount of and basis for establishing the conduit fee. On November 30, 2016, the Baltimore City Board of Estimates approved a settlement agreement entered into between BGE and the City to resolve the disputes and pending litigation related to BGE's use of and payment for the underground conduit system. As a result of the settlement, the parties have entered into a six-year lease that reduces the annual expense to $25 million in the first three years and caps the annual expense in the last three years to not more than $29 million. BGE recorded a credit to Operating and maintenance expense in the fourth quarter of 2016 of approximately $28 million for the reversal of the previously higher fees accrued in the current year as well as the settlement of prior year disputed fee true-up amounts.

Deere Wind Energy Assets (Exelon and Generation)

In 2013, Deere & Company ("Deere") filed a lawsuit against Generation in the Delaware Superior Court relating to Generation's acquisition of the Deere wind energy assets. Under the purchase agreement, Deere was entitled to receive earn-out payments if certain specific wind projects already under development in Michigan met certain development and construction milestones following the sale. In the complaint, Deere seeks to recover a $14 million earn-out payment associated with one such project, which was never completed. Generation has filed counterclaims against Deere for breach of contract, with a right of recoupment and set off. On June 2, 2016, the Delaware Superior Court entered summary judgment in favor of Deere. On January 17, 2017, Generation filed an appeal of the Superior Court's summary judgment decision with the Supreme Court of Delaware. Generation has accrued an amount to cover its potential liability.

City of Everett Tax Increment Financing Agreement (Exelon)

The City of Everett has filed a petition with the Massachusetts Economic Assistance Coordinating Council (EACC) to revoke the 1999 tax increment financing agreement (TIF Agreement) relating to Mystic 8 & 9 on the grounds that the total investment in Mystic 8 & 9 materially deviates from the investment set forth in the TIF Agreement. The EACC has appointed a three-member panel to conduct an administrative hearing on the City's petition. Generation has reviewed the City's claim and believes that it lacks merit. Generation has not recorded an accrual for payment resulting from such a revocation because the range of loss, if any, cannot be reasonably estimated at this time. Property taxes assessed in future periods could be material to Generation's results of operations and cash flows.

General (All Registrants)

The Registrants are involved in various other litigation matters that are being defended and handled in the ordinary course of business. The assessment of whether a loss is probable or a reasonable possibility, and

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whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. The Registrants maintain accruals for such losses that are probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of reasonably possible loss, particularly where (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss.

Income Taxes *(Exelon, Generation, ComEd, PECO and BGE)*

See Note 11 — Income Taxes for information regarding the Registrants' income tax refund claims and certain tax positions, including the 1999 sale of fossil generating assets.

18. Supplemental Financial Information (All Registrants)

Supplemental Statement of Operations Information

The following tables provide additional information about the Registrants' Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30, 2017								
	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[a]									
Regulatory agreement units	$ 211	$ 211	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	74	74	—	—	—	—	—	—	—
Net unrealized (losses) gains on decommissioning trust funds									
Regulatory agreement units	(13)	(13)	—	—	—	—	—	—	—
Non-regulatory agreement units	70	70	—	—	—	—	—	—	—
Net unrealized losses on pledged assets									
Zion Station decommissioning	(2)	(2)	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[b]	(160)	(160)	—	—	—	—	—	—	—
Total decommissioning-related activities	180	180	—	—	—	—	—	—	—
Investment income	2	1	—	—	—	—	—	—	—
Interest expense related to uncertain income tax positions	(1)	—	—	—	—	—	—	—	—
Penalty related to uncertain income tax positions	1	—	—	—	—	—	—	—	—
AFUDC — Equity	17	—	2	2	4	9	5	2	2
Other	6	—	2	—	—	4	2	1	—
Other, net	$ 205	$ 181	$ 4	$ 2	$ 4	$ 13	$ 7	$ 3	$ 2

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	Six Months Ended June 30, 2017								
	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[(a)]									
Regulatory agreement units	$ 280	$ 280	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	106	106	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds									
Regulatory agreement units	210	210		—	—	—	—	—	—
Non-regulatory agreement units	235	235	—	—	—	—	—	—	—
Net unrealized losses on pledged assets									
Zion Station decommissioning	(2)	(2)		—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[(b)]	(396)	(396)	—	—	—	—	—	—	—
Total decommissioning-related activities	433	433	—	—	—	—	—	—	—
Investment income (expense)	4	3	—	(1)	—	1	1	—	—
Penalty income related to uncertain income tax positions	2	—	—	—	—	—	—	—	—
AFUDC — Equity	33	—	4	4	8	17	11	3	3
Other	16	4	4	—	—	8	3	3	1
Other, net	$ 488	$ 440	$ 8	$ 3	$ 8	$ 26	$ 15	$ 6	$ 4

	Three Months Ended June 30, 2016								
	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[(a)]									
Regulatory agreement units	$ 90	$ 90	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	39	39	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds									
Regulatory agreement units	52	52	—	—	—	—	—	—	—
Non-regulatory agreement units	48	48	—	—	—	—	—	—	—
Net unrealized gains on pledged assets									
Zion Station decommissioning	1	1	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[(b)]	(117)	(117)	—	—	—	—	—	—	—
Total decommissioning-related activities	113	113	—	—	—	—	—	—	—
Investment income	6	5	—	—	—	—	—	—	—
Interest income related to uncertain income tax positions	4	—	—	—	—	—	—	—	—
AFUDC — Equity	15	—	1	2	5	7	5	1	1
Other	6	(1)	2	—	—	4	1	2	1
Other, net	$ 144	$ 117	$ 3	$ 2	$ 5	$ 11	$ 6	$ 3	$ 2

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Six Months Ended June 30, 2016								*Successor* March 24, 2016 to June 30, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Other, Net										
Decommissioning-related activities:										
Net realized income on decommissioning trust funds[a]										
Regulatory agreement units	$ 122	$ 122	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	61	61	—	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds										
Regulatory agreement units	131	131	—	—	—	—	—	—	—	—
Non-regulatory agreement units	100	100	—	—	—	—	—	—	—	—
Net unrealized gains on pledged assets										
Zion Station decommissioning	3	3		—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[b]	(211)	(211)	—	—	—	—	—	—	—	—
Total decommissioning-related activities	206	206	—	—	—	—	—	—	—	—
Investment income (expense)	12	5	—	(1)	2	—	—	—	—	—
Long-term lease income	4	—	—	—	—	—	—	—	—	—
Interest income related to uncertain income tax positions	5	—	—	—	—	1	—	1	—	—
AFUDC — Equity	24	—	3	4	9	9	2	3	8	7
Loss on debt extinguishment	(3)	(2)	—	—	—	—	—	—	—	—
Other	10	1	4	1	—	4	4	1	4	(11)
Other, net	$ 258	$ 210	$ 7	$ 4	$ 11	$ 14	$ 6	$ 5	$ 12	$ (4)

(a) Includes investment income and realized gains and losses on sales of investments of the trust funds.
(b) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of net income taxes related to all NDT fund activity for those units. See Note 16 — Asset Retirement Obligations of the Exelon 2016 Form 10-K for additional information regarding the accounting for nuclear decommissioning.

The following utility taxes are included in revenues and expenses for the three and six months ended June 30, 2017 and 2016. Generation's utility tax expense represents gross receipts tax related to its retail operations, and the utility registrants' utility tax expense represents municipal and state utility taxes and gross receipts taxes related to their operating revenues. The offsetting collection of utility taxes from customers is recorded in revenues on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

	Three Months Ended June 30, 2017								
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	*Successor* **PHI**	**Pepco**	**DPL**	**ACE**
Utility taxes	$ 213	$ 30	$ 57	$ 29	$21	$ 76	$ 72	$ 4	$—

	Six Months Ended June 30, 2017								
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	*Successor* **PHI**	**Pepco**	**DPL**	**ACE**
Utility taxes	$ 438	$ 63	$ 116	$ 60	$47	$ 152	$143	$ 9	$—

	Three Months Ended June 30, 2016								
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	*Successor* **PHI**	**Pepco**	**DPL**	**ACE**
Utility taxes	$ 217	$ 27	$ 60	$ 32	$21	$ 77	$ 73	$ 4	$—

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	Six Months Ended June 30, 2016								*Successor* March 24, 2016 to June 30, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE	PHI	PHI
Utility taxes	$ 369	$ 55	$ 119	$ 66	$45	$152	$ 9	$—	$ 84	$ 77

Supplemental Cash Flow Information

The following tables provide additional information regarding the Registrants' Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016.

	Six Months Ended June 30, 2017								
	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Depreciation, amortization and accretion									
Property, plant and equipment[(a)]	$1,545	$ 612	$ 384	$129	$155	$ 227	$101	$61	$44
Amortization of regulatory assets[(a)]	238	—	35	12	84	105	59	18	28
Amortization of intangible assets, net[(a)]	28	25	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities[(b)]	20	20	—	—	—	—	—	—	—
Nuclear fuel[(c)]	529	529	—	—	—	—	—	—	—
ARO accretion[(d)]	231	229	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$2,591	$ 1,415	$ 419	$141	$239	$ 332	$160	$79	$72

	Six Months Ended June 30, 2016								*Successor* March 24, 2016 to June 30, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE	PHI	PHI
Depreciation, amortization and accretion										
Property, plant and equipment[(a)]	$1,432	$ 674	$ 345	$121	$150	$ 85	$55	$40	$ 111	$ 94
Amortization of regulatory assets[(a)]	166	—	34	13	56	59	21	41	63	58
Amortization of intangible assets, net[(a)]	28	23	—	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities[(b)]	(7)	(7)	—	—	—	—	—	—	—	—
Nuclear fuel[(c)]	557	557	—	—	—	—	—	—	—	—
ARO accretion[(d)]	220	220	—	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$2,396	$ 1,467	$ 379	$134	$206	$144	$76	$81	$ 174	$ 152

(a) Included in Depreciation and amortization on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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(b) Included in Operating revenues or Purchased power and fuel expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.
(c) Included in Purchased power and fuel expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.
(d) Included in Operating and maintenance expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

	Six Months Ended June 30, 2017								
	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Other non-cash operating activities:									
Pension and non-pension postretirement benefit costs	$ 320	$ 113	$ 87	$ 14	$31	$ 48	$ 13	$ 6	$ 7
Loss from equity method investments	19	19	—	—	—	—	—	—	—
Provision for uncollectible accounts	52	19	15	9	3	6	4	—	2
Stock-based compensation costs	57	—	—	—	—	—	—	—	—
Other decommissioning-related activity[a]	(144)	(144)	—	—	—	—	—	—	—
Energy-related options[b]	11	11	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	4	—	2	—	—	2	1	1	—
Amortization of rate stabilization deferral	(8)	—	—	—	7	(15)	(10)	(5)	—
Amortization of debt fair value adjustment	(9)	(6)	—	—	—	(3)	—	—	—
Discrete impacts from EIMA and FEJA[c]	(51)	—	(51)	—	—	—	—	—	—
Amortization of debt costs	49	30	2	1	1	—	—	—	—
Provision for excess and obsolete inventory	51	49	1	—	—	1	—	—	—
Merger-related commitments[d]	—	—	—	—	—	(8)	(6)	(2)	—
Severance costs	25	17	—	—	—	3	—	—	—
Other	39	13	2	(2)	(7)	(6)	(2)	(3)	(2)
Total other non-cash operating activities	$ 415	$ 121	$ 58	$ 22	$35	$ 28	$ —	$ (3)	$ 7
Non-cash investing and financing activities:									
Change in capital expenditures not paid	$ (105)	$ 48	$ (82)	$ (44)	$ 6	$ (8)	$ —	$15	$(14)
Fair value of pension obligation transferred in connection with the FitzPatrick acquisition	—	49	—	—	—	—	—	—	—
Change in PPE related to ARO update	103	103	—	—	—	—	—	—	—
Indemnification of like-kind exchange position[g]	—	—	23	—	—	—	—	—	—
Non-cash financing of capital projects	13	13	—	—	—	—	—	—	—
Dividends on stock compensation	3	—	—	—	—	—	—	—	—
Loss on reissuance of treasury stock	1,054	—	—	—	—	—	—	—	—

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	Six Months Ended June 30, 2016								*Successor* March 24, 2016 to June 30, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE	PHI	PHI
Other non-cash operating activities:										
Pension and non-pension postretirement benefit costs	$ 297	$ 109	$ 83	$ 17	$ 33	$ 16	$ 9	$ 8	$ 31	$ 23
Loss from equity method investments	10	11	—	—	—	—	—	—	—	—
Provision for uncollectible accounts	51	13	18	10	3	8	8	10	7	16
Stock-based compensation costs	67	—	—	—	—	—	—	—	—	3
Other decommissioning-related activity[a]	(123)	(123)	—	—	—	—	—	—	—	—
Energy-related options[b]	(17)	(17)	—	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	4	—	2	1	—	1	—	—	1	1
Amortization of rate stabilization deferral	34	—	—	—	34	(2)	2	—	—	5
Amortization of debt fair value adjustment	(6)	(6)	—	—	—	—	—	—	—	—
Discrete impacts from EIMA[c]	(21)	—	(21)	—	—	—	—	—	—	—
Amortization of debt costs	14	10	2	1	2	—	—	—	—	—
Provision for excess and obsolete inventory	68	66	2	—	—	1	1	1	—	1
Merger-related commitments[d][e]	503	3	—	—	—	138	100	120	358	—
Severance costs	122	50	—	—	—	—	—	—	54	—
Asset retirement costs	—	—	—	—	—	—	4	2	—	—
Lower of cost or net realizable value inventory adjustment	36	36	—	—	—	—	—	—	—	—
Other	17	17	(3)	(2)	(12)	(4)	(3)	(3)	(7)	(3)
Total other non-cash operating activities	$ 1,056	$ 169	$ 83	$ 27	$ 60	$ 158	$ 121	$ 138	$ 444	$ 46
Non-cash investing and financing activities:										
Change in capital expenditures not paid	$ (364)	$ (317)	$ (21)	$ (12)	$ 2	$ 11	$ (9)	$ 6	$ (4)	$ 11
Fair value of net assets contributed to Generation in connection with the PHI Merger, net of cash[d][f]	—	119	—	—	—	—	—	—	—	—
Fair value of net assets distributed to Exelon in connection with the PHI Merger, net of cash[d][f]	—	—	—	—	—	—	—	—	127	—
Fair value of pension obligation transferred in connection with the PHI Merger	—	—	—	—	—	—	—	—	53	—
Assumption of member purchase liability	—	—	—	—	—	—	—	—	29	—
Assumption of merger commitment liability	—	—	—	—	—	33	—	—	33	—
Change in PPE related to ARO update	471	471	—	—	—	—	—	—	—	—
Indemnification of like-kind exchange position[g]	—	—	5	—	—	—	—	—	—	—
Non-cash financing of capital projects	60	60	—	—	—	—	—	—	—	—
Dividends on stock compensation	2	—	—	—	—	—	—	—	—	—

(a) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of operating revenues, ARO accretion, ARC amortization, investment income and income taxes related to all NDT fund activity for these units. See Note 16 — Asset Retirement Obligations of the Exelon 2016 Form 10-K for additional information regarding the accounting for nuclear decommissioning.

(b) Includes option premiums reclassified to realized at the settlement of the underlying contracts and recorded in Operating revenues.

(c) Reflects the change in distribution rates pursuant to EIMA and FEJA, which allows for the recovery of distribution costs by a utility through a pre-established performance-based formula rate tariff. Beginning June 1, 2017, also reflects the

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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change in energy efficiency rates pursuant to FEJA, which allows for the recovery of energy efficiency costs by a utility through a pre-established performance-based formula rate tariff. See Note 5 — Regulatory Matters for more information.

(d) See Note 4 — Mergers, Acquisitions and Dispositions for additional information related to the merger with PHI.

(e) Excludes $5 million of forgiveness of Accounts receivable related to merger commitments recorded in connection with the PHI Merger, the balance is included within Provision for uncollectible accounts.

(f) Immediately following closing of the PHI Merger, the net assets associated with PHI’s unregulated business interests were distributed by PHI to Exelon. Exelon contributed a portion of such net assets to Generation.

(g) See Note 11 — Income Taxes for discussion of the like-kind exchange tax position.

Supplemental Balance Sheet Information

The following tables provide additional information about assets and liabilities of the Registrants as of June 30, 2017 and December 31, 2016.

June 30, 2017	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Property, plant and equipment:									
Accumulated depreciation and amortization	$19,735(a)	$ 10,550(a)	$4,122	$3,330	$3,358	$ 360	$3,131	$1,212	$1,042
Accounts receivable:									
Allowance for uncollectible accounts	$ 322	$ 102	$ 71	$ 59	$ 26	$ 64	$ 25	$ 19	$ 20

December 31, 2016	Exelon	Generation	ComEd	PECO	BGE	*Successor* PHI	Pepco	DPL	ACE
Property, plant and equipment:									
Accumulated depreciation and amortization	$19,169(b)	$ 10,562(b)	$3,937	$3,253	$3,254	$ 195	$3,050	$1,175	$1,016
Accounts receivable:									
Allowance for uncollectible accounts	$ 334	$ 91	$ 70	$ 61	$ 32	$ 80	$ 29	$ 24	$ 27

(a) Includes accumulated amortization of nuclear fuel in the reactor core of $3,016 million.

(b) Includes accumulated amortization of nuclear fuel in the reactor core of $3,186 million.

PECO Installment Plan Receivables (Exelon and PECO)

PECO enters into payment agreements with certain delinquent customers, primarily residential, seeking to restore their service, as required by the PAPUC. Customers with past due balances that meet certain income criteria are provided the option to enter into an installment payment plan, some of which have terms greater than one year, to repay past due balances in addition to paying for their ongoing service on a current basis. The receivable balance for these payment agreement receivables is recorded in accounts receivable for the current portion and other deferred debits and other assets for the noncurrent portion. The net receivable balance for installment plans with terms greater than one year was $11 million and $9 million as of June 30, 2017 and December 31, 2016, respectively. The allowance for uncollectible accounts reserve methodology and assessment of the credit quality of the installment plan receivables are consistent with the customer accounts receivable methodology discussed in Note 1 — Significant Accounting Policies of the Exelon 2016 Form 10-K. The allowance for uncollectible accounts balance associated with these receivables at June 30, 2017 of $13 million consists of $1 million, $3 million and $9 million for low risk, medium risk and high risk segments, respectively.

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The allowance for uncollectible accounts balance at December 31, 2016 of $13 million consists of $1 million, $3 million and $9 million for low risk, medium risk and high risk segments, respectively. The balance of the payment agreement is billed to the customer in equal monthly installments over the term of the agreement. Installment receivables outstanding as of June 30, 2017 and December 31, 2016 include balances not yet presented on the customer bill, accounts currently billed and an immaterial amount of past due receivables. When a customer defaults on its payment agreement, the terms of which are defined by plan type, the entire balance of the agreement becomes due and the balance is reclassified to current customer accounts receivable and reserved for in accordance with the methodology discussed in Note 1 — Significant Accounting Policies of the Exelon 2016 Form 10-K.

19. Segment Information (All Registrants)

Operating segments for each of the Registrants are determined based on information used by the chief operating decision maker(s) (CODM) in deciding how to evaluate performance and allocate resources at each of the Registrants.

In the first quarter of 2016, following the consummation of the PHI Merger, three new reportable segments were added: Pepco, DPL and ACE. As a result, Exelon has twelve reportable segments, which include ComEd, PECO, BGE, PHI’s three reportable segments consisting of Pepco, DPL, and ACE, and Generation’s six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and all other power regions referred to collectively as “Other Power Regions”, which includes activities in the South, West and Canada. ComEd, PECO, BGE, Pepco, DPL and ACE each represent a single reportable segment, and as such, no separate segment information is provided for these Registrants. Exelon, ComEd, PECO, BGE, Pepco, DPL and ACE’s CODMs evaluate the performance of and allocate resources to ComEd, PECO, BGE, Pepco, DPL and ACE based on net income and return on equity.

Effective with the consummation of the PHI Merger, PHI’s reportable segments have changed based on the information used by the CODM to evaluate performance and allocate resources. PHI’s reportable segments consist of Pepco, DPL and ACE. PHI’s Predecessor periods’ segment information has been recast to conform to the current presentation. The reclassification of the segment information did not impact PHI’s reported consolidated revenues or net income. PHI’s CODM evaluates the performance of and allocates resources to Pepco, DPL and ACE based on net income and return on equity.

The basis for Generation’s reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation’s hedging strategies and risk metrics are also aligned to these same geographic regions. Descriptions of each of Generation’s six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.
- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO’s Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.
- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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- New York represents operations within ISO-NY, which covers the state of New York in its entirety.
- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.
- Other Power Regions:
  - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.
  - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado and parts of New Mexico, Wyoming and South Dakota.
  - Canada represents operations across the entire country of Canada and includes AESO, OIESO and the Canadian portion of MISO.

The CODMs for Exelon and Generation evaluate the performance of Generation's electric business activities and allocate resources based on revenues net of purchased power and fuel expense (RNF). Generation believes that RNF is a useful measurement of operational performance. RNF is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report. Generation's operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for Generation's owned generation and fuel costs associated with tolling agreements. The results of Generation's other business activities are not regularly reviewed by the CODM and are therefore not classified as operating segments or included in the regional reportable segment amounts. These activities include natural gas, as well as other miscellaneous business activities that are not significant to Generation's overall operating revenues or results of operations. Further, Generation's unrealized mark-to-market gains and losses on economic hedging activities and its amortization of certain intangible assets and liabilities relating to commodity contracts recorded at fair value from mergers and acquisitions are also excluded from the regional reportable segment amounts. Exelon and Generation do not use a measure of total assets in making decisions regarding allocating resources to or assessing the performance of these reportable segments.

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An analysis and reconciliation of the Registrants' reportable segment information to the respective information in the consolidated financial statements for the three and six months ended June 30, 2017 and 2016 is as follows:

Three Months Ended June 30, 2017 and 2016

					Successor			
	Generation[a]	ComEd	PECO	BGE	PHI[b]	Other[c]	Intersegment Eliminations	Exelon
Operating revenues[d]:								
2017								
Competitive businesses electric revenues	$ 3,719	$ —	$ —	$ —	$ —	$ —	$ (266)	$ 3,453
Competitive businesses natural gas revenues	430	—	—	—	—	—	—	430
Competitive businesses other revenues	25	—	—	—	—	—	—	25
Rate-regulated electric revenues	—	1,357	550	571	1,040	—	(7)	3,511
Rate-regulated natural gas revenues	—	—	80	103	22	—	(1)	204
Shared service and other revenues	—	—	—	—	12	449	(461)	—
2016								
Competitive businesses electric revenues	$ 3,655	$ —	$ —	$ —	$ —	$ —	$ (354)	$ 3,301
Competitive businesses natural gas revenues	367	—	—	—	—	—	—	367
Competitive businesses other revenues	(433)	—	—	—	—	—	(1)	(434)
Rate-regulated electric revenues	—	1,286	587	584	1,030	—	(7)	3,480
Rate-regulated natural gas revenues	—	—	77	96	26	—	(2)	197
Shared service and other revenues	—	—	—	—	10	398	(409)	(1)
Intersegment revenues[e]:								
2017	$ 266	$ 3	$ 2	$ 3	$ 12	$ 448	$ (734)	$ —
2016	355	3	2	4	10	398	(771)	1
Net income (loss):								
2017	$ (266)	$ 118	$ 88	$ 45	$ 66	$ 13	$ —	$ 64
2016	28	145	100	34	52	(52)	(1)	306
Total assets:								
June 30, 2017	$ 48,130	$29,160	$11,041	$8,786	$21,190	$10,783	$ (11,986)	$117,104
December 31, 2016	46,974	28,335	10,831	8,704	21,025	10,369	(11,334)	114,904

(a) Generation includes the six reportable segments shown below: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions. Intersegment revenues for Generation for the three months ended June 30, 2017 include revenue from sales to PECO of $34 million, sales to BGE of $99 million, sales to Pepco of $68 million, sales to DPL of $40 million, and sales to ACE of $7 million in the Mid-Atlantic region, and sales to ComEd of $18 million in the Midwest region. For the three months ended June 30, 2016, intersegment revenues for Generation include revenue from sales to PECO of $64 million, sales to BGE of $135 million, sales to Pepco of $88 million, sales to DPL of $43 million, and sales to ACE of $12 million in the Mid-Atlantic region, and sales to ComEd of $13 million in the Midwest region.

(b) Amounts included represent activity for PHI's successor period, three months ended June 30, 2017 and 2016. PHI includes the three reportable segments: Pepco, DPL and ACE.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(c) Other primarily includes Exelon's corporate operations, shared service entities and other financing and investment activities.

(d) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 18 — Supplemental Financial Information for total utility taxes for the three months ended June 30, 2017 and 2016.

(e) Intersegment revenues exclude sales to unconsolidated affiliates. The intersegment profit associated with Generation's sale of certain products and services by and between Exelon's segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in Operating revenues in the Consolidated Statements of Operations and Comprehensive Income.

Successor PHI:

	Pepco	DPL	ACE	Other[(b)]	Intersegment Eliminations	PHI
Operating revenues[(a)]:						
Three months ended June 30, 2017—Successor						
Rate-regulated electric revenues	$ 514	$ 260	$ 270	$ —	$ (4)	$ 1,040
Rate-regulated natural gas revenues	—	22	—	—	—	22
Shared service and other revenues	—	—	—	13	(1)	12
Three months ended June 30, 2016—Successor						
Rate-regulated electric revenues	$ 509	$ 255	$ 270	$ —	$ (4)	$ 1,030
Rate-regulated natural gas revenues	—	26	—	—	—	26
Shared service and other revenues	—	—	—	10	—	10
Intersegment revenues:						
Three months ended June 30, 2017—Successor	$ 1	$ 2	$ 1	$ 13	$ (5)	$ 12
Three months ended June 30, 2016—Successor	1	2	1	10	(4)	10
Net income (loss):						
Three months ended June 30, 2017—Successor	$ 43	$ 19	$ 8	$ (16)	$ 12	$ 66
Three months ended June 30, 2016—Successor	49	12	3	(22)	10	52
Total assets:						
June 30, 2017 — Successor	$7,648	$4,235	$3,478	$10,800	$ (4,971)	$21,190
December 31, 2016 — Successor	7,335	4,153	3,457	10,804	(4,724)	21,025

(a) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 18 — Supplemental Financial Information for total utility taxes for the three months ended June 30, 2017 and 2016.

(b) Other primarily includes PHI's corporate operations, shared service entities and other financing and investment activities.

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Generation total revenues:

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Revenues from external customers[a]	Intersegment revenues	Total Revenues	Revenues from external customers[a]	Intersegment revenues	Total Revenues
Mid-Atlantic	$ 1,356	$ 9	$ 1,365	$ 1,432	$ (16)	$ 1,416
Midwest	1,058	(8)	1,050	1,076	7	1,083
New England	438	(5)	433	352	(1)	351
New York	352	(5)	347	356	(10)	346
ERCOT	247	—	247	207	—	207
Other Power Regions	268	(9)	259	232	(9)	223
Total Revenues for Reportable Segments	3,719	(18)	3,701	3,655	(29)	3,626
Other[b]	455	18	473	(66)	29	(37)
Total Generation Consolidated Operating Revenues	$ 4,174	$ —	$ 4,174	$ 3,589	$ —	$ 3,589

(a) Includes all wholesale and retail electric sales to third parties and affiliated sales to the Utility Registrants.
(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $15 million and $9 million decrease to revenues for the amortization of intangible assets and liabilities related to commodity contracts recorded at fair value for the three months ended June 30, 2017 and 2016, respectively, unrealized mark-to-market losses of $143 million and $615 million for the three months ended June 30, 2017 and 2016, respectively, and elimination of intersegment revenues.

Generation total revenues net of purchased power and fuel expense:

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	RNF from external customers[a]	Intersegment RNF	Total RNF	RNF from external customers[a]	Intersegment RNF	Total RNF
Mid-Atlantic	$ 757	$ 26	$ 783	$ 830	$ (2)	$ 828
Midwest	728	—	728	724	4	728
New England	157	(10)	147	118	(8)	110
New York	230	—	230	270	(3)	267
ERCOT	121	(51)	70	111	(34)	77
Other Power Regions	134	(44)	90	123	(27)	96
Total Revenues net of purchased power and fuel for Reportable Segments	2,127	(79)	2,048	2,176	(70)	2,106
Other[b]	(110)	79	(31)	(164)	70	(94)
Total Generation Revenues net of purchased power and fuel expense	$ 2,017	$ —	$2,017	$ 2,012	$ —	$2,012

(a) Includes purchases and sales from/to third parties and affiliated sales to the Utility Registrants.
(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $20 million and $12 million decrease to RNF for the amortization of intangible assets and liabilities related to commodity contracts for the three months ended June 30, 2017 and 2016, respectively, unrealized mark-to-market losses of $184 million and $304 million for the three months ended June 30, 2017 and 2016, respectively, and the elimination of intersegment revenue net of purchased power and fuel expense.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Six Months Ended June 30, 2017 and 2016

					Successor			
	Generation[a]	ComEd	PECO	BGE	PHI[b]	Other[c]	Intersegment Eliminations	Exelon
Operating revenues[d]:								
2017								
Competitive businesses electric revenues	$ 7,437	$ —	$ —	$ —	$ —	$ —	$ (592)	$6,845
Competitive businesses natural gas revenues	1,348	—	—	—	—	—	—	1,348
Competitive businesses other revenues	276	—	—	—	—	—	(1)	275
Rate-regulated electric revenues	—	2,656	1,140	1,237	2,138	1	(16)	7,156
Rate-regulated natural gas revenues	—	—	286	388	87	—	(4)	757
Shared service and other revenues	—	—	—	—	23	870	(893)	—
2016								
Competitive businesses electric revenues	$ 7,352	$ —	$ —	$ —	$ —	$ —	$ (620)	$6,732
Competitive businesses natural gas revenues	1,189	—	—	—	—	—	—	1,189
Competitive businesses other revenues	(212)	—	—	—	—	—	(1)	(213)
Rate-regulated electric revenues	—	2,535	1,232	1,264	1,120	—	(15)	6,136
Rate-regulated natural gas revenues	—	—	273	345	28	—	(5)	641
Shared service and other revenues	—	—	—	—	23	803	(826)	—
Intersegment revenues[e]:								
2017	$ 594	$ 9	$ 3	$ 8	$ 23	$ 866	$ (1,503)	$ —
2016	621	8	4	9	23	803	(1,466)	2
Net income (loss):								
2017	$ 144	$ 259	$ 215	$ 169	$ 205	$ 54	$ —	$1,046
2016	285	260	224	135	(257)	(215)	(2)	430

(a) Generation includes the six reportable segments shown below: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions. Intersegment revenues for Generation for the six months ended June 30, 2017 include revenue from sales to PECO of $79 million, sales to BGE of $233 million, sales to Pepco of $152 million, sales to DPL of $91 million, and sales to ACE of $16 million in the Mid-Atlantic region, and sales to ComEd of $23 million in the Midwest region. For the six months ended June 30, 2016, intersegment revenues for Generation include revenue from sales to PECO of $143 million and sales to BGE of $306 million in the Mid-Atlantic region, and sales to ComEd of $18 million in the Midwest region. For the Successor period of March 24, 2016 to June 30, 2016, intersegment revenues for Generation include revenue from sales to Pepco of $94 million, sales to DPL of $47 million, and sales to ACE of $13 million in the Mid-Atlantic region.

(b) Amounts included represent activity for PHI's successor period, six months ended June 30, 2017 and March 24, 2016 through June 30, 2016. PHI includes the three reportable segments: Pepco, DPL and ACE. See tables below for PHI's predecessor period, including Pepco, DPL and ACE, for January 1, 2016 to March 23, 2016.

(c) Other primarily includes Exelon's corporate operations, shared service entities and other financing and investment activities.

(d) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants’ Consolidated Statements of Operations and Comprehensive Income. See Note 18 — Supplemental Financial Information for total utility taxes for the six months ended June 30, 2017 and 2016.

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(Dollars in millions, except per share data, unless otherwise noted)

(e) Intersegment revenues exclude sales to unconsolidated affiliates. The intersegment profit associated with Generation's sale of certain products and services by and between Exelon's segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in Operating revenues in the Consolidated Statements of Operations and Comprehensive Income.

Successor and Predecessor PHI:

	Pepco	DPL	ACE	Other (b)	Intersegment Eliminations	PHI
Operating revenues(a):						
Six Months Ended June 30, 2017—Successor						
Rate-regulated electric revenues	$1,045	$557	$ 544	$ 1	$ (9)	$2,138
Rate-regulated natural gas revenues	—	87	—	—	—	87
Shared service and other revenues	—	—	—	25	(2)	23
March 24, 2016 to June 30, 2016—Successor						
Rate-regulated electric revenues	$ 550	$279	$ 293	$ 3	$ (5)	$1,120
Rate-regulated natural gas revenues	—	29	—	(1)	—	28
Shared service and other revenues	—	—	—	23	—	23
January 1, 2016 to March 23, 2016—Predecessor						
Rate-regulated electric revenues	$ 511	$279	$ 268	$ 42	$ (4)	$1,096
Rate-regulated natural gas revenues	—	56	—	1	—	57
Shared service and other revenues	—	—	—	—	—	—
Intersegment revenues:						
Six Months Ended June 30, 2017 — Successor	$ 3	$ 4	$ 1	$ 24	$ (9)	$ 23
March 24, 2016 to June 30, 2016 — Successor	2	2	1	23	(5)	23
January 1, 2016 to March 23, 2016 — Predecessor	1	2	1	—	(4)	—
Net income (loss):						
Six Months Ended June 30, 2017 — Successor	$ 101	$ 76	$ 36	$(31)	$ 23	$ 205
March 24, 2016 to June 30, 2016 — Successor	(92)	(86)	(102)	—	23	(257)
January 1, 2016 to March 23, 2016 — Predecessor	32	26	5	(44)	—	19

(a) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 18 — Supplemental Financial Information for total utility taxes for the six months ended June 30, 2017 and 2016.

(b) Other primarily includes PHI's corporate operations, shared service entities and other financing and investment activities. For the predecessor period presented, Other includes the activity of PHI's unregulated businesses which were distributed to Exelon and Generation as a result of the PHI Merger.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Generation total revenues:

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Revenues from external customers(a)	Intersegment revenues	Total Revenues	Revenues from external customers[a]	Intersegment revenues	Total Revenues
Mid-Atlantic	$ 2,785	$ 5	$ 2,790	$ 2,964	$ (28)	$ 2,936
Midwest	2,107	(5)	2,102	2,166	13	2,179
New England	987	(7)	980	823	(2)	821
New York	662	(8)	654	573	(24)	549
ERCOT	439	(1)	438	370	—	370
Other Power Regions	457	(14)	443	456	(9)	447
Total Revenues for Reportable Segments	7,437	(30)	7,407	7,352	(50)	7,302
Other[b]	1,624	30	1,654	977	50	1,027
Total Generation Consolidated Operating Revenues	$ 9,061	$ —	$ 9,061	$ 8,329	$ —	$ 8,329

(a) Includes all wholesale and retail electric sales to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $17 million decrease to revenues and an $11 million increase to revenues for the amortization of intangible assets and liabilities related to commodity contracts recorded at fair value for the six months ended June 30, 2017 and 2016, respectively, unrealized mark-to-market losses of $98 million and $553 million for the six months ended June 30, 2017 and 2016, respectively, and elimination of intersegment revenues.

Generation total revenues net of purchased power and fuel expense:

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	RNF from external customers[a]	Intersegment RNF	Total RNF	RNF from external customers[a]	Intersegment RN	Total RNF
Mid-Atlantic	$ 1,513	$ 44	$1,557	$ 1,661	$ 8	$1,669
Midwest	1,431	12	1,443	1,443	6	1,449
New England	271	(14)	257	204	(13)	191
New York	385	—	385	408	(13)	395
ERCOT	214	(76)	138	192	(54)	138
Other Power Regions	240	(88)	152	211	(37)	174
Total Revenues net of purchased power and fuel expense for Reportable Segments	4,054	(122)	3,932	4,119	(103)	4,016
Other[b]	52	122	174	190	103	293
Total Generation Revenues net of purchased power and fuel expense	$ 4,106	$ —	$4,106	$ 4,309	$ —	$4,309

(a) Includes purchases and sales from/to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $22 million decrease to RNF and a $7 million increase to RNF for the amortization of intangible assets and liabilities related to commodity contracts for the six months ended June 30, 2017 and 2016, respectively, unrealized mark-to-market losses of $233 million and $201 million for the six months ended June 30, 2017 and 2016, respectively, and the elimination of intersegment revenue net of purchased power and fuel expense.

20. Subsequent Events (Exelon and Generation)

On July 6, 2017, ExGen Renewables Holdings, LLC, a wholly owned subsidiary of Generation, completed the sale of a 49% interest of ExGen Renewables Partners, LLC, a newly formed owner and operator of approximately 1,296 megawatts of Generation’s operating wind and solar electric generating facilities. ExGen Renewables Holdings will be the managing member of ExGen Renewables Partners, LLC, and have day-to-day control and management over its renewable generation portfolio. The closing of the transaction was subject to certain regulatory approvals, including the Federal Energy Regulatory Commission (FERC) and the Public Utility Commission of Texas (PUCT) which were received during the second quarter of 2017. The sale price was $400 million plus immaterial working capital and other customary post-closing adjustments. The net proceeds, after approximately $120 million of income taxes, will be used to pay down debt and for general corporate purposes. Generation will continue to consolidate ExGen Renewables Partners, LLC and will record a noncontrolling interest on its Consolidated Balance Sheet for the investor’s initial equity share as well as earnings attributable to the noncontrolling interest in the Consolidated Statements of Operations and Comprehensive Income each period going forward.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in millions except per share data, unless otherwise noted)

Exelon

Executive Overview

Exelon, a utility services holding company, operates through the following principal subsidiaries:

- *Generation,* whose integrated business consists of the generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services.
- *ComEd,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in northern Illinois, including the City of Chicago.
- *PECO,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in the Pennsylvania counties surrounding the City of Philadelphia.
- *BGE,* whose business consists of the purchase and regulated retail sale of electricity and natural gas and the provision of electricity distribution and transmission and natural gas distribution services in central Maryland, including the City of Baltimore.
- *Pepco,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission in the District of Columbia and major portions of Prince George's County and Montgomery County in Maryland.
- *DPL,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.
- *ACE,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in southern New Jersey.

Pepco, DPL and ACE are operating companies of PHI, which is a utility services holding company and a wholly owned subsidiary of Exelon.

Exelon has twelve reportable segments consisting of Generation's six reportable segments (Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions in Generation), ComEd, PECO, BGE and PHI's three utility reportable segments (Pepco, DPL and ACE). See Note 19 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information regarding Exelon's reportable segments.

Through its business services subsidiary BSC, Exelon provides its operating subsidiaries with a variety of support services at cost. The costs of these services are directly charged or allocated to the applicable operating segments. Additionally, the results of Exelon's corporate operations include costs for corporate governance and interest costs and income from various investment and financing activities.

PHI Service Company, a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, accounting, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHI Service Company and the participating operating subsidiaries.

Exelon's consolidated financial information includes the results of its eight separate operating subsidiary registrants, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, which, along with Exelon, are collectively referred to as the Registrants. The following combined Management's Discussion and Analysis of Financial Condition and Results of Operations is separately filed by Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE. However, none of the Registrants makes any representation as to information related solely to any of the other Registrants.

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Financial Results of Operations

GAAP Results of Operations

The following tables sets forth Exelon's GAAP consolidated results of operations for the three and six months ended June 30, 2017 compared to the same period in 2016. The 2016 amounts include the operations of PHI, Pepco, DPL and ACE from March 24, 2016 through June 30, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	Three Months Ended June 30,								
	2017							2016	
	Generation	ComEd	PECO	BGE	PHI	Other	Exelon	Exelon (b)	Favorable (Unfavorable) Variance
Operating revenues	$ 4,174	$1,357	$630	$674	$1,074	$(286)	$7,623	$6,910	$ 713
Purchased power and fuel	2,157	378	197	234	383	(263)	3,086	2,454	(632)
Revenue net of purchased power and fuel[a]	2,017	979	433	440	691	(23)	4,537	4,456	81
Other operating expenses									
Operating and maintenance	2,010	377	190	174	269	(49)	2,971	2,505	(466)
Depreciation and amortization	334	211	71	112	165	22	915	941	26
Taxes other than income	140	72	35	56	110	7	420	394	(26)
Total other operating expenses	2,484	660	296	342	544	(20)	4,306	3,840	(466)
Gain on sales of assets	—	—	—	—	1	—	1	31	(30)
Operating income (loss)	(467)	319	137	98	148	(3)	232	647	(415)
Other income and (deductions)									
Interest expense, net	(129)	(101)	(31)	(26)	(59)	(90)	(436)	(376)	(60)
Other, net	181	4	2	4	13	1	205	144	61
Total other income and (deductions)	52	(97)	(29)	(22)	(46)	(89)	(231)	(232)	1
Income (loss) before income taxes	(415)	222	108	76	102	(92)	1	415	(414)
Income taxes	(158)	104	20	31	36	(105)	(72)	102	174
Equity in losses of unconsolidated affiliates	(9)	—	—	—	—	—	(9)	(7)	(2)
Net income (loss)	(266)	118	88	45	66	13	64	306	(242)
Net income (loss) attributable to noncontrolling interests and preference stock dividends	(16)	—	—	—		—	(16)	39	55
Net income (loss) attributable to common shareholders	$ (250)	$ 118	$ 88	$ 45	$ 66	$ 13	$ 80	$ 267	$ (187)

(a) The Registrants evaluate operating performance using the measure of revenues net of purchased power and fuel expense. The Registrants believe that revenues net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate their operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) As a result of the PHI Merger, Exelon includes the consolidated results of PHI, Pepco, DPL and ACE from April 1, 2016 through June 30, 2016.

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	Six Months Ended June 30,								Favorable (Unfavorable) Variance
	2017							2016	
	Generation	ComEd	PECO	BGE	PHI	Other	Exelon	Exelon[(b)]	
Operating revenues	$ 9,061	$2,656	$1,426	$1,625	$2,248	$(635)	$16,381	$14,485	$ 1,896
Purchased power and fuel expense	4,955	713	484	584	845	(596)	6,985	5,708	(1,277)
Revenue net of purchased power and fuel expense[(a)]	4,106	1,943	942	1,041	1,403	(39)	9,396	8,777	619
Other operating expenses									
Operating and maintenance	3,497	747	398	357	524	(92)	5,431	5,341	(90)
Depreciation and amortization	637	419	141	239	332	43	1,811	1,626	(185)
Taxes other than income	282	144	74	119	221	17	857	720	(137)
Total other operating expenses	4,416	1,310	613	715	1,077	(32)	8,099	7,687	(412)
Gain on sales of assets	4	—	—	—	1	—	5	40	(35)
Bargain purchase gain	226	—	—	—	—	—	226	—	226
Operating income (loss)	(80)	633	329	326	327	(7)	1,528	1,130	398
Other income and (deductions)									
Interest expense, net	(228)	(185)	(62)	(54)	(122)	(158)	(809)	(663)	(146)
Other, net	440	8	3	8	26	3	488	258	230
Total other income and (deductions)	212	(177)	(59)	(46)	(96)	(155)	(321)	(405)	84
Income (loss) before income taxes	132	456	270	280	231	(162)	1,207	725	482
Income taxes	(31)	197	55	111	26	(215)	143	285	142
Equity in (losses) earnings of unconsolidated affiliates	(19)	—	—	—	—	1	(18)	(10)	(8)
Net income	144	259	215	169	205	54	1,046	430	616
Net loss attributable to noncontrolling interests and preference stock dividends	(30)	—	—	—	—	—	(30)	(10)	20
Net income attributable to common shareholders	$ 174	$ 259	$ 215	$ 169	$ 205	$ 54	$ 1,076	$ 440	$ 636

(a) The Registrants evaluate operating performance using the measure of revenues net of purchased power and fuel expense. The Registrants believe that revenues net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate their operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) As a result of the PHI Merger, Exelon includes the consolidated results of PHI, Pepco, DPL and ACE from March 24, 2016 through June 30, 2016.

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Exelon's Net income attributable to common shareholders was $80 million for the three months ended June 30, 2017 as compared to $267 million for the three months ended June 30, 2016, and diluted earnings per average common share were $0.09 for the three months ended June 30, 2017 as compared to $0.29 for the three months ended June 30, 2016.

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Revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed below, increased by $81 million for the three months ended June 30, 2017 as compared to the same period in 2016. The quarter-over-quarter increase in Revenue net of purchased power and fuel expense was primarily due to the following favorable factors:

- Increase of $120 million at Generation due to mark-to-market losses of $184 million in 2017 compared to $304 million in 2016;
- Increase of $41 million at PHI primarily due to increased distribution revenue as a result of rate increases effective in 2016 and 2017;
- Increase of $32 million at ComEd primarily due to higher electric distribution and transmission formula rate revenues resulting from increased capital investment, increased Depreciation expense and higher allowed electric distribution ROE due to an increase in treasury rates, partially offset by favorable weather conditions in the second quarter 2016; and
- Increase of $21 million at BGE primarily due to the impacts of the electric and natural gas distribution rate increases effective in June 2016 and July 2016.

The quarter-over-quarter increase in Revenue net of purchase power and fuel expense was partially offset by a decrease of $115 million at Generation due to the conclusion of the Ginna reliability support services agreement, lower realized energy prices and lower optimization in Generation’s natural gas portfolio, partially offset by Zero Emission Credit revenue due to the impact of the New York Clean Energy Standard and increased nuclear volumes due to the acquisition of the FitzPatrick nuclear facility.

Operating and maintenance expense increased by $466 million for the three months ended June 30, 2017 as compared to the same period in 2016 primarily due to the following unfavorable factors:

- Increase of $375 million at Generation due to long-lived asset impairments primarily related to the EGTP assets held for sale;
- Increase of $71 million at Generation due to increased nuclear outage costs;
- Increase in Generation’s and PHI’s labor, contracting and materials expense of $28 million primarily related to the inclusion of FitzPatrick at Generation and increased preventative maintenance expenses at PHI; and
- Increase of $28 million at Generation, BGE and Pepco due to increases in uncollectible accounts.

The quarter-over-quarter increase in Operating and maintenance expense was partially offset by a decrease of $51 million at BGE due to the absence of 2016 charges for certain disallowances contained in the June and July 2016 rate orders.

Depreciation and amortization expense decreased by $26 million primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities, partially offset by increased depreciation expense as a result of ongoing capital expenditures across all operating companies for the three months ended June 30, 2017 as compared to the same period in 2016.

Taxes other than income increased by $26 million primarily due to the addition of FitzPatrick and increased gross receipts tax accruals at Generation for the three months ended June 30, 2017 as compared to the same period in 2016.

Gain on sales of assets decreased by $30 million primarily due to Generation’s gain associated with sale of the New Boston generating site in 2016.

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Interest expense, net increased by $60 million primarily due to higher outstanding debt and additional interest recorded in the second quarter 2017 related to Exelon’s like-kind exchange tax position for the three months ended June 30, 2017 as compared to the same period in 2016.

Other, net increased by $61 million primarily due to higher net unrealized and realized gains on NDT funds at Generation for the three months ended June 30, 2017 as compared to the same period in 2016.

Exelon’s effective income tax rates for the three months ended June 30, 2017 and 2016 were (7,200.0)% and 24.6%, respectively. The effective tax rate for the three months ended June 30, 2017 is disproportionately impacted due to the decline in pre-tax GAAP earnings and changes in other reconciling items. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Exelon’s Net income attributable to common shareholders was $1,076 million for the six months ended June 30, 2017 as compared to $440 million for the six months ended June 30, 2016, and diluted earnings per average common share were $1.15 for the six months ended June 30, 2017 as compared to $0.48 for the six months ended June 30, 2016.

Revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed below, increased by $619 million for the six months ended June 30, 2017 as compared to the same period in 2016. The year-over-year increase in Revenue net of purchased power and fuel expense was primarily due to the following favorable factors:

- Increase of $94 million at ComEd primarily due to higher electric distribution and transmission formula rate revenues resulting from increased capital investment, increased Depreciation expense and higher allowed electric distribution ROE due to an increase in treasury rates;
- Increase of $66 million at BGE primarily due to the impacts of the electric and natural gas distribution rate increases effective in June 2016 and July 2016; and
- Increase of $686 million in Revenue net of purchased power and fuel due to the inclusion of PHI’s results for the six months ended June 30, 2017 compared to the period March 24, 2016 to June 30, 2016, as well as various distribution rate increases effective in 2016 and 2017.

The year-over-year increase in Revenue net of purchased power and fuel expense was partially offset by the following unfavorable factors:

- Decrease of $32 million at Generation due to mark-to-market losses of $233 million in 2017 compared to $201 million in 2016; and
- Decrease of $171 million at Generation primarily due to the impacts of declining natural gas prices and lower optimization in Generation’s natural gas portfolio, the conclusion of the Ginna reliability support services agreement, lower realized energy prices and decreased capacity prices, partially offset by Zero Emission Credit revenue due to the impact of the New York Clean Energy Standard and the absence of oil inventory write downs in 2017.

Operating and maintenance expense increased by $90 million for the six months ended June 30, 2017 as compared to the same period in 2016 primarily due to the following unfavorable factors:

- Increase of $266 million at Generation due to long-lived asset impairments primarily related to the EGTP assets held for sale;
- Increase of $99 million at Generation due to increased nuclear outage costs;

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- Increase in Generation's labor, contracting and materials cost of $85 million primarily due to the inclusion of Pepco Energy Services results for the six months ended June 30, 2017 compared to the period March 24, 2016 to June 30, 2016, increased contracting costs related to energy efficiency projects and the inclusion of FitzPatrick from March 31, 2017; and
- Increase of $258 million, exclusive of PHI merger-related costs discussed below, in Operating and maintenance expense due to the inclusion of PHI's results for the six months ended June 30, 2017 compared to the period March 24, 2016 to June 30, 2016.

The year-over-year increase in Operating and maintenance expense was partially offset by the following favorable factors:

- Decrease of $126 million at Exelon, exclusive of PHI merger–related costs discussed below, due to merger commitment and other merger-related costs of $74 million in 2017 compared to $200 million in 2016;
- Decrease of $51 million at BGE due to the absence of 2016 charges for certain disallowances contained in the June and July 2016 rate orders; and
- Decrease of $429 million at PHI primarily due to merger commitment and other merger-related costs of $419 million recognized in the period March 24, 2016 to June 30, 2016.

Depreciation and amortization expense increased by $185 million primarily due to increased depreciation expense as a result of ongoing capital expenditures across all operating companies and the inclusion of PHI's results for the six months ended June 30, 2017 compared to the period March 24, 2016 to June 30, 2016, partially offset by lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities.

Taxes other than income increased by $137 million primarily due to the addition of FitzPatrick and increased gross receipts tax accruals at Generation and the inclusion of PHI's results for the six months ended June 30, 2017 compared to the period March 24, 2016 to June 30, 2016.

Gain on sales of assets decreased by $35 million primarily due to Generation's gain associated with the sale of the New Boston generating site in 2016.

Bargain purchase gain increased by $226 million due to the gain associated with Generation's FitzPatrick acquisition for the six months ended June 30, 2017 as compared to the same period in 2016.

Interest expense, net increased by $146 million primarily due to higher outstanding debt, additional interest recorded in the second quarter 2017 related to Exelon's like-kind exchange tax position and the inclusion of PHI's results for the six months ended June 30, 2017 compared to the period March 24, 2016 to June 30, 2016.

Other, net increased by $230 million primarily due to higher net unrealized and realized gains on NDT funds at Generation for the six months ended June 30, 2017 as compared to the same period in 2016.

Exelon's effective income tax rates for the six months ended June 30, 2017 and 2016 were 11.8% and 39.3%, respectively. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

For further detail regarding the financial results for the three and six months ended June 30, 2017, including explanation of the non-GAAP measure Revenue net of purchased power and fuel expense, see the discussions of Results of Operations by Segment below.

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Adjusted (non-GAAP) Operating Earnings

Exelon's adjusted (non-GAAP) operating earnings for the three months ended June 30, 2017 were $509 million, or $0.54 per diluted share, compared with adjusted (non-GAAP) operating earnings of $604 million, or $0.65 per diluted share for the same period in 2016. Exelon's adjusted (non-GAAP) operating earnings for the six months ended June 30, 2017 were $1,114 million, or $1.19 per diluted share, compared with adjusted (non-GAAP) operating earnings of $1,235 million, or $1.33 per diluted share for the same period in 2016. In addition to net income, Exelon evaluates its operating performance using the measure of adjusted (non-GAAP) operating earnings because management believes it represents earnings directly related to the ongoing operations of the business. Adjusted (non-GAAP) operating earnings exclude certain costs, expenses, gains and losses and other specified items. This information is intended to enhance an investor's overall understanding of period-over-period operating results and provide an indication of Exelon's baseline operating performance excluding items that are considered by management to be not directly related to the ongoing operations of the business. In addition, this information is among the primary indicators management uses as a basis for evaluating performance, allocating resources, setting incentive compensation targets and planning and forecasting of future periods. Adjusted (non-GAAP) operating earnings is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

The following table provides a reconciliation between net income attributable to common shareholders as determined in accordance with GAAP and adjusted (non-GAAP) operating earnings for the three and six months ended June 30, 2017 as compared to the same period in 2016. The footnotes below the table provide tax expense (benefit) impacts:

	Three Months Ended June 30,			
	2017		2016	
(All amounts in millions after tax)		Earnings per Diluted Share		Earnings per Diluted Share
Net Income Attributable to Common Shareholders	$ 80	$ 0.09	$267	$ 0.29
Mark-to-Market Impact of Economic Hedging Activities[(a)] (net of taxes of $72 and $120, respectively)	113	0.12	185	0.20
Unrealized Gains Related to NDT Fund Investments[(b)] (net of taxes of $20 and $29, respectively)	(45)	(0.05)	(27)	(0.03)
Amortization of Commodity Contract Intangibles[(c)] (net of taxes of $8 and $4, respectively)	12	0.01	8	0.01
Merger and Integration Costs[(d)] (net of taxes of $9 and $0, respectively)	15	0.01	1	—
Merger Commitments[(e)] (entire amount represents tax expense)	—	—	1	—
Long-Lived Asset Impairments[(f)] (net of taxes of $172 and $14, respectively)	268	0.29	22	0.02
Plant Retirements and Divestitures[(g)] (net of taxes of $42 and $85, respectively)	66	0.07	133	0.14
Cost Management Program[(i)] (net of taxes of $4 and $3, respectively)	6	0.01	6	0.01
Like-Kind Exchange Tax Position[(l)] (net of taxes of $66)	(26)	(0.03)	—	—
CENG Noncontrolling Interest[(m)] (net of taxes of $5 and $1, respectively)	20	0.02	8	0.01
Adjusted (non-GAAP) Operating Earnings	$509	$ 0.54	$604	$ 0.65

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	Six Months Ended June 30,			
	2017		2016	
(All amounts in millions after tax)		Earnings per Diluted Share		Earnings per Diluted Share
Net Income Attributable to Common Shareholders	$1,076	$ 1.15	$ 440	$ 0.48
Mark-to-Market Impact of Economic Hedging Activities(a) (net of taxes of $91 and $81, respectively)	142	0.15	121	0.12
Unrealized Gains Related to NDT Fund Investments(b) (net of taxes of $130 and $64, respectively)	(144)	(0.15)	(59)	(0.07)
Amortization of Commodity Contract Intangibles(c) (net of taxes of $9 and $2, respectively)	15	0.02	(4)	—
Merger and Integration Costs(d) (net of taxes of $25 and $26, respectively)	40	0.04	79	0.09
Merger Commitments(e) (net of taxes of $137 and $113, respectively)	(137)	(0.15)	395	0.43
Long-Lived Asset Impairments(f) (net of taxes of $172 and $62, respectively)	268	0.29	93	0.10
Plant Retirements and Divestitures(g) (net of taxes of $42 and $85, respectively)	66	0.07	133	0.14
Reassessment of State Deferred Income Taxes(h) (entire amount represents tax expense)	(20)	(0.02)	—	—
Cost Management Program(i) (net of taxes of $7 and $12, respectively)	10	0.01	19	0.02
Tax Settlements(j) (net of taxes of $1)	(5)	(0.01)	—	—
Bargain Purchase Gain(k)	(226)	(0.24)	—	—
Like-Kind Exchange Tax Position(l) (net of taxes of $66)	(26)	(0.03)	—	—
CENG Noncontrolling Interest(m) (net of taxes of $12 and $3, respectively)	55	0.06	18	0.02
Adjusted (non-GAAP) Operating Earnings	$1,114	$ 1.19	$1,235	$ 1.33

Note:
Unless otherwise noted, the income tax impact of each reconciling item between GAAP Net Income and Adjusted (non-GAAP) Operating Earnings is based on the marginal statutory federal and state income tax rates for each Registrant, taking into account whether the income or expense item is taxable or deductible, respectively, in whole or in part. For all items except the unrealized gains and losses related to NDT fund investments, the marginal statutory income tax rates ranged from 39 percent to 41 percent. Under IRS regulations, NDT fund investment returns are taxed at differing rates for investments in qualified vs. non-qualified funds. The tax rates applied to unrealized gains and losses related to NDT Fund investments were 31.4 percent and 47.5 percent for the three and six months ended June 30, 2017, respectively, and 51.6 percent and 52.5 percent for the three and six months ended June 30, 2016, respectively.

(a) Reflects the impact of net losses on Generation's economic hedging activities. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation's hedging activities.

(b) Reflects the impact of net unrealized gains on Generation's NDT fund investments for Non-Regulatory Agreement Units. See Note 12 — Nuclear Decommissioning of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation's NDT fund investments.

(c) Reflects the non-cash impact of the amortization of intangible assets, net, primarily related to commodity contracts recorded at fair value for the Integrys acquisition in 2016, and in 2017, the ConEdison Solutions and FitzPatrick acquisitions.

(d) Reflects certain costs incurred for the PHI acquisition in 2017 and 2016 and Generation's FitzPatrick acquisition in 2017, including professional fees, employee-related expenses and integration activities. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to merger and acquisition costs.

(e) Represents a decrease in reserves for uncertain tax positions related to the deductibility of certain merger commitments associated with the 2012 CEG and 2016 PHI acquisitions in 2017, and costs and adjustments incurred as part of the settlement orders approving the PHI acquisition in 2017 and 2016. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to PHI Merger commitments.
(f) Primarily reflects impairments as a result of the ExGenTexas Power, LLC assets held for sale in 2017 and impairments of Upstream assets and certain wind projects at Generation in 2016.
(g) Primarily reflects accelerated depreciation and amortization expenses, increases to materials and supplies inventory reserves, charges for severance reserves and construction work in progress impairments associated with Generation’s previous decision to early retire the Clinton and Quad Cities nuclear facilities in 2016, partially offset in 2016 by a gain associated with Generation’s sale of the New Boston generating site and Generation’s decision to early retire the Three Mile Island nuclear facility in 2017.
(h) Reflects the non-cash impact of the remeasurement of state deferred income taxes, primarily as a result of changes in forecasted apportionment related to the PHI acquisition in 2016, and in 2017, and a change in the statutory tax rate.
(i) Reflects reorganization costs, and in 2016 severance costs, related to a cost management program for 2016 and 2017.
(j) Reflects benefits related to the favorable settlement of certain income tax positions related to PHI’s unregulated business interests in 2017.
(k) Represents the excess of the fair value of assets and liabilities acquired over the purchase price for the FitzPatrick acquisition.
(l) Represents adjustments to income tax, penalties and interest expenses as a result of the finalization of the IRS tax computation related to Exelon’s like-kind exchange tax position in 2017.
(m) Represents Generation’s noncontrolling interest related to CENG exclusion items, primarily related to the impact of unrealized gains and losses on NDT fund investments and mark-to-market activity.

Merger and Acquisition Costs

On March 23, 2016, the Exelon and PHI Merger was completed. On the merger date, PHI shareholders received $27.25 of cash in exchange for each share of PHI common stock. The resulting company retained the Exelon name and is headquartered in Chicago.

As a result of the PHI Merger, Exelon has incurred costs associated with evaluating, structuring and executing the PHI Merger transaction itself, and will continue to incur cost associated with meeting the various commitments set forth by regulators and agreed-upon with other interested parties as part of the merger approval process, and integrating the former PHI businesses into Exelon.

For the three and six months ended June 30, 2017 and 2016, expense has been recognized for the PHI Merger and Generation’s FitzPatrick acquisition as follows:

	Pre-tax Expense								
	Three Months Ended June 30, 2017								
Merger, Integration and Acquisition Costs:	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Transaction(a)	$ 4	$ 3	$ —	$ —	$—	$—	$ —	$—	$—
Other(b)	20	15	1	1	1	3	1	—	1
Total	$ 24	$ 18	$ 1	$ 1	$ 1	$ 3	$ 1	$—	$ 1

	Pre-tax Expense								
	Three Months Ended June 30, 2016								
Merger, Integration and Acquisition Costs:	**Exelon(d)**	**Generation(d)**	**ComEd**	**PECO**	**BGE(e)**	**PHI(d)(f)**	**Pepco(d)(g)**	**DPL(d)(h)**	**ACE(d)**
Employee-Related(c)	$ 2	$ (1)	$ (1)	$ —	$ —	$ 4	$ 2	$ 1	$ 1
Other(b)	(1)	5	2	1	(5)	(5)	(6)	(1)	1
Total	$ 1	$ 4	$ 1	$ 1	$ (5)	$ (1)	$ (4)	$ —	$ 2

	Pre-tax Expense								
	Six Months Ended June 30, 2017								
Merger, Integration and Acquisition Costs:	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI[f]**	**Pepco**	**DPL[h]**	**ACE**
Transaction[a]	$ 5	$ 4	$ —	$ —	$—	$ —	$ —	$ —	$—
Other[b]	60	56	1	2	2	(2)	2	(7)	2
Total	$ 65	$ 60	$ 1	$ 2	$ 2	$ (2)	$ 2	$ (7)	$ 2

	Pre-tax Expense								
	Six Months Ended June 30, 2016								
Merger and Integration Costs:	**Exelon[d]**	**Generation[d]**	**ComEd[i]**	**PECO**	**BGE[e]**	**PHI[d][f]**	**Pepco[d][g]**	**DPL[d][h]**	**ACE[d]**
Transaction[a]	$ 35	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Employee-Related[c]	73	10	1	1	1	60	29	17	14
Other[b]	(5)	10	(8)	1	(5)	(5)	(6)	(1)	1
Total	$ 103	$ 20	$ (7)	$ 2	$ (4)	$ 55	$ 23	$ 16	$ 15

(a) External, third party costs paid to advisors, consultants, lawyers and other experts to integrate PHI processes and systems into Exelon, to assist in the due diligence and regulatory approval processes and in the closing of transactions.

(b) Costs to integrate PHI processes and systems into Exelon. For the three and six months ended June 30, 2017, also includes costs to integrate FitzPatrick processes and systems into Exelon.

(c) Costs primarily for employee severance, pension and OPEB expense and retention bonuses.

(d) For Exelon, Generation, PHI, Pepco, DPL, and ACE, includes the operations of the acquired businesses beginning on March 24, 2016.

(e) For the three and six months ended June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $6 million incurred at BGE that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for more information.

(f) For the six months ended June 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at PHI that have been deferred and recorded as a regulatory asset for anticipated recovery. For the three months ended June 30, 2016 and the Successor period March 24, 2016 to June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $12 million incurred at PHI that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

(g) For the three and six months ended June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $9 million incurred at Pepco that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

(h) For the six months ended June 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. For the three and six months ended June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $3 million incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters for more information.

(i) For the six months ended June 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at ComEd that has been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for more information.

As of June 30, 2017, Exelon expects to incur total PHI acquisition and integration related costs of approximately $700 million, excluding merger commitments. Of this amount, including costs incurred from 2014 through June 30, 2017, Exelon and PHI have incurred approximately $660 million.

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Significant 2017 Transactions and Developments

Early Retirement of Three Mile Island Facility

On May 30, 2017, Generation announced it will permanently cease generation operations at Three Mile Island Generating Station (TMI) on or about September 30, 2019. The TMI nuclear plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning year and will not receive capacity revenue for that period, the third consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019. In the second quarter of 2017, as a result of the plant retirement decision of TMI, Exelon and Generation recognized one-time charges in Operating and maintenance expense of $71 million related to materials and supplies inventory reserve adjustments, employee-related costs and construction work-in-progress (CWIP) impairments, among other items. In addition to these one-time charges, there will be ongoing annual incremental non-cash charges to earnings stemming from shortening the expected economic useful life of TMI primarily related to accelerated depreciation of plant assets (including any asset retirement costs (ARC)), accelerated amortization of nuclear fuel, and additional asset retirement obligation (ARO) accretion expense associated with the changes in decommissioning timing and cost assumptions. Exelon's and Generation's second quarter 2017 results include an incremental $37 million of pre-tax expense for these items.

The following table summarizes the estimated annual amount and timing of expected incremental non-cash expense items through 2019.

	Projected[(a)]		
Income statement expense (pre-tax)	**2017**	**2018**	**2019**
Depreciation and Amortization			
Accelerated depreciation[(b)]	$250	$430	$325
Accelerated nuclear fuel amortization	10	20	5
Total	$260	$450	$330

(a) Actual results may differ based on incremental future capital additions, actual units of production for nuclear fuel amortization, future revised ARO assumptions, etc.

(b) Reflects incremental accelerated depreciation of plant assets, including any ARC.

EGTP Consent Agreement

In September 2014, EGTP, an indirect subsidiary of Exelon and Generation, issued $675 million aggregate principal amount of a nonrecourse senior secured term loan. EGTP's operating cash flows have been negatively impacted by certain market conditions and the seasonality of its cash flows. On May 2, 2017, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP, including the revolving credit facility. As a result, in the second quarter 2017, Exelon and Generation classified certain EGTP assets and liabilities on Exelon's and Generation's Consolidated Balance Sheets as held for sale at their respective fair values less costs to sell and included in the other current assets and other current liabilities balances on Exelon's and Generation's Consolidated Balance Sheets. At June 30, 2017, a $418 million pre-tax impairment loss was recorded within Operating and maintenance expense on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 4 — Mergers, Acquisitions and Dispositions, Note 6—Impairment of Long-Lived Assets and Note 10 — Debt and Credit Agreements for additional information regarding EGTP and the associated nonrecourse debt.

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Acquisition of James A. FitzPatrick Nuclear Generating Station

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station for a total purchase price of $293 million. In accounting for the acquisition as a business combination, Exelon and Generation recorded an after-tax bargain purchase gain of $226 million which is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information regarding the Generation's acquisition of Fitzpatrick and related costs.

Illinois Future Energy Jobs Act

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA was effective June 1, 2017, and includes, among other provisions, (1) a Zero Emission Standard (ZES) providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute and (7) support for low income rooftop and community solar programs. FEJA establishes new or adjusts existing rate recovery mechanisms for ComEd to recover costs associated with the new or expanded energy efficiency and RPS requirements. Regulatory or legal challenges over the validity of FEJA are possible. See Note 5 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA. See Note 7 — Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information regarding the economic challenges facing Generation's Clinton & Quad Cities nuclear plants and the expected benefits of the ZES.

Dismissal of Litigation Challenging ZEC Programs

On July 14, 2017, the U.S. District Court for the Northern District of Illinois dismissed two lawsuits challenging the ZEC program contained in FEJA. On July 17, 2017, the plaintiffs appealed the court's decisions to the U.S. Court of Appeals for the Seventh Circuit. Additionally, on July 25, 2017, the U.S. District Court for the Southern District of New York dismissed a lawsuit challenging the ZEC program contained in the New York CES. The plaintiffs in the New York case have indicated that they intend to appeal. These court decisions uphold the ZEC programs which support Illinois's and New York's efforts to advance clean energy and preserve affordable and reliable energy resources for customers. See Note 5 — Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA and the New York CES.

Merger Commitment Unrecognized Tax Benefits

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL, and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, as of June 30, 2017, resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

Combined-Cycle Gas Turbine Projects

In June 2017, Generation commenced commercial operations of two new combined-cycle gas turbines (CCGTs) at the Colorado Bend and Wolf Hollow Generating Stations in Texas. The two new CCGTs have added nearly 2,200 MWs of capacity to Generation's fleet, enhancing Generation's strategy to match generation to

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customer load. Generation invested approximately $1.5 billion over the past three years to complete the new plant construction, which utilizes new General Electric technology to make them among the cleanest, most efficient CCGTs in the nation.

ComEd Distribution Formula Rate

On April 13, 2017, ComEd filed its annual distribution formula rate with the ICC pursuant to EIMA. The filing establishes the revenue requirement used to set the rates that will take effect in January 2018 after the ICC's review and approval, which is due by December 2017. The revenue requirement requested is based on 2016 actual costs plus projected 2017 capital additions as well as an annual reconciliation of the revenue requirement in effect in 2016 to the actual costs incurred that year. ComEd's 2017 filing request includes a total increase to the revenue requirement of $96 million, reflecting an increase of $78 million for the initial revenue requirement for 2017 and a increase of $18 million related to the annual reconciliation for 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further information related to distribution formula rate updates.

Pepco Maryland Electric Distribution Rates

On March 24, 2017, Pepco filed an application with the MDPSC requesting an increase of $69 million based on a ROE of 10.1%. The application includes a request for an income tax adjustment to reflect full normalization of removal costs associated with pre-1981 property, which accounts for $18 million of the requested increase. Pepco expects a decision in the matter in the fourth quarter of 2017, but cannot predict how much of the requested rate increase the MDPSC will approve or if it will approve the requested income tax adjustment.

DPL Maryland Electric Distribution Rates

On July 14, 2017, DPL filed an application with the MDPSC to increase its annual electric distribution base rates by $27 million based on a requested ROE of 10.1%. DPL expects a decision on the matter in the first quarter of 2018. DPL cannot predict how much of the requested increase the MDPSC will approve.

On February 15, 2017, the MDPSC approved an increase in DPL electric distribution rates of $38 million based on a ROE of 9.6%. The new rates became effective for services rendered on or after February 15, 2017. The MDPSC also denied DPL's request to continue its Grid Resiliency Program, through which DPL proposed to invest $4.6 million a year for two years to improve priority feeders and install single-phase reclosing fuse technology.

DPL Delaware Electric and Natural Gas Distribution Rates

On May 17, 2016, DPL filed an application with the DPSC to increase its annual electric and natural gas distribution base rates by $63 million (which was updated to $60 million on March 8, 2017) and $22 million, respectively, based on a requested ROE of 10.6%. Delaware law allowed DPL to put into effect $2.5 million of each of the rate increases effective July 16, 2016. On December 17, 2016, the DPSC approved an additional $29.6 million in electric distribution rates and an additional $10.4 million in natural gas distribution rates effective December 17, 2016, subject to refund based on the final DPSC orders.

On March 8, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate, Delaware Electric Users Group and the DPSC Staff in its electric distribution rate proceeding, which provides for an increase in DPL annual electric distribution base rates of $31.5 million based on an ROE of 9.7% compared to the $32.1 million increase previously put into effect. On May 23, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective June 1, 2017. Pursuant to the settlement agreement, no refund of the interim rates put into effect on July 16, 2016 and December 17, 2016 (as discussed above) is required.

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On April 6, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate and the DPSC Staff in its natural gas distribution rate proceeding, which provides for an increase in DPL annual natural gas distribution base rates of $4.9 million based on an ROE of 9.7%. The settlement agreement also provides that DPL will refund amounts collected under the temporary rates effective July 16, 2016 and December 17, 2016 (as discussed above) in excess of the $4.9 million, and that the new rates will be effective within thirty days of DPSC approval of the settlement agreement. On June 6, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective July 1, 2017. Pursuant to the settlement agreement, a rate refund plus interest of approximately $5 million will be issued to customers beginning in August 2017 for which a regulatory liability has been recorded as of June 30, 2017.

Pepco DC Electric Distribution Rates

On June 30, 2016, Pepco filed an application with the DCPSC to increase its annual electric distribution base rates by $86 million, as updated to approximately $77 million on February 1, 2017, based on a requested ROE of 10.6%.

On July 25, 2017, the DCPSC issued an order granting Pepco an increase to its annual electric distribution base rates of $36.9 million based on an ROE of 9.5%. The new rates will be effective August 15, 2017. In its decision, the DCPSC ordered that the $25.6 million customer rate credit created as a result of the Exelon and PHI merger will be provided primarily to residential customers and some small commercial customers to offset the impact of this increase until that amount has been exhausted, which is expected to take approximately two years. Additionally, the Commission is holding approximately $6 million to $7 million of the customer rate credit for use toward a possible new class of customers for certain senior citizens and disabled persons. The DCPSC also held that Pepco’s bill stabilization adjustment, which decouples distribution revenues from utility customers from the amount of electricity delivered, will continue to be in place and that no refund of previously collected funds is required. Parties have 30 days from the date of the order to file for reconsideration with the DCPSC.

2017 ACE New Jersey Electric Distribution Rates

On March 30, 2017, ACE submitted an application with the NJBPU to increase its electric distribution rates by approximately $70 million (before New Jersey sales and use tax), which was updated to $72.6 million on July 14, 2017, based upon a requested ROE of 10.1%. The application also requests approval of a rate surcharge mechanism called the “System Renewal Recovery Charge,” which would permit more timely recovery of certain costs associated with reliability and system renewal-related capital investments. ACE currently expects a decision in this matter in the first quarter of 2018, but cannot predict how much of the requested increase the NJBPU will approve.

2016 ACE New Jersey Electric Distribution Rates

On August 24, 2016, the NJBPU issued an order approving a stipulation of settlement among ACE, the New Jersey Division of Rate Counsel, NJBPU Staff and Unimin Corporation, which, among other things, provided that a determination on ACE’s grid resiliency program, PowerAhead, would be separated into a phase II of the rate proceeding and decided at a later date. PowerAhead includes capital investments to enhance the resiliency of the system through improvements focused on improving the distribution system’s ability to withstand major storm events. A stipulation of settlement with respect to the PowerAhead program (the PowerAhead Stipulation) was approved by the NJBPU on May 31, 2017. As adopted, the PowerAhead program includes an approved investment level of $79 million to be recovered through the cost recovery mechanism described in the PowerAhead Stipulation. The NJBPU order adopting the PowerAhead Stipulation was effective on June 10, 2017.

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Transmission Formula Rate

The following total increases/(decreases) were included in ComEd's, BGE's, Pepco's, DPL's and ACE's electric transmission formula rate filings:

			2017		
Annual Transmission Filings[(a)]	**ComEd**	**BGE**	**Pepco**	**DPL**	**ACE**
Initial revenue requirement increase	$ 44	$ 31	$ 5	$ 6	$ 20
Annual reconciliation (decrease) increase	(33)	3	15	8	22
Dedicated facilities decrease[(b)]	—	(8)	—	—	—
Total revenue requirement increase	$ 11	$ 26	$ 20	$ 14	$ 42
Allowed return on rate base[(c)]	8.43%	7.47%	7.92%	7.16%	8.02%
Allowed ROE[(d)]	11.50%	10.50%	10.50%	10.50%	10.50%

(a) All rates are effective June 2017, subject to review by the FERC and other parties, which is due by fourth quarter 2017.

(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.

(c) Represents the weighted average debt and equity return on transmission rate bases.

(d) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50% and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, Pepco, DPL and ACE, the rate of return on common equity is 10.50%, inclusive of a 50 basis point incentive adder for being a member of a regional transmission organization.

PECO Transmission Formula Rate

On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50 basis point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. On June 27, 2017, FERC issued an Order accepting the filing and suspending the proposed rates until December 1, 2017, subject to refund, and set the matter for hearing and settlement judge procedures. PECO cannot predict the final outcome of the settlement or hearing proceedings, or the transmission formula FERC may approve.

Westinghouse Electric Company LLC Bankruptcy

On March 29, 2017, Westinghouse Electric Company LLC (Westinghouse) and its affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. In the petitions and supporting documents, Westinghouse makes clear that its requests for relief center on one business area that is losing money — the construction of nuclear power plants in Georgia and South Carolina. Through the bankruptcy, Westinghouse seeks to reorganize around its profitable core business, which includes nuclear fuel fabrication and related services and other services provided to existing nuclear power plants in the U.S. and around the world. For these reasons, at this time, Generation does not anticipate disruption to the Westinghouse fuel fabrication contracts for Braidwood, Byron, or Ginna or other existing contracts for Generation's nuclear power plants. Generation is monitoring the bankruptcy proceeding to ensure that its rights are protected.

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ExGen Renewables Holdings, LLC Transaction

On July 6, 2017, ExGen Renewables Holdings, LLC, a wholly owned subsidiary of Generation, completed the sale of a 49% interest of ExGen Renewables Partners, LLC, a newly formed owner and operator of approximately 1,296 megawatts of Generation's operating wind and solar electric generating facilities. ExGen Renewables Holdings will be the managing member of ExGen Renewables Partners, LLC, and have day-to-day control and management over its renewable generation portfolio. The closing of the transaction was subject to certain regulatory approvals, including the Federal Energy Regulatory Commission (FERC) and the Public Utility Commission of Texas (PUCT) which were received during the second quarter of 2017. The sale price was $400 million plus immaterial working capital and other customary post-closing adjustments. The net proceeds, after approximately $120 million of income taxes, will be used to pay down debt and for general corporate purposes. Generation will continue to consolidate ExGen Renewables Partners, LLC and will record a noncontrolling interest on its Consolidated Balance Sheet for the investor's initial equity share as well as earnings attributable to the noncontrolling interest in the Consolidated Statements of Operations and Comprehensive Income each period going forward.

Exelon's Strategy and Outlook for 2017 and Beyond

Exelon's value proposition and competitive advantage come from its scope and its core strengths of operational excellence and financial discipline. Exelon leverages its integrated business model to create value. Exelon's regulated and competitive businesses feature a mix of attributes that, when combined, offer shareholders and customers a unique value proposition:

- Exelon's utilities provide a foundation for steadily growing earnings, which translates to a stable currency in our stock.
- Generation's competitive businesses provide free cash flow to invest primarily in the utilities and in long-term, contracted assets and to reduce debt.

Exelon believes its strategy provides a platform for optimal success in an energy industry experiencing fundamental and sweeping change.

Exelon's utility strategy is to improve reliability and operations and enhance the customer experience, while ensuring ratemaking mechanisms provide the utilities fair financial returns. The Exelon utilities only invest in rate base where it provides a benefit to customers and the community by improving reliability and the service experience or otherwise meeting customer needs. The Exelon utilities make these investments at the lowest reasonable cost to customers. Exelon seeks to leverage its scale and expertise across the utilities platform through enhanced standardization and sharing of resources and best practices to achieve improved operational and financial results. Additionally, the Utility Registrants anticipate making significant future investments in smart meter technology, transmission projects, gas infrastructure, and electric system improvement projects, providing greater reliability and improved service for our customers and a stable return for the company.

Generation's competitive businesses create value for customers by providing innovative energy solutions and reliable, clean and affordable energy. Generation's electricity generation strategy is to pursue opportunities that provide stable revenues and generation to load matching to reduce earnings volatility. Generation leverages its energy generation portfolio to deliver energy to both wholesale and retail customers. Generation's customer-facing activities foster development and delivery of other innovative energy-related products and services for its customers. Generation operates in well-developed energy markets and employs an integrated hedging strategy to manage commodity price volatility. Its generation fleet, including its nuclear plants which consistently operate at high capacity factors, also provide geographic and supply source diversity. These factors help Generation mitigate the current challenging conditions in competitive energy markets.

Exelon's financial priorities are to maintain investment grade credit metrics at each of the Registrants, to maintain optimal capital structure and to return value to Exelon's shareholders with an attractive dividend throughout the energy commodity market cycle and through stable earnings growth. Exelon's Board of Directors has approved a dividend policy providing a raise of 2.5% each year for three years, beginning with the June 2016 dividend.

Various market, financial, regulatory, legislative and operational factors could affect the Registrants' success in pursuing their strategies. Exelon continues to assess infrastructure, operational, commercial, policy, and legal solutions to these issues. One key issue is ensuring the ability to properly value nuclear generation assets in the market, solutions to which Exelon is actively pursuing in a variety of jurisdictions and venues. See ITEM 1A. RISK FACTORS of the Exelon 2016 Form 10-K for additional information regarding market and financial factors.

Continually optimizing the cost structure is a key component of Exelon's financial strategy. In a cost management program initiated late in 2015, the company committed to reducing operation and maintenance expenses and capital costs by approximately $350 million and $50 million, respectively, of which approximately 35% of run-rate savings was achieved by the end of 2016. Approximately 60% of run-rate savings are expected to be achieved by the end of 2017 and fully realized in 2018. At least 75% of the savings are expected to be related to Generation, with the remaining amount related to the Utility Registrants.

Growth Opportunities

Management continually evaluates growth opportunities aligned with Exelon's businesses, assets and markets, leveraging Exelon's expertise in those areas and offering sustainable returns.

*Regulated Energy Businesses***.** The PHI merger provides an opportunity to accelerate Exelon's regulated growth to provide stable cash flows, earnings accretion, and dividend support. Additionally, the Utility Registrants anticipate investing approximately $25 billion over the next five years in electric and natural gas infrastructure improvements and modernization projects, including smart meter and smart grid initiatives, storm hardening, advanced reliability technologies, and transmission projects, which is projected to result in an increase to current rate base of approximately $9 billion by the end of 2021. The Utility Registrants invest in rate base where beneficial to customers and the community by increasing reliability and the service experience or otherwise meeting customer needs. These investments are made at the lowest reasonable cost to customers.

See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on the Smart Meter and Smart Grid Initiatives and infrastructure development and enhancement programs.

*Competitive Energy Businesses***.** Generation continually assesses the optimal structure and composition of its generation assets as well as explores wholesale and retail opportunities within the power and gas sectors. Generation's long-term growth strategy is to prioritize investments in long-term contracted generation across multiple technologies and identify and capitalize on opportunities that provide generation to load matching as a means to provide stable earnings, while identifying emerging technologies where strategic investments provide the option for significant future growth or influence in market development. As of June 30, 2017, Generation has currently approved plans to invest a total of approximately $600 million over the next two years to complete new plant construction currently in progress.

Liquidity Considerations

Each of the Registrants annually evaluates its financing plan, dividend practices and credit line sizing, focusing on maintaining its investment grade ratings while meeting its cash needs to fund capital requirements, retire debt, pay dividends, fund pension and OPEB obligations and invest in new and existing ventures. A broad spectrum of financing alternatives beyond the core financing options can be used to meet its needs and fund growth including monetizing assets in the portfolio via project financing, asset sales, and the use of other financing structures (e.g., joint ventures, minority partners, etc.). The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

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Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have unsecured syndicated revolving credit facilities with aggregate bank commitments of $0.6 billion, $5.3 billion, $1 billion, $0.6 billion, $0.6 billion, $0.3 billion, $0.3 billion and $0.3 billion, respectively. Generation also has bilateral credit facilities with aggregate maximum availability of $0.5 billion. See Liquidity and Capital Resources—Credit Matters—Exelon Credit Facilities below.

For further detail regarding the Registrants' liquidity for the six months ended June 30, 2017, see Liquidity and Capital Resources discussion below.

Project Financing

Generation utilizes individual project financings as a means to finance the construction of various generating asset projects. Project financing is based upon a nonrecourse financial structure, in which project debt and equity used to finance the project are paid back from the cash generated by the newly constructed asset once operational. Borrowings under these agreements are secured by the assets and equity of each respective project. The lenders do not have recourse against Exelon or Generation in the event of a default. If a specific project financing entity does not maintain compliance with its specific debt financing covenants, there could be a requirement to accelerate repayment of the associated debt or other project-related borrowings earlier than the stated maturity dates. In these instances, if such repayment was not satisfied, or restructured, the lenders or security holders would generally have rights to foreclose against the project-specific assets and related collateral. The potential requirement to satisfy its associated debt or other borrowings earlier than otherwise anticipated could lead to impairments due to a higher likelihood of disposing of the respective project-specific assets significantly before the end of their useful lives. See Note 10 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for additional information on nonrecourse debt.

Other Key Business Drivers and Management Strategies

Utility Rates and Rate Proceedings

The Utility Registrants file rate cases with their regulatory commissions seeking increases or decreases to their electric transmission and distribution, and gas distribution rates to recover their costs and earn a fair return on their investments. The outcomes of these regulatory proceedings impact the Utility Registrants' current and future results of operations, cash flows and financial position. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further details on these regulatory proceedings.

Power Markets

Price of Fuels

The use of new technologies to recover natural gas from shale deposits is increasing natural gas supply and reserves, which places downward pressure on natural gas prices and, therefore, on wholesale and retail power prices, which results in a reduction in Exelon's revenues. Forward natural gas prices have declined significantly over the last several years; in part reflecting an increase in supply due to strong natural gas production (due to shale gas development).

Capacity Market Changes in PJM

In the wake of the January 2014 Polar Vortex that blanketed much of the Eastern and Midwestern United States, it became clear that while a major outage event was narrowly avoided, resources in PJM were not providing the level of reliability expected by customers. As a result, on December 12, 2014, PJM filed at FERC a proposal to make significant changes to its current capacity market construct, the Reliability Pricing Model (RPM). PJM's proposed changes generally sought to improve resource performance and reliability largely by limiting the excuses for non-performance and by increasing the penalties for performance failures. The proposal permits suppliers to include in capacity market offers additional costs and risk so they can meet these higher performance requirements. While offers are expected to put upward pressure on capacity clearing prices, operational improvements made as a result of PJM's proposal are expected to improve reliability, to reduce energy production costs as a result of more efficient operations and to reduce the need for out of market energy payments to suppliers. Generation participated actively in PJM's stakeholder process through which PJM developed the proposal and also actively participated in the FERC proceeding including filing comments. On June 9, 2015, FERC approved PJM's filing largely as proposed by PJM, including transitional auction rules for delivery years 2016/2017 through 2017/2018. As a result of this and several related orders, PJM hosted its 2018/2019 Base Residual Auction (results posted on August 21, 2015) and its transitional auction for delivery year 2016/2017 (results posted on August 31, 2015) and its transitional auction for delivery years 2017/2018 (results posted on September 9, 2015). On May 10, 2016, FERC largely denied rehearing, and a number of parties appealed to the U.S. Court of Appeals for the DC Circuit for review of the decision. On June 20, 2017, the DC Circuit denied all the appeals.

MISO Capacity Market Results

On April 14, 2015, the Midcontinent Independent System Operator (MISO) released the results of its capacity auction covering the June 2015 through May 2016 delivery year. As a result of the auction, capacity prices for the zone 4 region in downstate Illinois increased to $150 per MW per day beginning in June 2015, an increase from the prior pricing of $16.75 per MW per day that was in effect from June 2014 to May 2015. Generation had an offer that was selected in the auction. However, due to Generation's ratable hedging strategy, the results of the capacity auction have not had a material impact on Exelon's and Generation's consolidated results of operations and cash flows.

Additionally, in late May and June 2015, separate complaints were filed at the FERC by each of the State of Illinois, the Southwest Electric Cooperative, Public Citizens, Inc., and the Illinois Industrial Energy Consumers challenging the results of this MISO capacity auction for the 2015/2016 delivery in MISO delivery zone 4. The complaints allege generally that 1) the results of the capacity auction for zone 4 are not just and reasonable, 2) the results should be suspended, set for hearing and replaced with a new just and reasonable rate, 3) a refund date should be established and that 4) certain alleged behavior by one of the market participants other than Exelon or Generation, be investigated.

On October 1, 2015, FERC announced that it was conducting a non-public investigation (that does not involve Exelon or Generation) into whether market manipulation or other potential violations occurred related to the auction. On December 31, 2015, FERC issued a decision that certain of the rules governing the establishment of capacity prices in downstate Illinois are "not just and reasonable" on a prospective basis. FERC ordered that certain rules be changed prior to the April 2016 auction which set capacity prices for the 2016/2017 planning year. In response to this order, MISO filed certain rule changes with FERC. On March 18, 2016, FERC largely denied rehearing of its December 31, 2015 order. FERC continues to conduct its non-public investigation to determine if the April 2015 auction results were manipulated and, if so, whether refunds are appropriate. FERC did establish May 28, 2015, the day the first complaint was filed, as the date from which refunds (if ordered) would be calculated, and it also made clear that the findings in the December 31, 2015 order do not prejudge the investigation or related proceedings. Generation cannot predict the impact the FERC order may ultimately have on future auction results, capacity pricing or decisions related to the potential early retirement of the Clinton nuclear plant, however, such impacts could be material to Generation's future results of operations and cash flows. See Note 7 — Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information on the impacts of the MISO announcement.

Subsidized Generation

The rate of expansion of subsidized generation, in the markets in which Generation's output is sold can negatively impact wholesale power prices, and in turn, Generation's results of operations.

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Various states have attempted to implement or propose legislation, regulations or other policies to subsidize new generation development which may result in artificially depressed wholesale energy and capacity prices. For example, the New Jersey legislature enacted into law in January 2011, the Long Term Capacity Pilot Program Act (LCAPP). LCAPP provides eligible generators with 15-year fixed contracts for the sale of capacity in the PJM capacity market. Under LCAPP, the local utilities in New Jersey are required to pay (or receive) the difference between the price eligible generators receive in the capacity market and the price guaranteed under the 15-year contract. New Jersey ultimately selected three proposals to participate in LCAPP and build new generation in the state. In addition, on April 12, 2012, the MDPSC issued an order directing the Maryland electric utilities to enter into a 20-year contract for differences (CfD) with CPV Maryland, LLC (CPV), under which CPV was required to construct an approximately 700 MW combined cycle gas turbine in Waldorf, Maryland. The CfD mandated that utilities (including BGE, Pepco and DPL) pay (or receive) the difference between CPV's contract price and the revenues it receives for capacity and energy from clearing the unit in the PJM capacity market.

Exelon and others challenged the constitutionality and other aspects of the New Jersey legislation in federal court. The actions taken by the MDPSC were also challenged in federal court in an action to which Exelon was not a party. The federal trial courts in both the New Jersey and Maryland actions effectively invalidated the actions taken by the New Jersey legislature and the MDPSC, respectively. Each of those decisions was upheld by the U.S. Court of Appeals for the Third Circuit and the U.S. Court of Appeals for the Fourth Circuit, respectively. On April 19, 2016, the U.S. Supreme Court affirmed the decision of the U.S. Court of Appeals for the Fourth Circuit, and subsequently denied certiorari with respect to the appeal from the U.S. Court of Appeals for the Third Circuit, leaving in place that Court's decision. The matter is now considered closed.

As required under their contracts, generator developers who were selected in the New Jersey and Maryland programs (including CPV) offered and cleared in PJM's capacity market auctions. To the extent that the state-required customer subsidies are included under their respective contracts, Exelon believes that these projects may have artificially suppressed capacity prices in PJM in these auctions and may continue to do so in future auctions to the detriment of Exelon. While the court decisions are positive developments, continuation of these state efforts, if successful and unabated by an effective minimum offer price rule (MOPR) for future capacity auctions, could continue to result in artificially depressed wholesale capacity and/or energy prices. Other states could seek to establish programs, which could substantially impact Exelon's position and could have a significant effect on Exelon's financial results of operations, financial position and cash flows.

One such state is Ohio, where state-regulated utility companies FirstEnergy Ohio (FE) and AEP Ohio (AEP) initiated actions at the Public Utilities Commission of Ohio (PUCO) to obtain approval for Riders that would effectively allow these two companies to pass through to all customers in their service territories the differences between their costs and market revenues on PPAs entered into between the utility and its merchant generation affiliate for what was collectively more than 6,000MW of primarily coal-fired generation. Thus, the Riders were similar to the CfDs described above (except that the PPA Riders in Ohio would apply to existing generation facilities whereas the CfDs applied to new generation facilities). While FERC orders on April 27, 2016 largely alleviated the concerns related to the Riders by holding that the PPAs ran afoul of affiliate restrictions on FE and AEP, we continue to closely monitor developments in Ohio.

In addition, Exelon continues to monitor developments in Maryland, New Jersey, and other states and participates in stakeholder and other processes to ensure that similar state subsidies are not developed. Exelon remains active in advocating for competitive markets, while opposing policies that require taxpayers and/ or consumers to subsidize or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid.

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Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs

PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program — resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that required subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact of certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs. However, in Exelon’s view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation’s facilities in NYISO and PJM expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon’s and Generation’s future cash flows and results of operations. The timing of FERC’s decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

Energy Demand

Modest economic growth partially offset by energy efficiency initiatives is resulting in flat to declining load growth in electricity for the utilities. There is a decrease in projected load for electricity for ComEd, PECO, BGE, and ACE, and an essentially flat projected load for electricity for DPL. ComEd, PECO, BGE, Pepco, DPL, and ACE are projecting load volumes to increase (decrease) by (0.4)%, (0.4)%, (2.3)%, (1.3)%, (1.0)%, and (3.9)% respectively, in 2017 compared to 2016.

Retail Competition

Generation’s retail operations compete for customers in a competitive environment, which affect the margins that Generation can earn and the volumes that it is able to serve. The market experienced high price volatility in the first quarter of 2014 which contributed to bankruptcies and consolidations within the industry during the year. However, forward natural gas and power prices are expected to remain low and thus we expect retail competitors to stay aggressive in their pursuit of market share, and that wholesale generators (including Generation) will continue to use their retail operations to hedge generation output.

Strategic Policy Alignment

As part of its strategic business planning process, Exelon routinely reviews its hedging policy, dividend policy, operating and capital costs, capital spending plans, strength of its balance sheet and credit metrics, and sufficiency of its liquidity position, by performing various stress tests with differing variables, such as commodity price movements, increases in margin-related transactions, changes in hedging practices, and the impacts of hypothetical credit downgrades.

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Exelon's board of directors declared first quarter 2017 dividends of $0.3275 per share on Exelon's common stock. The first quarter 2017 dividend was paid on March 10, 2017. The dividend increased from fourth quarter 2016 amount to reflect the Board's decision to raise Exelon's dividend 2.5% each year for the next three years, beginning with the June 2016 dividend.

Exelon's Board of Directors declared the second quarter 2017 dividends of $0.3275 per share each on Exelon's common stock. The second quarter 2017 dividend was paid on June 9, 2017.

Exelon's Board of Directors declared the third quarter 2017 dividends of $0.3275 per share each on Exelon's common stock and is payable on September 8, 2017.

All future quarterly dividends require approval by Exelon's Board of Directors.

Hedging Strategy

Exelon's policy to hedge commodity risk on a ratable basis over three-year periods is intended to reduce the financial impact of market price volatility. Generation is exposed to commodity price risk associated with the unhedged portion of its electricity portfolio. Generation enters into non-derivative and derivative contracts, including financially-settled swaps, futures contracts and swap options, and physical options and physical forward contracts, all with credit-approved counterparties, to hedge this anticipated exposure. Generation has hedges in place that significantly mitigate this risk for 2017 and 2018. However, Generation is exposed to relatively greater commodity price risk in the subsequent years with respect to which a larger portion of its electricity portfolio is currently unhedged. As of June 30, 2017, the percentage of expected generation hedged for the major reportable segments is 96%-99%, 71%-74% and 39%-42% for 2017, 2018, and 2019 respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products, and options. Equivalent sales represent all hedging products, such as wholesale and retail sales of power, options and swaps. Generation has been and will continue to be proactive in using hedging strategies to mitigate commodity price risk in subsequent years as well.

Generation procures oil and natural gas through long-term and short-term contracts and spot-market purchases. Nuclear fuel is obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services, coal, oil and natural gas are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation's procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 51% of Generation's uranium concentrate requirements from 2017 through 2021 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrate can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon's and Generation's results of operations, cash flows and financial position.

The Utility Registrants mitigate commodity price risk through regulatory mechanisms that allow them to recover procurement costs from retail customers.

Tax Matters

Potential Corporate Tax Reform

The results of the November 2016 U.S. elections have introduced greater uncertainty with respect to federal tax policies. President Trump has stated that one of his top priorities is comprehensive tax reform as well as

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Congressional Republicans have also advocated their intent to advance tax reform. Tax reform proposals have called for a reduction in the corporate federal income tax rate from the current 35% to as low as 15%. Other proposals provide, among other items, for the immediate deduction of capital investment expenditures and full or partial elimination of debt interest expense deductions. On July 27, 2017, the White House and Republican Congressional leaders issued a joint statement reiterating their intent to enact a comprehensive tax reform plan. The statement did not provide details, but emphasized lowering tax rates and maximizing capital expensing. It is uncertain whether and to what extent or when any changes in federal tax policies will be enacted or the transition time frame for such changes. The Utility Registrants' regulators may impose rate reductions to provide the benefit of any income tax expense reductions to customers and refund "excess" deferred income taxes previously collected through rates. The amounts and timing of any such rate changes would be subject to the discretion of the rate regulator in each specific jurisdiction. For these reasons, the Registrants cannot predict the impact any potential changes may have on their future results of operations, cash flows or financial position, and such changes could be material.

Environmental Legislative and Regulatory Developments

Exelon was actively involved in the Obama Administration's development and implementation of environmental regulations for the electric industry, in pursuit of its business strategy to provide reliable, clean, affordable and innovative energy products. These efforts have most frequently involved air, water and waste controls for fossil-fueled electric generating units, as set forth in the discussion below. These regulations have had a disproportionate adverse impact on coal-fired power plants, requiring significant expenditures of capital and variable operating and maintenance expense, and have resulted in the retirement of older, marginal facilities. Due to its low emission generation portfolio, Generation has not been significantly affected by these regulations, representing a competitive advantage relative to electric generators that are more reliant on fossil-fuel plants.

Through the issuance of a series of Executive Orders (EO), President Trump has initiated review of a number of EPA and other regulations issued during the Obama Administration, with the expectation that the Administration will seek repeal or significant revision of these rules. Under these EOs, each executive agency is required to evaluate existing regulations and make recommendations regarding repeal, replacement, or modification. The Administration's actions are intended to result in less stringent compliance requirements under air, water, and waste regulations. The exact nature, extent, and timing of the regulatory changes are unknown, as well as the ultimate impact on Exelon's and its subsidiaries results of operations and cash flows.

In particular, the Administration has targeted existing EPA regulations for repeal, including notably the Clean Power Plan, as well as revoking many Executive Orders, reports, and guidance issued by the Obama Administration on the topic of climate change or the regulation of greenhouse gases. The Executive Order also disbanded the Interagency Working Group that developed the social cost of carbon used in rulemakings, and withdrew all technical support documents supporting the calculation. Other regulations that have been specifically identified for review are the Clean Water Act rule relating to jurisdictional waters of the U.S., the Steam Electric Effluent Guidelines relating to waste water discharges from coal-fired power plants, and the 2015 National Ambient Air Quality Standard (NAAQS) for ozone. The review of final rules could extend over several years as formal notice and comment rulemaking process proceeds.

Air Quality

Mercury and Air Toxics Standard Rule (MATS). On December 16, 2011, the EPA signed a final rule to reduce emissions of toxic air pollutants from power plants and signed revisions to the NSPS for electric generating units. The final rule, known as MATS, requires coal-fired electric generation plants to achieve high removal rates of mercury, acid gases and other metals, and to make capital investments in pollution control equipment and incur higher operating expenses. The initial compliance deadline to meet the new standards was April 16, 2015; however, facilities may have been granted an additional one or two year extension in limited cases. Numerous entities challenged MATS in the D.C. Circuit Court, and Exelon intervened in support of the

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rule. In April 2014, the D.C. Circuit Court issued an opinion upholding MATS in its entirety. On appeal, the U.S. Supreme Court decided in June 2015 that the EPA unreasonably refused to consider costs in determining whether it is appropriate and necessary to regulate hazardous air pollutants emitted by electric utilities. The U.S. Supreme Court, however, did not vacate the rule; rather, it was remanded to the D.C. Circuit Court to take further action consistent with the U.S. Supreme Court's opinion on this single issue. On April 27, 2017, the D.C. Circuit granted EPA's motion to hold the litigation in abeyance, pending EPA's review of the MATS rule pursuant to President Trump's EO discussed above. Following EPA's review and determination of its course of action for the MATS rule, the parties will have 30 days to file motions on future proceedings. Notwithstanding the Court's order to hold the litigation in abeyance, the MATS rule remains in effect. Exelon will continue to participate in the remanded proceedings before the D.C. Circuit Court as an intervenor in support of the rule.

Clean Power Plan. On April 28, 2017, the D.C. Circuit Court issued orders in separate litigation related to the EPA's actions under the CPP to amend Clean Air Act Section 111(d) regulation of existing fossil-fired electric generating units and Section 111(b) regulation of new fossil-fired electric generating units. In both cases, EPA is required to submit supplemental briefs on the question of whether the regulations should be remanded to the Agency or held in abeyance. On June 8, 2017, U.S. EPA submitted to the Office of Management and Budget a proposed rule entitled "Review of the Clean Power Plan." Based on filings with the D.C. Circuit, it is expect that this proposed rule will rescind the Clean Power Plan, but it is unknown whether the EPA will replace the existing unit regulation with another rule.

2015 Ozone National Ambient Air Quality Standards (NAAQS). On April 11, 2017, the D.C. Circuit ordered that the consolidated 2015 ozone NAAQS litigation be held in abeyance pending EPA's further review of the 2015 Rule. Following EPA's review and determination of its course of action for the 2015 Rule, the parties are directed to file motions within 30 days on future proceedings. On June 28, 2017, the U.S. EPA announced that it would use its authority under the Clean Air Act to extend until October 1, 2018 its deadline for promulgating initial area designations for the 2015 ozone NAAQS.

Water Quality

Section 316(b) of the Clean Water Act requires that cooling water intake structures at electric power plants reflect the best technology available to minimize adverse environmental impacts, and is implemented through state-level NPDES permit programs. All of Generation's power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems (e.g., cooling towers) are potentially most affected by changes to the existing regulations. Those facilities are Calvert Cliffs, Clinton, Dresden, Eddystone, Fairless Hills, Fitzpatrick, Ginna, Gould Street, Handley, Mountain Creek, Mystic 7, Nine Mile Point Unit 1, Oyster Creek, Peach Bottom, Quad Cities, Riverside and Salem. See ITEM 1.—BUSINESS, "Water Quality" of the Exelon 2016 Form 10-K for further discussion.

Solid and Hazardous Waste

In October 2015, the first federal regulation for the disposal of coal combustion residuals (CCR) from power plants became effective. The rule classifies CCR as non-hazardous waste under RCRA. Under the regulation, CCR will continue to be regulated by most states subject to coordination with the federal regulations. Generation has previously recorded accruals consistent with state regulation for its owned coal ash sites, and as such, the regulation is not expected to impact Exelon's and Generation's financial results. Generation does not have sufficient information to reasonably assess the potential likelihood or magnitude of any remediation requirements that may be asserted under the new federal regulations for coal ash disposal sites formerly owned by Generation. For these reasons, Generation is unable to predict whether and to what extent it may ultimately be held responsible for remediation and other costs relating to formerly owned coal ash disposal sites under the new regulations.

See Note 17 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further detail related to environmental matters, including the impact of environmental regulation.

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Other Legislative and Regulatory Developments

NRC Task Force on Fukushima Daiichi Accident (Exelon and Generation).

In July 2011, an NRC Task Force formed in the aftermath of the March 11, 2011, 9.0 magnitude earthquake and ensuing tsunami, that seriously damaged the nuclear units at the Fukushima Daiichi Nuclear Power Station, issued a report of its review of the accident, including tiered recommendations for future regulatory action by the NRC to be taken in the near and longer term. The Task Force's report concluded that nuclear reactors in the United States are operating safely and do not present an imminent risk to public health and safety. The NRC and its staff have issued orders and implementation guidance for commercial reactor licensees operating in the United States. Generation has assessed the impacts of the Tier 1 orders and information requests and will continue monitoring the additional recommendations under review by the NRC staff, both from an operational and a financial impact standpoint. Generation's current assessments are specific to the Tier 1 recommendations. In May 2017, the NRC finalized its decision that no actions are required with respect to the Tier 2 and Tier 3 recommendations. Generation will continue to engage in nuclear industry assessments and actions and obtain stakeholder input.

Employees

In January 2017, an election was held at BGE which resulted in union representation for approximately 1,400 employees. BGE and IBEW Local 410 have begun negotiations for an initial agreement which could result in some modifications to wages, hours and other terms and conditions of employment. No agreement has been finalized to date and management cannot predict the outcome of such negotiations. In April 2017, Exelon Nuclear Security successfully ratified its CBA with the SPFPA Local 238 at Quad Cities to an extension of three years. In June 2017, Exelon Nuclear Security successfully ratified its CBA with the UGSOA Local 12 at Limerick to an extension of three years.

Critical Accounting Policies and Estimates

Management of each of the Registrants makes a number of significant estimates, assumptions and judgments in the preparation of its financial statements. See ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CRITICAL ACCOUNTING POLICIES AND ESTIMATES in Exelon's, Generation's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's combined 2016 Form 10-K for a discussion of the estimates and judgments necessary in the Registrants' accounting for AROs, goodwill, purchase accounting, unamortized energy assets and liabilities, asset impairments, depreciable lives of property, plant and equipment, defined benefit pension and other postretirement benefits, regulatory accounting, derivative instruments, taxation, contingencies, revenue recognition, and allowance for uncollectible accounts. At June 30, 2017, the Registrants' critical accounting policies and estimates had not changed significantly from December 31, 2016.

Results of Operations By Registrant

Net Income (Loss) Attributable to Common Shareholders by Registrant

	Three Months Ended June 30,		Favorable (Unfavorable) Variance	Six Months Ended June 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016(a)	
Exelon	$ 80	$ 267	$ (187)	$ 1,076	$ 440	$ 636
Generation	(250)	(8)	(242)	174	302	(128)
ComEd	118	145	(27)	259	260	(1)
PECO	88	100	(12)	215	224	(9)
BGE	45	31	14	169	129	40
Pepco	43	49	(6)	101	(60)	161
DPL	19	12	7	76	(60)	136
ACE	8	3	5	36	(97)	133

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(a) For Pepco, DPL and ACE, reflects that Registrant's operations for the six months ended June 30, 2016. For Exelon and Generation, includes the operations of the PHI acquired businesses for the period of March 24, 2016 through June 30, 2016.

	Successor				*Predecessor*
	Three Months Ended June 30, 2017	**Three Months Ended June 30, 2016**	**Six Months Ended June 30, 2017**	**March 24, 2016 to June 30, 2016**	**January 1, 2016 to March 23, 2016**
PHI	$ 66	$ 52	$ 205	$ (257)	$ 19

Results of Operations — Generation

	Three Months Ended June 30,		**Favorable (Unfavorable) Variance**	**Six Months Ended June 30,**		**Favorable (Unfavorable) Variance**
	2017	**2016**		**2017**	**2016**	
Operating revenues	$ 4,174	$ 3,589	$ 585	$9,061	$8,329	$ 732
Purchased power and fuel expense	2,157	1,577	(580)	4,955	4,020	(935)
Revenues net of purchased power and fuel expense[(a)]	2,017	2,012	5	4,106	4,309	(203)
Other operating expenses						
Operating and maintenance	2,010	1,530	(480)	3,497	2,997	(500)
Depreciation and amortization	334	408	74	637	697	60
Taxes other than income	140	118	(22)	282	244	(38)
Total other operating expenses	2,484	2,056	(428)	4,416	3,938	(478)
Gain on sales of assets	—	31	(31)	4	31	(27)
Bargain purchase gain	—	—	—	226	—	226
Operating (loss) income	(467)	(13)	(454)	(80)	402	(482)
Other income and (deductions)						
Interest expense, net	(129)	(99)	(30)	(228)	(196)	(32)
Other, net	181	117	64	440	210	230
Total other income and (deductions)	52	18	34	212	14	198
Income before income taxes	(415)	5	(420)	132	416	(284)
Income taxes	(158)	(31)	127	(31)	120	151
Equity in losses of unconsolidated affiliates	(9)	(8)	(1)	(19)	(11)	(8)
Net (loss) income	(266)	28	(294)	144	285	(141)
Net (loss) income attributable to noncontrolling interests	(16)	36	52	(30)	(17)	13
Net (loss) income attributable to membership interest	$ (250)	$ (8)	$ (242)	$ 174	$ 302	$ (128)

(a) Generation evaluates its operating performance using the measure of revenue net of purchased power and fuel expense. Generation believes that revenue net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Revenue net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss) Attributable to Membership Interest

Three Months Ended June 30, 2017 Compared to three months ended June 30, 2016. Generation’s Net loss attributable to membership interest for the three months ended June 30, 2017 increased compared to the same period in 2016, primarily due to higher Operating and maintenance expenses, the absence of 2016 gain on sales of assets and higher interest expense, partially offset by higher Revenue net of purchased power and fuel expense, lower Depreciation and amortization expenses, higher other income, and higher income tax benefits. The increase in Operating and maintenance expenses primarily related to the impairment of EGTP assets held for sale. The increase in interest expense is primarily due to higher outstanding debt. The increase in Revenue net of purchased power and fuel expense primarily relates to decreased mark-to-market losses in 2017 compared to 2016, Zero Emission Credit revenue due to the impact of the New York Clean Energy Standard, increased nuclear volumes due to the acquisition of the FitzPatrick nuclear facility and decreased fuel prices, almost entirely offset by the conclusion of the Ginna Reliability Support Services Agreement, lower realized energy prices and lower optimization in Generation’s natural gas portfolio. The decrease in Depreciation and amortization is primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire Clinton and Quad Cities nuclear facilities. The increase in other income is primarily due to the change in realized and unrealized gains and losses on NDT funds. The increase in income tax benefits is primarily due to higher operating losses.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Generation’s Net income attributable to membership interest for the six months ended June 30, 2017 decreased compared to the same period in 2016, primarily due to lower Revenue net of purchased power and fuel expense, higher Operating and maintenance expenses, and higher interest expense, partially offset by lower Depreciation and amortization, a bargain purchase gain associated with the acquisition of FitzPatrick, and higher other income. The decrease in Revenue net of purchased power and fuel expense primarily relates to the impacts of declining natural gas prices and lower optimization in Generation’s natural gas portfolio, the conclusion of the Ginna Reliability Support Services Agreement, lower realized energy prices, decreased capacity prices, and increased market-to-market losses in 2017 compared to 2016, partially offset by Zero Emission Credit revenue due to the impact of the New York Clean Energy Standard and the absence of inventory write downs in 2017. The increase in operating and maintenance expenses primarily relates to the impairment of EGTP assets held for sale. The increase in interest expense is primarily due to higher outstanding debt. The decrease in Depreciation and amortization is primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire Clinton and Quad Cities nuclear facilities. The bargain purchase gain is the result of the FitzPatrick acquisition in Q1 2017. The increase in other income is primarily due to increased unrealized gains on NDT funds in 2017 compared to 2016.

Revenues Net of Purchased Power and Fuel Expense

The basis for Generation’s reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation’s hedging strategies and risk metrics are also aligned with these same geographic regions. Descriptions of each of Generation’s six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.
- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO’s Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.

- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
- New York represents operations within ISO-NY, which covers the state of New York in its entirety.
- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.
- Other Power Regions:
  - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.
  - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado, and parts of New Mexico, Wyoming and South Dakota.
  - Canada represents operations across the entire country of Canada and includes AESO, OIESO and the Canadian portion of MISO.

The following business activities are not allocated to a region, and are reported under Other: natural gas, as well as other miscellaneous business activities that are not significant to Generation's overall operating revenues or results of operations. Further, the following activities are not allocated to a region, and are reported in Other: amortization of certain intangible assets relating to commodity contracts recorded at fair value from mergers and acquisitions; accelerated nuclear fuel amortization associated with nuclear decommissioning; and other miscellaneous revenues.

Generation evaluates the operating performance of its electric business activities using the measure of Revenue net of purchased power and fuel expense, which is a non-GAAP measurement. Generation's operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for owned generation and fuel costs associated with tolling agreements.

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For the three and six months ended June 30, 2017 and 2016, Generation's Revenue net of purchased power and fuel expense by region were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Variance	% Change	2017	2016	Variance	% Change
Mid-Atlantic[(a)]	$ 783	$ 828	$ (45)	(5.4)%	$1,557	$1,669	$ (112)	(6.7)%
Midwest[(b)]	728	728	—	—%	1,443	1,449	(6)	(0.4)%
New England	147	110	37	33.6%	257	191	66	34.6%
New York[(d)]	230	267	(37)	(13.9)%	385	395	(10)	(2.5)%
ERCOT	70	77	(7)	(9.1)%	138	138	—	—%
Other Power Regions	90	96	(6)	(6.3)%	152	174	(22)	(12.6)%
Total electric revenue net of purchased power and fuel expense	2,048	2,106	(58)	(2.8)%	3,932	4,016	(84)	(2.1)%
Proprietary Trading	7	4	3	75.0%	7	6	1	16.7%
Mark-to-market (losses) gains	(184)	(304)	120	(39.5)%	(233)	(201)	(32)	15.9%
Other[(c)]	146	206	(60)	(29.1)%	400	488	(88)	(18.0)%
Total revenue net of purchased power and fuel expense	$ 2,017	$ 2,012	$ 5	0.2%	$4,106	$4,309	$ (203)	(4.7)%

(a) Results of transactions with PECO and BGE are included in the Mid-Atlantic region. Results of transactions with Pepco, DPL, and ACE are included in the Mid-Atlantic region beginning on March 24, 2016, the day after the PHI merger was completed.

(b) Results of transactions with ComEd are included in the Midwest region.

(c) Other represents activities not allocated to a region. See text above for a description of included activities. Includes amortization of intangible assets related to commodity contracts recorded at fair value of a $20 million decrease and a $12 million decrease to revenue net of purchased power and fuel expense for the three months ended June 30, 2017 and 2016, respectively, and amortization of intangible assets related to commodity contracts recorded at fair value of a $22 million decrease and a $7 million increase to revenue net of purchased power and fuel expense for the six months ended June 30, 2017 and 2016, respectively.

(d) Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

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Generation's supply sources by region are summarized below:

Supply source (GWh)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Variance	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Variance	% Change
Nuclear generation								
Mid-Atlantic[a]	15,246	15,224	22	0.1%	31,790	31,432	358	1.1%
Midwest	22,592	23,001	(409)	(1.8)%	45,061	46,663	(1,602)	(3.4)%
New York[a][d]	6,227	4,228	1,999	47.3%	10,718	9,160	1,558	17.0%
Total Nuclear Generation	44,065	42,453	1,612	3.8%	87,569	87,255	314	0.4%
Fossil and Renewables								
Mid-Atlantic	899	685	214	31.2%	1,734	1,583	151	9.5%
Midwest	417	324	93	28.7%	835	773	62	8.0%
New England	1,925	2,016	(91)	(4.5)%	4,002	3,940	62	1.6%
New York	1	1	—	—%	2	2	—	—%
ERCOT	2,315	1,879	436	23.2%	3,684	3,255	429	13.2%
Other Power Regions	2,084	1,995	89	4.5%	3,507	4,142	(635)	(15.3)%
Total Fossil and Renewables	7,641	6,900	741	10.7%	13,764	13,695	69	0.5%
Purchased Power								
Mid-Atlantic	2,901	3,131	(230)	(7.3)%	6,299	6,886	(587)	(8.5)%
Midwest	413	688	(275)	(40.0)%	801	1,394	(593)	(42.5)%
New England	4,343	3,782	561	14.8%	9,407	7,937	1,470	18.5%
New York	—	—	—	—%	28	—	28	—%
ERCOT	1,871	2,259	(388)	(17.2)%	4,525	4,553	(28)	(0.6)%
Other Power Regions	3,507	3,879	(372)	(9.6)%	6,375	6,479	(104)	(1.6)%
Total Purchased Power	13,035	13,739	(704)	(5.1)%	27,435	27,249	186	0.7%
Total Supply/Sales by Region[b]								
Mid-Atlantic[c]	19,046	19,040	6	—%	39,823	39,901	(78)	(0.2)%
Midwest[c]	23,422	24,013	(591)	(2.5)%	46,697	48,830	(2,133)	(4.4)%
New England	6,268	5,798	470	8.1%	13,409	11,877	1,532	12.9%
New York	6,228	4,229	1,999	47.3%	10,748	9,162	1,586	17.3%
ERCOT	4,186	4,138	48	1.2%	8,209	7,808	401	5.1%
Other Power Regions	5,591	5,874	(283)	(4.8)%	9,882	10,621	(739)	(7.0)%
Total Supply/Sales by Region	64,741	63,092	1,649	2.6%	128,768	128,199	569	0.4%

(a) Includes the proportionate share of output where Generation has an undivided ownership interest in jointly-owned generating plants and includes the total output of plants that are fully consolidated (e.g. CENG).

(b) Excludes physical proprietary trading volumes of 2,312 GWh and 1,289 GWh for the three months ended June 30, 2017 and 2016, respectively, and 4,162 GWh and 2,509 GWh for the six months ended June 30, 2017 and 2016.

(c) Includes affiliate sales to PECO and BGE in the Mid-Atlantic region and affiliate sales to ComEd in the Midwest region. As a result of the PHI Merger, includes affiliate sales to Pepco, DPL and ACE in the Mid-Atlantic region beginning on March 24, 2016.

(d) Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Mid-Atlantic

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The $45 million decrease in Revenue net of purchased power and fuel expense in the Mid-Atlantic primarily reflects lower realized energy prices and decreased capacity prices.

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Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. The $112 million decrease in Revenue net of purchased power and fuel expense in the Mid-Atlantic primarily reflects lower realized energy prices and decreased capacity prices, partially offset by the absence of oil inventory write-downs in 2017 and decreased nuclear outage days.

Midwest

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The immaterial change in Revenue net of purchased power and fuel expense in the Midwest primarily reflects increased nuclear outage days, offset by decreased nuclear fuel prices.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. The $6 million decrease in Revenue net of purchased power and fuel expense in the Midwest primarily reflects increased nuclear outage days and decreased capacity prices, partially offset by decreased nuclear fuel prices.

New England

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The $37 million increase in Revenue net of purchased power and fuel expense in New England was driven by increased capacity prices.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. The $66 million increase in Revenue net of purchased power and fuel expense in New England was driven by increased capacity prices and the higher realized energy prices.

New York

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The $37 million decrease in Revenue net of purchased power and fuel expense in New York was primarily due to the conclusion of the Ginna Reliability Support Service Agreement, partially offset by Zero Emission Credit revenue due to the impact of the New York Clean Energy Standard and the acquisition of Fitzpatrick.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. The $10 million decrease in Revenue net of purchased power and fuel expense in New York was primarily due to the conclusion of the Ginna Reliability Support Service Agreement, partially offset by Zero Emission Credit revenue due to the impact of the New York Clean Energy Standard and the acquisition of Fitzpatrick.

ERCOT

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The $7 million decrease in Revenue net of purchased power and fuel expense in ERCOT was primarily due to lower realized energy prices.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. There was an immaterial change in Revenue net of purchased power and fuel expense in ERCOT.

Other Power Regions

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The $6 million decrease in Revenue net of purchased power and fuel expense in Other Power Regions was primarily due to lower realized energy prices.

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Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. The $22 million decrease in Revenue net of purchased power and fuel expense in Other Power Regions was primarily due to lower realized energy prices.

Proprietary Trading

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The $3 million increase in Revenue net of purchased power and fuel expense in Proprietary Trading was primarily due to congestion activity.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. The $1 million increase in Revenue net of purchased power and fuel expense in Proprietary Trading was primarily due to congestion activity.

Mark-to-market

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Mark-to-market losses on economic hedging activities were $184 million for the three months ended June 30, 2017 compared to losses of $304 million for the three months ended June 30, 2016. See Notes 8 — Fair Value of Financial Assets and Liabilities and 9 — Derivative Financial Instruments of the Combined Notes to the Consolidated Financial Statements for information on gains and losses associated with mark-to-market derivatives.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Mark-to-market losses on economic hedging activities were $233 million for the six months ended June 30, 2017 compared to losses of $201 million for the six months ended June 30, 2016. See Notes 8 — Fair Value of Financial Assets and Liabilities and 9 — Derivative Financial Instruments of the Combined Notes to the Consolidated Financial Statements for information on gains and losses associated with mark-to-market derivatives.

Other

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The $60 million decrease in other revenue net of purchased power and fuel was primarily due to lower optimization in Generation’s natural gas portfolio and amortization of energy contracts recorded at fair value associated with prior acquisitions.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. The $88 million decrease in other revenue net of purchased power and fuel was primarily due to the impacts of declining natural gas prices and lower optimization in Generation’s natural gas portfolio and amortization of energy contracts recorded at fair value associated with prior acquisitions, partially offset by revenue related to the inclusion of Pepco Energy Services results in 2017 and revenue related to energy efficiency projects.

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Nuclear Fleet Capacity Factor

The following table presents nuclear fleet operating data for the three and six months ended June 30, 2017 as compared to the same period in 2016, for the Generation-operated plants. The nuclear fleet capacity factor presented in the table is defined as the ratio of the actual output of a plant over a period of time to its output if the plant had operated at full average annual mean capacity for that time period. Generation considers capacity factor to be a useful measure to analyze the nuclear fleet performance between periods. Generation has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, these measures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or be more useful than the GAAP information provided elsewhere in this report.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Nuclear fleet capacity factor(a)	90.9%	92.3%	92.4%	94.1%
Refueling outage days(a)	125	87	220	157
Non-refueling outage days(a)	12	21	20	31

(a) Excludes Salem, which is operated by PSEG Nuclear, LLC. Reflects ownership percentage of stations operated by Exelon. Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. The nuclear fleet capacity factor decreased primarily due to more refueling outage days and was partially offset by fewer non-refueling outage days, excluding Salem outages, during the three months ended June 30, 2017 compared to the same period in 2016.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. The nuclear fleet capacity factor decreased primarily due to more refueling outage days and was partially offset by fewer non-refueling outage days, excluding Salem outages, during the six months ended June 30, 2017 compared to the same period in 2016.

Operating and Maintenance

The changes in Operating and maintenance expense for the three and six months ended June 30, 2017 as compared to the same period in 2016, consisted of the following:

	Three Months Ended June 30, Increase (Decrease)(a)	Six Months Ended June 30, Increase (Decrease)(a)
Labor, other benefits, contracting, materials(b)	$ 12	$ 85
Nuclear refueling outage costs, including the co-owned Salem plants(c)	71	99
Corporate allocations	6	10
Merger and integration costs(d)	15	40
Merger commitments	—	(3)
Plant retirements and divestitures(e)	(56)	(56)
Cost management program	1	(12)
Long-lived asset impairments(f)	383	263
Pension and non-pension postretirement benefits expense	3	—
Allowance for uncollectible accounts	16	19
Accretion expense(g)	12	18
Other	17	37
Increase in operating and maintenance expense	$ 480	$ 500

(a) The 2017 financial results include Generation's acquisition of the FitzPatrick nuclear generating station from March 31, 2017.

(b) Reflects an increase of labor, other benefits, contracting and materials costs primarily due to the inclusion of Pepco Energy Services results for the six months ended June 30, 2017 compared to the period March 24, 2016 to June 30, 2016, increased contracting costs related to energy efficiency projects for the six months ended June 30, 2017 compared to the same period in 2016 and the inclusion of FitzPatrick beginning on March 31, 2017.
(c) Primarily reflects an increase in the number of nuclear outage days in 2017.
(d) Reflects certain costs associated with mergers and acquisitions, including, if and when applicable, professional fees, employee-related expenses and integration activities related to the PHI and FitzPatrick acquisitions.
(e) Represents the announcement of the early retirement of Generation's TMI nuclear facility in 2017 compared to the previous decision to early retire Generation's Clinton and Quad Cities nuclear facilities in 2016.
(f) Primarily reflects charges to earnings related to impairments as a result of the EGTP assets held for sale in 2017 and impairment of Upstream assets and certain wind projects in 2016.
(g) Reflects the impact of increased accretion expenses primarily due to the acquisition of FitzPatrick on March 31, 2017.

Depreciation and Amortization

Depreciation and amortization expense for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 decreased primarily as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire Clinton and Quad Cities nuclear facilities.

Taxes Other Than Income

Taxes other than income taxes, which can vary period to period, include non-income municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 increased primarily as a result of the addition of FitzPatrick and increased gross receipts tax expense.

Gain on Sales of Assets

Gain on sales of assets for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 decreased primarily due to the gain associated with Generation's sale of the New Boston generating site in 2016.

Bargain Purchase Gain

Bargain purchase gain for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 increased as a result of the gain associated with the Fitzpatrick acquisition. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information.

Interest Expense, net

Interest expense, net for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 increased primarily due to higher outstanding debt.

Other, Net

Other, net for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 increased primarily due to the change in the realized and unrealized gains and losses related to NDT funds of Non-Regulatory Agreement Units as described in the table below. Other, net also reflects $92 million and $26 million for the three months ended June 30, 2017 and 2016, respectively, and $37 million and $46 million for the six months ended June 30, 2017 and 2016, respectively, related to the contractual elimination of income tax expense (benefit) associated with the NDT funds of the Regulatory Agreement Units. Refer to Note 12 — Nuclear Decommissioning of the Combined Notes to the Consolidated Financial Statements for additional information regarding NDT funds.

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The following table provides unrealized and realized gains and losses on the NDT funds of the Non-Regulatory Agreement Units recognized in Other, net for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net unrealized gains on decommissioning trust funds	$ 70	$ 48	$ 235	$ 100
Net realized gains on sale of decommissioning trust funds	40	12	49	14

Equity in Losses of Unconsolidated Affiliates

Equity in losses of unconsolidated affiliates for the three and six months ended June 30, 2017 compared to the three and six ended June 30, 2016 remained relatively stable.

Effective Income Tax Rate

Generation's effective income tax rate was 38.1% and (620.0)% for the three months ended June 30, 2017 and 2016, respectively. Generation's effective income tax rate was (23.5)% and 28.8% for the six months ended June 30, 2017 and 2016, respectively. See Note 11 — Income Taxes of the Combined Notes to the Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Results of Operations — ComEd

	Three Months Ended June 30,		Favorable (Unfavorable) Variance	Six Months Ended June 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$ 1,357	$ 1,286	$ 71	$ 2,656	$ 2,535	$ 121
Purchased power expense	378	339	(39)	713	686	(27)
Revenues net of purchased power expense[a][b]	979	947	32	1,943	1,849	94
Other operating expenses						
Operating and maintenance	377	368	(9)	747	736	(11)
Depreciation and amortization	211	190	(21)	419	379	(40)
Taxes other than income	72	65	(7)	144	141	(3)
Total other operating expenses	660	623	(37)	1,310	1,256	(54)
Gain on sales of assets	—	—	—	—	5	(5)
Operating income	319	324	(5)	633	598	35
Other income and (deductions)						
Interest expense, net	(101)	(91)	(10)	(185)	(177)	(8)
Other, net	4	3	1	8	7	1
Total other income and (deductions)	(97)	(88)	(9)	(177)	(170)	(7)
Income before income taxes	222	236	(14)	456	428	28
Income taxes	104	91	(13)	197	168	(29)
Net income	$ 118	$ 145	$ (27)	$ 259	$ 260	$ (1)

(a) ComEd evaluates its operating performance using the measure of Revenue net of purchased power expense. ComEd believes that Revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. In general, ComEd only earns margin based on the delivery and transmission of electricity. ComEd has included its discussion of Revenue net of purchased power expense below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) For regulatory recovery mechanisms, including ComEd's electric distribution and transmission formula rates, and riders, revenues increase and decrease i) as fully recoverable costs fluctuate (with no impact on net earnings), and ii) pursuant to changes in rate base, capital structure and ROE (which impact net earnings).

Net Income

Three months ended June 30, 2017 Compared to Three months ended June 30, 2016. ComEd's Net income for the three months ended June 30, 2017 was lower than the same period in 2016, primarily due to additional tax and interest recorded in the second quarter of 2017 relating to to Exelon's like-kind exchange tax position and favorable weather conditions in the second quarter of 2016, partially offset by increased electric distribution and transmission formula rate earnings (reflecting the impacts of increased capital investment and higher allowed electric distribution ROE).

Six months ended June 30, 2017 Compared to Six months ended June 30, 2016. ComEd's Net income for the six months ended June 30, 2017 was relatively consistent with the same period in 2016, primarily due to additional tax and interest recorded in the second quarter of 2017 relating to to Exelon's like-kind exchange tax position, mostly offset by increased electric distribution and transmission formula rate earnings (reflecting the impacts of increased capital investment and higher allowed electric distribution ROE).

Revenues Net of Purchased Power Expense

There are certain drivers of Operating revenues that are fully offset by their impact on Purchased power expense, such as commodity, REC, and ZEC procurement costs and participation in customer choice programs. ComEd is permitted to recover electricity, REC, and ZEC procurement costs from retail customers without mark-up. Therefore, these costs have no impact on Revenue net of purchased power expense. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information on ComEd's electricity procurement process.

All ComEd customers have the choice to purchase electricity from a competitive electric generation supplier. Customer choice programs do not impact ComEd's volume of deliveries, but do affect ComEd's Operating revenues related to supplied energy, which is fully offset in Purchased power expense. Therefore, customer choice programs have no impact on Revenue net of purchased power expense.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three and six months ended June 30, 2017 and 2016, consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Electric	71%	73%	71%	73%

Retail customers purchasing electric generation from competitive electric generation suppliers at June 30, 2017 and 2016 consisted of the following:

	June 30, 2017		June 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	1,382,600	35%	1,605,100	41%

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The changes in ComEd's Revenue net of purchased power expense for the three and six months ended June 30, 2017, compared to the same period in 2016 consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Weather[(a)]	$ (11)	$ (3)
Volume[(a)]	(5)	(6)
Electric distribution revenue	36	60
Transmission revenue	17	34
Energy efficiency revenue	1	1
Regulatory required programs	(5)	15
Uncollectible accounts recovery, net	(1)	(3)
Pricing and customer mix[(a)]	2	(1)
Other	(2)	(3)
Total increase	$ 32	$ 94

(a) These changes only reflect the 2016 impacts of weather, volume, and pricing and customer mix. As further described below, pursuant to the revenue decoupling provision in FEJA, ComEd began recording an adjustment to revenue in the first quarter of 2017 to eliminate the favorable or unfavorable impacts associated with variations in delivery volumes associated with above or below normal weather, number of customers or usage per customer.

Revenue Decoupling. The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased customer usage. Conversely, mild weather reduces demand.

Under EIMA, ComEd's electric distribution formula rate provided for an adjustment to future billings if its earned ROE fell outside a 50 bps collar of its allowed ROE, which partially eliminated the impacts of weather and load on ComEd's revenue. As allowed under FEJA, ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to Operating revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began recognizing the impacts of this change beginning in the first quarter of 2017. During the three and six months ended June 30, 2017, ComEd recorded an increase to Electric distribution revenues of approximately $19 million and $36 million, respectively, to eliminate the unfavorable weather and load impacts.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in ComEd's service territory with cooling degree days generally having a more significant impact to ComEd, particularly during the summer months. The changes in heating and cooling degree days in ComEd's service territory for the three and six months ended June 30, 2017 and 2016, consisted of the following:

Heating and Cooling Degree-Days				% Change	
Three Months Ended June 30,	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	577	755	734	(23.6)%	(21.4)%
Cooling Degree-Days	263	290	241	(9.3)%	9.1%
Six Months Ended June 30,					
Heating Degree-Days	3,227	3,655	3,875	(11.7)%	(16.7)%
Cooling Degree-Days	263	290	241	(9.3)%	9.1%

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Electric Distribution Revenue. EIMA provides for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Under EIMA, electric distribution revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered, and allowed ROE. ComEd’s allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. In addition, ComEd’s allowed ROE is subject to reduction if ComEd does not deliver the reliability and customer service benefits to which it has committed over the ten-year life of the investment program. During the three and six months ended June 30, 2017, electric distribution revenue increased primarily due to revenue decoupling impacts (as described above), increased capital investment, increased Depreciation expense, and higher allowed ROE due to an increase in treasury rates, as compared to the same period in 2016. See Depreciation and amortization expense discussions below, and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Transmission Revenue. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and the highest daily peak load, which is updated annually in January based on the prior calendar year. Generally, increases/decreases in the highest daily peak load will result in higher/lower transmission revenue. For the three and six months ended June 30, 2017, ComEd recorded increased transmission revenue due to increased capital investment, higher Depreciation expense and increased highest daily peak load as compared to the same period in 2016. See Operating and maintenance expense below and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Energy Efficiency Revenue. Beginning June 1, 2017, FEJA provides for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Under FEJA, energy efficiency revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered, and allowed ROE. ComEd’s allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. Beginning January 1, 2018, ComEd’s allowed ROE is subject to a maximum downward or upward adjustment of 200 basis points if ComEd’s cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. See Depreciation and amortization expense discussions below, and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in Operating revenues collected under approved rate riders to recover costs incurred for regulatory programs such as ComEd’s energy efficiency and demand response and purchased power administrative costs. The riders are designed to provide full and current cost recovery. An equal and offsetting amount has been included in Operating and maintenance expense. See Operating and maintenance expense discussion below for additional information on included programs.

Uncollectible Accounts Recovery, Net. Uncollectible accounts recovery, net represents recoveries under ComEd’s uncollectible accounts tariff. See Operating and maintenance expense discussion below for additional information on this tariff.

Other. Other revenue, which can vary period to period, includes rental revenue, revenue related to late payment charges, assistance provided to other utilities through mutual assistance programs, recoveries of environmental costs associated with MGP sites, and recoveries of energy procurement costs.

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Operating and Maintenance Expense

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Increase (Decrease)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Increase (Decrease)
Operating and maintenance expense — baseline	$ 334	$ 320	$ 14	$ 645	$ 649	$ (4)
Operating and maintenance expense — regulatory required programs[(a)]	43	48	$ (5)	102	87	15
Total operating and maintenance expense	$ 377	$ 368	$ 9	$ 747	$ 736	$ 11

(a) Operating and maintenance expense for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The increase in Operating and maintenance expense for the three and six months ended June 30, 2017 compared to the same period in 2016, consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ (1)	$ (6)
Pension and non-pension postretirement benefits expense	1	1
Storm-related costs	7	—
Uncollectible accounts expense — provision[(a)]	(2)	(5)
Uncollectible accounts expense — recovery, net[(a)]	1	2
BSC costs	14	14
Other	(6)	(10)
	14	(4)
Regulatory required programs		
Energy efficiency and demand response programs[(b)]	(5)	15
Increase in operating and maintenance expense	$ 9	$ 11

(a) ComEd is allowed to recover from or refund to customers the difference between the utility's annual uncollectible accounts expense and the amounts collected in rates annually through a rider mechanism. During the three and six months ended June 30, 2017, ComEd recorded a net decrease in Operating and maintenance expense related to uncollectible accounts due to the timing of regulatory cost recovery. An equal and offsetting decrease has been recognized in Operating revenues for the period presented.

(b) Beginning on June 1, 2017, ComEd is deferring energy efficiency costs as a regulatory asset that will be recovered through the energy efficiency over the weighted average useful life of the related energy efficiency measures.

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Depreciation and Amortization Expense

The increase in Depreciation and amortization expense during the three and six months ended June 30, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Depreciation expense[a]	$ 16	$ 32
Regulatory asset amortization[b]	2	1
Other	3	7
Total increase	$ 21	$ 40

(a) Primarily reflects ongoing capital expenditures for the three and six months ended June 30, 2017.
(b) Beginning in June 2017, includes amortization of ComEd's energy efficiency regulatory asset.

Taxes Other Than Income

Taxes other than income, which can vary year to year, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income taxes increased during the three and six months ended June 30, 2017, compared to the same period in 2016, due to a reduction in the state utility tax in 2016, which is completely offset above in Operating revenues.

Gain on Sales of Assets

The decrease in Gain on sales of assets during the three and six months ended June 30, 2017, compared to the same period in 2016, is primarily due to the sale of land during March 2016.

Interest Expense, Net

The changes in interest expense, net, for the three and six months ended June 30, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Interest expense related to uncertain tax positions[a]	$ 9	$ 7
Interest expense on debt (including financing trusts)	2	4
Other	(1)	(3)
Decrease in interest expense, net	$ 10	$ 8

(a) Primarily reflects additional interest recorded in the second quarter of 2017 related to Exelon's like-kind exchange tax position.

Other, Net

Other, net, remained relatively consistent during the three and six months ended June 30, 2017, compared to the same period in 2016.

Effective Income Tax Rate

ComEd's effective income tax rate was 46.8% and 38.6% for the three months ended June 30, 2017 and 2016, respectively. ComEd's effective income tax rate was 43.2% and 39.3% for the six months ended June 30, 2017 and 2016, respectively. The increases in the effective income tax rate for the three and six months ended June 30, 2017 as compared to the same period in 2016 are due to additional tax recorded related to Exelon's like-kind exchange tax position. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

ComEd Electric Operating Statistics and Revenue Detail

	Three Months Ended June 30,				Six Months Ended June 30,			
Retail Deliveries to Customers (in GWhs)	**2017**	**2016**	**% Change**	**Weather-Normal % Change**	**2017**	**2016**	**% Change**	**Weather-Normal % Change**
Retail Deliveries(a)								
Residential	5,919	6,349	(6.8)%	(3.0)%	12,160	12,725	(4.4)%	(1.3)%
Small commercial & industrial	7,437	7,735	(3.9)%	(2.7)%	15,146	15,615	(3.0)%	(1.8)%
Large commercial & industrial	6,798	6,736	0.9%	1.5%	13,480	13,493	(0.1)%	0.5%
Public authorities & electric railroads	282	277	1.8%	1.8%	625	639	(2.2)%	(1.1)%
Total retail deliveries	20,436	21,097	(3.1)%	(1.4)%	41,411	42,472	(2.5)%	(0.9)%

	As of June 30,	
Number of Electric Customers	**2017**	**2016**
Residential	3,605,731	3,570,528
Small commercial & industrial	375,976	372,354
Large commercial & industrial	2,009	1,972
Public authorities & electric railroads	4,785	4,749
Total	3,988,501	3,949,603

	Three Months Ended June 30,			Six Months Ended June 30,		
Electric Revenue	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Retail Sales(a)						
Residential	$ 656	$ 625	5.0%	$1,283	$1,232	4.1%
Small commercial & industrial	347	329	5.5%	680	651	4.5%
Large commercial & industrial	123	116	6.0%	231	224	3.1%
Public authorities & electric railroads	11	11	—%	24	23	4.3%
Total retail	1,137	1,081	5.2%	2,218	2,130	4.1%
Other revenue(b)	220	205	7.3%	438	405	8.1%
Total electric revenue(c)	$ 1,357	$ 1,286	5.5%	$2,656	$2,535	4.8%

(a) Reflects delivery revenue and volume from customers purchasing electricity directly from ComEd and customers purchasing electricity from a competitive electric generation supplier, as all customers are assessed delivery charges. For customers purchasing electricity from ComEd, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes transmission revenue from PJM. Other revenue also includes rental revenue, revenue related to late payment charges, revenue from other utilities for mutual assistance programs and recoveries of remediation costs associated with MGP sites.

(c) Includes operating revenues from affiliates totaling $3 million and $3 million for the three and six months ended June 30, 2017 and 2016, and $9 million and $8 million for the six months ended June 30, 2017 and 2016, respectively.

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Results of Operations — PECO

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Favorable (Unfavorable) Variance	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Favorable (Unfavorable) Variance
Operating revenues	$ 630	$ 664	$ (34)	$ 1,426	$ 1,505	$ (79)
Purchased power and fuel expense	197	217	20	484	537	53
Revenues net of purchased power and fuel expense[(a)]	433	447	(14)	942	968	(26)
Other operating expenses						
Operating and maintenance	190	190	—	398	405	7
Depreciation and amortization	71	67	(4)	141	134	(7)
Taxes other than income	35	38	3	74	80	6
Total other operating expenses	296	295	(1)	613	619	6
Operating income	137	152	(15)	329	349	(20)
Other income and (deductions)						
Interest expense, net	(31)	(31)	—	(62)	(62)	—
Other, net	2	2	—	3	4	(1)
Total other income and (deductions)	(29)	(29)	—	(59)	(58)	(1)
Income before income taxes	108	123	(15)	270	291	(21)
Income taxes	20	23	3	55	67	12
Net income	$ 88	$ 100	$ (12)	$ 215	$ 224	$ (9)

(a) PECO evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. PECO believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. PECO has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenue net of purchased power expense and revenue net of fuel expense figures are not presentations defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. PECO's Net income decreased from the same period in 2016, primarily due to lower Revenues net of purchased power and fuel from changes in electric volumes as well as higher depreciation and amortization expense as a result of increased capital expenditures.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. PECO's Net income decreased from the same period in 2016, primarily due to lower Revenues net of purchased power and fuel from changes in electric volumes as well as higher depreciation and amortization expense as a result of increased capital expenditures.

Revenues Net of Purchased Power and Fuel Expense

Electric and natural gas revenue and purchased power and fuel expense are affected by fluctuations in commodity procurement costs. PECO's electric supply and natural gas cost rates charged to customers are subject to adjustments at least quarterly that are designed to recover or refund the difference between the actual cost of electric supply and natural gas and the amount included in rates in accordance with the PAPUC's GSA and PGC, respectively. Therefore, fluctuations in electric supply and natural gas procurement costs have no impact on electric and natural gas revenue net of purchased power and fuel expense.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All PECO customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service. Customer choice program activity has no impact on electric and natural gas revenue net of purchased power and fuel expense.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three and six months ended June 30, 2017 and 2016, consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Electric	73%	72%	71%	70%
Natural Gas	29%	28%	26%	26%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at June 30, 2017 and 2016 consisted of the following:

	June 30, 2017		June 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	581,600	36%	576,300	36%
Natural Gas	82,000	16%	81,100	16%

The changes in PECO's Operating revenues net of purchased power and fuel expense for the three and six months ended June 30, 2017 compared to the same period in 2016 consisted of the following:

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Natural Gas	Total	Electric	Natural Gas	Total
Weather	$ 1	$ (4)	$ (3)	$ 3	$ (3)	$ —
Volume	(6)	3	(3)	(11)	3	(8)
Pricing	—	—	—	(2)	—	(2)
Regulatory required programs	(9)	—	(9)	(18)	—	(18)
Other	1	—	1	3	(1)	2
Total decrease	$ (13)	$ (1)	$ (14)	$ (25)	$ (1)	$ (26)

Weather. The demand for electricity and natural gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. During the three months ended June 30, 2017 compared to the same period in 2016, Operating revenue net of purchased power was relatively consistent. Operating revenue net of fuel expense decreased due to unfavorable second quarter weather conditions. During the six months ended June 30, 2017 compared to the same period in 2016, Operating revenue net of purchased power and fuel expense was relatively consistent.

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Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in PECO's service territory. The changes in heating and cooling degree days in PECO's service territory for the three and six months ended June 30, 2017 compared to the same periods in 2016 and normal weather consisted of the following:

Heating and Cooling Degree-Days Three Months Ended June 30,	2017	2016	Normal	% Change 2017 vs. 2016	% Change 2017 vs. Normal
Heating Degree-Days	329	469	463	(29.9)%	(28.9)%
Cooling Degree-Days	415	391	348	6.1%	19.3%
Six Months Ended June 30,					
Heating Degree-Days	2,423	2,606	2,939	(7.0)%	(17.6)%
Cooling Degree-Days	415	396	348	4.8%	19.3%

Volume. The decrease in Operating revenue net of purchased power related to delivery volume, exclusive of the effects of weather, for the three and six months ended June 30, 2017 compared to the same period in 2016, primarily reflects the impacts of energy efficiency initiatives on customer usage partially offset by moderate economic and customer growth, as well as a shift in the volume profile across classes from residential to commercial and industrial classes. Operating revenue net of fuel expense for the three and six months ended June 30, 2017 compared to the same period in 2016 remained relatively consistent.

Pricing. Operating revenues net of purchased power and fuel expense as a result of pricing for the three and six months ended June 30, 2017 compared to the same period in 2016 remained relatively consistent.

Regulatory Required Programs. This represents the change in Operating revenue collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency and the GSA. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Income taxes. Refer to the Operating and maintenance expense discussion below for additional information on included programs.

Other. Other revenue, which can vary period to period, primarily includes wholesale transmission revenue, rental revenue, revenue related to late payment charges and assistance provided to other utilities through mutual assistance programs.

Operating and Maintenance Expense

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Increase (Decrease)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Increase (Decrease)
Operating and maintenance expense — baseline	$ 174	$ 165	$ 9	$ 370	$ 361	$ 9
Operating and maintenance expense — regulatory required programs[(a)]	16	25	(9)	28	44	(16)
Total operating and maintenance expense	$ 190	$ 190	$ —	$ 398	$ 405	$ (7)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in operating revenue.

The changes in Operating and maintenance expense for the three and six months ended June 30, 2017 compared to the same period in 2016, consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ 4	$ 7
Storm-related costs	(2)	(4)
Pension and non-pension postretirement benefits expense	(1)	(2)
BSC costs	4	1
Uncollectible accounts expense	(2)	(1)
Other	6	8
	9	9
Regulatory Required Programs		
Energy efficiency	(8)	(16)
Other	(1)	—
	(9)	(16)
Total decrease	$ —	$ (7)

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three months ended June 30, 2017 compared to the same period in 2016, consisted of an increase of $4 million. Depreciation and amortization expense for the six months ended June 30, 2017 compared to the same period in 2016, consisted of an increase of $7 million.

Taxes Other Than Income

Taxes other than income, which can vary period to period, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income decreased for the three and six months ended June 30, 2017 compared to the same period in 2016 due to a decrease in gross receipts tax driven by decreases in electric revenue.

Interest Expense, Net

Interest expense, net for the three and six months ended June 30, 2017 remained consistent compared to the same period in 2016.

Other, Net

Other, net for the three and six months ended June 30, 2017 remained consistent compared to the same period in 2016.

Effective Income Tax Rate

PECO’s effective income tax rate was 18.5% and 18.7% for the three months ended June 30, 2017 and 2016, respectively, and 20.4% and 23.0% for the six months ended June 30, 2017 and 2016, respectively. See Note 11 — Income Taxes of the Combined Notes to the Consolidated Financial Statements for further discussion of the change in effective income tax rate.

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PECO Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended June 30,			Weather - Normal	Six Months Ended June 30,			Weather - Normal
	2017	2016	% Change	% Change	2017	2016	% Change	% Change
Retail Deliveries(a)								
Residential	2,809	2,909	(3.4)%	(3.3)%	6,187	6,324	(2.2)%	(2.2)%
Small commercial & industrial	1,914	1,887	1.4%	0.9%	3,890	3,912	(0.6)%	(1.1)%
Large commercial & industrial	3,830	3,770	1.6%	0.4%	7,456	7,364	1.2%	0.5%
Public authorities & electric railroads	196	205	(4.4)%	(4.4)%	420	432	(2.8)%	(2.8)%
Total retail deliveries	8,749	8,771	(0.3)%	(0.8)%	17,953	18,032	(0.4)%	(0.9)%

Number of Electric Customers	As of June 30,	
	2017	2016
Residential	1,461,931	1,449,450
Small commercial & industrial	150,783	149,523
Large commercial & industrial	3,105	3,088
Public authorities & electric railroads	9,795	9,813
Total	1,625,614	1,611,874

Electric Revenue	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Retail Sales(a)						
Residential	$ 331	$ 355	(6.8)%	$ 713	$ 766	(6.9)%
Small commercial & industrial	100	106	(5.7)%	197	225	(12.4)%
Large commercial & industrial	57	65	(12.3)%	109	123	(11.4)%
Public authorities & electric railroads	8	9	(11.1)%	16	17	(5.9)%
Total retail	496	535	(7.3)%	1,035	1,131	(8.5)%
Other revenue(b)	54	52	3.8%	105	101	4.0%
Total electric revenue(c)	$ 550	$ 587	(6.3)%	$ 1,140	$ 1,232	(7.5)%

(a) Reflects delivery volumes and revenue from customers purchasing electricity directly from PECO and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from PECO, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes transmission revenue from PJM and wholesale electric revenue, in addition to rental income.

(c) Includes operating revenues from affiliates totaling $2 million for both the three months ended June 30, 2017 and 2016, and $3 million and $4 million for the six months ended June 30, 2017 and 2016, respectively.

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PECO Natural Gas Operating Statistics and Revenue Detail

Deliveries to Customers (in mmcf)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Weather - Normal % Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change	Weather - Normal % Change
Retail Delivery								
Retail sales(a)	7,621	7,883	(3.3)%	11.8%	34,832	34,994	(0.5)%	2.0%
Transportation and other	5,759	5,906	(2.5)%	(3.2)%	13,448	13,602	(1.1)%	(1.8)%
Total natural gas deliveries	13,380	13,789	(3.0)%	5.3%	48,280	48,596	(0.7)%	1.0%

Number of Natural Gas Customers	As of June 30, 2017	As of June 30, 2016
Residential	474,360	469,230
Commercial & industrial	43,404	43,046
Total retail	517,764	512,276
Transportation	768	811
Total	518,532	513,087

Natural Gas Revenue	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Retail Sales						
Retail sales(a)	$ 72	$ 70	2.9%	$ 269	$ 256	5.1%
Transportation and other	8	7	14.3%	17	17	—%
Total natural gas revenues(b)	$ 80	$ 77	3.9%	$ 286	$ 273	4.8%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from PECO and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from PECO, revenue also reflects the cost of natural gas.

(b) Includes operating revenues from affiliates totaling less than $1 million for both three months ended June 30, 2017 and 2016 and less than $1 million for both the six months ended June 30, 2017 and 2016.

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Results of Operations — BGE

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Favorable (Unfavorable) Variance	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Favorable (Unfavorable) Variance
Operating revenues	$ 674	$ 680	$ (6)	$1,625	$1,609	$ 16
Purchased power and fuel expense	234	261	27	584	634	50
Revenues net of purchased power and fuel expense[(a)]	440	419	21	1,041	975	66
Other operating expenses						
Operating and maintenance	174	208	34	357	410	53
Depreciation and amortization	112	97	(15)	239	206	(33)
Taxes other than income	56	55	(1)	119	114	(5)
Total other operating expenses	342	360	18	715	730	15
Operating income	98	59	39	326	245	81
Other income and (deductions)						
Interest expense, net	(26)	(24)	(2)	(54)	(48)	(6)
Other, net	4	5	(1)	8	11	(3)
Total other income and (deductions)	(22)	(19)	(3)	(46)	(37)	(9)
Income before income taxes	76	40	36	280	208	72
Income taxes	31	6	(25)	111	73	(38)
Net income	45	34	11	169	135	34
Preference stock dividends	—	3	3	—	6	6
Net income attributable to common shareholder	$ 45	$ 31	$ 14	$ 169	$ 129	$ 40

(a) BGE evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. BGE believes revenues net of purchased power and fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. BGE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenues net of purchased power and fuel expense figures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Common Shareholder

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. BGE's Net income attributable to common shareholder for the three months ended June 30, 2017 was higher than the same period in 2016, primarily due to an increase in Revenues net of purchased power and fuel and lower Operating and maintenance expense. The increase in Revenues net of purchased power and fuel was primarily due to the impacts of the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016. The lower Operating and maintenance expense was primarily due to the absence of cost disallowances also resulting from the distribution rate orders issued by the MDPSC. These items were partially offset by higher income tax expense and an increase in Depreciation and amortization expense primarily related to the initiation of cost recovery of the AMI programs under the distribution rate orders and the impacts of increased capital investment.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. BGE's Net income attributable to common shareholder for the six months ended June 30, 2017 was higher than the same period in

2016, primarily due to an increase in Revenues net of purchased power and fuel and lower Operating and maintenance expense. The increase in Revenues net of purchased power and fuel was primarily due to the impacts of the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016. The lower Operating and maintenance expense was primarily due to decreased storm costs in 2017 and the absence of cost disallowances also resulting from the distribution rate orders issued by the MDPSC. These items were partially offset by higher income tax expense and an increase in Depreciation and amortization expense primarily related to the initiation of cost recovery of the AMI programs under the distribution rate orders and the impacts of increased capital investment.

Revenues Net of Purchased Power and Fuel Expense

There are certain drivers to Operating revenues that are offset by their impact on Purchased power and fuel expense, such as commodity procurement costs and programs allowing customers to select a competitive electric or natural gas supplier. Operating revenues and Purchased power and fuel expense are affected by fluctuations in commodity procurement costs. BGE's electric and natural gas rates charged to customers are subject to periodic adjustments that are designed to recover or refund the difference between the actual cost of purchased electric power and purchased natural gas and the amount included in rates in accordance with the MDPSC's market-based SOS and gas commodity programs, respectively.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in the number of customers electing to use a competitive electric generation or natural gas supplier. All BGE customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but does affect revenue collected from customers related to supplied energy and natural gas service.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three and six months ended June 30, 2017 and 2016 consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Electric	62%	62%	60%	59%
Natural Gas	68%	67%	53%	55%

The number of retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at June 30, 2017 and 2016 consisted of the following:

	June 30, 2017		June 30, 2016	
	Number of Customers	% of total retail customers	Number of customers	% of total retail customers
Electric	340,500	27%	337,400	27%
Natural Gas	150,400	22%	151,600	23%

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The changes in BGE's Operating revenues net of purchased power and fuel expense for the three and six months ended June 30, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Distribution rate increase	$ 9	$ 3	$ 12	$ 21	$29	$ 50
Regulatory required programs[a]	6	—	6	9	1	10
Transmission revenue	4	—	4	3	—	3
Other, net	(2)	1	(1)	1	2	3
Total increase	$ 17	$ 4	$ 21	$ 34	$32	$ 66

(a)Includes an increase of revenues for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An offsetting amount has been reflected in Operating and maintenance expense.

Distribution Rate Increase. The increase in distribution revenues for the three and six months ended June 30, 2017, compared to the same period in 2016, was primarily due to the impact of the electric and natural gas distribution rates charged to customers that became effective in June 2016 in accordance with the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Revenue Decoupling. The demand for electricity and natural gas is affected by weather and usage conditions. The MDPSC allows BGE to record a monthly adjustment to its electric and natural gas distribution revenue from all residential customers, commercial electric customers, the majority of large industrial electric customers, and all firm service natural gas customers to eliminate the effect of abnormal weather and usage patterns per customer on BGE's electric and natural gas distribution volumes, thereby recovering a specified dollar amount of distribution revenue per customer, by customer class, regardless of fluctuations in actual consumption levels. This allows BGE to recognize revenue at MDPSC-approved distribution charges per customer, regardless of what BGE's actual distribution volumes were for a billing period. Therefore, while this revenue is affected by customer growth (i.e., increase in the number of customers), it will not be affected by actual weather or usage conditions (i.e., changes in consumption per customer). BGE bills or credits customers in subsequent months for the difference between approved revenue levels under revenue decoupling and actual customer billings.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in BGE's service territory. The changes in heating and cooling degree days in BGE's service territory for the three and six months ended June 30, 2017 compared to the same period in 2016 consisted of the following:

Heating and Cooling Degree-Days	2017	2016	Normal	% Change	
				2017 vs. 2016	2017 vs. Normal
Three Months Ended June 30,					
Heating Degree-Days	397	574	511	(30.8)%	(22.3)%
Cooling Degree-Days	283	219	255	29.2%	11.0%
Six Months Ended June 30,					
Heating Degree-Days	2,460	2,854	2,915	(13.8)%	(15.6)%
Cooling Degree-Days	283	219	255	29.2%	11.0%

Regulatory Required Programs. This represents the change in revenue collected under approved riders to recover costs incurred for the energy efficiency and demand response programs. The riders are designed to provide full cost recovery, as well as a return in certain instances. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in BGE's Consolidated Statements of Operations and Comprehensive Income.

Transmission Revenue. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing determinants. The transmission revenue stayed relatively consistent during the three and six months ended June 30, 2017 compared to the same period in 2016. See Operating and Maintenance Expense below and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Other, Net. Other net revenue, which can vary from period to period, includes commodity electric and gas revenue and other miscellaneous revenue such as service application and late payment fees; partially offset by commodity electric and gas purchased fuel and energy.

Operating and Maintenance Expense

The changes in Operating and maintenance expense for the three and six months ended June 30, 2017 compared to the same period in 2016, consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Impairment on long-lived assets and losses on regulatory assets (a)	$ (51)	$ (51)
Storm-related costs	(2)	(14)
City of Baltimore conduit fees	(4)	(8)
BSC costs	—	3
Uncollectible accounts expense	7	—
Other(b)	16	17
Total decrease	$ (34)	$ (53)

(a) See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

(b) Includes an increase of costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An offsetting amount has been reflected in operating revenue.

Depreciation and Amortization

The changes in Depreciation and amortization expense for the three and six months ended June 30, 2017 compared to the same period in 2016 consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Depreciation expense(a)	$ 1	$ 4
Regulatory asset amortization(b)	14	29
Total increase	$ 15	$ 33

(a) Depreciation expense increased due to ongoing capital expenditures.

(b) Regulatory asset amortization increased for the three and six months ended June 30, 2017 compared to the same period in 2016 primarily due to an increase in regulatory asset amortization related to energy efficiency programs and the initiation of cost recovery of the AMI programs under the final electric and natural gas distribution rate case order issued by the MDPSC in June 2016 and increased depreciation from AMI program capital expenditures. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Taxes Other Than Income

Taxes other than income, which can vary period to period, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income for the three and six months ended June 30, 2017 compared to the same period in 2016 remained relatively consistent.

Interest Expense, Net

Interest expense, net increased during the three and six months ended June 30, 2017, compared to the same period in 2016 primarily due to the issuance of Notes in August 2016.

Effective Income Tax Rate

BGE’s effective income tax rate was 40.8% and 15.0% for the three months ended June 30, 2017 and 2016, respectively. BGE’s effective income tax rate was 39.6% and 35.1% for the six months ended June 30, 2017 and 2016, respectively. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

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BGE Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Weather - Normal % Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change	Weather - Normal % Change
Retail Deliveries[a]								
Residential	2,629	2,616	0.5%	(4.5)%	5,756	6,095	(5.6)%	(5.2)%
Small commercial & industrial	677	692	(2.2)%	(5.2)%	1,425	1,466	(2.8)%	(4.5)%
Large commercial & industrial	3,373	3,417	(1.3)%	(0.9)%	6,641	6,635	0.1%	(1.7)%
Public authorities & electric railroads	72	72	—%	(0.1)%	140	143	(2.1)%	(2.4)%
Total electric deliveries	6,751	6,797	(0.7)%	(2.8)%	13,962	14,339	(2.6)%	(3.5)%

Number of Electric Customers	As of June 30, 2017	As of June 30, 2016
Residential	1,154,330	1,142,073
Small commercial & industrial	113,329	112,980
Large commercial & industrial	12,113	11,980
Public authorities & electric railroads	276	281
Total	1,280,048	1,267,314

Electric Revenue	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Retail Sales[a]						
Residential	$ 315	$ 324	(2.8)%	$ 720	$ 753	(4.4)%
Small commercial & industrial	63	65	(3.1)%	135	137	(1.5)%
Large commercial & industrial	110	115	(4.3)%	223	215	3.7%
Public authorities & electric railroads	8	9	(11.1)%	15	18	(16.7)%
Total retail	496	513	(3.3)%	1,093	1,123	(2.7)%
Other revenue[b][c]	75	71	5.6%	144	141	2.1%
Total electric revenue	$ 571	$ 584	(2.2)%	$ 1,237	$ 1,264	(2.1)%

(a) Reflects delivery volumes and revenue from customers purchasing electricity directly from BGE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from BGE, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes wholesale transmission revenue and late payment charges.

(c) Includes operating revenues from affiliates totaling $2 million and $2 million for the three months ended June 30, 2017 and 2016, respectively, and $3 million and $4 million for the six months ended June 30, 2017 and 2016, respectively.

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BGE Natural Gas Operating Statistics and Revenue Detail

Deliveries to Customers (in mmcf)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Weather - Normal % Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change	Weather - Normal % Change
Retail Deliveries[a]								
Retail sales	13,028	17,672	(26.3)%	(16.3)%	49,399	56,256	(12.2)%	(3.2)%
Transportation and other[b]	116	271	(57.2)%	n/a	2,395	2,767	(13.4)%	n/a
Total natural gas deliveries	13,144	17,943	(26.7)%	(16.3)%	51,794	59,023	(12.2)%	(3.2)%

Number of Gas Customers	As of June 30, 2017	As of June 30, 2016
Residential	624,392	618,268
Commercial & industrial	44,020	44,078
Total	668,412	662,346

Natural Gas Revenue	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Retail Sales[a]						
Retail sales	$ 99	$ 93	6.5%	$ 369	$ 331	11.5%
Transportation and other[b]	4	3	33.3%	19	14	35.7%
Total natural gas revenues[c]	$ 103	$ 96	7.3%	$ 388	$ 345	12.5%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from BGE and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. The cost of natural gas is charged to customers purchasing natural gas from BGE.

(b) Transportation and other gas revenue includes off-system revenue of 116 mmcfs ($1 million) and 271 mmcfs ($2 million) for the three months ended June 30, 2017 and 2016, respectively. Transportation and other gas revenue includes off-system revenue of 2,395 mmcfs ($13 million) and 2,767 mmcfs ($11 million) for the six months ended June 30, 2017 and 2016, respectively.

(c) Includes operating revenues from affiliates totaling $1 million and $2 million for the three months ended June 30, 2017 and 2016, respectively, and $5 million and $5 million for the six months ended June 30, 2017 and 2016, respectively.

Results of Operations — PHI

PHI's results of operations include the results of its three reportable segments, Pepco, DPL and ACE for all periods presented below. For "Predecessor" reporting periods, PHI's results of operations also include the results of PES and PCI. See Note 19 — Segment Information of the Combined Notes to Consolidated Financial Statements for additional information regarding PHI's reportable segments. All material intercompany accounts and transactions have been eliminated in consolidation. A separate specific discussion of the results of operations for Pepco, DPL and ACE is presented elsewhere in this report.

As a result of the PHI Merger, the following consolidated financial results present two separate reporting periods for 2016. The "Predecessor" reporting period represents PHI's results of operations for the period from January 1, 2016 to March 23, 2016. The "Successor" reporting periods represent PHI's results of operations for the three and six months ended June 30, 2017, the three months ended June 30, 2016 and for the period from March 24, 2016 to June 30, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	Successor			*Successor*		*Predecessor*
	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Favorable (Unfavorable) Variance	Six Months Ended June 30, 2017	March 24 to June 30, 2016	January 1 to March 23, 2016
Operating revenues	$1,074	$1,066	$ 8	$ 2,248	$ 1,171	$ 1,153
Purchased power and fuel expense	383	416	33	845	454	497
Revenue net of purchased power and fuel expense[(a)]	691	650	41	1,403	717	656
Other operating expenses						
Operating and maintenance	269	246	(23)	524	695	294
Depreciation and amortization	165	160	(5)	332	174	152
Taxes other than income	110	108	(2)	221	123	105
Total other operating expenses	544	514	(30)	1,077	992	551
Gain on sales of assets	1	—	1	1	—	—
Operating income (loss)	148	136	12	327	(275)	105
Other income and (deductions)						
Interest expense, net	(59)	(66)	7	(122)	(71)	(65)
Other, net	13	11	2	26	12	(4)
Total other income and (deductions)	(46)	(55)	9	(96)	(59)	(69)
Income (loss) before income taxes	102	81	21	231	(334)	36
Income taxes	36	29	(7)	26	(77)	17
Net income (loss)	$ 66	$ 52	$ 14	$ 205	$ (257)	$ 19

(a) PHI evaluates its operating performance using the measure of revenue net of purchased power and fuel expense for electric and natural gas sales. PHI believes revenue net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. PHI has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Successor Period Three Months Ended June 30, 2017 Compared to Successor Period Three Months Ended June 30, 2016

Net Income

PHI's Net income for the Successor period of three months ended June 30, 2017 was $66 million compared to $52 million for the Successor period of three months ended June 30, 2016. The increase in Net income reflects the impact of increases in electric distribution and natural gas rates within Revenue net of purchased power expense (Pepco electric distribution rates effective November 2016 in Maryland, DPL electric distribution rates effective February 2017 in Maryland, DPL electric distribution and natural gas rates effective July 2016 and December 2016 in Delaware, and ACE electric distribution rates effective August 2016 in New Jersey). Operating and maintenance expense increased primarily due to higher preventative maintenance expense, partially offset by merger commitment adjustments recorded in June 2017.

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Operating Revenue Net of Purchased Power and Fuel Expense

Operating revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed above, increased by $41 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The increase is primarily attributable to the following favorable factors:

- Increase of $14 million at Pepco primarily related to the impact of the new electric distribution rates charged to customers in Maryland that became effective in November 2016;
- Increase of $10 million at DPL primarily related to the impact of the new electric distribution and natural gas rates charged to Delaware customers that became effective in July 2016 and December 2016 and the impact of new electric distribution rates charged to Maryland customers that became effective in February 2017; and
- Increase of $13 million at ACE primarily related to the impact of the new electric distribution base rate charged to customers that became effective in August 2016.

Operating and Maintenance Expense

Operating and maintenance expense increased by $23 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The increase is attributable to the following unfavorable factors:

- Increase of $11 million at Pepco primarily due to an increase in preventative maintenance costs and higher uncollectible expense, partially offset by a merger commitment adjustment;
- Increase of $10 million at ACE primarily due to an increase in preventive maintenance costs;
- Increase of $6 million at Corporate primarily due to an increase in BSC costs and service company allocations;
- Partially offset by a decrease of $4 million at DPL due primarily to lower write-offs of construction work in progress and a merger commitment adjustment, partially offset by higher preventative maintenance costs.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by $5 million primarily due to higher depreciation as a result of higher Maryland depreciation rates at Pepco effective November 2016 and at DPL effective February 2017 and due to ongoing capital expenditures at Pepco, DPL, and ACE, partially offset by lower amortization expense at ACE resulting from lower revenue due to rate decreases effective October 2016 for the ACE Transition Bond Charge and ACE Market Transition Charge Tax.

Taxes Other Than Income

Taxes other than income increased by $2 million primarily due to higher property taxes at Pepco.

Interest Expense, Net

Interest expense decreased by $7 million primarily due to the redemption of long-term debt in December 2016 and lower short-term debt interest rates.

Other, Net

Other, net for the three months ended June 30, 2017 remained relatively level compared to the same period in 2016.

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Effective Income Tax Rate

PHI’s effective income tax rate was 35.3% and 35.8% for the three months ended June 30, 2017 and 2016, respectively. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Successor Period Six Months Ended June 30, 2017

PHI’s Net income for the Successor period of six months ended June 30, 2017 was $205 million. There were no significant changes in the underlying trends affecting PHI’s operations during the Successor period of six months ended June 30, 2017 except for the impact of increases in electric distribution and natural gas rates within Revenue net of purchased power expense (Pepco electric distribution rates effective November 2016 in Maryland, DPL electric distribution rates effective February 2017 in Maryland, DPL electric distribution and natural gas rates effective July 2016 and December 2016 in Delaware, and ACE electric distribution rates effective August 2016 in New Jersey). Lower uncollectible accounts expense and the deferral of merger-related costs to a regulatory asset contributed to lower Operating and maintenance expense. Income taxes were lower due to unrecognized tax benefits of $59 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017.

PHI’s effective income tax rate for the Successor period of six months ended June 30, 2017 was 11.3%. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Successor Period March 24, 2016 to June 30, 2016

PHI’s Net loss for the Successor period from March 24, 2016 to June 30, 2016 was $257 million**.** There were no significant changes in the underlying trends affecting PHI’s results of operations during the Successor period of March 24, 2016 to June 30, 2016 except for the pre-tax recording of $419 million of non-recurring merger-related costs within Operating and maintenance expense.

PHI’s effective income tax rate for the Successor period of March 24, 2016 to June 30, 2016 was 23.1%. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Predecessor Period January 1, 2016 to March 23, 2016

PHI’s Net income for the Predecessor period of January 1, 2016 to March 23, 2016 was $19 million**.** There were no significant changes in the underlying trends affecting PHI’s results of operations during the Predecessor period of January 1, 2016 to March 23, 2016 except for the pre-tax recording of $29 million of non-recurring merger-related costs within Operating and maintenance expense and $18 million of preferred stock derivative expense within Other, net.

PHI’s effective income tax rate for the Predecessor period of January 1, 2016 to March 23, 2016 was 47.2%. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

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Results of Operations—Pepco

	Three Months Ended June 30,		Favorable (Unfavorable) Variance	Six Months Ended June 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$ 514	$ 509	$ 5	$1,045	$1,061	$ (16)
Purchased power expense	143	152	9	309	351	42
Revenue net of purchased power expense (a)	371	357	14	736	710	26
Other operating expenses						
Operating and maintenance	120	109	(11)	234	399	165
Depreciation and amortization	78	70	(8)	160	144	(16)
Taxes other than income	90	89	(1)	180	182	2
Total other operating expenses	288	268	(20)	574	725	151
Gain on sales of assets	1	8	(7)	1	8	(7)
Operating income (loss)	84	97	(13)	163	(7)	170
Other income and (deductions)						
Interest expense, net	(28)	(31)	3	(58)	(68)	10
Other, net	7	6	1	15	14	1
Total other income and (deductions)	(21)	(25)	4	(43)	(54)	11
Income (loss) before income taxes	63	72	(9)	120	(61)	181
Income taxes	20	23	3	19	(1)	(20)
Net income (loss)	$ 43	$ 49	$ (6)	$ 101	$ (60)	$ 161

(a) Pepco evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. Pepco believes revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Pepco has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Pepco's Net income for the three months ended June 30, 2017, was lower than the same period in 2016, primarily due to higher Operating and maintenance expense due to an increase in preventative maintenance costs and higher uncollectible expense, higher depreciation expense due to increased depreciation rates in Maryland effective November 2016 and a gain on sale of land recorded in 2016, partially offset by an increase in Revenue net of purchased power expense resulting from higher electric distribution revenues as a result of the distribution rate increase approved by the MDPSC effective November 2016.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Pepco's Net income (loss) for the six months ended June 30, 2017, was higher than the same period in 2016, primarily due to an increase in Revenue net of purchased power expense resulting from higher electric distribution revenues as a result of the distribution rate increase approved by the MDPSC effective November 2016, lower Operating and maintenance expense due to merger-related costs recognized in March 2016 and lower uncollectible accounts expense, and a decrease in income tax reserves in the first quarter of 2017 for uncertain tax positions related to the deductibility of certain merger commitments, partially offset by higher depreciation expense due to increased depreciation rates in Maryland effective November 2016.

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Operating Revenue Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to Pepco's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that Pepco receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All Pepco customers have the choice to purchase electricity from competitive electric generation suppliers. The customers' choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three and six months ended June 30, 2017, compared to the same periods in 2016, consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Electric	67%	67%	66%	65%

Retail customers purchasing electric generation from competitive electric generation suppliers at June 30, 2017 and 2016 consisted of the following:

	June 30, 2017		June 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	179,736	21%	175,657	21%

Retail deliveries purchased from competitive electric generation suppliers represented 74% and 74% of Pepco's retail kWh sales to the District of Columbia customers and 61% and 60% of Pepco's retail kWh sales to Maryland customers for the three and six months ended June 30, 2017, respectively and 73% and 73% of Pepco's retail kWh sales to the District of Columbia customers and 61% and 59% of Pepco's retail kWh sales to Maryland customers for the three and six months ended June 30, 2016, respectively.

Operating revenues include transmission enhancement credits that Pepco receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by Pepco to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

The changes in Pepco's operating revenues net of purchased power expense for the three and six months ended June 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Volume	$ 4	$ 9
Pricing — distribution revenues	11	27
Regulatory required programs	(3)	(13)
Transmission revenues	4	6
Other	(2)	(3)
Total increase	$ 14	$ 26

Revenue Decoupling. Pepco's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of Pepco in Maryland and in the District of Columbia, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland and the District of Columbia to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

In accounting for the BSA in Maryland and the District of Columbia, a Revenue Decoupling Adjustment is recorded representing either (i) a positive adjustment equal to the amount by which revenue from Maryland and the District of Columbia retail distribution sales falls short of the revenue that Pepco is entitled to earn based on the approved distribution charge per customer or (ii) a negative adjustment equal to the amount by which revenue from such distribution sales exceeds the revenue that Pepco is entitled to earn based on the approved distribution charge per customer.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in Pepco's service territory. The changes in heating and cooling degree days in Pepco's service territory for the three and six months ended June 30, 2017 compared to the same periods in 2016 and normal weather consisted of the following:

				% Change	
	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Three Months Ended June 30,					
Heating Degree-Days	314	397	500	(20.9)%	(37.2)%
Cooling Degree-Days	546	452	475	20.8%	14.9%
Six Months Ended June 30,					
Heating Degree-Days	2,062	2,407	2,638	(14.3)%	(21.8)%
Cooling Degree-Days	550	454	478	21.1%	15.1%

Volume. The increase in operating revenue net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the three and six months ended June 30, 2017 compared to the same periods in 2016, primarily reflects the impact of customer growth.

Pricing — Distribution Revenues. The increase in electric operating revenues net of purchased power expense as a result of pricing for the three and six months ended June 30, 2017 compared to the same periods in

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2016 was primarily due to the impact of higher electric distribution rates charged to customers in Maryland that became effective in November 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in operating and maintenance expense, depreciation and amortization expense and other taxes. Refer to the operating and maintenance expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. The increase in revenue net of purchased power expense for the three months ended June 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses. The increase in revenue net of purchased power expense for the six months ended June 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses, partially offset by lower revenue related to the MAPP abandonment recovery period that ended in March 2016.

Operating and Maintenance Expense

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2017	2016		2017	2016	
Operating and maintenance expense — baseline	$ 117	$ 107	$ 10	$ 232	$ 394	$ (162)
Operating and maintenance expense —regulatory required programs[(a)]	3	2	1	2	5	(3)
Total operating and maintenance expense	$ 120	$ 109	$ 11	$ 234	$ 399	$ (165)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

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The changes in Operating and maintenance expense for the three and six months ended June 30, 2017 compared to the same periods in 2016, consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ 7	$ 12
Storm-related costs	—	1
Remeasurement of AMI-related regulatory asset(a)	(7)	(7)
Uncollectible accounts expense	5	(4)
Deferral of merger-related costs to regulatory asset	8	7
BSC and PHISCO allocations(b)	4	(23)
Merger commitments(c)	(6)	(145)
Other	(1)	(3)
	10	(162)
Regulatory required programs		
Purchased power administrative costs	1	(3)
Total increase (decrease)	$ 11	$ (165)

(a) Related to a remeasurement of a regulatory asset for legacy meters recognized in 2016.
(b) Primarily related to merger severance and compensation costs recognized in 2016.
(c) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three and six months ended June 30, 2017 compared to the same periods in 2016, consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Depreciation expense(a)	$ 8	$ 17
Regulatory asset amortization	—	(1)
Total increase	$ 8	$ 16

(a) Depreciation expense increased due to higher depreciation rates in Maryland effective November 2016 and due to ongoing capital expenditures.

Taxes Other Than Income

Taxes other than income for the three and six months ended June 30, 2017 compared to the same periods in 2016, remained relatively constant.

Gain on sales of assets

Gain on sales of assets for the three and six months ended June 30, 2017 compared to the same periods in 2016 decreased due to a second quarter 2016 gain recorded from the sale of land.

Interest Expense, Net

Interest expense, net for the three months ended June 30, 2017 compared to the same period in 2016, remained relatively constant.

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Interest expense, net for the six months ended June 30, 2017 compared to the same period in 2016 decreased primarily due to the recording of interest expense for an uncertain tax position in the first quarter of 2016 and an increase in capitalized AFUDC interest.

Other, Net

Other, net for the three and six months ended June 30, 2017 compared to the same periods in 2016 remained relatively constant.

Effective Income Tax Rate

Pepco's effective income tax rate was 31.7% and 31.9% for the three months ended June 30, 2017 and 2016, respectively. Pepco's effective income tax rate was 15.8% and 1.6% for the six months ended June 30, 2017 and 2016, respectively. In the first quarter of 2017, Pepco decreased its liability for unrecognized tax benefits by $21 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates.

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Pepco Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Weather-Normal % Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change	Weather-Normal % Change
Retail Deliveries[(a)]								
Residential	1,757	1,760	(0.2)%	3.0%	3,757	3,978	(5.6)%	(1.2)%
Small commercial & industrial	326	348	(6.3)%	(5.2)%	652	730	(10.7)%	(9.0)%
Large commercial & industrial	3,675	3,631	1.2%	1.3%	7,160	7,576	(5.5)%	(5.0)%
Public authorities & electric railroads	172	176	(2.3)%	(2.3)%	362	364	(0.5)%	(0.8)%
Total retail deliveries	5,930	5,915	0.3%	1.3%	11,931	12,648	(5.7)%	(3.9)%

Number of Electric Customers	As of June 30, 2017	As of June 30, 2016
Residential	787,708	771,541
Small commercial & industrial	53,393	53,345
Large commercial & industrial	21,767	21,401
Public authorities & electric railroads	139	127
Total	863,007	846,414

Electric Revenue	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Retail Sales[(a)]						
Residential	$ 220	$ 220	—%	$ 461	$ 476	(3.2)%
Small commercial & industrial	41	36	13.9%	75	73	2.7%
Large commercial & industrial	192	195	(1.5)%	387	395	(2.0)%
Public authorities & electric railroads	8	8	—%	16	16	—%
Total retail	461	459	0.4%	939	960	(2.2)%
Other revenue[(b)]	53	50	6.0%	106	101	5.0%
Total electric revenue[(c)]	$ 514	$ 509	1.0%	$ 1,045	$ 1,061	(1.5)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from Pepco and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from Pepco, revenue also reflects the cost of energy and transmission.
(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.
(c) Includes operating revenues from affiliates totaling $1 million and $1 million for the three months ended June 30, 2017 and 2016, respectively, and $3 million and $3 million for the six months ended June 30, 2017 and 2016, respectively.

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Results of Operations — DPL

	Three Months Ended June 30,		Favorable (Unfavorable) Variance	Six Months Ended June 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$282	$281	$ 1	$644	$643	$ 1
Purchased power and fuel expense	113	122	9	270	298	28
Revenues net of purchased power and fuel expense(a)	169	159	10	374	345	29
Other operating expenses						
Operating and maintenance	74	78	4	148	283	135
Depreciation and amortization	40	38	(2)	79	76	(3)
Taxes other than income	14	13	(1)	28	28	—
Total other operating expenses	128	129	1	255	387	132
Operating income (loss)	41	30	11	119	(42)	161
Other income and (deductions)						
Interest expense, net	(13)	(13)	—	(25)	(25)	—
Other, net	3	3	—	6	6	—
Total other income and (deductions)	(10)	(10)	—	(19)	(19)	—
Income (loss) before income taxes	31	20	11	100	(61)	161
Income taxes	12	8	(4)	24	(1)	(25)
Net income (loss)	$ 19	$ 12	$ 7	$ 76	$ (60)	$ 136

(a) DPL evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales and revenue net of fuel expense for natural gas sales. DPL believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements because they provide information that can be used to evaluate its operational performance. DPL has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense and Revenue net of fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. DPL's Net income for the three months ended June 30, 2017, was higher than the same period in 2016 as a result of an increase in Revenue net of purchased power and fuel expense primarily resulting from higher electric distribution and natural gas revenues as a result of the distribution rate increases approved by the DPSC effective July 2016 and December 2016 and by the MDPSC effective February 2017.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. DPL's Net income (loss) for the six months ended June 30, 2017, was higher than the same period in 2016 as a result of an increase in Revenue net of purchased power and fuel expense primarily resulting from higher electric distribution and natural gas revenues as a result of the distribution rate increases approved by the DPSC effective July 2016 and December 2016 and by the MDPSC effective February 2017, lower Operating and maintenance expense due to merger-related costs recognized in March 2016, lower uncollectible accounts expense, and the deferral of merger-related costs to a regulatory asset in 2017, and a decrease in income tax reserves in the first quarter of 2017 for uncertain tax positions related to the deductibility of certain merger commitments.

Revenues Net of Purchased Power and Fuel Expense

Operating revenues include revenue from the distribution and supply of electricity to DPL's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that DPL receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric and natural gas revenues and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All DPL customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three and six months ended June 30, 2017 and 2016, consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Electric	55%	56%	52%	52%
Natural Gas	44%	39%	31%	29%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at June 30, 2017 and 2016 consisted of the following:

	June 30, 2017		June 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	79,620	15.3%	76,709	14.9%
Natural Gas	155	0.1%	157	0.1%

Retail deliveries purchased from competitive electric generation suppliers represented 57% and 55% of DPL's retail kWh sales to Delaware customers and 51% and 48% of DPL's retail kWh sales to Maryland customers for the three and six months ended June 30, 2017, respectively and 57% and 54% of DPL's retail kWh sales to Delaware customers and 52% and 48% of DPL's retail kWh sales to Maryland customers for the three and six months ended June 30, 2016, respectively.

Operating revenues include transmission enhancement credits that DPL receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Natural gas operating revenue includes sources that are subject to price regulation (Regulated Gas Revenue) and those that generally are not subject to price regulation (Other Gas Revenue). Regulated gas revenue includes the revenue DPL receives from on-system natural gas delivered sales and the transportation of natural gas for customers within its service territory at regulated rates. Other gas revenue consists of off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers. Off-system sales are made possible when low demand for natural gas by regulated customers creates excess pipeline capacity.

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Purchased power expense consists of the cost of electricity purchased by DPL to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders. Purchased fuel expense consists of the cost of gas purchased by DPL to fulfill its obligation to regulated gas customers and, as such, is recoverable from customers in accordance with the terms of public service commission orders. It also includes the cost of gas purchased for off-system sales.

The changes in DPL's operating revenues net of purchased power and fuel expense for the three and six months ended June 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Weather	$ (1)	$ (8)	$ (9)	$ (3)	$(12)	$(15)
Volume	2	5	7	1	9	10
Pricing — distribution revenues	12	(1)	11	31	2	33
Regulatory required programs	1	—	1	2	—	2
Transmission revenues	1	—	1	(1)	—	(1)
Other	—	(1)	(1)	1	(1)	—
Total increase (decrease)	$ 15	$ (5)	$ 10	$ 31	$ (2)	$ 29

Revenue Decoupling. DPL's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of DPL in Maryland, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. A modified fixed variable rate design, which would provide for a charge not tied to a customer's volumetric consumption of electricity or natural gas, has been proposed for DPL electricity and natural gas customers in Delaware. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

In accounting for the BSA in Maryland, a Revenue Decoupling Adjustment is recorded representing either (i) a positive adjustment equal to the amount by which revenue from Maryland retail distribution sales falls short of the revenue that DPL is entitled to earn based on the approved distribution charge per customer or (ii) a negative adjustment equal to the amount by which revenue from such distribution sales exceeds the revenue that DPL is entitled to earn based on the approved distribution charge per customer.

Weather. The demand for electricity and natural gas in areas not subject to the BSA is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. During the three and six months ended June 30, 2017 compared to the same periods in 2016, operating revenue net of purchased power and fuel expense was lower due to the impact of unfavorable weather conditions in DPL's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in DPL's electric service territory and a 30-year period in DPL's natural gas service territory. The changes in heating and cooling degree days in DPL’s service territory for the three and six months ended June 30, 2017 compared to the same periods in 2016 and normal weather consisted of the following:

Electric Service Territory				% Change	
Three Months Ended June 30,	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	481	551	702	(12.7)%	(31.5)%
Cooling Degree-Days	342	304	264	12.5%	29.5%
Six Months Ended June 30,					
Heating Degree-Days	2,483	2,798	3,119	(11.3)%	(20.4)%
Cooling Degree-Days	342	307	266	11.4%	28.6%

Natural Gas Service Territory				% Change	
Three Months Ended June 30,	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	372	559	504	(33.5)%	(26.2)%
Six Months Ended June 30,					
Heating Degree-Days	2,403	2,893	3,020	(16.9)%	(20.4)%

Volume. The increase in operating revenue net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the three and six months ended June 30, 2017 compared to the same periods in 2016, primarily reflects the impact of increased natural gas average customer usage and customer growth.

Pricing — Distribution Revenues. The increase in electric operating revenues net of purchased power expense as a result of pricing for the three and six months ended June 30, 2017 compared to the same periods in 2016 was primarily due to the impact of higher electric distribution and natural gas rates charged to Delaware customers that became effective in July and December 2016 and the impact of higher electric distribution rates charged to Maryland customers that became effective in February 2017. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in operating and maintenance expense, depreciation and amortization expense and income taxes. Refer to the operating and maintenance expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. The increase in revenue net of purchased power expense for the three months ended June 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses. The decrease in revenue net of purchased power expense for the six months ended June 30, 2017 compared to the same period in 2016 is a result of lower revenue related to the MAPP abandonment recovery period that ended in March 2016, partially offset by higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses.

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Operating and Maintenance Expense

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Increase (Decrease)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Increase (Decrease)
Operating and maintenance expense — baseline	$ 72	$ 76	$ (4)	$ 145	$ 278	$ (133)
Operating and maintenance expense —regulatory required programs[a]	2	2	—	3	5	(2)
Total operating and maintenance expense	$ 74	$ 78	$ (4)	$ 148	$ 283	$ (135)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the three and six months ended June 30, 2017 compared to the same periods in 2016, consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ 4	$ —
Storm-related costs	(1)	6
Uncollectible accounts expense	(2)	(7)
Remeasurement of AMI-related regulatory asset[a]	(1)	(1)
Deferral of merger-related costs to regulatory asset	2	(7)
Write-off of construction work in progress	(3)	—
BSC and PHISCO allocations[b]	1	(15)
Merger commitments[c]	(1)	(104)
Other	(3)	(5)
	(4)	(133)
Regulatory required programs		
Purchased power administrative costs	—	(2)
Total decrease	$ (4)	$ (135)

(a) Related to a remeasurement of a regulatory asset for legacy meters recognized in 2016.
(b) Primarily related to merger severance and compensation costs recognized in 2016.
(c) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three and six months ended June 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Depreciation expense[a]	$ 3	$ 6
Regulatory asset amortization[b]	(1)	(3)
Total increase	$ 2	$ 3

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(a) Depreciation expense increased due to higher depreciation rates in Maryland effective February 2017 and due to ongoing capital expenditures.

(b) Regulatory asset amortization decreased for the six months ended June 30, 2017 compared to the same period in 2016 due to lower amortization of MAPP abandonment costs.

Taxes Other Than Income

Taxes other than income for the three and six months ended June 30, 2017 compared to the same periods in 2016 remained relatively constant.

Interest Expense, Net

Interest expense, net for the three and six months ended June 30, 2017 compared to the same periods in 2016 remained relatively constant.

Other, Net

Other, net for the three and six months ended June 30, 2017 compared to the same periods in 2016 remained relatively constant.

Effective Income Tax Rate

DPL’s effective income tax rate was 38.7% and 40.0% for the three months ended June 30, 2017 and 2016, respectively. DPL’s effective income tax rate was 24.0% and 1.6% for the six months ended June 30, 2017 and 2016, respectively. In the first quarter of 2017, DPL decreased its liability for unrecognized tax benefits by $16 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

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DPL Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Weather-Normal % Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change	Weather-Normal % Change
Retail Deliveries(a)								
Residential	1,045	1,038	0.7%	5.1%	2,404	2,465	(2.5)%	1.9%
Small commercial & industrial	526	532	(1.1)%	(0.2)%	1,057	1,104	(4.3)%	(3.2)%
Large commercial & industrial	1,131	1,164	(2.8)%	(2.8)%	2,195	2,242	(2.1)%	(1.8)%
Public authorities & electric railroads	12	12	—%	—%	25	26	(3.8)%	(3.8)%
Total retail deliveries	2,714	2,746	(1.2)%	0.7%	5,681	5,837	(2.7)%	(0.5)%

Number of Electric Customers	As of June 30, 2017	As of June 30, 2016
Residential	458,361	454,402
Small commercial & industrial	60,499	59,904
Large commercial & industrial	1,410	1,417
Public authorities & electric railroads	636	643
Total	520,906	516,366

Electric Revenue	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Retail Sales(a)						
Residential	$ 144	$ 143	0.7%	$ 325	$ 323	0.6%
Small commercial & industrial	45	46	(2.2)%	89	95	(6.3)%
Large commercial & industrial	25	25	—%	51	50	2.0%
Public authorities & electric railroads	4	3	33.3%	8	7	14.3%
Total retail	218	217	0.5%	473	475	(0.4)%
Other revenue(b)	42	38	10.5%	84	83	1.2%
Total electric revenue(c)	$ 260	$ 255	2.0%	$ 557	$ 558	(0.2)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from DPL and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from DPL, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $2 million and $2 million for the three months ended June 30, 2017 and 2016, respectively, and $4 million and $4 million for the six months ended June 30, 2017 and 2016, respectively.

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DPL Natural Gas Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in mmcf)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Weather-Normal % Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change	Weather-Normal % Change
Retail Deliveries								
Retail sales	1,678	2,072	(19.0)%	4.3%	7,610	8,132	(6.4)%	8.3%
Transportation & other	1,325	1,321	0.3%	4.0%	3,493	3,289	6.2%	9.9%
Total natural gas deliveries	3,003	3,393	(11.5)%	4.2%	11,103	11,421	(2.8)%	8.8%

Number of Gas Customers	As of June 30, 2017	As of June 30, 2016
Residential	121,166	119,592
Commercial & industrial	9,743	9,669
Transportation & other	155	157
Total	131,064	129,418

Natural Gas Revenue	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Retail Sales(a)						
Retail sales	$ 17	$ 21	(19.0)%	$ 75	$ 74	1.4%
Transportation & other(b)	5	5	—%	12	11	9.1%
Total natural gas revenues	$ 22	$ 26	(15.4)%	$ 87	$ 85	2.4%

(a) Reflects delivery volumes and revenues from customers purchasing natural gas directly from DPL and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from DPL, revenue also reflects the cost of natural gas.

(b) Transportation and other revenue includes off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers.

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Results of Operations — ACE

	Three Months Ended June 30,		Favorable (Unfavorable) Variance	Six Months Ended June 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$ 270	$ 270	$ —	$ 544	$ 561	$ (17)
Purchased power expense	128	141	13	266	298	32
Revenues net of purchased power expense(a)	142	129	13	278	263	15
Other operating expenses						
Operating and maintenance	78	68	(10)	152	280	128
Depreciation and amortization	37	41	4	72	81	9
Taxes other than income	2	2	—	4	4	—
Total other operating expenses	117	111	(6)	228	365	137
Gain on sale of assets	—	1	(1)	—	1	(1)
Operating income (loss)	25	19	6	50	(101)	151
Other income and (deductions)						
Interest expense, net	(15)	(16)	1	(30)	(32)	2
Other, net	2	2	—	4	5	(1)
Total other income and (deductions)	(13)	(14)	1	(26)	(27)	1
Income (loss) before income taxes	12	5	7	24	(128)	152
Income taxes	4	2	(2)	(12)	(31)	(19)
Net income (loss)	$ 8	$ 3	$ 5	$ 36	$ (97)	$ 133

(a) ACE evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. ACE believes Revenue net of purchased power expense is a useful measurement of its performance because it provides information that can be used to evaluate its operational performance. ACE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. ACE's Net income for the three months ended June 30, 2017, was higher than the same period in 2016, primarily due to an increase in Revenue net of purchased power expense resulting from higher electric distribution revenues as a result of a distribution rate increase approved by the NJBPU effective August 2016, partially offset by higher Operating and maintenance expense mostly due to an increase in preventive maintenance costs.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. ACE's Net income (loss) for the six months ended June 30, 2017, was higher than the same period in 2016, primarily due to an increase in Revenue net of purchased power expense resulting from higher electric distribution revenues as a result of a distribution rate increase approved by the NJBPU effective August 2016, lower Operating and maintenance expense mostly due to merger-related costs recognized in March 2016 and a decrease in income tax reserves in the first quarter 2017 for uncertain tax positions related to the deductibility of certain merger commitments.

Revenues Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to ACE's customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that

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ACE receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All ACE customers have the choice to purchase electricity from competitive electric generation suppliers. The customer's choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three and six months ended June 30, 2017, compared to the same periods in 2016, consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Electric	51%	49%	50%	48%

Retail customers purchasing electric generation from competitive electric generation suppliers at June 30, 2017 and 2016 consisted of the following:

	June 30, 2017		June 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	92,895	17%	80,325	15%

Operating revenues include revenue from Transition Bond Charges that ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds, revenue from the resale in the PJM wholesale markets for energy and capacity purchased under contacts with unaffiliated NUGs, and revenue from transmission enhancement credits.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by ACE to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

The changes in ACE's operating revenue net of purchased power expense for the three and six months ended June 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
	Increase (Decrease)	Increase (Decrease)
Weather	$ —	$ (1)
Volume	2	(4)
Pricing — distribution revenues	10	19
Regulatory required programs	(5)	(10)
Transmission revenues	6	13
Other	—	(2)
Total increase	$ 13	$ 15

Weather. The demand for electricity is affected by weather conditions. With respect to the electric business, very warm weather in summer months and very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity. Conversely, mild weather reduces demand. During the three months ended June 30, 2017 compared to the same period in 2016, operating revenue net of purchased power and fuel expense remained relatively consistent compared to prior year. During the six months ended June 30, 2017 compared to the same period in 2016, operating revenue net of purchased power and fuel expense was lower due to the impact of slightly unfavorable winter weather conditions in ACE's service territory.

For retail customers of ACE, distribution revenues are not decoupled from the distribution of electricity by ACE, and thus are subject to variability due to changes in customer consumption. Therefore, changes in customer usage (due to weather conditions, energy prices, energy savings programs or other reasons) from period to period have a direct impact on reported distribution revenue for customers in ACE's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in ACE's service territory. The changes in heating and cooling degree days in ACE's service territory for the three and six months ended June 30, 2017 compared to the same periods in 2016 consisted of the following:

				% Change	
	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Three Months Ended June 30,					
Heating Degree-Days	600	651	806	(7.8)%	(25.6)%
Cooling Degree-Days	324	258	285	25.6%	13.7%
Six Months Ended June 30,					
Heating Degree-Days	2,750	2,921	3,294	(5.9)%	(16.5)%
Cooling Degree-Days	324	261	286	24.1%	13.3%

Volume. During the three months ended June 30, 2017, compared to the same period in 2016, the increase in operating revenue net of purchased power expense related to delivery volume, exclusive of the effects of weather, is primarily due to higher average customer usage. During the six months ended June 30, 2017 compared to the same period in 2016, primarily reflects lower average customer usage, partially offset by the impact of customer growth.

Pricing — Distribution Revenues. The increase in operating revenue net of purchased power expense for the three and six months ended June 30, 2017, compared to the same periods in 2016, was primarily due to the impact of higher electric distribution base rates charged to customers that became effective in August 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in operating and maintenance expense, depreciation and amortization expense and income taxes. Refer to the depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. The increase in revenue net of purchased power expense for the three and six months ended June 30, 2017 compared to the same periods in 2016 is a result of higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses.

Operating and Maintenance Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Operating and maintenance expense — baseline	$ 77	$ 67	$ 10	$ 150	$ 278	$ (128)
Operating and maintenance expense —regulatory required programs(a)	1	1	—	2	2	—
Total operating and maintenance expense	$ 78	$ 68	$ 10	$ 152	$ 280	$ (128)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the three and six months ended June 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ 5	$ 3
Storm-related costs	—	1
BSC and PHISCO allocations(a)	2	(11)
Uncollectible accounts expense	—	(1)
Merger commitments(b)	—	(120)
Other	3	—
Total increase (decrease)	$ 10	$ (128)

(a) Primarily related to merger severance and compensation costs recognized in 2016.
(b) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three and six months ended June 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended June 30, 2017 Increase (Decrease)	Six Months Ended June 30, 2017 Increase (Decrease)
Depreciation expense(a)	$ 2	$ 3
Regulatory asset amortization(b)	(6)	(12)
Total decrease	$ (4)	$ (9)

(a) Depreciation expense increased due to ongoing capital expenditures.
(b) Regulatory asset amortization decreased for the three and six months ended June 30, 2017 compared to the same periods in 2016 as a result of lower revenue due to rate decreases effective October 2016 for the ACE Transition Bond Charge and Market Transition Charge Tax.

Taxes Other Than Income

Taxes other than income for the three and six months ended June 30, 2017 compared to the same periods in 2016, remained relatively constant.

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Gain on sales of assets

Gain on sales of assets for the three and six months ended June 30, 2017 compared to the same periods in 2016 remained relatively constant.

Interest Expense, Net

Interest expense, net for the three and six months ended June 30, 2017 compared to the same periods in 2016 remained relatively constant.

Other, Net

Other, net for the three and six months ended June 30, 2017 compared to the same periods in 2016, remained relatively constant.

Effective Income Tax Rate

ACE's effective income tax rate was 33.3% and 40.0% for the three months ended June 30, 2017 and 2016, respectively. ACE's effective income tax rate was (50.0)% and 24.2% for the six months ended June 30, 2017 and 2016, respectively. In the first quarter of 2017, ACE decreased its liability for unrecognized tax benefits by $22 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 11 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

ACE Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Weather - Normal % Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change	Weather - Normal % Change
Retail Deliveries(a)								
Residential	814	814	—%	0.2%	1,693	1,752	(3.4)%	(2.3)%
Small commercial & industrial	302	283	6.7%	7.1%	585	572	2.3%	2.8%
Large commercial & industrial	853	853	—%	(0.2)%	1,618	1,673	(3.3)%	(3.5)%
Public authorities & electric railroads	11	9	22.2%	22.2%	24	24	—%	—%
Total retail deliveries	1,980	1,959	1.1%	1.1%	3,920	4,021	(2.5)%	(2.1)%

Number of Electric Customers	As of June 30, 2017	As of June 30, 2016
Residential	486,173	483,044
Small commercial & industrial	61,013	60,928
Large commercial & industrial	3,744	3,806
Public authorities & electric railroads	629	594
Total	551,559	548,372

Electric Revenue	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
Retail Sales(a)						
Residential	$ 130	$ 131	(0.8)%	$ 272	$ 281	(3.2)%
Small commercial & industrial	40	39	2.6%	76	78	(2.6)%
Large commercial & industrial	49	50	(2.0)%	94	101	(6.9)%
Public authorities & electric railroads	4	3	33.3%	7	6	16.7%
Total retail	223	223	—%	449	466	(3.6)%
Other revenue(b)	47	47	—%	95	95	—%
Total electric revenue(c)	$ 270	$ 270	—%	$ 544	$ 561	(3.0)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from ACE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from ACE, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $1 million and $1 million for the three months ended June 30, 2017 and 2016, respectively, and $1 million and $2 million for the six months ended June 30, 2017 and 2016, respectively.

Liquidity and Capital Resources

Exelon activity presented below includes the activity of PHI, Pepco, DPL and ACE, from the PHI Merger effective date of March 24, 2016 through June 30, 2017. Exelon prior year activity is unadjusted for the effects of the PHI Merger. Due to the application of push-down accounting to the PHI entity, PHI’s activity is presented in two separate reporting periods, the legacy PHI activity through March 23, 2016 (Predecessor), and PHI activity for the remainder of the period after the PHI merger date (Successor). For each of Pepco, DPL and ACE the activity presented below include its activity for the six months ended June 30, 2017 and 2016. All results included throughout the liquidity and capital resources section are presented on a GAAP basis.

The Registrants’ operating and capital expenditures requirements are provided by internally generated cash flows from operations as well as funds from external sources in the capital markets and through bank borrowings. The Registrants’ businesses are capital intensive and require considerable capital resources. Each Registrant’s access to external financing on reasonable terms depends on its credit ratings and current overall capital market business conditions, including that of the utility industry in general. If these conditions deteriorate to the extent that the Registrants no longer have access to the capital markets at reasonable terms, the Registrants have access to unsecured revolving credit facilities with aggregate bank commitments of $9 billion. In addition, Generation has $525 million in bilateral facilities with banks which have various expirations between October 2017 and January 2019. The Registrants utilize their credit facilities to support their commercial paper programs, provide for other short-term borrowings and to issue letters of credit. See the “Credit Matters” section below for further discussion. The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

The Registrants primarily use their capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay dividends, fund pension and other postretirement benefit obligations and invest in new and existing ventures. The Registrants spend a significant amount of cash on capital improvements and construction projects that have a long-term return on investment. Additionally, ComEd, PECO, BGE, Pepco, DPL and ACE operate in rate-regulated environments in which the amount of new investment recovery may be delayed or limited and where such recovery takes place over an extended period of time. See Note 10 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further discussion of the Registrants’ debt and credit agreements.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that sufficient funds will be available in certain minimum amounts to decommission the facility. These NRC minimum funding levels are based upon the assumption that decommissioning activities will commence after the end of the current licensed life of each unit. If a unit fails the NRC minimum funding test, then the plant’s owners or parent companies would be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional cash contributions to the NDT fund to ensure sufficient funds are available. See Note 12—Nuclear Decommissioning to the Combined Notes to Consolidated Financial Statements for additional information on the NRC minimum funding requirements.

If a nuclear plant were to early retire there is a risk that it will no longer meet the NRC minimum funding requirements due to the earlier commencement of decommissioning activities and a shorter time period over which the NDT fund investments could appreciate in value. A shortfall could require Exelon to post parental guarantees for Generation’s share of the obligations. However, the amount of any required guarantees will ultimately depend on the decommissioning approach adopted at each site, the associated level of costs, and the decommissioning trust fund investment performance going forward. Within two years after shutting down a plant, Generation must submit a post-shutdown decommissioning activities report (PSDAR) to the NRC that includes the planned option for decommissioning the site. As discussed in Note 12 — Nuclear Decommissioning, Generation filed its biennial decommissioning funding status report with the NRC on March 31, 2017 and demonstrated adequate funding assurance for all nuclear units currently operating. As of June 30, 2017, TMI passes the NRC minimum funding test based on its shortened estimated life under the most likely SAFSTOR decommissioning approach. Under the most costly decommissioning approach of Delayed DECON, which is currently considered unlikely, a parental guarantee of up to $130 million from Exelon could be required.

Upon issuance of any required financial guarantees, each site would be able to utilize the respective NDT funds for radiological decommissioning costs, which represent the majority of the total expected decommissioning costs. However, the NRC must approve an additional exemption in order for the plant’s owner(s) to utilize the NDT fund to pay for non-radiological decommissioning costs (i.e. spent fuel management and site restoration costs). If a unit does not receive this exemption, the costs would be borne by the owner(s).

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While the ultimate amounts may vary greatly and could be reduced by alternate decommissioning scenarios and/or reimbursement of certain costs under the United States Department of Energy reimbursement agreements or future litigation, across the four alternative decommissioning approaches available, if TMI were to fail to obtain the exemption, Generation could incur spent fuel management and site restoration costs over the next ten years of up to $165 million net of taxes, assuming the SAFSTOR decommissioning scenario, which has the highest non-radiological decommissioning costs and is currently considered the most likely decommissioning approach.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes used debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon issued approximately 33 million shares of common stock from treasury stock and received $1.15 billion upon settlement of the forward equity purchase contract. When reissuing treasury stock Exelon uses the average price paid to repurchase shares to calculate a gain or loss on issuance and records gains or losses directly to retained earnings. A loss on reissuance of treasury shares of $1.05 billion was recorded to retained earnings as of June 30, 2017. See Note 16 — Earnings Per Share and Equity for further information on the issuance of common stock.

Cash Flows from Operating Activities

General

Generation's cash flows from operating activities primarily result from the sale of electric energy and energy-related products and services to customers. Generation's future cash flows from operating activities may be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as to obtain collections from customers.

The Utility Registrants' cash flows from operating activities primarily result from the transmission and distribution of electricity and, in the case of PECO, BGE, and DPL, gas distribution services. The Utility Registrants' distribution services are provided to an established and diverse base of retail customers. The Utility Registrants' future cash flows may be affected by the economy, weather conditions, future legislative initiatives, future regulatory proceedings with respect to their rates or operations, competitive suppliers, and their ability to achieve operating cost reductions.

See Notes 3 — Regulatory Matters and 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements of the Exelon 2016 Form 10-K for further discussion of regulatory and legal proceedings and proposed legislation.

The following table provides a summary of the major items affecting Exelon's cash flows from operations for the six months ended June 30, 2017 and 2016:

	Six Months Ended June 30,		
	2017	2016[c]	Variance
Net income	$1,046	$ 430	$ 616
Add (subtract):			
Non-cash operating activities[a]	3,273	3,992	(719)
Pension and non-pension postretirement benefit contributions	(325)	(258)	(67)
Income taxes	58	470	(412)
Changes in working capital and other noncurrent assets and liabilities[b]	(973)	(781)	(192)
Option premiums (paid) received, net	(8)	(10)	2
Collateral (posted) received, net	(173)	710	(883)
Net cash flows provided by operations	$2,898	$4,553	$(1,655)

(a) Represents, when applicable, depreciation, amortization and accretion, net fair value changes related to derivatives, deferred income taxes, provision for uncollectible accounts, pension and other postretirement benefit expense, equity in earnings and losses of unconsolidated affiliates and investments, decommissioning-related items, stock compensation expense, impairment of long-lived assets, PHI merger commitment and severance charges, and other non-cash charges. See Note 18—Supplemental Financial Information for further detail on non-cash operating activity.

(b) Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper, income taxes and the current portion of long-term debt.

(c) Includes PHI Consolidated activity from March 24, 2016 to June 30, 2016.

Pension and Other Postretirement Benefits

Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006, management of the pension obligation and regulatory implications. On July 6, 2012, President Obama signed into law the Moving Ahead for Progress in the Twenty-first Century Act, which contains a pension funding provision that results in lower pension contributions in the near term while increasing the premiums pension plans pay to the Pension Benefit Guaranty Corporation. On August 8, 2014, this funding relief was extended for five years. On November 2, 2015 the funding relief was extended for an additional three years and premiums pension plans pay to the Pension Benefit Guaranty Corporation were further increased.

OPEB funding generally follows accounting cost; however, Exelon's management has historically considered several factors in determining the level of contributions to its funded other postretirement benefit plans, including liabilities management, levels of benefit claims paid and regulatory implications (amounts deemed prudent to meet regulator expectations and best assure continued recovery).

To the extent interest rates decline significantly or the pension plans do not earn the expected asset return rates, annual pension contribution requirements in future years could increase. Additionally, expected contributions could change if Exelon changes its pension or OPEB funding strategy.

Tax Matters

The Registrants' future cash flows from operating activities may be affected by the following tax matters:

- In order to appeal the Tax Court's like-kind exchange decision, Exelon is required to pay the tax, penalties and interest at the time Exelon files its appeal (expected in the second half of 2017). Exelon expects that a payment of approximately $1.3 billion related to the like-kind exchange will be due, including $300 million from ComEd, in the second half of 2017. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total estimated net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts on ComEd's equity from the like-kind exchange position. ComEd will fund the $300 million with a combination of debt and equity in a manner to maintain its current capital structure.

Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. The remaining amount will be paid in the second half of 2017 at the time Exelon files its appeal of the Tax Court decision. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings.

See Note 11 — Income taxes for discussion of the like-kind exchange tax position.

- State and local governments continue to face increasing financial challenges, which may increase the risk of additional income tax levies, property taxes and other taxes or the imposition, extension or permanence of temporary tax levies. In the third quarter of 2017, Illinois increased the corporate income tax rate from 7.75% to 9.5% effective July 1, 2017.

  See Note 11 — Income taxes for discussion of the Illinois tax rate change.

Cash flows from operations for the six months ended June 30, 2017 and 2016 by Registrant were as follows:

	Six Months Ended June 30,	
	2017	2016
Exelon	$ 2,898	$ 4,553
Generation	974	2,387
ComEd	788	1,128
PECO	368	339
BGE	472	489
Pepco	129	365
DPL	194	220
ACE	77	208

	Successor		*Predecessor*
	Six Months Ended June 30, 2017	March 24, 2016 to June 30, 2016	January 1, 2016 to March 23, 2016
PHI	$ 403	$ 188	$ 264

Changes in the Registrants' cash flows from operations were generally consistent with changes in each Registrant's respective results of operations, as adjusted by changes in working capital in the normal course of business, except as discussed below. In addition, significant operating cash flow impacts for the Registrants for the six months ended June 30, 2017 and 2016 were as follows:

Generation

- Depending upon whether Generation is in a net mark-to-market liability or asset position, collateral may be required to be posted with or collected from its counterparties. In addition, the collateral posting and collection requirements differ depending on whether the transactions are on an exchange or in the OTC markets. During the six months ended June 30, 2017 and 2016, Generation had net (payments)/collections of counterparty cash collateral of $(163) million and $720 million, respectively, primarily due to market conditions that resulted in changes to Generation's net mark-to-market position.

- During the six months ended June 30, 2017 and 2016, Generation had net payments of approximately $8 million and $10 million, respectively, related to purchases and sales of options. The level of option activity in a given period may vary due to several factors, including changes in market conditions as well as changes in hedging strategy.

ComEd

- During six months ended June 30, 2017 and 2016, ComEd posted approximately $13 million and received a return of $10 million of cash collateral with PJM, respectively. ComEd's collateral posted with PJM has increased year over year primarily due to a reduction in ComEd's share of Exelon's unsecured credit with PJM. As of June 30, 2017 and 2016, ComEd had approximately $36 million and $41 million cash collateral posted with PJM, respectively.

For further discussion regarding changes in non-cash operating activities, please refer to Note 18—Supplemental Financial Information of the Combined Notes to the Financial Statements.

Cash Flows from Investing Activities

Cash flows used in investing activities for the six months ended June 30, 2017 and 2016 by Registrant were as follows:

	Six Months Ended June 30,	
	2017	2016
Exelon	$(3,980)	$(10,877)
Generation	(1,357)	(2,210)
ComEd	(1,166)	(1,313)
PECO	(242)	(291)
BGE	(383)	(375)
Pepco	(293)	(307)
DPL	(191)	(180)
ACE	(173)	(160)

	Successor		*Predecessor*
	Six Months Ended June 30, 2017	March 24, 2016 to June 30, 2016	January 1, 2016 to March 23, 2016
PHI	$ (667)	$ (350)	$ (343)

Significant investing cash flow impacts for the Registrants for six months ended June 30, 2017 and 2016 were as follows:

Exelon

- During the six months ended June 30, 2017, Exelon had expenditures of $23 million and $182 million relating to the acquisitions of ConEdison Solutions and the FitzPatrick facility, respectively. During the six months ended June 30, 2016 , Exelon had expenditures of $6.6 billion relating to the acquisition of PHI.
- During the six months ended June 30, 2016, Exelon had proceeds of $360 million as a result of early termination of direct financing leases.

Generation

- During the six months ended June 30, 2017, Exelon had expenditures of $23 million and $182 million relating to the acquisitions of ConEdison Solutions and the FitzPatrick facility, respectively.

Capital Expenditure Spending

Generation

Generation has entered into several agreements to acquire equity interests in privately held and development stage entities which develop energy-related technologies. The agreements contain a series of scheduled investment commitments, including in-kind service contributions. There are anticipated expenditures remaining through 2019 to fund anticipated planned capital and operating needs of the associated companies. See Note 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements of the Exelon 2016 Form 10-K for further details of Generation's equity interests.

Capital expenditures by Registrant for the six months ended June 30, 2017 and 2016 and projected amounts for the full year 2017 are as follows:

	Projected Full Year 2017(a)	Six Months Ended June 30,	
		2017	2016
Exelon(b)	$ 8,150	3,845	$4,489
Generation	2,525	1,189	2,051
ComEd(c)	2,200	1,168	1,334
PECO	775	367	299
BGE	925	405	392
Pepco	600	291	256
DPL	400	192	182
ACE	325	175	164

	Projected Full Year 2017 (a)	*Successor*		*Predecessor*
		Six Months Ended June 30, 2017	March 24, 2016 to June 30, 2016	January 1, 2016 to March 23, 2016
PHI(d)	$ 1,375	$ 671	$ 339	$ 273

(a) Total projected capital expenditures do not include adjustments for non-cash activity.
(b) Includes corporate operations, BSC, and PHISCO rounded to the nearest $25 million.
(c) The 2017 projections include approximately $279 million of expected incremental spending pursuant to EIMA, ComEd has committed to invest approximately $2.6 billion over a ten year period, through 2022, to modernize and storm-harden its distribution system and to implement smart grid technology.
(d) Includes PHISCO rounded to the nearest $25 million.

Projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Generation

Approximately 37% and 21% of the projected 2017 capital expenditures at Generation are for the acquisition of nuclear fuel and growth (primarily new plant construction and distributed generation), respectively, with the remaining amounts reflecting additions and upgrades to existing facilities (including material condition improvements during nuclear refueling outages). Generation anticipates that they will fund capital expenditures with internally generated funds and borrowings.

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ComEd, PECO, BGE, Pepco, DPL and ACE

Approximately 92% of the projected 2017 capital expenditures at ComEd and 100% of the projected of the projected 2017 capital expenditures at PECO, BGE, Pepco, DPL, and ACE are for continuing projects to maintain and improve operations, including enhancing reliability and adding capacity to the transmission and distribution systems such as ComEd's reliability related investments required under EIMA, and the Utility Registrants' construction commitments under PJM's RTEP. In addition to the capital expenditure for continuing projects, ComEd's total expenditures include smart grid/smart meter technology required under EIMA.

The Utility Registrants as transmission owners are subject to NERC compliance requirements. NERC provides guidance to transmission owners regarding assessments of transmission lines. The results of these assessments could require the Utility Registrants to incur incremental capital or operating and maintenance expenditures to ensure their transmission lines meet NERC standards. In 2010, NERC provided guidance to transmission owners that recommended the Utility Registrants perform assessments of their transmission lines. ComEd, PECO and BGE submitted their final bi-annual reports to NERC in January 2014. ComEd, PECO and BGE will be incurring incremental capital expenditures associated with this guidance following the completion of the assessments. Specific projects and expenditures are identified as the assessments are completed. ComEd's, PECO's and BGE's forecasted 2017 capital expenditures above reflect capital spending for remediation to be completed through 2018. Pepco, DPL and ACE have substantially completed their assessments and thus do not expect significant capital expenditures related to this guidance in 2017.

The Utility Registrants anticipate that they will fund their capital expenditures with a combination of internally generated funds and borrowings and additional capital contributions from parent, including ComEd's capital expenditures associated with EIMA as further discussed in Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

Cash Flows from Financing Activities

Cash flows provided by (used in) financing activities for the six months ended June 30, 2017 and 2016 by Registrant were as follows:

	Six Months Ended June 30,	
	2017	2016
Exelon	$ 983	$1,469
Generation	358	(235)
ComEd	361	854
PECO	(144)	(140)
BGE	(100)	(118)
Pepco	274	64
DPL	(43)	(30)
ACE	2	100

	Successor		*Predecessor*
	Six Months Ended June 30, 2017	March 24, 2016 to June 30, 2016	January 1, 2016 to March 23, 2016
PHI	$ 245	$ 137	$ 372

Debt

See Note 10 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further details of the Registrants' debt issuances.

Dividends

Cash dividend payments and distributions during the six months ended June 30, 2017 and 2016 by Registrant were as follows:

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Exelon	$ 607	$ 582
Generation	330	111
ComEd	211	183
PECO	144	139
BGE(a)	99	96
Pepco	58	55
DPL	54	38
ACE	22	11

	Successor		Predecessor
	Six Months Ended June 30, 2017	March 24, 2016 to June 30, 2016	January 1, 2016 to March 23, 2016
PHI	$ 131	$ 124	$ —

(a) Includes dividends paid on BGE's preference stock in 2016.

Quarterly dividends declared by the Exelon Board of Directors during the six months ended June 30, 2017 and for the third quarter of 2017 were as follows:

Period	Declaration Date	Shareholder of Record Date	Dividend Payable Date	Cash per Share(a)
First Quarter 2017	January 31, 2017	February 15, 2017	March 10, 2017	$0.3275
Second Quarter 2017	April 25, 2017	May 15, 2017	June 9, 2017	$0.3275
Third Quarter 2017	July 25, 2017	August 15, 2017	September 8, 2017	$0.3275

(a) Exelon's Board of Directors approved a revised dividend policy. The approved policy will raise the dividend 2.5% each year for the next three years, beginning with the June 2016 dividend and subject to Board approval.

Short-Term Borrowings

Short-term borrowings incurred (repaid) during the six months ended June 30, 2017 and 2016 by Registrant were as follows:

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Exelon	$ 488	$ (919)
Generation	15	179
ComEd	389	(259)
BGE	40	(2)
Pepco	(23)	(64)
DPL	25	(105)
ACE	42	(5)

	Successor		Predecessor
	Six Months Ended June 30, 2017	March 24, 2016 to June 30, 2016	January 1, 2016 to March 23, 2016
PHI	$ (455)	$ (837)	$ 379

Contributions from Parent/Member

Contributions received from Parent/Member for the six months ended June 30, 2017 and 2016 by Registrant were as follows:

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Generation	$ —	$ 45
ComEd (a)(b)	184	113
BGE (b)	—	21
Pepco (c)	161	187
DPL (c)	—	113
ACE (c)	—	139

	Successor		*Predecessor*
	Six Months Ended June 30, 2017	March 24, 2016 to June 30, 2016	January 1, 2016 to March 23, 2016
PHI (b)	$ 751	$ 1,088	$ —

(a) Additional contributions from parent or external debt financing may be required as a result of increased capital investment in infrastructure improvements and modernization pursuant to EIMA and transmission upgrades.
(b) Contribution paid by Exelon.
(c) Contribution paid by PHI

Other

For the six months ended June 30, 2017, other financing activities primarily consist of debt issuance costs. See Note 10 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for further details of the Registrants' debt issuances.

Credit Matters

The Registrants fund liquidity needs for capital investment, working capital, energy hedging and other financial commitments through cash flows from continuing operations, public debt offerings, commercial paper markets and large, diversified credit facilities. The credit facilities include $9.5 billion in aggregate total commitments of which $8.2 billion was available as of June 30, 2017, and of which no financial institution has more than 7% of the aggregate commitments for the Registrants. The Registrants had access to the commercial paper market during the second quarter of 2017 to fund their short-term liquidity needs, when necessary. The Registrants routinely review the sufficiency of their liquidity position, including appropriate sizing of credit facility commitments, by performing various stress test scenarios, such as commodity price movements, increases in margin-related transactions, changes in hedging levels and the impacts of hypothetical credit downgrades. The Registrants have continued to closely monitor events in the financial markets and the financial institutions associated with the credit facilities, including monitoring credit ratings and outlooks, credit default swap levels, capital raising and merger activity. See PART I. ITEM 1A. RISK FACTORS of the Exelon 2016 Form 10-K for further information regarding the effects of uncertainty in the capital and credit markets.

The Registrants believe their cash flow from operating activities, access to credit markets and their credit facilities provide sufficient liquidity. If Generation lost its investment grade credit rating as of June 30, 2017, it would have been required to provide incremental collateral of $1.8 billion to meet collateral obligations for derivatives, non-derivatives, normal purchase normal sales contracts and applicable payables and receivables, net of the contractual right of offset under master netting agreements, which is well within its current available credit facility capacities of $4.5 billion.

The following table presents the incremental collateral that each utility registrant would have been required to provide in the event each Utility Registrant lost its investment grade credit rating at June 30, 2017 and available credit facility capacity prior to any incremental collateral at June 30, 2017:

	PJM Credit Policy Collateral	Other Incremental Collateral Required (a)	Available Credit Facility Capacity Prior to Any Incremental Collateral
ComEd	$ 17	$ —	$ 998
PECO	3	21	598
BGE	3	36	600
Pepco	5	—	300
DPL	3	10	300
ACE	—	—	300

(a) Represents incremental collateral related to natural gas procurement contracts.

Exelon Credit Facilities

Exelon, Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the Exelon intercompany money pool. PHI meets its short-term liquidity requirements primarily through the issuance of short-term notes and the Exelon intercompany money pool. The Registrants may use their respective credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit.

The following table reflects the Registrants' commercial paper programs supported by the revolving credit agreements and bilateral credit agreements at June 30, 2017:

Commercial Paper Programs

Commercial Paper Issuer	Maximum Program Size (a)(b)	Outstanding Commercial Paper at June 30, 2017	Average Interest Rate on Commercial Paper Borrowings for the Six Months Ended June 30, 2017
Exelon Corporate	$ 600	$ —	1.16%
Generation	5,300	569	1.15%
ComEd	1,000	389	1.17%
PECO	600	—	1.13%
BGE	600	85	1.07%
Pepco	500	—	1.04%
DPL	500	25	1.40%
ACE	350	42	1.28%

(a) Excludes $525 million bilateral credit facilities that do not back Generation's commercial paper program.
(b) Excludes additional credit facility agreements for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE with aggregate commitments of $50 million, $34 million, $34 million, $5 million, $2 million, $2 million and $2 million, respectively, arranged with minority and community banks located primarily within utilities' service territories. These facilities expire on October 13, 2017. These facilities are solely utilized to issue letters of credit. As of June 30, 2017, letters of credit issued under these agreements for Generation, ComEd, PECO and BGE totaled $5 million, $12 million, $21 million and $2 million, respectively.

In order to maintain their respective commercial paper programs in the amounts indicated above, each Registrant must have credit facilities in place, at least equal to the amount of its commercial paper program. While the amount of its commercial paper outstanding does not reduce available capacity under a Registrant's credit facility, a Registrant does not issue commercial paper in an aggregate amount exceeding the then available capacity under its credit facility. At June 30, 2017, the Registrants had the following aggregate bank commitments, credit facility borrowings and available capacity under their respective credit facilities:

Credit Agreements

Borrower	Facility Type	Aggregate Bank Commitment(a)(b)(c)	Facility Draws	Outstanding Letters of Credit	Available Capacity at June 30, 2017 Actual	Available Capacity at June 30, 2017 To Support Additional Commercial Paper(b)(d)
Exelon Corporate	Syndicated Revolver	$ 600	$ —	$ 45	$ 555	$ 555
Generation[e]	Syndicated Revolver	5,300	—	887	4,413	3,844
Generation	Bilaterals	525	130	285	110	—
ComEd	Syndicated Revolver	1,000	—	2	998	609
PECO	Syndicated Revolver	600	—	2	598	598
BGE	Syndicated Revolver	600	—	—	600	515
Pepco	Syndicated Revolver	300	—	—	300	300
DPL	Syndicated Revolver	300	—	—	300	275
ACE	Syndicated Revolver	300	—	—	300	258

(a) Excludes $129 million of credit facility agreements arranged at minority and community banks at Generation, ComEd, PECO, BGE, Pepco, DPL and ACE. These facilities expire on October 13, 2017. These facilities are solely utilized to issue letters of credit. As of June 30, 2017, letters of credit issued under these agreements for Generation, ComEd, PECO and BGE totaled $5 million, $12 million, $21 million and $2 million, respectively.

(b) Pepco, DPL and ACE's revolving credit facility is subject to available borrowing capacity. The borrowing capacity may be increased or decreased during the term of the facility, except that (i) the sum of the borrowing capacity must equal the total amount of the facility, and (ii) the aggregate amount of credit used at any given time by each of Pepco, DPL or ACE may not exceed $900 million or the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of the borrowing reallocations may not exceed eight per year during the term of the facility

(c) Excludes nonrecourse debt letters of credit, see Note 14 — Debt and Credit Agreements in the Exelon 2016 Form 10-K for further information on Continental Wind nonrecourse debt.

(d) Excludes $525 million bilateral credit facilities that do not back Generation's commercial paper program.

(e) Excludes ExGen Texas Power Financing's $15 million of borrowed debt on its revolving credit facility.

As of June 30, 2017, there was $130 million of borrowings under Generation's bilateral credit facilities.

Borrowings under Exelon Corporate's, Generation's, ComEd's, PECO's, BGE's, Pepco's, DPL's, and ACE's revolving credit agreements bear interest at a rate based upon either the prime rate or a LIBOR-based rate, plus an adder based upon the particular Registrant's credit rating. The adders for the prime based borrowings and LIBOR-based borrowings are presented in the following table:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Prime based borrowings	27.5	27.5	7.5	0.0	0.0	7.5	7.5	7.5
LIBOR-based borrowings	127.5	127.5	107.5	90.0	100.0	107.5	107.5	107.5

The maximum adders for prime rate borrowings and LIBOR-based rate borrowings are 90 basis points and 165 basis points, respectively. The credit agreements also require the borrower to pay a facility fee based upon the aggregate commitments. The fee varies depending upon the respective credit ratings of the borrower.

Each revolving credit agreement for Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The following table summarizes the minimum thresholds reflected in the credit agreements for the six months ended June 30, 2017:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Credit agreement threshold	2.50 to 1	3.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1

At June 30, 2017, the interest coverage ratios at Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE were as follows:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Interest coverage ratio	6.26	9.87	6.94	8.60	10.61	6.97	8.92	6.22

An event of default under Exelon, Generation, ComEd, PECO or BGE’s indebtedness will not constitute an event of default under any of the others’ credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $100 million in the aggregate by Generation will constitute an event of default under the Exelon Corporate credit facility. An event of default under Pepco, DPL or ACE’s indebtedness will not constitute an event of default under any of the others’ credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $50 million in the aggregate will constitute an event of default under the credit facility.

The absence of a material adverse change in Exelon’s or PHI’s business, property, results of operations or financial condition is not a condition to the availability of credit under the credit agreement. The credit agreement does not include any rating triggers.

Security Ratings

The Registrants’ access to the capital markets, including the commercial paper market, and their respective financing costs in those markets, may depend on the securities ratings of the entity that is accessing the capital markets.

The Registrants’ borrowings are not subject to default or prepayment as a result of a downgrading of securities, although such a downgrading of a Registrant’s securities could increase fees and interest charges under that Registrant’s credit agreements.

As part of the normal course of business, the Registrants enter into contracts that contain express provisions or otherwise permit the Registrants and their counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if the Registrants are downgraded by a credit rating agency, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include the posting of collateral. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on collateral provisions.

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Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, both Exelon and PHI operate intercompany money pools. Maximum amounts contributed to and borrowed from the money pool by participant and the net contribution or borrowing as of June 30, 2017, are presented in the following table:

Exelon Intercompany Money Pool	**During the Three Months Ended June 30, 2017**		**As of June 30, 2017**
Contributed (borrowed)	**Maximum Contributed**	**Maximum Borrowed**	**Contributed (Borrowed)**
Exelon Corporate	$ 558	n/a	$ 506
Generation	20	(294)	(251)
PECO	26	(20)	10
BSC	—	(389)	(319)
PHI Corporate [(a)]	n/a	(34)	—
PCI [(a)]	54	—	54

(a) As a result of the merger, PHI Corporate and PCI began to participate in the Exelon Intercompany Money Pool effective March 24, 2016.

PHI Intercompany Money Pool	**During the Three Months Ended June 30, 2017**		**As of June 30, 2017**
Contributed (borrowed)	**Maximum Contributed**	**Maximum Borrowed**	**Contributed (Borrowed)**
PHI Corporate	$ 49	$ (3)	$ 12
Pepco	—	—	—
DPL	—	—	—
ACE	—	—	—
PHISCO	3	(51)	(11)

Investments in Nuclear Decommissioning Trust Funds

Exelon, Generation and CENG maintain trust funds, as required by the NRC, to fund certain costs of decommissioning nuclear plants. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to offset inflationary increases in decommissioning costs. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocations in accordance with Generation's NDT fund investment policy. Generation's and CENG's investment policies establish limits on the concentration of holdings in any one company and also in any one industry. See Note 12 —Nuclear Decommissioning of the Combined Notes to Consolidated Financial Statements for further information regarding the trust funds, the NRC's minimum funding requirements and related liquidity ramifications.

Shelf Registration Statements

Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have a currently effective combined shelf registration statement unlimited in amount, filed with the SEC, that will expire in August 2019. The ability of each Registrant to sell securities off the shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, as applicable, the current financial condition of the Registrant, its securities ratings and market conditions.

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Regulatory Authorizations

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE are required to obtain short-term and long-term financing authority from Federal and State Commissions as follows:

	Short-term Financing Authority[(a)]			Long-term Financing Authority		
	Commission	Expiration Date	Amount (in millions)	Commission	Expiration Date	Amount (in millions)
ComEd[(b)]	FERC	December 31, 2017	$ 2,500	ICC	2019	$ 2,383
PECO	FERC	December 31, 2017	1,500	PAPUC	December 31, 2018	1,600
BGE	FERC	December 31, 2017	700	MDPSC	N/A	1,000
Pepco	FERC	June 30, 2018	500	MDPSC / DCPSC	September 25, 2017	350
DPL	FERC	June 30, 2018	500	MDPSC / DPSC	December 31, 2017	125
ACE	NJPU	January 1, 2018	350	NJBPU	December 31, 2017	300

(a) Generation currently has blanket financing authority it received from FERC in connection with its market-based rate authority.

(b) ComEd had $1,565 million available in long-term debt refinancing authority and $818 million available in new money long term debt financing authority from the ICC as of June 30, 2017 and has an expiration date of June 1, 2019 and March 1, 2019, respectively.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments triggered by future events. See Note 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements in the Exelon 2016 Form 10-K.

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have obligations related to contracts for the purchase of power and fuel supplies, and ComEd, PECO, and BGE have obligations related to their financing trusts. The power and fuel purchase contracts and the financing trusts have been considered for consolidation in the Registrants' respective financial statements pursuant to the authoritative guidance for VIEs. See Note 1 — Basis of Presentation of the Combined Notes to Consolidated Financial Statements for further information.

For an in-depth discussion of the Registrants' contractual obligations and off-balance sheet arrangements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations and Off-Balance Sheet Arrangements" in the Exelon 2016 Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations and Commercial Commitments."

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Registrants are exposed to market risks associated with adverse changes in commodity prices, counterparty credit, interest rates and equity prices. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities. The following discussion serves as an update to ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK of Exelon's 2016 Annual Report on Form 10-K incorporated herein by reference.

Commodity Price Risk (All Registrants)

Commodity price risk is associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather conditions, governmental regulatory and environmental policies and other factors. To the extent the amount of energy Exelon generates differs from the amount of energy it has contracted to sell, Exelon has price risk from commodity price movements. Exelon seeks to mitigate its commodity price risk through the sale and purchase of electricity, fossil fuel and other commodities.

Generation

Normal Operations and Hedging Activities. Electricity available from Generation's owned or contracted generation supply in excess of Generation's obligations to customers, including portions of the Utility Registrants' retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into non-derivative contracts as well as derivative contracts, including forwards, futures, swaps and options, with approved counterparties to hedge anticipated exposures. Generation believes these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices. Generation expects the settlement of the majority of its economic hedges will occur during 2017 through 2019.

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation's owned and contracted generation positions which have not been hedged. Exelon's hedging program involves the hedging of commodity risk for Exelon's expected generation, typically on a ratable basis over a three-year period. As of June 30, 2017, the percentage of expected generation hedged for the major reportable segments is 96%-99%, 71%-74% and 39%-42% for 2017, 2018 and 2019, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts including Generation's sales to the Utility Registrants to serve their retail load.

A portion of Generation's hedging strategy may be accomplished with fuel products based on assumed correlations between power and fuel prices, which routinely change in the market. Market price risk exposure is the risk of a change in the value of unhedged positions. The forecasted market price risk exposure for Generation's entire non-proprietary trading portfolio associated with a $5 reduction in the annual average around-the-clock energy price based on June 30, 2017 market conditions and hedged position would have an immaterial impact on pre-tax net income for 2017 and decreases of approximately $230 million and $560 million, respectively, for 2018 and 2019. Power price sensitivities are derived by adjusting power price assumptions while keeping all other price inputs constant. Generation expects to actively manage its portfolio to mitigate market price risk exposure for its unhedged position. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio.

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Proprietary Trading Activities. Generation also enters into certain energy-related derivatives for proprietary trading purposes. Proprietary trading includes all contracts entered into with the intent of benefiting from shifts or changes in market prices as opposed to those entered into with the intent of hedging or managing risk. Proprietary trading activities are subject to limits established by Exelon's RMC. The proprietary trading portfolio is subject to a risk management policy that includes stringent risk management limits, including volume, stop loss and Value-at-Risk (VaR) limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon's RMC monitor the financial risks of the proprietary trading activities. The proprietary trading activities, which included physical volumes of 2,312 GWhs and 4,162 GWhs for the three and six months ended June 30, 2017, respectively, and 1,289 GWhs and 2,509 GWhs and for the three and six months June 30, 2016, respectively, are a complement to Generation's energy marketing portfolio, but represent a small portion of Generation's overall revenue from energy marketing activities. Proprietary trading portfolio activity for the six months ended June 30, 2017 resulted in $7 million of pre-tax gains due to net mark-to-market losses of $2 million and realized gains of $9 million. Generation uses a 95% confidence interval, assuming standard normal distribution, one day holding period and a one-tailed statistical measure in calculating its VaR. The daily VaR on proprietary trading activity averaged $0.3 million of exposure during the quarter. Generation has not segregated proprietary trading activity within the following discussion because of the relative size of the proprietary trading portfolio in comparison to Generation's total Revenue net of purchase power and fuel expense for the six months ended June 30, 2017 of $4,106 million.

Fuel Procurement. Generation procures natural gas through long-term and short-term contracts and spot-market purchases. Nuclear fuel assemblies are obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation's procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 51% of Generation's uranium concentrate requirements from 2017 through 2021 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrates can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon's and Generation's results of operations, cash flows and financial positions.

ComEd

ComEd entered into 20-year contracts for renewable energy and RECs beginning in June 2012. ComEd is permitted to recover its renewable energy and REC costs from retail customers with no mark-up. The annual commitments represent the maximum settlements with suppliers for renewable energy and RECs under the existing contract terms. Pursuant to the ICC's Order on December 19, 2012, ComEd's commitments under the existing long-term contracts were reduced for the June 2013 through May 2014 procurement period. In addition, the ICC's December 18, 2013 Order approved the reduction of ComEd's commitments under those contracts for the June 2014 through May 2015 procurement period, and the amount of the reduction was approved by the ICC in March 2014. See Note 5 — Regulatory Matters and Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding energy procurement and derivatives. ComEd does not enter into derivatives for speculative or proprietary trading purposes.

PECO

PECO has contracts to procure electric supply that were executed through the competitive procurement process outlined in its PAPUC-approved DSP Programs, which are further discussed in Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements. PECO has certain full requirements contracts which are considered derivatives and qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result are accounted for on an accrual basis of

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accounting. Under the DSP Programs, PECO is permitted to recover its electric supply procurement costs from retail customers with no mark-up.

PECO has also entered into derivative natural gas contracts, which either qualify for the normal purchases and normal sales exception or have no mark-to-market balances because the derivatives are index priced, to hedge its long-term price risk in the natural gas market. PECO's hedging program for natural gas procurement has no direct impact on its financial position or results of operations as natural gas costs are fully recovered from customers under the PGC.

PECO does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

BGE

BGE procures electric supply for default service customers through full requirements contracts pursuant to BGE's MDPSC-approved SOS program. BGE's full requirements contracts that are considered derivatives qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result, are accounted for on an accrual basis of accounting. Under the SOS program, BGE is permitted to recover its electricity procurement costs from retail customers, plus an administrative fee which includes a shareholder return component and an incremental cost component.

BGE has also entered into natural gas contracts, which qualify for the normal purchases and normal sales scope exception, to hedge its price risk in the natural gas market. The hedging program for natural gas procurement has no direct impact on BGE's financial position. However, under BGE's market-based rates incentive mechanism, BGE's actual cost of gas is compared to a market index (a measure of the market price of gas in a given period). The difference between BGE's actual cost and the market index is shared equally between shareholders and customers.

BGE does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Pepco

Pepco has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and DCPSC. The SOS rates charged recover Pepco's wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for residential and commercial rate classes. Pepco's price risk related to electric supply procurement is limited. Pepco locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of Pepco's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other Pepco full requirements contracts are not derivatives.

Pepco does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

DPL

DPL has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and the DPSC. The SOS rates charged recover DPL's wholesale power supply

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costs. In Delaware, DPL is also entitled to recover a Reasonable Allowance for Retail Margin (RARM). The RARM includes a fixed annual margin of approximately $2.75 million, plus an incremental cost component and a cash working capital allowance. In Maryland, DPL charges an administrative fee intended to allow it to recover its administrative costs. DPL locks in fixed prices for all of its SOS requirements through full requirements contracts. DPL's price risk related to electric supply procurement is limited. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

DPL provides natural gas to its customers under a GCR mechanism approved by the DPSC. The demand portion of the GCR is based upon DPL's firm transportation and storage contracts. DPL has firm deliverability of swing and seasonal storage; a liquefied natural gas facility and firm transportation capacity to meet customer demand and provide a reserve margin. The commodity portion of the GCR includes a commission approved hedging program which is intended to reduce gas commodity price volatility while limiting the firm natural gas customers' exposure to adverse changes in the market price of natural gas.

DPL does not enter into derivatives for speculative or proprietary trading purposes. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding energy procurement and derivatives.

ACE

ACE has contracts to procure BGS electric supply that are executed through a competitive procurement process approved by the NJBPU. The BGS rates charged recover ACE's wholesale power supply costs. ACE does not make any profit or incur any loss on the supply component of the BGS it supplies to customers. ACE's price risk related to electric supply procurement is limited. ACE locks in fixed prices for all of its BGS requirements through full requirements contracts. ACE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other ACE full requirements contracts are not derivatives.

ACE does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Trading and Non-Trading Marketing Activities. The following detailed presentation of Exelon's, Generation's, ComEd's, PHI's and DPL's trading and non-trading marketing activities is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officers (CCRO).

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The following table provides detail on changes in Exelon's, Generation's, ComEd's, PHI's and DPL's commodity mark-to-market net asset or liability balance sheet position from December 31, 2016 to June 30, 2017. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings. This table excludes all normal purchase and normal sales contracts and does not segregate proprietary trading activity. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of June 30, 2017 and December 31, 2016.

	Exelon	Generation	ComEd	PHI	DPL
Total mark-to-market energy contract net assets (liabilities) at December 31, 2016(a)	$ 719	$ 977	$ (258)	$—	$—
Total change in fair value during 2017 of contracts recorded in results of operations	(200)	(200)	—	—	—
Reclassification to realized of contracts recorded in results of operations	(31)	(31)	—	—	—
Contracts received at acquisition date	—	—	—	—	—
Changes in fair value — recorded through regulatory assets and liabilities(b)	—	—	2	(2)	(2)
Changes in allocated collateral	158	156	—	2	2
Changes in net option premium paid/(received)	8	8	—	—	—
Option premium amortization	(11)	(11)	—	—	—
Upfront payments and amortizations(c)	(15)	(15)	—	—	—
Total mark-to-market energy contract net assets (liabilities) at June 30, 2017(a)	$ 628	$ 884	$ (256)	$—	$—

(a) Amounts are shown net of collateral paid to and received from counterparties.

(b) For ComEd and DPL, the changes in fair value are recorded as a change in regulatory assets or liabilities. As of June 30, 2017, ComEd recorded a regulatory liability of $256 million related to its mark-to-market derivative liabilities with Generation and unaffiliated suppliers. For the six months ended June 30, 2017, ComEd also recorded $5 million of decreases in fair value and an increase for realized losses due to settlements of $7 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers.

(c) Includes derivative contracts acquired or sold by Generation through upfront payments or receipts of cash, excluding option premiums, and the associated amortization.

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Fair Values. The following tables present maturity and source of fair value for Exelon, Generation and ComEd mark-to-market commodity contract net assets (liabilities). The tables provide two fundamental pieces of information. First, the tables provide the source of fair value used in determining the carrying amount of the Registrants' total mark-to-market net assets (liabilities), net of allocated collateral. Second, the tables show the maturity, by year, of the Registrants' commodity contract net assets (liabilities), net of allocated collateral, giving an indication of when these mark-to-market amounts will settle and either generate or require cash. See Note 8 — Fair Value of Financial Assets and Liabilities of the Combined Notes to Consolidated Financial Statements for additional information regarding fair value measurements and the fair value hierarchy.

Exelon

	Maturities Within						
	2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts[(a)(b)]:							
Actively quoted prices (Level 1)	$ 69	$ (11)	$(37)	$(14)	$ 2	$ (4)	$ 5
Prices provided by external sources (Level 2)	173	111	5	(4)	5	—	290
Prices based on model or other valuation methods (Level 3)[(c)]	144	252	94	16	(29)	(144)	333
Total	$386	$352	$ 62	$ (2)	$(22)	$ (148)	$ 628

(a) Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in results of operations.

(b) Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $485 million at June 30, 2017.

(c) Includes ComEd's net liabilities associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Generation

	Maturities Within						
	2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts[(a)(b)]:							
Actively quoted prices (Level 1)	$ 69	$ (11)	$ (37)	$(14)	$ 2	$ (4)	$ 5
Prices provided by external sources (Level 2)	173	111	5	(4)	5	—	290
Prices based on model or other valuation methods (Level 3)	154	272	115	36	(9)	21	589
Total	$396	$372	$ 83	$ 18	$ (2)	$ 17	$ 884

(a) Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in the results of operations.

(b) Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $485 million at June 30, 2017.

ComEd

	Maturities Within						
	2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Commodity derivative contracts[(a)]:							
Prices based on model or other valuation methods (Level 3)	$(10)	$(20)	$(21)	$(20)	$(20)	$(165)	$ (256)

(a) Represents ComEd’s net liabilities associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Credit Risk, Collateral and Contingent Related Features (All Registrants)

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that enter into derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for a detailed discussion of credit risk, collateral and contingent related features.

Generation

The following tables provide information on Generation’s credit exposure for all derivative instruments, normal purchase normal sales agreements, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of June 30, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the duration of a company’s credit risk by credit rating of the counterparties. The figures in the tables below exclude credit risk exposure from individual retail customers, uranium procurement contracts, and exposure through RTOs, ISOs, NYMEX, ICE, NASDAQ, NGX and Nodal commodity exchanges, which are discussed below. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $23 million, $27 million, $21 million, $41 million, $12 million, and $6 million as of June 30, 2017, respectively.

Rating as of June 30, 2017	Total Exposure Before Credit Collateral	Credit Collateral (a)	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 878	$ 14	$ 864	1	$ 299
Non-investment grade	47	1	46	—	—
No external ratings					
Internally rated — investment grade	327	—	327	—	—
Internally rated — non-investment grade	123	14	109	—	—
Total	$ 1,375	$ 29	$ 1,346	1	$ 299

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Rating as of June 30, 2017	Maturity of Credit Risk Exposure Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	Total Exposure Before Credit Collateral
Investment grade	$ 719	$ 161	$ (2)	$ 878
Non-investment grade	34	13	—	47
No external ratings				
Internally rated — investment grade	273	34	20	327
Internally rated — non-investment grade	99	24	—	123
Total	$ 1,125	$ 232	$ 18	$ 1,375

Net Credit Exposure by Type of Counterparty	As of June 30, 2017
Financial institutions	$ 89
Investor-owned utilities, marketers, power producers	563
Energy cooperatives and municipalities	560
Other	134
Total	$ 1,346

(a) As of June 30, 2017, credit collateral held from counterparties where Generation had credit exposure included $19 million of cash and $10 million of letters of credit.

ComEd, PECO, BGE, PHI, Pepco, DPL and ACE

There have been no significant changes or additions to ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's or ACE's exposures to credit risk that are described in ITEM 1A. RISK FACTORS of Exelon's 2016 Annual Report on Form 10-K.

See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for information regarding credit exposure to suppliers.

Collateral (All Registrants)

Generation

As part of the normal course of business, Generation routinely enters into physical or financial contracts for the sale and purchase of electricity, natural gas and other commodities. These contracts either contain express provisions or otherwise permit Generation and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable law, if Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on Generation's net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. In this case, Generation believes an amount of several months of future payments (i.e., capacity payments) rather than a calculation of fair value is the best estimate for the contingent collateral obligation, which has been factored into the disclosure below. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for information regarding collateral requirements.

Generation transacts output through bilateral contracts. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect

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these payments from counterparties could have a material impact on Exelon's and Generation's results of operations, cash flows and financial position. As market prices rise above or fall below contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. In order to post collateral, Generation depends on access to bank credit facilities, which serve as liquidity sources to fund collateral requirements. See Liquidity and Capital Resources — Credit Matters — Exelon Credit Facilities for additional information.

As of June 30, 2017, Generation had cash collateral of $517 million posted and cash collateral held of $34 million for external counterparties with derivative positions, of which $485 million and an immaterial amount in net cash collateral deposits were offset against energy derivative and interest rate and foreign exchange derivative related to underlying energy contracts, respectively. As of June 30, 2017, $2 million of cash collateral held was not offset against net derivative positions because it was not associated with energy-related derivatives or as of the balance sheet date there were no positions to offset. See Note 17 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for information regarding the letters of credit supporting the cash collateral.

ComEd

As of June 30, 2017, ComEd held $13 million in collateral from suppliers in association with energy procurement contracts and held approximately $19 million in the form of cash and letters of credit for both annual and long-term renewable energy contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements in this report and Note 3 — Regulatory Matters of the 2016 Exelon Form 10-K for additional information.

PECO

As of June 30, 2017, PECO was not required to post collateral under its energy and natural gas procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

BGE

BGE is not required to post collateral under its electric supply contracts nor was it holding collateral under its electric supply procurement contracts as of June 30, 2017. As of June 30, 2017, BGE was not required to post collateral under its natural gas procurement contracts but was holding an immaterial amount of collateral under its natural gas procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Pepco

Pepco is not required to post collateral under its energy procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

DPL

DPL is not required to post collateral under its energy procurement contracts. As of June 30, 2017, DPL was not required to post collateral under its natural gas procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

ACE

ACE is not required to post collateral under its energy procurement contracts. See Note 9 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

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RTOs and ISOs (All Registrants)

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE participate in all, or some, of the established wholesale spot energy markets that are administered by PJM, ISO-NE, ISO-NY, CAISO, MISO, SPP, AESO, OIESO and ERCOT. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot energy markets that are administered by the RTOs or ISOs, as applicable. In areas where there are no spot energy markets, electricity is purchased and sold solely through bilateral agreements. For sales into the spot energy markets administered by an RTO or ISO, the RTO or ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the RTOs and ISOs may, under certain circumstances, require that losses arising from the default of one member on spot energy market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on the Registrants' results of operations, cash flows and financial positions.

Exchange Traded Transactions (Exelon, Generation, PHI and DPL)

Generation enters into commodity transactions on NYMEX, ICE, NASDAQ, NGX and the Nodal exchange ("the Exchanges"). DPL enters into commodity transactions on ICE. The Exchange clearinghouses act as the counterparty to each trade. Transactions on the Exchanges must adhere to comprehensive collateral and margining requirements. As a result, transactions on the Exchanges are significantly collateralized and have limited counterparty credit risk.

Interest Rate and Foreign Exchange Risk (All Registrants)

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants may also utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels in anticipation of future financings, which are typically designated as cash flow hedges. These strategies are employed to manage interest rate risks. At June 30, 2017, Exelon had $800 million of notional amounts of fixed-to-floating hedges outstanding and Exelon and Generation had $492 million of notional amounts of floating-to-fixed hedges outstanding. Assuming the interest rate hedges are 100% effective, a hypothetical 50 bps increase in the interest rates associated with unhedged variable-rate debt (excluding Commercial Paper) and fixed-to-floating swaps would result in approximately a $3 million decrease in Exelon Consolidated pre-tax income for the six months ended June 30, 2017. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges.

Equity Price Risk (Exelon and Generation)

Generation maintains trust funds, as required by the NRC, to fund certain costs of decommissioning its nuclear plants. As of June 30, 2017, Generation's decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate Generation for inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's NDT fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $621 million reduction in the fair value of the trust assets. This calculation holds all other variables constant and assumes only the discussed changes in interest rates and equity prices. See ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for further discussion of equity price risk as a result of the current capital and credit market conditions.

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Item 4. Controls and Procedures

During the second quarter of 2017, each of Exelon’s, Generation’s, ComEd’s, PECO’s, BGE’s, PHI’s, Pepco’s, DPL’s and ACE’s management, including its principal executive officer and principal financial officer, evaluated its disclosure controls and procedures related to the recording, processing, summarizing and reporting of information in its periodic reports that it files with the SEC. These disclosure controls and procedures have been designed by all Registrants to ensure that (a) material information relating to that Registrant, including its consolidated subsidiaries, is accumulated and made known to Exelon’s management, including its principal executive officer and principal financial officer, by other employees of that Registrant and its subsidiaries as appropriate to allow timely decisions regarding required disclosure, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC’s rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people.

Accordingly, as of June 30, 2017, the principal executive officer and principal financial officer of each of Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE concluded that such Registrant’s disclosure controls and procedures were effective to accomplish its objectives. All Registrants continually strive to improve their disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant. There have been no changes in internal control over financial reporting that occurred during the second quarter of 2017 that have materially affected, or are reasonably likely to materially affect, any of Exelon’s, Generation’s, ComEd’s, PECO’s, BGE’s, PHI’s, Pepco’s, DPL’s and ACE’s internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Registrants are parties to various lawsuits and regulatory proceedings in the ordinary course of their respective businesses. For information regarding material lawsuits and proceedings, see (a) ITEM 3. LEGAL PROCEEDINGS of Exelon's 2016 Form 10-K and (b) Notes 5 — Regulatory Matters and 17 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements in PART I, ITEM 1. FINANCIAL STATEMENTS of this Report. Such descriptions are incorporated herein by these references.

Item 1A. Risk Factors

Risks Related to Exelon

At June 30, 2017, the Registrants' risk factors were consistent with the risk factors described in the Registrants' combined 2016 Form 10-K in ITEM 1A. RISK FACTORS.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Sales of Unregistered Securities

Exelon sponsors several 401(k) retirement savings plans that are made available to different groups of its employees. The plans generally allow participating employees to make contributions from their eligible pay, and Exelon provides both a fixed and annual profit-sharing match. Exelon, acting through the Exelon Investment Office, is responsible for the selection and retention of the plans' respective investment options and any investment manager that may be appointed under the Exelon Corporation Defined Contribution Retirement Plans Master Trust (the Master Trust). The plans' investments are held in the Master Trust. Plan investments are fully participant-directed. The investment options include a menu of funds, some of which may include Exelon common stock. For participants who elect an allocation for purchases of Exelon common stock, the Master Trust through an investment manager acquires Exelon common stock in the open market and allocates that stock to the account of each such participant. It is the position of the SEC that the plans are considered to be an affiliate of Exelon because Exelon is the sponsor of each plan and the plan administrator, acting through an employee of Exelon.

Effective January 1, 2016, the Exelon Employee Savings Plan for Represented Employees at TMI and Oyster Creek (the TMI/OC 401(k)) and the Exelon Employee Savings Plan for Represented Employees at Clinton (the Clinton 401(k)) each made an Exelon common stock fund available as an investment option for the first time. From January 1, 2016 through May 2017, participants in the TMI/OC 401(k) and the Clinton 401(k) acquired approximately 55,250 and 58,500 equivalent shares of Exelon common stock, respectively, that were not properly registered due to an inadvertent failure to file a registration statement on Form S-8 relating to the allocation of such shares to the participants' accounts in such plans.

The discovery of the failure to file a registration statement on Form S-8 for the TMI/OC 401(k) and the Clinton 401(k) prompted Exelon to review the amount of shares issued under the Exelon Employee Savings Plan (the ESP), a 401(k) retirement savings plan made available to most Exelon employees. Exelon previously filed registration statements registering shares for the ESP, including 6.2 million shares (on a post-split basis) registered in 2000 when the ESP began offering Exelon shares upon the merger that created Exelon and 5.6 million shares registered in 2012 after the merger of Constellation Energy Group, Inc. into Exelon and the merger of the Constellation Energy Group, Inc. Employee Savings Plan into the ESP. Upon review, Exelon determined that the volume of transactions in the Exelon stock fund in the ESP may have exceeded the number of shares that had been previously registered. While Exelon was unable to obtain records from the previous recordkeeper for the period from 2000 through 2008, during the period from 2009 through 2016, approximately 51 million shares of Exelon common stock were acquired by participants through the ESP, including approximately 9 million shares in 2016, that may not have been properly registered due to an inadvertent failure to file a registration statement on Form S-8.

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On June 29, 2017, Exelon filed a registration statement on Form S-8 to (1) register transactions by the TMI/OC 401(k) and the Clinton 401(k) after that date and to register potential resales by plan participants who purchased shares through their accounts in the period between January 1, 2016 and the date of the filing of the registration statement, and (2) register transactions by the ESP after that date and to register potential resales by plan participants who purchased shares through their accounts prior to the date of the filing of the registration statement. The registration statement also registered 5,000,000 additional shares for the Exelon 2011 Long-Term Incentive Plan that was approved by shareholders in 2010; there were no sales of unregistered shares of Exelon common stock or other forms of Exelon equity through that plan. Exelon did not receive any proceeds from the sales of the securities pursuant to any of the 401(k) plans because the shares were purchased in the open market by a third party administrator on behalf of the Master Trust. For the period during which unregistered issuances of Exelon common stock through the 401(k) plans may have occurred, Exelon has filed in a timely manner all annual reports on Form 11-K with respect to each of the 401(k) plans, filed in a timely manner all annual reports on Form 10-K and quarterly reports on Form 10-Q with respect to Exelon, and maintained and distributed to participants in the 401(k) plans a summary plan description with respect to the respective 401(k) plan as required by the Employee Retirement Income Security Act of 1974, as amended. Based on the current market price of Exelon stock Exelon does not anticipate that any participants in any of the 401(k) plans who still hold shares acquired within the last year will seek rescission. These shares have always been treated as outstanding for financial reporting purposes, and Exelon does not expect that the overall effect of any issuance of unregistered shares, including the exercise of any applicable rescission rights by participants, will have a material impact on Exelon’s results of operations, financial position, or cash flows. Exelon is implementing additional controls to ensure that any shares of Exelon common stock sold pursuant to the 401(k) plans will be registered in accordance with the registration requirements of the Securities Act of 1933, as amended.

Item 4. Mine Safety Disclosures

All Registrants

Not applicable to the Registrants.

Item 6. Exhibits

Certain of the following exhibits are incorporated herein by reference under Rule 12b-32 of the Securities and Exchange Act of 1934, as amended. Certain other instruments which would otherwise be required to be listed below have not been so listed because such instruments do not authorize securities in an amount which exceeds 10% of the total assets of the applicable registrant and its subsidiaries on a consolidated basis and the relevant registrant agrees to furnish a copy of any such instrument to the Commission upon request.

Exhibit No.	Description
4.1	Supplemental Indenture, dated as of May 15, 2017, from Potomac Electric Power Company to The Bank of New York Mellon, as trustee (File No. 001-01072, Form 8-K dated May 22, 2017, Exhibit 4.2)
4.2	Form of First Mortgage Bond, 4.15% Series due March 15, 2043 (File No. 001-01072, Form 8-K dated May 22, 2017, Exhibit 4.3)
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

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Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 filed by the following officers for the following companies:

31-1 — Filed by Christopher M. Crane for Exelon Corporation
31-2 — Filed by Jonathan W. Thayer for Exelon Corporation
31-3 — Filed by Kenneth W. Cornew for Exelon Generation Company, LLC
31-4 — Filed by Bryan P. Wright for Exelon Generation Company, LLC
31-5 — Filed by Anne R. Pramaggiore for Commonwealth Edison Company
31-6 — Filed by Joseph R. Trpik, Jr. for Commonwealth Edison Company
31-7 — Filed by Craig L. Adams for PECO Energy Company
31-8 — Filed by Phillip S. Barnett for PECO Energy Company
31-9 — Filed by Calvin G. Butler, Jr. for Baltimore Gas and Electric Company
31-10 — Filed by David M. Vahos for Baltimore Gas and Electric Company
31-11 — Filed by David M. Velazquez for Pepco Holdings LLC
31-12 — Filed by Donna J. Kinzel for Pepco Holdings LLC
31-13 — Filed by David M. Velazquez for Potomac Electric Power Company
31-14 — Filed by Donna J. Kinzel for Potomac Electric Power Company
31-15 — Filed by David M. Velazquez for Delmarva Power & Light Company
31-16 — Filed by Donna J. Kinzel for Delmarva Power & Light Company
31-17 — Filed by David M. Velazquez for Atlantic City Electric Company
31-18 — Filed by Donna J. Kinzel for Atlantic City Electric Company

Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes — Oxley Act of 2002) as to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 filed by the following officers for the following companies:

32-1 — Filed by Christopher M. Crane for Exelon Corporation
32-2 — Filed by Jonathan W. Thayer for Exelon Corporation
32-3 — Filed by Kenneth W. Cornew for Exelon Generation Company, LLC
32-4 — Filed by Bryan P. Wright for Exelon Generation Company, LLC
32-5 — Filed by Anne R. Pramaggiore for Commonwealth Edison Company
32-6 — Filed by Joseph R. Trpik, Jr. for Commonwealth Edison Company
32-7 — Filed by Craig L. Adams for PECO Energy Company
32-8 — Filed by Phillip S. Barnett for PECO Energy Company
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32-10 — Filed by David M. Vahos for Baltimore Gas and Electric Company
32-11 — Filed by David M. Velazquez for Pepco Holdings LLC
32-12 — Filed by Donna J. Kinzel for Pepco Holdings LLC
32-13 — Filed by David M. Velazquez for Potomac Electric Power Company
32-14 — Filed by Donna J. Kinzel for Potomac Electric Power Company
32-15 — Filed by David M. Velazquez for Delmarva Power & Light Company
32-16 — Filed by Donna J. Kinzel for Delmarva Power & Light Company
32-17 — Filed by David M. Velazquez for Atlantic City Electric Company
32-18 — Filed by Donna J. Kinzel for Atlantic City Electric Company

SIGNATURES

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXELON CORPORATION

/S/ CHRISTOPHER M. CRANE	/S/ JONATHAN W. THAYER
Christopher M. Crane President and Chief Executive Officer (Principal Executive Officer) and Director	Jonathan W. Thayer Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ DUANE M. DESPARTE	
Duane M. DesParte Senior Vice President and Corporate Controller (Principal Accounting Officer)	

August 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXELON GENERATION COMPANY, LLC

/S/ KENNETH W. CORNEW	/S/ BRYAN P. WRIGHT
Kenneth W. Cornew President and Chief Executive Officer (Principal Executive Officer)	Bryan P. Wright Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ MATTHEW N. BAUER	
Matthew N. Bauer Vice President and Controller (Principal Accounting Officer)	

August 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMONWEALTH EDISON COMPANY

/S/ ANNE R. PRAMAGGIORE	/S/ JOSEPH R. TRPIK, JR.
Anne R. Pramaggiore President and Chief Executive Officer (Principal Executive Officer)	Joseph R. Trpik, Jr. Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/S/ GERALD J. KOZEL	
Gerald J. Kozel Vice President and Controller (Principal Accounting Officer)	

August 2, 2017

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Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PECO ENERGY COMPANY

/S/ CRAIG L. ADAMS Craig L. Adams President and Chief Executive Officer (Principal Executive Officer) and Director	/S/ PHILLIP S. BARNETT Phillip S. Barnett Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/S/ SCOTT A. BAILEY Scott A. Bailey Vice President and Controller (Principal Accounting Officer)	

August 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BALTIMORE GAS AND ELECTRIC COMPANY

/S/ CALVIN G. BUTLER, JR. Calvin G. Butler, Jr. Chief Executive Officer (Principal Executive Officer)	/S/ DAVID M. VAHOS David M. Vahos Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/S/ ANDREW W. HOLMES Andrew W. Holmes Vice President and Controller (Principal Accounting Officer)	

August 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEPCO HOLDINGS LLC

/S/ DAVID M. VELAZQUEZ David M. Velazquez President and Chief Executive Officer (Principal Executive Officer)	/S/ DONNA J. KINZEL Donna J. Kinzel Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/S/ ROBERT M. AIKEN Robert M. Aiken Vice President and Controller (Principal Accounting Officer)	

August 2, 2017

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Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POTOMAC ELECTRIC POWER COMPANY

/S/ DAVID M. VELAZQUEZ	/S/ DONNA J. KINZEL
David M. Velazquez President and Chief Executive Officer (Principal Executive Officer)	Donna J. Kinzel Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/S/ ROBERT M. AIKEN	
Robert M. Aiken Vice President and Controller (Principal Accounting Officer)	

August 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELMARVA POWER & LIGHT COMPANY

/S/ DAVID M. VELAZQUEZ	/S/ DONNA J. KINZEL
David M. Velazquez President and Chief Executive Officer (Principal Executive Officer)	Donna J. Kinzel Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/S/ ROBERT M. AIKEN	
Robert M. Aiken Vice President and Controller (Principal Accounting Officer)	

August 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATLANTIC CITY ELECTRIC COMPANY

/S/ DAVID M. VELAZQUEZ	/S/ DONNA J. KINZEL
David M. Velazquez President and Chief Executive Officer (Principal Executive Officer)	Donna J. Kinzel Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/S/ ROBERT M. AIKEN	
Robert M. Aiken Vice President and Controller (Principal Accounting Officer)	

August 2, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number	Name of Registrant; State or Other Jurisdiction of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street P.O. Box 805379 Chicago, Illinois 60680-5379 (800) 483-3220	23-2990190
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company) 300 Exelon Way Kennett Square, Pennsylvania 19348-2473 (610) 765-5959	23-3064219
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation) 440 South LaSalle Street Chicago, Illinois 60605-1028 (312) 394-4321	36-0938600
000-16844	PECO ENERGY COMPANY (a Pennsylvania corporation) P.O. Box 8699 2301 Market Street Philadelphia, Pennsylvania 19101-8699 (215) 841-4000	23-0970240
1-1910	BALTIMORE GAS AND ELECTRIC COMPANY (a Maryland corporation) 2 Center Plaza 110 West Fayette Street Baltimore, Maryland 21201-3708 (410) 234-5000	52-0280210
001-31403	PEPCO HOLDINGS LLC (a Delaware limited liability company) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	52-2297449
001-01072	POTOMAC ELECTRIC POWER COMPANY (a District of Columbia and Virginia corporation) 701 Ninth Street, N.W. Washington, District of Columbia 20068	53-0127880

	(202) 872-2000	
001-01405	DELMARVA POWER & LIGHT COMPANY (a Delaware and Virginia corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	51-0084283
001-03559	ATLANTIC CITY ELECTRIC COMPANY (a New Jersey corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	21-0398280

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¶ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¶ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	**Accelerated Filer**	**Non-accelerated Filer**	**Smaller Reporting Company**	**Emerging Growth Company**
Exelon Corporation	¶				
Exelon Generation Company, LLC			¶		
Commonwealth Edison Company			¶		
PECO Energy Company			¶		
Baltimore Gas and Electric Company			¶		
Pepco Holdings LLC			¶		
Potomac Electric Power Company			¶		
Delmarva Power & Light Company			¶		
Atlantic City Electric Company			¶		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ¶

The number of shares outstanding of each registrant’s common stock as of September 30, 2017 was:

Exelon Corporation Common Stock, without par value	960,852,473
Exelon Generation Company, LLC	not applicable
Commonwealth Edison Company Common Stock, $12.50 par value	127,021,214
PECO Energy Company Common Stock, without par value	170,478,507
Baltimore Gas and Electric Company Common Stock, without par value	1,000
Pepco Holdings LLC	not applicable
Potomac Electric Power Company Common Stock, $.01 par value	100
Delmarva Power & Light Company Common Stock, $2.25 par value	1,000
Atlantic City Electric Company Common Stock, $3.00 par value	8,546,017

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GLOSSARY OF TERMS AND ABBREVIATIONS

Exelon Corporation and Related Entities

Exelon	Exelon Corporation
Generation	Exelon Generation Company, LLC
ComEd	Commonwealth Edison Company
PECO	PECO Energy Company
BGE	Baltimore Gas and Electric Company
Pepco Holdings or PHI	Pepco Holdings LLC (formerly Pepco Holdings, Inc.)
Pepco	Potomac Electric Power Company
Pepco Energy Services or PES	Pepco Energy Services, Inc. and its subsidiaries
PCI	Potomac Capital Investment Corporation and its subsidiaries
DPL	Delmarva Power & Light Company
ACE	Atlantic City Electric Company
ACE Funding or ATF	Atlantic City Electric Transition Funding LLC
BSC	Exelon Business Services Company, LLC
PHISCO	PHI Service Company
Exelon Corporate	Exelon in its corporate capacity as a holding company
PHI Corporate	PHI in its corporate capacity as a holding company
Registrants	Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, collectively
Utility Registrants	ComEd, PECO, BGE, Pepco, DPL and ACE, collectively
AmerGen	AmerGen Energy Company, LLC
Antelope Valley	Antelope Valley Solar Ranch One
BondCo	RSB BondCo LLC
CENG	Constellation Energy Nuclear Group, LLC
ConEdison Solutions	The competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc., a subsidiary of Consolidated Edison, Inc.
Constellation	Constellation Energy Group, Inc.
EGTP	ExGen Texas Power, LLC
EGR	ExGen Renewables I, LLC
Entergy	Entergy Nuclear FitzPatrick, LLC
Exelon Transmission Company	Exelon Transmission Company, LLC
Exelon Wind	Exelon Wind, LLC and Exelon Generation Acquisition Company, LLC
FitzPatrick	James A. FitzPatrick nuclear generating station
Legacy PHI	PHI, Pepco, DPL and ACE, collectively
PEC L.P.	PECO Energy Capital, L.P.
PECO Trust III	PECO Capital Trust III
PECO Trust IV	PECO Energy Capital Trust IV
PETT	PECO Energy Transition Trust
RPG	Renewable Power Generation
SolGen	SolGen, LLC
TMI	Three Mile Island nuclear facility
UII	Unicom Investments, Inc.

Ventures	Exelon Ventures Company, LLC

GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations

Note "—" of the Exelon 2016 Form 10-K	Reference to specific Combined Note to Consolidated Financial Statements within Exelon's 2016 Annual Report on Form 10-K
Act 11	Pennsylvania Act 11 of 2012
Act 129	Pennsylvania Act 129 of 2008
AEC	Alternative Energy Credit that is issued for each megawatt hour of generation from a qualified alternative energy source
AEPS	Pennsylvania Alternative Energy Portfolio Standards
AEPS Act	Pennsylvania Alternative Energy Portfolio Standards Act of 2004, as amended
AESO	Alberta Electric Systems Operator
AFUDC	Allowance for Funds Used During Construction
AGE	Albany Green Energy Project
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income
ARC	Asset Retirement Cost
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BGS	Basic Generation Service
Block Contracts	Forward Purchase Energy Block Contracts
CAIR	Clean Air Interstate Rule
CAISO	California ISO
CAMR	Federal Clean Air Mercury Rule
CAP	Customer Assistance Program
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
CES	Clean Energy Standard
CFL	Compact Fluorescent Light
Clean Air Act	Clean Air Act of 1963, as amended
Clean Water Act	Federal Water Pollution Control Amendments of 1972, as amended
Competition Act	Pennsylvania Electricity Generation Customer Choice and Competition Act of 1996
Conectiv	Conectiv, LLC, a wholly owned subsidiary of PHI and the parent of DPL and ACE
Conectiv Energy	Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries, which were sold to Calpine in July 2010
CPUC	California Public Utilities Commission
CSAPR	Cross-State Air Pollution Rule
D.C. Circuit Court	United States Court of Appeals for the District of Columbia Circuit
DCPSC	District of Columbia Public Service Commission
DC PLUG	District of Columbia Power Line Undergrounding
Default Electricity Supply	The supply of electricity by PHI's electric utility subsidiaries at regulated rates to retail customers who do not elect to purchase electricity from a competitive supplier, and which, depending on the jurisdiction, is also known as Standard Offer Service or BGS

DOE	United States Department of Energy
DOJ	United States Department of Justice
DPSC	Delaware Public Service Commission

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations

DRP	Direct Stock Purchase and Dividend Reinvestment Plan
DSP	Default Service Provider
DSP Program	Default Service Provider Program
EDCs	Electric distribution companies
EDF	Electricite de France SA and its subsidiaries
EE&C	Energy Efficiency and Conservation/Demand Response
EGS	Electric Generation Supplier
EIMA	Energy Infrastructure Modernization Act (Illinois Senate Bill 1652 and Illinois House Bill 3036)
EmPower Maryland	A Maryland demand-side management program for Pepco and DPL
EPA	United States Environmental Protection Agency
EPSA	Electric Power Supply Association
ERCOT	Electric Reliability Council of Texas
ERISA	Employee Retirement Income Security Act of 1974, as amended
EROA	Expected Rate of Return on Assets
FASB	Financial Accounting Standards Board
FEJA	Illinois Public Act 99-0906 or Future Energy Jobs Act
FERC	Federal Energy Regulatory Commission
FRCC	Florida Reliability Coordinating Council
GAAP	Generally Accepted Accounting Principles in the United States
GCR	Gas Cost Rate
GHG	Greenhouse Gas
GSA	Generation Supply Adjustment
GWh	Gigawatt hour
Health Care Reform Acts	Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010
HSR Act	The Hart-Scott-Rodino Antitrust Improvements Act of 1976
IBEW	International Brotherhood of Electrical Workers
ICC	Illinois Commerce Commission
ICE	Intercontinental Exchange
Illinois Act	Illinois Electric Service Customer Choice and Rate Relief Law of 1997
Illinois EPA	Illinois Environmental Protection Agency
Illinois Settlement Legislation	Legislation enacted in 2007 affecting electric utilities in Illinois
Integrys	Integrys Energy Services, Inc.
IPA	Illinois Power Agency
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISO	Independent System Operator
ISO-NE	Independent System Operator New England Inc.
ISO-NY	Independent System Operator New York
kV	Kilovolt

kW	Kilowatt
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations

LLRW	Low-Level Radioactive Waste
LT Plan	Long-term renewable resources procurement plan
LTIP	Long-Term Incentive Plan
MAPP	Mid-Atlantic Power Pathway
MATS	U.S. EPA Mercury and Air Toxics Rule
MBR	Market Based Rates Incentive
MDE	Maryland Department of the Environment
MDPSC	Maryland Public Service Commission
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator, Inc.
mmcf	Million Cubic Feet
Moody's	Moody's Investor Service
MOPR	Minimum Offer Price Rule
MRV	Market-Related Value
MW	Megawatt
MWh	Megawatt hour
NAAQS	National Ambient Air Quality Standards
n.m.	not meaningful
NAV	Net Asset Value
NDT	Nuclear Decommissioning Trust
NEIL	Nuclear Electric Insurance Limited
NERC	North American Electric Reliability Corporation
NGS	Natural Gas Supplier
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
Non-Regulatory Agreements Units	Nuclear generating units or portions thereof whose decommissioning-related activities are not subject to contractual elimination under regulatory accounting
NOSA	Nuclear Operating Services Agreement
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NUGs	Non-utility generators
NWPA	Nuclear Waste Policy Act of 1982
NYMEX	New York Mercantile Exchange
NYPSC	New York Public Service Commission
OCI	Other Comprehensive Income
OIESO	Ontario Independent Electricity System Operator
OPC	Office of People's Counsel
OPEB	Other Postretirement Employee Benefits
PA DEP	Pennsylvania Department of Environmental Protection
PAPUC	Pennsylvania Public Utility Commission

PGC	Purchased Gas Cost Clause
PJM	PJM Interconnection, LLC

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations

POLR	Provider of Last Resort
POR	Purchase of Receivables
PPA	Power Purchase Agreement
Price-Anderson Act	Price-Anderson Nuclear Industries Indemnity Act of 1957
Preferred Stock	Originally issued shares of non-voting, non-convertible and non-transferable Series A preferred stock, par value $0.01 per share
PRP	Potentially Responsible Parties
PSEG	Public Service Enterprise Group Incorporated
PURTA	Pennsylvania Public Realty Tax Act
PV	Photovoltaic
RCRA	Resource Conservation and Recovery Act of 1976, as amended
REC	Renewable Energy Credit which is issued for each megawatt hour of generation from a qualified renewable energy source
Regulatory Agreement Units	Nuclear generating units or portions thereof whose decommissioning-related activities are subject to contractual elimination under regulatory accounting
RES	Retail Electric Suppliers
RFP	Request for Proposal
Rider	Reconcilable Surcharge Recovery Mechanism
RGGI	Regional Greenhouse Gas Initiative
RMC	Risk Management Committee
ROE	Return on equity
RPM	PJM Reliability Pricing Model
RPS	Renewable Energy Portfolio Standards
RSSA	Reliability Support Services Agreement
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
S&P	Standard & Poor’s Ratings Services
SEC	United States Securities and Exchange Commission
Senate Bill 1	Maryland Senate Bill 1
SERC	SERC Reliability Corporation (formerly Southeast Electric Reliability Council)
SGIG	Smart Grid Investment Grant from DOE
SILO	Sale-In, Lease-Out
SMPIP	Smart Meter Procurement and Installation Plan
SNF	Spent Nuclear Fuel
SOS	Standard Offer Service
SPFPA	Security, Police and Fire Professionals of America
SPP	Southwest Power Pool
Transition Bond Charge	Revenue ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds and related taxes, expenses and fees
Transition Bonds	Transition Bonds issued by ACE Funding

UGSOA	United Government Security Officers of America
Upstream	Natural gas exploration and production activities
VIE	Variable Interest Entity

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GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
WECC	Western Electric Coordinating Council
ZEC	Zero Emission Credit
ZES	Zero Emission Standard

FILING FORMAT

This combined Form 10-Q is being filed separately by Exelon Corporation, Exelon Generation Company, LLC, Commonwealth Edison Company, PECO Energy Company, Baltimore Gas and Electric Company, Pepco Holdings LLC, Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company (Registrants). Information contained herein relating to any individual Registrant is filed by such Registrant on its own behalf. No Registrant makes any representation as to information relating to any other Registrant.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by the Registrants include those factors discussed herein, as well as the items discussed in (1) the Registrants' combined 2016 Annual Report on Form 10-K in (a) ITEM 1A. Risk Factors, (b) ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) ITEM 8. Financial Statements and Supplementary Data: Note 24, Commitments and Contingencies; (2) this Quarterly Report on Form 10-Q in (a) Part II, Other Information, ITEM 1A. Risk Factors; (b) Part 1, Financial Information, ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) Part I, Financial Information, ITEM 1. Financial Statements: Note 18, Commitments and Contingencies; and (3) other factors discussed in filings with the SEC by the Registrants. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Report.

WHERE TO FIND MORE INFORMATION

The public may read and copy any reports or other information that the Registrants file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These documents are also available to the public from commercial document retrieval services, the website maintained by the SEC at www.sec.gov and the Registrants' websites at www.exeloncorp.com. Information contained on the Registrants' websites shall not be deemed incorporated into, or to be a part of, this Report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In millions, except per share data)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating revenues				
Competitive businesses revenues	$4,456	$4,535	$12,924	$12,243
Rate-regulated utility revenues	4,313	4,467	12,225	11,243
Total operating revenues	8,769	9,002	25,149	23,486
Operating expenses				
Competitive businesses purchased power and fuel	2,316	2,584	7,268	6,599
Rate-regulated utility purchased power and fuel	1,226	1,170	3,259	2,863
Operating and maintenance	2,300	2,338	7,732	7,677
Depreciation and amortization	1,002	1,195	2,814	2,821
Taxes other than income	456	449	1,313	1,168
Total operating expenses	7,300	7,736	22,386	21,128
(Loss) Gain on sales of assets	(1)	1	4	41
Bargain purchase gain	7	—	233	—
Operating income	1,475	1,267	3,000	2,399
Other income and (deductions)				
Interest expense, net	(377)	(506)	(1,165)	(1,148)
Interest expense to affiliates	(9)	(10)	(29)	(31)
Other, net	237	120	725	377
Total other income and (deductions)	(149)	(396)	(469)	(802)
Income before income taxes	1,326	871	2,531	1,597
Income taxes	452	340	595	625
Equity in losses of unconsolidated affiliates	(7)	(5)	(25)	(16)
Net income	867	526	1,911	956
Net income attributable to noncontrolling interests and preference stock dividends	43	36	12	26
Net income attributable to common shareholders	$ 824	$ 490	$ 1,899	$ 930
Comprehensive income, net of income taxes				
Net income	$ 867	$ 526	$ 1,911	$ 956
Other comprehensive income (loss), net of income taxes				
Pension and non-pension postretirement benefit plans:				
Prior service benefit reclassified to periodic benefit cost	(14)	(12)	(42)	(35)
Actuarial loss reclassified to periodic benefit cost	49	47	147	140
Pension and non-pension postretirement benefit plan valuation adjustment	3	—	(55)	(3)
Unrealized gain (loss) on cash flow hedges	—	3	5	(4)
Unrealized gain (loss) on equity investments	1	(4)	5	(10)
Unrealized gain on foreign currency translation	4	2	7	8
Unrealized gain on marketable securities	1	—	2	—

Other comprehensive income	44	36	69	96
Comprehensive income	911	562	1,980	1,052
Comprehensive income attributable to noncontrolling interests and preference stock dividends	43	31	10	21
Comprehensive income attributable to common shareholders	$ 868	$ 531	$ 1,970	$ 1,031
Average shares of common stock outstanding:				
Basic	962	925	941	924
Diluted	965	927	943	926
Earnings per average common share:				
Basic	$ 0.86	$ 0.53	$ 2.02	$ 1.01
Diluted	$ 0.85	$ 0.53	$ 2.01	$ 1.00
Dividends declared per common share	$ 0.33	$ 0.32	$ 0.98	$ 0.95

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(In millions)	2017	2016
Cash flows from operating activities		
Net income	$ 1,911	$ 956
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	3,999	4,009
Impairment of long-lived assets and losses on regulatory assets	488	274
Gain on sales of assets	(5)	(41)
Bargain purchase gain	(233)	—
Deferred income taxes and amortization of investment tax credits	439	623
Net fair value changes related to derivatives	149	100
Net realized and unrealized gains on nuclear decommissioning trust fund investments	(429)	(243)
Other non-cash operating activities	603	1,224
Changes in assets and liabilities:		
Accounts receivable	224	(296)
Inventories	(87)	21
Accounts payable and accrued expenses	(593)	296
Option premiums received (paid), net	35	(24)
Collateral (posted) received, net	(100)	757
Income taxes	167	527
Pension and non-pension postretirement benefit contributions	(344)	(283)
Other assets and liabilities	(547)	(537)
Net cash flows provided by operating activities	5,677	7,363
Cash flows from investing activities		
Capital expenditures	(5,556)	(6,368)
Proceeds from nuclear decommissioning trust fund sales	6,848	7,914
Investment in nuclear decommissioning trust funds	(7,044)	(8,093)
Acquisition of businesses, net	(208)	(6,896)
Proceeds from sales of long-lived assets	219	49
Proceeds from termination of direct financing lease investment	—	360
Changes in restricted cash	(67)	(75)
Other investing activities	(2)	(110)
Net cash flows used in investing activities	(5,810)	(13,219)
Cash flows from financing activities		
Changes in short-term borrowings	(570)	(1,014)
Proceeds from short-term borrowings with maturities greater than 90 days	621	195
Repayments on short-term borrowings with maturities greater than 90 days	(610)	(452)
Issuance of long-term debt	2,616	4,488

Retirement of long-term debt	(1,728)	(944)
Retirement of long-term debt to financing trust	(250)	—
Restricted proceeds from issuance of long-term debt	—	(30)
Redemption of preference stock	—	(190)
Sale of noncontrolling interest	396	—
Dividends paid on common stock	(921)	(873)
Common stock issued from treasury stock	1,150	—
Proceeds from employee stock plans	61	36
Other financing activities	(64)	35
Net cash flows provided by financing activities	701	1,251
Increase (Decrease) in cash and cash equivalents	568	(4,605)
Cash and cash equivalents at beginning of period	635	6,502
Cash and cash equivalents at end of period	$ 1,203	$ 1,897

See the Combined Notes to Consolidated Financial Statements

EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,203	$ 635
Restricted cash and cash equivalents	320	253
Deposit with IRS	1,250	1,250
Accounts receivable, net		
Customer	3,854	4,158
Other	950	1,201
Mark-to-market derivative assets	699	917
Unamortized energy contract assets	81	88
Inventories, net		
Fossil fuel and emission allowances	387	364
Materials and supplies	1,281	1,274
Regulatory assets	1,264	1,342
Other	1,435	930
Total current assets	12,724	12,412
Property, plant and equipment, net	73,067	71,555
Deferred debits and other assets		
Regulatory assets	10,238	10,046
Nuclear decommissioning trust funds	12,966	11,061
Investments	634	629
Goodwill	6,677	6,677
Mark-to-market derivative assets	426	492
Unamortized energy contract assets	407	447
Pledged assets for Zion Station decommissioning	57	113
Other	1,277	1,472
Total deferred debits and other assets	32,682	30,937
Total assets(a)	$ 118,473	$ 114,904

See the Combined Notes to Consolidated Financial Statements

EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 710	$ 1,267
Long-term debt due within one year	3,164	2,430
Accounts payable	3,132	3,441
Accrued expenses	3,080	3,460
Payables to affiliates	5	8
Regulatory liabilities	553	602
Mark-to-market derivative liabilities	178	282
Unamortized energy contract liabilities	283	407
Renewable energy credit obligation	261	428
PHI merger related obligation	96	151
Other	933	981
Total current liabilities	12,395	13,457
Long-term debt	31,701	31,575
Long-term debt to financing trusts	389	641
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	19,250	18,138
Asset retirement obligations	9,733	9,111
Pension obligations	4,055	4,248
Non-pension postretirement benefit obligations	1,977	1,848
Spent nuclear fuel obligation	1,142	1,024
Regulatory liabilities	4,549	4,187
Mark-to-market derivative liabilities	410	392
Unamortized energy contract liabilities	656	830
Payable for Zion Station decommissioning	—	14
Other	1,899	1,827
Total deferred credits and other liabilities	43,671	41,619
Total liabilities[(a)]	88,156	87,292
Commitments and contingencies		
Shareholders' equity		
Common stock (No par value, 2000 shares authorized, 961 shares and 924 shares outstanding at September 30, 2017 and December 31, 2016, respectively)	18,862	18,794
Treasury stock, at cost (2 shares and 35 shares at September 30, 2017 and December 31, 2016, respectively)	(123)	(2,327)
Retained earnings	11,950	12,030
Accumulated other comprehensive loss, net	(2,589)	(2,660)
Total shareholders' equity	28,100	25,837
Noncontrolling interests	2,217	1,775
Total equity	30,317	27,612

Total liabilities and shareholders’ equity	$ 118,473	$ 114,904

(a) Exelon’s consolidated assets include $9,520 million and $8,893 million at September 30, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Exelon’s consolidated liabilities include $3,688 million and $3,356 million at September 30, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Exelon. See Note 3 - Variable Interest Entities.

EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interests	Total Shareholders' Equity
Balance, December 31, 2016	958,778	$18,794	$(2,327)	$12,030	$ (2,660)	$ 1,775	$ 27,612
Net income	—	—	—	1,899	—	12	1,911
Long-term incentive plan activity	2,911	43	—	—	—	—	43
Employee stock purchase plan issuances	996	61	—	—	—	—	61
Common stock issued from treasury stock	—	—	2,204	(1,054)	—	—	1,150
Changes in equity of noncontrolling interests	—	—	—	—	—	(11)	(11)
Sale of noncontrolling interests	—	(36)	—	—	—	443	407
Common stock dividends	—	—	—	(925)	—	—	(925)
Other comprehensive income (loss), net of income taxes	—	—	—	—	71	(2)	69
Balance, September 30, 2017	962,685	$18,862	$ (123)	$11,950	$ (2,589)	$ 2,217	$ 30,317

See the Combined Notes to Consolidated Financial Statements

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Operating revenues				
Operating revenues	$4,455	$4,533	$12,918	$12,234
Operating revenues from affiliates	296	502	894	1,129
Total operating revenues	4,751	5,035	13,812	13,363
Operating expenses				
Purchased power and fuel	2,315	2,584	7,267	6,599
Purchased power and fuel from affiliates	16	5	19	10
Operating and maintenance	1,203	1,189	4,335	3,855
Operating and maintenance from affiliates	171	147	536	478
Depreciation and amortization	410	632	1,046	1,329
Taxes other than income	141	136	425	380
Total operating expenses	4,256	4,693	13,628	12,651
(Loss) gain on sales of assets	(2)	—	3	31
Bargain purchase gain	7	—	233	—
Operating income	500	342	420	743
Other income and (deductions)				
Interest expense, net	(103)	(67)	(313)	(243)
Interest expense to affiliates	(10)	(10)	(29)	(30)
Other, net	209	185	648	395
Total other income and (deductions)	96	108	306	122
Income before income taxes	596	450	726	865
Income taxes	240	173	209	293
Equity in losses of unconsolidated affiliates	(8)	(6)	(26)	(16)
Net income	348	271	491	556
Net income attributable to noncontrolling interests	43	35	12	18
Net income attributable to membership interest	$ 305	$ 236	$ 479	$ 538
Comprehensive income, net of income taxes				
Net income	$ 348	$ 271	$ 491	$ 556
Other comprehensive income (loss), net of income taxes				
Unrealized gain (loss) on cash flow hedges	—	1	5	(3)
Unrealized gain (loss) on equity investments	—	—	4	(4)
Unrealized gain on foreign currency translation	4	2	7	8
Unrealized gain on marketable securities	—	1	—	1
Other comprehensive income	4	4	16	2
Comprehensive income	352	275	507	558
Comprehensive income attributable to noncontrolling interests	43	30	10	13

Comprehensive income attributable to membership interest	$ 309	$ 245	$ 497	$ 545

See the Combined Notes to Consolidated Financial Statements

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(In millions)	**2017**	**2016**
Cash flows from operating activities		
Net income	$ 491	$ 556
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	2,231	2,516
Impairment of long-lived assets	485	209
Gain on sales of assets	(3)	(31)
Bargain purchase gain	(233)	—
Deferred income taxes and amortization of investment tax credits	(184)	(133)
Net fair value changes related to derivatives	160	112
Net realized and unrealized gains on nuclear decommissioning trust fund investments	(429)	(243)
Other non-cash operating activities	132	129
Changes in assets and liabilities:		
Accounts receivable	106	26
Receivables from and payables to affiliates, net	27	(56)
Inventories	(43)	18
Accounts payable and accrued expenses	(257)	9
Option premiums received (paid), net	35	(24)
Collateral (posted) received, net	(77)	759
Income taxes	154	202
Pension and non-pension postretirement benefit contributions	(122)	(122)
Other assets and liabilities	(203)	(204)
Net cash flows provided by operating activities	2,270	3,723
Cash flows from investing activities		
Capital expenditures	(1,654)	(2,651)
Proceeds from nuclear decommissioning trust fund sales	6,848	7,914
Investment in nuclear decommissioning trust funds	(7,044)	(8,093)
Acquisition of businesses, net	(208)	(255)
Proceeds from sale of long-lived assets	218	30
Changes in restricted cash	(28)	(39)
Other investing activities	(35)	(184)
Net cash flows used in investing activities	(1,903)	(3,278)
Cash flows from financing activities		
Changes in short-term borrowings	(620)	—
Proceeds from short-term borrowings with maturities greater than 90 days	121	195
Repayments of short-term borrowings with maturities greater than 90 days	(110)	(152)
Issuance of long-term debt	789	338
Retirement of long-term debt	(541)	(164)
Changes in Exelon intercompany money pool	91	(785)

Distributions to member	(494)	(167)
Contributions from member	102	142
Sale of noncontrolling interest	396	—
Other financing activities	(31)	92
Net cash flows used in financing activities	(297)	(501)
Increase (Decrease) in cash and cash equivalents	70	(56)
Cash and cash equivalents at beginning of period	290	431
Cash and cash equivalents at end of period	$ 360	$ 375

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 360	$ 290
Restricted cash and cash equivalents	186	158
Accounts receivable, net		
Customer	2,339	2,433
Other	275	558
Mark-to-market derivative assets	699	917
Receivables from affiliates	127	156
Unamortized energy contract assets	81	88
Inventories, net		
Fossil fuel and emission allowances	298	292
Materials and supplies	917	935
Other	1,157	701
Total current assets	6,439	6,528
Property, plant and equipment, net	24,793	25,585
Deferred debits and other assets		
Nuclear decommissioning trust funds	12,966	11,061
Investments	429	418
Goodwill	47	47
Mark-to-market derivative assets	416	476
Prepaid pension asset	1,535	1,595
Pledged assets for Zion Station decommissioning	57	113
Unamortized energy contract assets	406	447
Deferred income taxes	8	16
Other	648	688
Total deferred debits and other assets	16,512	14,861
Total assets(a)	$ 47,744	$ 46,974

See the Combined Notes to Consolidated Financial Statements

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	$ 92	$ 699
Long-term debt due within one year	1,659	1,117
Accounts payable	1,492	1,610
Accrued expenses	797	989
Payables to affiliates	136	137
Borrowings from Exelon intercompany money pool	146	55
Mark-to-market derivative liabilities	158	263
Unamortized energy contract liabilities	52	72
Renewable energy credit obligation	261	428
Other	266	313
Total current liabilities	5,059	5,683
Long-term debt	6,956	7,202
Long-term debt to affiliate	913	922
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	5,596	5,585
Asset retirement obligations	9,548	8,922
Non-pension postretirement benefit obligations	919	930
Spent nuclear fuel obligation	1,142	1,024
Payables to affiliates	2,972	2,608
Mark-to-market derivative liabilities	153	153
Unamortized energy contract liabilities	57	80
Payable for Zion Station decommissioning	—	14
Other	632	595
Total deferred credits and other liabilities	21,019	19,911
Total liabilities[(a)]	33,947	33,718
Commitments and contingencies		
Equity		
Member's equity		
Membership interest	9,357	9,261
Undistributed earnings	2,260	2,275
Accumulated other comprehensive loss, net	(36)	(54)
Total member's equity	11,581	11,482
Noncontrolling interests	2,216	1,774
Total equity	13,797	13,256
Total liabilities and equity	$ 47,744	$ 46,974

(a) Generation's consolidated assets include $9,477 million and $8,817 million at September 30, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Generation's consolidated liabilities include $3,576 million and $3,170 million at September 30, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Generation. See Note 3 - Variable Interest Entities.

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EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Member's Equity				
(In millions)	**Membership Interest**	**Undistributed Earnings**	**Accumulated Other Comprehensive Loss, net**	**Noncontrolling Interests**	**Total Equity**
Balance, December 31, 2016	$ 9,261	$ 2,275	$ (54)	$ 1,774	$ 13,256
Net income	—	479	—	12	491
Changes in equity of noncontrolling interests	—	—	—	(11)	(11)
Sale of noncontrolling interest	(36)	—	—	443	407
Distribution of net retirement benefit obligation to member	33	—	—	—	33
Allocation of tax benefit from member	99	—	—	—	99
Distributions to member	—	(494)	—	—	(494)
Other comprehensive income (loss), net of income taxes	—	—	18	(2)	16
Balance, September 30, 2017	$ 9,357	$ 2,260	$ (36)	$ 2,216	$ 13,797

See the Combined Notes to Consolidated Financial Statements

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Operating revenues				
Electric operating revenues	$ 1,568	$ 1,493	$ 4,215	$ 4,019
Operating revenues from affiliates	3	4	12	12
Total operating revenues	1,571	1,497	4,227	4,031
Operating expenses				
Purchased power	489	435	1,178	1,104
Purchased power from affiliate	40	19	63	37
Operating and maintenance	277	327	897	950
Operating and maintenance from affiliate	69	50	199	163
Depreciation and amortization	212	196	631	574
Taxes other than income	80	82	223	222
Total operating expenses	1,167	1,109	3,191	3,050
Gain on sales of assets	—	1	—	6
Operating income	404	389	1,036	987
Other income and (deductions)				
Interest expense, net	(86)	(194)	(265)	(364)
Interest expense to affiliates	(3)	(3)	(10)	(10)
Other, net	5	(80)	14	(72)
Total other income and (deductions)	(84)	(277)	(261)	(446)
Income before income taxes	320	112	775	541
Income taxes	131	75	328	244
Net income	$ 189	$ 37	$ 447	$ 297
Comprehensive income	$ 189	$ 37	$ 447	$ 297

See the Combined Notes to Consolidated Financial Statements

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(In millions)	**2017**	**2016**
Cash flows from operating activities		
Net income	$ 447	$ 297
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	631	574
Deferred income taxes and amortization of investment tax credits	455	398
Other non-cash operating activities	112	122
Changes in assets and liabilities:		
Accounts receivable	31	(55)
Receivables from and payables to affiliates, net	346	(9)
Inventories	6	4
Accounts payable and accrued expenses	(706)	145
Collateral posted, net	(22)	(2)
Income taxes	(205)	206
Pension and non-pension postretirement benefit contributions	(38)	(35)
Other assets and liabilities	63	104
Net cash flows provided by operating activities	1,120	1,749
Cash flows from investing activities		
Capital expenditures	(1,698)	(1,950)
Changes in restricted cash	(50)	—
Other investing activities	17	31
Net cash flows used in investing activities	(1,731)	(1,919)
Cash flows from financing activities		
Changes in short-term borrowings	—	(284)
Issuance of long-term debt	1,000	1,200
Retirement of long-term debt	(425)	(665)
Contributions from parent	567	188
Dividends paid on common stock	(316)	(275)
Other financing activities	(14)	(17)
Net cash flows provided by financing activities	812	147
Increase (Decrease) in cash and cash equivalents	201	(23)
Cash and cash equivalents at beginning of period	56	67
Cash and cash equivalents at end of period	$ 257	$ 44

See the Combined Notes to Consolidated Financial Statements

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 257	$ 56
Restricted cash	52	2
Accounts receivable, net		
Customer	496	528
Other	172	218
Receivables from affiliates	18	356
Inventories, net	152	159
Regulatory assets	187	190
Other	67	45
Total current assets	1,401	1,554
Property, plant and equipment, net	20,353	19,335
Deferred debits and other assets		
Regulatory assets	1,387	977
Investments	6	6
Goodwill	2,625	2,625
Receivables from affiliates	2,438	2,170
Prepaid pension asset	1,236	1,343
Other	203	325
Total deferred debits and other assets	7,895	7,446
Total assets	$ 29,649	$ 28,335

See the Combined Notes to Consolidated Financial Statements

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Long-term debt due within one year	$ 840	$ 425
Accounts payable	579	645
Accrued expenses	305	1,250
Payables to affiliates	51	65
Customer deposits	114	121
Regulatory liabilities	249	329
Mark-to-market derivative liability	20	19
Other	88	84
Total current liabilities	2,246	2,938
Long-term debt	6,760	6,608
Long-term debt to financing trust	205	205
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	6,091	5,364
Asset retirement obligations	110	119
Non-pension postretirement benefits obligations	224	239
Regulatory liabilities	3,735	3,369
Mark-to-market derivative liability	257	239
Other	577	529
Total deferred credits and other liabilities	10,994	9,859
Total liabilities	20,205	19,610
Commitments and contingencies		
Shareholders' equity		
Common stock	1,588	1,588
Other paid-in capital	6,738	6,150
Retained deficit unappropriated	(1,639)	(1,639)
Retained earnings appropriated	2,757	2,626
Total shareholders' equity	9,444	8,725
Total liabilities and shareholders' equity	$ 29,649	$ 28,335

See the Combined Notes to Consolidated Financial Statements

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions)	Common Stock	Other Paid-In Capital	Retained Deficit Unappropriated	Retained Earnings Appropriated	Total Shareholders' Equity
Balance, December 31, 2016	$ 1,588	$ 6,150	$ (1,639)	$ 2,626	$ 8,725
Net income	—	—	447	—	447
Appropriation of retained earnings for future dividends	—	—	(447)	447	—
Common stock dividends	—	—	—	(316)	(316)
Contributions from parent	—	567	—	—	567
Parent tax matter indemnification	—	21	—	—	21
Balance, September 30, 2017	$ 1,588	$ 6,738	$ (1,639)	$ 2,757	$ 9,444

See the Combined Notes to Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Operating revenues				
Electric operating revenues	$ 660	$ 738	$ 1,798	$ 1,966
Natural gas operating revenues	53	48	338	322
Operating revenues from affiliates	2	2	5	5
Total operating revenues	715	788	2,141	2,293
Operating expenses				
Purchased power	190	171	483	466
Purchased fuel	14	10	126	110
Purchased power from affiliate	31	91	110	233
Operating and maintenance	161	168	488	501
Operating and maintenance from affiliates	36	31	107	103
Depreciation and amortization	72	67	213	201
Taxes other than income	42	46	116	126
Total operating expenses	546	584	1,643	1,740
Operating income	169	204	498	553
Other income and (deductions)				
Interest expense, net	(28)	(27)	(84)	(83)
Interest expense to affiliates	(3)	(3)	(9)	(9)
Other, net	2	2	6	6
Total other income and (deductions)	(29)	(28)	(87)	(86)
Income before income taxes	140	176	411	467
Income taxes	28	54	84	121
Net income	$ 112	$ 122	$ 327	$ 346
Comprehensive income	$ 112	$ 122	$ 327	$ 346

See the Combined Notes to Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(In millions)	**2017**	**2016**
Cash flows from operating activities		
Net income	$ 327	$ 346
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	213	201
Deferred income taxes and amortization of investment tax credits	37	69
Other non-cash operating activities	38	49
Changes in assets and liabilities:		
Accounts receivable	45	(50)
Receivables from and payables to affiliates, net	(10)	9
Inventories	(5)	5
Accounts payable and accrued expenses	(41)	(12)
Income taxes	51	43
Pension and non-pension postretirement benefit contributions	(23)	(29)
Other assets and liabilities	(29)	(49)
Net cash flows provided by operating activities	603	582
Cash flows from investing activities		
Capital expenditures	(537)	(448)
Changes in Exelon intercompany money pool	74	—
Other investing activities	6	10
Net cash flows used in investing activities	(457)	(438)
Cash flows from financing activities		
Issuance of long-term debt	325	300
Restricted proceeds from issuance of long-term debt	—	(30)
Contributions from parent	16	18
Dividends paid on common stock	(216)	(208)
Other financing activities	(4)	(3)
Net cash flows provided by financing activities	121	77
Increase in cash and cash equivalents	267	221
Cash and cash equivalents at beginning of period	63	295
Cash and cash equivalents at end of period	$ 330	$ 516

See the Combined Notes to Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 330	$ 63
Restricted cash and cash equivalents	4	4
Accounts receivable, net		
Customer	240	306
Other	125	131
Receivables from affiliates	—	4
Receivable from Exelon intercompany pool	57	131
Inventories, net		
Fossil fuel	36	35
Materials and supplies	31	27
Prepaid utility taxes	41	9
Regulatory assets	36	29
Other	16	18
Total current assets	916	757
Property, plant and equipment, net	7,875	7,565
Deferred debits and other assets		
Regulatory assets	1,773	1,681
Investments	24	25
Receivable from affiliates	533	438
Prepaid pension asset	347	345
Other	12	20
Total deferred debits and other assets	2,689	2,509
Total assets	$ 11,480	$ 10,831

See the Combined Notes to Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 500	$ —
Accounts payable	285	342
Accrued expenses	132	104
Payables to affiliates	48	63
Customer deposits	64	61
Regulatory liabilities	159	127
Other	28	30
Total current liabilities	1,216	727
Long-term debt	2,402	2,580
Long-term debt to financing trusts	184	184
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	3,170	3,006
Asset retirement obligations	27	28
Non-pension postretirement benefits obligations	289	289
Regulatory liabilities	560	517
Other	90	85
Total deferred credits and other liabilities	4,136	3,925
Total liabilities	7,938	7,416
Commitments and contingencies		
Shareholder’s equity		
Common stock	2,489	2,473
Retained earnings	1,052	941
Accumulated other comprehensive income, net	1	1
Total shareholder’s equity	3,542	3,415
Total liabilities and shareholder's equity	$ 11,480	$ 10,831

See the Combined Notes to Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER’S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Shareholder's Equity
Balance, December 31, 2016	$ 2,473	$ 941	$ 1	$ 3,415
Net income	—	327	—	327
Common stock dividends	—	(216)	—	(216)
Allocation of tax benefit from parent	16	—	—	16
Balance, September 30, 2017	$ 2,489	$ 1,052	$ 1	$ 3,542

See the Combined Notes to Consolidated Financial Statements

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Operating revenues				
Electric operating revenues	$ 657	$ 733	$ 1,890	$ 1,993
Natural gas operating revenues	78	72	461	412
Operating revenues from affiliates	3	7	12	16
Total operating revenues	738	812	2,363	2,421
Operating expenses				
Purchased power	159	164	407	399
Purchased fuel	13	14	118	109
Purchased power from affiliate	97	182	328	486
Operating and maintenance	138	150	421	494
Operating and maintenance from affiliates	37	28	111	94
Depreciation and amortization	109	101	348	307
Taxes other than income	61	58	180	172
Total operating expenses	614	697	1,913	2,061
Operating income	124	115	450	360
Other income and (deductions)				
Interest expense, net	(24)	(24)	(69)	(64)
Interest expense to affiliates	(2)	(4)	(11)	(12)
Other, net	4	5	12	16
Total other income and (deductions)	(22)	(23)	(68)	(60)
Income before income taxes	102	92	382	300
Income taxes	40	36	151	109
Net income	62	56	231	191
Preference stock dividends	—	2	—	8
Net income attributable to common shareholder	$ 62	$ 54	$ 231	$ 183
Comprehensive income	$ 62	$ 56	$ 231	$ 191
Comprehensive income attributable to preference stock dividends	—	2	—	8
Comprehensive income attributable to common shareholder	$ 62	$ 54	$ 231	$ 183

See the Combined Notes to Consolidated Financial Statements

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(In millions)	**2017**	**2016**
Cash flows from operating activities		
Net income	$ 231	$ 191
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	348	307
Impairment of long-lived assets and losses on regulatory assets	—	52
Deferred income taxes and amortization of investment tax credits	141	54
Other non-cash operating activities	52	109
Changes in assets and liabilities:		
Accounts receivable	95	(50)
Receivables from and payables to affiliates, net	(13)	(10)
Inventories	(18)	(7)
Accounts payable and accrued expenses	(25)	43
Income taxes	12	19
Pension and non-pension postretirement benefit contributions	(50)	(46)
Other assets and liabilities	(69)	(2)
Net cash flows provided by operating activities	704	660
Cash flows from investing activities		
Capital expenditures	(615)	(611)
Changes in restricted cash	23	(22)
Other investing activities	6	19
Net cash flows used in investing activities	(586)	(614)
Cash flows from financing activities		
Changes in short-term borrowings	(45)	(210)
Issuance of long-term debt	300	850
Retirement of long-term debt	(41)	(39)
Retirement of long-term debt to financing trust	(250)	—
Redemption of preference stock	—	(190)
Dividends paid on preference stock	—	(8)
Dividends paid on common stock	(148)	(134)
Contributions from parent	77	28
Other financing activities	(5)	(11)
Net cash flows (used in) provided by financing activities	(112)	286
Increase in cash and cash equivalents	6	332
Cash and cash equivalents at beginning of period	23	9
Cash and cash equivalents at end of period	$ 29	$ 341

See the Combined Notes to Consolidated Financial Statements

BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 29	$ 23
Restricted cash and cash equivalents	1	24
Accounts receivable, net		
Customer	288	395
Other	86	102
Inventories, net		
Gas held in storage	46	30
Materials and supplies	40	38
Prepaid utility taxes	—	15
Regulatory assets	208	208
Other	4	7
Total current assets	702	842
Property, plant and equipment, net	7,418	7,040
Deferred debits and other assets		
Regulatory assets	497	504
Investments	5	12
Prepaid pension asset	297	297
Other	4	9
Total deferred debits and other assets	803	822
Total assets(a)	$ 8,923	$ 8,704

See the Combined Notes to Consolidated Financial Statements

BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ —	$ 45
Long-term debt due within one year	—	41
Accounts payable	218	205
Accrued expenses	147	175
Payables to affiliates	42	55
Customer deposits	114	110
Regulatory liabilities	63	50
Other	28	26
Total current liabilities	612	707
Long-term debt	2,577	2,281
Long-term debt to financing trust	—	252
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	2,366	2,219
Asset retirement obligations	23	21
Non-pension postretirement benefits obligations	201	205
Regulatory liabilities	84	110
Other	52	61
Total deferred credits and other liabilities	2,726	2,616
Total liabilities(a)	5,915	5,856
Commitments and contingencies		
Shareholders' equity		
Common stock	1,498	1,421
Retained earnings	1,510	1,427
Total shareholders' equity	3,008	2,848
Total liabilities and shareholders' equity	$ 8,923	$ 8,704

(a) BGE's consolidated assets include $26 million at December 31, 2016 of BGE's consolidated VIE that can only be used to settle the liabilities of the VIE. BGE's consolidated liabilities include $42 million at December 31, 2016 of BGE's consolidated VIE for which the VIE creditors do not have recourse to BGE. BGE no longer has interests in any VIEs as of September 30, 2017. See Note 3 - Variable Interest Entities.

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholders' Equity
Balance, December 31, 2016	$ 1,421	$ 1,427	$ 2,848
Net income	—	231	231
Common stock dividends	—	(148)	(148)
Contributions from parent	77	—	77
Balance, September 30, 2017	$ 1,498	$ 1,510	$ 3,008

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Successor				*Predecessor*
	Three Months Ended September 30,		Nine Months Ended September 30,	March 24 to September 30,	January 1 to March 23,
(In millions)	**2017**	**2016**	**2017**	**2016**	**2016**
Operating revenues					
Electric operating revenues	$ 1,280	$ 1,366	$ 3,417	$ 2,485	$ 1,096
Natural gas operating revenues	18	17	105	46	57
Operating revenues from affiliates	12	11	35	34	—
Total operating revenues	1,310	1,394	3,557	2,565	1,153
Operating expenses					
Purchased power	354	370	901	658	471
Purchased fuel	7	6	46	17	26
Purchased power and fuel from affiliates	112	207	371	362	—
Operating and maintenance	214	200	666	870	294
Operating and maintenance from affiliates	37	26	108	51	—
Depreciation and amortization	179	182	511	355	152
Taxes other than income	122	124	344	248	105
Total operating expenses	1,025	1,115	2,947	2,561	1,048
Gain on sales of assets	—	—	1	—	—
Operating income	285	279	611	4	105
Other income and (deductions)					
Interest expense, net	(62)	(64)	(183)	(135)	(65)
Other, net	13	19	40	31	(4)
Total other income and (deductions)	(49)	(45)	(143)	(104)	(69)
Income (loss) before income taxes	236	234	468	(100)	36
Income taxes	83	68	109	(9)	17
Net income (loss)	$ 153	$ 166	$ 359	$ (91)	$ 19
Comprehensive income (loss), net of income taxes					
Net income (loss)	$ 153	$ 166	$ 359	$ (91)	$ 19
Other comprehensive income, net of income taxes					
Pension and non-pension postretirement benefit plans:					
Actuarial loss reclassified to periodic cost	—	—	—	—	1
Other comprehensive income	—	—	—	—	1
Comprehensive income (loss)	$ 153	$ 166	$ 359	$ (91)	$ 20

See the Combined Notes to Consolidated Financial Statements

PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Successor		*Predecessor*
	Nine Months Ended September 30,	**March 24 to September 30,**	**January 1 to March 23,**
(In millions)	**2017**	**2016**	**2016**
Cash flows from operating activities			
Net income (loss)	$ 359	$ (91)	$ 19
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Depreciation and amortization	511	355	152
Deferred income taxes and amortization of investment tax credits	190	237	19
Net fair value changes related to derivatives	—	—	18
Other non-cash operating activities	66	441	46
Changes in assets and liabilities:			
Accounts receivable	(42)	(94)	(28)
Receivables from and payables to affiliates, net	(13)	39	—
Inventories	(29)	—	(4)
Accounts payable and accrued expenses	(49)	(23)	42
Income taxes	82	(57)	12
Pension and non-pension postretirement benefit contributions	(74)	(13)	(4)
Other assets and liabilities	(204)	(248)	(8)
Net cash flows provided by operating activities	797	546	264
Cash flows from investing activities			
Capital expenditures	(995)	(624)	(273)
Proceeds from sales of long-lived assets	1	19	—
Changes in restricted cash	(1)	(39)	3
Purchases of investments	—	—	(68)
Other investing activities	4	13	(5)
Net cash flows used in investing activities	(991)	(631)	(343)
Cash flows from financing activities			
Changes in short-term borrowings	96	(520)	(121)
Proceeds from short-term borrowings with maturities greater than 90 days	—	—	500
Repayments of short-term borrowings with maturities greater than 90 days	(500)	(300)	—
Issuance of long-term debt	202	2	—
Retirement of long-term debt	(127)	(29)	(11)
Common stock issued for the Direct Stock Purchase and Dividend Reinvestment Plan and employee-related compensation	—	—	2
Distributions to member	(267)	(174)	—
Contributions from member	758	1,088	—
Change in Exelon intercompany money pool	1	1	—
Other financing activities	(2)	(3)	2
Net cash flows provided by financing activities	161	65	372
(Decrease) Increase in cash and cash equivalents	(33)	(20)	293
Cash and cash equivalents at beginning of period	170	319	26

Cash and cash equivalents at end of period	$ 137	$ 299	$ 319

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PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	Successor	
(In millions)	**September 30, 2017**	**December 31, 2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 137	$ 170
Restricted cash and cash equivalents	43	43
Accounts receivable, net		
Customer	490	496
Other	209	283
Inventories, net		
Gas held in storage	9	6
Materials and supplies	141	116
Regulatory assets	568	653
Other	59	71
Total current assets	1,656	1,838
Property, plant and equipment, net	12,219	11,598
Deferred debits and other assets		
Regulatory assets	2,692	2,851
Investments	132	133
Goodwill	4,005	4,005
Long-term note receivable	4	4
Prepaid pension asset	510	509
Deferred income taxes	6	6
Other	77	81
Total deferred debits and other assets	7,426	7,589
Total assets(a)	$ 21,301	$ 21,025

See the Combined Notes to Consolidated Financial Statements

PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	*Successor* September 30, 2017	*Successor* December 31, 2016
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 118	$ 522
Long-term debt due within one year	159	253
Accounts payable	397	458
Accrued expenses	294	272
Payables to affiliates	79	94
Unamortized energy contract liabilities	231	335
Borrowings from Exelon intercompany money pool	1	—
Customer deposits	119	123
Merger related obligation	53	101
Regulatory liabilities	65	79
Other	41	47
Total current liabilities	1,557	2,284
Long-term debt	5,771	5,645
Deferred credits and other liabilities		
Regulatory liabilities	146	158
Deferred income taxes and unamortized investment tax credits	4,003	3,775
Asset retirement obligations	17	14
Non-pension postretirement benefit obligations	128	134
Unamortized energy contract liabilities	599	750
Other	214	249
Total deferred credits and other liabilities	5,107	5,080
Total liabilities[(a)]	12,435	13,009
Commitments and contingencies		
Member's equity		
Membership interest	8,835	8,077
Undistributed earnings (losses)	31	(61)
Total member's equity	8,866	8,016
Total liabilities and member's equity	$ 21,301	$ 21,025

(a) PHI's consolidated total assets include $43 million and $49 million at September 30, 2017 and December 31, 2016, respectively, of PHI's consolidated VIE that can only be used to settle the liabilities of the VIE. PHI's consolidated total liabilities include $112 million and $143 million at September 30, 2017 and December 31, 2016, respectively, of PHI's consolidated VIE for which the VIE creditors do not have recourse to PHI. See Note 3 - Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(In millions)	**Membership Interest**	**Undistributed Earnings (Losses)**	**Member's Equity**
Successor			
Balance, December 31, 2016	$ 8,077	$ (61)	$ 8,016
Net income	—	359	359
Distribution to member	—	(267)	(267)
Contribution from member	751	—	751
Allocation of tax benefit from member	7	—	7
Balance, September 30, 2017	$ 8,835	$ 31	$ 8,866

See the Combined Notes to Consolidated Financial Statements

POTOMAC ELECTRIC POWER COMPANY
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Operating revenues				
Electric operating revenues	$ 603	$ 634	$ 1,645	$ 1,692
Operating revenues from affiliates	1	1	4	3
Total operating revenues	604	635	1,649	1,695
Operating expenses				
Purchased power	111	84	268	340
Purchased power from affiliates	57	129	210	223
Operating and maintenance	89	100	296	488
Operating and maintenance from affiliates	14	9	40	20
Depreciation and amortization	82	76	242	221
Taxes other than income	102	105	282	287
Total operating expenses	455	503	1,338	1,579
Gain on sales of assets	—	—	1	8
Operating income	149	132	312	124
Other income and (deductions)				
Interest expense, net	(31)	(30)	(89)	(98)
Other, net	7	12	22	28
Total other income and (deductions)	(24)	(18)	(67)	(70)
Income before income taxes	125	114	245	54
Income taxes	38	35	57	34
Net income	$ 87	$ 79	$ 188	$ 20
Comprehensive income	$ 87	$ 79	$ 188	$ 20

See the Combined Notes to Consolidated Financial Statements

POTOMAC ELECTRIC POWER COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities		
Net income	$ 188	$ 20
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	242	221
Deferred income taxes and amortization of investment tax credits	90	96
Other non-cash operating activities	8	168
Changes in assets and liabilities:		
Accounts receivable	(43)	(105)
Receivables from and payables to affiliates, net	(10)	44
Inventories	(15)	3
Accounts payable and accrued expenses	(24)	7
Income taxes	80	139
Pension and non-pension postretirement benefit contributions	(69)	(6)
Other assets and liabilities	(99)	(83)
Net cash flows provided by operating activities	348	504
Cash flows from investing activities		
Capital expenditures	(439)	(392)
Proceeds from sale of long-lived asset	1	12
Purchases of investments	—	(32)
Changes in restricted cash	(1)	(31)
Other investing activities	—	8
Net cash flows used in investing activities	(439)	(435)
Cash flows from financing activities		
Changes in short-term borrowings	(23)	(64)
Issuance of long-term debt	202	2
Retirement of long-term debt	(7)	(5)
Dividends paid on common stock	(133)	(92)
Contribution from parent	161	187
Other financing activities	(1)	—
Net cash flows provided by financing activities	199	28
Increase in cash and cash equivalents	108	97
Cash and cash equivalents at beginning of period	9	5
Cash and cash equivalents at end of period	$ 117	$ 102

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POTOMAC ELECTRIC POWER COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 117	$ 9
Restricted cash and cash equivalents	34	33
Accounts receivable, net		
Customer	265	235
Other	92	150
Inventories, net	78	63
Regulatory assets	181	162
Other	10	32
Total current assets	777	684
Property, plant and equipment, net	5,866	5,571
Deferred debits and other assets		
Regulatory assets	699	690
Investments	102	102
Prepaid pension asset	327	282
Other	4	6
Total deferred debits and other assets	1,132	1,080
Total assets	$ 7,775	$ 7,335

See the Combined Notes to Consolidated Financial Statements

POTOMAC ELECTRIC POWER COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ —	$ 23
Long-term debt due within one year	19	16
Accounts payable	168	209
Accrued expenses	153	113
Payables to affiliates	64	74
Customer deposits	53	53
Regulatory liabilities	5	11
Merger related obligation	42	68
Other	20	29
Total current liabilities	524	596
Long-term debt	2,527	2,333
Deferred credits and other liabilities		
Regulatory liabilities	21	20
Deferred income taxes and unamortized investment tax credits	2,024	1,910
Non-pension postretirement benefit obligations	37	43
Other	126	133
Total deferred credits and other liabilities	2,208	2,106
Total liabilities	5,259	5,035
Commitments and contingencies		
Shareholder's equity		
Common stock	1,470	1,309
Retained earnings	1,046	991
Total shareholder’s equity	2,516	2,300
Total liabilities and shareholder's equity	$ 7,775	$ 7,335

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POTOMAC ELECTRIC POWER COMPANY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 1,309	$ 991	$ 2,300
Net income	—	188	188
Common stock dividends	—	(133)	(133)
Contributions from parent	161	—	161
Balance, September 30, 2017	$ 1,470	$ 1,046	$ 2,516

See the Combined Notes to Consolidated Financial Statements

DELMARVA POWER & LIGHT COMPANY
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Operating revenues				
Electric operating revenues	$ 307	$ 312	$ 860	$ 866
Natural gas operating revenues	18	17	105	102
Operating revenues from affiliates	2	2	6	6
Total operating revenues	327	331	971	974
Operating expenses				
Purchased power	75	81	215	297
Purchased fuel	7	6	46	41
Purchased power from affiliate	47	63	138	110
Operating and maintenance	71	50	204	327
Operating and maintenance from affiliates	8	5	23	11
Depreciation and amortization	45	44	124	120
Taxes other than income	15	14	43	42
Total operating expenses	268	263	793	948
Gain on sale of asset	—	4	—	4
Operating income	59	72	178	30
Other income and (deductions)				
Interest expense, net	(13)	(12)	(38)	(37)
Other, net	4	3	10	9
Total other income and (deductions)	(9)	(9)	(28)	(28)
Income before income taxes	50	63	150	2
Income taxes	19	19	43	18
Net income (loss)	$ 31	$ 44	$ 107	$ (16)
Comprehensive income (loss)	$ 31	$ 44	$ 107	$ (16)

See the Combined Notes to Consolidated Financial Statements

DELMARVA POWER & LIGHT COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities		
Net income (loss)	$ 107	$ (16)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	124	120
Deferred income taxes and amortization of investment tax credits	61	69
Other non-cash operating activities	6	99
Changes in assets and liabilities:		
Accounts receivable	7	8
Receivables from and payables to affiliates, net	—	12
Inventories	(6)	—
Accounts payable and accrued expenses	—	(8)
Collateral received	—	1
Income Taxes	33	52
Other assets and liabilities	(40)	(70)
Net cash flows provided by operating activities	292	267
Cash flows from investing activities		
Capital expenditures	(294)	(260)
Proceeds from sale of long-lived asset	—	4
Other investing activities	1	2
Net cash flows used in investing activities	(293)	(254)
Cash flows from financing activities		
Changes in short-term borrowings	54	(88)
Retirement of long-term debt	(14)	—
Dividends paid on common stock	(82)	(39)
Contribution from parent	—	113
Net cash flows used in financing activities	(42)	(14)
Decrease in cash and cash equivalents	(43)	(1)
Cash and cash equivalents at beginning of period	46	5
Cash and cash equivalents at end of period	$ 3	$ 4

See the Combined Notes to Consolidated Financial Statements

DELMARVA POWER & LIGHT COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 3	$ 46
Accounts receivable, net		
Customer	118	136
Other	36	63
Receivables from affiliates	—	3
Inventories, net		
Gas held in storage	9	7
Materials and supplies	35	32
Regulatory assets	69	59
Other	16	24
Total current assets	286	370
Property, plant and equipment, net	3,480	3,273
Deferred debits and other assets		
Regulatory assets	300	289
Goodwill	8	8
Prepaid pension asset	197	206
Other	5	7
Total deferred debits and other assets	510	510
Total assets	$ 4,276	$ 4,153

See the Combined Notes to Consolidated Financial Statements

DELMARVA POWER & LIGHT COMPANY
BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 54	$ —
Long-term debt due within one year	109	119
Accounts payable	95	88
Accrued expenses	52	36
Payables to affiliates	35	38
Customer deposits	35	36
Regulatory liabilities	42	43
Merger related obligation	3	13
Other	7	8
Total current liabilities	432	381
Long-term debt	1,217	1,221
Deferred credits and other liabilities		
Regulatory liabilities	86	97
Deferred income taxes and unamortized investment tax credits	1,125	1,056
Non-pension postretirement benefit obligations	17	19
Other	48	53
Total deferred credits and other liabilities	1,276	1,225
Total liabilities	2,925	2,827
Commitments and contingencies		
Shareholder's equity		
Common stock	764	764
Retained earnings	587	562
Total shareholder’s equity	1,351	1,326
Total liabilities and shareholder's equity	$ 4,276	$ 4,153

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DELMARVA POWER & LIGHT COMPANY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 764	$ 562	$ 1,326
Net income	—	107	107
Common stock dividends	—	(82)	(82)
Balance, September 30, 2017	$ 764	$ 587	$ 1,351

See the Combined Notes to Consolidated Financial Statements

ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2017**	**2016**	**2017**	**2016**
Operating revenues				
Electric operating revenues	$ 370	$ 420	$ 913	$ 979
Operating revenues from affiliates	—	1	2	3
Total operating revenues	370	421	915	982
Operating expenses				
Purchased power	169	206	418	491
Purchased power from affiliates	7	15	24	29
Operating and maintenance	66	62	205	336
Operating and maintenance from affiliates	6	5	20	10
Depreciation and amortization	41	49	113	130
Taxes other than income	2	1	6	6
Total operating expenses	291	338	786	1,002
Gain on sale of assets	—	—	—	1
Operating income (loss)	79	83	129	(19)
Other income and (deductions)				
Interest expense, net	(15)	(15)	(46)	(47)
Other, net	1	2	6	8
Total other income and (deductions)	(14)	(13)	(40)	(39)
Income (loss) before income taxes	65	70	89	(58)
Income taxes	24	23	12	(8)
Net income (loss)	$ 41	$ 47	$ 77	$ (50)
Comprehensive income (loss)	$ 41	$ 47	$ 77	$ (50)

See the Combined Notes to Consolidated Financial Statements

ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(In millions)	**2017**	**2016**
Cash flows from operating activities		
Net income (loss)	$ 77	$ (50)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	113	130
Deferred income taxes and amortization of investment tax credits	28	14
Other non-cash operating activities	21	138
Changes in assets and liabilities:		
Accounts receivable	(7)	(32)
Receivables from and payables to affiliates, net	(5)	9
Inventories	(7)	(1)
Accounts payable and accrued expenses	9	10
Income taxes	(9)	184
Other assets and liabilities	(62)	(87)
Net cash flows provided by operating activities	158	315
Cash flows from investing activities		
Capital expenditures	(242)	(227)
Proceeds from sale of long-lived asset	—	2
Changes in restricted cash	1	(4)
Other investing activities	—	2
Net cash flows used in investing activities	(241)	(227)
Cash flows from financing activities		
Changes in short-term borrowings	65	(5)
Retirement of long-term debt	(25)	(35)
Dividends paid on common stock	(53)	(24)
Contribution from parent	—	139
Other financing activities	—	(1)
Net cash flows (used in) provided by financing activities	(13)	74
(Decrease) Increase in cash and cash equivalents	(96)	162
Cash and cash equivalents at beginning of period	101	3
Cash and cash equivalents at end of period	$ 5	$ 165

See the Combined Notes to Consolidated Financial Statements

ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 5	$ 101
Restricted cash and cash equivalents	9	9
Accounts receivable, net		
Customer	107	125
Other	54	44
Inventories, net	29	22
Prepaid utility taxes	15	—
Regulatory assets	87	96
Other	3	2
Total current assets	309	399
Property, plant and equipment, net	2,662	2,521
Deferred debits and other assets		
Regulatory assets	417	405
Long-term note receivable	4	4
Prepaid pension asset	76	84
Other	42	44
Total deferred debits and other assets	539	537
Total assets[(a)]	$ 3,510	$ 3,457

See the Combined Notes to Consolidated Financial Statements

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	September 30, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowings	$ 65	$ —
Long-term debt due within one year	32	35
Accounts payable	122	132
Accrued expenses	39	38
Payables to affiliates	24	29
Customer deposits	31	33
Regulatory liabilities	18	25
Merger related obligation	8	20
Other	6	8
Total current liabilities	345	320
Long-term debt	1,098	1,120
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	951	917
Non-pension postretirement benefit obligations	33	34
Other	25	32
Total deferred credits and other liabilities	1,009	983
Total liabilities(a)	2,452	2,423
Commitments and contingencies		
Shareholder's equity		
Common stock	912	912
Retained earnings	146	122
Total shareholder’s equity	1,058	1,034
Total liabilities and shareholder's equity	$ 3,510	$ 3,457

(a) ACE’s consolidated total assets include $31 million and $32 million at September 30, 2017 and December 31, 2016, respectively, of ACE’s consolidated VIE that can only be used to settle the liabilities of the VIE. ACE’s consolidated total liabilities include $100 million and $126 million at September 30, 2017 and December 31, 2016, respectively, of ACE’s consolidated VIE for which the VIE creditors do not have recourse to ACE. See Note 3 - Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

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ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder's Equity
Balance, December 31, 2016	$ 912	$ 122	$ 1,034
Net income	—	77	77
Common stock dividends	—	(53)	(53)
Balance, September 30, 2017	$ 912	$ 146	$ 1,058

See the Combined Notes to Consolidated Financial Statements

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Index to Combined Notes To Consolidated Financial Statements

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

Applicable Notes

Registrant	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Exelon Corporation	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪
Exelon Generation Company, LLC	▪	▪	▪	▪	▪	▪	▪		▪	▪	▪	▪	▪	▪	▪	▪		▪	▪	▪
Commonwealth Edison Company	▪	▪	▪		▪				▪	▪	▪	▪		▪	▪			▪	▪	▪
PECO Energy Company	▪	▪	▪		▪				▪	▪	▪	▪		▪	▪	▪		▪	▪	▪
Baltimore Gas and Electric Company	▪	▪	▪		▪				▪	▪	▪	▪		▪	▪			▪	▪	▪
Pepco Holdings LLC	▪	▪	▪	▪	▪			▪	▪	▪	▪	▪		▪	▪	▪		▪	▪	▪
Potomac Electric Power Company	▪	▪	▪	▪	▪				▪	▪	▪	▪		▪	▪			▪	▪	▪
Delmarva Power & Light Company	▪	▪	▪	▪	▪				▪	▪	▪	▪		▪	▪			▪	▪	▪
Atlantic City Electric Company	▪	▪	▪		▪				▪	▪	▪	▪		▪	▪			▪	▪	▪

1. Basis of Presentation (All Registrants)

Description of Business (All Registrants)

Exelon is a utility services holding company engaged through its principal subsidiaries in the energy generation and energy distribution and transmission businesses. Prior to March 23, 2016, Exelon's principal, wholly owned subsidiaries included Generation, ComEd, PECO and BGE. On March 23, 2016, in conjunction with the Amended and Restated Agreement and Plan of Merger (the PHI Merger Agreement), Purple Acquisition Corp, a wholly owned subsidiary of Exelon, merged with and into PHI, with PHI continuing as the surviving entity as a wholly owned subsidiary of Exelon. PHI is a utility services holding company engaged through its principal wholly owned subsidiaries, Pepco, DPL and ACE, in the energy distribution and transmission businesses. Refer to Note 4 - Mergers, Acquisitions and Dispositions for further information regarding the merger transaction.

The energy generation business includes:

- *Generation*: Generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services. Generation has six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions.

The energy delivery businesses include:

-

ComEd: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in northern Illinois, including the City of Chicago.

- *PECO*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in the Pennsylvania counties surrounding the City of Philadelphia.

- *BGE*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in central Maryland, including the City of Baltimore, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in central Maryland, including the City of Baltimore.

- *Pepco*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in the District of Columbia and major portions of Prince George's County and Montgomery County in Maryland.

- *DPL*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.

- *ACE*: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in southern New Jersey.

Basis of Presentation (All Registrants)

As a result of the acquisition of PHI, Exelon's financial reporting reflects PHI's consolidated financial results subsequent to the March 23, 2016, acquisition date. Exelon has accounted for the merger transaction applying the acquisition method of accounting, which requires that identifiable assets acquired and liabilities assumed by Exelon to be reported in Exelon's financial statements at fair value, with any excess of the purchase price over the fair value of net assets acquired reported as goodwill. Exelon has pushed-down the application of the acquisition method of accounting to the consolidated financial statements of PHI such that the assets and liabilities of PHI are similarly recorded at their respective fair values, and goodwill has been established as of the acquisition date. Accordingly, the consolidated financial statements of PHI for periods before and after the March 23, 2016, acquisition date reflect different bases of accounting, and the financial positions and the results of operations of the predecessor and successor periods are not comparable. The acquisition method of accounting has not been pushed down to PHI's wholly owned subsidiary utility registrants, Pepco, DPL and ACE.

For financial statement purposes, beginning on March 24, 2016, disclosures related to Exelon now also apply to PHI, Pepco, DPL and ACE, unless otherwise noted.

Each of the Registrant's Consolidated Financial Statements includes the accounts of its subsidiaries. All intercompany transactions have been eliminated.

The accompanying consolidated financial statements as of September 30, 2017 and 2016 and for the three and nine months then ended are unaudited but, in the opinion of the management of each Registrant include all adjustments that are considered necessary for a fair statement of the Registrants' respective financial statements in accordance with GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. The December 31, 2016 Consolidated Balance Sheets were derived from audited financial statements. Financial results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2017. These Combined Notes to Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

2. New Accounting Standards (All Registrants)

New Accounting Standards Issued and Not Yet Adopted: The following new authoritative accounting guidance issued by the FASB has not yet been adopted and reflected by the Registrants in their consolidated financial statements. Unless otherwise indicated, the Registrants are currently assessing the impacts such guidance may have (which could be material) on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures, as well as the potential to early adopt where applicable. The Registrants have assessed other FASB issuances of new standards which are not listed below given the current expectation such standards will not significantly impact the Registrants' financial reporting.

Revenue from Contracts with Customers (Issued May 2014 and subsequently amended to address implementation questions): Changes the criteria for recognizing revenue from a contract with a customer. The new revenue recognition guidance, including subsequent amendments, is effective for annual reporting periods beginning on or after December 15, 2017, with the option to early adopt the standard for annual periods beginning on or after December 15, 2016. Exelon has not early adopted this standard.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The new standard replaces existing guidance on revenue recognition, including most industry specific guidance, with a five step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method).

The Registrants have assessed the revenue recognition standard and are executing a detailed implementation plan in preparation for adoption on January 1, 2018. The Registrants have also actively participated in the AICPA Power and Utilities Industry Task Force (Industry Task Force) process to identify implementation issues and support the development of related implementation guidance. In coordination with the Industry Task Force, the Registrants have reached conclusions on the following key accounting issues:

- The Utility Registrants’ tariff sale contracts, including those with lower credit quality customers, are generally deemed to be probable of collection under the guidance and, thus, the timing of revenue recognition will continue to be concurrent with the delivery of electricity or natural gas, consistent with current practice;

- Consistent with current industry practice, revenues recognized from sales of bundled energy commodities (i.e., contracts involving the delivery of multiple energy commodities such as electricity, capacity, ancillary services, etc.) are generally expected to be recognized upon delivery to the customer in an amount based on the invoice price given that it corresponds directly with the value of the commodities transferred to the customer; and

- Contributions in aid of construction are outside of the scope of the standard and, therefore, will continue to be accounted for as a reduction to Property, Plant, and Equipment.

The Registrants have also completed the following key activities in their implementation plan:

- Evaluated existing contracts and revenue streams for potential changes in revenue recognition under the new guidance. Based on these assessments, the Registrants have identified the following items that will be accounted for differently under the new revenue guidance as compared to current guidance:

    - Costs to acquire certain contracts (e.g., sales commissions associated with retail power contracts) will be deferred and amortized ratably over the term of the contract rather than being expensed as incurred; and

    - Variable consideration within certain contracts (e.g., performance bonuses) will be estimated and recognized as revenue over the term of the contract rather than being recognized when realized

Notwithstanding these identified changes, Exelon does not expect the new guidance will have a material impact on the amount and timing of revenue recognition;

- Currently expect to apply the new guidance using the full retrospective method; and
- Generation expects to disclose disaggregated revenue by operating segment and further differentiation by major products (i.e., electric power and gas) and the Utility Registrants expect to disclose disaggregated revenue by major customer class (i.e., residential and commercial & industrial) separately for electric and gas in the Combined Notes to Consolidated Financial Statements.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Issued March 2017): The new standard will require significant changes to the accounting and presentation of pension and OPEB costs at the plan sponsor (i.e., Exelon) level. This guidance requires plan sponsors to report the service cost and other non-service cost components of net periodic pension cost and net periodic OPEB cost (together, net benefit cost) separately. Under current GAAP, net benefit cost is recorded as part of income from operations and the components are disclosed in the Retirement Benefits footnote. Service cost will be presented as part of income from operations and the other non-service cost components will be classified outside of income from operations on the Consolidated

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Statements of Operations and Comprehensive Income. Additionally, service cost is the only component eligible for capitalization (whereas under current GAAP, all components of net benefit cost are eligible for capitalization).

Generation, ComEd, PECO, BGE, BSC, PHI, Pepco, DPL, ACE and PHISCO participate in Exelon's single employer pension and OPEB plans and apply multi-employer accounting. Multi-employer accounting is not impacted by this standard, so Exelon's subsidiary financial statements will not change. On Exelon's consolidated financial statements, non-service cost components of pension and OPEB cost capitalizable under a regulatory framework will be reported as regulatory assets (currently, they are capitalizable under pension and OPEB accounting guidance and reported as PP&E). These regulatory assets will be amortized outside of operating income.

The standard is effective January 1, 2018 and requires retrospective application for the presentation of the service cost component and the other non-service cost components of net benefit cost and prospective application for the capitalization of only the service cost component of net benefit cost. Exelon will not early adopt this standard.

Leases (Issued February 2016): Increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance requires lessees to recognize both the right-of-use assets and lease liabilities in the balance sheet for most leases, whereas today only financing type lease liabilities (capital leases) are recognized in the balance sheet. This is expected to require significant changes to systems, processes and procedures in order to recognize and measure leases recorded on the balance sheet that are currently classified as operating leases. In addition, the definition of a lease has been revised in regards to when an arrangement conveys the right to control the use of the identified asset under the arrangement which may result in changes to the classification of an arrangement as a lease. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. The accounting applied by a lessor is largely unchanged from that applied under current GAAP. The standard is effective January 1, 2019. Early adoption is permitted, however the Registrants do not expect to early adopt the standard. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Refer to Note 24 — Commitments and Contingencies of the Combined Notes to the Consolidated Financial Statements in the Exelon 2016 Form 10-K for additional information regarding operating leases.

Impairment of Financial Instruments (Issued June 2016): Provides for a new Current Expected Credit Loss (CECL) impairment model for specified financial instruments including loans, trade receivables, debt securities classified as held-to-maturity investments and net investments in leases recognized by a lessor. Under the new guidance, on initial recognition and at each reporting period, an entity is required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. The standard does not make changes to the existing impairment models for non-financial assets such as fixed assets, intangibles and goodwill. The standard will be effective January 1, 2020 (with early adoption as of January 1, 2019 permitted) and, for most debt instruments, requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Derivatives and Hedging (Issued September 2017): Allows more financial and nonfinancial hedging strategies to be eligible for hedge accounting. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. There are also amendments related to effectiveness testing and disclosure requirements. The guidance is effective January 1, 2019 and early adoption is permitted with a modified retrospective transition approach. The Registrants are currently assessing this standard but do not currently expect a significant impact given the limited activity for which the Registrants elect hedge accounting and because the Registrants do not anticipate increasing their use of hedge accounting as a result of this standard.

Goodwill Impairment (Issued January 2017): Simplifies the accounting for goodwill impairment by removing Step 2 of the current test, which requires calculation of a hypothetical purchase price allocation. Under the revised guidance, goodwill impairment will be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill (currently Step 1 of the two step impairment test). Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Exelon, Generation, ComEd, PHI, and DPL have goodwill as of September 30, 2017. This updated guidance is not currently expected to impact the Registrants' financial reporting. The standard is effective January 1, 2020, with early adoption permitted, and must be applied on a prospective basis.

Clarifying the Definition of a Business (Issued January 2017): Clarifies the definition of a business with the objective of addressing whether acquisitions (or dispositions) should be accounted for as acquisitions/dispositions of assets or as acquisitions/dispositions of businesses. If substantially all the fair value of the assets acquired/disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. If the fair value of the assets acquired/disposed of is not concentrated in a single identifiable asset or a group of similar identifiable assets, then an entity must evaluate whether an input and a substantive process exist, which together significantly contribute to the ability to produce outputs. The standard also revises the definition of outputs to focus on goods and services to customers. The standard will likely result in more acquisitions being accounted for as asset acquisitions. The standard is effective January 1, 2018, with early adoption permitted, and must be applied on a prospective basis.

Intra-Entity Transfers of Assets Other Than Inventory (Issued October 2016): Requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs (current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party). The standard is effective January 1, 2018 with early adoption permitted. The guidance requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Issued August 2016) and Restricted Cash (Issued November 2016): In 2016, the FASB issued two standards impacting the Statement of Cash Flows. The first adds or clarifies guidance on the classification of certain cash receipts and payments on the statement of cash flows as follows: debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and bank-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, and the application of the predominance principle to separately identifiable cash flows. The second states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows (instead of being presented as cash flow activities). The Registrants will adopt both standards on January 1, 2018 on a retrospective basis. Adoption of the second standard will result in a change in presentation of restricted cash on the face of the Statement of Cash Flows; otherwise the Registrants do not expect that this guidance will have a significant impact on the Registrants' Consolidated Statements of Cash Flows and disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities (Issued January 2016): (i) Requires all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies, to be carried at fair value through net income, (ii) requires an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected, (iii) amends several disclosure requirements, including the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and (iv) requires disclosure of the fair value of financial assets and liabilities measured at amortized cost at the amount that would be received to sell the asset or paid to transfer the liability. The standard is effective January 1, 2018 with early adoption permitted. The guidance requires a modified retrospective transition approach with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption. The Registrants will not early adopt this standard. The Registrants do not expect that this guidance will have a significant impact on the Registrants' Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, and Consolidated Statements of Cash Flows.

3. Variable Interest Entities (All Registrants)

A VIE is a legal entity that possesses any of the following characteristics: an insufficient amount of equity at risk to finance its activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest) or equity owners who do not have the obligation to absorb expected losses or the right to receive the expected residual returns of the entity. Companies are required to consolidate a VIE if they are its primary beneficiary, which is the enterprise that has the power to direct the activities that most significantly affect the entity's economic performance.

At September 30, 2017 and December 31, 2016, Exelon, Generation, BGE, PHI and ACE collectively consolidated six and nine VIEs or VIE groups, respectively, for which the applicable Registrant was the primary beneficiary (*see*

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Consolidated Variable Interest Entities below). As of September 30, 2017 and December 31, 2016, Exelon and Generation collectively had significant interests in seven and eight, respectively, other VIEs for which the applicable Registrant does not have the power to direct the entities' activities and, accordingly, was not the primary beneficiary (*see Unconsolidated Variable Interest Entities below)*.

Consolidated Variable Interest Entities

In July 2017, Generation entered into an arrangement to sell a 49% interest in ExGen Renewables Partners, LLC (the Renewable JV) to an outside investor for $400 million of cash plus immaterial working capital and other customary post-closing adjustments. The Renewable JV meets the definition of a VIE because the Renewable JV has a similar structure to a limited partnership and the limited partners do not have kick out rights with respect to the general partner. Additionally, under the VIE guidance Generation is the primary beneficiary because Generation maintains the controlling financial interest; therefore, Generation will continue to consolidate the Renewable JV.

Generation owned 90% of a biomass fueled, combined heat and power company. In the second quarter of 2015, the entity was deemed to be a VIE because the entity required additional subordinated financial support in the form of a parental guarantee provided by Generation for up to $275 million in support of the payment obligations related to the Engineering, Procurement and Construction (EPC) contract (see Note 14 - Debt and Credit Agreements for additional details on Albany Green Energy, LLC). During the third quarter of 2017, the ownership of the entity increased to 99%, all payment obligations related to the EPC contract were satisfied, and the parental guarantee provided by Generation was terminated. As a result, the entity is now sufficiently capitalized and no longer meets the definition of a VIE. The entity was previously disclosed in "a group of companies formed by Generation to build, own and operate other generating facilities" as of December 31, 2016. However, the biomass facility will continue to be consolidated by Generation under the voting interest model.

RSB BondCo LLC (BondCo) is a special purpose bankruptcy remote limited liability company formed by BGE to acquire, hold, issue and service bonds secured by rate stabilization property. BGE is required to remit all payments it receives from all residential customers through non-bypassable, rate stabilization charges to BondCo. In the second quarter of 2017 the rate stabilization bonds were fully redeemed and BGE remitted its final payment to BondCo. During the nine months ended September 30, 2017, BGE remitted $22 million to BondCo. During the three and nine months ended September 30, 2016, BGE remitted $27 million and $64 million to BondCo, respectively. Upon the redemption of the bonds, BondCo no longer meets the definition of a variable interest entity and is removed from the list of consolidated VIEs noted below.

During 2009, Constellation formed a retail gas group to enter into a collateralized gas supply agreement with a third-party gas supplier. The retail gas group was determined to be a VIE because there was not sufficient equity to fund the group's activities without additional credit support and a $75 million parental guarantee provided by Generation. As the primary beneficiary, Generation consolidated the retail gas group. During the second quarter of 2017, the collateral structure was terminated with the third-party gas supplier except for the $75 million parental guarantee provided by Generation. Although the parental guarantee will remain, this is considered customary and reasonable for the unsecured position Generation has with the third-party gas supplier. As a result of the termination, the retail gas group no longer met the definition of a VIE and was removed from the list of consolidated VIEs noted below. However, the retail gas group continues to be consolidated by Generation under the voting interest model.

As of September 30, 2017, Exelon's and Generation's consolidated VIEs consist of:

- Renewable energy project companies formed by Generation to build, own and operate renewable power facilities, which were previously separated into two separate VIE groups for solar project limited liability companies and wind project companies as of December 31, 2016,

- Constellation EG, LLC (a company that operates back-up generation for a third-party), which was previously included in a group of companies formed by Generation to build, own and operate other generating facilities as of December 31, 2016,

- certain retail power and gas companies for which Generation is the sole supplier of energy,

- CENG,

- 2015 ESA Investco, LLC, a company that holds an equity method investment in a distributed energy company, and

As of September 30, 2017, Exelon's, PHI's and ACE's consolidated VIE consists of:

- ATF, a special purpose entity formed by ACE for the purpose of securitizing authorized portions of ACE's recoverable stranded costs through the issuance and sale of transition bonds.

As of September 30, 2017 and December 31, 2016, ComEd, PECO, Pepco and DPL did not have any material consolidated VIEs.

As of September 30, 2017 and December 31, 2016, Exelon and Generation provided the following support to their respective consolidated VIEs:

- Generation provides operating and capital funding to the renewable energy project companies and there is limited recourse to Generation related to certain renewable energy project companies.
- Generation provides operating and capital funding to Constellation EG, LLC.
- Generation provides approximately $31 million in credit support for the retail power and gas companies for which Generation is the sole supplier of energy.
- Exelon and Generation, where indicated, provide the following support to CENG (see Note 5—Investment in Constellation Energy Nuclear Group, LLC and Note 27—Related Party Transactions of the Exelon 2016 Form 10-K for additional information regarding Generation's and Exelon's transactions with CENG):
    - under the NOSA, Generation conducts all activities related to the operation of the CENG nuclear generation fleet owned by CENG subsidiaries (the CENG fleet) and provides corporate and administrative services for the remaining life and decommissioning of the CENG nuclear plants as if they were a part of the Generation nuclear fleet, subject to the CENG member rights of EDF,
    - under the Power Services Agency Agreement (PSAA), Generation provides scheduling, asset management and billing services to the CENG fleet for the remaining operating life of the CENG nuclear plants,
    - under power purchase agreements with CENG, Generation purchased or will purchase 50.01% of the available output generated by the CENG nuclear plants not subject to other contractual agreements from January 2015 through the end of the operating life of each respective plant. However, pursuant to amendments dated March 31, 2015, the energy obligations under the Ginna Nuclear Power Plant (Ginna) PPAs were suspended during the term of the Reliability Support Services Agreement (RSSA), through the end of March 31, 2017. With the expiration of the RSSA, the PPA was reinstated beginning April 1, 2017 (see Note 5 — Regulatory Matters for additional details),
    - Generation provided a $400 million loan to CENG. As of September 30, 2017, the remaining obligation is $328 million, including accrued interest, which reflects the principal payment made in January 2015,

- Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation's obligations under this Indemnity Agreement. (See Note 18 — Commitments and Contingencies for more details),

- Generation and EDF share in the $637 million of contingent payment obligations for the payment of contingent retrospective premium adjustments for the nuclear liability insurance,

- Generation provides a guarantee of approximately $8 million associated with hazardous waste management facilities and underground storage tanks. In addition, EDF executed a reimbursement agreement that provides reimbursement to Exelon for 49.99% of any amounts paid by Generation under this guarantee,

- Generation and EDF are the members-insured with Nuclear Electric Insurance Limited and have assigned the loss benefits under the insurance and the NEIL premium costs to CENG and guarantee the obligations of CENG under these insurance programs in proportion to their respective member interests (see Note 18 — Commitments and Contingencies for more details), and

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

- Exelon has executed an agreement to provide up to $245 million to support the operations of CENG as well as a $165 million guarantee of CENG's cash pooling agreement with its subsidiaries.

As of September 30, 2017 and December 31, 2016, Exelon, PHI and ACE provided the following support to their respective consolidated VIE:

- In the case of ATF, proceeds from the sale of each series of transition bonds by ATF were transferred to ACE in exchange for the transfer by ACE to ATF of the right to collect a non-bypassable Transition Bond Charge from ACE customers pursuant to bondable stranded costs rate orders issued by the NJBPU in an amount sufficient to fund the principal and interest payments on transition bonds and related taxes, expenses and fees. During the three and nine months ended September 30, 2017, ACE transferred $11 million and $39 million to ATF, respectively. During the three and nine months ended September 30, 2016, ACE transferred $20 million and $47 million to ATF, respectively.

For each of the consolidated VIEs, except as otherwise noted:

- the assets of the VIEs are restricted and can only be used to settle obligations of the respective VIE;
- Exelon, Generation, PHI and ACE did not provide any additional material financial support to the VIEs;
- Exelon, Generation, PHI and ACE did not have any material contractual commitments or obligations to provide financial support to the VIEs; and
- the creditors of the VIEs did not have recourse to Exelon's, Generation's, PHI's or ACE's general credit.

The carrying amounts and classification of the consolidated VIEs' assets and liabilities included in the Registrants' consolidated financial statements at September 30, 2017 and December 31, 2016 are as follows:

	September 30, 2017				December 31, 2016				
			Successor					*Successor*	
	Exelon[a]	**Generation**	**PHI** [a]	**ACE**	**Exelon**[a][b]	**Generation**	**BGE**	**PHI** [a]	**ACE**
Current assets	$ 657	$ 644	$ 13	$ 9	$ 954	$ 916	$ 23	$ 14	$ 9
Noncurrent assets	9,252	9,222	30	22	8,563	8,525	3	35	23
Total assets	$ 9,909	$ 9,866	$ 43	$ 31	$ 9,517	$ 9,441	$ 26	$ 49	$ 32
Current liabilities	$ 404	$ 367	$ 37	$ 33	$ 885	$ 802	$ 42	$ 42	$ 37
Noncurrent liabilities	3,290	3,215	75	67	2,713	2,612	—	101	89
Total liabilities	$ 3,694	$ 3,582	$ 112	$ 100	$ 3,598	$ 3,414	$ 42	$ 143	$ 126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Assets and Liabilities of Consolidated VIEs

Included within the balances above are assets and liabilities of certain consolidated VIEs for which the assets can only be used to settle obligations of those VIEs, and liabilities that creditors or beneficiaries do not have recourse to the general credit of the Registrants. As of September 30, 2017 and December 31, 2016, these assets and liabilities primarily consisted of the following:

	September 30, 2017				December 31, 2016				
			Successor					*Successor*	
	Exelon[a]	Generation	PHI[a]	ACE	Exelon[a][b]	Generation	BGE	PHI[a]	ACE
Cash and cash equivalents	$ 130	$ 130	$ —	$ —	$ 150	$ 150	$ —	$ —	$ —
Restricted cash	85	76	9	9	59	27	23	9	9
Accounts receivable, net									
Customer	139	139	—	—	371	371	—	—	—
Other	25	25	—	—	48	48	—	—	—
Mark-to-market derivatives assets	—	—	—	—	31	31	—	—	—
Inventory									
Materials and supplies	196	196	—	—	199	199	—	—	—
Other current assets	56	52	4	—	50	44	—	5	—
Total current assets	631	618	13	9	908	870	23	14	9
Property, plant and equipment, net	6,213	6,213	—	—	5,415	5,415	—	—	—
Nuclear decommissioning trust funds	2,415	2,415	—	—	2,185	2,185	—	—	—
Goodwill	—	—	—	—	47	47	—	—	—
Mark-to-market derivative assets	—	—	—	—	23	23	—	—	—
Other noncurrent assets	261	231	30	22	315	277	3	35	23
Total noncurrent assets	8,889	8,859	30	22	7,985	7,947	3	35	23
Total assets	$ 9,520	$ 9,477	$ 43	$ 31	$ 8,893	$ 8,817	$ 26	$ 49	$ 32
Long-term debt due within one year	$ 182	$ 146	$ 36	$ 32	$ 181	$ 99	$ 41	$ 40	$ 35
Accounts payable	104	104	—	—	269	269	—	—	—
Accrued expenses	90	89	1	1	119	116	1	2	2
Mark-to-market derivative liabilities	—	—	—	—	60	60	—	—	—
Unamortized energy contract liabilities	17	17	—	—	15	15	—	—	—
Other current liabilities	11	11	—	—	30	30	—	—	—
Total current liabilities	404	367	37	33	674	589	42	42	37
Long-term debt	1,172	1,097	75	67	641	540	—	101	89
Asset retirement obligations	2,009	2,009	—	—	1,904	1,904	—	—	—
Pension obligation[c]	—	—	—	—	9	9	—	—	—
Unamortized energy contract liabilities	9	9	—	—	22	22	—	—	—
Other noncurrent liabilities	94	94	—	—	106	106	—	—	—
Total noncurrent liabilities	3,284	3,209	75	67	2,682	2,581	—	101	89
Total liabilities	$ 3,688	$ 3,576	$ 112	$100	$ 3,356	$ 3,170	$ 42	$ 143	$126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.
(c) Includes the retail gas pension obligation, which is presented as a net asset balance within the Prepaid pension asset line item on Generation's Consolidated Balance Sheets. See Note 14 - Retirement Benefits for additional details.

Unconsolidated Variable Interest Entities

Exelon's and Generation's variable interests in unconsolidated VIEs generally include equity investments and energy purchase and sale contracts. For the equity investments, the carrying amount of the investments is reflected on Exelon's and Generation's Consolidated Balance Sheets in Investments. For the energy purchase and sale contracts (commercial agreements), the carrying amount of assets and liabilities in Exelon's and Generation's Consolidated Balance Sheets that relate to their involvement with the VIEs are predominantly related to working capital accounts and generally represent the amounts owed by, or owed to, Exelon and Generation for the deliveries associated with the current billing cycles under the commercial agreements. Further, Exelon and Generation have not provided material debt or equity support, liquidity arrangements or performance guarantees associated with these commercial agreements.

As of September 30, 2017, Exelon's and Generation's unconsolidated VIEs consist of:

- Energy purchase and sale agreements with VIEs for which Generation has concluded that consolidation is not required.
- Asset sale agreement with ZionSolutions, LLC and EnergySolutions, Inc. in which Generation has a variable interest but has concluded that consolidation is not required.
- Equity investments in distributed energy companies and energy generating facilities for which Generation has concluded that consolidation is not required.

As of September 30, 2017 and December 31, 2016, ComEd, PECO, BGE, PHI, Pepco, ACE, and DPL did not have any material unconsolidated VIEs.

As of September 30, 2017 and December 31, 2016, Exelon and Generation had significant unconsolidated variable interests in seven and eight VIEs, respectively, for which Exelon or Generation, as applicable, was not the primary beneficiary; including certain equity investments and certain commercial agreements. The decrease in the number of unconsolidated VIEs is due to the sale of an equity investment in an energy generating facility. Exelon and Generation only include unconsolidated VIEs that are individually material in the tables below. However, Generation has several individually immaterial VIEs that in aggregate represent a total investment of $17 million. These immaterial VIEs are equity and debt securities in energy development companies. The maximum exposure to loss related to these securities is limited to the $17 million included in Investments on Exelon's and Generation's Consolidated Balance Sheets. The risk of a loss was assessed to be remote and, accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss.

In June 2015, 2015 ESA Investco, LLC, then a wholly owned subsidiary of Generation, entered into an arrangement to purchase a 90% equity interest and 99% of the tax attributes of a distributed energy company, which is an unconsolidated VIE. In November 2015, Generation sold 69% of its equity interest in 2015 ESA Investco, LLC to a tax equity investor. Generation and the tax equity investor contributed a total of $227 million of equity incrementally from inception through the first quarter of 2017 in proportion of their ownership interests. Generation and the tax equity investor provided a parental guarantee of up to $275 million in proportion to their ownership interests in support of 2015 ESA Investco, LLC's obligation to make equity contributions to the distributed energy company. As all equity contributions were made as of the first quarter 2017, there is no further payment obligation under the parental guarantee.

The following tables present summary information about Exelon's and Generation's significant unconsolidated VIE entities:

September 30, 2017	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[(a)]	$ 635	$ 519	$ 1,154
Total liabilities[(a)]	39	229	268
Exelon's ownership interest in VIE[(a)]	—	259	259
Other ownership interests in VIE[(a)]	596	31	627
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	259	259
Contract intangible asset	9	—	9
Debt and payment guarantees	—	—	—
Net assets pledged for Zion Station decommissioning[(b)]	4	—	4

December 31, 2016	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[(a)]	$ 638	$ 567	$ 1,205
Total liabilities[(a)]	215	287	502
Exelon's ownership interest in VIE[(a)]	—	248	248
Other ownership interests in VIE[(a)]	423	32	455
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments	—	264	264
Contract intangible asset	9	—	9
Debt and payment guarantees	—	3	3
Net assets pledged for Zion Station decommissioning[(b)]	9	—	9

(a) These items represent amounts on the unconsolidated VIE balance sheets, not on Exelon's or Generation's Consolidated Balance Sheets. These items are included to provide information regarding the relative size of the unconsolidated VIEs.

(b) These items represent amounts on Exelon's and Generation's Consolidated Balance Sheets related to the asset sale agreement with ZionSolutions, LLC. The net assets pledged for Zion Station decommissioning includes gross pledged assets of $57 million and $113 million as of September 30, 2017 and December 31, 2016, respectively; offset by payables to ZionSolutions LLC of $53 million and $104 million as of September 30, 2017 and December 31, 2016, respectively. These items are included to provide information regarding the relative size of the ZionSolutions LLC unconsolidated VIE. See Note 13 - Nuclear Decommissioning for additional details.

For each of the unconsolidated VIEs, Exelon and Generation have assessed the risk of a loss equal to their maximum exposure to be remote and, accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss. In addition, there are no material agreements with, or commitments by, third parties that would affect the fair value or risk of their variable interests in these VIEs.

BGE

The financing trust of BGE, BGE Capital Trust II, was created in 2003 for the purpose of issuing mandatorily redeemable trust preferred securities. In the third quarter of 2017, BGE redeemed the securities pursuant to the optional redemption provisions of the Indenture, under which the subordinated debt securities were issued, and dissolved BGE Capital Trust II. Prior to dissolution the BGE Capital Trust II was not consolidated in Exelon’s or BGE’s financial statements. BGE concluded it did not have a significant variable interest in BGE Capital Trust II as BGE financed its equity interest in the financing trust through the issuance of subordinated debt and, therefore, had no equity at risk. See Note 14 - Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information.

4. Mergers, Acquisitions and Dispositions (Exelon, Generation, PHI, Pepco and DPL)

Acquisition of James A. FitzPatrick Nuclear Generating Station (Exelon and Generation)

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station located in Scriba, New York from Entergy Nuclear FitzPatrick LLC (Entergy) for a total purchase price of $289 million, which consisted of a cash purchase price of $110 million and a net cost reimbursement to and on behalf of Entergy of $179 million. As part of the acquisition agreements, Generation provided nuclear fuel and reimbursed Entergy for incremental costs to prepare for and conduct a plant refueling outage; and Generation reimbursed Entergy for incremental costs to operate and maintain the plant for the period after the refueling outage through the acquisition closing date. These reimbursements covered costs that Entergy otherwise would have avoided had it shut down the plant as originally intended in January 2017. The amounts reimbursed by Generation were offset by FitzPatrick’s electricity and capacity sales revenues for this same post-outage period. As part of the transaction, Generation received the FitzPatrick NDT fund assets and assumed the obligation to decommission FitzPatrick. The NRC license for FitzPatrick expires in 2034. As of September 30, 2017, Generation had remitted purchase price consideration of $289 million (including $235 million of cash and $54 million of nuclear fuel) to and on behalf of Entergy.

The fair values of FitzPatrick’s assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The valuations performed in the first quarter of 2017 to determine the fair value of the FitzPatrick assets acquired and liabilities assumed were preliminary. Accounting guidance provides that the allocation of the purchase price may be modified up to one year from the date of the acquisition to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date.

During the third quarter of 2017, certain modifications were made to the initial preliminary valuation amounts for acquired property, plant and equipment, the decommissioning ARO, pension and OPEB obligations and related deferred tax liabilities, resulting in a $3 million net increase in assets acquired and liabilities assumed. Additionally, in the third quarter a purchase price settlement payment of $4 million was received from Entergy. Consequently, Exelon and Generation recorded an additional after-tax bargain purchase gain of $7 million for the three months ended September 30, 2017. For the nine months ended September 30, 2017, the after-tax bargain purchase gain of $233 million is included within Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income and primarily reflects differences in strategies between Generation and Entergy for the intended use and ultimate decommissioning of the plant. There are no further adjustments expected to be made to the allocation of the purchase price. See Note 13 - Nuclear Decommissioning and Note 14 - Retirement Benefits for additional information regarding the FitzPatrick decommissioning ARO and pension and OPEB updates.

The following table summarizes the acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the FitzPatrick acquisition by Generation as of September 30, 2017:

Cash paid for purchase price	$	110
Cash paid for net cost reimbursement		125
Nuclear fuel transfer		54
Total consideration transferred	$	289
Identifiable assets acquired and liabilities assumed		
Current assets	$	60
Property, plant and equipment		298
Nuclear decommissioning trust funds		807
Other assets[(a)]		114
Total assets	$	1,279
Current liabilities	$	6
Nuclear decommissioning ARO		444
Pension and OPEB obligations		33
Deferred income taxes		149
Spent nuclear fuel obligation		110
Other liabilities		15
Total liabilities	$	757
Total net identifiable assets, at fair value	$	522
Bargain purchase gain (after-tax)	$	233

(a) Includes a $110 million asset associated with a contractual right to reimbursement from the New York Power Authority (NYPA), a prior owner of FitzPatrick, associated with the DOE one-time fee obligation. See Note 24-Commitments and Contingencies of the Exelon 2016 Form 10-K for additional background regarding SNF obligations to the DOE.

For the three and nine months ended September 30, 2017, Exelon and Generation incurred $6 million and $53 million, respectively, of merger and integration related costs which are included within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Acquisition of ConEdison Solutions (Exelon and Generation)

On September 1, 2016, Generation acquired the competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc. (ConEdison Solutions), a subsidiary of Consolidated Edison, Inc. for a purchase price of $257 million including net working capital of $204 million. The renewable energy, sustainable services and energy efficiency businesses of ConEdison Solutions are excluded from the transaction.

The fair values of ConEdison Solutions' assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The purchase price equaled the estimated fair value of the net assets acquired and the liabilities assumed and, therefore, no goodwill or bargain purchase was recorded as of the acquisition date. The purchase price allocation is now final.

The following table summarizes the final acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the ConEdison Solutions acquisition by Generation:

Total consideration transferred	$	257
Identifiable assets acquired and liabilities assumed		
Working capital assets	$	204
Property, plant and equipment		2
Mark-to-market derivative assets		6
Unamortized energy contract assets		100
Customer relationships		9
Other assets		1
Total assets	$	322
Mark-to-market derivative liabilities	$	65
Total liabilities	$	65
Total net identifiable assets, at fair value	$	257

Merger with Pepco Holdings, Inc. (Exelon)

Description of Transaction

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon's interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). Following the completion of the PHI Merger, Exelon and PHI completed a series of internal corporate organization restructuring transactions resulting in the transfer of PHI's unregulated business interests to Exelon and Generation and the transfer of PHI, Pepco, DPL and ACE to a special purpose subsidiary of EEDC.

Regulatory Matters

Approval of the merger in Delaware, New Jersey, Maryland and the District of Columbia was conditioned upon Exelon and PHI agreeing to certain commitments including where applicable: customer rate credits, funding for energy efficiency and delivery system modernization programs, a green sustainability fund, workforce development initiatives, charitable contributions, renewable generation and other required commitments. In addition, the orders approving the merger in Delaware, New Jersey, and Maryland include a "most favored nation" provision which, generally, requires allocation of merger benefits proportionally across all the jurisdictions.

During the third and fourth quarters of 2016, Exelon and PHI filed proposals in Delaware, New Jersey and Maryland for amounts and allocations reflecting the application of the most favored nation provision, resulting in a total nominal cost of commitments of $513 million, excluding renewable generation commitments (approximately $444 million on a net present value basis amount, excluding renewable generation commitments and charitable contributions). These filings reflected agreements reached with certain parties to the merger proceedings in these jurisdictions. In 2016, the DPSC and NJBPU approved the amounts and allocations of the additional merger benefits for Delaware and New Jersey, respectively. On April 12, 2017, the MDPSC issued an order approving the amounts of the additional merger benefits for Maryland, but amending the proposed allocations of the benefits. The amended allocations do not have a material effect on any of the Registrants' financial statements. No changes in commitment cost levels are required in the District of Columbia.

During the second quarter of 2017, Exelon finalized the application of $8 million funding for low- and moderate-income customers in the Pepco Maryland and DPL Maryland service territories. This resulted in an adjustment to merger commitment costs recorded at Exelon Corporate, Pepco, and DPL. Exelon Corporate recorded an increase of $8 million and Pepco and DPL recorded a decrease of $6 million and $2 million, respectively, in Operating and maintenance expense.

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The following amounts represent total commitment costs for Exelon, PHI, Pepco, DPL and ACE that have been recorded since the acquisition date:

Description	Expected Payment Period	Pepco	DPL	ACE	*Successor* PHI	Exelon
Rate credits	2016 - 2017	$ 91	$ 67	$ 101	$ 259	$ 259
Energy efficiency	2016 - 2021	—	—	—	—	122
Charitable contributions	2016 - 2026	28	12	10	50	50
Delivery system modernization	Q2 2017	—	—	—	—	22
Green sustainability fund	Q2 2017	—	—	—	—	14
Workforce development	2016 - 2020	—	—	—	—	17
Other		1	5	—	6	29
Total		$ 120	$ 84	$ 111	$ 315	$ 513

Pursuant to the orders approving the merger, Exelon made $73 million, $46 million and $49 million of equity contributions to Pepco, DPL and ACE, respectively, in the second quarter of 2016 to fund the after-tax amounts of the customer bill credit and the customer base rate credit commitments.

In addition, Exelon is committed to develop or to assist in the commercial development of approximately 37 MWs of new generation in Maryland, District of Columbia, and Delaware, 27 MWs of which are expected to be completed by 2018. These investments are expected to total approximately $137 million, are expected to be primarily capital in nature, and will generate future earnings at Exelon and Generation. Investment costs will be recognized as incurred and recorded on Exelon's and Generation's financial statements. Exelon has also committed to purchase 100 MWs of wind energy in PJM, to procure 120 MWs of wind RECs for the purpose of meeting Delaware's renewable portfolio standards, and to maintain and promote energy efficiency and demand response programs in the PHI jurisdictions.

Pursuant to the various jurisdictions' merger approval conditions, over specified periods Pepco, DPL and ACE are not permitted to reduce employment levels due to involuntary attrition associated with the merger integration process and have made other commitments regarding hiring and relocation of positions.

In July 2015, the OPC, Public Citizen, Inc., the Sierra Club and the Chesapeake Climate Action Network (CCAN) filed motions to stay the MDPSC order approving the merger. The Circuit Court judge issued an order denying the motions for stay on August 12, 2015. On January 8, 2016, the Circuit Court judge affirmed the MDPSC's order approving the merger and denied the petitions for judicial review filed by the OPC, the Sierra Club, CCAN and Public Citizen, Inc. On January 19, 2016, the OPC filed a notice of appeal to the Maryland Court of Special Appeals, and on January 21, the Sierra Club and CCAN filed notices of appeal. On January 27, 2017, the Maryland Court of Special Appeals affirmed the Circuit Court's judgment that the MDPSC did not err in approving the merger. The OPC and Sierra Club filed petitions seeking further review in the Court of Appeals of Maryland, which is the highest court in Maryland. On June 21, 2017, the Court of Appeals granted discretionary review of the January 27, 2017 decision by the Maryland Court of Special Appeals. The Maryland Court of Appeals will review the OPC argument that the MDPSC did not properly consider the acquisition premium paid to PHI shareholders under Maryland's merger approval standard and the Sierra Club's argument that the merger would harm the renewable and distributed generation markets. The two lower courts examining these issues rejected these arguments, which Exelon believes are without merit. All briefs have been filed and oral arguments were presented to the court on October 10, 2017.

Between March 25, 2016 and April 22, 2016, various parties filed motions with the DCPSC to reconsider its March 23, 2016 order approving the merger. On June 17, 2016, the DCPSC denied all motions. In August 2016, the District of Columbia Office of People’s Counsel, the District of Columbia Government, and Public Citizen jointly with DC Sun each filed petitions for judicial review of the DCPSC’s March 23, 2016 order with the District of Columbia Court of Appeals. On July 20, 2017, the Court issued an opinion rejecting all of appellants’ arguments and affirming the Commission’s decision approving the merger.

Accounting for the Merger Transaction

The total purchase price consideration of approximately $7.1 billion for the PHI Merger consisted of cash paid to PHI shareholders, cash paid for PHI preferred securities and cash paid for PHI stock-based compensation equity awards as follows:

(In millions of dollars, except per share data)	**Total Consideration**
Cash paid to PHI shareholders at $27.25 per share (254 million shares outstanding at March 23, 2016)	$ 6,933
Cash paid for PHI preferred stock	180
Cash paid for PHI stock-based compensation equity awards[a]	29
Total purchase price	$ 7,142

(a) PHI's unvested time-based restricted stock units and performance-based restricted stock units issued prior to April 29, 2014 were immediately vested and paid in cash upon the close of the merger. PHI's remaining unvested time-based restricted stock units as of the close of the merger were cancelled. There were no remaining unvested performance-based restricted stock units as of the close of the merger.

PHI shareholders received $27.25 of cash in exchange for each share of PHI common stock outstanding as of the effective date of the merger. In connection with the Merger Agreement, Exelon entered into a Subscription Agreement under which it purchased $180 million of a new class of nonvoting, nonconvertible and nontransferable preferred securities of PHI prior to December 31, 2015. On March 23, 2016, the preferred securities were cancelled for no consideration to Exelon, and accordingly, the $180 million cash consideration previously paid to acquire the preferred securities was treated as purchase price consideration.

The preliminary valuations performed in the first quarter of 2016 were updated in the second, third, and fourth quarters of 2016. There were no adjustments to the purchase price allocation in the first quarter of 2017 and the purchase price allocation is now final.

Exelon applied push-down accounting to PHI, and accordingly, the PHI assets acquired and liabilities assumed were recorded at their estimated fair values on Exelon's and PHI's Consolidated Balance Sheets as follows:

Purchase Price Allocation[a]	
Current assets	$ 1,441
Property, plant and equipment	11,088
Regulatory assets	5,015
Other assets	248
Goodwill	4,005
Total assets	$ 21,797
Current liabilities	$ 2,752
Unamortized energy contracts	1,515
Regulatory liabilities	297
Long-term debt, including current maturities	5,636
Deferred income taxes	3,447

Pension and OPEB obligations		821
Other liabilities		187
Total liabilities	$	14,655
Total purchase price	$	7,142

(a) Amounts shown reflect the final purchase price allocation and the correction of a reporting error identified and corrected in the second quarter of 2016. The error had resulted in a gross up of certain assets and liabilities related to legacy PHI intercompany and income tax receivable and payable balances.

On its successor financial statements, PHI has recorded, beginning March 24, 2016, Membership interest equity of $7.2 billion, which is greater than the total $7.1 billion purchase price, reflecting the impact of a $59 million deferred tax liability recorded only at Exelon Corporate to reflect unitary state income tax consequences of the merger.

The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed totaled $4.0 billion, which was recognized as goodwill by PHI and Exelon at the acquisition date, reflecting the value associated with enhancing Exelon’s regulated utility portfolio of businesses, including the ability to leverage experience and best practices across the utilities and the opportunities for synergies. For purposes of future required impairment assessments, the goodwill has been assigned to PHI’s reportable units Pepco, DPL and ACE in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. None of this goodwill is expected to be tax deductible.

Immediately following closing of the merger, $235 million of net assets included in the table above associated with PHI’s unregulated business interests were distributed by PHI to Exelon. Exelon contributed $163 million of such net assets to Generation.

The fair values of PHI’s assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows, future market prices and impacts of utility rate regulation. There were also judgments made to determine the expected useful lives assigned to each class of assets acquired.

Through its wholly owned rate regulated utility subsidiaries, most of PHI’s assets and liabilities are subject to cost-of-service rate regulation. Under such regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. In applying the acquisition method of accounting, for regulated assets and liabilities included in rate base or otherwise earning a return (primarily property, plant and equipment and regulatory assets earning a return), no fair value adjustments were recorded as historical cost is viewed as a reasonable proxy for fair value.

Fair value adjustments were applied to the historical cost bases of other assets and liabilities subject to rate regulation but not earning a return (including debt instruments and pension and OPEB obligations). In these instances, a corresponding offsetting regulatory asset or liability was also established, as the underlying utility asset and liability amounts are recoverable from or refundable to customers at historical cost (and not at fair value) through the rate setting process. Similar treatment was applied for fair value adjustments to record intangible assets and liabilities, such as for electricity and gas energy supply contracts as further described below. Regulatory assets and liabilities established to offset fair value adjustments are amortized in amounts and over time frames consistent with the realization or settlement of the fair value adjustments, with no impact on reported net income. See Note 5 - Regulatory Matters for additional information regarding the fair value of regulatory assets and liabilities established by Exelon and PHI.

Fair value adjustments were recorded at Exelon and PHI for the difference between the contract price and the market price of electricity and gas energy supply contracts of PHI’s wholly owned rate regulated utility subsidiaries. These adjustments are intangible assets and liabilities classified as unamortized energy contracts on Exelon’s and PHI’s Consolidated Balance Sheets as of September 30, 2017. The difference between the contract price and the market price at the acquisition date of the Merger was recognized for each contract as either an intangible asset or liability. In total, Exelon and PHI recorded a net $1.5 billion liability reflecting out-of-the-money contracts. The valuation of the acquired intangible assets and liabilities was estimated by applying either the market approach or the income approach depending on the nature of the underlying contract. The market approach was utilized when prices and other relevant information generated by market transactions involving comparable transactions were available. Otherwise the income approach, which is based upon discounted projected future cash flows associated with the underlying contracts, was utilized. In certain instances, the valuations were based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key estimates and inputs include forecasted power prices and the discount rate. The unamortized energy contract fair value adjustment amounts and the corresponding offsetting regulatory asset and liability amounts are amortized through Purchase power and fuel expense or Operating revenues, as applicable, over the life of the applicable contract in relation to the present value of the underlying cash flows as of the merger date.

As mentioned, under cost-of-service rate regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. Historical cost information therefore is the most relevant presentation for the financial statements of PHI’s rate regulated utility subsidiary registrants, Pepco, DPL and ACE. As such, Exelon and PHI did not push-down the application of acquisition accounting to PHI’s utility registrants, and therefore the financial statements of Pepco, DPL and ACE do not reflect the revaluation of any assets and liabilities.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The current impact of PHI, including its unregulated businesses, on Exelon's Consolidated Statements of Operations and Comprehensive Income includes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating revenues	$ 1,347	$ 1,437	$ 3,679	$ 2,656
Net income (loss)	176	169	382	(92)

For the three and nine months ended September 30, 2017 and 2016, the Registrants have recognized costs to achieve the PHI acquisition as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Acquisition, Integration and Financing Costs[a]	2017	2016	2017	2016
Exelon	$ (8)	$ 20	$ 10	$ 123
Generation	5	9	18	29
ComEd[b]	—	—	1	(6)
PECO	1	1	3	3
BGE[c]	1	1	3	(3)
Pepco[d]	(8)	3	(6)	26
DPL[e]	1	2	(6)	18
ACE[f]	(8)	2	(6)	17

	Successor				*Predecessor*
Acquisition, Integration and Financing Costs[a]	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	March 24, 2016 to September 30, 2016	January 1, 2016 to March 23, 2016
PHI[g]	$ (15)	$ 7	$ (17)	$ 63	$ 29

(a) The costs incurred are classified primarily within Operating and maintenance expense in the Registrants' respective Consolidated Statements of Operations and Comprehensive Income, with the exception of the financing costs, which are included within Interest expense. Costs do not include merger commitments discussed above.

(b) For the nine months ended September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million, incurred at ComEd that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(c) For the nine months ended September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $6 million incurred at BGE that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(d) For the three and nine months ended September 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at Pepco that have been deferred and recorded as a regulatory asset for anticipated recovery. For the nine months ended September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $10 million incurred at Pepco that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(e) For the nine months ended September 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. For the nine months ended September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $3 million incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(f) For the three and nine months ended September 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at ACE that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(g)

For the three and nine months ended September 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $16 million and $24 million, respectively, incurred at PHI that have been deferred and recorded as a regulatory asset for anticipated recovery. For the Successor period March 24, 2016 to September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $13 million incurred at PHI that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Pro-forma Impact of the Merger

The following unaudited pro-forma financial information reflects the consolidated results of operations of Exelon as if the merger with PHI had taken place on January 1, 2015. The unaudited pro-forma information was calculated after applying Exelon's accounting policies and adjusting PHI's results to reflect purchase accounting adjustments.

The unaudited pro-forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the merger events taken place on the dates indicated, or the future consolidated results of operations of the combined company.

	Three Months Ended September 30,	Nine Months Ended September 30,	Year Ended December 31,
	2016[(a)]	2016[(a)]	2016[(b)]
Total operating revenues	$ 9,002	$ 24,468	$ 32,342
Net income attributable to common shareholders	501	1,346	1,562
Basic earnings per share	$ 0.54	$ 1.46	$ 1.69
Diluted earnings per share	0.54	1.45	1.69

(a) The amounts above include adjustments for non-recurring costs directly related to the merger of $20 million and $660 million for the three and nine months ended September 30, 2016, respectively, and intercompany revenue of $171 million for the nine months ended September 30, 2016.

(b) The amounts above include adjustments for non-recurring costs directly related to the merger of $680 million and intercompany revenue of $171 million for the year ended December 31, 2016.

Asset Divestitures (Exelon, Generation, PHI, Pepco and DPL)

EGTP, a Delaware limited liability company, was formed in 2014 with the purpose of financing a portfolio of assets comprised of two combined-cycle gas turbines (CCGTs) and three peaking/simple cycle facilities consisting of approximately 3.4 GW of generation capacity in ERCOT North and Houston Zones. EGTP is an indirect wholly owned subsidiary of Exelon and Generation. Each of the aforementioned facilities are held through a wholly owned direct subsidiary of EGTP. EGTP also owns two equity method investments in shared facility companies. EGTP, its direct parent and its wholly owned subsidiaries secured a nonrecourse senior secured term loan facility, a revolving loan facility and certain commodity and interest rate swaps.

On May 2, 2017, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP, including the revolving credit facility. See Note 11 - Debt and Credit Agreements for details regarding the nonrecourse debt associated with EGTP. As a result, as of September 30, 2017, certain EGTP assets and liabilities were classified as held for sale at their respective fair values less costs to sell and included in the other current assets and other current liabilities balances on Exelon's and Generation's Consolidated Balance Sheets. See Note 6 - Impairment of Long-Lived Assets for further information.

In July 2016, DPL completed the sale of a 9 acre land parcel located on South Madison Street in Wilmington, DE, resulting in a pre-tax gain of approximately $4 million. Due to the fair value adjustments recorded at Exelon and PHI as part of purchase accounting, no gain was recorded in the Exelon and PHI Consolidated Statements of Operations and Comprehensive Income.

On June 16, 2016, Generation initiated the sales process of its Upstream business by executing a forbearance agreement with the lenders of the nonrecourse debt. See Note 11 - Debt and Credit Agreements for more information. In December 2016, Generation sold substantially all of the Upstream assets, see Note 4 - Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements in the Exelon 2016 Form 10-K for further information.

On May 2, 2016, Pepco completed the sale of the New York Avenue land parcel, located in Washington D.C., resulting in a pre-tax gain of approximately $8 million at Pepco. Due to the fair value adjustments recorded at Exelon and PHI as part of purchase accounting, no gain was recorded in the Exelon and PHI Consolidated Statements of Operations and Comprehensive Income.

On April 21, 2016, Generation completed the sale of the retired New Boston generating site, located in Boston, Massachusetts, resulting in a pre-tax gain of approximately $32 million.

5. Regulatory Matters (All Registrants)

Except for the matters noted below, the disclosures set forth in Note 3 - Regulatory Matters of the Exelon 2016 Form 10-K reflect, in all material respects, the current status of regulatory and legislative proceedings of the Registrants. The following is an update to that discussion.

Illinois Regulatory Matters

Distribution Formula Rate (Exelon and ComEd). On April 13, 2017, ComEd filed its annual distribution formula rate with the ICC pursuant to EIMA. The filing establishes the revenue requirement used to set the rates that will take effect in January 2018 after the ICC's review and approval, which is due by December 2017. The revenue requirement requested is based on 2016 actual costs plus projected 2017 capital additions as well as an annual reconciliation of the revenue requirement in effect in 2016 to the actual costs incurred that year. ComEd's 2017 filing request includes a total increase to the revenue requirement of $96 million, reflecting an increase of $78 million for the initial revenue requirement for 2017 and an increase of $18 million related to the annual reconciliation for 2016. The revenue requirement for 2017 provides for a weighted average debt and equity return on distribution rate base of 6.47% inclusive of an allowed ROE of 8.40%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2016 provided for a weighted average debt and equity return on distribution rate base of 6.45% inclusive of an allowed ROE of 8.34%, reflecting the average rate on 30-year treasury notes plus 580 basis points less a performance metrics penalty of 6 basis points. See table below for ComEd's regulatory assets associated with its distribution formula rate. For additional information on ComEd's distribution formula rate filings see Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

On December 6, 2016, the ICC issued a final order approving the 2016 distribution formula rate, which included a total increase to the revenue requirement of $127 million, reflecting an increase of $134 million for the initial revenue requirement for 2016 and a decrease of $7 million related to the annual reconciliation for 2015. On December 20, 2016, the ICC granted ComEd's and other parties' joint application for rehearing on the impact that changing ComEd's OSHA recordable rate for 2014 and 2015 had on the revenue requirement approved in this order. On March 22, 2017, the ICC issued an order approving ComEd's proposal to reduce the 2016 revenue requirement by $18 million, which was reflected in customer rates beginning in April 2017.

Illinois Future Energy Jobs Act (Exelon, Generation and ComEd)

Background

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA was effective June 1, 2017, and includes, among other provisions, (1) a Zero Emission Standard (ZES) providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute and (7) support for low income rooftop and community solar programs.

Zero Emission Standard

FEJA includes a ZES that provides compensation through the procurement of ZECs targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet specific eligibility criteria.

On September 11, 2017, the ICC approved the IPA's ZES Procurement Plan filed with the ICC on July 31, 2017. Bidders interested in participating in the procurement process had 14 days following the ICC's approval of the plan to submit the required eligibility information and become qualified bidders. Generation's Clinton and Quad Cities nuclear plants timely submitted the required eligibility information to the ICC and responded to follow up questions. Winning bidders will contract directly with Illinois utilities, including ComEd, for 10-year terms extending through May 31, 2027. The ZEC price will be based upon the current social cost of carbon as determined by the Federal government and is initially established at $16.50 per MWh of production, subject to annual future adjustments determined by the IPA for specified escalation and pricing adjustment mechanisms designed to lower the ZEC price based on increases in underlying energy and capacity prices. Illinois utilities will be required to purchase all ZECs delivered by the zero-emissions nuclear-powered generating facilities, subject to annual cost caps. For the initial delivery year, June 1, 2017

- May 31, 2018, the ZEC annual cost cap, is set at $235 million (ComEd's share is approximately $170 million). For subsequent delivery years, the IPA-approved targeted ZEC procurement amounts will change based on forward energy and capacity prices. ZECs delivered to Illinois utilities in excess of the annual cost cap will be paid in subsequent years if the payments do not exceed the prescribed annual cost cap for that year.

On October 27, 2017, the IPA released the schedule for the ZEC procurement event indicating that contracts with zero emission facilities will be fully executed on January 30, 2018. Winning bidders will be entitled to compensation for the sale of ZECs retroactive to the June 1, 2017 effective date of FEJA. To the extent Generation is selected as a winning bidder, revenue retroactive to the effective date of FEJA would be recognized in the period the contracts are executed. Upon the execution of the contracts, ComEd will record an associated obligation and expense for the procurement of ZEC's.

ComEd will recover all costs associated with purchasing ZECs through a new rate rider that provides for an annual reconciliation and true-up to actual costs incurred by ComEd to purchase ZECs, with any difference to be credited to or collected from ComEd's retail customers in subsequent periods with interest. ComEd began billing its retail customers under its new ZEC rate rider on June 1, 2017 and recorded a regulatory liability of $71 million as of September 30, 2017 for revenues recorded in advance of incurring expenses.

On February 14, 2017, two lawsuits were filed in the Northern District of Illinois against the IPA alleging that the state's ZEC program violates certain provisions of the U.S. Constitution. One lawsuit was filed by customers of ComEd, led by the Village of Old Mill Creek, and the other was brought by the EPSA and three other electric suppliers. Both lawsuits argue that the Illinois ZEC program will distort PJM's FERC-approved energy and capacity market auction system of setting wholesale prices, and seek a permanent injunction preventing the implementation of the program. Exelon intervened and filed motions to dismiss in both lawsuits. In addition, on March 31, 2017, plaintiffs in both lawsuits filed motions for preliminary injunction with the court; the court stayed briefing on the motions for preliminary injunction until the resolution of the motions to dismiss. On July 14, 2017, the district court granted the motions to dismiss. On July 17, 2017, the plaintiffs appealed the decision to the Seventh Circuit. Plaintiffs-Appellants initial brief was filed on August 28, 2017 and the state's and Exelon's briefs were filed on October 27, 2017. Reply briefs are due on December 12, 2017. Exelon cannot predict the outcome of these lawsuits. It is possible that resolution of these matters could have a material, unfavorable impact on Exelon's and Generation's results of operations, financial positions and cash flows.

See Note 7 - Early Nuclear Plant Retirements for additional information regarding the economic challenges facing Generation's Clinton and Quad Cities nuclear plants and the expected benefits of the ZES.

ComEd Electric Distribution Rates

FEJA extends the sunset date for ComEd's performance-based electric distribution formula rate from 2019 to the end of 2022, allows ComEd to revise the electric distribution formula rate to eliminate the ROE collar, and allows ComEd to implement a decoupling tariff if the electric distribution formula rate is terminated at any time. ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to ComEd's electric distribution formula rate revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began reflecting the impacts of this change in its electric distribution services costs regulatory asset in first quarter 2017. As of September 30, 2017, ComEd recorded an increase to its electric distribution services costs regulatory asset of approximately $21 million for this change.

FEJA requires ComEd to make non-recoverable contributions to low income energy assistance programs of $10 million per year for 5 years as long as the electric distribution formula rate remains in effect. With the exception of these contributions, ComEd will recover from customers, subject to certain caps explained below, the costs it incurs pursuant to FEJA either through its electric distribution formula rate or other recovery mechanisms.

Energy Efficiency

Prior to FEJA, Illinois law required ComEd to implement cost-effective energy efficiency measures and, for a 10-year period ending May 31, 2018, cost-effective demand response measures to reduce peak demand by 0.1% over the prior year for eligible retail customers.

Beginning January 1, 2018, FEJA provides for new cumulative annual energy efficiency MWh savings goals for ComEd, which are designed to achieve 21.5% of cumulative persisting annual MWh savings by 2030, as compared to the deemed baseline of 88 million MWhs of electric power and energy sales. FEJA deems the cumulative persisting annual MWh savings to be 6.6% from 2012 through the end of 2017. ComEd expects to spend approximately $250 million to $400 million annually from 2017 through 2030 to achieve these energy efficiency MWh savings goals. In addition, FEJA extends the peak demand reduction requirement from 2018 to 2026. Because the new requirements apply beginning in 2018, FEJA extends the existing energy efficiency plans, which were due to end on May 31, 2017, through December 31, 2017. FEJA also exempts customers with demands over 10 MW from energy efficiency plans and requirements beginning June 1, 2017. On September 11, 2017, the ICC approved ComEd's 2018 - 2021 energy efficiency plan with minor modifications filed by ComEd with the ICC on June 30, 2017.

FEJA allows ComEd to cancel its existing energy efficiency rate rider and replace it with an energy efficiency formula rate, and to defer energy efficiency costs (except for any voltage optimization costs which will be recovered through the electric distribution formula rate) as a separate regulatory asset that will be recovered through the energy efficiency formula rate over the weighted average useful life, as approved by the ICC, of the related energy efficiency measures. ComEd will earn a return on the energy efficiency regulatory asset at a rate equal to its weighted average cost of capital, which is based on a year-end capital structure and calculated using the same methodology applicable to ComEd's electric distribution formula rate. Beginning January 1, 2018 through December 31, 2030, the return on equity that ComEd earns on its energy efficiency regulatory asset is subject to a maximum downward or upward adjustment of 200 basis points if ComEd's cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. ComEd will be required to file an update to its energy efficiency formula rate on or before June 1 each year, with resulting rates effective in January of the following year. The annual update will be based on projected current year energy efficiency costs, PJM capacity revenues, and the projected year-end regulatory asset balance less any related deferred income taxes. The update will also include a reconciliation of any differences between the revenue requirement in effect for the prior year and the revenue requirement based on actual prior year costs and actual year-end energy efficiency regulatory asset balances less any related deferred income taxes. ComEd records a regulatory asset or liability and corresponding increase or decrease to Operating revenues for any differences between the revenue requirement in effect and ComEd's best estimate of the revenue requirement expected to be approved by the ICC for that year's reconciliation.

ComEd cancelled its existing energy efficiency rate rider effective June 2, 2017. On August 1, 2017, ComEd filed with the ICC a reconciliation of revenues and costs incurred through the cancellation date. On August 30, 2017, the ICC approved ComEd's request, filed on August 1, 2017, to issue an $80 million credit on retail customers' bills in October 2017 for the majority of the over-recoveries with any final adjustment applicable to the over-recoveries to be billed or credited in the future. As of September 30, 2017, ComEd's over-recoveries associated with its former energy efficiency rate rider were $33 million.

Initial Energy Efficiency Formula Rate Filing

On August 15, 2017, the ICC approved ComEd's new initial energy efficiency formula rate filed with the ICC on June 9, 2017 pursuant to FEJA. The filing establishes the formula under which energy efficiency rates will be calculated going forward and the revenue requirement used to set the initial rates for the period October 1, 2017 through December 31, 2017. The initial revenue requirement is based on projected costs and projected PJM capacity revenues for the period from June 1, 2017 through December 31, 2017, and projected year-end 2017 energy efficiency regulatory asset balances (less any related deferred income taxes). ComEd requested an initial decrease in revenue requirement of $7 million reflecting higher projected PJM capacity revenues compared to projected energy efficiency costs and provides for a weighted average debt and equity return of 6.47% inclusive of an allowed ROE of 8.40%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2017 will be included in ComEd's 2018 energy efficiency formula rate filing and reflected in customer rates beginning January 2019. The approved energy efficiency formula rate also provides for revenue decoupling to effectively offset the favorable or unfavorable impacts to ComEd's energy efficiency formula rate revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer.

As of September 30, 2017, Exelon and ComEd recorded a regulatory asset of $78 million under the energy efficiency formula, reflecting $83 million of deferred energy efficiency costs partially offset by $5 million of over recoveries for the initial energy efficiency formula rate reconciliation.

2017 Energy Efficiency Formula Rate Filing

On September 11, 2017, the ICC approved ComEd's annual energy efficiency formula rate filed with the ICC on June 30, 2017 pursuant to FEJA. The filing establishes the revenue requirement used to set rates that will take effect in January 2018. The revenue requirement for 2018 is based on projected 2018 energy efficiency costs and PJM capacity revenues, and year-end 2018 energy efficiency regulatory asset balances (less any related deferred income taxes). In its 2017 filing ComEd requested a total increase to the revenue requirement of $12 million and provides for a weighted average debt and equity return of 6.47% inclusive of an allowed ROE of 8.40%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2018 will be included in ComEd's 2019 energy efficiency formula rate filing, and reflected in customer rates beginning January 2020.

Renewable Portfolio Standard

Existing Illinois law requires ComEd to purchase each year an increasing percentage of renewable energy resources for the customers for which it supplies electricity. This obligation is satisfied through the procurement of RECs. FEJA revises the Illinois RPS to require ComEd to procure RECs for all retail customers by June 2019, regardless of the customers' electricity supplier, and provides support for low-income rooftop and community solar programs, which will be funded by the existing Renewable Energy Resources Fund and ongoing RPS collections. FEJA also requires ComEd to use RPS collections to fund utility job training and workforce development programs in the amounts of $10 million in each of the years 2017, 2021, and 2025. ComEd recorded a $10 million and $20 million current and noncurrent liability, respectively, as of September 30, 2017 associated with this obligation. ComEd will recover all costs associated with purchasing RECs and funding utility job training and workforce development programs through a new RPS rate rider that provides for a reconciliation and true-up to actual costs, with any difference between revenues and expenses to be credited to or collected from ComEd's retail customers in subsequent periods with interest. The first reconciliation and true-up for RECs will occur in 2021 and cover revenues and costs for the four year period beginning June 1, 2017 through May 31, 2021. Subsequently, the RPS rate rider will provide for an annual reconciliation and true-up. ComEd began billing its retail customers under its new RPS rate rider on June 1, 2017 and recorded a related regulatory liability of $7 million as of September 30, 2017. ComEd also recorded a regulatory liability of $38 million for alternative compliance payments received from RES to purchase RECs on behalf of the RES in the future.

As of September 30, 2017, ComEd had received $45 million of over-recovered RPS costs and alternative compliance payments from RES, which are deposited into a separate interest bearing bank account pursuant to FEJA and are classified as Restricted cash on Exelon's and ComEd's Balance Sheets.

Customer Rate Increase Limitations

FEJA includes provisions intended to limit the average impact on ComEd customer rates for recovery of costs incurred under FEJA as follows: (1) for a typical ComEd residential customer, the average impact must be less than $0.25 cents per month, (2) for nonresidential customers with a peak demand less than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois commercial retail customers during 2015, and (3) for nonresidential customers with a peak demand greater than 10 MW, the average annual impact must be less than 1.3% of the average amount paid per kWh for electric service by Illinois industrial retail customers during 2015.

On June 30, 2017, ComEd submitted a 10-year projection to the ICC of customer rate impacts for residential customers and nonresidential customers with a peak demand less than 10 MW. Such projections indicate that customer rate impacts will not exceed the limitations set by FEJA discussed below. Thereafter, beginning in 2018, ComEd must submit a report to the ICC for residential customers and nonresidential customers with a peak demand less than 10 MW by February 15th and June 30th of each year, respectively. For nonresidential customers with a peak demand greater than 10 MW, ComEd must submit a report to the

ICC by May 1 of each year if a rate reduction will be necessary in the following year. For residential customers, the reports will include the actual costs incurred under FEJA during the preceding year and a rolling 10-year customer rate impact projection. The reports for nonresidential customers with a peak demand less than 10 MW will also include the actual costs incurred under FEJA during the preceding year, as well as the average annual rate increase from January 1, 2017 through the end of the preceding year and the average annual rate increase projected for the remainder of the 10-year period.

If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the first four years, ComEd is required to decrease costs associated with FEJA investments, including reductions to ZEC contract quantities. If the projected residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations during the last six years, ComEd is required to demonstrate how it will reduce FEJA investments to ensure compliance. If the actual residential customer or nonresidential customer with a peak demand less than 10 MW rate increase exceeds the limitations for any one year, ComEd is required to submit a corrective action plan to decrease future year costs to reduce customer rates to ensure future compliance. If the actual residential customer or nonresidential customer rate exceeds the limitations for two consecutive years, ComEd can offer to credit customers for amounts billed in excess of the limitations or ComEd can terminate FEJA investments. If ComEd chooses to terminate FEJA investments, the ICC shall order termination of ZEC contracts and further initiate proceedings to reduce energy efficiency savings goals and terminate support for low-income rooftop and community solar programs. ComEd is allowed to fully recover all costs incurred as of and up to the date of the programs’ termination.

For the energy efficiency formula, ComEd records a regulatory asset or liability and corresponding increase or decrease to Operating revenues for any differences between the revenue requirement in effect and ComEd’s best estimate of the revenue requirement expected to be approved by the ICC for that year’s reconciliation. For the other rate riders established under FEJA, ComEd records a regulatory asset or liability for any differences between revenues and incurred expenses.

Renewable Energy Resources (Exelon and ComEd). In accordance with legislation in effect on December 31, 2016, the IPA’s Procurement Plans include the procurement of cost-effective renewable energy resources in amounts that equal or exceed a minimum target percentage of the total electricity that each electric utility supplies to its eligible retail customers. The June 1, 2016 target renewable energy resources obligation for the utilities was at least 11.5%. This obligation increases by at least 1.5% each year thereafter to an ultimate target of at least 25% by June 1, 2025. All goals are subject to rate impact criteria set forth by Illinois legislation. As of September 30, 2017, ComEd had purchased renewable energy resources or equivalents, such as RECs, in accordance with the IPA Procurement Plan. ComEd currently retires all RECs upon transfer and acceptance. ComEd is permitted to recover procurement costs of RECs from retail customers without mark-up through rates.

In accordance with FEJA that took effect on June 1, 2017, beginning with the plan or plans to be implemented in the 2017 delivery year, the IPA shall develop a long term renewable resources procurement plan (LT Plan). The RPS target percentages for the overall service territory have not changed through June 1, 2025 although FEJA extended the 25% RPS target to delivery years after 2025. Currently, each RES and each utility is responsible for the renewable resource obligation of the customers it supplies power for. Over time, this will change and the utility will procure renewable resources based on the retail load of substantially all customers in its service territory. For the delivery year beginning June 1, 2017, the LT Plan shall include cost effective renewable energy resources procured by the utility for the retail load the utility supplies and for 50% of the retail customer load supplied by Retail Electric Suppliers in the utility service territory on February 28, 2017. Utility procurement for RES supplied retail customer load will increase to 75% June 1, 2018 and to 100% beginning June 1, 2019.

Pennsylvania Regulatory Matters

Pennsylvania Procurement Proceedings (Exelon and PECO). Through PECO’s PAPUC approved DSP Programs, PECO procures electric supply for its default electric customers through PAPUC approved competitive procurements.

On March 17, 2016, PECO filed its fourth DSP Program with the PAPUC proposing a 24-month term from June 1, 2017 through May 31, 2019, in compliance with electric generation procurement guidelines set forth in Act 129. On December 8, 2016, the PAPUC approved the fourth DSP Program for the modified 48-month term and deferred CAP Shopping to another proceeding. Office of Consumer Advocate and Low Income Advocates subsequently filed a Petition for Reconsideration and Clarification related to CAP Shopping. On March 16, 2017, the PAPUC granted reconsideration and consolidated the proceeding with the DSP II docket, which includes the pending CAP Shopping plan that would allow low-income CAP customers to purchase their generation supply from EGSs. PAPUC referred the consolidated proceedings to the Office of Administrative Law Judge for hearing and decision.

Pennsylvania Act 11 of 2012 (Exelon and PECO). In February 2012, Act 11 was signed into law, which provided the PAPUC authority to approve the implementation of a distribution system improvement charge (DSIC) in rates designed to recover capital project costs incurred to repair, improve or replace utilities' aging electric and natural gas distribution systems in Pennsylvania. Prior to recovering costs pursuant to a DSIC, the PAPUC's implementation order requires a utility to have a Long Term Infrastructure Improvement Plan (LTIIP) approved by the Commission, which outlines how the utility is planning to increase its investment for repairing, improving or replacing aging infrastructure. The PAPUC approved PECO's petition for its proposed electric DSIC and LTIIP on October 22, 2015 for spending of $275 million over a 5 year period through 2020. The PAPUC approved PECO's petition for its proposed modified gas LTIIP on June 14, 2017 for spending of $762 million over a 10 year period through 2022.

Maryland Regulatory Matters

2017 Maryland Electric Distribution Rates (Exelon, PHI and Pepco). On March 24, 2017, Pepco filed an application with the MDPSC to increase its annual electric distribution base rates by $69 million, which was updated to $67 million on August 24, 2017, reflecting a requested ROE of 10.1%. The application included a request for an income tax adjustment to reflect full normalization of removal costs associated with pre-1981 property, which accounted for $18 million of the requested increase. On October 20, 2017, the MDPSC approved an increase in Pepco electric distribution rates of $34 million, reflecting a ROE of 9.5%. On October 27, 2017, the MDPSC issued an errata order revising the approved increase in Pepco electric distribution rates to $32 million. The errata order corrected a number of computational errors in the original order but did not alter any of the findings. The new rates became effective for services rendered on or after October 20, 2017. In its decision, the MDPSC denied Pepco's request regarding the income tax adjustment without prejudice to Pepco filing another similar proposal with additional information. Requests for rehearing are due November 20, 2017.

2017 Maryland Electric Distribution Rates (Exelon, PHI and DPL). On July 14, 2017, DPL filed an application with the MDPSC to increase its annual electric distribution base rates by $27 million, which was updated to $22 million on September 28, 2017, reflecting a requested ROE of 10.1%. DPL expects a decision in the matter in the first quarter of 2018, but cannot predict how much of the requested increase the MDPSC will approve.

2016 Maryland Electric Distribution Rates (Exelon, PHI and DPL). On February 15, 2017, the MDPSC approved an increase in DPL electric distribution rates of $38 million reflecting a ROE of 9.6%. The new rates became effective for services rendered on or after February 15, 2017. The MDPSC also denied DPL's request to continue its Grid Resiliency Program, through which DPL proposed to invest $5 million a year for two years to improve priority feeders and install single-phase reclosing fuse technology. The final order did not result in the recognition of any incremental regulatory assets or liabilities.

Cash Working Capital Order (Exelon and BGE). On November 17, 2016, the MDPSC rendered a decision in the proceeding to review BGE's request to recover its cash working capital (CWC) requirement for its Provider of Last Resort service, also known as Standard Offer Service (SOS), as well as other components that make up the Administrative Charge, the mechanism that enables BGE to recover all of its SOS-related costs. The Administrative Charge is now comprised of five components: CWC, uncollectibles, incremental costs, return, and an administrative adjustment, which is an adder to the utility's SOS rate to act as a proxy for retail suppliers' costs. The Commission accepted BGE's positions on recovery of CWC and pass-through recovery of BGE's actual uncollectibles and incremental costs. The order also grants BGE a return on the SOS. The Commission ruled that the level of the administrative adjustment will be determined in BGE's next rate case. On December 16, 2016, MDPSC Staff requested clarification concerning the amount of return on the SOS awarded to BGE and on December 19, 2016, the residential consumer advocate sought rehearing of the return awarded. On January 24, 2017, the MDPSC issued an order denying the MDPSC Staff request for clarification and the residential consumer advocate request for rehearing. On February 22, 2017, the residential consumer advocate filed an appeal of the MDPSC's orders with the Circuit Court for Baltimore City. The residential consumer advocate filed its Memorandum on Appeal on June 5, 2017 and subsequent Reply Memoranda were filed by BGE and the MDPSC on July 7, 2017 and July 12, 2017, respectively. On August 7, 2017, following oral argument by the parties, a decision was issued from the Circuit Court affirming the decision of the MDPSC. On September 5, 2017, the residential consumer advocate filed an appeal of the Circuit Court's decision to the Maryland Court of Special Appeals. BGE cannot predict the outcome of this appeal.

Smart Meter and Smart Grid Investments (Exelon and BGE). In August 2010, the MDPSC approved a comprehensive smart grid initiative for BGE that included the planned installation of 2 million residential and commercial electric and natural gas smart meters at an expected total cost of $480 million of which $200 million was funded by SGIG. The MDPSC’s approval ordered BGE to defer the associated incremental costs, depreciation and amortization, and an appropriate return, in a regulatory asset until such time as a cost-effective advanced metering system is implemented. As of September 30, 2017 and December 31, 2016, the balance of BGE’s regulatory asset was $219 million and $230 million, respectively, representing incremental program deployment costs. The current quarter balance of $219 million consists of three major components, including $133 million of unamortized incremental deployment costs of the AMI program, $54 million of unamortized costs of the non-AMI meters replaced under the program, and $32 million related to post-test year incremental program deployment costs incurred prior to approval became effective June 2016. The balance as of September 30, 2017 reflects the impact of the cost disallowances and adjustments in BGE’s 2015 electric and natural gas distribution rate case. The incremental deployment costs for the AMI program and the non-AMI meter components of the regulatory asset are being recovered through rates and amortized to expense over a 10 year period, while the post-test year incremental program deployment costs have not yet been approved for recovery by the MDPSC. A return on the regulatory asset is currently included in rates, except for the $54 million portion representing the unamortized cost of the retired non-AMI meters and a $32 million portion related to post-test year incremental program deployment costs.

As a combined result of the MDPSC orders in BGE's 2015 electric and natural gas distribution rate case, BGE recorded a $52 million charge in June 2016 to Operating and maintenance expense in Exelon's and BGE's Consolidated Statements of Operations and Comprehensive Income reducing certain regulatory assets and other long-lived assets and reclassified $56 million of non-AMI plant costs from Property, plant and equipment, net to Regulatory assets on Exelon's and BGE's Consolidated Balance Sheets. For further information, see Note 3 - Regulatory Matters of the Exelon 2016 Form 10-K.

Delaware Regulatory Matters

2017 Electric and Natural Gas Distribution Rates (Exelon, PHI and DPL). On August 17, 2017, DPL filed applications with the DPSC to increase its annual electric and natural gas distribution base rates by $24 million, which was updated to $31 million on October 18, 2017, and $13 million, respectively, reflecting a requested ROE of 10.1%. DPL expects a decision in the electric proceeding and the gas proceeding in the third quarter of 2018, but cannot predict how much of the requested rate increases the DPSC will approve. While the DPSC is not required to issue a decision on the application within a specified period of time, Delaware law allows DPL to put into effect $2.5 million of the rate increase two months after filing the application and the entire requested rate increase seven months after filing, subject to a cap and a refund obligation based on the final DPSC order. On October 24, 2017, the Staff of the DPSC and the Public Advocate filed a joint motion to dismiss DPL's electric distribution base rate application without prejudice to refiling, arguing that the amount of the requested increase to $31 million required additional time to review and additional public notice. The DPSC is expected to decide at its meeting on November 9, 2017. DPL cannot predict the outcome of this matter.

2016 Electric and Natural Gas Distribution Rates (Exelon, PHI and DPL). On May 17, 2016, DPL filed applications with the DPSC to increase its annual electric and natural gas distribution base rates by $63 million, which was updated to $60 million on March 8, 2017, and $22 million, respectively, reflecting a requested ROE of 10.6%. Delaware law allowed DPL to put into effect $2.5 million of each of the rate increases effective July 16, 2016. On December 17, 2016, the DPSC approved an additional $30 million in electric distribution rates and an additional $10 million in natural gas distribution rates effective December 17, 2016, subject to refund based on the final DPSC orders.

On March 8, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate, Delaware Electric Users Group and the DPSC Staff in its electric distribution rate proceeding, which provides for an increase in DPL annual electric distribution base rates of $31.5 million reflecting a ROE of 9.7% compared to the $32 million increase previously put into effect. On May 23, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective June 1, 2017. Pursuant to the settlement agreement, no refund of the interim rates put into effect on July 16, 2016 and December 17, 2016 (as discussed above) is required.

On April 6, 2017, DPL entered into a settlement agreement with the Division of the Public Advocate and the DPSC Staff in its natural gas distribution rate proceeding, which provides for an increase in DPL annual natural gas distribution base rates of $4.9 million reflecting a ROE of 9.7%. The settlement agreement also provides that DPL will refund amounts collected under the temporary rates effective July 16, 2016 and December 17, 2016 (as discussed above) in excess of the $4.9 million, and that the new rates will be effective within thirty days of DPSC approval of the settlement agreement. On June 6, 2017, the DPSC issued an order approving the settlement agreement, with the new rates effective July 1, 2017. Pursuant to the settlement agreement, a rate refund plus interest of approximately $5 million was issued to customers beginning in August 2017 for which a regulatory liability has been recorded as of September 30, 2017. This is a one-time refund and was included on customer bills from mid-August through mid-September.

District of Columbia Regulatory Matters

2016 Electric Distribution Rates (Exelon, PHI and Pepco). On June 30, 2016, Pepco filed an application with the DCPSC to increase its annual electric distribution base rates by $86 million, which was updated to $77 million on February 1, 2017, reflecting a requested ROE of 10.6%.

On July 25, 2017, the DCPSC approved an increase in Pepco electric distribution base rates of $37 million reflecting a ROE of 9.5%. The new rates became effective for services rendered on or after August 15, 2017. In its decision, the DCPSC ordered that the $26 million customer rate credit created as a result of the Exelon and PHI merger will be provided primarily to residential customers and some small commercial customers to offset the impact of this increase until that amount has been exhausted, which is expected to take approximately two years. Additionally, the Commission is holding approximately $6 million to $7 million of the customer rate credit for use toward a possible new class of customers for certain senior citizens and disabled persons. The DCPSC also held that Pepco's bill stabilization adjustment, which decouples distribution revenues from utility customers from the amount of electricity delivered, will continue to be in place and that no refund of previously collected funds is required. Several parties filed requests that the DCPSC reconsider the order on various issues, and on October 6, 2017, the Commission issued an order denying each of the requests.

District of Columbia Power Line Undergrounding Initiative (Exelon, PHI and Pepco). The District of Columbia government enacted on an emergency basis (effective May 17, 2017) and thereafter on a permanent basis (effective July 11, 2017) legislation to amend the Electric Company Infrastructure Improvement Financing Act of 2014 (as amended) (the Infrastructure Improvement Financing Act) to authorize the District of Columbia Power Line Undergrounding (DC PLUG) initiative, a projected six year, $500 million project to place underground some of the District of Columbia's most outage-prone power lines with $250 million of the project costs funded by Pepco and $250 million funded by the District of Columbia.

The $250 million of project costs funded by Pepco will be recovered through a volumetric surcharge on the electric bill of substantially all of Pepco's customers in the District of Columbia. Pepco will earn a return on these project costs.

The $250 million of project costs funded by the District of Columbia will come from two sources. Project costs of $187.5 million will be funded through a charge assessed on Pepco by the District of Columbia; Pepco will recover this charge from customers through a volumetric distribution rider. The remaining costs up to $62.5 million are to be funded by the existing capital projects program of the District Department of Transportation (DDOT). Ownership and responsibility for the operation and maintenance of all the assets funded by the District of Columbia will be transferred to Pepco for a nominal amount upon completion. Pepco will not recover or earn a return on the cost of the assets transferred to it by the District of Columbia.

In accordance with the Infrastructure Improvement Financing Act, Pepco filed an application for approval of the first two-year portion of the DC PLUG initiative (the First Biennial Plan) on July 3, 2017. After the initial application, Pepco will be required to make two updated applications, one every two years until the project is completed. Pepco anticipates that the DCPSC will issue an order approving the First Biennial Plan in early November 2017. Upon the issuance of a DCPSC order approving the First Biennial Plan, Pepco will become obligated to pay $187.5 million to the District of Columbia over the six year project term, at which time it will record an obligation and offsetting regulatory asset.

New Jersey Regulatory Matters

New Jersey Consolidated Tax Adjustment (Exelon, PHI and ACE). The Consolidated Tax Adjustment (CTA) is a New Jersey ratemaking policy that requires utilities that are part of a consolidated tax group to share with customers the tax benefits that came from losses at unregulated affiliates through a reduction in rate base. In 2013, the NJBPU opened a generic proceeding to review the policy. In 2014, the NJBPU issued a decision which retained the CTA, but in a highly modified format that significantly reduced the impact of the CTA to ACE. On September 18, 2017, the Appellate Division of the Superior Court of New Jersey reversed the NJBPU's decision in adopting the revised CTA policy and held that NJBPU's actions related to the CTA constituted a rulemaking that should have been undertaken pursuant to the requirements of the Administrative Procedures Act. The Court did not address the merits of the CTA methodology itself. No party filed an appeal of the Court's decision, and the NJBPU is expected to conduct further proceedings. If the NJBPU were to apply the CTA in its unmodified form, it could have a material prospective impact to ACE through a reduction in rate base in future rate cases.

2017 Electric Distribution Rates (Exelon, PHI and ACE). On March 30, 2017, ACE filed an application with the NJBPU to increase its annual electric distribution rates by $70 million (before New Jersey sales and use tax), which was updated to $73 million on July 14, 2017, reflecting a requested ROE of 10.1%. The application also requests approval of a rate surcharge mechanism called the “System Renewal Recovery Charge,” which would permit more timely recovery of certain costs associated with reliability and system renewal-related capital investments.

On September 8, 2017, ACE entered into a settlement agreement with the NJBPU staff, the New Jersey Division of Rate Counsel and Wal-Mart Stores, Inc. in its electric distribution rate proceeding, which provides for an increase

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in ACE annual electric distribution base rates of $43 million (before New Jersey sales and use tax) reflecting a ROE of 9.6%. In addition, pursuant to the settlement agreement, ACE agreed to withdraw its request for approval of a System Renewal Recovery Charge without prejudice to its right to refile. On September 22, 2017, the NJBPU issued an order approving the settlement agreement, with the new rates effective on October 1, 2017.

2016 Electric Distribution Rates (Exelon, PHI and ACE). On August 24, 2016, the NJBPU issued an order approving a stipulation of settlement among ACE, the New Jersey Division of Rate Counsel, NJBPU Staff and Unimin Corporation, which, among other things, provided that a determination on ACE's grid resiliency program, PowerAhead, would be separated into a phase II of the rate proceeding and decided at a later date. PowerAhead includes capital investments to enhance the resiliency of the system through improvements focused on improving the distribution system's ability to withstand major storm events. A stipulation of settlement with respect to the PowerAhead program (the PowerAhead Stipulation) was approved by the NJBPU on May 31, 2017. As adopted, the PowerAhead program includes an approved investment level of $79 million to be recovered through the cost recovery mechanism described in the PowerAhead Stipulation. The NJBPU order adopting the PowerAhead Stipulation was effective on June 10, 2017.

Update and Reconciliation of Certain Under-Recovered Balances (Exelon, PHI and ACE). On February 1, 2017, ACE submitted its 2017 annual petition with the NJBPU seeking to reconcile and update (i) charges related to the recovery of above-market costs associated with ACE's long-term power purchase contracts with the non-utility generators and (ii) costs related to surcharges for the New Jersey Societal Benefit Program (a statewide public interest program that is intended to benefit low income customers and address other public policy goals) and ACE's uncollectible accounts. As filed, the net impact of adjusting the charges as proposed would have been an overall annual rate decrease of approximately $29 million (revised to approximately $32 million in April 2017, based upon an update for actuals through March 2017), including New Jersey sales and use tax. On May 31, 2017, the NJBPU approved a stipulation of settlement entered into by the parties providing for an overall annual rate decrease of approximately $32 million, effective June 1, 2017. The rate decrease was placed into effect provisionally, subject to a review by NJBPU and the Division of Rate Counsel of the final underlying costs for reasonableness and prudence. This rate decrease will have no effect on ACE's operating income, since these revenues provide for recovery of deferred costs under an approved deferral mechanism. The matter is pending at the NJBPU.

New York Regulatory Matters

New York Clean Energy Standard (Exelon and Generation). On August 1, 2016, the New York Public Service Commission (NYPSC) issued an order establishing the New York CES, a component of which is the Tier 3 ZEC program targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet the criteria demonstrating public necessity as determined by the NYPSC. The New York State Energy Research and Development Authority (NYSERDA) will centrally procure the ZECs from eligible plants through a 12-year contract, to be administered in six two-year tranches, extending from April 1, 2017 through March 31, 2029. ZEC payments will be made to the eligible resources based upon the number of MWh produced, subject to specified caps and minimum performance requirements. The price to be paid for the ZECs under each tranche will be administratively determined using a formula based on the social cost of carbon as determined in 2016 by the federal government, subject to pricing adjustments designed to lower the ZEC price based on increase in underlying energy and capacity prices. The ZEC price for the first tranche has been set at $17.48 per MWh of production. Following the first tranche, the price will be updated bi-annually. Each Load Serving Entity (LSE) shall be required to purchase an amount of ZECs equivalent to its load ratio share of the total electric energy in the New York Control Area. Cost recovery from ratepayers shall be incorporated into the commodity charges on customer bills.

The NYPSC initially identified three plants eligible for the ZEC program: the FitzPatrick, Ginna, and Nine Mile Point nuclear facilities. As issued, the order also provided that the duration of the program beyond the first tranche was conditional upon a buyer purchasing the FitzPatrick facility and taking title prior to September 1, 2018. On November 18, 2016, the required contracts with NYSERDA were executed for Ginna and Nine Mile Point, in addition to Entergy's execution of the required contract for the FitzPatrick facility. On March 31, 2017, Generation closed on the acquisition of FitzPatrick. Generation is currently recognizing revenue for the sale of New York ZECs in the month following generation when the ZECs are transferred to NYSERDA. For the three and nine months ended September 30, 2017, Generation has recognized $118 million and $191 million of ZEC revenue.

Several parties filed with the NYPSC requests for rehearing or reconsideration of the New York CES. Generation and CENG also filed a request for clarification, or in the alternative limited rehearing, that the condition limiting the duration of the program beyond the first tranche be limited to the eligibility of the FitzPatrick plant only and have no

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bearing on Ginna or Nine Mile Point's eligibility for the full 12-year duration. On December 15, 2016, the NYPSC approved Generation's and CENG's petition to clarify this condition and denied all petitions for rehearing of the New York CES. Parties had until mid-April to appeal to New York State court the denials of the requests for rehearing. A Petition seeking to invalidate the ZEC program was filed in New York State court by certain environmental groups and other parties on November 30, 2016, and amended on January 13, 2017, arguing that the NYPSC did not have authority to establish the program and that it violated certain technical provisions of the State Administrative Procedures Act (SAPA) when adopting the ZEC program. On February 15, 2017, Generation and CENG filed a motion to dismiss the state court action. The NYPSC also filed a motion to dismiss the state court action. On March 24, 2017, the plaintiffs filed a memorandum of law opposing the motions to dismiss, and Generation and CENG filed a reply brief on April 28, 2017. Oral argument was held on June 19, 2017. The motions to dismiss are pending.

On October 19, 2016, a coalition of fossil generation companies filed a complaint in federal district court against the NYPSC alleging that the ZEC program violates certain provisions of the U.S. Constitution; specifically that the ZEC program interferes with FERC's jurisdiction over wholesale rates and that it discriminates against out of state competitors. On December 9, 2016, Generation and CENG filed a motion to intervene in the case and to dismiss the lawsuit. The State also filed a motion to dismiss. Oral argument was held on March 29, 2017. On July 25, 2017, the court granted both motions to dismiss. On August 24, 2017, plaintiffs appealed the decision to the Second Circuit. Plaintiffs-Appellants' initial brief was filed on October 13, 2017. The state's and Exelon's briefs are due on November 17, 2017. Reply briefs are due on December 1, 2017.

Other legal challenges remain possible, the outcomes of which remain uncertain. See Note 7 - Early Nuclear Plant Retirements for additional information relative to Ginna and Nine Mile Point. See Note 4 - Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick.

Ginna Nuclear Power Plant Reliability Support Services Agreement (Exelon and Generation). In November 2014, in response to a petition filed by Ginna Nuclear Power Plant (Ginna) regarding the possible retirement of Ginna, the NYPSC directed Ginna and Rochester Gas & Electric Company (RG&E) to negotiate a Reliability Support Services Agreement (RSSA) to support the continued operation of Ginna to maintain the reliability of the RG&E transmission grid for a specified period of time. During 2015 and 2016, Ginna and RG&E made filings with the NYPSC and FERC for their approval of the proposed RSSA. Although the RSSA was still subject to regulatory approvals, on April 1, 2015, Ginna began delivering the power and capacity from the Ginna plant into the ISO-NY consistent with the technical provisions of the RSSA.

On March 22, 2016, Ginna submitted a compliance filing with FERC with revisions to the RSSA requested by FERC. On April 8, 2016, FERC accepted the compliance filing and on April 20, 2016, the NYPSC accepted the revised RSSA with a term expiring on March 31, 2017. In April 2016, Generation began recognizing revenue based on the final approved pricing contained in the RSSA and also recognized a one-time revenue adjustment of approximately $101 million representing the net cumulative previously unrecognized amount of revenue retroactive from the April 1, 2015 effective date through March 31, 2016. A 49.99% portion of the one-time adjustment was removed from Generation's results of operations as a result of the noncontrolling interests in CENG.

The RSSA required Ginna to continue operating through the RSSA term. On September 30, 2016, Ginna filed the required notice with the NYPSC of its intent to continue operating beyond the March 31, 2017 expiry of the RSSA, conditioned upon successful execution of an agreement between Ginna and NYSERDA for the sale of ZECs under the New York CES. As stated previously, on November 18, 2016 the required contract with NYSERDA was executed by Generation and CENG for Ginna. Upon the expiry of the RSSA on March 31, 2017, Ginna was required to make refund payments of $20 million to RG&E related to capital expenditures. Ginna paid RG&E the $20 million in June 2017. Additionally, the provisions of the RSSA provided for a one-time payment of $12 million to be paid from RG&E to Ginna at the end of the contract. This $12 million was recognized in revenue as of March 31, 2017. RG&E paid the $12 million to Ginna in May 2017. Subject to prevailing over any administrative or legal challenges, it is expected the New York CES will allow Ginna to continue to operate through the end of its current operating license in 2029. See Note 7-Early Nuclear Plant Retirements for further information regarding the impacts of a decision to early retire one or more nuclear plants.

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Federal Regulatory Matters

Transmission Formula Rate (Exelon, ComEd, BGE, Pepco, DPL and ACE). The following total increases/(decreases) were included in ComEd's, BGE's, Pepco's, DPL's and ACE's 2017 annual electric transmission formula rate filings:

	2017				
Annual Transmission Filings[(a)]	**ComEd**	**BGE**	**Pepco**	**DPL**	**ACE**
Initial revenue requirement increase	$ 44	$ 31	$ 5	$ 6	$ 20
Annual reconciliation (decrease) increase	(33)	3	15	8	22
Dedicated facilities decrease[(b)]	—	(8)	—	—	—
Total revenue requirement increase	$ 11	$ 26	$ 20	$ 14	$ 42
Allowed return on rate base[(c)]	8.43%	7.47%	7.92%	7.16%	8.02%
Allowed ROE[(d)]	11.50%	10.50%	10.50%	10.50%	10.50%

(a) All rates are effective June 2017, subject to review by the FERC and other parties, which is due by fourth quarter 2017.

(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.

(c) Represents the weighted average debt and equity return on transmission rate bases.

(d) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50% and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, Pepco, DPL and ACE, the rate of return on common equity is 10.50%, inclusive of a 50 basis point incentive adder for being a member of a regional transmission organization.

For additional information regarding transmission formula rate filings see Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

Transmission Formula Rate (Exelon and PECO). On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50 basis point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. On June 27, 2017, FERC issued an Order accepting the filing and suspending the proposed rates until December 1, 2017, subject to refund, and set the matter for hearing and settlement judge procedures. PECO cannot predict the final outcome of the settlement or hearing proceedings, or the transmission formula FERC may approve.

PJM Transmission Rate Design and Operating Agreements (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). PJM Transmission Rate Design specifies the rates for transmission service charged to customers within PJM. Currently, ComEd, PECO, BGE, Pepco, DPL and ACE incur costs based on the existing rate design, which charges customers based on the cost of the existing transmission facilities within their load zone and the cost of new transmission facilities based on those who benefit from those facilities. In April 2007, FERC issued an order concluding that PJM's current rate design for existing facilities is just and reasonable and should not be changed. In the same order, FERC held that the costs of new facilities 500 kV and above should be socialized across the entire PJM footprint and that the costs of new facilities less than 500 kV should be allocated to the customers of the new facilities who caused the need for those facilities. A number of parties appealed to the U.S. Court of Appeals for the Seventh Circuit for review of the decision.

In August 2009, the court issued its decision affirming the FERC's order with regard to the existing facilities, but remanded to FERC the issue of the cost allocation associated with the new facilities 500 kV and above (Cost Allocation Issue) for further consideration by the FERC. On remand, FERC reaffirmed its earlier decision to socialize the costs of new facilities 500 kV and above. A number of parties filed appeals of these orders. In June 2014, the court again remanded the Cost Allocation Issue to FERC. On December 18, 2014, FERC issued an order setting an evidentiary hearing and settlement proceeding regarding the Cost Allocation Issue. On June 15, 2016, a number of parties, including

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Exelon and the Utility Registrants, filed a proposed Settlement with FERC. If the Settlement is approved, 50% of the costs of the 500 kV and above facilities approved by the PJM Board on or before February 1, 2013 will be socialized across PJM and 50% will be allocated according to a formula that calculates the flows on the transmission facilities. Each state that is a party in this proceeding either signed, or did not oppose, the settlement. The Settlement is opposed by a number of merchant transmission owners and New York load-serving entities. The Settlement includes provisions for monthly credits or charges that are expected to be mostly refunded or recovered through customer rates over a 10-year period based on negotiated numbers for charges prior to January 1, 2016.

Exelon expects that the Settlement will not have a material impact on the results of operations, cash flows and financial position of Generation, ComEd, PECO, BGE, Pepco, DPL or ACE. The Settlement is subject to approval by FERC.

DOE Notice of Proposed Rulemaking (Exelon and Generation). On August 23, 2017, the DOE released its report on the reliability of the electric grid. One aspect of the wide-ranging report is the DOE's recognition that the electricity markets do not currently value the resiliency provided by baseload generation, such as nuclear plants. On September, 28, 2017, the DOE issued a Notice of Proposed Rulemaking (NOPR) that would entitle certain eligible resilient generating units (i.e., those located in organized markets, with a 90-day supply of fuel on site, not already subject to state cost of service regulation and satisfying certain other requirements) to recover fully allocated costs and earn a fair return on equity on their investment. The DOE issued the NOPR under an infrequently-used section of the DOE Organization Act under which the FERC has exclusive jurisdiction to consider and take any final action related to NOPRs proposed by the DOE. The DOE NOPR recommended that the FERC take comments for 45 days after publication in the Federal Register and issue a final order 60 days after such publication. On October 2, 2017, the FERC issued a notice inviting comments regarding the DOE NOPR within 21 days and established a new docket wherein the FERC will consider the matter. On October 23, 2017, Exelon filed comments with the FERC, supporting the goals of the NOPR and urging the agency to take swift action to protect customers from power supply interruptions and ensure resiliency in a way that appropriately balances the value and cost to customers. Exelon cannot predict the final outcome of the proceeding or its potential impact, if any, on Exelon or Generation.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs (Exelon and Generation). PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program - resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that require subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs). However, in Exelon's view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. The EPSA parties have filed motions to expedite both proceedings. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation’s facilities in NYISO and PJM expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon’s and Generation’s future cash flows and results of operations. On August 30, 2017, EPSA filed motions to lodge the district court decisions dismissing the complaints and urging FERC to act expeditiously on its requests to expand the MOPR. On September 14, 2017, Exelon filed a response in each docket noting that it does not oppose the motions to lodge but arguing that the requests to expedite a decision on the requests to expand the MOPR have no merit. The timing of FERC’s decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

Operating License Renewals (Exelon and Generation). On August 29, 2012, Generation submitted a hydroelectric license application to FERC for a 46-year license for the Conowingo Hydroelectric Project (Conowingo). In connection with Generation's efforts to obtain a water quality certification pursuant to Section 401 of the Clean Water Act with Maryland Department of the Environment (MDE) for Conowingo, Generation continues to work with MDE and other stakeholders to resolve water quality licensing issues, including: (1) water quality, (2) fish habitat, and (3) sediment. In addition, Generation continues to work with MDE and other Federal and Maryland state agencies to conduct and fund an additional sediment and nutrient monitoring study.

On April 21, 2016, Exelon and Interior executed a Settlement Agreement resolving all fish passage issues between the parties. The financial impact of the Settlement Agreement is estimated to be $3 million to $7 million per year, on average, over the 46-year life of the new license, including both capital and operating costs. The actual timing and amount of these costs are not currently fixed and may vary significantly from year to year throughout the life of the new license. Resolution of the remaining issues relating to Conowingo involving various stakeholders may have a material effect on Exelon's and Generation's results of operations and financial position through an increase in capital expenditures and operating costs. As of September 30, 2017, $30 million of direct costs associated with Conowingo licensing efforts have been capitalized. See Note 3 - Regulatory Matters of the Exelon 2016 Form 10-K for additional information on Generation's operating license renewal efforts.

Regulatory Assets and Liabilities (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE each prepare their consolidated financial statements in accordance with the authoritative guidance for accounting for certain types of regulation. Under this guidance, regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates or represent billings in advance of expenditures for approved regulatory programs.

As a result of applying the acquisition method of accounting and pushing it down to the consolidated financial statements of PHI, certain regulatory assets and liabilities were established at Exelon and PHI to offset the impacts of fair valuing the acquired assets and liabilities assumed which are subject to regulatory recovery. In total, Exelon and PHI recorded a net $2.4 billion regulatory asset reflecting adjustments recorded as a result of the acquisition method of accounting. See Note 4 — Mergers, Acquisitions and Dispositions for additional information.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following tables provide information about the regulatory assets and liabilities of Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE as of September 30, 2017 and December 31, 2016. For additional information on the specific regulatory assets and liabilities, refer to Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K.

					Successor			
September 30, 2017	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Regulatory assets								
Pension and other postretirement benefits[a]	$ 4,020	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes[b]	2,423	347	1,678	100	298	195	45	58
AMI programs	660	159	40	219	242	163	79	—
Under-recovered distribution service costs[c]	256	256	—	—	—	—	—	—
Energy efficiency costs	78	78	—	—	—	—	—	—
Debt costs	120	38	1	12	75	16	8	5
Fair value of long-term debt	773	—	—	—	632	—	—	—
Fair value of PHI's unamortized energy contracts	830	—	—	—	830	—	—	—
Severance	2	—	—	2	—	—	—	—
Asset retirement obligations	108	73	22	13	—	—	—	—
MGP remediation costs	300	277	23	—	—	—	—	—
Under-recovered uncollectible accounts	70	60	—	—	10	—	—	10
Renewable energy	277	277	—	—	—	—	—	—
Energy and transmission programs [d][e][f][g][h][i]	65	3	—	26	36	6	9	21
Deferred storm costs	31	—	—	—	31	9	5	17
Electric generation-related regulatory asset	3	—	—	3	—	—	—	—
Energy efficiency and demand response programs	599	—	1	284	314	233	81	—
Merger integration costs[j][k][l][m]	47	—	—	7	40	20	11	9
Under-recovered revenue decoupling[n]	72	—	—	34	38	33	5	—
COPCO acquisition adjustment	6	—	—	—	6	—	6	—
Workers compensation and long-term disability cost	33	—	—	—	33	33	—	—
Vacation accrual	38	—	14	—	24	—	14	10
Securitized stranded costs	93	—	—	—	93	—	—	93
CAP arrearage	9	—	9	—	—	—	—	—
Removal costs	518	—	—	—	518	144	98	277
Other	71	6	21	5	40	28	8	4
Total regulatory assets	11,502	1,574	1,809	705	3,260	880	369	504
Less: current portion	1,264	187	36	208	568	181	69	87
Total noncurrent regulatory assets	$ 10,238	$ 1,387	$ 1,773	$ 497	$ 2,692	$ 699	$ 300	$ 417

					Successor			
September 30, 2017	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Regulatory liabilities								
Other postretirement benefits	$ 41	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nuclear decommissioning	2,971	2,438	533	—	—	—	—	—

Removal costs	1,588	1,337	—	119	132	22	110	—
Deferred rent	37	—	—	—	37	—	—	—
Energy efficiency and demand response programs	62	33	29	—	—	—	—	—
DLC program costs	8	—	8	—	—	—	—	—
Electric distribution tax repairs	50	—	50	—	—	—	—	—
Gas distribution tax repairs	14	—	14	—	—	—	—	—
Energy and transmission programs (d)(e)(f)(g)(h)(i)	139	54	68	—	17	3	9	5
Renewable portfolio standards costs	46	46	—	—	—	—	—	—
Zero emission credit costs	71	71	—	—	—	—	—	—
Other	75	5	17	28	25	1	9	13
Total regulatory liabilities	5,102	3,984	719	147	211	26	128	18
Less: current portion	553	249	159	63	65	5	42	18
Total noncurrent regulatory liabilities	$ 4,549	$ 3,735	$ 560	$ 84	$ 146	$ 21	$ 86	$ —

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

					Successor			
December 31, 2016	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Regulatory assets								
Pension and other postretirement benefits [a]	$ 4,162	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Deferred income taxes [b]	2,016	75	1,583	98	260	171	38	51
AMI programs	701	164	49	230	258	174	84	—
Under-recovered distribution service costs [c]	188	188	—	—	—	—	—	—
Debt costs	124	42	1	7	81	17	9	6
Fair value of long-term debt	812	—	—	—	671	—	—	—
Fair value of PHI's unamortized energy contracts	1,085	—	—	—	1,085	—	—	—
Severance	5	—	—	5	—	—	—	—
Asset retirement obligations	111	76	23	12	—	—	—	—
MGP remediation costs	305	278	26	1	—	—	—	—
Under-recovered uncollectible accounts	56	56	—	—	—	—	—	—
Renewable energy	260	258	—	—	2	—	—	2
Energy and transmission programs [d][e][f][g][h][i]	89	23	—	38	28	6	5	17
Deferred storm costs	36	—	—	1	35	12	5	18
Electric generation-related regulatory asset	10	—	—	10	—	—	—	—
Rate stabilization deferral	7	—	—	7	—	—	—	—
Energy efficiency and demand response programs	621	—	1	285	335	250	85	—
Merger integration costs[j][k][l][m]	25	—	—	10	15	11	4	—
Under-recovered revenue decoupling[n]	27	—	—	3	24	21	3	—
COPCO acquisition adjustment	8	—	—	—	8	—	8	—
Workers compensation and long-term disability costs	34	—	—	—	34	34	—	—
Vacation accrual	31	—	7	—	24	—	14	10
Securitized stranded costs	138	—	—	—	138	—	—	138
CAP arrearage	11	—	11	—	—	—	—	—
Removal costs	477	—	—	—	477	134	88	255
Other	49	7	9	5	29	22	5	4
Total regulatory assets	11,388	1,167	1,710	712	3,504	852	348	501
Less: current portion	1,342	190	29	208	653	162	59	96
Total noncurrent regulatory assets	$ 10,046	$ 977	$ 1,681	$ 504	$ 2,851	$ 690	$ 289	$ 405

					Successor			
December 31, 2016	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Regulatory liabilities								
Other postretirement benefits	$ 47	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nuclear decommissioning	2,607	2,169	438	—	—	—	—	—
Removal costs	1,601	1,324	—	141	136	18	118	—
Deferred rent	39	—	—	—	39	—	—	—
Energy efficiency and demand response programs	185	141	41	—	3	3	—	—
DLC program costs	8	—	8	—	—	—	—	—
Electric distribution tax repairs	76	—	76	—	—	—	—	—
Gas distribution tax repairs	20	—	20	—	—	—	—	—

Energy and transmission programs [d][e][f][g][h][i]	134	60	56	—	18	8	5	5
Other	72	4	5	19	41	2	17	20
Total regulatory liabilities	4,789	3,698	644	160	237	31	140	25
Less: current portion	602	329	127	50	79	11	43	25
Total noncurrent regulatory liabilities	$ 4,187	$ 3,369	$ 517	$ 110	$ 158	$ 20	$ 97	$ —

(a) As of September 30, 2017 and December 31, 2016, the pension and other postretirement benefits regulatory asset at Exelon includes regulatory assets of $969 million and $995 million, respectively, as a result of the PHI Merger related to unrecognized costs that are probable of regulatory recovery. The regulatory assets are amortized over periods from 3 to 15 years, depending on the underlying component. Pepco, DPL and ACE are currently recovering these costs through base rates. Pepco, DPL and ACE are not earning a return on the recovery of these costs in base rates.

(b) As of September 30, 2017, includes transmission-related income tax regulatory assets that require FERC approval separate from the transmission formula rate of $73 million, $42 million, $34 million, $23 million and $21 million for ComEd, BGE, Pepco, DPL and ACE, respectively. As of December 31, 2016, includes transmission-related regulatory assets that require FERC approval separate from the transmission formula rate of $22 million, $38 million, $31 million, $20 million and $19 million for ComEd, BGE, Pepco, DPL and ACE, respectively. On December 13, 2016, BGE filed with FERC to begin recovering these existing and any similar future regulatory assets through its transmission formula rate. On May 9, 2017, FERC accepted BGE’s filing and made effective BGE's proposed modifications to its transmission formula rate, subject to refund and further Commission order. ComEd, Pepco, DPL, and ACE are expected to make similar filings with FERC and other parties in subsequent periods.

(c) As of September 30, 2017, ComEd's regulatory asset of $256 million was comprised of $200 million for the 2015 - 2017 annual reconciliations and $56 million related to significant one-time events including $11 million of deferred storm costs, $7 million of Constellation and PHI merger and integration related costs, $6 million of emerald ash borer costs, and $32 million of smart meter related costs. As of December 31, 2016, ComEd's regulatory asset of $188 million was comprised of $134 million for the 2015 and 2016 annual reconciliations and $54 million related to significant one-time events, including $20 million of deferred storm costs and $11 million of Constellation and PHI merger and integration related costs, and $23 million of smart meter related costs. See Note 4— Mergers, Acquisitions and Dispositions of the Exelon 2016 Form 10-K for further information.

(d) As of September 30, 2017, ComEd's regulatory liability of $54 million included $22 million related to over-recovered energy costs and $32 million associated with revenues received for renewable energy requirements. As of December 31, 2016, ComEd's regulatory asset of $23 million included $15 million associated with transmission costs recoverable through its FERC approved formula rate and $8 million of Constellation merger and integration costs to be recovered upon FERC approval. As of December 31, 2016, ComEd's regulatory liability of $60 million included $30 million related to over-recovered energy costs and $30 million associated with revenues received for renewable energy requirements.

(e) As of September 30, 2017, PECO's regulatory liability of $68 million included $34 million related to over-recovered costs under the DSP program, $21 million related to the over-recovered natural gas costs under the PGC and $13 million related to over-recovered non-bypassable transmission service charges. As of December 31, 2016, PECO's regulatory liability of $56 million included $34 million related to over-recovered costs under the DSP program, $10 million related to over-recovered non-bypassable transmission service charges, $8 million related to the over-recovered natural gas costs under the PGC and $4 million related to the over-recovered electric transmission costs.

(f) As of September 30, 2017, BGE's regulatory asset of $26 million included $5 million related to under-recovered electric energy costs, $14 million related to under-recovered natural gas costs, $3 million of costs associated with transmission costs recoverable through its FERC approved formula rate and $4 million of abandonment costs to be recovered upon FERC approval. As of December 31, 2016, BGE's regulatory asset of $38 million included $4 million of costs associated with transmission costs recoverable through its FERC approved formula rate, $28 million related to under-recovered electric energy costs, $3 million of abandonment costs to be recovered upon FERC approval, and $3 million of under-recovered natural gas costs.

(g) As of September 30, 2017, Pepco's regulatory asset of $6 million included $3 million of transmission costs recoverable through its FERC approved formula rate and $3 million of under-recovered electric energy costs. As of September 30, 2017, Pepco's regulatory liability of $3 million related to over-recovered electric energy costs. As of December 31, 2016, Pepco's regulatory asset of $6 million related to under-recovered electric energy costs. As of December 31, 2016, Pepco's regulatory liability of $8 million included $5 million of over-recovered transmission costs and $3 million of over-recovered electric energy costs.

(h) As of September 30, 2017, DPL's regulatory asset of $9 million included $4 million of transmission costs recoverable through its FERC approved formula rate and $5 million related to under-recovered electric energy costs. As of September 30, 2017, DPL's regulatory liability of $9 million related to over-recovered electric energy costs. As of December 31, 2016, DPL's regulatory asset of $5 million included $1 million of transmission costs recoverable through its FERC approved formula rate and $4 million of under-recovered electric energy costs. As of December 31, 2016, DPL's regulatory liability of $5 million included $2 million of over-recovered electric energy costs and $3 million of over-recovered transmission costs.

(i) As of September 30, 2017, ACE's regulatory asset of $21 million included $11 million of transmission costs recoverable through its FERC approved formula rate and $10 million of under-recovered electric energy costs. As of September 30, 2017, ACE's regulatory liability of $5 million related to over-recovered electric energy costs. As of December 31, 2016, ACE's regulatory asset of $17 million included $6 million of transmission costs recoverable through its FERC approved formula rate and $11 million of under-recovered electric energy costs. As of December 31, 2016, ACE's regulatory liability of $5 million included $4 million of over-recovered transmission costs and $1 million of over-recovered electric energy costs.

(j) As of September 30, 2017 and December 31, 2016, BGE's regulatory asset of $7 million and $10 million, respectively, included $5 million and $6 million, respectively, of previously incurred PHI acquisition costs as authorized by the June 2016 rate case order.

(k) As of September 30, 2017, Pepco's regulatory asset of $20 million represents previously incurred PHI acquisition costs, including $11 million authorized for recovery in Maryland and $9 million expected to be recovered in the District of Columbia service territory. As of December 31, 2016, Pepco's regulatory asset of $11 million represents previously incurred PHI acquisition costs authorized for recovery in Maryland.

(l) As of September 30, 2017, DPL's regulatory asset of $11 million represents previously incurred PHI acquisition costs, including $4 million authorized for recovery in Maryland, $5 million authorized for recovery in Delaware electric rates, and $2 million expected to be recovered in electric and gas rates in the Delaware service territory. As of December 31, 2016, DPL's regulatory asset of $4 million represents previously incurred PHI acquisition costs expected to be recovered in the Maryland service territory.

(m) As of September 30, 2017, ACE's regulatory asset of $9 million represents previously incurred PHI acquisition costs expected to be recovered in the New Jersey service territory.

(n) Represents the electric and natural gas distribution costs recoverable from customers under BGE's decoupling mechanism. As of September 30, 2017, BGE had a regulatory asset of $24 million related to under-recovered electric revenue decoupling and $10 million related to under-recovered natural gas revenue decoupling. As of December 31, 2016, BGE had a regulatory asset of $2 million related to under-recovered natural gas revenue decoupling and $1 million related to under-recovered electric revenue decoupling.

Capitalized Ratemaking Amounts Not Recognized (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

The following table illustrates our authorized amounts capitalized for ratemaking purposes related to earnings on shareholders' investment that are not recognized for financial reporting purposes on our Consolidated Balance Sheets. These amounts will be recognized as revenues in our Consolidated Statements of Operations and Comprehensive Income in the periods they are billable to our customers.

	Exelon	ComEd[a]	PECO	BGE[b]	PHI	Pepco[c]	DPL[c]	ACE
September 30, 2017	$ 71	$ 7	$ —	$ 54	$ 10	$ 6	$ 4	$ —

	Exelon	ComEd[a]	PECO	BGE[b]	PHI	Pepco[c]	DPL[c]	ACE
December 31, 2016	$ 72	$ 5	$ —	$ 57	$ 10	$ 6	$ 4	$ —

(a) Reflects ComEd's unrecognized equity returns earned for ratemaking purposes on its under-recovered distribution services costs regulatory assets.

(b) BGE's authorized amounts capitalized for ratemaking purposes primarily relate to earnings on shareholders' investment on its AMI Programs.

(c) Pepco's and DPL's authorized amounts capitalized for ratemaking purposes relate to earnings on shareholders' investment on their respective AMI Programs and Energy Efficiency and Demand Response Programs. The earnings on energy efficiency are on Pepco DC and DPL DE programs only.

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Purchase of Receivables Programs (Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE)

ComEd, PECO, BGE, Pepco, DPL and ACE are required, under separate legislation and regulations in Illinois, Pennsylvania, Maryland, District of Columbia and New Jersey, to purchase certain receivables from retail electric and natural gas suppliers that participate in the utilities' consolidated billing. ComEd, BGE, Pepco and DPL purchase receivables at a discount to recover primarily uncollectible accounts expense from the suppliers. PECO is required to purchase receivables at face value and is permitted to recover uncollectible accounts expense, including those from Third Party Suppliers, from customers through distribution rates. ACE purchases receivables at face value. ACE recovers all uncollectible accounts expense, including those from Third Party Suppliers, through the Societal Benefits Charge (SBC) rider, which includes uncollectible accounts expense as a component. The SBC is filed annually with the NJBPU. Exelon, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE do not record unbilled commodity receivables under the POR programs. Purchased billed receivables are classified in Other accounts receivable, net on Exelon's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets. The following tables provide information about the purchased receivables of those companies as of September 30, 2017 and December 31, 2016.

					Successor			
As of September 30, 2017	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Purchased receivables	$ 312	$ 89	$ 68	$ 55	$ 100	$ 66	$ 10	$ 24
Allowance for uncollectible accounts[a]	(33)	(13)	(5)	(4)	(11)	(6)	(1)	(4)
Purchased receivables, net	$ 279	$ 76	$ 63	$ 51	$ 89	$ 60	$ 9	$ 20

					Successor			
As of December 31, 2016	**Exelon**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Purchased receivables	$ 313	$ 87	$ 72	$ 59	$ 95	$ 63	$ 10	$ 22
Allowance for uncollectible accounts[a]	(37)	(14)	(6)	(4)	(13)	(7)	(2)	(4)
Purchased receivables, net	$ 276	$ 73	$ 66	$ 55	$ 82	$ 56	$ 8	$ 18

(a) For ComEd, BGE, Pepco and DPL, reflects the incremental allowance for uncollectible accounts recorded, which is in addition to the purchase discount. For ComEd, the incremental uncollectible accounts expense is recovered through its Purchase of Receivables with Consolidated Billing tariff.

6. Impairment of Long-Lived Assets (Exelon and Generation)

Long-Lived Assets (Exelon and Generation)

Generation evaluates long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. EGTP's operating cash flows have been negatively impacted by certain market conditions and the seasonality of its cash flows. On May 2, 2017, EGTP entered into a consent agreement with its lenders to initiate an orderly sales process to sell the assets of its wholly owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP. As a result, as of June 30, 2017, and September 30, 2017, certain of EGTP's assets and liabilities were classified as held for sale at their respective fair values less costs to sell and included in the other current assets and other current liabilities balances on Exelon's and Generation's Consolidated Balance Sheets. As of June 30, 2017, the fair value analysis was based on an income approach using significant unobservable inputs (Level 3) including revenue and generation forecasts, projected capital and maintenance expenditures and discount rates. As a result of this analysis, in the second quarter 2017, Exelon and Generation recorded a pre-tax impairment charge of $418 million within Operating and maintenance expense on their Consolidated Statements of Operations and Comprehensive Income. In the third quarter 2017, Exelon and Generation recorded an additional pre-tax impairment charge of $40 million within Operating and maintenance expense on their Consolidated Statements of Operations and Comprehensive Income to reflect an indicated decline in fair value based on new information obtained in the quarter through the orderly sales process. See Note 4 - Mergers, Acquisitions and Dispositions and Note 11 - Debt and Credit Agreements, for further information.

During the first quarter of 2016, significant changes in Generation’s intended use of the Upstream oil and gas assets, developments with nonrecourse debt held by its upstream subsidiary CEU Holdings, LLC (as described in Note

14 - Debt and Credit Agreements of the Exelon 2016 Form 10-K) and continued declines in both production volumes and commodity prices suggested that the carrying value may be impaired. Generation concluded that the estimated undiscounted future cash flows and fair value of its Upstream properties were less than their carrying values. As a result, a pre-tax impairment charge of $119 million was recorded in March 2016 within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. On June 16, 2016, Generation initiated the sales process of its Upstream business by executing a forbearance agreement with the lenders of the nonrecourse debt. An additional pre-tax impairment charge of $15 million was recorded in September 2016 within Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income due to further declines in fair value. In December 2016, Generation sold substantially all of the Upstream Assets. See Note 4 - Mergers, Acquisitions and Dispositions of the Exelon 2016 Form 10-K for further information.

In the second quarter of 2016, updates to the Company's long-term view of energy and capacity prices suggested that the carrying value of a group of merchant wind assets, located in West Texas, may be impaired. Upon review, the estimated undiscounted future cash flows and fair value of the group were less than their carrying value. The fair value analysis was based on the income approach using significant unobservable inputs (Level 3) including revenue and generation forecasts, projected capital and maintenance expenditures and discount rates. As a result of the fair value analysis, long-lived assets held and used with a carrying amount of approximately $60 million were written down to their fair value of $24 million and a pre-tax impairment charge of $36 million was recorded during the second quarter in Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Also in the second quarter of 2016, updates to the Company's long-term view, as described above, in conjunction with the previous decision to early retire the Clinton and Quad Cities nuclear facilities in Illinois suggested that the carrying value of our Midwest asset group may be impaired. Generation completed a comprehensive review of the estimated undiscounted future cash flows of the Midwest asset group and no impairment charge was required.

Like-Kind Exchange Transaction (Exelon)

In June 2000, UII, LLC (formerly Unicom Investments, Inc.) (UII), a wholly owned subsidiary of Exelon Corporation, entered into transactions pursuant to which UII invested in coal-fired generating station leases (Headleases) with the Municipal Electric Authority of Georgia (MEAG). The generating stations were leased back to MEAG as part of the transactions (Leases).

On March 31, 2016, UII and MEAG finalized an agreement to terminate the MEAG Headleases, the MEAG Leases, and other related agreements prior to their expiration dates. As a result of the lease termination, UII received an early termination payment of $360 million from MEAG and wrote-off the $356 million net investment in the MEAG Headleases and the Leases. The transaction resulted in a pre-tax gain of $4 million which is reflected in Operating and maintenance expense in Exelon's Consolidated Statements of Operations and Comprehensive Income. See Note 12—Income Taxes for additional information.

7. Early Nuclear Plant Retirements (Exelon and Generation)

Exelon and Generation continue to evaluate the current and expected economic value of each of Generation's nuclear plants. Factors that will continue to affect the economic value of Generation's nuclear plants include, but are not limited to: market power prices, results of capacity auctions, potential legislative and regulatory solutions to ensure nuclear plants are fairly compensated for their carbon-free emissions, and the impact of potential rules from the EPA requiring reduction of carbon and other emissions and the efforts of states to implement those final rules. The precise timing of an early retirement date for any nuclear plant, and the resulting financial statement impacts, may be affected by a number of factors, including the status of potential regulatory or legislative solutions, results of any transmission system reliability study assessments, the nature of any co-owner requirements and stipulations, and decommissioning trust fund requirements, among other factors. However, the earliest retirement date for any plant would usually be the first year in which the unit does not have capacity or other obligations, where applicable, and just prior to its next scheduled nuclear refueling outage.

In 2015 and 2016, Generation identified the Clinton, Quad Cities, Ginna, Nine Mile Point, and Three Mile Island (TMI) nuclear plants as having the greatest risk of early retirement based on economic valuation and other factors. PSEG has also recently made public similar financial challenges facing its New Jersey nuclear plants including Salem, of which Generation owns a 42.59% ownership interest. As previously disclosed, Exelon and Generation have committed to cease operation of the Oyster Creek nuclear plant by the end of 2019.

The TMI nuclear plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning year and will not receive capacity revenue for that period, the third consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019.

Based on these capacity auction results, prolonged periods of low wholesale power prices, and the absence of federal or state policies that place a value on nuclear energy for its ability to produce electricity without air pollution, Exelon announced that Generation will permanently cease generation operations at TMI on or about September 30, 2019. The current NRC license for TMI expires in 2034. Generation is proceeding with the market and regulatory notifications that must be made to shut down the plant, including filing of a deactivation notice with PJM on May 30, 2017 and notification to the NRC on June 20, 2017. PJM has subsequently notified Generation that it has not identified any reliability issues and has approved the deactivation of TMI as proposed.

In 2017, as a result of the plant retirement decision of TMI, Exelon and Generation recognized one-time charges in Operating and maintenance expense of $76 million related to materials and supplies inventory reserve adjustments, employee-related costs and construction work-in-progress (CWIP) impairments, among other items. In addition to these one-time charges, there will be ongoing annual incremental non-cash charges to earnings stemming from shortening the expected economic useful life of TMI primarily related to accelerated depreciation of plant assets (including any ARC), accelerated amortization of nuclear fuel, and additional ARO accretion expense associated with the changes in decommissioning timing and cost assumptions. During the three and nine months ended September 30, 2017, both Exelon's and Generation's results include an incremental $112 million and $149 million, respectively, of pre-tax expense for these items. Please refer to Note 13 — Nuclear Decommissioning for additional detail on changes to the nuclear decommissioning ARO balances resulting from the early retirement of TMI.

Income statement expense (pre-tax)	**Q3 2017**	**YTD 2017**
Depreciation and amortization		
Accelerated depreciation[a]	$ 106	$ 141
Accelerated nuclear fuel amortization	6	8
Total	$ 112	$ 149

(a) Reflects incremental accelerated depreciation of plant assets, including any ARC.

Based on insufficient capacity auction results and the lack of progress on Illinois energy legislation, on June 2, 2016, Generation announced a decision to shut down the Clinton and Quad Cities nuclear plants on June 1, 2017 and June 1, 2018, respectively. With the passage of the Illinois ZES on December 7, 2016, and subject to prevailing over any related administrative or legal challenges, Generation reversed this decision and revised the expected economic useful lives for both facilities; 2027 for Clinton and 2032 for Quad Cities. Refer to Note 5 - Regulatory Matters for additional discussion on the Illinois ZES.

Exelon's and Generation's 2016 results included a net incremental $714 million of total pre-tax expense associated with the initial early retirement decision for Clinton and Quad Cities, as summarized in the table below.

Income statement expense (pre-tax)	**Q2 2016**	**Q3 2016**	**Q4 2016**	**YTD 2016**

Depreciation and amortization				
Accelerated depreciation[a]	$ 115	$ 344	$ 253	$ 712
Accelerated Nuclear Fuel amortization	9	28	23	60
Operating and maintenance				
One time charges[b]	141	5	(120)	26
ARO accretion, net of contractual offset[c]	—	2	—	2
Contractual offset for ARC depreciation[c]	(14)	(41)	(31)	(86)
Total	$ 251	$ 338	$ 125	$ 714

(a) Reflects incremental accelerated depreciation of plant assets, including any ARC, for the period June 2, 2016, through December 6, 2016.

(b) Primarily includes materials and supplies inventory reserve adjustments, employee related costs and CWIP impairments.

(c) For Quad Cities based on the regulatory agreement with the Illinois Commerce Commission, decommissioning-related activities are offset within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. The offset results in an equal adjustment to the noncurrent payables to ComEd at Generation and an adjustment to the regulatory liabilities at ComEd. Likewise, ComEd has recorded an equal noncurrent affiliate receivable from Generation and corresponding regulatory liability.

In New York, the Ginna, Nine Mile Point, and Generation's recently acquired FitzPatrick nuclear plant also faced significant economic challenges and risk of retirement before the end of each unit's respective operating license period (2029 for Ginna and Nine Mile Point Unit 1, 2046 for Nine Mile Point Unit 2, and 2034 for FitzPatrick). On August 1, 2016, the NYPSC issued an order adopting the New York CES that, subject to prevailing over any administrative or legal challenges, would allow Ginna, Nine Mile Point, and FitzPatrick to continue to operate at least through the life of the program (March 31, 2029). The assumed useful life for depreciation purposes for each facility is through the end of their current operating licenses. Ginna most recently operated under an RSSA which expired March 31, 2017 and has filed the required notice with the NYPSC of its intent to continue operating beyond the expiry of the RSSA. Refer to Note 4 - Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick and Note 5 - Regulatory Matters for additional discussion on the Ginna RSSA and the New York CES.

Assuming the successful implementation of the Illinois ZES and the New York CES and the continued effectiveness of these programs, Generation and CENG, through its ownership of Ginna and Nine Mile Point, no longer consider Clinton, Quad Cities, Ginna or Nine Mile Point to be at heightened risk for early retirement. However, to the extent either the Illinois ZES or the New York CES programs do not operate as expected over their full terms, each of these plants (and now including the newly acquired FitzPatrick) could again be at heightened risk for early retirement, which could have a material impact on Exelon's and Generation's future results of operations, cash flows and financial position.

8. Intangible Assets (Exelon and PHI)

In the third quarter of 2015, PHI entered into a sponsorship agreement with the District of Columbia for future sponsorship rights associated with public property within the District of Columbia and paid the District of Columbia $25 million. The specific sponsorship rights were to be determined over time through future negotiations. As of September 30, 2017, PHI has recorded the sponsorship agreement as a finite-lived intangible asset with a $25 million carrying amount. Because no specific sponsorship agreements have yet been entered into with the District of Columbia, amortization of the finite-lived intangible asset has yet to commence. In the third quarter of 2017, PHI continued discussions with the District of Columbia regarding the nature and timing of available sponsorship opportunities, and based on these ongoing discussions, will continue to evaluate any potential impact on the valuation of the sponsorship intangible asset.

9. Fair Value of Financial Assets and Liabilities (All Registrants)

Fair Value of Financial Liabilities Recorded at the Carrying Amount

The following tables present the carrying amounts and fair values of the Registrants' short-term liabilities, long-term debt, SNF obligation, and trust preferred securities (long-term debt to financing trusts or junior subordinated debentures) as of September 30, 2017 and December 31, 2016:

Exelon

	September 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 710	$ —	$ 710	$ —	$ 710
Long-term debt (including amounts due within one year)[(a)]	34,865	—	34,686	1,949	36,635
Long-term debt to financing trusts[(b)]	389	—	—	423	423
SNF obligation	1,142	—	857	—	857

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 1,267	$ —	$ 1,267	$ —	$ 1,267
Long-term debt (including amounts due within one year)[a]	34,005	1,113	31,741	1,959	34,813
Long-term debt to financing trusts[b]	641	—	—	667	667
SNF obligation	1,024	—	732	—	732

Generation

	September 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 92	$ —	$ 92	$ —	$ 92
Long-term debt (including amounts due within one year)[a]	9,528	—	7,915	1,652	9,567
SNF obligation	1,142	—	857	—	857

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 699	$ —	$ 699	$ —	$ 699
Long-term debt (including amounts due within one year)[a]	9,241	—	7,482	1,670	9,152
SNF obligation	1,024	—	732	—	732

ComEd

	September 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[a]	$ 7,600	$ —	$ 8,353	$ —	$ 8,353
Long-term debt to financing trusts[b]	205	—	—	226	226

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[a]	$ 7,033	$ —	$ 7,585	$ —	$ 7,585

Long-term debt to financing trusts[b]	205	—	—	215	215

PECO

	September 30, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[a]	$ 2,902	$ —	$ 3,181	$ —	$ 3,181
Long-term debt to financing trusts	184	—	—	197	197

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 2,580	$ —	$ 2,794	$ —	$ 2,794
Long-term debt to financing trusts	184	—	—	192	192

BGE

	September 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 2,577	$ —	$ 2,817	$ —	$ 2,817

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 45	$ —	$ 45	$ —	$ 45
Long-term debt (including amounts due within one year)[(a)]	2,322	—	2,467	—	2,467
Long-term debt to financing trusts[(b)]	252	—	—	260	260

PHI (Successor)

	September 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 118	$ —	$ 118	$ —	$ 118
Long-term debt (including amounts due within one year)[(a)]	5,930	—	5,729	297	6,026

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 522	$ —	$ 522	$ —	$ 522
Long-term debt (including amounts due within one year)[(a)]	5,898	—	5,520	289	5,809

Pepco

	September 30, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 2,546	$ —	$ 3,087	$ 9	$ 3,096

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 23	$ —	$ 23	$ —	$ 23
Long-term debt (including amounts due within one year)[(a)]	2,349	—	2,788	8	2,796

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

DPL

	September 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 54	$ —	$ 54	$ —	$ 54
Long-term debt (including amounts due within one year)[(a)]	1,326	—	1,407	—	1,407

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 1,340	$ —	$ 1,383	$ —	$ 1,383

ACE

	September 30, 2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Short-term liabilities	$ 65	$ —	$ 65	$ —	$ 65
Long-term debt (including amounts due within one year)[(a)]	1,130	—	969	288	1,257

	December 31, 2016				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Long-term debt (including amounts due within one year)[(a)]	$ 1,155	$ —	$ 1,007	$ 280	$ 1,287

(a) Includes unamortized debt issuance costs which are not fair valued of $196 million, $51 million, $53 million, $17 million, $17 million, $6 million, $32 million, $11 million, and $5 million for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, respectively, as of September 30, 2017. Includes unamortized debt issuance costs which are not fair valued of $200 million, $64 million, $46 million, $15 million, $15 million, $2 million, $30 million, $11 million, and $6 million for Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, respectively, as of December 31, 2016.

(b) Includes unamortized debt issuance costs which are not fair valued of $1 million and $1 million for Exelon and ComEd, respectively, as of September 30, 2017. Includes unamortized debt issuance costs which are not fair valued of $7 million, $1 million, and $6 million for Exelon, ComEd and BGE, respectively, as of December 31, 2016.

Short-Term Liabilities. The short-term liabilities included in the tables above are comprised of dividends payable (included in other current liabilities) (Level 1) and short-term borrowings (Level 2). The Registrants' carrying amounts of the short-term liabilities are representative of fair value because of the short-term nature of these instruments.

Long-Term Debt. The fair value amounts of Exelon's taxable debt securities (Level 2) and private placement taxable debt securities (Level 3) are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves. In order to incorporate the credit risk of the Registrants into the discount rates, Exelon obtains pricing (i.e., U.S. Treasury rate plus credit spread) based on trades of existing Exelon debt securities as well as debt securities of other issuers in the utility sector with similar credit ratings in both the primary and secondary market, across the Registrants' debt maturity spectrum. The credit spreads of various tenors obtained from this information are added to the appropriate benchmark U.S. Treasury rates in order to determine the current market yields for the various tenors. The yields are then converted into discount rates of various tenors that are used for discounting the respective cash flows of the same tenor for each bond or note. Due to low trading volume of private placement debt, qualitative factors such as market conditions, low volume of investors and investor demand, this debt is classified as Level 3. The fair value of Exelon's equity units (Level 1) are valued based on publicly traded securities issued by Exelon.

The fair value of Generation's and Pepco's non-government-backed fixed rate nonrecourse debt (Level 3) is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles. Given the low trading volume in the nonrecourse debt market, the price quotes used to determine fair value will reflect certain qualitative factors, such as market conditions, investor demand, new developments that might significantly impact the project cash flows or off-taker credit, and other circumstances related to the project (e.g., political and regulatory environment). The fair value of Generation's government-backed fixed rate project financing debt (Level 3) is largely based on a discounted cash flow methodology that is similar to the taxable debt securities methodology described above. Due to the lack of market trading data on similar debt, the discount rates are derived based on the original loan interest rate spread to the applicable Treasury rate as well as a current market curve derived from government-backed securities. Variable rate financing debt resets on a monthly or quarterly basis and the carrying value approximates fair value (Level 2). When trading data is available on variable rate financing debt, the fair value is based on market and quoted prices for its own and other nonrecourse debt with similar risk profiles (Level 2). Generation, Pepco, DPL and ACE also have tax-exempt debt (Level 2). Due to low trading volume in this market, qualitative factors, such as market conditions, investor demand, and circumstances related to the issuer (e.g., conduit issuer political and regulatory environment), may be incorporated into the credit spreads that are used to obtain the fair value as described above. Variable rate tax-exempt debt (Level 2) resets on a regular basis and the carrying value approximates fair value.

SNF Obligation. The carrying amount of Generation's SNF obligation (Level 2) is derived from a contract with the DOE to provide for disposal of SNF from Generation's nuclear generating stations. When determining the fair value of the obligation, the future carrying amount of the SNF obligation is calculated by compounding the current book value of the SNF obligation at the 13-week Treasury rate. The compounded obligation amount is discounted back to present value using Generation's discount rate, which is calculated using the same methodology as described above for the taxable debt securities, and an estimated maturity date of 2030. The carrying amount also includes $112 million as of September 30, 2017 for the one-time fee obligation associated with closing of the FitzPatrick acquisition on March 31, 2017. The fair value was determined using a similar methodology, however the New York Power Authority's (NYPA) discount rate is used in place of Generation's given the contractual right to reimbursement from NYPA for the obligation; see Note 4 - Mergers, Acquisitions and Dispositions for additional information on Generation's acquisition of FitzPatrick.

Long-Term Debt to Financing Trusts. Exelon's long-term debt to financing trusts is valued based on publicly traded securities issued by the financing trusts. Due to low trading volume of these securities, qualitative factors, such as market conditions, investor demand, and circumstances related to each issue, this debt is classified as Level 3.

Recurring Fair Value Measurements

Exelon records the fair value of assets and liabilities in accordance with the hierarchy established by the authoritative guidance for fair value measurements. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the Registrants have the ability to liquidate as of the reporting date.
- Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 — unobservable inputs, such as internally developed pricing models or third-party valuations for the asset or liability due to little or no market activity for the asset or liability.

Transfers in and out of levels are recognized as of the end of the reporting period when the transfer occurred. Given derivatives categorized within Level 1 are valued using exchange-based quoted prices within observable periods, transfers between Level 2 and Level 1 were not material. Additionally, there were no material transfers between Level 1 and Level 2 during the nine months ended September 30, 2017 for cash equivalents, nuclear decommissioning trust fund investments, pledged assets for Zion Station decommissioning, Rabbi trust investments, and deferred compensation obligations. For derivative contracts, transfers into Level 2 from Level 3 generally occur when the contract tenor becomes more observable and due to changes in market liquidity or assumptions for certain commodity contracts.

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Generation and Exelon

In accordance with the applicable guidance on fair value measurement, certain investments that are measured at fair value using the NAV per share as a practical expedient are no longer classified within the fair value hierarchy and are included under "Not subject to leveling" in the table below.

The following tables present assets and liabilities measured and recorded at fair value on Exelon's and Generation's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of September 30, 2017 and December 31, 2016:

	Generation					**Exelon**				
As of September 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets										
Cash equivalents[(a)]	$ 80	$ —	$ —	$ —	$ 80	$ 944	$ —	$ —	$ —	$ 944
NDT fund investments										
Cash equivalents[(b)]	149	86	—	—	235	149	86	—	—	235
Equities	3,935	840	—	2,088	6,863	3,935	840	—	2,088	6,863
Fixed income										
Corporate debt	—	1,651	255	—	1,906	—	1,651	255	—	1,906
U.S. Treasury and agencies	1,951	28	—	—	1,979	1,951	28	—	—	1,979
Foreign governments	—	70	—	—	70	—	70	—	—	70
State and municipal debt	—	246	—	—	246	—	246	—	—	246
Other[(c)]	—	46	—	509	555	—	46	—	509	555
Fixed income subtotal	1,951	2,041	255	509	4,756	1,951	2,041	255	509	4,756
Middle market lending	—	—	416	87	503	—	—	416	87	503
Private equity	—	—	—	212	212	—	—	—	212	212
Real estate	—	—	—	449	449	—	—	—	449	449
NDT fund investments subtotal[(d)]	6,035	2,967	671	3,345	13,018	6,035	2,967	671	3,345	13,018
Pledged assets for Zion Station decommissioning										
Cash equivalents	15	—	—	—	15	15	—	—	—	15

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					Exelon				
As of September 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Middle market lending	—	—	17	25	42	—	—	17	25	42
Pledged assets for Zion Station decommissioning subtotal[e]	15	—	17	25	57	15	—	17	25	57
Rabbi trust investments										
Cash equivalents	5	—	—	—	5	77	—	—	—	77
Mutual funds	22	—	—	—	22	56	—	—	—	56
Fixed income	—	—	—	—	—	—	13	—	—	13
Life insurance contracts	—	21	—	—	21	—	68	21	—	89
Rabbi trust investments subtotal	27	21	—	—	48	133	81	21	—	235
Commodity derivative assets										
Economic hedges	487	2,076	1,628	—	4,191	487	2,076	1,628	—	4,191
Proprietary trading	2	41	42	—	85	2	41	42	—	85
Effect of netting and allocation of collateral[f] [g]	(501)	(1,828)	(837)	—	(3,166)	(501)	(1,828)	(837)	—	(3,166)
Commodity derivative assets subtotal	(12)	289	833	—	1,110	(12)	289	833	—	1,110
Interest rate and foreign currency derivative assets										
Derivatives designated as hedging instruments	—	—	—	—	—	—	10	—	—	10
Economic hedges	3	13	—	—	16	3	13	—	—	16
Effect of netting and allocation of collateral	(3)	(8)	—	—	(11)	(3)	(8)	—	—	(11)
Interest rate and foreign currency derivative assets subtotal	—	5	—	—	5	—	15	—	—	15
Other investments	—	—	43	—	43	—	—	43	—	43
Total assets	6,145	3,282	1,564	3,370	14,361	7,115	3,352	1,585	3,370	15,422
Liabilities										
Commodity derivative liabilities										
Economic hedges	(559)	(2,062)	(1,189)	—	(3,810)	(559)	(2,062)	(1,466)	—	(4,087)
Proprietary trading	(3)	(43)	(27)	—	(73)	(3)	(43)	(27)	—	(73)
Effect of netting and allocation of collateral[f] [g]	560	2,043	978	—	3,581	560	2,043	978	—	3,581
Commodity derivative liabilities subtotal	(2)	(62)	(238)	—	(302)	(2)	(62)	(515)	—	(579)
Interest rate and foreign currency derivative liabilities										
Economic hedges	(2)	(17)	—	—	(19)	(2)	(17)	—	—	(19)

Effect of netting and allocation of collateral	2	8	—	—	10	2	8	—	—	10
Interest rate and foreign currency derivative liabilities subtotal	—	(9)	—	—	(9)	—	(9)	—	—	(9)
Deferred compensation obligation	—	(35)	—	—	(35)	—	(137)	—	—	(137)
Total liabilities	(2)	(106)	(238)	—	(346)	(2)	(208)	(515)	—	(725)
Total net assets	$ 6,143	$ 3,176	$ 1,326	$ 3,370	$14,015	$ 7,113	$ 3,144	$ 1,070	$ 3,370	$14,697

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Assets										
Cash equivalents[a]	$ 39	$ —	$ —	$ —	$ 39	$ 373	$ —	$ —	$ —	$ 373
NDT fund investments										
Cash equivalents[b]	110	19	—	—	129	110	19	—	—	129
Equities	3,551	452	—	2,011	6,014	3,551	452	—	2,011	6,014
Fixed income										
Corporate debt	—	1,554	250	—	1,804	—	1,554	250	—	1,804
U.S. Treasury and agencies	1,291	29	—	—	1,320	1,291	29	—	—	1,320
Foreign governments	—	37	—	—	37	—	37	—	—	37
State and municipal debt	—	264	—	—	264	—	264	—	—	264
Other[c]	—	59	—	493	552	—	59	—	493	552
Fixed income subtotal	1,291	1,943	250	493	3,977	1,291	1,943	250	493	3,977
Middle market lending	—	—	427	71	498	—	—	427	71	498
Private equity	—	—	—	148	148	—	—	—	148	148
Real estate	—	—	—	326	326	—	—	—	326	326
NDT fund investments subtotal[d]	4,952	2,414	677	3,049	11,092	4,952	2,414	677	3,049	11,092
Pledged assets for Zion Station decommissioning										
Cash equivalents	11	—	—	—	11	11	—	—	—	11
Equities	—	2	—	—	2	—	2	—	—	2
Fixed Income - U.S. Treasury and agencies	16	1	—	—	17	16	1	—	—	17
Middle market lending	—	—	19	64	83	—	—	19	64	83
Pledged assets for Zion Station decommissioning subtotal[e]	27	3	19	64	113	27	3	19	64	113
Rabbi trust investments										
Cash equivalents	2	—	—	—	2	74	—	—	—	74
Mutual funds	19	—	—	—	19	50	—	—	—	50
Fixed income	—	—	—	—	—	—	16	—	—	16
Life insurance contracts	—	18	—	—	18	—	64	20	—	84
Rabbi trust investments subtotal	21	18	—	—	39	124	80	20	—	224
Commodity derivative assets										
Economic hedges	1,356	2,505	1,229	—	5,090	1,358	2,505	1,229	—	5,092
Proprietary trading	3	50	23	—	76	3	50	23	—	76

Effect of netting and allocation of collateral[f] [g]	(1,162)	(2,142)	(481)	—	(3,785)	(1,164)	(2,142)	(481)	—	(3,787)
Commodity derivative assets subtotal	197	413	771	—	1,381	197	413	771	—	1,381
Interest rate and foreign currency derivative assets										
Derivatives designated as hedging instruments	—	—	—	—	—	—	16	—	—	16
Economic hedges	—	28	—	—	28	—	28	—	—	28
Proprietary trading	3	2	—	—	5	3	2	—	—	5
Effect of netting and allocation of collateral	(2)	(19)	—	—	(21)	(2)	(19)	—	—	(21)
Interest rate and foreign currency derivative assets subtotal	1	11	—	—	12	1	27	—	—	28
Other investments	—	—	42	—	42	—	—	42	—	42
Total assets	5,237	2,859	1,509	3,113	12,718	5,674	2,937	1,529	3,113	13,253

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Generation					Exelon				
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Not subject to leveling**	**Total**
Liabilities										
Commodity derivative liabilities										
Economic hedges	(1,267)	(2,378)	(794)	—	(4,439)	(1,267)	(2,378)	(1,052)	—	(4,697)
Proprietary trading	(3)	(50)	(26)	—	(79)	(3)	(50)	(26)	—	(79)
Effect of netting and allocation of collateral[f] [g]	1,233	2,339	542	—	4,114	1,233	2,339	542	—	4,114
Commodity derivative liabilities subtotal	(37)	(89)	(278)	—	(404)	(37)	(89)	(536)	—	(662)
Interest rate and foreign currency derivative liabilities										
Derivatives designated as hedging instruments	—	(10)	—	—	(10)	—	(10)	—	—	(10)
Economic hedges	—	(21)	—	—	(21)	—	(21)	—	—	(21)
Proprietary trading	(4)	—	—	—	(4)	(4)	—	—	—	(4)
Effect of netting and allocation of collateral	4	19	—	—	23	4	19	—	—	23
Interest rate and foreign currency derivative liabilities subtotal	—	(12)	—	—	(12)	—	(12)	—	—	(12)
Deferred compensation obligation	—	(34)	—	—	(34)	—	(136)	—	—	(136)
Total liabilities	(37)	(135)	(278)	—	(450)	(37)	(237)	(536)	—	(810)
Total net assets	$ 5,200	$ 2,724	$ 1,231	$ 3,113	$12,268	$ 5,637	$ 2,700	$ 993	$ 3,113	$12,443

(a) Generation excludes cash of $282 million and $252 million at September 30, 2017 and December 31, 2016 and restricted cash of $184 million and $157 million at September 30, 2017 and December 31, 2016. Exelon excludes cash of $382 million and $360 million at September 30, 2017 and December 31, 2016 and restricted cash of $219 million and $180 million at September 30, 2017 and December 31, 2016 and includes long-term restricted cash of $22 million and $25 million at September 30, 2017 and December 31, 2016, which is reported in other deferred debits on the balance sheet.

(b) Includes $75 million and $29 million of cash received from outstanding repurchase agreements at September 30, 2017 and December 31, 2016, respectively, and is offset by an obligation to repay upon settlement of the agreement as discussed in (d) below.

(c) Includes derivative instruments of less than $1 million and $(2) million, which have a total notional amount of $885 million and $933 million at September 30, 2017 and December 31, 2016, respectively. The notional principal amounts for these instruments provide one measure of the transaction volume outstanding as of the fiscal years ended and do not represent the amount of the company's exposure to credit or market loss.

(d) Excludes net liabilities of $52 million and $31 million at September 30, 2017 and December 31, 2016, respectively. These items consist of receivables related to pending securities sales, interest and dividend receivables, repurchase agreement obligations, and payables related to pending securities purchases. The repurchase agreements are generally short-term in nature with durations generally of 30 days or less.

(e) Excludes net assets of less than $1 million at September 30, 2017 and December 31, 2016. These items consist of receivables related to pending securities sales, interest and dividend receivables, and payables related to pending securities purchases.

(f) Collateral posted/(received) from counterparties totaled $59 million, $215 million and $141 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of September 30, 2017. Collateral posted/(received) from counterparties, net of collateral paid to counterparties, totaled $71 million, $197 million and $61 million allocated to Level 1, Level 2 and Level 3 mark-to-market derivatives, respectively, as of December 31, 2016.

(g) Of the collateral posted/(received), $27 million represents variation margin on the exchanges as of September 30, 2017. Of the collateral posted/(received), $(158) million represents variation margin on the exchanges as of December 31, 2016.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

ComEd, PECO and BGE

The following tables present assets and liabilities measured and recorded at fair value on ComEd's, PECO's and BGE's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of September 30, 2017 and December 31, 2016:

	ComEd				PECO				BGE			
As of September 30, 2017	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Cash equivalents[(a)]	$ 273	$ —	$ —	$ 273	$ 314	$ —	$ —	$ 314	$ 18	$ —	$ —	$ 18
Rabbi trust investments												
Mutual funds	—	—	—	—	7	—	—	7	5	—	—	5
Life insurance contracts	—	—	—	—	—	10	—	10	—	—	—	—
Rabbi trust investments subtotal	—	—	—	—	7	10	—	17	5	—	—	5
Total assets	273	—	—	273	321	10	—	331	23	—	—	23
Liabilities												
Deferred compensation obligation	—	(7)	—	(7)	—	(10)	—	(10)	—	(4)	—	(4)
Mark-to-market derivative liabilities[(b)]	—	—	(277)	(277)	—	—	—	—	—	—	—	—
Total liabilities	—	(7)	(277)	(284)	—	(10)	—	(10)	—	(4)	—	(4)
Total net assets (liabilities)	$ 273	$ (7)	$ (277)	$ (11)	$ 321	$ —	$ —	$ 321	$ 23	$ (4)	$ —	$ 19

	ComEd				PECO				BGE			
As of December 31, 2016	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Cash equivalents[(a)]	$ 20	$ —	$ —	$ 20	$ 45	$ —	$ —	$ 45	$ 36	$ —	$ —	$ 36
Rabbi trust investments												
Mutual funds	—	—	—	—	7	—	—	7	4	—	—	4
Life insurance contracts	—	—	—	—	—	10	—	10	—	—	—	—
Rabbi trust investments subtotal	—	—	—	—	7	10	—	17	4	—	—	4
Total assets	20	—	—	20	52	10	—	62	40	—	—	40
Liabilities												
Deferred compensation obligation	—	(8)	—	(8)	—	(11)	—	(11)	—	(4)	—	(4)
Mark-to-market derivative liabilities[(b)]	—	—	(258)	(258)	—	—	—	—	—	—	—	—
Total liabilities	—	(8)	(258)	(266)	—	(11)	—	(11)	—	(4)	—	(4)

Total net assets (liabilities)	$ 20	$ (8)	$ (258)	$ (246)	$ 52	$ (1)	$ —	$ 51	$ 40	$ (4)	$ —	$ 36

(a) ComEd excludes cash of $36 million at September 30, 2017 and December 31, 2016 and restricted cash of $2 million at December 31, 2016. PECO excludes cash of $20 million and $22 million at September 30, 2017 and December 31, 2016. BGE excludes cash of $11 million and $13 million at September 30, 2017 and December 31, 2016 and restricted cash of $1 million at September 30, 2017 and includes long-term restricted cash of $2 million at December 31, 2016, which is reported in other deferred debits on the balance sheet.

(b) The Level 3 balance consists of the current and noncurrent liability of $20 million and $257 million, respectively, at September 30, 2017, and $19 million and $239 million, respectively, at December 31, 2016, related to floating-to-fixed energy swap contracts with unaffiliated suppliers.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

PHI, Pepco, DPL and ACE

The following tables present assets and liabilities measured and recorded at fair value on PHI's, Pepco's, DPL's and ACE's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of September 30, 2017 and December 31, 2016:

	Successor							
	As of September 30, 2017				**As of December 31, 2016**			
PHI	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents[(a)]	$ 184	$ —	$ —	$ 184	$ 217	$ —	$ —	$ 217
Mark-to-market derivative assets[(b)]	—	—	—	—	2	—	—	2
Effect of netting and allocation of collateral	—	—	—	—	(2)	—	—	(2)
Mark-to-market derivative assets subtotal	—	—	—	—	—	—	—	—
Rabbi trust investments								
Cash equivalents	72	—	—	72	73	—	—	73
Fixed income	—	13	—	13	—	16	—	16
Life insurance contracts	—	23	21	44	—	22	20	42
Rabbi trust investments subtotal	72	36	21	129	73	38	20	131
Total assets	256	36	21	313	290	38	20	348
Liabilities								
Deferred compensation obligation	—	(24)	—	(24)	—	(28)	—	(28)
Total liabilities	—	(24)	—	(24)	—	(28)	—	(28)
Total net assets	$ 256	$ 12	$ 21	$ 289	$ 290	$ 10	$ 20	$ 320

	Pepco				**DPL**				**ACE**			
As of September 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[(a)]	$ 144	$ —	$ —	$ 144	$ —	$ —	$ —	$ —	$ 31	$ —	$ —	$ 31
Rabbi trust investments												
Cash equivalents	43	—	—	43	—	—	—	—	—	—	—	—
Fixed income	—	13	—	13	—	—	—	—	—	—	—	—
Life insurance contracts	—	23	21	44	—	—	—	—	—	—	—	—
Rabbi trust investments subtotal	43	36	21	100	—	—	—	—	—	—	—	—
Total assets	187	36	21	244	—	—	—	—	31	—	—	31
Liabilities												
	—	(4)	—	(4)	—	(1)	—	(1)	—	—	—	—

Deferred compensation obligation												
Total liabilities	—	(4)	—	(4)	—	(1)	—	(1)	—	—	—	—
Total net assets (liabilities)	$ 187	$ 32	$ 21	$ 240	$ —	$ (1)	$ —	$ (1)	$ 31	$ —	$ —	$ 31

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Pepco				DPL				ACE			
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets												
Cash equivalents[a]	$ 33	$ —	$ —	$ 33	$ 42	$ —	$ —	$ 42	$ 130	$ —	$ —	$ 130
Mark-to-market derivative assets[b]	—	—	—	—	2	—	—	2	—	—	—	—
Effect of netting and allocation of collateral	—	—	—	—	(2)	—	—	(2)	—	—	—	—
Mark-to-market derivative assets subtotal	—	—	—	—	—	—	—	—	—	—	—	—
Rabbi trust investments												
Cash equivalents	43	—	—	43	—	—	—	—	—	—	—	—
Fixed income	—	16	—	16	—	—	—	—	—	—	—	—
Life insurance contracts	—	22	19	41	—	—	—	—	—	—	—	—
Rabbi trust investments subtotal	43	38	19	100	—	—	—	—	—	—	—	—
Total assets	76	38	19	133	42	—	—	42	130	—	—	130
Liabilities												
Deferred compensation obligation	—	(5)	—	(5)	—	(1)	—	(1)	—	—	—	—
Total liabilities	—	(5)	—	(5)	—	(1)	—	(1)	—	—	—	—
Total net assets (liabilities)	$ 76	$ 33	$ 19	$ 128	$ 42	$ (1)	$ —	$ 41	$ 130	$ —	$ —	$ 130

(a) PHI excludes cash of $18 million and $19 million at September 30, 2017 and December 31, 2016 and includes long-term restricted cash of $22 million and $23 million at September 30, 2017 and December 31, 2016 which is reported in other deferred debits on the balance sheet. Pepco excludes cash of $7 million and $9 million at September 30, 2017 and December 31, 2016. DPL excludes cash of $3 million and $4 million at September 30, 2017 and December 31, 2016. ACE excludes cash of $5 million and $3 million at September 30, 2017 and December 31, 2016 and includes long-term restricted cash of $22 million and $23 million at September 30, 2017 and December 31, 2016 which is reported in other deferred debits on the balance sheet.

(b) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the three and nine months ended September 30, 2017 and 2016:

							Successor		
	Generation					ComEd	PHI		Exelon
Three Months Ended September 30, 2017	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of June 30, 2017	$ 683	$ 21	$ 589	$ 41	$ 1,334	$ (256)	$ 20	$ —	$ 1,098
Total realized / unrealized gains (losses)									
Included in net income	—	—	(82) [a]	1	(81)	—	1	—	(80)
Included in payable for Zion Station decommissioning	—	(4)	—	—	(4)	—	—	—	(4)

Included in regulatory assets	—	—	—	—	—	(21) (b)	—	—	(21)
Change in collateral	—	—	11	—	11	—	—	—	11
Purchases, sales, issuances and settlements									
Purchases	19	—	57	1	77	—	—	—	77
Settlements	(31)	—	10 (c)	—	(21)	—	—	—	(21)
Transfers out of Level 3	—	—	10	—	10	—	—	—	10
Balance at September 30, 2017	$ 671	$ 17	$ 595	$ 43	$ 1,326	$ (277)	$ 21	$ —	$ 1,070
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of September 30, 2017	$ —	$ —	$ 24	$ 1	$ 25	$ —	$ 1	$ —	$ 26

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

							Successor		
	Generation					**ComEd**	**PHI**		**Exelon**
Nine Months Ended September 30, 2017	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of December 31, 2016	$ 677	$ 19	$ 493	$ 42	$ 1,231	$ (258)	$ 20	$ —	$ 993
Total realized / unrealized gains (losses)									
Included in net income	4	—	(110) (a)	2	(104)	—	2	—	(102)
Included in noncurrent payables to affiliates	13	—	—	—	13	—	—	(13)	—
Included in payable for Zion Station decommissioning	—	(3)	—	—	(3)	—	—	—	(3)
Included in regulatory assets	—	—	—	—	—	(19) (b)	—	13	(6)
Change in collateral	—	—	81	—	81	—	—	—	81
Purchases, sales, issuances and settlements									
Purchases	54	1	146	4	205	—	—	—	205
Sales	—	—	(15)	—	(15)	—	—	—	(15)
Issuances	—	—	—	—	—	—	(1)	—	(1)
Settlements	(77)	—	(8) (c)	—	(85)	—	—	—	(85)
Transfers into Level 3	—	—	(9)	—	(9)	—	—	—	(9)
Transfers out of Level 3	—	—	17	(5)	12	—	—	—	12
Balance as of September 30, 2017	$ 671	$ 17	$ 595	$ 43	$ 1,326	$ (277)	$ 21	$ —	$ 1,070
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of September 30, 2017	$ 2	$ —	$ 161	$ 2	$ 165	$ —	$ 2	$ —	$ 167

(a) Includes a reduction for the reclassification of $96 million and $279 million of realized gains due to the settlement of derivative contracts for the three and nine months ended September 30, 2017.

(b) Includes $24 million of decreases in fair value and an increase for realized losses due to settlements of $3 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the three months ended September 30, 2017. Includes $32 million of decreases in fair value and an increase for realized losses due to settlements of $13 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the nine months ended September 30, 2017.

(c) Exelon includes the settlement value for any open contracts that were net settled prior to their scheduled maturity within this line item.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

							Successor		
	Generation					**ComEd**	**PHI**		**Exelon**
Three Months Ended September 30, 2016	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of June 30, 2016	$ 715	$ 25	$ 609	$ 37	$ 1,386	$ (221)	$ 20	$ —	$ 1,185
Total realized / unrealized gains (losses)									
Included in net income	(4)	—	95 [a]	1	92	—	1	—	93
Included in noncurrent payables to affiliates	6	—	—	—	6	—	—	(6)	—
Included in payable for Zion Station decommissioning	—	(1)	—	—	(1)	—	—	—	(1)
Included in regulatory assets	—	—	—	—	—	(23) [b]	—	6	(17)
Change in collateral	—	—	31	—	31	—	—	—	31
Purchases, sales, issuances and settlements									
Purchases	4	—	207 [c]	3	214	—	—	—	214
Sales	—	(5)	(2)	—	(7)	—	—	—	(7)
Issuances	—	—	—	—	—	—	—	—	—
Settlements	(28)	—	—	—	(28)	—	—	—	(28)
Transfers into Level 3	—	—	(1)	1	—	—	—	—	—
Transfers out of Level 3	—	—	(4)	—	(4)	—	—	—	(4)
Balance as of September 30, 2016	$ 693	$ 19	$ 935	$ 42	$ 1,689	$ (244)	$ 21	$ —	$ 1,466
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of September 30, 2016	$ 3	$ —	$ 285	$ —	$ 288	$ —	$ —	$ —	$ 288

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

							Successor		
	Generation					**ComEd**	**PHI(d)**		**Exelon**
Nine Months Ended September 30, 2016	**NDT Fund Investments**	**Pledged Assets for Zion Station Decommissioning**	**Mark-to-Market Derivatives**	**Other Investments**	**Total Generation**	**Mark-to-Market Derivatives**	**Life Insurance Contracts**	**Eliminated in Consolidation**	**Total**
Balance as of December 31, 2015	$ 670	$ 22	$ 1,051	$ 33	$ 1,776	$ (247)	$ —	$ —	$ 1,529
Included due to merger	—	—	—	—	—	—	20	—	20
Total realized / unrealized gains (losses)									
Included in net income	2	—	(339) (a)	1	(336)	—	2	—	(334)
Included in noncurrent payables to affiliates	18	—	—	—	18	—	—	(18)	—
Included in payable for Zion Station decommissioning	—	1	—	—	1	—	—	—	1
Included in regulatory assets	—	—	—	—	—	3 (b)	—	18	21
Change in collateral	—	—	(51)	—	(51)	—	—	—	(51)
Purchases, sales, issuances and settlements									
Purchases	123	1	289 (c)	7	420	—	—	—	420
Sales	(1)	(5)	(5)	—	(11)	—	—	—	(11)
Issuances	—	—	—	—	—	—	(1)	—	(1)
Settlements	(119)	—	—	—	(119)	—	—	—	(119)
Transfers into Level 3	—	—	1	1	2	—	—	—	2
Transfers out of Level 3	—	—	(11)	—	(11)	—	—	—	(11)
Balance as of September 30, 2016	$ 693	$ 19	$ 935	$ 42	$ 1,689	$ (244)	$ 21	$ —	$ 1,466
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities as of September 30, 2016	$ 7	$ —	$ 240	$ —	$ 247	$ —	$ 1	$ —	$ 248

(a) Includes a reduction for the reclassification of $190 million and $579 million of realized gains due to the settlement of derivative contracts recorded in results of operations for the three and nine months ended September 30, 2016.

(b) Includes $25 million of decreases in fair value and an increase for realized losses due to settlements of $2 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers for the three months ended September 30, 2016. Includes $10 million of decreases in fair value and an increase for realized losses due to settlements of $13 million for the nine months ended September 30, 2016.

(c) Includes $168 million of fair value from contracts acquired as a result of portfolio acquisitions.

(d) Successor period represents activity from March 24, 2016 through September 30, 2016. See tables below for PHI's predecessor periods, as well as activity for Pepco for the three and nine months ended September 30, 2017 and 2016.

	Predecessor	
	January 1, 2016 to March 23, 2016	
PHI	**Preferred Stock**	**Life Insurance Contracts**
Beginning Balance	$ 18	$ 19
Total realized / unrealized gains (losses)		
Included in net income	(18)	1
Ending Balance	$ —	$ 20

The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ —	$ 1

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Life Insurance Contracts			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Pepco	2017	2016	2017	2016
Beginning balance	$ 20	$ 20	$ 20	$ 19
Total realized / unrealized gains (losses)				
Included in net income	1	1	2	3
Purchases, sales, issuances and settlements				
Issuances	—	—	(1)	(1)
Ending balance	$ 21	$ 21	$ 21	$ 21
The amount of total gains (losses) included in income attributed to the change in unrealized gains (losses) related to assets and liabilities for the period	$ 1	$ —	$ 2	$ 2

The following tables present the income statement classification of the total realized and unrealized gains (losses) included in income for Level 3 assets and liabilities measured at fair value on a recurring basis during the three and nine months ended September 30, 2017 and 2016:

				Successor			
	Generation			PHI	Exelon		
	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]	Other, net (a)	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]
Total gains (losses) included in net income for the three months ended September 30, 2017	$ (3)	$ (69)	$ 1	$ 1	$ (3)	$ (69)	$ 2
Total gains (losses) included in net income for the nine months ended September 30, 2017	34	(152)	6	2	34	(152)	8
Change in the unrealized gains (losses) relating to assets and liabilities held for the three months ended September 30, 2017	47	(23)	1	1	47	(23)	2
Change in the unrealized gains (losses) relating to assets and liabilities held for the nine months ended September 30, 2017	222	(61)	4	2	222	(61)	6

				Successor			
	Generation			PHI	Exelon		
	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]	Other, net[(a)]	Operating Revenues	Purchased Power and Fuel	Other, net[(a)]
Total gains (losses) included in net income for the three months ended September 30, 2016	$ 180	$ (85)	$ (4)	$ 1	$ 180	$ (85)	$ (3)
Total gains (losses) included in net income for the nine months ended September 30, 2016	(232)	(107)	2	2	(232)	(107)	4
Change in the unrealized gains (losses) relating to assets and liabilities held for	323	(38)	3	—	323	(38)	3

the three months ended September 30, 2016							
Change in the unrealized gains (losses) relating to assets and liabilities held for the nine months ended September 30, 2016	303	(63)	7	1	303	(63)	8

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	Predecessor				
	PHI	**Pepco**			
	January 1, 2016 to March 23, 2016	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
		2017	**2016**	**2017**	**2016**
	Other, net(a)	**Other, net(a)**			
Total gains (losses) included in net income	$ (17)	$ 1	$ 1	$ 2	$ 3
Change in the unrealized gains (losses) relating to assets and liabilities held	1	1	—	2	2

(a) Other, net activity consists of realized and unrealized gains (losses) included in income for the NDT funds held by Generation, accrued interest on a convertible promissory note at Generation and the life insurance contracts held by PHI and Pepco.

Valuation Techniques Used to Determine Fair Value

The following describes the valuation techniques used to measure the fair value of the assets and liabilities shown in the tables above.

Cash Equivalents (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). The Registrants' cash equivalents include investments with original maturities of three months or less when purchased. The cash equivalents shown in the fair value tables are comprised of investments in mutual and money market funds. The fair values of the shares of these funds are based on observable market prices and, therefore, have been categorized in Level 1 in the fair value hierarchy.

Preferred Stock Derivative (PHI). In connection with entering into the PHI Merger Agreement, PHI entered into a Subscription Agreement with Exelon dated April 29, 2014, pursuant to which PHI issued to Exelon shares of Preferred stock. The Preferred stock contained embedded features requiring separate accounting consideration to reflect the potential value to PHI that any issued and outstanding Preferred stock could be called and redeemed at a nominal par value upon a termination of the merger agreement under certain circumstances due to the failure to obtain required regulatory approvals. The embedded call and redemption features on the shares of the Preferred stock in the event of such a termination were separately accounted for as derivatives. These Preferred stock derivatives were valued quarterly using quantitative and qualitative factors, including management's assessment of the likelihood of a Regulatory Termination and therefore, were categorized in Level 3 in the fair value hierarchy. As a result of the PHI Merger, the PHI Preferred stock derivative was reduced to zero as of March 23, 2016. The write-off was charged to Other, net on the PHI Consolidated Statement of Operations and Comprehensive Income.

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning (Exelon and Generation). The trust fund investments have been established to satisfy Generation's and CENG's nuclear decommissioning obligations as required by the NRC. The NDT funds hold debt and equity securities directly and indirectly through commingled funds and mutual funds, which are included in Equities and Fixed Income. Generation's and CENG's NDT fund investments policies outline investment guidelines for the trusts and limit the trust funds' exposures to investments in highly illiquid markets and other alternative investments. Investments with maturities of three months or less when purchased, including certain short-term fixed income securities are considered cash equivalents and included in the recurring fair value measurements hierarchy as Level 1 or Level 2.

With respect to individually held equity securities, the trustees obtain prices from pricing services, whose prices are generally obtained from direct feeds from market exchanges, which Generation is able to independently corroborate. The fair values of equity securities held directly by the trust funds which are based on quoted prices in active markets are categorized in Level 1. Certain equity securities have been categorized as Level 2 because they are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities. Equity securities held individually are primarily traded on the New York Stock Exchange and NASDAQ-Global Select Market, which contain only actively traded securities due to the volume trading requirements imposed by these exchanges.

For fixed income securities, multiple prices from pricing services are obtained whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. With respect to individually held fixed income securities, the trustees monitor prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and the trustees determine that another price source is considered to be preferable. Generation has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, Generation selectively corroborates the fair values of securities by comparison to other market-based price sources. U.S. Treasury securities are categorized as Level 1 because they trade in a highly liquid and transparent market. The fair values of fixed income securities, excluding U.S. Treasury securities, are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The fair values of private placement fixed income securities, which are included in Corporate debt, are determined using a third party valuation that contains significant unobservable inputs and are categorized in Level 3.

Equity and fixed income commingled funds and mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives such as holding short-term fixed income securities or tracking the performance of certain equity indices by purchasing equity securities to replicate the capitalization and characteristics of the indices. The values of some of these funds are publicly quoted. For mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. For commingled funds and mutual funds, which are not publicly quoted, the funds are valued using NAV as a practical expedient for fair value, which is primarily derived from the quoted prices in active markets on the underlying securities, and are not classified within the fair value hierarchy. These investments typically can be redeemed monthly with 30 or less days of notice and without further restrictions.

Derivative instruments consisting primarily of futures and interest rate swaps to manage risk are recorded at fair value. Over the counter derivatives are valued daily based on quoted prices in active markets and trade in open markets, and have been categorized as Level 1. Derivative instruments other than over the counter derivatives are valued based on external price data of comparable securities and have been categorized as Level 2.

Middle market lending are investments in loans or managed funds which lend to private companies. Generation elected the fair value option for its investments in certain limited partnerships that invest in middle market lending managed funds. The fair value of these loans is determined using a combination of valuation models including cost models, market models and income models. Investments in loans are categorized as Level 3 because the fair value of these securities is based largely on inputs that are unobservable and utilize complex valuation models. Managed funds are valued using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. Investments in middle market lending typically cannot be redeemed until maturity of the term loan.

Private equity and real estate investments include those in limited partnerships that invest in operating companies and real estate holding companies that are not publicly traded on a stock exchange, such as, leveraged buyouts, growth capital, venture capital, distressed investments, investments in natural resources, and direct investments in pools of real estate properties. The fair value of private equity and real estate investments is determined using NAV or its equivalent as a practical expedient, and therefore, are not classified within the fair value hierarchy. These investments typically cannot be redeemed and are generally liquidated over a period of 8 to 10 years from the initial investment date. Private equity and real estate valuations are reported by the fund manager and are based on the valuation of the underlying investments, which include inputs such as cost, operating results, discounted future cash flows, market based comparable data, and independent appraisals from sources with professional qualifications. These valuation inputs are unobservable.

As of September 30, 2017, Generation has outstanding commitments to invest in fixed income, middle market lending, private equity and real estate investments of approximately $75 million, $285 million, $240 million, and $95 million, respectively. These commitments will be funded by Generation’s existing nuclear decommissioning trust funds.

Concentrations of Credit Risk. Generation evaluated its NDT portfolios for the existence of significant concentrations of credit risk as of September 30, 2017. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, and individual fund. As of September 30, 2017, there were no significant concentrations (generally defined as greater than 10 percent) of risk in Generation’s NDT assets.

See Note 13 — Nuclear Decommissioning for further discussion on the NDT fund investments.

Rabbi Trust Investments (Exelon, Generation, PECO, BGE, PHI, Pepco, DPL and ACE). The Rabbi trusts were established to hold assets related to deferred compensation plans existing for certain active and retired members of Exelon’s executive management and directors. The Rabbi trusts assets are included in investments in the Registrants’ Consolidated Balance Sheets and consist primarily of money market funds, mutual funds, fixed income securities and life insurance policies. The mutual funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with Exelon's overall investment strategy. Money market funds and mutual funds are publicly quoted and have been categorized as Level 1 given the clear observability of the prices. The fair values of fixed income securities are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2. The life insurance policies are valued using the cash surrender value of the policies, net of loans against those policies, which is provided by a third-party. Certain life insurance policies, which consist primarily of mutual funds that are priced based on observable market data, have been categorized as Level 2 because the life insurance policies can be liquidated at the reporting date for the value of the underlying assets. Life insurance policies that are valued using unobservable inputs have been categorized as Level 3.

Mark-to-Market Derivatives (Exelon, Generation, ComEd, PHI and DPL). Derivative contracts are traded in both exchange-based and non-exchange-based markets. Exchange-based derivatives that are valued using unadjusted quoted prices in active markets are categorized in Level 1 in the fair value hierarchy. Certain derivatives' pricing is verified using indicative price quotations available through brokers or over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask, mid-point prices and are obtained from sources that the Registrants believe provide the most liquid market for the commodity. The price quotations are reviewed and corroborated to ensure the prices are observable and representative of an orderly transaction between market participants. This includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration. The remainder of derivative contracts are valued using the Black model, an industry standard option valuation model. The Black model takes into account inputs such as contract terms, including maturity, and market parameters, including assumptions of the future prices of energy, interest rates, volatility, credit worthiness and credit spread. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs are generally observable. Such instruments are categorized in Level 2. The Registrants' derivatives are predominantly at liquid trading points. For derivatives that trade in less liquid markets with limited pricing information model inputs generally would include both observable and unobservable inputs. These valuations may include an estimated basis adjustment from an illiquid trading point to a liquid trading point for which active price quotations are available. Such instruments are categorized in Level 3.

Exelon may utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to achieve its targeted level of variable-rate debt as a percent of total debt. In addition, the Registrants may utilize interest rate derivatives to lock in interest rate levels in anticipation of future financings. These interest rate derivatives are typically designated as cash flow hedges. Exelon determines the current fair value by calculating the net present value of expected payments and receipts under the swap agreement, based on and discounted by the market's expectation of future interest rates. Additional inputs to the net present value calculation may include the contract terms, counterparty credit risk and other market parameters. As these inputs are based on observable data and valuations of similar instruments, the interest rate swaps are categorized in Level 2 in the fair value hierarchy. See Note 10 - Derivative Financial Instruments for further discussion on mark-to-market derivatives.

Deferred Compensation Obligations (Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE). The Registrants' deferred compensation plans allow participants to defer certain cash compensation into a notional investment account. The Registrants include such plans in other current and noncurrent liabilities in their Consolidated Balance Sheets. The value of the Registrants' deferred compensation obligations is based on the market value of the participants' notional investment accounts. The underlying notional investments are comprised primarily of equities, mutual funds, commingled funds, and fixed income securities which are based on directly and indirectly observable market prices. Since the deferred compensation obligations themselves are not exchanged in an active market, they are categorized as Level 2 in the fair value hierarchy.

The value of certain employment agreement obligations (which are included with the Deferred Compensation Obligation in the tables above) are based on a known and certain stream of payments to be made over time and are categorized as Level 2 within the fair value hierarchy.

Additional Information Regarding Level 3 Fair Value Measurements (Exelon, Generation, ComEd, PHI, Pepco, DPL and ACE)

Mark-to-Market Derivatives (Exelon, Generation and ComEd). For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon Board of Directors on the scope of the risk management activities. Forward price curves for the power market utilized by the front office to manage the portfolio, are reviewed and verified by the middle office, and used for financial reporting by the back office. The Registrants consider credit and nonperformance risk in the valuation of derivative contracts categorized in Level 2 and 3, including both historical and current market data in its assessment of credit and nonperformance risk by counterparty. Due to master netting agreements and collateral posting requirements, the impacts of credit and nonperformance risk were not material to the financial statements.

Disclosed below is detail surrounding the Registrants' significant Level 3 valuations. The calculated fair value includes marketability discounts for margining provisions and other attributes. Generation's Level 3 balance generally consists of forward sales and purchases of power and natural gas and certain transmission congestion contracts. Generation utilizes various inputs and factors including market data and assumptions that market participants would use in pricing assets or liabilities as well as assumptions about the risks inherent in the inputs to the valuation technique. The inputs and factors include forward commodity prices, commodity price volatility, contractual volumes, delivery location, interest rates, credit quality of counterparties and credit enhancements.

For commodity derivatives, the primary input to the valuation models is the forward commodity price curve for each instrument. Forward commodity price curves are derived by risk management for liquid locations and by the traders and portfolio managers for illiquid locations. All locations are reviewed and verified by risk management considering published exchange transaction prices, executed bilateral transactions, broker quotes, and other observable or public data sources. The relevant forward commodity curve used to value each of the derivatives depends on a number of factors, including commodity type, delivery location, and delivery period. Price volatility varies by commodity and location. When appropriate, Generation discounts future cash flows using risk free interest rates with adjustments to reflect the credit quality of each counterparty for assets and Generation's own credit quality for liabilities. The level of observability of a forward commodity price varies generally due to the delivery location and delivery period. Certain delivery locations including PJM West Hub (for power) and Henry Hub (for natural gas) are more liquid and prices are observable for up to three years in the future. The observability period of volatility is generally shorter than the underlying power curve used in option valuations. The forward curve for a less liquid location is estimated by using the forward curve from the liquid location and applying a spread to represent the cost to transport the commodity to the delivery location. This spread does not typically represent a majority of the instrument's market price. As a result, the change in fair value is closely tied to liquid market movements and not a change in the applied spread. The change in fair value associated with a change in the spread is generally immaterial. An average spread calculated across all Level 3 power and gas delivery locations is approximately $2.93 and $0.41 for power and natural gas, respectively. Many of the commodity derivatives are short-term in nature and thus a majority of the fair value may be based on observable inputs even though the contract as a whole must be classified as Level 3.

On December 17, 2010, ComEd entered into several 20-year floating to fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. See Note 10 —Derivative Financial Instruments for more information. The fair value of these swaps has been designated as a Level 3 valuation due to the long tenure of the positions and internal modeling assumptions. The modeling assumptions include using natural gas heat rates to project long term forward power curves adjusted by a renewable factor that incorporates time of day and seasonality factors to reflect accurate renewable energy pricing. In addition, marketability reserves are applied to the positions based on the tenor and supplier risk.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The table below discloses the significant inputs to the forward curve used to value these positions.

Type of trade	Fair Value at September 30, 2017	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives — Economic Hedges (Exelon and Generation)[(a)(b)]	$ 439	Discounted Cash Flow	Forward power price	$7 - $124
			Forward gas price	$1.84 - $9.43
		Option Model	Volatility percentage	9% - 114%
Mark-to-market derivatives — Proprietary trading (Exelon and Generation)[(a)(b)]	$ 15	Discounted Cash Flow	Forward power price	$12 - $69
Mark-to-market derivatives (Exelon and ComEd)	$ (277)	Discounted Cash Flow	Forward heat rate[(c)]	9x - 10x
			Marketability reserve	3% - 8%
			Renewable factor	88% - 125%

(a) The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.
(b) The fair values do not include cash collateral posted on level three positions of $141 million as of September 30, 2017.
(c) Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.

Type of trade	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range
Mark-to-market derivatives — Economic Hedges (Exelon and Generation)[(a)(b)]	$ 435	Discounted Cash Flow	Forward power price	$11 - $130
			Forward gas price	$1.72 - $9.20
		Option Model	Volatility percentage	8% - 173%
Mark-to-market derivatives — Proprietary trading (Exelon and Generation)[(a)(b)]	$ (3)	Discounted Cash Flow	Forward power price	$19 - $79
Mark-to-market derivatives (Exelon and ComEd)	$ (258)	Discounted Cash Flow	Forward heat rate[(c)]	8x - 9x
			Marketability reserve	3% - 8%
			Renewable factor	89% - 121%

(a) The valuation techniques, unobservable inputs and ranges are the same for the asset and liability positions.
(b) The fair values do not include cash collateral posted on level three positions of $61 million as of December 31, 2016.
(c) Quoted forward natural gas rates are utilized to project the forward power curve for the delivery of energy at specified future dates. The natural gas curve is extrapolated beyond its observable period to the end of the contract's delivery.

The inputs listed above would have a direct impact on the fair values of the above instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of Generation's commodity derivatives are forward commodity prices and for options is price volatility. Increases (decreases) in the forward commodity price in isolation would result in significantly higher (lower) fair values for long positions (contracts that give Generation the obligation or option to purchase a commodity), with offsetting impacts to short positions (contracts that give Generation the obligation or right to sell a commodity). Increases (decreases) in volatility would increase (decrease) the value for the holder of the option (writer of the option). Generally, a change in the estimate of forward commodity prices is unrelated to a change in the estimate of volatility of prices. An increase to the reserves listed above would decrease the fair value of the positions. An increase to the heat rate or renewable factors would increase the fair value accordingly. Generally, interrelationships exist between market prices of natural gas and power. As such, an increase in natural gas pricing would potentially have a similar impact on forward power markets.

Nuclear Decommissioning Trust Fund Investments and Pledged Assets for Zion Station Decommissioning (Exelon and Generation). For middle market lending and certain corporate debt securities investments, the fair value is determined using a combination of valuation models including cost models, market models and income models. The valuation estimates are based on discounting the forecasted cash flows, market-based comparable data, credit and liquidity factors, as well as other factors that may impact value. Significant judgment is required in the application of discounts or premiums applied for factors such as size, marketability, credit risk and relative performance.

Because Generation relies on third-party fund managers to develop the quantitative unobservable inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Generation. This includes information regarding the sensitivity of the fair values to changes in the unobservable inputs. Generation gains an understanding of the fund managers' inputs and assumptions used in preparing the valuations. Generation performed procedures to assess the reasonableness of the valuations.

Rabbi Trust Investments - Life insurance contracts (Exelon, PHI, Pepco, DPL and ACE). For life insurance policies categorized as Level 3, the fair value is determined based on the cash surrender value of the policy, which contains unobservable inputs and assumptions. Because Exelon relies on its third-party insurance provider to develop the inputs without adjustment for the valuations of its Level 3 investments, quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available to Exelon. Exelon gains an understanding of the types of inputs and assumptions used in preparing the valuations and performs procedures to assess the reasonableness of the valuations.

10. Derivative Financial Instruments (All Registrants)

The Registrants use derivative instruments to manage commodity price risk, foreign currency exchange risk and interest rate risk related to ongoing business operations.

Commodity Price Risk (All Registrants)

To the extent the amount of energy Generation produces differs from the amount of energy it has contracted to sell, Exelon and Generation are exposed to market fluctuations in the prices of electricity, fossil fuels, and other commodities. Each of the Registrants employ established policies and procedures to manage their risks associated with market fluctuations in commodity prices by entering into physical and financial derivative contracts, including swaps, futures, forwards, options, and short-term and long-term commitments to purchase and sell energy and energy-related products. The Registrants believe these instruments, which are classified as either economic hedges or non-derivatives, mitigate exposure to fluctuations in commodity prices.

Derivative accounting guidance requires that derivative instruments be recognized as either assets or liabilities at fair value, with changes in fair value of the derivative recognized in earnings each period. Other accounting treatments are available through special election and designation, provided they meet specific, restrictive criteria both at the time of designation and on an ongoing basis. These alternative permissible accounting treatments include normal purchase normal sale (NPNS), cash flow hedge, and fair value hedge. For Generation, all derivative economic hedges related to commodities are recorded at fair value through earnings for the consolidated company, referred to as economic hedges in the following tables. The Registrants have applied the NPNS scope exception to certain derivative contracts for the forward sale of generation, power procurement agreements, and natural gas supply agreements. Generation has also entered into bilateral long-term contractual obligations for sales of energy to load-serving entities, including electric utilities, municipalities, electric cooperatives, and retail load aggregators, as well as contractual obligations to deliver energy to market participants who primarily focus on the resale of energy products for delivery. These non-derivative contracts are accounted for primarily under the accrual method of accounting. Additionally, Generation is exposed to certain market risks through its proprietary trading activities. The proprietary trading activities are a complement to Generation’s energy marketing portfolio but represent a small portion of Generation’s overall energy marketing activities.

Economic Hedging. The Registrants are exposed to commodity price risk primarily relating to changes in the market price of electricity, fossil fuels, and other commodities associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather conditions, governmental regulatory and environmental policies, and other factors. Within Exelon, Generation has the most exposure to commodity price risk. As such, Generation uses a variety of derivative and non-derivative instruments to manage the commodity price risk of its electric generation facilities, including power and gas sales, fuel and energy purchases, natural gas transportation and pipeline capacity agreements, and other energy-related products marketed and purchased. In order to manage these risks, Generation may enter into fixed-price derivative or non-derivative contracts to hedge the variability in future cash flows from forecasted sales of energy and gas and purchases of fuel and energy. The objectives for entering into such hedges include fixing the price for a portion of anticipated future electricity sales at a level that provides an acceptable return on electric generation operations, fixing the price of a portion of anticipated fuel purchases for the operation of power plants, and fixing the price for a portion of anticipated energy purchases to supply load-serving customers. The portion of forecasted transactions hedged may vary based upon management's policies and hedging objectives, the market, weather conditions, operational and other factors. Generation is also exposed to differences between the locational settlement prices of certain economic hedges and the hedged generating units. This price difference is actively managed through other instruments which include derivative congestion products, whose changes in fair value are recognized in earnings each period, and auction revenue rights, which are accounted for on an accrual basis.

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation's owned and contracted generation positions that have not been hedged. Generation hedges commodity price risk on a ratable basis over three-year periods. As of September 30, 2017, the percentage of expected generation hedged is 98%-101%, 79%-82%, and 45%-48% for 2017, 2018, and 2019, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products, and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts including Generation's sales to ComEd, PECO, BGE, Pepco, DPL, and ACE to serve their retail load.

On December 17, 2010, ComEd entered into several 20-year floating-to-fixed energy swap contracts with unaffiliated suppliers for the procurement of long-term renewable energy and associated RECs. Delivery under the contracts began in June 2012. These contracts are designed to lock in a portion of the long-term commodity price risk resulting from the renewable energy resource procurement requirements in the Illinois Settlement Legislation. ComEd has not elected hedge accounting for these derivative financial instruments. ComEd records the fair value of the swap contracts on its balance sheet. Because ComEd receives full cost recovery for energy procurement and related costs from retail customers, the change in fair value each period is recorded by ComEd as a regulatory asset or liability. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO has contracts to procure electric supply that were executed through the competitive procurement process outlined in its PAPUC-approved DSP Programs, which are further discussed in Note 5 — Regulatory Matters. Based on Pennsylvania legislation and the DSP Programs permitting PECO to recover its electric supply procurement costs from retail customers with no mark-up, PECO's price risk related to electric supply procurement is limited. PECO locked in fixed prices for a significant portion of its commodity price risk through full requirements contracts. PECO has certain full requirements contracts that are considered derivatives and qualify for the NPNS scope exception under current derivative authoritative guidance.

PECO's natural gas procurement policy is designed to achieve a reasonable balance of long-term and short-term gas purchases under different pricing approaches in order to achieve system supply reliability at the least cost. PECO's reliability strategy is two-fold. First, PECO must assure that there is sufficient transportation capacity to satisfy delivery requirements. Second, PECO must ensure that a firm source of supply exists to utilize the capacity resources. All of PECO's natural gas supply and asset management agreements that are derivatives either qualify for the NPNS scope exception and have been designated as such, or have no mark-to-market balances because the derivatives are index priced. Additionally, in accordance with the 2016 PAPUC PGC settlement and to reduce the exposure of PECO and its customers to natural gas price volatility, PECO has continued its program to purchase natural gas for both winter and summer supplies using a layered approach of locking-in prices ahead of each season with long-term gas purchase agreements (those with primary terms of at least twelve months). Under the terms of the 2016 PGC settlement, PECO is required to lock in (i.e., economically hedge) the price of a minimum volume of its long-term gas commodity purchases. PECO's gas-hedging program is designed to cover about 20% of planned natural gas purchases in support of projected firm sales. The hedging program for natural gas procurement has no direct impact on PECO's financial position or results of operations as natural gas costs are fully recovered from customers under the PGC.

BGE has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC. The SOS rates charged recover BGE's wholesale power supply costs and include an administrative fee. BGE's price risk related to electric supply procurement is limited. BGE locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of BGE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other BGE full requirements contracts are not derivatives.

BGE provides natural gas to its customers under a MBR mechanism approved by the MDPSC. Under this mechanism, BGE's actual cost of gas is compared to a market index (a measure of the market price of gas in a given period). The difference between BGE's actual cost and the market index is shared equally between shareholders and customers. BGE must also secure fixed price contracts for at least 10%, but not more than 20%, of forecasted system supply requirements for flowing (i.e., non-storage) gas for the November through March period. These fixed-price contracts are not subject to sharing under the MBR mechanism. BGE also ensures it has sufficient pipeline transportation capacity to meet customer requirements. All of BGE's natural gas supply and asset management agreements qualify for the NPNS scope exception and result in physical delivery.

Pepco has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and DCPSC. The SOS rates charged recover Pepco's wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for residential and commercial rate classes. Pepco's price risk related to electric supply procurement is limited. Pepco locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of Pepco's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other Pepco full requirements contracts are not derivatives.

DPL has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and the DPSC. The SOS rates charged recover DPL's wholesale power supply costs. In Delaware, DPL is also entitled to recover a Reasonable Allowance for Retail Margin (RARM). The RARM includes a fixed annual margin of approximately $2.75 million, plus an incremental cost component and a cash working capital allowance. In Maryland, DPL charges an administrative fee intended to allow it to recover its administrative costs. DPL locks in fixed prices for all of its SOS requirements through full requirements contracts. DPL's price risk related to electric supply procurement is limited. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

DPL provides natural gas to its customers under an Annual GCR mechanism approved by the DPSC. Under this mechanism, DPL's Annual GCR Filing establishes a future GCR for firm bundled sales customers by using a forecast of demand and commodity costs. The actual costs are trued up versus the forecast on a monthly basis and any shortfall or excess is carried forward as a recovery balance in the next GCR filing. The demand portion of the GCR is based upon DPL's firm transportation and storage contracts. DPL has firm deliverability of swing and seasonal storage; a liquefied natural gas facility and firm transportation capacity to meet customer demand and provide a reserve margin. The commodity portion of the GCR includes a commission approved hedging program which is intended to reduce gas commodity price volatility while limiting the firm natural gas customers' exposure to adverse changes in the market price of natural gas. The hedge program requires that DPL hedge, on a non-discretionary basis, an amount equal to fifty percent (50%) of estimated purchase requirements for each month, including estimated monthly purchases for storage injections. The fifty percent (50%) hedge monthly target is achieved by hedging 1/12th of the 50% target each month beginning 12-months prior to the month in which the physical gas is to be purchased. Currently, DPL uses only exchange traded futures for its gas hedging program, which are considered derivatives, however, it retains the capability to employ other physical and financial hedges if needed. DPL has not elected hedge accounting for these derivative financial instruments. Because of the DPSC-approved fuel adjustment clause for DPL’s derivatives, the change in fair value of the derivatives each period, in addition to all premiums paid and other transaction costs incurred as part of the Gas Hedging Program, are fully recoverable and are recorded by DPL as regulatory assets or liabilities. DPL’s physical gas purchases are currently all daily, monthly or intra-month transactions. From time to time, DPL will enter into seasonal purchase or sale arrangements, however, there are none currently in the portfolio. Certain of DPL’s full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

ACE has contracts to procure BGS electric supply that are executed through a competitive procurement process approved by the NJBPU. The BGS rates charged recover ACE’s wholesale power supply costs. ACE does not make any profit or incur any loss on the supply component of the BGS it supplies to customers. ACE's price risk related to electric supply procurement is limited. ACE locks in fixed prices for all of its BGS requirements through full requirements contracts. Certain of ACE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other ACE full requirements contracts are not derivatives.

Proprietary Trading. Generation also enters into certain energy-related derivatives for proprietary trading purposes. Proprietary trading includes all contracts entered into with the intent of benefiting from shifts or changes in market prices as opposed to those entered into with the intent of hedging or managing risk. Proprietary trading activities are subject to limits established by Exelon's RMC. The proprietary trading activities, which included settled physical sales volumes of 2,601 GWhs and 6,763 GWhs for the three and nine months ended September 30, 2017, respectively, and 1,506 GWhs and 4,015 GWhs and for the three and nine months September 30, 2016, respectively, are a complement to Generation's energy marketing portfolio but represent a small portion of Generation's revenue from energy marketing activities. ComEd, PECO, BGE, PHI, Pepco, DPL and ACE do not enter into derivatives for proprietary trading purposes.

Interest Rate and Foreign Exchange Risk (All Registrants)

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels in anticipation of future financings, which are typically designated as cash flow hedges. These strategies are employed to manage interest rate risks. At September 30, 2017, Exelon had $800 million of notional amounts of fixed-to-floating hedges outstanding, and Exelon and Generation had $491 million of notional amounts of floating-to-fixed hedges outstanding. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges. Below is a summary of the interest rate and foreign exchange hedge balances as of September 30, 2017:

	Generation					Exelon Corporate	Exelon
Description	**Derivatives Designated as Hedging Instruments**	**Economic Hedges**	**Proprietary Trading(a)**	**Collateral and Netting(b)**	**Subtotal**	**Derivatives Designated as Hedging Instruments**	**Total**
Mark-to-market derivative assets (current assets)	$ —	$ 15	$ —	$ (10)	$ 5	$ —	$ 5
Mark-to-market derivative assets (noncurrent assets)	—	1	—	(1)	—	10	10
Total mark-to-market derivative assets	—	16	—	(11)	5	10	15
Mark-to-market derivative liabilities (current liabilities)	—	(17)	—	9	(8)	—	(8)
Mark-to-market derivative liabilities (noncurrent liabilities)	—	(2)	—	1	(1)	—	(1)
Total mark-to-market derivative liabilities	—	(19)	—	10	(9)	—	(9)
Total mark-to-market derivative net assets (liabilities)	$ —	$ (3)	$ —	$ (1)	$ (4)	$ 10	$ 6

(a) Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the proprietary trading activity in the above table is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize proprietary trading interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates.

(b) Exelon and Generation net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following table provides a summary of the interest rate and foreign exchange hedge balances recorded by the Registrants as of December 31, 2016:

	Generation					Exelon Corporate	Exelon
Description	**Derivatives Designated as Hedging Instruments**	**Economic Hedges**	**Proprietary Trading[a]**	**Collateral and Netting[b]**	**Subtotal**	**Derivatives Designated as Hedging Instruments**	**Total**
Mark-to-market derivative assets (current assets)	$ —	$ 17	$ 4	$ (13)	$ 8	$ —	$ 8
Mark-to-market derivative assets (noncurrent assets)	—	11	1	(8)	4	16	20
Total mark-to-market derivative assets	—	28	5	(21)	12	16	28
Mark-to-market derivative liabilities (current liabilities)	(7)	(13)	(2)	14	(8)	—	(8)
Mark-to-market derivative liabilities (noncurrent liabilities)	(3)	(8)	(2)	9	(4)	—	(4)
Total mark-to-market derivative liabilities	(10)	(21)	(4)	23	(12)	—	(12)
Total mark-to-market derivative net assets (liabilities)	$ (10)	$ 7	$ 1	$ 2	$ —	$ 16	$ 16

(a) Generation enters into interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions. The characterization of the interest rate derivative contracts between the proprietary trading activity in the above table is driven by the corresponding characterization of the underlying commodity position that gives rise to the interest rate exposure. Generation does not utilize proprietary trading interest rate derivatives with the objective of benefiting from shifts or changes in market interest rates.

(b) Exelon and Generation net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases, Exelon and Generation may have other offsetting counterparty exposures subject to a master netting or similar agreement, such as accrued interest, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

Fair Value Hedges. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Exelon includes the gain or loss on the hedged items and the offsetting loss or gain on the related interest rate swaps in interest expense as follows:

		Three Months Ended September 30,			
	Income Statement Location	**2017**	**2016**	**2017**	**2016**
		Gain (loss) on Swaps		**Gain (loss) on Borrowings**	
Exelon	Interest expense	$ (2)	$ (8)	$ 6	$ 14

		Nine Months Ended September 30,			
	Income Statement Location	**2017**	**2016**	**2017**	**2016**
		Gain (loss) on Swaps		**Gain (loss) on Borrowings**	
Exelon	Interest expense	$ (6)	$ 15	$ 17	$ (3)

At September 30, 2017, Exelon had total outstanding fixed-to-floating fair value hedges related to interest rate swaps of $800 million, with a derivative asset of $10 million. At December 31, 2016, Exelon had total outstanding fixed-to-floating fair value hedges related to interest rate swaps of $800 million, with a derivative asset of $16 million. During the three and nine months ended September 30, 2017 and 2016, the impact on the results of operations as a result of ineffectiveness from fair value hedges was a $4 million gain, a $11 million gain, a $6 million gain, and a $12 million gain, respectively.

Cash Flow Hedges. During the first and second quarter of 2016, Exelon entered into $600 million and $100 million of floating-to-fixed forward starting interest rate swaps, respectively, to manage a portion of the interest rate exposure associated with an anticipated debt issuance. The swaps were designated as cash flow hedges. Exelon terminated the swaps during the second quarter of 2016 upon issuance of the debt. Exelon recognized a loss of $3 million related to the swaps and $3 million of AOCI will be amortized into Other, net in Exelon’s Consolidated Statement of Operations and Comprehensive Income over the term of the debt. See Note 11 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for additional information.

During the first quarter of 2016, Exelon entered into a $100 million floating-to-fixed forward starting interest rate swaps to manage a portion of the interest rate exposure associated with an anticipated debt issuance. The swap was designated as a cash flow hedge. Exelon terminated the swap during the first quarter of 2016 upon issuance of the debt. Exelon did not recognize a gain or loss as a result of the termination of the swap and an immaterial amount of AOCI will be amortized into Other, net in Exelon's Consolidated Statement of Operations and Comprehensive Income over the term of the debt.

During the first quarter of 2014, EGR, a subsidiary of Generation, entered into floating-to-fixed interest rate swaps to manage a portion of its interest rate exposure in connection with its long-term borrowings. The swaps were de-designated as cash flow hedges and, during the second quarter of 2017, upon termination of the debt, Generation terminated the swaps. The total notional amount of the swaps was $164 million. No gain or loss was recognized as a result of the termination of the swaps. See Note 11 — Debt and Credit Agreements for additional information.

During the three and nine months ended September 30, 2017 and 2016, the impact on the results of operations as a result of ineffectiveness from cash flow hedges in continuing designated hedge relationships was immaterial.

Economic Hedges. During the third quarter of 2014, EGTP, a subsidiary of Generation, entered into a floating-to-fixed interest rate swap to manage a portion of its interest rate exposure in connection with the long-term borrowing. See Note 14 —Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. The swaps have a notional amount of $491 million as of September 30, 2017 and expire in 2019. The swap was designated as a cash flow hedge in the fourth quarter of 2014. During the first quarter of 2017, the swap was de-designated. At September 30, 2017, the subsidiary had a $6 million derivative liability related to the swap. During the three and nine months ended September 30, 2017, a gain of $2 million and a loss of $2 million related to the swap, respectively, were recorded to Interest expense.

During the third quarter of 2011, Sacramento PV Energy, a subsidiary of Generation entered into floating-to-fixed interest rate swaps to manage a portion of its interest rate exposure in connection with the long-term borrowings. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. During the first quarter of 2016, upon the termination of debt, Generation terminated the swaps. The total notional amount of the swaps was $25 million. No gain or loss was recognized as a result of the termination of the swaps.

During the third quarter of 2012, Constellation Solar Horizons, a subsidiary of Generation, entered into a floating-to-fixed interest rate swap to manage a portion of its interest rate exposure in connection with the long-term borrowings. See Note 14 — Debt and Credit Agreements of the Exelon 2016 Form 10-K for additional information regarding the financing. During the first quarter of 2016, upon the termination of debt, Generation terminated the swap. The total notional amount of the swap was $24 million. No gain or loss was recognized as a result of the termination of the swap.

At September 30, 2017, Generation had immaterial notional amounts of interest rate derivative contracts to economically hedge risk associated with the interest rate component of commodity positions and $111 million in notional amounts of foreign currency exchange rate swaps that are marked-to-market to manage the exposure associated with international purchases of commodities in currencies other than U.S. dollars.

Fair Value Measurement and Accounting for the Offsetting of Amounts Related to Certain Contracts (Exelon, Generation, ComEd, PECO, BGE, PHI and DPL)

Fair value accounting guidance and disclosures about offsetting assets and liabilities requires the fair value of derivative instruments to be shown in the Notes to the Consolidated Financial Statements on a gross basis, even when the derivative instruments are subject to legally enforceable master netting agreements and qualify for net presentation in the Consolidated Balance Sheet. A master netting agreement is an agreement between two counterparties that may have derivative and non-derivative contracts with each other providing for the net settlement of all referencing contracts via one payment stream, which takes place as the contracts deliver, when collateral is requested or in the event of default. Generation’s use of cash collateral is generally unrestricted, unless Generation is downgraded below investment grade (i.e., to BB+ or Ba1). In the table below, Generation’s energy related economic hedges and proprietary trading derivatives are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral, including margin on exchange positions, is aggregated in the collateral and netting column. As of September 30, 2017 and December 31, 2016, $3

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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million and $8 million of cash collateral held, respectively, was not offset against derivative positions because such collateral was not associated with any energy-related derivatives, were associated with accrual positions, or as of the balance sheet date there were no positions to offset. Excluded from the tables below are economic hedges that qualify for the NPNS scope exception and other non-derivative contracts that are accounted for under the accrual method of accounting.

ComEd's use of cash collateral is generally unrestricted unless ComEd is downgraded below investment grade (i.e., to BB+ or Ba1).

Cash collateral held by PECO and BGE must be deposited in a non affiliate major U.S. commercial bank or foreign bank with a U.S. branch office that meet certain qualifications.

In the table below, DPL's economic hedges are shown gross. The impact of the netting of fair value balances with the same counterparty that are subject to legally enforceable master netting agreements, as well as netting of cash collateral, including margin on exchange positions, is aggregated in the collateral and netting column.

The following table provides a summary of the derivative fair value balances recorded by the Registrants as of September 30, 2017:

									Successor	
	Generation				**ComEd**	**DPL**			**PHI**	**Exelon**
Derivatives	**Economic Hedges**	**Proprietary Trading**	**Collateral and Netting**[(a) (e)]	**Subtotal**[(b)]	**Economic Hedges**[(c)]	**Economic Hedges**[(d)]	**Collateral and Netting**[(a)]	**Subtotal**	**Subtotal**	**Total Derivatives**
Mark-to-market derivative assets (current assets)	$ 2,608	$ 55	$ (1,969)	$ 694	$ —	$ —	$ —	$ —	$ —	$ 694
Mark-to-market derivative assets (noncurrent assets)	1,583	30	(1,197)	416	—	—	—	—	—	416
Total mark-to-market derivative assets	4,191	85	(3,166)	1,110	—	—	—	—	—	1,110
Mark-to-market derivative liabilities (current liabilities)	(2,334)	(46)	2,230	(150)	(20)	—	—	—	—	(170)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,476)	(27)	1,351	(152)	(257)	—	—	—	—	(409)
Total mark-to-market derivative liabilities	(3,810)	(73)	3,581	(302)	(277)	—	—	—	—	(579)
Total mark-to-market derivative net assets (liabilities)	$ 381	$ 12	$ 415	$ 808	$ (277)	$ —	$ —	$ —	$ —	$ 531

(a)

Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

(b) Current and noncurrent assets are shown net of collateral of $123 million and $61 million, respectively, and current and noncurrent liabilities are shown net of collateral of $138 million and $93 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $415 million at September 30, 2017.

(c) Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

(d) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

(e) Of the collateral posted/(received), $27 million represents variation margin on the exchanges.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following table provides a summary of the derivative fair value balances recorded by the Registrants as of December 31, 2016:

	Generation				ComEd	DPL			*Successor* PHI	Exelon
Description	**Economic Hedges**	**Proprietary Trading**	**Collateral and Netting[a] [e]**	**Subtotal[b]**	**Economic Hedges[c]**	**Economic Hedges[d]**	**Collateral and Netting[a]**	**Subtotal**	**Subtotal**	**Total Derivatives**
Mark-to-market derivative assets (current assets)	$ 3,623	$ 55	$ (2,769)	$ 909	$ —	$ 2	$ (2)	$ —	$ —	$ 909
Mark-to-market derivative assets (noncurrent assets)	1,467	21	(1,016)	472	—	—	—	—	—	472
Total mark-to-market derivative assets	5,090	76	(3,785)	1,381	—	2	(2)	—	—	1,381
Mark-to-market derivative liabilities (current liabilities)	(3,165)	(54)	2,964	(255)	(19)	—	—	—	—	(274)
Mark-to-market derivative liabilities (noncurrent liabilities)	(1,274)	(25)	1,150	(149)	(239)	—	—	—	—	(388)
Total mark-to-market derivative liabilities	(4,439)	(79)	4,114	(404)	(258)	—	—	—	—	(662)
Total mark-to-market derivative net assets (liabilities)	$ 651	$ (3)	$ 329	$ 977	$ (258)	$ 2	$ (2)	$ —	$ —	$ 719

(a) Exelon, Generation, PHI and DPL net all available amounts allowed under the derivative accounting guidance on the balance sheet. These amounts include unrealized derivative transactions with the same counterparty under legally enforceable master netting agreements and cash collateral. In some cases Exelon and Generation may have other offsetting exposures, subject to a master netting or similar agreement, such as trade receivables and payables, transactions that do not qualify as derivatives, and letters of credit and other forms of non-cash collateral. These are not reflected in the table above.

(b) Current and noncurrent assets are shown net of collateral of $100 million and $72 million, respectively, and current and noncurrent liabilities are shown net of collateral of $95 million and $62 million, respectively. The total cash collateral posted, net of cash collateral received and offset against mark-to-market assets and liabilities was $329 million at December 31, 2016.

(c) Includes current and noncurrent liabilities relating to floating-to-fixed energy swap contracts with unaffiliated suppliers.

(d) Represents natural gas futures purchased by DPL as part of a natural gas hedging program approved by the DPSC.

(e) Of the collateral posted/(received), $(158) million represents variation margin on the exchanges.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Cash Flow Hedges (Exelon and Generation). The tables below provide the activity of OCI related to cash flow hedges for the nine months ended September 30, 2017 and 2016, containing information about the changes in the fair value of cash flow hedges and the reclassification from Accumulated OCI into results of operations. The amounts reclassified from OCI, when combined with the impacts of the hedged transactions, result in the ultimate recognition of net revenues or expenses at the contractual price.

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	**Exelon**
Three Months Ended September 30, 2017	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
Accumulated OCI derivative loss at June 30, 2017		$ (14)	$ (12)
Effective portion of changes in fair value		1	1
Reclassifications from AOCI to net income	Interest Expense	(1) [a]	(1) [a]
Accumulated OCI derivative loss at September 30, 2017		$ (14)	$ (12)

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	**Exelon**
Nine Months Ended September 30, 2017	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
Accumulated OCI derivative loss at December 31, 2016		$ (19)	$ (17)
Effective portion of changes in fair value		2	2
Reclassifications from AOCI to net income	Interest Expense	3 [b]	3 [b]
Accumulated OCI derivative loss at September 30, 2017		$ (14)	$ (12)

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	**Exelon**
Three Months Ended September 30, 2016	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
Accumulated OCI derivative loss at June 30, 2016		$ (25)	$ (26)
Effective portion of changes in fair value		1	3
Accumulated OCI derivative loss at September 30, 2016		$ (24)	$ (23)

		Total Cash Flow Hedge OCI Activity, Net of Income Tax	
		Generation	**Exelon**
Nine Months Ended September 30, 2016	**Income Statement Location**	**Total Cash Flow Hedges**	**Total Cash Flow Hedges**
Accumulated OCI derivative loss at December 31, 2015		$ (21)	$ (19)

Effective portion of changes in fair value		—	(1)
Reclassifications from AOCI to net income	Interest Expense	(3) [(c)]	(3) [(c)]
Accumulated OCI derivative loss at September 30, 2016		$ (24)	$ (23)

(a) Amount is net of related income tax benefit of $1 million for the three months ended September 30, 2017.
(b) Amount is net of related income tax expense of $2 million for the nine months ended September 30, 2017.
(c) Amount is net of related income tax expense of $2 million for the nine months ended September 30, 2016.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Economic Hedges (Exelon and Generation). These instruments represent hedges that economically mitigate exposure to fluctuations in commodity prices and include financial options, futures, swaps, physical forward sales and purchases, but for which the fair value or cash flow hedge elections were not made. Additionally, Generation enters into interest rate derivative contracts and foreign exchange currency swaps ("treasury") to manage the exposure related to the interest rate component of commodity positions and international purchases of commodities in currencies other than U.S. Dollars. For the three and nine months ended September 30, 2017 and 2016, the following net pre-tax mark-to-market gains (losses) of certain purchase and sale contracts were reported in Operating revenues or Purchased power and fuel expense, or Interest expense at Exelon and Generation in the Consolidated Statements of Operations and Comprehensive Income and are included in “Net fair value changes related to derivatives” in Exelon’s and Generation’s Consolidated Statements of Cash Flows. In the tables below, “Change in fair value” represents the change in fair value of the derivative contracts held at the reporting date. The “Reclassification to realized” generally represents the recognized change in fair value that was reclassified from unrealized to realized when the transaction to which the derivative relates occurs.

	Generation			Exelon
Three Months Ended September 30, 2017	**Operating Revenues**	**Purchased Power and Fuel**	**Total**	**Total**
Change in fair value of commodity positions	$ 132	$ 45	$ 177	$ 177
Reclassification to realized at settlement of commodity positions	(77)	(24)	(101)	(101)
Net commodity mark-to-market gains (losses)	55	21	76	76
Change in fair value of treasury positions	(3)	—	(3)	(3)
Reclassification to realized at settlement of treasury positions	—	—	—	—
Net treasury mark-to-market gains (losses)	(3)	—	(3)	(3)
Net mark-to-market gains (losses)	$ 52	$ 21	$ 73	$ 73

	Generation			Exelon
Nine Months Ended September 30, 2017	**Operating Revenues**	**Purchased Power and Fuel**	**Total**	**Total**
Change in fair value of commodity positions	$ 123	$ (153)	$ (30)	$ (30)
Reclassification to realized of commodity positions	(164)	39	(125)	(125)
Net commodity mark-to-market gains (losses)	(41)	(114)	(155)	(155)
Change in fair value of treasury positions	(4)	—	(4)	(4)
Reclassification to realized of treasury positions	(2)	—	(2)	(2)
Net treasury mark-to-market gains (losses)	(6)	—	(6)	(6)
Net mark-to-market gains (losses)	$ (47)	$ (114)	$ (161)	$ (161)

	Generation			Exelon
Three Months Ended September 30, 2016	**Operating Revenues**	**Purchased Power and Fuel**	**Total**	**Total**
Change in fair value of commodity positions	$ 280	$ (73)	$ 207	$ 207
Reclassification to realized at settlement of commodity positions	(92)	(26)	(118)	(118)

Net commodity mark-to-market gains (losses)	188	(99)	89	89
Change in fair value of treasury positions	1	—	1	1
Reclassification to realized at settlement of treasury positions	(2)	—	(2)	(2)
Net treasury mark-to-market gains (losses)	(1)	—	(1)	(1)
Net mark-to-market gains (losses)	$ 187	$ (99)	$ 88	$ 88

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	Generation			Exelon
Nine Months Ended September 30, 2016	**Operating Revenues**	**Purchased Power and Fuel**	**Total**	**Total**
Change in fair value of commodity positions	$ 127	$ 36	$ 163	$ 163
Reclassification to realized of commodity positions	(484)	217	(267)	(267)
Net commodity mark-to-market gains (losses)	(357)	253	(104)	(104)
Change in fair value of treasury positions	(3)	—	(3)	(3)
Reclassification to realized of treasury positions	(6)	—	(6)	(6)
Net treasury mark-to-market gains (losses)	(9)	—	(9)	(9)
Net mark-to-market gains (losses)	$ (366)	$ 253	$ (113)	$ (113)

Proprietary Trading Activities (Exelon and Generation). For the three and nine months ended September 30, 2017 and 2016, Exelon and Generation recognized the following net unrealized mark-to-market gains (losses), net realized mark-to-market gains (losses) and total net mark-to-market gains (losses) before income taxes relating to mark-to-market activity on commodity derivative instruments entered into for proprietary trading purposes and interest rate and foreign exchange derivative contracts to hedge risk associated with the interest rate and foreign exchange components of underlying commodity positions. Gains and losses associated with proprietary trading are reported as operating revenues in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income and are included in "Net fair value changes related to derivatives" in Exelon's and Generation's Consolidated Statements of Cash Flows. In the tables below, "Change in fair value" represents the change in fair value of the derivative contracts held at the reporting date. The "Reclassification to realized" represents the recognized change in fair value that was reclassified to realized due to settlement of the derivative during the period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Change in fair value of commodity positions	$ 11	$ 4	$ 17	$ 18
Reclassification to realized of commodity positions	(6)	(6)	(13)	(17)
Net commodity mark-to-market gains (losses)	5	(2)	4	1
Change in fair value of treasury positions	(1)	—	(2)	(2)
Reclassification to realized of treasury positions	1	1	1	2
Net treasury mark-to-market gains (losses)	—	1	(1)	—
Total net mark-to-market gains (losses)	$ 5	$ (1)	$ 3	$ 1

Credit Risk (All Registrants)

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that enter into derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. For energy-related derivative instruments, Generation enters into enabling agreements that allow for payment netting with its counterparties, which reduces Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. Typically, each enabling agreement is for a specific commodity and so, with respect to each individual counterparty, netting is limited to transactions involving that specific commodity product, except where master netting agreements exist with a counterparty that allow for cross product netting. In addition to payment netting language in the enabling agreement, Generation's credit department establishes credit limits, margining thresholds and collateral requirements for each counterparty, which are defined in the derivative contracts. Counterparty credit limits are based on an internal credit review process that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings by credit rating agencies and risk management capabilities. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with Generation as specified in each enabling agreement. Generation's credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

The following tables provide information on Generation's credit exposure for all derivative instruments, NPNS and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of September 30, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties. The figures in the tables below exclude credit risk exposure from individual retail counterparties, Nuclear fuel procurement contracts and exposure through RTOs, ISOs, NYMEX, ICE, NASDAQ, NGX and Nodal commodity exchanges. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of $18 million, $22 million, $22 million, $34 million, $12 million, and $7 million as of September 30, 2017, respectively.

Rating as of September 30, 2017	Total Exposure Before Credit Collateral	Credit Collateral[(a)]	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 828	$ 9	$ 819	1	$ 278
Non-investment grade	44	4	40		
No external ratings					
Internally rated — investment grade	316	—	316		
Internally rated — non-investment grade	100	18	82		
Total	$ 1,288	$ 31	$ 1,257	1	$ 278

Net Credit Exposure by Type of Counterparty	As of September 30, 2017
Financial institutions	$ 48
Investor-owned utilities, marketers, power producers	538
Energy cooperatives and municipalities	525
Other	146
Total	$ 1,257

(a) As of September 30, 2017, credit collateral held from counterparties where Generation had credit exposure included $19 million of cash and $12 million of letters of credit. The credit collateral does not include non-liquid collateral.

ComEd's power procurement contracts provide suppliers with a certain amount of unsecured credit. The credit position is based on daily, updated forward market prices compared to the benchmark prices. The benchmark prices are the forward prices of energy projected through the contract term and are set at the point of supplier bid submittals. If the forward market price of energy exceeds the benchmark price on a given day, the suppliers are required to post collateral for the secured credit portion after adjusting for any unpaid deliveries and unsecured credit allowed under the contract. The unsecured credit used by the suppliers represents ComEd's net credit exposure. As of September 30, 2017, ComEd's net credit exposure to suppliers was less than $1 million.

ComEd is permitted to recover its costs of procuring energy through the Illinois Settlement Legislation. ComEd's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO’s supplier master agreements that govern the terms of its electric supply procurement contracts, which define a supplier’s performance assurance requirements, allow a supplier to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier’s lowest credit rating from the major credit rating agencies and the supplier’s tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier’s unsecured credit limit. The unsecured credit used by the suppliers represents PECO’s net credit exposure. As of September 30, 2017, PECO had no material net credit exposure to suppliers.

PECO is permitted to recover its costs of procuring electric supply through its PAPUC-approved DSP Program. PECO’s counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 5 — Regulatory Matters for additional information.

PECO's natural gas procurement plan is reviewed and approved annually on a prospective basis by the PAPUC. PECO's counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the PGC, which allows PECO to adjust rates quarterly to reflect realized natural gas prices. PECO does not obtain collateral from suppliers under its natural gas supply and asset management agreements. As of September 30, 2017, PECO had no material credit exposure under its natural gas supply and asset management agreements with investment grade suppliers.

BGE is permitted to recover its costs of procuring energy through the MDPSC-approved procurement tariffs. BGE's counterparty credit risk is mitigated by its ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

BGE's full requirement wholesale electric power agreements that govern the terms of its electric supply procurement contracts, which define a supplier's performance assurance requirements, allow a supplier, or its guarantor, to meet its credit requirements with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth, subject to an unsecured credit cap. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents BGE's net credit exposure. The seller's credit exposure is calculated each business day. As of September 30, 2017, BGE had no net credit exposure to suppliers.

BGE's regulated gas business is exposed to market-price risk. This market-price risk is mitigated by BGE's recovery of its costs to procure natural gas through a gas cost adjustment clause approved by the MDPSC. BGE does make off-system sales after BGE has satisfied its customers' demands, which are not covered by the gas cost adjustment clause. At September 30, 2017, BGE had credit exposure of less than $1 million related to off-system sales which is mitigated by parental guarantees, letters of credit or right to offset clauses within other contracts with those third-party suppliers.

Pepco's, DPL's and ACE's power procurement contracts provide suppliers with a certain amount of unsecured credit. The amount of unsecured credit is determined based on the supplier's lowest credit rating from the major credit rating agencies and the supplier's tangible net worth. The credit position is based on the initial market price, which is the forward price of energy on the day a transaction is executed, compared to the current forward price curve for energy. To the extent that the forward price curve for energy exceeds the initial market price, the supplier is required to post collateral to the extent the credit exposure is greater than the supplier's unsecured credit limit. The unsecured credit used by the suppliers represents Pepco's, DPL's and ACE's net credit exposure. As of September 30, 2017, Pepco's, DPL's and ACE's net credit exposures to suppliers were immaterial.

Pepco is permitted to recover its costs of procuring energy through the MDPSC-approved and DCPSC-approved procurement tariffs. DPL is permitted to recover its costs of procuring energy through the MDPSC-approved and DPSC-approved procurement tariffs. ACE is permitted to recover its costs of procuring energy through the NJBPU-approved procurement tariffs. Pepco's, DPL's and ACE's counterparty credit risks are mitigated by their ability to recover realized energy costs through customer rates. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

DPL's natural gas procurement plan is reviewed and approved annually on a prospective basis by the DPSC. DPL's counterparty credit risk under its natural gas supply and asset management agreements is mitigated by its ability to recover its natural gas costs through the GCR, which allows DPL to adjust rates annually to reflect realized natural gas prices. To the extent that the fair value of the transactions in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. Exchange-traded contracts are required to be fully collateralized without regard to the credit rating of the holder. As of September 30, 2017, DPL had no credit exposure under its natural gas supply and asset management agreements with investment grade suppliers.

Collateral and Contingent-Related Features (All Registrants)

As part of the normal course of business, Generation routinely enters into physical or financially settled contracts for the purchase and sale of electric capacity, energy, fuels, emissions allowances and other energy-related products. Certain of Generation’s derivative instruments contain provisions that require Generation to post collateral. Generation also enters into commodity transactions on exchanges (i.e., NYMEX, ICE). The exchanges act as the counterparty to each trade. Transactions on the exchanges must adhere to comprehensive collateral and margining requirements. This collateral may be posted in the form of cash or credit support with thresholds contingent upon Generation's credit rating from each of the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. These credit-risk-related contingent features stipulate that if Generation were to be downgraded or lose its investment grade credit rating (based on its senior unsecured debt rating), it would be required to provide additional collateral. This incremental collateral requirement allows for the offsetting of derivative instruments that are assets with the same counterparty, where the contractual right of offset exists under applicable master netting agreements. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. In this case, Generation believes an amount of several months of future payments (i.e., capacity payments) rather than a calculation of fair value is the best estimate for the contingent collateral obligation, which has been factored into the disclosure below.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features in a liability position that are not fully collateralized (excluding transactions on the exchanges that are fully collateralized) is detailed in the table below:

Credit-Risk Related Contingent Feature	September 30, 2017	December 31, 2016
Gross fair value of derivative contracts containing this feature[(a)]	$ (916)	$ (960)
Offsetting fair value of in-the-money contracts under master netting arrangements[(b)]	638	627
Net fair value of derivative contracts containing this feature[(c)]	$ (278)	$ (333)

(a) Amount represents the gross fair value of out-of-the-money derivative contracts containing credit-risk related contingent features ignoring the effects of master netting agreements.

(b) Amount represents the offsetting fair value of in-the-money derivative contracts under legally enforceable master netting agreements with the same counterparty, which reduces the amount of any liability for which a Registrant could potentially be required to post collateral.

(c) Amount represents the net fair value of out-of-the-money derivative contracts containing credit-risk related contingent features after considering the mitigating effects of offsetting positions under master netting arrangements and reflects the actual net liability upon which any potential contingent collateral obligations would be based.

Generation had cash collateral posted of $460 million and letters of credit posted of $255 million and cash collateral held of $49 million and letters of credit held of $29 million as of September 30, 2017 for external counterparties with derivative positions. Generation had cash collateral posted of $347 million and letters of credit posted of $284 million and cash collateral held of $24 million and letters of credit held of $28 million at December 31, 2016 for external counterparties with derivative positions. In the event of a credit downgrade below investment grade (i.e., to BB+ by S&P or Ba1 by Moody's), Generation would have been required to post additional collateral of $1.8 billion and $1.9 billion as of September 30, 2017 and December 31, 2016, respectively. These amounts represent the potential additional collateral required after giving consideration to offsetting derivative and non-derivative positions under master netting agreements.

Generation's and Exelon's interest rate swaps contain provisions that, in the event of a merger, if Generation's debt ratings were to materially weaken, it would be in violation of these provisions, resulting in the ability of the counterparty to terminate the agreement prior to maturity. Collateralization would not be required under any circumstance. Termination of the agreement could result in a settlement payment by Exelon or the counterparty on any interest rate swap in a net liability position. The settlement amount would be equal to the fair value of the swap on the termination date. As of September 30, 2017, Generation's swaps were in a liability position with a fair value of $4 million and Exelon's swaps were in an asset position, with a fair value of $6 million.

See Note 26 — Segment Information of the Exelon 2016 Form 10-K for further information regarding the letters of credit supporting the cash collateral.

Generation entered into supply forward contracts with certain utilities, including PECO and BGE, with one-sided collateral postings only from Generation. If market prices fall below the benchmark price levels in these contracts, the utilities are not required to post collateral. However, when market prices rise above the benchmark price levels, counterparty suppliers, including Generation, are required to post collateral once certain unsecured credit limits are exceeded. Under the terms of ComEd’s standard block energy contracts, collateral postings are one-sided from suppliers, including Generation, should exposures between market prices and benchmark prices exceed established unsecured credit limits outlined in the contracts. As of September 30, 2017, ComEd held approximately $10 million in collateral from suppliers in association with energy procurement contracts. Under the terms of ComEd’s annual renewable energy contracts, collateral postings are required to cover a fixed value for RECs only. In addition, under the terms of ComEd’s long-term renewable energy contracts, collateral postings are required from suppliers for both RECs and energy. The REC portion is a fixed value and the energy portion is one-sided from suppliers should the forward market prices exceed contract prices. As of September 30, 2017, ComEd held approximately $21 million in the form of cash and letters of credit as margin for both the annual and long-term REC obligations. If ComEd lost its investment grade credit rating as of September 30, 2017, it would have been required to post approximately $3 million of collateral to its counterparties. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information.

PECO’s natural gas procurement contracts contain provisions that could require PECO to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon PECO’s credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of September 30, 2017, PECO was not required to post collateral for any of these agreements. If PECO lost its investment grade credit rating as of September 30, 2017, PECO could have been required to post approximately $20 million of collateral to its counterparties.

PECO’s supplier master agreements that govern the terms of its DSP Program contracts do not contain provisions that would require PECO to post collateral.

BGE’s full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require BGE to post collateral.

BGE’s natural gas procurement contracts contain provisions that could require BGE to post collateral. This collateral may be posted in the form of cash or credit support with thresholds contingent upon BGE’s credit rating from the major credit rating agencies. The collateral and credit support requirements vary by contract and by counterparty. As of September 30, 2017, BGE was not required to post collateral for any of these agreements. If BGE lost its investment grade credit rating as of September 30, 2017, BGE could have been required to post approximately $28 million of collateral to its counterparties.

Pepco’s full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require Pepco to post collateral.

DPL’s full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require DPL to post collateral.

DPL’s natural gas procurement contracts contain provisions that could require DPL to post collateral. To the extent that the fair value of the natural gas derivative transaction in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. The DPL obligations are standalone, without the guaranty of PHI. If DPL lost its investment grade credit rating as of September 30, 2017, DPL could have been required to post an additional amount of approximately $9 million of collateral to its natural gas counterparties.

ACE’s full requirements wholesale power agreements that govern the terms of its electric supply procurement contracts do not contain provisions that would require ACE to post collateral.

11. Debt and Credit Agreements (All Registrants)

Short-Term Borrowings

Exelon, Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the Exelon intercompany money pool. PHI meets its short-term liquidity requirement primarily through the issuance of short-term notes and the Exelon intercompany money pool.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Commercial Paper

The Registrants had the following amounts of commercial paper borrowings outstanding as of September 30, 2017 and December 31, 2016:

Commercial Paper Borrowings	September 30, 2017	December 31, 2016
Exelon	$ 118	$ 688
Generation	—	620
BGE	—	45
PHI	118	23
Pepco	—	23
DPL	54	—
ACE	65	—

Short-Term Loan Agreements

On January 13, 2016, PHI entered into a $500 million term loan agreement, which was amended on March 28, 2016. The net proceeds of the loan were used to repay PHI's outstanding commercial paper, and for general corporate purposes. Pursuant to the loan agreement, as amended, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1%, and all indebtedness thereunder is unsecured. On March 23, 2017, the aggregate principal amount of all loans, together with any accrued but unpaid interest due under the loan agreement was fully repaid and the loan terminated. On March 23, 2017, Exelon Corporate entered into a similar type term loan for $500 million which expires on March 22, 2018. Pursuant to the loan agreement, loans made thereunder bear interest at a variable rate equal to LIBOR plus 1% and all indebtedness thereunder is unsecured. The loan agreement is reflected in Exelon's Consolidated Balance Sheet within Short-Term borrowings.

Credit Agreements

On January 9, 2017, the credit agreement for Generation's $75 million bilateral credit facility was amended and restated to increase the facility size to $100 million and extend the maturity to January 2019. This facility will solely be used by Generation to issue letters of credit.

On May 26, 2016, Exelon Corporate, Generation, ComEd, PECO and BGE entered into amendments to each of their respective syndicated revolving credit facilities, which extended the maturity of each of the facilities to May 26, 2021. Exelon Corporate also increased the size of its facility from $500 million to $600 million. On May 26, 2016, PHI, Pepco, DPL and ACE entered into an amendment to their Second Amended and Restated Credit Agreement dated as of August 1, 2011, which (i) extended the maturity date of the facility to May 26, 2021, (ii) removed PHI as a borrower under the facility, (iii) decreased the size of the facility from $1.5 billion to $900 million and (iv) converted its financial covenant from a debt to capitalization leverage ratio to an interest coverage ratio. On May 26, 2017, each of the Registrants' respective syndicated revolving credit facilities had their maturity dates extended to May 26, 2022.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Long-Term Debt

Issuance of Long-Term Debt

During the nine months ended September 30, 2017, the following long-term debt was issued:

Company	Type	Interest Rate	Maturity	Amount	Use of Proceeds
Exelon	Junior Subordinated Notes[(a)]	3.50%	June 1, 2022	$ 1,150	Refinance Exelon's Junior Subordinated Notes issued in June 2014.
Generation	Albany Green Energy Project Financing	LIBOR + 1.25%	November 17, 2017	$ 14	Albany Green Energy biomass generation development.
Generation	Energy Efficiency Project Financing	3.90%	February 1, 2018	$ 17	Funding to install energy conservation measures for the Naval Station Great Lakes project.
Generation	Energy Efficiency Project Financing	2.61%	September 30, 2018	$ 10	Funding to install energy conservation measures for the Pensacola project.
Generation	Energy Efficiency Project Financing	3.53%	April 1, 2019	$ 8	Funding to install energy conservation measures for the State Department project.
Generation	Energy Efficiency Project Financing	3.72%	May 1, 2018	$ 4	Funding to install energy conservation measures for the Smithsonian Zoo project.
Generation	Senior Notes	2.95%	January 15, 2020	$ 250	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	Senior Notes	3.40%	March 15, 2022	$ 500	Repay outstanding commercial paper obligations and for general corporate purposes.
Generation	ExGen Texas Power Nonrecourse Debt	LIBOR + 4.75%	September 18, 2021	$ 6	Funding for general corporate purposes.
ComEd	First Mortgage Bonds, Series 122	2.95%	August 15, 2027	$ 350	Refinance maturing first mortgage bonds, to repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
ComEd	First Mortgage Bonds, Series 123	3.75%	August 15, 2047	$ 650	Refinance maturing first mortgage bonds, to repay a portion of ComEd's outstanding commercial paper obligations and for general corporate purposes.
PECO	First and Refunding Mortgage Bonds	3.70%	September 15, 2047	$ 325	General corporate purposes.
BGE	Notes	3.75%	August 15, 2047	$ 300	Redeem $250 million in principal amount of the 6.20% Deferrable Interest Subordinated Debentures due October 15, 2043 issued by BGE's affiliate BGE Capital Trust II, repay commercial paper obligations and for general corporate purposes.
Pepco	Energy Efficiency Project Financing	3.30%	December 15, 2017	$ 2	Funding to install energy conservation measures for the DOE Germantown project.
Pepco	First Mortgage Bonds	4.15%	March 15, 2043	$ 200	Funding to repay outstanding commercial paper and for general corporate purposes.

(a) See the Junior Subordinated Notes discussion below for further information.

EGTP Nonrecourse Debt

In September 2014, EGTP, an indirect subsidiary of Exelon and Generation, issued $675 million aggregate principal amount of a nonrecourse senior secured term loan. The net proceeds were distributed to Generation for general business purposes. The loan is scheduled to mature on September 18, 2021. The term loan bears interest at a variable rate equal to LIBOR plus 4.75%, subject to a 1% LIBOR floor with interest payable quarterly. As of September 30, 2017, $660 million was outstanding. As part of the agreement, a revolving credit facility was established for the amount of $20 million available through, and scheduled to mature on September 18, 2019. In addition to the financing, EGTP entered into various interest rate swaps with an initial notional amount of approximately $505 million at an interest rate of 2.34% to hedge a portion of the interest rate exposure in connection with this financing, as required by the debt covenants. See Note 10 — Derivative Financial Instruments for additional information regarding interest rate swaps.

On May 2, 2017, EGTP entered into a consent agreement with its lenders, which resulted in the outstanding debt balance being classified as Long-term debt due within one year on Exelon's and Generation's Consolidated Balance Sheets. See Note 4 - Mergers, Acquisitions and Dispositions and Note 6 - Impairment of Long-Lived Assets for more information.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes used debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon issued approximately 33 million shares of common stock from treasury stock and received $1.15 billion upon settlement of the forward equity purchase contract. When reissuing treasury stock Exelon uses the average price paid to repurchase shares to calculate a gain or loss on issuance and records gains or losses directly to retained earnings. A loss on reissuance of treasury shares of $1.05 billion was recorded to retained earnings as of September 30, 2017. See Note 17 - Earnings Per Share and Equity for further information on the issuance of common stock.

Albany Green Energy Project

During the third quarter of 2017, upon completion of AGE, Generation retired $228 million of its LIBOR + 1.25% outstanding debt balance, which included $6 million of accumulated interest. Pursuant to the financing terms entered into by AGE in the second quarter of 2015, the entire financing balance plus accumulated interest was due upon substantial completion, but no later than November 17, 2017. See Note 3 - Variable Interest Entities for more details regarding AGE.

BGE Redemption of Trust Preferred Securities

On August 28, 2017, BGE redeemed all of the outstanding shares of BGE Capital Trust II 6.20% Preferred Securities ("Securities"), pursuant to the optional redemption provisions of the Indenture under which the Securities were issued. The redemption price per share was $25.19, which equaled the stated value per share plus accrued and unpaid dividends to, but excluding, the redemption date. No dividends on the Securities redeemed were accrued on or after the redemption date, nor did any interest accrue on amounts held to pay the redemption price.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

12. Income Taxes (All Registrants)

The effective income tax rate from continuing operations varies from the U.S. Federal statutory rate principally due to the following:

	Three Months Ended September 30, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	2.2	5.6	6.6	(0.1)	5.3	5.1	2.2	5.3	5.6
Qualified nuclear decommissioning trust fund income	2.6	5.8	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(1.1)	(2.2)	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)	(0.4)
Plant basis differences	(2.6)	—	(0.3)	(14.6)	(0.8)	(4.9)	(6.7)	(1.9)	(3.4)
Production tax credits and other credits	(2.2)	(4.8)	—	—	—	—	—	—	—
Noncontrolling interests	0.5	1.0	—	—	—	—	—	—	—
FitzPatrick bargain purchase gain	(0.2)	(0.4)	—	—	—	—	—	—	—
Other	(0.1)	0.3	(0.2)	(0.2)	(0.2)	0.2	—	(0.2)	0.1
Effective income tax rate	34.1%	40.3%	40.9%	20.0%	39.2%	35.2%	30.4%	38.0%	36.9%

	Three Months Ended September 30, 2016								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	3.8	2.6	7.3	2.4	5.2	5.6	5.6	5.2	6.1
Qualified nuclear decommissioning trust fund income	4.0	7.8	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(0.9)	(1.6)	(0.6)	(0.1)	(0.2)	(0.1)	—	(0.2)	(0.1)
Plant basis differences	(3.0)	—	(1.9)	(6.7)	(0.5)	(5.0)	(6.7)	(1.3)	(4.6)
Production tax credits and other credits	(2.9)	(5.7)	(0.1)	—	—	—	—	—	—
Noncontrolling interest	0.2	0.5	—	—	—	—	—	—	—
Statute of limitations expiration	(0.1)	0.3	—	—	—	—	—	—	—

Penalties	4.3	—	27.2	—	—	—	—	—	—
Merger expenses	(0.6)	—	—	—	—	(5.7)	(2.3)	(8.6)	(2.9)
Other	(0.8)	(0.5)	0.1	0.1	(0.4)	(0.7)	(0.9)	0.1	(0.6)
Effective income tax rate	39.0%	38.4%	67.0%	30.7%	39.1%	29.1%	30.7%	30.2%	32.9%

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	Nine Months Ended September 30, 2017								
					Successor				
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:									
State income taxes, net of Federal income tax benefit	0.7	2.1	5.9	(0.1)	5.2	4.9	3.0	5.1	5.6
Qualified nuclear decommissioning trust fund income	4.0	14.0	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(0.9)	(2.7)	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)	(0.4)
Plant basis differences	(3.4)	—	(0.3)	(14.4)	(0.8)	(4.6)	(6.3)	(1.8)	(3.4)
Production tax credits and other credits	(1.8)	(6.2)	—	—	—	—	—	—	—
Noncontrolling interests	0.2	0.7	—	—	—	—	—	—	—
Merger expenses	(5.4)	(2.5)	—	—	—	(11.8)	(8.0)	(10.0)	(23.0)
FitzPatrick bargain purchase gain	(3.2)	(11.2)	—	—	—	—	—	—	—
Like-kind exchange[(a)]	(1.7)	—	1.7	—	—	—	—	—	—
Other	—	(0.4)	0.2	—	0.2	—	(0.3)	0.6	(0.3)
Effective income tax rate	23.5%	28.8%	42.3%	20.4%	39.5%	23.3%	23.3%	28.7%	13.5%

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Nine Months Ended September 30, 2016								*Successor* March 24, 2016 to September 30, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL[(b)]	ACE[(b)]	PHI[(b)]	PHI
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:										
State income taxes, net of Federal income tax benefit[(c)]	2.5	2.6	5.4	1.3	4.8	23.0	310.5	5.5	4.4	11.9
Qualified nuclear decommissioning trust fund income	4.8	8.8	—	—	—	—	—	—	—	—
Amortization of investment tax credit, including deferred taxes on basis difference	(1.3)	(2.0)	(0.3)	(0.1)	(0.2)	(0.2)	(17.9)	0.5	0.5	(0.9)
Plant basis differences	(4.5)	—	(0.6)	(8.8)	(3.3)	(29.0)	(98.6)	7.8	17.5	(13.5)
Production tax credits and other credits	(4.1)	(7.6)	—	—	—	—	—	—	—	—
Noncontrolling interest	0.5	0.9	—	—	—	—	—	—	—	—
Statute of limitations expiration	(0.5)	(1.7)	—	—	—	—	—	—	—	—
Penalties	2.3	—	5.6	—	—	—	—	—	—	—
Merger expenses	6.2	—	—	—	—	36.7	635.9	(35.4)	(49.8)	11.1
Other	(1.8)	(2.1)	—	(1.5)	—	(2.5)	35.1	0.4	1.4	3.6
Effective income tax rate	39.1%	33.9%	45.1%	25.9%	36.3%	63.0%	900.0%	13.8%	9.0%	47.2%

(a) See Like-Kind Exchange within the Other Income Tax Matters section below for further details.

(b) DPL and ACE recognized a loss before income taxes for the nine months ended September 30, 2016, and PHI recognized a loss before income taxes for the period of March 24, 2016, through September 30, 2016. As a result, positive percentages represent an income tax benefit for the periods presented.

(c) Includes a remeasurement of uncertain state income tax positions for Pepco and DPL.

Accounting for Uncertainty in Income Taxes

The Registrants have the following unrecognized tax benefits as of September 30, 2017 and December 31, 2016:

					Successor			
Exelon	Generation	ComEd	PECO	BGE	PHI	Pepco	DPL	ACE

September 30, 2017	$ 738	$ 468	$ 2	$ —	$ 120	$ 120	$ 59	$ 21	$ 8

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
December 31, 2016	$ 916	$ 490	$ (12)	$ —	$ 120	$ 172	$ 80	$ 37	$ 22

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL, and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, as of September 30, 2017, resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

Exelon reduced the liability related to the uncertain tax position associated with the like-kind exchange in the second quarter of 2017. Please see the Other Income Tax Matters section below for additional details related to the like-kind exchange adjustments made in the second quarter of 2017.

Reasonably possible the total amount of unrecognized tax benefits could significantly increase or decrease within 12 months after the reporting date

Like-Kind Exchange

As of September 30, 2017, Exelon and ComEd have approximately $39 million and $2 million, respectively, of unrecognized federal and state income tax benefits that could significantly decrease within the 12 months after the reporting date due to a final resolution of the like-kind exchange litigation described below. The recognition of these unrecognized tax benefits would decrease Exelon and ComEd's effective tax rate.

Settlement of Income Tax Positions

As of September 30, 2017, Exelon, Generation, BGE, PHI, Pepco, DPL, and ACE have approximately $676 million, $469 million, $120 million, $88 million, $59 million, $21 million, and $8 million of unrecognized federal and state tax benefits that could significantly decrease within the 12 months after the reporting date as a result of completing audits, potential settlements, and the outcomes of pending court cases. Of the above unrecognized tax benefits, Exelon and Generation have $462 million that, if recognized, would decrease the effective tax rate. The unrecognized tax benefits related to BGE, DPL, ACE, and a portion of Pepco, if recognized, may be included in future regulated base rates and that portion would have no impact to the effective tax rate.

Other Income Tax Matters

Like-Kind Exchange (Exelon and ComEd)

Exelon, through its ComEd subsidiary, took a position on its 1999 income tax return to defer approximately $1.2 billion of tax gain on the sale of ComEd's fossil generating assets. The gain was deferred by reinvesting a portion of the proceeds from the sale in qualifying replacement property under the like-kind exchange provisions of the IRC. The like-kind exchange replacement property purchased by Exelon included interests in three municipal-owned electric generation facilities which were properly leased back to the municipalities.

The IRS disagreed with this position and asserted that the entire gain of approximately $1.2 billion was taxable in 1999. Exelon was unable to reach agreement with the IRS regarding the dispute over the like-kind exchange position. The IRS asserted that the Exelon purchase and leaseback transaction was substantially similar to a leasing transaction, known as a SILO, which the IRS does not respect as the acquisition of an ownership interest in property. A SILO is a “listed transaction” that the IRS has identified as a potentially abusive tax shelter under guidance issued in 2005. Accordingly, the IRS asserted that the sale of the fossil plants followed by the purchase and leaseback of the municipal owned generation facilities did not qualify as a like-kind exchange and the gain on the sale is fully subject to tax. The IRS also asserted a penalty of approximately $90 million for a substantial understatement of tax.

On September 30, 2013, the IRS issued a notice of deficiency to Exelon for the like-kind exchange position. Exelon filed a petition on December 13, 2013 to initiate litigation in the United States Tax Court (Tax Court) and the trial took place in August of 2015. Exelon was not required to remit any part of the asserted tax or penalty in order to litigate the issue.

On September 19, 2016, the Tax Court rejected Exelon’s position in the case and ruled that Exelon was not entitled to defer gain on the transaction. In addition, contrary to Exelon’s evaluation that the penalty was unwarranted, the Tax Court ruled that Exelon is liable for the penalty and interest due on the asserted penalty. In June of 2017, the IRS finalized its computation of tax, penalties and interest owed by Exelon pursuant to the Tax Court’s decision. In September of 2017, Exelon appealed this decision to the U.S. Court of Appeals for the Seventh Circuit.

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In the first quarter of 2013, Exelon concluded that it was no longer more likely than not that the like-kind exchange position would be sustained and recorded charges to earnings representing the amount of interest expense (after-tax) and incremental state income tax expense that would be payable in the event Exelon is unsuccessful in litigation. Exelon agreed to hold ComEd harmless from any unfavorable impacts on ComEd's equity of the after-tax interest and penalty amounts.

Prior to the Tax Court's decision, however, Exelon did not believe it was likely a penalty would be assessed based on applicable case law and the facts of the transaction. As a result, no charge had been recorded for the penalty or for after-tax interest on the penalty. While it has strong arguments on appeal with respect to both the merits and the penalty, Exelon has determined that, pursuant to accounting standards, it is no longer more likely than not to avoid ultimate imposition of the penalty. As a result, in the third quarter of 2016, Exelon and ComEd recorded a charge to earnings of approximately $106 million and $86 million, respectively, of penalty and approximately $94 million and $64 million, respectively, of after-tax interest. Exelon and ComEd recorded the penalty and pre-tax interest due on the asserted penalty to Other, net and Interest expense, net, respectively, on their Consolidated Statements of Operations. Consistent with Exelon's agreement to continue to hold ComEd harmless from any unfavorable impact on its equity from the like-kind exchange position, ComEd recorded on its Consolidated Balance Sheets as of September 30, 2016, an additional $150 million receivable and non-cash equity contributions from Exelon.

As a result of the IRS's finalization of its computation in the second quarter 2017, Exelon recorded a benefit to earnings of approximately $26 million, consisting of an income tax benefit of $50 million and a reduction of penalties of $2 million, partially offset by after-tax interest expense of $26 million, while ComEd recorded a charge to earnings of approximately $23 million, consisting of income tax expense of $15 million and after-tax interest expense of $8 million.

In the second quarter of 2017, Exelon amended its agreement with ComEd to also hold ComEd harmless for the unfavorable impacts on its equity from the additional income tax amounts owed by ComEd as a result of the IRS's finalization of its computation related to the like-kind exchange position. Accordingly, in the second quarter of 2017, ComEd recorded an additional receivable and non-cash equity contribution from Exelon for the total $23 million. As of June 30, 2017, ComEd had a total receivable from Exelon pursuant to the hold harmless agreement of $369 million, which was included in Current Receivables from Affiliates on ComEd's Consolidated Balance Sheet.

Exelon expects to pay the tax, penalties and interest of approximately $1.3 billion related to the like-kind exchange, including $300 million attributable to ComEd, in the fourth quarter of 2017. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total estimated net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts on ComEd's equity from the like-kind exchange position. Following a final appellate decision, which is expected in 2018, Exelon expects to receive approximately $60 million related to final interest computations.

Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. Any remaining amounts due to the IRS will be paid by Exelon in the fourth quarter of 2017. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings. The deposit is reflected as a current asset and the related liabilities for the tax, penalty, and interest are included on Exelon's balance sheet as current obligations. In the third quarter of 2017, the $300 million payable discussed above attributable to ComEd, net of ComEd's receivable pursuant to the hold harmless agreement, was settled with Exelon. No recovery will be sought from ComEd customers for any interest, penalty, or additional income tax payment amounts resulting from the like-kind exchange tax position.

As previously disclosed, in the first quarter of 2014, Exelon entered into an agreement to terminate its investment in one of the three municipal-owned electric generation properties in exchange for a net early termination amount of $335 million. In the first quarter of 2016, Exelon terminated its interests in the remaining two municipal-owned electric generation properties in exchange for $360 million.

Long-Term Marginal State Income Tax Rate (Exelon, Generation, ComEd, PHI and Pepco)

Exelon, Generation and PHI periodically review events that may significantly impact how income is apportioned among the states and, therefore, the calculation of their respective deferred state income taxes. Events that may require Exelon, Generation and PHI to update their long-term state tax apportionment include significant changes in tax law and/or significant operational changes. Exelon's, PHI's and Pepco's long-term marginal state income tax rate were revised in the first quarter of 2017 as a result of a statutory rate change in Washington, D.C. As a result, Exelon, PHI and Pepco recorded a one-time decrease to Deferred income tax liability of $28 million, $8 million, and $8 million, respectively, on their Consolidated Balance Sheets. Because income taxes are recovered through customer rates, Exelon, PHI and Pepco recorded a corresponding regulatory liability of $8 million, in the Consolidated Balance Sheets. In addition, Exelon recorded a decrease to Income tax expense of $20 million, net of federal taxes, in the Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2017.

In the third quarter of 2017, Exelon reviewed and updated its marginal state income tax rates based on 2016 state apportionment rates. In addition, Exelon, Generation and ComEd recorded the impacts of Illinois' statutory rate change, which increased the total corporate income tax rate from 7.75% to 9.5% effective July 1, 2017. As a result of the rate changes, in the third quarter of 2017, Exelon, Generation and ComEd recorded a one-time increase to Deferred income taxes of approximately $250 million, $20 million and $270 million, respectively, on their Consolidated Balance Sheets. Because income taxes are recovered through customer rates, each of Exelon and ComEd recorded a corresponding regulatory asset of $272 million. Further, Exelon recorded a decrease to Income tax expense of approximately $20 million and Generation recorded an increase to Income tax expense of approximately $ 20 million (each net of federal taxes) in their Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2017. The Illinois statutory rate increase is not expected to have a material ongoing impact to Exelon's, Generation's or ComEd's future results of operations.

13. Nuclear Decommissioning (Exelon and Generation)

Nuclear Decommissioning Asset Retirement Obligations

Generation has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. To estimate its decommissioning obligation related to its nuclear generating stations for financial accounting and reporting purposes, Generation uses a probability-weighted, discounted cash flow model which, on a unit-by-unit basis, considers multiple outcome scenarios that include significant estimates and assumptions, and are based on decommissioning cost studies, cost escalation rates, probabilistic cash flow models and discount rates. Generation updates its ARO annually, unless circumstances warrant more frequent updates, based on its review of updated cost studies and its annual evaluation of cost escalation factors and probabilities assigned to various scenarios.

The following table provides a rollforward of the nuclear decommissioning ARO reflected on Exelon's and Generation's Consolidated Balance Sheets from December 31, 2016 to September 30, 2017:

Nuclear decommissioning ARO at December 31, 2016[a]	$	8,734
Acquisition of FitzPatrick		444
Accretion expense		342
Net decrease due to changes in, and timing of, estimated cash flows		(148)
Costs incurred to decommission retired plants		(6)
Nuclear decommissioning ARO at September 30, 2017[a]	$	9,366

(a) Includes $12 million and $10 million for the current portion of the ARO at September 30, 2017 and December 31, 2016, respectively, which is included in Other current liabilities on Exelon's and Generation's Consolidated Balance Sheets.

During the nine months ended September 30, 2017, Generation’s nuclear ARO increased by approximately $632 million. The increase primarily reflects the net impacts of the acquisition of FitzPatrick, the announced early retirement of TMI, year-to-date accretion of the ARO liability due to the passage of time and ARO updates completed during 2017 to reflect changes in amounts and timing of estimated decommissioning cash flows.

In the first quarter of 2017, a preliminary estimate of $417 million was recorded for the fair value of FitzPatrick’s ARO. In the third quarter of 2017, an adjustment was recorded to increase the FitzPatrick ARO valuation by $27 million to $444 million to reflect updated cost estimate inputs from a third-party engineering firm. For additional details on the acquisition of FitzPatrick, see Note 4 - Mergers, Acquisitions and Dispositions.

The net $148 million decrease due to changes in, and timing of, estimated cash flows was driven by multiple adjustments throughout the period, some with offsetting impacts. These adjustments include a $180 million decrease for refinements in estimated fleet wide labor costs expected to be incurred for certain on-site personnel during decommissioning as well as decreases resulting from updates to the cost studies of Clinton and Quad Cities. These decreases were partially offset by a $138 million increase in TMI's ARO liability associated with the May 30, 2017 announcement to early retire the unit on September 30, 2019. The increase in the ARO liability for TMI incorporates the early shutdown date, increases the probabilities of longer term decommissioning scenarios, and reflects an increase in the estimated costs to decommission based on an updated decommissioning cost study. Refer to Note 7 - Early Nuclear Plant Retirements for additional information regarding the announced early retirement of TMI.

Nuclear Decommissioning Trust Fund Investments

NDT funds have been established for each generation station unit to satisfy Generation's nuclear decommissioning obligations. Generally, NDT funds established for a particular unit may not be used to fund the decommissioning obligations of any other unit.

The NDT funds associated with Generation's nuclear units have been funded with amounts collected from the previous owners and their respective utility customers. PECO is authorized to collect funds, in revenues, for decommissioning the former PECO nuclear plants through regulated rates, and these collections are scheduled through the operating lives of the former PECO plants. The amounts collected from PECO customers are remitted to Generation and deposited into the NDT funds for the unit for which funds are collected. Every five years, PECO files a rate adjustment with the PAPUC that reflects PECO's calculations of the estimated amount needed to decommission each of the former PECO units based on updated fund balances and estimated decommissioning costs. The rate adjustment is used to determine the amount collectible from PECO customers. On March 31, 2017, PECO filed its Nuclear Decommissioning Cost Adjustment (NDCA) with the PAPUC proposing an annual recovery from customers of approximately $4 million. This amount reflects a decrease from the current approved annual collection of approximately $24 million primarily due to the removal of the collections for Limerick Units 1 and 2 as a result of the NRC approving the extension of the operating licenses for an additional 20 years. On August 8, 2017, the PAPUC approved the filing and the new rates will be effective January 1, 2018. See Note 16 - Asset Retirement Obligations of Exelon's 2016 Form 10-K, for information regarding the amount collected from PECO ratepayers for decommissioning costs.

Exelon and Generation had NDT fund investments totaling $12,966 million and $11,061 million at September 30, 2017 and December 31, 2016, respectively. The increase is primarily driven by improved market performance and the acquisition of FitzPatrick.

The following table provides unrealized gains on NDT funds for the three and nine months ended September 30, 2017 and 2016:

	Exelon and Generation		Exelon and Generation	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net unrealized gains on decommissioning trust funds — Regulatory Agreement Units[a]	$ 44	$ 155	$ 253	$ 286
Net unrealized gains on decommissioning trust funds — Non-Regulatory Agreement Units[b][c]	111	116	347	216

(a) Net unrealized gains related to Generation's NDT funds associated with Regulatory Agreement Units are included in Regulatory liabilities on Exelon's Consolidated Balance Sheets and Noncurrent payables to affiliates on Generation's Consolidated Balance Sheets.

(b) Excludes $4 million and $5 million of net unrealized losses related to the Zion Station pledged assets for the three months ended September 30, 2017 and 2016 respectively. Excludes $5 million and $2 million of net unrealized losses related to the Zion Station pledged assets for the nine months ended September 30, 2017 and 2016, respectively. Net unrealized losses related to Zion Station pledged assets are included in Other current liabilities and Payable for Zion Station decommissioning on Exelon's and Generation's Consolidated Balance Sheets in 2017 and 2016, respectively.

(c) Net unrealized gains related to Generation's NDT funds with Non-Regulatory Agreement Units are included within Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Interest and dividends on NDT fund investments are recognized when earned and are included in Other, net in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. Interest and dividends earned on the NDT fund investments for the Regulatory Agreement Units are eliminated within Other, net in Exelon's and Generation's Consolidated Statement of Operations and Comprehensive Income.

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Refer to Note 3 — Regulatory Matters and Note 27 — Related Party Transactions of the Exelon 2016 Form 10-K for information regarding regulatory liabilities at ComEd and PECO and intercompany balances between Generation, ComEd and PECO reflecting the obligation to refund to customers any decommissioning-related assets in excess of the related decommissioning obligations.

Zion Station Decommissioning

On September 1, 2010, Generation completed an Asset Sale Agreement (ASA) with EnergySolutions Inc. and its wholly owned subsidiaries, EnergySolutions, LLC (EnergySolutions) and ZionSolutions, under which ZionSolutions has assumed responsibility for completing certain decommissioning activities at Zion Station, which is located in Zion, Illinois and ceased operation in 1998. See Note 16 — Asset Retirement Obligations of the Exelon 2016 Form 10-K for information regarding the specific treatment of assets, including NDT funds, and decommissioning liabilities transferred in the transaction.

ZionSolutions is subject to certain restrictions on its ability to request reimbursements from the Zion Station NDT funds as defined within the ASA. Therefore, the transfer of the Zion Station assets did not qualify for asset sale accounting treatment and, as a result, the related NDT funds were reclassified to Pledged assets for Zion Station decommissioning within Generation’s and Exelon’s Consolidated Balance Sheets and will continue to be measured in the same manner as prior to the completion of the transaction. Additionally, the transferred ARO for decommissioning was replaced with a Payable for Zion Station decommissioning in Generation’s and Exelon’s Consolidated Balance Sheets. Changes in the value of the Zion Station NDT assets, net of applicable taxes, are recorded as a change in the payable to ZionSolutions. At no point will the payable to ZionSolutions exceed the project budget of the costs remaining to decommission Zion Station. Generation has retained its obligation for the SNF. Following ZionSolutions’ completion of its contractual obligations and transfer of the NRC license to Generation, Generation will store the SNF at Zion Station until it is transferred to the DOE for ultimate disposal, and will complete all remaining decommissioning activities associated with the SNF dry storage facility. Generation has a liability of approximately $112 million which is included within the nuclear decommissioning ARO at September 30, 2017. Generation also has retained NDT assets to fund its obligation to maintain the SNF at Zion Station until transfer to the DOE and to complete all remaining decommissioning activities for the SNF storage facility. Any shortage of funds necessary to maintain the SNF and decommission the SNF storage facility is ultimately required to be funded by Generation. Any Zion Station NDT funds remaining after the completion of all decommissioning activities will be returned to ComEd customers in accordance with the applicable orders. The following table provides the pledged assets and payables to ZionSolutions, and withdrawals by ZionSolutions at September 30, 2017 and December 31, 2016:

	Exelon and Generation	
	September 30, 2017	**December 31, 2016**
Carrying value of Zion Station pledged assets	$ 57	$ 113
Payable to Zion Solutions[(a)]	53	104
Current portion of payable to Zion Solutions[(b)]	53	90
Cumulative withdrawals by Zion Solutions to pay decommissioning costs [(c)]	928	878

(a) Excludes a liability recorded within Exelon’s and Generation’s Consolidated Balance Sheets related to the tax obligation on the unrealized activity associated with the Zion Station NDT funds. The NDT funds will be utilized to satisfy the tax obligations as gains and losses are realized.

(b) Included in Other current liabilities within Exelon’s and Generation’s Consolidated Balance Sheets.

(c) Includes project expenses to decommission Zion Station and estimated tax payments on Zion Station NDT fund earnings.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in specified minimum amounts to decommission the facility at the end of its life.

Generation filed its biennial decommissioning funding status report with the NRC on March 30, 2017 for all units except for Zion Station which is included in a separate report to the NRC submitted by ZionSolutions (see Zion Station Decommissioning above). The status report demonstrated adequate decommissioning funding assurance for all units except for Peach Bottom Unit 1. As a former PECO plant, financial assurance for decommissioning Peach Bottom Unit 1 is provided by the NDT fund in addition to collections from PECO ratepayers. As discussed under Nuclear Decommissioning Trust Fund Investments above, the amount collected from PECO ratepayers has been adjusted in the March 31, 2017 filing to the PAPUC which was approved on August 8, 2017 and will be effective January 1, 2018.

Generation will file its next decommissioning funding status report with the NRC by March 31, 2018 for shutdown reactors and reactors within five years of shutdown. This report will reflect the status of decommissioning funding assurance as of December 31, 2017 and will include the impact of the announced early retirement of TMI. A shortfall could necessitate that Exelon post a parental guarantee for Generation's share of the funding assurance. However, the amount of any required guarantee will ultimately depend on the decommissioning approach adopted at TMI, the associated level of costs, and the decommissioning trust fund investment performance going forward.

14. Retirement Benefits (All Registrants)

Exelon sponsors defined benefit pension plans and other postretirement benefit plans for essentially all employees. Effective March 23, 2016, Exelon became the sponsor of all of PHI's defined benefit pension and other postretirement benefit plans, and assumed PHI's benefit plan obligations and related assets. As a result, PHI's benefit plan net obligation and related regulatory assets were transferred to Exelon.

During the first quarter of 2017, in connection with the acquisition of Fitzpatrick, Exelon established a new qualified pension plan and a new OPEB plan, and recorded a provisional obligation for Fitzpatrick employees based on information available at the merger date of $38 million and $11 million, respectively. As permitted by business combinations accounting guidance, during the third quarter of 2017, Exelon updated those obligations based on a final valuation for Fitzpatrick employees as of the merger date of March 31, 2017. The updated obligations for pension and OPEB were $16 million and $17 million, respectively. Refer to Note 4 - Mergers, Acquisitions and Dispositions for additional discussion of the acquisition of FitzPatrick.

Defined Benefit Pension and Other Postretirement Benefits

During the first quarter of 2017, Exelon received an updated valuation of its pension and other postretirement benefit obligations to reflect actual census data as of January 1, 2017. This valuation resulted in an increase to the pension obligation of $92 million and an increase to the other postretirement benefit obligation of $57 million. Additionally, accumulated other comprehensive loss increased by approximately $59 million (after tax), regulatory assets increased by approximately $57 million and regulatory liabilities increased by approximately $4 million.

The majority of the 2017 pension benefit cost for Exelon-sponsored plans is calculated using an expected long-term rate of return on plan assets of 7.00% and a discount rate of 4.04%. The majority of the 2017 other postretirement benefit cost is calculated using an expected long-term rate of return on plan assets of 6.58% for funded plans and a discount rate of 4.04%.

A portion of the net periodic benefit cost for all plans is capitalized within the Consolidated Balance Sheets. The following tables present the components of Exelon's net periodic benefit costs, prior to capitalization, for the three and nine months ended September 30, 2017 and 2016 and PHI's net periodic benefit costs, prior to capitalization, for the predecessor period of January 1, 2016 to March 23, 2016.

	Pension Benefits Three Months Ended September 30,		Other Postretirement Benefits Three Months Ended September 30,	
	2017[(a)]	2016[(b)]	2017[(a)]	2016[(b)]
Components of net periodic benefit cost:				
Service cost	$ 98	$ 92	$ 26	$ 27

Interest cost	211	215	45	47
Expected return on assets	(300)	(293)	(39)	(42)
Amortization of:				
Prior service (benefit) cost	(1)	3	(47)	(48)
Actuarial loss	152	142	15	18
Settlement charges	1	—	—	—
Net periodic benefit cost	$ 161	$ 159	$ —	$ 2

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Pension Benefits Nine Months Ended September 30,		Other Postretirement Benefits Nine Months Ended September 30,	
	2017[(a)]	2016[(b)]	2017[(a)]	2016[(b)]
Components of net periodic benefit cost:				
Service cost	$ 290	$ 262	$ 79	$ 80
Interest cost	632	616	136	138
Expected return on assets	(898)	(847)	(121)	(121)
Amortization of:				
Prior service cost (benefit)	—	10	(140)	(138)
Actuarial loss	455	411	46	47
Settlement charges	3	—	—	—
Net periodic benefit cost	$ 482	$ 452	$ —	$ 6

(a) FitzPatrick net benefit costs are included for the period after acquisition.
(b) PHI net periodic benefit costs for the period prior to the merger are not included in the table above.

	Predecessor	
	PHI	
	Pension Benefits	Other Postretirement Benefits
	January 1, 2016 to March 23, 2016	January 1, 2016 to March 23, 2016
Components of net periodic benefit cost:		
Service cost	$ 12	$ 1
Interest cost	26	6
Expected return on assets	(30)	(5)
Amortization of:		
Prior service cost (benefit)	—	(3)
Actuarial loss	14	2
Net periodic benefit cost	$ 22	$ 1

The amounts below represent Exelon's, Generation's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's, ACE's, BSC's and PHISCO's allocated portion of the pension and postretirement benefit plan costs, which were included in Property, plant and equipment within the respective Consolidated Balance Sheets and Operating and maintenance expense within the Consolidated Statement of Operations and Comprehensive Income during the three and nine months ended September 30, 2017 and 2016 and PHI's for the predecessor and successor periods of January 1, 2016 to March 23, 2016 and March 24, 2016 to September 30, 2016, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Pension and Other Postretirement Benefit Costs	2017	2016	2017	2016
Exelon	$ 161	$ 161	$ 482	$ 458
Generation[(a)]	57	54	170	163
ComEd	44	41	131	124
PECO	7	8	21	25

BGE	16	17	48	51
BSC[(b)]	13	13	40	37
Pepco[(c)]	6	8	19	24
DPL[(c)]	3	4	10	13
ACE[(c)]	3	4	10	11
PHISCO[(c)(d)]	12	12	33	33

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Successor				*Predecessor*
Pension and Other Postretirement Benefit Costs	**Three Months Ended September 30, 2017**	**Three Months Ended September 30, 2016**	**Nine Months Ended September 30, 2017**	**March 24, 2016 to September 30, 2016**	**January 1, 2016 to March 23, 2016**
PHI	$ 24	$ 28	$ 72	$ 58	$ 23

(a) FitzPatrick net benefit costs are included for the period after acquisition.

(b) These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These amounts are not included in the Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE amounts above.

(c) Pepco's, DPL's, ACE's and PHISCO's pension and postretirement benefit costs for the nine months ended September 30, 2016 include $7 million, $4 million, $3 million and $9 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016.

(d) These amounts represent amounts billed to Pepco, DPL, and ACE through intercompany allocations. These amounts are not included in Pepco, DPL, or ACE amounts above.

Defined Contribution Savings Plans

The Registrants participate in various 401(k) defined contribution savings plans that are sponsored by Exelon. The plans are qualified under applicable sections of the IRC and allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. All Registrants match a percentage of the employee contributions up to certain limits. The following table presents the matching contributions to the savings plans during the three and nine months ended September 30, 2017 and 2016 and PHI's for the predecessor and successor periods of January 1, 2016 to March 23, 2016 and March 24, 2016 to September 30, 2016, respectively.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
Savings Plan Matching Contributions	**2017**	**2016**	**2017**	**2016**
Exelon	$ 34	$ 51	$ 97	$ 107
Generation	14	31	42	56
ComEd	9	10	24	23
PECO	3	3	7	7
BGE	3	2	7	5
BSC[a]	2	2	7	9
Pepco[b]	1	—	3	2
DPL[b]	1	1	2	2
ACE	—	—	1	1
PHISCO[b][c]	1	2	4	5

	Successor				*Predecessor*
Savings Plan Matching Contributions	**Three Months Ended September 30, 2017**	**Three Months Ended September 30, 2016**	**Nine Months Ended September 30, 2017**	**March 24, 2016 to September 30, 2016**	**January 1, 2016 to March 23, 2016**
PHI	$ 3	$ 3	$ 10	$ 7	$ 3

(a) These amounts primarily represent amounts billed to Exelon's subsidiaries through intercompany allocations. These amounts are not included in the Generation, ComEd, PECO, BGE, PHI, Pepco, DPL or ACE amounts above.

(b) Pepco's, DPL's and PHISCO's matching contributions for the nine months ended September 30, 2016 include $1 million, $1 million, and $1 million, respectively, of costs incurred prior to the closing of Exelon's merger with PHI on March 23, 2016, which is not included in Exelon's matching contributions for the nine months ended September 30, 2016.

(c) These amounts represent amounts billed to Pepco, DPL, and ACE through intercompany allocations. These amounts are not included in Pepco, DPL, or ACE amounts above.

15. Severance (All Registrants)

The Registrants have an ongoing severance plan under which, in general, the longer an employee worked prior to termination the greater the amount of severance benefits. The Registrants record a liability and expense or regulatory asset for severance once terminations are probable of occurrence and the related severance benefits can be reasonably estimated. For severance benefits that are incremental to its ongoing severance plan (“one-time termination benefits”), the Registrants measure the obligation and record the expense at fair value at the communication date if there are no future service requirements, or, if future service is required to receive the termination benefit, ratably over the required service period.

Ongoing Severance Plans

The Registrants provide severance and health and welfare benefits under Exelon's ongoing severance benefit plans to terminated employees in the normal course of business. These benefits are accrued for when the benefits are considered probable and can be reasonably estimated.

For the three and nine months ended September 30, 2017 and 2016, Exelon, Generation, ComEd, PHI, Pepco, DPL, and ACE recorded the following severance costs associated with these ongoing severance benefits within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income.

				Successor			
	Exelon	**Generation**[(a)]	**ComEd**[(a)]	**PHI**	**Pepco**[(a)]	**DPL**[(a)]	**ACE**[(a)]
Three Months Ended							
September 30, 2017	$ 1	$ —	$ —	$ 1	$ 1	$ —	$ —
September 30, 2016	8	7	—	1	—	—	—
Nine Months Ended							
September 30, 2017	$ 10	$ 4	$ 2	$ 4	$ 2	$ 1	$ 1
September 30, 2016	12	10	1	1	—	—	—

(a) The amounts above for Generation include $2 million for amounts billed by BSC through intercompany allocations for the nine months ended September 30, 2017 and $1 million and $2 million for the three and nine months ended September 30, 2016, respectively. The amounts above for ComEd include $1 million for amounts billed by BSC through intercompany allocations for the three and nine months ended September 30, 2016. The amounts above for PHI include less than $1 million and $1 million billed by BSC through intercompany allocations for the three and nine months ended September 30, 2017, respectively, and $1 million for the three and nine months ended September 30, 2016. Amounts billed by PHISCO to Pepco were $1 million and $2 million for the three and nine months ended September 30, 2017, respectively. Amounts billed by PHISCO to DPL and ACE were $1 million, each, for the nine months ended September 30, 2017. Pepco, DPL and ACE did not have any ongoing severance plans for the three and nine months ended September 30, 2016.

Cost Management Program-Related Severance

In August 2015, Exelon announced a cost management program focused on cost savings at BSC and Generation, including the elimination of approximately 500 positions. These actions are in response to the continuing economic challenges confronting all parts of Exelon's business and industry, necessitating continued focus on cost management through enhanced efficiency and productivity. Exelon expects that approximately 250 corporate support positions in BSC and approximately 250 positions located throughout Generation will be eliminated.

For the three and nine months ended September 30, 2017 and 2016, the Registrants recorded the following severance costs related to the cost management program within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income, pursuant to the authoritative guidance for ongoing severance plans:

	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**
Three Months Ended					

September 30, 2017[a]	$ 7	$ 7	$ —	$ —	$ —
September 30, 2016[b]	1	1	—	—	—
Nine Months Ended					
September 30, 2017[a]	$ 6	$ 6	$ —	$ —	$ —
September 30, 2016[b]	18	13	3	1	1

(a) Amounts billed by BSC through intercompany allocations for the nine months ended September 30, 2017 were immaterial.

(b) The amounts above for Generation, ComEd, PECO and BGE include $7 million, $3 million, $1 million and $1 million, respectively, for amounts billed by BSC through intercompany allocations for the nine months ended September 30, 2016.

Early Plant Retirement-Related Severance (Exelon and Generation)

As a result of the Three Mile Island plant retirement decision, Exelon and Generation will incur certain employee-related costs, including severance benefit costs. Severance costs will be provided to management employees that are eligible under Exelon's severance policy, to the extent that those employees are not redeployed to other locations. In June 2017, Exelon and Generation recognized severance costs of $17 million related to expected management employee severances resulting from the plant retirements within Operating and maintenance expense in their Consolidated Statements of Operation and Comprehensive Income. Approximately half of the employees at this location fall under a collective bargaining union agreement and are not eligible for severance benefits under an existing plan. The union and Exelon will negotiate terms of any severance benefits. If severance benefits are successfully negotiated, the amounts will be accrued as a one-time employee termination benefit once the established plan is communicated to employees. The final amount of the severance cost will ultimately depend on the specific employees severed. See Note 7 - Early Nuclear Plant Retirements for additional information regarding the announced early retirement of TMI.

Severance Costs Related to the PHI Merger

Upon closing the PHI Merger, Exelon recorded a severance accrual for the anticipated employee position reductions as a result of the post-merger integration. Cash payments under the plan began in May 2016 and will continue through 2020.

For the three and nine months ended September 30, 2017 and the three months ended September 30, 2016, the PHI Merger severance costs were immaterial. For the nine months ended September 30, 2016, the Registrants recorded the following severance costs associated with the identified job reductions within Operating and maintenance expense in their Consolidated Statements of Operations and Comprehensive Income, pursuant to the authoritative guidance for ongoing severance plans:

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Nine Months Ended September 30, 2016									
Severance costs[(a)]	$ 55	$ 9	$ 2	$ 1	$ 1	$ 42	$ 20	$ 12	$ 10

(a) The amounts above for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE include $8 million, $2 million, $1 million, $1 million, $19 million, $11 million and $10 million, respectively, for amounts billed by BSC and/or PHISCO through intercompany allocations for the nine months ended September 30, 2016.

PHI, Pepco, DPL and ACE record regulatory assets for merger related integration costs which include a portion of the severance costs in the table above related to the PHI Merger. These regulatory assets are either currently being recovered in rates or are deemed probable of recovery in future rates. See Note 5 - Regulatory Matters for further information.

Severance Liability

Amounts included in the table below represent the severance liability recorded for the severance plans above for employees of each Registrant and exclude amounts included at Exelon and billed through intercompany allocations:

Successor

Severance Liability	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Balance at December 31, 2016	$ 88	$ 36	$ 3	$ —	$ —	$ 29	$ —	$ —	$ —
Severance charges[a]	33	25	1	—	—	3	—	—	—
Payments	(24)	(7)	(1)	—	—	(11)	—	—	—
Balance at September 30, 2017	$ 97	$ 54	$ 3	$ —	$ —	$ 21	$ —	$ —	$ —

(a) Includes salary continuance and health and welfare severance benefits.

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16. Changes in Accumulated Other Comprehensive Income (Exelon, Generation, PECO and PHI)

The following tables present changes in accumulated other comprehensive income (loss) (AOCI) by component for the nine months ended September 30, 2017 and 2016:

Nine Months Ended September 30, 2017	Gains and (losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon[a]						
Beginning balance	$ (17)	$ 4	$ (2,610)	$ (30)	$ (7)	$(2,660)
OCI before reclassifications	2	2	(55)	7	7	(37)
Amounts reclassified from AOCI[b]	3	—	105	—	—	108
Net current-period OCI	5	2	50	7	7	71
Ending balance	$ (12)	$ 6	$ (2,560)	$ (23)	$ —	$(2,589)
Generation[a]						
Beginning balance	$ (19)	$ 2	$ —	$ (30)	$ (7)	$ (54)
OCI before reclassifications	2	—	—	7	6	15
Amounts reclassified from AOCI[b]	3	—	—	—	—	3
Net current-period OCI	5	—	—	7	6	18
Ending balance	$ (14)	$ 2	$ —	$ (23)	$ (1)	$ (36)
PECO[a]						
Beginning balance	$ —	$ 1	$ —	$ —	$ —	$ 1
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI[b]	—	—	—	—	—	—
Net current-period OCI	—	—	—	—	—	—
Ending balance	$ —	$ 1	$ —	$ —	$ —	$ 1

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Nine Months Ended September 30, 2016	Gains and (losses) on Cash Flow Hedges	Unrealized Gains and (losses) on Marketable Securities	Pension and Non-Pension Postretirement Benefit Plan Items	Foreign Currency Items	AOCI of Equity Investments	Total
Exelon[a]						
Beginning balance	$ (19)	$ 3	$ (2,565)	$ (40)	$ (3)	$(2,624)
OCI before reclassifications	(9)	—	(2)	3	(5)	(13)
Amounts reclassified from AOCI[b]	5	—	104	5	—	114
Net current-period OCI	(4)	—	102	8	(5)	101
Ending balance	$ (23)	$ 3	$ (2,463)	$ (32)	$ (8)	$(2,523)
Generation[a]						
Beginning balance	$ (21)	$ 1	$ —	$ (40)	$ (3)	$ (63)
OCI before reclassifications	(8)	1	—	3	1	(3)
Amounts reclassified from AOCI[b]	5	—	—	5	—	10
Net current-period OCI	(3)	1	—	8	1	7
Ending balance	$ (24)	$ 2	$ —	$ (32)	$ (2)	$ (56)
PECO[a]						
Beginning balance	$ —	$ 1	$ —	$ —	$ —	$ 1
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI[b]	—	—	—	—	—	—
Net current-period OCI	—	—	—	—	—	—
Ending balance	$ —	$ 1	$ —	$ —	$ —	$ 1
PHI Predecessor[a]						
Beginning balance January 1, 2016	$ (8)	$ —	$ (28)	$ —	$ —	$ (36)
OCI before reclassifications	—	—	—	—	—	—
Amounts reclassified from AOCI[b]	—	—	1	—	—	1
Net current-period OCI	—	—	1	—	—	1
Ending balance March 23, 2016[c]	$ (8)	$ —	$ (27)	$ —	$ —	$ (35)

(a) All amounts are net of tax and noncontrolling interest. Amounts in parenthesis represent a decrease in AOCI.
(b) See next tables for details about these reclassifications.
(c) As a result of the PHI Merger, the PHI predecessor balances at March 23, 2016 were reduced to zero on March 24, 2016 due to purchase accounting adjustments applied to PHI.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

ComEd, PECO, BGE, Pepco, DPL and ACE did not have any reclassifications out of AOCI to Net income during the three and nine months ended September 30, 2017 and 2016. The following tables present amounts reclassified out of AOCI to Net income for Exelon, Generation and PHI during the three and nine months ended September 30, 2017 and 2016.

Three Months Ended September 30, 2017

Details about AOCI components	Items reclassified out of AOCI[(a)]		Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	
Gains (losses) on cash flow hedges			
Other cash flow hedges	$ 2	$ 2	Interest expense
Total before tax	2	2	
Tax benefit	(1)	(1)	
Net of tax	$ 1	$ 1	Comprehensive income
Amortization of pension and other postretirement benefit plan items			
Prior service costs[(b)]	$ 23	$ —	
Actuarial losses[(b)]	(81)	—	
Total before tax	(58)	—	
Tax benefit	23	—	
Net of tax	$ (35)	$ —	
Total Reclassifications for the period	$ (34)	$ 1	Comprehensive income

Nine Months Ended September 30, 2017

Details about AOCI components	Items reclassified out of AOCI[(a)]		Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	
Gains and (losses) on cash flow hedges			
Other cash flow hedges	$ (5)	$ (5)	Interest expense
Total before tax	(5)	(5)	
Tax benefit	2	2	
Net of tax	$ (3)	$ (3)	Comprehensive income
Amortization of pension and other postretirement benefit plan items			

Prior service costs[(b)]	$ 69	$ —	
Actuarial losses[(b)]	(243)	—	
Total before tax	(174)	—	
Tax benefit	69	—	
Net of tax	$ (105)	$ —	
Total Reclassifications	$ (108)	$ (3)	Comprehensive income

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Three Months Ended September 30, 2016

Details about AOCI components	Items reclassified out of AOCI[a]		Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	
Gains and (losses) on cash flow hedges			
Other cash flow hedges	$ (3)	$ (3)	Interest expense
Total before tax	(3)	(3)	
Tax expense	1	1	
Net of tax	$ (2)	$ (2)	Comprehensive income
Amortization of pension and other postretirement benefit plan items			
Prior service costs[b]	$ 19	$ —	
Actuarial losses[b]	(76)	—	
Total before tax	(57)	—	
Tax benefit	22	—	
Net of tax	$ (35)	$ —	
Gains and (losses) on foreign currency translation			
Other	$ (5)	$ (5)	Other Income and (deductions)
Total before tax	(5)	(5)	
Tax expense	—	—	
Net of tax	$ (5)	$ (5)	Comprehensive income
Total Reclassifications for the period	$ (42)	$ (7)	Comprehensive income

Nine Months Ended September 30, 2016

Details about AOCI components	Items reclassified out of AOCI[a]			Affected line item in the Statement of Operations and Comprehensive Income
	Exelon	Generation	*Predecessor* PHI	
Gains and (losses) on cash flow hedges				
Other cash flow hedges	$ (8)	$ (8)	$ —	Interest expense
Total before tax	(8)	(8)	—	
Tax benefit	3	3	—	
Net of tax	$ (5)	$ (5)	$ —	Comprehensive income
Amortization of pension and other postretirement benefit plan items				
Prior service costs[b]	$ 57	$ —	$ —	
Actuarial losses[b]	(227)	—	(1)	
Total before tax	(170)	—	(1)	
Tax benefit	66	—	—	
Net of tax	$ (104)	$ —	$ (1)	
Gains and (losses) on foreign currency translation				
Other	$ (5)	$ (5)	$ —	Other income and (deductions)
Total before tax	(5)	(5)	—	
Tax expense	—	—	—	
Net of tax	$ (5)	$ (5)	$ —	
Total Reclassifications	$ (114)	$ (10)	$ (1)	Comprehensive income

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(a) Amounts in parenthesis represent a decrease in net income.
(b) This AOCI component is included in the computation of net periodic pension and OPEB cost (see Note 14 — Retirement Benefits for additional details).

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

The following table presents income tax expense (benefit) allocated to each component of other comprehensive income (loss) during the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Exelon				
Pension and non-pension postretirement benefit plans:				
Prior service benefit reclassified to periodic benefit cost	$ 9	$ 7	$ 27	$ 22
Actuarial loss reclassified to periodic benefit cost	(32)	(29)	(96)	(88)
Pension and non-pension postretirement benefit plans valuation adjustment	—	1	2	1
Change in unrealized (loss)/gain on cash flow hedges	—	(1)	(3)	3
Change in unrealized (loss)/gain on equity investments	1	—	(2)	3
Change in unrealized (loss)/gain on marketable securities	—	(1)	(2)	(1)
Total	$ (22)	$ (23)	$ (74)	$ (60)
Generation				
Change in unrealized (loss)/gain on cash flow hedges	$ —	$ (2)	$ (3)	$ 1
Change in unrealized (loss)/gain on equity investments	—	—	(2)	3
Change in unrealized gain on marketable securities	—	—	(1)	—
Total	$ —	$ (2)	$ (6)	$ 4

	Predecessor
PHI	January 1, 2016 to March 23, 2016
Pension and non-pension postretirement benefit plans:	
Actuarial loss reclassified to periodic cost	$ —

17. Earnings Per Share and Equity (Exelon)

Earnings per Share

Diluted earnings per share is calculated by dividing Net income attributable to common shareholders by the weighted average number of shares of common stock outstanding, including shares to be issued upon exercise of stock options, performance share awards and restricted stock outstanding under Exelon's LTIPs considered to be common stock equivalents. The following table sets forth the components of basic and diluted earnings per share and shows the effect of these stock options, performance share awards and restricted stock on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Exelon				
Net income attributable to common shareholders	$ 824	$ 490	$ 1,899	$ 930
Weighted average common shares outstanding — basic	962	925	941	924
Assumed exercise and/or distributions of stock-based awards	3	2	2	2
Weighted average common shares outstanding — diluted	965	927	943	926

The number of stock options not included in the calculation of diluted common shares outstanding due to their antidilutive effect was approximately 7 million and 9 million for the three and nine months ended September 30, 2017, respectively, and 11 million and 12 million for the three and nine months ended September 30, 2016, respectively. There were no equity units related to the PHI Merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect for the three and nine months ended September 30, 2017. The number of equity units related to the PHI Merger not included in the calculation of diluted common shares outstanding due to their antidilutive effect was less than 1 million for the three and nine months ended September 30, 2016. Refer to Note 20 — Shareholders' Equity of the Exelon 2016 Form 10-K for further information regarding the equity units.

On June 1, 2017, Exelon settled the forward purchase contract, which was a component of the June 2014 equity units, through the issuance of approximately 33 million shares of Exelon common stock from treasury stock. The issuance of shares on June 1, 2017, triggered full dilution in the EPS calculation, which prior to settlement were included in the calculation of diluted EPS using the treasury stock method.

Prior to the June 2017 issuance Exelon had approximately 35 million shares of treasury stock with a cost of $2.3 billion. After issuance, Exelon has approximately 2 million shares of Treasury stock remaining, at a historical cost of $123 million. In 2008, Exelon management decided to defer indefinitely any share repurchases.

18. Commitments and Contingencies (All Registrants)

The following is an update to the current status of commitments and contingencies set forth in Note 24 of the Exelon 2016 Form 10-K . See Note 4 - Mergers, Acquisitions and Dispositions for further discussion on the PHI Merger commitments.

Commitments

Constellation Merger Commitments (Exelon and Generation)

In February 2012, the MDPSC issued an Order approving the Exelon and Constellation merger. As part of the MDPSC Order, Exelon agreed to provide a package of benefits to BGE customers, the City of Baltimore and the State of Maryland, resulting in an estimated direct investment in the State of Maryland of approximately $1 billion.

The direct investment includes the construction of a new 21-story headquarters building in Baltimore for Generation's competitive energy business that was substantially complete in November 2016 and is now occupied by approximately 1,500 Exelon employees. Generation's investment includes leasehold improvements that are not expected to exceed $110 million. In addition, Generation entered into a 20 year operating lease as the primary lessee of the building. Refer to Note 24 - Commitments and Contingencies of the Combined Notes to the Consolidated Financial Statements in the Exelon 2016 Form 10-K for additional information regarding Generation's future minimum lease payments.

The direct investment commitment also includes $450 million to $500 million relating to Exelon and Generation's development or assistance in the development of 285-300 MWs of new generation in Maryland, which is expected to be completed within a period of 10 years. The MDPSC order contemplates various options for complying with the new generation development commitments, including building or acquiring generating assets, making subsidy or compliance payments, or in circumstances in which the generation build is delayed or certain specified provisions are elected, making liquidated damages payments. Exelon and Generation have incurred $457 million towards satisfying the commitment for new generation development in the state of Maryland, with approximately 220 MW of the new generation commencing with commercial operations to date and an additional 10 MW commitment satisfied through a liquidated damages payment made in the fourth quarter of 2016. Additionally, during the fourth quarter of 2016, given continued declines in projected energy and capacity prices, Generation terminated rights to certain development projects originally intended to meet its remaining 55 MW commitment amount. The commitment will now most likely be satisfied via payment of liquidated damages or execution of a third party PPA, rather than by Generation constructing renewable generating assets. As a result, Exelon and Generation recorded a pre-tax $50 million loss contingency in Operating and maintenance expense in Exelon’s and Generation’s Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2016.

Equity Investment Commitments (Exelon and Generation)

As part of Generation’s recent investments in technology development, Generation enters into equity purchase agreements that include commitments to invest additional equity through incremental payments to fund the anticipated needs of the planned operations of the associated companies. As of September 30, 2017, Generation’s estimated commitments relating to its equity purchase agreements, including the in-kind services contributions, is anticipated to be as follows:

	Total
2017 (remainder of year)	$ 12
2018	6
2019	3
Total	$ 21

Commercial Commitments (All Registrants)

The Registrants’ commercial commitments as of September 30, 2017, representing commitments potentially triggered by future events were as follows:

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Letters of credit (non-debt)[(a)]	$ 1,276	$ 1,193	$ 14	$ 22	$ 2	$ 1	$ 1	$ —	$ —
Surety bonds[(b)]	1,206	1,079	20	40	11	21	13	4	4
Financing trust guarantees	378	—	200	178	—	—	—	—	—
Guaranteed lease residual values[(c)]	19	—	—	—	—	19	6	7	5
Total commercial commitments	$ 2,879	$ 2,272	$ 234	$ 240	$ 13	$ 41	$ 20	$ 11	$ 9

(a) Letters of credit (non-debt) - Exelon and certain subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

(b) Surety bonds—Guarantees issued related to contract and commercial agreements, excluding bid bonds.

(c) Represents the maximum potential obligation in the event that the fair value of certain leased equipment and fleet vehicles is zero at the end of the maximum lease term. The maximum lease term associated with these assets ranges from 3 to 8 years. The maximum potential obligation at the end of the minimum lease term would be $49 million, $14 million of which is a guarantee by Pepco, $19 million by DPL and $13 million by ACE. The minimum lease term associated with these assets ranges from 1 to 4 years. Historically, payments under the guarantees have not been made and PHI believes the likelihood of payments being required under the guarantees is remote.

Nuclear Insurance (Exelon and Generation)

Generation is subject to liability, property damage and other risks associated with major incidents at any of its nuclear stations, including the CENG nuclear stations. Generation has mitigated its financial exposure to these risks through insurance and other industry risk-sharing provisions.

The Price-Anderson Act was enacted to ensure the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities and also to limit the liability of nuclear reactor owners for such claims from any single incident. As of September 30, 2017, the current liability limit per incident is $13.4 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors at least once every five years with the last adjustment effective September 10, 2013. In accordance with the Price-Anderson Act, Generation maintains financial protection at levels equal to the amount of liability insurance available from private sources through the purchase of private nuclear energy liability insurance for public liability claims that could arise in the event of an incident. Effective January 1, 2017, the required amount of nuclear energy liability insurance purchased is $450 million for each operating site. Claims exceeding that amount are covered through mandatory participation in a financial protection pool, as required by the Price Anderson-Act, which provides the additional $13.0 billion per incident in funds available for public liability claims. Participation in this secondary financial protection pool requires the operator of each reactor to fund its proportionate share of costs for any single incident that exceeds the primary layer of financial protection. Exelon’s share of this secondary layer would be approximately $2.8 billion, including CENG’s related liability, however any amounts payable under this secondary layer would be capped at $420 million per year.

In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay public liability claims exceeding the $13.4 billion limit for a single incident.

As part of the execution of the NOSA on April 1, 2014, Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF and its affiliates against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation's obligations under this indemnity. See Note 5 — Investment in Constellation Energy Nuclear Group, LLC of the Exelon 2016 Form 10-K for additional information on Generation's operations relating to CENG.

Generation is required each year to report to the NRC the current levels and sources of property insurance that demonstrates Generation possesses sufficient financial resources to stabilize and decontaminate a reactor and reactor station site in the event of an accident. The property insurance maintained for each facility is currently provided through insurance policies purchased from NEIL, an industry mutual insurance company of which Generation is a member.

Premiums paid to NEIL by its members are also subject to a potential assessment for adverse loss experience in the form of a retrospective premium obligation. NEIL has never assessed this retrospective premium since its formation in 1973, and Generation cannot predict the level of future assessments if any. The current maximum aggregate annual retrospective premium obligation for Generation is approximately $360 million. NEIL requires its members to maintain an investment grade credit rating or to ensure collectability of their annual retrospective premium obligation by providing a financial guarantee, letter of credit, deposit premium, or some other means of assurance.

NEIL provides "all risk" property damage, decontamination and premature decommissioning insurance for each station for losses resulting from damage to its nuclear plants, either due to accidents or acts of terrorism. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. In the event of an insured loss, Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. In the event that one or more acts of terrorism cause accidental property damage within a twelve-month period from the first accidental property damage under one or more policies for all insured plants, the maximum recovery by Exelon will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity and any other source, applicable to such losses.

For its insured losses, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Uninsured losses and other expenses, to the extent not recoverable from insurers or the nuclear industry, could also be borne by Generation. Any such losses could have a material adverse effect on Exelon's and Generation's financial condition, results of operations and liquidity.

Environmental Issues (All Registrants)

General. The Registrants' operations have in the past, and may in the future, require substantial expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, the Registrants are generally liable for the costs of remediating environmental contamination of property now or formerly owned by them and of property contaminated by hazardous substances generated by them. The Registrants own or lease a number of real estate parcels, including parcels on which their operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws. In addition, the Registrants are currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

ComEd, PECO, BGE and DPL have identified sites where former MGP activities have or may have resulted in actual site contamination. For almost all of these sites, there are additional PRPs that may share responsibility for the ultimate remediation of each location.

- ComEd has identified 42 sites, 19 of which the remediation has been completed and approved by the Illinois EPA or the U.S. EPA and 23 that are currently under some degree of active study and/or remediation. ComEd expects the majority of the remediation at these sites to continue through at least 2022.

- PECO has identified 26 sites, 17 of which have been remediated in accordance with applicable PA DEP regulatory requirements. The remaining 9 sites are currently under some degree of active study and/or remediation. PECO expects the majority of the remediation at these sites to continue through at least 2022.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

- BGE has identified 13 former gas manufacturing or purification sites that it currently owns or owned at one time through a predecessor's acquisition. Two of the gas manufacturing sites require some level of remediation and ongoing monitoring under the direction of the MDE. The required costs at these two sites are not considered material. In May 2017, BGE completed the additional work requested by MDE. All the sample testing produced results that were below the cleanup action level established by MDE and no further investigation is required. For more information, see the discussion of the Riverside site below.

- DPL has identified 3 sites, 2 of which remediation has been completed and approved by the MDE or the Delaware Department of Natural Resources and Environmental Control. The remaining site is under study and the required cost at the site is not considered material.

ComEd, pursuant to an ICC order, and PECO, pursuant to settlements of natural gas distribution rate cases with the PAPUC, are currently recovering environmental remediation costs of former MGP facility sites through customer rates. ComEd and PECO have recorded regulatory assets for the recovery of these costs. See Note 5 — Regulatory Matters for additional information regarding the associated regulatory assets. BGE is authorized to recover, and is currently recovering, environmental costs for the remediation of the former MGP facility sites from customers; however, while BGE does not have a rider for MGP clean-up costs, BGE has historically received recovery of actual clean-up costs in distribution rates. DPL has historically received recovery of actual clean-up costs in distribution rates.

As of September 30, 2017 and December 31, 2016, the Registrants had accrued the following undiscounted amounts for environmental liabilities in Other current liabilities and Other deferred credits and other liabilities within their respective Consolidated Balance Sheets:

September 30, 2017	**Total Environmental Investigation and Remediation Reserve**	**Portion of Total Related to MGP Investigation and Remediation**
Exelon	$ 429	$ 327
Generation	76	—
ComEd	294	293
PECO	33	32
BGE	3	2
PHI (Successor)	23	—
Pepco	21	—
DPL	1	—
ACE	1	—

December 31, 2016	**Total Environmental Investigation and Remediation Reserve**	**Portion of Total Related to MGP Investigation and Remediation**
Exelon	$ 429	$ 325
Generation	72	—
ComEd	292	291
PECO	33	31
BGE	2	2

PHI (Successor)	30	1
Pepco	27	—
DPL	2	1
ACE	1	—

The historical nature of the MGP sites and the fact that many of the sites have been buried and built over, impacts the ability to determine a precise estimate of the ultimate costs prior to initial sampling and determination of the exact scope and method of remedial activity. Management determines its best estimate of remediation costs using all available information at the time of each study, including probabilistic and deterministic modeling for ComEd and PECO, and the remediation standards currently required by the applicable state environmental agency. Prior to completion of any significant clean up, each site remediation plan is approved by the appropriate state environmental agency.

During the third quarter of 2017, ComEd, PECO, BGE and PHI completed an annual study of their future estimated MGP remediation requirements. The study resulted in a $13 million and $2 million increase to environmental liabilities and related regulatory assets for ComEd and PECO, respectively, and no change at BGE and PHI.

The Registrants cannot reasonably estimate whether they will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by the Registrants, environmental agencies or others, or whether such costs will be recoverable from third parties, including customers.

Water Quality

Benning Road Site NPDES Permit Limit Exceedances. Pepco holds an NPDES permit issued by EPA with a July 19, 2009 effective date, which authorizes discharges from the Benning Road service facility. The 2009 permit for the first time imposed numerical limits on the allowable concentration of certain metals in storm water discharged from the site into the Anacostia River. The permit contemplated that Pepco would meet these limits over time through the use of best management practices (BMPs). The BMPs were effective in reducing metal concentrations in storm water discharges, but were not sufficient to meet all of the numerical limits for all metals.

The 2009 permit remains in effect pending EPA’s action on the Pepco renewal application, including resolution of the stormwater compliance issues. On October 30, 2015, EPA filed a Clean Water Act civil enforcement action against Pepco in federal district court, and in March 2016 the court granted a motion by the Anacostia Riverkeeper to intervene in this case as a plaintiff along with EPA. Since 2009 Pepco has installed runoff mitigation measures and implemented new operating procedures to comply with regulations. In January 2017, the parties agreed to a settlement in the form of a Consent Decree whereby Pepco will pay a civil penalty in the amount of $1.6 million, continue the BMPs to manage stormwater, construct a new stormwater treatment system, and make certain other capital improvements to the stormwater management system. On May 19, 2017, the Consent Decree was entered with the Court and became final. The Civil Penalty assessed under the Consent Decree of $1.6 million was paid on June 5, 2017 and other requirements of the Decree are now being implemented.

Solid and Hazardous Waste

Cotter Corporation. The EPA has advised Cotter Corporation (Cotter), a former ComEd subsidiary, that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. In 2000, ComEd sold Cotter to an unaffiliated third-party. As part of the sale, ComEd agreed to indemnify Cotter for any liability arising in connection with the West Lake Landfill. In connection with Exelon’s 2001 corporate restructuring, this responsibility to indemnify Cotter was transferred to Generation. On May 29, 2008, the EPA issued a Record of Decision approving the remediation option submitted by Cotter and the two other PRPs that required additional landfill cover. By letter dated January 11, 2010, the EPA requested that the PRPs perform a supplemental feasibility study for a remediation alternative that would involve complete excavation of the radiological contamination. On September 30, 2011, the PRPs submitted the supplemental feasibility study to the EPA for review. Since June 2012, the EPA has requested that the PRPs perform a series of additional analyses and groundwater and soil sampling as part of the supplemental feasibility study. This further analysis has focused on a partial excavation remedial option. The PRPs have provided a draft Remedial Investigation and Feasibility Study (RI/FS) report to the EPA for its review and comment. The final RI/FS will form the basis of EPA’s selection of a remedy from among the alternatives of a landfill cover, and partial or complete excavation. The EPA has advised the PRPs that the EPA announcement of the proposed remedy will take place in the first quarter of 2018. Thereafter, the EPA will select a final remedy and seek to enter into a Consent Decree with the PRPs to effectuate the remedy. Recent investigation has identified a number of other parties who may be PRPs and could be liable to contribute to the final remedy. Further investigation is on going.

The estimated cost of the landfill cover remedy (taking into account the current EPA technical requirements incorporated in the third quarter 2017) is approximately $110 million, including escalation, which will be allocated among all PRPs. Generation has accrued what it believes to be an adequate amount to cover its anticipated share of a landfill cover, which is included in the table above. Generation believes that a partial excavation remedy is reasonably possible, and the partial excavation costs, inclusive of a landfill cover, could range from approximately $225 million to $650 million; such costs would likely be shared by the final group of identified PRPs. Generation believes the likelihood that the EPA would require a complete excavation remedy is remote. The cost of a partial or complete excavation could have a material, unfavorable impact on Generation’s and Exelon’s future results of operations and cash flows.

During December 2015, the EPA took two actions related to the West Lake Landfill designed to abate what it termed as imminent and dangerous conditions at the landfill. The first involved installation by the PRPs of a non-combustible surface cover to protect against surface fires in areas where radiological materials are believed to have been disposed. Generation has accrued what it believes to be an adequate amount to cover its anticipated liability for this interim action. The second action involved EPA's public statement that it will require the PRPs to construct a barrier wall in an adjacent landfill to prevent a subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, EPA has not provided sufficient details related to the basis for and the requirements and design of a barrier wall to enable Generation to determine the likelihood such a remedy will ultimately be implemented, assess the degree to which Generation may have liability as a potentially responsible party, or develop a reasonable estimate of the potential incremental costs. It is reasonably possible, however, that resolution of this matter could have a material, unfavorable impact on Generation's and Exelon's future results of operations and cash flows. Finally, one of the other PRPs, the landfill owner and operator of the adjacent landfill, has indicated that it will be making a contribution claim against Cotter for costs that it has incurred to prevent the subsurface fire from spreading to those areas of the West Lake Landfill where radiological materials are believed to have been disposed. At this time, Generation and Exelon do not possess sufficient information to assess this claim and are therefore unable to determine the impact on their future results of operations and cash flows.

On February 2, 2016, the U.S. Senate passed a bill to transfer remediation authority over the West Lake Landfill from the EPA to the U.S. Army Corps of Engineers, under the Formerly Utilized Sites Remedial Action Program (FUSRAP). The legislation was not passed in the U.S. House of Representatives, and would therefore require reintroduction in the Senate for consideration in the current session of Congress. Should such proposed legislation ultimately become law, it would be subject to annual funding appropriations in the U.S. Budget. Remediation under FUSRAP would not alter the liability of the PRPs, but would likely delay the determination of a final remedy and its implementation.

On August 8, 2011, Cotter was notified by the DOJ that Cotter is considered a PRP with respect to the government's clean-up costs for contamination attributable to low level radioactive residues at a former storage and reprocessing facility named Latty Avenue near St. Louis, Missouri. The Latty Avenue site is included in ComEd's indemnification responsibilities discussed above as part of the sale of Cotter. The radioactive residues had been generated initially in connection with the processing of uranium ores as part of the U.S. government's Manhattan Project. Cotter purchased the residues in 1969 for initial processing at the Latty Avenue facility for the subsequent extraction of uranium and metals. In 1976, the NRC found that the Latty Avenue site had radiation levels exceeding NRC criteria for decontamination of land areas. Latty Avenue was investigated and remediated by the United States Army Corps of Engineers pursuant to funding under the FUSRAP. The DOJ has not yet formally advised the PRPs of the amount that it is seeking, but it is believed to be approximately $90 million. The DOJ and the PRPs agreed to toll the statute of limitations until August 2018 so that settlement discussions could proceed. Based on Generation's preliminary review, it appears probable that Generation has liability to Cotter under the indemnification agreement and has established an appropriate accrual for this liability, which is included in the table above.

Commencing in February 2012, a number of lawsuits have been filed in the U.S. District Court for the Eastern District of Missouri. Among the defendants were Exelon, Generation and ComEd, all of which were subsequently dismissed from the case, as well as Cotter, which remains a defendant. The suits allege that individuals living in the North St. Louis area developed some form of cancer or other serious illness due to Cotter's negligent or reckless conduct in processing, transporting, storing, handling and/or disposing of radioactive materials. Plaintiffs are asserting public liability claims under the Price-Anderson Act. Their state law claims for negligence, strict liability, emotional distress, and medical monitoring have been dismissed. The complaints do not contain specific damage claims. In the event of a finding of liability against Cotter, it is reasonably possible that Exelon would be financially responsible due to its indemnification responsibilities of Cotter described above. The court has dismissed a number of lawsuits, and is expected to dismiss additional lawsuits based on a recent ruling. Pre-trial motions and discovery are proceeding in the remaining cases and a pre-trial scheduling order has been filed with the court. At this stage of the litigation, Generation and ComEd cannot estimate a range of loss, if any.

68th Street Dump. In 1999, the EPA proposed to add the 68th Street Dump in Baltimore, Maryland to the Superfund National Priorities List, and notified BGE and 19 others that they are PRPs at the site. In connection with BGE’s 2000 corporate restructuring the responsibility for this liability was transferred to Constellation and as a result of the 2012 Exelon and CEG merger is now Generation’s responsibility. In March 2004, the PRPs formed the 68th Street Coalition and entered into consent order negotiations with the U.S. EPA to investigate clean-up options for the site under the Superfund Alternative Sites Program. In May 2006, a settlement among the U.S. EPA and the PRPs

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with respect to investigation of the site became effective. The settlement requires the PRPs, over the course of several years, to identify contamination at the site and recommend clean-up options. The PRPs submitted their investigation of the range of clean-up options in the first quarter of 2011. On September 30, 2013, EPA issued the Record of Decision identifying its preferred remedial alternative for the site. The estimated cost for the alternative chosen by EPA is consistent with the PRPs estimated range of costs noted above. In July, 2017 the PRPs and EPA finalized the terms of a Consent Decree which has been executed by the Parties and lodged with the U.S. District Court. After publication in the Federal Register there will be a 30-day public comment period after which it is anticipated it will be approved by the Court without any significant change in the costs for cleanup, Generation has elected to be a non-performing cash-out party and following payment of the allocated cost for its share of the clean-up. Generation will have no remaining liability at the site, except for unknown conditions that could manifest themselves after the settlement. The cash-out payment is included in the table above and is immaterial to the Generation and Exelon financial statements.

Rossville Ash Site. The Rossville Ash Site is a 32-acre property located in Rosedale, Baltimore County, Maryland, which was used for the placement of fly ash from 1983-2007. The property is owned by Constellation Power Source Generation, LLC (CPSG), a wholly owned subsidiary of Generation. In 2008, CPSG investigated and remediated the property by entering it into the Maryland Voluntary Cleanup Program (VCP) to address any historic environmental concerns and ready the site for appropriate future redevelopment. The site was accepted into the program in 2010 and is currently going through the process to remediate the site and receive closure from MDE. Exelon currently estimates the cost to close the site to be approximately $1 million which has been fully reserved and included in the table above as of September 30, 2017.

Sauer Dump. On May 30, 2012, BGE was notified by the U.S. EPA that it is considered a PRP at the Sauer Dump Superfund site in Dundalk, Maryland. The U.S. EPA offered BGE and three other PRPs the opportunity to conduct an environmental investigation and present cleanup recommendations at the site. In addition, the U.S. EPA is seeking recovery from the PRPs for past cleanup and investigation costs at the site. On March 11, 2013, BGE and three other PRPs signed an Administrative Settlement Agreement and Order on Consent with the U.S. EPA which requires the PRPs to conduct a remedial investigation and feasibility study at the site to determine what, if any, are the appropriate and recommended cleanup activities for the site. Although the ultimate outcome of this proceeding is uncertain based on the information complied to date, BGE has developed an estimate of the range of the probable liability; such costs would be shared by the 4 identified PRPs. BGE has accrued an appropriate reserve for its share of the estimated liabilities that is included it in the table above. It is possible, however, that final resolution of this matter could have a material, unfavorable impact on BGE’s future results of operations and cash flows.

Riverside. In 2013, the MDE, at the request of EPA, conducted a site inspection and limited environmental sampling of certain portions of the 170 acre Riverside property owned by BGE. The site consists of several different parcels with different current and historical uses. The sampling included soil and groundwater samples for a number of potential environmental contaminants. The sampling confirmed the existence of contaminants consistent with the known historical uses of the various portions of the site. In March 2014, the MDE requested that BGE conduct an investigation which included a site-wide investigation of soils, sediment, groundwater, and surface water to complement the MDE sampling. The field investigation was completed in January 2015, and a final report was provided to MDE in June 2015. In November 2015, MDE provided BGE with its comments and recommendations on the report which require BGE to conduct further investigation and sampling at the site to better delineate the nature and extent of historic contamination, including off-site sediment and soil sampling. MDE did not request any interim remediation at this time and in May 2017 BGE completed the additional work requested by MDE. All the offsite sample testing produced results that were below the cleanup action level established by MDE and no further investigation is required. MDE has provided BGE with the required clean-up levels for the on-site contamination and BGE is moving forward with the necessary remediation as directed by MDE. BGE has established what it believes is an appropriate reserve based upon the information available to date, and this amount is included in the table above. As the remediation proceeds, it is possible that additional reserves could be established, in amounts that could be material to BGE.

BGE is authorized to recover, and is currently recovering, environmental costs for the remediation of the former MGP facility sites from customers; however, while BGE does not have a rider for MGP clean-up costs, BGE has historically received recovery of actual clean-up costs in distribution rates. Additionally, legislation was passed during the 2017 Maryland General Assembly session that should further support BGE's recovery of its clean-up costs.

Benning Road Site. In September 2010, PHI received a letter from EPA identifying the Benning Road site as one of six land-based sites potentially contributing to contamination of the lower Anacostia River. A portion of the site was formerly the location of a Pepco Energy Services electric generating facility. That generating facility was deactivated in June 2012 and plant structure demolition was completed in July 2015. The remaining portion of the site consists of a Pepco transmission and distribution service center that remains in operation. In December 2011, the U.S. District Court for the District of Columbia approved a consent decree entered into by Pepco and Pepco Energy Services with the DOEE, which requires Pepco and Pepco Energy Services to conduct a Remediation Investigation (RI)/ Feasibility Study (FS) for the Benning Road site and an approximately 10 to 15 acre portion of the adjacent Anacostia River. The RI/FS will form the basis for the remedial actions for the Benning Road site and for the Anacostia River sediment associated with the site. The consent decree does not obligate Pepco or Pepco Energy Services to pay for or perform any remediation work, but it is anticipated that DOEE will look to Pepco and Pepco Energy Services to assume responsibility for cleanup of any conditions in the river that are determined to be attributable to past activities at the Benning Road site. Pursuant to Exelon’s March 23, 2016 acquisition of PHI, Pepco Energy Services was transferred to Generation. On July 1, 2017, Pepco Energy Services was merged into Constellation New Energy, a subsidiary of Generation.

The initial RI field work began in January 2013 and was completed in December 2014. In April 2015, Pepco and Pepco Energy Services submitted a draft RI Report to DOEE. After review, DOEE determined that additional field investigation and data analysis was required to complete the RI process (much of which was beyond the scope of the original DOEE-approved RI work plan). In the meantime, Pepco and Pepco Energy Services revised the draft RI Report to address DOEE’s comments and DOEE released the draft RI Report for public review in February 2016. Once the additional RI work has been completed, Pepco and Generation will issue a draft “final” RI report for review and comment by DOEE and the public. Pepco and Generation will then proceed to develop an FS to evaluate possible remedial alternatives for submission to DOEE. The Court has established a schedule for completion of the RI and FS, and approval by the DOEE, by June 2018.

Upon DOEE’s approval of the final RI and FS Reports, Pepco and Generation will have satisfied their obligations under the consent decree. At that point, DOEE will prepare a Proposed Plan regarding further response actions. After considering public comment on the Proposed Plan, DOEE will issue a Record of Decision identifying any further response actions determined to be necessary.

PHI, Pepco and Generation have determined that a loss associated with this matter for PHI, Pepco and Generation is probable and an estimated liability for this issue has been accrued, which is included in the table above. As the remedial investigation proceeds and potential remedies are identified, it is possible that additional accruals could be established in amounts that could be material to PHI and Pepco. The ultimate resolution of this matter is currently not expected to have any significant financial impact on Generation.

Anacostia River Tidal Reach. Contemporaneous with the Benning RI/FS being performed by Pepco and Generation, DOEE and certain federal agencies have been conducting a separate RI/FS focused on the entire tidal reach of the Anacostia River extending from just north of the Maryland-D.C. boundary line to the confluence of the Anacostia and Potomac Rivers. In March 2016, DOEE released a draft of the river-wide RI Report for public review and comment. The river-wide RI incorporated the results of the river sampling performed by Pepco and Pepco Energy Services as part of the Benning RI/FS, as well as similar sampling efforts conducted by owners of other sites adjacent to this segment of the river and supplemental river sampling conducted by DOEE’s contractor. DOEE asked Pepco, along with parties responsible for other sites along the river, to participate in a “Consultative Working Group” to provide input into the process for future remedial actions addressing the entire tidal reach of the river and to ensure proper coordination with the other river cleanup efforts currently underway, including cleanup of the river segment adjacent to the Benning Road site resulting from the Benning Road RI/FS. Pepco responded that it will participate in the Consultative Working Group but its participation is not an acceptance of any financial responsibility beyond the work that will be performed at the Benning Road site described above. DOEE has advised the Consultative Working Group that the federal and DOEE authorities are conducting phase 2 of a remedial investigation and that a feasibility study of potential remedies is expected to be completed in December 2017. A proposed remedy for the clean-up of sediments in this section of the river is expected to be released for public comment in February 2018 and the DOEE has targeted June 2018 as the date for remedy selection. The Consultative Working Group and the other possible PRPs have provided input into the proposed clean-up process and schedule. At this time, it is not possible to predict the extent of Pepco's participation in the river-wide RI/FS process, and Pepco cannot estimate the reasonably possible range of loss for response costs beyond those associated with the Benning RI/FS component of the river-wide initiative. It is possible, however, that resolution of this matter could have a material, unfavorable impact on Exelon's and Pepco's future results of operations and cash flows.

Conectiv Energy Wholesale Power Generation Sites. In July 2010, PHI sold the wholesale power generation business of Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries (Conectiv Energy) to Calpine Corporation (Calpine). Under New Jersey's Industrial Site Recovery Act (ISRA), the transfer of ownership to Calpine triggered an obligation on the part of Conectiv Energy to remediate any environmental contamination at each of the nine Conectiv Energy generating facility sites located in New Jersey. Under the terms of the sale, Calpine assumed responsibility for performing the ISRA-required remediation and for the payment of all related ISRA compliance costs up to $10 million. Predecessor PHI was obligated to indemnify Calpine for any ISRA compliance remediation costs in excess of $10 million. According to PHI's estimates, the costs of ISRA-required remediation activities at the 9 generating facility sites are in the range of approximately $7 million to $18 million, and predecessor PHI established an appropriate accrual for its share of the estimated clean-up costs. Pursuant to Exelon's March 2016 acquisition of PHI, the Conectiv Energy legal entity was transferred to Generation and the accrual for Predecessor PHI's share of the estimated clean- up costs was also transferred to Generation and is included in the table above as a liability of Generation. The responsibility to indemnify Calpine is shared by PHI and Generation. The ultimate resolution of this matter is currently not expected to have a material financial impact on PHI and Generation.

Rock Creek Mineral Oil Release. In late August 2015, a Pepco underground transmission line in the District of Columbia suffered a breach, resulting in the release of non-toxic mineral oil surrounding the transmission line into the surrounding soil, and a small amount reached Rock Creek through a storm drain. Pepco notified regulatory authorities, and Pepco and its spill response contractors placed booms in Rock Creek, blocked the storm drain to prevent the release of mineral oil into the creek and commenced remediation of soil around the transmission line and the Rock Creek shoreline. Pepco estimates that approximately 6,100 gallons of mineral oil were released and that its remediation efforts recovered approximately 80% of the amount released. Pepco's remediation efforts are ongoing under the direction of the DOEE, including the requirements of a February 29, 2016 compliance order which requires Pepco to prepare a full incident investigation report and prepare a removal action work plan to remove all impacted soils in the vicinity of the storm drain outfall, and in collaboration with the National Park Service, the Smithsonian Institution/National Zoo and EPA. Pepco's investigation presently indicates that the damage to Pepco's facilities occurred prior to the release of mineral oil when third-party excavators struck the Pepco underground transmission line while installing cable for another utility.

PHI and Pepco have reached a settlement with a third party who contributed to the loss. Exelon, PHI and Pepco do not believe that the balance of the remediation costs to resolve this matter will have a material adverse effect on their respective financial condition, results of operations or cash flows.

Brandywine Fly Ash Disposal Site. In February 2013, Pepco received a letter from the MDE requesting that Pepco investigate the extent of waste on a Pepco right-of-way that traverses the Brandywine fly ash disposal site in Brandywine, Prince George's County, Maryland, owned by NRG Energy, Inc. (as successor to GenOn MD Ash Management, LLC) (NRG). In July 2013, while reserving its rights and related defenses under a 2000 agreement covering the sale of this site, Pepco indicated its willingness to investigate the extent of, and propose an appropriate closure plan to address, ash on the right-of-way. Pepco submitted a schedule for development of a closure plan to MDE on September 30, 2013 and, by letter dated October 18, 2013, MDE approved the schedule.

Exelon, PHI and Pepco have determined that a loss associated with this matter is probable and have estimated that the costs for implementation of a closure plan and cap on the site are in the range of approximately $3 million to $6 million, for which an appropriate reserve has been established and is included in the table above. Exelon, PHI and Pepco believe that the costs incurred in this matter will be recoverable from NRG under the 2000 sale agreement.

Litigation and Regulatory Matters

Asbestos Personal Injury Claims (Exelon, Generation, ComEd, PECO and BGE)

***Exelon, Generation and PECO*.** Generation maintains a reserve for claims associated with asbestos-related personal injury actions in certain facilities that are currently owned by Generation or were previously owned by ComEd and PECO. The reserve is recorded on an undiscounted basis and excludes the estimated legal costs associated with handling these matters, which could be material.

At September 30, 2017 and December 31, 2016, Generation had reserved approximately $80 million and $83 million, respectively, in total for asbestos-related bodily injury claims. As of September 30, 2017, approximately $22 million of this amount related to 227 open claims presented to Generation, while the remaining $58 million of the reserve is for estimated future asbestos-related bodily injury claims anticipated to arise through 2050, based on actuarial assumptions and analyses, which are updated on an annual basis. On a quarterly basis, Generation monitors actual experience against the number of forecasted claims to be received and expected claim payments and evaluates whether an adjustment to the reserve is necessary.

On November 22, 2013, the Supreme Court of Pennsylvania held that the Pennsylvania Workers Compensation Act does not apply to an employee's disability or death resulting from occupational disease, such as diseases related to asbestos exposure, which manifests more than 300 weeks after the employee's last employment-based exposure, and that therefore the exclusivity provision of the Act does not preclude such employee from suing his or her employer in court. The Supreme Court's ruling reverses previous rulings by the Pennsylvania Superior Court precluding current and former employees from suing their employers in court, despite the fact that the same employee was not eligible for workers compensation benefits for diseases that manifest more than 300 weeks after the employee's last employment-based exposure to asbestos. Since the Pennsylvania Supreme Court's ruling in November 2013, Exelon, Generation, and PECO have experienced an increase in asbestos-related personal injury claims brought by former PECO employees, all of which have been reserved for on a claim by claim basis. Those additional claims are taken into account in projecting estimates of future asbestos-related bodily injury claims.

On November 4, 2015, the Illinois Supreme Court found that the provisions of the Illinois' Workers' Compensation Act and the Workers' Occupational Diseases Act barred an employee from bringing a direct civil action against an employer for latent diseases, including asbestos-related diseases that fall outside the 25-year limit of the statute of repose. The Illinois Supreme Court's ruling reversed previous rulings by the Illinois Court of Appeals, which initially ruled that the Illinois Worker's Compensation law should not apply in cases where the diagnosis of an asbestos related disease occurred after the 25-year maximum time period for filing a Worker's Compensation claim. Since the Illinois Supreme Court's ruling in November 2015, Exelon, Generation, and ComEd have not experienced a significant increase in asbestos-related personal injury claims brought by former ComEd employees.

There is a reasonable possibility that Exelon may have additional exposure to estimated future asbestos-related bodily injury claims in excess of the amount accrued and the increases could have a material adverse effect on Exelon's, Generation's, ComEd's, PECO and BGE's future results of operations and cash flows.

BGE. Since 1993, BGE and certain Constellation (now Generation) subsidiaries have been involved in several actions concerning asbestos. The actions are based upon the theory of "premises liability," alleging that BGE and Generation knew of and exposed individuals to an asbestos hazard. In addition to BGE and Generation, numerous other parties are defendants in these cases.

To date, most asbestos claims which have been resolved relating to BGE and certain Constellation subsidiaries have been dismissed or resolved without any payment and a small minority of these cases has been resolved for amounts that were not material to BGE or Generation's financial results. Presently, there are an immaterial number of asbestos cases pending against BGE and certain Constellation subsidiaries.

Continuous Power Interruption (Exelon and ComEd)

Section 16-125 of the Illinois Public Utilities Act provides that in the event an electric utility, such as ComEd, experiences a continuous power interruption of four hours or more that affects (in ComEd's case) more than 30,000 customers, the utility may be liable for actual damages suffered by customers as a result of the interruption and may be responsible for reimbursement of local governmental emergency and contingency expenses incurred in connection with the interruption. Recovery of consequential damages is barred. The affected utility may seek from the ICC a waiver of these liabilities when the utility can show that the cause of the interruption was unpreventable damage due to weather events or conditions, customer tampering, or certain other causes enumerated in the law. As of September 30, 2017 and December 31, 2016, ComEd did not have any material liabilities recorded for these storm events.

Baltimore City Franchise Taxes (Exelon and BGE)

The City of Baltimore claims that BGE has maintained electric facilities in the City's public right-of-ways for over one hundred years without the proper franchise rights from the City. BGE has reviewed the City's claim and believes that it lacks merit. BGE has not recorded an accrual for payment of franchise fees for past periods as a range of loss, if any, cannot be reasonably estimated at this time. Franchise fees assessed in future periods may be material to BGE's results of operations and cash flows.

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Conduit Lease with City of Baltimore (Exelon and BGE)

On September 23, 2015, the Baltimore City Board of Estimates approved an increase in annual rental fees for access to the Baltimore City underground conduit system effective November 1, 2015, from $12 million to $42 million, subject to an annual increase thereafter based on the Consumer Price Index. BGE subsequently entered into litigation with the City regarding the amount of and basis for establishing the conduit fee. On November 30, 2016, the Baltimore City Board of Estimates approved a settlement agreement entered into between BGE and the City to resolve the disputes and pending litigation related to BGE's use of and payment for the underground conduit system. As a result of the settlement, the parties have entered into a six-year lease that reduces the annual expense to $25 million in the first three years and caps the annual expense in the last three years to not more than $29 million. BGE recorded a credit to Operating and maintenance expense in the fourth quarter of 2016 of approximately $28 million for the reversal of the previously higher fees accrued in the current year as well as the settlement of prior year disputed fee true-up amounts.

Deere Wind Energy Assets (Exelon and Generation)

In 2013, Deere & Company ("Deere") filed a lawsuit against Generation in the Delaware Superior Court relating to Generation's acquisition of the Deere wind energy assets. Under the purchase agreement, Deere was entitled to receive earn-out payments if certain specific wind projects already under development in Michigan met certain development and construction milestones following the sale. In the complaint, Deere seeks to recover a $14 million earn-out payment associated with one such project, which was never completed. Generation has filed counterclaims against Deere for breach of contract, with a right of recoupment and set off. On June 2, 2016, the Delaware Superior Court entered summary judgment in favor of Deere. On January 17, 2017, Generation filed an appeal of the Superior Court's summary judgment decision with the Supreme Court of Delaware. Generation has accrued an amount to cover its potential liability.

City of Everett Tax Increment Financing Agreement (Exelon)

The City of Everett has filed a petition with the Massachusetts Economic Assistance Coordinating Council (EACC) to revoke the 1999 tax increment financing agreement (TIF Agreement) relating to Mystic 8 & 9 on the grounds that the total investment in Mystic 8 & 9 materially deviates from the investment set forth in the TIF Agreement. The EACC has appointed a three-member panel to conduct an administrative hearing on the City's petition. Generation has reviewed the City's claim and believes that it lacks merit. Generation has not recorded an accrual for payment resulting from such a revocation because the range of loss, if any, cannot be reasonably estimated at this time. Property taxes assessed in future periods could be material to Generation's results of operations and cash flows.

General (All Registrants)

The Registrants are involved in various other litigation matters that are being defended and handled in the ordinary course of business. The assessment of whether a loss is probable or a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. The Registrants maintain accruals for such losses that are probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of reasonably possible loss, particularly where (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss.

Income Taxes (Exelon, Generation, ComEd, PECO and BGE)

See Note 12 — Income Taxes for information regarding the Registrants' income tax refund claims and certain tax positions, including the 1999 sale of fossil generating assets.

19. Supplemental Financial Information (All Registrants)

Supplemental Statement of Operations Information

The following tables provide additional information about the Registrants' Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[a]									
Regulatory agreement units	$ 159	$ 159	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	59	59	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds									
Regulatory agreement units	44	44	—	—	—	—	—	—	—
Non-regulatory agreement units	111	111	—	—	—	—	—	—	—
Net unrealized losses on pledged assets									
Zion Station decommissioning	(4)	(4)	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[b]	(161)	(161)	—	—	—	—	—	—	—
Total decommissioning-related activities	208	208	—	—	—	—	—	—	—
Investment income	2	1	—	—	—	1	1	—	—
Interest income related to uncertain income tax positions	4	—	—	—	—	—	—	—	—
AFUDC — Equity	17	—	2	2	4	9	6	2	1
Other	6	—	3	—	—	3	—	2	—
Other, net	$ 237	$ 209	$ 5	$ 2	$ 4	$ 13	$ 7	$ 4	$ 1

	Nine Months Ended September 30, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[a]									
Regulatory agreement units	$ 439	$ 439	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	165	165	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds									
Regulatory agreement units	253	253	—	—	—	—	—	—	—
Non-regulatory agreement units	347	347	—	—	—	—	—	—	—
Net unrealized losses on pledged assets									

Zion Station decommissioning	(5)	(5)	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[b]	(558)	(558)	—	—	—	—	—	—	—
Total decommissioning-related activities	641	641	—	—	—	—	—	—	—
Investment income	6	4	—	—	—	2	1	—	—
Interest income related to uncertain income tax positions	3	—	—	—	—	—	—	—	—
Benefit related to uncertain income tax positions [c]	2	—	—	—	—	—	—	—	—
AFUDC — Equity	51	—	6	6	12	27	17	5	5
Other	22	3	8	—	—	11	4	5	1
Other, net	$ 725	$ 648	$ 14	$ 6	$ 12	$ 40	$ 22	$ 10	$ 6

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Three Months Ended September 30, 2016								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Other, Net									
Decommissioning-related activities:									
Net realized income on decommissioning trust funds[(a)]									
Regulatory agreement units	$ 57	$ 57	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	35	35	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds									
Regulatory agreement units	155	155	—	—	—	—	—	—	—
Non-regulatory agreement units	116	116	—	—	—	—	—	—	—
Net unrealized losses on pledged assets									
Zion Station decommissioning	(5)	(5)	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities[(b)]	(168)	(168)	—	—	—	—	—	—	—
Total decommissioning-related activities	190	190	—	—	—	—	—	—	—
Investment income (expense)	2	1	—	(1)	—	—	—	—	—
Interest income related to uncertain income tax positions	8	—	—	—	—	—	—	—	—
Penalty related to uncertain income tax positions[(c)]	(106)	—	(86)	—	—	—	—	—	—
AFUDC — Equity	19	—	5	2	5	7	5	1	1
Other	7	(6)	1	1	—	12	7	2	1
Other, net	$ 120	$ 185	$ (80)	$ 2	$ 5	$ 19	$ 12	$ 3	$ 2

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Nine Months Ended September 30, 2016								*Successor* March 24, 2016 to September 30, 2016	*Predecessor* January 1, 2016 to March 23, 2016
	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE	PHI	PHI
Other, Net										
Decommissioning-related activities:										
Net realized income on decommissioning trust funds (a)										
Regulatory agreement units	$ 181	$ 181	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-regulatory agreement units	95	95	—	—	—	—	—	—	—	—
Net unrealized gains on decommissioning trust funds										
Regulatory agreement units	286	286	—	—	—	—	—	—	—	—
Non-regulatory agreement units	216	216	—	—	—	—	—	—	—	—
Net unrealized losses on pledged assets										
Zion Station decommissioning	(2)	(2)	—	—	—	—	—	—	—	—
Regulatory offset to decommissioning trust fund-related activities(b)	(380)	(380)	—	—	—	—	—	—	—	—
Total decommissioning-related activities	396	396	—	—	—	—	—	—	—	—
Investment income (expense)	14	6	—	(1)	2	—	—	—	1	—
Long-term lease income	4	—	—	—	—	—	—	—	—	—
Interest income related to uncertain income tax positions	13	—	—	—	—	1	—	1	—	—
Penalty related to uncertain income tax positions(c)	(106)	—	(86)	—	—	—	—	—	—	—
AFUDC — Equity	43	—	8	6	14	14	3	5	15	7
Loss on debt extinguishment	(3)	(2)	—	—	—	—	—	—	—	—
Other	16	(5)	6	1	—	13	6	2	15	(11)
Other, net	$ 377	$ 395	$ (72)	$ 6	$ 16	$ 28	$ 9	$ 8	$ 31	$ (4)

(a) Includes investment income and realized gains and losses on sales of investments of the trust funds.
(b) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of net income taxes related to all NDT fund activity for those units. See Note 16 — Asset Retirement Obligations of the Exelon 2016 Form 10-K for additional information regarding the accounting for nuclear decommissioning.
(c) See Note 12 - Income Taxes for discussion of the penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position.

The following utility taxes are included in revenues and expenses for the three and nine months ended September 30, 2017 and 2016. Generation's utility tax expense represents gross receipts tax related to its retail operations, and the utility registrants' utility tax expense represents municipal and state utility taxes and gross receipts taxes related to their operating revenues. The offsetting collection of utility taxes from customers is recorded in revenues on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

Three Months Ended September 30, 2017

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Utility taxes	$ 245	$ 35	$ 65	$ 35	$ 22	$ 88	$ 83	$ 5	$ —

Nine Months Ended September 30, 2017

						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Utility taxes	$ 682	$ 97	$ 181	$ 95	$ 69	$ 240	$ 226	$ 14	$ —

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Three Months Ended September 30, 2016								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Utility taxes	$ 255	$ 35	$ 67	$ 40	$ 21	$ 92	$ 87	$ 5	$ —

	Nine Months Ended September 30, 2016								*Successor* **March 24, 2016 to September 30, 2016**	*Predecessor* **January 1, 2016 to March 23, 2016**
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Utility taxes	$ 624	$ 90	$ 186	$ 106	$ 66	$ 240	$ 14	$ —	$ 176	$ 78

Supplemental Cash Flow Information

The following tables provide additional information regarding the Registrants' Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016.

	Nine Months Ended September 30, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Depreciation, amortization and accretion									
Property, plant and equipment[(a)]	$ 2,416	$ 1,010	$ 579	$ 194	$ 233	$ 342	$ 153	$ 92	$ 66
Amortization of regulatory assets[(a)]	355	—	52	19	115	169	89	32	47
Amortization of intangible assets, net[(a)]	43	36	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities[(b)]	19	19	—	—	—	—	—	—	—
Nuclear fuel[(c)]	816	816	—	—	—	—	—	—	—
ARO accretion[(d)]	350	350	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$ 3,999	$ 2,231	$ 631	$ 213	$ 348	$ 511	$ 242	$ 124	$ 113

	Nine Months Ended September 30, 2016								*Successor* **March 24, 2016 to September 30, 2016**	*Predecessor* **January 1, 2016 to March 23, 2016**
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Depreciation, amortization and accretion										
Property, plant and equipment[(a)]	$2,490	$ 1,297	$ 524	$ 181	$ 223	$ 128	$ 82	$ 61	$ 215	$ 94

Amortization of regulatory assets(a)	293	—	49	20	84	93	38	69	140	58
Amortization of intangible assets, net(a)	38	32	—	—	—	—	—	—	—	—
Amortization of energy contract assets and liabilities(b)	(7)	(7)	—	—	—	—	—	—	—	—
Nuclear fuel(c)	862	862	—	—	—	—	—	—	—	—
ARO accretion(d)	333	332	1	—	—	—	—	—	—	—
Total depreciation, amortization and accretion	$4,009	$ 2,516	$ 574	$ 201	$ 307	$ 221	$ 120	$ 130	$ 355	$ 152

(a) Included in Depreciation and amortization on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

(b) Included in Operating revenues or Purchased power and fuel expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

(c) Included in Purchased power and fuel expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

(d) Included in Operating and maintenance expense on the Registrants' Consolidated Statements of Operations and Comprehensive Income.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

	Nine Months Ended September 30, 2017								
						Successor			
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Other non-cash operating activities:									
Pension and non-pension postretirement benefit costs	$ 482	$ 170	$ 131	$ 21	$ 47	$ 72	$ 19	$ 10	$ 10
Loss from equity method investments	26	26	—	—	—	—	—	—	—
Provision for uncollectible accounts	103	31	25	17	4	26	11	1	14
Stock-based compensation costs	76	—	—	—	—	—	—	—	—
Other decommissioning-related activity[(a)]	(213)	(213)	—	—	—	—	—	—	—
Energy-related options[(b)]	15	15	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	7	—	3	1	—	3	1	1	1
Amortization of rate stabilization deferral	(7)	—	—	—	7	(14)	(12)	(2)	—
Amortization of debt fair value adjustment	(13)	(9)	—	—	—	(4)	—	—	—
Discrete impacts from EIMA and FEJA[(c)]	(61)	—	(61)	—	—	—	—	—	—
Amortization of debt costs	57	33	3	1	1	1	1	—	—
Provision for excess and obsolete inventory	52	50	1	—	—	1	—	1	—
Merger-related commitments[(d)]	—	—	—	—	—	(8)	(6)	(2)	—
Severance costs	33	25	—	—	—	3	—	—	—
Other	46	4	10	(2)	(7)	(14)	(6)	(3)	(4)
Total other non-cash operating activities	$ 603	$ 132	$ 112	$ 38	$ 52	$ 66	$ 8	$ 6	$ 21
Non-cash investing and financing activities:									
Change in capital expenditures not paid	$ (101)	$ 20	$ (79)	$ (29)	$ 16	$ (6)	$ 7	$ 14	$ (18)
Fair value of pension obligation transferred in connection with the FitzPatrick acquisition	—	33	—	—	—	—	—	—	—
Change in PPE related to ARO update	(141)	(141)	—	—	—	—	—	—	—
Indemnification of like-kind exchange position[(g)]	—	—	21	—	—	—	—	—	—
Non-cash financing of capital projects	16	16	—	—	—	—	—	—	—
Dividends on stock compensation	5	—	—	—	—	—	—	—	—
Dissolution of financing trust due to long-term debt retirement	8	—	—	—	8	—	—	—	—
Fair value adjustment of long-term debt due to retirement	(5)	—	—	—	—	—	—	—	—

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

									Successor	*Predecessor*
	Nine Months Ended September 30, 2016								**March 24, 2016 to September 30, 2016**	**January 1, 2016 to March 23, 2016**
	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**	**PHI**	**PHI**
Other non-cash operating activities:										
Pension and non-pension postretirement benefit costs	$ 458	$ 163	$ 124	$ 25	$ 50	$ 24	$ 13	$ 11	$ 58	$ 23
Loss from equity method investments	15	16	—	—	—	—	—	—	—	—
Provision for uncollectible accounts	107	14	31	24	12	15	12	18	27	16
Stock-based compensation costs	88	—	—	—	—	—	—	—	—	3
Other decommissioning-related activity[(a)]	(237)	(237)	—	—	—	—	—	—	—	—
Energy-related options[(b)]	(20)	(20)	—	—	—	—	—	—	—	—
Amortization of regulatory asset related to debt costs	7	—	3	1	—	2	—	1	2	1
Amortization of rate stabilization deferral	62	—	—	—	62	3	3	—	—	5
Amortization of debt fair value adjustment	(9)	(9)	—	—	—	—	—	—	—	—
Discrete impacts from EIMA [(c)]	(36)	—	(36)	—	—	—	—	—	—	—
Amortization of debt costs	26	12	(3)	2	3	—	—	—	—	—
Provision for excess and obsolete inventory	74	70	4	—	—	1	1	1	—	1
Merger-related commitments [(d)(e)]	508	3	—	—	—	125	73	110	308	—
Severance costs	130	57	—	—	—	—	—	—	53	—
Asset retirement costs	—	—	—	—	—	—	5	2	—	—
Lower of cost or net realizable value inventory adjustment	36	36	—	—	—	—	—	—	—	—
Other	15	24	(1)	(3)	(18)	(2)	(8)	(5)	(7)	(3)
Total other non-cash operating activities	$ 1,224	$ 129	$ 122	$ 49	$ 109	$ 168	$ 99	$138	$ 441	$ 46
Non-cash investing and financing activities:										
Change in capital expenditures not paid	$ (338)	$ (289)	$ (42)	$ (4)	$ 17	$ 15	$ (10)	$ 2	$ (5)	$ 11
Fair value of net assets contributed to Generation in connection with the PHI Merger, net of cash[(d)(f)]	—	119	—	—	—	—	—	—	—	—
Fair value of net assets distributed to Exelon in connection with the PHI Merger, net of cash[(d)(f)]	—	—	—	—	—	—	—	—	129	—
Fair value of pension obligation transferred in connection with the PHI Merger	—	—	—	—	—	—	—	—	53	—
Assumption of member purchase liability	—	—	—	—	—	—	—	—	29	—
Assumption of merger commitment liability	—	—	—	—	—	33	—	—	33	—

Change in PPE related to ARO update	476	476	—	—	—	—	—	—	—	—
Indemnification of like-kind exchange position(g)	—	—	157	—	—	—	—	—	—	—
Non-cash financing of capital projects	84	84	—	—	—	—	—	—	—	—
Dividends on stock compensation	2	—	—	—	—	—	—	—	—	—

(a) Includes the elimination of NDT fund activity for the Regulatory Agreement Units, including the elimination of operating revenues, ARO accretion, ARC amortization, investment income and income taxes related to all NDT fund activity for these units. See Note 16 - Asset Retirement Obligations of the Exelon 2016 Form 10-K for additional information regarding the accounting for nuclear decommissioning.

(b) Includes option premiums reclassified to realized at the settlement of the underlying contracts and recorded in Operating revenues.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(c) Reflects the change in distribution rates pursuant to EIMA and FEJA, which allows for the recovery of distribution costs by a utility through a pre-established performance-based formula rate tariff. Beginning June 1, 2017, also reflects the change in energy efficiency rates pursuant to FEJA, which allows for the recovery of energy efficiency costs by a utility through a pre-established performance-based formula rate tariff. See Note 5 — Regulatory Matters for more information.
(d) See Note 4 — Mergers, Acquisitions and Dispositions for additional information related to the merger with PHI.
(e) Excludes $5 million of forgiveness of Accounts receivable related to merger commitments recorded in connection with the PHI Merger, the balance is included within Provision for uncollectible accounts.
(f) Immediately following closing of the PHI Merger, the net assets associated with PHI's unregulated business interests were distributed by PHI to Exelon. Exelon contributed a portion of such net assets to Generation.
(g) See Note 12— Income Taxes for discussion of the like-kind exchange tax position.

Supplemental Balance Sheet Information

The following tables provide additional information about assets and liabilities of the Registrants as of September 30, 2017 and December 31, 2016.

						Successor			
September 30, 2017	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Property, plant and equipment:									
Accumulated depreciation and amortization	$ 20,591 (a)	$ 11,193 (a)	$ 4,191	$ 3,366	$ 3,351	$ 448	$ 3,171	$ 1,231	$ 1,060
Accounts receivable:									
Allowance for uncollectible accounts	$ 339	$ 111	$ 72	$ 57	$ 25	$ 74	$ 29	$ 17	$ 28

						Successor			
December 31, 2016	**Exelon**	**Generation**	**ComEd**	**PECO**	**BGE**	**PHI**	**Pepco**	**DPL**	**ACE**
Property, plant and equipment:									
Accumulated depreciation and amortization	$ 19,169 (b)	$ 10,562 (b)	$ 3,937	$ 3,253	$ 3,254	$ 195	$ 3,050	$ 1,175	$ 1,016
Accounts receivable:									
Allowance for uncollectible accounts	$ 334	$ 91	$ 70	$ 61	$ 32	$ 80	$ 29	$ 24	$ 27

(a) Includes accumulated amortization of nuclear fuel in the reactor core of $3,303 million.
(b) Includes accumulated amortization of nuclear fuel in the reactor core of $3,186 million.

PECO Installment Plan Receivables (Exelon and PECO)

PECO enters into payment agreements with certain delinquent customers, primarily residential, seeking to restore their service, as required by the PAPUC. Customers with past due balances that meet certain income criteria are provided the option to enter into an installment payment plan, some of which have terms greater than one year, to repay past due balances in addition to paying for their ongoing service on a current basis. The receivable balance for these payment agreement receivables is recorded in accounts receivable for the current portion and other deferred debits and other assets for the noncurrent portion. The net receivable balance for installment plans with terms greater than one year was $11 million and $9 million as of September 30, 2017 and December 31, 2016, respectively. The allowance for uncollectible accounts reserve methodology and assessment of the credit quality of the installment plan receivables are consistent with the customer accounts receivable methodology discussed in Note 1 — Significant Accounting Policies of the Exelon 2016 Form 10-K. The allowance for uncollectible accounts balance associated with these receivables at September 30, 2017 of $12 million consists of $3 million and $9 million for medium risk and high risk segments, respectively. The allowance for uncollectible accounts balance at December 31, 2016 of $13 million consists of $1 million, $3 million and $9 million for low risk, medium risk and high risk segments, respectively. The balance of the payment agreement is billed to the customer in equal monthly installments over the term of the agreement. Installment receivables outstanding as of September 30, 2017 and December 31, 2016 include balances not yet presented on the customer bill, accounts currently billed and an immaterial amount of past due receivables. When a customer defaults on its payment agreement, the terms of which are defined by plan type, the entire balance of the agreement becomes due and the balance is reclassified to current customer accounts receivable and reserved for in accordance with the methodology discussed in Note 1 — Significant Accounting Policies of the Exelon 2016 Form 10-K.

20. Segment Information (All Registrants)

Operating segments for each of the Registrants are determined based on information used by the chief operating decision maker(s) (CODM) in deciding how to evaluate performance and allocate resources at each of the Registrants.

In the first quarter of 2016, following the consummation of the PHI Merger, three new reportable segments were added: Pepco, DPL and ACE. As a result, Exelon has twelve reportable segments, which include ComEd, PECO, BGE, PHI's three reportable segments consisting of Pepco, DPL, and ACE, and Generation's six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and all other power regions referred to collectively as "Other Power Regions", which includes activities in the South, West and Canada. ComEd, PECO, BGE, Pepco, DPL and ACE each represent a single reportable segment, and as such, no separate segment information is provided for these Registrants. Exelon, ComEd, PECO, BGE, Pepco, DPL and ACE's CODMs evaluate the performance of and allocate resources to ComEd, PECO, BGE, Pepco, DPL and ACE based on net income and return on equity.

Effective with the consummation of the PHI Merger, PHI's reportable segments have changed based on the information used by the CODM to evaluate performance and allocate resources. PHI's reportable segments consist of Pepco, DPL and ACE. PHI's Predecessor periods' segment information has been recast to conform to the current presentation. The reclassification of the segment information did not impact PHI's reported consolidated revenues or net income. PHI's CODM evaluates the performance of and allocates resources to Pepco, DPL and ACE based on net income and return on equity.

The basis for Generation's reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation's hedging strategies and risk metrics are also aligned to these same geographic regions. Descriptions of each of Generation's six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.
- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.
- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
- New York represents operations within ISO-NY, which covers the state of New York in its entirety.
- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.

- Other Power Regions:

  - South represents operations in the FRCC, MISO’s Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation’s South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.

  - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado and parts of New Mexico, Wyoming and South Dakota.

  - Canada represents operations across the entire country of Canada and includes AESO, OIESO and the Canadian portion of MISO.

The CODMs for Exelon and Generation evaluate the performance of Generation’s electric business activities and allocate resources based on revenues net of purchased power and fuel expense (RNF). Generation believes that RNF is a useful measurement of operational performance. RNF is not a presentation defined under GAAP and may not be comparable to other companies’ presentations or deemed more useful than the GAAP information provided elsewhere in this report. Generation's operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for Generation's owned generation and fuel costs associated with tolling agreements. The results of Generation's other business activities are not regularly reviewed by the CODM and are therefore not classified as operating segments or included in the regional reportable segment amounts. These activities include natural gas, as well as other miscellaneous business activities that are not significant to Generation's overall operating revenues or results of operations. Further, Generation's unrealized mark-to-market gains and losses on economic hedging activities and its amortization of certain intangible assets and liabilities relating to commodity contracts recorded at fair value from mergers and acquisitions are also excluded from the regional reportable segment amounts. Exelon and Generation do not use a measure of total assets in making decisions regarding allocating resources to or assessing the performance of these reportable segments.

An analysis and reconciliation of the Registrants' reportable segment information to the respective information in the consolidated financial statements for the three and nine months ended September 30, 2017 and 2016 is as follows:

Three Months Ended September 30, 2017 and 2016

					Successor			
	Generation[a]	**ComEd**	**PECO**	**BGE**	**PHI[b]**	**Other[c]**	**Intersegment Eliminations**	**Exelon**
Operating revenues[d]:								
2017								
Competitive businesses electric revenues	$ 4,042	$ —	$ —	$ —	$ —	$ —	$ (295)	$ 3,747
Competitive businesses natural gas revenues	460	—	—	—	—	—	—	460
Competitive businesses other revenues	249	—	—	—	—	—	—	249
Rate-regulated electric revenues	—	1,571	662	658	1,280	—	(7)	4,164
Rate-regulated natural gas revenues	—	—	53	80	18	—	(2)	149
Shared service and other revenues	—	—	—	—	12	446	(458)	—
2016								
Competitive businesses electric revenues	$ 4,322	$ —	$ —	$ —	$ —	$ —	$ (499)	$ 3,823
Competitive businesses natural gas revenues	326	—	—	—	—	—	—	326
	387	—	—	—	—	—	(1)	386

Competitive businesses other revenues								
Rate-regulated electric revenues	—	1,497	740	735	1,366	—	(8)	4,330
Rate-regulated natural gas revenues	—	—	48	77	17	—	(5)	137
Shared service and other revenues	—	—	—	—	11	362	(373)	—
Intersegment revenues[(e)]:								
2017	$ 294	$ 3	$ 2	$ 3	$ 12	$ 445	$ (759)	$ —
2016	500	4	2	7	11	362	(885)	1
Net income (loss):								
2017	$ 348	$ 189	$ 112	$ 62	$ 153	$ 3	$ —	$ 867
2016	271	37	122	56	166	(125)	(1)	526
Total assets:								
September 30, 2017	$ 47,744	$29,649	$11,480	$8,923	$21,301	$10,662	$ (11,286)	$118,473
December 31, 2016	46,974	28,335	10,831	8,704	21,025	10,369	(11,334)	114,904

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(a) Generation includes the six reportable segments shown below: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions. Intersegment revenues for Generation for the three months ended September 30, 2017 include revenue from sales to PECO of $31 million, sales to BGE of $98 million, sales to Pepco of $57 million, sales to DPL of $47 million, and sales to ACE of $7 million in the Mid-Atlantic region, and sales to ComEd of $54 million in the Midwest region. For the three months ended September 30, 2016, intersegment revenues for Generation include revenue from sales to PECO of $91 million, sales to BGE of $183 million, sales to Pepco of $128 million, sales to DPL of $63 million, and sales to ACE of $15 million in the Mid-Atlantic region, and sales to ComEd of $20 million in the Midwest region.

(b) Amounts included represent activity for PHI's successor period, three months ended September 30, 2017 and 2016. PHI includes the three reportable segments: Pepco, DPL and ACE.

(c) Other primarily includes Exelon's corporate operations, shared service entities and other financing and investment activities.

(d) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 19 — Supplemental Financial Information for total utility taxes for the three months ended September 30, 2017 and 2016.

(e) Intersegment revenues exclude sales to unconsolidated affiliates. The intersegment profit associated with Generation's sale of certain products and services by and between Exelon's segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in Operating revenues in the Consolidated Statements of Operations and Comprehensive Income.

Successor PHI:

	Pepco	DPL	ACE	Other[b]	Intersegment Eliminations	PHI
Operating revenues[a]:						
Three Months Ended September 30, 2017 - Successor						
Rate-regulated electric revenues	$ 604	$ 309	$ 370	$ —	$ (3)	$ 1,280
Rate-regulated natural gas revenues	—	18	—	—	—	18
Shared service and other revenues	—	—	—	12	—	12
Three Months Ended September 30, 2016 - Successor						
Rate-regulated electric revenues	$ 635	$ 314	$ 421	$ —	$ (4)	$ 1,366
Rate-regulated natural gas revenues	—	17	—	—	—	17
Shared service and other revenues	—	—	—	11	—	11
Intersegment revenues:						
Three Months Ended September 30, 2017 - Successor	$ 1	$ 2	$ —	$ 13	$ (4)	$ 12
Three Months Ended September 30, 2016 - Successor	1	2	1	11	(4)	11
Net income (loss):						
Three Months Ended September 30, 2017 - Successor	$ 87	$ 31	$ 41	$ (18)	$ 12	$ 153
Three Months Ended September 30, 2016 - Successor	79	44	47	(15)	11	166
Total assets:						
September 30, 2017 - Successor	$ 7,775	$ 4,276	$ 3,510	$10,724	$ (4,984)	$21,301
December 31, 2016 - Successor	7,335	4,153	3,457	10,804	(4,724)	21,025

(a) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 19 — Supplemental Financial Information for total utility taxes for the three months ended September 30, 2017 and 2016.

(b) Other primarily includes PHI's corporate operations, shared service entities and other financing and investment activities.

Generation total revenues:

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Revenues from external customers[(a)]	Intersegment revenues	Total Revenues	Revenues from external customers[(a)]	Intersegment revenues	Total Revenues
Mid-Atlantic	$ 1,421	$ 11	$ 1,432	$ 1,813	$ (13)	$ 1,800
Midwest	1,049	(11)	1,038	1,163	1	1,164
New England	482	(1)	481	455	(4)	451
New York	434	(6)	428	331	(8)	323
ERCOT	308	6	314	289	6	295
Other Power Regions	348	(13)	335	271	(33)	238
Total Revenues for Reportable Segments	4,042	(14)	4,028	4,322	(51)	4,271
Other[(b)]	709	14	723	713	51	764
Total Generation Consolidated Operating Revenues	$ 4,751	$ —	$ 4,751	$ 5,035	$ —	$ 5,035

(a) Includes all wholesale and retail electric sales to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $13 million and $21 million decrease to revenues for the amortization of intangible assets and liabilities related to commodity contracts recorded at fair value for the three months ended September 30, 2017 and 2016, respectively, unrealized mark-to-market gain of $52 million and $187 million for the three months ended September 30, 2017 and 2016, respectively, and elimination of intersegment revenues.

Generation total revenues net of purchased power and fuel expense:

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	RNF from external customers[(a)]	Intersegment RNF	Total RNF	RNF from external customers[(a)]	Intersegment RNF	Total RNF
Mid-Atlantic	$ 817	$ 38	$ 855	$ 881	$ 6	$ 887
Midwest	697	—	697	782	(1)	781
New England	151	(6)	145	170	(10)	160
New York	296	—	296	195	(1)	194
ERCOT	229	(111)	118	144	(51)	93
Other Power Regions	118	(50)	68	143	(66)	77
Total Revenues net of purchased power and fuel for Reportable Segments	2,308	(129)	2,179	2,315	(123)	2,192
Other[(b)]	112	129	241	131	123	254
Total Generation Revenues net of purchased power and fuel expense	$ 2,420	$ —	$ 2,420	$ 2,446	$ —	$ 2,446

(a) Includes purchases and sales from/to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $19 million and $22 million decrease to RNF for the amortization of intangible assets and liabilities related to commodity contracts for the three months ended September 30, 2017 and 2016, respectively, unrealized mark-to-market gains of $73 million and $88 million for the three months ended

September 30, 2017 and 2016, respectively, accelerated nuclear fuel amortization associated with announced early plant retirements as discussed in Note 7 - Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements of $6 million and $28 million decrease to revenue net of purchased power and fuel expense for the three months ended September 30, 2017 and 2016, respectively, and the elimination of intersegment revenue net of purchased power and fuel expense.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Nine Months Ended September 30, 2017 and 2016

					Successor			
	Generation[a]	**ComEd**	**PECO**	**BGE**	**PHI[b]**	**Other[c]**	**Intersegment Eliminations**	**Exelon**
Operating revenues[d]:								
2017								
Competitive businesses electric revenues	$ 11,485	$ —	$ —	$ —	$ —	$ —	$ (888)	$10,597
Competitive businesses natural gas revenues	1,807	—	—	—	—	—	—	1,807
Competitive businesses other revenues	520	—	—	—	—	—	—	520
Rate-regulated electric revenues	—	4,227	1,802	1,895	3,417	—	(23)	11,318
Rate-regulated natural gas revenues	—	—	339	468	105	—	(6)	906
Shared service and other revenues	—	—	—	—	35	1,316	(1,350)	1
2016								
Competitive businesses electric revenues	$ 11,677	$ —	$ —	$ —	$ —	$ —	$ (1,118)	$10,559
Competitive businesses natural gas revenues	1,515	—	—	—	—	—	—	1,515
Competitive businesses other revenues	171	—	—	—	—	—	(2)	169
Rate-regulated electric revenues	—	4,031	1,971	1,998	2,485	—	(24)	10,461
Rate-regulated natural gas revenues	—	—	322	423	46	—	(10)	781
Shared service and other revenues	—	—	—	—	34	1,166	(1,199)	1
Intersegment revenues[e]:								
2017	$ 888	$ 12	$ 5	$ 12	$ 35	$ 1,312	$ (2,262)	$ 2
2016	1,121	12	5	16	34	1,166	(2,351)	3
Net income (loss):								
2017	$ 491	$ 447	$ 327	$ 231	$ 359	$ 58	$ (2)	$ 1,911
2016	556	297	346	191	(91)	(340)	(3)	956

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

(a) Generation includes the six reportable segments shown below: Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions. Intersegment revenues for Generation for the nine months ended September 30, 2017 include revenue from sales to PECO of $111 million, sales to BGE of $330 million, sales to Pepco of $209 million, sales to DPL of $138 million, and sales to ACE of $23 million in the Mid-Atlantic region, and sales to ComEd of $77 million in the Midwest region. For the nine months ended September 30, 2016, intersegment revenues for Generation include revenue from sales to PECO of $234 million and sales to BGE of $489 million in the Mid-Atlantic region, and sales to ComEd of $38 million in the Midwest region. For the Successor period of March 24, 2016 to September 30, 2016, intersegment revenues for Generation include revenue from sales to Pepco of $223 million, sales to DPL of $109 million, and sales to ACE of $28 million in the Mid-Atlantic region.

(b) Amounts included represent activity for PHI's successor period, nine months ended September 30, 2017 and March 24, 2016 through September 30, 2016. PHI includes the three reportable segments: Pepco, DPL and ACE. See tables below for PHI's predecessor period, including Pepco, DPL and ACE, for January 1, 2016 to March 23, 2016.

(c) Other primarily includes Exelon's corporate operations, shared service entities and other financing and investment activities.

(d) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 19 — Supplemental Financial Information for total utility taxes for the nine months ended September 30, 2017 and 2016.

(e) Intersegment revenues exclude sales to unconsolidated affiliates. The intersegment profit associated with Generation's sale of certain products and services by and between Exelon's segments is not eliminated in consolidation due to the recognition of intersegment profit in accordance with regulatory accounting guidance. For Exelon, these amounts are included in Operating revenues in the Consolidated Statements of Operations and Comprehensive Income.

Successor and Predecessor PHI:

	Pepco	DPL	ACE	Other(b)	Intersegment Eliminations	PHI
Operating revenues(a):						
Nine Months Ended September 30, 2017 - Successor						
Rate-regulated electric revenues	$1,649	$ 866	$ 915	$ —	$ (13)	$3,417
Rate-regulated natural gas revenues	—	105	—	—	—	105
Shared service and other revenues	—	—	—	37	(2)	35
March 24, 2016 to September 30, 2016 - Successor						
Rate-regulated electric revenues	$1,184	$ 593	$ 714	$ 3	$ (9)	$2,485
Rate-regulated natural gas revenues	—	46	—	—	—	46
Shared service and other revenues	—	—	—	34	—	34
January 1, 2016 to March 23, 2016 - Predecessor						
Rate-regulated electric revenues	$ 511	$ 279	$ 268	$ 42	$ (4)	$1,096
Rate-regulated natural gas revenues	—	56	—	1	—	57
Shared service and other revenues	—	—	—	—	—	—
Intersegment revenues:						
Nine Months Ended September 30, 2017 - Successor	$ 4	$ 6	$ 2	$ 37	$ (14)	$ 35
March 24, 2016 to September 30, 2016 - Successor	2	4	2	35	(9)	34
January 1, 2016 to March 23, 2016 - Predecessor	1	2	1	—	(4)	—
Net income (loss):						
Nine Months Ended September 30, 2017 - Successor	$ 188	$ 107	$ 77	$ (48)	$ 35	$ 359
March 24, 2016 to September 30, 2016 - Successor	(12)	(42)	(55)	(16)	34	(91)
	32	26	5	(44)	—	19

January 1, 2016 to March 23, 2016 - Predecessor

(a) Includes gross utility tax receipts from customers. The offsetting remittance of utility taxes to the governing bodies is recorded in expenses on the Registrants' Consolidated Statements of Operations and Comprehensive Income. See Note 19 — Supplemental Financial Information for total utility taxes for the nine months ended September 30, 2017 and 2016.

(b) Other primarily includes PHI's corporate operations, shared service entities and other financing and investment activities. For the predecessor period presented, Other includes the activity of PHI's unregulated businesses which were distributed to Exelon and Generation as a result of the PHI Merger.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollars in millions, except per share data, unless otherwise noted)

Generation total revenues:

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Revenues from external customers[a]	Intersegment revenues	Total Revenues	Revenues from external customers[a]	Intersegment revenues	Total Revenues
Mid-Atlantic	$ 4,207	$ 15	$ 4,222	$ 4,776	$ (40)	$ 4,736
Midwest	3,158	(17)	3,141	3,330	13	3,343
New England	1,469	(8)	1,461	1,278	(6)	1,272
New York	1,095	(14)	1,081	906	(33)	873
ERCOT	749	4	753	659	6	665
Other Power Regions	807	(28)	779	728	(42)	686
Total Revenues for Reportable Segments	11,485	(48)	11,437	11,677	(102)	11,575
Other[b]	2,327	48	2,375	1,686	102	1,788
Total Generation Consolidated Operating Revenues	$ 13,812	$ —	$ 13,812	$ 13,363	$ —	$ 13,363

(a) Includes all wholesale and retail electric sales to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $30 million and $10 million decrease to revenues for the amortization of intangible assets and liabilities related to commodity contracts recorded at fair value for the nine months ended September 30, 2017 and 2016, respectively, unrealized mark-to-market losses of $47 million and $366 million for the nine months ended September 30, 2017 and 2016, respectively, and elimination of intersegment revenues.

Generation total revenues net of purchased power and fuel expense:

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	RNF from external customers[a]	Intersegment RNF	Total RNF	RNF from external customers[a]	Intersegment RNF	Total RNF
Mid-Atlantic	$ 2,330	$ 81	$ 2,411	$ 2,541	$ 15	$ 2,556
Midwest	2,129	11	2,140	2,225	4	2,229
New England	423	(20)	403	373	(23)	350
New York	679	(1)	678	607	(15)	592
ERCOT	446	(188)	258	335	(104)	231
Other Power Regions	359	(139)	220	357	(104)	253
Total Revenues net of purchased power and fuel expense for Reportable Segments	6,366	(256)	6,110	6,438	(227)	6,211
Other[b]	160	256	416	316	227	543
Total Generation Revenues net of purchased power and fuel expense	$ 6,526	$ —	$ 6,526	$ 6,754	$ —	$ 6,754

(a) Includes purchases and sales from/to third parties and affiliated sales to the Utility Registrants.

(b) Other represents activities not allocated to a region. See text above for a description of included activities. Includes a $41 million and $15 million decrease to RNF for the amortization of intangible assets and liabilities related to commodity contracts for the nine months ended September 30, 2017 and 2016, respectively, unrealized mark-to-market losses of $161 million and $113 million for the nine months ended September 30, 2017 and 2016, respectively, accelerated nuclear fuel amortization associated with announced early plant retirements as discussed in Note 7 - Early Nuclear Plant Retirements of the Combined Notes to Consolidated Financial Statements of $8 million and $38 million decrease to revenue net of purchased power and fuel expense for the nine months ended September 30, 2017 and 2016, respectively, and the elimination of intersegment revenue net of purchased power and fuel expense.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in millions except per share data, unless otherwise noted)

Exelon

Executive Overview

Exelon, a utility services holding company, operates through the following principal subsidiaries:

- *Generation,* whose integrated business consists of the generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services.

- *ComEd,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in northern Illinois, including the City of Chicago.

- *PECO,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in the Pennsylvania counties surrounding the City of Philadelphia.

- *BGE,* whose business consists of the purchase and regulated retail sale of electricity and natural gas and the provision of electricity distribution and transmission and natural gas distribution services in central Maryland, including the City of Baltimore.

- *Pepco,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission in the District of Columbia and major portions of Prince George’s County and Montgomery County in Maryland.

- *DPL,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.

- *ACE,* whose business consists of the purchase and regulated retail sale of electricity and the provision of electricity transmission and distribution services in southern New Jersey.

Pepco, DPL and ACE are operating companies of PHI, which is a utility services holding company and a wholly owned subsidiary of Exelon.

Exelon has twelve reportable segments consisting of Generation’s six reportable segments (Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions in Generation), ComEd, PECO, BGE and PHI’s three utility reportable segments (Pepco, DPL and ACE). See Note 20 - Segment Information of the

Combined Notes to Consolidated Financial Statements for additional information regarding Exelon's reportable segments.

Through its business services subsidiary BSC, Exelon provides its operating subsidiaries with a variety of support services at cost. The costs of these services are directly charged or allocated to the applicable operating segments. Additionally, the results of Exelon's corporate operations include costs for corporate governance and interest costs and income from various investment and financing activities.

PHI Service Company, a wholly owned subsidiary of PHI, provides a variety of support services at cost, including legal, accounting, engineering, distribution and transmission planning, asset management, system operations, and power procurement, to PHI and its operating subsidiaries. These services are directly charged or allocated pursuant to service agreements among PHI Service Company and the participating operating subsidiaries.

Exelon's consolidated financial information includes the results of its eight separate operating subsidiary registrants, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, which, along with Exelon, are collectively referred to as the Registrants. The following combined Management's Discussion and Analysis of Financial Condition and Results of Operations is separately filed by Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE. However, none of the Registrants makes any representation as to information related solely to any of the other Registrants.

Financial Results of Operations

GAAP Results of Operations

The following tables set forth Exelon's GAAP consolidated results of operations for the three and nine months ended September 30, 2017 compared to the same period in 2016. The 2016 amounts include the operations of PHI, Pepco, DPL and ACE from March 24, 2016 through September 30, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	Three Months Ended September 30,								
	2017							**2016**	**Favorable (Unfavorable) Variance**
	Generation	**ComEd**	**PECO**	**BGE**	**PHI**	**Other**	**Exelon**	**Exelon** [(b)]	
Operating revenues	$ 4,751	$1,571	$ 715	$ 738	$1,310	$(316)	$ 8,769	$ 9,002	$ (233)
Purchased power and fuel	2,331	529	235	269	473	(295)	3,542	3,754	212
Revenue net of purchased power and fuel[(a)]	2,420	1,042	480	469	837	(21)	5,227	5,248	(21)
Other operating expenses									
Operating and maintenance	1,374	346	197	175	251	(43)	2,300	2,338	38
Depreciation and amortization	410	212	72	109	179	20	1,002	1,195	193
Taxes other than income	141	80	42	61	122	10	456	449	(7)
Total other operating expenses	1,925	638	311	345	552	(13)	3,758	3,982	224
(Loss) Gain on sales of assets	(2)	—	—	—	—	1	(1)	1	(2)
Bargain purchase gain	7	—	—	—	—	—	7	—	7
Operating income (loss)	500	404	169	124	285	(7)	1,475	1,267	208
Other income and (deductions)									
Interest expense, net	(113)	(89)	(31)	(26)	(62)	(65)	(386)	(516)	130
Other, net	209	5	2	4	13	4	237	120	117
Total other income and (deductions)	96	(84)	(29)	(22)	(49)	(61)	(149)	(396)	247
Income (loss) before income taxes	596	320	140	102	236	(68)	1,326	871	455
Income taxes	240	131	28	40	83	(70)	452	340	(112)
Equity in (losses) earnings of unconsolidated affiliates	(8)	—	—	—	—	1	(7)	(5)	(2)
Net income	348	189	112	62	153	3	867	526	341
Net income attributable to noncontrolling interests and preference stock dividends	43	—	—	—	—	—	43	36	(7)
Net income attributable to common shareholders	$ 305	$ 189	$ 112	$ 62	$ 153	$ 3	$ 824	$ 490	$ 334

(a) The Registrants evaluate operating performance using the measure of revenues net of purchased power and fuel expense. The Registrants believe that revenues net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate their operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) As a result of the PHI Merger, Exelon includes the consolidated results of PHI, Pepco, DPL and ACE from July 1, 2016 through September 30, 2016.

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	Nine Months Ended September 30,								
	2017							2016	Favorable (Unfavorable) Variance
	Generation	ComEd	PECO	BGE	PHI	Other	Exelon	Exelon[b]	
Operating revenues	$ 13,812	$4,227	$2,141	$2,363	$3,557	$(951)	$25,149	$23,486	$ 1,663
Purchased power and fuel expense	7,286	1,241	719	853	1,318	(890)	10,527	9,462	(1,065)
Revenue net of purchased power and fuel expense[a]	6,526	2,986	1,422	1,510	2,239	(61)	14,622	14,024	598
Other operating expenses									
Operating and maintenance	4,871	1,096	595	532	774	(136)	7,732	7,677	(55)
Depreciation and amortization	1,046	631	213	348	511	65	2,814	2,821	7
Taxes other than income	425	223	116	180	344	25	1,313	1,168	(145)
Total other operating expenses	6,342	1,950	924	1,060	1,629	(46)	11,859	11,666	(193)
Gain on sales of assets	3	—	—	—	1	—	4	41	(37)
Bargain purchase gain	233	—	—	—	—	—	233	—	233
Operating income (loss)	420	1,036	498	450	611	(15)	3,000	2,399	601
Other income and (deductions)									
Interest expense, net	(342)	(275)	(93)	(80)	(183)	(221)	(1,194)	(1,179)	(15)
Other, net	648	14	6	12	40	5	725	377	348
Total other income and (deductions)	306	(261)	(87)	(68)	(143)	(216)	(469)	(802)	333
Income (loss) before income taxes	726	775	411	382	468	(231)	2,531	1,597	934
Income taxes	209	328	84	151	109	(286)	595	625	30
Equity in (losses) earnings of unconsolidated affiliates	(26)	—	—	—	—	1	(25)	(16)	(9)
Net income	491	447	327	231	359	56	1,911	956	955
Net income attributable to noncontrolling interests and preference stock dividends	12	—	—	—	—	—	12	26	14
Net income attributable to common shareholders	$ 479	$ 447	$ 327	$ 231	$ 359	$ 56	$ 1,899	$ 930	$ 969

(a) The Registrants evaluate operating performance using the measure of revenues net of purchased power and fuel expense. The Registrants believe that revenues net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate their operational performance. Revenues net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) As a result of the PHI Merger, Exelon includes the consolidated results of PHI, Pepco, DPL and ACE from March 24, 2016 through September 30, 2016.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. Exelon's Net income attributable to common shareholders was $824 million for the three months ended September 30, 2017 as compared to $490 million for the three months ended September 30, 2016, and diluted earnings per average common share were $0.85 for the three months ended September 30, 2017 as compared to $0.53 for the three months ended September 30, 2016.

Revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed below, decreased by $21 million for the three months ended September 30, 2017 as compared to the same period in 2016. The quarter-over-quarter decrease in Revenue net of purchased power and fuel expense was primarily due to the following unfavorable factors:

- Decrease of $36 million at PECO primarily due to unfavorable weathers conditions;

- Decrease of $15 million at Generation due to mark-to-market gains of $73 million in 2017 compared to $88 million in 2016; and

- Decrease of $11 million at Generation due to the unfavorable impacts of lower load volumes delivered due to mild weather and lower realized energy prices related to Exelon’s ratable hedging strategy, partially offset by the impact of the New York CES, increased capacity prices, increased nuclear volumes primarily as a result of the acquisition of FitzPatrick and decreased nuclear outage days, and the addition of two combined-cycle gas turbines in Texas.

The quarter-over-quarter decrease in Revenue net of purchase power and fuel expense was partially offset by the following favorable factors:

- Increase of $26 million at PHI primarily due to increased distribution revenue as a result of rate increases; and

- Increase of $17 million at BGE primarily due to increased transmission revenue as a result of rate increases.

Operating and maintenance expense decreased by $38 million for the three months ended September 30, 2017 as compared to the same period in 2016 primarily due to the following favorable factors:

- Decrease of $32 million at Exelon due to the net recovery of $2 million of merger-related costs in 2017 compared to merger-related costs of $30 million in 2016; and

- Decrease of $31 million at ComEd primarily due to the change to defer and recover over time energy efficiency costs pursuant to the Illinois Future Energy Jobs Act.

The quarter-over-quarter decrease in Operating and maintenance expense was partially offset by an increase of $38 million at Generation primarily due to the announcement of the early retirement of Generation’s TMI nuclear facility in 2017 compared to the previous decision to early retire Generation’s Clinton and Quad Cities nuclear facilities in 2016 and higher asset impairment charges, partially offset by decreased nuclear refueling outage costs and labor, contracting and materials expense.

Depreciation and amortization expense decreased by $193 million primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities, partially offset by increased depreciation expense as a result of ongoing capital expenditures across all operating companies for the three months ended September 30, 2017 as compared to the same period in 2016.

Taxes other than income increased by $7 million primarily due to increased property taxes as a result of the addition of FitzPatrick at Generation for the three months ended September 30, 2017 as compared to the same period in 2016.

Gain on sales of assets remained relatively consistent for the three months ended September 30, 2017 as compared to the same period in 2016.

Bargain purchase gain increased by $7 million due to a measurement period adjustment to the bargain purchase gain for the FitzPatrick acquisition for the three months ended September 30, 2017 as compared to the same period in 2016.

Interest expense, net decreased by $130 million primarily due to additional interest recorded in the third quarter 2016 related to Exelon’s like-kind exchange tax position, partially offset by the the impact of project in-service dates on the capitalization of interest and higher outstanding debt at Generation for the three months ended September 30, 2017 as compared to the same period in 2016.

Other, net increased by $117 million primarily due to the penalty recorded in the third quarter of 2016 related to Exelon’s like-kind exchange tax position and higher net realized gains on NDT funds at Generation for the three months ended September 30, 2017 as compared to the same period in 2016.

Exelon’s effective income tax rates for the three months ended September 30, 2017 and 2016 were 34.1% and 39.0%, respectively. See Note 12 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. Exelon’s Net income attributable to common shareholders was $1,899 million for the nine months ended September 30, 2017 as compared to $930 million for the nine months ended September 30, 2016, and diluted earnings per average common share were $2.01 for the nine months ended September 30, 2017 as compared to $1.00 for the nine months ended September 30, 2016.

Revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed below, increased by $598 million for the nine months ended September 30, 2017 as compared to the same period in 2016. The year-over-year increase in Revenue net of purchased power and fuel expense was primarily due to the following favorable factors:

- Increase of $96 million at ComEd primarily due to higher electric distribution and transmission formula rate revenues resulting from increased capital investment and higher allowed electric distribution ROE, partially offset by the impact of favorable weather conditions in 2016;
- Increase of $83 million at BGE primarily due to the impacts of the electric and natural gas distribution rate increases issued by the MDPSC in June 2016 and July 2016 and an increase in transmission formula rate revenues; and
- Increase of $711 million in Revenue net of purchased power and fuel due to the inclusion of PHI's results for the nine months ended September 30, 2017 compared to the period March 24, 2016 to September 30, 2016, as well as distribution rate increases effective in 2016 and 2017.

The year-over-year increase in Revenue net of purchased power and fuel expense was partially offset by the following unfavorable factors:

- Decrease of $180 million at Generation primarily due to the conclusion of the Ginna Reliability Support Services Agreement, the impact of declining natural gas prices on Generation's natural gas portfolio, the impacts of lower load volumes delivered due to mild weather and lower realized energy prices related to Exelon's ratable hedging strategy, partially offset by the impact of the New York CES, increased nuclear volumes primarily as a result of the acquisition of FitzPatrick, the addition of two combined-cycle gas turbines in Texas and the absence of oil inventory write downs in 2017.
- Decrease of $62 million at PECO primarily due to unfavorable weather conditions; and
- Decrease of $48 million at Generation due to mark-to-market losses of $161 million in 2017 compared to $113 million in 2016.

Operating and maintenance expense increased by $55 million for the nine months ended September 30, 2017 as compared to the same period in 2016 primarily due to the following unfavorable factors:

- Increase of $288 million at Generation due to higher asset impairment charges;
- Increase of $88 million at Generation due to increased nuclear outage costs;
- Increase in Generation's labor, contracting and materials costs of $74 million primarily due to the acquisition of FitzPatrick beginning on March 31, 2017; and
- Increase of $253 million at PHI due to the inclusion of PHI's results for the nine months ended September 30, 2017 compared to the period March 24, 2016 to September 30, 2016.

The year-over-year increase in Operating and maintenance expense was partially offset by the following favorable factors:

- Decrease of $589 million at Exelon due to merger commitment and other merger-related costs of $63 million in 2017 compared to $652 million in 2016; and
- Decrease of $56 million at BGE primarily due to certain disallowances contained in the June and July 2016 rate orders.

Depreciation and amortization expense decreased by $7 million primarily due to lower accelerated depreciation and amortization expense as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities, partially offset by increased depreciation expense as a result of ongoing capital expenditures across all operating companies and the inclusion of PHI’s results for the nine months ended September 30, 2017 compared to the period March 24, 2016 to September 30, 2016.

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Taxes other than income increased by $145 million primarily due to increased property taxes as a result of the addition of FitzPatrick, increased gross receipts tax expense and increased sales and use tax expense at Generation, as well as the inclusion of PHI's results for the nine months ended September 30, 2017 compared to the period March 24, 2016 to September 30, 2016.

Gain on sales of assets decreased by $37 million primarily due to Generation's gain associated with the sale of the New Boston generating site in 2016.

Bargain purchase gain increased by $233 million due to the gain associated with Generation's acquisition of FitzPatrick in 2017.

Interest expense, net increased by $15 million primarily due to additional interest recorded in the second quarter 2017 related to Exelon's like-kind exchange tax position, higher outstanding debt and the inclusion of PHI's results for the nine months ended September 30, 2017 compared to the period March 24, 2016 to September 30, 2016, partially offset by additional interest recorded in the third quarter 2016 related to Exelon's like-kind exchange tax position.

Other, net increased by $348 million primarily due to higher net unrealized and realized gains on NDT funds at Generation for the nine months ended September 30, 2017 as compared to the same period in 2016 and the penalty recorded in 2016 related to Exelon's like-kind exchange tax position.

Exelon's effective income tax rates for the nine months ended September 30, 2017 and 2016 were 23.5% and 39.1%, respectively. See Note 12 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

For further detail regarding the financial results for the three and nine months ended September 30, 2017, including explanation of the non-GAAP measure Revenue net of purchased power and fuel expense, see the discussions of Results of Operations by Segment below.

Adjusted (non-GAAP) Operating Earnings

Exelon's adjusted (non-GAAP) operating earnings for the three months ended September 30, 2017 were $821 million, or $0.85 per diluted share, compared with adjusted (non-GAAP) operating earnings of $841 million, or $0.91 per diluted share for the same period in 2016. Exelon's adjusted (non-GAAP) operating earnings for the nine months ended September 30, 2017 were $1,935 million, or $2.05 per diluted share, compared with adjusted (non-GAAP) operating earnings of $2,078 million, or $2.24 per diluted share for the same period in 2016. In addition to net income, Exelon evaluates its operating performance using the measure of adjusted (non-GAAP) operating earnings because management believes it represents earnings directly related to the ongoing operations of the business. Adjusted (non-GAAP) operating earnings exclude certain costs, expenses, gains and losses and other specified items. This information is intended to enhance an investor's overall understanding of period-over-period operating results and provide an indication of Exelon's baseline operating performance excluding items that are considered by management to be not directly related to the ongoing operations of the business. In addition, this information is among the primary indicators management uses as a basis for evaluating performance, allocating resources, setting incentive compensation targets and planning and forecasting of future periods. Adjusted (non-GAAP) operating earnings is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

The following tables provide a reconciliation between net income attributable to common shareholders as determined in accordance with GAAP and adjusted (non-GAAP) operating earnings for the three and nine months ended September 30, 2017 as compared to the same period in 2016.

	Three Months Ended September 30,			
	2017		2016	
(All amounts in millions after tax)		Earnings per Diluted Share		Earnings per Diluted Share
Net Income Attributable to Common Shareholders	$ 824	$ 0.85	$ 490	$ 0.53
Mark-to-Market Impact of Economic Hedging Activities[(a)] (net of taxes of $29 and $35, respectively)	(45)	(0.05)	(54)	(0.06)
Unrealized Gains Related to NDT Fund Investments[(b)] (net of taxes of $45 and $48, respectively)	(67)	(0.07)	(70)	(0.07)
Amortization of Commodity Contract Intangibles[(c)] (net of taxes of $8 and $8, respectively)	12	0.01	13	0.01
Merger and Integration Costs[(d)] (net of taxes of $1 and $10, respectively)	(1)	—	13	0.01
Merger Commitments[(e)] (net of taxes of $1)	—	—	5	0.01
Long-Lived Asset Impairments[(f)] (net of taxes of $16 and $5, respectively)	24	0.03	11	0.01
Plant Retirements and Divestitures[(g)] (net of taxes of $47 and $129, respectively)	71	0.08	204	0.22
Cost Management Program[(h)] (net of taxes of $8 and $5, respectively)	13	0.01	7	0.01
Like-Kind Exchange Tax Position[(i)] (net of taxes of $61)	—	—	199	0.21
Asset Retirement Obligation[(j)] (net of taxes of $1)	(2)	—	—	—
Bargain Purchase Gain[(k)] (net of taxes of $0)	(7)	(0.01)	—	—
Reassessment of State Deferred Income Taxes[(l)] (entire amount represents tax expense)	(21)	(0.02)	—	—
Noncontrolling Interests[(m)] (net of taxes of $4 and $5, respectively)	20	0.02	23	0.03
Adjusted (non-GAAP) Operating Earnings	$ 821	$ 0.85	$ 841	$ 0.91

(All amounts in millions after tax)	Nine Months Ended September 30, 2017	2017 Earnings per Diluted Share	2016	2016 Earnings per Diluted Share
Net Income Attributable to Common Shareholders	$ 1,899	$ 2.01	$ 930	$ 1.00
Mark-to-Market Impact of Economic Hedging Activities [a] (net of taxes of $62 and $46, respectively)	97	0.10	67	0.07
Unrealized Gains Related to NDT Fund Investments[b] (net of taxes of $137 and $89, respectively)	(211)	(0.22)	(127)	(0.13)
Amortization of Commodity Contract Intangibles[c] (net of taxes of $17 and $6, respectively)	27	0.03	8	0.01
Merger and Integration Costs[d] (net of taxes of $24 and $36, respectively)	39	0.04	92	0.10
Merger Commitments[e] (net of taxes of $137 and $114, respectively)	(137)	(0.15)	400	0.43
Long-Lived Asset Impairments[f] (net of taxes of $188 and $67, respectively)	293	0.31	104	0.11
Plant Retirements and Divestitures[g] (net of taxes of $89 and $214, respectively)	137	0.15	338	0.37
Cost Management Program[h] (net of taxes of $15 and $17, respectively)	24	0.03	26	0.03
Like-Kind Exchange Tax Position[i] (net of taxes of $66 and $61, respectively)	(26)	(0.03)	199	0.21
Asset Retirement Obligation[j] (net of taxes of $1)	(2)	—	—	—
Bargain Purchase Gain[k] (net of taxes of $0)	(233)	(0.25)	—	—
Reassessment of State Deferred Income Taxes[l] (entire amount represents tax expense)	(42)	(0.04)	—	—
Tax Settlements[n] (net of taxes of $1)	(5)	(0.01)	—	—
Noncontrolling Interests[m] (net of taxes of $16 and $8, respectively)	75	0.08	41	0.04
Adjusted (non-GAAP) Operating Earnings	$ 1,935	$ 2.05	$ 2,078	$ 2.24

Note:
Unless otherwise noted, the income tax impact of each reconciling item between GAAP Net Income and Adjusted (non-GAAP) Operating Earnings is based on the marginal statutory federal and state income tax rates for each Registrant, taking into account whether the income or expense item is taxable or deductible, respectively, in whole or in part. For all items except the unrealized gains and losses related to NDT fund investments, the marginal statutory income tax rates ranged from 39.0 percent to 41.0 percent. Under IRS regulations, NDT fund investment returns are taxed at differing rates for investments in qualified vs. non-qualified funds. The tax rates applied to unrealized gains and losses related to NDT Fund investments were 43.2 percent and 46.2 percent for the three and nine months ended September 30, 2017, respectively, and 52.6 percent and 52.5 percent for the three and nine months ended September 30, 2016, respectively.

(a) Reflects the impact of net gains and losses on Generation’s economic hedging activities. See Note 10 - Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation’s hedging activities.
(b) Reflects the impact of net unrealized gains on Generation’s NDT fund investments for Non-Regulatory Agreement Units. See Note 13 - Nuclear Decommissioning of the Combined Notes to Consolidated Financial Statements for additional detail related to Generation’s NDT fund investments.
(c) Reflects the non-cash amortization of intangible assets, net, primarily related to commodity contracts recorded at fair value related to the ConEdison Solutions and FitzPatrick acquisitions in 2017, and in 2016, the Integrys and ConEdison Solutions acquisitions.
(d) Reflects certain costs incurred for the PHI acquisition in 2017 and 2016 and Generation’s FitzPatrick acquisition in 2017, including professional fees, employee-related expenses and integration activities. See Note 4 - Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to merger and acquisition costs.
(e) Represents a decrease in reserves for uncertain tax positions related to the deductibility of certain merger commitments associated with the 2012 CEG and 2016 PHI acquisitions in 2017, and costs and adjustments incurred as part of the settlement orders approving the PHI acquisition in 2017 and 2016. See Note 4 - Mergers, Acquisitions and Dispositions of the Combined Notes to Consolidated Financial Statements for additional detail related to PHI Merger commitments.
(f)

Primarily reflects impairments as a result of the ExGenTexas Power, LLC assets held for sale in 2017 and impairments of Upstream assets and certain wind projects at Generation in 2016.

(g) Primarily reflects accelerated depreciation and amortization expenses, increases to materials and supplies inventory reserves, charges for severance reserves and construction work in progress impairments associated with Generation’s previous decision to early retire the Clinton and Quad Cities nuclear facilities in 2016, partially offset in 2016 by a gain associated with Generation’s sale of the New Boston generating site and Generation’s decision to early retire the Three Mile Island nuclear facility in 2017.

(h) Reflects severance and reorganization costs related to a cost management program.

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(i) Represents adjustments to income tax, penalties and interest expenses in 2017 as a result of the finalization of the IRS tax computation related to Exelon's like-kind exchange tax position, and in 2016, the recognition of a penalty and associated interest expense in 2016 as a result of a tax court decision on Exelon's like-kind exchange tax position.
(j) Reflects a non-cash benefit pursuant to the annual update of the Generation nuclear decommissioning obligation related to the nonregulatory units.
(k) Represents the excess of the fair value of assets and liabilities acquired over the purchase price for the FitzPatrick acquisition.
(l) Reflects the non-cash impact of the remeasurement of state deferred income taxes, primarily as a result of changes in forecasted apportionment related to the PHI acquisition in 2016, and in 2017, changes in the Illinois and District of Columbia statutory tax rates and changes in forecasted apportionment.
(m) Represents elimination from Generation's results of the noncontrolling interest related to certain exclusion items, primarily related to the impact of unrealized gains and losses on NDT fund investments at CENG.
(n) Reflects benefits related to the favorable settlement in 2017 of certain income tax positions related to PHI's unregulated business interests that were transferred to Generation.

Merger, Integration and Acquisition Costs

As a result of the PHI Merger that was completed on March 23, 2016, the Registrants have incurred costs associated with evaluating, structuring and executing the PHI Merger transaction itself, and will continue to incur cost associated with meeting the various commitments set forth by regulators and agreed-upon with other interested parties as part of the merger approval process, and integrating the former PHI businesses into Exelon. In addition, as a result of the acquisition of the FitzPatrick nuclear generating station on March 31, 2017, Exelon and Generation incurred costs associated with evaluating, structuring, and executing the transaction and integrating FitzPatrick into Exelon.

For the three and nine months ended September 30, 2017 and 2016, expense has been recognized for the PHI Merger and Generation's FitzPatrick acquisition as follows:

	Pre-tax Expense								
	Three Months Ended September 30, 2017								
Merger, Integration and Acquisition Costs:	**Exelon(a)**	**Generation(a)**	**ComEd**	**PECO**	**BGE**	**PHI(a)(b)**	**Pepco(a)(c)**	**DPL(a)**	**ACE(a)(d)**
Transaction(e)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Other(f)	(3)	11	—	1	1	(15)	(8)	1	(8)
Total	$ (3)	$ 11	$ —	$ 1	$ 1	$ (15)	$ (8)	$ 1	$ (8)

	Pre-tax Expense								
	Three Months Ended September 30, 2016								
Merger, Integration and Acquisition Costs:	**Exelon(a)**	**Generation(a)**	**ComEd**	**PECO**	**BGE**	**PHI(a)**	**Pepco(a)**	**DPL(a)**	**ACE(a)**
Transaction(e)	$ 1	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Employee-Related(g)	1	—	—	—	—	1	—	—	—
Other(f)	21	11	—	2	2	7	3	2	2
Total	$ 23	$ 11	$ —	$ 2	$ 2	$ 8	$ 3	$ 2	$ 2

	Pre-tax Expense								
	Nine Months Ended September 30, 2017								
	Exelon(a)	**Generation(a)**	**ComEd**	**PECO**	**BGE**	**PHI(a)(b)**	**Pepco(a)(c)**	**DPL(a)(h)**	**ACE(a)(d)**

Merger, Integration and Acquisition Costs:									
Transaction[(e)]	$ 5	$ 4	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Other[(f)]	57	67	1	3	3	(17)	(6)	(6)	(6)
Total	$ 62	$ 71	$ 1	$ 3	$ 3	$ (17)	$ (6)	$ (6)	$ (6)

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	Pre-tax Expense								
	Nine Months Ended September 30, 2016								
Merger, Integration and Acquisition Costs:	**Exelon(a)**	**Generation(a)**	**ComEd(i)**	**PECO**	**BGE(j)**	**PHI(a)(b)**	**Pepco(a)(c)**	**DPL(a)(h)**	**ACE(a)**
Transaction(e)	$ 36	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Employee-Related(g)	74	10	1	1	1	61	29	17	14
Other(f)	16	21	(8)	3	(3)	2	(3)	1	3
Total	$ 126	$ 31	$ (7)	$ 4	$ (2)	$ 63	$ 26	$ 18	$ 17

(a) For Exelon, Generation, PHI, Pepco, DPL, and ACE, includes the operations of the acquired businesses beginning on March 24, 2016.

(b) For the three and nine months ended September 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $16 million and $24 million, respectively, incurred at PHI that have been deferred and recorded as a regulatory asset for anticipated recovery. For the Successor period March 24, 2016 to September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $13 million incurred at PHI that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(c) For the three and nine months ended September 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at Pepco that have been deferred and recorded as a regulatory asset for anticipated recovery. For the nine months ended September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $10 million incurred at Pepco that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(d) For the three and nine months ended September 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at ACE that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(e) External, third party costs paid to advisors, consultants, lawyers and other experts to integrate PHI processes and systems into Exelon, to assist in the due diligence and regulatory approval processes and in the closing of transactions.

(f) Costs to integrate PHI processes and systems into Exelon. For the three and nine months ended September 30, 2017, also includes costs to integrate FitzPatrick processes and systems into Exelon.

(g) Costs primarily for employee severance, pension and OPEB expense and retention bonuses.

(h) For the nine months ended September 30, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. For the nine months ended September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $3 million incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(i) For the nine months ended September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million, incurred at ComEd that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

(j) For the nine months ended September 30, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $6 million incurred at BGE that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5—Regulatory Matters for more information.

As of September 30, 2017, Exelon expects to incur total PHI acquisition and integration related costs of approximately $700 million, excluding merger commitments. Of this amount, including costs incurred from 2014 through September 30, 2017, Exelon and PHI have incurred approximately $675 million.

Significant 2017 Transactions and Developments

Early Retirement of Three Mile Island Facility

On May 30, 2017, Generation announced it will permanently cease generation operations at Three Mile Island Generating Station (TMI) on or about September 30, 2019. The TMI nuclear plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning year and will not receive capacity revenue for that period, the third consecutive year that TMI failed to clear the PJM base residual capacity auction. The plant is currently committed to operate through May 2019. In 2017, as a result of the plant retirement decision of TMI, Exelon and Generation recognized one-time charges in Operating and maintenance expense of $76 million related to materials and supplies inventory reserve adjustments, employee-related costs and construction work-in-progress (CWIP) impairments, among other items. In addition to these one-time charges, there will be ongoing annual incremental non-cash charges to earnings stemming from shortening the expected economic useful life of TMI primarily related to accelerated depreciation of plant assets (including any asset retirement costs (ARC)), accelerated amortization of nuclear fuel, and additional asset retirement obligation (ARO) accretion expense associated with the changes in decommissioning timing and cost assumptions. During the three and nine months ended September 30, 2017, both Exelon’s and Generation’s results include an incremental $112 million and $149 million, respectively, of pre-tax expense for these items.

The following table summarizes the estimated annual amount and timing of expected incremental non-cash expense items through 2019.

Income statement expense (pre-tax)	September 30, 2017	Projected[(a)] 2017	Projected[(a)] 2018	Projected[(a)] 2019
Depreciation and Amortization				
Accelerated depreciation[(b)]	$ 141	$ 250	$ 430	$ 325
Accelerated nuclear fuel amortization	8	10	20	5
Total	$ 149	$ 260	$ 450	$ 330

(a) Actual results may differ based on incremental future capital additions, actual units of production for nuclear fuel amortization, future revised ARO assumptions, etc.

(b) Reflects incremental accelerated depreciation of plant assets, including any ARC.

EGTP Consent Agreement

In September 2014, EGTP, an indirect subsidiary of Exelon and Generation, issued $675 million aggregate principal amount of a nonrecourse senior secured term loan. EGTP's operating cash flows have been negatively impacted by certain market conditions and the seasonality of its cash flows. On May 2, 2017, EGTP entered into a consent agreement with its lenders to permit EGTP to draw on its revolving credit facility and initiate an orderly sales process to sell the assets of its wholly owned subsidiaries, the proceeds from which will first be used to pay the administrative costs of the sale, the normal and ordinary costs of operating the plants and repayment of the secured debt of EGTP, including the revolving credit facility. As a result, in the second quarter 2017, Exelon and Generation classified certain EGTP assets and liabilities on Exelon's and Generation's Consolidated Balance Sheets as held for sale at their respective fair values less costs to sell and included in the other current assets and other current liabilities balances on Exelon's and Generation's Consolidated Balance Sheets. For the three and nine months ended September 30, 2017, a $40 million and $458 million pre-tax impairment loss was recorded within Operating and maintenance expense on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 4 - Mergers, Acquisitions and Dispositions, Note 6 - Impairment of Long-Lived Assets and Note 11 - Debt and Credit Agreements for more information for additional information regarding EGTP and the associated nonrecourse debt.

Acquisition of James A. FitzPatrick Nuclear Generating Station

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station for a total purchase price of $289 million. In accounting for the acquisition as a business combination, Exelon and Generation recorded an after-tax bargain purchase gain of $233 million which is included within Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. See Note 4 - Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information regarding the Generation's acquisition of FitzPatrick and related costs.

Illinois Future Energy Jobs Act

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA was effective June 1, 2017, and includes, among other provisions, (1) a Zero Emission Standard (ZES) providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd's electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for

ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd's customer rates exceeds specified limits, (6) revisions to the existing net metering statute and (7) support for low income rooftop and community solar programs. FEJA establishes new or adjusts existing rate recovery mechanisms for ComEd to recover costs associated with the new or expanded energy efficiency and RPS requirements. Regulatory or legal challenges over the validity of FEJA are possible. See Note 5 - Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA. See Note 7 - Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information regarding the economic challenges facing Generation's Clinton and Quad Cities nuclear plants and the expected benefits of the ZES.

Dismissal of Litigation Challenging ZEC Programs

On July 14, 2017, the U.S. District Court for the Northern District of Illinois dismissed two lawsuits challenging the ZEC program contained in FEJA. On July 17, 2017, the plaintiffs appealed the court's decisions to the U.S. Court of Appeals for the Seventh Circuit. Plaintiffs-Appellants initial brief was filed on August 28, 2017 and the state's and Exelon's briefs were filed on October 27, 2017. Reply briefs are due on December 12, 2017.

Additionally, on July 25, 2017, the U.S. District Court for the Southern District of New York dismissed a lawsuit challenging the ZEC program contained in the New York CES. On August 24, 2017, the plaintiffs appealed the decision to the Second Circuit. Plaintiffs-Appellants' initial brief was filed on October 13 and the state's and Exelon's briefs are due on November 17, 2017. Reply briefs are due on December 1, 2017.

These court decisions uphold the ZEC programs which support Illinois's and New York's efforts to advance clean energy and preserve affordable and reliable energy resources for customers. See Note 5 - Regulatory Matters of the Combined Notes to the Consolidated Financial Statements for additional information regarding FEJA and the New York CES.

Merger Commitment Unrecognized Tax Benefits

Exelon established a liability for an uncertain tax position associated with the tax deductibility of certain merger commitments incurred by Exelon in connection with the acquisitions of Constellation in 2012 and PHI in 2016. In the first quarter 2017, as a part of its examination of Exelon's return, the IRS National Office issued guidance concurring with Exelon's position that the merger commitments were deductible. As a result, Exelon, Generation, PHI, Pepco, DPL, and ACE decreased their liability for unrecognized tax benefits by $146 million, $19 million, $59 million, $21 million, $16 million, and $22 million, respectively, as of September 30, 2017, resulting in a benefit to Income taxes on Exelon's, Generation's, PHI's, Pepco's, DPL's and ACE's Consolidated Statements of Operations and Comprehensive Income and corresponding decreases in their effective tax rates.

Combined-Cycle Gas Turbine Projects

In June 2017, Generation commenced commercial operations of two new combined-cycle gas turbines (CCGTs) at the Colorado Bend and Wolf Hollow Generating Stations in Texas. The two new CCGTs have added nearly 2,200 MWs of capacity to Generation's fleet, enhancing Generation's strategy to match generation to customer load. Generation invested approximately $1.5 billion over the past three years to complete the new plant construction, which utilizes new General Electric technology to make them among the cleanest, most efficient CCGTs in the nation.

Utility Rates and Rate Proceedings

The Utility Registrants file rate cases with their regulatory commissions seeking increases or decreases to their electric transmission and distribution, and gas distribution rates to recover their costs and earn a fair return on their investments. The outcomes of these regulatory proceedings impact the Utility Registrants' current and future results of operations, cash flows and financial position.

The following tables show the Utility Registrants' completed and pending distribution rate case proceedings in 2017.

Completed Distribution Rate Case Proceedings

Company	**Jurisdiction**	**Approved Revenue Requirement Increase (in millions)**	**Approved Return on Equity**	**Completion Date**	**Rate Effective Date**
DPL	Maryland (Electric)	$ 38	9.6%	February 15, 2017	February 15, 2017
DPL	Delaware (Electric)	$ 31.5	9.7%	May 23, 2017	June 1, 2017
DPL	Delaware (Natural Gas)	$ 4.9	9.7%	June 6, 2017	July 1, 2017
Pepco	District of Columbia (Electric)	$ 37	9.5%	July 25, 2017	August 15, 2017
ACE	New Jersey (Electric)	$ 43	9.6%	September 22, 2017	October 1, 2017
Pepco	Maryland (Electric)	$ 32	9.5%	October 27, 2017	October 20, 2017

Pending Distribution Rate Case Proceedings

Company	**Jurisdiction**	**Requested Revenue Requirement Increase (in millions)**	**Requested Return on Equity**	**Filing Date**	**Expected Completion Timing**
ComEd	Illinois (Electric)(a)	$ 96 (b)	8.4% (c)	April 13, 2017	Fourth quarter 2017
DPL	Maryland (Electric)	$ 22	10.1%	July 14, 2017 (Updated on September 28, 2017)	First quarter 2018
DPL	Delaware (Electric)	$ 31	10.1%	August 17, 2017 (Updated on October 18, 2017)	Third quarter 2018
DPL	Delaware (Natural Gas)	$ 13	10.1%	August 17, 2017	Third quarter 2018

(a) Pursuant to EIMA, ComEd's electric distribution rates are established through a performance-based formula through which ComEd is required to file an annual update on or before May 1, with resulting rates effective in January of the following year. ComEd's annual electric distribution formula rate update is based on prior year actual costs and current year projected capital additions (initial year revenue requirement). The update also reconciles any differences between the revenue requirement in effect for the prior year and actual costs incurred for the year (annual reconciliation).

(b) Reflects an increase of $78 million for the initial revenue requirement for 2017 and an increase of $18 million related to the annual reconciliation.

(c) ComEd's allowed ROE under its electric distribution formula rate is the annual average rate on 30-year treasury notes plus 580 basis points and is subject to reduction if ComEd does not deliver certain reliability and customer service benefits. The initial revenue requirement for 2017 reflects an allowed ROE of 8.40%, while the annual reconciliation reflects an allowed ROE of 8.34%, which is inclusive of a 6 basis point performance penalty.

Transmission Formula Rates

The following total increases/(decreases) were included in ComEd's, BGE's, Pepco's, DPL's and ACE's 2017 annual electric transmission formula rate filings:

	2017				
Annual Transmission Filings[(a)]	**ComEd**	**BGE**	**Pepco**	**DPL**	**ACE**
Initial revenue requirement increase	$ 44	$ 31	$ 5	$ 6	$ 20
Annual reconciliation (decrease) increase	(33)	3	15	8	22
Dedicated facilities decrease[(b)]	—	(8)	—	—	—
Total revenue requirement increase	$ 11	$ 26	$ 20	$ 14	$ 42
Allowed return on rate base[(c)]	8.43%	7.47%	7.92%	7.16%	8.02%
Allowed ROE[(d)]	11.50%	10.50%	10.50%	10.50%	10.50%

(a) All rates are effective June 2017, subject to review by the FERC and other parties, which is due by fourth quarter 2017.

(b) BGE's transmission revenues include a FERC approved dedicated facilities charge to recover the costs of providing transmission service to specifically designated load by BGE.

(c) Represents the weighted average debt and equity return on transmission rate bases.

(d) As part of the FERC-approved settlement of ComEd's 2007 transmission rate case, the rate of return on common equity is 11.50% and the common equity component of the ratio used to calculate the weighted average debt and equity return for the transmission formula rate is currently capped at 55%. As part of the FERC-approved settlement of the ROE complaint against BGE, Pepco, DPL and ACE, the rate of return on common equity is 10.50%, inclusive of a 50 basis point incentive adder for being a member of a regional transmission organization.

PECO Transmission Formula Rate

On May 1, 2017, PECO filed a request with FERC seeking approval to update its transmission rates and change the manner in which PECO's transmission rate is determined from a fixed rate to a formula rate. The formula rate would be updated annually to ensure that under this rate customers pay the actual costs of providing transmission services. The formula rate filing includes a requested increase of $22 million to PECO's annual transmission revenues and a requested rate of return on common equity of 11%, inclusive of a 50 basis point adder for being a member of a regional transmission organization. PECO requested that the new transmission rate be effective as of July 2017. On June 27, 2017, FERC issued an Order accepting the filing and suspending the proposed rates until December 1, 2017, subject to refund, and set the matter for hearing and settlement judge procedures. PECO cannot predict the final outcome of the settlement or hearing proceedings, or the transmission formula FERC may approve.

See Note 5 - Regulatory Matters of the Combined Notes to Consolidated Financial Statements for further details on these regulatory proceedings.

Westinghouse Electric Company LLC Bankruptcy

On March 29, 2017, Westinghouse Electric Company LLC (Westinghouse) and its affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. In the petitions and supporting documents, Westinghouse makes clear that its requests for relief center on one business area that is losing money — the construction of nuclear power plants in Georgia and South Carolina. Through the bankruptcy, Westinghouse seeks to reorganize around its profitable core business, which includes nuclear fuel fabrication and related services and other services provided to existing nuclear power plants in the U.S. and around the world. For these reasons, at this time, Generation does not anticipate disruption to the Westinghouse fuel fabrication contracts for Braidwood, Byron, or Ginna or other existing contracts for Generation’s nuclear power plants. Generation is monitoring the bankruptcy proceeding to ensure that its rights are protected.

ExGen Renewables Holdings, LLC Transaction

On July 6, 2017, ExGen Renewables Holdings, LLC, a wholly owned subsidiary of Generation, completed the sale of a 49% interest of ExGen Renewables Partners, LLC, a newly formed owner and operator of approximately 1,296 megawatts of Generation’s operating wind and solar electric generating facilities. ExGen Renewables Holdings will be the managing member of ExGen Renewables Partners, LLC, and have day-to-day control and management over its renewable generation portfolio. The closing of the transaction was subject to certain regulatory approvals, including the Federal Energy Regulatory Commission (FERC) and the Public Utility Commission of Texas (PUCT) which were received during the second quarter of 2017. The sale price was $400 million plus immaterial working capital and other customary post-closing adjustments. The net proceeds, after approximately $100 million of income taxes, will be used to pay down debt and for general corporate purposes. Generation will continue to consolidate ExGen Renewables Partners, LLC and will record a noncontrolling interest on its Consolidated Balance Sheet for the investor's initial equity share as well as earnings attributable to the noncontrolling interest in the Consolidated Statements of Operations and Comprehensive Income each period going forward.

Hurricanes Harvey, Irma and Maria Impacts

Although Exelon subsidiaries provided substantial assistance to recovery efforts following Hurricanes Harvey and Irma, Hurricanes Harvey, Irma and Maria are not expected to have a material impact on the Registrants' businesses or financial results given the limited operations in the areas affected by the storms.

Exelon's Strategy and Outlook for 2017 and Beyond

Exelon's value proposition and competitive advantage come from its scope and its core strengths of operational excellence and financial discipline. Exelon leverages its integrated business model to create value. Exelon's regulated and competitive businesses feature a mix of attributes that, when combined, offer shareholders and customers a unique value proposition:

- Exelon's utilities provide a foundation for steadily growing earnings, which translates to a stable currency in our stock.
- Generation's competitive businesses provide free cash flow to invest primarily in the utilities and in long-term, contracted assets and to reduce debt.

Exelon believes its strategy provides a platform for optimal success in an energy industry experiencing fundamental and sweeping change.

Exelon's utility strategy is to improve reliability and operations and enhance the customer experience, while ensuring ratemaking mechanisms provide the utilities fair financial returns. The Exelon utilities only invest in rate base where it provides a benefit to customers and the community by improving reliability and the service experience or otherwise meeting customer needs. The Exelon utilities make these investments at the lowest reasonable cost to customers. Exelon seeks to leverage its scale and expertise across the utilities platform through enhanced standardization and sharing of resources and best practices to achieve improved operational and financial results. Additionally, the Utility Registrants anticipate making significant future investments in smart meter technology, transmission projects, gas infrastructure, and electric system improvement projects, providing greater reliability and improved service for our customers and a stable return for the company.

Generation's competitive businesses create value for customers by providing innovative energy solutions and reliable, clean and affordable energy. Generation's electricity generation strategy is to pursue opportunities that provide stable revenues and generation to load matching to reduce earnings volatility. Generation leverages its energy generation portfolio to deliver energy to both wholesale and retail customers. Generation's customer-facing activities foster development and delivery of other innovative energy-related products and services for its customers. Generation operates in well-developed energy markets and employs an integrated hedging strategy to manage commodity price volatility. Its generation fleet, including its nuclear plants which consistently operate at high capacity factors, also provide geographic and supply source diversity. These factors help Generation mitigate the current challenging conditions in competitive energy markets.

Exelon’s financial priorities are to maintain investment grade credit metrics at each of the Registrants, to maintain optimal capital structure and to return value to Exelon’s shareholders with an attractive dividend throughout the energy commodity market cycle and through stable earnings growth. Exelon’s Board of Directors has approved a dividend policy providing a raise of 2.5% each year for three years, beginning with the June 2016 dividend.

Various market, financial, regulatory, legislative and operational factors could affect the Registrants’ success in pursuing their strategies. Exelon continues to assess infrastructure, operational, commercial, policy, and legal solutions to these issues. One key issue is ensuring the ability to properly value nuclear generation assets in the market, solutions to which Exelon is actively pursuing in a variety of jurisdictions and venues. See ITEM 1A. RISK FACTORS of the Exelon 2016 Form 10-K for additional information regarding market and financial factors.

Continually optimizing the cost structure is a key component of Exelon's financial strategy. In a cost management program initiated late in 2015, the company committed to reducing operation and maintenance expenses and capital costs by approximately $350 million and $50 million, respectively, of which approximately 35% of run-rate savings was achieved by the end of 2016. Approximately 60% of run-rate savings are expected to be achieved by the end of 2017 and fully realized in 2018. At least 75% of the savings are expected to be related to Generation, with the remaining amount related to the Utility Registrants.

In November 2017, Exelon announced the elimination of approximately $250 million of annual ongoing costs, primarily at Generation, by 2020. This announcement is a result of Exelon's continuous focus on improving its cost profile through enhanced efficiency and productivity. These cost reductions result in a cost profile that better aligns with current market conditions. The targeted cost savings are incremental to the expected savings from previous cost management initiatives.

Growth Opportunities

Management continually evaluates growth opportunities aligned with Exelon's businesses, assets and markets, leveraging Exelon's expertise in those areas and offering sustainable returns.

Regulated Energy Businesses. The PHI merger provides an opportunity to accelerate Exelon's regulated growth to provide stable cash flows, earnings accretion, and dividend support. Additionally, the Utility Registrants anticipate investing approximately $25 billion over the next five years in electric and natural gas infrastructure improvements and modernization projects, including smart meter and smart grid initiatives, storm hardening, advanced reliability technologies, and transmission projects, which is projected to result in an increase to current rate base of approximately $9 billion by the end of 2021. The Utility Registrants invest in rate base where beneficial to customers and the community by increasing reliability and the service experience or otherwise meeting customer needs. These investments are made at the lowest reasonable cost to customers.

See Note 5—Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information on the Smart Meter and Smart Grid Initiatives and infrastructure development and enhancement programs.

Competitive Energy Businesses. Generation continually assesses the optimal structure and composition of its generation assets as well as explores wholesale and retail opportunities within the power and gas sectors. Generation's long-term growth strategy is to ensure appropriate valuation of its generation assets, in part through public policy efforts, identify and capitalize on opportunities that provide generation to load matching as a means to provide stable earnings, and identify emerging technologies where strategic investments provide the option for significant future growth or influence in market development. As of September 30, 2017, Generation has currently approved plans to invest a total of approximately $300 million through 2018 to complete new plant construction currently in progress.

Liquidity Considerations

Each of the Registrants annually evaluates its financing plan, dividend practices and credit line sizing, focusing on maintaining its investment grade ratings while meeting its cash needs to fund capital requirements, retire debt, pay dividends, fund pension and OPEB obligations and invest in new and existing ventures. A broad spectrum of financing alternatives beyond the core financing options can be used to meet its needs and fund growth including monetizing assets in the portfolio via project financing, asset sales, and the use of other financing structures (e.g., joint ventures, minority partners, etc.). The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have unsecured syndicated revolving credit facilities with aggregate bank commitments of $0.6 billion, $5.3 billion, $1 billion, $0.6 billion, $0.6 billion, $0.3 billion, $0.3 billion and $0.3 billion, respectively. Generation also has bilateral credit facilities with aggregate maximum availability of $0.5 billion. See Liquidity and Capital Resources - Credit Matters - Exelon Credit Facilities below.

For further detail regarding the Registrants’ liquidity for the nine months ended September 30, 2017, see Liquidity and Capital Resources discussion below.

Project Financing

Generation utilizes individual project financings as a means to finance the construction of various generating asset projects. Project financing is based upon a nonrecourse financial structure, in which project debt and equity used to finance the project are paid back from the cash generated by the newly constructed asset once operational. Borrowings under these agreements are secured by the assets and equity of each respective project. The lenders do not have recourse against Exelon or Generation in the event of a default. If a specific project financing entity does not maintain compliance with its specific debt financing covenants, there could be a requirement to accelerate repayment of the associated debt or other project-related borrowings earlier than the stated maturity dates. In these instances, if such repayment was not satisfied, or restructured, the lenders or security holders would generally have rights to foreclose against the project-specific assets and related collateral. The potential requirement to satisfy its associated debt or other borrowings earlier than otherwise anticipated could lead to impairments due to a higher likelihood of disposing of the respective project-specific assets significantly before the end of their useful lives. See Note 6 Impairment of Long-Lived Assets and Note 11 - Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for additional information on nonrecourse debt.

Other Key Business Drivers and Management Strategies

Power Markets

Price of Fuels

The use of new technologies to recover natural gas from shale deposits is increasing natural gas supply and reserves, which places downward pressure on natural gas prices and, therefore, on wholesale and retail power prices, which results in a reduction in Exelon’s revenues. Forward natural gas prices have declined significantly over the last several years; in part reflecting an increase in supply due to strong natural gas production (due to shale gas development).

Capacity Market Changes in PJM

In the wake of the January 2014 Polar Vortex that blanketed much of the Eastern and Midwestern United States, it became clear that while a major outage event was narrowly avoided, resources in PJM were not providing the level of reliability expected by customers. As a result, on December 12, 2014, PJM filed at FERC a proposal to make significant changes to its current capacity market construct, the Reliability Pricing Model (RPM). PJM’s proposed changes generally sought to improve resource performance and reliability largely by limiting the excuses for non-performance and by increasing the penalties for performance failures. The proposal permits suppliers to include in capacity market offers additional costs and risk so they can meet these higher performance requirements. While offers are expected to put upward pressure on capacity clearing prices, operational improvements made as a result of PJM’s proposal are expected to improve reliability, to reduce energy production costs as a result of more efficient operations and to reduce the need for out of market energy payments to suppliers. Generation participated actively in PJM’s stakeholder process through which PJM developed the proposal and also actively participated in the FERC proceeding including filing comments. On June 9, 2015, FERC approved PJM’s filing largely as proposed by PJM, including transitional auction rules for delivery years 2016/2017 through 2017/2018. As a result of this and several related orders, PJM hosted its 2018/2019 Base Residual Auction (results posted on August 21, 2015) and its transitional auction for delivery year 2016/2017 (results posted on August 31, 2015) and its transitional auction for delivery years 2017/2018 (results posted on September 9, 2015). On May 10, 2016, FERC largely denied rehearing, and a number of parties appealed to the U.S. Court of Appeals for the DC Circuit for review of the decision. On June 20, 2017, the DC Circuit denied all the appeals.

MISO Capacity Market Results

On April 14, 2015, the Midcontinent Independent System Operator (MISO) released the results of its capacity auction covering the June 2015 through May 2016 delivery year. As a result of the auction, capacity prices for the zone 4 region in downstate Illinois increased to $150 per MW per day beginning in June 2015, an increase from the prior pricing of $16.75 per MW per day that was in effect from June 2014 to May 2015. Generation had an offer that was selected in the auction. However, due to Generation’s ratable hedging strategy, the results of the capacity auction have not had a material impact on Exelon’s and Generation’s consolidated results of operations and cash flows.

Additionally, in late May and June 2015, separate complaints were filed at the FERC by each of the State of Illinois, the Southwest Electric Cooperative, Public Citizens, Inc., and the Illinois Industrial Energy Consumers challenging the results of this MISO capacity auction for the 2015/2016 delivery in MISO delivery zone 4. The complaints allege generally that 1) the results of the capacity auction for zone 4 are not just and reasonable, 2) the results should be suspended, set for hearing and replaced with a new just and reasonable rate, 3) a refund date should be established and that 4) certain alleged behavior by one of the market participants other than Exelon or Generation, be investigated.

On October 1, 2015, FERC announced that it was conducting a non-public investigation (that does not involve Exelon or Generation) into whether market manipulation or other potential violations occurred related to the auction. On December 31, 2015, FERC issued a decision that certain of the rules governing the establishment of capacity prices in downstate Illinois are “not just and reasonable” on a prospective basis. FERC ordered that certain rules be changed prior to the April 2016 auction which set capacity prices for the 2016/2017 planning year. In response to this order, MISO filed certain rule changes with FERC. On March 18, 2016, FERC largely denied rehearing of its December 31, 2015 order. FERC continues to conduct its non-public investigation to determine if the April 2015 auction results were manipulated and, if so, whether refunds are appropriate. FERC did establish May 28, 2015, the day the first complaint was filed, as the date from which refunds (if ordered) would be calculated, and it also made clear that the findings in the December 31, 2015 order do not prejudge the investigation or related proceedings. Generation cannot predict the impact the FERC order may ultimately have on future auction results, capacity pricing or decisions related to the potential early retirement of the Clinton nuclear plant, however, such impacts could be material to Generation’s future results of operations and cash flows. See Note 7 - Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements for additional information on the impacts of the MISO announcement.

Subsidized Generation

The rate of expansion of subsidized generation, in the markets in which Generation’s output is sold can negatively impact wholesale power prices, and in turn, Generation’s results of operations.

Various states have attempted to implement or propose legislation, regulations or other policies to subsidize new generation development which may result in artificially depressed wholesale energy and capacity prices. For example, the New Jersey legislature enacted into law in January 2011, the Long Term Capacity Pilot Program Act (LCAPP). LCAPP provides eligible generators with 15-year fixed contracts for the sale of capacity in the PJM capacity market. Under LCAPP, the local utilities in New Jersey are required to pay (or receive) the difference between the price eligible generators receive in the capacity market and the price guaranteed under the 15-year contract. New Jersey ultimately selected three proposals to participate in LCAPP and build new generation in the state. In addition, on April 12, 2012, the MDPSC issued an order directing the Maryland electric utilities to enter into a 20-year contract for differences (CfD) with CPV Maryland, LLC (CPV), under which CPV was required to construct an approximately 700 MW combined cycle gas turbine in Waldorf, Maryland. The CfD mandated that utilities (including BGE, Pepco and DPL) pay (or receive) the difference between CPV’s contract price and the revenues it receives for capacity and energy from clearing the unit in the PJM capacity market.

Exelon and others challenged the constitutionality and other aspects of the New Jersey legislation in federal court. The actions taken by the MDPSC were also challenged in federal court in an action to which Exelon was not a party. The federal trial courts in both the New Jersey and Maryland actions effectively invalidated the actions taken by the New Jersey legislature and the MDPSC, respectively. Each of those decisions was upheld by the U.S. Court of Appeals for the Third Circuit and the U.S. Court of Appeals for the Fourth Circuit, respectively. On April 19, 2016, the U.S. Supreme Court affirmed the decision of the U.S. Court of Appeals for the Fourth Circuit, and subsequently denied certiorari with respect to the appeal from the U.S.

Court of Appeals for the Third Circuit, leaving in place that Court’s decision. The matter is now considered closed.

As required under their contracts, generator developers who were selected in the New Jersey and Maryland programs (including CPV) offered and cleared in PJM’s capacity market auctions. To the extent that the state-required customer subsidies are included under their respective contracts, Exelon believes that these projects may have artificially suppressed capacity prices in PJM in these auctions and may continue to do so in future auctions to the detriment of Exelon. While the court decisions are positive developments, continuation of these state efforts, if successful and unabated by an effective minimum offer price rule (MOPR) for future capacity auctions, could continue to result in artificially depressed wholesale capacity and/or energy prices. Other states could seek to establish programs, which could substantially impact Exelon’s position and could have a significant effect on Exelon’s financial results of operations, financial position and cash flows.

One such state is Ohio, where state-regulated utility companies FirstEnergy Ohio (FE) and AEP Ohio (AEP) initiated actions at the Public Utilities Commission of Ohio (PUCO) to obtain approval for Riders that would effectively allow these two companies to pass through to all customers in their service territories the differences between their costs and market revenues on PPAs entered into between the utility and its merchant generation affiliate for what was collectively more than 6,000 MW of primarily coal-fired generation. Thus, the Riders were similar to the CfDs described above (except that the PPA Riders in Ohio would apply to existing generation facilities whereas the CfDs applied to new generation facilities). While FERC orders on April 27, 2016 largely alleviated the concerns related to the Riders by holding that the PPAs ran afoul of affiliate restrictions on FE and AEP, we continue to closely monitor developments in Ohio.

In addition, Exelon continues to monitor developments in Maryland, New Jersey, and other states and participates in stakeholder and other processes to ensure that similar state subsidies are not developed. Exelon remains active in advocating for competitive markets, while opposing policies that require taxpayers and/ or consumers to subsidize or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid.

Complaints at FERC Seeking to Mitigate Illinois and New York Programs Providing ZECs

PJM and NYISO capacity markets include a Minimum Offer Price Rule (MOPR) that is intended to preclude buyers from exercising buyer market power. If a resource is subjected to a MOPR, its offer is adjusted to remove the revenues it receives through a federal, state or other government-provided financial support program - resulting in a higher offer that may not clear the capacity market. Currently, the MOPRs in PJM and NYISO apply only to certain new resources. Exelon has generally opposed policies that require subsidies or give preferential treatment to generation providers or technologies that do not provide superior reliability or environmental benefits, or that would threaten the reliability and value of the integrated electricity grid. Thus, Exelon has supported a MOPR as a means of minimizing the detrimental impact certain subsidized resources could have on capacity markets (such as the New Jersey (LCAPP) and Maryland (CfD) programs). However, in Exelon’s view, MOPRs should not be applied to resources that receive compensation for providing superior reliability or environmental benefits.

On January 9, 2017, the Electric Power Supply Association (EPSA) filed two requests with FERC: one seeking to amend a prior complaint against PJM and another seeking expedited action on a pending NYISO compliance filing in an existing proceeding. Both filings allege that the relevant MOPR should be expanded to also apply to existing resources receiving ZEC compensation under the New York CES and Illinois ZES programs. The EPSA parties have filed motion to expedite both proceedings. Exelon has filed protests at FERC in response to each filing, arguing generally that ZEC payments provide compensation for an environmental attribute that is distinct from the energy and capacity sold in the FERC-jurisdictional markets, and therefore, are no different than other renewable support programs like the PTC and RPS that have generally not been subject to a MOPR. However, if successful, for Generation’s facilities in NYISO and PJM expected to receive ZEC compensation (Quad Cities, Ginna, Nine Mile Point and FitzPatrick), an expanded MOPR could require exclusion of ZEC compensation when bidding into future capacity auctions such that these facilities would have an increased risk of not clearing in those auctions and thus no longer receiving capacity revenues during the respective ZEC programs. Any such mitigation of these generating resources could have a material effect on Exelon’s and Generation’s future cash flows and results of operations. On August 30, 2017, EPSA filed motions to lodge the district court decisions dismissing the complaints and urging FERC to act expeditiously on its requests to expand the MOPR. On September 14, 2017, Exelon filed a response in each docket noting that it does not oppose the motions to lodge but arguing that the requests to expedite a decision on the requests to expand the MOPR have no merit. The timing of FERC’s decision with respect to both proceedings is currently unknown and the outcome of these matters is currently uncertain.

DOE Notice of Proposed Rulemaking

On August 23, 2017, the DOE released its report on the reliability of the electric grid. One aspect of the wide-ranging report is the DOE's recognition that the electricity markets do not currently value the resiliency provided by baseload generation, such as nuclear plants. On September, 28, 2017, the DOE issued a Notice of Proposed Rulemaking (NOPR) that would entitle certain eligible resilient generating units (i.e., those located in organized markets, with a 90-day supply of fuel on site, not already subject to state cost of service regulation and satisfying certain other requirements) to recover fully allocated costs and earn a fair return on equity on their investment. On October 2, 2017, the FERC issued a notice inviting comments regarding the DOE NOPR within 21 days and established a new docket wherein the FERC will consider the matter. On October 23, 2017, Exelon filed comments with the FERC, supporting the goals of the NOPR and urging the agency to take swift action to protect customers from power supply interruptions and ensure resiliency in a way that appropriately balances the value and cost to customers. Exelon cannot predict the final outcome of the proceeding or its potential impact, if any, on Exelon or Generation.

Energy Demand

Modest economic growth partially offset by energy efficiency initiatives is resulting in flat to declining load growth in electricity for the utilities. There is a decrease in projected load for electricity for ComEd, PECO, BGE, and ACE, and an essentially flat projected load for electricity for DPL. ComEd, PECO, BGE, Pepco, DPL, and ACE are projecting load volumes to decrease by (1.2)%, (0.4)%, (2.9)%, (2.3)%, (0.4)%, and (3.5)% respectively, in 2017 compared to 2016.

Retail Competition

Generation's retail operations compete for customers in a competitive environment, which affect the margins that Generation can earn and the volumes that it is able to serve. The market experienced high price volatility in the first quarter of 2014 which contributed to bankruptcies and consolidations within the industry during the year. However, forward natural gas and power prices are expected to remain low and thus we expect retail competitors to stay aggressive in their pursuit of market share, and that wholesale generators (including Generation) will continue to use their retail operations to hedge generation output.

Strategic Policy Alignment

As part of its strategic business planning process, Exelon routinely reviews its hedging policy, dividend policy, operating and capital costs, capital spending plans, strength of its balance sheet and credit metrics, and sufficiency of its liquidity position, by performing various stress tests with differing variables, such as commodity price movements, increases in margin-related transactions, changes in hedging practices, and the impacts of hypothetical credit downgrades.

Exelon's board of directors declared first quarter 2017 dividends of $0.3275 per share on Exelon's common stock. The first quarter 2017 dividend was paid on March 10, 2017. The dividend increased from fourth quarter 2016 amount to reflect the Board's decision to raise Exelon's dividend 2.5% each year for the next three years, beginning with the June 2016 dividend.

Exelon's Board of Directors declared the second quarter 2017 dividends of $0.3275 per share each on Exelon's common stock. The second quarter 2017 dividend was paid on June 9, 2017.

Exelon's Board of Directors declared the third quarter 2017 dividends of $0.3275 per share each on Exelon's common stock. The third quarter 2017 dividend was paid on September 8, 2017.

Exelon's Board of Directors declared the fourth quarter 2017 dividends of $0.3275 per share each on Exelon's common stock. The fourth quarter 2017 dividend is payable on December 8, 2017.

All future quarterly dividends require approval by Exelon's Board of Directors.

Hedging Strategy

Exelon’s policy to hedge commodity risk on a ratable basis over three-year periods is intended to reduce the financial impact of market price volatility. Generation is exposed to commodity price risk associated with the unhedged portion of its electricity portfolio. Generation enters into non-derivative and derivative contracts, including financially-settled swaps, futures contracts and swap options, and physical options and physical forward contracts, all with credit-approved counterparties, to hedge this anticipated exposure. Generation has hedges in place that significantly mitigate this risk for 2017 and 2018. However, Generation is exposed to relatively greater commodity price risk in the subsequent years with respect to which a larger portion of its electricity portfolio is currently unhedged. As of September 30, 2017, the percentage of expected generation hedged is 98%-101%, 79%-82% and 45%-48% for 2017, 2018, and 2019 respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products, and options. Equivalent sales represent all hedging products, such as wholesale and retail sales of power, options and swaps. Generation has been and will continue to be proactive in using hedging strategies to mitigate commodity price risk in subsequent years as well.

Generation procures oil and natural gas through long-term and short-term contracts and spot-market purchases. Nuclear fuel is obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services, coal, oil and natural gas are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation's procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 60% of Generation's uranium concentrate requirements from 2017 through 2021 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrate can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon's and Generation's results of operations, cash flows and financial position.

The Utility Registrants mitigate commodity price risk through regulatory mechanisms that allow them to recover procurement costs from retail customers.

Tax Matters

Potential Corporate Tax Reform

President Trump and Congressional Republicans have stated that one of their top priorities is enactment of comprehensive tax reform. On September 27, 2017, the Trump Administration and Republican Congressional leaders issued a unified framework which outlines their goals for comprehensive tax reform. Specifically, the framework proposes a reduction in the corporate tax rate from the current 35% to 20%, immediate expensing of new investments in depreciable assets for at least five years, elimination of the domestic production activities deduction and partial limitation of the deduction for interest. It is uncertain whether, to what extent, or when any changes in federal tax policies will be enacted or the transition time frame for such changes. The Utility Registrants' regulators may impose rate reductions to provide the benefit of any reduction in income tax expense to customers as well as to refund the "excess" deferred income taxes previously collected through rates. The amount and timing of any such rate changes would be subject to the discretion of the rate regulator in each specific jurisdiction. For these reasons, the Registrants cannot predict the impact any potential changes may have on their future results of operations, cash flows or financial position, and such changes could be material.

Environmental Legislative and Regulatory Developments

Exelon was actively involved in the Obama Administration's development and implementation of environmental regulations for the electric industry, in pursuit of its business strategy to provide reliable, clean, affordable and innovative energy products. These efforts have most frequently involved air, water and waste controls for fossil-fueled electric generating units, as set forth in the discussion below. These regulations have had a disproportionate adverse impact on coal-fired power plants, requiring significant expenditures of capital and variable operating and maintenance expense, and have resulted in the retirement of older, marginal facilities. Due to its low emission generation portfolio, Generation has not been significantly affected by these regulations, representing a competitive advantage relative to electric generators that are more reliant on fossil-fuel plants.

Through the issuance of a series of Executive Orders (EO), President Trump has initiated review of a number of EPA and other regulations issued during the Obama Administration, with the expectation that the Administration will seek repeal or significant revision of these rules. Under these EOs, each executive agency is required to evaluate existing regulations and make recommendations regarding repeal, replacement, or modification. The Administration's actions are intended to result in less stringent compliance requirements under air, water, and waste regulations. The exact nature, extent, and timing of the regulatory changes are unknown, as well as the ultimate impact on Exelon's and its subsidiaries results of operations and cash flows.

In particular, the Administration has targeted existing EPA regulations for repeal, including notably the Clean Power Plan, as well as revoking many Executive Orders, reports, and guidance issued by the Obama Administration on the topic of climate change or the regulation of greenhouse gases. The Executive Order also disbanded the Interagency Working Group that developed the social cost of carbon used in rulemakings, and withdrew all technical support documents supporting the calculation. Other regulations that have been specifically identified for review are the Clean Water Act rule relating to jurisdictional waters of the U.S., the Steam Electric Effluent Guidelines relating to waste water discharges from coal-fired power plants, and the 2015 National Ambient Air Quality Standard (NAAQS) for ozone. The review of final rules could extend over several years as formal notice and comment rulemaking process proceeds.

Air Quality

Mercury and Air Toxics Standard Rule (MATS). On December 16, 2011, the EPA signed a final rule to reduce emissions of toxic air pollutants from power plants and signed revisions to the NSPS for electric generating units. The final rule, known as MATS, requires coal-fired electric generation plants to achieve high removal rates of mercury, acid gases and other metals, and to make capital investments in pollution control equipment and incur higher operating expenses. The initial compliance deadline to meet the new standards was April 16, 2015; however, facilities may have been granted an additional one or two year extension in limited cases. Numerous entities challenged MATS in the D.C. Circuit Court, and Exelon intervened in support of the rule. In April 2014, the D.C. Circuit Court issued an opinion upholding MATS in its entirety. On appeal, the U.S. Supreme Court decided in June 2015 that the EPA unreasonably refused to consider costs in determining whether it is appropriate and necessary to regulate hazardous air pollutants emitted by electric utilities. The U.S. Supreme Court, however, did not vacate the rule; rather, it was remanded to the D.C. Circuit Court to take further action consistent with the U.S. Supreme Court's opinion on this single issue. On April 27, 2017, the D.C. Circuit granted EPA's motion to hold the litigation in abeyance, pending EPA's review of the MATS rule pursuant to President Trump's EO discussed above. Following EPA's review and determination of its course of action for the MATS rule, the parties will have 30 days to file motions on future proceedings. Notwithstanding the Court's order to hold the litigation in abeyance, the MATS rule remains in effect. Exelon will continue to participate in the remanded proceedings before the D.C. Circuit Court as an intervenor in support of the rule.

Clean Power Plan. On April 28, 2017, the D.C. Circuit Court issued orders in separate litigation related to the EPA's actions under the Clean Power Plan (CPP) to amend Clean Air Act Section 111(d) regulation of existing fossil-fired electric generating units and Section 111(b) regulation of new fossil-fired electric generating units. In both cases, the Court has determined to hold the litigation in abeyance pending a determination whether the rule should be remanded to the EPA. On October 10, 2017, EPA issued a proposed rule to repeal the CPP in its entirety, based on a proposed change in the Agency's legal interpretation of Clean Air Act Section 111(d) regarding actions that the Agency can consider when establishing the Best System of Emission Reduction ("BSER") for existing power plants. Under the proposed interpretation, the Agency exceeded its authority under the Clean Air Act by regulating beyond individual sources of GHG emissions. The EPA has also indicated its intent to issue an advance notice of proposed rulemaking to solicit information on systems of emission reduction that are in accord with the Agency's proposed revised legal interpretation; namely, only by regulating emission reductions that can be implemented at and to individual sources.

2015 Ozone National Ambient Air Quality Standards (NAAQS). On April 11, 2017, the D.C. Circuit ordered that the consolidated 2015 ozone NAAQS litigation be held in abeyance pending EPA's further review of the 2015 Rule. EPA did not meet the October 1, 2017 deadline to promulgate initial designations for areas in attainment or non-attainment of the standard. A number of states and environmental organizations have notified the EPA of their intent to file suit to compel EPA to issue the designations.

Water Quality

Section 316(b) of the Clean Water Act requires that cooling water intake structures at electric power plants reflect the best technology available to minimize adverse environmental impacts, and is implemented through state-level NPDES permit programs. All of Generation's power generation facilities with cooling water systems are subject to the regulations. Facilities without closed-cycle recirculating systems (e.g., cooling towers) are potentially most affected by changes to the existing regulations. Those facilities are Calvert Cliffs, Clinton, Dresden, Eddystone, Fairless Hills, FitzPatrick, Ginna, Gould Street, Handley, Mountain Creek, Mystic 7, Nine Mile Point Unit 1, Oyster Creek, Peach Bottom, Quad Cities, Riverside and Salem. See ITEM 1. —BUSINESS, "Water Quality" of the Exelon 2016 Form 10-K for further discussion.

Solid and Hazardous Waste

In October 2015, the first federal regulation for the disposal of coal combustion residuals (CCR) from power plants became effective. The rule classifies CCR as non-hazardous waste under RCRA. Under the regulation, CCR will continue to be regulated by most states subject to coordination with the federal regulations. Generation has previously recorded accruals consistent with state regulation for its owned coal ash sites, and as such, the regulation is not expected to impact Exelon's and Generation's financial results. Generation does not have sufficient information to reasonably assess the potential likelihood or magnitude of any remediation requirements that may be asserted under the new federal regulations for coal ash disposal sites formerly owned by Generation. For these reasons, Generation is unable to predict whether and to what extent it may ultimately be held responsible for remediation and other costs relating to formerly owned coal ash disposal sites under the new regulations.

See Note 18—Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for further detail related to environmental matters, including the impact of environmental regulation.

Other Legislative and Regulatory Developments

NRC Task Force on Fukushima Daiichi Accident (Exelon and Generation).

In July 2011, an NRC Task Force formed in the aftermath of the March 11, 2011, 9.0 magnitude earthquake and ensuing tsunami, that seriously damaged the nuclear units at the Fukushima Daiichi Nuclear Power Station, issued a report of its review of the accident, including tiered recommendations for future regulatory action by the NRC to be taken in the near and longer term. The Task Force's report concluded that nuclear reactors in the United States are operating safely and do not present an imminent risk to public health and safety. The NRC and its staff have issued orders and implementation guidance for commercial reactor licensees operating in the United States. Generation has assessed the impacts of the Tier 1 orders and information requests and will continue monitoring the additional recommendations under review by the NRC staff, both from an operational and a financial impact standpoint. Generation's current assessments are specific to the Tier 1 recommendations. In May 2017, the NRC finalized its decision that no actions are required with respect to the Tier 2 and Tier 3 recommendations. Generation will continue to engage in nuclear industry assessments and actions and obtain stakeholder input.

Employees

In January 2017, an election was held at BGE which resulted in union representation for approximately 1,400 employees. BGE and IBEW Local 410 have begun negotiations for an initial agreement which could result in some modifications to wages, hours and other terms and conditions of employment. No agreement has been finalized to date and management cannot predict the outcome of such negotiations. In April 2017, Exelon Nuclear Security successfully ratified its CBA with the SPFPA Local 238 at Quad Cities to an extension of three years. In June 2017, Exelon Nuclear Security successfully ratified its CBA with the UGSOA Local 12 at Limerick to an extension of three years.

Critical Accounting Policies and Estimates

Management of each of the Registrants makes a number of significant estimates, assumptions and judgments in the preparation of its financial statements. See ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CRITICAL ACCOUNTING

POLICIES AND ESTIMATES in Exelon’s, Generation’s, ComEd’s, PECO’s, BGE’s, PHI’s, Pepco’s, DPL’s and ACE’s combined 2016 Form 10-K for a discussion of the estimates and judgments necessary in the Registrants’ accounting for AROs, goodwill, purchase accounting, unamortized energy assets and liabilities, asset impairments, depreciable lives of property, plant and equipment, defined benefit pension and other postretirement benefits, regulatory accounting, derivative instruments, taxation, contingencies, revenue recognition, and allowance for uncollectible accounts. At September 30, 2017, the Registrants’ critical accounting policies and estimates had not changed significantly from December 31, 2016.

Results of Operations By Registrant

Net Income (Loss) Attributable to Common Shareholders by Registrant

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016[(a)]	
Exelon	$ 824	$ 490	$ 334	$ 1,899	$ 930	$ 969
Generation	305	236	69	479	538	(59)
ComEd	189	37	152	447	297	150
PECO	112	122	(10)	327	346	(19)
BGE	62	54	8	231	183	48
Pepco	87	79	8	188	20	168
DPL	31	44	(13)	107	(16)	123
ACE	41	47	(6)	77	(50)	127

(a) For Pepco, DPL and ACE, reflects that Registrant's operations for the nine months ended September 30, 2016. For Exelon and Generation, includes the operations of the PHI acquired businesses for the period of March 24, 2016 through September 30, 2016.

	Successor				*Predecessor*
	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	March 24, 2016 to September 30, 2016	January 1, 2016 to March 23, 2016
PHI	$ 153	$ 166	$ 359	$ (91)	$ 19

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Results of Operations — Generation

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$4,751	$5,035	$ (284)	$13,812	$13,363	$ 449
Purchased power and fuel expense	2,331	2,589	258	7,286	6,609	(677)
Revenues net of purchased power and fuel expense[(a)]	2,420	2,446	(26)	6,526	6,754	(228)
Other operating expenses						
Operating and maintenance	1,374	1,336	(38)	4,871	4,333	(538)
Depreciation and amortization	410	632	222	1,046	1,329	283
Taxes other than income	141	136	(5)	425	380	(45)
Total other operating expenses	1,925	2,104	179	6,342	6,042	(300)
(Loss) Gain on sales of assets	(2)	—	(2)	3	31	(28)
Bargain purchase gain	7	—	7	233	—	233
Operating income	500	342	158	420	743	(323)
Other income and (deductions)						
Interest expense, net	(113)	(77)	(36)	(342)	(273)	(69)
Other, net	209	185	24	648	395	253
Total other income and (deductions)	96	108	(12)	306	122	184
Income before income taxes	596	450	146	726	865	(139)
Income taxes	240	173	(67)	209	293	84
Equity in losses of unconsolidated affiliates	(8)	(6)	(2)	(26)	(16)	(10)
Net income	348	271	77	491	556	(65)
Net income attributable to noncontrolling interests	43	35	(8)	12	18	6
Net income attributable to membership interest	$ 305	$ 236	$ 69	$ 479	$ 538	$ (59)

(a) Generation evaluates its operating performance using the measure of revenue net of purchased power and fuel expense. Generation believes that revenue net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Revenue net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Membership Interest

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. Generation's Net income attributable to membership interest for the three months ended September 30, 2017 increased compared to the same period in 2016, primarily due to lower Depreciation and amortization expenses, a Bargain purchase gain in 2017, and higher other income, partially offset by lower Revenue net of purchased power and fuel expense, higher Operating and maintenance expenses, and higher interest expense. The decrease in Depreciation and amortization is primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire Clinton and Quad Cities nuclear facilities. The Bargain purchase gain is primarily due to a measurement period adjustment for the FitzPatrick Acquisition. The increase in other income is primarily due to higher realized NDT fund gains. The decrease in Revenue net of purchased power and fuel expense primarily relates to the impacts of lower load volumes delivered due to mild weather and lower realized energy prices related to Exelon’s ratable hedging strategy, partially offset by the impact of the New York CES, the acquisition of the FitzPatrick nuclear facility, a decrease in nuclear outage days, increased capacity prices, and the addition of the two combined-cycle gas turbines in Texas. The increase in Operating and maintenance is primarily due to the impairment of ExGen Texas Power in 2017. The increase in interest expense is primarily due to the impact of project in-service dates on the capitalization of interest and higher outstanding debt.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. Generation's Net income attributable to membership interest for the nine months ended September 30, 2017 decreased compared to the same period in 2016, primarily due to lower Revenue net of purchased power and fuel expense, higher Operating and maintenance expenses, higher taxes other than income, and higher interest expense, partially offset by lower Depreciation and amortization, a bargain purchase gain in 2017, and higher other income. The decrease in Revenue net of purchased power and fuel expense primarily relates to the conclusion of the Ginna Reliability Support Services Agreement, the impact of declining natural gas prices on Generation's natural gas portfolio, the impacts of lower load volumes due to mild weather and lower realized energy prices related to Exelon's ratable hedging strategy, partially offset by the impact of the New York CES, the acquisition of the FitzPatrick nuclear facility, increased capacity prices, the addition of two combined-cycle gas turbines in Texas, the absence of oil inventory write downs in 2017, and decreased fuel prices. The increase in operating and maintenance expenses primarily relates to the impairment of EGTP assets held for sale compared to the impairment of upstream assets and certain wind projects in 2016, an increase in the number of nuclear outage days in 2017 and increased salaries, wages and contracting costs related to the acquisition of the FitzPatrick nuclear facility. The increase in taxes other than income relates to increased sales and use tax, increased gross receipts tax, and increased property taxes due to the FitzPatrick Acquisition. The increase in interest expense is primarily due to the impact of project in-service dates on the capitalization of interest and higher outstanding debt. The decrease in Depreciation and amortization is primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire Clinton and Quad Cities nuclear facilities. The bargain purchase gain is the result of the FitzPatrick acquisition in Q1 2017. The increase in other income is primarily due to increased unrealized gains on NDT funds in 2017 compared to 2016.

Revenues Net of Purchased Power and Fuel Expense

The basis for Generation's reportable segments is the integrated management of its electricity business that is located in different geographic regions, and largely representative of the footprints of ISO/RTO and/or NERC regions, which utilize multiple supply sources to provide electricity through various distribution channels (wholesale and retail). Generation's hedging strategies and risk metrics are also aligned with these same geographic regions. Descriptions of each of Generation's six reportable segments are as follows:

- Mid-Atlantic represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina.

- Midwest represents operations in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky.

- New England represents the operations within ISO-NE covering the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

- New York represents operations within ISO-NY, which covers the state of New York in its entirety.

- ERCOT represents operations within Electric Reliability Council of Texas, covering most of the state of Texas.

- Other Power Regions:
    - South represents operations in the FRCC, MISO's Southern Region, and the remaining portions of the SERC not included within MISO or PJM, which includes all or most of Florida, Arkansas, Louisiana, Mississippi, Alabama, Georgia, Tennessee, North Carolina, South Carolina and parts of Missouri, Kentucky and Texas. Generation's South region also includes operations in the SPP, covering Kansas, Oklahoma, most of Nebraska and parts of New Mexico, Texas, Louisiana, Missouri, Mississippi and Arkansas.
    - West represents operations in the WECC, which includes California ISO, and covers the states of California, Oregon, Washington, Arizona, Nevada, Utah, Idaho, Colorado, and parts of New Mexico, Wyoming and South Dakota.
    - Canada represents operations across the entire country of Canada and includes AESO, OIESO and the Canadian portion of MISO.

The following business activities are not allocated to a region, and are reported under Other: natural gas, as well as other miscellaneous business activities that are not significant to Generation’s overall operating revenues or results of operations. Further, the following activities are not allocated to a region, and are reported in Other: amortization of certain intangible assets relating to commodity contracts recorded at fair value from mergers and acquisitions; accelerated nuclear fuel amortization associated with nuclear decommissioning; and other miscellaneous revenues.

Generation evaluates the operating performance of its electric business activities using the measure of Revenue net of purchased power and fuel expense, which is a non-GAAP measurement. Generation’s operating revenues include all sales to third parties and affiliated sales to the Utility Registrants. Purchased power costs include all costs associated with the procurement and supply of electricity including capacity, energy and ancillary services. Fuel expense includes the fuel costs for owned generation and fuel costs associated with tolling agreements.

For the three and nine months ended September 30, 2017 and 2016, Generation’s Revenue net of purchased power and fuel expense by region were as follows:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2017	**2016**	**Variance**	**% Change**	**2017**	**2016**	**Variance**	**% Change**
Mid-Atlantic[a]	$ 855	$ 887	$ (32)	(3.6)%	$2,411	$2,556	$ (145)	(5.7)%
Midwest[b]	697	781	(84)	(10.8)%	2,140	2,229	(89)	(4.0)%
New England	145	160	(15)	(9.4)%	403	350	53	15.1 %
New York[d]	296	194	102	52.6 %	678	592	86	14.5 %
ERCOT	118	93	25	26.9 %	258	231	27	11.7 %
Other Power Regions	68	77	(9)	(11.7)%	220	253	(33)	(13.0)%
Total electric revenue net of purchased power and fuel expense	2,179	2,192	(13)	(0.6)%	6,110	6,211	(101)	(1.6)%
Proprietary Trading	4	3	1	33.3 %	11	9	2	22.2 %
Mark-to-market (losses) gains	73	88	(15)	(17.0)%	(161)	(113)	(48)	42.5 %
Other[c]	164	163	1	0.6 %	566	647	(81)	(12.5)%
Total revenue net of purchased power and fuel expense	$2,420	$2,446	$ (26)	(1.1)%	$6,526	$6,754	$ (228)	(3.4)%

(a) Results of transactions with PECO and BGE are included in the Mid-Atlantic region. Results of transactions with Pepco, DPL, and ACE are included in the Mid-Atlantic region beginning on March 24, 2016, the day after the PHI merger was completed.

(b) Results of transactions with ComEd are included in the Midwest region.

(c) Other represents activities not allocated to a region. See text above for a description of included activities. Includes amortization of intangible assets related to commodity contracts recorded at fair value of a $19 million and $22 million decrease to revenue net of purchased power and fuel expense for the three months ended September 30, 2017 and 2016, respectively, and accelerated nuclear fuel amortization associated with announced early plant retirements as discussed in Note 7 - Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements of $6 million and $28 million decrease to revenue net of purchased power and fuel expense for the three months ended September 30, 2017 and 2016, respectively. Also includes amortization of intangible assets related to commodity contracts recorded at fair value of a $41 million and $15 million decrease to revenue net of purchased power and fuel expense for the nine months ended September 30, 2017 and 2016, respectively, and accelerated nuclear fuel amortization associated with announced early plant retirements as discussed in Note 7 - Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements of $8 million and $38 million decrease to revenue net of purchased power and fuel expense for the nine months ended September 30, 2017 and 2016, respectively.

(d) Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Generation’s supply sources by region are summarized below:

	Three Months Ended September 30,				Nine Months Ended September 30,			
Supply source (GWhs)	**2017**	**2016**	**Variance**	**% Change**	**2017**	**2016**	**Variance**	**% Change**
Nuclear generation								
Mid-Atlantic[a]	16,480	15,604	876	5.6 %	48,271	47,035	1,236	2.6 %
Midwest	24,362	24,262	100	0.4 %	69,422	70,925	(1,503)	(2.1)%
New York[a][d]	6,905	4,843	2,062	42.6 %	17,623	14,002	3,621	25.9 %
Total Nuclear Generation	47,747	44,709	3,038	6.8 %	135,316	131,962	3,354	2.5 %
Fossil and Renewables								
Mid-Atlantic	596	706	(110)	(15.6)%	2,330	2,290	40	1.7 %
Midwest	218	273	(55)	(20.1)%	1,053	1,046	7	0.7 %
New England	1,919	1,886	33	1.7 %	5,921	5,826	95	1.6 %
New York	1	1	—	— %	3	3	—	— %
ERCOT	5,703	2,472	3,231	130.7 %	9,388	5,726	3,662	64.0 %
Other Power Regions	2,149	2,103	46	2.2 %	5,656	6,245	(589)	(9.4)%
Total Fossil and Renewables	10,586	7,441	3,145	42.3 %	24,351	21,136	3,215	15.2 %
Purchased Power								
Mid-Atlantic	2,541	7,139	(4,598)	(64.4)%	8,840	14,024	(5,184)	(37.0)%
Midwest	217	461	(244)	(52.9)%	1,018	1,855	(837)	(45.1)%
New England	4,513	3,927	586	14.9 %	13,920	11,863	2,057	17.3 %
New York	—	—	—	— %	28	—	28	— %
ERCOT	1,199	2,895	(1,696)	(58.6)%	5,724	7,448	(1,724)	(23.1)%
Other Power Regions	3,982	3,803	179	4.7 %	10,357	10,281	76	0.7 %
Total Purchased Power	12,452	18,225	(5,773)	(31.7)%	39,887	45,471	(5,584)	(12.3)%
Total Supply/Sales by Region[b]								
Mid-Atlantic[c]	19,617	23,449	(3,832)	(16.3)%	59,441	63,349	(3,908)	(6.2)%
Midwest[c]	24,797	24,996	(199)	(0.8)%	71,493	73,826	(2,333)	(3.2)%
New England	6,432	5,813	619	10.6 %	19,841	17,689	2,152	12.2 %
New York	6,906	4,844	2,062	42.6 %	17,654	14,005	3,649	26.1 %
ERCOT	6,902	5,367	1,535	28.6 %	15,112	13,174	1,938	14.7 %
Other Power Regions	6,131	5,906	225	3.8 %	16,013	16,526	(513)	(3.1)%
Total Supply/Sales by Region	70,785	70,375	410	0.6 %	199,554	198,569	985	0.5 %

(a) Includes the proportionate share of output where Generation has an undivided ownership interest in jointly-owned generating plants and includes the total output of plants that are fully consolidated (e.g. CENG).

(b) Excludes physical proprietary trading volumes of 2,601 GWhs and 1,506 GWhs for the three months ended September 30, 2017 and 2016, respectively, and 6,763 GWhs and 4,015 GWhs for the nine months ended September 30, 2017 and 2016.

(c) Includes affiliate sales to PECO and BGE in the Mid-Atlantic region and affiliate sales to ComEd in the Midwest region. As a result of the PHI Merger, includes affiliate sales to Pepco, DPL and ACE in the Mid-Atlantic region beginning on March 24, 2016.

(d) Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Mid-Atlantic

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The $32 million decrease in Revenue net of purchased power and fuel expense in the Mid-Atlantic primarily reflects lower load volumes and lower realized energy prices, partially offset by decreased nuclear outage days and increased capacity prices.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The $145 million decrease in Revenue net of purchased power and fuel expense in the Mid-Atlantic primarily reflects lower load volumes, lower realized energy prices and decreased capacity prices, partially offset by the absence of oil inventory write-downs in 2017 and decreased nuclear outage days.

Midwest

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The $84 million decrease in Revenue net of purchased power and fuel expense in the Midwest primarily reflects lower realized energy prices, partially offset by increased capacity prices and decreased nuclear fuel prices.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The $89 million decrease in Revenue net of purchased power and fuel expense in the Midwest primarily reflects lower realized energy prices and increased nuclear outage days, partially offset by decreased fuel prices.

New England

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The $15 million decrease in Revenue net of purchased power and fuel expense in New England primarily reflects lower realized energy prices, partially offset by increased capacity prices.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The $53 million increase in Revenue net of purchased power and fuel expense in New England was driven by increased capacity prices, partially offset by lower realized energy prices.

New York

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The $102 million increase in Revenue net of purchased power and fuel expense in New York was primarily due to the impact of the New York CES and the acquisition of FitzPatrick, partially offset by the conclusion of the Ginna Reliability Support Service Agreement and lower realized energy prices.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The $86 million increase in Revenue net of purchased power and fuel expense in New York was primarily due to impact of the New York CES and the acquisition of FitzPatrick, partially offset by the conclusion of the Ginna Reliability Support Service Agreement and lower realized energy prices.

ERCOT

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The $25 million increase in Revenue net of purchased power and fuel expense in ERCOT was primarily due to the addition of two combined-cycle gas turbines in Texas.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The $27 million increase in Revenue net of purchased power and fuel expense in ERCOT was primarily due to the addition of two combined-cycle gas turbines in Texas, partially offset by lower realized energy prices.

Other Power Regions

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The $9 million decrease in Revenue net of purchased power and fuel expense in Other Power Regions was primarily due to lower realized energy prices.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The $33 million decrease in Revenue net of purchased power and fuel expense in Other Power Regions was primarily due to lower realized energy prices.

Proprietary Trading

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The $1 million increase in Revenue net of purchased power and fuel expense in Proprietary Trading was primarily due to congestion activity.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The $2 million increase in Revenue net of purchased power and fuel expense in Proprietary Trading was primarily due to congestion activity.

Mark-to-market

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. Mark-to-market gains on economic hedging activities were $73 million for the three months ended September 30, 2017 compared to gains of $88 million for the three months ended September 30, 2016. See Notes 9 — Fair Value of Financial Assets and Liabilities and 10 — Derivative Financial Instruments of the Combined Notes to the Consolidated Financial Statements for information on gains and losses associated with mark-to-market derivatives.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. Mark-to-market losses on economic hedging activities were $161 million for the nine months ended September 30, 2017 compared to losses of $113 million for the nine months ended September 30, 2016. See Notes 9 — Fair Value of Financial Assets and Liabilities and 10 — Derivative Financial Instruments of the Combined Notes to the Consolidated Financial Statements for information on gains and losses associated with mark-to-market derivatives.

Other

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The $1 million increase in Revenue net of purchased power and fuel expense in Other was due to the decline in revenues related to the distributed generation business, offset by lower accelerated nuclear fuel amortization associated with announced early plant retirements as discussed in Note 7 - Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The $81 million decrease in other revenue net of purchased power and fuel was primarily due to the impacts of declining natural gas prices on Generation’s natural gas portfolio and amortization of energy contracts recorded at fair value associated with prior acquisitions, partially offset by revenue related to the inclusion of Pepco Energy Services results in 2017 and lower accelerated nuclear fuel amortization associated with announced early plant retirements as discussed in Note 7 - Early Nuclear Plant Retirements of the Combined Notes to the Consolidated Financial Statements.

Nuclear Fleet Capacity Factor

The following table presents nuclear fleet operating data for the three and nine months ended September 30, 2017 as compared to the same period in 2016, for the Generation-operated plants. The nuclear fleet capacity factor presented in the table is defined as the ratio of the actual output of a plant over a period of time to its output if the plant had operated at full average annual mean capacity for that time period. Generation considers capacity factor to be a useful measure to analyze the nuclear fleet performance between periods. Generation has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, these measures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or be more useful than the GAAP information provided elsewhere in this report.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	**2016**	**2017**	**2016**
Nuclear fleet capacity factor[a]	96.1%	96.3%	93.7%	94.8%
Refueling outage days[a]	13	17	233	174
Non-refueling outage days[a]	15	—	35	31

(a) Excludes Salem, which is operated by PSEG Nuclear, LLC. Reflects ownership percentage of stations operated by Exelon. Includes the ownership of the FitzPatrick nuclear facility from March 31, 2017.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. The nuclear fleet capacity factor decreased primarily due to more non-refueling outage days and was partially offset by fewer refueling outage days, excluding Salem outages, during the three months ended September 30, 2017 compared to the same period in 2016.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. The nuclear fleet capacity factor decreased primarily due to more refueling and non-refueling outage days, excluding Salem outages, during the nine months ended September 30, 2017 compared to the same period in 2016.

Operating and Maintenance

The changes in Operating and maintenance expense for the three and nine months ended September 30, 2017 as compared to the same period in 2016, consisted of the following:

	Three Months Ended September 30,	Nine Months Ended September 30,
	Increase (Decrease)[(a)]	Increase (Decrease)[(a)]
Labor, other benefits, contracting, materials[(b)]	$ (8)	$ 74
Nuclear refueling outage costs, including the co-owned Salem plants [(c)]	(12)	88
Corporate allocations	19	29
Merger and integration costs[(d)]	(4)	36
Merger commitments	—	(3)
Plant retirements and divestitures[(e)]	41	(15)
Cost management program	5	(7)
ARO update	(3)	(4)
Long-lived asset impairments[(f)]	25	288
Pension and non-pension postretirement benefits expense	3	4
Allowance for uncollectible accounts	12	35
Accretion expense[(g)]	10	27
Other	(50)	(14)
Increase in operating and maintenance expense	$ 38	$ 538

(a) The 2017 financial results include Generation's acquisition of the FitzPatrick nuclear generating station from March 31, 2017.

(b) Reflects increased salaries, wages and contracting costs primarily related to the acquisition of the FitzPatrick nuclear facility beginning on March 31, 2017.

(c) Primarily reflects a decrease in the number of nuclear outage days for the three months ended September 30, 2017 compared to 2016 and an increase in the number of nuclear outage days for the nine months ended September 30, 2017 compared to the same period in 2016.

(d) Reflects certain costs associated with mergers and acquisitions, including, if and when applicable, professional fees, employee-related expenses and integration activities related to the PHI and FitzPatrick acquisitions.

(e) Represents the announcement of the early retirement of Generation's TMI nuclear facility in 2017 compared to the previous decision to early retire Generation's Clinton and Quad Cities nuclear facilities in 2016.

(f) Primarily reflects charges to earnings related to impairments as a result of the EGTP assets held for sale in 2017 and impairment of Upstream assets and certain wind projects in 2016.

(g) Reflects the impact of increased accretion expenses primarily due to the acquisition of FitzPatrick on March 31, 2017.

Depreciation and Amortization

Depreciation and amortization expense for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 decreased primarily due to lower accelerated depreciation and amortization as a result of the 2017 decision to early retire the TMI nuclear facility compared to the previous decision in 2016 to early retire the Clinton and Quad Cities nuclear facilities.

Taxes Other Than Income

Taxes other than income taxes, which can vary period to period, include non-income municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 increased primarily due to increased property taxes as a result of the addition of FitzPatrick, increased gross receipts tax expense, and increased sales and use tax expense.

(Loss) gain on Sales of Assets

Loss on sales of assets for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 remained relatively stable. Gain on sales of assets for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 decreased primarily due to the gain associated with Generation's sale of the New Boston generating site in 2016.

Bargain Purchase Gain

Bargain purchase gain for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 increased as a result of the gain associated with the FitzPatrick acquisition. Refer to Note 4 — Mergers, Acquisitions and Dispositions of the Combined Notes to the Consolidated Financial Statements for additional information.

Interest Expense, net

Interest expense, net for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 increased primarily due to the impact of project in-service dates on the capitalization of interest and higher outstanding debt.

Other, Net

Other, net for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 increased primarily due to the change in the realized and unrealized gains and losses related to NDT funds of Non-Regulatory Agreement Units as described in the table below. Other, net also reflects $37 million and $39 million for the three months ended September 30, 2017 and 2016, respectively, and $129 million and $84 million for the nine months ended September 30, 2017 and 2016, respectively, related to the contractual elimination of income tax expense (benefit) associated with the NDT funds of the Regulatory Agreement Units. Refer to Note 13 — Nuclear Decommissioning of the Combined Notes to the Consolidated Financial Statements for additional information regarding NDT funds.

The following table provides unrealized and realized gains and losses on the NDT funds of the Non-Regulatory Agreement Units recognized in Other, net for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net unrealized gains on decommissioning trust funds	$ 111	$ 116	$ 347	$ 216
Net realized gains on sale of decommissioning trust funds	33	12	82	26

Equity in Losses of Unconsolidated Affiliates

Equity in losses of unconsolidated affiliates for the three and nine months ended September 30, 2017 compared to the three and nine ended September 30, 2016 remained relatively stable.

Effective Income Tax Rate

Generation’s effective income tax rate was 40.3% and 38.4% for the three months ended September 30, 2017 and 2016, respectively. Generation’s effective income tax rate was 28.8% and 33.9% for the nine months ended September 30, 2017 and 2016, respectively. See Note 12 — Income Taxes of the Combined Notes to the Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Results of Operations — ComEd

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$ 1,571	$1,497	$ 74	$ 4,227	$ 4,031	$ 196
Purchased power expense	529	454	(75)	1,241	1,141	(100)
Revenues net of purchased power expense[(a)(b)]	1,042	1,043	(1)	2,986	2,890	96
Other operating expenses						
Operating and maintenance	346	377	31	1,096	1,113	17
Depreciation and amortization	212	196	(16)	631	574	(57)
Taxes other than income	80	82	2	223	222	(1)
Total other operating expenses	638	655	17	1,950	1,909	(41)
Gain on sales of assets	—	1	(1)	—	6	(6)
Operating income	404	389	15	1,036	987	49
Other income and (deductions)						
Interest expense, net	(89)	(197)	108	(275)	(374)	99
Other, net	5	(80)	85	14	(72)	86
Total other income and (deductions)	(84)	(277)	193	(261)	(446)	185
Income before income taxes	320	112	208	775	541	234
Income taxes	131	75	(56)	328	244	(84)
Net income	$ 189	$ 37	$ 152	$ 447	$ 297	$ 150

(a) ComEd evaluates its operating performance using the measure of Revenue net of purchased power expense. ComEd believes that Revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. In general, ComEd only earns margin based on the delivery and transmission of electricity. ComEd has included its discussion of Revenue net of purchased power expense below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

(b) For regulatory recovery mechanisms, including ComEd's electric distribution and transmission formula rates, and riders, revenues increase and decrease i) as fully recoverable costs fluctuate (with no impact on net earnings), and ii) pursuant to changes in rate base, capital structure and ROE (which impact net earnings).

Net Income

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. ComEd's Net income for the three months ended September 30, 2017 was higher than the same period in 2016, primarily due to the recognition of the penalty and the after-tax interest due on the asserted penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in the third quarter of 2016 and increased electric distribution and transmission formula rate earnings (reflecting the impacts of increased capital investment and higher allowed electric distribution ROE). The higher Net income was partially offset by the impact of weather conditions in the third quarter of 2016. See Revenue Decoupling discussion below for additional information on the impact of weather.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. ComEd's Net income for the nine months ended September 30, 2017 was higher than the same period in 2016, primarily due to the recognition of the penalty and the after-tax interest due on the asserted penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in the third quarter of 2016 and increased electric distribution and transmission formula rate earnings (reflecting the impacts of increased capital investment and higher allowed electric distribution ROE). The higher Net income was partially offset by additional tax and interest recorded in the second quarter of 2017 relating to Exelon’s like-kind exchange tax position and the impact of weather conditions in the second and third quarters of 2016. See Revenue Decoupling discussion below for additional information on the impact of weather.

Revenues Net of Purchased Power Expense

There are certain drivers of Operating revenues that are fully offset by their impact on Purchased power expense, such as commodity, REC, and ZEC procurement costs and participation in customer choice programs. ComEd is permitted to recover electricity, REC, and ZEC procurement costs from retail customers without mark-up. Therefore, these costs have no significant impact on Revenue net of purchased power expense. See Note 3 — Regulatory Matters of the Exelon 2016 Form 10-K for additional information on ComEd’s electricity procurement process.

All ComEd customers have the choice to purchase electricity from a competitive electric generation supplier. Customer choice programs do not impact ComEd’s volume of deliveries, but do affect ComEd’s Operating revenues related to supplied energy, which is fully offset in Purchased power expense. Therefore, customer choice programs have no impact on Revenue net of purchased power expense.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three and nine months ended September 30, 2017 and 2016, consisted of the following:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	**2016**	**2017**	**2016**
Electric	68%	70%	70%	72%

Retail customers purchasing electric generation from competitive electric generation suppliers at September 30, 2017 and 2016 consisted of the following:

	September 30, 2017		**September 30, 2016**	
	Number of customers	**% of total retail customers**	**Number of customers**	**% of total retail customers**
Electric	1,360,800	34%	1,526,900	39%

The changes in ComEd’s Revenue net of purchased power expense for the three and nine months ended September 30, 2017, compared to the same period in 2016 consisted of the following:

	Three Months Ended September 30, 2017	**Nine Months Ended September 30, 2017**
	Increase (Decrease)	**Increase (Decrease)**
Weather[(a)]	$ (34)	$ (37)
Volume[(a)]	(5)	(11)
Electric distribution revenue	59	119
Transmission revenue	11	45
Energy efficiency revenue[(b)]	5	6
Regulatory required programs[(b)]	(39)	(24)
Uncollectible accounts recovery, net	(3)	(5)
Pricing and customer mix[(a)]	—	(1)
Other	5	4

Total increase (decrease)	$ (1)	$ 96

(a) These changes only reflect the 2016 impacts of weather, volume, and pricing and customer mix. As further described below, pursuant to the revenue decoupling provision in FEJA, ComEd began recording an adjustment to revenue in the first quarter of 2017 to eliminate the favorable or unfavorable impacts associated with variations in delivery volumes associated with above or below normal weather, number of customers or usage per customer.

(b) Beginning on June 1, 2017, ComEd is deferring energy efficiency costs as a regulatory asset that will be recovered through the energy efficiency formula rate over the weighted average useful life of the related energy efficiency measures.

Revenue Decoupling. The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased customer usage. Conversely, mild weather reduces demand.

Under EIMA, ComEd’s electric distribution formula rate provided for an adjustment to future billings if its earned ROE fell outside a 50 bps collar of its allowed ROE, which partially eliminated the impacts of weather and load on ComEd’s revenue. As allowed under FEJA, ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to Operating revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began recognizing the impacts of this change beginning in the first quarter of 2017. During the three and nine months ended September 30, 2017, ComEd recorded a decrease to Electric distribution revenues of approximately $15 million and an increase to Electric distribution revenues of approximately $21 million, respectively, to eliminate weather and load impacts.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in ComEd’s service territory with cooling degree days generally having a more significant impact to ComEd, particularly during the summer months. The changes in heating and cooling degree days in ComEd’s service territory for the three and nine months ended September 30, 2017 and 2016, consisted of the following:

Heating and Cooling Degree-Days				% Change	
Three Months Ended September 30,	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	42	23	97	82.6 %	(56.7)%
Cooling Degree-Days	699	840	641	(16.8)%	9.0 %
Nine Months Ended September 30,					
Heating Degree-Days	3,269	3,678	3,972	(11.1)%	(17.7)%
Cooling Degree-Days	962	1,130	882	(14.9)%	9.1 %

Electric Distribution Revenue. EIMA provides for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Under EIMA, electric distribution revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered, and allowed ROE. ComEd’s allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. In addition, ComEd’s allowed ROE is subject to reduction if ComEd does not deliver the reliability and customer service benefits to which it has committed over the ten-year life of the investment program. Electric distribution revenue increased during the three and nine months ended September 30, 2017, primarily due to increased capital investment, increased Depreciation expense, and higher allowed ROE due to an increase in treasury rates as compared to the same period in 2016 and due to revenue decoupling impacts (as described above) during the nine months ended September 30, 2017. See Depreciation and amortization expense discussions below, and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Transmission Revenue. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and the highest daily peak load, which is updated annually in January based on the prior calendar year. Generally, increases/decreases in the highest daily peak load will result in higher/lower transmission revenue. For the three and nine months ended September 30, 2017, ComEd recorded increased transmission revenue due to increased capital investment, higher Depreciation expense and increased highest daily peak load as compared to the same period in 2016. See Operating and maintenance expense below and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Energy Efficiency Revenue. Beginning June 1, 2017, FEJA provides for a performance-based formula rate, which requires an annual reconciliation of the revenue requirement in effect to the actual costs that the ICC determines are prudently and reasonably incurred in a given year. Under FEJA, energy efficiency revenue varies from year to year based upon fluctuations in the underlying costs, investments being recovered, and allowed ROE. ComEd’s allowed ROE is the annual average rate on 30-year treasury notes plus 580 basis points. Beginning January 1, 2018, ComEd’s allowed ROE is subject to a maximum downward or upward adjustment of 200 basis points if ComEd’s cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. See Depreciation and amortization expense discussions below, and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in Operating revenues collected under approved rate riders to recover costs incurred for regulatory programs such as ComEd's purchased power administrative costs and energy efficiency and demand response through June 1, 2017 pursuant to FEJA. The riders are designed to provide full and current cost recovery. An equal and offsetting amount has been included in Operating and maintenance expense. See Operating and maintenance expense discussion below for additional information on included programs.

Uncollectible Accounts Recovery, Net. Uncollectible accounts recovery, net represents recoveries under ComEd's uncollectible accounts tariff. See Operating and maintenance expense discussion below for additional information on this tariff.

Other. Other revenue, which can vary period to period, includes rental revenue, revenue related to late payment charges, assistance provided to other utilities through mutual assistance programs, recoveries of environmental costs associated with MGP sites, and recoveries of energy procurement costs.

Operating and Maintenance Expense

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2017	2016		2017	2016	
Operating and maintenance expense — baseline	$ 344	$ 336	$ 8	$ 1,000	$ 993	$ 7
Operating and maintenance expense — regulatory required programs[(a)]	2	41	$ (39)	96	120	(24)
Total operating and maintenance expense	$ 346	$ 377	$ (31)	$ 1,096	$ 1,113	$ (17)

(a) Operating and maintenance expense for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The increase in Operating and maintenance expense for the three and nine months ended September 30, 2017 compared to the same period in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ (5)	$ (11)
Pension and non-pension postretirement benefits expense	1	2
Storm-related costs	1	1
Uncollectible accounts expense — provision[(a)]	(4)	(8)
Uncollectible accounts expense — recovery, net[(a)]	1	3
BSC costs[(b)]	21	35
Other	(7)	(15)

	8	7
Regulatory required programs		
Energy efficiency and demand response programs[c]	(39)	(24)
Decrease in operating and maintenance expense	$ (31)	$ (17)

(a) ComEd is allowed to recover from or refund to customers the difference between the utility's annual uncollectible accounts expense and the amounts collected in rates annually through a rider mechanism. During the three and nine months ended September 30, 2017, ComEd recorded a net decrease in Operating and maintenance expense related to uncollectible accounts due to the timing of regulatory cost recovery. An equal and offsetting decrease has been recognized in Operating revenues for the period presented.

(b) For the three and nine months ended September 30, 2017, includes the $8 million write-off of a regulatory asset related to Constellation merger and integration costs for which recovery is no longer expected.

(c) Beginning on June 1, 2017, ComEd is deferring energy efficiency costs as a regulatory asset that will be recovered through the energy efficiency formula rate over the weighted average useful life of the related energy efficiency measures.

Depreciation and Amortization Expense

The increase in Depreciation and amortization expense during the three and nine months ended September 30, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Depreciation expense[(a)]	$ 14	$ 47
Regulatory asset amortization[(b)]	1	2
Other	1	8
Total increase	$ 16	$ 57

(a) Primarily reflects ongoing capital expenditures for the three and nine months ended September 30, 2017.
(b) Beginning in June 2017, includes amortization of ComEd's energy efficiency formula rate regulatory asset.

Taxes Other Than Income

Taxes other than income, which can vary year to year, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income taxes remained relatively consistent for the three and nine months ended September 30, 2017, compared to the same period in 2016.

Gain on Sales of Assets

The decrease in Gain on sales of assets during the nine months ended September 30, 2017, compared to the same period in 2016, is primarily due to the sale of land during March 2016.

Interest Expense, Net

The changes in interest expense, net, for the three and nine months ended September 30, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Interest expense related to uncertain tax positions[(a)]	$ (110)	$ (103)
Interest expense on debt (including financing trusts)	(1)	3
Other	3	1
Decrease in interest expense, net	$ (108)	$ (99)

(a) Primarily reflects the recognition of the after-tax interest due on the asserted penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in the third quarter of 2016, partially offset by additional interest recorded in the second quarter of 2017 related to Exelon's like-kind exchange tax position.

Other, Net

Other, net, decreased during the three and nine months ended September 30, 2017, compared to the same period in 2016 primarily due to the recognition of the penalty related to the Tax Court's decision on Exelon's like-kind exchange tax position in the third quarter of 2016.

Effective Income Tax Rate

ComEd's effective income tax rate was 40.9% and 67.0% for the three months ended September 30, 2017 and 2016, respectively. ComEd's effective income tax rate was 42.3% and 45.1% for the nine months ended September 30, 2017 and 2016, respectively. The decreases in the effective income tax rates for the three and nine months ended September 30, 2017 as compared to the same period in 2016 are primarily due to a non-deductible penalty incurred in 2016. See Note 12 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

ComEd Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Weather-Normal % Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change	Weather-Normal % Change
Retail Deliveries[a]								
Residential	8,004	9,014	(11.2)%	(0.6)%	20,164	21,738	(7.2)%	(1.3)%
Small commercial & industrial	8,488	8,833	(3.9)%	(1.0)%	23,634	24,447	(3.3)%	(1.6)%
Large commercial & industrial	7,232	7,565	(4.4)%	(2.5)%	20,712	21,057	(1.6)%	(0.5)%
Public authorities & electric railroads	302	308	(1.9)%	(1.7)%	928	947	(2.0)%	(1.4)%
Total retail deliveries	24,026	25,720	(6.6)%	(1.3)%	65,438	68,189	(4.0)%	(1.1)%

Number of Electric Customers	As of September 30, 2017	As of September 30, 2016
Residential	3,610,091	3,578,846
Small commercial & industrial	376,309	372,603
Large commercial & industrial	1,954	2,010
Public authorities & electric railroads	4,763	4,738
Total	3,993,117	3,958,197

Electric Revenue	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change
Retail Sales[a]						
Residential	$ 825	$ 786	5.0 %	$ 2,108	$ 2,018	4.5%
Small commercial & industrial	369	356	3.7 %	1,051	1,007	4.4%
Large commercial & industrial	121	126	(4.0)%	352	350	0.6%
Public authorities & electric railroads	11	10	10.0 %	34	33	3.0%
Total retail	1,326	1,278	3.8 %	3,545	3,408	4.0%
Other revenue[b]	245	219	11.9 %	682	623	9.5%
Total electric revenue[c]	$ 1,571	$ 1,497	4.9 %	$ 4,227	$ 4,031	4.9%

(a) Reflects delivery revenue and volume from customers purchasing electricity directly from ComEd and customers purchasing electricity from a competitive electric generation supplier, as all customers are assessed delivery charges. For customers purchasing electricity from ComEd, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes transmission revenue from PJM. Other revenue also includes rental revenue, revenue related to late payment charges, revenue from other utilities for mutual assistance programs and recoveries of remediation costs associated with MGP sites.

(c) Includes operating revenues from affiliates totaling $3 million and $4 million for the three and nine months ended September 30, 2017 and 2016, and $12 million and $12 million for the nine months ended September 30, 2017 and 2016, respectively.

Results of Operations — PECO

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$ 715	$ 788	$ (73)	$2,141	$2,293	$ (152)
Purchased power and fuel expense	235	272	37	719	809	90
Revenues net of purchased power and fuel expense(a)	480	516	(36)	1,422	1,484	(62)
Other operating expenses						
Operating and maintenance	197	199	2	595	604	9
Depreciation and amortization	72	67	(5)	213	201	(12)
Taxes other than income	42	46	4	116	126	10
Total other operating expenses	311	312	1	924	931	7
Operating income	169	204	(35)	498	553	(55)
Other income and (deductions)						
Interest expense, net	(31)	(30)	(1)	(93)	(92)	(1)
Other, net	2	2	—	6	6	—
Total other income and (deductions)	(29)	(28)	(1)	(87)	(86)	(1)
Income before income taxes	140	176	(36)	411	467	(56)
Income taxes	28	54	26	84	121	37
Net income	$ 112	$ 122	$ (10)	$ 327	$ 346	$ (19)

(a) PECO evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. PECO believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. PECO has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenue net of purchased power expense and revenue net of fuel expense figures are not presentations defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. PECO's Net income decreased from the same period in 2016, primarily due to lower Revenues net of purchased power and fuel from unfavorable weather conditions in PECO's service territory.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. PECO's Net income decreased from the same period in 2016, primarily due to lower Revenues net of purchased power and fuel from unfavorable weather conditions in PECO's service territory.

Revenues Net of Purchased Power and Fuel Expense

Electric and natural gas revenue and purchased power and fuel expense are affected by fluctuations in commodity procurement costs. PECO's electric supply and natural gas cost rates charged to customers are subject to adjustments at least quarterly that are designed to recover or refund the difference between the actual cost of electric supply and natural gas and the amount included in rates in accordance with the PAPUC's GSA and PGC, respectively. Therefore, fluctuations in electric supply and natural gas procurement costs have no impact on electric and natural gas revenue net of purchased power and fuel expense.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All PECO customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service. Customer choice program activity has no impact on electric and natural gas revenue net of purchased power and fuel expense.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three and nine months ended September 30, 2017 and 2016, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Electric	70%	69%	71%	70%
Natural Gas	29%	31%	26%	26%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at September 30, 2017 and 2016 consisted of the following:

	September 30, 2017		September 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	570,500	35%	581,600	36%
Natural Gas	82,600	16%	81,300	16%

The changes in PECO's Operating revenues net of purchased power and fuel expense for the three and nine months ended September 30, 2017 compared to the same period in 2016 consisted of the following:

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Natural Gas	Total	Electric	Natural Gas	Total
Weather	$ (48)	$ —	$ (48)	$ (45)	$ (3)	$ (48)
Volume	—	1	1	(12)	4	(8)
Pricing	9	—	9	13	—	13
Regulatory required programs	(6)	—	(6)	(29)	—	(29)
Other	7	1	8	10	—	10
Total decrease	$ (38)	$ 2	$ (36)	$ (63)	$ 1	$ (62)

Weather. The demand for electricity and natural gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. During the three months ended September 30, 2017 compared to the same period in 2016, Operating revenue net of purchased power decreased due to unfavorable summer weather conditions. Operating revenue net of fuel expense was relatively consistent. During the nine months ended September 30, 2017 compared to the same period in 2016, Operating revenue net of purchased power and fuel expense decreased due to unfavorable weather conditions.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in PECO's service territory. The changes in heating and cooling degree days in PECO's service territory for the three and nine months ended September 30, 2017 compared to the same periods in 2016 and normal weather consisted of the following:

Heating and Cooling Degree-Days				% Change	
Three Months Ended September 30,	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Heating Degree-Days	14	10	35	40.0 %	(60.0)%
Cooling Degree-Days	989	1,288	923	(23.2)%	7.2 %
Nine Months Ended September 30,					
Heating Degree-Days	2,437	2,616	2,974	(6.8)%	(18.1)%
Cooling Degree-Days	1,404	1,684	1,271	(16.6)%	10.5 %

Volume. Operating revenue net of purchased power and fuel related to delivery volume, exclusive of the effects of weather, remained relatively consistent for the three months ended September 30, 2017 compared to the same period in 2016. The decrease in Operating revenue net of purchased power related to delivery volume, exclusive of the effects of weather, for the nine months ended September 30, 2017 compared to the same period in 2016, primarily reflects the impacts of energy efficiency initiatives on customer usage partially offset by moderate economic and customer growth, as well as a shift in the volume profile across classes from residential and small commercial and industrial to large commercial and industrial. Operating revenue net of fuel expense for the nine months ended September 30, 2017 compared to the same period in 2016 increased due to strong customer growth and moderate economic growth.

Pricing. Operating revenues net of purchased power as a result of pricing for the three and nine months ended September 30, 2017 compared to the same period in 2016 increased primarily due to higher overall effective rates due to decreased usage across the major customer classes. Operating revenues net of fuel expense for the three and nine months ended September 30, 2017 compared to the same period in 2016 remained relatively consistent.

Regulatory Required Programs. This represents the change in Operating revenue collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency and the GSA. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Income taxes. Refer to the Operating and maintenance expense discussion below for additional information on included programs.

Other. Other revenue, which can vary period to period, primarily includes wholesale transmission revenue, rental revenue, revenue related to late payment charges and assistance provided to other utilities through mutual assistance programs.

Operating and Maintenance Expense

	Three Months Ended September 30,	Increase (Decrease)	Nine Months Ended September 30,	Increase (Decrease)

	2017	2016		2017	2016	
Operating and maintenance expense — baseline	$ 183	$ 185	$ (2)	$ 552	$ 545	$ 7
Operating and maintenance expense — regulatory required programs[a]	14	14	—	43	59	(16)
Total operating and maintenance expense	$ 197	$ 199	$ (2)	$ 595	$ 604	$ (9)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the three and nine months ended September 30, 2017 compared to the same period in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ 7	$ 14
Storm-related costs	(3)	(7)
Pension and non-pension postretirement benefits expense	(1)	(2)
PHI merger and integration costs	1	1
BSC costs	5	6
Uncollectible accounts expense	(6)	(6)
Other	(5)	1
	(2)	7
Regulatory Required Programs		
Energy efficiency	1	(15)
Other	(1)	(1)
	—	(16)
Total decrease	$ (2)	$ (9)

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three and nine months ended September 30, 2017 compared to the same period in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Depreciation and amortization expense	$ 5	$ 13
Regulatory asset amortization	—	(1)
Total increase	$ 5	$ 12

Taxes Other Than Income

Taxes other than income, which can vary period to period, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income decreased for the three and nine months ended September 30, 2017 compared to the same period in 2016 due to a decrease in gross receipts tax driven by a decrease in electric revenue.

Interest Expense, Net

Interest expense, net for the three and nine months ended September 30, 2017 remained consistent compared to the same period in 2016.

Other, Net

Other, net for the three and nine months ended September 30, 2017 remained consistent compared to the same period in 2016.

Effective Income Tax Rate

PECO's effective income tax rate was 20.0% and 30.7% for the three months ended September 30, 2017 and 2016, respectively, and 20.4% and 25.9% for the nine months ended September 30, 2017 and 2016, respectively. See

Note 12 — Income Taxes of the Combined Notes to the Consolidated Financial Statements for further discussion of the change in effective income tax rate.

PECO Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Weather - Normal % Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change	Weather - Normal % Change
Retail Deliveries[a]								
Residential	3,752	4,358	(13.9)%	0.2 %	9,939	10,682	(7.0)%	(1.4)%
Small commercial & industrial	2,158	2,324	(7.1)%	(1.0)%	6,048	6,236	(3.0)%	(1.1)%
Large commercial & industrial	4,137	4,234	(2.3)%	1.4 %	11,593	11,598	— %	0.8 %
Public authorities & electric railroads	198	240	(17.5)%	(17.5)%	618	672	(8.0)%	(8.0)%
Total retail deliveries	10,245	11,156	(8.2)%	— %	28,198	29,188	(3.4)%	(0.6)%

Number of Electric Customers	As of September 30, 2017	As of September 30, 2016
Residential	1,463,906	1,451,533
Small commercial & industrial	150,964	149,646
Large commercial & industrial	3,112	3,094
Public authorities & electric railroads	9,665	9,820
Total	1,627,647	1,614,093

Electric Revenue	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change
Retail Sales[a]						
Residential	$ 434	$ 513	(15.4)%	$ 1,147	$ 1,278	(10.3)%
Small commercial & industrial	106	109	(2.8)%	303	334	(9.3)%
Large commercial & industrial	59	59	— %	168	182	(7.7)%
Public authorities & electric railroads	7	8	(12.5)%	23	25	(8.0)%
Total retail	606	689	(12.0)%	1,641	1,819	(9.8)%
Other revenue[b]	56	51	9.8 %	161	152	5.9 %
Total electric revenue[c]	$ 662	$ 740	(10.5)%	$ 1,802	$ 1,971	(8.6)%

(a) Reflects delivery volumes and revenue from customers purchasing electricity directly from PECO and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from PECO, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes transmission revenue from PJM and wholesale electric revenue, in addition to rental income.

(c) Includes operating revenues from affiliates totaling $1 million and $2 million for the three months ended September 30, 2017 and 2016, respectively, and $4 million and $5 million for the nine months ended September 30, 2017 and 2016, respectively.

PECO Natural Gas Operating Statistics and Revenue Detail

Deliveries to Customers (in mmcf)	Three Months Ended September 30, 2017	2016	% Change	Weather - Normal % Change	Nine Months Ended September 30, 2017	2016	% Change	Weather - Normal % Change
Retail Delivery								
Retail sales[(a)]	3,993	3,494	14.3 %	9.4 %	38,825	38,488	0.9 %	2.7 %
Transportation and other	5,674	7,315	(22.4)%	(14.5)%	19,122	20,917	(8.6)%	(5.9)%
Total natural gas deliveries	9,667	10,809	(10.6)%	(6.0)%	57,947	59,405	(2.5)%	(0.1)%

Number of Natural Gas Customers	As of September 30, 2017	As of September 30, 2016
Residential	474,766	470,024
Commercial & industrial	43,358	42,997
Total retail	518,124	513,021
Transportation	771	802
Total	518,895	513,823

Natural Gas Revenue	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change
Retail Sales						
Retail sales[(a)]	$ 46	$ 41	12.2%	$ 315	$ 298	5.7%
Transportation and other	7	7	—%	24	24	—%
Total natural gas revenues[(b)]	$ 53	$ 48	10.4%	$ 339	$ 322	5.3%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from PECO and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from PECO, revenue also reflects the cost of natural gas.

(b) Includes operating revenues from affiliates totaling less than $1 million for the three and nine months ended September 30, 2017 and 2016.

Results of Operations — BGE

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Favorable (Unfavorable) Variance	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Favorable (Unfavorable) Variance
Operating revenues	$ 738	$ 812	$ (74)	$2,363	$2,421	$ (58)
Purchased power and fuel expense	269	360	91	853	994	141
Revenues net of purchased power and fuel expense[(a)]	469	452	17	1,510	1,427	83
Other operating expenses						
Operating and maintenance	175	178	3	532	588	56
Depreciation and amortization	109	101	(8)	348	307	(41)
Taxes other than income	61	58	(3)	180	172	(8)
Total other operating expenses	345	337	(8)	1,060	1,067	7
Operating income	124	115	9	450	360	90
Other income and (deductions)						
Interest expense, net	(26)	(28)	2	(80)	(76)	(4)
Other, net	4	5	(1)	12	16	(4)
Total other income and (deductions)	(22)	(23)	1	(68)	(60)	(8)
Income before income taxes	102	92	10	382	300	82
Income taxes	40	36	(4)	151	109	(42)
Net income	62	56	6	231	191	40
Preference stock dividends	—	2	2	—	8	8
Net income attributable to common shareholder	$ 62	$ 54	$ 8	$ 231	$ 183	$ 48

(a) BGE evaluates its operating performance using the measures of revenue net of purchased power expense for electric sales and revenue net of fuel expense for gas sales. BGE believes revenues net of purchased power and fuel expense are useful measurements of its performance because they provide information that can be used to evaluate its net revenue from operations. BGE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, revenues net of purchased power and fuel expense figures are not a presentation defined under GAAP and may not be comparable to other companies' presentations or more useful than the GAAP information provided elsewhere in this report.

Net Income Attributable to Common Shareholder

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. BGE's Net income attributable to common shareholder for the three months ended September 30, 2017 was higher than the same period in 2016, primarily due to an increase in Revenues net of purchased power and fuel expense, predominantly as a result of an increase in transmission formula rate revenues. This item was partially offset by an increase in Depreciation and amortization expense primarily related to the impacts of increased capital investment.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. BGE's Net income attributable to common shareholder for the nine months ended September 30, 2017 was higher than the same period in 2016, primarily due to an increase in Revenues net of purchased power and fuel expense and lower Operating and maintenance expense. The increase in Revenues net of purchased power and fuel expense was primarily due to the impacts of the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016 and an increase in transmission formula rate revenues. The lower Operating and maintenance expense was primarily due to the absence of cost disallowances resulting from the

2016 distribution rate orders issued by the MDPSC and decreased storm costs in 2017. These items were partially offset by higher income tax expense primarily resulting from a cumulative adjustment to reduce tax expense in 2016 for transmission-related regulatory assets and an increase in Depreciation and amortization expense primarily related to the initiation of cost recovery of the AMI programs under the distribution rate orders and the impacts of increased capital investment.

Revenues Net of Purchased Power and Fuel Expense

There are certain drivers to Operating revenues that are offset by their impact on Purchased power and fuel expense, such as commodity procurement costs and programs allowing customers to select a competitive electric or natural gas supplier. Operating revenues and Purchased power and fuel expense are affected by fluctuations in commodity procurement costs. BGE's electric and natural gas rates charged to customers are subject to periodic adjustments that are designed to recover or refund the difference between the actual cost of purchased electric power and purchased natural gas and the amount included in rates in accordance with the MDPSC's market-based SOS and gas commodity programs, respectively.

Electric and natural gas revenue and purchased power and fuel expense are also affected by fluctuations in the number of customers electing to use a competitive electric generation or natural gas supplier. All BGE customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but does affect revenue collected from customers related to supplied energy and natural gas.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three and nine months ended September 30, 2017 and 2016 consisted of the following:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	**2016**	**2017**	**2016**
Electric	60%	58%	60%	59%
Natural Gas	74%	80%	57%	59%

The number of retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at September 30, 2017 and 2016 consisted of the following:

	September 30, 2017		**September 30, 2016**	
	Number of Customers	**% of total retail customers**	**Number of customers**	**% of total retail customers**
Electric	339,300	27%	334,100	26%
Natural Gas	148,600	22%	150,000	23%

The changes in BGE's Operating revenues net of purchased power and fuel expense for the three and nine months ended September 30, 2017, compared to the same period in 2016, consisted of the following:

	Three Months Ended September 30, 2017			**Nine Months Ended September 30, 2017**		
	Increase (Decrease)			**Increase (Decrease)**		
	Electric	**Gas**	**Total**	**Electric**	**Gas**	**Total**
Distribution rate increase	$ —	$ —	$ —	$ 21	$ 29	$ 50
Regulatory required programs	2	—	2	11	1	12
Transmission revenue	7	—	7	10	—	10
Other, net	4	4	8	5	6	11

Total increase	$ 13	$ 4	$ 17	$ 47	$ 36	$ 83

Distribution Rate Increase. The increase in distribution revenues for the nine months ended September 30, 2017, compared to the same period in 2016, was primarily due to the impact of the electric and natural gas distribution rates charged to customers that became effective in June 2016 in accordance with the electric and natural gas distribution rate orders issued by the MDPSC in June 2016 and July 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Revenue Decoupling. The demand for electricity and natural gas is affected by weather and usage conditions. The MDPSC allows BGE to record a monthly adjustment to its electric and natural gas distribution revenue from all residential customers, commercial electric customers, the majority of large industrial electric customers, and all firm service natural gas customers to eliminate the effect of abnormal weather and usage patterns per customer on BGE's electric and natural gas distribution volumes, thereby recovering a specified dollar amount of distribution revenue per customer, by customer class, regardless of fluctuations in actual consumption levels. This allows BGE to recognize revenue at MDPSC-approved distribution charges per customer, regardless of what BGE's actual distribution volumes were for a billing period. Therefore, while this revenue is affected by customer growth (i.e., increase in the number of customers), it will not be affected by actual weather or usage conditions (i.e., changes in consumption per customer). BGE bills or credits customers in subsequent months for the difference between approved revenue levels under revenue decoupling and actual customer billings.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 30-year period in BGE's service territory. The changes in heating and cooling degree days in BGE's service territory for the three and nine months ended September 30, 2017 compared to the same period in 2016 consisted of the following:

Heating and Cooling Degree-Days				**% Change**	
Three Months Ended September 30,	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	64	24	78	166.7 %	(17.9)%
Cooling Degree-Days	595	747	596	(20.3)%	(0.2)%
Nine Months Ended September 30,					
Heating Degree-Days	2,524	2,878	2,992	(12.3)%	(15.6)%
Cooling Degree-Days	877	966	850	(9.2)%	3.2 %

Regulatory Required Programs. Revenue from regulatory required programs are billings for the costs of various legislative and/or regulatory programs that are recoverable from customers on a full and current basis. These programs are designed to provide full cost recovery, as well as a return in certain instances. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in BGE's Consolidated Statements of Operations and Comprehensive Income.

Transmission Revenue. Under a FERC approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing determinants. The increase in transmission revenue for the three and nine months ended September 30, 2017, compared to the same period in 2016, was primarily due to increases in capital investment and operating and maintenance expense recoveries. See Operating and Maintenance Expense below and Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Other, Net. Other net revenue, which can vary from period to period, primarily includes late payment fees and other miscellaneous revenue such as service application fees and assistance provided to other utilities through BGE's mutual assistance program.

Operating and Maintenance Expense

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2017	2016		2017	2016	
Operating and maintenance expense — baseline	$ 167	$ 170	$ (3)	$ 499	$ 561	$ (62)
Operating and maintenance expense — regulatory required programs[(a)]	8	8	—	33	27	6
Total operating and maintenance expense	$ 175	$ 178	$ (3)	$ 532	$ 588	$ (56)

(a) Operating and maintenance expense for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the three and nine months ended September 30, 2017 compared to the same period in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	**Increase (Decrease)**
Baseline		
Impairment on long-lived assets and losses on regulatory assets [(a)]	$ 1	$ (50)
City of Baltimore conduit fees	(4)	(12)
Storm-related costs	3	(11)
Uncollectible accounts expense	(8)	(8)
BSC costs	8	10
Other	(3)	9
	(3)	(62)
Regulatory Required Programs		
Other	$ —	$ 6
	—	6
Total decrease	$ (3)	$ (56)

(a) See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Depreciation and Amortization

The changes in Depreciation and amortization expense for the three and nine months ended September 30, 2017 compared to the same period in 2016 consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	**Increase (Decrease)**
Depreciation expense[(a)]	$ 5	$ 10
Regulatory asset amortization[(b)]	1	25
Regulatory required programs[(c)]	2	6
Total increase	$ 8	$ 41

(a) Depreciation expense increased due to ongoing capital expenditures.

(b) Regulatory asset amortization increased for the three and nine months ended September 30, 2017 compared to the same period in 2016 primarily due to an increase in regulatory asset amortization related to energy efficiency programs and the initiation of cost recovery of the AMI programs under the final electric and natural gas distribution rate case order issued by the MDPSC in June 2016 and increased depreciation from AMI program capital expenditures. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

(c) Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

Taxes Other Than Income

Taxes other than income, which can vary period to period, include municipal and state utility taxes, real estate taxes and payroll taxes. Taxes other than income for the three and nine months ended September 30, 2017 compared to the same period in 2016 remained relatively consistent.

Interest Expense, Net

Interest expense, net for the three and nine months ended September 30, 2017, compared to the same period in 2016 remained relatively consistent.

Effective Income Tax Rate

BGE’s effective income tax rate was 39.2% and 39.1% for the three months ended September 30, 2017 and 2016, respectively. BGE’s effective income tax rate was 39.5% and 36.3% for the nine months ended September 30, 2017 and 2016, respectively. See Note 12 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

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BGE Electric Operating Statistics and Revenue Detail

	Three Months Ended September 30,				Nine Months Ended September 30,			
Retail Deliveries to Customers (in GWhs)	**2017**	**2016**	**% Change**	**Weather - Normal % Change**	**2017**	**2016**	**% Change**	**Weather - Normal % Change**
Retail Deliveries[a]								
Residential	3,370	3,900	(13.6)%	(2.9)%	9,126	9,996	(8.7)%	(4.3)%
Small commercial & industrial	785	877	(10.5)%	(9.0)%	2,210	2,343	(5.7)%	(5.8)%
Large commercial & industrial	3,781	3,992	(5.3)%	(3.9)%	10,422	10,627	(1.9)%	(2.6)%
Public authorities & electric railroads	64	72	(11.1)%	(2.5)%	204	215	(5.1)%	(2.5)%
Total electric deliveries	8,000	8,841	(9.5)%	(4.0)%	21,962	23,181	(5.3)%	(3.7)%

	As of September 30,	
Number of Electric Customers	**2017**	**2016**
Residential	1,156,659	1,145,020
Small commercial & industrial	113,224	112,609
Large commercial & industrial	12,144	12,030
Public authorities & electric railroads	274	282
Total	1,282,301	1,269,941

	Three Months Ended September 30,			Nine Months Ended September 30,		
Electric Revenue	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Retail Sales[a]						
Residential	$ 376	$ 451	(16.6)%	$ 1,096	$ 1,203	(8.9)%
Small commercial & industrial	67	74	(9.5)%	202	212	(4.7)%
Large commercial & industrial	120	123	(2.4)%	343	337	1.8 %
Public authorities & electric railroads	8	9	(11.1)%	23	27	(14.8)%
Total retail	571	657	(13.1)%	1,664	1,779	(6.5)%
Other revenue[b][c]	87	78	11.5 %	231	219	5.5 %
Total electric revenue	$ 658	$ 735	(10.5)%	$ 1,895	$ 1,998	(5.2)%

(a) Reflects delivery volumes and revenue from customers purchasing electricity directly from BGE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from BGE, revenue also reflects the cost of energy and transmission.

(b) Other revenue primarily includes wholesale transmission revenue and late payment charges.

(c) Includes operating revenues from affiliates totaling $1 million for both the three months ended September 30, 2017 and 2016 and $5 million for both the nine months ended September 30, 2017 and 2016.

BGE Natural Gas Operating Statistics and Revenue Detail

	Three Months Ended September 30,				Nine Months Ended September 30,			
Deliveries to Customers (in mmcf)	**2017**	**2016**	**% Change**	**Weather - Normal % Change**	**2017**	**2016**	**% Change**	**Weather - Normal % Change**
Retail Deliveries[a]								

Retail sales	11,221	13,159	(14.7)%	(14.3)%	60,620	69,415	(12.7)%	(5.3)%
Transportation and other[(b)]	68	1,311	(94.8)%	n/a	2,463	4,078	(39.6)%	n/a
Total natural gas deliveries	11,289	14,470	(22.0)%	(14.3)%	63,083	73,493	(14.2)%	(5.3)%

Number of Gas Customers	As of September 30, 2017	As of September 30, 2016
Residential	626,039	619,837
Commercial & industrial	43,973	43,957
Total	670,012	663,794

Natural Gas Revenue	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change
Retail Sales[(a)]						
Retail sales	$ 77	$ 71	8.5 %	$ 445	$ 403	10.4%
Transportation and other[(b)]	3	6	(50.0)%	23	20	15.0%
Total natural gas revenues[(c)]	$ 80	$ 77	3.9 %	$ 468	$ 423	10.6%

(a) Reflects delivery volumes and revenue from customers purchasing natural gas directly from BGE and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from BGE, revenue also reflects the cost of natural gas.

(b) Transportation and other natural gas revenue includes off-system revenue of 68 mmcfs ($1 million) and 1,311 mmcfs ($4 million) for the three months ended September 30, 2017 and 2016, respectively, and 2,463 mmcfs ($15 million) and 4,078 mmcfs ($14 million) for the nine months ended September 30, 2017 and 2016, respectively.

(c) Includes operating revenues from affiliates totaling $2 million and $6 million for the three months ended September 30, 2017 and 2016, respectively, and $7 million and $11 million for the nine months ended September 30, 2017 and 2016, respectively.

Results of Operations — PHI

PHI’s results of operations include the results of its three reportable segments, Pepco, DPL and ACE for all periods presented below. For "Predecessor" reporting periods, PHI’s results of operations also include the results of PES and PCI. See Note 20 - Segment Information of the Combined Notes to Consolidated Financial Statements for additional information regarding PHI’s reportable segments. All material intercompany accounts and transactions have been eliminated in consolidation. A separate specific discussion of the results of operations for Pepco, DPL and ACE is presented elsewhere in this report.

As a result of the PHI Merger, the following consolidated financial results present two separate reporting periods for 2016. The "Predecessor" reporting period represents PHI’s results of operations for the period from January 1, 2016 to March 23, 2016. The "Successor" reporting periods represent PHI’s results of operations for the three and nine months ended September 30, 2017, the three months ended September 30, 2016 and for the period from March 24, 2016 to September 30, 2016. All amounts presented below are before the impact of income taxes, except as noted.

	Successor			*Successor*		*Predecessor*
	Three Months Ended September 30,		**Favorable (Unfavorable) Variance**	**Nine Months Ended September 30,**	**March 24 to September 30,**	**January 1 to March 23,**
	2017	**2016**		**2017**	**2016**	**2016**
Operating revenues	$ 1,310	$ 1,394	$ (84)	$ 3,557	$ 2,565	$ 1,153
Purchased power and fuel expense	473	583	110	1,318	1,037	497
Revenue net of purchased power and fuel expense[(a)]	837	811	26	2,239	1,528	656
Other operating expenses						
Operating and maintenance	251	226	(25)	774	921	294
Depreciation and amortization	179	182	3	511	355	152
Taxes other than income	122	124	2	344	248	105
Total other operating expenses	552	532	(20)	1,629	1,524	551
Gain on sales of assets	—	—	—	1	—	—
Operating income	285	279	6	611	4	105
Other income and (deductions)						
Interest expense, net	(62)	(64)	2	(183)	(135)	(65)
Other, net	13	19	(6)	40	31	(4)
Total other income and (deductions)	(49)	(45)	(4)	(143)	(104)	(69)
Income (loss) before income taxes	236	234	2	468	(100)	36
Income taxes	83	68	(15)	109	(9)	17
Net income (loss)	$ 153	$ 166	$ (13)	$ 359	$ (91)	$ 19

(a) PHI evaluates its operating performance using the measure of revenue net of purchased power and fuel expense for electric and natural gas sales. PHI believes revenue net of purchased power and fuel expense is a useful measurement because it provides information that can be used to evaluate its operational performance. PHI has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power and fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Successor Period Three Months Ended September 30, 2017 Compared to Successor Period Three Months Ended September 30, 2016

Net Income

PHI's Net income for the Successor period of three months ended September 30, 2017 was $153 million compared to $166 million for the Successor period of three months ended September 30, 2016. The decrease in Net income reflects the September 2016 pre-tax recording of a $50 million reallocation of merger-related commitments from Pepco, DPL and ACE to Exelon, which resulted in more commitments becoming obligations of Exelon. The increase in Operating and maintenance expense is partially offset by the impact of increases in electric distribution and natural gas rates within Revenue net of purchased power expense (Pepco electric distribution rates effective November 2016 in Maryland, Pepco electric distribution rates effective August 2017 in the District of Columbia, DPL electric distribution rates effective February 2017 in Maryland, DPL electric distribution and natural gas rates effective July 2016 and December 2016 in Delaware, and ACE electric distribution rates effective August 2016 in New Jersey).

Operating Revenue Net of Purchased Power and Fuel Expense

Operating revenue net of purchased power and fuel expense, which is a non-GAAP measure discussed above, increased by $26 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016. The increase is primarily attributable to the following factors:

- Increase of $17 million at DPL primarily related to the impact of the new electric distribution and natural gas rates charged to Delaware customers that became effective in July 2016 and December 2016 and the impact of new electric distribution rates charged to Maryland customers that became effective in February 2017;

- Increase of $14 million at Pepco primarily related to the impact of the new electric distribution rates charged to customers in Maryland that became effective in November 2016 and and the impact of new electric distribution rates charged to customers in the District of Columbia effective August 2017; and

- Decrease of $6 million at ACE primarily related to lower average customer usage and unfavorable weather related sales, partially offset by the impact of the new electric distribution base rate charged to customers that became effective in August 2016.

Operating and Maintenance Expense

Operating and maintenance expense increased by $25 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016. The increase is attributable to the following factors:

- Increase of $24 million at DPL due primarily to a merger commitment reallocation from DPL to Exelon that decreased Operating and maintenance expense in 2016;

- Increase of $5 million at ACE primarily due to a merger commitment reallocation from ACE to Exelon that decreased Operating and maintenance expense in 2016, partially offset by the deferral of merger-related costs to a regulatory asset; and

- Decrease of $6 million at Pepco primarily due to the deferral of merger-related, rate case, and customer billing system costs to a regulatory asset, partially offset by a merger commitment reallocation from Pepco to Exelon that decreased Operating and maintenance expense in 2016.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased by $3 million primarily due to lower amortization expense at ACE resulting from lower revenue due to rate decreases effective October 2016 for the ACE

Transition Bond Charge and ACE Market Transition Charge Tax, partially offset by higher depreciation as a result of higher Maryland depreciation rates at Pepco effective November 2016 and at DPL effective February 2017 and due to ongoing capital expenditures at Pepco, DPL, and ACE.

Taxes Other Than Income

Taxes other than income decreased by $2 million primarily due to lower utility taxes that are collected and passed through by Pepco, partially offset by higher property taxes at Pepco.

Interest Expense, Net

Interest expense decreased by $2 million primarily due to the redemption of long-term debt in December 2016 and lower short-term debt interest rates.

Other, Net

Other, net decreased by $6 million primarily due to the September 2016 reversal of contributions in aid of construction tax gross-up reserves due to the determination that there is no legal obligation to refund customers per contract terms.

Effective Income Tax Rate

PHI's effective income tax rate was 35.2% and 29.1% for the three months ended September 30, 2017 and 2016, respectively. See Note 12 - Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Successor Period Nine Months Ended September 30, 2017

PHI's Net income for the Successor period of nine months ended September 30, 2017 was $359 million. There were no significant changes in the underlying trends affecting PHI's operations during the Successor period of nine months ended September 30, 2017 except for the impact of increases in electric distribution and natural gas rates within Revenue net of purchased power expense (Pepco electric distribution rates effective November 2016 in Maryland, Pepco electric distribution rates effective August 2017 in the District of Columbia, DPL electric distribution rates effective February 2017 in Maryland, DPL electric distribution and natural gas rates effective July 2016 and December 2016 in Delaware, and ACE electric distribution rates effective August 2016 in New Jersey). The deferral of merger-related, rate case, and customer billing system costs to a regulatory asset and lower uncollectible accounts expense contributed to lower Operating and maintenance expense. Income taxes were lower due to unrecognized tax benefits of $59 million for uncertain tax positions related to the deductibility of certain merger commitments in the first quarter of 2017.

PHI's effective income tax rate for the Successor period of nine months ended September 30, 2017 was 23.3%. See Note 12 - Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Successor Period March 24, 2016 to September 30, 2016

PHI's Net loss for the Successor period from March 24, 2016 to September 30, 2016 was $91 million*.* There were no significant changes in the underlying trends affecting PHI's results of operations during the Successor period of March 24, 2016 to September 30, 2016 except for the pre-tax recording of $375 million of non-recurring merger-related costs within Operating and maintenance expense.

PHI's effective income tax rate for the Successor period of March 24, 2016 to September 30, 2016 was 9.0%. See Note 12 - Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Predecessor Period January 1, 2016 to March 23, 2016

PHI's Net income for the Predecessor period of January 1, 2016 to March 23, 2016 was $19 million*.* There were no significant changes in the underlying trends affecting PHI's results of operations during the Predecessor period of January 1, 2016 to March 23, 2016 except for the pre-tax recording of $29 million of non-recurring merger-related costs within Operating and maintenance expense and $18 million of preferred stock derivative expense within Other, net.

PHI’s effective income tax rate for the Predecessor period of January 1, 2016 to March 23, 2016 was 47.2%. See Note 12 - Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

Results of Operations - Pepco

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$ 604	$ 635	$ (31)	$1,649	$1,695	$ (46)
Purchased power expense	168	213	45	478	563	85
Revenue net of purchased power expense[(a)]	436	422	14	1,171	1,132	39
Other operating expenses						
Operating and maintenance	103	109	6	336	508	172
Depreciation and amortization	82	76	(6)	242	221	(21)
Taxes other than income	102	105	3	282	287	5
Total other operating expenses	287	290	3	860	1,016	156
Gain on sales of assets	—	—	—	1	8	(7)
Operating income	149	132	17	312	124	188
Other income and (deductions)						
Interest expense, net	(31)	(30)	(1)	(89)	(98)	9
Other, net	7	12	(5)	22	28	(6)
Total other income and (deductions)	(24)	(18)	(6)	(67)	(70)	3
Income before income taxes	125	114	11	245	54	191
Income taxes	38	35	(3)	57	34	(23)
Net income	$ 87	$ 79	$ 8	$ 188	$ 20	$ 168

(a) Pepco evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. Pepco believes revenue net of purchased power expense is a useful measurement because it provides information that can be used to evaluate its operational performance. Pepco has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. Pepco's Net income for the three months ended September 30, 2017, was higher than the same period in 2016, primarily due to an increase in Revenue net of purchased power expense resulting from higher electric distribution revenues as a result of the distribution rate increase approved by the MDPSC effective November 2016 and the distribution rate increase approved by the DCPSC effective August 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. Pepco's Net income for the nine months ended September 30, 2017, was higher than the same period in 2016, primarily due to an increase in Revenue net of purchased power expense resulting from higher electric distribution revenues as a result of the distribution rate increase approved by the MDPSC effective November 2016 and the distribution rate increase approved by the DCPSC effective August 2017, lower Operating and maintenance expense due to merger-related costs recognized in March 2016, and a decrease in income tax reserves in the first quarter of 2017 for uncertain tax positions related to the deductibility of certain merger commitments, partially offset by higher depreciation expense due to increased depreciation rates in Maryland effective November 2016.

Operating Revenue Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to Pepco’s customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that Pepco receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All Pepco customers have the choice to purchase electricity from competitive electric generation suppliers. The customers' choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three and nine months ended September 30, 2017, compared to the same periods in 2016, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Electric	65%	63%	66%	65%

Retail customers purchasing electric generation from competitive electric generation suppliers at September 30, 2017 and 2016 consisted of the following:

	September 30, 2017		September 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	179,106	21%	175,960	21%

Retail deliveries purchased from competitive electric generation suppliers represented 72% and 73% of Pepco's retail kWh sales to the District of Columbia customers and 60% and 60% of Pepco's retail kWh sales to Maryland customers for the three and nine months ended September 30, 2017, respectively and 71% and 72% of Pepco's retail kWh sales to the District of Columbia customers and 58% and 59% of Pepco's retail kWh sales to Maryland customers for the three and nine months ended September 30, 2016, respectively.

Operating revenues include transmission enhancement credits that Pepco receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by Pepco to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

The changes in Pepco's operating revenues net of purchased power expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Volume	$ 5	$ 13
Distribution rate increase	17	45

Regulatory required programs	(6)	(11)
Transmission revenues	3	9
Other	(5)	(17)
Total increase	$ 14	$ 39

Volume. The increase in operating revenue net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the three and nine months ended September 30, 2017 compared to the same periods in 2016, primarily reflects the impact of customer growth.

Distribution Rate Increase. The increase in electric operating revenues net of purchased power expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 was primarily due to the impact of higher electric distribution rates charged to customers in Maryland that became effective in November 2016 and higher electric distribution rates charged to customers in the District of Columbia that became effective August 2017. See Note 5—Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Revenue Decoupling. Pepco's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of Pepco in Maryland and in the District of Columbia, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland and the District of Columbia to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

In accounting for the BSA in Maryland and the District of Columbia, a Revenue Decoupling Adjustment is recorded representing either (i) a positive adjustment equal to the amount by which revenue from Maryland and the District of Columbia retail distribution sales falls short of the revenue that Pepco is entitled to earn based on the approved distribution charge per customer or (ii) a negative adjustment equal to the amount by which revenue from such distribution sales exceeds the revenue that Pepco is entitled to earn based on the approved distribution charge per customer.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in Pepco's service territory. The changes in heating and cooling degree days in Pepco's service territory for the three and nine months ended September 30, 2017 compared to the same periods in 2016 and normal weather consisted of the following:

				% Change	
	2017	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Three Months Ended September 30,					
Heating Degree-Days	8	1	19	700.0 %	(57.9)%
Cooling Degree-Days	1,130	1,418	1,133	(20.3)%	(0.3)%
Nine Months Ended September 30,					
Heating Degree-Days	1,963	2,408	2,477	(18.5)%	(20.8)%
Cooling Degree-Days	1,679	1,872	1,611	(10.3)%	4.2 %

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in Pepco's Consolidated Statements of Operations and Comprehensive Income. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. The increase in revenue net of purchased power expense for the three months ended September 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 related to increases in transmission plant investment and operating expenses. The increase in revenue net of purchased power expense for the nine months ended September 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses, partially offset by lower revenue related to the MAPP abandonment recovery period that ended in March 2016.

Other. The decrease in other operating revenue net of purchased power and fuel expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 is primarily due to lower pass-through revenue (which is substantially offset in Taxes other than income) primarily the result of lower sales that resulted in a decrease in utility taxes that are collected by Pepco on behalf of the jurisdiction.

Operating and Maintenance Expense

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2017	**2016**		**2017**	**2016**	
Operating and maintenance expense - baseline	$ 100	$ 106	$ (6)	$ 331	$ 500	$ (169)
Operating and maintenance expense - regulatory required programs[(a)]	3	3	—	5	8	(3)
Total operating and maintenance expense	$ 103	$ 109	$ (6)	$ 336	$ 508	$ (172)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	**Increase (Decrease)**
Baseline		
Labor, other benefits, contracting and materials	$ 2	$ 14
Storm-related costs	(1)	—
Remeasurement of AMI-related regulatory asset[(a)]	(4)	(11)
Uncollectible accounts expense	1	(1)
Deferral of merger-related costs to regulatory asset	(8)	(1)
Deferral of rate case and customer billing system costs	(6)	(6)
BSC and PHISCO allocations[(b)]	1	(22)
Merger commitments[(c)]	13	(132)
Other	(4)	(10)
	(6)	(169)
Regulatory required programs		
Purchased power administrative costs	—	(3)
Total decrease	$ (6)	$ (172)

(a) Related to a remeasurement of a regulatory asset for legacy meters recognized in 2016.
(b) Primarily related to merger severance and compensation costs recognized in 2016.
(c) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Depreciation expense[(a)]	$ 9	$ 25
Regulatory asset amortization	3	4
Regulatory required programs[(b)]	(6)	(8)
Total increase	$ 6	$ 21

(a) Depreciation expense increased due to higher depreciation rates in Maryland effective November 2016 and due to ongoing capital expenditures.

(b) Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the three and nine months ended September 30, 2017 compared to the same periods in 2016, decreased due to a decrease in the utility taxes that are collected and passed through by Pepco (which is substantially offset in Operating revenues), partially offset by higher property taxes.

Gain on sales of assets

Gain on sales of assets for the nine months ended September 30, 2017 compared to the same period in 2016 decreased due to a second quarter 2016 gain recorded from the sale of land.

Interest Expense, Net

Interest expense, net for the three months ended September 30, 2017 compared to the same period in 2016, remained relatively constant.

Interest expense, net for the nine months ended September 30, 2017 compared to the same period in 2016 decreased primarily due to the recording of interest expense for an uncertain tax position in the first quarter of 2016 and an increase in capitalized AFUDC interest.

Other, Net

Other, net for the three and nine months ended September 30, 2017 compared to the same periods in 2016 decreased primarily due to the September 2016 reversal of contributions in aid of construction tax gross-up reserves due to the determination that there is no legal obligation to refund customers per contract terms.

Effective Income Tax Rate

Pepco's effective income tax rate was 30.4% and 30.7% for the three months ended September 30, 2017 and 2016, respectively. Pepco's effective income tax rate was 23.3% and 63.0% for the nine months ended September 30, 2017 and 2016, respectively. In the first quarter of 2017, Pepco decreased its liability for unrecognized tax benefits by $21 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 12 — Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the change in effective income tax rates.

Pepco Electric Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in GWhs)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Weather - Normal % Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change	Weather - Normal % Change
Retail Deliveries[(a)]								
Residential	2,281	2,675	(14.7)%	(5.2)%	6,038	6,652	(9.2)%	(2.7)%
Small commercial & industrial	347	394	(11.9)%	(7.2)%	999	1,124	(11.1)%	(8.4)%
Large commercial & industrial	4,146	4,314	(3.9)%	0.8 %	11,306	11,890	(4.9)%	(3.0)%
Public authorities & electric railroads	180	180	— %	1.1 %	542	544	(0.4)%	(0.2)%
Total retail deliveries	6,954	7,563	(8.1)%	(1.7)%	18,885	20,210	(6.6)%	(3.1)%

Number of Electric Customers	As of September 30, 2017	As of September 30, 2016
Residential	790,032	775,911
Small commercial & industrial	53,543	53,425
Large commercial & industrial	21,733	21,315
Public authorities & electric railroads	143	129
Total	865,451	850,780

Electric Revenue	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change
Retail Sales[(a)]						
Residential	$ 283	$ 315	(10.2)%	$ 744	$ 791	(5.9)%
Small commercial & industrial	38	43	(11.6)%	113	116	(2.6)%
Large commercial & industrial	221	219	0.9 %	608	613	(0.8)%
Public authorities & electric railroads	8	7	14.3 %	24	23	4.3 %
Total retail	550	584	(5.8)%	1,489	1,543	(3.5)%
Other revenue[(b)]	54	51	5.9 %	160	152	5.3 %
Total electric revenue[(c)]	$ 604	$ 635	(4.9)%	$ 1,649	$ 1,695	(2.7)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from Pepco and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from Pepco, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $1 million for the three months ended September 30, 2017 and 2016 and $4 million and $3 million for the nine months ended September 30, 2017 and 2016, respectively.

Results of Operations - DPL

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$ 327	$ 331	$ (4)	$ 971	$ 974	$ (3)
Purchased power and fuel expense	129	150	21	399	448	49
Revenues net of purchased power and fuel expense[(a)]	198	181	17	572	526	46
Other operating expenses						
Operating and maintenance	79	55	(24)	227	338	111
Depreciation and amortization	45	44	(1)	124	120	(4)
Taxes other than income	15	14	(1)	43	42	(1)
Total other operating expenses	139	113	(26)	394	500	106
Gain on sales of asset	—	4	(4)	—	4	(4)
Operating income	59	72	(13)	178	30	148
Other income and (deductions)						
Interest expense, net	(13)	(12)	(1)	(38)	(37)	(1)
Other, net	4	3	1	10	9	1
Total other income and (deductions)	(9)	(9)	—	(28)	(28)	—
Income before income taxes	50	63	(13)	150	2	148
Income taxes	19	19	—	43	18	(25)
Net income (loss)	$ 31	$ 44	$ (13)	$ 107	$ (16)	$ 123

(a) DPL evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales and revenue net of fuel expense for natural gas sales. DPL believes revenue net of purchased power expense and revenue net of fuel expense are useful measurements because they provide information that can be used to evaluate its operational performance. DPL has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense and Revenue net of fuel expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. DPL's Net income for the three months ended September 30, 2017, was lower than the same period in 2016 as a result of the merger commitment reallocation from DPL to Exelon that decreased Operating and maintenance expense in 2016, partially offset by an increase in Revenue net of purchased power and fuel expense primarily resulting from higher electric distribution and natural gas revenues as a result of the distribution rate increases approved by the DPSC effective July 2016 and December 2016 and by the MDPSC effective February 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. DPL's Net income (loss) for the nine months ended September 30, 2017, was higher than the same period in 2016 as a result of an increase in Revenue net of purchased power and fuel expense primarily resulting from higher electric distribution and natural gas revenues as a result of the distribution rate increases approved by the DPSC effective July 2016 and December 2016 and by the MDPSC effective February 2017, lower Operating and maintenance expense due to merger-related costs recognized in March 2016, lower uncollectible accounts expense, and the deferral of merger-related costs to a regulatory asset in 2017, and a decrease in income tax reserves in the first quarter of 2017 for uncertain tax positions related to the deductibility of certain merger commitments.

Revenues Net of Purchased Power and Fuel Expense

Operating revenues include revenue from the distribution and supply of electricity to DPL’s customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that DPL receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric and natural gas revenues and purchased power and fuel expense are also affected by fluctuations in participation in the Customer Choice Program. All DPL customers have the choice to purchase electricity and natural gas from competitive electric generation and natural gas suppliers, respectively. The customers' choice of suppliers does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and natural gas service.

Retail deliveries purchased from competitive electric generation and natural gas suppliers (as a percentage of kWh and mmcf sales, respectively) for the three and nine months ended September 30, 2017 and 2016, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Electric	51%	49%	52%	51%
Natural Gas	53%	51%	35%	32%

Retail customers purchasing electric generation and natural gas from competitive electric generation and natural gas suppliers at September 30, 2017 and 2016 consisted of the following:

	September 30, 2017		September 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	78,426	15.0%	79,501	15.4%
Natural Gas	155	0.1%	157	0.1%

Retail deliveries purchased from competitive electric generation suppliers represented 53% and 54% of DPL's retail kWh sales to Delaware customers and 48% and 48% of DPL's retail kWh sales to Maryland customers for the three and nine months ended September 30, 2017, respectively and 51% and 53% of DPL's retail kWh sales to Delaware customers and 47% and 47% of DPL's retail kWh sales to Maryland customers for the three and nine months ended September 30, 2016, respectively.

Operating revenues include transmission enhancement credits that DPL receives as a transmission owner from PJM in consideration for approved regional transmission expansion plan expenditures.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Natural gas operating revenue includes sources that are subject to price regulation (Regulated Gas Revenue) and those that generally are not subject to price regulation (Other Gas Revenue). Regulated gas revenue includes the revenue DPL receives from on-system natural gas delivered sales and the transportation of natural gas for customers within its service territory at regulated rates. Other gas revenue consists of off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers. Off-system sales are made possible when low demand for natural gas by regulated customers creates excess pipeline capacity.

Purchased power expense consists of the cost of electricity purchased by DPL to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders. Purchased fuel expense consists of the cost of gas purchased by DPL to fulfill its obligation to regulated gas customers and, as such, is recoverable from customers in accordance with the terms of public service commission orders. It also includes the cost of gas purchased for off-system sales.

The changes in DPL's operating revenues net of purchased power and fuel expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Increase (Decrease)			Increase (Decrease)		
	Electric	Gas	Total	Electric	Gas	Total
Weather	$ (6)	$ 1	$ (5)	$ (9)	$ (13)	$ (22)
Volume	2	(1)	1	3	10	13
Pricing - distribution revenues	17	—	17	49	2	51
Regulatory required programs	(3)	—	(3)	(2)	—	(2)
Transmission revenues	5	—	5	4	—	4
Other	3	(1)	2	5	(3)	2
Total increase (decrease)	$ 18	$ (1)	$ 17	$ 50	$ (4)	$ 46

Revenue Decoupling. DPL's results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. For retail customers of DPL in Maryland, revenues are not affected by unseasonably warmer or colder weather because a bill stabilization adjustment (BSA) for retail customers was implemented that provides for a fixed distribution charge per customer. The BSA has the effect of decoupling the distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a result, the only factors that will cause distribution revenue from customers in Maryland to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. A modified fixed variable rate design, which would provide for a charge not tied to a customer's volumetric consumption of electricity or natural gas, has been proposed for DPL electricity and natural gas customers in Delaware. Changes in customer usage (due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue for customers to whom the BSA applies.

In accounting for the BSA in Maryland, a Revenue Decoupling Adjustment is recorded representing either (i) a positive adjustment equal to the amount by which revenue from Maryland retail distribution sales falls short of the revenue that DPL is entitled to earn based on the approved distribution charge per customer or (ii) a negative adjustment equal to the amount by which revenue from such distribution sales exceeds the revenue that DPL is entitled to earn based on the approved distribution charge per customer.

Weather. The demand for electricity and natural gas in areas not subject to the BSA is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. During the three and nine months ended September 30, 2017 compared to the same periods in 2016, operating revenue net of purchased power and fuel expense was lower due to the impact of unfavorable weather conditions in DPL's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in DPL's electric service territory and a 30-year period in DPL's natural gas service territory. The changes in heating and cooling degree days in DPL's service territory for the three and nine months ended September 30, 2017 compared to the same periods in 2016 and normal weather consisted of the following:

Electric Service Territory				**% Change**	
Three Months Ended September 30,	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	24	14	33	71.4 %	(27.3)%
Cooling Degree-Days	867	1,103	856	(21.4)%	1.3 %
Nine Months Ended September 30,					
Heating Degree-Days	2,384	2,812	2,933	(15.2)%	(18.7)%
Cooling Degree-Days	1,228	1,410	1,184	(12.9)%	3.7 %

Natural Gas Service Territory				**% Change**	
Three Months Ended September 30,	**2017**	**2016**	**Normal**	**2017 vs. 2016**	**2017 vs. Normal**
Heating Degree-Days	28	20	42	40.0 %	(33.3)%
Nine Months Ended September 30,					
Heating Degree-Days	2,431	2,913	3,062	(16.5)%	(20.6)%

Volume. The increase in operating revenue net of purchased power and fuel expense related to delivery volume, exclusive of the effects of weather, for the three and nine months ended September 30, 2017 compared to the same periods in 2016, primarily reflects the impact of increased natural gas average customer usage and customer growth.

Pricing—Distribution Revenues. The increase in electric operating revenues net of purchased power expense as a result of pricing for the three and nine months ended September 30, 2017 compared to the same periods in 2016 was primarily due to the impact of higher electric distribution and natural gas rates charged to Delaware customers that became effective in July and December 2016 and the impact of higher electric distribution rates charged to Maryland customers that became effective in February 2017. See Note 5—Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in DPL’s Consolidated Statements of Operations and Comprehensive Income. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. The increase in revenue net of purchased power expense for the three months ended September 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 related to increases in transmission plant investment and operating expenses. The increase in revenue net of purchased power expense for the nine months ended September 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses, partially offset by lower revenue related to the MAPP abandonment recovery period that ended in March 2016.

Other. Other revenue, which can vary period to period, includes rental revenue, revenue related to late payment charges, assistance provided to other utilities through mutual assistance programs, and recoveries of other taxes.

Operating and Maintenance Expense

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2017	2016		2017	2016	
Operating and maintenance expense - baseline	$ 76	$ 50	$ 26	$ 221	$ 328	$ (107)
Operating and maintenance expense - regulatory required programs[(a)]	3	5	(2)	6	10	(4)
Total operating and maintenance expense	$ 79	$ 55	$ 24	$ 227	$ 338	$ (111)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016, consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ 3	$ 3
Storm-related costs	(2)	4
Uncollectible accounts expense	(2)	(7)
Remeasurement of AMI-related regulatory asset[(a)]	(1)	(2)
Deferral of merger-related costs to regulatory asset	—	(6)
BSC and PHISCO allocations[(b)]	(1)	(15)
Merger commitments[(c)]	27	(79)
Other	2	(5)
	26	(107)
Regulatory required programs		
Purchased power administrative costs	(2)	(4)
Total increase (decrease)	$ 24	$ (111)

(a) Related to a remeasurement of a regulatory asset for legacy meters recognized in 2016.
(b) Primarily related to merger severance and compensation costs recognized in 2016.
(c) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Depreciation expense[(a)]	$ 3	$ 9
Regulatory asset amortization	—	(2)
Regulatory required programs[(b)]	(2)	(3)
Total increase	$ 1	$ 4

(a) Depreciation expense increased due to higher depreciation rates in Maryland effective February 2017 and due to ongoing capital expenditures.

(b) Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. A partially offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the three and nine months ended September 30, 2017 compared to the same periods in 2016 remained relatively constant.

Interest Expense, Net

Interest expense, net for the three and nine months ended September 30, 2017 compared to the same periods in 2016 remained relatively constant.

Other, Net

Other, net for the three and nine months ended September 30, 2017 compared to the same periods in 2016 remained relatively constant.

Effective Income Tax Rate

DPL’s effective income tax rate was 38.0% and 30.2% for the three months ended September 30, 2017 and 2016, respectively. DPL’s effective income tax rate was 28.7% and 900.0% for the nine months ended September 30, 2017 and 2016, respectively. In the first quarter of 2017, DPL decreased its liability for unrecognized tax benefits by $16 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 12 - Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

DPL Electric Operating Statistics and Revenue Detail

	Three Months Ended September 30,	% Change	Weather - Normal % Change	Nine Months Ended September 30,	% Change	Weather - Normal % Change

Retail Deliveries to Customers (in GWhs)	2017	2016			2017	2016		
Retail Deliveries[(a)]								
Residential	1,439	1,601	(10.1)%	(2.2)%	3,843	4,066	(5.5)%	0.4 %
Small commercial & industrial	636	642	(0.9)%	3.2 %	1,693	1,746	(3.0)%	(0.9)%
Large commercial & industrial	1,245	1,250	(0.4)%	4.1 %	3,440	3,492	(1.5)%	0.3 %
Public authorities & electric railroads	10	9	11.1 %	11.1 %	35	35	— %	— %
Total retail deliveries	3,330	3,502	(4.9)%	1.2 %	9,011	9,339	(3.5)%	0.1 %

Number of Electric Customers	As of September 30, 2017	2016
Residential	458,790	455,640
Small commercial & industrial	60,542	60,034
Large commercial & industrial	1,406	1,414
Public authorities & electric railroads	633	643
Total	521,371	517,731

Electric Revenue	Three Months Ended September 30, 2017	2016	% Change	Nine Months Ended September 30, 2017	2016	% Change
Retail Sales[(a)]						
Residential	$ 183	$ 200	(8.5)%	$ 508	$ 522	(2.7)%
Small commercial & industrial	49	48	2.1 %	138	143	(3.5)%
Large commercial & industrial	26	24	8.3 %	77	74	4.1 %
Public authorities & electric railroads	3	2	50.0 %	11	9	22.2 %
Total retail	261	274	(4.7)%	734	748	(1.9)%
Other revenue[(b)]	48	40	20.0 %	132	124	6.5 %
Total electric revenue[(c)]	$ 309	$ 314	(1.6)%	$ 866	$ 872	(0.7)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from DPL and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from DPL, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $2 million for the three months ended September 30, 2017 and 2016 and $6 million for the nine months ended September 30, 2017 and 2016.

DPL Natural Gas Operating Statistics and Revenue Detail

Retail Deliveries to Customers (in mmcf)	Three Months Ended September 30, 2017	2016	% Change	Weather - Normal % Change	Nine Months Ended September 30, 2017	2016	% Change	Weather - Normal % Change
Retail Deliveries								
Retail sales	1,069	1,121	(4.6)%	(6.4)%	8,679	9,253	(6.2)%	6.5%
Transportation & other	1,197	1,166	2.7 %	2.4 %	4,690	4,455	5.3 %	7.9%
Total natural gas deliveries	2,266	2,287	(0.9)%	(2.0)%	13,369	13,708	(2.5)%	7.0%

Number of Gas Customers	As of September 30, 2017	2016
Residential	121,238	120,075
Commercial & industrial	9,700	9,656
Transportation & other	155	157

Total	131,093	129,888

Natural Gas Revenue	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change
Retail Sales[a]						
Retail sales	$ 12	$ 13	(7.7)%	$ 87	$ 87	—%
Transportation & other[b]	6	4	50.0 %	18	15	20.0%
Total natural gas revenues	$ 18	$ 17	5.9 %	$ 105	$ 102	2.9%

(a) Reflects delivery volumes and revenues from customers purchasing natural gas directly from DPL and customers purchasing natural gas from a competitive natural gas supplier as all customers are assessed distribution charges. For customers purchasing natural gas from DPL, revenue also reflects the cost of natural gas.

(b) Transportation and other revenue includes off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers.

Results of Operations - ACE

	Three Months Ended September 30,		Favorable (Unfavorable) Variance	Nine Months Ended September 30,		Favorable (Unfavorable) Variance
	2017	2016		2017	2016	
Operating revenues	$ 370	$ 421	$ (51)	$ 915	$ 982	$ (67)
Purchased power expense	176	221	45	442	520	78
Revenues net of purchased power expense[(a)]	194	200	(6)	473	462	11
Other operating expenses						
Operating and maintenance	72	67	(5)	225	346	121
Depreciation and amortization	41	49	8	113	130	17
Taxes other than income	2	1	(1)	6	6	—
Total other operating expenses	115	117	2	344	482	138
Gain on sales of assets	—	—	—	—	1	(1)
Operating income (loss)	79	83	(4)	129	(19)	148
Other income and (deductions)						
Interest expense, net	(15)	(15)	—	(46)	(47)	1
Other, net	1	2	(1)	6	8	(2)
Total other income and (deductions)	(14)	(13)	(1)	(40)	(39)	(1)
Income (loss) before income taxes	65	70	(5)	89	(58)	147
Income taxes	24	23	(1)	12	(8)	(20)
Net income (loss)	$ 41	$ 47	$ (6)	$ 77	$ (50)	$ 127

(a) ACE evaluates its operating performance using the measure of revenue net of purchased power expense for electric sales. ACE believes Revenue net of purchased power expense is a useful measurement of its performance because it provides information that can be used to evaluate its operational performance. ACE has included the analysis below as a complement to the financial information provided in accordance with GAAP. However, Revenue net of purchased power expense is not a presentation defined under GAAP and may not be comparable to other companies' presentations or deemed more useful than the GAAP information provided elsewhere in this report.

Net Income (Loss)

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016. ACE's Net income for the three months ended September 30, 2017, was lower than the same period in 2016, primarily due to a decrease in Revenue net of purchased power expense resulting from lower distribution revenues due to lower average customer usage and unfavorable weather related sales, partially offset by the impact of distribution rate increases approved by the NJBPU effective August 2016.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016. ACE's Net income (loss) for the nine months ended September 30, 2017, was higher than the same period in 2016, primarily due to an increase in Revenue net of purchased power expense resulting from higher electric distribution revenues as a result of a distribution rate increase approved by the NJBPU effective August 2016, lower Operating and maintenance expense mostly due to merger-related costs recognized in March 2016 and a decrease in income tax reserves in the first quarter 2017 for uncertain tax positions related to the deductibility of certain merger commitments.

Revenues Net of Purchased Power Expense

Operating revenues include revenue from the distribution and supply of electricity to ACE’s customers within its service territories at regulated rates. Operating revenues also include transmission service revenue that ACE receives as a transmission owner from PJM at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Electric revenues and purchased power expense are also affected by fluctuations in participation in the Customer Choice Program. All ACE customers have the choice to purchase electricity from competitive electric generation suppliers. The customer’s choice of supplier does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy service.

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Retail deliveries purchased from competitive electric generation suppliers (as a percentage of kWh sales) for the three and nine months ended September 30, 2017, compared to the same periods in 2016, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Electric	44%	44%	48%	46%

Retail customers purchasing electric generation from competitive electric generation suppliers at September 30, 2017 and 2016 consisted of the following:

	September 30, 2017		September 30, 2016	
	Number of customers	% of total retail customers	Number of customers	% of total retail customers
Electric	91,219	17%	96,837	18%

Operating revenues include revenue from Transition Bond Charges that ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds, revenue from the resale in the PJM wholesale markets for energy and capacity purchased under contacts with unaffiliated NUGs, and revenue from transmission enhancement credits.

Operating revenues also include work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Purchased power expense consists of the cost of electricity purchased by ACE to fulfill its default electricity supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders.

The changes in ACE's operating revenue net of purchased power expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Weather	$ (5)	$ (7)
Volume	(12)	(15)
Pricing - distribution revenues	16	36
Regulatory required programs	(9)	(19)
Transmission revenues	4	17
Other	—	(1)
Total (decrease) increase	$ (6)	$ 11

Weather. The demand for electricity is affected by weather conditions. With respect to the electric business, very warm weather in summer months and very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity. Conversely, mild weather reduces demand. During the three and nine months ended September 30, 2017 compared to the same periods in 2016, operating revenue net of purchased power and fuel expense was lower due to the impact of unfavorable weather conditions in ACE's service territory.

For retail customers of ACE, distribution revenues are not decoupled from the distribution of electricity by ACE, and thus are subject to variability due to changes in customer consumption. Therefore, changes in customer usage (due to weather conditions, energy prices, energy savings programs or other reasons) from period to period have a direct impact on reported distribution revenue for customers in ACE's service territory.

Heating and cooling degree days are quantitative indices that reflect the demand for energy needed to heat or cool a home or business. Normal weather is determined based on historical average heating and cooling degree days for a 20-year period in ACE's service territory. The changes in heating and cooling degree days in ACE's service territory for the three and nine months ended September 30, 2017 compared to the same periods in 2016 consisted of the following:

				% Change	
	2017	2016	Normal	2017 vs. 2016	2017 vs. Normal
Three Months Ended September 30,					
Heating Degree-Days	23	17	42	35.3 %	(45.2)%
Cooling Degree-Days	830	1,006	806	(17.5)%	3.0 %
Nine Months Ended September 30,					
Heating Degree-Days	2,608	2,938	3,103	(11.2)%	(16.0)%
Cooling Degree-Days	1,153	1,267	1,092	(9.0)%	5.6 %

Volume. During the three months ended September 30, 2017, compared to the same period in 2016, the decrease in operating revenue net of purchased power expense related to delivery volume, exclusive of the effects of weather, is primarily due to lower average customer usage. During the nine months ended September 30, 2017 compared to the same period in 2016, primarily reflects lower average customer usage, partially offset by the impact of customer growth.

Pricing—Distribution Revenues. The increase in operating revenue net of purchased power expense for the three and nine months ended September 30, 2017, compared to the same periods in 2016, was primarily due to the impact of higher electric distribution base rates charged to customers that became effective in August 2016. See Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements for additional information.

Regulatory Required Programs. This represents the change in operating revenues collected under approved riders to recover costs incurred for regulatory programs such as energy efficiency programs. The riders are designed to provide full and current cost recovery as well as a return. The costs of these programs are included in Operating and maintenance expense, Depreciation and amortization expense and Taxes other than income in ACE's Consolidated Statements of Operations and Comprehensive Income. Refer to the Operating and maintenance expense and Depreciation and amortization expense discussion below for additional information on included programs.

Transmission Revenues. Under a FERC-approved formula, transmission revenue varies from year to year based upon fluctuations in the underlying costs, capital investments being recovered and other billing adjustments. The increase in revenue net of purchased power expense for the three months ended September 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 and related to increases in transmission plant investment and operating expenses. The increase in revenue net of purchased power expense for the nine months ended September 30, 2017 compared to the same period in 2016 is a result of higher rates effective June 1, 2017 and June 1, 2016 related to increases in transmission plant investment and operating expenses.

Operating and Maintenance Expense

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2017	2016		2017	2016	
Operating and maintenance expense - baseline	$ 71	$ 66	$ 5	$ 222	$ 343	$ (121)
Operating and maintenance expense - regulatory required programs[(a)]	1	1	—	3	3	—
Total operating and maintenance expense	$ 72	$ 67	$ 5	$ 225	$ 346	$ (121)

(a) Operating and maintenance expenses for regulatory required programs are costs for various legislative and/or regulatory programs that are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues.

The changes in Operating and maintenance expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Baseline		
Labor, other benefits, contracting and materials	$ 3	$ 6
Storm-related costs	(3)	(2)
BSC and PHISCO allocations[(a)]	—	(11)
Deferral of merger-related costs to regulatory asset	(9)	(9)
Merger commitments[(b)]	10	(111)
Other	4	6
Total increase (decrease)	$ 5	$ (121)

(a) Primarily related to merger severance and compensation costs recognized in 2016.
(b) Primarily related to merger-related commitments for customer rate credits and charitable contributions recognized in 2016.

Depreciation and Amortization Expense

The changes in Depreciation and amortization expense for the three and nine months ended September 30, 2017 compared to the same periods in 2016 consisted of the following:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Increase (Decrease)	Increase (Decrease)
Depreciation expense[(a)]	$ 1	$ 4
Regulatory asset amortization	—	(2)
Regulatory required programs[(b)]	(9)	(19)
Total decrease	$ (8)	$ (17)

(a) Depreciation expense increased due to ongoing capital expenditures.
(b) Regulatory required programs decreased for the three and nine months ended September 30, 2017 compared to the same periods in 2016 as a result of lower revenue due to rate decreases effective October 2016 for the ACE Transition Bond Charge and Market Transition Charge Tax. Depreciation and amortization expenses for regulatory required programs are recoverable from customers on a full and current basis through approved regulated rates. An equal and offsetting amount has been reflected in Operating revenues and Operating and maintenance expense.

Taxes Other Than Income

Taxes other than income for the three and nine months ended September 30, 2017 compared to the same periods in 2016, remained relatively constant.

Gain on sales of assets

Gain on sales of assets for the three and nine months ended September 30, 2017 compared to the same periods in 2016 remained relatively constant.

Interest Expense, Net

Interest expense, net for the three and nine months ended September 30, 2017 compared to the same periods in 2016 remained relatively constant.

Other, Net

Other, net for the three and nine months ended September 30, 2017 compared to the same periods in 2016, remained relatively constant.

Effective Income Tax Rate

ACE’s effective income tax rate was 36.9% and 32.9% for the three months ended September 30, 2017 and 2016, respectively. ACE’s effective income tax rate was 13.5% and 13.8% for the nine months ended September 30, 2017 and 2016, respectively. In the first quarter of 2017, ACE decreased its liability for unrecognized tax benefits by $22 million resulting in a benefit to Income taxes and a corresponding decrease in its effective tax rate. See Note 12 - Income Taxes of the Combined Notes to Consolidated Financial Statements for additional information regarding the components of the effective income tax rates.

ACE Electric Operating Statistics and Revenue Detail

	Three Months Ended September 30,				Nine Months Ended September 30,			
Retail Deliveries to Customers (in GWhs)	**2017**	**2016**	**% Change**	**Weather - Normal % Change**	**2017**	**2016**	**% Change**	**Weather - Normal % Change**
Retail Deliveries[(a)]								
Residential	1,349	1,575	(14.3)%	(10.4)%	3,042	3,327	(8.6)%	(6.0)%
Small commercial & industrial	407	426	(4.5)%	(1.9)%	992	998	(0.6)%	0.8 %
Large commercial & industrial	939	1,032	(9.0)%	(6.3)%	2,557	2,705	(5.5)%	(4.6)%
Public authorities & electric railroads	9	11	(18.2)%	(18.2)%	33	35	(5.7)%	(5.7)%
Total retail deliveries	2,704	3,044	(11.2)%	(7.8)%	6,624	7,065	(6.2)%	(4.5)%

	As of September 30,	
Number of Electric Customers	**2017**	**2016**
Residential	486,212	483,542
Small commercial & industrial	60,982	60,875
Large commercial & industrial	3,726	3,796
Public authorities & electric railroads	633	593
Total	551,553	548,806

	Three Months Ended September 30,			Nine Months Ended September 30,		
Electric Revenue	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Retail Sales[(a)]						
Residential	$ 211	$ 249	(15.3)%	$ 484	$ 530	(8.7)%
Small commercial & industrial	53	55	(3.6)%	129	133	(3.0)%
Large commercial & industrial	49	57	(14.0)%	143	158	(9.5)%
Public authorities & electric railroads	3	4	(25.0)%	10	10	— %
Total retail	316	365	(13.4)%	766	831	(7.8)%
Other revenue[(b)]	54	56	(3.6)%	149	151	(1.3)%
Total electric revenue[(c)]	$ 370	$ 421	(12.1)%	$ 915	$ 982	(6.8)%

(a) Reflects delivery volumes and revenues from customers purchasing electricity directly from ACE and customers purchasing electricity from a competitive electric generation supplier as all customers are assessed distribution charges. For customers purchasing electricity from ACE, revenue also reflects the cost of energy and transmission.

(b) Other revenue includes transmission revenue from PJM and wholesale electric revenues.

(c) Includes operating revenues from affiliates totaling $0 million and $1 million for the three months ended September 30, 2017 and 2016, respectively, and $2 million and $3 million for the nine months ended September 30, 2017 and 2016, respectively.

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Liquidity and Capital Resources

Exelon activity presented below includes the activity of PHI, Pepco, DPL and ACE, from the PHI Merger effective date of March 24, 2016 through September 30, 2017. Exelon prior year activity is unadjusted for the effects of the PHI Merger. Due to the application of push-down accounting to the PHI entity, PHI's activity is presented in two separate reporting periods, the legacy PHI activity through March 23, 2016 (Predecessor), and PHI activity for the remainder of the period after the PHI merger date (Successor). For each of Pepco, DPL and ACE the activity presented below include its activity for the nine months ended September 30, 2017 and 2016. All results included throughout the liquidity and capital resources section are presented on a GAAP basis.

The Registrants' operating and capital expenditures requirements are provided by internally generated cash flows from operations as well as funds from external sources in the capital markets and through bank borrowings. The Registrants' businesses are capital intensive and require considerable capital resources. Each Registrant's access to external financing on reasonable terms depends on its credit ratings and current overall capital market business conditions, including that of the utility industry in general. If these conditions deteriorate to the extent that the Registrants no longer have access to the capital markets at reasonable terms, the Registrants have access to unsecured revolving credit facilities with aggregate bank commitments of $9 billion. In addition, Generation has $525 million in bilateral facilities with banks which have various expirations between December 2017 and January 2019. The Registrants utilize their credit facilities to support their commercial paper programs, provide for other short-term borrowings and to issue letters of credit. See the "Credit Matters" section below for further discussion. The Registrants expect cash flows to be sufficient to meet operating expenses, financing costs and capital expenditure requirements.

The Registrants primarily use their capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay dividends, fund pension and other postretirement benefit obligations and invest in new and existing ventures. The Registrants spend a significant amount of cash on capital improvements and construction projects that have a long-term return on investment. Additionally, ComEd, PECO, BGE, Pepco, DPL and ACE operate in rate-regulated environments in which the amount of new investment recovery may be delayed or limited and where such recovery takes place over an extended period of time. See Note 11 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further discussion of the Registrants' debt and credit agreements.

NRC Minimum Funding Requirements

NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that sufficient funds will be available in certain minimum amounts to decommission the facility. These NRC minimum funding levels are based upon the assumption that decommissioning activities will commence after the end of the current licensed life of each unit. If a unit fails the NRC minimum funding test, then the plant's owners or parent companies would be required to take steps, such as providing financial guarantees through letters of credit or parent company guarantees or making additional cash contributions to the NDT fund to ensure sufficient funds are available. See Note 13 - Nuclear Decommissioning of the Combined Notes to Consolidated Financial Statements for additional information on the NRC minimum funding requirements.

If a nuclear plant were to early retire there is a risk that it will no longer meet the NRC minimum funding requirements due to the earlier commencement of decommissioning activities and a shorter time period over which the NDT fund investments could appreciate in value. A shortfall could require Exelon to post parental guarantees for Generation's share of the obligations. However, the amount of any required guarantees will ultimately depend on the decommissioning approach adopted at each site, the associated level of costs, and the decommissioning trust fund investment performance going forward. Within two years after shutting down a plant, Generation must submit a post-shutdown decommissioning activities report (PSDAR) to the NRC that includes the planned option for decommissioning the site. As discussed in Note 13 — Nuclear Decommissioning of the Combined Notes to Consolidated Financial Statements, Generation filed its biennial decommissioning funding status report with the NRC on March 31, 2017 and demonstrated adequate funding assurance for all nuclear units currently operating. As of September 30, 2017, across the four alternative decommissioning approaches available, Generation estimates a parental guarantee of up to $115 million from Exelon could be required for TMI, dependent upon the ultimate decommissioning approach selected. TMI passes the NRC minimum funding test based on the unit’s 2019 retirement date under the decommissioning approach currently considered to be the most likely. For Oyster Creek, none of the alternative decommissioning approaches available would require Exelon to post a parental guarantee.

Upon issuance of any required financial guarantees, each site would be able to utilize the respective NDT funds for radiological decommissioning costs, which represent the majority of the total expected decommissioning costs.

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However, the NRC must approve an additional exemption in order for the plant's owner(s) to utilize the NDT fund to pay for non-radiological decommissioning costs (i.e., spent fuel management and site restoration costs). If a unit does not receive this exemption, the costs would be borne by the owner(s). While the ultimate amounts may vary greatly and could be reduced by alternate decommissioning scenarios and/or reimbursement of certain costs under the United States Department of Energy reimbursement agreements or future litigation, across the four alternative decommissioning approaches available, if TMI or Oyster Creek were to fail to obtain the exemption, Generation estimates it could incur spent fuel management and site restoration costs over the next ten years of up to $190 million and $150 million net of taxes, respectively, dependent upon the ultimate decommissioning approach selected. Under the decommissioning approach currently considered the most likely for each unit, Generation estimates it could incur spent fuel management and site restoration costs over the next ten years of up to $170 million and $130 million net of taxes, respectively, if TMI or Oyster Creek were to fail to obtain the exemption.

Junior Subordinated Notes

In June 2014, Exelon issued $1.15 billion of junior subordinated notes in the form of 23 million equity units at a stated amount of $50.00 per unit. Each equity unit represented an undivided beneficial ownership interest in Exelon's $1.15 billion of 2.50% junior subordinated notes due in 2024 ("2024 notes") and a forward equity purchase contract. As contemplated in the June 2014 equity unit structure, in April 2017, Exelon completed the remarketing of the 2024 notes into $1.15 billion of 3.497% junior subordinated notes due in 2022 ("Remarketing"). Exelon conducted the Remarketing on behalf of the holders of equity units and did not directly receive any proceeds therefrom. Instead, the former holders of the 2024 notes used debt remarketing proceeds towards settling the forward equity purchase contract with Exelon on June 1, 2017. Exelon issued approximately 33 million shares of common stock from treasury stock and received $1.15 billion upon settlement of the forward equity purchase contract. When reissuing treasury stock Exelon uses the average price paid to repurchase shares to calculate a gain or loss on issuance and records gains or losses directly to retained earnings. A loss on reissuance of treasury shares of $1.05 billion was recorded to retained earnings as of September 30, 2017. See Note 17 - Earnings Per Share and Equity of the Combined Notes to Consolidated Financial Statements for further information on the issuance of common stock.

Cash Flows from Operating Activities

General

Generation's cash flows from operating activities primarily result from the sale of electric energy and energy-related products and services to customers. Generation's future cash flows from operating activities may be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as to obtain collections from customers.

The Utility Registrants' cash flows from operating activities primarily result from the transmission and distribution of electricity and, in the case of PECO, BGE, and DPL, gas distribution services. The Utility Registrants' distribution services are provided to an established and diverse base of retail customers. The Utility Registrants' future cash flows may be affected by the economy, weather conditions, future legislative initiatives, future regulatory proceedings with respect to their rates or operations, competitive suppliers, and their ability to achieve operating cost reductions.

See Notes 3 — Regulatory Matters and 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements of the Exelon 2016 Form 10-K for further discussion of regulatory and legal proceedings and proposed legislation.

The following table provides a summary of the major items affecting Exelon's cash flows from operations for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,		
	2017	**2016[c]**	**Variance**
Net income	$ 1,911	$ 956	$ 955
Add (subtract):			
Non-cash operating activities[a]	5,011	5,946	(935)
Pension and non-pension postretirement benefit contributions	(344)	(283)	(61)
Income taxes	167	527	(360)
Changes in working capital and other noncurrent assets and liabilities[b]	(1,003)	(516)	(487)
Option premiums received (paid), net	35	(24)	59
Collateral (posted) received, net	(100)	757	(857)
Net cash flows provided by operations	$ 5,677	$ 7,363	$ (1,686)

(a) Represents, when applicable, depreciation, amortization and accretion, net fair value changes related to derivatives, deferred income taxes, provision for uncollectible accounts, pension and other postretirement benefit expense, equity in earnings and losses of unconsolidated affiliates and investments, decommissioning-related items, stock compensation expense, impairment of long-lived assets, PHI merger commitment and severance charges, and other non-cash charges. See Note 19 - Supplemental Financial Information of the Combined Notes to Consolidated Financial Statements for further detail on non-cash operating activity.

(b) Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper, income taxes and the current portion of long-term debt.

(c) Includes PHI Consolidated activity from March 24, 2016 to September 30, 2016.

Pension and Other Postretirement Benefits

Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006, management of the pension obligation and regulatory implications.

On October 3, 2017, the US Department of Treasury and IRS released final regulations updating the mortality tables to be used for defined benefit pension plan funding, as well as the valuation of lump sum and other accelerated distribution options, effective for plan years beginning in 2018. The new mortality tables reflect improved projected life expectancy as compared to the existing table, which is generally expected to increase minimum pension funding requirements, Pension Benefit Guaranty Corporation premiums and the value of lump sum distributions. The IRS will permit plan sponsors the option of using existing mortality tables for determining minimum funding requirements for 2018. The one-year delay does not apply for use of the mortality tables to determine the present value of lump sum distributions. Exelon is still evaluating any potential impacts of the new mortality tables.

OPEB funding generally follows accounting cost; however, Exelon's management has historically considered several factors in determining the level of contributions to its funded other postretirement benefit plans, including liabilities management, levels of benefit claims paid and regulatory implications (amounts deemed prudent to meet regulator expectations and best assure continued recovery).

To the extent interest rates decline significantly or the pension plans do not earn the expected asset return rates, annual pension contribution requirements in future years could increase. Additionally, expected contributions could change if Exelon changes its pension or OPEB funding strategy.

Tax Matters

The Registrants' future cash flows from operating activities may be affected by the following tax matters:

- Exelon appealed the Tax Court's like-kind exchange decision in the third quarter of 2017 and expects that a payment of approximately $1.3 billion related to the like-kind exchange will be due, including $300 million attributable to ComEd, in the fourth quarter of 2017. While Exelon will receive a tax benefit of approximately $350 million associated with the deduction for the interest, Exelon currently has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into account these interest deduction tax benefits, the total estimated net cash outflow for the like-kind exchange is approximately $950 million, of which approximately $300 million is attributable to ComEd after giving consideration to Exelon's agreement to hold ComEd harmless from any unfavorable impacts on ComEd's equity from the like-kind exchange position.

Of the above amounts payable, Exelon deposited with the IRS $1.25 billion in October of 2016. In the third quarter of 2017, the $300 million payable discussed above attributable to ComEd, net of ComEd's receivable pursuant to the hold harmless agreement, was settled with Exelon. Any remaining amounts due to the IRS will be paid by Exelon in the fourth quarter of 2017. Exelon funded the $1.25 billion deposit with a combination of cash on hand and short-term borrowings. See Note 12 - Income Taxes for further discussion of the like-kind exchange tax position.

- State and local governments continue to face increasing financial challenges, which may increase the risk of additional income tax, property taxes and other taxes or the imposition, extension or permanence of temporary tax increases. On July 6, 2017, Illinois enacted Senate Bill 9, which permanently increased Illinois' total corporate income tax rate from 7.75% to 9.50% effective July 1, 2017. The rate increase is not expected to have a material ongoing impact to Exelon's, Generation's or ComEd's future cash taxes. See Note 12 - Income Taxes for further discussion of the Illinois tax rate change.

Cash flows from operations for the nine months ended September 30, 2017 and 2016 by Registrant were as follows:

	Nine Months Ended September 30,	
	2017	**2016**
Exelon	$ 5,677	$ 7,363
Generation	2,270	3,723
ComEd	1,120	1,749
PECO	603	582
BGE	704	660
Pepco	348	504
DPL	292	267
ACE	158	315

	Successor		*Predecessor*
	Nine Months Ended September 30, 2017	**March 24, 2016 to September 30, 2016**	**January 1, 2016 to March 23, 2016**
PHI	$ 797	$ 546	$ 264

Changes in the Registrants' cash flows from operations were generally consistent with changes in each Registrant's respective results of operations, as adjusted by changes in working capital in the normal course of business, except as discussed below. In addition, significant operating cash flow impacts for the Registrants for the nine months ended September 30, 2017 and 2016 were as follows:

Generation

- Depending upon whether Generation is in a net mark-to-market liability or asset position, collateral may be required to be posted with or collected from its counterparties. In addition, the collateral posting and collection requirements differ depending on whether the transactions are on an exchange or in the OTC markets. During the nine months ended September 30, 2017 and 2016, Generation had net (payments)/collections of counterparty cash collateral of $(77) million and $759 million, respectively, primarily due to market conditions that resulted in changes to Generation's net mark-to-market position.

- During the nine months ended September 30, 2017 and 2016, Generation had net (payments) collections of approximately $(35) million and $24 million, respectively, related to purchases and sales of options. The level of option activity in a given period may vary due to several factors, including changes in market conditions as well as changes in hedging strategy.

ComEd

- During nine months ended September 30, 2017 and 2016, ComEd posted approximately $24 million and $2 million of cash collateral with PJM, respectively. ComEd's collateral posted with PJM has increased year over year primarily due to an increase in ComEd's RPM credit requirements and peak market activity with PJM. As of September 30, 2017 and 2016, ComEd had approximately $47 million and $33 million cash collateral posted with PJM, respectively.

For further discussion regarding changes in non-cash operating activities, please refer to Note 19 - Supplemental Financial Information of the Combined Notes to the Financial Statements.

Cash Flows from Investing Activities

Cash flows used in investing activities for the nine months ended September 30, 2017 and 2016 by Registrant were as follows:

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Exelon	$ (5,810)	$ (13,219)
Generation	(1,903)	(3,278)
ComEd	(1,731)	(1,919)
PECO	(457)	(438)
BGE	(586)	(614)
Pepco	(439)	(435)
DPL	(293)	(254)
ACE	(241)	(227)

	Successor		*Predecessor*
	Nine Months Ended September 30, 2017	March 24, 2016 to September 30, 2016	January 1, 2016 to March 23, 2016
PHI	$ (991)	$ (631)	$ (343)

Significant investing cash flow impacts for the Registrants for nine months ended September 30, 2017 and 2016 were as follows:

Exelon

- During the nine months ended September 30, 2017, Exelon had expenditures of $23 million and $178 million relating to the acquisitions of ConEdison Solutions and the FitzPatrick facility, respectively. During the nine months ended September 30, 2016, Exelon had expenditures of $6.6 billion relating to the acquisition of PHI.
- During the nine months ended September 30, 2016, Exelon had proceeds of $360 million as a result of early termination of direct financing leases.

Generation

- During the nine months ended September 30, 2017, Exelon had expenditures of $23 million and $178 million relating to the acquisitions of ConEdison Solutions and the FitzPatrick facility, respectively.

Capital Expenditure Spending

Generation

Generation has entered into several agreements to acquire equity interests in privately held and development stage entities which develop energy-related technologies. The agreements contain a series of scheduled investment commitments, including in-kind service contributions. There are anticipated expenditures remaining through 2019 to fund anticipated planned capital and operating needs of the associated companies. See Note 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements of the Exelon 2016 Form 10-K for further details of Generation's equity interests.

Capital expenditures by Registrant for the nine months ended September 30, 2017 and 2016 and projected amounts for the full year 2017 are as follows:

	Projected Full Year 2017[a]	Nine Months Ended September 30,	
		2017	2016
Exelon[b]	$ 8,075	$ 5,556	$ 6,368
Generation	2,450	1,654	2,651
ComEd[c]	2,200	1,698	1,950
PECO	775	537	448
BGE	925	615	611
Pepco	625	439	392
DPL	425	294	260
ACE	300	242	227

	Projected Full Year 2017 [a]	*Successor*		*Predecessor*
		Nine Months Ended September 30, 2017	March 24, 2016 to September 30, 2016	January 1, 2016 to March 23, 2016
PHI[d]	$ 1,375	$ 995	$ 624	$ 273

(a) Total projected capital expenditures do not include adjustments for non-cash activity.
(b) Includes corporate operations, BSC, and PHISCO rounded to the nearest $25 million.
(c) The 2017 projections include approximately $274 million of expected incremental spending pursuant to EIMA, ComEd has committed to invest approximately $2.6 billion over a ten year period, through 2022, to modernize and storm-harden its distribution system and to implement smart grid technology.
(d) Includes PHISCO rounded to the nearest $25 million.

Projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Approximately 37% and 21% of the projected 2017 capital expenditures at Generation are for the acquisition of nuclear fuel and growth (primarily new plant construction and distributed generation), respectively, with the remaining amounts reflecting additions and upgrades to existing facilities (including material condition improvements during nuclear refueling outages). Generation anticipates that they will fund capital expenditures with internally generated funds and borrowings.

ComEd, PECO, BGE, Pepco, DPL and ACE

Approximately 93% of the projected 2017 capital expenditures at ComEd and 100% of the projected of the projected 2017 capital expenditures at PECO, BGE, Pepco, DPL, and ACE are for continuing projects to maintain and improve operations, including enhancing reliability and adding capacity to the transmission and distribution systems such as ComEd's reliability related investments required under EIMA, and the Utility Registrants' construction commitments under PJM's RTEP. In addition to the capital expenditure for continuing projects, ComEd's total expenditures include smart grid/smart meter technology required under EIMA.

The Utility Registrants as transmission owners are subject to NERC compliance requirements. NERC provides guidance to transmission owners regarding assessments of transmission lines. The results of these assessments could require the Utility Registrants to incur incremental capital or operating and maintenance expenditures to ensure their transmission lines meet NERC standards. In 2010, NERC provided guidance to transmission owners that recommended the Utility Registrants perform assessments of their transmission lines. ComEd, PECO and BGE submitted their final bi-annual reports to NERC in January 2014. ComEd, PECO and BGE will be incurring incremental capital expenditures associated with this guidance following the completion of the assessments. Specific projects and expenditures are identified as the assessments are completed. ComEd’s, PECO’s and BGE’s forecasted 2017 capital expenditures above reflect capital spending for remediation to be completed through 2018. Pepco, DPL and ACE have substantially completed their assessments and thus do not expect significant capital expenditures related to this guidance in 2017.

The Utility Registrants anticipate that they will fund their capital expenditures with a combination of internally generated funds and borrowings and additional capital contributions from parent, including ComEd's capital expenditures associated with EIMA as further discussed in Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements.

Cash Flows from Financing Activities

Cash flows provided by (used in) financing activities for the nine months ended September 30, 2017 and 2016 by Registrant were as follows:

	Nine Months Ended September 30,	
	2017	**2016**
Exelon	$ 701	$ 1,251
Generation	(297)	(501)
ComEd	812	147
PECO	121	77
BGE	(112)	286
Pepco	199	28
DPL	(42)	(14)
ACE	(13)	74

	Successor		*Predecessor*
	Nine Months Ended September 30, 2017	**March 24, 2016 to September 30, 2016**	**January 1, 2016 to March 23, 2016**
PHI	$ 161	$ 65	$ 372

Debt

See Note 11 — Debt and Credit Agreements of the Combined Notes to Consolidated Financial Statements for further details of the Registrants' debt issuances.

Dividends

Cash dividend payments and distributions during the nine months ended September 30, 2017 and 2016 by Registrant were as follows:

	Nine Months Ended September 30,	
	2017	**2016**
Exelon	$ 921	$ 873
Generation	494	167
ComEd	316	275
PECO	216	208

BGE[a]	148	142
Pepco	133	92
DPL	82	39
ACE	53	24

	Successor		*Predecessor*
	Nine Months Ended September 30, 2017	**March 24, 2016 to September 30, 2016**	**January 1, 2016 to March 23, 2016**
PHI	$ 267	$ 174	$ —

(a) Includes dividends paid on BGE's preference stock in 2016.

Quarterly dividends declared by the Exelon Board of Directors during the nine months ended September 30, 2017 and for the fourth quarter of 2017 were as follows:

Period	Declaration Date	Shareholder of Record Date	Dividend Payable Date	Cash per Share[a]
First Quarter 2017	January 31, 2017	February 15, 2017	March 10, 2017	$ 0.3275
Second Quarter 2017	April 25, 2017	May 15, 2017	June 9, 2017	$ 0.3275
Third Quarter 2017	July 25, 2017	August 15, 2017	September 8, 2017	$ 0.3275
Fourth Quarter 2017	September 25, 2017	November 15, 2017	December 8, 2017	$ 0.3275

(a) Exelon's Board of Directors approved a revised dividend policy. The approved policy will raise the dividend 2.5% each year for the next three years, beginning with the June 2016 dividend and subject to Board approval.

Short-Term Borrowings

Short-term borrowings incurred (repaid) during the nine months ended September 30, 2017 and 2016 by Registrant were as follows:

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Exelon	$ (559)	$ (1,271)
Generation	(609)	43
ComEd	—	(284)
BGE	(45)	(210)
Pepco	(23)	(64)
DPL	54	(88)
ACE	65	(5)

	Successor		*Predecessor*
	Nine Months Ended September 30, 2017	March 24, 2016 to September 30, 2016	January 1, 2016 to March 23, 2016
PHI	$ (404)	$ (820)	$ 379

Contributions from Parent/Member

Contributions received from Parent/Member for the nine months ended September 30, 2017 and 2016 by Registrant were as follows:

	Nine Months Ended September 30,	
	2017	**2016**
Generation	$ 102	$ 142
ComEd [(a)(b)]	567	188
PECO [(b)]	16	18
BGE [(b)]	77	28
Pepco [(c)]	161	187
DPL [(c)]	—	113
ACE [(c)]	—	139

	Successor		*Predecessor*
	Nine Months Ended September 30, 2017	**March 24, 2016 to September 30, 2016**	**January 1, 2016 to March 23, 2016**
PHI [(b)]	$ 758	$ 1,088	$ —

(a) Additional contributions from parent or external debt financing may be required as a result of increased capital investment in infrastructure improvements and modernization pursuant to EIMA and transmission upgrades.
(b) Contribution paid by Exelon.
(c) Contribution paid by PHI.

Other

For the nine months ended September 30, 2017, other financing activities primarily consist of debt issuance costs. See Note 11 — Debt and Credit Agreements of the Combined Notes to the Consolidated Financial Statements for further details of the Registrants' debt issuances.

Credit Matters

The Registrants fund liquidity needs for capital investment, working capital, energy hedging and other financial commitments through cash flows from continuing operations, public debt offerings, commercial paper markets and large, diversified credit facilities. The credit facilities include $9.5 billion in aggregate total commitments of which $8.3 billion was available as of September 30, 2017, and of which no financial institution has more than 7% of the aggregate commitments for the Registrants. The Registrants had access to the commercial paper market during the third quarter of 2017 to fund their short-term liquidity needs, when necessary. The Registrants routinely review the sufficiency of their liquidity position, including appropriate sizing of credit facility commitments, by performing various stress test scenarios, such as commodity price movements, increases in margin-related transactions, changes in hedging levels and the impacts of hypothetical credit downgrades. The Registrants have continued to closely monitor events in the financial markets and the financial institutions associated with the credit facilities, including monitoring credit ratings and outlooks, credit default swap levels, capital raising and merger activity. See PART I. ITEM 1A. RISK FACTORS of the Exelon 2016 Form 10-K for further information regarding the effects of uncertainty in the capital and credit markets.

The Registrants believe their cash flow from operating activities, access to credit markets and their credit facilities provide sufficient liquidity. If Generation lost its investment grade credit rating as of September 30, 2017, it would have been required to provide incremental collateral of $1.8 billion to meet collateral obligations for derivatives, non-derivatives, normal purchase normal sales contracts and applicable payables and receivables, net of the contractual right of offset under master netting agreements, which is well within its current available credit facility capacities of $4.6 billion.

The following table presents the incremental collateral that each Utility Registrant would have been required to provide in the event each Utility Registrant lost its investment grade credit rating at September 30, 2017 and available credit facility capacity prior to any incremental collateral at September 30, 2017:

	PJM Credit Policy Collateral	Other Incremental Collateral Required [(a)]	Available Credit Facility Capacity Prior to Any Incremental Collateral
ComEd	$ 18	$ —	$ 998
PECO	3	20	599
BGE	3	28	600
Pepco	4	—	300
DPL	1	9	300
ACE	—	—	300

(a) Represents incremental collateral related to natural gas procurement contracts.

Exelon Credit Facilities

Exelon, Pepco, DPL and ACE meet their short-term liquidity requirements primarily through the issuance of commercial paper and short-term notes. ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the Exelon intercompany money pool. PHI meets its short-term liquidity requirements primarily through the issuance of short-term notes and the Exelon intercompany money pool. The Registrants may use their respective credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit.

The following table reflects the Registrants' commercial paper programs supported by the revolving credit agreements and bilateral credit agreements at September 30, 2017:

Commercial Paper Programs

Commercial Paper Issuer	Maximum Program Size [(a)(b)]	Outstanding Commercial Paper at September 30, 2017	Average Interest Rate on Commercial Paper Borrowings for the Nine Months Ended September 30, 2017
Exelon Corporate	$ 600	$ —	1.16%
Generation	5,300	—	1.20%
ComEd	1,000	—	1.24%
PECO	600	—	1.13%
BGE	600	—	1.15%
Pepco	500	—	1.04%
DPL	500	54	1.40%
ACE	350	65	1.36%

(a) Excludes $525 million bilateral credit facilities that do not back Generation's commercial paper program.

(b) Excludes additional credit facility agreements for Generation, ComEd, PECO, BGE, Pepco, DPL and ACE with aggregate commitments of $49 million, $34 million, $34 million, $5 million, $2 million, $2 million and $2 million, respectively, arranged with minority and community banks located primarily within utilities' service territories. These facilities expire on October 12, 2018. These facilities are solely utilized to issue letters of credit. As of September 30, 2017, letters of credit issued under these agreements for Generation, ComEd, PECO and BGE totaled $5 million, $12 million, $21 million and $2 million, respectively.

In order to maintain their respective commercial paper programs in the amounts indicated above, each Registrant must have credit facilities in place, at least equal to the amount of its commercial paper program. While the amount of its commercial paper outstanding does not reduce available capacity under a Registrant's credit facility, a Registrant does not issue commercial paper in an aggregate amount exceeding the then available capacity under its credit facility. At September 30, 2017, the Registrants had the following aggregate bank commitments, credit facility borrowings and available capacity under their respective credit facilities:

Credit Agreements

					Available Capacity at September 30, 2017	
Borrower	**Facility Type**	**Aggregate Bank Commitment**[a][b][c]	**Facility Draws**	**Outstanding Letters of Credit**	**Actual**	**To Support Additional Commercial Paper**[b][d]
Exelon Corporate	Syndicated Revolver	$ 600	$ —	$ 45	$ 555	$ 555
Generation[e]	Syndicated Revolver	5,300	—	887	4,413	4,413
Generation	Bilaterals	525	70	235	220	—
ComEd	Syndicated Revolver	1,000	—	2	998	998
PECO	Syndicated Revolver	600	—	1	599	599
BGE	Syndicated Revolver	600	—	—	600	600
Pepco	Syndicated Revolver	300	—	—	300	300
DPL	Syndicated Revolver	300	—	—	300	246
ACE	Syndicated Revolver	300	—	—	300	235

(a) Excludes $128 million of credit facility agreements arranged at minority and community banks at Generation, ComEd, PECO, BGE, Pepco, DPL and ACE. These facilities expire on October 12, 2018. These facilities are solely utilized to issue letters of credit. As of September 30, 2017, letters of credit issued under these agreements for Generation, ComEd, PECO and BGE totaled $5 million, $12 million, $21 million and $2 million, respectively.

(b) Pepco, DPL and ACE's revolving credit facility is subject to available borrowing capacity. The borrowing capacity may be increased or decreased during the term of the facility, except that (i) the sum of the borrowing capacity must equal the total amount of the facility, and (ii) the aggregate amount of credit used at any given time by each of Pepco, DPL or ACE may not exceed $900 million or the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of the borrowing reallocations may not exceed eight per year during the term of the facility

(c) Excludes nonrecourse debt letters of credit, see Note 14 — Debt and Credit Agreements in the Exelon 2016 Form 10-K for further information on Continental Wind nonrecourse debt.

(d) Excludes $525 million bilateral credit facilities that do not back Generation's commercial paper program.

(e) Excludes ExGen Texas Power Financing's $20 million of borrowed debt on its revolving credit facility.

As of September 30, 2017, there was $70 million of borrowings under Generation's bilateral credit facilities.

Borrowings under Exelon Corporate's, Generation's, ComEd's, PECO's, BGE's, Pepco's, DPL's, and ACE's revolving credit agreements bear interest at a rate based upon either the prime rate or a LIBOR-based rate, plus an adder based upon the particular Registrant's credit rating. The adders for the prime based borrowings and LIBOR-based borrowings are presented in the following table:

	Exelon	**Generation**	**ComEd**	**PECO**	**BGE**	**Pepco**	**DPL**	**ACE**
Prime based borrowings	27.5	27.5	7.5	0.0	0.0	7.5	7.5	7.5
LIBOR-based borrowings	127.5	127.5	107.5	90.0	100.0	107.5	107.5	107.5

The maximum adders for prime rate borrowings and LIBOR-based rate borrowings are 90 basis points and 165 basis points, respectively. The credit agreements also require the borrower to pay a facility fee based upon the aggregate commitments. The fee varies depending upon the respective credit ratings of the borrower.

Each revolving credit agreement for Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The following table summarizes the minimum thresholds reflected in the credit agreements for the nine months ended September 30, 2017:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Credit agreement threshold	2.50 to 1	3.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1	2.00 to 1

At September 30, 2017, the interest coverage ratios at Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE were as follows:

	Exelon	Generation	ComEd	PECO	BGE	Pepco	DPL	ACE
Interest coverage ratio	6.27	9.02	10.83	8.26	10.66	6.83	8.78	6.03

An event of default under Exelon, Generation, ComEd, PECO or BGE's indebtedness will not constitute an event of default under any of the others' credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $100 million in the aggregate by Generation will constitute an event of default under the Exelon Corporate credit facility. An event of default under Pepco, DPL or ACE's indebtedness will not constitute an event of default under any of the others' credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $50 million in the aggregate will constitute an event of default under the credit facility.

The absence of a material adverse change in Exelon's or PHI's business, property, results of operations or financial condition is not a condition to the availability of credit under the credit agreement. The credit agreement does not include any rating triggers.

Security Ratings

The Registrants' access to the capital markets, including the commercial paper market, and their respective financing costs in those markets, may depend on the securities ratings of the entity that is accessing the capital markets.

The Registrants' borrowings are not subject to default or prepayment as a result of a downgrading of securities, although such a downgrading of a Registrant's securities could increase fees and interest charges under that Registrant's credit agreements.

As part of the normal course of business, the Registrants enter into contracts that contain express provisions or otherwise permit the Registrants and their counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if the Registrants are downgraded by a credit rating agency, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include the posting of collateral. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on collateral provisions.

Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, both Exelon and PHI operate intercompany money pools. Maximum amounts contributed to and borrowed from the money pool by participant and the net contribution or borrowing as of September 30, 2017, are presented in the following table:

Exelon Intercompany Money Pool	**During the Three Months Ended September 30, 2017**		**As of September 30, 2017**
Contributed (borrowed)	**Maximum Contributed**	**Maximum Borrowed**	**Contributed (Borrowed)**
Exelon Corporate	$ 579	n/a	$ 280
Generation	—	(417)	(146)
PECO	97	(10)	57
BSC	—	(369)	(245)
PHI Corporate [(a)]	n/a	(33)	(1)
PCI [(a)]	54	—	54

(a) As a result of the merger, PHI Corporate and PCI began to participate in the Exelon Intercompany Money Pool effective March 24, 2016.

PHI Intercompany Money Pool	**During the Three Months Ended September 30, 2017**		**As of September 30, 2017**
Contributed (borrowed)	**Maximum Contributed**	**Maximum Borrowed**	**Contributed (Borrowed)**
PHI Corporate	$ 51	$ (1)	$ —
PHISCO	24	(25)	—

Investments in Nuclear Decommissioning Trust Funds

Exelon, Generation and CENG maintain trust funds, as required by the NRC, to fund certain costs of decommissioning nuclear plants. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to offset inflationary increases in decommissioning costs. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocations in accordance with Generation’s NDT fund investment policy. Generation’s and CENG’s investment policies establish limits on the concentration of holdings in any one company and also in any one industry. See Note 13 —Nuclear Decommissioning of the Combined Notes to Consolidated Financial Statements for further information regarding the trust funds, the NRC’s minimum funding requirements and related liquidity ramifications.

Shelf Registration Statements

Exelon, Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have a currently effective combined shelf registration statement unlimited in amount, filed with the SEC, that will expire in August 2019. The ability of each Registrant to sell securities off the shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, as applicable, the current financial condition of the Registrant, its securities ratings and market conditions.

Regulatory Authorizations

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE are required to obtain short-term and long-term financing authority from Federal and State Commissions as follows:

	Short-term Financing Authority[a][b]			Long-term Financing Authority[c]		
	Commission	Expiration Date	Amount (in millions)	Commission	Expiration Date	Amount (in millions)
ComEd[d]	FERC	December 31, 2017	$ 2,500	ICC	2019	$ 1,383
PECO	FERC	December 31, 2017	1,500	PAPUC	December 31, 2018	1,275
BGE	FERC	December 31, 2017	700	MDPSC	N/A	700
Pepco	FERC	June 30, 2018	500	MDPSC / DCPSC	September 25, 2017	—
DPL	FERC	June 30, 2018	500	MDPSC / DPSC	December 31, 2017	125
ACE	NJPU	January 1, 2018	350	NJBPU	December 31, 2017	300

(a) Generation currently has blanket financing authority it received from FERC in connection with its market-based rate authority.

(b) On October 31, 2017, ComEd, PECO, BGE, Pepco and DPL filed applications with FERC for renewal of their short-term financing authority through December 31, 2019. ComEd, PECO, BGE, Pepco and DPL expect approval of the applications before the end of the year.

(c) Pepco, DPL, and ACE, are currently in the process renewing their long-term financing authority with their respective commissions and expect approvals before the end of the year.

(d) ComEd had $1,140 million available in long-term debt refinancing authority and $243 million available in new money long term debt financing authority from the ICC as of September 30, 2017 and has an expiration date of June 1, 2019 and March 1, 2019, respectively.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments triggered by future events. See Note 24 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements in the Exelon 2016 Form 10-K.

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE have obligations related to contracts for the purchase of power and fuel supplies, and ComEd and PECO have obligations related to their financing trusts. The power and fuel purchase contracts and the financing trusts have been considered for consolidation in the Registrants' respective financial statements pursuant to the authoritative guidance for VIEs. See Note 1 — Basis of Presentation of the Combined Notes to Consolidated Financial Statements for further information.

For an in-depth discussion of the Registrants' contractual obligations and off-balance sheet arrangements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations and Off-Balance Sheet Arrangements" in the Exelon 2016 Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations and Commercial Commitments."

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Registrants are exposed to market risks associated with adverse changes in commodity prices, counterparty credit, interest rates and equity prices. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief executive officer and includes the chief risk officer, chief strategy officer, chief executive officer of Exelon Utilities, chief commercial officer, chief financial officer and chief executive officer of Constellation. The RMC reports to the Finance and Risk Committee of the Exelon

Board of Directors on the scope of the risk management activities. The following discussion serves as an update to ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK of Exelon’s 2016 Annual Report on Form 10-K incorporated herein by reference.

Commodity Price Risk (All Registrants)

Commodity price risk is associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather conditions, governmental regulatory and environmental policies and other factors. To the extent the amount of energy Exelon generates differs from the amount of energy it has contracted to sell, Exelon has price risk from commodity price movements. Exelon seeks to mitigate its commodity price risk through the sale and purchase of electricity, fossil fuel and other commodities.

Generation

Normal Operations and Hedging Activities. Electricity available from Generation’s owned or contracted generation supply in excess of Generation’s obligations to customers, including portions of the Utility Registrants’ retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into non-derivative contracts as well as derivative contracts, including forwards, futures, swaps and options, with approved counterparties to hedge anticipated exposures. Generation believes these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices. Generation expects the settlement of the majority of its economic hedges will occur during 2017 through 2019.

In general, increases and decreases in forward market prices have a positive and negative impact, respectively, on Generation’s owned and contracted generation positions which have not been hedged. Exelon’s hedging program involves the hedging of commodity risk for Exelon’s expected generation, typically on a ratable basis over a three-year period. As of September 30, 2017, the percentage of expected generation hedged is 98%-101%, 79%-82% and 45%-48% for 2017, 2018 and 2019, respectively. The percentage of expected generation hedged is the amount of equivalent sales divided by the expected generation. Expected generation is the volume of energy that best represents our commodity position in energy markets from owned or contracted generating facilities based upon a simulated dispatch model that makes assumptions regarding future market conditions, which are calibrated to market quotes for power, fuel, load following products and options. Equivalent sales represent all hedging products, which include economic hedges and certain non-derivative contracts including Generation’s sales to the Utility Registrants to serve their retail load.

A portion of Generation’s hedging strategy may be accomplished with fuel products based on assumed correlations between power and fuel prices, which routinely change in the market. Market price risk exposure is the risk of a change in the value of unhedged positions. The forecasted market price risk exposure for Generation’s entire non-proprietary trading portfolio associated with a $5 reduction in the annual average around-the-clock energy price based on September 30, 2017 market conditions and hedged position would be an increase in pre-tax net income of approximately $10 million for 2017 and decreases of approximately $170 million and $500 million, respectively, for 2018 and 2019. Power price sensitivities are derived by adjusting power price assumptions while keeping all other price inputs constant. Generation expects to actively manage its portfolio to mitigate market price risk exposure for its unhedged position. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation’s portfolio.

Proprietary Trading Activities. Generation also enters into certain energy-related derivatives for proprietary trading purposes. Proprietary trading includes all contracts entered into with the intent of benefiting from shifts or changes in market prices as opposed to those entered into with the intent of hedging or managing risk. Proprietary trading activities are subject to limits established by Exelon’s RMC. The proprietary trading portfolio is subject to a risk management policy that includes stringent risk management limits, including volume, stop loss and Value-at-Risk (VaR) limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon’s RMC monitor the financial risks of the proprietary trading activities. The proprietary trading activities, which included physical volumes of 2,601 GWhs and 6,763 GWhs for the three and nine months ended September 30, 2017, respectively, and 1,506 GWhs and 4,015 GWhs and for the three and nine months September 30, 2016, respectively, are a complement to Generation’s energy marketing portfolio, but represent a small portion of Generation’s overall revenue from energy marketing activities. Proprietary trading portfolio activity for the nine months ended September 30, 2017 resulted in $11 million of pre-tax gains due to net mark-to-market gains of $3 million and realized gains of $8 million. Generation uses a 95% confidence interval, assuming standard normal distribution, one day holding period and a one-tailed statistical measure in calculating its VaR. The daily VaR on proprietary trading activity averaged $0.1 million of exposure during the quarter. Generation has not segregated proprietary trading activity within the following discussion because of the relative size of the proprietary trading portfolio in comparison to Generation’s total

Revenue net of purchase power and fuel expense for the nine months ended September 30, 2017 of $6,526 million.

Fuel Procurement. Generation procures natural gas through long-term and short-term contracts and spot-market purchases. Nuclear fuel assemblies are obtained predominantly through long-term uranium concentrate supply contracts, contracted conversion services, contracted enrichment services, or a combination thereof, and contracted fuel fabrication services. The supply markets for uranium concentrates and certain nuclear fuel services are subject to price fluctuations and availability restrictions. Supply market conditions may make Generation's procurement contracts subject to credit risk related to the potential non-performance of counterparties to deliver the contracted commodity or service at the contracted prices. Approximately 60% of Generation's uranium concentrate requirements from 2017 through 2021 are supplied by three producers. In the event of non-performance by these or other suppliers, Generation believes that replacement uranium concentrates can be obtained, although at prices that may be unfavorable when compared to the prices under the current supply agreements. Non-performance by these counterparties could have a material adverse impact on Exelon's and Generation's results of operations, cash flows and financial positions.

ComEd

ComEd entered into 20-year contracts for renewable energy and RECs beginning in June 2012. ComEd is permitted to recover its renewable energy and REC costs from retail customers with no mark-up. The annual commitments represent the maximum settlements with suppliers for renewable energy and RECs under the existing contract terms. Pursuant to the ICC's Order on December 19, 2012, ComEd's commitments under the existing long-term contracts were reduced for the June 2013 through May 2014 procurement period. In addition, the ICC's December 18, 2013 Order approved the reduction of ComEd's commitments under those contracts for the June 2014 through May 2015 procurement period, and the amount of the reduction was approved by the ICC in March 2014. See Note 5 — Regulatory Matters and Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding energy procurement and derivatives. ComEd does not enter into derivatives for speculative or proprietary trading purposes.

PECO

PECO has contracts to procure electric supply that were executed through the competitive procurement process outlined in its PAPUC-approved DSP Programs, which are further discussed in Note 5 — Regulatory Matters of the Combined Notes to Consolidated Financial Statements. PECO has certain full requirements contracts which are considered derivatives and qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result are accounted for on an accrual basis of accounting. Under the DSP Programs, PECO is permitted to recover its electric supply procurement costs from retail customers with no mark-up.

PECO has also entered into derivative natural gas contracts, which either qualify for the normal purchases and normal sales exception or have no mark-to-market balances because the derivatives are index priced, to hedge its long-term price risk in the natural gas market. PECO's hedging program for natural gas procurement has no direct impact on its financial position or results of operations as natural gas costs are fully recovered from customers under the PGC.

PECO does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

BGE

BGE procures electric supply for default service customers through full requirements contracts pursuant to BGE's MDPSC-approved SOS program. BGE's full requirements contracts that are considered derivatives qualify for the normal purchases and normal sales scope exception under current derivative authoritative guidance, and as a result, are accounted for on an accrual basis of accounting. Under the SOS program, BGE is permitted to recover its electricity procurement costs from retail customers, plus an administrative fee which includes a shareholder return component and an incremental cost component.

BGE has also entered into natural gas contracts, which qualify for the normal purchases and normal sales scope exception, to hedge its price risk in the natural gas market. The hedging program for natural gas procurement has no direct impact on BGE's financial position. However, under BGE's market-based rates incentive mechanism, BGE's actual cost of gas is compared to a market index (a measure of the market price of gas in a given period). The difference between BGE's actual cost and the market index is shared equally between shareholders and customers.

BGE does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Pepco

Pepco has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and DCPSC. The SOS rates charged recover Pepco's wholesale power supply costs and include an administrative fee. The administrative fee includes an incremental cost component and a shareholder return component for residential and commercial rate classes. Pepco's price risk related to electric supply procurement is limited. Pepco locks in fixed prices for all of its SOS requirements through full requirements contracts. Certain of Pepco's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other Pepco full requirements contracts are not derivatives.

Pepco does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

DPL

DPL has contracts to procure SOS electric supply that are executed through a competitive procurement process approved by the MDPSC and the DPSC. The SOS rates charged recover DPL's wholesale power supply costs. In Delaware, DPL is also entitled to recover a Reasonable Allowance for Retail Margin (RARM). The RARM includes a fixed annual margin of approximately $2.75 million, plus an incremental cost component and a cash working capital allowance. In Maryland, DPL charges an administrative fee intended to allow it to recover its administrative costs. DPL locks in fixed prices for all of its SOS requirements through full requirements contracts. DPL's price risk related to electric supply procurement is limited. Certain of DPL's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other DPL full requirements contracts are not derivatives.

DPL provides natural gas to its customers under a GCR mechanism approved by the DPSC. The demand portion of the GCR is based upon DPL's firm transportation and storage contracts. DPL has firm deliverability of swing and seasonal storage; a liquefied natural gas facility and firm transportation capacity to meet customer demand and provide a reserve margin. The commodity portion of the GCR includes a commission approved hedging program which is intended to reduce gas commodity price volatility while limiting the firm natural gas customers' exposure to adverse changes in the market price of natural gas.

DPL does not enter into derivatives for speculative or proprietary trading purposes. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information regarding energy procurement and derivatives.

ACE

ACE has contracts to procure BGS electric supply that are executed through a competitive procurement process approved by the NJBPU. The BGS rates charged recover ACE's wholesale power supply costs. ACE does not make any profit or incur any loss on the supply component of the BGS it supplies to customers. ACE's price risk related to electric supply procurement is limited. ACE locks in fixed prices for all of its BGS requirements through full requirements contracts. ACE's full requirements contracts, which are considered derivatives, qualify for the NPNS scope exception under current derivative authoritative guidance. Other ACE full requirements contracts are not derivatives.

ACE does not enter into derivatives for speculative or proprietary trading purposes. For additional information on these contracts, see Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements.

Trading and Non-Trading Marketing Activities. The following detailed presentation of Exelon's, Generation's, ComEd's, PHI's and DPL's trading and non-trading marketing activities is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officers (CCRO).

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The following table provides detail on changes in Exelon's, Generation's, ComEd's, PHI's and DPL's commodity mark-to-market net asset or liability balance sheet position from December 31, 2016 to September 30, 2017. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings. This table excludes all normal purchase and normal sales contracts and does not segregate proprietary trading activity. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information on the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of September 30, 2017 and December 31, 2016.

	Exelon	Generation	ComEd	PHI	DPL
Total mark-to-market energy contract net assets (liabilities) at December 31, 2016[(a)]	$ 719	$ 977	$ (258)	$ —	$ —
Total change in fair value during 2017 of contracts recorded in results of operations	(13)	(13)	—	—	—
Reclassification to realized of contracts recorded in results of operations	(138)	(138)	—	—	—
Contracts received at acquisition date	—	—	—	—	—
Changes in fair value — recorded through regulatory assets and liabilities[(b)]	(21)	—	(19)	(2)	(2)
Changes in allocated collateral	88	86	—	2	2
Changes in net option premium paid/(received)	(35)	(35)	—	—	—
Option premium amortization	(15)	(15)	—	—	—
Upfront payments and amortizations[(c)]	(54)	(54)	—	—	—
Total mark-to-market energy contract net assets (liabilities) at September 30, 2017[(a)]	$ 531	$ 808	$ (277)	$ —	$ —

(a) Amounts are shown net of collateral paid to and received from counterparties.

(b) For ComEd and DPL, the changes in fair value are recorded as a change in regulatory assets or liabilities. As of September 30, 2017, ComEd recorded a regulatory liability of $277 million related to its mark-to-market derivative liabilities with Generation and unaffiliated suppliers. For the nine months ended September 30, 2017, ComEd also recorded $32 million of decreases in fair value and an increase for realized losses due to settlements of $13 million recorded in purchased power expense associated with floating-to-fixed energy swap contracts with unaffiliated suppliers.

(c) Includes derivative contracts acquired or sold by Generation through upfront payments or receipts of cash, excluding option premiums, and the associated amortization.

Fair Values. The following tables present maturity and source of fair value for Exelon, Generation and ComEd mark-to-market commodity contract net assets (liabilities). The tables provide two fundamental pieces of information. First, the tables provide the source of fair value used in determining the carrying amount of the Registrants' total mark-to-market net assets (liabilities), net of allocated collateral. Second, the tables show the maturity, by year, of the Registrants' commodity contract net assets (liabilities), net of allocated collateral, giving an indication of when these mark-to-market amounts will settle and either generate or require cash. See Note 9 — Fair Value of Financial Assets and Liabilities of the Combined Notes to Consolidated Financial Statements for additional information regarding fair value measurements and the fair value hierarchy.

Exelon

	Maturities Within 2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts[(a)(b)]:							
Actively quoted prices (Level 1)	$ 27	$ 1	$ (29)	$ (13)	$ 2	$ (2)	$ (14)
Prices provided by external sources (Level 2)	112	109	7	(6)	5	—	227
Prices based on model or other valuation methods (Level 3)[(c)]	47	339	111	18	(32)	(165)	318
Total	$ 186	$ 449	$ 89	$ (1)	$ (25)	$ (167)	$ 531

(a) Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in results of operations.
(b) Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $415 million at September 30, 2017.
(c) Includes ComEd's net liabilities associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Generation

	Maturities Within 2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Normal Operations, Commodity derivative contracts[(a)(b)]:							
Actively quoted prices (Level 1)	$ 27	$ 1	$ (29)	$ (13)	$ 2	$ (2)	$ (14)
Prices provided by external sources (Level 2)	112	109	7	(6)	5	—	227
Prices based on model or other valuation methods (Level 3)	53	360	133	40	(11)	20	595
Total	$ 192	$ 470	$ 111	$ 21	$ (4)	$ 18	$ 808

(a) Mark-to-market gains and losses on other economic hedge and trading derivative contracts that are recorded in the results of operations.
(b) Amounts are shown net of collateral paid to and received from counterparties (and offset against mark-to-market assets and liabilities) of $415 million at September 30, 2017.

ComEd

	Maturities Within 2017	2018	2019	2020	2021	2022 and Beyond	Total Fair Value
Commodity derivative contracts[(a)]:							
Prices based on model or other valuation methods (Level 3)	$ (6)	$ (21)	$ (22)	$ (22)	$ (21)	$ (185)	$ (277)

(a) Represents ComEd's net liabilities associated with the floating-to-fixed energy swap contracts with unaffiliated suppliers.

Credit Risk, Collateral and Contingent Related Features (All Registrants)

The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that enter into derivative instruments. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for a detailed discussion of credit risk, collateral and contingent related features.

Generation

The following tables provide information on Generation's credit exposure for all derivative instruments, normal purchase normal sales agreements, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, as of September 30, 2017. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the duration of a company's credit risk by credit rating of the counterparties. The figures in the tables below exclude credit risk exposure from individual retail customers, uranium procurement contracts, and exposure through RTOs, ISOs, NYMEX, ICE, NASDAQ, NGX and Nodal commodity exchanges, which are discussed below. Additionally, the figures in the tables below exclude exposures with affiliates, including net receivables with ComEd, PECO, BGE, Pepco, DPL and ACE of \$18 million, \$22 million, \$22 million, \$34 million, \$12 million, and \$7 million as of September 30, 2017, respectively.

Rating as of September 30, 2017	Total Exposure Before Credit Collateral	Credit Collateral[a]	Net Exposure	Number of Counterparties Greater than 10% of Net Exposure	Net Exposure of Counterparties Greater than 10% of Net Exposure
Investment grade	$ 828	$ 9	$ 819	1	$ 278
Non-investment grade	44	4	40		
No external ratings					
Internally rated — investment grade	316	—	316		
Internally rated — non-investment grade	100	18	82		
Total	$ 1,288	$ 31	$ 1,257	1	$ 278

	Maturity of Credit Risk Exposure			
Rating as of September 30, 2017	Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	Total Exposure Before Credit Collateral
Investment grade	$ 682	$ 139	$ 7	$ 828
Non-investment grade	36	8	—	44
No external ratings				
Internally rated — investment grade	249	35	32	316
Internally rated — non-investment grade	87	13	—	100
Total	$ 1,054	$ 195	$ 39	$ 1,288

Net Credit Exposure by Type of Counterparty	As of September 30, 2017
Financial institutions	$ 48
Investor-owned utilities, marketers, power producers	538
Energy cooperatives and municipalities	525
Other	146
Total	$ 1,257

(a) As of September 30, 2017, credit collateral held from counterparties where Generation had credit exposure included $19 million of cash and $12 million of letters of credit.

ComEd, PECO, BGE, PHI, Pepco, DPL and ACE

There have been no significant changes or additions to ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's or ACE's exposures to credit risk that are described in ITEM 1A. RISK FACTORS of Exelon's 2016 Annual Report on Form 10-K.

See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for information regarding credit exposure to suppliers.

Collateral (All Registrants)

Generation

As part of the normal course of business, Generation routinely enters into physical or financial contracts for the sale and purchase of electricity, natural gas and other commodities. These contracts either contain express provisions or otherwise permit Generation and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable law, if Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on Generation’s net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. In this case, Generation believes an amount of several months of future payments (i.e., capacity payments) rather than a calculation of fair value is the best estimate for the contingent collateral obligation, which has been factored into the disclosure below. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for information regarding collateral requirements.

Generation transacts output through bilateral contracts. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon’s and Generation’s results of operations, cash flows and financial position. As market prices rise above or fall below contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. In order to post collateral, Generation depends on access to bank credit facilities, which serve as liquidity sources to fund collateral requirements. See Liquidity and Capital Resources — Credit Matters — Exelon Credit Facilities for additional information.

As of September 30, 2017, Generation had cash collateral of $460 million posted and cash collateral held of $49 million for external counterparties with derivative positions, of which $415 million amount in net cash collateral deposits and $1 million amount in net cash collateral receipts were offset against energy derivative and interest rate and foreign exchange derivative related to underlying energy contracts, respectively. As of September 30, 2017, $3 million of cash collateral held was not offset against net derivative positions because it was not associated with energy-related derivatives or as of the balance sheet date there were no positions to offset. See Note 18 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements for information regarding the letters of credit supporting the cash collateral.

ComEd

As of September 30, 2017, ComEd held $10 million in collateral from suppliers in association with energy procurement contracts and held approximately $21 million in the form of cash and letters of credit for both annual and long-term renewable energy contracts. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements in this report and Note 3 — Regulatory Matters of the 2016 Exelon Form 10-K for additional information.

PECO

As of September 30, 2017, PECO was not required to post collateral under its energy and natural gas procurement contracts. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

BGE

BGE is not required to post collateral under its electric supply contracts nor was it holding collateral under its electric supply procurement contracts as of September 30, 2017. As of September 30, 2017, BGE was not required to post collateral under its natural gas procurement contracts but was holding an immaterial amount of collateral under its natural gas procurement contracts. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

Pepco

Pepco is not required to post collateral under its energy procurement contracts. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

DPL

DPL is not required to post collateral under its energy procurement contracts. As of September 30, 2017, DPL was not required to post collateral under its natural gas procurement contracts. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

ACE

ACE is not required to post collateral under its energy procurement contracts. See Note 10 — Derivative Financial Instruments of the Combined Notes to Consolidated Financial Statements for additional information.

RTOs and ISOs (All Registrants)

Generation, ComEd, PECO, BGE, Pepco, DPL and ACE participate in all, or some, of the established wholesale spot energy markets that are administered by PJM, ISO-NE, ISO-NY, CAISO, MISO, SPP, AESO, OIESO and ERCOT. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot energy markets that are administered by the RTOs or ISOs, as applicable. In areas where there are no spot energy markets, electricity is purchased and sold solely through bilateral agreements. For sales into the spot energy markets administered by an RTO or ISO, the RTO or ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the RTOs and ISOs may, under certain circumstances, require that losses arising from the default of one member on spot energy market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on the Registrants’ results of operations, cash flows and financial positions.

Exchange Traded Transactions (Exelon, Generation, PHI and DPL)

Generation enters into commodity transactions on NYMEX, ICE, NASDAQ, NGX and the Nodal exchange ("the Exchanges"). DPL enters into commodity transactions on ICE. The Exchange clearinghouses act as the counterparty to each trade. Transactions on the Exchanges must adhere to comprehensive collateral and margining requirements. As a result, transactions on the Exchanges are significantly collateralized and have limited counterparty credit risk.

Interest Rate and Foreign Exchange Risk (All Registrants)

The Registrants use a combination of fixed-rate and variable-rate debt to manage interest rate exposure. The Registrants may also utilize fixed-to-floating interest rate swaps, which are typically designated as fair value hedges, as a means to manage their interest rate exposure. In addition, the Registrants may utilize interest rate derivatives to lock in rate levels in anticipation of future financings, which are typically designated as cash flow hedges. These strategies are employed to manage interest rate risks. At September 30, 2017, Exelon had $800 million of notional amounts of fixed-to-floating hedges outstanding and Exelon and Generation had $491 million of notional amounts of floating-to-fixed hedges outstanding. Assuming the interest rate hedges are 100% effective, a hypothetical 50 bps increase in the interest rates associated with unhedged variable-rate debt (excluding Commercial Paper) and fixed-to-floating swaps would result in approximately a $4 million decrease in Exelon Consolidated pre-tax income for the nine months ended September 30, 2017. To manage foreign exchange rate exposure associated with international energy purchases in currencies other than U.S. dollars, Generation utilizes foreign currency derivatives, which are typically designated as economic hedges.

Equity Price Risk (Exelon and Generation)

Generation maintains trust funds, as required by the NRC, to fund certain costs of decommissioning its nuclear plants. As of September 30, 2017, Generation's decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate Generation for inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's NDT fund investment policy.

A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $626 million reduction in the fair value of the trust assets. This calculation holds all other variables constant and assumes only the discussed changes in interest rates and equity prices. See ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for further discussion of equity price risk as a result of the current capital and credit market conditions.

Item 4. Controls and Procedures

During the third quarter of 2017, each of Exelon's, Generation's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's management, including its principal executive officer and principal financial officer, evaluated its disclosure controls and procedures related to the recording, processing, summarizing and reporting of information in its periodic reports that it files with the SEC. These disclosure controls and procedures have been designed by all Registrants to ensure that (a) material information relating to that Registrant, including its consolidated subsidiaries, is accumulated and made known to Exelon's management, including its principal executive officer and principal financial officer, by other employees of that Registrant and its subsidiaries as appropriate to allow timely decisions regarding required disclosure, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people.

Accordingly, as of September 30, 2017, the principal executive officer and principal financial officer of each of Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE concluded that such Registrant's disclosure controls and procedures were effective to accomplish its objectives. All Registrants continually strive to improve their disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant. There have been no changes in internal control over financial reporting that occurred during the third quarter of 2017 that have materially affected, or are reasonably likely to materially affect, any of Exelon's, Generation's, ComEd's, PECO's, BGE's, PHI's, Pepco's, DPL's and ACE's internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Registrants are parties to various lawsuits and regulatory proceedings in the ordinary course of their respective businesses. For information regarding material lawsuits and proceedings, see (a) ITEM 3. LEGAL PROCEEDINGS of Exelon’s 2016 Form 10-K and (b) Notes 5 — Regulatory Matters and 18 — Commitments and Contingencies of the Combined Notes to Consolidated Financial Statements in PART I, ITEM 1. FINANCIAL STATEMENTS of this Report. Such descriptions are incorporated herein by these references.

Item 1A. Risk Factors

Risks Related to Exelon

At September 30, 2017, the Registrants’ risk factors were consistent with the risk factors described in the Registrants’ combined 2016 Form 10-K in ITEM 1A. RISK FACTORS.

Item 4. Mine Safety Disclosures

All Registrants

Not applicable to the Registrants.

Item 6. Exhibits

Certain of the following exhibits are incorporated herein by reference under Rule 12b-32 of the Securities and Exchange Act of 1934, as amended. Certain other instruments which would otherwise be required to be listed below have not been so listed because such instruments do not authorize securities in an amount which exceeds 10% of the total assets of the applicable registrant and its subsidiaries on a consolidated basis and the relevant registrant agrees to furnish a copy of any such instrument to the Commission upon request.

Exhibit No.	Description
4.1	Supplemental Indenture dated as of August 9, 2017, from ComEd to BNY Mellon Trust Company of Illinois, as trustee, and D. G. Donovan, as co-trustee (File No. 001-01839, Form 8-K dated August 23, 2017, Exhibit 4.1)
4.2	BGE Form of 3.750% notes due 2047 (File No. 001-01910, Form 8-K dated August 24, 2017, Exhibit 4.1)
4.3	One Hundred and Fourteenth Supplemental Indenture dated as of September 1, 2017, from PECO to U.S. Bank National Association, as trustee (File No. 000-16844, Form 8-K dated September 18, 2017, Exhibit 4.1)
101.INS	XBRL Instance

101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

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Certifications Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 filed by the following officers for the following companies:

31-1	— Filed by Christopher M. Crane for Exelon Corporation
31-2	— Filed by Jonathan W. Thayer for Exelon Corporation
31-3	— Filed by Kenneth W. Cornew for Exelon Generation Company, LLC
31-4	— Filed by Bryan P. Wright for Exelon Generation Company, LLC
31-5	— Filed by Anne R. Pramaggiore for Commonwealth Edison Company
31-6	— Filed by Joseph R. Trpik, Jr. for Commonwealth Edison Company
31-7	— Filed by Craig L. Adams for PECO Energy Company
31-8	— Filed by Phillip S. Barnett for PECO Energy Company
31-9	— Filed by Calvin G. Butler, Jr. for Baltimore Gas and Electric Company
31-10	— Filed by David M. Vahos for Baltimore Gas and Electric Company
31-11	— Filed by David M. Velazquez for Pepco Holdings LLC
31-12	— Filed by Donna J. Kinzel for Pepco Holdings LLC
31-13	— Filed by David M. Velazquez for Potomac Electric Power Company
31-14	— Filed by Donna J. Kinzel for Potomac Electric Power Company
31-15	— Filed by David M. Velazquez for Delmarva Power & Light Company
31-16	— Filed by Donna J. Kinzel for Delmarva Power & Light Company
31-17	— Filed by David M. Velazquez for Atlantic City Electric Company
31-18	— Filed by Donna J. Kinzel for Atlantic City Electric Company

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Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes — Oxley Act of 2002) as to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 filed by the following officers for the following companies:

32-1	— Filed by Christopher M. Crane for Exelon Corporation
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32-16	— Filed by Donna J. Kinzel for Delmarva Power & Light Company
32-17	— Filed by David M. Velazquez for Atlantic City Electric Company
32-18	— Filed by Donna J. Kinzel for Atlantic City Electric Company

SIGNATURES

Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXELON CORPORATION

/s/ CHRISTOPHER M. CRANE	/s/ JONATHAN W. THAYER
Christopher M. Crane	Jonathan W. Thayer
President and Chief Executive Officer (Principal Executive Officer) and Director	Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ DUANE M. DESPARTE	
Duane M. DesParte	
Senior Vice President and Corporate Controller (Principal Accounting Officer)	

November 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXELON GENERATION COMPANY, LLC

/s/ KENNETH W. CORNEW	/s/ BRYAN P. WRIGHT
Kenneth W. Cornew	Bryan P. Wright
President and Chief Executive Officer (Principal Executive Officer)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ MATTHEW N. BAUER	
Matthew N. Bauer	
Vice President and Controller (Principal Accounting Officer)	

November 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMONWEALTH EDISON COMPANY

/s/ ANNE R. PRAMAGGIORE	/s/ JOSEPH R. TRPIK, JR.
Anne R. Pramaggiore	Joseph R. Trpik, Jr.
President and Chief Executive Officer (Principal Executive Officer)	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ GERALD J. KOZEL	
Gerald J. Kozel	
Vice President and Controller (Principal Accounting Officer)	

November 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PECO ENERGY COMPANY

/s/ CRAIG L. ADAMS	/s/ PHILLIP S. BARNETT
Craig L. Adams	Phillip S. Barnett
President and Chief Executive Officer (Principal Executive Officer) and Director	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ SCOTT A. BAILEY	
Scott A. Bailey	
Vice President and Controller (Principal Accounting Officer)	

November 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BALTIMORE GAS AND ELECTRIC COMPANY

/s/ CALVIN G. BUTLER, JR.	/s/ DAVID M. VAHOS
Calvin G. Butler, Jr.	David M. Vahos
Chief Executive Officer (Principal Executive Officer)	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ANDREW W. HOLMES	
Andrew W. Holmes	
Vice President and Controller (Principal Accounting Officer)	

November 2, 2017

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Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEPCO HOLDINGS LLC

/s/ DAVID M. VELAZQUEZ	/s/ DONNA J. KINZEL
David M. Velazquez	Donna J. Kinzel
President and Chief Executive Officer (Principal Executive Officer)	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ROBERT M. AIKEN	
Robert M. Aiken	
Vice President and Controller (Principal Accounting Officer)	

November 2, 2017

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Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POTOMAC ELECTRIC POWER COMPANY

/s/ DAVID M. VELAZQUEZ	/s/ DONNA J. KINZEL
David M. Velazquez	Donna J. Kinzel
President and Chief Executive Officer (Principal Executive Officer)	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ROBERT M. AIKEN	
Robert M. Aiken	
Vice President and Controller (Principal Accounting Officer)	

November 2, 2017

Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELMARVA POWER & LIGHT COMPANY

/s/ DAVID M. VELAZQUEZ	/s/ DONNA J. KINZEL
David M. Velazquez	Donna J. Kinzel
President and Chief Executive Officer (Principal Executive Officer)	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ROBERT M. AIKEN	
Robert M. Aiken	
Vice President and Controller (Principal Accounting Officer)	

November 2, 2017

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Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATLANTIC CITY ELECTRIC COMPANY

/s/ DAVID M. VELAZQUEZ	/s/ DONNA J. KINZEL
David M. Velazquez	Donna J. Kinzel
President and Chief Executive Officer (Principal Executive Officer)	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ ROBERT M. AIKEN	
Robert M. Aiken	
Vice President and Controller (Principal Accounting Officer)	

November 2, 2017

Q. SDR-ROR-2 Please supply copies of the Company's balance sheets for each month/quarter for the last two years.

A. SDR-ROR-2 Refer to Attachment SDR-ROR-02(a) for the quarterly balance sheets on a total company basis filed for 2016 and 2017 through Q3 2017. For quarterly balance sheet for Q4 2017 refer to SDR-GEN-02.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/27/2016	End of 2016/Q1

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	10,136,210,040	10,073,568,455
3	Construction Work in Progress (107)	200-201	197,715,474	154,273,099
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		10,333,925,514	10,227,841,554
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	3,137,428,441	3,098,945,022
6	Net Utility Plant (Enter Total of line 4 less 5)		7,196,497,073	7,128,896,532
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		7,196,497,073	7,128,896,532
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		13,916,197	13,916,195
19	(Less) Accum. Prov. for Depr. and Amort. (122)		1,652,308	1,637,893
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	7,945,923	9,065,797
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		18,656,463	19,940,406
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		0	0
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		38,866,275	41,284,505
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		10,782,227	24,695,279
36	Special Deposits (132-134)		2,814,222	2,814,151
37	Working Fund (135)		106,034	77,766
38	Temporary Cash Investments (136)		334,250	264,145,984
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		272,879,840	226,123,651
41	Other Accounts Receivable (143)		134,220,314	153,409,495
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		89,846,270	82,890,719
43	Notes Receivable from Associated Companies (145)		160,000,000	0
44	Accounts Receivable from Assoc. Companies (146)		13,773,312	10,109,493
45	Fuel Stock (151)	227	1,331,196	1,331,196
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	27,127,163	26,560,364
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/27/2016	End of 2016/Q1

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		13,025,777	36,777,103
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		3,380,698	4,580,352
57	Prepayments (165)		120,873,130	22,407,729
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		5,228	928
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		94,162,376	105,202,585
62	Miscellaneous Current and Accrued Assets (174)		15,414,002	12,410,447
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		780,383,499	807,755,804
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		14,478,107	14,920,091
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,646,198,165	1,615,311,739
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	805,657,786	772,886,888
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		1,347,525	1,707,955
82	Accumulated Deferred Income Taxes (190)	234	147,732,267	148,097,951
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,615,413,850	2,552,924,624
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		10,631,160,697	10,530,861,465

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/27/2016	end of 2016/Q1

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	1,423,004,251	1,423,004,251
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,031,801,693	1,031,801,693
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	86,742	86,742
11	Retained Earnings (215, 215.1, 216)	118-119	3,845,491,422	3,765,507,601
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,010,435,207	-2,985,474,290
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	1,067,039	1,244,689
16	Total Proprietary Capital (lines 2 through 15)		3,290,842,456	3,235,997,202
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,600,000,000	2,600,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	184,418,609	184,418,609
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		4,961,025	5,092,859
24	Total Long-Term Debt (lines 18 through 23)		2,779,457,584	2,779,325,750
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		36,174,409	36,295,614
29	Accumulated Provision for Pensions and Benefits (228.3)		306,158,944	305,320,494
30	Accumulated Miscellaneous Operating Provisions (228.4)		30,228,850	31,460,652
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		26,512,372	26,845,452
35	Total Other Noncurrent Liabilities (lines 26 through 34)		399,074,575	399,922,212
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		261,410,255	280,743,590
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		68,836,782	56,361,883
41	Customer Deposits (235)		59,129,560	57,880,863
42	Taxes Accrued (236)	262-263	5,326,116	3,514,216
43	Interest Accrued (237)		39,316,938	35,134,790
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Attachment SDR-ROR-2(a)
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Name of Respondent PECO Energy Company	This Report is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report *(mo, da, yr)* 05/27/2016	Year/Period of Report end of 2016/Q1

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		82,944	45,000
48	Miscellaneous Current and Accrued Liabilities (242)		69,883,690	95,980,512
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		503,986,285	529,660,854
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		5,001,602	5,579,276
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,670,442	1,807,531
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	1,111,197	1,167,635
60	Other Regulatory Liabilities (254)	278	655,191,197	638,893,623
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		2,958,076,339	2,902,050,799
64	Accum. Deferred Income Taxes-Other (283)		36,749,020	36,456,583
65	Total Deferred Credits (lines 56 through 64)		3,657,799,797	3,585,955,447
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		10,631,160,697	10,530,861,465

Attachment SDR-ROR-2(a)
Page 4 of 28

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/26/2016	End of 2016/Q2

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	10,289,067,390	10,073,568,455
3	Construction Work in Progress (107)	200-201	185,083,071	154,273,099
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		10,474,150,461	10,227,841,554
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	3,183,014,213	3,098,945,022
6	Net Utility Plant (Enter Total of line 4 less 5)		7,291,136,248	7,128,896,532
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		7,291,136,248	7,128,896,532
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		13,904,734	13,916,195
19	(Less) Accum. Prov. for Depr. and Amort. (122)		1,666,572	1,637,893
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	1,171,511	9,065,797
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		18,115,605	19,940,406
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		0	0
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		31,525,278	41,284,505
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		19,157,858	24,695,279
36	Special Deposits (132-134)		2,814,292	2,814,151
37	Working Fund (135)		257,509	77,766
38	Temporary Cash Investments (136)		181,470,297	264,145,984
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		203,404,407	226,123,651
41	Other Accounts Receivable (143)		134,635,540	153,409,495
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		74,997,751	82,890,719
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		12,621,409	10,109,493
45	Fuel Stock (151)	227	1,331,196	1,331,196
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	26,651,740	26,560,364
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent PECO Energy Company	This Report Is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report *(Mo, Da, Yr)* 08/26/2016	Year/Period of Report End of 2016/Q2

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		18,896,090	36,777,103
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		3,277,803	4,580,352
57	Prepayments (165)		100,338,186	22,407,729
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		9,512	928
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		110,719,190	105,202,585
62	Miscellaneous Current and Accrued Assets (174)		18,005,025	12,410,447
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		758,592,303	807,755,804
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		14,050,541	14,920,091
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,683,640,243	1,615,311,739
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	818,683,336	772,886,888
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		1,007,459	1,707,955
82	Accumulated Deferred Income Taxes (190)	234	138,858,861	148,097,951
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,656,240,440	2,552,924,624
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		10,737,494,269	10,530,861,465

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/26/2016	end of 2016/Q2

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	1,423,004,251	1,423,004,251
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,031,999,416	1,031,801,693
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	86,742	86,742
11	Retained Earnings (215, 215.1, 216)	118-119	3,895,137,300	3,765,507,601
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,029,721,505	-2,985,474,290
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	1,176,420	1,244,689
16	Total Proprietary Capital (lines 2 through 15)		3,321,509,140	3,235,997,202
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,600,000,000	2,600,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	184,418,609	184,418,609
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		4,829,191	5,092,859
24	Total Long-Term Debt (lines 18 through 23)		2,779,589,418	2,779,325,750
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		36,969,604	36,295,614
29	Accumulated Provision for Pensions and Benefits (228.3)		304,849,801	305,320,494
30	Accumulated Miscellaneous Operating Provisions (228.4)		29,351,495	31,460,652
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		27,053,754	26,845,452
35	Total Other Noncurrent Liabilities (lines 26 through 34)		398,224,654	399,922,212
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		268,380,174	280,743,590
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		56,731,008	56,361,883
41	Customer Deposits (235)		59,918,063	57,880,863
42	Taxes Accrued (236)	262-263	12,234,891	3,514,216
43	Interest Accrued (237)		29,580,309	35,134,790
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/26/2016	end of 2016/Q2

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		47,488	45,000
48	Miscellaneous Current and Accrued Liabilities (242)		93,238,546	95,980,512
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		520,130,479	529,660,854
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		1,202,264	5,579,276
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,564,166	1,807,531
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	1,124,968	1,167,635
60	Other Regulatory Liabilities (254)	278	657,225,469	638,893,623
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		3,019,581,569	2,902,050,799
64	Accum. Deferred Income Taxes-Other (283)		37,342,142	36,456,583
65	Total Deferred Credits (lines 56 through 64)		3,718,040,578	3,585,955,447
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		10,737,494,269	10,530,861,465

Name of Respondent PECO Energy Company	This Report Is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report *(Mo, Da, Yr)* 11/22/2016	Year/Period of Report End of 2016/Q3

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	10,390,375,687	10,073,568,455
3	Construction Work in Progress (107)	200-201	209,052,245	154,273,099
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		10,599,427,932	10,227,841,554
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	3,211,679,418	3,098,945,022
6	Net Utility Plant (Enter Total of line 4 less 5)		7,387,748,514	7,128,896,532
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		7,387,748,514	7,128,896,532
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		13,904,734	13,916,195
19	(Less) Accum. Prov. for Depr. and Amort. (122)		1,680,687	1,637,893
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	18,941,349	9,065,797
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		17,746,023	19,940,406
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		0	0
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		48,911,419	41,284,505
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		24,965,391	24,695,279
36	Special Deposits (132-134)		32,602,876	2,814,151
37	Working Fund (135)		249,910	77,766
38	Temporary Cash Investments (136)		467,574,746	264,145,984
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		239,816,937	226,123,651
41	Other Accounts Receivable (143)		142,590,565	153,409,495
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		78,181,186	82,890,719
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		10,521,649	10,109,493
45	Fuel Stock (151)	227	1,331,196	1,331,196
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	26,760,544	26,560,364
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	11/22/2016	End of 2016/Q3

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		32,028,748	36,777,103
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		4,424,911	4,580,352
57	Prepayments (165)		54,332,790	22,407,729
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		13,843	928
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		98,940,791	105,202,585
62	Miscellaneous Current and Accrued Assets (174)		10,435,143	12,410,447
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		1,068,408,854	807,755,804
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		15,963,556	14,920,091
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,688,186,453	1,615,311,739
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	842,335,923	772,886,888
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		702,174	1,707,955
82	Accumulated Deferred Income Taxes (190)	234	139,081,129	148,097,951
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,686,269,235	2,552,924,624
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		11,191,338,022	10,530,861,465

Attachment SDR-ROR-2(a)
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Name of Respondent PECO Energy Company	This Report is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report *(mo, da, yr)* 11/22/2016	Year/Period of Report end of 2016/Q3

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	1,423,004,251	1,423,004,251
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,050,204,730	1,031,801,693
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	86,742	86,742
11	Retained Earnings (215, 215.1, 216)	118-119	3,968,385,178	3,765,507,601
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,050,583,125	-2,985,474,290
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	1,217,894	1,244,689
16	Total Proprietary Capital (lines 2 through 15)		3,392,142,186	3,235,997,202
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,900,000,000	2,600,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	184,418,609	184,418,609
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		4,779,512	5,092,859
24	Total Long-Term Debt (lines 18 through 23)		3,079,639,097	2,779,325,750
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		38,346,140	36,295,614
29	Accumulated Provision for Pensions and Benefits (228.3)		305,446,563	305,320,494
30	Accumulated Miscellaneous Operating Provisions (228.4)		30,440,137	31,460,652
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		28,111,701	26,845,452
35	Total Other Noncurrent Liabilities (lines 26 through 34)		402,344,541	399,922,212
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		281,777,165	280,743,590
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		65,351,879	56,361,883
41	Customer Deposits (235)		60,038,753	57,880,863
42	Taxes Accrued (236)	262-263	14,553,996	3,514,216
43	Interest Accrued (237)		33,772,643	35,134,790
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	11/22/2016	end of 2016/Q3

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		30,148	45,000
48	Miscellaneous Current and Accrued Liabilities (242)		77,749,696	95,980,512
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		533,274,280	529,660,854
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		1,032,546	5,579,276
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,449,205	1,807,531
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	1,087,283	1,167,635
60	Other Regulatory Liabilities (254)	278	678,480,595	638,893,623
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		3,064,075,524	2,902,050,799
64	Accum. Deferred Income Taxes-Other (283)		37,812,765	36,456,583
65	Total Deferred Credits (lines 56 through 64)		3,783,937,918	3,585,955,447
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		11,191,338,022	10,530,861,465

Name of Respondent PECO Energy Company	This Report Is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report *(Mo, Da, Yr)* 04/03/2017	Year/Period of Report End of 2016/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	10,615,821,255	10,073,568,455
3	Construction Work in Progress (107)	200-201	187,876,874	154,273,099
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		10,803,698,129	10,227,841,554
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	3,250,587,005	3,098,945,022
6	Net Utility Plant (Enter Total of line 4 less 5)		7,553,111,124	7,128,896,532
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		7,553,111,124	7,128,896,532
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		13,902,811	13,916,195
19	(Less) Accum. Prov. for Depr. and Amort. (122)		1,694,654	1,637,893
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	6,086,759	9,065,797
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		17,267,589	19,940,406
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		0	0
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		35,562,505	41,284,505
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		19,102,548	24,695,279
36	Special Deposits (132-134)		3,587,616	2,814,151
37	Working Fund (135)		408,946	77,766
38	Temporary Cash Investments (136)		40,644,479	264,145,984
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		217,747,469	226,123,651
41	Other Accounts Receivable (143)		137,071,741	153,409,495
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		60,526,605	82,890,719
43	Notes Receivable from Associated Companies (145)		131,000,000	0
44	Accounts Receivable from Assoc. Companies (146)		11,785,786	10,109,493
45	Fuel Stock (151)	227	1,331,196	1,331,196
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	26,760,526	26,560,364
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	04/03/2017	End of 2016/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		29,969,874	36,777,103
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		4,009,031	4,580,352
57	Prepayments (165)		19,235,663	22,407,729
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		0	928
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		140,399,946	105,202,585
62	Miscellaneous Current and Accrued Assets (174)		7,465,855	12,410,447
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		729,994,071	807,755,804
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		15,394,714	14,920,091
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,709,473,233	1,615,311,739
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	803,419,811	772,886,888
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		454,543	1,707,955
82	Accumulated Deferred Income Taxes (190)	234	142,031,156	148,097,951
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,670,773,457	2,552,924,624
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		10,989,441,157	10,530,861,465

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	04/03/2017	end of 2016/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	1,423,004,251	1,423,004,251
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,050,204,730	1,031,801,693
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	86,742	86,742
11	Retained Earnings (215, 215.1, 216)	118-119	4,004,108,859	3,765,507,601
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,063,330,881	-2,985,474,290
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	1,100,867	1,244,689
16	Total Proprietary Capital (lines 2 through 15)		3,415,001,084	3,235,997,202
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,600,000,000	2,600,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	184,418,609	184,418,609
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		4,672,237	5,092,859
24	Total Long-Term Debt (lines 18 through 23)		2,779,746,372	2,779,325,750
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		40,399,489	36,295,614
29	Accumulated Provision for Pensions and Benefits (228.3)		305,358,997	305,320,494
30	Accumulated Miscellaneous Operating Provisions (228.4)		27,329,994	31,460,652
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		28,219,683	26,845,452
35	Total Other Noncurrent Liabilities (lines 26 through 34)		401,308,163	399,922,212
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		341,576,743	280,743,590
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		64,529,679	56,361,883
41	Customer Deposits (235)		61,058,482	57,880,863
42	Taxes Accrued (236)	262-263	3,914,750	3,514,216
43	Interest Accrued (237)		29,551,067	35,134,790
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	04/03/2017	end of 2016/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		48,355	45,000
48	Miscellaneous Current and Accrued Liabilities (242)		98,279,124	95,980,512
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		598,958,200	529,660,854
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		1,053,077	5,579,276
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,379,686	1,807,531
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	1,090,208	1,167,635
60	Other Regulatory Liabilities (254)	278	644,184,788	638,893,623
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		3,096,015,208	2,902,050,799
64	Accum. Deferred Income Taxes-Other (283)		50,704,371	36,456,583
65	Total Deferred Credits (lines 56 through 64)		3,794,427,338	3,585,955,447
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		10,989,441,157	10,530,861,465

Name of Respondent PECO Energy Company	This Report Is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report *(Mo, Da, Yr)* 05/31/2017	Year/Period of Report End of 2017/Q1

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	10,719,536,379	10,615,821,255
3	Construction Work in Progress (107)	200-201	218,103,219	187,876,874
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		10,937,639,598	10,803,698,129
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	3,290,893,695	3,250,587,005
6	Net Utility Plant (Enter Total of line 4 less 5)		7,646,745,903	7,553,111,124
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		7,646,745,903	7,553,111,124
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		13,902,812	13,902,811
19	(Less) Accum. Prov. for Depr. and Amort. (122)		1,708,216	1,694,654
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	7,904,820	6,086,759
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		17,536,553	17,267,589
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		0	0
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		37,635,969	35,562,505
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		24,769,395	19,102,548
36	Special Deposits (132-134)		3,589,929	3,587,616
37	Working Fund (135)		0	408,946
38	Temporary Cash Investments (136)		667,588	40,644,479
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		268,995,552	217,747,469
41	Other Accounts Receivable (143)		130,901,859	137,071,741
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		72,379,477	60,526,605
43	Notes Receivable from Associated Companies (145)		0	131,000,000
44	Accounts Receivable from Assoc. Companies (146)		14,437,896	11,785,786
45	Fuel Stock (151)	227	1,331,196	1,331,196
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	29,378,762	26,760,526
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/31/2017	End of 2017/Q1

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		9,647,140	29,969,874
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		3,041,344	4,009,031
57	Prepayments (165)		110,792,726	19,235,663
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		2	0
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		107,682,748	140,399,946
62	Miscellaneous Current and Accrued Assets (174)		10,066,465	7,465,855
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		642,923,125	729,994,071
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		14,937,144	15,394,714
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,747,602,198	1,709,473,233
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	862,336,916	803,419,811
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		227,449	454,543
82	Accumulated Deferred Income Taxes (190)	234	135,365,638	142,031,156
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,760,469,345	2,670,773,457
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		11,087,774,342	10,989,441,157

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/31/2017	end of 2017/Q1

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	1,423,004,251	1,423,004,251
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,050,204,730	1,050,204,730
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	86,742	86,742
11	Retained Earnings (215, 215.1, 216)	118-119	4,083,906,890	4,004,108,859
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,087,634,847	-3,063,330,881
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	1,211,389	1,100,867
16	Total Proprietary Capital (lines 2 through 15)		3,470,605,671	3,415,001,084
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,600,000,000	2,600,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	184,418,609	184,418,609
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		4,572,631	4,672,237
24	Total Long-Term Debt (lines 18 through 23)		2,779,845,978	2,779,746,372
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		43,287,632	40,399,489
29	Accumulated Provision for Pensions and Benefits (228.3)		304,908,642	305,358,997
30	Accumulated Miscellaneous Operating Provisions (228.4)		26,783,095	27,329,994
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		28,530,378	28,219,683
35	Total Other Noncurrent Liabilities (lines 26 through 34)		403,509,747	401,308,163
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		288,464,584	341,576,743
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		59,920,890	64,529,679
41	Customer Deposits (235)		61,874,849	61,058,482
42	Taxes Accrued (236)	262-263	18,999,227	3,914,750
43	Interest Accrued (237)		31,211,814	29,551,067
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	05/31/2017	end of 2017/Q1

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		84,573	48,355
48	Miscellaneous Current and Accrued Liabilities (242)		68,738,100	98,279,124
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		529,294,037	598,958,200
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		894,607	1,053,077
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,269,094	1,379,686
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	1,051,774	1,090,208
60	Other Regulatory Liabilities (254)	278	690,898,926	644,184,788
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		3,159,726,637	3,096,015,208
64	Accum. Deferred Income Taxes-Other (283)		50,677,871	50,704,371
65	Total Deferred Credits (lines 56 through 64)		3,904,518,909	3,794,427,338
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		11,087,774,342	10,989,441,157

Name of Respondent	This Report Is:	Date of Report *(Mo, Da, Yr)*	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/28/2017	End of 2017/Q2

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	10,870,601,333	10,615,821,255
3	Construction Work in Progress (107)	200-201	203,787,604	187,876,874
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		11,074,388,937	10,803,698,129
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	3,328,633,883	3,250,587,005
6	Net Utility Plant (Enter Total of line 4 less 5)		7,745,755,054	7,553,111,124
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		7,745,755,054	7,553,111,124
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		13,902,812	13,902,811
19	(Less) Accum. Prov. for Depr. and Amort. (122)		1,721,639	1,694,654
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	4,793,301	6,086,759
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		16,230,267	17,267,589
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		0	0
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		33,204,741	35,562,505
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		18,550,999	19,102,548
36	Special Deposits (132-134)		3,594,465	3,587,616
37	Working Fund (135)		0	408,946
38	Temporary Cash Investments (136)		23,692,120	40,644,479
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		198,564,832	217,747,469
41	Other Accounts Receivable (143)		134,781,429	137,071,741
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		58,493,616	60,526,605
43	Notes Receivable from Associated Companies (145)		10,000,000	131,000,000
44	Accounts Receivable from Assoc. Companies (146)		8,537,238	11,785,786
45	Fuel Stock (151)	227	1,315,781	1,331,196
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	30,012,275	26,760,526
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/28/2017	End of 2017/Q2

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		19,946,045	29,969,874
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		3,717,687	4,009,031
57	Prepayments (165)		89,383,349	19,235,663
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		7,837,487	0
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		110,922,397	140,399,946
62	Miscellaneous Current and Accrued Assets (174)		12,719,005	7,465,855
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		615,081,493	729,994,071
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		14,509,874	15,394,714
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,777,595,327	1,709,473,233
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	870,704,425	803,419,811
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		552,216	454,543
82	Accumulated Deferred Income Taxes (190)	234	131,436,329	142,031,156
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,794,798,171	2,670,773,457
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		11,188,839,459	10,989,441,157

Name of Respondent	This Report is:	Date of Report (*mo, da, yr*)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/28/2017	end of 2017/Q2

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	1,423,004,251	1,423,004,251
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,050,010,450	1,050,204,730
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	86,742	86,742
11	Retained Earnings (215, 215.1, 216)	118-119	4,116,540,485	4,004,108,859
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,104,403,229	-3,063,330,881
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	1,146,804	1,100,867
16	Total Proprietary Capital (lines 2 through 15)		3,486,212,019	3,415,001,084
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,600,000,000	2,600,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	184,418,609	184,418,609
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		4,471,901	4,672,237
24	Total Long-Term Debt (lines 18 through 23)		2,779,946,708	2,779,746,372
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		46,232,385	40,399,489
29	Accumulated Provision for Pensions and Benefits (228.3)		304,022,716	305,358,997
30	Accumulated Miscellaneous Operating Provisions (228.4)		26,466,201	27,329,994
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		28,683,672	28,219,683
35	Total Other Noncurrent Liabilities (lines 26 through 34)		405,404,974	401,308,163
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		277,666,378	341,576,743
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		51,322,270	64,529,679
41	Customer Deposits (235)		63,196,942	61,058,482
42	Taxes Accrued (236)	262-263	45,931,684	3,914,750
43	Interest Accrued (237)		29,368,825	29,551,067
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	08/28/2017	end of 2017/Q2

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		45,505	48,355
48	Miscellaneous Current and Accrued Liabilities (242)		89,698,257	98,279,124
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		557,229,861	598,958,200
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		1,332,912	1,053,077
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,192,689	1,379,686
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	1,026,289	1,090,208
60	Other Regulatory Liabilities (254)	278	698,435,881	644,184,788
61	Unamortized Gain on Reaquired Debt (257)		469,178	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		3,207,078,823	3,096,015,208
64	Accum. Deferred Income Taxes-Other (283)		50,510,125	50,704,371
65	Total Deferred Credits (lines 56 through 64)		3,960,045,897	3,794,427,338
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		11,188,839,459	10,989,441,157

Name of Respondent PECO Energy Company	This Report Is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report *(Mo, Da, Yr)* 11/28/2017	Year/Period of Report End of 2017/Q3

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	10,955,079,914	10,615,821,255
3	Construction Work in Progress (107)	200-201	272,091,646	187,876,874
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		11,227,171,560	10,803,698,129
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	3,364,061,329	3,250,587,005
6	Net Utility Plant (Enter Total of line 4 less 5)		7,863,110,231	7,553,111,124
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		7,863,110,231	7,553,111,124
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		13,902,812	13,902,811
19	(Less) Accum. Prov. for Depr. and Amort. (122)		1,734,924	1,694,654
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	19,796,485	6,086,759
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		16,424,848	17,267,589
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		0	0
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		48,389,221	35,562,505
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		17,843,380	19,102,548
36	Special Deposits (132-134)		3,600,910	3,587,616
37	Working Fund (135)		0	408,946
38	Temporary Cash Investments (136)		290,326,204	40,644,479
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		182,710,237	217,747,469
41	Other Accounts Receivable (143)		132,091,752	137,071,741
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		56,765,860	60,526,605
43	Notes Receivable from Associated Companies (145)		57,000,000	131,000,000
44	Accounts Receivable from Assoc. Companies (146)		7,738,569	11,785,786
45	Fuel Stock (151)	227	1,315,781	1,331,196
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	30,309,898	26,760,526
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	11/28/2017	End of 2017/Q3

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		30,437,452	29,969,874
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		4,077,000	4,009,031
57	Prepayments (165)		54,275,090	19,235,663
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		2	0
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		107,173,611	140,399,946
62	Miscellaneous Current and Accrued Assets (174)		2,934,569	7,465,855
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		865,068,595	729,994,071
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		17,390,386	15,394,714
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	1,808,497,178	1,709,473,233
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	892,161,776	803,419,811
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		521,576	454,543
82	Accumulated Deferred Income Taxes (190)	234	147,057,725	142,031,156
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		2,865,628,641	2,670,773,457
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		11,642,196,688	10,989,441,157

Name of Respondent PECO Energy Company	This Report is: (1) ☒ An Original (2) ☐ A Resubmission	Date of Report *(mo, da, yr)* 11/28/2017	Year/Period of Report end of 2017/Q3

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	1,423,004,251	1,423,004,251
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,066,200,303	1,050,204,730
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	86,742	86,742
11	Retained Earnings (215, 215.1, 216)	118-119	4,177,944,602	4,004,108,859
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,126,043,850	-3,063,330,881
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	1,179,276	1,100,867
16	Total Proprietary Capital (lines 2 through 15)		3,542,197,840	3,415,001,084
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,925,000,001	2,600,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	184,418,609	184,418,609
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		5,593,399	4,672,237
24	Total Long-Term Debt (lines 18 through 23)		3,103,825,211	2,779,746,372
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		44,763,962	40,399,489
29	Accumulated Provision for Pensions and Benefits (228.3)		303,458,475	305,358,997
30	Accumulated Miscellaneous Operating Provisions (228.4)		27,452,495	27,329,994
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		27,729,473	28,219,683
35	Total Other Noncurrent Liabilities (lines 26 through 34)		403,404,405	401,308,163
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		285,112,005	341,576,743
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		49,250,241	64,529,679
41	Customer Deposits (235)		63,931,828	61,058,482
42	Taxes Accrued (236)	262-263	41,436,727	3,914,750
43	Interest Accrued (237)		31,866,963	29,551,067
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
PECO Energy Company	(1) ☒ An Original (2) ☐ A Resubmission	11/28/2017	end of 2017/Q3

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		56,311	48,355
48	Miscellaneous Current and Accrued Liabilities (242)		81,048,962	98,279,124
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		552,703,037	598,958,200
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		1,905,895	1,053,077
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,093,828	1,379,686
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	1,482,402	1,090,208
60	Other Regulatory Liabilities (254)	278	718,851,202	644,184,788
61	Unamortized Gain on Reaquired Debt (257)		582,948	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		50,439,375	50,704,371
64	Accum. Deferred Income Taxes-Other (283)		3,265,710,545	3,096,015,208
65	Total Deferred Credits (lines 56 through 64)		4,040,066,195	3,794,427,338
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		11,642,196,688	10,989,441,157

Attachment SDR-ROR-2(a)
Page 28 of 28

Q. SDR-ROR-3 Please provide the bond rating history for the Company and, if applicable, its parent from the major credit rating agencies for the last five years.

A. SDR-ROR-3 Refer to Attachment SDR-ROR-3(a).

Exelon & PECO's Credit Ratings History

2013 to 2017

S&P Credit Ratings History

Corporate Credit Rating		Ratings Date(s)
Exelon	BBB	No new rating since 7/22/2009
PECO	BBB	No new rating since 7/22/2009

Senior Secured		Ratings Date(s)
Exelon	NR	
PECO	A-	No new rating since 7/22/2009

Senior Unsecured		Ratings Date(s)
Exelon	BBB-	No new rating since 7/22/2009
PECO	NR	

Moody's Credit Ratings History

Issuer Rating		Ratings Date(s)
Exelon	Baa2	20-Jul-17
	Baa2	20-Jan-17
	Baa2	19-Jul-16
	Baa2	24-Mar-16
	Baa2	19-Jan-16
	Baa2	31-Aug-15
	Baa2	30-Apr-14
	Baa2	7-Feb-13
	Baa2	8-Nov-12
PECO	A2	20-Jul-17
	A2	20-Jan-17
	A2	19-Jul-16
	A2	19-Jan-16
	A2	31-Aug-15
	A2	30-Apr-14
	A2	30-Jan-14
	A3	8-Nov-13
	A3	23-Jul-09

Senior Secured		Ratings Date(s)
Exelon	NR	
PECO	AA3	20-Jul-17
	AA3	20-Jan-17
	AA3	19-Jul-16
	AA3	19-Jan-16
	AA3	31-Aug-15
	AA3	30-Apr-14
	AA3	30-Jan-14
	A1	8-Nov-13
	A1	25-Aug-10

Senior Unsecured		Ratings Date(s)
Exelon	Baa2	20-Jul-17
	Baa2	20-Jan-17
	Baa2	19-Jul-16
	Baa2	24-Mar-16
	Baa2	19-Jan-16
	Baa2	31-Aug-15
	Baa2	30-Apr-14
	Baa2	7-Feb-13
	Baa2	8-Nov-12
PECO	A2	20-Jul-17
	A2	20-Jan-17
	A2	19-Jul-16
	A2	10-Jun-16
	A2	19-Jan-16
	A2	31-Aug-15
	A2	8-Aug-14
	A2	30-Apr-14
	A2	30-Jan-14
	A3	8-Nov-13
	A3	19-Sep-13
	A3	23-Jul-09

Fitch Credit Rating History

Issuer Default Rating		Ratings Date(s)
Exelon	BBB	22-Mar-17
	BBB	25-Mar-16
	BBB+	29-Apr-15
	BBB+	30-Apr-14
	BBB+	7-Apr-14
	BBB+	7-Feb-14
	BBB+	8-Feb-13
	BBB+	12-Mar-12
PECO	BBB+	28-Apr-16
	BBB+	29-Apr-15
	BBB+	1-Oct-14
	BBB+	7-Apr-14
	BBB+	7-Feb-14
	BBB+	8-Feb-13
	BBB+	12-Mar-12

Senior Secured		Ratings Date(s)
Exelon	NR	
PECO	A	11-Sep-17
	A	22-Mar-17
	A	14-Sep-16
	A	28-Apr-16
	A	28-Sep-15
	A	29-Apr-15
	A	1-Oct-14
	A	8-Sep-14
	A	7-Apr-14
	A	7-Feb-14
	A	17-Sep-13
	A	8-Feb-13
	A	11-Sep-12

Senior Unsecured		Ratings Date(s)
Exelon	BBB	22-Mar-17
	BBB	25-Mar-16
	BBB+	29-Apr-15
	BBB+	30-Apr-14
	BBB+	7-Apr-14
	BBB+	7-Feb-14
	BBB+	8-Feb-13
	BBB+	12-Mar-12
PECO	A-	22-Mar-17
	A-	28-Apr-16
	A-	29-Apr-15
	A-	1-Oct-14
	A-	7-Apr-14
	A-	7-Feb-14
	A-	8-Feb-13
	A-	12-Mar-12

Q. SDR-ROR-4 Please provide copies of all bond rating reports relating to the Company and, if applicable, its parent for the past two years.

A. SDR-ROR-4 Please see Attachments SDR-ROR-4(a)-(ccc).

THE REQUESTED DOCUMENTS ARE VOLUMINOUS. THEREFORE, THEY ARE BEING PROVIDED ONLY IN ELECTRONIC FORM ON THE CD ACCOMPANYING THE COMPANY’S FILING.

FitchRatings

Fitch Revises EXC and Exgen Rating Outlook to Negative; Comed Upgraded

Fitch Ratings-New York-07 February 2014: Fitch Ratings has taken a number of actions with respect to the ratings and Rating Outlooks of Exelon Corp. (EXC) and its subsidiaries. The ratings actions include the following:

--Affirmed the 'BBB+' Issuer Default Ratings (IDR) and instrument ratings of Exelon Corp. (EXC) and Exelon Generation Co., LLC (Exgen) and revised the Rating Outlook for each entity to Negative from Stable.

--Upgraded the IDR of Commonwealth Edison Co. (Comed) to 'BBB' from 'BBB-' and revised the Rating Outlook to Stable from Positive. Comed's instrument ratings were also upgraded one-notch.

--Affirmed the 'BBB' IDR and instrument ratings of Baltimore Gas and Electric Co. (BGE) and revised the Rating Outlook to Positive from Stable.

--Affirmed the 'BBB+' IDR and instrument ratings of PECO Energy Co. (PECO) with a Stable Rating Outlook.

The Negative Rating Outlooks for EXC and Exgen primarily reflect the continued down trend in gross margin and credit protection measures due to the on-going weakness in forward power and natural gas prices, soft power demand and aggressive competition in the retail supply business. Exgen remains the largest contributor to EXC's cash flow and as such the Negative Ratings Outlook for EXC mirrors that of its non-regulated subsidiary. The revised Rating Outlook also considers that credit protection measures, although declining remain solidly within the investment grade category.

The upgrade of Comed reflects the improvement in credit metrics due in large measure to tariff increases over the past several years and the greater predictability of earnings and cash flow due to the implementation of a formula rate plan (FRP) in Illinois.

Similarly, the Positive Rating Outlook for BGE results from higher rates and improving credit measures.

The rating and Stable Rating Outlook for PECO are consistent with the company's strong credit profile.

Key Rating Drivers

Exelon Corp.

Competitive Generation Business: Low power prices, weak demand and aggressive competitive pricing behavior have adversely affected wholesale and retail margins and are expected by Fitch to persist for several more years keeping pressure on credit quality measures.

Utility Earnings Contribution: The consolidated ratings also consider the contributions of EXC's three regulated utilities, which account for about 50% of consolidated earnings and cash flow. The utilities have sound and/or improving credit profiles, limited commodity price risk and a relatively predictable earnings stream, balancing the more volatile earnings and cash flow of the commodity sensitive merchant business.

Prudent Financial Management: Management has taken a number of steps over the past 15-months to reduce financial commitments and solidify credit quality in the face of persistently low power prices that are pressuring wholesale and retail profit margins. The credit supportive actions include substantial reductions in merchant capex and the common stock dividend. Consequently, financial metrics are expected by Fitch to remain solidly within the investment grade category. In February 2013, EXC reduced its common stock dividend by 40%, saving nearly $750 million annually. The dividend reduction followed a $2.3 billion reduction in merchant capex that have subsequently been further reduced.

Financial Position: The combined reductions of the common stock dividend and capex have solidified EXC's financial position. Fitch estimates EXC's adjusted ratio of funds from operations (FFO)/interest to be in excess of 6.0x over the next several years and FFO/debt to approximate 30%.

Liquidity: Liquidity is ample and debt maturities should be manageable. On a consolidated basis committed credit facilities aggregate $8.4 billion, and extend to 2018.

Rating Sensitivity

Positive
Other than an unexpected change in business strategy (i.e. additional sources of regulated earnings and cash flow), positive rating action at the parent is unlikely at the present rating level.

Negative
Lack of rate support for utility infrastructure investments or changes in the commodity cost recovery provisions in Illinois, Pennsylvania or Baltimore.

More aggressive growth strategy that increased business risk and/or leverage.

Increase in risk appetite as evidenced by change in hedging strategy at Exgen.

Exelon Generation Company, LLC
Operating environment: The operating environment for Exgen's competitive generation business is expected to remain challenging with sluggish demand and low natural gas and power prices likely to persist for several years with a downtrend in gross margin. Favorably, Exgen is expected to be free cash flow (FCF) positive due to reduced capex and dividend requirements, easing the pressure on cash flow and credit quality measures during a low point in the commodity cycle.

Competitive Position: Exgen's largely nuclear-fueled generating fleet is positioned low on the dispatch curve and likely to be dispatched under any price scenario. The nuclear fleet is also well positioned to benefit from any uplift in power prices from higher environmental costs or plant retirements and requires limited environmental remediation expenditures. Nonetheless, several nuclear plants operating in regions without a capacity market are at risk for closure.

Expense Reductions: Exgen entered into a service agreement to operate the Constellation Energy Nuclear Group (CENG) nuclear fleet that is expected by management to generate annual savings of roughly $50 million - $70 million annually (Exgen's share is 50%) with a $20 million cost to achieve. NRC approval is required. CENG is a joint venture with Electricite de France. The transaction is expected to close late in 2014 Q1 or early Q2.

Financial Position: Exgen's financial position has weakened in recent years, but remains solidly within the investment grade category. Fitch expects expense and debt reductions to offset on-going declines in gross margin and stabilize credit metrics at or near current levels. Fitch estimates Exgen's adjusted ratio of EBITDA/interest to range between 5.5x and 6.0x and debt/EBITDA at about 2.5x - 2.75x. Cash flow measures are expected to be stronger with FFO/debt to be in excess of 40% and FFO/interest to exceed 7.0x.

Debt Reduction: Since the dividend reduction Exgen has retired $950 million of recourse debt with cash including $450 million of callable junior subordinated debt at par in June 2013 and $500 million of maturing senior debt in January 2014. Additional debt retirements are anticipated in 2015.

Revised Growth Plan: Planned capital expenditures were reduced $2.3 billion and now aggregate $6.8 billion over the 2014-2016 time frame. The reductions were primarily investments in unidentified renewable projects and cancelling planned nuclear uprates at the LaSalle and Limerick units, totaling nearly 600 MW to beyond 2019. Over the three-year period through 2016, growth capex is now about $775 million for nuclear uprates and wind and solar projects, including the build-out of the Antelope Valley Solar Ranch (AVSR). Exgen will also be investing approximately $350 million to construct generation in Maryland required as part of the Constellation merger approval. Fitch believes other investments are likely, but will be limited to contracted renewables or possibly distressed merchant assets in regions that have a well-functioning capacity market and/or a tight reserve position.

Rating Sensitivity

Positive:
There are no developments that are likely to lead to a positive rating action.

However, ratings could be maintained if there is clear evidence of a sustainable improvement in power prices and/or capacity revenue.

Negative:
A further decline in gas and power prices;
An unexpected reversion to a more aggressive growth strategy.

Commonwealth Edison Co.
Strong Credit Metrics: Higher rates effective Jan. 1, 2014 and the FRP plan that allows for annual rate adjustments should allow Commonwealth Edison Co. (Comed) to sustain its currently sound financial position over the next few years. Fitch estimates EBITDA/interest will average about 5.0x, FFO/interest 4.5x, FFO/debt 18% - 20% and debt/EBITDA about 3.75x over the next several years. Each measure is strong for the current rating.

Regulatory Predictability: The FRP implemented in October 2011 provides increased regulatory predictability in Illinois. The FRP recognizes forward looking capital additions and includes a true-up mechanism reducing, albeit not eliminating, rate lag.

Constructive Rate Decision: In December 2013, the Illinois Commerce Commission approved a $341 million increase in distribution rates or approximately 97% of the company's rate request.

Commodity Price Exposure: Ratings and credit quality benefit from the absence of commodity price exposure, which limits cash flow volatility and reduces business risk.

Rising Capex: Capital expenditures are forecasted to rise to approximately $5.7 billion over the three-year period 2014-2016, compared to $3.7 billion in the prior three-year period. The higher outlays are primarily driven by the Illinois Energy Infrastructure Modernization Act (EIMA), which requires Comed to invest an incremental $1.3 billion on electric system upgrades over five years and an additional $1.3 billion for smart grid deployment over 10 years. The legislation provides for recovery through the FRP filings. The capex forecast also reflects an increase in transmission expenditures, which are subject to credit supportive Federal Energy Regulatory Commission (FERC) regulatory policies.

Like-Kind-Exchange: Comed's exposure to the IRS's disallowance of the tax benefits associated with a like-kind-exchange is a credit concern, however, the issue is not likely to be resolved for several years and was not factored into the rating decision. As of Sept. 30, 2013, Comed's potential tax and interest that could become payable, excluding penalties, is $305 million.

Rating Sensitivity

Positive:
A continuation of constructive outcomes in FRP filings;

Ability to reduce leverage below 3.5x.

Negative:
Lack of rate support for infrastructure investments or changes in the commodity cost recovery provisions.

PECO Energy Co.
Strong Credit Profile: Historical and projected credit measures are strong and well in excess of Fitch's target ratios for the current rating category and the companies' peer group of 'BBB+' distribution utilities. Over the next few years, Fitch estimates EBITDA/interest and FFO/interest will average about 7.0x and 6.0x, respectively and FFO/debt and debt/EBITDA about 20% and 3.0x. The strong performance reflects expectations of timely rate recovery and moderate debt financing.

Alternative Regulatory Model: Fitch considers the regulatory legislation enacted in Pennsylvania in February 2012 (HB 1294) to be supportive of credit quality.

Manageable Capital Spending: PECO expects to invest approximately $1.6 billion over the next three years, moderately higher than the $1.4 billion expended in the prior three-years. The expenditures equate to about 2.2x depreciation and amortization, which approximates the industry in average.

Low business Risk: Ratings and credit quality benefit from the absence of commodity price exposure and the associated cash flow volatility.

Rating Sensitivity

PECO Energy Company

Positive:
Sustaining current financial condition could lead to a positive rating action.

Negative:
Not likely given the head room in current ratings.

Baltimore Gas and Electric Company
Credit Metrics: BGE's financial position improved significantly in 2013 largely due to electric and gas rate increases implemented in February 2013, the first increases since December 2010 and the expiration of a $112 million rate credit. Subsequent electric and gas rate increases implemented in December 2013 are expected to drive further improvement in 2014 and beyond. Fitch estimates EBITDA/interest and FFO/interest to exceed 6.0x and FFO/debt and debt/EBITDA of about 25% and 2.5x, respectively.

Dividend Restrictions: BGE is precluded from paying dividends to parent Exelon Corp. (Exelon) through 2014

Regulatory Recovery Mechanisms: Rate adjustment mechanisms outside of base rate cases tend to stabilize BGE's on-going cash flow. These include decoupling for both residential and commercial gas and electricity sales and purchased gas and purchased power recovery mechanisms. In addition, investments in energy efficiency are subject to a tracking mechanism.

Ring-fencing: BGE's funding and Treasury practices result in moderate ring fencing of the utility from its parent Exelon Corp. and affiliates. These include maintaining separate books and records and separate credit facilities and commercial paper programs and allocating parent expenses according to a Cost Allocation Manual that is filed annually with the Maryland Public Service Commission (MPSC). Also, BGE does not participate in the corporate money pool. Furthermore, BGE's financings do not contain any provisions that could result in cross defaults between BGE and Exelon.

Rating Sensitivity

Positive:

A constructive outcome in expected 2014 rate filing.

Negative:
Lack of rate support for infrastructure investments or changes in the commodity cost recovery provisions.

Fitch has affirmed the following ratings with a Negative Outlook:

Exelon Corp.
--Issuer Default Rating (IDR) 'BBB+';
--Senior unsecured debt 'BBB+';
--Commercial paper 'F2';
--Short-term IDR 'F2'.

Exelon Generation Co., LLC
--Issuer Default Rating (IDR) 'BBB+';
--Senior unsecured debt 'BBB+';
--Commercial paper 'F2';
--Short-term IDR 'F2'.

Fitch has affirmed the following ratings with a Positive Outlook:

Baltimore Gas and Electric Company
--Issuer Default Rating (IDR) 'BBB;
--First mortgage bonds 'A-';
--Senior unsecured debt 'BBB+';
--Pollution control revenue bonds 'BBB+'
--Preferred stock to 'BBB-';

--Short-term IDR 'F2';
--Commercial paper 'F2'.

Fitch has upgraded the following ratings with a Stable Outlook:

Commonwealth Edison Company
--Issuer Default Rating (IDR) to 'BBB' from 'BBB-;
--First mortgage bonds to 'A-' from 'BBB+';
--Senior unsecured debt to 'BBB+' from 'BBB';
--Preferred stock to 'BBB-' from 'BB+';
--Short-term IDR to 'F2' from 'F3';
--Commercial paper to 'F2' from 'F3'.

ComEd Financing Trust III
--Preferred stock to 'BBB-' from 'BB+'.

Fitch has affirmed the following ratings with a Stable Outlook:

PECO Energy Co.
--Issuer Default Rating (IDR) 'BBB+';
--First mortgage bonds 'A';
--Senior unsecured debt 'A-';
--Commercial paper 'F2';
--Short-term IDR 'F2'.

PECO Energy Capital Trust III
--Preferred stock 'BBB'.

PECO Energy Capital Trust IV
--Preferred stock 'BBB'.

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Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 5, 2013);
--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 19, 2013).

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?
rpt_id=715139&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Recovery Ratings and Notching Criteria for Utilities
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?
rpt_id=722085&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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Announcement: Correction to text, April 30, 2014 Release: Moody's affirms ratings for Exelon and PEPCO families upon merger announcement; outlooks remain stable

Global Credit Research - 05 May 2014

New York, May 05, 2014 -- The following affirmations were added to the debt list: Exelon Capital Trust I -- (P)Baa3, Exelon Capital Trust II -- (P)Baa3, Exelon Capital Trust III (P)Baa3 and PECO Energy Capital Trust IV - (P)A3.

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CREDIT OPINION

20 July 2017

Update

RATINGS

Exelon Corporation

Domicile	United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Exelon Corporation

Diversified Utility and Merchant Power Company

Summary Rating Rationale

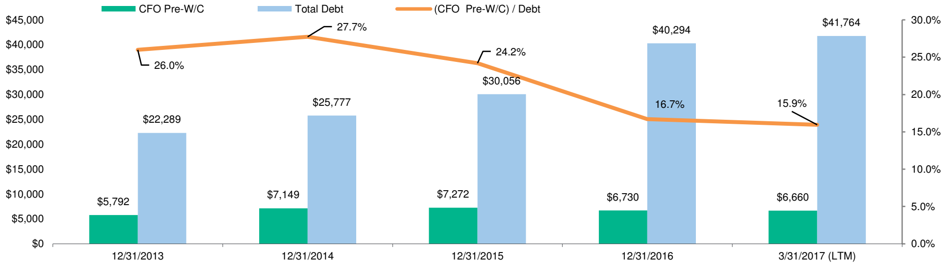
Exelon Corporation's (Exelon) Baa2 senior unsecured rating reflects its size, regional diversity, and adequate financial profile. Exelon's credit strength comes from its roughly $32 billion in regulated rate base, consisting of regulated transmission and distribution (T&D) utilities diversified across Illinois, Maryland, Pennsylvania, New Jersey, Delaware and the District of Columbia.

Exelon's rating is principally constrained by its higher-risk unregulated utility and merchant power subsidiary, Exelon Generation Company, LLC (ExGen: Baa2 stable). ExGen owns a large fleet of unregulated nuclear generation facilities and a retail energy trading and marketing business. These unregulated businesses are vastly more volatile compared to their regulated T&D businesses.

Moreover, nuclear generation faces a sustained period of challenging conditions because of the competition from low natural gas prices due to shale gas development. As a diversified power company, Exelon is well capitalized, has adequate liquidity reserves, and is expected to generate a ratio of cash flow from operations (CFO) to debt of around 20%. Retained cash flow (RCF) to debt is expected to remain in the mid-to-high teen's range.

Exhibit 1

Ratio of CFO pre-WC to Debt Historical Trend



Source: Moody's Investors Service

Credit Strengths

- Large and growing rate base
- Adequate financial profile
- Strong nuclear operator
- Adequate liquidity reserves

Credit Challenges

- Stiff competition from cheap natural gas
- High risk associated with unregulated generation and retail business
- High leverage at the holding company

Rating Outlook

Exelon's stable rating outlook primarily reflects the stability and predictability of its large T&D utility businesses. Exelon is well positioned to generate a ratio of CFO pre-working capital (CFO pre-WC) to debt of around 18% - 20%, an important threshold for maintaining a stable rating outlook, given the weak business fundamentals at ExGen.

Factors that Could Lead to an Upgrade

- A material shift in its corporate finance policies, including a significant reduction of parent holding company debt and the sustained production of a ratio of CFO pre-WC to debt in the mid-20% range
- A material de-risking across the corporate family, specifically with respect to ExGen's large, merchant nuclear reactor fleet or its large commodity trading and marketing business.

Factors that Could Lead to a Downgrade

- If Exelon's financial performance deteriorated for a sustained period of time, where the ratio of CFO pre-WC to debt fell to the mid-teen's range on a sustained basis.
- A material increase in the business risk profile, especially if it is associated with additional businesses within ExGen.

Key Indicators

Exhibit 2

	3/31/2017(L)	12/31/2016	12/31/2015	12/31/2014	12/31/2013
CFO pre-WC + Interest / Interest	4.4x	4.7x	6.7x	7.1x	4.9x
CFO pre-WC / Debt	15.9%	16.7%	24.2%	27.7%	26.0%
CFO pre-WC – Dividends / Debt	13.1%	13.8%	20.5%	22.0%	20.4%
Debt / Capitalization	47.1%	46.8%	42.1%	40.9%	38.3%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics™
Source: Moody's Investors Service

Detailed Rating Considerations

Large, diversified regulated utility portfolio is foundation to credit profile

Exelon's suite of regulated utilities provides a strong foundation to its consolidated credit profile. Baltimore Gas and Electric Company (BGE: A3 stable), Commonwealth Edison Company (ComEd: Baa1 positive), PECO Energy Company (PECO: A2 stable), Potomac Electric Power Company (Pepco: Baa1 stable), Delmarva Power & Light Company (DPL Baa1 stable), and Atlantic City Electric Company (ACE: Baa2 stable) are all low risk T&D systems that are experiencing improving regulatory environments. We see Exelon's regulated utility business growing in strategic importance across the Exelon corporate family.

Subsidy for nuclear generation is a credit positive

In late 2016, New York and Illinois approved subsidy programs that will support some of Exelon's struggling nuclear plants that might otherwise shut down. If these subsidy programs survive legal challenges from non-nuclear generators, we estimate that the company will likely receive over $500 million a year of additional revenue on a run rate basis and a $200 million improvement to its after-tax cash flows compared to retiring these units. Based on a $12.5 billion Moody's adjusted debt balance, $200 million of additional after-tax cash flow would bolster ExGen's CFO to debt by about 160 basis points.

ExGen could receive additional cash support if other states such as New Jersey and Pennsylvania adopt similar subsidy programs. However, it is highly uncertain at this point if New Jersey and Pennsylvania would adopt such programs because the legislative or the regulatory process required can be long and difficult, especially when the risk of plant closure is not imminent. With that said, in May of 2017 Exelon announced its plans to prematurely retire its Three Mile Island nuclear generation facility by 30 September 2019. In that announcement, Exelon cited a lack of energy policies that appropriately value the benefit of generation assets that do not produce carbon emissions. Lawmakers in Pennsylvania have created a committee that is focused on the long term value of nuclear energy in the state, however no legislation has been proposed at this time.

Parent holding company debt constrains rating due to structural subordination notching considerations

Exelon's decision to finance a large portion of the Pepco Holdings, LLC. (PHI: Baa2 stable) acquisition with parent holding company debt is a credit negative, because it adds complexity to the capital structure. Prior to the PHI merger, Exelon was reducing its parent holding company debt, mostly by transferring or refinancing holding company debt to ExGen. More recently, Exelon has exhibited a willingness to use parent holding company leverage to help ExGen, a credit negative for both Exelon and its regulated T&D utilities.

Prospectively, we see roughly $20 billion of debt across Exelon's T&D utilities, $13 billion at ExGen and roughly $8 billion at the parent holding company. With the utilities producing roughly $4.5 billion in CFO, the ratio of utility CFO to utility debt should hover above the 20% range. This level generally translates to a low-A rating for low risk T&D utilities in supportive regulatory jurisdictions. This would imply an approximate 2-notch rating differential from Exelon's current Baa2 consolidated parent rating and the average implied rating across its T&D utilities.

Maintaining a strong financial profile will be key to credit

Maintaining a ratio of CFO pre-WC to debt in the 18%-20% range will position Exelon well in their current rating category. Over the next few years we anticipate that cash flows from Exelon's utility subsidiaries will increase and that ExGen will maintain CFO in line with the year end 2016 results. Over the last twelve month (LTM) period ending 31 March 2017, the utility subsidiaries produced approximately $4.75 billion of CFO pre-WC, while ExGen contributed approximately $3.3 billion. Exelon's ratio of CFO pre-WC to debt over the LTM period ending 31 March 2017 was 15.9%. However, if a one-time deposit of $1.25 billion to the IRS was added back, Exelon would have recorded a ratio of CFO pre-WC to debt of approximately 18.9%.

Liquidity Analysis

Exelon has an adequate liquidity profile, with approximately $609 million of cash and short term investments on hand as of 31 March 2017. Exelon also has liquidity arrangements totaling $9.5 billion, including $5.8 billion at ExGen. Exelon's regulated utilities have access to $3.1 billion of liquidity, including: $600 million at PECO, $600 million at BGE, $1 billion at ComEd, and $300 million each at Pepco, DPL, and ACE. All of the facilities expire in May 2021.

Exelon's core syndicated credit facilities are used primarily to provide liquidity support and for the issuance of letters of credit. While the credit agreements do not contain any rating triggers that would affect borrowing access to the commitments and do not require material adverse change (MAC) representation for borrowings or the issuance of LOCs, there is a financial covenant for each borrowing entity - all of whom are currently compliant.

Over the LTM period ending 31 March 2017, Exelon generated approximately $8.2 billion of CFO, spent about $8.5 billion in capital expenditures and paid $1.2 billion in dividends resulting in negative free cash flow of approximately $1.5 billion. Due to the high level of planned capital expenditures, we expect Exelon to have between $500 million and $1.0 billion of negative free cash flow after dividends over the next 12 - 18 months. We expect the company will finance the shortfall with a balanced mix of debt and equity and will maintain their current capital structure.

As of the last reporting period 31 March 2017, in the event that ExGen were downgraded below investment grade, ExGen could be required to post additional collateral of $1.8 billion.

As of 31 March 2017, Exelon and its subsidiaries had about $1.4 billion of commercial paper outstanding, including about $204 million at the parent under its $600 million credit facility limit. The next long term debt maturities in Exelon's corporate family include $425 million of ComEd first mortgage bonds due in September 2017 and $700 million of ExGen senior unsecured notes due in October 2017.

Profile

Exelon Corporation is a large diversified US holding company that owns six regulated transmission and distribution utilities and a large unregulated power company.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Exelon Corporation				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2017**		**Moody's 12-18 Month Forward View As of Date Published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.7x	A	5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	19.6%	Baa	16% - 21%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	16.1%	Baa	14% - 19%	Baa
d) Debt / Capitalization (3 Year Avg)	45.4%	Baa	42% - 47%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa2		Baa2

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 3/31/2017(L); Source: Moody's Financial Metrics™
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
EXELON CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2
EXELON GENERATION COMPANY, LLC	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Commercial Paper	P-2
COMMONWEALTH EDISON COMPANY	
Outlook	Positive
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
PECO ENERGY COMPANY	
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	Aa3
Senior Secured Shelf	(P)Aa3
Sr Unsec Bank Credit Facility	A2
Pref. Stock	Baa1
Commercial Paper	P-1
BALTIMORE GAS AND ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Commercial Paper	P-2
POTOMAC ELECTRIC POWER COMPANY	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Commercial Paper	P-2
DELMARVA POWER & LIGHT COMPANY	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Unsecured	Baa1
Commercial Paper	P-2
ATLANTIC CITY ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Commercial Paper	P-2
CONSTELLATION ENERGY GROUP, INC.	
Outlook	No Outlook
Bkd Senior Unsecured	Baa2
BGE CAPITAL TRUST II	
Outlook	Stable

BACKED Pref. Stock	Baa1
COMED FINANCING III	
Outlook	Stable
BACKED Pref. Stock	Baa2
PEPCO HOLDINGS, LLC	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Commercial Paper	P-2
PECO ENERGY CAPITAL TRUST IV	
Outlook	Stable
BACKED Pref. Stock	A3
PECO ENERGY CAPITAL TRUST III	
Outlook	Stable
BACKED Pref. Stock	A3

Source: Moody's Investors Service

REPORT NUMBER 1082571

MOODY'S
INVESTORS SERVICE

CREDIT OPINION

19 July 2016

Update

RATINGS

Exelon Corporation

Domicile	United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Exelon Corporation

Diversified Utility and Merchant Power Company

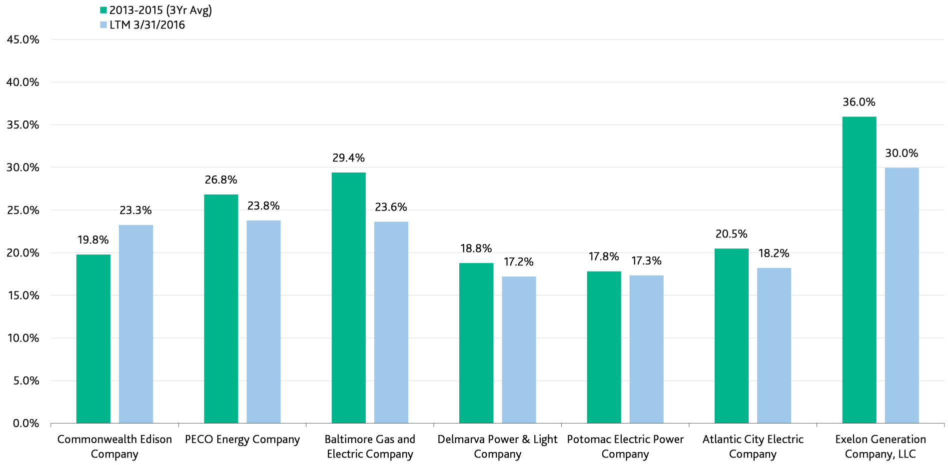
Summary Rating Rationale

Exelon Corporation's (Exelon) Baa2 senior unsecured rating reflects its size, regional diversity, and strong financial profile. Exelon's credit strength comes from its roughly $30 billion in regulated rate base. The rate base consists of regulated transmission and distribution (T&D) utilities and is diversified across Illinois, Maryland, Pennsylvania, New Jersey, Delaware and the District of Columbia.

Exelon's rating is principally constrained by its higher-risk unregulated utility and merchant power subsidiary, Exelon Generation Company LLC (ExGen: Baa2 stable). ExGen owns a large fleet of unregulated nuclear generation facilities and a retail energy trading and marketing business. These unregulated businesses are more volatile than regulated T&D businesses because they are exposed to commodity prices, such as natural gas and electricity; in markets which face a sustained period of challenging conditions. As a diversified power company, Exelon is well capitalized, has adequate liquidity reserves, and is expected to generate a ratio of cash flow from operations (CFO) to debt around 20%. Retained cash flow to debt is expected to remain in the mid-to-high teen's range.

Exhibit 1

CFO Pre-W/C to debt for Exelon's subsidiaries



Source: Moody's Investors Service

Credit Strengths

» Large and growing rate base, thanks to constructive regulatory environments

» Financial profile remains strong, supported by stability of regulated T&D utility cash flows

» Strong nuclear operator

» Adequate liquidity reserves

Credit Challenges

» Maintaining supportive and constructive regulatory relationships is key to credit profile

» Retail trading and marketing business is high risk

» Holding company leverage is high

» ExGen's aging nuclear fleet and early retirements

Rating Outlook

Exelon's stable rating outlook primarily reflects the stability and predictability of its large T&D utility businesses, its adequate liquidity profile and a conservatively capitalized unregulated generation business. Exelon is well positioned to generate a ratio of cash flow to debt of around 18% - 20% - an important threshold for maintaining a stable rating outlook, given the weak business fundamentals at ExGen. The stable outlook incorporates a view that ExGen's nuclear reactors will continue to operate in a safe and efficient manner, with roughly 90% capacity factors. We also think that the reactors will operate for the life of their existing, authorized NRC operating licenses and that Exelon's utilities will continue to receive constructive and timely regulatory recovery mechanisms.

Factors that Could Lead to an Upgrade

» A material shift in its corporate finance policies, including the elimination of parent holding company debt and the sustained production of a ratio of CFO to debt in the mid-20% range

» A material de-risking across the corporate family, specifically with respect to ExGen's large, merchant nuclear reactor fleet or its large commodity trading and marketing business

» Regulatory or legislative intervention into existing wholesale power markets, such as where the intervention is designed to re-regulate the nuclear reactor fleet's revenue model or other mechanisms that improve unregulated cash flow stability

Factors that Could Lead to a Downgrade

» If Exelon's financial performance deteriorated for a sustained period of time, where the ratio of CFO to debt fell to the low-teen's range

» Material shifts in shareholder rewards programs, resulting in higher leverage or an unsustainable dividend payout ratio or more aggressive use of parent holding company debt, where the ratio of parent holding company debt to total consolidated debt (excluding ExGen) increases to the high-20% range

» A material increase in the consolidated business risk profile, especially if it is associated with additional businesses within ExGen

» The emergence of a highly contentious regulatory environment in either Maryland or Illinois

» Other event-like risks include: a major physical or cyber-related operating challenge with one or several of ExGen's nuclear reactors; attempts at market intervention pressured ExGen's margins or profitability, or where the financial profile was negatively impacted;

material changes in ExGen's retail market trading and marketing volatility, especially if sizeable, unexpected swings in liquidity demands resulted

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Exelon Corporation

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	3/31/2016(L)
CFO pre-WC + Interest / Interest	6.0x	4.8x	6.5x	6.8x	7.1x
CFO pre-WC / Debt	24.0%	24.2%	27.2%	24.0%	18.4%
CFO pre-WC – Dividends / Debt	16.5%	18.9%	21.5%	20.3%	15.5%
Debt / Capitalization	41.0%	39.9%	41.0%	42.1%	46.7%

[1] All ratios based on 'Adjusted' financial data and incorporate Mood's Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Investors Service

Detailed Rating Considerations

Large, diversified regulated utility portfolio is foundation to credit profile

Exelon's suite of regulated utilities provides a strong foundation to its consolidated credit profile. BGE, CWE, PECO, Pepco, DPL and ACE are all low risk T&D systems which receive supportive and constructive regulatory treatment in their jurisdictions. We see Exelon's regulated utility business growing in strategic importance across the Exelon corporate family.

Parent holding company debt constrains rating due to structural subordination notching considerations

Exelon's decision to finance a large portion of the PHI acquisition with parent holding company debt is a credit negative, because it adds complexity to the capital structure. Prior to the PHI merger, Exelon was reducing its parent holding company debt, mostly by transferring or refinancing holding company debt to ExGen. More recently, Exelon is exhibiting a willingness to use parent holding company leverage to help ExGen, a credit negative for both Exelon and its regulated T&D utilities.

Prospectively, we see roughly $20 billion of debt across Exelon's T&D utilities, $12 billion at ExGen and roughly $8 billion at the parent holding company. With the utilities producing roughly $4 billion in CFO, the ratio of utility CFO to utility debt should hover near the 20% range. This level generally translates to a low-A rating for low risk T&D utilities in supportive regulatory jurisdictions. This would imply an approximately 2-notch rating differential from Exelon's current Baa2 consolidated parent rating and the average implied rating across its T&D utilities.

As a comparative illustration, Exelon's ratio of CFO to debt would fall to the 15% range if we included the $8 billion in holding company debt with the $20 billion of utility debt (and only looked to the utility's $4 billion in CFO). The 15% range is more characteristic of a Baa2 rating for low risk T&D utilities, but our example excludes any affects from ExGen. In a downside scenario, Exelon's ratio of CFO to debt would fall to the 10% range if we include ExGen's $12 billion of debt, but only look to the utility's $4 billion in CFO.

The ratio of holding company debt to total consolidated debt is almost 30% if we exclude ExGen's debt from the denominator. But the ratio would fall to about 20% if we added ExGen's debt in the denominator. A ratio of holding company debt to total consolidated debt in the 20-25% range (or below) is typically associated with only a 1-notch rating differential for structural subordination.

Early retirement of nuclear reactors is credit negative

The recent announcements to retire unprofitable nuclear reactor facilities in Illinois, including the 1,069-megawatt Clinton facility in DeWitt County is credit negative because Exelon will forgo the opportunity costs of margins through 2026, when the reactors operating license is scheduled to expire, and the early retirement will likely trigger additional costs associated with decommissioning. Additionally, the early retirement raises the risk of a more contentious relationship between Exelon and local stakeholders because Clinton is a material employer and tax payer in that region of southern Illinois.

Another Illinois reactor, the 1,403-megawatt Quad Cities facility, is a multi-unit reactor that is 25%-owned by Berkshire Hathaway Energy Company (A3 stable). Although Quad Cities is in Illinois, the plant is in the PJM Interconnection region, not the Midwest Independent Transmission System (MISO) where Clinton is located. The PJM and MISO are regional transmission organizations (RTO) which manage the supply and demand of electric loads. Both RTO's compensate generators with payments to keep their generation supplies ready to be called on, if needed, known as capacity payments. From a credit perspective, shutting down Quad Cities is credit negative because the opportunity costs of giving up the operating license, which runs until 2032 for both of Quad Cities reactors, is high.

EDF put option viewed as a liquidity event

ExGen is exposed to Electricitie de France's (EDF: A2 negative) because EDF has an option to “put” its interests in Constellation Energy Nuclear Group, LLC (CENG) back to ExGen anytime between now and 30 June 2022. This leaves EDF with plenty of time to evaluate its various options, including how new New York State subsidy revenues might impact the valuation of the fleet. Importantly, we think the relationship between both EXC and EDF is healthy and professional, and we do not see any contentiousness in the relationship at this time.

CENG includes minority ownership interests in roughly 4,000 MW's of nuclear generation capacity, including Ginna and Nine Mile Point in New York and Calvert Cliffs in Maryland.

From a liquidity perspective, we assume the value of the put (to EDF from EXC) might be somewhere in a range between $250 million and $2.0 billion. Our illustrative values capture a wide disparity of outcomes on purpose. In our opinion, the put is not a material credit event, but instead represents a demand on liquidity. Because Exelon is aware of the existence of the put option, and management is presumably in discussions with EDF about how best to value the option, we do not think EDF exercising the option will be a surprise to Exelon.

From a credit perspective, we see the EDF put as a known risk factor, and incorporate a view that ExGen has ample liquidity resources and has prepared for the possibility that the put is exercised. We also incorporate a view that high put valuations will benefit ExGen's remaining fleet. Any signs of improving market conditions, in terms of the EPA's Clean Power Plan or higher sustained PJM capacity prices, will increase the value of the put option in favor of EDF.

Maintaining a strong financial profile will be key to credit

Maintaining a ratio of CFO to debt near the 18% - 20% range will keep Exelon well positioned within its rating category. This means Exelon will generate CFO of roughly $7.0 to $8.0 billion. Assuming the T&D utilities generate roughly $4.0 billion in CFO, ExGen will need to contribute the remaining $3.0 to $4.0 billion.

Liquidity Analysis

As of March 31, 2016, Exelon's liquidity arrangements totaled $9.9 billion. Approximately $6.3 billion supports its unregulated business platform, including $5.8 billion at ExGen. The regulated businesses have access to $3.7 billion of liquidity, including: $600 million at PECO, $600 million at BGE, $1 billion at CWE and $750 million at PH LLC and $250 million each at Pepco, DPL and ACE. Most facilities expire in 2019, but the PH LLC, Pepco, DPL and ACE facilities expire in August 2018. There is also another $500 million at Exelon designated for ExGen expiring in 2019.

At March 31, ExGen had about $1.2 billion in letters of credit and $1.4 billion in commercial paper outstanding, leaving availability of about $3.1 billion for the unregulated business. As of December 31, 2015, these draws amounted to only $1.5 billion.

Exelon's core syndicated credit facilities are used primarily to provide liquidity support and for the issuance of letters of credit. While the credit agreements do not contain any rating triggers that would affect borrowing access to the commitments and do not require material adverse change (MAC) representation for borrowings or the issuance of LOCs, there is a financial covenant for each borrowing entity - all of whom were compliant.

At CWE, commercial paper outstanding totaled $643 million and there were $2 million in letters of credit outstanding, leaving approximately $355 million of availability under its credit facility. In comparison, as of December 31, 2015, CWE's commercial paper outstanding totaled $294 million (with $2 million in letters of credit outstanding).

At BGE, there was $150 million in commercial paper and no letters of credit outstanding, leaving $450 million of availability under its credit facility. Again, by way comparison, as of December 31, 2015, BGE had $210 million in commercial paper (and no letters of credit) outstanding.

At PECO, there were $1 million in letters of credit issued and no outstanding commercial paper borrowings, whereas on December 31, 2015, PECO had no letters of credit outstanding and $1 million in outstanding commercial paper borrowings.

At PH LLC, there were $1 million in letters of credit and $442 million in outstanding commercial paper borrowings, leaving $307 million of availability under its credit facility. At DPL, there were no letters of credit and $75 million in outstanding commercial paper borrowings, leaving $175 million of availability under its credit facility. At both Pepco and ACE there were no letters of credit and no commercial paper borrowings outstanding, leaving $250 million of availability under each credit facility.

As of the last reporting period (March 31, 2016), in the event that ExGen were downgraded below investment grade, ExGen could be required to post additional collateral of $1.9 billion. If PECO, BGE or CWE were downgraded to below investment grade, they would have been required to post $22 million $28 million, and $17 million, respectively, of additional collateral.

Back on December 31, 2015, ExGen below investment grade collateral posting requirement was $2.0 billion.

On January 9, 2013, the US Court of Appeals reached a decision for the government in a lawsuit involving Consolidated Edison`s (ConEd's) participation in a lease-in, lease-out (LILO) transaction that the IRS also has characterized as a tax shelter, and disallowed ConEd's deductions stemming from its participation in this investment. CWE deferred the $1.2 billion of gain on the 1999 sale of its fossil generating facilities by acquiring like-kind property via a purchase leaseback transaction. The IRS has asserted that the Exelon purchase leaseback transaction is substantially similar to a leasing transaction known as a sale-in, lease-out transaction (SILO). Exelon believes that its like-kind exchange transaction is not the same as or substantially similar to a SILO.

In the first quarter of 2013, Exelon recorded a non-cash charge to earnings of approximately $265 million, which represents the full amount of interest expense (after-tax) and incremental state tax expense in the event that Exelon is unsuccessful in its litigation efforts. Approximately $170 million of the amount was recorded at CWE.

Exelon expects to hold CWE harmless from any unfavorable impacts of the after-tax interest amounts on CWE's equity. In the event of a fully successful IRS challenge to Exelon's like-kind exchange position, the potential tax and after-tax interest, exclusive of penalties, that could become payable as of March 31, 2016 may be as much as $760 million, of which approximately $275 million would be attributable to CWE and the remainder to Exelon.

Structural Considerations

Separating Exelon's debt between its parent holding company, its utilities and ExGen is a component to our credit assessment. In light of Exelon's revised corporate finance policies, we are incorporating a view that looks to Exelon's parent holding company debt as a source of financing for its regulated utilities, but not its unregulated ExGen. However, Exelon might use parent holding company debt to also finance ExGen. This could impact the relationship between the Exelon the parent and its unregulated subsidiary, ExGen, but could also impact its regulated T&D utility subsidiaries.

Profile

Exelon Corporation (Exelon: Baa2 stable) is a large diversified US holding company that owns six regulated transmission and distribution utilities and a large unregulated power company.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Exelon Corporation				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2016**		**Moody's 12-18 Month Forward View As of date published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.5x	Aa	4.7x - 5.2x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.7%	A	16% - 21%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	18.6%	A	13% - 18%	Baa
d) Debt / Capitalization (3 Year Avg)	43.2%	A	40% - 45%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		Baa1
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		Baa1		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios based on 'Adjusted' financial data and incorporate Mood's Global Standard Adjustments for Non-Financial Corporations
[2] As of 3/31/2016(L)
[3] This represents Moody's forward view; not view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
EXELON CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
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Subordinate Shelf	(P)Baa3
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
EXELON CAPITAL TRUST I	
Outlook	Stable
BACKED Pref. Shelf	(P)Baa3
EXELON CAPITAL TRUST II	
Outlook	Stable
BACKED Pref. Shelf	(P)Baa3
EXELON CAPITAL TRUST III	
Outlook	Stable
BACKED Pref. Shelf	(P)Baa3
EXELON GENERATION COMPANY, LLC	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
COMMONWEALTH EDISON COMPANY	
Outlook	Positive
Issuer Rating	Baa1
Senior Secured	A2
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
PECO ENERGY COMPANY	
Outlook	Stable
Issuer Rating	A2
Senior Secured Shelf	(P)Aa3
Sr Unsec Bank Credit Facility	A2
Pref. Stock	Baa1
Commercial Paper	P-1
BALTIMORE GAS AND ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
Senior Secured Shelf	(P)A1
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Pref. Shelf	(P)Baa2
Preference Stock	Baa2
Commercial Paper	P-2
Bkd Other Short Term	VMIG 2
POTOMAC ELECTRIC POWER COMPANY	
Outlook	Stable
Issuer Rating	Baa1
Commercial Paper	P-2
DELMARVA POWER & LIGHT COMPANY	
Outlook	Stable
Issuer Rating	Baa1
Senior Secured Shelf	(P)A2

Senior Unsecured	Baa1
Commercial Paper	P-2
Bkd Other Short Term	VMIG 2
ATLANTIC CITY ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	Baa2
Senior Secured Shelf	(P)A3
Commercial Paper	P-2
PECO ENERGY CAPITAL TRUST IV	
Outlook	Stable
BACKED Pref. Stock	A3
PEPCO HOLDINGS, LLC	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Commercial Paper	P-2
BGE CAPITAL TRUST II	
Outlook	Stable
BACKED Pref. Stock	Baa1
COMED FINANCING III	
Outlook	Stable
BACKED Pref. Stock	Baa2
PECO ENERGY CAPITAL TRUST III	
Outlook	Stable
BACKED Pref. Stock	A3

Source: Moody's Investors Service

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REPORT NUMBER 1035680

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Affirms Exelon and Pepco Holdings; changes Pepco Holdings' rating outlook to developing from stable

Global Credit Research - 31 Aug 2015

Approximately $37 billion of debt and debt securities affected

New York, August 31, 2015 -- Moody's Investors Service today affirmed the ratings for Exelon Corporation (Exelon) and Pepco Holdings Inc. (PHI), including PHI's Prime-3 commercial paper rating. In addition, Moody's changed the rating outlook for PHI to Developing from Stable and changed the rating outlook for Commonwealth Edison Company to Positive from Stable.

RATINGS RATIONALE

Ratings affirmed include the Baa2 senior unsecured rating for Exelon, Exelon Generation Company LLC (ExGen) and Atlantic City Electric Company (ACE); the Baa1 unsecured rating for Commonwealth Edison Company (CWE), Delmarva Power & Light Company (DPL) and Potomac Electric Power Company (Pepco); the A3 rating for Baltimore Gas & Electric (BGE); and the A2 rating for PECO Energy Company (PECO). Moody's also affirmed the Prime-1 commercial paper rating for PECO, the Prime-2 commercial paper rating for Exelon, ExGen, CWE, BGE, ACE, DPL and Pepco. The rating outlooks for Exelon, ACE, BGE, DPL, PECO and Pepco remain stable.

"The rejection of the Exelon/Pepco merger application is credit negative for both companies," said Jim Hempstead, Associate Managing Director "because the outcome was a surprise, not because the regulators denied the merger application."

Nevertheless, we think Exelon and PHI will continue to pursue the merger, and will ask the DC PSC for reconsideration of the transaction which was originally announced in April 2014. For now, we are ascribing a 50% - 50% probability that the transaction is ultimately completed. We observe other utility change in control proceedings taking between 18-24 months to complete.

For Exelon, the rejection is credit negative because PHI would have brought an incremental $8.0 billion in regulated rate base to its existing $20.0 billion, and would have tipped the consolidated scale to where roughly 60% of the business (in terms of assets, debt and EBITDA) was related to lower-risk regulated transmission and distribution (T&D) utilities. PHI was looking at Exelon's bigger size and greater access to resources to help execute and finance an elevated capital investment program across all its jurisdictions.

PHI's Baa3 rating reflects the company's low business risk profile, anchored by a portfolio of regulated T&D utilities. The credit profile of these utilities aggregate at the Baa1-category, thanks to their roughly $8 billion in regulated rate base. The Baa3 rating also reflects the reduction to prior unregulated business activities, a credit positive, and the shareholder dividend being financed by debt (issued at the parent holding company), a material credit negative.

PHI's rating outlook was changed to Developing from stable to reflect the equal likelihood for both positive and negative credit implications associated with the next steps of the merger proceeding. If the acquisition of PHI by Exelon appears to be heading to a successful completion, the likelihood of positive rating actions for PHI will rise. Similarly, if the acquisition appears to be heading for a permanent termination, the likelihood of negative rating actions for PHI will rise.

"A merger termination is worse for PHI than Exelon, and a termination will pressure PHI's Baa3 rating because PHI will face a series of painful decisions, including deferred capital investment plans, right-sizing its common dividend and securing continued access to external liquidity sources." Hempstead added.

PHI's Baa3 rating could be upgraded if the proposed acquisition by Exelon is ultimately successful, primarily reflecting its role as an intermediate subsidiary holding company of Exelon. As a result, we'd expect that PHI wouldn't be used as a financing vehicle anymore, and its $700 million of existing parent holding debt would decline to less than $200 million by 2018.

Exelon's Baa2 senior unsecured rating and stable outlook reflect its stable and predictable regulated utility businesses. The Baa2 reflects our expectation that Exelon's T&D utilities (BGE, CWE and PECO) generate a ratio of cash flow from operations (CFO: adjusted for changes in working capital) to debt in the low-20% range, which is consistent with low risk T&D utilities in the A-ratings category.

Exelon's Baa2 rating is constrained by its more risky subsidiary, Exelon Generation Company LLC (ExGen: Baa2 stable), which owns a large fleet of unregulated nuclear generation assets and a retail energy marketing business. These unregulated businesses are less predictable, because they are largely driven by volatile commodity prices, such as natural gas and electricity. Still, we expect ExGen to generate approximately $3.5 billion in CFO, which compares favorably to its roughly $10-$12 billion in debt. If the PHI merger is terminated, Exelon's business mix would stay skewed to the unregulated ExGen, and Exelon would remain under the Global Unregulated Utilities and Power Companies rating methodology.

Exelon's rating could be upgraded if the ratio of CFO to debt were to rise above 20% for a sustained period of time, or if Exelon exited its more risky businesses at ExGen. Exelon's rating could be downgraded if the financial performance declined, where the ratio of CFO to debt fell to the mid-teen's range for a sustained period of time, or if the level of parent holding company debt were to increase (to above the 25% range or higher) or if there were any material shifts in shareholder reward programs. A shift in strategic focus could also trigger a rating downgrade, especially where the shift resulted in a material increase in the consolidated business risk profile, presumably somewhat more toward the unregulated business segment within ExGen.

Ratings could be pressured if the regulated utilities were faced with a highly contentious regulatory environment, a scenario we view as having a low probability at this time, or if ExGen faced a major operating challenge with several of its reactors at the same time.

The positive rating outlook for CWE reflects the improved regulatory environment in Illinois, which we are beginning to see as sustained, especially as that relates to the formulaic rate-making structures. CWE's financial profile should remain steady, and the utility is expected to produce a ratio of CFO to debt in the high-teen's range (18% - 19% range). For the twelve months ended June 30, 2015, CWE produced a ratio of approximately 20%. CWE's rating could be upgraded over the next 12 to 18 months if its steady financial performance and supportive regulatory framework remains intact.

The principal methodology used in rating Exelon Corporation and Exelon Generation Company, LLC was Unregulated Utilities and Unregulated Power Companies published in October 2014. The principal methodology used in rating Atlantic City Electric Company, Baltimore Gas and Electric Company, BGE Capital Trust II, ComEd Financing III, Commonwealth Edison Company, Constellation Energy Group, Inc., Delmarva Power & Light Company, Exelon Capital Trust I, Exelon Capital Trust II, Exelon Capital Trust III, Peco Energy Capital Trust III, PECO Energy Capital Trust IV, PECO Energy Company, Pepco Holdings, Inc. and Potomac Electric Power Company was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Outlook Actions:

..Issuer: Atlantic City Electric Company

....Outlook, Remains Stable

..Issuer: Baltimore Gas and Electric Company

....Outlook, Remains Stable

..Issuer: BGE Capital Trust II

....Outlook, Remains Stable

..Issuer: ComEd Financing III

....Outlook, Remains Stable

..Issuer: Commonwealth Edison Company

....Outlook, Changed To Positive From Stable

..Issuer: Delmarva Power & Light Company

....Outlook, Remains Stable

..Issuer: Exelon Capital Trust I

....Outlook, Remains Stable

..Issuer: Exelon Capital Trust II

....Outlook, Remains Stable

..Issuer: Exelon Capital Trust III

....Outlook, Remains Stable

..Issuer: Exelon Corporation

....Outlook, Remains Stable

..Issuer: Exelon Generation Company, LLC

....Outlook, Remains Stable

..Issuer: Peco Energy Capital Trust III

....Outlook, Remains Stable

..Issuer: PECO Energy Capital Trust IV

....Outlook, Remains Stable

..Issuer: PECO Energy Company

....Outlook, Remains Stable

..Issuer: Pepco Holdings, Inc.

....Outlook, Changed To Developing From Stable

..Issuer: Potomac Electric Power Company

....Outlook, Remains Stable

Affirmations:

..Issuer: Anne Arundel (County of) MD

....Senior Unsecured Revenue Bonds, Affirmed A3/VMIG 2

..Issuer: Atlantic City Electric Company

.... Commercial Paper, Affirmed P-2

.... Issuer Rating, Affirmed Baa2

....Senior Secured Shelf, Affirmed (P)A3

....Pref. Stock Preferred Stock, Affirmed Ba1

....Senior Secured First Mortgage Bonds, Affirmed A3

..Issuer: Baltimore Gas and Electric Company

.... Commercial Paper, Affirmed P-2

.... Issuer Rating, Affirmed A3

....Senior Secured Shelf, Affirmed (P)A1

....Senior Unsecured Shelf, Affirmed (P)A3

....Pref. Shelf, Affirmed (P)Baa2

....Preference Stock Preference Stock, Affirmed Baa2

....Senior Unsecured Bank Credit Facility, Affirmed A3

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: BGE Capital Trust II

....Pref. Stock Preferred Stock, Affirmed Baa1

..Issuer: ComEd Financing III

....Pref. Stock Preferred Stock, Affirmed Baa2

..Issuer: Commonwealth Edison Company

.... Commercial Paper, Affirmed P-2

.... Issuer Rating, Affirmed Baa1

....Senior Secured Shelf, Affirmed (P)A2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Secured Regular Bond/Debenture, Affirmed A2

....Senior Unsecured Bank Credit Facility, Affirmed Baa1

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Constellation Energy Group, Inc.

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

..Issuer: Delaware Economic Development Authority

....Senior Secured Revenue Bonds, Affirmed A2/VMIG 2

....Senior Unsecured Revenue Bonds, Affirmed Baa1/VMIG 2

..Issuer: Delmarva Power & Light Company

.... Commercial Paper, Affirmed P-2

.... Issuer Rating, Affirmed Baa1

....Senior Secured Shelf, Affirmed (P)A2

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Exelon Capital Trust I

....Pref. Stock Shelf, Affirmed (P)Baa3

..Issuer: Exelon Capital Trust II

....Pref. Stock Shelf, Affirmed (P)Baa3

..Issuer: Exelon Capital Trust III

....Pref. Stock Shelf, Affirmed (P)Baa3

..Issuer: Exelon Corporation

.... Issuer Rating, Affirmed Baa2

....Preferred Shelf, Affirmed (P)Ba1

....Subordinate Shelf, Affirmed (P)Baa3

....Senior Unsecured Shelf, Affirmed (P)Baa2

....Senior Unsecured Bank Credit Facility, Affirmed Baa2

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

..Issuer: Exelon Generation Company, LLC

.... Issuer Rating, Affirmed Baa2

....Pref. Shelf, Affirmed (P)Ba1

....Senior Unsecured Shelf, Affirmed (P)Baa2

....Senior Unsecured Bank Credit Facility, Affirmed Baa2

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

..Issuer: Maryland Economic Development Corporation

....Revenue Bonds, Affirmed Baa2

....Senior Unsecured Revenue Bonds, Affirmed A2

..Issuer: Montgomery County Industrial Dev Auth, PA

....Revenue Bonds, Affirmed Baa2

..Issuer: Peco Energy Capital Trust III

....Pref. Stock Preferred Stock, Affirmed A3

..Issuer: PECO Energy Capital Trust IV

....Pref. Stock Preferred Stock, Affirmed A3

....Pref. Stock Shelf, Affirmed (P)A3

..Issuer: PECO Energy Company

.... Commercial Paper, Affirmed P-1

.... Issuer Rating, Affirmed A2

....Senior Secured Shelf, Affirmed (P)Aa3

....Preferred Shelf, Affirmed (P)Baa1

....Pref. Stock Preferred Stock, Affirmed Baa1

....Senior Secured First Mortgage Bonds, Affirmed Aa3

....Senior Unsecured Bank Credit Facility, Affirmed A2

..Issuer: Pennsylvania Economic Dev. Fin. Auth.

....Senior Unsecured Revenue Bonds, Affirmed Baa2

..Issuer: Pepco Holdings, Inc.

.... Issuer Rating, Affirmed Baa3

....Senior Unsecured Commercial Paper, Affirmed P-3

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

..Issuer: Potomac Electric Power Company

.... Commercial Paper, Affirmed P-2

.... Issuer Rating, Affirmed Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

..Issuer: Salem (County of) NJ, Pollution Ctrl Fin Auth

....Revenue Bonds, Affirmed Baa2

....Senior Secured Revenue Bonds, Affirmed A2

..Issuer: York County Industrial Development Auth., PA

....Revenue Bonds, Affirmed Baa2

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MOODY'S
INVESTORS SERVICE

Credit Opinion: Exelon Corporation

Global Credit Research - 01 Sep 2015

United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
Exelon Generation Company, LLC	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
Commonwealth Edison Company	
Outlook	Positive
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2

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Key Indicators

[1]**Exelon Corporation**

	6/30/2015(L)	**12/31/2014**	**12/31/2013**	**12/31/2012**	**12/31/2011**
(CFO Pre-W/C + Interest) / Interest	**6.5x**	**6.1x**	**4.8x**	**6.0x**	**8.5x**
(CFO Pre-W/C) / Net Debt	**29.8%**	**27.4%**	**26.0%**	**25.6%**	**46.2%**
RCF / Net Debt	**29.8%**	**23.0%**	**23.1%**	**26.1%**	**37.5%**
(CFO Pre-W/C) / Debt	**23.8%**	**25.4%**	**24.2%**	**24.0%**	**43.3%**
RCF / Debt	**23.9%**	**21.4%**	**21.5%**	**24.4%**	**35.1%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

PHI acquisition denied by DC regulators, a credit negative because the decision was so unexpected

Lost increase in regulated rate base keeps higher risk profile in place, and demands a stronger financial profile to support volatility

Willingness to increase financial risk with heavy reliance on parent holding company debt is credit negative, and will constrain rating due to structural subordination notching considerations

ExGen performing well in a challenging market environment, thanks to its large, diversified nuclear generating fleet

Leverage will rise with the EDF put option and Like-Kind Exchange proceeding, creating a modest liquidity event, not a material credit event

Maintaining a strong suite of financial ratios will be key to credit profile

Corporate Profile

Exelon Corporation (Exelon: Baa2 stable) is a large US holding company that owns three regulated transmission and distribution utilities and a large unregulated power company. It's three regulated transmission and distribution (T&D) utilities include: PECO Energy Company (PECO: A2 stable), Baltimore Gas and Electric Company (BGE: A3 stable) and Commonwealth Edison Company (CWE: Baa1 stable). PECO is regulated by the Pennsylvania Public Utility Commission (PAPUC), BGE is regulated by the Maryland Public Service Commission (MPSC) and CWE is regulated by the Illinois Commerce Commission (ICC). All three utilities are also regulated by the Federal Energy Regulatory Commission (FERC).

Exelon also owns Exelon Generation Company, LLC (ExGen: Baa2 stable), one of the largest competitive electric generation companies globally as measured by owned and controlled megawatts (MW),with net capacity of approximately 32 GW's. ExGen is regulated by the Federal Energy Regulatory Commission (FERC) and by the Nuclear Regulatory Commission (NRC).

Recent Events

On 25 August 2015, the Public Service Commission of the District of Columbia (DC PSC) rejected the merger application between Exelon and Pepco Holdings, Inc. (PHI: Baa3 stable). The denial is credit negative for Exelon, because PHI helps shift Exelon's consolidated mix of regulated and unregulated business activities to approximately 60% regulated from roughly 50% today and diversifies its jurisdictional exposure to include New Jersey, Delaware and the District of Columbia. We viewed PHI's $8 billion additional regulated rate base to Exelon's $20 billion as a credit positive for the corporate family, but now we assign a 50%-50% probability that the transaction will eventually close.

SUMMARY RATING RATIONALE

Exelon's Baa2 senior unsecured rating reflects its stable and predictable regulated utility business, which could be benefitted by the addition of the PHI acquisition. But a termination of the PHI transaction, by itself, does not hurt the credit profile of Exelon. Exelon's Baa2 rating reflects its own T&D utility business, which includes BGE, CWE and PECO. Combined, these utilities produce roughly $11 billion in revenue and $3.0 billion in cash flow from operations (CFO: adjusted for changes in working capital), and good diversity across regions. Exelon's Baa2 rating is constrained by its more risky subsidiary, Exelon Generation Company LLC (ExGen: Baa2 stable), which owns a large fleet of unregulated nuclear generation assets and a retail energy marketing business. These unregulated businesses are volatile, because they are largely driven by volatile commodity prices, such as natural gas and electricity. Exelon generates a ratio of consolidated CFO to debt around 20% and a retained cash flow (CFO less common dividends) to debt around xx%.

DETAILED RATING CONSIDERATIONS

DC PSC decision is credit negative because it was a surprise, not because it was rejected

The DC PSC's denial of the merger agreement is credit negative for Exelon because the decision was unexpected. We incorporate a view that managing regulatory relationships is a core competency for Exelon, and PHI. If the merger is completed, we think PHI is benefitted by Exelon's larger size and greater resources, and financial relief from financing its shareholder dividends would be viewed positively. Exelon benefits from the $8 billion of incremental rate base, and a bigger regulated utility asset platform to squeeze operating efficiencies. For now, we still expect improved regulatory relationship across all of PHI's jurisdictions, including DC, Maryland, DE and NJ. Although many of the improved recovery mechanisms in Maryland, New Jersey, Delaware and the District of Columbia were first implemented prior to the merger, Exelon's larger asset platform is expected to help facilitate the execution of the various reliability improvement programs.

Willingness to increase financial risk with heavy reliance on parent holding company debt is credit negative, and will constrain rating due to structural subordination notching considerations

Exelon's decision to finance a large portion of PHI with parent holding company debt was viewed as a credit negative, because it adds complexity to the capital structure. Prior to the merger, Exelon was reducing its parent holding company debt, mostly by transferring or refinancing holding company debt at ExGen. Having a parent holding company with little to no debt is credit positive because it increases financial flexibility. The PHI acquisition included some financing of PHI's equity with parent holding company debt, plus, PHI was bringing its own existing holding company debt.

Large, diversified regulated utility portfolio is credit positive

We see Exelon's suite of regulated utilities producing approximately $3.5 billion in cash flow from operations (CFO, adjusted for changes in working capital), which represents approximately 25% - 30% of annual regulated revenues. We see this relationship between revenues and CFO staying in the mod-20% range over the next few years, but increasing over the near term given the broad suite of recovery mechanisms. With debt slowly rising to approximately $20 billion from $18.5 billion today, Exelon's regulated utilities should produce a ratio of CFO to debt around 20%. We see this ratio supporting an A3 rating category across the regulated business, which is 2 notches higher than Exelon's Baa2 rating. Exelon's suite of big T&D systems cover the general regions of Washington DC, Baltimore, Philadelphia and Chicago, and create a strong foundation to the consolidated credit profile.

ExGen performing well thanks to nuclear fleet

ExGen's CFO is more volatile than the regulated utilities. For example, CFO fell to $1.8 billion in 2014 from $3.9 billion in 2013, largely due to a negative working capital use associated with its hedging program. This volatility is a material credit negative, in part because we see an extended period of low natural gas prices. Low natural gas prices usually keep a lid on power prices, which limit's ExGen's CFO production.

Despite the challenging market fundamentals, we see incremental transparency in forward power prices with respect to capacity payments in the Pennsylvania-New Jersey-Maryland (PJM) market. Given the most recent PJM capacity price auction, we estimate close to $1.0 billion in annual capacity payments. By themselves, over the next few years, ExGen's capacity payments alone will represent about 7% - 10% of ExGen's debt. That said, the improved capacity prices were both directly and indirectly impacted by recent rule changes and amendments implemented by the PJM. These rules can change again, so longer-term capacity prices remain uncertain.

In addition to low natural gas prices and an improving capacity market, we also see higher power prices over the next few years due to the EPA's recently announced Clean Power Plan (CPP). In general, the CPP is favorable to nuclear powered electric generation, because nuclear generation does not produce any material carbon dioxide emissions.

EDF put option is a liquidity event for now

We see the debt at ExGen rising, in part due to its exposure to Electricity de France (EDF: A1 negative). EDF holds an option to "put" its interests in EGNF back to ExGen staring on 1 January 2016 and ending on 31 December 2022. EGNF includes minority ownership interests in xxx MW's of nuclear generation capacity, including Ginna, Fitzpatrick and Nine Mile Point in New York and Calvert Cliffs in Maryland. From a liquidity perspective, we think the value could range between $250 million and $2.0 billion, which, by itself, is not a material credit event. From a credit perspective, we see the EDF put as a known risk factor, and incorporate a view that ExGen has ample resources and has prepared for the possibility it might be absorbing the partnership. We also incorporate a view that EDF has ample long term liquidity resources, which makes the option more valuable (to EDF) due to the duration of the exercise period. Improving market conditions, in terms of the EPA's CPP and higher PJM capacity prices, will increase the value of the put option in favor of EDF.

Maintaining a strong suite of financial ratios will be key to credit profile

Over the past two years (2014 and 2013), Exelon generated a ratio of funds from operations to debt of approximately 25%. This is down materially from the 40% ratio generated in 2010 and 2011 and the 30% ratio generated in 2012. During this period Exelon acquired Constellation Energy, and its debt increased from the $17 billion range (in 2010 - 2011) to today's mid-$20 billion range. We think the probability of Exelon generating consolidated ratios of cash flow to debt in the 40% range is remote, largely due to our expectation that a sustained period of low natural gas prices will keep a lid on power prices for at least the next few years. We also see little evidence that load volumes will materially rise, despite any economic development activity, due to a more prolific deployment of energy efficiency programs in the greater mid-west and Mid-Atlantic regions. Still, on a long term run-rate, we see Exelon generating a ratio of cash flow to debt near the 20% range for a sustained period of time. Assuming Exelon's shareholder dividend policy remains in place, the ratio of retained cash flow to debt should stay near the xx% range.

Liquidity

As of June 30, 2015, Exelon's liquidity arrangements totaled $8.5 billion. Approximately $6.3 billion supports its unregulated business platform, including $500 million at Exelon and nearly $5.8 billion at ExGen, while the regulated businesses have access to $2.2 billion of liquidity -- $600 million at PECO, $600million at BGE and $1 billion at CWE. The Exelon, PECO, BG&E and most of the ExGen facilities expire in May 2019. The CWE facility expires March 2019.

At June 30, Exelon and ExGen had about $1.5 billion in letters of credit and no commercial paper outstanding, leaving availability of $4.8 billion for the unregulated business. At CWE, commercial paper outstanding totaled $503 million and there were $2 million in letters of credit outstanding, leaving approximately $495 million of availability under its credit facility. At BGE, there was no commercial paper or letters of credit outstanding, respectively, leaving $600 million of availability under its credit facility. At PECO, there were no letters of credit outstanding and $1 million in outstanding commercial paper borrowings, leaving $599 million of availability under its credit facility.

The core syndicated credit facilities are used primarily to provide liquidity support and for the issuance of letters of credit. While the credit agreements do not contain any rating triggers that would affect borrowing access to the commitments and do not require material adverse change (MAC) representation for borrowings or the issuance of LOCs, there is a financial covenant for each entity; all of which were compliant and year-end.

As of the last reporting period (June 30, 2015), in the event that ExGen were downgraded below investment grade, ExGen could be required to post additional collateral of $2.2 billion. If PECO, BGE or CWE were downgraded to below investment grade, they would have been required to post $20 million $35 million, and $8 million, respectively, of additional collateral.

On January 9, 2013, the US Court of Appeals reached a decision for the government in a lawsuit involving Consolidated Edison`s (ConEd's) participation in a lease-in, lease-out (LILO) transaction that the IRS also has characterized as a tax shelter, and disallowed ConEd's deductions stemming from its participation in this investment. CWE deferred the $1.2 billion of gain on the 1999 sale of its fossil generating facilities by acquiring like-kind property via a purchase leaseback transaction. The IRS has asserted that the Exelon purchase leaseback transaction is substantially similar to a leasing transaction known as a sale-in, lease-out transaction (SILO). Exelon believes that its like-kind exchange transaction is not the same as or substantially similar to a SILO.

In light of the ConEd decision and Exelon's current determination that a settlement is unlikely, Exelon recorded in the first quarter of 2013 a non-cash charge to earnings of approximately $265 million, which represents the full amount of interest expense (after-tax) and incremental state tax expense in the event that Exelon is unsuccessful in its litigation efforts. Approximately $170 million of the amount was recorded at CWE.

Exelon expects to hold CWE harmless from any unfavorable impacts of the after-tax interest amounts on CWE's equity. In the event of a fully successful IRS challenge to Exelon's like-kind exchange position, the potential tax and after-tax interest, exclusive of penalties, that could become payable as of December 31, 2014 may be as much as $810 million, of which approximately $310 million would be attributable to CWE and the remainder to Exelon.

Separating the utilities' and holdco debt from the ExGen operation is a component to our credit assessment given Exelon's revised corporate finance policies, and we expect to refine our analysis as additional facts regarding the use of holding company debt are provided.

Rating Outlook

The stable rating outlook for Exelon considers the stability and predictability of its large T&D utility businesses, an adequate liquidity profile and conservatively levered unregulated generation business. We think Exelon is poised to generate consolidated cash flows in the $6.0 - $7.0 billion range, which results in a ratio of cash flow to debt around 20% - an important threshold for maintaining a stable rating outlook. The stable outlook incorporates a view that ExGen's nuclear reactors will continue to operate to their authorized NRC operating license expirations and that the regulated utilities will continue to received

What Could Change the Rating - Up

A rating upgrade at Exelon would require another material shift in corporate finance policies, where the ratio of cash flow to debt were to rise to the high 20% range; where the percentage of parent holding company debt fell below the 10% range and where the unregulated business in relation to the consolidated enterprise declined to the 20% range for a sustained period of time. Ratings could also be upgraded if the company exited its more risky businesses at ExGen, given the A3 / Baa1 positioning of its T&D utilities and little holding company debt (today).

What Could Change the Rating - Down

The rating could be downgraded if Exelon's financial performance declined, where the ratio of cash flow to debt fell below the 20% range on a sustained basis, or if there were material shifts in the corporate finance policies, especially with respect to the utilization of parent holding company debt (where the ratio of holding company debt to total consolidated debt approached the 20% - 25% range) or if there were any material shifts in shareholder reward programs. A shift in strategic focus could also trigger a rating downgrade, especially where the shift resulted in a material increase in the consolidated business risk profile, presumably associated a business within ExGen. Ratings could be also be pressured if the regulated utilities were faced with a highly contentious regulatory environment, a scenario we view as having a low probability at this time; if ExGen faced a major operating challenge with several of its reactors at the same time; if there were unfavorably market intervention where ExGen's margins were negatively impacted, or if there were sizeable, unexpected swings in liquidity demands.

Other Considerations

If the acquisition of PHI is completed, we would likely move Exelon into our Global Regulated Electric and Gas Utilities rating methodology (published in December 2013) and out from the Unregulated Utilities and Power Companies rating methodology (published in November 2014). Absent the PHI transaction, we would likely keep Exelon under the Unregulated Utilities and Power Company rating methodology, but for analytical purposes, will continue to view Exelon under both methodologies, given the strategic focus on regulated assets.

Rating Factors

Exelon Corporation

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	**Current LTM 6/30/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 9/1/2015**	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	Aa	Aa	Aa	Aa
Factor 2 : Business Profile (40%)				
a) Market Diversification	A	A	A	A
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	Baa	Baa	Baa	Baa
d) Capital Requirements and Operational	Baa	Baa	Baa	Baa

Performance				
e) Business Mix Impact on Cash Flow Predictability	A	A	A	A
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	5.8x	Baa	5.7x - 6.2x	Baa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	26.9%	Baa	23% - 28%	Baa
c) RCF / Net Debt (3 Year Avg)	24.4%	Baa	18% - 23%	Baa
b) (CFO Pre-W/C) / Debt (3 Year Avg)		NA		
c) RCF / Debt (3 Year Avg)		NA		
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

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MOODY'S
INVESTORS SERVICE

Announcement: Moody's confirms Exelon's and Exelon Generation's ratings; outlook negative

Global Credit Research - 08 Nov 2012

Approximately $9.3 billion of Debt Securities and Bank Credit Facilities Affected

New York, November 08, 2012 -- Moody's Investors Service has confirmed the ratings of Exelon Corporation (Exelon: Baa2 senior unsecured), including its Prime-2 commercial paper rating, and confirmed the long-term ratings of primary subsidiary, Exelon Generation Company, LLC (ExGen: Baa1 senior unsecured). Moody's also affirmed ExGen's short-term rating for commercial paper at Prime-2. Today's rating action concludes the review for possible downgrade at Exelon and ExGen, which was initiated on June 11th. Exelon and ExGen's rating outlook is negative.

RATINGS RATIONALE

The rating confirmation reflects last week's announcement by management to defer $2.3 billion in growth capital expenditures thereby enhancing free cash flow generation from 2012 through 2015. The rating confirmation further acknowledges statements by management during the company's third quarter earnings call that revisiting its dividend policy would be among the range of options for management and the board to consider in preserving its investment-grade rating should power prices not recover in the next six months as completely or as rapidly as Exelon's fundamental views suggest. To that end, the rating confirmation acknowledges these and other public statements concerning the company's firm commitment to maintain an investment-grade rating at all registrants within the Exelon family.

While weak market fundamentals are negatively affecting the entire unregulated power space, Exelon remains unique relative to its diversified peers, given its high reliance on the unregulated power business for earnings and cash flow growth. Exelon is also unique in terms of its scale and the size of its nuclear fleet. Although up-rate investments at several nuclear plants remain unchanged, free cash flow will be enhanced by the deferral of $1.025 billion of capital investment for extended power nuclear up-rates at LaSalle and at Limerick until 2017 and by the removal of an additional $1.25 billion for new renewable projects. That said, we anticipate Exelon and ExGen's key credit metrics will decline from recent historical levels during the next two years due to expiring hedges and current market prices. Based on the current market, we estimate that even with the scaled back capital spending program, ExGen's cash flow (CFO-pre W/C) to debt will be in the low-mid 30% range over the next few years while its retained cash flow to debt will average around 15%, with very modest free cash flow generation, which together represent credit metrics more reflective of a mid-Baa rated unregulated power company. However, the nature of Exelon's fleet means that it would benefit from any uptick in power pricing.

The reduction in capital expenditures will enhance ExGen's ability to meet other funding requirements, which includes providing the lion's share of the parent $1.8 billion dividend. This is particularly the case over the next several years when capital investments at regulated subsidiary Commonwealth Edison Company (ComEd: Baa2 senior unsecured) are expected to be elevated and dividend payments are prohibited from regulated subsidiary Baltimore Gas & Electric Company (BG&E: Baa1 senior unsecured) through 2014. In that vein, a decision by Exelon to modify its dividend policy would further benefit ExGen, and in particular ExGen's free cash flow metric.

The rating confirmation acknowledges the expected decline in Exelon's liquidity arrangements owing to the Exelon-Constellation Energy Group, Inc. merger this past March. Beginning in 2013, Exelon's liquidity arrangements supporting its unregulated power business will equal $6.1 billion, a decline of $4.2 billion from the $10.3 billion level that existed immediately following merger close. This decline, while substantial on a notional basis, is largely reflective of the reduced collateral requirements that occurs when a company that is long on generation is combined with one that has a large retail network. At October 24, 2012, there was $4.2 billion of availability under the $6.1 billion in Exelon and ExGen facilities, after giving effect to $1.9 billion of ExGen letters of credit issued. At October 24th, Exelon and ExGen had no commercial paper outstanding. The $6.1 billion of credit facilities that supports Exelon's unregulated power business expires in August 2017. The legacy CEG $1.5 billion credit facility, which was assumed by Exelon at merger close and was unutilized at

October 24th, will expire at year-end 2012.

The negative rating outlook for Exelon and ExGen factors in the expected decline in certain key credit metrics that we anticipate occurring over the intermediate-term due to sustained weak market fundamentals even with the decline in growth capital spending. The negative outlook also acknowledges, that, despite the low-cost fleet, we believe ExGen would need to experience some increase in power prices above current market forwards in order to generate metrics consistent with their current rating category. The negative rating outlook further considers the sizeable dividend requirements at ExGen along with the parent's reliance on a large unregulated platform which can add to cash flow volatility.

In light of the negative rating outlook, the ratings at Exelon and ExGen's are not likely to be upgraded in the near-term. The rating outlook could, however, stabilize if the company continues to take actions that we believe are supportive of sustained long-term credit quality, particularly as it relates to capital allocation decisions.

The rating could be downgraded if future capital allocation decisions result in higher than anticipated negative free cash being financed with incremental indebtedness. Specifically, management has stated their intention to examine future dividend policy in light of ongoing power prices, so if power price expectations remain subdued and dividend policy is not reevaluated, or if the modification is only modest despite relatively sustained weaknesses, ExGen's ratings are likely to be downgraded. To that end, the rating could be downgraded if initiatives being pursued by management to improve cash flow and strengthen the balance sheet prove to be less effective during this down cycle resulting in sustained weakness in ExGen's metrics, including cash flow to debt below 30%, retained cash flow to debt below 15%, or free cash flow that is negative or negligible.

Ratings Confirmed:

..Issuer: Exelon Corporation

.... Issuer Rating at Baa2

....Senior Unsecured Regular Bond/Debenture at Baa2

....Shelf for senior unsecured, subordinated debt and preferred at (P)Baa2, (P)Baa3, and (P)Ba1

....Senior Unsecured Commercial Paper at Prime-2

..Issuer: Exelon Generation Company, LLC

.... Issuer Rating at Baa1

....Senior Unsecured Regular Bond/Debenture at Baa1

....Shelf for senior unsecured and preferred stock at (P) Baa1 and (P)Baa3

..Issuer: Pennsylvania Economic Dev. Fin. Auth.

....Senior Unsecured Revenue Bonds at Baa1

..Issuer: Constellation Energy Group, Inc. (Assumed by Exelon Corporation)

....Senior Unsecured Regular Bond/Debenture at Baa2

....Senior Unsecured Bank Credit Facility at Baa2

....Junior Subordinated Regular Bond/Debenture at Baa3

..Issuer: Exelon Capital Trust I

....Pref. Stock Shelf at (P)Baa3

..Issuer: Exelon Capital Trust II

....Pref. Stock Shelf at (P)Baa3

..Issuer: Exelon Capital Trust III

....Pref. Stock Shelf at (P)Baa3

Headquartered in Chicago, IL, Exelon is the holding company for non-regulated subsidiary, ExGen and for regulated subsidiaries, ComEd, PECO, and BG&E. At 09/30/2012, Exelon had total assets of $78.4 billion.

The principal methodology used in this rating was Unregulated Utilities and Power Companies published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's places ratings of most US regulated utilities on review for upgrade

Global Credit Research - 08 Nov 2013

Approximately $400 billion of debt affected

New York, November 08, 2013 -- Moody's Investors Service placed the ratings of most regulated utilities and utility holding companies in the United States on review for upgrade, affecting approximately $400 billion of debt. These companies have been placed on review because Moody's has adopted a generally more favorable view of the relative credit supportiveness of the US regulatory environment, as detailed in our September 23, 2013 Request for Comment: "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."

RATINGS RATIONALE

"Our placement of these issuers on review considers improving regulatory trends in the US, including better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators, " said Moody's Managing Director Larry Hess. We believe that many US regulatory jurisdictions have become more credit supportive of utilities over time and that our assessment of the regulatory environment that has been incorporated into ratings may now be overly conservative.

The US utility sector's low number of defaults, high recovery levels, and generally strong financial metrics from a global perspective provide additional corroboration for our view that ratings should generally be higher.

We expect that most upgrades will be limited to one notch, and that the reviews of the affected companies will be completed within approximately 90 days. Although we anticipate that most of the utilities placed under review will be upgraded, there may be selected instances where ratings will not be upgraded following the completion of our review.

We note that several regulated utilities and utility holding companies were not placed on review due to issuer specific circumstances that would preclude an upgrade at this time. These exclusions include utilities that are engaged in substantial construction programs for new generation or other large capital projects, currently have a Negative Outlook or are under potential downward rating pressure, are characterized by material concentration or event risk, face market or regulatory risks specific to their particular jurisdictions, or are part of a corporate family that has significant non-utility operations.

The following companies were placed on review for upgrade:

AEP Texas Central Company

AEP Texas North Company

AGL Capital Corporation

AGL Resources Inc.

Atlanta Gas Light Company

Alabama Power Company

ALLETE, Inc.

Alliant Energy Corporation

Ameren Corporation

Ameren Illinois Company

American Electric Power Company, Inc.
American Transmission Company LLC
Appalachian Power Company
Arizona Public Service Company
Atlanta Gas Light Company
Atlantic City Electric Company
Atmos Energy Corporation
Avista Corp.
Baltimore Gas and Electric Company
Berkshire Gas Company
Black Hills Corporation
Black Hills Power, Inc.
CenterPoint Energy Houston Electric, LLC
CenterPoint Energy, Inc.
Central Hudson Gas & Electric Corporation
Central Maine Power Company
Cleco Corporation
Cleco Power LLC
CMS Energy Corporation
Commonwealth Edison Company
Connecticut Light and Power Company
Connecticut Natural Gas Corporation
Consolidated Edison Company of New York, Inc.
Consolidated Edison, Inc.
Consumers Energy Company
Delmarva Power & Light Company
Dominion Resources
Dominion Gas Holdings
DTE Electric Company
DTE Energy Company
DTE Gas Company
Duke Energy Carolinas, LLC
Duke Energy Corp.
Duke Energy Florida, Inc.

Duke Energy Indiana, Inc.

Duke Energy Kentucky, Inc.

Duke Energy Progress, Inc.

Duquesne Light Company

Duquesne Light Holdings, Inc.

Edison International

Elm Road Generating Station Supercritical

El Paso Electric Company

Empire District Electric Company (The)

Entergy Arkansas, Inc.

Entergy Gulf States Louisiana, LLC

Entergy Louisiana, LLC

Entergy Mississippi, Inc.

Entergy Texas, Inc.

Florida Power & Light Company

Great Plains Energy Incorporated

Gulf Power Company

Hawaiian Electric Company

Hawaiian Electric Industries, Inc.

IDACORP, Inc.

Idaho Power Company

Indiana Gas Company, Inc.

Indiana Michigan Power Company

Indianapolis Power & Light Company

Integrys Energy Group, Inc.

International Transmission Company

IPALCO Enterprises, Inc.

ITC Great Plains LLC

ITC Holdings Corp.

ITC Midwest LLC

Kansas City Power & Light Company

Kansas City Power & Light Greater MO Oper

Kentucky Power Company

Kentucky Utilities Co.

Laclede Gas Company

Laclede Group, Inc. (The)

LG&E and KU Energy LLC

Louisville Gas & Electric

Madison Gas and Electric Company

Michigan Electric Transmission Company, LLC

MidAmerican Energy Holdings Company

MidAmerican Energy Company

Nevada Power Company

New Jersey Natural Gas Company

New York State Electric and Gas Corporation

NiSource Capital Markets, Inc.

NiSource Finance Corp.

NiSource Inc.

North Shore Gas Company

Northeast Utilities

Northern Illinois Gas Company

Northern Indiana Public Service Company

Northern States Power Company (Minnesota)

Northern States Power Company (Wisconsin)

NorthWestern Corporation

NSTAR Electric Company

NV Energy Inc.

OGE Energy Corp.

Oklahoma Gas & Electric Company

Orange and Rockland Utilities, Inc.

Otter Tail Corporation

Otter Tail Power Company

PacifiCorp

PECO Energy Company

Peoples Gas Light and Coke Company

Pepco Holdings, Inc.

Piedmont Natural Gas Company, Inc.

Pinnacle West Capital Corporation

Pivotal Utility Holdings

PNG Companies LLC

PNM Resources, Inc.

Portland General Electric Company

Potomac Electric Power Company

PPL Corporation

PPL Electric Utilities Corporation

Progress Energy, Inc.

Public Service Company of Colorado

Public Service Company of New Hampshire

Public Service Company of New Mexico

Public Service Company of Oklahoma

Public Service Electric and Gas Company

Puget Energy, Inc.

Puget Sound Energy, Inc.

Questar Corporation

Questar Gas Company

Rochester Gas & Electric Corporation

San Diego Gas & Electric Company

SEMCO Energy, Inc.

Sierra Pacific Power Company

SourceGas LLC

South Jersey Gas Company

Southern California Edison Company

Southern California Gas Company

Southern Connecticut Gas Company

Southern Indiana Gas & Electric Company

Southwest Gas Corporation

Southwestern Electric Power Company

Southwestern Public Service Company

Superior Water, Light and Power Company

Tampa Electric Company

TECO Energy, Inc.

Texas-New Mexico Power Company

Tucson Electric Power Company

UGI Utilities, Inc.

UIL Holdings Corporation

Union Electric Company

United Illuminating Company

UNS Electric, Inc.

UNS Energy Corporation

UNS Gas, Inc.

Vectren Utility Holdings, Inc.

Virginia Electric and Power Company

Washington Gas Light Company

Westar Energy, Inc.

Western Massachusetts Electric Company

WGL Holdings, Inc.

Wisconsin Electric Power Company

Wisconsin Energy Corporation

Wisconsin Gas LLC

Wisconsin Power and Light Company

Wisconsin Public Service Corporation

Xcel Energy Inc.

Yankee Gas Services Company

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Summary:

S&PCORRECT: Exelon Corp.

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Summary:

S&PCORRECT: Exelon Corp.

*(**Editor's Note:** In the original version of this summary analysis published on Feb. 14, 2013, information regarding the credit facilities was misstated. A corrected version follows.)*

Credit Rating:	BBB/Stable/A-2

Rationale

Standard & Poor's Ratings Services' rating on diversified energy company Exelon Corp. reflects its consolidated business risk profile, which we view as "strong." Exelon's business risk profile reflects the higher-risk operations of unregulated supply affiliate Exelon Generation Co. LLC (ExGen), which has increased in size to subsume Constellation Energy's unregulated business. Exelon's business risk also reflects the excellent business risk profiles of regulated delivery businesses Commonwealth Edison Co. (ComEd), PECO Energy (PECO), and Baltimore Gas & Electric Co. (BGE), which have generally predictable transmission and distribution cash flows. Because of ring-fencing, we will continue to deconsolidate BGE and analyze it as an equity investment, counting only distributions to the parent as primary contributions to the parent's credit quality and financial profile.

As of Sept. 30, 2012, Exelon had about $18.2 billion of on-balance-sheet debt. We also impute about $4.4 billion of off-balance-sheet debt on the books for computing financial ratios, pertaining mostly to unfunded pension and other postemployment benefit obligations and power-purchase agreements.

Post-merger, Exelon is the nation's second-largest regulated distributor of electricity and gas, with 5.4 million customers in Illinois and Pennsylvania and 1.2 million customers in Maryland. Exelon also distributes natural gas to 490,000 customers in the Philadelphia metropolitan area through PECO and 650,000 customers in Maryland. ExGen engages in unregulated energy generation, wholesale power marketing, and energy delivery. The company has long-term exposure to market risk and meaningful exposure to nuclear plants (19,000 megawatts [MW] across 23 units). The company has about 35,000 MW and 465 billion cubic feet (bcf) (2012 estimates) of natural gas business.

Exelon gets a larger proportion of earnings from its regulated and retail operations. Through retail and wholesale channels, ExGen now provides about 170 terawatt-hours, or about 5%, of total U.S. power demand. We expect that retail markets (where customers can shop for electricity providers) in Pennsylvania, Ohio, Michigan, and Arizona to grow at about 10% in the commercial and industrial class and at about 15% in the residential class between 2011 and 2014. The plants arewell positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. The combination provides ExGen regional diversification of the generation fleet and a customer-facing load business, as generation and load positions are now better balanced across multiple regions. In most locations, ExGen will have adequate intermediate and peaking capacity within the portfolio for managing load shaping (matching resources with energy needs) risks. However, the company will still need to buy and sell length in the market to manage portfolio needs, in our opinion. Moreover, ExGen has a significant open position in the Midwest (exposed to merchant market), and a somewhat tight position in Texas and New England, where it has some risk of finding itself short when loads are high, in our opinion.

ExGen's cash flow is sensitive to commodity prices as almost 92% of its premerger generation is nuclear, all of which sliding natural gas prices are impairing. ExGen's unregulated operations accounted for about 65% of the consolidated enterprise by cash flow and capital spending in 2012. Given that base-load generation is price-taking we expect ExGen's adjusted funds from operations (FFO) to debt to remain volatile relative to its peers. For instance, all else remaining equal, we estimate gross margins in 2014 will be lower by about $400 million for every $5 per megawatt--hour (MWh) (round-the-clock) decline in power prices, about $250 million for every $1 per million cubic feet (mcf) decline in gas prices, and about $90 million for every $1 per MWh decline in retail margins.

As a result, ExGen's contribution to the overall Exelon cash flow declines to about 55% under our base case, because of the decline in unregulated cash flow when commodity prices fall. However, despite the lower power prices, we view the business risk profile of parent Exelon as strong. We expect financial measures to decline through 2014. However, the corporate credit ratings reflect our expectation that 2014-2015 will be the trough years. Based on the present forward curve, cash flow measures are adequate for the rated level in that year, especially after parent Exelon announced significantly reduced dividend payouts and ExGen deferred/eliminated some planned capital spending. However, despite the improvement in free operating cash flow , as a result of the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having "significant" financial risk..

We view ExGen's ratable hedging strategy favorably, as it ensures that a high percentage of the company's near-term generation is locked in. Hedging not only protects unregulated generation cash flows from steep price declines, it also provides the company time to adjust its cost structure or its capital structure, should prices remain depressed. However, hedging activities insulate, but do not isolate, power merchants from commodity price effects. Current hedges show the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, perversely, they also show the sensitivity of ExGen's margins to the prospect of a continued shale gas production onslaught. The decline in mark-to-market value through 2014 shows the limit to which Exelon can hedge--a price-taking fleet can hedge, but only at the prices the market will bear. Also, the merchant generation margins at ExGen will face a decline as high-priced hedges expire, evident in the drop in wholesale hedged gross margins. Still, the forward prices do show a contango as reflected in the increase in ExGen's open EBITDA from higher natural gas forwards. In addition, although retail competition has increased, and ExGen has lowered its growth estimates, we believe retail contributions can mitigate the wholesale decline, given the potential for cost savings, volumes gained from the Constellation merger, and acquisitions (StarTex and MX Energy Holdings).

Because of the decline in commodity prices, we expect ExGen's FFO to debt to tumble to about 27.5% in 2014 from more than 40% in 2011. Although ExGen's cash flows are relatively more volatile compared with peers because of the larger base-load generation, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must decline and stay below $3 per mcf before its FFO to debt falls below 20%.

We still view Exelon's internal funding as "aggressive." However, we view Exelon's decision to lower its dividends as bolstering credit quality. Dividend payout is now in line with peers (at about 55% to 60%) .However, Exelon's capital spending requirements remain significant between 2013 and 2015, at about $15.6 billion. Although utility capital spending tends to be funded in rate base, unregulated generation will have to fund its own capital requirements and recover them in market prices. Importantly, because of announced cuts, consolidated cash flow from operations will largely cover capital spending and dividends, resulting in modest external financing needs. Still, incrementally lower gas prices would hurt ExGen's debt protection measures more than the level of new debt financing, or operating and maintenance cost increases in ExGen's forecast through 2015.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect FFO to total debt of the company to decline to about 25% in 2012 and then to hover at 23% to 24.5% through 2015. We expect free operating cash flow to debt to remain positive even in 2013 and 2014 when we expect financial measures to trough. Importantly, we expect to see the negative discretionary cash flow (after dividends) to improve meaningfully. Similarly, we expect debt to EBITDA to be at about 4.0x. This ratio is still consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as "significant," especially since a meaningful amount of capital spending is discretionary (ExGen has lowered capital spending estimates in 2014 by more than $2.3 billion since July 2012 estimates).

Liquidity

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views the liquidity across the Exelon group of companies as "strong," in light of the debt maturities we expect and available credit facilities. We estimate that sources of cash will exceed the companies' uses by about 2x during the next 12 to 24 months. We expect sources over uses for Exelon and ExGen to remain positive even if EBITDA declines by 50%. In addition, because of Exelon's solid relationships with banks and high conversion of FFO to discretionary cash flow, we believe the company can absorb low-probability, high-impact shocks.

Exelon has sufficient alternative sources of liquidity to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturities are in 2015 for Exelon and 2014 for ExGen.

As of Jan. 30, 2013, Exelon, ExGen, ComEd, PECO, and BGE had credit facilities of $500 million, $5.6 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire between December 2015 and August 2017. Availability under these facilities was $498 million for Exelon; $3.95 billion for ExGen; and $1 billion, $599 million, and $600 million for ComEd, PECO, and BGE, respectively. Commercial paper outstanding was $1.7 billion and the aggregate availability was $6.6 billion.

Outlook

The outlook on the ratings is stable. That said, we believe that higher natural gas production from shale gas plays and a delay in environmental rules related to plant retirements can significantly hurt the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings decline in 2014. Should the prevailing commodity environment persist, the company may have to address its declining earnings profile by reducing capital spending. We expect Exelon and ExGen to maintain consolidated FFO to debt in the 22% to 23% and

25% to 27% ranges, respectively, in 2014 to maintain current ratings. A positive outlook--currently not under consideration--can result if natural gas prices stabilize and power prices respond favorably to coal-plant retirements, resulting in an improvement in consolidated FFO to debt levels of more than 27%.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011

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Summary:

PECO Energy Co.

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Summary:

PECO Energy Co.

Corporate Credit Rating	BBB/Stable/A-2

Profile Assessments

BUSINESS RISK	**EXCELLENT**

FINANCIAL RISK	**SIGNIFICANT**

Rationale

Business Risk: Excellent

- Monopolistic, rate-regulated utility transmission and distribution businesses that provide an essential service
- Lower risk transmission and distribution businesses which produce relatively stable cash flows
- Credit supportive regulatory environment
- Adjustment clause for project specific distribution system improvements, expected to further support financial measures
- Ratings on PECO Energy Co. are constrained by parent, Exelon Corp.'s consolidated credit quality

Financial Risk: Significant

- Reflects Exelon Corp.'s consolidated financial measures
- Aggressive financial policy
- Significant capital spending, which at the utility level is expected to be funded in rate base
- High sensitivity to commodity prices at the unregulated operations

Outlook: Stable

The stable outlook reflects Standard & Poor's Ratings Services' baseline forecast that PECO's funds from operations (FFO) to debt will consistently exceed 15% over the next three years and Exelon's consolidated FFO to debt will equal about 22% to 25% over the next three years.

Downside scenario

Because our corporate credit rating on PECO is limited to the lower of its stand-alone credit quality or our corporate credit ratings on its parent, we could lower our rating on PECO if stand-alone FFO to debt were consistently less than 15% or Exelon's consolidated financial measures weakened so that FFO to debt were consistently less than 22% and Exelon were downgraded. This could occur if commodity prices remained weak and economic growth were minimal.

Upside scenario

Because our corporate credit rating on PECO is limited to the lower of its stand-alone credit quality or our corporate credit rating on its parent, for us to raise our rating on PECO, we would first have to upgrade Exelon, and PECO's stand-alone credit quality would have to reflect the higher rating. Although we view an upgrade as less likely, this could occur if Exelon's consolidated FFO to debt were consistently greater than 27%.

Standard & Poor's Base-Case Scenario

Assumptions

- High capital spending requirements between 2013 and 2014
- Low EBITDA growth in 2013 and 2014
- Deferred taxes providing some benefit through the forecast period

Key Metrics

	2012A	2013E	2014E
FFO to debt	27.8%	23-28%	23-28%
Total debt/Total capital	46.7%	46-48%	46-48%
Total debt/EBITDA	3.1x	3.0-3.4x	3.0-3.4x

A—Actual. E—Estimate.

Business Risk: Excellent

PECO's business risk profile is "excellent" under our criteria, reflecting monopolistic, rate-regulated utility transmission and distribution businesses that provide an essential service. PECO serves about 1.6 million electric customers and 497,000 natural gas customers in southeastern Pennsylvania, including Philadelphia. The Pennsylvania Public Utility Commission regulates the company's electric and gas distribution rates, and the Federal Energy Regulatory Commission (FERC) regulates transmission rates. Generally, we view the distribution and transmission businesses as lower risk than the generation businesses often included in many fully integrated electric utilities.

Under our U.S. Utility Regulatory Assessments we view Pennsylvania as "credit supportive", reflecting the overall constructive regulation during PECO's transition to full competitive rates. In addition, we view the recent passage of Pennsylvania Act 11, which authorizes the use of projected test years in rate cases and permits the use of an automatic adjustment clause for project specific distribution system improvements, as supportive of credit quality.

Financial Risk: Significant

Our assessment of PECO's financial risk profile reflects the consolidated financial risk profile of parent, Exelon, which we assess as "significant".

Under our base-case scenario for Exelon, we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts.

We expect consolidated funds from operations (FFO) to total debt to equal about 23%-25% through 2015. Operating cash flow to debt will remain positive even in 2013 and 2014, when we expect financial measures to trough. We view Exelon's decision to lower its dividends as bolstering credit quality and its dividend payout is now in line with peers (at about 55% to 60%). We also expect to see the negative discretionary cash flow (after dividends) to improve meaningfully. However, Exelon's capital spending requirements remain significant between 2013 and 2015, at about $15.6 billion.

In addition, we expect debt to EBITDA to be about 4x. This ratio is still consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as significant, especially since a meaningful amount of capital spending is discretionary.

Liquidity: Strong

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views the liquidity across the Exelon group of companies as "strong," in light of the debt maturities we expect and available credit facilities. We estimate that sources of cash will exceed the companies' uses by about 2x during the next 12 months. We expect sources over uses to remain positive even if EBITDA decreases by 50%. In addition, because of Exelon's solid relationships with banks and high conversion of FFO to discretionary cash flow, we believe the company can absorb low-probability, high-impact shocks. Maturities over the next 12 months are manageable.

As of Jan. 30, 2013, Exelon, Exelon Generation Co. LLC (ExGen), Commonwealth Edison Co. (ComEd), PECO, and Baltimore Gas & Electric Co. (BGE) had credit facilities of $500 million, $5.6 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire between December 2015 and August 2017. Availability under these facilities was $498 million for Exelon; $3.95 billion for ExGen; and $1 billion, $599 million, and $600 million for ComEd, PECO, and BGE, respectively. Aggregate credit facility availability was about $6.6 billion. Commercial paper outstanding was $1.7 billion.

Principal Liquidity Sources	**Principal Liquidity Uses**
• Aggregate credit facility availability of about $6.6 billion • We expect FFO to equal about $5.4 billion in 2013	• Dividends of about $1.2 billion in 2013 • Capital expenditures of about $5.4 billion in 2013

Recovery Analysis

- We assign recovery ratings to first mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the rating category and the extent of the collateral coverage.

- The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria.

- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.

- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.

- PECO's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the CCR.

Related Criteria And Research

- Collateral Coverage and Issue Notching Rules for ‘1+’ and ‘1’ Recovery Ratings on Senior Bonds Secured by Utility Real Property, Feb. 14, 2013,
- Standard & Poor’s Revises Its U.S. Utility Regulatory Assessments, Dec. 28, 2012
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

S&P Global
Ratings

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Exelon Corp.'s $1.15 Billion Junior Subordinated Notes Rated 'BBB-'

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NEW YORK (S&P Global Ratings) March 29, 2017--S&P Global Ratings said today it assigned its 'BBB-' issue-level rating to Exelon Corp.'s $1.15 billion junior subordinated notes due 2022.

Exelon issued these notes as part of the Pepco Holding Inc. (PHI) acquisition. The company has sent notice to the holders that it has elected the early remarketing period as an option.

Exelon will not directly receive any proceeds from the remarketing. The proceeds will be used to purchase a portfolio of treasury securities maturing on or about May 31, 2017. Exelon expects that a portion of the funds generated upon maturity of the portfolio will be used to settle the purchase contracts on June 1, 2017. Exelon currently intends to use the proceeds from the settlement of the purchase contracts for general corporate purposes. To the extent it does not use such proceeds immediately, it may temporarily invest them in short-term, interest-bearing obligations.

The original bond was a 10-year note with a mandatory remarketing after three years. The ultimate maturity date will be changing to June 1, 2022 from June 1, 2024. The rate will likely change too, based on pricing results. A major change is that interest will no longer be deferrable after the remarketing (100% debt treatment) and inclusion of a one-month par call, which is market standard for a five-year note.

The 'BBB' corporate credit rating on Exelon Corp. is based on our assessment of a strong business risk profile and significant financial risk profile. The outlook is stable. For the corporate credit rating rationale, see the research update on Exelon Corp., published on July 26, 2016.

RELATED CRITERIA

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Exelon Corp.	
Corporate Credit Rating	BBB/Stable/--

New Rating

Exelon Corp.	
$1.15 bil jr subord notes due 2022	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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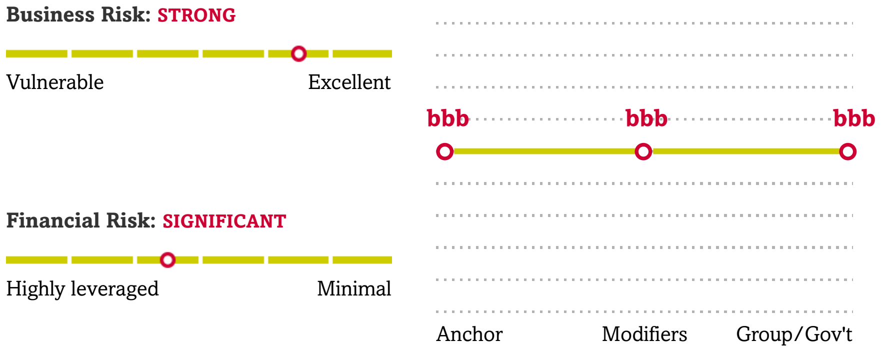
Summary:

Exelon Corp.



CORPORATE CREDIT RATING

BBB/Stable/A-2

Rationale

Business Risk: Strong

- Lower risk rate-regulated utility operations at diversified energy company Exelon Corp. currently represent nearly 60% of consolidated EBITDA, on the closing of the Pepco Holdings LLC (PH LLC) acquisition.
- Low-cost base-load generation has a strong operating track record, though it remains subject to considerable energy margin variability, driven by commodity prices, demand, and weather patterns; this has recently created some weakness in the merchant end of the business.
- Large natural gas production volumes have collapsed gas and power prices, carrying significant downside potential for a generation portfolio that is largely nuclear (more than 60% of total generation).
- A mild summer in 2015, declining market heat rates, and gas regional pricing differentials have weakened the economics of the company's generation plants in the next 24 months despite a stronger fundamental long-term outlook.
- Capacity prices could continue to languish because of lackluster electric demand, growing energy efficiency, and increased penetration of demand response initiatives. However, this could reverse in coming auctions as capacity performance schemes proliferate.
- Exelon still operates a large number of nuclear plants; this puts the company in a good position as carbon regulation and capacity performance incentives loom.

Financial Risk: Significant

- The backward-dated EBITDA profile persists, although the curve is not as steep as it is for certain competitors, owing to a proactive hedging strategy and participation in robust capacity markets.
- As usual, cash flow on the generation side is significantly hedged during the next two years, plus hedges are regularly added; 2018 is hedged to around 30%.
- The company's liquidity position remains strong, especially because it can defer capital spending needs, which are comparatively low because Exelon's plants are more modern.
- Dividend policy is in line with industry norms, and continues to be supported by a steady stream of dividends from utility subsidiaries, which has increased with its most recent transaction.
- Although capital spending needs have been substantial in the past, we expect that they'll be more in line with industry norms because this company is already well suited for upcoming carbon regulations.

Outlook: Stable

The rating outlook on Exelon Corp. is stable. However, Standard & Poor's believes that higher-than-expected natural gas production from shale production regions and a delay in environmental rules related to plant retirements could weaken the company's financial performance during the next few years. If commodity prices weaken even more, the company might have to address a decline in its earnings profile with commensurate reductions in capital spending and debt. We expect the consolidated pro forma company to maintain adjusted funds from operations (FFO) to debt of about 23% to 25% and debt to EBITDA to increase to about an adjusted 3.2x to 3.4x, including the effects of the recent Pepco acquisition.

Downside scenario

Negative ratings momentum could occur due to a decline in commodity prices that would affect ExGen's and, as a result, Exelon's cash flows. We could lower the company's ratings post-acquisition if the adjusted consolidated FFO to debt ratios were to consistently decline below 18%.

Upside scenario

We could consider an upgrade if the company's reported adjusted consolidated FFO to debt levels stronger than about 25% and debt to EBITDA below about 3.4x. We think this is unlikely before the end of 2016.

Standard & Poor's Base-Case Scenario

Assumptions

- Henry Hub gas prices are $2.50 per million Btu in 2016 and $2.75 in 2017; PJM West hub power prices are between $30 and $35 per megawatt hour (MWh) in 2016; Northern Illinois hub hovers around $30 per MWh through 2017.
- Nuclear capacity factors are consistently at about 93%-94% through 2017.
- Growth rates at the utilities are consistent with management's assumptions.
- Dividend policy remains in line with industry standards.
- Only current hedges are assumed.
- Spark spreads remain depressed in Texas, with an average of about $6 per MWh during 2016, but rebound somewhat afterward.
- Total ExGen generation of about 190 gigawatts per hour in 2016, ticking up only modestly in subsequent years.

Key Metrics

	2016E	2017E
FFO/debt (%)	23%-25%	23%-26%
Debt/EBITDA (x)	3.1-3.3	3.1-3.3
EBITDA interest coverage (x)	5.2-5.5	5.2-5.6

FFO--Funds from operations. E--Estimate. Note: Our metrics include the impacts of the recently approved Pepco Holdings acquisition.

Business Risk: Strong

Standard & Poor's current rating on Exelon reflects our view of the company's consolidated business risk profile, which we view as strong, combining the higher-risk operations of unregulated supply affiliate ExGen with the excellent business risk profiles of its rate-regulated transmission and distribution utilities Commonwealth Edison Co. (ComEd), PECO Energy Co., PEPCO Holdings, Inc.and Baltimore Gas & Electric Co. (BGE), Atlantic City Electric Co., Delmarva Power & Light Co., and Potomac Electric Power Co. (Pepco). Because of ring-fencing, we deconsolidate BGE's financial profile from Exelon and analyze it solely as an equity investment, incorporating the utility's distributions to the parent as BGE's only contributions to the parent's credit quality and financial profile.

As of Dec. 31, 2015, Exelon had about $26.2 billion of adjusted debt, after considering the effects of operating leases, deconsolidation, power purchase agreements, and cash netting, as well as a recent debt issuance aimed at funding the Pepco Holdings acquisition.

Regulated utilities now contribute about 50% of Exelon's consolidated current cash flow. PECO's business risk profile is excellent under our criteria, reflecting monopolistic, rate-regulated utility transmission and distribution operations. PECO serves more than 1.6 million electric customers and 500,000 natural gas customers in southeastern Pennsylvania, including Philadelphia. Similarly, ComEd's business risk profile is excellent, reflecting the same monopolistic, rate-regulated utility transmission and distribution operational profile. ComEd serves more than 3.9 million customers in northern Illinois, including Chicago. BGE serves more than 1.3 million electric and 650,000 gas customers in Central Maryland, including Baltimore. The regulatory framework under which BGE operates can be challenging and unpredictable, but has been improving somewhat. PEPCO operates across several jurisdictions, including New Jersey, Delaware, Maryland, and District of Columbia, totaling more than 1.9 million customers.

ExGen's unregulated operations now constitute about 50% of the consolidated enterprise in terms of cash flow and capital spending during 2016 upon the closing of the Pepco acquisition. ExGen generates a significant portion of earnings from its retail operations. Through retail and wholesale channels, ExGen provided about 195 terrawatt-hours of load in 2015, or nearly 5% of total U.S. power demand, and enjoys significant regional diversity, participating in the PJM Interconnection in the Mid-Atlantic, New England, and Texas markets. The company's generation units are well positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. In most locations, ExGen has adequate intermediate and peaking capacity for managing load-shaping risks. However, we believe the company will still need to buy and sell generation in the market to manage its portfolio needs, which exposes it to considerable commodity risk. Moreover, ExGen has a significant open position in the Midwest to merchant markets, and a somewhat tighter position in Texas and New England, where it has some risk of finding itself short when loads and power prices are high.

ExGen's cash flow is sensitive to commodity prices because roughly 70% of the business's generation, including purchased power, is nuclear; unlike gas-fired assets, which have a lower cost structure if gas prices drag power prices down, its nuclear plants face winnowing margins based on lower market heat rates, especially if capacity prices are low. Given that base-load generation is price-taking by nature, we expect ExGen's adjusted FFO to debt to remain volatile relative to its peers. For instance, we estimate gross margins in 2017 will be lower by about about $100 million for every $5 per MWh ('round-the-clock) decline in power prices, and about $380 million for every $1 per million Btu decline in 2017 natural gas prices. Near-term figures are not quite as volatile due to more thorough hedging and better visibility into pricing.

The issuer's hedges have effectively softened the aforementioned cash flow volatility; this was particularly apparent during otherwise weak market conditions in 2014 and 2015. Even though these hedges insulate ExGen, they continue to show the sensitivity of ExGen's margins to the prospect of continued shale gas production. The merchant generation margins at ExGen could face a decline as high-priced hedges expire, which is evident in the drop in wholesale hedged gross margins. Still, forward prices do show a modest contango (future prices are above expected future spot prices), as reflected in the increase in ExGen's open EBITDA from higher natural gas forward prices compared with year-end 2015.

ExGen's contribution to Exelon's cash flow has declined somewhat under our projected base case because of the decline in unregulated cash flow when commodity prices fall, as well as due to the renewed focus on regulated activities. However, despite lower power prices, we view the business risk profile of Exelon as strong. We expect financial measures to remain about flat during 2016. However, the corporate credit ratings reflect our expectation that 2016 will be a trough year, and that measures could improve in 2017 and 2018, with the business profile being fortified by the PHI acquisition. Based on the present forward-price curve, cash flow measures are adequate for the rated level in these years, even considering the recently announced dividend increase. Still, despite the improvement in free operating cash flow resulting from the decline in future gross margins, we view Exelon's consolidated cash flow adequacy ratio as having a significant financial risk.

Financial Risk: Significant

Exelon's dividend payout is currently in line with its peers at about 50%. However, capital spending requirements remain significant in 2016, with regulated utility spending at the three incumbent utilities reaching $3.95 billion and as much as $1.4 billion at Pepco; this should continue in subsequent years. Although utility capital spending tends to be funded through rate base additions, unregulated generation must recover the funding of its own capital requirements through capacity market prices (and energy margins, in Texas); these should eclipse $3 billion in 2016.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect Exelon's consolidated FFO to total debt to hover around 23% to 26% through 2017. We expect to see negative discretionary cash flow (i.e., net of dividends) improve meaningfully. The FFO to total debt ratio is consistent with Standard & Poor's 'BBB' rating guideposts for a significant financial risk profile, especially since a meaningful amount of capital spending is discretionary.

At ExGen, we expect free operating cash flow to debt to remain positive even in 2016 and 2017 when we expect financial measures to trough due to lower gas prices. Because of the lower commodity prices, we expect ExGen's FFO-to-debt ratio to remain about 32% in 2016. Although the company's cash flows are relatively more volatile than those of its peers because of the larger base-load generation and significant fixed costs, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must consistently stay below the current assumed level of $2.50 per million Btu before its consolidated FFO to debt falls below 20%.

We expect free operating cash flow to debt to remain mostly positive throughout 2016-2018. Debt to EBITDA should increase to about 3.5x in 2016 before declining somewhat. These ratios are appropriate for Standard & Poor's 'BBB' guideposts for a significant financial risk profile. Nevertheless, we believe there are risks that cash flow may end up less than expected because merger synergies take longer to accrue, power prices trend lower due to higher natural gas production from shale plays, or because there is a delay in retiring coal plants owing to the Mercury and Air Toxics Standards remand of June 2015.

Because we give credit for nuclear fuel amortization in adjusted FFO, we expect subsidiary ExGen to remain operating cash flow positive (after capital spending that includes nuclear fuel costs). Through the forecast period, ExGen remains cash flow positive after accounting for capital spending.

Moreover, the utilities' dividends can fund a significant portion of the external dividend (we estimate that utility dividends can provide as much as 85% or 90% of external dividend in 2016-2018). Assuming Exelon's utility target of 70% payout ratios, the utility contributions would be able to cover the entire external dividend. However, we expect ExGen to continue to contribute to the external dividend, though less than the majority, as it did before the dividend cut.

Liquidity: Strong

The short-term rating on Exelon and affiliates is 'A-2'. We view liquidity across the Exelon group of companies as strong in light of the debt maturity schedule and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen as it settles its forward hedges.

As of Dec. 31, 2015, Exelon, ExGen, ComEd, PECO, and BGE had revolving credit facilities of $500 million, $5.3 billion, $1 billion, $600 million, and $600 million, respectively. These facilities generally expire in 2019. The facilities were largely available at that time, except for $503 million of commercial paper outstanding at ComEd and BGE, as well as certain letters of credit outstanding.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO exceeding $6 billion in 2016. • Credit facility availability of about $6 billion. • Cash on hand of about $6 billion on Dec. 31, 2015, much of which has been used to fund the closing of the PHI acquisition. • Nonseasonal working capital inflows of about $400 million.	• Dividend payments of almost $1.1 billion annually. • Capital spending and maintenance and environmental costs of over $6 billion during the next 12 months. • Debt maturities of $1.6 billion over the next 12 months. • PHI acquisition costs.

Other Credit Considerations

We assess all modifiers as neutral, resulting in no change to the anchor score.

Group Influence

The group credit profile of Exelon is 'bbb'. As the parent company with one relatively small insulated subsidiary (BGE), Exelon's issuer credit rating is the same as its group credit profile. Senior unsecured debt at Exelon is notched down to 'BBB-' because of structural subordination to priority obligations at the operating subsidiaries.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb
- **Entity status within group:** Core (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Unregulated Power and Gas Industry, March 28, 2014
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors for The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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Summary:

Exelon Corp.

Corporate Credit Rating	BBB/Stable/A-2

Profile Assessments

BUSINESS RISK	STRONG

FINANCIAL RISK	SIGNIFICANT

Initial Analytical Outcome ("Anchor") And Rating Result

Our 'BBB' long-term corporate credit rating on Exelon Corp. stems from:

- Our anchor of 'bbb', based on our "strong" business risk and "significant" financial risk profile assessments of the company.

Rationale

Business Risk: Strong	Financial Risk: Significant
• 35% rate-regulated utility operations • Low-cost base-load generation • Strong operating track record • Although base-load units are positioned to capture upward energy price movements, and gas assets are well positioned to capture expansion in market heat rates, declining natural gas prices and regional pricing differentials have further weakened the economics of the company's generation plants • Large expected production volumes from the Marcellus and Utica shale gas areas and changing prices at the TETCO pricing hub is a significant downside for a portfolio of plants that is largely nuclear (83% of total generation) • Capacity prices have languished because of lackluster demand, growing energy efficiency, and demand response • Exposure to nuclear generation	• Backwardated EBITDA profile and potential for a significant decline in cash flow • A significantly hedged cash flow profile through 2015, and forward power curves that inched up in the first quarter of 2014. • Positive operating cash flow • Strong liquidity position

Outlook: Stable

The outlook on the ratings is stable. That said, Standard & Poor's Ratings Services believes that higher natural gas production from shale natural gas plays and a delay in environmental rules related to plant retirements can significantly hurt the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings decline from 2014. Should the commodity pricing environment weaken, the company may have to address its declining earnings profile by reducing capital spending and debt. We expect Exelon and Exelon Generation Co. LLC (ExGen) to maintain consolidated funds from operations (FFO) to debt of at least 23% and 27%, respectively, to maintain current ratings.

Downside scenario

We could lower the ratings if adjusted FFO to debt is consistently lower than 22%. This could happen if Exelon sees increasing competition in its markets in Pennsylvania and Illinois, which would threaten customer retention in its retail business. Gross margins could also come under pressure by a further decline in power prices brought about by declining natural gas prices, or lower market heat rates due to increasing energy efficiency.

Upside scenario

A positive outlook--currently not under consideration--can result if natural gas prices stabilize and power prices respond favorably to coal-plant retirements, resulting in an improvement in consolidated FFO to debt levels of more than 28% on a sustained basis. This could stem from an improved economy and higher electricity prices, as well as a robust increase in the rate base of Exelon's regulated utility subsidiaries.

Standard & Poor's Base-Case Scenario

Assumptions

- Henry Hub gas price between $4.00 and $4.15 through 2016; PJM West hub power prices between $35 per megawatt-hour (MWh) and $37 per MWh in 2016; Northern Illinois hub $30.00 per MWh in 2014 and $31.00 per MWh by 2016
- Pensions/other post-employment benefits (OPEB), based on a Dec. 31, 2013 actuarial valuation by Towers (a third-party firm)
- Nuclear capacity factors of between 93.3% and 93.7% through 2017 (each 1% decline results in a $45 million hit to EBITDA)
- Growth rate at utilities consistent with management's assumptions

Key Metrics

	2013E	2014E	2015E
FFO/debt (%)	25-28	26-28	27-28
Debt/EBITDA (x)	4.6-4.7	4.0-4.2	3.8-3.6

E--Estimate.

Business Risk: Strong

Standard & Poor's rating on diversified energy company Exelon reflects its consolidated business risk profile, which we view as "strong." Exelon's business risk profile reflects the higher-risk operations of unregulated supply affiliate ExGen. Exelon's business risk also reflects the excellent business risk profiles of regulated delivery businesses Commonwealth Edison Co. (ComEd), PECO Energy Co., and Baltimore Gas & Electric Co. (BGE), which have generally predictable transmission and distribution cash flows. Because of ring-fencing, we will continue to deconsolidate BGE and analyze it as an equity investment, counting only distributions to the parent as primary contributions to the parent's credit quality and financial profile.

As of Dec. 31, 2013, Exelon (excluding BGE) had about $16.8 billion of on-balance-sheet debt, including nonrecourse debt. We also impute a significant amount of debt to Exelon, as much as $4 billion (excluding BGE imputed debt), which consists mostly of about $2.1 billion related to pensions and OPEB, about $460 million related to operating leases, and about $1.4 billion related to power purchase agreements. This is offset by about $1.2 billion of off-balance-sheet credit for nonrecourse project financing.

We expect the regulated utilities contribute about 35% of total cash flow. PECO's business risk profile is "excellent" under our criteria, reflecting monopolistic, rate-regulated utility transmission and distribution businesses that provide an essential service. PECO serves about 1.6 million electric customers and 497,000 natural gas customers in southeastern Pennsylvania, including Philadelphia. The Pennsylvania Public Utility Commission regulates the company's electric and gas distribution rates, and the Federal Energy Regulatory Commission (FERC) regulates transmission rates. Similarly, ComEdś business risk profile is "excellent", reflecting monopolistic, rate-regulated utility transmission and distribution businesses that provide an essential service. ComEd serves about 3.8 million customers in northern Illinois, including the city of Chicago. The company's distribution rates are regulated by the Illinois Commerce Commission (ICC) and the transmission rates, which equal about 23% of the company's rate base, are regulated by the FERC. Generally, we view the distribution and transmission businesses as lower risk than the generation businesses often included in many fully integrated electric utilities.

Exelon gets a larger portion of earnings from its retail operations. Through retail and wholesale channels, ExGen now provides about 150 to 165 terawatt-hours, or about 4.75% to 5%, of total U.S. power demand. The company's generation units are well positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. Exelon's 2012 combination with Constellation Energy Group Inc. provides it with regional diversification of its generating plants and a customer-facing load business because generation and load positions are now better balanced across multiple regions. In most locations, ExGen will have adequate intermediate and peaking capacity within the portfolio for managing load-shaping (matching resources with energy needs) risks. However, the company will still need to buy and sell generation in the market to manage portfolio needs, in our opinion. Moreover, ExGen has a significant open position in the Midwest (exposure to merchant markets), and a somewhat tight position in Texas and New England, where it has some risk of finding itself short when loads are high, in our opinion.

ExGen's cash flow is sensitive to commodity prices because almost 82% of its generation is nuclear, all of which low natural gas prices are impairing. ExGen's unregulated operations accounted for about 65% of the consolidated enterprise by cash flow and capital spending in 2013. Given that base-load generation is price-taking, we expect ExGen's adjusted FFO to debt to remain volatile relative to its peers. For instance, all else remaining equal, we estimate gross margins in 2016 will be lower by about $690 million for every $5 per MWh (round-the-clock) decline in power prices, about $480 million for every $1 per million cubic feet (mcf) decline in natural gas prices, and about $115 million for every $1 per MWh decline in retail margins.

As a result, ExGen's contribution to the overall Exelon cash flow declines to about 60% under our projected base case, because of the decline in unregulated cash flow when commodity prices fall. However, despite the lower power prices, we view the business risk profile of parent Exelon as strong. We expect financial measures to decline through 2015. However, the corporate credit ratings reflect our expectation that 2014 and 2015 will be the trough years. Based on the present forward price curve, cash flow measures are adequate for the rated level in that year, especially after parent Exelon announced significantly reduced dividend payouts and ExGen deferred or eliminated some planned capital spending. Still, despite the improvement in free operating cash flow, as a result of the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having "significant" financial risk.

We view ExGen's ratable hedging strategy favorably because it ensures that a high percentage of the company's near-term generation is locked in. Hedging not only protects unregulated generation cash flows from steep price declines, it also provides the company time to adjust its cost structure or its capital structure if prices remain depressed. However, hedging activities insulate, but do not isolate, power merchants from commodity price effects. Current hedges show the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, perversely, they also show the sensitivity of ExGen's margins to the prospect of a continued shale gas production onslaught. The decline in mark-to-market value through 2014 shows the limit to which Exelon can hedge-- price-taking plants can hedge, but only at the prices the market will bear. Also, the merchant generation margins at ExGen will face a decline as high-priced hedges expire, which is evident in the drop in wholesale hedged gross margins. Still, the forward prices do show a contango as reflected in the increase in ExGen's open EBITDA from higher natural gas forward prices. In addition, although retail competition has increased, and ExGen has lowered its growth estimates, we believe retail contributions can mitigate the wholesale decline, given the potential for cost savings, volumes gained from the Constellation merger, and acquisitions.

Financial Risk: Significant

Because of the decline in commodity prices, we expect ExGen's FFO to debt to range around 35% in 2014. Although ExGen's cash flows are relatively more volatile compared with peers because of the larger base-load generation, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must decline and stay below $2.75 per mcf before its FFO to debt falls below 20%.

We still view Exelon's internal funding as aggressive, but view Exelon's decision to lower its dividends as bolstering credit quality. Dividend payout is now in line with peers (at about 55% to 60%). However, Exelon's capital spending requirements remain significant between 2014 and 2016, at about $9 billion for the regulated companies and about $6.8 billion at unregulated ExGen. Although utility capital spending tends to be funded in rate base, unregulated generation will have to fund its own capital requirements and recover them in market prices. Importantly, because of announced cuts, consolidated cash flow from operations will largely cover capital spending and dividends, resulting in modest external financing needs. Still, incrementally lower gas prices would hurt ExGen's debt protection measures more than the level of new debt financing, or operating and maintenance cost increases in ExGen's forecast through 2015.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect Exelon's FFO to total debt to decline to hover around 27% to 29% through 2015. At ExGen, we expect free operating cash flow to debt to remain positive even in 2014 and 2015 when we expect financial measures to trough. Importantly, we expect to see the negative discretionary cash flow (after dividends) to improve meaningfully. Similarly, we expect debt to EBITDA to decline to about 4.2x in 2014. These ratios are consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as "significant," especially since a meaningful amount of capital spending is discretionary (ExGen has lowered capital spending estimates in 2014 by more than $2.3 billion since July 2012 estimates).

Liquidity: Strong

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views the liquidity across the Exelon group of companies as "strong," in light of the debt maturities we expect and available credit facilities. We estimate that sources of cash will exceed the companies' uses by about 2x during the next 12 to 24 months. We expect sources over uses for Exelon and ExGen to remain positive even if EBITDA declines by 50%. In addition, because of Exelon's solid relationships with banks and high conversion of FFO to discretionary cash flow, we believe the company can absorb low-probability, high-impact shocks.

Exelon has sufficient alternative sources of liquidity to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturities are in 2015 for Exelon ($800 million) and 2014 for ExGen ($561 million) and ComEd ($617 million).

As of Dec 31, 2013, Exelon, ExGen, ComEd, PECO, and BGE had credit facilities of $500 million, $5.3 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire in August 2018. Exgen has an additional $400 million bilateral through January 2015. The facilities were largely fully available as of Dec. 31, 2013, except for $184 million and $135 million of commercial paper outstanding at ComEd and BGE, respectively. .

Principal Liquidity Sources	Principal Liquidity Uses
• Assumed FFO of about $5.75 billion to $6 billion • Revolving credit facility availability	• Working capital • Dividend payments of about $1 billion annually • Capital spending and maintenance and environmental costs of about $5 billion to $5.5 billion annually through 2015

Ratings Score Snapshot

Corporate Credit Rating: BBB/Stable/--

Business risk: Strong

- Country risk: Very low risk
- Industry risk: Moderately high risk
- Competitive position: Strong

Financial risk: Significant

Anchor: 'bbb'

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: 'bbb'

Group rating methodology:

- Group credit profile: 'bbb'
- Entity status within group: Parent

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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Exelon Corp.'s Senior Unsecured Notes Rated 'BBB-'

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NEW YORK (Standard & Poor's) April 6, 2016--Standard & Poor's Ratings Services said today it assigned its 'BBB-' issue-level rating to Exelon Corp.'s $1.8 billion of senior unsecured note issues. The corporate credit rating of 'BBB' is unchanged. The lower rating for the unsecured notes stems from structural subordination; the note maturities range from 2021 through 2046.

Exelon intends to use note proceeds to fund its acquisition of utility holding company PEPCO Holdings Inc., which operates in New Jersey, Maryland, Delaware, and Washington, D.C. The acquisition recently passed its final significant hurdle, the approval of DC Public Service Commission. The debt issuance does not materially change our forecast, as we had anticipated that this combination of debt and equity would be used to finance the acquisition. With this acquisition, more than half of Exelon's cash flows will come from regulated activities.

For the corporate credit rating on Exelon, see the summary analysis published April 1, 2016.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014

- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

RATINGS LIST

Exelon Corp.	
Corporate Credit Rating	BBB/Stable/A-2
New Rating	
Exelon Corp.	
Senior Unsecured	
$300 Mil. 2.45% Notes Due 2021	BBB-
$750 Mil. 3.40% Notes Due 2026	BBB-
$750 Mil. 4.45% Notes Due 2046	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Research Update:

Exelon Corp. And PEPCO Holdings Ratings Are Affirmed On Acquisition Announcement

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Research Update:

Exelon Corp. And PEPCO Holdings Ratings Are Affirmed On Acquisition Announcement

(**Editor's Note:** This research update, originally published April 30, 2014, is being republished to correct an error in our published assumptions.)

Overview

- Chicago-based diversified energy company Exelon Corp. will acquire PEPCO Holdings Inc. (PHI) in an all-cash transaction.
- We have affirmed our 'BBB' corporate credit ratings on Exelon Corp. and its subsidiaries Commonwealth Edison Co., PECO Energy Co., and Exelon Generation Co. LLC. Our outlook on the ratings remains stable.
- We have affirmed the 'BBB+' ratings on PHI and its transmission and distribution (T&D) utility subsidiaries. We have also affirmed our ratings on subsidiary Baltimore Gas & Electric Co. at 'A-'.
- On a successful close, we will use our medial volatility tables to assess the pro forma company's financial measures because of the meaningful increase in regulated cash flows. Before the announced acquisition, we had used our standard volatility tables because of the preponderance of unregulated cash flows.

(Watch the related CreditMatters TV segment titled, "Exelon’s Bid For PEPCO Poses Credit Quality Implications," dated May 12, 2014.)

Rating Action

On April 30, 2014, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit rating on Chicago-based diversified energy company Exelon Corp. At the same time, we affirmed our corporate credit ratings on Exelon's utility subsidiaries, Commonwealth Edison Co. (ComEd) and PECO Energy Co., and its unregulated supply company, Exelon Generation Co. LLC (ExGen). Our ratings outlook on the Exelon group of companies is stable. At the same time, we have affirmed our ratings on Baltimore Gas & Electric Co. (BGE). Our outlook on BGE's rating is stable.

At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit ratings on PEPCO Holdings Inc. (PHI) and its transmission and distribution (T&D) utility subsidiaries Atlantic City Electric Co. (ACE), Delmarva Power & Light Co. (DPL), and Potomac Electric Power Co.

Rationale

Our rating affirmations follow Exelon's announcement that it has made a firm offer to acquire the common stock of Pepco Holdings Inc. (PHI) in cash for $27.25 per share, representing a 33% premium to PHI's closing price as of March 31, 2014. This equates to a market capitalization of about $6.9 billion and with the assumption of PHI's debt of $5.6 billion, it represents a total enterprise value of about $12.5 billion. The transaction will require the approval of the Federal Energy Regulatory Commission, the Dept. of Justice, and the regulatory commissions of Maryland, New Jersey, Washington D.C., Delaware and Virginia.

We note that we often place our ratings of the acquiring company on CreditWatch with negative implications to reflect unanticipated developments and the uncertainty inherent with regulatory reviews. In this case as well, we see the potential for concessions to ratepayers, though we cannot define their scale or nature at this time. However, we have affirmed the ratings and stable outlook on Exelon because we believe there is a high likelihood that we will assign the combined company a 'BBB' corporate credit rating when we assess the final plan. We also base our outlook affirmation on the company's demonstrated willingness to walk away from acquisitions when concessions imperiled the ratings of the merged entity.

The affirmations on PHI and its subsidiaries reflect our expectation that Exelon will structure the transaction in a manner that provides credit insulation for the subsidiaries sufficient to support ratings above the group credit profile (GCP) of Exelon. The eventual structure will be subject to legal review to determine adequacy of insulation.

(For a detailed summary of the stand-alone operations of Exelon Corp, see our summary analysis dated April 3, 2014),

Business Risk

- The pro forma company will increase regulated base to nearly 50% of cash flows and diversify cash flows across more jurisdictions.
- The acquisition positions Exelon to retain a balanced earnings mix between its regulated and unregulated businesses as power prices recover.
- The acquisition requires a number of regulatory approvals.
- Exelon's base-load generation is low-cost and has a strong operating track record.
- Large expected production volumes from the Marcellus and Utica shale gas areas and changing prices at the TETCO pricing hub present a significant downside for Exelon's large nuclear capacity (83% of total generation).
- Capacity prices have languished because of lackluster demand, growing energy efficiency, and demand response.
- Nuclear generation exposure is substantial.

Financial Risk

- Financial measures of the pro forma company will weaken materially compared with the stand-alone Exelon. However, we will assess the pro forma company using our medial volatility benchmarks because of the significant increase in regulated cash flows in the consolidated mix.
- Backwardated EBITDA profile persists in unregulated generation.
- The cash flow profile is significantly hedged through 2015, and forward power curves inched up in the first quarter of 2014.
- Exelon's current strong liquidity position is adequate to support the acquisition as it finalizes final liquidity plans for the pro forma company.

Our base assumptions are:

- We expect Exelon to finance the acquisition with 50% debt. The balance will be funded by common equity, mandatory converts, and unregulated asset sales.
- All regulatory approvals are received by June 2015.
- We have assumed $1 billion (net of taxes) of gross proceeds from asset sales used for funding the acquisition. We think the assets being considered for sale can net a value in excess of this amount.
- Mandatory converts are given 100% equity credit as per our criteria.
- We have assumed merger synergies that build up to a gross run rate of about $135 million annually by 2018 (net $250 million over first 5-years), plus rebates/concessions of about $100 million for ratepayers.
- PHI will be ring-fenced in a manner that meets our ring-fencing criteria. This is important to our consideration of any ratings separation between PHI and Exelon.
- Henry Hub gas prices are between $4.15 and $4.25 through 2016; PJM West hub power prices between $35 per megawatt-hour (MWh) and $37 per MWh in 2016; Northern Illinois hub $30 per MWh in 2014 and $31 per MWh by 2016.
- Nuclear capacity factors of between 93.3% and 93.7% through 2017 (each 1% fleet decline results in a $45 million hit to EBITDA)
- Growth rate at utilities are consistent with management's assumptions
- Pensions/other post-employment benefits (OPEB), are based on a Dec. 31, 2013 actuarial valuation by Towers (a third-party firm)

Exelon's strategy with its proposed acquisition of PHI is premised on a combination of benefits:

- Diversifies cash flows by increasing regulated base.
- Positions Exelon to retain a balanced earnings mix between its regulated and unregulated businesses as power prices recover.

From a credit perspective, we view the transaction favorably. Not only is Exelon investing incremental cash flow into lower risk investments, the acquisition diversifies the regulated base by adding additional jurisdictions. Also, the geographic overlap creates opportunities to realize cost savings through better customer reliability.

Specifically, the combination is likely to drive the following benefits:

- Increase regulated business contributions to an average of 55% and 53% based on EBITDA and adjusted FFO basis, respectively, to pro forma earnings over 2015 to 2017 (and about 45%, respectively, if BGE and PHI are treated as ring-fenced equity investments). Nonutility debt and capital spending will decline to an average of 30% and 35%, respectively. We note that Exelon's current business mix is 60% to 62% unregulated.
- Partially financing the acquisition with unregulated asset sales supports the shift in business mix by redeploying unregulated capital into regulated growth.
- The combination will create a large Mid-Atlantic utility franchise with a rate base of nearly $32 billion by 2016, of which $6 billion will be transmission-related.
- However, on a successful closing, adjusted FFO to debt ratios will decline materially.

Our ratings affirmation factors in the following considerations:

- Because of the meaningful increase in regulated cash flow that now constitute about 50% of overall cash flow, we will employ the medial volatility table in our credit assessment (we currently use the standard volatility table, which has more rigorous financial ratio hurdles).
- Exelon will still compare unfavorably with its peers because it will have a higher percentage of merchant power-based cash flows relative to other diversified utility peers and will also rely on upstream dividends from ring-fenced utilities.
- Despite the thrust toward regulated activities, Exelon's credit profile will continue to be influenced by its unregulated supply business because of the relative "high beta" of its cash flows to natural gas prices.
- Adjusted FFO to debt ratios would decline meaningfully due to the new acquisition debt. In our analysis, we forecast FFO to debt in the 21.0% to 24% area over the 2015-2017 time frame. However, these ratios still map to the "significant" financial risk category on the medial volatility tables.
- We view favorably the fact that estimated utility cash flows will be able to support dividends and ExGen is not expected to have external financing needs through 2017 (although current Exelon Corp. level debt could be refinanced at the ExGen level when it matures).

Because of the price-taking nature of its generation plants, unregulated affiliate ExGen's is substantially influenced by natural gas pricing, which still determines electricity pricing in most U.S. regions. Given uncertain unregulated markets, Exelon's focus has shifted into growing the regulated businesses. In June 2013, Exelon cancelled the LaSalle and Limerick nuclear extended power uprates and instead shifted capital into growth and maintenance capital at the utilities. In November 2013, the company announced plans to invest $15 billion in the regulated platform over five years. These investments now constitute about 55% of the overall capital in the five-year plan.

We view Exelon's business strategy as an important determinant of the company's current "strong" business risk profile. In recent years, Exelon has implemented a strategy of internal growth through reinvesting in existing businesses and investing in new technologies. There is also a bias toward longer-term contracted businesses. Management's business strategy appears to be three-pronged: cost and productivity enhancements that include strategies like divestments and asset retirements; enlarging alternative energy investments through renewables development projects (mostly wind and solar); and in the medium term, investing in new technologies such as the smart grid. While the utilities primarily focus on growing rate base and earning a reasonable return, they are also playing a role in competitive markets by investing extensively in transmission-related infrastructure. Exelon has indicated that its core strategy does not preclude acquisitions, especially in those that could offset the business risk profile of its wholesale generation business and reduce the company's exposure to natural gas.

Under our base case, the consolidated ratio of adjusted FFO to total debt falls to about 21% in 2015, then improves to about 24% by 2016. Importantly, free operating cash flow to debt remains mostly positive throughout the 2015-2017 period, although discretionary cash flow (after dividends) becomes meaningfully negative in 2015. Debt to EBITDA increases to 3.6x in 2015. These ratios are appropriate for Standard & Poor's 'BBB' guideposts for a "significant" financial risk profile on the medial volatility table. That said, we believe there are risks that cash flow may eventually end up less than expected because merger synergies/savings take longer to accrue, power prices trend lower than expected due to higher natural gas production from shale plays, or because coal plant retirements are delayed.

Also, because we give credit for nuclear fuel amortization in adjusted FFO, we expect subsidiary ExGen to remain operating cash flow positive (i.e., after capital expenditures that include nuclear fuel costs). Through the forecast period, ExGen remains cash flow positive after accounting for capital expenditures.

Moreover, on a stand-alone basis, the utilities' dividends can fund a significant portion of the external dividend (we estimate that utility dividends provide between 80%-90% of external dividend in 2015-2017). On a pro forma basis, assuming Exelon's utility target of 70% payout ratios, the utility contributions would be able to cover the entire external dividend. However, we expect ExGen to continue to contribute to the external dividend, but the company will no longer support the majority as it did before the dividend cut.

Liquidity

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views liquidity across the Exelon group of companies as "strong" in light of the debt maturities we expect and available credit facilities. Exelon has sufficient alternative sources of liquidity to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturity is in 2015 for Exelon ($800 mill.).

As of Dec 31, 2013, Exelon, ExGen, ComEd, PECO, and BGE had revolving credit facilities of $500 million, $5.3 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire in August 2018 (except comEd, which expires in March 2019). ExGen has an additional $400 million bilateral through January 2015. The facilities were largely available as of Dec. 31, 2013, except for $184 million and $135 million of commercial paper outstanding at ComEd and BGE, respectively.

Exelon has a $7.2 billion bridge facility to provide flexibility for timing of permanent financing related to the acquisition of PHI. We expect 50% of the acquisition funds to be financed by debt and expect this financing to be at the Exelon Corp level. We also expect Exelon to maintain balanced funding across the maturity spectrum (i.e., three to 30-year tenors). Further, we expect the equity component to be funded through a mix of common equity and mandatory units, and through $1 billion in unregulated asset sales.

There are no change-of-control provisions in PHI's or its subsidiaries public debt. We have assumed that change-in-control provisions in the bank facilities of PHI are resolved without issues by closing (either through waivers or refinancing). Eventually, management expects to be able to reduce or resize PHI's liquidity and support through Exelon Corp.'s facility.

Principal Liquidity Sources

- Assumed 2014 FFO of about $5.75 billion to $6 billion
- Available revolving credit facility
- $7.2 billion acquisition bridge loan that will be replaced by permanent financing.

Principal Liquidity Uses

- $6.9 billion of cash payment for acquiring all of PHI's shares..
- Working capital
- Dividend payments of about $1 billion annually
- Capital spending and maintenance and environmental costs of about $5 billion to $5.5 billion, annually through 2015

Outlook

Because regulatory processes in merger approvals can take time, we provide below outlooks for the ratings, both on a stand-alone and on a pro forma company basis.

The outlook on the ratings is stable. That said, Standard & Poor's believes that higher natural gas production from shale natural gas plays and a delay in environmental rules related to plant retirements can significantly hurt the company's financial performance. We believe these headwinds have increased and

Exelon faces a potential earnings decline from 2014. Should the commodity pricing environment weaken, the company may have to address its declining earnings profile with a commensurate reduction in capital spending and debt. On a stand-alone basis, we expect Exelon and ExGen to maintain consolidated funds from operations (FFO) to debt of at least 23% and 27%, respectively, to maintain current ratings. If the merger successfully closes, we expect the pro forma company to maintain adjusted FFO to debt in a band of about 21% to 23% and debt to EBITDA at around 3.4x to 3.5x.

Downside scenario

On a stand-alone basis, we could lower Exelon's ratings if adjusted FFO to debt declines below 22%. This could happen if Exelon has increasing competition in its markets in Pennsylvania and Illinois, which would threaten customer retention in its retail business. Gross margins could also come under pressure by a further decline in power prices brought about by declining natural gas prices, or lower market heat rates due to increasing energy efficiency.

Downside for the pro forma company could arise not only from a decline in commodity prices that could affect Exelon's cash flows, but also from a prolonged regulatory approval process that eventually results in substantially higher rebates and concessions to consummate the deal. We could lower the pro forma company's ratings if its adjusted FFO to debt ratios decline below 18% to 19%.

Upside scenario

An upgrade for Exelon stand-alone--currently not under consideration--could result if natural gas prices stabilize and power prices respond favorably to coal plant retirements, resulting in an improvement in consolidated FFO to debt levels of more than 28% on a sustained basis. This could stem from an improved economy and higher electricity prices, as well as from a robust increase in the rate base of Exelon's regulated utility subsidiaries. The pro forma company would need adjusted FFO to debt levels over 24% and debt to EBITDA below 3.2x to be considered for an upgrade. We think this is possible but unlikely before 2016.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated

Utilities Industry, Nov. 19, 2013

- General Criteria: Group Rating Methodology, Nov., 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008

Ratings List

Ratings Affirmed

Ratings Affirmed
Exelon Corp.
PECO Energy Co.
Exelon Generation Co. LLC
Commonwealth Edison Co.

Corporate Credit Rating	BBB/Stable/A-2

Exelon Corp.

Senior Unsecured	BBB-
Commercial Paper	A-2

Commonwealth Edison Co.

Senior Secured	A-
Recovery Rating	1+
Senior Unsecured	BBB
Preferred Stock	BB+
Commercial Paper	A-2

Exelon Generation Co. LLC

Senior Unsecured	BBB
Commercial Paper	A-2

PECO Energy Co.

Senior Secured	A-
Recovery Rating	1+
Preferred Stock	BB+
Commercial Paper	A-2

Baltimore Gas & Electric Co.

Corporate Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Preference Stock	BBB

Commercial Paper	A-2
PEPCO Holdings Inc.	
Corporate Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB
Commercial Paper	A-2
Potomac Electric Power Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Senior Secured	A
Recovery Rating	1+
Commercial Paper	A-2
Delmarva Power & Light Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Senior Secured	A
Recovery Rating	1+
Senior Unsecured	BBB+
Commercial Paper	A-2
Atlantic City Electric Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Senior Secured	A
Recovery Rating	1+
Senior Unsecured	BBB+
Commercial Paper	A-2

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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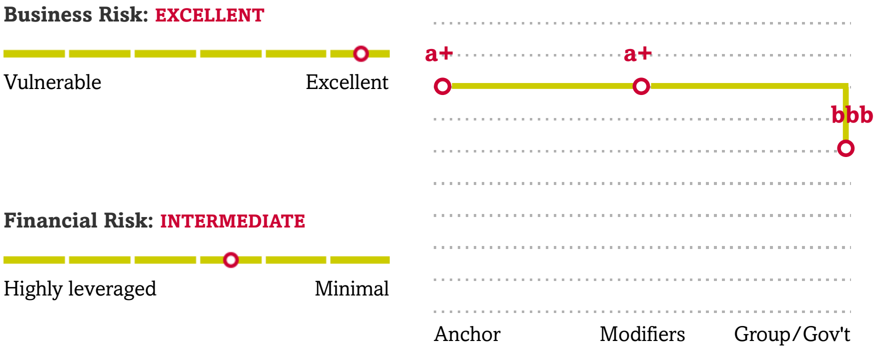
Summary:

PECO Energy Co.



CORPORATE CREDIT RATING

BBB/Stable/A-2

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• Operations under a generally constructive regulatory framework and effective handling of regulatory risk • Low operating risk electric and gas transmission and distribution operations • Large customer base with no geographic diversity	• Robust credit protection measures support an "intermediate" financial risk profile • Planned capital spending remains high leading to negative discretionary cash flow

Anchor Determination

Based on our "excellent" business risk and "intermediate" financial risk profile assessments, there are two potential anchor outcomes ('a+' or 'a'). Our choice of an 'a+' anchor reflects our view that the business risk profile of PECO Energy Co. is at the upper end of the "excellent" category, accounting for the company's large service territory, constructive regulatory environment, and effective handling of regulatory risk.

Outlook: Stable

The rating outlook on PECO Energy reflects our rating outlook on its parent, Exelon Corp. The outlook on Exelon accounts for the company's plans to merge with PEPCO Holdings Inc. The outlook on the ratings is stable. However, Standard & Poor's believes that higher natural gas production from shale natural gas plays and a delay in environmental rules related to plant retirements can significantly hurt the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings decline from 2014. Should the commodity pricing environment weaken, the company might have to address its declining earnings profile with a commensurate reduction in capital spending and debt. On a stand-alone basis, we expect Exelon and Exelon Generation Co. LLC (ExGen) to maintain consolidated funds from operations (FFO) to debt of at least 23% and 27%, respectively, to maintain current ratings. If the merger successfully closes, we expect the pro forma company to maintain adjusted FFO to debt in a band of about 21% to 23% and debt to EBITDA of about 3.4x to 3.5x.

Downside scenario

On a stand-alone basis, we could lower Exelon's ratings if adjusted FFO to debt declines below 22%. This could happen if Exelon has increasing competition in its Pennsylvania and Illinois markets, which would threaten customer retention in its retail business. Gross margins could also come under pressure by a further decline in power prices brought about by declining natural gas prices, or lower market heat rates due to increasing energy efficiency.

Downside for the pro forma company could arise not only from a decline in commodity prices that could affect Exelon's cash flows, but also from a prolonged regulatory approval process that eventually results in substantially higher rebates and concessions to consummate the deal. We could lower the pro forma company's ratings if its adjusted FFO-to-debt ratios decline below 18% to 19%.

Upside scenario

An upgrade for Exelon's stand-alone ratings--currently not under consideration--could result if natural gas prices stabilize and power prices respond favorably to coal plant retirements, resulting in an improvement in consolidated FFO-to-debt levels of more than 28% on a sustained basis. This could stem from an improved economy and higher electricity prices, as well as from a robust increase in the rate base of Exelon's regulated utility subsidiaries. For Standard & Poor's to consider an upgrade, the pro forma company would need adjusted FFO-to-debt levels over 24% and debt to EBITDA below 3.2x. We think this is possible but unlikely before 2016.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics
- Gross margins grow in the low-single digits - Capital spending of $600 million to $625 million annually	Under our base case scenario, we expect that PECO Energy's financial risk profile will remain consistently toward the upper end of the "intermediate" category.

Business Risk: Excellent

We assess PECO Energy's business risk profile as "excellent", accounting for regulated electric and gas transmission and distribution operations, which have low operating risk and benefit from a generally constructive regulatory framework. PECO Energy benefits from the utilization of projected test years in rate cases and an automatic adjustment clause for project-specific distribution system improvements. About 34% of PECO Energy's electric customers representing 68% of 2013 sales have elected to shop for electricity with alternative suppliers, while only 13% of gas customers representing 19% of sales have elected to shop. Nevertheless, PECO Energy's electric and gas operations have no commodity exposure and the company is not affected by fuel cost over- and under-recoveries.

Financial Risk: Intermediate

We view PECO Energy's financial risk profile as being in the "intermediate" category using the low volatility financial ratio benchmarks, reflecting our base case scenario that the company will maintain credit protection measures that remain consistently at the upper end of the category. For the year ended Dec. 31, 2013, FFO to debt was 26.9% and debt to EBITDA was 2.7x, although we expect both measures to weaken somewhat over time, while still supporting an "intermediate" financial risk profile assessment.

Liquidity: Strong

We view PECO Energy's liquidity on a consolidated basis with that of parent Exelon Corp., given PECO Energy's group status as a core subsidiary.

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views liquidity across the Exelon group of companies as "strong" in light of the debt maturities we expect and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturity is in 2015 for Exelon ($800 million).

As of Dec 31, 2013, Exelon, ExGen, Commonwealth Edison Co. (ComEd), PECO Energy Co., and Baltimore Gas & Electric Co. (BG&E) had revolving credit facilities of $500 million, $5.3 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire in August 2018 (except ComEd, which expires in March 2019). ExGen has an additional $400 million bilateral through January 2015. The facilities were largely available as of Dec. 31, 2013, except for $184 million and $135 million of commercial paper outstanding at ComEd and BGE, respectively.

Exelon has a $7.2 billion bridge facility to provide flexibility for timing of permanent financing related to the acquisition of PHI. We expect 50% of the acquisition funds to be financed by debt and expect this financing to be at the Exelon Corp. level. We also expect Exelon to maintain balanced funding across the maturity spectrum (i.e., three to 30-year tenors). Furthermore, we expect the equity component to be funded through a mix of common equity and mandatory units, and through $1 billion in unregulated asset sales.

There are no change-of-control provisions in PHI's or its subsidiaries' public debt. We have assumed that change-in-control provisions in the bank facilities of PHI are resolved without issues by closing (either through waivers or refinancing). Eventually, management expects to be able to reduce or resize PHI's liquidity and support through Exelon Corp.'s facility.

Principal Liquidity Sources	Principal Liquidity Uses
• Assumed 2014 FFO of about $5.75 billion to $6 billion • Available revolving credit facility • $7.2 billion acquisition bridge loan that will be replaced by permanent financing	• Cash payment of $6.9 billion for acquiring all of PHI's shares. • Working capital • Dividend payments of about $1 billion annually • Capital spending and maintenance and environmental costs of about $5 billion to $5.5 billion, annually through 2015

Other Modifiers

Our assessment of the modifiers does not affect the anchor score.

Group Influence

Under our group rating methodology, we consider PECO Energy to be a core subsidiary of Exelon reflecting our view that PECO Energy is highly unlikely to be sold and has a strong long-term commitment from senior management. There are no meaningful insulation measures in place that protect PECO Energy from its parent and therefore, we align the issuer credit rating on PECO Energy with that of parent Exelon at 'BBB'.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low

- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Group credit profile:** bbb
- **Entity status within group:** Core (-4 notches from SACP)

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above a corporate credit rating on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for ‘1+’ and ‘1’ Recovery Ratings on Senior Bonds Secured by Utility Real Property", published Feb. 14, 2013).
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a corporate credit rating on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.
- FMBs at PECO Energy benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the corporate credit rating.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Criteria - Corporates - General: Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

STANDARD & POOR'S
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Exelon Corp. $4.2 Billion Senior Unsecured Notes Rated 'BBB-'

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NEW YORK (Standard & Poor's) June 10, 2015--Standard & Poor's Ratings Services said today it assigned its 'BBB-' issue-level rating to Exelon Corp.'s $4.2 billion of senior unsecured note issues. The corporate credit rating of 'BBB' is unchanged. The lower rating for the unsecured notes stems from structural subordination; the note maturities range from 2017 through 2045.

Exelon intends to use note proceeds to fund its upcoming acquisition of utility holding company PEPCO Holdings Inc., which operates in New Jersey, Maryland, Delaware, and Washington, D.C., as well as to fund the refinancing of upcoming maturities and for general corporate purposes. The acquisition still faces certain hurdles before it can be officially consummated, but we believe it will be finalized during 2015.

RELATED CRITERIA AND RESEARCH

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

RATINGS LIST

Exelon Corp.

Corporate Credit Rating	BBB/Stable/--

New Ratings

Exelon Corp.

$550 mil sr unsecd notes due 2017	BBB-
$900 mil unsecured notes due 2020	BBB-
$1.25 bil unsecured notes due 2025	BBB-
$500 mil unsecured notes due 2035	BBB-
$1.0 bil unsecured notes due 2045	BBB-

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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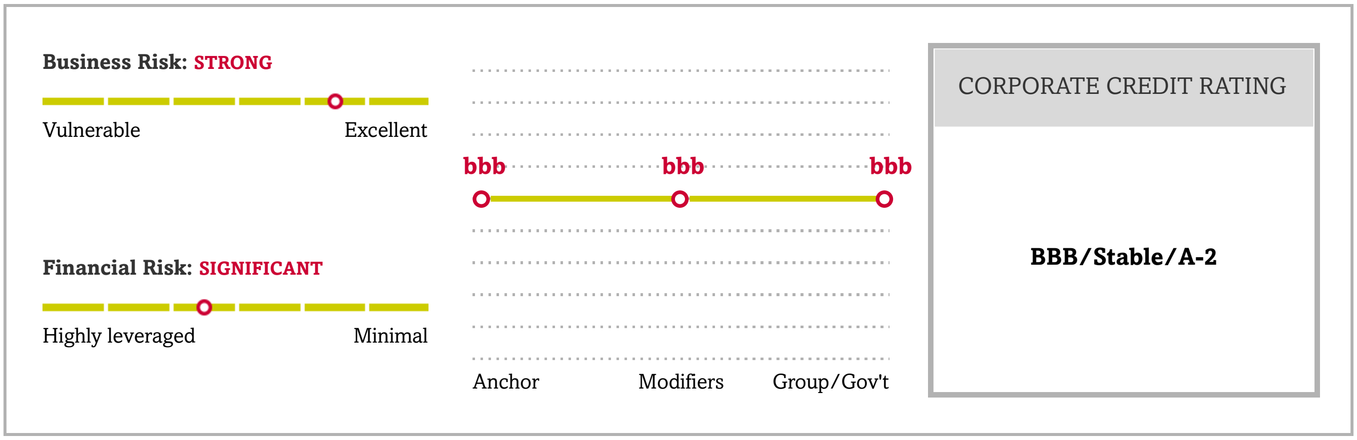
Summary:

Exelon Corp.

*(**Editor's Note:** This summary analysis, originally published Sept. 22, 2014, is being republished to correct an error in our published assumptions. Subsequently, we revised the financial metrics for the year ended Dec. 31, 2014, in the Key Metrics table.)*



Rationale

Business Risk: Strong

- Lower risk rate-regulated utility operations currently represent about 50% of consolidated business, but would increase somewhat with the closing of the proposed PEPCO Holdings Inc. acquisition.
- Low-cost base-load generation has a strong operating track record, though it remains subject to energy margin variability.
- Large production volumes from the Marcellus and Utica shale gas regions and changing prices at the TETCO pricing hub carry significant downside potential for a generation portfolio that is largely nuclear (83% of total generation).
- A mild summer, declining market heat rates and gas basis differentials have weakened the economics of the company's generation plants despite an improving power outlook through much of 2014.
- Capacity prices could continue to languish because of lackluster electric demand, growing energy efficiency, and increased penetration of demand response initiatives.
- Exelon still operates a large nuclear fleet; though there have been operational issues with certain units in the past, this positions the company well as carbon regulation and capacity performance incentives loom.

Financial Risk: Significant

- The backward-dated EBITDA profile persists, although the curve is not as steep as it is for certain competitors.
- Cash flow is significantly hedged through 2015 and 2016 increasingly as hedges are regularly added; even 2017 is hedged in excess of 30%.
- The company's liquidity position remains strong, especially since it has the ability to defer capital spending needs.
- Dividend policy is relatively somewhat aggressive, but this is supported by a steady stream of dividends from utility subsidiaries.

Because regulatory processes in merger approvals can take time, we provide outlooks for the ratings on both a stand-alone and pro forma basis.

The rating outlook on Exelon Corp. is stable. However, Standard & Poor's believes that higher-than-expected natural gas production from shale production regions and a delay in environmental rules related to plant retirements could significantly weaken the company's financial performance. Should the commodity pricing environment weaken even more, the company might have to address a decline in its earnings profile with a commensurate reduction in capital spending and debt. Without the Pepco Holdings Inc. (PHI) acquisition, we expect Exelon and Exelon Generation Co. LLC, respectively, to maintain consolidated funds from operations (FFO) to debt of at least 22% and 27%, respectively, which are the minimum levels to maintain current ratings. If the PHI transaction closes, we expect the pro forma company to maintain adjusted FFO to debt within a band of about 21% to 23% and debt to EBITDA to increase to about 3.4x to 3.5x on an adjusted basis.

Downside scenario

We could lower our ratings on Exelon in the absence of the PHI acquisition if adjusted FFO to debt declined below 22% for the consolidated enterprise. This could happen if Exelon were to face increasing competition in its markets in Pennsylvania and Illinois, which would threaten customer retention in its crucial retail business. Gross margins could also come under pressure if power prices decline further because of declining natural gas prices or lower market heat rates caused by a secular drop in demand related to increasing energy efficiency.

Negative ratings momentum for the company post-acquisition could occur due to a decline in commodity prices that would affect Exelon's cash flows, as well as from a prolonged regulatory approval process that eventually resulted in substantially higher rebates and concessions required to consummate the transaction. We could lower the company's ratings post-acquisition if the adjusted FFO to debt ratios declined below 18% consistently.

Upside scenario

An upgrade for Exelon pre-acquisition, which we presently consider unlikely, could occur if natural gas prices stabilized, or if power prices responded favorably to coal plant retirements, resulting in an improvement in consolidated FFO to debt levels of exceeded 28% on a sustained basis. This could stem from an improved economy in the region and higher electricity prices, as well as from a robust increase in the rate base of Exelon's regulated utility subsidiaries. We could consider an upgrade on the company post-acquisition if adjusted FFO to debt levels were stronger than 24% and debt to EBITDA was below 3.2x; however, we think this is unlikely before 2016, and may depend on a more exhaustive hedging profile beyond that period.

Standard & Poor's Base-Case Scenario

Assumptions

- All regulatory approvals for the PHI acquisition are received by June 2015.
- The purchase is funded by cash earned from approximately $1 billion of asset sales completed in 2014.
- Mandatory converts are given 100% equity credit per our criteria.
- We have assumed merger synergies that build up to a gross run rate of about $135 million annually by 2018 (net $250 million over the initial five years), plus rebates and concessions of about $100 million for ratepayers.
- PHI will be ring-fenced in a manner that meets our criteria. This is important to our consideration of any ratings separation between PHI and Exelon.

Assumptions for Exelon's current stand-alone operations include the following:

- Henry Hub gas prices are between $3.50 per mmbtu and $3.75 per mmbtu through 2016; PJM West hub power prices range between $32 and $36 per megawatt per hour (MWh) in 2016; and Northern Illinois hub hover around $31 per MWh through 2016.
- Nuclear capacity factors perform consistently about 94% through 2017 (each 1% fleet decline results in a $45 million hit to EBITDA).
- Growth rates at the utilities are consistent with management's assumptions.
- Dividend policy remains in line with industry standards.
- Only current hedges are assumed.
- ERCOT spark spreads remain depressed, at about $6.25 per MWh during 2015, but rebound somewhat afterwards.
- Total ExGen generation of about 190 gigawatts per hour in 2015, ticking up only modestly in subsequent years.

Key Metrics

	2014A	2015E	2016E
FFO/debt (%)	25.4%	26%-28%%	27%-29%
Debt/EBITDA (x)	3.1x	3.0x-3.4x	3.0x-3.4x
EBITDA Interest Coverage (x)	5.1x	5.0x-5.5x	5.2x-5.7x

A--Actual. FFO--Funds from operations. E--Estimate.

Note: We will list only our expectations for Exelon Corp.'s stand-alone operations until the merger closes.

Business Risk: Strong

Standard & Poor's current rating on diversified energy company Exelon reflects our view of the company's consolidated business risk profile, which we view as "strong," combining the higher-risk operations of unregulated supply affiliate ExGen with the "excellent" business risk profiles of its rate-regulated transmission and distribution utilities Commonwealth Edison Co. (ComEd), PECO Energy Co., and Baltimore Gas & Electric Co. (BGE). Because of ring-fencing, we deconsolidate BGE's financial profile from Exelon and analyze it solely as an equity investment, incorporating the utility's distributions to the parent as BGE's only contributions to the parent's credit quality and financial profile.

As of Dec. 31, 2014, Exelon had about $21.8 billion of reported on-balance-sheet debt, including nonrecourse debt. We also impute a significant amount of debt onto Exelon's balance sheet. This consists mostly of about $3.3 billion related to pensions and other postemployment benefits, about $240 million to accrued interest, and about $1.4 billion to power purchase agreements.

Regulated utilities currently contribute about 50% of Exelon's consolidated current cash flow. PECO's business risk profile is "excellent" under our criteria, reflecting monopolistic, rate-regulated utility transmission and distribution operations. PECO serves about 1.6 million electric customers and 506,000 natural gas customers in southeastern Pennsylvania, including Philadelphia. The Pennsylvania Public Utility Commission regulates the company's electric and gas distribution rates, and the Federal Energy Regulatory Commission (FERC) regulates transmission rates. Similarly, ComEd's business risk profile is "excellent," reflecting the same monopolistic, rate-regulated utility transmission and distribution operational profile. ComEd serves about 3.8 million customers in northern Illinois, including the city of Chicago. The company's distribution rates are regulated by the Illinois Commerce Commission (ICC), while transmission rates, which comprise nearly a quarter of the company's rate base, are regulated by the FERC. BGE serves about 1.2 million electric and 650,000 gas customers in Central Maryland, including the City of Baltimore. The regulatory framework under which BGE operates can be challenging and unpredictable but has been improving somewhat. The company's electric distribution business operates under a revenue decoupling framework that eliminates per customer usage variability and provides revenue stability, but places the burden on BG&E to effectively manage costs in order to preserve net margins. It is regulated by the Maryland Public Service Commission.

We expect ExGen's unregulated operations to constitute nearly 50% of the consolidated enterprise in terms of cash flow and capital spending during 2015. ExGen generates a significant portion of earnings from its retail operations. Through retail and wholesale channels, ExGen now provides about 150 to 165 terawatt-hours, or nearly 5% of total U.S. power demand, and enjoys regional diversity. The company's generation units are well positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. In most locations, ExGen has adequate intermediate and peaking capacity for managing load-shaping (matching resources with energy needs) risks. However, we believe the company will still need to buy and sell generation in the market to manage its portfolio needs, which exposes it to considerable commodity risk. Moreover, ExGen has a significant open position in the Midwest to merchant markets, and a somewhat tighter position in Texas and New England, where it has some risk of finding itself short when loads are high and when power prices are relatively high, in our opinion.

ExGen's cash flow is rather sensitive to commodity prices because roughly 83% of the business's generation is nuclear; unlike gas-fired assets, which have a lower cost structure if gas prices drag power prices down, a nuclear fleet faces winnowing margins based on lower market heat rates. Given that base-load generation is price-taking by nature, we expect ExGen's adjusted FFO to debt to remain volatile relative to peers. For instance, with all else being equal, we estimate gross margins in 2017 will be lower by about about $300 million for every $5 per MWh (round-the-clock) decline in power prices, about $650 million for every $1 per MMBTU decline in natural gas prices. Nearer term figures are not quite as volatile due to more thorough hedging and better visibility into pricing.

We view ExGen's ratable hedging strategy favorably because it ensures that a high percentage of the company's near-term generation remains locked-in. Hedging not only protects unregulated generation cash flows from steep price declines, but also provides the company time to adjust its cost structure or its capital structure if prices remain depressed. For instance, as forward prices and market heat rates rose throughout 2014, Exelon hedged aggressively and reduced its commodity exposure by moving its hedging from the lower end to the higher end of its ratable hedging targets for 2015 and 2016, and even 2017 to a lesser extent.

Current hedges demonstrate the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, they also show the sensitivity of ExGen's margins to the prospect of a continued shale gas production onslaught. The decline in mark-to-market value through 2014 demonstrates the limit to which Exelon can hedge -- price-taking plants can hedge, but only at the prices the market will bear. Also, the merchant generation margins at ExGen could face a decline as high-priced hedges expire, which is evident in the drop in wholesale hedged gross margins. Still, forward prices do show a modest contango (i.e., future prices are above expected future spot prices) as reflected in the increase in ExGen's open EBITDA from higher natural gas forward prices compared with year-end 2013. In addition, although retail competition has increased, and ExGen has lowered its growth estimates, we believe retail contributions can mitigate the wholesale decline, given the potential for cost savings, volumes gained from the Constellation merger, and acquisitions.

Excluding the PHI merger, ExGen's contribution to Exelon's cash flow declines somewhat under our projected base case because of the decline in unregulated cash flow when commodity prices fall. However, despite lower power prices, we view the business risk profile of Exelon Corp. as "strong." We expect financial measures to remain flat or to decline modestly during 2015. However, the corporate credit ratings reflect our expectation that 2014 and 2015 will be the trough years, and that metrics could improve in 2016 or 2017. Based on the present forward-price curve, cash flow measures are adequate for the rated level in these years, especially after parent Exelon announced significantly reduced dividend payouts and ExGen deferred or eliminated some planned capital spending. Still, despite the improvement in free operating cash flow resulting from the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having "significant" financial risk.

We view Exelon's management strategy as an important determinant of the company's current "strong" business risk assessment. In recent years, Exelon has implemented a strategy of internal growth through reinvesting in existing businesses and investing in new technologies. There is also a bias toward longer-term contracted businesses. Management's business strategy appears to have positioned it well to take advantage of certain long-term, secular trends, such as environmental regulation and the push for capacity performance, which are likely to influence unregulated power markets in coming years. While the utilities primarily focus on growing rate base and earning a reasonable return, they are also playing a role in competitive markets by investing extensively in transmission-related infrastructure. Given uncertain unregulated markets, management's focus has shifted into growing the regulated businesses.

Financial Risk: Significant

Exelon's dividend payout is currently in line with peers (about 55% to 60%). However, capital spending requirements remain significant between 2015 and 2016 at about $3.5 billion, collectively, for the regulated companies and almost $4 billion for ExGen. Although utility capital spending tends to be funded through rate base additions, unregulated generation must recover the funding of its own capital requirements through capacity market prices (and energy margins, in Texas). Importantly, because of announced cuts, consolidated cash flow from operations will largely cover capital spending and dividends, resulting in only modest external financing needs. Still, incrementally lower gas prices would hurt ExGen's debt protection measures more than increases in debt financing or in operating and maintenance costs, through 2015.

On a stand-alone basis, under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect Exelon's consolidated FFO to total debt to hover around 25% to 28% through 2015. Importantly, we expect to see negative discretionary cash flow (i.e., net of dividends) improve meaningfully. The FFO to total debt ratio is consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as "significant," especially since a meaningful amount of capital spending is discretionary.

At ExGen, we expect free operating cash flow to debt to remain positive even in 2015 when we expect financial measures to trough. Because of the decline in commodity prices, we expect ExGen's FFO-to-debt ratio to remain about 33% in 2015. Although the company's cash flows are relatively more volatile compared with peers because of the larger base-load generation, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must decline and stay below $2.75 per Mcf before its FFO to debt falls below 20%, a level well below the current price of about $3.50.

If the PHI acquisition is successful, under our base case we expect the consolidated ratio of adjusted FFO to total debt to fall to about 21% in 2015, then improve to about 24% by 2016. Importantly, we expect free operating cash flow to debt to remain mostly positive throughout 2015-2017, although discretionary cash flow becomes meaningfully negative in 2015. Debt to EBITDA increases to 3.6x in 2015. These ratios are appropriate for Standard & Poor's 'BBB' guideposts for a "significant" financial risk profile on the medial volatility table. Nevertheless, we believe there are risks that cash flow may eventually end up less than expected because merger synergies and/or savings take longer to accrue, power prices trend lower than expected due to higher natural gas production from shale plays, or because there is a delay in retiring coal plants.

Also, because we give credit for nuclear fuel amortization in adjusted FFO, we expect subsidiary ExGen to remain operating cash flow positive (i.e., after capital spending that includes nuclear fuel costs). Through the forecast period, ExGen remains cash flow positive after accounting for capital spending.

Moreover, on a stand-alone basis, the utilities' dividends can fund a significant portion of the external dividend (we estimate that utility dividends can provide between 80% and 90% of external dividend in 2015-2017). Post-acquisition, assuming Exelon's utility target of 70% payout ratios, the utility contributions would be able to cover the entire external dividend. However, we expect ExGen to continue to contribute to the external dividend, though less than the majority as it did before the dividend cut.

Liquidity: Strong

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views liquidity across the Exelon group of companies as "strong" in light of the debt maturity schedule and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen as it settles its forward hedges.

As of Dec. 31, 2014, Exelon, ExGen, ComEd, PECO, and BGE had revolving credit facilities of $500 million, $5.8 billion, $1 billion, $600 million, and $600 million, respectively. These facilities largely expire in 2019. The facilities were largely available as of Dec. 31, 2014, except for $304 million and $120 million of commercial paper outstanding at ComEd and BGE, respectively, as well as certain letters of credit outstanding.

Exelon has a $3.2 billion bridge facility in place to provide flexibility for the timing of permanent financing related to the PHI acquisition. There are no change-of-control provisions in PHI's or its subsidiaries' public debt. We have assumed that change-of-control provisions in the bank facilities of PHI are resolved by closing (either through waivers or refinancing). Eventually, management expects to be able to reduce or resize PHI's liquidity and support the company through Exelon's facility.

Principal Liquidity Sources	Principal Liquidity Uses
• Funds from operations of $4.8 billion in 2015. • Credit facility availability of about $7.9 billion. • Acquisition bridge loan for $3.2 billion that will be replaced by permanent financing. • Cash on Hand of about $1.8 billion.	• Cash payment of $6.9 billion for acquiring all of PHI's shares. • Working capital needs of $129 million. • Dividend payments of over $1 billion annually. • Capital spending and maintenance and environmental costs of $5 billion to $5.5 billion during the next 12 months • Debt maturities of $1.7 billion.

Debt maturities ($mm) as of Dec. 31, 2014

- 2015: 1,739
- 2016: 1,269
- 2017: 2,400

- 2018: 1,415
- 2019: 982

Other Modifiers

We assess all modifiers as neutral, resulting in no change to the anchor score.

Group Influence

The group credit profile (GCP) of Exelon is 'bbb'. As the parent company with one relatively small insulated subsidiary (BGE), Exelon's issuer credit rating is the same as its GCP. Senior unsecured debt at Exelon Corp. is notched down to 'BBB-' because of structural subordination to priority obligations at the operating subsidiaries.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb
- **Entity status within group:** Core (no impact)

Related Criteria And Research

Related Criteria

- Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2014
- Methodology and Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan 2, 2014.
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors for The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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Research Update:

Exelon Corp. And Subsidiaries Ratings Affirmed; Liquidity And M&G Scores On Some Subsidiaries Revised

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Research Update:

Exelon Corp. And Subsidiaries Ratings Affirmed; Liquidity And M&G Scores On Some Subsidiaries Revised

Overview

- We have completed our review of Exelon Corp. and its subsidiaries and are affirming our issuer credit ratings and all other ratings on Exelon's regulated subsidiaries, including our 'BBB' long-term corporate credit rating on Exelon.
- At the same time, we are revising our stand-alone credit profile (SACP) on Baltimore Gas & Electric Co. (BGE) to 'a' from 'a-', reflecting improved financial performance that we expect will be in line with the lower end of the intermediate financial risk profile category.
- At the same time, we are revising our liquidity assessment for BGE, Commonwealth Edison Co. and PECO Energy Co. to adequate from strong.
- In addition, we are revising our management and governance assessment for newly acquired PEPCO Holdings Inc. and its three subsidiaries, Atlantic City Electric Co., Delmarva Light & Power Co., and Potomac Electric Power Co., to strong from satisfactory because these subsidiaries are now part of Exelon, a company that we assess as having a strong management and governance modifier.
- The rating outlook is stable, based on the stable rating outlook on parent Exelon Corp.

Rating Action

On July 25, 2016, S&P Global Ratings affirmed its ratings on Exelon Corp., including the 'BBB' long-term corporate credit rating, and its regulated subsidiaries. The subsidiaries are Baltimore Gas & Electric Co. (BGE), Commonwealth Edison Co., PECO Energy Co., and PEPCO Holdings Inc. (and PEPCO's three operating subsidiaries Atlantic City Electric Co., Delmarva Power & Light Co., and Potomac Electric Power Co.). The outlook remains stable.

At the same time, we revised the the stand-alone credit profile (SACP) on BGE to 'a' from 'a-'. We also revised our assessment of liquidity for PECO Energy Co., BGE, and Commonwealth Edison to adequate from strong, and revised our assessment for management and governance to strong from satisfactory for recently acquired PEPCO Holdings Inc. and its three operating subsidiaries.

Rationale

The rating affirmations are based on the view that each of these subsidiaries is a core subsidiary to the parent. For Commonwealth Edison and PECO there are no insulation provisions in place and therefore, the issuer credit rating (ICR) on each entity is in line with that of the parent. For BGE we afford two notches of insulation between the company and Exelon (BBB/Stable/A-2), which in combination with an 'a' SACP on BGE leads to an 'A-' ICR for the company. For PEPCO Holdings and its subsidiaries we recognize one notch of insulation, which in combination with a 'bbb+' SACP on the company leads to an ICR for each of PEPCO Holdings and its subsidiaries of 'BBB+'. Therefore our ICRs for these entities are as follows:

- Commonwealth Edison Co.: 'BBB' (no insulation)
- PECO Energy Co. (PECO): 'BBB' (no insulation)
- Baltimore Gas & Electric Co. (BGE): 'A-' (two notches of insulation)
- PEPCO Holdings Inc.: 'BBB+' (one notch of insulation)
- Potomac Electric Power Co.: 'BBB+' (one notch of insulation)
- Delmarva Power & Light Co. (DPL): 'BBB+' (one notch of insulation)
- Atlantic City Electric Co. (ACE): 'BBB+' (one notch of insulation)

We revised the SACP on BGE to 'a' from 'a-' based on the improvement in financial performance in recent years and our expectation that it will continue to be robust, with credit metrics in the 25%-27% range through 2018 and about 23%-25% thereafter. However, our ratings on BGE remain the same because we currently recognize two notches of insulation between BGE and Exelon, which caps the ICR of BGE at 'A-'.

Our revised assessment of liquidity for BGE, Commonwealth Edison, and PECO to adequate from strong reflects our view that Exelon will manage these subsidiaries' liquidity in a way that will ensure at least adequate liquidity. We expect sources of cash to exceed uses of cash by 1.1x or more, facilitated by ongoing interactions with the group, cash injections from the parent as needed, manageable debt maturities, undrawn revolving credit facilities at the subsidiaries, and capital expenditures that can be deferred in times of stress. The revised liquidity assessment for these three subsidiaries does not affect our ratings on the subsidiaries.

Finally, we revised our assessment of management and governance (M&G) on PEPCO Holdings Inc., Atlantic City Electric Co., Delmarva Power & Light Co., and Potomac Electric Power Co. to strong from satisfactory to reflect the ownership by Exelon, whose management and governance assessment is strong. We adjust the M&G scores of core subsidiaries to be in line with the ultimate parent because we view the parent as having ultimate control over the subsidiary's financial policy and managerial decision-making.

Liquidity

We assess Exelon's subsidiaries' liquidity as adequate, reflecting direct support already committed from the parent and the influence of ongoing interactions with the group, including the provision of various corporate services and the availability of centralized liquidity resources on an as-needed basis. We expect liquidity sources to exceed uses by 1.1x or more, the minimum threshold for regulated utilities under our criteria, and that the company will also meet our other requirements for such a designation. The subsidiaries' liquidity benefits from stable cash flow generation, various revolving credit facilities at BGE, Commonwealth Edison, PECO Energy, and PEPCO Holdings, sufficient liquidity provided by the parent to meet ongoing needs, and manageable debt maturities over the next few years.

Outlook

We base the stable rating outlook on these subsidiaries on the stable rating outlook on parent Exelon. However, we believe that higher-than-expected natural gas production from shale production regions and a delay in environmental rules related to plant retirements could weaken the company's financial performance during the next few years. If commodity prices weaken further, Exelon might have to address a decline in its earnings profile with commensurate reductions in capital spending and debt. We expect the consolidated pro forma company to maintain adjusted funds from operations (FFO) to debt of about 18%-21% and debt to EBITDA to increase to about an adjusted 3.8x-4.0x, including the effects of the recent Pepco acquisition; we anticipate these would improve somewhat beyond 2016 and 2017.

Downside scenario

Negative ratings momentum could occur due to a decline in commodity prices that would affect another of Exelon's subsidiaries--Exelon Generation Co. LLC--and, as a result, Exelon's cash flows. We could lower the ratings on Exelon if the adjusted consolidated FFO to debt ratios were to decline below 16% and remain at that level.

Upside scenario

We could consider an upgrade if the company's adjusted consolidated FFO to debt levels exceeded about 24% and debt to EBITDA declined to below about 3.5x. We think this is unlikely before the end of 2016, but could occur in the following year if power prices improve or rate case outcomes are better than expected.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

Exelon Corp.	
PECO Energy Co.	
Exelon Generation Co. LLC	
Commonwealth Edison Co.	
Corporate Credit Rating	BBB/Stable/A-2
Atlantic City Electric Co.	
Potomac Electric Power Co.	
PEPCO Holdings Inc.	
Delmarva Power & Light Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Baltimore Gas & Electric Co.	
Corporate Credit Rating	A-/Stable/A-2
Exelon Corp.	
Senior Unsecured	BBB-
Junior Subordinated	BB+
Commercial Paper	A-2
Atlantic City Electric Co.	
Senior Secured	A

Recovery Rating	1+
Senior Secured	AA-
Commercial Paper	A-2
BGE Capital Trust II	
Preferred Stock	BBB
Baltimore Gas & Electric Co.	
Senior Unsecured	A-
Preference Stock	BBB
Commercial Paper	A-2
Commonwealth Edison Co.	
Senior Secured	A-
Recovery Rating	1+
Senior Unsecured	BBB
Preferred Stock	BB+
Commercial Paper	A-2
Delmarva Power & Light Co.	
Senior Secured	A
Recovery Rating	1+
Senior Unsecured	AA-
Senior Unsecured	BBB+
Commercial Paper	A-2
Exelon Generation Co. LLC	
Senior Unsecured	BBB
Commercial Paper	A-2
PECO Energy Capital Trust III	
Preferred Stock	BB+
PECO Energy Co.	
Senior Secured	A-
Recovery Rating	1+
Senior Secured	AA
Preferred Stock	BB+
Commercial Paper	A-2
PEPCO Holdings Inc.	
Senior Unsecured	BBB
Commercial Paper	A-2
Peco Energy Capital Trust IV	
Preferred Stock	BB+
Potomac Electric Power Co.	
Senior Secured	A
Recovery Rating	1+

Commercial Paper	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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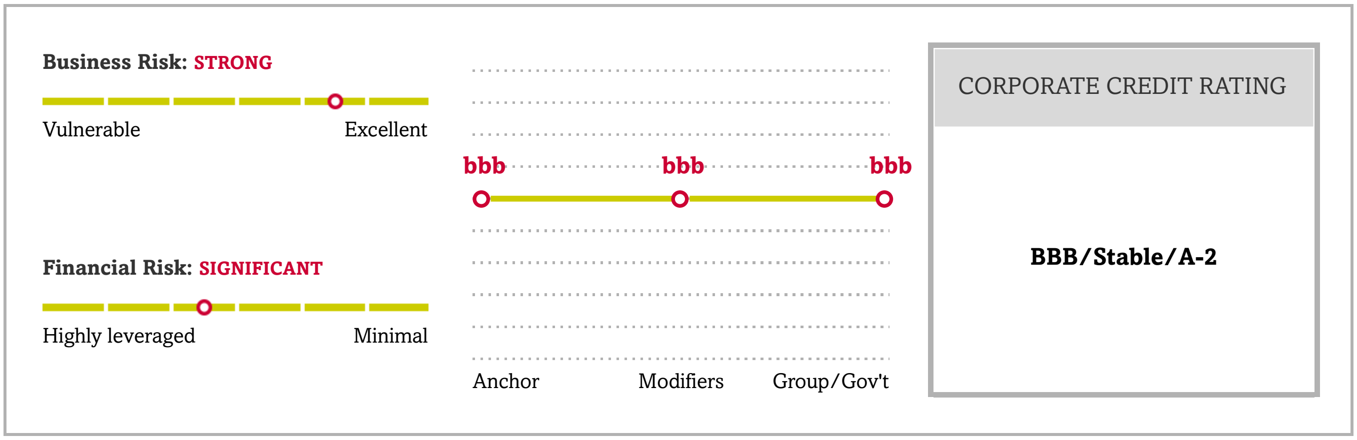
Reconciliation

Related Criteria And Research

Exelon Corp.



Rationale

Business Risk

- Lower risk rate-regulated utility operations at diversified energy company Exelon Corp. now represent nearly 60% of consolidated EBITDA, upon the closing of the Pepco Holdings LLC (PH LLC) acquisition.
- Low-cost base-load generation has a strong operating track record, though it remains subject to considerable energy margin variability, driven by commodity prices, demand, and weather patterns; this has recently created some weakness in the merchant end of the business.
- Large natural gas production volumes have collapsed gas and power prices, carrying significant downside potential for a generation portfolio that is largely nuclear (more than 60% of total generation by nameplate capacity).
- Several consecutive mild summers, declining market heat rates, and gas regional pricing differentials have weakened the expected economics of the company's generation plants over the next 24 months despite a stronger fundamental long-term outlook.
- Capacity prices could continue to languish because of lackluster electric demand, growing energy efficiency, and increased penetration of demand response initiatives in key markets. However, this could to a limited degree reverse in coming auctions as capacity performance schemes proliferate.
- Exelon still operates a large number of nuclear plants; this puts the company in a good position as carbon regulation and capacity performance incentives loom.

Financial Risk

- The backward-dated EBITDA profile persists, although the curve is not as steep as it is for certain competitors, owing to a proactive hedging strategy and participation in robust capacity markets.
- As usual, cash flow on the generation side is significantly hedged during the next two years, plus hedges are regularly added; 2018 is now hedged to around 40%, despite ongoing weakness in forward power pricing.
- The company's liquidity position remains strong, especially because it can defer capital spending needs, which are comparatively low because Exelon's plants are more modern.
- Dividend policy is in line with industry norms, and continues to be supported by a steady stream of dividends from utility subsidiaries, which has increased with its most recent transaction.
- Although capital spending needs have been substantial at certain periods in the past, we expect that they'll be more in line with industry norms because this company is already well-suited for upcoming environmental regulations.

Outlook

The rating outlook on Exelon Corp. is stable. However, we believe that higher-than-expected natural gas production from shale production regions and a delay in environmental rules related to plant retirements could weaken the company's financial performance during the next few years. If commodity prices weaken even more, the company might have to address a decline in its earnings profile with commensurate reductions in capital spending and debt. We expect the consolidated pro forma company to maintain adjusted funds from operations (FFO) to debt of about 19% to 21% and debt to EBITDA to increase to about an adjusted 3.8x to 4.0x, including the effects of the recent PH LLC acquisition.

Downside scenario

Negative ratings momentum could occur due to a decline in commodity prices that would affect subsidiary Exelon Generation Co. LLC's (ExGen) and, as a result, Exelon's cash flows. We could lower the company's ratings if the adjusted consolidated FFO to debt ratios were to consistently decline below 16%.

Upside scenario

We could consider an upgrade if the company's reported adjusted consolidated FFO to debt levels stronger than about 24% and consolidated debt to EBITDA below about 3.5x. We think this is unlikely before the end of 2016, but could come about as a result of improved power prices in key markets that buoy nuclear assets, which have been struggling; this would be prompted by higher gas prices or improved demand.

S&P Global Ratings Base-Case Scenario

Assumptions

Assumptions for Exelon's current stand-alone operations:

- Henry Hub gas prices are $2.50 per million Btu (mmBtu) in 2016 and $2.75/mmBtu in 2017; PJM Interconnection West hub power prices are between $29 and $35 per megawatt hour (MWh) in 2016; Northern Illinois hub hovers around $30/MWh through 2017.
- Nuclear capacity factors are consistently at about 93%-94% through 2017.
- Quad Cities and Clinton Nuclear facilities close as expected during the next few years; we do not yet include the benefits of a possible acquisition of the FitzPatrick asset.
- Dividend policy remains in line with industry standards.
- Only current hedges are assumed.
- Spark spreads remain depressed in Texas, with an average of about $6/MWh during 2016 and 2017
- Total ExGen generation of about 195 gigawatts per hour in 2016, ticking up only modestly in subsequent years.

Key Metrics

	2016E	2017E
FFO/debt (%)	18-21	20-22
Debt/EBITDA (x)	4-4.1	3.9-4.1
EBITDA interest coverage (x)	5.6-6	5.9-6.3

FFO--Funds from operations. E--Estimate. Note: Our metrics include the impacts of the recently approved Pepco Holdings acquisition.

Company Description

Our current rating on Exelon reflects our view of the company's consolidated business risk profile as strong, combining the higher-risk operations of unregulated supply affiliate ExGen with the excellent business risk profiles of its rate-regulated transmission and distribution utilities Commonwealth Edison Co. (ComEd), PECO Energy Co., Baltimore Gas & Electric Co. (BGE), Atlantic City Electric Co., Delmarva Power & Light Co., and Potomac Electric Power Co. (Pepco). Because of ring-fencing, we deconsolidate BGE's financial profile from Exelon and analyze it solely as an equity investment, incorporating the utility's distributions to the parent as BGE's only contributions to the parent's credit quality and financial profile. However, we consolidate Pepco and its subsidiaries, though we afford one notch of separation based on some delinking measures.

Business Risk

Our current rating on diversified energy company Exelon reflects the company's consolidated business risk profile, which we view as strong, combining the higher-risk operations of unregulated supply affiliate ExGen with the excellent business risk profiles of its rate-regulated transmission and distribution utilities. Because of ring-fencing, we deconsolidate BGE's financial profile from Exelon and analyze it solely as an equity investment, incorporating the utility's distributions to the parent as BGE's only contributions to the parent's credit quality and financial profile. However, we consolidate PEPCO and its subsidiaries, though we afford one notch of separation based on some delinking measures.

As of March 31, 2016, Exelon had about $38 billion of adjusted debt, after considering the effects of operating leases, deconsolidation, power purchase agreements, and cash netting, as well as a recent debt issuance aimed at funding the PH LLC acquisition.

Given the relative stability of the cash flows and business in general, we net the majority of the cash on the balance sheet against this debt tally.

Regulated utilities now contribute more than 50% of Exelon's consolidated current cash flow. PECO's business risk profile is excellent under our criteria, reflecting monopolistic, rate-regulated utility transmission and distribution operations. PECO serves more than 1.6 million electric customers and 500,000 natural gas customers in southeastern Pennsylvania, including Philadelphia. Similarly, ComEd's business risk profile is excellent, reflecting the same monopolistic, rate-regulated utility transmission and distribution operational profile. ComEd serves more than 3.9 million customers in northern Illinois, including Chicago. BGE serves more than 1.3 million electric and 650,000 gas customers in Central Maryland, including Baltimore. The regulatory framework under which BGE operates can be challenging and unpredictable, but has been improving somewhat. Pepco operates across several jurisdictions, including New Jersey, Delaware, Maryland, and the District of Columbia, totaling more than 1.9 million customers.

ExGen's unregulated operations now constitute less than 50% of the consolidated enterprise in terms of cash flow and capital spending during 2016 upon closing of the PH LLC acquisition (as well as weakness in cash flows from some nuclear assets). ExGen generates a significant portion of earnings from its retail operations. Through retail and wholesale channels, ExGen now provides nearly 195 terawatt-hours, or nearly 5% of total U.S. power demand, and enjoys significant regional diversity, participating in the PJM Interconnection in the Mid-Atlantic, New England, and Texas markets; we expect a similar figure in 2016, though this could be offset beyond 2018 with nuclear retirements. The company's generation units are well-positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. In most locations, ExGen has adequate intermediate and peaking capacity for managing load-shaping risks. However, we believe the company will still need to buy and sell generation in the market to manage its portfolio needs, which exposes it to considerable commodity risk. Moreover, ExGen has a significant open position in the Midwest to merchant markets, and a somewhat tighter position in Texas and New England, where it has some risk of finding itself short when loads and power prices are high.

ExGen's cash flow is sensitive to commodity prices because more than 70% of the business's generation, including purchased power, is nuclear; unlike gas-fired assets, which have a lower cost structure if gas prices drag power prices down, its nuclear plants face winnowing margins based on lower market heat rates, especially if capacity prices are low. Given that base-load generation is price-taking by nature, we expect ExGen's adjusted FFO to debt to remain volatile relative to its peers. For instance, we estimate gross margins in 2017 will be lower by more than $100 million for every $5 per MWh (round-the-clock) decline in power prices, and about $300 million for every $1 per million Btu decline in 2017 natural gas prices. Near-term figures are not quite as volatile due to more thorough hedging and better visibility into pricing.

While the utility businesses continue to demonstrate considerable stability in cash flows and effective management of regulatory relationships, a number of factors continue to confront ExGen. First, the very low gas price environment has called into question the viability of certain of ExGen's nuclear generating assets. Should these low gas prices continue to drive low power prices unabated, we'd expect the issuer to consider the closure of these plants. We acknowledge that, if passed, the currently proposed Next Generation Energy Plan in Illinois could partially mitigate this challenge.

Contrarily, looming developments in the PJM Interconnection may benefit ExGen. We expect the next Base Residual Auction (2020-21), slated for May 2017, to contain both incentives and penalties around capacity performance, to a greater degree than previous auctions have (the base performance option will likely have been removed). While single-asset issuers could be particularly exposed, we believe a well-diversified, nuclear-intensive participant like ExGen would be well-suited to capture higher capacity prices. And, as carbon regulations may unfold during the early 2020s, ExGen's comparatively clean fleet of plants will likely benefit from mass coal plant closures in the Midwest and Mid-Atlantic.

We view ExGen's ratable hedging strategy favorably because it ensures that a high percentage of the company's near-term generation remains locked in. Hedging not only protects unregulated generation cash flows from steep price declines, but also provides the company time to adjust its cost structure or its capital structure if prices remain depressed. For instance, as forward prices rose through 2014, Exelon hedged aggressively and reduced its commodity exposure by moving its hedging from the lower end to the higher end of its ratable hedging targets for 2015 and 2016; we note that this could be more challenging in the future with lower forward power pricing, and forward looking hedging proportions are somewhat lower than previous years as of the end of the first quarter of 2016.

The issuer's hedges have effectively softened the aforementioned cash flow volatility; this was particularly apparent during otherwise weak market conditions in 2014 and 2015. Even though these hedges insulate ExGen, they continue to show the sensitivity of ExGen's margins to the prospect of continued shale gas production. The merchant generation margins at ExGen could face a decline as high-priced hedges expire, which is evident in the drop in wholesale hedged gross margins. Still, forward prices do show a modest contango (future prices are above expected future spot prices), as reflected in the increase in ExGen's open EBITDA from higher natural gas forward prices compared with mid-year 2015.

ExGen's contribution to Exelon's cash flow has declined somewhat under our projected base case because of the decline in unregulated cash flow when commodity prices fall, as well as due to the renewed focus on regulated activities; we anticipate this will continue going forward. However, despite lower power prices, we view the business risk profile of Exelon as strong. We expect financial measures to remain flat or to decline modestly during 2015. However, the corporate credit ratings reflect our expectation that 2016 will be trough years for power pricing, with the business profile being fortified by the PH LLC acquisition. Based on the present forward-price curve, cash flow measures are adequate for the rated level in these years, especially after Exelon announced significantly reduced dividend payouts in 2013 and ExGen deferred or eliminated some planned capital spending. Still, despite the improvement in free operating cash flow resulting from the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having significant financial risk.

Additionally, the role of nuclear assets in the portfolio promises to change over time. Exelon has already announced the closure of the Quad Cities and Clinton nuclear assets in coming years, and we anticipate that Exelon could face decisions of about the closure of certain less efficient remnant assets during the next few years. However, simultaneously, we note that Exelon has also began discussions with Entergy surrounding the transfer of the FitzPatrick asset in New York, in light of a recent proposal by New York's regulatory authorities that would effectively subsidize upstate nuclear assets. Nonetheless, we maintain that assets in both Illinois and New York will have significant value if and when the Clean Power Plan is reinstated; we believe it would be quite difficult for both states to meet reduction targets if they were required to replace this efficient baseload generation.

Finally, we expect that recent developments in PJM, Exelon's predominant market, should support the credit quality of the generation business. The evolution towards a capacity performance construct would generally help support higher prices. The risk associated with this stems from performance--penalties for not being able to run during critical hours could be draconian, and, for single asset generators or small portfolios, this could be an existential risk. However, for broad, higher performing portfolios like the one Exelon boasts, the risk can be diversified.

We view Exelon's management strategy as an important determinant of the company's current strong business risk assessment. In recent years, Exelon has implemented a strategy of internal growth through reinvesting in existing businesses and investing in new technologies. There is also a bias toward longer-term contracted businesses. Management's business strategy appears to be three-pronged: cost and productivity enhancements that include strategies like divestments and asset retirements; enlarging alternative energy investments through renewables development projects (mostly wind and solar); and investing in new technologies such as the smart grid. While the utilities primarily focus on growing rate base and earning a reasonable return, they are also playing a role in competitive markets by investing extensively in transmission-related infrastructure. Given uncertain unregulated markets, management's focus has shifted into growing the regulated businesses, most recently with the upcoming PH LLC acquisition.

S&P Base Case Operating Scenario

- The merchant generation units continue to operate well, the nuclear units in particular
- Exelon maintains its hedging strategy for its merchant generation units, which serves to guard against lower power prices
- The company continues to effectively manage regulatory risk in all its jurisdictions, ensuring timely recovery of investment

Peer Comparison

Table 1

Exelon Corp. -- Peer Comparison

Industry Sector: Energy

Last Three Years Average	**Exelon Corp**	**Entergy Inc.**	**NextEra Energy**	**FirstEnergy Corp.**
Rating history	BBB/Stable/A-2	BBB/Positive/A-2	A-/Stable/--	BBB-/Negative/--
(Mil. $)				
Revenues	27,254.7	11,701.4	16,474.7	14,880.9
EBITDA	7,803.7	4,436.1	6,395.0	4,163.3
Funds from operations (FFO)	6,135.2	3,457.6	5,505.5	2,995.6
Operating income	3,913.3	2,301.9	3,719.4	2,314.0
EBIT	4,202.0	2,474.9	4,148.1	2,372.6
Interest Expense	1,577.9	1,095.9	1,071.1	1,367.9
Net income from continuing operations	1,870.3	511.4	2,312.3	388.7
Working capital changes	(499)	(20.0)	(205.3)	83.0
Cash flow from operations	6,182.3	3,210.6	5,108.8	2,615.6
Capital expenditures	6,499.7	2,745.3	7,289.9	3,038.3
Free operating cash flow	(317.4)	465.3	(2,181.1)	(422.8)
Dividends paid	1,154.2	592.8	1,380.0	710.3
Discretionary cash flow	(1,471.6)	(127.5)	(3,561.1)	(1,133.1)
Cash and short-term investments	3,329.7	1,170.7	528.7	144.7
Debt	24,765.1	15,134.3	21,367.2	24,119.5
Preferred stock	310.5	154.6	3,118.4	0.0
Equity	25,044.5	9,787.0	23,558.4	12,513.0
Debt and equity	49,809.6	24,921.2	44,925.6	36,632.5
Adjusted ratios				
Annual revenue growth (%)	7.8	4.1	7.1	(0.7)
EBITDA margin (%)	28.6	37.9	38.8	28.0
EBIT interest coverage (x)	2.7	2.3	3.9	1.7
EBIT margin(%)	15.4	21.2	25.2	15.9
Return on capital (%)	6.9	7.3	8.0	5.5
EBITDA interest coverage (x)	4.9	4.0	6.0	3.0
EBITDA cash int. cov. (x)	7.8	6.8	5.6	4.0
FFO cash int. cov. (x)	7.7	7.0	5.7	4.2
CFO cash int. cov. (x)	6.2	4.9	4.5	2.5
Debt/EBITDA (x)	3.2	3.4	3.3	5.8
FFO/debt (%)	24.8	22.8	25.8	12.4
Cash flow from operations/debt (%)	25.0	21.2	23.9	10.8
Free operating cash flow/debt (%)	(1.3)	3.1	(10.2)	(1.8)
Discretionary cash flow/debt (%)	(5.9)	(0.8)	(16.7)	(4.7)

Financial Risk

Exelon's dividend payout is currently in line with industry norms. However, capital spending requirements remain significant in 2016, with regulated utility spending at the three incumbent utilities reaching $3.95 billion and as much as $1.4 billion at PH LLC; this should continue in subsequent years. Although utility capital spending tends to be funded through rate base additions and tracker mechanisms, unregulated generation must recover the funding of its own capital requirements through capacity market prices (and energy margins, in Texas); these should eclipse $3 billion in 2016.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect Exelon's consolidated FFO to total debt to hover at around 21% through 2017. We expect to see negative discretionary cash flow (i.e., net of dividends) improve meaningfully. The FFO to total debt ratio is consistent with our 'BBB' rating guideposts for a significant financial risk profile, especially since a meaningful amount of capital spending is discretionary.

At ExGen, we expect free operating cash flow to debt to remain positive even in 2016 and 2017 when we expect financial measures to trough due to lower gas prices. Because of the lower commodity prices, we expect ExGen's FFO-to-debt ratio to remain about 32% in 2016. Although the company's cash flows are relatively more volatile than those of its peers because of the larger proportion of base-load generation and significant fixed costs, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must consistently stay below the current assumed level of $2.50 per million Btu before its consolidated FFO to debt falls below 20%.

We expect free operating cash flow to debt to remain mostly positive throughout 2016-2018. Debt to EBITDA should increase to about 3.8x in 2016 on the heels of the Pepco acquisition before declining somewhat. These ratios are well within the 'BBB' guideposts for a significant financial risk profile, as we now apply the medial volatility table as a result of a greater presence of utility cash flows. Nevertheless, we believe there are risks that cash flow may end up less than expected because merger synergies take longer to accrue, power prices trend lower due to higher natural gas production from shale plays, or due to potential delays in implementing environmental rules, which would generally favor Exelon.

Because we give credit for nuclear fuel amortization in adjusted FFO, we expect subsidiary ExGen to remain operating cash flow positive (after capital spending that includes nuclear fuel costs). Through the forecast period, ExGen remains cash flow positive after accounting for capital spending.

Moreover, the utilities' dividends can fund a significant portion of the external dividends (we estimate that utility dividends can provide as much as 85% of external dividend in 2016-2018). Assuming Exelon's utility target of 70% payout ratios, the utility contributions would be able to cover the entire external dividend. However, we expect ExGen to continue to contribute to the external dividend, though less than the majority, as it did before the dividend cut.

Financial Summary

Table 2

Exelon Corp. -- Financial Summary

Industry Sector: Energy

	--Fiscal year ended Dec. 31--				
	2015	**2014**	**2013**	**2012**	**2011**
Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2
(Mil. $)					
Revenues	29,447.0	27,429.0	24,888.0	23,489.0	18,924.0
EBITDA	8,880.6	7,614.8	6,915.6	5,165.5	6,429.8
Funds from operations (FFO)	7,166.2	5,986.3	5,253.1	3,831.7	4,674.1
Net income from continuing operations	2,269.0	1,623.0	1,719.0	1,160.0	2,495.0
Cash flow from operations	7,703.2	4,635.2	6,208.6	5,869.1	5,961.6
Capital expenditures	7,713.0	6,191.2	5,595.0	5,835.0	4,158.0
Free operating cash flow	(9.8)	(1,556.0)	613.6	34.1	1,803.6
Discretionary cash flow	(1,128.8)	(2,634.9)	(650.9)	(1,713.3)	403.1
Cash and short-term investments	6,502.0	1,878.0	1,609.0	1,486.0	1,016.0
Debt	28,664.5	23,591.3	22,039.4	24,346.8	17,550.6
Equity	27,551.0	24,362.0	23,220.5	22,187.0	14,586.0
Adjusted ratios					
EBITDA margin (%)	30.2	27.8	27.8	22.0	34.0
Return on capital (%)	7.3	5.7	7.6	7.0	12.7
EBITDA interest coverage (x)	6.2	5.0	3.9	3.6	5.3
FFO cash int. cov. (x)	8.3	7.3	7.5	6.4	8.2
Debt/EBITDA (x)	3.2	3.1	3.2	4.7	2.7
FFO/debt (%)	25.0	25.4	23.8	15.7	26.6
Cash flow from operations/debt (%)	26.9	19.6	28.2	24.1	34.0
Free operating cash flow/debt (%)	(0.0)	(6.6)	2.8	0.1	10.3
Discretionary cash flow/debt (%)	(3.9)	(11.2)	(3.0)	(7.0)	2.3

N.M. - Not Meaningful.

Liquidity

The short-term rating on Exelon and affiliates is 'A-2'. We view liquidity across the Exelon group of companies as strong in light of the debt maturity schedule and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen as it settles its forward hedges.

As of March 31, 2016, Exelon, ExGen, ComEd, PECO, and BGE had revolving credit facilities of $500 million, $5.3 billion, $1 billion, $600 million, and $600 million, respectively. These facilities generally expire in 2019. The facilities were largely available at that time, except for $1.2 billion of commercial paper and certain letters of credit outstanding at various entities.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO exceeding $7 billion in 2016. • Credit facility availability of about $7.7 billion. • Cash on hand of about $1 billion on March 31, 2016.	• Dividend payments of almost $1.1 billion annually. • Capital spending and maintenance and environmental costs of over $6 billion during the next 12 months. • Debt maturities of $1.9 billion over the next 12 months. • Nonseasonal working capital inflows of about $325 million.

Covenant Analysis

As of March 31, 2016, Exelon and each of its subsidiaries, including the newly acquired Pepco assets, were comfortably in compliance with the financial covenants of their credit facilities. We expect that this will continue during the next 18 months.

Other Modifiers

Modifiers do not change the anchor.

- Financial policy: Given the public ownership structure of Exelon as well as its track record of financial discipline, we assess this as 'neutral'; we do not expect that financial decisions would contribute to a meaningful worse forecast.
- Capital structure: We assess this as 'neutral'; the maturity schedule, taken as a whole, is manageable for a company of this size and we do not expect that Exelon would face acute refinancing risk in the near term.
- Management and Governance: We assess this as 'strong'; we consider the management team at Exelon to be very effective in its stewardship of its operating assets and in growing the company in a manner that is supportive of credit quality, while accurately messaging its strategies to all interested stakeholders.

Group Influence

The group credit profile (GCP) of Exelon is 'bbb'. As the parent company with two insulated subsidiaries (BGE and Pepco), Exelon's issuer credit rating is the same as its GCP. Senior unsecured debt at Exelon is notched down to 'BBB-' because of structural subordination to priority obligations at the operating subsidiaries. Each of the subsidiaries that we rate is considered to be core to Exelon Corp. and is given the same issuer rating, though certain issuances of secured debt are rated higher.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb

Reconciliation

Table 3

Reconciliation Of Exelon Corp. Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2015--								
Exelon Corp. reported amounts									
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	26,319.0	25,793.0	8,192.0	4,369.0	1,033.0	8,192.0	7,616.0	1,105.0	7,624.0
S&P Global Ratings adjustments									
Interest expense (reported)	--	--	--	--	--	(1,033.0)	--	--	--
Interest income (reported)	--	--	--	--	--	1.0	--	--	--
Current tax expense (reported)	--	--	--	--	--	(321.0)	--	--	--
Operating leases	752.4	--	116.0	51.4	51.4	64.6	64.6	--	--
Intermediate hybrids reported as debt	(324.0)	324.0	--	--	--	--	20.5	20.5	--
Intermediate hybrids reported as equity	95.0	(95.0)	--	--	--	--	(6.5)	(6.5)	--

Table 3

Reconciliation Of Exelon Corp. Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. $) (cont.)

Postretirement benefit obligations/deferred compensation	3,283.2	--	192.0	192.0	180.8	54.6	(80.4)	--	--
Surplus cash	(864.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	123.0	(123.0)	(123.0)	--	(123.0)
Share-based compensation expense	--	--	119.0	--	--	119.0	--	--	--
Deconsolidation / consolidation	(2,220.0)	--	--	--	--	--	--	--	--
Power purchase agreements	708.0	--	261.6	49.6	49.6	212.0	212.0	--	212.0
Non-operating income (expense)	--	--	--	118.0	--	--	--	--	--
Non-controlling Interest/Minority interest	--	1,529.0	--	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	915.0	--	--	--	--	--	--	--	--
Total adjustments	2,345.5	1,758.0	688.6	411.0	404.7	(1,025.8)	87.2	14.0	89.0
S&P Global Ratings adjusted amounts									

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	28,664.5	27,551.0	8,880.6	4,780.0	1,437.7	7,166.2	7,703.2	1,119.0	7,713.0

Related Criteria And Research

Related Criteria

- Key Credit Factors For The Unregulated Power and Gas Industry, March 28, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors for The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 26, 2016)

Exelon Corp.	
Corporate Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BB+
Senior Unsecured	BBB-
Corporate Credit Ratings History	
22-Jul-2009	BBB/Stable/A-2
21-Oct-2008	BBB/Watch Neg/A-2
29-Aug-2007	BBB+/Stable/A-2
Related Entities	
Atlantic City Electric Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A
Senior Secured	AA-/Stable
Baltimore Gas & Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preference Stock	BBB
Senior Unsecured	A-
Commonwealth Edison Co.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BB+
Senior Secured	A-
Senior Unsecured	BBB
Continental Wind LLC	
Senior Secured	BBB-/Stable

Ratings Detail (As Of July 26, 2016) (cont.)	
Delmarva Power & Light Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A
Senior Unsecured	AA-/Stable
Senior Unsecured	BBB+
Exelon Generation Co. LLC	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB
ExGen Renewables I LLC	
Senior Secured	BB-/Stable
ExGen Texas Power, LLC	
Senior Secured	B+/Negative
PECO Energy Co.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BB+
Senior Secured	A-
Senior Secured	AA/Stable
PEPCO Holdings Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB
Philadelphia Electric Co.	
Senior Secured	A-
Potomac Electric Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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Research Update:

Exelon Corp. 'BBB' Ratings Affirmed, Outlook Stable; Industry Risk And Liquidity Assessments Revised

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Research Update:

Exelon Corp. 'BBB' Ratings Affirmed, Outlook Stable; Industry Risk And Liquidity Assessments Revised

Overview

- We expect Exelon Corp. to post relatively higher growth at the company's lower-risk utility businesses. At the same time, Exelon has experienced a modest weakening in its short-term liquidity position, primarily reflecting lower cash balances.
- We are revising our assessment of Exelon's consolidated industry risk to low from intermediate. We are revising our assessment of the company's liquidity to adequate from strong.
- At the same time, we are affirming our ratings on Exelon, including our 'BBB' issuer credit rating. The outlook is stable.
- The stable outlook continues to reflect our expectations that consolidated financial measures will consistently reflect the middle of the range for Exelon's financial risk profile. Specifically, we expect funds from operations (FFO) to debt of 17%-21%.

Rating Action

On July 26, 2017, S&P Global Ratings affirmed its ratings on Exelon Corp., including its 'BBB' issuer credit rating and 'BBB-' rating on Exelon's senior unsecured debt. The outlook is stable.

Rationale

Our reassessment of Exelon's industry risk to low from intermediate reflects our expectation that the lower-risk utility business that we currently assess at about 60% of consolidated Exelon will gradually grow to about 70%. This primarily reflects continued utility capital spending within the company's regulated jurisdictions.

Our reassessment of Exelon's short-term liquidly position to adequate from strong incorporates lower cash balances, a robust capital spending program of about $8 billion in 2017, and long-term debt maturities of about $2 billion within the next 12 months. While these factors modestly weaken Exelon's liquidity, it does not directly affect our rating on Exelon.

Our 'BBB' issuer credit rating on Exelon is based on our assessment of Exelon's strong business risk profile and significant financial risk profile.

Exelon's business risk profile reflects our projection that the company's lower-risk, rate-regulated utility businesses will account for about 60% of the consolidated company and the higher-risk merchant business will account for about 40%. Furthermore, we expect the utility business to trend toward 70% of the consolidated company over the next five years from regulated rate base growth and rate increases. The merchant business will continue to be constrained by weak power prices and challenging capacity prices with limited upside. Only partially offsetting the weakness are zero emission credits that increase the prices paid for power from Exelon Generation's (ExGen) nuclear plants in Illinois and New York. Legal challenges to the credits were recently dismissed, and the idea could gain traction in other ExGen jurisdictions.

We assess Exelon's financial measures against less-stringent metric benchmarks compared to a typical industrial company, reflecting the company's majority lower-risk, rate-regulated utility business and the company's effective management of regulatory risk. Under our base-case scenario of continued rate case increases for all of Exelon's regulated utilities, continued weak power prices that is only partially offset by the zero emission credits, and robust capital spending in 2017 of more than $8 billion, we expect financial measures that are consistent with the middle of the range for the significant financial risk credit profile. Specifically, we expect FFO to debt of about 17%-21%.

Under our group rating methodology, we view Exelon as the parent of a group whose members include the merchant business Exelon Generation Co. LLC and utilities Commonwealth Edison Co., Peco Energy Co., Baltimore Gas & Electric Co., PEPCO Holdings Inc., Potomac Electric Power Co., Delmarva Power & Light Co., and Atlantic City Electric Co. We assess all of the subsidiaries as core businesses of Exelon because they are highly unlikely to be sold, possess a strong long-term commitment from the parent's management, are successful, are significant contributors to the group, and are closely linked to the parent's name and reputation. Exelon's group credit profile is 'bbb', leading to an issuer credit rating of 'BBB'.

Liquidity

We our revising liquidity assessment on Exelon to adequate from strong. This reflects our view that its liquidity is sufficient to cover its needs over the next 12 months even if consolidated EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months to exceed its uses by 1.1x or more, which is the minimum threshold for an adequate designation under our criteria. The assessment also reflects the company's prudent risk management, sound relationships with banks, and a satisfactory standing in credit markets.

Principal liquidity sources:
- Consolidated credit facility availability of about $7.5 billion;
- FFO of about $7 billion; and
- Minimal cash assumed of about $500 million.

Principal liquidity uses:
- Consolidated debt maturities of about $2 billion;

- Consolidated capital spending of about $8 billion; and
- Consolidated dividend payments of $1.2 billion.

Outlook

The stable outlook reflects our expectations that despite a continued weak commodity environment, the company will solidify its financial measures through the continued implementation of zero emission credits, growth of its lower-risk, rate-regulated utilities, and a modest reduction in capital spending. We expect that the company will maintain its consolidated financial measures consistent with the middle of the range for the significant financial risk profile category. Specifically, we expect FFO to debt of 17%-21%.

Downside scenario

We could lower the rating if the company's financial measures declined to the lower end of the range for the significant financial risk profile category, reflecting FFO to debt consistently below 16%. This could occur if sustained weaker commodity prices further pressured the merchant business or the company's effective management of regulated risk weakens.

Upside scenario

We could upgrade the company if the company's financial measures consistently reflect the higher end of the significant financial risk profile and its business risk profile continues to modestly improve, as expected. Specifically, this would reflect FFO to debt that is consistently greater than 21%, the relative size of the regulated utilities trends towards 70% of the consolidated company, and the merchant business continues its success in implementing zero emission credits.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Stable/A-2

Business risk: Strong
- Country risk: Very low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)

- Financial policy: Neutral (no impact)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

Group credit profile: bbb

Issue Rating

We rate the senior unsecured debt at Exelon one notch lower than the issuer credit rating because of structural subordination. This results from priority obligations exceeding 20% of assets.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

Exelon Corp.
PECO Energy Co.
Commonwealth Edison Co.

Corporate Credit Rating	BBB/Stable/A-2

Atlantic City Electric Co.	
Potomac Electric Power Co.	
Delmarva Power & Light Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Baltimore Gas & Electric Co.	
Corporate Credit Rating	A-/Stable/A-2
PEPCO Holdings Inc.	
Corporate Credit Rating	BBB+/Stable/--
Exelon Corp.	
Senior Unsecured	BBB-
Junior Subordinated	BBB-
Commercial Paper	A-2
Atlantic City Electric Co.	
Senior Secured	A
Recovery Rating	1+
Commercial Paper	A-2
Baltimore Gas & Electric Co.	
Senior Unsecured	A-
Preference Stock	BBB
Commercial Paper	A-2
Commonwealth Edison Co.	
Senior Secured	A-
Recovery Rating	1+
Senior Unsecured	BBB
Preferred Stock	BB+
Commercial Paper	A-2
Delmarva Power & Light Co.	
Senior Secured	A/A-2
Recovery Rating	1+
Senior Unsecured	A/Stable
Senior Unsecured	BBB+
Commercial Paper	A-2
PECO Energy Co.	
Senior Secured	A-
Recovery Rating	1+
Preferred Stock	BB+
Commercial Paper	A-2
PEPCO Holdings Inc.	
Senior Unsecured	BBB

Potomac Electric Power Co.	
Senior Secured	A
Recovery Rating	1+
Commercial Paper	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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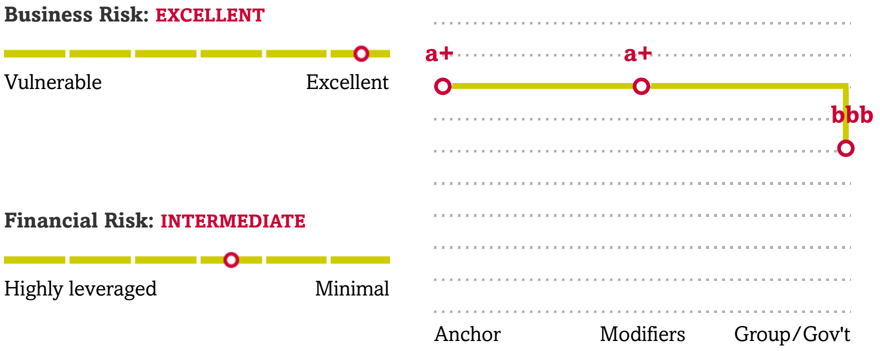
Summary:

PECO Energy Co.



CORPORATE CREDIT RATING

BBB/Stable/A-2

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• Operations under a historically generally constructive regulatory framework along with effective handling of regulatory risk • Low operating risk electric and gas transmission and distribution operations • Large customer base with mostly residential customers but no geographic diversity	• Robust credit protection measures support an "intermediate" financial risk profile • Planned capital spending remains elevated leading to negative discretionary cash flow

Anchor Determination

Based on our "excellent" business risk and "intermediate" financial risk profile assessments, there are two potential anchor outcomes ('a+' or 'a'). Our choice of an 'a+' anchor reflects our view that the business risk profile of PECO Energy Co. is at the upper end of the "excellent" category, accounting for the company's large service territory, consistently constructive regulatory environment, and effective handling of regulatory risk through time.

Outlook: Stable

The rating outlook on PECO Energy reflects our rating outlook on its parent, Exelon Corp. In our analysis, we have incorporated our assessment of Exelon's plans to merge with PEPCO Holdings Inc. (PHI). The outlook on the ratings is stable. However, Standard & Poor's believes that higher natural gas production from shale natural gas plays and a delay in environmental rules related to plant retirements can significantly hurt the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings decline from 2014. Should the commodity pricing environment weaken, the company might have to address its declining earnings profile with a commensurate reduction in capital spending and debt. On a stand-alone basis, we expect Exelon and Exelon Generation Co. LLC (ExGen) to maintain consolidated funds from operations (FFO) to debt of at least 23% and 27%, respectively, to maintain current ratings. If the merger successfully closes, we expect the pro forma company to maintain adjusted FFO to debt in a band of about 21% to 23% and debt to EBITDA of about 3.4x to 3.5x.

Downside scenario

On a stand-alone basis, we could lower Exelon's ratings if adjusted FFO to debt declines below 22%. This could happen if Exelon has increasing competition in its Pennsylvania and Illinois markets, which would threaten customer retention in its retail business. Gross margins could also come under pressure by a further decline in power prices brought about by declining natural gas prices, or lower market heat rates due to increasing energy efficiency.

A negative situation could arise for the pro forma company not only from a decline in commodity prices that could affect Exelon's cash flows, but also from a prolonged regulatory approval process that eventually results in substantially higher rebates and concessions to consummate the deal. We could lower the ratings on the pro forma company if its adjusted FFO-to-debt ratios decline below 18% to 19%.

Upside scenario

An upgrade for Exelon's stand-alone rating--currently not under consideration--could result if natural gas prices stabilize and power prices respond favorably to coal plant retirements, resulting in an improvement in consolidated FFO-to-debt levels of more than 28% on a sustained basis. This could stem from an improved economy and higher electricity prices, as well as from a robust increase in the rate base of Exelon's regulated utility subsidiaries. For Standard & Poor's to consider an upgrade, the pro forma company would need adjusted FFO-to-debt levels over 24% and debt to EBITDA below 3.2x. We think this is possible but unlikely before 2016.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics
• Gross margins grow in the low-single digits • Capital spending of $500 million to $600 million annually	Under our base case scenario, we expect that PECO Energy's financial risk profile will remain consistently toward the upper end of the "intermediate" category.

Business Risk: Excellent

We assess PECO Energy's business risk profile as "excellent", accounting for regulated electric and gas transmission and distribution operations, which have low operating risk and benefit from a generally constructive regulatory framework. PECO Energy's historically effective handling of regulatory risk has contributed to stable returns and cash flow generation. With respect to ratemaking, the company benefits from the utilization of projected test years and an automatic adjustment clause for project-specific distribution system improvements.

About 34% of PECO Energy's electric customers representing 68% of 2013 sales have elected to shop for electricity with alternative suppliers, while only 13% of gas customers representing 19% of sales have elected to shop. Nevertheless, PECO Energy's electric and gas operations have no commodity exposure and the company is not affected by fuel cost over- and under-recoveries.

Financial Risk: Intermediate

We view PECO Energy's financial risk profile as being in the "intermediate" category using the low volatility financial ratio benchmarks, reflecting our base case scenario that the company will maintain credit protection measures that remain consistently at the upper end of the category. For the year ended Dec. 31, 2013, FFO to debt was 26.9% and debt to EBITDA was 2.7x, although we expect both measures to weaken somewhat over time, while still supporting an "intermediate" financial risk profile assessment.

Liquidity: Strong

We view PECO Energy's liquidity on a consolidated basis with that of parent Exelon Corp., given PECO Energy's group status as a core subsidiary.

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views liquidity across the Exelon group of companies as "strong" in light of the debt maturities we expect and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturity is in 2015 for Exelon ($800 million).

As of Dec. 31, 2013, Exelon, ExGen, Commonwealth Edison Co. (ComEd), PECO Energy Co., and Baltimore Gas &

Electric Co. (BG&E) had revolving credit facilities of $500 million, $5.3 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire in August 2018 (except ComEd, which expires in March 2019). ExGen has an additional $400 million bilateral through January 2015. The facilities were largely available as of Dec. 31, 2013, except for $184 million and $135 million of commercial paper outstanding at ComEd and BG&E, respectively.

Exelon has a $7.2 billion bridge facility to provide flexibility for timing of permanent financing related to the acquisition of PHI. We expect 50% of the acquisition funds to be financed by debt and expect this financing to be at the Exelon Corp. level. We also expect Exelon to maintain balanced funding across the maturity spectrum (i.e., three- to 30-year tenors). Furthermore, we expect the equity component to be funded through a mix of common equity and mandatory units, and through $1 billion in unregulated asset sales.

There are no change-of-control provisions in PHI's or its subsidiaries' public debt. We have assumed that change-in-control provisions in the bank facilities of PHI are resolved without issues by closing (either through waivers or refinancing). Eventually, management expects to be able to reduce or resize PHI's liquidity and support through Exelon Corp.'s facility.

Principal Liquidity Sources	Principal Liquidity Uses
• Assumed 2014 FFO of about $5.75 billion to $6 billion • Available revolving credit facility • Acquisition bridge loan for $7.2 billion that will be replaced by permanent financing	• Cash payment of $6.9 billion for acquiring all of PHI's shares. • Working capital • Dividend payments of about $1 billion annually • Capital spending and maintenance and environmental costs of about $5 billion to $5.5 billion, annually through 2015

Other Modifiers

Our assessment of the modifiers does not affect the anchor score.

Group Influence

Under our group rating methodology, we consider PECO Energy to be a core subsidiary of Exelon Corp., reflecting our view that PECO Energy is highly unlikely to be sold and has a strong long-term commitment from senior management. There are no meaningful insulation measures in place that protect PECO Energy from its parent and therefore, we align the issuer credit rating on PECO Energy with that of parent Exelon at 'BBB'.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Group credit profile:** bbb
- **Entity status within group:** Core (-4 notches from SACP)

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above a corporate credit rating on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for ‘1+’ and ‘1’ Recovery Ratings on Senior Bonds Secured by Utility Real Property", published Feb. 14, 2013).
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a corporate credit rating on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.
- FMBs at PECO Energy benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the corporate credit rating.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Criteria - Corporates - General: Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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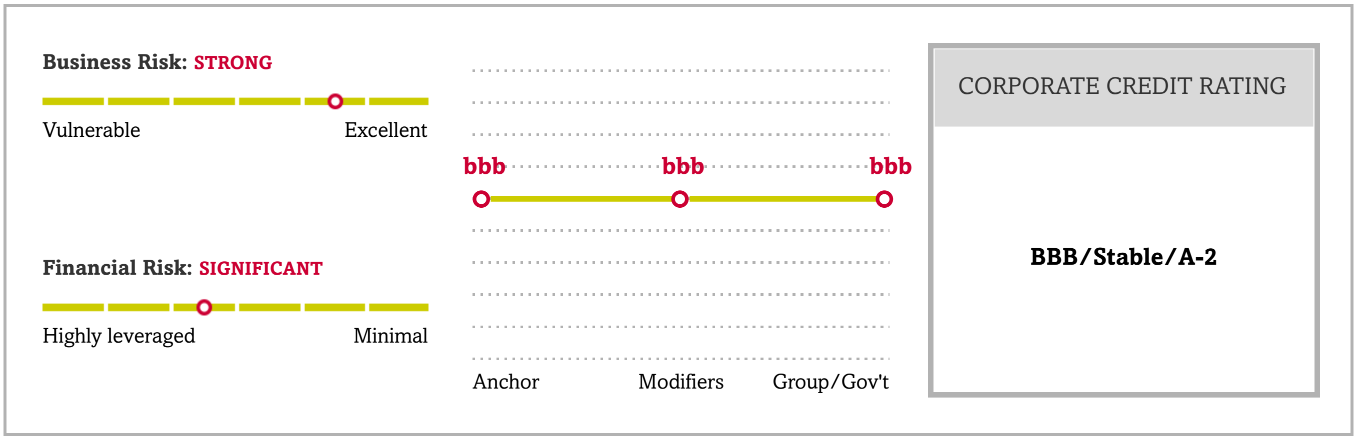
Summary:

Exelon Corp.

*(**Editor's Note:** This summary analysis, originally published Sept. 22, 2014, is being republished to correct an error in our published assumptions. Subsequently, we revised the financial metrics for the year ended Dec. 31, 2014, in the Key Metrics table.)*



Rationale

Business Risk: Strong

- Lower risk rate-regulated utility operations at diversified energy company Exelon Corp. currently represent nearly 50% of consolidated business, but will increase somewhat with the expected closing of the proposed PEPCO Holdings Inc. (PHI) acquisition.
- Low-cost base-load generation has a strong operating track record, though it remains subject to considerable energy margin variability, driven by commodity prices, demand, and weather patterns.
- Large natural gas production volumes have collapsed gas and power prices, carrying significant downside potential for a generation portfolio that is largely nuclear (more than 80% of total generation).
- A mild summer, declining market heat rates, and gas regional pricing differentials have weakened the economics of the company's generation plants in the next 18 months despite a stronger fundamental outlook long-term.
- Capacity prices could continue to languish because of lackluster electric demand, growing energy efficiency, and increased penetration of demand response initiatives. However, this could reverse in coming auctions as capacity performance schemes proliferate.
- Exelon still operates a large nuclear fleet; this puts the company in a good position as carbon regulation and capacity performance incentives loom.

Financial Risk: Significant

- The backward-dated EBITDA profile persists, although the curve is not as steep as it is for certain competitors, owing to a proactive hedging strategy and participation in robust capacity markets.
- Cash flow is significantly hedged through 2015 and 2016, increasingly as hedges are regularly added; 2017 is hedged to nearly 46%.
- The company's liquidity position remains strong, especially since it can defer capital spending needs.
- Dividend policy is relatively aggressive, but this is supported by a steady stream of dividends from utility subsidiaries.
- While capital spending needs have been substantial in the past, we expect that they'll be more in line with industry norms, as this company is already well-suited for upcoming carbon regulations.

Outlook: Stable

The rating outlook on Exelon Corp. is stable. However, Standard & Poor's believes that higher-than-expected natural gas production from shale production regions and a delay in environmental rules related to plant retirements could weaken the company's financial performance during the next few years. Should the commodity pricing environment weaken even more, the company might have to address a decline in its earnings profile with commensurate reductions in capital spending and debt. If the PHI transaction closes, we expect the consolidated pro forma company to maintain adjusted funds from operations (FFO) to debt within a band of about 22% to 24% and debt to EBITDA to increase to about an adjusted 3.2x to 3.4x.

Downside scenario

We could lower Exelon's ratings in the absence of the PHI acquisition if Exelon's adjusted consolidated FFO to debt declined below 22%. This could happen if ExGen faces increasing competition in its retail markets, which would threaten customer retention in its retail business. Gross margins could also come under pressure if power prices continue to decline because of weak natural gas prices or lower market heat rates.

Negative ratings momentum post-acquisition could occur due to a decline in commodity prices that would affect ExGen's and, as a result, Exelon's cash flows. We could lower the company's ratings post-acquisition if the adjusted consolidated FFO to debt ratios were to decline below 18% consistently.

Upside scenario

An upgrade for Exelon pre-acquisition--which we presently consider unlikely--could occur if natural gas prices stabilized, or if power prices responded favorably to coal plant retirements, resulting in an improvement in consolidated FFO to debt levels that exceed 28% on a sustained basis. This could stem from an improved regional economy and higher electricity prices, as well as from a robust increase in the rate base of Exelon's regulated utility subsidiaries.

We could consider an upgrade if the company, post-acquisition, reported adjusted consolidated FFO to debt levels stronger than about 25% and debt to EBITDA below about 3.4x. We think this is unlikely before 2016.

Standard & Poor's Base-Case Scenario

Assumptions

- Henry Hub gas prices are between $2.75 per million Btu in 2015 and $3.25 in 2016; PJM West hub power prices are between $30 and $35 per megawatt hour (MWh) in 2016; Northern Illinois hub hovers around $30 per MWh through 2016.
- Nuclear capacity factors are consistently at about 94% through 2017.
- Growth rates at the utilities are consistent with management's assumptions.
- Dividend policy remains in line with industry standards.
- Only current hedges are assumed.
- Spark spreads remain depressed in Texas, with an average of about $6 per MWh during 2015, but rebound somewhat afterward.
- Total ExGen generation of about 190 gigawatts per hour in 2015, ticking up only modestly in subsequent years.

Key Metrics

	2015E	2016E
FFO/debt (%)	25-28	23-26
Debt/EBITDA (x)	2.8-3.0	3.0-3.4
EBITDA interest coverage (x)	5.0-5.6	5.2-5.6

FFO--Funds from operations. E--Estimate.

Note: We will list only our expectations for Exelon Corp.'s stand-alone operations until the merger closes.

Business Risk: Strong

Standard & Poor's current rating on Exelon reflects our view of the company's consolidated business risk profile, which we view as "strong", combining the higher-risk operations of unregulated supply affiliate ExGen with the "excellent" business risk profiles of its rate-regulated transmission and distribution utilities Commonwealth Edison Co. (ComEd), PECO Energy Co., and Baltimore Gas & Electric Co. (BGE). Because of ring-fencing, we deconsolidate BGE's financial profile from Exelon and analyze it solely as an equity investment, incorporating the utility's distributions to the parent as BGE's only contributions to the parent's credit quality and financial profile.

As of June 30, 2015, Exelon had about $27.6 billion of adjusted debt, after considering the effects of operating leases, deconsolidation, power purchase agreements, and cash netting, as well as a recent debt issuance.

Regulated utilities now contribute almost 50% of Exelon's consolidated current cash flow, and the figure would grow with the PHI acquisition. PECO's business risk profile is "excellent" under our criteria, reflecting monopolistic, rate-regulated utility transmission and distribution operations. PECO serves over 1.6 million electric customers and 500,000 natural gas customers in southeastern Pennsylvania, including Philadelphia. Similarly, ComEd's business risk profile is "excellent", reflecting the same monopolistic, rate-regulated utility transmission and distribution operational profile. ComEd serves more than 3.8 million customers in northern Illinois, including Chicago. BGE serves more than 1.2 million electric and 650,000 gas customers in Central Maryland, including Baltimore. The regulatory framework under which BGE operates can be challenging and unpredictable, but has been improving somewhat.

We expect ExGen's unregulated operations to constitute about 50% of the consolidated enterprise in terms of cash flow and capital spending during 2015, though this figure varies considerably from year to year with power pricing and will decline with the PHI acquisition. ExGen generates a significant portion of earnings from its retail operations. Through retail and wholesale channels, ExGen now provides about 150 to 165 terawatt hours, or nearly 5% of total U.S. power demand, and enjoys significant regional diversity, participating in the PJM Interconnection in the Mid-Atlantic region, New England, and Texas markets. The company's generation units are well-positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. In most locations, ExGen has adequate intermediate and peaking capacity for managing load-shaping risks. However, we believe the company will still need to buy and sell generation in the market to manage its portfolio needs, which exposes it to considerable commodity risk. Moreover, ExGen has a significant open position in the Midwest to merchant markets, and a somewhat tighter position in Texas and New England, where it has some risk of finding itself short when loads and power prices are high.

ExGen's cash flow is sensitive to commodity prices because roughly 83% of the business's generation is nuclear; unlike gas-fired assets, which have a lower cost structure if gas prices drag power prices down, its nuclear plants face winnowing margins based on lower market heat rates, especially if capacity prices are low. Given that base-load generation is price-taking by nature, we expect ExGen's adjusted FFO to debt to remain volatile relative to its peers. For instance, we estimate gross margins in 2017 will be lower by about about $150 million for every $5 per MWh (round-the-clock) decline in power prices, and about $400 million for every $1 per million Btu decline in 2017 natural gas prices. Near-term figures are not quite as volatile due to more thorough hedging and better visibility into pricing.

The issuer's hedges have effectively softened the aforementioned cash flow volatility; this was particularly apparent during otherwise weak market conditions in 2014. Even though these hedges insulate ExGen, they continue to show the sensitivity of ExGen's margins to the prospect of continued shale gas production. The merchant generation margins at ExGen could face a decline as high-priced hedges expire, which is evident in the drop in wholesale hedged gross margins. Still, forward prices do show a modest contango (future prices are above expected future spot prices), as reflected in the increase in ExGen's open EBITDA from higher natural gas forward prices compared with year-end 2014.

ExGen's contribution to Exelon's cash flow has declined somewhat under our projected base case because of the decline in unregulated cash flow when commodity prices fall, as well as due to the renewed focus on regulated activities. However, despite lower power prices, we view the business risk profile of Exelon as "strong". We expect financial measures to remain flat or to decline modestly during 2015. However, the corporate credit ratings reflect our expectation that 2015 will be a trough year, and that metrics could improve in 2016 or 2017, with the business profile being fortified by the PHI acquisition. Based on the present forward-price curve, cash flow measures are adequate for the rated level in these years, especially after parent Exelon announced significantly reduced dividend payouts and ExGen deferred or eliminated some planned capital spending. Still, despite the improvement in free operating cash flow resulting from the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having "significant" financial risk.

Financial Risk: Significant

Exelon's dividend payout is currently in line with its peers at around 50%. However, capital spending requirements remain significant between 2015 and 2016 at about $3.5 billion, collectively, for the regulated companies (excluding PHI) and almost $3.4 billion for ExGen. Although utility capital spending tends to be funded through rate base additions, unregulated generation must recover the funding of its own capital requirements through capacity market prices (and energy margins, in Texas).

On a stand-alone basis, under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect Exelon's consolidated FFO to total debt to hover around 25% to 28% through 2015. We expect to see negative discretionary cash flow (i.e., net of dividends) improve meaningfully. The FFO to total debt ratio is consistent with Standard & Poor's 'BBB' rating guideposts for a "significant" financial risk profile, especially since a meaningful amount of capital spending is discretionary.

At ExGen, we expect free operating cash flow to debt to remain positive even in 2015 and 2016 when we expect financial measures to trough due to lower gas prices. Because of the lower commodity prices, we expect ExGen's FFO-to-debt ratio to remain about 34% in 2015. Although the company's cash flows are relatively more volatile than those of its peers because of the larger base-load generation, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must consistently stay below the current assumed level of $2.75 per million Btu before its FFO to debt falls below 20%.

Pro forma for the PHI acquisition, we would expect the consolidated ratio of adjusted FFO to total debt to fall to about 23% for 2015, then improve to about 26% by 2016 on the heels of improved power prices. We expect free operating cash flow to debt to remain mostly positive throughout 2015-2017, although discretionary cash flow becomes meaningfully negative in 2015. Debt to EBITDA should increase to around 3.5x in 2015 before declining somewhat. These ratios are appropriate for Standard & Poor's 'BBB' guideposts for a "significant" financial risk profile. Nevertheless, we believe there are risks that cash flow may end up less than expected because merger synergies take longer to accrue, power prices trend lower due to higher natural gas production from shale plays, or because there is a delay in retiring coal plants owing to the Mercury and Air Toxics Standards remand of June 2015.

Because we give credit for nuclear fuel amortization in adjusted FFO, we expect subsidiary ExGen to remain operating cash flow positive (after capital spending that includes nuclear fuel costs). Through the forecast period, ExGen remains cash flow positive after accounting for capital spending.

Moreover, on a stand-alone basis, the utilities' dividends can fund a significant portion of the external dividend (we estimate that utility dividends can provide as much as 90% of external dividend in 2015-2017). Post-acquisition, assuming Exelon's utility target of 70% payout ratios, the utility contributions would be able to cover the entire external dividend. However, we expect ExGen to continue to contribute to the external dividend, though less than the majority, as it did before the dividend cut.

Liquidity: Strong

The short-term rating on Exelon and affiliates is 'A-2'. We view liquidity across the Exelon group of companies as "strong" in light of the debt maturity schedule and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen as it settles its forward hedges.

As of June 30, 2015, Exelon, ExGen, ComEd, PECO, and BGE had revolving credit facilities of $500 million, $5.8 billion, $1 billion, $600 million, and $600 million, respectively. These facilities generally expire in 2019. The facilities were largely available at that time, except for $503 million of commercial paper outstanding at ComEd, as well as certain letters of credit outstanding.

While the current liquidity profile excludes PHI, there is currently financing in place to fund the acquisition, and pro forma for the transaction, the consolidated enterprise's liquidity would remain "strong".

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of nearly $6 billion in 2015. • Credit facility availability of about $6 billion. • Cash on hand of about $6 billion, much of which is to fund the PHI acquisition. • Nonseasonal working capital inflows of about $400 million.	• Dividend payments of almost $1.1 billion annually. • Capital spending and maintenance and environmental costs of over $6 billion during the next 12 months. • Debt maturities of $2.2 billion. • PHI acquisition costs.

Other Credit Considerations

We assess all modifiers as neutral, resulting in no change to the anchor score.

Group Influence

The group credit profile of Exelon is 'bbb'. As the parent company with one relatively small insulated subsidiary (BGE), Exelon's issuer credit rating is the same as its group credit profile. Senior unsecured debt at Exelon is notched down to 'BBB-' because of structural subordination to priority obligations at the operating subsidiaries.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb
- **Entity status within group:** Core (no impact)

Related Criteria And Research

Related Criteria

- Key Credit Factors For The Unregulated Power and Gas Industry, March 28, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors for The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

STANDARD & POOR'S RATINGS SERVICES
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Summary:

PECO Energy Co.

Primary Credit Analyst:
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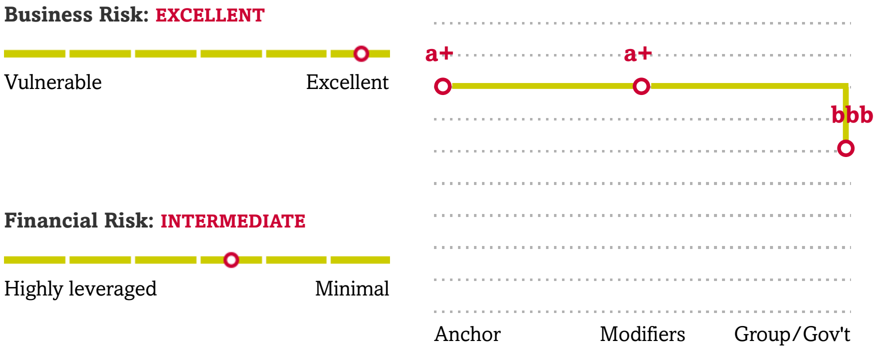
Summary:

PECO Energy Co.



CORPORATE CREDIT RATING

BBB/Stable/A-2

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• Operations under a generally constructive regulatory framework along with effective management of regulatory risk; • Low operating-risk, rate-regulated electric and gas transmission and distribution operations support "excellent" business risk profile; and • Large customer base with modest growth.	• Core financial measures that are consistent with the "intermediate" financial risk profile category; and • Robust planned capital spending leads to negative discretionary cash flow.

Outlook: Stable

The rating outlook on PECO Energy Co. (PECO) reflects our rating outlook on its parent, Exelon Corp. (Exelon), because we view the company as a core subsidiary of Exelon. The rating outlook on Exelon is stable. However, Standard & Poor's Ratings Services believes that higher-than-expected natural gas production from shale production regions and a delay in environmental rules related to plant retirements could weaken the company's financial performance during the next few years. Should the commodity pricing environment weaken even more, the company might have to address a decline in its earnings profile with commensurate reductions in capital spending and debt. Exelon and Pepco Holdings Inc. (PHI) announced a plan to combine the two companies in April 2014. If the PHI transaction closes, we expect the consolidated pro forma company to maintain adjusted funds from operations (FFO) to debt within a band of about 22% to 24% and debt to EBITDA to increase to about an adjusted 3.2x to 3.4x.

Downside scenario

We could lower Exelon's ratings in the absence of the PHI acquisition if Exelon's adjusted consolidated FFO to debt declined below 22%. This could happen if ExGen Generation Co. LLC faces increasing competition in its retail markets, which would threaten customer retention in its retail business. Gross margins could also come under pressure if power prices continue to decline because of weak natural gas prices or lower market heat rates.

We could consider a negative rating action post-PHI-acquisition if commodity prices were to decline, affecting ExGen's and, as a result, Exelon's cash flows. We could lower the company's ratings post-acquisition if the adjusted consolidated FFO-to-debt ratios were to decline below 18% consistently.

Upside scenario

An upgrade for Exelon pre-acquisition--which we presently consider unlikely--could occur if natural gas prices stabilized, or if power prices responded favorably to coal plant retirements, resulting in an improvement in consolidated FFO to debt levels that exceed 28% on a sustained basis. This could stem from an improved regional economy and higher electricity prices, as well as from a robust increase in the rate base of Exelon's regulated utility subsidiaries.

We could consider an upgrade if the company, post-acquisition, reported adjusted consolidated FFO to debt levels stronger than about 25% and debt to EBITDA below about 3.4x. We think this is unlikely before 2016.

Standard & Poor's Base-Case Scenario

Assumptions

- Gross margins benefit primarily from rate case filings and marginal load growth; and
- Capital spending of about $500 million - $550 million annually.

Key Metrics

	2014A	2015E	2016E
FFO/debt (%)	21.9	20 - 21	22 - 23
Debt/EBITDA (x)	3.5	3.5 – 4.0	3.5 – 4.0

A--Actual. E--Estimate. FFO--Funds from operations.

Business Risk: Excellent

We assess PECO's business risk profile as "excellent" accounting for the company's operations under Pennsylvania's generally constructive regulatory framework, which in conjunction with effective management of regulatory risk has enabled the company to consistently earn at or close to its authorized returns. PECO's customer base is large with over two million customers, but demonstrates only marginal volume growth and the service territory lacks geographic diversity.

PECO recovers approved infrastructure investments in a timely manner through a distribution system improvement charge (DSIC) mechanism and has no exposure to commodity prices. We expect infrastructure investments to continue over the next several years contributing to an increase in the company's rate base.

Financial Risk: Intermediate

We assess PECO's financial risk profile as "intermediate" using the low volatility financial ratio benchmarks, accounting for the company's low operating risk business model and the company's effective management of regulatory risk. Under our base case scenario, we project that PECO's core credit ratios will remain at the upper end of the "intermediate" range, with FFO/debt ranging from 20% to 22% and debt/EBITDA ranging from 3.5x – 4x.

The combination of "excellent" business and "intermediate" financial risk profiles leads to a split anchor of 'a+/a'. We select the 'a+' anchor because we view PECO's business risk profile as being at the upper end of the category relative to comparably rated peers based on efficient regulatory risk management and a large customer base.

Liquidity: Strong

We assess PECO's liquidity on a consolidated basis with that of parent Exelon Corp., given the company's group status as a "core" subsidiary of Exelon.

The short-term rating on Exelon and its affiliates is 'A-2', based on the companies' issuer credit rating and the assessment of liquidity as "strong."

We view liquidity across the Exelon group of companies as "strong" in light of the debt maturity schedule and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen as it settles its forward hedges.

As of June 30, 2015, Exelon, ExGen, Commonwealth Edison Co., PECO, and Baltimore Gas & Electric Co. had revolving credit facilities of $500 million, $5.8 billion, $1 billion, $600 million, and $600 million, respectively. These facilities generally expire in 2019. The facilities were largely available at that time, except for $503 million of commercial paper outstanding at Commonwealth Edison, as well as certain letters of credit outstanding.

While the current liquidity profile excludes PHI, there is currently financing in place to fund the acquisition, and pro forma for the transaction, the consolidated enterprise's liquidity would remain "strong."

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of nearly $6 billion in 2015. • Credit facility availability of about $6 billion. • Cash on hand of about $6 billion, much of which is to fund the PHI acquisition. • Nonseasonal working capital inflows of about $400 million.	• Dividend payments of almost $1.1 billion annually. • Capital spending and maintenance and environmental costs of over $6 billion during the next 12 months. • Debt maturities of $2.2 billion. • PHI acquisition costs.

Other Credit Considerations

Our assessment of modifiers results in no changes to the anchor score.

Group Influence

PECO is subject to our group rating methodology criteria. We assess PECO as a "core" subsidiary of parent Exelon Corp. because it is highly unlikely to be sold, is integral to the group's overall strategy, possesses significant management commitment, is a significant contributor to the group, and is closely linked to the parent's reputation. Moreover, there are no meaningful insulation measures in place that protect PECO from its parent. As a result, the issuer credit rating on PECO is 'BBB', in line with Exelon's group credit profile of 'bbb'.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Group credit profile:** bbb
- **Entity status within group:** Core (-4 notches from SACP)

Recovery Analysis

We assign recovery ratings to first-mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage And Issue Notching Rules for ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured by Utility Real Property," published Feb. 14, 2013).

The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.

Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a utility's corporate credit rating by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories, depending on the calculated ratio.

PECO's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

S&P Global
Ratings

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Summary:

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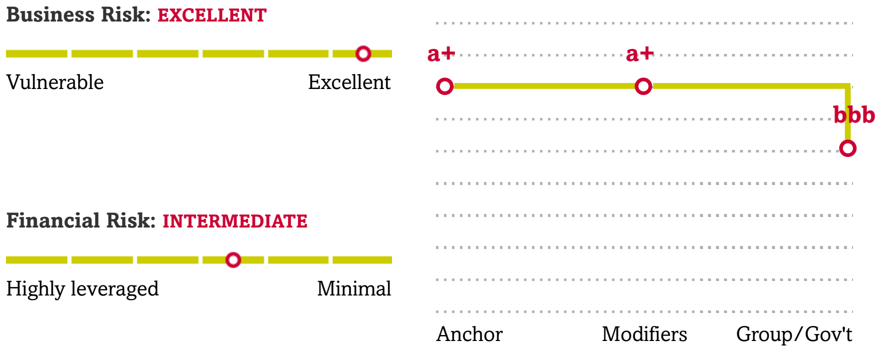
PECO Energy Co.



CORPORATE CREDIT RATING

BBB/Stable/A-2

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• Operations under a generally constructive regulatory framework along with effective management of regulatory risk. • Low operating-risk, rate-regulated electric and gas transmission and distribution operations support an assessment of an excellent business risk profile. • Large customer base with modest growth.	• Core financial measures that are consistent with the intermediate financial risk profile category. • Robust planned capital spending leads to negative discretionary cash flow.

Outlook: Stable

The rating outlook on PECO Energy Co. (PECO) reflects our rating outlook on its parent, Exelon Corp. (Exelon), because we view the company as a core subsidiary of Exelon. The rating outlook on Exelon is stable. However, we believe that higher-than-expected natural gas production from shale production regions and a delay in environmental rules related to plant retirements could weaken the company's financial performance during the next few years. If commodity prices weaken even more, the company might have to address a decline in its earnings profile with commensurate reductions in capital spending and debt. We expect the consolidated pro forma company to maintain adjusted funds from operations (FFO) to debt of about 19%-21% and debt to EBITDA to increase to about an adjusted 3.8x-4.0x, including the effects of the recent PH LLC acquisition.

Downside scenario

Negative ratings momentum could occur due to a decline in commodity prices that would affect subsidiary Exelon Generation Co. LLC's (ExGen) and, as a result, Exelon's cash flows. We could lower our ratings on the company if the adjusted consolidated FFO to debt ratios were to consistently decline below 16%.

Upside scenario

We could consider an upgrade if the company's reported adjusted consolidated FFO to debt is stronger than about 24% and consolidated debt to EBITDA is below about 3.5x. We think this is unlikely before the end of 2016, but could come about as a result of improved power prices in key markets that buoy nuclear assets, which have been struggling; this would be prompted by higher gas prices or improved demand.

Our Base-Case Scenario

Assumptions

- Gross margins benefit primarily from rate case filings and marginal load growth; and
- Capital spending of about $600 million-$800 million annually.

Key Metrics

	2015A	2016E	2017E
FFO/debt (%)	26.1	21-23	20-22
Debt/EBITDA (x)	3.1	3.0–3.5	3.5–4.0

A--Actual. E--Estimate. FFO--Funds from operations.

Business Risk: Excellent

We assess PECO's business risk profile as excellent, reflecting the company's operations under Pennsylvania's generally constructive regulatory framework, which in conjunction with effective management of regulatory risk has enabled the company to consistently earn at or close to its authorized returns. PECO's customer base is large with over 2 million customers across both its electric and gas operations, but demonstrates only marginal volume growth and the service territory lacks geographic diversity.

In 2015, PECO filed an electric rate case based on a fully forecasted test year that resulted in a rate increase of $127 million, with rates effective in 2016. The Pennsylvania Public Utility Commission (PAPUC) also approved PECO's proposal for its electric long-term spending plan, which includes programs to address storm hardening and aging infrastructure. Therefore, we expect infrastructure investments to continue over the next several years, and contribute to an increase in the company's rate base. PECO recovers approved infrastructure investments in a timely manner through a distribution system improvement charge (DSIC) mechanism and has no exposure to commodity prices.

Financial Risk: Intermediate

We assess PECO's financial risk profile as intermediate using the low volatility financial ratio benchmarks, accounting for the company's low operating risk business model and effective management of regulatory risk. Under our base-case scenario, we project that PECO's core credit ratios will remain at the upper end of the intermediate range, with FFO to debt ranging from 20%-23% and debt to EBITDA ranging from 3.0x-4.0x.

The combination of an excellent business and an intermediate financial risk profile leads to an 'a+' stand-alone credit profile (SACP) because we view PECO's business risk profile as being at the upper end of the category relative to comparably rated peers based on efficient regulatory risk management and a large customer base.

Liquidity: Adequate

We assess PECO's liquidity as adequate, reflecting the direct support already committed from and the influence of ongoing interactions with the group, including the provision of various corporate services, along with the availability of centralized liquidity resources, on an as-needed basis. We expect liquidity sources to exceed uses by 1.1x or more, the minimum threshold for regulated utilities under our criteria, and that the company will also meet our other requirements for such a designation. PECO's liquidity benefits from stable cash flow generation, a $600 million revolving credit facility, sufficient liquidity provided by the parent to meet ongoing needs, as necessary, and manageable debt maturities over the next few years.

Other Credit Considerations

Our assessment of modifiers results in no changes to the anchor score.

Group Influence

PECO is subject to our group rating methodology criteria. We assess PECO as a core subsidiary of parent Exelon Corp. because it is highly unlikely to be sold, is integral to the group's overall strategy, possesses significant management commitment, is a significant contributor to the group, and is closely linked to the parent's reputation. Moreover, there are no meaningful insulation measures in place that protect PECO from its parent. As a result, the issuer credit rating on PECO is 'BBB', in line with Exelon's group credit profile of 'bbb'.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Group credit profile:** bbb
- **Entity status within group:** Core (-4 notches from SACP)

Recovery Analysis

We assign recovery ratings to first-mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above a corporate credit rating on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage And Issue Notching Rules for ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured by Utility Real Property," published Feb. 14, 2013).

The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist.

Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a corporate credit rating on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories, depending on the calculated ratio.

PECO's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
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Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
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Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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PECO Energy Co.

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Summary:

PECO Energy Co.

Credit Rating:	BBB/Stable/A-2

Rationale

Standard & Poor's Ratings Services' ratings on PECO Energy Co. reflect the consolidated credit profile of parent Exelon Corp. Chicago-based Exelon's other considerable subsidiaries include regulated Commonwealth Edison Co. (ComEd) and Baltimore Gas & Electric Co. (BGE) and unregulated Exelon Generation Co. LLC (ExGen). In general, our ratings on PECO are limited to the lower of our rating on Exelon's consolidated credit quality or PECO's stand-alone credit quality. The ratings also reflect PECO's "excellent" business risk profile and Exelon's "significant" financial risk profile under our criteria.

Our assessment of PECO's business risk profile as excellent takes into account its monopolistic, rate-regulated utility transmission and distribution businesses that provide an essential service. PECO serves about 1.6 million electricity customers and 494,000 natural gas customers in Philadelphia and the surrounding area. The company's rate base consists of electric distribution (65%), gas distribution (23%), and electric transmission (12%). The Pennsylvania Public Utility Commission regulates the company's electric and gas distribution rates, and the Federal Energy Regulatory Commission (FERC) regulates transmission rates. Additionally, we view the distribution and transmission businesses as lower risk than the generation businesses often included in many fully integrated electric utilities.

We assess the Pennsylvania regulatory environment as credit supportive, reflecting the overall constructive regulation during PECO's transition to full-competitive rates. Additionally, we view the Pennsylvania General Assembly's recent passage of House Bill 1294, which authorizes the use of projected test years in rate cases and permits the use of automatic adjustment clause for project specific distribution system improvements, as supportive of credit quality.

The significant financial risk profile reflects Exelon's consolidated financial measures under our base-case scenario that for 2013-2015 funds from operations (FFO) to debt will approximate 22% to 24%. Key assumptions under our base case include lower gas prices and market heat rates that result in power prices that are about 10% lower than the current forward contracts. For the 12 months ended June 2012 adjusted FFO to debt decreased to 28.9% from 34.25% at year-end 2011, and adjusted debt to EBITDA and adjusted debt to total capital weakened to 4.5x and 52.7%, respectively, compared with 2.9x and 55.7% at year-end 2011.

We expect that Exelon's historically positive discretionary cash flow will turn negative primarily reflecting high capital spending of about $18.5 billion for 2012–2014 and annual dividends about $18.5 billion. We expect that Exelon will meet these cash shortfalls in a manner that is at least credit-neutral. As such under our base-case scenario we expect total debt to total capital to be about 57% and debt to EBITDA to approximate 4.0x.

Liquidity

Our short-term rating on Exelon and PECO is 'A-2'. We view Exelon's consolidated liquidity as strong and Exelon can more than cover its cash needs for the next two years, even if FFO declines.

Our liquidity assessment is based on the following factors and assumptions:

- We expect Exelon's consolidated liquidity sources (including cash, FFO, and credit facility availability) to exceed its uses by about 1.8x over the next 12 months.
- Debt maturities are material with about $1 billion maturing in 2013 and approximately $1.5 billion maturing in 2014.
- Even if EBITDA declines by 30%, we believe net sources will be well in excess of liquidity requirements.
- The company can absorb high-impact, low-probability events with limited need for refinancing, has the flexibility to lower capital spending, has sound bank relationships and solid standing in the credit markets, and has generally prudent risk management.

In our analysis, we assumed liquidity sources of about $12.5 billion over the next 12 months. We estimate the company will use about $7 billion over the same period for capital spending, debt maturities, working capital needs, and shareholder dividends.

As of July 27, 2012, Exelon, ExGen, ComEd, PECO, and BGE had credit facilities of $2.84 billion, $5.6 billion, $1.0 billion, $0.6 billion, and $0.6 billion, respectively. Availability under these facilities was $2,319 million and $3,807 million for Exelon and ExGen, respectively, and $999 million, $599 million, and $564 million for ComEd, PECO, and BGE, respectively. Excluding commercial paper outstanding, the aggregate availability was $7.86 billion.

PECO's $600 million revolving credit facility that expires in August 2017 has a financial covenant requiring that PECO must maintain cash from operations to interest expense of at least 2x. As of June 30, 2012, PECO had adequate cushion with respect to this financial covenant.

Recovery analysis

We assign recovery ratings to first-mortgage bonds (FMBs) issued by investment-grade U.S. utilities, which can result in issue ratings that are notched above a corporate credit rating on a utility depending on the category and the extent of the collateral coverage. We base the investment-grade FMB recovery methodology on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and on our view that the factors that supported those recoveries (limited size of the creditor class, and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement cost) will persist. Under our notching criteria, when assigning issue ratings to utility FMBs, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, as well as the regulatory limitations on bond issuance. FMB ratings can exceed a corporate credit rating on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

PECO's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of 1.7x supports a recovery rating of '1+' and an issue rating two notches above the corporate credit rating.

Outlook

The stable outlook reflects Standard & Poor's baseline forecast that Exelon's consolidated FFO to debt will approximate 22% to 24% over the next three years. We could lower our rating on PECO if Exelon's consolidated financial measures weaken so that FFO to debt is consistently below 22%. This could occur if electricity prices remain weak and economic growth is minimal. Because our corporate credit rating on PECO is limited to the lower of its stand-alone credit quality or our corporate credit rating on its parent, for us to raise our rating on PECO, we would first have to upgrade Exelon, and PECO's stand-alone credit quality would have to reflect the higher rating. Although we view a ratings upgrade as less likely, this could occur if Exelon's consolidated FFO to debt is consistently greater than 27%.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Standard & Poor's Updates Its U.S. Utility Regulatory Assessments, March 12, 2010
- Analytical Methodology, April 15, 2008
- Changes To Collateral Coverage Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds, Sept. 6, 2007

S&P Global
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Exelon Corp.

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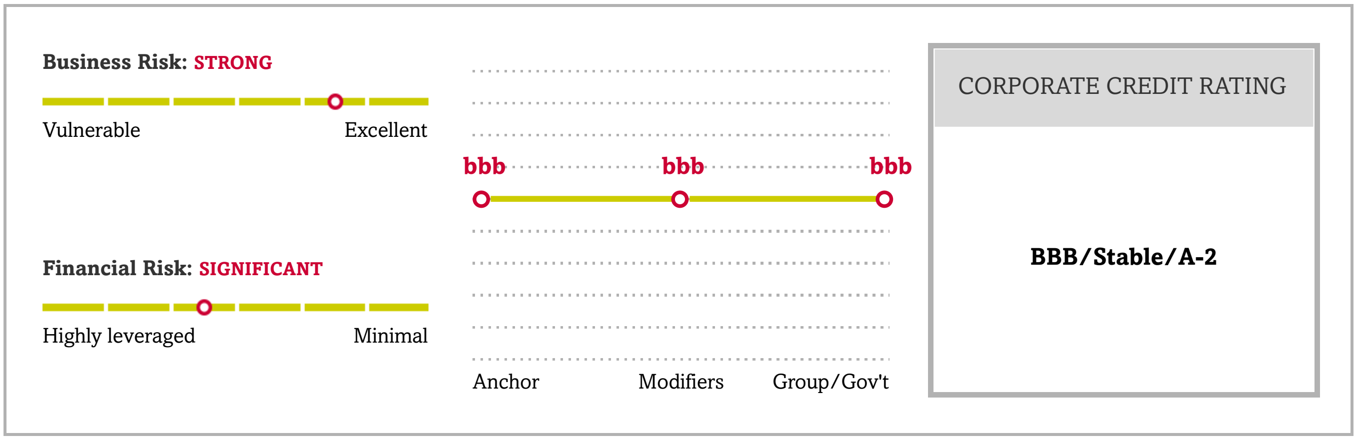
Exelon Corp.

*(**Editor's Note:** This full analysis, originally published Sept. 22, 2014, is being republished to correct an error in our published assumptions.)*



Rationale

Business Risk

- Rate-regulated utility operations currently represent 35% of consolidated business, but increase to about 45% with the closing of the proposed PEPCO Holdings Inc. (PHI) acquisition
- Low-cost base-load generation has a strong operating track record
- Large production volumes from the Marcellus and Utica shale gas regions and changing prices at the TETCO pricing hub carry significant downside potential for a generation portfolio that is largely nuclear (83% of total generation)
- A mild summer, declining market heat rates and gas basis differentials have weakened the economics of the company's generation plants despite an improving power outlook through the first half of 2014
- Capacity prices have languished because of lackluster electric demand, growing energy efficiency, and increased penetration of demand response initiatives

Financial Risk

- The backward-dated EBITDA profile persists, although the curve is not as steep
- Cash flow is significantly hedged through 2015 and 2016 increasingly as hedges are regularly added
- The company's liquidity position is strong

Outlook

Because regulatory processes in merger approvals can take time, we provide outlooks for the ratings on both a stand-alone and pro forma basis.

The rating outlook on Exelon Corp. is stable. However, Standard & Poor's believes that higher natural gas production from shale production regions and a delay in environmental rules related to plant retirements can significantly weaken the company's financial performance. Should the commodity pricing environment weaken even more, the company might have to address a decline in its earnings profile with a commensurate reduction in capital spending and debt. Without the PHI acquisition, we expect Exelon and Exelon Generation Co. LLC to maintain consolidated funds from operations (FFO) to debt of at least 23% and 27%, respectively, which are the minimum levels to maintain current ratings. If the PHI transaction closes, we expect the pro forma company to maintain adjusted FFO to debt within a band of about 21% to 23% and debt to EBITDA of about 3.4x to 3.5x.

Downside scenario

We could lower our ratings on Exelon in the absence of the Pepco Holdings Inc. (PHI) acquisition if adjusted FFO to debt declined below 22%. This could happen if Exelon faced increasing competition in its markets in Pennsylvania and Illinois, which would threaten customer retention in its retail business. Gross margins could also come under pressure if power prices decline further because of declining natural gas prices or lower market heat rates caused by a secular drop in demand related to increasing energy efficiency.

Negative ratings momentum for the company post-acquisition could occur due to a decline in commodity prices that would affect Exelon's cash flows, as well as from a prolonged regulatory approval process that eventually resulted in substantially higher rebates and concessions that were required to consummate the deal. We could lower the company's ratings post-acquisition if the adjusted FFO to debt ratios declined below 18% to 19%.

Upside scenario

An upgrade for Exelon pre-acquisition, which we do not consider likely, could occur if natural gas prices stabilized and power prices responded favorably to coal plant retirements, resulting in an improvement in consolidated FFO to debt levels of more than 28% on a sustained basis. This could stem from an improved economy and higher electricity prices, as well as from a robust increase in the rate base of Exelon's regulated utility subsidiaries. We could consider an upgrade on the company post-acquisition if adjusted FFO to debt levels were stronger than 24% and debt to EBITDA was below 3.2x; however, we think this is unlikely before 2016.

Standard & Poor's Base-Case Scenario

Assumptions

- All regulatory approvals are received by June 2015.
- Gross proceeds of $1 billion (net of taxes) from asset sales are used to fund the acquisition.
- Mandatory converts are given 100% equity credit per our criteria.
- We have assumed merger synergies that build up to a gross run rate of about $135 million annually by 2018 (net $250 million over the initial five years), plus rebates/concessions of about $100 million for ratepayers.
- PHI will be ring-fenced in a manner that meets our criteria. This is important to our consideration of any ratings separation between PHI and Exelon.

Assumptions for Exelon's current stand-alone operations include the following:

- Henry Hub gas prices range between $4.15 per megawatt-hour (MWh) and $4.25 per MWh through 2016; PJM West hub power prices range between $35 per MWh and $37 per MWh in 2016; and Northern Illinois hub hover between $30 per MWh in 2014 and $31 per MWh by 2016.
- Nuclear capacity factors perform consistently between 93.3% and 93.7% through 2017 (each 1% fleet decline results in a $45 million hit to EBITDA).

- Growth rates at the utilities are consistent with management's assumptions.
- Pensions/other post-employment benefits (OPEB) are based on a Dec. 31, 2013, actuarial valuation by Towers (a third-party firm).

Key Metrics

	2014E	2015E	2016E
FFO/debt (%)	27-28	25-28	25-28
Debt/EBITDA (x)	4.6-4.7	4.0-4.2	4.0-4.2

E--Estimate. Note: We will list only our expectations for Exelon's stand-alone operations until the merger closes.

Company Description

Chicago-based Exelon Corp. is the nation's second-largest regulated distributor of electricity and gas, with 3.8 million customers in Illinois, 1.6 million customers in Pennsylvania, and 1.2 million customers in Maryland. Exelon also distributes natural gas to 497,000 customers in the Philadelphia metropolitan area through PECO Energy Co. and 655,000 customers in Maryland. Exelon Generation Co. LLC engages in unregulated energy generation, wholesale power marketing, and energy delivery. The company has long-term exposure to market risk and meaningful exposure to nuclear plants (19 gigawatts [GW] across 23 units). The company has about 35 GW of generating capacity and 415 billion cubic feet (bcf) of natural gas business. Exelon is publicly owned and there are no external support considerations.

In April 2014, Exelon announced that it had made a firm cash offer to acquire PHI's common stock. The offer represents a market capitalization of about $6.9 billion and with the assumption of PHI's $5.6 billion of debt equals a total enterprise value of about $12.5 billion. The transaction requires the approval of the Federal Energy Regulatory Commission (FERC), the Dept. of Justice, and the regulatory commissions of Maryland, New Jersey, Washington D.C., Delaware, and Virginia.

Mergers in the utility industry typically face regulatory uncertainty with respect to ultimate approvals, their timing, and the conditions attached to them. We see the potential for concessions to ratepayers in Exelon's case, though we cannot define their scale or nature at this time. However, we believe there is a high likelihood that we will assign the combined company a 'BBB' corporate credit rating when we assess the final plan. We are also maintaining the stable rating outlook based on the company's demonstrated willingness to walk away from acquisitions when concessions imperiled the ratings on the merged entity.

Exelon's strategy with its proposed PHI acquisition is premised on a combination of benefits. The acquisition would diversify cash flows by increasing the company's regulated base and positioning Exelon to retain a greater balance between the company's regulated and the more volatile unregulated businesses. From a credit perspective, we view the transaction favorably; not only is Exelon investing incremental cash flow into lower-risk investments, but the acquisition diversifies the regulated base by adding jurisdictions. Also, the geographic overlap creates opportunities to realize cost savings through efficiency enhancement.

As part of its acquisition financing, in the first half of 2014, Exelon issued 57.5 million shares structured as a forward contract. As a result, there are no current proceeds or dilution. The forward contract aligns with the expected timing of the merger close, and settlement is at Exelon's option anytime between now and the end of the contract. The expected net proceeds will depend on when the company settles the forward contract, but should be about $1.8 billion. Exelon has also issued $1.15 billion of mandatory units, which effectively convert to equity in June 2017 (via a debt remarketing and equity purchase agreement).

Business Risk

Standard & Poor's current rating on diversified energy company Exelon reflects the company's consolidated business risk profile, which we view as "strong," combining the higher-risk operations of unregulated supply affiliate ExGen with the "excellent" business risk profiles of its rate-regulated transmission and ddistribution utilities Commonwealth Edison Co. (ComEd), PECO Energy Co., and Baltimore Gas & Electric Co. (BGE). Because of ring-fencing, we deconsolidate BGE's financial profile from Exelon and analyze it solely as an equity investment, incorporating the utility's distributions to the parent as BGE's only contributions to the parent's credit quality and financial profile.

As of June 30, 2014, Exelon (excluding BGE) had about $18.7 billion of on-balance-sheet debt, including nonrecourse debt. We also impute a significant amount of debt onto Exelon's balance sheet -- as much as $4 billion (excluding BGE imputed debt) -- which consists mostly of about $2.1 billion related to pensions and OPEB, about $460 million to operating leases, and about $1.4 billion to power purchase agreements. This is offset by about $1.6 billion of off-balance-sheet credit for nonrecourse project financing.

Regulated utilities contribute about 35% to 40% of Exelon's consolidated current cash flow. PECO's business risk profile is "excellent" under our criteria, reflecting monopolistic, rate-regulated utility transmission and distribution operations. PECO serves about 1.6 million electric customers and 497,000 natural gas customers in southeastern Pennsylvania, including Philadelphia. The Pennsylvania Public Utility Commission regulates the company's electric and gas distribution rates, and the FERC regulates transmission rates. Similarly, ComEd's business risk profile is "excellent," reflecting the same monopolistic, rate-regulated utility transmission and distribution operational profile. ComEd serves about 3.8 million customers in northern Illinois, including the city of Chicago. The company's distribution rates are regulated by the Illinois Commerce Commission (ICC), while transmission rates, which comprise about 23% of the company's rate base, are regulated by the FERC.

We expect ExGen's unregulated operations to constitute about 60% of the consolidated enterprise in terms of cash flow and capital spending in 2014. ExGen generates a significant portion of earnings from its retail operations. Through retail and wholesale channels, ExGen now provides about 150 to 165 terawatt-hours, or about 4.75% to 5% of total U.S. power demand. The company's generation units are well positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. Exelon's 2012 combination with Constellation Energy Group Inc. provides regional diversification of generating capacity and a better balance between generation and load positions across multiple regions. In most locations, ExGen has adequate intermediate and peaking capacity for managing load-shaping (matching resources with energy needs) risks. However, we believe the company still needs to buy and sell generation in the market to manage its portfolio needs, which exposes it to commodity risk. Moreover, ExGen has a significant open position in the Midwest to merchant markets, and a somewhat tight position in Texas and New England, where it has some risk of finding itself short when loads are high, in our opinion.

ExGen's cash flow is sensitive to commodity prices because almost 82% of the business's generation is nuclear, all of which is affected by low natural gas prices. Given that base-load generation is price-taking by nature, we expect ExGen's adjusted FFO to debt to remain volatile relative to peers. For instance, all else being equal, we estimate gross margins in 2016 will be lower by about $500 million for every $5 per MWh (round-the-clock) decline in power prices, about $370 million for every $1 per million cubic feet (Mcf) decline in natural gas prices, and about $100 million for every $1 per MWh decline in retail margins.

We view ExGen's ratable hedging strategy favorably because it ensures that a high percentage of the company's near-term generation remains locked in. Hedging not only protects unregulated generation cash flows from steep price declines, but also provides the company time to adjust its cost structure or its capital structure if prices remain depressed. For instance, as forward prices rose in the first half 2014, Exelon hedged aggressively and reduced its commodity exposure by moving its hedging from the lower end to the higher end of its ratable hedging targets for 2015 and 2016.

However, hedging activities insulate, but do not isolate, power merchants from commodity price effects. Current hedges show the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, they also, perversely, show the sensitivity of ExGen's margins to the prospect of a continued shale gas production onslaught. The decline in mark-to-market value through 2014 demonstrates the limit to which Exelon can hedge-- price-taking plants can hedge, but only at the prices the market will bear. Also, the merchant generation margins at ExGen will face a decline as high-priced hedges expire, which is evident in the drop in wholesale hedged gross margins. Still, forward prices do show a contango (i.e., future prices are above expected future spot prices) as reflected in the increase in ExGen's open EBITDA from higher natural gas forward prices compared with year-end 2013. In addition, although retail competition has increased, and ExGen has lowered its growth estimates, we believe retail contributions can mitigate the wholesale decline, given the potential for cost savings, volumes gained from the Constellation merger, and acquisitions.

Excluding the PHI merger, ExGen's contribution to Exelon's cash flow declines to about 60% under our projected base case because of the decline in unregulated cash flow when commodity prices fall. However, despite lower power prices, we view the business risk profile of Exelon as "strong." We expect financial measures to remain flat or to decline through 2015. However, the corporate credit ratings reflect our expectation that 2014 and 2015 will be the trough years. Based on the present forward-price curve, cash flow measures are adequate for the rated level in these years, especially after parent Exelon announced significantly reduced dividend payouts and ExGen deferred or eliminated some planned capital spending. Still, despite the improvement in free operating cash flow resulting from the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having "significant" financial risk.

We view Exelon's management strategy as an important determinant of the company's current "strong" business risk assessment. In recent years, Exelon has implemented a strategy of internal growth through reinvesting in existing businesses and investing in new technologies. There is also a bias toward longer-term contracted businesses. Management's business strategy appears to be three-pronged: cost and productivity enhancements that include strategies like divestments and asset retirements; enlarging alternative energy investments through renewables development projects (mostly wind and solar); and in the next few years investing in new technologies such as the smart grid. While the utilities primarily focus on growing rate base and earning a reasonable return, they are also playing a role in competitive markets by investing extensively in transmission-related infrastructure. Given uncertain unregulated markets, management's focus has shifted into growing the regulated businesses. In June 2013, Exelon cancelled the LaSalle and Limerick nuclear extended power uprates and instead shifted capital into growth and maintenance capital at the utilities. In November 2013, the company announced plans to invest $15 billion in the regulated platform over five years. These investments now constitute about 55% of the overall capital in the five-year plan.

S&P Base Case Operating Scenario

- The merchant generation units continue to operate well, in particular, the nuclear units
- Exelon maintains its hedging strategy for its merchant generation units
- The company continues to effectively manage regulatory risk in all its jurisdictions, ensuring timely recovery of investment

Peer comparison

Exelon Corp. -- Peer Comparison

Industry Sector: Energy

	Exelon Corp.	PPL Corp.	Public Service Enterprise Group Inc.	FirstEnergy Corp.
Rating as of Sep. 10, 2014	BBB/Stable/A-2	BBB/Watch Pos/--	BBB+/Positive/A-2	BBB-/Stable/--
	--Average of past three fiscal years--			
(Mil. $)				
Revenues	22,433.7	12,294.3	10,013.2	15,412.7
EBITDA	6,170.3	4,619.5	3,399.2	4,502.8
Funds from operations (FFO)	4,586.3	3,284.1	2,676.3	3,376.9
Net income from cont. oper.	1,791.3	1,384.3	1,365.1	676.7
Cash flow from operations	6,013.1	3,057.9	2,991.8	2,597.5
Capital expenditures	5,196.0	3,249.7	2,470.2	2,637.7
Free operating cash flow	817.1	(191.7)	521.6	(40.1)
Discretionary cash flow	(653.7)	(1,193.4)	(191.4)	(947.1)
Cash and short-term investments	342.6	268.4	136.5	49.3
Debt	21,312.3	19,430.0	8,328.6	21,613.1
Equity	19,997.8	13,381.3	10,747.9	13,029.0
Adjusted ratios				
EBITDA margin (%)	27.5	37.6	33.9	29.2
Return on capital (%)	8.8	9.3	11.1	6.9
EBITDA interest coverage (x)	4.2	4.2	7.0	3.4
FFO cash int. cov. (X)	7.2	5.0	7.2	4.6
Debt/EBITDA (x)	3.5	4.2	2.5	4.8

Exelon Corp. -- Peer Comparison (cont.)					
FFO/debt (%)	21.5	16.9		32.1	15.6
Cash flow from operations/debt (%)	28.2	15.7		35.9	12.0
Free operating cash flow/debt (%)	3.8	(1.0)		6.3	(0.2)
Discretionary cash flow/debt (%)	(3.1)	(6.1)		(2.3)	(4.4)

Financial Risk

Exelon's dividend payout is now in line with peers (about 55% to 60%). However, capital spending requirements remain significant between 2014 and 2016 at about $9 billion for the regulated companies and about $6.8 billion for ExGen. Although utility capital spending tends to be funded in rate base, unregulated generation will have to recover the funding of its own capital requirements through market prices. Importantly, because of announced cuts, consolidated cash flow from operations will largely cover capital spending and dividends, resulting in only modest external financing needs. Still, incrementally lower gas prices would hurt ExGen's debt protection measures more than increases in debt financing or in operating and maintenance costs, through 2015.

On a stand-alone basis, under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect Exelon's FFO to total debt to hover around 27% to 29% through 2015. Importantly, we expect to see negative discretionary cash flow (i.e., net of dividends) improve meaningfully. The FFO to total debt ratio is consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as "significant," especially since a meaningful amount of capital spending is discretionary (ExGen has lowered capital spending estimates in 2014 by more than $2.3 billion since its July 2012 estimates).

At ExGen, we expect free operating cash flow to debt to remain positive even in 2014 and 2015 when we expect financial measures to trough. Because of the decline in commodity prices, we expect ExGen's FFO-to-debt ratio to hover around 35% in 2014. Although the company's cash flows are relatively more volatile compared with peers because of the larger base-load generation, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must decline and stay below $2.75 per Mcf before its FFO to debt falls below 20%, a level well below the current price of about $4.00.

If the PHI acquisition is successful, under our base case we expect the consolidated ratio of adjusted FFO to total debt to fall to about 21% in 2015, then improve to about 24% by 2016. Importantly, we expect free operating cash flow to debt to remain mostly positive throughout 2015-2017, although discretionary cash flow becomes meaningfully negative in 2015. Debt to EBITDA increases to 3.6x in 2015. These ratios are appropriate for Standard & Poor's 'BBB' guideposts for a "significant" financial risk profile on the medial volatility table. Nevertheless, we believe there are risks that cash flow may eventually end up less than expected because merger synergies and/or savings take longer to accrue, power prices trend lower than expected due to higher natural gas production from shale plays, or because there is a delay in retiring coal plants.

Also, because we give credit for nuclear fuel amortization in adjusted FFO, we expect subsidiary ExGen to remain operating cash flow positive (i.e., after capital spending that includes nuclear fuel costs). Through the forecast period, ExGen remains cash flow positive after accounting for capital spending.

Moreover, on a stand-alone basis, the utilities' dividends can fund a significant portion of the external dividend (we estimate that utility dividends provide between 80% and 90% of external dividend in 2015-2017). Post-acquisition, assuming Exelon's utility target of 70% payout ratios, the utility contributions would be able to cover the entire external dividend. However, we expect ExGen to continue to contribute to the external dividend, though less than the majority as it did before the dividend cut.

Liquidity

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views liquidity across the Exelon group of companies as "strong" in light of the debt maturity schedule and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturity is in 2015 for Exelon ($800 million).

As of June 30, 2014, Exelon, ExGen, ComEd, PECO, and BGE had revolving credit facilities of $500 million, $5.3 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire in August 2018 (ComEd's expires in March 2019). ExGen has an additional $500 million in bilateral lines that mature in Oct. 2014 and January 2015. The facilities were largely available as of June 30, 2014, except for $498 million and $70 million of commercial paper outstanding at ComEd and BGE, respectively.

Exelon has a $7.2 billion bridge facility to provide flexibility for the timing of permanent financing related to the PHI acquisition. There are no change-of-control provisions in PHI's or its subsidiaries' public debt. We have assumed that change-of-control provisions in the bank facilities of PHI are resolved by closing (either through waivers or refinancing). Eventually, management expects to be able to reduce or resize PHI's liquidity and support the company through Exelon's facility.

Principal Liquidity Sources

- 2014 FFO of $5.75 billion to $6 billion
- Available revolving credit facility of about $6.3 billion
- $7.2 billion acquisition bridge loan that will be replaced by permanent financing.

Principal Liquidity Uses

- $6.9 billion of cash payment for acquiring all of PHI's shares.
- Working capital
- Dividend payments of about $1 billion annually
- Capital spending and maintenance and environmental costs of $5 billion to $5.5 billion annually through 2015

Debt maturities ($mm)

- 2014: 1,424
- 2015: 1,611
- 2016: 1,342

- 2017: 1,391

Covenant Analysis

As of June 30, 2014, Exelon and its subsidiaries were comfortably in compliance with the financial covenants of their credit facilities.

Other Modifiers

We assess all modifiers as neutral, resulting in no change to the anchor score.

Group Influence

The group credit profile (GCP) of Exelon is 'bbb'. As the parent company with one relatively small insulated subsidiary (BGE), Exelon's issuer credit rating is the same as its GCP. Senior unsecured debt at Exelon Corp. is notched down to 'BBB-' because of structural subordination to priority obligations at the operating subsidiaries.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Strong

Financial risk: Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Strong
- **Management and governance:** Strong
- **Comparable rating analysis:** Neutral

Stand-alone credit profile : bbb

- **Group credit profile:** bbb

- **Entity status within group:** Core

Related Criteria And Research

Related Criteria

- Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2014
- Methodology and Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan 2, 2014.
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors for The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of September 22, 2014)

Exelon Corp.	
Corporate Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BB+
Senior Unsecured	BBB-
Corporate Credit Ratings History	
22-Jul-2009	BBB/Stable/A-2
21-Oct-2008	BBB/Watch Neg/A-2
29-Aug-2007	BBB+/Stable/A-2
Related Entities	
Baltimore Gas & Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preference Stock	BBB
Preferred Stock	BBB
Senior Unsecured	A-

Ratings Detail (As Of September 22, 2014) (cont.)

Commonwealth Edison Co.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BB+
Senior Secured	A-
Senior Unsecured	BBB
Continental Wind LLC	
Senior Secured	BBB-/Stable
Exelon Generation Co. LLC	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB
Senior Unsecured	BBB-
Senior Unsecured	BBB/A-2
ExGen Renewables I LLC	
Senior Secured	BB-/Stable
PECO Energy Co.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BB+
Senior Secured	A-
Senior Secured	AA/Stable
Philadelphia Electric Co.	
Senior Secured	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

FitchRatings

Fitch Affirms Exelon Corp's and Subsidiaries Ratings

Fitch Ratings-New York-08 February 2013: Fitch Ratings has affirmed the Issuer Default Ratings (IDR) and instrument ratings of Exelon Corp. (EXC) and each of its existing operating subsidiaries, including Exelon Generation Company (Exgen), Commonwealth Edison Company (Comed), PECO Energy Company (PECO) and Baltimore Gas and Electric Co. (BG&E). The Rating Outlook for Comed has been revised to Positive from Stable. The Rating Outlook for all other entities remains Stable.

The ratings of EXC and Exgen reflect recent steps taken by management to solidify their credit quality and ratings in the face of a persistently low power price environment that is pressuring wholesale and retail profit margins. The positive actions include substantial reductions in both capex and the common stock dividend. Consequently, credit protection measures are expected by Fitch to remain strong during a low point in the commodity cycle and compare favorably to Fitch's target ratios and their respective peer groups.

The EXC and Exgen ratings also reflect ample liquidity, and a competitive nuclear fleet that is low on the dispatch curve and stands to benefit from new and existing environmental regulations that impose additional costs on coal plants. The consolidated rating also benefits from the earnings contribution of three regulated utilities, which account for about 50% of earnings and cash flow.

KEY RATING DRIVERS

EXC and Exgen

Dividend Reduction: EXC's dividend was reduced 40%, saving approximately $700 million annually. Fitch expects Exgen will be the primary beneficiary of the dividend reduction and to apply a significant portion of the savings to debt reduction. The new dividend takes effect in the second quarter of 2013.

Reduced Capex: In November 2012, management lowered Exgen's capex budget by $2.3 billion over the five year period 2013 - 2017. The capex reduction includes approximately $1.025 billion from the deferral of planned nuclear uprates and $1.25 billion from eliminating unidentified wind and solar investments. The reductions meaningfully reduced pressure on credit quality measures.

Financial Position: The combined reductions of the common stock dividend and capex have strengthened the financial positions of both EXC and Exgen. Cash flow measures are particularly strong. Fitch estimates EXC's adjusted ratio of FFO/interest to be in excess of 6.0x over the next several years and FFO/debt approximately 30%. Fitch estimates Exgen's adjusted ratio of FFO/interest to be in excess of 7.0x over the next several years and FFO/debt in excess of 40%.

Liquidity: Liquidity is ample and debt maturities should be manageable. On a consolidated basis committed credit facilities aggregate $8.4 billion, including $5.7 billion at Exgen and $500 million at EXC, and extend to 2017. Moreover, Fitch expects Exgen to be free cash flow positive over the next several years.

Low Commodity Price Environment: Low power prices, weak demand and aggressive competitive pricing behavior have adversely affected Exgen's wholesale and retail margins and are expected by Fitch to persist for several more years. It does appear however, that we are in the low point of the commodity cycle with limited downside risk. Moreover, the lower dividend and spending plan have positioned both EXC and Exgen to withstand further stresses.

Comed

Credit Metrics: Over the next several years, Fitch expects Comed to sustain the improvement in credit metrics achieved in 2012, largely due to a rate increase implemented Jan. 1, 2013 and a new regulatory paradigm in Illinois that allows for annual rate adjustments to earn a return on new investments and recover changes in the cost of service. Fitch estimates the ratio of EBITDA/interest will average about 5.0x and FFO/interest about 4.5x over the next several years. Over the same period FFO/debt is expected by Fitch to average about 18% and Debt/EBITDA about 3.9x.

Regulatory Environment: Illinois implemented a formula based rate plan (FRP) in October 2011 that fundamentally changed regulation of electric delivery service in Illinois. While the FRP remains less favorable than initially expected by Fitch, it does provide for annual rate adjustments, recognizes planned capital additions and includes a true-up mechanism that combine to reduce, albeit not eliminate, rate lag. The primary negatives are a relatively low formula based return on equity (ROE) and reliance on an average, rather than year-end rate base, which reduces the revenue requirement.

FRP Appeal: Following its initial FRP decision, Comed filed an appeal with the Illinois Commerce Commission (ICC) and in October 2012 the ICC reversed its position on the treatment of the Comed's pension asset. The reversal restored about $135 million of revenue in 2012. The ICC maintained its position on the use of an average, rather than year-end, rate base and capital. Following the rehearing order, Comed filed an appeal in state court regarding the use of an average rate base and the interest rate used to calculate the carrying cost on reconciliation adjusted balances.

Recent Comed Rate Case: On Dec. 19, 2012, the ICC issued an order in Comed's second FRP filing. The decision was more constructive than the previous order, but continues to rely on an average rate base and capital structure. The ICC granted Comed a $72.6 million rate increase compared to $74.2 million supported by the company. The allowed ROE was 9.71% based on the pre-established formula (3.91% Treasury yield plus 580 basis points), compared to 10.05% in the prior case. Prospectively, Comed will file an annual FRP each May with new rates effective the following January. Since Treasury rates are unlikely to fall there is limited downside on the ROE.

Rising Capex: Capital expenditures are forecasted to rise to approximately $4.3 billion over the three-year period 2013-2015, compared to $3.3 billion in the prior three-year period. The higher outlays are primarily driven by the Illinois Energy Infrastructure Modernization Act (EIMA), which requires Comed to invest an incremental $1.3 billion on electric system upgrades over five years and an additional $1.3 billion for smart grid deployment over 10 years. The legislation provides for recovery through the FRP filings.

Commodity Price Exposure: Ratings benefit from the absence of commodity price exposure and the associated cash flow volatility.

Liquidity: A $1 billion unsecured credit facility provides ample liquidity. Annual debt maturities will require on-going capital market access.

Like-Kind-Exchange: Comed's exposure to the IRS's disallowance of the tax benefits associated with a like-kind-exchange is a credit concern, however the issue is not likely to be resolved for several years and was not factored into the rating decision. As of Jan. 28, 2013, EXC's potential tax and after-tax interest that could become payable, excluding penalties, is $860 million, of which $260 million would be paid by Comed.

PECO

Financial Position: Historical and projected credit measures are well in excess of Fitch's target ratios for the current rating category and the companies' peer group of 'BBB+' distribution utilities. In 2013, Fitch estimates EBITDA/interest of approximately 7.0x, FFO/interest 5.0x and FFO/Debt about 20%.
Regulatory Environment: In February 2012, HB 1294 was signed into law. The legislation is intended to encourage utilities to invest in infrastructure by providing cost recovery through an automatic adjustment mechanism. Under the law, utilities will file a long-term infrastructure improvement plan starting in 2013 and the Pennsylvania Public Utility Commission (PUC) will establish a distribution system investment charge (DSIC) to recover the invested capital. The DSIC will be updated quarterly. The new legislation also allows rate filings to include fully forecasted test years, significantly reducing regulatory lag.

Commodity Price Exposure: Ratings benefit from the absence of commodity price exposure and the associated cash flow volatility.

BG&E

Financial Position: The BG&E rating reflects historical and projected credit measures that are consistent with the rating category. In 2013, Fitch estimates EBITDA/interest of approximately 5.5x, FFO/interest 4.5x and FFO/Debt about 20%.

Regulatory Recovery Mechanisms: Rate adjustment mechanisms outside of base rate cases tend to stabilize BG&E's on-going cash flow. These include decoupling for both residential and certain commercial gas and electricity deliveries and purchased gas and purchased power recovery mechanisms.

Regulatory Environment: The regulatory environment in Maryland remains challenging largely due to regulatory lag and the authorization of equity returns that are among the lowest in the industry. The MPSC has been resistant to adopting forward looking test years or other approaches to shorten regulatory lag.

Rate Filing: On July 27, 2012, BG&E filed a request with the MPSC for electric and gas distribution rate increases. Including updates during the rate proceedings the electric and gas rate requests were $130.1 million and $45.6 million, respectively. The increases are premised on a 10.5% return on equity (ROE). A decision is required in February 2013.

RATING SENSITIVITIES

What could trigger a negative rating action:

--Lack of rate support for utility infrastructure investments or changes in the commodity cost recovery provisions in Illinois, Pennsylvania or Baltimore.
--More aggressive growth strategy that increased business risk and/or leverage.
--Sustained nuclear outage.
--Increase in risk appetite as evidenced by change in hedging strategy at Exgen.

What could trigger a positive rating action:

--Other than an unexpected change in business strategy (i.e. additional sources of regulated earnings and cash flow), positive rating action at parent is unlikely at the present rating level.
--For Comed, a constructive decision in Comed's next FRP proceeding that supports infrastructure investments and strengthens cash flow could lead to a one-notch upgrade.

Fitch has affirmed the following ratings with a Stable Outlook:

Exelon Corp.
--Issuer Default Rating (IDR) at 'BBB+';
--Senior unsecured debt at 'BBB+';
--Junior Subordinated Notes at 'BBB-'
--Commercial paper at 'F2';
--Short-term IDR at 'F2'.

Exelon Generation Co., LLC
--Issuer Default Rating (IDR) at 'BBB+';
--Senior unsecured debt at 'BBB+';
--Commercial paper at 'F2';
--Short-term IDR at 'F2'.

PECO Energy Co.
--Issuer Default Rating (IDR) at 'BBB+';
--First mortgage bonds at 'A';
--Senior unsecured debt at 'A-';
--Preferred stock at 'BBB';
--Commercial paper at 'F2';
--Short-term IDR at 'F2'.

PECO Energy Capital Trust III
--Preferred stock at 'BBB'.

PECO Energy Capital Trust IV
--Preferred stock at 'BBB'.

Baltimore Gas and Electric Company
--Issuer Default Rating (IDR) at 'BBB;
--First mortgage bonds at 'A-';
--Senior unsecured debt at 'BBB+';
--Pollution Control Bonds at 'BBB+'
--Preferred stock to at 'BBB-';
--Short-term IDR at 'F2';

--Commercial paper at 'F2'.

BGE Capital Trust II
--Preferrred stock at 'BBB-'.

Fitch has affirmed the following ratings with a Positive Outlook:

Commonwealth Edison Company
--Issuer Default Rating (IDR) at 'BBB-;
--First mortgage bonds at 'BBB+';
--Senior unsecured debt at 'BBB';
--Preferred stock at 'BB+';
--Short-term IDR at 'F3';
--Commercial paper at 'F3'.

ComEd Financing Trust III
--Preferred stock at 'BB+'.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research
--'Corporate Rating Methodology' (Aug. 8, 2012);
--'Parent and Subsidiary Rating Linkage' (Aug. 12, 2011)
--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 12, 2012).

Applicable Criteria and Related Research
Corporate Rating Methodology (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Parent and Subsidiary Rating Linkage (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Recovery Ratings and Notching Criteria for Utilities (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=693750&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

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STANDARD & POOR'S
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Summary:

Exelon Corp.

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Summary:

Exelon Corp.

Corporate Credit Rating	**BBB/Stable/A-2**

Profile Assessments

BUSINESS RISK	**STRONG**
FINANCIAL RISK	**SIGNIFICANT**

Business Risk:: Strong

- 35% rate-regulated utility operations
- Low-cost base-load generation
- Strong operating track record
- Exposure to market prices of a price-taking fleet
- A capacity market that is still not responding to price signals
- Exposure to nuclear generation.

Financial Risk: Significant

- Backdated EBITDA profile and potential for a significant decline in cash flow
- Positive operating cash flow
- Strong liquidity position

Outlook: Stable

The outlook on the ratings is stable. That said, we believe that higher natural gas production from shale gas plays and a delay in environmental rules related to plant retirements can significantly hurt the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings decline in 2014. Should the prevailing commodity environment persist, the company may have to address its declining earnings profile by reducing capital spending. We expect Exelon and Exelon Generation Co. LLC (ExGen) to maintain consolidated funds from operations (FFO) to debt of at least 23% and 27%, respectively, to maintain current ratings.

Downside scenario

We could lower the ratings if adjusted FFO to debt is consistently lower than 22%. This could happen if Exelon sees increasing competition in its markets in Pennsylvania and Illinois, which would threaten customer retention in its retail business. Gross margins could also come under pressure by a further decline in power prices brought about by declining natural gas prices, or lower market heat rates due to increasing energy efficiency.

Upside scenario

A positive outlook--currently not under consideration--can result if natural gas prices stabilize and power prices respond favorably to coal-plant retirements, resulting in an improvement in consolidated FFO to debt levels of more than 28% on a sustained basis. This could stem from an improved economy and higher electricity prices, as well as a robust increase in the rate base of Exelon's regulated utility subsidiaries.

Standard & Poor's Base-Case Scenario

Assumptions

- Henry Hub gas price between $3.50 to $3.75 through 2016; PJM West hub power prices between $40.50 per megawatt-hour (MWh) to $43 per MWh in 2016. Northern Illinois hub between $33 per MWh in 2014 to $34.50 per MWh by 2016
- Pensions/other post-employment benefits: Based on Dec. 31, 2012 actuarial valuation by Towers (a third party firm)
- 50% bonus depreciation in 2013
- Nuclear capacity factors: between 93.3% and 93.7% through 2017 (each 1% fleet decline results in a $45 million hit to FFO)
- Growth rate at utilities consistent with management assumptions

Key Metrics

	2013E	2014E	2015E
FFO/debt (%)	25-28	26-28	27-28
Debt/EBITDA (x)	4.6-4.7	4.0-4.2	3.8-3.6

E—Estimate.

Business Risk: Strong

Standard & Poor's Ratings Services' rating on diversified energy company Exelon reflects its consolidated business risk profile, which we view as "strong." Exelon's business risk profile reflects the higher-risk operations of unregulated supply affiliate ExGen. Exelon's business risk also reflects the excellent business risk profiles of regulated delivery businesses Commonwealth Edison Co. (ComEd), PECO Energy (PECO), and Baltimore Gas & Electric Co. (BGE), which have generally predictable transmission and distribution cash flows. Because of ring-fencing, we will continue to deconsolidate BGE and analyze it as an equity investment, counting only distributions to the parent as primary contributions to the parent's credit quality and financial profile.

As of June 30, 2013, Exelon (excluding BGE) had about $16.7 billion of on-balance-sheet debt. We also impute a significant amount of debt to Exelon, as much as $4.2 billion (excluding BGE imputed debt as of June 30, 2013), which consists mostly of about $2.2 billion related to pensions and other post-employment benefits, about $500 million related to operating leases and about $1.4 billion related to power purchase agreements. This is offset by about $1.2 billion of off-balance-sheet credit for nonrecourse project financing.

After the merger with Constellation Energy Group Inc., Exelon is the nation's second-largest regulated distributor of electricity and gas, with 3.8 million customers in Illinois, 1.6 million customers in Pennsylvania, and 1.2 million customers in Maryland. Exelon also distributes natural gas to 497,000 customers in the Philadelphia metropolitan area through PECO and 655,000 customers in Maryland. ExGen engages in unregulated energy generation, wholesale power marketing, and energy delivery. The company has long-term exposure to market risk and meaningful exposure to nuclear plants (19 gigawatts [GW] across 23 units). The company has about 35 GW of generating capacity and 415 billion cubic feet (bcf) of natural gas business.

Exelon gets a larger portion of earnings from its regulated and retail operations. Through retail and wholesale channels, ExGen now provides about 165 terawatt-hours, or about 4.75% to 5%, of total U.S. power demand. The company's generation units are well positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. Exelon's 2012 combination with Constellation provides it with regional diversification of its generating plants and a customer-facing load business because generation and load positions are now better balanced across multiple regions. In most locations, ExGen will have adequate intermediate and peaking capacity within the portfolio for managing load shaping (matching resources with energy needs) risks. However, the company will still need to buy and sell generation in the market to manage portfolio needs, in our opinion. Moreover, ExGen has a significant open position in the Midwest (exposed to merchant market), and a somewhat tight position in Texas and New England, where it has some risk of finding itself short when loads are high, in our opinion.

ExGen's cash flow is sensitive to commodity prices because almost 82% of its generation is nuclear, all of which low natural gas prices are impairing. ExGen's unregulated operations accounted for about 65% of the consolidated enterprise by cash flow and capital spending in 2012. Given that base-load generation is price-taking we expect ExGen's adjusted FFO to debt to remain volatile relative to its peers. For instance, all else remaining equal, we estimate gross margins in 2015 will be lower by about $575 million for every $5 per megawatt--hour (MWh;

round-the-clock) decline in power prices, about $375 million for every $1 per million cubic feet (mcf) decline in gas prices, and about $85 million for every $1 per MWh decline in retail margins.

As a result, ExGen's contribution to the overall Exelon cash flow declines to about 60% under our projected base case, because of the decline in unregulated cash flow when commodity prices fall. However, despite the lower power prices, we view the business risk profile of parent Exelon as strong. We expect financial measures to decline through 2015. However, the corporate credit ratings reflect our expectation that 2014 and 2015 will be the trough years. Based on the present forward curve, cash flow measures are adequate for the rated level in that year, especially after parent Exelon announced significantly reduced dividend payouts and ExGen deferred or eliminated some planned capital spending. However, despite the improvement in free operating cash flow, as a result of the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having "significant" financial risk.

We view ExGen's ratable hedging strategy favorablybecause it ensures that a high percentage of the company's near-term generation is locked in. Hedging not only protects unregulated generation cash flows from steep price declines, it also provides the company time to adjust its cost structure or its capital structureif prices remain depressed. However, hedging activities insulate, but do not isolate, power merchants from commodity price effects. Current hedges show the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, perversely, they also show the sensitivity of ExGen's margins to the prospect of a continued shale gas production onslaught. The decline in mark-to-market value through 2014 shows the limit to which Exelon can hedge--a price-taking fleet can hedge, but only at the prices the market will bear. Also, the merchant generation margins at ExGen will face a decline as high-priced hedges expire, evident in the drop in wholesale hedged gross margins. Still, the forward prices do show a contango as reflected in the increase in ExGen's open EBITDA from higher natural gas forward prices. In addition, although retail competition has increased, and ExGen has lowered its growth estimates, we believe retail contributions can mitigate the wholesale decline, given the potential for cost savings, volumes gained from the Constellation merger, and acquisitions.

Financial Risk: Significant

Because of the decline in commodity prices, we expect ExGen's FFO to debt to range around 40% in 2014. Although ExGen's cash flows are relatively more volatile compared with peers because of the larger base-load generation, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must decline and stay below $2.75 per mcf before its FFO to debt falls below 20%.

We still view Exelon's internal funding as "aggressive," but we view Exelon's decision to lower its dividends as bolstering credit quality. Dividend payout is now in line with peers (at about 55% to 60%). However, Exelon's capital spending requirements remain significant between 2013 and 2015, at about $8 billion for the regulated companies and about $7.6 billion at the unregulated GenCo. Although utility capital spending tends to be funded in rate base, unregulated generation will have to fund its own capital requirements and recover them in market prices. Importantly, because of announced cuts, consolidated cash flow from operations will largely cover capital spending and dividends, resulting in modest external financing needs. Still, incrementally lower gas prices would hurt ExGen's debt protection measures more than the level of new debt financing, or operating and maintenance cost increases in ExGen's forecast through 2015.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect Exelon's FFO to total debt of the company to decline to hover at 27% to 29% through 2015. We expect free operating cash flow to debt to remain positive even in 2013 and 2014 when we expect financial measures to trough. Importantly, we expect to see the negative discretionary cash flow (after dividends) to improve meaningfully. Similarly, we expect debt to EBITDA to decline to about 4.2x in 2014. These ratios are consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as "significant," especially since a meaningful amount of capital spending is discretionary (ExGen has lowered capital spending estimates in 2014 by more than $2.3 billion since July 2012 estimates).

Liquidity: Strong

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views the liquidity across the Exelon group of companies as "strong," in light of the debt maturities we expect and available credit facilities. We estimate that sources of cash will exceed the companies' uses by about 2x during the next 12 to 24 months. We expect sources over uses for Exelon and ExGen to remain positive even if EBITDA declines by 50%. In addition, because of Exelon's solid relationships with banks and high conversion of FFO to discretionary cash flow, we believe the company can absorb low-probability, high-impact shocks.

Exelon has sufficient alternative sources of liquidity to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturities are in 2015 for Exelon and 2014 for ExGen.

As of June 30, 2013, Exelon, ExGen, ComEd, PECO, and BGE had credit facilities of $500 million, $5.7 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire between December 2015 and August 2018. Availability as of June 30, 2013 under these facilities was $498 million for Exelon; $4.1 billion for ExGen; and $626 million, $599 million, and $600 million for ComEd, PECO, and BGE, respectively.

Commercial paper outstanding was about $650 million and the aggregate availability was $5.8 billion (excluding BGE's $600 million).

Principal Liquidity Sources	Principal Liquidity Uses
• Assumed FFO of about $5.75 billion • Revolver availability	• Working capital • Dividend payments of about $1 billion, annually • The annual maturities for the next several years are about $1 billion to $1.6 billion, which is about 20% of Exelon's annual FFO ($1 billion in 2013) • Capital spending and maintenance and environmentalcosts of about $4.8 billion to $5.5 billion, annually, through 2015

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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Summary:

Exelon Corp.

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Summary:

Exelon Corp.

Credit Rating:	BBB/Stable/A-2

Rationale

Standard & Poor's Ratings Services' 'BBB' corporate credit ratings on diversified energy company, Exelon Corp, reflects its consolidated business risk profile, which we view as "strong." Exelon's business risk profile reflects the higher-risk operations of unregulated supply affiliate Exelon Generation Co. LLC (ExGen), which has increased in size to subsume Constellation's unregulated business. Exelon's business risk also reflects the excellent business risk profiles of regulated delivery businesses, Commonwealth Edison (ComEd), PECO Energy (PECO), and Baltimore Gas & Electric Co. (BGE), which have generally predictable transmission and distribution cash flows. Because of ring-fencing, we will continue to deconsolidate BGE and analyze it as an equity investment, counting only distributions to the parent as primary contributions to the parent's credit quality and financial profile.

As of June 30, 2012, Exelon had about $18.4 billion of on-balance-sheet debt. We also impute about $4.4 billion of off-balance-sheet debt on the books for computing financial ratios, pertaining mostly to unfunded pension and other postemployment benefit obligations and power-purchase agreements.

Postmerger, Exelon is now the nation's second-largest regulated distributor of electricity and gas, with 5.4 million customers in Illinois and Pennsylvania and 1.2 million customers in Maryland. Exelon also distributes natural gas to 490,000 customers in the Philadelphia metropolitan area through PECO and 650,000 customers in Maryland. ExGen engages in unregulated energy generation, wholesale power marketing, and energy delivery. The company has long-term exposure to market risk and meaningful exposure to nuclear assets (19,000 megawatts [MW] across 23 units). The company now has about 35,000 MW and 465 billion cubic feet (bcf) (2012 estimates) of natural gas business. The company has recently divested about 2,648 MW of generation to address market power concerns.

Exelon derives a larger proportion of earnings from its regulated and retail operations. Through retail and wholesale channels, ExGen now provides about 170 terawatt-hours, or approximately 5%, of total U.S. power demand. We expect the switched markets in Pennsylvania, Ohio, Michigan, and Arizona to grow at about 10% in the commercial and industrial class and at about 15% in the residential class between 2011 and 2014. The fleet is well positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. The combination provides ExGen regional diversification of the generation fleet and a customer-facing load business, as generation and load positions are now better balanced across multiple regions. In most locations, ExGen will have adequate intermediate and peaking capacity within the portfolio for managing load shaping (matching resources with energy needs) risks. However, the company will still need to buy and sell length in the market to manage portfolio needs, in our opinion. Moreover, ExGen has a significant open position in the mid-west (exposed to merchant market), and a somewhat tight position in ERCOT and New England, where it has some risk of finding itself short when loads are high, in our opinion.

Supply subsidiary, ExGen's cash flow is sensitive to commodity prices as almost 95% of its premerger generation is nuclear, all of which sliding gas prices are impairing. ExGen's unregulated operations accounted for about 65% of the consolidated enterprise by cash flow and capital spending in 2011. Given that base-load generation is price-taking--it doesn't affect the market price--we expect ExGen's adjusted funds from operations (FFO) to debt to remain volatile--relative to its peers--and we expect it to swing in a band of over 40% in 2011 to about 27% by 2014. For instance, all else remaining equal, we estimate gross margins in 2014 will be lower by about $500 million for every $5 per MW-hour (round-the-clock) decline in power prices, about $215 million for every $0.5 per million cubic feet (mcf) decline in gas prices, and about $110 million for every $1 per MWh decline in retail margins.

As a result, ExGen's contribution to the overall Exelon cash flow declines to about 55% under our base case, because of the decline in unregulated cash flow when commodity prices fall. However, despite the lower power prices, we view the business risk profile of parent Exelon as strong. We expect financial measures to decline over the next two years and the corporate credit ratings reflect our expectation that 2014 will be the trough year. Based on the present forward curve, cash flow measures are still adequate for the rated level in that year. However, as a result of the declining gross margin in forward years, we view Exelon's cash flow adequacy ratio as more akin to the "significant" financial risk profile than the erstwhile "intermediate" one.

We view ExGen's ratable hedging strategy favorably, as it ensures that a high percentage of the company's near-term generation is locked in. Hedging not only protects unregulated generation cash flows from steep price declines, it also provides the company time to adjust its cost structure or its capital structure, should prices remain depressed. However, hedging activities insulate, but do not isolate, power merchants from commodity price effects. Current hedges show the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, perversely, they also show the sensitivity of ExGen's margins to the prospect of a continued shale production onslaught. The decline in mark-to-market value through 2014 shows the limit to which Exelon can hedge--a price-taking fleet can hedge, but only at the prices the market will bear. Also, the gross margin contribution at ExGen will face a decline as higher-priced hedges expire, evident in the drop in wholesale hedged gross margins. Still, the forwards show a contango as reflected in the increase in ExGen's open EBITDA from higher natural gas forwards. Additionally, we believe retail contributions will increase, given the potential for cost savings, volumes gained from the constellation merger, and recent acquisitions (StarTex and MX Energy Holdings).

We view parent Exelon's financial policy and internal funding as "aggressive." The current level of dividends, at about $1.8 billion, results in a dividend payout of about 80%, according to our estimates--meaningfully higher than the 50% to 65% range for peers. Moreover, Exelon's capital spending requirements are significant between 2012 and 2014, at about $18.5 billion. Although utility capital spending tends to be funded in regulated rates (i.e., under rate base), unregulated generation will have to fund its own capital requirements and recover them in market prices. However, cash flow from operations will be insufficient for capital spending and dividends, resulting in external needs of financing. We estimate that the funding gap would be greatest in 2014 because of a trough in earnings even as ExGen's requirements to contribute toward Exelon's dividend commitments are the highest internal financing needs of the utilities. This funding gap could widen if the company fails to achieve merger driven O&M savings in its forecast. We estimate Exelon's incremental long-term financing needs at an average of about $1.4 billion to $1.5 billion in 2014 and 2015. Still, incrementally lower gas prices, combined with higher than anticipated O&M costs, would hurt ExGen's debt protection measures more than the level of new debt financing in ExGen's forecast through 2015.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect FFO to total debt of the pro forma company (i.e., Exelon and Constellation combined) to decline to about 25% in 2012 and then to hover at 22% to 23.5% through 2015. We expect free operating cash flow to debt to remain marginally positive even in 2013 and 2014 when we expect financial measures to trough. However, we expect discretionary cash flow (after dividends) to turn significantly negative--in a range between $1.1 and $1.7 billion through the period--mostly because of high capital spending. Similarly, we expect total debt to total capital to be about 57% and debt to EBITDA to hover at about 4.0x. These ratios are still consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as "significant," especially since a meaningful amount of capital expenditure is discretionary. The company's recent decision to defer the LaSalle extended power uprate (EPU) by two years demonstrates flexibility to adjust the program as needed based on market conditions. We estimate that deferring the project by two years will free-up about $400 million through 2014.

Liquidity

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views the liquidity across the Exelon group of companies as "strong," in light of the debt maturities we expect and available credit facilities. We estimate that sources of cash will exceed the companies' uses by about 2x during the next 12 to 24 months. We expect sources over uses for Exelon and ExGen to remain positive even if EBITDA declines by 50%. In addition, because of Exelon's solid relationships with banks and high conversion of FFO to discretionary cash flow, we believe the company can absorb low-probability, high-impact shocks.

Exelon has sufficient alternative sources of liquidity to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, a declining power price environment is favorable from a liquidity perspective as cash is being posted to ExGen on its forward hedges. The next large maturities are in 2015 for Exelon and 2014 for ExGen.

In March 2010, ComEd replaced its $952 million credit facility with a three-year, $1 billion unsecured revolving credit facility that expires March 25, 2013. On March 10, 2012, the capacity under Constellation's revolving facility fell to $1.5 billion from $2.5 billion, reducing aggregate bank commitments to $3.2 billion. All facilities reside at the parent level. In addition, Exelon is working through the migration of letters of credit and has a liquidity reduction plan in place that it will finalize toward the end of 2012.

As of July 27, 2012, Exelon, ExGen, ComEd, PECO, and BGE had credit facilities of $2.84 billion, $5.6 billion, $1.0 billion, $0.6 billion, and $0.6 billion, respectively. These facilities expire between September 2013 and March 2017. Availability under these facilities was $2,319 million and $3,807 million respectively for Exelon and ExGen, respectively, and $999 million, $599 million and $564 million for ComEd, PECO, and BGE, respectively. Excluding commercial paper outstanding, the aggregate availability was $7.86 billion.

Outlook

The outlook on the ratings is stable. That said, we believe that higher natural gas production from shale plays and a delay in environment rules related to plant retirements can significantly hurt the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings decline in 2014. Should the prevailing commodity environment persist, the company may have to address its declining earnings profile by reducing capital spending. We expect Exelon and ExGen to maintain consolidated FFO to debt in the 21% to 23% and 25% to 27% ranges, respectively, in 2014 to maintain current ratings. We will specifically monitor the expected negative discretionary cash position that results from Exelon's large dividend commitment. A positive outlook--currently not under consideration--can result if natural gas prices stabilize and power prices respond favorably to coal-plant retirements, resulting in an improvement in consolidated FFO to debt levels of over 27%.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

S&P Global
Ratings

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Exelon Corp.

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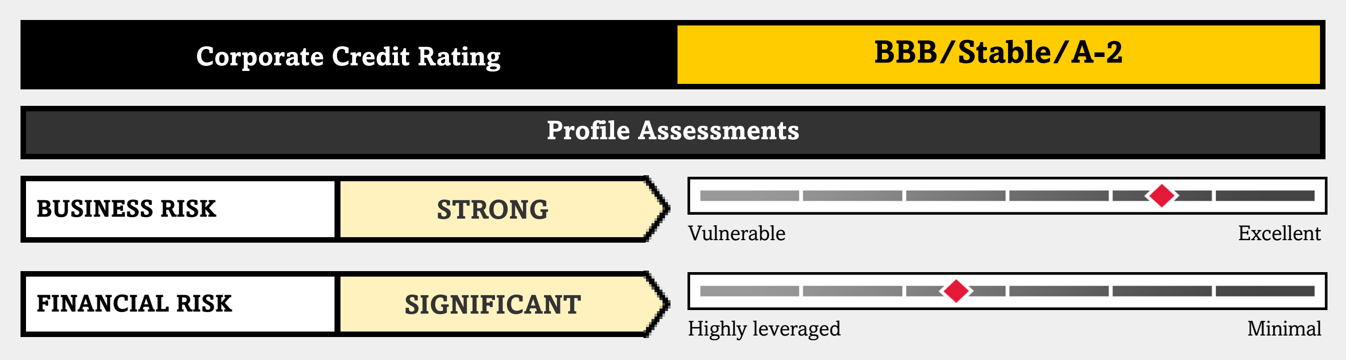
Exelon Corp.



Corporate Credit Rating	BBB/Stable/A-2

Profile Assessments

BUSINESS RISK	**STRONG**	Vulnerable – Excellent
FINANCIAL RISK	**SIGNIFICANT**	Highly leveraged – Minimal

Outlook

The outlook on the ratings is stable. That said, Standard & Poor's Ratings Services believes that higher natural gas production from shale natural gas plays and a delay in environmental rules related to plant retirements can significantly hurt the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings decline in 2014. Should the prevailing commodity pricing environment persists, the company may have to address its declining earnings profile by reducing capital spending. We expect Exelon Corp. and Exelon Generation Co. LLC (ExGen) to maintain consolidated funds from operations (FFO) to debt of at least 23% and 27%, respectively, to maintain current ratings.

Downside scenario

We could lower the ratings if adjusted FFO to debt is consistently lower than 22%. This could happen if Exelon sees increasing competition in its markets in Pennsylvania and Illinois, which would threaten customer retention in its retail business. Gross margins could also come under pressure by a further decline in power prices brought about by declining natural gas prices, or lower market heat rates due to increasing energy efficiency.

Upside scenario

A positive outlook--currently not under consideration--can result if natural gas prices stabilize and power prices respond favorably to coal-plant retirements, resulting in an improvement in consolidated FFO to debt levels of more than 28% on a sustained basis. This could stem from an improved economy and higher electricity prices, as well as a robust increase in the rate base of Exelon's regulated utility subsidiaries.

Standard & Poor's Base-Case Scenario

Assumptions

- Henry Hub gas price between $3.5 and $3.75 through 2016; PJM West hub power prices between $40.5 per megawatt-hour (MWh) and $43 per MWh in 2016; Northern Illinois hub $33 per MWh in 2014 and $34.5 per MWh by 2016.
- Pensions/other post-employment benefits (OPEB), based on a Dec. 31, 2012 actuarial valuation by Towers (a third-party firm)
- 50% bonus depreciation in 2013

- Nuclear capacity factors of between 93.3% and 93.7% through 2017 (each 1% fleet decline results in a $45 million hit to EBITDA)
- Growth rate at utilities consistent with management's assumptions

Key Metrics

	2013E	**2014E**	**2015E**
FFO/debt (%)	25-28	26-28	27-28
Debt/EBITDA (x)	4.6-4.7	4.0-4.2	3.8-3.6

E—Estimate.

Company Description

After the merger with Constellation Energy Group Inc. (CEG), Chicago-based Exelon is the nation's second-largest regulated distributor of electricity and gas, with 3.8 million customers in Illinois, 1.6 million customers in Pennsylvania, and 1.2 million customers in Maryland. Exelon also distributes natural gas to 497,000 customers in the Philadelphia metropolitan area through PECO Energy Co. and 655,000 customers in Maryland. ExGen engages in unregulated energy generation, wholesale power marketing, and energy delivery. The company has long-term exposure to market risk and meaningful exposure to nuclear plants (19 gigawatts [GW] across 23 units). The company has about 35 GW of generating capacity and 415 billion cubic feet (bcf) of natural gas business. Exelon Corp. is publicly owned and there are no external support considerations.

Business Risk

Standard & Poor's rating on diversified energy company Exelon reflects its consolidated business risk profile, which we view as "strong." Exelon's business risk profile reflects the higher-risk operations of unregulated supply affiliate ExGen. Exelon's business risk also reflects the excellent business risk profiles of regulated delivery businesses Commonwealth Edison Co. (ComEd), PECO Energy, and Baltimore Gas & Electric Co. (BGE), which have generally predictable transmission and distribution cash flows. Because of ring-fencing, we will continue to deconsolidate BGE and analyze it as an equity investment, counting only distributions to the parent as primary contributions to the parent's credit quality and financial profile.

As of June 30, 2013, Exelon (excluding BGE) had about $16.7 billion of on-balance-sheet debt. We also impute a significant amount of debt to Exelon, as much as $4.2 billion (excluding BGE imputed debt as of June 30, 2013), which consists mostly of about $2.2 billion related to pensions and OPEB, about $500 million related to operating leases, and about $1.4 billion related to power purchase agreements. This is offset by about $1.2 billion of off-balance-sheet credit for nonrecourse project financing.

Exelon gets a larger portion of earnings from its regulated and retail operations. Through retail and wholesale channels, ExGen now provides about 165 terawatt-hours, or about 4.75% to 5%, of total U.S. power demand. The company's generation units are well positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. Exelon's 2012 combination with Constellation provides it with regional diversification of its generating plants and a customer-facing load business because generation and load positions are now better balanced across multiple regions. In most locations, ExGen will have adequate intermediate and peaking capacity within the portfolio for managing load shaping (matching resources with energy needs) risks. However, the company will still need to buy and sell generation in the market to manage portfolio needs, in our opinion. Moreover, ExGen has a significant open position in the Midwest (exposure to merchant markets), and a somewhat tight position in Texas and New England, where it has some risk of finding itself short when loads are high, in our opinion.

ExGen's cash flow is sensitive to commodity prices because almost 82% of its generation is nuclear, all of which low natural gas prices are impairing. ExGen's unregulated operations accounted for about 65% of the consolidated enterprise by cash flow and capital spending in 2012. Given that base-load generation is price-taking, we expect ExGen's adjusted FFO to debt to remain volatile relative to its peers. For instance, all else remaining equal, we estimate gross margins in 2015 will be lower by about $575 million for every $5 per MWh (round-the-clock) decline in power prices, about $375 million for every $1 per million cubic feet (mcf) decline in gas prices, and about $85 million for every $1 per MWh decline in retail margins.

As a result, ExGen's contribution to the overall Exelon cash flow declines to about 60% under our projected base case, because of the decline in unregulated cash flow when commodity prices fall. However, despite the lower power prices, we view the business risk profile of parent Exelon as strong. We expect financial measures to decline through 2015. However, the corporate credit ratings reflect our expectation that 2014 and 2015 will be the trough years. Based on the present forward curve, cash flow measures are adequate for the rated level in that year, especially after parent Exelon announced significantly reduced dividend payouts and ExGen deferred or eliminated some planned capital spending. However, despite the improvement in free operating cash flow , as a result of the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having "significant" financial risk.

We view ExGen's ratable hedging strategy favorably because it ensures that a high percentage of the company's near-term generation is locked in. Hedging not only protects unregulated generation cash flows from steep price declines, it also provides the company time to adjust its cost structure or its capital structure if prices remain depressed. However, hedging activities insulate, but do not isolate, power merchants from commodity price effects. Current hedges show the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, perversely, they also show the sensitivity of ExGen's margins to the prospect of a continued shale gas production onslaught. The decline in mark-to-market value through 2014 shows the limit to which Exelon can hedge--a price-taking fleet can hedge, but only at the prices the market will bear. Also, the merchant generation margins at ExGen will face a decline as high-priced hedges expire, evident in the drop in wholesale hedged gross margins. Still, the forward prices do show a contango as reflected in the increase in ExGen's open EBITDA from higher natural gas forward prices. In addition, although retail competition has increased, and ExGen has lowered its growth estimates, we believe retail contributions can mitigate the wholesale decline, given the potential for cost savings, volumes gained from the Constellation merger, and acquisitions.

Financial Risk

Because of the decline in commodity prices, we expect ExGen's FFO to debt to range around 40% in 2014. Although ExGen's cash flows are relatively more volatile compared with peers because of the larger base-load generation, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must decline and stay below $2.75 per mcf before its FFO to debt falls below 20%.

We still view Exelon's internal funding as aggressive, but view Exelon's decision to lower its dividends as bolstering credit quality. Dividend payout is now in line with peers (at about 55% to 60%). However, Exelon's capital spending requirements remain significant between 2013 and 2015, at about $8 billion for the regulated companies and about $7 .6 billion at unregulated ExGen. Although utility capital spending tends to be funded in rate base, unregulated generation will have to fund its own capital requirements and recover them in market prices. Importantly, because of announced cuts, consolidated cash flow from operations will largely cover capital spending and dividends, resulting in modest external financing needs. Still, incrementally lower gas prices would hurt ExGen's debt protection measures more than the level of new debt financing, or operating and maintenance cost increases in ExGen's forecast through 2015.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect Exelon's FFO to total debt of the company to decline to hover around 27% to 29% through 2015. We expect free operating cash flow to debt to remain positive even in 2013 and 2014 when we expect financial measures to trough. Importantly, we expect to see the negative discretionary cash flow (after dividends) to improve meaningfully. Similarly, we expect debt to EBITDA to decline to about 4.2x in 2014. These ratios are consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as "significant," especially since a meaningful amount of capital spending is discretionary (ExGen has lowered capital spending estimates in 2014 by more than $2.3 billion since July 2012 estimates).

Liquidity

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views the liquidity across the Exelon group of companies as "strong," in light of the debt maturities we expect and available credit facilities. We estimate that sources of cash will exceed the companies' uses by about 2x during the next 12 to 24 months. We expect sources over uses for Exelon and ExGen to remain positive even if EBITDA declines by 50%. In addition, because of Exelon's solid relationships with banks and high conversion of FFO to discretionary cash flow, we believe the company can absorb low-probability, high-impact shocks.

Exelon has sufficient alternative sources of liquidity to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities. Ironically, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturities are in 2015 for Exelon and 2014 for ExGen.

As of June. 30, 2013, Exelon, ExGen, ComEd, PECO, and BGE had credit facilities of $500 million, $5.7 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire between December 2015 and August 2018. Availability as of June 30, 2013, under these facilities was $498 million for Exelon; $4.1 billion for ExGen; and $626 million, $599 million, and $600 million for ComEd, PECO, and BGE, respectively.

Commercial paper outstanding was about $650 million and the aggregate availability was $5.8 billion (excluding BGE's $600 million).

Principal Liquidity Sources

- Assumed FFO of about $5.75 billion
- Revolving credit facility availability

Principal Liquidity Uses

- Working capital
- Dividend payments of about $1 billion annually
- Capital spending and maintenance and environmental costs of about $4.8 billion to $5.5 billion, annually through 2015

Debt maturities

The annual maturities for the next several years are about $1 billion to $1.6 billion, which is about 20% of Exelon's annual FFO ($1 billion in 2013)

Rating Methodologies/Key Criteria Considerations

- Ratings of Exelon and ExGen are considered inextricably linked because ExGen is considered a core and primary subsidiary of Exelon.
- The utility subsidiaries in Illinois and Pennsylvania are consolidated when assessing credit quality, given the absence of any meaningful structural (ring-fencing) or regulatory insulation. A measure of this is an assessment of the likelihood of Exelon providing financial support to affiliate utilities in Illinois and Pennsylvania if any adverse regulatory/legislative developments occur. We may rate the subsidiaries more on a stand-alone basis if we were to determine that Exelon may not support an affiliate under a stress scenario, or that the subsidiary is no longer a core holding.
- BGE is ring-fenced from the parent's operations. The ring-fenced structure insulates BGE's credit from that of Exelon, allowing up to a three notch separation. Because BGE's credit profile is insulated, but not isolated, from the effects of the larger unregulated operations, should the parent's credit profile deteriorate, we would expect BGE's credit ratings to weaken as well. Although BGE is ring-fenced from the parent, we incorporate its distributions to the parent into the parent's business risk assessment.

In 2012, Exelon completed the merger with CEG, and CEG became a wholly owned subsidiary of Exelon. CEG's interest in RF Holdco LLC, which held CEG's interest in BGE, was transferred to Exelon Energy Delivery Co. LLC, a wholly owned subsidiary of Exelon that also owns Exelon's interest in ComEd and PECO. CEG's generation and customer supply businesses were transferred to ExGen. CEG's shareholders received 0.93 shares of Exelon common stock in exchange for each share of CEG. We affirmed the rating on Exelon on March 23, 2012, after the merger consummated. From an issue-specific ratings perspective, structuring the transaction in this manner results in debt at Exelon becoming somewhat further disadvantaged because CEG's unsecured debt now resides at this entity while the generation assets are at ExGen.

The parent holding company is rated one-notch below at 'BBB-' because of the 20% priority debt test. All of CEG's debt (excluding BGE) now resides at Exelon even as all assets were combined at the ExGen level. As a result, priority debt is more than 20% and holding company debt is considered disadvantaged.

Business Risk Profile

The table below presents our estimate of Exelon's business break-out over 2013 and 2014. For this analysis, we impute significant off balance sheet debt on ExGen and also allocate all of Exelon's debt on the unregulated subsidiary.

Table 1

Exelon Business Breakout

% Contribution including BGE		**% Contribution excluding BGE**	
ExGen + HoldCo debt % of consolidated			
(%)	**2013**		**2013**
CapEx	52	CapEx	59
Assets	52	Assets	56
Debt + adjustments	46	Debt + adjustments	51
CFO	60	CFO	66
FFO + adjustments	64	FFO + adjustments	70
EBITDA (operating)	49	EBITDA (operating)	56
EBITDA (GAAP)	45	EBITDA (GAAP)	52
ComEd % of consolidated			
CapEx	26	CapEx	29
Assets	30	Assets	32
Debt + adjustments	30	Debt + adjustments	34
CFO	21	CFO	23
FFO + adjustments	17	FFO + adjustments	18
EBITDA (operating)	25	EBITDA (operating)	28
EBITDA (GAAP)	27	EBITDA (GAAP)	31
PECO % of consolidated			
CapEx	10	CapEx	11
Assets	12	Assets	13
Debt + adjustments	11	Debt + adjustments	13
CFO	10	CFO	11
FFO + adjustments	9	FFO + adjustments	10
EBITDA (operating)	14	EBITDA (operating)	16
EBITDA (GAAP)	15	EBITDA (GAAP)	17
BGE % of consolidated			
CapEx	12		
Assets	10		
Debt + adjustments	10		
CFO	8		

Table 1

Exelon Business Breakout (cont.)

	% Contribution including BGE	% Contribution excluding BGE
ExGen + HoldCo debt % of consolidated		
(%)	**2013**	**2013**
FFO + adjustments	9	
EBITDA (operating)	12	
EBITDA (GAAP)	12	

We consider about 65% of Exelon's operations as unregulated in our business risk profile assessment. This assessment incorporates limited contributions from BGE because of BGE's ring-fencing from Exelon.

Because the unregulated operations are driving Exelon's credit quality, we focus largely on ExGen's operations in this report.

The Regulated Businesses

Regulation

Maryland and Illinois, the states where BGE and ComEd operate, respectively, are categorized as "less credit supportive" by S&P, while Pennsylvania, where PECO operates, is categorized as "credit supportive".

Market pposition

- Pennsylvania (where PECO operates) permits competition by electricity generators for the supply of retail electricity while transmission and distribution services remains regulated under the Competition Act.
- ComEd has a monopoly over its service territory, however, the operations suffer from the effect of the economic downturn as sales depend on industrial and wholesale customers.
- Maryland has implemented customer choice and competition among electric suppliers, so customers can choose their electricity supplier. However, BGE remains the sole distributor to customers.

The continued tepid economy and growing energy efficiency initiatives have limited demand for electricity across the Exelon utilities. ComEd is projecting load volumes to remain essentially flat in 2013 compared with 2012, while PECO and BGE are projecting an increase (decrease) of 0.5% and (1.0%), respectively, in 2013 compared with 2012.

Commonwealth Edison

ComEd is a regulated transmission and distribution company that serves 3.8 million customers in Chicago and surrounding areas. ComEd has some diversity in that about 50% of its revenues come from residential electric sales with small commercial and industrial accounting for about 30%. About 75% of revenues pertain to distribution and are regulated by the Illinois Commerce Commission (ICC). The balance is transmission related and regulated by the Federal Energy Regulatory Commission (FERC).

The formula rate plan that Illinois adopted under the Energy Infrastructure Modernization Act (EIMA) was viewed initially as a potential enhancement of the utility's credit quality. However, ComEd's first rate order was less constructive than expected because the ICC's initial recommendation was a rate reduction of more than $165 million; the ICC adopted a $133.4 million rate reduction after rehearing the issues. ComEd's second rate case filing, which was decided in December 2012, received a more favorable order. In this case, the ICC ordered a rate increase of $89.3 million against a request for $91 million. Still, the ICC has used an average rather than year-end rate base and provided for a short-term debt rate as the appropriate interest rate to apply to under/over recoveries of incurred costs.

Senate Bill 9 (SB 9), a bill that clarifies some of the issues that have emerged under the interpretation of the EIMA, was approved by the state Senate and House but the governor vetoed it. On May 22, 2013, the Illinois General Assembly overrode the Governor's May 5, 2013 veto of SB 9, which resulted in the legislation becoming effective immediately. The ICC issued a rate order on June 5, 2013 approving ComEd's May 30, 2013 filing to update 2013 rates reflecting SB 9 impacts. ComEd projects the override of SB 9 will result in increased operating revenues of about $15 million in the second half of 2013 and $65 million in 2014, respectively. Also, ComEd projects that due to the SB 9 override it will accelerate capital spending by about $40 million in 2013 and $45 million in 2014.

PECO Energy

PECO is a regulated electric and gas transmission and distribution company that serves 1.6 million electric customers and 497,000 gas customers in Philadelphia and surrounding areas. PECO generates about 80% of its revenues from electric sales (20% gas) with about 60% of those being residential sales and about 20% being small commercial and industrial sales. Retail sales account for most gas revenues. The Pennsylvania Utility Commission regulates distribution-related revenues and the FERC regulates transmission.

About 90% of revenues relate to distribution and 10% comes from transmission. We view the recent passage of Pennsylvania Act 11, which authorizes the use of projected test years in rate cases and permits the use of an automatic adjustment clause for project-specific distribution system improvements, as supportive of credit quality.

Baltimore Gas & Electric

BGE is a regulated transmission and distribution company that serves 1.2 million customers and 655,000 natural gas customers in Central Maryland, including the city of Baltimore. BGE generates about 75% of its revenues from electric sales (25% gas), with about 60% of those being residential sales and about 20% being large commercial and industrial sales. The Maryland Public Service Commission (MPSC) regulates distribution-related revenues and the FERC regulates those related to transmission.

We continue to view the MPSC's order requiring BGE and others to enter into a contract for differences with CPV Maryland LLC as detracting from credit quality. The major challenge that we view arising from this contract is the utilities' ability to recover the costs incurred, especially after the recent decision to remove the "regulatory out clause," which made the utilities' payment obligations contingent upon complete and timely recovery of these costs from ratepayers. The commission's order is still subject to pending litigation and a final outcome is expected before the end of 2013. Notwithstanding these challenges in Maryland, we view as supportive the recent passage of the Maryland Strategic Infrastructure Development and Enhancement Program (STRIDE). STRIDE was signed into law on May 2, 2013, and allows utilities to recover the costs of gas infrastructure replacement projects.

In BGE's most recent rate case, decided on Feb. 22, 2013, the MPSC authorized an increase of $81 million in electric rates and $32 million in natural gas rates effective Feb. 23, 2013. Overall, we view this decision as constructive, despite the 9.75% allowed return on equity (ROE) used for electric rates and 9.6% for gas rates, which continue to be below average. On May 17, 2013, BGE filed a new case requesting an increase of $101.5 million in electric rates based on a

10.5% ROE and a $29.7 million increase in gas rates based on a 10.35% ROE. In addition, BGE and other utilities in Maryland are proposing a tracker to recover costs associated with incremental and accelerated investments in electric reliability that, if adopted, would further improve our view of the regulatory climate. We expect BGE to continue its efforts to reduce regulatory lag by frequent filing of rate cases and to effectively manage regulatory risk in Maryland.

As per one condition to the 2012 merger approval of Exelon and Constellation, BGE is not making any distributions to Exelon through 2014.

Unregulated Businesses

We believe ExGen's base load nuclear assets have a competitive cost structure, which is the primary reason for parent Exelon's strong business risk profile despite having significant merchant generation operations. However, we note that ExGen's cash flows vary significantly with changes in electricity and natural gas commodity prices. Specifically, we note that ExGen is more exposed to drops in commodity price than its peers. Falling natural gas prices harm ExGen more than its peers because almost 82% of its generation (excluding power purchased through contracts) is from base load nuclear generation, all of which declining natural gas prices affect. However, we recognize that the company's cost structure is among the most competitive in the industry.

As long as the economy grows modestly, ExGen's assets in regions such as the Mid-Atlantic will likely benefit from improving structural fundamentals for its fleet such as environmental legislation. We also believe that the competitive position of ExGen's nuclear fleet will remain strong in the medium term as these assets are best positioned to serve the wholesale needs of regional transmission and distribution companies. However, ExGen is also most exposed to higher costs associated with nuclear safety, with nuclear generation accounting for nearly 55% of its total capacity. As such, ExGen's ability to operate the fleet reliably and safely will be one key determinant of its credit quality.

Industry Risk

Standard & Poor's outlook for business conditions and credit quality in the U.S. merchant power and independent power producers sector for 2013 and 2014 is increasingly unfavorable, despite improving economic indicators in the U.S.

Our outlook for the U.S. power sector is negative, based on the following fundamentals:

- Declining demand growth due to a combination of declining usage-per-customer and slower growth in new customer count.
- Potential for higher natural gas production that will hurt power prices.
- Changing natural gas prices, which is influencing power prices downwards in regions that typically attracted a premium.
- A capacity market that could remain depressed despite an increasing need for new build.
- We expect a combination of energy efficiency and demand-side management, with significant effects on residential/small commercial demand, to weigh on demand growth.

Ominously, the thesis that the shutdown of coal plants in 2015---when the Mercury and Air Toxins Standards are adopted--will result in a natural gas price response appears a bit weaker in the face of a deluge of shale gas production.

Although a number of speculative-grade companies have already been downgraded, we see increasing headwinds for investment-grade diversified energy companies. While these companies were hitherto insulated from market forces because of hedging activities, these hedges are now being rolled at substantially lower realized prices resulting in significantly backwardated gross margins. As a result, we think some companies will need to address their capital structure to preserve ratings.

ExGen's Business

ExGen's generation assets by capacity are mostly base-load nuclear (55%) and gas (28%). Geographically, the assets are largely located in the Midwest (34%) and Mid-Atlantic (33%) regions, with most of the assets concentrated in Illinois (33%) and Pennsylvania (25%). The company is the largest nuclear operator in the U.S and nuclear generation poses numerous operating, regulatory, and environmental risks. ExGen's nuclear assets consist of 14 operating nuclear sites (some sites have dual units) with an equity ownership of about 19,000 MW, representing about 55% of the company's total owned generation capacity.

The company's strong operational track record mitigates significant exposure to nuclear assets. During the past five years, ExGen's nuclear capacity factor has been at or exceeded 93%, which is among the highest in the industry. With gas on the margin in most markets, ExGen's well-run nuclear fleet gives it an significant advantage in the market as most of its plants are depreciated and the variable costs of nuclear generation is low. Still, nuclear generation's systemic risks weigh negatively on credit quality.

Table 2

ExGen Operating Statistics

(%)	2012	2011	2010
Nuclear capacity factor	92.7	93.3	93.9
Fossil equivalent forced outage rate	3.4	5.1	2.3
Hydro equivalent availability factor	95.7	95.2	96.8
Wind energy capture	93.9	93.1	88.9

Although the portfolio has geographic and fuel diversity, economically, Exelon's cash flow is highly susceptible to natural gas price movements, which is the marginal fuel in most regions. While the company also has a long position on market heat rates, carbon, and other emissions, the price taking nature of its large base-load fleet makes it more vulnerable to downward movements in gas prices compared with its peers. It was for this reason the company considers renewable assets a good hedge for its existing business, as they help diversify away from natural gas exposure, and also because states such as Pennsylvania and Illinois also have a renewable portfolio standard mandate.

On July 30, 2013, Exelon announced that through April 2014, CENG will be fully integrated operationally into ExGen's nuclear fleet. Exelon will lend $400 million to CENG to support a special dividend to Electricite de France, which will retain an option to sell its CENG stake to Exelon at fair market value between 2016 and 2022. We view the announcement as credit neutral but note that the decision results in a claim on cash flow that competes with cash available for debt servicing not incorporated in our previous credit assessment.

Credit Issues And Considerations

Credit concerns remain largely the same as 2012. We're listing credit concerns that we anticipated in 2012 and whether those credit concerns have heightened or have reduced over the year.

The merchant energy markets continue to remain depressed as slowing customer new counts, energy efficiency and low natural gas prices weigh down energy prices

Our concern last year. ExGen has among the more competitive merchant power plants because of its nuclear assets. As long as the economy grows modestly, ExGen's assets in regions such as the Mid-Atlantic will likely benefit from improving structural fundamentals for its fleet of plants such as environmental legislation. We also believe that the competitive position of ExGen's nuclear fleet will remain satisfactory in the medium term as these assets are best positioned to serve the wholesale needs of regional transmission and distribution companies. However, ExGen's cash flows are also among the most sensitive to natural gas prices declines because almost 82% of its generation is nuclear, all of which is affected by declining gas prices.

Our concern stems from ExGen's relatively larger exposure to merchant margin volatility due to its base-load nuclear generation. Furthermore, these contracts expose ExGen's margins to market risks, including load-shaping, fuel, and volume risks. Although margins are highly hedged, hedging has its limitations. As nuclear assets are essentially price-takers, hedged gross margins depend on power prices set by longer-term marginal fuel prices (natural gas in most instances). With significantly higher expected production from the Marcellus and Utica areas, not only are natural prices held back, even the basis differential historically witnessed at the TETCO Hub has disappeared (we expect TETCO to eventually trade at a 30 cent discount to Henry Hub prices from a 50 cent premium in 2008).While the backwardated EBITDA still supports current rating levels, deterioration in merchant market fundamentals has the most potential to affect Exelon's credit quality.

2013 update. Standard & Poor's projections for 2014 remain sensitive to natural gas and power price assumptions. All else remaining equal, our estimate for gross margins in 2015 would be lower by about $375 million for a $1 per mcf decline in gas prices. Given that base-load generation is price-taking, we expect ExGen's adjusted FFO to debt to remain volatile relative to its peers. Despite Exelon's relatively successful recent cost-cutting efforts, we believe that the company has limited ability to cut operating and maintenance expenses and capital spending at its nuclear units (and that spending can only rise as the Nuclear Regulatory Commission further evolves guidelines on safety protocols). Moreover, given low gas prices and declining basis, we believe the economics of ExGen's single-unit nuclear plants, like Clinton and Ginna, are at increasing risks. Still, given the the low cost structure of its nuclear generation fleet, gas prices have to fall and remain below $2.75 per mcf levels over a sustained period before ExGen's FFO to debt declines below 20%. Also, following the merger, Exelon gets a larger proportion of earnings from its regulated and retail operations. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices.

Current forward natural gas prices still imply downside risks

The downside pressure on natural gas has affected forward prices through 2016 due to still surging gas production. Production growth in the Northeast is outpacing expectations, despite a slower pace of drilling. Industry experts now expect the Marcellus and Utica shale gas regions to grow by 3.6 bcf/d in 2013 and 3.3 bcf/d in 2014. The region could become a net exporter through most of the year by 2015. Pipeline flows from other regions to the Northeast have already started to reverse, and some basis points are trading at negative differentials. As deliverability of gas out of the region improves, and as Tetco M3 basis declines closer to Henry Hub, we see continuing pressure on power prices not only for PJM West and Ni-hub generators but also for PJM East generators. Also, there is an increasing possibility that the Mid-Atlantic locational premium may erode as some new merchant gas projects get built over the producing regions of the Marcellus formation.

The forward curve has flattened, with 2015 forwards declining from $5.4 per mcf in September 2011 to about $4 in August 2013. Still, the issue is that shale gas production could continue to impress as increasing amounts of production in the Marcellus Shale region is brought to market. On the flip side, while PJM and other eastern independent system operators remain well supplied through 2014, the market is heavily discounting (not reflecting any uplift in power prices) forthcoming power plant retirements or higher costs to meet new emissions rules.

Current hedges show the significant value of Exelon's hedging program. As of June 30, 2013, the percentage of expected generation hedged was 96%-99% in 2013, 78%-81% in 2014, and 41%-44% in 2015. Although most total projected margin is under contract for the next two years, this percentage rolls off in the outer years, pointing to the need for ExGen to constantly enter into new contracts and exposing it to the volatility of wholesale market prices. Although these hedges insulate ExGen, perversely, they also show the sensitivity of ExGen's margins to the prospect of a continued shale production onslaught. The decline in mark-to-market value through 2014 shows the limitation of a price-taking fleet--a company can hedge, but only at the prices the market will bear. Still, the forward prices do show a contango as reflected in the increase in open gross margins due to higher natural gas forwards.

Our concern last year. The price-taking nature of the fleet results in margin erosion as wholesale power prices begin to decline and contracts are renewed at lower levels. The merchant generation contribution at ExGen will face a decline as above-market hedges expire, evident in the drop in wholesale hedged gross margins. However, retail contributions are expected to increase given potential for cost savings, volumes gained from the Constellation merger, and acquisitions (StarTex and MX Energy Holdings).

2013 update. The decline through 2015 continues, but is within our base-case calculations. However, power prices have weakened since June and we expect to see weaker open gross margins levels. We note the approximate $1 billion decline in wholesale gross margins between 2012 and 2015 despite the ratable hedging. However, we expect that there will be volatility in the forward market that will allow Exelon to capture the benefits of its hedging practices as it has in the past.

Table 3

Margins

	As Of June 2012			As Of June 2013			
(Mil. $)	**2012 E**	**2013**	**2014**	**2012 A**	**2013**	**2014**	**2015**
Open gross margins	4,450	5,400	5,850	4,500	5,750	5,400	5,900
Mark-to-market hedges	3,100	1,650	600	3,200	1,450	850	400
Hedged margin	7,550	7,050	6,450	7,700	7,200	6,250	6,300
Total gross margin (includes retail, etc.)	8,050	8,200	7,900	8,100	8,000	7,700	7,650
Gross margin assuming a 2- sigma decline in power prices and all unhedged volumes are sold in the spot market	7,900	7,800	6,900	N/A	7,850	7,250	6,750

Management maintains its view of $2 to $4/MWh upside to power in the PJM. Interestingly, ExGen is framing the conversation as still being predicated on coal plant retirements and modest net load growth across the PJM footprint of 0.5% to 0.75% growth. Because it expects better price discovery, ExGen is tracking 7% below its ratable hedging plan in 2015 positions (hedged about 41% to 44% for 2015 instead of about 49% of 51% two years forward as it normally is) in expectation of better price discovery as more coal-fired generation retirement announcements are made. More notable though is that the company expects retail operation and margins to capture about $500 million of lost wholesale margins.

The retail business is facing increasing competition

We think there is risk to retail gross margins from increasing competition. Although usage per customer has been on decline due to energy efficiency, the new customer count remains below levels seen before the recession. In particular, growth for utilities in the Midwest and Mid-Atlantic, like Exelon and FirstEnergy Corp., lagged in most areas of customer growth. For Exelon, the growth in commercial customers in 2011 and 2012 remained lower than the growth in the previous decade. As a result, competition has increased significantly in the retail business. We think the focus has moved to gaining scale rather than maintaining margins. In perhaps the most significant scaling back of retail ambitions management formally pulled back its aggregate retail target from 185 terawatt-hours (TWh) to 155 TWh. ExGen's latest projections suggest a relatively flat profile with total volumes only increasing to 155 TWh by 2015 from 150 TWh in 2013, with the volume composition shifting by 5% upward to retail (65% to 75% of total). Moreover, management admitted of late once again its latest contracts were being signed at below the bottom end of its $2 to $4/MWh range.

Growth assumptions in December 2012 were for retail sales to grow to 185 TWh by 2015. These numbers were already reductions from earlier estimates in June 2012 of 180 TWh and 200 TWh for 2013 and 2014, respectively. By August 2013, Exelon had lowered these estimates further to a range of 150 to 155 TWh. At current average margins, we estimate a decline of $50 million to $70 million in 2014 from the reduction in volumes over 2012 estimates

Capacity markets will likely be biased to the downside

The PJM auction results came out lower than we expected, especially for the regional transmission organization (RTO) region. We suspect the lower prices stemmed from significant new supply additions (an increase of 9 GW, including new generation, uprates and transmission imports) in the face of lower growth rate forecasts. Almost 4.3 GW of new generation cleared the auction (5.2 GW was bid).Together with 1.2 GW of cleared up-rates (mostly natural gas) and 1.3 GW of withdrawn deactivation requests, these increase were higher than the 2.2 GW reduction in demand response resources. On balance, about 13 GW of generation did not clear the auction, much of which (9.5 GW) is coal-fired generation. As a result, we expect continuing announcements of coal-fired generation retirements in the PJM region.

Although the increase in new generation was higher than anticipated, the major surprise was the increase in imports that almost doubled to 7.5 GW (from 3.9 GW), of which 2.6 GW are coming from the Mid-Continent Independent System Operator (MISO), and an aggregate 4.7 GW of imports from MISO and regions integrating into MISO. We believe these additions affected the RTO price exclusively. However, of the 7.5 GW, about one-third (2.7 GW) does not have transmission service in "confirmed" status. Ominously, about 15 GW of new imports are "under study," suggesting that there could be a lot of stranded generation in MISO that could potentially bid into future PJM auctions, although substantial transmission may be required to achieve delivery capability.

In particular, the RTO capacity prices have been the most volatile. We note that with nearly 11,800 MW in the RTO region, a $1 per MW-day decline in capacity price affects Exelon's bottom-line by about $4.5 million.

Still, the merger with Constellation has provided greater scope and scale benefits

From a credit perspective, the combination of Exelon and CEG has worked out. While the combination has diversification benefits, it largely centers around expanding the retail power business that matches load to generation. The combination provides Exelon regional diversification of the generation fleet and a customer-facing load business as generation and load positions are now better balanced across multiple regions. In almost all locations, Exelon will have adequate intermediate and peaking capacity in the portfolio for managing load-shaping risks. For instance, Exelon has generation in the Miso, PJM Interconnection, and Electric Reliability Council of Texas (ERCOT) regions, while CEG has significant retail load in these locations but is short on generation. However, the company will still need to buy and sell long in the market to manage portfolio needs, in our opinion.

Load-generation matching. Through retail and wholesale channels, Exelon expects to provide about 155 TWh, or about 4.75% to 5%, of total U.S. power demand. The company expects the switched markets in Pennsylvania, Ohio, Michigan, and Arizona to grow at about 15% in the residential class between 2012 and 2015. The fleet is well positioned to grow where capacity available for competitive supply has room to grow. That said, Exelon has a significant open position in the Midwest (exposed to merchant market), and a somewhat tight position in New England and ERCOT where it is at risk of being caught short under strong load assumptions, in our opinion.

Table 4

S&P Load Estimates

(TWhs)	MidWest	Mid-Atlantic	New England	New York	ERCOT	Other	Total
Total Load							155
Sources of electric supply*							
(Terawatt-hours)							
Owned	93	56	10	-	6	6	172
Contracted¶	10	21	9	11	23	17	92
	103	77	19	11	29	23	264
Type of capacity (megawatts)							
Generation assets by type							
Baseload	10,195	7,547	-	1,423	-	-	19,165
Intermediate	600	1,083	2,400	-	3,285	2,390	9,758
Peaking	800	2,012	626	-	900	200	4,538
Renewables	200	800	-	-	100	200	1,300
Generation assets	11,795	11,442	3,026	1,423	4,285	2,600	34,761

Breakout of total generation	
Nuclear§	19,165
Gas	9,432
Hydro	1,935
Oil	1,986
Coal	714

Table 4

S&P Load Estimates (cont.)

(TWhs)	MidWest	Mid-Atlantic	New England	New York	ERCOT	Other	Total
						Wind/solar etc.	1,529

*Represents generation's proportionate share of the output of its generating plants. ¶Reflects all power purchased under long-term contracts. §Reflects ownership interest in CENG assets.

The combination is extracting budgeted merger synergies

Merger synergies accrue from a combination of labor and information technology savings from corporate and commercial consolidations, reduced collateral requirements, supply chain savings, among others. Exelon expects to maintain an operating and maintenance cost compound annual growth rate of about 1%--lower than inflation. Although Exelon expects to hit a run-rate of $550 million by 2014, our assumptions are relatively more conservative at about $350 million in synergies in 2015-2016. We have assumed this level because Exelon has experienced reasonable success in past cost-reduction initiatives and in assimilating past mergers. Management has indicated that 75% of steady-state (2014 and beyond) synergies are already locked in.

Table 5

Company Assumptions

(Mil. $)	2012 (9 months)	2013	2014
Merger synergies	170	305	550
of which capital spending synergies	35	55	70

Financial Governance And Policies/Risk Tolerance

Under the forward commodity environment, Exelon's dividend payout ratio was climbing to about 80%-85%. That has been addressed, which we view as favorable for lenders.

The prevailing level of dividend payments in 2012 required about $1.8 billion, which was significant relative to 2014 net income. Exelon has addressed this decisively. Although the need to lower dividends was on account of headwinds in the merchant markets we view Exelon's willingness to change its financial policy as favorable for credit. As a result of the reduction:

- Exelon has lowered its external dividend obligations by $3.5 billion through 2017.
- The proportion of distributions contributed by the utilities towards external dividend increases from 45% in 2013 to about 65%-70% post 2014.

Several actions have been taken to strengthen the balance sheet

In 2012, we estimated Exelon's capital spending requirements at about $18.5 billion between 2012 and 2014. Although utility capital spending tends to be funded in rate base, companies have to fund the capital requirements of their unregulated generation and recover costs in market prices. Under the current commodity environment, ExGen is expected to generate about $3.4 billion to $3.7 billion of cash flow from operations in 2013-2015. These were not sufficient for capital spending and dividends resulting in external needs of financing. Apart from dividend reduction, some of the other actions taken to reduce financing needs include the following, which have resulted in a significant reduction in capital spending:

- Nuclear fuel inventory optimized,
- Removal of undesignated renewable spending, and
- Cancel LaSalle and Limerick uprates.

Exelon has increased the use of project financing (nonrecourse) to fund its renewable projects. Currently, about $1.2 billion of debt is off-balance–sheet, which is nonrecourse to Exelon. The largest among these are AVSR (solar) and Continental Wind, being about $600 million to $650 million each.

Funding gap is in a better position

The financing plan contemplates no new senior unsecured financing through 2016 at Exelon or ExGen. Still, incrementally lower gas prices would have a much greater effect on ExGen's debt protection measures than the level of new debt financing in ExGen's forecast through 2016. The overall impact is that ExGen will be free operating cash flow positive through 2016.

Exelon has implemented a 40% cut of its dividends to $1.24 per share (annualized) from $2.10 per share (annualized). This translates to a reduction in claims on cash flow of about $735 million annually.

Exelon has cancelled a number of nuclear uprate programs based on market conditions and estimates of long-term returns. During first-quarter 2013 Exelon cancelled the Dresden and Quad Cities measurement uncertainty recapture upgrade projects. During second-quarter 2013, the extended power uprate programs at LaSalle and Limerick were also cancelled. These cancellations alleviate the necessity for additional debt funding.

Peer Comparisons

Exelon compares well with peers like FirstEnergy, exhibiting its stronger financial measures. While PPL Corp. has weaker financials, its business risk profile is higher given its significantly larger dependence on regulated cash flows. Similarly, compared with PSEG Energy Holdings LLC, Exelon is less regulated. PSEG is also expanding its regulated business and is therefore we viewed it as having stronger credit.

Table 6

Exelon Corp. -- Peer Comparison

Industry Sector: Energy

	--Average of past three fiscal years--				
	Exelon Corp.	**Public Service Enterprise Group Inc.**	**PPL Corp.**	**FirstEnergy Corp.**	**NRG Energy Inc.**
(Mil. $)					
Revenues	20,214.30	10,585.20	11,181.30	14,893.60	8,783.30
EBITDA	6,179.80	3,522.90	3,914.90	4,407.50	1,822.10
Net income from cont. oper.	2,072.70	1,451.70	1,326.70	813	411
Funds from operations (FFO)	6,120.30	2,913.60	2,981.00	2,768.20	1,200.90
Capital expenditures	4,590.10	2,294.20	2,352.30	2,443.10	917.4
Free operating cash flow	1,421.20	653.6	522.7	413.1	270.5
Discretionary cash flow	-93.6	-47.7	-359.2	-410.6	247.9

Table 6

Exelon Corp. -- Peer Comparison (cont.)

Industry Sector: Energy					
	--Average of past three fiscal years--				
	Exelon Corp.	**Public Service Enterprise Group Inc.**	**PPL Corp.**	**FirstEnergy Corp.**	**NRG Energy Inc.**
Cash and short-term investments	1,381.30	476.8	1,069.00	464.3	1,968.00
Debt	20,899.70	8,870.40	17,497.50	20,288.00	9,591.40
Equity	16,844.70	10,036.00	11,992.70	11,635.00	9,006.70
Adjusted ratios					
EBITDA margin (%)	30.6	33.3	35	29.6	20.7
EBITDA interest coverage (x)	6.2	8.3	4.9	3.8	2.3
EBIT interest coverage (x)	4.7	6.7	3.5	2.5	1.2
Return on capital (%)	10.9	12.4	9.9	8.2	4.9
FFO/debt (%)	29.3	32.8	17	13.6	12.5
Free operating cash flow/debt (%)	6.8	7.4	3	2	2.8
Debt/EBITDA (x)	3.4	2.5	4.5	4.6	5.3
Total debt/debt plus equity (%)	55.4	46.9	59.3	63.6	51.6

Accounting

Exelon's accounting policies conform to industry standards. We impute a significant amount of debt to Exelon, as much as $4.2 billion (excluding BGE imputed debt as of March 31, 2013) which consists mostly of about $2.2 billion related to pension/OPEB, about $500 million related to operating leases, and about $1.4 billion related to their power purchases.

Key Assumptions In Our Forecast

Table 7 displays the S&P price assumptions.

Table 7

S&P Price Assumptions

	2014	**2015**	**2016**
Henry Hub ($/mil. Btu)	3.5	3.75	3.75
West Hub ($/MWh)	40.54	41.43	42.35
Ni-Hub ($/MWh)	32.99	33.72	34.47
Mass Hub ($/MWh)	49.7	47.8	46.5
NY Zone A ($/MWh)	37.5	38	38.62

MWh—Megawatt-hour.

Other assumptions

- Pensions/OPEB: Based on Dec. 31, 2012 actuarial valuation by Towers (a third party-firm),
- 50% bonus depreciation in 2013,
- Nuclear capacity factors: between 93.3% and 93.7% through 2017 (each 1% fleet decline results in a $45 million hit to FFO),
- Growth rate at utilities consistent with management assumptions, and
- Interest rates on debt at utilities range from 3.25% in 2013 to 4.75% in 2016; ExGen and Exelon at 4.5% in 2013 to 5% in 2016.

Projected Cash Flow Adequacy And Capital Structure/Asset Protection

Cash flow adequacy

- Our Ventyx derived gross margin is right on top of the company's projections through 2015.
- We assess the cash flow adequacy of not only Exelon but also of ExGen because it's the dominant cash flow provider. We do so because we view the utilities' ability to upstream dividends consistently as somewhat uncertain because of their capital spending requirements based on their changing smart grid/renewable energy plans.
- We expect FFO to debt to remain largely at about 27% to 29% thru 2015. Ratios are buttressed by the utilities' low-risk business profile and the relatively stable, but lower cash flow they generate. For ExGen we expect the ratio to be better at about 35% to 38% as the company hedges a significant proportion of generation.

Major adjustments to gross margins in 2012 included:

- Adjustments for retail business margins ($50 million lower due to lower volumes than anticipated)
- Adjustments for $3.5-$3.75 natural gas price instead of $4.0-$4.25 per mcf

Table 8

Break-Out Of ExGen's Gross Margins (S&P Estimates)

	2013						2014					
	Mid-West	**Mid-Atlantic**	**ERCOT**	**New York**	**New England**	**South West & Canada**	**Mid-West**	**Mid-Atlantic**	**ERCOT**	**New York**	**New England**	**South West & Canada**
Open gross margin (mil. $)	1,797.9	2,955.4	210.7	323.4	196.9	272.9	1,982.8	2,662.9	313.7	301.6	123.3	326.5
Fleetwide open gross margin	5,757.2						5,710.7					
Expected generation (TWh)	97.2	74.2	14.6	14.1	15.4		97.1	72.6	17.8	12.1	14.8	
Hedges (midpoint of disclosed range) (%)	96.50%	98.50%	103.50%	97.50%	98.50%		78.50%	83.50%	78.50%	82.50%	72.50%	
Hedged volume (TWh)	93.8	73.1	15.1	13.7	15.2		76.2	60.6	14.0	10.0	10.7	
Effective realized energy price ($ per MWh)	37.3	49.0	11.5	32.0	5.5		34.0	46.0	9.0	37.0	3.5	

Table 8

Break-Out Of ExGen's Gross Margins (S&P Estimates) (cont.)

	2013						2014					
	Mid-West	Mid-Atlantic	ERCOT	New York	New England	South West & Canada	Mid-West	Mid-Atlantic	ERCOT	New York	New England	South West & Canada
Reference RTC price ($ per MWH)	29.5	39.8	7.4	34.0	4.9		29.9	37.3	7.9	35.4	4.6	
Difference ($ per MWh)	7.8	9.3	4.1	(2.0)	0.6		4.1	8.7	1.1	1.6	(1.1)	
Mark-to-mark value of hedges (mil. $)	726.9	676.1	61.4	(27.5)	8.6		312.5	529.8	15.4	16.0	(11.7)	
Hedged gross margin (mil. $)	**7,202.6**						**6,572.7**					
Retail volumes	**150.0**						**150.0**					
Retail margin ($/MWh)	**3.7**						**3.7**					
Retail (nonhedged business)	**548.0**						**548.0**					
Nonpower margins	**450.0**						**600.0**					
Total gross margin	**8,200.1**						**7,720.2**					

TWh--Terawatt-hours. MWh--Megawatt-hours.

Capital structure/Asset protection

- Exelon has significant off-balance-sheet obligations that represent about one-fourth of total adjusted debt.
- After adjusting for ExGen's tolling contracts and the consolidated entity's unfunded pension and postretirement benefit obligations, we consider Exelon's capital structure as significant. However, about 55% of total adjusted debt is at utility operating companies.
- As of March 31, 2013, Exelon's adjusted debt to total capital was about 54.3%. Given the current business mix, which depends considerably on the volatile generation business, we consider leverage to be high. Still, because the book value of ExGen's nuclear assets is undervalued, we would characterize book value debt to capital as a somewhat weak indicator of financial risk. Nonetheless, we give relatively less importance to the debt to capital ratio as Exelon's ability to service its debt is not affected directly by this ratio.
- Debt per kilowatt (kW), a more relevant leverage statistic, remains modest. Excluding debt at the utilities and after imputing all debt relating to PPAs and unfunded pensions and post-retirement obligations, Exelon's stand-alone merchant business of adjusted owned and contracted kW has increased to about $370 per kW and about $670 per kW when we include only base-load kW. We believe this is well below the replacement value of base load nuclear units.

Contingent, environmental, legal, and other liabilities

If we downgrade ExGen to speculative grade, the company could be required to post additional collateral of $1.88 billion as of June 30, 2013.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

Ratings Detail (As Of October 24, 2013)

Exelon Corp.	
Corporate Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BB+
Senior Unsecured	BBB-
Corporate Credit Ratings History	
22-Jul-2009	BBB/Stable/A-2
21-Oct-2008	BBB/Watch Neg/A-2
29-Aug-2007	BBB+/Stable/A-2
Related Entities	
Baltimore Gas & Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preference Stock	BBB
Preferred Stock	BBB
Senior Unsecured	A-
Commonwealth Edison Co.	
Issuer Credit Rating	BBB/Stable/A-2

Ratings Detail (As Of October 24, 2013) (cont.)

Commercial Paper	
Local Currency	A-2
Preferred Stock	BB+
Senior Secured	A-
Senior Secured	A/Stable
Senior Unsecured	BBB
Continental Wind LLC	
Senior Secured	BBB-/Stable
Exelon Generation Co. LLC	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB
Senior Unsecured	BBB-
Senior Unsecured	BBB/A-2
PECO Energy Co.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BB+
Senior Secured	A-
Senior Secured	AA-/Stable
Philadelphia Electric Co.	
Senior Secured	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

FitchRatings

Fitch Affirms Ratings of Exelon Following Merger

Fitch Ratings-New York-12 March 2012: Fitch Ratings has affirmed the Issuer Default Ratings (IDR) and instrument ratings of Exelon Corp. (EXC) and each of its existing operating subsidiaries, including the newly acquired Baltimore Gas and Electric Co. (BG&E). The rating affirmations follow the closing of the merger between EXC and Constellation Energy Group, Inc. (CEG).

Fitch also upgraded the ratings of CEG's outstanding senior unsecured debt to 'BBB+' from 'BBB-' and junior subordinated notes to 'BBB-' from 'BB'. The CEG upgrade reflects the assumption of CEG's publicly traded debt and bank credit facility following an internal restructuring that includes an upstream merger of CEG with and into EXC. Consequently, EXC will be responsible for CEG's debt obligations. The restructuring is expected immediately after the merger. CEG's 'BBB-' long-term IDR, short-term 'F3' IDR and 'F3' commercial paper ratings are withdrawn. The Rating Outlook for all entities is Stable. See the full list of rating actions at the end of this release.

Rating Drivers

Financial position: Fitch expects EXC's post-merger consolidated financial position to remain solid and only moderately weaker than Fitch's previous expectation of EXC's standalone credit profile. On a pro forma basis as of Dec. 31, 2011, Fitch calculates EBITDA/interest and Debt/EBITDA of the combined entity were 6.7 times (x) and 2.6x, respectively. In 2012 those ratios are expected by Fitch to approximate 6.0x and 2.75x.

Risk Profile: EXC's post-merger business risk profile is unchanged, with regulated earnings contributing nearly half of projected 2012 EBITDA on either a standalone or a combined basis. Moreover, the addition of CEG's retail energy business should lower liquidity requirements. By matching EXC's long generation position and CEG's load-serving retail business, Fitch anticipates net margin postings will decline.

The addition of CEG's retail energy business complements the cash flow profile of EXC's wholesale generation business; high wholesale power prices result in wider margins and greater cash flow for the larger generation segment and compressed margins for the retail segment and vice versa.

The post-merger credit profile of EXC's wholesale generation subsidiary, Exelon Generation Company, LLC (Exgen), is expected by Fitch to remain strong. Including the debt to be assumed by EXC, which Fitch expects will ultimately be refinanced at Exgen, debt and leverage measures will weaken from historical levels, but remain supportive of the existing ratings due to the headroom provided by Exgen's currently low leverage and strong interest coverage measures.

Going forward, Exgen's credit measures will be pressured by Fitch's expectation that power prices will remain low for the next several years and by a large capital spending program. A significant portion of the planned expenditures are discretionary. Ultimately, credit quality measures and ratings will depend on the level of capital investment and financing plan. Fitch expects a portion of the proceeds from asset sales required by the Federal Energy Regulatory Commission (FERC) as a condition of the merger will be applied to debt reduction.

The ratings of regulated subsidiaries Commonwealth Edison Company, PECO Energy Company and Baltimore Gas and Electric Company are unaffected by the proposed merger.

The combined company will have increased scale, with approximately 34,390 megawatts (MWs) of generating capacity (of which 18,967 MWs would be nuclear), three regulated electric utilities serving 7.8 million customers in three states (Illinois, Pennsylvania and Maryland,)and a national footprint serving retail and wholesale load.

Fitch has upgraded the following ratings with a Stable Outlook:

Constellation Energy Group
--Senior unsecured debt to 'BBB+' from 'BBB-';
--Junior subordinated notes to 'BBB-' from 'BB'.

Fitch has affirmed the following ratings with a Stable Outlook:

Exelon Corp.
--IDR at 'BBB+';
--Senior unsecured debt at 'BBB+';
--Commercial paper at 'F2';
--Short-term IDR at 'F2'.

Exelon Generation Co., LLC
--IDR at 'BBB+';
--Senior unsecured debt at 'BBB+';
--Commercial paper at 'F2';
--Short-term IDR at 'F2'.

Commonwealth Edison Company
--IDR at 'BBB-;
--First mortgage bonds at 'BBB+';
--Senior unsecured debt at 'BBB';
--Preferred stock to at 'BB+';
--Short-term IDR at 'F3';
--Commercial paper at 'F3'.

ComEd Financing Trust III
--Preferred stock at 'BB+'.

PECO Energy Co.
--IDR at 'BBB+';
--First mortgage bonds at 'A';
--Secured pollution control bonds at 'A';
--Senior unsecured debt at 'A-';
--Preferred stock at 'BBB';
--Commercial paper 'F2';
--Short-term IDR at 'F2'.

PECO Energy Capital Trust III
--Preferred stock at 'BBB'.

PECO Energy Capital Trust IV
--Preferred stock at 'BBB'.

Baltimore Gas and Electric Company
--IDR at 'BBB;
--First mortgage bonds at 'A-';
--Senior unsecured debt at 'BBB+';
--Pollution control bonds at 'BBB+';
--Preferred stock to at 'BBB-';
--Short-term IDR at 'F2';
--Commercial paper at 'F2'.

BGE Capital Trust II
--Preferred stock at 'BBB-'.

Fitch has withdrawn the following ratings:

Constellation Energy Group
--IDR of 'BBB-';
--Commercial paper rating of 'F3';
--Short-term IDR of 'F3'.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 12, 2011);
--'Parent and Subsidiary Rating Linkage' (Aug. 12, 2011)
--'Recovery Ratings and Notching Criteria for Utilities' (Aug. 12, 2011);
--'Rating North American Utilities, Power, Gas and Water Companies' (May 16, 2011).

Applicable Criteria and Related Research:
Rating North American Utilities, Power, Gas, and Water Companies (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=625129&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Recovery Ratings and Notching Criteria for Utilities (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648449&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Parent and Subsidiary Rating Linkage (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647210&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Corporate Rating Methodology (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647229&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

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FitchRatings

Fitch Affirms Exelon Corp. and Subs' Ratings; Outlook Stable

Fitch Ratings-New York-22 March 2017: Fitch Ratings has affirmed the 'BBB' Long-Term Issuer Default Ratings (IDR) of Exelon Corp. (EXC), Exelon Generation Co., LLC (Exgen), Pepco Holdings LLC (PHI), Potomac Electric Power Co. (Pepco) and Atlantic City Electric Co. (ACE), and the 'BBB+' IDRs of Commonwealth Edison Co. (ComEd), PECO Energy Co. (PECO), Baltimore Gas and Electric Co. (BGE) and Delmarva Power and Light Co. (DPL). The Rating Outlook for each entity is Stable. Fitch has also withdrawn PHI's Short-Term IDR and commercial paper (CP) ratings. PHI has terminated its CP program and has been removed as a borrower from the credit agreement it previously shared with Pepco, DPL and ACE. See the full list of the rating actions at the end of this release.

Key Rating Driver for Exelon Corp.

Improving Risk Profile: The March 2016 acquisition of PHI furthers EXC's goal of increasing regulated earnings and lowering business risk. Post-merger, Fitch expects regulated earnings to account for roughly 65%-70% of consolidated earnings from its six regulated utilities compared with an estimated 55%-60% without the acquisition. The proportion of regulated earnings should continue to grow due to a capital allocation strategy that is heavily weighted to infrastructure investments at EXC's six utility operating utilities, particularly ComEd, and substantially reduced growth investments at it competitive generation subsidiary.

Increased leverage: The PHI acquisition resulted in a rise in leverage, reflecting the acquisition funding and the consolidation of the more leveraged PHI. Fitch estimates adjusted debt/EBITDAR will approximate 4.5x in 2017, the first full year of operation after the merger, compared with about 3.7x prior to the acquisition. Leverage should fall below 4.0x given the expected earnings growth and planned debt reductions of approximately $3 billion at Exgen and EXC over the next four years.

Merchant Risk: The ratings also consider the more volatile earnings and cash flow contribution of EXC's competitive generation business, which is exposed to market price risk. The operating environment for competitive generating companies remains challenging, with abundant natural gas supply and energy efficiency initiatives constraining demand and power prices with little relief in sight. To mitigate the cash flow volatility Exgen employs a three-year hedging strategy. In addition, management has nearly eliminated Exgen growth capex and reduced upstreamed dividends. Consequently Exgen is expected to be substantially free cash flow (FCF) positive beginning in 2018 and plans to pay down roughly $3 billion of debt by 2020 with a goal of debt/EBITDA of 3x. Once the leverage target is reached, FCF will be used to retire parent debt.

Nuclear Subsidies: EXC's earnings and cash flow profile has also been stabilized by the passage of legislation/regulations in Illinois and New York that provide financial support to certain nuclear generating units operating in those states. EXC owns five nuclear units that are expected to benefit from the zero emission credit (ZEC) programs that will provide roughly $500 million to $600 million annually. Among the five plants is the James A. Fitzpatrick nuclear unit, which was acquired as a direct result of the New York ZEC program, and three units in Illinois (Quad Cities units 1 and 2 and the Clinton) that were scheduled to be retired prior to the enactment of the Illinois and New York initiatives. Without the ZECs, a fifth unit, R.E. Ginna was also a likely retirement candidate.

Utility-Centric Capital Allocation Strategy: Going forward, the majority of capital investment is allocated to EXC's six utility subsidiaries, furthering the transition to a more stable earnings base. The share of utility investments increases in each of the next three years, reaching more than 70% of consolidated capex by 2018. The majority of the regulated investments are at ComEd, EXC's largest utility, which operates with a constructive formula rate plan that provides timely recovery of invested capital.

Adverse Tax Ruling: In September 2016, the tax court rejected EXC's position related to a 1999 like-kind-exchange (LKE) transaction and also ruled that the company is responsible for interest and penalties. The total exposure is $1.45 billion less any tax benefits. EXC expects to file an appeal in 2017 at which time it will be required to pay taxes due. To stop the on-going accrual of interest, EXC has posted a $1.25 billion deposit, initially funded with CP which was repaid with proceeds from a $750 million Exgen bond issue in February and the remainder with cash on hand.

PHI Utilities Rate Strategy: Following a two-year period of rate case avoidance during the merger review process, PHI's three utilities filed six distribution rate cases and three Federal Energy Regulatory Commission (FERC) formula transmission cases totaling $465 million. Three of the distribution cases have been completed and three are pending. Going forward management expects to file rate cases every 12-15 months. Beyond the rate filings, management also plans to seek alternative rate recovery mechanisms to address regulatory lag, which has been a persistent issue for each of the PHI utilities. The rate lag results from reliance on historical test years with limited forward adjustments and an extended review process that have combined to prevent the companies from earning their authorized returns.

Key Rating Drivers for Exelon Generation Company, LLC
Challenging Operating Environment: Weak natural gas and power prices are expected by Fitch to continue to restrict the earnings power and cash flow of Exgen's competitive generation business. Demand is also expected to remain sluggish due in large part to energy efficiency measures and slow economic growth. Favorably, ZEC programs in NY and IL and the capacity pricing mechanism in the PJM Interconnection LLC (PJM), where the majority of Exgen's capacity is located, provide a meaningful boost to earnings and cash flow.

Hedging Strategy: To moderate cash flow volatility and commodity price risk, Exgen employs a three-year ratable hedging strategy. The strategy targets a financial hedge range of 90%-98% in the prompt year, 70%-90% in year two, and 50%-70% year three. As of Dec. 31, 2016, the percentage of expected generation hedged was 91% -94%, 56%-59% for 2018 and 28%-31% in 2017, 2018 and 2019, respectively. The hedging strategy includes forward power contracts and financial hedges, primarily natural gas options, as well as a significant retail electricity business that complements its wholesale energy business. When forward market prices are below Exgen's expectation the company has operated below its ratable hedging policy, which has recently been the case in the outer years.

Dwindling Growth Capex: Management has slashed Exgen's growth capex budget and instead will be harvesting cash for debt reduction and investments in its utility businesses. Planned growth capex declines to $850 million in 2017 from $1.2 billion in 2016 and then falls to about $175 million in 2018 and $125 million in the following two years. Maintenance capex is also declining from a peak of $1.1 billion in 2015 to an estimated $875 million in 2020. Any growth investments are expected to be in fully contracted assets

Nuclear Operating Risk: Exgen derives approximately 88% of its generation output from nuclear facilities and the remainder from renewables and oil and gas. The nuclear operating risk is mitigated by the diversity of owning 25 nuclear units (including the pending acquisition of the Fitzpatrick plant) at 15 sites in three regions and Exgen's long record of strong nuclear performance. Over the past three years the nuclear capacity factor averaged approximately 94% including a record 94.6% in 2016 compared to the industry average of about 90%. In 2016, the company also had its shortest average refueling duration of just over 22 days. Because of their high fixed costs, the long-term operation of the nuclear fleet is challenged in the current low power price environment, particularly in regions with insufficient capacity payments and/or a ZEC program that values low carbon emissions.

Improving Financial Position: Exgen's financial position is sound and should improve with the implementation of the ZEC programs in NY and IL and the planned debt reduction. After a temporary rise in 2017 to about 4x related to the tax payment financing and lower earnings prior to a full year of ZEC payments, Fitch estimates debt/EBITDAR will trend down to about 3x over the next several years. The leverage measure includes about $2.55 billion of non-recourse debt that provides additional financial flexibility and optionality.

Key Rating Drivers for Commonwealth Edison Co.

Solid Credit Profile: ComEd's financial position is consistent with its current ratings and Stable Outlook. A formula rate plan (FRP) that allows for annual rate adjustments should allow ComEd to sustain its financial position over the next few years. Fitch estimates Debt/EBITDAR and FFO lease-adjusted leverage will average approximately 3.5x and 4.0x, respectively, over the next few years and FFO fixed charge coverage 6.0x, which is well positioned within the current rating level.

Regulatory Predictability: The FRP implemented in October 2011 provides increased regulatory predictability in IL. The FRP is filed annually and recognizes forward-looking capital additions and includes a true-up mechanism reducing, albeit not eliminating, rate lag. Recent legislation extended the FRP to 2022. One draw-back is the formulaic return on equity (ROE) calculation, which in the current low interest rate environment results in a below-average ROE.

Constructive Rate Decision: ComEd's most recent FRP decision, issued on Dec. 6, 2016 was supportive of ComEd's credit quality. The company was authorized a $130.9 million revenue increase - virtually 100% of the company's request. The 8.64% ROE used in the proceeding is well below the industry average of about 9.6% due to the legislative imposed ROE calculation, which is based on the 12-month average of the 30-year treasury plus a 580bp risk premium. Based on the formulaic approach, a rising interest rate environment will drive up the ROE in future rate proceedings with minimal lag given the annual filings.

Rising Capex: Capex is forecasted to rise to $7.7 billion over the four-year period 2017-2020, well above the prior four years and about $300 million higher than the August 2016 forecast for the same period. The overall level of expenditures is primarily driven by the Energy Infrastructure modernization Act (EIMA), which requires investments in system reliability and smart grid deployment and provides for recovery through the FRP filings. A recent increase in capex reflects provisions of the Future Energy Jobs Act (FEJA) in IL that allows ComEd to earn a return on energy-efficient investments. The higher capex also reflects an increase in transmission expenditures, which are subject to credit supportive FERC policies. Expenditures are expected to peak in 2017 at $2.2 billion and then trend down to about $1.8 billion in 2020. The higher expenditures should also increase earnings and cash flow.

Decoupling: The FEJA includes a provision that eliminates the +/-50bp collar in the FRP, which effectively decouples energy usage from revenue.

Key Rating Drivers for PECO Energy Co.

Strong Credit Profile: PECO's already strong credit ratios improved in 2016 and are well in excess of the targets for the current rating level. Fitch attributes the improvement, which exceeded Fitch's expectations, to a rate increase implemented in January 2016, favorable weather and lower storm expenses. With a return to normal weather and storm related costs and moderately rising operating and maintenance expenses, flat sales, and rising capex, some attrition is likely in 2017, but credit metrics are expected to remain strong within the current rating level. Over the next few years Fitch estimates debt/EBITDAR and FFO lease-adjusted leverage will average approximately 3.4x and 3.7x, respectively, compared to 2.8x for both ratios in 2016.

Alternative Regulatory Model: Fitch considers the regulatory legislation enacted in Pennsylvania in February 2012 (HB 1294) to be supportive of credit quality. The law allows the PA Public Utility Commission (PUC) to establish a distribution system investment charge (DSIC) to provide timely recovery of certain capital costs incurred to enhance electric and gas distribution systems. Once implemented the DSIC is updated quarterly. The legislation also allows traditional rate filings to include fully forecasted test years, further reducing regulatory lag.

Constructive Rate Order: PECO implemented a $127 million rate increase effective Jan. 1, 2016 following the approval of a settlement agreement by the PUC. The increase equates to about two-thirds of PECO's $190.1 million rate request. The settlement agreement also includes implementation of a DSIC for the company's electric operations, but not until eligible investments exceed the Dec. 31, 2016 levels projected by PECO.

Demand Reduction: Pennsylvania Act 129 (Act 129) requires PA utilities to reduce electric consumption with the companies absorbing the associated revenue loss between rate cases. The PUC recently approved phase III of the energy efficiency and consumption plan requiring PECO to reduce consumption by an additional 2% by 2021. PECO met the initial consumption reduction targets of 1% by 2011 and 3% by May 31, 2013. Importantly, Act 129 provides a surcharge to recover implementation costs (other than lost sales) on a timely basis.

Rising Capex: A planned rise in capex and the associated financing and operating costs are expected to moderately weaken financial measures. Capex is expected to aggregate $3.1 billion over the next four years, an average of $750 million annually, which is meaningfully higher than the $650 million of annual capex over the past three years. The financial impact is moderated by PECO's strong internal cash generation and the surcharge mechanism associated with Act 129.

Key Rating Drivers for Baltimore Gas and Electric Co.

Strong Credit Metrics: BGE credit metrics are strong for the current rating level primarily due to a series of electric and gas base rate increases implemented over the past four years aggregating $345 million, including electric and gas rate increases of $92 million effective July 2016. Fitch expects credit metrics to remain strong for the rating level with debt/EBITDAR and FFO lease-adjusted leverage expected to average of about 3.1x and 4.0x, respectively.

Regulatory Recovery Mechanisms: Rate adjustment mechanisms outside of base rate cases tend to stabilize BGE's cash flow. These include decoupling for both residential and commercial gas and electricity sales, and purchased gas and purchased power recovery mechanisms. In 2014, Maryland regulators approved a rider to recover gas infrastructure improvements and have approved two subsequent surcharges. Certain capex is also subject to tracking mechanisms, including energy efficiency.

Recent Rate Case: In June 2016, BGE was authorized electric and gas base rate increases aggregating $92 million or about 47% of the company's $194 million request. The majority of the rate requests were to recover smart grid investments the company had been deferring since 2010. The increase was based on equity returns of 9.75% and 9.65% for the electric and gas operation, respectively.

Ring-fencing: BGE has several measures in place that ring-fence the utility from parent EXC and affiliates. These include maintaining separate books and records, separate credit facilities and CP programs and allocating parent expenses according to a Cost Allocation Manual. Also, BGE does not participate in the EXC corporate money pool, and BGE's financings do not contain any provisions that could result in cross defaults between BGE and EXC.

Key Rating Drivers for Potomac Electric Power Co.

Credit Metrics: Despite avoiding rate filings during the nearly two-year merger review period, credit quality measures, after adjusting for non-recurring merger related costs, have been relatively stable and generally in line with the current rating, which Fitch attributes to reduced capex and equity support from EXC. A rate increase implemented in Pepco's Maryland jurisdiction in November 2016 along with a pending rate case in District of Columbia (DC) that should be decided in July 2017 and an aggressive rate strategy should enable Pepco to maintain a credit profile that supports current ratings.

Exelon Merger: The 2016 acquisition of Pepco and its affiliates by EXC provides a stronger, better capitalized parent company with far greater financial flexibility that supports current ratings. Fitch expects Pepco to benefit from improved operating efficiency and lower costs as a result of the merger.

Revenue Stability: Pepco's regulated electric transmission and distribution operations have minimal commodity, volumetric and environmental exposure. Decoupling mechanisms that eliminate the revenue impact of weather and energy efficiency are in effect in both Maryland and the DC and both jurisdictions permit full recovery of power procurement costs. The significant presence of state and federal government customers also contributes to revenue stability.

Ring Fencing: Pepco has several ring-fencing measures in place that protect bondholders from the activities of its parent and affiliates including maintaining a rolling 48% equity ratio, maintenance of separate books and records and separate debt. In addition, a bankruptcy remote special purpose entity (SPE) holds 100% of the equity of direct parent PHI. The Board of Directors of the SPE has four directors, one of which is independent.

Persistent Regulatory Lag: Regulatory lag has been an on-going issue in each of Pepco's regulatory jurisdictions. The rate lag, which results from the reliance on historical test years with limited forward adjustments and an extended review process, restricts Pepco's ability to earn its authorized ROE and adversely affects credit quality measures. The lag is particularly troublesome during periods of high capex. Moreover, ROE authorizations have generally been below the industry average, particularly in Maryland.

Base Rate Increase: Pepco implemented a $52.5 million base rate increase in MD effective November 2016. The rate increase was roughly 50% of the company's revised request and was based on a 9.55% ROE which is generally in line with the industry average (9.6%) and slightly below the 9.62% allowed in the company's last rate case decided in November 2014. Given the reliance on a historical test year (2015) and average rate base, Pepco is unlikely to be able to earn the authorized ROE in the first year rates are in effect.

Significant Capital Program: Capex ramps up to approximately $2.9 billion over 2017-2020, about 27% above the prior four-year outlays of $2.3 billion. The increase is largely to improve the reliability of the electric distribution system and to replace an aging infrastructure. The large capex budget is particularly challenging given the rate lag issues and relatively low authorized ROEs and will require regular rate filings to maintain credit quality.

Rate strategy: After avoiding rate cases during the two-year review of the EXC merger review, management plans to pursue rate cases every 12-15 months and to pursue alternative rate-making policies to alleviate regulatory lag.

Key Rating Drivers for Delmarva Power and Light Co.

Exelon Merger: The acquisition of DPL and its affiliates by EXC provides a stronger, better capitalized parent company with far greater financial flexibility that supports current ratings. Fitch expects DPL to benefit from improved operating efficiency and lower costs as a result of the merger.

Credit Metrics: Credit quality measures are moderately weak for the current rating level following two-years of rate case avoidance, but should improve as the company implements its strategy of annual rate filings. Initially, the expected improvement will be hindered by rate concessions agreed to as part of the merger approval process. Fitch expects equity support from EXC to fund the rate concessions and to maintain a balanced capital structure.

Decoupling Reduces Business Risk: In MD, which accounts for about 35% of retail electric sales, DPL operates with a Bill Stabilization Adjustment (BSA) that reduces volumetric exposure and stabilizes revenue. The BSA provides for a fixed distribution charge per a customer- rather than a usage-based charge. Any deviation from the approved charge is either recovered from or credited to customers effectively decoupling revenue from sales.

Moderate Capex: Projected capex of $1.4 billion over the next four years is not materially different than the prior four-year period and projected to increase rate base by a moderate 4% annually. Nonetheless the outlays will require a moderate level of external funding.

Ring Fencing: DPL has several ring-fencing measures in place that protect bondholders from the activities of its parent and affiliates including maintaining a rolling 48% equity ratio, maintenance of separate books and records and separate debt. In addition, a bankruptcy-remote SPE holds 100% of the equity of direct parent PHI. The Board of Directors of the SPE has four directors, one of which is independent.

Rate strategy: After avoiding rate cases during the two-year review of the EXC merger review, management plans to pursue rate cases every 12-15 months and to pursue alternative rate-making policies to alleviate regulatory lag.

Key Rating Drivers for Atlantic Electric Co.

Constructive Rate Settlement: Following a settlement ACE was authorized a $45 million rate increase, or about 57% of the company's rate request effective Aug. 24, 2016. Although the settlement did little to address rate lag issues it did allow rates to become effective five months after filing rather than the more typical 12 months in New Jersey and should have a positive effect on 2017 credit metrics.

Exelon Merger: The acquisition of ACE and its affiliates by EXC provides a stronger, better capitalized parent company with far greater financial flexibility that supports current ratings. Fitch expects ACE to benefit from improved operating efficiency and lower costs as a result of the merger.

Ring Fencing: ACE has several ring-fencing measures in place that protect bondholders from the activities of its parent and affiliates including maintaining a rolling 48% equity ratio, maintenance of separate books and records and separate debt. In addition, a bankruptcy remote special purpose entity (SPE) holds 100% of the equity of direct parent PHI. The Board of Directors of the SPE has four directors, one of which is independent.

Rate strategy: After avoiding rate cases during the two-year review of the EXC merger review, management plans to pursue rate cases every 12-15 months and to pursue alternative rate-making policies to alleviate regulatory lag.

KEY ASSUMPTIONS

--Common stock dividend increased 2.5% annually
--Subsidiary dividends managed to achieve last allowed equity ratio
--ComEd formula rate plan remains in effect
--Each of the PHI subsidiaries file rate cases annually; PECO files an electric rate increase and BGE an electric and gas case over the forecast period
--FERC formula rate plan updated annually for each utility
--ZEC plans in Illinois and New York remain in effect
--Relatively flat sales and customer growth for each utility
--EXC equity units remarketed in 2017 adding $1.15 of cash (equity)
--Forward gas and power prices as of Dec. 31, 2016 plus existing hedges

RATING SENSITIVITIES
Exelon Corp.
Positive Rating Action: Positive action is unlikely over the next few years given the current business mix and leverage, but could occur if debt/EBITDAR is reduced below 3.5x and lease- adjusted leverage is sustained below 4.2x.

Negative Rating Action: Negative action may be considered if FFO lease-adjusted leverage exceeds 4.5x on a consistent basis. A renewed emphasis on non-regulated investments could also have an adverse effect on ratings.

Commonwealth Edison Co.
Positive Rating Action: Positive action may be considered if Fitch were to expect debt/EBITDAR to fall below 3.4x on a consistent basis, while FFO lease-adjusted leverage is maintained below 4.0x and FFO fixed charge coverage above 4.7x.

Negative Rating Action: Negative action may be considered if Fitch were to expect FFO lease-adjusted leverage to exceed 4.8x and/or FFO fixed charge coverage to fall below 4.7x on a sustained basis.

A change in the FRP or other regulatory policies that inhibit ComEd's ability to recover invested capital or commodity costs on a timely basis could also lead to lower ratings.

PECO
Positive Rating Action: Positive action could be considered if adjusted debt/EBITDAR and FFO lease-adjusted debt remains comfortably below 3.4x and 4.0x, respectively.

Negative Rating Action: Given the headroom in existing ratings a downgrade is not likely, but could be considered if debt/EBITDAR and FFO lease-adjusted debt exceeded 3.7x and 4.8x, respectively, on a consistent basis.

BGE
Positive Rating Action: Positive action may be considered if BGE is able to maintain debt/EBITDAR and FFO lease-adjusted leverage comfortably below 3.4x and 4.0x, respectively.

Negative Rating Action: Given the headroom in existing ratings a downgrade is not likely, but could occur if adjusted debt/EBITDAR and FFO lease-adjusted leverage exceed 3.7x and 4.8x on a consistent basis.

Pepco
Positive Rating Action: Positive action is not expected in the near term, but could occur if adjusted debt/EBITDAR falls comfortably below 3.7x on a sustainable basis and FFO lease-adjusted leverage is maintained below 5.0x.

Negative Rating Action: Negative action may be considered if FFO lease-adjusted leverage is above 5.0x or FFO coverage is below 4.3x on a consistent basis.

DPL
Positive Rating Action: Positive action is not expected in the near term given the current level of credit protection measures, but could occur if debt/EBITDAR fell below 3.4x on a sustainable basis.

Negative Rating Action: Negative action may be considered if Debt/EBITDAR and FFO lease-adjusted leverage is above 3.7x and 4.8x and FFO fixed charge coverage fell below 4.7x on a consistent basis.

ACE
Positive Rating Action: Positive action is not likely in the near term, but could occur if, on a sustainable basis, debt/EBITDAR falls comfortably below 3.7x, lease adjusted FFO lease-adjusted leverage is below 5.0x and FFO coverage exceeds 4.5x.

Negative Rating Action: Negative action may be considered if FFO lease-adjusted leverage is above 5.0x and FFO fixed charge coverage below 4.3x on a consistent basis.

Exgen
Positive Rating Action: An upgrade is unlikely given the inherent cash flow volatility of the competitive generation business.

Negative Rating Action: Negative action may be considered if debt/EBITDAR exceeded 3.3x on a consistent basis. A renewed emphasis on non-regulated investments could also have an adverse effect on ratings.

Pepco Holdings
Positive Rating Action: An upgrade is unlikely given the current financial position, but could be considered if debt/EBITDAR and FFO lease-adjusted leverage fell below 3.7x and 5.0x, respectively.

Negative Rating Action: Negative rting action may be considered if FFO lease-adjusted leverage exceeds 5.0x and fixed charge coverage falls below 4.3x on a consistent basis.

LIQUIDITY
CP borrowings and committed bank credit facilities provide ample liquidity. EXC and each of its operating subsidiaries have credit facilities in place. EXC and its legacy subsidiaries maintain separate credit facilities and CP programs and Pepco, DPL and ACE share a $4,900 million facility with sub-borrowing limits for each entity (PHI does not have a credit facility or CP program). The syndicated credit facilities at EXC and its subsidiaries aggregate $9 billion and support CP programs; Exgen also has a $500 million bilateral credit agreement and each of the six operating utilities have credit agreements with minority and community banks within their service territories that are solely utilized to issue letters of credit. The syndicated facilities include $600 million at EXC, $5.3 billion at Exgen, $1 billion at ComEd and $600 million each at both PECO and BGE, and $300 million at Pepco, DPL and ACE. The syndicated facilities support CP programs throughout the EXC organization.

EXC also operates a corporate money pool with subsidiaries Exgen, PECO and PHI. EXC can lend to the money pool but not borrow from the pool. ComEd, BGE, Pepco, DPL, and ACE are excluded from the money pool due to ring-fencing measures.

FULL LIST OF RATING ACTIONS
Fitch has affirmed the following ratings with a Stable Outlook:

Exelon Corp.
--IDR at 'BBB';
--Senior unsecured debt at 'BBB';
--Junior subordinated debt at 'BB+';
--Short-term IDR/Commercial paper at 'F2'.

Exelon Generation Co., LLC
--IDR at 'BBB';
--Senior unsecured debt at 'BBB';
--Short-term IDR/Commercial paper at 'F2'.

Commonwealth Edison Company
--IDR at 'BBB+';
--First mortgage bonds at 'A';
--Senior unsecured debt at 'A-';
--Preferred stock at 'BBB';
--Short-term IDR/Commercial paper at 'F2'.

ComEd Financing Trust III
--Preferred stock at 'BBB'.

PECO Energy Co.
--IDR at 'BBB+';
--First mortgage bonds at 'A';
--Senior unsecured debt at 'A-';
--Short-term IDR/Commercial paper/ at 'F2'.

PECO Energy Capital Trust III
--Preferred stock at 'BBB'.

PECO Energy Capital Trust IV
--Preferred stock at 'BBB'.

Baltimore Gas and Electric Company
--IDR at 'BBB+';
--First mortgage bonds at 'A';
--Senior unsecured debt at 'A-';
--Pollution Control Revenue Bonds at 'A-';
--Preferred stock at 'BBB';
--Short-term IDR/Commercial paper at 'F2'.

BGE Capital Trust II

--Preferred stock at 'BBB'.

Pepco Holdings LLC
--IDR at 'BBB';
--Senior unsecured notes at 'BBB';

Potomac Electric Power Company
--IDR at 'BBB';
--Secured debt at 'A-';
--Short-term IDR/commercial paper at 'F2'.

Delmarva Power & Light Co.
--IDR at 'BBB+';
--Secured debt and PCRBs at 'A';
--Senior unsecured notes at 'A-';
--Short-term IDR/commercial paper at 'F2'.

Atlantic City Electric Company
--IDR at 'BBB';
--Secured debt at 'A-';
--Senior unsecured notes at 'BBB+';
--Short-term IDR/commercial paper at 'F2'.

Fitch has withdrawn the following ratings:

Pepco Holdings LLC.
--Short-term IDR/commercial paper.

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Applicable Criteria
Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017) (https://www.fitchratings.com/site/re/895493)
Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016) (https://www.fitchratings.com/site/re/886557)
Treatment and Notching of Hybrids in Non-Financial Corporate and REIT Credit Analysis (pub. 29 Feb 2016) (https://www.fitchratings.com/site/re/878264)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?
pr_id=1020927&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0

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Exelon Corporation (/gws/en/esp/issr/80464126)

FitchRatings

Fitch Downgrades Exelon Corp. IDR to 'BBB'; Outlook Stable

Fitch Ratings-New York-25 March 2016: Fitch Ratings has downgraded Exelon Corp.'s (EXC) Issuer Default Rating and senior unsecured debt ratings to 'BBB' from 'BBB+ and the junior subordinated debt rating to 'BB+' from 'BBB-'. The commercial paper (CP) rating is affirmed at 'F2'. The ratings are removed from Rating Watch Negative where they were placed in April 2014 following the announcement of an agreement to acquire Pepco Holdings, Inc. (PHI) in an all-cash transaction. The Rating Outlook is Stable. The ratings of EXC's four operating subsidiaries are unaffected by this rating action.

The downgrades reflect the increased consolidated leverage that results from the PHI acquisition and to a lesser extent the weak operating environment of its competitive generation business. The higher leverage is a product of the acquisition financing, which included approximately 65% debt and consolidation of the more levered PHI. The rise in leverage is softened by a modest reduction in business risk from the increase in regulated earnings. Post-merger regulated earnings are expected to account for roughly 65% of 2017 consolidated earnings compared to an estimated 55% without the acquisition.

KEY RATING DRIVERS

Increased Leverage: The acquisition results in a meaningful increase in consolidated leverage compared to EXC's current and projected stand-alone financial condition. Fitch estimates adjusted debt to EBITDAR will approximate 4.25x - 4.5x in the first full year after the merger compared to about 3.0x - 3.5x on a stand-alone basis. The rise in leverage is driven by the combination of the acquisition debt to be issued by EXC and the assumption of existing PHI consolidated debt. Funding for the $6.9 billion acquisition plus fees, integration costs and regulatory commitments includes approximately $4.2 billion of EXC corporate debt and $1 billion of mandatory convertible debt (issued in 2014). Under Fitch criteria the convertible debt issued by EXC, in the form of equity units, receives no equity credit. The remainder of the acquisition financing consisted of common stock and proceeds from asset sales. In addition, EXC will assume approximately $6 billion of PHI consolidated debt.

Regulatory Concessions: To gain merger approval, EXC agreed to a number of rate concessions in each of PHI's four regulatory jurisdictions aggregating to an estimated $350 million - $400 million, including customer rate credits and deferral of rate increases and funding for a variety of customer investment funds largely related to energy efficiency, renewable energy programs, and low-income customer programs. Moreover the PHI utility subsidiaries deferred rate filings during the nearly two-year merger review process that increased PHI's leverage and weakened its credit quality.

Ring Fencing: Each of the utility commissions imposed several ring-fencing provisions to protect the PHI utilities, but none are considered to be onerous or to impair EXC's credit quality.

The requirements include:
--Potomac Electric Power Co. (Pepco), Delmarva Power & Light Co. (DPL) and Atlantic City Electric Co. (ACE) maintaining a rolling 48% equity ratio (no other dividend restrictions)
--Creation of a bankruptcy-remote special purpose entity (SPE) to hold 100% of PHI equity
--Maintenance of separate books and records
--Pepco, DPL and ACE will maintain separate debt
--The Board of Directors of the SPE will have four directors, one of which will be independent
--The seven-member PHI board will include one director from each of PHI's utility subsidiaries

Corporate Structure: PHI will be structured as a subsidiary of EXC and the parent of its existing three regulated transmission and distribution utilities.

Utility Earnings Contribution: The acquisition furthers EXC's goal of increasing regulated earnings and lowering business risk. Post-merger regulated earnings are expected to account for roughly 65% of consolidated earnings from its six regulated utilities compared to an estimated 55% - 60% without the acquisition. Even without the PHI acquisition the regulated earnings contribution was expected to increase due to significant amount of planned utility investment, particularly at Commonwealth Edison Co (ComEd).

Competitive Generation Business: The operating environment for EXC's competitive generation business is expected to remain challenging with sluggish demand and low natural gas and power prices expected by Fitch to persist for several years. Favorably, the business is well capitalized and the credit profile has stabilized during a low point in the commodity cycle. In addition, management employs a three-year hedging strategy that moderates earnings and cash flow volatility.

KEY ASSUMPTIONS
--Relatively flat load growth
--Each of the PHI subsidiaries file rate cases in 2016 and every 12-15 months thereafter
--Commonwealth Edison Co. formula rate plan updated annually
--$1 billion in cash from the remarketing of junior subordinated debt in 2017
--Henry Hub Natural gas prices as of Dec. 31, 2015
--Nihub and PJM forward power prices as of Dec. 31, 2015

RATING SENSITIVITIES
Positive Rating Action: An upgrade seems unlikely over the next few years given the rise in leverage associated with the PHI acquisition, but could occur if on a sustained basis debt/EBITDAR is reduced below 3.5x while lease-adjusted FFO leverage is below 4.25x.

Negative: Ratings could be lowered if lease adjusted FFO leverage exceeds 4.5x on a sustained basis. A renewed emphasis on non-regulated investments could also have an adverse effect on ratings.

LIQUIDITY

Cash flow from operations, CP borrowings and committed bank credit facilities provide ample liquidity. EXC and each of its operating subsidiaries maintain separate credit facilities and CP programs. Syndicated credit facilities aggregate to $8 billion (excluding minority and community banks) and bilateral agreements an additional $400 million. The syndicated facilities include $500 million at EXC, $5.3 billion at Exelon Generation Co., LLC (Exgen), $1 billion at ComEd and $600 million each at PECO Energy Co. (PECO) and Baltimore Gas and Electric Co. (BGE). The syndicated facilities support CP programs of equal size and have five-year terms.

EXC also operates a corporate money pool with subsidiaries Exgen and PECO. EXC can lend to the money pool, but not borrow from the pool. ComEd and BGE are excluded from the money pool due to ring fencing measures.

Fitch has downgraded the following ratings:

Exelon Corp.
--Long-term IDR to 'BBB' from 'BBB+';
--Senior unsecured debt to 'BBB' from 'BBB+';
--Junior subordinated debt to 'BB+' from 'BBB-'.

Fitch has affirmed the following ratings:
--Commercial paper at 'F2;
--Short-term IDR at 'F2'

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Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1001537&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
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Exelon Corporation (/gws/en/esp/issr/80464126)

FitchRatings

Fitch Rates Exelon Corp.'s $1.8B Notes 'BBB'

Fitch Ratings-New York-04 April 2016: Fitch Ratings has assigned a 'BBB' rating to Exelon Corp.'s (EXC) new $1.8 billion issue of notes to be offered in multiple tranches maturing in five, 10 and 30 years. Proceeds will be used to retire short-term debt incurred to complete the funding of the recently closed Pepco Holdings LLC acquisition and for general corporate purposes. The notes will rank equally with all other senior unsecured debt and will be senior in right of payment to all subordinated debt. The Rating Outlook is Stable.

KEY RATING DRIVERS

Growing Utility Earnings Contribution: The recent acquisition of Pepco Holdings LLC furthers EXC's goal of increasing regulated earnings and lowering business risk. Post-merger regulated earnings are expected to account for roughly 65% of consolidated earnings from its six regulated utilities compared to an estimated 55% - 60% without the acquisition. Even without the PHI acquisition the regulated earnings contribution was expected to increase due to the significant amount of planned utility investment, particularly at Commonwealth Edison Co (ComEd).

Increased leverage: The increase in regulated earnings was accompanied by an increase in leverage to fund the Pepco Holdings LLC acquisition. Fitch estimates adjusted debt-to-EBITDAR will be approximately 4.25x - 4.5x in the first full year after the merger compared to about 3.0x - 3.5x on a stand-alone basis.

Competitive Generation Business: The ratings also consider the more volatile earnings and cash flow contribution of EXC's competitive generation business. The operating environment is challenging with sluggish demand and low natural gas and power prices expected by Fitch to persist for several years. Partly offsetting the low energy prices is the recent rise in forward capacity prices in the PJM interconnection where the majority of EXC's merchant generating assets are located. The business is well capitalized and employs a three-year hedging strategy that moderates commodity exposure and the associated volatility.

Growing Utility Investments: Going forward, the majority of capital investment is allocated to EXC's utility subsidiaries, which should provide a more stable earnings base. The majority of the regulated investments are at ComEd, its largest utility, which operates with a constructive formula rate plan that provides timely recovery of invested capital.

Regulatory Concessions: To gain merger approval, EXC agreed to a number of rate concessions in each of PHI's four regulatory jurisdictions aggregating an estimated $350 million - $400 million, including customer rate credits and deferral of rate increases and funding for a variety of customer investment funds largely related to energy efficiency, renewable energy programs, and low-income customer programs

Ring Fencing: Each of the utility commissions imposed several ring-fencing provisions to protect the Pepco Holdings LLC utilities, but none are considered to be onerous or likely to impair EXC's credit quality.

The requirements include:
--Potomac Electric Power Co. (Pepco), Delmarva Power & Light Co. (DPL) and Atlantic City Electric Co. (ACE) maintaining a rolling 48% equity ratio (no other dividend restrictions)
--Creation of a bankruptcy-remote special purpose entity (SPE) to hold 100% of PHI equity
--Maintenance of separate books and records
--Pepco, DPL and ACE will maintain separate debt
--The Board of Directors of the SPE will have four directors, one of which will be independent
--The seven-member PHI board will include one director from each of PHI's utility subsidiaries

KEY ASSUMPTIONS
--Relatively flat load growth
--Each of the PHI subsidiaries to file rate cases in 2016 and every 12-15 months thereafter
--Commonwealth Edison Co. formula rate plan updated annually
--$1 billion in cash from the remarketing of junior subordinated debt received in 2017
--Henry Hub Natural gas prices as of Dec. 31, 2015

--Nihub and PJM forward power prices as of Dec. 31, 2015

RATING SENSITIVITIES

Positive Rating Action: An upgrade seems unlikely over the next few years given the rise in leverage associated with the recent acquisition, but could occur if on a sustained basis debt/EBITDAR is reduced below 3.5x while lease-adjusted FFO leverage is below 4.25x.

Negative: Ratings could be lowered if lease adjusted FFO leverage exceeds 4.5x on a sustained basis. A renewed emphasis on non-regulated investments could also have an adverse impact on ratings.

LIQUIDITY

Cash flow from operations, commercial paper (CP) borrowings and committed bank credit facilities provide ample liquidity. EXC's syndicated credit facilities aggregate $8 billion (excluding minority and community banks) and bilateral agreements an additional $400 million. Pepco Holdings LLC has an additional $1.5 billion facility. The syndicated facilities support CP programs throughout the EXC organization.

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Date of Relevant Rating Committee: March 24, 2016.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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FitchRatings

Fitch Affirms 129 U.S. Utility, Gas & Power Companies' Ratings

Link to Fitch Ratings' Report: Fitch Affirms 129 U.S. Utility, Power & Gas Companies' Ratings (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=745455&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

Fitch Ratings-Chicago-07 April 2014: Fitch Ratings has affirmed 129 U.S. Utility, Gas & Power companies' ratings.

The worksheet 'Rating Actions' provides:

--A full list of ratings affirmed
--A hyperlink to each issuer's rating summary page at www.fitchratings.com
--Primary analyst and secondary analyst contact information

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 5, 2013).

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
AEP Texas Central Company	-	Long Term Issuer Default Rating	Unsolicited
AEP Texas Central Company	-	Short Term Issuer Default Rating	Unsolicited
AEP Texas North Co.	-	Long Term Issuer Default Rating	Unsolicited
AEP Texas North Co.	-	Short Term Issuer Default Rating	Unsolicited
American Electric Power Company, Inc.	-	Long Term Issuer Default Rating	Unsolicited
American Electric Power Company, Inc.	-	Short Term Issuer Default Rating	Unsolicited
Appalachian Power Co.	-	Long Term Issuer Default Rating	Unsolicited
Indiana Michigan Power Co.	-	Long Term Issuer Default Rating	Unsolicited
Kentucky Power Co.	-	Long Term Issuer Default Rating	Unsolicited
Ohio Power Co.	-	Long Term Issuer Default Rating	Unsolicited
Ohio Power Co.	-	Short Term Issuer Default Rating	Unsolicited
Public Service Company of Oklahoma	-	Long Term Issuer Default Rating	Unsolicited
Public Service Company of Oklahoma	-	Short Term Issuer Default Rating	Unsolicited
Southwestern Electric Power Co.	-	Long Term Issuer Default Rating	Unsolicited
AEP Texas Inc. senior unsecured bond/note	US0010EPAF55	Long Term Rating	Unsolicited
AEP Texas Inc. senior unsecured bond/note	USU00804AB73	Long Term Rating	Unsolicited
AEP Texas Inc. senior unsecured bond/note	US0010EPAD08	Long Term Rating	Unsolicited
AEP Texas Inc. senior unsecured bond/note	-	Long Term Rating	Unsolicited
American Electric Power Company, Inc. senior unsecured bond/note ser E	US025537AF85	Long Term Rating	Unsolicited
American Electric Power Company, Inc. senior unsecured bond/note ser F	US025537AG68	Long Term Rating	Unsolicited
American Electric Power Company, Inc. USCP 4(2)/ 144A D	-	Short Term Rating	Unsolicited
American Electric Power Company, Inc. USCP 4(2)/ 144A I	-	Short Term Rating	Unsolicited
American Electric Power Company, Inc. ECP D	-	Short Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CB17	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CQ85	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser K	US037735CD72	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser R	US037735CP03	Long Term Rating	Unsolicited

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Appalachian Power Co. senior unsecured bond/note ser T	US037735CR68	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735BZ93	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CE55	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser AMBC (insured: Ambac Assurance Corporation)	US037735CL98	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CG04	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser AMBC (insured: Ambac Assurance Corporation)	US037735CL98	Unenhanced Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser P	US037735CK16	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CM71	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AL00	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	-	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AN65	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AM82	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	US491386AM09	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	USU49129AA46	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	US491386AL26	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser K	US677415CL31	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AW15	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser M	US677415CP45	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser E	US677415CF62	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AS03	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AT85	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AV32	Long Term Rating	Unsolicited
Ohio Power Co. USCP 3(a)(3) D	-	Short Term Rating	Unsolicited
Ohio Power Co. USCP 3(a)(3) D	-	Short Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BH25	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BK53	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BL37	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note ser G	US744533BJ80	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BE12	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BG69	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BH43	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note ser F	US845437BJ09	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BK71	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BM38	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BL54	Long Term Rating	Unsolicited

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FitchRatings

Fitch Downgrades Exelon Generation; Upgrades BGE; Revises Comed's Outlook to Positive

Fitch Ratings-New York-29 April 2015: Fitch Ratings has taken the following rating actions on Exelon Corp. (EXC) and its subsidiaries:

EXC
--'BBB+' Issuer Default Ratings (IDR) maintained on Rating Watch Negative;

Exelon Generation Co., LLC's (Exgen)
--IDR and senior unsecured debt ratings downgraded to 'BBB' from 'BBB+'; Rating Outlook revised to Stable from Negative;

Baltimore Gas and Electric Co.'s (BGE)
--IDR upgraded to 'BBB+' from 'BBB'; Outlook revised to Stable from Positive;

Commonwealth Edison Co.'s (Comed)
--IDR affirmed at 'BBB'' Outlook revised to Positive from Stable;

PECO Energy Co. (PECO)
--IDR affirmed at 'BBB+'; Outlook Stable.

A full list of the rating actions follows at the end of this release.

The Rating Watch Negative for EXC reflects the increased leverage that results from its pending acquisition of Pepco Holdings, Inc. (PHI, IDR rated 'BBB' by Fitch). The higher leverage reflects the acquisition financing plan and the consolidation of the more levered PHI. The rise in leverage is mitigated in part by an increase in regulated earnings.

The Exgen downgrade reflects Fitch's view that the previous ratings are inconsistent with the inherent cash flow volatility of the commodity sensitive competitive generation business. The ratings also reflect the on-going weakness in forward power and natural gas prices, soft power demand and aggressive competition in the retail supply business. Credit protection measures that are solidly within the investment grade category are also captured in the revised ratings.

The BGE upgrade reflects the improvement in the company's financial profile in recent years, which Fitch Ratings believes is sustainable, although on-going rate support will be required.

The Positive Ratings Outlook for Comed recognizes the uptrend in financial performance in recent years and the regulatory predictability in Illinois due to a formula rate plan (FRP) that provides for annual rate adjustments that reduce regulatory lag. On-going improvement is expected by Fitch in 2015.

KEY RATING DRIVERS FOR EXELON CORP.

Pending Merger: The proposed acquisition increases consolidated leverage compared to EXC's stand-alone financial position. The additional leverage reflects the financing plan that includes a significant debt component and the consolidation of the higher levered PHI. The financing plan for the $7.2 billion acquisition includes $3.5 billion of new EXC corporate debt, $1 billion from Exgen asset sales (completed in 2014), $1.7 billion of common equity and $1.0 billion of mandatorily convertible debt (issued in 2014). Under Fitch criteria the convertible debt issued by EXC, in the form of equity units, receives no equity credit. In addition, EXC will assume approximately $5.0 billion of PHI consolidated debt. The merger is expected to close in 2015 Q2 or Q3.

Utility Earnings Contribution: EXC's ratings benefit from the predictable and growing earnings and cash flow contributions of its three regulated utilities. The utilities accounted for approximately 53% of 2014 adjusted operating income growing to an estimated 60% (excluding the pending PHI acquisition) by 2019. The utilities have sound and/or improving credit profiles, limited commodity price risk and a relatively predictable earnings, balancing the more volatile earnings and cash flow of the commodity sensitive competitive generation business.
Competitive Generation Business: The operating environment for EXC's competitive generation business is

expected to remain challenging with sluggish demand and low natural gas and power prices likely to persist for several years. Favorably, the business is well capitalized and the credit profile has stabilized during a low point in the commodity cycle. In addition, management employs a three-year hedging strategy that moderates earnings and cash flow volatility.

Sound Financial Position: Despite the reduced earnings contribution of its competitive generation business, EXC has maintained a solid credit profile. Fitch estimates EXC's adjusted ratio of Debt/EBITDAR and FFO adjusted leverage will average approximately 3.5x and 3.0x, respectively, over the next two years and FFO fixed charge coverage about 6x, all of which supports existing ratings. Proforma for the PHI acquisition, 2015 Debt/EBITDAR, FFO adjusted leverage and FFO fixed charge coverage are estimated to approximate 4.2x, 3.5x and 5x, respectively. The proforma adjustments do not reflect the customer credits related to the proposed merger, which will weaken the credit metrics of PHI and its subsidiaries in the near-term.

KEY RATING DRIVERS FOR EXELON GENERATION COMPANY, LLC

Operating Environment: Fitch expects gas and power prices to remain at or near currently low levels over the next several years, which will continue to pressure credit metrics. However, several proposed market reforms in PJM and in Illinois are constructive and, if enacted, will increase gross margin, strengthen credit quality measures and reduce the risk of nuclear plant closures.

Market Reforms: Market reforms instituted in New England and proposed in PJM, where the majority of Exgen's generating capacity is located should, if enacted, have a material beneficial impact on Exgen. The PJM pay for performance capacity product has the potential to meaningfully enhance EBITDA in the 2020/2021 delivery year and lesser amounts beginning this year.

The performance capacity product, which raises the cap on capacity prices, is intended to reward generators that are capable of sustained operations during peak load periods and extreme weather events. With their base load dispatch profile and high capacity factors, nuclear units are likely beneficiaries of the incentive payments. The proposed capacity plan is not without risk since there are substantial penalties for non-performance.

In addition, the state of Illinois is considering legislation that, if enacted, would support the on-going operation of in-state nuclear units that are at risk of closure. The pending legislation would require electric utilities in Illinois to purchase energy credits from low carbon sources, including nuclear, to match 70% of the electricity used on the delivery system. Utilities would collect a charge from customers for procuring the low carbon power, subject to a cap of 2.015% annually. If the Illinois legislation is not enacted, Exgen is likely to shut several nuclear plants in Illinois.

Also, Exgen entered into a Reliability Services Agreement (RSA) with Rochester Gas and Electric Co. (RGE) that, pending FERC final approval, assures the continued operation of the Ginna nuclear unit through September 2018. Exgen will receive fixed capacity payments of $17.5 million per month ($210 million annually) plus 15% of the unit's energy and capacity revenue. Exgen will offer the energy and capacity into the NYISO spot markets.

Competitive Position: Exgen's largely nuclear-fueled generating fleet is positioned low on the dispatch curve and likely to be dispatched under any price scenario. The emission free nuclear portfolio is also well positioned to benefit from any uplift in power prices from higher environmental costs or reduced supply from coal retirements and the proposed market reforms alluded to above.

Financial Position: Exgen's financial position has stabilized in recent years, and remains solidly within the investment grade category. Fitch estimates Exgen's adjusted ratio of Debt/EBITDAR to range between 2.75x and 3.0x over the next two years and FFO adjusted leverage between 2.0x and 2.25x over the same period. FFO fixed charge coverage is expected to range between 7.25x and 6.5x.

Hedging Strategy: To moderate cash flow volatility and commodity price risk, Exgen employs a three-year ratable hedging strategy. The strategy targets a financial hedge range of 90% - 98% in the prompt year, 70% - 90% in year two and 50% - 70% year three.

Strong Nuclear Operator: Exgen has a long record of strong nuclear performance. Over the past three years the nuclear capacity factor averaged approximately 94% and re-fueling outages have averaged about 30 days, in each case setting the industry standard.

KEY RATING DRIVERS FOR COMMONWEALTH EDISON COMPANY

Strong Credit Metrics: Higher rates effective Jan. 1, 2014 and a FRP that allows for annual rate adjustments should allow Commonwealth Edison Co. (Comed) to sustain its currently sound financial position over the next few years. Fitch estimates Debt/EBITDAR and FFO leverage will approximate 3.75 and FFO fixed charge coverage 5x over the next two years, which is strong within the current rating level.

Regulatory Predictability: The FRP implemented in October 2011 provides increased regulatory predictability in Illinois. The FRP, which is filed annually, recognizes forward looking capital additions and includes a true-up mechanism reducing, albeit not eliminating, rate lag. However, due to the formulaic ROE determination, Comed is substantially impacted by changes in long-term treasury rates, which have declined since the last ROE determination. The most recently filed FRP requests a $50 million rate reduction. The FRP was enacted into law by the Illinois Energy Infrastructure Modernization Act (EIMA).

Constructive Rate Decision: In response to Comed's latest FRP filing, in December 2014, the Illinois Commerce Commission (ICC) approved a $232 million increase in distribution rates or approximately 86% of the company's rate request. An additional $23 million is recoverable through other rider mechanisms. Although the legislatively set ROE of 9.25% is below the industry average, Comed should have a reasonable opportunity to earn the allowed ROE.

Commodity Price Exposure: Ratings and credit quality benefit from the absence of commodity price exposure, which limits cash flow volatility and reduces business risk. Comed retains the provider of last resort obligation for customers that do not choose an alternative energy provider, but recovers its energy supply costs from customers through a monthly fuel adjustment mechanism.
Rising Capex: Capex is forecasted to rise to $6.0 billion over the three-year period 2015 - 2017, a significant increase over the $4.4 billion invested in the prior three years. The higher outlays are primarily driven by the EIMA, which requires investments in system reliability and smart grid deployment and provides for recovery through the FRP filings. The higher capex also reflects an increase in transmission expenditures, which are subject to credit supportive Federal Energy Regulatory Commission (FERC) regulatory policies.

Like-Kind-Exchange: Comed's exposure to the IRS's disallowance of the tax benefits associated with a like-kind-exchange continues to linger. As of Dec. 31, 2014, Comed's potential tax exposure, excluding penalties, is $310 million, which although significant should be manageable within the current rating. EXC has indicated that it will hold Comed harmless for any after-tax interest.

KEY RATING DRIVERS FOR PECO ENERGY COMPANY

Strong Credit Profile: Fitch expects PECO's credit measures to remain strong relative to both Fitch's target ratios for the current rating level and the companies' peer group of 'BBB+' distribution utilities. Adjusted debt/EBITDAR is expected to increase to a still strong 3.3x in 2015 and then range between 2.8x and 3.0x over the following two years, reflecting the impact of a pending rate case. FFO adjusted leverage is expected to range between 3.8x and 4.0x over the next three years. The modest downtrend reflects the expiration of bonus depreciation and rising debt, which had been relatively flat over the past few years.

Rate Increase: A requested rate increase filed in March 2015 is expected by Fitch to allow PECO to maintain its strong credit profile in 2016 and beyond. The rate filing seeks a $190.1 million (4.4%) revenue increase based on a 10.95% return on equity (ROE). A final decision on the rate filing is expected in December 2015. PECO's last rate increase was implemented in December 2010 based on an 11.75% ROE.

Manageable Capital Spending: Forecasted capex of approximately $1.6 billion over the next three years is relatively unchanged from the prior three-year period. However, unlike the prior period, PECO no longer has a large cash balance to help fund the expenditures and will be more reliant on external funding.
Low business Risk: Ratings and credit quality benefit from the absence of commodity price exposure and the associated cash flow volatility. PECO retains the provider of last resort obligation for customers that do not choose an alternative energy provider, but recovers its' electric and gas supply costs from customers through monthly fuel adjustment mechanisms.

Alternative Regulatory Model: Fitch considers the regulatory legislation enacted in Pennsylvania in February 2012 (HB 1294) to be supportive of credit quality. The law allows the Pennsylvania Public Utility Commission (PUC) to establish a distribution system investment charge (DSIC) to provide timely recovery of capital costs incurred to enhance electric and gas distribution systems. The DSIC will be updated quarterly. The new legislation also allows traditional rate filings to include fully forecasted test years further reducing regulatory lag.

Demand Reduction: Pennsylvania Act 129 (Act 129) requires Pennsylvania utilities to reduce electric consumption with the companies absorbing the associated revenue loss. PECO met the initial consumption reduction targets of 1% by 2011 and 3% by May 31, 2013. Act 129 also requires the installation of smart meter technology and the implementation of time of use rates and real time price plans. Importantly, Act 129 provides a surcharge mechanism to recover the implementation costs (other than lost sales) on a timely basis.

KEY RATING DRIVERS FOR BALTIMORE GAS AND ELECTRIC COMPANY

Credit Metrics: BGE's financial position is strong and supportive of the revised rating. The strong credit profile is largely due to electric and gas base rate increases implemented in February and December 2013. Subsequent electric and gas tariff increases effective December 2014 should allow BG&E to sustain its sound credit profile. Fitch expects Debt/EBITDAR and FFO fixed charge coverage to approximate the 2014 levels of 2.9x and 5.8x, respectively, with FFO adjusted leverage increasing to a still strong range of 3.25x - 3.5x.

Regulatory Recovery Mechanisms: Rate adjustment mechanisms outside of base rate cases tend to stabilize BGE's cash flow. These include decoupling for both residential and commercial gas and electricity sales and purchased gas and purchased power recovery mechanisms. In 2014, Maryland regulators' approved a rider to recover gas infrastructure improvements and has approved two subsequent surcharges. Certain capex is also subject to tracking mechanisms, including energy efficiency and smart grid/automated meter initiatives.

Base Rate Decision: In December 2014, BGE implemented electric and gas rate increases aggregating $60 million, the third in a 22-month period. Although the tariff increase was only about 33% of the amounts supported by BGE, the higher rates should support BGE's existing financial position. Importantly, the rate case was approved after a settlement agreement, which is highly unusual in Maryland, only five months after filing compared to the more typical seven month review period in fully litigated Maryland rate cases.

Ring-fencing: BGE's funding and Treasury practices result in moderate ring fencing of the utility from its parent Exelon Corp. (EXC) and affiliates. These include maintaining separate books and records and separate credit facilities and commercial paper programs and allocating parent expenses according to a Cost Allocation Manual. Also, BGE does not participate in the corporate money pool and BGE's financings do not contain any provisions that could result in cross defaults between BGE and EXC.

Dividend Restrictions Expired: Dividend restrictions imposed on BGE in 2012 as a condition for approving the merger between BGE's corporate parent EXC and Constellation Energy Group, Inc. expired Dec. 31, 2014, which will adversely affect future cash flow. Based on a mid-point of management's earnings guidance and a 70% payout ratio, 2015 dividends will be roughly $150 million.
Rating Sensitivities for Exelon Corp.

Positive Rating Action: Positive rating action is not likely at the present rating level given the meaningful earnings and cash flow contribution of the company's competitive generation business. However, ratings could be maintained if post acquisition debt/EBITDAR remains below 3.6x and FFO adjusted leverage below 4.5x.

Negative Rating Action: Ratings could be downgraded if post acquisition debt EBITDAR exceeds 3.6x and FFO adjusted leverage exceeds 4.5x on a sustained basis.

Onerous regulatory concessions or a renewed emphasis on non-regulated investments could also have an adverse effect on ratings.

Ratings could also be downgraded if the ratings of EXC's merchant generation business, Exgen, fall below 'BBB'.

RATING SENSITIVITIES FOR EXELON GENERATION CO., LLC

Positive Rating Action: Positive rating action is not likely given the inherent cash flow volatility in the competitive generation business.

Negative Rating Action: Ratings could be downgraded if debt/ EBITDAR exceed 3.25x and FFO adjusted leverage exceeds 3.5x on a sustained basis.

Ratings could also be downgraded if management were to pursue a more aggressive growth strategy.

RATING SENSITIVITIES FOR COMMONWEALTH EDISON CO.

Positive Rating Action: Reducing debt/EBITDAR below 3.6x on a sustained basis, while maintaining FFO leverage below 4.5x and FFO fixed charge coverage above 4.7x could lead to higher ratings.

Negative Rating Action: While not expected, FFO adjusted leverage above 5.25x and/or and FFO fixed charge coverage below 4.5x on a sustained basis could lead to lower ratings.

A change in the FRP or other regulatory policies that inhibit Comed's ability to recover invested capital or commodity costs on a timely basis could also lead to lower ratings.

RATING SENSITIVITIES FOR PECO ENERGY CO.

Positive Rating Action: Positive rating action is not likely prior a decision in its pending rate filing.

Ratings could be upgraded with a constructive rate decision that allows PECO to maintain debt/EBITDAR below 3.4x and FFO leverage below 4x on a sustained basis.

Negative Rating Action: A change in the regulatory policies that restrict PECO's ability to recover invested capital or commodity costs on a timely basis could also lead to lower ratings.

RATING SENSITIVITIES BALTIMORE GAS AND ELECTRIC CO.

Positive Rating Action: Reducing debt/EBITDAR below 3.4x on a sustained basis, while maintaining FFO leverage below 4x and FFO fixed charge coverage above 4.8x could lead to higher ratings.

Negative Rating Action: While not expected, FFO adjusted leverage above 4.75x and/or and FFO fixed charge coverage below 4.5x on a sustained basis could lead to lower ratings.

KEY ASSUMPTIONS

Commonwealth Edison Company
Electric load growth of about 0.5%
FRP updated annually

PECO Energy Company
Electric and gas load growth of about .5%
Electric distribution rate case effective Jan. 1, 2016
Targeted equity capital of 53% by 2015

Baltimore Gas and Electric Company
Electric customer growth of about 0.5%; flat growth for gas customers
BGE begins paying dividends in 2015
On-going rate support

Exelon Generation Co., LLC
Henry Hub Natural gas prices (as of Dec. 31, 2014)
Nihub and PJM forward power prices (as of Dec. 31, 2014)

Fitch maintains the Rating Watch Negative on the following:

Exelon Corp.
--IDR 'BBB+';
--Senior unsecured debt 'BBB+';
--Junior subordinated debt 'BBB-'.

Fitch has downgraded the following ratings:

Exelon Generation Co., LLC
--IDR to 'BBB' from 'BBB+';
--Senior unsecured debt to 'BBB' from 'BBB+';

The Rating Outlook is Stable.

Fitch has affirmed the following ratings::

Commonwealth Edison Company
--IDR at 'BBB';
--First mortgage bonds at 'A-';
--Senior unsecured debt at 'BBB+';
--Preferred stock at 'BBB-';
--Short-term IDR at 'F2';
--Commercial paper at 'F2'.

The Rating Outlook is Positive.

ComEd Financing Trust III
--Preferred stock at 'BBB-'.

Fitch has upgraded the following ratings:

Baltimore Gas and Electric Company
--IDR to 'BBB+' from 'BBB;
--First mortgage bonds to 'A' from 'A-';
--Senior unsecured debt to 'A-' from 'BBB+';
--Pollution Control Revenue Bonds to 'A-' from 'BBB+'
--Preferred stock to 'BBB' from 'BBB-';

The Rating Outlook is Stable.

Fitch has affirmed the following ratings:

PECO Energy Co.
--IDR at 'BBB+';
--First mortgage bonds at 'A';
--Senior unsecured debt at 'A-';
--Commercial paper at 'F2';
--Short-term IDR at 'F2'.

PECO Energy Capital Trust III
--Preferred stock at 'BBB'.

PECO Energy Capital Trust IV
--Preferred stock at 'BBB'.

The Rating Outlook is Stable.

Fitch has affirmed the following ratings:

Exelon Corp
--Commercial paper at 'F2';
--Short-term IDR at 'F2'.

Fitch has affirmed the following ratings:

Exelon Generation Co., LLC
--Commercial paper at 'F2';
--Short-term IDR at 'F2'.

Baltimore Gas and Electric Co.

--Short-term IDR at 'F2';
--Commercial paper at 'F2'.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (May 28, 2014);
--'Recovery Ratings and Notching Criteria for Utilities' (March 5, 2015);
--Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors)' (March 11, 2014).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Recovery Ratings and Notching Criteria for Utilities
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863298&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors)
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=735155&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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FitchRatings

Fitch Upgrades ComEd; Affirms BGE, PECO and Exgen's Ratings

Fitch Ratings-New York-28 April 2016: Fitch Ratings has upgraded Commonwealth Edison Co.'s (ComEd) Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'BBB' and revised the Rating Outlook to Stable from Positive. Fitch has also affirmed the 'BBB+' IDRs of PECO Energy Co. (PECO) and Baltimore Gas and Electric Co. (BGE) and the 'BBB' IDR of Exelon Generation Co., LLC (Exgen). The Rating Outlook for each entity is Stable.

The ratings of EXC and its newly acquired subsidiaries Pepco Holdings LLC, Potomac Electric Power Co., Delmarva Power and Light Co. and Atlantic City Electric Co. were previously addressed in a Rating Action Commentary dated March 25, 2016, and are unaffected by these actions.

A full list of the rating actions is shown at the end of this release.

ComEd's upgrade to 'BBB+' from 'BBB' reflects its sound credit profile and the regulatory predictability in Illinois due to a formula rate plan (FRP) that provides for annual rate adjustments. The FRP mitigates the impact of a rising capex program that is primarily driven by infrastructure modernization investments required by Illinois' Energy Infrastructure modernization Act.

The rating affirmations of PECO and BGE reflect credit metrics that are strong within the ratings level.

Exgen's rating affirmation reflects solid financial metrics that are consistent with the greater earnings and cash flow volatility of its competitive generation business.

Key Rating Drivers for Commonwealth Edison Company
Strong Credit Metrics: Fitch expects the annual FRP rate adjustments to allow ComEd to sustain and moderately improve its currently sound financial position over the next few years. Fitch estimates debt/EBITDAR and funds from operations (FFO) leverage will average approximately 3.75x and 3.5x, respectively over the next two years and FFO fixed charge coverage 6x, which is well positioned within the current rating level.

Regulatory Predictability: The FRP implemented in October 2011 provides increased regulatory predictability in Illinois. The FRP, which is filed annually, recognizes forward looking capital additions and includes a true-up mechanism reducing, albeit not eliminating, rate lag. The FRP was enacted into law by the Illinois Energy Infrastructure Modernization Act (EIMA).

Commodity Price Exposure: Ratings and credit quality benefit from the absence of commodity price exposure, which limits cash flow volatility and reduces business risk. Comed retains the provider of last resort obligation for customers that do not choose an alternative energy provider, but recovers its energy supply costs from customers through a monthly fuel adjustment mechanism.

Elevated Capex: Capex is forecasted to rise to $6.5 billion over the three-year period 2016-2018, approximately 18% above the $5.5 billion invested in the prior three years. The higher outlays, which peak at $2.4 billion in 2016, are primarily driven by the EIMA, which requires investments in system reliability and smart grid deployment and provides for recovery through the FRP filings. The higher capex also reflects an increase in transmission expenditures, which are subject to credit supportive Federal Energy Regulatory Commission (FERC) regulatory policies. The rise in expenditures began in 2015 and begins to trend downward starting in 2017.

Like-Kind-Exchange: Comed's exposure to the IRS's disallowance of the tax benefits associated with a like-kind-exchange continues to linger. As of Dec. 31, 2015, Comed's potential tax exposure is $280 million after consideration of EXC's agreement to hold Comed harmless for interest and penalties, which although significant should be manageable within the current rating.

Key Rating Drivers for PECO Energy Company
Strong Credit Profile: Aided by a rate increase implemented in January 2016, Fitch expects PECO's credit measures to remain strong relative to both Fitch's target ratios for the current rating level and the company's peer group of 'BBB+' rated distribution utilities, but moderately weaker than recent historical results. Over the next few years, Fitch estimates debt/EBITDAR and FFO-adjusted leverage will approximate 3.5x and 3.75x, respectively in 2018 compared to 3.0x and 3.1x in 2015. The modest increase reflects a rising capex plan and relatively flat sales growth.

Low Business Risk: Ratings and credit quality benefit from the absence of commodity price exposure and the associated cash flow volatility. PECO retains the provider of last resort obligation for customers that do not choose an alternative energy provider, but recovers its' electric and gas supply costs from customers through monthly fuel adjustment mechanisms. The constructive regulatory environment in Pennsylvania and the alternative regulatory model implemented to recover certain capital costs also reduces business risk.

Alternative Regulatory Model: Fitch considers the regulatory legislation enacted in Pennsylvania in February 2012 (HB 1294) to be supportive of credit quality. The law allows the Pennsylvania Public Utility Commission (PUC) to establish a distribution system investment charge (DSIC) to provide timely recovery of certain capital costs incurred to enhance electric and gas distribution systems. Once implemented, the DSIC is updated quarterly. The legislation also allows traditional rate filings to include fully forecasted test years further reducing regulatory lag.

Constructive Rate Order: PECO implemented a $127 million rate increase effective Jan. 1, 2016 following the approval of a settlement agreement by the PUC. The approved increase equates to about two-thirds of PECO's $190.1 million rate request. The settlement agreement also includes implementation of a DSIC for the company's electric operations, but not until eligible investments exceed the Dec. 31, 2016 levels projected by PECO.

Demand Reduction: Pennsylvania Act 129 (Act 129) requires Pennsylvania utilities to reduce electric consumption with the companies absorbing the associated revenue loss between rate cases. The PUC recently approved phase III of the energy efficiency and consumption plan requiring PECO to further reduce consumption by 2021. PECO met the initial consumption reduction targets of 1% by 2011 and 3% by May 31, 2013. Importantly, Act 129 provides a surcharge to recover implementation costs (other than lost sales) on a timely basis.

Rising Capex: Capex is forecasted to rise to $2.2 billion over the next three years compared to $1.8 billion over the prior three years. The expenditures reflect investments in energy efficiency and modernization of its electric and gas systems. The financial impact is moderated by the extension of bonus depreciation and the surcharge mechanism associated with Act 129.

Key Rating Drivers for Baltimore Gas and Electric Company
Strong Credit Metrics: Baltimore Gas and Electric Company's (BGE) credit metrics strengthened materially in 2015 and are strong for the current rating level. The improvement is due to electric and gas base rate increases effective December 2014, lower interest and storm related expenses and modest rise in debt. Fitch expects credit metrics to weaken moderately in 2016 due to an expanded capex budget, but to remain strong for the rating level, with debt/EBITDAR and FFO lease-adjusted leverage to average about 3.25x and 3.50x, respectively, over the next two years.

Regulatory Recovery Mechanisms: Rate adjustment mechanisms outside of base rate cases tend to stabilize BGE's cash flow. These include decoupling for residential and commercial gas and electricity sales, and purchased gas and purchased power recovery mechanisms. In 2014, Maryland regulators approved a rider to recover gas infrastructure improvements and have approved three subsequent surcharges (2014, 2015 and 2016). Certain capex is also subject to tracking mechanisms, including energy efficiency.

Pending Rate Case: A decision in BGE's pending rate case is expected in June 2016. BGE requested electric and gas base rate increases aggregating $200.4 million (revised to $196.7 million), equal to approximately 11% of 2015 net revenue. The majority of the rate requests are to recover smart grid investments based on equity returns of 10.6% and 10.5% for the electric and gas operations, respectively.

Rate Strategy: BGE has implemented a series of electric and gas base rate increases since early 2013 that have materially strengthened its credit profile. The most recent increases were implemented in December 2014, when BGE was permitted electric and gas rate increases aggregating $60 million, the third increase in 22 months. Due to the frequent rate increases and absence of major storms the return on common equity, on a GAAP basis, improved to 10.5% in 2015.

Key Rating Drivers for Exelon Generation Company, LLC
Challenging Operating Environment: Weak natural gas and power prices continue to restrict Exgen's earnings power with little relief in sight. Demand is also expected to remain sluggish due in large part to energy efficiency measures and slow economic growth. Although actual and planned coal retirements have the potential to drive up power prices in the next few years it is not yet evident in the forward power curve. Favorably, capacity prices have improved materially.

Improving Capacity Prices: Capacity market reforms instituted in PJM, where the majority of Exgen's generating capacity is located resulted in a significant increase in the clearing price for the 2018/2019 delivery year that Fitch estimates will boost EBITDA by roughly $375 million. Capacity prices were particularly strong in the Comed zone where Exgen's generating resources are concentrated. Capacity prices were also higher in two subsequent transition auctions for the 2016/2017 and 2017/2018 delivery years.

Sound Financial Position: Exgen's financial position has stabilized in recent years, and remains solidly within the investment grade category. Fitch estimates adjusted debt/EBITDAR to approximate 2.5x in 2016 and then trend downward as free cash flow (FCF) is used to retire debt. FFO lease adjusted leverage and FFO fixed charge coverage are equally strong.

Hedging Strategy: To moderate cash flow volatility and commodity price risk, Exgen employs a three-year ratable hedging strategy. The strategy targets a financial hedge range of 90%-98% in the prompt year, 70%-90% in year two and 50%-70% year three. When forward market prices are below Exgen's expectation the company has operated below its ratable hedging policy, which has been the case recently in the outer years. The hedging strategy includes forward power contracts and financial hedges, primarily natural gas options.

Competitive Position: Exgen's largely nuclear-fueled generating fleet is positioned low on the dispatch curve and likely to be dispatched under most price scenarios. The emission free nuclear portfolio also stands to benefit from any uplift in power prices from higher environmental costs or coal retirements. However, due to their high fixed costs several nuclear units, particularly those that compete with renewable energy resources and/or receive inadequate capacity payments are at risk of closure. Closure of these under-performing assets would boost EBITDA and cash flow.

Strong Nuclear Operator: Exgen has a long record of strong nuclear performance. Over the past three years, the nuclear capacity factor averaged approximately 93% and re-fueling outages have averaged about 30 days, in each case setting the industry standard.

KEY ASSUMPTIONS

Commonwealth Edison Company
--Relatively flat electric load growth;
--Formula Rate Plan updated annually;
--Three-year capex plan of $6.5 billion.

PECO Energy Company
--Relatively flat electric load growth;
--Retail gas load growth ranging between 0.5% and 1.0%;
--Electric distribution rate increase of $127 million effective Jan. 1, 2016;
--Equity capital of 53%-54% of total capital;
--Three-year capex plan of $2.1 billion.

Baltimore Gas and Electric Company
--Customer growth: 0.4% (Electric), 0.0% (Gas);
--June 2016 rate increase;
--Three-year capex plan of $2.7 billion.

Exelon Generation Co., LLC
--Forward gas and power prices as of Dec. 31, 2015;
--Oyster Creek retirement in 2020 (no other changes in nuclear portfolio);
--Three-year capex plan of $7.6 billion

RATING SENSITIVITIES
Rating Sensitivities for Commonwealth Edison Co.
Positive Rating Action: A positive rating action may be considered if debt/EBITDAR is below 3.4x on a consistent basis, while maintain FFO leverage below 4.5x and FFO fixed charge coverage above 4.7x.

Negative Rating Action: Negative rating action would be considered if FFO adjusted leverage rose above 5x and/or FFO fixed charge coverage fell below 4.5x on a sustained basis .
A change in the FRP or other regulatory policies that inhibit Comed's ability to recover invested capital or commodity costs on a timely basis could also lead to lower ratings.

Rating Sensitivities PECO Energy Co.
Positive Rating Action: Positive rating action could be considered if adjusted debt/EBITDAR and FFO lease adjusted debt remains comfortably below 3.4x and 4.0x, respectively.

Negative Rating Action: Given the headroom in existing ratings a downgrade is not likely, but could be considered if debt/EBITDAR and FFO lease-adjusted debt exceeded 3.7x and 4.75x, respectively, on a consistent basis.

Rating Sensitivities Baltimore Gas and Electric Co.
Positive Rating Action: Positive rating action may be considered if, following the resolution of its' pending rate case, BGE is able to maintain debt/EBITDAR and FFO lease adjusted leverage comfortably below 3.4x and 4.0x, respectively.

Negative Rating Action: Given the headroom in existing ratings a downgrade is not likely, but could occur if adjusted debt/EBITDAR and FFO lease adjusted leverage exceed 3.7x and 4.75x on a consistent basis.

Rating Sensitivities Exelon Generation Co., LLC
Positive Rating Action: Positive rating action is not likely given the inherent cash flow volatility in the competitive generation business.

Negative Rating Action: Ratings could be lowered if debt/EBITDAR exceed 3.25x and FFO adjusted leverage exceeds 3.5x on a sustained basis. Ratings could also be lowered if management were to pursue a more aggressive growth strategy.

LIQUIDITY

EXC and its subsidiaries have ample liquidity. Comed and BG&E meet their short-term liquidity needs through the issuance of commercial paper (CP) and Exgen and PECO through the issuance of CP and borrowings from the inter-company money pool. Comed and BG&E are excluded from the money pool due to ring fencing measures. All CP borrowings are supported by committed credit facilities at each entity including $5.725 billion at Exgen, $1 billion at Comed and $600 million at both PECO and BGE (EXC has an additional $500 million). As of Dec. 31, 2015, there were no borrowings under the credit facilities. Available cash was $438 million at Exgen, $67 million at Comed, $295 million at PECO and $9 million at BGE.

FULL LIST OF RATING ACTIONS

Fitch upgraded the following ratings:

Commonwealth Edison Company
--Long-Term IDR to 'BBB+' from 'BBB';
--First mortgage bonds to 'A' from 'A-';
--Senior unsecured debt to 'A-' from 'BBB+';
--Preferred stock to 'BBB' from 'BBB-'.

The Rating Outlook is Stable.

ComEd Financing III
--Preferred stock to 'BBB' from 'BBB-'.

Fitch has affirmed the following ratings:

Exelon Generation Co., LLC
--Long-Term IDR at 'BBB';
--Senior unsecured debt at 'BBB';
--Commercial paper at 'F2';
--Short-Term IDR at 'F2'.

The Rating Outlook is Stable.
Commonwealth Edison Company
--Short-Term IDR at 'F2';
--Commercial paper at 'F2'.

Baltimore Gas and Electric Company
--Long-Term IDR at 'BBB+';
--First mortgage bonds at 'A';
--Senior unsecured debt at 'A-';
--Pollution Control Revenue Bonds at 'A-';
--Preferred stock at 'BBB';
--Short-Term IDR at 'F2';
--Commercial paper at 'F2'.

BGE Capital Trust II
--Preferred stock at 'BBB'.

The Rating Outlook is Stable.

PECO Energy Co.
--Long-Term IDR at 'BBB+';
--First mortgage bonds at 'A';
--Senior unsecured debt at 'A-';
--Commercial paper at 'F2';
--Short-Term IDR at 'F2'.

PECO Energy Capital Trust III
--Preferred stock at 'BBB'.

PECO Energy Capital Trust IV
--Preferred stock at 'BBB'.

The Rating Outlook is Stable.

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Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1003542&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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Exelon Corporation (/gws/en/esp/issr/80464126)

FitchRatings

Fitch Places Exelon's Ratings on Negative Watch Following Acquisition Announcement

Fitch Ratings-New York-30 April 2014: Fitch Ratings has placed the 'BBB+' long-term Issuer Default Rating (IDR) and senior unsecured debt ratings of Exelon Corp. (EXC) on Rating Watch Negative. The actions follow today's announcement of a definitive agreement to acquire Pepco Holdings, Inc. (PHI) for $6.9 billion (plus transaction fees). Prior to this action, EXC's Rating Outlook was Negative.

The cash offer will be financed with a combination of EXC corporate debt and equity and proceeds from planned asset sales at subsidiary Exelon Generation Co., LLC (Exgen, 'BBB+'/Outlook Negative). Including assumed debt of approximately $5 billion the enterprise value is $11.9 billion. The purchase price equates 11.5x PHI's 2013 EBITDA.

The ratings of EXC's subsidiaries and those of PHI ('BBB') and its subsidiaries are unaffected by this transaction. Post-closing, PHI will become a second tier holding company of EXC and will remain as the direct parent of its three operating utilities Potomac Electric Power Co. ('BBB' IDR), Delmarva Power & Light Co. ('BBB+') and Atlantic City Electric Co. ('BBB').

Rating Drivers

Financing plan: The proposed acquisition results in a meaningful increase in consolidated leverage compared to EXC's current and projected stand-alone financial condition. The rise in leverage is driven by the combination of the acquisition debt to be issued by EXC and the assumption of existing PHI consolidated debt. EXC has indicated it plans to fund 50% of the acquisition price with corporate debt and the remaining amount with mandatory convertible debt, equity and proceeds from planned asset sales. The mandatory convertible securities typically used in the utility sector (equity units) do not receive any equity credit from Fitch.

Business risk: Fitch did not consider the acquisition of PHI to meaningfully lessen EXC's business risk. The pro forma earnings contribution from regulated businesses increases to approximately 60% to 65% of pro forma earnings over 2015 -2016 compared to about 55% to 60% on a stand-alone basis. Consequently, the non-regulated generation business remains significant.

Financial measures: Fitch expects consolidated cash flow leverage and fixed charge coverage measures of the combined entities to remain solidly within the 'BBB' category but meaningfully weaker than EXC's standalone credit profile without a significant reduction in the risk profile. Fitch forecasts Debt/EBITDAR in the first full year of operation to be less than 4.0x and FFO fixed charge coverage in the range of 5.5x to 6.0x.

Regulatory Approvals: Regulatory approvals are required by each of PHI's four regulatory jurisdictions Maryland, Delaware, the District of Columbia and New Jersey, as well as the Department of Justice (DOJ) and the Federal Energy Regulatory Commission (FERC). EXC expects to close this deal in the second or third quarter of 2015.

Rating Triggers

Positive: Positive rating action is not likely at the present rating level.

Negative: Regulatory concessions in excess of those assumed in the financial forecasts or a reduction in asset sale proceeds that is not funded with equity could have an adverse effect on ratings.

Even without the completion of this merger ratings may also be lowered in recognition of EXC's willingness to pursue a leveraged acquisition and/or if there is not a material improvement in wholesale power prices.

Fitch has placed the following ratings on Watch Negative:

Exelon Corp.
--Long-term IDR 'BBB+';
--Senior unsecured debt 'BBB+.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 5, 2013);
--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 19, 2013);
--'Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors)' (March 11, 2014).

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?
rpt_id=715139&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
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rpt_id=722085&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
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rpt_id=735155&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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Exelon Corporation (/gws/en/esp/issr/80464126)

FitchRatings

Fitch Rates Exelon Corp.'s Senior Notes 'BBB+'; Rating Watch Negative

Fitch Ratings-New York-08 June 2015: Fitch Ratings has assigned a 'BBB+' rating to Exelon Corp.'s (EXC) new issue of senior notes to be offered in multiple tranches. Proceeds will be used for to fund a portion of EXC's pending acquisition of Pepco Holdings, Inc. (PHI), with any remaining balance to be used for general corporate purposes. The notes will rank equally with all other senior unsecured debt and will be senior in right of payment to all subordinated debt. The new issues are placed on Rating Watch Negative, as are EXC's outstanding securities.

The Negative Watch for EXC reflects the increased leverage that results from its pending acquisition of PHI (Fitch Issuer Default Rating [IDR] of 'BBB'). The higher leverage is a product of the acquisition financing plan and the consolidation of the more levered PHI. The rise in leverage is mitigated in part by an increase in regulated earnings.

KEY RATING DRIVERS

Pending Merger: The proposed PHI acquisition increases consolidated leverage compared to EXC's stand-alone financial position. The additional leverage reflects the financing plan which includes a significant debt component and the consolidation of the higher-levered PHI. The financing plan for the roughly $7.2 billion acquisition includes $3.5 billion of new EXC corporate debt, $1 billion from Exgen asset sales (completed in 2014), $1.7 billion of common equity, and $1 billion of mandatorily convertible debt (issued in 2014). Under Fitch criteria the convertible debt issued by EXC, in the form of equity units, receives no equity credit. In addition EXC will assume approximately $5.8 billion of PHI consolidated debt. The merger is expected to close in the third quarter of 2015.
Utility Earnings Contribution: EXC's ratings benefit from the predictable and growing earnings and cash flow contributions of its three regulated utilities. The utilities accounted for approximately 53% of 2014 adjusted operating income growing to an estimated 60% (excluding the pending PHI acquisition) by 2019. The utilities have sound and/or improving credit profiles, limited commodity price risk and relatively predictable earnings, balancing the more volatile earnings and cash flow of the commodity-sensitive competitive generation business.
Competitive Generation Business: The operating environment for EXC's competitive generation business is expected to remain challenging with sluggish demand and low natural gas and power prices likely to persist for several years. Favorably, the business is well capitalized and its credit profile has stabilized during a low point in the commodity cycle. In addition, management employs a three-year hedging strategy that moderates earnings and cash flow volatility.
Sound Financial Position: Despite the reduced earnings contribution of its competitive generation business, EXC has maintained a solid credit profile. Fitch estimates EXC's adjusted ratio of debt/EBITDAR and funds from operations (FFO)-adjusted leverage will average approximately 3.5x and 3.0x, respectively, over the next two years and FFO fixed-charge coverage at about 6x, all of which supports existing ratings. Pro forma for the PHI acquisition, 2015 debt/EBITDAR, FFO-adjusted leverage, and FFO fixed-charge coverage are estimated to be approximately 4.2x, 3.5x and 5x, respectively. The pro forma adjustments do not reflect the customer credits related to the proposed merger, which will weaken the credit metrics of PHI and its subsidiaries in the near term.

KEY ASSUMPTIONS

--Commonwealth Edison Co. formula rate plan updated annually;
--PECO Energy Co. electric distribution rate increase effective Jan. 1, 2016;
--On-going rate support for capital investments;
--Existing regulatory recovery mechanisms remain in place;
--No change to pro rata three-year hedging strategy;
--Forward natural gas and power prices as of Dec. 31, 2014.

RATING SENSITIVITIES

Positive Rating Action: Positive rating action is not likely at the present rating level given the meaningful earnings and cash flow contribution from Exelon's competitive generation business and the additional merger-related leverage. However, ratings could be affirmed if post-acquisition debt/EBITDAR remains at or below 3.6x and FFO-adjusted leverage at or below 4.5x.
Negative Rating Action: Ratings could be lowered if post-acquisition debt EBITDAR exceeds 3.6x and FFO-adjusted leverage exceeds 4.5x on a sustained basis.

Onerous regulatory concessions or a renewed emphasis on non-regulated investments could also have an adverse effect on ratings.

Ratings could also be lowered if the ratings of EXC's merchant generation business, Exgen, fall below 'BBB'.

LIQUIDITY

EXC has ample liquidity. EXC and each of its operating subsidiaries maintain committed bank credit facilities aggregating $8.5 billion. The credit facilities support commercial paper borrowings and letters of credit. As of March 31, 2015, consolidated cash aggregated $1.8 billion.

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Date of Relevant Rating Committee: April 28, 2015

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Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 28 May 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

Recovery Ratings and Notching Criteria for Utilities (pub. 05 Mar 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863298&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

Treatment and Notching of Hybrids in Non-Financial Corporate and REIT Credit Analysis (pub. 25 Nov 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=821568&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

Additional Disclosures

Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=986042)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)

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Exelon Corporation (/gws/en/esp/issr/80464126)

FitchRatings

Fitch Rates Exelon Corp.'s Junior Subordinated Notes 'BBB-'

Fitch Ratings-New York-12 June 2014: Fitch Ratings has assigned a 'BBB-' rating and Negative Watch to Exelon Corp.'s (EXC) new $1.0 billion issuance of 2.50% junior subordinated notes (the Notes), which are a component of EXC's equity units. The equity units consist of the Notes due 2024 and a forward purchase contract obligating the holder to purchase on June 1, 2017, $1.0 billion of EXC shares.

The Notes will be pledged as security for the holders obligation to purchase the EXC common stock on June 1, 2017. The securities will be remarketed in 2017 as junior subordinated obligations of EXC and will remain outstanding until maturity in 2024. The Notes will initially pay an annual fixed 2.50% rate of interest, payable through June 1, 2017. Holders of the equity units will also receive annual contract payments of 4.00% on the forward purchase contract.

Prior to respective remarketing dates in 2017, EXC will have the right to defer interest on the securities one or more times for one or more consecutive interest periods without giving rise to an event of default.

Under Fitch's criteria, the junior subordinated notes will receive no equity credit.

Net proceeds of the equity units will be used to fund a portion of EXC's pending acquisition of Pepco Holdings, Inc.

The ratings of EXC are on Rating Watch Negative.

KEY RATING DRIVERS

Negative Rating Watch: The Negative Rating Watch reflects EXC's pending acquisition of Pepco Holdings, Inc. The proposed acquisition results in a meaningful increase in consolidated leverage compared to EXC's current and projected stand-alone financial condition. The rise in leverage is driven by the combination of the acquisition debt to be issued by EXC and the assumption of existing PHI consolidated debt.

Business risk: Fitch does not believe that the acquisition of PHI will meaningfully lessen EXC's business risk. The pro forma earnings contribution from regulated businesses increases to approximately 60% to 65% of pro forma earnings over 2015 - 2016 compared to about 55% to 60% on a stand-alone basis.
Competitive Generation Business: EXC's competitive generation business is exposed to commodity price volatility in the markets in which it operates. It seeks to minimize the commodity risk by hedging a portion of its portfolio on a three-year rolling basis. The hedge targets are approximately 90% - 98% in the prompt year, 70% - 90% in year two and 50% - 70% in year three.

Financial measures: Fitch expects consolidated cash flow leverage and fixed charge coverage measures of the combined entities to remain solidly within the 'BBB' category, but meaningfully weaker than EXC's standalone credit profile without a significant reduction in the risk profile. Fitch forecasts Debt/EBITDAR in the first full year of operation to be less than 4.0x and FFO fixed charge coverage in the range of 5.5x to 6.0x.

RATING SENSITIVITIES

Positive: Positive rating action is not likely at the present rating level.

Negative: Regulatory concessions in excess of those assumed in the financial forecasts or a reduction in asset sale proceeds that is not funded with equity could have an adverse effect on ratings.

Even without the completion of this merger ratings may also be lowered in recognition of EXC's willingness to pursue a leveraged acquisition and/or if there is not a material improvement in wholesale power prices.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 8, 2012);
--'Rating North American Utilities, Gas and Water Companies' (May 16, 2011);
--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 13, 2012);
--Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis' (Dec. 13, 2012);
--'Parent and Subsidiary Rating Linkage' (Aug 8, 2012).

Applicable Criteria and Related Research:
Corporate Rating Methodology – Effective 12 August 2011 to 8 August 2012 (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647229&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Recovery Ratings and Notching Criteria for Utilities (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=722085&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis - Effective Dec. 13, 2012 to Dec. 23, 2013 (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696670&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Parent and Subsidiary Rating Linkage (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

Additional Disclosure
Solicitation Status (http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=834378)

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PECO Energy Co. (/gws/en/esp/issr/80088954)

FitchRatings

Fitch Rates PECO's $300MM First Mortgage Bonds 'A'

Fitch Ratings-New York-08 September 2014: Fitch Ratings has assigned an 'A' rating to PECO Energy Co.'s (PECO) proposed new $300 million offering of First and Refunding Mortgage Bonds maturing in 2044. The Rating Outlook is Stable. Net proceeds will be used to pay at maturity $250 million 5.0% first and refunding mortgage bonds due Oct. 1, 2014 and for general corporate purposes.

KEY RATING DRIVERS

Strong Credit Profile: Historical and projected credit measures are strong and well in excess of Fitch's target ratios for the current rating level and the companies' peer group of 'BBB+' distribution utilities. Over the next few years Fitch estimates EBITDA/interest and FFO/interest will average about 7.0x and 6.0x, respectively and FFO/Debt and debt/EBITDA about 20% and 3.0x.

Alternative Regulatory Model: Fitch considers the regulatory legislation enacted in Pennsylvania in February 2012 (Pennsylvania Act 11) to be supportive of credit quality. Act 11 allows the Pennsylvania Public Utilities Commission (PUC) to implement a distribution system investment charge (DSIC) to provide timely recovery of capital costs incurred to improve or replace aging electric and gas systems. Act 11 also allows utilities to use a fully forecasted test year to capture in rate base assets that will placed in service during the first year new rates are in effect. Prior to implementing a DSIC utilities must have a long-term infrastructure improvement plan (LTIP) approved by the PUC. The PUC approved PECO's DSIC plan in May 2013.

Manageable Capital Spending: PECO expects to invest approximately $1.6 billion over the next three years, moderately higher than the $1.4 billion expended in the prior three-years. The rise is primarily attributable to the installation of advanced meters and a smart grid. The expenditures equate to about 2.2x depreciation and amortization, which approximates the industry in average. Fitch expects 80% of the three-year capital budget to be funded with internal sources.

Low business Risk: Ratings and credit quality benefit from the absence of commodity price exposure and the associated cash flow volatility. PECO retains the provider of last resort obligation for customers that do not choose an alternative energy provider, but recovers its energy supply costs from customers through a monthly fuel adjustment mechanism. The new regulatory paradigm in Pennsylvania also reduces business risk.

Demand Reduction: Pennsylvania Act 129 (Act 129) requires Pennsylvania utilities to reduce electric consumption with the companies absorbing the associated revenue loss. PECO met the 3% consumption reduction target required by May 31, 2013. Act 129 also requires the installation of smart meter technology and the implementation of time of use rates and real time price plans. Importantly, Act 129 provides a surcharge mechanism to recover the implementation costs (other than lost sales) on a timely basis.

RATING SENSITIVITIES

Positive: Positive rating action is not likely prior to the resolution of the Negative Rating Watch of its parent Exelon Corp., which is driven by the pending merger with Pepco Holdings, Inc. and the challenging operating environment of its non-regulated generation subsidiary.

Negative: An increase in parent company Exelon Corp.'s leverage or risk profile could adversely affect PECO's ratings. However, given that PECO's credit profile is strong within its rating category, it likely could withstand a one-notch parent downgrade.

Lack of rate support for utility infrastructure investments or a change in the commodity cost recovery mechanism in Pennsylvania could also adversely affect PECO's ratings.

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Applicable Criteria and Related Research:

--'Corporate Rating Methodology - Including Short-term Ratings and Parent and Subsidiary Linkage' (May 28, 2014);
-- 'Recovery Ratings and Notching Criteria for Utilities' (Nov. 19, 2013);
--'Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 11, 2014).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Recovery Ratings and Notching Criteria for Utilities
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=722085&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors)
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=735155&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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PECO Energy Co. (/gws/en/esp/issr/80088954)

FitchRatings

Fitch Rates PECO Energy's $350MM First Mtge Bonds 'A'

Fitch Ratings-New York-11 September 2012: Fitch Ratings has assigned an 'A' rating to the new $350 million, 2.375% First and Refunding Mortgage Bonds issued by PECO Energy Co.(PECO). The Rating Outlook is Stable. The bonds mature on Sept. 15, 2022 and rank equally with all existing and future secured debt obligations. Net proceeds will be used to refund $225 million, 4.75% First Mortgage Bonds due Oct. 1, 2012 and for general corporate purposes.

Key Rating Drivers

Strong Credit Profile: PECO Energy Co.'s (PECO) leverage, interest coverage and cash flow measures are expected to weaken moderately over the next several years, but remain strong relative to the company's peer group of distribution utilities and to Fitch's guidelines for companies with a 'BBB+' Issuer Default Rating (IDR) and similar risk profiles. Over the next several years debt/EBITDA is expected to range between 2.75 times (x) and 3.0x, and EBITDA/interest and FFO/debt to approximate 6.5x and 22%, respectively.

High Capital Expenditures: Following a two-year decline, capital expenditures are expected to trend upward beginning in 2013 to reflect the deployment of smart meters and rising investments in electric distribution infrastructure. Smart meter investments are forecasted to aggregate $300 million in 2013 and 2014, net of a $200 million grant from the Department of Energy (DOE) and total capex $$1.075 billion. By comparison, expenditures in 2011 and estimated in 2012 were $900 million.

Commodity Price Exposure: PECO has no commodity price exposure, which limits cash flow volatility. The company is required to serve as the electricity provider of last resort for customers that do not choose an alternative energy provider and recovers 100% of its electricity procurement costs from rate payers.

Alternative Rate Making: Enactment of H.B. 1294 earlier this year is a constructive credit development. The legislation permits recovery of distribution infrastructure investments through an automatic cost recovery mechanism and use of a fully projected forward test year in base rate cases, both of which should reduce regulatory lag.

Liquidity: Fitch considers PECO's liquidity to be adequate. In addition to cash from operations, liquidity needs are supported through the issuance of commercial paper, credit facility borrowings, and a corporate money pool. The $600 million unsecured credit facility extends to March 2017. Debt maturities are well laddered, and considered manageable by Fitch with $150 million due in December 2012, $300 million in 2013 and $250 million in 2014 followed by a gap until 2018.

What could lead to consideration of a negative rating action:
--Lack of regulatory support for capital investments is the primary credit risk or a change in the commodity cost recovery provisions.

What could lead to consideration of a positive rating action:
--Not likely at the current rating level.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 12, 2011);
--'Parent and Subsidiary Rating Linkage' (Aug. 12, 2011);
--'Recovery Ratings and Notching Criteria for Utilities' (May 3, 2012);
--'Rating North American Utilities, Power, Gas and Water Companies' (May 12, 2011).

Applicable Criteria and Related Research:
Corporate Rating Methodology (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Parent and Subsidiary Rating Linkage (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Recovery Ratings and Notching Criteria for Utilities (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=677735&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Rating North American Utilities, Power, Gas, and Water Companies (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=625129&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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PECO Energy Co. (/gws/en/esp/issr/80088954)

FitchRatings

Fitch Rates PECO Energy's First and Refunding Mortgage Bonds 'A'

Fitch Ratings-New York-11 September 2017: Fitch Ratings has assigned an 'A' rating to PECO Energy's Company's (PECO) new issue of first and refunding mortgage bonds due 2047. The proceeds will be used for general corporate purposes. The Rating Outlook on PECO's Long-Term Issuer Default Rating (IDR; 'BBB+') is Stable.

KEY RATING DRIVERS

Strong Credit Profile: Aided by a January 2016 rate increase, favorable weather and lower storm costs, PECO Energy Co.'s already-strong credit metrics improved in 2016. With normal weather, moderately rising operating costs, higher capex and flat sales, some attrition is likely in 2017, but metrics should remain strong within the rating level. Over the next few years, Fitch estimates debt/EBITDAR and funds from operations (FFO)-adjusted leverage to approximate 3.3x and 3.6x, respectively, compared with 2.8x and 2.9x in 2016.

Alternative Regulatory Model: Fitch considers regulatory legislation enacted in Pennsylvania in 2012 (HB 1294) to be supportive of credit quality. The law allows the state's Public Utility Commission (PUC) to establish a distribution system investment charge (DSIC) to provide timely recovery of certain capital costs incurred to enhance electric and gas distribution systems. Once implemented, the DSIC is updated quarterly. The law also allows traditional rate filings to include fully forecasted test years, further reducing regulatory lag.

Constructive Rate Order: PECO implemented a $127 million rate increase effective Jan. 1, 2016 following the approval of a settlement agreement by the

PUC. The approved increase equates to about two-thirds of PECO's $190.1 million rate request. The settlement agreement also includes implementation of a DSIC for the company's electric operations, but not until eligible investments exceed the Dec. 31, 2016 levels projected by PECO.

Demand Reduction: Pennsylvania Act 129 (Act 129) requires utilities to reduce electric consumption, with companies absorbing the associated revenue loss between rate cases. The PUC recently approved Phase III of the energy efficiency and consumption plan, requiring PECO to reduce consumption by an additional 5% by 2021. PECO met the initial consumption reduction targets of 1% by 2011 and 3% by May 31, 2013. Importantly, Act 129 provides a surcharge to recover implementation costs (other than lost sales) on a timely basis.

Rising Capex: Forecasted capex averages approximately $775 million annually over the next four years compared with an average of about $620 million over the prior four-year period. The increase is driven by investments in electric system reliability and acceleration of the natural gas pipeline replacement program. The financial impact is moderated by the extension of bonus depreciation and the surcharge mechanism associated with Act 129.

Low Business Risk: Due to the absence of commodity price exposure and generally constructive regulation, PECO's regulated electric and gas operations are considered to have low business risk by Fitch.

KEY ASSUMPTIONS

--Relatively flat electric load growth;
--Retail gas load growth ranging between 1.0%, and 0.5%;
--Dividends managed to achieve equity ratio of 53%-54%;
--Four year capex plan of approximately $3.1 billion.

RATING SENSITIVITIES

Positive Rating Action: Positive rating action could be considered if adjusted debt/EBITDAR and FFO lease adjusted debt remains comfortably below 3.4x and 4.0x, respectively.

Negative Rating Action: Given the headroom in existing ratings a downgrade is not likely, but could be considered if debt/EBITDAR and FFO lease-adjusted debt exceeded 3.7x and 4.8x, respectively, on a consistent basis.

LIQUIDITY

A $600 million committed credit facility provides ample liquidity. The credit facility supports a commercial paper program of equal size and also provides for direct borrowings. The credit facility extends to May 2022. PECO also participates in a corporate money pool along with its affiliates Exelon Generation Company, LLC and Exelon Business Services Co., LLC. Parent Exelon Corp. (EXC) can lend to, but not borrow from, the money pool. As of June 30, 2017, PECO had no commercial paper borrowings or draws under its credit facility. Outstanding letters of credit of $2 million reduced the available borrowing capacity to $598 million. Cash and cash equivalents as of June 30, 2017 were $45 million.

PECO's long-term debt (including current maturities) as of June 30, 2017 aggregated $2.8 billion, including $184 million of subordinated debentures that qualify for 50% equity credit under Fitch's methodology. Other than the subordinated debentures, all of the long-term debt outstanding is first-mortgage bonds secured by PECO's utility property.

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Date of Relevant Rating Committee: March 21, 2017

Summary of Financial Statement Adjustments
As of June 30, 2017 PECO had $184 million of subordinated debentures that qualify for 50% equity credit under Fitch's rating methodology.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Criteria for Rating Non-Financial Corporates - Effective from 10 March 2017 to 7 August 2017 (pub. 10 Mar 2017)
(https://www.fitchratings.com/site/re/895493)
Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016)
(https://www.fitchratings.com/site/re/886557)
Treatment and Notching of Hybrids in Non-Financial Corporate and REIT Credit Analysis- Effective from 26 February 2016 to 27 April 2017 (pub. 29 Feb 2016) (https://www.fitchratings.com/site/re/878264)

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FitchRatings

Correction: Fitch Affirms 130 U.S. Utility, Gas & Power Companies' Ratings

Link to Fitch Ratings' Report: Correction: Fitch Affirms 130 U.S. Utility, Power & Gas Companies' Ratings (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=780848&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

Fitch Ratings-Chicago-22 September 2014: (This announcement corrects the version published on April 7, 2014 to include Alabama Power Company Capital Trust V).

Fitch Ratings has affirmed 130 U.S. Utility, Gas & Power companies' ratings.

The worksheet 'Rating Actions' provides:

--A full list of ratings affirmed;
--A hyperlink to each issuer's rating summary page at www.fitchratings.com;
--Primary analyst and secondary analyst contact information.

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Additional information is available at www.fitchratings.com.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (May 28, 2014).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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AEP Texas Central Company	-	Short Term Issuer Default Rating	Unsolicited
AEP Texas North Co.	-	Long Term Issuer Default Rating	Unsolicited
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American Electric Power Company, Inc.	-	Short Term Issuer Default Rating	Unsolicited
Appalachian Power Co.	-	Long Term Issuer Default Rating	Unsolicited
Indiana Michigan Power Co.	-	Long Term Issuer Default Rating	Unsolicited
Kentucky Power Co.	-	Long Term Issuer Default Rating	Unsolicited
Ohio Power Co.	-	Long Term Issuer Default Rating	Unsolicited
Ohio Power Co.	-	Short Term Issuer Default Rating	Unsolicited
Public Service Company of Oklahoma	-	Long Term Issuer Default Rating	Unsolicited
Public Service Company of Oklahoma	-	Short Term Issuer Default Rating	Unsolicited
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AEP Texas Inc. senior unsecured bond/note	-	Long Term Rating	Unsolicited
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American Electric Power Company, Inc. USCP 4(2)/ 144A D	-	Short Term Rating	Unsolicited
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Appalachian Power Co. senior unsecured bond/note	US037735CB17	Long Term Rating	Unsolicited
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Appalachian Power Co. senior unsecured bond/note ser AMBC (insured: Ambac Assurance Corporation)	US037735CL98	Unenhanced Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser P	US037735CK16	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CM71	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AL00	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	-	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AN65	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AM82	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	US491386AM09	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	USU49129AA46	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	US491386AL26	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser K	US677415CL31	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AW15	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser M	US677415CP45	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser E	US677415CF62	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AS03	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AT85	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AV32	Long Term Rating	Unsolicited
Ohio Power Co. USCP 3(a)(3) D	-	Short Term Rating	Unsolicited
Ohio Power Co. USCP 3(a)(3) D	-	Short Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BH25	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BK53	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BL37	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note ser G	US744533BJ80	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BE12	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BG69	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BH43	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note ser F	US845437BJ09	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BK71	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BM38	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BL54	Long Term Rating	Unsolicited

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PECO Energy Co. (/gws/en/esp/issr/80088954)

FitchRatings

Fitch Rates PECO Energy's $550MM First Mortgage Bonds 'A'

Fitch Ratings-New York-17 September 2013: Fitch Ratings has assigned an 'A' rating to PECO Energy Co.'s (PECO) dual-tranche debt offering consisting of $300 million first and refunding mortgage bonds (FRMBs), 1.20% series due Oct. 15, 2016 and $250 million FRMBs 4.8% Series due Oct. 15, 2043. The Rating Outlook is Stable. The bonds rank equally with all existing and future secured debt obligations. Net proceeds will be used to pay at maturity $300 million 5.60% first mortgage bonds due Oct. 15, 2013 and for general corporate purposes.

Key Rating Drivers

Strong Credit Profile: Historical and projected credit measures are strong and well in excess of Fitch's target ratios for the current rating category and the companies' peer group of 'BBB+' rated distribution utilities. Over the next few years Fitch estimates EBITDA/interest and funds from operations (FFO)/interest will average more than 7.0x and 6.0x, respectively, FFO/Debt more than 20% and debt/EBITDA less than 3.0x. The strong performance reflects expectations of timely rate recovery and moderate debt financing.

Alternative Regulatory Model: Fitch considers the regulatory legislation enacted in Pennsylvania in February 2012 (HB 1294) to be supportive of credit quality. Under the law, utilities are required to file a long-term infrastructure improvement plan and the Pennsylvania Public Utility Commission (PUC) will establish a distribution system investment charge (DSIC) to provide timely recovery of the invested capital. The DSIC will be updated quarterly. The legislation further reduces regulatory lag by allowing traditional rate filings to include fully forecasted test years.

Manageable Capital Spending: PECO expects to invest approximately $1.6 billion over the next three years, moderately higher than the $1.4 billion expended in the prior three years. The rise is primarily attributable to the installation of advanced meters and a smart grid. The expenditures equate to about 2.2x depreciation and amortization, which approximates the industry average. Fitch expects approximately 80% of the three-year capital budget to be funded with internal sources of cash.

Low Business Risk: Ratings and credit quality benefit from the absence of commodity price exposure and the associated cash flow volatility. PECO retains the provider of last resort obligation for customers that do not choose an alternative energy provider, but recovers its energy supply costs from customers through a monthly fuel adjustment mechanism. The new regulatory paradigm in Pennsylvania also reduces business risk.

Demand Reduction: Pennsylvania Act 129 (Act 129) requires Pennsylvania utilities to reduce electric consumption with the companies absorbing the associated revenue loss. PECO met the initial 1% consumption reduction target for 2011 and the 3% reduction by May 31, 2013. Act 129 also requires the installation of smart meter technology and the implementation of time of use rates and real time price plans. Importantly, Act 129 provides a surcharge mechanism to recover the implementation costs (other than lost sales) on a timely basis.

Rating Sensitivities

Regulatory Changes: Lack of rate support for utility infrastructure investments or a change in the commodity cost recovery mechanism in Pennsylvania would adversely affect PECO's ratings.
Parent Risk Profile: An increase in parent company Exelon Corp.'s leverage or risk profile could adversely affect PECO's ratings.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology', Aug. 5, 2013;
-- 'Recovery Ratings and Notching Criteria for Utilities' (Nov. 12, 2012);
--'Rating North American Utilities, Power, Gas and Water Companies' (May 12, 2011).

Applicable Criteria and Related Research:
Rating North American Utilities, Power, Gas, and Water Companies
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=625129&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Recovery Ratings and Notching Criteria for Utilities
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=693750&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

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PECO Energy Co. (/gws/en/esp/issr/80088954)

FitchRatings

Fitch Rates PECO Energy Co.'s First and Refunding Bonds 'A'

Fitch Ratings-New York-28 September 2015: Fitch Ratings has assigned an 'A' rating to PECO Energy Co.'s (PECO) new $350 million issue of 10-year first-mortgage and refunding-mortgage bonds. Proceeds will be used for general corporate purposes. The Rating Outlook is Stable.

KEY RATING DRIVERS
Strong Credit Profile: Fitch expects PECO's credit measures to remain strong relative to both Fitch's target ratios for the current rating level and the company's' peer group of 'BBB+' rated distribution utilities. Over the next few years Fitch estimates debt/EBITDAR and FFO-adjusted leverage to approximate 3.2x and 3.7x, respectively.

Manageable Capital Spending: Forecast capex of approximately $1.6 billion over the next three years is relatively unchanged from the prior three-year period. However, unlike the prior period, PECO no longer has a large cash balance to help fund the expenditures and will be more reliant on external funding.

Low Business Risk: Ratings and credit quality benefit from the absence of commodity price exposure and the associated cash flow volatility. PECO retains the provider of last resort obligation for customers that do not choose an alternative energy provider, but recovers its electric and gas supply costs from customers through monthly fuel adjustment mechanisms. The new regulatory paradigm in Pennsylvania also reduces business risk.

Alternative Regulatory Model: Fitch considers the regulatory legislation enacted in Pennsylvania in February 2012 (HB 1294) to be supportive of credit quality. The law allows the Pennsylvania Public Utility Commission

(PUC) to establish a distribution system investment charge (DSIC) to provide timely recovery of capital costs incurred to enhance electric and gas distribution systems. The DSIC will be updated quarterly. The PUC approved a DSIC for PECO's natural gas delivery business in September 2015. However, the company did not request an initial revenue requirement associated with the DSIC. The new legislation also allows traditional rate filings to include fully forecasted test years, further reducing regulatory lag.

Pending Rate Case: The parties to PECO's pending rate case filed a settlement agreement with the PUC in September 2015 that if approved should bolster credit metrics beginning in 2016. The settlement provides for a $127 million rate increase or about two-thirds of PECO's $190.1 million rate request. The settlement agreement also includes implementation of a DSIC for the company's electric operations, but not until eligible investments exceed the Dec. 31, 2016 levels projected by PECO.

Demand Reduction: Pennsylvania Act 129 (Act 129) requires Pennsylvania utilities to reduce electric consumption with the companies absorbing the associated revenue loss. PECO met the initial consumption reduction targets of 1% by 2011 and 3% by May 31, 2013. Act 129 also requires the installation of smart-meter technology and the implementation of time of use rates and real time price plans (See Act 129 below). Importantly, Act 129 provides a surcharge mechanism to recover the implementation costs (other than lost sales) on a timely basis.

RATING SENSITIVITIES

[Positive Rating Action: Positive rating action is not likely prior to the resolution of the Negative Rating Watch of its corporate parent Exelon Corp., which is driven by the pending merger with Pepco Holdings. Inc. and the challenging operating environment of its merchant generation subsidiary.

Negative Rating Action: An increase in parent company leverage or risk profile could adversely affect ratings. However, given that PECO's credit profile is strong within its rating level, it likely could withstand a one-notch parent downgrade.]

KEY ASSUMPTIONS

--Constructive resolution of pending rate case
--Capital structure with approximately 53% equity
--Electric sales growth of about 0.5% annually
--Capex of $1.6 billion over the 2015-2017 time period

LIQUIDITY

A $600 million committed credit facility provides ample liquidity. The credit facility supports a commercial paper program of equal size and also provides for direct borrowings. The credit facility extends to May 2019 and allows for a one-year extension. PECO also participates in a corporate money pool along with its affiliates Exelon Generation Company, LLC and Exelon Business Services Co., LLC. Parent Exelon Corp. can lend to, but not borrow from, the money pool. At June 30, 2015, PECO had no short-term borrowings and available cash of $26 million.

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Date of Relevant Rating Committee: April 28, 2015

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FitchRatings

Fitch Affirms 99 U.S. Utility, Power & Gas Companies' Ratings

Link to Fitch Ratings' Report: Fitch Affirms 99 U.S. Utility, Power & Gas Companies' Ratings (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=787888&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSUtPTlpTVjBMWVJJRVMxTkRXR0Z

Fitch Ratings-New York-01 October 2014: Fitch Ratings has affirmed 99 U.S. Utility, Power & Gas companies' ratings.

The attached worksheet 'Rating Actions' provides:

--A full list of ratings affirmed
--A hyperlink to each issuer's rating summary page at www.fitchratings.com
--Primary analyst and secondary analyst contact information

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Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

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Appalachian Power Co. senior unsecured bond/note ser R	US037735CP03	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser T	US037735CR68	Long Term Rating	Unsolicited

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Appalachian Power Co. senior unsecured bond/note	US037735BZ93	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CE55	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CG04	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser AMBC (insured: Ambac Assurance Corporation)	US037735CL98	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser AMBC (insured: Ambac Assurance Corporation)	US037735CL98	Unenhanced Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note ser P	US037735CK16	Long Term Rating	Unsolicited
Appalachian Power Co. senior unsecured bond/note	US037735CM71	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AL00	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	-	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AN65	Long Term Rating	Unsolicited
Indiana Michigan Power Co. senior unsecured bond/note	US454889AM82	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	US491386AM09	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	USU49129AA46	Long Term Rating	Unsolicited
Kentucky Power Co. senior unsecured bond/note	US491386AL26	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser K	US677415CL31	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AW15	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser M	US677415CP45	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note ser E	US677415CF62	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AS03	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AT85	Long Term Rating	Unsolicited
Ohio Power Co. senior unsecured bond/note	US199575AV32	Long Term Rating	Unsolicited
Ohio Power Co. USCP 3(a)(3) D	-	Short Term Rating	Unsolicited
Ohio Power Co. USCP 3(a)(3) D	-	Short Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BH25	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BK53	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note	US744533BL37	Long Term Rating	Unsolicited
Public Service Company of Oklahoma senior unsecured bond/note ser G	US744533BJ80	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BE12	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BG69	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BH43	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note ser F	US845437BJ09	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BK71	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BM38	Long Term Rating	Unsolicited
Southwestern Electric Power Co. senior unsecured bond/note	US845437BL54	Long Term Rating	Unsolicited

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MOODY'S
INVESTORS SERVICE

CREDIT OPINION

19 January 2016

Update

RATINGS

EXELON CORPORATION

Domicile	United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Date	31 Aug 2015
Outlook	Stable
Date	31 Aug 2015

Please see the ratings section at the end of this report for more information.

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Exelon Corporation

Diversified Utility and Merchant Power Company

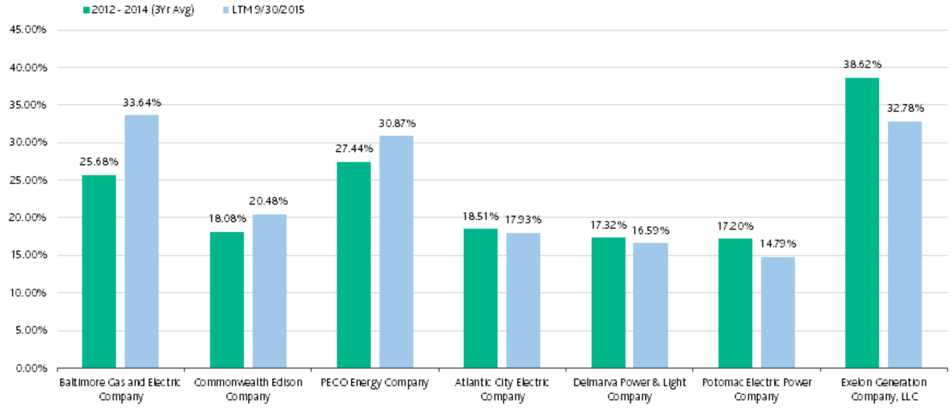
Summary Rating Rationale

Exelon Corporation's (Exelon) Baa2 senior unsecured rating reflects its diversified operations across a growing, low risk transmission and distribution (T&D) utility business and a shrinking, high risk unregulated utility and merchant power business. As a diversified power company, Exelon is well capitalized, has adequate liquidity reserves, and can generate a ratio of cash flow from operations (CFO) to debt over 20% and retained cash flow to debt in the high teen's range. Exelon's T&D utilities include PECO Energy Company (PECO: A2 stable) in Philadelphia, Baltimore Gas and Electric Company (BGE: A3 stable) in Baltimore and Commonwealth Edison Company (CWE: Baa1 positive) in Chicago. The foundation of Exelon's Baa2 rating is its stable and predictable regulated utility business, which will benefit from the acquisition of Pepco Holdings (PHI: Baa3 developing). The merger is expected to close by March 31st.

Exelon's rating is principally constrained by Exelon Generation Company LLC (ExGen: Baa2 stable), which owns a large fleet of unregulated nuclear generation assets and a retail energy marketing business. Although ExGen is conservatively capitalized, these unregulated businesses are volatile; exposed to commodity prices, such as natural gas and electricity; and face increasingly challenging market conditions.

Exhibit 1

CFO Pre-W/C to debt for Exelon's and PHI's subsidiaries



Source: Moody's Investors Service

Credit Strengths

- Acquisition of Pepco Holdings, expected to close Q1 2016, brings incremental rate base and regulatory diversity
- Utilities serve big city-systems in supportive regulatory jurisdictions
- Consolidated financial profile is strong, with relatively predictable cash flow generation and a balanced shareholder rewards program
- ExGen performing well in a challenging market environment, thanks to its large, diversified nuclear generating fleet, although nuke economics look stressed
- Adequate liquidity reserves
- Utilities serve big city-systems in supportive regulatory jurisdictions
- Consolidated financial profile is strong, with relatively predictable cash flow generation and a balanced shareholder rewards program
- ExGen performing well in a challenging market environment, thanks to its large, diversified nuclear generating fleet, although nuke economics look stressed
- Adequate liquidity reserves and balanced shareholder rewards program

Credit Challenges

- Holding company leverage is high (including PHI but excluding ExGen) which could pressure structural subordination notching relationships, if increased
- ExGen faces a prolonged period of low power prices and rising operating costs, especially across its aging nuclear fleet
- Exposure to Electricite de France (EDF: A1 negative) “put” related to selected nuclear reactors represents a liquidity risk more than a fundamental credit risk
- Once PHI acquisition is completed, some execution risks associated with delivering on regulatory commitments

Rating Outlook

Exelon's stable rating outlook reflects the stability and predictability of its large T&D utility businesses, its adequate liquidity profile and a conservatively capitalized unregulated generation business. Exelon is well positioned to generate cash flow of over $7.0 billion (pro-forma for PHI), which results in a ratio of cash flow to debt of around 18% - 20% - an important threshold for maintaining a stable rating outlook. With respect to ExGen, Exelon's stable outlook incorporates a view that ExGen's nuclear reactors will continue to operate in a safe and efficient manner, with roughly 90% capacity factors. We also think that the reactors will operate for the life of their existing, authorized NRC operating licenses and that Exelon's utilities (including PHI, assuming the transaction closes as scheduled), will continue to receive constructive and timely regulatory recovery mechanisms.

Factors that Could Lead to an Upgrade

- A material shift in its corporate finance policies, where parent holding company debt is eliminated or significantly reduced and the ratio of consolidated CFO to debt were to rise to the mid-20% range (assuming the successful completion of the PHI acquisition) for a sustained period of time
- A material derisking of the consolidated corporate family, specifically with respect to ExGen's large, merchant nuclear reactor fleet or its large commodity trading and marketing business

- Regulatory or legislative intervention into existing wholesale power markets could also lead to a rating upgrade, where structures designed to re-regulate the nuclear reactor fleet's revenue stream or cost structure create long term cash flow visibility and certainty

Factors that Could Lead to a Downgrade

- If Exelon's financial performance deteriorated for a sustained period of time, where the ratio of CFO to debt fell to the low-teen's range (assuming the successful completion of the PHI acquisition)
- If there were material shifts in shareholder rewards programs, resulting in higher leverage or an unsustainable dividend payout ratio
- A more aggressive use of parent holding company debt, where the ratio of parent holding company debt to total consolidated debt (including PHI but excluding ExGen) increases to the high-20%
- A material increase in the consolidated business risk profile, especially if it is associated with additional businesses within ExGen
- The emergence of a highly contentious regulatory environment in either Maryland or Illinois
- A major physical or cyber-related operating challenge with one or several of ExGen's nuclear reactors
- If attempts at market intervention pressured ExGen's margins or profitability, or where the financial profile was negatively impacted
- A material change in ExGen's retail market trading and marketing volatility, especially if sizeable, unexpected swings in liquidity demands arose

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Exelon Corporation

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	9/30/2015(L)
(CFO Pre-W/C + Interest) / Interest	8.5x	6.0x	4.8x	6.1x	6.3x
(CFO Pre-W/C) / Net Debt	46.2%	25.6%	26.0%	27.4%	30.2%
RCF / Net Debt	37.5%	26.1%	23.1%	23.0%	30.3%

[1] All ratios based on 'Adjusted' financial data and incorporate Mood's Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Investors Service

Detailed Rating Considerations

Large, diversified regulated utility portfolio is credit positive

Exelon's suite of regulated utilities provides a strong foundation to its consolidated credit profile. BGE, CWE and PECO are all low risk, big city T&D systems. They all receive relatively supportive and constructive regulatory treatment and enjoy the timely recovery of most operating costs and capital investments. We see Exelon's regulated utility business growing, with the acquisition of the contiguous PHI T&D utilities as a prime example.

Combined, Exelon's three T&D utilities have roughly $20 billion in rate base, and generate close to $7.0 billion in revenues and $3.4 billion in cash flow. These service territories are not growing volumes quickly, but a heavy infrastructure refurbishment program will drive higher capital expenditures for the next few years. A supportive and transparent regulatory environment across Illinois, Maryland and Pennsylvania creates good visibility in rate base growth, a material credit positive.

Closing the PHI merger

Exelon's Baa2 rating is not materially impacted by the outcome of the PHI merger. That said, we think Exelon has a lot of money and reputation tied into the process, and is looking forward to completing the transaction by March 31st. Today, we view the Public Service Commission of the District of Columbia (DC PSC) as a higher risk regulatory environment, in part because of the unexpected August denial of the merger agreement. We still incorporate a view that managing regulatory relationships is a core competency for both Exelon and PHI management, despite the unexpected result delivered in August. If the merger is completed, we think PHI benefits from Exelon's larger size, greater resources, and relief from financing its shareholder dividends. Exelon will look to squeeze operating efficiencies from a bigger asset platform.

Reliance on parent holding company debt will constrain the rating due to structural subordination notching considerations

Exelon's decision to finance a large portion of the PHI acquisition with parent holding company debt is a credit negative, because it adds complexity to the capital structure, and raises an opportunity cost to not finance at the holding company in the future. Prior to the PHI merger, Exelon was reducing its parent holding company debt, mostly by transferring or refinancing holding company debt to ExGen. From a credit perspective, a parent holding company with little to no debt is credit positive because it provides some incremental financial flexibility.

Looking at Exelon's consolidated debt at its various levels, i.e., parent holding company, regulated utilities and ExGen is an additional component to our credit assessment, particularly given the increase in M&A activity in the sector and willingness to increase consolidated leverage. In light of Exelon's revised corporate finance policies, which looks to use parent holding company debt as a source of financing for the expansion of its regulated utility business segment, we expect to refine our analysis as additional insights regarding the use of holding company debt are provided. This could be challenging, since cash is fungible and parent holding company debt is not necessarily tied directly to a given subsidiary.

We expect to see roughly $18 billion of debt at Exelon's T&D utilities after the PHI acquisition, another roughly $8 billion at the parent holding company and $12 billion at ExGen. With the utilities producing roughly $4 billion in CFO, we see a ratio of utility CFO to utility debt at 22%, which translates to a low-A rating for low risk T&D utilities in supportive regulatory jurisdictions. This implied low-A rating for the T&D utilities would imply a 2-notch rating differential from the current Baa2 consolidated parent rating.

In our illustrative example, we also look at the $4 billion in utility CFO but add another $8 billion to the debt. This would result in a ratio of utility CFO to utility debt + holdco debt of roughly 15%, which is more characteristic of a Baa2 rating for low risk T&D utilities. Continuing with this example, the percentage of holding company debt to utility and holding company debt would be around 30%. When compared to selected peers, a 30% holding company debt level is usually associated with a 2-notch rating differential between the parent and the subsidiaries. A materially higher ratio of holding company debt would be more indicative of a 3-notch rating differential.

If we include the $12 billion of ExGen debt into our illustration, the ratio of utility CFO to total consolidated debt would fall to roughly 10% ($4 billion of utility CFO divided by $38 billion of total consolidated debt). This illustrative example assumes zero contribution from ExGen, an extreme and unlikely scenario. Nevertheless, the ratio of holding company debt to total consolidated debt would fall to 20%, which is typically associated with only a 1-notch rating differential for structural subordination.

ExGen performing well thanks to nuclear fleet

ExGen's cash flow generation is more volatile than its regulated utility affiliates. For example, ExGen's CFO fell to $1.8 billion in 2014 from $3.9 billion in 2013, largely due to a negative working capital use associated with its hedging program. For the twelve months ended September 2015, CFO rose back to $3.2 billion. This volatility, a material credit negative, was impacted primarily by the retail trading and marketing business. However, we note that ExGen keeps a significant amount of liquidity availabile to absorb these short-term swings.

Fundamentally, we see an extended period of low natural gas prices and rising operating costs for the nuclear fleet. Low natural gas prices usually keep a lid on power prices, which limits ExGen's ability to produce cash flow.

Despite the challenging market fundamentals, we see incremental transparency in forward power prices with respect to capacity payments in the Pennsylvania-New Jersey-Maryland (PJM) market. Given the most recent PJM capacity price auction, we estimate close to $1.0 billion in annual capacity payments accruing to ExGen's benefit, this equates to roughly $6.5/Mwh if the nuclear fleet continues to generate roughly 150 TWh's. Although we don't see capacity payments as a key driver of the financials, over the next few years, ExGen's capacity payments alone will represent about 7% - 8% coverage of ExGen's debt. That said, the improved capacity prices were both directly and indirectly impacted by recent rule changes and amendments implemented by the PJM, and these rules can change again.

In addition to low natural gas prices and an improving capacity market, we also see higher power prices over the next few years due to the EPA's recently announced Clean Power Plan (CPP). In general, we think the CPP is favorable to nuclear powered electric generation, because nuclear generation does not produce any material carbon dioxide emissions.

EDF put option viewed a liquidity event

We see debt at ExGen rising, in part due to its exposure to Electricitie de France's (EDF: A1 negative) option to “put” its interests in Constellation Energy Nuclear Group, LLC (CENG) back to ExGen staring on 1 January 2016. The put option expires on 31 December 2022, so EDF has plenty of time to evaluate its various options. Importantly, we think the relationship between both EXC and EDF is healthy and professional, and we do not see any contentiousness in the relationship at this time.

CENG includes minority ownership interests in roughly 3,400 MW's of nuclear generation capacity, including Ginna, Fitzpatrick and Nine Mile Point in New York and Calvert Cliffs in Maryland. Combined, these reactors generated over 34 GWh's of electricity in 2014. Based on publicly available information, we estimate fuel, non-fuel variable and fixed operating costs of roughly $25 per MWh. This excludes capital costs and depreciation. As a result, we see more profits in PJM markets than in NY.

From a liquidity perspective, we assume the value of the put (to EDF from EXC) might be somewhere in a range between $250 million and $2.0 billion. Our illustrative values capture a wide disparity of outcomes on purpose. In our opinion, the put is not a material credit event, but instead represents a demand on liquidity. Because EXC is aware of the existence of the put option, and management is presumably in discussions with EDF about how best to value the option, we do not think EDF exercising the option will be a surprise to EXC.

From a credit perspective, we see the EDF put as a known risk factor, and incorporate a view that ExGen has ample liquidity resources and has prepared for the possibility that the put is exercised. We also incorporate a view that high put valuations will benefit ExGen's remaining fleet. Any signs of improving market conditions, in terms of the EPA's Clean Power Plan or higher sustained PJM capacity prices, will increase the value of the put option in favor of EDF.

Maintaining a strong financial profile will be key to credit

In 2014 and 2013, Exelon generated a ratio of funds from operations to debt of approximately 25%. This is down materially from the 40% ratio generated in 2010 and 2011 and the 30% ratio generated in 2012. It should be noted that during this time, Exelon acquired Constellation Energy, and its debt increased from roughly $17 billion (in 2010 - 2011) to today's roughly $30 billion range. Including another $8 to 9 billion in debt for PHI's utility subsidiaries and parent holding company will increase total pro-forma consolidated debt closer to the $40 billion range.

As a result, maintaining a ratio of CFO to debt near the 18% - 20% range means Exelon will generate CFO of roughly $7.0 to $8.0 billion. Assuming the T&D utilities (including PHI) could sustain the roughly $4.0 billion in CFO generation that they achieved for the twelve months ended September 2015, this means ExGen will need to contribute roughly $3.0 to $4.0 billion in CFO. Assuming ExGen can continue to generate and sell at least 150 terawatt-hours (TWH's) of power from its nuclear fleet, this equates to roughly $20- - $25 / MWh in CFO.

Liquidity Analysis

As of September 30, 2015, Exelon's liquidity arrangements totaled $8.5 billion. Approximately $6.3 billion supports its unregulated business platform, including $500 million at Exelon and nearly $5.8 billion directly at ExGen. The regulated businesses have access to $2.2 billion of liquidity, $600 million at PECO, $600 million at BGE and $1 billion at CWE. The Exelon, PECO, BG&E and most of the ExGen facilities expire in May 2019. The CWE facility expires March 2019.

At September 30, Exelon and ExGen had about $625 million in letters of credit and no commercial paper outstanding, leaving availability of about $5.7 billion for the unregulated business. As of June 30, 2015, these draws amounted to $1.5 billion.

Exelon's core syndicated credit facilities are used primarily to provide liquidity support and for the issuance of letters of credit. While the credit agreements do not contain any rating triggers that would affect borrowing access to the commitments and do not require material adverse change (MAC) representation for borrowings or the issuance of LOCs, there is a financial covenant for each entity; all of which were compliant.

At CWE, commercial paper outstanding totaled $604 million and there were $2 million in letters of credit outstanding, leaving approximately $395 million of availability under its credit facility. As of June 30, 2015, CWE's commercial paper outstanding totaled $503 million and there were $2 million in letters of credit outstanding, leaving approximately $495 million of availability under its credit facility.

At BGE, there was $50 million commercial paper and no letters of credit outstanding, respectively, leaving $550 million of availability under its credit facility. As of June 30, 2015, BGE had no commercial paper or letters of credit outstanding, respectively, leaving $600 million of availability under its credit facility

At PECO, there were $1 million in letters of credit and no outstanding commercial paper borrowings, leaving $599 million of availability under its credit facility. As of June 30, 2015, PECO had no letters of credit outstanding and $1 million in outstanding commercial paper borrowings, leaving $599 million of availability under its credit facility.

As of the last reporting period (September 30, 2015), in the event that ExGen were downgraded below investment grade, ExGen could be required to post additional collateral of $2.1 billion. If PECO, BGE or CWE were downgraded to below investment grade, they would have been required to post $18 million $34 million, and $17 million, respectively, of additional collateral.

As of June 30, 2015, in the event that ExGen were downgraded below investment grade, ExGen could be required to post additional collateral of $2.2 billion. If PECO, BGE or CWE were downgraded to below investment grade, they would have been required to post $20 million $35 million, and $8 million, respectively, of additional collateral.

On January 9, 2013, the US Court of Appeals reached a decision for the government in a lawsuit involving Consolidated Edison`s (ConEd's) participation in a lease-in, lease-out (LILO) transaction that the IRS also has characterized as a tax shelter, and disallowed ConEd's deductions stemming from its participation in this investment. CWE deferred the $1.2 billion of gain on the 1999 sale of its fossil generating facilities by acquiring like-kind property via a purchase leaseback transaction. The IRS has asserted that the Exelon purchase leaseback transaction is substantially similar to a leasing transaction known as a sale-in, lease-out transaction (SILO). Exelon believes that its like-kind exchange transaction is not the same as or substantially similar to a SILO.

In the first quarter of 2013, Exelon recorded a non-cash charge to earnings of approximately $265 million, which represents the full amount of interest expense (after-tax) and incremental state tax expense in the event that Exelon is unsuccessful in its litigation efforts. Approximately $170 million of the amount was recorded at CWE.

Exelon expects to hold CWE harmless from any unfavorable impacts of the after-tax interest amounts on CWE's equity. In the event of a fully successful IRS challenge to Exelon's like-kind exchange position, the potential tax and after-tax interest, exclusive of penalties, that could become payable as of September 30, 2015 may be as much as $560 million, of which approximately $165 million would be attributable to CWE and the remainder to Exelon.

Structural Considerations

Separating Exelon's debt between its parent holding company, its utilities and ExGen is a component to our credit assessment. In light of Exelon's revised corporate finance policies, which looks to use parent holding company debt as a source of financing for its regulated utilities, but not its unregulated ExGen, we expect to refine our analysis as additional facts regarding the use of holding company debt are provided. This could be challenging, since cash is fungible and parent holding company debt is not necessarily tied directly to a given subsidiary.

Profile

Exelon Corporation (Exelon: Baa2 stable) is a large diversified US holding company that owns three regulated transmission and distribution utilities and a large unregulated power company. It's three regulated transmission and distribution (T&D) utilities include: PECO Energy Company (PECO: A2 stable), Baltimore Gas and Electric Company (BGE: A3 stable) and Commonwealth Edison Company (CWE: Baa1 positive). PECO is regulated by the Pennsylvania Public Utility Commission (PAPUC), BGE is regulated by the Maryland Public Service Commission (MPSC) and CWE is regulated by the Illinois Commerce Commission (ICC). All three utilities are also regulated by the Federal Energy Regulatory Commission (FERC).

Exelon also owns Exelon Generation Company, LLC (ExGen: Baa2 stable), one of the largest competitive electric generation companies globally as measured by owned and controlled megawatts (MW),with net capacity of approximately 32 GW's. ExGen is regulated by the Federal Energy Regulatory Commission (FERC) and by the Nuclear Regulatory Commission (NRC).

In May 2014, Exelon agreed to acquire Pepco Holdings. The acquisition is expected to close no later than March 31, 2015.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Exelon Corporation				
Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	**Current LTM 9/30/2015**		**Moody's 12-18 Month Forward View As of date published [3]**	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	Aa	Aa	Aa	Aa
Factor 2 : Business Profile (40%)				
a) Market Diversification	A	A	A	A
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	Baa	Baa	Baa	Baa
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability	A	A	A	A
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	5.7x	Baa	5.7x - 6.2x	Baa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	27.2%	Baa	23% - 28%	Baa
c) RCF / Net Debt (3 Year Avg)	25.6%	A	18% - 23%	Baa
b) (CFO Pre-W/C) / Debt (3 Year Avg)		NA		
c) RCF / Debt (3 Year Avg)		NA		
Rating:				
a) Indicated Rating from Grid		A3		Baa1
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios based on 'Adjusted' financial data and incorporate Mood's Global Standard Adjustments for Non-Financial Corporations
[2] As of 9/30/2015(L)
[3] This represents Moody's forward view; not view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Investors Service

If the acquisition of PHI is completed, we would consider moving Exelon into our Global Regulated Electric and Gas Utilities rating methodology (published in December 2013) and out from the Unregulated Utilities and Power Companies rating methodology (published in November 2014).

PHI helps shift Exelon's consolidated mix of regulated and unregulated business activities to approximately 60% regulated from roughly 50% today and diversifies its jurisdictional exposure to include New Jersey, Delaware and the District of Columbia. We viewed PHI's $8 billion additional regulated rate base to Exelon's $20 billion as a credit positive for the corporate family.

Absent the PHI transaction, we would likely keep Exelon under the Unregulated Utilities and Power Company rating methodology, but for analytical purposes, will continue to view Exelon under both methodologies, given the strategic focus on regulated assets.

Ratings

Exhibit 4

Category	Moody's Rating
EXELON CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
EXELON GENERATION COMPANY, LLC	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
COMMONWEALTH EDISON COMPANY	
Outlook	Positive
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
PECO ENERGY COMPANY	
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	Aa3
Senior Secured Shelf	(P)Aa3
Sr Unsec Bank Credit Facility	A2
Pref. Stock	Baa1
Commercial Paper	P-1
BALTIMORE GAS AND ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
Senior Secured Shelf	(P)A1
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Preference Stock	Baa2
Commercial Paper	P-2
PECO ENERGY CAPITAL TRUST IV	
Outlook	Stable
BACKED Pref. Stock	A3
CONSTELLATION ENERGY GROUP, INC.	
Outlook	No Outlook
Bkd Senior Unsecured	Baa2
BGE CAPITAL TRUST II	
Outlook	Stable
BACKED Pref. Stock	Baa1
COMED FINANCING III	

Outlook	Stable
BACKED Pref. Stock	Baa2
PECO ENERGY CAPITAL TRUST III	
Outlook	Stable
BACKED Pref. Stock	A3
EXELON CAPITAL TRUST I	
Outlook	Stable
BACKED Pref. Shelf	(P)Baa3
EXELON CAPITAL TRUST II	
Outlook	Stable
BACKED Pref. Shelf	(P)Baa3
EXELON CAPITAL TRUST III	
Outlook	Stable
BACKED Pref. Shelf	(P)Baa3

Source: Moody's Investors Service

Recent Developments

On 25 August 2015, the Public Service Commission of the District of Columbia (DC PSC) rejected the merger application between Exelon and PHI. On 6 October 2015, Exelon and PHI reached a settlement with the Office of the Mayor of the District of Columbia, the District's People's Counsel, the US Attorney of the District of Columbia and other stakeholders regarding the proposed merger. Along with the settlement, the merger agreement, which was originally set to expire on 29 October 2015, gets a 150-day extension until early March 2016. The settlement is credit positive for both Exelon and PHI because it puts the proposed merger back on track, with an aim to close in early March 2016. For now, we still assign a 50%-50% probability that the transaction will close. PHI's developing outlook will most likely be resolved when the transaction is completed, or when the merger agreement expires.

REPORT NUMBER 1011749

INFRASTRUCTURE AND PROJECT FINANCE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION

20 January 2017

Update

RATINGS

Exelon Corporation

Domicile	United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Exelon Corporation

Diversified Utility and Merchant Power Company

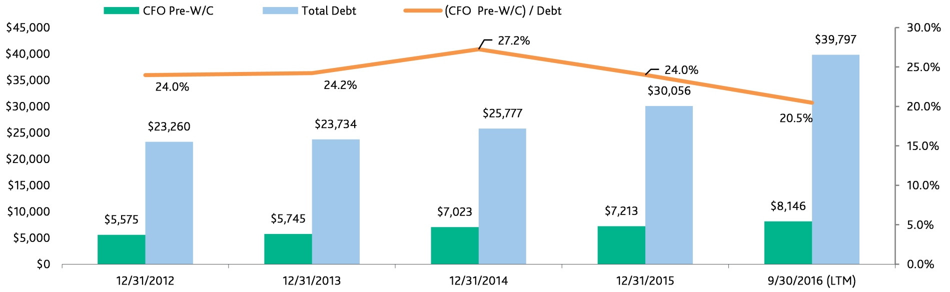
Summary Rating Rationale

Exelon Corporation's (Exelon) Baa2 senior unsecured rating reflects its size, regional diversity, and strong financial profile. Exelon's credit strength comes from its roughly $30 billion in regulated rate base. The rate base consists of regulated transmission and distribution (T&D) utilities and is diversified across Illinois, Maryland, Pennsylvania, New Jersey, Delaware and the District of Columbia.

Exelon's rating is principally constrained by its higher-risk unregulated utility and merchant power subsidiary, Exelon Generation Company LLC (ExGen: Baa2 stable). ExGen owns a large fleet of unregulated nuclear generation facilities and a retail energy trading and marketing business. These unregulated businesses are vastly more volatile compared to their regulated T&D businesses . Moreover, nuclear generation faces a sustained period of challenging conditions because of the competition from low natural gas prices due to shale gas development. As a diversified power company, Exelon is well capitalized, has adequate liquidity reserves, and is expected to generate a ratio of cash flow from operations (CFO) to debt around 20%. Retained cash flow (RCF) to debt is expected to remain in the mid-to-high teen's range.

Exhibit 1

Ratio of CFO pre-WC to Debt Historical Trend



Source: Moody's Investors Service

Credit Strengths

- Large and growing rate base
- Adequate financial profile
- Strong nuclear operator
- Adequate liquidity reserves

Credit Challenges

- Stiff competition from cheap natural gas
- High risk associated with unregulated generation and retail business
- High leverage at the holding company

Rating Outlook

Exelon's stable rating outlook primarily reflects the stability and predictability of its large T&D utility businesses, its adequate liquidity profile and a conservatively capitalized unregulated generation business. Exelon is well positioned to generate a ratio of CFO to debt of around 18% - 20%, an important threshold for maintaining a stable rating outlook, given the weak business fundamentals at ExGen. The stable outlook incorporates a view that ExGen's nuclear reactors will continue to operate in a safe and efficient manner, with roughly 90% capacity factors. We also think that the reactors will operate for the life of their existing, authorized Nuclear Regulatory Commission (NRC) operating licenses and that Exelon's utilities will continue to receive constructive and timely regulatory recovery mechanisms.

Factors that Could Lead to an Upgrade

- A material shift in its corporate finance policies, including the elimination of parent holding company debt and the sustained production of a ratio of CFO to debt in the mid-20% range
- A material de-risking across the corporate family, specifically with respect to ExGen's large, merchant nuclear reactor fleet or its large commodity trading and marketing business

Factors that Could Lead to a Downgrade

- If Exelon's financial performance deteriorated for a sustained period of time, where the ratio of CFO to debt fell to the low-teen's range
- Material shifts in shareholder rewards programs, resulting in higher leverage or an unsustainable dividend payout ratio or more aggressive use of parent holding company debt, where the ratio of parent holding company debt to total consolidated debt increases to the high-20% range
- A material increase in the consolidated business risk profile, especially if it is associated with additional businesses within ExGen
- The emergence of a highly contentious regulatory environment in either Maryland or Illinois
- Other event-like risks include: a major physical or cyber-related operating challenge with one or several of ExGen's nuclear reactors; attempts at market intervention pressured ExGen's margins or profitability, or where the financial profile was negatively impacted; material changes in ExGen's retail market trading and marketing volatility, especially if sizeable, unexpected swings in liquidity demands resulted

Key Indicators

Exhibit 2

	9/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	5.9x	6.8x	6.5x	4.8x	6.0x
CFO pre-WC / Debt	20.5%	24.0%	27.2%	24.2%	24.0%
CFO pre-WC – Dividends / Debt	17.5%	20.3%	21.5%	18.9%	16.5%
Debt / Capitalization	46.5%	42.1%	41.0%	39.9%	41.0%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service

Detailed Rating Considerations

Large, diversified regulated utility portfolio is foundation to credit profile

Exelon's suite of regulated utilities provides a strong foundation to its consolidated credit profile. Baltimore Gas and Electric Company (BGE: A3 stable), Commonwealth Edison Company (CWE: Baa1 positive), PECO Energy Company (PECO: A2 stable), Potomac Electric Power Company (Pepco: Baa1 stable), Delmarva Power & Light Company (DPL Baa1 stable), and Atlantic City Electric Company (ACE: Baa2 stable) are all low risk T&D systems which receive supportive and constructive regulatory treatment in their jurisdictions. We see Exelon's regulated utility business growing in strategic importance across the Exelon corporate family.

Subsidy for nuclear generation is a credit positive

In late 2016, New York and Illinois approved subsidy programs that will support some of Exelon's struggling nuclear plants that might otherwise shutdown. If these subsidy programs survive legal challenges from non-nuclear generators, we estimate that the company will likely receive over $500 million a year of additional revenue on a run rate basis and $200 million improvement to its after-tax cash flows compared to retiring these units. Based on $12.5 billion of Moody's adjusted debt balance, $200 million of additional after-tax cash flow would bolster Ex-Gen's CFO to debt by about 160 basis points. ExGen could receive additional cash support if other states such as New Jersey and Pennsylvania adopt similar subsidy programs. However, it is highly uncertain at this point if New Jersey and Pennsylvania would adopt similar programs because the legislative or the regulatory process required can be long and difficult, especially when the risk of plant closure is not imminent.

Parent holding company debt constrains rating due to structural subordination notching considerations

Exelon's decision to finance a large portion of the PHI acquisition with parent holding company debt is a credit negative, because it adds complexity to the capital structure. Prior to the PHI merger, Exelon was reducing its parent holding company debt, mostly by transferring or refinancing holding company debt to ExGen. More recently, Exelon is exhibiting a willingness to use parent holding company leverage to help ExGen, a credit negative for both Exelon and its regulated T&D utilities.

Prospectively, we see roughly $20 billion of debt across Exelon's T&D utilities, $12 billion at ExGen and roughly $8 billion at the parent holding company. With the utilities producing roughly $4 billion in CFO, the ratio of utility CFO to utility debt should hover near the 20% range. This level generally translates to a low-A rating for low risk T&D utilities in supportive regulatory jurisdictions. This would imply an approximate 2-notch rating differential from Exelon's current Baa2 consolidated parent rating and the average implied rating across its T&D utilities.

As a comparative illustration, Exelon's ratio of CFO to debt would fall to the 15% range if we included the $8 billion in holding company debt with the $20 billion of utility debt (and only looked to the utility's $4 billion in CFO). The 15% range is more characteristic of a Baa2 rating for low risk T&D utilities, but our example excludes any affects from ExGen. In a downside scenario, Exelon's ratio of CFO to debt would fall to the 10% range if we include ExGen's $12 billion of debt, but only look to the utility's $4 billion in CFO. The ratio of holding company debt to total consolidated debt is almost 30% if we exclude ExGen's debt from the denominator. But the ratio would fall to about 22% if we added ExGen's debt in the denominator. A ratio of holding company debt to total consolidated debt in the 20-25% range (or below) is typically associated with only a 1-notch rating differential for structural subordination.

Maintaining a strong financial profile will be key to credit

Maintaining a ratio of CFO to debt near the 18% - 20% range will keep Exelon well positioned within its rating category. This means Exelon will generate CFO of roughly $7.0 to $8.0 billion. Assuming the T&D utilities generate roughly $4.0 billion in CFO, ExGen will need to contribute the remaining $3.0 to $4.0 billion.

Liquidity Analysis

As of September 30, 2016, Exelon's liquidity arrangements totaled $9.5 billion. Approximately $6.4 billion supports its unregulated business platform, including $5.8 billion at ExGen. The regulated businesses have access to $3.1 billion of liquidity, including: $600 million at PECO, $600 million at BGE, $1 billion at CWE, and$300 million each at Pepco, DPL and ACE. All of the facilities expire in May 2021.

At September 30, ExGen had about $1.6 billion in letters of credit and no commercial paper outstanding, leaving availability of about $4.0 billion for the unregulated business.

Exelon's core syndicated credit facilities are used primarily to provide liquidity support and for the issuance of letters of credit. While the credit agreements do not contain any rating triggers that would affect borrowing access to the commitments and do not require material adverse change (MAC) representation for borrowings or the issuance of LOCs, there is a financial covenant for each borrowing entity - all of whom were compliant.

At CWE, commercial paper outstanding totaled $10 million and there were $2 million in letters of credit outstanding, leaving approximately $988 million of availability under its credit facility. In comparison, as of March 31, 2016, CWE's commercial paper outstanding totaled $643million (with $2 million in letters of credit outstanding).

At BGE, there was no commercial paper or letters of credit outstanding, leaving the full $600 million available under its credit facility. Again, by way comparison, as of March 31, 2016, BGE had $150 million in commercial paper (and no letters of credit) outstanding.

At PECO, there were $2 million in letters of credit issued and no outstanding commercial paper borrowings.

At DPL, there were no letters of credit and $17 million in outstanding commercial paper borrowings, leaving $283 million of availability under its credit facility. At both Pepco and ACE there were no letters of credit and only $1 million in outstanding commercial paper borrowings leaving $300 million and $299 million of availability under each credit facility respectively.

As of the last reporting period (September 30, 2016), in the event that ExGen were downgraded below investment grade, ExGen could be required to post additional collateral of $1.9 billion.

Back on December 31, 2015, ExGen below investment grade collateral posting requirement was $2.0 billion.

On January 9, 2013, the US Court of Appeals reached a decision for the government in a lawsuit involving Consolidated Edison`s (ConEd's) participation in a lease-in, lease-out (LILO) transaction that the IRS also has characterized as a tax shelter, and disallowed ConEd's deductions stemming from its participation in this investment. CWE deferred the $1.2 billion of gain on the 1999 sale of its fossil generating facilities by acquiring like-kind property via a purchase leaseback transaction. The IRS has asserted that the Exelon purchase leaseback transaction is substantially similar to a leasing transaction known as a sale-in, lease-out transaction (SILO). Exelon believes that its like-kind exchange transaction is not the same as or substantially similar to a SILO.

In the first quarter of 2013, Exelon recorded a non-cash charge to earnings of approximately $265 million, which represents the full amount of interest expense (after-tax) and incremental state tax expense in the event that Exelon is unsuccessful in its litigation efforts. Approximately $170 million of the amount was recorded at CWE.

On 19 September 2016, the US Tax Court ruled that Exelon was not entitled to defer tax on the transaction. The potential tax and after-tax interest that could become payable is approximately $870 million, of which approximately $300 million would be attributable to CWE and the remainder to Exelon. In addition, the court ruled that Exelon is liable for accuracy-related penalties totaling $190 million. In order to appeal the decision, Exelon would be required to either post a bond or pay the tax, penalties and interest for the tax years before the court.

Structural Considerations

Separating Exelon's debt between its parent holding company, its utilities and ExGen is a component to our credit assessment. In light of Exelon's revised corporate finance policies, we are incorporating a view that looks to Exelon's parent holding company debt as a source of financing for its regulated utilities, but not its unregulated ExGen. However, Exelon might use parent holding company debt to also finance ExGen. This could impact the relationship between the parent and its unregulated subsidiary, ExGen, but could also impact its regulated T&D utility subsidiaries.

Profile

Exelon Corporation is a large diversified US holding company that owns six regulated transmission and distribution utilities and a large unregulated power company.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Exelon Corporation				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 9/30/2016**		**Moody's 12-18 Month Forward View As of Date Published[3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.3x	Aa	4.7x - 5.2x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.8%	A	16% - 21%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.0%	A	13% - 18%	Baa
d) Debt / Capitalization (3 Year Avg)	43.5%	A	40% - 45%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		Baa1
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		Baa1		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 9/30/2016(L); Source: Moody's Financial Metrics™
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
EXELON CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
EXELON GENERATION COMPANY, LLC	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
COMMONWEALTH EDISON COMPANY	
Outlook	Positive
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
PECO ENERGY COMPANY	
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	Aa3
Senior Secured Shelf	(P)Aa3
Sr Unsec Bank Credit Facility	A2
Pref. Stock	Baa1
Commercial Paper	P-1
BALTIMORE GAS AND ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
Senior Secured Shelf	(P)A1
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Pref. Shelf	(P)Baa2
Commercial Paper	P-2
POTOMAC ELECTRIC POWER COMPANY	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Commercial Paper	P-2
DELMARVA POWER & LIGHT COMPANY	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Unsecured	Baa1
Commercial Paper	P-2
ATLANTIC CITY ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Commercial Paper	P-2
CONSTELLATION ENERGY GROUP, INC.	

Outlook	No Outlook
Bkd Senior Unsecured	Baa2
PEPCO HOLDINGS, LLC	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Commercial Paper	P-2
BGE CAPITAL TRUST II	
Outlook	Stable
BACKED Pref. Stock	Baa1
COMED FINANCING III	
Outlook	Stable
BACKED Pref. Stock	Baa2
PECO ENERGY CAPITAL TRUST IV	
Outlook	Stable
BACKED Pref. Stock	A3
PECO ENERGY CAPITAL TRUST III	
Outlook	Stable
BACKED Pref. Stock	A3

Source: Moody's Investors Service

REPORT NUMBER 1055759

MOODY'S
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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Exelon's T&D utilities; rating outlooks stable

Global Credit Research - 30 Jan 2014

Approximately $9 Billion of Debt Affected

New York, January 30, 2014 -- Moody's Investors Service today upgraded the senior unsecured ratings of Baltimore Gas & Electric Company (BGE) to A3 from Baa1, Commonwealth Edison Company (CWE) to Baa1 from Baa2, and PECO Energy Company (PECO) to A2 from A3. Moody's also upgraded the short-term rating at PECO to Prime 1 from Prime 2. This rating action completes our review of BGE, CWE and PECO initiated on November 8, 2013. The outlooks for BGE, CWE and PECO are stable.

"Exelon's three electric transmission and distribution utilities are financially secure and operate under supportive regulatory environments in Maryland, Illinois and Pennsylvania. All three jurisdictions provide a good suite of timely cost recovery mechanisms." said Jim Hempstead, Associate Managing Director.

RATINGS RATIONALE

The primary driver of today's rating action was Moody's more favorable view of the relative credit supportiveness of the US regulatory environment, as detailed in our September 2013 Request for Comment titled "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."

The rating upgrades for BGE and CWE reflect the improved regulatory frameworks in Maryland and Illinois, where formulaic or forward looking recovery mechanisms, rate riders or other single-issue special purpose trackers exist. The upgrade for PECO reflects the continued supportive regulatory framework in Pennsylvania. All three utilities benefit from a reasonably transparent regulatory framework.

"Evidence of supportive regulatory decisions can be found in recent rate orders in Maryland and Illinois," added Hempstead "states where the utilities were often a party in more contentious proceedings."

In Maryland, BGE's upgrade reflects the existence of a more constructive political and regulatory environment. The merger conditions, which included a 3-year share-holder dividend holiday, also help lay the foundation to a more constructive relationship. Over the next 3-5 years, BGE's ratio of cash flow to debt is expected to remain in the high-teen's range. Next year, in 2015, shareholder dividends will recommence with a 70% payout range.

In December, BGE received a rate increase of about $46 million with an authorized return on equity of 9.6% for the gas distribution business and an authorized return on equity of 9.75% for the electric business. BGE also received a small infrastructure tracker.

In Illinois, Commonwealth Edison's upgrade reflects a more constructive political and regulatory environment, which will provide greater predictability. Recent legislations, Energy Infrastructure and Modernization Act (EIMA) and Senate Bill 9, established a framework to adopt more formulaic cost recovery mechanisms. In the formula's first material regulatory proceeding, CWE was authorized a revenue increase of $341 million, as compared to the $353 million request. The small difference appears to indicate that the utility and commission have a shared understanding of how utilities should apply for cost recovery for these types of distribution investments, a credit positive.

In fact, CWE's suite of recovery mechanisms, taken as a whole, actually look better than both BGE and PECO. The rating is one-notch lower than BGE and two-notches lower than PECO because the regulatory lag in Illinois had been running almost twice as long as that of Maryland and Pennsylvania. Nonetheless, allowed returns are on par with the broader peer groups of T&D utilities as well as with vertically integrated electrics that do not operate in states that legislatively enacted the unbundling of the traditional electric utility framework.

In Pennsylvania, PECO operates with a good suite of recovery mechanisms and riders. These include recovery for fuel and purchased power, and investments for generation, environmental and natural gas T&D infrastructure, among others. PECO is not expected to file for a revenue increase for a few years.

RATING OUTLOOK

The rating outlook for all three utilities is stable. BGE, CWE and PECO own and operate critical infrastructure around the greater Baltimore, Chicago and Philadelphia metro-regions, respectively. In all three states, Moody's expects regulators and politicians to provide a reasonably supportive and constructive framework for the utilities to pursue, submit and ultimately receive authorization to recover the vast majority of their prudently incurred costs and investments. The financial profile for the three T&D utilities is strong, and cash flows (combined for all three utilities) should grow to roughly $2.8 -- $3.0 billion over the next 3 years. Assuming the three utilities can keep their total debt outstanding near $15 billion, the ratio of CFO to debt should remain in the high-teen's range over the next five years.

WHAT COULD CHANGE RATING -- UP

All three utilities could be upgraded as the new formulaic rate setting framework and other positive legislative intervention (such as the Illinois EIMA law) starts to build a track record. It will take a few years to fully understand the credit impacts associated with new trackers and recovery mechanisms as they experience different economic and financial cycles. For now, we incorporate a view that the regulatory environment will remain supportive for at least the next 2 -- 3 years, and that the suite of recovery mechanisms will not be materially diminished.

WHAT COULD CHANGE RATING -- DOWN

All three utilities could be downgraded if the ratio of cash flow to debt fell below the 15% threshold for a sustained period of time, especially if the decline was in cash flow and associated with an unexpected regulatory or political intervention. Mis-managing liquidity or an unbalanced shareholder rewards policy, where the dividend payout ratio was near 100%, could also create negative rating pressure. At this point, the biggest credit rating exposure appears to reside in the three utility's relationship with their unregulated affiliate, Exelon Generation.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

LIST OF RATING CHANGES

Ratings Upgraded

Commonwealth Edison Company

Long-term Issuer Rating -- Baa1 from Baa2

Senior Secured Rating -- A2 from A3

Senior Unsecured Rating -- Baa1 from Baa2

Senior Unsecured Shelf Rating -- (P)Baa1 from (P)Baa2

Preferred Shelf Rating -- (P)Baa3 from (P)Ba1

Outlook -- Stable

Baltimore Gas & Electric

Long-term Issuer Rating -- A3 from Baa1

Senior Unsecured Rating -- A3 from Baa1

Senior Secured Shelf Rating -- (P)A1 from (P)A2

Senior Unsecured Shelf Rating -- (P)A3 from (P)Baa1

Preferred Shelf Rating -- (P)Baa2 from (P)Baa3

Outlook -- Stable

PECO Energy Company

Long-term Issuer Rating -- A2 from A3

Senior Secured Rating -- Aa3 from A1

Senior Unsecured Rating -- A2 from A3

Preferred Stock Rating -- Baa1 from Baa2

Senior Secured Shelf Rating -- (P)Aa3 from (P)A1

Subordinated Shelf Rating -- (P)A3 from (P)Baa1

Preferred Shelf Rating -- (P)Baa1 from (P)Baa2

Commercial Paper Rating -- Prime 1 from Prime 2

Outlook -- Stable

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Exelon at Baa2; Downgrades Exelon Generation to Baa2; Outlook stable

Global Credit Research - 07 Feb 2013

Approximately $7.9 Billion of Debt Securities Affected

New York, February 07, 2013 -- Moody's Investors Service affirmed the ratings of Exelon Corporation (Exelon), including its Issuer Rating and all of its senior unsecured debt at Baa2, while also downgrading the senior unsecured and Issuer rating of Exelon Generation Company, LLC (ExGen) to Baa2 from Baa1. Both Exelon's and ExGen's short-term rating for commercial paper is affirmed at Prime-2. The rating outlook for both Exelon and ExGen is changed to stable from negative. Similarly, the rating outlook for Exelon Capital Trust I, Exelon Capital Trust II, and Exelon Capital Trust III is changed to stable from negative. The ratings of Exelon subsidiaries PECO Energy Company (PECO: A3 stable), Baltimore Gas and Electric Company (BG&E: Baa1 stable) and Commonwealth Edison Company (CWE: Baa2 stable) are unaffected by today's rating announcement.

"The rating action follows today's announcement that Exelon will reduce its common dividend by 40%, enhancing annual retained and free cash flow by more than $700 million, which collectively helps to stabilize long-term credit quality at Exelon and ExGen," said A.J. Sabatelle, Senior Vice President at Moody's. "While the Exelon dividend cut and previously announced deferrals of growth capital investment will reduce near-term cash flow pressure at subsidiary ExGen, the one-notch downgrade at ExGen incorporates our expectation for sustained weak market fundamentals across the unregulated power sector which we believe are likely to result in ExGen's credit profile moving to a mid-Baa rating category during the next three years."

RATINGS RATIONALE

The rating affirmation at Exelon incorporates the long-term stability to the company's consolidated credit quality that should emerge from the 40% reduction to the common dividend which collectively enhances internal cash flow by approximately $720 million on a annualized basis. The rating affirmation acknowledges that the revised dividend policy is better aligned with Exelon's hybrid business strategy where the rate regulated businesses provide dividends equal to 65-70% of sustainable utility earnings and the commodity unregulated business provides over time a payout ratio closer to 30% of sustained unregulated net income. The rating affirmation further recognizes current plans to move Exelon holding company debt and the Constellation Energy debt assumed by Exelon to the ExGen operating company level, to the extent that such debt is not repaid from internal sources. In that vein, the dividend reduction increases the prospects for overall debt reduction throughout Exelon over time. The rating action acknowledges that with the reduced dividend, Exelon's funding requirements for the common dividend and for other holding company expenses, including debt service, can more comfortably be provided by Exelon's rate regulated subsidiaries -- PECO, BG&E, and CWE. This is particularly the case after 2014 based upon expected earnings growth from the rate regulated segments and when the prohibition on BG&E providing a dividend to Exelon is lifted. To that end, the rating affirmation factors in some degree of structural subordination as we view the collective credit profile of the three regulated transmission and distribution companies as having Baa1 rating characteristics.

The rating downgrade at ExGen to Baa2 from Baa1 reflects our belief that during the next three years, ExGen is likely to record financial metrics more in-line with a mid-Baa rated unregulated power company even after factoring in the benefits of the Exelon dividend cut and the deferral of growth capital investments announced during the fourth quarter of last year. Specifically, in our case, we calculate that for the next three year period from 2013 through 2015, the ratio of ExGen's cash flow (CFO-pre WC) to debt will average between 27-30%, ExGen's cash flow interest coverage will be above 6.0x, while the ratio of retained cash flow to debt will average around 22%, with the company being modestly free cash flow positive in most of these years. These metrics incorporate the company's plan to move holding company debt to ExGen and factor in other standard and non-standard adjustments including ExGen's anticipated unfunded pension obligation and the present value of the remaining tolling obligations which are used to support ExGen's unregulated power platform. Moody's further notes that while the Exelon dividend reduction will enhance ExGen's retained cash flow and free cash flow prospects, Exelon will continue to lean on ExGen for dividends in 2013 and 2014, a period when margin prospects are expected to remain compressed at this subsidiary and when BG&E dividends are restricted. The rating recognizes that with the common dividend reduction, management will focus its attention on growth initiatives in order to enhance shareholder value. While these initiatives could include incremental rate regulated and contracted generation investments, both of which we would likely view as benign to ExGen and Exelon's overall credit quality, we also believe that given the sizeable unregulated footprint that has emerged at ExGen in the wholesale and retail space, incremental investments intended to augment this position remain high on management's wish list. In that vein, we believe that being strongly positioned in the Baa2 rating category will enable ExGen to more freely pursue growth initiatives across the energy spectrum.

The Prime-2 rating affirmation at Exelon and at ExGen reflects the strong liquidity profile anticipated to be maintained by the company over the intermediate term enhanced by the common dividend reduction and by the deferral of growth capital investments. We understand that from a liquidity standpoint, neither Exelon or ExGen had any commercial paper outstanding at January 30, 2013, and excluding the $2.2 billion of virtually undrawn liquidity facilities across the three utilities, the company had available liquidity at January 30, 2013 of nearly $4.5 billion, the majority of which expires in 2017.

The stable rating outlook for Exelon and ExGen considers the benefits to credit quality from deferring growth capital investments and from the parent's decision to reduce the common dividend by 40%. Exelon's stable rating outlook factors in our belief that with the dividend cut, Exelon's liquidity requirements will in the long-run be more dependent upon cash flow generation from the three large rate regulated utility systems, particularly beginning after 2014. ExGen's stable rating outlook factors in our belief that ExGen remains well-positioned as a mid-Baa company during the current down cycle and incorporates some degree of financing flexibility which should help facilitate incremental growth prospects as opportunities arise.

In light of the challenges facing the unregulated power sector, including sustained weak margins, the ratings at Exelon and ExGen are not likely to be upgraded in the near-term. To the extent that growth initiatives center around acquisitions of rate regulated businesses, credit quality at Exelon could be enhanced, particularly if such acquisitions are financed in a credit-friendly way.

While both Exelon and ExGen remain well-positioned in the mid-Baa rating category, these ratings could be downgraded if weaker than expected financial performance surfaced either as a result of a further sustained drop in operating margins across the unregulated power sector or a substantial outage at several of the company's generating assets resulting in negative free cash flow being financed with material incremental indebtedness. Additionally, negative rating pressure could surface at Exelon if adverse regulatory decisions at one or more of the utility subsidiaries occurred, particularly at PECO or CWE since both are larger than BG&E. Exelon's ratings could be downgraded if cash flow to debt fell below 20%, retained cash flow to debt below 12%, and cash flow interest coverage approached 4.5x on a sustained basis. With respect to ExGen, the subsidiary's ratings could be downgraded if cash flow to debt fell into the low twenties, retained cash flow to debt dropped below 15%, cash flow interest coverage was below 5.0x and substantial negative free cash flow occurred on a sustained basis.

Ratings Affirmed:

..Issuer: Exelon Corporation

.... Issuer Rating at Baa2

....Senior Unsecured Regular Bond/Debenture at Baa2

....Shelf for senior unsecured, subordinated debt and preferred at (P)Baa2, (P)Baa3, and (P)Ba1

....Senior Unsecured Commercial Paper at Prime-2

..Issuer: Constellation Energy Group, Inc. (Assumed by Exelon Corporation)

....Senior Unsecured Regular Bond/Debenture at Baa2

....Junior Subordinated Regular Bond/Debenture at Baa3

..Issuer: Exelon Generation Company, LLC

....Senior Unsecured Commercial Paper at Prime-2

..Issuer: Exelon Capital Trust I

....Pref. Stock Shelf at (P)Baa3

..Issuer: Exelon Capital Trust II

....Pref. Stock Shelf at (P)Baa3

..Issuer: Exelon Capital Trust III

....Pref. Stock Shelf at (P)Baa3

Ratings Downgraded

..Issuer: Exelon Generation Company, LLC

.... Issuer Rating to Baa2 from Baa1

....Senior Unsecured Regular Bond/Debenture to Baa2 from Baa1

....Shelf for senior unsecured and preferred stock to (P)Baa2 and (P)Ba1 from (P)Baa1 and (P)Baa3

..Issuer: Pennsylvania Economic Dev. Fin. Auth.

....Senior Unsecured Revenue Bonds to Baa2 from Baa1

Headquartered in Chicago, IL, Exelon is the holding company for non-regulated subsidiary, ExGen and for regulated subsidiaries, PECO, BG&E and CWE. At 09/30/2012, Exelon had total assets of $78.4 billion.

The principal methodology used in this rating was Unregulated Utilities and Power Companies published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Upgrades Pepco Holdings; Changes Rating Outlook to Stable from Developing; Exelon Affirmed

Global Credit Research - 24 Mar 2016

Approximately $5 billion of debt affected

New York, March 24, 2016 -- Moody's Investors Service, ("Moody's") today upgraded the ratings for Pepco Holdings, Inc. (PHI), including the senior unsecured rating to Baa2 from Baa3 and the short term commercial paper rating to Prime-2 (P-2) from Prime-3 (P-3). In addition, Moody's changed the rating outlook for PHI to stable from developing. Concurrently with this action, Moody's affirmed the ratings for Exelon Corporation (Exelon), including the Baa2 senior unsecured rating and Prime-2 (P-2) short term commercial paper rating. Exelon's rating outlook is stable.

Upgrades:

..Issuer: Pepco Holdings, Inc.

.... Issuer Rating, Upgraded to Baa2 from Baa3

....Senior Unsecured Commercial Paper, Upgraded to P-2 from P-3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

Outlook Actions:

..Issuer: Exelon Capital Trust I

....Outlook, Remains Stable

..Issuer: Exelon Capital Trust II

....Outlook, Remains Stable

..Issuer: Exelon Capital Trust III

....Outlook, Remains Stable

..Issuer: Exelon Corporation

....Outlook, Remains Stable

..Issuer: Pepco Holdings, Inc.

....Outlook, Changed To Stable From Developing

Affirmations:

..Issuer: Constellation Energy Group, Inc.

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

..Issuer: Exelon Capital Trust I

....Pref. Stock Shelf, Affirmed (P)Baa3

..Issuer: Exelon Capital Trust II

....Pref. Stock Shelf, Affirmed (P)Baa3

..Issuer: Exelon Capital Trust III

....Pref. Stock Shelf, Affirmed (P)Baa3

..Issuer: Exelon Corporation

.... Issuer Rating, Affirmed Baa2

....Preferred Shelf, Affirmed (P)Ba1

....Subordinate Shelf, Affirmed (P)Baa3

....Senior Unsecured Shelf, Affirmed (P)Baa2

....Senior Unsecured Bank Credit Facility, Affirmed Baa2

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

RATINGS RATIONALE

"With the merger completed, PHI benefits as an intermediate subsidiary holding company of Exelon," said Jim Hempstead, Associate Managing Director. "We see Exelon's larger size and scale bringing more resources and capital to help accelerate PHI's investment plans."

PHI's Baa2 rating reflects the company's status as an intermediate subsidiary holding company of Exelon, and its portfolio of three low business risk profile transmission and distribution (T&D) utilities. PHI's utilities (Atlantic City Electric Company, (Baa2 stable); Delmarva Power and Light Company, (Baa1 stable) and Potomac Electric Power Company, (Baa1 stable)) provide electric and natural gas delivery services to roughly 2.0 million customers. PHI's service territories cover the District of Columbia (DC), Maryland, Delaware and New Jersey, and are contiguous to Exelon's Maryland and Pennsylvania service territories. In 2015, PHI's T&D utilities produced roughly $1.0 billion in cash flow that covered approximately $7.1 billion in debt.

For Exelon, and its Baa2 senior unsecured rating, the acquisition of PHI is credit positive because it helps transition the company more towards a regulated business. PHI brings an incremental $8 billion in rate base to Exelon's roughly $20 billion, and adds regulatory diversity with new service territories in DC, Delaware and New Jersey.

"We see Exelon's business shifting more towards its regulated utilities, so we will now assess Exelon's credit profile under our Global Regulated Electric and Gas Utilities rating methodology," Hempstead added.

Prospectively, we see Exelon's roughly $28 billion of regulated T&D utility rate base remaining higher than its combined T&D utility debt of approximately $20 billion. In addition, we count an additional $5.0 billion in parent holding company debt, which if added to the T&D utility debt, is still below the rate base, a credit positive. When looking at Exelon without its unregulated business operations, we see an ability to generate a ratio of cash flow to debt in the 20% range (considering only the T&D utility debt) and the mid-teen's range (considering the T&D utility debt and incorporating the holding company debt). In addition, we see approximately $3.5 billion of debt at Baltimore Gas and Electric Company (A3 stable), $8.1 billion of debt at Commonwealth Edison Company (Baa1 positive), $3.1 billion of debt at PECO Energy Company (A2 stable), $1.3 billion of debt at Atlantic City Electric Company (Baa2 stable), $1.6 billion of debt at Delmarva Power and Light Company (Baa1 stable) and $2.6 billion of debt at Potomac Electric Power Company (Baa1 stable).

Liquidity Profile

PHI's Prime-2 short term commercial paper rating reflects the strength and liquidity resources of Exelon. Going forward, we incorporate a view that PHI will no longer be utilized as a principal financing vehicle, and we expect the debt at PHI, including its existing short-term debt, to slowly transition to the Exelon parent holding company level.

Rating Outlook

The stable rating outlook for PHI reflects its role as an intermediate subsidiary holding company of Exelon. Exelon's stable rating outlook reflects the stability and predictability of its larger suite of T&D utilities, its adequate liquidity profile and its conservatively managed and capitalized unregulated business operations. The stable outlook incorporates a view that Exelon will generate a consolidated ratio of cash flow to debt ratio in the high-teen's to 20% range on a sustained basis.

What Could Change the Rating -- Up

PHI's Baa2 rating could be upgraded with an upgrade in Exelon's rating. Exelon's Baa2 rating could be upgraded if its consolidated ratio of cash flow to debt rose to the mid-20% range for a sustained period of time, or if there was a material reduction in the corporate family's business risk profile.

What Could Change the Rating - Down

PHI's Baa2 rating could be downgraded with a downgrade in Exelon's rating. Exelon's Baa2 rating could be downgraded if there was a material increase in regulatory contentiousness in one or more of its major jurisdictions (i.e., Illinois, Maryland or Pennsylvania), or if the consolidated ratio of cash flow to debt declined to the low-to-mid-teen's range for a sustained period of time. Ratings could also be downgraded if Exelon deployed a more aggressive corporate finance strategy, where the level of holding company debt as a percentage of total consolidated debt rose to over 25% (excluding the debt of Exelon Generation Company LLC) or if there were any materially adverse developments in the unregulated business operations related to the nuclear generation fleet or the retail trading and marketing business.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in December 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms ratings for Exelon and PEPCO families upon merger announcement; outlooks remain stable

Global Credit Research - 30 Apr 2014

Approximately $28 Billion of Debt Affected

NOTE: On May 5, 2014 the Press Release was revised as follows: The following affirmations were added to the debt list: Exelon Capital Trust I – (P)Baa3, Exelon Capital Trust II – (P)Baa3, Exelon Capital Trust III (P)Baa3 and PECO Energy Capital Trust IV - (P)A3. Revised release follows.

New York, April 30, 2014 -- Moody's Investors Service today affirmed the ratings of Exelon Corporation (Exelon) and its subsidiaries. Ratings affirmed include: Exelon's Baa2 senior unsecured and Prime-2 short term commercial paper ratings; Baltimore Gas & Electric Company's (BGE) A3 senior unsecured rating; Commonwealth Edison Company's (CWE) Baa1 senior unsecured rating; and PECO Energy Company's (PECO) A2 senior unsecured rating and Prime-1 short term commercial paper rating. In addition, Moody's affirmed Exelon Generation Company's (ExGen) Baa2 senior unsecured rating. The rating outlook for Exelon and all of its subsidiaries is stable.

Concurrently, Moody's affirmed the ratings of Pepco Holdings Inc (PHI) and its subsidiaries. Ratings affirmed include PHI's Baa3 long-term issuer and Prime-3 short term commercial paper ratings; Potomac Electric Power Company's (PEPCO) Baa1 long-term issuer and Prime-2 short term commercial paper ratings; Delmarva Power & Light Company's (DPL) Baa1 long-term issuer and Prime-2 short term commercial paper ratings; and Atlantic City Electric Company's (ACE) Baa2 long-term issuer and Prime-2 short term commercial paper ratings. The rating outlook for PHI and all of its subsidiaries is stable.

"This transaction fundamentally shifts Exelon's business mix towards lower risk regulated transmission and distribution utilities" said Jim Hempstead, Associate Managing Director "and looks to have a high degree of execution certainty given the company's presence in the region and prior success with the BGE integration."

"Although PHI has had some success in addressing several regulatory overhangs across its jurisdictions, being part of a large company, and eliminating the need to finance its common dividend are positive" said Lesley Ritter, Analyst. "As the planned investment in rate base unfolds and the recovery structures commence, we think PHI and its utility subsidiaries will be better positioned for rating upgrades."

RATINGS RATIONALE

The primary driver of today's rating action is the shift in Exelon's business mix towards the lower risk transmission and distribution (T&D) utility business, the improved diversity of regulatory jurisdictions, increased scale and scope of the company and balanced acquisition financing plans. We also view this transaction as a credit positive for PHI and its subsidiaries because it eliminates the pressure of maintaining an aggressive common dividend, thereby reducing the need for further leverage at this entity, during a period of heightened capital spending.

With the addition of PHI, Exelon's mix of regulated and unregulated business activities will shift to approximately 60% regulated -- 40% unregulated from roughly 50% - 50%, and its revenue concentration in Maryland, Illinois and Pennsylvania shifts to 33%, 30% and 21% from 29%, 42% and 29%, respectively. In addition, Exelon picks up exposure to New Jersey, Delaware and the District of Columbia.

Exelon's credit profile will also benefit by the larger and more diversified rate base, which is expected to grow across all of the jurisdictions. Exelon's roughly $18 billion T&D rate base will grow with PHI's roughly $7 billion rate base, creating one of the largest T&D utilities in the US. The greater breadth and diversity of these regulated jurisdictions is a credit positive because all of the jurisdictions are viewed as being relatively supportive to long term credit quality and provide a reasonable suite of timely recovery mechanisms.

We also see improvement in the upstream subsidiary dividend policy, with the reliance on upstream dividends shifting further away from ExGen and more toward regulated cash flows. PHI benefits because incorporation into a large diversified family of businesses eliminates the pressure of maintaining an aggressive common dividend, thereby reducing the need for further leverage at this entity.

Exelon is defending its Baa2 rating by utilizing a balanced mix of debt and equity, and ExGen will dividend roughly $1.0 billion in non-core, after-tax asset sale proceeds to help finance the purchase of PHI. That said, the rating is constrained by the shift in Exelon's corporate finance policies, where roughly $3.5 billion in holding company debt will be issued along with mandatorily convertible debt. Assuming 50% equity treatment for the convertible debt, and including an additional $500 million of debt that currently resides at Exelon's parent holding company (but excluding an expected retirement of $800 million that currently resides at Exelon), the ratio of parent holding company debt to total consolidated debt will rise from around 6% today. If this ratio of parent holding company debt to total consolidated debt rose above the 25%-30% range, a wider notching between the parent and its subsidiaries could result. Still, the issuance of approximately $2.8 billion of equity is viewed as a credit positive, and the convertible debt should convert to additional equity in about 3 years.

On a pro-forma basis, Exelon's consolidated financial metrics will also weaken somewhat, with the ratio of consolidated cash flow to debt expected to remain in the low 20% range over the next few years. This compares with the 2013 ratio of roughly 25%. The higher concentrations of regulated operations will provide some cushion lower credit metric thresholds for a given rating because of the inherent stability of regulated cash flows.

RATING OUTLOOKS

The stable rating outlook for Exelon considers the stability and predictability of its large T&D utility businesses, the reduced shareholder dividend outflows, adequate liquidity profile and conservatively levered unregulated generation business.

The stable rating outlook for ExGen considers the benefits to credit quality from deferring growth capital investments and from the parent's decision to reduce the common dividend by 40%. The stable rating outlook factors in our belief that ExGen is strongly positioned as a mid-Baa company during the current down cycle that also incorporates some degree of financing flexibility which should help facilitate incremental growth prospects as they arise.

The stable rating outlooks for BGE, CWE and PECO reflects the critical utility infrastructure they operate around the greater Baltimore, Chicago and Philadelphia metro-regions, respectively. In all three states, Moody's expects regulators and politicians to provide a reasonably supportive and constructive framework for the utilities to pursue, submit and ultimately receive authorization to recover the vast majority of their prudently incurred costs and investments. The financial profile for the three T&D utilities is strong, and cash flows (combined for all three utilities) should grow to roughly $2.8 - $3.0 billion over the next 3 years. Assuming the three utilities can keep their total debt outstanding near $15 billion, the ratio of CFO to debt should remain in the high-teen's range over the next five years.

The stable rating outlooks for PHI and its subsidiaries factor in the benefits of the merger as being a part of a larger family, including the likely reduction of negative free cash flow across the companies.

WHAT COULD CHANGE RATING -- UP

Exelon's ratings could be upgraded with a continued shift in business mix towards the regulated T&D utilities and away from the unregulated merchant power and retail businesses. To the extent that growth initiatives continue to center around acquisitions of rate regulated businesses, credit quality for Exelon could be enhanced, particularly if such an acquisition was financed in a credit friendly fashion. Exelon's ratings could also be upgraded if it can produce a ratio of cash flow to debt in the mid-20% range for a sustained period of time and if the T&D utilities produced sustained ratios of cash flow to debt in the mid- to high-teen's range. At this level, Exelon's more risky unregulated businesses will be sufficiently mitigated with its strong financial profile.

In light of the most recent negative rating action in February 2013 that lowered ExGen's long-term rating to Baa2 along with a continuing negative rating outlook for the unregulated power sector, it is unlikely for ExGen's ratings to upgraded over the next several years.

PHI will likely see upwards rating pressure once regulatory approvals for the merger are reached and there is further clarity on the company's pro forma dividend policy. While the PHI rating could benefit from merger completion, rating upgrades at the utility levels are unlikely for now given the sizeable capital spending program at each of the subsidiaries.

For BGE, CWE and PECO, ratings could be upgraded as the new formulaic rate setting framework and other positive legislative intervention (such as the Illinois EIMA law) starts to build a track record. It will take a few years to fully understand the credit impacts associated with new trackers and recovery mechanisms as they experience different economic and financial cycles. For now, we incorporate a view that the regulatory environment will remain supportive for at least the next 2 -- 3 years, and that the suite of recovery mechanisms will not be materially diminished.

WHAT COULD CHANGE RATING -- DOWN

Exelon's rating could be downgraded if weaker than expected financial performance surfaced for a sustained period of time, either as a result of a further sustained drop in operating margins across the unregulated power sector or a substantial outage at several of the company's generating assets. In addition, if sizeable negative free cash flows were financed with material increase in indebtedness, or if a more contentious regulatory environment in Illinois, Maryland or Pennsylvania were to materialize, ratings could be pressured. From a financial perspective, Exelon's ratings could be downgraded if cash flow to debt fell below 20% for a sustained period of time, or it retained cash flow to debt below 12%.

ExGen's rating is strongly-positioned in the mid-Baa rating category and its hedging strategy enhances the reliability of its near-term cash flow. The rating, however, could be downgraded if weaker than expected financial performance surfaced either as a result of a further sustained drop in operating margins across the sector or a substantial outage at several of the company's generating assets resulting in negative free cash flow being financed with material incremental indebtedness. Specifically, ExGen's ratings could be downgraded if cash flow to debt declined to the low twenties percentages, retained cash flow to debt fell below 15%, cash flow interest coverage was below 5.0x and material negative free cash flow surfaced on a sustained basis.

PHI's rating could be downgraded if the company encounters adverse regulatory or political developments at its utility subsidiaries, or finances its near-term capital expenditure program in a manner that impairs its ability to maintain low Baa metrics over a sustained period of time.

The ratings of Pepco, DPL and ACE could be lowered if there were a deterioration in the regulatory environment, which might include greater regulatory lag, uncertainty about recovery of investments, further compression in rates, or if there were a downward revision in our expectation of future financial metrics relative to our current view.

For BGE, CWE and PECO, ratings could be downgraded if the ratio of cash flow to debt fell below the 15% threshold for a sustained period of time, especially if the decline was in cash flow and associated with an unexpected regulatory or political intervention. Mis-managing liquidity or an unbalanced shareholder rewards policy, where the dividend payout ratio was near 100%, could also create negative rating pressure. At this point, the biggest credit rating exposure appears to reside in the three utility's relationship with their unregulated affiliate, Exelon Generation.

LIST OF RATING AFFIRMATIONS

Exelon Corporation

Long-term Issuer Rating -- Baa2

Senior Unsecured Rating -- Baa2

Senior Unsecured Bank Credit Facility Rating -- Baa2

Senior Unsecured Shelf Rating -- (P)Baa2

Subordinate Shelf Rating -- (P)Baa3

Pref. Stock Rating -- (P)Ba1

Commercial Paper Rating -- Prime 2

Outlook -- Stable

Exelon Generation Company

Long-term Issuer Rating -- Baa2

Senior Unsecured Rating -- Baa2

Senior Unsecured Bank Credit Facility Rating -- Baa2

Senior Unsecured Shelf Rating -- (P)Baa2

Pref. Stock Rating -- (P)Ba1

Commercial Paper Rating -- Prime 2

Outlook -- Stable

Commonwealth Edison Company

Long-term Issuer Rating -- Baa1

First Mortgage Bonds Rating -- A2

Senior Unsecured Rating -- Baa1

Senior Unsecured Bank Credit Facility Rating -- Baa1

Commercial Paper Rating -- Prime 2

Outlook -- Stable

Baltimore Gas & Electric

Long-term Issuer Rating -- A3

Senior Unsecured Rating -- A3

Senior Unsecured Bank Credit Facility Rating -- A3

Senior Secured Shelf Rating -- (P)A1

Senior Unsecured Shelf Rating -- (P)A3

Preferred Shelf Rating -- (P)Baa2

Industrial Revenue Bonds -- VMIG 2

Commercial Paper Rating -- Prime 2

Outlook -- Stable

BGE Capital Trust II

Preferred Stock -- Baa1

PECO Energy Company

Long-term Issuer Rating -- A2

First Mortgage Bonds Rating -- Aa3

Senior Unsecured Bank Credit Facility Rating -- A2

Pref. Stock Rating -- Baa1

Commercial Paper Rating -- Prime 1

Outlook -- Stable

PEPCO Holdings Inc.

Long-term Issuer Rating -- Baa3

Senior Unsecured Rating -- Baa3

Commercial Paper Rating -- Prime 3

Outlook -- Stable

Potomac Electric Power Company

Long-term Issuer Rating -- Baa1

First Mortgage Bonds Rating -- A2

Commercial Paper Rating -- Prime 2

Outlook -- Stable

Delmarva Power & Light Company

Long-term Issuer Rating -- Baa1

First Mortgage Bonds Rating -- A2

Senior Secured Shelf Rating -- (P)A2

Senior Unsecured Rating -- Baa1

Commercial Paper Rating -- Prime 2

Outlook -- Stable

Atlantic City Electric Company

Long-term Issuer Rating -- Baa2

First Mortgage Bonds Rating -- A3

Senior Secured Rating -- A3

Pref. Stock Rating -- Ba1

Commercial Paper Rating -- Prime 2

Outlook -- Stable

Exelon Capital Trust I

(P)Baa3

Exelon Capital Trust II

(P)Baa3

Exelon Capital Trust III

(P)Baa3

PECO Energy Capital Trust IV

(P)A3

The principal methodology used in these ratings was Unregulated Utilities and Power Companies published in August 2009 and Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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PECO Energy Co. (/gws/en/esp/issr/80088954)

Fitch Ratings

Fitch Rates PECO Energy First and Refunding Mortgage Bonds 'A'

Fitch Ratings-New York-14 September 2016: Fitch Ratings assigns an 'A' rating to PECO Energy Co.'s (PECO) new issue of first and refunding mortgage bonds due 2021. The Rating Outlook is Stable. A portion of the proceeds will be used to repay the $300 million 1.2% first and refunding mortgage bonds due Oct. 15, 2016, with the remainder, if any, for general corporate purposes.

KEY RATING DRIVERS

Strong Credit Profile: Fitch expects PECO's credit measures, aided by a rate increase implemented in January 2016, to remain strong relative to Fitch's target ratios for the rating level and PECO's peer group of 'BBB+' rated distribution utilities, but moderately weaker than recent historical results. Over the next few years, Fitch estimates debt/EBITDAR and funds from operations (FFO)-adjusted leverage to approximate 3.25x and 3.50x, respectively, compared with 3.0x and 3.1x in 2015. The increase reflects the effects of a rising capex plan and relatively flat sales growth.

Low Business Risk: Ratings and credit quality benefit from the absence of commodity price exposure and the associated cash flow volatility. PECO retains the provider of last resort obligation for customers that do not choose an alternative energy provider, but recovers its electric and gas supply costs from customers through monthly fuel adjustment mechanisms. The alternative regulatory model implemented in Pennsylvania to recover certain capital costs also reduce business risk.

Alternative Regulatory Model: Fitch considers regulatory legislation enacted in Pennsylvania in 2012 (HB 1294) to be supportive of credit quality. The law allows the state's Public Utility Commission (PUC) to establish a distribution system investment charge (DSIC) to provide timely recovery of certain capital costs incurred to enhance electric and gas distribution systems. Once implemented, the DSIC is updated quarterly. The law also allows traditional rate filings to include fully forecasted test years, further reducing regulatory lag.

Constructive Rate Order: PECO implemented a $127 million rate increase effective Jan. 1, 2016, following the approval of a settlement agreement by the PUC. The approved increase equates to about two-thirds of PECO's $190.1 million rate request. The agreement also includes implementation of a DSIC for the company's electric operations, but not until eligible investments exceed the Dec. 31, 2016 levels projected by PECO.

Demand Reduction: Pennsylvania Act 129 (Act 129) requires Pennsylvania utilities to reduce electric consumption, with the companies absorbing the associated revenue loss between rate cases. The PUC recently approved phase III of the energy efficiency and consumption plan, requiring PECO to reduce consumption further by 2021. PECO met the initial consumption reduction targets of 1% by 2011 and 3% by May 31, 2013. Importantly, Act 129 provides a surcharge to recover implementation costs (other than lost sales) on a timely basis.

Rising Capex: Capex is forecasted to rise about 12% to $675 million in 2016 from $601 million in 2015 and to range between $775 million and $750 million over the following four years. The growth in capex primarily reflects investments in electric reliability and acceleration of a gas pipeline replacement program. The financial impact is moderated by the extension of bonus depreciation and the surcharge mechanism associated with Act 129.

KEY ASSUMPTIONS

--Relatively flat electric load growth;
--Retail gas load growth ranging between 0.5% and 1.0%;
--Electric distribution rate increase of $127 million effective Jan. 1, 2016;
--Equity capital of 53%-54% of total capital;
--Five-year capex plan of $3.7 billion.

RATING SENSITIVITIES

Positive: Positive action could be considered if adjusted debt/EBITDAR and FFO lease-adjusted debt remain comfortably below 3.4x and 4.0x, respectively.

Negative: Given the headroom in existing ratings, a downgrade is not likely, but could be considered if debt/EBITDAR and FFO lease-adjusted debt exceeded 3.70x and 4.8x, respectively, on a consistent basis.

LIQUIDITY

A $600 million committed credit facility provides ample liquidity. The credit facility supports a commercial paper program of equal size and also provides for direct borrowings. The credit facility extends to May 2021 and allows for a one-year extension. PECO also participates in a corporate money pool along with its affiliates Exelon Generation Company, LLC and Exelon Business Services Co., LLC. Parent Exelon Corp. (EXC) can lend to, but not borrow from, the money pool. As of June 30, 2016, PECO had no short-term borrowings and available cash of $203 million.

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Date of Relevant Rating Committee: April 27, 2016

Additional information is available at 'www.fitchratings.com'.

Disclosure: There was no financial statement adjustments made that were material to the rating rationale outlined above.

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/site/re/869362)

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Q. SDR-ROR-5 Please provide a workpaper showing the derivation of the Company's current AFUDC rate.

A. SDR-ROR-5 Refer to Attachment SDR-ROR-05(a) for the calculation of PECO's current AFUDC rate, effective January 1, 2018 through March 31, 2018.

AFUDC Calculation
January - March 2018

	Amount ($000s)	Capitalization Ratio	Weighted Average Cost Rate
Average Short-term Debt	**85,339**		**1.42%**
Long-term Debt at 12/31/2017	**3,103,933**	**46.47%**	**4.34%**
Preferred Stock at 12/31/2017	**-**	**0.00%**	**0.00%**
Common Equity at 12/31/2017	**3,575,780**	**53.53%**	**10.00%**
Total Capitalization	**6,679,713**	**100.00%**	
Average CWIP	**264,618**		
Gross Rate for Borrowed Funds			**1.82%**
Rate for Other Funds			**3.63%**
Gross AFUDC Rate			**5.45%**

SDR-ROR-6
Phillip S. Barnett

Q. SDR-ROR-6 Please supply copies of all presentations by the Company's and, if applicable, its parent's management to securities analysts during the past 2 years. This would include presentations of financial projections.

A. SDR-ROR-6 All presentations made by the Company's management to securities analysts during the past 2 years can be located on the Exelon Corporation website at www.exeloncorp.com. Once on the site, select "Investors", then click on "Events & Presentations" or go directly to: http://www.exeloncorp.com/investor-relations/events-and-presentations

Q. SDR-ROR-7

Please provide a listing of all securities issuances for the Company and, if applicable, its parent projected for the next two years. The response should identify for each projected issuance the date, dollar amount, type of security, and effective cost rate.

A. SDR-ROR-7

DISCLAIMER: This answer contains forward-looking information and is subject to change.

PECO Energy Company currently does not project any equity issuances for the next two years. Regarding PECO's long-term debt issuances for 2018, on February 15th, PECO issued $325 million of First Mortgage Bonds with a coupon rate of 3.90% and a yield to maturity of 3.928%, because the Company is retiring $500 million of First Mortgage Bonds that mature on March 1, 2018 (CUSIP 693304AL1). PECO plans to issue additional long-term debt of $325 million on or around September 2018 with an estimated coupon rate of 4.00%. PECO also plans to issue a $50 million Philadelphia Industrial Development Corporation (PIDC) loan in the second half of 2018 under the Welcome Fund (EB-5) Loan federal program with an estimated coupon rate of 2.00%. In 2019, PECO plans to issue $250 million of long-term bonds on or around September with an estimated coupon rate of 4.05%.

Parent company issuances are not applicable.

Q. SDR-ROR-8	Please identify all of the Company's and, if applicable, its parent's publicly underwritten common stock issuances written in the last five years. Identify which such issuances were related to mergers or acquisitions, and which were undertaken to fund facility investments in utility plant and equipment.
A. SDR-ROR-8	PECO Energy Company has not had a publicly underwritten common stock issuance in the last five years. PECO's Parent Company, Exelon Corporation, had a merger-related public, underwritten issuance of common equity in June of 2014, which is described in the response to Filing Requirement III-D-4. Exelon Corporation did not have any other public, underwritten issuance of equity in the last five years.

Q. SDR-ROR-9 Please identify any plan by the Company to refinance high cost long-term debt or preferred stock.

A. SDR-ROR-9 At the present time, PECO Energy Company does not have any “high cost” long-term debt. PECO has no preferred stock outstanding. However, the Company is constantly evaluating market conditions for refinancing opportunities that could reduce its weighted average cost of long-term debt.

SDR-ROR-10
Page 1 of 1
Phillip S. Barnett

Q. SDR-ROR-10 Please provide copies of all securities analysts reports relating to the Company and/or its parent issued within the past 2 years.

A. SDR-ROR-10 See Attachment SDR-ROR-10 (a-f) for the requested reports that PECO and Exelon have or were able to obtain based on a reasonable investigation. Not all securities analysts' reports are made available to PECO or Exelon. The reports are organized by date and year.

THE REQUESTED DOCUMENTS ARE VOLUMINOUS. THEREFORE, THEY ARE BEING PROVIDED ONLY IN ELECTRONIC FORM ON THE CD ACCOMPANYING THE COMPANY'S FILING.

Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: WR, NEE, ETR, FE, EXC, AEP, PJM, CPP, DUK, SO, ED

January 4, 2016

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What's New?

See here for Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

WR/NEE – WR purchases 200 MW of wind from NEE
ETR – NY Commission launches investigation on Indian Point operations
FE/EXC/AEP – Exelon submits testimony offering alternative plan to PPAs
PJM – FERC orders technical conference on financial transmission rights
CPP – W.VA and Ohio litigating against CPP but still plans to file state implementation plan
DUK/NEE/SO – New FPSC Chairman
ED – FERC rejects NYISO tariff revisions
DUK – Coal ash basins classified by NCDEQ

WR/NEE – WR purchases 200 MW of wind from NEE

- WR announced it will purchase 200 MW of wind from NEE's Kingman Wind Energy Center
- Part of the transaction allows WR the option to purchase one-half od the facility before substantial completion, which is expected by early 2017.
- The purchase will help to increase Westar Energy's wind generation to over 1,700 MW.

Guggenheim takeaway: *As we highlighted in our research, we expected WR to own a majority of their incremental ~500MW wind RFP. We believe WR's decision to own wind plants is for economic benefits, given that the PTC has been extended, and is also a hedge to CPP compliances. Wind generation in KS is cheap and the resource has high capacity factors in the state. We believe that WR could ask for recovery on the investments outside of a rate case, but could file a rate case if not successful. See our note for more details on WR's wind investment strategy.*

ETR – NY Commission launches investigation on Indian Point operations

- The NY PSC has launched a special investigation on Indian Point after recent unplanned outages in December.
- The investigation will focus on evaluation of capital and maintenance budgets.
- NY Governor asked for the PSC to conduct the investigation after Indian Point 3 shut down on Dec. 14.
- Indian Point 3 had 6 unplanned outages in 2015.

Guggenheim takeaway: *The NY Governor has remained adamant on shutting down Indian Point and requested an investigation on the plant over safety concerns. An investigation from the PSC creates more noise on top of pending coastal zone management and water quality certification hearings.* ***As a reminder, Guggenheim will be hosting a field trip to Indian Point on January***

5 for investors to meet with ETR's senior management team, and will include a tour of the nuclear plant and the spent fuel pool. See our corporate access calendar below for additional detail for January events.

FE/EXC/AEP – Exelon submits testimony offering alternative plan to PPAs

- Exelon submitted testimony opposing FE's PPA settlement.
- They propose to provide an alternative should the OH Commission decide to reject FE's PPA, that they hold a competitive process and obtain a PPA from other providers.
- EXC believes their 8-year PPA offer for "100% emissions-free power… will provide well over $2B in savings to Ohio families and businesses…"
- EXC asserts that a competitive process " will wash away the stain of this affiliate backroom deal where FirstEnergy has positioned its regulated utility to benefit its affiliate First Energy Solutions exclusively."
- EXC's PPA will be an 8-year bundled fixed price for energy and capacity delivered to ATSI from wind, solar, and nuclear resources, with EXC maintaining 100% of the PJM capacity performance risk.

Guggenheim takeaway: *EXC's alternative PPA proposal highlights their companies' ability to deliver renewable energy to Ohio. From our meeting with OH commission, renewable energy and fuel diversity is just one of their many concerns about OH's energy future (jobs, reliability, and economic development to name a few). We believe FE's PPA settlement with PUCO staff will be passed by the Commission as it addresses staff concerns and delivers more than just renewable energy. See here for a deep dive on FE's PPA settlement.*

PJM – FERC orders technical conference on financial transmission rights

- FERC ordered a technical conference to explore PJM"s claim that existing rules on financial transmission rights (FTRs) and auction revenue rights are unjust and unreasonable and that the problems would be solved by PJM's proposed changes.
- An FTR allows the holder to gain credits based on the difference between real-time and day-ahead prices in the energy market when there is congestion on the transmission grid.
- PJM notes their rule changes would solve the unfair shift of revenues from ARR holders to FTR holders.

Guggenheim takeaway: *Commenters including utilities generally supported PJM's proposed changes to treatment of portfolio positions in allocating underfunding or surplus among FTR holders. However, the Financial Marketers Coalition protested PJM's proposal claiming that PJM failed to show current rules are unjust. FERC's decision to order a technical conference will provide more information before making a ruling on PJM's proposal.*

CPP – W.VA and Ohio litigating against CPP but still plans to file state implementation plan

- A West Virginia University College of Law's Center for Energy and Sustainable Development concluded that if the state were to comply with the Clean Power Plan, there would be "minimal impact on coal mining activity."
- W.VA and OH attorney generals have filed suit against CPP.
- Both the OH Environmental Protection Agency and the W.VA Department of Environmental Protection are creating state implementation plans to comply with CPP.
- OH EPA officials hope to have their SIP completed by Sept. 2016.

***Guggenheim takeaway:** As we continue to highlight in our research, states with heavy coal generation and production will continue to litigate against the CPP, citing negative economic impacts from complying. Even with litigation, we expect most states to file an SIP to comply with CPP. Much like with the case of MATS, we believe the outlook for coal is bleak and the coal retirement path to continue if not accelerate.*

DUK/NEE/SO – New FPSC Chairman

- FPSC Commissioner Brown begins 2-year term as Chairman.
- Chairman Brown replaces Commissioner Graham, who will continue to serve through 2018.

***Guggenheim takeaway:** We recently hosted investor meetings with FPSC Commissioners in Florida and came away with a very constructive outlook on the regulatory environment for utilities in the sunshine state. The faces at FPSC remain the same since our meetings, so we expect continued support for upstream utility investment to secure gas supplies and a constructive backdrop for FP&L's next rate case, which management expects to file soon – see here for additional takeaways from our meetings with the Florida Commissioners.*

ED – FERC rejects NYISO tariff revisions

- As part of their compliance with FERC 1000, NYISO proposed changes to their system planning process related to public policy transmission projects in June 2015.
- FERC rejected their proposal because requirements for developers are different than incumbent utilities.

***Guggenheim takeaway:** NY's AC Transmission proceeding is taking a FERC-1000 approach to system planning, which could create investment opportunities or potentially take them away from incumbent utilities. ED is participating through majority ownership in the NY TransCo, which has proposed several transmission projects under the Governor's NY Energy Highway initiative. Lower-cost proposals from other developers present competition, and this isn't a positive sign for projects proposed by incumbent utilities.*

DUK – Coal ash basins classified by NCDEQ

- The North Carolina Department of Environmental Quality (NCDEQ) released their proposed classification for coal ash basins, based on 3 main criteria: structural integrity, surface water impact, and groundwater impact.
- 4 of DUK's 14 facilities were designated high-risk under the coal ash law, and the NCDEQ was required to propose classifications for the remaining 10 per the Coal Ash Management Act, which was enacted in 2014.
- The proposed classification for the H.F. Lee (five impoundments), Cape Fear (five impoundments), Weatherspoon (one impoundment) and Roxboro (East basin) facilities is intermediate.
- The proposed classification for the Cliffside Plant (two non-active basins), Roxboro Plant (West basin) and the Mayo Plant (one impoundment) is low.
- For the remaining impoundments, the NCDEQ only had enough information to narrow the classification to between low and intermediate.

***Guggenheim takeaway:** These recommendations address DUK's remaining 24 basins, and the company now has additional information to make closure decisions. We recently hosted investor meetings with DUK management that included a tour of the Riverbend coal facility and these recommendations support* *our expectation that Coal Ash investment upside would likely be limited – see here for additional takeaways from our meetings.*

Key Research

1. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
2. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
3. GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing
4. FE - Upgrading to BUY - The Buckeye State Now Fully Investable
5. FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing
6. EEI Full Recap
7. EIX – NEUTRAL – Quick Take on Revised ALJ Proposal
8. Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings
9. DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details
10. PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve
11. 3Q Utility Earnings Sneak Peek: EEI Edition
12. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
13. EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission
14. DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth
15. EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off
16. PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power
17. FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation
18. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
19. More Uplifting Data Points for AEP and FE
20. Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection
21. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
22. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables
23. EPA Clean Power Plan: Much Ado About Everything

Links: Guggenheim's Comp Sheet, Forward Commodity Curves for Power and Utility Modeling

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
01/04	AEP	Evidentiary hearings begin		OH	14-1693-EL-RDR	
01/11		Earliest Day Supreme Court could issues opinion on DR			Federal Energy Regulatory Commission v. Electric Power Supply Association	
01/14	FE	Evidentiary hearings begin	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/19	ETR	Indian Point CZM		NY	APL-2015-00152	CZM Case ETR respondent brief due
01/19	ETR	Hearing	EAI	AR	APSC Docket 15-015-U	Hearing begins, ends 1/22
01/14	ETR	Open meetings for DCRF rider	ETI	AR	Docket No. 45083	Rider increase reflects incremental distribution investment
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
02/16	ES	Indian Point CZM		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for CPV Maryland, LLC v. PPL EnergyPlus, LLC			Docket No. 14-623	Whether state-directed contracts for new generation build infringes on FERC jurisdiction on wholesale rates

Upcoming Corporate Access and Client Events

Client-Hosted Events	Dates	Where	Events and meetings
Indian Point trip (ETR) *Features tour of nuclear plant and spent fuel pool*	01/05/16	▪ Buchanan, NY	▪ Drew Marsh (EVP & CFO) ▪ Indian Point tour ▪ Spent fuel pool tour
State Utilities Commissioners Breakfast *Guggenheim-hosted event with various utility commissioners*	01/27/16	▪ New York, NY	▪ Commissioner Doug Little, Arizona Corporation Commission ▪ Commissioner Travis Kavulla, Montana Public Service Commission ▪ Commissioner Kristine Raper, Idaho Public Utilities Commission

Guggenheim Power & Utilities Comp Sheet (As of 12/31/15)

*Guggenheim estimates as of 1/4/2016

As of **12/31/2015**

Regulateds								**EPS - Guggenheim**					**EPS - Consensus**					**P/E - Guggenheim**				**P/E - Consensus**			
Ticker	**Company**	**Mkt. Cap ($MM)**	**Rating**	**Target Price(1)**	**Current Price**	**Price Change**	**Diluted Shares**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**'15E**	**'16E**	**'17E**	**'18E**
AEP	American Electric Power	28,600	Buy	$62	$58.27	6%	63	3.73	3.73	3.92	4.19	4%	3.73	3.70	3.89	4.16	4%	15.6	15.6	14.9	13.9	15.6	15.7	15.0	14.0
ED	Consolidated Edison, Inc.	18,843	Neutral	$59	$64.27	-8%	63	4.00	4.10	4.17	4.33	3%	4.01	4.07	4.18	4.33	3%	16.1	15.7	15.4	14.9	16.0	15.8	15.4	14.8
D	Dominion Resources, Inc.	40,268	Buy	$76	$67.64	12%	85	3.65	3.84	3.99	4.47	7%	3.66	3.85	4.01	4.54	7%	18.5	17.6	16.9	15.1	18.5	17.6	16.9	14.9
DTE	DTE Energy Company	14,392	Buy	$86	$80.19	7%	89	4.85	4.98	5.27	5.66	5%	4.82	4.97	5.29	5.59	5%	16.5	16.1	15.2	14.2	16.7	16.1	15.2	14.3
DUK	Duke Energy Corporation	49,140	Buy	$76	$71.39	6%	78	4.60	4.64	4.95	5.07	3%	4.59	4.70	4.93	5.25	5%	15.5	15.4	14.4	14.1	15.6	15.2	14.5	13.6
EIX	Edison International	19,291	Neutral	$62	$59.21	5%	64	3.81	3.75	4.04	4.31	4%	3.79	3.74	4.05	4.31	4%	15.5	15.8	14.7	13.7	15.6	15.8	14.6	13.7
ES	Eversource Energy	16,199	Buy	$55	$51.07	8%	55	2.82	2.99	3.19	3.44	7%	2.85	3.03	3.22	3.44	7%	18.1	17.1	16.0	14.9	17.9	16.9	15.9	14.8
GXP	Great Plains Energy Inc.	4,216	Buy	$30	$27.31	10%	28	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.83	1.94	11%	19.5	15.8	14.6	13.8	19.5	15.5	14.9	14.1
NEE	NextEra Energy, Inc.	47,837	Buy	$124	$103.89	19%	120	5.66	6.19	6.60	7.04	8%	5.66	6.17	6.52	6.93	7%	18.3	16.8	15.7	14.7	18.4	16.8	15.9	15.0
PCG	PG&E Corporation	26,087	Neutral	$53	$53.19	0%	56	3.02	3.67	3.69	3.91	9%	3.05	3.72	3.71	3.94	9%	17.6	14.5	14.4	13.6	17.5	14.3	14.3	13.5
PNW	Pinnacle West Capital Corp.	7,148	Neutral	$60	$64.48	-7%	65	3.81	4.02	4.18	4.43	5%	3.78	4.00	4.20	4.31	4%	16.9	16.1	15.4	14.6	17.0	16.1	15.3	14.9
PPL	PPL Corporation	22,928	Buy	$37	$34.13	8%	39	2.21	2.33	2.44	2.57	5%	2.21	2.32	2.40	2.52	4%	15.4	14.7	14.0	13.3	15.5	14.7	14.2	13.5
SO	Southern Company	42,529	Neutral	$43	$46.79	-8%	46	2.87	2.97	3.05	3.18	3%	2.87	2.95	3.08	3.19	3%	16.3	15.8	15.4	14.7	16.3	15.8	15.2	14.7
WR	Westar Energy, Inc.	5,991	Buy	$46	$42.41	8%	45	2.21	2.43	2.54	2.64	6%	2.20	2.45	2.55	2.65	6%	19.2	17.4	16.7	16.1	19.2	17.3	16.6	16.0
TE	TECO Energy, Inc.	6,269	Neutral	$28	$26.65	5%	27	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.28	1.33	7%	24.5	22.6	20.9	19.8	24.2	22.6	20.8	20.0
Average												**6%**					**6%**	**17.1**	**16.0**	**15.3**	**14.8**	**17.1**	**16.0**	**15.3**	**14.4**
Integrateds																									
ETR	Entergy Corporation	12,195	Neutral	$69	$68.36	1%	74	5.80	5.01	5.12	5.16	-4%	5.75	5.00	5.01	5.17	-3%	11.8	13.7	13.3	13.3	11.9	13.7	13.6	13.2
EXC	Exelon Corporation	25,536	Buy	$31	$27.77	12%	34	2.56	2.53	2.63	2.85	4%	2.52	2.54	2.70	2.88	5%	10.8	11.0	10.6	9.7	11.0	10.9	10.3	9.6
FE	FirstEnergy Corp.	13,423	Buy	$39	$31.73	23%	39	2.71	2.87	2.86	2.91	2%	2.70	2.83	2.63	2.66	0%	11.7	11.1	11.1	10.9	11.8	11.2	12.1	11.9
PEG	Public Service Enterprise Group	19,576	Buy	$41	$38.69	6%	46	2.93	2.97	2.93	3.00	1%	2.91	2.92	2.86	2.99	1%	13.2	13.0	13.2	12.9	13.3	13.2	13.5	12.9
Average												**1%**					**0%**	**11.9**	**12.2**	**12.1**	**11.7**	**12.0**	**12.3**	**12.4**	**11.9**
Other																									
AWK	American Water Works	10,723	Buy	$66	$59.75	10%	63	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	22.5	21.1	19.7	18.7	22.8	21.1	19.8	18.6

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

Source: Bloomberg, Guggenheim Securities, LLC.

Note: TE (acquisition pending) excluded from group averages.

Regulateds			**Current**	**Consensus Dividend Per Share**				**Consensus Dividend Yield**				**Consensus Dividend Payout**			
Ticker	**Company**	**Rating**	**Price**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**
AEP	American Electric Power	Buy	$58.27	2.15	2.26	2.36	2.52	3.7%	3.9%	4.1%	4.3%	58%	61%	61%	61%
ED	Consolidated Edison, Inc.	Neutral	$64.27	2.59	2.64	2.70	2.76	4.0%	4.1%	4.2%	4.3%	65%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$67.64	2.58	2.77	2.98	3.21	3.8%	4.1%	4.4%	4.8%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$80.19	2.83	2.98	3.13	3.37	3.5%	3.7%	3.9%	4.2%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$71.39	3.26	3.38	3.53	3.71	4.6%	4.7%	5.0%	5.2%	71%	72%	72%	71%
EIX	Edison International	Neutral	$59.21	1.68	1.90	2.10	2.20	2.8%	3.2%	3.5%	3.7%	44%	51%	52%	51%
ES	Eversource Energy	Buy	$51.07	1.68	1.79	1.91	2.00	3.3%	3.5%	3.7%	3.9%	59%	59%	59%	58%
GXP	Great Plains Energy Inc.	Buy	$27.31	1.01	1.09	1.16	1.22	3.7%	4.0%	4.2%	4.5%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$103.89	3.07	3.46	3.92	4.47	3.0%	3.3%	3.8%	4.3%	54%	56%	60%	65%
PCG	PG&E Corporation	Neutral	$53.19	1.83	1.93	2.05	2.28	3.4%	3.6%	3.9%	4.3%	60%	52%	55%	58%
PNW	Pinnacle West Capital Corp.	Neutral	$64.48	2.41	2.53	2.66	2.79	3.7%	3.9%	4.1%	4.3%	64%	63%	63%	65%
PPL	PPL Corporation	Buy	$34.13	1.50	1.53	1.57	1.64	4.4%	4.5%	4.6%	4.8%	68%	66%	65%	65%
SO	Southern Company	Neutral	$46.79	2.16	2.23	2.31	2.38	4.6%	4.8%	4.9%	5.1%	75%	76%	75%	75%
WR	Westar Energy, Inc.	Buy	$42.41	1.44	1.51	1.60	1.65	3.4%	3.6%	3.8%	3.9%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$26.65	0.90	0.92	0.95	0.96	3.4%	3.5%	3.5%	3.6%	82%	78%	74%	72%
Average								**3.7%**	**3.9%**	**4.1%**	**4.3%**	**64.4%**	**63.6%**	**64.0%**	**63.9%**
Integrateds															
ETR	Entergy Corporation	Neutral	$68.36	3.34	3.43	3.49	3.61	4.9%	5.0%	5.1%	5.3%	58%	68%	70%	70%
EXC	Exelon Corporation	Buy	$27.77	1.24	1.25	1.25	1.25	4.5%	4.5%	4.5%	4.5%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$31.73	1.44	1.44	1.45	1.44	4.5%	4.6%	4.6%	4.5%	53%	51%	55%	54%
PEG	Public Service Enterprise Group	Buy	$38.69	1.56	1.62	1.69	1.81	4.0%	4.2%	4.4%	4.7%	53%	56%	59%	60%
Average								**4.5%**	**4.6%**	**4.6%**	**4.7%**	**53.6%**	**56.0%**	**57.6%**	**56.9%**
Other															
AWK	American Water Works	Buy	$59.75	1.34	1.46	1.56	1.72	2.2%	2.4%	2.6%	2.9%	51%	52%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenues, which includes investment banking revenues.

Please refer to this website for company-specific disclosures referenced in this report: https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

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Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Prior to 12/8/14, Guggenheim Securities, LLC’s BUY, NEUTRAL, and SELL ratings definitions were as follows (no other ratings definitions were changed):

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Neutral	108	38.71%	3	2.78%
Sell	0	0.00%	0	0.00%

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Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: PCG, NEE, SO, ES, AEP, EXC, ISO-NE, MISO

January 6, 2016

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What's New?

See here for Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

PCG – Consumer advocates seek $163mm fine for pipeline safety and record keeping
NEE – FL regulators approve need for $1.2bn Okeechobee CCGT
SO – Management evaluating Kemper schedule following start-up and operational challenges
ES – $483mm Interstate Reliability Project complete
AEP – Committing to burn gas at Conesville under PPA settlement
ES – FERC extends public comment period on KMI's New England pipeline proposal
ISO–NE – ISO-NE defends including solar DG for its capacity requirement
MISO/EXC – FERC directs MISO to revise capacity market tariff for next auction
FE – FE conducting study on whether to reopen PA coal plant

PCG – Consumer advocates seek $163mm fine for pipeline safety and record keeping

- The Office of Ratepayer Advocates (ORA), a CA consumer advocate, filed a motion for an Order to Show Cause alleging PG&E misrepresented pipeline safety inspections and record keeping; the group is asking regulators to impose a $163mm fine.
- ORA claims PCG misrepresented their reporting of maximum allowable operating pressure because the utility wouldn't have been able to perform calculations without complete system records.
- PCG responded to the filing, noting issues raised by ORA are outside the scope of their GT&S proceeding (where ORA filed their motion), and had already been fully-litigated and resolved.
- PCG argued that ORA's issue with pressure reporting was a misunderstanding rather than a misrepresentation; noting regulators were already aware PCG did not have complete records and had authorized the use of engineering assumptions.
- PCG defended system operations and processes since 2011, when CPUC proceedings began calling for significantly more documentation and transparency.

Guggenheim takeaway: *PCG managed to shed some of the remaining San Bruno overhang recently with a court ruling that cut potential criminal sanctions in half (to ~$0.6bn from $1.1bn), but parties continue to seek damages at every possible opportunity; even if unsuccessful/repetitive, each new claim/attempt maintains public focus on past transgressions.*

NEE – FL regulators approve need for $1.3bn Okeechobee CCGT

- The FPSC approved the need for the 1.6 GW Okeechobee CCGT proposed by FP&L, NEE's Florida utility.
- Construction of the $1.3bn plant would begin in 2017, and operational in mid-2019.
- NEE initially proposed the facility in 2015, and will require site certification and air permitting from the Florida DEP; NEE already filed for both and expects to progress through reviews with other agencies during 2016.

Guggenheim takeaway: *We view this as a big positive for NEE as Florida may be leaning toward a rate-based approach to comply with the EPA's Clean Power Plan, and also as further dependence on natural gas could create additional opportunities for their Florida utility to invest further upstream to secure gas supplies. We recently hosted investor meetings at the FPSC in Florida and expect continued support for NEE investment in low-cost gas generation that keeps rates low and investment upstream to secure supplies for their growing dependency on natural gas. For additional takeaways from our meetings with FL commissioners and NEE C-suite management see here.*

SO – Management evaluating Kemper schedule following start-up and operational challenges

- SO disclosed they were evaluating the construction, commissioning, and start-up schedule for Kemper as the result of challenges in ongoing start-up and commissioning activities.
- Challenges include repairs and modifications to the refractory lining inside the gasifiers, as well as operational readiness.
- The previously-disclosed projected in-service date is 1H16, and any specific cost/schedule updates are expected to be reflected in the next monthly status report (which SO expects to file in early February 2016).

Guggenheim takeaway: *The update from SO doesn't specifically tell us Kemper's schedule has changed as management is still evaluating, but it appears the saga in Mississippi may continue. SO previously estimated delays beyond June 2016 would cost ~$30mm per month, but the company had included planning contingencies; the monthly status report filed with the MPSC shows SO utilized some contingency so it has yet to be seen how this update might impact the overall project schedule.*

ES – $483mm Interstate Reliability Project complete

- ES announced the $483mm Interstate Reliability Project has been completed.
- ES partnered with National Grid (NGG, NC, $69.06) on the project.

Guggenheim takeaway: *This announcement completes the New England East West Solution (NEEWS), a suite of projects that make up the largest regional transmission upgrade in many years. We expect to see much more infrastructure development from ES to relieve constraints on New England's electric transmission and gas pipelines, and to mitigate volatile commodity prices like we saw during the Polar Vortex. We highlight New England on the forefront of infrastructure development and ES as the beneficiary in our 2016 Power & Utilities Outlook – see our 2016 outlook here for additional takeaways and deep-dives into the various projects underway in New England.*

AEP – Committing to burn gas at Conesville under PPA settlement

- AEP will displace 50% of coal generation from Conesville (two ~400MW units) with gas by YE2017 per their PPA settlement.

- In PPA hearings that are currently taking place, AEP noted sufficient gas supply was available, but could not conclude how much this would cost.
- AEP had agreed to retire, refuel, or repower units at their Cardinal and Conesville plants by 2029 and 2030, respectively.

Guggenheim takeaway: *AEP is going through the PPA hearings in OH with support from two groups representing the largest electric customers in Ohio (including the Sierra Club). Based on meetings we hosted with regulators in Ohio, we believe PUCO will approve the settlement to maintain jobs, local investment, and fuel diversity (although getting a little gassier); with approval AEP will be one step closer toward fully regulated status – merchant GenCo divestiture could be next. For additional takeaways see our recent note on AEP's PPA settlement.*

ES – FERC extends public comment period on KMI's New England pipeline proposal

- FERC extended the public comment period on KMI's (NC, $15.58) New England pipeline proposal, the Northeast Energy Direct (NED).
- The extension comes as a result of an eFiling error on FERC's website that didn't allow interested parties to comment.

Guggenheim takeaway: *While KMI's pipeline hits another snag (although seemingly out of their control here), we do not expect ES's Access Northeast Project to experience as much pushback. Access Northeast would be supported by contracts with electric utilities securing fuel for their power plants; a variation to KMI's traditional model where gas LDCs contract for pipeline capacity. Much of the gas capacity in New England is secured under firm contract by gas LDCs to meet heating demand, so a cold winter reduces the supply of gas available to fuel power plants. Limited gas supplies during a cold winter can challenge electric reliability and result in volatile prices as we experienced during the polar vortex.*

ISO–NE – ISO-NE defends including solar DG for its capacity requirement

- ISO-NE defended its calculation for its installed capacity requirement (ICR) auctions, which includes behind-the-meter solar resources.
- The proposed ICR for the upcoming auction is 34,151 MW, which reflects a 390 MW reduction due to DG.
- Generators protested inclusion of solar arguing that ISO-NE failed to hold a full stakeholder process before implementing these calculation changes.
- ISO-NE argued that inclusion of solar does not warrant changes to the ISO's tariff.

Guggenheim takeaway: *Including solar DG to reflect a reduction in demand in ISO-NE's load forecast would be a negative impact to generators bidding into the upcoming capacity auction. ISO-NE believes solar DG will better reflect the grid's changing load especially as it is being adopted at a more rapid rate.*

MISO/EXC – FERC directs MISO to revise capacity market tariff for next auction

- FERC found that provisions in MISO's tariff for its capacity auction are no longer reasonable and need to be revised.
- Provisions include reference levels used to mitigate market power, and capacity import limits.
- FERC did not address complaints on the high $150/MW-day clearing price in zone 4 (was $16.75/MW-day the year before) from the auction in 2015. The issue will be addressed in a future order.

- If FERC does order refunds, it will begin from May 28, 2015.
- FERC also did not address claims on market manipulation for the previous auction, and will conduct a separate investigation.

Guggenheim takeaway: *FERC ordered revisions to MISO's tariff and also noted that stakeholders are already exploring revisions to MISO's capacity auction. FERC directed MISO to revise its capacity import limits and reference levels for the upcoming capacity auction held in April 2017. We highlight that EXC is looking for MISO's capacity market reform to fall closer in line with PJM, as it will be a major factor in their decision on whether to retire Clinton.*

FE – FE conducting study on whether to reopen PA coal plant

- FE is conducting a long-term study on whether it is feasible to open its closed coal plant, Hatfield Ferry, in PA.
- Hatfield Ferry has rights to offer power into PJM through the second quarter of 2019. The 1,710 MW plant was closed in Oct. 2013.
- FE is conducting an evaluation as to whether the plant could burn coal, natural gas, or a combination of both.
- FE notes they have seen some "positive movement" in the market and capacity conditions in PJM.

Guggenheim takeaway: *We believe that bringing the coal plant back online could be expensive and unlikely given the costs associated with complying with MATS and other environmental standards. In our view, the natural gas outlook would have to be more positive in order for the plant to come online. FE will also have to see how PA will comply with CPP and if Hatfield Ferry could fit into the plan.*

Key Research

1. Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
2. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
3. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
4. GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing
5. FE - Upgrading to BUY - The Buckeye State Now Fully Investable
6. FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing
7. EEI Full Recap
8. EIX – NEUTRAL – Quick Take on Revised ALJ Proposal
9. Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings
10. DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details
11. PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve
12. 3Q Utility Earnings Sneak Peek: EEI Edition
13. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
14. EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission
15. DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth
16. EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off
17. PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power
18. FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. More Uplifting Data Points for AEP and FE
21. Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection
22. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
23. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables
24. EPA Clean Power Plan: Much Ado About Everything

Links: Guggenheim's Comp Sheet, Forward Commodity Curves for Power and Utility Modeling

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Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
01/11		Earliest Day Supreme Court could issues opinion on DR			FERC v. Electric Power Supply Association	
01/11	PCG	Deadline for criminal prosecutors to produce evidence supporting fines	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
01/11	ES	Northern Pass public information session (Franklin)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/13	ES	Northern Pass public information session (Londonderry)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/13	DTE	MI House of Representative legislation session begins		MI		House will work on passing bill for energy legislation reform - to be reconciled with Senate
01/14	ES	Northern Pass public information session (Laconia)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/14	FE	Evidentiary hearings begin	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/14	ETR	Open meetings for DCRF rider	ETI	AR	Docket No. 45083	Rider increase reflects incremental distribution investment
01/19	ETR	Indian Point CZM		NY	APL-2015-00152	CZM Case ETR respondent brief due
01/19	ETR	Hearing	EAI	AR	APSC Docket 15-015-U	Hearing begins, ends 1/22
01/20	ES	Northern Pass public information session (Coos County)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/21	ES	Northern Pass public information session (Lincoln)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/25	EIX	Next date for potential decision regarding the SONGS settlement	Southern California Edison	CA	I.12-10-013	Consideration of re-opening the SONGS settlement
01/26	SO	Intervenor testimony regarding GAS acquisition expected to be filed in Maryland		MD		MD PSC consideration of SO's proposed acquisition of GAS
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
01/28	ED	PSC technical conference on earnings impact mechanisms and related items	Consolidated Edison Company of New York Orange & Rockland	NY	14–M–0101	REV technical conference to discuss Earnings Impact Mechanisms (EIMs), as well as other topics
01/31	PCG	GT&S rate case decision expected in January 2016	Pacific Gas & Electric Company	CA	A.13-12-012	Procedural schedule estimates a decision regarding GT&S revenue requirement in January 2016
02/05	ES	Deadline to file motion to interene in Northern Pass proceedings		NH		The NH Site Evaluation Committee set a deadline for anyone wishing to intervene to file a motion with the commission.
02/16	ETR	Indian Point Coastal Zone Management (CZM)		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for CPV Maryland, LLC v. PPL EnergyPlus, LLC			Docket No. 14-623	Whether state-directed contracts for new generation build infringes on FERC jurisdiction on wholesale rates
03/08	PCG	Trial scheduled for PG&E criminal case	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion

Upcoming Corporate Access and Client Events

Client-Hosted Events	Dates	Where	Events and meetings
State Utilities Commissioners Breakfast *Guggenheim-hosted event with various utility commissioners*	01/20/16	▪ New York, NY	▪ Commissioner Doug Little, Arizona Corporation Commission ▪ Commissioner Travis Kavulla, Montana Public Service Commission ▪ Commissioner Kristine Raper, Idaho Public Utilities Commission ▪ *More commissioners and senior management attendees being added*

Guggenheim Power & Utilities Comp Sheet (As of 01/05/2016)

Regulateds		Mkt. Cap		Target	Current	Price	Diluted	EPS - Guggenheim					EPS - Consensus					P/E - Guggenheim				P/E - Consensus			
Ticker	**Company**	**($MM)**	**Rating**	**Price[1]**	**Price**	**Change**	**Shares**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**'15E**	**'16E**	**'17E**	**'18E**
AEP	American Electric Power	28,865	Buy	$62	$58.81	5%	489	3.73	3.73	3.92	4.19	4%	3.73	3.71	3.89	4.16	4%	15.8	15.8	15.0	14.0	15.8	15.9	15.1	14.1
ED	Consolidated Edison, Inc.	19,031	Neutral	$59	$64.91	-9%	294	4.00	4.10	4.17	4.33	3%	4.01	4.07	4.18	4.33	3%	16.2	15.8	15.6	15.0	16.2	16.0	15.5	15.0
D	Dominion Resources, Inc.	40,512	Buy	$76	$68.05	12%	585	3.65	3.84	3.99	4.47	7%	3.66	3.85	4.01	4.53	7%	18.6	17.7	17.1	15.2	18.6	17.7	17.0	15.0
DTE	DTE Energy Company	14,349	Buy	$86	$79.95	8%	177	4.85	4.98	5.27	5.66	5%	4.81	4.96	5.28	5.61	5%	16.5	16.1	15.2	14.1	16.6	16.1	15.1	14.3
DUK	Duke Energy Corporation	49,354	Buy	$76	$71.70	6%	707	4.60	4.64	4.95	5.07	3%	4.59	4.70	4.93	5.23	4%	15.6	15.5	14.5	14.1	15.6	15.3	14.5	13.7
EIX	Edison International	19,213	Neutral	$62	$58.97	5%	329	3.81	3.75	4.04	4.31	4%	3.79	3.74	4.04	4.31	4%	15.5	15.7	14.6	13.7	15.6	15.8	14.6	13.7
ES	Eversource Energy	16,288	Buy	$55	$51.35	7%	317	2.82	2.99	3.19	3.44	7%	2.85	3.03	3.22	3.44	7%	18.2	17.2	16.1	14.9	18.0	17.0	16.0	14.9
GXP	Great Plains Energy Inc.	4,203	Buy	$30	$27.23	10%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	19.5	15.7	14.6	13.8	19.4	15.5	14.8	14.0
NEE	NextEra Energy, Inc.	48,155	Buy	$124	$104.58	19%	440	5.66	6.19	6.60	7.04	8%	5.66	6.16	6.52	6.96	7%	18.5	16.9	15.8	14.9	18.5	17.0	16.0	15.0
PCG	PG&E Corporation	26,004	Neutral	$53	$53.02	0%	470	3.02	3.67	3.69	3.91	9%	3.05	3.72	3.71	3.93	9%	17.6	14.4	14.4	13.6	17.4	14.2	14.3	13.5
PNW	Pinnacle West Capital Corp.	7,139	Neutral	$60	$64.40	-7%	111	3.81	4.02	4.18	4.43	5%	3.79	4.00	4.20	4.35	5%	16.9	16.0	15.4	14.5	17.0	16.1	15.3	14.8
PPL	PPL Corporation	22,868	Buy	$37	$34.04	9%	666	2.21	2.33	2.44	2.57	5%	2.21	2.33	2.41	2.53	5%	15.4	14.6	14.0	13.2	15.4	14.6	14.1	13.4
SO	Southern Company	43,047	Neutral	$43	$47.36	-9%	901	2.87	2.97	3.05	3.18	3%	2.87	2.95	3.08	3.21	4%	16.5	15.9	15.5	14.9	16.5	16.0	15.4	14.8
WR	Westar Energy, Inc.	6,023	Buy	$46	$42.64	8%	133	2.21	2.43	2.54	2.64	6%	2.21	2.45	2.55	2.65	6%	19.3	17.5	16.8	16.2	19.3	17.4	16.7	16.1
TE	TECO Energy, Inc.	6,349	Neutral	$28	$26.99	4%	224	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.28	1.34	7%	24.8	22.9	21.3	20.0	24.5	22.9	21.0	20.1
***Average*[2]**												**6%**					**6%**	**17.1**	**16.1**	**15.3**	**14.4**	**17.1**	**16.0**	**15.3**	**14.5**
Integrateds																									
ETR	Entergy Corporation	12,300	Neutral	$69	$68.95	0%	180	5.80	5.01	5.12	5.16	-4%	5.75	5.00	5.02	5.17	-3%	11.9	13.8	13.5	13.4	12.0	13.8	13.7	13.3
EXC	Exelon Corporation	25,895	Buy	$31	$28.16	10%	864	2.56	2.53	2.63	2.85	4%	2.51	2.54	2.70	2.88	5%	11.0	11.1	10.7	9.9	11.2	11.1	10.4	9.8
FE	FirstEnergy Corp.	13,343	Buy	$39	$31.54	24%	421	2.71	2.87	2.86	2.91	2%	2.70	2.85	2.65	2.71	0%	11.6	11.0	11.0	10.8	11.7	11.1	11.9	11.6
PEG	Public Service Enterprise Group	19,697	Buy	$41	$38.93	5%	508	2.93	2.97	2.93	3.00	1%	2.93	2.93	2.85	3.00	1%	13.3	13.1	13.3	13.0	13.3	13.3	13.7	13.0
Average												**1%**					**1%**	**12.0**	**12.2**	**12.1**	**11.8**	**12.1**	**12.3**	**12.4**	**11.9**
Other																									
AWK	American Water Works	10,795	Buy	$66	$60.15	10%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	22.7	21.3	19.9	18.8	22.9	21.3	19.9	18.7

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds			Current	Consensus Dividend Per Share				Consensus Dividend Yield				Consensus Dividend Payout			
Ticker	**Company**	**Rating**	**Price**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**
AEP	American Electric Power	Buy	$58.81	2.15	2.26	2.36	2.52	3.7%	3.8%	4.0%	4.3%	58%	61%	61%	61%
ED	Consolidated Edison, Inc.	Neutral	$64.91	2.59	2.64	2.70	2.76	4.0%	4.1%	4.2%	4.3%	65%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$68.05	2.58	2.77	2.98	3.21	3.8%	4.1%	4.4%	4.7%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$79.95	2.83	2.97	3.13	3.37	3.5%	3.7%	3.9%	4.2%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$71.70	3.26	3.38	3.53	3.71	4.5%	4.7%	4.9%	5.2%	71%	72%	72%	71%
EIX	Edison International	Neutral	$58.97	1.68	1.90	2.10	2.20	2.9%	3.2%	3.6%	3.7%	44%	51%	52%	51%
ES	Eversource Energy	Buy	$51.35	1.68	1.79	1.91	2.00	3.3%	3.5%	3.7%	3.9%	59%	59%	59%	58%
GXP	Great Plains Energy Inc.	Buy	$27.23	1.01	1.09	1.16	1.22	3.7%	4.0%	4.3%	4.5%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$104.58	3.07	3.47	3.93	4.48	2.9%	3.3%	3.8%	4.3%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$53.02	1.83	1.93	2.06	2.21	3.4%	3.6%	3.9%	4.2%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$64.40	2.41	2.53	2.66	2.79	3.7%	3.9%	4.1%	4.3%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$34.04	1.50	1.53	1.57	1.64	4.4%	4.5%	4.6%	4.8%	68%	66%	65%	65%
SO	Southern Company	Neutral	$47.36	2.16	2.23	2.31	2.41	4.6%	4.7%	4.9%	5.1%	75%	75%	75%	75%
WR	Westar Energy, Inc.	Buy	$42.64	1.44	1.51	1.60	1.65	3.4%	3.5%	3.8%	3.9%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$26.99	0.90	0.92	0.95	0.96	3.3%	3.4%	3.5%	3.6%	82%	78%	74%	72%
Average								**3.7%**	**3.9%**	**4.1%**	**4.3%**	**64%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$68.95	3.34	3.42	3.49	3.60	4.8%	5.0%	5.1%	5.2%	58%	68%	70%	70%
EXC	Exelon Corporation	Buy	$28.16	1.24	1.25	1.25	1.25	4.4%	4.4%	4.4%	4.4%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$31.54	1.44	1.44	1.45	1.44	4.6%	4.6%	4.6%	4.6%	53%	51%	55%	53%
PEG	Public Service Enterprise Group	Buy	$38.93	1.56	1.62	1.69	1.81	4.0%	4.2%	4.4%	4.7%	53%	56%	59%	60%
Average								**4.5%**	**4.5%**	**4.6%**	**4.7%**	**54%**	**56%**	**58%**	**57%**
Other															
AWK	American Water Works	Buy	$60.15	1.34	1.46	1.56	1.72	2.2%	2.4%	2.6%	2.9%	51%	52%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

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			IB Serv./ Past 12Mos.	
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Neutral	110	39.15%	3	2.73%
Sell	0	0.00%	0	0.00%

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Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: D, MISO, EXC, DUK, ETR, AEP, WR, Gas, EPA

January 8, 2016

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What's New?

See here for Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

D – FERC defends Cove Point approval
MISO/EXC – IL AG wants refunds from MISO auction
DUK – Residents join environmental groups, publish list of coal ash demands for Duke and NC
D – Customers prepared to file suit against VA rate freeze
ETR – LA Commission approves ETR transmission projects
WR – KS Commission reviews effects of nonbinding renewable standards law
Gas – Natural gas outpaces coal in electric generation in 2015
EPA – Oklahoma Senator demands EPA maintain its ruling that fracking doesn't threaten drinking water

D – FERC defends Cove Point approval

- FERC approved D's Cove Point LNG export terminal in 2014.
- FERC dismissed environmental group's claim that it did not appropriately consider environmental impacts before approving the project.
- FERC defended its environmental review and noted that the DOE conducted a separate environmental review on impacts of gas production and climate impacts of LNG exports.

Guggenheim takeaway: *D is confident FERC's approval will be upheld in U.S. Court of Appeals; we assume the project will be complete in 2018.*

MISO – IL AG wants refunds from MISO auction

- FERC found that provisions in MISO's tariff for its capacity auction are no longer reasonable and need to be revised.
- FERC did not address complaints on the high $150/MW-day clearing price in zone 4 (was $16.75/MW-day the year before) from the auction in 2015. The issue will be addressed in a future order.
- The increase in capacity prices had sparked political backlash and complaints to FERC by IL AG to conduct a formal investigation. The IL AG urged regulators to deliver relief from last year's jump.

Guggenheim takeaway: *Several stakeholders filed complaints from the results of MISO's capacity auction. FERC ordered revisions to MISO's tariff and also noted that stakeholders are already exploring revisions to MISO's capacity auction. FERC also directed MISO to revise its capacity import limits and reference levels for the upcoming capacity auction held in April 2017. We highlight that EXC is looking for MISO's capacity market reform to fall closer in line with PJM, as it will be a major factor in its decision on whether to retire Clinton.*

DUK – Residents join environmental groups, publish list of coal ash demands for Duke and NC

- An environmental group ACT Against Coal Ash released a set of demands that would include classifying DUK's coal ash sites as high-priority and having the utility take responsibility for harm caused by coal ash ponds.
- The environmental group also called for Duke to store coal ash on its property rather than moving it to other communities.

Guggenheim takeaway: *The NC DEQ recently released their proposed classification of DUK's coal ash basins; four had been designated high-risk under the 2014 Coal Ash Management Law, and the remaining sites were deemed low or intermediate risk. We recently hosted investor meetings with DUK management that included a tour of the Riverbend coal facility and these recommendations support our expectation that Coal Ash investment upside would likely be limited – see here for additional takeaways from our meetings.*

D – Customers prepared to file suit against VA rate freeze

- Senate Bill 1349 allows Dominion to freeze its base rates until 2023 unless the company seeks an emergency increase.
- The Virginia Attorney General criticized the law, claiming that the legislation could charge customers excessive rates.
- VA Commissioner Dimitri questioned the law's constitutionality, saying that the law has stripped the Commission of its proper authority.
- The Virginia Committee for Fair Utility Rates, a group of large industrial customers, filed papers with regulators indicating intent to appeal with the VA Supreme Court.

Guggenheim takeaway: *D has managed to avoid full-blown ratecases by using riders for growth CapEx; and the company doesn't agree with other parties that argue the utility is over-earning its allowed ROE and deserves a refund. We don't believe D will be pulled into a proceeding, as it appears to be working well with State officials on a path toward CPP compliance, and evaluating investment requirements that would be required.*

ETR – LA Commission approves ETR transmission projects

- The LA PSC approved ETR's largest transmission project, the $187mm Lake Charles Transmission project.
- The project will include a 500-kv transmission line, 18 miles of new 230-kV transmission line, two new substations, and one substation expansion.
- The project is expected to be completed in mid-2018 and will serve more than 800MW of new industrial load in the Lake Charles area by 2019.
- AEP and Duke protested that the transmission project should have been reviewed through the more formal MTEP process.
- The LA PSC also approved ETR's $57mm Louisiana Economic Transmission Project to reduce congestion.

Guggenheim takeaway: *ETR's out-of-cycle request for its Lake Charles Transmission Projects was needed to meet the needs of major industrial projects that will come online in the area. These projects were not made known to ETR LA before its load forecast was submitted to MISO, according to ETR. We believe ETR will continue to benefit from industrial load growth in the region by building new gas-fired generation and transmission lines.*

WR – KS Commission reviews effects of nonbinding renewable standards law

- The KS Commission is reviewing the 2015 law that made the 2009 requirement for utilities to purchase 20% of their electricity from renewable sources by 2020 into a voluntary target.
- KS lawmakers repealed portions of the Renewable Energy Standards Act established in 2009 that directed the Commission to establish reporting and enforcement mechanisms.
- Utilities are still allowed to recover reasonable costs incurred to meet the renewable target.
- The KS commission on January 5 ordered staff to file a report recommending a course of action to evaluate the impact of making the law voluntary.

Guggenheim takeaway: *While the renewable energy targets for utilities are now voluntary, we believe WR is already surpassing its targets by installing over 1,700 MW of wind generation. We believe WR's decision to own wind plants is for economic benefits, given that the PTC has been extended, and is also a hedge to CPP compliance. WR's renewable mix will be 14% in 2016, and we expect that percentage to increase with wind coming online. See our note for more details on WR's wind investment strategy.*

Gas – Natural gas outpaces coal in electric generation in 2015

- American Petroleum Institute President and CEO Jack Gerard noted in his keynote speech that "in 2015 there were several months in which natural gas produced more electricity than any other fuel for the first time in U.S. history."
- The speech also noted that in the first 10 months of 2015, natural gas outpaced coal for five of the ten months.
- Gerard also claimed that natural goes does not reduce "opportunity for wind and solar power," it "provides the reliable base load power necessary to integrate those intermittent sources."

Guggenheim takeaway: *As we highlight in our research, we believe the outlook for coal is bleak and for the coal retirement path to continue if not accelerate. Even with our estimated ~71GW of coal retiring, we don't anticipate enough demand pull to materially influence natural gas prices given oversupply. Assuming the coal retirement path continues, we believe coal as a % of power generation will decrease from 46% to 30% by the end of the decade, and natural gas to increase from 23% to 38%. See our 2016 outlook for more details.*

EPA – Oklahoma Senator demands EPA maintain its ruling that fracking doesn't threaten drinking water

- Senate Environment and Public Works Committee head Sen. James Inhofe demanded that the EPA leave intact its original conclusion that fracking does not systematically threaten the nation's drinking water.
- Inhofe contests with Democratic lawmakers wanting to bring fracking under federal control by amending the Safe Water Drinking Act.
- The board recommended that the EPA add to its study improvements the industry has made in well design, well casing, and green completions.

Guggenheim takeaway: *We believe the supply of natural gas will continue to grow, regardless of litigation against hydraulic fracking. Depending on renewable penetration, we estimate ~3.5-6.0 bcf/d of incremental gas demand when all ~71GW of coal retirements are completed.*

Key Research

1. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
2. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
3. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
4. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
5. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
6. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
7. *EEI Full Recap*
8. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
9. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
10. *DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details*
11. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
12. *3Q Utility Earnings Sneak Peek: EEI Edition*
13. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
14. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*
15. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
16. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
17. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
18. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
19. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
20. *More Uplifting Data Points for AEP and FE*
21. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*
22. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
23. *Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables*
24. *EPA Clean Power Plan: Much Ado About Everything*

Links: Guggenheim's Comp Sheet, Forward Commodity Curves for Power and Utility Modeling

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
01/11		Earliest Day Supreme Court could issues opinion on DR			FERC v. Electric Power Supply Association	
01/11	PCG	Deadline for criminal prosecutors to produce evidence supporting fines	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
01/11	ES	Northern Pass public information session (Franklin)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/13	ES	Northern Pass public information session (Londonderry)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/13	DTE	MI House of Representative legislation session begins		MI		House will work on passing bill for energy legislation reform - to be reconciled with Senate
01/14	ES	Northern Pass public information session (Laconia)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/14	FE	Evidentiary hearings begin	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/14	ETR	Open meetings for DCRF rider	ETI	AR	Docket No. 45083	Rider increase reflects incremental distribution investment
01/19	ETR	Indian Point CZM		NY	APL-2015-00152	CZM Case ETR respondent brief due
01/19	ETR	Hearing	EAI	AR	APSC Docket 15-015-U	Hearing begins, ends 1/22
01/20	ES	Northern Pass public information session (Coos County)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/21	ES	Northern Pass public information session (Lincoln)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/25	EIX	Next date for potential decision regarding the SONGS settlement	Southern California Edison	CA	I.12-10-013	Consideration of re-opening the SONGS settlement
01/26	SO	Intervenor testimony regarding GAS acquisition expected to be filed in Maryland		MD		MD PSC consideration of SO's proposed acquisition of GAS
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
01/28	ED	PSC technical conference on earnings impact mechanisms and related items	Consolidated Edison Company of New York Orange & Rockland	NY	14–M–0101	REV technical conference to discuss Earnings Impact Mechanisms (EIMs), as well as other topics
01/31	PCG	GT&S rate case decision expected in January 2016	Pacific Gas & Electric Company	CA	A.13-12-012	Procedural schedule estimates a decision regarding GT&S revenue requirement in January 2016
02/05	ES	Deadline to file motion to interene in Northern Pass proceedings		NH		The NH Site Evaluation Committee set a deadline for anyone wishing to intervene to file a motion with the commission.
02/16	ETR	Indian Point Coastal Zone Management (CZM)		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for CPV Maryland, LLC v. PPL EnergyPlus, LLC			Docket No. 14-623	Whether state-directed contracts for new generation build infringes on FERC jurisdiction on wholesale rates
03/08	PCG	Trial scheduled for PG&E criminal case	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion

Upcoming Corporate Access and Client Events

Client-Hosted Events	Dates	Where	Events and meetings
State Utilities Commissioners Breakfast *Guggenheim-hosted event with various utility commissioners*	01/20/16	▪ New York, NY	▪ Commissioner Doug Little, Arizona Corporation Commission ▪ Commissioner Travis Kavulla, Montana Public Service Commission ▪ Commissioner Kristine Raper, Idaho Public Utilities Commission ▪ *More commissioners and senior management attendees being added*

Guggenheim Power & Utilities Comp Sheet (As of 01/07/2016)

Regulateds		**Mkt. Cap ($MM)**	**Rating**	**Target Price[1]**	**Current Price**	**Price Change**	**Diluted Shares**	**EPS - Guggenheim**					**EPS - Consensus**					**P/E - Guggenheim**				**P/E - Consensus**			
Ticker	**Company**							**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**'15E**	**'16E**	**'17E**	**'18E**
AEP	American Electric Power	28,639	Buy	$62	$58.35	6%	489	3.73	3.73	3.92	4.19	4%	3.73	3.71	3.89	4.16	4%	15.6	15.6	14.9	13.9	15.7	15.7	15.0	14.0
ED	Consolidated Edison, Inc.	19,269	Neutral	$59	$65.72	-10%	294	4.00	4.10	4.17	4.33	3%	4.01	4.07	4.18	4.33	3%	16.4	16.0	15.8	15.2	16.4	16.1	15.7	15.2
D	Dominion Resources, Inc.	40,786	Buy	$76	$68.51	11%	585	3.65	3.84	3.99	4.47	7%	3.66	3.85	4.01	4.53	7%	18.8	17.8	17.2	15.3	18.7	17.8	17.1	15.1
DTE	DTE Energy Company	14,128	Buy	$86	$78.72	9%	177	4.85	4.98	5.27	5.66	5%	4.81	4.96	5.28	5.61	5%	16.2	15.8	14.9	13.9	16.4	15.9	14.9	14.0
DUK	Duke Energy Corporation	49,009	Buy	$76	$71.20	7%	707	4.60	4.64	4.95	5.07	3%	4.59	4.70	4.93	5.23	4%	15.5	15.3	14.4	14.0	15.5	15.2	14.4	13.6
EIX	Edison International	18,992	Neutral	$62	$58.29	6%	329	3.81	3.75	4.04	4.31	4%	3.79	3.74	4.04	4.31	4%	15.3	15.5	14.4	13.5	15.4	15.6	14.4	13.5
ES	Eversource Energy	16,221	Buy	$55	$51.14	8%	317	2.82	2.99	3.19	3.44	7%	2.85	3.03	3.22	3.44	7%	18.1	17.1	16.0	14.9	18.0	16.9	15.9	14.9
GXP	Great Plains Energy Inc.	4,205	Buy	$30	$27.24	10%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	19.5	15.7	14.6	13.8	19.4	15.5	14.8	14.0
NEE	NextEra Energy, Inc.	48,210	Buy	$124	$104.70	18%	440	5.66	6.19	6.60	7.04	8%	5.66	6.16	6.52	6.96	7%	18.5	16.9	15.9	14.9	18.5	17.0	16.1	15.1
PCG	PG&E Corporation	25,729	Neutral	$53	$52.46	1%	470	3.02	3.67	3.69	3.91	9%	3.05	3.72	3.71	3.93	9%	17.4	14.3	14.2	13.4	17.2	14.1	14.1	13.3
PNW	Pinnacle West Capital Corp.	7,146	Neutral	$60	$64.47	-7%	111	3.81	4.02	4.18	4.43	5%	3.79	4.00	4.20	4.35	5%	16.9	16.0	15.4	14.6	17.0	16.1	15.4	14.8
PPL	PPL Corporation	22,532	Buy	$37	$33.54	10%	666	2.21	2.33	2.44	2.57	5%	2.21	2.33	2.41	2.53	5%	15.2	14.4	13.7	13.1	15.2	14.4	13.9	13.2
SO	Southern Company	42,693	Neutral	$43	$46.97	-8%	901	2.87	2.97	3.05	3.18	3%	2.87	2.95	3.08	3.21	4%	16.4	15.8	15.4	14.8	16.3	15.9	15.3	14.6
WR	Westar Energy, Inc.	5,967	Buy	$46	$42.24	9%	133	2.21	2.43	2.54	2.64	6%	2.21	2.45	2.55	2.65	6%	19.1	17.4	16.6	16.0	19.1	17.3	16.5	15.9
TE	TECO Energy, Inc.	6,328	Neutral	$28	$26.90	4%	224	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.28	1.34	7%	24.7	22.8	21.2	19.9	24.5	22.8	20.9	20.1
Average [2]												**6%**					**6%**	**17.1**	**16.0**	**15.2**	**14.4**	**17.1**	**16.0**	**15.3**	**14.4**
Integrateds																									
ETR	Entergy Corporation	12,048	Neutral	$69	$67.54	2%	180	5.80	5.01	5.12	5.16	-4%	5.77	5.01	5.02	5.17	-4%	11.6	13.5	13.2	13.1	11.7	13.5	13.5	13.1
EXC	Exelon Corporation	25,601	Buy	$31	$27.84	11%	864	2.56	2.53	2.63	2.85	4%	2.51	2.54	2.70	2.88	5%	10.9	11.0	10.6	9.8	11.1	10.9	10.3	9.7
FE	FirstEnergy Corp.	13,114	Buy	$39	$31.00	26%	421	2.71	2.87	2.86	2.91	2%	2.70	2.85	2.65	2.71	0%	11.4	10.8	10.8	10.7	11.5	10.9	11.7	11.4
PEG	Public Service Enterprise Group	19,636	Buy	$41	$38.81	6%	508	2.93	2.97	2.93	3.00	1%	2.93	2.93	2.85	3.00	1%	13.2	13.1	13.2	12.9	13.3	13.3	13.6	12.9
Average												**1%**					**1%**	**11.8**	**12.1**	**12.0**	**11.6**	**11.9**	**12.1**	**12.3**	**11.8**
Other																									
AWK	American Water Works	10,668	Buy	$66	$59.44	11%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	22.4	21.0	19.6	18.6	22.6	21.0	19.7	18.5

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds			**Current**	**Consensus Dividend Per Share**				**Consensus Dividend Yield**				**Consensus Dividend Payout**			
Ticker	**Company**	**Rating**	**Price**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**
AEP	American Electric Power	Buy	$58.35	2.15	2.26	2.36	2.52	3.7%	3.9%	4.0%	4.3%	58%	61%	61%	61%
ED	Consolidated Edison, Inc.	Neutral	$65.72	2.59	2.64	2.70	2.76	3.9%	4.0%	4.1%	4.2%	65%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$68.51	2.58	2.77	2.98	3.21	3.8%	4.0%	4.3%	4.7%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$78.72	2.83	2.97	3.13	3.37	3.6%	3.8%	4.0%	4.3%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$71.20	3.26	3.38	3.53	3.71	4.6%	4.7%	5.0%	5.2%	71%	72%	72%	71%
EIX	Edison International	Neutral	$58.29	1.68	1.90	2.10	2.20	2.9%	3.3%	3.6%	3.8%	44%	51%	52%	51%
ES	Eversource Energy	Buy	$51.14	1.68	1.79	1.91	2.00	3.3%	3.5%	3.7%	3.9%	59%	59%	59%	58%
GXP	Great Plains Energy Inc.	Buy	$27.24	1.01	1.09	1.16	1.22	3.7%	4.0%	4.3%	4.5%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$104.70	3.07	3.47	3.93	4.48	2.9%	3.3%	3.7%	4.3%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$52.46	1.83	1.93	2.06	2.21	3.5%	3.7%	3.9%	4.2%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$64.47	2.41	2.53	2.66	2.79	3.7%	3.9%	4.1%	4.3%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$33.54	1.50	1.53	1.57	1.64	4.5%	4.6%	4.7%	4.9%	68%	66%	65%	65%
SO	Southern Company	Neutral	$46.97	2.16	2.23	2.31	2.41	4.6%	4.7%	4.9%	5.1%	75%	75%	75%	75%
WR	Westar Energy, Inc.	Buy	$42.24	1.44	1.51	1.60	1.65	3.4%	3.6%	3.8%	3.9%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$26.90	0.90	0.92	0.95	0.96	3.3%	3.4%	3.5%	3.6%	82%	78%	74%	72%
Average								**3.7%**	**3.9%**	**4.1%**	**4.3%**	**64%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$67.54	3.34	3.42	3.49	3.60	4.9%	5.1%	5.2%	5.3%	58%	68%	70%	70%
EXC	Exelon Corporation	Buy	$27.84	1.24	1.25	1.25	1.25	4.5%	4.5%	4.5%	4.5%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$31.00	1.44	1.44	1.45	1.44	4.6%	4.7%	4.7%	4.6%	53%	51%	55%	53%
PEG	Public Service Enterprise Group	Buy	$38.81	1.56	1.62	1.69	1.81	4.0%	4.2%	4.4%	4.7%	53%	56%	59%	60%
Average								**4.5%**	**4.6%**	**4.7%**	**4.8%**	**53%**	**56%**	**58%**	**57%**
Other															
AWK	American Water Works	Buy	$59.44	1.34	1.46	1.56	1.72	2.3%	2.5%	2.6%	2.9%	51%	52%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

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			IB Serv./ Past 12Mos.	
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Neutral	110	39.15%	3	2.73%
Sell	0	0.00%	0	0.00%

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Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: EXC, FE, DTE, NEE, D, DUK, NEE January 11, 2016

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What's New?

See here for Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

EXC – MD court upholds Commission's approval of merger
FE - Residents oppose proposed coal ash disposal site for Bruce Mansfield
FE - OH Commission will hear complaints against 2014 polar vortex pass-through charges
DTE – Engineers recommend pipeline should be away from water sources
NEE – HI PUC Chairman doesn't appreciate last minute filings from NEE, questions their intentions
D/DUK – State water board will hear coal ash plans from D
ISO-NE/EXC – FERC denies rehearing on ISO-NE new entry pricing
NEE – FERC denies incentive ROE for CA transmission projects

EXC – MD court upholds Commission's approval of merger

- The MD circuit court upheld the MD PSC's decision to approve EXC's acquisition of POM (NC, $25.75) and denied an appeal from the Office of the People's Council.
- The petitioners had the support of MD Attorney General Brian Frosh who filed a friend of the court brief asking that the decision be reconsidered.
- The court ruled that the MD commission properly considered issues brought up by the appealing party in their decision to approve the merger.
- The DC PSC is expected to make a decision on the settlement proposal in 1Q 2016.

Guggenheim takeaway: *As we highlighted in our research, we did not believe there would be minimal headwinds from the challenge against MD Commission's decision. Approval from the DC Commission is the final step in closing the deal. With respect to the process going forward after the record closes, we believe a decision will come from the DC Commission in 1Q16. The question remains whether the settlement will sway two of the three Commissioners for majority approval. We expect this deal will close.*

FE- Residents oppose proposed coal ash disposal site for Bruce Mansfield

- One proposed coal ash disposal site for Bruce Mansfield is in Fayette County, PA.
- Residents oppose this new site during the public comment period held by the Department of Environmental Protection for a water discharge permit for the site.
- PA has ordered the Little Blue Run impoundment, the largest coal ash landfill in the country, to be closed by Dec. 31, 2016.

- Another method of waste disposal is to use coal combustions residual materials (CCR) for closure and reclamation of legacy coal mines. FE would need a beneficial reuse permit" from the state DEP.

Guggenheim takeaway: *Bruce Mansfield will continue to operate given savings from coal contracts and FE's Cash Flow Improvement Plan. Although the Little Blue Run coal ash landfill site is set to close, FE is looking for alternative options to dispose of the plant's coal ash.*

FE - OH Commission will hear complaints against 2014 polar vortex pass-through charges

- The OH Commission (PUCO) will hear a complaint against FE's competitive business over its pass-through charges during the 2014 winter polar vortex.
- FES stated that PUCO does not have jurisdiction over these charges as it is a "pure contract claim, which is the jurisdiction of Ohio courts."
- PUCO claims that their "expertise is necessary to interpret the regulations and statutes that govern" these markets.

Guggenheim takeaway: *The extra charges during the polar vortex in 2014 were charges imposed by PJM. In a similar case, PUCO ruled in November 2015 that, all in all, competitive retail electric service contracts, "fixed should mean fixed." We believe PUCO's ruling on these charges could be a negative if FE has to refund its pass-through charges.*

DTE – Engineer recommends pipeline should be away from water sources

- A sanitary engineer of Sandusky County posted his concern for the pipeline's proximity to water wells to FERC.
- DTE is currently accepting public comment on the path for NEXUS pipeline and has filed a formal application to FERC.
- The pipeline would run through Ohio counties and pass close to public water wells in Fremont County.
- NEXUS submitted its FERC application for the ~255 mile, 1.5 Bcf/day pipeline requesting that a decision be made before 4Q 2016 so that construction could being in early 2017.

Guggenheim takeaway: *We continue to note in our research that we believe NEXUS will be built according to plan and DTE has been accepting public comment on the route, and is expected to be completed in 2018. After the line is built, upsizing to 2.0bcf/day will likely be driven by increases in volume from additional Utica shale gas producers, as well as markets along the Ohio path, in our view.*

NEE – HI PUC Chairman doesn't appreciate last minute filings from NEE, questions their intentions

- Local media reports more tension growing between NEE and Hawaii State regulators regarding their proposed acquisition of HE (NC, $28.78); highlighting an opinion attached to recent rulings by the PUC Chairman.
- The Chairman suggests NEE is making it difficult for parties to participate in the proceeding with last minute changes to terms of the transaction, and expresses concern with NEE's disregard of commission orders.
- As a reminder, NEE reached an agreement with the Department of Defense that would have them withdraw intervenors from NEE's following more specific commitments to develop renewables from NEE; the commission accepted NEE's additional commitments, however they would not allow the DOD to withdraw.

Guggenheim takeaway: *We have continuously highlighted our diminishing confidence in this transaction closing, even as NEE managed to win over some stakeholders such as the DOD; efforts to appease local opponents only bring more criticism and the clock is still ticking. The merger agreement includes a regulatory approval clause that expires in June, and NEE will likely pay the $90mm break-up fee and walk away, in our view; they could always walk away sooner, but management is likely honoring their agreement through June.*

D/DUK – D's coal-ash plans to go before VA water board

- As part of an effort to seal a Virginia coal ash pond (and an EPA mandate), D proposed a plan that would drain water into a nearby creek after it has been treated to remove pollutants.
- The plan brought opposition from environmental advocates, some alleging D was already discharging contaminated water and calling for a federal investigation.
- D emphasizes they are focused on closing ash-ponds as quickly as possible; they noted the instance concerning contamination was referring to a storm drain intended to divert water.
- Virginia's State Water Control Board is considering the approach and could make a decision when they convene on Thursday this week.

Guggenheim takeaway: *Handling coal-ash is a delicate task, considering the environmental interest and regulatory scrutiny that come with, but we believe D and DUK are well-equipped to manage; potential investment upside is limited in our view. Focus has mainly been on DUK's coal ash strategy in NC thus far, but we expect interest will grow as plans are put forward. We recently hosted investor meetings with DUK management that included a tour of the Riverbend coal facility – see here for additional takeaways from our meetings.*

ISO-NE/EXC – FERC denies rehearing on ISO-NE new entry pricing

- FERC reaffirmed the zero-price offer requirement for new resources in ISO-NE's capacity auction.
- ISO-NE allows for new resources to lock in capacity prices for six subsequent delivery years by offering as a price-taker with a price of zero.
- EXC argued that the rule creates two-tiered pricing in that existing resources could receive lower capacity payments than the new resources if capacity prices fall in future auctions.
- FERC noted that locking in capacity prices for new resource may "result in lower cpacacity clearing prices" but that it was a "reasonable balance between incenting new entry and protecting customers from high prices."
- ISO-NE's next capacity auction (FCA 10) is scheduled for Feb. 8.

Guggenheim takeaway: *FERC notes that the zero bid offer is an appropriate rule for ISO-NE to incent new generation build. In a scenario where new generators bid higher than zero in subsequent options could raise costs according to FERC. The zero-offer price requirement stands for the upcoming capacity auction.*

NEE – FERC denies incentive ROE for CA transmission projects

- FERC denied NEE's request for a transmission incentive ROE under section 219 that would close the gap between their formula rate and a 10% ROE, if the base ROE is determined to be less than 10%.

- NEE filed the request in July 2015 along with other proposals related to participating in a transmission-owner tariff and implementation protocols for the CA ISO to calculate revenue requirement.
- The commission accepted and suspended NEE's proposal for the transmission-owner tariff to become effective, subject to refund.
- The order is subject to re-hearing and FERC has established a procedural schedule regarding the proposed ROE.

Guggenheim takeaway: *The matter is still subject to re-hearing so not yet clear how it will ultimately play out. NEE made binding cost commitments to win the bid for the projects, which would also be the first projects their NEET West affiliate could construct and put into service. NEE established NEET West to develop transmission in CA and participate in the CA ISO; the affiliate was recently awarded the Suncrest Reactive Power Project and a substation project in CA. While NEE is a well-established project developer, their affiliate is seeking a return commensurate with the development risk and as well as the potential for un-recoverable costs.*

Key Research

1. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
2. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
3. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
4. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
5. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
6. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
7. *EEI Full Recap*
8. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
9. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
10. *DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details*
11. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
12. *3Q Utility Earnings Sneak Peek: EEI Edition*
13. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
14. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*
15. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
16. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
17. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
18. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
19. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
20. *More Uplifting Data Points for AEP and FE*
21. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*
22. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
23. *Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables*
24. *EPA Clean Power Plan: Much Ado About Everything*

Links: Guggenheim's Comp Sheet, Forward Commodity Curves for Power and Utility Modeling

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Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
01/11		Earliest Day Supreme Court could issues opinion on DR			FERC v. Electric Power Supply Association	
01/11	PCG	Deadline for criminal prosecutors to produce evidence supporting fines	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
01/11	ES	Northern Pass public information session (Franklin)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/13	ES	Northern Pass public information session (Londonderry)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/13	DTE	MI House of Representative legislation session begins		MI		House will work on passing bill for energy legislation reform - to be reconciled with Senate
01/14	ES	Northern Pass public information session (Laconia)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/14	FE	Evidentiary hearings begin	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/14	ETR	Open meetings for DCRF rider	ETI	AR	Docket No. 45083	Rider increase reflects incremental distribution investment
01/19	ETR	Indian Point CZM		NY	APL-2015-00152	CZM Case ETR respondent brief due
01/19	ETR	Hearing	EAI	AR	APSC Docket 15-015-U	Hearing begins, ends 1/22
01/20	ES	Northern Pass public information session (Coos County)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/21	ES	Northern Pass public information session (Lincoln)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/25	EIX	Next date for potential decision regarding the SONGS settlement	Southern California Edison	CA	I.12-10-013	Consideration of re-opening the SONGS settlement
01/26	SO	Intervenor testimony regarding GAS acquisition expected to be filed in Maryland		MD		MD PSC consideration of SO's proposed acquisition of GAS
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
01/28	ED	PSC technical conference on earnings impact mechanisms and related items	Consolidated Edison Company of New York Orange & Rockland	NY	14–M–0101	REV technical conference to discuss Earnings Impact Mechanisms (EIMs), as well as other topics
01/31	PCG	GT&S rate case decision expected in January 2016	Pacific Gas & Electric Company	CA	A.13-12-012	Procedural schedule estimates a decision regarding GT&S revenue requirement in January 2016
02/05	ES	Deadline to file motion to interene in Northern Pass proceedings		NH		The NH Site Evaluation Committee set a deadline for anyone wishing to intervene to file a motion with the commission.
02/16	ETR	Indian Point Coastal Zone Management (CZM)		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for CPV Maryland, LLC v. PPL EnergyPlus, LLC			Docket No. 14-623	Whether state-directed contracts for new generation build infringes on FERC jurisdiction on wholesale rates
03/08	PCG	Trial scheduled for PG&E criminal case	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion

Upcoming Corporate Access and Client Events

Client-Hosted Events	Dates	Where	Events and meetings
State Utilities Commissioners Breakfast *Guggenheim-hosted event with various utility commissioners*	01/20/16	▪ New York, NY	▪ Commissioner Doug Little, Arizona Corporation Commission ▪ Commissioner Travis Kavulla, Montana Public Service Commission ▪ Commissioner Kristine Raper, Idaho Public Utilities Commission ▪ *More commissioners and senior management attendees being added*

Guggenheim Power & Utilities Comp Sheet (As of 01/08/2016)

Regulateds		Mkt. Cap		Target	Current	Price	Diluted	EPS - Guggenheim					EPS - Consensus					P/E - Guggenheim				P/E - Consensus			
Ticker	Company	($MM)	Rating	Price[1]	Price	Change	Shares	'15E	'16E	'17E	'18E	CAGR	'15E	'16E	'17E	'18E	CAGR	'15E	'16E	'17E	'18E	'15E	'16E	'17E	'18E
AEP	American Electric Power	28,595	Buy	$62	$58.26	6%	489	3.73	3.73	3.92	4.19	4%	3.73	3.71	3.89	4.16	4%	15.6	15.6	14.9	13.9	15.6	15.7	15.0	14.0
ED	Consolidated Edison, Inc.	19,477	Neutral	$59	$66.43	-11%	294	4.00	4.10	4.17	4.33	3%	4.01	4.07	4.18	4.33	3%	16.6	16.2	15.9	15.3	16.6	16.3	15.9	15.3
D	Dominion Resources, Inc.	41,388	Buy	$76	$69.52	9%	585	3.65	3.84	3.99	4.47	7%	3.66	3.85	4.01	4.53	7%	19.0	18.1	17.4	15.6	19.0	18.1	17.3	15.3
DTE	DTE Energy Company	14,067	Buy	$86	$78.38	10%	177	4.85	4.98	5.27	5.66	5%	4.81	4.96	5.28	5.61	5%	16.2	15.7	14.9	13.8	16.3	15.8	14.8	14.0
DUK	Duke Energy Corporation	48,899	Buy	$76	$71.04	7%	707	4.60	4.64	4.95	5.07	3%	4.59	4.70	4.93	5.23	4%	15.4	15.3	14.4	14.0	15.5	15.1	14.4	13.6
EIX	Edison International	18,988	Neutral	$62	$58.28	6%	329	3.81	3.75	4.04	4.31	4%	3.79	3.74	4.04	4.31	4%	15.3	15.5	14.4	13.5	15.4	15.6	14.4	13.5
ES	Eversource Energy	16,120	Buy	$55	$50.82	8%	317	2.82	2.99	3.19	3.44	7%	2.85	3.03	3.22	3.44	7%	18.0	17.0	15.9	14.8	17.9	16.8	15.8	14.8
GXP	Great Plains Energy Inc.	4,168	Buy	$30	$27.00	11%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	19.3	15.6	14.4	13.6	19.2	15.3	14.7	13.8
NEE	NextEra Energy, Inc.	48,427	Buy	$124	$105.17	18%	440	5.66	6.19	6.60	7.04	8%	5.66	6.16	6.52	6.96	7%	18.6	17.0	15.9	14.9	18.6	17.1	16.1	15.1
PCG	PG&E Corporation	25,533	Neutral	$53	$52.06	2%	470	3.02	3.67	3.69	3.91	9%	3.05	3.72	3.71	3.93	9%	17.2	14.2	14.1	13.3	17.1	14.0	14.0	13.2
PNW	Pinnacle West Capital Corp.	7,097	Neutral	$60	$64.02	-6%	111	3.81	4.02	4.18	4.43	5%	3.79	4.00	4.20	4.35	5%	16.8	15.9	15.3	14.5	16.9	16.0	15.3	14.7
PPL	PPL Corporation	22,431	Buy	$37	$33.39	11%	666	2.21	2.33	2.44	2.57	5%	2.21	2.33	2.41	2.53	5%	15.1	14.3	13.7	13.0	15.1	14.4	13.9	13.2
SO	Southern Company	42,375	Neutral	$43	$46.62	-8%	901	2.87	2.97	3.05	3.18	3%	2.87	2.95	3.08	3.21	4%	16.2	15.7	15.3	14.7	16.2	15.8	15.1	14.5
WR	Westar Energy, Inc.	5,945	Buy	$46	$42.09	9%	133	2.21	2.43	2.54	2.64	6%	2.21	2.45	2.55	2.65	6%	19.0	17.3	16.6	15.9	19.1	17.2	16.5	15.9
TE	TECO Energy, Inc.	6,276	Neutral	$28	$26.68	5%	224	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.28	1.34	7%	24.5	22.6	21.0	19.8	24.3	22.6	20.8	19.9
Average[2]												**6%**					**6%**	**17.0**	**16.0**	**15.2**	**14.3**	**17.0**	**15.9**	**15.2**	**14.4**
Integrateds																									
ETR	Entergy Corporation	12,045	Neutral	$69	$67.52	2%	180	5.80	5.01	5.12	5.16	-4%	5.79	5.00	5.02	5.17	-4%	11.6	13.5	13.2	13.1	11.7	13.5	13.5	13.1
EXC	Exelon Corporation	25,582	Buy	$31	$27.82	11%	864	2.56	2.53	2.63	2.85	4%	2.51	2.54	2.70	2.88	5%	10.9	11.0	10.6	9.8	11.1	10.9	10.3	9.7
FE	FirstEnergy Corp.	13,364	Buy	$39	$31.59	23%	421	2.71	2.87	2.86	2.91	2%	2.70	2.85	2.65	2.71	0%	11.7	11.0	11.0	10.9	11.7	11.1	11.9	11.7
PEG	Public Service Enterprise Group	19,439	Buy	$41	$38.42	7%	508	2.93	2.97	2.93	3.00	1%	2.93	2.93	2.85	3.00	1%	13.1	12.9	13.1	12.8	13.1	13.1	13.5	12.8
Average												**1%**					**0%**	**11.8**	**12.1**	**12.0**	**11.6**	**11.9**	**12.2**	**12.3**	**11.8**
Other																									
AWK	American Water Works	10,709	Buy	$66	$59.67	11%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	22.5	21.1	19.7	18.6	22.7	21.1	19.8	18.6

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds			Current	Consensus Dividend Per Share				Consensus Dividend Yield				Consensus Dividend Payout			
Ticker	Company	Rating	Price	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E
AEP	American Electric Power	Buy	$58.26	2.15	2.26	2.36	2.52	3.7%	3.9%	4.1%	4.3%	58%	61%	61%	61%
ED	Consolidated Edison, Inc.	Neutral	$66.43	2.59	2.64	2.70	2.76	3.9%	4.0%	4.1%	4.2%	65%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$69.52	2.58	2.77	2.98	3.21	3.7%	4.0%	4.3%	4.6%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$78.38	2.83	2.97	3.13	3.37	3.6%	3.8%	4.0%	4.3%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$71.04	3.26	3.38	3.53	3.71	4.6%	4.8%	5.0%	5.2%	71%	72%	72%	71%
EIX	Edison International	Neutral	$58.28	1.68	1.90	2.10	2.20	2.9%	3.3%	3.6%	3.8%	44%	51%	52%	51%
ES	Eversource Energy	Buy	$50.82	1.68	1.79	1.91	2.00	3.3%	3.5%	3.8%	3.9%	59%	59%	59%	58%
GXP	Great Plains Energy Inc.	Buy	$27.00	1.01	1.09	1.16	1.22	3.7%	4.0%	4.3%	4.5%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$105.17	3.07	3.47	3.93	4.48	2.9%	3.3%	3.7%	4.3%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$52.06	1.83	1.93	2.06	2.21	3.5%	3.7%	4.0%	4.2%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$64.02	2.41	2.53	2.66	2.79	3.8%	4.0%	4.2%	4.4%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$33.39	1.50	1.53	1.57	1.64	4.5%	4.6%	4.7%	4.9%	68%	66%	65%	65%
SO	Southern Company	Neutral	$46.62	2.16	2.23	2.31	2.41	4.6%	4.8%	4.9%	5.2%	75%	75%	75%	75%
WR	Westar Energy, Inc.	Buy	$42.09	1.44	1.51	1.60	1.65	3.4%	3.6%	3.8%	3.9%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$26.68	0.90	0.92	0.95	0.96	3.4%	3.5%	3.5%	3.6%	82%	78%	74%	72%
Average								**3.7%**	**3.9%**	**4.1%**	**4.4%**	**64%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$67.52	3.34	3.43	3.49	3.60	5.0%	5.1%	5.2%	5.3%	58%	69%	70%	70%
EXC	Exelon Corporation	Buy	$27.82	1.24	1.25	1.25	1.25	4.5%	4.5%	4.5%	4.5%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$31.59	1.44	1.44	1.45	1.44	4.6%	4.6%	4.6%	4.6%	53%	51%	55%	53%
PEG	Public Service Enterprise Group	Buy	$38.42	1.56	1.62	1.69	1.81	4.1%	4.2%	4.4%	4.7%	53%	56%	59%	60%
Average								**4.5%**	**4.6%**	**4.7%**	**4.8%**	**53%**	**56%**	**58%**	**57%**
Other															
AWK	American Water Works	Buy	$59.67	1.34	1.42	1.56	1.72	2.2%	2.4%	2.6%	2.9%	51%	50%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

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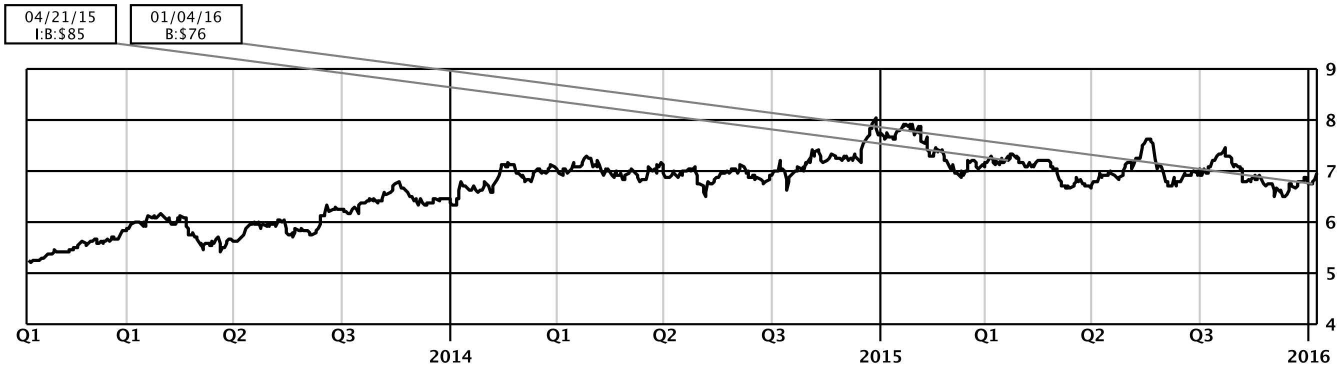
Rating and Price Target History for: Dominion Resources, Inc. (D) as of 01-08-2016



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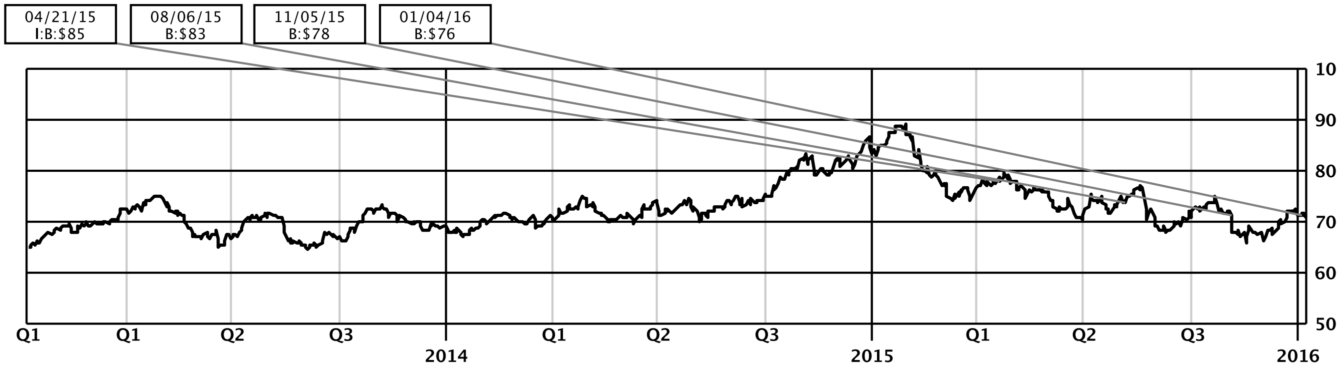
Rating and Price Target History for: Duke Energy Corporation (DUK) as of 01-08-2016



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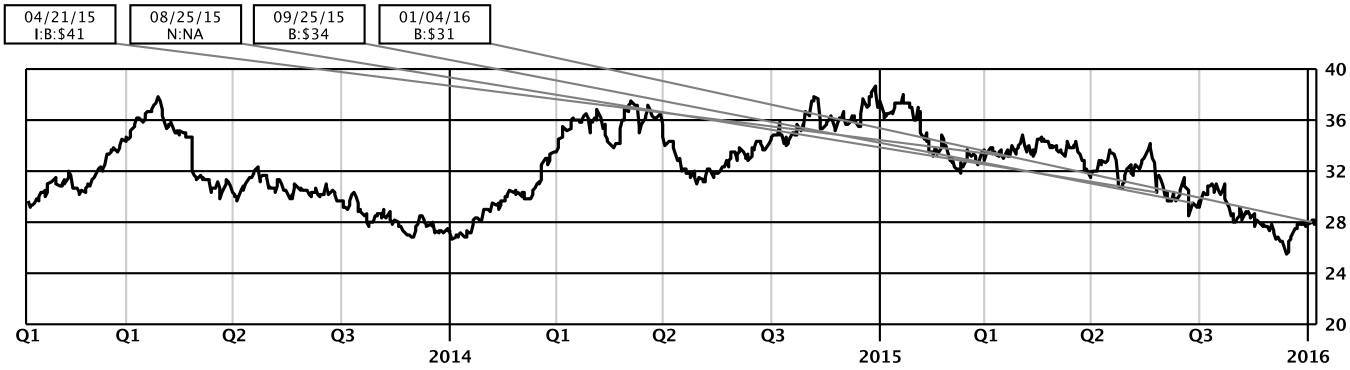
Rating and Price Target History for: Exelon Corporation (EXC) as of 01-08-2016



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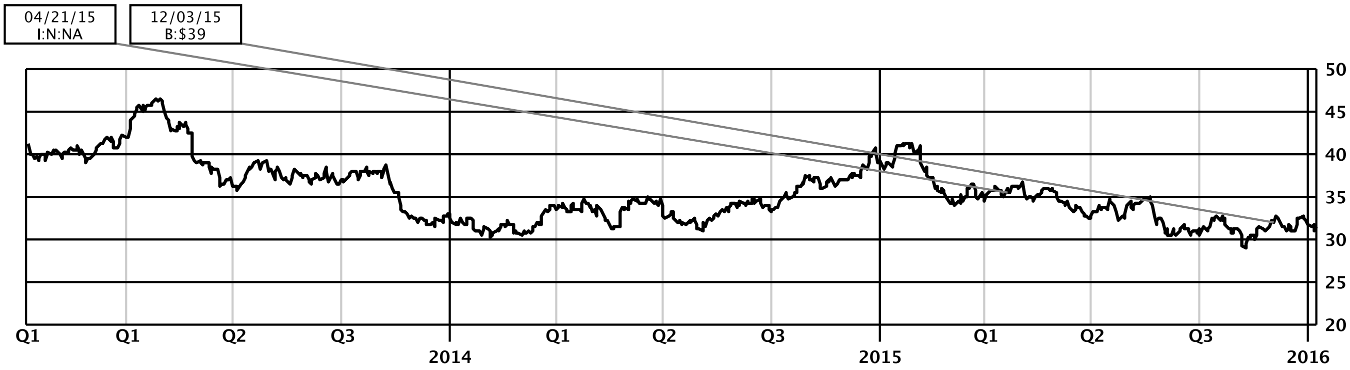
Rating and Price Target History for: FirstEnergy Corp. (FE) as of 01-08-2016



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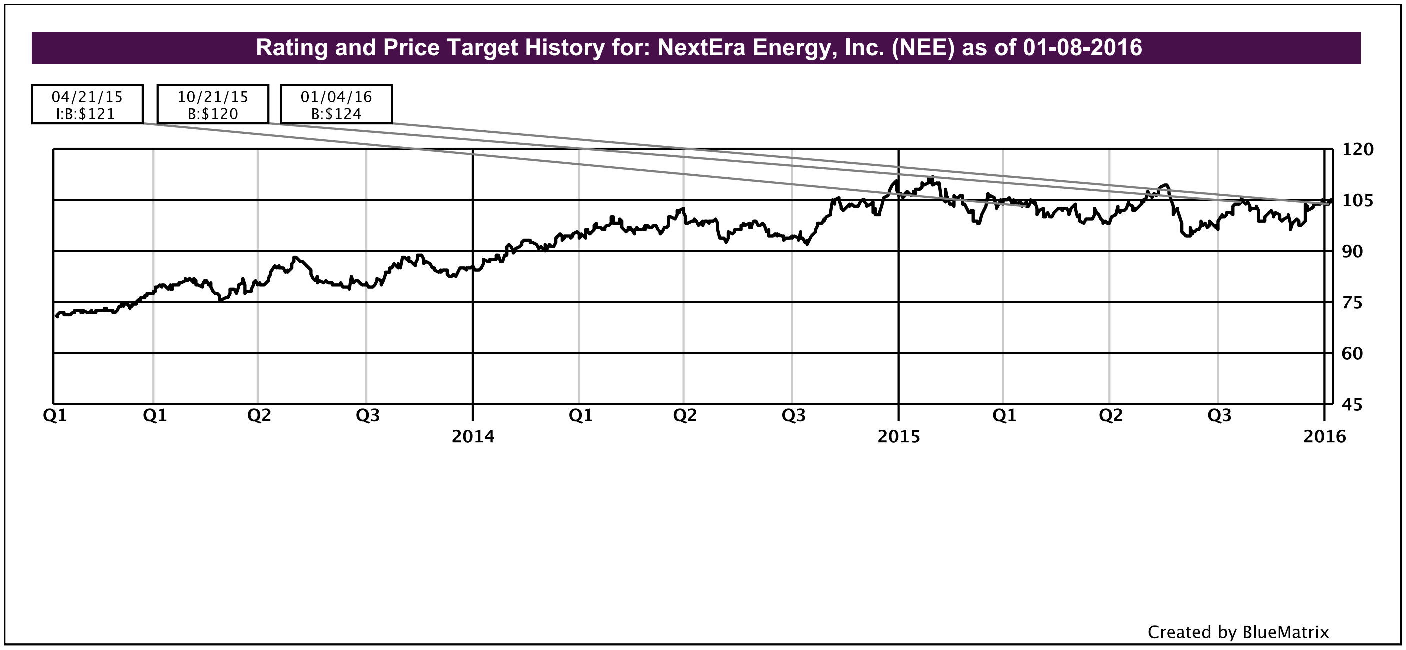

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Neutral	110	39.15%	3	2.73%
Sell	0	0.00%	0	0.00%

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North America Equity Research
12 January 2016

Electric Utilities

DYN, EXC Ohio Proposals Unlikely to Derail PPA Settlements

Today's alternative Ohio power supply offer from Dynegy, as well as Exelon's December 30 proposal, are likely to have only a marginally negative impact on public sentiment and PUCO from AEP and FE's perspective. We continue to see PUCO settlement approval as more likely than not, with a small chance of amendment by the commission, but do not see the DYN or EXC offers as likely to gain traction, despite seemingly superior economics. A competitive process for what is essentially a subsidy does not make sense in our view, and would do little to further the key jobs-retaining element of the AEP and FE deals. More importantly, an EXC or DYN contract would seem more vulnerable to the retail vs. wholesale jurisdictional challenge that brought down the 2010-2011 MD and NJ programs.

Electric & Gas Utilities

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- **DYN, EXC offer alternatives to AEP, FE OH PPA settlements:** DYN and EXC appear to have both offered near market-priced contracts to supply power to OH customers, resulting in headline numbers of $2.0 to 2.5Bn in customer savings vs. the AEP and FE agreements. DYN has also separately offered to build 6.3GW of new natural gas fired generation in the state for a similar 8-year contract. Both DYN offers relate to in-state plants but are more carbon heavy than the out-of-state nuclear and renewable EXC offer. We see neither as superior from a combined geographic and carbon perspective vs. FE/AEP.

- **Competitive processes don't apply:** The process of procuring power by regulated wires companies, like the FE and AEP utilities, is currently a competitive one that generally clears around the price of forward energy plus capacity. A rationally priced competition would clear at a similar level and theoretically leave the job-maintaining power plants just as much at risk of closure.

- **Retail vs. wholesale distinction key for legal survival:** A EXC or DYN deal would seemingly be viewed as more of a traditional wholesale power contract than those crafted by FE and AEP. This would force it to be closer to market pricing, again removing the subsidy and job-retaining premise of the original deals.

- **Still see FE and AEP settlements as better-positioned vs. NJ/MD:** In our December 22 note, we articulated that although there are many similarities between NJ/MD and the OH contracts, there are also notable differences that may allow them to stand up in court. Court challenges will most likely take years, but we see the U.S. Supreme Court's upcoming 2Q16 decision on the MD subsidy as a key event.

See page 2 for analyst certification and important disclosures.

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J.P. Morgan Global Equity Research Coverage	44%	44%	12%
IB clients*	52%	47%	35%
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"Other Disclosures" last revised January 01, 2016.

Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: PPL, ETR, FE, AEP, D, NEE, EXC, DUK, SO

January 13, 2016

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What's New?

See here for Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

PPL– KY utilities file request for environmental spending on coal ash removal and new gas generation
ETR – AR utility will have hearing on its rate case settlement Jan. 19
FE/AEP – FE states Dynegy's alternative plan "misses the point" on its PPA
D – Vepco highlights $9.5bn infrastructure upgrade plan
NEE/EXC – CAISO selects non-incumbent developer to build project
NEE/DUK/SO – Solar debate continues between FL utilities and advocates
DUK – Federal court approves coal ash plans
FE – West Virginia utility's IRP proposes dual-fired coal plants to meet capacity shortfall

PPL– KY utilities file request for environmental spending on coal ash removal and new gas generation

- Louisville Gas and Electric Company ("LG&E") will file for environmental recovery for closing its remaining coal ash ponds, build a process-water facility and add mercury control systems for an estimated $316mm.
- Closing the ponds is necessary to meet the EPA's Coal Combustion Residuals Rule (CCR) that became effective last year. Additional mercury control systems are needed for the MATs rule.
- Kentucky Utilities Company ("KU") is also requesting a Certificate of Public Necessity and Convenience (CPCN) to close its coal ash ponds, construct process-water facilities and build the second phase of the Brown landfill for an estimated cost of $678mm.
- Both plans will request an Environmental Cost Recovery (ECR) tracker mechanism with a 10% ROE.
- The CPCN and ECR applications are anticipated to be filed on or about January 29, 2016.
- The construction projects are expected to begin in 2016 with construction through 2023.

Guggenheim takeaway: *We believe PPL will most likely receive the environmental recovery tracker to meet the effective CCR and MATs rules in KY. As a reminder, the KY utilities have ~$2.2B estimated spend on projects approved by the KPSC with less than 6 month recovery lag due to the ECR. Through our forecast period, we estimate an average 9.4% earned ROE for the KY utilities.*

ETR – AR utility will have hearing on its rate case settlement Jan. 19

- ETR AR filed a settlement with the AR PSC staff and other parties on a ~ $225mm revenue increase and a 9.75% ROE.

- ETR AR (EA) will have hearings for the settlement with the AR Commission starting on Jan 19.
- The Settlement also called for forward test year formula rate plan. ETR requested that the AR PSC approve the settlement no later than Feb. 24, 2016.

Guggenheim takeaway: *Allowance of the formula rate plan and forward test year in EA's settlement is a positive, in our view, to allow EA to recover closer to its allowed ROE. As we have highlighted in our research, EA has been a major underearner. Through our forecast period, we model an average earned 9.7% ROE for utility.*

FE/AEP – FE states Dynegy's alternative plan "misses the point" on its PPA

- Dynegy (DYN, NC, $12.24) provided an alternative case to the AEP/FE PPAs.
- FE claims that "Dynegy's proposal offers few specifics and provides no assurances that its power plants in the region will continue operating over the long term."
- AEP notes that ""There is no basis for Dynegy's claims of cost savings. They are suggesting that they can provide generation at a lower cost based on inflated assumptions that do not reflect current market realities."

Guggenheim takeaway: *Based on meetings we hosted with regulators in Ohio, we believe PUCO will approve the FE and AEP settlements to maintain jobs, local investment, and fuel diversity (although getting a little gassier). With approval, AEP will be one step closer toward fully regulated status – merchant GenCo divestiture could be next. We believe the settlement for FE will help shore up its balance sheet and make it look more regulated. For additional takeaways see our recent note on AEP's PPA settlement and FE's PPA settlement.*

D – Vepco highlights $9.5bn infrastructure upgrade plan

- D's VA utility plans to invest ~$2bn per year through 2020 to build generation and expand/upgrade the electric grid.
- $2.4bn is for distribution, $3.6bn for transmission and substations, and $3.5bn for new generation and environmental improvements.

Guggenheim takeaway: *Utility investment plans will require regulatory approval, but we would note their VA utility has relatively high demand growth and low rates that have tracked below inflation; implying customer bills have some headroom for incremental investment and supporting a more constructive regulatory proceeding. These plans would be in addition to D's investment in the Atlantic Coast Pipeline, a $5bn pipeline being developed with other utilities (45% D), and we could see even more upside as states decide how they will comply with the Clean Power Plan.*

NEE/EIX/EXC – CAISO selects non-incumbent developer to build project

- CAISO selected LS Power to build the Harry Allen-Eldorado project, a 500kv transmission interconnection between NV and CA.
- CAISO noted the LS Power subsidiary agreed to build the project with a $133mm cost cap, the lowest amongst the three bids they considered.
- EXC and NEE also bid on the project.

Guggenheim takeaway: *Similar to the Delaney-Colorado River project, which CASIO awarded to Abengoa (MCE:ABG, NC, $0.41), another transmission project in the region is awarded to a non-incumbent utility based on cost. That said, we do recognize LS Power's established development presence in the power sector, notably their successful bid to win part of the Artificial Island project from PEG, and CAISO recognized their participation in similar projects through* *their affiliates (particularly in Nevada). Other bidders (EXC and NEE) were not incumbent utilities either, although we recently highlighted collaboration between NEE and EIX on this project after they lost the aforementioned Delaney-Colorado project to Abengoa. We are somewhat surprised utilities have not been very successful with competitive wire bids, but the FERC 1000 bid process is in its infancy stage. That said, Abengoa has since filed for bankruptcy protection in Spain however, so it remains to be seen if their project might go back out to bid.*

NEE/DUK/SO – Solar debate continues between FL utilities and advocates

- Solar advocates in Florida are urging the state's Supreme Court to reject a voter referendum supported by utilities, which wouldn't allow retail customers with solar to sell excess power to anyone other than their utility.
- The utility-supported referendum actually came after solar advocates put forth their own referendum that would amend the constitution to allow customers with <2 MW of solar to sell directly to neighbors.
- Solar advocates argue that language in this proposed referendum is misleading and should be rejected.

Guggenheim takeaway: *Solar growth hasn't taken off in Florida as it has elsewhere, partly because the "sunshine state" doesn't actually have ideal conditions for solar, but also because FL law only allows utilities to sell electricity. If there is an opportunity to develop solar in Florida, we believe utilities would be able to show the most compelling economics to the extent they have existing property for solar use and grid interconnections. We expect DUK, NEE, and SO would participate in a solar opportunity. We recently hosted investors in Florida and solar was a topic of discussion in meetings with NEE and FL commissioners. While the outlook for distributed solar is bleak in Florida, we believe large-scale development will be an opportunity for utilities in the state – for additional insight see our note.*

DUK – Federal court approves coal ash plans

- A federal judge approved two environmental compliance plans filed by DUK.
- DUK's plans include oversight officials, audits, training, and reports focused on compliance with coal ash-related laws.

Guggenheim takeaway: *Following illegal coal ash discharges, DUK reached a settlement with federal prosecutors that required the utility to submit these plans in addition to ~$100mm in fines. DUK is removing coal-ash from several facilities to comply with the Coal Ash Management Act - a delicate task considering the environmental interest and regulatory scrutiny that come with, but we believe DUK is well-equipped to manage; potential investment upside is limited, in our view. We recently hosted investor meetings with DUK management that included a tour of the Riverbend coal facility – see here for additional takeaways from our meetings.*

FE – West Virginia utility's IRP proposes dual-fired coal plants to meet capacity shortfall

- FE's utility Monongahela Power Co. predicts that it will have more than 700MW capacity shortfall by 2020 and will eventually exceed 850 MW in its 2015 IRP.
- In order to meet this capacity shortfall, the utility proposes to acquire 850 MW by the 2017/2018 delivery year.
- The utility also claims that preserving coal fired generation and investing in dual fuel capability with natural gas will help preserve capacity to meet the shortfall in the most "cost-effective manner."

- Retrofitting coal plants to be dual-fuel would cost ~$55-80mm for each unit at the coal plants. Mon Power estimates $85/MW for Harrison and $140/MW for Fort Mason plants.

Guggenheim takeaway: *While FE did consider the cost of new generation, it determined that coal remained the least cost option in West Virginia. Dual fired generation would still use predominately coal to generate energy even if it can fire natural gas. In our view, new gas fired generation has the lowest levelized cost when compared to other generation and will continue to grow to meet CPP compliance. See here for our analysis on levelized cost of energy.*

Key Research

1. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
2. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
3. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
4. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
5. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
6. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
7. *EEI Full Recap*
8. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
9. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
10. *DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details*
11. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
12. *3Q Utility Earnings Sneak Peek: EEI Edition*
13. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
14. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*
15. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
16. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
17. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
18. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
19. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
20. *More Uplifting Data Points for AEP and FE*
21. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*
22. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
23. *Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables*
24. *EPA Clean Power Plan: Much Ado About Everything*

Links: Guggenheim's Comp Sheet, Forward Commodity Curves for Power and Utility Modeling

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
01/13	ES	Northern Pass public information session (Londonderry)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/13	DTE	MI House of Representative legislation session begins		MI		House will work on passing bill for energy legislation reform - to be reconciled with Senate
01/14	ES	Northern Pass public information session (Laconia)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/14	FE	Evidentiary hearings begin	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/14	ETR	Open meetings for DCRF rider	ETI	AR	Docket No. 45083	Rider increase reflects incremental distribution investment
01/19	ETR	Indian Point CZM		NY	APL-2015-00152	CZM Case ETR respondent brief due
01/19	ETR	Hearing	EAI	AR	APSC Docket 15-015-U	Hearing begins, ends 1/22
01/20	EXC	DC Commission Open Meetiing	POM	DC	DC119	Remaining open meeting scheduled in Jan.
01/20	ES	Northern Pass public information session (Coos County)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/21	ES	Northern Pass public information session (Lincoln)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/25	EIX	Next date for potential decision regarding the SONGS settlement	Southern California Edison	CA	I.12-10-013	Consideration of re-opening the SONGS settlement
01/25		Next date for Supreme Court to issue DR opinion			Federal Energy Regulatory Commission v. Electric Power Supply	Opinion on whether FERC has autority over pricing DR in wholesale rates
01/26	SO	Intervenor testimony regarding GAS acquisition expected to be filed in Maryland		MD		MD PSC consideration of SO's proposed acquisition of GAS
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
01/28	ED	PSC technical conference on earnings impact mechanisms and related items	Consolidated Edison Company of New York Orange & Rockland	NY	14–M–0101	REV technical conference to discuss Earnings Impact Mechanisms (EIMs), as well as other topics
01/31	PCG	GT&S rate case decision expected in January 2016	Pacific Gas & Electric Company	CA	A.13-12-012	Procedural schedule estimates a decision regarding GT&S revenue requirement in January 2016
02/05	ES	Deadline to file motion to interene in Northern Pass proceedings		NH		The NH Site Evaluation Committee set a deadline for anyone wishing to intervene to file a motion with the commission.
02/16	ETR	Indian Point Coastal Zone Management (CZM)		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for			Docket No. 14-623	Whether state-directed contracts for new
03/08	PCG	Trial scheduled for PG&E	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to

Upcoming Corporate Access and Client Events

Client-Hosted Events	Dates	Where	Events and meetings
State Utilities Commissioners Breakfast *Guggenheim-hosted event with various utility commissioners*	01/20/16	▪ New York, NY	▪ Commissioner Doug Little, Arizona Corporation Commission ▪ Commissioner Travis Kavulla, Montana Public Service Commission ▪ Commissioner Kristine Raper, Idaho Public Utilities Commission ▪ *More commissioners and senior management attendees being added*

Guggenheim Power & Utilities Comp Sheet (As of 01/12/2016)

Regulateds		Mkt. Cap		Target	Current	Price	Diluted	EPS - Guggenheim					EPS - Consensus					P/E - Guggenheim				P/E - Consensus			
Ticker	**Company**	**($MM)**	**Rating**	**Price[1]**	**Price**	**Change**	**Shares**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**'15E**	**'16E**	**'17E**	**'18E**
AEP	American Electric Power	28,551	Buy	$62	$58.17	7%	489	3.73	3.73	3.92	4.19	4%	3.73	3.71	3.89	4.18	4%	15.6	15.6	14.8	13.9	15.6	15.7	14.9	13.9
ED	Consolidated Edison, Inc.	19,204	Neutral	$59	$65.50	-10%	294	4.00	4.10	4.17	4.33	3%	4.01	4.07	4.18	4.33	3%	16.4	16.0	15.7	15.1	16.4	16.1	15.7	15.1
D	Dominion Resources, Inc.	41,019	Buy	$76	$68.90	10%	585	3.65	3.84	3.99	4.47	7%	3.66	3.85	4.01	4.53	7%	18.9	17.9	17.3	15.4	18.8	17.9	17.2	15.2
DTE	DTE Energy Company	14,286	Buy	$86	$79.60	8%	177	4.85	4.98	5.27	5.66	5%	4.81	4.95	5.28	5.61	5%	16.4	16.0	15.1	14.1	16.5	16.1	15.1	14.2
DUK	Duke Energy Corporation	49,058	Buy	$76	$71.27	7%	707	4.60	4.64	4.95	5.07	3%	4.58	4.70	4.93	5.23	4%	15.5	15.4	14.4	14.1	15.6	15.2	14.4	13.6
EIX	Edison International	19,353	Neutral	$62	$59.40	4%	329	3.81	3.75	4.04	4.31	4%	3.79	3.74	4.04	4.31	4%	15.6	15.8	14.7	13.8	15.7	15.9	14.7	13.8
ES	Eversource Energy	16,215	Buy	$55	$51.12	8%	317	2.82	2.99	3.19	3.44	7%	2.85	3.03	3.22	3.44	7%	18.1	17.1	16.0	14.9	18.0	16.9	15.9	14.9
GXP	Great Plains Energy Inc.	4,117	Buy	$30	$26.67	12%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	19.1	15.4	14.3	13.5	19.0	15.1	14.5	13.7
NEE	NextEra Energy, Inc.	48,523	Buy	$124	$105.38	18%	440	5.66	6.19	6.60	7.04	8%	5.66	6.16	6.52	6.96	7%	18.6	17.0	16.0	15.0	18.6	17.1	16.2	15.1
PCG	PG&E Corporation	25,778	Neutral	$53	$52.56	1%	470	3.02	3.67	3.69	3.91	9%	3.05	3.72	3.71	3.93	9%	17.4	14.3	14.2	13.4	17.2	14.1	14.2	13.4
PNW	Pinnacle West Capital Corp.	7,061	Neutral	$60	$63.70	-6%	111	3.81	4.02	4.18	4.43	5%	3.79	3.99	4.19	4.35	5%	16.7	15.8	15.2	14.4	16.8	15.9	15.2	14.6
PPL	PPL Corporation	22,539	Buy	$37	$33.55	10%	666	2.21	2.33	2.44	2.57	5%	2.21	2.32	2.41	2.53	5%	15.2	14.4	13.8	13.1	15.2	14.4	13.9	13.2
SO	Southern Company	42,220	Neutral	$43	$46.45	-7%	901	2.87	2.97	3.05	3.18	3%	2.87	2.95	3.08	3.21	4%	16.2	15.6	15.2	14.6	16.2	15.7	15.1	14.5
WR	Westar Energy, Inc.	5,869	Buy	$46	$41.55	11%	133	2.21	2.43	2.54	2.64	6%	2.21	2.45	2.55	2.65	6%	18.8	17.1	16.4	15.7	18.8	17.0	16.3	15.7
TE	TECO Energy, Inc.	6,344	Neutral	$28	$26.97	4%	224	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.28	1.34	7%	24.7	22.9	21.2	20.0	24.5	22.9	21.0	20.1
Average [2]												**6%**					**6%**	**17.0**	**16.0**	**15.2**	**14.3**	**17.0**	**15.9**	**15.2**	**14.4**
Integrateds																									
ETR	Entergy Corporation	12,202	Neutral	$69	$68.40	1%	180	5.80	5.01	5.12	5.16	-4%	5.81	4.99	5.02	5.17	-4%	11.8	13.7	13.4	13.3	11.8	13.7	13.6	13.2
EXC	Exelon Corporation	25,693	Buy	$31	$27.94	11%	864	2.56	2.53	2.63	2.85	4%	2.51	2.54	2.70	2.88	5%	10.9	11.0	10.6	9.8	11.1	11.0	10.3	9.7
FE	FirstEnergy Corp.	13,613	Buy	$39	$32.18	21%	421	2.71	2.87	2.86	2.91	2%	2.70	2.83	2.65	2.71	0%	11.9	11.2	11.3	11.1	11.9	11.4	12.2	11.9
PEG	Public Service Enterprise Group	19,530	Buy	$41	$38.60	6%	508	2.93	2.97	2.93	3.00	1%	2.92	2.92	2.85	3.00	1%	13.2	13.0	13.2	12.9	13.2	13.2	13.5	12.9
Average												**1%**					**0%**	**11.9**	**12.2**	**12.1**	**11.7**	**12.0**	**12.3**	**12.4**	**11.9**
Other																									
AWK	American Water Works	10,802	Buy	$66	$60.19	10%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	22.7	21.3	19.9	18.8	22.9	21.3	19.9	18.8

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds			Current	Consensus Dividend Per Share				Consensus Dividend Yield				Consensus Dividend Payout			
Ticker	**Company**	**Rating**	**Price**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**
AEP	American Electric Power	Buy	$58.17	2.15	2.26	2.36	2.52	3.7%	3.9%	4.1%	4.3%	58%	61%	61%	60%
ED	Consolidated Edison, Inc.	Neutral	$65.50	2.59	2.64	2.70	2.76	3.9%	4.0%	4.1%	4.2%	65%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$68.90	2.58	2.77	2.98	3.21	3.7%	4.0%	4.3%	4.7%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$79.60	2.83	2.97	3.13	3.37	3.6%	3.7%	3.9%	4.2%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$71.27	3.26	3.38	3.53	3.71	4.6%	4.7%	5.0%	5.2%	71%	72%	72%	71%
EIX	Edison International	Neutral	$59.40	1.69	1.90	2.10	2.20	2.8%	3.2%	3.5%	3.7%	45%	51%	52%	51%
ES	Eversource Energy	Buy	$51.12	1.68	1.79	1.91	2.00	3.3%	3.5%	3.7%	3.9%	59%	59%	59%	58%
GXP	Great Plains Energy Inc.	Buy	$26.67	1.01	1.09	1.16	1.22	3.8%	4.1%	4.3%	4.6%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$105.38	3.07	3.47	3.93	4.48	2.9%	3.3%	3.7%	4.3%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$52.56	1.83	1.93	2.06	2.21	3.5%	3.7%	3.9%	4.2%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$63.70	2.42	2.53	2.66	2.79	3.8%	4.0%	4.2%	4.4%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$33.55	1.50	1.53	1.57	1.64	4.5%	4.6%	4.7%	4.9%	68%	66%	65%	65%
SO	Southern Company	Neutral	$46.45	2.16	2.23	2.31	2.41	4.7%	4.8%	5.0%	5.2%	75%	75%	75%	75%
WR	Westar Energy, Inc.	Buy	$41.55	1.44	1.51	1.60	1.65	3.5%	3.6%	3.9%	4.0%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$26.97	0.90	0.92	0.95	0.96	3.3%	3.4%	3.5%	3.6%	82%	78%	74%	72%
Average								**3.7%**	**3.9%**	**4.1%**	**4.4%**	**64%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$68.40	3.34	3.43	3.49	3.60	4.9%	5.0%	5.1%	5.3%	58%	69%	70%	70%
EXC	Exelon Corporation	Buy	$27.94	1.24	1.25	1.25	1.25	4.4%	4.5%	4.5%	4.5%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$32.18	1.44	1.44	1.45	1.44	4.5%	4.5%	4.5%	4.5%	53%	51%	55%	53%
PEG	Public Service Enterprise Group	Buy	$38.60	1.56	1.62	1.69	1.81	4.0%	4.2%	4.4%	4.7%	53%	56%	59%	60%
Average								**4.5%**	**4.5%**	**4.6%**	**4.7%**	**53%**	**56%**	**58%**	**57%**
Other															
AWK	American Water Works	Buy	$60.19	1.34	1.42	1.56	1.72	2.2%	2.4%	2.6%	2.9%	51%	50%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

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			IB Serv./ Past 12Mos.	
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Neutral	109	38.65%	3	2.75%
Sell	0	0.00%	0	0.00%

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Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: EXC, PEG, TE, ES, DUK January 21, 2016

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What's New?
EXC – EXC acquires Blustern Wind Project in OK
PEG – PSEG acquires two solar projects, increasing portfolio to 215 MW
Solar – DOE funds research into solar energy storage
TE – FERC approves Emera acquisition of TECO
ES – Locals want ES to bury more portions of the Northern Pass Transmission line
DUK – NC PUC denies request for hearings on Western Carolinas Modernization Project
ES – Utilities request approval of contracts to support New England gas pipeline

EXC – EXC acquires Blustern Wind Project in OK

- EXC purchased a 198 MW wind project from RES located in OK. Construction is scheduled to be completed at the end of 2016.
- The Bluestern Wind Project has a PPA with Google (GOOG, NC, $698.45)

***Guggenheim takeaway:** As we highlighted in our research, the Great Plains states should continue to rapidly develop wind given the extension of the PTC and the high capacity factors achieved in the region. EXC has over 1,500 MW of wind generation and continues to develop more projects.*

PEG – PSEG acquires two solar projects, increasing portfolio to 215 MW

- PSEG Solar Source announced it has acquired two solar projects from juwi Inc: a 3.9MW facility in Livermore, California, and a 62.7MW site in Millard County, Utah.
- Together the projects cost $110mm and will increase PSEG's solar portfolio to 214.6 MW.
- PSEG Solar Source has 14 utility solar projects in 10 states now including Utah, Maryland, Arizona, California, Delaware, Florida, Ohio, Texas, Vermont and New Jersey.

***Guggenheim takeaway:** While the solar business is a small portion of PSEG Power, we believe it has the potential to grow with additional projects, especially with the extension of the ITC. Other utilities such as ED, DUK, and SO are also growing their contracted solar portfolio.*

Solar – DOE funds research into solar energy storage

- The U.S. Department of Energy announced granting $18mm to six projects that will use energy storage and distributed generation technologies to back up solar installations.
- The DOE SunShot Initiative was created in 2011 with the goal of making solar cost-competitive with other forms of electricity.
- As solar costs come down, the lack of affordable ways to store solar energy for later use has become the lynchpin to more widespread adoption.

- One of the six grants was given to EXC in the amount of $4mm to use smart inverters for solar PV and battery storage systems.

Guggenheim takeaway:*As highlighted in our research on the levelized cost of energy, solar generation has significantly declined in recent years. Battery storage technology will help with the intermittent nature of solar, allowing the stored energy to be dispatched at all hours. See our note here for further analysis on the levelized cost of all generating technologies.*

TE – FERC approves Emera acquisition of TECO

- Emera (EMA.TO, NC, CAD42.66) announced that FERC approved the acquisition of TECO, finding the transaction is consistent with the public interest.
- EMA announced its acquisition of TECO on September 4, 2015. Shareholders approved the acquisition on December 3, 2015.
- The $10.4B acquisition includes ~$3.9B in debt.
- The merger is still subject to approval by the NM Commission. EMA expects the acquisition to close by mid-2016.

Guggenheim takeaway: *The acquisition of TECO is strategic for Emera to grow its exposure to natural gas investment and its reach into the U.S. utility space, potentially investing upstream as allowed in FL. We expect minimal overhangs with TE's acquisition and Emera expects the acquisitions to close by mid-2016.*

ES – Locals want ES to bury more portions of the Northern Pass Transmission line

- Interested parties at a Site Evaluation Committee hearing for the Northern Pass Transmission project want ES to bury more portions of the line in Coos County.
- The currently proposed route would bury 8 miles in the county.
- Over 200 people attended the hearing on Wednesday.

Guggenheim takeaway: *ES suggested there are other ways to reduce NPT's visual impact (e.g., different type of tower), but has previously noted that burying the line would make the project economically unfeasible. We would expect local parties to take interest in any large infrastructure project of this nature, especially during public sessions such as this; we don't anticipate enough opposition to set the project back though. As a reminder, the Site Evaluation Committee recently approved ES's application for review despite opposition from New England Power Generators and the Society for the Protection of NH Forests (parties that would likely make progress more difficult for ES, in our view).*

DUK – NC PUC denies request for hearings on Western Carolinas Modernization Project

- The NC PUC denied a request from non-profit groups for evidentiary hearings on DUK's $1.1bn Western Carolinas Modernization Project.
- NC WARN and The Climate Times argue the application should be denied because the PUC can't evaluate the project in the 45-day window.
- NC PUC staff notes they never indicated inability to conduct an investigation within the time frame.
- DUK requested a certificate of public convenience and necessity to replace their 379MW Asheville coal plant with two 280MW CCGTs.

Guggenheim takeaway: *We recently highlighted modifications DUK made to its Western Carolinas Modernization Plan (including additional energy efficiency and renewables), which have managed to garner local support. As a reminder,* *DUK's ~$1bn Western Carolinas Modernization Plan is intended to address the company's expectation for demand in their Western region to grow more than 15% over the next decade.*

ES – Utilities request approval of contracts to support New England gas pipeline

- National Grid (NGG, NC, $65.82) electric utility subsidiaries have filed for MA DPU approval of two 20-year contracts for capacity on the Access Northeast pipeline, and two 20-year contracts on the Northeast Energy Direct pipeline.
- ES electric utility subsidiaries previously requested approval for two 20-year contracts for capacity on Access Northeast.

***Guggenheim takeaway:** ES is developing the Access Northeast project, a gas pipeline that would be supported by contracts with electric utilities securing fuel for their power plants; a variation to the manner in which gas LDC traditionally contract for pipeline capacity. Much of the gas capacity in New England is secured under firm contract by gas LDCs to meet heating demand, so a cold winter reduces the supply of gas available to fuel power plants. Limited gas supplies during a cold winter can challenge electric reliability and result in volatile prices as we experienced during the polar vortex.*

Links

- Guggenheim's Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
2. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
3. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
4. GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing
5. FE - Upgrading to BUY - The Buckeye State Now Fully Investable
6. FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing
7. EEI Full Recap
8. EIX – NEUTRAL – Quick Take on Revised ALJ Proposal
9. Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings
10. DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details
11. PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve
12. 3Q Utility Earnings Sneak Peek: EEI Edition
13. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
14. EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission
15. DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth
16. EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off
17. PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power
18. FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. More Uplifting Data Points for AEP and FE
21. Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection

22. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
23. *Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables*
24. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
On-going	FE	Evidentiary hearings	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/21	ES	Northern Pass public information session (Lincoln)		NH		The NH Site Evaluation Committee scheduled 5 information sessions on Northern Pass as it begins its review
01/25	EIX	Next date for potential decision regarding the SONGS settlement	Southern California Edison	CA	I.12-10-013	Consideration of re-opening the SONGS settlement
01/25		Next date for Supreme Court to issue DR opinion			Federal Energy Regulatory Commission v. Electric Power Supply	Opinion on whether FERC has autority over pricing DR in wholesale rates
01/26	SO	Intervenor testimony regarding GAS acquisition expected to be filed in Maryland		MD		MD PSC consideration of SO's proposed acquisition of GAS
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
01/28	ED	PSC technical conference on earnings impact mechanisms and related items	Consolidated Edison Company of New York Orange & Rockland	NY	14–M–0101	REV technical conference to discuss Earnings Impact Mechanisms (EIMs), as well as other topics
01/31	PCG	GT&S rate case decision expected in January 2016	Pacific Gas & Electric Company	CA	A.13-12-012	Procedural schedule estimates a decision regarding GT&S revenue requirement in January 2016
02/05	ES	Deadline to file motion to interene in Northern Pass proceedings		NH		The NH Site Evaluation Committee set a deadline for anyone wishing to intervene to file a motion with the commission.
02/16	ETR	Indian Point Coastal Zone Management (CZM)		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for CPV Maryland, LLC v. PPL EnergyPlus, LLC			14-623	Whether state-directed contracts for new generation build infringes on FERC jurisdiction on wholesale rates
02/24	NEE	FPSC hearing on Duval-Raven transmission project	Florida Power & Light	FL	150263-EI	FPSC hearing on the proposed $71mm Duval-Raven transmission line
03/22	PCG	Trial scheduled for PG&E criminal case	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion

Upcoming Corporate Access and Client Events

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
DUK	TBA	TBA	TBA
SO	TBA	TBA	TBA
EIX	TBA	TBA	TBA
DTE	TBA	TBA	TBA
ED	TBA	TBA	TBA
AWK	TBA	TBA	TBA
ES	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
GXP	TBA	TBA	TBA
WR	TBA	TBA	TBA
EXC	TBA	TBA	TBA
ETR	TBA	TBA	TBA
MORE TO BE ADDED…			

Guggenheim Power & Utilities Comp Sheet (As of 01/19/2016)

Regulateds								EPS - Guggenheim					EPS - Consensus					P/E - Guggenheim				P/E - Consensus			
Ticker	Company	Mkt. Cap ($MM)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	'15E	'16E	'17E	'18E	CAGR	'15E	'16E	'17E	'18E	CAGR	'15E	'16E	'17E	'18E	'15E	'16E	'17E	'18E
AEP	American Electric Power	29,238	Buy	$62	$59.57	4%	489	3.73	3.73	3.92	4.19	4%	3.73	3.71	3.89	4.17	4%	16.0	16.0	15.2	14.2	16.0	16.1	15.3	14.3
ED	Consolidated Edison, Inc.	20,048	Neutral	$59	$69.07	-15%	294	4.00	4.10	4.17	4.33	3%	4.01	4.08	4.19	4.33	3%	17.3	16.8	16.6	16.0	17.2	16.9	16.5	16.0
D	Dominion Resources, Inc.	41,019	Buy	$76	$69.90	9%	585	3.65	3.84	3.99	4.47	7%	3.66	3.85	4.01	4.53	7%	19.2	18.2	17.5	15.6	19.1	18.1	17.4	15.4
DTE	DTE Energy Company	14,572	Buy	$86	$82.23	5%	177	4.85	4.98	5.27	5.66	5%	4.81	4.95	5.28	5.60	5%	17.0	16.5	15.6	14.5	17.1	16.6	15.6	14.7
DUK	Duke Energy Corporation	49,799	Buy	$76	$73.16	4%	707	4.60	4.64	4.95	5.07	3%	4.58	4.69	4.92	5.20	4%	15.9	15.8	14.8	14.4	16.0	15.6	14.9	14.1
EIX	Edison International	19,402	Neutral	$62	$60.12	3%	329	3.81	3.75	4.04	4.31	4%	3.78	3.74	4.04	4.31	4%	15.8	16.0	14.9	13.9	15.9	16.1	14.9	14.0
ES	Eversource Energy	16,453	Buy	$55	$52.59	5%	317	2.82	2.99	3.19	3.44	7%	2.84	3.02	3.22	3.44	7%	18.6	17.6	16.5	15.3	18.5	17.4	16.4	15.3
GXP	Great Plains Energy Inc.	4,187	Buy	$30	$27.24	10%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	19.5	15.7	14.6	13.8	19.4	15.4	14.8	14.0
NEE	NextEra Energy, Inc.	49,642	Buy	$124	$107.81	15%	440	5.66	6.19	6.60	7.04	8%	5.66	6.16	6.52	6.96	7%	19.0	17.4	16.3	15.3	19.1	17.5	16.5	15.5
PCG	PG&E Corporation	25,970	Neutral	$53	$52.98	0%	470	3.02	3.67	3.69	3.91	9%	3.05	3.73	3.71	3.93	9%	17.5	14.4	14.4	13.5	17.4	14.2	14.3	13.5
PNW	Pinnacle West Capital Corp.	7,149	Neutral	$60	$64.88	-8%	111	3.81	4.02	4.18	4.43	5%	3.79	3.99	4.19	4.35	5%	17.0	16.1	15.5	14.6	17.1	16.2	15.5	14.9
PPL	PPL Corporation	22,351	Buy	$37	$33.63	10%	666	2.21	2.33	2.44	2.57	5%	2.21	2.32	2.41	2.53	5%	15.2	14.4	13.8	13.1	15.2	14.5	14.0	13.3
SO	Southern Company	43,184	Neutral	$43	$47.94	-10%	901	2.87	2.97	3.05	3.18	3%	2.88	2.95	3.08	3.21	4%	16.7	16.1	15.7	15.1	16.7	16.2	15.6	15.0
WR	Westar Energy, Inc.	5,890	Buy	$46	$41.71	10%	133	2.21	2.43	2.54	2.64	6%	2.21	2.45	2.55	2.65	6%	18.9	17.2	16.4	15.8	18.9	17.0	16.3	15.7
TE	TECO Energy, Inc.	6,364	Neutral	$28	$27.09	3%	224	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.27	1.34	7%	24.9	23.0	21.3	20.1	24.7	23.0	21.3	20.2
Average [2]												**6%**					**6%**	**17.4**	**16.3**	**15.6**	**14.7**	**17.4**	**16.3**	**15.6**	**14.7**
Integrateds																									
ETR	Entergy Corporation	12,218	Neutral	$69	$68.87	0%	180	5.80	5.01	5.12	5.16	-4%	5.83	5.01	5.02	5.16	-4%	11.9	13.7	13.5	13.3	11.8	13.8	13.7	13.3
EXC	Exelon Corporation	25,463	Buy	$31	$27.64	12%	864	2.56	2.53	2.63	2.85	4%	2.52	2.55	2.70	2.90	5%	10.8	10.9	10.5	9.7	11.0	10.9	10.2	9.5
FE	FirstEnergy Corp.	13,480	Buy	$39	$32.49	20%	421	2.71	2.87	2.86	2.91	2%	2.69	2.84	2.66	2.73	0%	12.0	11.3	11.4	11.2	12.1	11.4	12.2	11.9
PEG	Public Service Enterprise Group	20,097	Buy	$41	$39.83	3%	508	2.93	2.97	2.93	3.00	1%	2.93	2.92	2.85	3.00	1%	13.6	13.4	13.6	13.3	13.6	13.6	14.0	13.3
Average												**1%**					**1%**	**12.1**	**12.4**	**12.2**	**11.9**	**12.1**	**12.4**	**12.5**	**12.0**
Other																									
AWK	American Water Works	10,942	Buy	$66	$61.01	8%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	23.0	21.6	20.1	19.1	23.2	21.6	20.2	19.0

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds				Consensus Dividend Per Share				Consensus Dividend Yield				Consensus Dividend Payout			
Ticker	Company	Rating	Current Price	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E
AEP	American Electric Power	Buy	$59.57	2.15	2.26	2.36	2.52	3.6%	3.8%	4.0%	4.2%	58%	61%	61%	60%
ED	Consolidated Edison, Inc.	Neutral	$69.07	2.58	2.65	2.71	2.76	3.7%	3.8%	3.9%	4.0%	64%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$69.90	2.58	2.77	2.98	3.21	3.7%	4.0%	4.3%	4.6%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$82.23	2.83	2.97	3.13	3.37	3.4%	3.6%	3.8%	4.1%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$73.16	3.26	3.38	3.53	3.71	4.5%	4.6%	4.8%	5.1%	71%	72%	72%	71%
EIX	Edison International	Neutral	$60.12	1.69	1.91	2.11	2.20	2.8%	3.2%	3.5%	3.7%	45%	51%	52%	51%
ES	Eversource Energy	Buy	$52.59	1.67	1.79	1.91	2.01	3.2%	3.4%	3.6%	3.8%	59%	59%	59%	59%
GXP	Great Plains Energy Inc.	Buy	$27.24	1.01	1.09	1.16	1.22	3.7%	4.0%	4.3%	4.5%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$107.81	3.07	3.47	3.92	4.48	2.8%	3.2%	3.6%	4.2%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$52.98	1.83	1.93	2.05	2.21	3.4%	3.6%	3.9%	4.2%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$64.88	2.42	2.53	2.66	2.79	3.7%	3.9%	4.1%	4.3%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$33.63	1.50	1.53	1.57	1.64	4.5%	4.5%	4.7%	4.9%	68%	66%	65%	65%
SO	Southern Company	Neutral	$47.94	2.16	2.23	2.31	2.41	4.5%	4.7%	4.8%	5.0%	75%	75%	75%	75%
WR	Westar Energy, Inc.	Buy	$41.71	1.44	1.51	1.60	1.65	3.5%	3.6%	3.8%	4.0%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$27.09	0.90	0.92	0.95	0.96	3.3%	3.4%	3.5%	3.5%	82%	78%	74%	72%
Average								**3.6%**	**3.8%**	**4.0%**	**4.3%**	**64%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$68.87	3.35	3.43	3.49	3.60	4.9%	5.0%	5.1%	5.2%	57%	69%	70%	70%
EXC	Exelon Corporation	Buy	$27.64	1.24	1.25	1.25	1.25	4.5%	4.5%	4.5%	4.5%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$32.49	1.44	1.44	1.45	1.44	4.4%	4.4%	4.5%	4.4%	53%	51%	54%	53%
PEG	Public Service Enterprise Group	Buy	$39.83	1.56	1.62	1.69	1.81	3.9%	4.1%	4.3%	4.6%	53%	56%	59%	60%
Average								**4.4%**	**4.5%**	**4.6%**	**4.7%**	**53%**	**56%**	**57%**	**56%**
Other															
AWK	American Water Works	Buy	$61.01	1.34	1.43	1.58	1.72	2.2%	2.3%	2.6%	2.8%	51%	51%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

Guggenheim Power & Utilities Comp Sheet (As of 01/20/2016)

Regulateds		Mkt. Cap		Target	Current	Price	Diluted	EPS - Guggenheim					EPS - Consensus					P/E - Guggenheim				P/E - Consensus			
Ticker	Company	($MM)	Rating	Price[1]	Price	Change	Shares	'15E	'16E	'17E	'18E	CAGR	'15E	'16E	'17E	'18E	CAGR	'15E	'16E	'17E	'18E	'15E	'16E	'17E	'18E
AEP	American Electric Power	28,374	Buy	$62	$57.92	7%	489	3.73	3.73	3.92	4.19	4%	3.73	3.71	3.89	4.17	4%	15.5	15.5	14.8	13.8	15.5	15.6	14.9	13.9
ED	Consolidated Edison, Inc.	20,010	Neutral	$59	$68.25	-14%	294	4.00	4.10	4.17	4.33	3%	4.01	4.08	4.19	4.33	3%	17.1	16.6	16.4	15.8	17.0	16.7	16.3	15.8
D	Dominion Resources, Inc.	40,667	Buy	$76	$68.73	11%	585	3.65	3.84	3.99	4.47	7%	3.66	3.85	4.01	4.53	7%	18.8	17.9	17.2	15.4	18.8	17.8	17.1	15.2
DTE	DTE Energy Company	14,337	Buy	$86	$80.19	7%	177	4.85	4.98	5.27	5.66	5%	4.81	4.95	5.28	5.60	5%	16.5	16.1	15.2	14.2	16.7	16.2	15.2	14.3
DUK	Duke Energy Corporation	48,934	Buy	$76	$71.42	6%	707	4.60	4.64	4.95	5.07	3%	4.58	4.69	4.92	5.20	4%	15.5	15.4	14.4	14.1	15.6	15.2	14.5	13.7
EIX	Edison International	19,138	Neutral	$62	$59.01	5%	329	3.81	3.75	4.04	4.31	4%	3.78	3.74	4.04	4.31	4%	15.5	15.7	14.6	13.7	15.6	15.8	14.6	13.7
ES	Eversource Energy	16,162	Buy	$55	$51.15	8%	317	2.82	2.99	3.19	3.44	7%	2.84	3.02	3.22	3.44	7%	18.1	17.1	16.0	14.9	18.0	16.9	15.9	14.9
GXP	Great Plains Energy Inc.	4,049	Buy	$30	$26.41	14%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	18.9	15.3	14.1	13.3	18.8	15.0	14.3	13.5
NEE	NextEra Energy, Inc.	48,417	Buy	$124	$105.31	18%	440	5.66	6.19	6.60	7.04	8%	5.66	6.16	6.52	6.96	7%	18.6	17.0	16.0	15.0	18.6	17.1	16.1	15.1
PCG	PG&E Corporation	25,052	Neutral	$53	$51.29	3%	470	3.02	3.67	3.69	3.91	9%	3.05	3.73	3.71	3.93	9%	17.0	14.0	13.9	13.1	16.8	13.8	13.8	13.0
PNW	Pinnacle West Capital Corp.	7,023	Neutral	$60	$63.62	-6%	111	3.81	4.02	4.18	4.43	5%	3.79	3.99	4.19	4.35	5%	16.7	15.8	15.2	14.4	16.8	15.9	15.2	14.6
PPL	PPL Corporation	21,945	Buy	$37	$32.80	13%	666	2.21	2.33	2.44	2.57	5%	2.21	2.32	2.41	2.53	5%	14.8	14.1	13.4	12.8	14.8	14.1	13.6	13.0
SO	Southern Company	42,720	Neutral	$43	$47.16	-9%	901	2.87	2.97	3.05	3.18	3%	2.88	2.95	3.08	3.21	4%	16.4	15.9	15.5	14.8	16.4	16.0	15.3	14.7
WR	Westar Energy, Inc.	5,741	Buy	$46	$40.71	13%	133	2.21	2.43	2.54	2.64	6%	2.21	2.45	2.55	2.65	6%	18.4	16.8	16.0	15.4	18.4	16.6	15.9	15.4
TE	TECO Energy, Inc.	6,316	Neutral	$28	$26.92	4%	224	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.27	1.34	7%	24.7	22.8	21.2	19.9	24.5	22.9	21.1	20.1
Average [2]												**6%**					**6%**	**17.0**	**15.9**	**15.2**	**14.3**	**17.0**	**15.9**	**15.2**	**14.3**
Integrateds																									
ETR	Entergy Corporation	11,786	Neutral	$69	$66.56	4%	180	5.80	5.01	5.12	5.16	-4%	5.83	5.01	5.02	5.16	-4%	11.5	13.3	13.0	12.9	11.4	13.3	13.3	12.9
EXC	Exelon Corporation	24,387	Buy	$31	$26.78	16%	864	2.56	2.53	2.63	2.85	4%	2.52	2.55	2.70	2.90	5%	10.5	10.6	10.2	9.4	10.6	10.5	9.9	9.2
FE	FirstEnergy Corp.	13,106	Buy	$39	$31.12	25%	421	2.71	2.87	2.86	2.91	2%	2.69	2.84	2.66	2.73	0%	11.5	10.8	10.9	10.7	11.6	11.0	11.7	11.4
PEG	Public Service Enterprise Group	19,520	Buy	$41	$38.97	5%	508	2.93	2.97	2.93	3.00	1%	2.93	2.92	2.85	3.00	1%	13.3	13.1	13.3	13.0	13.3	13.3	13.7	13.0
Average												**1%**					**1%**	**11.7**	**12.0**	**11.8**	**11.5**	**11.7**	**12.0**	**12.1**	**11.6**
Other																									
AWK	American Water Works	10,847	Buy	$66	$60.62	9%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	22.9	21.4	20.0	18.9	23.1	21.4	20.1	18.9

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds			Current	Consensus Dividend Per Share				Consensus Dividend Yield				Consensus Dividend Payout			
Ticker	Company	Rating	Price	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E
AEP	American Electric Power	Buy	$57.92	2.15	2.26	2.36	2.52	3.7%	3.9%	4.1%	4.3%	58%	61%	61%	60%
ED	Consolidated Edison, Inc.	Neutral	$68.25	2.58	2.65	2.71	2.76	3.8%	3.9%	4.0%	4.0%	64%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$68.73	2.58	2.77	2.98	3.21	3.8%	4.0%	4.3%	4.7%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$80.19	2.83	2.97	3.13	3.37	3.5%	3.7%	3.9%	4.2%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$71.42	3.26	3.38	3.53	3.71	4.6%	4.7%	4.9%	5.2%	71%	72%	72%	71%
EIX	Edison International	Neutral	$59.01	1.69	1.91	2.11	2.20	2.9%	3.2%	3.6%	3.7%	45%	51%	52%	51%
ES	Eversource Energy	Buy	$51.15	1.67	1.79	1.91	2.01	3.3%	3.5%	3.7%	3.9%	59%	59%	59%	59%
GXP	Great Plains Energy Inc.	Buy	$26.41	1.01	1.09	1.16	1.22	3.8%	4.1%	4.4%	4.6%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$105.31	3.07	3.47	3.92	4.48	2.9%	3.3%	3.7%	4.3%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$51.29	1.83	1.93	2.05	2.21	3.6%	3.8%	4.0%	4.3%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$63.62	2.42	2.53	2.66	2.79	3.8%	4.0%	4.2%	4.4%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$32.80	1.50	1.53	1.57	1.64	4.6%	4.7%	4.8%	5.0%	68%	66%	65%	65%
SO	Southern Company	Neutral	$47.16	2.16	2.23	2.31	2.41	4.6%	4.7%	4.9%	5.1%	75%	75%	75%	75%
WR	Westar Energy, Inc.	Buy	$40.71	1.44	1.51	1.60	1.65	3.5%	3.7%	3.9%	4.1%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$26.92	0.90	0.92	0.95	0.96	3.3%	3.4%	3.5%	3.6%	82%	78%	74%	72%
Average								**3.7%**	**3.9%**	**4.1%**	**4.4%**	**64%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$66.56	3.35	3.43	3.49	3.60	5.0%	5.2%	5.2%	5.4%	57%	69%	70%	70%
EXC	Exelon Corporation	Buy	$26.78	1.24	1.25	1.25	1.25	4.6%	4.7%	4.7%	4.7%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$31.12	1.44	1.44	1.45	1.44	4.6%	4.6%	4.7%	4.6%	53%	51%	54%	53%
PEG	Public Service Enterprise Group	Buy	$38.97	1.56	1.62	1.69	1.81	4.0%	4.2%	4.3%	4.7%	53%	56%	59%	60%
Average								**4.6%**	**4.7%**	**4.7%**	**4.8%**	**53%**	**56%**	**57%**	**56%**
Other															
AWK	American Water Works	Buy	$60.62	1.34	1.43	1.58	1.72	2.2%	2.4%	2.6%	2.8%	51%	51%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

ANALYST CERTIFICATION

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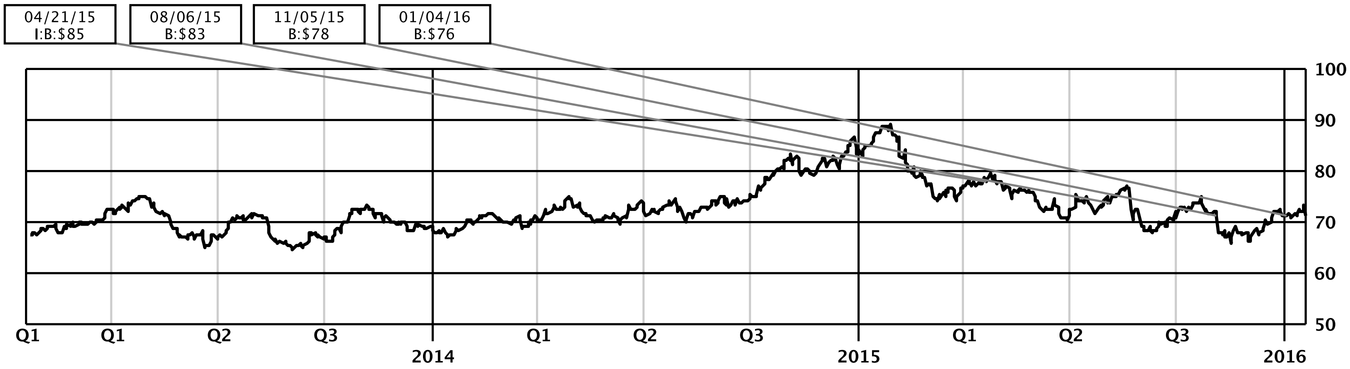
Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Duke Energy Corporation, Eversource Energy, Exelon Corporation, Public Service Enterprise Group Inc. and TECO Energy, Inc. in the next 3 months.

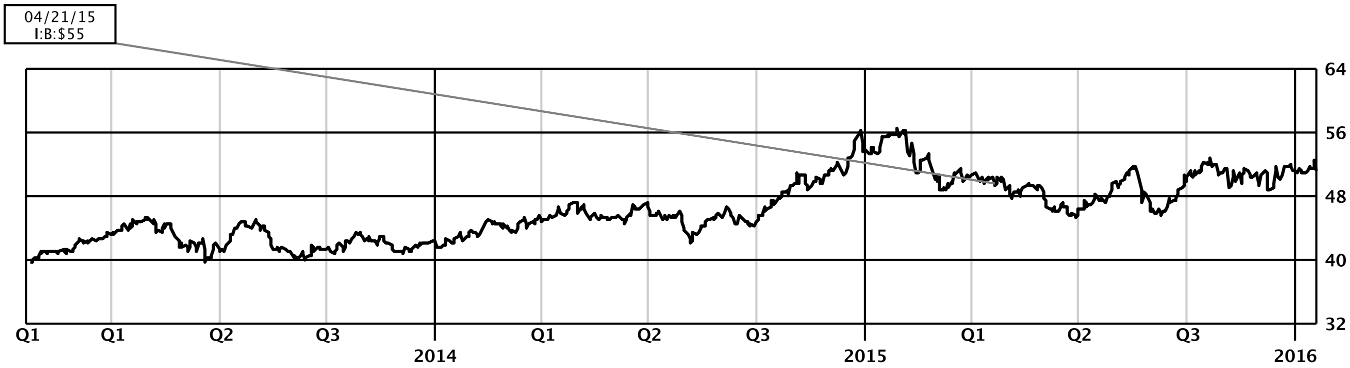
Please refer to this website for company-specific disclosures referenced in this report: https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

Rating and Price Target History for: Duke Energy Corporation (DUK) as of 01-20-2016



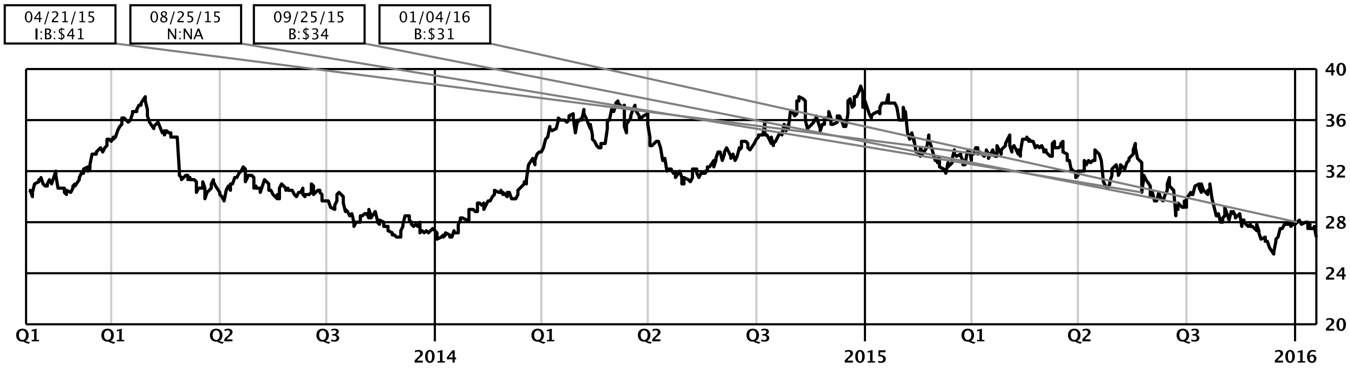
Created by BlueMatrix

Rating and Price Target History for: Eversource Energy (ES) as of 01-20-2016



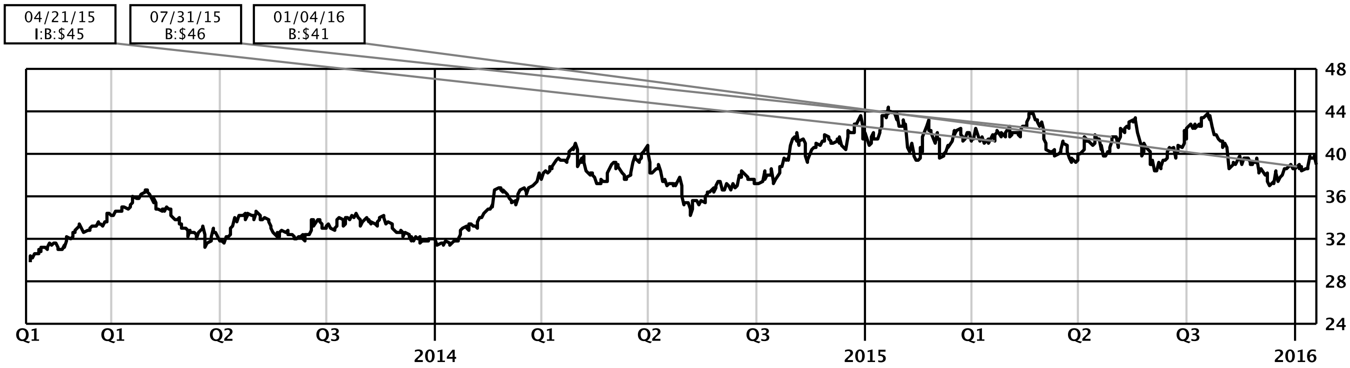
Created by BlueMatrix

Rating and Price Target History for: Exelon Corporation (EXC) as of 01-20-2016



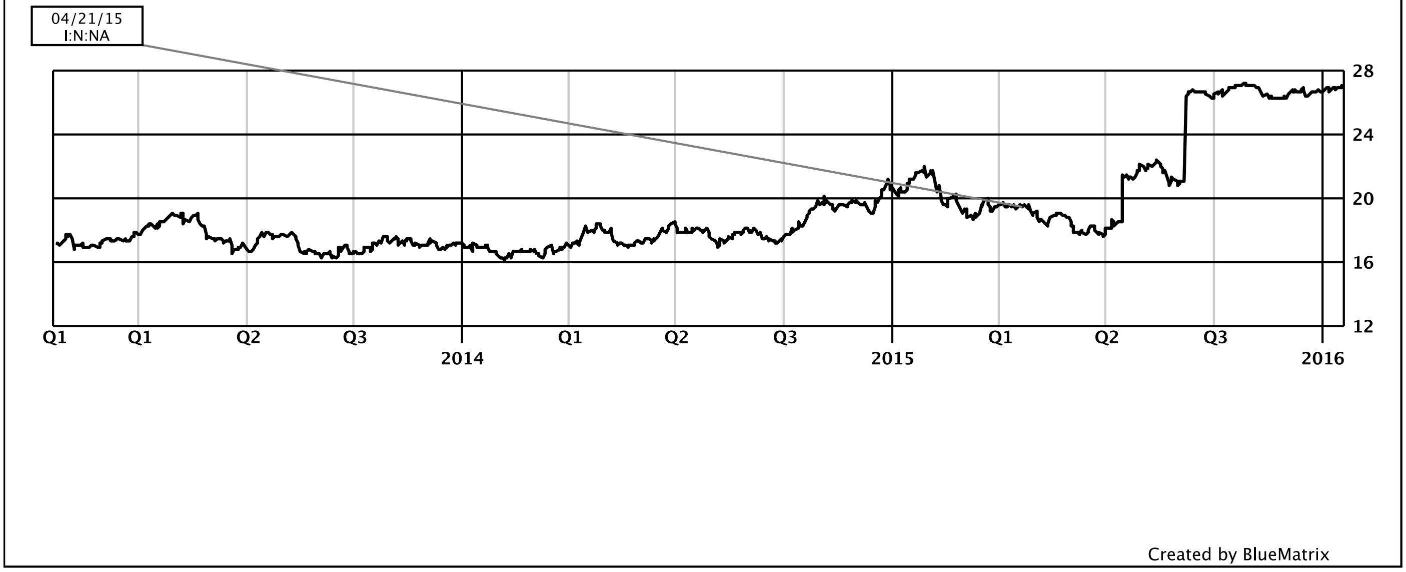
Created by BlueMatrix

Rating and Price Target History for: Public Service Enterprise Group Inc. (PEG) as of 01-20-2016



Created by BlueMatrix

Rating and Price Target History for: TECO Energy, Inc. (TE) as of 01-20-2016



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Neutral	109	38.38%	3	2.75%
Sell	0	0.00%	0	0.00%

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Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: CPP, D, DUK, SO, FE, AEP, AWK, ED, EXC, ETR

January 22, 2016

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What's New?

CPP – Court of Appeals denies stay of Clean Power Plan
ED/EXC/ETR – NY PSC approves $5.3B clean energy fund
D/DUK/SO – Forest Service rejects Atlantic Coast pipeline route through national forests in VA and W. VA
DUK – Duke files for merger of Piedmont approval to Tennessee Commission
FERC – FERC Commissioner will not seek reappointment in June
FE/AEP – The Office of the Ohio Consumers' Counsel asks lawmakers to examine Ohio utility regulation concerns
AWK – AWK files rate case in Illinois

CPP – Court of Appeals denies stay of Clean Power Plan

- The DC Circuit Court of Appeals on Thursday denied requests by states and industry to stay the Clean Power Plan.
- The federal appeals court will hear merits of the case on June 2, and potentnial for oral arguments to continue on June 3.
- The DC Circuit also ordered parties to submit a proposed briefing schedule that would allow initial briefs to be submitted by April 15 and final briefs by April 22.

***Guggenheim takeaway:** As we highlighted in our research, getting the court to issue a stay of EPA's Clean Power Plan is generally an uphill battle. We note a stay of MATs was not granted either. Regardless of potential delays in the court case, we believe states will submit State Implementation Plans to be in compliance with CPP in 2022.*

ED/EXC/ETR – NY PSC approves $5.3B clean energy fund

- NY PSC approved a $5.3B clean energy fund directed at electric and gas utilities to develop energy efficiency programs.
- The fund will support: existing solar program and green bank, as well as research to address barriers in energy efficiency, and market development.
- The PSC also expanded the scope of its renewable programs to include NY Governor's directive to meet 50% renewables by 2030.
- The PSC will develop a framework by June on the possibility of requiring utilities to procure a share of zero emission credits to support nuclear units.

***Guggenheim takeaway:** As we highlighted in our research, we believe the NY PSC would adopt the NY Governor's goal of trying to keep upstate nuclear, e.g. ETR's Fitzpatrick and EXC's Ginna. In his state of the state address, he requested to have nuclear as a bridge and to switch away from coal. We believe these initiatives help to achieve Clean Power Plan incentives, and could be a positive for ED to develop transmission for increased renewables in the state.*

D/DUK/SO – Forest Service rejects Atlantic Coast pipeline route through national forests in VA and W. VA

- The National Forest Service determined that the proposed Atlantic Coast Pipeline (ACP) did not meet the minimum requirements for passing through areas in the Monongahela and George Washington national forests.
- The Forest Service has requested that Atlantic Coast provide additional information on new routes.
- The Forest Service said new alternative routes must be developed so that it complies with a conservation agreement for the Cow Knob salamander and avoid Cheat Mountain and Back Allegheny Mountain in the Monongahela National Forest and Shenandoah Mountain in the George Washington National Forest.

Guggenheim takeaway: *Another hiccup for ACP, although we would expect issues such as this to surface with an infrastructure development this size. At this juncture we still expect D to keep schedule on track.*

DUK – Duke files for merger of Piedmont approval to Tennessee

- DUK and PNY (PNY, NC, $58.00) filed their proposed merger with the Tennessee Regulatory Authority (TRA).
- The companies indicated merging would not increase rates in TN.
- The companies request the TRA approve the merger before April 30, 2016.

Guggenheim takeaway:*As we highlighted in our research, we believe there are limited hurdles for this transaction. DUK expects the transaction to close in 4Q16 and we don't anticipate any unordinary pushback. See our note here for analysis on the merger.*

FERC – FERC Commissioner will not seek reappointment in June

- FERC Commissioner Tony Clark announced that he will not seek reappointment when his term expires in June 2016.
- Commissioner Tony Clark said he may serve beyond the end of his term if a replacement has not yet been confirmed. He is the only Republican of four FERC commissioners.
- Commissioner Tony Clark joined the commission in 2012.

Guggenheim takeaway: *FERC has become a very restrictive body of oversight from an investor and even re-regulated market standpoint. Changes in regime are welcome.*

FE/AEP – The Office of the Ohio Consumers' Counsel asks lawmakers to examine Ohio utility regulation concerns

- The governing board of the Office of the Ohio Consumers' Counsel released a report on the state of investor-owned utilities in Ohio.
- The report stated that the problem is in how Ohio regulates the electric industry.
- The report also proposes that a 15-member task force be created to examine the issue and propose reforms that will be submitted to the General Assembly no later than Dec. 15.
- The report addresses customer dissatisfaction, and also presents the difficulties investor-owned-utilities face in OH.

Guggenheim takeaway: *This report acts as commentary on the state of utilities in OH in light of the pending hearings on FE and AEP's PPA settlements. The report highlights complaints and generally negative sentiment on the state of electricity* *markets in OH. As we highlight in our research, while there have been alternative plans submitted by IPPs and claims for litigation, we believe PUCO will approve the PPAs. See here for our takeaways on AEP PPA and FE PPA.*

AWK – AWK files rate case in Illinois

- AWK is filing a $40mm revenue increase in its rate case. Rates from this rate case will be effective January 2017.
- Illinois American Water will have invested ~$342mm in water and sewer infrastructure from 2013 to 2017.
- The primary driver for the revenue increase is on water and system investments.

Guggenheim takeaway: *We note that this is the first rate case IL American Water has filed since 2012 and we do not expect the revenue increase to be contentious. American Water has historically settled on their rate cases.*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
2. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
3. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
4. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
5. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
6. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
7. *EEI Full Recap*
8. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
9. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
10. *DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details*
11. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
12. *3Q Utility Earnings Sneak Peek: EEI Edition*
13. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
14. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*
15. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
16. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
17. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
18. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
19. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
20. *More Uplifting Data Points for AEP and FE*
21. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*

22. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
23. *Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables*
24. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
On-going	FE	Evidentiary hearings	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/25	EIX	Next date for potential decision regarding the SONGS settlement	Southern California Edison	CA	I.12-10-013	Consideration of re-opening the SONGS settlement
01/25		Next date for Supreme Court to issue DR opinion			Federal Energy Regulatory Commission v. Electric Power Supply	Opinion on whether FERC has autority over pricing DR in wholesale rates
01/26	SO	Intervenor testimony regarding GAS acquisition expected to be filed in Maryland		MD		MD PSC consideration of SO's proposed acquisition of GAS
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
01/28	ED	PSC technical conference on earnings impact mechanisms and related items	Consolidated Edison Company of New York Orange & Rockland	NY	14–M–0101	REV technical conference to discuss Earnings Impact Mechanisms (EIMs), as well as other topics
01/31	PCG	GT&S rate case decision expected in January 2016	Pacific Gas & Electric Company	CA	A.13-12-012	Procedural schedule estimates a decision regarding GT&S revenue requirement in January 2016
02/05	ES	Deadline to file motion to interene in Northern Pass proceedings		NH		The NH Site Evaluation Committee set a deadline for anyone wishing to intervene to file a motion with the commission.
02/16	ETR	Indian Point Coastal Zone Management (CZM)		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for CPV Maryland, LLC v. PPL EnergyPlus, LLC			14-623	Whether state-directed contracts for new generation build infringes on FERC jurisdiction on wholesale rates
02/24	NEE	FPSC hearing on Duval-Raven transmission project	Florida Power & Light	FL	150263-EI	FPSC hearing on the proposed $71mm Duval-Raven transmission line
03/22	PCG	Trial scheduled for PG&E criminal case	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion

Upcoming Corporate Access and Client Events

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
DUK	TBA	TBA	TBA
SO	TBA	TBA	TBA
EIX	TBA	TBA	TBA
DTE	TBA	TBA	TBA
ED	TBA	TBA	TBA
AWK	TBA	TBA	TBA
ES	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
GXP	TBA	TBA	TBA
WR	TBA	TBA	TBA
EXC	TBA	TBA	TBA
ETR	TBA	TBA	TBA
PPL	TBA	TBA	TBA
PEG	TBA	TBA	TBA
AEP	TBA	TBA	TBA
MORE TO BE ADDED…			

Guggenheim Power & Utilities Comp Sheet (As of 01/21/2016)

Regulateds		Mkt. Cap		Target	Current	Price	Diluted	EPS - Guggenheim					EPS - Consensus					P/E - Guggenheim				P/E - Consensus			
Ticker	**Company**	**($MM)**	**Rating**	**Price[1]**	**Price**	**Change**	**Shares**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**'15E**	**'16E**	**'17E**	**'18E**
AEP	American Electric Power	28,291	Buy	$62	$57.64	8%	489	3.73	3.73	3.92	4.19	4%	3.73	3.71	3.89	4.17	4%	15.5	15.5	14.7	13.8	15.5	15.5	14.8	13.8
ED	Consolidated Edison, Inc.	19,846	Neutral	$59	$67.69	-13%	294	4.00	4.10	4.17	4.33	3%	4.01	4.08	4.19	4.33	3%	16.9	16.5	16.2	15.6	16.9	16.6	16.1	15.6
D	Dominion Resources, Inc.	40,774	Buy	$76	$68.49	11%	585	3.65	3.84	3.99	4.47	7%	3.65	3.85	4.01	4.53	7%	18.8	17.8	17.2	15.3	18.8	17.8	17.1	15.1
DTE	DTE Energy Company	14,223	Buy	$86	$79.25	9%	177	4.85	4.98	5.27	5.66	5%	4.80	4.95	5.28	5.60	5%	16.3	15.9	15.0	14.0	16.5	16.0	15.0	14.2
DUK	Duke Energy Corporation	48,934	Buy	$76	$71.09	7%	707	4.60	4.64	4.95	5.07	3%	4.58	4.69	4.92	5.20	4%	15.5	15.3	14.4	14.0	15.5	15.2	14.4	13.7
EIX	Edison International	19,132	Neutral	$62	$58.72	6%	329	3.81	3.75	4.04	4.31	4%	3.78	3.74	4.04	4.31	4%	15.4	15.7	14.5	13.6	15.5	15.7	14.5	13.6
ES	Eversource Energy	16,044	Buy	$55	$50.58	9%	317	2.82	2.99	3.19	3.44	7%	2.84	3.02	3.22	3.44	7%	17.9	16.9	15.9	14.7	17.8	16.7	15.7	14.7
GXP	Great Plains Energy Inc.	4,066	Buy	$30	$26.34	14%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	18.8	15.2	14.1	13.3	18.8	14.9	14.3	13.5
NEE	NextEra Energy, Inc.	48,367	Buy	$124	$105.04	18%	440	5.66	6.19	6.60	7.04	8%	5.66	6.16	6.52	6.96	7%	18.6	17.0	15.9	14.9	18.6	17.1	16.1	15.1
PCG	PG&E Corporation	25,249	Neutral	$53	$51.48	3%	470	3.02	3.67	3.69	3.91	9%	3.05	3.73	3.71	3.93	9%	17.0	14.0	14.0	13.2	16.9	13.8	13.9	13.1
PNW	Pinnacle West Capital Corp.	7,012	Neutral	$60	$63.26	-5%	111	3.81	4.02	4.18	4.43	5%	3.79	3.99	4.19	4.35	5%	16.6	15.7	15.1	14.3	16.7	15.8	15.1	14.5
PPL	PPL Corporation	22,324	Buy	$37	$33.23	11%	666	2.21	2.33	2.44	2.57	5%	2.21	2.32	2.41	2.53	5%	15.0	14.3	13.6	12.9	15.0	14.3	13.8	13.1
SO	Southern Company	42,547	Neutral	$43	$46.81	-8%	901	2.87	2.97	3.05	3.18	3%	2.88	2.95	3.08	3.21	4%	16.3	15.8	15.3	14.7	16.3	15.8	15.2	14.6
WR	Westar Energy, Inc.	5,704	Buy	$46	$40.38	14%	133	2.21	2.43	2.54	2.64	6%	2.21	2.45	2.55	2.65	6%	18.3	16.6	15.9	15.3	18.3	16.5	15.8	15.2
TE	TECO Energy, Inc.	6,349	Neutral	$28	$26.99	4%	224	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.28	1.34	7%	24.8	22.9	21.3	20.0	24.6	22.9	21.1	20.1
Average [2]												**6%**					**6%**	**16.9**	**15.9**	**15.1**	**14.3**	**16.9**	**15.8**	**15.1**	**14.3**
Integrateds																									
ETR	Entergy Corporation	11,895	Neutral	$69	$66.68	3%	180	5.80	5.01	5.12	5.16	-4%	5.83	5.01	5.02	5.16	-4%	11.5	13.3	13.0	12.9	11.4	13.3	13.3	12.9
EXC	Exelon Corporation	25,214	Buy	$31	$27.42	13%	864	2.56	2.53	2.63	2.85	4%	2.52	2.55	2.70	2.90	5%	10.7	10.8	10.4	9.6	10.9	10.8	10.2	9.5
FE	FirstEnergy Corp.	13,241	Buy	$39	$31.30	25%	421	2.71	2.87	2.86	2.91	2%	2.69	2.85	2.66	2.73	0%	11.5	10.9	10.9	10.8	11.6	11.0	11.7	11.5
PEG	Public Service Enterprise Group	19,778	Buy	$41	$39.09	5%	508	2.93	2.97	2.93	3.00	1%	2.93	2.92	2.85	3.00	1%	13.3	13.2	13.3	13.0	13.4	13.4	13.7	13.0
Average												**1%**					**1%**	**11.8**	**12.1**	**11.9**	**11.6**	**11.8**	**12.1**	**12.2**	**11.7**
Other																									
AWK	American Water Works	10,813	Buy	$66	$60.25	10%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	22.7	21.3	19.9	18.8	22.9	21.3	19.9	18.8

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds			**Current**	**Consensus Dividend Per Share**				**Consensus Dividend Yield**				**Consensus Dividend Payout**			
Ticker	**Company**	**Rating**	**Price**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**
AEP	American Electric Power	Buy	$57.64	2.15	2.26	2.36	2.52	3.7%	3.9%	4.1%	4.4%	58%	61%	61%	60%
ED	Consolidated Edison, Inc.	Neutral	$67.69	2.58	2.65	2.71	2.76	3.8%	3.9%	4.0%	4.1%	64%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$68.49	2.58	2.77	2.98	3.21	3.8%	4.0%	4.3%	4.7%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$79.25	2.83	2.97	3.13	3.37	3.6%	3.7%	3.9%	4.2%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$71.09	3.26	3.38	3.53	3.71	4.6%	4.8%	5.0%	5.2%	71%	72%	72%	71%
EIX	Edison International	Neutral	$58.72	1.69	1.91	2.11	2.20	2.9%	3.2%	3.6%	3.8%	45%	51%	52%	51%
ES	Eversource Energy	Buy	$50.58	1.67	1.79	1.91	2.01	3.3%	3.5%	3.8%	4.0%	59%	59%	59%	59%
GXP	Great Plains Energy Inc.	Buy	$26.34	1.01	1.09	1.16	1.22	3.8%	4.1%	4.4%	4.6%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$105.04	3.07	3.47	3.92	4.48	2.9%	3.3%	3.7%	4.3%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$51.48	1.83	1.93	2.05	2.21	3.5%	3.7%	4.0%	4.3%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$63.26	2.42	2.53	2.66	2.79	3.8%	4.0%	4.2%	4.4%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$33.23	1.50	1.53	1.57	1.64	4.5%	4.6%	4.7%	4.9%	68%	66%	65%	65%
SO	Southern Company	Neutral	$46.81	2.16	2.23	2.31	2.41	4.6%	4.8%	4.9%	5.1%	75%	75%	75%	75%
WR	Westar Energy, Inc.	Buy	$40.38	1.44	1.51	1.60	1.65	3.6%	3.7%	4.0%	4.1%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$26.99	0.90	0.92	0.94	0.96	3.3%	3.4%	3.5%	3.6%	82%	78%	74%	72%
Average								**3.7%**	**3.9%**	**4.1%**	**4.4%**	**64%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$66.68	3.35	3.43	3.49	3.60	5.0%	5.1%	5.2%	5.4%	57%	69%	70%	70%
EXC	Exelon Corporation	Buy	$27.42	1.24	1.25	1.25	1.25	4.5%	4.6%	4.6%	4.6%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$31.30	1.44	1.44	1.45	1.44	4.6%	4.6%	4.6%	4.6%	53%	51%	54%	53%
PEG	Public Service Enterprise Group	Buy	$39.09	1.56	1.62	1.69	1.81	4.0%	4.2%	4.3%	4.6%	53%	56%	59%	60%
Average								**4.5%**	**4.6%**	**4.7%**	**4.8%**	**53%**	**56%**	**57%**	**56%**
Other															
AWK	American Water Works	Buy	$60.25	1.34	1.43	1.58	1.72	2.2%	2.4%	2.6%	2.9%	51%	51%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

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Neutral	109	38.38%	3	2.75%
Sell	0	0.00%	0	0.00%

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Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: NEE, ED, EXC, ES, DTE, DUK January 25, 2016

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What's New?
NEE/ED – Mountain Valley Pipeline secures ED as customer
ES – Importing hydro from Canada top of MA Governor's list
EXC – Environmental groups asks MD Appeals court to weigh in on PSC approval of merger
DUK –Piedmont shareholders approve DUK acquisition
DTE – Opponents to NEXUS seek support from OH Senator
ES – Solar Company cuts jobs as net-metering program limit in New Hampshire reached

NEE/ED – Mountain Valley Pipeline secures ED as customer

- NEE announced that ED will have a 12.5% ownership interest in Mountain Valley Pipeline (MVP).
- ED has also agreed to be a customer of natural gas shipped through MVP.
- MVP requires FERC approval, as it will be a natural gas pipeline crossing West Virginia to the Transco pipeline in Virginia.
- MVP filed their formal application with FERC in October 2015, requesting authorization to construct the pipeline.
- Construction is expected to begin in late 2016, with in-service targeted for 4Q18.

Guggenheim takeaway: *The Mountain Valley Pipeline will transport ~2Bcf/day of Marcellus and Utica gas to markets in Mid/South Atlantic regions. Through the application, FERC is asked to certify public convenience and necessity of MVP, including safety, water resources, and other environmental consideration. Project moving right along.*

ES – Solar Company cuts jobs as net-metering program limit in New Hampshire reached

- SunRay Solar Inc. fired a third of its employees after ES announced the net-metering limit was reached.
- ES announced that the net-metering program limit has been reached and that new applicants for NH's net-metering program would be placed on a wait list.
- ES is working with the Legislature on a proposal to raise existing net metering limit, or "cap," and to ask state regulators to develop a more permanent solution in addressing cost shift.
- Projects on the wait list, will receive a credit or payment that is based on the wholesale market energy price in ISO-NE for exported energy.

Guggenheim takeaway: *As the ongoing discussion on net-metering rates continues, ES has established a wait list in NH that will put new customers under* *the lower, wholesale rate compensation (instead of retail rates). Legislation to address net-metering and to expand the cap is currently under discussion.*

EXC – Environmental groups asks MD Appeals court to weigh in on PSC approval of merger

- The Sierra Club and Chesapeake Climate Action Network have appealed the Circuit Court for Queen Anne's County's decision to deny a request to vacate or remand the MD PSC's order.
- The MD PSC had conditionally approved EXC and POM (NC, $26.26) merger in May 2015, with a 3-2 decision.
- The non-profit law organization Earthjustice filed the appeal on Jan. 21 asking the MD Court of Special Appeals to weigh in on the case.

Guggenheim takeaway: *We believe the appeal could create some noise, but will not likely overturn the MD PSC's decision to approve the merger. As a reminder, EXC has a settlement pending approval from the DC Commission, which is the last regulatory hurdle for the merger to be approved. The settlement will most likely swing a majority of the DC Commission and be approved in 1Q16, in our view. Likely deal approval in February.*

DUK –Piedmont shareholders approve DUK acquisition

- PNY (PNY, NC, $57.97) shareholders voted to approve the acquisition on Jan 22.
- The companies filed their proposed merger with the Tennessee Regulatory Authority (TRA) to transfer Piedmont's Tennessee operating license on Jan. 15, 2016.

Guggenheim takeaway: *As we highlighted in our research, we believe there are limited hurdles for this transaction. DUK expects the transaction to close in 4Q16 and we don't anticipate any unordinary pushback. See our note here for analysis on the merger.*

DTE – Opponents to NEXUS seek support from OH Senator

- Opponents to the NEXUS pipeline have been in conversation with staffers of an OH senator.
- The group requested to have NEXUS re-routed so that it will not cut across Median and Stark counties in OH.

Guggenheim takeaway: *As we continue to highlight in our research, we believe the NEXUS pipeline will be built according to its schedule. While landowners continue to oppose NEXUS' route, we believe there are limited hurdles for the pipeline to be built. As a reminder, NEXUS submitted its FERC application for the ~255 mile, 1.5 Bcf/day pipeline, requesting that a decision be made before 4Q 2016 so that construction could being in early 2017.*

ES – Importing hydro from Canada top of MA Governor's list

- In the MA Governor's State of the Commonwealth's address, he urged lawmakers to pass legislation requiring utilities enter into long-term contracts with hydropower in Canada.
- The MA Governor noted that only hydropower was the most cost effective solution as ~10,000 MW of capacity is expected to retire in the next few years.
- The Governor is seeking to import Canadian hydro to reduce New England's emissions and its dependence on natural gas.

Guggenheim takeaway: *ES's Northern Pass transmission line, which proposes to deliver 1,000 MW of hydro power to New England is in the process of finalizing* *a route. With the Governor's support of hydro power, we believe the project will remain on track. As a reminder, the Site Evaluation Committee recently approved ES's application for review despite opposition from New England Power Generators and the Society for the Protection of NH Forests (parties that would likely make progress more difficult for ES, in our view).*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
2. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
3. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
4. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
5. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
6. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
7. *EEI Full Recap*
8. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
9. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
10. *DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details*
11. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
12. *3Q Utility Earnings Sneak Peek: EEI Edition*
13. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
14. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*
15. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
16. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
17. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
18. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
19. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
20. *More Uplifting Data Points for AEP and FE*
21. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*

22. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
23. *Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables*
24. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
On-going	FE	Evidentiary hearings	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/25	EIX	Next date for potential decision regarding the SONGS settlement	Southern California Edison	CA	I.12-10-013	Consideration of re-opening the SONGS settlement
01/25		Next date for Supreme Court to issue DR opinion			Federal Energy Regulatory Commission v. Electric Power Supply	Opinion on whether FERC has autority over pricing DR in wholesale rates
01/26	SO	Intervenor testimony regarding GAS acquisition expected to be filed in Maryland		MD		MD PSC consideration of SO's proposed acquisition of GAS
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
01/28	ED	PSC technical conference on earnings impact mechanisms and related items	Consolidated Edison Company of New York Orange & Rockland	NY	14–M–0101	REV technical conference to discuss Earnings Impact Mechanisms (EIMs), as well as other topics
01/31	PCG	GT&S rate case decision expected in January 2016	Pacific Gas & Electric Company	CA	A.13-12-012	Procedural schedule estimates a decision regarding GT&S revenue requirement in January 2016
02/05	ES	Deadline to file motion to interene in Northern Pass proceedings		NH		The NH Site Evaluation Committee set a deadline for anyone wishing to intervene to file a motion with the commission.
02/16	ETR	Indian Point Coastal Zone Management (CZM)		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for CPV Maryland, LLC v. PPL EnergyPlus, LLC			14-623	Whether state-directed contracts for new generation build infringes on FERC jurisdiction on wholesale rates
02/24	NEE	FPSC hearing on Duval-Raven transmission project	Florida Power & Light	FL	150263-EI	FPSC hearing on the proposed $71mm Duval-Raven transmission line
03/22	PCG	Trial scheduled for PG&E criminal case	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion

Guggenheim Corporate Non-deal Roadshow Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
DUK	TBA	TBA	TBA
SO	TBA	TBA	TBA
EIX	TBA	TBA	TBA
DTE	TBA	TBA	TBA
ED	TBA	TBA	TBA
AWK	TBA	TBA	TBA
ES	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
GXP	TBA	TBA	TBA
WR	TBA	TBA	TBA
EXC	TBA	TBA	TBA
ETR	TBA	TBA	TBA
PPL	TBA	TBA	TBA
PEG	TBA	TBA	TBA
AEP	TBA	TBA	TBA
MORE TO BE ADDED…			

Guggenheim Power & Utilities Comp Sheet (As of 01/22/2016)

Regulateds		Mkt. Cap ($MM)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	EPS - Guggenheim					EPS - Consensus					P/E - Guggenheim				P/E - Consensus			
Ticker	Company							'15E	'16E	'17E	'18E	CAGR	'15E	'16E	'17E	'18E	CAGR	'15E	'16E	'17E	'18E	'15E	'16E	'17E	'18E
AEP	American Electric Power	28,728	Buy	$62	$58.53	6%	489	3.73	3.73	3.92	4.19	4%	3.72	3.71	3.90	4.17	4%	15.7	15.7	14.9	14.0	15.7	15.8	15.0	14.0
ED	Consolidated Edison, Inc.	19,928	Neutral	$59	$67.97	-13%	294	4.00	4.10	4.17	4.33	3%	4.02	4.08	4.19	4.33	3%	17.0	16.6	16.3	15.7	16.9	16.7	16.2	15.7
D	Dominion Resources, Inc.	41,531	Buy	$76	$69.76	9%	585	3.65	3.84	3.99	4.47	7%	3.65	3.85	4.01	4.53	7%	19.1	18.2	17.5	15.6	19.1	18.1	17.4	15.4
DTE	DTE Energy Company	14,597	Buy	$86	$81.33	6%	177	4.85	4.98	5.27	5.66	5%	4.79	4.95	5.28	5.60	5%	16.8	16.3	15.4	14.4	17.0	16.4	15.4	14.5
DUK	Duke Energy Corporation	49,684	Buy	$76	$72.18	5%	707	4.60	4.64	4.95	5.07	3%	4.58	4.69	4.92	5.20	4%	15.7	15.6	14.6	14.2	15.8	15.4	14.7	13.9
EIX	Edison International	19,461	Neutral	$62	$59.73	4%	329	3.81	3.75	4.04	4.31	4%	3.78	3.73	4.04	4.31	4%	15.7	15.9	14.8	13.9	15.8	16.0	14.8	13.9
ES	Eversource Energy	16,361	Buy	$55	$51.58	7%	317	2.82	2.99	3.19	3.44	7%	2.84	3.02	3.22	3.44	7%	18.3	17.3	16.2	15.0	18.2	17.1	16.0	15.0
GXP	Great Plains Energy Inc.	4,157	Buy	$30	$26.93	11%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	19.2	15.6	14.4	13.6	19.2	15.3	14.6	13.8
NEE	NextEra Energy, Inc.	49,085	Buy	$124	$106.60	16%	440	5.66	6.19	6.60	7.04	8%	5.66	6.16	6.52	6.96	7%	18.8	17.2	16.2	15.1	18.8	17.3	16.3	15.3
PCG	PG&E Corporation	25,680	Neutral	$53	$52.36	1%	470	3.02	3.67	3.69	3.91	9%	3.05	3.73	3.71	3.93	9%	17.3	14.3	14.2	13.4	17.2	14.1	14.1	13.3
PNW	Pinnacle West Capital Corp.	7,105	Neutral	$60	$64.10	-6%	111	3.81	4.02	4.18	4.43	5%	3.79	3.99	4.19	4.35	5%	16.8	15.9	15.3	14.5	16.9	16.0	15.3	14.7
PPL	PPL Corporation	22,848	Buy	$37	$34.01	9%	666	2.21	2.33	2.44	2.57	5%	2.21	2.32	2.40	2.53	5%	15.4	14.6	13.9	13.2	15.4	14.6	14.2	13.4
SO	Southern Company	43,038	Neutral	$43	$47.35	-9%	901	2.87	2.97	3.05	3.18	3%	2.87	2.95	3.08	3.21	4%	16.5	15.9	15.5	14.9	16.5	16.1	15.4	14.8
WR	Westar Energy, Inc.	5,885	Buy	$46	$41.66	10%	133	2.21	2.43	2.54	2.64	6%	2.20	2.45	2.55	2.65	6%	18.9	17.1	16.4	15.8	18.9	17.0	16.3	15.7
TE	TECO Energy, Inc.	6,361	Neutral	$28	$27.04	4%	224	1.09	1.18	1.27	1.35	7%	1.10	1.18	1.28	1.34	7%	24.8	22.9	21.3	20.0	24.6	23.0	21.2	20.2
Average[2]												**6%**					**6%**	**17.2**	**16.2**	**15.4**	**14.5**	**17.2**	**16.1**	**15.4**	**14.5**
Integrateds																									
ETR	Entergy Corporation	12,261	Neutral	$69	$68.73	0%	180	5.80	5.01	5.12	5.16	-4%	5.84	5.01	5.02	5.14	-4%	11.9	13.7	13.4	13.3	11.8	13.7	13.7	13.4
EXC	Exelon Corporation	25,775	Buy	$31	$28.03	11%	864	2.56	2.53	2.63	2.85	4%	2.52	2.55	2.70	2.90	5%	10.9	11.1	10.7	9.8	11.1	11.0	10.4	9.7
FE	FirstEnergy Corp.	13,656	Buy	$39	$32.28	21%	421	2.71	2.87	2.86	2.91	2%	2.69	2.85	2.68	2.73	0%	11.9	11.2	11.3	11.1	12.0	11.3	12.1	11.8
PEG	Public Service Enterprise Group	20,173	Buy	$41	$39.87	3%	508	2.93	2.97	2.93	3.00	1%	2.92	2.92	2.85	3.00	1%	13.6	13.4	13.6	13.3	13.6	13.6	14.0	13.3
Average												**1%**					**1%**	**12.1**	**12.4**	**12.2**	**11.9**	**12.1**	**12.4**	**12.5**	**12.0**
Other																									
AWK	American Water Works	11,206	Buy	$66	$62.44	6%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	23.6	22.1	20.6	19.5	23.8	22.1	20.7	19.5

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds			Current	Consensus Dividend Per Share				Consensus Dividend Yield				Consensus Dividend Payout			
Ticker	Company	Rating	Price	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E
AEP	American Electric Power	Buy	$58.53	2.15	2.26	2.36	2.52	3.7%	3.9%	4.0%	4.3%	58%	61%	61%	60%
ED	Consolidated Edison, Inc.	Neutral	$67.97	2.59	2.64	2.70	2.76	3.8%	3.9%	4.0%	4.1%	64%	65%	64%	64%
D	Dominion Resources, Inc.	Buy	$69.76	2.58	2.77	2.98	3.21	3.7%	4.0%	4.3%	4.6%	71%	72%	74%	71%
DTE	DTE Energy Company	Buy	$81.33	2.83	2.97	3.13	3.37	3.5%	3.6%	3.8%	4.1%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$72.18	3.26	3.38	3.53	3.71	4.5%	4.7%	4.9%	5.1%	71%	72%	72%	71%
EIX	Edison International	Neutral	$59.73	1.69	1.90	2.10	2.20	2.8%	3.2%	3.5%	3.7%	45%	51%	52%	51%
ES	Eversource Energy	Buy	$51.58	1.67	1.79	1.91	2.01	3.2%	3.5%	3.7%	3.9%	59%	59%	59%	59%
GXP	Great Plains Energy Inc.	Buy	$26.93	1.01	1.09	1.16	1.22	3.8%	4.0%	4.3%	4.5%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$106.60	3.07	3.47	3.92	4.48	2.9%	3.3%	3.7%	4.2%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$52.36	1.83	1.93	2.05	2.21	3.5%	3.7%	3.9%	4.2%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$64.10	2.42	2.53	2.66	2.79	3.8%	4.0%	4.1%	4.4%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$34.01	1.50	1.53	1.57	1.64	4.4%	4.5%	4.6%	4.8%	68%	66%	65%	65%
SO	Southern Company	Neutral	$47.35	2.16	2.23	2.31	2.41	4.6%	4.7%	4.9%	5.1%	75%	76%	75%	75%
WR	Westar Energy, Inc.	Buy	$41.66	1.44	1.51	1.60	1.65	3.5%	3.6%	3.8%	4.0%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$27.04	0.90	0.92	0.94	0.96	3.3%	3.4%	3.5%	3.6%	82%	78%	74%	72%
Average								**3.7%**	**3.9%**	**4.1%**	**4.3%**	**65%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$68.73	3.35	3.43	3.49	3.60	4.9%	5.0%	5.1%	5.2%	57%	69%	70%	70%
EXC	Exelon Corporation	Buy	$28.03	1.24	1.25	1.25	1.25	4.4%	4.5%	4.5%	4.5%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$32.28	1.44	1.44	1.45	1.44	4.5%	4.5%	4.5%	4.5%	53%	51%	54%	53%
PEG	Public Service Enterprise Group	Buy	$39.87	1.56	1.62	1.69	1.81	3.9%	4.1%	4.2%	4.5%	53%	56%	59%	60%
Average								**4.4%**	**4.5%**	**4.6%**	**4.7%**	**53%**	**56%**	**57%**	**57%**
Other															
AWK	American Water Works	Buy	$62.44	1.34	1.43	1.58	1.72	2.1%	2.3%	2.5%	2.8%	51%	51%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

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Neutral	109	38.38%	3	2.75%
Sell	0	0.00%	0	0.00%

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
28.03 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Supreme Court Sides With Demand Response; No Fair Value Impacts

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Pricing data through 22 Jan 2016
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Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 25 Jan 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Independent power producers and diversified utilities are trading at a significant discount to our fair value estimates,

Vital Statistics

Market Cap (USD Mil)	25,775
52-Week High (USD)	38.25
52-Week Low (USD)	25.09
52-Week Total Return %	-21.4
YTD Total Return %	0.9
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.9
Price/Fair Value	0.80

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	*11.4*	*11.7*
EV/EBITDA	7.3	9.5	*7.3*	*7.2*
EV/EBIT	11.6	16.7	*11.8*	*11.8*
Free Cash Flow Yield %	4.0	-5.1	*3.1*	*-1.4*
Dividend Yield %	5.3	3.3	*4.2*	*4.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,184*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,826*
EBIT YoY %	53.6	-15.3	*23.4*	*0.1*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,065*
Net Income YoY %	-7.9	-4.0	*2.9*	*-2.9*
Diluted EPS	2.50	2.39	*2.46*	*2.39*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.0*
Free Cash Flow	1,500	305	*1,364*	*136*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers at Commonwealth Edison (Illinois), PECO (Pennsylvania), and Baltimore Gas & Electric (Maryland). Exelon also owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. Exelon also is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

and the Supreme Court's ruling has no material impact on our long-term thesis. We believe the market reaction was overly pessimistic to the ruling and presents a buying opportunity for those with the appropriate risk appetite. We highlight Dynegy and Exelon as those with the most exposure to PJM. Calpine, FirstEnergy, NRG Energy, and Public Service Enterprise Group also have material levels of generation in PJM.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
28.03 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	13.2	24.1	6.0	10.2	-17.0	10.6	3.5
EBIT	-11.6	-46.9	53.6	-15.3	23.4	0.1	13.9
EBITDA	-2.4	-26.7	36.3	-6.9	15.0	1.7	10.1
Net Income	-9.3	-15.6	-7.9	-4.0	2.9	-2.9	10.0
Diluted EPS	-16.9	-31.5	-12.3	-4.4	2.9	-3.0	9.9
Earnings Before Interest, after Tax	-7.3	-43.1	-13.1	61.0	-30.3	-7.4	-1.0
Free Cash Flow	-19.5	231.6	-22.5	-79.7	347.7	-90.0	59.1

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	12.0	10.1	14.7	11.3	16.8	15.2	16.4
EBITDA Margin %	20.4	18.1	23.3	19.7	27.3	25.1	25.9
Net Margin %	8.7	9.9	8.6	7.5	9.3	8.2	9.0
Free Cash Flow Margin %	5.1	8.2	6.0	1.1	6.0	0.5	5.5
ROIC %	2.2	1.6	2.5	2.5	5.2	5.2	5.7
Adjusted ROIC %	2.3	1.7	2.7	2.7	5.4	5.4	6.0
Return on Assets %	2.0	1.7	2.2	2.0	2.4	2.3	2.7
Return on Equity %	7.1	6.4	7.7	7.1	9.0	8.3	9.4

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	0.48	0.47	0.47	0.49	0.49	0.48	0.47
Total Debt/EBITDA	4.06	4.60	3.46	4.12	3.71	3.73	3.42
EBITDA/Interest Expense	4.65	4.59	4.28	5.08	6.23	6.06	6.27

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	11.4	11.7
EV/EBITDA	7.3	9.5	7.3	7.2
EV/EBIT	11.6	16.7	11.8	11.8
Free Cash Flow Yield %	4.0	-5.1	3.1	-1.4
Dividend Yield %	5.3	3.3	4.2	4.2

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,148	12.3	7.11
Present Value Stage II	15,608	31.3	18.05
Present Value Stage III	28,162	56.4	32.56
Total Firm Value	**49,918**	**100.0**	**57.72**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-789	—	-0.91
Equity Value	**28,736**	**—**	**33.22**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
28.03 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,184***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*10,000*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,184***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,082***
Income Tax Expense	627	1,044	666	*1,047*	*1,017*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,065***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.39***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,065*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.39***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,326***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,326***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
28.03 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,138*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,140*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,055***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,321***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,955*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,417***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,717***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
28.03 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,065*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-149*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,762***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-886***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
28.03 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Jan 22, 2016

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
28.03 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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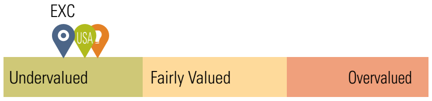
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	28.03 USD	35.00 USD	0.80	4.42	25.78	Utilities - Diversified	Standard
22 Jan 2016	22 Jan 2016			22 Jan 2016	22 Jan 2016		

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★★	Undervalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.83	0.84	0.88	0.87
Price/Earnings	12.5	15.6	15.0	18.1
Forward P/E	10.6	—	14.4	12.5
Price/Cash Flow	3.8	5.1	5.9	10.3
Price/Free Cash Flow	—	74.7	11.1	16.4
Dividend Yield %	4.42	5.00	3.97	2.55

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs and generate large profits even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Travis Miller, Analyst, 06 October 2015

Investment Thesis

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and made a $12 billion bid for Pepco in April 2014, both including debt. Management's political negotiations appear to have revived the deal in Washington, D.C., where regulators had rejected it in August 2015. We now expect it has a 75% chance of closing. Exelon has received all other regulatory approvals.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our outlook for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can grow earnings 10% annually the next three years.

Andrew Bischof, CFA, Analyst, 25 January 2016

Analyst Note

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Economic Moat

Travis Miller, Analyst, 06 October 2015

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, that spread between long-term returns on capital and Exelon's cost of

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 22 Jan 2016	28.03 USD 22 Jan 2016	35.00 USD	0.80	4.42 22 Jan 2016	25.78 22 Jan 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	20,173	10,910	29.67	10.99
FirstEnergy Corp FE	USD	13,656	14,968	11.48	27.40
Entergy Corp ETR	USD	12,261	11,836	2.32	0.00

capital have shrunk based on our midcycle outlook for power prices in the eastern U.S. Exelon's increasing diversification into narrow- and no-moat businesses together with the shrinking returns at its nuclear generation business supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources like coal and natural gas reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must continue to have access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Analyst, 06 October 2015

We are reaffirming our $35 per share fair value estimate after raising our probability of the Pepco acquisition closing to 75% from 25% as a result of an agreement the companies reportedly reached with the Washington, D.C., mayor's office on Oct. 6. Although we think the deal is value-dilutive, it is too small to have a material impact on our fair value estimate. Exelon's $27.25-per-share cash offer represents a 30% premium to our $21 per share standalone fair value estimate for Pepco.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities (Ill.), Oyster Creek (N.J.), and Three Mile Island (Pa.)--as well as the Clinton (Ill.) plant. We now assume a 50% probability that the Byron (Ill.) plant will retire given it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4/mcf midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Analyst, 06 October 2015

Investors should pay the most attention to political developments that would re-regulate competitive electricity markets in the Midwest and Mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source.

As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.

Reregulation also would destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.

As Exelon's regulated utilities generate a greater share of earnings, investors will be subject more acutely to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management

Travis Miller, Analyst, 06 October 2015

We give Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and Executive Chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and Chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition in 2015. This will increase Exelon's share of regulated utilities earnings and dilute shareholders' exposure to wholesale power markets. Management has shown strong conviction in the value of the deal based on their efforts to gain support for the deal from all parties, particularly in Washington, D.C.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants absent significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creation opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	28.03 USD	35.00 USD	0.80	4.42	25.78	Utilities - Diversified	Standard
22 Jan 2016	22 Jan 2016			22 Jan 2016	22 Jan 2016		

Analyst Notes Archive

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Analyst, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Analyst, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco

Charles Fishman, Analyst, 06 October 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners

Charles Fishman, Analyst, 30 September 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Postpones Nuclear Plant Retirement Decision; No Fair Value Impact

Travis Miller, Analyst, 10 September 2015

We are reaffirming our $35 per share fair value estimate for Exelon after management announced it will delay a decision whether to close at least three of its struggling nuclear plants. We recently incorporated into our fair value estimate and financial projections the assumption that it was more likely than not that Exelon would close those three plants in 2018. We also assume a 50% likelihood that Exelon will close its Byron (Illinois) nuclear plant in 2019.

Results of the recent 2016-18 PJM transitional capacity auctions and management's decision to delay potential retirements do not change our assumptions that those plants ultimately will close, absent significant energy market or public policy changes. The Quad Cities (Illinois), Three Mile Island (Pennsylvania), and Oyster Creek (New Jersey) plants are obligated to run at least through mid-2018, and the Byron plant is obligated to run through mid-2019 based on results from PJM's recent capacity auctions.

The key development for Exelon in last week's 2017-18 transitional capacity auction was that the Quad Cities and Byron plants cleared and are now obligated to run. Neither cleared PJM's 2017-18 base capacity auction last year at $120/megawatt-day but did clear last week's capacity performance transitional auction at $151.50/MW-day. Including those plants and the uplift for the rest of the fleet adds about $400 million of EBITDA in 2017-18.

The Clinton (Illinois) plant is the fourth that we assume will close by 2018. It is not part of PJM. It is obligated to run at least through 2016 as part of the Mid-Continent ISO. Exelon continues to lobby Illinois politicians to adopt a subsidy-like scheme that would improve the economics for its six Illinois nuclear plants. We do not include any benefits from policy changes in our fair value estimate.

D.C. Commission Rejects Pepco-Exelon Merger; Lowering Pepco Fair Value Estimate

Charles Fishman, Analyst, 26 August 2015

We are lowering our fair value estimate of Pepco Holdings Inc. to $23 per share from $27 per share, following the decision by the Public Service Commission of the District of Columbia to deny the merger with Exelon Corp, which caused Pepco shares to close down 16.5% on Tuesday. At the time of the merger in April 2014, we had believed the transaction would be value-dilutive for Exelon, and we are reviewing our $35 per share fair value estimate. We note that Exelon shares were down almost 7% on Tuesday, on which day the overall market and utilities were also weak. Our narrow moat and stable moat trend are unchanged for both companies.

Exelon and Pepco issued a joint press release indicating that they were reviewing their options and will respond once the process is complete. A summary of the decision indicated that the D.C. commission did not believe the merger would provide sufficient benefits to customers or guarantees for improvements in reliability. The commission was also concerned that under the new management structure Pepco would become "a second-tier company in a much larger corporation whose primary interest is not in distribution, but in generation." The full decision is due Wednesday, and the companies have 30 days to appeal the decision.

We were surprised by the decision, as we had believed the most difficult regulatory hurdle would be in Maryland. Pepco and Exelon agreed to stringent conditions and additional customer benefits imposed by the Maryland Public Service Commission on May 18. We thought the commission in D.C., the last jurisdiction needed to approve the deal, would agree to similar conditions. They did not.

Our new fair value estimate assumes that there is now only a 25% chance of the transaction being restructured to satisfy the D.C. regulators. If the deal is abandoned, our standalone fair value estimate for Pepco is $21 per share.

PJM Auction Results In Line With Our Forecast in First Auction With Capacity Performance Inclusion

Andrew Bischof, CFA, Analyst, 24 August 2015

Capacity prices across most of the 13-state PJM Interconnection region cleared at $165/MW-day for capacity performance, or CP, and $150/MW-day for base generation for 2018-19. This is comparable to $120/MW-day for last year's 2017-18 results, in which there was no separate CP auction. The results are in line with our auction expectations, in which we previously expected CP to clear at $150/MW-day and base capacity at $140/MW-day for the 2018-19 auction. We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover, as we are maintaining our midcycle capacity assumptions.

Capacity revenue provides significant pretax earnings for our independent power producers and diversified utilities for any one auction year. Dynegy in our opinion is the largest winner from strong base capacity results, as half of its generation is now in PJM. For every $100/MW-day change in capacity prices, we estimate that Dynegy benefits $385 million in pretax earnings. Exelon's fleet also benefited from a strong clearing in the Commonwealth Edison, or COMED, locational deliverability area, or LDA, with CP clearing at $215/MW-day and $200/MW-day for base generation capacity. However, we do not believe that Exelon's Illinois Quad Cities and Byron nuclear units cleared the auction at these prices. Based on recent management commentary, we continue to expect Exelon to close these two plants by the end of 2016, with a final decision expected in September. Public Service Enterprise Group, or PSEG, also benefits from strong base results for the second year in a row, with base capacity clearing in the Eastern Mid-Atlantic Area Council, or EMAAC, LDA clearing at $210/MW-day for base generation and $225/MW-day for CP. The premium clearing price in the PSEG region shows the competitive advantage of PSEG's fleet and supports our positive moat trend. Higher capacity prices also benefit Calpine, FirstEnergy, and NRG Energy.

Upcoming PJM Capacity Auction Could Prove Disappointing

Andrew Bischof, CFA, Analyst, 17 August 2015

We are reaffirming our fair value estimates and our moat and moat trend ratings for our independent power producers and diversified utilities ahead of the upcoming 2018/19 Planning Year auction for Capacity Performance, or CP. The capacity auction is currently under way, with results posted Aug. 21.

In June, the Federal Energy Regulatory Commission approved the proposal from PJM Interconnection to implement CP in its 2018/19 base residual auction, which PJM began on Aug. 10. CP increases the marginal capacity cost for marginal generators, but the bullish impact should be less than the market expects. We maintain our previous estimate that the combination of CP, reduced impact from demand response, and increased confidence of marginal generators to raise prices will cause CP to clear at $150 per megawatt-day and base capacity at $140/MW-day for the 2018-19 auction.

We believe that previous auctions already priced in existing non-CP performance penalties, such as those a generator must pay if it cannot deliver energy during reserve shortages. CP is a further-reaching, stricter penalty structure for nonperformance outside of reserve shortages. Although generators participating in CP will not be constrained by their avoidable cost rates this year, which will allow generation to offer up to net cost of new entry times the balancing ratio, we suspect that few generators will raise offer prices for this reason alone. We also highlight the possible expected increase in dark spreads over the 2018–19 time frame due to the large increase in LNG exports over this time period; this could add downside pressure to capacity offers from coal generation in PJM.

EPA's Final Carbon Rules Positive for Clean Generation and Transmission, Negative for Coal

Charles Fishman, Analyst, 03 August 2015

The Environmental Protection Agency's final Clean Power Plan announced on Aug. 3 offers what we consider a mix of moderate positive and negative changes for utilities from the draft proposal issued in June 2014.

We are reaffirming our fair value estimates, moats, and moat trend ratings for all utilities, but we do not include explicit impacts from the CPP in our forecasts or fair value estimates. We think the rules will face stiff legal and political opposition and could change significantly. If the rules do take effect as written, beneficiaries should be low-carbon power producers such as Exelon, NextEra Energy, and Calpine; and electric transmission developers like wide moat ITC Holdings.

For coal miners and railroads, we are reaffirming our fair value estimates and moat ratings. Coal volumes are already facing near-term weakness from MATS-related plant closures. We forecast coal demand to stabilize as natural gas prices rise and the surviving coal fleet remains economical. CPP could force another wave of closures that would add additional pressure on coal, but the magnitude, timing, and legality remain uncertain. Furthermore, state-specific goals will impact the various coal basins differently. With lawsuits likely and some states vowing noncompliance, we do not think CPP in its current form will survive to full implementation.

The final rule extends the start of the compliance period to 2022 from 2020 but boosts the emissions reduction target to 32% from 2005 levels versus 30% in the draft. We still think the timeline is the biggest challenge given the planning and construction requirements to meet the target. Southern Company and SCANA should benefit from changes that give their home states more credit for their new nuclear projects.

We don't think the rules are strict enough to save Exelon's three Illinois nuclear plants we think are more likely than not to retire. We recently cut our Exelon fair value estimate to $35 per share from $37.

Exelon's Three Distressed Nuclear Plants Likely to Go Dark; Cutting Fair Value Estimate

Travis Miller, Analyst, 31 July 2015

We are cutting our fair value estimate to $35 per share from $37 to reflect our assumption that it is more likely than not that Exelon will close its Byron, Quad Cities, and Clinton nuclear plants by the end of 2016, representing 25% of its nuclear capacity. We are reaffirming our narrow moat rating and stable moat trend.

On July 29, Exelon management said it was discussing the plants' long-term viability with the board and plans to make a retirement decision in September. This presumably will come after grid operator PJM announces results from the 2018-19 Base Residual Auction on Aug. 21 and incremental auctions for 2016-17 (Aug. 31) and 2017-18 (Sept. 9). We agree with management that these auction clearing prices likely will not be high enough to justify keeping the plants running past 2016. Quad Cities and Byron failed to clear the 2017-18 BRA last year. Clinton is not part of PJM.

These plants are value-accretive based on our bullish long-term fundamental view of Eastern U.S. power prices. However, market prices remain 20% below our midcycle forecast. Management said the plants have been free cash flow negative for several years. Retiring the plants has no material impact on our 2017 cash flow estimates because of their challenged economics, but it reduces our consolidated midcycle EBITDA estimate to $8.7 billion from $9.2 billion. Our midcycle consolidated EPS estimate drops 10% to $3.80. We assume Exelon has sufficient reserves for decommissioning.

The only lifesaver is the Low Carbon Portfolio Standard legislation in Illinois, which would give the plants financial benefits similar to renewable energy. The legislation failed to pass the regular session in May. We don't expect it to pass during the state's so-called veto session in November. Our understanding is that Exelon won't be able to reverse the retirement decision after November.

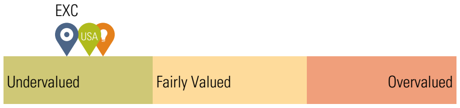
Exelon Corp EXC

Last Close 25 Jan 2016	**Quantitative Fair Value Est** 22 Jan 2016	**Market Cap** 25 Jan 2016	**Sector**	**Industry**	**Country of Domicile**
27.16	33.60	25,775.4 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	95	91	91
Valuation	Undervalued	55	68	63
Quantitative Uncertainty	Medium	99	95	98
Financial Health	Moderate	58	55	58



Source: Morningstar Equity Research

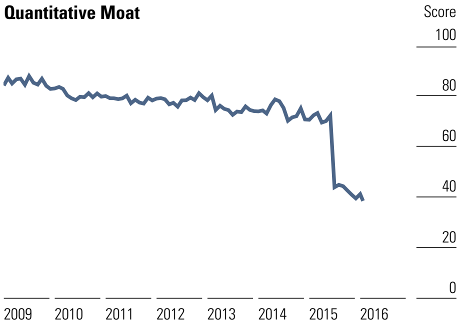
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.83	0.84	0.88	0.87
Price/Earnings	12.5	15.6	15.0	18.1
Forward P/E	10.6	—	14.4	12.5
Price/Cash Flow	3.8	5.1	5.9	10.3
Price/Free Cash Flow	—	74.7	11.1	16.4
Dividend Yield %	4.42	5.00	3.97	2.55
Price/Book	1.0	1.5	1.2	1.9
Price/Sales	0.8	1.2	1.2	1.6

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	8.0	11.8	9.9	11.9
Return on Assets %	2.2	3.1	3.2	4.7
Revenue/Employee (Mil)	1.0	1.0	1.1	0.3

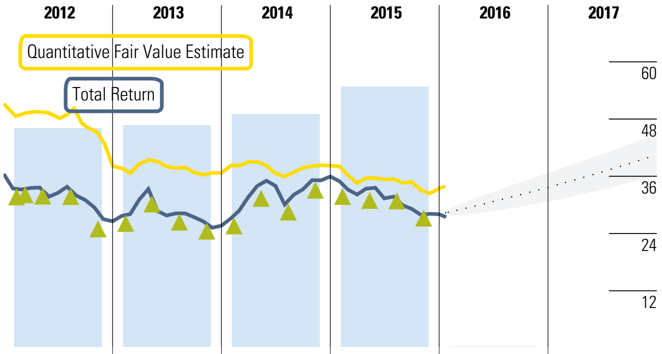
Quantitative Moat



Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.6
Solvency Score	587.2	—	634.8	574.5
Assets/Equity	3.8	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.8	0.7	0.3

Price Versus Quantitative Fair Value



- Sales/Share
- Forecast Range
- Forcasted Price
- ▲ Dividend
- △ Split

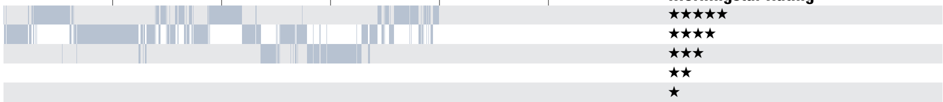
Momentum: Negative
Standard Deviation: 20.86
Liquidity: High

25.09 52-Wk 37.77

25.09 5-Yr 45.45

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	-2.2	Total Return %
-42.9	-36.1	27.1	-22.5	4.9	+/– Market (Morningstar US Index)
7.06	5.31	3.34	4.47	4.42	Dividend Yield %
21.0	14.7	15.2	12.3	12.5	Price/Earnings
1.0	0.9	1.2	0.8	0.8	Price/Revenue

Morningstar Rating[Q]



2010	2011	2012	2013	2014	TTM	**Financials** (Fiscal Year in Mil)
18,644	18,924	23,489	24,888	27,429	30,002	Revenue
7.7	1.5	24.1	6.0	10.2	9.4	% Change
4,726	4,480	2,380	3,656	3,096	4,050	Operating Income
-0.5	-5.2	-46.9	53.6	-15.3	30.8	% Change
2,563	2,495	1,160	1,719	1,623	1,978	Net Income
5,244	4,853	6,131	6,343	4,457	6,488	Operating Cash Flow
-3,326	-4,042	-5,810	-5,395	-6,077	-7,406	Capital Spending
1,918	811	321	948	-1,620	-918	Free Cash Flow
10.3	4.3	1.4	3.8	-5.9	-3.1	% Sales
3.87	3.75	1.42	2.00	1.88	2.25	EPS
-5.4	-3.1	-62.1	40.8	-6.0	19.7	% Change
2.89	0.20	0.39	0.48	-0.03	-1.04	Free Cash Flow/Share
2.10	2.10	2.10	1.46	1.24	1.24	Dividends/Share
20.48	21.65	25.07	25.51	27.44	28.02	Book Value/Share
855,000	857,000	860,000	919,564	—	919,564	Shares Outstanding (K)
						Profitability
19.6	17.9	6.5	7.8	7.2	8.0	Return on Equity %
5.1	4.7	1.7	2.2	2.0	2.2	Return on Assets %
13.8	13.2	4.9	6.9	5.9	6.6	Net Margin %
0.37	0.35	0.35	0.31	0.33	0.33	Asset Turnover
3.9	3.8	3.7	3.5	3.8	3.7	Financial Leverage
65.5	62.3	56.8	56.9	52.6	54.0	Gross Margin %
25.4	23.7	10.1	14.7	11.3	13.5	Operating Margin %
12,004	12,189	18,346	18,271	20,010	25,189	Long-Term Debt
13,560	14,385	21,624	22,925	22,801	25,770	Total Equity
0.7	0.6	0.6	0.5	0.6	0.6	Fixed Asset Turns

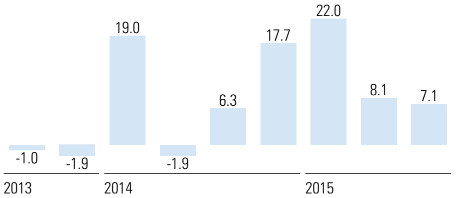
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	10.2	12.9	9.6	6.6
Operating Income %	-15.6	-11.6	-8.2	-1.0
Earnings %	-6.0	-20.6	-14.4	-3.7
Dividends %	-14.8	-16.1	-10.0	-0.1
Book Value %	-0.9	6.6	6.5	6.4
Stock Total Return %	-24.0	0.1	-4.0	-2.5

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	—	—
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	—	—
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

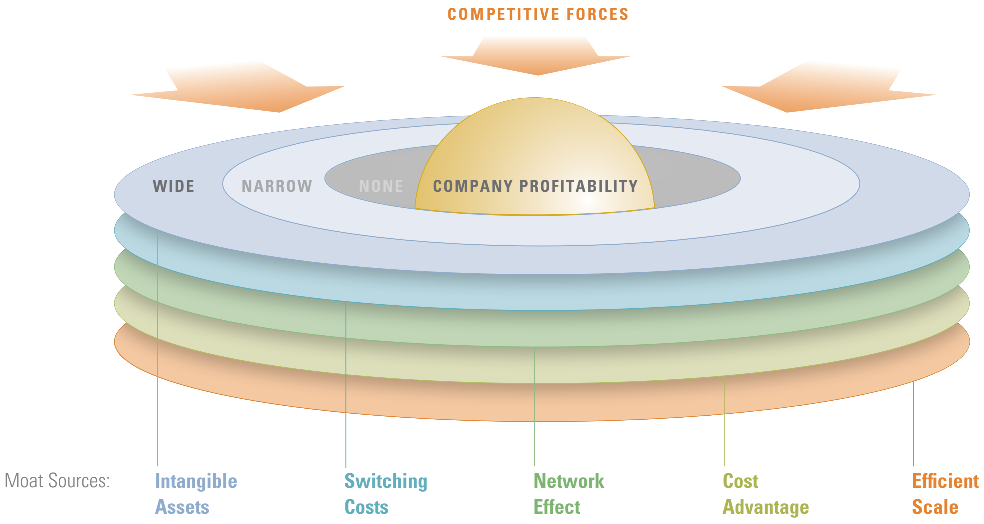
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

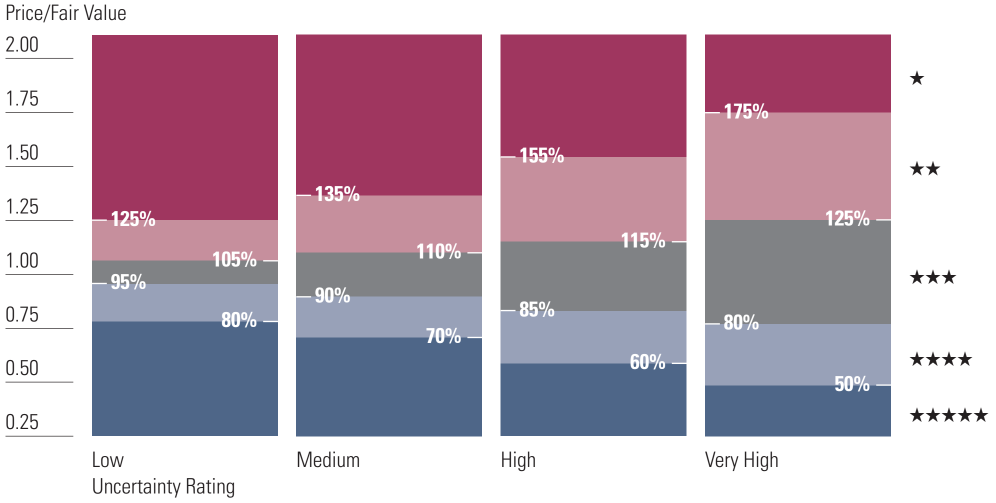
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 22 Jan 2016	28.03 USD 22 Jan 2016	35.00 USD	0.80	4.42 22 Jan 2016	25.78 22 Jan 2016	Utilities - Diversified	Standard

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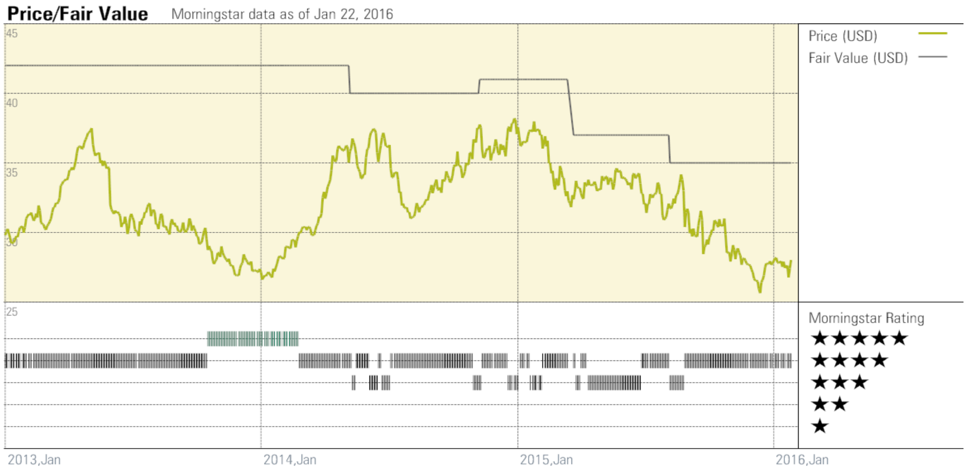

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Date
25 January 2016

Breaking News

DB Power Flash

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Supreme Court upholds FERC authority over Demand Response compensation

This morning the Supreme Court issued a split decision (6-2) upholding FERC Order 745 and reversing the US Court of Appeals for the District of Columbia 2014 order. Today's decision upholds the FERC's ability to regulate the compensation of demand response in wholesale energy markets. The lower court had argued that the FERC had overstepped its jurisdictional boundaries because Order 745 directly regulated the retail electricity market (state's jurisdiction). The majority disagreed, concluding that Order 745 affects wholesale electricity rates and that the FERC had not regulated retail sales.

Decision can be read as modest negative for merchant generators

We view today's Supreme Court decision as a modest negative (foregone positive) for merchant generators as a vacated Order 745 could have had positive implications for pricing in the next PJM capacity auction (May 2016). Demand response has represented 7-9% of cleared resources in the last two PJM capacity market auctions. While Order 745 never directly concerned the compensation of DR in capacity markets, it certainly raised questions over the legality of FERC's jurisdiction over demand response in general. Today's decision ensures that demand response can continue participating as currently conceived in capacity markets, such as PJM's.

Implications for Supreme Court's review of state intervention cases?

Today's split decision is also likely to be dissected by parties curious about how the Supreme Court will eventually rule on Hughes vs. Talen Energy Marketing and CPV Maryland vs. Talen Energy Marketing. These cases stemmed from a Maryland PSC order that compelled its utilities to enter into a "contract for differences" for certain in-state new generation that won a competitive RFP. CPV's St. Charles power plant won the RFP and was awarded a contract for differences. PPL Energy (now Talen) and other merchant generators sued, arguing that this contract represented an illegal state intervention in setting wholesale power prices, a right reserved for the FERC under the Federal Power Act. The 4th Circuit Court agreed and ruled that the contracts were illegal. The Supreme Court's eventual ruling could have implications for future state regulatory actions, particularly the pending AEP and FE PPA deals in Ohio. We believe the ultimate decision in Hughes vs. TLN and CPV vs. TLN remains uncertain. On the one hand, the Court argues today that the FERC has the authority and duty to ensure that rules or practices affecting wholesale rates are just and reasonable. However, the Court notes that there are limits to the FERC's jurisdiction to rules or practices that "directly" affect the wholesale rate. The Court also notes in another section that the FERC may not regulate "within-state wholesale sales."

Focus stocks

Exelon (EXC.N),USD28.03 Buy Price Target USD35.00
Dynegy Inc. (DYN.N),USD11.17 Buy Price Target USD21.00
Calpine (CPN.N),USD14.51 Hold Price Target USD18.00
FirstEnergy (FE.N),USD32.28 Hold Price Target USD37.00
NRG Energy (NRG.N),USD9.93 Buy Price Target USD18.00
PSEG (PEG.N),USD39.87 Hold Price Target USD44.00
Talen Energy (TLN.N),USD6.91 Hold Price Target USD7.00
American Electric Power (AEP.N),USD58.53 Buy Price Target USD63.00

Source: Deutsche Bank

Model updates: AEP, ETR, EXC, FE, PEG

SECTOR: Power and Utilities

January 26, 2016

SHAHRIAR POURREZA, CFA ANALYST
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We are updating estimates for AEP, ETR, EXC, FE, and PEG as we mark our integrated utility models to the 1/14/16 forward curves.

AEP. Our 2015/'16/'17/'18 EPS estimates for AEP are updated to $3.70/3.70/3.93/4.21 from $3.73/3.73/3.92/4.19.

ETR. Our 2015/'16/'17/'18 EPS estimates for ETR are updated to $5.79/4.98/5.08/5.14 from $5.80/5.01/5.12/5.16

EXC. Our 2015/'16/'17/'18 EPS estimates for EXC are updated to $2.56/2.49/2.61/2.85 from $2.56/2.53/2.63/2.85.

FE. Our 2015/'16/'17/'18 EPS estimates for FE are updated to $2.69/2.76/2.86/2.92 from $2.71/2.87/2.86/2.91.

PEG. Our 2015/'16/'17/'18 EPS estimates for PEG are updated to $2.94/2.95/2.92/3.00 from $2.93/2.97/2.93/3.00.

	Price	Market	Rating		Price Target		Current EPS			Previous EPS		
Ticker	Share	Cap(M)	Current	Previous	Current	Previous	2015	2016	2017	2015	2016	2017
AEP	$57.75	$28,345	Buy		$62.00		3.70E	3.70E	3.93E	3.73E	3.73E	3.92E
ETR	$67.58	$12,055	Neutral		NA		5.79E	4.98E	5.08E	5.80E	5.01E	5.12E
EXC	$27.16	$24,975	Buy		$31.00		2.56E	2.49E	2.61E	—	2.53E	2.63E
FE	$31.82	$13,461	Buy		$39.00		2.69E	2.76E	2.86E	2.71E	2.87E	—
PEG	$38.98	$19,722	Buy		$41.00		2.94E	2.95E	2.92E	2.93E	2.97E	2.93E

GUGGENHEIM

AMERICAN ELECTRIC POWER

INCOME STATEMENT - Quarterly ($MM)																	INCOME STATEMENT - Quarterly ($MM)				
	1Q15A	2Q15A	3Q15A	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2014A	2015E	2016E	2017E	2018E
Total operating revenue	**4,708**	**3,941**	**4,436**	**3,483**	**4,479**	**4,464**	**4,525**	**4,522**	**4,612**	**4,605**	**4,684**	**4,673**	**4,754**	**4,744**	**4,818**	**4,804**	**17,020**	**16,569**	**17,990**	**18,574**	**19,121**
Fuel and other cosumables for generati	1,071	756	955														4,272				
Purchased electricity for resale	718	601	731														2,086				
Purchases from AEP affiliates																					
Fuel and purchased power	**1,789**	**1,357**	**1,686**	**1,003**	**1,734**	**1,713**	**1,745**	**1,727**	**1,793**	**1,774**	**1,803**	**1,791**	**1,827**	**1,807**	**1,837**	**1,825**	**6,358**	**5,835**	**6,918**	**7,162**	**7,297**
Gross margin	**2,919**	**2,584**	**2,751**	**2,480**	**2,745**	**2,751**	**2,780**	**2,796**	**2,819**	**2,831**	**2,881**	**2,882**	**2,927**	**2,937**	**2,981**	**2,979**	**10,662**	**10,734**	**11,072**	**11,413**	**11,824**
Other operation	746	695	691	849	702	815	763	948	703	816	764	950	712	824	772	958	3,225	2,981	3,228	3,232	3,266
Maintenance	294	333	312	386	255	325	280	384	258	328	282	386	260	330	285	389	1,361	1,325	1,244	1,254	1,263
Other operating expense (gain)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
D&A	505	506	535	466	477	479	482	484	494	497	499	502	512	514	516	518	1,929	2,012	1,922	1,991	2,060
Taxes other than income	250	242	248	221	243	245	246	247	250	252	253	254	257	258	260	261	915	960	981	1,009	1,036
EBIT	**1,124**	**808**	**967**	**557**	**1,067**	**888**	**1,010**	**732**	**1,114**	**940**	**1,083**	**790**	**1,186**	**1,010**	**1,148**	**854**	**3,232**	**3,456**	**3,697**	**3,926**	**4,198**
Interest and other non-operating income	1	3	2	(4)	4	4	4	4	4	4	4	4	4	4	4	4	7	3	17	17	17
Carrying costs income	8	9	1	-	-	-	-	-	-	-	-	-	-	-	-	-	33	18	-	-	-
AFUDC equity	30	34	33	42	22	22	22	22	22	22	22	22	22	22	22	22	103	140	86	86	86
Interest expense	(223)	(224)	(221)	(234)	(245)	(248)	(250)	(252)	(257)	(260)	(262)	(265)	(269)	(271)	(274)	(276)	(885)	(901)	(995)	(1,043)	(1,090)
Earnings before taxes	**940**	**631**	**783**	**362**	**848**	**666**	**786**	**506**	**883**	**706**	**847**	**551**	**943**	**765**	**901**	**604**	**2,490**	**2,716**	**2,806**	**2,987**	**3,212**
Tax rate	35%	36%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	38%	35%	35%	35%	35%
Income tax expense/(benefit)	333	225	275	127	297	233	275	177	309	247	296	193	330	268	315	211	942	959	982	1,045	1,124
Equity earnings of unconsolidated affilia	24	25	12	-	-	-	-	-	-	-	-	-	-	-	-	-	90	61	-	-	-
Disc ops																	-	-	-	-	-
Extraordinary items net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income attributable to noncontrolling int	2	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	4	4	-	-	-
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	**629**	**430**	**520**	**235**	**551**	**433**	**511**	**329**	**574**	**459**	**550**	**358**	**613**	**497**	**586**	**393**	**1,634**	**1,814**	**1,824**	**1,941**	**2,088**
Diluted shares	490	490	491	491	492	492	493	493	494	494	495	495	496	496	497	497	489	491	493	494	496
EPS	**$1.28**	**$0.88**	**$1.06**	**$0.48**	**$1.12**	**$0.88**	**$1.04**	**$0.67**	**$1.16**	**$0.93**	**$1.11**	**$0.72**	**$1.24**	**$1.00**	**$1.18**	**$0.79**	**$3.34**	**$3.70**	**$3.70**	**$3.93**	**$4.21**
Non-recurring items net of tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(41)	0	0	0	0
Recurring net income	**629**	**430**	**520**	**235**	**551**	**433**	**511**	**329**	**574**	**459**	**550**	**358**	**613**	**497**	**586**	**393**	**1,675**	**1,814**	**1,824**	**1,941**	**2,088**
Recurring EPS	**$1.28**	**$0.88**	**$1.06**	**$0.48**	**$1.12**	**$0.88**	**$1.04**	**$0.67**	**$1.16**	**$0.93**	**$1.11**	**$0.72**	**$1.24**	**$1.00**	**$1.18**	**$0.79**	**$3.43**	**$3.70**	**$3.70**	**$3.93**	**$4.21**

Source: Guggenheim Securities, LLC estimates.

ENTERGY CORP

CONSOLIDATED FINANCIALS

INCOME STATEMENT

Income Statement	**1QA**	**2QA**	**3QA**	**4QE**	**2015E**	**1QE**	**2QE**	**3QE**	**4QE**	**2016E**	**1QE**	**2QE**	**3QE**	**4QE**	**2017E**	**1QE**	**2QE**	**3QE**	**4QE**	**2018E**
Revenues	**2,920**	**2,713**	**3,371**	**2,770**	**11,775**	**2,892**	**2,816**	**3,435**	**2,787**	**11,930**	**2,846**	**2,770**	**3,454**	**2,760**	**11,830**	**2,884**	**2,844**	**3,509**	**2,816**	**12,053**
Utility	732	741	979	913	3,365	782	816	1,074	674	3,345	805	838	1,102	696	3,441	849	881	1,150	739	3,618
Competitive	260	33	131	58	482	129	90	121	83	424	99	78	130	73	380	70	71	110	65	316
Parent, other & elimination	(42)	(44)	(41)	(40)	(167)	(44)	(42)	(42)	(42)	(169)	(46)	(44)	(44)	(44)	(178)	(46)	(44)	(44)	(44)	(178)
EBITDA	950	730	1,069	931	3,680	866	865	1,153	715	3,600	858	873	1,188	725	3,644	873	908	1,216	760	3,757
					13%					12%					10%					8%
Utility	458	461	701	644	2,264	496	524	784	392	2,196	508	534	799	397	2,238	539	563	834	422	2,359
Competitive	163	(31)	38	(42)	128	32	(6)	25	(13)	38	15	(6)	46	(11)	44	(15)	(10)	29	(16)	(12)
Parent, other & elimination	(42)	(44)	(41)	(43)	(171)	(45)	(43)	(43)	(43)	(174)	(48)	(46)	(46)	(45)	(184)	(48)	(46)	(46)	(45)	(184)
EBIT	579	386	697	559	2,221	484	475	766	336	2,061	475	482	800	341	2,097	475	508	818	361	2,162
Recurring EBIT					2,227					2,061					2,097					2,162
Utility	223	200	360	322	1,105	222	238	403	151	1,016	224	239	407	148	1,018	237	251	423	158	1,069
Competitive	124	(4)	32	(14)	137	41	8	23	4	74	32	10	39	7	87	13	8	28	4	52
Parent, other & elimination	(48)	(47)	(51)	(59)	(205)	(50)	(48)	(48)	(48)	(195)	(48)	(46)	(46)	(46)	(186)	(48)	(46)	(46)	(46)	(186)
Net income, reported	**299**	**149**	**341**	**248**	**1,037**	**213**	**198**	**378**	**107**	**896**	**208**	**203**	**399**	**109**	**919**	**202**	**213**	**405**	**116**	**935**
Recurring net income	302	149	341	248	1,040	213	198	378	107	896	208	203	399	109	919	202	213	405	116	935
Utility	$1.23	$1.11	$2.01	$1.79	$6.14	$1.24	$1.33	$2.24	$0.84	$5.65	$1.24	$1.32	$2.25	$0.82	$5.62	$1.31	$1.38	$2.32	$0.86	$5.87
Competitive	$0.71	($0.02)	$0.18	($0.08)	$0.79	$0.23	$0.04	$0.13	$0.02	$0.41	$0.18	$0.05	$0.21	$0.04	$0.48	$0.07	$0.04	$0.15	$0.02	$0.29
Parent, other & elimination	($0.27)	($0.26)	($0.29)	($0.33)	($1.14)	($0.28)	($0.27)	($0.27)	($0.27)	($1.08)	($0.26)	($0.26)	($0.26)	($0.25)	($1.03)	($0.26)	($0.25)	($0.25)	($0.25)	($1.02)
Recurring EPS	**$1.68**	**$0.83**	**$1.90**	**$1.38**	**$5.79**	**$1.19**	**$1.10**	**$2.10**	**$0.59**	**$4.98**	**$1.15**	**$1.12**	**$2.21**	**$0.60**	**$5.08**	**$1.11**	**$1.17**	**$2.22**	**$0.63**	**$5.14**

Source: Guggenheim Securities, LLC estimates.

GUGGENHEIM

EXELON MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT	1QA	2QA	3QA	4QE	2015E	1QE	2QE	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
	1QA	**2QA**	**3QA**	**4QE**	**2015E**	**1QE**	**2QE**	**3QE**	**4QE**	**2016E**	**1QE**	**2QE**	**3QE**	**4QE**	**2017E**	**1QE**	**2QE**	**3QE**	**4QE**	**2018E**
Operating revenues	8,636	6,507	7,532	4,849	27,524	6,098	5,501	5,462	5,439	22,499	6,317	5,672	5,714	5,736	23,439	6,519	5,863	5,833	5,952	24,166
Operating expenses																				
Fuel & purchased power	4,477	2,663	3,291	1,612	12,043	2,169	1,823	1,739	1,801	7,533	2,345	1,957	1,821	1,899	8,022	2,382	1,973	1,862	1,978	8,195
Operating and maintenance	2,069	2,001	1,996	1,520	7,586	1,674	1,674	1,674	1,674	6,696	1,683	1,683	1,683	1,683	6,731	1,692	1,692	1,692	1,692	6,766
Depreciation and amortization	610	602	606	625	2,443	633	641	649	656	2,579	665	674	683	692	2,716	699	706	712	719	2,836
Taxes other than income	304	294	310	162	1,070	265	265	265	265	1,060	269	269	269	269	1,075	272	272	272	272	1,089
Total operating expenses	**7,460**	**5,560**	**6,203**	**3,919**	**23,142**	**4,741**	**4,403**	**4,327**	**4,397**	**17,868**	**4,962**	**4,583**	**4,456**	**4,543**	**18,543**	**5,045**	**4,642**	**4,538**	**4,661**	**18,886**
Equity in earnings of unconsolidated affiliates	1	-	(1)	24	24	32	31	24	29	116	30	14	27	28	99	41	40	39	22	143
Operating income	**1,177**	**947**	**1,328**	**953**	**4,405**	**1,388**	**1,129**	**1,159**	**1,071**	**4,747**	**1,385**	**1,103**	**1,285**	**1,221**	**4,995**	**1,516**	**1,261**	**1,333**	**1,313**	**5,423**
Other income and deductions																				
Interest expense	(256)	(259)	(253)	(359)	(1,127)	(346)	(352)	(358)	(363)	(1,419)	(366)	(369)	(372)	(375)	(1,482)	(374)	(374)	(374)	(374)	(1,498)
Other income and deductions	31	118	(242)	-	(93)	25	25	25	25	100	25	25	25	25	100	-	-	-	-	-
Total other income and deductions	**(225)**	**(141)**	**(495)**	**(359)**	**(1,220)**	**(321)**	**(327)**	**(333)**	**(338)**	**(1,319)**	**(341)**	**(344)**	**(347)**	**(350)**	**(1,382)**	**(374)**	**(374)**	**(374)**	**(374)**	**(1,498)**
Income before income taxes	952	806	833	595	3,186	1,067	802	826	733	3,427	1,044	759	938	871	3,612	1,141	886	959	939	3,925
Income taxes	299	286	115	190	890	361	264	274	238	1,137	353	253	313	289	1,209	384	290	316	316	1,305
Net income	**653**	**520**	**718**	**404**	**2,295**	**705**	**538**	**552**	**494**	**2,290**	**691**	**506**	**625**	**582**	**2,404**	**757**	**596**	**643**	**623**	**2,620**
Earnings attributable to noncontrolling interests	38	9	(42)	-	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred dividends	-	3	3	3	9	3	3	3	3	12	3	3	3	3	12	3	3	3	3	12
Adjusted earnings	**615**	**508**	**757**	**401**	**2,281**	**702**	**535**	**549**	**491**	**2,278**	**688**	**503**	**622**	**579**	**2,392**	**754**	**593**	**640**	**620**	**2,608**
Adjustments	(78)	(85)	128	16	(19)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GAAP earnings	**693**	**593**	**629**	**385**	**2,300**	**702**	**535**	**549**	**491**	**2,278**	**688**	**503**	**622**	**579**	**2,392**	**754**	**593**	**640**	**620**	**2,608**
Weighted average shares outstanding																				
Basic	862	860	913	913	887	913	913	913	913	913	913	913	913	913	913	913	913	913	913	913
Diluted	867	864	915	915	890	915	915	915	915	915	915	915	915	915	915	915	915	915	915	915
Adjusted EPS	**0.71**	**0.59**	**0.83**	**0.44**	**2.56**	**0.77**	**0.58**	**0.60**	**0.54**	**2.49**	**0.75**	**0.55**	**0.68**	**0.63**	**2.61**	**0.82**	**0.65**	**0.70**	**0.68**	**2.85**
GAAP EPS	**0.80**	**0.69**	**0.69**	**0.42**	**2.58**	**0.77**	**0.58**	**0.60**	**0.54**	**2.49**	**0.75**	**0.55**	**0.68**	**0.63**	**2.61**	**0.82**	**0.65**	**0.70**	**0.68**	**2.85**

Source: Guggenheim Securities, LLC estimates.

GUGGENHEIM

FIRST ENERGY

CONSOLIDATED FINANCIALS

INCOME STATEMENT	2012A	2013A	1QA	2QA	3QA	4Q	2014A	1QA	2QE	3QE	4QE	2015E	1QE	2QE	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
	2012A	2013A	1QA	2QA	3QA	4Q	2014A	1Q	2Q	3Q	4Q	2015E	1Q	2Q	3Q	4Q	2016E	1Q	2Q	3Q	4Q	2017E	1Q	2Q	3Q	4Q	2018E
Operating Revenue																											
Total Operating Revenues	15,758	14,931	4,189	3,496	3,888	3,483	15,056	3,897	3,465	4,123	3,472	14,957	3,960	3,562	3,693	3,338	14,553	3,826	3,435	3,768	3,396	14,424	3,876	3,472	3,796	3,421	14,564
'																											
Expenses																											
Fuel	2,471	2,496	617	550	544	569	2,280	513	383	482	473	1,851	481	447	366	363	1,657	373	339	360	355	1,427	377	343	364	358	1,441
Purchased Power	4,692	3,956	1,455	1,083	1,188	990	4,716	1,113	989	1,209	811	4,122	996	813	947	859	3,615	1,024	837	974	885	3,720	1,050	859	999	908	3,815
Gross Margin	8,595	8,479	2,117	1,863	2,156	1,924	8,060	2,271	2,093	2,432	2,188	8,984	2,482	2,302	2,380	2,115	9,280	2,429	2,258	2,435	2,156	9,278	2,449	2,270	2,434	2,155	9,308
Other Operating Expense	3,747	3,596	1,182	1,021	858	901	3,962	1,057	916	850	805	3,628	1,116	1,003	924	832	3,875	1,071	962	894	812	3,739	1,052	945	883	808	3,689
Pension MTM	609	(256)				835	835					0					0					0					0
Depreciation	1,146	1,205	294	302	308	316	1,220	319	322	328	404	1,373	341	345	348	352	1,386	348	352	356	359	1,415	357	361	365	368	1,451
Amortization of new regulatory assets	259	539	(28)	20	35	(15)	12	32	59	110	50	251	50	50	50	50	200	50	50	50	50	200	50	50	50	50	200
General Taxes	985	979	271	228	239	224	962	269	242	236	276	1,023	249	244	231	260	983	244	244	244	244	975	248	248	248	248	991
Impairment / Other	(327)	795					0					0					0					0					0
RTEP cost assumption	0	0				0	0	0	0		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Merger Synergies	0	0				0	0	0	0		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other Operating Expenses	6,419	6,858	1,719	1,571	1,440	2,261	6,991	1,677	1,539	1,524	1,535	6,275	1,756	1,641	1,553	1,494	6,444	1,713	1,608	1,543	1,465	6,329	1,707	1,604	1,546	1,474	6,331
'																											
OPERATING INCOME	2,176	1,621	398	292	716	(337)	1,069	594	554	908	653	2,709	726	661	827	621	2,835	716	651	891	691	2,949	742	666	888	681	2,977
Other Income & Deductions	77	(98)	15	28	16	5	64	17	(3)	(28)	(14)	(28)	5	4	0	5	16	9	8	4	9	30	16	15	11	16	59
EBIT	2,253	1,523	413	320	732	(332)	1,133	611	551	880	639	2,681	731	666	827	627	2,851	725	659	895	700	2,979	758	681	899	697	3,036
EBITDA (Non GAAP)	4,200	4,252	704	754	1,099	608	3,165	983	973	1,367	1,107	4,430	1,117	1,056	1,225	1,024	4,422	1,114	1,053	1,297	1,100	4,565	1,149	1,077	1,303	1,099	4,628
Interest Expense	(1,001)	(1,014)	(265)	(262)	(275)	(271)	(1,073)	(279)	(282)	(285)	(269)	(1,115)	(267)	(270)	(273)	(276)	(1,087)	(281)	(283)	(284)	(286)	(1,134)	(283)	(284)	(285)	(286)	(1,138)
Capitalized Interest	72	75	22	32	28	29	111	34	33	26		93					0					0					0
Interest Expense - Net	(929)	(939)	(243)	(230)	(247)	(242)	(962)	(245)	(249)	(259)	(269)	(1,022)	(267)	(270)	(273)	(276)	(1,087)	(281)	(283)	(284)	(286)	(1,134)	(283)	(284)	(285)	(286)	(1,138)
EBT	1,324	584	170	90	485	(574)	171	366	302	621	369	1,658	464	395	554	351	1,764	443	376	611	415	1,845	475	398	614	411	1,898
Income Taxes	(553)	(201)	(48)	(26)	(152)	268	42	(144)	(115)	(226)	(135)	(620)	(169)	(144)	(179)	(103)	(594)	(150)	(125)	(212)	(139)	(626)	(161)	(133)	(213)	(138)	(645)
Effective Tax Rate	42%	34%	28%	29%	31%	47%	-25%	39%	38%	36%	36%	37%	37%	37%	37%	37%	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
Earnings Available to Parent	771	383	122	64	333	(306)	213	222	187	395	235	1,039	295	252	375	248	1,170	293	251	399	275	1,219	313	265	401	273	1,253
Less: Non-controlling interest income (loss)	1	(9)	0	0			0					0					0					0					0
Accounting Adjustments (after tax)	0	0	86	0			86					0					0					0					0
Earnings - GAAP	770	392	208	64	333	(306)	299	222	187	395	235	1,039	295	252	375	248	1,170	293	251	399	275	1,219	313	265	401	273	1,253
Non GAAP Adjustments	620	878	(46)	140	40	644	778	38	38	21		97					0					0					0
Operating Earnings	1,390	1,270	162	204	373	338	1,077	260	225	416	235	1,136	295	252	375	248	1,170	293	251	399	275	1,219	313	265	401	273	1,253
'																											
Operating EPS Diluted	$3.32	$3.03	$0.39	$0.48	$0.89	$0.80	$2.56	$0.61	$0.53	$0.98	$0.55	$2.69	$0.70	$0.59	$0.89	$0.58	$2.76	$0.69	$0.59	$0.94	$0.65	$2.86	$0.73	$0.62	$0.94	$0.64	$2.92

Source: Guggenheim Securities, LLC estimates.

GUGGENHEIM

PSEG

CONSOLIDATED FINANCIALS

INCOME STATEMENT

	1Q15A	2Q15A	3Q15A	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015E	2016E	2017E	2018E
Operating revenues	3,135	2,314	2,688	2,316	3,183	2,506	2,926	2,570	3,413	2,680	3,189	2,787	3,482	2,726	3,353	2,902	10,453	11,185	12,069	12,464
Energy costs	(1,094)	(668)	(815)	(809)	(1,246)	(795)	(995)	(979)	(1,497)	(978)	(1,234)	(1,184)	(1,547)	(1,001)	(1,300)	(1,242)	(3,386)	(4,015)	(4,894)	(5,090)
O&M	(663)	(761)	(746)	(756)	(814)	(757)	(748)	(817)	(815)	(758)	(746)	(823)	(815)	(755)	(766)	(830)	(2,926)	(3,136)	(3,142)	(3,166)
D&A	(330)	(317)	(313)	(312)	(345)	(332)	(329)	(339)	(364)	(351)	(348)	(357)	(382)	(369)	(367)	(376)	(1,272)	(1,346)	(1,419)	(1,494)
Taxes other than income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	(2,087)	(1,746)	(1,874)	(1,877)	(2,406)	(1,884)	(2,072)	(2,134)	(2,675)	(2,087)	(2,328)	(2,364)	(2,744)	(2,125)	(2,432)	(2,448)	(7,584)	(8,496)	(9,454)	(9,749)
Operating Income	**1,048**	**568**	**814**	**439**	**778**	**621**	**854**	**436**	**738**	**593**	**861**	**423**	**739**	**601**	**921**	**454**	**2,869**	**2,689**	**2,615**	**2,714**
Equity in Income of Affiliates	3	4	3	2	0	0	0	0	0	0	0	0	0	0	0	0	12	1	1	1
Other income (net)	36	66	33	31	28	28	28	28	51	51	51	51	51	51	51	51	166	113	203	203
Impairments	(5)	(10)	(30)	-	-	-	-	-	-	-	-	-	-	-	-	-	(45)	-	-	-
Interest expense	(98)	(97)	(96)	(119)	(121)	(124)	(126)	(129)	(131)	(133)	(135)	(137)	(139)	(141)	(144)	(146)	(410)	(500)	(536)	(570)
EBT	984	531	724	353	685	526	757	335	658	511	777	337	650	510	829	359	2,592	2,303	2,284	2,348
Income taxes	(398)	(186)	(285)	(123)	(240)	(184)	(265)	(117)	(230)	(179)	(272)	(118)	(228)	(179)	(290)	(126)	(992)	(806)	(799)	(822)
Income from Cont Ops	586	345	439	229	445	342	492	218	428	332	505	219	423	332	539	233	1,599	1,497	1,484	1,526
Disc Ops (net of tax)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	586	345	439	229	445	342	492	218	428	332	505	219	423	332	539	233	1,599	1,497	1,484	1,526
Preferred stock dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NI Available to Common	**586**	**345**	**439**	**229**	**445**	**342**	**492**	**218**	**428**	**332**	**505**	**219**	**423**	**332**	**539**	**233**	**1,599**	**1,497**	**1,484**	**1,526**
Weighted diluted shares	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508
EPS	**1.15**	**0.68**	**0.86**	**0.45**	**0.88**	**0.67**	**0.97**	**0.43**	**0.84**	**0.65**	**0.99**	**0.43**	**0.83**	**0.65**	**1.06**	**0.46**	**3.15**	**2.95**	**2.92**	**3.00**
GAAP EBITDA	**1,412**	**945**	**1,133**	**783**	**1,151**	**982**	**1,212**	**803**	**1,152**	**995**	**1,260**	**831**	**1,172**	**1,021**	**1,339**	**881**	**4,273**	**4,149**	**4,238**	**4,413**
Adjusted EBITDA	**1,317**	**922**	**1,075**	**783**	**1,151**	**982**	**1,212**	**803**	**1,152**	**995**	**1,260**	**831**	**1,172**	**1,021**	**1,339**	**881**	**4,096**	**4,149**	**4,238**	**4,413**
NDT and other gains / losses	2	(14)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12)	-	-	-
Mark to market	55	28	35	-	-	-	-	-	-	-	-	-	-	-	-	-	119	-	-	-
PSE&G extraordinary items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Holdings extraordinary items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Co. defined operating earnings	**529**	**331**	**404**	**229**	**445**	**342**	**492**	**218**	**428**	**332**	**505**	**219**	**423**	**332**	**539**	**233**	**1,492**	**1,497**	**1,484**	**1,526**
Co. defined operating EPS	**1.04**	**0.65**	**0.80**	**0.45**	**0.88**	**0.67**	**0.97**	**0.43**	**0.84**	**0.65**	**0.99**	**0.43**	**0.83**	**0.65**	**1.06**	**0.46**	**2.94**	**2.95**	**2.92**	**3.00**

Source: Guggenheim Securities, LLC estimates.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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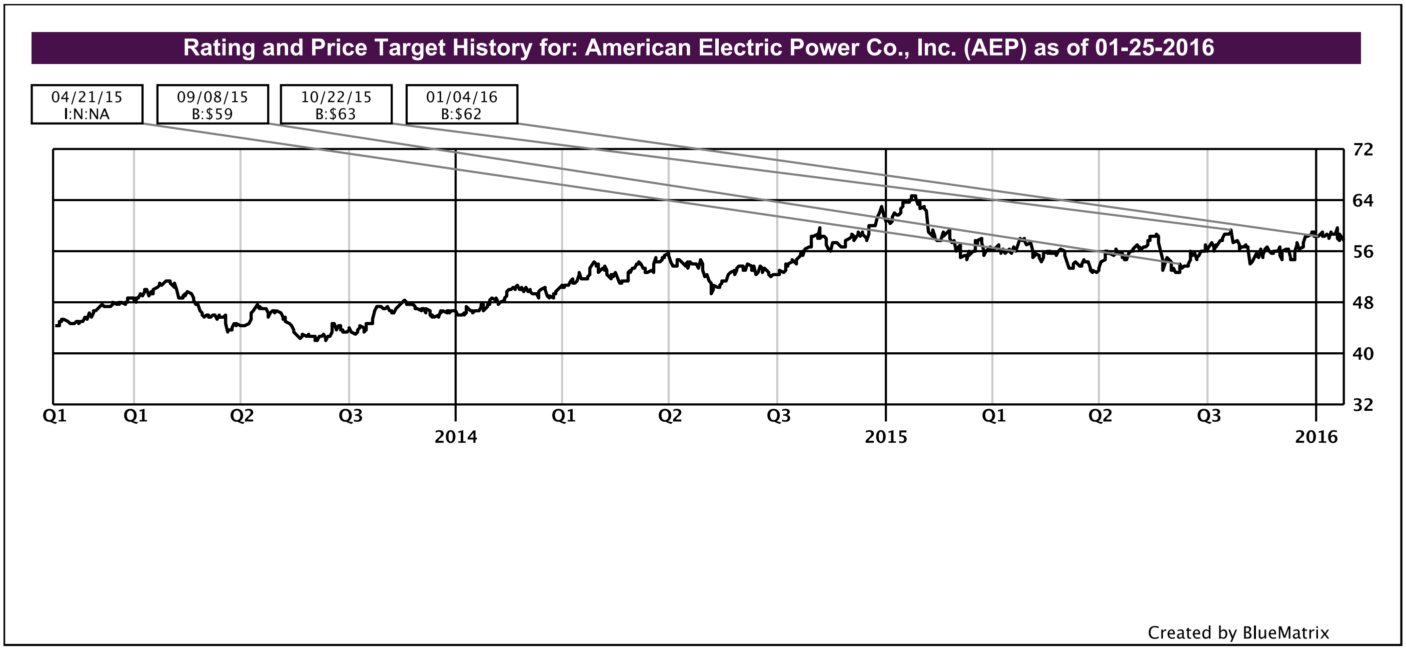
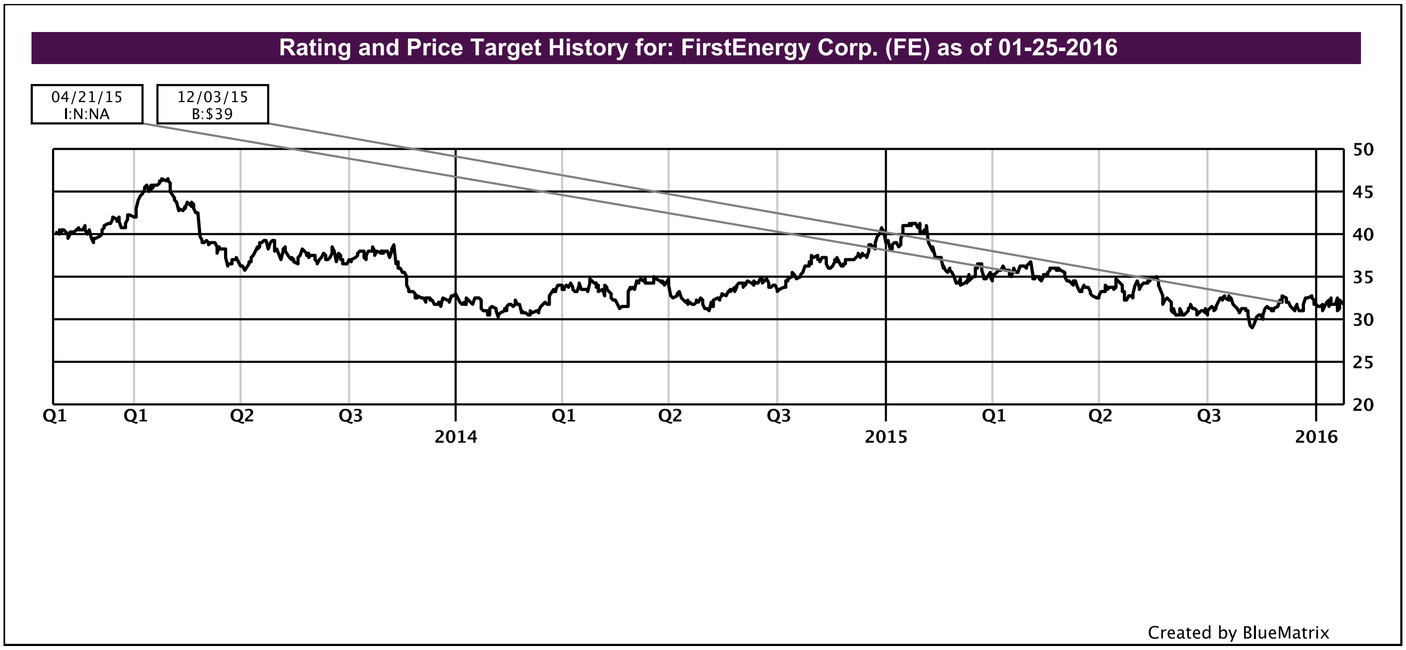
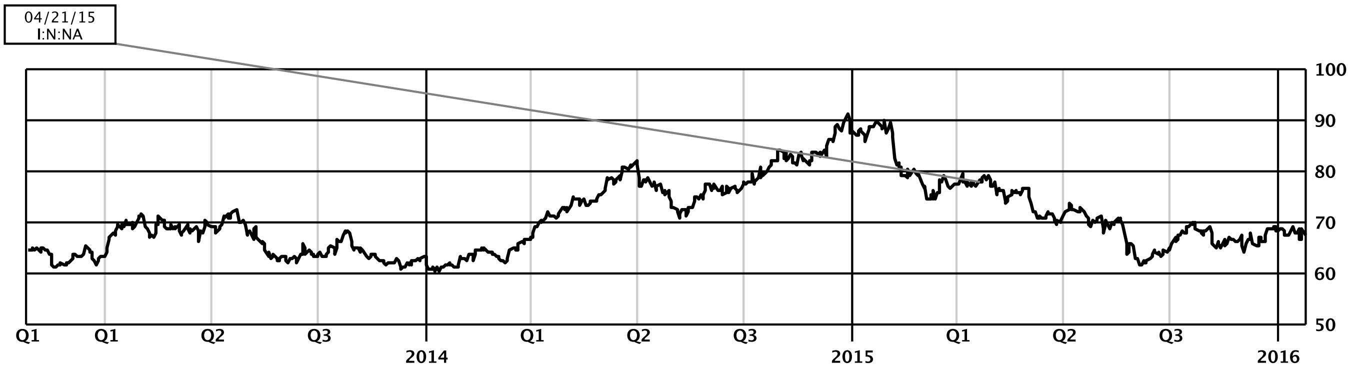

Rating and Price Target History for: American Electric Power Co., Inc. (AEP) as of 01-25-2016


Rating and Price Target History for: FirstEnergy Corp. (FE) as of 01-25-2016

Rating and Price Target History for: Entergy Corporation (ETR) as of 01-25-2016



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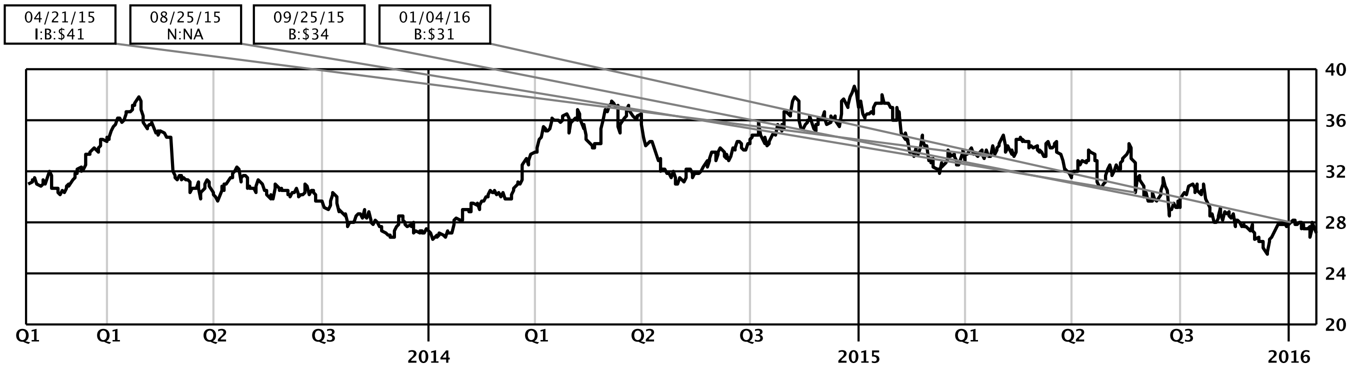
Rating and Price Target History for: Exelon Corporation (EXC) as of 01-25-2016



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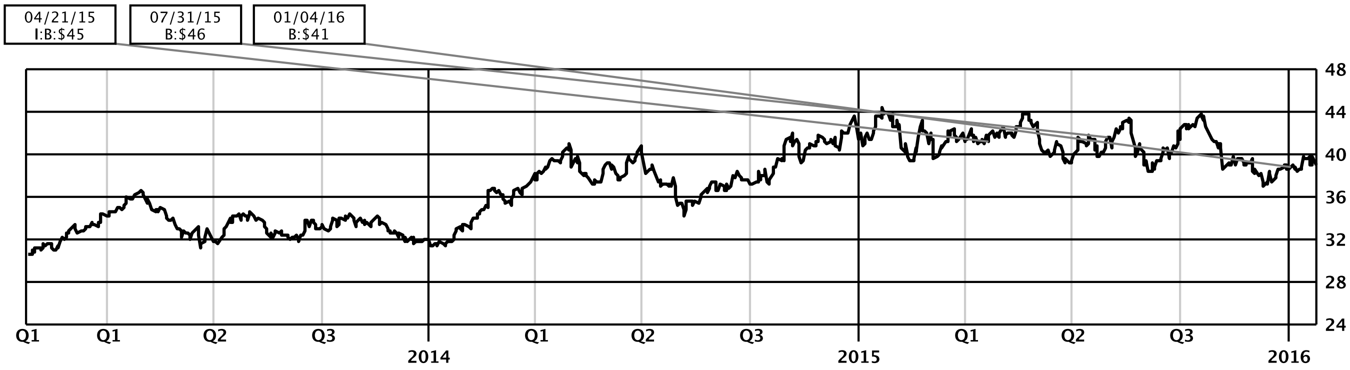
Rating and Price Target History for: Public Service Enterprise Group Inc. (PEG) as of 01-25-2016



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			IB Serv./ Past 12Mos.	
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Neutral	109	38.38%	3	2.75%
Sell	0	0.00%	0	0.00%

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Guggenheim's Power & Utilities Daily

Guggenheim's Power and Utilities Daily: SO, D, EXC, ETR, ES, AWK, GXP, CPP, MISO

January 27, 2016

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What's New?

EXC/ETR – NY PSC details plan to create “bridge” to save certain nuclear plants
SO – Southern utilities challenge EPA New Source Rule
D – Legislation proposed in VA would make RPS mandatory
CPP – 29 states and agencies appeal stay denial of Clean Power Plan to Supreme Court
MISO – Low natural gas price driving generation changes in MISO
ES – ISO-NE sees continued need for gas pipelines despite low gas prices
GXP – MO wants separate CPP charge on utility bills
AWK – American Water IL acquires Dana/Long Point/Reading/Ancona Public Water District Water System

EXC/ETR – NY PSC details plan to create “bridge” to save certain nuclear plants

- Staff of the NY PSC released a white paper with details on how the state can achieve the NY Governor’s goals to have 50% of electricity generated by renewables by 2030 (Clean Energy Standard).
- Staff recommended a tiered approach for utilities to acquire increasing amounts of renewable sources. Utilities can comply by trading renewable trading credits, or with nuclear “zero emission credits.”
- Tier 1 covers new renewable generation, Tier 2 is for existing renewable generation, and Tier 3 is for existing nuclear plants.
- Only “qualifying” nuclear plants will be eligible for support payments and "must have an in-service date of January 1, 2015, or earlier, be facing financial difficulty as determined by a Staff examination of the books and records of the facility, operating pursuant to a fully renewed license by the [Nuclear Regulatory Commission] until 2029 or beyond, and consistent with any other federal and state authorizations."
- Staff highlighted EXC’s Ginna and Nine Mile Point as well as ETR’s Fitzpatrick that have economic pressures.

Guggenheim takeaway: *The NY PSC’s qualifications for saving nuclear excludes Indian Point as it does not have a fully renewed license by the NRC and is in a legal suit with the State over Water Quality Certification and Coastal Zone Management. As we have highlighted in our research, the NY Governor has been vocal about shutting down Indian Point and saving upstate nuclear. EXC has noted that the implementation timeline proposed is reasonable and that the economics of the proposal is “critical.” In our view, the plan may not be enough to keep Fitzpatrick from retiring in late 2016 or early 2017. Net-net, positive for EXC; negative for other merchant Genco’s. We continue to see signs that legislation mandates are providing a much needed lifeline for nuclear.*

SO – Southern utilities challenge EPA New Source Rule

- Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power (all subsidiaries of SO) filed against the EPA's New Source Rule for carbon emissions in court.
- The rule aims to reduce emissions from new or modified power plants; in line with the EPA's broader Clean Power Plan to reduce emissions under the Clean Air Act.
- The southern utilities claim the new rule is arbitrary and against the law.

Guggenheim takeaway: *The new rule sets emissions standards close to those of a modern CCGT, requiring carbon capture and sequestration for coal plants – a feature SO has been working on adding to their Kemper plant in Mississippi, which has struggled with schedule delays and cost overruns. SO's utilities also challenged the EPA's broader Clean Power Plan, stressing the retirement of coal generation that would result. This will be a tough battle to win.*

D – Legislation proposed in VA would make RPS mandatory

- Legislation proposed in VA would convert the voluntary renewable portfolio standard to a mandatory program for utilities.
- VA's voluntary RPS calls for 15% renewable by 2025; S.B. 761 would require utilities to invest in solar, wind, and energy efficiency to meet objectives.

Guggenheim takeaway: *VEPCO, D's VA utility, has already committed to renewable development in recent months, in light of environmental regulation and in partnership with the state. Last year, VEPCO announced plans to develop at least 400MW of solar by 2020, with the state of VA agreeing to off-take 110MW of solar from the utility last month. The utility has also sought bids for offshore wind in VA. Net-net, positive for D.*

CPP– 29 states and agencies appeal stay denial of Clean Power Plan to Supreme Court

- 29 states asked for an immediate stay of the Clean Power Plan alleging that the rule is contract to the Clean Air Act.
- On Jan. 21, the U.S. Court of Appeals denied a request for the stay of the Clean Power Plan. The Court established that the petitioners had failed to show that "irreparable harm" would occur while the legal validity of the rule was decided.
- Oral arguments at the U.S. Court of Appeals for legal validity of CPP will begin June 2.
- The 29 states appealing to the Supreme Court will need at least four Justices who want to consider the case in order to hear on CPP.

Guggenheim takeaway: *Similar to the path of MATs, states are attempting to challenge the CPP at the Supreme Court. As we have highlighted in our research, even if the legality of CPP continued to be debated, states will file a State Implementation Plan (SIP) to comply with CPP. We note that utilities and states are working towards compliance even if the state is suing against CPP.*

MISO – Low natural gas price driving generation changes in MISO

- The Markets Committee of the Board of Directors meeting indicated cheap gas caused increased natural gas generation dispatch trends in Dec. 2015.
- Dispatch trends in December 2015 favored gas-fired generators over coal-fired units throughout MISO. Capacity factors for coal-fired resources fell to 45% in December 2015, down from 60% the prior year.
- Gas generation, which is concentrated in MISO South, led to reversed regional transfer flows South-to-North.

- The Markets Committee was concerned that continuing market trends may impact MISO's reliability.

Guggenheim takeaway:*As we continue to highlight in our research, we believe natural gas generation will grow as coal retirements occur. Our analysis shows that natural gas shows the most compelling economics and will displace coal, which could affect reliability and fuel diversity concerns in the region. In our view, MISO's capacity market in its current form is unlikely to keep economically challenged baseload coal from retiring. See our economic analysis of energy generation economics here.*

ES – ISO-NE sees continued need for gas pipelines despite low gas prices

- Local media highlighted continued need for gas pipelines seen by ISO-NE, despite low gas prices.
- ISO-NE referred to continued spikes in prices experienced when demand is high in the winter, and notes more gas is likely needed to account for coal and nuclear retirement.

Guggenheim takeaway: *Much of the gas capacity in New England is secured under firm contract by gas LDCs to meet heating demand, so a cold winter reduces the supply of gas available to fuel power plants. Limited gas supplies during a cold winter can challenge electric reliability and result in volatile prices as we experienced during the polar vortex. ES is developing the Access Northeast project, a gas pipeline that would be supported by contracts with electric utilities securing fuel for their power plants; a variation to the manner in which gas LDC traditionally contract for pipeline capacity.*

GXP – MO wants separate CPP charge on utility bills

- Missouri utility bills are broken down into base charge, a fuel adjustment charge, and municipal taxes.
- The state senator has written bill S. 687, which would require electric utilities to track expenses related to the Clean Power Plan and itemize them on customer bills beginning Jan. 1 the following year.
- MO will still file a State Implementation plan by the Sept. 6 deadline and will request a 2-year extension as allowed.

Guggenheim takeaway: *As we have highlighted in our research, we expect states to file an SIP even though they are suing against CPP. The Senator's bill to separate out CPP costs in a customer's bill could be another tactic to raise protest against CPP.*

AWK – American Water IL acquires Dana/Long Point/Reading/Ancona Public Water District Water System

- Illinois American Water acquires Dana/Long Point/Reading/Ancona Public Water District (Water District) water system for $1.075mm.
- The acquisition was approved on Dec. 16, 2015 and the sale closed on Jan. 26, 2016.
- The acquisition will add ~150 customers to the company's customer base in IL.

Guggenheim takeaway: *The majority of growth in its regulated business is in water acquisitions. We believe AWK will continue to have acquisition opportunities, targeting municipalities that are capital-constrained in states with favorable regulatory constructs.*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. **Quick Take: Surprise - Supreme Court Sides with FERC over Demand Response**
2. Power Breakfast Part Deux: Guggenheim-Hosted Utility Commissioner Meetings
3. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
4. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
5. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
6. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
7. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
8. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
9. *EEI Full Recap*
10. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
11. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
12. *DUK - BUY - PNY Acquisition: Short-Term Pain for Longer-Term Gain? Devil Is in the Details*
13. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
14. *3Q Utility Earnings Sneak Peek: EEI Edition*
15. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
16. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*
17. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
18. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
19. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
20. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
21. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*

22. *More Uplifting Data Points for AEP and FE*
23. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*
24. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
25. *Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables*
26. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
On-going	FE	Evidentiary hearings	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
01/28	ES	Responses due for 3-state RFP in New England				Three-state RFP for clean energy
01/28	ED	PSC technical conference on earnings impact mechanisms and related items	Consolidated Edison Company of New York Orange & Rockland	NY	14–M–0101	REV technical conference to discuss Earnings Impact Mechanisms (EIMs), as well as other topics
01/31	PCG	GT&S rate case decision expected in January 2016	Pacific Gas & Electric Company	CA	A.13-12-012	Procedural schedule estimates a decision regarding GT&S revenue requirement in January 2016
02/05	ES	Deadline to file motion to interene in Northern Pass proceedings		NH		The NH Site Evaluation Committee set a deadline for anyone wishing to intervene to file a motion with the commission.
02/16	ETR	Indian Point Coastal Zone Management (CZM)		NY	APL-2015-00152	CZM Case NYS reply brief due
02/24		Supreme Court argument for CPV Maryland, LLC v. PPL EnergyPlus, LLC			14-623	Whether state-directed contracts for new generation build infringes on FERC jurisdiction on wholesale rates
02/24	NEE	FPSC hearing on Duval-Raven transmission project	Florida Power & Light	FL	150263-EI	FPSC hearing on the proposed $71mm Duval-Raven transmission line
03/22	PCG	Trial scheduled for PG&E criminal case	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion

Guggenheim Corporate Non-deal Roadshow Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
DUK	TBA	TBA	TBA
SO	TBA	TBA	TBA
EIX	TBA	TBA	TBA
DTE	TBA	TBA	TBA
ED	TBA	TBA	TBA
AWK	TBA	TBA	TBA
ES	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
GXP	TBA	TBA	TBA
WR	TBA	TBA	TBA
EXC	TBA	TBA	TBA
ETR	TBA	TBA	TBA
PPL	TBA	TBA	TBA
PEG	TBA	TBA	TBA
AEP	TBA	TBA	TBA
MORE TO BE ADDED…			

Guggenheim Power & Utilities Comp Sheet (As of 01/26/2016)

As of 1/26/2016

Regulateds		**Mkt. Cap**		**Target**	**Current**	**Price**	**Diluted**	**EPS - Guggenheim**					**EPS - Consensus**					**P/E - Guggenheim**				**P/E - Consensus**			
Ticker	**Company**	**($MM)**	**Rating**	**Price[1]**	**Price**	**Change**	**Shares**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'15E**	**'16E**	**'17E**	**'18E**	**'15E**	**'16E**	**'17E**	**'18E**
AEP	American Electric Power	28,566	Buy	$62	$58.20	7%	489	3.70	3.70	3.93	4.21	4%	3.72	3.71	3.90	4.17	4%	15.7	15.7	14.8	13.8	15.7	15.7	14.9	14.0
ED	Consolidated Edison, Inc.	20,037	Neutral	$59	$67.99	-13%	294	4.00	4.10	4.17	4.33	3%	4.01	4.07	4.18	4.32	2%	17.0	16.6	16.3	15.7	16.9	16.7	16.3	15.8
D	Dominion Resources, Inc.	41,596	Buy	$76	$69.72	9%	585	3.65	3.84	3.99	4.47	7%	3.65	3.85	4.00	4.50	7%	19.1	18.2	17.5	15.6	19.1	18.1	17.4	15.5
DTE	DTE Energy Company	14,663	Buy	$86	$81.70	5%	177	4.85	4.98	5.27	5.66	5%	4.79	4.95	5.28	5.60	5%	16.8	16.4	15.5	14.4	17.0	16.5	15.5	14.6
DUK	Duke Energy Corporation	49,763	Buy	$76	$72.22	5%	707	4.60	4.64	4.95	5.07	3%	4.58	4.68	4.92	5.19	4%	15.7	15.6	14.6	14.2	15.8	15.4	14.7	13.9
EIX	Edison International	19,725	Neutral	$62	$60.70	2%	329	3.81	3.75	4.04	4.31	4%	3.78	3.72	4.03	4.29	4%	15.9	16.2	15.0	14.1	16.0	16.3	15.1	14.1
ES	Eversource Energy	16,535	Buy	$55	$52.15	5%	317	2.82	2.99	3.19	3.44	7%	2.84	3.01	3.21	3.43	7%	18.5	17.4	16.3	15.2	18.4	17.3	16.3	15.2
GXP	Great Plains Energy Inc.	4,123	Buy	$30	$26.71	12%	154	1.40	1.73	1.87	1.98	12%	1.40	1.76	1.84	1.95	12%	19.1	15.4	14.3	13.5	19.1	15.1	14.5	13.7
NEE	NextEra Energy, Inc.	48,896	Buy	$124	$106.56	16%	440	5.66	6.19	6.60	7.04	8%	5.66	6.15	6.52	6.94	7%	18.8	17.2	16.1	15.1	18.8	17.3	16.3	15.4
PCG	PG&E Corporation	25,587	Neutral	$53	$52.14	2%	470	3.02	3.67	3.69	3.91	9%	3.05	3.73	3.71	3.92	9%	17.3	14.2	14.1	13.3	17.1	14.0	14.0	13.3
PNW	Pinnacle West Capital Corp.	7,094	Neutral	$60	$64.00	-6%	111	3.81	4.02	4.18	4.43	5%	3.79	3.99	4.20	4.36	5%	16.8	15.9	15.3	14.4	16.9	16.0	15.3	14.7
PPL	PPL Corporation	22,791	Buy	$37	$33.83	9%	666	2.21	2.33	2.44	2.57	5%	2.21	2.33	2.40	2.53	5%	15.3	14.5	13.9	13.2	15.3	14.5	14.1	13.4
SO	Southern Company	43,311	Neutral	$43	$47.58	-10%	901	2.87	2.97	3.05	3.18	3%	2.87	2.95	3.08	3.20	4%	16.6	16.0	15.6	15.0	16.6	16.1	15.5	14.9
WR	Westar Energy, Inc.	5,844	Buy	$46	$41.37	11%	133	2.21	2.43	2.54	2.64	6%	2.20	2.45	2.56	2.65	6%	18.7	17.0	16.3	15.7	18.8	16.9	16.2	15.6
TE	TECO Energy, Inc.	6,363	Neutral	$28	$27.05	4%	224	1.09	1.18	1.27	1.35	7%	1.10	1.17	1.28	1.35	7%	24.8	22.9	21.3	20.0	24.6	23.0	21.1	20.1
Average[2]												**6%**					**6%**	**17.2**	**16.2**	**15.4**	**14.5**	**17.3**	**16.1**	**15.4**	**14.6**
Integrateds																									
ETR	Entergy Corporation	12,255	Neutral	$69	$68.70	0%	180	5.79	4.98	5.08	5.14	-4%	5.84	5.00	5.02	5.14	-4%	11.9	13.8	13.5	13.4	11.8	13.7	13.7	13.4
EXC	Exelon Corporation	25,656	Buy	$31	$27.84	11%	864	2.56	2.49	2.61	2.85	4%	2.52	2.54	2.70	2.90	5%	10.9	11.2	10.7	9.8	11.1	10.9	10.3	9.6
FE	FirstEnergy Corp.	13,571	Buy	$39	$32.08	22%	421	2.69	2.76	2.86	2.92	3%	2.69	2.85	2.68	2.73	0%	11.9	11.6	11.2	11.0	11.9	11.2	12.0	11.7
PEG	Public Service Enterprise Group	19,950	Buy	$41	$39.38	4%	508	2.94	2.95	2.92	3.00	1%	2.92	2.92	2.85	3.00	1%	13.4	13.3	13.5	13.1	13.5	13.5	13.8	13.1
Average												**1%**					**1%**	**12.0**	**12.5**	**12.2**	**11.8**	**12.1**	**12.3**	**12.5**	**12.0**
Other																									
AWK	American Water Works	11,190	Buy	$66	$62.35	6%	180	2.65	2.83	3.03	3.20	6%	2.63	2.83	3.02	3.21	7%	23.5	22.0	20.6	19.5	23.7	22.1	20.6	19.4

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from group averages.

Source: Bloomberg, Guggenheim Securities, LLC.

Regulateds			**Current**	**Consensus Dividend Per Share**				**Consensus Dividend Yield**				**Consensus Dividend Payout**			
Ticker	**Company**	**Rating**	**Price**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**	**2015E**	**2016E**	**2017E**	**2018E**
AEP	American Electric Power	Buy	$58.20	2.15	2.26	2.36	2.52	3.7%	3.9%	4.1%	4.3%	58%	61%	61%	60%
ED	Consolidated Edison, Inc.	Neutral	$67.99	2.59	2.64	2.70	2.76	3.8%	3.9%	4.0%	4.1%	64%	65%	65%	64%
D	Dominion Resources, Inc.	Buy	$69.72	2.58	2.78	2.98	3.21	3.7%	4.0%	4.3%	4.6%	71%	72%	75%	71%
DTE	DTE Energy Company	Buy	$81.70	2.83	2.97	3.13	3.37	3.5%	3.6%	3.8%	4.1%	59%	60%	59%	60%
DUK	Duke Energy Corporation	Buy	$72.22	3.26	3.38	3.53	3.71	4.5%	4.7%	4.9%	5.1%	71%	72%	72%	72%
EIX	Edison International	Neutral	$60.70	1.69	1.90	2.10	2.20	2.8%	3.1%	3.5%	3.6%	45%	51%	52%	51%
ES	Eversource Energy	Buy	$52.15	1.67	1.79	1.91	2.01	3.2%	3.4%	3.7%	3.9%	59%	59%	60%	59%
GXP	Great Plains Energy Inc.	Buy	$26.71	1.01	1.09	1.16	1.22	3.8%	4.1%	4.3%	4.6%	72%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$106.56	3.07	3.47	3.92	4.46	2.9%	3.3%	3.7%	4.2%	54%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$52.14	1.83	1.93	2.05	2.21	3.5%	3.7%	3.9%	4.2%	60%	52%	55%	56%
PNW	Pinnacle West Capital Corp.	Neutral	$64.00	2.42	2.53	2.66	2.79	3.8%	4.0%	4.2%	4.4%	64%	63%	63%	64%
PPL	PPL Corporation	Buy	$33.83	1.50	1.53	1.57	1.64	4.4%	4.5%	4.6%	4.8%	68%	66%	65%	65%
SO	Southern Company	Neutral	$47.58	2.16	2.23	2.31	2.41	4.5%	4.7%	4.8%	5.1%	75%	76%	75%	75%
WR	Westar Energy, Inc.	Buy	$41.37	1.44	1.51	1.60	1.65	3.5%	3.7%	3.9%	4.0%	65%	62%	63%	62%
TE	TECO Energy, Inc.	Neutral	$27.05	0.90	0.92	0.94	0.96	3.3%	3.4%	3.5%	3.5%	82%	79%	74%	71%
Average								**3.7%**	**3.9%**	**4.1%**	**4.3%**	**65%**	**64%**	**64%**	**64%**
Integrateds															
ETR	Entergy Corporation	Neutral	$68.70	3.35	3.43	3.49	3.60	4.9%	5.0%	5.1%	5.2%	57%	69%	70%	70%
EXC	Exelon Corporation	Buy	$27.84	1.24	1.25	1.25	1.25	4.5%	4.5%	4.5%	4.5%	49%	49%	46%	43%
FE	FirstEnergy Corp.	Buy	$32.08	1.44	1.44	1.45	1.44	4.5%	4.5%	4.5%	4.5%	53%	51%	54%	53%
PEG	Public Service Enterprise Group	Buy	$39.38	1.56	1.62	1.69	1.81	4.0%	4.1%	4.3%	4.6%	53%	56%	59%	60%
Average								**4.4%**	**4.5%**	**4.6%**	**4.7%**	**53%**	**56%**	**57%**	**57%**
Other															
AWK	American Water Works	Buy	$62.35	1.34	1.43	1.58	1.72	2.1%	2.3%	2.5%	2.8%	51%	51%	52%	54%

Source: Bloomberg, Guggenheim Securities, LLC.

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			IB Serv./ Past 12Mos.	
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Neutral	108	38.03%	3	2.78%
Sell	0	0.00%	0	0.00%

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Exelon Corporation

EXC - BUY - Model Update February 1, 2016

- We are updating our EXC model to account for negative weather and bonus depreciation impact for 4Q/2015 FY.

- **Valuation:** Our $31 price target is based on a sum-of-the-parts analysis. We assign ~$13/share for ExGen using a 5.3x weighted average EV/EBITDA applied to ExGen's various assets. We assign $23/share for the regulated utilities combined based on our 2018E EPS of $1.57 applied to a 14.5x regulated utility multiple. Subtracting out ~$3 in parent drag, we then apply a one-year discount to arrive at our 12-month price target.

- **Risks:** Commodity price risk: If natural gas prices fall (rise), wholesale power prices will likely fall (rise), limiting (raising) Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM. The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower CapEx outlook, and (3) interest rate changes above what we account for in our regression model.

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EXC BUY

ESTIMATE CHANGES

SHARE PRICE $29.57
PRICE TARGET $31.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2015	0.71	0.59	0.83	0.37E	2.49E
Prior	—	—	—	*0.44E*	*2.56E*
P/E					11.9x
2016	0.77E	0.59E	0.61E	0.54E	2.51E
Prior	—	*0.58E*	*0.60E*	—	*2.49E*
P/E					11.8x
2017	0.75E	0.55E	0.68E	0.63E	2.61E
P/E					11.3x

Market Data	
Price	$29.57
52-Week Range	$25.09 - $37.25
Market Cap (M)	$27,192
ADV (3 mo; 000)	7,906

GUGGENHEIM

EXELON MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT	1QA	2QA	3QA	4QE	2015E	1QE	2QE	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
	1QA	**2QA**	**3QA**	**4QE**	**2015E**	**1QE**	**2QE**	**3QE**	**4QE**	**2016E**	**1QE**	**2QE**	**3QE**	**4QE**	**2017E**	**1QE**	**2QE**	**3QE**	**4QE**	**2018E**
Operating revenues	8,636	6,507	7,532	4,753	27,428	6,105	5,508	5,470	5,445	22,529	6,319	5,674	5,716	5,738	23,448	6,540	5,882	5,849	5,958	24,229
Operating expenses																				
Fuel & purchased power	4,477	2,663	3,291	1,612	12,043	2,169	1,823	1,739	1,801	7,533	2,345	1,957	1,821	1,899	8,022	2,382	1,973	1,862	1,978	8,195
Operating and maintenance	2,069	2,001	1,996	1,520	7,586	1,674	1,674	1,674	1,674	6,696	1,683	1,683	1,683	1,683	6,731	1,692	1,692	1,692	1,692	6,766
Depreciation and amortization	610	602	606	625	2,443	633	641	649	656	2,579	665	674	683	692	2,716	699	706	712	719	2,836
Taxes other than income	304	294	310	162	1,070	265	265	265	265	1,060	269	269	269	269	1,075	272	272	272	272	1,089
Total operating expenses	**7,460**	**5,560**	**6,203**	**3,919**	**23,142**	**4,741**	**4,403**	**4,327**	**4,397**	**17,868**	**4,962**	**4,583**	**4,456**	**4,543**	**18,543**	**5,045**	**4,642**	**4,538**	**4,661**	**18,886**
Equity in earnings of unconsolidated affiliates	1	-	(1)	24	24	32	31	24	29	116	30	14	27	28	99	41	40	39	22	143
Operating income	**1,177**	**947**	**1,328**	**857**	**4,309**	**1,396**	**1,136**	**1,167**	**1,078**	**4,777**	**1,388**	**1,105**	**1,287**	**1,223**	**5,003**	**1,536**	**1,281**	**1,349**	**1,320**	**5,486**
Other income and deductions																				
Interest expense	(256)	(259)	(253)	(359)	(1,127)	(346)	(352)	(358)	(363)	(1,419)	(368)	(373)	(377)	(382)	(1,500)	(386)	(390)	(394)	(398)	(1,568)
Other income and deductions	31	118	(242)	-	(93)	25	25	25	25	100	25	25	25	25	100	-	-	-	-	-
Total other income and deductions	**(225)**	**(141)**	**(495)**	**(359)**	**(1,220)**	**(321)**	**(327)**	**(333)**	**(338)**	**(1,319)**	**(343)**	**(348)**	**(352)**	**(357)**	**(1,400)**	**(386)**	**(390)**	**(394)**	**(398)**	**(1,568)**
Income before income taxes	952	806	833	499	3,090	1,074	809	834	740	3,457	1,044	757	935	866	3,603	1,150	891	955	922	3,918
Income taxes	299	286	115	155	855	364	266	277	241	1,148	353	253	312	287	1,205	387	291	315	310	1,303
Net income	**653**	**520**	**718**	**344**	**2,235**	**710**	**543**	**557**	**499**	**2,309**	**691**	**505**	**623**	**579**	**2,398**	**763**	**599**	**641**	**612**	**2,615**
Earnings attributable to noncontrolling interests	38	9	(42)	-	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred dividends	-	3	3	3	9	3	3	3	3	12	3	3	3	3	12	3	3	3	3	12
Adjusted earnings	**615**	**508**	**757**	**341**	**2,221**	**707**	**540**	**554**	**496**	**2,297**	**688**	**502**	**620**	**576**	**2,386**	**760**	**596**	**638**	**609**	**2,603**
Adjustments	(78)	(85)	128	16	(19)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GAAP earnings	**693**	**593**	**629**	**325**	**2,240**	**707**	**540**	**554**	**496**	**2,297**	**688**	**502**	**620**	**576**	**2,386**	**760**	**596**	**638**	**609**	**2,603**
Weighted average shares outstanding																				
Basic	862	860	913	913	887	913	913	913	913	913	913	913	913	913	913	913	913	913	913	913
Diluted	867	864	915	915	890	915	915	915	915	915	915	915	915	915	915	915	915	915	915	915
Adjusted EPS	**0.71**	**0.59**	**0.83**	**0.37**	**2.49**	**0.77**	**0.59**	**0.61**	**0.54**	**2.51**	**0.75**	**0.55**	**0.68**	**0.63**	**2.61**	**0.83**	**0.65**	**0.70**	**0.67**	**2.85**

Source: Guggenheim Securities, LLC estimates.

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By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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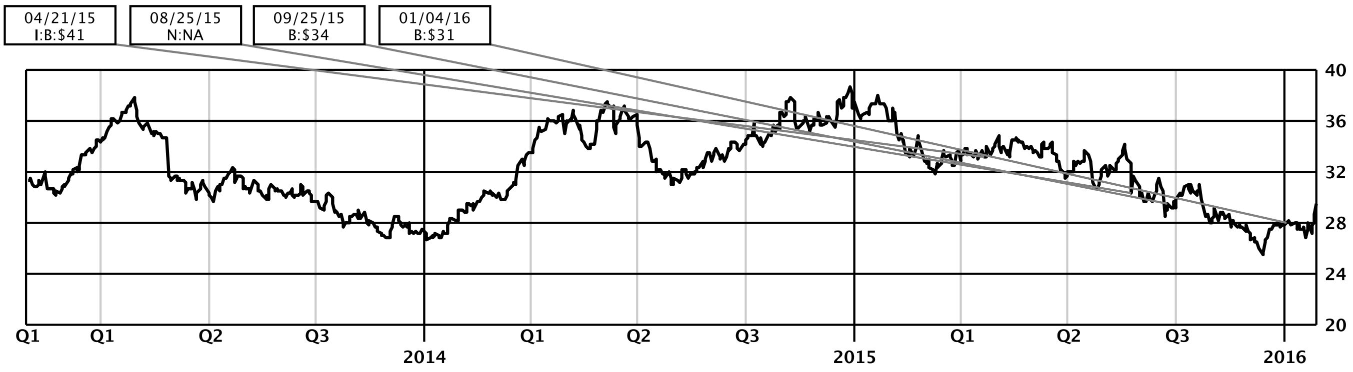
Rating and Price Target History for: Exelon Corporation (EXC) as of 01-29-2016



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			IB Serv./ Past 12Mos.	
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Neutral	110	38.06%	3	2.73%
Sell	0	0.00%	0	0.00%

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Deutsche Bank
Markets Research

North America
United States
Industrials
Utilities and Power

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Utilities & Power

Date
2 February 2016

Industry Update

DB Utilities & Power Access - Four Upcoming Events

Four upcoming DB Utilities & Power corporate access events

We wanted to highlight four upcoming DB Utilities & Power Corporate Access Events in one place in case you have missed them. All of these events will be on a request basis and interest should be expressed to your DB Sales contact or to our team directly.

February 11 – Long-Term Power Forecasts with SNL's Steve Piper

On February 11 we will be hosting a client lunch in New York with Steve Piper, Director of Energy Research at SNL Energy. Mr. Piper manages strategic research and forecasting for SNL Energy's clients and was previously managing director of Power Forecasting at Platts. We look forward to hearing perspectives on power, gas and coal pricing fundamentals in context of SNL's most recent quarterly forecast update released in January.

March 29-30 – Texas Power Field Trip

- Austin on 3/29: PUCT (Chairman Nelson, Commissioner Anderson), ERCOT (TBC), Stratus Energy
- Houston on 3/30: Calpine (CPN), Dynegy (DYN), NRG Energy (NRG), Navasota (independent developer)

Our Texas agenda is still being finalized but we will begin in Austin late morning on March 29 and finish in Houston on the afternoon of March 30. Look for full details shortly and in the meantime interested clients can express interest directly via email to Jonathan Arnold (jonathan.arnold@db.com) or Abe Azar (abe.azar@db.com).

April 4-6 – California Utilities & Power Field Trip

- San Diego on 4/4: Sempra Energy (SRE)
- Los Angeles and San Francisco on 4/5: Edison International (EIX), CPUC (President Picker, Commissioner Florio), dinner with Sunrun (RUN)
- San Francisco on 4/6: PG&E Corp. (PCG), Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN).

May 9-10 – DB Clean Tech, Utilities & Power Conference

Lastly, we will shortly go live with invitations to our 2016 Clean Tech, Utilities & Power Conference which this year will be held at the Park Plaza Hotel in New York City on May 9-10. The format will be one-on-ones and small group meetings with panel discussions planned for the lunch hours on both days. Look for further details and registration in your inbox over the coming days.

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Focus stocks

Exelon (EXC.N),USD30.00 Buy Price Target USD35.00
Calpine (CPN.N),USD15.26 Hold Price Target USD18.00
Dynegy Inc. (DYN.N),USD11.93 Buy Price Target USD21.00
NRG Energy (NRG.N),USD10.71 Buy Price Target USD18.00
Talen Energy (TLN.N),USD7.06 Hold Price Target USD7.00
PG&E Corp (PCG.N),USD55.46 Hold Price Target USD58.50
Edison International (EIX.N),USD62.23 Buy Price Target USD65.00

Source: Deutsche Bank

Exelon

(EXC-NYSE)

Rating: **Market Perform**
Target Price: **$32.00** **Total Return: 5%**
Price (3-Feb): **$31.61**

February 3, 2016

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Boosts Dividend 2.5%; POM Deal Still in Question

Event

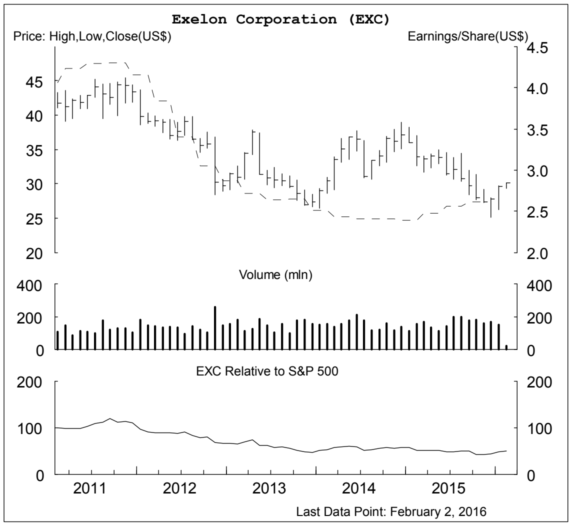
Exelon reported 4Q15 operating EPS of $0.38 versus $0.48 in 4Q14. 2015 EPS of $2.49 fell short of our and consensus estimates of $2.52. EPS for EXC's three utilities were flat in 4Q15 versus 4Q14 at $0.26, reflecting rate increases at BGE that were offset by unfavorable weather at PECO and ComEd. ExGen's 4Q15 EPS declined $0.12 to $0.27 largely due to nuclear refueling outages, increased costs from the timing of nuclear projects, and higher depreciation. ExGen gross margin guidance for 2016 was unchanged at $7,800 million, while 2017/18 guidance was revised higher by $50 million each year to $7,850 million/$7,900 million.

Impact & Analysis

EXC introduced 2016 operating EPS guidance of $2.40-$2.70, driven primarily by rate increases at both PECO and ComEd, offset by higher O&M at BGE and lower earnings at ExGen due to normalized load margins and higher decommissioning costs. Management announced a 2.5% annual increase in the dividend for the next three years beginning in June; it remains committed to fully funding the dividend from regulated utility earnings by 2018 with a minimum payout of 65%-70%. EXC reiterated its intent to withdraw its offer to acquire POM if it does not receive approval from the DC Commission by 3/4/16, and it then would begin the process of debt reduction (~$1.9 billion) and equity buybacks (~$1.6 billion) related to pre-financing the deal. EXC continues to evaluate the viability of its nuclear assets in Illinois and indicated that despite the support from capacity prices in PJM, weak power prices have put Quad Cities out of the money, while Clinton remains cash flow/earnings negative. EXC will work with state legislators this spring, but indicated that it remains committed to shutting down troubled plants if a solution is not found.

Valuation & Recommendation

We are raising our 2016/17 EPS estimates to $2.57 and $2.64 from $2.52 and $2.61 as we update our model for current forwards and updated hedging disclosures. We maintain our Market Perform rating and $32 SOTP price target, based on a 15x 2017E P/E for the regulated utilities and 8x 2017E EV/EBITDA multiple for ExGen.



(FY-Dec.)	2014A	2015A	2016E	2017E
EPS	$2.39	$2.49	$2.57↑	$2.64↑
P/E			12.3x	12.0x
CFPS	- $0.16	- $2.18	- $2.13↓	- $1.84
P/CFPS			na	na
Rev. ($mm)	$27,429	$22,090	$22,519	$23,358
EV ($mm)	$42,084	$46,850	$52,981	$56,528
EBITDA ($mm)	$5,865	$6,758	$7,325	$7,720
EV/EBITDA	7.2x	6.9x	7.2x	7.3x

Quarterly EPS	Q1	Q2	Q3	Q4
2014A	$0.62	$0.51	$0.78	$0.48
2015A	$0.71	$0.59	$0.83	$0.38
2016E	na	na	na	na

Dividend	$1.24	**Yield**	3.9%
Book Value	$25.51	**Price/Book**	1.2x
Shares O/S (mm)	861.0	**Mkt. Cap (mm)**	$27,216
Float O/S (mm)	855.5	**Float Cap (mm)**	$27,042
Wkly Vol (000s)	37,445	**Wkly $ Vol (mm)**	$1,166
Net Debt ($mm)	$18,039	**Next Rep. Date**	na

Notes: All values in US$
First Call Mean Estimates: EXELON CORP (US$) 2015E: $2.53; 2016E: $2.52; 2017E: $2.64

Changes	**Annual EPS**	**Annual CFPS**
	2016E $2.52 to $2.57 2017E $2.61 to $2.64	2016E -$1.40 to -$2.13 2017E na to -$1.84

Please refer to pages 5 to 8 for Important Disclosures, including the Analyst's Certification.

Key Takeaways From the Conference Call

- EXC reaffirmed its 3-5% EPS growth expectations through 2018, including 7-9% growth at the utilities.
- While its Constellation business recorded higher realized margins in 2015, reflecting lower cost to serve and strong performance of the generation fleet, EXC expects this business's cost to serve and portfolio management to normalize in 2016.
- ExGen earnings will decline in 2016 due to more normalized margins and higher decommissioning costs, which will be only partially offset by fewer planned nuclear refueling outages and cost management improvements. The cost management reductions will likely offset inflationary pressures.
- Bonus depreciation will have a negative $0.09 per share impact on earnings in 2016, including $0.06/share at ExGen and $0.03/share at ComEd. Should the acquisition of POM be approved, it is likely that bonus depreciation will have a further negative impact in 2016. Cash flow, however, is estimated to improve by some $625 million in 2016.
- ExGen's free cash flow over the 2016-18 period is now estimated at $5.35 billion; $3.2 billion after growth capex.
- Cost management initiatives are expected to produce $0.13-$0.18 per share of benefits beginning in 2018. EXC expects that about 35%, or $0.04-$0.06/share of savings, could be achieved by year-end 2016.

Exhibit 1: 2015 Actual Results vs. 2016 EXC Guidance and BMO Estimates (US$/share)

	2015 Actual	2016 Guidance	BMO 2016 Estimates
BGE	$0.31	$0.25-$0.35	$0.31
PECO	$0.43	$0.40-$0.50	$0.46
ComEd	$0.48	$0.50-$0.60	$0.55
ExGen	$1.40	$1.25-$1.35	$1.30
HoldCo	-$0.13	-$0.05	-$0.05
Consolidated EXC	**$2.49**	**$2.40-$2.70**	**$2.57**

Source: BMO Capital Markets estimates, company data

Primary drivers for 2016 estimated earnings include:

- **BGE**: higher O&M expenses for storms and bad debt, partially offset by higher distribution rates
- **PECO**: higher distribution rates, partially offset by higher O&M expenses for storms and bad debt
- **ComEd**: increased capital investments in transmission and distribution
- **ExGen**: normalized load optimization in 2016

Companies mentioned (priced as of the close on February 3, 2016):

Pepco Holdings Inc. (POM, $26.64, Not Rated)

Income Statement	**2014**	**2015E**	**2016E**	**2017E**
Revenues	$27,429	$22,090	$22,519	$23,358
Fuel and purchased power	-$13,003	-$6,634	-$6,359	-$6,690
Operating, maintenance and other	-$9,722	-$9,861	-$10,016	-$10,140
Restructuring, Other etc.	$0	$0	$0	$0
EBITDA	**$5,865**	**$6,758**	**$7,325**	**$7,720**
Depreciation and amortization	-$2,314	-$2,413	-$2,605	-$2,798
EBIT	**$3,551**	**$4,345**	**$4,721**	**$4,922**
Equity in earnings of affiliates	$706	$706	$706	$706
Interest income & Other	$0	$8	$23	$33
Interest expense	-$1,065	-$1,216	-$1,452	-$1,554
Other income/(expense)	$455	$449	$452	$454
EBT	**$2,486**	**$3,129**	**$3,268**	**$3,368**
Income tax expense	-$666	-$837	-$891	-$925
Income from continuing ops.	**$1,820**	**$2,292**	**$2,378**	**$2,443**
Extraordinary items – net of tax	$0	$0	$0	$0
Discontinued operations – net of tax	$0	$0	$0	$0
Dividends on preferred stock	$0	$0	$0	$0
Minority interest	-$197	-$12	-$12	-$12
Net Income	**$1,623**	**$2,280**	**$2,366**	**$2,431**
Average shares outstanding (diluted)	864	900	921	921
GAAP Reported EPS (diluted)	**$1.88**	**$2.53**	**$2.57**	**$2.64**
Reconciliation to adjusted earnings/diluted share	$0.52	$0.00	$0.00	$0.00
EPS (ongoing)	**$2.39**	**$2.53**	**$2.57**	**$2.64**
EPS (Consensus)			**$2.52**	**$2.64**

Stock Data	**2014**	**2015E**	**2016E**	**2017E**
Year-end/Latest stock price	$37.08	$27.77	$30.14	$30.14
Year-end/Latest shares o/s (mm)	864.0	899.8	921.3	921.3
Year-end/Latest market cap. ($ mm)	$32,037	$24,987	$27,769	$27,769
Book value per share	$27.93	$29.62	$30.00	$30.64
Dividend per share	$1.24	$1.24	$1.26	$1.29
Dividend payout ratio	51.8%	48.9%	49.2%	49.1%
Dividend yield	3.34%	4.47%	4.19%	4.30%
% Regulated ongoing income	20%	20%	21%	22%
FCF (after div.)	-$1,207	-$3,074	-$3,109	-$2,848
FCF/share	-$0.16	-$2.18	-$2.13	-$1.84
FCF yield	-0.44%	-7.86%	-7.07%	-6.09%

Leverage Ratios	**2014**	**2015E**	**2016E**	**2017E**
Coverage ratios				
Interest coverage	1.9x	1.9x	1.6x	1.6x
EBIT interest coverage	3.3x	3.6x	3.3x	3.2x
EBITDA interest coverage	5.5x	5.6x	5.0x	5.0x
Debt service coverage	0.6x	0.6x	0.4x	0.3x
Leverage ratios				
Net debt to EBITDA	3.4x	3.2x	3.4x	3.7x
Total debt to EBITDA	3.8x	4.2x	4.4x	4.3x

Cash Flow Statement	**2014**	**2015E**	**2016E**	**2017E**
Net income	$1,820	$2,292	$2,378	$2,443
Depreciation and amortization	$3,868	$2,413	$2,605	$2,798
Changes in working capital	-$1,231	$103	$128	-$6
Cash flow from operations	**$4,457**	**$4,808**	**$5,110**	**$5,235**
Capital expense (net of asset sales)	-$4,599	-$6,772	-$7,074	-$6,926
Cash flow from investing	**-$4,599**	**-$6,772**	**-$7,074**	**-$6,926**
Common stock	$0	$2,013	$0	$0
Dividends paid	-$1,065	-$1,110	-$1,145	-$1,157
Net debt borrowal/(repayment)[1]	$2,040	$5,765	$4,220	$740
Other financings	-$564	-$541	-$228	-$688
Cash flow from financing	**$411**	**$6,126**	**$2,847**	**-$1,105**
Net cash flow	**$269**	**$4,162**	**$883**	**-$2,796**

EPS and EBITDA Summary	**2014**	**2015E**	**2016E**	**2017E**
Ongoing EPS				
Comed	$0.47	$0.52	$0.55	$0.57
PECO	$0.41	$0.43	$0.46	$0.48
BGE	$0.23	$0.30	$0.31	$0.33
Exelon Generation	$1.34	$1.39	$1.30	$1.31
Corporate/Other	-$0.06	-$0.10	-$0.05	-$0.05
Consolidated Ongoing EPS	**$2.39**	**$2.53**	**$2.57**	**$2.64**
EBITDA				
Comed	$1,684	$1,809	$1,988	$2,147
PECO	$815	$869	$950	$1,003
BGE	$828	$976	$1,034	$1,089
Exelon Generation	$2,549	$2,908	$3,001	$3,143
Corporate/Other	-$11	$196	$353	$339
Consolidated EBITDA	**$5,865**	**$6,758**	**$7,325**	**$7,720**

Balance Sheet	**2014**	**2015E**	**2016E**	**2017E**
Assets				
Cash and cash equivalents	$2,149	$6,311	$7,183	$4,375
Accounts receivable	$4,709	$4,709	$4,709	$4,709
Inventories	$1,603	$1,603	$1,603	$1,603
Other current assets	$3,636	$3,636	$3,636	$3,636
Total current assets	**$12,097**	**$16,259**	**$17,131**	**$14,323**
Net fixed assets	$52,087	$56,343	$60,684	$64,818
Intangibles & other assets	$22,630	$22,630	$22,630	$22,630
Total assets	**$86,814**	**$95,232**	**$100,445**	**$101,771**
Liabilities				
Accounts payable	$3,056	$3,056	$3,056	$3,056
Short-term debt	$2,262	$2,827	$4,777	$5,617
Other current liabilities	$3,444	$3,444	$3,444	$3,444
Total current liabilities	**$8,762**	**$9,327**	**$11,277**	**$12,117**
Long-term debt	$20,010	$25,348	$27,618	$27,518
Deferred credits & other liabilities	$33,909	$33,909	$33,909	$33,909
Total long-term liabilities	**$53,919**	**$59,257**	**$61,527**	**$61,427**
Stockholders' equity	**$24,133**	**$26,649**	**$27,641**	**$28,228**
Preferred stock	$0	$0	$0	$0
Total common equity	$24,133	$26,649	$27,641	$28,228
Total liabilities	**$86,814**	**$95,232**	**$100,445**	**$101,771**

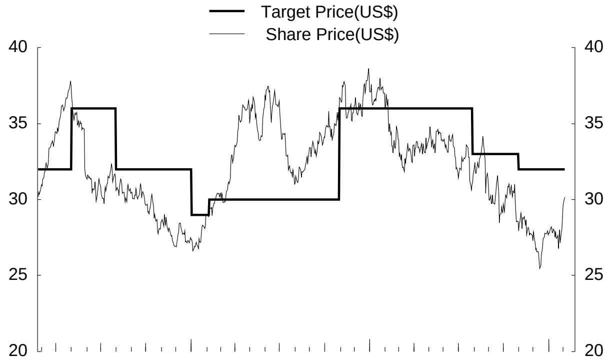
Valuation & Other Metrics	**2014**	**2015E**	**2016E**	**2017E**
P/E	15.5x	11.0x	11.7x	11.4x
P/E - discount(-)/premium(+) to peer group		-30%	-27%	-25%
P/E - discount(-)/premium(+) to industry		-33%	-28%	-27%
EV/EBITDA	8.9x	6.9x	7.2x	7.3x
Price/Book value	1.3x	0.9x	1.0x	1.0x
ROE	7.5%	8.6%	8.6%	8.7%
ROA	2.1%	2.4%	2.4%	2.4%
ROIC	3.9%	4.2%	4.0%	4.0%

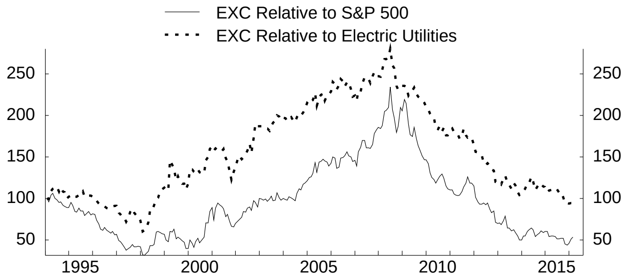
Capital Structure	**2014**	**2015E**	**2016E**	**2017E**
Total Debt (excl. securitized debt)	48.0%	51.4%	54.0%	54.0%
Total debt	48.0%	51.4%	54.0%	54.0%
Long-term debt	43.1%	46.2%	46.0%	44.8%
Short-term debt	4.9%	5.2%	8.0%	9.2%
Securitized debt	0.0%	0.0%	0.0%	0.0%
Preferred	0.0%	0.0%	0.0%	0.0%
Adjusted Equity	52.0%	48.6%	46.0%	46.0%

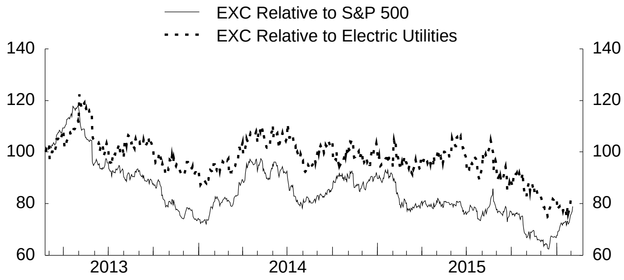
Source: Company data and BMO Capital Markets estimates. Note: 1 Debt includes securitized debt, if any. 2 All figures in $ million except per share.

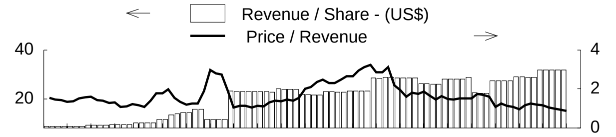
Note: 2015 financials not updated pending release of 2015 10-K

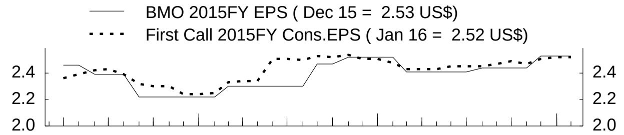
Exelon Corporation (EXC)

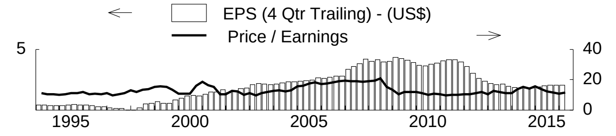


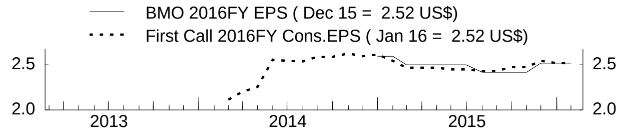












FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1994	1.21	12.9	9.8	0.77	6.5	5.0	64	9.7	1.6	1.2	
1995	1.27	12.0	9.3	0.83	7.0	5.5	65	10.2	1.5	1.2	13
1996	1.17	13.9	9.6	0.88	7.8	5.4	75	10.4	1.6	1.1	11
1997	0.63	20.9	14.9	0.90	9.6	6.8	>100	6.1	2.2	1.5	8
1998	1.33	15.9	7.1	0.50	5.3	2.4	38	6.8	3.1	1.4	20
1999	1.59	15.9	9.7	0.50	3.3	2.0	31	4.9	5.2	3.1	27
2000	1.90	18.7	8.4	0.50	3.1	1.4	26	11.3	3.1	1.4	23
2001	2.25	15.8	8.6	0.91	4.7	2.6	41	12.8	2.8	1.5	19
2002	2.42	11.8	7.8	0.88	4.6	3.1	36	12.0	2.4	1.6	19
2003	2.61	12.8	8.8	0.96	4.2	2.9	37	13.0	2.6	1.8	21
2004	2.77	16.2	11.1	1.26	4.1	2.8	45	14.1	3.2	2.2	20
2005	3.09	18.6	13.2	1.60	3.9	2.8	52	13.7	4.2	3.0	22
2006	3.22	19.8	15.9	1.60	3.1	2.5	50	14.9	4.3	3.4	23
2007	4.32	20.1	13.6	1.76	3.0	2.0	41	15.3	5.7	3.8	29
2008	4.20	21.9	9.8	2.03	4.9	2.2	48	16.8	5.5	2.5	26
2009	4.12	14.3	9.3	2.10	5.5	3.6	51	19.2	3.1	2.0	23
2010	4.06	12.8	0.0	2.10	2.1E6	4.0	52	20.5	2.5	0.0	20
2011	4.16	10.9	9.4	2.10	5.4	4.6	50	21.7	2.1	1.8	20
2012	2.85	15.6	10.0	2.10	7.4	4.7	74	25.1	1.8	1.1	12
2013	2.50	15.1	10.7	1.24	4.7	3.3	50	26.5	1.4	1.0	10
2014	2.39	16.3	11.1	1.24	4.7	3.2	52	26.3	1.5	1.0	9
Range*:		21.9	0.0		>100	1.4			5.7	0.0	
Current*	2.61	11.3		1.24	4.2		48	25.5	1.2		10
Growth(%):											
5 Year:	-8.5			-10.0				5.9			
10 Year:	-1.7			-2.5				6.4			
20 Year:	3.7			2.1				4.7			

EXC - Rating as of 12-Mar-09 = Mkt

* Current EPS is the 4 Quarter Trailing to Q3/2015.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (February 2, 2016): $30.14
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation

Methodology: Our valuation is based on a 15x 2017E P/E for the regulated utilities and 8x 2017E EV/EBITDA multiple for ExGen.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Distribution of Ratings (December 31, 2015)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	20.9%	53.7%	44.1%	53.8%	55.6%
Hold	Market Perform	54.6%	13.5%	45.1%	52.3%	45.6%	39.4%
Sell	Underperform	3.4%	5.9%	1.2%	3.6%	0.5%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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Und = Underperform - Forecast to underperform the analyst’s coverage universe on a total return basis
(S) = speculative investment;
NR = No rating at this time;
R = Restricted – Dissemination of research is currently restricted.

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February 3, 2016

WELLS FARGO SECURITIES

Equity Research

Exelon Corporation

EXC: Attractive Value Play--Reiterate Outperform

- **Summary.** We reiterate our Outperform rating and increase our 12-18 month valuation range to $37-39/sh from $32-34/sh to reflect both positive adjustments to our utility EPS outlook and higher peer group multiples. We are adjusting our 16-18E EPS to/from $2.55/$2.62, $2.75/$2.77 & $3.00/$2.85 (our outlook includes POM). We continue to believe EXC shares offer one of the more compelling risk/reward opportunities in the electric universe. On a P/E basis, shares trade at 25-30% discounts to the universe on our 16-18E EPS. While EXC's risk profile is higher than the peer group given power market exposure, we believe the discount reflects too much pessimism around the prospects and value of the company's nuclear fleet. On a present value (PV) basis, we believe EXC is worth $36-37/sh - or 15-20% higher than the current share price – comprised of $26/sh for Utility/Parent and $10-11/sh for ExGen.

- **Valuation Assumptions.** Key assumptions underlying our PV estimate of $36-37/sh. (1) Utility/Parent: we apply a P/E multiple of 15.5X to our 18E EPS of $1.67 to arrive at a PV of $26/sh – we use our 18E EPS because that is the first year when we believe POM will begin to meaningfully add to EXC's EPS (POM is estimated to be $0.20-0.25 accretive to our Utility/Parent EPS and $0.12 accretive to consolidated EPS). (2) ExGen: our $10-11/sh is based on a DCF methodology that contemplates an average remaining life for the nuclear fleet of 20-25 years and average cash flow generation of $1.5B (assuming $1B of non-growth related capex).

- **The Nuclear Question.** While the POM acquisition continues to be a lingering issue (with an estimated valuation implication of $2/sh), we think EXC's potential upside case largely rests on investors' perception of the nuclear fleet's value. Our positive rating is largely predicated on our belief that (the high majority of) ExGen's nuclear fleet would be afforded sufficient revenues either via energy, capacity or some other type of payments to allow the units to remain in service well into the 2030's. At this point, we do not buy into the notion that a combination of renewables/battery storage would begin to force baseload nuclear off the grid within the next 10 years - which we believe is what the current share price embeds.

- **Other Updates.** EXC's Board approved 2.5% annual dividend increases over the next three years beginning with the June payment. In addition, management initiated 2016 EPS guidance of $2.40-2.70 (excl. POM) and affirmed the 3-5% annual growth rate during the period 2016-18 despite headwinds from bonus depreciation. We lowered our 16E & 17E, which largely reflects the impact of bonus depreciation. Our higher 18E EPS reflects a positive reassessment of Utility earnings power after updating our model.

Valuation Range: $37.00 to $39.00 from $32.00 to $34.00

Our $37-39/sh valuation range is premised on a sum-of-the-parts analysis (1) Utility & Parent value of $27/sh (based on a P/E multiple of 16.0-16.5X our 2018E of $1.67) and (2) $10-11/sh for ExGen using a DCF analysis. Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

Investment Thesis:

Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

Please see page 3 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 02/03/16 unless otherwise stated.

Outperform

Sector: Diversified Electric Utilities
Market Weight

Earnings Estimate Revised Down

	2015A	2016E		2017E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	$0.71	$0.65		NE	NE
Q2 (June)	0.59	0.60		NE	NE
Q3 (Sep.)	0.83	0.75		NE	NE
Q4 (Dec.)	0.38	0.55		NE	NE
FY	$2.49	**$2.55**	**2.62**	$2.75	2.77
CY	$2.49	$2.55		$2.75	
FY P/EPS	12.6x	12.3x		11.4x	
Rev.(MM)	$27,429	$20,668		$21,075	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ⚑ *= Company is on the Priority Stock List*

Ticker	EXC
Price (02/03/2016)	$31.39
52-Week Range:	$25-37
Shares Outstanding: (MM)	861.2
Market Cap.: (MM)	$27,033.9
S&P 500:	1,907.74
Avg. Daily Vol.:	7,624,870
Dividend/Yield:	$1.24/4.0%
LT Debt: (MM)	$22,786.0
LT Debt/Total Cap.:	46.9%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	4.0%
CY 2016 Est. P/EPS-to-Growth:	3.1x
Last Reporting Date:	02/03/2016 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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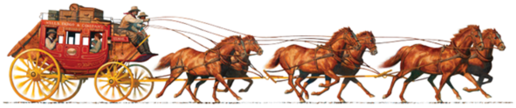
Together we'll go far

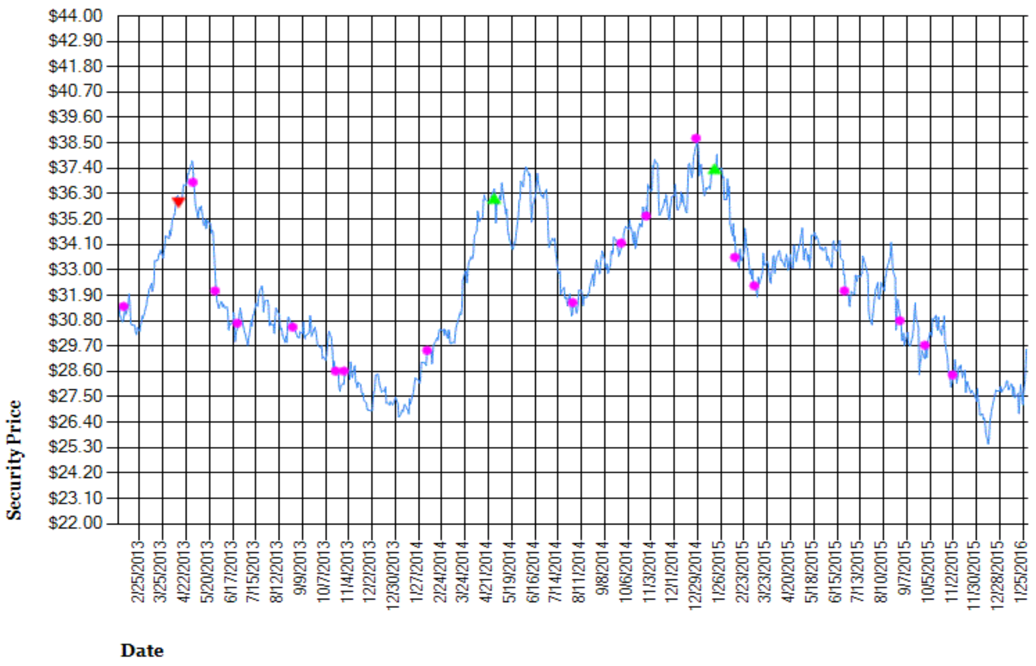


Company Description:

Exelon Corporation was formed in October 2000 through the merger of Unicom, which was the parent company of Commonwealth Edison (ComEd) and PECO Energy (PECO). The company's business segments include independent power production (Exelon Generation) and Energy Delivery (ComEd and PECO). Exelon Generation owns approximately 25,000 MW of unregulated electric generating capacity, primarily located in Illinois and Pennsylvania. The company's 17,000 MW nuclear fleet is the largest in the nation. Generation currently accounts for approximately 70% of EXC's overall earnings. The Energy Delivery businesses serve roughly 3.8 million electric distribution customers in Northern Illinois (ComEd) and approximately 1.6 million electric and 0.5 million natural gas distribution customers in Southeastern Pennsylvania (PECO).

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	1/30/2013		Kalton			
	1/30/2013	NA	2	30.00	31.00	31.25
●	2/7/2013	31.39	2	31.00	32.00	31.37
▼●	4/15/2013	36.22	3	31.00	32.00	35.84
●	5/1/2013	36.75	3	32.00	33.00	36.75
●	5/28/2013	34.65	3	29.00	30.00	32.04
●	6/24/2013	30.30	3	26.00	27.00	30.62
●	8/30/2013	30.49	3	25.00	26.00	30.49
●	10/21/2013	28.58	3	23.00	24.00	28.58
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade
▲	Rating Upgrade
●	Valuation Range Change
◆	Initiation, Resumption, Drop or Suspend
■	Analyst Change
☐	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

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1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 3, 2016

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KeyBanc Capital Markets

Alert
February 3, 2016
ENERGY: Electric Utilities
NYSE: EXC

Exelon Corporation (Sector Weight)

EXC - ALERT: 4Q15 Results/Guidance in Line, Dividend Growth Announced

Paul T. Ridzon / (216) 689-0270 / pridzon@key.com
John Barta / (216) 689-3386 / john_j_barta@key.com

Key Investment Points

February 2, 2016 Close: $30.14

4Q15 Ongoing EPS: $0.38 vs. $0.48 in 4Q14 / Consensus of $0.38/ KBCM of $0.35

Initial Take: We expect a neutral to positive response to in line 4Q results and 2016 guidance aligned with expectations, bolstered by a commitment to 2.5% dividend hikes for the next three years. We note 4Q results include a tax benefit, which could dampen views.

2015 KBCM EPS Estimate: $2.50 (Consensus: $2.51)

2016 KBCM EPS Estimate: $2.55 (Consensus: $2.53)

Guidance: The Company initiated full-year EPS guidance in the range of $2.40-$2.70 with 1Q16 guidance of $0.60-$0.70 per share vs. expectations and 1Q15 of $0.71.

Highlights:

- Results were in line with consensus expectations, and above our estimate. Relative to our estimate, PECO and Generation results were higher than our forecast. Generation results include a $0.04 benefit from settling tax positions.
- Generation segment ongoing earnings fell ($0.15 vs. $0.27 million) due to project timing (-$0.03), higher outage days (-$0.05) and higher depreciation (-$0.02), a tax settlement (+$0.04), higher shares (-$0.02) and other (-$0.04).
  - EXC Generation is substantially hedged for 2016 at 90-93%, 60-63% hedged in 2017 and 28-31% hedged in 2018.
- ComEd ongoing results were flat ($0.09 million vs. $0.09 million) from the impact of mild weather (-$0.02) and increased rate base (+$0.02). Heating degree days fell 26.8% compared to 4Q14 and were 25.1% below normal. Deliveries fell 4.9%. Weather normalized deliveries fell 2.2%.
- PECO ongoing results fell ($0.09 vs. $0.11), primarily due to weather (-$0.03) partly offset by lower uncollectibles (+$0.01). Electric deliveries fell 5.9% (rose 0.2% on a weather normalized basis). Gas deliveries fell 22.8% (up 1.6% on a weather normalized basis) on higher transport volumes. HDDs were down 34.5% vs. the prior year and were 39.9% below normal.
- BGE earnings rose ($0.08 vs. $0.06 in the prior year) due to increased rates and transmission earnings. BGE has revenue decoupling, so weather minimally impacts earnings.

11:00 a.m. ET Conference Call #: (800) 690-3108 ID#: 97958810

We will be focused on:

- Nuclear plant subsidization.
- Commentary around POM acquisition and approvals.
- Cost cutting opportunities.
- Outlook for nuclear assets.

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

Disclosure Appendix

Exelon Corporation - EXC

We have managed or co-managed a public offering of securities for Exelon Corporation within the past 12 months.

Exelon Corporation is an investment banking client of ours.

We have received compensation for investment banking services from Exelon Corporation during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

During the past 12 months, Exelon Corporation has been a client of the firm or its affiliates for non-securities related services.

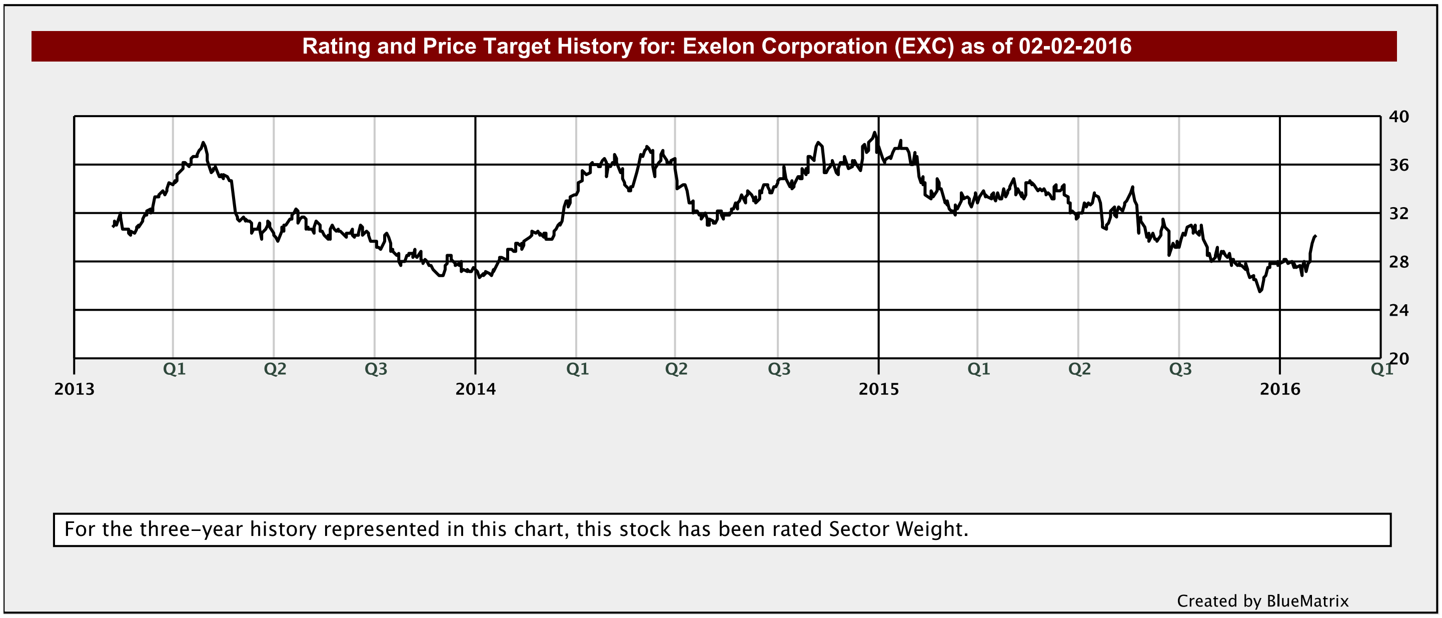
As of the date of this report, we make a market in Exelon Corporation.

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three-Year Rating and Price Target History


Rating and Price Target History for: Exelon Corporation (EXC) as of 02-02-2016

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets					**ENERGY**				
			IB Serv/Past 12 Mos.					**IB Serv/Past 12 Mos.**	
Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**Count**	**Percent**	**Count**	**Percent**
Overweight [OW]	343	45.49	70	20.41	**Overweight [OW]**	42	45.16	19	45.24
Sector Weight [SW]	402	53.32	63	15.67	**Sector Weight [SW]**	51	54.84	22	43.14
Underweight [UW]	9	1.19	0	0.00	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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Exelon Corporation

EXC – BUY – Re-sized, Re-focused and Returning Capital – Raising Price Target

February 3, 2016

EXC refocuses on regulated utilities, shrinking balance sheet, and announcing a return to dividend growth. EXC's strategic focus reflects a more disciplined approach to its capital and balance sheet – inflection point we were looking for. We believe this shift in strategy will provide investors with more confidence that EXC will not make value destructive acquisitions/moves (i.e., not growing Genco). Focus is on regulated growth, shrinking the balance sheet, and returning capital to shareholders – optimal strategy, in our view, in light of the current structural changes going on in de-regulated power markets.

In-line quarter; healthy outlook. EXC reported 4Q operating EPS of $0.38, slightly higher than our $0.37 estimate and slightly below consensus of $0.41. EXC introduced a 2016 guidance range of $2.40-$2.70 versus our prior estimate of $2.51 (now $2.52). Our increased '17 and '18 EPS estimates of $2.69 and $2.87 reflect updates to hedges. We are raising our price target to $37 from $31 and reiterating our BUY rating – our higher valuation includes updated hedges and less financial leverage.

Refocusing on utilities to support dividend growth strategy. With strong performance and continued utility growth, the board approved a 2.5% dividend increase. EXC is targeting a 65-70% payout ratio by 2018 at the utilities. Post-2018, we believe the dividend could potentially grow in-step with consolidated earnings growth of 3-5% as there continues to be growing regulated investment and material free cash flow generation somewhat helped by extension of bonus depreciation, lean initiatives, etc. Our updated dividend estimates for '16/'17/'18 is $1.26/$1.29/$1.32, respectively.

Shrinking the balance sheet, showing financial discipline …*starting* to follow suit with best-in-class? We believe that EXC has adopted a more conservative strategy in deploying capital to de-lever and strengthen/shrink ExGen's balance sheet. As we highlighted in our IPP launch (see here), balance sheet discipline matters – even more for Genco's with high sensitivities to nat gas. EXC's new strategy is working towards PEG's (BUY, $42.15) "tried-and-true" conservative balance sheet strategy, as illustrated by FFO/debt and net Debt/EBITDA metric projections. For EXC, we now estimate 3.4x, 3.3x, and 2.8x net debt/EBITDA and 36%, 38%, and 43% FFO/debt for 2016-2018. For reference purposes, best-in-class PEG remains at 1.9x, 2.0x, and 2.1x net debt/EBITDA and 36%, 33%, and 32% FFO/debt for 2016E-2018E. As EXC plans to retire $3.6B of debt at ExGen over the next five years, coupled with potential upside from Illinois and New York clean carbon programs, we expect credit metrics to further improve NT – policy shifting more favorable.

Continued on page 2...

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EXC BUY

EARNINGS RELEASE

Investment Thesis: Value

SHARE PRICE $31.61
PRICE TARGET $37.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2016	0.72E	0.58E	0.68E	0.54E	2.52E
Prior	*0.77E*	*0.59E*	*0.61E*	—	*2.51E*
P/E					12.5x
2017	0.78E	0.57E	0.69E	0.65E	2.69E
Prior	*0.75E*	*0.55E*	*0.68E*	*0.63E*	*2.61E*
P/E					11.8x
2018	0.84E	0.66E	0.70E	0.68E	2.87E
Prior	*0.83E*	*0.65E*	—	*0.67E*	*2.85E*
P/E					11.0x

Market Data	
Price	$31.61
52-Week Range	$25.09 - $36.99
Market Cap (M)	$29,067
ADV (3 mo; 000)	7,921

Nuclear lifeline in IL - NT execution is key. We believe execution on the Low Carbon Portfolio Standard (LCPS) and reforming MISO's capacity market will be necessary to keep economically strained nukes (Clinton, Quad Cities, and Byron) running. EXC has been actively engaging stakeholders to come up with a package resolution for IL's energy outlook (green jobs, utility of the future, and carbon credits for nuclear) to present to the legislature this spring. In our view, the IL legislature will come to a compromise and pass LCPS, but it could take time. While PJM's capacity prices provided uplift, Quad Cities is back out of the money given decline in power prices; the upcoming PJM capacity auction in May could be critical. Clinton, in our view, is more at risk to retire as its cash flow and earnings are negative, and we do not expect MISO capacity market reform (if passed) to become effective until the '17/'18 auction.

Brighter outlook for nuclear in upstate NY. The NY PSC created the zero-emission credit program that gives carbon credits to serve as a "bridge" to the state's 50% renewables by 2030 plan. Under the current RSSA, Ginna's revenues will be capped at $510mm and no less than $425mm in aggregate and is also entitled to 30% of revenues from NY energy and capacity markets. Ginna's RSSA will expire on March 30 2017, so details on compensation for this program will need to be worked out in next 3-4 months. The PSC will develop a framework by June on how utilities could be required to procure a share of zero emission credits to support nuclear units starting as soon as 2017.

POM decision from DC Commission in NT. The DC Commission will make a decision before March 4, and could hold a special meeting outside of the scheduled meetings in February to announce their decision. The DC Commission could announce a special meeting on 48 hours' notice anytime in February. If the deal is not approved, EXC has immediate contingency plans to buy back its 57.5mm shares within the first five months (management estimates a total $0.07 drag on 2016 EPS). Given the settlement terms, we believe the DC Commission will approve the merger this month.

Valuation

Our $37 price target is based on a sum-of-the-parts analysis. We assign ~$18/share for ExGen using a 7.1x weighted average EV/EBITDA applied to ExGen's various assets. We assign $23/share for the regulated utilities combined based on our 2018E EPS of $1.56 applied to a 14.5x regulated utility multiple. Subtracting out ~$2 in parent drag, we then apply a one-year discount to arrive at our 12-month price target.

Risks

Commodity price risk: If natural gas prices fall (rise), wholesale power prices will likely fall (rise), limiting (raising) Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM. The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower CapEx outlook, and (3) interest rate changes above what we account for in our regression model.

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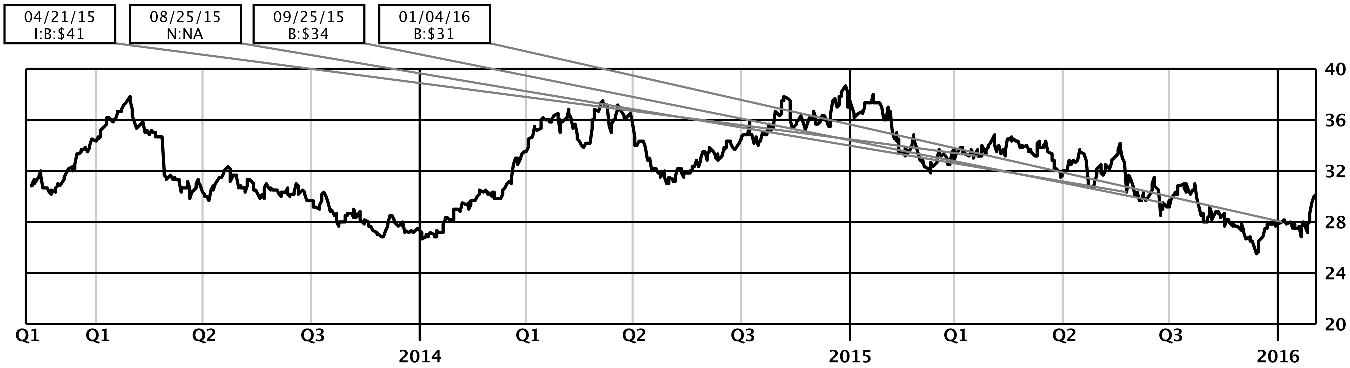
Rating and Price Target History for: Exelon Corporation (EXC) as of 02-02-2016



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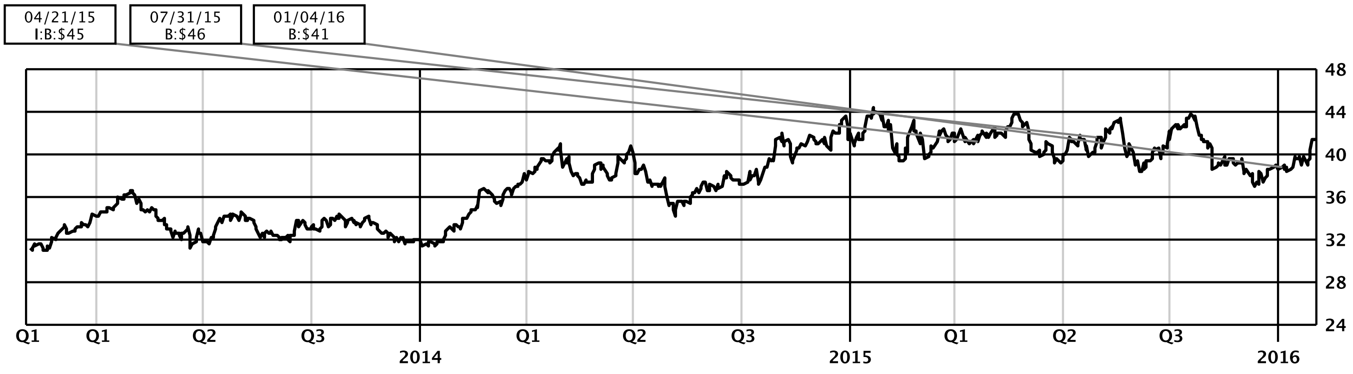
Rating and Price Target History for: Public Service Enterprise Group Inc. (PEG) as of 02-02-2016



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

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Neutral	111	38.41%	3	2.70%
Sell	0	0.00%	0	0.00%

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Exelon

4Q15 in line with Street; set to annually raise the dividend by 2.5%

Reiterate Rating: NEUTRAL | PO: 32.00 USD | Price: 31.61 USD

Bank of America Merrill Lynch

Equity | 03 February 2016

Exelon meets on 4Q15 EPS; FY16 EPS guidance of $2.55

Exelon reported 4Q15 ongoing EPS of $0.38, below our estimate of $0.41 and in line with consensus expectations. The company also set expectations for FY16 with EPS guidance between $2.40-2.70. In addition, 1Q16 is expected to have a midpoint EPS of $0.65. The forecasted regulated earnings were lowered in 2017/18 by $25 million due to the extension of bonus depreciation. Over the next three years, bonus depreciation is expected to contribute a cumulative $1.9 billion of additional cash flow, which is anticipated to be used to fund additional regulated growth and pay down excess debt. The ExGen business saw a slight bump up in total gross margin guidance from the last update, primarily due to the approval of the RSSA on the R.E. Ginna nuclear plant in New York. In our view, 4Q15 was largely in line with our expectations, but we were surprised by the timing of management's decision to start growing the dividend.

Dividend raise of 2.5% annually comes as a surprise

Exelon declared the intent to raise the dividend by 2.5% annually starting in June; the dividend strategy is expected to last until 2018. The dividend yield for EXC is currently at 4.1%, and the dividend raise will likely create some degree of near-term valuation floor support.

However, we do not believe the dividend raise will, in and of itself, be a catalyst that materially changes EXC relative performance. A) The 2016 dividend payout ratio for regulated earnings we estimate will be 69% by 2018 if one assumes the Pepco deal is approved. In comparison, the typical regulated electric utility has a dividend payout ratio in the low 60% range in 2016, and those that are growing the rate base at 7-9% like Exelon tend to have payout ratios closer to 50-60%. If the Pepco deal is not approved, the regulated payout ratio in our estimates is close to 100%. B) The dividend raise means there is simply less cushion for dividend security from volatile natural gas prices. Exelon went through a significant dividend adjustment two years ago due to the perceived need to reassure dividend security vis a vis regulated earnings. While Exelon's regulated earnings have grown considerably since then, we also note natural gas prices have fallen also sharply since then. It is in this context that we view the dividend raise as not likely leading to a 1:1 upwards revision in EXC's valuation, even if we grant that on balance the dividend boost is likely a marginal positive near term. C) Notably, the dividend raise seems at odds with the company's recent quest for a clean energy policy in Illinois and for better terms at the Ginna New York facility. Should the company seek to further other clean or reliability policies elsewhere, the dividend raise could compromise that effort.

Dividend boost a marginal positive; Maintain Neutral

On balance, we agree the dividend raise is a marginal positive as it provides marginal yield support. But we do not view the dividend raise as a major EXC inflection point (that in our view can in the near term only occur if natural gas bounces or if energy equities regain risk appetite.) Based on updated peer group price multiple of 15.5x from 14.0x, raising our PO to $32 from $29. Overall we believe EXC's risk/reward outlook remains generally balanced relative to valuation; Maintain Neutral view.

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Refer to important disclosures on page 4 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

11598652

Key Changes

(US$)	Previous	Current
Price Obj.	29.00	32.00

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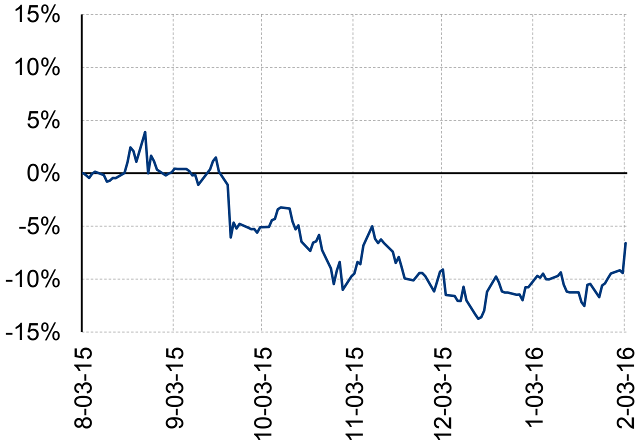
Stock Data

Price	31.61 USD
Price Objective	32.00 USD
Date Established	3-Feb-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 36.99 USD
Mrkt Val (mn) / Shares Out (mn)	28,860 USD / 913.0
Average Daily Value (mn)	243.25 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2015E)	9.3%
Net Dbt to Eqty (Dec-2014A)	84.5%

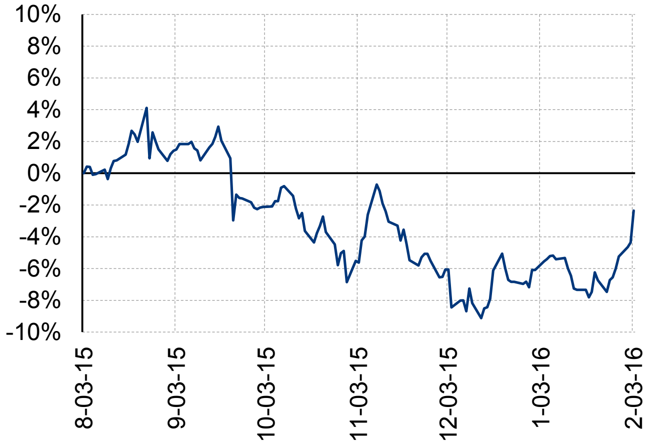
Relative Performance Charts

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

Price objective basis & risk

Exelon (EXC)

Our $32/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $8 of value to ExGen, $(4) for the parent, and approximately $28 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2018E earnings and EBITDA. For Exelon specifically we use a target 6.8x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply a target 15.0 P/E multiple to value the regulated side of the business, which is a discount to regulated peers at 15.5x to reflect the generally below-average ROEs allowed by the state commissioners for the states in which Exelon has regulated operations.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario, and 4) risks to the successful completion of the Pepco Holdings acquisition

Analyst Certification

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US - Electric Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	American Electric Power	AEP	AEP US	Brian Chin
	American Water Works	AWK	AWK US	Brian Chin
	Black Hills Corporation	BKH	BKH US	Brian Chin
	Calpine	CPN	CPN US	Brian Chin
	Dominion Resources	D	D US	Brian Chin
	Edison International	EIX	EIX US	Brian Chin
	Entergy	ETR	ETR US	Brian Chin
	FirstEnergy	FE	FE US	Brian Chin
	InfraREIT, Inc.	HIFR	HIFR US	Brian Chin
	NextEra Energy	NEE	NEE US	Brian Chin
	NextEra Energy Partners	NEP	NEP US	Andrew Hughes
	NRG Energy	NRG	NRG US	Brian Chin
	NRG Yield	NYLDA	NYLD/A US	Andrew Hughes
	NRG Yield	NYLD	NYLD US	Andrew Hughes
	Pattern Energy	PEGI	PEGI US	Andrew Hughes
	PG&E Corporation	PCG	PCG US	Brian Chin
	Portland General Electric Company	POR	POR US	Brian Chin
	PPL Corporation	PPL	PPL US	Brian Chin
NEUTRAL				
	AES Corporation	AES	AES US	Brian Chin
	DTE Energy	DTE	DTE US	Brian Chin
	Duke Energy	DUK	DUK US	Brian Chin
	Exelon	EXC	EXC US	Brian Chin
	Great Plains Energy	GXP	GXP US	Brian Chin
	Public Service Enterprise Group Inc.	PEG	PEG US	Brian Chin
	Terraform Global	GLBL	GLBL US	Andrew Hughes
	Terraform Power	TERP	TERP US	Andrew Hughes
UNDERPERFORM				
	Atlantica Yield	ABY	ABY US	Andrew Hughes
	Consolidated Edison	ED	ED US	Brian Chin
	NorthWestern Corporation	NWE	NWE US	Brian Chin
	Pinnacle West Corp	PNW	PNW US	Brian Chin
	Southern Company	SO	SO US	Brian Chin
	Westar Energy	WR	WR US	Brian Chin

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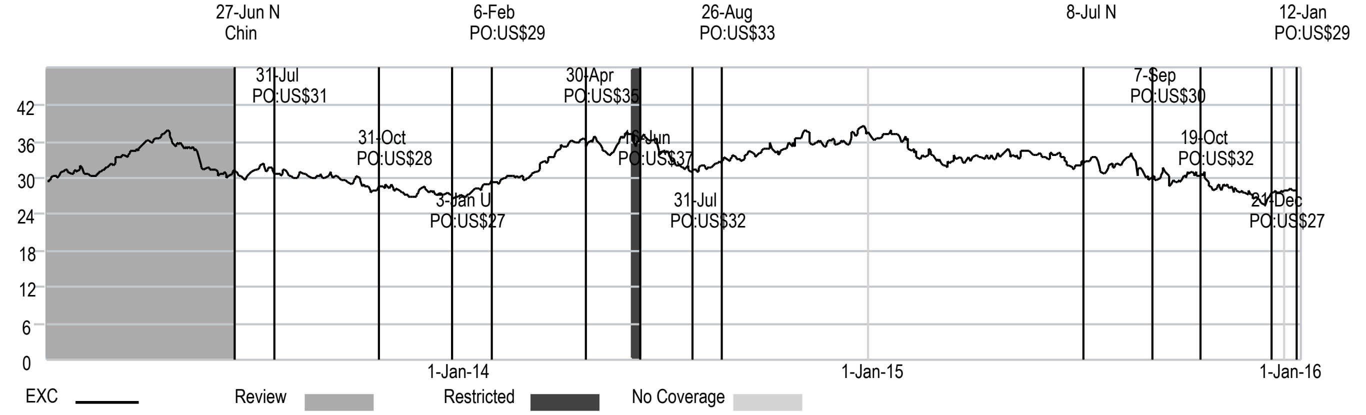
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	47.26%	Buy	58	84.06%
Hold	40	27.40%	Hold	32	80.00%
Sell	37	25.34%	Sell	27	72.97%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1673	50.16%	Buy	1244	74.36%
Hold	777	23.30%	Hold	545	70.14%
Sell	885	26.54%	Sell	533	60.23%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Exelon Corp (EXC):

Sentiment Indicator : neutral

Posted by Tucker, Shelby on Wednesday, February 03, 2016, 09:05 AM ET

Our View: While we are encouraged to see management's forecast for future dividend increases, we are somewhat surprised at the timing of the announcement, given on-going uncertainty with the Pepco acquisition, which should be resolved by March 6 at the lastest (the merger termination date). In addition, while management's 2016 guidance assumes a certain level of share buybacks (in our estimate) and an unwinding of Pepco-related debt financing, we do not think there is a large read-through to the deal decision itself. We continue to assume that the deal does not go through; our model assumes a much larger buyback.

Exelon (EXC; Outperform; $32 PT) reported 4Q15 and 2015 adjusted earnings of $0.38 and $2.49 per share, respectively, mostly in-line with our estimate of $0.38 and $2.50 per share as well as consensus estimates. The result is also in the middle of management's 2015 adjusted EPS guidance of $2.40-$2.60 and $0.10 above 2014 EPS of $2.39, a 4% increase year-over-year (YoY).

ExGen gross margin guidance slightly higher for 2017-2018. The revised numbers for 2016-2018 (versus 3Q15 disclosure) are $7.8 billion (unchanged), $7.85 billion (+$50 million), and $7.90 billion (+$50 million), with the increase based on higher open gross margins and hedges as of December 31, 2015.

Initiating 2.5% annual dividend increase starting June 2016. We note that this would be the first dividend increase since 1Q09 and after cutting the dividend 41% in 2Q13 due to continued commodity and power price pressure on the generation business.

2016 EPS guidance initiated at $2.40-$2.70... The guidance range for the various businesses is as follows: ExGen at $1.25-$1.35 (vs RBCe $1.34), ComEd at $0.50-$0.60 (vs RBCe $0.51), and HoldCo at -$0.05 (vs RBCe -$0.01). PECO at $0.40-$0.50 (vs RBCe $0.49), BGE at $0.25-$0.35 (vs RBCe $0.34)

... But assumes Pepco-related equity/debt issuance is unwound. In the company's slide deck, the footenote to the 2016 guidance makes the assumption of an 890 million average shares outstanding for the year. Given the 4Q15 shares outstanding of 921 million, we believe management has incorporated around $900 million of share buybacks (if conducted in 1Q16 at $30/share). Our estimate of $2.65 incorporates $3 billion in share buybacks (and paydown of Pepco-related debt) in 1Q16 per our assumption that the Pepco acquisition does not materialize. If we adjust down our buyback assumption to $900 million, our estimate would be $2.45, all else being equal. We are uncertain whether most estimates that make up the $2.53 consensus number incorporates Pepco or a level of buybacks.

Conference call at 11 AM ET. The dial-in number is (800) 690-3108, pass code 97958810.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Exelon Corporation	NYSE	EXC	Outperform	Not Assigned	32.00	US Dollar	30.13	03 Feb 2016 08:13:58 ET

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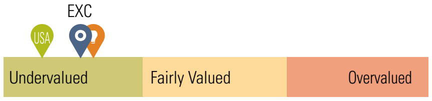
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 10 Feb 2016	31.12 USD 10 Feb 2016	35.00 USD	0.89	3.88 10 Feb 2016	28.62 10 Feb 2016	Utilities - Diversified	Standard

Morningstar Pillars	**Analyst**	**Quantitative**
Economic Moat	Narrow	Narrow
Valuation	★★★★	Undervalued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.86	0.85	0.88	0.81
Price/Earnings	14.2	15.6	15.0	18.1
Forward P/E	12.0	—	15.2	12.3
Price/Cash Flow	4.3	5.1	6.0	10.1
Price/Free Cash Flow	—	74.7	11.0	15.9
Dividend Yield %	3.88	4.65	3.90	2.55

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs and generate large profits even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 06 October 2015

Investment Thesis

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and made a $12 billion bid for Pepco in April 2014, both including debt. Management's political negotiations appear to have revived the deal in Washington, D.C., where regulators had rejected it in August 2015. We now expect it has a 75% chance of closing. Exelon has received all other regulatory approvals.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our outlook for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can grow earnings 10% annually the next three years.

Travis Miller, Sector Director, 03 February 2016

Analyst Note

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Economic Moat

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 10 Feb 2016	31.12 USD 10 Feb 2016	35.00 USD	0.89	3.88 10 Feb 2016	28.62 10 Feb 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	21,574	10,910	29.67	11.75
FirstEnergy Corp FE	USD	14,227	14,968	11.48	28.57
Entergy Corp ETR	USD	12,744	11,836	2.32	0.00

Travis Miller, Sector Director, 06 October 2015

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, that spread between long-term returns on capital and Exelon's cost of capital have shrunk based on our midcycle outlook for power prices in the eastern U.S. Exelon's increasing diversification into narrow- and no-moat businesses together with the shrinking returns at its nuclear generation business supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources like coal and natural gas reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must continue to have access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 06 October 2015

We are reaffirming our $35 per share fair value estimate after raising our probability of the Pepco acquisition closing to 75% from 25% as a result of an agreement the companies reportedly reached with the Washington, D.C., mayor's office on Oct. 6. Although we think the deal is value-dilutive, it is too small to have a material impact on our fair value estimate. Exelon's $27.25-per-share cash offer represents a 30% premium to our $21 per share standalone fair value estimate for Pepco.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities (Ill.), Oyster Creek (N.J.), and Three Mile Island (Pa.)--as well as the Clinton (Ill.) plant. We now assume a 50% probability that the Byron (Ill.) plant will retire given it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

Exelon Corp EXC (XNYS)

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We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4/mcf midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 06 October 2015

Investors should pay the most attention to political developments that would re-regulate competitive electricity markets in the Midwest and Mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source.

As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket. Reregulation also would destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.

As Exelon's regulated utilities generate a greater share of earnings, investors will be subject more acutely to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management

Travis Miller, Sector Director, 06 October 2015

We give Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and Executive Chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and Chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition in 2015. This will increase Exelon's share of regulated utilities earnings and dilute shareholders' exposure to wholesale power markets. Management has shown strong conviction in the value of the deal based on their efforts to gain support for the deal from all parties, particularly in Washington, D.C.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants absent significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creation opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Exelon Corp EXC (XNYS)

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Analyst Notes Archive

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Travis Miller, Sector Director, 03 February 2016

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Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Sector Director, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Eq. Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco

Charles Fishman, Eq. Analyst, 06 October 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners

Charles Fishman, Eq. Analyst, 30 September 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Postpones Nuclear Plant Retirement Decision; No Fair Value Impact

Travis Miller, Sector Director, 10 September 2015

We are reaffirming our $35 per share fair value estimate for Exelon after management announced it will delay a decision whether to close at least three of its struggling nuclear plants. We recently incorporated into our fair value estimate and financial projections the assumption that it was more likely than not that Exelon would close those three plants in 2018. We also assume a 50% likelihood that Exelon will close its Byron (Illinois) nuclear plant in 2019.

Results of the recent 2016-18 PJM transitional capacity auctions and management's decision to delay potential retirements do not change our assumptions that those plants ultimately will close, absent significant energy market or public policy changes. The Quad Cities (Illinois), Three Mile Island (Pennsylvania), and Oyster Creek (New Jersey) plants are obligated to run at least through mid-2018, and the Byron plant is obligated to run through mid-2019 based on results from PJM's recent capacity auctions.

The key development for Exelon in last week's 2017-18 transitional capacity auction was that the Quad Cities and Byron plants cleared and are now obligated to run. Neither cleared PJM's 2017-18 base capacity auction last year at $120/megawatt-day but did clear last week's capacity performance transitional auction at $151.50/MW-day. Including those plants and the uplift for the rest of the fleet adds about $400 million of EBITDA in 2017-18.

The Clinton (Illinois) plant is the fourth that we assume will close by 2018. It is not part of PJM. It is obligated to run at least through 2016 as part of the Mid-Continent ISO. Exelon continues to lobby Illinois politicians to adopt a subsidy-like scheme that would improve the economics for its six Illinois nuclear plants. We do not include any benefits from policy changes in our fair value estimate.

D.C. Commission Rejects Pepco-Exelon Merger; Lowering Pepco Fair Value Estimate

Charles Fishman, Eq. Analyst, 26 August 2015

We are lowering our fair value estimate of Pepco Holdings Inc. to $23 per share from $27 per share, following the decision by the Public Service Commission of the District of Columbia to deny the merger with Exelon Corp, which caused Pepco shares to close down 16.5% on Tuesday. At the time of the merger in April 2014, we had believed the transaction would be value-dilutive for Exelon, and we are reviewing our $35 per share fair value estimate. We note that Exelon shares were down almost 7% on Tuesday, on which day the overall market and utilities were also weak. Our narrow moat and stable moat trend are unchanged for both companies.

Exelon and Pepco issued a joint press release indicating that they were reviewing their options and will respond once the process is complete. A summary of the decision indicated that the D.C. commission did not believe the merger would provide sufficient benefits to customers or guarantees for improvements in reliability. The commission was also concerned that under the new management structure Pepco would become "a second-tier company in a much larger corporation whose primary interest is not in distribution, but in generation." The full decision is due Wednesday, and the companies have 30 days to appeal the decision.

We were surprised by the decision, as we had believed the most difficult regulatory hurdle would be in Maryland. Pepco and Exelon agreed to stringent conditions and additional customer benefits imposed by the Maryland Public Service Commission on May 18. We thought the commission in D.C., the last jurisdiction needed to approve the deal, would agree to similar conditions. They did not.

Our new fair value estimate assumes that there is now only a 25% chance of the transaction being restructured to satisfy the D.C. regulators. If the deal is abandoned, our standalone fair value estimate for Pepco is $21 per share.

PJM Auction Results In Line With Our Forecast in First Auction With Capacity Performance Inclusion

Andrew Bischof, CFA, Eq. Analyst, 24 August 2015

Capacity prices across most of the 13-state PJM Interconnection region cleared at $165/MW-day for capacity performance, or CP, and $150/MW-day for base generation for 2018-19. This is comparable to $120/MW-day for last year's 2017-18 results, in which there was no separate CP auction. The results are in line with our auction expectations, in which we previously expected CP to clear at $150/MW-day and base capacity at $140/MW-day for the 2018-19 auction. We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover, as we are maintaining our midcycle capacity assumptions.

Capacity revenue provides significant pretax earnings for our independent power producers and diversified utilities for any one auction year. Dynegy in our opinion is the largest winner from strong base capacity results, as half of its generation is now in PJM. For every $100/MW-day change in capacity prices, we estimate that Dynegy benefits $385 million in pretax earnings. Exelon's fleet also benefited from a strong clearing in the Commonwealth Edison, or COMED, locational deliverability area, or LDA, with CP clearing at $215/MW-day and $200/MW-day for base generation capacity. However, we do not believe that Exelon's Illinois Quad Cities and Byron nuclear units cleared the auction at these prices. Based on recent management commentary, we continue to expect Exelon to close these two plants by the end of 2016, with a final decision expected in September. Public Service Enterprise Group, or PSEG, also benefits from strong base results for the second year in a row, with base capacity clearing in the Eastern Mid-Atlantic Area Council, or EMAAC, LDA clearing at $210/MW-day for base generation and $225/MW-day for CP. The premium clearing price in the PSEG region shows the competitive advantage of PSEG's fleet and supports our positive moat trend. Higher capacity prices also benefit Calpine, FirstEnergy, and NRG Energy.

Upcoming PJM Capacity Auction Could Prove Disappointing

Andrew Bischof, CFA, Eq. Analyst, 17 August 2015

We are reaffirming our fair value estimates and our moat and moat trend ratings for our independent power producers and diversified utilities ahead of the upcoming 2018/19 Planning Year auction for Capacity Performance, or CP. The capacity auction is currently under way, with results posted Aug. 21.

In June, the Federal Energy Regulatory Commission approved the proposal from PJM Interconnection to implement CP in its 2018/19 base residual auction, which PJM began on Aug. 10. CP increases the marginal capacity cost for marginal generators, but the bullish impact should be less than the market expects. We maintain our previous estimate that the combination of CP, reduced impact from demand response, and increased confidence of marginal generators to raise prices will cause CP to clear at $150 per megawatt-day and base capacity at $140/MW-day for the 2018-19 auction.

We believe that previous auctions already priced in existing non-CP performance penalties, such as those a generator must pay if it cannot deliver energy during reserve shortages. CP is a further-reaching, stricter penalty structure for nonperformance outside of reserve shortages. Although generators participating in CP will not be constrained by their avoidable cost rates this year, which will allow generation to offer up to net cost of new entry times the balancing ratio, we suspect that few generators will raise offer prices for this reason alone. We also highlight the possible expected increase in dark spreads over the 2018–19 time frame due to the large increase in LNG exports over this time period; this could add downside pressure to capacity offers from coal generation in PJM.

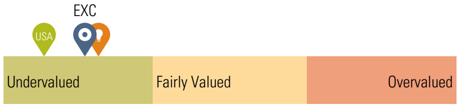
Exelon Corp EXC

Last Close 10 Feb 2016	**Quantitative Fair Value Est** 10 Feb 2016	**Market Cap** 10 Feb 2016	**Sector**	**Industry**	**Country of Domicile**
31.12	36.26	29,370.9 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	91	88	87
Valuation	Undervalued	30	47	29
Quantitative Uncertainty	Low	100	96	99
Financial Health	Moderate	58	54	58



Source: Morningstar Equity Research

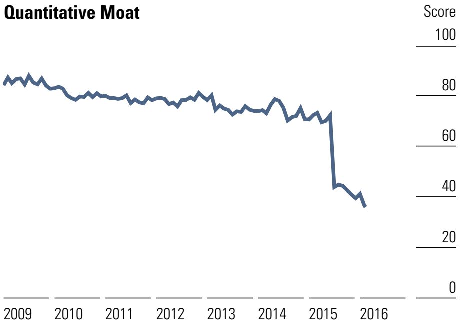
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.86	0.85	0.88	0.81
Price/Earnings	14.2	15.6	15.0	18.1
Forward P/E	12.0	—	15.2	12.3
Price/Cash Flow	4.3	5.1	6.0	10.1
Price/Free Cash Flow	—	74.7	11.0	15.9
Dividend Yield %	3.88	4.65	3.90	2.55
Price/Book	1.1	1.5	1.2	1.9
Price/Sales	0.9	1.2	1.2	1.6

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	8.0	11.8	10.0	11.9
Return on Assets %	2.2	3.1	3.2	4.7
Revenue/Employee (Mil)	1.0	1.0	1.2	0.3

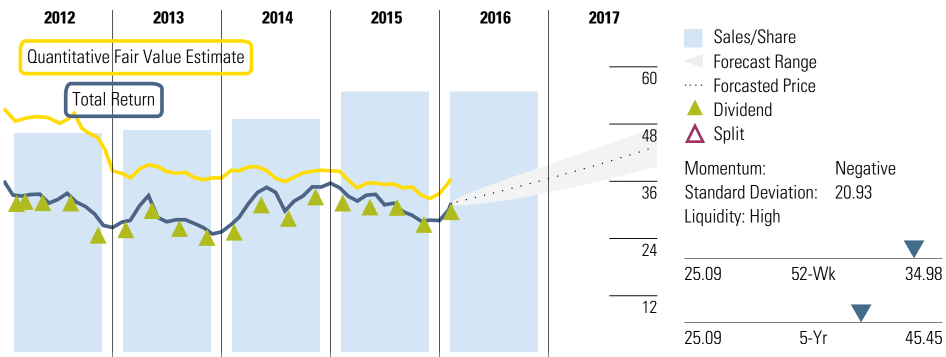
Quantitative Moat



Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.6
Solvency Score	587.2	—	633.9	576.5
Assets/Equity	3.8	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.8	0.7	0.3

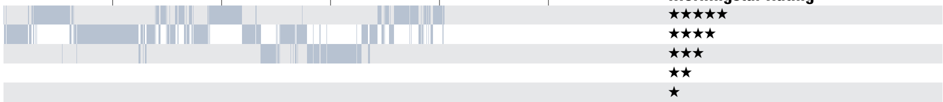
Price Versus Quantitative Fair Value



Momentum: Negative
Standard Deviation: 20.93
Liquidity: High

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	13.2	Total Return %
-42.9	-36.1	27.1	-22.5	23.2	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	3.88	Dividend Yield %
21.0	14.7	15.2	12.3	14.2	Price/Earnings
1.0	0.9	1.2	0.8	0.9	Price/Revenue

Morningstar Rating^{Q}



2010	2011	2012	2013	2014	TTM	**Financials** (Fiscal Year in Mil)
18,644	18,924	23,489	24,888	27,429	30,002	Revenue
7.7	1.5	24.1	6.0	10.2	9.4	% Change
4,726	4,480	2,380	3,656	3,096	4,050	Operating Income
-0.5	-5.2	-46.9	53.6	-15.3	30.8	% Change
2,563	2,495	1,160	1,719	1,623	1,978	Net Income
5,244	4,853	6,131	6,343	4,457	6,488	Operating Cash Flow
-3,326	-4,042	-5,810	-5,395	-6,077	-7,406	Capital Spending
1,918	811	321	948	-1,620	-918	Free Cash Flow
10.3	4.3	1.4	3.8	-5.9	-3.1	% Sales
3.87	3.75	1.42	2.00	1.88	2.25	EPS
-5.4	-3.1	-62.1	40.8	-6.0	19.7	% Change
2.89	0.20	0.39	0.48	-0.03	-1.04	Free Cash Flow/Share
2.10	2.10	2.10	1.46	1.24	1.24	Dividends/Share
20.48	21.65	25.07	25.51	27.44	28.02	Book Value/Share
855,000	857,000	860,000	919,564	—	919,564	Shares Outstanding (K)
						Profitability
19.6	17.9	6.5	7.8	7.2	8.0	Return on Equity %
5.1	4.7	1.7	2.2	2.0	2.2	Return on Assets %
13.8	13.2	4.9	6.9	5.9	6.6	Net Margin %
0.37	0.35	0.35	0.31	0.33	0.33	Asset Turnover
3.9	3.8	3.7	3.5	3.8	3.7	Financial Leverage
65.5	62.3	56.8	56.9	52.6	54.0	Gross Margin %
25.4	23.7	10.1	14.7	11.3	13.5	Operating Margin %
12,004	12,189	18,346	18,271	20,010	25,189	Long-Term Debt
13,560	14,385	21,624	22,925	22,801	25,770	Total Equity
0.7	0.6	0.6	0.5	0.6	0.6	Fixed Asset Turns

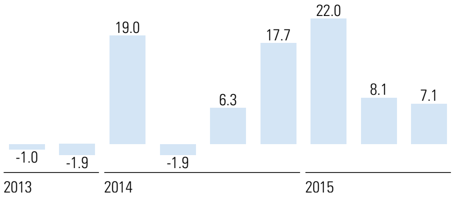
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	10.2	12.9	9.6	6.6
Operating Income %	-15.6	-11.6	-8.2	-1.0
Earnings %	-6.0	-20.6	-14.4	-3.7
Dividends %	-14.8	-16.1	-10.0	-0.1
Book Value %	-0.9	6.6	6.5	6.4
Stock Total Return %	-6.7	4.4	-1.8	-1.4

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	—	—
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	—	—
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

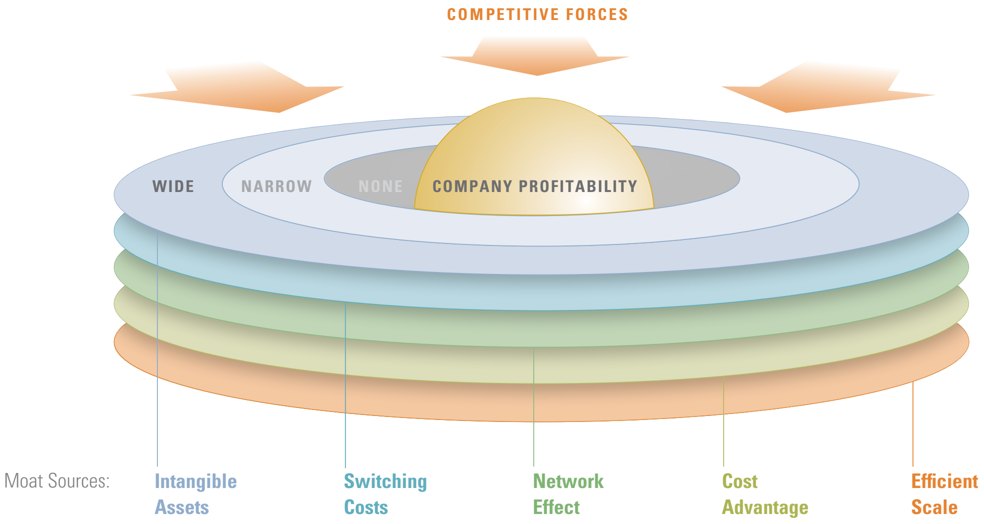
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

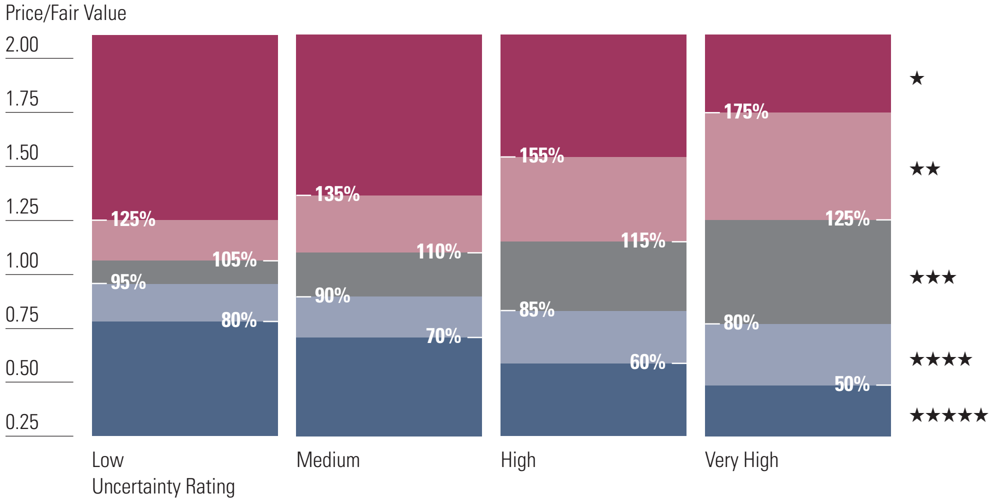
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 10 Feb 2016	31.12 USD 10 Feb 2016	35.00 USD	0.89	3.88 10 Feb 2016	28.62 10 Feb 2016	Utilities - Diversified	Standard

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Exelon (EXC)

March Fourth on the Nation's Capital

BUY
Price target $36.00
(from $34.00)
Price $31.61

Key Takeaway

Exelon reported inline earnings of $0.38 driven by lower results at ExGen due to reduced nuclear production. Should the D.C. PSC not approve the PHI merger by March 4th the company will begin to execute on its debt reduction and share buyback plan. Exelon provided the negative impact from bonus depreciation but highlighted its plan does not include the benefit of re-investing the cash from bonus.

Exelon provided 2016 earnings guidance of $2.40-$2.70 (Street at $2.53) and 1Q16 guidance of $0.60-$0.70. Sector guidance is $1.25-$1.35 ExGen, $0.50-$0.60 ComEd, $0.40-$0.50 PECO and $0.25-$0.35 from BGE.

Exelon announced plans to raise the dividend by 2.5% each year over the next three years. Management estimates that by 2018 the utilities will be funding 100% of the dividend.

Bonus Deprecation Impact – Management provided the negative impact of bonus depreciation to be $0.09 in 2016, $0.11 in 2017 and $0.06 in 2018 but also highlighted the significant cash flow that will be generated with $625 million in 2016, $675 million in 2017 and $600 million in 2018. Exelon did not provide the benefit associated with re-investment of this cash into the company's regulated business or share repurchases.

PHI Merger – The company has put a March 4 deadline for the District of Columbia PSC to approve the transaction. If Exelon is unable to close the transaction by then management will execute on the debt reduction and share buyback plan. 2016 earnings include a $0.07 charge associated with the closing of the PHI merger.

Commonwealth Edison (CWE) earnings were unchanged at $0.09 on a year-over-year comparison. Increased capital investment was offset by unfavorable weather.

Valuation/Risks

Our $34.00 price target is based on P/E analysis. Taking our 2017 EPS estimate of $2.70 in conjunction with a P/E group average multiple of 13.4x results in a price target of $36.00. Based on yesterday's closing price of $31.61, this would result in a 12-month price appreciation potential of 14.8% and total return potential of 18.8% including the current yield of 4.0%. **Risks** –Risks include exposure to change in the commodity price for electricity associated with Exelon's merchant generation business, and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	2014A	*Prev.*	2015E	*Prev.*	2016E	*Prev.*	2017E
Cons. EPS Diluted	--	--	--	2.51	*2.55*	2.53	*2.70*	2.68
EPS								
Mar	--	0.62	--	0.71A	--	0.65	--	--
Jun	--	0.51	--	0.59A	--	0.60	--	--
Sep	--	0.78	--	0.83A	--	0.85	--	--
Dec	--	0.48	*0.40*	0.38A	--	0.40	--	--
FY Dec	--	2.39	*2.60*	2.51	--	2.50	--	2.70
FY P/E		13.2x		12.6x		12.6x		11.7x

Financial Summary

Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	4.0%

Market Data

52 Week Range:	$36.99 - $25.09
Total Entprs. Value (MM):	$41,055.6
Market Cap. (MM):	$27,026.6
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	855.0
Float (MM):	917.9
Avg. Daily Vol.:	7,921,283

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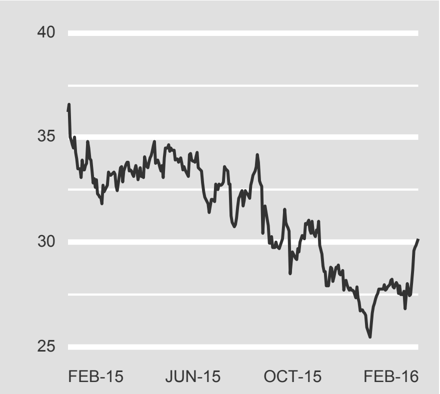
Price Performance



Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation.

Exelon 4Q15 operating EPS was $0.38 on a diluted basis, versus $0.49 for the same period a year ago, our estimate of $0.40, and Consensus of $0.38. The year-over-year decline was primarily driven by reduced earnings at ExGen due to increased nuclear outages at the company's nuclear fleet.

Exelon provided 2016 earnings guidance of $2.40-$2.70 (Street at $2.53) and 1Q16 guidance of $0.60-$0.70. Sector guidance is $1.25-$1.35 ExGen, $0.50-$0.60 ComEd, $0.40-$0.50 PECO and $0.25-$0.35 from BGE.

Exelon announced plans to raise the dividend by 2.5% each year over the next three years. Management estimates that by 2018 the utilities will be funding 100% of the dividend.

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Illinois Lower Carbon Initiative – No progress has yet been made with management hopeful the legislature comes up with something in the spring time. Even with the constructive results of the PJM capacity auction both Quad Cities and Clinton are money losing plants.

PHI Merger – The company has put a March 4th deadline for the District of Columbia PSC to approve the transaction. If Exelon is unable to close the transaction by then management will execute on the debt reduction and share buyback plan. 2016 earnings include a $0.07 charge associated with the closing of the PHI merger.

PECO Electric Rate Case – On December 17 the Pennsylvania PUC approved a previously filed settlement that provided an increase of $127 million in annual distribution service revenue. New rates went into effect on January 1.

BGE Electric and Gas Distribution Rate Case – On November 6 BGE filed for an increase of $121 million and $79.5 million for the utility's electric and gas business, respectively. BGE requested an electric ROE of 10.6% and a gas ROE of 10.5%. A final order is expected in June 2016.

4Q15 operating EPS excludes $0.05 of non-recurring items as follows: a $0.05 unrealized gain related to nuclear decommissioning trust investments; a $0.01 loss related to merger and integration costs; a $0.01 loss from an asset impairment, a $0.05 loss from the reassessment of state deferred income taxes, a $0.02 loss associated with FENG non-controlling interest, a $0.01 gain related to a reduction in state income tax reserve, a $0.01 loss associated with the amortization of commodity contract intangibles, and a $0.01 loss due to the PHI merger redeemable debt exchange. 4Q14 earnings exclude $0.46 of non-recurring loss primarily associated with asset impairment.

Commonwealth Edison (CWE) earnings were unchanged at $0.09 on a year-over-year comparison. Increased capital investment was offset by unfavorable

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weather. Gross margin increased 6.4% to $869 million reflecting increased electric distribution earnings from the impact of greater capital investment. Retail sales decreased 4.9%, or 2.2% on a weather-adjusted projection, during the quarter due to unfavorable weather. Heating degree days were down 26.8% relative to the same period last year and 25.1% below normal. The Company estimates the negative impact of weather relative to last year to be $0.02.

Operating income increased 8.0% to $216 due to greater gross margin reflecting the impacts of increased capital investment. Operating and maintenance expense increased 5% to $402 million. Earnings increased 16.0% to $87 million driven primarily by higher gross margin, offset slightly by higher O&M and depreciation expense. The effective tax rate for the quarter was 38.3% versus 39.5% last year.

In December the Illinois Commerce Commission approved ComEd's $67 million rate reduction based on a 9.14% ROE and an allowed return on capital of 7.02%. New rates went into effect in January 2016. .

PECO earnings decreased by $0.02 to $0.09 due to unfavorable weather. The principal driver for the year-over-year change was a reduction in heating degree days, which were down 34.5% versus the prior year and down 39.9% relative to normal. Gross margin declined 8.9% to $409 million reflecting unfavorable weather and lower volumes. Retail electric sales declined 5.9% but were up 0.2% on a weather adjusted basis. Gas sales declined 22.8% but experienced a 1.6% improvement on a weather adjusted basis. Heating degree days were down 34.5% versus the same period last year and 39.9% below normal. The company estimates the effect of weather to be negative $0.03.

Operating Income declined 19.1% to $127 million due to reduced gross margin partly offset by lower O&M expense. Operating and maintenance expense fell 6.6% to $184 million. Depreciation expense grew by 5.1% to $62 million driven by additional plant in service. Earnings declined 20.2% to $79 million due to lower operating income. The effective tax rate during the quarter was 21.0% versus 24.4% last year.

BGE earnings improved $0.02 to $0.06 during the quarter. The principal drivers of the year-over-year change were increased distribution revenues pursuant to increased rates effective December 2014. Gross margin grew by 9.1% to $478 million based on higher rates.

Operating income increased 26.3% to $144 million reflecting higher gross margin. Operating and maintenance expense increased 5.7% to $185 million. Earnings grew 39.6% to $74 million due to higher operating margin. The effective tax rate during the quarter was 39.3% versus 41.1% last year.

Earnings at Exelon Generation decreased $0.12 to $0.15 during the quarter. The decline in earnings reflects timing of nuclear projects and the impact of greater nuclear refueling outages, as well as increased deprecation, which were slightly offset by the favorable settlement of certain state income tax positions.

Gross margin decreased 1.0% to $2.1 billion due to a decline in in electric sales. Nuclear production (excluding Salem) decreased 2.6% to 43.3 million MWh with a fleet wide capacity factor of 93.3% versus 94.8% during 4Q14. Refueling outage days increased to 103 days from 97 last year. Non-refueling outage days in the quarter were greater at 21 days versus 8 days last year. Fossil and renewables output decreased 31.0% to 4.6 million MWh.

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Operating income declined 48.2% to $253 million due to lower gross margin and greater O&M and depreciation. Operating and maintenance expense increased 13.9% to $1.4 billion due to the impact of nuclear refueling outages, and depreciation expense increased 12.9% to $280 million. Earnings decreased 38.5% to $142 million due to lower operating margins partially offset by reduced tax expense. The effective tax rate during the quarter was 40.1%, versus 42.8% last year.

The company updated its open gross margin and hedging assumptions. Since the 3Q15 call 2016 total gross margin was unchanged while 2017-2018 gross margin improved $50 million each year, all largely driven by beneficial mark-to-market hedges.

The company's Other business segment was unchanged at a loss of loss of ($0.04).

We are maintaining our 2016 and 2017 EPS estimates of $2.50, and $2.70 respectively.

Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2014A	2015A	2016E	2017E
PECO	$641	$669	$754	$842
CWE	1,057	1,105	1,216	1,338
BGE	440	530	602	653
PEPCO			428	449
DPL			229	245
ACE			169	184
Adjustment		80		
Energy Delivery	**2,137**	**2,383**	**3,397**	**3,710**
Genco	1,964	1,725	1,780	1,911
Corporate	(8)	(8)	(8)	(8)
PEPCO Holding Company			35	35
Earnings on Cash	3	30	1	(6)
Reconcile	0	230	(20)	(80)
EBIT	**$4,097**	**$4,361**	**$5,185**	**$5,562**
EBITDA	$5,736	$5,425	$7,050	$7,839
MIPS Obligation	0	0	0	0
Capitalized Interest	0	0	0	0
Long-Term Interest Expense		(1,096)	(1,522)	(1,539)
Total Interest & P/S				
Income Before Taxes	**$3,101**	**$3,265**	**$3,663**	**$4,023**
Income Taxes	(1,082)	(1,138)	(1,406)	(1,540)
Synfuel PTC	0	0	0	0
Minority Interest/preferred	(7)	(7)	(7)	(7)
Wind PTC	50	50	51	52
Net Income	**$2,061**	**$2,171**	**$2,300**	**$2,527**
Preferred Dividends				
Earnings for Common	**$2,061**	**$2,171**	**$2,300**	**$2,527**
Non-Recurring Items				
Merger Cost to Achieve	0	0	0	0
Total Non-Recurring	0	0	0	0
Reported Earnings	2,061	2,171	2,300	2,527
Earnings Per Share	**$2.39**	**$2.51**	**$2.50**	**$2.70**

Source: Jefferies estimates, company data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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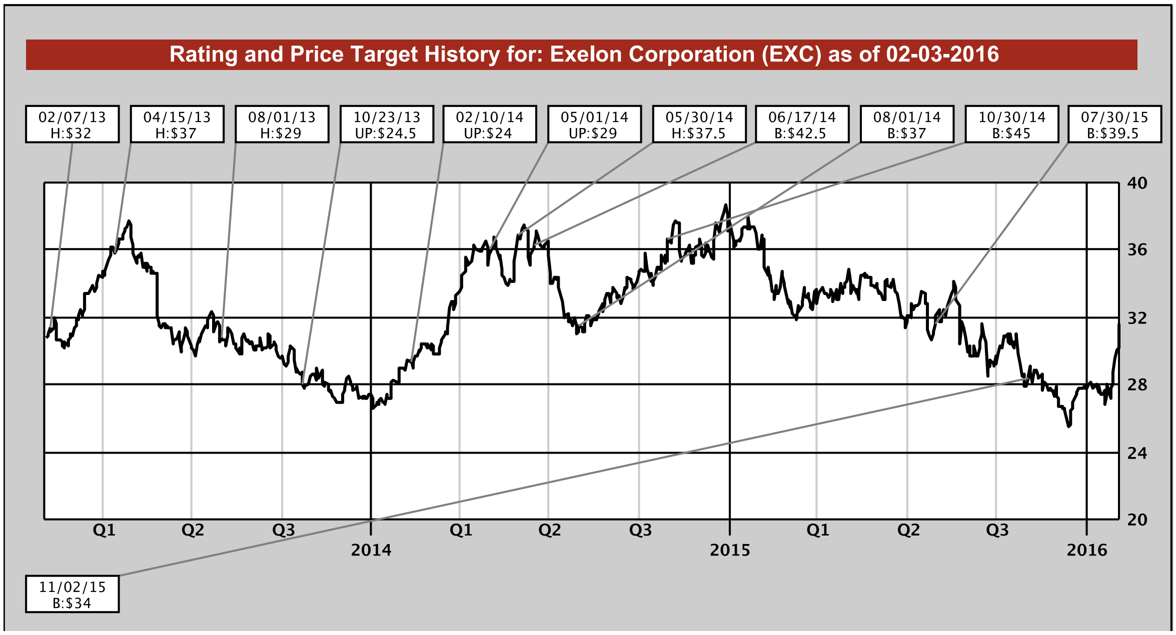
- Entergy Corporation (ETR: $73.35, HOLD)
- FirstEnergy Corp. (FE: $33.52, BUY)
- PPL Corp. (PPL: $36.69, BUY)
- Public Service Enterprise Group Inc. (PEG: $42.15, HOLD)



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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.14 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon Surprises With 2.5% Dividend Growth Target

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The primary analyst covering this company does not own its stock.

Research as of 03 Feb 2016
Estimates as of 06 Oct 2015
Pricing data through 02 Feb 2016
Rating updated as of 02 Feb 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 03 Feb 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk

Vital Statistics

Market Cap (USD Mil)	27,716
52-Week High (USD)	36.98
52-Week Low (USD)	25.09
52-Week Total Return %	-13.0
YTD Total Return %	8.5
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.9
Price/Fair Value	0.86

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	*12.3*	*12.6*
EV/EBITDA	7.3	9.5	*7.6*	*7.5*
EV/EBIT	11.6	16.7	*12.4*	*12.3*
Free Cash Flow Yield %	4.0	-5.1	*2.9*	*-1.3*
Dividend Yield %	5.3	3.3	*3.9*	*3.9*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,184*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,826*
EBIT YoY %	53.6	-15.3	*23.4*	*0.1*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,065*
Net Income YoY %	-7.9	-4.0	*2.9*	*-2.9*
Diluted EPS	2.50	2.39	*2.46*	*2.39*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.0*
Free Cash Flow	1,500	305	*1,364*	*136*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers at Commonwealth Edison (Illinois), PECO (Pennsylvania), and Baltimore Gas & Electric (Maryland). Exelon also owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. Exelon also is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
30.14 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.14 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	13.2	24.1	6.0	10.2	-17.0	10.6	3.5
EBIT	-11.6	-46.9	53.6	-15.3	23.4	0.1	13.9
EBITDA	-2.4	-26.7	36.3	-6.9	15.0	1.7	10.1
Net Income	-9.3	-15.6	-7.9	-4.0	2.9	-2.9	10.0
Diluted EPS	-16.9	-31.5	-12.3	-4.4	2.9	-3.0	9.9
Earnings Before Interest, after Tax	-7.3	-43.1	-13.1	61.0	-30.3	-7.4	-1.0
Free Cash Flow	-19.5	231.6	-22.5	-79.7	347.7	-90.0	59.1

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	12.0	10.1	14.7	11.3	16.8	15.2	16.4
EBITDA Margin %	20.4	18.1	23.3	19.7	27.3	25.1	25.9
Net Margin %	8.7	9.9	8.6	7.5	9.3	8.2	9.0
Free Cash Flow Margin %	5.1	8.2	6.0	1.1	6.0	0.5	5.5
ROIC %	2.2	1.6	2.5	2.5	5.2	5.2	5.7
Adjusted ROIC %	2.3	1.7	2.7	2.7	5.4	5.4	6.0
Return on Assets %	2.0	1.7	2.2	2.0	2.4	2.3	2.7
Return on Equity %	7.1	6.4	7.7	7.1	9.0	8.3	9.4

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	0.48	0.47	0.47	0.49	0.49	0.48	0.47
Total Debt/EBITDA	4.06	4.60	3.46	4.12	3.71	3.73	3.42
EBITDA/Interest Expense	4.65	4.59	4.28	5.08	6.23	6.06	6.27

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	12.3	12.6
EV/EBITDA	7.3	9.5	7.6	7.5
EV/EBIT	11.6	16.7	12.4	12.3
Free Cash Flow Yield %	4.0	-5.1	2.9	-1.3
Dividend Yield %	5.3	3.3	3.9	3.9

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,148	12.3	7.11
Present Value Stage II	15,608	31.3	18.05
Present Value Stage III	28,162	56.4	32.56
Total Firm Value	**49,918**	**100.0**	**57.72**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-789	—	-0.91
Equity Value	**28,736**	**—**	**33.22**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.14 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2012	2013	2014	*Forecast* *2015*	*Forecast* *2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,184***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*10,000*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,184***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,082***
Income Tax Expense	627	1,044	666	*1,047*	*1,017*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,065***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.39***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,065*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.39***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,326***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,326***

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30.14 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	*Forecast* *2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,138*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,140*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,055***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,321***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,955*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,417***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,717***

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30.14 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,065*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-149*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,762***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-886***

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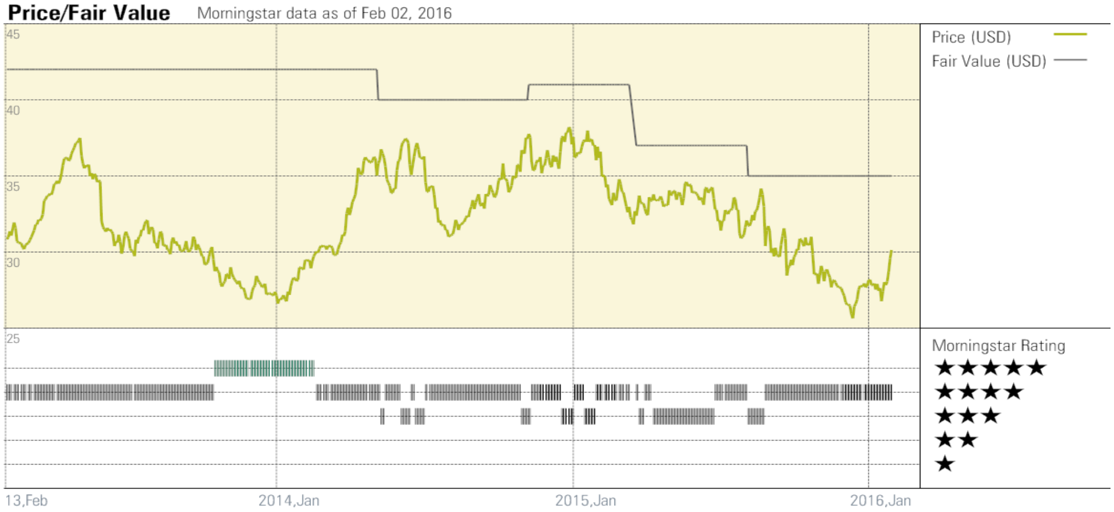

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.14 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★★

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Citi Research

Equities

3 February 2016 │ 8 pages

Diversified Utilities
North America │ United States

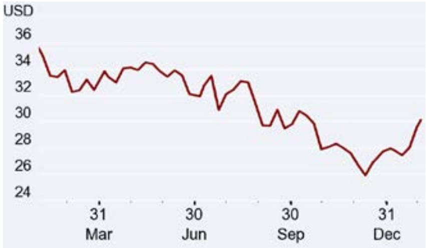
Exelon Corp (EXC)

Results: Capital Allocation – Looking for more clarity.

- Estimate Change

Neutral	2
Price (03 Feb 16)	US$31.04
Target price	US$27.00
Expected share price return	-13.0%
Expected dividend yield	4.0%
Expected total return	-9.0%
Market Cap	US$28,543M

Price Performance
(RIC: EXC.N, BB: EXC US)



- **Citi's Take** — Results inline with Citi ($2.49 in EPS vs. Citi at $2.48). EXC's 2016 guidance of $2.40 - $2.70 is also inline with Citi at $2.58.

- **What is the real net debt / EBTIDA at ExGen?** The 2018 net debt/EBITDA of 2.3x in Exelon's investor presentation (page 8) is a net debt number assuming all the FCF generated from 2016-2018 of $3.2B stays at ExGen. As Exelon has indicated, they plan to utilize this ExGen cash to fund utility growth, dividends and renewables investments. So the 2.3x 2018 net/debt to EBITDA is more of a scenario if all cash stays at ExGen. Citi's projected debt/EBITDA in 2018 is 3.3x.

- **ExGen debt paydown of $3.6B by 2020 (as mentioned on the earnings call) is driven by ~$2.9B of debt paydown in 2019, 2020…but where is the cash?** The gross debt paydown as forecasted in Exelon's model through 2018 is only $700m. Two maturities in 2019 and 2020 of $2.9B drive most of the debt reduction through 2020. There is currently no plan to refinance this debt which we think is prudent given our concerns on asset life. Question then is where is the cash to finance this debt paydown? We currently model $1.4B of FCF at ExGen in 2019. Assuming the same amount of FCF in 2020, Exelon wouldn't have any FCF from ExGen in the 2019/2020 timeframe to fund utility growth or dividends. We think this clearly creates a funding gap.

- **Dividend payout rises to ~90% of Utility net income (ex POM) by 2018.** We forecast utility net income at $1.49/share in 2018. Starting with dividends at $1.24/share and growing them at 2.5% we get to $1.34/share in dividends by 2018. This translates to almost a 90% payout. The concern we have is that this dividend profile doesn't fit with the deleveraging being attempted at ExGen in 2019-2020. Also, we think the dividend has been increased assuming Pepco gets approved. While we do think the deal will get approved, we surely will have a problem on our hands if the deal doesn't happen.

- **Implications** — At this point, we remain Neutral on the stock. We would like to get more clarity on a comprehensive capital allocation strategy. This likely comes post Pepco. From a value perspective, we continue to think Exelon is levered to the final rollout of the Clean Power Plan and some form of Carbon tax.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.71A	0.59A	0.83A	0.37A	2.49A	2.49A
2016E	0.90E	0.35E	0.74E	0.60E	2.58E	2.52E
Previous	na	na	na	na	2.58E	na
2017E	na	na	na	na	2.57E	2.64E
Previous	na	na	na	na	2.57E	na
2018E	na	na	na	na	2.79E	2.87E
Previous	na	na	na	na	2.79E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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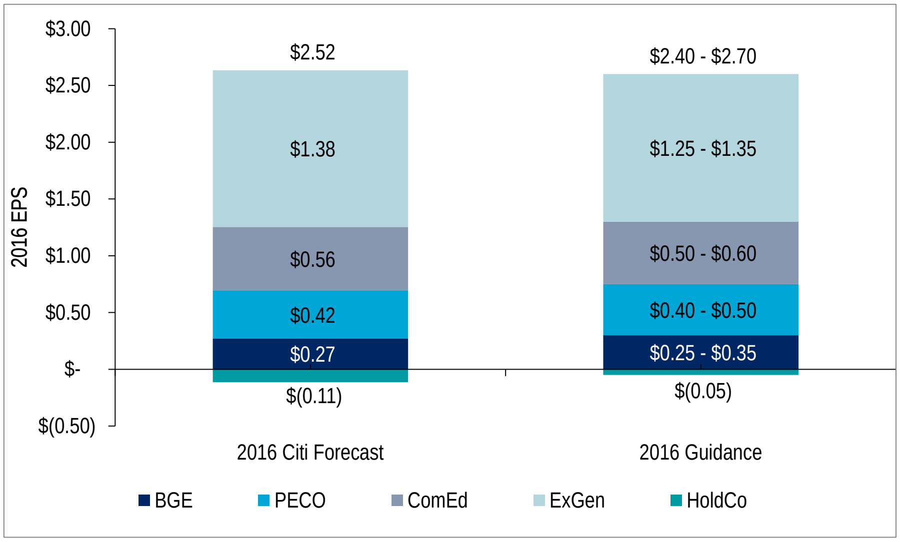
See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

We expect PepCo to deal to be approved: We have written on this deal extensively here and here. EXC is currently awaiting decision before March 4, 2016.

Not surprised that nuclear continues to be challenged: Nuclear plants have an average cash cost of generation of ~$30/MWh. Current 2016 power prices in the Midwest and Mid-Atlantic are at $28/MWh and $35/MWh, respectively. Clearly this is a challenging environment and curves don't suggest much of an improvement in 2017 of 2018. Carbon and some regulatory support is the only real solution, in our view.

Figure 1. 2016 EPS Citi Estimates vs Guidance



Source: Citi Research, EXC Presentation

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach. We value ExGen at $10/share and believe ExGen's core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $19/share based on a 15x terminal PE multiple. We back out $2/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook

Appendix A-1

Analyst Certification

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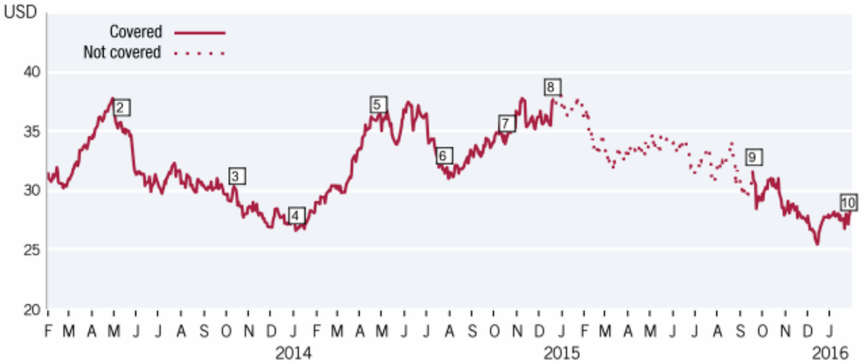
Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	10-May-13	2	*37.00	35.75
3	14-Oct-13	2	*29.00	30.02
4	03-Jan-14	*3	*21.00	26.62
5	24-Apr-14	3	*27.00	36.01
6	23-Jul-14	3	*30.00	31.76
7	17-Oct-14	*2	*37.00	34.38
8	18-Dec-14	Coverage terminated		
9	17-Sep-15	*3	*27.00	31.57
10	26-Jan-16	*2	27.00	27.84

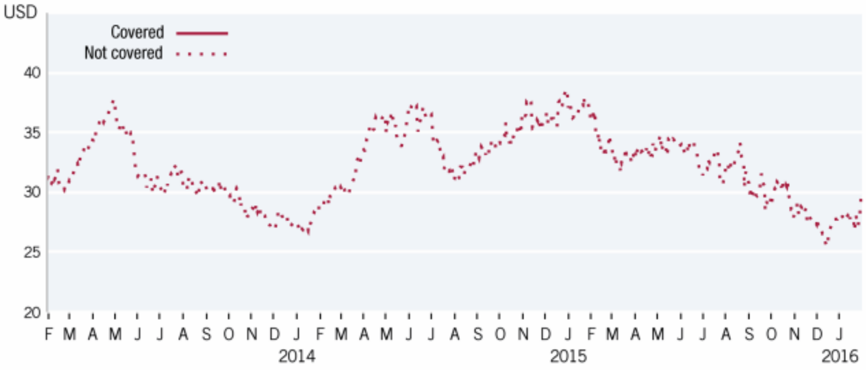
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



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Data current as of 31 Dec 2015	Buy	Hold	Sell
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EVERCORE ISI

Energy | Power & Utilities

February 4, 2016

EXELON CORP.

EXC | $31.61

BUY | TARGET PRICE: $35.00

Company Update

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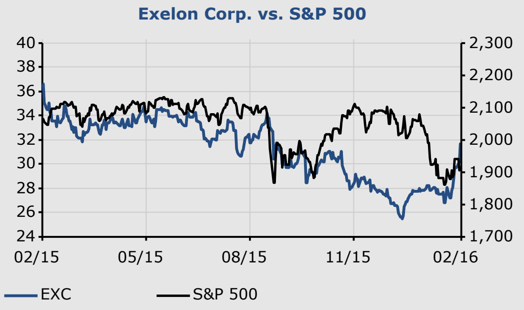
Company Statistics

Market Capitalization (M):	$29,067
Shares Outstanding (M):	920
Dividend:	$1.26
Dividend Yield:	4.0%
Payout Ratio:	49.5%
Expected Total Return:	14.7%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	**$2.55**	**$2.65**	**$2.85**
P/E	**12.4x**	**11.9x**	**11.1x**
EPS vs Consensus	**0.5%**	**(1.3)%**	**(0.4)%**
Consensus EPS	**$2.54**	**$2.68**	**$2.86**
Consensus P/E	**12.5x**	**11.8x**	**11.1x**

1 Year Price History



Source: FactSet

Valuation and Risks. Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the genco business. Lower power prices / capacity prices and unfavorable outcomes in regulatory proceedings would cause our valuation to be lower. Higher interest rates would pull utility earnings up but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of legislation to bolster the revenue stream of the Illinois nuclear units would be accretive.

Cash Is King! EPS Outlook And Improving Balance Sheet At ExGen Make For A Compelling Investment

Rating Buy, Target $35/Share

EXC reported 4Q15 EPS of $0.38 and earned $2.49 for FY ‘15 year vs. consensus of $2.51 and EVRISI at $2.52. FY ’15 guidance had been $2.40-$2.60. The quarter was negatively impacted YoY by nuclear outages, weather, higher D&A, higher debt and equity costs due to the prefunding of the pending POM deal, offset by higher revenues at COMED and BG&E, lower expenses at BG&E and PECO, and a tax benefit at ExGen.

EPS guidance for ’16 is $2.40-$2.70, which is consistent with our expectations. EXC will raise the dividend 2.5% annually through ’18 beginning in Q2 ’16. Earnings guidance for the three utilities and ExGen takes in to account EPS and cash flow impacts from bonus depreciation on both sides of the house, ExGen’s hedge position and updated (slightly better) O&M cost reduction targets. Exelon’s forecast assumes POM doesn’t close whilst ours assumes it does (modestly dilutive in 2016). We are initiating a 2018 EPS estimate. Our ‘16-‘18 EPS forecast is $2.55, $2.65, $2.85. At the core utility businesses earnings guidance is lower by $.03/share at the mid-point in each of ’16-’18 taking in to account the impact of bonus deprecation after some offsetting cost improvement assumptions. At ExGen EPS is negatively impacted by $0.05-$0.07 across the forecast period due to bonus depreciation impacts but the cash flow impact is enormous, with $1.875bn of incremental cash flow over the three year period versus prior guidance. The gross margin outlook given power market conditions net of hedges is flat to up, and the cost profile is modestly better. Owing to the growing contribution of the utilities to the overall earnings profile and ExGen’s very strong balance sheet position (more on that below), EXC has committed to raise the dividend 2.5% a year through 2018 beginning in Q2 ’16.

The cash flow profile at ExGen could drive debt to EBITDA down to <2.5X by YE ’18. The strength of ExGen’s balance sheet is a meaningful differentiating factor in the value proposition. ExGen has +/-$9bn of debt but between ’16-18 expects to generate $3.2bn of cash after all capital expenditures, which if not reinvested in further rate base growth opportunities, contracted generation or returned to investors would drive the net debt balance to +/-$6bn, which against our estimate of $2.85bn of EBITDA in ’18 is a debt to EBITDA multiple of <2.5X. FFO debt metrics rise to >40%. Open gross margins at ExGen has improved by $50mm in each of ’17 and ’18, as expected generation volumes increased 1,200 GWh. ExGen is 91.5% / 62.5% / 29.5% hedged for 2016-2018, with effective realized hedge prices improving in NYISO and ERCOT, while decreasing in NI hub, PJM West and New England.

The risk / reward looks favorable at this stock price. Target remains $35. Looking at EXC’s current share price we think that its utility business —including the assumption that the close POM--are worth $25/share (they should contribute $1.60 of EPS in ’18, at a 15.5X P/E). That means ExGen is trading at $6 a share or roughly $5.5bn of equity value on ’18 pro-forma shares. If EXC is able to get its net debt down to +/-$6bn by YE ’18 then ExGen will have an enterprise value of $11.5bn against $2.85bn of EBITDA, a multiple of 4X, while generating free cash flow of between $800-$1bn, which equates to an unlevered cash yield of >11%. This valuation is on current low gas and power prices. We think the market is discounting the majority of EXC's generation fleet being uneconomic within 10-13 years, whilst their large duel fuel nuclear units will all likely operate until 2030-2040. Just a $0.50 increase in natural gas prices would increase EBITDA in FY '18 by +/- $350mm, and notwithstanding that these nuclear plants should have increasing economic value over time assuming the implementation of the Clean Power Plan. Using the above mentioned financial framework our $35 12 month target price assumes a 5.5X FY '18 EV/EBITDA multiple without any improvement in gas or power prices. With a 4% current yield our $35 target drives a 15% total return from current levels.

What's next? The D.C. PSC has indicated its intent to render a decision on the proposed Pepco merger before the 3/4/16 deadline. EXC continues working with stakeholders and legislators in Illinois on a plan that will support its distressed nuclear assets in that state, intent on delivering an agreeable package to the legislature in the next few months. The PJM '19/'20 BRA begins on 5/11/16 and results will be posted on 5/24/16. The MD PSC is expected to issue a final order on the pending BGE electric and gas distribution rate case by 6/3/16. Possible action by NY that might create zero emissions credits to subside nuclear generation like Ginna can be beneficial to margins out the curve, though by the company's admission the state would have to move relatively quickly for it to be meaningful beyond expiration of its RSSA.

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Symbol	Company	Rating	Price (2016-02-03)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$47.33	$43.50
AEP	American Electric Power	Buy	$63.31	$62.00
CPN	Calpine Corp.	Buy	$15.94	$16.00
CMS	CMS Energy Corp.	Hold	$39.44	$35.25
ED	Consolidated Edison Inc.	Hold	$71.67	$65.00
D	Dominion Resources Inc.	Buy	$69.93	$74.00
DTE	DTE Energy Co.	Hold	$87.09	$85.00
DUK	Duke Energy Corp.	Hold	$78.56	$73.00
DYN	Dynegy Inc.	Buy	$12.00	$20.00
EIX	Edison International	Buy	$64.07	$65.00
ETR	Entergy Corp.	Hold	$73.35	$72.00
ES	Eversource Energy	Hold	$55.72	$50.85
EXC	Exelon Corp.	Buy	$31.61	$35.00
FE	FirstEnergy Corp.	Hold	$33.52	$33.00
HE	Hawaiian Electric Industries Inc.	Hold	$30.60	$30.00
HIFR	InfraREIT, Inc.	Buy	$20.91	$29.00
ITC	ITC Holdings	Hold	$39.89	$42.00
NEE	NextEra Energy Inc	Buy	$114.75	$114.00
NRG	NRG Energy Inc.	Buy	$11.38	$16.00
NYLD	NRG Yield, Inc.	Buy	$13.17	$20.00
POM	Pepco Holdings, Inc.	Hold	$26.64	$25.25
PCG	PG&E Corp.	Buy	$57.46	$57.00
PNW	Pinnacle West Capital Corp.	Hold	$69.71	$66.00
PPL	PPL Corp.	Buy	$36.69	$36.00
PEG	Public Service Enterprise Group	Hold	$42.15	$44.00
SRE	Sempra Energy	Buy	$95.64	$110.00
SO	Southern Co.	Hold	$48.51	$46.00
TLN	Talen Energy Corporation	Buy	$7.28	$11.50
TE	TECO Energy Inc.	Hold	$27.34	$26.50
AES	The AES Corporation	Buy	$9.75	$13.25
WEC	WEC Energy Group, Inc.	Hold	$56.65	$51.50
WR	Westar Energy Inc.	Hold	$45.96	$40.00
XEL	Xcel Energy Inc.	Hold	$39.25	$36.50

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* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

Historical Ratings Definitions

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior “Overweight,” “Equal-Weight” and “Underweight” ratings were viewed as “Buy,” “Hold” and “Sell,” respectively.

Evercore ISI ratings distribution (as of 02/04/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	353	53%
Hold	279	42%
Sell	19	3%
Coverage Suspended	5	1%
Rating Suspended	5	1%

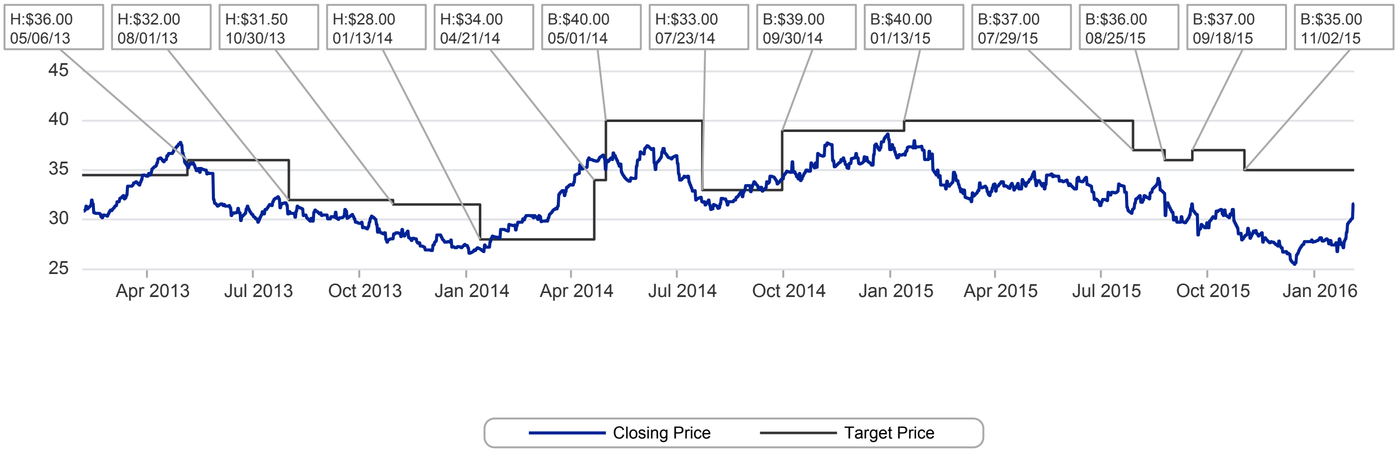
Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	52	15%
Hold	8	3%
Sell	2	11%
Coverage Suspended	0	0%
Rating Suspended	0	0%

Issuer-Specific Disclosures (as of February 4, 2016)

Exelon Corp. Rating History as of 02/03/2016

powered by: BlueMatrix



Pepco Holdings, Inc. Rating History as of 02/03/2016

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Equity Research

Flash Comment

WELLS FARGO SECURITIES

February 4, 2016

EIX-NYSE--Outperform (1)
EXC-NYSE--Outperform (1)
FE-NYSE--Outperform (1)
PCG-NYSE--Outperform (1)
SRE-NYSE--Outperform (1)
MDU-NYSE--Market Perform (2) / V

Energy Team

Energy And Utility Daily

Neil Kalton, CFA, Senior Analyst (314) 875-2051
Sarah Akers, CFA, Senior Analyst (314) 875-2040

Sector Rating: Energy Team, NA

Quick thoughts from Wells Fargo Securities, LLC Energy & Utility Team:

Utilities

It's Like Déjà vu All Over Again (Kalton/Akers). Year-to-date, the S&P Utilities are up nearly 8% (total return) on an absolute basis and have outperformed the S&P 500 by a healthy 15%. For a sector that is generally thought of as providing investors with an annual total return of 8-10% this is all perfectly normal, no? Our electric utility group now trades at forward P/E multiples of 17.5X vs the S&P 500 at 15.5X. Further, our gas and water utility groups trade at 21X & 24X forward estimates and provide median yields of 2.8% and 2.5%, respectively (the yield on the S&P 500 is 2.3%). Remember when growth stocks traded at 20X+ earnings? That said, this is nothing new. We saw similar activity (and valuations) in the group in late 2014 into the early part of 2015 - until 2/6/15. That was the date the U.S. Labor Department issued a better-than-expected jobs report and the bottom fell out of the group (the S&P Utilities declined 4% that day). We don't profess to know the future, particularly when it comes to the global macroeconomic picture. Long-term interest rates could stay at low levels for an extended period and the P/E multiples of our group could, therefore, stay at historically high multiples for an equally long time. However, we do recommend that value-oriented longer-term investors proceed with caution. It is our strong sense that the money flowing into the sector is not driven by a sudden desire to be in the group because of the great industry fundamentals (and they are good, in our view!). Rather, we believe it is simply to hide out from the storm - this is not sticky money. If/when the macro-economic picture improves, as quickly as the group shot up, it could go right back down. So, where do we see value in the sector? It's admittedly harder to find, but we see value in names such as EXC and FE - companies with power market exposure where the sum-of-their-parts is arguably (in our view) worth more than the current valuation. Or, California utilities EIX, PCG & SRE whose valuations have been impacted by lingering issues that have adversely (and arguably overly, in our view) impacted investors' perceptions of the companies - over time, we think the narrative will change for the better in each of these names.

MDU Resource Group, Inc. (MDU/Market Perform) (Akers) - Yesterday (2/3) after the close, MDU initiated adjusted 2016 EPS guidance of $1.00-1.15, which excludes a projected $0.06-0.14 loss from the diesel refinery. The outlook compares with our $1.18 estimate ($1.16 ex-refinery) and consensus of $1.17. This represents the second year in a row where the base outlook (last year ex-E&P and this year ex-refinery) fell short of our expectations. Further, we note that '16 guidance is actually below the initial '15 outlook of $1.05-1.20, which was subsequently revised downward on a lower Services outlook (we expected a rebound based on backlog growth throughout '15), worsening refinery margins, and a few unusual items including weather. While the '16E mid-point represents a 5% increase over '15A ex-refinery EPS of $1.03, it is in line with '14A ex-refinery EPS of $1.08. We are disappointed in the lack of underlying growth. Separately, MDU lowered the long-term compound annual adjusted EPS growth goal to 5-8% from 7-10% - no surprise given the lower capex forecast provided in November.

For some quick valuation context, shares trade at 16.1X using the mid-point of adjusted '16E EPS guidance, a 7% discount to the '16E Regulated Electric Utility median of 17.4X. Keep in mind, however, that only 41% of MDU's EBITDA (now broken out by segment on a guidance basis) is derived from Utility operations. Another 48% is derived from more cyclical Construction operations and 10% is from Pipeline and Midstream. Year-to-date, shares have underperformed the S&P Utilities by 12%, likely reflecting falling construction multiples along with broader economic and energy (Bakken, diesel refinery, etc.) concerns. As such, the market may have been anticipating a challenged outlook, to some degree, though we expect additional weakness today.

MDU is hosting a conference call today at 10am ET.

Exelon Corporation (EXC-NYSE)
Price as of 2/3/2016: $31.61
FY 16 EPS: $2.55
FY 17 EPS: $2.75
Shares Out.: 861.2 MM
Market Cap.: $27,222.53 MM

FirstEnergy Corp. (FE-NYSE)
Price as of 2/3/2016: $33.52
FY 15 EPS: $2.70
FY 16 EPS: $2.85
Shares Out.: 422.0 MM
Market Cap.: $14,145.44 MM

Edison International (EIX-NYSE)
Price as of 2/3/2016: $64.07
FY 15 EPS: $3.80
FY 16 EPS: $3.70
Shares Out.: 325.8 MM
Market Cap.: $20,874.01 MM

PG&E Corporation (PCG-NYSE)
Price as of 2/3/2016: $57.46
FY 15 EPS: $3.05
FY 16 EPS: $3.80
Shares Out.: 489.2 MM
Market Cap.: $28,109.43 MM

Sempra Energy (SRE-NYSE)
Price as of 2/3/2016: $95.64
FY 15 EPS: $5.05
FY 16 EPS: $5.15
Shares Out.: 247.9 MM
Market Cap.: $23,709.16 MM

MDU Resources Group, Inc. (MDU-NYSE)
Price as of 2/3/2016: $17.34
FY 15 EPS: $0.92

Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.
All estimates/forecasts are as of 02/04/16 unless otherwise stated.

FY 16 EPS: $1.18
Shares Out.: 195.1 MM
Market Cap.: $3,383.03 MM

DISCLOSURE APPENDIX

Required Disclosures

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EXC: Risks include commodity price sensitivity and unfavorable regulatory/policy developments.
FE: Risks to our valuation include (1) failure to execute on transmission investment initiative, (2) regulatory risks, (3) unexpected costs at merchant and (4) interest rate sensitivity.
EIX: Key risks include regulatory and SONGS outage-related.
PCG: Primary risk is regulatory (investigations, rate cases, etc.).
SRE: Risks include negative regulatory outcomes, construction delays, and failure to execute on new projects.
MDU: Risks include commodity exposure, construction cyclicality, and project delays/cancellations.

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1 = Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2 = Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3 = Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
O = Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING
V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 4, 2016

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All estimates/forecasts are as of 02/04/16 unless otherwise stated.

Deutsche Bank
Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
4 February 2016

Results

Price at 3 Feb 2016 (USD)	31.61
Price target	36.00
52-week range	36.60 - 25.46

Doing no harm

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Target price raised $1 to $36 on improved cash flow forecast

We will admit to having been in the "don't raise the dividend prematurely" camp ahead of yesterday's call. In the event, the announced plan for modest 2.5% annual increases was well received and reads like a commitment to the regulated growth strategy. Similarly, a new slide showing GenCo free cash (+$0.5B at $3.2B over '16-18) driving leverage down almost a turn (3.2x to 2.3x) serves to further lock in a disciplined "do no harm" financial strategy. With growing regulated earnings, strong GenCo cash flow and an improving balance sheet EXC remains our preferred hybrid and a relatively low-risk way to retain meaningful power and clean energy optionality. Reiterate Buy.

Strategy starting to resonate; staying the course will be key

Aside from a commodity rally, potential catalysts include closing the POM merger (DC PSC decision still targeted by March 4) and state initiatives to recognize value of challenged nuclear units (NY and IL). Assuming POM closes, an in-depth analyst meeting update is expected on a June time frame. Meanwhile we see EXC having embarked on a more prudent financial course, acknowledging existential questions around the less profitable nuclear sites while emphasizing a "fortress balance sheet" strategy to sustain longer-lived assets. This is a very welcome, albeit somewhat new, disciplined tack for EXC; staying on course will be mission-critical in terms of credibility. One nuance worth noting is that GenCo de-levering was shown pre-POM; with POM cash build will be lower.

2016 guidance based on standalone view, DB estimates reflect POM

EXC released 2016 guidance of $2.40-$2.70 versus our $2.45E and $2.52 consensus. Note that our estimate includes POM, and EXC's guidance would have been lower had POM been included as the transaction is expected to be dilutive initially. We are making modest changes to our outlook for EXC's updated GenCo disclosures and utility net income forecasts, raising 2016E and 2017E by a nickel each to $2.50 and $2.65, but maintaining $2.75 for 2018E.

Valuation and risks; increasing PT on higher EBITDA forecast at ExGen

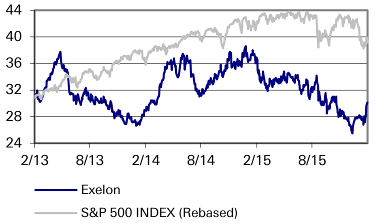
Our Sum-of-the-Parts target includes ~$25 for the T&D utilities (15x blended P/E on 2018E, including POM) and ~$11 for Generation (6.5x GenCo EBITDA). Downside risks are lower power and gas prices; degradation of earned utility ROEs; higher interest rates; higher-than-expected operating expenses; weaker retail margins; and a weaker-than-expected contribution from POM.

Key changes

Price target	35.00 to 36.00	↑	2.9%
EPS (USD)	2.45 to 2.50	↑	2.0%
Revenue (USDm)	32,720.7 to 32,832.3	↑	0.3%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	13.8	10.9	-14.4
S&P 500 INDEX	-6.4	-9.3	-6.7

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2015A	2016E	2017E
FY EPS (USD)	2.49	2.50	2.65
OLD FY EPS (USD)	2.43	2.45	–
% Change	2.7%	2.0%	–
DPS (USD)	1.24	1.26	1.29
Dividend yield (%)	3.9	4.0	4.1

Source: Deutsche Bank estimates, company data

Deutsche Bank Securities Inc.

Model updated:04 February 2016

Running the numbers

North America

United States

Utilities and Power

Exelon

Reuters: EXC.N	Bloomberg: EXC UN

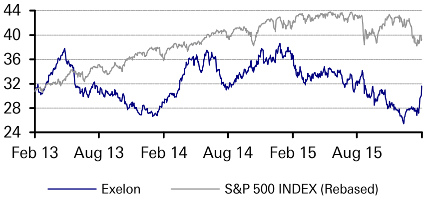
Buy

Price (3 Feb 16)	USD 31.61
Target Price	USD 36.00
52 Week range	USD 25.46 - 36.60
Market Cap (m)	USDm 29,192
	EURm 26,425

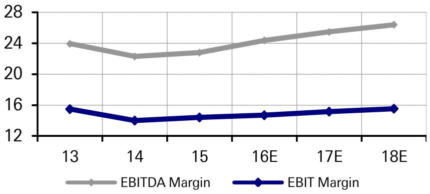
Company Profile

Exelon is a diversified utility with ownership of the largest nuclear fleet and retail services business in the U.S. and three regulated utilities serving Chicago, Philadelphia and Baltimore. EXC owns ~35,000MW of merchant generation capacity located primarily in the Midwest and Mid-Atlantic, with smaller gas-fired and nuclear assets in New England, New York, and Texas.

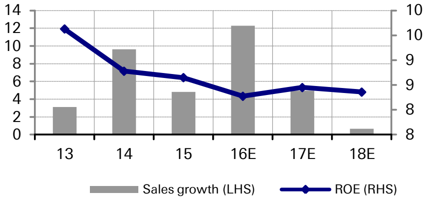
Price Performance



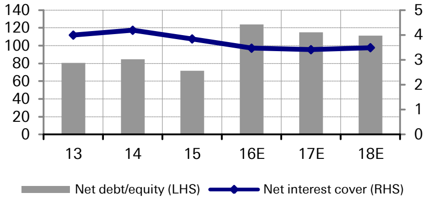
Margin Trends



Growth & Profitability



Solvency



Jonathan Arnold
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Fiscal year end 31-Dec	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (USD)	2.50	2.39	2.49	2.50	2.65	2.75
Reported EPS (USD)	2.50	2.39	2.49	2.50	2.65	2.75
DPS (USD)	1.46	1.24	1.24	1.26	1.29	1.33
BVPS (USD)	26.80	28.07	30.74	30.91	32.80	33.67
Valuation Metrics						
Price/Sales (x)	1.0	1.0	1.0	0.9	0.8	0.8
P/E (DB) (x)	12.4	14.0	12.8	12.7	11.9	11.5
P/E (Reported) (x)	12.4	14.0	12.8	12.7	11.9	11.5
P/BV (x)	1.0	1.3	0.9	1.0	1.0	0.9
FCF yield (%)	3.7	0.3	1.6	nm	nm	3.5
Dividend yield (%)	4.7	3.7	3.9	4.0	4.1	4.2
EV/Sales	1.3	1.4	1.3	1.6	1.6	1.6
EV/EBITDA	5.6	6.1	5.6	6.7	6.2	6.0
EV/EBIT	8.6	9.8	8.9	11.2	10.4	10.1
Income Statement (USDm)						
Sales	25,442	27,889	29,237	32,832	34,462	34,687
EBITDA	6,089	6,219	6,664	8,006	8,776	9,159
EBIT	3,941	3,906	4,213	4,824	5,226	5,391
Pre-tax profit	3,295	3,254	3,410	3,717	3,985	4,148
Net income	2,149	2,066	2,227	2,313	2,518	2,654
Cash Flow (USDm)						
Cash flow from operations	6,343	4,457	7,629	7,202	7,571	7,817
Net Capex	-5,363	-4,358	-7,179	-7,931	-7,675	-6,750
Free cash flow	980	99	450	-729	-104	1,067
Equity raised/(bought back)	47	0	1,902	40	1,215	40
Dividends paid	-1,249	-1,065	-1,105	-1,167	-1,226	-1,280
Net inc/(dec) in borrowings	588	2,040	4,694	1,625	1,240	215
Other investing/financing cash flows	-150	-805	-349	-6,837	-212	-212
Net cash flow	216	269	5,593	-7,068	913	-170
Change in working capital	*455*	*-3,247*	*-35*	*300*	*0*	*0*
Balance Sheet (USDm)						
Cash and cash equivalents	1,609	1,878	7,471	403	1,316	1,146
Property, plant & equipment	47,330	52,087	56,784	71,505	74,614	76,579
Goodwill	2,625	2,672	2,672	5,637	5,637	5,637
Other assets	28,360	30,177	29,227	32,873	32,873	32,873
Total assets	79,924	86,814	96,154	110,418	114,440	116,235
Debt	20,121	22,272	27,061	35,797	37,037	37,252
Other liabilities	36,863	40,409	41,732	46,075	46,350	46,515
Total liabilities	56,984	62,681	68,793	81,872	83,387	83,767
Total shareholders' equity	22,940	24,133	27,360	28,547	31,054	32,468
Net debt	*18,512*	*20,394*	*19,590*	*35,394*	*35,721*	*36,106*
Key Company Metrics						
Sales growth (%)	3.1	9.6	4.8	12.3	5.0	0.7
DB EPS growth (%)	-12.2	-4.3	4.3	0.1	6.2	3.5
Payout ratio (%)	58.0	51.6	49.6	50.4	48.7	48.2
EBITDA Margin (%)	23.9	22.3	22.8	24.4	25.5	26.4
EBIT Margin (%)	15.5	14.0	14.4	14.7	15.2	15.5
ROE (%)	9.6	8.8	8.6	8.3	8.4	8.4
Net debt/equity (%)	80.7	84.5	71.6	124.0	115.0	111.2
Net interest cover (x)	4.0	4.2	3.8	3.5	3.4	3.5
DuPont Analysis						
EBIT margin (%)	15.5	14.0	14.4	14.7	15.2	15.5
x Asset turnover (x)	0.3	0.3	0.3	0.3	0.3	0.3
x Financial cost ratio (x)	0.7	0.8	0.7	0.7	0.7	0.7
x Tax and other effects (x)	0.7	0.7	0.7	0.7	0.7	0.7
= ROA (post tax) (%)	2.7	2.5	2.4	2.2	2.2	2.3
x Financial leverage (x)	3.6	3.5	3.6	3.7	3.8	3.6
= ROE (%)	9.6	8.8	8.6	8.3	8.4	8.4
annual growth (%)	*-25.4*	*-8.8*	*-1.5*	*-4.4*	*2.1*	*-1.1*
x NTA/share (avg) (x)	25.9	27.2	28.8	30.2	31.4	32.8
= Reported EPS	2.50	2.39	2.49	2.50	2.65	2.75
annual growth (%)	*-12.1*	*-4.3*	*4.3*	*0.1*	*6.2*	*3.5*

Source: Company data, Deutsche Bank estimates

Modest dividend increases to begin in June

EXC management formally announced plans to begin raising the dividend 2.5% per year starting with the June 2016 payment. As a result, EXC's year-end rate would be $1.27/sh in 2016, $1.30 in 2017, and $1.34 in 2018. This implies a projected earnings payout ratio of 50% on consolidated EPS in 2016 but over a 100% payout of Utility and Corp/Other EPS on a standalone basis (no POM). With 7-9% earnings growth expected at EXC's legacy utilities, coverage by the utilities will improve through 2018 (with or without POM). A potential increase has been discussed as a possibility for the past few months and so the modest raise announced today was not a total surprise.

Game time for POM?

Increased regulated exposure still likely trumps other considerations

While some have been skeptical, management reiterated plans to walk away from the Pepco Holdings (POM) transaction as of March 4, if the DC Public Service Commission has not approved the deal by that time. Management reaffirmed plans to promptly initiate repurchase of the financing (equity and debt) issued to fund POM should the deal fail to close. As a reminder, EXC has received approval to purchase POM from all necessary regulatory jurisdictions except the DC Public Service Commission (PSC). DC rejected the deal back in August but has agreed to reconsider after EXC reached a settlement with the Mayor's office and other key constituents in the fall. It's been almost two years since the POM deal was announced, and we continue to have somewhat mixed feelings about the transaction, particularly after management revised EPS accretion forecasts on the last earnings call. On the one hand, POM increases EXC's regulated business mix at a time when many investors continue to question the long-term viability of merchant generation given the current natural gas and power price environment. And others have recently paid substantially higher prices to increase their regulated footprints or shore up organic growth rate shortfalls. On the other hand, POM has a long history of under-earning their allowed returns, a situation that has been aggravated by the merger approval process itself as POM has had to delay filing for much-needed rate relief. Overall though, at this point we believe EXC would be better off with POM than without – at least in terms of execution credibility.

Action still possible in NY and IL to support nuclear

While EXC's large merchant nuclear fleet has been challenged for some time by weak power prices and the company has threatened to close down a number of plants (although has yet to take any formal steps toward decommissioning), they arguably remain very well positioned to benefit from the implementation of EPA's Clean Power Plan (CPP). Compliance is not required to begin until 2020 and the rule could be struck down in courts but we do not believe the stock is reflecting much, if any, benefit for this long-term optionality. In addition, we continue to believe states like IL and NY could take action this year to prevent in-state nuclear generators from shutting down and thereby rendering CPP compliance more challenging. The IL legislature could reconsider legislation that would establish a Low Carbon Portfolio Standard this legislative session. In addition, the NY Public Service Commission is expected to vote on a Clean Energy Standard by early summer. Both would likely result in incremental revenues by next year for EXC's nuclear plants.

Raising estimates modestly

DB estimates reflect POM starting in Q2-16

We are raising our EPS estimates in 2016 and 2017 by a nickel each to $2.50 and $2.65, reflecting modestly higher earnings at the Utility and Generation segments. Our 2018 EPS forecast of $2.75 remains unchanged as a modest increase at Generation offsets a modest decrease at the Utility segment. As a reminder, our estimates continue to assume EXC is able to close on the proposed Pepco Holdings transaction at the start of Q2. Note that EXC's 2016 EPS guidance of $2.40-$2.70 excludes POM and assumes the relevant equity and debt financings are unwound. Also note that our estimates assume EXC uses free cash flow at Generation to pay off close to $2B of ExGen debt through 2018 ($1.2B of commercial paper and $700M of LT debt). We assume the rest of EXC's targeted $3.2B of free cash flow at ExGen (about $1B) will be sent to the parent to invest in the utilities/pay the dividend.

Valuation – SOTP PT raised $1 to $36

We value the utility segment by applying our baseline 15.0x P/E multiple to our 2018 estimates for ComEd and PECO, and a discounted 14.5x multiple for BG&E. We value 2018 POM earnings at a premium as we anticipate faster growth at this segment as EXC closes the gap between authorized and earned returns in 2018 and beyond.

Meanwhile, we value ExGen by applying a 6.5x EV/EBITDA multiple to our 2018 estimate. Our 6.5x multiple is a modest discount to our targeted 7x merchant EV/EBITDA multiple, as we believe a modest discount is merited given ExGen's still more limited free cash flow generation than IPP peers. On the flipside, EXC's nuclear fleet merits some incremental value vs. IPPs given the potential for new revenue streams from clean energy standards or a carbon trading scheme. EXC also has a stronger credit and leverage profile at ExGen than pure-play IPP peers.

Similar to our valuation methodologies for FirstEnergy and Entergy, we take a hybrid approach for the corporate / other segment. We derive a $33 price target when valuing the corporate segment EBITDA at a 6.5x EBITDA multiple and then subtracting corporate debt as a direct offset to equity value (effectively treating parent debt as being on the merchant business). In our other scenario we see a $38 price target valuing EXC's corporate earnings drag of $0.18/sh using our regulated distribution P/E multiple of 15.0x (treats parent debt as being on the utilities). Our $36 price target reflects a 50/50 weighting of these two book-end valuation approaches.

Figure 1: EXC SOTP Analysis

Valuation A

Business Segment	Valuation Metric	2018E	Multiple	Value
ComEd	P/E	$0.57	15.0x	8,237
PECO	P/E	$0.47	15.0x	6,749
BG&E	P/E	$0.33	14.5x	4,677
POM	P/E	$0.39	15.5x	5,883
Utility Equity Value				**25,546**
Generation / Retail / Corp	EV/EBITDA	3,238	6.50x	21,045
Less: Generation Net Debt				(7,257)
Less: Corp Net Debt				(7,143)
Non-Utility Equity Value				**6,645**
Total Equity Value				**32,190**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**33**

Valuation B

Business Segment	Valuation Metric	2018E	Multiple	Value
ComEd	P/E	$0.57	15.0x	8,237
PECO	P/E	$0.47	15.0x	6,749
BG&E	P/E	$0.33	14.5x	4,677
POM	P/E	$0.39	15.5x	5,883
Corp	P/E	($0.18)	15.0x	(2,550)
Utility & Corp. Equity Value				**22,996**
Generation / Retail	EV/EBITDA	3,198	6.50x	20,785
Less: Generation Net Debt (2018E)				(7,257)
Non-Utility Equity Value				**13,528**
Total Equity Value				**36,524**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**38**

Source: Deutsche Bank

Risks

Downside risks include lower-than-expected forward power prices, worse-than-anticipated rate case outcomes, lower retail margins given heightened competition, higher interest rates, and greater-than-anticipated near-term dilution associated with the POM deal.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	31.61 (USD) 3 Feb 16	14,15

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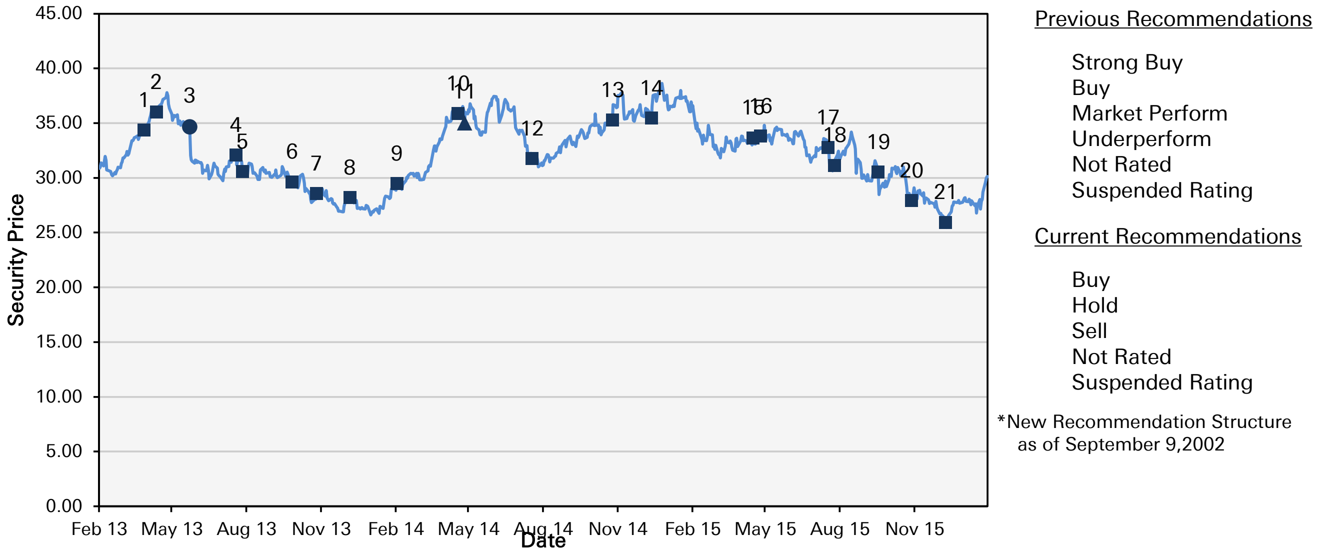
Historical recommendations and target price: Exelon (EXC.N)

(as of 2/3/2016)



1.	04/02/2013:	Buy, Target Price Change USD36.00
2.	04/17/2013:	Buy, Target Price Change USD38.00
3.	05/28/2013:	Downgrade to Hold, Target Price Change USD34.00
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5.	08/01/2013:	Hold, Target Price Change USD32.00
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7.	10/31/2013:	Hold, Target Price Change USD31.00
8.	12/11/2013:	Hold, Target Price Change USD30.00
9.	02/07/2014:	Hold, Target Price Change USD31.00
10.	04/23/2014:	Hold, Target Price Change USD34.00
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12.	07/23/2014:	Buy, Target Price Change USD36.00
13.	10/30/2014:	Buy, Target Price Change USD38.00
14.	12/17/2014:	Buy, Target Price Change USD43.00
15.	04/21/2015:	Buy, Target Price Change USD42.00
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20.	11/02/2015:	Buy, Target Price Change USD37.00
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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
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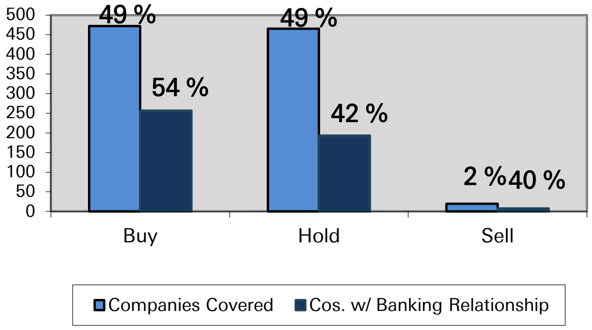

North American Universe

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COMPANY UPDATE
February 4, 2016

SunTrust Robinson Humphrey

Exelon Corporation (EXC)

Generation Portfolio Appears Significantly Undervalued In Current Stock Price

Buy

Price Target: $35.00
Prior: $33.00

Price (Feb. 3, 2016)	$31.61
52-Wk Range	$36.93-$25.46
Market Cap ($M)	$29,069
ADTV	7,559,946
Shares Out (M)	919.6
Short Interest Ratio/% Of Float	2.6%
Dividend/Yield	$1.24/3.9%
TR to Target	14.6%

ROE	8.0%
5 Year EPS Growth	5.0%
Debt/Cap	48%
P/B	1.10x
Enterprise Value ($M)	$50,413.4

	2015A	2016E		2017E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.71	$0.65	$0.64	$0.66	$0.66
2Q	$0.59	$0.55	$0.55	$0.57	$0.57
3Q	$0.83	$0.73	$0.73	$0.75	$0.75
4Q	$0.38	$0.54	$0.56	$0.58	$0.58
CY	$2.49	$2.46	$2.48	$2.54	$2.54
P/E	12.7x	12.8x		12.4x	
Consensus					
CY	$2.49	$2.52		$2.65	
Revenue ($M)					
CY	$29,237	$32,645	$31,645	$34,285	$33,685
Operating Margin (%)					
CY	13.40%	13.00%	13.30%	14.00%	14.20%
EBITDA ($M)					
CY	$6,684	$7,474	$7,515	$7,993	$8,000
EV/ EBITDA	7.5x	6.7x		6.3x	
FYE Dec					

What's Incremental To Our View

Our analysis suggests that EXC's merchant generation portfolio is currently being valued at a 30% discount to the publicly traded merchant power stocks. Based on latest peer valuations, we have raised our price target to $35 from $33.

IMPORTANT POINTS

- EXC reported 4Q results of $0.38 vs $0.48, modestly above our estimate of $0.37 but in line with consensus of $0.38. Relative to our assumptions, higher Regulated Utility earnings were largely offset by lower Generation earnings.

- Based on the latest forward commodity curves, updated hedge disclosures, and cost reduction targets, we have trimmed our 2016 estimate to $2.46 from $2.48. Our 2017 estimate remains $2.54. Our preliminary 2018 estimate is $2.67. Our estimates assume the company achieves 90%-95% of its Power and Non Power new business targets. If the company is successful in hitting 100% of its targets, there could be $0.08-$0.10 annual upside to our 2017-18 estimates.

- We remain confident that the Washington DC PSC will approve the acquisition of Pepco (POM - $26.64; Neutral), and our estimates assume that the acquisition is completed in 1Q 2016. We note that EXC has set a March 4th deadline for the completion of this acquisition. There are two regularly scheduled meetings (February 24th and March 2nd) for the Washington DC PSC prior to that date. In addition, the PSC can hold a special meeting at any time with a 48 hour notice.

- Our analysis suggests that at EXC's current stock price, its merchant generation portfolio is being valued at an implied EV / EBITDA multiple of 5.5x (based on our 2017 estimate), which is a 30% discount to the publicly traded merchant power stocks. If this discount persists, we believe there is an opportunity for management to unlock significant equity value through monetization options for this portfolio. As an illustration, if this portfolio were to be valued in line with the public peers, we calculate an incremental $7/ share equity value for EXC.

- EXC is currently trading at a 9% P/E multiple discount to the peer group (based on our 2017 estimate). Assuming a P/E multiple of 13.6x our 2017

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estimate of $2.54 (in line with the peer group), we have raised our price target to $35 from $33. Even our higher price target implies a 17% discount for the merchant portfolio. We reiterate our **Buy** recommendation.

- We have included our revised 2016-17 earnings and cash flow models in this report.

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Exelon Corporation (EXC)

Earnings Model, 2011A-2017E

(dollars in millions, except per share)

	2017E		2016E		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)														
Com Ed	5,150		5,000		4,905		4,564		4,464		5,443		6,056	
PECO	3,430		3,350		3,032		3,094		3,100		3,186		3,720	
BGE	3,465		3,380		3,135		3,165		3,065		2,204			
PEPCO	5,265		3,915											
Generation	18,000		18,000		18,925		17,853		16,190		15,502		10,502	
Other	(1,025)		(1,000)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,285	5.0%	32,645	11.7%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)														
Com Ed	1,180	22.9%	1,125	22.5%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	695	20.3%	660	19.7%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	610	17.6%	550	16.3%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	600		400											
Generation	1,725	9.6%	1,826	10.1%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(22)		(22)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)							(8)		102		59		(1)	
Total Operating Income	4,788	14.0%	4,539	13.9%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,345)		(1,285)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	251		250		276		262		238		252		178	
Pretax income	3,694		3,504		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,274	34.5%	1,209	34.5%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	15		15		13		134		14		11			
Equity Income (Loss)					(7)									
Net Income (% change)	2,405	5.5%	2,280	2.4%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	947.0		927.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.54	3.3%	$2.46	-1.2%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items														
Reported GAAP EPS														
EBITDA	7,993		7,474		6,684		6,242		6,191		6,180		6,177	
ComEd														
Total Retail Sales (millions mwhs)	93.0		92.0		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$12.7		$12.2		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO														
Total Electric Retail Sales (millions mwhs)	39.5		39.0		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$17.6		$16.9		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO														
Total Electric Retail Sales (millions mwhs)	50.0		38.0											
Implied Operating Margin ($/MWh)	$12.0		$10.5											
Generation														
Total Power Sales (millions mwhs)	204.2		198.5		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mwh)	$8.4		$9.2		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment														
Com Ed	525		490		432		410		421		381		403	
PECO	415		395		380		353		393		387		388	
BGE	310		270		277		199		195		46			
Generation	1,034		1,100		1,253		1,155		1,202		1,548		2,002	
PEPCO	265		180											
Other	(144)		(155)		(115)		(49)		(62)		(32)		(30)	
Total	2,405		2,280		2,227		2,068		2,149		2,330		2,763	

Note

1) Our PECO Implied Margin ratios factor in the impact of Gas sales.

2) Rate Base - Com Ed: $8.7bn in 2013, $9.5bn in 2014, $10.8bn in 2015, $11.8bn in 2016, $12.8bn in 2017; PECO: $5.4bn in 2013, $5.7bn in 2014, $6.0bn in 2015, $6.5bn in 2016, $6.9bn in 2017; BGE: $4.6bn in 2013, $4.9bn in 2014, $5.0bn in 2015, $5.3bn in 2016, $5.9bn in 2017; PEPCO: $8.8bn in 2016 and $9.7bn in 2017.

3) Earned ROE - Com Ed: 9.7% in 2013, 8.5% in 2014, 8.0% in 2015, 8.3% in 2016, 8.2% in 2017; PECO: 13.7% in 2013, 11.3% in 2014, 11.7% in 2015, 11.5% in 2016, 11.3% in 2017; BGE: 8.5% in 2013, 7.8% in 2014, 10.7% in 2015, 10.2% in 2016, 10.5% in 2017; PEPCO: 5.5% in 2016 and 5.5% in 2017.

4) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

5) We assume EXC achieves 95% of its growth targets for Power and Non Power new business for 2016 and 90% from 2017 onwards.

6) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

7) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

8) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2017E

($ in millions except per share)

	2017E	2016E	2015A	2014A	2013A	2012A	2011A
Net income	2,405	2,280	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	4,925	4,820	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,205	6,975	7,634	4,457	6,343	6,131	4,853
Dividends	(1,174)	(1,148)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(7,775)	(8,005)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	(1,744)	(2,178)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Incremental earnings from the PJM Capacity auctions, earnings accretion and strategic benefits of the POM acquisition (coupled with the ability to offset any dilution if POM deal falls apart), and a discounted stock valuation imply attractive total return prospects.

Valuation and Risks

VALUATION

Based on a P/E multiple of 13.6x our 2017 estimate of $2.54 (in line with the peer group), we derive our price target of $35.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Regulatory approval of the POM acquisition and use of excess capital if the deal falls apart.

Companies Mentioned in This Note

Pepco (POM, $26.64, Neutral)

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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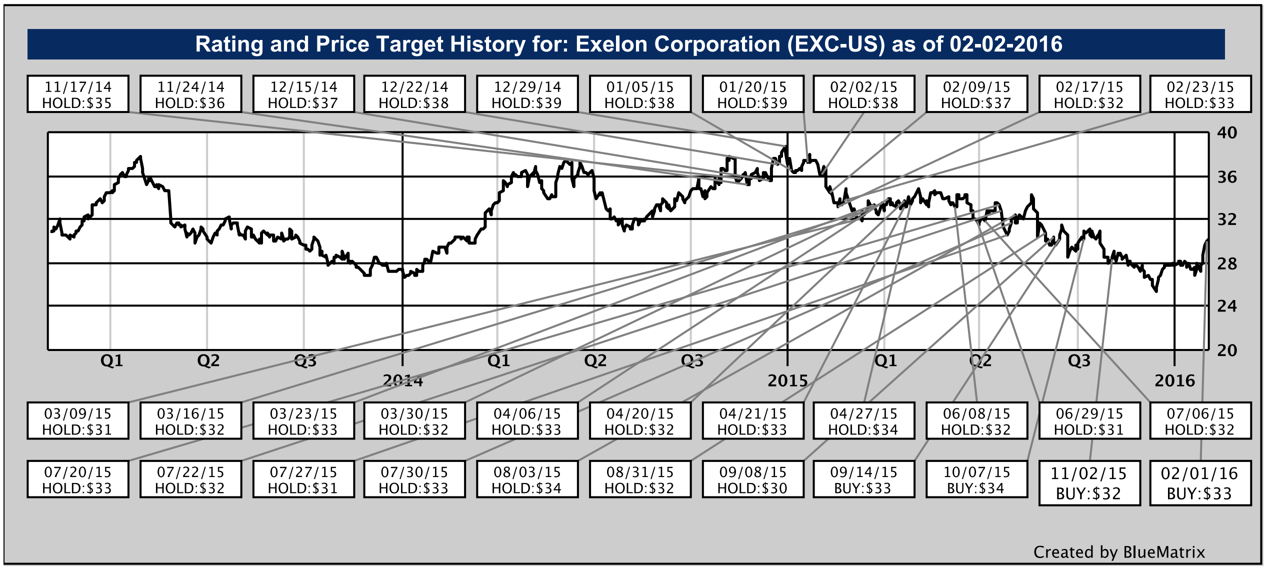

Rating and Price Target History for: Exelon Corporation (EXC-US) as of 02-02-2016

Created by BlueMatrix

STRH Ratings System for Equity Securities

3 designations based on total returns* within a 12-month period**

- **Buy** – total return ≥ 15% (10% for low-Beta securities)***
- **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
- **Neutral** – total return is within the bounds above
- **NR** – NOT RATED, STRH does not provide equity research coverage
- **CS** – Coverage Suspended

*Total return (price appreciation + dividends)
**Price targets are within a 12-month period, unless otherwise noted
***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average Beta

Legend for Rating and Price Target History Charts:
D = drop coverage
I = initiate coverage
T = transfer coverage

SunTrust Robinson Humphrey ratings distribution (as of 02/04/2016):

Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	357	55.52%	Buy	131	36.69%
Neutral	280	43.55%	Neutral	64	22.86%
Sell/Reduce	6	0.93%	Sell/Reduce	2	33.33%

Other Disclosures

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon Surprises With 2.5% Dividend Growth Target

See Page 2 for the full Analyst Note from 03 Feb 2016

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The primary analyst covering this company does not own its stock.

Research as of 03 Feb 2016
Estimates as of 06 Oct 2015
Pricing data through 10 Feb 2016
Rating updated as of 10 Feb 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Oct 2015

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and made a $12 billion bid for Pepco in April 2014, both including debt. Management's political negotiations appear to have revived the deal in Washington, D.C., where regulators had rejected it in August 2015. We now expect it has a 75% chance of closing. Exelon has received all other regulatory approvals.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our outlook for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can grow earnings 10% annually the next three years.

Vital Statistics

Market Cap (USD Mil)	28,617
52-Week High (USD)	35.10
52-Week Low (USD)	25.09
52-Week Total Return %	-6.7
YTD Total Return %	13.2
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.9
Price/Fair Value	0.89

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	*12.7*	*13.0*
EV/EBITDA	7.3	9.5	*7.7*	*7.6*
EV/EBIT	11.6	16.7	*12.6*	*12.6*
Free Cash Flow Yield %	4.0	-5.1	*2.8*	*-1.3*
Dividend Yield %	5.3	3.3	*3.8*	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,184*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,826*
EBIT YoY %	53.6	-15.3	*23.4*	*0.1*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,065*
Net Income YoY %	-7.9	-4.0	*2.9*	*-2.9*
Diluted EPS	2.50	2.39	*2.46*	*2.39*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.0*
Free Cash Flow	1,500	305	*1,364*	*136*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers at Commonwealth Edison (Illinois), PECO (Pennsylvania), and Baltimore Gas & Electric (Maryland). Exelon also owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. Exelon also is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Exelon Surprises With 2.5% Dividend Growth Target 03 Feb 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

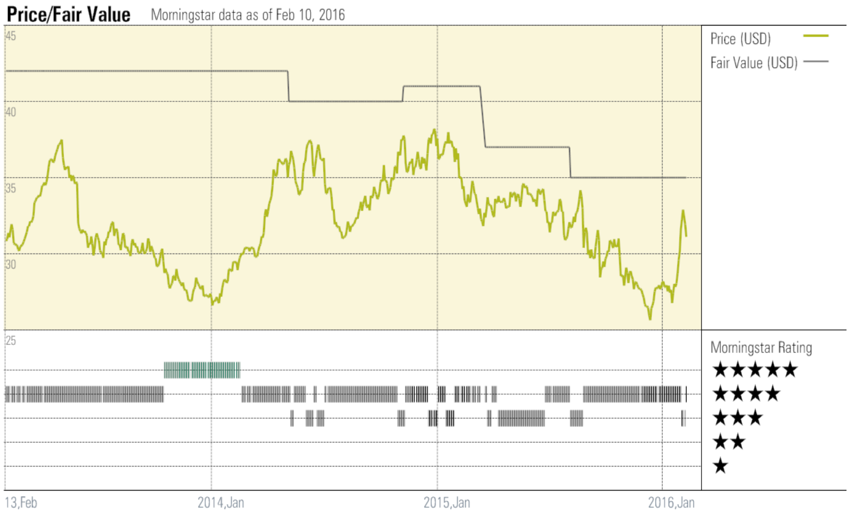
Valuation, Growth and Profitability 06 Oct 2015

We are reaffirming our $35 per share fair value estimate after raising our probability of the Pepco acquisition closing to 75% from 25% as a result of an agreement the companies reportedly reached with the Washington, D.C., mayor's office on Oct. 6. Although we think the deal is value-dilutive, it is too small to have a material impact on our fair value estimate. Exelon's $27.25-per-share cash offer represents a 30% premium to our $21 per share standalone fair value estimate for Pepco.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities (Ill.), Oyster Creek (N.J.), and Three Mile Island (Pa.)--as well as the Clinton (Ill.) plant. We now assume a 50% probability that the Byron (Ill.) plant will retire given it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4/mcf midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At



the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets leads to a wider range of outcomes in our base, high, and low scenarios. A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 15% change in our open midcycle EPS estimate and an $800 million change in EBITDA. Our fair value estimate would change by $6 per share. On a mark-to-market basis as of early August, our fair value estimate would be $31 per share and our midcycle EPS would be $3.00.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 2 percentage points to near the industry average, it would change our fair value estimate by $3 per share. If Exelon does not retire the Clinton, Quad Cities, and Byron plants, it would add $3 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, that spread between long-term returns on capital and Exelon's cost of capital have shrunk based on our midcycle outlook for power prices in the eastern U.S. Exelon's increasing diversification into narrow- and no-moat businesses together with the shrinking returns at its nuclear generation business supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources like coal and natural gas reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must continue to have access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are proving there are some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs and generate large profits even with currently depressed power prices.

- Higher natural gas and coal prices, rising electricity demand and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.

- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.

- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow moat distribution earnings.

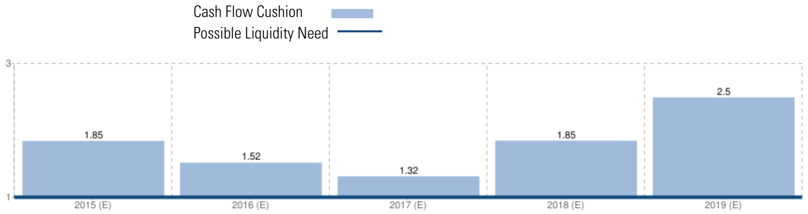
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	1,878	3,024	2,138	1,826	3,387
Adjusted Available Cash Flow	2,334	1,316	1,954	3,642	4,071
Total Cash Available before Debt Service	4,212	4,340	4,092	5,469	7,458
Principal Payments	-976	-1,500	-1,500	-1,250	-1,250
Interest Payments	-999	-1,044	-1,139	-1,238	-1,271
Other Cash Obligations and Commitments	-303	-303	-463	-464	-463
Total Cash Obligations and Commitments	-2,278	-2,847	-3,102	-2,952	-2,984

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	1,878	13.3
Sum of 5-Year Adjusted Free Cash Flow	13,317	94.0
Sum of Cash and 5-Year Cash Generation	15,195	107.3
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	15,195	107.3
Sum of 5-Year Cash Commitments	-14,163	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets. The 2007-08 commodity boom led management to raise the dividend and buy back stock. But as power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow. We expect the dividend to stay at this level for at least the next two years.

The Pepco acquisition would increase consolidated leverage, but most of that additional leverage will be debt at the regulated utilities. We don't expect a material change in parentco or Exelon Generation leverage.

We think Exelon will have sufficient cash coverage to keep its investment-grade credit rating and current dividend at least through 2016 based on current market conditions. Even through these lean years, we expect Exelon can generate at least $2 billion of cash flow after incorporating new financing and excluding discretionary growth investments. We project Exelon's consolidated EBITDA/interest coverage will drop from 9 times in 2011 to 6 times by 2015 and leverage to rise to 3.4 times debt/EBITDA in 2015 from 2 times in 2011.

More than half of Exelon's consolidated debt is secured at the regulated utilities. This is in line with the utilities' regulator-approved capital structure, and we don't expect a material change. Apart from the utilities, Exelon has an average $485 million of annual debt maturities at Exelon Generation through 2017. As long as power markets remain relatively stable and Exelon can maintain its investment-grade ratings, we don't expect it to have trouble refinancing those maturities.

Exelon's pension and nuclear decommissioning funds are well-funded now, but if interest rates stay low, Exelon could have to contribute more cash.

Enterprise Risk

Investors should pay the most attention to political developments that would re-regulate competitive electricity markets in the Midwest and Mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.Reregulation also would destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.As Exelon's regulated utilities generate a greater share of earnings, investors will be subject more acutely to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	240,157	25 Jan 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		69,056	25 Jan 2016	—
MR. KENNETH W. CORNEW		62,844	25 Jan 2016	—
MS. ANNE R. PRAMAGGIORE		52,825	28 Jan 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	3.27	1.24	—	31 Dec 2015
Franklin Income Fund	2.17	0.73	-5,000	31 Dec 2015
Vanguard Total Stock Mkt Idx	1.83	0.12	1,326	31 Dec 2015
Vanguard Wellington™	1.57	0.51	5,789	30 Sep 2015
Utilities Select Sector SPDR® Fund	1.35	5.06	183	03 Feb 2016
Concentrated Holders				
Fidelity Advisor® Utilities Fund	0.11	11.68	23	31 Dec 2015
Fidelity VIP Utilities Portfolio	0.04	11.67	11	31 Dec 2015
Fidelity® Select Utilities Portfolio	0.30	11.64	19	31 Dec 2015
Fidelity® Telecom and Utilities Fund	0.26	7.86	—	31 Dec 2015
Vanguard Market Neutral	0.01	6.77	12	30 Sep 2015

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Fidelity Management and Research Company	5.31	0.22	11,560	30 Sep 2015
Wellington Management Company LLP	2.55	0.19	7,058	30 Sep 2015
BlackRock Advisors LLC	0.64	0.18	4,149	30 Sep 2015
Columbia Mangmt Investment Advisers, LLC	0.41	0.08	3,255	30 Sep 2015
Quantitative Management Associates LLC	0.53	0.30	3,200	30 Sep 2015
Top 5 Sellers				
Goldman, Sachs & Co.	0.22	0.03	-28,366	30 Sep 2015
T. Rowe Price Associates, Inc.	2.20	0.13	-14,689	30 Sep 2015
Capital Research Global Investors	6.00	0.58	-10,388	30 Sep 2015
Franklin Advisers Inc	3.99	0.89	-7,985	30 Sep 2015
J.P. Morgan Investment Management Inc	0.85	0.11	-3,887	30 Sep 2015

Management 06 Oct 2015

We give Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and Executive Chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and Chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition in 2015. This will increase Exelon's share of regulated utilities earnings and dilute shareholders' exposure to wholesale power markets. Management has shown strong conviction in the value of the deal based on their efforts to gain support for the deal from all parties, particularly in Washington, D.C.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants absent significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creation opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon

formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Analyst Notes

Supreme Court Sides With Demand Response; No Fair Value Impacts 25 Jan 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Independent power producers and diversified utilities are trading at a significant discount to our fair value estimates, and the Supreme Court's ruling has no material impact on our long-term thesis. We believe the market reaction was overly pessimistic to the ruling and presents a buying opportunity for those with the appropriate risk appetite. We highlight Dynegy and Exelon as those with the most exposure to PJM. Calpine, FirstEnergy, NRG Energy, and Public Service Enterprise Group also have material levels of generation in PJM.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal 11 Nov 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals 30 Oct 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year 26 Oct 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C.

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Analyst Notes

commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco 06 Oct 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners 30 Sep 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Postpones Nuclear Plant Retirement Decision; No Fair Value Impact 10 Sep 2015

We are reaffirming our $35 per share fair value estimate for Exelon after management announced it will delay a decision whether to close at least three of its struggling nuclear plants. We recently incorporated into our fair value estimate and financial projections the assumption that it was more likely than not that Exelon would close those three plants in 2018. We also assume a 50% likelihood that Exelon will close its Byron (Illinois) nuclear plant in 2019.

Results of the recent 2016-18 PJM transitional capacity auctions and management's decision to delay potential retirements do not change our assumptions that those plants ultimately will close, absent significant energy market or public policy changes. The Quad Cities (Illinois), Three Mile Island (Pennsylvania), and Oyster Creek (New Jersey) plants are obligated to run at least through mid-2018, and the Byron plant is obligated to run through mid-2019 based on results from PJM's recent capacity auctions.

The key development for Exelon in last week's 2017-18 transitional capacity auction was that the Quad Cities and Byron plants cleared and are now obligated to run. Neither cleared PJM's 2017-18 base capacity auction last year at $120/megawatt-day but did clear last week's capacity performance transitional auction at $151.50/MW-day. Including those plants and the uplift for the rest of the fleet adds about $400 million of EBITDA in 2017-18.

The Clinton (Illinois) plant is the fourth that we assume will close by 2018. It is not part of PJM. It is obligated to run at least through 2016 as part of the Mid-Continent ISO. Exelon continues to lobby Illinois politicians to adopt a subsidy-like scheme that would improve the economics for its six Illinois nuclear plants. We do not include any benefits from policy changes in our fair value estimate.

D.C. Commission Rejects Pepco-Exelon Merger; Lowering Pepco Fair Value Estimate 26 Aug 2015

We are lowering our fair value estimate of Pepco Holdings Inc. to $23 per share from $27 per share, following the decision by the Public Service Commission of the District of Columbia to deny the merger with Exelon Corp, which caused Pepco shares to close down 16.5% on Tuesday. At the time of the merger in April 2014, we had believed the transaction would be value-dilutive for Exelon, and we are reviewing our $35 per share fair value estimate. We note that Exelon shares were down almost 7% on Tuesday, on which day the overall market and utilities were also weak. Our narrow moat and stable moat trend are unchanged for both companies.

Exelon and Pepco issued a joint press release indicating that they were reviewing their options and will respond once the process is complete. A summary of the decision indicated that the D.C. commission did not believe the merger would provide sufficient benefits to customers or guarantees for improvements in reliability. The commission was also concerned that under the new management structure Pepco would become "a second-tier company in a much larger corporation whose primary interest is not in distribution, but in generation." The full decision is due Wednesday, and the companies have 30 days to appeal the decision.

We were surprised by the decision, as we had believed the most difficult regulatory hurdle would be in Maryland. Pepco and Exelon agreed to stringent conditions and additional customer benefits imposed by the Maryland Public Service Commission on May 18. We thought the commission in D. C., the last jurisdiction needed to approve the deal, would agree to similar conditions. They did not.

Our new fair value estimate assumes that there is now only a 25% chance of the transaction being restructured to satisfy the D.C. regulators. If the deal is abandoned, our standalone fair value estimate for Pepco is $21 per share.

PJM Auction Results In Line With Our Forecast in First Auction With Capacity Performance Inclusion 24 Aug 2015

Capacity prices across most of the 13-state PJM Interconnection region cleared at $165/MW-day for capacity performance, or CP, and $150/MW-day for base generation for 2018-19. This is comparable to $120/MW-day for last year's 2017-18 results, in which there was no separate CP auction. The results are in line with our auction expectations, in which we previously expected CP to clear at $150/MW-day and base capacity at $140/MW-day for the 2018-19 auction. We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover, as we are maintaining our midcycle capacity assumptions.

Capacity revenue provides significant pretax earnings for our independent power producers and diversified utilities for any one auction year. Dynegy in our opinion is the largest winner from strong base capacity results, as half of its generation is now in PJM. For every $100/MW-day change in capacity prices, we estimate that Dynegy benefits $385 million in pretax earnings. Exelon's fleet also benefited from a strong clearing in the Commonwealth Edison, or COMED, locational deliverability area, or LDA, with CP clearing at $215/MW-day and $200/MW-day for base generation capacity. However, we do not believe that Exelon's Illinois Quad Cities and Byron nuclear units cleared the auction at these prices. B ased on recent management commentary, w e continue to expect Exelon to close these two plants by the end of 2016, with a final decision expected in September. Public Service Enterprise Group, or PSEG, also benefits from strong base results for the second year in a row, with base capacity clearing in the Eastern Mid-Atlantic Area Council, or EMAAC, LDA clearing at $210/MW-day for base generation and $225/MW-day for CP. The premium clearing price in the PSEG region shows the competitive advantage of PSEG's fleet and supports our positive moat trend. Higher capacity prices also benefit Calpine, FirstEnergy, and NRG Energy.

After delaying the base residual auction 3 months to gain FERC approval of the new CP product, PJM posted the results of the 2018-19 auction Friday afternoon. CP in the RTO region cleared slightly above expectations at $164.77/MW-day, above the market’s tempered expectations of ~$155/MW-day before the auction. The big upside surprise to the market was the base capacity resource constraint, clearing only ~$15 below CP in every region except PPL. While base capacity only represents 20% of total generation clearing, market participants had expected ~$80-$100 base discount to CP in all regions. Breakout regions that reached transmission limits and had to bid on costlier internal generation include EMAAC and COMED, which cleared $225 and $215, respectively. The COMED breakout is likely

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Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

due to the increased generation needed after PJM abolished the short-term resource procurement target (629 MW in 2017-18). We also believe that Byron and Quad Cities continue to submit uncompetitive offers and did not clear. In all, 166,836 unforced megawatts were procured in the auction, with 133,468 MW exposed to the new CP penalties. Almost 3,000 MW of new generation cleared the auction, the vast majority of which came from gas combined-cycle and combustion turbine plants. As previously detailed, the increases in pricing were driven by increased penalties imposed in a CP world, but were tempered by penalties already priced into the existing regime (shortage pricing).

We recently highlighted the distinct possibility that base capacity would clear only at a small discount to CP. Our forecast called for only a $10 discount between the CP and base clears for two reasons: the marginal cost of capacity for the types of units offering into the base auction could actually be higher due to lower expected total energy revenues (low capacity factors) and because the base auction also has penalty risk (just with tighter stop-losses and June-September compliance). We caution our readers not to infer that the $15 spread between CP and base was the “CP Premium”. The more appropriate measure, although not perfect, would be to compare the 2017-18 auction with the 2018-19 CP auction, which increased from $120 in the RTO to $164, a $44 premium.

Given the uncertainty surrounding DR with respect to Supreme Court hearing EPSA vs. FERC and shorter lead times imposed on DR by PJM, we expected DR clearing the auction to trend downward. This was not the case. 11,084 MW of DR cleared the 2018-19 auction, an increase of 110 MW. We expected DR to drop off substantially and PJM to clear new combined cycle generation as replacement. The DR resilience was the reason only 2,919 MW of new generation cleared, versus 5,927 last year, as DR will always have a lower cost of capacity than new generation. We suspect that DR views the Supreme Court review as a free option and will continue to offer until resolved.

We presented a detailed analysis of the PJM power markets in our Utilities Observer, "Mid-Atlantic Market Outlook: May the Power Be With You," published in May. Additionally, we analyzed the impacts of capacity performance on upcoming capacity auctions in "PJM Capacity Performance: Don't Get Too Excited."

Upcoming PJM Capacity Auction Could Prove Disappointing 17 Aug 2015

We are reaffirming our fair value estimates and our moat and moat trend ratings for our independent power producers and diversified utilities ahead of the upcoming 2018/19 Planning Year auction for Capacity Performance, or CP. The capacity auction is currently under way, with results posted Aug. 21.

In June, the Federal Energy Regulatory Commission approved the proposal from PJM Interconnection to implement CP in its 2018/19 base residual auction, which PJM began on Aug. 10. CP increases the marginal capacity cost for marginal generators, but the bullish impact should be less than the market expects. We maintain our previous estimate that the combination of CP, reduced impact from demand response, and increased confidence of marginal generators to raise prices will cause CP to clear at $150 per megawatt-day and base capacity at $140/MW-day for the 2018-19 auction.

We believe that previous auctions already priced in existing non-CP performance penalties, such as those a generator must pay if it cannot deliver energy during reserve shortages. CP is a further-reaching, stricter penalty structure for nonperformance outside of reserve shortages. Although generators participating in CP will not be constrained by their avoidable cost rates this year, which will allow generation to offer up to net cost of new entry times the balancing ratio, we suspect that few generators will raise offer prices for this reason alone. We also highlight the possible expected increase in dark spreads over the 2018–19 time frame due to the large increase in LNG exports over this time period; this could add downside pressure to capacity offers from coal generation in PJM.

Capacity revenue provides significant pretax earnings for our independent power producers and diversified utilities for any one auction year; however, we are unlikely to change our midcycle capacity assumptions. Dynegy should be either the biggest beneficiary or the biggest loser, given that half of its generation is now in PJM. If capacity prices rise $100/MW-day, we estimate that Dynegy could realize $385 million in additional pretax earnings. We estimate that a similar increase would boost pretax earnings $500 million for Exelon, the largest generator in PJM, and $165 million for Calpine, which has 20% of its fleet in PJM. Higher capacity prices also benefit Public Service Enterprise Group, FirstEnergy, and NRG Energy.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*2015*	*2016*	*5-Year Proj. CAGR*
Revenue	*13.2*	24.1	6.0	10.2	*-17.0*	*10.6*	*3.5*
EBIT	*-11.6*	-46.9	53.6	-15.3	*23.4*	*0.1*	*13.9*
EBITDA	*-2.4*	-26.7	36.3	-6.9	*15.0*	*1.7*	*10.1*
Net Income	*-9.3*	-15.6	-7.9	-4.0	*2.9*	*-2.9*	*10.0*
Diluted EPS	*-16.9*	-31.5	-12.3	-4.4	*2.9*	*-3.0*	*9.9*
Earnings Before Interest, after Tax	*-7.3*	-43.1	-13.1	61.0	*-30.3*	*-7.4*	*-1.0*
Free Cash Flow	*-19.5*	231.6	-22.5	-79.7	*347.7*	*-90.0*	*59.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Operating Margin %	*12.0*	10.1	14.7	11.3	*16.8*	*15.2*	*16.4*
EBITDA Margin %	*20.4*	18.1	23.3	19.7	*27.3*	*25.1*	*25.9*
Net Margin %	*8.7*	9.9	8.6	7.5	*9.3*	*8.2*	*9.0*
Free Cash Flow Margin %	*5.1*	8.2	6.0	1.1	*6.0*	*0.5*	*5.5*
ROIC %	*2.2*	1.6	2.5	2.5	*5.2*	*5.2*	*5.7*
Adjusted ROIC %	*2.3*	1.7	2.7	2.7	*5.4*	*5.4*	*6.0*
Return on Assets %	*2.0*	1.7	2.2	2.0	*2.4*	*2.3*	*2.7*
Return on Equity %	*7.1*	6.4	7.7	7.1	*9.0*	*8.3*	*9.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Debt/Capital	*0.48*	0.47	0.47	0.49	*0.49*	*0.48*	*0.47*
Total Debt/EBITDA	*4.06*	4.60	3.46	4.12	*3.71*	*3.73*	*3.42*
EBITDA/Interest Expense	*4.65*	4.59	4.28	5.08	*6.23*	*6.06*	*6.27*

Valuation Summary and Forecasts

	2013	2014	*2015(E)*	*2016(E)*
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	*12.7*	*13.0*
EV/EBITDA	7.3	9.5	*7.7*	*7.6*
EV/EBIT	11.6	16.7	*12.6*	*12.6*
Free Cash Flow Yield %	4.0	-5.1	*2.8*	*-1.3*
Dividend Yield %	5.3	3.3	*3.8*	*3.8*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,148	12.3	7.11
Present Value Stage II	15,608	31.3	18.05
Present Value Stage III	28,162	56.4	32.56
Total Firm Value	**49,918**	**100.0**	**57.72**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-789	—	-0.91
Equity Value	**28,736**	**—**	**33.22**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,184***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*10,000*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,184***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,082***
Income Tax Expense	627	1,044	666	*1,047*	*1,017*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,065***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.39***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,065*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.39***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,326***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,326***

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Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,138*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,140*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,055***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,321***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,955*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,417***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,717***

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast 2015	Forecast 2016
Net Income	1,171	1,729	1,820	2,125	2,065
Depreciation	4,079	3,779	3,868	2,400	2,500
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	425	200
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	718	-149
(Increase) Decrease in Inventory	26	-100	-380	902	-175
Change in Other Short-Term Assets	-265	742	-2,758	763	—
Increase (Decrease) in Accounts Payable	-632	-90	209	-1,186	322
Change in Other Short-Term Liabilities	—	—	—	56	—
Cash From Operations	**6,131**	**6,343**	**4,457**	**6,203**	**4,762**
(Capital Expenditures)	-5,789	-5,395	-6,077	-5,400	-5,125
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	126	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	**-5,274**	**-5,125**
Common Stock Issuance (or Repurchase)	72	47	35	30	50
Common Stock (Dividends)	-1,716	-1,249	-1,065	-1,072	-1,073
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	800	500
Other Financing Cash Flows	-126	-422	-599	-32	—
Cash From Financing	**-1,085**	**-826**	**411**	**-274**	**-523**
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	491	—
Net Change in Cash	**470**	**123**	**269**	**1,146**	**-886**

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31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	1.12	15.0	*14.9*	*15.3*	7.6	*7.5*	*7.5*	61.6	*NM*	*NM*	1.7	*1.7*	*1.6*	1.9	*2.0*	*1.9*
FirstEnergy Corp FE USA	0.91	15.3	*12.5*	*11.4*	16.5	*9.2*	*8.7*	NM	*24.1*	*NM*	1.3	*1.1*	*1.0*	1.1	*1.0*	*1.0*
Entergy Corp ETR USA	0.95	15.0	*12.2*	*14.1*	6.6	*18.0*	*7.8*	8.9	*NM*	*59.1*	1.6	*1.3*	*1.3*	1.3	*1.1*	*1.0*
Average		15.1	*13.2*	*13.6*	10.2	*11.6*	*8.0*	35.3	*24.1*	*59.1*	1.5	*1.4*	*1.3*	1.4	*1.4*	*1.3*
Exelon Corp EXC US	**0.89**	**15.5**	***12.7***	***13.0***	**9.5**	***7.7***	***7.6***	**NM**	***35.6***	***NM***	**1.4**	***1.2***	***1.1***	**1.2**	***1.3***	***1.1***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	35,333 USD	8.4	*6.6*	*6.5*	8.4	*6.6*	*6.6*	12.8	*11.6*	*10.8*	4.5	*4.1*	*3.8*	3.6	*3.5*	*3.7*
FirstEnergy Corp FE USA	52,166 USD	1.8	*5.4*	*4.5*	2.1	*6.4*	*5.3*	2.4	*9.0*	*9.4*	0.6	*2.2*	*2.3*	3.7	*4.3*	*4.5*
Entergy Corp ETR USA	— USD	6.8	*1.5*	*5.0*	6.9	*1.5*	*5.1*	9.6	*1.8*	*9.5*	2.1	*0.4*	*1.9*	3.8	*4.7*	*4.9*
Average		5.7	*4.5*	*5.3*	5.8	*4.8*	*5.7*	8.3	*7.5*	*9.9*	2.4	*2.2*	*2.7*	3.7	*4.2*	*4.4*
Exelon Corp EXC US	**86,814** USD	**2.5**	***5.2***	***5.2***	**2.7**	***5.4***	***5.4***	**7.1**	***9.0***	***8.3***	**2.0**	***2.4***	***2.3***	**3.3**	***3.8***	***3.8***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	10,886 USD	9.2	*0.3*	*2.1*	14.1	*4.2*	*-2.7*	7.0	*4.0*	*-2.6*	-26.4	*-68.5*	*-481.4*	2.8	*5.4*	*5.1*
FirstEnergy Corp FE USA	15,049 USD	0.9	*-2.5*	*-3.0*	-55.8	*154.3*	*7.4*	-15.7	*5.7*	*9.5*	56.3	*158.4*	*-55.5*	-34.6	*—*	*5.6*
Entergy Corp ETR USA	12,495 USD	9.7	*-3.2*	*0.8*	32.3	*-15.1*	*6.7*	8.7	*0.4*	*-13.5*	41.9	*-193.0*	*-119.8*	—	*0.6*	*2.7*
Average		6.6	*-1.8*	*0.0*	-3.1	*47.8*	*3.8*	—	*3.4*	*-2.2*	23.9	*-34.4*	*-218.9*	-15.9	*3.0*	*4.5*
Exelon Corp EXC US	**27,429** USD	**10.2**	***-17.0***	***10.6***	**-15.3**	***23.4***	***0.1***	**-4.4**	***2.9***	***-3.0***	**-79.7**	***347.7***	***-90.0***	**-15.1**	***—***	***—***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	**Gross Margin %**			**EBITDA Margin %**			**Operating Margin %**			**Net Margin %**			**Free Cash Flow Margin %**		
		2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	1,402 USD	64.3	*65.3*	*65.4*	35.4	*37.1*	*36.3*	24.1	*25.0*	*23.9*	12.9	*13.4*	*12.8*	3.1	*-1.5*	*-5.8*
FirstEnergy Corp FE USA	1,075 USD	53.5	*55.9*	*57.9*	15.2	*26.8*	*29.5*	7.1	*18.4*	*20.4*	7.1	*7.8*	*8.8*	-4.0	*4.0*	*-1.8*
Entergy Corp ETR USA	1,050 USD	63.6	*62.4*	*63.9*	34.5	*11.9*	*27.0*	17.5	*15.4*	*16.2*	8.4	*8.7*	*7.5*	14.2	*-12.8*	*1.8*
Average		60.5	*61.2*	*62.4*	28.4	*25.3*	*30.9*	16.2	*19.6*	*20.2*	9.5	*10.0*	*9.7*	4.4	*-3.4*	*-1.9*
Exelon Corp EXC US	**2,065** USD	**52.6**	***65.9***	***60.3***	**19.7**	***27.3***	***25.1***	**11.3**	***16.8***	***15.2***	**7.5**	***9.3***	***8.2***	**-5.9**	***3.5***	***-1.4***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	**Debt/Equity %**			**Debt/Total Cap %**			**EBITDA/Interest Exp.**			**Total Debt/EBITDA**			**Assets/Equity**		
		2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	9,144 USD	75.0	*77.3*	*83.2*	42.9	*43.6*	*45.4*	9.9	*9.8*	*8.8*	2.4	*2.5*	*2.8*	2.9	*2.8*	*2.9*
FirstEnergy Corp FE USA	21,779 USD	175.4	*165.7*	*161.7*	63.7	*62.4*	*61.8*	2.1	*3.6*	*3.8*	9.5	*5.5*	*5.3*	4.2	*4.1*	*4.0*
Entergy Corp ETR USA	13,998 USD	138.6	*159.3*	*160.9*	58.1	*61.4*	*61.7*	6.9	*2.1*	*4.6*	3.2	*10.7*	*4.9*	4.6	*5.0*	*5.0*
Average		129.7	*134.1*	*135.3*	54.9	*55.8*	*56.3*	6.3	*5.2*	*5.7*	5.0	*6.2*	*4.3*	3.9	*4.0*	*4.0*
Exelon Corp EXC US	**22,272** USD	**97.7**	***94.7***	***92.7***	**49.4**	***48.6***	***48.1***	**5.1**	***6.2***	***6.1***	**4.1**	***3.7***	***3.7***	**3.8**	***3.6***	***3.6***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	**Cash per Share**			**Current Ratio**			**Quick Ratio**			**Cash/Short-Term Debt**			**Payout Ratio %**		
		2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	21,574 USD	0.79	*0.75*	*0.52*	1.18	*1.14*	*1.11*	1.03	*0.97*	*0.93*	0.46	*0.43*	*0.30*	49.5	*54.4*	*58.7*
FirstEnergy Corp FE USA	14,227 USD	0.20	*0.39*	*0.51*	0.70	*0.51*	*0.51*	0.55	*0.38*	*0.39*	0.03	*0.06*	*0.07*	202.8	*53.3*	*51.4*
Entergy Corp ETR USA	12,744 USD	7.89	*3.07*	*2.92*	1.14	*0.85*	*0.85*	0.85	*0.57*	*0.57*	0.95	*0.37*	*0.35*	63.6	*338.0*	*67.8*
Average		2.96	*1.40*	*1.32*	1.01	*0.83*	*0.82*	0.81	*0.64*	*0.63*	0.48	*0.29*	*0.24*	105.3	*148.6*	*59.3*
Exelon Corp EXC US	**28,617** USD	**2.17**	***3.50***	***2.47***	**1.38**	***1.39***	***1.26***	**1.20**	***1.30***	***1.15***	**0.83**	***1.34***	***0.95***	**66.0**	***50.4***	***52.0***

Research Methodology for Valuing Companies

Components of Our Methodology

- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies

Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

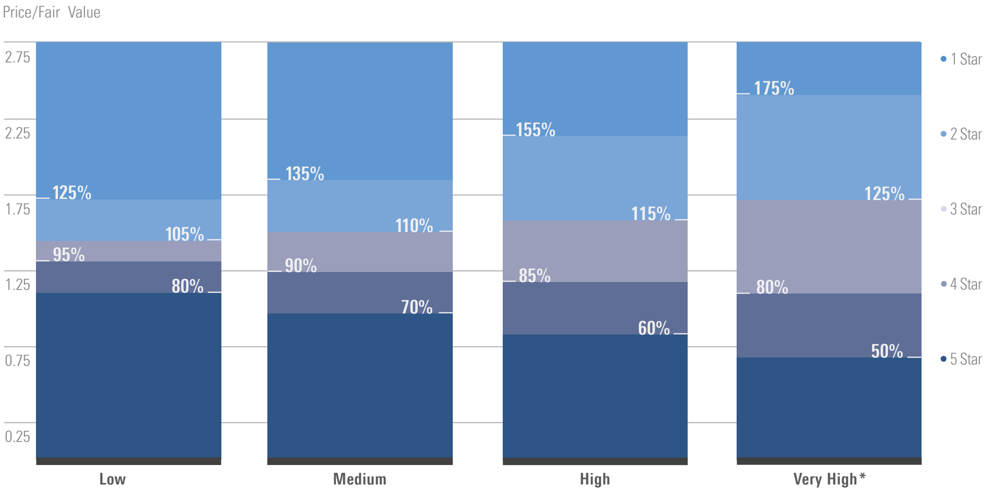
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. M

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Sector: US Power & Utilities

February 4, 2016

Exelon Corporation

Waiting for the Pepco saga to conclude

Our view: While we continue to assume that the Pepco acquisition does not materialize, we see a potential relief rally in either scenario as the deal overhang dissipates. We increase our price target to $34 to reflect the possibility of a valuation uplift from a successful acquisition scenario as we await the D.C. commission's final decision in the coming weeks.

Key points:

Prepared for life without Pepco. With one month to go before the merger termination date, Exelon management noted their plan to deal with an unsuccessful acquisition scenario, which would involve buying back the 57.5 million shares of equity issued in 3Q15 as well as unwinding the debt issued for the deal. We had previously incorporated a $3 billion share buyback in 1Q16 with a $2.75 billion debt paydown; we now assume a $1.87 billion share buyback spread across 1H16 (same dollar amount as the original issuance) and a $4.2 billion debt paydown (which includes all of the parent debt issued in 3Q15 for the deal). Our lower EPS estimates reflect this change, resulting in a 4% CAGR through 2018.

Improving balance sheet health. Management announced their focus on maintaining an investment grade rating for the consolidated company as well as for ExGen; they expect a combination of debt reduction and growing free cash flow position to achieve that objective. Our model reflects a 2.4x net debt/EBITDA and 48% FFO/debt for ExGen in 2018, which we believe should comfortably place them in the investment grade range.

The return of the dividend increase. Assuming the Pepco acqusition falls through, we estimate Exelon to have around 900 million shares outstanding in 2018. Our estimates indicate that, with a 2.5% annual dividend increase starting this year, earnings from the three utilities (ComEd, PECO, BGE) should have a 1.15x dividend coverage ratio. Combined with a growing cash position at ExGen, we believe the company's new dividend policy is achievable.

Continuing the push for Illinois nuclear fleet. Despite the delay in the legislature, Exelon management continues to push for a Low Carbon Portfolio Standard (LCPS) to support the struggling Illinois nuclear fleet, with Quad Cities and Clinton plants currently in the red. We continue to estimate that the LCPS, if passed, could boost ExGen earnings by $0.15-$0.25 per share. Our estimates currently do not reflect this potential benefit.

Impressive run YTD, but momentum still positive. While we are uncertain how investors will react to the upcoming Pepco outcome, we believe either scenario could ultimately be positive for the stock given the visibility in management's plans. We reiterate our Outperform rating as we await the conclusion of the Pepco saga.

Outperform

NYSE: EXC; USD 31.61

Price Target USD 34.00 ↑ 32.00

WHAT'S INSIDE

☐ Rating/Risk Change
☐ In-Depth Report
☐ Preview
☑ Price Target Change
☑ Est. Change
☐ News Analysis

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
23.00	31.61	34.00	41.00
↓ 23%		↑ 11%	↑ 34%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	919.6	Market Cap (MM):	29,069
Dividend:	1.24	Yield:	3.9%
ROE:	9.7%	Tr. 12 ROE:	9.74%
Float (MM):	864.6	Enterprise Val. (MM):	48,086
Debt to Cap:	47%	Avg. Daily Volume:	7,695,210
Institutional Ownership:	75%		

RBC Estimates

FY Dec	**2015A**	**2016E**	**2017E**	**2018E**
EPS, adjusted	2.49	2.53	2.60	2.84
Prev.	2.50	2.65	2.70	2.90
P/E	12.7x	12.5x	12.2x	11.1x
DPS	1.24	1.26	1.29	1.32
Prev.		1.24	1.24	1.24
Dividend yield	3.9%	4.0%	4.1%	4.2%

EPS, adjusted	**Q1**	**Q2**	**Q3**	**Q4**
2015	0.71A	0.59A	0.83A	0.38A
DPS				
2015	0.31A	0.31A	0.31A	0.31A

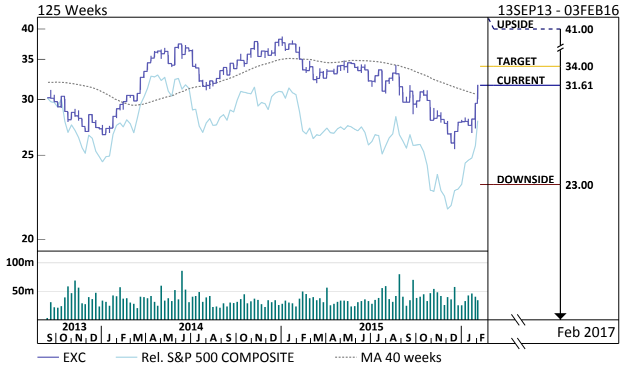
All values in USD unless otherwise noted. $MM except per share data.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 11.

Target/Upside/Downside Scenarios

Exhibit 1: Exelon Corporation



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

- Base case price target of $34.
- 16.9x 2017E P/E for ComEd, PECO, and BGE, which represents a 10% premium to our estimated industry average multiple (using 4% secular 10-year Treasury rate and 9.3% U.S. market return requirement). The premium incorporates a possibility of a successful Pepco acquisition and resulting run-rate synergies.
- ExGen gross margin for 2016–2018 of $7.77 billion, $7.79 billion, and $7.81 billion, respectively.
- 7.5x EV/EBITDA multiple on ExGen's discounted 2017 "open" EBITDA.
- $1.87 billion stock buyback in 1H16.

Upside scenario

- Upside scenario of $41.
- 18.2x 2017E P/E for ComEd, PECO, and BGE, which represents a 10% premium to our upside industry average multiple (using 3.25% secular 10-year Treasury rate and 9.3% U.S. market return requirement). The premium incorporates a possibility of a successful Pepco acquisition and resulting run-rate synergies.
- 10% increase in forward power prices.
- 7.5x EV/EBITDA multiple on ExGen's discounted 2017 "open" EBITDA.
- $1.87 billion stock buyback in 1H16.

Downside scenario

- Downside scenario of $23.
- 13.3x 2017E P/E for ComEd, PECO, and BGE, which represents our downside industry average multiple (using 4.25% secular 10-year Treasury rate and 10.25% U.S. market return requirement).
- 10% decrease in forward power prices.
- 6.0x EV/EBITDA multiple on ExGen's discounted 2017 "open" EBITDA.
- $1.87 billion stock buyback in 1H16.

Investment summary

With the final decision in D.C. looming regarding the Pepco acquisition, we believe Exelon is in a good position to deal with and create value with either outcome. We continue to assume that the deal does not materialize, resulting in management buying back shares and paying down Pepco-related debt financing. We expect Exelon to achieve 4% EPS CAGR through 2018, with 7.8% utility CAGR during the same period.

Potential catalysts

- D.C. commission approves the Pepco merger after reconsideration.
- Exelon walks away from Pepco merger but initiates a large share repurchase program.
- Successful implementation of O&M expense control for 2015–2018 help offset impact of low power prices, particularly if the merger with Pepco takes place.
- Illinois passes LCPS legislation to provide financial stability to nuclear plants in the state.

Risks to call

- Further deterioration of forward power curves leads to non-profitable power plant economics, resulting in the company's shutting down several nuclear plants.
- Further compression of retail/wholesale margins.
- Unfavorable turn in regulatory environment in Illinois and Maryland.
- EDF put price is much higher than expected.
- Ratings agencies downgrade parent and/or subsidiary debt to non-investment grade.

Valuation

Our $34 price target uses a sum-of-the-parts analysis. For PECO, ComEd and BGE, we apply a 10% premium to the industry average P/E multiple of 15.4x to the utilities' 2017E net income to reflect the possibility of a successful Pepco acqusiition, which we believe would result in a valuation uplift for the company. For Exelon Generation (ExGen), we apply a 7.5x multiple to its 2017 "open" EBITDA, which reflects the potential value of selling all of its output at the spot price. Finally, we calculate the net present value (NPV) of the value of existing hedges for 2015–2017, which represents an additional cash benefit to the company.

Price target impediments

- Further deterioration or non-recovery of forward power curves leads to non-profitable power plant economics .
- The proposed acquisition of Pepco Holdings is ultimately rejected in 1Q16.
- Less-than-expected merger synergies are realized or delayed further than forecasted.
- Unfavorable turn in regulatory environment in Illinois and Maryland.
- EDF put price is higher than expected.
- Ratings agencies downgrade parent/sub to non-investment grade.

Company description

Exelon Corp. is one of the largest utilities and competitive energy providers in the United States. With its generation portfolio providing approximately 19,300 MW of nuclear capacity, Exelon is also the largest nuclear operator in the United States. Exelon's total generation capacity is approximately 35,000 MW. Through its three regulated wires-only utilities in Maryland, Illinois, and Pennsylvania (BG&E, ComEd, and PECO), Exelon serves 6.6 million electric and gas customers.

Exelon Corp. — **Shelby G. Tucker, CFA; RBC Capital Markets**

Consolidated Income Statement — **+1 (212) 428-6462; shelby.tucker@rbccm.com**

Millions of Dollars Except for Per Share Amounts
Fiscal Year Ending December 31,

	2013	2014	2015	2016E	2017E	2018E
Total Operating Revenues	24,901	27,429	29,447	28,153	28,669	29,169
Expenses						
Fuel and Purchased Power	(10,737)	(13,003)	(13,084)	(12,635)	(12,740)	(12,826)
Operation & Maintenance	(7,270)	(8,568)	(8,322)	(7,522)	(7,505)	(7,468)
Impairments	-	-	-	-	-	-
Depreciation and Amortization	(2,153)	(2,314)	(2,450)	(2,701)	(2,907)	(3,086)
Taxes Other Than Income	(1,095)	(1,154)	(1,200)	(1,291)	(1,337)	(1,385)
Total Operating Expenses	(21,255)	(25,039)	(25,056)	(24,149)	(24,489)	(24,765)
Operating Income	3,646	2,390	4,391	4,004	4,181	4,404
Equity in Earnings (Losses) of Unconsolidated Affiliates	10	(20)	(7)	-	-	-
Gain on sales of assets	13	437	18	-	-	-
Gain on consolidation and acquisition of businesses		289	-	-	-	-
Other, Net	460	455	(8)	274	274	274
EBIT	**4,129**	**3,551**	**4,394**	**4,278**	**4,455**	**4,678**
EBITDA	**6,282**	**5,865**	**6,844**	**6,979**	**7,361**	**7,765**
Interest Expense	(1,356)	(1,065)	(1,071)	(1,027)	(1,033)	(895)
Interest Expense to Affiliates, net	-	-	-	-	-	-
Total Other Income and Deductions	(1,356)	(1,065)	(1,071)	(1,027)	(1,033)	(895)
EBT	2,773	2,486	3,323	3,251	3,421	3,784
Income Taxes	(1,044)	(666)	(1,073)	(1,023)	(1,092)	(1,217)
Effective Tax Rate	*37.6%*	*26.8%*	*32.3%*	*31.5%*	*31.9%*	*32.2%*
Income Before Extraordinary and Accounting Changes	1,729	1,820	2,250	2,228	2,329	2,567
Income from Discontinued Operations	-	-	-	-	-	-
Noncontrolling Interests and BGE Preference Stock Dividends	(10)	(197)	19	(13)	(13)	(13)
Cummulative effect of change in accounting principle	-	-	-	-	-	-
Net Income	**1,719**	**1,623**	**2,269**	**2,215**	**2,316**	**2,554**
Extraordinary Items and GAAP Changes	430	445	(42)	-	-	-
Ongoing Income	**2,149**	**2,068**	**2,227**	**2,215**	**2,316**	**2,554**
Earnings per share:						
Net Income (Diluted)	**$ 2.00**	**$ 1.88**	**$ 2.54**	**$ 2.53**	**$ 2.60**	**$ 2.84**
Extraordinary Items	$ -	$ -	$ -	$ -	$ -	$ -
Discontinued Operations	$ -	$ -	$ -	$ -	$ -	$ -
GAAP Changes	$ 0.50	$ 0.52	$ (0.05)	$ -	$ -	$ -
Ongoing Income (Diluted)	**$ 2.50**	**$ 2.39**	**$ 2.49**	**$ 2.53**	**$ 2.60**	**$ 2.84**
Annual Growth	*-12.01%*	*-4.40%*	*4.19%*	*1.62%*	*2.54%*	*9.18%*
Average Shares Outstanding - Basic	855.8	860.0	889.8	871.2	888.2	897.2
Average Shares Outstanding - Diluted	858.3	864.0	893.0	874.2	891.2	900.2
Dividends per common share	1.4550	1.2400	1.2400	1.2625	1.2925	1.3225
Dividend Growth	-30.71%	-14.78%	0.00%	1.81%	2.38%	2.32%
Dividend Payout Ratio	58%	52%	50%	50%	50%	47%

Source: Company Reports, RBC Capital Markets Estimates

Exelon Corp. **Shelby G. Tucker, CFA; RBC Capital Markets**

Balance Sheets and Statement of Cash Flows **+1 (212) 428-6462; shelby.tucker@rbccm.com**

Millions of Dollars Except for Per Share Amounts
Fiscal Year Ending December 31,

BALANCE SHEETS	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Assets						
Cash and Cash Equivalents	1,609	1,878	6,502	743	1,713	2,198
Accounts Receivable	3,895	4,709	4,099	3,919	3,991	4,060
Other Current Assets	4,633	5,510	4,733	4,733	4,733	4,733
Total Current Assets	10,137	12,097	15,334	9,395	10,437	10,992
Property Plant & Equipment, net	47,330	52,087	57,439	58,446	60,363	61,249
Deferred Debts and Other Assets						
Regulatory Assets	5,910	6,076	6,065	6,065	6,065	6,065
Nuclear Decommisioning Trust Funds	8,071	10,537	10,342	11,617	12,198	12,808
Investment in CENG	1,925	-	-	-	-	-
Investments	1,187	544	639	639	639	639
Goodwill, net	2,625	2,672	2,672	2,672	2,672	2,672
Derivative Assets	607	773	758	758	758	758
Other	2,132	2,028	2,135	2,135	2,135	2,135
Total Long-Term Assets	22,457	22,630	22,611	23,886	24,467	25,077
Total Assets	79,924	86,814	95,384	91,728	95,266	97,318
Liabilities						
Commercial Paper and Short-Term Loans	341	460	533	733	833	933
Long-Term Debt Due Within One Year	1,509	1,802	1,500	2,276	2,240	900
Current Maturities of Transitional Funding Trusts	-	-	-	-	-	-
Accounts Payable	2,601	3,048	2,883	2,784	2,807	2,826
Other Current Liabilities	3,276	3,452	4,202	4,202	4,202	4,202
Total Current Liabilities	7,727	8,762	9,118	9,995	10,082	8,861
Long Term Debt	17,325	19,362	23,645	19,528	19,888	19,938
Long Term Debt- VIE	298	-	-	39	-	0
Transition Trust	-	-	-	-	-	-
Long-Term Debt to Other Transition Financing Trust	648	648	641	641	641	641
Total Long-Term Debt	18,271	20,010	24,286	20,208	20,529	20,579
Deferred Income Taxes	12,905	13,019	13,776	13,776	13,776	13,776
Spent Nuclear Fuel Obligation	1,021	1,021	1,021	1,026	1,031	1,036
Other	17,060	19,869	19,861	20,135	20,898	22,703
Total Long Term Liabilities	30,986	33,909	34,658	34,938	35,705	37,515
Total Liabilities	56,984	62,681	68,062	65,141	66,317	66,956
BGE Preference Stock Not Subject to Mandatory Redemption	193	193	193	193	193	193
Contingently redeemable noncontrolling interest			28			
Minority Interest of Consolidated Subs	15	1,332	1,308	1,308	1,308	1,308
Preferred	-	-	-	-	-	-
Common Stockholder's Equity	22,732	22,608	25,793	25,086	27,448	28,861
Total Liabilities and Stockholder's Equity	79,924	86,814	95,384	91,728	95,266	97,318

Source: Company Reports, RBC Capital Markets Estimates

Exelon Corp.	Shelby G. Tucker, CFA; RBC Capital Markets
Balance Sheets and Statement of Cash Flows	**+1 (212) 428-6462; shelby.tucker@rbccm.com**

Millions of Dollars Except for Per Share Amounts
Fiscal Year Ending December 31,

STATEMENT OF CASH FLOWS	2013	2014	2015	2016E	2017E	2018E
Operating Activities						
Net Income	1,729	1,820	2,250	2,228	2,329	2,567
Depreciation	2,153	2,314	2,450	2,701	2,907	3,086
Amortization of Nuclear Fuel	1,626	1,554	1,537	1,552	1,552	1,552
All Other Amortization	-	-	-	-	-	-
Impairment Charges	171	687	36	-	-	-
Gain on consolidation and acquisition of businesses		(296)				
(Gain) loss on sales of assets		(437)	(18)			
Deferred Income Taxes and Amortization of Investment Tax Credits	119	502	752	616	616	616
Net Realized and Unrealized Mark-to-Market Transactions	(615)	506	(236)	-	-	-
Net Cash from Divestitures	-					
Other Non-Cash Operating Activities	876	1,054	1,109	900	900	900
Change in Working Capital	772	(2,072)	(246)	-	-	-
Pension/OPEB contributions	(422)	(617)	(502)	(432)	(432)	(432)
Other, Merger Agreements	(66)	(558)	502	-	-	-
Cash Flow from Operations	6,343	4,457	7,634	7,565	7,872	8,289
Cash Flows from Investing Activities						
Additions to PP&E, excl. Capitalized Interest and AFDC	(5,395)	(6,077)	(7,624)	(6,975)	(6,375)	(5,525)
Proceeds/(Investments) from Nuclear Decommisioning Trust	(233)	(155)	(252)	(155)	(155)	(155)
Cash Acquired from Constellation	-					
Proceeds from sale of long-lived assets	32	1,719	147	-	-	-
Sales (Purchase) of assets/businesses	-	-	-	-	-	-
Net Change in Long-Term Investments	18	4	-	-	-	-
Other	184	(90)	(111)	-	-	-
Cash Flows from Investing Activities	(5,394)	(4,599)	(7,840)	(7,130)	(6,530)	(5,680)
Cash Flow from Financing Activities						
Issuance of long-term debt, net of issuance costs	2,055	3,463	6,709	2,225	2,100	1,450
Retirement of long-term debt	(1,589)	(1,545)	(2,687)	(5,643)	(2,316)	(2,279)
Retirement of Long-Term Debt, VIE	-	-	-	-	-	-
Retirement of LTD to Financing Affiliates	-	-	-	-	-	-
Change in short-term debt	332	122	80	200	100	100
Issuance of common stock	-	-	1,868	(1,868)	1,150	-
Equity Infusion into Subsidiary	-	-	-	(40)	(290)	(240)
Common stock repurchases	-	-	-	-	-	-
Redemption of preferred securities of subsidiaries	(93)	-	-	-	-	-
Issuance of preferred securities of subsidiaries	-	-	-	-	-	-
Dividends on common stock	(1,249)	(1,065)	(1,105)	(1,100)	(1,148)	(1,187)
BGE Preference Stock Dividends Paid	-	-	-	-	-	-
Proceeds from Employee Stock Plans	47	35	32	32	32	32
Purchase of Treasury Stock	-	-	-	-	-	-
Other financing activities	(329)	(599)	(67)	-	-	-
Cash Flow from Financing	(826)	411	4,830	(6,194)	(372)	(2,124)
Beginning Cash Balance	1,486	1,609	1,878	6,502	743	1,713
Change in Cash	123	269	4,624	(5,759)	970	485
Cash classified as held for sale	-	-	-	-	-	-
Ending Cash Balance	**1,609**	**1,878**	**6,502**	**743**	**1,713**	**2,198**

Source: Company Reports, RBC Capital Markets Estimates

Exelon Corp.	**Shelby G. Tucker, CFA; RBC Capital Markets**
ExGen Gross Margin Calculation	**+1 (212) 428-6462; shelby.tucker@rbccm.com**

Hedged Gross Margin	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**
Open GM	5,550	7,300	5,150	5,200	5,800	6,150
MTM of Hedges	1,642	(348)	2,228	1,694	815	269
Unhedged Impact (using historical 3-month avg. of forward curve)	3	(6)	5	(29)	(72)	(115)
Hedged GM	7,195	6,946	7,383	6,865	6,544	6,305
Power New Business/To Go	50	50	50	450	800	1,000
Non-Power Margins Executed	300	350	400	250	150	100
Non-Power New Business/To Go	100	50	50	200	300	400
Total Gross Margin	**7,645**	**7,396**	**7,883**	**7,765**	**7,794**	**7,805**

Reference Prices	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**
Henry Hub	$ 3.65	$ 4.44	$ 2.75	$ 2.49	$ 2.79	$ 2.91
Ni-Hub	$ 31.18	$ 39.45	$ 28.80	$ 28.46	$ 29.23	$ 29.22
PJM-West	$ 37.58	$ 51.38	$ 37.05	$ 34.51	$ 35.22	$ 34.16
ERCOT North Spark Spread	$ 1.09	$ 3.02	$ 3.12	$ 4.79	$ 4.66	$ 4.49
NY Zone A	$ 37.07	$ 49.00	$ 33.55	$ 31.82	$ 34.52	$ 33.60
New England: Mass Hub Spark Spread	$ 3.70	$ 3.04	$ 5.57	$ 9.60	$ 11.32	$ 9.71

Current Prices	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**
Henry Hub	$ 3.71	$ 4.32	$ 2.90	$ 2.39	$ 2.76	$ 2.87
Ni-Hub	$ 31.98	$ 36.97	$ 30.74	$ 26.76	$ 28.26	$ 28.19
PJM-West	$ 39.08	$ 46.53	$ 38.87	$ 32.86	$ 34.29	$ 33.27
ERCOT North Spark Spread	$ 1.09	$ 3.02	$ 4.22	$ 5.39	$ 4.50	$ 4.25
NY Zone A	$ 36.88	$ 45.45	$ 35.20	$ 29.40	$ 33.15	$ 32.64
New England: Mass Hub Spark Spread	$ 3.70	$ 3.04	$ 7.35	$ 8.58	$ 10.28	$ 10.61

Generation (Gwh)	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**
Midwest	*97,200*	*97,000*	*96,600*	*97,300*	*96,400*	*96,800*
Mid-Atlantic	*74,500*	*74,300*	*61,700*	*63,600*	*61,600*	*60,700*
ERCOT	*13,200*	*11,400*	*11,600*	*17,400*	*26,500*	*31,500*
New York	*14,000*	*12,700*	*9,300*	*9,300*	*9,200*	*9,100*
New England	*15,800*	*9,900*	*7,500*	*12,300*	*12,800*	*9,300*
	214,700	*205,300*	*186,700*	*199,900*	*206,500*	*207,400*

Hedges	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**
Midwest	*99%*	*99%*	*99%*	*92%*	*57%*	*23%*
Mid-Atlantic	*99%*	*100%*	*97%*	*90%*	*66%*	*37%*
ERCOT	*94%*	*103%*	*102%*	*100%*	*69%*	*34%*
New York	*100%*	*100%*	*96%*	*85%*	*73%*	*43%*
New England	*96%*	*104%*	*117%*	*96%*	*51%*	*18%*

Effective Realized Energy Px	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**
Midwest	$ 37.00	$ 36.50	$ 36.00	$ 34.50	$ 33.50	$ 33.00
Mid-Atlantic	$ 49.00	$ 48.50	$ 51.50	$ 47.00	$ 46.00	$ 42.50
ERCOT	$ 24.00	$ 20.00	$ 23.50	$ 11.00	$ 8.00	$ 3.50
New York	$ 32.00	$ 42.50	$ 47.50	$ 58.50	$ 44.50	$ 38.00
New England	$ 6.00	$ 6.00	$ 42.00	$ 20.50	$ 14.50	$ 7.00

Source: Company Reports, RBC Capital Markets Estimates

Exelon Generation — **Shelby G. Tucker, CFA; RBC Capital Markets**

Income Statement and Statistical Information — **+1 (212) 428-6462; shelby.tucker@rbccm.com**

Millions of Dollars Except for Per Share Amounts
Fiscal Year Ending December 31,

INCOME STATEMENT	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Total Revenue	15,643	17,393	19,135	17,255	17,319	17,344
Total Fuel and purchased power	(8,210)	(9,925)	(10,021)	(9,490)	(9,526)	(9,539)
Hedged Gross Margin	7,433	7,468	9,114	7,765	7,794	7,805
Total Operating and Maintenance	(4,534)	(5,566)	(5,308)	(4,476)	(4,485)	(4,472)
DD&A	(856)	(967)	(1,054)	(1,155)	(1,235)	(1,295)
Taxes other than income	(389)	(465)	(489)	(487)	(482)	(464)
Total Expenses	(5,779)	(6,998)	(6,851)	(6,118)	(6,202)	(6,232)
Operating Income	**1,654**	**470**	**2,263**	**1,647**	**1,591**	**1,573**
Equity in earnings of unconsolidated subsidiaries	10	(20)	(8)			
(Loss) Gain on sales of assets	13	437	12			
Gain on consolidation and acquisition of businesses		289	-			
Other, net	355	406	(60)	200	200	200
EBIT	**2,032**	**1,582**	**2,207**	**1,847**	**1,791**	**1,773**
EBITDA	**2,888**	**2,549**	**3,261**	**3,002**	**3,026**	**3,068**
Total Interest Expense/(Income)	(357)	(356)	(365)	(361)	(357)	(250)
Distributions on Preferred Securities of Subsidiearies	-	-	-	-	-	-
Income before Income Taxes	1,675	1,226	1,842	1,486	1,435	1,523
Income Taxes	(615)	(207)	(502)	(386)	(373)	(396)
Effective Tax Rate	*36.7%*	*16.9%*	*27.3%*	*26.0%*	*26.0%*	*26.0%*
Income Before Extraordinary Items and Disc. Ops	**1,060**	**1,019**	**1,340**	**1,100**	**1,062**	**1,127**
Minority Interest	10	(184)	32			
Cumulative effect of changes in accounting principles						
Discontinued Ops	-	-	-	-	-	-
Net Income	1,070	835	1,372	1,100	1,062	1,127
Adjustments to GAAP	132	320	(119)			
Ongoing Income	**1,202**	**1,155**	**1,253**	**1,100**	**1,062**	**1,127**

Source: Company Reports, RBC Capital Markets Estimates

Exelon Corp.						**Shelby G. Tucker, CFA; RBC Capital Markets**
Energy Delivery Segment						**+1 (212) 428-6462; shelby.tucker@rbccm.com**
Millions of Dollars Except for Per Share Amounts						
Fiscal Year Ending December 31,						
	2013	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Operating Revenue	10,629	10,823	11,072	11,638	12,090	12,565
Operating Expenses:						
Fuel and purchased power	(3,895)	(3,855)	(3,814)	(3,895)	(3,965)	(4,038)
Operating and maintenance	(2,750)	(3,012)	(3,044)	(3,175)	(3,199)	(3,224)
DD&A	(1,245)	(1,294)	(1,333)	(1,483)	(1,609)	(1,728)
Taxes other than income	(670)	(673)	(680)	(774)	(824)	(889)
Total Operating Expenses	(8,560)	(8,834)	(8,871)	(9,327)	(9,597)	(9,880)
Operating Income	2,069	1,989	2,201	2,311	2,493	2,686
Gain on sale of assets	-	2	4	-	-	-
Interest Expense	(816)	(540)	(545)	(547)	(588)	(571)
Distributions on Preferred Securities of Subsidiearies	-	-	-	-	-	-
Other, net	49	42	44	44	44	44
Total Other Income and Deductions	(767)	(496)	(497)	(503)	(544)	(527)
Income before Income Taxes	1,302	1,493	1,704	1,808	1,949	2,159
Income Taxes	(448)	(522)	(612)	(653)	(705)	(782)
Effective Tax Rate	*34%*	*35%*	*36%*	*36%*	*36%*	*36%*
Net Income	**854**	**971**	**1,092**	**1,155**	**1,244**	**1,377**
Cumulative Changes to Accounting/Preferred Dividends	(20)	(13)	(13)	(13)	(13)	(13)
Adjustments to GAAP	175	4	10	-	-	-
Ongoing Income	**1,009**	**962**	**1,089**	**1,142**	**1,231**	**1,364**

Source: Company Reports, RBC Capital Markets Estimates

Exelon Corporation
(NYSE: EXC; $31.61)

All values in USD unless otherwise noted. $MM except per share data.

VALUATION	2015	2016E	2017E	2018E
EPS, adjusted	2.49	2.53	2.60	2.84
P/E	12.7x	12.5x	12.2x	11.1x
EV/Adj EBITDA	7.1x	7.3x	6.9x	6.4x
DPS	1.24	1.26	1.29	1.32
Dividend yield	3.9%	4.0%	4.1%	4.2%
Payout ratio	49.7%	49.8%	49.7%	46.6%
Distribution Yield	0	0	0	0
Wgtd avg shares outstanding, Diluted	893.0	874.2	891.2	900.2
INCOME STATEMENT	**2015**	**2016E**	**2017E**	**2018E**
Revenue	29,447.0	28,153.2	28,669.3	29,168.9
Adjusted EBITDA	6,844.0	6,978.9	7,361.3	7,764.7
EBIT	3,323.0	3,251.3	3,421.1	3,783.6
Net interest expense/other	(1,071.0)	(1,027.1)	(1,033.4)	(894.8)
Profit before tax	3,323.0	3,251.3	3,421.1	3,783.6
Taxes-income taxes	(1,073.0)	(1,022.8)	(1,092.1)	(1,216.7)
Minorities-noncontrolling interest	19.0	(13.0)	(13.0)	(13.0)
Net Income after tax	2,250.0	2,228.5	2,328.9	2,566.9
Net income to common shareholders	2,269.0	2,215.5	2,315.9	2,553.9
Adjusted net income	2,227.0	2,215.5	2,315.9	2,553.9
CASH FLOW	**2015**	**2016E**	**2017E**	**2018E**
Operating Cash Flow	7,634.0	7,565.1	7,871.7	8,289.2
Capex	(7,624.0)	(6,975.0)	(6,375.0)	(5,525.0)
Free Cash Flow	256.0	590.1	1,496.7	2,764.2
Dividends Paid	(1,105.0)	(1,099.9)	(1,148.0)	(1,186.6)
Free Cash Flow (post Dividends)	(849.0)	(509.8)	348.7	1,577.6
Acquisitions-Disposals	0	0	0	0
Issuance (Buyback) of Common Shares	1,868.0	(1,868.0)	1,150.0	0
Issuance (Repayment) Short Term Debt	80.0	200.0	100.0	100.0
Issuance (Repayment) Long-Term Debt	4,022.0	(3,418.0)	(216.0)	(829.2)
Net change in cash	4,624.0	(5,758.8)	969.7	485.4
BALANCE SHEET	**2015**	**2016E**	**2017E**	**2018E**
Cash and cash equivalents	6,502.0	743.2	1,712.9	2,198.3
Total current assets	15,334.0	9,395.1	10,436.6	10,991.6
Total fixed assets, PP&E Net	57,439.0	58,446.4	60,362.6	61,249.3
Total assets	95,384.0	91,727.5	95,266.1	97,317.7
Short-term, current long-term debt	2,033.0	3,009.0	3,073.0	1,833.0
Total current liabilities	9,118.0	9,995.0	10,082.2	8,861.2
Long-term borrowings	24,286.0	20,208.4	20,529.2	20,579.2
Total liabilities	68,062.0	65,140.9	66,316.6	66,955.9
Total shareholders' equity	27,294.0	26,586.6	28,949.5	30,361.8
KEY PERFORMANCE METRICS	**2015**	**2016E**	**2017E**	**2018E**
Net debt/Total capitalization	42.0%	45.8%	43.1%	39.9%
Effective tax rate	32.3%	31.5%	31.9%	32.2%
Net debt / EBITDA	2.8x	3.1x	2.9x	2.5x
ROE	9.1%	8.6%	8.4%	8.8%
FFO/net debt	41.1%	34.7%	37.0%	42.4%

Source: Company reports, RBC Capital Markets estimates

Required disclosures

Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

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Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

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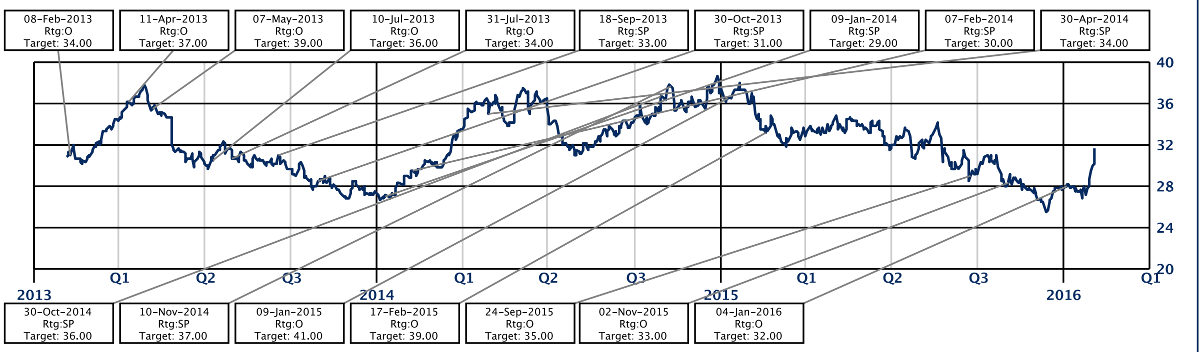
For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings
RBC Capital Markets, Equity Research
As of 31-Dec-2015

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**933**	**52.59**	**271**	**29.05**
HOLD [Sector Perform]	**727**	**40.98**	**102**	**14.03**
SELL [Underperform]	**114**	**6.43**	**8**	**7.02**

Rating and price target history for: Exelon Corporation as of 03-Feb-2016 (in USD)



Legend:
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Created by BlueMatrix

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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Exelon Corp.

EXC: Exelon produces steady results while affirming strong balance sheet commitment

Bank of America Merrill Lynch

Earnings Review

08 February 2016

Reiterating Overweight ratings on Exelon Corp., Generation

We reiterate our Overweight ratings on Exelon Corporation and Exelon Generation as credit spreads remain attractive relative to peers and we view credit quality as stable with very strong management support for a strong balance sheet and investment grade credit ratings. Our Marketweight ratings on Exelon's three utilities reflect fair relative value compared to other high-quality U.S. regulated electric utilities.

Strong operations continue to drive financial results

Exelon reported FY15 operating earnings of $2.23 billion, or $2.49/share, within its guidance range of $2.40-$2.60, and up ten cents from the prior year, although two cents short of consensus. Key factors (Exhibit 2 at right) included the net effect of the consolidation of CENG, higher nuclear volumes at Exelon Generation, the net regulatory impact at the utilities including a rate increase at Baltimore Gas & Electric, and lower supply costs at Exelon Generation, mostly offset by higher O&M expenses, higher interest expense due primarily to the issuance of debt for the Pepco Holdings acquisition and higher debt levels at Exelon Generation, higher depreciation the higher cost of planned nuclear refueling outages. Exelon management introduced FY16 operating EPS guidance of $2.40 to $2.70, split about evenly between the regulated utilities and Exelon Generation, and in line with consensus of $2.53. Also, the Board approved a new financial policy to increase the dividend by 2.5% per year in 2016-2018.

Balance sheet strength, credit quality remain top priorities

Credit spreads of Exelon Generation had widened sharply in recent weeks (see charts on page 4) due to the spillover effect from the high yield market of increasing aversion to exposure to commodity prices, now including natural gas. However, during its earnings call Exelon emphasized statements it has made numerous times in recent years: "balance sheet strength is a priority that guides every strategic decision;" "our top financial priority remains maintaining our investment grade credit rating and ensuring the strength of our balance sheet;" "our strong balance sheet underpins our capital allocation policy;" and "the primary objective of Exelon's hedging program is to manage market risks and protect the value of its generation and its investment-grade balance sheet, while preserving its ability to participate in improving long-term market fundamentals." Exelon Generation plans to use free cash flow to reduce debt, in part by 'pushing down' some debt onto projects that can support non-recourse debt, and reduce its debt/EBITDA ratio from 3.2x in 2016 to 2.3x in 2018 while improving funds from operations to debt from ~30% to ~50%.

Debt financing plans and Pepco Holdings acquisition

Debt financing plans for 2016 include $950 million at Commonwealth Edison ($665 million maturing in 3Q16), $750 million at Baltimore Gas & Electric ($300 million maturing on October 1) and $450 million at PECO Energy ($300 million maturing on October 15). Exelon Corporation will either issue some debt to effectively replace the acquisition-related debt it redeemed in late 2015, or redeem its new 2025, 2035 and 2045 maturities, depending on whether or not it closes its acquisition of Pepco Holdings. The only remaining required approval is that of the District of Columba Public Service Commission, which stated in its order of October 28, 2015 that it expected to issue its decision on or before March 4, 2016.

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High Grade
United States
Electric Utilities

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Exhibit 1: Relative Value Recommendations

Overweight
Exelon Corp.
Exelon Generation
Marketweight
Baltimore Gas & Electric
Commonwealth Edison
PECO Energy

Source: BofA Merrill Lynch Global Research.

WHAT YOU'LL DISCOVER INSIDE

Exhibit 2: FY15 EPS Walk

	$MM	EPS
FY14 GAAP Earnings	$1,623	$1.88
FY14 Adjustments	445	$0.52
FY14 Adj. Oper. Earnings	**$2,068**	**$2.39**
GEN - nuclear volume	$ 251	$0.28
Utilities - delivery	186	$0.21
GEN - market, portfolio	135	$0.15
CENG non-controlling int.	76	$0.09
Other, net	(40)	($0.04)
Planned nuclear outages	(50)	($0.06)
Depreciation & amortization	(81)	($0.09)
Interest expense	(92)	($0.10)
O&M - labor, materials	(226)	($0.25)
FY15 Adj. Oper. Earnings	**$2,227**	**$2.49**
FY15 Adjustments	42	$0.05
FY15 GAAP Earnings	$2,269	$2.54

Source: Company reports, BofA Merrill Lynch Global Research.

Summary Profile

Description

Exelon Corporation is a utility service holding company engaged in the energy generation and energy delivery services. Exelon Generation is one of the largest U.S. competitive U.S. power generators with ~32,000 megawatts of owned capacity, including the largest nuclear fleet and a renewables portfolio. Exelon's Constellation business unit provides energy products and services to ~100,000 business and public sector customers and ~1 million residential customers. Exelon's utilities deliver electricity and natural gas to more than 7.8 million customers in central Maryland (Baltimore Gas & Electric), northern Illinois (Commonwealth Edison) and southeastern Pennsylvania (PECO Energy).

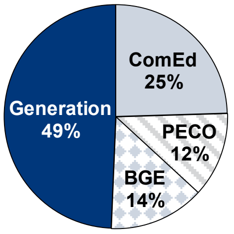
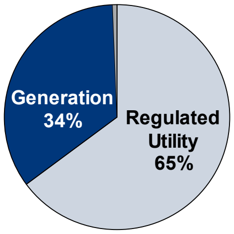
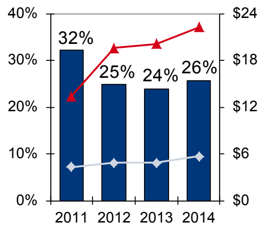
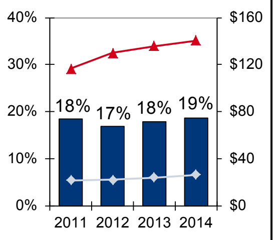
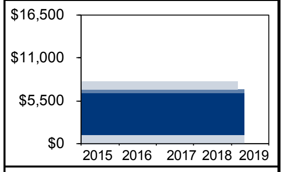
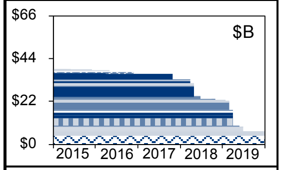
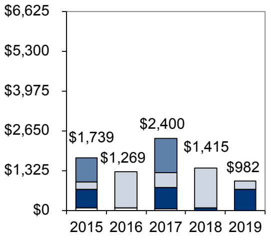
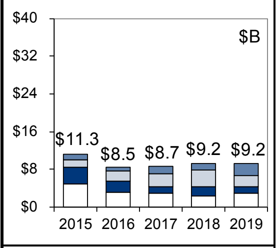
Significant Events

- April 29, 2014: Exelon and Pepco Holdings signed an agreement and plan of merger whereby Exelon will acquire Pepco's common stock with cash; financing plans include a combination of debt, issuance of equity (completed) and proceeds from non-core asset sales (completed). To date, Pepco shareholders, the FERC, Virginia regulators, New Jersey regulators, the Public Service Commission of Delaware, and Maryland have approved the merger. The merger still requires approval by the Public Service Commission of the District of Columbia. On December 23, 2015, the record in the settlement proceedings before the Public Service Commission of the District of Columbia closed; the companies are currently awaiting a decision from the commission.

Comparables

- Public Service Enterprise Group (PEG)
- NextEra Energy (NEE)
- Entergy (ETR)
- Dominion Resources (D)

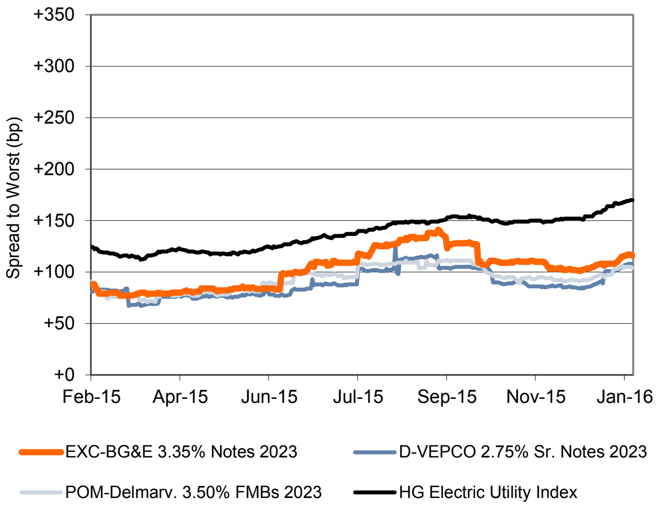
Exhibit 3: Comparable Statistics: Exelon versus Peer Group (FY 31 Dec 2014; $ millions)

Exelon Corp.		Name	Diversified Holdcos	
EXC		Bond Ticker	8 companies	
IL, PA, MD		Primary State(s)	--	
6,724,610	1,160,030	Customers: Electric / Gas	37,302,766	4,058,312
R:61% SmC&I:24% LgC&I:14% O:1%		Retail Electric Revenue Mix	R:53% C:30% I:14% O:3%	
32,753		Net Operating Capacity (MW)	183,390	
		Business Segment EBITDA ▢ Regulated Utility ■ Generation ▢ Other		
Avg.: 2011-13	2014	Fiscal Years ($MM)	Avg.: 2011-13	2014
$ 22,480	$ 27,429	Total Revenues	$ 103,931	$ 112,918
$ 13,560	$ 16,141	Gross Margin	$ 58,041	$ 63,264
$ 6,444	$ 7,331	EBITDA	$ 32,409	$ 35,081
$ (971)	$ (1,144)	Gross Interest Expense	$ (6,977)	$ (7,400)
$ 4,663	$ 5,690	Funds From Operations	$ 22,486	$ 26,301
$ (4,234)	$ (5,004)	Capital Expenditures	$ (21,129)	$ (22,694)
$ 358	$ 1,821	Acquisitions & Investments	$ (4,779)	$ 503
$ (1,453)	$ (1,065)	Dividends	$ (5,611)	$ (5,455)
$ 1,370	$ 1,878	Cash & Equivalents	$ 5,978	$ 7,675
$ 17,710	$ 22,272	Total Debt	$ 127,359	$ 140,582
$ 41,695	$ 52,087	Property Plant & Equipment	$ 226,670	$ 258,874
$ 71,160	$ 86,814	Total Assets	$ 348,632	$ 387,880
5.9x	6.0x	FFO/Interest	4.2x	4.6x
2.8x	3.0x	Debt/EBITDA	3.9x	4.0x
3.2x	3.4x	NetDebt&Lease/Oper.EBITDAR	3.9x	4.0x
47%	49%	Debt/Total Capital	59%	59%
		Funds From Operations/Debt ■ FFO/Debt ◆ FFO ($B) ▲ Debt ($B)		
		Revolving Credit Facilities ■ Parent Level ■ Utility Level ■ Genco Level ▢ Other		
		Long-term Debt Maturities ■ Parent Level ■ Utility Level ■ Genco Level ▢ Other		
$14,874	$18,256	Pension: Assets / Obligations	$51,515	$63,037
($3,382)	81%	2014 Pension Funding: $ %	($11,522)	82%

Diversified Holdcos: AES, BKH, D, ETR, EXC, FE, NEE, PEG, PPL, TXU.
EBITDA includes nuclear fuel amortization. Sources: Company reports, BofA Merrill Lynch Global Research.

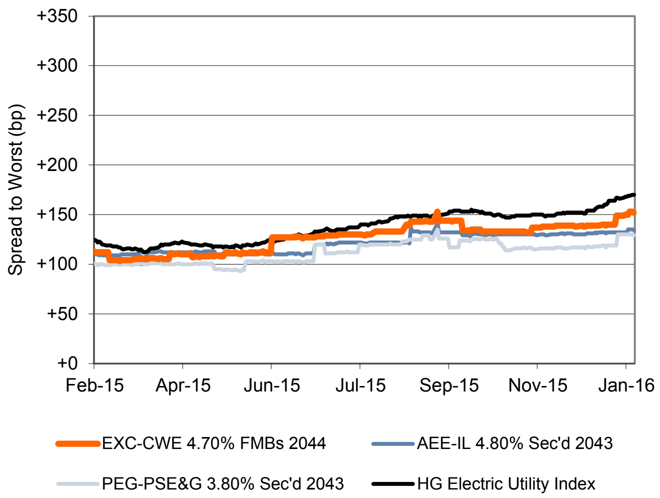
Relative Value: Cash Spreads

Exhibit 4: Baltimore Gas and Electric



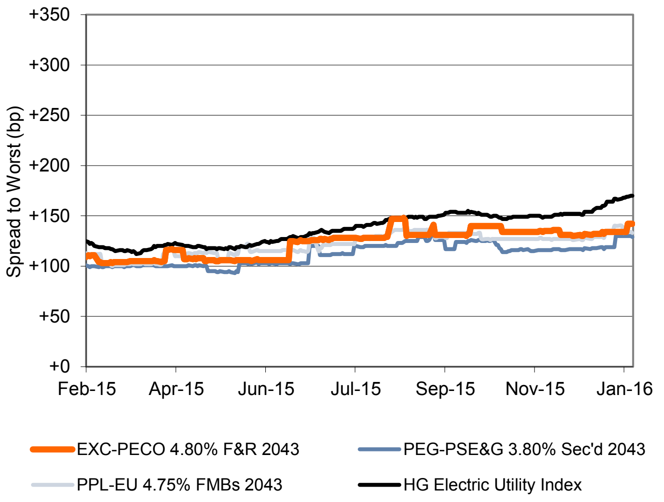
Source: BofA Merrill Lynch Global Research.

Exhibit 5: Commonwealth Edison



Source: BofA Merrill Lynch Global Research.

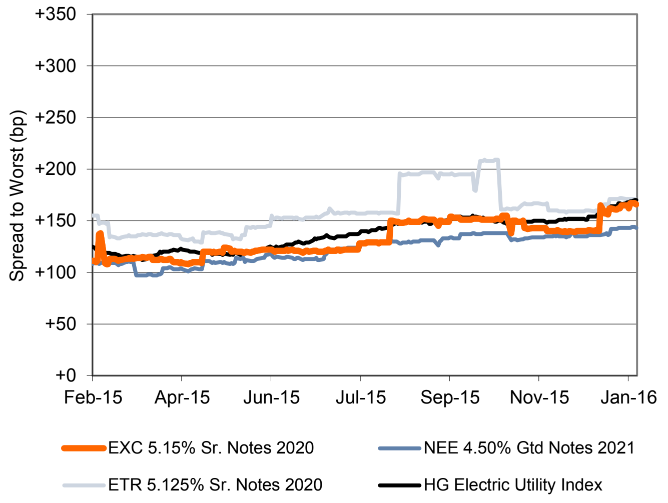
Exhibit 6: PECO Energy



Source: BofA Merrill Lynch Global Research.

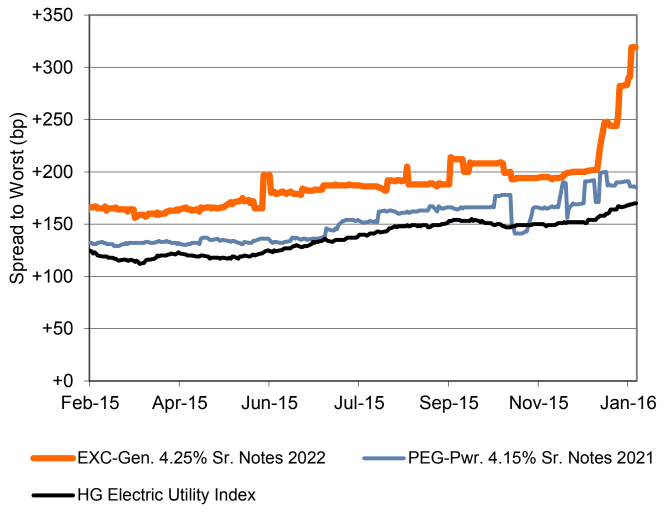
Continued on next page...

Exhibit 7: Exelon Corp.



Source: BofA Merrill Lynch Global Research.

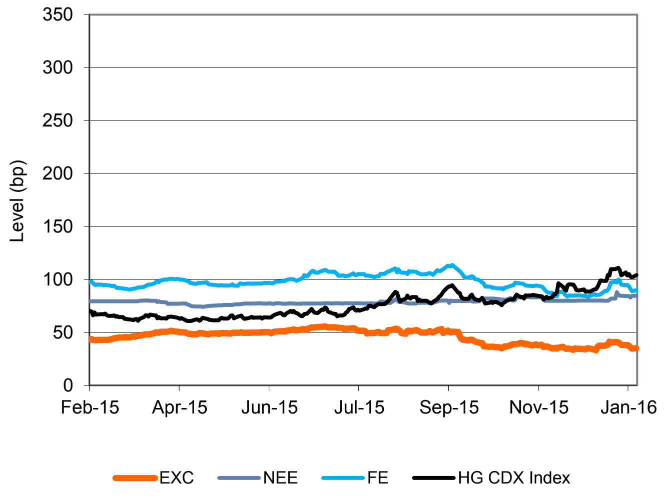
Exhibit 8: Exelon Generation



Source: BofA Merrill Lynch Global Research.

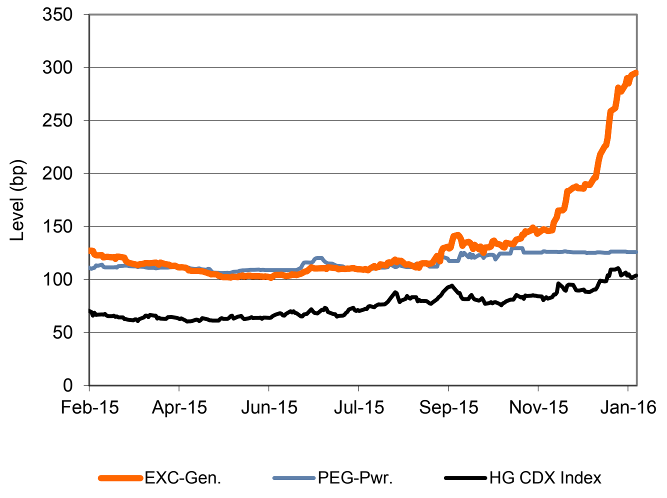
Relative Value: 5-year CDS Levels

Exhibit 9: Exelon Corp. (versus holdcos)



Source: BofA Merrill Lynch Global Research.

Exhibit 10: Exelon Generation (versus gencos)



Source: BofA Merrill Lynch Global Research.

Corporate & Debt Structure

Exhibit 11: Exelon Corp. Summary Debt Profile as of September 30, 2015 ($MM) – Part I (parent and generation)

Metrics thru Issuer within each box				Issuer						
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	Security	30-Sep-15 Debt	9mos15 Change	31-Dec-14 Debt
$ 7,318							**Exelon Corporation**			
							$500 RCF due 30-May-19	$ -	$ -	$ -
							Senior Unsecured Notes	$ 4,700	$ 3,400	$ 1,300
							Notes	$ 808	$ (550)	$ 1,358
							Long-term debt to affiliate	$ 182	$ -	$ 182
							Junior Subordinated Notes	$ 1,150	$ -	$ 1,150
							CEG debt fair value adjustment	$ 220	$ (75)	$ 295
							other, net	$ 258	$ 110	$ 148
$ 10,222	$ 3,740	2.7x	26.8%				**1. Exelon Generation Co. LLC**			
							$5,300 RCF due 30-May-19 *	$ -	$ -	$ -
							$300 Bilateral Facility due Dec-15 to Apr-16	$ -	$ -	$ -
							$100 CENG Bilateral Facility due Oct-15	$ -	$ -	$ -
							Borrowings from Money Pool	$ 1,205	$ 1,205	$ -
							Short-term Notes Payable	$ 21	$ (15)	$ 36
							Senior Unsecured Notes	$ 5,022	$ 750	$ 4,272
							Nuclear Fuel Procurement Contract	$ 70	$ -	$ 70
							Capital Lease Obligations	$ 24	$ -	$ 24
							ILAs with Exelon Corp.	$ 949	$ (550)	$ 1,499
							Pollution Control Notes	$ 435	$ 435	$ -
							other, net	$ (12)	$ -	$ (12)
$ 2,508	N.A.	N.A.	N.A.				**A. Renewables and CEG businesses**			
							ExGen Texas Power Project Financing	$ 668	$ (5)	$ 673
							Continental Wind	$ 572	$ (20)	$ 592
							Antelope Valley Solar Project Financing	$ 584	$ 27	$ 557
							ExGen Renewables I Project Financing	$ 268	$ (14)	$ 282
							Albany Green Energy Project Financing	$ 74	$ 74	$ -
							Upstream Gas Property Lending Agreement	$ 68	$ (9)	$ 77
							Energy Efficiency Project Financing	$ 61	$ 61	$ -
							Sacramento Solar Project Financing	$ 34	$ (1)	$ 35
							Clean Horizons Solar Loan Agreement	$ 34	$ -	*$ 34*
							Holyoke Solar Loan Agreement	$ 10	$ -	$ 10
							Denver Int'l Airport Solar Loan Agreement	$ 7	$ -	$ 7
							CEG Sr Notes fair value adj., other	*$ 128*	*$ (18)*	$ 146

Source: Company reports, BofA Merrill Lynch Global Research.

Continued on next page...

Exhibit 12: Exelon Corp. Summary Debt Profile as of September 30, 2015 ($MM) – Part II (utilities)

Metrics thru Issuer within each box				Issuer						
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	Security	30-Sep-15 Debt	9mos15 Change	31-Dec-14 Debt
$ 2,213	$ 1,051	2.1x	35.8%				**2. Baltimore Gas and Electric Company**			
$ 2,055	*$ 968*	*2.1x*	*35.0%*				*excluding Rate Stabilization Bonds*			
							$600 RCF due 30-May-19	$ -	$ -	$ -
							Commercial Paper	$ 50	$ (70)	$ 120
							Senior Notes	$ 1,750	$ -	$ 1,750
							other, net	$ (3)	$ -	$ (3)
							BGE Capital Trust II			
							Deferrable Interest Sub. Debentures	258	$ -	$ 258
$ 158	$ 83	1.9x	45.6%				**A. RSB BondCo LLC**			
							Rate Stabilization Bonds	$ 158	$ (37)	$ 195
$ 6,910	$ 1,797	3.8x	25.5%				**3. Commonwealth Edison Co.**			
							$1,000 RCF due 28-Mar-19	$ -	$ -	$ -
							Commercial Paper	$ 604	$ 300	$ 304
							First Mortgage Bonds	$ 5,969	$ 140	$ 5,829
							Notes Payable	$ 148	$ -	$ 148
							other, net	$ (17)	$ 2	$ (19)
							ComEd Financing III			
							Subordinated Debentures	$ 206	$ -	$ 206
$ 2,485	$ 1,031	2.4x	32.7%				**4. PECO Energy Co.**			
							$600 RCF due 30-May-19	$ -	$ -	$ -
							Borrowings from money pool	$ 55	$ 55	$ -
							First Mortgage Bonds	$ 2,250	$ -	$ 2,250
							other, net	$ (4)	$ -	$ (4)
							PECO Trusts III & IV			
							Subordinated Debentures	$ 184	$ -	$ 184
$ 299	N.A.	N.A.	N.A.				**5. Exelon Business Services Co.**			
							Borrowings from money pool	$ 295	$ 34	$ 261
$ 26,761	**$ 7,672**	**3.4x**	**22.5%**				**Consolidated Total (excl. FVAs)**	**$ 26,761**	**$ 4,485**	**$ 22,272**
$ 26,603	***$ 7,589***	***3.5x***	***22.4%***				***excluding Transition Bonds***	***$ 26,603***	***$ 4,522***	***$ 22,077***

Last twelve months ending September 30, 2015.

* Approximately $200 of the $5,300 expires in August 2018.

Excludes unsecured bridge credit facility of $3,200 at March 31, 2015 to support the Pepco Holdings transaction.

Credit metrics exclude 'fair value adjustments' of debt of Constellation Energy Group and Baltimore Gas & Electric.

EBITDA = earnings before income taxes and interest expense, plus DD&A, plus/(minus) non-cash expenses/(revenues).

FFO: Funds from Operations = cash flow from operating activities prior to changes of working capital.

ILA: Intercompany Loan Agreement. RCF: Revolving credit facility. Numbers *in italics* are BofAML estimates.

Source: Company reports, BofA Merrill Lynch Global Research.

Financial Profile

Exhibit 13: Exelon Corp.: Summary Financial Profile (2012-2016P; $ millions)

				PRELIMINARY	
	2012	**2013**	**2014**	**2015**	**2016P**
Income Statement					
Total Revenues	**$ 23,489**	**$ 24,888**	**$ 27,429**	**$ 29,447**	**$ 29,433**
Fuel & Purchased Power	(10,157)	(10,724)	(13,003)	(13,084)	(13,157)
Operating & Maintenance	(7,961)	(7,270)	(8,568)	(8,322)	(8,223)
Depreciation & Amortization	(1,881)	(2,153)	(2,314)	(2,450)	(2,575)
Other Operating Expenses	(1,019)	(1,095)	(1,154)	(1,200)	(1,200)
Operating EBIT	**$ 2,471**	**$ 3,646**	**$ 2,390**	**$ 4,391**	**$ 4,278**
Other Income, Net	319	259	1,043	72	294
Gross Interest Expense	(1,003)	(1,142)	(1,144)	(1,121)	(1,132)
Income Taxes	(627)	(1,044)	(666)	(1,073)	(1,165)
Net Income for Common Stock	**$ 1,160**	**$ 1,719**	**$ 1,623**	**$ 2,269**	**$ 2,276**
Statement of Cash Flows					
Operating EBIT	**$ 2,471**	**$ 3,646**	**$ 2,390**	**$ 4,391**	**$ 4,278**
Depreciation & Amortization *	3,231	2,858	2,795	2,887	2,875
Non-Cash Oper. EBIT Exp./(Rev.)	376	(133)	1,918	(331)	-
Other Income/(Expenses), Net	129	(97)	228	166	294
EBITDA	**$ 6,207**	**$ 6,274**	**$ 7,331**	**$ 7,113**	**$ 7,447**
Gross Interest Expense	(1,003)	(1,142)	(1,144)	(1,121)	(1,132)
Income Taxes	(12)	(925)	(164)	(321)	(291)
Other, Net, excl. ΔWC	(324)	605	(333)	238	-
Funds from Operations (FFO)	**$ 4,868**	**$ 4,812**	**$ 5,690**	**$ 5,909**	**$ 6,024**
Changes of Working Capital	415	610	(2,306)	625	-
Cash Flow from Operations	**$ 5,283**	**$ 5,422**	**$ 3,384**	**$ 6,534**	**$ 6,024**
Capital Expenditures *	(4,941)	(4,474)	(5,004)	(6,524)	(6,725)
Acquisitions & Investments, Net	1,314	147	1,821	107	(125)
Other Investing Items	(101)	(146)	(343)	(323)	-
Cash Flow after Investing	**$ 1,555**	**$ 949**	**$ (142)**	**$ (206)**	**$ (826)**
Long-term Debt Maturities	(828)	(1,047)	(1,509)	(1,802)	(1,500)
Common Dividends	(1,716)	(1,249)	(1,065)	(1,105)	(1,131)
Other Financing Items	(111)	(119)	(599)	(35)	-
Capital Excess/(Requirements)	**$ (1,100)**	**$ (1,466)**	**$ (3,315)**	**$ (3,148)**	**$ (3,457)**
Change of Debt Outstanding	1,498	1,635	3,549	5,904	500
Change of Common Equity	72	47	35	1,868	-
Changes of Cash Balances	**$ 470**	**$ 123**	**$ 269**	**$ 4,624**	**$ (2,957)**
Ending Cash & Equivalents	**$ 1,486**	**$ 1,609**	**$ 1,878**	**$ 6,502**	**$ 3,545**
Capital Structure					
Short-term Debt	$ 210	$ 341	$ 460	$ 533	$ 533
Current Maturities of Long-term Debt	1,047	1,509	1,802	1,500	1,322
Long-term Debt (incl. Capital Leases)	18,346	18,271	20,010	24,286	23,464
Total Debt	**$ 19,603**	**$ 20,121**	**$ 22,272**	**$ 26,319**	**$ 25,319**
Preferred Stock	280	193	193	193	193
Shareholders' Equity	21,431	22,732	22,608	25,793	26,937
Total Capital	**$ 41,314**	**$ 43,046**	**$ 45,073**	**$ 52,305**	**$ 52,449**
Credit Metrics					
Interest Coverage					
EBITDA/Interest Expense	6.2x	5.5x	6.4x	6.3x	6.6x
FFO/Interest Expense	5.9x	5.2x	6.0x	6.3x	6.3x
EBITDA/Financing Costs	2.3x	2.6x	3.3x	3.2x	3.3x
Leverage					
Total Debt/EBITDA	3.2x	3.2x	3.0x	3.7x	3.4x
Total Debt & Operating Leases/EBITDAL	3.9x	3.7x	3.7x	3.8x	3.6x
Net Debt/EBITDA	2.9x	3.0x	2.8x	2.8x	2.9x
FFO/Total Debt	24.8%	23.9%	25.5%	22.5%	23.8%
Total Debt/Total Capital	47.4%	46.7%	49.4%	50.3%	48.3%
Free Cash Flow					
FFO + Capex	**$ (73)**	**$ 338**	**$ 686**	**$ (615)**	**$ (701)**
FFO + Capex + Dividends	**$ (1,789)**	**$ (911)**	**$ (379)**	**$ (1,720)**	**$ (1,832)**

Does not include the planned merger with Pepco Holdings. * Amortization of nuclear fuel has been netted against capital expenditures. Exelon and Constellation Energy Group merged on March 12, 2012; numbers prior to that date do not include results of Constellation Energy Group. Not all line items are shown. Source: Company reports, BofA Merrill Lynch Global Research.

Valuation & risk

Exelon Corp. (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

Baltimore (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

Commonwealth Edison (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

Exelon Generation Co (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

PECO Energy Co. (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

Analyst Certification

I, Peter D. Quinn, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security pricing

Baltimore Gas & Electric Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.9, Notes, USD, 2016:B	300	01-OCT-2016	A3/A-/A-	103.12	05-Feb-2016	1.09	53
3.5, Notes, USD, 2021:B	300	15-NOV-2021	A3/A-/A-	104.94	05-Feb-2016	2.54	114
2.8, Notes, USD, 2022:B	250	15-AUG-2022	A3/A-/A-	101.25	05-Feb-2016	2.58	107
3.35, Notes, USD, 2023:B	300	01-JUL-2023	A3/A-/A-	103.56	05-Feb-2016	2.80	117
6.35, Senior, USD, 2036:B	400	01-OCT-2036	A3/A-/A-	128.22	05-Feb-2016	4.28	184

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Commonwealth Edison Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.95, First Mortgage Bonds, USD, 2016:B	415	15-AUG-2016	A2/A-/A-	102.58	05-Feb-2016	1.00	48
1.95, First Mortgage Bonds, USD, 2016:B	250	01-SEP-2016	A2/A-/A-	100.28	05-Feb-2016	1.37	86
6.15, First Mortgage Bonds, USD, 2017:B	425	15-SEP-2017	A2/A-/A-	107.01	05-Feb-2016	1.71	100
5.8, First Mortgage Bonds, USD, 2018:B	700	15-Mar-2018	A2/A-/A-	108.58	05-Feb-2016	1.64	86
2.15, First Mortgage Bonds, USD, 2019:B	300	15-JAN-2019	A2/A-/A-	100.73	05-Feb-2016	1.89	97
4, First Mortgage Bonds, USD, 2020:B	500	01-AUG-2020	A2/A-/A-	107.19	05-Feb-2016	2.21	104
3.4, First Mortgage Bonds, USD, 2021:B	350	01-SEP-2021	A2/A-/A-	105.49	05-Feb-2016	2.30	94
5.875, First Mortgage Bonds, USD, 2033:B	254	01-Feb-2033	A2/A-/A-	120.35	05-Feb-2016	4.00	187
5.9, First Mortgage Bonds, USD, 2036:B	625	15-MAR-2036	A2/A-/A-	122.52	05-Feb-2016	4.18	192
6.45, First Mortgage Bonds, USD, 2038:B	450	15-Jan-2038	A2/A-/A-	131.20	05-Feb-2016	4.25	176
3.8, First Mortgage Bonds, USD, 2042:B	350	01-OCT-2042	A2/A-/A-	96.13	05-Feb-2016	4.04	140
4.6, First Mortgage Bonds, USD, 2043:B	350	15-AUG-2043	A2/A-/A-	107.92	05-Feb-2016	4.11	146
4.7, First Mortgage Bonds, USD, 2044:B	350	15-JAN-2044	A2/A-/A-	110.04	05-Feb-2016	4.09	143
3.1, First Mortgage Bonds, USD, 2024:B	250	01-Nov-2024	A2/A-/A-	101.14	05-Feb-2016	2.95	117

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Corp. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.15, Senior Notes, USD, 2020:B	550	01-DEC-2020	Baa2/BBB-/BBB+	109.56	05-Feb-2016	2.90	167
7.6, Senior Notes, USD, 2032:B	258	01-APR-2032	Baa2/BBB-/BBB+	127.57	05-Feb-2016	5.08	283
5.625, Senior Notes, USD, 2035:B	500	15-Jun-2035	Baa2/BBB-/BBB+	108.46	05-Feb-2016	4.94	256

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Generation Co. LLC / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.2, Senior Notes, USD, 2017:B	700	01-Oct-2017	Baa2/BBB/BBB	106.32	05-Feb-2016	2.28	156
5.2, Senior Notes, USD, 2019:B	600	01-OCT-2019	Baa2/BBB/BBB	107.24	05-Feb-2016	3.09	203
2.95, Senior Notes, USD, 2020:B	750	15-Jan-2020	Baa2/BBB/BBB	98.45	05-Feb-2016	3.37	226
4, Senior Notes, USD, 2020:B	550	01-OCT-2020	Baa2/BBB/BBB	101.11	05-Feb-2016	3.72	252
4.25, Senior Notes, USD, 2022:B	523	15-JUN-2022	Baa2/BBB/BBB	98.98	05-Feb-2016	4.44	291
6.25, Senior Notes, USD, 2039:B	900	01-OCT-2039	Baa2/BBB/BBB	87.86	05-Feb-2016	7.34	479
5.75, Senior Notes, USD, 2041:B	350	01-Oct-2041	Baa2/BBB/BBB	82.75	05-Feb-2016	7.24	463
5.6, Senior Notes, USD, 2042:B	788	15-JUN-2042	Baa2/BBB/BBB	84.49	05-Feb-2016	6.88	425
Senior Unsecured, USD, Y5, CDS				31.50	05-Feb-2016		285

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

PECO Energy Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
1.2, FandR Mortgage Bonds, USD, 2016:B	300	15-OCT-2016	Aa3/A-/A	99.97	05-Feb-2016	1.24	67
5.35, FandR Mortgage Bonds, USD, 2018:B	500	01-Mar-2018	Aa3/A-/A	107.63	05-Feb-2016	1.59	81
2.375, FandR Mortgage Bonds, USD, 2022:B	350	15-SEP-2022	Aa3/A-/A	100.20	05-Feb-2016	2.34	82
5.95, FandR Mortgage Bonds, USD, 2036:B	300	01-Oct-2036	Aa3/A-/A	124.15	05-Feb-2016	4.19	176
4.8, FandR Mortgage Bonds, USD, 2043:B	250	15-OCT-2043	Aa3/A-/A	111.36	05-Feb-2016	4.10	145
4.15, FandR Mortgage Bonds, USD, 2044:B	300	01-Oct-2044	Aa3/A-/A	101.14	05-Feb-2016	4.08	141

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Baltimore Gas & Electric Co. / EXC

Company	Date^	Action	Recommendation
Baltimore Gas & Electric Co. / EXC	31-Jan-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
5.9, Notes, USD, 2016:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.5, Notes, USD, 2021:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.8, Notes, USD, 2022:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.35, Notes, USD, 2023:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.35, Senior, USD, 2036:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for a company or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Commonwealth Edison Co. / EXC

Company	Date^	Action	Recommendation
Commonwealth Edison Co. / EXC	31-Jan-2013		Underweight-30%
	06-May-2013	Downgrade	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
5.95, First Mortgage Bonds, USD, 2016:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
1.95, First Mortgage Bonds, USD, 2016:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.15, First Mortgage Bonds, USD, 2017:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.8, First Mortgage Bonds, USD, 2018:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.15, First Mortgage Bonds, USD, 2019:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4, First Mortgage Bonds, USD, 2020:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.4, First Mortgage Bonds, USD, 2021:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.875, First Mortgage Bonds, USD, 2033:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.9, First Mortgage Bonds, USD, 2036:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.45, First Mortgage Bonds, USD, 2038:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.8, First Mortgage Bonds, USD, 2042:B	31-Jan-2015		Underweight-30%

Commonwealth Edison Co. / EXC

Company	Date^	Action	Recommendation
	09-Nov-2015	Rating System Change	Marketweight
4.6, First Mortgage Bonds, USD, 2043:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.7, First Mortgage Bonds, USD, 2044:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.1, First Mortgage Bonds, USD, 2024:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for a company or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Exelon Corp. / EXC

Company	Date^	Action	Recommendation
Exelon Corp. / EXC	31-Jan-2013		Underweight-30%
	06-May-2013	Upgrade	Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Security	**Date^**	**Action**	**Recommendation**
5.15, Senior Notes, USD, 2020:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
7.6, Senior Notes, USD, 2032:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.625, Senior Notes, USD, 2035:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight

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Exelon Generation Co. LLC / EXC

Company	Date^	Action	Recommendation
Exelon Generation Co. LLC / EXC	31-Jan-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Security	**Date^**	**Action**	**Recommendation**
6.2, Senior Notes, USD, 2017:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.2, Senior Notes, USD, 2019:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
2.95, Senior Notes, USD, 2020:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4, Senior Notes, USD, 2020:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4.25, Senior Notes, USD, 2022:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
6.25, Senior Notes, USD, 2039:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.75, Senior Notes, USD, 2041:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.6, Senior Notes, USD, 2042:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight

Exelon Generation Co. LLC / EXC

Company	Date^	Action	Recommendation
Senior Unsecured, USD, Y5, CDS	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Sell Protection

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PECO Energy Co. / EXC

Company	Date^	Action	Recommendation
PECO Energy Co. / EXC	31-Jan-2013		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
1.2, FandR Mortgage Bonds, USD, 2016:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.35, FandR Mortgage Bonds, USD, 2018:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.375, FandR Mortgage Bonds, USD, 2022:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.95, FandR Mortgage Bonds, USD, 2036:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.8, FandR Mortgage Bonds, USD, 2043:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.15, FandR Mortgage Bonds, USD, 2044:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

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BofA Merrill Lynch Credit Opinion Key

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	146	35.96%	Buy	130	89.04%
Hold	155	38.18%	Hold	137	88.39%
Sell	105	25.86%	Sell	91	86.67%

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

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Research as of 11 Feb 2016
Estimates as of 06 Oct 2015
Pricing data through 10 Feb 2016
Rating updated as of 10 Feb 2016

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Contents

Analyst Note 11 Feb 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Vital Statistics

Market Cap (USD Mil)	28,617
52-Week High (USD)	35.10
52-Week Low (USD)	25.09
52-Week Total Return %	-6.7
YTD Total Return %	13.2
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.9
Price/Fair Value	0.89

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	*12.7*	*13.0*
EV/EBITDA	7.3	9.5	*7.7*	*7.6*
EV/EBIT	11.6	16.7	*12.6*	*12.6*
Free Cash Flow Yield %	4.0	-5.1	*2.8*	*-1.3*
Dividend Yield %	5.3	3.3	*3.8*	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,184*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,826*
EBIT YoY %	53.6	-15.3	*23.4*	*0.1*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,065*
Net Income YoY %	-7.9	-4.0	*2.9*	*-2.9*
Diluted EPS	2.50	2.39	*2.46*	*2.39*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.0*
Free Cash Flow	1,500	305	*1,364*	*136*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers at Commonwealth Edison (Illinois), PECO (Pennsylvania), and Baltimore Gas & Electric (Maryland). Exelon also owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. Exelon also is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*Forecast* 2015	*Forecast* 2016	*5-Year Proj. CAGR*
Revenue	*13.2*	24.1	6.0	10.2	*-17.0*	*10.6*	*3.5*
EBIT	*-11.6*	-46.9	53.6	-15.3	*23.4*	*0.1*	*13.9*
EBITDA	*-2.4*	-26.7	36.3	-6.9	*15.0*	*1.7*	*10.1*
Net Income	*-9.3*	-15.6	-7.9	-4.0	*2.9*	*-2.9*	*10.0*
Diluted EPS	*-16.9*	-31.5	-12.3	-4.4	*2.9*	*-3.0*	*9.9*
Earnings Before Interest, after Tax	*-7.3*	-43.1	-13.1	61.0	*-30.3*	*-7.4*	*-1.0*
Free Cash Flow	*-19.5*	231.6	-22.5	-79.7	*347.7*	*-90.0*	*59.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Operating Margin %	*12.0*	10.1	14.7	11.3	*16.8*	*15.2*	*16.4*
EBITDA Margin %	*20.4*	18.1	23.3	19.7	*27.3*	*25.1*	*25.9*
Net Margin %	*8.7*	9.9	8.6	7.5	*9.3*	*8.2*	*9.0*
Free Cash Flow Margin %	*5.1*	8.2	6.0	1.1	*6.0*	*0.5*	*5.5*
ROIC %	*2.2*	1.6	2.5	2.5	*5.2*	*5.2*	*5.7*
Adjusted ROIC %	*2.3*	1.7	2.7	2.7	*5.4*	*5.4*	*6.0*
Return on Assets %	*2.0*	1.7	2.2	2.0	*2.4*	*2.3*	*2.7*
Return on Equity %	*7.1*	6.4	7.7	7.1	*9.0*	*8.3*	*9.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Debt/Capital	*0.48*	0.47	0.47	0.49	*0.49*	*0.48*	*0.47*
Total Debt/EBITDA	*4.06*	4.60	3.46	4.12	*3.71*	*3.73*	*3.42*
EBITDA/Interest Expense	*4.65*	4.59	4.28	5.08	*6.23*	*6.06*	*6.27*

Valuation Summary and Forecasts

	2013	2014	*2015(E)*	*2016(E)*
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	*12.7*	*13.0*
EV/EBITDA	7.3	9.5	*7.7*	*7.6*
EV/EBIT	11.6	16.7	*12.6*	*12.6*
Free Cash Flow Yield %	4.0	-5.1	*2.8*	*-1.3*
Dividend Yield %	5.3	3.3	*3.8*	*3.8*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,148	12.3	7.11
Present Value Stage II	15,608	31.3	18.05
Present Value Stage III	28,162	56.4	32.56
Total Firm Value	**49,918**	**100.0**	**57.72**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-789	—	-0.91
Equity Value	**28,736**	**—**	**33.22**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil) Fiscal Year Ends in December				*Forecast*	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,184***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*10,000*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,184***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,082***
Income Tax Expense	627	1,044	666	*1,047*	*1,017*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,065***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.39***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,065*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.39***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,326***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,326***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	*Forecast* *2015*	*Forecast* *2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,138*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,140*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,055***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,321***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,955*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,417***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,717***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,065*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-149*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,762***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-886***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.12 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Feb 10, 2016

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Exelon Corp EXC (NYSE) | ★★★★

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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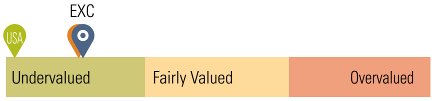
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	31.12 USD	35.00 USD	0.89	3.98	28.62	Utilities - Diversified	Standard
10 Feb 2016	10 Feb 2016			10 Feb 2016	10 Feb 2016		

Morningstar Pillars	**Analyst**	**Quantitative**
Economic Moat	Narrow	Narrow
Valuation	★★★★	Undervalued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.86	0.85	0.85	0.78
Price/Earnings	12.2	15.6	15.0	18.2
Forward P/E	11.7	—	15.2	12.4
Price/Cash Flow	3.6	5.1	6.0	10.1
Price/Free Cash Flow	—	74.7	11.0	16.0
Dividend Yield %	3.98	4.65	3.98	2.57

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs and generate large profits even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 06 October 2015

Investment Thesis

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and made a $12 billion bid for Pepco in April 2014, both including debt. Management's political negotiations appear to have revived the deal in Washington, D.C., where regulators had rejected it in August 2015. We now expect it has a 75% chance of closing. Exelon has received all other regulatory approvals.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our outlook for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can grow earnings 10% annually the next three years.

Travis Miller, Sector Director, 11 February 2016

Analyst Note

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Economic Moat

Travis Miller, Sector Director, 06 October 2015

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 10 Feb 2016	31.12 USD 10 Feb 2016	35.00 USD	0.89	3.98 10 Feb 2016	28.62 10 Feb 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	21,574	10,910	29.67	11.75
FirstEnergy Corp FE	USD	14,227	14,968	11.48	28.57
Entergy Corp ETR	USD	12,744	11,836	2.32	0.00

characteristics, with returns on capital above costs of capital for the foreseeable future. However, that spread between long-term returns on capital and Exelon's cost of capital have shrunk based on our midcycle outlook for power prices in the eastern U.S. Exelon's increasing diversification into narrow- and no-moat businesses together with the shrinking returns at its nuclear generation business supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources like coal and natural gas reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must continue to have access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 06 October 2015

We are reaffirming our $35 per share fair value estimate after raising our probability of the Pepco acquisition closing to 75% from 25% as a result of an agreement the companies reportedly reached with the Washington, D.C., mayor's office on Oct. 6. Although we think the deal is value-dilutive, it is too small to have a material impact on our fair value estimate. Exelon's $27.25-per-share cash offer represents a 30% premium to our $21 per share standalone fair value estimate for Pepco.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities (Ill.), Oyster Creek (N.J.), and Three Mile Island (Pa.)--as well as the Clinton (Ill.) plant. We now assume a 50% probability that the Byron (Ill.) plant will retire given it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is

Exelon Corp EXC (XNYS)

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50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4/mcf midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 06 October 2015

Investors should pay the most attention to political developments that would re-regulate competitive electricity markets in the Midwest and Mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source.

As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.

Reregulation also would destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.

As Exelon's regulated utilities generate a greater share of earnings, investors will be subject more acutely to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management

Travis Miller, Sector Director, 06 October 2015

We give Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and Executive Chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and Chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition in 2015. This will increase Exelon's share of regulated utilities earnings and dilute shareholders' exposure to wholesale power markets. Management has shown strong conviction in the value of the deal based on their efforts to gain support for the deal from all parties, particularly in Washington, D.C.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants absent significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creation opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 10 Feb 2016	31.12 USD 10 Feb 2016	35.00 USD	0.89	3.98 10 Feb 2016	28.62 10 Feb 2016	Utilities - Diversified	Standard

Analyst Notes Archive

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Sector Director, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market

Exelon Corp EXC (XNYS)

Morningstar Rating	**Last Price**	**Fair Value Estimate**	**Price/Fair Value**	**Dividend Yield %**	**Market Cap (Bil)**	**Industry**	**Stewardship**
★★★★ 10 Feb 2016	31.12 USD 10 Feb 2016	35.00 USD	0.89	3.98 10 Feb 2016	28.62 10 Feb 2016	Utilities - Diversified	Standard

hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Eq. Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco

Charles Fishman, Eq. Analyst, 06 October 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners

Charles Fishman, Eq. Analyst, 30 September 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Postpones Nuclear Plant Retirement Decision; No Fair Value Impact

Travis Miller, Sector Director, 10 September 2015

We are reaffirming our $35 per share fair value estimate for Exelon after management announced it will delay a decision whether to close at least three of its struggling nuclear plants. We recently incorporated into our fair value estimate and financial projections the assumption that it was more likely than not that Exelon would close those three plants in 2018. We also assume a 50% likelihood that Exelon will close its Byron (Illinois) nuclear plant in 2019.

Results of the recent 2016-18 PJM transitional capacity auctions and management's decision to delay potential retirements do not change our assumptions that those plants ultimately will close, absent significant energy market or public policy changes. The Quad Cities (Illinois), Three Mile Island (Pennsylvania), and Oyster Creek (New Jersey) plants are obligated to run at least through mid-2018, and the Byron plant is obligated to run through mid-2019 based on results from PJM's recent capacity auctions.

The key development for Exelon in last week's 2017-18 transitional capacity auction was that the Quad Cities and Byron plants cleared and are now obligated to run. Neither cleared PJM's 2017-18 base capacity auction last year at $120/megawatt-day but did clear last week's capacity performance transitional auction at $151.50/MW-day. Including those plants and the uplift for the rest of the fleet adds about $400 million of EBITDA in 2017-18.

The Clinton (Illinois) plant is the fourth that we assume will close by 2018. It is not part of PJM. It is obligated to run at least through 2016 as part of the Mid-Continent ISO. Exelon continues to lobby Illinois politicians to adopt a subsidy-like scheme that would improve the economics for its six Illinois nuclear plants. We do not include any benefits from policy changes in our fair value estimate.

D.C. Commission Rejects Pepco-Exelon Merger; Lowering Pepco Fair Value Estimate

Charles Fishman, Eq. Analyst, 26 August 2015

We are lowering our fair value estimate of Pepco Holdings Inc. to $23 per share from $27 per share, following the decision by the Public Service Commission of the District of Columbia to deny the merger with Exelon Corp, which caused Pepco shares to close down 16.5% on Tuesday. At the time of the merger in April 2014, we had believed the transaction would be value-dilutive for Exelon, and we are reviewing our $35 per share fair value estimate. We note that Exelon shares were down almost 7% on Tuesday, on which day the overall market and utilities were also weak. Our narrow moat and stable moat trend are unchanged for both companies.

Exelon and Pepco issued a joint press release indicating that they were reviewing their options and will respond once the process is complete. A summary of the decision indicated that the D.C. commission did not believe the merger would provide sufficient benefits to customers or guarantees for improvements in reliability. The commission was also concerned that under the new management structure Pepco would become "a second-tier company in a much larger corporation whose primary interest is not in distribution, but in generation." The full decision is due Wednesday, and the companies have 30 days to appeal the decision.

We were surprised by the decision, as we had believed the most difficult regulatory hurdle would be in Maryland. Pepco and Exelon agreed to stringent conditions and additional customer benefits imposed by the Maryland Public Service Commission on May 18. We thought the commission in D.C., the last jurisdiction needed to approve the deal, would agree to similar conditions. They did not.

Our new fair value estimate assumes that there is now only a 25% chance of the transaction being restructured to satisfy the D.C. regulators. If the deal is abandoned, our standalone fair value estimate for Pepco is $21 per share.

PJM Auction Results In Line With Our Forecast in First Auction With Capacity Performance Inclusion

Andrew Bischof, CFA, Eq. Analyst, 24 August 2015

Capacity prices across most of the 13-state PJM Interconnection region cleared at $165/MW-day for capacity performance, or CP, and $150/MW-day for base generation for 2018-19. This is comparable to $120/MW-day for last year's 2017-18 results, in which there was no separate CP auction. The results are in line with our auction expectations, in which we previously expected CP to clear at $150/MW-day and base capacity at $140/MW-day for the 2018-19 auction. We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover, as we are maintaining our midcycle capacity assumptions.

Capacity revenue provides significant pretax earnings for our independent power producers and diversified utilities for any one auction year. Dynegy in our opinion is the largest winner from strong base capacity results, as half of its generation is now in PJM. For every $100/MW-day change in capacity prices, we estimate that Dynegy benefits $385 million in pretax earnings. Exelon's fleet also benefited from a strong clearing in the Commonwealth Edison, or COMED, locational deliverability area, or LDA, with CP clearing at $215/MW-day and $200/MW-day for base generation capacity. However, we do not believe that Exelon's Illinois Quad Cities and Byron nuclear units cleared the auction at these prices. Based on recent management commentary, we continue to expect Exelon to close these two plants by the end of 2016, with a final decision expected in September. Public Service Enterprise Group, or PSEG, also benefits from strong base results for the second year in a row, with base capacity clearing in the Eastern Mid-Atlantic Area Council, or EMAAC, LDA clearing at $210/MW-day for base generation and $225/MW-day for CP. The premium clearing price in the PSEG region shows the competitive advantage of PSEG's fleet and supports our positive moat trend. Higher capacity prices also benefit Calpine, FirstEnergy, and NRG Energy.

Upcoming PJM Capacity Auction Could Prove Disappointing

Andrew Bischof, CFA, Eq. Analyst, 17 August 2015

We are reaffirming our fair value estimates and our moat and moat trend ratings for our independent power producers and diversified utilities ahead of the upcoming 2018/19 Planning Year auction for Capacity Performance, or CP. The capacity auction is currently under way, with results posted Aug. 21.

In June, the Federal Energy Regulatory Commission approved the proposal from PJM Interconnection to implement CP in its 2018/19 base residual auction, which PJM began on Aug. 10. CP increases the marginal capacity cost for marginal generators, but the bullish impact should be less than the market expects. We maintain our previous estimate that the combination of CP, reduced impact from demand response, and increased confidence of marginal generators to raise prices will cause CP to clear at $150 per megawatt-day and base capacity at $140/MW-day for the 2018-19 auction.

We believe that previous auctions already priced in existing non-CP performance penalties, such as those a generator must pay if it cannot deliver energy during reserve shortages. CP is a further-reaching, stricter penalty structure for nonperformance outside of reserve shortages. Although generators participating in CP will not be constrained by their avoidable cost rates this year, which will allow generation to offer up to net cost of new entry times the balancing ratio, we suspect that few generators will raise offer prices for this reason alone. We also highlight the possible expected increase in dark spreads over the 2018–19 time frame due to the large increase in LNG exports over this time period; this could add downside pressure to capacity offers from coal generation in PJM.

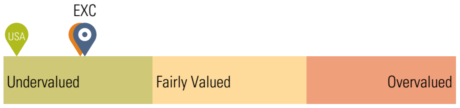
Exelon Corp EXC

Last Close 10 Feb 2016	**Quantitative Fair Value Est** 10 Feb 2016	**Market Cap** 10 Feb 2016	**Sector**	**Industry**	**Country of Domicile**
31.12	36.26	28,616.8 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	91	88	87
Valuation	Undervalued	30	47	29
Quantitative Uncertainty	Low	100	96	99
Financial Health	Moderate	58	54	58



Source: Morningstar Equity Research

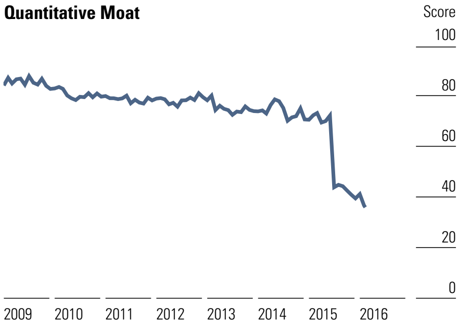
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.86	0.85	0.85	0.78
Price/Earnings	12.2	15.6	15.0	18.2
Forward P/E	11.7	—	15.2	12.4
Price/Cash Flow	3.6	5.1	6.0	10.1
Price/Free Cash Flow	—	74.7	11.0	16.0
Dividend Yield %	3.98	4.65	3.98	2.57
Price/Book	1.1	1.5	1.2	1.9
Price/Sales	0.9	1.2	1.2	1.6

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.4	9.7	10.0	11.9
Return on Assets %	2.5	2.6	3.2	4.7
Revenue/Employee (K)	989.4	958.0	1,117.5	303.9

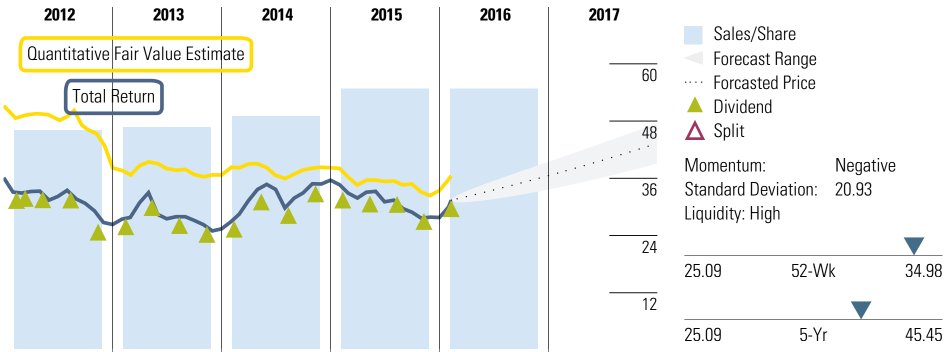
Quantitative Moat



Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.6
Solvency Score	587.2	—	633.9	576.5
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

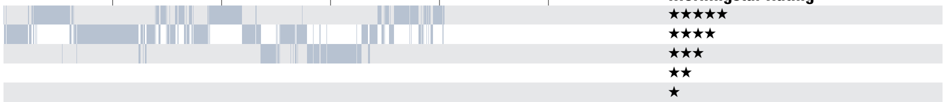
Price Versus Quantitative Fair Value



Momentum: Negative
Standard Deviation: 20.93
Liquidity: High

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	13.2	Total Return %
-42.9	-36.1	27.1	-22.5	23.2	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	3.98	Dividend Yield %
21.0	14.7	15.2	12.3	13.8	Price/Earnings
1.0	0.9	1.2	0.8	0.9	Price/Revenue

Morningstar Rating^{Q}



2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	29,447	Revenue
1.5	24.1	6.0	10.2	7.4	0.0	% Change
4,480	2,380	3,656	3,096	4,409	4,409	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	0.0	% Change
2,495	1,160	1,719	1,623	2,269	2,269	Net Income
4,853	6,131	6,343	4,457	7,616	7,616	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-7,624	Capital Spending
811	321	948	-1,620	-8	-8	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	0.0	% Sales
3.75	1.42	2.00	1.88	2.54	2.54	EPS
-3.1	-62.1	40.8	-6.0	35.1	0.0	% Change
0.20	0.39	0.48	-0.03	-1.04	-1.04	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.02	Book Value/Share
855,000	857,000	860,000	920,000	919,925	919,925	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	9.4	Return on Equity %
4.7	1.7	2.2	2.0	2.5	2.5	Return on Assets %
13.2	4.9	6.9	5.9	7.7	7.7	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.32	Asset Turnover
3.8	3.7	3.5	3.8	3.7	3.7	Financial Leverage
62.3	56.8	56.9	52.6	55.6	55.6	Gross Margin %
23.7	10.1	14.7	11.3	15.0	15.0	Operating Margin %
12,189	18,346	18,271	20,010	24,286	24,286	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,793	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

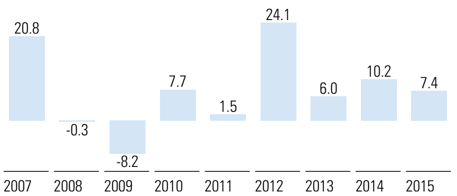
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	-6.7	4.4	-1.8	-1.4

Annual Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	—	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	—	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

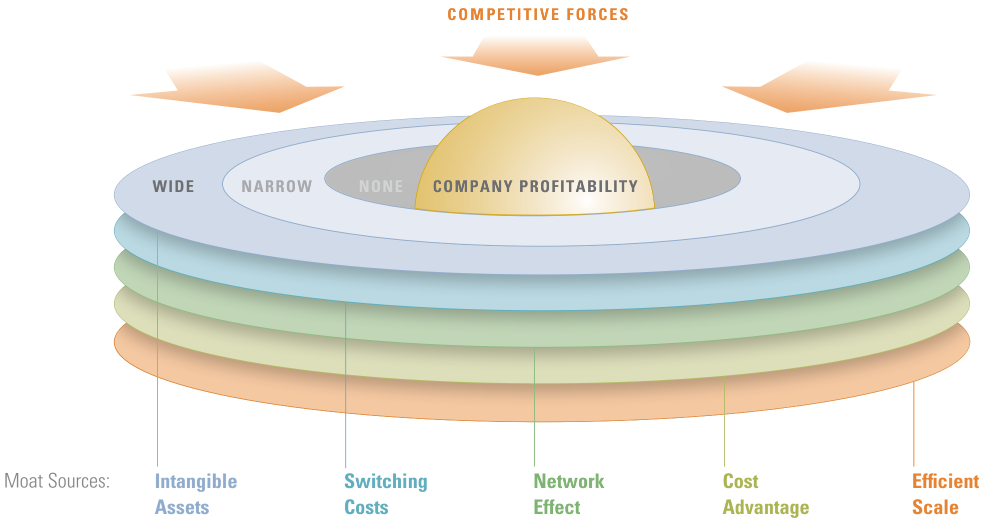
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

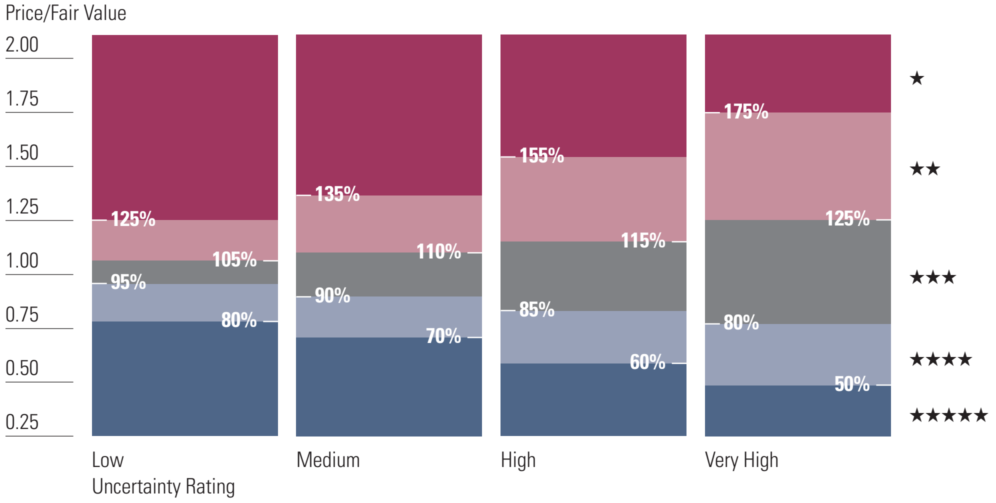
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	**Last Price**	**Fair Value Estimate**	**Price/Fair Value**	**Dividend Yield %**	**Market Cap (Bil)**	**Industry**	**Stewardship**
★★★★ 10 Feb 2016	31.12 USD 10 Feb 2016	35.00 USD	0.89	3.98 10 Feb 2016	28.62 10 Feb 2016	Utilities - Diversified	Standard

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 10 Feb 2016	31.12 USD 10 Feb 2016	35.00 USD	0.89	3.98 10 Feb 2016	28.62 10 Feb 2016	Utilities - Diversified	Standard

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Citi Research

Deep Dive | **Equities**

22 February 2016 | 26 pages

Diversified Utilities
North America | United States

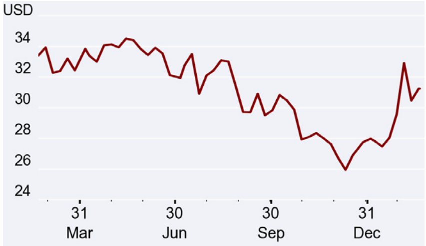
- **Estimate Change**
- **Rating Change**

Exelon Corp (EXC)

Pepco = Value Destructive. We assume the deal closes, back to Sell rating.

Sell	**3**
from Neutral	
Price (22 Feb 16)	US$31.61
Target price	US$27.00
Expected share price return	-14.6%
Expected dividend yield	3.9%
Expected total return	**-10.7%**
Market Cap	US$29,079M

Price Performance
(RIC: EXC.N, BB: EXC US)



- **Pepco deal keeps our price target at $27.** Following the Q4 update, our standalone valuation for EXC increased to $28 from our current PT of $27. However, we now incorporate the Pepco deal in our valuation as we expect the deal to get approved. Together with Pepco, our EXC PT stays at $27 as the deal detracts $1/share of value. The reason for this value erosion is that while Pepco adds $5B of equity value to EXC, it also adds $4B of additional parent net debt and 58m shares. With the EXC price now well above our PT of $27, we go back to a SELL rating.
- **Deal EPS accretive but value dilutive. Is that right?** Yes. Our analysis suggests 5, 8 and 11 cents of accretion in 2017, 2018 and 2019, respectively. However, from a value perspective, our stand alone PT reduces by $1. This outcome is possible because: 1) the $1.5B in premium is financed using cheap debt helping EPS but hurting equity value as it increases parent net debt; and 2) the concessions, fees and expenses valued at $500m are ignored for ongoing EPS but reduce value.
- **Is the recent run up in the stock price justified?** We launched with a Sell rating on EXC in September 2015 highlighting weakness of the hybrid business model, a weakening GenCo and a value destructive acquisition. None of these challenges have gone away. We think the positive sentiment of Pepco closing and a higher dividend aren't fundamental value drivers - We go back to our sell rating.
- **Transaction increases leverage at a time when ExGen is weakening.** We forecast EXC's consolidated FFO/Debt going from 25-27% to 20% following the transaction. At a time when ExGen's cash flows and asset life are weakening, we would have preferred EXC retain its financial flexibility.
- **What if the deal is terminated?** We prefer this outcome. We think valuation is higher in this scenario and, more importantly, the balance sheet isn't stretched. Yes, the dividends will need to be lowered but that may happen anyway, just a little later.
- **EXC value CONTINUES to be ALL ABOUT ExGen. We only see further weakness.** ExGen accounts for 35% of value in EXC post Pepco and we believe will continue to be the key driver of the stock. With delays in CPP, weak power prices and likely weakness in PJM capacity prices, we see additional challenges ahead and this is one of the key drivers for our PT and Sell rating.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.71A	0.59A	0.83A	0.37A	2.49A	2.49A
2016E	**0.93E**	**0.33E**	**0.77E**	**0.55E**	**2.59E**	**2.53E**
Previous	0.90E	0.35E	0.74E	0.60E	2.58E	na
2017E	**na**	**na**	**na**	**na**	**2.69E**	**2.66E**
Previous	na	na	na	na	2.57E	na
2018E	**na**	**na**	**na**	**na**	**2.88E**	**2.79E**
Previous	na	na	na	na	2.79E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

EXC.N: Fiscal year end 31-Dec

Price: US$31.61; TP: US$27.00; Market Cap: US$29,079m; Recomm: Sell

Profit & Loss (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue	27,429	29,447	32,245	34,137	35,195
Cost of sales	-13,003	-13,087	-14,652	-15,388	-15,748
Gross profit	14,426	16,360	17,593	18,750	19,447
Gross Margin (%)	52.6	55.6	54.6	54.9	55.3
EBITDA (Adj)	**4,704**	**6,837**	**7,933**	**8,676**	**9,315**
EBITDA Margin (Adj)	17.1	23.2	24.6	25.4	26.5
Depreciation	-2,314	-2,451	-2,983	-3,333	-3,590
Amortisation	0	0	0	0	0
EBIT (Adj)	**3,096**	**4,404**	**4,950**	**5,343**	**5,725**
EBIT Margin (Adj) (%)	11.3	15.0	15.4	15.7	16.3
Net interest	-1,065	-1,069	-1,537	-1,667	-1,715
Associates	-20	0	0	0	0
Non-op/Except	1,181	9	-300	28	221
Pre-tax profit	**2,486**	**3,326**	**3,113**	**3,704**	**4,230**
Tax	-666	-1,074	-1,042	-1,257	-1,444
Extraord./Min.Int./Pref.di	-197	16	-16	-16	-16
Reported net profit	**1,623**	**2,268**	**2,055**	**2,431**	**2,770**
Net Margin (%)	5.9	7.7	6.4	7.1	7.9
Core NPAT	1,623	2,226	2,394	2,559	2,774
Per share data	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Reported EPS ($)	1.88	2.54	2.22	2.55	2.88
Core EPS ($)	1.88	2.49	2.59	2.69	2.88
DPS ($)	1.24	1.24	1.26	1.29	1.33
CFPS ($)	5.16	8.55	7.29	7.65	7.73
FCFPS ($)	-1.88	0.01	-1.03	-0.73	0.50
BVPS ($)	26.29	29.00	28.98	30.67	31.94
Wtd avg ord shares (m)	860	889	921	948	958
Wtd avg diluted shares	864	893	925	952	962
Growth rates	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue (%)	10.2	7.4	9.5	5.9	3.1
EBIT (Adj) (%)	-15.6	42.2	12.4	7.9	7.1
Core NPAT (%)	-5.6	37.2	7.5	6.9	8.4
Core EPS (%)	-6.0	32.7	3.8	3.9	7.3
Balance Sheet (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Cash & cash equiv.	1,878	6,502	100	100	100
Accounts receivables	4,709	4,099	4,099	4,099	4,099
Inventory	1,603	1,566	1,566	1,566	1,566
Net fixed & other	64,652	69,916	85,372	89,009	91,465
Goodwill & intangibles	8,748	8,737	10,493	10,493	10,493
Financial & other assets	5,224	4,564	4,564	4,575	4,592
Total assets	**86,814**	**95,384**	**106,193**	**109,841**	**112,315**
Accounts payable	3,048	2,883	2,883	2,883	2,883
Short-term debt	2,262	2,033	3,582	3,806	3,253
Long-term debt	20,010	24,286	31,422	31,963	33,310
Provisions & other liab	37,361	38,860	40,081	40,589	40,758
Total liabilities	**62,681**	**68,062**	**77,968**	**79,241**	**80,204**
Shareholders' equity	22,801	25,986	26,889	29,264	30,775
Minority interests	1,332	1,308	1,308	1,308	1,308
Total equity	**24,133**	**27,294**	**28,197**	**30,572**	**32,083**
Net debt (Adj)	**20,394**	**19,817**	**34,904**	**35,669**	**36,463**
Net debt to equity (Adj)	84.5	72.6	123.8	116.7	113.7

Valuation ratios	**2014**	**2015**	**2016E**	**2017E**	**2018E**
PE (x)	16.8	12.7	12.2	11.8	11.0
PB (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	10.9	8.0	7.8	8.0	7.5
FCF yield (%)	-5.9	0.0	-3.3	-2.3	1.6
Dividend yield (%)	3.9	3.9	4.0	4.1	4.2
Payout ratio (%)	66	50	49	48	46
ROE (%)	7.2	9.4	7.8	8.7	9.3
Cashflow (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EBITDA	4,704	6,837	7,933	8,676	9,315
Working capital	-3,247	-246	0	0	0
Other	3,000	1,045	-1,189	-1,394	-1,884
Operating cashflow	**4,457**	**7,636**	**6,744**	**7,281**	**7,431**
Capex	-6,077	-7,624	-7,696	-7,975	-6,950
Net acq/disposals	1,657	-145	-6,911	0	0
Other	-179	-71	0	0	0
Investing cashflow	**-4,599**	**-7,840**	**-14,607**	**-7,975**	**-6,950**
Dividends paid	-1,486	-1,105	-1,168	-1,221	-1,276
Financing cashflow	**411**	**4,830**	**1,461**	**694**	**-481**
Net change in cash	**269**	**4,626**	**-6,402**	**0**	**0**
Free cashflow to	**-1,620**	**12**	**-952**	**-694**	**481**

For definitions of the items in this table, please click here.

Contents

Pepco Transaction Analysis

Summary

Figure 1. Summary Impact of Pepco Transaction

		Metric	Deal Completed	Deal Terminated
Valuation	↓	- Target Price	- $27	- $28
EPS	↑	- 2017 - 2018 - 2019	- $2.69 - $2.88 - $2.88	- $2.64 - $2.80 - $2.78
Credit	↓	- 2018 FFO/Debt - 2018 Parent debt/Total Debt	- 20.7% - 13.5%	- 26.5% - 1.3%
Dividend	↑	- 2018 Dividend Payout as % of utility earnings	- 77%	- 94%

Source: Citi Research

Figure 2. Financing Implications if Deal is Completed or Terminated

Financing	Amount	Deal Completed	Deal Terminated
Parent notes	$3.3B	- Stays outstanding	- Assumed to be paid down in 2016 - Practically, some ExGen debt will be paid down given parent debt is non-callable
Mandatory Converts	$1.15B	- Converts to $33 shares in 2017	- Shares bought back in 2017 post conversion - Remarketed debt of $1.15B stays outstanding
Shares	$1.87B	- Increased share count by 57.5m shares	- Assumed that 57.5m shares are bought back in Q2, Q3 2016

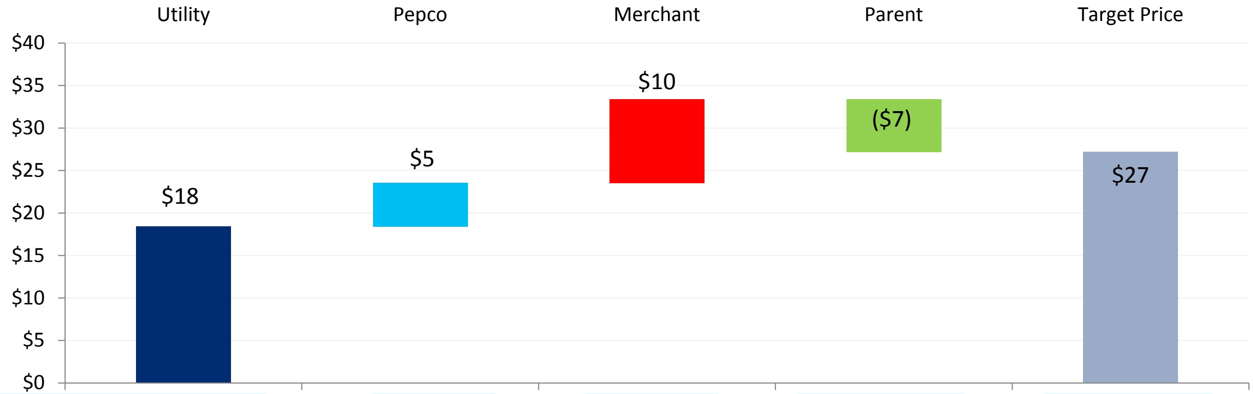
Source: Citi Research

Pepco: Value Impact: ($1) / share

Figure 3 lays out our valuation of Exelon pro forma for the acquisition. The two key factors impacting valuation (vs. standalone) are:

- **Pepco equity value:** Exelon's valuation below represents a $19/share standalone valuation of Pepco which is consistent with its unaffected share price.
- **Parent debt:** The offset to the increased equity value at Pepco is the increase in net debt at Parent and the increase in share count to pay for the acquisition.

Figure 3. EXC Post Merger Valuation ($mm except per share data)



Components	Utility	Pepco	Merchant	Parent	Consolidated
Terminal Multiple	15.0x	15.5x	5.5x		
Discount Rate	6.5%	6.5%	8.5%		
Firm Value	$29,569	$11,020	$17,497		$58,086
Net Debt	(12,534)	(6,260)	(8,382)		(27,175)
Equity Value	$17,034	$4,760	$9,116	($5,749)	$25,162
Share Price	**$18**	**$5**	**$10**	**($6)**	**$27**

Source: Citi Research
Assumed 927 Shares Outstanding

Valuation Bridge – What is driving the reduction in value?

Below is a bridge from EXC's standalone valuation to its pro Forma valuation.

Figure 4. Valuation Bridge from Deal Terminated to Deal Completed EXC ($mm except per share data)

Equity Value as of 9/30/2016	Current	PepCo Adj	Pro Forma
Utilities	$17,034	-	$17,034
PepCo	-	$4,760	$4,760
ExGen	$9,116	-	$9,116
Parent	($1,797)	($3,952)	($5,749)
Total Equity Value	$24,353	$809	$25,162
Shares Outstanding	868	58	926
Value Per Share	**$28**	**($1)**	**$27**

Source: Citi Research

Note that the way to think about the value of the $58m shares is by applying the standalone value of $28/share. Using that math, we value the stock issued at 1.6B (see table below).

Figure 5. Value Impact of Pepco – Approach 2 ($mm except per share data)

Valuation Creation / Destruction From Pepco	
Additional Equity Value from PepCo (1)	$809
Value of Shares issued (2)	($1,613)
Value Creation / (Destruction)	($805)
Value Per Share	**($1)**

Source: Citi Research

[1] Net equity value creation based on Pepco equity value less net debt.

[2] 57m shares times $28/share standalone valuation.

And finally, why is parent net debt going up this much?

EXC already has the financing in place to pay the shareholders of Pepco – see sources and uses below. We think all the money raised is spoken for and the holdco debt will stay outstanding post the deal close. For the converts, we assume that they convert in 2Q of 2017 into 33m of additional EXC shares (conversion price of $35/share, 1.4286 conversion factor) and the remarketed debt is retired using the exercise proceeds.

Figure 6. PHI Funding – Sources ($mm)

Stock Issuance	$1,870
Equity units	1,150
Debt issuance	3,300
Asset Sales (after tax)	1,400
Total Sources	$7,720

Source: Citi Research

Figure 7. PHI Funding – Uses ($mm)

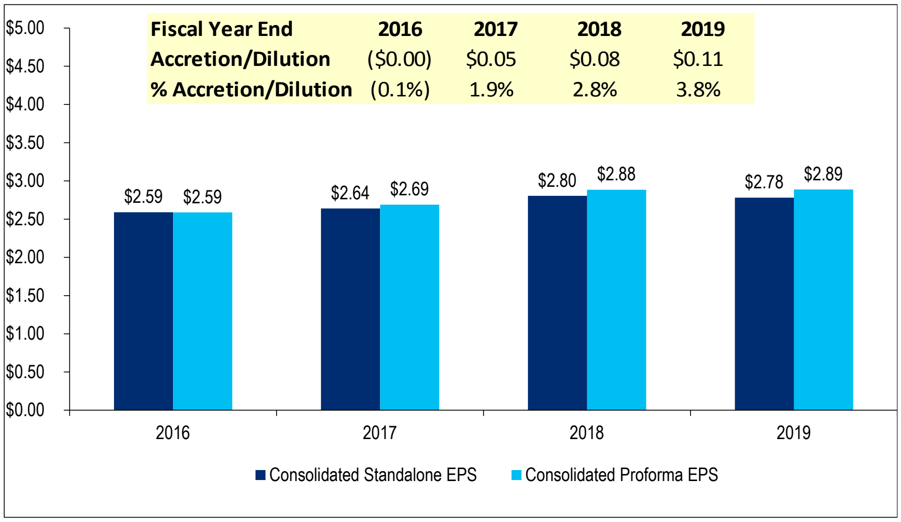
Purchase Price	$6,911
Fees and expense to date (after tax)	168
Commitments to D.C. (after tax through 2017)	293
Charitable contributions (after tax over 10 years)	33
Additional fees and expense (after tax)	65
Excess Cash	251
Total investment	$7,720

Source: Citi Research

Pepco: EPS Accretive but at what cost?

Figure 8 below shows the EPS both with and without a Pepco deal. Our analysis results in accretion of 5, 8 and 11 cents in 2017, 2018 and 2019 respectively.

Figure 8. Terminated vs Completed EPS and Accretion/Dilution ($ per share)



Fiscal Year End	2016	2017	2018	2019
Accretion/Dilution	($0.00)	$0.05	$0.08	$0.11
% Accretion/Dilution	(0.1%)	1.9%	2.8%	3.8%

Source: Citi Research estimates

Figure 9 below show the drivers for the accretion in 2017 generated primarily by the increased earnings at Pepco net of the impact of increased interest expense and share issuance.

Note that the $430 NPV worth of customer benefits, the $50m of charitable contributions and other fees and expenses are excluded from EPS as one-time impacts.

Figure 9. 2017 EPS Bridge from Terminated to Completed ($ per share)

2017 Segment EPS	Current	PepCo Adj	Pro Forma
Utilities	$1.34	($0.08)	$1.26
PepCo	$0.00	$0.36	$0.36
ExGen	$1.27	($0.08)	$1.19
Parent	($0.03)	($0.14)	($0.17)
Tax Adjustment	$0.05	($0.01)	$0.04
Consolidated	**$2.64**	**$0.05**	**$2.69**

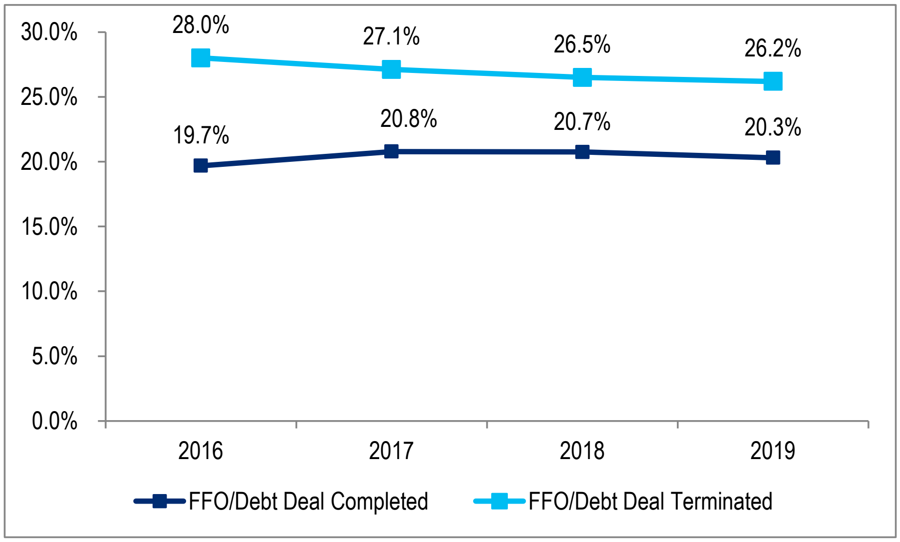
Source: Citi Research

Pepco: Credit clearly Weaker

The transaction weakens the FFO/Debt profile at the consolidated level. We see FFO to debt reducing from 25% down to below 20%. Note that Exelon's current target is 22%. We acknowledge that this decrease in metrics is partially offset with the improved business profile with the increased proportion of utility FFO.

Figure 10 below shows the standalone and proforma FFO/Debt at a consolidated level.

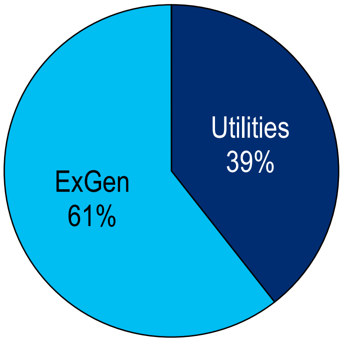
Figure 10. Consolidated FFO/Debt Deal Completed vs. Deal Terminated



Source: Citi Research

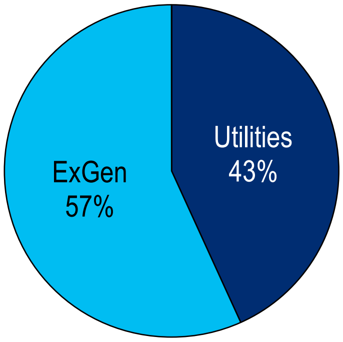
Figure 11 below highlights the improved business profile as reflected in the increased utility contribution to FFO from 39% to 43%.

Figure 11. Relative Contribution to FFO (Deal Terminated) in 2016



Source: Citi Research

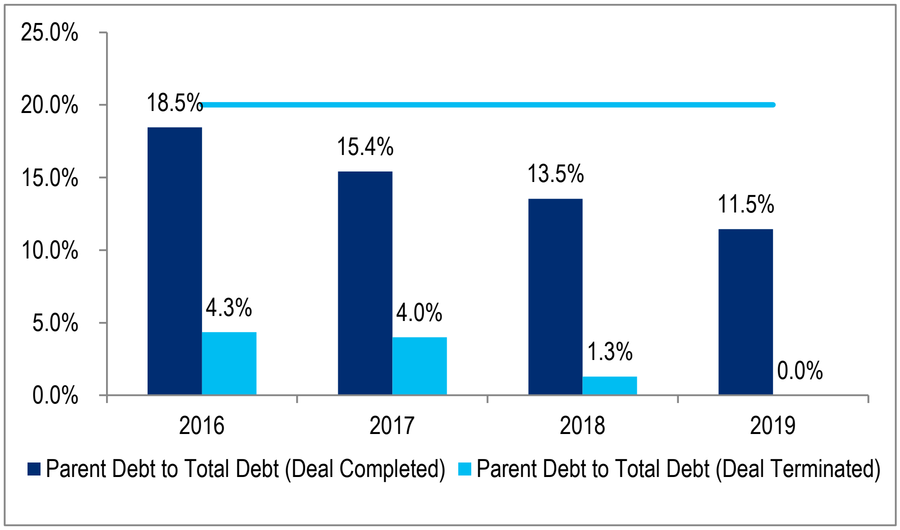
Figure 12. Relative Contribution to FFO (Deal Completed) in 2016



Source: Citi Research

Also note that the parent debt as a percentage of total debt is also increasing following the Pepco transaction. Note that if parent debt goes over 20% of consolidated debt then rating agencies start considering notching down parent credit ratings from the consolidated ratings.

Figure 13. Parent Debt to Total Consolidated Debt Deal Terminated vs. Deal Completed

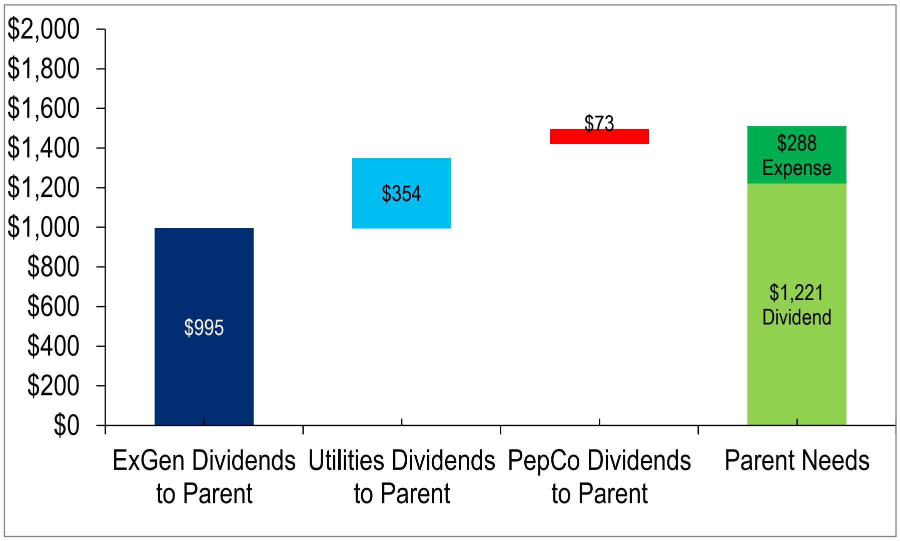


Source: Citi Research

Pepco: Dividend payout improves

Exelon's dividend payout as a percentage of total utility earnings does reduce thanks to the income stream from Pepco. However, the cash flow sources and uses at the parent level do highlight the importance of ExGen and the risks to the story if the ExGen cash flows weaken.

Figure 14. EXC HoldCo Sources and Uses in 2017 ($mm)



Source: Citi Research

We model any shortfall or excess cash as a short term borrowing or debt repayment at the parent level. Tables below show the dividend payout both in a deal completed and a terminated scenario.

Figure 15. Utilities Dividend Coverage Deal Terminated ($ per share)

Dividend Payout	2016	2017	2018	2019
EXC Utilites EPS	$1.28	$1.34	$1.42	$1.49
POM EPS	$0.00	$0.00	$0.00	$0.00
Total utility EPS	$1.28	$1.34	$1.42	$1.49
Dividend	$1.26	$1.29	$1.33	$1.36
Payout	**99%**	**96%**	**94%**	**92%**

Source: Citi Research

Figure 16. Utilities Dividend Coverage Deal Completed ($ per share)

Dividend Payout	2016	2017	2018	2019
EXC Utilites EPS	$1.23	$1.26	$1.33	$1.40
POM EPS	$0.32	$0.36	$0.39	$0.42
Total utility EPS	$1.55	$1.62	$1.72	$1.81
Dividend	$1.26	$1.29	$1.33	$1.36
Payout	**82%**	**80%**	**77%**	**75%**

Source: Citi Research

Pepco Overview and Valuation

POM is comprised of three electric T&D utilities: Potomac, Delmarva (DPL and Atlantic City Electric. In addition to electric, Delmarva has a small gas distribution business (we estimate 290m in rate base at 2014 year end).

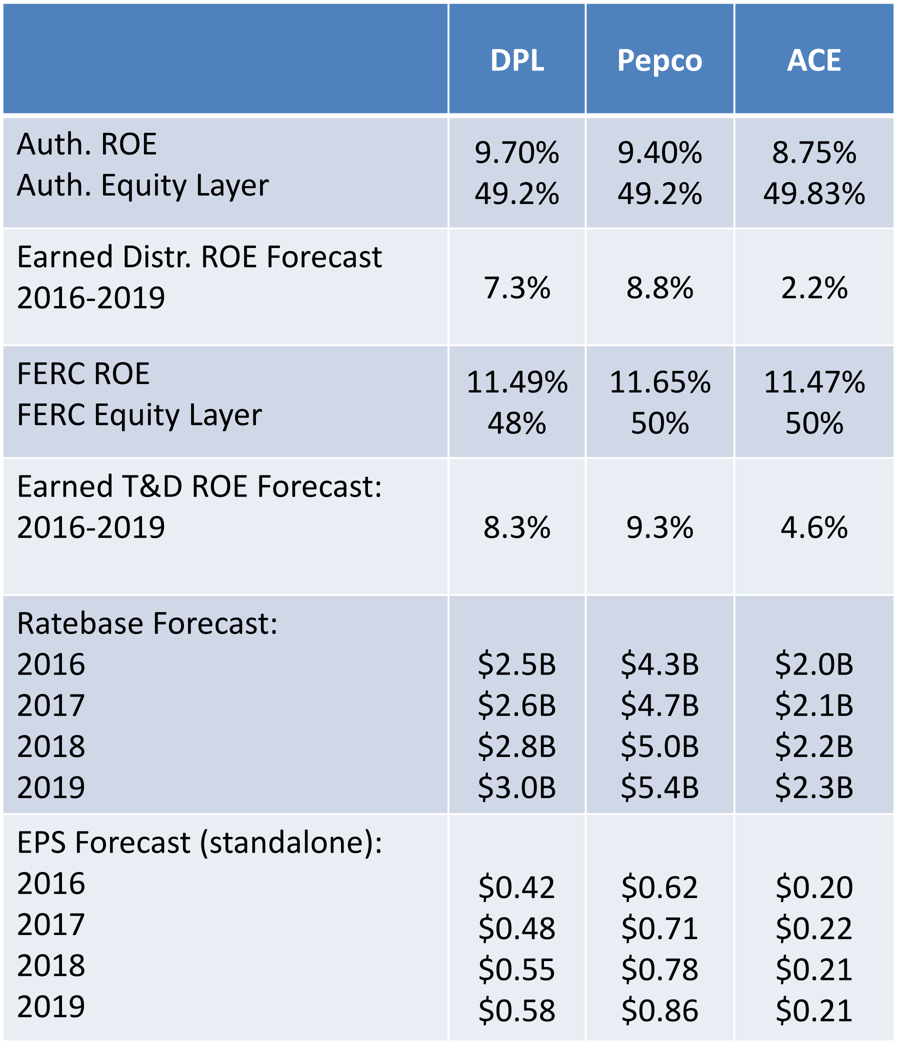
Historically, POM struggled to earn up to its allowed state distribution ROEs across all of its utilities, with ACE being the most visible under-earner. The company's relationships with regulators in DC and other jurisdictions have been historically challenging, and up until recently POM lacked contemporaneous recovery mechanisms that could help it eliminate persistent regulatory lag. As such, POM has been relying on annual ratecase filings, cost containing measures and lower investment levels (particularly at ACE) to offset negative impact of their regulatory construct.

Among POM's utilities, ACE has been particularly challenged due to well-advertised weakness in the underlying economy at Atlantic City. ACE has seen negative load growth and restrictive regulatory environment, which throttled its effective earned ROEs into low single digit range. The situation was partially mitigated by 2014-2015 change in tax treatment by the NJ BPU, however ROEs remained depressed.

Citi Projections

We do not expect POM's state earned ROEs to improve dramatically. EXC and POM did not agree to any rate case stay-outs as a part of their settlements, and we expect the strategy of annual rate case filings to continue. We note that POM's FERC rate base is earning formula rate returns, and we expect it to earn close to authorized across all periods. We expect state ROEs to stay flat. Given load growth profile (we assume 0.5% growth at DPL and Pepco and 0% at ACE) and considering projected cost-containment measures (we assume 0% O&M growth and 0.5% property tax creep), maintaining flat ROE will require annual rate increases across all three utilities. Our assumptions and model outputs with respect to POM are summarized in Figure 12.

Figure 17. POM Model Assumptions and Outputs

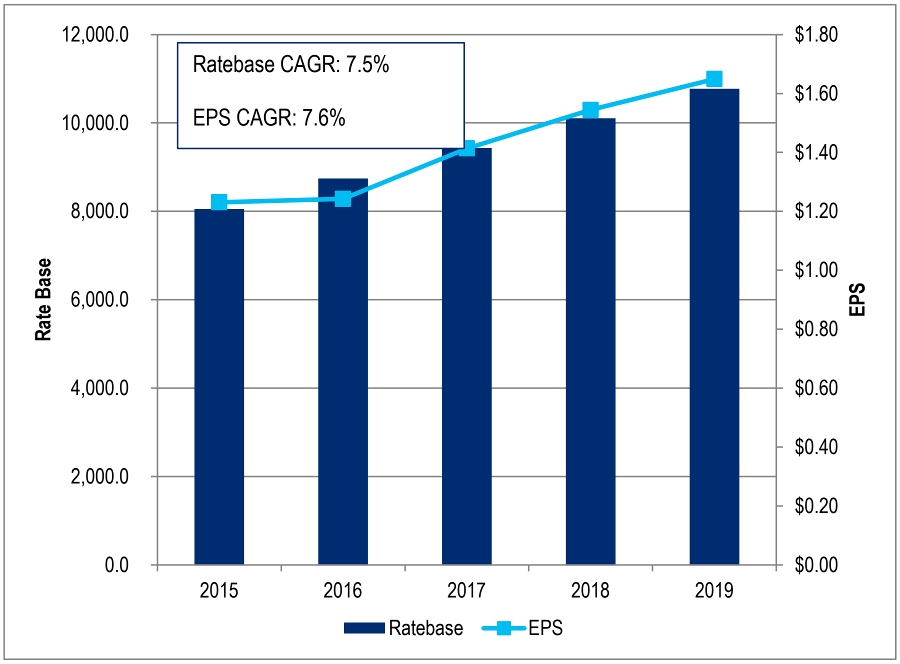


	DPL	Pepco	ACE
Auth. ROE Auth. Equity Layer	9.70% 49.2%	9.40% 49.2%	8.75% 49.83%
Earned Distr. ROE Forecast 2016-2019	7.3%	8.8%	2.2%
FERC ROE FERC Equity Layer	11.49% 48%	11.65% 50%	11.47% 50%
Earned T&D ROE Forecast: 2016-2019	8.3%	9.3%	4.6%
Ratebase Forecast:			
2016	$2.5B	$4.3B	$2.0B
2017	$2.6B	$4.7B	$2.1B
2018	$2.8B	$5.0B	$2.2B
2019	$3.0B	$5.4B	$2.3B
EPS Forecast (standalone):			
2016	$0.42	$0.62	$0.20
2017	$0.48	$0.71	$0.22
2018	$0.55	$0.78	$0.21
2019	$0.58	$0.86	$0.21

Source: Citi Research

Our assumptions translate into 7.5% ratebase CAGR through 2019 and 7.6% theoretical EPS CAGR (calculated using POM flat 254m share count)

Figure 18. POM Ratebase ($mm except per share data) and Earnings Growth



Source: Citi Research

Standalone Valuation

We believe POM's equity is worth $5/share with EXC (assuming 926m shares of EXC after financing). On a standalone basis using POM's sharecount, this value would be $19/share. We use the same DCF approach as with other regulated utilities with 15.5x terminal P/E multiple, which reflects a long-term growth rate of 3.5% which is in line with our view on growth of the average utility post 2019.

Figure 19. POM Standalone Valuation ($mm except per share data)

POM Utility Valuation	12/31/2016	12/31/2017	12/31/2018	12/31/2019
EBIT	$174	$866	$935	$992
less taxes	(61)	(303)	(327)	(347)
EBIAT	$113	$563	$608	$645
add deferred income taxes	20	82	(1)	(34)
add depreciation	157	674	786	786
Less capex	(344)	(1,400)	(1,350)	(1,350)
Unlevered FCF	($53)	($81)	$43	$47
Terminal Value				$13,588

Valuation Summary	**9/30/2016**
Value of cash flows	($52)
Terminal Value	11,071
Total Firm Value	$11,020
Less Net Debt	(6,259)
Equity Value	$4,760
Shares outstanding	926
Share price	$5

Source: Citi Research

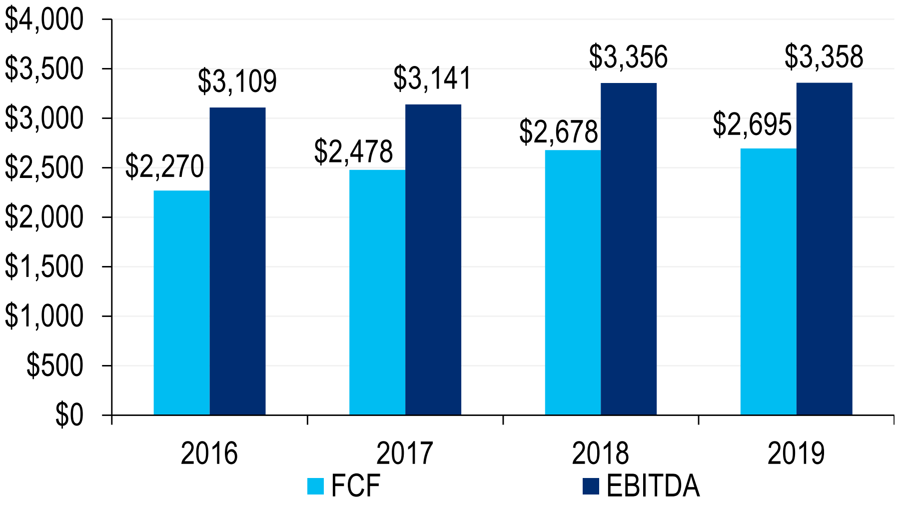
Exelon Generation

Overview

Exelon is one of the hybrids where the generation business is a significant proportion of the total company. ExGen generates over 200TWh of power annually of which 170TWh comes from nuclear generation. ExGen is one of the most respected nuclear operators in the country and generally operates its plants at very high capacity factors.

However, with low baseload prices in Midwest and Mid-Atlantic, ExGen's business has weakened considerably and we do not expect any change in this trajectory. The CP product has provided a boost to ExGen's cash flows with capacity revenues of $1.5B in 2015 going up to $1.8B by 2018. Note that the recent weakness in ISO-NE capacity prices could likely impact PJM as well. While the CP product has been helpful, we see EBITDA remaining flat post 2019 in the $3.1B - $3.3B range

Figure 20. EBITDA and FCF Profile ($mm)



Source: Citi Research

ExGen Valuation

We value ExGen using the following approach:

- DCF through 2019 with a 8.5% WACC and a 5.5x terminal EBITDA multiple
- Our 8.5% WACC is 50bps higher than a standalone IPP given the operational and financial inefficiencies of operating as a hybrid utility
- Our 5.5x terminal EBITDA multiple is based on a 45% unlevered FCF (UFCF) conversion and an assumed 20year asset life. Note that 1.0x of the 5.5x terminal EBITDA multiple is supported by growth related to renewables and some benefit of early plant retirements of Ginna, Clinton and Quad Cities.

Figure 21. ExGen Valuation Summary ($mm except per share data)

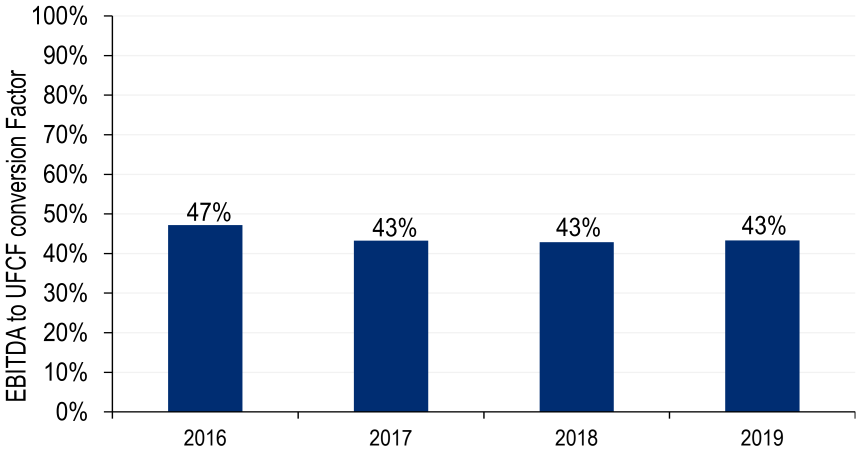
ExGen Valuation	Q4 2016	2017	2018	2019
EBIT	$395	$1,929	$2,069	$1,921
less taxes	(138)	(675)	(724)	(672)
EBIAT	$257	$1,254	$1,345	$1,249
add deferred income taxes	16	21	(70)	(181)
add depreciation	573	2,148	2,130	2,294
Less capex	(756)	(2,575)	(1,950)	(1,850)
Unlevered FCF	$89	$849	$1,455	$1,511
Terminal Value				$18,468

Valuation Summary	**9/30/2016**
Value of cash flows	$3,333
Terminal Value	14,164
Total Firm Value	$17,497
Less Net Debt	(8,382)
Equity Value	$9,116
Shares outstanding	926
Share price	$10

What is the UFCF Conversion?

With high maintenance capex to support nuclear operations and cash taxes, ExGen's unlevered free cash flow conversion (UFCF) is in the 45% range over the forecast period, shown in the chart below.

Figure 22. EBITDA to UFCF Profile

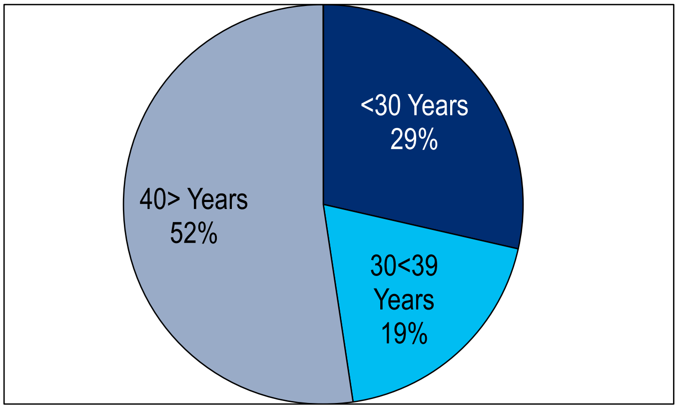


Source: Citi Research

What about asset life?

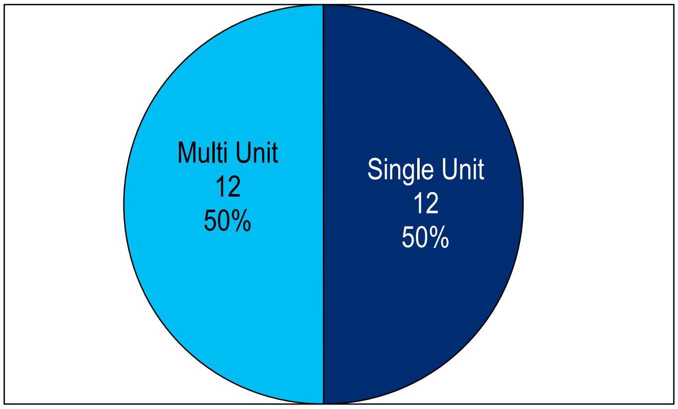
We think the economic life of nuclear assets is challenged by the low power and gas price environment, decreasing load growth and the increasing impact of renewables. This fact, together with the aging fleet of EXC with more than half the fleet greater than 40 years will, we think, limit the average life of this fleet to 20 years.

Figure 23. ExGen - Nuclear Fleet Age



Source: Citi Research

Figure 24. ExGen - Nuclear Fleet Profile

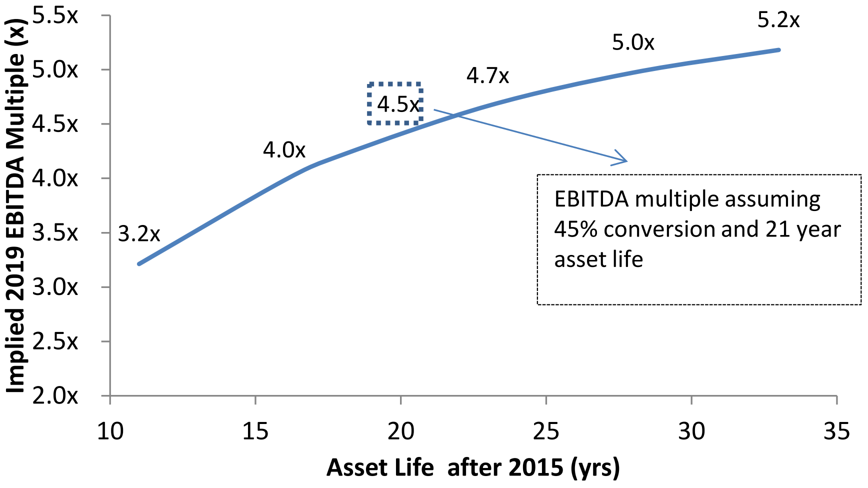


Source: Citi Research

Figure 26 below helps connects the dots between the 45% conversion, the 20year average life and the base terminal multiple we use of 45%.

The line in the figure below represents 45% conversion at varying levels of asset life (x axis) and show the implied terminal EBITDA multiple (y axis).

Figure 25. Case for Terminal Multiple



Asset	Life	ıtion Capacity	Weight	Wtd. Avg.
Nuclear	20	160,063	86%	
Gas/Other	30	25,637	14%	
Total		185,700	100%	21
Conversion level				45%
Implied multiple				**4.5x**

Source: Citi Research

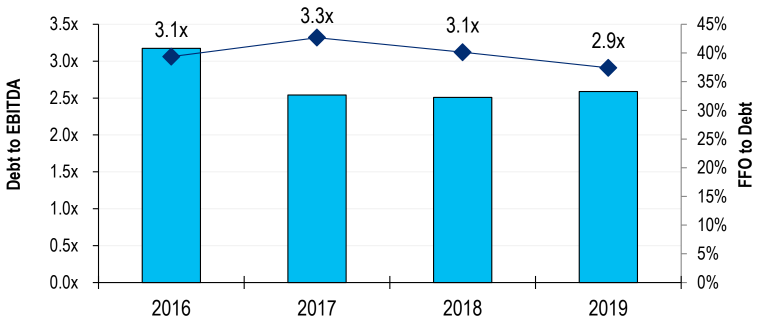
What about ExGen's Leverage?

We think Exelon needs to actively focus on reducing its approximately $10B of leverage at ExGen given the structural weaknesses of nuclear assets and the overall weakness in power and capacity prices.
Note that the average cash cost of nuclear generation is in the $30 - $35/MWh range and at given the current power price trends, many of the smaller single-unit nuclear plants are economically challenged.

We think ExGen should focus on deleveraging not by expecting an EBITDA uplift but by actually paying down some debt. EXC had noted on its last earnings call that they plan to pay down $3.6B of debt by 2020. However, we do not see any free cash flow available at the consolidated level to paydown ExGen debt without raising additional equity.

Based on our EBITDA projections, shown in table below, we believe ExGen will keep its debt-to-ebitda metrics around 2.9-3.1x range. At the same time, we believe FFO-to-debt ratio will come down a bit by 2019 and will settle in 35% range.

Figure 26. Credit Profile



Inputs	Units	2016	2017	2018	2019
FFO	$mm	$3,933	$3,375	$3,353	$3,309
Debt	$mm	9,198	9,393	9,423	9,423
EBITDA	$mm	3,109	3,141	3,356	3,358

Source: Citi Research

Citi's base case scenario does not include any debt pay down.

Byron, Clinton, Quad and Ginna Early Shutdown – Value Implications

We evaluated the financial impact of the early retirement of Clinton, Quad Cities and Ginna as EXC highlights these plants being at most risk related to an early retirement.

- **Byron** is a single unit with net operating capacity of 2347MW. The plant is already obligated to operate through May 2019. Exelon has decided to defer it decision on operations of its Byron plant and will offer it in the 2019/20 auction in May 2016.

- **Clinton** is a single unit plant located in Illinois with 1069MW net capacity. On October 29th, 2015, the company declared deferral of its decision related to future operations of the plant for one year. ExGen plans to bid the plant in MISO capacity auction for 2016/2017 Planning year.

- **Quad Cities** is a two unit plant located in Illinois with 1403MW net capacity. The plant cleared 2017/2018 PJM auction. EXC is planning to operate this unit till atleast May 2018. Exelon has decided to defer it decision on operations of its Quad Cities plant and will offer it in the 2019/20 auction in May 2016.

- **Ginna** is a single unit plant located in New York with 288MW net capacity. The plant is under PPA until March 31, 2017 and its currently under active consideration.

What about the Decommissioning Liabilities?

In case of early retirement, Clinton and Ginna don't meet the NRC minimum funding requirement due to early commencement of decommissioning and Quad Cities would also be at risk. This is because the funds don't get enough time to accrete in value to meet the liability. Given there are different approaches to decommissioning including SAFSTOR the actual liability isn't clear. However, EXC highlights that parental guarantees of $315, $260m and $65m may be needed for Clinton, Ginna and Quad Cities, respectively. ExGen also highlights that some portion of spent fuel management would need to be funded by Generation (Clinton: $165m; Ginna: $115). Given there is still meaningful uncertainty around the costs and type of decommissioning, we don't incorporate the potential additional liability in our analysis.

How much do you save by early decommissioning?

In the table below, we have quantified potential uplift in FCF and value, if these plants were to close in 2017. Our analysis suggests these plants are losing $60m of FCF every year and that shutting down these plants could unlock $560m in value.

Impact of early retirement

We do see $560m of uplift in value from early retirement related to elimination of the negative FCF of these plants. However, after you contrast this uplift with some of the potential decommissioning liabilities, we aren't certain the value uplift will be meaningful.

Figure 27. Nuclear Plant Shutdown Analysis

Financials	Units	FY2019
Energy Margin	$mm	483
Capacity Revenue	$mm	108
Commodity Margin	$mm	591
Total O&M	$mm	594
EBITDA	$mm	(3)
Depreciation Expense	$mm	86
EBIT	$mm	(89)
Interest Expense	$mm	0
EBT	$mm	(89)
Tax Expense/Income	$mm	(31)
Net Income	$mm	(58)
EBITDA	$mm	(3)
Less		
Capex	$mm	96
Cash Interest	$mm	0
Cash Taxes	$mm	(31)
FCF	$mm	(67)
Discount Rate	%	8.50%
Assumed year of operation	yrs	15.0
Value uplift	$mm	$558

Source: Citi Research

Exelon Utilities

We have updated our EXC regulated utilities model to reflect reported 2015 figures and impact of bonus depreciation. As a result of the bonus depreciation impact on ratebase, we now see slightly lower EPS profile for the utilities in 2016-2019 timeframe. Our 2016 estimates are within EXC's guidance range. Note that we now model slightly higher capex in 2016-2017 timeframe. The summary of our assumptions and Utilities EPS forecast change is shown below.

Figure 28. EXC Utility Valuation Summary ($mm except per share data)

EXC Utility Valuation	Q4 2016	2017	2018	2019
EBIT	$566	$2,555	$2,728	$2,872
less taxes	(198)	(894)	(955)	(1,005)
EBIAT	$368	$1,661	$1,773	$1,867
add depreciation	367	1,511	1,574	1,633
Less capex	(910)	(4,000)	(3,650)	(3,450)
Unlevered FCF	($175)	($828)	($303)	$50
Terminal Value				$36,248

Valuation Summary	**9/30/2016**
Value of cash flows	$33
Terminal Value	29,536
Total Firm Value	$29,569
Less Net Debt	(12,534)
Equity Value	$17,034
Shares outstanding	926
Share price	$18

Source: Citi Research

Figure 29. Previous Capex Assumptions ($mm)

Total Capex	2016	2017	2018	2019
Comed	2,425.0	2,200.0	1,900.0	1,900.0
Peco	700.0	725.0	725.0	725.0
BGE	800.0	850.0	925.0	925.0
Total Utes	**3,925.0**	**3,775.0**	**3,550.0**	**3,550.0**

Source: Citi Research

Figure 30. Updated Capex Assumptions ($mm)

Total Capex	2016	2017	2018	2019
Comed	2,425.0	2,450.0	2,100.0	1,900.0
Peco	700.0	750.0	750.0	750.0
BGE	840.0	1,000.0	925.0	925.0
Total Utes	**3,965.0**	**4,200.0**	**3,775.0**	**3,575.0**

Source: Citi Research

Figure 31. Previous Forecast ($mm)

Utility EPS	2016	2017	2018	2019
Comed	$0.56	$0.65	$0.70	$0.75
Peco	$0.42	$0.45	$0.46	$0.47
BGE	$0.27	$0.30	$0.33	$0.36
Total Utes	**$1.25**	**$1.40**	**$1.49**	**$1.58**
Growth Rate	*2.5%*	*11.7%*	*6.6%*	*5.7%*

Source: Citi Research

Figure 32. Current Forecast ($mm)

Utility EPS	2016	2017	2018	2019
Comed	$0.50	$0.53	$0.56	$0.58
Peco	$0.41	$0.39	$0.40	$0.41
BGE	$0.32	$0.34	$0.37	$0.40
Total Utes	**$1.23**	**$1.26**	**$1.33**	**$1.40**
Growth Rate	*1.5%*	*3.0%*	*5.5%*	*4.8%*

Source: Citi Research

To value the utility business we start by valuing cash flows through 2019, capturing all tax attributes. We then value cash flows beyond 2019 using a 15.0x terminal P/E multiple. To determine the 15.0x terminal P/E multiple, we start with an "average" utility with the following characteristics

- Authorized equity layer of 50%
- Authorized ROE of 10% with minimal regulatory lag and no bonus depreciation
- Growth rate of 3.5% post 2019, going down to 2.5% by twentieth year
- WACC of 6%
- The DCF of this hypothetical utility implies a terminal LTM PE multiple of 15.5x.

To arrive at the 15x multiple of EXC we evaluate the growth EXC's utilities vs. the 'average' utility with the 3.5% growth. The 15x multiple represents a 3.0% long-term growth rate which reduces to 2% over time. We think this growth profile is appropriate given the relatively weak load growth and capex profile.

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates three utilities in Pennsylvania, Illinois, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, and Baltimore Gas & Electric in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants located concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Sell (3). Our rating is based on concerns around the management team’s strategic vision and execution, downside related to the Pepco transaction, concerns around the economics of Exelon’s nuclear fleet with low unlevered free cash flow conversion (UFCF) of ~45% and a weak utility business with below average growth of ~4% through 2019

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $10/share and believe ExGen’s core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $18/share based on a 15x terminal PE multiple. We also add $5/share value provided by PepCo. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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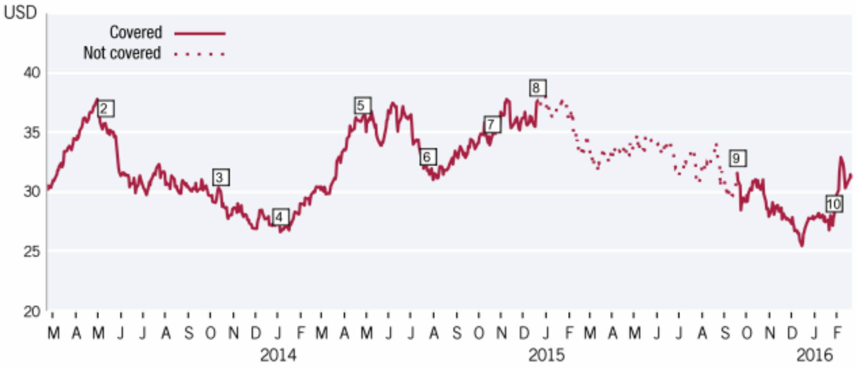
Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	10-May-13	2	*37.00	35.75
3	14-Oct-13	2	*29.00	30.02
4	03-Jan-14	*3	*21.00	26.62
5	24-Apr-14	3	*27.00	36.01
6	23-Jul-14	3	*30.00	31.76
7	17-Oct-14	*2	*37.00	34.38
8	18-Dec-14	Coverage terminated		
9	17-Sep-15	*3	*27.00	31.57
10	26-Jan-16	*2	27.00	27.84

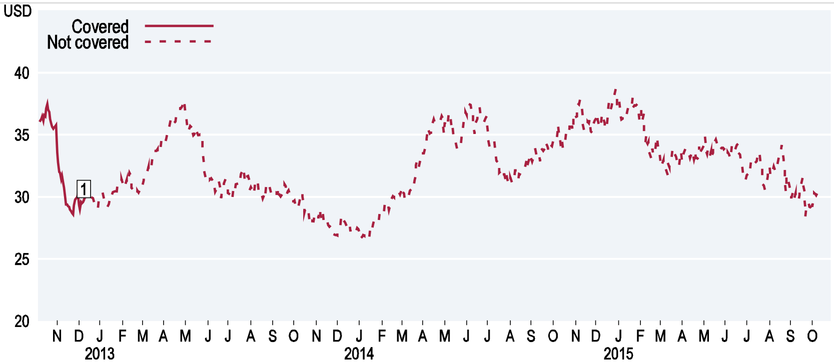
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	10-Dec-12	*REM LP		

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.24 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

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The primary analyst covering this company does not own its stock.

Research as of 22 Feb 2016
Estimates as of 06 Oct 2015
Pricing data through 19 Feb 2016
Rating updated as of 19 Feb 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 22 Feb 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Vital Statistics

Market Cap (USD Mil)	28,738
52-Week High (USD)	34.98
52-Week Low (USD)	25.09
52-Week Total Return %	-2.8
YTD Total Return %	13.6
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.9
Price/Fair Value	0.89

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	*12.7*	*13.1*
EV/EBITDA	8.9	8.3	*7.8*	*7.7*
EV/EBIT	14.1	14.5	*12.7*	*12.7*
Free Cash Flow Yield %	3.0	-6.3	*2.8*	*-1.3*
Dividend Yield %	3.9	4.2	*3.7*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,184*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,826*
EBIT YoY %	53.6	-15.3	*23.4*	*0.1*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,065*
Net Income YoY %	-7.9	-4.0	*2.9*	*-2.9*
Diluted EPS	2.50	2.39	*2.46*	*2.39*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.0*
Free Cash Flow	1,500	305	*1,364*	*136*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers at Commonwealth Edison (Illinois), PECO (Pennsylvania), and Baltimore Gas & Electric (Maryland). Exelon also owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. Exelon also is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.24 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*2015*	*2016*	*5-Year Proj. CAGR*
Revenue	*13.2*	24.1	6.0	10.2	*-17.0*	*10.6*	*3.5*
EBIT	*-11.6*	-46.9	53.6	-15.3	*23.4*	*0.1*	*13.9*
EBITDA	*-2.4*	-26.7	36.3	-6.9	*15.0*	*1.7*	*10.1*
Net Income	*-9.3*	-15.6	-7.9	-4.0	*2.9*	*-2.9*	*10.0*
Diluted EPS	*-16.9*	-31.5	-12.3	-4.4	*2.9*	*-3.0*	*9.9*
Earnings Before Interest, after Tax	*-7.3*	-43.1	-13.1	61.0	*-30.3*	*-7.4*	*-1.0*
Free Cash Flow	*-19.5*	231.6	-22.5	-79.7	*347.7*	*-90.0*	*59.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Operating Margin %	*12.0*	10.1	14.7	11.3	*16.8*	*15.2*	*16.4*
EBITDA Margin %	*20.4*	18.1	23.3	19.7	*27.3*	*25.1*	*25.9*
Net Margin %	*8.7*	9.9	8.6	7.5	*9.3*	*8.2*	*9.0*
Free Cash Flow Margin %	*5.1*	8.2	6.0	1.1	*6.0*	*0.5*	*5.5*
ROIC %	*2.2*	1.6	2.5	2.5	*5.2*	*5.2*	*5.7*
Adjusted ROIC %	*2.3*	1.7	2.7	2.7	*5.4*	*5.4*	*6.0*
Return on Assets %	*2.0*	1.7	2.2	2.0	*2.4*	*2.3*	*2.7*
Return on Equity %	*7.1*	6.4	7.7	7.1	*9.0*	*8.3*	*9.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Debt/Capital	*0.48*	0.47	0.47	0.49	*0.49*	*0.48*	*0.47*
Total Debt/EBITDA	*4.06*	4.60	3.46	4.12	*3.71*	*3.73*	*3.42*
EBITDA/Interest Expense	*4.65*	4.59	4.28	5.08	*6.23*	*6.06*	*6.27*

Valuation Summary and Forecasts

	2013	2014	*2015(E)*	*2016(E)*
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	*12.7*	*13.1*
EV/EBITDA	8.9	8.3	*7.8*	*7.7*
EV/EBIT	14.1	14.5	*12.7*	*12.7*
Free Cash Flow Yield %	3.0	-6.3	*2.8*	*-1.3*
Dividend Yield %	3.9	4.2	*3.7*	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,148	12.3	7.11
Present Value Stage II	15,608	31.3	18.05
Present Value Stage III	28,162	56.4	32.56
Total Firm Value	**49,918**	**100.0**	**57.72**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-789	—	-0.91
Equity Value	**28,736**	**—**	**33.22**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.24 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,184***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*10,000*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,184***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,082***
Income Tax Expense	627	1,044	666	*1,047*	*1,017*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,065***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.39***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,065*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.39***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,326***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,326***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.24 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,138*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,140*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,055***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,321***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,955*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,417***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,717***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.24 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,065*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-149*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,762***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-886***

Exelon Corp EXC (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.24 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.24 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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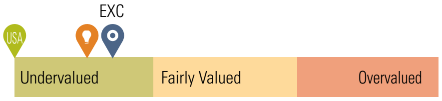
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 25 Feb 2016	31.98 USD 25 Feb 2016	35.00 USD	0.91	3.88 25 Feb 2016	29.42 25 Feb 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Undervalued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.89	0.85	0.85	0.77
Price/Earnings	12.5	15.6	14.9	18.1
Forward P/E	12.1	—	15.1	12.3
Price/Cash Flow	3.7	5.1	6.0	10.0
Price/Free Cash Flow	—	74.7	10.8	15.9
Dividend Yield %	3.88	4.65	4.02	2.61

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs and generate large profits even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Travis Miller, Sector Director, 06 October 2015

Investment Thesis

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and made a $12 billion bid for Pepco in April 2014, both including debt. Management's political negotiations appear to have revived the deal in Washington, D.C., where regulators had rejected it in August 2015. We now expect it has a 75% chance of closing. Exelon has received all other regulatory approvals.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our outlook for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can grow earnings 10% annually the next three years.

Charles Fishman, CFA, Eq. Analyst, 22 February 2016

Analyst Note

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Economic Moat

Travis Miller, Sector Director, 06 October 2015

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, that spread

Exelon Corp EXC (XNYS)

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,131	10,910	29.67	12.05
FirstEnergy Corp FE	USD	14,383	15,026	15.25	24.75
Entergy Corp ETR	USD	13,245	11,836	2.32	0.00

between long-term returns on capital and Exelon's cost of capital have shrunk based on our midcycle outlook for power prices in the eastern U.S. Exelon's increasing diversification into narrow- and no-moat businesses together with the shrinking returns at its nuclear generation business supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources like coal and natural gas reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must continue to have access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 06 October 2015

We are reaffirming our $35 per share fair value estimate after raising our probability of the Pepco acquisition closing to 75% from 25% as a result of an agreement the companies reportedly reached with the Washington, D.C., mayor's office on Oct. 6. Although we think the deal is value-dilutive, it is too small to have a material impact on our fair value estimate. Exelon's $27.25-per-share cash offer represents a 30% premium to our $21 per share standalone fair value estimate for Pepco.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities (Ill.), Oyster Creek (N.J.), and Three Mile Island (Pa.)--as well as the Clinton (Ill.) plant. We now assume a 50% probability that the Byron (Ill.) plant will retire given it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Exelon Corp EXC (XNYS)

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Our midcycle earnings forecast at Exelon Generation is based on a $4/mcf midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 06 October 2015

Investors should pay the most attention to political developments that would re-regulate competitive electricity markets in the Midwest and Mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source.

As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.

Reregulation also would destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.

As Exelon's regulated utilities generate a greater share of earnings, investors will be subject more acutely to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management

Travis Miller, Sector Director, 06 October 2015

We give Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and Executive Chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and Chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition in 2015. This will increase Exelon's share of regulated utilities earnings and dilute shareholders' exposure to wholesale power markets. Management has shown strong conviction in the value of the deal based on their efforts to gain support for the deal from all parties, particularly in Washington, D.C.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants absent significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creation opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8

million shares or vested options as of January 2015.

Exelon Corp EXC (XNYS)

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Analyst Notes Archive

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Sector Director, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Eq. Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco

Charles Fishman, Eq. Analyst, 06 October 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners

Charles Fishman, Eq. Analyst, 30 September 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Postpones Nuclear Plant Retirement Decision; No Fair Value Impact

Travis Miller, Sector Director, 10 September 2015

We are reaffirming our $35 per share fair value estimate for Exelon after management announced it will delay a decision whether to close at least three of its struggling nuclear plants. We recently incorporated into our fair value estimate and financial projections the assumption that it was more likely than not that Exelon would close those three plants in 2018. We also assume a 50% likelihood that Exelon will close its Byron (Illinois) nuclear plant in 2019.

Results of the recent 2016-18 PJM transitional capacity auctions and management's decision to delay potential retirements do not change our assumptions that those plants ultimately will close, absent significant energy market or public policy changes. The Quad Cities (Illinois), Three Mile Island (Pennsylvania), and Oyster Creek (New Jersey) plants are obligated to run at least through mid-2018, and the Byron plant is obligated to run through mid-2019 based on results from PJM's recent capacity auctions.

The key development for Exelon in last week's 2017-18 transitional capacity auction was that the Quad Cities and Byron plants cleared and are now obligated to run. Neither cleared PJM's 2017-18 base capacity auction last year at $120/megawatt-day but did clear last week's capacity performance transitional auction at $151.50/MW-day. Including those plants and the uplift for the rest of the fleet adds about $400 million of EBITDA in 2017-18.

The Clinton (Illinois) plant is the fourth that we assume will close by 2018. It is not part of PJM. It is obligated to run at least through 2016 as part of the Mid-Continent ISO. Exelon continues to lobby Illinois politicians to adopt a subsidy-like scheme that would improve the economics for its six Illinois nuclear plants. We do not include any benefits from policy changes in our fair value estimate.

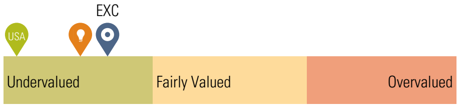
Exelon Corp EXC

Last Close 25 Feb 2016	**Quantitative Fair Value Est** 25 Feb 2016	**Market Cap** 25 Feb 2016	**Sector**	**Industry**	**Country of Domicile**
31.98	36.04	29,419.2 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	93	87	90
Valuation	Undervalued	38	52	40
Quantitative Uncertainty	Low	100	99	100
Financial Health	Moderate	58	54	58



Source: Morningstar Equity Research

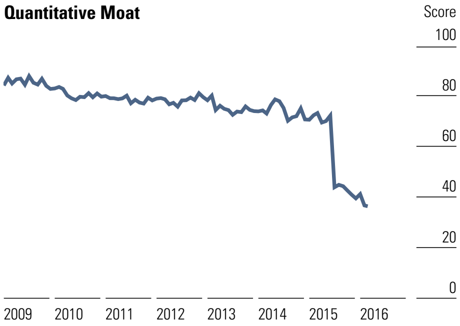
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.89	0.85	0.85	0.77
Price/Earnings	12.5	15.6	14.9	18.1
Forward P/E	12.1	—	15.1	12.3
Price/Cash Flow	3.7	5.1	6.0	10.0
Price/Free Cash Flow	—	74.7	10.8	15.9
Dividend Yield %	3.88	4.65	4.02	2.61
Price/Book	1.1	1.5	1.2	1.9
Price/Sales	1.0	1.2	1.2	1.6

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.4	9.7	10.0	11.9
Return on Assets %	2.5	2.6	3.2	4.7
Revenue/Employee (K)	989.4	958.0	1,117.5	303.7

Quantitative Moat



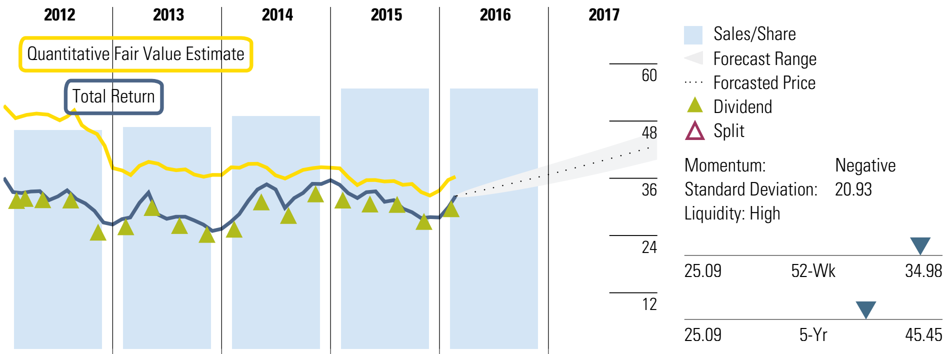
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.6
Solvency Score	—	—	633.9	576.5
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	-3.7	5.6	-0.7	-1.4

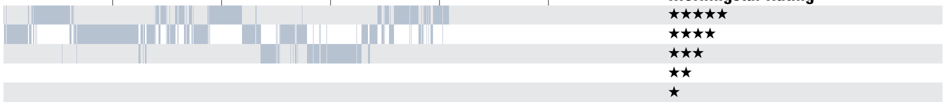
Price Versus Quantitative Fair Value



Momentum: Negative
Standard Deviation: 20.93
Liquidity: High

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	16.3	Total Return %
-42.9	-36.1	27.1	-22.5	22.2	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	3.88	Dividend Yield %
21.0	14.7	15.2	12.3	12.6	Price/Earnings
1.0	0.9	1.2	0.8	1.0	Price/Revenue

Morningstar RatingQ

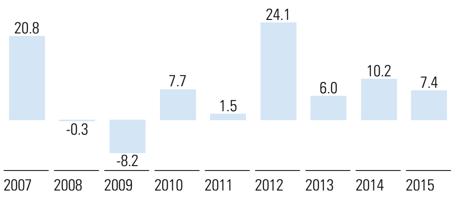


2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	29,447	Revenue
1.5	24.1	6.0	10.2	7.4	0.0	% Change
4,480	2,380	3,656	3,096	4,409	4,409	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	0.0	% Change
2,495	1,160	1,719	1,623	2,269	2,269	Net Income
4,853	6,131	6,343	4,457	7,616	7,616	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-7,624	Capital Spending
811	321	948	-1,620	-8	-8	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	0.0	% Sales
3.75	1.42	2.00	1.88	2.54	2.54	EPS
-3.1	-62.1	40.8	-6.0	35.1	0.0	% Change
0.20	0.39	0.48	-0.03	-1.04	-1.04	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.01	Book Value/Share
855,000	857,000	860,000	920,000	919,925	919,925	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	9.4	Return on Equity %
4.7	1.7	2.2	2.0	2.5	2.5	Return on Assets %
13.2	4.9	6.9	5.9	7.7	7.7	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.32	Asset Turnover
3.8	3.7	3.5	3.8	3.7	3.7	Financial Leverage
62.3	56.8	56.9	52.6	55.6	55.6	Gross Margin %
23.7	10.1	14.7	11.3	15.0	15.0	Operating Margin %
12,189	18,346	18,271	20,010	24,286	24,286	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,793	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

Annual Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	—	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	—	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

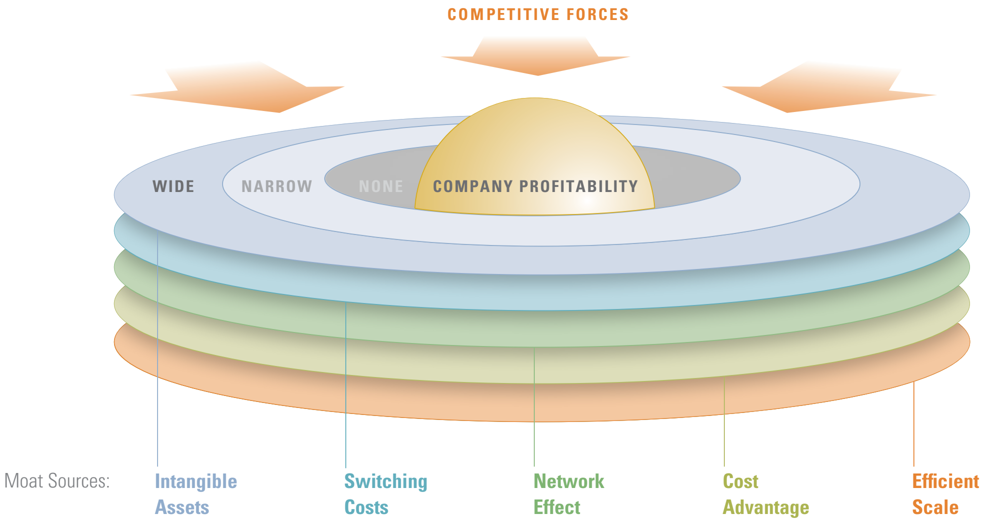
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

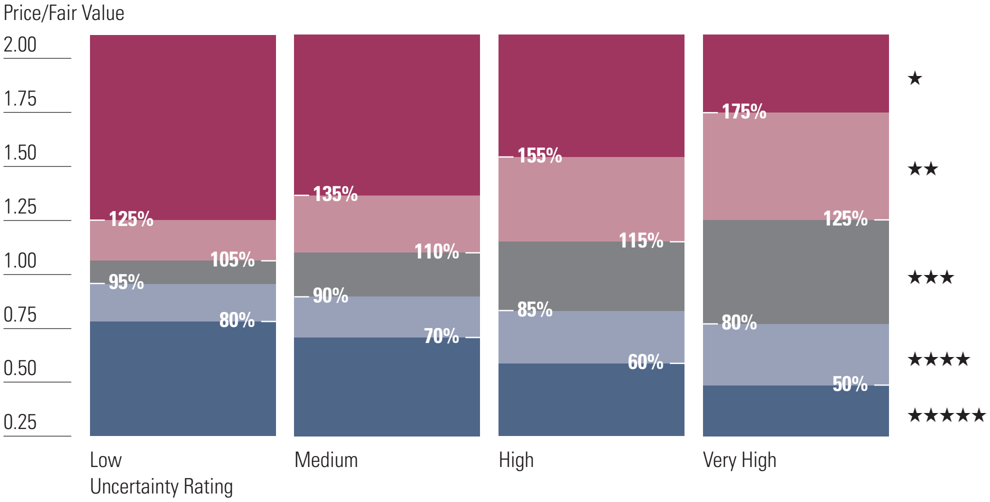
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 25 Feb 2016	31.98 USD 25 Feb 2016	35.00 USD	0.91	3.88 25 Feb 2016	29.42 25 Feb 2016	Utilities - Diversified	Standard

Price/Fair Value Morningstar data as of Feb 25, 2016

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 25 Feb 2016	31.98 USD 25 Feb 2016	35.00 USD	0.91	3.88 25 Feb 2016	29.42 25 Feb 2016	Utilities - Diversified	Standard

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Deutsche Bank
Markets Research

North America
United States
Industrials
Utilities and Power

Industry
Utilities & Power

Date
24 February 2016

Industry Update

DB Utilities & Power Access - Three Upcoming Events

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Three upcoming DB Utilities & Power / Energy corporate access events

We wanted to highlight three pending DB Utilities & Power / Energy Corporate Access Events in case you missed them.

February 26 – White & Case call on FERC issues, focus on OH PPA complaints

This Friday (2/26) at 2pm we will be hosting a call with Dan Hagan and Jane Rueger, Partner and Counsel from White & Case specializing in FERC issues. We expect this call to be of general interest for utility clients and in particular for those focused on the legal merits of pending complaints against AEP and FE regarding their proposed PPAs in Ohio. In these complaints, a group of generators and retail providers filed in late January asking FERC to withdraw previously granted waivers on affiliate power sales restrictions and to review AEP and FE's affiliate PPAs under the FERC's Edgar and Allegheny standards. We expect to discuss procedural considerations, the likelihood of whether FERC would withdraw the waivers, and relevant precedents, such as the Edgar and Allegheny decisions. Other relevant industry topics may also be discussed. Our team or DB sales can provide dial-in details for this call to DB clients on request.

March 2 – State of Global Oil, Gas & Refining Markets Event with Dr. Gary Ross (PIRA) and Wood Mackenzie

On Wednesday next week our energy sector colleagues are hosting an event at our offices (60 Wall Street) featuring Dr. Gary Ross, Founder and Executive Chairman of PIRA Energy Group who also heads up the PIRA Global Oil Group. The event will also feature expert speakers from Wood Mackenzie on Global oil and refining markets as well as North America natural gas. The DB event will run from 12.30pm to 3.30pm and the location will be particularly convenient for those attending the Exxon Mobil analyst meeting at the NYSE that morning. Further details are available from your DB Sales contact or Mike Sullivan in our equity specialty sales group (michael.sullivan@db.com).

April 4-6 – California Utilities & Power Field Trip

We continue to register interest in our California Field Trip and the initial request deadline is coming up soon on March 1. Since we first highlighted this trip we added a meeting with the intervenor group TURN (The Utility Reform Network). Other meetings are unchanged: Sempra (SRE), Edison International (EIX), PG&E Corp. (PCG), Sunrun (RUN), CPUC (President Picker, Commissioner Florio) and the Office of Ratepayer Advocates (ORA). Please contact DB sales or our team soon if you have interest in joining this trip.

Focus stocks

Exelon (EXC.N),USD31.19 Buy Price Target USD34.00
Calpine (CPN.N),USD12.21 Hold Price Target USD18.00
Dynegy Inc. (DYN.N),USD7.82 Buy Price Target USD16.00
NRG Energy (NRG.N),USD10.32 Buy Price Target USD18.00
Talen Energy (TLN.N),USD6.16 Hold Price Target USD6.00
American Electric Power (AEP.N),USD62.76 Buy Price Target USD63.00
FirstEnergy (FE.N),USD33.04 Hold Price Target USD36.00
PSEG (PEG.N),USD43.59 Hold Price Target USD44.00
PG&E Corp (PCG.N),USD57.22 Hold Price Target USD58.50
Edison International (EIX.N),USD64.98 Buy Price Target USD67.00

Source: Deutsche Bank

Deutsche Bank Securities Inc.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

See Page 2 for the full Analyst Note from 22 Feb 2016

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The primary analyst covering this company does not own its stock.

Research as of 22 Feb 2016
Estimates as of 06 Oct 2015
Pricing data through 25 Feb 2016
Rating updated as of 25 Feb 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 06 Oct 2015

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and made a $12 billion bid for Pepco in April 2014, both including debt. Management's political negotiations appear to have revived the deal in Washington, D.C., where regulators had rejected it in August 2015. We now expect it has a 75% chance of closing. Exelon has received all other regulatory approvals.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our outlook for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can grow earnings 10% annually the next three years.

Vital Statistics

Market Cap (USD Mil)	29,419
52-Week High (USD)	34.98
52-Week Low (USD)	25.09
52-Week Total Return %	-3.7
YTD Total Return %	16.3
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.9
Price/Fair Value	0.91

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	*13.0*	*13.4*
EV/EBITDA	8.9	8.3	*7.9*	*7.8*
EV/EBIT	14.1	14.5	*12.9*	*12.9*
Free Cash Flow Yield %	3.0	-6.3	*2.7*	*-1.2*
Dividend Yield %	3.9	4.2	*3.6*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,184*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,826*
EBIT YoY %	53.6	-15.3	*23.4*	*0.1*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,065*
Net Income YoY %	-7.9	-4.0	*2.9*	*-2.9*
Diluted EPS	2.50	2.39	*2.46*	*2.39*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.0*
Free Cash Flow	1,500	305	*1,364*	*136*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers at Commonwealth Edison (Illinois), PECO (Pennsylvania), and Baltimore Gas & Electric (Maryland). Exelon also owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. Exelon also is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4 22 Feb 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Valuation, Growth and Profitability 06 Oct 2015

We are reaffirming our $35 per share fair value estimate after raising our probability of the Pepco acquisition closing to 75% from 25% as a result of an agreement the companies reportedly reached with the Washington, D.C., mayor's office on Oct. 6. Although we think the deal is value-dilutive, it is too small to have a material impact on our fair value estimate. Exelon's $27.25-per-share cash offer represents a 30% premium to our $21 per share standalone fair value estimate for Pepco.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities (Ill.), Oyster Creek (N.J.), and Three Mile Island (Pa.)--as well as the Clinton (Ill.) plant. We now assume a 50% probability that the Byron (Ill.) plant will retire given it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4/mcf midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Feb 25, 2016

Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets leads to a wider range of outcomes in our base, high, and low scenarios. A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 15% change in our open midcycle EPS estimate and an $800 million change in EBITDA. Our fair value estimate would change by $6 per share. On a mark-to-market basis as of early August, our fair value estimate would be $31 per share and our midcycle EPS would be $3.00.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 2 percentage points to near the industry average, it would change our fair value estimate by $3 per share. If Exelon does not retire the Clinton, Quad Cities, and Byron plants, it would add $3 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, that spread between long-term returns on capital and Exelon's cost of capital have shrunk based on our midcycle outlook for power prices in the eastern U.S. Exelon's increasing diversification into narrow- and no-moat businesses together with the shrinking returns at its nuclear generation business supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources like coal and natural gas reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must continue to have access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are proving there are some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs and generate large profits even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

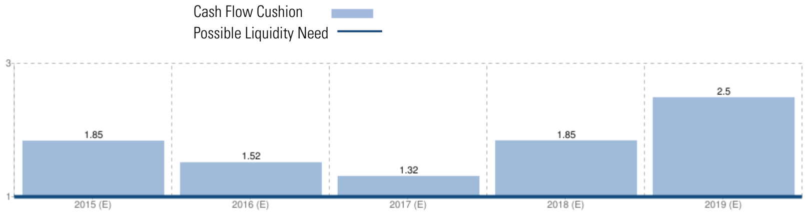
Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	*2016(E)*	*2017(E)*	*2018(E)*	*2019(E)*
Cash and Equivalents (beginning of period)	*1,878*	*3,024*	*2,138*	*1,826*	*3,387*
Adjusted Available Cash Flow	*2,334*	*1,316*	*1,954*	*3,642*	*4,071*
Total Cash Available before Debt Service	*4,212*	*4,340*	*4,092*	*5,469*	*7,458*
Principal Payments	*-976*	*-1,500*	*-1,500*	*-1,250*	*-1,250*
Interest Payments	*-999*	*-1,044*	*-1,139*	*-1,238*	*-1,271*
Other Cash Obligations and Commitments	*-303*	*-303*	*-463*	*-464*	*-463*
Total Cash Obligations and Commitments	*-2,278*	*-2,847*	*-3,102*	*-2,952*	*-2,984*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	1,878	13.3
Sum of 5-Year Adjusted Free Cash Flow	13,317	94.0
Sum of Cash and 5-Year Cash Generation	15,195	107.3
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	15,195	107.3
Sum of 5-Year Cash Commitments	-14,163	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets. The 2007-08 commodity boom led management to raise the dividend and buy back stock. But as power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow. We expect the dividend to stay at this level for at least the next two years.

The Pepco acquisition would increase consolidated leverage, but most of that additional leverage will be debt at the regulated utilities. We don't expect a material change in parentco or Exelon Generation leverage.

We think Exelon will have sufficient cash coverage to keep its investment-grade credit rating and current dividend at least through 2016 based on current market conditions. Even through these lean years, we expect Exelon can generate at least $2 billion of cash flow after incorporating new financing and excluding discretionary growth investments. We project Exelon's consolidated EBITDA/interest coverage will drop from 9 times in 2011 to 6 times by 2015 and leverage to rise to 3.4 times debt/EBITDA in 2015 from 2 times in 2011.

More than half of Exelon's consolidated debt is secured at the regulated utilities. This is in line with the utilities' regulator-approved capital structure, and we don't expect a material change. Apart from the utilities, Exelon has an average $485 million of annual debt maturities at Exelon Generation through 2017. As long as power markets remain relatively stable and Exelon can maintain its investment-grade ratings, we don't expect it to have trouble refinancing those maturities.

Exelon's pension and nuclear decommissioning funds are well-funded now, but if interest rates stay low, Exelon could have to contribute more cash.

Enterprise Risk

Investors should pay the most attention to political developments that would re-regulate competitive electricity markets in the Midwest and Mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.Reregulation also would destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.As Exelon's regulated utilities generate a greater share of earnings, investors will be subject more acutely to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

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Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	240,157	25 Jan 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		69,056	25 Jan 2016	—
MR. KENNETH W. CORNEW		62,844	25 Jan 2016	—
MS. ANNE R. PRAMAGGIORE		52,825	28 Jan 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	3.26	1.24	—	31 Dec 2015
Franklin Income Fund	2.17	0.73	-5,000	31 Dec 2015
Vanguard Total Stock Mkt Idx	1.88	0.13	409	31 Jan 2016
Vanguard Wellington™	1.57	0.46	—	31 Dec 2015
Utilities Select Sector SPDR® Fund	1.47	5.06	198	24 Feb 2016
Concentrated Holders				
Fidelity Advisor® Utilities Fund	0.11	11.68	23	31 Dec 2015
Fidelity VIP Utilities Portfolio	0.04	11.67	11	31 Dec 2015
Fidelity® Select Utilities Portfolio	0.30	11.64	19	31 Dec 2015
Vanguard Market Neutral	0.01	9.61	34	31 Dec 2015
Fidelity® Telecom and Utilities Fund	0.26	7.86	—	31 Dec 2015

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Fidelity Management and Research Company	5.80	—	53,392	31 Dec 2015
Franklin Advisers, Inc.	3.26	—	29,971	31 Dec 2015
Wellington Management Company LLP	2.55	0.19	7,058	30 Sep 2015
BlackRock Advisors LLC	0.64	0.18	4,149	30 Sep 2015
Columbia Mangmt Investment Advisers, LLC	0.41	0.08	3,255	30 Sep 2015
Top 5 Sellers				
Goldman, Sachs & Co.	0.22	0.03	-28,366	30 Sep 2015
T. Rowe Price Associates, Inc.	2.20	0.13	-14,689	30 Sep 2015
Capital Research Global Investors	6.00	0.58	-10,388	30 Sep 2015
J.P. Morgan Investment Management Inc	0.85	0.11	-3,887	30 Sep 2015
Deutsche Bank AG	0.17	0.09	-2,701	30 Sep 2015

Management 06 Oct 2015

We give Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and Executive Chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and Chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition in 2015. This will increase Exelon's share of regulated utilities earnings and dilute shareholders' exposure to wholesale power markets. Management has shown strong conviction in the value of the deal based on their efforts to gain support for the deal from all parties, particularly in Washington, D.C.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants absent significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creation opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon

formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain 11 Feb 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target 03 Feb 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts 25 Jan 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Independent power producers and diversified utilities are trading at a significant discount to our fair value estimates, and the Supreme Court's ruling has no material impact on our long-term thesis. We believe the market reaction was overly pessimistic to the ruling and presents a buying opportunity for those with the appropriate risk appetite. We highlight Dynegy and Exelon as those with the most exposure to PJM. Calpine, FirstEnergy, NRG Energy, and Public Service Enterprise Group also have material levels of generation in PJM.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal 11 Nov 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals 30 Oct 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year 26 Oct 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco 06 Oct 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners 30 Sep 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Postpones Nuclear Plant Retirement Decision; No Fair Value Impact 10 Sep 2015

We are reaffirming our $35 per share fair value estimate for Exelon after management announced it will delay a decision whether to close at least three of its struggling nuclear plants. We recently incorporated into our fair value estimate and financial projections the assumption that it was more likely than not that Exelon would close those three plants in 2018. We also assume a 50% likelihood that Exelon will close its Byron (Illinois) nuclear plant in 2019.

Results of the recent 2016-18 PJM transitional capacity auctions and management's decision to delay potential retirements do not change our assumptions that those plants ultimately will close, absent significant energy market or public policy changes. The Quad Cities (Illinois), Three Mile Island (Pennsylvania), and Oyster Creek (New Jersey) plants are obligated to run at least through mid-2018, and the Byron plant is obligated to run through mid-2019 based on results from PJM's recent capacity auctions.

The key development for Exelon in last week's 2017-18 transitional capacity auction was that the Quad Cities and Byron plants cleared and are now obligated to run. Neither cleared PJM's 2017-18 base capacity auction last year at $120/megawatt-day but did clear last week's capacity performance transitional auction at $151.50/MW-day. Including those plants and the uplift for the rest of the fleet adds about $400 million of EBITDA in 2017-18.

The Clinton (Illinois) plant is the fourth that we assume will close by 2018. It is not part of PJM. It is obligated to run at least through 2016 as part of the Mid-Continent ISO. Exelon continues to lobby Illinois politicians to adopt a subsidy-like scheme that would improve the economics for its six Illinois nuclear plants. We do not include any benefits from policy changes in our fair value estimate.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	*13.2*	24.1	6.0	10.2	*-17.0*	*10.6*	*3.5*
EBIT	*-11.6*	-46.9	53.6	-15.3	*23.4*	*0.1*	*13.9*
EBITDA	*-2.4*	-26.7	36.3	-6.9	*15.0*	*1.7*	*10.1*
Net Income	*-9.3*	-15.6	-7.9	-4.0	*2.9*	*-2.9*	*10.0*
Diluted EPS	*-16.9*	-31.5	-12.3	-4.4	*2.9*	*-3.0*	*9.9*
Earnings Before Interest, after Tax	*-7.3*	-43.1	-13.1	61.0	*-30.3*	*-7.4*	*-1.0*
Free Cash Flow	*-19.5*	231.6	-22.5	-79.7	*347.7*	*-90.0*	*59.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	*12.0*	10.1	14.7	11.3	*16.8*	*15.2*	*16.4*
EBITDA Margin %	*20.4*	18.1	23.3	19.7	*27.3*	*25.1*	*25.9*
Net Margin %	*8.7*	9.9	8.6	7.5	*9.3*	*8.2*	*9.0*
Free Cash Flow Margin %	*5.1*	8.2	6.0	1.1	*6.0*	*0.5*	*5.5*
ROIC %	*2.2*	1.6	2.5	2.5	*5.2*	*5.2*	*5.7*
Adjusted ROIC %	*2.3*	1.7	2.7	2.7	*5.4*	*5.4*	*6.0*
Return on Assets %	*2.0*	1.7	2.2	2.0	*2.4*	*2.3*	*2.7*
Return on Equity %	*7.1*	6.4	7.7	7.1	*9.0*	*8.3*	*9.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.48*	0.47	0.47	0.49	*0.49*	*0.48*	*0.47*
Total Debt/EBITDA	*4.06*	4.60	3.46	4.12	*3.71*	*3.73*	*3.42*
EBITDA/Interest Expense	*4.65*	4.59	4.28	5.08	*6.23*	*6.06*	*6.27*

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	*13.0*	*13.4*
EV/EBITDA	8.9	8.3	*7.9*	*7.8*
EV/EBIT	14.1	14.5	*12.9*	*12.9*
Free Cash Flow Yield %	3.0	-6.3	*2.7*	*-1.2*
Dividend Yield %	3.9	4.2	*3.6*	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,148	12.3	7.11
Present Value Stage II	15,608	31.3	18.05
Present Value Stage III	28,162	56.4	32.56
Total Firm Value	**49,918**	**100.0**	**57.72**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-789	—	-0.91
Equity Value	**28,736**	**—**	**33.22**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,184***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*10,000*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,184***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,082***
Income Tax Expense	627	1,044	666	*1,047*	*1,017*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,065***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.39***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,065*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.39***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,326***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,326***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,138*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,140*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,055***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,321***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,955*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,417***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,717***

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,065*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-149*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,762***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-886***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	1.09	15.0	*15.0*	*14.7*	7.6	*7.6*	*7.5*	61.6	*NM*	*NM*	1.7	*1.7*	*1.6*	1.9	*2.1*	*2.1*
FirstEnergy Corp FE USA	0.92	15.3	*12.6*	*11.5*	15.5	*9.2*	*8.7*	NM	*24.3*	*NM*	1.1	*1.1*	*1.0*	0.9	*1.0*	*1.0*
Entergy Corp ETR USA	0.99	15.0	*12.7*	*14.7*	6.6	*18.4*	*8.0*	8.9	*NM*	*61.4*	1.6	*1.4*	*1.3*	1.3	*1.1*	*1.1*
Average		15.1	*13.4*	*13.6*	9.9	*11.7*	*8.1*	35.3	*24.3*	*61.4*	1.5	*1.4*	*1.3*	1.4	*1.4*	*1.4*
Exelon Corp EXC US	**0.91**	**15.5**	***13.0***	***13.4***	**8.3**	***7.9***	***7.8***	**NM**	***36.6***	***NM***	**1.1**	***1.2***	***1.2***	**0.9**	***1.3***	***1.2***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	— USD	8.2	*6.9*	*6.6*	8.2	*6.9*	*6.6*	12.8	*11.8*	*11.4*	4.5	*4.1*	*4.0*	3.6	*3.4*	*3.6*
FirstEnergy Corp FE USA	52,166 USD	1.8	*5.4*	*4.5*	2.1	*6.4*	*5.3*	2.4	*9.0*	*9.4*	0.6	*2.2*	*2.3*	4.5	*4.2*	*4.5*
Entergy Corp ETR USA	— USD	6.8	*1.5*	*5.0*	6.9	*1.5*	*5.1*	9.6	*1.8*	*9.5*	2.1	*0.4*	*1.9*	3.8	*4.5*	*4.7*
Average		5.6	*4.6*	*5.4*	5.7	*4.9*	*5.7*	8.3	*7.5*	*10.1*	2.4	*2.2*	*2.7*	4.0	*4.0*	*4.3*
Exelon Corp EXC US	**86,814** USD	**2.5**	***5.2***	***5.2***	**2.7**	***5.4***	***5.4***	**7.1**	***9.0***	***8.3***	**2.0**	***2.4***	***2.3***	**4.2**	***3.6***	***3.7***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	10,886 USD	9.2	*-1.9*	*0.2*	14.1	*6.4*	*-0.5*	7.0	*5.3*	*2.4*	-26.4	*-51.0*	*-320.7*	2.8	*5.4*	*5.1*
FirstEnergy Corp FE USA	15,049 USD	0.9	*-2.5*	*-3.0*	-55.8	*154.3*	*7.4*	-15.7	*5.7*	*9.5*	56.3	*158.4*	*-55.5*	-34.6	*—*	*5.6*
Entergy Corp ETR USA	12,495 USD	9.7	*-3.2*	*0.8*	32.3	*-15.1*	*6.7*	8.7	*0.4*	*-13.5*	41.9	*-193.0*	*-119.8*	—	*0.6*	*2.7*
Average		6.6	*-2.5*	*-0.7*	-3.1	*48.5*	*4.5*	—	*3.8*	*-0.5*	23.9	*-28.5*	*-165.3*	-15.9	*3.0*	*4.5*
Exelon Corp EXC US	**27,429** USD	**10.2**	***-17.0***	***10.6***	**-15.3**	***23.4***	***0.1***	**-4.4**	***2.9***	***-3.0***	**-79.7**	***347.7***	***-90.0***	**-15.1**	***—***	***—***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

		Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Last Historical Year Net Income (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Public Service Enterprise Group Inc	1,402 USD	64.3	*67.1*	*69.2*	35.4	*38.3*	*38.9*	24.1	*26.1*	*25.9*	12.9	*13.8*	*14.1*	3.1	*-0.8*	*-5.4*
FirstEnergy Corp FE USA	1,075 USD	53.5	*55.9*	*57.9*	15.2	*26.8*	*29.5*	7.1	*18.4*	*20.4*	7.1	*7.8*	*8.8*	-4.0	*4.0*	*-1.8*
Entergy Corp ETR USA	1,050 USD	63.6	*62.4*	*63.9*	34.5	*11.9*	*27.0*	17.5	*15.4*	*16.2*	8.4	*8.7*	*7.5*	14.2	*-12.8*	*1.8*
Average		60.5	*61.8*	*63.7*	28.4	*25.7*	*31.8*	16.2	*20.0*	*20.8*	9.5	*10.1*	*10.1*	4.4	*-3.2*	*-1.8*
Exelon Corp EXC US	**2,065** USD	**52.6**	***65.9***	***60.3***	**19.7**	***27.3***	***25.1***	**11.3**	***16.8***	***15.2***	**7.5**	***9.3***	***8.2***	**-5.9**	***3.5***	***-1.4***

Leverage Analysis

		Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Last Historical Year Total Debt (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Public Service Enterprise Group Inc	9,144 USD	75.0	*75.6*	*81.1*	42.9	*43.1*	*44.8*	9.9	*10.4*	*9.4*	2.4	*2.4*	*2.7*	2.9	*2.8*	*2.8*
FirstEnergy Corp FE USA	21,779 USD	175.4	*165.7*	*161.7*	63.7	*62.4*	*61.8*	2.1	*3.6*	*3.8*	9.5	*5.5*	*5.3*	4.2	*4.1*	*4.0*
Entergy Corp ETR USA	13,998 USD	138.6	*159.3*	*160.9*	58.1	*61.4*	*61.7*	6.9	*2.1*	*4.6*	3.2	*10.7*	*4.9*	4.6	*5.0*	*5.0*
Average		129.7	*133.5*	*134.6*	54.9	*55.6*	*56.1*	6.3	*5.4*	*5.9*	5.0	*6.2*	*4.3*	3.9	*4.0*	*3.9*
Exelon Corp EXC US	**22,272** USD	**97.7**	***94.7***	***92.7***	**49.4**	***48.6***	***48.1***	**5.1**	***6.2***	***6.1***	**4.1**	***3.7***	***3.7***	**3.8**	***3.6***	***3.6***

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Public Service Enterprise Group Inc	22,131 USD	0.79	*0.51*	*0.41*	1.18	*1.11*	*1.11*	1.03	*0.95*	*0.95*	0.46	*0.30*	*0.24*	49.5	*53.7*	*55.1*
FirstEnergy Corp FE USA	14,383 USD	0.20	*0.39*	*0.51*	0.70	*0.51*	*0.51*	0.55	*0.38*	*0.39*	0.03	*0.06*	*0.07*	202.8	*53.3*	*51.4*
Entergy Corp ETR USA	13,245 USD	7.89	*3.07*	*2.92*	1.14	*0.85*	*0.85*	0.85	*0.57*	*0.57*	0.95	*0.37*	*0.35*	63.6	*338.0*	*67.8*
Average		2.96	*1.32*	*1.28*	1.01	*0.82*	*0.82*	0.81	*0.63*	*0.64*	0.48	*0.24*	*0.22*	105.3	*148.3*	*58.1*
Exelon Corp EXC US	**29,419** USD	**2.17**	***3.50***	***2.47***	**1.38**	***1.39***	***1.26***	**1.20**	***1.30***	***1.15***	**0.83**	***1.34***	***0.95***	**66.0**	***50.4***	***52.0***

Research Methodology for Valuing Companies

Components of Our Methodology

- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies

Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

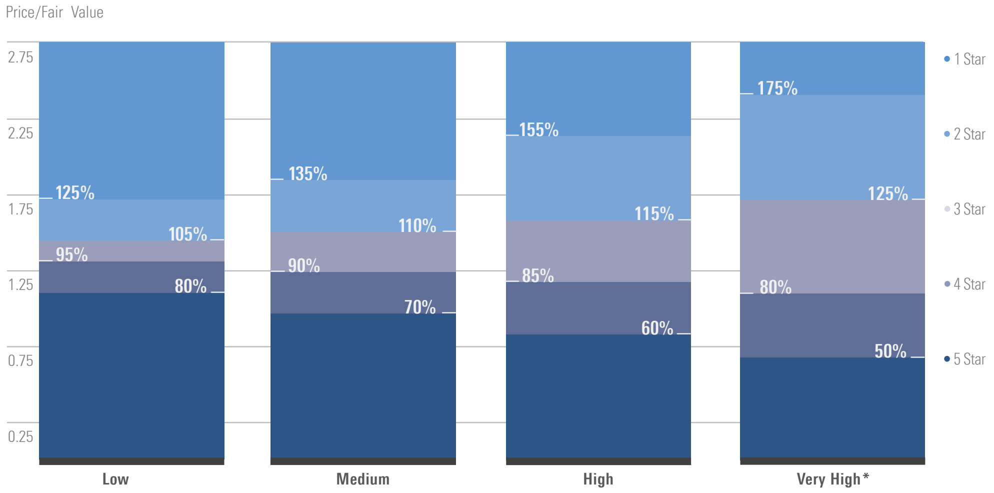
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands

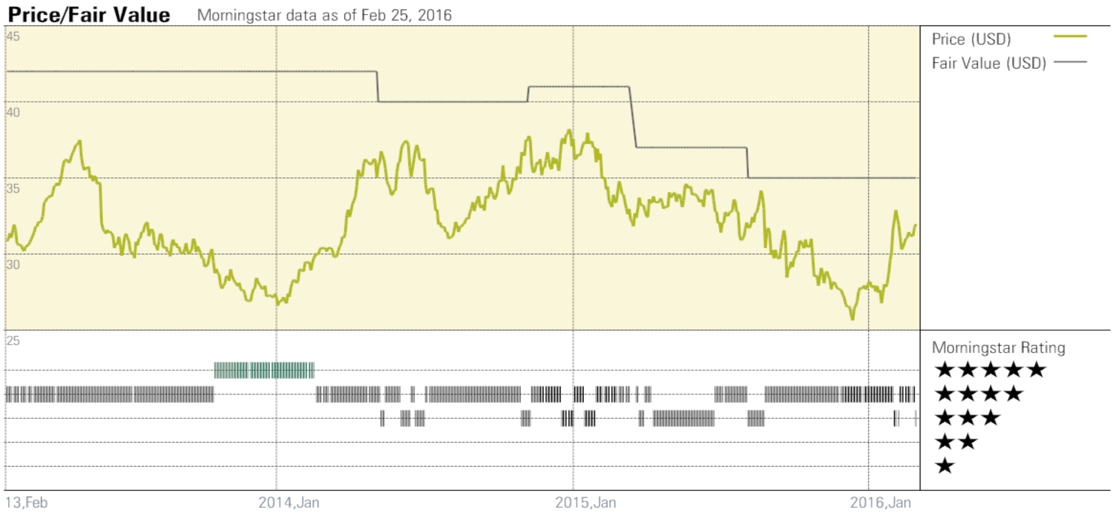


* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.98 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★★

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Exelon Corp EXC (NYSE) | ★★★

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Equities

26 February 2016 │ 7 pages

Diversified Utilities
North America │ United States

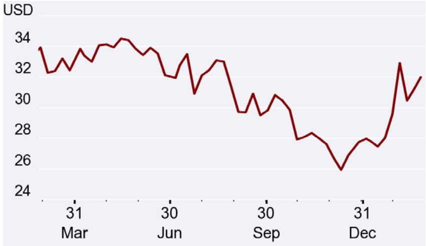
Exelon Corp (EXC)

Alert: Pepco –Approved with Minimal Conditions. EXC should Walk Away but Won't.

Sell	**3**
Price (26 Feb 16)	US$31.77
Target price	US$27.00
Expected share price return	-15.0%
Expected dividend yield	3.9%
Expected total return	**-11.1%**
Market Cap	US$29,226M

- **The D.C. regulators approved the deal with minimal conditions.** The DC regulators' approval was contingent on EXC accepting the following changes:
  - Decision on how to allocate $25.6m rate credit be deferred to next rate case
  - Some changes on renewables development including requirement for EXC to commit development of 7MW of solar in district before Dec 31, 2018
  - CIF funds to be put into tow ESCROW sub accounts of $21.55m and $11.25m. Helps commission monitor and track funds.
  - Removed language that would have allowed Pepco recovery of four public purpose microgrids of unknown size as it prejudges the outcome of a regulatory proceeding. Added specific commitments for EXC, Pepco to support pilot projects around microgrids.
- **No need to go back to regulators if EXC accepts conditions within 14 days.** EXC could also file for relief but we are assuming that EXC wants to see an end to this process and will likely accept the conditions.
- **Further concessions add to the pain. We think the deal already destroys value for EXC shareholders.** While the concessions aren't really significant from a value perspective, they continue to add to the pain, in our view. Exelon had indicated that they wouldn't give any more concessions. Well, this is the chance to walk away.
- **EXC too committed at this stage we think to walk away but would be the right thing to do, in our view.** EXC had indicated that they wouldn't give any more concessions. This request from D.C. gives them the opportunity to walk away. However, given the strategic importance EXC seems to have placed on Pepco, we think they will find it very difficult to walk away. We think they accept the conditions and close the deal.
- **We reiterate our Sell rating.** We expected the deal to be approved. Please see our detailed report analyzing the deal from a value, EPS, credit and dividend perspective here Exelon Corp (EXC) - Pepco = Value Destructive. We assume the deal closes, back to Sell rating.

Price Performance
(RIC: EXC.N, BB: EXC US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $10/share and believe ExGen's core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $18/share based on a 15x terminal PE multiple. We also add $5/share value provided by PepCo. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	10-May-13	2	*37.00	35.75
3	14-Oct-13	2	*29.00	30.02
4	03-Jan-14	*3	*21.00	26.62
5	24-Apr-14	3	*27.00	36.01
6	23-Jul-14	3	*30.00	31.76
7	17-Oct-14	*2	*37.00	34.38
8	18-Dec-14	Coverage terminated		
9	17-Sep-15	*3	*27.00	31.57
10	26-Jan-16	*2	27.00	27.84
11	22-Feb-16	*3	27.00	31.24

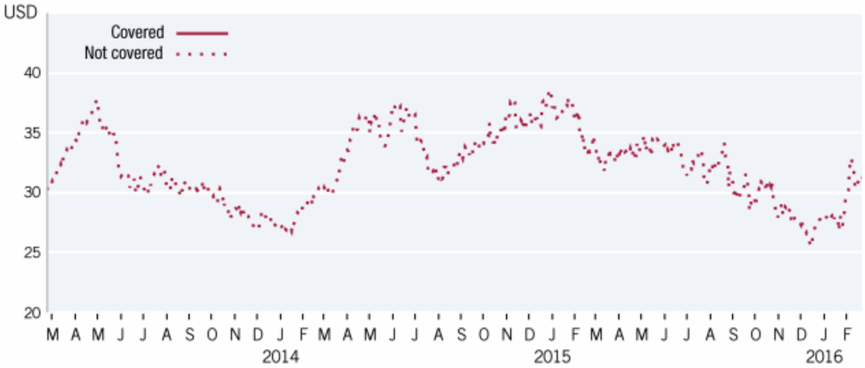
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



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	12 Month Rating		
Data current as of 31 Dec 2015	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	48%	40%	12%
% of companies in each rating category that are investment banking clients	64%	64%	59%

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Flash

BMO Capital Markets

Exelon

(EXC-NYSE)

Rating: **Market Perform**

Target Price: $32.00 Total Return: 4%

Price (25-Feb): $31.98

February 26, 2016

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D.C. Commission Rejects EXC/POM Merger, But Offers Alternative Path for Approval

This morning, the District of Columbia Public Service Commission (PSC) voted two-to-one, with Commissioner Willie Phillips (D) dissenting, to reject Exelon's proposed acquisition of Pepco Holdings Inc. (POM, $26.72, Not Rated). The PSC noted that its latest rejection of the merger settlement agreement, reached between Exelon/Pepco and various stakeholders, including D.C. Mayor Muriel Bowser, and other parties, in October 2015, is rooted in the belief that the merger agreement, as proposed and modified, is not in the public interest.

Specifically, Commissioner Joanne Doddy Fort (D) and Chairman Betty Ann Kane (D) stated that the modified agreement: **1)** failed to provide a persuasive rationale for excluding non-residential ratepayers from sharing in a proposed $25.6 million allocation to a so-called Customer Investment Fund (CIF) for base rate credit relief; **2)** assigns roles to EXC, as a developer of a solar generation facility in the D.C. area, and to POM, as a developer of four public purpose microgrids, that undermine competition and grid neutrality; **3)** the proposed uses of the CIF for sustainability projects and programs for low-income ratepayers do not improve POM's distribution system; and **4)** the proposed method of allocating the CIF funds to government agencies and certain funds deprives the PSC the ability to ensure those funds are being used appropriately.

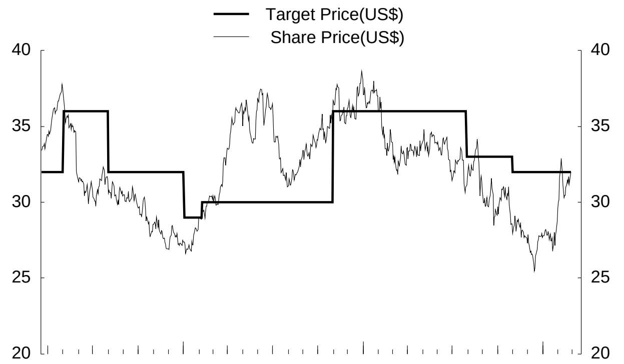
Following the rejection, Commissioner Fort outlined certain revisions to the above-mentioned areas, as well as other changes to the proposed agreement, that she believes would satisfy a majority of the PSC's concerns. The PSC voted two-to-one, with Chairman Kane dissenting, to add those conditions set forth by Commissioner Fort to the PSC order for consideration by EXC/POM and other settling parties. All parties involved will have 14 days (March 11, 2016) to review the revised terms and re-submit an updated settlement agreement. If agreed upon, the deal will considered done without another PSC vote.

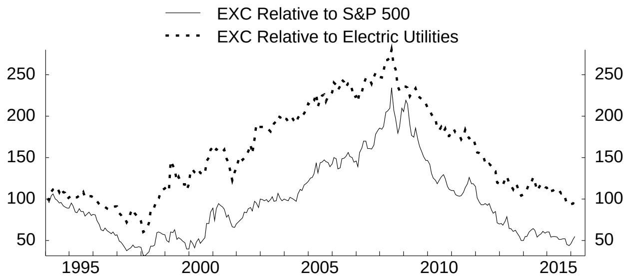
Our View:

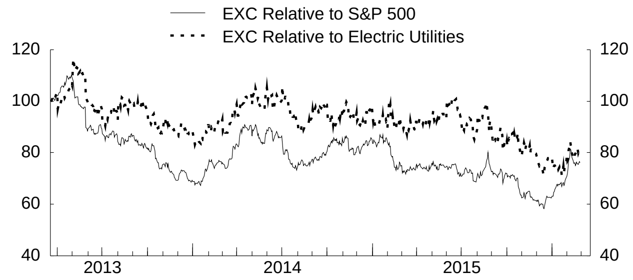
- Not only do EXC and POM need to agree to the updated terms from the PSC, but all settling parties of the agreement do as well. Both companies have stated that they are reviewing the terms of the updated agreement and will respond once a thorough analysis is complete.
- EXC has stated that if an agreement is not reached by the merger deadline of March 4, 2016, both parties could walk away from the deal. However, given that at first read, the conditions set forth by Commissioner Fort do not appear to be onerous, and coupled with EXC's desire to be more regulated and de-risk, we believe that EXC/POM could agree to the conditions. That said, it is not clear that all parties to the settlement will agree.

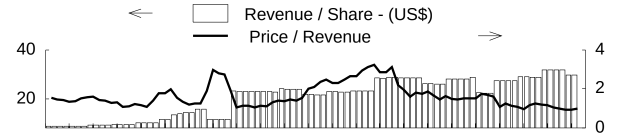
Please refer to pages 2 to 5 for Important Disclosures, including the Analyst's Certification.

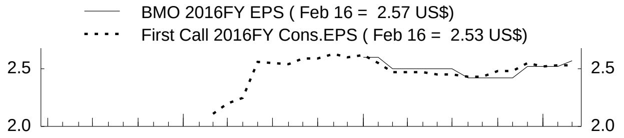
Exelon Corporation (EXC)

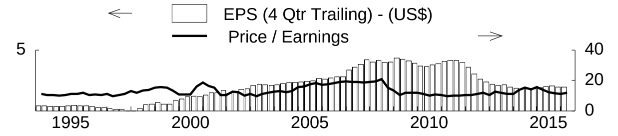


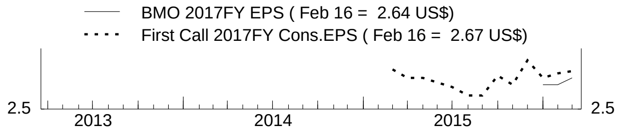












EXC - Rating as of 12-Mar-09 = Mkt

FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1994	1.21	12.9	9.8	0.77	6.5	5.0	64	9.7	1.6	1.2	
1995	1.27	12.0	9.3	0.83	7.0	5.5	65	10.2	1.5	1.2	13
1996	1.17	13.9	9.6	0.88	7.8	5.4	75	10.4	1.6	1.1	11
1997	0.63	20.9	14.9	0.90	9.6	6.8	>100	6.1	2.2	1.5	8
1998	1.33	15.9	7.1	0.50	5.3	2.4	38	6.8	3.1	1.4	20
1999	1.59	15.9	9.7	0.50	3.3	2.0	31	4.9	5.2	3.1	27
2000	1.90	18.7	8.4	0.50	3.1	1.4	26	11.3	3.1	1.4	23
2001	2.25	15.8	8.6	0.91	4.7	2.6	41	12.8	2.8	1.5	19
2002	2.42	11.8	7.8	0.88	4.6	3.1	36	12.0	2.4	1.6	19
2003	2.61	12.8	8.8	0.96	4.2	2.9	37	13.0	2.6	1.8	21
2004	2.77	16.2	11.1	1.26	4.1	2.8	45	14.1	3.2	2.2	20
2005	3.09	18.6	13.2	1.60	3.9	2.8	52	13.7	4.2	3.0	22
2006	3.22	19.8	15.9	1.60	3.1	2.5	50	14.9	4.3	3.4	23
2007	4.32	20.1	13.6	1.76	3.0	2.0	41	15.3	5.7	3.8	29
2008	4.20	21.9	9.8	2.03	4.9	2.2	48	16.8	5.5	2.5	26
2009	4.12	14.3	9.3	2.10	5.5	3.6	51	19.2	3.1	2.0	23
2010	4.06	12.8	0.0	2.10	2.1E6	4.0	52	20.5	2.5	0.0	20
2011	4.16	10.9	9.4	2.10	5.4	4.6	50	21.7	2.1	1.8	20
2012	2.85	15.6	10.0	2.10	7.4	4.7	74	25.1	1.8	1.1	12
2013	2.50	15.1	10.7	1.24	4.7	3.3	50	26.5	1.4	1.0	10
2014	2.39	16.3	11.1	1.24	4.7	3.2	52	26.3	1.5	1.0	9
2015	2.49	15.6	10.1	1.24	4.9	3.2	50	26.5	1.5	0.9	9
Range*:		21.9	0.0		>100	1.4			5.7	0.0	
Current*	2.51	11.8		1.24	4.2		49	25.5	1.2		10

Growth(%):	EPS	DPS	BV
5 Year:	-9.2	-10.0	5.9
10 Year:	-2.1	-2.5	6.4
20 Year:	3.5	2.1	4.7

* Current EPS is the 4 Quarter Trailing to Q4/2015.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (February 25, 2016): $31.98
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

IMPORTANT DISCLOSURES

Analyst's Certification

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Methodology and Risks to Price Target/Valuation

Methodology: Our valuation is based on a combination of our 2017 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and 15x 2017E P/E multiple.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Distribution of Ratings (December 31, 2015)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	20.9%	53.7%	44.1%	53.8%	55.6%
Hold	Market Perform	54.6%	13.5%	45.1%	52.3%	45.6%	39.4%
Sell	Underperform	3.4%	5.9%	1.2%	3.6%	0.5%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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Und = Underperform - Forecast to underperform the analyst’s coverage universe on a total return basis
(S) = speculative investment;
NR = No rating at this time;
R = Restricted – Dissemination of research is currently restricted.

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http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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QUICK
THOUGHTS
February 26, 2016

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

DC Commission Adds Minor Changes To POM Merger; We Believe Deal Gets Done

Buy

Price: $31.98

- This morning the Washington DC PSC voted to add minor modifications to the settlement agreement related to the acquisition of Pepco (POM, $26.61, Neutral) by EXC for $27.25/share in cash. Assuming the settlement parties agree to the modifications, the merger would be deemed to be approved.

- We believe that the parties will agree to the modifications. Our EXC estimates already incorporate the acquisition of POM, so we anticipate no changes to our estimates.

- We have a **Buy** rating on EXC and **Neutral** rating on POM.

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SEE PAGE 2 FOR REQUIRED DISCLOSURE INFORMATION

Companies Mentioned in This Note

Pepco Holdings (POM, $26.61, Neutral)

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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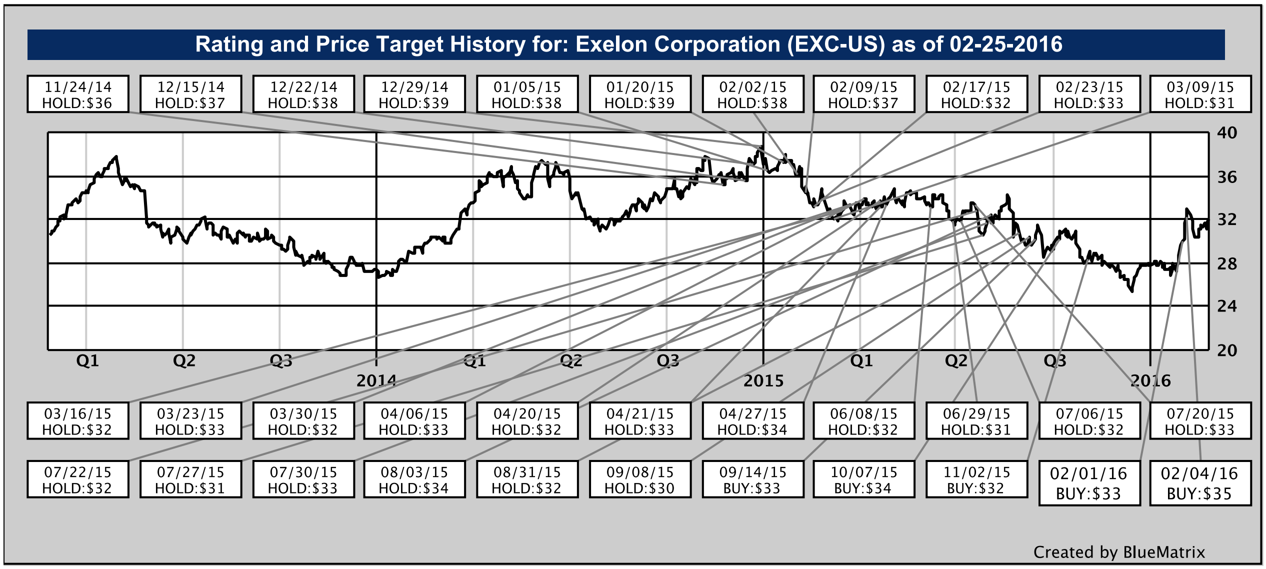
Rating and Price Target History for: Exelon Corporation (EXC-US) as of 02-25-2016

Created by BlueMatrix

STRH Ratings System for Equity Securities

3 designations based on total returns* within a 12-month period**

- **Buy** – total return ≥ 15% (10% for low-Beta securities)***
- **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
- **Neutral** – total return is within the bounds above
- **NR** – NOT RATED, STRH does not provide equity research coverage
- **CS** – Coverage Suspended

*Total return (price appreciation + dividends)
**Price targets are within a 12-month period, unless otherwise noted
***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average Beta

Legend for Rating and Price Target History Charts:
D = drop coverage
I = initiate coverage
T = transfer coverage

SunTrust Robinson Humphrey ratings distribution (as of 02/26/2016):

Coverage Universe			**Investment Banking Clients Past 12 Months**		
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Neutral	284	44.03%	Neutral	69	24.30%
Sell/Reduce	5	0.78%	Sell/Reduce	1	20.00%

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EVERCORE ISI

Energy | Power & Utilities

February 26, 2016

EXELON CORP.

EXC | $31.98

BUY | TARGET PRICE: $35.00

Company Update

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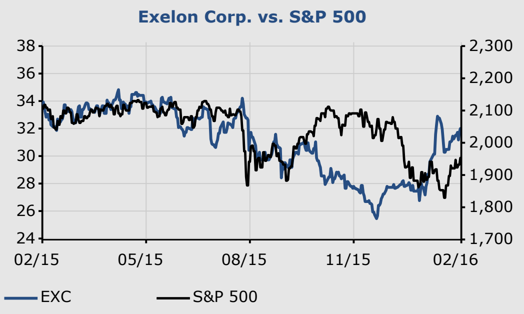
Company Statistics

Market Capitalization (M):	$29,152
Shares Outstanding (M):	920
Dividend:	$1.26
Dividend Yield:	4.0%
Payout Ratio:	49.4%
Expected Total Return:	14.4%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	$2.56	$2.66	$2.82
P/E	12.4x	11.9x	11.2x
EPS vs Consensus	0.9%	0.2%	1.7%
Consensus EPS	$2.53	$2.66	$2.77
Consensus P/E	12.5x	11.9x	11.4x

1 Year Price History



Source: FactSet

DC PSC Conditionally Approves POM Deal in a 2-1 Vote. We Think the Transaction Will Close.

Rating Buy, Target $35 / Share

In a 2-1 decision this morning, the DC Public Service Commission conditionally approved EXC's acquisition of Pepco. Chairwoman Kane voted against the deal and Commissioner Fort voted to approve the transaction only if the parties to the filed settlement agreed to certain changes to the deal. Commissioner Phillips voted to approve the original settlement and also voted to approve the deal as amended by Commissioner Fort if the parties should consent to the changes. Acceptance of the alternative terms by EXC, POM and the other signatories to the original settlement agreement would result in the deal moving forward to closing without any further regulatory proceedings. The signatories have 14 days to decide. We outline the changes to the settlement below.

The terms of the revised settlement agreement aren't materially different from those proposed in the original non-unanimous settlement agreement. The total size of the customer investment fund (CIF) provided to the District of Columbia is unchanged at $72.8mm, and $14mm of that will still go towards a residential customer bill credit. The customer base rate credit portion of this total was also unchanged at $25.6, however the allocation of that money will be less proscriptive, and ultimately defined in the next Pepco rate case. The $33.2mm balance of the CIF, which had been previously allocated in specific tranches towards various renewable, energy efficiency, sustainability, and low income initiatives will instead be placed in an Escrow Fund, with a subaccount of $21.55mm for a MEDSIS Pilot Project Fund (a project to modernize the energy delivery system) and $11.25mm for an Energy Efficiency and Energy Conservation Initiative fund (targeted towards low income customers). Finally, the new agreement requires that EXC facilitate the development of 12 MW of solar generation, including 5 MW of ground mounted solar at the Blue Plains water facility – with the facility choosing the vendor. This compares to the total of 7-10 MW that were required in the original deal. Effectively, the new terms guarantee development at Blue Plains and require EXC support a bit more solar generation. Finally, the explicit provision that Pepco develop at least four microgrid projects was removed.

In sum, nothing here looks like a game changer that would cause EXC to walk from the deal. However, the parties to the settlement must unanimously agree to the changes. These changes are summarized in the attached Table 1. The parties to the settlement have 14 days to respond to the DC Commission's conditional approval. EXC or POM have the ability to terminate the deal after 3/4/16.

Exhibit 1

Summary of Revisions

Allocation	Original Settlement ($ mm)	New Proposal ($ mm)	Notes
CIF Total	**72.8**	**72.8**	
Customer Base Rate Credit	25.6	25.6	Had been exclusively for residential class, now unallocated.
Residential Customer Bill Credit	14	14	
Renewable	3.5	21.55	Placed in escrow fund for MEDSIS Pilot.
EE Initiative	3.5	11.25	Placed in escrow fund for EE and EC Initiative.
Sustainability	10.05	0.4	Forgive residential customer receivables.
Low Income Assistance	16.15		
Solar Development	**10 MW**, incl. 5 at Blue Plains facility; **7 MW** if no deal at Blue Plains	**12 MW**, incl. 5 MW at Blue Plains	Guarantee development at Blue Plains, facility chooses vendor. **Basically requires 2-5 more MW.**
Microgrid Projects	**YES**	**NO**	But could be outgrowth of MEDSIS Pilot, above.

Source: Evercore ISI Research

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the genco business.

RISKS

Lower power prices / capacity prices and unfavorable outcomes in regulatory proceedings would cause our valuation to be lower. Higher interest rates would pull utility earnings up but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of legislation to bolster the revenue stream of the Illinois nuclear units would be accretive.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-02-25)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$48.13	$43.50
AEP	American Electric Power	Buy	$63.89	$62.00
CPN	Calpine Corp.	Buy	$12.52	$16.00
CMS	CMS Energy Corp.	Hold	$40.59	$38.50
ED	Consolidated Edison Inc.	Hold	$72.45	$65.00
D	Dominion Resources Inc.	Buy	$71.83	$74.00
DTE	DTE Energy Co.	Hold	$86.97	$85.00
DUK	Duke Energy Corp.	Hold	$76.44	$73.00
DYN	Dynegy Inc.	Buy	$9.49	$20.00
EIX	Edison International	Buy	$68.79	$70.00
ETR	Entergy Corp.	Hold	$74.25	$72.00
ES	Eversource Energy	Hold	$56.66	$53.00
EXC	Exelon Corp.	Buy	$31.98	$35.00
FE	FirstEnergy Corp.	Hold	$33.95	$33.00
HE	Hawaiian Electric Industries Inc.	Hold	$29.92	$30.00
HIFR	InfraREIT, Inc.	Buy	$21.05	$29.00
ITC	ITC Holdings	Hold	$41.32	$42.00
NEE	NextEra Energy Inc	Buy	$115.84	$114.00
NRG	NRG Energy Inc.	Buy	$10.90	$16.00
NYLD	NRG Yield, Inc.	Buy	$12.86	$20.00
POM	Pepco Holdings, Inc.	Hold	$26.52	$25.25
PCG	PG&E Corp.	Buy	$58.34	$57.00
PNW	Pinnacle West Capital Corp.	Hold	$71.21	$66.00
PPL	PPL Corp.	Hold	$36.35	$36.00
PEG	Public Service Enterprise Group	Hold	$43.74	$44.00
SRE	Sempra Energy	Buy	$98.91	$110.00
SO	Southern Co.	Hold	$49.36	$46.00
TLN	Talen Energy Corporation	Buy	$6.59	$11.50
TE	TECO Energy Inc.	Hold	$27.48	$26.50
AES	The AES Corporation	Buy	$9.97	$13.25
WEC	WEC Energy Group, Inc.	Hold	$57.98	$51.50
WR	Westar Energy Inc.	Hold	$44.88	$40.00
XEL	Xcel Energy Inc.	Hold	$40.20	$36.50

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Current Ratings Definition

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Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%
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Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 02/26/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	341	52%
Hold	282	43%
Sell	19	3%
Coverage Suspended	5	1%
Rating Suspended	5	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	50	15%
Hold	9	3%
Sell	2	11%
Coverage Suspended	1	20%
Rating Suspended	0	0%

Issuer-Specific Disclosures (as of February 26, 2016)

Exelon Corp. Rating History as of 02/25/2016

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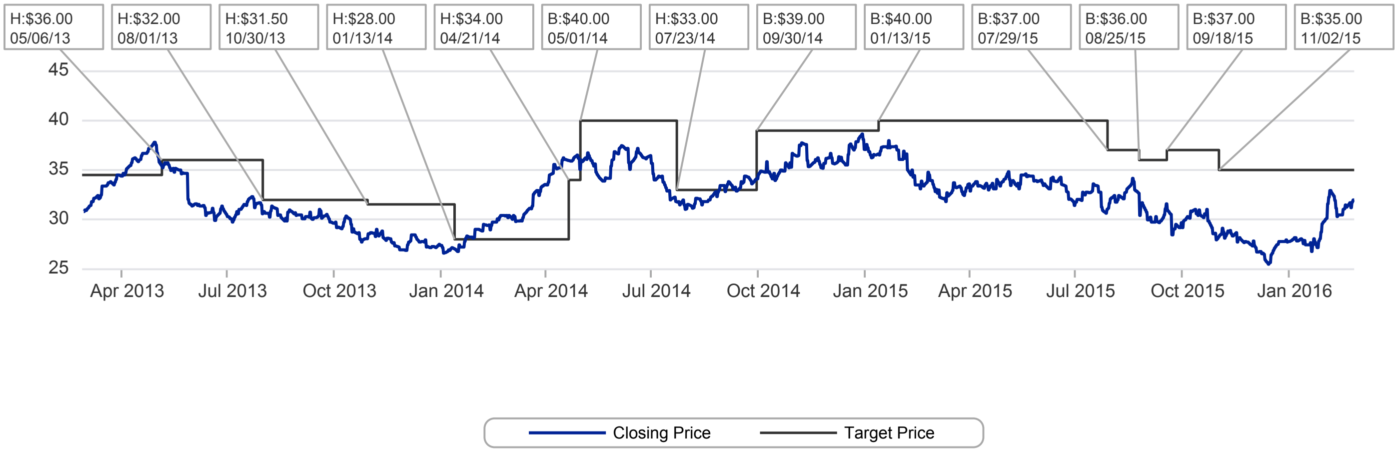

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Equity Research

Flash Comment

WELLS FARGO SECURITIES

February 26, 2016

EXC-NYSE--Outperform (1)
POM-NYSE--Market Perform (2)

Diversified Electric Utilities

District Of Columbia PSC Attaches New Conditions--We Think Deal Gets Done

Neil Kalton, CFA, Senior Analyst (314) 875-2051

Sector Rating: Diversified Electric Utilities, Market Weight

The District of Columbia Public Service Commission voted 2-1 this morning (2/26) to deny the Non-Unanimous Full Settlement Agreement (NSA) as filed. However, Commissioner Fort proposed a series of amendments to the NSA - none of which sounded particularly onerous to us - and the PSC voted 2-1 to APPROVE the revised NSA. (Commissioner Phillips voted to approve both the original NSA and the revised NSA; Chairman Kane remains opposed.) The parties to the original NSA have 14 days to accept the revised NSA or propose further revisions. Key parties include EXC/POM, the Office of the Mayor of the District of Columbia, the Office of the People's Counsel and the attorney general's office. If all parties to the original NSA accept the revised NSA, then the joint application for the EXC/POM merger is approved as being in the public interest.

Assuming our interpretation of the revised conditions are accurate - in that they did not appear to materially alter the value proposition of the merger from EXC's standpoint nor do they weaken the additional concessions offered to D.C. constituents for the public's benefit - then we believe the parties will accept the revised NSA and the merger will finally close after nearly two grueling years of regulatory approval jockeying. After all, why split hairs at this point and risk going back to the DCPSC for minor revisions? We are encouraged that there is a clear path to approval and deal closure for EXC/POM but acknowledge the DCPSC's decision to now conditionally approve the merger surprised us (like Commissioner Phillips said in today's meeting, why not just attach conditions to the original application rather than the outright denial on 8/25/15).

Exelon Corporation (EXC-NYSE)
Price as of 2/26/2016: $31.90
FY 16 EPS: $2.55
FY 17 EPS: $2.75
Shares Out.: 861.2 MM
Market Cap.: $27,472.28 MM

Pepco Holdings, Inc. (POM-NYSE)
Price as of 2/26/2016: $26.60
FY 16 EPS: $1.05
FY 17 EPS: $1.15
Shares Out.: 253.6 MM
Market Cap.: $6,745.73 MM

Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.
All estimates/forecasts are as of 02/26/16 unless otherwise stated.

-

Rating Basis Information:
EXC Thesis: Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

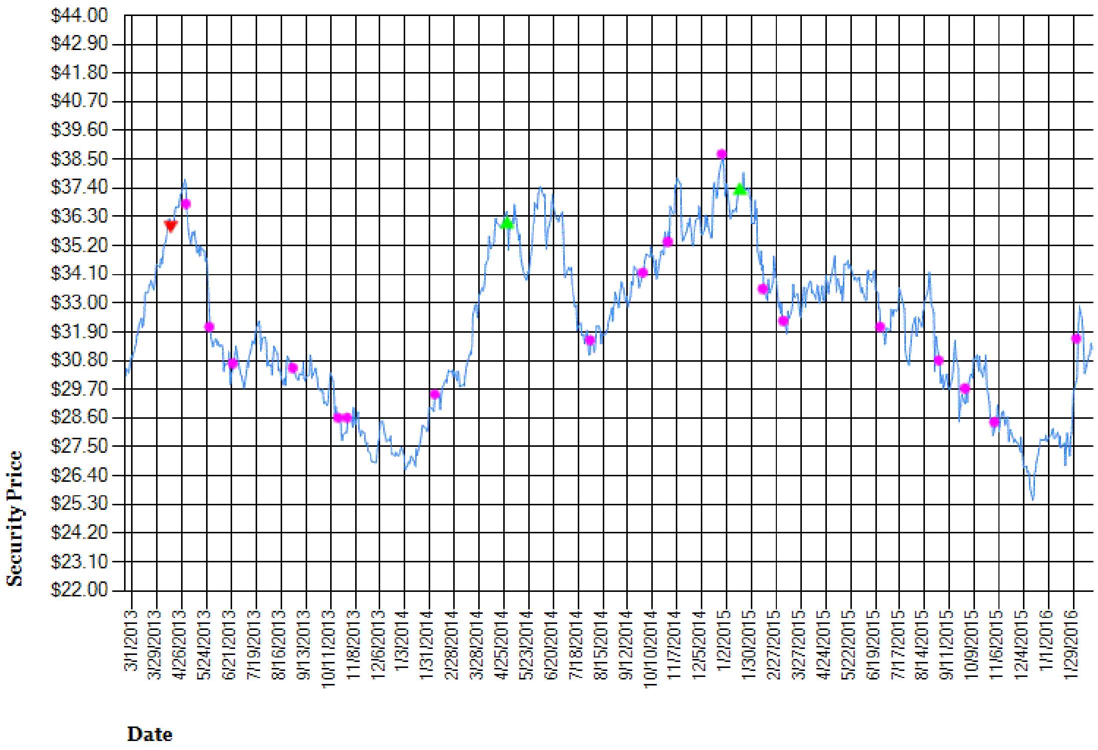
POM Thesis: We are attracted to POM's regulated growth opportunities and relatively high concentration of transmission earnings. Our Market Perform rating reflects valuation considerations given our belief that the pending acquisition by EXC for $27.25/sh will be approved and close during 1H'16.

Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.
All estimates/forecasts are as of 02/26/16 unless otherwise stated.

DISCLOSURE APPENDIX

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



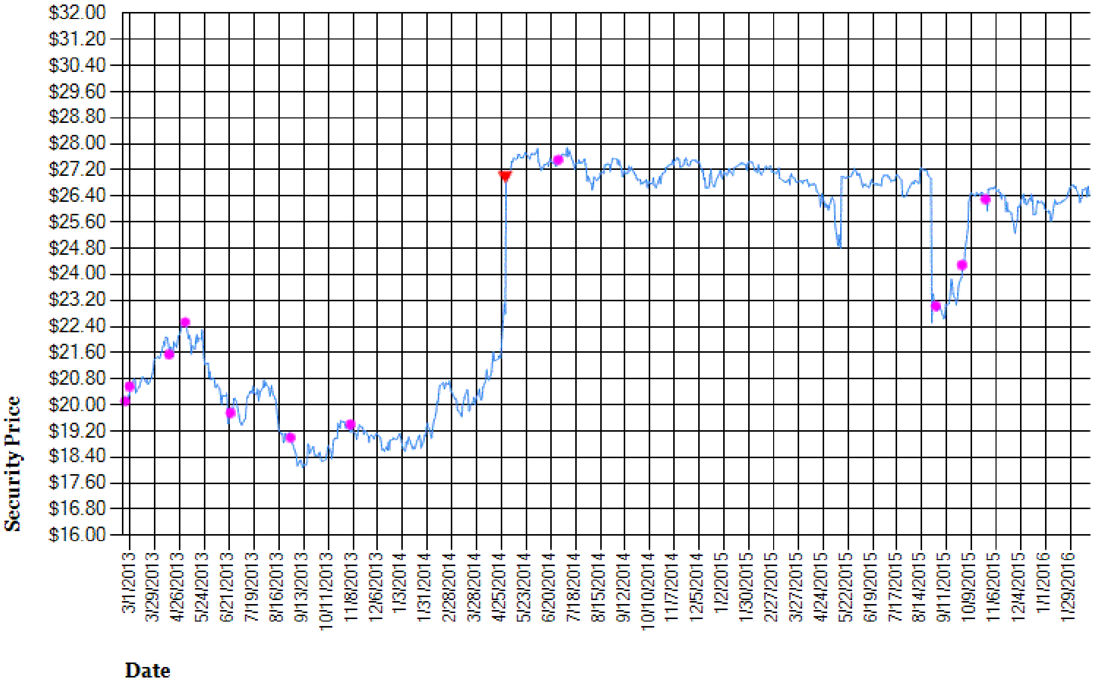
	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	2/20/2013		Kalton			
	2/20/2013	NA	2	31.00	32.00	30.29
▼●	4/15/2013	36.22	3	31.00	32.00	35.84
●	5/1/2013	36.75	3	32.00	33.00	36.75
●	5/28/2013	34.65	3	29.00	30.00	32.04
●	6/24/2013	30.30	3	26.00	27.00	30.62
●	8/30/2013	30.49	3	25.00	26.00	30.49
●	10/21/2013	28.58	3	23.00	24.00	28.58
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
□ Split Adjustment

Rating Code Key
1 Outperform/Buy
2 Market Perform/Hold
3 Underperform/Sell
SR Suspended
NR Not Rated
NE No Estimate

Pepco Holdings, Inc. (POM) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	2/20/2013		Kalton			
	2/20/2013	NA	1	21.00	22.00	20.11
●	2/25/2013	20.26	1	21.50	22.50	20.05
●	3/1/2013	20.46	1	22.00	23.00	20.53
●	4/15/2013	22.05	1	23.00	24.00	21.52
●	5/3/2013	22.39	1	24.00	25.00	22.51
●	6/24/2013	19.88	1	22.00	23.00	19.73
●	8/30/2013	18.92	1	21.00	22.00	18.94
●	11/6/2013	19.18	1	22.00	23.00	19.34
▼●	5/1/2014	26.76	2	26.25	27.25	26.93
●	6/30/2014	27.46	2	27.00	27.50	27.48
●	8/31/2015	23.01	2	23.00	24.00	22.98
●	9/30/2015	24.26	2	25.00	26.00	24.22
●	10/26/2015	26.27	2	27.00	27.50	26.27

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
□ Split Adjustment

Rating Code Key
1 Outperform/Buy
2 Market Perform/Hold
3 Underperform/Sell
SR Suspended
NR Not Rated
NE No Estimate

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2 = Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3 = Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
O = Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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As of: February 26, 2016

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Bank of America Merrill Lynch

Exelon

A New Deal In Washington DC; Exelon-Pepco Merger Update

Maintain Rating: NEUTRAL | PO: 32.00 USD | Price: 31.98 USD

Equity | 26 February 2016 Corrected

Key takeaways

- D.C. Commission provided an alternative avenue set of conditions to close on the Exelon-Pepco deal.
- In our view, the new terms do not appear to require Exelon provide any additional capital.
- We believe it more likely that the alternate terms will be agreed to by Exelon and parties next week; maintain Neutral.

D.C. Commission puts in New Terms

On 2/26/16, the D.C. Public Service Commission rejected the settlement of the Exelon-Pepco proposed merger in a 2-1 vote. However, the Commission provided alternative terms and conditions in the order that, if accepted, would consummate the deal. The commission voted 2-1 in favor of the alternative decision and requested a decision within 14 days.

The alternate proposed decision largely altered funding requirements to energy efficiency and low-income customer programs. Furthermore, the new terms request small additions in solar generation, while removing a request to develop microgrid facilities. Exelon has stated that March 4, 2016, is the last day before it could walk away from the deal, so a decision is likely to be reached before that date.

As far as we can quantify, the additional concessions appear to be relatively minor. In our view, Exelon is more likely to agree to the necessary concessions to acquire Pepco, in order to ensure longer-term support/cushion for the dividend, and we see closing on the deal as a marginal positive for the shares.

Shares remain fairly valued; Maintain Neutral

Despite the strong possibility of closing on the Pepco deal, Exelon remains an integrated utility where strong commodity headwinds continue to deteriorate the profitability of the deregulated business. In addition, the Clean Power Plan stay is likely to push out any potential credit for Exelon's nuclear fleet into the future; we maintain our Neutral rating. Our financial estimates already assume the Pepco merger is closed by 2Q16.

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Stock Data

Price	31.98 USD
Price Objective	32.00 USD
Date Established	3-Feb-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 34.98 USD
Mrkt Val (mn) / Shares Out (mn)	29,198 USD / 913.0
Average Daily Value (mn)	293.36 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2015E)	9.3%
Net Dbt to Eqty (Dec-2014A)	84.5%

Exelon: Exelon reaches D.C. Settlement; Pepco Deal Gets One Step Closer to Finish Line 07 October 2015

Exelon: Breadcrumbs Suggest Pepco Deal Regaining Momentum 30 September 2015

Exelon: Pepco rejected by District of Columbia 25 August 2015

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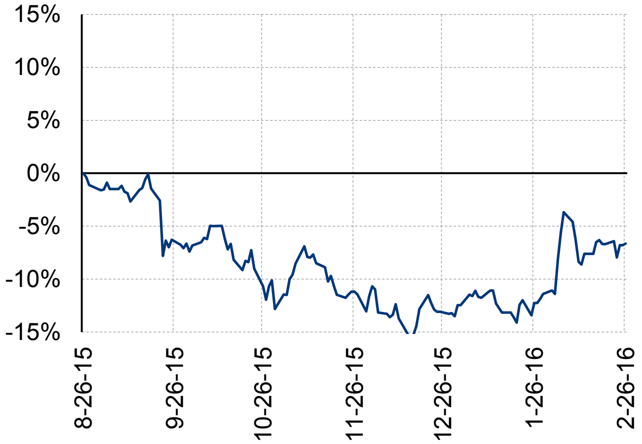
Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

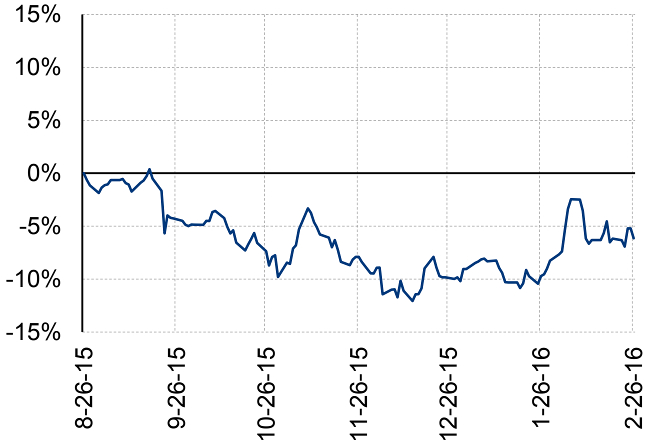
Relative Performance Charts

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

Price objective basis & risk

Exelon (EXC)

Our $32/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $8 of value to ExGen, $(4) for the parent, and approximately $28 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2018E earnings and EBITDA. For Exelon specifically we use a target 6.8x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply a target 15.0 P/E multiple to value the regulated side of the business, which is a discount to regulated peers at 15.5x to reflect the generally below-average ROEs allowed by the state commissioners for the states in which Exelon has regulated operations.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario, and 4) risks to the successful completion of the Pepco Holdings acquisition

Analyst Certification

I, Brian Chin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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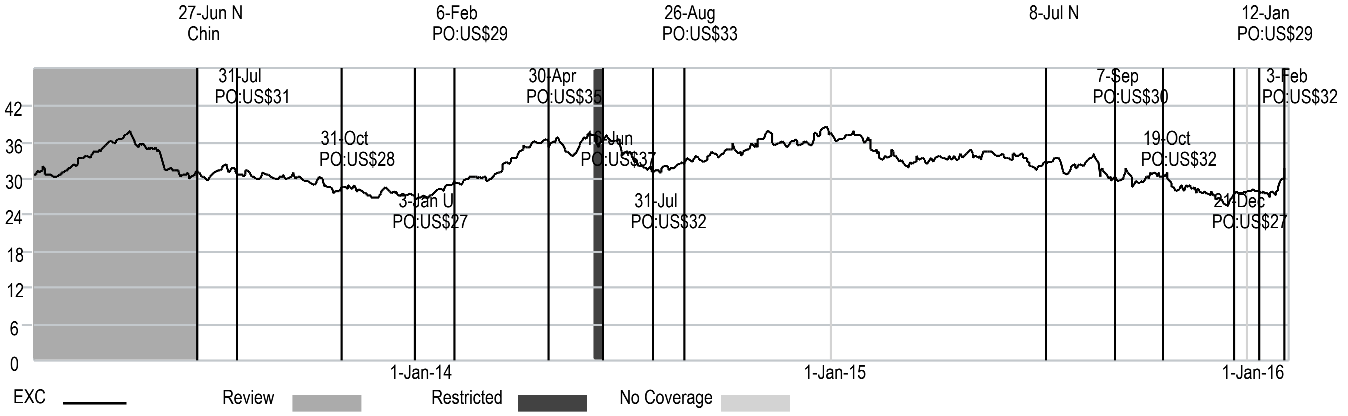
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of January 31, 2016 or such later date as indicated.

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	47.26%	Buy	58	84.06%
Hold	40	27.40%	Hold	32	80.00%
Sell	37	25.34%	Sell	27	72.97%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1673	50.16%	Buy	1244	74.36%
Hold	777	23.30%	Hold	545	70.14%
Sell	885	26.54%	Sell	533	60.23%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon Alert

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
26 February 2016

Breaking News

Price at 25 Feb 2016 (USD)	31.98
Price target	34.00
52-week range	34.81 - 25.46

Power play in DC

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DC PSC votes to approve merger on their terms

This morning, the DC Public Service Commission held a public meeting to vote on the proposed Exelon (EXC) and Pepco Holdings (POM) merger. First the PSC voted (2-1) to deny the proposed settlement finding it to be not in the public interest on several counts. The non-unanimous settlement agreement (NSA) had been filed with the PSC back in the fall by EXC, POM, the DC Mayor, the OPC and several other parties. In a somewhat unexpected turn of events, the PSC took a second vote to approve proposed adjustments to the NSA. This vote was also 2-1 with Chairman Kane vocally expressing her opposition in her closing statement. Per the final order, the DC PSC would allow the merger to go through so long as all of the parties to the original NSA agree to the PSC's proposed new terms. Parties have 14 days to either accept the revised NSA or request "other relief". If other relief is requested then non-settling parties would have 7 days to file comments.

Conditions unlikely to be deal-stoppers for EXC; but what about others?

The PSC's proposed adjustments to the NSA do not seem particularly onerous from an EXC standpoint, in our view. The company will be required to contribute a similar amount of money as contemplated by the original NSA but the adjustments would give the DC PSC greater control over how some of these funds are then disbursed, effectively taking control out of the hands of the DC District Government, a key party to the settlement. In addition, residential rate payers will no longer be guaranteed the same base rate credit of $25.6M. This credit could now be shared with non-residential rate payers and parties are invited to propose allocation methodologies to the PSC in the context of the next rate case. We see no reason to think these adjustments would be deal breakers for EXC, but the conditions do reveal something of a turf war between various local interests in DC, and it remains to be seen whether all settling parties will remain on board as the PSC order requires.

EXC now off the hook per merger terms; but unlikely to walk in our view

With the DC PSC requiring modifications to the NSA, we note that EXC could now freely walk away from the merger if they so choose. This also effectively renders the March 4 termination date somewhat moot. We see EXC walking away as a low probability though given management's overall narrative, need for consistency/credibility and overall focus on becoming more regulated.

What's next? Resolution could be quick, but political angle might delay

EXC and POM have indicated they will carefully review the PSC's changes with the other settling parties, and we are likely to have a better idea as to whether the merger will still go forward at some point next week. Given the relatively limited changes it seems plausible parties could reach an agreement as soon as over the weekend, although local political/financial wrangling over the PSC's effective assertion of jurisdiction could conceivably take longer.

Stock & option liquidity data

Market cap (USDm)	29,533.5
Shares outstanding (m)	923.5
Free float (%)	100
Volume (25 Feb 2016)	2,090,321
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.26

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
1Q EPS	0.71	–	–
2Q EPS	0.59	–	–
3Q EPS	0.83	–	–
4Q EPS	0.38	–	–
FY EPS (USD)	2.49	2.50	2.65
P/E (x)	12.8	12.8	12.1

Source: Deutsche Bank

* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

Exelon Corp.

EXC: DC PSC again rejects Pepco merger by 2-1, but dissenter offers revised terms

Company Update

26 February 2016

EXC/POM's April 2014 merger pact still at risk but still alive

The Public Service Commission (PSC) of the District of Columbia voted 2-1 to reject the Exelon/Pepco Holdings settlement agreement filed by the companies, the Mayor and Attorney General for the District of Columbia, People's Counsel and several other parties in October 2015. That settlement was the result of extensive negotiations following the PSC's 2-1 rejection of the companies' application on August 25, 2015 on what appeared to us to be narrow and minor grounds. Today, however, Commissioner Fort, who voted against the merger both times, proposed a revised settlement agreement and stipulation (PSC Order's Exhibit A) which she would support if the parties agree to it within 14 days. News services stated Exelon and Pepco would review the proposed revised agreement.

~$1.88B notes redeemable if deal delayed or terminated

Exelon Corporation's 3.95% senior notes of 2025 ($807 million outstanding), 4.95% senior notes of 2035 ($333 million) and 5.10% senior notes of 2045 ($741 million) have a mandatory redemption provision at 101% of par, plus accrued and unpaid interest, upon the earlier of 1) June 30, 2016 (which can be extended by the issuer to August 31) and 2) the date on which the agreement relating to the merger is terminated.

Proposed changes appear very minor in context of merger

We compared the October 2015 settlement agreement and today's revised proposal and found changes to eight of the 142 sections (below). Relative to the scale of the merger, these changes seem very minor to us. Therefore, we assume that the settling parties are more likely than not to agree to the proposed revised agreement.

Section 4 – The *residential customer* base rate credit has been revised to a *customer* base rate credit, thus permitting more customers to share in that $25.6 million credit. Most of the specifics have been deleted; now, the parties to the next Pepco base rate case will have an opportunity to propose how the credit will be allocated among customers and over what period of time. Also, the utility will no longer be permitted to recover the Incremental Offset, reflecting deferred recovery of a residential rate increase before March 31, 2019 not offset by the base rate credit.

Sections 6 through 9 – The allocation of $33.2 million of funds that Exelon would have provided for renewable generation development ($3.5 million), energy efficiency initiatives ($3.5 million), sustainability ($10.05 million),, forgiveness of aged accounts receivable ($0.4 million), low-income home energy assistance ($9 million) and multifamily building energy initiatives ($6.75 million) has been moderately modified.

Section 118 – The solar generation in the District of Columbia that Exelon is to develop or assist in developing has been slightly modified, from A) 10 MW plus good faith effort for 5 MW at Blue Plains (or 7 MW if Blue Plains did not materialize), to B) 7 MW excluding Blue Plains plus expedited interconnection of 5 MW of solar generation at Blue Plains to be constructed by a vendor selected by DC Water.

Section 128 – Development of microgrid facilities was eliminated.

Section 129 – One sentence was added stating that Pepco and Exelon shall support and facilitate the implementation of any pilot projects approved by the Commission that emerge from the Formal Case No. 1130 proceeding (In the Matter of the Investigation into Modernizing the Energy Delivery Structure for Increased Sustainability).

High Grade
United States
Electric Utilities

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Exhibit 1: Recommendations

Overweight
Exelon Corp.
Exelon Generation
Marketweight
Baltimore Gas & Electric
Commonwealth Edison
PECO Energy

Source: BofA Merrill Lynch Global Research.

Valuation & risk

Exelon Corp. (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

Baltimore (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

Commonwealth Edison (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

Exelon Generation Co (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

PECO Energy Co. (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

Analyst Certification

I, Peter D. Quinn, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security pricing

Baltimore Gas & Electric Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.9, Notes, USD, 2016:B	300	01-OCT-2016	A3/A-/A-	102.64	25-Feb-2016	1.45	92
3.5, Notes, USD, 2021:B	300	15-NOV-2021	A3/A-/A-	106.53	25-Feb-2016	2.23	94
2.8, Notes, USD, 2022:B	250	15-AUG-2022	A3/A-/A-	102.52	25-Feb-2016	2.36	98
3.35, Notes, USD, 2023:B	300	01-JUL-2023	A3/A-/A-	104.30	25-Feb-2016	2.68	119
6.35, Notes, USD, 2036:B	400	01-OCT-2036	A3/A-/A-	129.80	25-Feb-2016	4.18	190

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Commonwealth Edison Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.95, First Mortgage Bonds, USD, 2016:B	415	15-AUG-2016	A2/A-/A-	102.15	25-Feb-2016	1.34	85
1.95, First Mortgage Bonds, USD, 2016:B	250	01-SEP-2016	A2/A-/A-	100.30	25-Feb-2016	1.25	77
6.15, First Mortgage Bonds, USD, 2017:B	425	15-SEP-2017	A2/A-/A-	106.74	25-Feb-2016	1.73	106
5.8, First Mortgage Bonds, USD, 2018:B	700	15-Mar-2018	A2/A-/A-	108.48	25-Feb-2016	1.59	85
2.15, First Mortgage Bonds, USD, 2019:B	300	15-JAN-2019	A2/A-/A-	101.25	25-Feb-2016	1.69	84
4, First Mortgage Bonds, USD, 2020:B	500	01-AUG-2020	A2/A-/A-	107.46	25-Feb-2016	2.13	105
3.4, First Mortgage Bonds, USD, 2021:B	350	01-SEP-2021	A2/A-/A-	105.79	25-Feb-2016	2.23	98
3.1, First Mortgage Bonds, USD, 2024:B	250	01-Nov-2024	A2/A-/A-	102.27	25-Feb-2016	2.80	116
6.45, First Mortgage Bonds, USD, 2038:B	450	15-Jan-2038	A2/A-/A-	135.47	25-Feb-2016	4.00	167
3.8, First Mortgage Bonds, USD, 2042:B	350	01-OCT-2042	A2/A-/A-	97.48	25-Feb-2016	3.95	145
4.6, First Mortgage Bonds, USD, 2043:B	350	15-AUG-2043	A2/A-/A-	109.04	25-Feb-2016	4.05	153
4.7, First Mortgage Bonds, USD, 2044:B	350	15-JAN-2044	A2/A-/A-	110.75	25-Feb-2016	4.05	152
3.7, First Mortgage Bonds, USD, 2045:B	400	01-Mar-2045	A2/A-/A-	94.90	25-Feb-2016	4.00	142

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Corp. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
1.55, Senior Notes, USD, 2017:B	550	09-Jun-2017	Baa2/BBB-/BBB+	99.61	25-Feb-2016	1.86	122
2.85, Senior Notes, USD, 2020:B	900	15-Jun-2020	Baa2/BBB-/BBB+	100.75	25-Feb-2016	2.66	157
5.15, Senior Notes, USD, 2020:B	550	01-DEC-2020	Baa2/BBB-/BBB+	109.44	25-Feb-2016	2.90	177
3.95, Senior Notes, USD, 2025:B	807	15-JUN-2025	Baa2/BBB-/BBB+	101.71	25-Feb-2016	3.73	204
7.6, Senior Notes, USD, 2032:B	258	01-APR-2032	Baa2/BBB-/BBB+	128.48	25-Feb-2016	5.00	291
4.95, Senior Notes, USD, 2035:B	333	15-JUN-2035	Baa2/N.A./BBB+	102.83	25-Feb-2016	4.72	251
5.625, Senior Notes, USD, 2035:B	500	15-Jun-2035	Baa2/BBB-/BBB+	109.44	25-Feb-2016	4.87	264
5.1, Senior Notes, USD, 2045:B	741	15-JUN-2045	Baa2/N.A./BBB+	103.56	25-Feb-2016	4.87	230

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Generation Co. LLC / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.2, Senior Notes, USD, 2017:B	700	01-Oct-2017	Baa2/BBB/BBB	106.61	25-Feb-2016	1.97	130
5.2, Senior Notes, USD, 2019:B	600	01-OCT-2019	Baa2/BBB/BBB	108.16	25-Feb-2016	2.80	182
2.95, Senior Notes, USD, 2020:B	750	15-Jan-2020	Baa2/BBB/BBB	100.33	25-Feb-2016	2.86	184
4, Senior Notes, USD, 2020:B	550	01-OCT-2020	Baa2/BBB/BBB	102.94	25-Feb-2016	3.27	216
4.25, Senior Notes, USD, 2022:B	523	15-JUN-2022	Baa2/BBB/BBB	101.98	25-Feb-2016	3.88	251
6.25, Senior Notes, USD, 2039:B	900	01-OCT-2039	Baa2/BBB/BBB	99.97	25-Feb-2016	6.25	386
5.75, Senior Notes, USD, 2041:B	350	01-Oct-2041	Baa2/BBB/BBB	92.33	25-Feb-2016	6.36	389
5.6, Senior Notes, USD, 2042:B	788	15-JUN-2042	Baa2/BBB/BBB	91.08	25-Feb-2016	6.30	381
Senior Unsecured, USD, Y5, CDS				31.50	26-Feb-2016		295

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

PECO Energy Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
1.2, FandR Mortgage Bonds, USD, 2016:B	300	15-OCT-2016	Aa3/A-/A	100.11	25-Feb-2016	1.02	49
5.35, FandR Mortgage Bonds, USD, 2018:B	500	01-Mar-2018	Aa3/A-/A	107.44	25-Feb-2016	1.58	85
2.375, FandR Mortgage Bonds, USD, 2022:B	350	15-SEP-2022	Aa3/A-/A	100.53	25-Feb-2016	2.28	89
3.15, FandR Mortgage Bonds, USD, 2025:B	350	15-Oct-2025	Aa3/A-/A	103.79	25-Feb-2016	2.69	97
5.95, FandR Mortgage Bonds, USD, 2036:B	300	01-Oct-2036	Aa3/A-/A	127.57	25-Feb-2016	3.98	170
4.8, FandR Mortgage Bonds, USD, 2043:B	250	15-OCT-2043	Aa3/A-/A	113.86	25-Feb-2016	3.96	144
4.15, FandR Mortgage Bonds, USD, 2044:B	300	01-Oct-2044	Aa3/A-/A	103.15	25-Feb-2016	3.96	142

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Baltimore Gas & Electric Co. / EXC

Company	Date^	Action	Recommendation
Baltimore Gas & Electric Co. / EXC	31-Jan-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
5.9, Notes, USD, 2016:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.5, Notes, USD, 2021:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.8, Notes, USD, 2022:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.35, Notes, USD, 2023:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.35, Notes, USD, 2036:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Commonwealth Edison Co. / EXC

Company	Date^	Action	Recommendation
Commonwealth Edison Co. / EXC	31-Jan-2013		Underweight-30%
	06-May-2013	Downgrade	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
5.95, First Mortgage Bonds, USD, 2016:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
1.95, First Mortgage Bonds, USD, 2016:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.15, First Mortgage Bonds, USD, 2017:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.8, First Mortgage Bonds, USD, 2018:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.15, First Mortgage Bonds, USD, 2019:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4, First Mortgage Bonds, USD, 2020:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.4, First Mortgage Bonds, USD, 2021:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.1, First Mortgage Bonds, USD, 2024:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.875, First Mortgage Bonds, USD, 2033:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.9, First Mortgage Bonds, USD, 2036:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.45, First Mortgage Bonds, USD, 2038:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.8, First Mortgage Bonds, USD, 2042:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.6, First Mortgage Bonds, USD, 2043:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.7, First Mortgage Bonds, USD, 2044:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.7, First Mortgage Bonds, USD, 2045:B	02-Mar-2015	New Issue	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Exelon Corp. / EXC

Company	Date^	Action	Recommendation
Exelon Corp. / EXC	31-Jan-2013		Underweight-30%
	06-May-2013	Upgrade	Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Security	**Date^**	**Action**	**Recommendation**
1.55, Senior Notes, USD, 2017:B	11-Jun-2015	New Issue	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
2.85, Senior Notes, USD, 2020:B	11-Jun-2015	New Issue	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.15, Senior Notes, USD, 2020:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
3.95, Senior Notes, USD, 2025:B	02-Dec-2015	New Issue	Overweight
7.6, Senior Notes, USD, 2032:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4.95, Senior Notes, USD, 2035:B	02-Dec-2015	New Issue	Overweight
5.625, Senior Notes, USD, 2035:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.1, Senior Notes, USD, 2045:B	02-Dec-2015	New Issue	Overweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Exelon Generation Co. LLC / EXC

Company	Date^	Action	Recommendation
Exelon Generation Co. LLC / EXC	31-Jan-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Security	**Date^**	**Action**	**Recommendation**
6.2, Senior Notes, USD, 2017:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.2, Senior Notes, USD, 2019:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
2.95, Senior Notes, USD, 2020:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4, Senior Notes, USD, 2020:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4.25, Senior Notes, USD, 2022:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
6.25, Senior Notes, USD, 2039:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.75, Senior Notes, USD, 2041:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.6, Senior Notes, USD, 2042:B	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Senior Unsecured, USD, Y5, CDS	31-Jan-2015		Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Sell Protection

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

PECO Energy Co. / EXC

Company	Date^	Action	Recommendation
PECO Energy Co. / EXC	31-Jan-2013		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
1.2, FandR Mortgage Bonds, USD, 2016:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.35, FandR Mortgage Bonds, USD, 2018:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.375, FandR Mortgage Bonds, USD, 2022:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.15, FandR Mortgage Bonds, USD, 2025:B	05-Oct-2015	New Issue	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.95, FandR Mortgage Bonds, USD, 2036:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.8, FandR Mortgage Bonds, USD, 2043:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.15, FandR Mortgage Bonds, USD, 2044:B	31-Jan-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

BofA Merrill Lynch Credit Opinion Key

BofA Merrill Lynch Global Research provides recommendations on an issuer's bonds (including corporate and sovereign external debt securities), capital securities, equity preferreds and CDS as described below. Convertible securities are not rated. An issuer level recommendation may also be provided for an issuer as explained below. BofA Merrill Lynch Global Research credit recommendations are assigned using a three-month time horizon.

Issuer Recommendations: If an issuer credit recommendation is provided, it is applicable to bonds and capital securities of the issuer except bonds and capital securities specifically referenced in the report with a different credit recommendation. Where there is no issuer credit recommendation, only individual bonds and capital securities with specific recommendations are covered. CDS and equity preferreds are rated separately and issuer recommendations do not apply to them.

BofA Merrill Lynch Global Research credit recommendations are assigned using a three-month time horizon:
Overweight: Spreads and /or excess returns are likely to outperform the relevant and comparable market over the next three months.
Marketweight: Spreads and/or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.
Underweight: Spreads and/or excess returns are likely to underperform the relevant and comparable market over the next three months.

BofA Merrill Lynch Global Research uses the following rating system with respect to **Credit Default Swaps (CDS):**
Buy Protection: Buy CDS, therefore going short credit risk.
Neutral: No purchase or sale of CDS is recommended.
Sell Protection: Sell CDS, therefore going long credit risk.

Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	146	35.96%	Buy	130	89.04%
Hold	155	38.18%	Hold	137	88.39%
Sell	105	25.86%	Sell	91	86.67%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only corporate credit issuer recommendations. A corporate credit issuer rated Overweight is included as a Buy, a corporate credit issuer rated Marketweight is included as a Hold, and a corporate credit issuer rated Underweight is included as a Sell.

Credit Opinion History Tables for the securities referenced in this research report are available at http://pricecharts.baml.com, or call 1-800-MERRILL to have them mailed.
MLPF&S or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Commonwealth Edison, Exelon Corp.
The issuer is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: Baltimore, Commonwealth Edison, Exelon Corp., Exelon Generation, PECO Energy.
MLPF&S or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Baltimore, Commonwealth Edison, Exelon Corp., Exelon Generation, PECO Energy.
The issuer is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one or more of its affiliates: Baltimore, Commonwealth Edison, Exelon Corp., Exelon Generation, PECO Energy.
MLPF&S or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Baltimore, Commonwealth Edison, Exelon Corp., Exelon Generation, PECO Energy.
MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: Baltimore, Commonwealth Edison, Exelon Corp., Exelon Generation, PECO Energy.
The issuer is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Baltimore, Commonwealth Edison, Exelon Corp., Exelon Generation, PECO Energy.
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BofA Merrill Lynch Global Credit Research analysts regularly interact with sales and trading desk personnel in connection with their research, including to ascertain pricing and liquidity in the fixed income markets.

Other Important Disclosures

MLPF&S or one of its affiliates has a significant financial interest in the fixed income instruments of the issuer. If this report was issued on or after the 15th day of the month, it reflects a significant financial interest on the last day of the previous month. Reports issued before the 15th day of the month reflect a significant financial interest at the end of the second month preceding the report: Baltimore, Exelon Corp., Exelon Generation.

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RBC Credit: DC Commission rejects EXC/POM settlement, but recommends revised terms

Sentiment Indicator : positive

Posted by Leung, Raymond (RBC Capital Markets, LLC) on Friday, February 26, 2016, 12:29 PM ET

Takeaway: Today, the DC Public Service Commission voted 2-1 against the proposed Exelon-Pepco deal as it found the non-unanimous settlement agreement was not in public interest. However, the commission recommended revised settlement terms for which Exelon and Pepco will have 14 days (March 11th) to approve or reject. We view the proposed settlement changes as manageable and a dissenting commissioner, Joanne Fort, on the initial vote indicated that she would support the merger with the revised terms. Should the companies approve the revised terms, there is no further action required by the DC Commission and the deal will close. We remain Outperform on Exelon Corp (3.95% of 2025s at +200bps) as the proposed Pepco deal will raise the contribution of regulated cash flows to about two-thirds from one-half in addition to the recently disclosed credit metric guidance at Exelon Generation which we find supportive of credit spreads. A potential decision from Exelon/Pepco could come prior to the merger termination date of March 4.

The revised terms include:

- The deferral of a decision on the allocation of $25.6 million in customer base rate credits until the next Pepco rate case,
- removing Exelon as a developer of a 5MW solar generation facility, committing Pepco to facilitate this project with DC Water’s choice of developer,
- creating an escrow fund with two sub-accounts (one for modernization projects and one for energy efficiency for low income housing) at Pepco to hold the $72.8 million Customer Investment Fund funded by Exelon, and
- requiring Pepco to facilitate and support pilot projects for micro grids.

In the event the merger is not accepted, the EXC would call the outstanding 25s, 35s, and 45s bonds at $101 that were issued to finance the transaction.

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Click here for conflict of interest and other disclosures relating to Exelon Corporation, Exelon Generation Co LLC, Raymond Leung These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to rbcinsight@rbccm.com

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.73 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

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The primary analyst covering this company does not own its stock.

Research as of 29 Feb 2016
Estimates as of 06 Oct 2015
Pricing data through 26 Feb 2016
Rating updated as of 26 Feb 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 29 Feb 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Vital Statistics

Market Cap (USD Mil)	29,189
52-Week High (USD)	34.98
52-Week Low (USD)	25.09
52-Week Total Return %	-2.9
YTD Total Return %	15.4
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.9
Price/Fair Value	0.91

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	*12.9*	*13.3*
EV/EBITDA	8.9	8.3	*7.9*	*7.7*
EV/EBIT	14.1	14.5	*12.8*	*12.8*
Free Cash Flow Yield %	3.0	-6.3	*2.8*	*-1.2*
Dividend Yield %	3.9	4.2	*3.7*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,184*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,826*
EBIT YoY %	53.6	-15.3	*23.4*	*0.1*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,065*
Net Income YoY %	-7.9	-4.0	*2.9*	*-2.9*
Diluted EPS	2.50	2.39	*2.46*	*2.39*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.0*
Free Cash Flow	1,500	305	*1,364*	*136*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers at Commonwealth Edison (Illinois), PECO (Pennsylvania), and Baltimore Gas & Electric (Maryland). Exelon also owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. Exelon also is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.73 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	13.2	24.1	6.0	10.2	-17.0	10.6	3.5
EBIT	-11.6	-46.9	53.6	-15.3	23.4	0.1	13.9
EBITDA	-2.4	-26.7	36.3	-6.9	15.0	1.7	10.1
Net Income	-9.3	-15.6	-7.9	-4.0	2.9	-2.9	10.0
Diluted EPS	-16.9	-31.5	-12.3	-4.4	2.9	-3.0	9.9
Earnings Before Interest, after Tax	-7.3	-43.1	-13.1	61.0	-30.3	-7.4	-1.0
Free Cash Flow	-19.5	231.6	-22.5	-79.7	347.7	-90.0	59.1

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	12.0	10.1	14.7	11.3	16.8	15.2	16.4
EBITDA Margin %	20.4	18.1	23.3	19.7	27.3	25.1	25.9
Net Margin %	8.7	9.9	8.6	7.5	9.3	8.2	9.0
Free Cash Flow Margin %	5.1	8.2	6.0	1.1	6.0	0.5	5.5
ROIC %	2.2	1.6	2.5	2.5	5.2	5.2	5.7
Adjusted ROIC %	2.3	1.7	2.7	2.7	5.4	5.4	6.0
Return on Assets %	2.0	1.7	2.2	2.0	2.4	2.3	2.7
Return on Equity %	7.1	6.4	7.7	7.1	9.0	8.3	9.4

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	0.48	0.47	0.47	0.49	0.49	0.48	0.47
Total Debt/EBITDA	4.06	4.60	3.46	4.12	3.71	3.73	3.42
EBITDA/Interest Expense	4.65	4.59	4.28	5.08	6.23	6.06	6.27

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	12.9	13.3
EV/EBITDA	8.9	8.3	7.9	7.7
EV/EBIT	14.1	14.5	12.8	12.8
Free Cash Flow Yield %	3.0	-6.3	2.8	-1.2
Dividend Yield %	3.9	4.2	3.7	3.7

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,148	12.3	7.11
Present Value Stage II	15,608	31.3	18.05
Present Value Stage III	28,162	56.4	32.56
Total Firm Value	**49,918**	**100.0**	**57.72**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-789	—	-0.91
Equity Value	**28,736**	**—**	**33.22**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.73 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,184***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*10,000*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,184***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,082***
Income Tax Expense	627	1,044	666	*1,047*	*1,017*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,065***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.39***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,065*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.39***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,326***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,326***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.73 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,138*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,140*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,055***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,321***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,955*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,417***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,717***

Exelon Corp EXC (NYSE) | ★★★

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,065*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-149*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,762***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-886***

Exelon Corp EXC (NYSE) | ★★★

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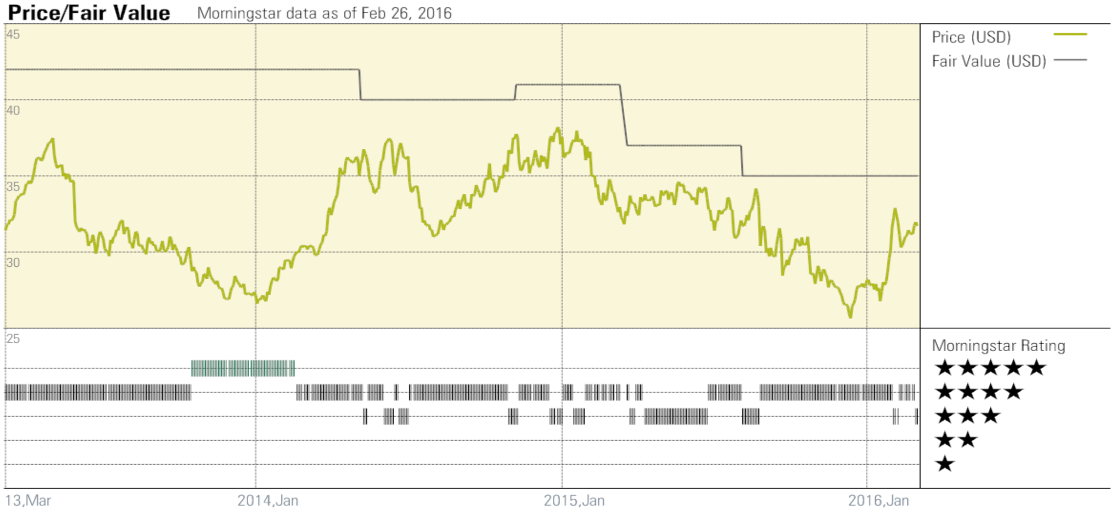

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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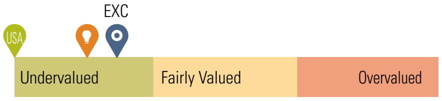
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 26 Feb 2016	31.73 USD 26 Feb 2016	35.00 USD	0.91	3.91 26 Feb 2016	29.19 26 Feb 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Undervalued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.89	0.85	0.85	0.77
Price/Earnings	12.5	15.6	14.9	18.1
Forward P/E	12.0	—	15.1	12.3
Price/Cash Flow	3.7	5.1	6.0	10.0
Price/Free Cash Flow	—	74.7	10.8	15.9
Dividend Yield %	3.91	4.65	4.02	2.61

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs and generate large profits even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 06 October 2015

Investment Thesis

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and made a $12 billion bid for Pepco in April 2014, both including debt. Management's political negotiations appear to have revived the deal in Washington, D.C., where regulators had rejected it in August 2015. We now expect it has a 75% chance of closing. Exelon has received all other regulatory approvals.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our outlook for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can grow earnings 10% annually the next three years.

Travis Miller, Sector Director, 29 February 2016

Analyst Note

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Economic Moat

Travis Miller, Sector Director, 06 October 2015

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, that spread between long-term returns on capital and Exelon's cost of capital have shrunk based on our midcycle outlook for power prices in the eastern U.S. Exelon's increasing diversification into narrow- and no-moat businesses

Exelon Corp EXC (XNYS)

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	21,529	10,910	29.67	11.72
FirstEnergy Corp FE	USD	13,904	15,026	15.25	23.98
Entergy Corp ETR	USD	12,797	11,836	2.32	0.00

together with the shrinking returns at its nuclear generation business supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources like coal and natural gas reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must continue to have access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 06 October 2015

We are reaffirming our $35 per share fair value estimate after raising our probability of the Pepco acquisition closing to 75% from 25% as a result of an agreement the companies reportedly reached with the Washington, D.C., mayor's office on Oct. 6. Although we think the deal is value-dilutive, it is too small to have a material impact on our fair value estimate. Exelon's $27.25-per-share cash offer represents a 30% premium to our $21 per share standalone fair value estimate for Pepco.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities (Ill.), Oyster Creek (N.J.), and Three Mile Island (Pa.)--as well as the Clinton (Ill.) plant. We now assume a 50% probability that the Byron (Ill.) plant will retire given it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4/mcf midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 06 October 2015

Investors should pay the most attention to political developments that would re-regulate competitive electricity markets in the Midwest and Mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source.

As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.

Reregulation also would destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.

As Exelon's regulated utilities generate a greater share of earnings, investors will be subject more acutely to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management

Travis Miller, Sector Director, 06 October 2015

We give Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and Executive Chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and Chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition in 2015. This will increase Exelon's share of regulated utilities earnings and dilute shareholders' exposure to wholesale power markets. Management has shown strong conviction in the value of the deal based on their efforts to gain support for the deal from all parties, particularly in Washington, D.C.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants absent significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creation opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Exelon Corp EXC (XNYS)

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Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 26 Feb 2016	31.73 USD 26 Feb 2016	35.00 USD	0.91	3.91 26 Feb 2016	29.19 26 Feb 2016	Utilities - Diversified	Standard

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Sector Director, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Eq. Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco

Charles Fishman, Eq. Analyst, 06 October 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners

Charles Fishman, Eq. Analyst, 30 September 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Postpones Nuclear Plant Retirement Decision; No Fair Value Impact

Travis Miller, Sector Director, 10 September 2015

We are reaffirming our $35 per share fair value estimate for Exelon after management announced it will delay a decision whether to close at least three of its struggling nuclear plants. We recently incorporated into our fair value estimate and financial projections the assumption that it was more likely than not that Exelon would close those three plants in 2018. We also assume a 50% likelihood that Exelon will close its Byron (Illinois) nuclear plant in 2019.

Results of the recent 2016-18 PJM transitional capacity auctions and management's decision to delay potential retirements do not change our assumptions that those plants ultimately will close, absent significant energy market or public policy changes. The Quad Cities (Illinois), Three Mile Island (Pennsylvania), and Oyster Creek (New Jersey) plants are obligated to run at least through mid-2018, and the Byron plant is obligated to run through mid-2019 based on results from PJM's recent capacity auctions.

The key development for Exelon in last week's 2017-18 transitional capacity auction was that the Quad Cities and Byron plants cleared and are now obligated to run. Neither cleared PJM's 2017-18 base capacity auction last year at $120/megawatt-day but did clear last week's capacity performance transitional auction at $151.50/MW-day. Including those plants and the uplift for the rest of the fleet adds about $400 million of EBITDA in 2017-18.

The Clinton (Illinois) plant is the fourth that we assume will close by 2018. It is not part of PJM. It is obligated to run at least through 2016 as part of the Mid-Continent ISO. Exelon continues to lobby Illinois politicians to adopt a subsidy-like scheme that would improve the economics for its six Illinois nuclear plants. We do not include any benefits from policy changes in our fair value estimate.

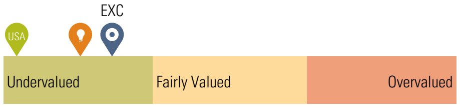
Exelon Corp EXC

Last Close 26 Feb 2016	**Quantitative Fair Value Est** 26 Feb 2016	**Market Cap** 26 Feb 2016	**Sector**	**Industry**	**Country of Domicile**
31.73	35.53	29,189.2 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	90	84	85
Valuation	Undervalued	37	47	40
Quantitative Uncertainty	Low	100	97	99
Financial Health	Moderate	58	55	58



Source: Morningstar Equity Research

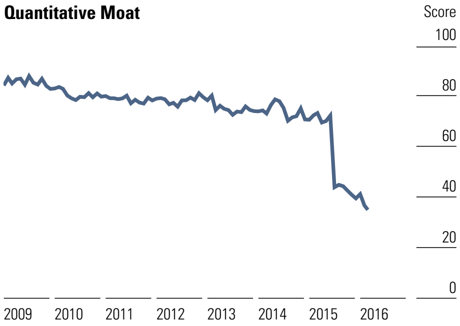
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.89	0.85	0.85	0.77
Price/Earnings	12.5	15.6	14.9	18.1
Forward P/E	12.0	—	15.1	12.3
Price/Cash Flow	3.7	5.1	6.0	10.0
Price/Free Cash Flow	—	74.7	10.8	15.9
Dividend Yield %	3.91	4.65	4.02	2.61
Price/Book	1.1	1.5	1.2	1.9
Price/Sales	1.0	1.2	1.2	1.6

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.4	9.7	10.0	11.9
Return on Assets %	2.5	2.6	3.2	4.7
Revenue/Employee (K)	989.4	958.0	1,117.5	303.7

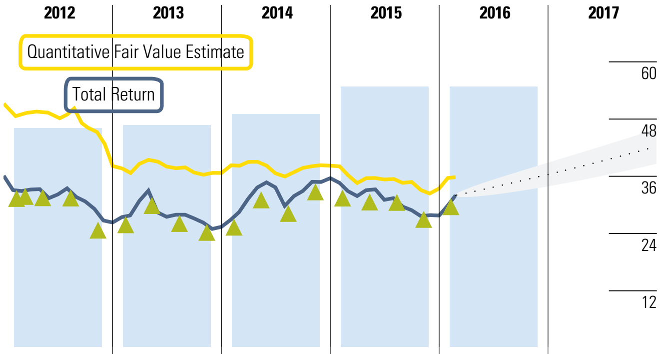
Quantitative Moat



Financial Health

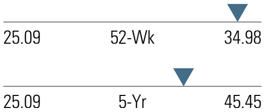
	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.6
Solvency Score	—	—	633.9	576.5
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

Price Versus Quantitative Fair Value



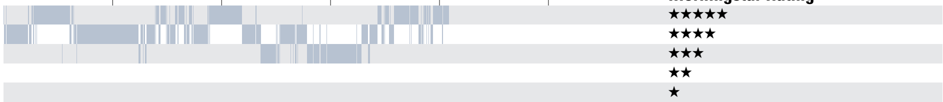
Sales/Share
Forecast Range
Forcasted Price
Dividend
Split

Momentum: Negative
Standard Deviation: 20.93
Liquidity: High



2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	15.4	Total Return %
-42.9	-36.1	27.1	-22.5	20.2	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	3.91	Dividend Yield %
21.0	14.7	15.2	12.3	12.5	Price/Earnings
1.0	0.9	1.2	0.8	1.0	Price/Revenue

Morningstar RatingQ



2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	29,447	Revenue
1.5	24.1	6.0	10.2	7.4	0.0	% Change
4,480	2,380	3,656	3,096	4,409	4,409	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	0.0	% Change
2,495	1,160	1,719	1,623	2,269	2,269	Net Income
4,853	6,131	6,343	4,457	7,616	7,616	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-7,624	Capital Spending
811	321	948	-1,620	-8	-8	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	0.0	% Sales
3.75	1.42	2.00	1.88	2.54	2.54	EPS
-3.1	-62.1	40.8	-6.0	35.1	0.0	% Change
0.20	0.39	0.48	-0.03	-1.04	-1.04	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.01	Book Value/Share
855,000	857,000	860,000	920,000	919,925	919,925	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	9.4	Return on Equity %
4.7	1.7	2.2	2.0	2.5	2.5	Return on Assets %
13.2	4.9	6.9	5.9	7.7	7.7	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.32	Asset Turnover
3.8	3.7	3.5	3.8	3.7	3.7	Financial Leverage
62.3	56.8	56.9	52.6	55.6	55.6	Gross Margin %
23.7	10.1	14.7	11.3	15.0	15.0	Operating Margin %
12,189	18,346	18,271	20,010	24,286	24,286	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,793	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

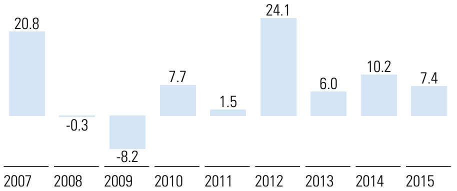
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	-2.9	5.0	-0.8	-1.4

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	—	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

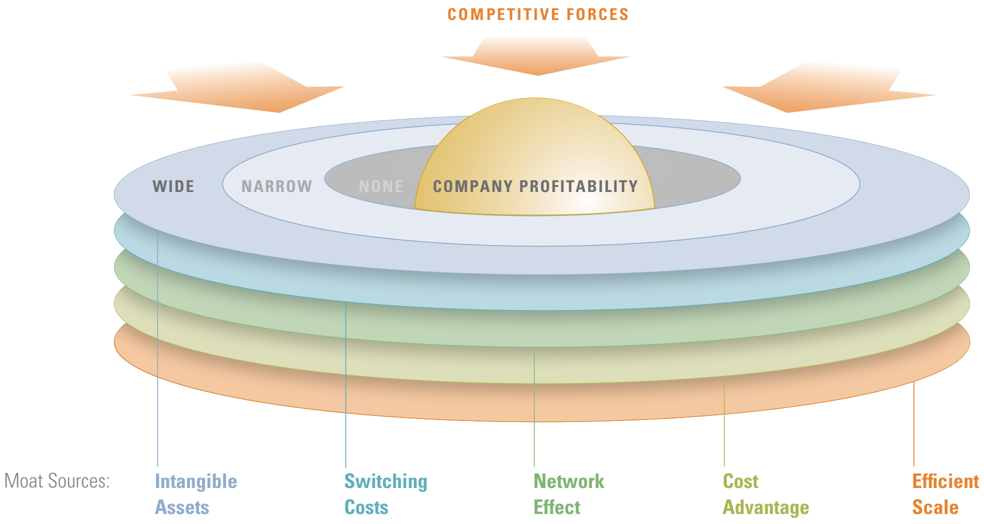
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

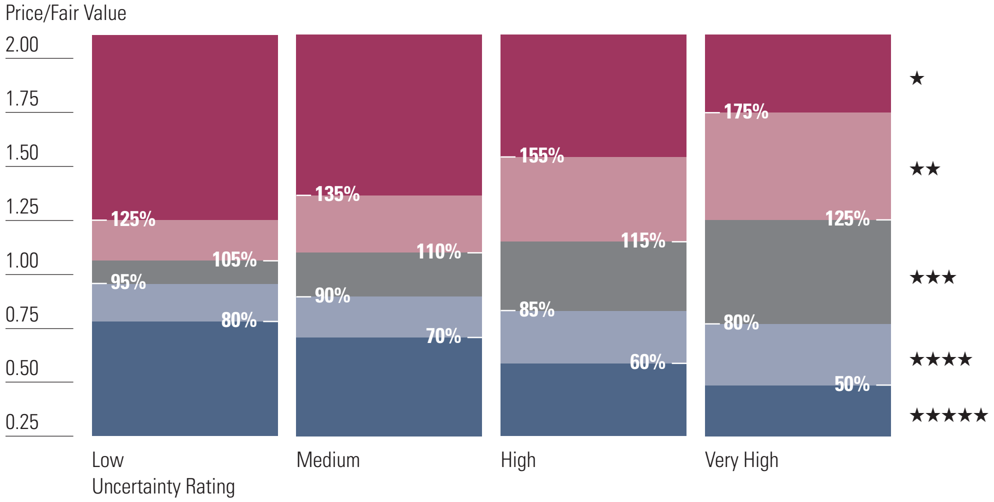
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	31.73 USD	35.00 USD	0.91	3.91	29.19	Utilities - Diversified	Standard
26 Feb 2016	26 Feb 2016			26 Feb 2016	26 Feb 2016		

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Exelon Corporation

EXC – BUY – Surprise Rejections from Three Key Parties; EXC More Likely to Walk from Deal but Still Hope

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FLASH NOTE

SECTOR: Power and Utilities

March 1, 2016

What's new? Surprise announcements from the DC Mayor, Attorney General, and Office of People's Counsel, three key parties in the settlement, reject the amendments proposed by the DC PSC – the clear path to automatic approval has vanished, in our view. For the merger to move forward, EXC (BUY, $31.77) will have to negotiate with nine parties including the above three stakeholders for new terms by March 11 to respond to the Commission with alternative conditions. While there is time to negotiate any alternative conditions, we believe there is increasing likelihood EXC could walk from the deal.

EXC's buyback program is already planned. If the deal fails, we believe management will start to implement plans to buy back 57.5mm shares within 5 months and retire the debt associated with Pepco. Near-tem drag could equate to $0.07/share as the company completes the buyback program as well as delevers. While EXC is currently guiding to the 57.5mm shares, we note that they raised $3B in equity sales (including $1.15B in forward sale) and could increase their buybacks to be above their planned $1.6B. Although there will be a drag in the near term, we believe the buybacks would likely be accretive in 2017 given the reduction in sharecount and lower interest expense.

If the deal does not close, there could be additional $4-5 downside to POM. Given that POM (NC, $22.81) has been out of a rate case since 2014 and the delays with this merger, POM has materially deteriorated as a standalone company, in our view. We estimate downside to POM stock is another $4-5 based on a 12-13 range multiple on 2018 consensus earnings estimates.

What's next? March 11 is the deadline for alternative conditions, after which all parties have 7 days to comment on these new terms. It remains to be seen what Commission could plan on for addressing the new settlement conditions by either opening hearing or have an internal review. **Discussions are currently happening with various stakeholders behind closed doors, so there is still time to save this deal but the risks have increased.**

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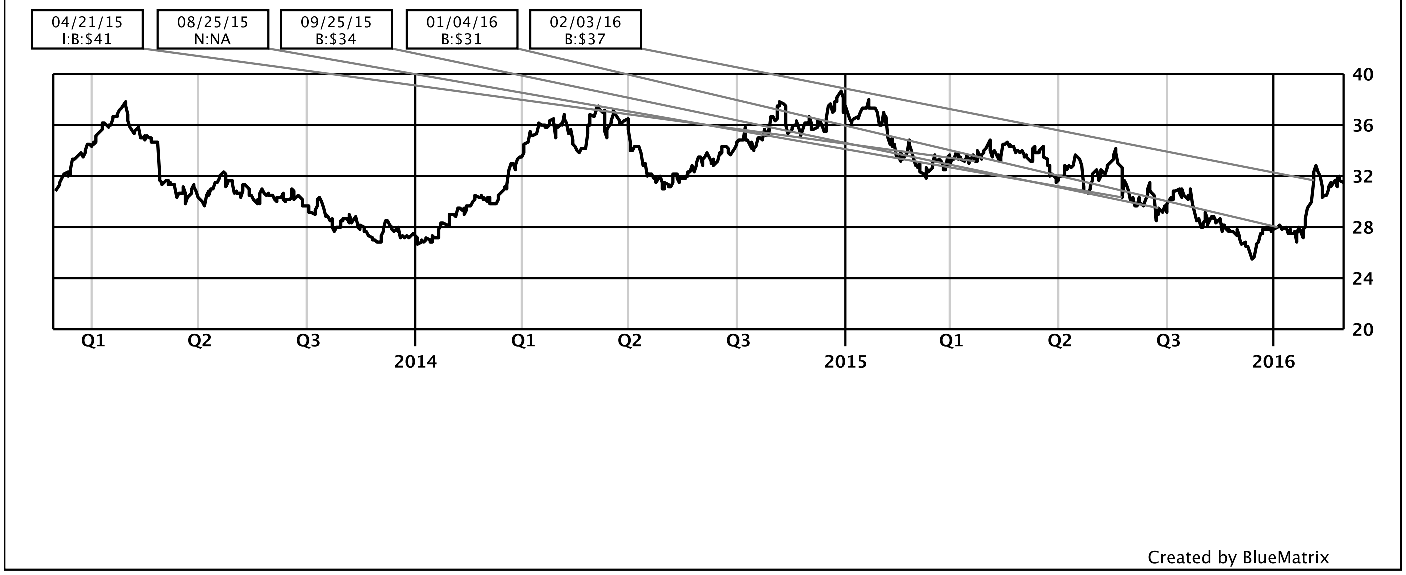
Rating and Price Target History for: Exelon Corporation (EXC) as of 02-29-2016



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Sell	0	0.00%	0	0.00%

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Exelon

Snatching defeat from the jaws of victory; could SMIDs lose their premium?

Maintain Rating: NEUTRAL | PO: 32.00 USD | Price: 31.49 USD

Bank of America Merrill Lynch

Equity | 01 March 2016

D.C. Mayor and Office of People's Council balk on terms

Two key constituents, D.C. Mayor Bowser and the Office of People's Council announced a lack of support for the alternative settlement. OPC's change in position was largely due to language in the revised settlement that broadens the scope of credits from residential to all customers and further removed a stipulation preventing a rate increase for residential ratepayers through March 2019. With the two largest supporters of the deal opposed to the revised settlement, in our view Exelon will walk away from the Pepco deal, as opposed to a quick resolution as we expected on Friday.

Exelon to begin unwinding capital raise

With the deal likely terminated, Exelon will now focus on beginning repayment of $3.2 billion of debt issued for the deal and look to repurchase $1.6B in equity (this is already in guidance). Without the deal, Exelon will now be near the high-side of the dividend payout ratio and will be close to 100% of regulated earnings – bringing into question the wisdom of announcing a dividend raise prior to the Pepco deal being concluded. Over the two years attempting to acquire Pepco Exelon's earnings have grown into supporting the dividend. We forecast the company can largely support the dividend at this juncture, but dividend growth will be tepid as there is not as much cushion as there would have been had the Pepco deal been consummated.

SMID takeout premium could start to deflate in sector

With the Exelon-Pepco deal now likely to terminate, the Cleco buyout having been rejected by state regulators, and the NextEra – Hawaiian Electric deal experiencing significant local pushback, we believe the SMID caps may finally have reached an inflection point for the removal of premium valuations to the large cap group – as we wrote about in our 2016 Year Ahead Outlook. Large cap companies are likely to be more cautious about M&A in the electric utility sector given these recent outcomes. As we highlighted in our Year Ahead report, Underperform-rated WR, NWE, and PNW are names with takeout premiums embedded in them in our view.

EXC shares fairly valued; Maintain Neutral

With the deal now likely to be abandoned, Exelon's strategy will look to focus on current businesses and potentially look for other strategic opportunities. We continue to believe longer term low commodity price in PJM will weigh on Exelon's outlook. In addition, the dividend growth opportunities may be tempered as the payout ratio needs to be managed within the regulated growth outlook. In contrast, the shares are trading at a substantial discount to peers; these two factors largely offset. Maintain Neutral.

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Stock Data

Price	31.49 USD
Price Objective	32.00 USD
Date Established	3-Feb-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 34.98 USD
Mrkt Val (mn) / Shares Out (mn)	28,750 USD / 913.0
Average Daily Value (mn)	293.45 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2015E)	9.3%
Net Dbt to Eqty (Dec-2014A)	84.5%

Exelon: A New Deal In Washington DC; Exelon-Pepco Merger Update 26 February 2016

Exelon: 4Q15 in line with Street; set to annually raise the dividend by 2.5% 03 February 2016

Utilities: 2016 Outlook: Favoring Regulated Growth & Transition Stories 12 January 2016

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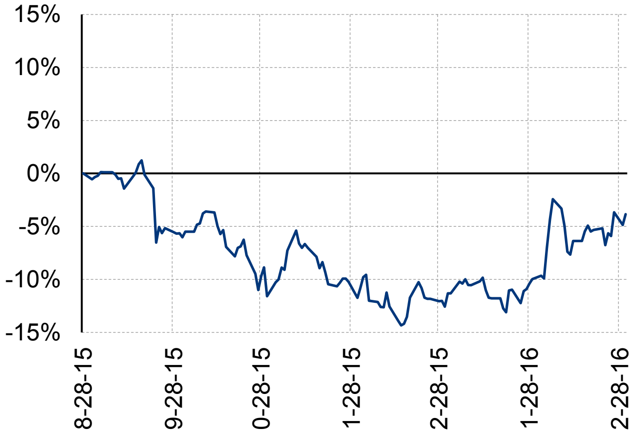
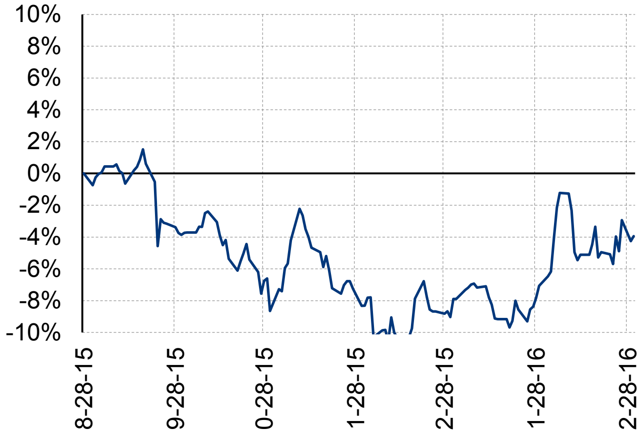
Relative Performance Charts

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

Table 1: Stocks mentioned

BofAML Ticker	Bloomberg ticker	Company name	Price	Rating
EXC	EXC US	Exelon Corp	31.49	B-2-7
NWE	NWE US	NorthWestern Corp	59.37	A-3-7
PNW	PNW US	Pinnacle West	68.83	A-3-7
WR	WR US	Westar Energy	43.46	A-3-7

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Exelon (EXC)

Our $32/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $8 of value to ExGen, $(4) for the parent, and approximately $28 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2018E earnings and EBITDA. For Exelon specifically we use a target 6.8x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply a target 15.0 P/E multiple to value the regulated side of the business, which is a discount to regulated peers at 15.5x to reflect the generally below-average ROEs allowed by the state commissioners for the states in which Exelon has regulated operations.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario, and 4) risks to the successful completion of the Pepco Holdings acquisition

NorthWestern Corporation (NWE)

We value NorthWestern Energy by assigning a target P/E multiple to our 2018 EPS estimate. We value regulated utilities by assigning a target P/E multiple to our 2018 EPS estimate. Our price objective of $54 is premised on a 14.5x multiple applied to our 2018 EPS estimate. Our 14.5x target multiple is based on the current small-mid cap regulated peer average. Historically, NWE shares have traded mostly in line with the small-mid cap average.

Risks to our price objective are better than expected rate case outcomes and higher earnings from incremental natural gas reserve related capex spending. A downside risk to our PO is a decrease in bond yields.

Pinnacle West Corp (PNW)

Our price objective is $63, based on a 14.5x target PE multiple applied to our 2018 EPS estimate. Our 14.5x target multiple is based on PNW's peer group current average 2018 PE multiple of 14.5x, based on the fact that PNW has historically traded in line with its small/mid cap peers. Upside risks to our price objective are positive regulatory outcomes, load growth beyond our projections, and decreases in bond yields. Downside risks to our price objective are negative regulatory outcomes, slower than expected capex growth, and contraction in small/mid cap utility multiples.

Westar Energy (WR)

Our price objective is $39. This is based on a target 14.5x PE multiple applied to our 2018 PE estimate. Our 14.5x PE reflects a group average current trading multiple of 14.5x for small/mid cap regulated utilities. Upside risks to our price objective are better than expected power demand growth, improvements in operating efficiency beyond our base scenario, and rate case outcomes. A downside risk to our PO is an increase in bond yields and better than expected regulatory outcomes.

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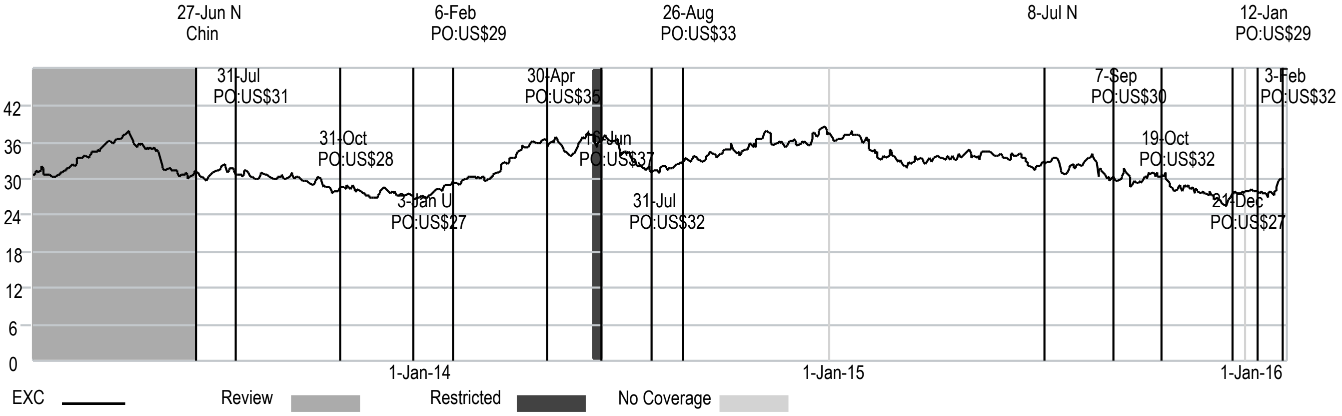
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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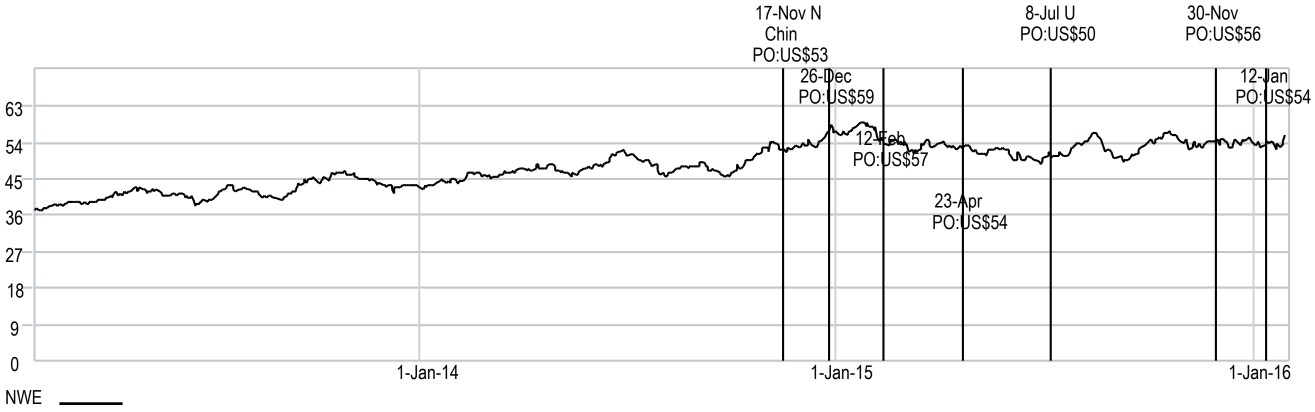
NWE Price Chart



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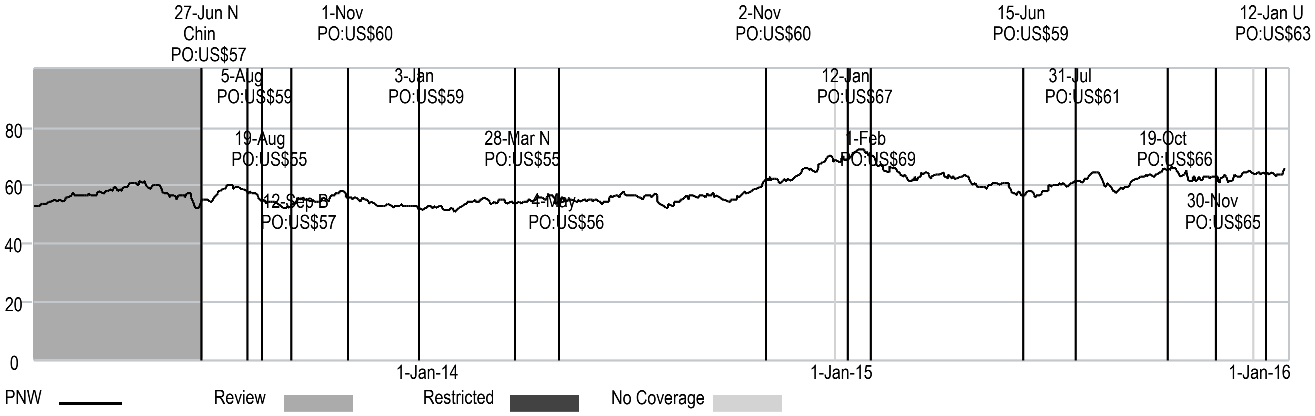
PNW Price Chart



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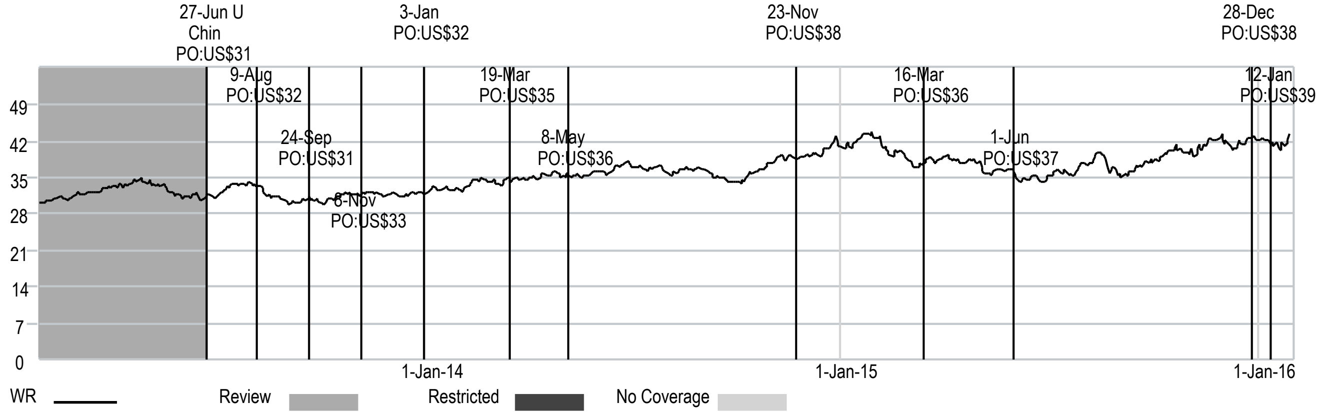
WR Price Chart



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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	47.26%	Buy	58	84.06%
Hold	40	27.40%	Hold	32	80.00%
Sell	37	25.34%	Sell	27	72.97%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1673	50.16%	Buy	1244	74.36%
Hold	777	23.30%	Hold	545	70.14%
Sell	885	26.54%	Sell	533	60.23%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Industrials
Utilities and Power

Company
Exelon Alert

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
1 March 2016

Breaking News

Price at 29 Feb 2016 (USD)	31.49
Price target	34.00
52-week range	34.81 - 25.46

Seek relief or walk? That is the question

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With Mayor and OPC backing away, deal looks more likely to fail

Earlier today, both the DC Mayor and People's Counsel issued statements that they cannot support the adjustments the DC Public Service Commission (PSC) has made to the EXC-POM merger settlement agreement. Last Friday, the DC PSC rejected the original settlement filed by EXC, POM, the DC Mayor, the Office of the People's Counsel (OPC) and other parties. The commission then voted (2-1) to approve adjustments to the agreement. Per the final order, the DC PSC would allow the merger to go through so long as **all of the parties** accept the PSC's new terms. As we said initially, the revised terms proposed by the commission were unlikely to be deal-breakers for EXC or POM, but it was less certain whether other parties would be willing to stay on board.

What are EXC's options?

Exelon could either walk away from the POM transaction and begin to unwind merger-related financings or they along with the other settling parties could request "other relief" at the PSC by next Friday. Given the OPC and Mayor's public statements, chances of the settling parties not reaching agreement on the best path forward would seem to have increased substantially, raising the likelihood that the deal will end up not closing.

What happens to EXC EPS if the POM transaction falls apart?

Our current 2016-2018 EPS estimates assume that the POM deal is completed by the end of Q1 2016. If the merger falls apart, we would likely raise our current 2016 and 2017 EPS estimates of $2.50 and $2.65, respectively, by $0.05-$0.10. This would depend on how quickly EXC unwound deal-related financings and how much stock specifically they decided to repurchase. We had been assuming EXC would pursue a buyback of just over $3B in our estimates this past fall after the DC PSC initially rejected the transaction. It's less clear that not closing the merger would be accretive to our 2018E of $2.75 as we assume a more sizable EPS contribution from POM by that time.

What about valuation?

If the deal fails, we could see a modest benefit to our EXC price target (currently $34) given the above changes. That said, failing to execute on POM would be a strategic setback in EXC's goal to evolve towards a more regulated business mix and one which would likely raise some uncertainty over possible next moves.

Stock & option liquidity data

Market cap (USDm)	29,081.0
Shares outstanding (m)	923.5
Free float (%)	100
Volume (29 Feb 2016)	2,756,093
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.26

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
1Q EPS	0.71	–	–
2Q EPS	0.59	–	–
3Q EPS	0.83	–	–
4Q EPS	0.38	–	–
FY EPS (USD)	2.49	2.50	2.65
P/E (x)	12.8	12.6	11.9

Source: Deutsche Bank

* Includes the impact of FAS123R requiring the expensing of stock options.

Flash
BMO Capital Markets

Exelon

(EXC-NYSE)

Rating: **Market Perform**
Target Price: $32.00 Total Return: 6%
Price (29-Feb): $31.49

March 1, 2016

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Key Settling Party to the EXC/POM Merger Pulls Support for Revised Agreement

News reports surfaced late this morning revealing that the Office of People's Counsel for the District of Columbia, a ratepayers advocacy group and one of the nine settling parties involved in the $6.8 billion merger between Exelon and Pepco Holdings Inc. (POM, $24.13, Not Rated), denounced the revised settlement agreement that was put forth by the District of Columbia Public Service Commission (PSC) last Friday (see our flash for more details).

The settlement agreement, negotiated primarily by D.C. Mayor Muriel E. Bowser's office in October 2015, called for the utilities to pay the District $78 million for its support, including $26 million that would have gone to offset rate increases for residents over the next four years. Last Friday, the D.C. PSC ruled two-to-one against the proposed settlement agreement, but one of the dissenting commissioners, Commissioner Joanne Doddy Fort, offered alternative provisions, that if agreed to by all nine settling parties by March 11, 2016, could render the merger approved by the PSC. Commissioner Willie Phillips, who approved the settlement agreement, was not party to the alternative provisions, but indicated he could still approve the merger under the conditions proposed.

Sandra Mattavous-Frye, the chief advocate for District ratepayers, stated that she cannot support the revised merger plan because it has taken a principal benefit of the merger away from residential electricity customers by removing the guarantee of no rate increases for residential ratepayers through March 2019. She further noted that the Commission's order "eviscerates the benefits and protections essential to render the proposed merger in the public interest…" A spokeswoman for the People's Counsel stated that the group had no counteroffer and wanted parties to return to the agreement that the regulators found flawed.

Our View:

- The news is a major setback for the EXC/POM merger given the lack of support from a key party to the revised settlement agreement.
- It is unclear at this time whether the settling parties will come together to address the issues found to be unacceptable by the D.C. PSC in the original settlement agreement before the March 11 deadline set by the commission.
- EXC has stated that if an agreement is not reached by the merger deadline of March 4, set by both EXC and POM, both parties could walk away from the deal. We believe that today's news now puts the likelihood of an approved merger in further jeopardy.

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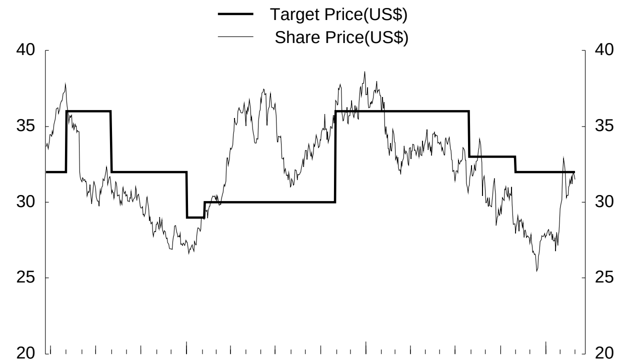
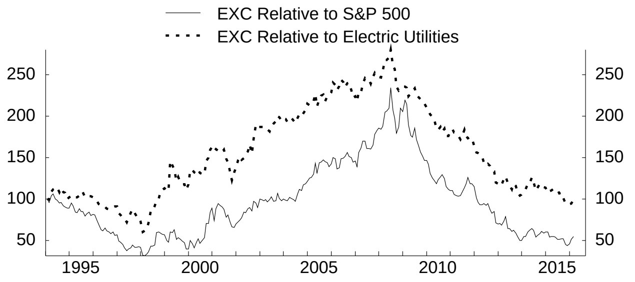
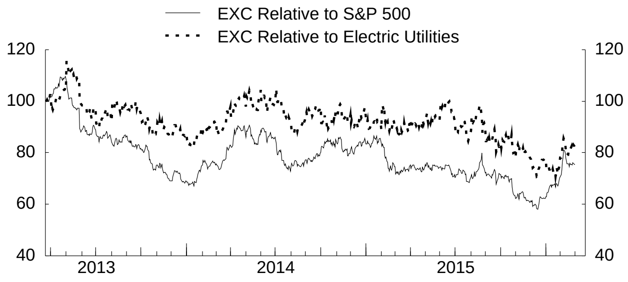
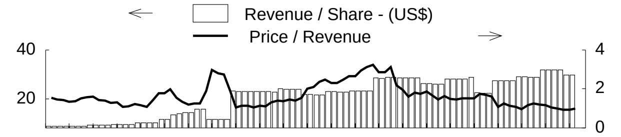
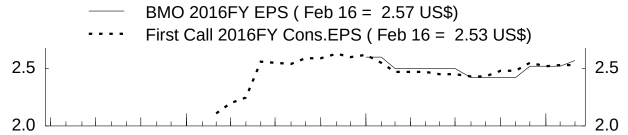
Exelon Corporation (EXC)

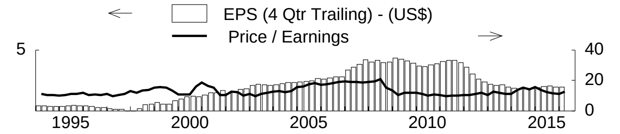


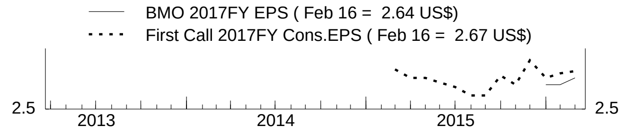












FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1994	1.21	12.9	9.8	0.77	6.5	5.0	64	9.7	1.6	1.2	
1995	1.27	12.0	9.3	0.83	7.0	5.5	65	10.2	1.5	1.2	13
1996	1.17	13.9	9.6	0.88	7.8	5.4	75	10.4	1.6	1.1	11
1997	0.63	20.9	14.9	0.90	9.6	6.8	>100	6.1	2.2	1.5	8
1998	1.33	15.9	7.1	0.50	5.3	2.4	38	6.8	3.1	1.4	20
1999	1.59	15.9	9.7	0.50	3.3	2.0	31	4.9	5.2	3.1	27
2000	1.90	18.7	8.4	0.50	3.1	1.4	26	11.3	3.1	1.4	23
2001	2.25	15.8	8.6	0.91	4.7	2.6	41	12.8	2.8	1.5	19
2002	2.42	11.8	7.8	0.88	4.6	3.1	36	12.0	2.4	1.6	19
2003	2.61	12.8	8.8	0.96	4.2	2.9	37	13.0	2.6	1.8	21
2004	2.77	16.2	11.1	1.26	4.1	2.8	45	14.1	3.2	2.2	20
2005	3.09	18.6	13.2	1.60	3.9	2.8	52	13.7	4.2	3.0	22
2006	3.22	19.8	15.9	1.60	3.1	2.5	50	14.9	4.3	3.4	23
2007	4.32	20.1	13.6	1.76	3.0	2.0	41	15.3	5.7	3.8	29
2008	4.20	21.9	9.8	2.03	4.9	2.2	48	16.8	5.5	2.5	26
2009	4.12	14.3	9.3	2.10	5.5	3.6	51	19.2	3.1	2.0	23
2010	4.06	12.8	0.0	2.10	2.1E6	4.0	52	20.5	2.5	0.0	20
2011	4.16	10.9	9.4	2.10	5.4	4.6	50	21.7	2.1	1.8	20
2012	2.85	15.6	10.0	2.10	7.4	4.7	74	25.1	1.8	1.1	12
2013	2.50	15.1	10.7	1.24	4.7	3.3	50	26.5	1.4	1.0	10
2014	2.39	16.3	11.1	1.24	4.7	3.2	52	26.3	1.5	1.0	9
2015	2.49	15.6	10.1	1.24	4.9	3.2	50	26.5	1.5	0.9	9
Range*:		21.9	0.0		>100	1.4			5.7	0.0	
Current*	2.51	12.5		1.24	3.9		49	25.5	1.2		10
Growth(%):											
5 Year:	-9.2			-10.0				5.9			
10 Year:	-2.1			-2.5				6.4			
20 Year:	3.5			2.1				4.7			

EXC - Rating as of 12-Mar-09 = Mkt

* Current EPS is the 4 Quarter Trailing to Q4/2015.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (February 29, 2016): $ND
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

IMPORTANT DISCLOSURES

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Methodology and Risks to Price Target/Valuation

Methodology: Our valuation is based on a combination of our 2017 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and 15x 2017E P/E multiple.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Distribution of Ratings (December 31, 2015)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	20.9%	53.7%	44.1%	53.8%	55.6%
Hold	Market Perform	54.6%	13.5%	45.1%	52.3%	45.6%	39.4%
Sell	Underperform	3.4%	5.9%	1.2%	3.6%	0.5%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis
(S) = speculative investment;
NR = No rating at this time;
R = Restricted – Dissemination of research is currently restricted.

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http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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Reminder: EXC - Lunch Meeting / Conference Call Invite - March 2, 2016

SunTrust Robinson Humphrey Power & Utilities CEO/CFO Investor Series

Company: Exelon Corp (EXC)

Management In Attendance: Jack Thayer (CFO)

Date: Wednesday March 2, 2016

Time: 12.00pm – 1.30pm (ET) – Management Discussion
(Note: Lunch will be served at 11.45am)

Location: SunTrust Robinson Humphrey, 711 Fifth Avenue, 14th Floor, New York, NY 10022

Investors unable to attend in person can participate via conference call as follows:

Dial In Number: 1-800-619-0322

Passcode: POWER

To sign up for the lunch, please contact: Caroline Cole (ph: 212-319-2170; em: caroline.cole@suntrust.com)

One hour after the conclusion of the call, a replay will be available until March 9. The replay number is 1-800-219-5212 (no passcode required).

Ali Agha
212-319-3920
ali.agha@suntrust.com

Roger Song
212-319-3918
roger.song@suntrust.com

Disclosures

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Citi Research
Equities

2 March 2016 | 7 pages

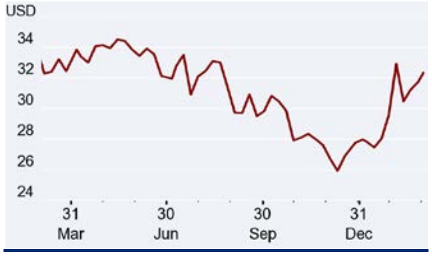
Diversified Utilities
North America | United States

Exelon Corp (EXC)

Alert: Pepco - We think EXC Walks; preferred outcome for EXC shareholders but what next?

Sell	3
Price (02 Mar 16)	US$32.32
Target price	US$27.00
Expected share price return	-16.5%
Expected dividend yield	3.8%
Expected total return	-12.6%
Market Cap	US$29,732M

Price Performance
(RIC: EXC.N, BB: EXC US)



- **EXC will likely walk given path to approval very unclear.** We think EXC will only push to get the deal approved if there is a clear, reasonably quick and visible path to final approval without the need for significant additional concessions. We think the likelihood of getting all parties to agree on a new deal in a timely manner is very low. That is why we believe EXC will walk.

- **If all it took was the $25.6m offset applied to retail customers, EXC would agree. However, nothing about this deal has been easy…why start now?** The application of the offset to retail customers won't trigger the MFN clause and has no value implication. That is why EXC would likely accept this change if that was all it took. However, we think to get a deal done, the 'ask' may include further concessions which will trigger MFN resulting in meaningful value dilution.

- **It will likely take another week for a final decision from EXC.** We expect a final decision in one week after EXC evaluates all its options.

- **EXC shareholders get to look forward to share buybacks.** EXC will likely start the buyback of the 57.5m shares right after the announcement of deal termination. In the near term, this buyback will support the share price of EXC. Note also that $1.8B of the $3.3B debt financing for POM is callable.

- **The good news if the deal is terminated – Value and credit accretive.**

  - Our PT increases to $28 (from $27) if the deal is terminated

  - EXC doesn't lever up at the holding company level at a time when ExGen is getting weaker

- **The bad news if the deal is terminated – Dividends and strategic direction.** If EXC does terminate the deal, it has some key questions to answer:

  - Will EXC pursue separation of the utility and Generation business?

  - Will EXC attempt another utility acquisition to increase its regulated mix? Is the current business mix sustainable? If yes, why the need for Pepco in the first place?

  - What is the target dividend payout on utility earnings? Is the 2.5% growth in dividends sustainable without Pepco?

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $10/share and believe ExGen's core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $18/share based on a 15x terminal PE multiple. We also add $5/share value provided by PepCo. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

Analyst Certification

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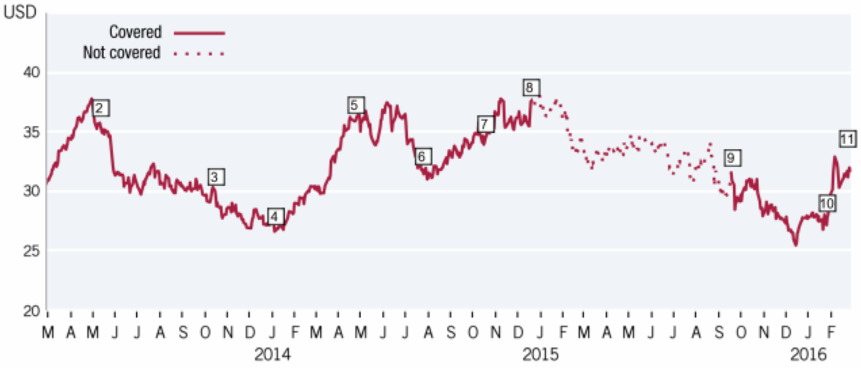
IMPORTANT DISCLOSURES

Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	10-May-13	2	*37.00	35.75
3	14-Oct-13	2	*29.00	30.02
4	03-Jan-14	*3	*21.00	26.62

	Date	Rating	Target Price	Closing Price
5	24-Apr-14	3	*27.00	36.01
6	23-Jul-14	3	*30.00	31.76
7	17-Oct-14	*2	*37.00	34.38
8	18-Dec-14	Coverage terminated		

	Date	Rating	Target Price	Closing Price
9	17-Sep-15	*3	*27.00	31.57
10	26-Jan-16	*2	27.00	27.84
11	22-Feb-16	*3	27.00	31.69

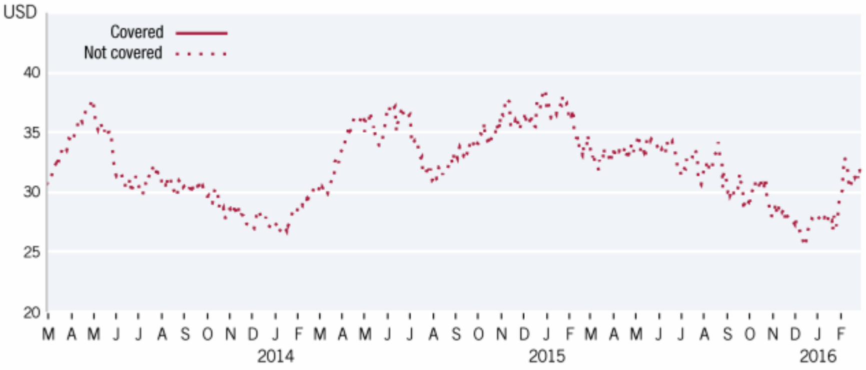
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating		
Data current as of 31 Dec 2015	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	40%	12%
% of companies in each rating category that are investment banking clients	64%	64%	59%

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.77 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

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Contents

Analyst Note 02 Mar 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Vital Statistics

Market Cap (USD Mil)	29,226
52-Week High (USD)	34.98
52-Week Low (USD)	25.09
52-Week Total Return %	-2.7
YTD Total Return %	15.5
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.9
Price/Fair Value	0.91

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	*12.9*	*13.3*
EV/EBITDA	8.9	8.3	*7.9*	*7.8*
EV/EBIT	14.1	14.5	*12.8*	*12.8*
Free Cash Flow Yield %	3.0	-6.3	*2.8*	*-1.2*
Dividend Yield %	3.9	4.2	*3.7*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,184*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,826*
EBIT YoY %	53.6	-15.3	*23.4*	*0.1*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,065*
Net Income YoY %	-7.9	-4.0	*2.9*	*-2.9*
Diluted EPS	2.50	2.39	*2.46*	*2.39*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.0*
Free Cash Flow	1,500	305	*1,364*	*136*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers at Commonwealth Edison (Illinois), PECO (Pennsylvania), and Baltimore Gas & Electric (Maryland). Exelon also owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. Exelon also is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.77 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*2015* (Forecast)	*2016* (Forecast)	*5-Year Proj. CAGR*
Revenue	*13.2*	24.1	6.0	10.2	*-17.0*	*10.6*	*3.5*
EBIT	*-11.6*	-46.9	53.6	-15.3	*23.4*	*0.1*	*13.9*
EBITDA	*-2.4*	-26.7	36.3	-6.9	*15.0*	*1.7*	*10.1*
Net Income	*-9.3*	-15.6	-7.9	-4.0	*2.9*	*-2.9*	*10.0*
Diluted EPS	*-16.9*	-31.5	-12.3	-4.4	*2.9*	*-3.0*	*9.9*
Earnings Before Interest, after Tax	*-7.3*	-43.1	-13.1	61.0	*-30.3*	*-7.4*	*-1.0*
Free Cash Flow	*-19.5*	231.6	-22.5	-79.7	*347.7*	*-90.0*	*59.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Operating Margin %	*12.0*	10.1	14.7	11.3	*16.8*	*15.2*	*16.4*
EBITDA Margin %	*20.4*	18.1	23.3	19.7	*27.3*	*25.1*	*25.9*
Net Margin %	*8.7*	9.9	8.6	7.5	*9.3*	*8.2*	*9.0*
Free Cash Flow Margin %	*5.1*	8.2	6.0	1.1	*6.0*	*0.5*	*5.5*
ROIC %	*2.2*	1.6	2.5	2.5	*5.2*	*5.2*	*5.7*
Adjusted ROIC %	*2.3*	1.7	2.7	2.7	*5.4*	*5.4*	*6.0*
Return on Assets %	*2.0*	1.7	2.2	2.0	*2.4*	*2.3*	*2.7*
Return on Equity %	*7.1*	6.4	7.7	7.1	*9.0*	*8.3*	*9.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Debt/Capital	*0.48*	0.47	0.47	0.49	*0.49*	*0.48*	*0.47*
Total Debt/EBITDA	*4.06*	4.60	3.46	4.12	*3.71*	*3.73*	*3.42*
EBITDA/Interest Expense	*4.65*	4.59	4.28	5.08	*6.23*	*6.06*	*6.27*

Valuation Summary and Forecasts

	2013	2014	*2015(E)*	*2016(E)*
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	*12.9*	*13.3*
EV/EBITDA	8.9	8.3	*7.9*	*7.8*
EV/EBIT	14.1	14.5	*12.8*	*12.8*
Free Cash Flow Yield %	3.0	-6.3	*2.8*	*-1.2*
Dividend Yield %	3.9	4.2	*3.7*	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,148	12.3	7.11
Present Value Stage II	15,608	31.3	18.05
Present Value Stage III	28,162	56.4	32.56
Total Firm Value	**49,918**	**100.0**	**57.72**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-789	—	-0.91
Equity Value	**28,736**	**—**	**33.22**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.77 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,184***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*10,000*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,184***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,826***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,082***
Income Tax Expense	627	1,044	666	*1,047*	*1,017*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,065***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.39***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,065*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.39***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,326***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,326***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.77 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,138*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,140*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,055***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,321***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,955*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,417***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,717***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.77 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

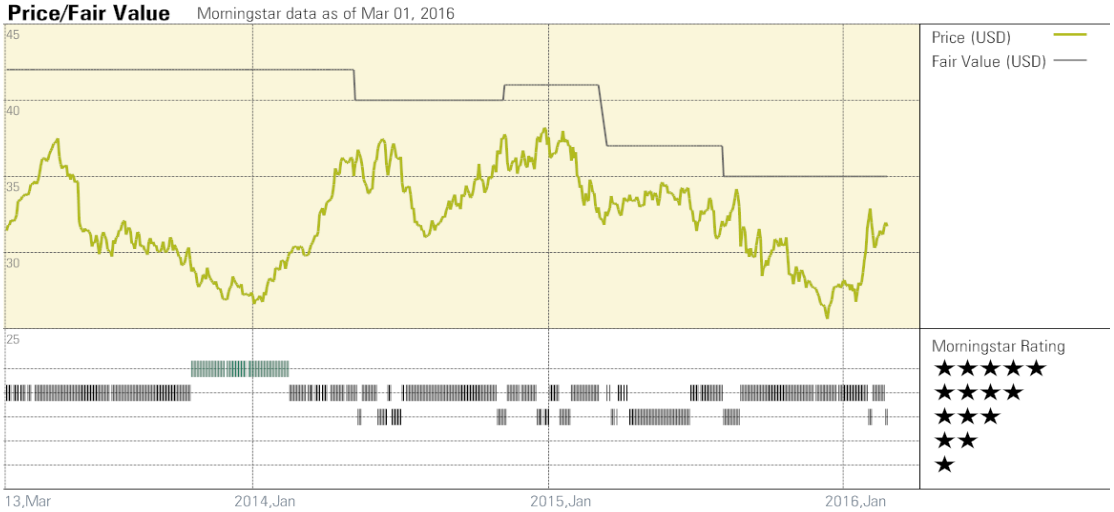
Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,065*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-149*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,762***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-886***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.77 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.77 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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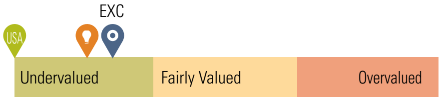
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 01 Mar 2016	31.77 USD 01 Mar 2016	35.00 USD	0.91	3.90 01 Mar 2016	29.23 01 Mar 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Undervalued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.89	0.85	0.85	0.77
Price/Earnings	12.5	15.6	14.9	18.1
Forward P/E	12.0	—	15.1	12.3
Price/Cash Flow	3.7	5.1	6.0	10.0
Price/Free Cash Flow	—	74.7	10.8	15.9
Dividend Yield %	3.90	4.65	4.02	2.61

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs and generate large profits even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 06 October 2015

Investment Thesis

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and made a $12 billion bid for Pepco in April 2014, both including debt. Management's political negotiations appear to have revived the deal in Washington, D.C., where regulators had rejected it in August 2015. We now expect it has a 75% chance of closing. Exelon has received all other regulatory approvals.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our outlook for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can grow earnings 10% annually the next three years.

Travis Miller, Sector Director, 02 March 2016

Analyst Note

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Economic Moat

Travis Miller, Sector Director, 06 October 2015

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 01 Mar 2016	31.77 USD 01 Mar 2016	35.00 USD	0.91	3.90 01 Mar 2016	29.23 01 Mar 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	21,584	10,415	28.44	12.90
FirstEnergy Corp FE	USD	14,171	15,026	15.25	24.39
Entergy Corp ETR	USD	12,880	11,836	2.32	0.00

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, that spread between long-term returns on capital and Exelon's cost of capital have shrunk based on our midcycle outlook for power prices in the eastern U.S. Exelon's increasing diversification into narrow- and no-moat businesses together with the shrinking returns at its nuclear generation business supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources like coal and natural gas reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must continue to have access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 06 October 2015

We are reaffirming our $35 per share fair value estimate after raising our probability of the Pepco acquisition closing to 75% from 25% as a result of an agreement the companies reportedly reached with the Washington, D.C., mayor's office on Oct. 6. Although we think the deal is value-dilutive, it is too small to have a material impact on our fair value estimate. Exelon's $27.25-per-share cash offer represents a 30% premium to our $21 per share standalone fair value estimate for Pepco.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities (Ill.), Oyster Creek (N.J.), and Three Mile Island (Pa.)--as well as the Clinton (Ill.) plant. We now assume a 50% probability that the Byron (Ill.) plant will retire given it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4/mcf midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 06 October 2015

Investors should pay the most attention to political developments that would re-regulate competitive electricity markets in the Midwest and Mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source.

As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.

Reregulation also would destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.

As Exelon's regulated utilities generate a greater share of earnings, investors will be subject more acutely to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management

Travis Miller, Sector Director, 06 October 2015

We give Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and Executive Chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and Chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition in 2015. This will increase Exelon's share of regulated utilities earnings and dilute shareholders' exposure to wholesale power markets. Management has shown strong conviction in the value of the deal based on their efforts to gain support for the deal from all parties, particularly in Washington, D.C.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants absent significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creation opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 01 Mar 2016	31.77 USD 01 Mar 2016	35.00 USD	0.91	3.90 01 Mar 2016	29.23 01 Mar 2016	Utilities - Diversified	Standard

Analyst Notes Archive

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 02 March 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 29 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 01 Mar 2016	31.77 USD 01 Mar 2016	35.00 USD	0.91	3.90 01 Mar 2016	29.23 01 Mar 2016	Utilities - Diversified	Standard

order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Sector Director, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Eq. Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco

Charles Fishman, Eq. Analyst, 06 October 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners

Charles Fishman, Eq. Analyst, 30 September 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Postpones Nuclear Plant Retirement Decision; No Fair Value Impact

Travis Miller, Sector Director, 10 September 2015

We are reaffirming our $35 per share fair value estimate for Exelon after management announced it will delay a decision whether to close at least three of its struggling nuclear plants. We recently incorporated into our fair value estimate and financial projections the assumption that it was more likely than not that Exelon would close those three plants in 2018. We also assume a 50% likelihood that Exelon will close its Byron (Illinois) nuclear plant in 2019.

Results of the recent 2016-18 PJM transitional capacity auctions and management's decision to delay potential retirements do not change our assumptions that those plants ultimately will close, absent significant energy market or public policy changes. The Quad Cities (Illinois), Three Mile Island (Pennsylvania), and Oyster Creek (New Jersey) plants are obligated to run at least through mid-2018, and the Byron plant is obligated to run through mid-2019 based on results from PJM's recent capacity auctions.

The key development for Exelon in last week's 2017-18 transitional capacity auction was that the Quad Cities and Byron plants cleared and are now obligated to run. Neither cleared PJM's 2017-18 base capacity auction last year at $120/megawatt-day but did clear last week's capacity performance transitional auction at $151.50/MW-day. Including those plants and the uplift for the rest of the fleet adds about $400 million of EBITDA in 2017-18.

The Clinton (Illinois) plant is the fourth that we assume will close by 2018. It is not part of PJM. It is obligated to run at least through 2016 as part of the Mid-Continent ISO. Exelon continues to lobby Illinois politicians to adopt a subsidy-like scheme that would improve the economics for its six Illinois nuclear plants. We do not include any benefits from policy changes in our fair value estimate.

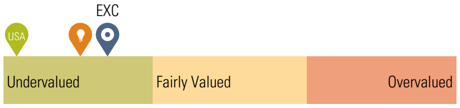
Exelon Corp EXC

Last Close 01 Mar 2016	**Quantitative Fair Value Est** 01 Mar 2016	**Market Cap** 01 Mar 2016	**Sector**	**Industry**	**Country of Domicile**
31.77	35.74	29,226.0 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	92	87	87
Valuation	Undervalued	55	56	55
Quantitative Uncertainty	Low	100	96	99
Financial Health	Moderate	58	55	58



Source: Morningstar Equity Research

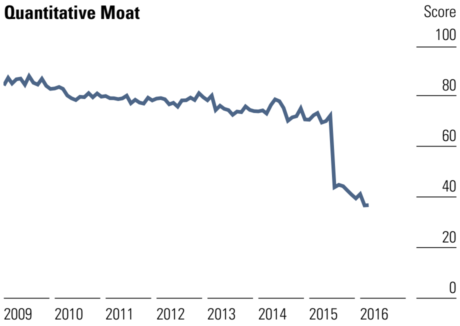
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.89	0.85	0.85	0.77
Price/Earnings	12.5	15.6	14.9	18.1
Forward P/E	12.0	—	15.1	12.3
Price/Cash Flow	3.7	5.1	6.0	10.0
Price/Free Cash Flow	—	74.7	10.8	15.9
Dividend Yield %	3.90	4.65	4.02	2.61
Price/Book	1.1	1.5	1.2	1.9
Price/Sales	1.0	1.2	1.2	1.6

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.4	9.7	10.0	11.9
Return on Assets %	2.5	2.6	3.2	4.7
Revenue/Employee (K)	989.4	958.0	1,117.5	303.7

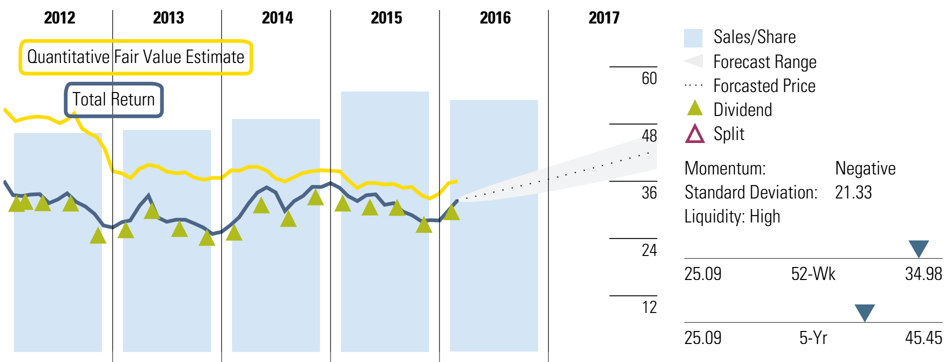
Quantitative Moat



Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.6
Solvency Score	—	—	633.9	576.5
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

Price Versus Quantitative Fair Value



Momentum: Negative
Standard Deviation: 21.33
Liquidity: High

25.09 52-Wk 34.98

25.09 5-Yr 45.45

2012	2013	2014	2015	2016	2017	
-26.6	-3.0	39.9	-21.8	15.5		Total Return %
-42.9	-36.1	27.1	-22.5	18.8		+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	3.90		Dividend Yield %
21.0	14.7	15.2	12.3	12.5		Price/Earnings
1.0	0.9	1.2	0.8	1.0		Price/Revenue

Morningstar Rating[Q]

2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	29,447	Revenue
1.5	24.1	6.0	10.2	7.4	0.0	% Change
4,480	2,380	3,656	3,096	4,409	4,409	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	0.0	% Change
2,495	1,160	1,719	1,623	2,269	2,269	Net Income
4,853	6,131	6,343	4,457	7,616	7,616	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-7,624	Capital Spending
811	321	948	-1,620	-8	-8	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	0.0	% Sales
3.75	1.42	2.00	1.88	2.54	2.54	EPS
-3.1	-62.1	40.8	-6.0	35.1	0.0	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.01	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.04	Book Value/Share
855,000	857,000	860,000	920,000	919,925	919,925	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	9.4	Return on Equity %
4.7	1.7	2.2	2.0	2.5	2.5	Return on Assets %
13.2	4.9	6.9	5.9	7.7	7.7	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.32	Asset Turnover
3.8	3.7	3.5	3.8	3.7	3.7	Financial Leverage
62.3	56.8	56.9	52.6	55.6	55.6	Gross Margin %
23.7	10.1	14.7	11.3	15.0	15.0	Operating Margin %
12,189	18,346	18,271	20,010	24,286	24,286	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,793	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

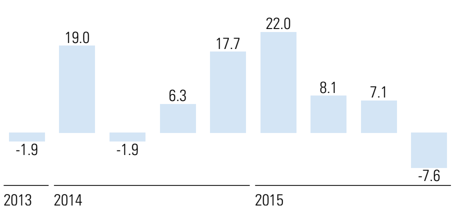
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	-2.7	4.7	-0.7	-1.3

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

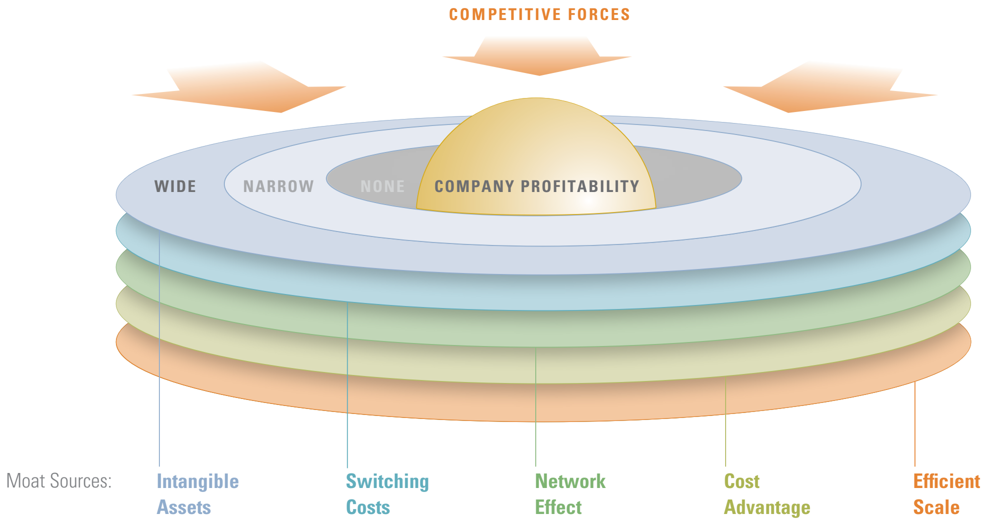
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

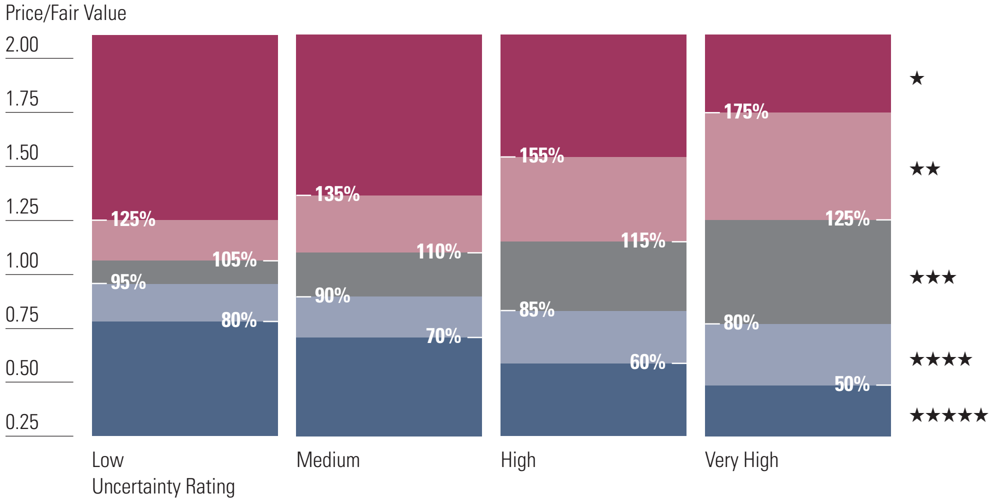
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 01 Mar 2016	31.77 USD 01 Mar 2016	35.00 USD	0.91	3.90 01 Mar 2016	29.23 01 Mar 2016	Utilities - Diversified	Standard

Price/Fair Value Morningstar data as of Mar 01, 2016

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Exelon Corp EXC (XNYS)

Morningstar Rating	**Last Price**	**Fair Value Estimate**	**Price/Fair Value**	**Dividend Yield %**	**Market Cap (Bil)**	**Industry**	**Stewardship**
★★★ 01 Mar 2016	31.77 USD 01 Mar 2016	35.00 USD	0.91	3.90 01 Mar 2016	29.23 01 Mar 2016	Utilities - Diversified	Standard

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COMPANY UPDATE
March 3, 2016

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

POM Acquisition Uncertain; However, Balance Sheet Reduction Offsets Dilution

What's Incremental To Our View

While we now believe a lower probability that EXC's acquisition of POM will go through, we estimate that EXC can offset dilution through debt and share buybacks. Based on updated assumptions, we have increased our 2016-17 estimates. Our price target remains $35.

IMPORTANT POINTS

Yesterday, we hosted investor meetings for Jack Thayer (CFO) of EXC. Key takeaways:

- **We are raising our 2016-17 estimates.** We now assume that EXC can achieve its growth targets for Power and Non Power marketing operations (vs our previous assumption of 90%-95% of the targets). In addition, we have updated our estimates based on the latest forward commodity curves. Consequently, we increase our 2016 estimate to $2.47 from $2.46 and our 2017 estimate to $2.58 from $2.54. Our preliminary 2018 estimate is $2.69.

- **In our view, latest regulatory developments in DC reduce the probability of the merger with Pepco (POM, $23.66, Neutral) getting completed.** With the Washington DC Mayor, Attorney General, and Office of People's Council (OPC) publicly opposed to the modifications to the settlement proposed by the commission, the pathway to closure appears exceedingly narrow. EXC needs to respond to the commission’s modifications by March 11. We currently see two potential outcomes: (1) EXC walks away; or (2) all the parties to the original settlement propose alternatives to the commission modifications which are accepted by the commission. Given our view that EXC does not want to prolong this process for much longer, we now believe that cancellation of the merger is the most likely outcome. We note that in the case of a cancellation, the incremental cost to EXC would be $40 million. However, we believe a cancellation of the transaction would have a much greater impact on POM. Based on our assumption that POM would need to cut its dividend and raise equity to preserve its financial integrity as a stand alone entity, we see downside risk for POM to the $18-19 level.

- **In case POM deal is cancelled, we expect EXC to retire a significant amount of the capital raised to pay for the transaction, which should result in a neutral impact to earnings.** Specifically, we assume the following: (1) retirement of 57.5 million shares; (2) retirement of $1.15 billion equity units; and (3) retirement of $2.75 billion of debt. We note that EXC has the capacity to reduce its balance sheet even further than these levels.

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Buy

Price Target: $35.00
Prior: $35.00

Δ Key Drivers

- *Latest forward commodity curves*
- *Updated growth targets for Power and Non Power marketing operations*

Price (Mar. 2, 2016)	$32.32
52-Wk Range	$34.81-$25.46
Market Cap ($M)	$29,731
ADTV	7,899,738
Shares Out (M)	919.9
Short Interest Ratio/% Of Float	2.7%
Dividend/Yield	$1.24/3.8%
TR to Target	12.1%

ROE	8.0%
5 Year EPS Growth	5.0%
Debt/Cap	48%
P/B	1.10x
Enterprise Value ($M)	$51,078.0

	2015A	2016E		2017E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.71	$0.65	$0.65	$0.67	$0.66
2Q	$0.59	$0.55	$0.55	$0.58	$0.57
3Q	$0.83	$0.73	$0.73	$0.76	$0.75
4Q	$0.38	$0.54	$0.54	$0.57	$0.58
CY	$2.49	$2.47	$2.46	$2.58	$2.54
P/E	13.0x	13.1x		12.5x	
Consensus					
CY	$2.49	$2.52		$2.66	
Revenue ($M)					
CY	$29,237	$32,645	$32,645	$34,285	$34,285
Operating Margin (%)					
CY	14.50%	14.00%	13.00%	14.10%	14.00%
EBITDA ($M)					
CY	$6,684	$7,490	$7,474	$8,049	$7,993
EV/ EBITDA	7.6x	6.8x		6.3x	
FYE Dec					

- **EXC's merchant generation portfolio trades at a significant discount to pure play merchant IPP stocks.** Based on our 2017 estimates, we impute a 5.7x EV/EBITA multiple for this portfolio, which implies a 27% discount to the IPP sector. EXC management acknowledged that it has taken a close look at a potential spin off for these assets, but due to the potential significant capital requirements to maintain investment grade rating and additional collateral postings, has currently decided not to pursue this route. However, we believe that if this large discount persists, management could revisit this issue.

- **On a consolidated basis, EXC trades at a 7% P/E multiple discount to the peer group (based on our 2017 estimate).** Assuming a P/E multiple of 13.5x our 2017 estimate of $2.58 (in line with the peer group), we derive our price target of $35. We reiterate our **Buy** rating.

- We have included our revised 2016-17 earnings and cash flow models in this report.

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Exelon Corporation (EXC)

Earnings Model, 2011A-2017E

(dollars in millions, except per share)

	2017E		2016E		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)														
Com Ed	5,150		5,000		4,905		4,564		4,464		5,443		6,056	
PECO	3,430		3,350		3,032		3,094		3,100		3,186		3,720	
BGE	3,465		3,380		3,135		3,165		3,065		2,204			
PEPCO	5,265		3,915											
Generation	18,000		18,000		18,925		17,853		16,190		15,502		10,502	
Other	(1,025)		(1,000)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,285	5.0%	32,645	11.7%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)														
Com Ed	1,180	22.9%	1,125	22.5%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	695	20.3%	660	19.7%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	610	17.6%	550	16.3%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	600		400											
Generation	1,781	9.9%	1,842	10.2%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(22)		(22)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)							(8)		102		59		(1)	
Total Operating Income	4,844	14.1%	4,555	14.0%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,345)		(1,285)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	251		250		276		262		238		252		178	
Pretax income	3,750		3,520		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,294	34.5%	1,214	34.5%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	15		15		13		134		14		11			
Equity Income (Loss)					(7)									
Net Income (% change)	2,441	6.6%	2,291	2.9%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	947.0		927.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.58	4.5%	$2.47	-0.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items														
Reported GAAP EPS														
EBITDA	8,049		7,490		6,684		6,242		6,191		6,180		6,177	
ComEd														
Total Retail Sales (millions mwhs)	93.0		92.0		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$12.7		$12.2		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO														
Total Electric Retail Sales (millions mwhs)	39.5		39.0		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$17.6		$16.9		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO														
Total Electric Retail Sales (millions mwhs)	50.0		38.0											
Implied Operating Margin ($/MWh)	$12.0		$10.5											
Generation														
Total Power Sales (millions mwhs)	204.2		198.5		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mwh)	$8.7		$9.3		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment														
Com Ed	525		490		432		410		421		381		403	
PECO	415		395		380		353		393		387		388	
BGE	310		270		277		199		195		46			
Generation	1,070		1,111		1,253		1,155		1,202		1,548		2,002	
PEPCO	265		180											
Other	(144)		(155)		(115)		(49)		(62)		(32)		(30)	
Total	2,441		2,291		2,227		2,068		2,149		2,330		2,763	

Note

1) Our PECO Implied Margin ratios factor in the impact of Gas sales.

2) Rate Base - Com Ed: $8.7bn in 2013, $9.5bn in 2014, $10.8bn in 2015, $11.8bn in 2016, $12.8bn in 2017; PECO: $5.4bn in 2013, $5.7bn in 2014, $6.0bn in 2015, $6.5bn in 2016, $6.9bn in 2017; BGE: $4.6bn in 2013, $4.9bn in 2014, $5.0bn in 2015, $5.3bn in 2016, $5.9bn in 2017; PEPCO: $8.8bn in 2016 and $9.7bn in 2017.

3) Earned ROE - Com Ed: 9.7% in 2013, 8.5% in 2014, 8.0% in 2015, 8.3% in 2016, 8.2% in 2017; PECO: 13.7% in 2013, 11.3% in 2014, 11.7% in 2015, 11.5% in 2016, 11.3% in 2017; BGE: 8.5% in 2013, 7.8% in 2014, 10.7% in 2015, 10.2% in 2016, 10.5% in 2017; PEPCO: 5.5% in 2016 and 5.5% in 2017.

4) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

5) We assume EXC achieves its growth targets for Power and Non Power new business for 2016 onwards.

6) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

7) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

8) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

Sources: Company reports and SunTrust Robinson Humphrey estimates.

SunTrust Robinson Humphrey

Ali Agha 212-319-3920 ali.agha@suntrust.com

Exelon Corporation (EXC)

Cash Flow Model, 2011A-2017E

($ in millions except per share)

	2017E	2016E	2015A	2014A	2013A	2012A	2011A
Net income	2,441	2,291	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	4,925	4,820	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,241	6,986	7,634	4,457	6,343	6,131	4,853
Dividends	(1,174)	(1,148)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(7,775)	(8,005)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	(1,708)	(2,167)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Incremental earnings from the PJM Capacity auctions, earnings accretion and strategic benefits of the POM acquisition (coupled with the ability to offset any dilution if POM deal falls apart), and a discounted stock valuation imply attractive total return prospects.

Valuation and Risks

VALUATION

Assuming a P/E multiple of 13.5x our 2017 estimate of $2.58 (in line with the peer group), we derive our price target of $35.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Regulatory approval of the POM acquisition and use of excess capital if the deal falls apart.

Companies Mentioned in This Note

Pepco Holdings (POM, $23.66, Neutral)

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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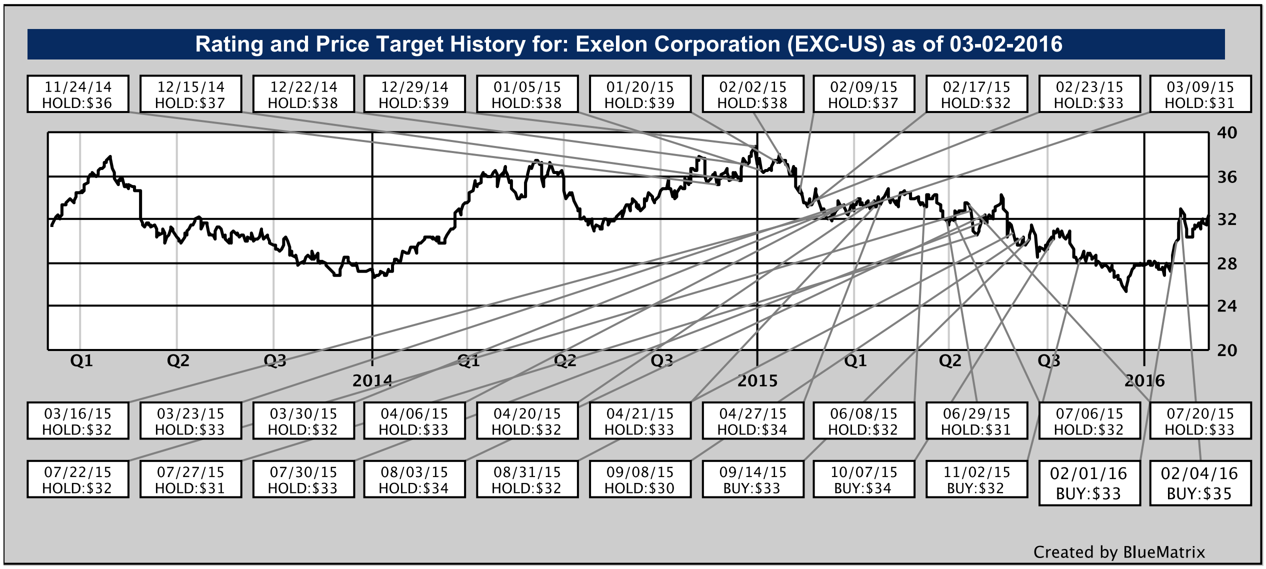

Rating and Price Target History for: Exelon Corporation (EXC-US) as of 03-02-2016

Created by BlueMatrix

STRH Ratings System for Equity Securities

3 designations based on total returns* within a 12-month period**

- **Buy** – total return ≥ 15% (10% for low-Beta securities)***
- **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
- **Neutral** – total return is within the bounds above
- **NR** – NOT RATED, STRH does not provide equity research coverage
- **CS** – Coverage Suspended

*Total return (price appreciation + dividends)
**Price targets are within a 12-month period, unless otherwise noted
***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average Beta

Legend for Rating and Price Target History Charts:
D = drop coverage
I = initiate coverage
T = transfer coverage

SunTrust Robinson Humphrey ratings distribution (as of 03/03/2016):

Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	359	55.40%	Buy	128	35.65%
Neutral	285	43.98%	Neutral	69	24.21%
Sell/Reduce	4	0.62%	Sell/Reduce	1	25.00%

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EVERCORE ISI

Energy | Power & Utilities

March 7, 2016

EXELON CORP.

EXC | $33.92

BUY | TARGET PRICE: $35.00

Commentary

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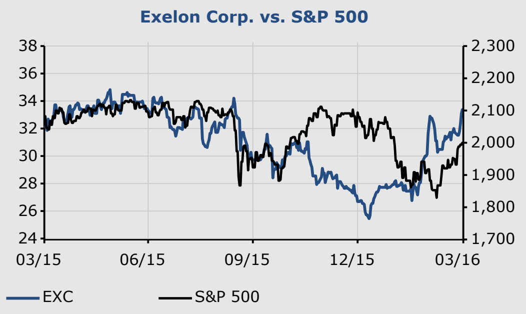
Company Statistics

Market Capitalization (M):	$31,204
Shares Outstanding (M):	920
Dividend:	$1.26
Dividend Yield:	3.7%
Payout Ratio:	49.4%
Expected Total Return:	6.9%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	$2.56	$2.66	$2.82
P/E	13.3x	12.7x	12.0x
EPS vs Consensus	1.0%	(0.0)%	2.0%
Consensus EPS	$2.53	$2.66	$2.76
Consensus P/E	13.4x	12.7x	12.3x

1 Year Price History



Source: FactSet

Applicants Propose Third Option for D.C. Approval, Suggest PSC Can Approve a Non-Unanimous Agreement

Rating Buy, Target $35 / Share

Today, the joint applicants filed with the D.C Public Service Commission, presenting a third alternative that adjusts the terms of the 2/26/16 Revised Non-unanimous Settlement Agreement (RNSA) conditionally approved by the Commission but rejected by several settling parties. The new option (a “third” option in addition to the original proposed settlement and the RNSA) maintains the overall $72.5mm size of the proposed customer investment fund but effectively restores the original residential customer base rate credit of $25.6mm. It provides a supplementary general customer rate credit of $20mm (which would be created by reducing initial funding for the MEDSIS Pilot from $21.55mm to $1.55mm) to be applied to customers at the PSC’s discretion. Any amount of the $20mm unused in base rate credits could be reallocated back towards MEDSIS or Low Income Assistance. In short, this third option attempts to address the largest concerns of the settling parties that came out in opposition to the RNSA (guaranteed protections for residential customers), while creating flexibility for the Commission to direct some funds for credits to other classes of customers. Further, by maintaining the overall size of customer benefits, the new terms would not trigger most favored nation clauses in other jurisdictions that would otherwise potentially significantly increase the cost of consummating the acquisition. <u>The applicants indicate they are supportive of approval of any of the three options before the PSC - the third option, the RNSA, or the original settlement as proposed.</u>

The applicants also point out that it is within the Commission’s legal purview to approve any of the three options on their merits if they deem them in the public interest, without the unanimous consent of the original settling parties. Commissioner Fort had conditioned her approval of the merger on all the parties to the settlement agreeing to the new terms of the RNSA. Given the assumption that Commissioner Phillips, who supported the deal in its original incarnation would likely once again vote to approve the transaction, the legal path to closing this deal is getting an unconditional "yes" vote from Commissioner Fort. EXC and POM have requested that the other settling parties be given seven days to file their comments on the newly proposed agreement and that the Commission render a decision by 4/7/16.

Overall, we think today’s request for relief is a last and “best effort” by the applicants to salvage a deal that is in the best interest of ratepayers, especially given the degraded financial condition of POM. Given the passage of the 3/4/16 deadline in the merger agreement either EXC or POM are able to walk from a deal at any time. Thus, the ball is now in the D.C. PSC’s court to agree to the proposed timeline and vote on whether or not to approve one of the three options with or without unanimous approval of the prior settling parties. We think a decision to establish a timeline for consideration substantially in excess of that proposed also could push EXC to terminate the deal given the ongoing financing drag of the transaction. A summary of key revisions to the original settlement agreement to date are in the attached *Exhibit 1*. The new proposal in its entirety can be found here.

Exhibit 1

Summary of Revisions

Allocation	*Option 1* Original Settlement ($ mm)	*Option 2* RNSA Proposal ($ mm)	Incremental Changes from *Option 1*	*Option 3* Latest Proposal ($ mm)	Incremental Changes from *Option 2*
CIF Total	**72.8**	**72.8**		**72.8**	
Customer Base Rate Credit	25.6	25.6	Had been exclusively for residential class, now unallocated.	45.6	$25.6 mm reserved for residential customer base rate credit + $20mm from MEDSIS Pilot **.
Residential Customer Bill Credit	14	14		14	
Renewable	3.5	21.55	Placed in escrow fund for MEDSIS Pilot.	1.55 - 21.55 **	$1.55mm initial funding + any unused base rate credit
EE Initiative	3.5	11.25	Placed in escrow fund for EE and EC Initiative.	11.25	
Sustainability	10.05	0.4	Forgive residential customer receivables.	0.4	
Low Income Assistance	16.15			0-20 **	Any unused for base rate credit or MEDSIS Pilot.
Solar Development	**10 MW**, incl. 5 at Blue Plains facility; **7 MW** if no deal at Blue Plains	**12 MW**, incl. 5 MW at Blue Plains	Guarantee development at Blue Plains, facility chooses vendor. **Basically requires 2-5 more MW.**	**12 MW**, incl. 5 MW at Blue Plains	
Microgrid Projects	**YES**	**NO**	But could be outgrowth of MEDSIS Pilot, above.	**NO**	

Source: Evercore ISI Research

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the genco business.

RISKS

Lower power prices / capacity prices and unfavorable outcomes in regulatory proceedings would cause our valuation to be lower. Higher interest rates would pull utility earnings up but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of legislation to bolster the revenue stream of the Illinois nuclear units would be accretive.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-03-07)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$47.13	$43.50
AEP	American Electric Power	Buy	$63.24	$62.00
CPN	Calpine Corp.	Buy	$14.19	$16.00
CMS	CMS Energy Corp.	Hold	$40.56	$38.50
ED	Consolidated Edison Inc.	Hold	$71.69	$65.00
D	Dominion Resources Inc.	Buy	$71.22	$74.00
DTE	DTE Energy Co.	Hold	$86.17	$85.00
DUK	Duke Energy Corp.	Hold	$76.25	$73.00
DYN	Dynegy Inc.	Buy	$11.65	$20.00
EIX	Edison International	Buy	$68.56	$70.00
ETR	Entergy Corp.	Hold	$73.94	$72.00
ES	Eversource Energy	Hold	$56.11	$53.00
EXC	Exelon Corp.	Buy	$33.92	$35.00
FE	FirstEnergy Corp.	Hold	$35.11	$33.00
HE	Hawaiian Electric Industries Inc.	Hold	$30.69	$30.00
HIFR	InfraREIT, Inc.	Buy	$15.59	$22.00
ITC	ITC Holdings	Hold	$42.58	$42.00
NEE	NextEra Energy Inc	Buy	$114.45	$114.00
NRG	NRG Energy Inc.	Buy	$13.64	$16.00
NYLD	NRG Yield, Inc.	Buy	$13.80	$18.00
POM	Pepco Holdings, Inc.	Hold	$24.18	$23.50
PCG	PG&E Corp.	Buy	$56.47	$57.00
PNW	Pinnacle West Capital Corp.	Hold	$69.18	$67.00
PPL	PPL Corp.	Hold	$36.06	$36.00
PEG	Public Service Enterprise Group	Hold	$44.62	$44.00
SRE	Sempra Energy	Buy	$97.40	$110.00
SO	Southern Co.	Hold	$48.49	$46.00
TLN	Talen Energy Corporation	Buy	$8.34	$11.50
TE	TECO Energy Inc.	Hold	$27.52	$26.50
AES	The AES Corporation	Buy	$10.89	$12.25
WEC	WEC Energy Group, Inc.	Hold	$56.91	$51.50
WR	Westar Energy Inc.	Hold	$43.53	$40.00
XEL	Xcel Energy Inc.	Hold	$40.06	$36.50

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Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
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* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

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Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

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Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 03/07/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	343	53%
Hold	278	43%
Sell	19	3%
Coverage Suspended	5	1%
Rating Suspended	6	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	49	14%
Hold	10	4%
Sell	2	11%
Coverage Suspended	1	20%
Rating Suspended	0	0%

Issuer-Specific Disclosures (as of March 7, 2016)

Exelon Corp. Rating History as of 03/07/2016

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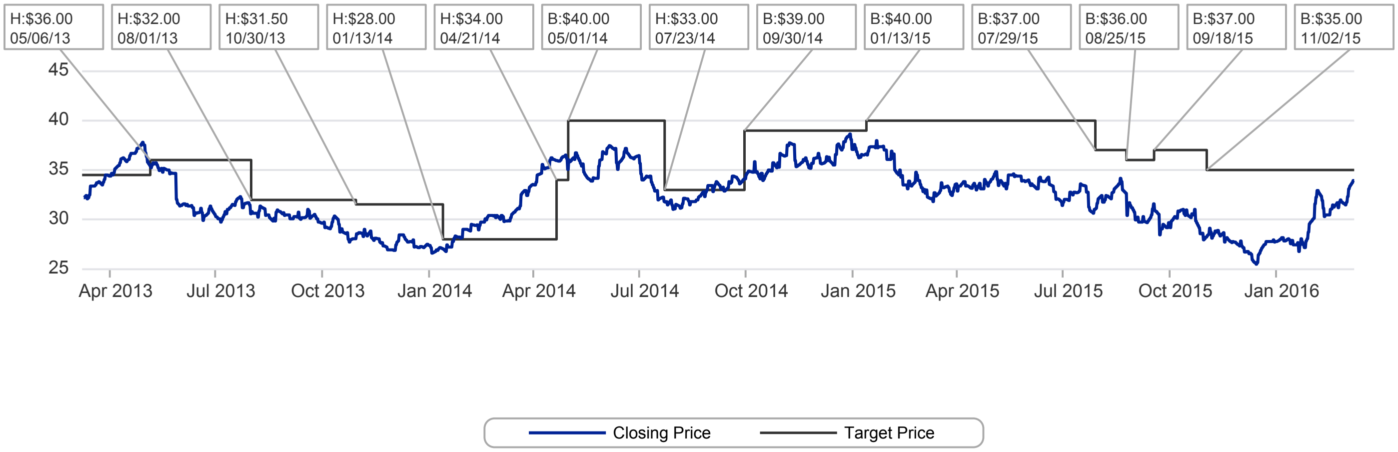

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Exelon Corporation

EXC – BUY – Another Round: Filing Amendments to the Commission

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FLASH NOTE

SECTOR: Power and Utilities

March 7, 2016

What's new? EXC (BUY, $33.92) submitted new Settlement amendments to the Commission and also requests three avenues for the merger to be approved. As a response to the public rejections from four settling parties (DC Water, DC Mayor, Attorney General, and Office of People's Counsel), EXC filed alternative conditions that secure $25.6 mm in rate credits to residential customers, the opposing parties' main concern. Under the new amendments, the DC PSC can use their discretion to allocate $20mm in funds to residential, commercial, and additional low-income customer assistance or grid modernization. **We believe the alternative amendments appease both the settling parties and the DC PSC; the merger is more likely to be approved but we have been surprised before.** We will continue to monitor comments from non-settling parties and look to see if the Commission will grant an expedited review (EXC requesting April 7). **A key benefit of the newly filed settlement amendments, which keep total merger benefits as is, is that they should not trigger the "most favored nation" clause with other states that have already approved the merger.**

Allocation; who has control of the funds? While the new amendment preserves the total $78mm in benefits, it redistributes $20mm from the newly created MEDSIS Pilot Project Subaccount (now $1.55mm) to a separate Customer Base Rate Credit fund. The Commission would exercise its discretion to determine how the $20 million fund will be best deployed in POM's next rate case. This addresses the Commission's key concern that they should be able to enforce allocation of the CIF. EXC is proposing three approaches for the Commission to approve the merger **1)** the Settlement agreement, **2)** amendment terms provided by the PSC, or **3)** the new amendments proposed by EXC. **Given that four parties have publicly opposed the PSC's amendments, we believe option 3 is the most viable scenario.**

POM gets rate relief, filing for rate cases. POM (NC, $24.18) was prohibited from filing any new rate cases since 2014 due to the merger agreement, but can now file for rate cases with the DE, MD, and NJ Commissions. We believe POM as a standalone company has materially deteriorated due to regulatory lag (POM has historically filed rate cases every 9-12 months to recover a part of this lag). We believe POM is already prepared to file for rate cases earlier in 2016 for DE, MD, and NJ, followed by a DC (delay due to pending settlement with the Commission). If the merger is approved by April 7, then POM could see rate case approvals earlier in 2017 than if the freeze remained in place – could improve growth prospects pro forma.

What's next? The settlement parties have 7 days to comment on the new agreements. It remains to be seen what Commission could plan on for addressing the new settlement conditions by either opening hearing or have an internal review. EXC requests that the Commission have an expedited review without reopening the record in the proceeding or holding hearings, and to make a decision by made by April 7.

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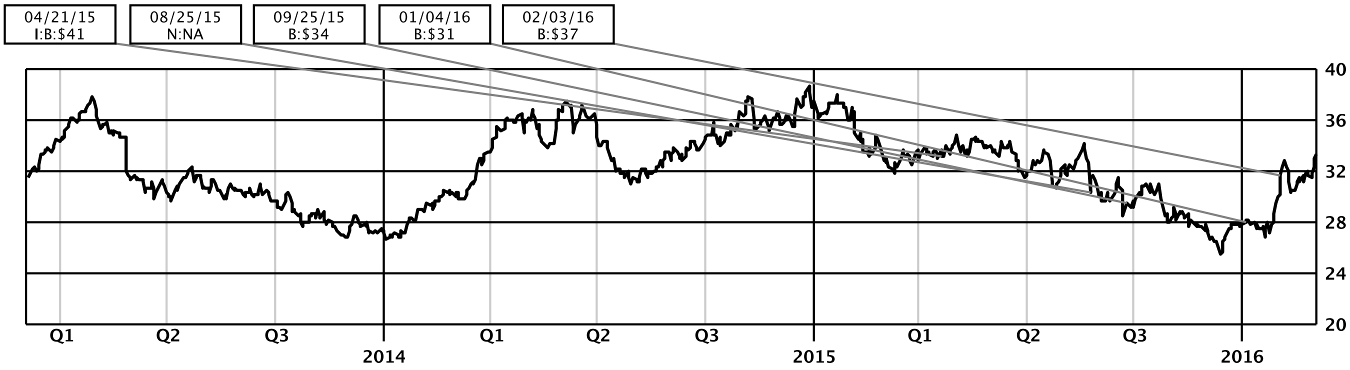
Rating and Price Target History for: Exelon Corporation (EXC) as of 03-04-2016



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

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NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	164	60.29%	35	21.34%
Neutral	108	39.71%	3	2.78%
Sell	0	0.00%	0	0.00%

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Deutsche Bank
Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon Alert

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
7 March 2016

Breaking News

Price at 4 Mar 2016 (USD)	33.36
Price target	34.00
52-week range	34.81 - 25.46

Take three!

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EXC and POM take a third swing at merger approval in DC

This afternoon Exelon and merger partner Pepco Holdings (POM) made a new filing with the Washington DC Public Service Commission (PSC) in what we imagine must surely be their final attempt to secure PSC approval for their proposed deal. The companies also entered an agreement acknowledging that either party may terminate the merger at any time. And POM agreed not to declare or pay any further dividends on its common stock unless and until the merger is terminated – or risk losing the pre-paid $180M break-up fee and $40M in costs. This is relevant in that on its normal cycle POM would have declared a dividend around now with payment on 3/31.

EXC and POM file for Other Relief; other parties so far silent

Concurrent with the Letter Agreement the companies have filed with the DC PSC requesting "Other Relief" as the PSC indicated they could when rejecting the settlement and proposing alternative terms of its own at the February 26 meeting. EXC and POM suggest three options for the PSC to move the merger forward, namely 1) approve the original settlement; 2) approve the settlement with the PSC's list of conditions, which EXC and POM both accept; and 3) approve an alternative proposal which the companies suggest may balance the views of the PSC and objections voiced by the other settling parties (e.g. the DC Mayor's office and OPC). Options 1 and 2 seem rather unlikely to us given prior positions of the parties, but we imagine the companies are leaving these on the table given the somewhat unusual circumstances where the deal has become caught in a power struggle between some key local interests.

Companies attempt to balance DC parties' competing interests

EXC and POM's third option would restore the $25.6M residential rate credit rather than allowing the PSC to determine allocation. This was a key sticking point for the Mayor and OPC following the PSC's February ruling. Separately, the companies propose taking $20M from the MEDSIS (smart meter) program and adding this to the customer benefits bucket to be allocated among classes at the PSC's discretion, with unused balances flowing to MEDSIS. Importantly therefore this does not constitute net incremental funds from EXC – which a quick first reading of the 8-K might have suggested. As a result it likely would not trigger most favored nation clause adjustments in other jurisdictions.

Third time's the charm? EXC and POM requesting PSC decision by April 7

In or view the third option may elegantly balance competing interests of the PSC and other DC parties, although we note these parties are not signatories to the new filing and – at the time of writing – had not commented publicly. Time-wise the PSC has allowed 7 business days for comments (by 3/16) with EXC and POM requesting a PSC decision – which would be the third one in this case – by April 7. Per their calendar the PSC are due to meet on 3/2, 3/16, 3/23 and 4/13 although special meetings can be called with 48-hours notice.

Stock & option liquidity data	
Market cap (USDm)	30,808.0
Shares outstanding (m)	923.5
Free float (%)	100
Volume (4 Mar 2016)	2,447,250
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.26

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
1Q EPS	0.71	–	–
2Q EPS	0.59	–	–
3Q EPS	0.83	–	–
4Q EPS	0.38	–	–
FY EPS (USD)	2.49	2.50	2.65
P/E (x)	12.8	13.4	12.6

Source: Deutsche Bank

* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

Flash BMO Capital Markets

Exelon

(EXC-NYSE)

Rating: **Market Perform**

Target Price: $32.00 Total Return: 0%

Price (4-Mar): $33.36

March 7, 2016

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Exelon and Pepco Offer DC Commission and Settling Parties Alternative Proposal

Exelon and Pepco Holdings (POM, $24.59, Not Rated) filed a proposal today with the District of Columbia PSC that outlined three different approaches, any one of which, if approved, would continue to allow for the distribution of $78 million in benefits for the District and POM customers as agreed to in the original settlement and allow the two companies to complete the merger. Today's proposals offer the PSC considerable flexibility in determining how the funds are allocated.

Exelon and Pepco stated in their joint filing that they are prepared to either: **1)** deliver the benefits of the original merger settlement; **2)** accept all of the alternative terms the PSC outlined in its February 26 filing that would place the merger in the public interest, or **3)** offer an alternative third option that EXC/POM claim would balance the alternate terms the PSC outlined with the views of some of the nine settling parties on the issue of rate credits to residential customers.

EXC/POM's alternative proposal allocates a portion of the $78 million in total customer benefits to a $45.6 million fund - $25.6 million would preserve the original merger settlement's rate credits for residential customers, including low-income households, to offset rate increases through March 2019, and $20 million to be used at the PSC's discretion for purposes including rate credits for customers, grid modernization and additional low-income customer assistance.

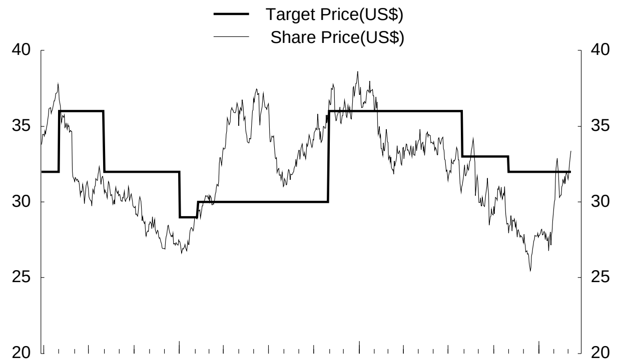
According to the PSC's February 26 decision, the nine settling parties will now have seven business days to file comments or request other relief from the PSC. EXC and POM have asked the PSC to rule on this latest proposal by April 7, 2016. While the March 4, 2016 merger deadline has not been extended, both companies will continue to negotiate with all parties, but reserve the right to walk away from the merger at any time.

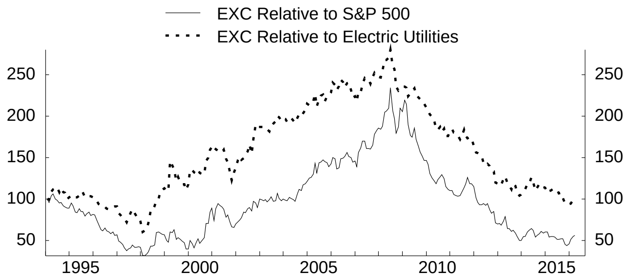
Our View:

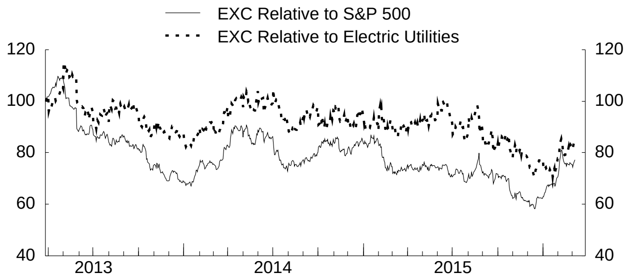
- Among the key priorities of the settling parties and PSC are consumer protections for future rate increases, as well as protections for low-income ratepayers, investment in renewable energy resources and grid modernization.
- On the whole, it appears that this alternative proposal attempts to reconcile several core positions, but stopped short of increasing total customer benefits and would move more funds away from green energy initiatives, a key area for DC Mayor Muriel Bowser, and into the hands of the PSC for use at its discretion.
- It is unclear whether the settling parties, or the PSC, will look favorably upon EXC/POM's updated proposal. We believe EXC's current valuation reflects the expectation that the merger will ultimately be approved.

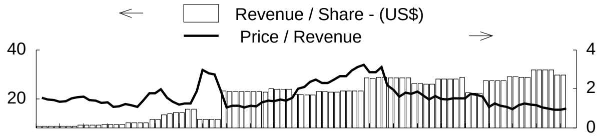
Please refer to pages 2 to 5 for Important Disclosures, including the Analyst's Certification.

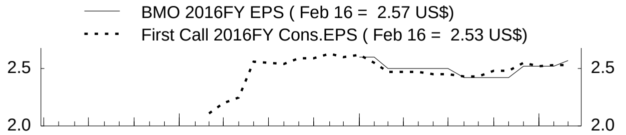
Exelon Corporation (EXC)

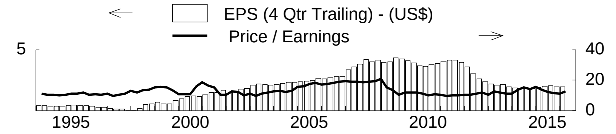


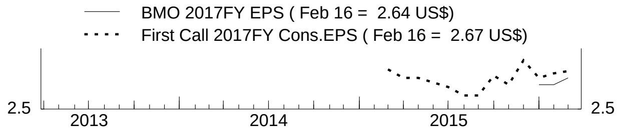












FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1994	1.21	12.9	9.8	0.77	6.5	5.0	64	9.7	1.6	1.2	
1995	1.27	12.0	9.3	0.83	7.0	5.5	65	10.2	1.5	1.2	13
1996	1.17	13.9	9.6	0.88	7.8	5.4	75	10.4	1.6	1.1	11
1997	0.63	20.9	14.9	0.90	9.6	6.8	>100	6.1	2.2	1.5	8
1998	1.33	15.9	7.1	0.50	5.3	2.4	38	6.8	3.1	1.4	20
1999	1.59	15.9	9.7	0.50	3.3	2.0	31	4.9	5.2	3.1	27
2000	1.90	18.7	8.4	0.50	3.1	1.4	26	11.3	3.1	1.4	23
2001	2.25	15.8	8.6	0.91	4.7	2.6	41	12.8	2.8	1.5	19
2002	2.42	11.8	7.8	0.88	4.6	3.1	36	12.0	2.4	1.6	19
2003	2.61	12.8	8.8	0.96	4.2	2.9	37	13.0	2.6	1.8	21
2004	2.77	16.2	11.1	1.26	4.1	2.8	45	14.1	3.2	2.2	20
2005	3.09	18.6	13.2	1.60	3.9	2.8	52	13.7	4.2	3.0	22
2006	3.22	19.8	15.9	1.60	3.1	2.5	50	14.9	4.3	3.4	23
2007	4.32	20.1	13.6	1.76	3.0	2.0	41	15.3	5.7	3.8	29
2008	4.20	21.9	9.8	2.03	4.9	2.2	48	16.8	5.5	2.5	26
2009	4.12	14.3	9.3	2.10	5.5	3.6	51	19.2	3.1	2.0	23
2010	4.06	12.8	0.0	2.10	2.1E6	4.0	52	20.5	2.5	0.0	20
2011	4.16	10.9	9.4	2.10	5.4	4.6	50	21.7	2.1	1.8	20
2012	2.85	15.6	10.0	2.10	7.4	4.7	74	25.1	1.8	1.1	12
2013	2.50	15.1	10.7	1.24	4.7	3.3	50	26.5	1.4	1.0	10
2014	2.39	16.3	11.1	1.24	4.7	3.2	52	26.3	1.5	1.0	9
2015	2.49	15.6	10.1	1.24	4.9	3.2	50	26.5	1.5	0.9	9
Range*:		21.9	0.0		>100	1.4			5.7	0.0	
Current*	2.51	12.5		1.24	3.9		49	25.5	1.2		10
Growth(%):											
5 Year:	-9.2			-10.0				5.9			
10 Year:	-2.1			-2.5				6.4			
20 Year:	3.5			2.1				4.7			

EXC - Rating as of 12-Mar-09 = Mkt

* Current EPS is the 4 Quarter Trailing to Q4/2015.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (March 4, 2016): $33.36
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology: Our valuation is based on a combination of our 2017 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and 15x 2017E P/E multiple.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Distribution of Ratings (December 31, 2015)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	20.9%	53.7%	44.1%	53.8%	55.6%
Hold	Market Perform	54.6%	13.5%	45.1%	52.3%	45.6%	39.4%
Sell	Underperform	3.4%	5.9%	1.2%	3.6%	0.5%	5.1%

*	Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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Mkt = Market Perform - Forecast to perform roughly in line with the analyst’s coverage universe on a total return basis
Und = Underperform - Forecast to underperform the analyst’s coverage universe on a total return basis
(S) = speculative investment;
NR = No rating at this time;
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Exelon Corp (EXC): EXC/POM Propose Three Options to D.C. Commission for Decision by April 7

Sentiment Indicator : neutral

Posted by Tucker, Shelby (RBC Capital Markets, LLC) on Monday, March 07, 2016, 15:24 PM ET

Our View: We view today's alternative proposal as a last push to complete the merger by satisfying both the settling parties as well as the D.C. commission. However, given that the proposal involves re-allocating some funds earmarked for another purpose (pilot grid modernization project) and not an additional financial concession, we are uncertain whether this change will prompt any dissent from any/all of the involved parties.

This afternoon, Exelon (EXC; Outperform; $34 PT) and Pepco (POM; Not Rated) filed with the D.C. Public Service Commission (DCPSC) asking for an approval of one of three options to complete the merger between the two companies. The options are as follows:

1. The original merger settlement filed on October 6, 2015 (with support of the D.C. Mayor's office, Office of People's Counsel, and other parties);
2. The revised settlement proposed by the DCPSC on February 26, which included deferring the decision on allocation of $25.6 million Customer Base Rate Credit among customer classes. The original settlement had called for full allocation to residential customers; this revision is not supported by all settling parties, including the Mayor's office, Office of People's Counsel, and D.C. Water.
3. A new alternative proposal that addresses both the settling parties' and DCPSC concerns:

- **Maintain the total Customer Investment Fund (CIF) value of $72.8 million.**
- **Increase the Customer Base Rate Credit from $25.6 million to $45.6 million,** with $25.6 million to be allocated to residential customers, and $20 million to used to offset rate increases for any/all customer classes (at the commission's discretion). The DCPSC may also utilize the funds for low-income assistance or for the pilot grid modernization project MEDSIS (Modernizing the Energy Delivery System for Increased Sustainability).
- **Decrease the funding for MEDSIS from $21.55 million to $1.55 million**

Exelon and Pepco have requested a final decision from the DCPSC by April 7 at the latest. The two parties have also entered into Letter agreement that allows for either party to terminate the Merger agreement at any time.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Exelon Corporation	NYSE	EXC	Outperform	Not Assigned	34.00	US Dollar	33.98	07 Mar 2016 15:22:57 ET

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Exelon

While Pepco saga continues, forward power prices continue to slide

Bank of America Merrill Lynch

Maintain Rating: NEUTRAL | PO: 34.00 USD | Price: 34.73 USD

Equity | 10 March 2016

Updating EXC model on 4Q15 results and M-t-M

Our EXC model is updated for the latest 4Q15 results and forecasted capital outlays. The biggest change included in this model update is the removal of Pepco from our EPS estimates, reflecting uncertainty over the DC approval process. However, we have retained a valuation adjustment for Pepco in our price objective reflecting $0.08 of accretion. This change was due to the D.C. Public Service Commission on 2/25/16 denying the settlement terms in the merger application. With the PSC providing an alternative set of terms and Exelon responding on 3/7/16, the likelihood of the deal being consummated is still questionable. Our modeling is now consistent with Exelon's guidance assumptions, namely a paying back of $3.2B in debt and a repurchasing of $1.6B of equity. Further, we now include $100MM of the $350MM cost reduction initiative in our ExGen O&M outlook. Lastly, we are marking to market for recent declines in forward commodity prices. Our forecasted 2016/17/18 EPS are now $2.50/2.66/2.73 as compared to our prior estimates of $2.61/2.80/2.91. Our price objective is now $34 per share; see our detailed valuation on page 3.

ExGen fundamentals continue to slip; Reiterate Neutral

Since the beginning of the year, EXC has outperformed substantially in spite of the continued decline in forward natural gas prices and more so forward power prices. Outperformance largely stems from the dividend raise and a recent rally in commodity sentiment since mid-February. But, forward commodity prices have not bounced as meaningfully. Exelon's next commodity market update should be a marginal negative to the company's gross margin outlook on the 1Q15 earnings call. Our results show the decline is roughly $283MM of EBITDA or $0.22 of EPS since the start of the year on 2018 estimates. Details for the sensitivity analysis are presented on page 4 and changes in forward curves are on page 5. On the other hand, EXC shares continue to look relatively cheap, trading at a consensus 12.2x multiple as compared to the integrated group average of 13.8x. Overall, our concerns over commodity mark to market downside risk to consensus are offset by EXC shares' continued low valuation. Reiterate Neutral.

Estimates (Dec)

(US$)	2014A	2015A	2016E	2017E	2018E
EPS	2.37	2.49	2.50	2.66	2.73
GAAP EPS	1.91	2.54	2.50	2.66	2.73
EPS Change (YoY)	-5.2%	5.1%	0.4%	6.4%	2.6%
Consensus EPS (Bloomberg)			2.51	2.66	2.84
DPS	1.24	1.24	1.26	1.29	1.32

Valuation (Dec)

	2014A	2015A	2016E	2017E	2018E
P/E	14.7x	13.9x	13.9x	13.1x	12.7x
GAAP P/E	18.2x	13.7x	13.9x	13.1x	12.7x
Dividend Yield	3.6%	3.6%	3.6%	3.7%	3.8%
EV / EBITDA*	15.9x	14.8x	14.4x	13.7x	13.3x
Free Cash Flow Yield*	-5.0%	0%	-3.3%	1.2%	3.8%

* For full definitions of *iQmethod*SM measures, see page 9.

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Refer to important disclosures on page 10 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

Key Changes

(US$)	Previous	Current
Price Obj.	32.00	34.00
2016E Rev (m)	27,214.6	22,610.1
2017E Rev (m)	29,687.3	23,709.4
2018E Rev (m)	30,294.3	23,906.3
2016E EPS	2.61	2.50
2017E EPS	2.80	2.66
2018E EPS	2.91	2.73
2016E DPS	1.24	1.26

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Stock Data

Price	34.73 USD
Price Objective	34.00 USD
Date Established	10-Mar-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 34.98 USD
Mrkt Val (mn) / Shares Out (mn)	32,091 USD / 924.0
Average Daily Value (mn)	319.62 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2016E)	8.7%
Net Dbt to Eqty (Dec-2015A)	72.5%

Exelon: Snatching defeat from the jaws of victory; could SMIDs lose their premium? 01 March 2016

Exelon: 4Q15 in line with Street; set to annually raise the dividend by 2.5% 03 February 2016

iQprofile^{SM} Exelon

iQmethod ^{SM} – Bus Performance*

(US$ Millions)	2014A	2015A	2016E	2017E	2018E
Return on Capital Employed	3.1%	3.1%	3.0%	3.2%	3.2%
Return on Equity	9.0%	9.2%	8.7%	9.0%	8.8%
Operating Margin	13.4%	14.5%	18.9%	19.3%	20.0%
Free Cash Flow	(1,620)	10	(1,046)	382	1,229

iQmethod ^{SM} – Quality of Earnings*

(US$ Millions)	2014A	2015A	2016E	2017E	2018E
Cash Realization Ratio	2.2x	3.4x	3.0x	2.9x	2.8x
Asset Replacement Ratio	2.6x	3.1x	3.0x	2.4x	2.1x
Tax Rate	30.9%	34.2%	34.0%	34.3%	34.6%
Net Debt-to-Equity Ratio	84.5%	72.5%	88.0%	86.8%	82.6%
Interest Cover	4.1x	3.9x	3.8x	4.0x	3.9x

Income Statement Data (Dec)

(US$ Millions)	2014A	2015A	2016E	2017E	2018E
Sales	28,201	29,237	22,610	23,709	23,906
% Change	10.8%	3.7%	-22.7%	4.9%	0.8%
Gross Profit	15,339	16,097	15,098	15,456	15,666
% Change	8.5%	4.9%	-6.2%	2.4%	1.4%
EBITDA	6,247	6,742	6,893	7,248	7,498
% Change	-2.1%	7.9%	2.2%	5.1%	3.4%
Net Interest & Other Income	(610)	(821)	(898)	(1,020)	(1,081)
Net Income (Adjusted)	**2,048**	**2,226**	**2,217**	**2,329**	**2,409**
% Change	**-4.7%**	**8.7%**	**-0.4%**	**5.1%**	**3.5%**

Free Cash Flow Data (Dec)

(US$ Millions)	2014A	2015A	2016E	2017E	2018E
Net Income from Cont Operations (GAAP)	2,060	2,238	2,229	2,341	2,421
Depreciation & Amortization	2,372	2,451	2,583	2,635	2,663
Change in Working Capital	(3,247)	(464)	(108)	(108)	(108)
Deferred Taxation Charge	502	752	400	400	400
Other Adjustments, Net	2,770	2,657	1,600	1,490	1,378
Capital Expenditure	(6,077)	(7,624)	(7,750)	(6,375)	(5,525)
Free Cash Flow	**-1,620**	**10**	**-1,046**	**382**	**1,229**
% Change	**NM**	**NM**	**NM**	**NM**	**221.8%**

Balance Sheet Data (Dec)

(US$ Millions)	2014A	2015A	2016E	2017E	2018E
Cash & Equivalents	1,878	6,502	1,370	1,306	2,733
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	10,537	10,342	10,542	10,742	10,942
Property, Plant & Equipment	52,087	57,439	61,449	64,167	66,020
Other Non-Current Assets	22,312	21,101	20,641	20,282	20,022
Total Assets	**86,814**	**95,384**	**94,002**	**96,497**	**99,716**
Short-Term Debt	2,262	2,033	2,033	2,033	2,033
Other Current Liabilities	NA	NA	NA	NA	NA
Long-Term Debt	20,010	24,286	22,925	23,689	25,099
Other Non-Current Liabilities	40,409	41,743	42,243	42,643	43,043
Total Liabilities	**62,681**	**68,062**	**67,201**	**68,365**	**70,175**
Total Equity	**24,133**	**27,322**	**26,801**	**28,132**	**29,542**
Total Equity & Liabilities	**86,814**	**95,384**	**94,002**	**96,497**	**99,716**

* For full definitions of *iQmethod*^{SM} measures, see page 9.

Company Sector

Electric Utilities

Company Description

Exelon Corp (EXC) is an integrated electric and gas utility that operates three utilities in Pennsylvania, Illinois, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, and Baltimore Gas & Electric (BGE) in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants concentrated in the Midwest and the Mid-Atlantic regions.

Investment Rationale

In our view, Exelon could benefit from a low carbon producing portfolio of assets in conjunction with potential favorable clean energy legislation.This is alongside a return to growing the dividend, a regulated business that is stable, and potential upside from strategic transactions. These are offset by a combination of lower natural gas prices from the Marcellus Shale and forward spark spreads that continue to fall, suggesting power supply is still abundant in the PJM territory.

Stock Data

Average Daily Volume	9,203,029

Quarterly Earnings Estimates

	2015	2016
Q1	0.71A	0.68E
Q2	0.59A	0.56E
Q3	0.83A	0.70E
Q4	0.38A	0.56E

Valuation and Relative Performance

Our EXC Sum-of-the-Parts valuation is provided in Table 1. The average peer group multiple was set at 15.5x and is consistent with our prior model. To this we maintain our 0.5x discount, resulting in 15.0x multiple used on our 2018 forecasted regulated and corporate earnings. Our valuation (not EPS forecast) includes $0.08 of EPS accretion for the inclusion of the Pepco deal.

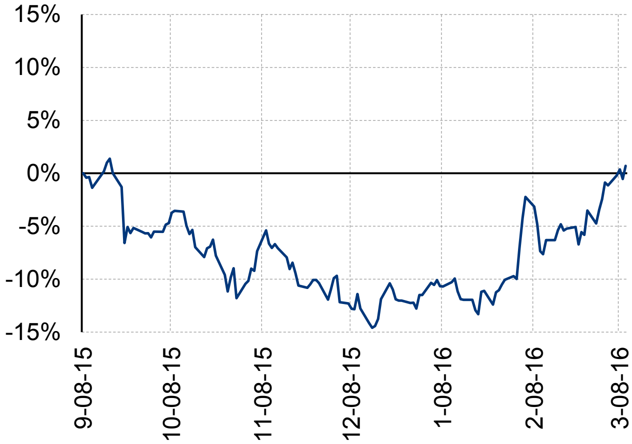
Table 1: EXC Sum-of-the-Parts Valuation Summary

	EXC 2018 sum of the parts valuation (in $ millions unless otherwise noted)		**2018**
	ExGen		
a	Open EBITDA		2,510
b	2018 capacity revenue		1,673
c	Normalized capacity revenue		1,467
d = c - b	Capacity adjustment		(206)
e = a + d	Open EBITDA with capacity adjustment		2,304
f	Target EV/EBITDA multiple		6.8x
g = e * f	Enterprise Value		15,676
h	NPV of hedges		342
i	EV of Illinois Legislation		-
j = g + h + i	**Adjusted Enterprise Value**		**16,019**
k	Net Debt 2017YE		8,633
l = j - k	Equity Value		7,386
m	Shares Outstanding (millions)		881
n = l / m	**Target equity value ($ per share)**	**$**	**8.38**
	ExGen target EV/EBITDA multiple		
o	Retail electric margin		992
p	Total gross margin		7,608
q = o / p	Percent retail		13%
r	Retail target multiple		5.5x
s = 1 - q	Percent generation and other		87%
t	Generation target multiple		7.0x
u = q*r + s*t	**Weighted average target multiple**		**6.8x**
	Utility		
a	Regulated EPS		1.63
b	Target P/E Multiple		15.0x
c = a*b	**Target equity value ($ per share)**	**$**	**24.44**
	Parent		
a	Parent EPS (ex interest expense)		0.05
b	Target P/E Multiple		15.0x
c	Parent level net debt (2017YE)		71
d	Shares Outstanding (millions)		881
e = a*b - c / d	**Target equity value ($ per share)**	**$**	**0.69**
	Consolidated		
	Rounded price objective	**$**	**34.00**

Source: BofA Merrill Lynch Global Research estimates

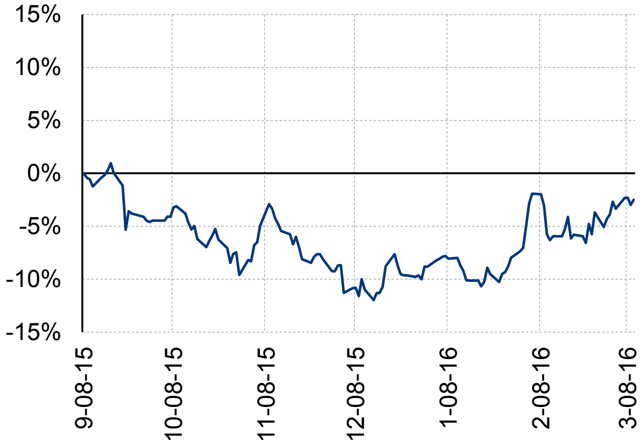
The relative performance charts show the significant outperformance by EXC as compared to the integrated group and the large cap group in recent months.

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

Business Breakdown

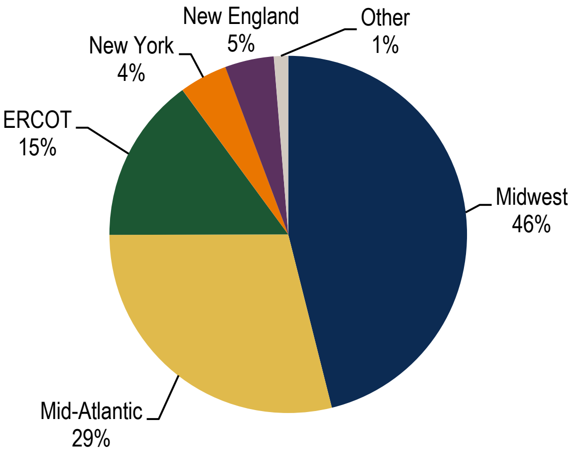
Regulated Businesses: ComEd, PECO, and BG&E

The regulated businesses are expected to contribute roughly $1.3-1.4B of adjusted net income in 2018, according to the company. Our expectations are largely in line with those of the company's guidance as seen in Chart 1. With incorporation of bonus D&A, the outlook on ComEd's rate base was lowered $300MM in 2016, $600MM in 2017, and $600MM in 2018 from prior numbers presented at EEI. The impact of bonus depreciation is expected to be relatively minor on PECO and BG&E. The total adjusted operating net income was only impacted $25MM on 2018.

ExGen struggles continue

The merchant business has continued to see falling power prices. EXC is most exposed to NIHUB and PJM (Midwest and Mid-Atlantic, respectively) power prices as seen by the 2018 expected generation portfolio shown in Chart 2.

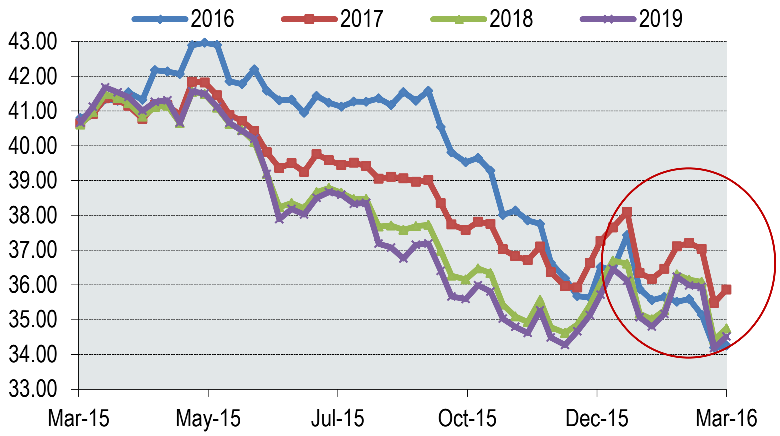
Chart 3: Expected Generation (GWh) by Region



Source: BofA Merrill Lynch Global Research estimates, company report

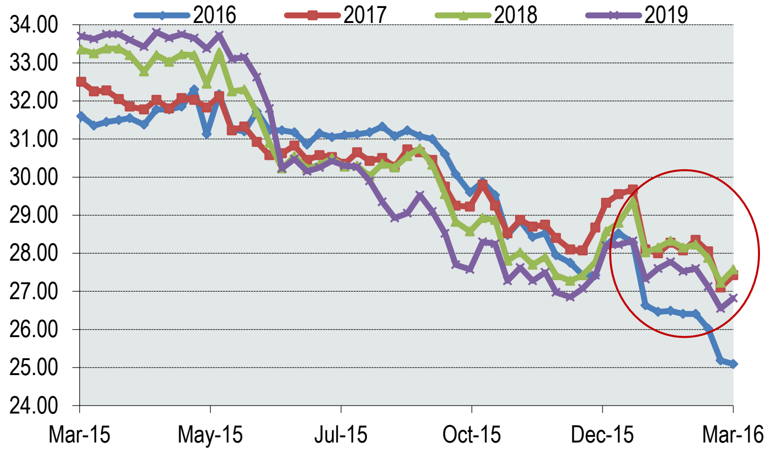
Chart 3 and Chart 5 illustrate the decline in both PJM and NIHUB power prices, showing the strong deterioration in the deregulated power markets. This data is provide in our weekly publication, Alternating Currents Weekly, and can be found in our latest price deck.

Chart 4: PJM ATC Forward Power Trends



Source: BofA Merrill Lynch Global Research estimates

Chart 5: NIHUB ATC Power Forward Trends



Source: BofA Merrill Lynch Global Research estimates

The net impact based on Exelon's stated sensitivities (4Q15 Earnings Presentation) to a $1/mmbtu change in Henry Hub (HH) leads to a $695MM change in EBITDA, the recent decline in HH from $2.91/mmbtu on 12/31/15 to $2.71/mmbtu on 3/3/16 results in an EPS decline of roughly $0.10 of EPS as shown in Table 2.

Table 2: 2018 Natural Gas Price Sensitivity Analysis

Natural Gas Prices	12/31/2015	3/3/2016	Change	Sensitivity	EBITDA Change
2018 Henry Hub	2.91	2.71	(0.20)	695	(139)
Tax Rate @ 33%					(47)
Shares Outstanding					881
EPS					($0.10)

Source: BofA Merrill Lynch Global Research estimates, company report

Digging deeper and comparing the change in power price sensitivities suggests an EBITDA decline of $228MM or $0.17 of EPS, as shown in Table 3. All sensitivities shown are in $ per +1 $/MWh.

Table 3: 2018 Power Price Sensitivity Analysis

ATC Power Prices ($/MWh)	12/31/2015	3/3/2016	Change	Sensitivity	EBITDA Change
Midwest (NiHub)	29.22	27.67	(1.55)	76	(118)
Mid-Atlantic (PJM West)	34.16	32.03	(2.13)	40	(85)
New York (Zone A)	33.60	31.39	(2.21)	5	(11)
ERCOT (North)*	4.49	4.07	(0.42)	15	(6)
New England*	9.71	8.15	(1.56)	5	(8)
Total EBITDA Change					(228)
Tax Rate @ 33%					(75)
Shares Outstanding					881
EPS					$ (0.17)

Source: BofA Merrill Lynch Global Research estimates, company report

*ERCOT and ISO NE sensitivities not provided, used $5 / (+$1/MWh) * (% of Region GWh / 5%)

Finally our results show the decline in 2018 is $283MM or $0.22 of EPS since the start of the year.

Table 4: Gross Margin Comparison chart

Gross Margin Category - BofAML ($M)	2016	2017	2018
Open Gross Margin	$4,375	$5,425	$5,754
Mark to Market of Hedges	$2,518	$1,080	$362
Power New Business / To Go	$438	$793	$992
Non-Power Margins Executed	$250	$150	$100
Non-Power New Business / To Go	$200	$300	$400
Total Gross Margin	**$7,782**	**$7,748**	**$7,608**

Source: BofA Merrill Lynch Global Research estimates, company report

Table 5: BofAML M-t-M of Guided Total Gross Margin

Gross Margin Adjustments ($M)	2016	2017	2018
Guided Total Gross Margin	$7,800	$7,850	$7,900
+/- Mark to Market	($40)	($139)	($283)
M-t-M Guided Total Gross Margin	**$7,760**	**$7,711**	**$7,617**

Source: BofA Merrill Lynch Global Research estimates, company report

Price objective basis & risk

Exelon (EXC)

Our $34/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $8 of value to ExGen, $1 for the parent, and approximately $25 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2018E earnings and EBITDA. For Exelon specifically we use a target 6.8x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply a target 15.0 P/E multiple to value the regulated side of the business, which is a discount to regulated peers at 15.5x to reflect the generally below-average ROEs allowed by the state commissioners for the states in which Exelon has regulated operations.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario, and 4) risks to the successful completion of the Pepco Holdings acquisition

Analyst Certification

I, Brian Chin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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	American Water Works	AWK	AWK US	Brian Chin
	Black Hills Corporation	BKH	BKH US	Brian Chin
	Calpine	CPN	CPN US	Brian Chin
	Dominion Resources	D	D US	Brian Chin
	Edison International	EIX	EIX US	Brian Chin
	Entergy	ETR	ETR US	Brian Chin
	FirstEnergy	FE	FE US	Brian Chin
	InfraREIT, Inc.	HIFR	HIFR US	Brian Chin
	NextEra Energy	NEE	NEE US	Brian Chin
	NextEra Energy Partners	NEP	NEP US	Andrew Hughes
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	Portland General Electric Company	POR	POR US	Brian Chin
	PPL Corporation	PPL	PPL US	Brian Chin
NEUTRAL				
	AES Corporation	AES	AES US	Brian Chin
	DTE Energy	DTE	DTE US	Brian Chin
	Duke Energy	DUK	DUK US	Brian Chin
	Exelon	EXC	EXC US	Brian Chin
	Great Plains Energy	GXP	GXP US	Brian Chin
	Public Service Enterprise Group Inc.	PEG	PEG US	Brian Chin
	Terraform Global	GLBL	GLBL US	Andrew Hughes
	Terraform Power	TERP	TERP US	Andrew Hughes
UNDERPERFORM				
	Atlantica Yield	ABY	ABY US	Andrew Hughes
	Consolidated Edison	ED	ED US	Brian Chin
	NorthWestern Corporation	NWE	NWE US	Brian Chin
	Pinnacle West Corp	PNW	PNW US	Brian Chin
	Southern Company	SO	SO US	Brian Chin
	Westar Energy	WR	WR US	Brian Chin

*iQ*method^{SM} Measures Definitions

Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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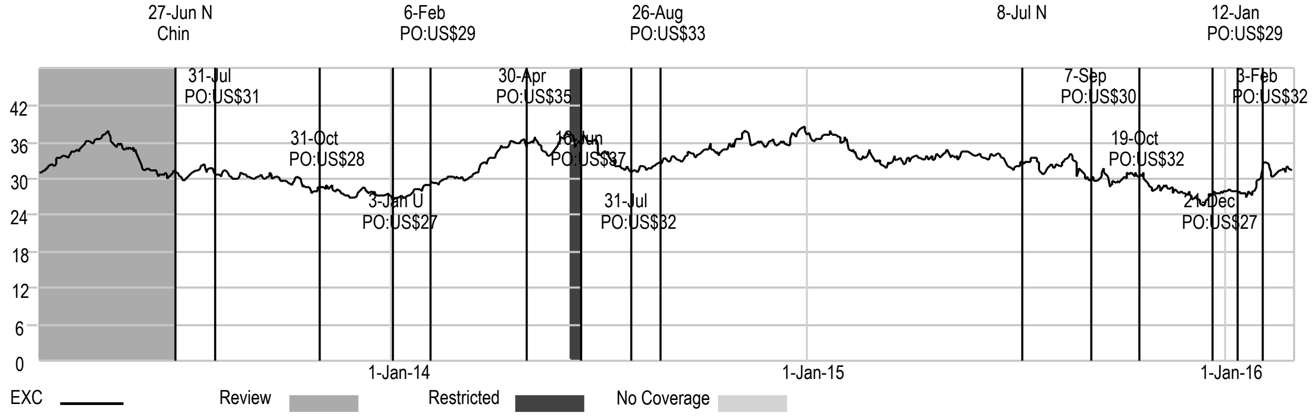
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of February 29, 2016 or such later date as indicated.

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	47.26%	Buy	58	84.06%
Hold	40	27.40%	Hold	32	80.00%
Sell	37	25.34%	Sell	27	72.97%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1673	50.16%	Buy	1244	74.36%
Hold	777	23.30%	Hold	545	70.14%
Sell	885	26.54%	Sell	533	60.23%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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Exelon Corporation

EXC – BUY – Time to Walk, Buy Back Stock; Shrink B/S and Grow Dividend in NT – Better Opportunities Abound

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FLASH NOTE

SECTOR: Power and Utilities

March 11, 2016

What's new? The DC Office of People's Counsel (OPC), DC Government of Columbia Office of the Attorney General and other parties to the original settlement submitted comments to EXC's settlement amendments filed on March 7. The OPC explicitly opposed all options claiming that they are opposed to the procedural process. Based on the opposition and comments submitted (see table below), we believe EXC (BUY, $34.75) is increasingly likely to walk away from the deal and buy back its stock, unwind the transaction. **NOTE: EXC is our top Integrated Idea and the POM acquisition is not a driver of our thesis.**

Are the options viable? Comments point to minimal agreement. As a reminder the Commission rejected the settlement filed by all settling parties and then provided their own revision for parties to approve. To our surprise, the OPC, DC AG and government rejected the DC PSC's amendments, claiming that it did not secure $25.6mm in rate credits to residential customers. EXC came back and submitted new settlement amendments, which guaranteed the $25.6mm and offered $20mm for the DC PSC to have discretion to allocate. EXC then proposed three approaches for the Commission to approve the merger 1) the Settlement agreement, 2) amendment terms provided by the PSC, or 3) the new amendments proposed by EXC. We believed option 3 was the most viable option, but given that the OPC opposes all three options, the deal will likely not be approved, in our view.

EXC's buyback program is already planned should they terminate deal at any time. If the deal fails, we believe management will start to implement plans to buy back 57.5mm shares within 5 months and retire the debt associated with Pepco. Near-term drag could equate to $0.07/share as the company completes the buyback program as well as call $1.8B in debt. While EXC is currently guiding to the 57.5mm shares, we note that they raised $3B in equity sales (including $1.15B in forward sale) and could increase their buybacks to be above their planned $1.6B. Although there will be a drag in the near term, we believe the buybacks would likely be accretive in 2017 given the reduction in share count and lower interest expense.

If the deal does not close, there could be additional $4-5 downside to POM. Although POM (NC, $24.25) is now able file for rate cases with the DE, MD, and NJ Commissions, we believe POM will continue to be a material under-earner since it has been out a rate case since 2014. While POM is already prepared to file for rate cases earlier in 2016 for DE, MD, and NJ, followed by a DC (delay due to pending settlement with the Commission), the rate case will still take 9-12 months to be approved. We estimate downside to POM stock could be another $4-5 based on a 12-13 range multiple on 2018 consensus earnings estimates.

Settlement Party	Comment	Support/Reject
DC Office of People's Counsel (OPC)	"OPC is ready to move on and address other challenges and opportunities facing the district…OPC encourages the Commission make an expeditious decision and bring closure to this matter.	Rejects all three options
AOBA (Apartment and Office Building Association of Metropolitan Washington)	Supports that the DC Commission's settlement allows all ratepayers to "benefit from the merger, ensure that funds are invented to benefit ratepayers and improve Pepco's electric system"	Supports Option 2 the revised settlement provided by the DC Commission. Rejects Option 1 and 3
DC Government of Columbia Office of the Attorney General	DC AG does not support revisions to the settlement.	Supports only Option 1. Rejects any revisions to the settlement.
National Consumer Law Center	"What will likely prove fatal to the merger is giving the Settling Parties a choice between [the DC Commission's amendments] and no commission approval for any alternative". NCLC/NHT believes that any option is viable.	Supports Option 1 but does not see it as viable. Option 2 includes a revisions they favor but also is a detriment. Option 3: They ask the DC Commission to give "serious consideration."

Source: DC PSC public comments filed

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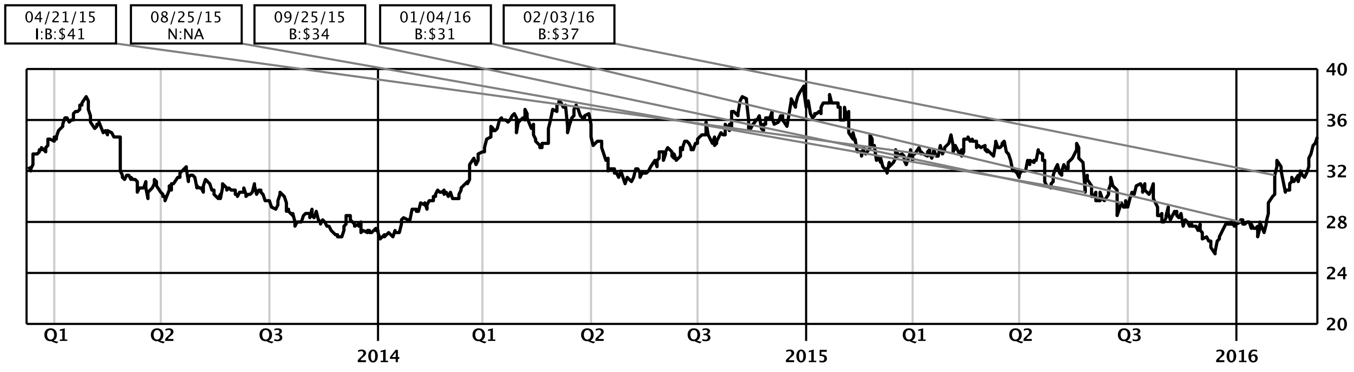
Rating and Price Target History for: Exelon Corporation (EXC) as of 03-10-2016



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Sell	0	0.00%	0	0.00%

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Equities

14 March 2016 | 7 pages

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Exelon Corp (EXC)

Alert: Pepco deal on last legs; Imminent buyback supporting EXC stock; Downside post buyback - Reiterate Sell

- **With the Attorney General and the OPC only supporting a deal that the PSC has already rejected, we don't see any path forward.** As we had noted in our previous note, "We think EXC Walks; preferred outcome for EXC shareholders but what next?" we think this deal is stuck in political quicksand with no easy solution.

- **No surprise that EXC's token attempt on March 7th didn't get it done.** With no additional concession dollars in its March 7th filing, we think EXC only made a token attempt to get the deal approved. We understand why – the MFN magnifies every additional dollar of concession by 6-7x. That is why we think EXC won't give any more concessions this time around as well.

- **We expect the official announcement on deal termination in the next 1-2 weeks.** EXC's clock is ticking given the interest expense on acquisition debt and the impact of the 57.5m additional shares issued. With no clear path to approval, we think EXC will announce termination of the deal in the next 1-2 weeks.

- **Near term support coming from the imminent 57.5m share buyback.** We think the market is clearly expecting the share buyback and that may have driven up the stock price of EXC. However, once the buyback is completed, the fundamental challenges and concerns about the EXC story will resurface.

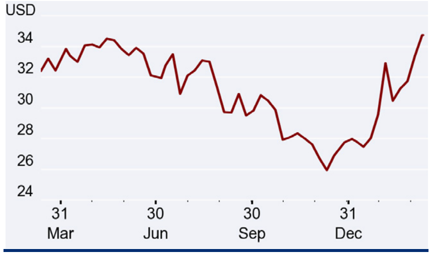
- **Post the buyback fundamental concerns on strategic direction, dividend sustainability, ExGen value / volatility will resurface.** We think a ~95% dividend payout based on utility earnings is too high, especially as ExGen continues to face pressure from declining power prices. On the strategic front, the business mix concerns do resurface and we think EXC should pursue a separation of its utility and generation business.

- **ExGen continues to stay pressured. ExGen's MTM for hedges in 2016 is $1.7B; Retail provides $1B of EBITDA in 2018.** Effectively, ExGen's unhedged or 'open' EBITDA in 2016 is $1.7B lower than its guidance. If power prices stay weak, there is downside to ExGen's 2017, 2018 EBITDA. Also, with $1B of 2018 EBITDA coming from the 'new business / to go', we find the 2018 commodity margin guidance of lower quality vs. today.

- **POM has cost EXC shareholders north of $500m.** EXC has spent $259m on fees and expenses as of Dec 31, 2015. Together with the break fees of $180m and the $40m of POM deal expenses, cost is already close to $500m .With additional costs to undo the financing and repurchase shares, this deal has cost EXC shareholders $500m+ together with a distracted management team for ~2 years.

Sell	**3**
Price (11 Mar 16)	US$34.73
Target price	US$27.00
Expected share price return	-22.3%
Expected dividend yield	3.6%
Expected total return	**-18.7%**
Market Cap	US$31,949M

Price Performance
(RIC: EXC.N, BB: EXC US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $10/share and believe ExGen's core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $18/share based on a 15x terminal PE multiple. We also add $5/share value provided by PepCo. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	10-May-13	2	*37.00	35.75
3	14-Oct-13	2	*29.00	30.02
4	03-Jan-14	*3	*21.00	26.62

	Date	Rating	Target Price	Closing Price
5	24-Apr-14	3	*27.00	36.01
6	23-Jul-14	3	*30.00	31.76
7	17-Oct-14	*2	*37.00	34.38
8	18-Dec-14	Coverage terminated		

	Date	Rating	Target Price	Closing Price
9	17-Sep-15	*3	*27.00	31.57
10	26-Jan-16	*2	27.00	27.84
11	22-Feb-16	*3	27.00	31.69

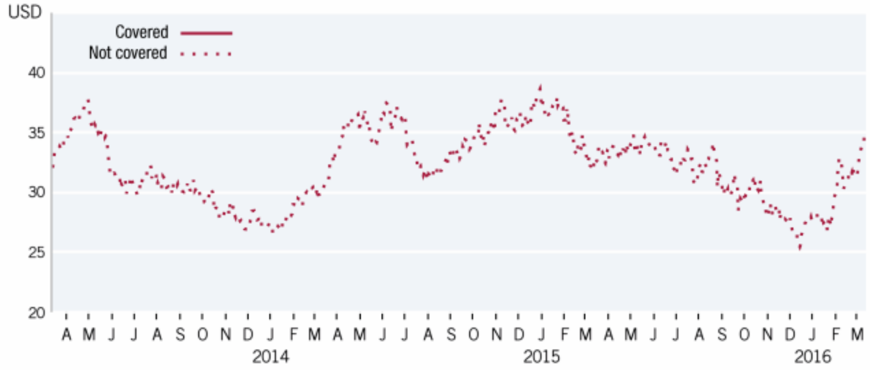
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



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Data current as of 31 Dec 2015	**Buy**	**Hold**	**Sell**
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% of companies in each rating category that are investment banking clients	64%	64%	59%

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Exelon Corporation

EXC – BUY - DC Commission Meeting Tomorrow; We Highlight Possible Scenarios

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FLASH NOTE

SECTOR: Power and Utilities

March 22, 2016

What's new? The DC Commission has EXC's (BUY, $34.88) merger case scheduled for its meeting tomorrow, March 23 at 11 AM ET – below we highlight possible scenarios.

Possible options and our takeaways. The DC Commission could choose from either of these options, but we believe some are more likely than others.

1. Approve the Commission's amendment terms that it outlined in Feb. 26 (see our note here) and treat this as a finding on merits rather than a settlement. EXC proposed that the Commission approve this option but opposing parties (DC Mayor, Attorney General, Office of People's Counsel (OPC), and DC Water) could appeal.
2. Adopt the Settlement agreement as presented. We believe this doesn't seem likely since Commissioner Phillips was the only one of three in favor of this option.
3. Adopt the new amendments proposed by EXC and POM (NC, $21.97) on March 7 for $45.6mm in the Customer Investment Fund (see our note here). We highlight that this was rejected by OPC, Attorney General and other parties. The OPC explicitly opposed all options claiming that they are "ready to move on." This would likely be appealed as well.
4. Decide to have more hearings, which would go against EXC and POM's April 7 deadline.
5. EXC and POM could also come up with another settlement, but less likely given that a more favorable settlement could trigger the "most favored nation" clause with other states that have already approved the merger.
6. They could reject the deal again since there is no consensus among parties on settlement conditions. This is a strong likelihood, in our view.

With or without POM, we are indifferent to the deal and remain strong supporters despite the outcome. As we highlighted in the past, the significance of the POM acquisition to us is primarily de-risking of the merchant business; the POM acquisition would have increased EXC's 2017 business mix to ~70% regulated from ~55%, not including synergies and further growth coming from future POM rate cases. **That said, EXC, following the year-end call, is already re-focusing on regulated utilities, shrinking its balance sheet through big de-levering program, announcing a return to dividend growth independent of acquiring POM.** They also highlighted to Market that they have no ambition of making a value destruction transaction by purchasing or growing the merchant Genco. So, EXC has already essentially de-risked its business. EXC's strategic focus reflects a more disciplined approach to its capital and balance sheet – the inflection point we were looking for.

If the deal fails, we believe management will start to implement plans to buy back 57.5mm shares within 5 months and retire the debt associated with Pepco. Although there would be a drag in the near term as they unwind financing, we believe the buybacks would likely be accretive in 2017 given the reduction in share count and lower interest expense.

If the deal does not close, there could be additional $4-5 downside to POM. Although POM is now able to file for rate cases with the DE, MD, and NJ Commissions, we believe POM will continue to be a material under-earner since it has been out a rate case since 2014. While POM is already prepared to file for rate cases earlier in 2016 for DE, MD, and NJ, followed by a DC (delay due to pending settlement with the Commission), the rate case will still take 9-12 months to be approved. We estimate downside to POM stock could be another $4-5 based on a 13-14 range multiple on 2018 consensus earnings estimates, which are very stale.

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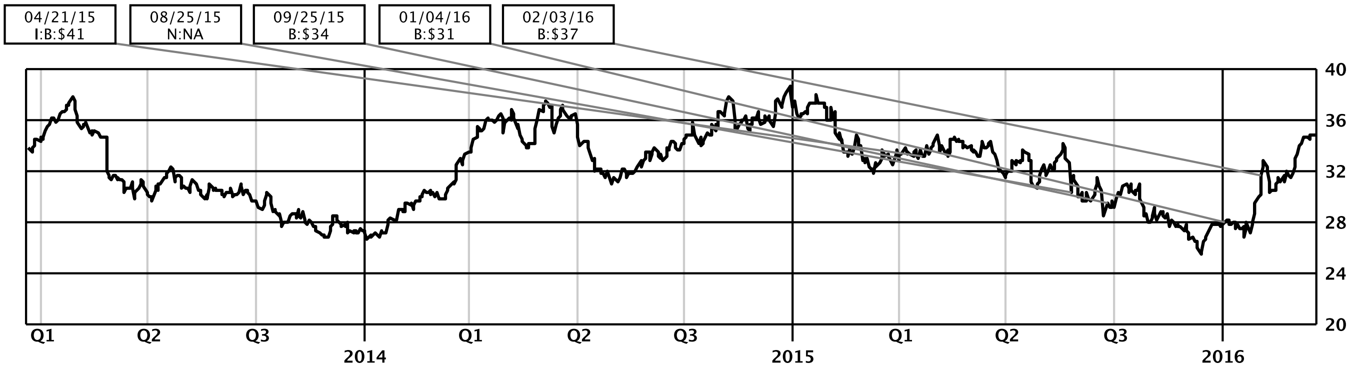

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Moody's affirms IG gencos post its revised commodity price assumptions

Sentiment Indicator : positive

Posted by Leung, Raymond (RBC Capital Markets, LLC) on Tuesday, March 22, 2016, 16:55 PM ET

Takeaway: Moody's last night completed its review of the US merchant power sector that was tied to its recent revised view of a sustained low commodity price environment. We view the affirmations as a positive event that should help support current spreads. That said, gas prices remain relatively low and are an overhang for the power sector. We remain Sector Perform on Exelon Generation and FirstEnergy Solutions. We maintain our Underperform on PSEG Power. Although we view PSEG Power's credit profile as the strongest of the three entities, we think event risk may be rising for PSEG Power and will remain an overhang on spreads in our view. PSEG Power 4.3% of 2023s were +222bps (+239 g-spread). Exelon Generation 4.25% of 2022 quoted at +235 bps (+218 g-spread) and FirstEnergy Solutions 6.8% of 2039 quoted at +590bps. We continue to rate Exelon Corp (3.95% of 2025 quoted at +185bps) and FirstEnergy Corp (4.25% of 2023 quoted at +180bps) at Outperform as the focus on regulated investments helps temper the volatility of its generation business.

- PSEG Power's Baa1 senior unsecured rating was affirmed owing to its strong financial profile with cash flow adjusted for maintenance capital and nuclear fuel to debt expected to exceed about 25% over the next few years. PSEG Power's generation assets benefit from its locational advantage and its hedging strategy that provides cash flow visibility.
- Exelon Generation Co., LLC was affirmed at Baa2. The agency expects cash flow to debt in the mid-teens area and FFO to debt to stay near 30% over the next several years.
- FirstEnergy Solutions and Allegheny Energy Supply Co., LLC's ratings were affirmed at Baa3. The affirmation is predicated on expectations that it would gain support from the pending settlement in Ohio to allow for an 8-year PPA tied to 3.2GW of its generation portfolio. Moody's expects the generation business to have a pro-forma cash flow coverage to debt to be in the range of 25-28% while the parent consolidated leverage would be in the range of 14-16%. The Ohio regulators are expected to rule on the settlement in March 2016. Thus, the regulatory support for the PPA is key for the support of the ratings. Moody's did note that the impact of lower power prices since its December 2015 review was less than $50 million annually.
- The agency is currently assuming an average gas price of $2.25/mmbtu for 2016 and $2.50 /mmbtu in 2017.

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Citi Research
Equities

23 March 2016 │ 7 pages

Diversified Utilities
North America │ United States

Exelon Corp (EXC)

Alert: Pepco Approved: Bad outcome for EXC shareholders

- **DC Regulators approved option 2 - the settlement agreement that was originally approved by the settlement parties.**

- **Bad Deal – Value destructive by $1/share**; **PT = $27.** As we said in our note on Feb 22nd, "Exelon Corp (EXC) - Pepco = Value Destructive. We assume the deal closes, back to Sell rating." We think Pepco is a bad deal for EXC shareholders destroying $1/share of value.

- **No share buyback coming.** We had hoped the deal would be terminated and for EXC to buyback 57.5m shares. With this turn of events, the one support for the EXC stock in the near term goes away. Cleary there is no buyback coming now.

- **Remember, deal is EPS accretive but value destructive.** Our analysis suggests 5, 8 and 11 cents of accretion in 2017, 2018 and 2019, respectively. However, from a value perspective, our stand alone PT reduces by $1. This outcome is possible because: 1) the $1.5B in premium is financed using cheap debt helping EPS but hurting equity value as it increases parent net debt; and 2) the concessions, fees and expenses valued at $500m are ignored for ongoing EPS but reduce value.

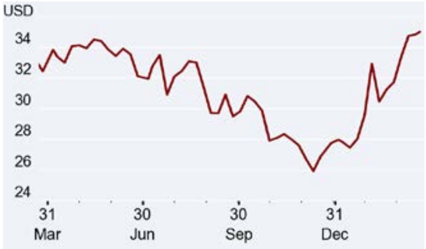
- **Transaction increases leverage at a time when ExGen should be reducing debt.** We forecast EXC's consolidated FFO/Debt going from 25-27% to 20% following the transaction. At a time when ExGen's cash flows and asset life are weakening, we would have preferred EXC retain its financial flexibility.

- **EXC's core valuation is all about ExGen. We only see further weakness**. ExGen accounts for 35% of value in EXC post Pepco and we believe will continue to be the key driver of the stock. With delays in CPP, weak power prices and likely weakness in PJM capacity prices, we see additional challenges ahead and this is one of the key drivers for our PT and Sell rating.

- **Dividends definitely better positioned in the near term**. Together with Pepco, we do think EXC's dividend increase of 2.5% is relatively more secure given the higher proportion of utility earnings. By our math, the dividend payout on utility earnings is at 75% by 2019.

Sell	3
Price (23 Mar 16)	US$35.25
Target price	US$27.00
Expected share price return	-23.4%
Expected dividend yield	3.5%
Expected total return	-19.9%
Market Cap	US$32,490M

Price Performance
(RIC: EXC.N, BB: EXC US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $10/share and believe ExGen's core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $18/share based on a 15x terminal PE multiple. We also add $5/share value provided by PepCo. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

Analyst Certification

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Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	10-May-13	2	*37.00	35.75
3	14-Oct-13	2	*29.00	30.02
4	03-Jan-14	*3	*21.00	26.62

	Date	Rating	Target Price	Closing Price
5	24-Apr-14	3	*27.00	36.01
6	23-Jul-14	3	*30.00	31.76
7	17-Oct-14	*2	*37.00	34.38
8	18-Dec-14	Coverage terminated		

	Date	Rating	Target Price	Closing Price
9	17-Sep-15	*3	*27.00	31.57
10	26-Jan-16	*2	27.00	27.84
11	22-Feb-16	*3	27.00	31.69

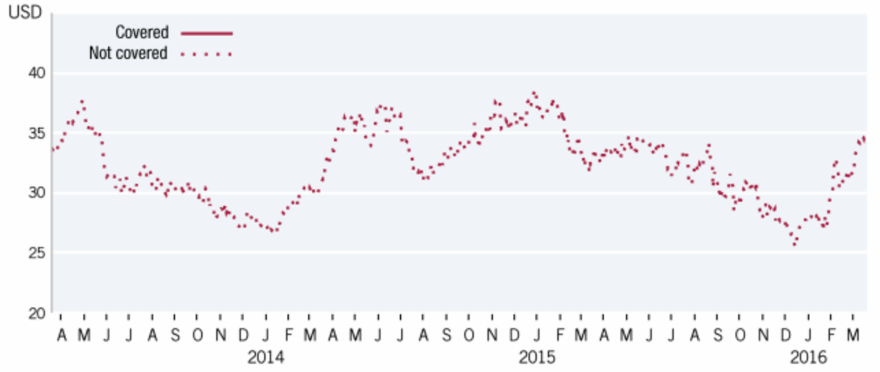
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

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	12 Month Rating		
Data current as of 31 Dec 2015	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	64%	64%	59%

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Equity Research
Flash Comment

WELLS FARGO SECURITIES

March 23, 2016

EXC-NYSE--Outperform (1)
POM-NYSE--Market Perform (2)

Diversified Electric Utilities

D.C. Approves EXC/POM Merger

Neil Kalton, CFA, Senior Analyst (314) 875-2051

Sector Rating: Diversified Electric Utilities, Market Weight

What a long, strange trip it's been! Just when we had thought we had seen it all (or close to it), the District of Columbia Public Service Commission (DCPSC) voted 2-1 shortly before 2pm ET today (3/23) to approve the merger of EXC and POM. The DCPSC selected option 2 in EXC/POM's 3/7 motion which approves the merger on the terms outlined in Commissioner Fort's revised Non-Unanimous Full Settlement Agreement (NSA). Today's action goes against the publicly stated positions of prominent interveners in D.C. including the Mayor, the Office of People's Counsel, the Attorney General and the D.C. Water and Sewer Authority who opposed the revised NSA due primarily to the potential reallocation of $25.6M of rate credits originally earmarked for residential customers amongst all customer classes. Per the revised NSA, the allocation is to be made in Pepco's next rate case. While it appears that logic has prevailed at the end of day, we are surprised that the Mayoral-appointed DCPSC elected to approve the merger seemingly against the District's wishes. As of the writing of this comment, we are awaiting statements from EXC/POM regarding the next steps and the official close date. So much for dusting off our standalone POM model over the past few days! Shares of POM are up 28% intraday on the development, just shy of the $27.25 takeout price, while EXC is largely flat. This compares to the S&P utilities which are up nearly 1%.

Exelon Corporation (EXC-NYSE)
Price as of 3/23/2016: $34.99
FY 16 EPS: $2.55
FY 17 EPS: $2.75
Shares Out.: 861.2 MM
Market Cap.: $30,133.39 MM

Pepco Holdings, Inc. (POM-NYSE)
Price as of 3/23/2016: $27.15
FY 16 EPS: $1.05
FY 17 EPS: $1.15
Shares Out.: 253.6 MM
Market Cap.: $6,885.24 MM

Rating Basis Information:
EXC Thesis: Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

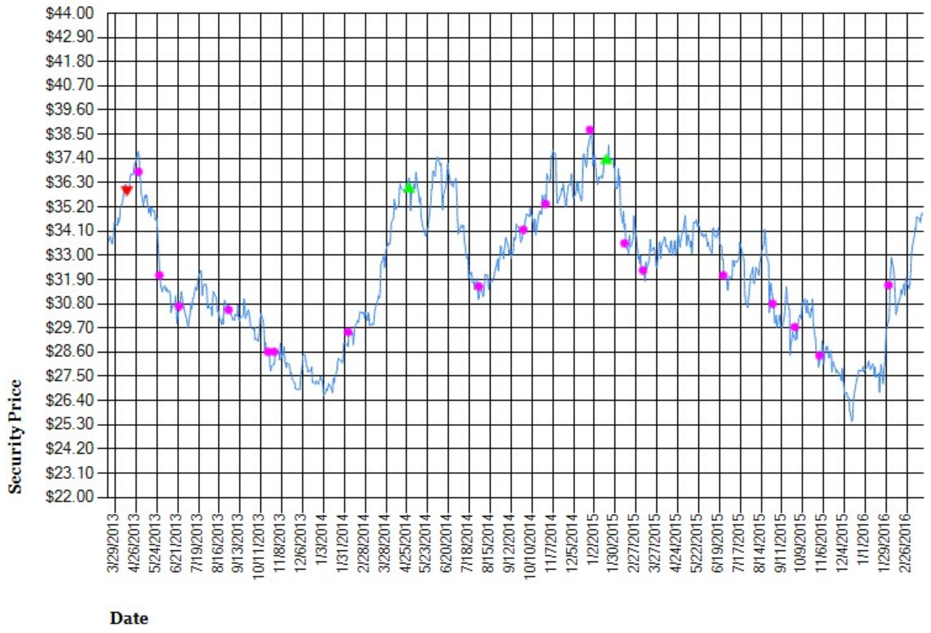
Please see page 3 for rating definitions, important disclosures and analyst certifications.
All estimates/forecasts are as of 03/23/16 unless otherwise stated.

POM Thesis: We are attracted to POM's regulated growth opportunities and relatively high concentration of transmission earnings. Our Market Perform rating reflects valuation considerations given our belief that the pending acquisition by EXC for $27.25/sh will be approved and close during 1H'16.

DISCLOSURE APPENDIX

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	2	31.00	32.00	33.47
▼●	4/15/2013	36.22	3	31.00	32.00	35.84
●	5/1/2013	36.75	3	32.00	33.00	36.75
●	5/28/2013	34.65	3	29.00	30.00	32.04
●	6/24/2013	30.30	3	26.00	27.00	30.62
●	8/30/2013	30.49	3	25.00	26.00	30.49
●	10/21/2013	28.58	3	23.00	24.00	28.58
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61

Source: Wells Fargo Securities, LLC estimates and Reuters data

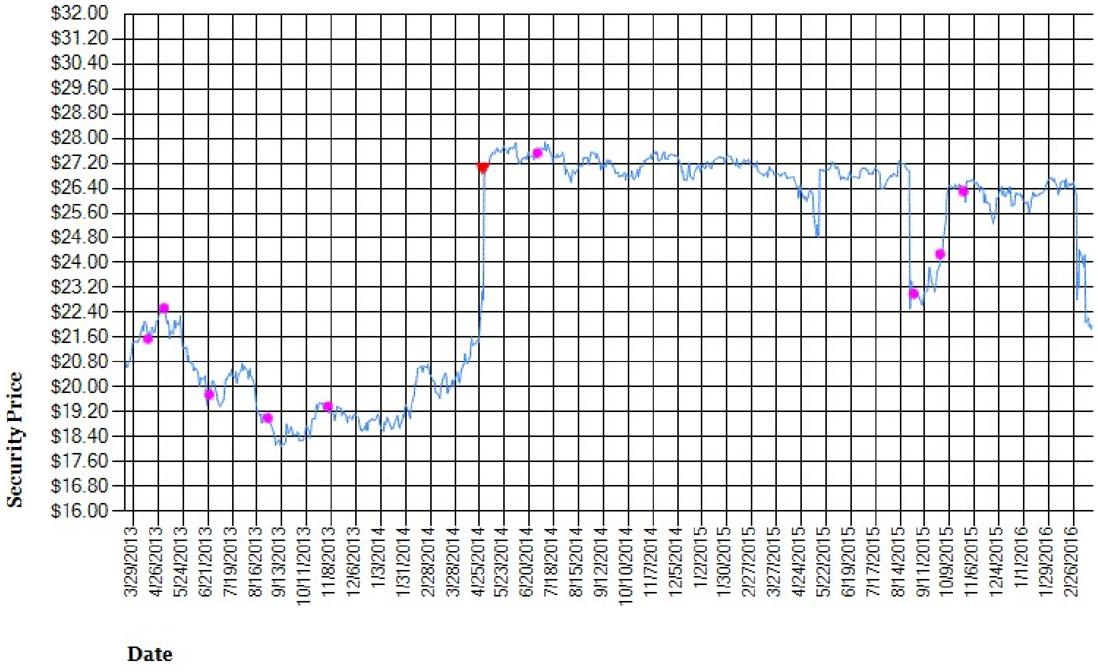
Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	☐	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Pepco Holdings, Inc. (POM) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	1	22.00	23.00	20.70
●	4/15/2013	22.05	1	23.00	24.00	21.52
●	5/3/2013	22.39	1	24.00	25.00	22.51
●	6/24/2013	19.88	1	22.00	23.00	19.73
●	8/30/2013	18.92	1	21.00	22.00	18.94
●	11/6/2013	19.18	1	22.00	23.00	19.34
▼●	5/1/2014	26.76	2	26.25	27.25	26.93
●	6/30/2014	27.46	2	27.00	27.50	27.48
●	8/31/2015	23.01	2	23.00	24.00	22.98
●	9/30/2015	24.26	2	25.00	26.00	24.22
●	10/26/2015	26.27	2	27.00	27.50	26.27

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
☐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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SECTOR RATING
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M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
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Flash
BMO Capital Markets

Exelon

(EXC-NYSE)

Rating: **Market Perform**
Target Price: $36.00 Total Return: 6%
Price (22-Mar): $35.00

March 23, 2016

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DC Public Service Commission Green-Lights the Exelon/Pepco Merger Agreement

In a two-to-one vote, the Public Service Commission of the District of Columbia (DC PSC) voted in favor of the merger settlement agreement between Exelon and Pepco Holdings Inc. (POM, $27.10, Not Rated). Voting to approve the amended merger settlement agreement were Commissioners Joanne Doddy Fort and Willie L. Phillips; Chairman Betty Ann Kane reaffirmed her vote against the merger. Before today's decision, which was the last hurdle in the merger approval process, the DC PSC had rejected the proposal twice.

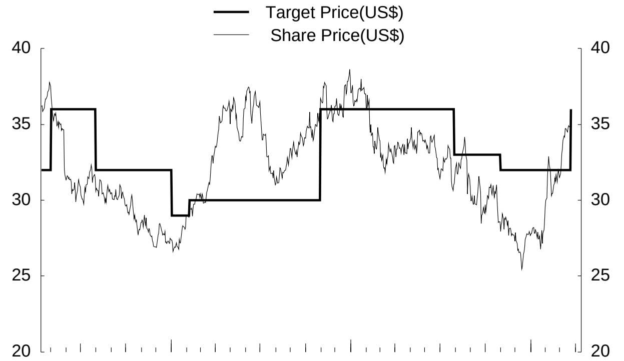
On March 7, Exelon and Pepco Holdings filed a proposal with the DC PSC, which had previously rejected the merger settlement, that outlined three different approaches, any one of which, if approved, would continue to allow for the distribution of $78 million in benefits for the District and POM customers as agreed to in the original settlement and allow the two companies to complete the merger. Both companies stated in their joint filing that they were prepared to **1)** deliver the benefits of the original merger settlement; **2)** accept all the alternative terms the DC PSC outlined in its February 26 filing that would place the merger in the public interest; or **3)** offer an alternative third option that EXC/POM claimed would balance the alternate terms the PSC outlined with the views of some of the nine settling parties on the issue of rate credits to residential customers. According to today's proceedings, option 2 was mutually agreed upon.

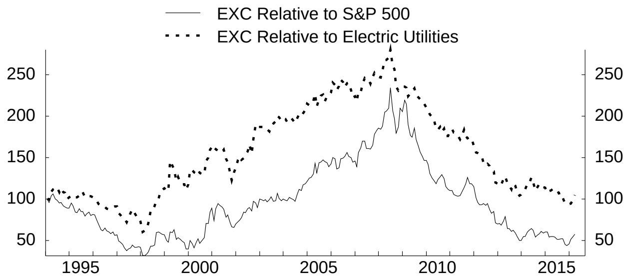
Our View:

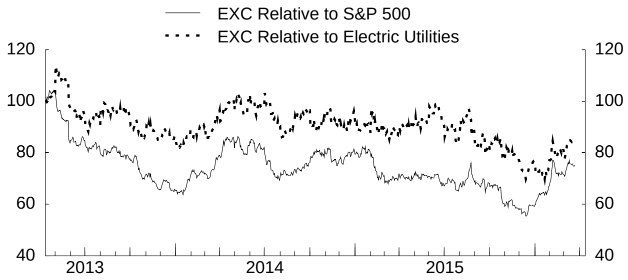
- We view the news positively for EXC shares, as it ends a process of merger discussions with various stakeholders that lasted more than two years.
- As per the latest disclosures from EXC regarding the economics of the merger, the transaction is expected to be a ~$0.07/share drag to earnings in 2016; neutral to 2017 EPS; $0.07-0.12/share accretive to 2018; and $0.15-0.20/share accretion to 2019, assuming EXC receives constructive rate relief.
- We expect to receive further commentary and updates from EXC regarding today's decision.

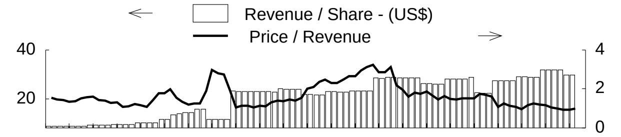
Please refer to pages 2 to 5 for Important Disclosures, including the Analyst's Certification.

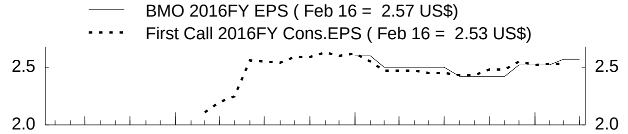
Exelon Corporation (EXC)

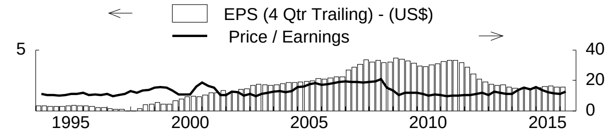


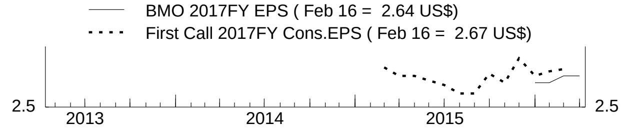












FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1994	1.21	12.9	9.8	0.77	6.5	5.0	64	9.7	1.6	1.2	
1995	1.27	12.0	9.3	0.83	7.0	5.5	65	10.2	1.5	1.2	13
1996	1.17	13.9	9.6	0.88	7.8	5.4	75	10.4	1.6	1.1	11
1997	0.63	20.9	14.9	0.90	9.6	6.8	>100	6.1	2.2	1.5	8
1998	1.33	15.9	7.1	0.50	5.3	2.4	38	6.8	3.1	1.4	20
1999	1.59	15.9	9.7	0.50	3.3	2.0	31	4.9	5.2	3.1	27
2000	1.90	18.7	8.4	0.50	3.1	1.4	26	11.3	3.1	1.4	23
2001	2.25	15.8	8.6	0.91	4.7	2.6	41	12.8	2.8	1.5	19
2002	2.42	11.8	7.8	0.88	4.6	3.1	36	12.0	2.4	1.6	19
2003	2.61	12.8	8.8	0.96	4.2	2.9	37	13.0	2.6	1.8	21
2004	2.77	16.2	11.1	1.26	4.1	2.8	45	14.1	3.2	2.2	20
2005	3.09	18.6	13.2	1.60	3.9	2.8	52	13.7	4.2	3.0	22
2006	3.22	19.8	15.9	1.60	3.1	2.5	50	14.9	4.3	3.4	23
2007	4.32	20.1	13.6	1.76	3.0	2.0	41	15.3	5.7	3.8	29
2008	4.20	21.9	9.8	2.03	4.9	2.2	48	16.8	5.5	2.5	26
2009	4.12	14.3	9.3	2.10	5.5	3.6	51	19.2	3.1	2.0	23
2010	4.06	12.8	0.0	2.10	2.1E6	4.0	52	20.5	2.5	0.0	20
2011	4.16	10.9	9.4	2.10	5.4	4.6	50	21.7	2.1	1.8	20
2012	2.85	15.6	10.0	2.10	7.4	4.7	74	25.1	1.8	1.1	12
2013	2.50	15.1	10.7	1.24	4.7	3.3	50	26.5	1.4	1.0	10
2014	2.39	16.3	11.1	1.24	4.7	3.2	52	26.3	1.5	1.0	9
2015	2.49	15.6	10.1	1.24	4.9	3.2	50	26.5	1.5	0.9	9
Range*:		21.9	0.0		>100	1.4			5.7	0.0	
Current*	2.51	12.5		1.24	3.9		49	25.5	1.2		10
Growth(%):											
5 Year:	-9.2			-10.0				5.9			
10 Year:	-2.1			-2.5				6.4			
20 Year:	3.5			2.1				4.7			

EXC - Rating as of 12-Mar-09 = Mkt

* Current EPS is the 4 Quarter Trailing to Q4/2015.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (March 22, 2016): $35.00
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

IMPORTANT DISCLOSURES

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Methodology and Risks to Price Target/Valuation

Methodology: Our valuation is based on a combination of our 2017 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and 15x 2017E P/E multiple.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Distribution of Ratings (December 31, 2015)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	20.9%	53.7%	44.1%	53.8%	55.6%
Hold	Market Perform	54.6%	13.5%	45.1%	52.3%	45.6%	39.4%
Sell	Underperform	3.4%	5.9%	1.2%	3.6%	0.5%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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Und = Underperform - Forecast to underperform the analyst’s coverage universe on a total return basis
(S) = speculative investment;
NR = No rating at this time;
R = Restricted – Dissemination of research is currently restricted.

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http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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Equity Research
Flash Comment

WELLS FARGO SECURITIES

March 23, 2016

ES-NYSE--Outperform (1)
EXC-NYSE--Outperform (1)
CNL-NYSE--Market Perform (2)
POM-NYSE--Market Perform (2)

Energy Team

Energy And Utility Daily

Neil Kalton, CFA, Senior Analyst (314) 875-2051

Sector Rating: Energy Team, NA

Quick thoughts from Wells Fargo Securities, LLC Energy & Utility Team:

Utilities

Exelon Corp. (EXC/Outperform) & Pepco Holdings, Inc. (POM/Market Perform) (Kalton) - Clarity in the ongoing saga known as the EXC/POM merger could emerge later today (3/23). The District of Columbia Public Service Commission (DCPSC) meeting starts at 11:00am ET and the merger docket (FC 1119) is listed as the last item on the agenda (according to Bloomberg, the DCPSC intends to vote). EXC/POM's response to Commissioner Fort's revised Non-Unanimous Full Settlement Agreement (NSA) requested a decision by 4/7 and, after today, the next regularly scheduled DCPSC meeting is 4/13. The merger remains on life support with some key intervenors asking for the plug to be pulled while other parties are hoping Commissioner Fort has a change of heart after having rejected the original settlement. Given the surprises that have come out of the DCPSC and other state regulatory bodies recently, we feel like anything COULD still happen despite many arrows pointing to this deal finally breaking.

Ahead of a final decision, investors are asking what a standalone POM looks like (who will be the CEO, how much equity is needed, is the dividend secure, etc.) and what is the appropriate valuation if the deal does fall apart? After trading between $26-27/sh for the first couple months of 2016 (EXC's offer is for $27.25/sh), POM shares have tumbled 20% since the 2/25 close versus a 3% gain for the S&P Utilities. Based on rough math, we believe there could be modest further downside to POM shares from yesterday's $21.24 close. Applying a 10-15% discount to the 2018E Regulated Electric median P/E of 17X to our hypothetical $1.30-1.35 2018E EPS results in a present value of $19-20/sh. Of course the devil will be in the details in terms of the standalone financial strategy POM communicates and the regulatory treatment afforded in the next round (or two) of rate cases - POM filed a NJ rate case on 3/22 and other jurisdictions are expected to follow shortly.

As a reminder, DCPSC approval is the final piece of the puzzle needed to consummate the merger. The DCPSC denied the original NSA on 2/26 before approving a revised NSA for the settling parties to consider adopting. However, key parties such as the Mayor, the Office of People's Counsel, the Attorney General and the D.C. Water and Sewer Authority opposed the revised NSA due primarily to the potential reallocation of $25.6M of rate credits originally earmarked for residential

Please see page 4 for rating definitions, important disclosures and analyst certifications.
All estimates/forecasts are as of 03/23/16 unless otherwise stated.

customers. Seemingly unable to reach a new agreement with the parties, EXC/POM filed a motion on 3/7 requesting the DCPSC approve one of three options: (1) the revised NSA, (2) the original NSA or (3) EXC/POM modifications to the revised NSA - keeps the $78M in promised benefits intact, including the $25.6M for residential rate credits, but would give the DCPSC discretion over $20M of funds previously dedicated to the Modernizing the Energy Delivery System for Increased Sustainability (MEDSIS) subaccount.

CLECO (CNL/Market Perform) (Kalton) - On 3/22, shares of CNL finished down 2.2%, versus the S&P Utilities down 0.4%, likely driven by comments made at the Louisiana Public Service Commission's (LPSC) Business and Executive (B&E) session regarding the proposed acquisition of CNL by an investor group led by Macquarie Infrastructure & Real Assets and British Columbia Investment Management Corp. To get things started, CNL and the investor group withdrew the motion for rehearing shortly before the meeting and proposed a special meeting be held to discuss the transaction (and, potentially, a final decision) early next week. The LPSC countered by proposing that they meet today (3/23); ultimately, the parties settled on a 3/28 hearing. It is our understanding that a final decision on the proposed transaction could be handed down at the 3/28 meeting. The applicants made a strong case for a decision no later than 3/30 indicating that further delay would significantly complicate the process (potentially requiring renegotiation of financial documents).

We find it interesting, and not overly reassuring, that the company wanted to postpone the discussion into next week when the potential for a vote was on the table yesterday. We continue to believe that there is a path to approval given that two of the five commissioners appear to be in favor of the transaction, and a third - the a potential swing vote - offered an avenue to completing the transaction during the B&E meeting. However, the commissioner's terms, which included significantly increasing customer benefits (3-4X the current offer), were met with a less than enthusiastic reception from the applicants, who maintained that the existing offer was the best they could provide under the current circumstances.

Eversource Energy (ES/Outperform) (Kalton) - Yesterday afternoon the Administrative Law Judge (ALJ) in the New England Transmission Owners' second and third ROE complaints issued an initial decision. We believe the initial decision is at least supportive of our ongoing 2016-19E EPS of $3.00, $3.20, $3.35 & $3.55 which reflect no material changes to the current FERC (Federal Energy Regulatory Commission) authorized 10.57% base ROE (11.74% ceiling). While the ALJ's 9.59% base ROE (10.42% ceiling) in the second complaint would result in incremental net refunds due to the lower ROE, the recommendation in the third complaint for a 10.90% base ROE (12.19% ceiling) would represent modest upside potential. A final FERC order is expected late 2016 or early 2017.

Exelon Corporation (EXC-NYSE)
Price as of 3/22/2016: $35.00
FY 16 EPS: $2.55
FY 17 EPS: $2.75
Shares Out.: 861.2 MM
Market Cap.: $30,142.0 MM

Pepco Holdings, Inc. (POM-NYSE)
Price as of 3/22/2016: $21.24
FY 16 EPS: $1.05
FY 17 EPS: $1.15
Shares Out.: 253.6 MM
Market Cap.: $5,386.46 MM

CLECO Corp (CNL-NYSE)
Price as of 3/22/2016: $46.53
FY 16 EPS: $2.55
FY 17 EPS: $2.75
Shares Out.: 60.5 MM
Market Cap.: $2,815.07 MM

Eversource Energy (ES-NYSE)
Price as of 3/22/2016: $57.48
FY 16 EPS: $3.00
FY 17 EPS: $3.20
Shares Out.: 317.2 MM
Market Cap.: $18,232.66 MM

Rating Basis Information:
EXC Thesis: Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet.

Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

POM Thesis: We are attracted to POM's regulated growth opportunities and relatively high concentration of transmission earnings. Our Market Perform rating reflects valuation considerations given our belief that the pending acquisition by EXC for $27.25/sh will be approved and close during 1H'16.

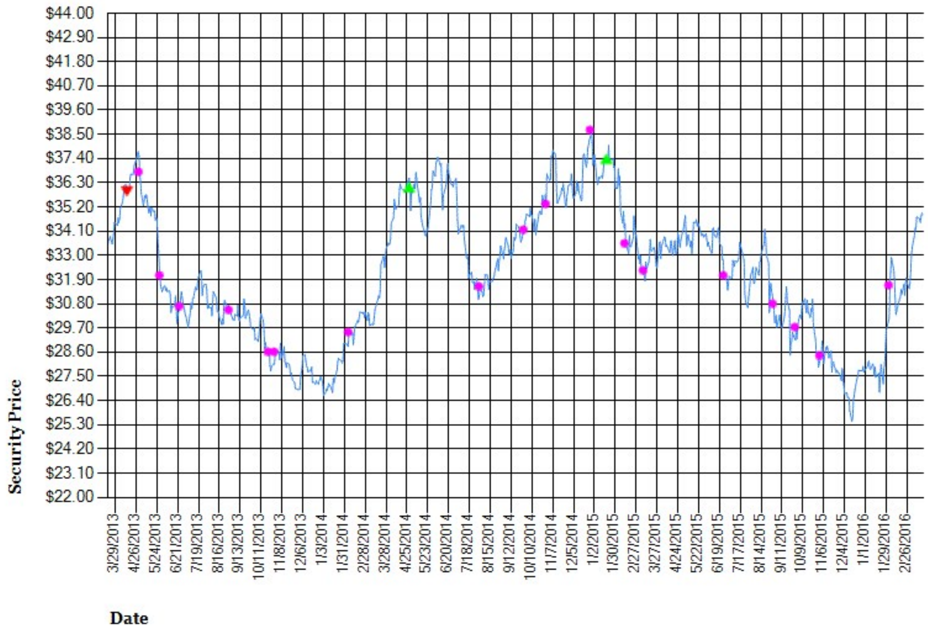
CNL Thesis: We are attracted to CNL's constructive regulatory environment and healthy financial position. Our Market Perform rating reflects valuation considerations.

ES Thesis: We believe shares of ES warrant a 5-10% premium P/E given an above average EPS & DPS growth profile, heavy concentration of FERC-regulated earnings, proven management team and strong financial position.

DISCLOSURE APPENDIX

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	2	31.00	32.00	33.47
▼ ●	4/15/2013	36.22	3	31.00	32.00	35.84
●	5/1/2013	36.75	3	32.00	33.00	36.75
●	5/28/2013	34.65	3	29.00	30.00	32.04
●	6/24/2013	30.30	3	26.00	27.00	30.62
●	8/30/2013	30.49	3	25.00	26.00	30.49
●	10/21/2013	28.58	3	23.00	24.00	28.58
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲ ●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲ ●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61

Source: Wells Fargo Securities, LLC estimates and Reuters data

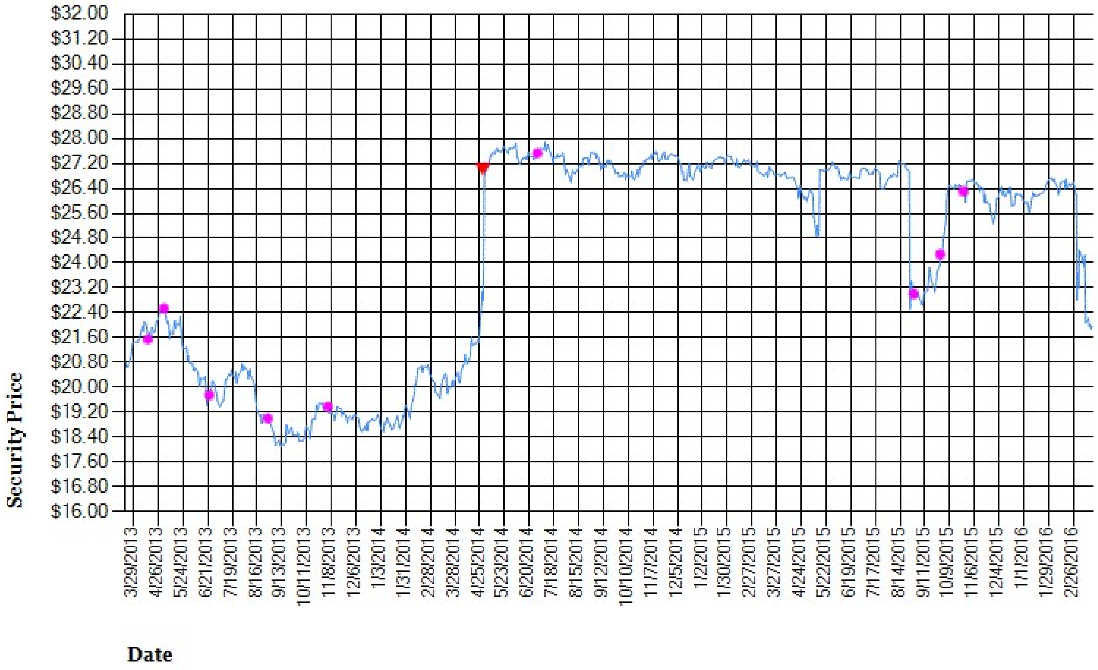
Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	☐	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Pepco Holdings, Inc. (POM) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	1	22.00	23.00	20.70
●	4/15/2013	22.05	1	23.00	24.00	21.52
●	5/3/2013	22.39	1	24.00	25.00	22.51
●	6/24/2013	19.88	1	22.00	23.00	19.73
●	8/30/2013	18.92	1	21.00	22.00	18.94
●	11/6/2013	19.18	1	22.00	23.00	19.34
▼ ●	5/1/2014	26.76	2	26.25	27.25	26.93
●	6/30/2014	27.46	2	27.00	27.50	27.48
●	8/31/2015	23.01	2	23.00	24.00	22.98
●	9/30/2015	24.26	2	25.00	26.00	24.22
●	10/26/2015	26.27	2	27.00	27.50	26.27

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
☐ Split Adjustment

Rating Code Key

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2	Market Perform/Hold	NR	Not Rated
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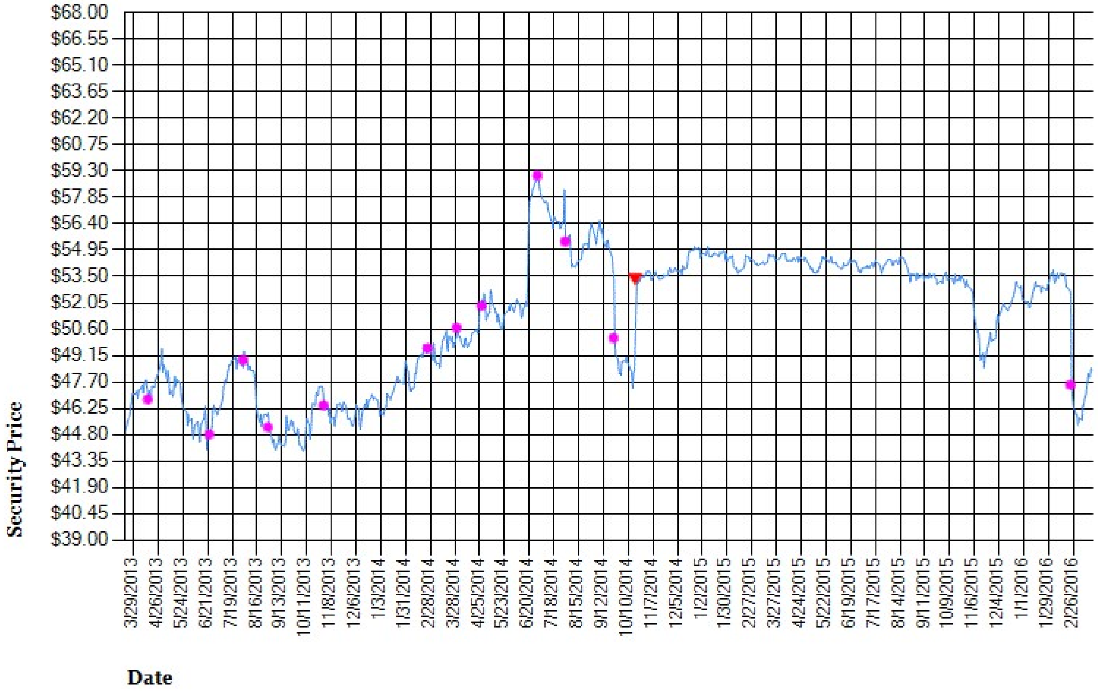
CLECO Corp (CNL) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	1	49.00	50.00	44.66
●	4/15/2013	47.81	1	53.00	54.00	46.69
●	6/24/2013	45.08	1	49.00	50.00	44.71
●	8/2/2013	48.82	1	53.00	54.00	48.86
●	8/30/2013	45.33	1	50.00	51.00	45.16
●	10/31/2013	46.34	1	51.00	52.00	46.34
●	2/26/2014	49.49	1	53.00	54.00	49.49
●	3/31/2014	50.58	1	55.00	56.00	50.58
●	4/29/2014	51.93	1	56.00	57.00	51.83
●	6/30/2014	58.78	1	60.00	64.00	58.95
●	8/1/2014	55.74	1	59.00	61.00	55.34
●	9/25/2014	50.01	1	54.00	56.00	50.01
▼●	10/20/2014	53.46	2	55.00	55.50	53.24
●	2/24/2016	47.49	2	49.00	51.00	47.49

Source: Wells Fargo Securities, LLC estimates and Reuters data

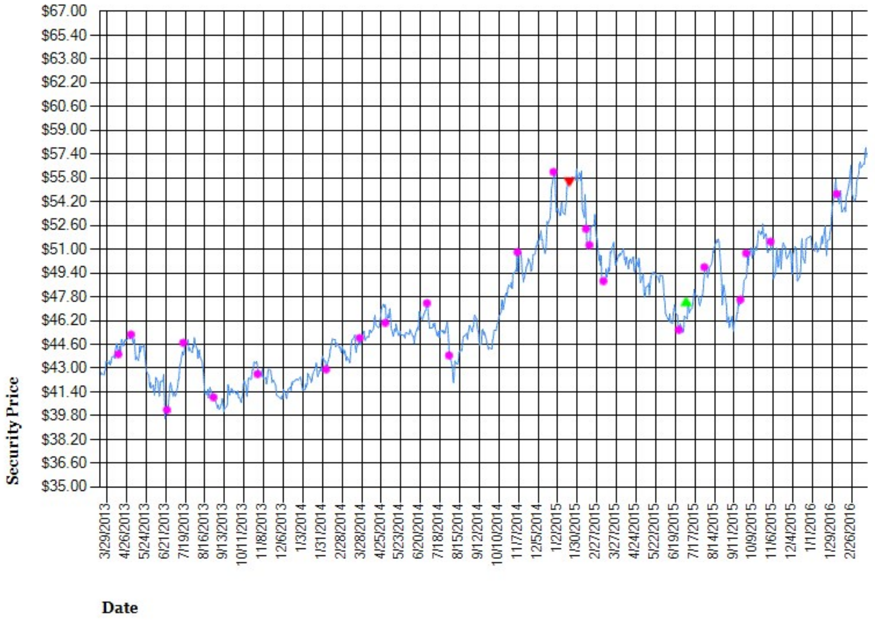
Symbol Key

▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
☐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Eversource Energy (ES) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	1	46.00	47.00	42.39
●	4/15/2013	44.66	1	49.00	50.00	43.83
●	5/3/2013	45.09	1	50.00	51.00	45.16
●	6/24/2013	40.37	1	46.00	47.00	40.14
●	7/18/2013	43.93	1	49.00	50.00	44.62
●	8/30/2013	40.87	1	46.00	47.00	40.97
●	11/1/2013	42.33	1	48.00	49.00	42.50
●	2/6/2014	42.87	1	47.00	48.00	42.87
●	3/27/2014	44.70	1	49.00	50.00	44.95
●	5/2/2014	46.05	1	50.00	51.00	45.98
●	6/30/2014	47.16	1	52.00	53.00	47.27
●	8/1/2014	43.81	1	49.00	50.00	43.79
●	11/7/2014	50.70	1	55.00	56.00	50.70
●	12/29/2014	55.67	1	60.00	61.00	56.15
▼●	1/20/2015	55.55	2	58.00	59.00	55.36
●	2/12/2015	52.27	2	55.00	56.00	52.30
●	2/17/2015	51.02	2	54.00	55.00	51.23
●	3/9/2015	48.76	2	52.00	53.00	48.76
●	6/25/2015	45.85	2	48.00	49.00	45.51
▲●	7/7/2015	46.31	1	51.00	52.00	47.38
●	7/31/2015	49.63	1	54.00	55.00	49.72
●	9/21/2015	47.22	1	52.00	53.00	47.51
●	9/30/2015	49.90	1	53.00	54.00	50.62
●	11/3/2015	51.17	1	56.00	57.00	51.45
●	2/5/2016	54.51	1	59.00	61.00	54.66

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ☐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

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EXC: Risks include commodity price sensitivity and unfavorable regulatory/policy developments.
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3 = Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
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M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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As of: March 23, 2016

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SECURITIES NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

QUICK THOUGHTS
March 23, 2016

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

EXC - POM Merger Approved

Buy

Price: $35.00

- Washington DC Utility Commission, in a 2-1 vote, approved the EXC / POM merger.

- Pepco Holdings (POM, $27.15, Neutral) - to be acquired for cash at $27.25/ share.

- Exelon Corp (EXC, $34.91, Buy) - POM acquisition is already factored in our assumptions, so no changes to our estimates.

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SEE PAGE 2 FOR REQUIRED DISCLOSURE INFORMATION

Companies Mentioned in This Note

Pepco Holdings (POM, $27.15, Neutral)

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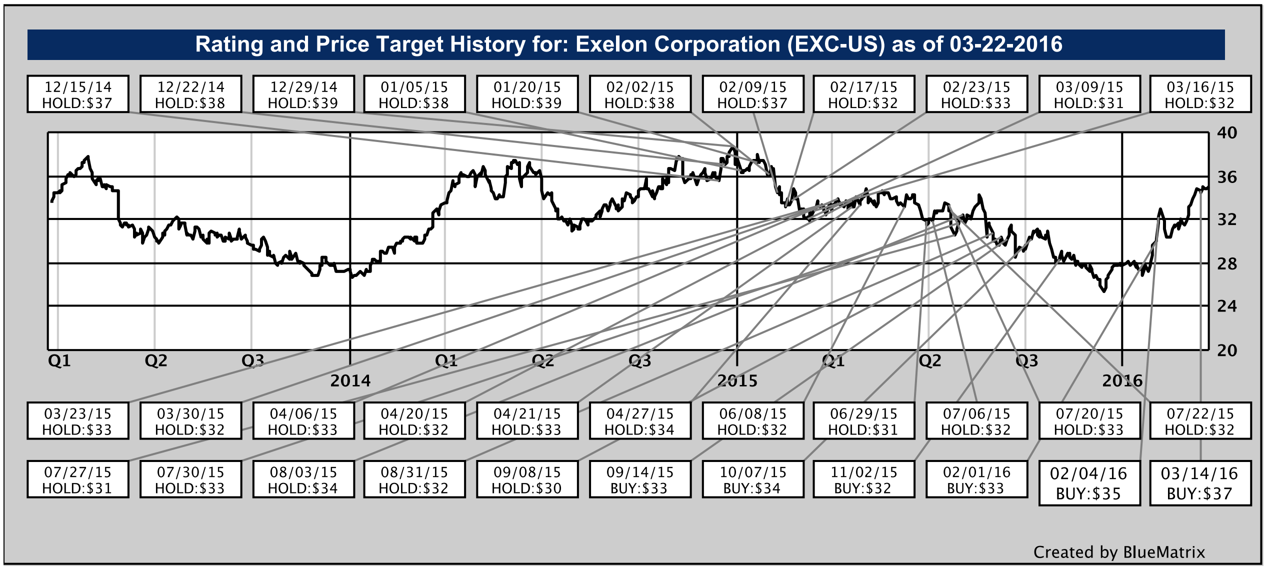

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3 designations based on total returns* within a 12-month period**

- **Buy** – total return ≥ 15% (10% for low-Beta securities)***
- **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
- **Neutral** – total return is within the bounds above
- **NR** – NOT RATED, STRH does not provide equity research coverage
- **CS** – Coverage Suspended

*Total return (price appreciation + dividends)
**Price targets are within a 12-month period, unless otherwise noted
***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average Beta

Legend for Rating and Price Target History Charts:
D = drop coverage
I = initiate coverage
T = transfer coverage

SunTrust Robinson Humphrey ratings distribution (as of 03/23/2016):

Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	364	55.32%	Buy	135	37.09%
Neutral	289	43.92%	Neutral	67	23.18%
Sell/Reduce	5	0.76%	Sell/Reduce	1	20.00%

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Exelon

Exelon receives final approval for Pepco merger from D.C.

Maintain Rating: NEUTRAL | PO: 34.00 USD | Price: 34.72 USD

Bank of America Merrill Lynch

Equity | 23 March 2016

Key takeaways

- D.C. PSC surprisingly approved the Exelon-Pepco merger application based on the revised non-unanimous settlement agreement.
- Deal expected to close in a few days with no impact on our PO as we previously included $0.08 of accretion; maintain Neutral.
- Lateral impact: SMID cap valuations continue to embed takeout premium, but relative performance upside appears to be limited.

Exelon-Pepco merger gets the go-ahead

On 3/23/16, the D.C. Public Service Commission surprisingly approved the Exelon-Pepco merger application by a 2-1 vote. The commission voted in favor of the revised non-unanimous settlement agreement (RNSA) presented during the 2/26/16 commission meeting. As the RNSA was not entirely supported by all parties to the original settlement, the commission decided to base its decision on the overall benefits of the revised terms. With the D.C. approval now in hand, we expect the deal to close in the next few days. Our take: the completion of the deal is a marginal positive for Exelon as the dividend payout ratio is now fundamentally supported by regulated earnings. Furthermore, the success of this merger could be seen as a lateral for the NextEra-Hawaiian deal that is still pending in front of the Hawaiian commission. In that situation, there is a widespread perception that various stakeholders in Hawaii oppose the deal, but the EXC/POM saga is a reminder that the state commissioners are effectively the only deciders that matter. Our rough calculations suggest NEE/HE are pricing in roughly a 35% probability of merger approval.

SMID caps have limited upside on M&A expectations

The state commissions continue to extract sizable customer benefits from the M&A run. In this case, the D.C. commission revised the settlement terms to its liking and proceeded to approve them later. While this is not new, this decision could be seen as providing additional precedent for commissions to revise settlement terms in favor of different consumer groups. Nevertheless, we believe the M&A run appears to be in the late innings (Fed is now raising rates, gas infrastructure spending is slowing), and the SMID caps appear to be fairly valued for the takeout premium. In our view, the SMID caps as a whole have little relative upside performance remaining, and we continue to reiterate our Underperforms on several SMID names.

PO unchanged; Maintain Neutral

With the completion of the Pepco merger expected to be finalized over the next few days, the Exelon regulated story now turns to a focus on execution and to see if the benefits will materialize. Exelon will start filing rate cases for Pepco given the two year delay due to the ongoing merger. Our PO is not expected to change as in our latest model we included $0.08 of accretion for the deal in our valuation (but not our official EPS estimates). Maintain Neutral.

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Stock Data

Price	34.72 USD
Price Objective	34.00 USD
Date Established	10-Mar-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 35.50 USD
Mrkt Val (mn) / Shares Out (mn)	32,081 USD / 924.0
Average Daily Value (mn)	271.99 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2016E)	8.7%
Net Dbt to Eqty (Dec-2015A)	72.5%

Exelon: While Pepco saga continues, forward power prices continue to slide 10 March 2016

Exelon: Snatching defeat from the jaws of victory; could SMIDs lose their premium? 01 March 2016

Exelon: A New Deal In Washington DC; Exelon-Pepco Merger Update 26 February 2016

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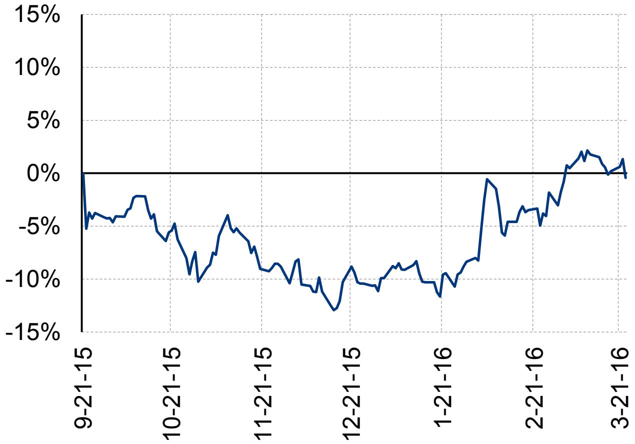
Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

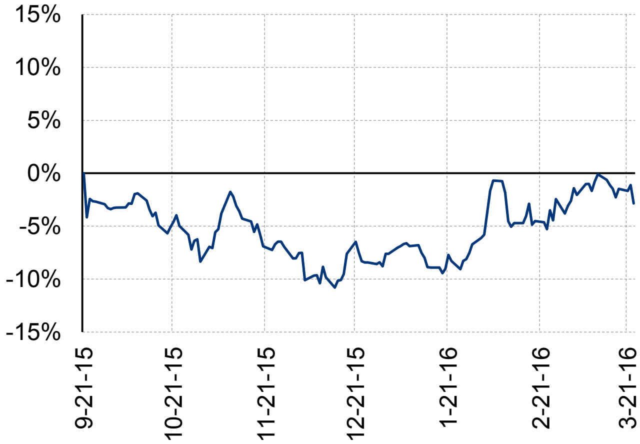
Relative Performance Charts

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

Price objective basis & risk

Exelon (EXC)

Our $34/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $8 of value to ExGen, $1 for the parent, and approximately $25 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2018E earnings and EBITDA. For Exelon specifically we use a target 6.8x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply a target 15.0 P/E multiple to value the regulated side of the business, which is a discount to regulated peers at 15.5x to reflect the generally below-average ROEs allowed by the state commissioners for the states in which Exelon has regulated operations.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario, and 4) risks to the successful completion of the Pepco Holdings acquisition

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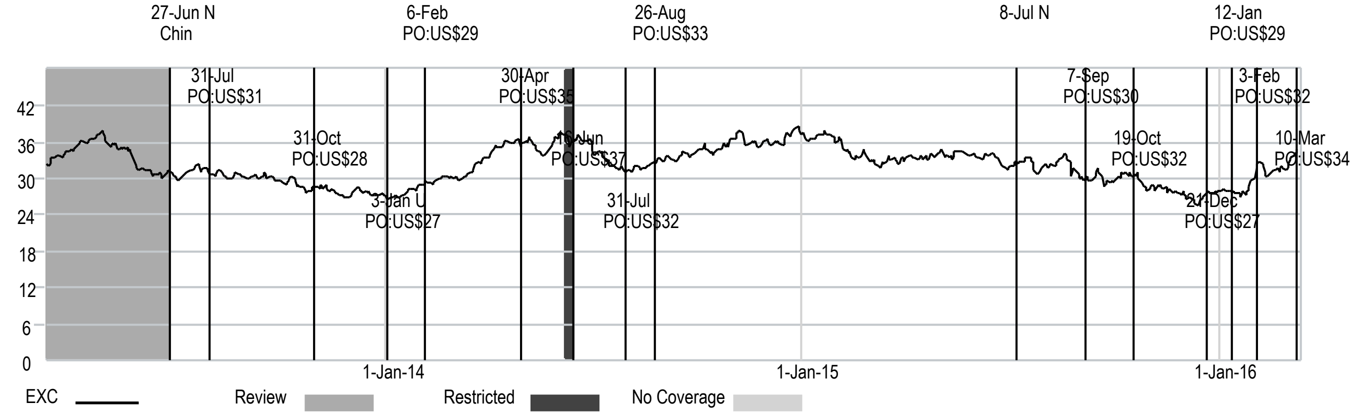
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	47.26%	Buy	58	84.06%
Hold	40	27.40%	Hold	32	80.00%
Sell	37	25.34%	Sell	27	72.97%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1673	50.16%	Buy	1244	74.36%
Hold	777	23.30%	Hold	545	70.14%
Sell	885	26.54%	Sell	533	60.23%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon Alert

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
23 March 2016

Breaking News

Third time's a charm

DC PSC shocks again, this time approving POM-EXC deal

After almost two years, the DC Public Service Commission approved Exelon's purchase of Pepco Holdings (POM) in 2-1 vote, allowing the transaction to move forward. All other relevant regulators had already approved the deal, and we now expect the transaction to close shortly. The approval was quite unexpected with most analysts, including us, thinking the deal was likely over. As a result, POM traded up almost 28% after the announcement.

Deal approved subject to revised settlement agreement

In the end, the commission approved the deal largely subject to its own revised settlement agreement, which was issued by the PSC last month. At that time, the PSC denied a settlement reached by many parties in the case this past fall, including the DC Mayor, and indicated the deal could move forward if all of the original settling parties would agree to the PSC's revisions. In the alternative, the PSC suggested that the settling parties get together to request other relief. Neither of these outcomes occurred. Many of the settling parties (OPC, DC Gov't, DC Water) stated they could not accept the revised settlement agreement proposed by the PSC. But they also could not agree as one entity on a path forward. As a result, EXC and POM filed on March 7 recommending three options for approval: 1) approve the original settlement agreement; 2) approve the revised settlement agreement; or 3) approve an alternative agreement. The PSC ultimately selected option 2.

No changes to estimates as model already includes POM

We are maintaining our estimates and price target which we had already updated to assume the merger would close at the end of Q1/early Q2. We would have likely raised our 2016 and 2017 EPS estimates by $0.05-$0.10 had the deal failed. That said, we did not see a material impact on our EXC valuation if the deal had failed to close.

Analyst Day likely on the horizon

Following the close, EXC will likely host an Analyst Day to review the financial outlook for the company including POM. While possible in late Q2, the company may prefer to delay to sometime in the second half.

Price at 22 Mar 2016 (USD)	35.00
Price target	34.00
52-week range	35.00 - 25.46

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Stock & option liquidity data

Market cap (USDm)	32,322.5
Shares outstanding (m)	923.5
Free float (%)	100
Volume (22 Mar 2016)	1,264,789
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.26

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
1Q EPS	0.71	–	–
2Q EPS	0.59	–	–
3Q EPS	0.83	–	–
4Q EPS	0.38	–	–
FY EPS (USD)	2.49	2.50	2.65
P/E (x)	12.8	14.0	13.2

Source: Deutsche Bank
* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

RBC Capital Markets®

RBC Insight

Exelon Corp (EXC): D.C. Commission Approves Exelon/Pepco Merger

Sentiment Indicator : **positive**

Posted by Tucker, Shelby (RBC Capital Markets, LLC) on Wednesday, March 23, 2016, 15:08 PM ET

Our View: In the latest turn of events, the D.C. commission approval allows for Exelon (EXC; Outperform; $34 PT) to successfully acquire Pepco Holdings (POM; Not Rated) after a two-year approval process. While the opposing parties to the decision (i.e. Mayor's office and Office of People's Counsel) have the option to challenge this decision with the courts, we believe the length of such a process would make the attempt unlikely to succeed. We were always of the opinion that the deal would not go through, with our estimates incorporating the buyback of 57.5 million shares of equity and redemption of $4.2 billion of debt related to the deal. Thus, our model is currently under review.

Today, the D.C. Public Service Commission (DCPSC) approved the Exelon/Pepco merger with a 2-1 vote; Chair Betty Ann Kane was the dissenting vote. The two approving commissioners adopted the second of the three options submitted by the companies (below), which represents the alternative proposed by Commissioner Joanne Fort.

1. The original merger settlement filed on October 6, 2015 (with support of the D.C. Mayor's office, Office of People's Counsel, and other parties);
2. **(Approved and adopted)** The revised settlement proposed by the DCPSC on February 26, which included deferring the decision on allocation of $25.6 million Customer Base Rate Credit among customer classes. The original settlement had called for full allocation to residential customers; this revision is not supported by all settling parties, including the Mayor's office, Office of People's Counsel, and D.C. Water.
3. An alternative proposal that increased the Customer Base Rate Credit from $25.6 million to $45.6 million (with $25.6 million to be allocated to residential customers and $20 million to be used to offset rate increases for any/all customer classes). The funding for a pilot grid modernization program would be decreased by $20 million.

This represents the last remaining approval needed for deal closure; we expect the parties to complete the transaction this week.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Exelon Corporation	NYSE	EXC	Outperform	Not Assigned	34.00	US Dollar	35.16	23 Mar 2016 12:57:05 ET

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Equity Research

Power & Utilities | North America Power & Utilities

24 March 2016

Exelon Corp.

De-risked and Positioned for Growth

We are reinstating our rating on Exelon Corp. at Overweight following the acquisition of PEPCO Holdings Inc.: We rate the shares Overweight with a $39 price target. Given the above average growth potential for the utilities a premium may be warranted; however until synergy realization and rate construct are rationalized, we think a group average multiple is appropriate. The expectation for solid capacity prices and stabilizing energy prices leads us to use 6.5x EBITDA for generation valuation.

The combination results in a lower risk profile given the higher percentage of earnings from the regulated utilities: Post closure of the merger, over 50% of the earnings come from the regulated companies given the current forward prices for energy and capacity. There should be a solid contribution to earnings growth from the utilities driven by greater than 7% annual rate base growth through 2018. This higher percentage of earnings from regulated should allow for modest multiple expansion over time. Capital investment, synergies and narrowing the spread between earned and allowed ROE provides above-average growth potential for regulated earnings. Capacity performance, plant closures, increased volatility pricing and potential nuclear value from the Clean Power Plan or state initiatives provide potential upside to generation earnings.

Risks to the Call: There are several risks to the call given the volatile nature of power markets and regulatory outcomes. This volatile nature is highlighted by a $3.2B range in gross margin for 2018 for Exelon Generation. Additionally, the ability to obtain rate increases and manage costs to narrow the earned-to-allowed ROE gap is critical in obtaining projected growth metrics. A $50/MW-Day move in capacity moves adjusted EBITDA by approximately $450M, where a $0.50/mmbtu move in gas is nearly a $350M impact in adjusted EBITDA for 2018. A 50bp move in earned ROE is equivalent to $0.09 in eps. Given this, investors should watch regulatory outcomes and associated capital spending, capacity auction results, Clean Power Plan implementation and Illinois nuclear legislation.

EXC: Quarterly and Annual EPS (USD)

	2015	2016			2017			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2016	2017
Q1	0.71A	N/A	N/A	0.74E	N/A	N/A	0.78E	N/A	N/A
Q2	0.59A	N/A	N/A	0.52E	N/A	N/A	0.57E	N/A	N/A
Q3	0.83A	N/A	N/A	0.74E	N/A	N/A	0.69E	N/A	N/A
Q4	0.38A	N/A	N/A	0.49E	N/A	N/A	0.65E	N/A	N/A
Year	2.50A	N/A	2.55E	2.52E	N/A	2.69E	2.67E	2%	5%
P/E	13.9		13.6			12.9			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT from Rating Suspended
Industry View	NEUTRAL Unchanged
Price Target	USD 39.00 from N/A

Price (23-Mar-2016)	USD 34.72
Potential Upside/Downside	+12.3%
Tickers	EXC

Market Cap (USD mn)	32001
Shares Outstanding (mn)	921.69
Free Float (%)	99.79
52 Wk Avg Daily Volume (mn)	7.9
52 Wk Avg Daily Value (USD mn)	N/A
Dividend Yield (%)	N/A
Return on Equity TTM (%)	N/A
Current BVPS (USD)	28.04

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 35.50-25.09

Link to Barclays Live for interactive charting

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North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corp. (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2015A	2016E	2017E	2018E	CAGR
Revenue	27,549	32,057	33,356	33,879	7.1%
EBITDA (adj)	6,583	7,765	8,462	8,957	10.8%
EBIT (adj)	4,077	4,530	4,914	5,184	8.3%
Pre-tax income (adj)	3,496	3,620	3,907	4,161	6.0%
Net income (adj)	2,229	2,366	2,552	2,717	6.8%
EPS (adj) ($)	2.50	2.55	2.69	2.82	4.1%
Diluted shares (mn)	893.0	927.0	947.0	965.0	2.6%
DPS ($)	1.24	1.26	1.29	1.33	2.3%

Margin and return data					Average
EBITDA (adj) margin (%)	23.9	24.2	25.4	26.4	25.0
EBIT (adj) margin (%)	14.8	14.1	14.7	15.3	14.7
Pre-tax (adj) margin (%)	12.7	11.3	11.7	12.3	12.0
Net (adj) margin (%)	8.1	7.4	7.7	8.0	7.8
ROIC (%)	7.4	7.8	8.1	8.3	7.9
ROA (%)	2.4	2.5	2.6	2.7	2.5
ROE (%)	9.2	9.3	9.5	9.6	9.4

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	55,994	62,240	67,488	72,236	8.9%
Total net assets	94,732	97,806	100,128	102,129	2.5%
Capital employed	54,860	57,953	60,370	62,516	4.5%
Shareholders' equity	24,759	26,018	27,431	28,978	5.4%
Net debt/(funds)	29,139	31,489	32,410	32,699	3.9%
Cash flow from operations	6,749	7,615	8,113	8,503	8.0%
Capital expenditure	-5,800	-9,482	-8,796	-8,521	N/A
Free cash flow	-183	-3,022	-1,868	-1,235	N/A
Pre-dividend FCF	949	-1,867	-683	-18	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	13.9	13.6	12.9	12.3	13.2
EV/EBITDA (adj) (x)	9.3	8.2	7.6	7.2	8.1
EV/EBIT (adj) (x)	15.0	14.0	13.1	12.5	13.6
P/BV (x)	1.3	1.2	1.2	1.2	1.2
Dividend yield (%)	3.6	3.6	3.7	3.8	3.7
Total debt/capital (%)	54.9	55.1	54.6	53.6	54.5
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					Average
Payout ratio (%)	49.7	49.5	48.1	47.1	48.6
Interest cover (x)	3.9	3.3	3.3	3.5	3.5
Regulated (%)	44.0	50.1	52.6	55.2	50.5

Price (23-Mar-2016)	USD 34.72
Price Target	**USD 39.00**

Why Overweight? We believe EXC has strong leverage to a rebound in demand or price in its markets that should be to its advantage if/when markets improve. That said, on current market forwards we do not see a bounce in margins, making the stock fairly valued versus its earnings opportunities over the next 2-3 years.

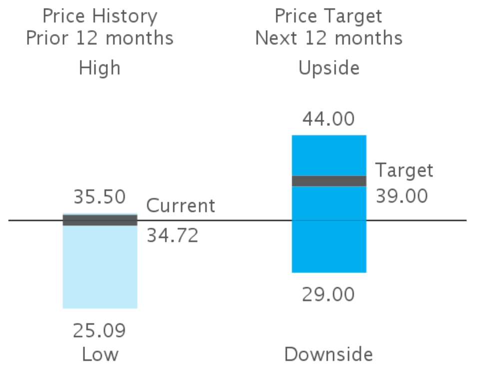
Upside case	USD 44.00

Our upside case assumes a more bullish commodity outlook that results in margin expansion and corresponding increase in valuation by 10%.

Downside case	USD 29.00

Our downside case assumes a $0.50 reduction in gas prices from the current forward curve, resulting in negative impacts to open EBTIDA and asset-based valuations, and the attribution of a discount due to challenged market location.

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

Investment Summary

Regulatory Execution and Power Markets Remain the Key

Exelon Corp post merger has six regulated subsidiaries: Commonwealth Edison, Philadelphia Electric Company, Baltimore Gas and Electric, PEPCO, Delmarva Power and Light and Atlantic City Electric. There is solid ratebase growth anticipated and the ability to reallocate capital to jurisdictions getting more favourable rate treatment allows for potentially higher growth. The 5-year capital plan is $18B for the legacy utilities and $25B for the combined companies. This capital plan drives anticipated earnings growth from the utilities in excess of 7% annually. Also the long-term expectation is to earn at or above a

10% ROE for the legacy utilities, with a significant reduction of the earned to allowed ROE gap for the PHI utilities.

Exelon Generation is a premier genco with over two-thirds of the installed capacity coming from non-carbon-emitting (NCE) sources, with another 29% coming from natural gas/oil fired plants. From a generation production perspective over 85% comes from NCE sources with another 10% coming from natural gas/oil fired generation. This creates a situation where Exelon is significantly more levered to any potential impacts surrounding the Clean Power Plan as Exelon Corp has among the lowest-emitting fleets in the nation. This benefit does come with some issues, as in certain regions under the current lower energy and capacity price environment the economics for the nuclear plants have become challenged. The plants currently at risk from a financial perspective are Ginna, Nine Mile Point, Quad Cities, Clinton and Byron. Until such point as energy and capacity prices rationalize and/or some version of carbon pricing materializes, these plants face an uncertain future. Given the increasing emphasis on clean power both at the state and federal level, nuclear plants with challenged economics either have been granted special treatment or are being considered for such. Examples include Ginna receiving reliability must run (RMR) payments and the proposed Illinois legislation that would allow for payments to the nuclear plants based on their NCE status in front of federal rules on carbon emissions. Additionally, the New York PSC has proposed a clean energy standard that recognizes the environmental and economic benefits of nuclear generation.

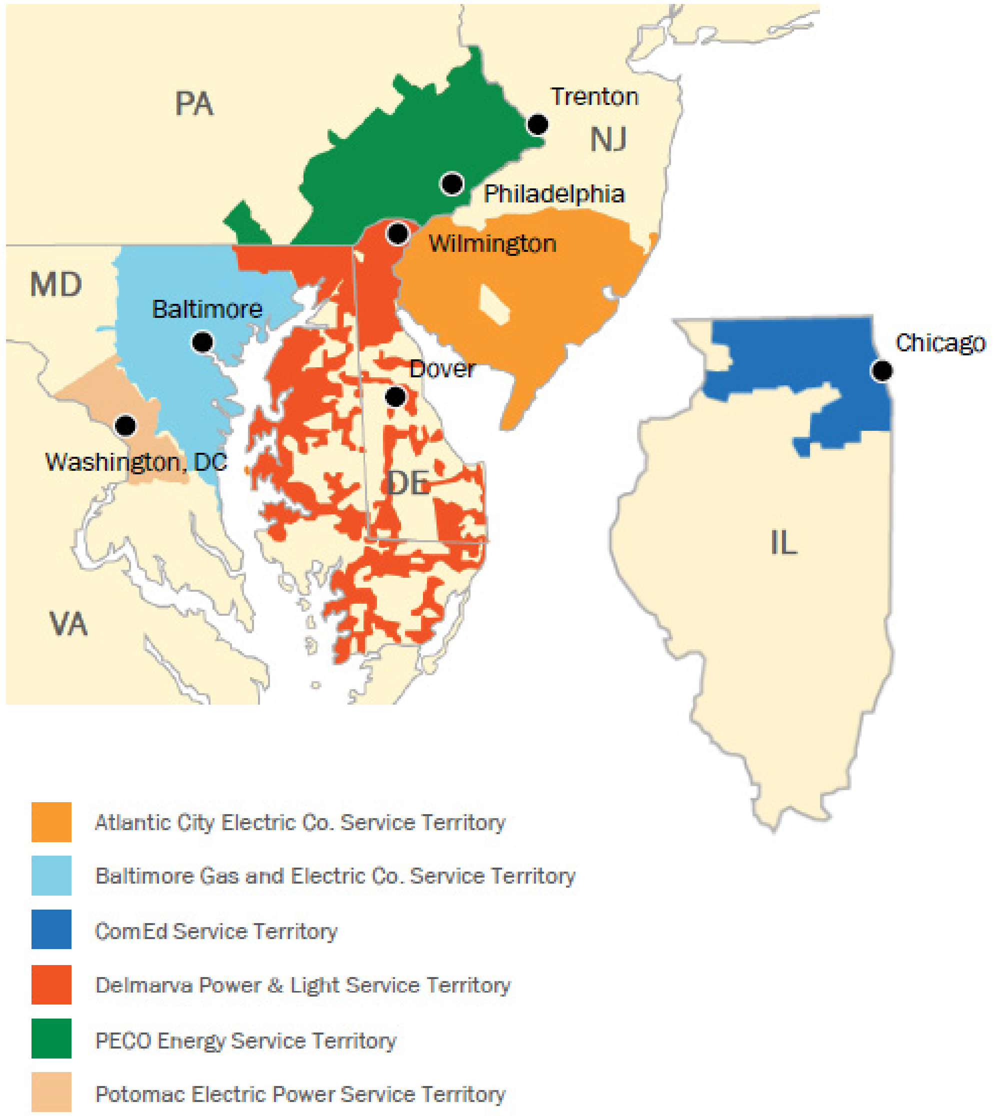
Capital Discipline and Dividends

Exelon is focused on investing only where the risk/reward meets their hurdle rates. As previously discussed, there is significant capital allocated for the utility business, given the expectation of earning near 10% returns on equity over the long run. The more difficult question is the investment in Exelon Generation. Obviously, any safety or reliability-based capital spending needs to be undertaken for both monetary and reputational reasons. Beyond these buckets, free cash flow will generally be harvested from Exelon Generation to fund investment in the utilities, to invest in contracted assets meeting required return thresholds, and to return capital to shareholders by retiring debt, repurchasing shares, or increasing the dividend. To that end, the company announced the expectation of annual dividend increases of at least 2.5% beginning in June of 2016.

The Merger

In April 2014, Exelon Corp. (EXC) announced the acquisition of PEPCO Holdings, Inc. (POM). EXC management saw an opportunity to expand their regulated footprint and growth profile, all while derisking the overall business profile. The transaction provided for a nearly 40% increase in ratebase upon closing, with greater than 8% rate base growth from 2015 through 2018. The higher mix of regulated earnings instantly improves credit metrics and the risk profile of the combined company. The management team post merger will be the same as Exelon Corp’s current management team. Chris Crane will remain as Chairman and CEO, Jack Thayer will remain as CFO. With regards to the leadership at each individual utility, in particular the legacy PEPCO Holdings, Inc subsidiaries, the leadership has not yet been announced.

FIGURE 1
Regulated Territories



Source: Exelon Corporation, Barclays Research

FIGURE 2

Regulatory Overview by Jurisdiction

Subsidiary	State	Service	Rate Base (Millions)	Equity Ratio	Allowed ROE
Commonwealth Edison Company	IL	Electric	$10,800	46.0%	5.8%+30 Year
Baltimore Gas & Electric Company	MD	Electric	$3,700	52.3%	9.75%
Baltimore Gas & Electric Company	MD	Gas	$1,200	52.3%	9.65%
Philadelphia Electric Company	PA	Electric	$4,700	56.0%	11.00%
Philadelphia Electric Company	PA	Gas	$1,300	56.0%	11.00%
PEPCO	MD	Electric	$2,000	49.2%	9.50%
PEPCO	DC	Electric	$2,000	49.9%	9.36%
Delmarva Power & Light	DE	Electric	$2,100	49.2%	9.75%
Delmarva Power & Light	DE	Gas	$300	48.0%	9.75%
Atlantic City Electric	NJ	Electric	$1,700	50.0%	9.75%

Source: Company Filings, SEC Filings, Barclays Research

Note: values are for 2015 for legacy Exelon utilities and 2014 for legacy PHI utilities.

Illinois

Commonwealth Edison is the largest regulated jurisdiction for Exelon, accounting for approximately 35% of the post merger rate base. The Illinois regulatory environment has been an issue in the past, but is improving. The Energy Infrastructure Modernizaton Act, passed in 2011, cleared the way for a formulaic rate recovery mechanism in Illinois. This formulaic rate plan has made filings and recovery of capital spending much more consistent. This consistency has a price associated with it as the allowed ROE is set at 580 basis points above the 30 year US Treasury Bonds, currently implying an 8.82% allowed ROE. This ROE is lower than most states, but the ability to earn the allowed ROE exists and has been accomplished over the past several years. When interest rates rise, the allowed ROE will also rise providing automatic benefits to Exelon.

Maryland

Maryland will become the second largest regulatory jurisdiction for Exelon as Baltimore Gas and Electric and PEPCO Maryland will account for 24% of the post merger rate base (excluding Delmarva Power and Light's Maryland operations). Maryland has been a challenging regulatory environment as both utilities earned ROEs have fallen over 250bps below their allowed levels. Currently allowed ROE's are in the mid to upper 9% range while earned returns have been in the 5-7% range depending on the jurisdiction. Recently settlements have been reached in cases and allowed returns have been slowly improving. Significant effort and the likelihood of annual rate filings will be need to close the earned to allowed ROE gap. However, following the PHI acquisition, increased operating efficiencies gained through scale should help to narrow this earnings gap.

Pennsylvania

Philadelphia Electric Company (PECO) represents 21% of the post merger rate base and is clearly the top regulatory climate in which Exelon operates. Allowed and earned ROEs top 10%. The PA jurisdiction has consistently earned the best return among the Exelon regulated subsidiaries. A recent filing was made with a request for a 10.95% ROE as well as a request for a distribution investment surcharge (DISC) which reduces regulatory lag, as set levels of investment are tracked into rates. Exelon expects to file in Pennsylvania for rates on a more regular basis going forward but this is likely every other year rather than the annual filings other jurisdictions will experience.

New Jersey, District of Columbia and Delaware

Outside of Maryland, the legacy PEPCO Holdings, Inc utilities represent less than 8% of post-merger rate base in each of these jurisdictions. Delaware has been the best of these three jurisdictions with allowed ROE of 9.75% and an earned ROE in the 8% range, while DC and New Jersey have allowed ROE's of 9.75% and 9.36% respectively with earned returns in the mid 5-6% range. These have been difficult jurisdictions historically and Exelon will need to make annual filings in an attempt to improve the regulatory treatment of these utilities. The good news is there is good earnings leverage to narrowing the allowed versus earned ROE gap, The bad news is PEPCO Holdings, Inc. was unable to make any real strides in narrowing this gap.

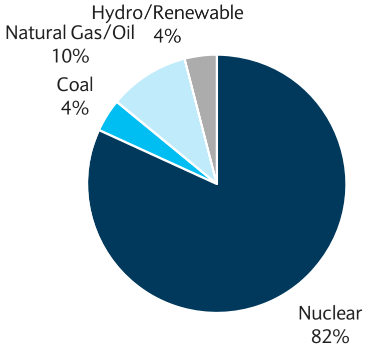
Accretion/Synergies

Exelon assumes that they will be able to achieve $0.20 of accretion by 2020. The near-term profile is $0.05 dilution in 2016, flat accretion/dilution in 2017, $0.10 of accretion in 2018 and $0.18 of accretion in 2019. The accretion over time is premised on reducing the allowed to earned ROE gap at the legacy PHI utilities. Currently the PHI utilities in aggregate are earning below 6%, the expectation is for these utilities to improve to the 8% ROE level by 2020. The corporate overhead should be relatively easy to reduce as duplication of services, building consolidation, and interest savings are all straight forward exercises. These benefits will accrue over time and the company will likely update these synergies within the first year to 2 post merger close.

Exelon Generation

Exelon Generation has among the lowest-emitting fleets in the nation with two-thirds of capacity and 85% of energy produced from non-emitting sources. This positions the fleet well for the alphabet soup of EPA regulations either in place or expected to be put into place in the future (MATS, CSAPR, CPP). This clean power fleet is able to comply with necessary laws without any significant capital investment that other generators are facing. Additionally, to the extent that the Clean Power Plan (CPP) is implemented per schedule, any benefit of carbon pricing on a regional or national level will disproportionately benefit Exelon as compared to their peers.

Figure 3
EXELON 2014 GENERATION PRODUCTION BY FUEL SOURCE



Source: Company filings, Barclays Research, Exelon Generation earns revenues from several sources. The first revenue source is simply from traditional energy sales, that is selling MWhrs to customers either on a wholesale or retail basis. The second revenue source is capacity payments in New England through the LCAP process and in PJM through the RPM process. In addition to these revenue sources, Exelon generation earns revenues through their Power New Business and Non-Power new Business segments which are accounted for separately. Exelon projects all of these revenues on a current and forward basis as gross margin (Revenue less Fuel and Purchased Power). In general, Exelon discloses a range of Open Gross Margin that is reflective of current hedged positions, current market prices and expectations of executed non-power margins combined with Power and Non-Power New Business. The hedging profile for Exelon Generation is done on a pro rata basis with the expectation of 95% or more of generation hedged for the current year, 55-65% hedged for year 2 and 30-40% hedged for year 3. Recently Exelon has been running slightly behind the hedging plan as they feel power prices are suppressed.

As mentioned, capacity prices and energy prices are the true drivers for Exelon Generation. Current views are for capacity prices to remain relatively flat for the 2018/2019 RPM auction for 2019/2020. Energy prices should also be biased to the upside as plant closures and increased volatility and risk should filter into forward prices. As the power sector becomes more consolidated, the remaining players should better understand the market leading to improved pricing for both capacity and energy as players focus more on operations and reliability and away from market share or protecting cash returns. This phenomenon should ultimately benefit all generators, resulting in higher gross margins over time. The flip side to this argument is that higher renewable generation and increased transmission capacity allows for low variable cost generation (wind and solar) to ultimately suppress real time prices at any given hour. This is clearly occurring; however it is more of a real time pricing issue than one that shows up in the forward curves at this point in time.

Federal and state regulation can have significant impacts on the capacity and energy prices impacting Exelon. The major issues currently facing the industry and Exelon are the MATS rule, which was recently remanded back to the DC circuit court from the Supreme Court, the ozone rule, and more importantly the Clean Power Plan (CPP) has become law and was recently upheld by District Court in Washington DC. These rules have largely impacted coal plants by either requiring expensive capital investments or ultimately forcing units to close. The CPP is likely to take this a step further as coal is the largest contributor on a MWhr basis to CO2 production. Whether the CPP results in a price for CO2 allowances or simply requires coal plant closures, power prices should increase and Exelon will benefit. At this point given the expected compliance date of 2022 for the CPP, no benefit is in our numbers for Exelon. Finally on the state front, Illinois is still examining legislation to provide payments for clean power. The timing and form that this payment could take is uncertain at this point. New York is also examining a framework for clean energy and where nuclear fits in given the environmental and economic benefits these plants provide to the state. At risk nuclear plants, Clinton, Nine Mile Point, Quad Cities and Byron will all have their fates decided this fall. Currently, Clinton and Quad Cities are most at risk for closure given economics. Clinton dispatches in MISO, while Quad Cities dispatches into a zone with significant wind resources. These dispatch zones have suppressed energy pricing which impairs the revenue generation from these plants. Capacity pricing helps but, generally is not enough to overcome the weak energy pricing. Byron dispatches at a slight discount to NI-Hub pricing and is challenged economically; however not to the same level as Clinton and Quad Cities. The schedule for deciding upon plant closure is fluid given changes in capacity markets and the potential impacts of the CPP. The potential future earnings associated with closure could be higher or lower depending on how the reduction in capacity impacts energy markets along with any carbon pricing that may occur as a result of the Clean Power Plan.

Senior Management Team

Christopher Crane

Chairman and CEO

Christopher Crane is Chairman and CEO of Exelon Corp. Crane was also Chairman and CEO of Exelon Corp. prior to the acquisition of PEPCO Holdings, Inc. He has held those positions since 2012. He joined Exelon Corp in 1998 and has held the roles of Chief Nuclear Officer, Chief Operating Officer, Generation and Chief Operating Officer, Exelon, as well as President of Generation and President of Exelon. Prior to joining Exelon, he served as Browns Ferry site vice president for Tennessee Valley Authority and worked in new plant start-up at the Comanche Peak Nuclear Power Plant and Palo Verde Nuclear Generating Station.

Jonathan (Jack) W. Thayer

Senior Executive Vice President and CFO

Jack Thayer has been Senior Executive Vice President and CFO since 2012. He joined Exelon as a part of the merger with Constellation Energy, where he held the roles of Senior Vice President and CFO. Prior to those roles he served as Treasurer, Vice President and Managing Director, Corporate Strategy & Development, and Director, Investor Relations for Constellation Energy. He also held financial positions at Deutsche Bank Securities Inc. and SBS Warburg Dillon Read Inc.

William A. Von Hoene, Jr.

Senior Executive Vice President and Chief Strategy Officer

Mr Von Hoene has been Senior Executive Vice President and Chief Strategy Officer since 2012. He Joined Exelon in 2002 and was Executive Vice President, Finance and Legal from 2009-2012 among other positions. Prior to joining Exelon, he was a senior partner at Jenner & Block.

Valuation Methodology

Our $39 target is a sum of the parts valuing the utilities on a PE basis and Exelon Generation on an EV/EBITDA multiple. The utilities are valued on a group average PE multiple of 15.5x on 2018 earnings (adjusted for parent debt associated with the PHI acquisition). The utility net parent earnings for 2018 are $1.53, applying a 16.3x multiple yields $23.65 in value. Exelon Generation is valued at 6.5x EBITDA less debt. The 2018 EBITDA is based on forwards as of 12/31/2015, company assumptions for new business and hedged levels adjusted for the RPM transitional auctions. This led us to a 2018 EBITDA of approximately $3.01B taking off associated debt yields a valuation of $14.00 at 6.5x EBITDA. Combined we end up with a $39 target.

There are several key risks to the valuation analysis. First is power markets continue to weaken based on oversupply. Second is that regulatory outcomes are contentious, providing for both lower earned and allowed ROE’s. Third is that merger synergies and accretion are not realized, or take longer to realize than company projections. Finally, an aging nuclear fleet, while operating on a world class level may experience age related degradation that could impair operation and/or capital needs.

ANALYST(S) CERTIFICATION(S):

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 23-Mar-2016, USD 34.72), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M

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Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)
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National Grid Plc (NG.L)	National Grid Plc (NGG)	NextEra Energy (NEE)
NextEra Energy Partners, LP. (NEP)	NiSource, Inc. (NI)	NRG Energy (NRG)
NRG Yield Inc. (NYLD)	OGE Energy Corp. (OGE)	Ormat Technologies (ORA)
Pepco Holdings (POM)	PG&E Corp. (PCG)	Pinnacle West Capital (PNW)
PNM Resources (PNM)	Portland General Electric Co. (POR)	PPL Corporation (PPL)
Public Service Enterprise Gp (PEG)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	Talen Energy Corp. (TLN)	TECO Energy (TE)

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USD 34.72 (23-Mar-2016)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 23-Mar-2016)

Source: IDC, Barclays Research

Currency=USD

Date	Closing Price	Rating	Adjusted Price Target
30-Apr-2014	35.03	Rating Suspended	
07-Feb-2014	29.44		30.00
06-Jan-2014	26.79		29.00
01-Aug-2013	30.80		32.00
02-May-2013	36.34		37.00
24-Apr-2013	37.16		35.00

Source: Thomson Reuters, Barclays Research

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Valuation Methodology: Our $39 price target is premised upon a 2018 group average multiple of 16.3x applied to the utility net parent earnings of $1.53 resulting in $25 of utility value. Exgen is valued at 6.5x 2018 EBTIDA netted against debt resulting in $14 of value for Exgen, The combined value is $39.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: EXC, DYN, ES, SO, CPP, FERC March 23, 2016

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What's New?

NOTE: Guggenheim Utility Corporate Access Calendar updated below – scroll to bottom of email. "TBAs" to be filled in shortly but all companies listed below are confirmed and more are expected to be added.

Guggenheim initiates coverage of IPPs – Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities

2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

EXC – DC Commission Meeting; we highlight possible scenarios
DYN – MISO approves DYN announced retirement of IL coal plant
CPP – EPA Administrator provides an update to Clean Power Plan
FERC – FERC will have technical conference to address transmission cost-capped bids
EXC – Per merger agreement, POM files rate case in NJ
ES – FERC issues initial ROE decision
SO – CA regulators approve transfer of ownership for GAS acquisition

EXC – DC Commission Meeting; we highlight possible scenarios

- The DC Commission has EXC's merger case scheduled for 1 PM ET on March 23.

Guggenheim takeaway: *The DC Commission could choose from one of six options, but we believe some are more likely than others. There is a strong likelihood, in our view, that they could reject the deal again since there is no consensus among parties on settlement conditions. With or without POM, we are indifferent to the deal and remain strong supporters despite the outcome (SEE NOTE HERE).*

DYN – MISO approves DYN announced retirement of IL coal plant

- DYN announced in November 2015 that it would retire Wood River, a 473 MW plant in IL in June 2016.
- Retirement decision was due to the plant not clearing MISO's '15/'16 auction coupled with additional environmental compliance spending from EPA's ELG rule.
- MISO's reliability study determined that DYN has the option to close on the requested June 1 date without negatively impacting reliability.

Guggenheim takeaway: *The reliability study was the last test before DYN could make permanent plans to shut down the plant. We note that environmental costs for ELG have decreased since DYN's YE review and that these costs coupled with MISO's capacity auction are major determinants on whether a coal plant will retire sooner than planned.*

CPP – EPA Administrator provides an update to Clean Power Plan

- U.S. EPA Administrator Gina McCarthy provided an update on the status of CPP during the Energy and Water subcommittee meeting.
- McCarthy said 25 states have indicated publicly that they will continue to plan for the rule despite the Supreme Court's stay.
- The 25 states include those that have reached out to the agency or are working with regional entities for compliance.
- EPA is not enforcing the rule, but will be available if the states ask for help.

Guggenheim takeaway: *As we have highlighted in our research, we believe utilities and certain state commissions will continue to plan for the CPP. While the stay could impact NT planning for states to submit SIPs, we believe the CPP will have tailwinds if it winds up at the Supreme Court. See here for our takeaways on potential paths for the CPP.*

FERC – FERC will have technical conference to address transmission cost-capped bids

- FERC found that a declaratory order is not the appropriate means for addressing policy issues and will open a technical conference "related to the potential benefits of cost containment proposals for transmission development projects."
- Bidders are required under FERC Order 100 to specify the full revenue requirement for the life of the transmission project.
- On June 27-28 FERC and stakeholders will "discuss issues related to competitive transmission development processes, including but not limited to use of cost containment provisions, the relationship of competitive transmission development to transmission incentives, and other ratemaking issues."

Guggenheim takeaway: *We believe conversations on transmission rates could be constructive as there have been active debate on how winners selected have likely been the lowest bidders and not the incumbent utility. The RTO evaluates bids based on the revenue requirement of a project, which is driven primarily by a rate construct determined by FERC.*

EXC – Per merger agreement, POM files rate case in NJ

- POM (NC, $21.24) filed a rate case for its NJ Utility Atlantic City Electric Co. for a $78.9mm rate increase and 10.60% ROE as well as a separate 5-year grid resiliency plan.
- POM notes that "rate application does not include the benefits that will be provided by the pending merger with Exelon, which would include cost savings as a result of greater efficiencies from the merged company."

Guggenheim takeaway: *Although POM is now able to file for rate cases with the DE, MD, and NJ Commissions, we believe POM will continue to be a material under-earner since it has been out a rate case since 2014. As we highlighted in our research, POM is already prepared to file for rate cases earlier in 2016 for DE, MD, and NJ, followed by a DC (delay due to pending settlement with the Commission), the rate case will still take 9-12 months to be approved. We estimate downside to POM stock could be another $4-5 based on a 13-14x range multiple on 2018 consensus earnings estimates, which are very stale. See here for our takeaways.*

ES – FERC issues initial ROE decision

- FERC has issued an initial decision in the 2nd (EL13-33-002) and 3rd (EL14-86-000) ISO-NE ROE complaint dockets, agreeing the existing ROE is unjust and unreasonable; however, also agreeing with transmission owners that the base ROE should be set halfway between the midpoint and upper-end of the IBES-based DCF zone of reasonableness.

- The ALJ recommends a base ROE of 9.59% for the 2nd period with a ceiling of 10.42%, and a base ROE of 10.90% for the 3rd period with a ceiling of 12.19%.

Guggenheim takeaway: *The ALJ's initial decision notes similar capital market conditions existed in the first 206 complaint period, which distorted inputs to the DCF model; alternative methodologies would show the midpoint of the DCF range of reasonableness would not be adequate. Therefore, the ALJ finds that mechanically applying the DCF methodology would not be appropriate, and recommends an upward adjustment from the midpoint of the zone of reasonableness – a positive takeaway for ES, particularly if the 10.90-12.19% ROE recommended for the 3rd period is applied going forward.*

SO – CA regulators approve transfer of ownership for GAS acquisition

- The CPUC approved the transfer of ownership of Central Valley Gas Storage from AGL Resources (GAS, NC, $64.97) to SO.
- The transfer is part of SO's pending acquisition of AGL.

Guggenheim takeaway: *SO is going through the usual regulatory approval processes for a utility acquisition, and we do not see any red flags. The transaction has been approved in VA, settlement filed in MD, and requests have been filed in GA, IL, and NJ; management expects to receive necessary approvals by 3Q16. We estimate this transaction could be 6-7% accretive in outer years. See here for our analysis on this transaction.*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. *DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational*
2. *DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates, PT*
3. *Justice Scalia's Passing: Far-Reaching Implications – Impact to Power Sector Noteworthy with Clean Power Plan First Key Test*
4. *CPN – BUY – Quick Take: In Line Quarter, Outlook Maintained – Reiterates Financial/Operational Discipline*
5. *PEG – BUY – Expecting 2016 BGS Auction Price to Show Slight Increase*
6. *D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM*
7. *Quick Take: Surprise - Supreme Court Sides with FERC over Demand Response*
8. *Power Breakfast Part Deux: Guggenheim-Hosted Utility Commissioner Meetings*
9. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
10. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
11. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
12. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
13. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
14. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
15. *EEI Full Recap*
16. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
17. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
18. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
19. *3Q Utility Earnings Sneak Peek: EEI Edition*
20. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
21. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*

22. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
23. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
24. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
25. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
26. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
27. *More Uplifting Data Points for AEP and FE*
28. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*
29. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
30. *Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables*
31. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
On-going	FE	Evidentiary hearings	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
03/23	EXC	DC PSC decision		DC	FC 1119	DC PSC to make a decision on merger
03/28	PCG	Deadline for parties to file in PCG's criminal trial	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
03/29	GXP	Energy and the Environment House Hearing	KCP&L MO and GMO	MO	HB 2816	House will have hearings on MO energy legislation
03/31	ES	New England transmission ROE recommendation			EL 13-33 EL 14-86	Recommendation from FERC regarding New England ROEs
03/31	PCG	Reply briefs for Gas distribution OII and Order to Show Cause	Pacific Gas & Electric Company	CA	I 14-11-008	PCG reply to opening briefs alleging violation of record-keeping practices
03/31	NEE	Briefings due in Hawaii		HI	2015-0022	Briefings from intervenors and merger applicants are due in Hawaii
04/07	EXC	EXC requests DC PSC decision		DC	FC 1119	EXC requests DC PSC make a decision on merger
03/15 - 04/01	NEE	Window for FP&L rate case to be filed	Florida Power & Light	FL		FP&L files their rate case sometime between March 15th and April 1st 2016
04/12	PCG	Pre-trial conference for PG&E criminal case re: San Bruno	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
04/14		MISO '16/'17 capacity auction results posted				Capacity auction results in Zone 4 posted
04/19-05/6	PNW	Hearings for cost and value of solar		AZ	E-00000J-14-0023	
04/26	PCG	Jury trial for PG&E criminal case regarding San Bruno	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
05/02	NEE	Reply briefings due in Hawaii		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
06/01	PNW	PNW files rate case	Arizona Public Service Company	AZ		
06/02		Clean Power Plan - Federal Appeals Court hearing				Clean Power Plan - Federal Appeals Court hearing

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
DTE	3/31	KC	Peter Oleksiak, CFO
DUK	4/6-7	TX/KC	Steve Young, CFO
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
ED	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
WR	TBA	TBA	TBA
EXC	TBA	TBA	TBA
PEG	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 03/22/2016)

As of 3/22/2016

								Guggenheim Estimates														**Consensus Estimates**													
		Mkt. Cap ($Bn)	**Rating**	**Target Price[1]**	**Current Price**	**Price Change**	**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**			**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**		
Ticker	**Company**							**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	31.8	Buy	$62	$64.77	-4%	491	3.70	3.93	4.21	7%	17.5	16.5	15.4	5,619	5,918	6,259	6%	9.5	9.1	8.8	3.70	3.90	4.17	6%	17.5	16.6	15.5	5,690	5,971	6,249	5%	9.3	9.1	8.8
ED	Consolidated Edison, Inc.	21.9	Neutral	$61	$74.55	-18%	294	4.01	4.16	4.27	3%	18.6	17.9	17.5	3,860	4,070	4,396	7%	9.5	9.3	8.8	4.01	4.15	4.31	4%	18.6	18.0	17.3	3,826	4,036	4,267	6%	9.6	9.3	9.1
D	Dominion Resources, Inc.	43.5	Buy	$76	$72.96	4%	596	3.84	3.99	4.47	8%	19.0	18.3	16.3	6,140	6,476	7,094	7%	11.9	11.3	10.4	3.81	3.94	4.39	7%	19.1	18.5	16.6	6,052	6,373	7,071	8%	12.0	11.4	10.4
DTE	DTE Energy Company	15.9	Buy	$92	$88.38	4%	179	4.98	5.27	5.66	7%	17.7	16.8	15.6	2,526	2,686	2,881	7%	10.4	10.1	9.6	4.95	5.26	5.62	6%	17.8	16.8	15.7	2,613	2,771	2,947	6%	10.1	9.8	9.4
DUK	Duke Energy Corporation	54.3	Buy	$81	$78.90	3%	688	4.60	4.83	4.94	4%	17.2	16.3	16.0	8,899	9,122	9,843	5%	11.3	11.2	10.5	4.61	4.77	5.02	4%	17.1	16.5	15.7	9,256	9,795	10,207	5%	10.9	10.4	10.1
EIX	Edison International	23.1	Neutral	$66	$70.97	-7%	326	3.85	4.15	4.33	6%	18.4	17.1	16.4	4,944	5,294	5,647	7%	7.7	7.4	7.1	3.88	4.10	4.30	5%	18.3	17.3	16.5	4,598	4,861	5,172	6%	8.3	8.0	7.7
ES	Eversource Energy	18.2	Buy	$58	$57.47	1%	317	2.99	3.19	3.43	7%	19.2	18.0	16.8	2,560	2,655	2,754	4%	11.4	11.3	11.0	3.00	3.18	3.39	6%	19.1	18.1	17.0	2,601	2,700	2,805	4%	11.2	11.1	10.8
GXP	Great Plains Energy	4.8	Buy	$31	$31.30	-1%	154	1.74	1.87	1.98	7%	18.0	16.7	15.8	1,011	1,068	1,102	4%	8.9	8.4	8.1	1.74	1.83	1.93	5%	17.9	17.1	16.2	1,011	1,070	1,106	5%	8.9	8.4	8.1
NEE	NextEra Energy, Inc.	53.9	Buy	$124	$117.06	6%	461	6.19	6.60	7.04	7%	18.9	17.7	16.6	6,989	7,610	8,012	7%	12.3	11.5	11.1	6.15	6.53	6.96	6%	19.0	17.9	16.8	7,510	8,230	8,672	7%	11.4	10.6	10.3
PCG	PG&E Corporation	28.9	Neutral	$54	$58.59	-8%	493	3.67	3.70	3.89	3%	16.0	15.8	15.1	6,566	6,825	7,113	4%	7.1	7.1	6.9	3.72	3.67	3.88	2%	15.7	16.0	15.1	6,169	6,508	6,825	5%	7.6	7.4	7.2
PNW	Pinnacle West Capital	8.1	Neutral	$62	$72.62	-15%	111	4.02	4.18	4.43	5%	18.1	17.4	16.4	1,440	1,529	1,634	7%	8.5	8.3	8.0	4.00	4.20	4.39	5%	18.2	17.3	16.6	1,398	1,499	1,594	7%	8.8	8.5	8.2
PPL	PPL Corporation	24.9	Buy	$39	$37.02	5%	674	2.33	2.44	2.57	5%	15.9	15.2	14.4	4,214	4,420	4,689	5%	11.2	10.9	10.6	2.34	2.43	2.50	3%	15.8	15.2	14.8	4,130	4,341	4,555	5%	11.4	11.1	10.9
SO	Southern Company	45.9	Neutral	$41	$50.28	-18%	913	2.85	2.93	3.06	4%	17.6	17.2	16.4	6,677	6,961	7,260	4%	12.2	11.8	11.8	2.85	2.96	3.10	4%	17.6	17.0	16.2	7,141	7,868	7,981	6%	11.4	10.5	10.7
WR	Westar Energy, Inc.	6.8	Buy	$46	$47.84	-4%	142	2.43	2.50	2.60	3%	19.7	19.1	18.4	1,036	1,066	1,105	3%	10.6	10.4	10.2	2.44	2.53	2.62	4%	19.6	18.9	18.3	1,051	1,086	1,124	3%	10.4	10.2	10.0
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.44	2%	235	1.18	1.27	1.35	7%	23.3	21.6	20.3	987	1,033	1,076	4%	10.6	10.0	9.9	1.18	1.28	1.36	7%	23.3	21.4	20.2	1,005	1,068	1,076	3%	10.4	9.7	9.9
Average[2]											**5%**	**18.0**	**17.1**	**16.2**				**6%**	**10.2**	**9.9**	**9.5**				**5%**	**18.0**	**17.2**	**16.3**				**6%**	**10.1**	**9.7**	**9.4**
Integrated utilities																																			
ETR	Entergy Corporation	13.9	Neutral	$69	$77.68	-11%	178	5.18	5.10	5.18	0%	15.0	15.2	15.0	3,682	3,698	3,832	2%	8.1	8.3	7.9	5.15	5.20	5.21	1%	15.1	14.9	14.9	3,439	3,559	3,622	3%	8.7	8.6	8.4
EXC	Exelon Corporation	32.3	Buy	$37	$35.00	6%	922	2.52	2.69	2.87	7%	13.9	13.0	12.2	7,812	8,199	8,595	5%	7.5	7.3	7.2	2.52	2.66	2.75	4%	13.9	13.2	12.7	7,583	8,079	8,533	6%	7.7	7.4	7.3
FE	FirstEnergy Corp.	15.1	Buy	$39	$35.76	9%	424	2.80	2.86	2.92	2%	12.8	12.5	12.2	4,422	4,562	4,628	2%	8.5	8.3	8.0	2.85	2.72	2.70	(3%)	12.5	13.1	13.3	4,547	4,534	4,573	0%	8.3	8.3	8.1
PEG	Public Service Enterprise Group	23.2	Buy	$46	$45.82	0%	506	2.95	3.01	3.04	2%	15.5	15.2	15.1	4,203	4,420	4,597	5%	8.2	8.2	8.0	2.90	2.89	2.99	1%	15.8	15.9	15.3	4,141	4,269	4,360	3%	8.3	8.5	8.4
Average											**3%**	**14.3**	**14.0**	**13.6**				**3%**	**8.1**	**8.0**	**7.8**				**1%**	**14.3**	**14.3**	**14.0**				**3%**	**8.3**	**8.2**	**8.0**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.2	Buy	$22	$14.64	50%	357	0.39	0.88	1.44	92%	37.3	16.6	10.1	1,862	2,169	2,544	17%	8.9	7.5	6.1	0.60	1.03	1.44	56%	24.6	14.2	10.2	1,887	2,065	2,233	9%	8.8	7.9	6.9
DYN	Dynegy Inc.	1.6	Buy	$22	$13.64	61%	117	(1.24)	(0.66)	0.40	NA	-11.0	-20.6	34.4	1,097	1,421	1,691	24%	7.5	5.6	4.5	(0.62)	(0.45)	0.42	NA	-21.9	-30.6	32.4	1,113	1,113	1,336	10%	7.4	7.2	5.6
NRG	NRG Energy, Inc.	4.3	Buy	$16	$13.77	16%	316	0.85	(0.52)	0.11	-65%	16.2	-26.4	130.4	3,128	2,809	3,004	(2%)	6.6	7.2	6.2	0.87	0.20	0.65	(14%)	15.8	67.2	21.1	3,145	2,745	3,040	(2%)	6.6	7.3	6.1
TLN	Talen Energy Corp	1.1	Neutral	$7	$8.38	-16%	129	0.72	0.69	0.19	-49%	11.6	12.1	44.1	778	762	716	(4%)	6.0	6.0	5.5	0.69	0.20	0.07	(69%)	12.1	41.5	128.8	757	742	651	(7%)	6.1	6.1	6.1
Average											**-7%**	**13.5**	**-4.5**	**54.8**				**9%**	**7.3**	**6.6**	**5.6**				**(9%)**	**7.6**	**23.1**	**48.1**				**2%**	**7.2**	**7.1**	**6.2**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$12	$14.08	-15%	183	1.06	1.20	1.32	12%	13.3	11.7	10.7	867	1,004	1,120	14%	8.4	7.4	7.7	1.09	1.19	1.26	8%	12.9	11.8	11.2	825	922	1,033	12%	8.8	8.1	8.3
AWK	American Water Works	12.0	Buy	$72	$67.61	6%	178	2.83	3.03	3.20	6%	23.9	22.3	21.1	1,652	1,748	1,835	5%	11.4	11.1	10.8	2.82	3.03	3.25	7%	24.0	22.3	20.8	1,641	1,733	1,821	5%	11.5	11.2	10.8

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$64.77	2.25	2.36	2.47	3.5%	3.6%	3.8%	61%	60%	59%
ED	Consolidated Edison, Inc.	Neutral	$74.55	2.65	2.70	2.77	3.6%	3.6%	3.7%	66%	65%	64%
D	Dominion Resources, Inc.	Buy	$72.96	2.77	2.97	3.24	3.8%	4.1%	4.4%	73%	75%	74%
DTE	DTE Energy Company	Buy	$88.38	2.98	3.13	3.30	3.4%	3.5%	3.7%	60%	60%	59%
DUK	Duke Energy Corporation	Buy	$78.90	3.40	3.56	3.72	4.3%	4.5%	4.7%	74%	75%	74%
EIX	Edison International	Neutral	$70.97	1.97	2.19	2.38	2.8%	3.1%	3.3%	51%	53%	55%
ES	Eversource Energy	Buy	$57.47	1.79	1.91	2.02	3.1%	3.3%	3.5%	60%	60%	60%
GXP	Great Plains Energy	Buy	$31.30	1.11	1.19	1.27	3.5%	3.8%	4.1%	63%	65%	66%
NEE	NextEra Energy, Inc.	Buy	$117.06	3.45	3.93	4.45	2.9%	3.4%	3.8%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$58.59	1.92	2.04	2.16	3.3%	3.5%	3.7%	52%	55%	56%
PNW	Pinnacle West Capital	Neutral	$72.62	2.53	2.65	2.76	3.5%	3.7%	3.8%	63%	63%	63%
PPL	PPL Corporation	Buy	$37.02	1.52	1.56	1.60	4.1%	4.2%	4.3%	65%	64%	64%
SO	Southern Company	Neutral	$50.28	2.22	2.30	2.39	4.4%	4.6%	4.7%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$47.84	1.51	1.60	1.69	3.2%	3.3%	3.5%	62%	63%	64%
TE	TECO Energy, Inc.	Neutral	$27.44	0.92	0.94	0.97	3.4%	3.4%	3.5%	78%	74%	71%
Average							**3.5%**	**3.7%**	**3.9%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$77.68	3.43	3.50	3.57	4.4%	4.5%	4.6%	67%	67%	69%
EXC	Exelon Corporation	Buy	$35.00	1.27	1.30	1.33	3.6%	3.7%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$35.76	1.44	1.44	1.44	4.0%	4.0%	4.0%	51%	53%	53%
PEG	Public Service Enterprise Group	Buy	$45.82	1.64	1.72	1.83	3.6%	3.8%	4.0%	56%	60%	61%
Average							**3.9%**	**4.0%**	**4.1%**	**56%**	**57%**	**58%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.64	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$13.64	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$13.77	0.30	0.25	0.20	2.2%	1.8%	1.4%	35%	NA	30%
TLN	Talen Energy Corp	Neutral	$8.38	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.6%**	**0.5%**	**0.4%**	**9%**	**0%**	**8%**
Other												
NYLD	NRG Yield	Neutral	$14.08	0.96	1.10	1.26	6.8%	7.8%	9.0%	88%	93%	100%
AWK	American Water Works	Buy	$67.61	1.42	1.59	1.72	2.1%	2.4%	2.5%	50%	52%	53%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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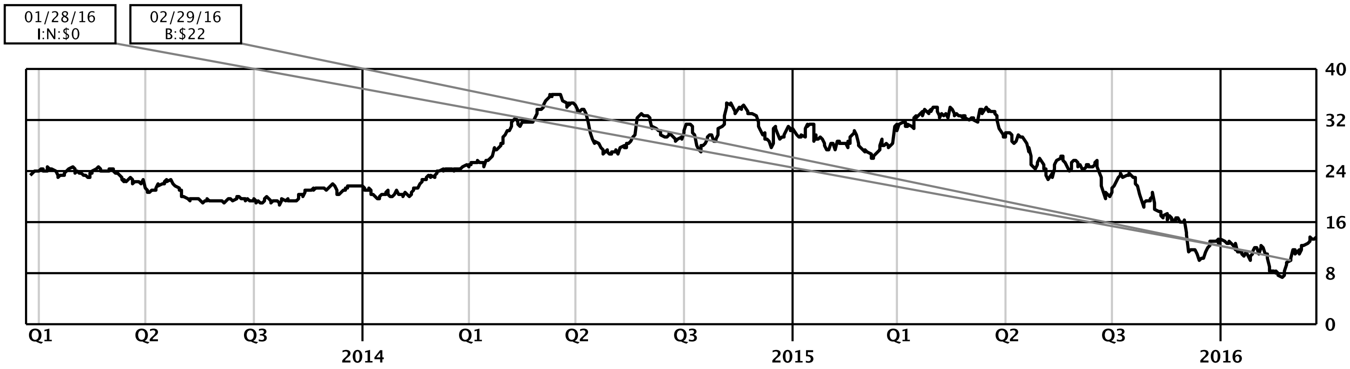
Rating and Price Target History for: Dynegy Inc. (DYN) as of 03-22-2016



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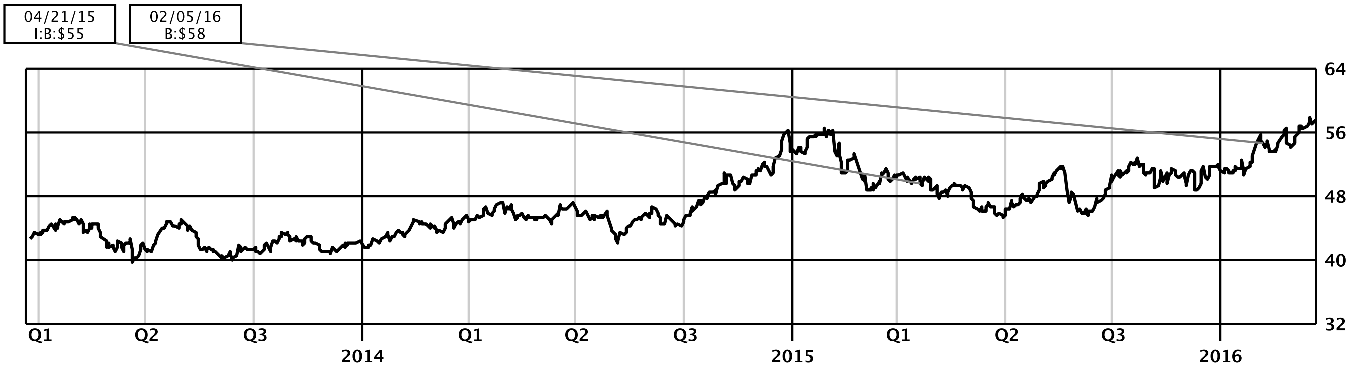
Rating and Price Target History for: Eversource Energy (ES) as of 03-22-2016



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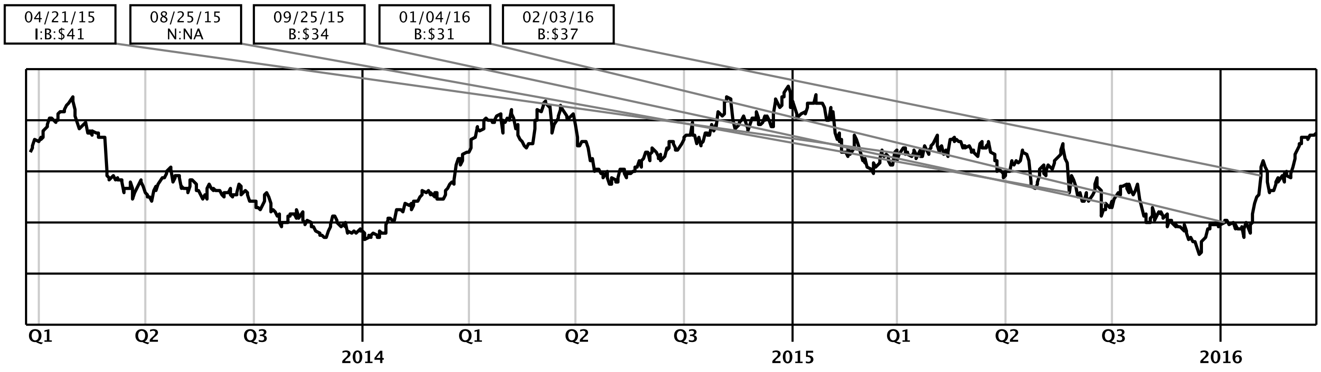
Rating and Price Target History for: Exelon Corporation (EXC) as of 03-22-2016



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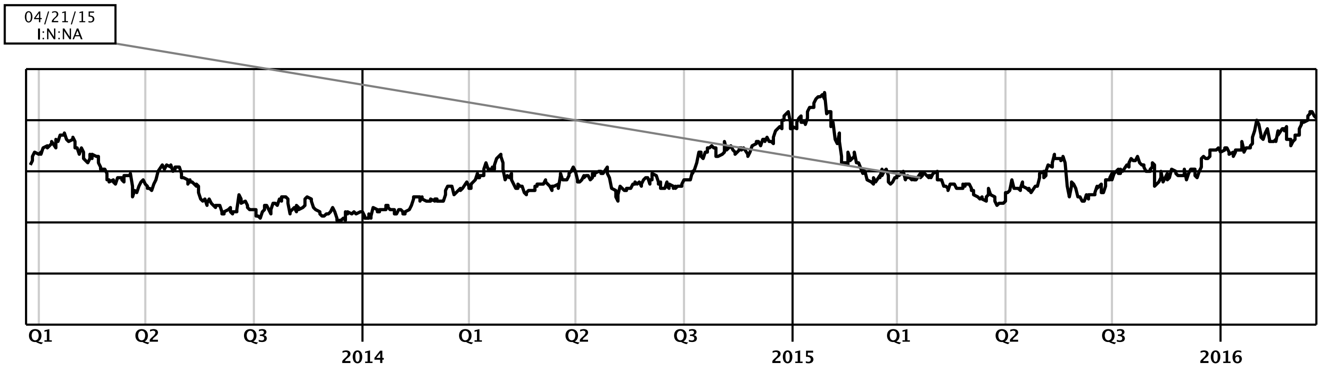
Rating and Price Target History for: Southern Company (SO) as of 03-22-2016



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

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			IB Serv./ Past 12Mos.	
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Neutral	114	41.30%	2	1.75%
Sell	0	0.00%	0	0.00%

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Equity Research

Flash Comment

March 24, 2016

EXC-NYSE--Outperform (1)
NEE-NYSE--Outperform (1)
HE-NYSE--Market Perform (2)
POM-NYSE--Market Perform (2)

Energy Team

Energy And Utility Daily

Neil Kalton, CFA, Senior Analyst (314) 875-2051
Sarah Akers, CFA, Senior Analyst (314) 875-2040

Sector Rating: Energy Team, NA

Quick thoughts from Wells Fargo Securities, LLC Energy & Utility Team:

Utilities

One Down (Akers/Kalton) - Yesterday's (3/23) EXC/POM merger approval serves as another reminder that things are not always what they seem when it comes to the regulatory arena. Regulators and other key constituents often throw up numerous red flags and disperse discouraging rhetoric into the public domain...and sometimes, as in the EXC/POM case (and Iberdrola/UIL), initially deny the deal. That said, investors are generally unwise to take the circus at face value, in our view, given the tendency for all stakeholders to posture in an effort to extract the most value for their constituents.

Had EXC/POM not gained D.C. approval, customers and regulators would have been left with a company diminished by a 2-year merger process and with significant needs for customer rate increases (and no merger credits) - not to mention the frequently criticized, albeit improved, service quality. That's not to say that logic will always prevail. In Hawaii, for example, we think the proposed NEE/HE deal offers clear benefits to customers and to the advancement of the state's clean energy goals. That said, the provincial nature of the state may outweigh what we would call the logical case (we still put deal approval probability at 50%).

Yesterday's EXC/POM approval order could also have implications on deal activity going forward. If deals are denied, prospective sellers and buyers may think twice before going down the M&A path. In particular, management teams could use failed deals as a reason to discourage the Board from entertaining/exploring strategic alternatives. Not that the 2-year EXC/POM saga was a shining green light for potential players, but the final outcome means something. Investors and companies should have more evidence shortly as Texas is expected to vote on a conditional approval order in the Oncor acquisition later today (will the terms be kosher with the Hunt-led consortium?) and Louisiana could rule on the "in jeopardy" CNL deal as early as Monday (3/28). Merger mania continues...

Please see page 3 for rating definitions, important disclosures and analyst certifications.
All estimates/forecasts are as of 03/24/16 unless otherwise stated.

Exelon Corporation (EXC-NYSE)
Price as of 3/23/2016: $34.72
FY 16 EPS: $2.55
FY 17 EPS: $2.75
Shares Out.: 861.2 MM
Market Cap.: $29,900.86 MM

Pepco Holdings, Inc. (POM-NYSE)
Price as of 3/23/2016: $26.93
FY 16 EPS: $1.05
FY 17 EPS: $1.15
Shares Out.: 253.6 MM
Market Cap.: $6,829.45 MM

NextEra Energy, Inc. (NEE-NYSE)
Price as of 3/23/2016: $117.69
FY 16 EPS: $6.15
FY 17 EPS: $6.50
Shares Out.: 460.5 MM
Market Cap.: $54,196.24 MM

Hawaiian Electric Industries, Inc. (HE-NYSE)
Price as of 3/23/2016: $31.89
FY 16 EPS: $1.69
FY 17 EPS: $1.80
Shares Out.: 107.4 MM
Market Cap.: $3,424.99 MM

Rating Basis Information:
EXC Thesis: Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

POM Thesis: We are attracted to POM's regulated growth opportunities and relatively high concentration of transmission earnings. Our Market Perform rating reflects valuation considerations given our belief that the pending acquisition by EXC for $27.25/sh will be approved and close during 1H'16.

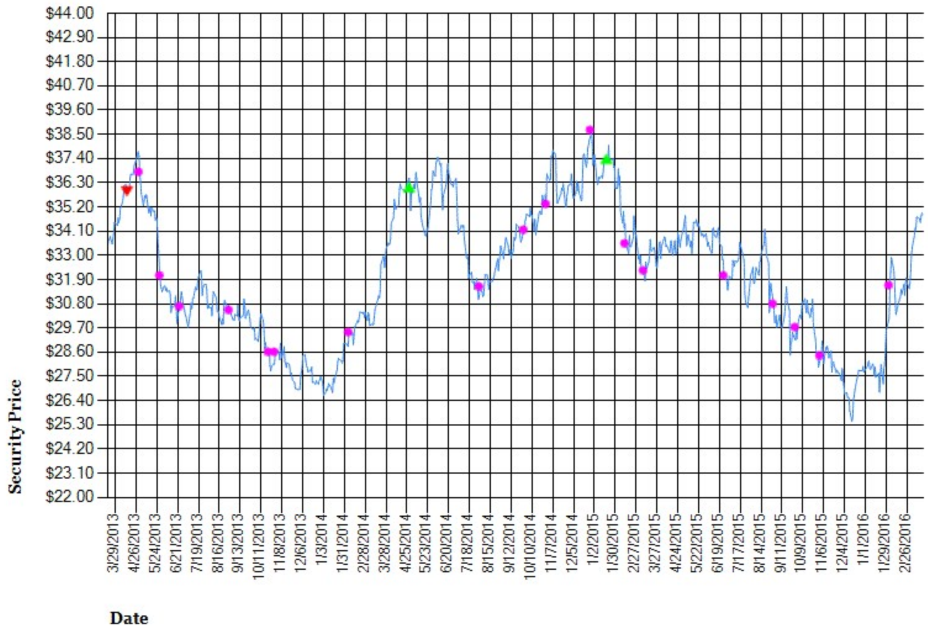
NEE Thesis: Shares offer attractive total return potential driven by projected annual EPS growth of 6% and roughly 8% projected annual DPS growth. Positive attributes include an attractive regulated utility franchise and a leadership position in renewable development.

HE Thesis: Our neutral rating reflects our assessment that the pending merger withý NEE has a 50% chance of bein completed.

DISCLOSURE APPENDIX

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	2	31.00	32.00	33.47
▼●	4/15/2013	36.22	3	31.00	32.00	35.84
●	5/1/2013	36.75	3	32.00	33.00	36.75
●	5/28/2013	34.65	3	29.00	30.00	32.04
●	6/24/2013	30.30	3	26.00	27.00	30.62
●	8/30/2013	30.49	3	25.00	26.00	30.49
●	10/21/2013	28.58	3	23.00	24.00	28.58
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61

Source: Wells Fargo Securities, LLC estimates and Reuters data

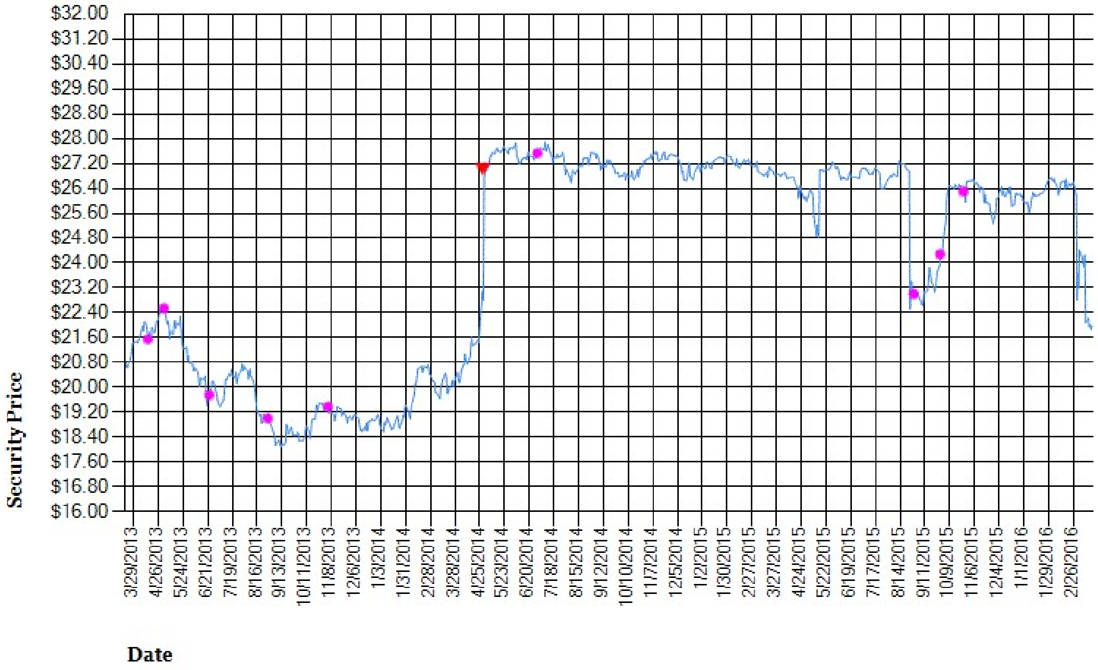
Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	☐	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Pepco Holdings, Inc. (POM) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	1	22.00	23.00	20.70
●	4/15/2013	22.05	1	23.00	24.00	21.52
●	5/3/2013	22.39	1	24.00	25.00	22.51
●	6/24/2013	19.88	1	22.00	23.00	19.73
●	8/30/2013	18.92	1	21.00	22.00	18.94
●	11/6/2013	19.18	1	22.00	23.00	19.34
▼ ●	5/1/2014	26.76	2	26.25	27.25	26.93
●	6/30/2014	27.46	2	27.00	27.50	27.48
●	8/31/2015	23.01	2	23.00	24.00	22.98
●	9/30/2015	24.26	2	25.00	26.00	24.22
●	10/26/2015	26.27	2	27.00	27.50	26.27

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
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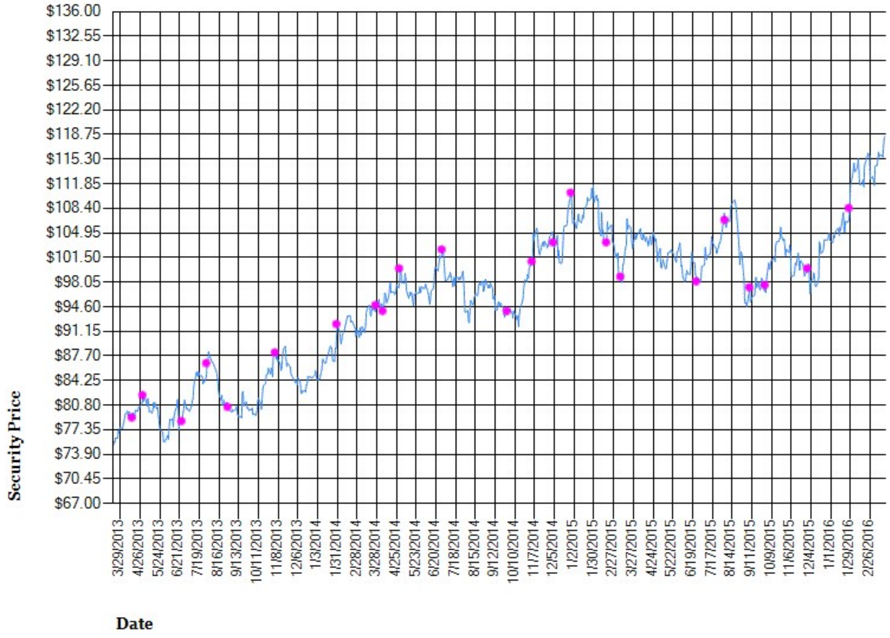
Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

NextEra Energy, Inc. (NEE) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	3/19/2013		Kalton			
	3/19/2013	NA	1	82.00	84.00	75.12
●	4/15/2013	79.49	1	88.00	90.00	78.95
●	4/30/2013	82.03	1	91.00	93.00	82.03
●	6/24/2013	78.33	1	85.00	87.00	78.38
●	7/30/2013	85.96	1	95.00	96.00	86.48
●	8/30/2013	80.23	1	89.00	90.00	80.36
●	11/4/2013	88.14	1	95.00	97.00	88.09
●	1/31/2014	91.73	1	98.00	100.00	91.93
●	3/27/2014	94.31	1	101.00	103.00	94.61
●	4/7/2014	95.05	1	103.00	104.00	93.90
●	4/30/2014	100.00	1	109.00	110.00	99.85
●	6/30/2014	102.05	1	112.00	113.00	102.48
●	9/30/2014	93.86	1	107.00	108.00	93.88
●	11/3/2014	100.22	1	112.00	114.00	100.81
●	12/4/2014	104.39	1	114.00	116.00	103.49
●	12/29/2014	109.29	1	122.00	123.00	110.50
●	2/17/2015	103.62	1	119.00	120.00	103.42
●	3/9/2015	98.70	1	115.00	116.00	98.70
●	6/25/2015	98.48	1	106.00	108.00	97.99
●	8/4/2015	107.71	1	116.00	118.00	106.54
●	9/8/2015	94.62	1	109.00	111.00	97.09
●	9/30/2015	96.93	1	115.00	117.00	97.55
●	11/30/2015	99.86	1	118.00	120.00	99.86
●	1/28/2016	108.30	1	122.00	124.00	108.30

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

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▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	⌐	Split Adjustment

Rating Code Key

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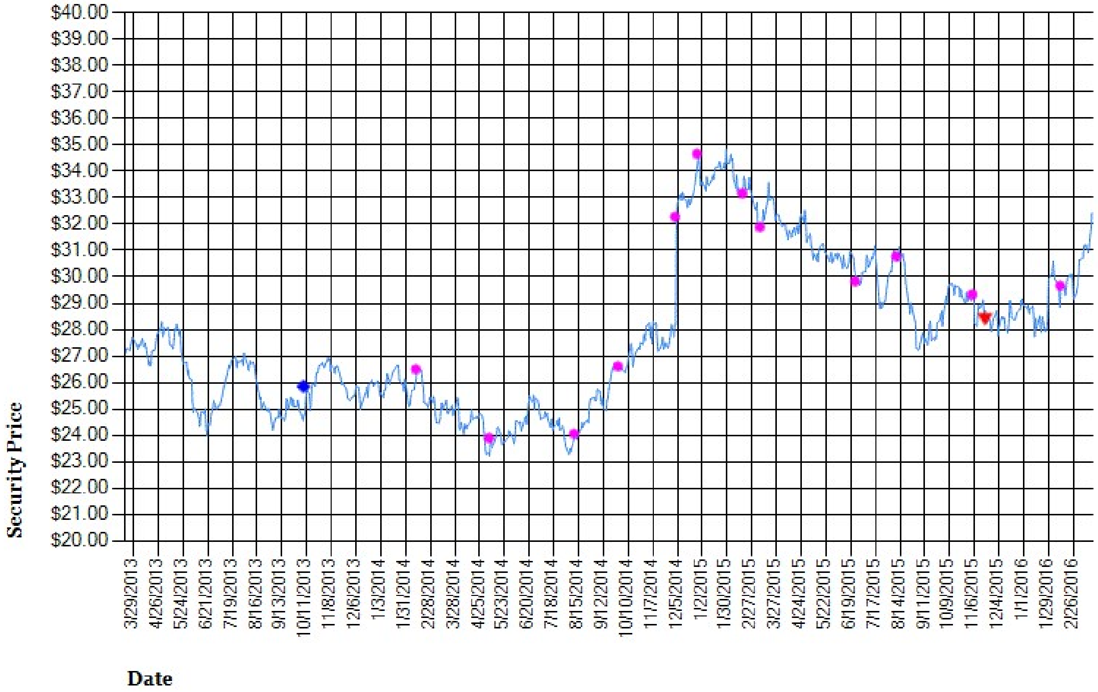
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Hawaiian Electric Industries, Inc. (HE) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	10/11/2013		Kalton			
	10/11/2013	25.37	1	28.00	29.00	25.78
●	2/13/2014	26.31	1	29.00	30.00	26.46
●	5/7/2014	23.85	1	28.00	29.00	23.85
●	8/11/2014	24.00	1	26.50	27.50	24.00
●	9/30/2014	26.55	1	29.00	30.00	26.55
●	12/4/2014	28.19	1	37.00	38.00	32.22
●	12/29/2014	33.87	1	38.00	39.00	34.62
●	2/17/2015	33.14	1	37.00	38.00	33.10
●	3/9/2015	31.85	1	36.00	37.00	31.85
●	6/25/2015	29.83	1	34.00	35.00	29.78
●	8/10/2015	30.74	1	37.00	38.00	30.74
●	11/5/2015	29.27	1	34.00	35.00	29.27
▼●	11/20/2015	28.25	2	30.00	31.00	28.31
●	2/12/2016	28.85	2	31.00	32.00	29.60

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
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1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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EXC: Risks include commodity price sensitivity and unfavorable regulatory/policy developments.
POM: Risks include the ability to secure merger regulatory approvals and regulatory risks associated with pending/upcoming rate filings.
NEE: Risks include the ability to deliver on wind development plans, FL economic and regulatory concerns and commodity price risk.
HE: Risks to our valuation include failure to secure the necessary regulatory approvals for the pending transaction, regulatory risks from being a single state regulated utility and distributed generation as well as interest rate risk at the bank and utility.

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1 = Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2 = Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3 = Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O = Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: March 24, 2016

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54.0% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.	Wells Fargo Securities, LLC has provided investment banking services for 30.0% of its Market Perform-rated companies.
2.0% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.	Wells Fargo Securities, LLC has provided investment banking services for 12.0% of its Underperform-rated companies.

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SECURITIES NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 23 Mar 2016	34.72 USD 23 Mar 2016	35.00 USD	0.99	3.57 23 Mar 2016	3.57 23 Mar 2016	31.94 23 Mar 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Undervalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.94	0.85	0.98	0.96
Price/Earnings	13.7	15.6	16.7	20.5
Forward P/E	13.1	—	15.9	14.0
Price/Cash Flow	4.1	5.1	6.1	11.4
Price/Free Cash Flow	—	74.7	10.7	17.9
Trailing Dividend Yield%	3.57	4.65	3.62	2.39

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon and Pepco Join to Sing a Duet: At Last

Travis Miller, Sector Director, 24 March 2016

Investment Thesis

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. The Pepco deal took nearly two years to close as Exelon waded through the regulatory approval process. Management's commitment to keep the deal alive shows its conviction in Exelon's strategic move to add more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can increase earnings by 10% annually over the next three years.

Travis Miller, Sector Director, 24 March 2016

Analyst Note

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Economic Moat

Travis Miller, Sector Director, 24 March 2016

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's

Exelon Corp EXC (XNYS)

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	23,402	10,415	28.44	13.99
FirstEnergy Corp FE	USD	15,243	15,026	15.25	26.25
Entergy Corp ETR	USD	13,947	11,513	-2.60	0.00

large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 per share fair value estimate after Exelon closed its acquisition of Pepco Holdings at its $27.25 per share cash offer. We already included $1 per share of value dilution in our Exelon fair value estimate, based on the 30% premium that Exelon paid over our Pepco fair value estimate.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire, given that it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4 per thousand cubic feet midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 24 March 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source.

As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.

Reregulation would also destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.

As Exelon's regulated utilities generate a greater share of earnings, investors will be made more acutely subject to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management

Travis Miller, Sector Director, 24 March 2016

We assign Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities. President and CEO Chris Crane and executive chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on their efforts to gain support for the deal through nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 23 Mar 2016	34.72 USD 23 Mar 2016	35.00 USD	0.99	3.57 23 Mar 2016	3.57 23 Mar 2016	31.94 23 Mar 2016	Utilities - Diversified	Standard

Analyst Notes Archive

Exelon and Pepco Join to Sing a Duet: At Last

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 02 March 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value. However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 29 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 23 Mar 2016	34.72 USD 23 Mar 2016	35.00 USD	0.99	3.57 23 Mar 2016	3.57 23 Mar 2016	31.94 23 Mar 2016	Utilities - Diversified	Standard

reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Sector Director, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Eq. Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco

Charles Fishman, Eq. Analyst, 06 October 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners

Charles Fishman, Eq. Analyst, 30 September 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Corp EXC ★★★★Q

Last Close 23 Mar 2016	**Quantitative Fair Value Est** 23 Mar 2016	**Market Cap** 23 Mar 2016	**Sector**	**Industry**	**Country of Domicile**
34.72	36.78	31,939.8 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	92	87	87
Valuation	Undervalued	51	60	54
Quantitative Uncertainty	Medium	99	94	97
Financial Health	Moderate	60	56	60

Source: Morningstar Equity Research

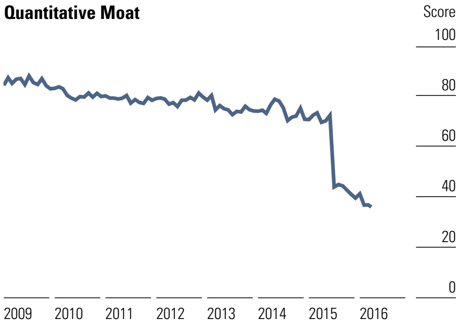
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.94	0.85	0.98	0.96
Price/Earnings	13.7	15.6	16.7	20.5
Forward P/E	13.1	—	15.9	14.0
Price/Cash Flow	4.1	5.1	6.1	11.4
Price/Free Cash Flow	—	74.7	10.7	17.9
Trailing Dividend Yield %	3.57	4.65	3.62	2.39
Price/Book	1.2	1.5	1.3	2.2
Price/Sales	1.1	1.2	1.2	1.8

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.4	9.7	9.7	12.1
Return on Assets %	2.5	2.6	3.1	4.7
Revenue/Employee (K)	989.4	958.0	1,230.2	298.2

Quantitative Moat



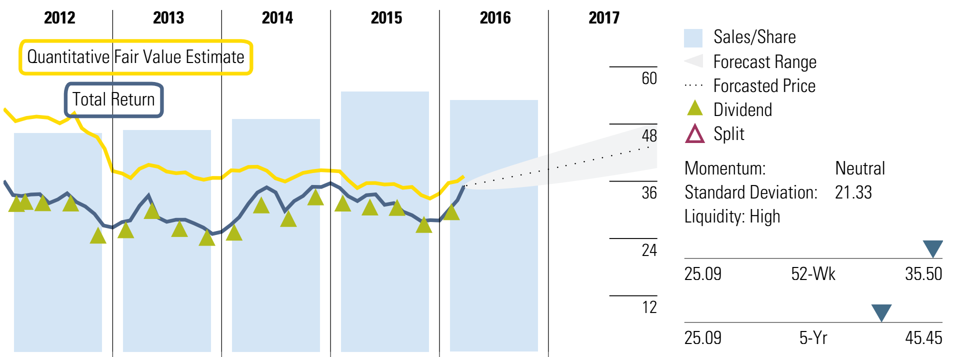
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.6
Solvency Score	—	—	633.3	575.9
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.8	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	7.8	4.3	0.8	-0.5

Price Versus Quantitative Fair Value



Momentum: Neutral
Standard Deviation: 21.33
Liquidity: High

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	26.1	Total Return %
-42.9	-36.1	27.1	-22.5	26.5	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—	Trailing Dividend Yield %
—	—	—	—	3.57	Forward Dividend Yield %
21.0	14.7	15.2	12.3	13.7	Price/Earnings
1.0	0.9	1.2	0.8	1.1	Price/Revenue

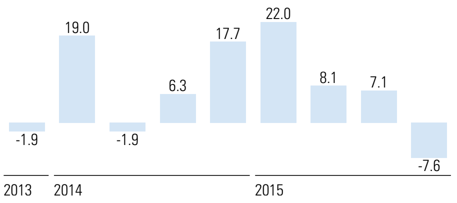
Morningstar RatingQ

2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	29,447	Revenue
1.5	24.1	6.0	10.2	7.4	0.0	% Change
4,480	2,380	3,656	3,096	4,409	4,409	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	0.0	% Change
2,495	1,160	1,719	1,623	2,269	2,269	Net Income
4,853	6,131	6,343	4,457	7,616	7,616	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-7,624	Capital Spending
811	321	948	-1,620	-8	-8	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	0.0	% Sales
3.75	1.42	2.00	1.88	2.54	2.54	EPS
-3.1	-62.1	40.8	-6.0	35.1	0.0	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.01	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.04	Book Value/Share
855,000	857,000	860,000	920,000	919,925	919,925	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	9.4	Return on Equity %
4.7	1.7	2.2	2.0	2.5	2.5	Return on Assets %
13.2	4.9	6.9	5.9	7.7	7.7	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.32	Asset Turnover
3.8	3.7	3.5	3.8	3.7	3.7	Financial Leverage
62.3	56.8	56.9	52.6	55.6	55.6	Gross Margin %
23.7	10.1	14.7	11.3	15.0	15.0	Operating Margin %
12,189	18,346	18,271	20,010	24,286	24,286	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,793	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

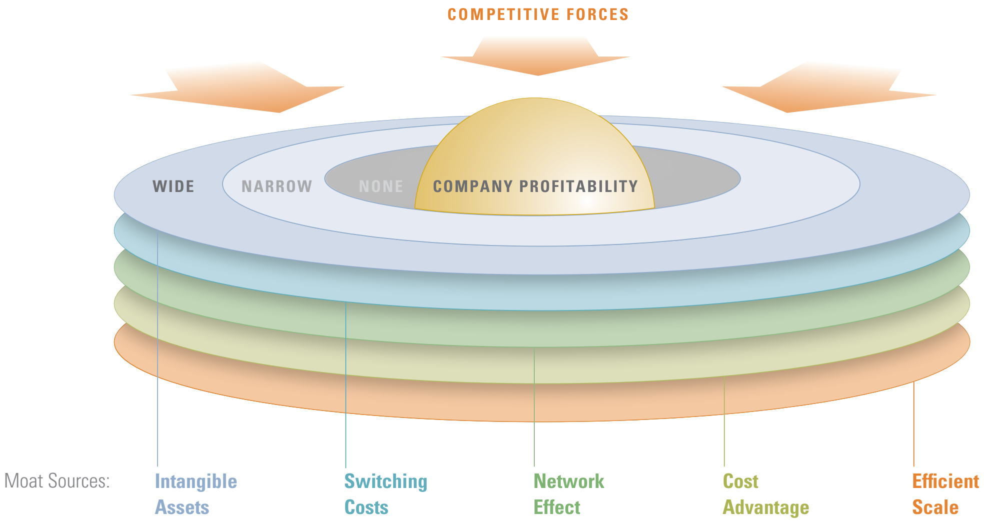
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

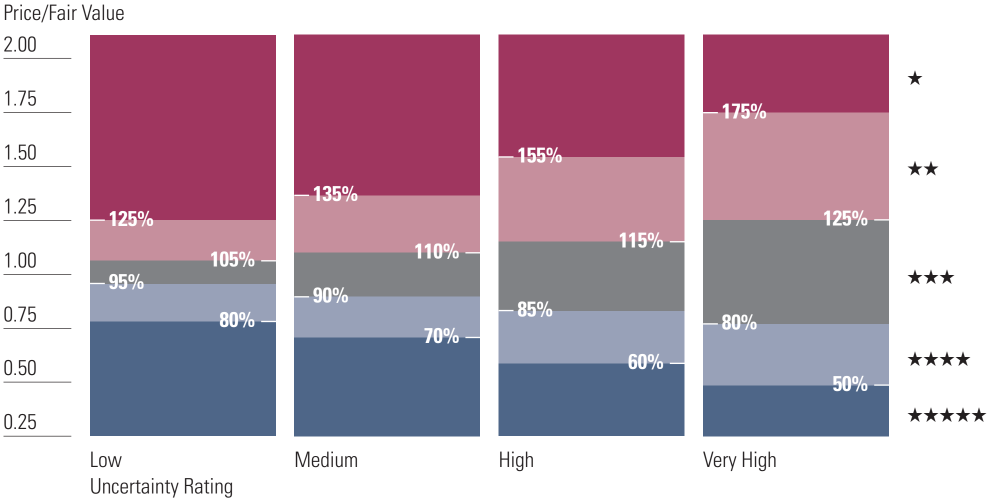
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 23 Mar 2016	34.72 USD 23 Mar 2016	35.00 USD	0.99	3.57 23 Mar 2016	3.57 23 Mar 2016	31.94 23 Mar 2016	Utilities - Diversified	Standard

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon and Pepco Join to Sing a Duet: At Last

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The primary analyst covering this company does not own its stock.

Research as of 24 Mar 2016
Estimates as of 23 Mar 2016
Pricing data through 23 Mar 2016
Rating updated as of 23 Mar 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 24 Mar 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Vital Statistics

Market Cap (USD Mil)	31,940
52-Week High (USD)	35.50
52-Week Low (USD)	25.09
52-Week Total Return %	7.8
YTD Total Return %	26.1
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.8
Price/Fair Value	0.99

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	—	*14.6*
EV/EBITDA	8.9	8.3	—	*8.2*
EV/EBIT	14.1	14.5	—	*13.5*
Free Cash Flow Yield %	3.0	-6.3	—	*-1.1*
Dividend Yield %	3.9	4.2	—	*3.4*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,179*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,822*
EBIT YoY %	53.6	-15.3	*23.4*	*0.0*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,062*
Net Income YoY %	-7.9	-4.0	*2.9*	*-3.0*
Diluted EPS	2.50	2.39	*2.46*	*2.38*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.1*
Free Cash Flow	1,500	305	*1,364*	*134*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.2*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	*13.2*	24.1	6.0	10.2	*-17.0*	*10.6*	*3.5*
EBIT	*-11.6*	-46.9	53.6	-15.3	*23.4*	*0.0*	*13.9*
EBITDA	*-2.4*	-26.7	36.3	-6.9	*15.0*	*1.6*	*10.0*
Net Income	*-9.3*	-15.6	-7.9	-4.0	*2.9*	*-3.0*	*10.0*
Diluted EPS	*-16.9*	-31.5	-12.3	-4.4	*2.9*	*-3.1*	*9.8*
Earnings Before Interest, after Tax	*-7.3*	-43.1	-13.1	61.0	*-30.3*	*-7.5*	*-1.0*
Free Cash Flow	*-19.5*	231.6	-22.5	-79.7	*347.7*	*-90.2*	*59.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	*12.0*	10.1	14.7	11.3	*16.8*	*15.2*	*16.4*
EBITDA Margin %	*20.4*	18.1	23.3	19.7	*27.3*	*25.1*	*25.9*
Net Margin %	*8.7*	9.9	8.6	7.5	*9.3*	*8.2*	*9.0*
Free Cash Flow Margin %	*5.1*	8.2	6.0	1.1	*6.0*	*0.5*	*5.5*
ROIC %	*2.2*	1.6	2.5	2.5	*5.2*	*5.2*	*5.7*
Adjusted ROIC %	*2.3*	1.7	2.7	2.7	*5.4*	*5.4*	*6.0*
Return on Assets %	*2.0*	1.7	2.2	2.0	*2.4*	*2.3*	*2.7*
Return on Equity %	*7.1*	6.4	7.7	7.1	*9.0*	*8.3*	*9.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.48*	0.47	0.47	0.49	*0.49*	*0.48*	*0.47*
Total Debt/EBITDA	*4.06*	4.60	3.46	4.12	*3.71*	*3.73*	*3.42*
EBITDA/Interest Expense	*4.65*	4.59	4.28	5.08	*6.23*	*6.05*	*6.27*

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	—	*14.6*
EV/EBITDA	8.9	8.3	—	*8.2*
EV/EBIT	14.1	14.5	—	*13.5*
Free Cash Flow Yield %	3.0	-6.3	—	*-1.1*
Dividend Yield %	3.9	4.2	—	*3.4*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,141	12.3	7.10
Present Value Stage II	15,598	31.3	18.03
Present Value Stage III	28,145	56.4	32.54
Total Firm Value	**49,883**	**100.0**	**57.68**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-1,117	—	-1.29
Equity Value	**28,372**	**—**	**32.80**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,179***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*9,999*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,180***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,822***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,822***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,078***
Income Tax Expense	627	1,044	666	*1,047*	*1,016*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,062***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.38***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,062*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.38***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,322***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,322***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,136*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,139*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,052***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,318***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,952*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,414***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,714***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,062*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-148*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,760***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-888***

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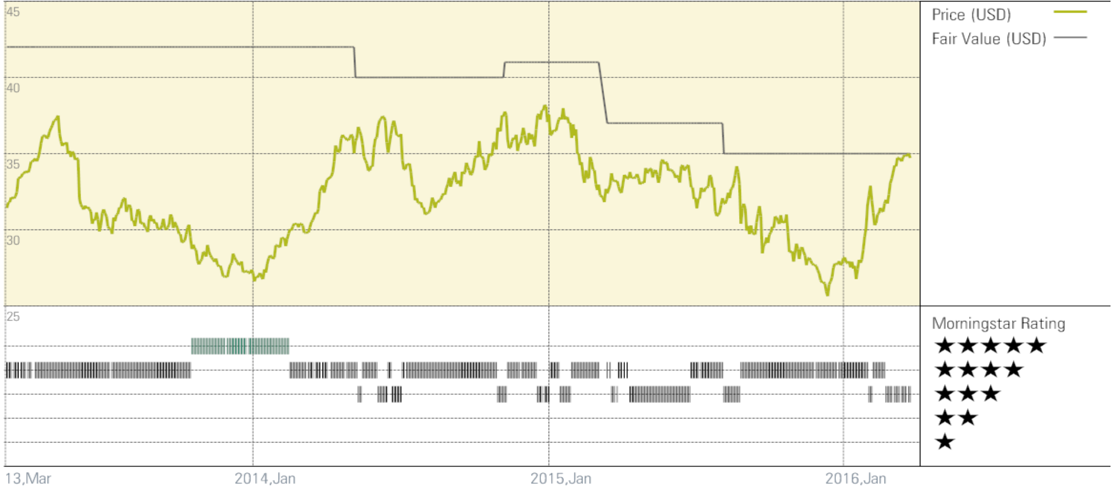
Price/Fair Value Morningstar data as of Mar 23, 2016



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Exelon and Pepco Join to Sing a Duet: At Last

Updated Forecasts and Estimates from 23 Mar 2016

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The primary analyst covering this company does not own its stock.

Research as of 24 Mar 2016
Estimates as of 23 Mar 2016
Pricing data through 23 Mar 2016
Rating updated as of 23 Mar 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Oct 2015

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. The Pepco deal took nearly two years to close as Exelon waded through the regulatory approval process. Management's commitment to keep the deal alive shows its conviction in Exelon's strategic move to add more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can increase earnings by 10% annually over the next three years.

Vital Statistics

Market Cap (USD Mil)	31,940
52-Week High (USD)	35.50
52-Week Low (USD)	25.09
52-Week Total Return %	7.8
YTD Total Return %	26.1
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.8
Price/Fair Value	0.99

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	—	*14.6*
EV/EBITDA	8.9	8.3	—	*8.2*
EV/EBIT	14.1	14.5	—	*13.5*
Free Cash Flow Yield %	3.0	-6.3	—	*-1.1*
Dividend Yield %	3.9	4.2	—	*3.4*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,179*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,822*
EBIT YoY %	53.6	-15.3	*23.4*	*0.0*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,062*
Net Income YoY %	-7.9	-4.0	*2.9*	*-3.0*
Diluted EPS	2.50	2.39	*2.46*	*2.38*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.1*
Free Cash Flow	1,500	305	*1,364*	*134*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.2*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

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Morningstar Analysis

Exelon and Pepco Join to Sing a Duet: At Last 24 Mar 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Valuation, Growth and Profitability 24 Mar 2016

We are reaffirming our $35 per share fair value estimate after Exelon closed its acquisition of Pepco Holdings at its $27.25 per share cash offer. We already included $1 per share of value dilution in our Exelon fair value estimate, based on the 30% premium that Exelon paid over our Pepco fair value estimate.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire, given that it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4 per thousand cubic feet midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios. A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 15% change in our open midcycle EPS estimate and an $800 million change in EBITDA. Our fair value estimate would change by $6 per share. On a mark-to-market basis as of

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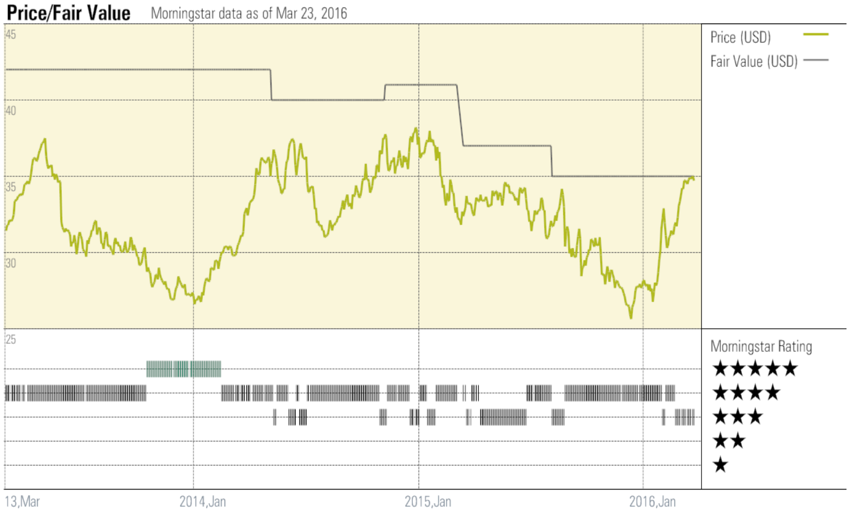

early August, our fair value estimate would be $31 per share and our midcycle EPS would be $3.00.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 2 percentage points to near the industry average, it would change our fair value estimate by $3 per share. If Exelon does not retire the Clinton, Quad Cities, and Byron plants, it would add $3 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear

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generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

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Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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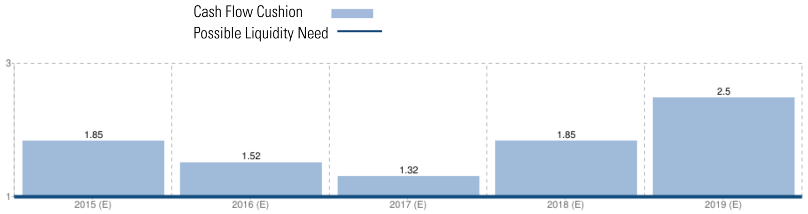
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	1,878	3,024	2,136	1,822	3,380
Adjusted Available Cash Flow	2,334	1,314	1,951	3,640	4,069
Total Cash Available before Debt Service	4,212	4,338	4,087	5,462	7,449
Principal Payments	-976	-1,500	-1,500	-1,250	-1,250
Interest Payments	-999	-1,044	-1,139	-1,238	-1,271
Other Cash Obligations and Commitments	-303	-303	-463	-464	-463
Total Cash Obligations and Commitments	-2,278	-2,847	-3,102	-2,952	-2,984

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	1,878	13.3
Sum of 5-Year Adjusted Free Cash Flow	13,308	94.0
Sum of Cash and 5-Year Cash Generation	15,186	107.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	15,186	107.2
Sum of 5-Year Cash Commitments	-14,163	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets. The 2007-08 commodity boom led management to raise the dividend and buy back stock. But as power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow. We expect the dividend to stay at this level for at least the next two years.The Pepco acquisition would increase consolidated leverage, but most of that additional leverage will be debt at the regulated utilities. We don't expect a material change in parentco or Exelon Generation leverage.We think Exelon will have sufficient cash coverage to keep its investment-grade credit rating and current dividend at least through 2016, based on current market conditions. Even through these lean years, we expect Exelon can generate at least $2 billion of cash flow after incorporating new financing and excluding discretionary growth investments. We project Exelon's consolidated EBITDA/interest coverage will drop from 9 times in 2011 to 6 times by 2015 and leverage to rise to 3.4 times debt/EBITDA in 2015 from 2 times in 2011.More than half of Exelon's consolidated debt is secured at the regulated utilities, in line with its regulatory targets. Apart from the utilities, Exelon has an average $485 million of annual debt maturities at Exelon Generation through 2017. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing those maturities.Exelon's pension and nuclear decommissioning funds are well-funded now, but if interest rates stay low, Exelon could be forced to contribute more cash.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.Reregulation would also destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.As Exelon's regulated utilities generate a greater share of earnings, investors will be made more acutely subject to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	240,157	25 Jan 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		69,056	25 Jan 2016	—
MR. KENNETH W. CORNEW		62,844	25 Jan 2016	—
MS. ANNE R. PRAMAGGIORE		56,015	13 Mar 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	3.26	1.24	—	31 Dec 2015
Franklin Income Fund	2.17	0.73	-5,000	31 Dec 2015
Vanguard Total Stock Mkt Idx	1.91	0.14	290	29 Feb 2016
Utilities Select Sector SPDR® Fund	1.45	5.16	7	23 Mar 2016
Vanguard Wellington™	1.57	0.46	—	31 Dec 2015
Concentrated Holders				
Fidelity VIP Utilities Portfolio	0.04	12.19	10	31 Jan 2016
Fidelity Advisor® Utilities Fund	0.11	12.19	-1	31 Jan 2016
Fidelity® Select Utilities Portfolio	0.30	11.85	31	31 Jan 2016
Vanguard Market Neutral	0.01	9.61	34	31 Dec 2015
Fidelity® Telecom and Utilities Fund	0.26	8.25	—	31 Jan 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Fidelity Management and Research Company	5.80	—	53,392	31 Dec 2015
Franklin Advisers, Inc.	3.26	—	29,971	31 Dec 2015
Vanguard Group Inc	6.26	0.11	4,747	31 Dec 2015
Capital Research Global Investors	6.48	0.57	4,432	31 Dec 2015
MFS Investment Management KK	1.77	0.24	4,353	31 Dec 2015
Top 5 Sellers				
T. Rowe Price Associates, Inc.	1.24	0.07	-8,881	31 Dec 2015
J.P. Morgan Investment Management Inc	0.02	—	-7,596	31 Dec 2015
Capital Research & Mgmt Co - Division 3	0.84	0.33	-3,531	31 Dec 2015
Morgan Stanley & Co Inc	0.11	0.04	-3,106	31 Dec 2015
Enhanced Investment Technologies Inc	0.24	0.16	-2,795	31 Dec 2015

Management 24 Mar 2016

We assign Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and executive chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on their efforts to gain support for the deal through nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon

formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Exelon and Pepco Join to Sing a Duet: At Last 24 Mar 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco 02 Mar 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes 29 Feb 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat

Analyst Notes

trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4 22 Feb 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain 11 Feb 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court’s decision comes as good news for coal miners that haven’t had any for some time. However, we don’t view today’s announcement as a panacea for the coal industry’s woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn’t changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody’s high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target 03 Feb 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts 25 Jan 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Independent power producers and diversified utilities are trading at a significant discount to our fair value estimates, and the Supreme Court's ruling has no material impact on our long-term thesis. We believe the market reaction was overly pessimistic to the ruling and presents a buying opportunity for those with the appropriate risk appetite. We highlight Dynegy and Exelon as those with the most exposure to PJM. Calpine, FirstEnergy, NRG Energy, and Public Service Enterprise Group also have material levels of generation in PJM.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal 11 Nov 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals 30 Oct 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year 26 Oct 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

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34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Reaches Agreement With D.C. Mayor to Acquire Pepco 06 Oct 2015

We are reiterating our $35 fair value estimate for Exelon and raising our fair value estimate for Pepco Holdings to $26 per share from $23 per share following the announcement by Washington, D.C., Mayor Muriel Bowser's office that they had reached an agreement with Exelon for its proposed acquisition of Pepco. Exelon has now agreed to invest $78 million in the D.C. electric utility system, up from the $14 million it previously proposed.

Based on the proposed agreement, we now believe the merger has a better than 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed. We had previously handicapped the chances of the merger closing at only 25% following the Aug. 25, 2015, outright rejection of Exelon's offer without the PSC providing any solutions for gaining approval. Exelon and Pepco have received all other regulatory approvals although there are some outstanding legal challenges to the conditional approval of the Maryland Public Service Commission that we expect to be dismissed.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Pepco and Exelon Refile With D.C. Commission but Offer No Sweeteners 30 Sep 2015

We are reiterating our $35 fair value estimate for Exelon and $23 fair value estimate for Pepco following the firms' filing for reconsideration of their proposed merger to the District of Columbia Public Service Commission. We are maintaining our narrow moat and stable moat trend ratings for both. The filing asserts the merger is in the public interest and the original decision contained numerous errors of law and fact. The companies did not propose any new financial incentives.

We continue to believe that the merger has a 25% chance of closing. Since the D.C. PSC did not provide alternatives to correct its concerns in the original decision, we think the commission is unlikely to reverse itself without any sweeteners. If the companies do offer additional benefits to D.C. customers, the conditional approvals by Delaware, Maryland, and New Jersey will be reopened. Most-favored-nations clauses in these agreements allow for the same incremental benefits, increasing the cost to Exelon of completing the merger. Although incremental customer benefits could be small for the D.C. jurisdiction, making concessions across all of Pepco's service territories could ruin the economics of the merger.

The D.C. commission has 30 days to respond. If it denies the request for rehearing or does not respond, Pepco and Exelon could appeal the decision to the D.C. Court of Appeals. The Washington Post has reported that D.C. Mayor Muriel Bowser has been subject to intense lobbying by business groups favoring the merger and public demonstrations opposing the merger. The Post reported that private negotiations are taking place in the mayor's office trying to determine if a revamped deal is possible.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*2015*	*2016*	*5-Year Proj. CAGR*
Revenue	*13.2*	24.1	6.0	10.2	*-17.0*	*10.6*	*3.5*
EBIT	*-11.6*	-46.9	53.6	-15.3	*23.4*	*0.0*	*13.9*
EBITDA	*-2.4*	-26.7	36.3	-6.9	*15.0*	*1.6*	*10.0*
Net Income	*-9.3*	-15.6	-7.9	-4.0	*2.9*	*-3.0*	*10.0*
Diluted EPS	*-16.9*	-31.5	-12.3	-4.4	*2.9*	*-3.1*	*9.8*
Earnings Before Interest, after Tax	*-7.3*	-43.1	-13.1	61.0	*-30.3*	*-7.5*	*-1.0*
Free Cash Flow	*-19.5*	231.6	-22.5	-79.7	*347.7*	*-90.2*	*59.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Operating Margin %	*12.0*	10.1	14.7	11.3	*16.8*	*15.2*	*16.4*
EBITDA Margin %	*20.4*	18.1	23.3	19.7	*27.3*	*25.1*	*25.9*
Net Margin %	*8.7*	9.9	8.6	7.5	*9.3*	*8.2*	*9.0*
Free Cash Flow Margin %	*5.1*	8.2	6.0	1.1	*6.0*	*0.5*	*5.5*
ROIC %	*2.2*	1.6	2.5	2.5	*5.2*	*5.2*	*5.7*
Adjusted ROIC %	*2.3*	1.7	2.7	2.7	*5.4*	*5.4*	*6.0*
Return on Assets %	*2.0*	1.7	2.2	2.0	*2.4*	*2.3*	*2.7*
Return on Equity %	*7.1*	6.4	7.7	7.1	*9.0*	*8.3*	*9.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Debt/Capital	*0.48*	0.47	0.47	0.49	*0.49*	*0.48*	*0.47*
Total Debt/EBITDA	*4.06*	4.60	3.46	4.12	*3.71*	*3.73*	*3.42*
EBITDA/Interest Expense	*4.65*	4.59	4.28	5.08	*6.23*	*6.05*	*6.27*

Valuation Summary and Forecasts

	2013	2014	*2015(E)*	*2016(E)*
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	—	*14.6*
EV/EBITDA	8.9	8.3	—	*8.2*
EV/EBIT	14.1	14.5	—	*13.5*
Free Cash Flow Yield %	3.0	-6.3	—	*-1.1*
Dividend Yield %	3.9	4.2	—	*3.4*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,141	12.3	7.10
Present Value Stage II	15,598	31.3	18.03
Present Value Stage III	28,145	56.4	32.54
Total Firm Value	**49,883**	**100.0**	**57.68**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-1,117	—	-1.29
Equity Value	**28,372**	**—**	**32.80**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,179***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*9,999*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,180***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,822***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,822***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,078***
Income Tax Expense	627	1,044	666	*1,047*	*1,016*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,062***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.38***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,062*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.38***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,322***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,322***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,136*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,139*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,052***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,318***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,952*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,414***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,714***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,062*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-148*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,760***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-888***

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	1.16	15.0	—	*15.5*	7.4	—	*7.9*	57.6	—	*NM*	1.6	—	*1.7*	1.8	—	*2.2*
FirstEnergy Corp FE USA	0.97	15.3	*13.3*	*12.2*	15.5	*9.5*	*8.9*	NM	*25.8*	*NM*	1.1	*1.2*	*1.1*	0.9	*1.0*	*1.1*
Entergy Corp ETR USA	1.04	15.0	—	*15.4*	5.9	—	*8.0*	6.9	—	*64.7*	1.2	—	*1.4*	1.0	—	*1.1*
Average		15.1	*13.3*	*14.4*	9.6	*9.5*	*8.3*	32.3	*25.8*	*64.7*	1.3	*1.2*	*1.4*	1.2	*1.0*	*1.5*
Exelon Corp EXC US	**0.99**	**15.5**	**—**	***14.6***	**8.3**	**—**	***8.2***	**NM**	**—**	***NM***	**1.1**	**—**	***1.3***	**0.9**	**—**	***1.3***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	— USD	8.2	*6.9*	*6.6*	8.2	*6.9*	*6.6*	12.8	*11.8*	*11.4*	4.5	*4.1*	*4.0*	3.8	—	*3.4*
FirstEnergy Corp FE USA	52,166 USD	1.8	*5.4*	*4.5*	2.1	*6.4*	*5.3*	2.4	*9.0*	*9.4*	0.6	*2.2*	*2.3*	4.5	*4.0*	*4.2*
Entergy Corp ETR USA	— USD	6.8	*1.5*	*5.0*	6.9	*1.5*	*5.1*	9.6	*1.8*	*9.5*	2.1	*0.4*	*1.9*	4.9	—	*4.5*
Average		5.6	*4.6*	*5.4*	5.7	*4.9*	*5.7*	8.3	*7.5*	*10.1*	2.4	*2.2*	*2.7*	4.4	*4.0*	*4.0*
Exelon Corp EXC US	— USD	**2.5**	***5.2***	***5.2***	**2.7**	***5.4***	***5.4***	**7.1**	***9.0***	***8.3***	**2.0**	***2.4***	***2.3***	**4.2**	**—**	***3.4***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*	2014	*2015(E)*	*2016(E)*
Public Service Enterprise Group Inc	10,886 USD	9.2	*-1.9*	*0.2*	14.1	*6.4*	*-0.5*	7.0	*5.3*	*2.4*	-26.4	*-51.0*	*-320.7*	2.8	*5.4*	*5.1*
FirstEnergy Corp FE USA	15,049 USD	0.9	*-2.5*	*-3.0*	-55.8	*154.3*	*7.4*	-15.7	*5.7*	*9.5*	56.3	*158.4*	*-55.5*	-34.6	—	*5.6*
Entergy Corp ETR USA	12,495 USD	9.7	*-3.2*	*0.8*	32.3	*-15.1*	*6.7*	8.7	*0.4*	*-13.5*	41.9	*-193.0*	*-119.8*	—	*0.6*	*2.7*
Average		6.6	*-2.5*	*-0.7*	-3.1	*48.5*	*4.5*	—	*3.8*	*-0.5*	23.9	*-28.5*	*-165.3*	-15.9	*3.0*	*4.5*
Exelon Corp EXC US	**27,429** USD	**10.2**	***-17.0***	***10.6***	**-15.3**	***23.4***	***0.0***	**-4.4**	***2.9***	***-3.1***	**-79.7**	***347.7***	***-90.2***	**-15.1**	**—**	**—**

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Public Service Enterprise Group Inc	1,402 USD	64.3	67.1	69.2	35.4	38.3	38.9	24.1	26.1	25.9	12.9	13.8	14.1	3.1	-0.8	-5.4
FirstEnergy Corp FE USA	1,075 USD	53.5	55.9	57.9	15.2	26.8	29.5	7.1	18.4	20.4	7.1	7.8	8.8	-4.0	4.0	-1.8
Entergy Corp ETR USA	1,050 USD	63.6	62.4	63.9	34.5	11.9	27.0	17.5	15.4	16.2	8.4	8.7	7.5	14.2	-12.8	1.8
Average		60.5	61.8	63.7	28.4	25.7	31.8	16.2	20.0	20.8	9.5	10.1	10.1	4.4	-3.2	-1.8
Exelon Corp EXC US	**2,065** USD	**52.6**	**65.9**	**60.3**	**19.7**	**27.3**	**25.1**	**11.3**	**16.8**	**15.2**	**7.5**	**9.3**	**8.2**	**-5.9**	**3.5**	**-1.5**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Public Service Enterprise Group Inc	9,144 USD	75.0	75.6	81.1	42.9	43.1	44.8	9.9	10.4	9.4	2.4	2.4	2.7	2.9	2.8	2.8
FirstEnergy Corp FE USA	21,779 USD	175.4	165.7	161.7	63.7	62.4	61.8	2.1	3.6	3.8	9.5	5.5	5.3	4.2	4.1	4.0
Entergy Corp ETR USA	13,998 USD	138.6	159.3	160.9	58.1	61.4	61.7	6.9	2.1	4.6	3.2	10.7	4.9	4.6	5.0	5.0
Average		129.7	133.5	134.6	54.9	55.6	56.1	6.3	5.4	5.9	5.0	6.2	4.3	3.9	4.0	3.9
Exelon Corp EXC US	**22,272** USD	**97.7**	**94.7**	**92.8**	**49.4**	**48.6**	**48.1**	**5.1**	**6.2**	**6.1**	**4.1**	**3.7**	**3.7**	**3.8**	**3.6**	**3.6**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Public Service Enterprise Group Inc	23,402 USD	0.79	0.51	0.41	1.18	1.11	1.11	1.03	0.95	0.95	0.46	0.30	0.24	49.5	53.7	55.1
FirstEnergy Corp FE USA	15,243 USD	0.20	0.39	0.51	0.70	0.51	0.51	0.55	0.38	0.39	0.03	0.06	0.07	202.8	53.3	51.4
Entergy Corp ETR USA	13,947 USD	7.89	3.07	2.92	1.14	0.85	0.85	0.85	0.57	0.57	0.95	0.37	0.35	63.6	338.0	67.8
Average		2.96	1.32	1.28	1.01	0.82	0.82	0.81	0.63	0.64	0.48	0.24	0.22	105.3	148.3	58.1
Exelon Corp EXC US	**31,940** USD	**2.17**	**3.50**	**2.47**	**1.38**	**1.39**	**1.26**	**1.20**	**1.30**	**1.15**	**0.83**	**1.34**	**0.94**	**66.0**	**50.4**	**52.1**

Research Methodology for Valuing Companies

Components of Our Methodology

- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies

Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

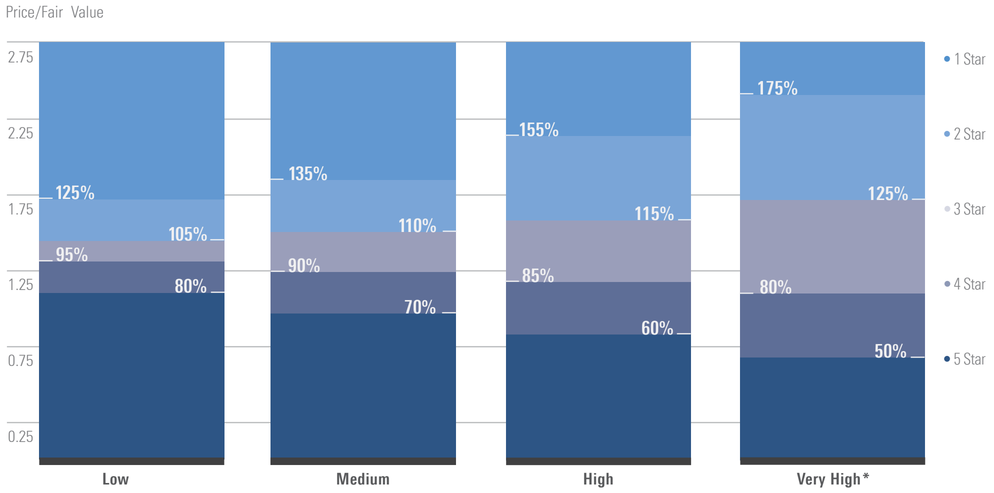
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



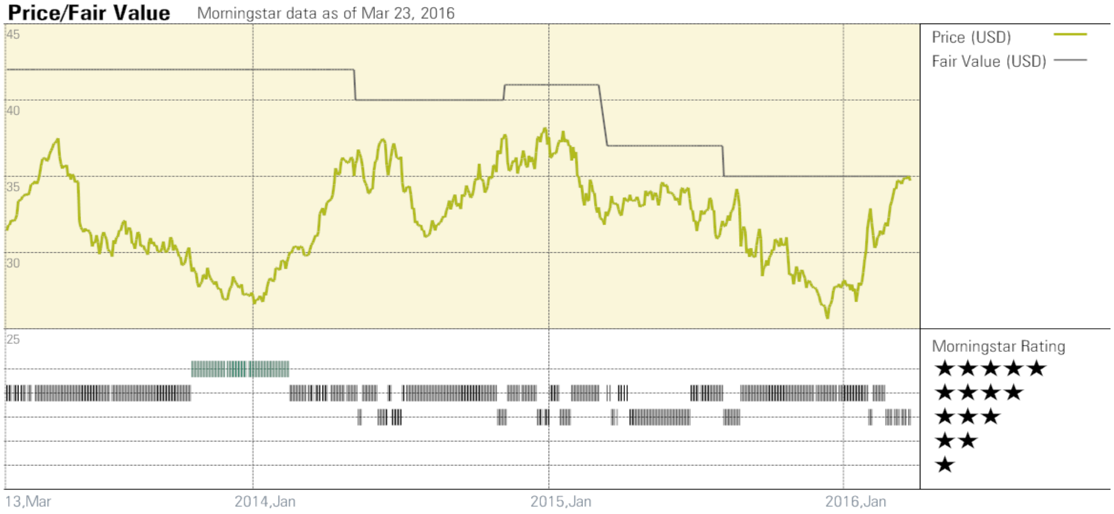
* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Mar 23, 2016



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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.72 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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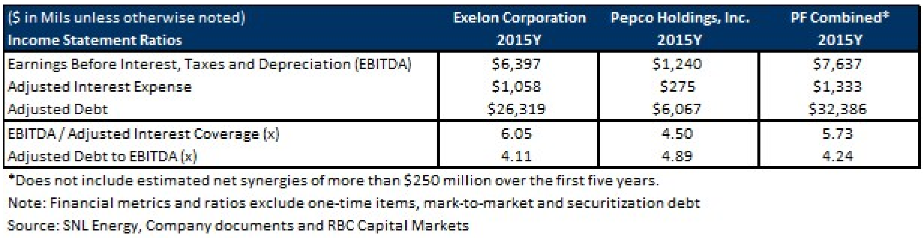
RBC Credit: EXC and POM gain final regulatory approval

Sentiment Indicator : positive

Posted by Leung, Raymond (RBC Capital Markets, LLC) on Thursday, March 24, 2016, 11:05 AM ET

Takeaway: Yesterday, Exelon Corp. and Pepco Holdings Inc. received the final necessary regulatory approval from the D.C regulatory commission and subsequently closed the merger of the two companies. We view the final approval as a modest positive in that it increases Exelon's regulated footprint from about 45% of consolidated 2015 earnings to about two-thirds on a pro-forma basis. We maintain our Outperform rating on Exelon Corp and spreads should grind tighter. Following the news, EXC 3.95% of 2025 notes was quoted at +170 bps.

- After a nearly two-year process, Exelon and Pepco received the final necessary regulatory approval from the D.C. Public Service Commission in a 2-1 vote during an open meeting on March 23.
- The commission accepted the second of the three proposed options provided by the companies on March 7. The second option was largely the settlement presented by the various parties. This option would result in $72.8 million to be allocated toward a "customer investment fund," $11.25 million for energy efficiency programs, and $21.5 million for pilot projects. The decision includes deferring the decision on the allocation of $25.6 million of Customer Base Rate Credit.
- Interveners of the merger may still oppose the merger and potentially appeal through the courts. However, this may be a protracted process and we believe the merger may be difficult to unwind post the integration.
- Subsequently, Exelon and PEPCO announced that the merger closed last night. The merger was initially announced in April 2014.



($ in Mils unless otherwise noted) Income Statement Ratios	Exelon Corporation 2015Y	Pepco Holdings, Inc. 2015Y	PF Combined* 2015Y
Earnings Before Interest, Taxes and Depreciation (EBITDA)	$6,397	$1,240	$7,637
Adjusted Interest Expense	$1,058	$275	$1,333
Adjusted Debt	$26,319	$6,067	$32,386
EBITDA / Adjusted Interest Coverage (x)	6.05	4.50	5.73
Adjusted Debt to EBITDA (x)	4.11	4.89	4.24

*Does not include estimated net synergies of more than $250 million over the first five years.

Note: Financial metrics and ratios exclude one-time items, mark-to-market and securitization debt

Source: SNL Energy, Company documents and RBC Capital Markets

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EVERCORE ISI

Energy | Power & Utilities

March 28, 2016

EXELON CORP.

EXC | $35.31

BUY | TARGET PRICE: $37.50

Change in Earnings Forecast

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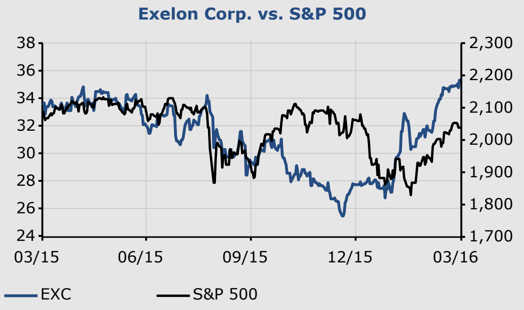
Company Statistics

Market Capitalization (M):	$32,545
Shares Outstanding (M):	922
Dividend:	$1.26
Dividend Yield:	3.6%
Payout Ratio:	48.6%
Expected Total Return:	9.8%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	**$2.60**	**$2.65**	**$2.75**
P/E	**13.6x**	**13.3x**	**12.8x**
EPS vs Consensus	**3.5%**	**(0.3)%**	**(0.7)%**
Consensus EPS	**$2.51**	**$2.66**	**$2.77**
Consensus P/E	**14.1x**	**13.3x**	**12.7x**

1 Year Price History



Source: FactSet

Deal Closed! EXC Comes Away With More Regulated Assets in the "POM" of its Hand

Rating Buy. Target $37.50, Up From $35 / Share.

In a 2-1 vote on 3/23/16, the D.C. PSC approved Exelon's acquisition of Pepco Holdings – successfully concluding its bid to acquire POM, which was first announced back in April 2014. All other jurisdictions had approved the merger, with the closing hinging on the outcome of the proceedings in D.C. The approval process in D.C. culminated in a final effort to gain approval on 3/7/16, in which EXC asked for the D.C. PSC to either approve the settlement as originally filed, approve the Revised Non-unanimous Settlement Agreement (RNSA) conditionally approved by the Commission on 2/26/16, or approve a third alternative that adjusted the terms of the RNSA. They pointed out that it was within the Commission's purview to approve the deal on the merits over the objections of settling parties if found in the best interest of ratepayers. The 3/23/16 order approving the deal essentially adopted the RNSA, with Commissioner Fort removing her previous condition that the original settling parties give unanimous approval. Commissioner Kane maintained her dissent. For more information read our 3/7/16 note here.

A large portion of the available FCF generated by ExGen will now go to shoring up Pepco and funding its capital program. We forecast roughly $3.2bn in available cash generated by EXC's merchant business, in line with company aspirations, although perhaps tempered by the necessity of maintaining some level of counterparty cash collateral (which was about $1.25bn as of YE'15). Had the deal ultimately been rejected, EXC would have proceeded with its plan of retiring $1.875bn in debt while executing a ~$2bn buy back of the 57.5mm equity shares issued to fund the transaction. On a pro-forma basis much of that cash flow will now be directed at POM. From YE'11 through YE '15 POM's debt/cap ratio rose from 52% to 59%. At YE '15, POM was carrying ~ $1.0bn of short term debt on its parent balance sheet in excess of the operating company debt of its subsidiary companies. EXC will refinance that debt balance and when we combine our EXC and POM forecasts we see a significant portion of EXC's cash flow going to fund POM's capital program.

Our FY'16-'18 EPS forecast is now $2.60 / $2.65 / $2.70, and our target price is now $37.50 up from $35. Our FY'16 estimate is just above the midpoint of the company's articulated $2.40-$2.70 guidance as of its last earnings call. Our prior EPS forecast was $2.56 / $2.66 / $2.82. We use forward curves as of 3/23/16. Our estimates have been updated to reflect current financing assumptions for EXC including an additional $1bn of debt to refinance POM's STD balance, and equity dilution in FY '17 from 32.9mm shares issued when a convertible bond matures. Our share count forecast is consistent with the forecast EXC laid out in its 2015 EEI analyst presentation. Our accretion estimate from POM in FY '18 is $0.10, +/-$0.05 lower than our prior forecast. We expect over time that EXC will make meaningful progress toward diminishing regulatory lag at PHI but that could take several years. While the merger has been undergoing regulatory review, POM had not sought rate relief in any of its jurisdictions (DC, DE, MD, NJ) up until it filed for rates for Atlantic City Electric on 3/22/16.

EXC shares are up 27% YTD, making it the best performing utility in both our regulated and diversified coverage universes. We are resisting the urge to "take profits"… We are concerned that after such a significant move to the upside EXC shares could consolidate, especially with the potential for the next few catalysts to be negative (the pending LT contract decisions in OH for FE and AEP and the potential for PJM capacity auction to price lower in May). However, on the flip side of that equation EXC has significant operating and financial leverage should natural gas price fundamentals continue to improve. Our EVRISI Energy team believes natural gas will trend to $3/MMbtu by FY '17 and reach $3.25 in FY '18. While that doesn't sound like a lot, a $0.50 increase in natural gas prices would increase ExGen EBITDA in FY '18 by +/-$400mm above our current forecast of $3bn in FY '18 which is derived from current forward curves.

…Because the stock does not look expensive. On a consolidated basis EXC currently trades at 13X our FY '18 estimate of $2.75 and a 3.6% yield. They are committed to dividend growth of 2.5% annually through FY '18. Our regulated universe trades today at 16.5X estimated '18 EPS with a 3.4% yield (albeit with better dividend growth). Taking apart EXC in the wake of the POM deal we think its regulated business is worth +/-$27/share, assuming the utility business (including POM net of all parent financing costs) contributes $1.70 of EPS in '18 and deserves a 16X P/E. That is a half a multiple point below current average valuations for the peer group for a utility portfolio with the opportunity for sustained EPS growth from rising earned ROEs at three of its for subsidiaries (BGE, ComED and POM). That means ExGen is trading at $8.25 a share or roughly $8bn of equity value on '18 pro forma shares. (a ~5.7x EV/EBITDA multiple on our '18 estimates and a debt/EBITDA multiple of +/-3x). Our target price assumes an EV/EBITDA multiple just a half a turn higher at 6.5X which we think is reasonable looking at ExGen's free cash flow profile, cost of capital, and the useful life of its assets. In the alternative, with no multiple expansion at the current valuation natural gas prices in 2018 would need to rise to a hair north of $3/MMBtu. If the forward curve for gas were to rise to $3.25/MMBtu over the next 12 months, and ExGen's valuation expanded to 6.5X, all things equal the stock could rise to $40. On the flip side, at 15X '18 EPS, assuming a $0.50/MMBtu decline in natural gas in FY '18 and no multiple expansion at ExGen we see downside back to $32/share.

What's next? EXC and POM announced they had completed the merger transaction shortly after the D.C. decision, with integration now "well underway". We expect filings for base rate reviews in essentially all of the POM jurisdictions (as we said above Atlantic City Electric has already filed). However, they are likely not to receive new revenues until sometime in 2H17. EXC continues working with stakeholders and legislators in Illinois on a plan that will support its distressed nuclear assets in that state, intent on delivering an agreeable package to the legislature in the next few months. The Public Utility Commission of Ohio is expected to rule shortly on FE and AEP's requests for contracts for portions of their merchant generation fleets. The PJM '19/'20 BRA begins on 5/11/16 and results will be posted on 5/24/16. The MD PSC is expected to issue a final order on the pending BGE electric and gas distribution rate case by 6/3/16. Possible action by NY that might create zero emissions credits to subside nuclear generation like Ginna can be beneficial to margins out the curve, though by the company's admission the state would have to move relatively quickly for it to be meaningful beyond expiration of its RSSA.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of legislation to bolster the revenue stream of the Illinois nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in Illinois to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-03-25)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$49.25	$43.50
AEP	American Electric Power	Buy	$65.06	$62.00
CPN	Calpine Corp.	Buy	$14.18	$16.00
CMS	CMS Energy Corp.	Hold	$41.68	$38.50
ED	Consolidated Edison Inc.	Hold	$75.56	$65.00
D	Dominion Resources Inc.	Buy	$73.42	$74.00
DTE	DTE Energy Co.	Hold	$89.46	$85.00
DUK	Duke Energy Corp.	Hold	$79.75	$73.00
DYN	Dynegy Inc.	Buy	$13.71	$20.00
EIX	Edison International	Buy	$71.34	$70.00
ETR	Entergy Corp.	Hold	$78.84	$72.00
ES	Eversource Energy	Hold	$57.83	$53.00
EXC	Exelon Corp.	Buy	$35.31	$35.00
FE	FirstEnergy Corp.	Hold	$36.16	$33.00
HE	Hawaiian Electric Industries Inc.	Hold	$32.36	$30.00
HIFR	InfraREIT, Inc.	Buy	$17.14	$22.00
ITC	ITC Holdings	Hold	$42.48	$42.00
NEE	NextEra Energy Inc	Buy	$118.48	$114.00
NRG	NRG Energy Inc.	Buy	$13.14	$16.00
NYLD	NRG Yield, Inc.	Buy	$13.69	$18.00
POM	Pepco Holdings, Inc.	Hold	$NA	$23.50
PCG	PG&E Corp.	Buy	$58.85	$57.00
PNW	Pinnacle West Capital Corp.	Hold	$73.49	$67.00
PPL	PPL Corp.	Hold	$37.19	$36.00
PEG	Public Service Enterprise Group	Hold	$46.04	$46.00
SRE	Sempra Energy	Buy	$102.55	$110.00
SO	Southern Co.	Hold	$50.90	$46.00
TLN	Talen Energy Corporation	Buy	$8.39	$11.50
TE	TECO Energy Inc.	Hold	$27.51	$26.50
AES	The AES Corporation	Buy	$11.57	$12.25
WEC	WEC Energy Group, Inc.	Hold	$58.89	$51.50
WR	Westar Energy Inc.	Hold	$48.30	$42.50
XEL	Xcel Energy Inc.	Hold	$41.23	$36.50

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Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
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ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

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Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Coverage Universe

Ratings	Count	Pct.
Buy	339	52%
Hold	279	43%
Sell	21	3%
Coverage Suspended	6	1%
Rating Suspended	7	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	48	14%
Hold	11	4%
Sell	2	10%
Coverage Suspended	2	33%
Rating Suspended	0	0%

Issuer-Specific Disclosures (as of March 28, 2016)

Exelon Corp. Rating History as of 03/26/2016

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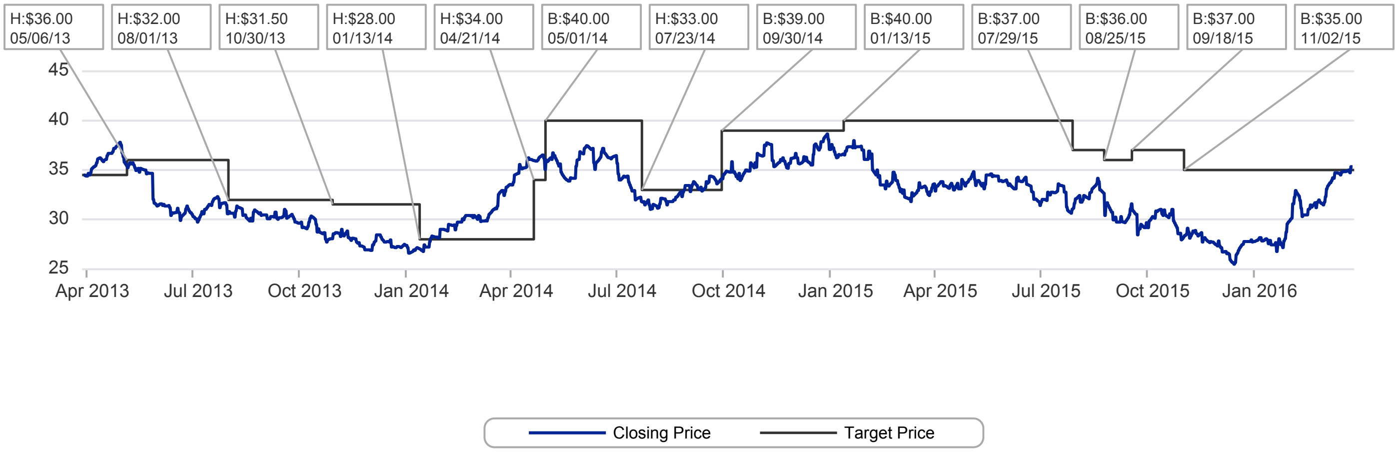

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Exelon Corp.

EXC: Exelon completes Pepco acquisition quickly after unexpected DC PSC approval

Company Update

28 March 2016

Reaffirming ratings after Exelon closes Pepco acquisition

Hours after unexpectedly receiving the final required approval, on March 23rd Exelon and Pepco Holdings closed their April 2014 merger agreement whereby Exelon acquired Pepco for $27.25 per share in cash. We reaffirm our ratings including our Overweight on Exelon Corp.'s senior notes and Exelon Generation's senior notes (Chart 1). We are dropping coverage of two bonds no longer in our investment grade corporate bond index: Commonwealth Edison's 5.875% FMBs of 2033 and 5.90% FMBs of 2036. We do not have ratings on Pepco Holdings or any of its subsidiaries.

Corp. notes revert to credit spreads from 101%-of-par price

We expect three series of Exelon Corporation's senior notes totaling ~$1.88 billion (3.95% of 2025, 4.95% of 2035 and 5.10% of 2045), issued to finance part of the Pepco acquisition, to return to trading on a credit spread basis, as all three had recently been anchored to the special mandatory redemption price of 101% of par in the event the merger did not close by June 30, 2016.

Some POM shareholders gain ~25% in less than 3 hours

As the last remaining hurdle to the companies' completion of their merger, the District of Columbia Public Service Commission ("DC PSC") had rejected the change-of-control merger application on August 25, 2015 and then rejected a merger settlement agreement on February 26, 2016. Subsequent public statements by various parties to that settlement agreement suggested that each party's self-interests might cause the deal to unravel. In the seven days prior to the DC PSC's March 23rd meeting, Pepco's stock price averaged ~$22.00/share, and in the four-plus hours ahead of the DC PSC's approval of the merger, it averaged ~$21.75/share. Consequently, anyone who bought Pepco stock on March 23rd ahead of the ~1:50pm DC PSC decision and held through the end of the day earned a return of approximately 25%.

Addition of regulated utilities improves business profile

One of the benefits of the Pepco acquisition is to increase and further diversify Exelon's regulated electric and gas utility portfolio, resulting in a modest improvement in its business risk profile. In 2015, Exelon's three utilities contributed 52% of EBITDA, marginally greater than Exelon Generation's 48% (Exhibit 2); pro-forma for the Pepco acquisition, Exelon's six utilities would have contributed 59% of EBITDA, noticeably greater than Exelon Generation's 41% (Exhibit 3).

Transaction provides two dividend-related benefits

We view Exelon's acquisition of Pepco as having two benefits with respect to common stock dividends. First, Exelon's dividend to shareholders can rely more on the earnings and dividend capability of its regulated utilities and less on its merchant energy business. On a 2015 net income basis, Exelon paid out 99% of its three utilities' net income to its shareholders (excluding the common stock issued to finance the Pepco acquisition); pro-forma to reflect the Pepco acquisition, Exelon would have paid out 83% of its six utilities' net income (Table 2 on page 4). Similarly, on a 2015 dividends paid

(continued on following page)

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Refer to important disclosures on page 10 to 15. Analyst Certification on page 8. Valuation & Risk on page 8.

High Grade
United States
Electric Utilities

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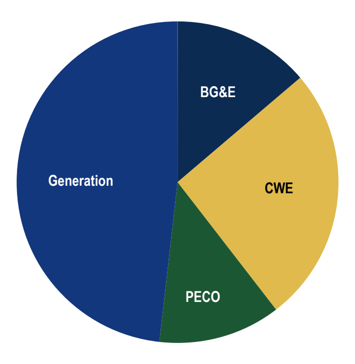
Exhibit 1: BofAML Recommendations

Overweight
Exelon Corp. Exelon Generation

Marketweight
Baltimore Gas & Electric Commonwealth Edison PECO Energy

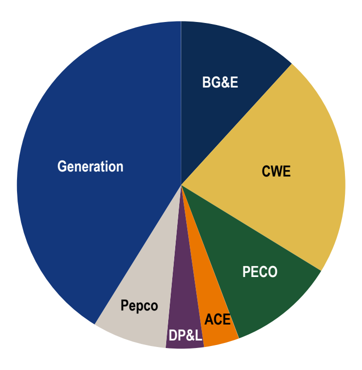
Source: BofA Merrill Lynch Global Research.

Exhibit 2: Exelon EBITDA Profile (2015)



Source: Company reports, BofA Merrill Lynch Global Research.

Exhibit 3: Pro-Forma EBITDA Profile



Source: Company reports, BofA Merrill Lynch Global Research.

basis, Exelon paid out nearly 150% of the dividends it received from its three regulated utilities; pro-forma to reflect the Pepco acquisition, Exelon would have paid out 116% of the dividends it would have received from its six utilities (Table 2). The second dividend benefit of the Pepco acquisition is that the total common dividends Exelon is paying its shareholders following the Pepco acquisition is a smaller dollar amount than the combined amount Exelon and Pepco were paying their respective shareholders (Table 1). Even factoring in Exelon's equity units which must be settled by June 2017 and the approval of Exelon's board to raise the dividend by 2.5%, we expect that the combination of Pepco's high dividend payout ratio (96% over 2014-15) and Exelon's financing of the transaction saves approximately $100 million to $175 million per year of after-tax cash flow for each of the next several years relative to the two companies remaining separate companies.

Table 1: Shareholder Dividends ($ millions)

Pre-Merger-Financing		
Exelon	$	1,066
Pepco Holdings	$	275
	$	1,341
Post-Merger-Closing*		
Exelon	$	1,162

* includes 2.5% dividend increase effective May 2016.

Source: BofA Merrill Lunch Global Research.

Heightened focus on Pepco utilities' operations and service

Finally, we expect another benefit of the transaction would be an improvement of operations and quality of service at the three Pepco utilities as the Exelon management team applies its best practices.

Rating agencies' actions – Moody's

Moody's affirmed the ratings and stable outlook of Exelon Corporation and upgraded the bond rating and commercial paper rating of Pepco Holdings by one notch, to Baa2 and P-2, respectively, while revising Pepco's outlook to Stable from Developing. Moody's expects that Exelon's larger size and scale will bring additional resources and capital to help accelerate Pepco's investment plans across its three, low-business-risk transmission and distribution utilities. With Exelon's business shift more towards its regulated utilities, Moody's will now assess Exelon's credit profile under its Global Regulated Electric and Gas Utilities rating methodology, rather than its Unregulated Utilities and Power Companies rating methodology previously used. Moody's sees roughly $28 billion of regulated rate base at Exelon, which is higher than the combined ~$25 billion of debt at its regulated utilities (~$20 billion) and parent holding company ($5 billion).

Rating agencies' actions – Standard & Poor's

Standard & Poor's stated that Exelon's ratings and stable outlook were unaffected by the announcement that the DC PSC had approved Exelon's application to acquire Pepco. While the transaction has led to an incremental increase in leverage, it now also provides a very stable source of cash flow. Standard & Poor's affirmed Pepco Holdings' ratings and stable outlook after the transaction closed; the rating agency expects Pepco's financial performance to be somewhat weak, but modestly improving, over the next 12 to 24 months.

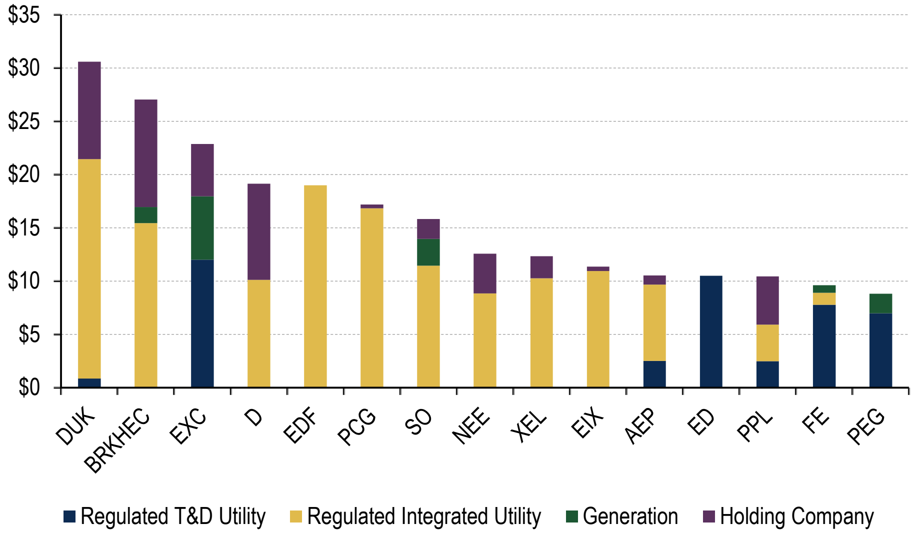
Rating agencies' actions – Fitch

Fitch downgraded Exelon's debt ratings by one notch including its senior notes to BBB from BBB+ and removed the ratings from Rating Watch Negative where they had been placed in April 2014 following the Pepco merger agreement announcement. The outlook is now stable. The downgrades reflect the increased consolidated leverage that results from the Pepco acquisition and, to a lesser extent, the weak operating environment of its competitive generation business. The rise in leverage is softened by a modest reduction in business risk from the increase in regulated earnings, Fitch said.

In our IG bond index, EXC moves ahead of ED as largest T&D

With respect to the electric utility sub-sector of our investment grade corporate bond index, Exelon's acquisition of Pepco Holdings solidifies EXC's position as the third largest overall (Exhibit 4) at $22.9 billion (market value), providing some distance ahead of fourth-place D ($19.1 billion) while still smaller than only DUK ($30.6 billion) and BRKHEC ($27.0 billion). The $3.0 billion of pre-merger POM bonds that are now part of EXC moves EXC ahead of ED with the largest amount of transmission-and-distribution utility bonds, now at $12.0 billion, ahead of ED's $10.5 billion. Also, EXC has no integrated utilities, while the bonds of the ten largest utilities excluding EXC are predominantly issued by the integrated utilities, supplemented primarily by holding company debt.

Exhibit 4: Largest Electric Utilities in BofAML IG Corporate Bond index (EXC includes POM) ($billions)



Source: BofA Merrill Lynch Global Research.

Appendix

Table 2: Exelon Shareholder Dividends vs. Regulated Utility Net Income and Dividends ($millions)

	Utility Net Income		Utility Dividends	
	Standalone	**Merger***	**Standalone**	**Merger***
Utilities	**Net Income**		**Dividends Paid**	
Baltimore Gas & Electric	$ 275	$ 275	$ 158	$ 158
Commonwealth Edison	$ 426	$ 426	$ 299	$ 299
PECO Energy	$ 378	$ 378	$ 279	$ 279
Atlantic City Electric	--	$ 38	--	$ 12
Delmarva Power & Light	--	$ 76	--	$ 92
Potomac Electric Power	--	$ 187	--	$ 146
Total Utilities	$ 1,079	$ 1,380	$ 736	$ 986
	Dividends Paid		**Dividends Paid**	
Exelon Corp.	$ 1,066	$ 1,140	$ 1,066	$ 1,140
Total Exelon Corp./Total Utilities	**99%**	**83%**	**145%**	**116%**

* Pro-forma as if the merger had closed on December 31, 2014.

Source: Company reports, BofA Merrill Lynch Global Research.

Corporate Debt Profiles

Exhibit 5: Exelon Corporation Debt Profile ($ millions; page 1 of 2)

23

Metrics thru Issuer within each box				Issuer			
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P 1 2 Security	31-Dec-15 Debt	FY15 Change	31-Dec-14 Debt
$ 6,360				**Exelon Corporation**			
				$500 RCF due 30-May-19	$ -	$ -	$ -
				Notes payable to affiliate	$ 188	$ 188	$ -
				Senior Unsecured Notes	$ 3,846	$ 2,546	$ 1,300
				Notes (CEG)	$ 808	$ (550)	$ 1,358
				Long-term debt to affiliate	$ -	$ (182)	$ 182
				Long-term Software License Agreement	$ 111	$ 111	$ -
				Junior Subordinated Notes	$ 1,150	$ -	$ 1,150
				CEG debt fair value adjustment	$ 275	$ (58)	$ 333
				other, net	$ (18)	$ (166)	$ 148
$ 10,240	$ 3,640	2.8x	25.3%	**1. Exelon Generation Co. LLC**			
				$5,300 RCF due 30-May-19 *	$ -	$ -	$ -
				$300 Bilateral Facility due Mar-16 to Jan-19	$ -	$ -	$ -
				$100 CENG Bilateral Facility due Oct-17	$ -	$ -	$ -
				Borrowings from Money Pool	$ 1,252	$ 1,252	$ -
				Short-term Notes Payable	$ 29	$ (7)	$ 36
				Senior Unsecured Notes	$ 5,038	$ 766	$ 4,272
				ILAs with Exelon Corp.	$ 933	$ (566)	$ 1,499
				Pollution Control Notes	$ 435	$ 435	$ -
				Nuclear Fuel Procurement Contracts	$ 127	$ 57	$ 70
				Albany Green Energy Project Financing	$ 100	$ 100	$ -
				Notes Payable and other	$ 45	$ 43	$ 2
				Capital Lease Obligations	$ 21	$ (3)	$ 24
				CEG Sr Notes fair value adjustment	$ 127	$ (19)	$ 146
				Unamortized debt costs, net	$ (87)	$ (5)	$ (82)
$ 2,220	N.A.	N.A.	N.A.	**A. Renewables and CEG businesses (non-recourse)**			
				ExGen Texas Power Project Financing	$ 666	$ (7)	$ 673
				Antelope Valley Solar Project Financing	$ 574	$ 17	$ 557
				Continental Wind	$ 572	$ (20)	$ 592
				ExGen Renewables I Project Financing	$ 258	$ (24)	$ 282
				Upstream Gas Property Lending Agreement	$ 68	$ (9)	$ 77
				Sacramento Solar Project Financing	$ 33	$ (2)	$ 35
				Constellation Solar Horizons Loan Agmt.	$ 32	$ (2)	$ 34
				Holyoke Solar Loan Agreement	$ 10	$ -	$ 10
				Denver Int'l Airport Solar Loan Agreement	$ 7	$ -	$ 7

Source: Company reports, BofA Merrill Lynch Global Research.

Exhibit 6: Exelon Corporation Debt Profile ($ millions; page 2 of 2)

23

Metrics thru Issuer within each box				Issuer						
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	Security	31-Dec-15 Debt	FY15 Change	31-Dec-14 Debt
$ 2,320	$ 1,039	2.2x	33.0%				**2. Baltimore Gas and Electric Company**			
$ 2,200	*$ 956*	*2.3x*	*31.4%*				*excluding Rate Stabilization Bonds*			
							$600 RCF due 30-May-19	$ -	$ -	$ -
							Commercial Paper	$ 210	$ 90	$ 120
							Senior Notes	$ 1,750	$ -	$ 1,750
							unamortized debt costs	$ (18)	$ 1	$ (19)
							BGE Capital Trust II			
							Deferrable Interest Sub. Debentures	$ 258	$ -	$ 258
$ 120	$ 84	1.4x	62.5%				**A. RSB BondCo LLC**			
							Rate Stabilization Bonds	$ 120	$ (75)	$ 195
$ 7,008	$ 1,946	3.6x	26.0%				**3. Commonwealth Edison Co.**			
							$1,000 RCF due 28-Mar-19	$ -	$ -	$ -
							Commercial Paper	$ 294	$ (10)	$ 304
							First Mortgage Bonds	$ 6,419	$ 590	$ 5,829
							Notes Payable	$ 140	$ -	$ 140
							Capital Leases	$ 8	$ -	$ 8
							Unamortized debt costs, net	$ (59)	$ (7)	$ (52)
							ComEd Financing III			
							Subordinated Debentures	$ 206	$ -	$ 206
$ 2,764	$ 927	3.0x	27.3%				**4. PECO Energy Co.**			
							$600 RCF due 30-May-19	$ -	$ -	$ -
							Borrowings from money pool	$ -	$ -	$ -
							First Mortgage Bonds	$ 2,600	$ 350	$ 2,250
							Unamortized debt costs, net	$ (20)	$ (2)	$ (18)
							PECO Trusts III & IV			
							Subordinated Debentures	$ 184	$ -	$ 184
$ 226	N.A.	N.A.	N.A.				**5. Exelon Business Services Co.**			
							Borrowings from money pool	$ 226	$ (35)	$ 261
$ 26,319	**$ 7,157**	**3.6x**	**22.8%**				**Consolidated Total (excl. FVAs)**	**$ 26,319**	**$ 4,140**	**$ 22,179**
$ 26,199	***$ 7,073***	***3.6x***	***22.6%***				***excluding Transition Bonds***	***$ 26,199***	***$ 4,215***	***$ 21,984***

Last twelve months ending December 31, 2015.

* Approximately $200 of the $5,300 expires in August 2018.

Credit metrics exclude 'fair value adjustments' of debt of Constellation Energy Group and Baltimore Gas & Electric.

Source: Company reports, BofA Merrill Lynch Global Research.

Exhibit 7: Pepco Holdings Debt Profile ($ millions)

Metrics thru Issuer within each box				Issuer			
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P 1 2 3 Security	31-Dec-15 Debt	FY15 Change	31-Dec-14 Debt
$ 1,736				**Pepco Holdings, Inc.**			
				$750 sub-limit: $1,500 RCF due 1-Aug-18	$ -	$ -	$ -
				Commercial Paper	$ 484	$ 197	$ 287
				$300 Term Loan due 28-Jul-16	$ 300	$ 300	$ -
				Notes (unsecured)	$ 456	$ (250)	$ 706
				Notes payable to Potomac Capital Inv. Corp.	$ 498	$ 4	$ 494
				unamortized discount and other, net	$ (2)	$ -	$ (2)
$ 2,415	$ 646	3.7x	19.3%	**1. Potomac Electric Power Company**			
				$250 sub-limit: $1,500 RCF due 1-Aug-18	$ -	$ -	$ -
				Commercial Paper	$ 64	$ (40)	$ 104
				First Mortgage Bonds	$ 2,335	$ 200	$ 2,135
				Capital Lease Obligations	$ 50	$ (10)	$ 60
				Project Funding	$ -	$ (12)	$ 12
				unamortized discount and other, net	$ (34)	$ 5	$ (39)
$ 2,578	N.A.	N.A.	N.A.	**2. Conectiv**			
$ 1,371	$ 329	4.2x	20.4%	**A. Delmarva Power & Light Co.**			
				$250 sub-limit: $1,500 RCF due 1-Aug-18	$ -	$ -	$ -
				Commercial Paper	$ 105	$ (1)	$ 106
				Variable Rate Demand Bonds	$ 105	$ -	$ 105
				First Mortgage Bonds	$ 1,050	$ 200	$ 850
				Medium-Term Notes (unsecured)	$ 40	$ -	$ 40
				Notes (unsecured)	$ -	$ (100)	$ 100
				Unsecured Tax-Exempt Bonds	$ 78	$ -	$ 78
				unamortized discount and other, net	$ (7)	$ (2)	$ (5)
$ 1,207	$ 310	3.9x	23.0%	**B. Atlantic City Electric Co.**			
$ 1,036	*$ 256*	*4.0x*	*22.6%*	***excluding Transition Funding***			
				$250 sub-limit: $1,500 RCF due 1-Aug-18	$ -	$ -	$ -
				Commercial Paper	$ 5	$ (122)	$ 127
				First Mortgage Bonds	$ 1,039	$ 135	$ 904
				unamortized discount	$ (8)	$ -	$ (8)
$ 171	$ 54	3.2x	0.25731	**i. Atlantic City Electric Transition Funding LLC**			
				Transition Bonds	$ 171	$ (44)	$ 215
$ 8	N.A.	N.A.	N.A.	**3. Pepco Energy Services, Inc.**			
				Secured Notes	$ 3	$ (1)	$ 4
				Project Funding	$ 5	$ (12)	$ 17
$ -	N.A.	N.A.	N.A.	**4. Potomac Capital investment Corporation**			
				Debt	$ -	$ -	$ -
$ 6,238	**$ 1,326**	**4.7x**	**15.5%**	**Consolidated Total**	**$ 6,238**	**$ 443**	**$ 5,795**
$ 6,067	***$ 1,272***	***4.8x***	***15.2%***	***excluding Transition Bonds***	***$ 6,067***	***$ 487***	***$ 5,580***

Last twelve months ending December 31, 2015.

Source: Company reports, BofA Merrill Lynch Global Research.

Valuation & risk

Exelon Corp. (EXC)

We view Exelon Corporation credit spreads as attractive relative to other electric utility holding company bonds. In addition, Exelon's credit profile has improved slightly following its recent acquisition of Pepco Holdings' three regulated, transmission-and-distribution-only utilities. The utilities not only dilute Exelon Generation's proportion of Exelon's consolidated EBITDA, but also enable a broader and more diversified portfolio of regulated cash flows. Primary risks include a declining EBITDA profile at Exelon Generation as a result of persistently low power prices, or an increase of parent or consolidated leverage.

Baltimore (EXC)

We view Baltimore Gas & Electric as a low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. In addition, Baltimore Gas & Electric has had a ring fence to insulate its credit quality from affiliates. We view the primary risk to be a below-average regulatory environment in Maryland.

Commonwealth Edison (EXC)

We view Commonwealth Edison as a low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. We view the primary risk to be a below-average regulatory environment in Illinois due to past political interferences, but the environment has been much more stable and somewhat more supportive in recent years..

Exelon Generation Co (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks are the rehearing of the Pepco Holdings merger application following the rejection by Washington DC regulators, low natural gas prices and quark spreads.

PECO Energy Co. (EXC)

We view PECO Energy as a high-quality, low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. We view the primary potential credit risk to be an action at or development by either its parent or its sister merchant generation business.

Analyst Certification

I, Peter D. Quinn, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security pricing

Baltimore Gas & Electric Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.9, Notes, USD, 2016:B	300	01-OCT-2016	A3/A-/A-	102.34	24-Mar-2016	1.34	84
3.5, Notes, USD, 2021:B	300	15-NOV-2021	A3/A-/A-	105.54	24-Mar-2016	2.40	90
2.8, Notes, USD, 2022:B	250	15-AUG-2022	A3/A-/A-	101.40	24-Mar-2016	2.55	94
3.35, Notes, USD, 2023:B	300	01-JUL-2023	A3/A-/A-	103.42	24-Mar-2016	2.81	109
6.35, Notes, USD, 2036:B	400	01-OCT-2036	A3/A-/A-	128.61	24-Mar-2016	4.25	185

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Commonwealth Edison Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.95, First Mortgage Bonds, USD, 2016:B	415	15-AUG-2016	A2/A-/A-	101.86	24-Mar-2016	1.13	75
1.95, First Mortgage Bonds, USD, 2016:B	250	01-SEP-2016	A2/A-/A-	100.30	24-Mar-2016	1.09	70
6.15, First Mortgage Bonds, USD, 2017:B	425	15-SEP-2017	A2/A-/A-	106.92	24-Mar-2016	1.39	61
5.8, First Mortgage Bonds, USD, 2018:B	700	15-Mar-2018	A2/A-/A-	108.09	24-Mar-2016	1.61	75
2.15, First Mortgage Bonds, USD, 2019:B	300	15-JAN-2019	A2/A-/A-	100.73	24-Mar-2016	1.88	87
4, First Mortgage Bonds, USD, 2020:B	500	01-AUG-2020	A2/A-/A-	106.92	24-Mar-2016	2.23	95
3.4, First Mortgage Bonds, USD, 2021:B	350	01-SEP-2021	A2/A-/A-	105.82	24-Mar-2016	2.21	74
3.1, First Mortgage Bonds, USD, 2024:B	250	01-Nov-2024	A2/A-/A-	103.41	24-Mar-2016	2.64	80
6.45, First Mortgage Bonds, USD, 2038:B	450	15-Jan-2038	A2/A-/A-	133.24	24-Mar-2016	4.12	167
3.8, First Mortgage Bonds, USD, 2042:B	350	01-OCT-2042	A2/A-/A-	99.23	24-Mar-2016	3.85	123
4.6, First Mortgage Bonds, USD, 2043:B	350	15-AUG-2043	A2/A-/A-	109.66	24-Mar-2016	4.01	138
4.7, First Mortgage Bonds, USD, 2044:B	350	15-JAN-2044	A2/A-/A-	112.63	24-Mar-2016	3.94	130
3.7, First Mortgage Bonds, USD, 2045:B	400	01-Mar-2045	A2/A-/A-	97.47	24-Mar-2016	3.85	117

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Corp. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
1.55, Senior Notes, USD, 2017:B	550	09-Jun-2017	Baa2/BBB-/BBB	99.64	24-Mar-2016	1.85	113
2.85, Senior Notes, USD, 2020:B	900	15-Jun-2020	Baa2/BBB-/BBB	101.37	24-Mar-2016	2.50	121
5.15, Senior Notes, USD, 2020:B	550	01-DEC-2020	Baa2/BBB-/BBB	110.15	24-Mar-2016	2.70	136
3.95, Senior Notes, USD, 2025:B	807	15-JUN-2025	Baa2/BBB-/BBB	102.33	24-Mar-2016	3.64	176
7.6, Senior Notes, USD, 2032:B	258	01-APR-2032	Baa2/BBB-/BBB	129.73	24-Mar-2016	4.90	269
4.95, Senior Notes, USD, 2035:B	333	15-JUN-2035	Baa2/N.A./BBB	104.22	24-Mar-2016	4.61	229
5.625, Senior Notes, USD, 2035:B	500	15-Jun-2035	Baa2/BBB-/BBB	112.15	24-Mar-2016	4.66	231
5.1, Senior Notes, USD, 2045:B	741	15-JUN-2045	Baa2/N.A./BBB	107.55	24-Mar-2016	4.62	195

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Generation Co. LLC / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.2, Senior Notes, USD, 2017:B	700	01-Oct-2017	Baa2/BBB/BBB	105.79	24-Mar-2016	2.30	152
5.2, Senior Notes, USD, 2019:B	600	01-OCT-2019	Baa2/BBB/BBB	107.90	24-Mar-2016	2.82	166
2.95, Senior Notes, USD, 2020:B	750	15-Jan-2020	Baa2/BBB/BBB	100.08	24-Mar-2016	2.93	172
4, Senior Notes, USD, 2020:B	550	01-OCT-2020	Baa2/BBB/BBB	103.66	24-Mar-2016	3.08	177
4.25, Senior Notes, USD, 2022:B	523	15-JUN-2022	Baa2/BBB/BBB	102.77	24-Mar-2016	3.73	214
6.25, Senior Notes, USD, 2039:B	900	01-OCT-2039	Baa2/BBB/BBB	101.54	24-Mar-2016	6.13	360
5.75, Senior Notes, USD, 2041:B	350	01-Oct-2041	Baa2/BBB/BBB	95.37	24-Mar-2016	6.11	352
5.6, Senior Notes, USD, 2042:B	788	15-JUN-2042	Baa2/BBB/BBB	94.88	24-Mar-2016	5.99	338
Senior Unsecured, USD, Y5, CDS				31.50	26-Mar-2016		227

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PECO Energy Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
1.2, FandR Mortgage Bonds, USD, 2016:B	300	15-OCT-2016	Aa3/A-/A	100.15	24-Mar-2016	.93	41
5.35, FandR Mortgage Bonds, USD, 2018:B	500	01-Mar-2018	Aa3/A-/A	107.06	24-Mar-2016	1.63	78
2.375, FandR Mortgage Bonds, USD, 2022:B	350	15-SEP-2022	Aa3/A-/A	100.10	24-Mar-2016	2.36	74
3.15, FandR Mortgage Bonds, USD, 2025:B	350	15-Oct-2025	Aa3/A-/A	103.43	24-Mar-2016	2.73	82
5.95, FandR Mortgage Bonds, USD, 2036:B	300	01-Oct-2036	Aa3/A-/A	125.91	24-Mar-2016	4.07	167
4.8, FandR Mortgage Bonds, USD, 2043:B	250	15-OCT-2043	Aa3/A-/A	113.10	24-Mar-2016	4.00	137
4.15, FandR Mortgage Bonds, USD, 2044:B	300	01-Oct-2044	Aa3/A-/A	103.33	24-Mar-2016	3.95	130

Prices are as of date indicated and are from various sources, including BofA Merrill Lynch Global Fixed Income Indices and BofA Merrill Lynch trading desks. CDS spreads are sourced from the Markit Group Limited. Prices are indicative and for information purposes only.
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Disclosures

Important Disclosures

Credit opinion history

Baltimore Gas & Electric Co. / EXC

Company	Date^	Action	Recommendation
Baltimore Gas & Electric Co. / EXC	28-Feb-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
5.9, Notes, USD, 2016:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.5, Notes, USD, 2021:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.8, Notes, USD, 2022:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.35, Notes, USD, 2023:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.35, Notes, USD, 2036:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

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B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Commonwealth Edison Co. / EXC

Company	Date^	Action	Recommendation
Commonwealth Edison Co. / EXC	28-Feb-2013		Underweight-30%
	06-May-2013	Downgrade	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
5.95, First Mortgage Bonds, USD, 2016:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
1.95, First Mortgage Bonds, USD, 2016:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.15, First Mortgage Bonds, USD, 2017:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.8, First Mortgage Bonds, USD, 2018:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.15, First Mortgage Bonds, USD, 2019:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4, First Mortgage Bonds, USD, 2020:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.4, First Mortgage Bonds, USD, 2021:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.1, First Mortgage Bonds, USD, 2024:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.875, First Mortgage Bonds, USD, 2033:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.9, First Mortgage Bonds, USD, 2036:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Commonwealth Edison Co. / EXC

Company	Date^	Action	Recommendation
6.45, First Mortgage Bonds, USD, 2038:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.8, First Mortgage Bonds, USD, 2042:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.6, First Mortgage Bonds, USD, 2043:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.7, First Mortgage Bonds, USD, 2044:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.7, First Mortgage Bonds, USD, 2045:B	02-Mar-2015	New Issue	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

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B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Exelon Corp. / EXC

Company	Date^	Action	Recommendation
Exelon Corp. / EXC	28-Feb-2013		Underweight-30%
	06-May-2013	Upgrade	Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Security	**Date^**	**Action**	**Recommendation**
1.55, Senior Notes, USD, 2017:B	11-Jun-2015	New Issue	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
2.85, Senior Notes, USD, 2020:B	11-Jun-2015	New Issue	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.15, Senior Notes, USD, 2020:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
3.95, Senior Notes, USD, 2025:B	02-Dec-2015	New Issue	Overweight
7.6, Senior Notes, USD, 2032:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4.95, Senior Notes, USD, 2035:B	02-Dec-2015	New Issue	Overweight
5.625, Senior Notes, USD, 2035:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.1, Senior Notes, USD, 2045:B	02-Dec-2015	New Issue	Overweight

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Exelon Generation Co. LLC / EXC

Company	Date^	Action	Recommendation
Exelon Generation Co. LLC / EXC	28-Feb-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Security	**Date^**	**Action**	**Recommendation**
6.2, Senior Notes, USD, 2017:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.2, Senior Notes, USD, 2019:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
2.95, Senior Notes, USD, 2020:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4, Senior Notes, USD, 2020:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4.25, Senior Notes, USD, 2022:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
6.25, Senior Notes, USD, 2039:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.75, Senior Notes, USD, 2041:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.6, Senior Notes, USD, 2042:B	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Senior Unsecured, USD, Y5, CDS	28-Feb-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Sell Protection

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PECO Energy Co. / EXC

Company	Date^	Action	Recommendation
PECO Energy Co. / EXC	28-Feb-2013		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
1.2, FandR Mortgage Bonds, USD, 2016:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.35, FandR Mortgage Bonds, USD, 2018:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.375, FandR Mortgage Bonds, USD, 2022:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.15, FandR Mortgage Bonds, USD, 2025:B	05-Oct-2015	New Issue	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.95, FandR Mortgage Bonds, USD, 2036:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.8, FandR Mortgage Bonds, USD, 2043:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.15, FandR Mortgage Bonds, USD, 2044:B	28-Feb-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
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BofA Merrill Lynch Credit Opinion Key

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Neutral: No purchase or sale of CDS is recommended.
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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	146	35.96%	Buy	130	89.04%
Hold	155	38.18%	Hold	137	88.39%
Sell	105	25.86%	Sell	91	86.67%

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J.P.Morgan

North America Equity Research
28 March 2016

Exelon Corp.

Reiterating OW on Pro Forma EXC

Overweight

EXC, EXC US

Price: $35.16

▲ **Price Target: $39.00**
Previous: $36.00

We are refreshing our estimates following the close of the POM transaction and reiterating our OW rating. Exelon's pro forma balance sheet leaves a cushion for future dividend hikes, buybacks or asset purchases, even at current commodity prices. The current share price implies an ExGen Open EBITDA multiple of 5.2x 2018E and the segment contributes 37% of our $2.85 EPS estimate. We expect the company to host an analyst day in coming months with a focus on executing costs cuts, achieving rate timely relief at the Pepco utilities and future ExGen or other growth opportunities. Despite strong YTD performance, we do not yet see EXC shares as giving appropriate credit to ExGen commodity optionality, future balance sheet flexibility and earned ROE upside at the POM utilities.

- **Balance sheet leaves cushion for excess dividend growth or buybacks down the road:** The company's guided 2.5% dividend growth in each of the next 3 years leaves the payout at only 47% on our 2018E EPS, with consolidated net debt to cap of 49% and debt to EBITDA of 3.5x. The $1.33 dividend implies a 74% utility payout ratio in a year where ExGen's EPS contribution has declined 24% from 2015.
- **ExGen implied value 5.2x open 2018E EBITDA.** The segment's implied 4.5x 2018E EBITDA and 5.2x open EBITDA is based on the current stock price and current market commodity prices and is a discount to IPP peers and N-rated Public Service Enterprise Group (PEG). We do not assume a purchase of EDF's share of the CENG nuclear assets or any Illinois legislative relief.
- **Updating estimates, PT:** Our December 2016 PT is based on a SOTP and assigns $31/share to the pro forma utility assets and $8 to ExGen. We assume the $325MM of $300-350MM November 2015 guided cost cuts are achieved by 2018 and that all Pepco utilities file for rate relief this year, but do not include any incremental synergies from the transaction.

Utilities and Power

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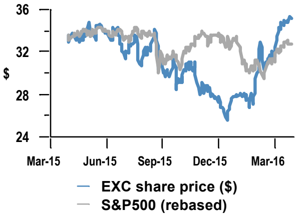
Price Performance



	YTD	1m	3m	12m
Abs	26.6%	10.8%	26.7%	4.7%
Rel	26.9%	6.2%	27.6%	7.1%

Exelon Corp. (EXC;EXC US)

FYE Dec	2014A	2015A	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*
adj. EPS ($)								
Q1 (Mar)	0.62	0.71	-	0.65	-	-	-	-
Q2 (Jun)	0.51	0.59	-	-	-	-	-	-
Q3 (Sep)	0.78	0.83	-	-	-	-	-	-
Q4 (Dec)	0.49	0.38	-	-	-	-	-	-
FY	2.39	2.49	2.42	2.46	2.69	2.68	3.01	2.85

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	35.16
Date Of Price	28 Mar 16
52-week Range ($)	35.50-25.09
Market Cap ($ mn)	32,417.52
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	39.00
Price Target End Date	31-Dec-16

See page 4 for analyst certification and important disclosures.

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Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $39.00)*

Investment Thesis

Exelon's pro forma balance sheet leaves a cushion for future dividend hikes, buybacks or asset purchases, even at current commodity prices. The current share price implies an ExGen Open EBITDA multiple of 5.2x 2018E and the segment contributes 37% of our $2.85 EPS estimate. We expect the company to host an analyst day in coming months with a focus on executing costs cuts, achieving rate timely relief at the Pepco utilities and future ExGen or other growth opportunities. Despite strong YTD performance, we do not yet see EXC shares as giving appropriate credit to ExGen commodity optionality, future balance sheet flexibility and earned ROE upside at the POM utilities.

Valuation

We are raising our December 2016 price target to $39/share ($36 prior). Our valuation is based on a sum-of-the-parts analysis using our 2018 forecasts. We use an average 18.4x P/E multiple for the regulated utility and corporate business segments, a minor discount to regulated peers reflecting mildly challenging regulatory environments for the EXC utilities. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. The upward revision in our PT reflects higher regulated peer and unregulated generation multiple relative to our prior update, partly offset by lower expected EPS.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company's earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Sales	29,237	32,758	34,107	34,261
COGS	(13,139)	(14,673)	(15,112)	(15,012)
D&A	(2,450)	(3,067)	(3,325)	(3,396)
Operations and maintenance	(9,432)	(10,497)	(10,744)	(10,615)
Other expenses	-	-	-	-
Total operating expenses				
Other income / (expense)	294	517	496	496
EBIT	**4,510**	**5,038**	**5,422**	**5,734**
EBITDA	**6,960**	**8,106**	**8,747**	**9,130**
Interest expense	(1,098)	(1,500)	(1,513)	(1,494)
Income tax provision	(1,165)	(1,250)	(1,380)	(1,495)
Tax rate	34.1%	35.3%	35.3%	35.3%
Discontinued operations and other				
Preferred dividends	-	-	-	-
Net income	**2,227**	**2,272**	**2,514**	**2,729**
Total non-recurring items	0	0	0	0
Net income (Recurring)	**2,227**	**2,272**	**2,514**	**2,729**
Diluted shares outstanding	**893**	**924**	**938**	**959**
Diluted EPS	**2.49**	**2.46**	**2.68**	**2.85**
DPS ($)	1.24	1.26	1.29	1.33
Payout ratio	49.7%	51.4%	48.3%	46.6%

Income Statement - Quarterly	**1Q16E**	**2Q16E**	**3Q16E**	**4Q16E**
Sales	8,661			
COGS	(4,458)			
D&A	(623)	-	-	-
Operations and maintenance	(2,448)			
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	118			
EBIT	**1,250**	**-**	**-**	**-**
EBITDA	**1,873**	**-**	**-**	**-**
Interest expense	(317)			
Income tax provision	(327)			
Tax rate	35.0%	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**602**	**-**	**-**	**-**
Total non-recurring items	0			
Net income (Recurring)	**602**	**-**	**-**	**-**
Diluted shares outstanding	**923**			
Diluted EPS	**0.65**	**-**	**-**	**-**
DPS ($)	0.31			
Payout ratio	47.5%	-	-	-

Balance Sheet and Cash Flow Data	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Cash and cash equivalents	6,502	0	0	0
Current assets	15,334	9,233	9,622	9,966
PP&E	57,439	71,975	74,850	76,752
Non-current assets	22,611	16,629	16,629	16,629
Total assets	**95,384**	**97,837**	**101,100**	**103,347**
Current liabilities	9,118	11,299	9,535	7,627
Long-term Debt	24,286	29,109	30,209	31,309
Preferred stock	0	0	0	0
Other non-current liabilities	34,658	28,979	30,358	31,854
Common equity	25,793	26,921	29,469	31,028
Total liabilities & equity	95,384	97,837	101,100	103,347
Net income	2,250	2,272	2,514	2,729
D&A	3,987	4,650	4,908	4,979
Change in working capital	(246)	(401)	(389)	(344)
Change in other assets	1,643	1,555	1,380	1,495
Net operating cash flow	**7,634**	**8,076**	**8,412**	**8,859**
Cash flow from investing activities	**(7,840)**	**(14,941)**	**(7,782)**	**(6,882)**
Net common equity issued/(repurchased)	1,868	100	1,250	100
Net debt issued/(repurchased)	4,022	650	1,100	1,100
Common dividends paid	(1,105)	(1,164)	(1,216)	(1,269)
Other financing activity	45	0	0	0
Cash flow from financing activities	**4,830**	**(414)**	**1,134**	**(69)**
Increase/(decrease) in cash	4,624	(7,279)	1,764	1,908
Cash at beginning of the period	1,878	6,502	0	0
Cash at end of the period	6,502	0	0	0

Ratio Analysis	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Sales growth	4.8%	12.0%	4.1%	0.5%
EBITDA growth	7.0%	16.5%	7.9%	4.4%
EBIT growth	7.6%	11.7%	7.6%	5.7%
Net income (recurring) growth	7.7%	2.0%	10.7%	8.5%
Diluted EPS growth	4.2%	(1.5%)	9.0%	6.2%
Gross margin	55.1%	55.2%	55.7%	56.2%
Operating margin	15.4%	15.4%	15.9%	16.7%
Debt / Capital (book)	50.5%	55.3%	52.6%	50.7%
Times interest earned	6.3	5.4	5.8	6.1
ROE	9.2%	8.6%	8.9%	9.0%
Return on capital employed (ROCE)	6.1%	5.8%	5.7%	5.9%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec

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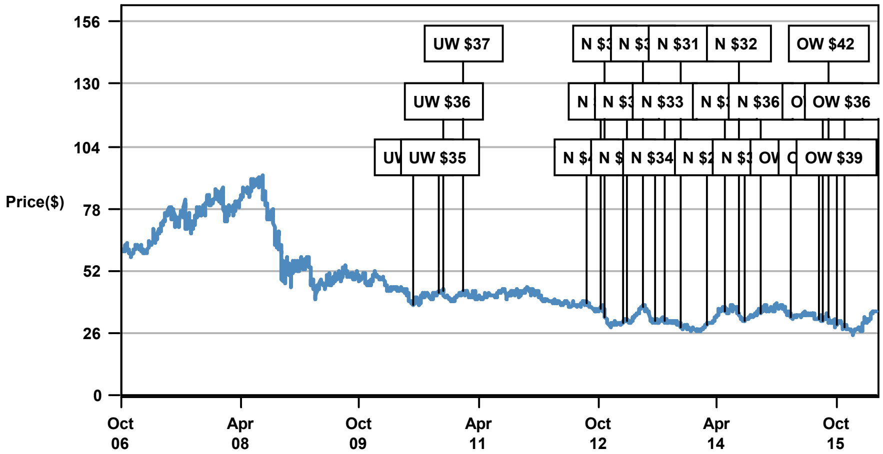
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.92	33.00
29-Sep-10	UW	42.82	35.00
19-Oct-10	UW	43.74	36.00
20-Jan-11	UW	43.35	37.00
07-Aug-12	N	38.06	40.00
08-Oct-12	N	35.95	39.00
02-Nov-12	N	32.77	38.00
23-Jan-13	N	29.99	36.00
08-Feb-13	N	31.08	34.00
19-Apr-13	N	36.46	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.80	33.00
17-Oct-13	N	28.75	31.00
12-Feb-14	N	29.47	29.00
30-Apr-14	N	35.03	33.00
09-Jul-14	N	34.32	32.00
01-Aug-14	N	31.08	35.00
16-Oct-14	N	34.09	36.00
05-Mar-15	OW	32.62	38.00
06-Jul-15	OW	31.94	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	33.00	42.00
28-Sep-15	OW	29.20	39.00
02-Nov-15	OW	28.51	36.00

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: AEP, FE, GXP, DUK, EIX, ES, EXC, NEE, D, NE-ISO, EPA, MISO, ERCOT

April 1, 2016

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What's New?

For current Guggenheim Utility Corporate Access Calendar, scroll to bottom.

Guggenheim initiates coverage of IPPs – Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities

2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea

Texas Showdown: Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out

AEP/FE – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC (see our note here)
GXP – Senate Committee approves MO energy legislation
AEP/DUK/EIX/ES/EXC/GXP – Grid Assurance filing receives positive order from FERC
NEE/DUK – FL Supreme Court sides with utilities regarding solar on the November ballot
NE-ISO – Solar expected to grow 30% in New England
ES – NH legislation would raise net metering cap by 50MW and require alternative tariffs
D – VEPCO's Greensville Power Station rider approved
EPA – EPA releases revised greenhouse gas permitting rules
MISO – FERC rejects MISO's proposed reforms to interconnection requests
ERCOT – Panda Power suing ERCOT

GXP – Senate Committee approves MO energy legislation

- The MO Senate Commerce, Consumer Protection, Energy and the Environment Committee voted to approve a modified version of SB 1028.
- The draft version of the bill includes comprehensive revisions to address regulatory lag and to allow for encouragement to invest in the state's infrastructure.
- Provisions include a "performance-based" ratemaking (PBR) framework, which would require the utility to make annual filings with the Commission to show how the utility has been tracking on five-year infrastructure investments.
- The ROE would be set at 9.45% and would be updated to reflect the change in the 30-year U.S. Treasury Bond yields for the year preceding the company's rate case filing.
- Provisions also include recovery of transmission costs for power sold into SPP.

Guggenheim takeaway: *As we highlighted in the past, we believe the energy legislation is key to GXP to reduce its regulatory lag and we believe momentum will continue for this legislation to be passed before the session ends on May 13. The MO House has had hearings on a similar bill HB 2816, and if that bill moves forward, both the House and Senate versions have to be reconciled and voted on.*

AEP/DUK/EIX/ES/EXC/GXP – Grid Assurance filing receives positive order from FERC

- FERC issued a positive order on the Grid Assurance program being developed by AEP, DUK, EIX, ES, EXC, and GXP.
- The order provides regulatory clarity that supports participation from transmission owners to strengthen grid resiliency.
- The order confirmed:
    - Prudence of subscriber contracts for spare service and equipment following a qualifying event;
    - Availability of single-issue ratemaking to recover costs; and
    - That affiliate rules are waived subject to certain conditions (e.g., submitting audited financials annually).

Guggenheim takeaway: *Grid Assurance plans to maintain spare equipment at strategically located warehouses and facilitate expedited equipment transportation to sites affected by qualifying events, which include physical attacks, cyberattacks, electromagnetic pulses, catastrophic events, solar storms, earthquakes, and severe weather. Grid Assurance requested FERC make determinations on several issues at the end of 2015; the JV indicated they continue to evaluate the order, and will seek additional clarity in 2Q16.*

NEE/DUK/SO/TE – FL Supreme Court approves utilities' solar ballot for November

- The Florida Supreme Court approved a ballot initiative pushed by the Consumers for Smart Solar, a utility-backed group.
- With the ballot, Floridians will vote to determine if the state constitution should be amended to preserve regulatory oversight over rooftop solar, and existing rules around a customer's ability to own or lease the equipment.

Guggenheim takeaway: *Opponents argue the ballot would essentially maintain the status-quo in Florida, which we actually believe is a fair description. Solar growth hasn't taken off in Florida as it has elsewhere because state law only allows utilities to sell electricity. While an effort to open the market to third-party leasing models was initiated in the state, utilities launched this effort and essentially took the momentum away. If there is an opportunity to develop solar in Florida, we believe utilities would be able to show the most compelling economics to the extent they have existing property for solar use and grid interconnections. We expect DUK, NEE, and SO would participate in a solar opportunity. We recently hosted investors in Florida and solar was a topic of discussion in meetings with NEE and FL commissioners. While the outlook for distributed solar is bleak in Florida, we believe large-scale development will be an opportunity for utilities in the state – for additional insight see our note.*

NE-ISO – 30% more solar capacity expected in New England

- The New England ISO increased its expectation for solar capacity by 30%.
- The ISO now expects to have 3.2GW of solar by the end of their 10-year planning horizon (2025).

Guggenheim takeaway: *Their expectation for 3.2GW in 2025 is 30% higher than the 2.4GW previously expected for 2024, driven by state and federal policy activity since their previous outlook (e.g., 30% ITC extension).*

ES – NH legislation would raise net metering cap by 50MW and require alternative tariffs

- New Hampshire policymakers are considering H.B. 1116, legislation that would increase the state's net-metering cap by 50MW, and require alternative tariffs to support net-metering.

Guggenheim takeaway: *Since ES reached its limit in NH, we have seen a recent push to increase the net-metering cap, including legislation passed by the house earlier this month to double NH's net-metering cap (to 100MW from 50MW).*

D – VEPCO's Greensville Power Station rider approved

- Virginia regulators approved VEPCO's (D's VA utility) proposed Greensville Power Station and related rider.
- The order authorizes a $40mm revenue requirement effective 4/1/16, which includes a 9.6% ROE on a $389mm ratebase for 2017, using a ~50/50% capital structure.
- VEPCO was originally seeking a $42mm revenue requirement, based on a 10% ROE (and essentially the same ratebase and capital structure that was approved).

Guggenheim takeaway: *Although D was originally seeking a 10% ROE for the 1.6GW CCGT, the authorized return is consistent with adjustments we recently highlighted to D's other asset-specific riders.*

EPA – EPA releases revised greenhouse gas permitting rules

- EPA submitted its revisions to greenhouse gas permitting programs to the Office of Management and Budget, which will have 90 days to review.
- The revisions establish a greenhouse gas emissions limit but do not require large-scale greenhouse gas polluters to install best available control technology (BACT).

Guggenheim takeaway: *The Court of Appeals directed EPA to take steps to revise its permitting program so that its sources are not required to acquire permits when greenhouse gases are the only pollutant emitted at the site. These limits note that greenhouse gases endanger public health and is part of the reasoning behind the Clean Power Plan.*

MISO – FERC rejects MISO's proposed reforms to interconnection requests

- FERC found that MISO's proposal to change the way it processes interconnection requests as incomplete and rejected the proposal.
- MISO said that the current process is too slow and that the existing process is creating a backlog of requests. Proposed reforms center on using milestone payments to ensure that projects that are not ready do not stay in the queue.
- FERC found that MISO's proposal failed to achieve balance between many factors and was unclear as to how the changes would impact ready projects as well as non-ready projects.
- FERC is already planning to hold a technical conference to consider interconnection procedures across all RTO/ISOs.

Guggenheim takeaway: *We believe MISO's interconnection changes could come out of FERC's technical conference. We believe a more streamlined interconnection process will benefit not only new wind generators but also solar* *and natural gas. The reforms that come out of this technical conference could improve the speed of getting new projects online, in our view.*

ERCOT – Panda Power suing ERCOT

- Panda Power is suing ERCOT for "misleading" reports that influenced the company's decision to invest over $2bn.
- Panda also argues that if the claims were not fraudulent or negligent, ERCOT should have disclosed their inaccuracies sooner.

Guggenheim takeaway:*ERCOT has avoided the wave of coal retirements experienced in other markets thus far, resulting in surplus generation capacity, and what we describe as a prisoner's dilemma – coal plants operating at a loss, holding out hoping competitors capitulate sooner, so they could benefit from the tighter market conditions that would result. We recently highlighted the situation in Texas, for additional takeaways see our deep dive where we model each coal plant in ERCOT – See note here.*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea
2. *DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational*
3. *DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates, PT*
4. *Justice Scalia's Passing: Far-Reaching Implications – Impact to Power Sector Noteworthy with Clean Power Plan First Key Test*
5. *CPN – BUY – Quick Take: In Line Quarter, Outlook Maintained – Reiterates Financial/Operational Discipline*
6. *PEG – BUY – Expecting 2016 BGS Auction Price to Show Slight Increase*
7. *D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM*
8. *Quick Take: Surprise - Supreme Court Sides with FERC over Demand Response*
9. *Power Breakfast Part Deux: Guggenheim-Hosted Utility Commissioner Meetings*
10. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
11. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
12. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
13. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
14. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*

15. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
16. *EEI Full Recap*
17. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
18. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
19. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
20. *3Q Utility Earnings Sneak Peek: EEI Edition*
21. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
22. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*
23. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
24. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
25. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
26. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
27. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
28. *More Uplifting Data Points for AEP and FE*
29. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*
30. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
31. *Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables*
32. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
On-going	FE	Evidentiary hearings	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
04/12	PCG	Pre-trial conference for PG&E criminal case re: San Bruno	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
04/14		MISO '16/'17 capacity auction results posted				Capacity auction results in Zone 4 posted
04/19-05/6	PNW	Hearings for cost and value of solar		AZ	E-00000J-14-0023	
04/20	PCG	Ex Parte investigation pre-hearing conference	Pacific Gas & Electric Company	CA	I 15-11-015	Order Instituting Investigation and Show Cause associated with Ex Parte violations
04/26	PCG	Jury trial for PG&E criminal case regarding San Bruno	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
05/02	NEE	Reply briefings due in Hawaii		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
05/24		PJM posts '19/'20 capacity auction results				Capacity auction results in PJM posted
06/01	PNW	PNW files rate case	Arizona Public Service Company	AZ		
06/02		Clean Power Plan - Federal Appeals Court hearing				Clean Power Plan - Federal Appeals Court hearing

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
DUK	4/6-7	TX/KC	Steve Young, CFO
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
WR	7/6-7/9	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
PEG	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 03/31/2016)

As of 3/31/2016

Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
								'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	32.6	Buy	$62	$66.40	-7%	491	3.70	3.93	4.21	7%	17.9	16.9	15.8	5,619	5,918	6,259	6%	9.5	9.2	8.8	3.70	3.90	4.17	6%	18.0	17.0	15.9	5,690	5,971	6,249	5%	9.4	9.1	8.8
ED	Consolidated Edison, Inc.	22.5	Neutral	$61	$76.62	-20%	294	4.01	4.16	4.27	3%	19.1	18.4	17.9	3,860	4,070	4,396	7%	9.6	9.3	8.9	4.01	4.15	4.31	4%	19.1	18.5	17.8	3,826	4,036	4,267	6%	9.7	9.4	9.1
D	Dominion Resources, Inc.	44.5	Buy	$76	$75.12	1%	597	3.84	3.99	4.47	8%	19.6	18.8	16.8	6,140	6,476	7,094	7%	11.9	11.3	10.4	3.81	3.94	4.39	7%	19.7	19.1	17.1	6,052	6,373	7,071	8%	12.1	11.5	10.4
DTE	DTE Energy Company	16.3	Buy	$92	$90.66	1%	179	4.98	5.27	5.66	7%	18.2	17.2	16.0	2,526	2,686	2,881	7%	10.5	10.1	9.7	4.95	5.26	5.62	6%	18.3	17.2	16.1	2,613	2,771	2,947	6%	10.1	9.8	9.5
DUK	Duke Energy Corporation	55.5	Buy	$81	$80.68	0%	689	4.60	4.83	4.94	4%	17.5	16.7	16.3	8,899	9,122	9,843	5%	11.4	11.3	10.5	4.61	4.77	5.02	4%	17.5	16.9	16.1	9,256	9,795	10,207	5%	10.9	10.5	10.2
EIX	Edison International	23.4	Neutral	$66	$71.89	-8%	326	3.85	4.15	4.33	6%	18.7	17.3	16.6	4,944	5,294	5,647	7%	7.7	7.4	7.1	3.88	4.10	4.30	5%	18.5	17.5	16.7	4,598	4,861	5,172	6%	8.3	8.0	7.7
ES	Eversource Energy	18.5	Buy	$58	$58.34	-1%	317	2.99	3.19	3.43	7%	19.5	18.3	17.0	2,560	2,655	2,754	4%	11.4	11.3	11.1	3.00	3.18	3.39	6%	19.4	18.3	17.2	2,601	2,700	2,805	4%	11.2	11.1	10.9
GXP	Great Plains Energy	5.0	Buy	$31	$32.25	-4%	154	1.74	1.87	1.98	7%	18.5	17.2	16.3	1,011	1,068	1,102	4%	8.9	8.4	8.2	1.74	1.83	1.93	5%	18.5	17.6	16.7	1,011	1,070	1,106	5%	8.9	8.4	8.2
NEE	NextEra Energy, Inc.	54.4	Buy	$124	$118.34	5%	461	6.19	6.60	7.04	7%	19.1	17.9	16.8	6,989	7,610	8,012	7%	12.3	11.5	11.1	6.15	6.53	6.96	6%	19.2	18.1	17.0	7,510	8,230	8,672	7%	11.4	10.6	10.3
PCG	PG&E Corporation	29.4	Neutral	$54	$59.72	-10%	493	3.67	3.70	3.89	3%	16.3	16.1	15.4	6,566	6,825	7,113	4%	7.2	7.1	6.9	3.72	3.68	3.88	2%	16.1	16.2	15.4	6,151	6,504	6,825	5%	7.7	7.5	7.2
PNW	Pinnacle West Capital	8.3	Neutral	$62	$75.07	-17%	111	4.02	4.18	4.43	5%	18.7	18.0	16.9	1,440	1,529	1,634	7%	8.6	8.4	8.1	4.00	4.20	4.39	5%	18.8	17.9	17.1	1,398	1,499	1,594	7%	8.9	8.6	8.3
PPL	PPL Corporation	25.7	Buy	$39	$38.07	2%	676	2.33	2.44	2.57	5%	16.3	15.6	14.8	4,214	4,420	4,689	5%	11.3	11.0	10.7	2.35	2.44	2.50	3%	16.2	15.6	15.2	4,078	4,282	4,555	6%	11.7	11.4	11.0
SO	Southern Company	46.9	Neutral	$41	$51.73	-21%	913	2.85	2.93	3.06	4%	18.2	17.7	16.9	6,677	6,961	7,260	4%	12.3	11.9	11.9	2.85	2.97	3.10	4%	18.2	17.4	16.7	7,141	7,868	7,981	6%	11.5	10.6	10.8
WR	Westar Energy, Inc.	7.0	Buy	$46	$49.61	-7%	142	2.43	2.50	2.60	3%	20.4	19.8	19.1	1,036	1,066	1,105	3%	10.6	10.4	10.2	2.44	2.53	2.62	4%	20.4	19.6	18.9	1,051	1,086	1,124	3%	10.4	10.2	10.0
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.53	2%	235	1.18	1.27	1.35	7%	23.3	21.7	20.4	987	1,033	1,076	4%	10.6	10.0	9.9	1.18	1.28	1.36	7%	23.3	21.5	20.3	1,005	1,068	1,076	3%	10.4	9.7	9.9
Average [2]											**5%**	**18.4**	**17.6**	**16.6**				**6%**	**10.2**	**9.9**	**9.5**				**5%**	**18.4**	**17.6**	**16.7**				**6%**	**10.2**	**9.8**	**9.5**
Integrated utilities																																			
ETR	Entergy Corporation	14.2	Neutral	$69	$79.28	-13%	179	5.18	5.10	5.18	0%	15.3	15.5	15.3	3,682	3,698	3,832	2%	8.1	8.4	8.0	5.15	5.20	5.21	1%	15.4	15.3	15.2	3,439	3,559	3,622	3%	8.7	8.7	8.4
EXC	Exelon Corporation	32.8	Buy	$37	$35.86	3%	922	2.56	2.80	2.99	8%	14.0	12.8	12.0	7,701	8,148	8,575	6%	8.0	7.7	7.3	2.51	2.66	2.77	5%	14.3	13.5	12.9	7,268	8,079	8,533	8%	8.5	7.8	7.4
FE	FirstEnergy Corp.	15.3	Buy	$39	$35.97	8%	424	2.80	2.86	2.92	2%	12.8	12.6	12.3	4,422	4,562	4,628	2%	8.5	8.3	8.0	2.85	2.72	2.70	(3%)	12.6	13.2	13.3	4,547	4,534	4,573	0%	8.2	8.3	8.1
PEG	Public Service Enterprise Group	23.9	Buy	$46	$47.14	-2%	506	2.95	3.01	3.04	2%	16.0	15.7	15.5	4,203	4,420	4,597	5%	8.3	8.3	8.1	2.90	2.89	2.99	1%	16.2	16.3	15.8	4,141	4,269	4,360	3%	8.4	8.6	8.5
Average											**3%**	**14.5**	**14.2**	**13.8**				**4%**	**8.2**	**8.1**	**7.8**				**1%**	**14.6**	**14.6**	**14.3**				**3%**	**8.5**	**8.3**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.4	Buy	$22	$15.17	45%	357	0.39	0.88	1.44	92%	38.7	17.2	10.5	1,862	2,169	2,544	17%	9.0	7.6	6.2	0.58	1.04	1.45	58%	26.0	14.5	10.4	1,887	2,065	2,233	9%	8.9	8.0	7.0
DYN	Dynegy Inc.	1.7	Buy	$22	$14.37	53%	117	(1.24)	(0.66)	0.40	NA	-11.6	-21.7	36.3	1,097	1,421	1,691	24%	7.5	5.6	4.5	(0.62)	(0.45)	0.42	NA	-23.0	-32.3	34.1	1,113	1,113	1,336	10%	7.4	7.2	5.6
NRG	NRG Energy, Inc.	4.1	Buy	$16	$13.01	23%	316	0.85	(0.52)	0.11	-65%	15.3	-24.9	123.2	3,128	2,809	3,004	(2%)	6.5	7.0	6.1	0.83	0.09	0.66	(11%)	15.7	142.8	19.6	3,145	2,745	3,040	(2%)	6.5	7.2	6.0
TLN	Talen Energy Corp	1.2	Neutral	$7	$9.00	-22%	129	0.72	0.69	0.19	-49%	12.5	13.0	47.4	778	762	716	(4%)	6.1	6.1	5.6	0.68	0.26	0.09	(64%)	13.3	35.3	100.4	757	742	651	(7%)	6.3	6.2	6.2
Average											**-7%**	**13.7**	**-4.1**	**54.3**				**9%**	**7.3**	**6.6**	**5.6**				**(6%)**	**8.0**	**40.1**	**41.1**				**2%**	**7.3**	**7.2**	**6.2**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$12	$14.24	-16%	183	1.06	1.20	1.32	12%	13.4	11.9	10.8	867	1,004	1,120	14%	8.5	7.5	7.7	1.09	1.19	1.26	8%	13.1	12.0	11.3	825	922	1,033	12%	8.9	8.1	8.4
AWK	American Water Works	12.3	Buy	$72	$68.93	4%	178	2.83	3.03	3.20	6%	24.4	22.7	21.5	1,652	1,748	1,835	5%	11.2	10.9	10.5	2.82	3.03	3.25	7%	24.4	22.7	21.2	1,648	1,748	1,835	6%	11.2	10.9	10.5

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$66.40	2.25	2.36	2.47	3.4%	3.5%	3.7%	61%	60%	59%
ED	Consolidated Edison, Inc.	Neutral	$76.62	2.65	2.70	2.77	3.5%	3.5%	3.6%	66%	65%	64%
D	Dominion Resources, Inc.	Buy	$75.12	2.77	2.97	3.24	3.7%	4.0%	4.3%	73%	75%	74%
DTE	DTE Energy Company	Buy	$90.66	2.98	3.13	3.30	3.3%	3.5%	3.6%	60%	60%	59%
DUK	Duke Energy Corporation	Buy	$80.68	3.40	3.56	3.72	4.2%	4.4%	4.6%	74%	75%	74%
EIX	Edison International	Neutral	$71.89	1.97	2.19	2.38	2.7%	3.0%	3.3%	51%	53%	55%
ES	Eversource Energy	Buy	$58.34	1.79	1.91	2.02	3.1%	3.3%	3.5%	60%	60%	60%
GXP	Great Plains Energy	Buy	$32.25	1.11	1.19	1.27	3.4%	3.7%	3.9%	63%	65%	66%
NEE	NextEra Energy, Inc.	Buy	$118.34	3.45	3.93	4.45	2.9%	3.3%	3.8%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$59.72	1.92	2.04	2.16	3.2%	3.4%	3.6%	52%	55%	56%
PNW	Pinnacle West Capital	Neutral	$75.07	2.53	2.65	2.76	3.4%	3.5%	3.7%	63%	63%	63%
PPL	PPL Corporation	Buy	$38.07	1.52	1.56	1.60	4.0%	4.1%	4.2%	65%	64%	64%
SO	Southern Company	Neutral	$51.73	2.22	2.30	2.39	4.3%	4.5%	4.6%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$49.61	1.51	1.60	1.69	3.0%	3.2%	3.4%	62%	63%	64%
TE	TECO Energy, Inc.	Neutral	$27.53	0.92	0.94	0.97	3.4%	3.4%	3.5%	78%	74%	71%
Average							**3.4%**	**3.6%**	**3.8%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$79.28	3.43	3.50	3.57	4.3%	4.4%	4.5%	67%	67%	69%
EXC	Exelon Corporation	Buy	$35.86	1.26	1.29	1.33	3.5%	3.6%	3.7%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$35.97	1.44	1.44	1.44	4.0%	4.0%	4.0%	51%	53%	53%
PEG	Public Service Enterprise Group	Buy	$47.14	1.64	1.72	1.83	3.5%	3.6%	3.9%	56%	60%	61%
Average							**3.8%**	**3.9%**	**4.0%**	**56%**	**57%**	**58%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.17	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$14.37	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$13.01	0.27	0.24	0.20	2.1%	1.8%	1.5%	32%	NA	30%
TLN	Talen Energy Corp	Neutral	$9.00	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.5%**	**0.5%**	**0.4%**	**8%**	**0%**	**7%**
Other												
NYLD	NRG Yield	Neutral	$14.24	0.96	1.10	1.26	6.7%	7.7%	8.8%	88%	93%	100%
AWK	American Water Works	Buy	$68.93	1.42	1.59	1.72	2.1%	2.3%	2.5%	50%	52%	53%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from American Electric Power Co., Inc., Duke Energy Corporation, Eversource Energy, Entergy Corporation and FirstEnergy Corp. in the next 3 months.

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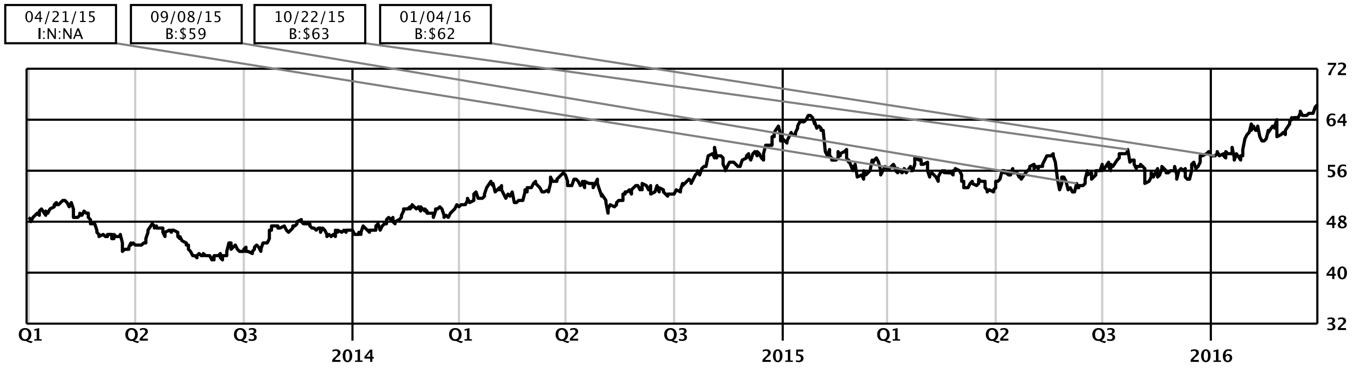
Rating and Price Target History for: American Electric Power Co., Inc. (AEP) as of 03-31-2016



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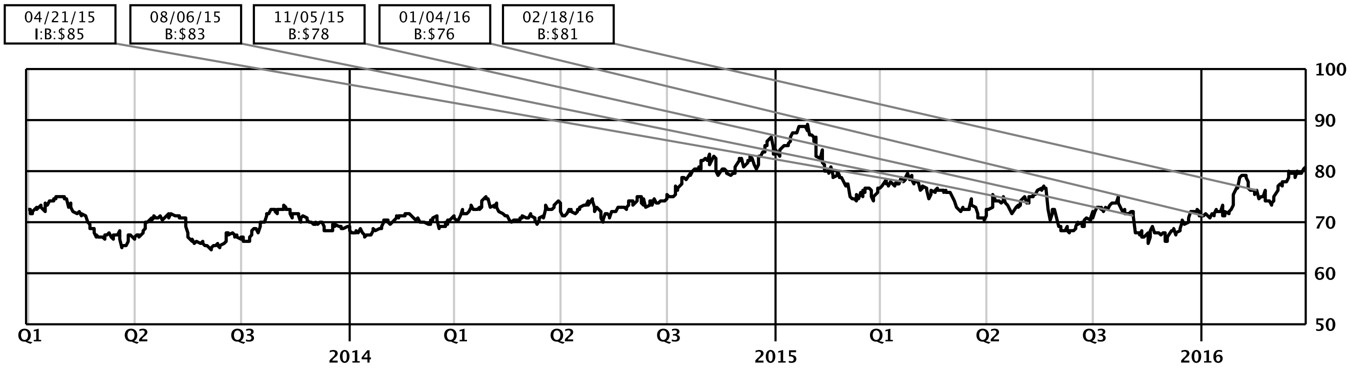
Rating and Price Target History for: Duke Energy Corporation (DUK) as of 03-31-2016



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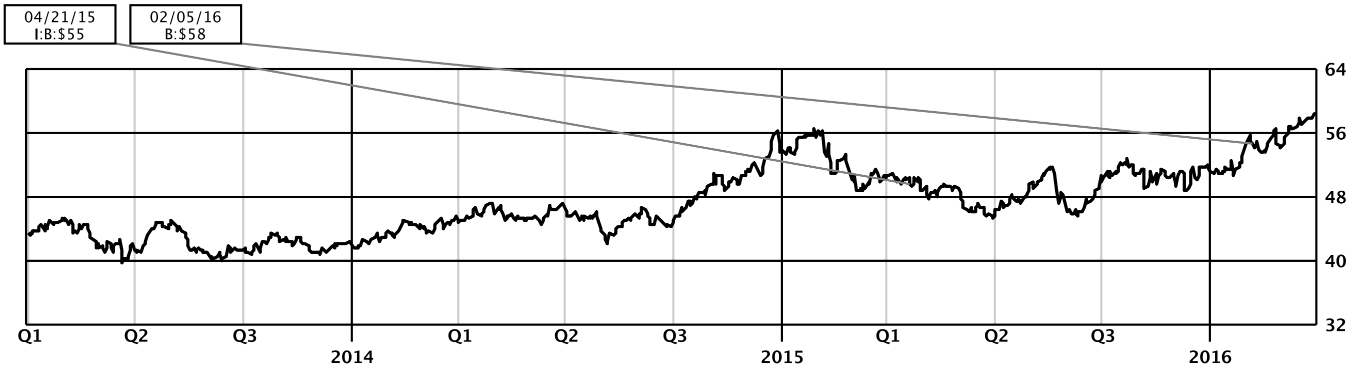
Rating and Price Target History for: Eversource Energy (ES) as of 03-31-2016



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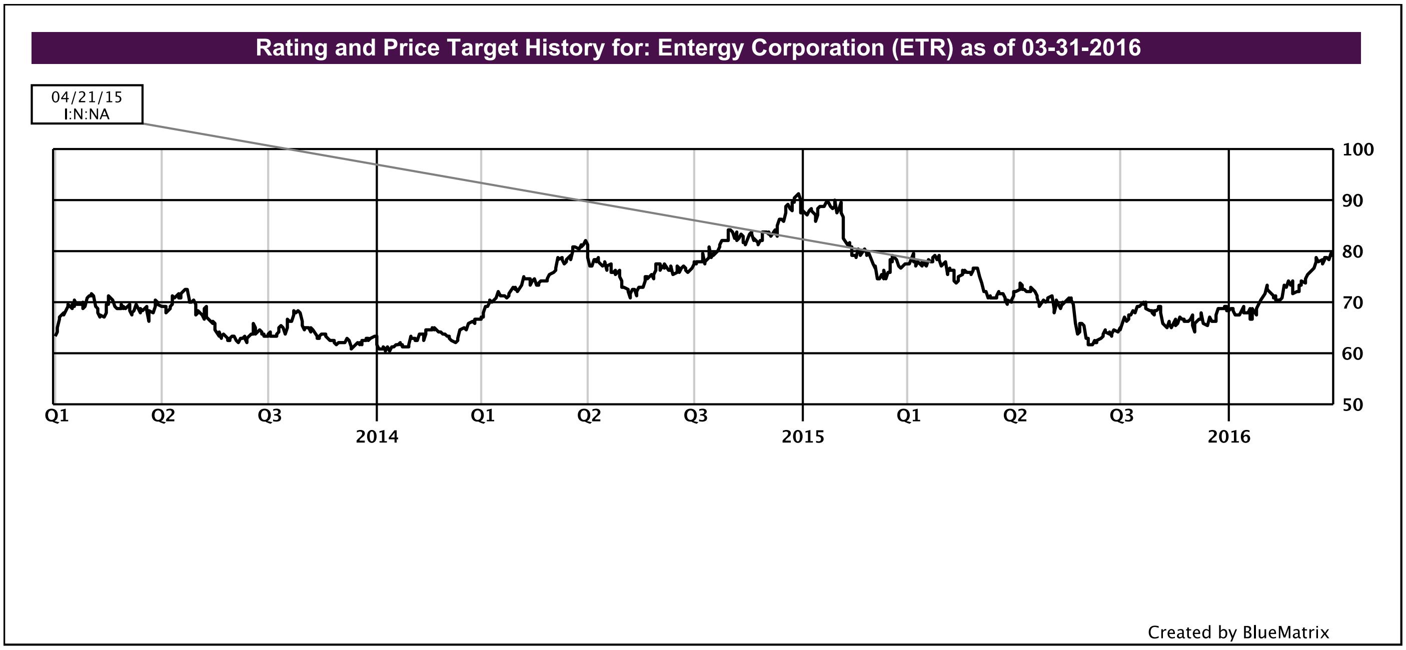

Rating and Price Target History for: Entergy Corporation (ETR) as of 03-31-2016

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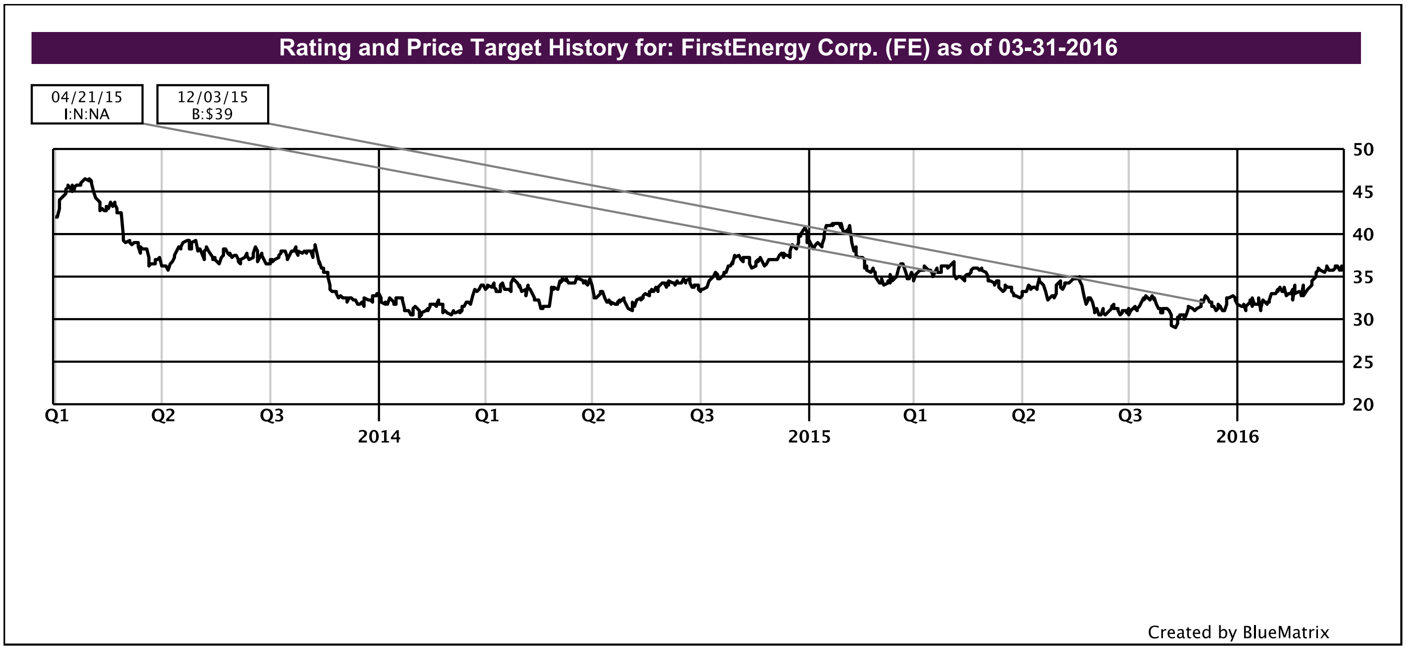

Rating and Price Target History for: FirstEnergy Corp. (FE) as of 03-31-2016

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	163	59.06%	33	20.25%
Neutral	113	40.94%	2	1.77%
Sell	0	0.00%	0	0.00%

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: FE, EXC, TLN, NEE, SO

April 4, 2016

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What's New?

For current Guggenheim Utility Corporate Access Calendar, scroll to bottom.

Guggenheim initiates coverage of IPPs – Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities

2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea

Texas Showdown: Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out

AEP/FE – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC (see our note here)

FE – West Virginia utilities propose second phase of energy efficiency plan
EXC – Two New England CTs get regulatory approval
TLN – TLN completes sale of two hydro plants
SO – Continuing to evaluate need for additional refractory work at Kemper
SO – FTC approves proposed acquisition of PowerSecure
NEE – Intervenors continue to oppose the proposed acquisition of HE

FE – West Virginia utilities propose second phase of energy efficiency plan

- FE's proposed energy efficiency plan would result in a 1% reduction in power usage and 21 MW of demand-reduction by mid-2018.
- The plan would begin January 1, 2017 and run through May 31, 2018. The cumulative 1% savings includes the savings accrued under the first phase of the plan.
- The program incudes a new residential energy efficiency program, continuation of the existing residential low-income program, and a continuation of the existing programs for commercial, government and industrial customers
- The plan is expected to save 59,616 MWhs and cost $9.9mm.

Guggenheim takeaway: *The plan proposed to allocate costs at the 60/40 split, in which sixty percent of costs are allocated to the plan's targeted customers, and the other forty percent are allocated to all customers. FE is not proposing to recover any lost revenue from this EE program. FE asks that the program be approved by October 1 for time to begin implementation. We believe EE programs will continue to expand in order to meet a State's EE goals.*

EXC – Two New England CTs get regulatory approval

-

EXC's two 100-MW Medway combustion turbines, which were selected in ISO-NE's ninth forward capacity auction, has secured regulatory approval from the MA Commission.

- MA Commission said in a final environmental impact report that the CTs comply with the state's environmental law and rules.
- EXC states that the plants may operate more frequently "for some periods of time" when ETR's Pilgrim nuclear plant retires.
- EXC notes that the CT can operate at 60% capacity factor without violating federal or state air quality rules.

Guggenheim takeaway: *We believe with the environmental regulatory approval secured, EXC's two CTs can be completed by June 1, 2018, when they must supply capacity to ISO-NE. We expect EXC to benefit from its fast ramp-up capabilities and higher operating hours due to Pilgrim's retirement, without violating air quality laws.*

TLN – TLN completes sale of two hydro plants

- TLN completed the sale of the Holtwood and Lake Wallenpaupack hydroelectric plants to a subsidiary of Brookfield Renewable Energy Partners L.P.
- The total purchase price was $860 million.
- Closing of the sale completes the asset divestitures in PJM to comply with FERC orders.
- The two hydro plants have a combined capacity of 292 MW.

Guggenheim takeaway: *As a reminder, TLN sold Ironwood and C.P Crane as well as its hydro portfolio to complete its divestiture plan. We expected TLN to complete its sale of these plants in 1Q16, and the combined ~$1.5B in proceeds will help TLN delever, in our view.*

SO – Continuing to evaluate need for additional refractory work at Kemper

- SO submitted its monthly status report on Kemper for the period through February 2016, which indicates the company was continuing to repair and modify refractory lining inside each of the gasifiers during March 2016, and evaluating the need for additional refractory work.
- Additional refractory work could further impact the cost estimate and projected in-service date for the Kemper IGCC.

Guggenheim takeaway: *After a $110mm cost increase disclosed earlier this year, the Kemper project appears to have remained at ~$6.6bn through February; still notably above the ~$2.9bn cap approved back in 2012. Assuming additional work doesn't further impact the schedule, Kemper is expected to be in-service 3Q16, and we look forward to closing the saga in Mississippi.*

SO – FTC approves proposed acquisition of PowerSecure

- The Federal Trade Commission (FTC) granted early termination of the Hart-Scott-Rodino waiting period for SO's proposed acquisition of PowerSecure (POWR, NC, $18.70).
- The proposed transaction still requires approval from POWR shareholders.

Guggenheim takeaway: *SO expects to close the transaction 2Q16, and we don't see any red flags. This isn't the first utility foray into a peripheral energy service business, although probably one of the larger ones at $431mm. That said, it's still not enough to move the needle for SO, in our view - a $0.4bn transaction is lost in rounding when combined with SO's $45bn market cap. Similar to other utility ventures behind-the-meter (e.g., AEP-Greensmith, EIX-EdisonEnergy), we* *believe SO is essentially buying a longer-term call option that could enable longer-term growth opportunities. Here it appears SO is buying an option that will lever them to demand for uninterruptible power (e.g., data centers); a thesis we can also appreciate after super-storm Sandy. SO provides reliability at socialized costs and likely sees an opportunity to unlock value from customer segments willing to pay more for premium/custom service (e.g., data centers).*

NEE – Intervenors continue to oppose the proposed acquisition of HE

- Local media notes most intervenors in the regulatory review of NEE's proposed acquisition of HE (NC, $32.84) continue to oppose the transaction.
- The article references briefings filed by 15 intervenors that continue to oppose the transaction, including Life of the Land, Puna Pono Alliance, The Alliance for Solar Choice, Friends of Lanai, County of Hawaii, Hawaii Solar Energy Association, County of Maui, state Department of Land and Natural Resources, SunEdison, Hawaii Gas, SunPower, Tawhiri Power, Ka Lei Maile Alii Hawaiian Civic Club, Sierra Club, Hawaii Chapter, and state Office of Planning.

***Guggenheim takeaway:** NEE, HE, and intervenors will have until May 2nd to file reply briefs, although we still don't believe NEE will remain committed to HE beyond June 2016 - at which point the regulatory approval clause in its merger agreement expires and, we believe, NEE likely pays the termination fee to walk away. With or without HE, our NEE investment thesis is intact, with several potential near-term catalysts, in our view.*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea
2. *DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational*
3. *DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates, PT*
4. *Justice Scalia's Passing: Far-Reaching Implications – Impact to Power Sector Noteworthy with Clean Power Plan First Key Test*
5. *CPN – BUY – Quick Take: In Line Quarter, Outlook Maintained – Reiterates Financial/Operational Discipline*
6. *PEG – BUY – Expecting 2016 BGS Auction Price to Show Slight Increase*
7. *D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM*
8. *Quick Take: Surprise - Supreme Court Sides with FERC over Demand Response*
9. *Power Breakfast Part Deux: Guggenheim-Hosted Utility Commissioner Meetings*
10. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*

11. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
12. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
13. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
14. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
15. *FE – NEUTRAL – PPA Settlement Forthcoming – Procedural Delay Strong Signal Inflection Point Nearing*
16. *EEI Full Recap*
17. *EIX – NEUTRAL – Quick Take on Revised ALJ Proposal*
18. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
19. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
20. *3Q Utility Earnings Sneak Peek: EEI Edition*
21. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
22. *EXC - BUY - Merger Approval Moving Past Ideology? Parties at the Table, Enhanced Commitments Could Sway DC Commission*
23. *DTE - BUY - Management Meeting Takeaways: Reinforced Stance; Midstream Activities Support Above-Average Growth*
24. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
25. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
26. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
27. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
28. *More Uplifting Data Points for AEP and FE*
29. *Coming Back from Ohio a Buckeye Fan: Upgrading AEP to BUY, FE Nearing Inflection*
30. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
31. *Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables*
32. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	AEP	PPA evidentiary hearings		OH	14-1693-EL-RDR	Proposed settlement regarding PPAs for Ohio power plants
On-going	FE	Evidentiary hearings	Ohio Edison Company, Cleveland Electric Illuminating Company, Toledo Edison Company	OH	14-1297-EL-SSO	
04/12	PCG	Pre-trial conference for PG&E criminal case re: San Bruno	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
04/14		MISO '16/'17 capacity auction results posted				Capacity auction results in Zone 4 posted
04/19-05/6	PNW	Hearings for cost and value of solar		AZ	E-00000J-14-0023	
04/20	PCG	Ex Parte investigation pre-hearing conference	Pacific Gas & Electric Company	CA	I 15-11-015	Order Instituting Investigation and Show Cause associated with Ex Parte violations
04/26	PCG	Jury trial for PG&E criminal case regarding San Bruno	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
05/02	NEE	Reply briefings due in Hawaii		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
05/24		PJM posts '19/'20 capacity auction results				Capacity auction results in PJM posted
06/01	PNW	PNW files rate case	Arizona Public Service Company	AZ		
06/02		Clean Power Plan - Federal Appeals Court hearing				Clean Power Plan - Federal Appeals Court hearing

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
DUK	4/6-7	TX/KC	Steve Young, CFO
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
WR	7/6-7/9	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
PEG	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 04/1/2016)

As of 4/1/2016

								Guggenheim Estimates														Consensus Estimates													
		Mkt. Cap		Target	Current	Price	Diluted	Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	**Company**	**($Bn)**	**Rating**	**Price[1]**	**Price**	**Change**	**Shares**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	32.6	Buy	$62	$67.01	-7%	491	3.70	3.93	4.21	7%	18.1	17.1	15.9	5,619	5,918	6,259	6%	9.7	9.3	9.0	3.70	3.90	4.16	6%	18.1	17.2	16.1	5,690	5,971	6,249	5%	9.5	9.2	9.0
ED	Consolidated Edison, Inc.	22.4	Neutral	$61	$76.99	-21%	294	4.01	4.16	4.27	3%	19.2	18.5	18.0	3,860	4,070	4,396	7%	9.7	9.4	9.0	4.01	4.15	4.31	4%	19.2	18.6	17.9	3,826	4,036	4,267	6%	9.8	9.5	9.2
D	Dominion Resources, Inc.	44.5	Buy	$76	$75.39	1%	597	3.84	3.99	4.47	8%	19.6	18.9	16.9	6,140	6,476	7,094	7%	12.1	11.5	10.6	3.81	3.93	4.39	7%	19.8	19.2	17.2	6,052	6,373	7,071	8%	12.3	11.7	10.6
DTE	DTE Energy Company	16.2	Buy	$92	$91.05	1%	179	4.98	5.27	5.66	7%	18.3	17.3	16.1	2,526	2,686	2,881	7%	10.6	10.3	9.8	4.95	5.26	5.62	6%	18.4	17.3	16.2	2,613	2,771	2,947	6%	10.3	9.9	9.6
DUK	Duke Energy Corporation	55.3	Buy	$81	$81.13	0%	689	4.60	4.83	4.94	4%	17.6	16.8	16.4	8,899	9,122	9,843	5%	11.5	11.4	10.7	4.61	4.77	5.01	4%	17.6	17.0	16.2	9,256	9,795	10,207	5%	11.0	10.6	10.3
EIX	Edison International	23.4	Neutral	$66	$71.94	-8%	326	3.85	4.15	4.33	6%	18.7	17.3	16.6	4,944	5,294	5,647	7%	7.7	7.4	7.1	3.88	4.10	4.30	5%	18.5	17.5	16.7	4,598	4,861	5,172	6%	8.3	8.1	7.8
ES	Eversource Energy	18.5	Buy	$58	$58.80	-1%	317	2.99	3.19	3.43	7%	19.7	18.4	17.1	2,560	2,655	2,754	4%	11.5	11.4	11.3	3.00	3.18	3.39	6%	19.6	18.5	17.3	2,601	2,700	2,805	4%	11.3	11.2	11.1
GXP	Great Plains Energy	5.0	Buy	$31	$32.68	-5%	154	1.74	1.87	1.98	7%	18.8	17.5	16.5	1,011	1,068	1,102	4%	9.1	8.6	8.3	1.74	1.83	1.93	5%	18.8	17.9	17.0	989	1,036	1,106	6%	9.3	8.9	8.3
NEE	NextEra Energy, Inc.	54.1	Buy	$124	$118.71	4%	461	6.19	6.60	7.04	7%	19.2	18.0	16.9	6,989	7,610	8,012	7%	12.4	11.6	11.2	6.14	6.53	6.96	6%	19.3	18.2	17.1	7,510	8,230	8,672	7%	11.5	10.7	10.4
PCG	PG&E Corporation	29.2	Neutral	$54	$59.83	-10%	493	3.67	3.70	3.89	3%	16.3	16.2	15.4	6,566	6,825	7,113	4%	7.2	7.2	7.0	3.72	3.68	3.88	2%	16.1	16.3	15.4	6,151	6,504	6,825	5%	7.7	7.5	7.3
PNW	Pinnacle West Capital	8.3	Neutral	$62	$75.49	-18%	111	4.02	4.18	4.43	5%	18.8	18.1	17.0	1,440	1,529	1,634	7%	8.7	8.5	8.2	4.00	4.20	4.39	5%	18.9	18.0	17.2	1,398	1,499	1,594	7%	9.0	8.7	8.4
PPL	PPL Corporation	25.5	Buy	$39	$38.19	2%	676	2.33	2.44	2.57	5%	16.4	15.7	14.9	4,214	4,420	4,689	5%	11.4	11.1	10.6	2.35	2.44	2.51	3%	16.3	15.6	15.2	4,078	4,282	4,555	6%	11.8	11.4	10.9
SO	Southern Company	46.7	Neutral	$41	$51.70	-21%	913	2.85	2.93	3.06	4%	18.1	17.6	16.9	6,677	6,961	7,260	4%	12.4	12.0	12.0	2.85	2.97	3.10	4%	18.2	17.4	16.7	7,141	7,868	7,981	6%	11.6	10.6	10.9
WR	Westar Energy, Inc.	7.1	Buy	$46	$50.35	-9%	142	2.43	2.50	2.60	3%	20.7	20.1	19.4	1,036	1,066	1,105	3%	10.9	10.8	10.5	2.44	2.53	2.62	4%	20.7	19.9	19.2	1,051	1,086	1,124	3%	10.8	10.6	10.3
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.56	2%	235	1.18	1.27	1.35	7%	23.4	21.7	20.4	987	1,033	1,076	4%	10.6	10.0	9.9	1.18	1.28	1.36	7%	23.4	21.5	20.3	1,005	1,068	1,076	3%	10.4	9.7	9.9
Average[2]											**5%**	**18.5**	**17.7**	**16.7**				**6%**	**10.4**	**10.0**	**9.7**				**5%**	**18.5**	**17.7**	**16.8**				**6%**	**10.3**	**9.9**	**9.6**
Integrated utilities																																			
ETR	Entergy Corporation	14.2	Neutral	$69	$79.97	-14%	179	5.18	5.10	5.18	0%	15.4	15.7	15.4	3,682	3,698	3,832	2%	8.2	8.4	8.1	5.15	5.20	5.19	0%	15.5	15.4	15.4	3,439	3,559	3,622	3%	8.8	8.8	8.5
EXC	Exelon Corporation	32.7	Buy	$37	$35.66	4%	922	2.56	2.80	2.99	8%	13.9	12.8	11.9	7,701	8,148	8,575	6%	8.0	7.7	7.4	2.51	2.66	2.77	5%	14.2	13.4	12.9	7,268	8,079	8,533	8%	8.5	7.8	7.4
FE	FirstEnergy Corp.	15.1	Buy	$39	$36.03	8%	424	2.80	2.86	2.92	2%	12.9	12.6	12.3	4,422	4,562	4,628	2%	8.5	8.3	8.1	2.85	2.72	2.72	(2%)	12.6	13.2	13.2	4,538	4,511	4,580	0%	8.3	8.4	8.2
PEG	Public Service Enterprise Group	23.7	Buy	$46	$47.32	-3%	506	2.95	3.01	3.04	2%	16.0	15.7	15.6	4,203	4,420	4,597	5%	8.4	8.3	8.1	2.90	2.89	2.99	1%	16.3	16.4	15.8	4,141	4,269	4,360	3%	8.5	8.6	8.6
Average											**3%**	**14.6**	**14.2**	**13.8**				**4%**	**8.3**	**8.2**	**7.9**				**1%**	**14.7**	**14.6**	**14.3**				**4%**	**8.5**	**8.4**	**8.2**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.5	Buy	$22	$15.41	43%	357	0.39	0.88	1.44	92%	39.3	17.5	10.7	1,862	2,169	2,544	17%	9.1	7.7	6.3	0.58	1.04	1.45	58%	26.4	14.8	10.6	1,887	2,065	2,233	9%	9.0	8.1	7.1
DYN	Dynegy Inc.	1.7	Buy	$22	$14.92	47%	117	(1.24)	(0.66)	0.40	NA	-12.0	-22.5	37.7	1,097	1,421	1,691	24%	7.7	5.7	4.6	(0.57)	(0.49)	0.48	NA	-26.2	-30.2	31.2	1,113	1,113	1,336	10%	7.6	7.3	5.8
NRG	NRG Energy, Inc.	4.0	Buy	$16	$12.77	25%	316	0.85	(0.52)	0.11	-65%	15.0	-24.5	120.9	3,128	2,809	3,004	(2%)	6.5	7.0	6.2	0.85	0.14	0.63	(14%)	15.1	93.8	20.4	3,145	2,745	3,040	(2%)	6.4	7.1	6.1
TLN	Talen Energy Corp	1.3	Neutral	$7	$10.04	-30%	129	0.72	0.69	0.19	-49%	13.9	14.6	52.8	778	762	716	(4%)	6.3	6.3	5.8	0.68	0.26	0.09	(64%)	14.8	39.3	112.0	757	742	651	(7%)	6.4	6.4	6.4
Average											**-7%**	**14.1**	**-3.7**	**55.5**				**9%**	**7.4**	**6.7**	**5.7**				**(7%)**	**7.5**	**29.4**	**43.5**				**2%**	**7.4**	**7.2**	**6.4**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$12	$14.43	-17%	183	1.06	1.20	1.32	12%	13.6	12.0	10.9	867	1,004	1,120	14%	8.5	7.5	7.7	1.09	1.19	1.26	8%	13.3	12.1	11.5	825	922	1,033	12%	8.9	8.2	8.4
AWK	American Water Works	12.4	Buy	$72	$69.50	4%	178	2.83	3.03	3.20	6%	24.6	22.9	21.7	1,652	1,748	1,835	5%	11.4	11.1	10.8	2.82	3.03	3.25	7%	24.6	22.9	21.4	1,648	1,748	1,835	6%	11.4	11.1	10.8

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$67.01	2.25	2.36	2.48	3.4%	3.5%	3.7%	61%	60%	60%
ED	Consolidated Edison, Inc.	Neutral	$76.99	2.65	2.70	2.77	3.4%	3.5%	3.6%	66%	65%	64%
D	Dominion Resources, Inc.	Buy	$75.39	2.77	2.97	3.24	3.7%	3.9%	4.3%	73%	75%	74%
DTE	DTE Energy Company	Buy	$91.05	2.98	3.13	3.30	3.3%	3.4%	3.6%	60%	60%	59%
DUK	Duke Energy Corporation	Buy	$81.13	3.39	3.55	3.71	4.2%	4.4%	4.6%	74%	74%	74%
EIX	Edison International	Neutral	$71.94	1.97	2.19	2.38	2.7%	3.0%	3.3%	51%	53%	55%
ES	Eversource Energy	Buy	$58.80	1.79	1.91	2.02	3.0%	3.2%	3.4%	60%	60%	60%
GXP	Great Plains Energy	Buy	$32.68	1.10	1.17	1.27	3.4%	3.6%	3.9%	63%	64%	66%
NEE	NextEra Energy, Inc.	Buy	$118.71	3.45	3.93	4.45	2.9%	3.3%	3.7%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$59.83	1.92	2.04	2.16	3.2%	3.4%	3.6%	52%	55%	56%
PNW	Pinnacle West Capital	Neutral	$75.49	2.53	2.65	2.76	3.3%	3.5%	3.7%	63%	63%	63%
PPL	PPL Corporation	Buy	$38.19	1.52	1.56	1.60	4.0%	4.1%	4.2%	65%	64%	64%
SO	Southern Company	Neutral	$51.70	2.22	2.30	2.39	4.3%	4.5%	4.6%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$50.35	1.51	1.60	1.69	3.0%	3.2%	3.4%	62%	63%	64%
TE	TECO Energy, Inc.	Neutral	$27.56	0.92	0.94	0.97	3.3%	3.4%	3.5%	78%	74%	71%
Average							**3.4%**	**3.6%**	**3.8%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$79.97	3.43	3.50	3.57	4.3%	4.4%	4.5%	67%	67%	69%
EXC	Exelon Corporation	Buy	$35.66	1.26	1.29	1.33	3.5%	3.6%	3.7%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$36.03	1.44	1.44	1.44	4.0%	4.0%	4.0%	50%	53%	53%
PEG	Public Service Enterprise Group	Buy	$47.32	1.64	1.72	1.83	3.5%	3.6%	3.9%	56%	60%	61%
Average							**3.8%**	**3.9%**	**4.0%**	**56%**	**57%**	**58%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.41	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$14.92	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$12.77	0.21	0.17	0.19	1.6%	1.4%	1.5%	25%	NA	30%
TLN	Talen Energy Corp	Neutral	$10.04	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.4%**	**0.3%**	**0.4%**	**6%**	**0%**	**7%**
Other												
NYLD	NRG Yield	Neutral	$14.43	0.96	1.10	1.26	6.6%	7.6%	8.7%	88%	93%	100%
AWK	American Water Works	Buy	$69.50	1.42	1.59	1.72	2.0%	2.3%	2.5%	50%	52%	53%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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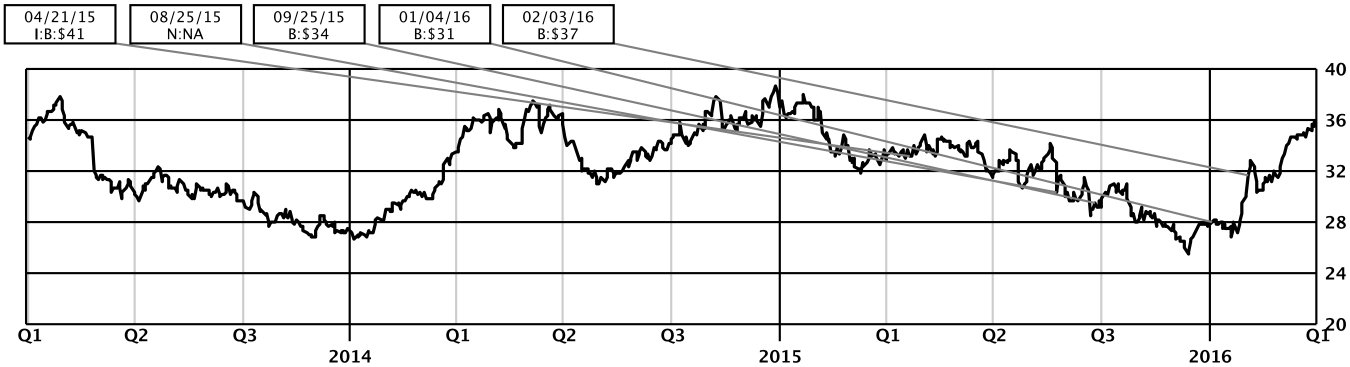
Rating and Price Target History for: Exelon Corporation (EXC) as of 04-01-2016



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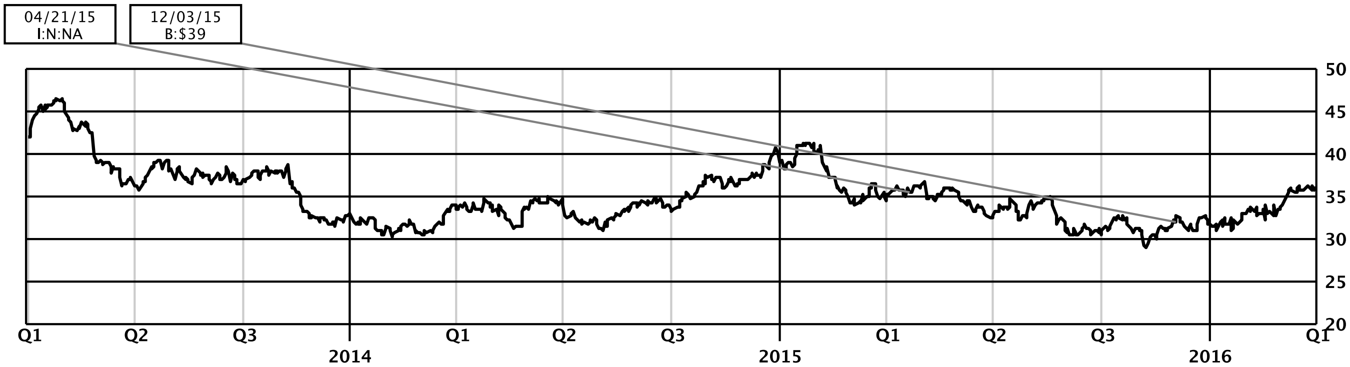

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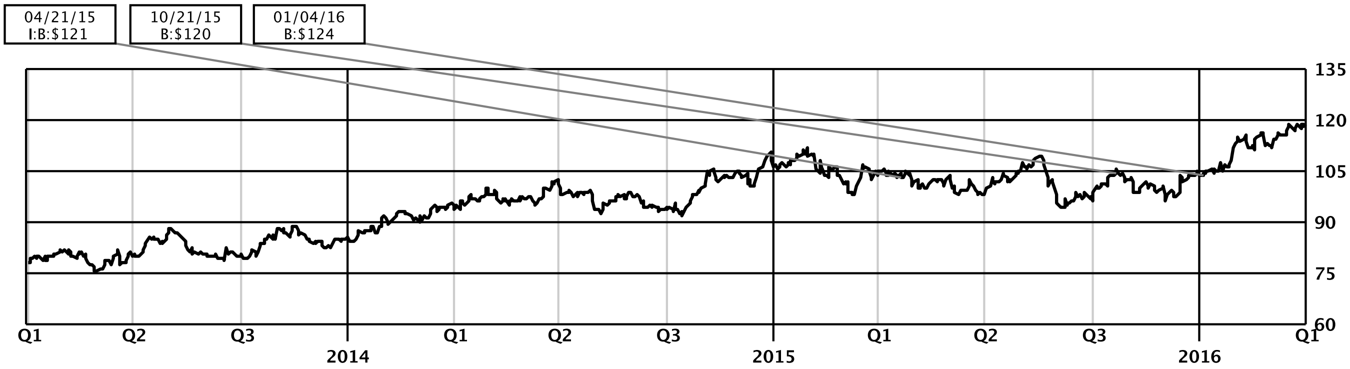

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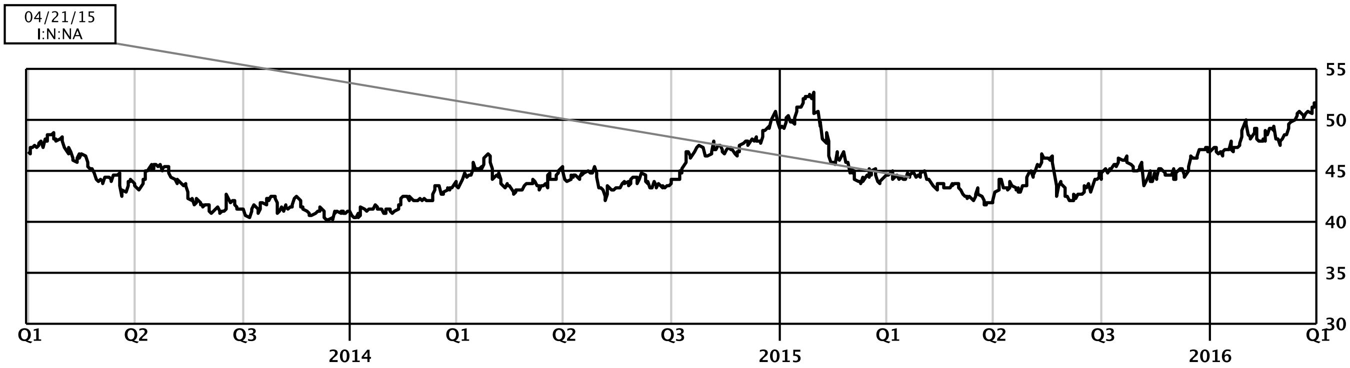

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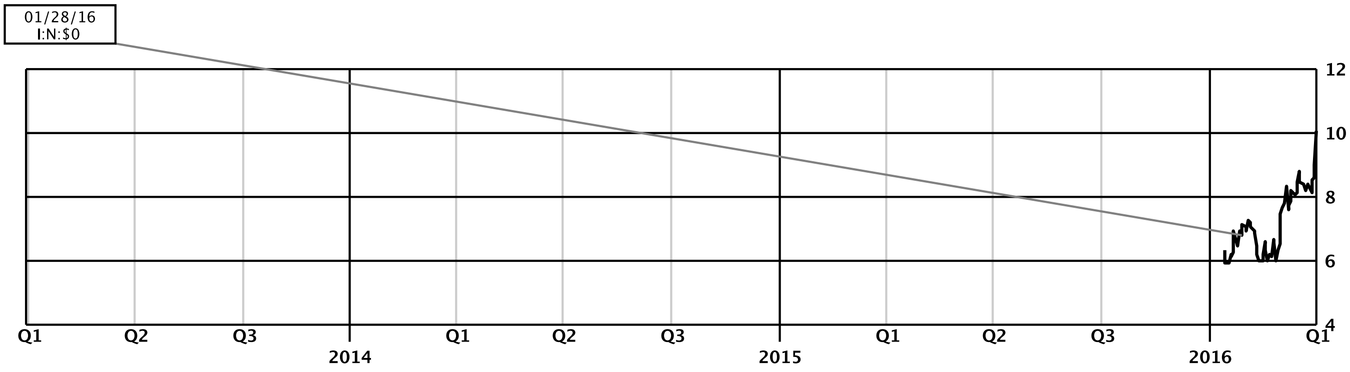
Rating and Price Target History for: Talen Energy Corporation (TLN) as of 04-01-2016



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	163	59.06%	33	20.25%
Neutral	113	40.94%	2	1.77%
Sell	0	0.00%	0	0.00%

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April 6, 2016

Exelon Corp

Increasing Regulated Earnings Drives Modest Upside; Resuming Coverage at EW

Industry View	Stock Rating	Price Target
In-Line	**Equal-weight**	**$38.00**

We see modest upside to our price target and view the closing of the POM deal as a positive for EXC shareholders. However, we are below consensus in 2018 due to lower merchant earnings; resuming coverage at Equal-weight.

Closing of Pepco acquisition provides meaningful accretion, increases Exelon's exposure to regulated cash flows, and removes a key overhang. On March 23, nearly two years after the deal was announced, EXC closed its acquisition of Pepco Holdings for ~$6.9b plus assumed debt. The deal was initially rejected by the District of Columbia Public Service Commission (DC PSC). The companies amended their proposal, and the DC PSC finally approved the acquisition. While EXC shares lagged peers on the day of the approval, we attribute this largely to short-term trading dynamics, and we view the closing of the deal as a positive for EXC shareholders.

However, our 2018 estimates are below consensus and near the bottom end of management's target assuming today's forward commodity prices. While we believe EXC's 2016 EPS may trend toward the top half or even above the current range, we are at the bottom end of management's 3-5% 2015-18 targeted net income CAGR. This is primarily due to our modeled EPS declines at ExGen, EXC's merchant power business, due to today's depressed gas and power forwards (we are ~$155m and ~$235m below the company's last disclosed 2017 / 2018 gross margin figures, respectively). While our 2017 EPS estimate is relatively in line, our 2018 estimate is ~9% below the Street. That said, our constructive gas and power views would represent upside to our estimates. We discuss key debates and drivers at ExGen in the body of this note.

Overall we see a balanced risk-reward at current levels with our revised $38 price target representing ~10% upside; resuming coverage at Equal-weight. Our $38 valuation reflects ~$25 per share for utilities and ~$13 per share for ExGen. We use a DCF valuation for the merchant business, ExGen, and a 2017 P/E multiple for the utilities (including Pepco). We see modest upside as EXC trades at one of the lowest P/E multiples among diversified utilities and would benefit under our constructive gas and power views. That said, the implied ExGen free cash flow yield is in the range of what we would expect for an Equal-weight stock, and we see downside to consensus. Overall, we see modest upside to our price target and view the risk-reward for EXC as balanced, driving our Equal-weight rating.

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Exelon Corp (EXC.N, EXC US)

Diversified Utilities / IPPs / United States of America

Stock Rating	**Equal-weight**
Industry View	**In-Line**
Price target	**$38.00**
Shr price, close (Apr 5, 2016)	$34.60
Mkt cap, curr (mm)	$31,939
52-Week Range	$35.95-25.09

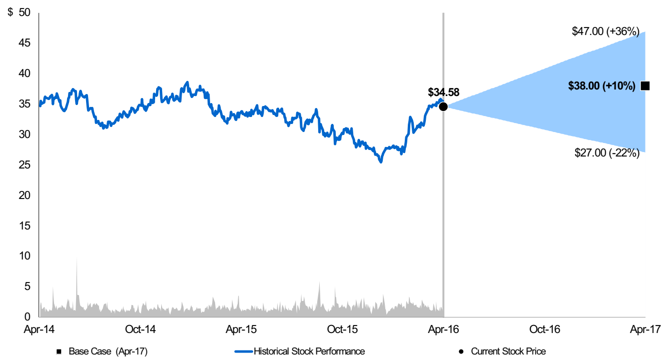
Fiscal Year Ending	12/15	12/16e	12/17e	12/18e
ModelWare EPS ($)	**2.49**	**2.62**	**2.66**	**2.56**
Prior ModelWare EPS ($)	**2.52**	**2.32**	**2.47**	**2.55**
P/E	**11.1**	**13.2**	**13.0**	**13.5**
Consensus EPS ($)§	**2.53**	**2.50**	**2.67**	**2.81**
Div yld (%)	4.5	3.6	3.7	3.8

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Thomson Reuters Estimates
e = Morgan Stanley Research estimates

Morgan Stanley provided a fairness opinion to the Board of Directors of Pepco Holdings, Inc. ("Pepco") in relation to their definitive agreement to combine Pepco with Exelon Corporation, as announced on April 30, 2014. The proposed transaction is subject to the approval of Pepco shareholders, required regulatory approvals, and other customary closing conditions. This report and the information provided herein is not intended to (i) provide voting advice, (ii) serve as an endorsement of the proposed transaction, or (iii) result in the procurement, withholding or revocation of a proxy or any other action by a security holder. Pepco has agreed to pay fees to Morgan Stanley for its financial advisory services, including transaction fees. Please refer to the notes at the end of the report.

Risk Reward

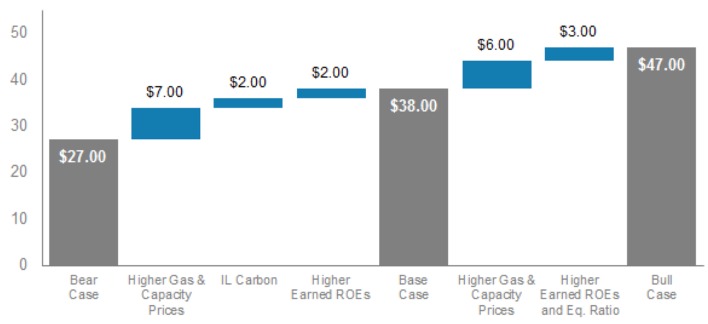
We See Modest Upside But a Balanced Risk-Reward for EXC Shares



Source: Morgan Stanley Research, Thomson Reuters

Price Target $38	Derived from our base case and driven by a 2017e P/E for utilities and a DCF analysis for generation and energy supply (ExGen). For our DCF we use a 7.7% WACC, 3% risk-free rate, and 2.0% terminal growth rate.
Bull $47 $19/share ExGen; 18x Utilities $1.58 EPS	**ExGen:** $4.25 LT natural gas with no basis adjustment, 10% higher MAAC and ComEd PJM capacity prices. Market forward heat rates, $5/ton carbon price in IL, $25/MWh Texas sparks. **Utilities/Parent:** 53% equity ratio and 10% earned ROE consistent with long-run targets per company analyst day
Base $38 $13/share ExGen; 18x Utilities / Parent $1.41 EPS	**ExGen:** $3.75 LT natural gas with ($0.75) Tetco M3 and ($0.30) Chicago gas basis, $175 and $220/MW-day MAAC and ComEd PJM capacity prices respectively. $5/ton carbon price in IL, $25/MWh Texas sparks. **Utilities/Parent:** 49% equity ratio and ~10% overall earned ROE
Bear $27 $4/share ExGen; 18x Utilities $1.29 EPS	**ExGen:** $3.50 LT natural gas with ($1.00) Tetco M3 and ($0.30) Chicago gas basis, $100/MW-day MAAC and ComEd PJM capacity prices. No carbon price, forward curve Texas sparks. **Utilities/Parent:** 50% equity ratio and 9% earned ROE

Exhibit 1: Bear-to-Bull Walk Highlights Sensitivity to Gas & Power Prices, Even After POM Deal



Source: Morgan Stanley Research

Investment Thesis

- **Overall we see a balanced risk-reward at current levels with our revised $38 price target representing ~10% upside; resuming coverage at Equal-weight.** Our $38 valuation reflects ~$25 per share for utilities and ~$13 per share for ExGen. We utilize a DCF valuation for the merchant business, ExGen, and a 2017 P/E multiple for the utilities (including Pepco). Overall we see a balanced risk-reward, with leverage to rising gas and capacity prices.
- **Closing of Pepco (POM) acquisition provides meaningful accretion, increases Exelon's (EXC) exposure to regulated cash flows, and removes a key overhang.** On March 23rd, nearly two years after the deal was originally announced, EXC announced the closing of it acquisition of Pepco Holdings for ~$6.9b plus assumed debt. While EXC actually lagged peers the day of the approval, we attribute this largely to short-term trading dynamics, and we view the closing of the deal as a positive for EXC shareholders.
- **Our 2018 estimates are below consensus and near the bottom end of management's target.** This is primarily due to our modeled EPS declines at ExGen, EXC's merchant power business. We see ~$0.23 downside to ExGen EPS in 2018 relative to the midpoint of 2016 guidance due to current depressed gas and power forwards. This offsets much of the growth and accretion we expect from the regulated utilities / POM, and drives our below-consensus estimates. While our 2017 EPS estimate is relatively in-line, our 2018 estimate is ~9% below the street.

Risks to Achieving Price Target

- Natural gas and power prices decline further. EXC is the most sensitive diversified utility to natural gas prices on our math.
- PJM capacity prices in the May '16 auction could be disappointing.
- Additional states implementing carbon cap and trade programs. Additional carbon regulation would benefit EXC's large nuclear fleet. However, we believe that under a widespread cap and trade program, carbon allowance costs in the US would be fairly low.

EXC: Resuming Coverage at Equal-weight

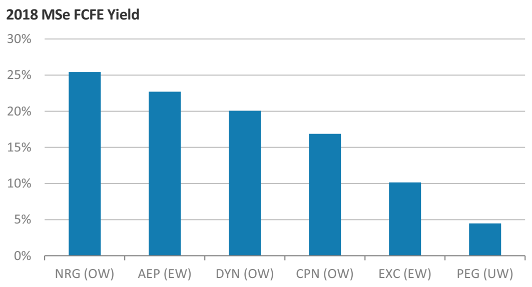
The Big Picture

Our 2018 consolidated EXC estimates are below consensus and toward the bottom end of management's target... EXC's 2016 EPS guidance of $2.40-2.70 excluded any benefit from Pepco and instead assumed that the equity and debt financing associated with the deal was unwound throughout the year, resulting in a $0.07 drag. Now that the deal has closed, we think it is likely EPS trends towards the top half or even above the current range. Longer-term, however, we are below consensus and near the bottom end of management's 3-5% 2015-18 targeted net income CAGR, primarily due to our modeled EPS declines at ExGen. Using the forward curve for gas and power as of 4/1/16, our ExGen 2017e and 2018e open gross margin estimates are ~$155m and ~$235m, respectively, below EXC's disclosure provided on the 4Q15 (which used forwards as of 12/31/15). This results in ~$0.23 downside to ExGen EPS in 2018 relative to the midpoint of 2016 guidance on our math, which offsets much of the growth and accretion we expect from the regulated utilities / POM. While our 2017 EPS estimate is relatively in-line with consensus, our 2018 estimate of $2.56 is ~9% below the Street. That said, our constructive gas and power views would represent upside to our estimates (we use the forward curve for our 2016-2018 estimates, and our own proprietary views for our terminal valuation assumptions).

... However, EXC stock looks modestly discounted at current levels even after YTD outperformance. EXC trades at one of the lowest P/E multiples amongst diversified utilities at just ~13x 2017e consensus EPS. Backing out our estimated ~$13 ExGen valuation, the underlying utility business trades at just ~15.9x EPS, an ~10% discount to peers. Additionally, the implied free cash flow yield of its generation business is modestly attractive at ~10%, and the stock appears to be pricing in a long-term gas prices of $3.00-3.25 on our math.

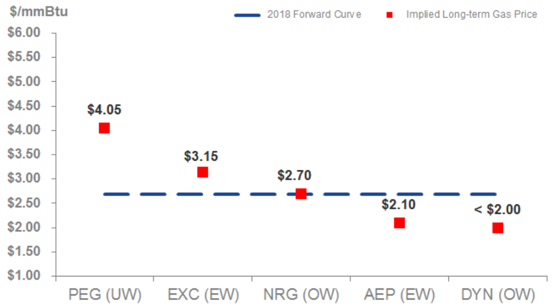
On net, our revised $38 price target represents modest upside (~10%), and we see a balanced risk-reward at current levels; resuming coverage at Equal-weight. Our $38 valuation reflects ~$25 per share for utilities and ~$13 per share for ExGen. We use a DCF valuation for the merchant business, ExGen, and a 2017 P/E multiple for the utilities (including Pepco). For ExGen, we assume $3.75/MMBtu long-run natural gas price along with an incremental $0.75 negative gas basis for PJM East/West and negative $0.30 for NI Hub, which results in a net ~$3.00 and $3.45 per mmBtu long term gas price assumption for Exelon’s PJM East and Illinois nuclear fleets, respectively. In Illinois, we incorporate ~$4/MWh of margin uplift from a Clean Energy Standard and longer term carbon regulation, based on a $5/ton carbon allowance price. On the capacity side, our assumed long-run ComEd and MAAC capacity prices are $220/MW-day and $175/MW-day, respectively. Our terminal power plus capacity price assumptions reflect new build levels for gas generation. Overall, we view the risk reward for EXC as balanced - while we see modest upside to our price target, we see downside to 2018 consensus estimates.

Exhibit 2: EXC's Generation Business is Trading at Modestly Attractive ~10% FCF-Equity Yield



Source: Morgan Stanley Research. Note, We Show DYN On This Chart, But Our Analysis Shows There Is No Gas Price Low Enough To Make The Stock "Fairly Valued" At Current Levels, Given DYN's Gas Heavy Asset Mix

Exhibit 3: EXC is Pricing in Long-Term Gas Prices of ~$3.00-$3.25



Source: Morgan Stanley Research. We Exclude FE And ETR Since The Stocks Currently Reflect $0 Of Merchant Value, By Our Calculations.

Legacy Utilities & Pepco - Latest Developments

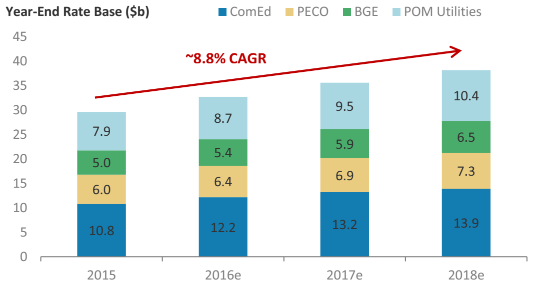
Closing of Pepco acquisition provides meaningful accretion, increases EXC's exposure to regulated cash flows, and removes a key overhang. On March 23, nearly two years after the deal was announced, EXC closed its acquisition of Pepco Holdings for ~$6.9b plus assumed debt. The deal was initially rejected by the District of Columbia Public Service Commission (DC PSC); however, an amended proposal was finally approved by the commission. While EXC shares lagged peers the day of the approval, we attribute this largely to short-term trading dynamics (some had looked to get ahead of a large share buyback if the deal fell through). **We view the closing of the deal as a positive for EXC shareholders as it:**

1. **Provides meaningful accretion**. Our 2017 EPS estimate includes $0.08 of accretion from the Pepco acquisition, with this figure growing to $0.13 in 2018. While ROEs have deteriorated at each of Pepco's utilities on our math due to significant delays in the deal approval process and a lack of rate case filings, we expect Pepco and DPL to both file rate cases in the coming months (ACE has already filed). Additionally, though the delays and one-time concessions do modestly impact the economics of the transaction, the combination of new rate cases and synergies still leads to significant accretion on our math.
2. **Increases exposure to regulated earnings and cash flow,** with the dividend fully supported by regulated utility earnings post-deal. In 2013, EXC's earnings were derived ~56% from its merchant business, and 44% from its utilities, net of the parent drag. By 2018, we estimate ~58% of EPS will come from the utilities/parent, with the balance coming from the merchant business. As a result of the increasingly regulated profile, EXC's current $1.24 annual dividend per share and planned 2.5% annual increases through 2018 will be fully supported by regulated earnings on our math.
3. **Removes a key overhang.** Investor attention for months focused largely on the approval process for the deal. With this large uncertainty finally resolved, investors can focus back on the fundamentals of EXC's business. While appeals may be filed, we believe it is unlikely that the deal approval will be overturned. EXC's multiple should modestly improve with this large uncertainty out of the way, in our view.

That said, the impact of bonus depreciation at Pepco could be a negative dynamic that we have not yet factored in our estimates. EXC has not yet disclosed the impact of bonus depreciation on the Pepco utilities, though there will presumably be some sort of negative earnings impact. The company has indicated that will provide updated accretion forecasts post deal closing, so we think refreshed forecasts including the impact of bonus depreciation will likely be discussed on the 1Q16 call. We note however that there are a number of moving parts at play, so it is possible that increased synergies or earned ROE projections at the utility could offset any negative earnings impact from bonus depreciation.

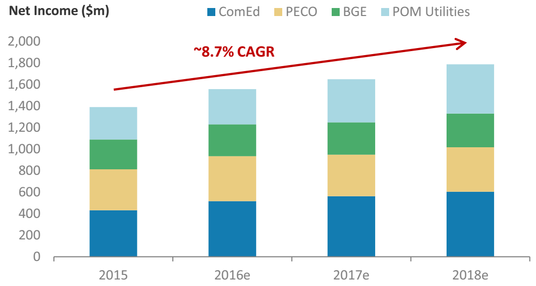
At EXC's legacy utilities, it's largely business as usual. With PECO's rate case settled and approved, BGE and ComEd's rate filings are next on the agenda. BGE filed for new rates in November of last year, requesting a ~$121m increase for its electric business and a ~$80m increase for its gas business. EXC expects a decision in this case in June. Additionally, ComEd is expected to file its next formula rate filing this April. In terms of load, BGE and ComEd are relatively shielded via decoupling / ROE mechanisms, however PECO is somewhat exposed. PECO's load was slightly down in 2015, though EXC is forecasting a modest rebound to 0.4% in 2016, which could be a risk. Lastly, EXC's cost management initiatives should enhance results at these businesses in the near-term, with ~50% of corporate cost reductions (targeting ~$175m by 2018) to be allocated to the utilities. **Overall, we see a strong growth outlook at both the legacy regulated utilities and the Pepco utilities, and forecast 8.5-9.0% net income growth for the regulated businesses overall.**

Exhibit 4: We Expect Strong Rate Base Growth at EXC's Regulated Utilities



Source: Morgan Stanley Research

Exhibit 5: And Similarly Robust Earnings Growth



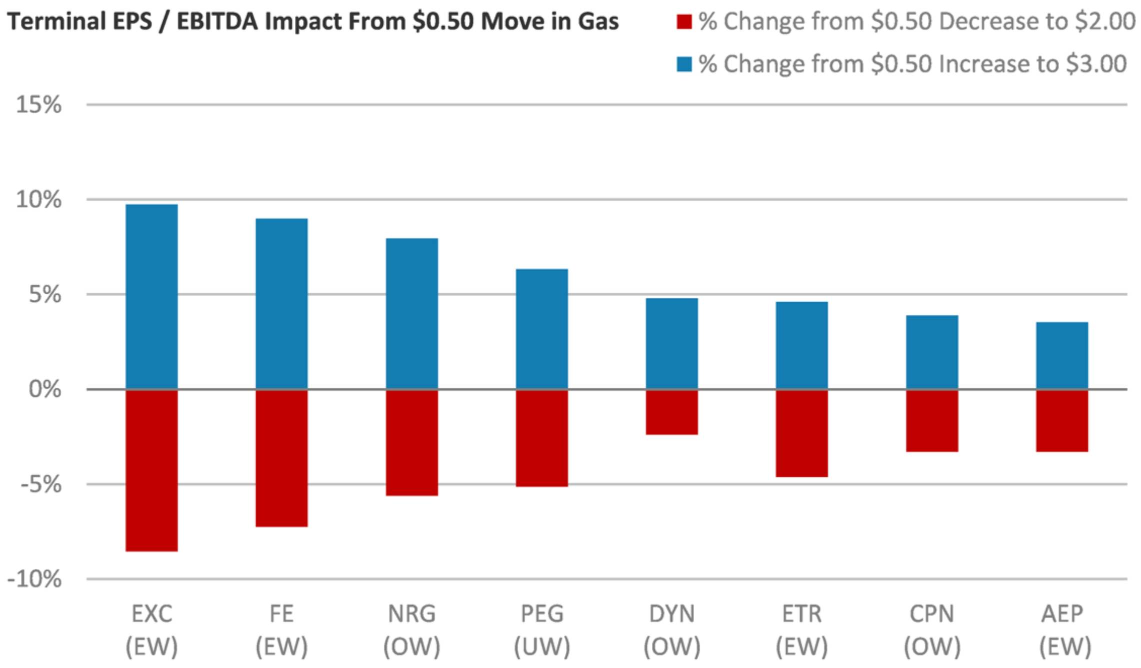
Source: Morgan Stanley Research

ExGen - Latest Developments

Exelon is proactively taking steps to navigate low commodity prices at ExGen, the company's merchant power business. At the Edison Electric Institute (EEI) financial conference this past November, EXC outlined plans to cut ~$350m of costs out of the business, with ~$175m of the cost savings coming specifically from ExGen. Additionally, 50% of the remaining ~$175m of corporate shared services cost savings will be allocated to the merchant business. On net, these initiatives are expected to benefit EPS by $0.13-0.18 by 2018. In addition, the company has been more aggressive with its retail business, and recently stepped up its 2016e load serving expectations from 165 TWh to 210TWh. This strategy serves as a natural hedge for ExGen's generation fleet, and further helps shield the business from today's low commodity prices. **Still, though these measures are beneficial, we forecast declining earnings at the business at the current forward curve.**

We are below consensus largely due to our ExGen forecasts, however our constructive view on natural gas and power prices would represent upside to our estimates. Due to the company's large baseload / nuclear fleet, EXC's earnings are the most sensitive to gas prices in our coverage. Our 2016-2018 EXC estimates are based on the forward curve, but our proprietary 2017 and long-term gas price forecasts currently stand at $3.20/MMbtu and $3.75/MMbtu respectively (more constructive than consensus / the strip). We believe that the low prices for the current 2H16 strip should generate more gas power demand than is needed to solve the current inventory situation, particularly given our view for a more pronounced slowdown in supply and expanding exports. Regardless, 2017 should offer a fresh start after inventories normalize, and the 2017 strip understates the underlying shift in the US gas balance. Structural demand is still set to arrive, albeit at a slower pace, while a supply reacceleration should prove more difficult, particularly if oil prices remain low. See our recent **Coal, Gas & Power note** for more details. We estimate that every $0.50/mmBtu change in gas prices impacts EXC's EPS by ~10%, and thus EXC would be the largest beneficiary in our coverage should this view play out.

Exhibit 6: EXC Is The Most Sensitive to a $0.50/mmBtu Change in Natural Gas Prices

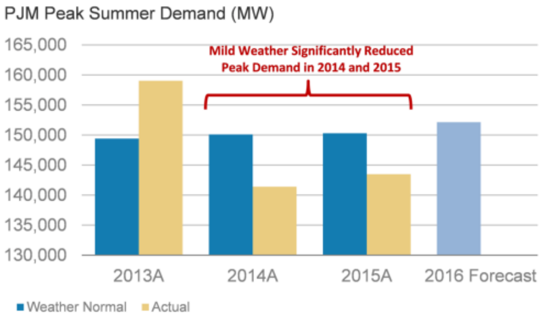


Source: Company Data, Morgan Stanley Research estimates, OW = Overweight, EW = Equal-weight, UW = Underweight

For valuation methodology and risks associated with any price targets, ratings or recommendations referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-5424-4349. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

PJM Outlook

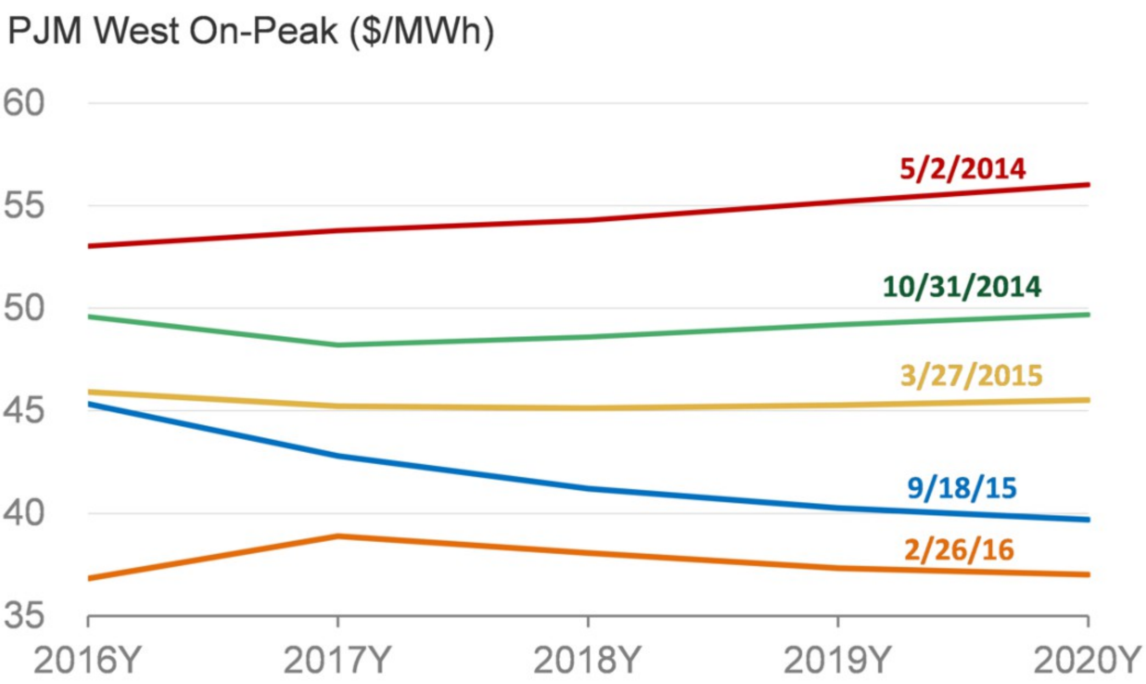
Exhibit 7: Mild Weather Significantly Reduced 2014 and 2015 Summer Peak Demand



Source: PJM, Morgan Stanley Research

Curve has modestly over-corrected to the downside in our view. After the polar vortex of 2014, which drove extreme volatility in spot PJM power prices, the forward curve rallied meaningfully, imbedding what was in our view an unsustainable risk premium given the low probability of the polar vortex events reoccurring again anytime soon. Furthermore, while a significant amount of coal plants retired over the last several years, these retirements are being offset by weak to negative peak demand growth and significant new build activity. These dynamics warrant some level of spark spread (gas plant margin) backwardation in the forward curve, in our view. However, after two mild summers and an extremely mild winter 2015-16, we now see limited volatility priced into the curve, creating an attractive risk-reward and potential upside in summer 2016, which would benefit EXC's PJM fleet.

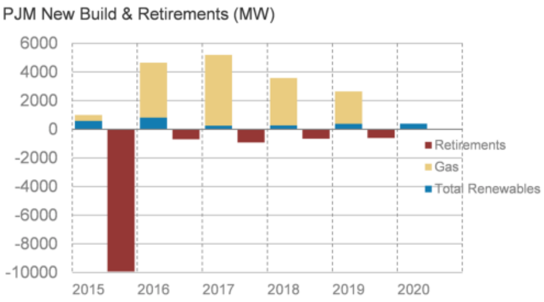
Exhibit 8: PJM Power Forwards Have Declined Meaningfully Over the Past ~1.5 Years



Source: Morgan Stanley Research

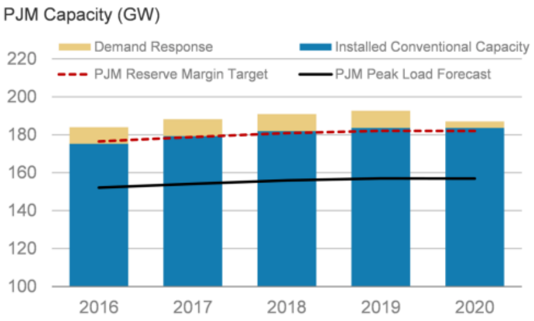
PJM reserve margins remain steady, despite new build activity. Since 2011, ~18.4 GW of coal generation has retired in the PJM market. These retirements were driven by environmental regulations and low natural gas prices, both of which challenged the economics of unregulated coal plants in the region. The market is currently in a build cycle to replace the lost generation. We estimate ~10 GW of new gas generation is currently under construction in the region, and expect a total of ~14.5 GW to enter operation over the 2016-20 period. ~66 GW of coal generation still remains in-service in the PJM market. We expect additional retirements as this fleet continues to age, supporting continued need for pricing to support new generation. The "excess" capacity in the PJM market is almost entirely demand response, rather than conventional generation, implying that reserve margins based on conventional power generation that is available annually are actually relatively lean, despite the new build activity.

Exhibit 9: PJM New Build and Retirements 2015-2020



Source: PJM, SNL, Morgan Stanley Research

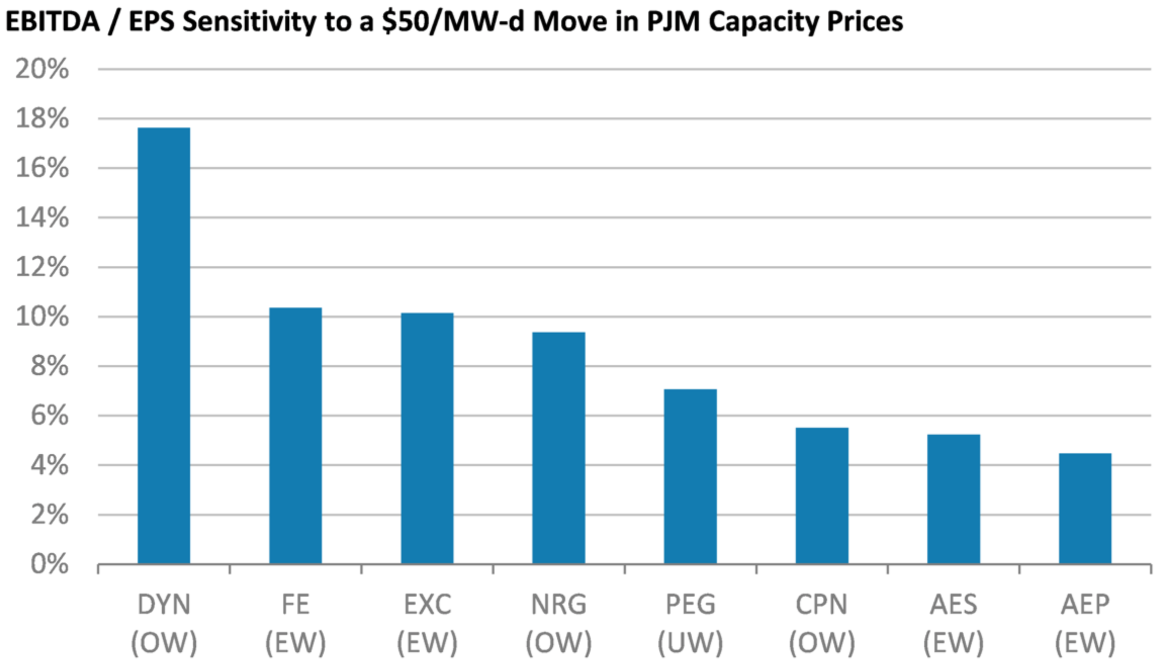
Exhibit 10: PJM Reserve Margins Remain Steady, at Roughly Target Levels Ex-Demand Response



Source: PJM, SNL, Morgan Stanley Research. Note: peak load is shown net of DR and EE, driving the 2016-18 increases.

While we see modest downside risk to this year's auction, strong long-term PJM capacity prices should benefit EXC. In addition to gas prices, EXC is also one of the most sensitive companies under coverage to PJM capacity prices, with every $50/MW-d move impacting the company's EPS by ~10%. While we have highlighted **bonus depreciation** and lower demand forecasts as risks to this year's 2019 / 2020 auction (results scheduled to be posted on 5/24/16), we believe that the outlook for next year's 2020 / 2021 auction (which occurs in 2017) and beyond is attractive. In the 2018 / 19 and 2019 / 20 auctions, 80% of all capacity procured will be Capacity Performance. In 2020 / 21, this target steps up to 100%, resulting in incremental CP demand of ~30 GW. There are simply not enough readily available advanced development projects to keep up with this level of new demand in such a short period of time, and as a result we believe it is highly unlikely that new generation would be able to keep up with this higher target even at higher prices. Instead, we expect less reliable and higher cost incumbent resources, those that did not clear at CP in the most recent auction, to set prices. This dynamic should continue to drive capacity prices meaningfully higher, and cause the market to decouple from the historic relationship with new build economics, in our view, potentially for a multi-year period. See our **2016 outlook** for more details and analysis.

Exhibit 11: EXC is One of The Most Sensitive Stocks Under Coverage to PJM Capacity Prices



Source: Morgan Stanley Research

Illinois Outlook

Carbon Regs vs. Nuke Retirements in IL: EXC Wins Either Way. Illinois' proposed Low Carbon Portfolio Standard (LCPS), designed to provided additional payments to low-carbon generation in the state (including nuclear plants), was not passed in 2015 as many expected. While we think it is likely that the LCPS or a comparable program will be addressed this time around in 2016, we see EXC as a net winner with our without the new rules. If no carbon program moves forward we expect EXC will shut 3-5 GW of at risk nuclear plants in the state (EXC has not yet made any decision on plant retirements). Either outcome - LCPS or nuclear shutdowns - will result in similar uplift to EXC's free cash flow and EPS on our math:

- **Scenario 1: Low Carbon Portfolio Standard.** The proposed LCPS would require IL utilities to purchase low carbon energy credits for ~70% of their electricity sales. Preliminary estimates show that the LCPS would generate ~$300m of incremental revenue for qualifying generating resources in the state. EXC's nukes generate ~90% of the qualifying low carbon energy.
- **Scenario 2: Nukes Retire.** If the LCPS does not move forward in IL, we believe EXC will retire 3-5 GW of at-risk nuclear power plants in the state. The retirements would eliminate $100-150m of annual cash flow drag and drive northern Illinois (NI Hub) power prices $2-4/MWh higher, by our estimates, adding $150-200m of margin to EXC's remaining plants in the region. The power price uplift, however, would likely take some time to materialize in forwards, making the benefit less immediate than LCPS.

Exhibit 12: We Estimate EXC's At-Risk IL Nuclear Plants Are a $0.10-$0.20 Drag on EPS

At-Risk IL Nuclear (Byron, Quad Cities, Clinton)			2016E	2017E	2018e
Illinois Plants (Byron, Quad Cities, Clinton)					
NI Hub ATC Prices ($/mwh)			**$24.61**	**$27.48**	**$26.93**
Assumed Price (Gen Bus ATC) ($/mwh)	10%		$22.15	$24.73	$24.24
Assumed Fuel Price ($/mwh)	$8.00		$8.32	$8.49	$8.66
Total MW On-Line	**4,860**		**4,860**	**4,860**	**4,860**
PJM Capacity Price ($/mw-day) - RTO/ComEd	**3,793**		135	144	189
Capacity Factor	93%		93%	93%	93%
Production (gwh)			**39,381**	**39,381**	**39,381**
Total Revenues (Energy + Capacity)			1,059	1,174	1,151
Fuel Costs			328	334	341
Margins			**731**	**839**	**810**
Assumed GAAP PP&E	**$1,500**	$/kW			
Operating and Maintenance	**$20.00**	$/MWh	788	788	788
Depreciation and Amortization	**2.5%**	Depreciation Rate	182	182	182
Taxes Other Than Income	**$51**	$mil	51	51	51
Operating Expense			**1,021**	**1,021**	**1,021**
EBIT			**(290)**	**(182)**	**(211)**
Tax Benefit	40%		(116)	(73)	(84)
Net Income			(174)	(109)	(126)
Avg Share Count			*921*	*932*	*932*
EPS Loss			***($0.19)***	***($0.12)***	***($0.14)***
Additional Power Price Needed ($/MWh)			***$7.36***	***$4.61***	***$5.35***
Maintenance Capex	**$40**	$/kW	194	194	194
Free Cash Flow			**(186)**	**(121)**	**(139)**

Source: Morgan Stanley Research estimates, Company Data

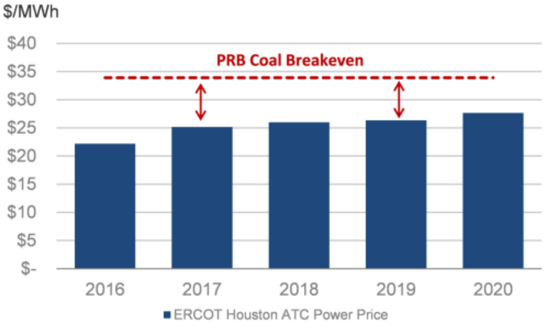
ERCOT Outlook

Current low prices are not sustainable in our view; risk-reward appears attractive. After seeing substantial declines in forward prices through 2015 and early 2016, Texas (ERCOT) power prices have reached unsustainable lows. We estimate that much of the ERCOT coal fleet is cash flow negative, with several plants at risk of retirement. Over the next several years there are several environmental regulations that will require large capital investment for some plants in the market, investments that are not feasible in the current commodity price environment. We believe it is not a question of ***if,*** but ***when*** coal generation will retire in the state. We expect this dynamic to result in tighter reserve margins and increased volatility, which is not currently priced into the forward curve. **Once the company's new build projects are completed, we estimate that every $5/MWh improvement in ERCOT spark spreads would impact EXC's open EPS by ~$0.06.**

Exhibit 13: Demand Growth And Coal Retirements Are Likely to Drive Tighter Market Conditions

Source: Morgan Stanley Research. Note: Reflects ~2 GW of retirements in 2017, and ~1 GW in 2019.

Exhibit 14: Current ERCOT Power Prices Are 20-35% Below Cash Breakeven For Coal Power Plants



Source: Morgan Stanley Research

Exhibit 15: EXC Financial Summary

$mil, unless stated otherwise

Period Ended	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E
EPS AND EBITDA PROFILE									
EPS by Business Segment									
Generation	$1.89	$1.40	$1.34	$1.40	$1.34	$1.27	$1.07	$1.43	$1.35
ComEd	$0.47	$0.49	$0.47	$0.48	$0.56	$0.60	$0.63	$0.68	$0.72
PECO	$0.47	$0.46	$0.41	$0.43	$0.45	$0.41	$0.43	$0.45	$0.48
BGE	$0.10	$0.23	$0.23	$0.31	$0.32	$0.32	$0.33	$0.35	$0.38
Pepco				$0.00	$0.15	$0.21	$0.24	$0.26	$0.27
DPL				$0.00	$0.06	$0.12	$0.13	$0.14	$0.15
ACE				$0.00	$0.06	$0.10	$0.11	$0.12	$0.13
Holdings & Parent	($0.08)	($0.07)	($0.06)	($0.13)	($0.32)	($0.37)	($0.39)	($0.40)	($0.42)
Consolidated EPS	**$2.84**	**$2.50**	**$2.39**	**$2.49**	**$2.62**	**$2.66**	**$2.56**	**$3.04**	**$3.07**
EPS 2013-2020 CAGR		**3%**							
Regulated / Unregulated EPS									
Regulated Utilities	36%	47%	47%	49%	61%	66%	73%	66%	70%
Merchant Power (includes parent)	64%	53%	53%	51%	39%	34%	27%	34%	30%
Other (Non-Utility / Power operations)	0%	0%	0%	0%	0%	0%	0%	0%	0%
EBITDA by Business Segment									
Generation	2,127	2,888	2,549	3,261	2,871	2,827	2,881	3,432	3,275
ComEd	1,535	1,649	1,684	1,745	1,932	2,112	2,248	2,400	2,551
PECO	848	900	815	895	960	949	1,009	1,067	1,125
BGE	453	814	828	942	953	988	1,049	1,124	1,204
Pepco				393	678	752	837	907	964
DPL				162	351	390	431	458	486
ACE				168	326	381	385	415	457
Holdings & Parent	(356)	31	(11)	(37)	(336)	(28)	(28)	(28)	(28)
Consolidated EBITDA	**4,607**	**6,282**	**5,865**	**7,529**	**7,735**	**8,371**	**8,811**	**9,774**	**10,034**
Regulated / Unregulated EBITDA									
Regulated Utilities	62%	54%	57%	57%	67%	67%	68%	65%	68%
Merchant Power (includes parent)	38%	46%	43%	43%	33%	33%	32%	35%	32%
Other (Non-Utility / Power operations)	0%	0%	0%	0%	0%	0%	0%	0%	0%
DIVIDEND AND SHARE COUNT DATA									
Dividend Per Share	**$2.10**	**$1.46**	**$1.24**	**$1.24**	**$1.26**	**$1.29**	**$1.32**	**$1.35**	**$1.39**
Dividend Yield	6.1%	4.2%	3.6%	3.6%	3.6%	3.7%	3.8%	3.9%	4.0%
Payout Ratio	73.8%	58.4%	51.8%	49.7%	47.8%	48.3%	51.6%	44.5%	45.1%
Dividend Growth Rate		-30.5%	-15.1%	0.0%	1.3%	2.5%	2.5%	2.5%	2.5%
Actual Shares Outstanding	855	857	860	920	920	953	953	953	953
Average Shares Outstanding	816	856	860	890	920	932	953	953	953
Diluted Average Shares Outstanding	819	860	864	893	923	935	956	956	956
VALUATION PROFILE									
Price to Earnings	12.2x	13.8x	14.5x	13.9x	13.2x	13.0x	13.5x	11.4x	11.3x
EV / EBITDA	10.8x	8.0x	8.9x	6.9x	8.7x	8.2x	8.0x	7.3x	7.1x
Dividend Yield	6.1%	4.2%	3.6%	3.6%	3.6%	3.7%	3.8%	3.9%	4.0%
Book Value Per Share	$23.50	$24.92	$24.78	$28.28	$29.44	$32.10	$33.39	$35.14	$36.89
Return on Average Equity	12.9%	9.6%	9.0%	9.1%	8.5%	9.2%	8.3%	9.4%	9.1%
Return on Invested Capital	2.9%	3.6%	3.4%	3.7%	3.5%	3.5%	3.4%	3.8%	3.8%
Return on Average Assets	3.5%	2.7%	2.5%	2.4%	2.4%	2.3%	2.2%	2.5%	2.5%
Current Share Price:	$34.60	$34.60	$34.60	$34.60	$34.60	$34.60	$34.60	$34.60	$34.60
Current Shares Outstanding	920	920	920	920	920	920	920	920	920
Equity Market Capitalization	**31,832**	**31,832**	**31,832**	**31,832**	**31,832**	**31,832**	**31,832**	**31,832**	**31,832**
Net Debt (Forecasted)	18,117	18,512	20,394	19,817	35,532	36,996	38,456	39,307	39,828
Enterprise Value	**49,949**	**50,344**	**52,226**	**51,649**	**67,364**	**68,828**	**70,288**	**71,139**	**71,660**

Period Ended	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E
CAPITALIZATION PROFILE										
Cash	**1,016**	**1,486**	**1,609**	**1,878**	**6,502**	**0**	**0**	**0**	**0**	**0**
Short Term Debt	388	210	341	460	533	2,244	2,129	1,505	486	1,287
Long Term Debt	13,017	19,393	19,780	21,812	25,786	33,288	34,867	36,952	38,821	38,541
Total Debt	**13,405**	**19,603**	**20,121**	**22,272**	**26,319**	**35,532**	**36,996**	**38,456**	**39,307**	**39,828**
Preferred Equity	87	87	0	0	0	0	0	0	0	0
Common Equity	**14,385**	**21,624**	**22,925**	**22,801**	**26,014**	**27,088**	**29,528**	**30,715**	**32,329**	**33,942**
Total Capitalization	**27,877**	**41,314**	**43,046**	**45,073**	**52,333**	**62,620**	**66,524**	**69,172**	**71,635**	**73,771**
Leverage Ratios										
LT Debt / Total Cap	47%	47%	46%	48%	49%	53%	52%	53%	54%	52%
Total Debt / Total Cap	48%	47%	47%	49%	50%	57%	56%	56%	55%	54%
Net Debt / LTM EBITDA	2.1x	3.9x	2.9x	3.5x	2.9x	4.8x	4.4x	4.4x	4.0x	4.0x
FFO / Total Debt	38%	33%	29%	27%	24%	17%	17%	17%	18%	19%
Coverage Ratios										
FFO Interest Coverage ((FFO + Int.) / Int.)	8.0x	7.9x	5.4x	6.6x	7.0x	5.3x	4.9x	4.9x	5.0x	5.0x
Pretax Interest Coverage (EBIT / Int.)	6.4x	2.9x	3.0x	3.3x	4.2x	3.4x	3.3x	3.2x	3.5x	3.4x
CASH FLOW PROFILE										
Regulated / Unregulated OCF										
Regulated Utilities	1,654	2,697	2,526	2,778	4,040	3,605	3,917	4,249	4,130	4,396
Merchant Power (includes parent)	3,199	3,434	3,817	1,679	4,168	2,507	2,474	2,574	2,914	2,819
Other (Non-Utility / Power operations)	-	-	-	-	(592)	(222)	-	-	-	-
Consolidated OCF	**4,853**	**6,131**	**6,343**	**4,457**	**7,616**	**5,890**	**6,390**	**6,823**	**7,044**	**7,216**
Regulated / Unregulated CapEx										
Regulated Utilities	1,509	2,250	2,557	2,970	3,718	5,345	5,229	5,077	4,756	4,567
Merchant Power (includes parent)	2,533	3,539	2,838	3,107	3,906	15,105	2,575	1,950	1,850	1,850
Other (Non-Utility / Power operations)	-	-	-	-	-	-	-	-	-	-
Consolidated CapEx	**4,042**	**5,789**	**5,395**	**6,077**	**7,624**	**20,450**	**7,804**	**7,027**	**6,606**	**6,417**
Free Cash Flow										
Regulated Utilities	145	447	(31)	(192)	322	(1,740)	(1,312)	(828)	(626)	(171)
Merchant Power (includes parent)	666	(105)	979	(1,428)	262	(12,598)	(101)	624	1,064	969
Other (Non-Utility / Power operations)	-	-	-	-	(592)	(222)	-	-	-	-
Consolidated FCF (Pre-Dividends)	**811**	**342**	**948**	**(1,620)**	**(8)**	**(14,560)**	**(1,414)**	**(204)**	**438**	**799**
Other Investing Activities	(561)	1,213	1	1,478	(198)	-	-	-	-	-
Dividends	1,393	1,716	1,249	1,065	1,105	1,155	1,200	1,257	1,288	1,321
Free Cash Flow (Post Dividends)	**(1,143)**	**(161)**	**(300)**	**(1,207)**	**(1,311)**	**(15,715)**	**(2,614)**	**(1,461)**	**(850)**	**(522)**
Other Financing Activities										
Equity Issuance / Buyback, Net	38	72	47	35	1,900	-	1,150	-	-	-
LT Debt Issuance	1,199	2,027	2,055	3,463	6,709	9,175	4,520	3,750	2,900	3,435
LT Debt Retirement	(789)	(1,145)	(1,589)	(1,545)	(2,687)	(1,673)	(2,941)	(1,665)	(1,031)	(3,714)
ST Debt Change, Net	161	(197)	332	122	80	1,711	(115)	(624)	(1,019)	801
Other	(62)	(126)	(422)	(599)	(67)	-	-	-	-	-
Annual Change in Cash	**(596)**	**470**	**123**	**269**	**4,624**	**(6,502)**	**(0)**	**(0)**	**-**	**0**

Source: Morgan Stanley Research

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(as of March 31, 2016)

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STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY
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COMPANY (TICKER)	RATING (AS OF)	PRICE* (04/05/2016)
Devin McDermott		
Dynegy Inc. (DYN.N)	O (04/20/2015)	$14.16
Stephen C Byrd		
AES Corp. (AES.N)	E (05/22/2014)	$11.07
American Electric Power Co (AEP.N)	E (08/04/2014)	$65.40
Calpine Corp. (CPN.N)	O (01/17/2012)	$14.28
Dominion Resources Inc (D.N)	O (01/13/2014)	$73.05
Entergy Corp (ETR.N)	E (12/15/2014)	$77.09
Exelon Corp (EXC.N)	E (04/06/2016)	$34.60
FirstEnergy Corp (FE.N)	E (01/17/2012)	$35.07
NextEra Energy Inc (NEE.N)	O (07/22/2014)	$116.35
NRG Energy Inc (NRG.N)	O (01/17/2013)	$12.21
Public Service Enterprise Group Inc (PEG.N)	U (08/20/2012)	$46.20

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 05 Apr 2016	34.60 USD 05 Apr 2016	35.00 USD	0.99	3.58 05 Apr 2016	3.58 05 Apr 2016	31.83 05 Apr 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Undervalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.93	0.85	0.97	0.94
Price/Earnings	13.6	15.6	16.5	20.6
Forward P/E	13.1	—	15.7	13.9
Price/Cash Flow	4.1	5.1	6.1	11.3
Price/Free Cash Flow	—	74.7	10.7	17.8
Trailing Dividend Yield%	3.58	4.65	3.65	2.38

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- If gas and power prices remain low for many years, Exelon's move to invest in retail and regulated businesses will preserve value.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions dilute Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40%

Travis Miller, Sector Director, 24 March 2016

Investment Thesis

As the largest nuclear power plant owner in the U.S., Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years. The drop in Eastern U.S. gas and coal prices have made those generation sources more competitive.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. The Pepco deal took nearly two years to close as Exelon waded through the regulatory approval process. Management's commitment to keep the deal alive shows its conviction in Exelon's strategic move to add more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings by 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. Excluding Pepco, we think the regulated utilities can increase earnings by 10% annually over the next three years.

Travis Miller, Sector Director, 06 April 2016

Analyst Note

We are cutting our midcycle assumptions for Brent oil, U.S. Henry Hub natural gas, and U.S. and European power prices. This will lead us to cut our fair value estimates 10%-40% for utilities with merchant power market exposure. We are maintaining our midcycle assumptions for coal, Eastern U.S. gas basis, and regional market heat rates.

Our new long-term marginal cost for U.S. natural gas is $3 per thousand cubic feet, down from $4/mcf. The cut is based on a more optimistic outlook for low-cost U.S. gas production primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica. We see more evidence that U.S. shale producers can survive at much lower prices than we previously assumed.

The midcycle gas price cut results in a similar cut to our midcycle U.S. power prices. Our benchmark PJM West around-the-clock midcycle price falls to $30.60 per megawatt hour from $43.35 when including our $0.60/mmBtu gas basis discount. The rest of our U.S. midcycle power prices fall 25%.

Power producers with large coal and nuclear fleets face the biggest fair value estimate cuts. These include Dynegy and NRG Energy. Diversified utilities with large coal and nuclear fleets such as Exelon and FirstEnergy could have 10%-20% fair value estimate cuts as we incorporate the new midcycle prices. Power producers with large gas generation fleets such as Calpine will experience smaller fair value estimate cuts because gas generation should benefit from lower costs and higher run times in our midcycle forecasts.

Our new Brent oil midcycle price is $60 per barrel, down from $70. The long-term structural issue facing crude markets is that the world needs some U.S. production growth, but not nearly as much as tight oil can supply. Our Brent oil price cut will lead us to cut our fair value estimate for Centrica.

We will be publishing updated reports and valuations on

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 05 Apr 2016	34.60 USD 05 Apr 2016	35.00 USD	0.99	3.58 05 Apr 2016	3.58 05 Apr 2016	31.83 05 Apr 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	23,397	10,415	28.44	13.99
FirstEnergy Corp FE	USD	14,857	15,026	15.25	25.58
Entergy Corp ETR	USD	13,760	11,513	-2.60	0.00

all companies within the next week.

Economic Moat

Travis Miller, Sector Director, 24 March 2016

Considering Exelon's full suite of businesses, we think it earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 per share fair value estimate after Exelon closed its acquisition of Pepco Holdings at its $27.25 per share cash offer. We already included $1 per share of value dilution in our Exelon fair value estimate, based on the 30% premium that Exelon paid over our Pepco fair value estimate.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire, given that it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2016, excluding contributions from Pepco. On a midcycle basis, we assume Exelon earns $3.80 per share and Exelon Generation earns $3.9 billion EBITDA. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Our midcycle earnings forecast at Exelon Generation is based on a $4 per thousand cubic feet midcycle Henry Hub gas price, a negative $0.60/mcf gas basis for PJM West, and heat rates across all regions 10% above current 2017 forward heat rates. At the retail business, we assume 8% long-term normalized gross margins and 1% annual volume growth beyond 2015.

We assume all three regulated utilities earn average 10% returns on equity starting in 2016.

We assume a 9% cost of equity and a 7.1% cost of capital. Our cost of equity assumption is in line with the 9% rate of return we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 24 March 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and mid-Atlantic. Even though sharp increases in power prices would result in an earnings windfall for Exelon, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely in the current environment, it could have a substantial negative impact on our fair value estimate. If market power prices are capped or regulated, Exelon loses its primary profit source.

As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. In the decade following deregulation, rate caps, and other regulations limited Exelon's profits. Those are gone, and lower power prices have eased concerns about reregulation. But we expect politicians and regulators will continue to monitor customers' utility bills and could intervene if power prices skyrocket.

Reregulation would also destroy Exelon's retail business. Although that business is still a relatively small source of consolidated earnings, it would eliminate Exelon's effective hedge against its generation fleet, potentially leading to more volatile earnings.

As Exelon's regulated utilities generate a greater share of earnings, investors will be made more acutely subject to the state and federal regulatory risk that all distribution and transmission utilities face. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth.

Management

Travis Miller, Sector Director, 24 March 2016

We assign Exelon's management team a Standard stewardship rating. Since Exelon's earnings are at the mercy of wholesale power market ups and downs, we don't see much link between Exelon's recent underperformance and management's capabilities.

President and CEO Chris Crane and executive chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on their efforts to gain support for the deal through nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

We're particularly impressed by management's nuclear fleet operations, the one thing it can control. Crane led the generation segment to world-class results in his five years as COO, and that performance has continued with Crane as CEO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80% range. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

The Constellation acquisition reshaped the board along with the executive suite. The postmerger addition of four former Constellation board members and the retirement of five legacy Exelon board members, including Rowe, leaves only two of the 16 members who were on the board when Exelon formed in 2000. In addition, Shattuck has become the largest insider shareholder. He owned 3.8 million shares or vested options as of January 2015.

Analyst Notes Archive

Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40%

Travis Miller, Sector Director, 06 April 2016

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We will be publishing updated reports and valuations on all companies within the next week.

Exelon and Pepco Join to Sing a Duet: At Last

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 02 March 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 29 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Sector Director, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Eq. Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Corp EXC ★★★★Q

Last Close 05 Apr 2016	**Quantitative Fair Value Est** 05 Apr 2016	**Market Cap** 05 Apr 2016	**Sector**	**Industry**	**Country of Domicile**
34.60	37.08	31,829.4 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	89	87	86
Valuation	Undervalued	54	69	54
Quantitative Uncertainty	Medium	98	92	96
Financial Health	Moderate	61	56	61

Source: Morningstar Equity Research

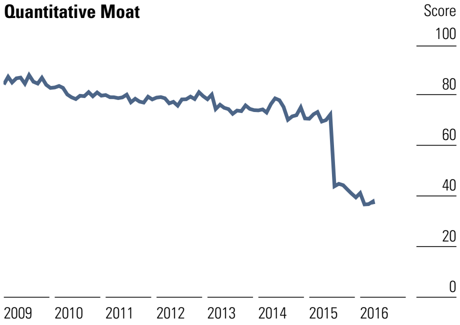
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.93	0.85	0.97	0.94
Price/Earnings	13.6	15.6	16.5	20.6
Forward P/E	13.1	—	15.7	13.9
Price/Cash Flow	4.1	5.1	6.1	11.3
Price/Free Cash Flow	—	74.7	10.7	17.8
Trailing Dividend Yield %	3.58	4.65	3.65	2.38
Price/Book	1.2	1.5	1.3	2.2
Price/Sales	1.0	1.2	1.3	1.8

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.4	9.7	9.7	12.1
Return on Assets %	2.5	2.6	3.1	4.7
Revenue/Employee (K)	989.4	958.0	1,251.7	298.0

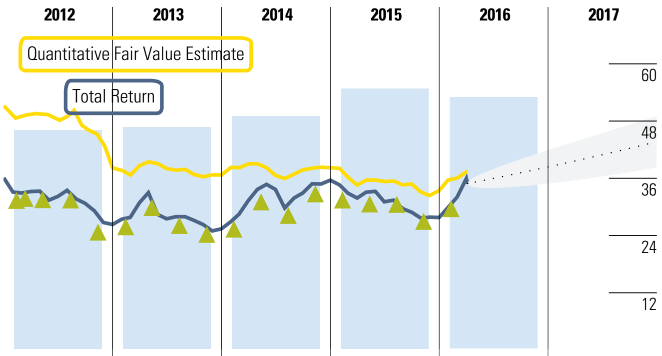
Quantitative Moat



Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.6
Solvency Score	—	—	628.1	577.3
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.8	0.3

Price Versus Quantitative Fair Value



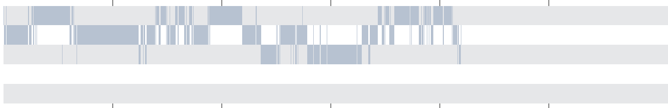
Momentum: Neutral
Standard Deviation: 21.83
Liquidity: High

25.09 52-Wk 35.95

25.09 5-Yr 45.45

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	25.7	Total Return %
-42.9	-36.1	27.1	-22.5	25.4	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—	Trailing Dividend Yield %
—	—	—	—	3.58	Forward Dividend Yield %
21.0	14.7	15.2	12.3	13.6	Price/Earnings
1.0	0.9	1.2	0.8	1.0	Price/Revenue

Morningstar RatingQ



2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	29,447	Revenue
1.5	24.1	6.0	10.2	7.4	0.0	% Change
4,480	2,380	3,656	3,096	4,409	4,409	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	0.0	% Change
2,495	1,160	1,719	1,623	2,269	2,269	Net Income
4,853	6,131	6,343	4,457	7,616	7,616	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-7,624	Capital Spending
811	321	948	-1,620	-8	-8	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	0.0	% Sales
3.75	1.42	2.00	1.88	2.54	2.54	EPS
-3.1	-62.1	40.8	-6.0	35.1	0.0	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.01	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.04	Book Value/Share
855,000	857,000	860,000	920,000	919,925	919,925	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	9.4	Return on Equity %
4.7	1.7	2.2	2.0	2.5	2.5	Return on Assets %
13.2	4.9	6.9	5.9	7.7	7.7	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.32	Asset Turnover
3.8	3.7	3.5	3.8	3.7	3.7	Financial Leverage
62.3	56.8	56.9	52.6	55.6	55.6	Gross Margin %
23.7	10.1	14.7	11.3	15.0	15.0	Operating Margin %
12,189	18,346	18,271	20,010	24,286	24,286	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,793	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

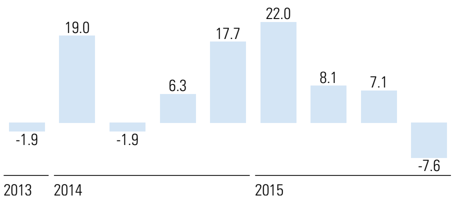
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	7.4	2.9	0.9	-0.4

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

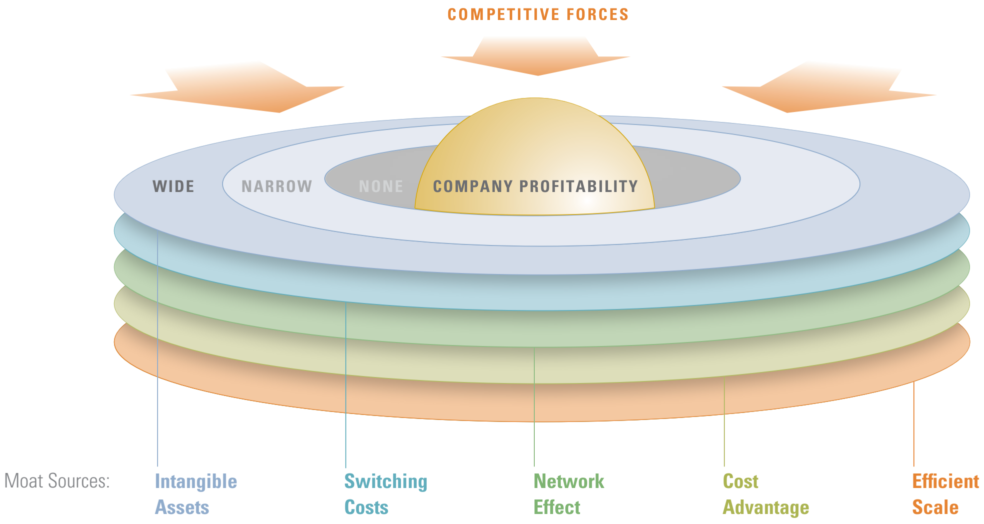
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

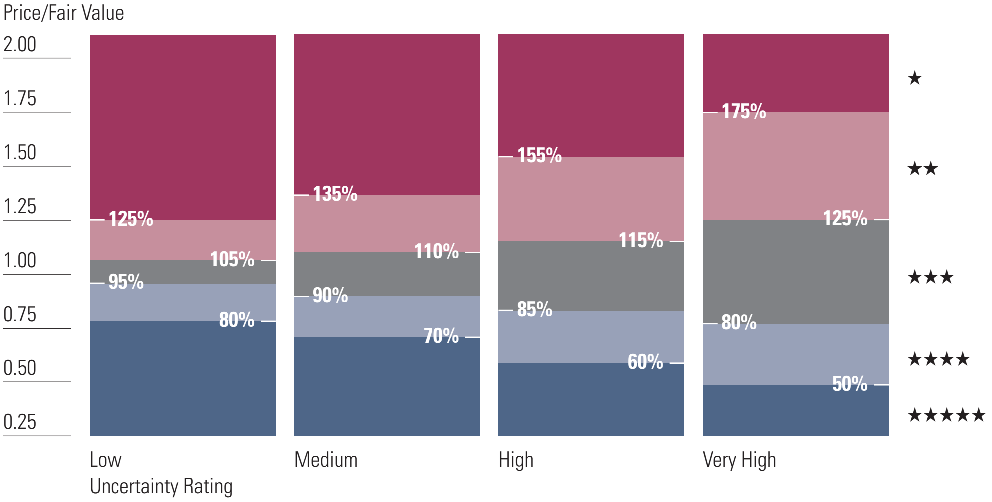
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

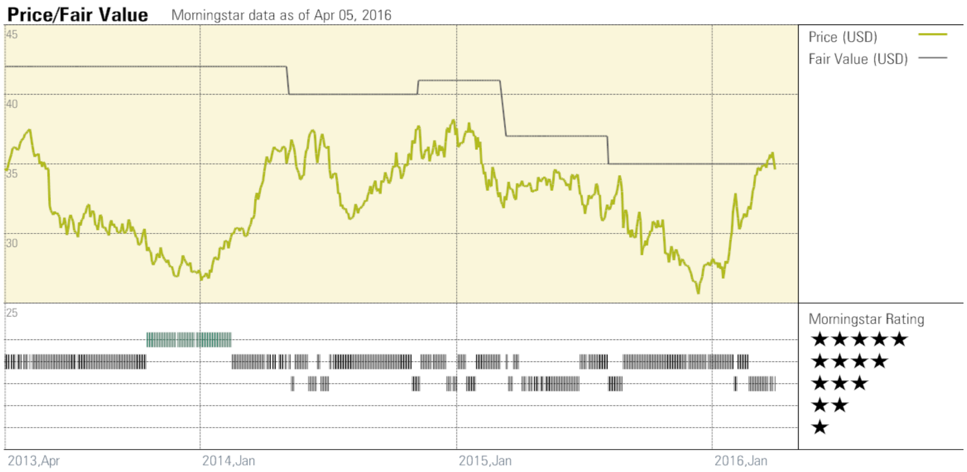
If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 05 Apr 2016	34.60 USD 05 Apr 2016	35.00 USD	0.99	3.58 05 Apr 2016	3.58 05 Apr 2016	31.83 05 Apr 2016	Utilities - Diversified	Standard


Price/Fair Value Morningstar data as of Apr 05, 2016

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Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.60 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40%

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The primary analyst covering this company does not own its stock.

Research as of 06 Apr 2016
Estimates as of 23 Mar 2016
Pricing data through 05 Apr 2016
Rating updated as of 05 Apr 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 06 Apr 2016

We are cutting our midcycle assumptions for Brent oil, U.S. Henry Hub natural gas, and U.S. and European power prices. This will lead us to cut our fair value estimates 10%-40% for utilities with merchant power market exposure. We are maintaining our midcycle assumptions for coal, Eastern U. S. gas basis, and regional market heat rates.

Our new long-term marginal cost for U.S. natural gas is $3 per thousand cubic feet, down from $4/mcf. The cut is based on a more optimistic outlook for low-cost U.S. gas production primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica. We see more evidence that U.S. shale producers can survive at much lower prices than we previously assumed.

The midcycle gas price cut results in a similar cut to our midcycle U.S. power prices. Our benchmark PJM West around-the-clock midcycle price falls to $30.60 per megawatt hour from $43.35 when including our $0.60/mmBtu gas basis discount . The rest of our U.S. midcycle power prices fall 25%.

Power producers with large coal and nuclear fleets face the biggest fair value estimate cuts. These include Dynegy and NRG Energy. Diversified utilities with large coal and nuclear fleets such as Exelon and FirstEnergy could have 10%-20% fair value estimate cuts as we incorporate the new midcycle prices. Power producers with large gas generation fleets such as Calpine will experience smaller fair value estimate cuts because gas generation should benefit from lower costs and higher run times in our midcycle forecasts.

Our new Brent oil midcycle price is $60 per barrel, down from $70. The long-term structural issue facing crude markets is that the world needs some U.S. production

Vital Statistics

Market Cap (USD Mil)	31,829
52-Week High (USD)	35.95
52-Week Low (USD)	25.09
52-Week Total Return %	7.4
YTD Total Return %	25.7
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	9.8
Price/Fair Value	0.99

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	11.0	15.5	—	*14.5*
EV/EBITDA	8.9	8.3	—	*8.2*
EV/EBIT	14.1	14.5	—	*13.5*
Free Cash Flow Yield %	3.0	-6.3	—	*-1.2*
Dividend Yield %	3.9	4.2	—	*3.4*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	24,888	27,429	*22,762*	*25,179*
Revenue YoY %	6.0	10.2	*-17.0*	*10.6*
EBIT	3,656	3,096	*3,821*	*3,822*
EBIT YoY %	53.6	-15.3	*23.4*	*0.0*
Net Income, Adjusted	2,150	2,065	*2,125*	*2,062*
Net Income YoY %	-7.9	-4.0	*2.9*	*-3.0*
Diluted EPS	2.50	2.39	*2.46*	*2.38*
Diluted EPS YoY %	-12.3	-4.4	*2.9*	*-3.1*
Free Cash Flow	1,500	305	*1,364*	*134*
Free Cash Flow YoY %	-22.5	-79.7	*347.7*	*-90.2*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 22% of U.S. nuclear power and 4% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 150 terawatt hours of load. In March 2012, Exelon bought Constellation Energy for $7 billion.

growth, but not nearly as much as tight oil can supply. Our Brent oil price cut will lead us to cut our fair value estimate for Centrica.

We will be publishing updated reports and valuations on all companies within the next week.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.60 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*Forecast 2015*	*2016*	*5-Year Proj. CAGR*
Revenue	*13.2*	24.1	6.0	10.2	*-17.0*	*10.6*	*3.5*
EBIT	*-11.6*	-46.9	53.6	-15.3	*23.4*	*0.0*	*13.9*
EBITDA	*-2.4*	-26.7	36.3	-6.9	*15.0*	*1.6*	*10.0*
Net Income	*-9.3*	-15.6	-7.9	-4.0	*2.9*	*-3.0*	*10.0*
Diluted EPS	*-16.9*	-31.5	-12.3	-4.4	*2.9*	*-3.1*	*9.8*
Earnings Before Interest, after Tax	*-7.3*	-43.1	-13.1	61.0	*-30.3*	*-7.5*	*-1.0*
Free Cash Flow	*-19.5*	231.6	-22.5	-79.7	*347.7*	*-90.2*	*59.1*

Profitability	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Operating Margin %	*12.0*	10.1	14.7	11.3	*16.8*	*15.2*	*16.4*
EBITDA Margin %	*20.4*	18.1	23.3	19.7	*27.3*	*25.1*	*25.9*
Net Margin %	*8.7*	9.9	8.6	7.5	*9.3*	*8.2*	*9.0*
Free Cash Flow Margin %	*5.1*	8.2	6.0	1.1	*6.0*	*0.5*	*5.5*
ROIC %	*2.2*	1.6	2.5	2.5	*5.2*	*5.2*	*5.7*
Adjusted ROIC %	*2.3*	1.7	2.7	2.7	*5.4*	*5.4*	*6.0*
Return on Assets %	*2.0*	1.7	2.2	2.0	*2.4*	*2.3*	*2.7*
Return on Equity %	*7.1*	6.4	7.7	7.1	*9.0*	*8.3*	*9.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Debt/Capital	*0.48*	0.47	0.47	0.49	*0.49*	*0.48*	*0.47*
Total Debt/EBITDA	*4.06*	4.60	3.46	4.12	*3.71*	*3.73*	*3.42*
EBITDA/Interest Expense	*4.65*	4.59	4.28	5.08	*6.23*	*6.05*	*6.27*

Valuation Summary and Forecasts

	2013	2014	*2015(E)*	*2016(E)*
Price/Fair Value	0.65	0.90	—	—
Price/Earnings	11.0	15.5	—	*14.5*
EV/EBITDA	8.9	8.3	—	*8.2*
EV/EBIT	14.1	14.5	—	*13.5*
Free Cash Flow Yield %	3.0	-6.3	—	*-1.2*
Dividend Yield %	3.9	4.2	—	*3.4*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,141	12.3	7.10
Present Value Stage II	15,598	31.3	18.03
Present Value Stage III	28,145	56.4	32.54
Total Firm Value	**49,883**	**100.0**	**57.68**
Cash and Equivalents	1,878	—	2.17
Debt	-22,272	—	-25.75
Preferred Stock	—	—	—
Other Adjustments	-1,117	—	-1.29
Equity Value	**28,372**	**—**	**32.80**
Projected Diluted Shares	865		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.60 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**23,489**	**24,888**	**27,429**	***22,762***	***25,179***
Cost of Goods Sold	10,157	10,724	13,003	*7,756*	*9,999*
Gross Profit	**13,332**	**14,164**	**14,426**	***15,006***	***15,180***
Selling, General & Administrative Expenses	7,961	7,270	8,568	*7,594*	*7,635*
Other Operating Expense (Income)	1,019	1,095	1,154	*1,191*	*1,223*
Other Operating Expense (Income)	91	-10	-706	—	—
Depreciation & Amortization (if reported separately)	1,881	2,153	2,314	*2,400*	*2,500*
Operating Income (ex charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,822***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,380**	**3,656**	**3,096**	***3,821***	***3,822***
Interest Expense	928	1,356	1,065	*999*	*1,044*
Interest Income	346	473	455	*350*	*300*
Pre-Tax Income	**1,798**	**2,773**	**2,486**	***3,172***	***3,078***
Income Tax Expense	627	1,044	666	*1,047*	*1,016*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	-11	-10	-197	—	—
Net Income	**1,160**	**1,719**	**1,623**	***2,125***	***2,062***
Weighted Average Diluted Shares Outstanding	819	860	864	*864*	*866*
Diluted Earnings Per Share	**1.42**	**2.00**	**1.88**	***2.46***	***2.38***
Adjusted Net Income	2,334	2,150	2,065	*2,125*	*2,062*
Diluted Earnings Per Share (Adjusted)	**2.85**	**2.50**	**2.39**	***2.46***	***2.38***
Dividends Per Common Share	2.10	1.46	1.24	*1.24*	*1.24*
EBITDA	**6,459**	**7,435**	**6,964**	***6,221***	***6,322***
Adjusted EBITDA	**4,261**	**5,809**	**5,410**	***6,221***	***6,322***

Exelon Corp EXC (NYSE) | ★★★

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34.60 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	1,486	1,609	1,878	*3,024*	*2,136*
Investments	—	—	—	—	—
Accounts Receivable	4,226	4,156	4,709	*3,991*	*4,139*
Inventory	1,014	1,105	1,603	*701*	*877*
Deferred Tax Assets (Current)	131	573	244	—	—
Other Short Term Assets	3,276	2,694	3,663	*2,900*	*2,900*
Current Assets	**10,133**	**10,137**	**12,097**	***10,616***	***10,052***
Net Property Plant, and Equipment	45,186	47,330	52,087	*55,087*	*57,712*
Goodwill	2,625	2,625	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	58	—	—	—	—
Other Long-Term Operating Assets	8,346	7,835	6,076	*6,000*	*6,000*
Long-Term Non-Operating Assets	12,206	11,997	13,882	*13,882*	*13,882*
Total Assets	**78,554**	**79,924**	**86,814**	***88,257***	***90,318***
Accounts Payable	2,648	2,600	3,056	*1,870*	*2,192*
Short-Term Debt	1,257	1,850	2,262	*2,262*	*2,262*
Deferred Tax Liabilities (Current)	58	40	—	—	—
Other Short-Term Liabilities	3,821	3,238	3,444	*3,500*	*3,500*
Current Liabilities	**7,784**	**7,728**	**8,762**	***7,632***	***7,954***
Long-Term Debt	18,346	18,271	20,010	*20,810*	*21,310*
Deferred Tax Liabilities (Long-Term)	11,551	12,905	13,019	*13,200*	*13,400*
Other Long-Term Operating Liabilities	3,981	4,388	4,550	*4,600*	*4,600*
Long-Term Non-Operating Liabilities	15,075	13,692	16,340	*16,340*	*16,340*
Total Liabilities	**56,737**	**56,984**	**62,681**	***62,582***	***63,604***
Preferred Stock	87	—	—	—	—
Common Stock	16,632	16,741	16,709	*16,709*	*16,709*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	9,893	10,358	10,910	*11,963*	*12,952*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,574	-1,847	-2,491	*-2,000*	*-2,000*
Shareholder's Equity	**21,711**	**22,925**	**22,801**	***24,375***	***25,414***
Minority Interest	106	15	1,332	*1,300*	*1,300*
Total Equity	**21,817**	**22,940**	**24,133**	***25,675***	***26,714***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.60 USD	35.00 USD	24.50 USD	47.25 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	1,171	1,729	1,820	*2,125*	*2,062*
Depreciation	4,079	3,779	3,868	*2,400*	*2,500*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	615	119	502	*425*	*200*
Other Non-Cash Adjustments	894	261	1,514	—	—
(Increase) Decrease in Accounts Receivable	243	-97	-318	*718*	*-148*
(Increase) Decrease in Inventory	26	-100	-380	*902*	*-175*
Change in Other Short-Term Assets	-265	742	-2,758	*763*	—
Increase (Decrease) in Accounts Payable	-632	-90	209	*-1,186*	*322*
Change in Other Short-Term Liabilities	—	—	—	*56*	—
Cash From Operations	**6,131**	**6,343**	**4,457**	***6,203***	***4,760***
(Capital Expenditures)	-5,789	-5,395	-6,077	*-5,400*	*-5,125*
Net (Acquisitions), Asset Sales, and Disposals	-21	—	-386	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,234	1	1,864	*126*	—
Cash From Investing	**-4,576**	**-5,394**	**-4,599**	***-5,274***	***-5,125***
Common Stock Issuance (or Repurchase)	72	47	35	*30*	*50*
Common Stock (Dividends)	-1,716	-1,249	-1,065	*-1,072*	*-1,073*
Short-Term Debt Issuance (or Retirement)	-197	332	122	—	—
Long-Term Debt Issuance (or Retirement)	882	466	1,918	*800*	*500*
Other Financing Cash Flows	-126	-422	-599	*-32*	—
Cash From Financing	**-1,085**	**-826**	**411**	***-274***	***-523***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*491*	—
Net Change in Cash	**470**	**123**	**269**	***1,146***	***-888***

Exelon Corp EXC (NYSE) | ★★★

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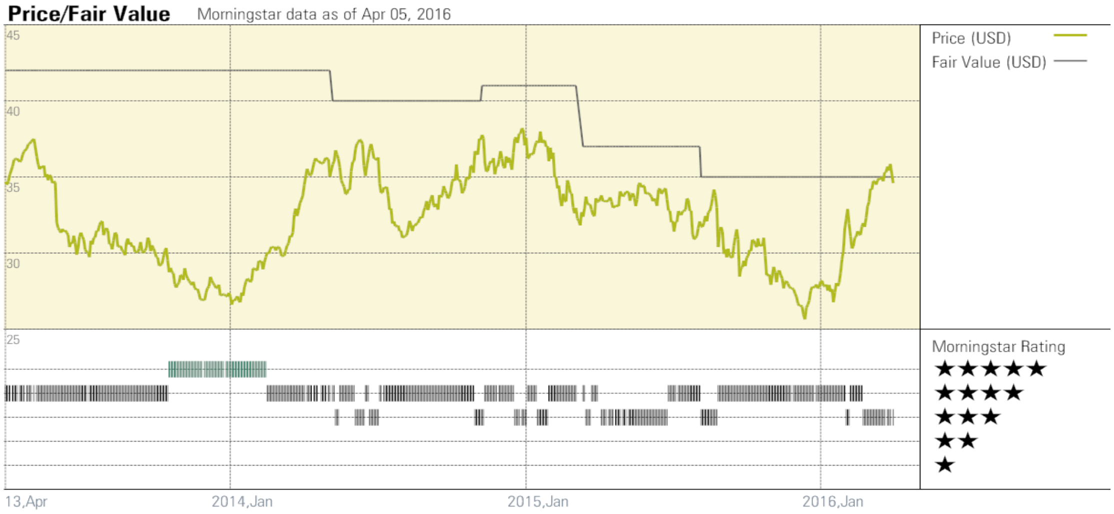

Price/Fair Value Morningstar data as of Apr 05, 2016

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: PNW, PCG, EXC, NEE, SPP, CA

April 7, 2016

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What's New?

For current Guggenheim Utility Corporate Access Calendar, scroll to bottom.

Guggenheim initiates coverage of IPPs – Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities

2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea

Texas Showdown: Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out

AEP/FE – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC (see our note here)

PNW/PCG – PCG joins PNW JV to pursue competitive transmission projects
EXC – MD passes green house gas law to cut emissions by 40%
SPP – Wind penetration record reached close to 50%
Gas – EIA report shows utilization of gas-fired plants surpassing coal for first time in 2015
NEE – Hawaii utilities envision LNG on path toward 100% renewables
CA – CA could face 2 weeks of blackouts without Aliso Canyon gas storage

PNW/PCG – PCE joins PNW JV to pursue competitive transmission projects

- PCG joined Transcanyon, a joint venture between PNW and Berkshire Hathaway Energy (BRK.A., NC, $212,990.00) to jointly pursue competitive transmission opportunities in CAISO.
- Transcanyon was formed in 2014 as an independent developer of electric transmission infrastructure with a focus on the Western United States.
- In 2015, PG&E was also selected by the CAISO to build, own and operate two new electric substations in California's Central Valley and the South Bay.

Guggenheim takeaway: *A partnership with an incumbent utility could benefit the JV in winning competitive transmission projects in CAISO, but as we have observed in the past, competitive bids have not been afforded to the incumbent utility (Delaney-Colorado, and Artificial Island).That said, we believe the partnership could provide incremental upside to PNW and PCG on any competitive projects won through the JV.*

EXC – MD passes green house gas law to cut emissions by 40%

- MD. Gov signed into law for the state to reduce greenhouse gas emissions by 40% below 2006 levels by 2030.

- The law is third to California and New York's executive-ordered cuts of 50% emissions reduction.
- MD claims that it is on track to meet its 25% reduction target by 2020.

Guggenheim takeaway: *Passing a more aggressive greenhouse gas reduction bill will increase investment in renewable generation in the state and is a positive for EXC, in our view. The push for renewables will also benefit transmission and infrastructure investment.*

SPP – Wind penetration record reached close to 50%

- SPP on April 5 stated it has set a new all-time wind penetration record.
- At 2:02 AM that day, the amount of generation from wind farms in the Great Plains States supplied 48.32% of the load in SPP, the highest ever for the RTO.
- It was also a new record for all North American ISOs and RTOs, even ERCOT, which has the highest installed wind capacity in the nation.

Guggenheim takeaway: *Wind generation in the Great Plains States has been setting records this year with high penetration in SPP. We expect this trend to continue and note that WR is developing ~500 MW of wind in KS because of favorable economics and high capacity factor for wind turbines.*

Gas – EIA report shows utilization of gas-fired plants surpassing coal for first time in 2015

- An EIA report shows utilization of gas-fired CCGTs reached an average capacity factor of 56.3%, surpassing coal plants (54.6%) for the first time last year.
- 10 years ago, about half of the U.S. coal fleet was operating at capacity factors above 70%.

Guggenheim takeaway: *Increasing utilization of gas-fired generation and the displacement of coal is a trend that has been in place for the past few years, driven by surging production of low-cost gas, CCGT technology improvement, and environmental regulations. Although coal is generally losing its appeal, we note it has managed to avoid the pressure in certain markets such as ERCOT – For additional insight on the potential wave of coal retirements that could hit ERCOT in the near future, see our note here.*

NEE – Hawaii utilities envision LNG on path toward 100% renewables

- Hawaiian Electric (HE, NC, $31.66) presented their vision for the state’s “100% renewable by 2045” aspiration to regulators, which would entail importing LNG in the meantime.
- The utility describes LNG as a near-term effort to establish a foundation for the 30-year energy plan.

Guggenheim takeaway: *HE has also previously indicated they would not pursue LNG until their proposed merger with NEE was approved. The opportunity to develop energy infrastructure of this nature was likely part of NEE’s strategic rationale for the acquisition, in addition to renewable and smart grid investment required to facilitate the state’s 100% renewable goal. Energy infrastructure work such as this entail significant resources and development experience, which NEE offers, but locals continue to oppose the transaction. We do not believe NEE will remain committed to HE beyond June 2016, at which point the regulatory approval clause in its merger agreement expires and NEE likely pays the termination fee to walk away.*

CA – CA could face 2 weeks of blackouts without Aliso Canyon gas storage

- An engineering study found that California could experience two weeks of blackouts this summer as access to gas supplies becomes challenging without the Aliso Canyon gas storage facility.
- Aliso Canyon experienced a prolonged and highly-publicized leak which depleted the facility to about 20% capacity.
- CAISO, along with state regulators, indicated the region would rely on other gas sources and demand-side management to manage supply and demand; they also noted if there were outages, they anticipate controlled outages limited to 1-2 hours.

Guggenheim takeaway: *Gas-fired generators likely face supply and demand challenges this summer as system operators will look to implement energy conservation measures and natural gas potentially becomes relatively scarce in certain areas.*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. Texas Showdown: Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out
2. AEP/FE – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC (see our note here)
3. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea
4. *DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational*
5. *DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates, PT*
6. *Justice Scalia's Passing: Far-Reaching Implications – Impact to Power Sector Noteworthy with Clean Power Plan First Key Test*
7. *D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM*
8. *Quick Take: Surprise - Supreme Court Sides with FERC over Demand Response*
9. *Power Breakfast Part Deux: Guggenheim-Hosted Utility Commissioner Meetings*
10. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
11. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
12. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
13. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
14. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*

15. *EEI Full Recap*
16. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
17. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
18. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
19. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
20. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*
21. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
22. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
23. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
24. *Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables*
25. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
04/08	PCG	ORA testimony in PG&E electric and gas rate cases	Pacific Gas & Electric Company	CA	A-15-09-001	PG&E's 2018/2019 electric and gas rate proceedings
04/12	PCG	Pre-trial conference for PG&E criminal case re: San Bruno	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
04/14		MISO '16/'17 capacity auction results posted				Capacity auction results in Zone 4 posted
04/19-05/6	PNW	Hearings for cost and value of solar		AZ	E-00000J-14-0023	
04/20	PCG	Ex Parte investigation pre-hearing conference	Pacific Gas & Electric Company	CA	I 15-11-015	Order Instituting Investigation and Show Cause associated with Ex Parte violations
04/26	PCG	Jury trial for PG&E criminal case regarding San Bruno	Pacific Gas & Electric Company	CA		Criminal case against PG&E related to the San Bruno explosion
05/02	NEE	Reply briefings due in Hawaii		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
05/24		PJM posts '19/'20 capacity auction results				Capacity auction results in PJM posted
06/01	PNW	PNW files rate case	Arizona Public Service Company	AZ		
06/02		Clean Power Plan - Federal Appeals Court hearing				Clean Power Plan - Federal Appeals Court hearing

Other upcoming events and proceedings

April	AEP	Potential commission decision on PSO rates	Public Service Co. of Oklahoma	OK	PUD 201500208	PSO electric rate proceeding
April	PCG	Potential ALJ recommendation on GT&S rate case	Pacific Gas & Electric Company	CA	13-12-012	PG&E's 2015 gas transmission and storage rate case

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
DUK	4/6-7	TX/KC	Steve Young, CFO
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
WR	7/6-7/9	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
PEG	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 04/6/2016)

As of	4/6/2016							Guggenheim Estimates														Consensus Estimates													
		Mkt. Cap ($Bn)	Rating	Target Price[(1)]	Current Price	Price Change	Diluted Shares	Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	**Company**							'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	32.2	Buy	$62	$65.63	-6%	491	3.70	3.93	4.21	7%	17.7	16.7	15.6	5,619	5,918	6,259	6%	9.5	9.2	8.9	3.70	3.90	4.15	6%	17.8	16.8	15.8	5,690	5,971	6,249	5%	9.4	9.1	8.9
ED	Consolidated Edison, Inc.	22.2	Neutral	$61	$75.41	-19%	294	4.01	4.16	4.27	3%	18.8	18.1	17.7	3,860	4,070	4,396	7%	9.6	9.3	8.9	4.01	4.15	4.31	4%	18.8	18.2	17.5	3,826	4,036	4,267	6%	9.7	9.4	9.1
D	Dominion Resources, Inc.	43.4	Buy	$76	$72.74	4%	597	3.84	3.99	4.47	8%	18.9	18.2	16.3	6,140	6,476	7,094	7%	11.8	11.3	10.4	3.80	3.93	4.38	7%	19.1	18.5	16.6	6,052	6,373	7,071	8%	12.0	11.4	10.4
DTE	DTE Energy Company	16.0	Buy	$92	$88.99	3%	179	4.98	5.27	5.66	7%	17.9	16.9	15.7	2,526	2,686	2,881	7%	10.5	10.1	9.7	4.95	5.26	5.62	6%	18.0	16.9	15.8	2,613	2,771	2,947	6%	10.1	9.8	9.4
DUK	Duke Energy Corporation	54.7	Buy	$81	$79.36	2%	689	4.60	4.83	4.94	4%	17.3	16.4	16.1	8,899	9,122	9,843	5%	11.3	11.3	10.6	4.61	4.77	5.01	4%	17.2	16.6	15.8	9,256	9,795	10,207	5%	10.9	10.5	10.2
EIX	Edison International	22.9	Neutral	$66	$70.36	-6%	326	3.85	4.15	4.33	6%	18.3	17.0	16.2	4,944	5,294	5,647	7%	7.6	7.3	7.0	3.88	4.10	4.30	5%	18.1	17.2	16.4	4,598	4,861	5,172	6%	8.2	8.0	7.7
ES	Eversource Energy	18.0	Buy	$58	$56.89	2%	317	2.99	3.19	3.43	7%	19.0	17.8	16.6	2,560	2,655	2,754	4%	11.3	11.2	11.1	3.00	3.18	3.39	6%	19.0	17.9	16.8	2,601	2,700	2,805	4%	11.1	11.0	10.9
GXP	Great Plains Energy	4.9	Buy	$31	$31.94	-3%	154	1.74	1.87	1.98	7%	18.4	17.1	16.1	1,011	1,068	1,102	4%	9.0	8.5	8.2	1.74	1.83	1.93	5%	18.3	17.5	16.6	989	1,036	1,106	6%	9.2	8.7	8.2
NEE	NextEra Energy, Inc.	53.9	Buy	$124	$116.71	6%	461	6.19	6.60	7.04	7%	18.9	17.7	16.6	6,989	7,610	8,012	7%	12.3	11.4	11.1	6.14	6.53	6.96	6%	19.0	17.9	16.8	7,510	8,230	8,672	7%	11.4	10.6	10.3
PCG	PG&E Corporation	28.9	Neutral	$54	$58.67	-8%	493	3.67	3.70	3.89	3%	16.0	15.9	15.1	6,566	6,825	7,113	4%	7.1	7.1	6.9	3.72	3.68	3.88	2%	15.8	15.9	15.1	6,151	6,504	6,825	5%	7.6	7.4	7.2
PNW	Pinnacle West Capital	8.2	Neutral	$62	$74.16	-16%	111	4.02	4.18	4.43	5%	18.4	17.7	16.7	1,440	1,529	1,634	7%	8.7	8.4	8.1	4.00	4.20	4.39	5%	18.6	17.7	16.9	1,398	1,499	1,594	7%	8.9	8.6	8.3
PPL	PPL Corporation	25.4	Buy	$39	$37.57	4%	676	2.33	2.44	2.57	5%	16.1	15.4	14.6	4,214	4,420	4,689	5%	11.3	11.0	10.5	2.35	2.44	2.51	3%	16.0	15.4	14.9	4,078	4,282	4,555	6%	11.7	11.3	10.8
SO	Southern Company	46.0	Neutral	$41	$50.36	-19%	913	2.85	2.93	3.06	4%	17.7	17.2	16.5	6,677	6,961	7,260	4%	12.2	11.8	11.8	2.85	2.97	3.10	4%	17.7	17.0	16.3	7,141	7,868	7,981	6%	11.4	10.5	10.7
WR	Westar Energy, Inc.	7.1	Buy	$46	$49.79	-8%	142	2.43	2.50	2.60	3%	20.5	19.9	19.2	1,036	1,066	1,105	3%	10.8	10.7	10.4	2.44	2.53	2.62	4%	20.4	19.7	19.0	1,051	1,086	1,124	3%	10.7	10.5	10.2
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.49	2%	235	1.18	1.27	1.35	7%	23.3	21.6	20.4	987	1,033	1,076	4%	10.6	10.0	9.9	1.18	1.28	1.36	7%	23.3	21.4	20.2	1,005	1,068	1,076	3%	10.4	9.7	9.9
Average [(2)]											**5%**	**18.1**	**17.3**	**16.4**				**6%**	**10.2**	**9.9**	**9.5**				**5%**	**18.1**	**17.4**	**16.5**				**6%**	**10.2**	**9.8**	**9.5**
Integrated utilities																																			
ETR	Entergy Corporation	13.8	Neutral	$69	$77.21	-11%	179	5.18	5.10	5.18	0%	14.9	15.1	14.9	3,682	3,698	3,832	2%	8.1	8.3	7.9	5.15	5.20	5.19	0%	15.0	14.9	14.9	3,439	3,559	3,622	3%	8.7	8.6	8.4
EXC	Exelon Corporation	31.6	Buy	$37	$34.31	8%	922	2.56	2.80	2.99	8%	13.4	12.3	11.5	7,701	8,148	8,575	6%	7.9	7.6	7.4	2.52	2.67	2.76	5%	13.6	12.8	12.4	7,268	8,079	8,533	8%	8.4	7.7	7.4
FE	FirstEnergy Corp.	14.7	Buy	$39	$34.59	13%	425	2.80	2.86	2.92	2%	12.4	12.1	11.8	4,422	4,562	4,628	2%	8.4	8.2	8.0	2.84	2.71	2.72	(2%)	12.2	12.8	12.7	4,538	4,511	4,580	0%	8.2	8.3	8.1
PEG	Public Service Enterprise Group	23.3	Buy	$46	$46.09	0%	506	2.95	3.01	3.04	2%	15.6	15.3	15.2	4,203	4,420	4,597	5%	8.3	8.2	8.0	2.90	2.88	2.99	2%	15.9	16.0	15.4	4,141	4,269	4,360	3%	8.4	8.5	8.4
Average											**3%**	**14.1**	**13.7**	**13.3**				**4%**	**8.2**	**8.1**	**7.8**				**1%**	**14.2**	**14.1**	**13.9**				**4%**	**8.4**	**8.3**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.1	Buy	$22	$14.34	53%	359	0.39	0.88	1.44	92%	36.6	16.3	9.9	1,862	2,169	2,544	17%	8.9	7.5	6.2	0.58	1.04	1.45	58%	24.6	13.7	9.9	1,887	2,065	2,233	9%	8.8	7.9	7.0
DYN	Dynegy Inc.	1.7	Buy	$22	$14.34	53%	117	(1.24)	(0.66)	0.40	NA	-11.6	-21.6	36.2	1,097	1,421	1,691	24%	7.6	5.7	4.6	(0.57)	(0.49)	0.48	NA	-25.2	-29.1	30.0	1,113	1,113	1,336	10%	7.5	7.3	5.8
NRG	NRG Energy, Inc.	3.8	Buy	$16	$12.03	33%	316	0.85	(0.52)	0.11	-65%	14.2	-23.0	113.9	3,128	2,809	3,004	(2%)	6.4	6.9	6.1	0.85	0.14	0.63	(14%)	14.2	88.4	19.2	3,145	2,745	3,040	(2%)	6.4	7.1	6.0
TLN	Talen Energy Corp	1.3	Neutral	$7	$10.10	-31%	129	0.72	0.69	0.19	-49%	14.0	14.6	53.2	778	762	716	(4%)	6.3	6.3	5.8	0.68	0.26	0.09	(64%)	14.9	39.6	112.6	757	742	651	(7%)	6.4	6.4	6.4
Average											**-7%**	**13.3**	**-3.4**	**53.3**				**9%**	**7.3**	**6.6**	**5.7**				**(7%)**	**7.1**	**28.2**	**42.9**				**2%**	**7.3**	**7.2**	**6.3**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$12	$14.07	-15%	183	1.06	1.20	1.32	12%	13.3	11.7	10.7	867	1,004	1,120	14%	8.4	7.4	7.7	1.09	1.19	1.26	8%	12.9	11.8	11.2	825	922	1,033	12%	8.8	8.1	8.3
AWK	American Water Works	12.4	Buy	$72	$69.50	4%	178	2.83	3.03	3.20	6%	24.6	22.9	21.7	1,652	1,748	1,835	5%	11.4	11.1	10.7	2.82	3.03	3.25	7%	24.6	22.9	21.4	1,648	1,748	1,835	6%	11.4	11.1	10.7

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$65.63	2.25	2.36	2.48	3.4%	3.6%	3.8%	61%	60%	60%
ED	Consolidated Edison, Inc.	Neutral	$75.41	2.65	2.70	2.77	3.5%	3.6%	3.7%	66%	65%	64%
D	Dominion Resources, Inc.	Buy	$72.74	2.77	2.97	3.24	3.8%	4.1%	4.5%	73%	76%	74%
DTE	DTE Energy Company	Buy	$88.99	2.98	3.13	3.30	3.4%	3.5%	3.7%	60%	60%	59%
DUK	Duke Energy Corporation	Buy	$79.36	3.39	3.55	3.71	4.3%	4.5%	4.7%	74%	74%	74%
EIX	Edison International	Neutral	$70.36	1.97	2.19	2.38	2.8%	3.1%	3.4%	51%	53%	55%
ES	Eversource Energy	Buy	$56.89	1.79	1.91	2.02	3.1%	3.3%	3.6%	60%	60%	60%
GXP	Great Plains Energy	Buy	$31.94	1.10	1.17	1.27	3.4%	3.7%	4.0%	63%	64%	66%
NEE	NextEra Energy, Inc.	Buy	$116.71	3.45	3.88	4.45	3.0%	3.3%	3.8%	56%	59%	64%
PCG	PG&E Corporation	Neutral	$58.67	1.92	2.04	2.16	3.3%	3.5%	3.7%	52%	55%	56%
PNW	Pinnacle West Capital	Neutral	$74.16	2.53	2.65	2.76	3.4%	3.6%	3.7%	63%	63%	63%
PPL	PPL Corporation	Buy	$37.57	1.52	1.56	1.55	4.1%	4.2%	4.1%	65%	64%	62%
SO	Southern Company	Neutral	$50.36	2.22	2.30	2.39	4.4%	4.6%	4.7%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$49.79	1.51	1.60	1.69	3.0%	3.2%	3.4%	62%	63%	64%
TE	TECO Energy, Inc.	Neutral	$27.49	0.92	0.94	0.97	3.4%	3.4%	3.5%	78%	74%	71%
Average							**3.5%**	**3.7%**	**3.9%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$77.21	3.43	3.50	3.57	4.4%	4.5%	4.6%	67%	67%	69%
EXC	Exelon Corporation	Buy	$34.31	1.26	1.30	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$34.59	1.44	1.44	1.44	4.2%	4.2%	4.2%	51%	53%	53%
PEG	Public Service Enterprise Group	Buy	$46.09	1.64	1.72	1.83	3.6%	3.7%	4.0%	57%	60%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**56%**	**57%**	**58%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.34	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$14.34	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$12.03	0.21	0.17	0.19	1.7%	1.5%	1.5%	25%	NA	30%
TLN	Talen Energy Corp	Neutral	$10.10	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.4%**	**0.4%**	**0.4%**	**6%**	**0%**	**7%**
Other												
NYLD	NRG Yield	Neutral	$14.07	0.96	1.10	1.26	6.8%	7.8%	9.0%	88%	93%	100%
AWK	American Water Works	Buy	$69.50	1.42	1.59	1.72	2.0%	2.3%	2.5%	50%	52%	53%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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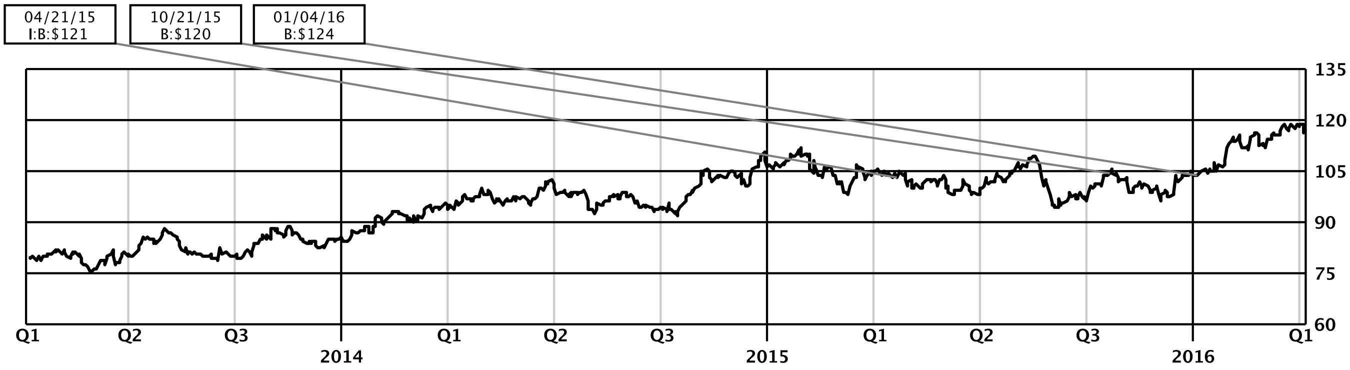
Rating and Price Target History for: NextEra Energy, Inc. (NEE) as of 04-06-2016



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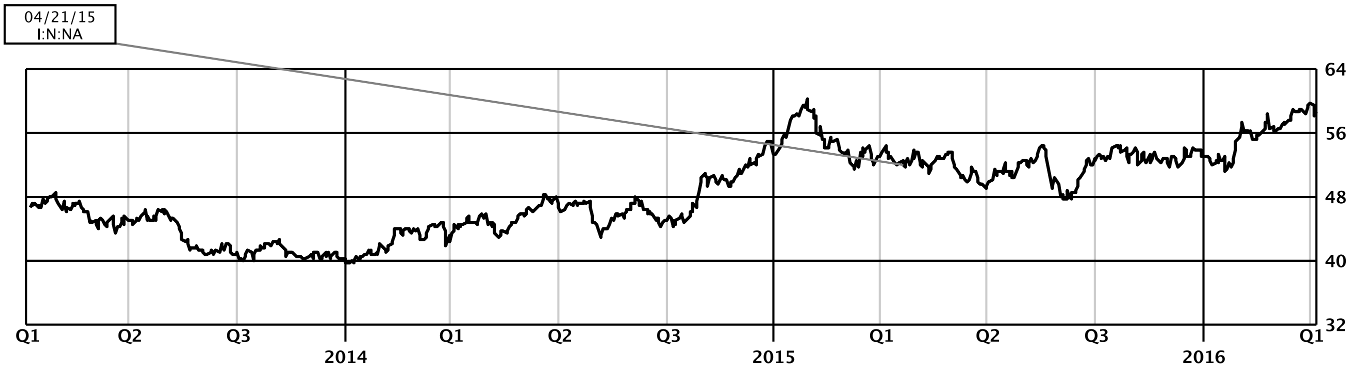
Rating and Price Target History for: PG&E Corporation (PCG) as of 04-06-2016



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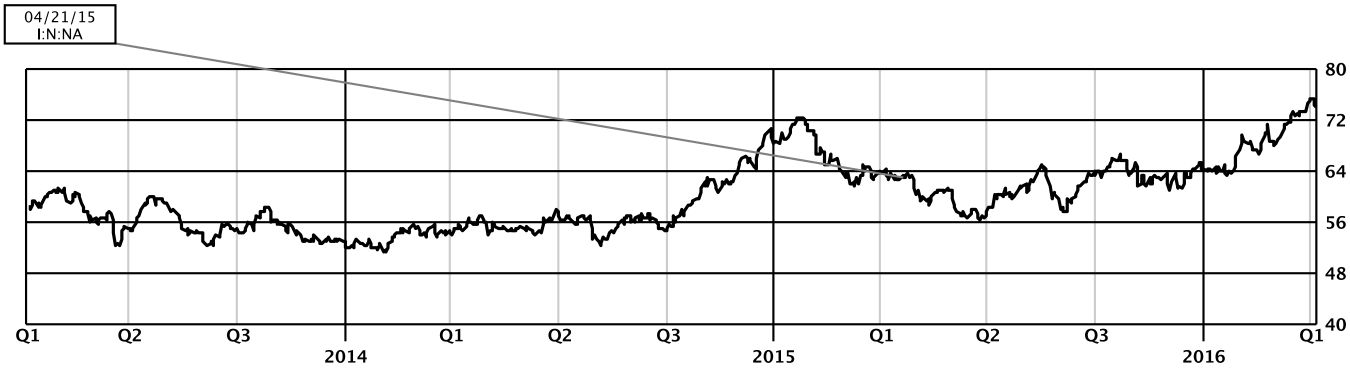
Rating and Price Target History for: Pinnacle West Capital Corporation (PNW) as of 04-06-2016



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
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Neutral	114	41.01%	2	1.75%
Sell	1	0.36%	0	0.00%

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April 10, 2016

COMPANY UPDATE

Exelon Corp. (EXC)

Neutral

Equity Research

Reinstating at Neutral, synergy & rate cases are possible catalysts

What's changed

We have removed the Not Rated designation from EXC following the closing of its acquisition of Pepco Holdings (POM), a regulated electric utility serving DC and parts of DE, MD and NJ. We reinstate coverage with a Neutral rating, a 12-month price target of $37, representing 11% total return. We also update our forecasts to incorporate POM's regulated segments and reduce capital allocation – primarily buybacks. Our new 2016E-2018E EPS forecasts of $2.52/$2.45/$2.42 (from $2.44, $2.64, $2.31) appear slightly below consensus of $2.52/$2.67/$2.83.

Implications

On a YTD basis, EXC outperformed the XLU by ~1200bps and S&P 500 by ~2450bps. Valuation and below-consensus forecasts drive our Neutral rating. The earnings mix for EXC should evolve as (1) POM increases exposure to regulated segments and (2) non-regulated earnings power declines by 35% from 2015 levels – we expect regulated earnings to grow from 49% in 2015 to 71% by 2018. While we forecast EPS declines at Exelon Generation given its strong sensitivity to future power, natural gas and PJM capacity pricing, cash flow there remains slightly positive – although our 2016-2018 free cash flow view of $2.6bn comes in below guidance of $3.2bn.

Updates on O&M savings potential – We forecast significant O&M cost management at the acquired segments of roughly $130mm from 2015 to 2018 and believe rate case filings for these utilities could serve as catalysts for EXC.

Valuation

Our 12-month price target of $37 is derived using a sum-of-the-parts valuation and applying a 16.5x 2017E P/E multiple on regulated EPS and a 6x EV multiple on non-regulated 2017E EBITDA. EXC trades at 2016E/17E/18E P/E of 13.7x/14.1x/14.3x, below peers at 14.3x/14.9x/14.8x.

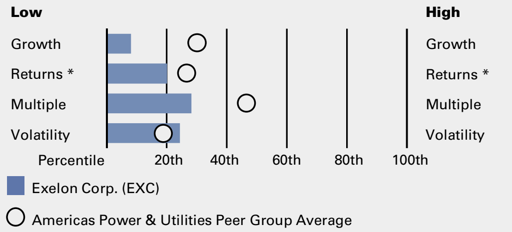
Key risks

Natural gas prices, power prices, and state utility regulation.

INVESTMENT LIST MEMBERSHIP

Neutral

Investment Profile



* Returns = Return on Capital

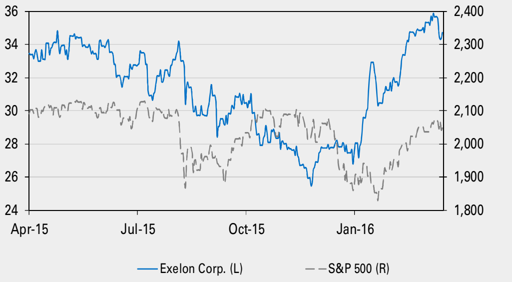
For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price ($)	34.70
12 month price target ($)	37.00
Market cap ($ mn)	32,062.8

	12/15	12/16E	12/17E	12/18E
Revenue ($ mn) New	**29,447.0**	**25,530.8**	**27,315.0**	**27,601.5**
Revenue ($ mn) Old	29,447.0	20,864.3	21,391.1	21,515.7
EPS ($) New	**2.49**	**2.52**	**2.45**	**2.42**
EPS ($) Old	2.49	2.44	2.64	2.31
P/E (X)	12.8	13.8	14.2	14.4
EV/EBITDA (X)	7.3	8.2	7.9	7.9
ROE (%)	9.4	8.8	8.3	7.9

	12/15	3/16E	6/16E	9/16E
EPS ($)	0.38	0.73	0.56	0.73

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	24.7	12.4	3.9
Rel. to S&P 500	17.1	10.5	5.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/08/2016 close.

Coverage View: Neutral

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Exelon Corp.: Summary Financials

Profit model ($ mn)	**12/15**	**12/16E**	**12/17E**	**12/18E**
Total revenue	29,447.0	25,530.8	27,315.0	27,601.5
Cost of goods sold	(13,084.0)	(6,590.1)	(7,581.2)	(7,683.7)
SG&A	(8,320.0)	(9,014.5)	(9,193.9)	(9,175.6)
R&D	0.0	0.0	0.0	0.0
Other operating profit/(expense)	(1,200.0)	(1,550.7)	(1,687.7)	(1,718.0)
ESO expense	--	--	--	--
EBITDA	**6,840.0**	**8,372.5**	**8,849.3**	**9,021.1**
Depreciation & amortization	(2,451.0)	(3,120.0)	(3,634.1)	(3,858.7)
EBIT	**4,389.0**	**5,252.5**	**5,215.1**	**5,162.4**
Net interest income/(expense)	(1,073.0)	(1,423.6)	(1,498.8)	(1,524.5)
Income/(loss) from associates	0.0	0.0	(8.0)	(8.0)
Others	9.0	108.7	98.7	148.1
Pretax profits	**3,325.0**	**3,937.6**	**3,807.0**	**3,778.0**
Provision for taxes	(1,073.0)	(1,393.9)	(1,371.2)	(1,375.9)
Minority interest	17.0	(217.2)	(121.3)	(70.5)
Net income pre-preferred dividends	**2,269.0**	**2,326.5**	**2,314.5**	**2,331.6**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**2,269.0**	**2,326.5**	**2,314.5**	**2,331.6**
Post tax exceptionals	(42.0)	0.0	0.0	0.0
Net income (post-exceptionals)	**2,227.0**	**2,326.5**	**2,314.5**	**2,331.6**
EPS (basic, pre-except) ($)	**2.55**	**2.52**	**2.46**	**2.43**
EPS (diluted, pre-except) ($)	**2.54**	**2.52**	**2.45**	**2.42**
EPS (basic, post-except) ($)	**2.50**	**2.52**	**2.46**	**2.43**
EPS (diluted, post-except) ($)	**2.49**	**2.52**	**2.45**	**2.42**
Common dividends paid	0.0	0.0	0.0	0.0
DPS ($)	1.24	1.31	1.34	1.37
Dividend payout ratio (%)	48.6	52.1	54.5	56.4

Growth & margins (%)	**12/15**	**12/16E**	**12/17E**	**12/18E**
Sales growth	7.4	(13.3)	7.0	1.0
EBITDA growth	45.5	22.4	5.7	1.9
EBIT growth	83.7	19.7	(0.7)	(1.0)
Net income (pre-except) growth	36.9	2.5	(0.5)	0.7
EPS growth	32.4	(1.0)	(2.6)	(1.4)
Gross margin	55.6	74.2	72.2	72.2
EBITDA margin	23.2	32.8	32.4	32.7
EBIT margin	14.9	20.6	19.1	18.7

Cash flow statement ($ mn)	**12/15**	**12/16E**	**12/17E**	**12/18E**
Net income	2,250.0	2,326.5	2,314.5	2,331.6
D&A add-back (incl. ESO)	3,987.0	3,120.0	3,634.1	3,858.7
Minority interest add-back	0.0	204.2	108.3	57.5
Net (inc)/dec working capital	123.0	0.0	0.0	0.0
Other operating cash flow	1,274.0	2,141.3	2,150.2	2,177.7
Cash flow from operations	**7,634.0**	**7,792.0**	**8,207.1**	**8,425.5**
Capital expenditures	(7,624.0)	(8,737.0)	(7,986.0)	(7,157.0)
Acquisitions	(40.0)	(6,905.8)	0.0	0.0
Divestitures	147.0	0.0	0.0	0.0
Others	(323.0)	(252.0)	(252.0)	(252.0)
Cash flow from investing	**(7,840.0)**	**(15,894.8)**	**(8,238.0)**	**(7,409.0)**
Dividends paid (common & pref)	(1,105.0)	(1,211.1)	(1,262.2)	(1,314.8)
Inc/(dec) in debt	4,102.0	3,613.3	(20.0)	(8.0)
Other financing cash flows	1,833.0	0.0	1,150.0	0.0
Cash flow from financing	**4,830.0**	**2,402.2**	**(132.2)**	**(1,322.8)**
Total cash flow	**4,624.0**	**(5,700.7)**	**(163.0)**	**(306.2)**

Balance sheet ($ mn)	**12/15**	**12/16E**	**12/17E**	**12/18E**
Cash & equivalents	6,502.0	801.3	638.3	332.1
Accounts receivable	4,099.0	5,049.0	5,049.0	5,049.0
Inventory	1,566.0	1,707.0	1,707.0	1,707.0
Other current assets	3,167.0	3,253.0	3,253.0	3,253.0
Total current assets	**15,334.0**	**10,810.3**	**10,647.3**	**10,341.1**
Net PP&E	57,439.0	72,906.5	75,803.4	77,634.2
Net intangibles	2,672.0	6,412.8	6,412.8	6,412.8
Total investments	639.0	639.0	639.0	639.0
Other long-term assets	19,300.0	21,984.0	22,254.0	22,524.0
Total assets	**95,384.0**	**112,752.6**	**115,756.5**	**117,551.1**
Accounts payable	2,883.0	3,058.0	3,058.0	3,058.0
Short-term debt	2,033.0	3,437.0	3,437.0	3,437.0
Other current liabilities	4,202.0	4,931.0	4,931.0	4,931.0
Total current liabilities	**9,118.0**	**11,426.0**	**11,426.0**	**11,426.0**
Long-term debt	24,286.0	32,722.3	32,702.3	32,694.3
Other long-term liabilities	34,658.0	39,962.7	40,675.9	41,404.2
Total long-term liabilities	**58,944.0**	**72,685.0**	**73,378.2**	**74,098.5**
Total liabilities	**68,062.0**	**84,111.0**	**84,804.2**	**85,524.5**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**25,793.0**	**26,908.4**	**29,110.7**	**30,127.6**
Minority interest	**1,529.0**	**1,733.2**	**1,841.5**	**1,899.0**
Total liabilities & equity	95,384.0	112,752.6	115,756.5	117,551.1

Additional financials	**12/15**	**12/16E**	**12/17E**	**12/18E**
Net debt/equity (%)	72.5	123.4	114.7	111.8
Interest cover (X)	4.1	3.7	3.5	3.4
Inventory days	44.2	90.6	82.2	81.1
Receivable days	54.6	65.4	67.5	66.8
BVPS ($)	28.04	29.16	30.33	31.29
ROA (%)	2.5	2.2	2.0	2.0
CROCI (%)	8.7	7.8	7.0	6.8
Dupont ROE (%)	**8.3**	**8.1**	**7.5**	**7.3**
Margin (%)	7.7	9.1	8.5	8.4
Turnover (X)	0.3	0.2	0.2	0.2
Leverage (X)	3.5	3.9	3.7	3.7
Free cash flow per share ($)	0.01	(1.03)	0.23	1.32
Free cash flow yield (%)	0.0	(3.0)	0.7	3.8

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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PM Summary: Reinstate at Neutral, EPS growth appears lackluster and below consensus

We have removed the Not Rated (NR) designation from Exelon Corporation (EXC) following the closing of its acquisition of Pepco Holdings (POM), a regulated utility with operations in DC, DE, MD, and NJ. We reinstate with a Neutral rating and a 12-month price target of $37, representing a total return of 11%. Although EXC's acquisition of POM increases its focus on regulated operations, which should decrease commodity exposure and risk in our view, we reinstate with a Neutral rating given its relative valuation, recent outperformance and lack of material near-term catalysts.

We update our model to reflect the acquisition of POM. With the acquisition of POM and our expectations for a decline in EPS from EXC's non-regulated segment based on our forecasts for power prices and natural gas prices, we estimate a larger portion of EXC's earnings power will now come from regulated businesses. We incorporate POM as a consolidated segment of PHI (Pepco Holdings, Inc.) in our sum-of-the-parts analysis and we forecast regulated businesses should contribute 71% of EPS in 2018 versus roughly 49% in 2015.

- **Our 2016 EPS estimate is in-line with consensus and guidance adjusted for the POM acquisition, but our 2017-2018 estimates are below consensus.** Our new 2016E-2018E EPS forecasts of $2.52/$2.45/$2.42 (from $2.44, $2.64, $2.31) appear slightly below consensus of $2.52/$2.67/$2.83. Our estimates differ at the Exelon Generation (ExGen) segment where management has provided FCF guidance of ~$3,200mm for the 2016-2018 period vs. our estimate of ~$2,600mm. We attribute differing assumptions relating to power prices, natural gas prices, generation output and O&M for the variance.
- **We expect Exelon Generation (ExGen) to generate positive free cash flows in 2016-2018.** During the 2016-2018 period, we expect ExGen to generate positive free cash flows, even after taking into account guided growth capex. EXC reiterated its intention of using any positive free cash flow by (1) prioritizing investment at its regulated utilities, (2) investing in contracted assets, and/or (3) returning capital to capital providers.

We see 11% total return– slightly above peer group levels– but reinstate at Neutral on valuation and see better return potential elsewhere in utilities. While upside potential exists at EXC (as seen in our sum-of-the-parts analysis), even after outperforming the XLU and the S&P 500 by approximately 1200bps and 2450bps this year, respectively, we prefer large caps such as NEE, SRE, PCG and ETR that either trade at bigger discounts or offer better capital allocation/dividend growth potential.

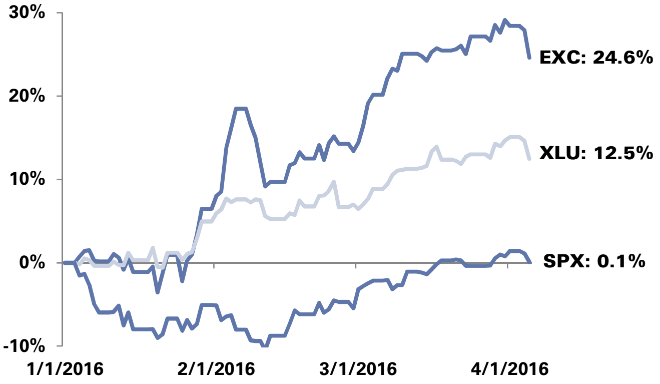
Outperformance already occurred this year and consensus risk exists

EXC outperformed the XLU by approximately 1200bps and S&P 500 by approximately 2450bps and we believe limited upside remains. Valuation and below-consensus forecasts drive our Neutral rating. We forecast the regulated / non-regulated earnings mix to shift due to regulated utility EPS expanding from $1.21 in 2015 to $1.71 in 2018, representing a CAGR of 12%. Regulated earnings growth is driven by rate base growth supported by strong capital expenditures. Concurrently, we estimate ExGen's EPS contribution to decline from $1.40 in 2015 to $0.84 in 2018, representing a CAGR of (15%), based on our forecasts for power prices and natural gas prices. Given the growing regulated utilities and shrinking non-regulated business, we forecast the share of regulated earnings to increase from 49% in 2015 to 71% in 2018.

Headwinds may exist at both the regulated and non-regulated businesses. We incorporate $130mm in O&M cost savings at PHI in addition to the Cost Management Initiative that EXC has disclosed. Failing to achieve those cost savings may be a headwind to earnings. Rate case proceedings at the recently acquired PHI utilities have been on hold pending the merger resolution. Unfavorable rate cases in terms of revenue increases or timing may challenge earnings. At non-regulated ExGen, sustained low power prices and low demand may be headwinds as well.

Exhibit 1: EXC has outperformed the XLU and SPX year-to-date

Year-to-date relative price performance of EXC vs. XLU and SPX



Source: FactSet.

Exhibit 2: We update our estimates to reflect the POM acquisition

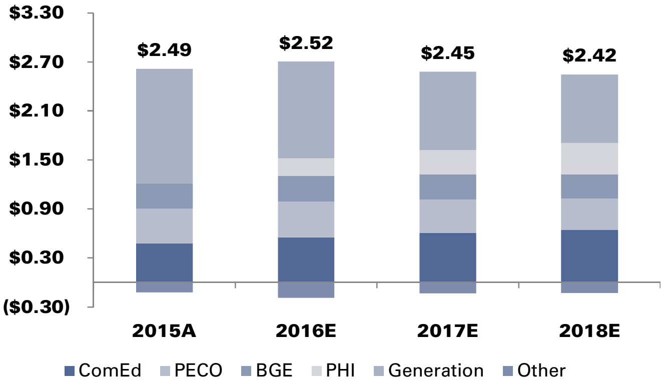
GS New vs. GS Old vs. Consensus

EPS ($)	**2016E**	**2017E**	**2018E**
New	$2.52	$2.45	$2.42
Old	$2.44	$2.64	$2.31
Consensus	$2.52	$2.67	$2.83
EPS (% Difference)	**2016E**	**2017E**	**2018E**
vs. Old	3%	(7%)	5%
vs. Consensus	0%	(8%)	(14%)

Source: Bloomberg, Goldman Sachs Global Investment Research.

Exhibit 3: Exelon Generation should put pressure on EPS…

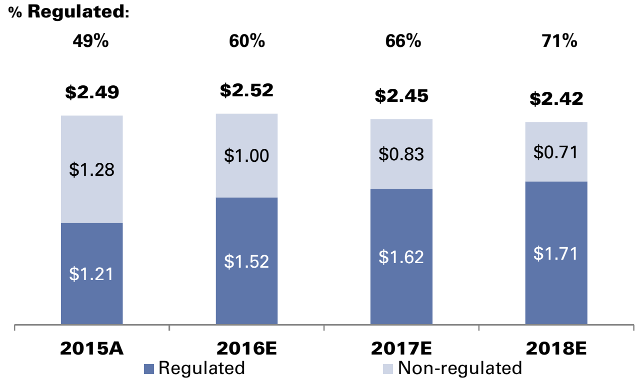
EXC EPS by Segment



Source: Company data, Goldman Sachs Global Investment Research.

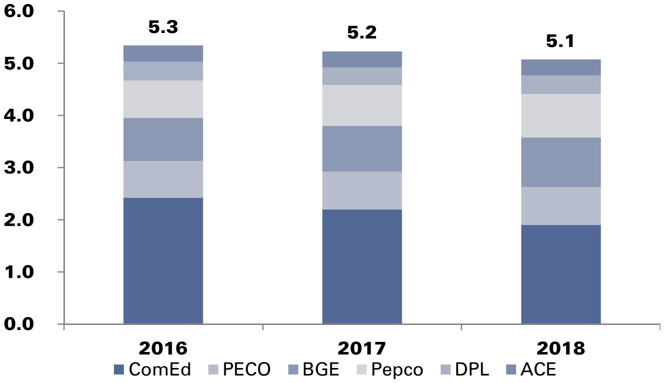
Exhibit 4: …as EXC emphasizes regulated businesses…

EXC EPS by Regulated vs. Non-regulated



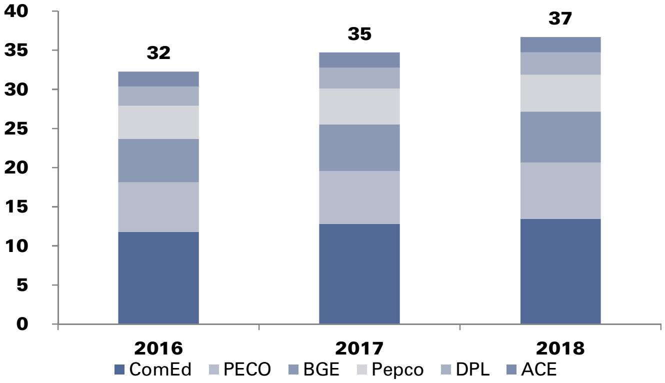
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 5: …supported by strong regulated capex…
EXC Regulated Utilities capex ($bn)



Source: Goldman Sachs Global Investment Research.

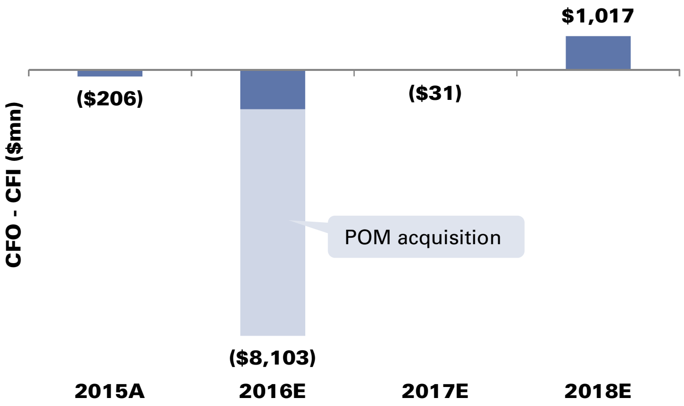
Exhibit 6: …driving rate base growth
EXC Regulated Utilities year-end rate base ($bn)



Source: Goldman Sachs Global Investment Research.

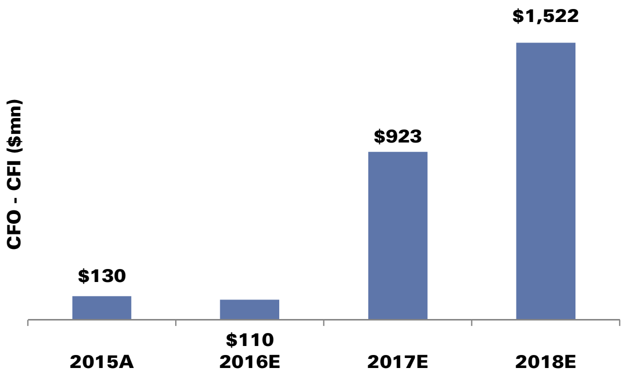
ExGen should create positive cash flow in the next few years, which could improve capital allocation over time or lead to higher regulated investment levels. We note that long-term EBITDA and EPS are sensitive to natural gas prices and PJM capacity prices, while continued O&M management also plays a factor. On a full company basis, EXC could become positive cash flow by 2018, largely coming from ExGen and from cost savings and rate increases at the regulated segments acquired from POM.

Exhibit 7: We expect EXC to generate positive free cash flow by 2018, which may be used for various capital allocation activities
EXC Consolidated Free Cash Flow (CFO-CFI)



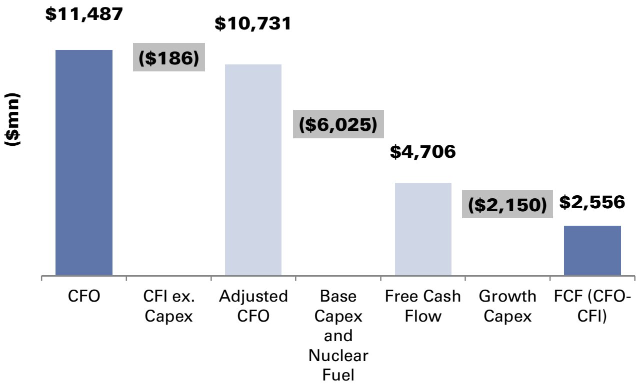
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 8: We expect ExGen to generate positive FCF…
2015A-2018E ExGen Free Cash Flow (CFO-CFI)



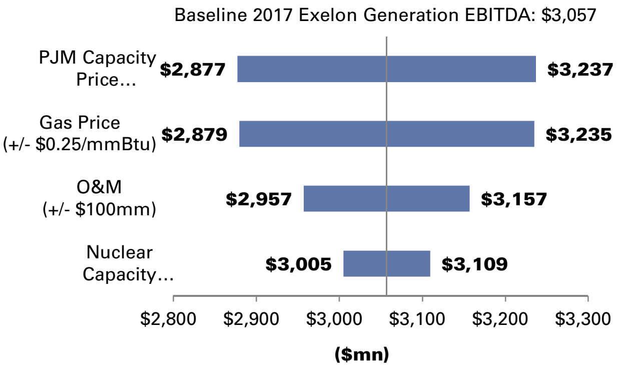
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 9: …which could lead to higher regulated capital spending or to increased capital allocation
2016E-2018E ExGen Free Cash Flow Bridge



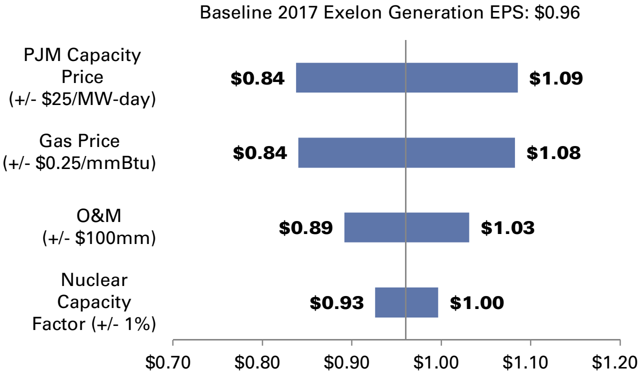
Source: Goldman Sachs Global Investment Research
Note: May not sum due to rounding.

Exhibit 10: PJM capacity prices and natural gas prices may impact EBITDA…
ExGen 2017 Open EBITDA Sensitivity



Source: Goldman Sachs Global Investment Research.

Exhibit 11: …and EPS
ExGen 2017 Open EPS Sensitivity



Source: Goldman Sachs Global Investment Research.

Valuation on a sum-of-the-parts basis appears modestly compelling

We value EXC using a sum-of-the-parts methodology and reach a 12-month price target of $37 which represents 11% total return potential. We apply an in-line peer group P/E multiple of 16.5x to EXC's regulated segments' 2017 EPS and an EV/EBITDA multiple of 6.0x to the non-regulated Exelon Generation and Parent 2017 EBITDA. EXC is trading at 2016/17/18 P/E of 13.7x/14.1x/14.3x, currently below other Diversified Utilities with merchant generation exposure.

Exhibit 12: Our sum-of-the-parts analysis uses an in-line peer group multiple for the regulated businesses, resulting in a 12-month target price of $37

EXC Sum of the Parts Analysis

Regulated Utilities	**2017 EPS**
ComEd	$0.61
PECO	0.41
BGE	0.31
PHI	0.29
Total Regulated Utilities	$1.62
Target P/E multiple	16.5x
Regulated Utility Equity Value per Share	**$27**
Exelon Generation / Parent	**2017 EBITDA**
Exelon Generation EBITDA	$3,057
Parent EBITDA	40
Total Generation / Parent EBITDA	$3,097
Target EV/EBITDA multiple	6.00x
Exelon Generation / Parent Enterprise Value	$18,582
Less: Exelon Generation, Parent Net Debt	(8,096)
Less: Exelon Generation Noncontrolling interest	(1,335)
Exelon Generation / Parent Equity Value	$9,151
Current Diluted Share Count	923
Exelon Generation / Parent Equity Value per Share	**$10**
Total Value per Share	**$37**

Source: Goldman Sachs Global Investment Research.

Exhibit 13: EXC currently lags other Diversified Utilities with merchant generation

Diversified Utilities comparable analysis

Diversified Utilities Comparable Analysis													
			Close	**12-Mo**	**Tot Ret**	**EPS**			**P/E**			**Dividend**	**Dividend**
	Ticker	**Rating**	**04/05/16**	**Px. Tgt**	**to Target**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**Yield**	**CAGR 2015-18E**
Diversified Utilities													
CenterPoint Energy	CNP	Sell	$20.51	$18	(7%)	$1.14	$1.22	$1.30	18.1x	16.9x	15.8x	4.8%	4.0%
Dominion Resources	D	Neutral	$73.05	$72	2%	$3.79	$3.91	$4.41	19.3x	18.7x	16.6x	3.5%	8.0%
Entergy	ETR	Buy	$77.09	$83	12%	$4.92	$4.90	$5.02	15.7x	15.7x	15.3x	4.4%	2.0%
Exelon	EXC	Neutral	$34.60	$37	11%	$2.52	$2.45	$2.42	13.7x	14.1x	14.3x	3.6%	3.3%
FirstEnergy	FE	Neutral	$35.07	$35	4%	$3.04	$2.64	$2.53	11.5x	13.3x	13.9x	4.1%	0.0%
NextEra Energy	NEE	Buy *	$116.35	$130	14%	$6.01	$6.58	$6.98	19.4x	17.7x	16.7x	2.6%	14.0%
PSEG	PEG	Neutral	$46.20	$43	(4%)	$2.88	$2.80	$2.93	16.1x	16.5x	15.8x	3.4%	4.7%
Sempra Energy	SRE	Buy *	$103.08	$110	10%	$5.05	$5.61	$6.77	20.4x	18.4x	15.2x	2.9%	8.6%
Diversified Utilities Mean					**4%**				**16.8x**	**16.4x**	**15.4x**	**3.7%**	**5.6%**
Diversified Utilities Median					**4%**				**17.1x**	**16.7x**	**15.6x**	**3.6%**	**4.4%**
*Denotes on Americas Conviction List													
GENCO names (PEG, ETR, FE, EXC)													
Diversified Utilities Mean					**6%**				**14.3x**	**14.9x**	**14.8x**	**3.9%**	**2.5%**
Diversified Utilities Median					**7%**				**14.7x**	**14.9x**	**14.8x**	**3.8%**	**2.7%**
INFRASTRUCTURE names (CNP, D, NEE, SRE)													
Diversified Utilities Mean					**5%**				**19.3x**	**17.9x**	**16.1x**	**3.5%**	**8.7%**
Diversified Utilities Median					**6%**				**19.3x**	**18.0x**	**16.2x**	**3.2%**	**8.3%**

Source: Goldman Sachs Global Investment Research.

Primary catalysts and key risks ahead for EXC

We see a limited pool of company specific catalysts for EXC and a few sector-wide ones that we believe would impact the shares, including:

- **Updates on post-acquisition O&M synergies** – we assume $130mm in cost management or lower O&M at the POM segments, but increased cost management could serve as a positive for EXC's shares.
- **Insights into future rate case filings** and efforts to improve under-earning levels.
- **Updates on nuclear plant economics** and the potential need to retire existing units could serve as catalysts.
- **Broader power price and natural gas price movements,** as well as changes in future capacity prices in markets like PJM, could impact the shares of EXC and other Diversified Utilities with merchant generation as well as IPPs.

Primary risks for EXC include:

- **Rate case and general regulatory risks**– as we see a number of rate cases needed in several jurisdictions over the next two years.
- **Power demand levels**, given continued weakness in many of EXC's core markets.
- **Higher-than-expected post acquisition closing costs** impacting cash flow more than earnings levels.

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Reg AC

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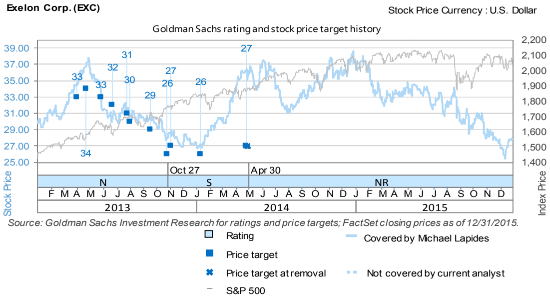

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.94 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Our fair value estimate cut shows Exelon's continued commodity price sensitivity.

Updated Forecasts and Estimates from 13 Apr 2016

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The primary analyst covering this company does not own its stock.

Research as of 13 Apr 2016
Estimates as of 13 Apr 2016
Pricing data through 14 Apr 2016
Rating updated as of 14 Apr 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Oct 2015

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Vital Statistics

Market Cap (USD Mil)	32,142
52-Week High (USD)	35.95
52-Week Low (USD)	25.09
52-Week Total Return %	8.1
YTD Total Return %	26.9
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.16

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*14.6*	*14.8*
EV/EBITDA	9.5	6.6	*7.8*	*7.7*
EV/EBIT	16.7	10.2	*12.5*	*12.4*
Free Cash Flow Yield %	-5.1	0.0	*-5.3*	*-3.8*
Dividend Yield %	3.3	4.3	*3.6*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.94 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Valuation, Growth and Profitability 13 Apr 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

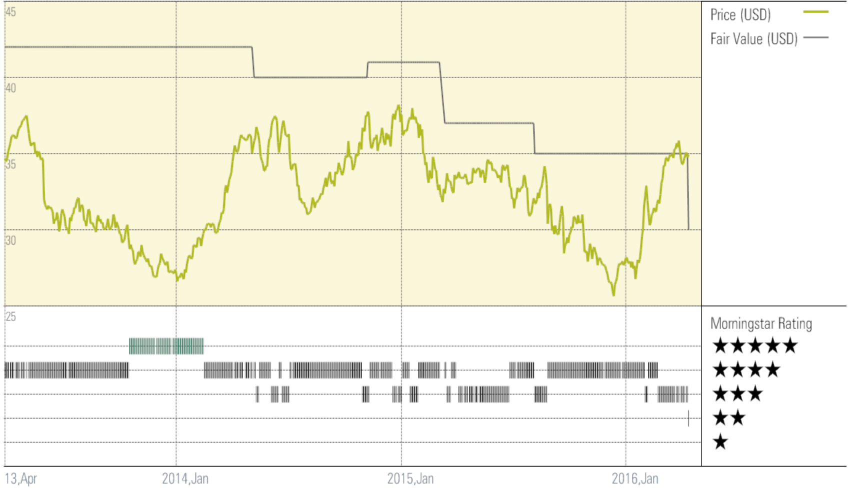
We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $500 million change in EBITDA. Our fair value estimate would change by $4 per share. On a mark-to-market basis as of mid-April, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 2 percentage points to near the industry average, it would change our fair value estimate by $3 per share. If Exelon does not retire the Clinton, Quad Cities, and Byron plants, it would add $3 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of

Price/Fair Value Morningstar data as of Apr 14, 2016



pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

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Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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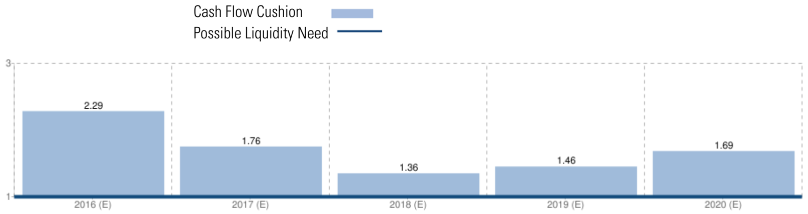
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	6,502	4,836	3,083	2,082	2,916
Adjusted Available Cash Flow	201	704	1,485	3,612	4,201
Total Cash Available before Debt Service	6,703	5,540	4,568	5,694	7,117
Principal Payments	-1,483	-1,626	-1,600	-2,000	-2,275
Interest Payments	-1,140	-1,219	-1,299	-1,436	-1,468
Other Cash Obligations and Commitments	-303	-303	-463	-464	-463
Total Cash Obligations and Commitments	-2,926	-3,148	-3,362	-3,900	-4,206

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,502	37.1
Sum of 5-Year Adjusted Free Cash Flow	10,202	58.2
Sum of Cash and 5-Year Cash Generation	16,704	95.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	16,704	95.2
Sum of 5-Year Cash Commitments	-17,542	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets. The 2007-08 commodity boom led management to raise the dividend and buy back stock. But as power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.The Pepco acquisition increases consolidated leverage, but most of that additional leverage will be debt at the regulated utilities. We don't expect a material change in parentco or Exelon Generation leverage.Based on current market conditions, we think Exelon will have sufficient cash coverage to keep its investment-grade credit rating and achieve management's recent pledge to increase the dividend at least 2.5% annually. Even through these lean years, we expect Exelon can generate at least $2 billion of cash flow after incorporating new financing and excluding discretionary growth investments. We project Exelon's consolidated EBITDA/interest coverage will remain near 6 times and leverage will remain below 4 times debt/EBITDA at least through 2018.More than half of Exelon's consolidated debt is secured at the regulated utilities, in line with its regulatory targets. Exelon Generation has an $805 million maturity in 2017 and $1.9 billion due in 2020. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing those maturities.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm could be forced to make contributions.

Enterprise Risk

Investors should pay the most attention to political

developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	240,157	25 Jan 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		69,056	25 Jan 2016	—
MR. KENNETH W. CORNEW		62,844	25 Jan 2016	—
MS. ANNE R. PRAMAGGIORE		56,015	13 Mar 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	3.26	1.24	—	31 Dec 2015
Franklin Income Fund	2.17	0.73	-5,000	31 Dec 2015
Vanguard Total Stock Mkt Idx	1.91	0.14	290	29 Feb 2016
Utilities Select Sector SPDR® Fund	1.34	5.28	-55	13 Apr 2016
Vanguard Wellington™	1.57	0.46	—	31 Dec 2015
Concentrated Holders				
Fidelity Advisor® Utilities Fund	0.11	11.67	19	29 Feb 2016
Fidelity VIP Utilities Portfolio	0.04	11.56	11	29 Feb 2016
Fidelity® Select Utilities Portfolio	0.32	11.45	154	29 Feb 2016
Vanguard Market Neutral	0.01	9.61	34	31 Dec 2015
Fidelity® Telecom and Utilities Fund	0.26	8.31	—	29 Feb 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Fidelity Management and Research Company	5.80	—	53,392	31 Dec 2015
Franklin Advisers, Inc.	3.26	—	29,971	31 Dec 2015
Vanguard Group Inc	6.26	0.11	4,747	31 Dec 2015
Capital Research Global Investors	6.48	0.57	4,432	31 Dec 2015
MFS Investment Management KK	1.77	0.24	4,353	31 Dec 2015
Top 5 Sellers				
T. Rowe Price Associates, Inc.	1.24	0.07	-8,881	31 Dec 2015
J.P. Morgan Investment Management Inc	0.02	—	-7,596	31 Dec 2015
Capital Research & Mgmt Co - Division 3	0.84	0.33	-3,531	31 Dec 2015
Morgan Stanley & Co Inc	0.11	0.04	-3,106	31 Dec 2015
Enhanced Investment Technologies Inc	0.24	0.16	-2,795	31 Dec 2015

Management 24 Mar 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

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Analyst Notes

Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40% 06 Apr 2016

We are cutting our midcycle assumptions for Brent oil, U.S. Henry Hub natural gas, and U.S. and European power prices. This will lead us to cut our fair value estimates 10%-40% for utilities with merchant power market exposure. We are maintaining our midcycle assumptions for coal, Eastern U. S. gas basis, and regional market heat rates.

Our new long-term marginal cost for U.S. natural gas is $3 per thousand cubic feet, down from $4/mcf. The cut is based on a more optimistic outlook for low-cost U.S. gas production primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica. We see more evidence that U.S. shale producers can survive at much lower prices than we previously assumed.

The midcycle gas price cut results in a similar cut to our midcycle U.S. power prices. Our benchmark PJM West around-the-clock midcycle price falls to $30.60 per megawatt hour from $43.35 when including our $0.60/mmBtu gas basis discount . The rest of our U.S. midcycle power prices fall 25%.

Power producers with large coal and nuclear fleets face the biggest fair value estimate cuts. These include Dynegy and NRG Energy. Diversified utilities with large coal and nuclear fleets such as Exelon and FirstEnergy could have 10%-20% fair value estimate cuts as we incorporate the new midcycle prices. Power producers with large gas generation fleets such as Calpine will experience smaller fair value estimate cuts because gas generation should benefit from lower costs and higher run times in our midcycle forecasts.

Our new Brent oil midcycle price is $60 per barrel, down from $70. The long-term structural issue facing crude markets is that the world needs some U.S. production growth, but not nearly as much as tight oil can supply. Our Brent oil price cut will lead us to cut our fair value estimate for Centrica.

We will be publishing updated reports and valuations on all companies within the next week.

Exelon and Pepco Join to Sing a Duet: At Last 24 Mar 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco 02 Mar 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes 29 Feb 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4 22 Feb 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the

Analyst Notes

District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain 11 Feb 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target 03 Feb 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts 25 Jan 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Independent power producers and diversified utilities are trading at a significant discount to our fair value estimates, and the Supreme Court's ruling has no material impact on our long-term thesis. We believe the market reaction was overly pessimistic to the ruling and presents a buying opportunity for those with the appropriate risk appetite. We highlight Dynegy and Exelon as those with the most exposure to PJM. Calpine, FirstEnergy, NRG Energy, and Public Service Enterprise Group also have material levels of generation in PJM.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal 11 Nov 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals 30 Oct 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year 26 Oct 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.94 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* *2016*	*2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*14.6*	*14.8*
EV/EBITDA	9.5	6.6	*7.8*	*7.7*
EV/EBIT	16.7	10.2	*12.5*	*12.4*
Free Cash Flow Yield %	-5.1	0.0	*-5.3*	*-3.8*
Dividend Yield %	3.3	4.3	*3.6*	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.94 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.94 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.94 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1.27	13.3	*15.4*	*15.6*	6.8	*8.0*	*7.7*	349.6	*NM*	*NM*	1.5	*1.7*	*1.6*	1.9	*2.2*	*2.1*
FirstEnergy Corp FE USA	0.96	13.1	*12.0*	*12.3*	9.4	*8.8*	*8.7*	25.4	*NM*	*-86.8*	1.2	*1.1*	*1.0*	1.0	*1.1*	*1.1*
Entergy Corp ETR USA	1.02	—	*14.6*	*13.6*	—	*7.8*	*7.2*	—	*57.4*	*-17.3*	—	*1.4*	*1.3*	—	*1.1*	*1.1*
Average		13.2	*14.0*	*13.8*	8.1	*8.2*	*7.9*	187.5	*57.4*	*-52.1*	1.4	*1.4*	*1.3*	1.5	*1.5*	*1.4*
Exelon Corp EXC US	**1.16**	**11.2**	***14.6***	***14.8***	**6.6**	***7.8***	***7.7***	**NM**	***NM***	***NM***	**1.0**	***1.2***	***1.1***	**0.9**	***1.3***	***1.1***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	37,535 USD	9.5	*8.5*	*8.0*	9.6	*8.5*	*8.0*	13.3	*11.3*	*10.6*	4.6	*3.9*	*3.6*	4.0	*3.4*	*3.6*
FirstEnergy Corp FE USA	— USD	5.4	*4.5*	*4.4*	6.4	*5.3*	*5.1*	9.0	*9.4*	*8.7*	2.2	*2.3*	*2.2*	4.1	*4.3*	*4.5*
Entergy Corp ETR USA	— USD	1.5	*5.1*	*5.2*	1.5	*5.1*	*5.3*	1.8	*9.7*	*10.1*	0.4	*1.9*	*2.0*	—	*4.6*	*4.8*
Average		5.5	*6.0*	*5.9*	5.8	*6.3*	*6.1*	8.0	*10.1*	*9.8*	2.4	*2.7*	*2.6*	4.1	*4.1*	*4.3*
Exelon Corp EXC US	**95,384** USD	**4.1**	***4.6***	***5.0***	**4.3**	***4.8***	***5.2***	**9.3**	***8.3***	***7.8***	**2.5**	***2.3***	***2.2***	**4.3**	***3.6***	***3.7***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	10,415 USD	-4.3	*0.5*	*4.0*	12.9	*-3.5*	*2.1*	5.4	*2.3*	*-1.2*	-58.6	*-593.7*	*-75.3*	5.4	*5.1*	*4.9*
FirstEnergy Corp FE USA	14,672 USD	-2.5	*-3.0*	*0.3*	154.3	*7.4*	*-0.4*	5.7	*9.5*	*-3.0*	158.4	*-55.5*	*17.2*	—	*5.6*	*5.3*
Entergy Corp ETR USA	12,101 USD	-3.2	*1.1*	*2.8*	-15.1	*8.7*	*9.8*	0.4	*-11.3*	*7.5*	-193.0	*-121.6*	*-408.9*	0.6	*2.7*	*4.0*
Average		-3.3	*-0.5*	*2.4*	50.7	*4.2*	*3.8*	3.8	*0.2*	*1.1*	-31.1	*-256.9*	*-155.7*	3.0	*4.5*	*4.7*
Exelon Corp EXC US	**29,447** USD	**7.4**	***-13.6***	***10.5***	**42.4**	***-5.5***	***0.5***	**4.2**	***-3.6***	***-1.9***	**365.5**	***-253.2***	***-31.1***	**—**	***1.2***	***2.5***

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	1,478 USD	68.7	*68.4*	*67.4*	40.1	*39.3*	*38.9*	28.4	*27.3*	*26.8*	14.2	*14.5*	*13.8*	0.5	*-11.9*	*-4.3*
FirstEnergy Corp FE USA	1,140 USD	55.9	*57.9*	*58.7*	26.8	*29.5*	*29.7*	18.4	*20.4*	*20.2*	7.8	*8.8*	*8.6*	4.0	*-1.8*	*-1.2*
Entergy Corp ETR USA	1,053 USD	62.4	*64.0*	*63.7*	11.9	*27.2*	*28.7*	15.4	*16.5*	*17.6*	8.7	*7.7*	*8.1*	-12.8	*1.9*	*-6.2*
Average		62.3	*63.4*	*63.3*	26.3	*32.0*	*32.4*	20.7	*21.4*	*21.5*	10.2	*10.3*	*10.2*	-2.8	*-3.9*	*-3.9*
Exelon Corp EXC US	**2,224** USD	**55.6**	***61.1***	***56.0***	**23.3**	***26.2***	***24.2***	**15.0**	***16.4***	***14.9***	**7.6**	***8.7***	***7.8***	**0.0**	***-6.6***	***-4.3***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	9,932 USD	76.0	*84.5*	*89.3*	43.2	*45.8*	*47.2*	10.6	*7.8*	*7.0*	2.4	*2.8*	*3.1*	2.9	*2.9*	*3.0*
FirstEnergy Corp FE USA	21,600 USD	165.7	*161.7*	*158.1*	62.4	*61.8*	*61.3*	3.6	*3.8*	*3.8*	5.5	*5.3*	*5.4*	4.1	*4.0*	*3.9*
Entergy Corp ETR USA	15,300 USD	159.3	*160.5*	*165.3*	61.4	*61.6*	*62.3*	2.1	*4.6*	*4.6*	10.7	*4.8*	*4.8*	5.0	*5.0*	*5.0*
Average		133.7	*135.6*	*137.6*	55.7	*56.4*	*56.9*	5.4	*5.4*	*5.1*	6.2	*4.3*	*4.4*	4.0	*4.0*	*4.0*
Exelon Corp EXC US	**26,319** USD	**101.2**	***97.5***	***96.0***	**50.3**	***49.4***	***49.0***	**6.6**	***5.8***	***5.6***	**3.8**	***4.0***	***4.0***	**3.7**	***3.5***	***3.5***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	23,225 USD	0.78	*0.58*	*0.68*	0.98	*1.04*	*1.06*	0.85	*0.89*	*0.90*	0.36	*0.27*	*0.32*	47.2	*55.1*	*58.5*
FirstEnergy Corp FE USA	15,001 USD	0.39	*0.51*	*0.50*	0.51	*0.51*	*0.51*	0.38	*0.39*	*0.40*	0.06	*0.07*	*0.07*	53.3	*51.4*	*55.8*
Entergy Corp ETR USA	13,537 USD	3.07	*3.04*	*2.55*	0.85	*0.85*	*0.84*	0.57	*0.57*	*0.56*	0.37	*0.37*	*0.31*	338.0	*66.1*	*64.0*
Average		1.41	*1.38*	*1.24*	0.78	*0.80*	*0.80*	0.60	*0.62*	*0.62*	0.26	*0.24*	*0.23*	146.2	*57.5*	*59.4*
Exelon Corp EXC US	**32,142** USD	**7.28**	***5.24***	***3.33***	**1.68**	***1.57***	***1.34***	**1.51**	***1.44***	***1.19***	**3.20**	***2.38***	***1.52***	**48.8**	***52.3***	***54.6***

Research Methodology for Valuing Companies

Components of Our Methodology

- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies

Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

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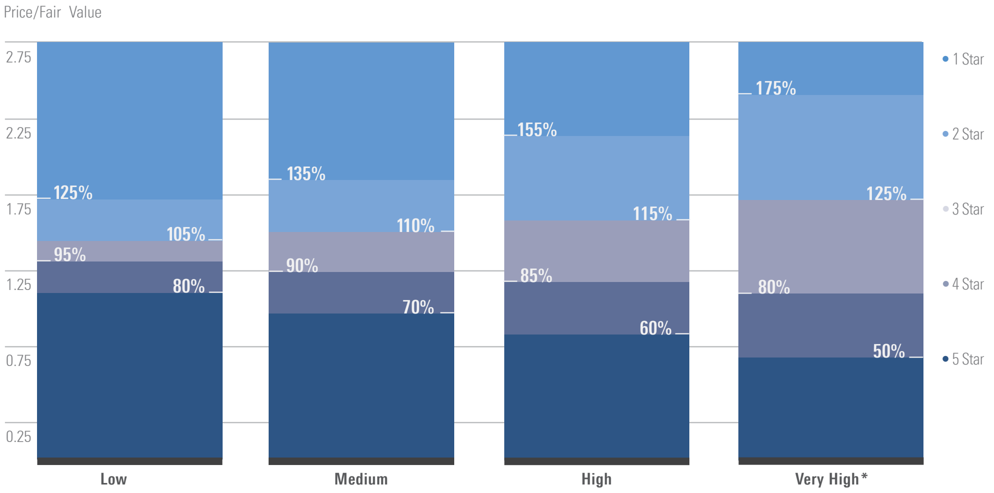
Morningstar Margin of Safety and Star Rating Bands

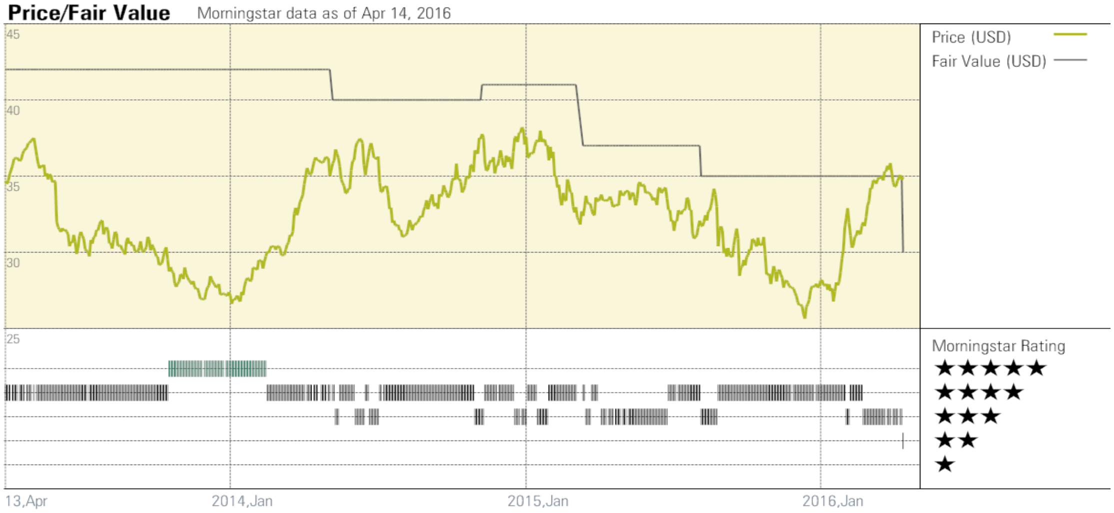


* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.94 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: EXC, DTE, ES, ED, FE, PCG April 13, 2016

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What's New?

For current Guggenheim Utility Corporate Access Calendar, scroll to bottom.

Guggenheim initiates coverage of alternative energy - Alternative Energy: Basking in the Sun; Launching Sector Coverage

Guggenheim initiates coverage of IPPs – Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities

2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea

Texas Showdown: Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out

AEP/FE – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC (see our note here)

EXC – Illinois policymakers warned of nuclear retirement risk again
EXC– Environmentalist coming to the support of nuclear in Illinois
DTE – Michigan utilities jumping into the Ohio PPA storm
ES – City of Berlin, NH reinforces support of Northern Pass
ED – NY tuning into CA with renewables?
FE – Bruce Mansfield dispatching
PCG – San Bruno criminal trial beginning in two weeks

EXC – Illinois policymakers warned of nuclear retirement risk again

- Local media reports that EXC notified the governor and other policy makers in Illinois of its intent to retire nuclear facilities if the state does not award financial support this year.
- EXC's CEO reportedly made personal visits to policy makers to deliver the message.

Guggenheim takeaway: *EXC wasn't able to influence desired policy support with this approach last year, when they threatened to retire nuclear plants unless legislation was enacted to provide $300mm of financial support through a surcharge on electric bills. The renewed effort only specifies the Clinton plant whereas they previously warned 3 plants would close without financial relief; and their efforts will still come under scrutiny in our view, but it will be interesting to see if the process unfolds differently this time – and if OH opened the flood gates to a wave of re-regulation efforts as competitive power markets remain depressed.*

EXC – Environmentalist coming to the support of nuclear in Illinois

- Group released open letter (HERE) in support of maintaining the viability of the state's merchant fleet.
- Support centers on potential legislation to help provide cash flows to Byron, Quad Cities and Clinton nuclear plants.
- Low Carbon Portfolio Standard remains open (SB1485, HB3293).
- Negotiations/conversations continue.

Guggenheim takeaway: *Ultimately, we should see some form of legislation. The state cannot afford to lose ~5GW of clean energy capacity – not only from a reliability standpoint but also from an environmental policy standpoint. EXC remains our top hybrid name for a multitude of factors including positive policy shifts towards U.S. nuclear. See here for our thoughts on U.S. nuclear. "While EXC deferred its decision to retire IL nukes (Quad Cities, Byron, and Clinton) for another year, we believe MISO capacity market reforms and carbon legislation are key items for sustaining these economically challenged plants. We note the Low Carbon Portfolio Standard will be back on the table in 2016 and is key to setting carbon prices as a bridge to Clean Power Plan compliance. While we believe the legislature will compromise on this plan, in our view execution is key in 2016."*

DTE – Michigan utilities jumping into the Ohio PPA storm

- Michigan DTE peer, non-covered CMS, trying to make case against restructuring and pointing to recent Ohio PPA approvals as case in point (see HERE).
- Message directed towards those looking to de-regulate the state – it doesn't work.
- Utilities have been pushing to close the Choice program and eliminate shopping altogether.
- Advocates for MI alternative suppliers highlight the Ohio PPA approvals will likely get voided at the Federal level.

Guggenheim takeaway: *Interesting angle presented by the MI utilities. Two items: (1) MI Energy policy is not a crucial driver of our thesis – it's a nice have but not a must have and (2) energy policy is likely moving forward with focus on Senate—we expect legislation this summer. See our note: HERE.*

ES – City of Berlin, NH reinforces support of Northern Pass

- City council voted to send a letter to Site Evaluation Committee supporting the Forward NH Fund, which is looking to spend ~$200mm on economic development, etc.
- See HERE.

Guggenheim takeaway: *This project will move forward and some delays could be possible but not probable. We assume $1.6bn CapEx on Northern Pass begins later this year, earning a 12.56% ROE during construction and 11.74% ROE once the project is in service, translating to $0.29 of EPS by 2018E.*

ED – NY tuning into CA with renewables?

- New York State Department of Public Service (DPS) issues white paper on renewable goal - SEE HERE.
- Quantifying impact of a 50% RPS standard by 2030 on retail rates as being modest ~1% or $1/month.

- Study cites low borrowing costs, gas prices, and tax credits as offsets to rate inflation.
- Nuclear included in this study.

Guggenheim takeaway: *It's too preliminary for NT stock-takeaways at this juncture—NY has a long way to go to become CA. The study highlights modest customer bill impact, but a lot of assumptions and variables drive that estimate; we expect some scrutiny of the analysis before plans begin to unfold. That said, LT renewable development opportunities could be meaningful throughout the state, and a case has been made for utilities to develop those projects based on cost structure advantages (e.g., cost of capital). The study suggests smaller-scale customer applications could drive half the renewable capacity deployed, but ED has constructive rate mechanisms to address cost recovery so sales erosion isn't really a concern for us. Ratebase growth still the NT driver, and fundamentally intact, in our view, considering replacement costs likely far exceed depreciated embedded costs. New renewables throughout NY also create transmission investment opportunities, as demand is concentrated in the southeastern corner of the state – ED's franchise.*

FE – Bruce Mansfield dispatching

- 2,490 MW coal plan in PA back online and generating MWs.
- Idled in February because of economic reason.

Guggenheim takeaway: *Back dispatching – doesn't appear plant was down too long in Q1 but could have some impact.*

PCG – San Bruno criminal trial beginning in two weeks

- Criminal trial starts in two weeks – April 26th will begin with Jury selection.
- PCG attorney pushed for more time to review documents.
- What's at stake: 13 criminal counts, including 12 allegations for violation of pipeline safety rules. PCG also faces obstruction of a National Transportation Safety Board probe into the explosion.
- PCG pleaded not guilty to all charges.

Guggenheim takeaway: *We don't believe the judge has patience for any additional motions that would push this trial out any further. As a reminder, the trial was originally slated to begin 03/08, was delayed to 03/22, and is now scheduled for 04/26. Issues the judge is referring to include requests from the prosecution for PCG's correspondence with attorneys, and PCG's requests to bar certain witnesses. Delays potentially give time for negative publicity to build before the trial, in our view. Potential penalties will be considered in a trial phase if PCG is found guilty.*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. Texas Showdown: Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out
2. AEP/FE – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC (see our note here)
3. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea
4. *DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational*
5. *DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates, PT*
6. *Justice Scalia's Passing: Far-Reaching Implications – Impact to Power Sector Noteworthy with Clean Power Plan First Key Test*
7. *D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM*
8. *Quick Take: Surprise - Supreme Court Sides with FERC over Demand Response*
9. *Power Breakfast Part Deux: Guggenheim-Hosted Utility Commissioner Meetings*
10. *Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking*
11. *AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow*
12. *PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook*
13. *GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing*
14. *FE - Upgrading to BUY - The Buckeye State Now Fully Investable*
15. *EEI Full Recap*
16. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
17. *PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve*
18. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
19. *EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off*
20. *PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power*

21. *FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation*
22. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*
23. *SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years*
24. *Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables*
25. *EPA Clean Power Plan: Much Ado About Everything*

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
04/13	ES	Access Northeast hearing (NH)	Public Service Co. of NH	NH	DE16-241	PUC pre-hearing conference on Access Northeast and utility contracts
04/14		MISO capacity auction				2016/2017 auction results posted for Zone 4
04/19-05/6	PNW	Value of solar hearings		AZ	E-00000J-14-0023	
04/20	PCG	Ex Parte investigation	Pacific Gas & Electric Co.	CA	I 15-11-015	Pre-hearing conference
04/26	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
04/29	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Intervenor testimony
05/02	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
05/24		PJM capacity auction				2019/2020 results posted
06/01	PNW	PNW files rate case	Arizona Public Service Co.	AZ		
06/02		Clean Power Plan				Federal Appeals Court hearing
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
08/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Opening briefs

Other upcoming events and proceedings

April	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
April	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	PG&E's 2015 gas transmission and storage rate case
April	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PEG	5/2-4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
WR	7/6-8	TX, Midwest	Tony Somma, CFO
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 04/12/2016)

As of 4/12/2016

								Guggenheim Estimates														Consensus Estimates									
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			EV / EBITDA		
Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E
Regulated utilities																															
AEP	American Electric Power	32.6	Buy	$62	$66.31	-6%	491	3.70	3.93	4.21	7%	17.9	16.9	15.8	5,619	5,918	6,259	6%	9.6	9.3	8.9	3.70	3.90	4.16	6%	17.9	17.0	16.0	9.5	9.2	8.9
ED	Consolidated Edison, Inc.	22.3	Neutral	$61	$76.05	-20%	294	4.01	4.16	4.27	3%	19.0	18.3	17.8	3,860	4,070	4,396	7%	9.6	9.4	8.9	4.00	4.15	4.31	4%	19.0	18.3	17.6	9.7	9.5	9.2
D	Dominion Resources, Inc.	43.7	Buy	$76	$73.22	4%	597	3.84	3.99	4.47	8%	19.1	18.4	16.4	6,140	6,476	7,094	7%	11.9	11.3	10.4	3.80	3.93	4.37	7%	19.3	18.6	16.8	12.1	11.5	10.4
DTE	DTE Energy Company	16.0	Buy	$92	$89.09	3%	179	4.98	5.27	5.66	7%	17.9	16.9	15.7	2,526	2,686	2,881	7%	10.5	10.1	9.7	4.94	5.26	5.63	7%	18.0	17.0	15.8	10.1	9.8	9.5
DUK	Duke Energy Corporation	55.3	Buy	$81	$80.22	1%	689	4.60	4.83	4.94	4%	17.4	16.6	16.2	8,899	9,122	9,843	5%	11.4	11.3	10.7	4.61	4.76	5.00	4%	17.4	16.9	16.0	11.0	10.6	10.3
EIX	Edison International	23.1	Neutral	$66	$70.99	-7%	326	3.85	4.15	4.33	6%	18.4	17.1	16.4	4,944	5,294	5,647	7%	7.7	7.4	7.1	3.89	4.11	4.31	5%	18.3	17.3	16.5	8.3	8.0	7.7
ES	Eversource Energy	18.0	Buy	$58	$56.67	2%	317	2.99	3.19	3.43	7%	19.0	17.8	16.5	2,560	2,655	2,754	4%	11.2	11.2	11.1	3.00	3.18	3.39	6%	18.9	17.8	16.7	11.1	11.0	10.9
GXP	Great Plains Energy	4.9	Buy	$31	$31.74	-2%	154	1.74	1.87	1.98	7%	18.2	17.0	16.0	1,011	1,068	1,102	4%	9.0	8.5	8.2	1.74	1.83	1.93	5%	18.2	17.3	16.5	9.2	8.7	8.2
NEE	NextEra Energy, Inc.	54.0	Buy	$124	$117.05	6%	461	6.19	6.60	7.04	7%	18.9	17.7	16.6	6,989	7,610	8,012	7%	12.3	11.5	11.1	6.15	6.54	6.95	6%	19.0	17.9	16.8	11.4	10.6	10.3
PCG	PG&E Corporation	29.2	Neutral	$54	$59.21	-9%	493	3.67	3.70	3.89	3%	16.1	16.0	15.2	6,566	6,825	7,113	4%	7.2	7.1	7.0	3.72	3.68	3.87	2%	15.9	16.1	15.3	7.7	7.5	7.2
PNW	Pinnacle West Capital	8.3	Neutral	$62	$74.64	-17%	111	4.02	4.18	4.43	5%	18.6	17.9	16.8	1,440	1,529	1,634	7%	8.7	8.5	8.1	4.00	4.20	4.38	5%	18.7	17.8	17.0	8.9	8.6	8.3
PPL	PPL Corporation	25.3	Buy	$39	$37.46	4%	676	2.33	2.44	2.57	5%	16.1	15.4	14.6	4,214	4,420	4,689	5%	11.3	11.0	10.5	2.35	2.44	2.51	3%	15.9	15.4	14.9	11.6	11.3	10.8
SO	Southern Company	46.7	Neutral	$41	$50.77	-19%	919	2.85	2.93	3.06	4%	17.8	17.3	16.6	6,677	6,961	7,260	4%	12.2	11.9	11.9	2.84	2.95	3.08	4%	17.9	17.2	16.5	11.6	10.7	11.1
WR	Westar Energy, Inc.	7.2	Buy	$46	$50.65	-9%	142	2.43	2.50	2.60	3%	20.8	20.3	19.5	1,036	1,066	1,105	3%	10.9	10.8	10.5	2.44	2.53	2.62	4%	20.8	20.0	19.3	10.8	10.6	10.3
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.65	1%	235	1.18	1.27	1.35	7%	23.4	21.8	20.5	987	1,033	1,076	4%	10.6	10.1	9.9	1.18	1.28	1.36	7%	23.4	21.6	20.4	10.4	9.7	9.9
Average(2)											**5%**	**18.2**	**17.4**	**16.4**				**6%**	**10.2**	**9.9**	**9.6**				**5%**	**18.2**	**17.5**	**16.6**	**10.2**	**9.8**	**9.5**
Integrated utilities																															
ETR	Entergy Corporation	13.7	Neutral	$69	$76.56	-10%	179	5.18	5.10	5.18	0%	14.8	15.0	14.8	3,682	3,698	3,832	2%	8.1	8.3	8.0	5.16	5.24	5.15	(0%)	14.8	14.6	14.9	8.6	8.6	8.5
EXC	Exelon Corporation	32.3	Buy	$37	$35.08	5%	922	2.56	2.80	2.99	8%	13.7	12.5	11.7	7,701	8,148	8,575	6%	8.2	7.8	7.7	2.53	2.66	2.77	5%	13.9	13.2	12.7	8.7	7.9	7.7
FE	FirstEnergy Corp.	15.2	Buy	$39	$35.75	9%	425	2.80	2.86	2.92	2%	12.8	12.5	12.2	4,422	4,562	4,628	2%	8.5	8.3	8.1	2.83	2.71	2.71	(2%)	12.6	13.2	13.2	8.3	8.4	8.2
PEG	Public Service Enterprise Grou	23.4	Buy	$46	$46.26	-1%	506	2.95	3.01	3.04	2%	15.7	15.4	15.2	4,203	4,420	4,597	5%	8.3	8.2	8.0	2.90	2.88	2.98	2%	16.0	16.1	15.5	8.4	8.5	8.4
Average											**3%**	**14.2**	**13.9**	**13.5**				**4%**	**8.3**	**8.2**	**7.9**				**1%**	**14.3**	**14.3**	**14.1**	**8.5**	**8.4**	**8.2**
Independent Power Producers (IPPs)																															
CPN	Calpine Corporation	5.3	Buy	$22	$14.85	48%	359	0.39	0.88	1.44	92%	37.9	16.9	10.3	1,862	2,169	2,544	17%	9.0	7.6	6.3	0.59	1.05	1.41	55%	25.2	14.2	10.5	8.9	8.0	7.2
DYN	Dynegy Inc.	1.8	Buy	$22	$15.26	44%	117	(1.24)	(0.66)	0.40	NA	-12.3	-23.0	38.5	1,097	1,421	1,691	24%	7.7	6.0	4.9	(0.60)	(0.47)	0.53	NA	-25.3	-32.3	28.7	7.6	7.5	6.0
NRG	NRG Energy, Inc.	4.2	Buy	$16	$13.28	20%	316	0.85	(0.52)	0.11	-65%	15.6	-25.4	125.8	3,128	2,809	3,004	(2%)	6.5	7.0	6.2	0.84	0.15	0.64	(13%)	15.7	87.9	20.7	6.5	7.2	6.3
TLN	Talen Energy Corp	1.4	Neutral	$7	$10.86	-36%	129	0.72	0.69	0.19	-49%	15.1	15.7	57.2	778	762	716	(4%)	6.4	6.4	5.9	0.68	0.26	0.09	(64%)	16.0	42.6	121.1	6.6	6.6	6.5
Average											**-7%**	**14.1**	**-4.0**	**57.9**				**9%**	**7.4**	**6.8**	**5.9**				**(7%)**	**7.9**	**28.1**	**45.3**	**7.4**	**7.3**	**6.5**
Other																															
NYLD	NRG Yield	1.4	Neutral	$12	$14.50	-17%	183	1.06	1.20	1.32	12%	13.7	12.1	11.0	867	1,004	1,120	14%	7.1	6.3	6.7	1.07	1.21	1.26	9%	13.6	12.0	11.5	7.5	6.9	7.3
AWK	American Water Works	12.5	Buy	$72	$70.39	2%	178	2.83	3.03	3.20	6%	24.9	23.2	22.0	1,652	1,748	1,835	5%	11.5	11.2	10.8	2.82	3.04	3.25	7%	24.9	23.2	21.6	11.5	11.2	10.8

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$66.31	2.25	2.36	2.48	3.4%	3.6%	3.7%	61%	60%	60%
ED	Consolidated Edison, Inc.	Neutral	$76.05	2.66	2.72	2.76	3.5%	3.6%	3.6%	66%	65%	64%
D	Dominion Resources, Inc.	Buy	$73.22	2.77	2.97	3.23	3.8%	4.1%	4.4%	73%	75%	74%
DTE	DTE Energy Company	Buy	$89.09	2.98	3.13	3.30	3.3%	3.5%	3.7%	60%	60%	59%
DUK	Duke Energy Corporation	Buy	$80.22	3.39	3.55	3.70	4.2%	4.4%	4.6%	74%	75%	74%
EIX	Edison International	Neutral	$70.99	1.98	2.19	2.38	2.8%	3.1%	3.4%	51%	53%	55%
ES	Eversource Energy	Buy	$56.67	1.79	1.90	2.02	3.2%	3.4%	3.6%	60%	60%	60%
GXP	Great Plains Energy	Buy	$31.74	1.09	1.16	1.27	3.4%	3.7%	4.0%	63%	64%	66%
NEE	NextEra Energy, Inc.	Buy	$117.05	3.47	3.90	4.44	3.0%	3.3%	3.8%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$59.21	1.92	2.04	2.16	3.2%	3.4%	3.6%	52%	55%	56%
PNW	Pinnacle West Capital	Neutral	$74.64	2.53	2.65	2.77	3.4%	3.6%	3.7%	63%	63%	63%
PPL	PPL Corporation	Buy	$37.46	1.52	1.56	1.55	4.1%	4.2%	4.1%	65%	64%	62%
SO	Southern Company	Neutral	$50.77	2.22	2.30	2.37	4.4%	4.5%	4.7%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$50.65	1.51	1.60	1.69	3.0%	3.2%	3.3%	62%	63%	64%
TE	TECO Energy, Inc.	Neutral	$27.65	0.92	0.94	0.97	3.3%	3.4%	3.5%	78%	74%	71%
Average							**3.5%**	**3.7%**	**3.9%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$76.56	3.43	3.51	3.55	4.5%	4.6%	4.6%	66%	67%	69%
EXC	Exelon Corporation	Buy	$35.08	1.26	1.30	1.33	3.6%	3.7%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$35.75	1.44	1.44	1.44	4.0%	4.0%	4.0%	51%	53%	53%
PEG	Public Service Enterprise Group	Buy	$46.26	1.64	1.72	1.83	3.5%	3.7%	3.9%	57%	60%	61%
Average							**3.9%**	**4.0%**	**4.1%**	**56%**	**57%**	**58%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.85	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$15.26	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$13.28	0.21	0.17	0.19	1.6%	1.3%	1.4%	25%	NA	29%
TLN	Talen Energy Corp	Neutral	$10.86	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.4%**	**0.3%**	**0.3%**	**6%**	**0%**	**7%**
Other												
NYLD	NRG Yield	Neutral	$14.50	0.96	1.10	1.26	6.6%	7.6%	8.7%	90%	91%	100%
AWK	American Water Works	Buy	$70.39	1.42	1.59	1.72	2.0%	2.3%	2.4%	50%	52%	53%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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BMO Capital Markets

Electric Utilities & Independent Power

April 15, 2016

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MISO Releases Results of 2016-2017 Capacity Auction

The Midcontinent Independent System Operator (MISO) released results of its fourth annual Planning Resource Auction (PRA), covering the 2016-2017 planning year from June 1, 2016, to May 31, 2017. The latest PRA, which procured 135,483 MW of capacity versus 136,359 MW last year, concluded with three different clearing prices across MISO's 10 zones: Zone 1 cleared at $19.72/MW-day, Zones 2-7 cleared at $72.00/MW-day, and Zones 8-10 cleared at $2.99/MW-day. For the most part, auction clearing prices came in significantly higher than consensus expectations.

Clearing prices for the 2016/17 PRA were markedly volatile in several zones versus last year; Zone 4 (central/southern Illinois) clearing price of $72.00/MW-day compared to $150.00/MW-day last year, while the clearing price for Zones 2, 3, 5, 6, and 7 of $72.00/MW-day compared to $3.48/MW-day in the 2015/16 PRA one year ago. See page 2 for a detailed breakdown of clearing prices by zone.

Driving this year's results were several factors, including less supply in the MISO Midwest region due to retirements (~2,900 MW across MISO) and capacity exports (5,420 MW). Ongoing changes in the fleet makeup of MISO resulted in several zones relying on imports from other zones to procure adequate capacity. For example, total system-wide imports for the 2016/17 PRA were 5,240 MW compared to 2,988 MW last year, with Zones 7 (Michigan) and 9 (Louisiana/northeast Texas) swinging from net exporters to net importers of capacity versus last year: Zone 7 imported 872 MW versus 837 MW of exports last year, and Zone 9 imported 2,202 MW compared to exports of 592 MW in the 2015/16 PRA. This year's clearing prices were also likely impacted by a series of FERC-mandated auction changes, the most notable of which affected the determination of the initial offer reference price level applicable in the auction, which is the basis for a general offer price cap. The FERC order reduced the initial reference level to $0/MW-day. As a result, any resource desiring to offer above the conduct threshold of 10% of Cost of New Entry had to obtain approval from the MISO Independent Market Monitor to support the offer.

Our View:

- We view the results as neutral given the sizeable swings in auction prices across most MISO zones year over year.
- According to statements from Dynegy (DYN, $15.52, Not Rated), none of the company's 2,197 MW of capacity that was bid into the 2016/17 auction cleared.
- Exelon (EXC, $34.67, Market Perform) stated that its 1,078 MW Clinton nuclear facility in Illinois cleared the auction, but continues to lose money. Management signaled that a decision will be forthcoming this year as to whether the plant will be shut down. The plant will remain operational, however, at least until May 31, 2017.

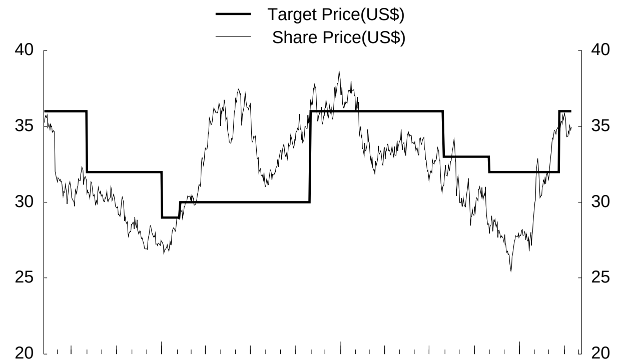
Please refer to pages 3 to 7 for Important Disclosures, including the Analyst's Certification.

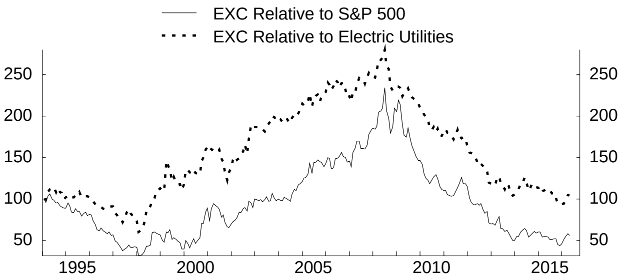
Exhibit 1: 2016/2017 MISO Auction Clearing Price Overview

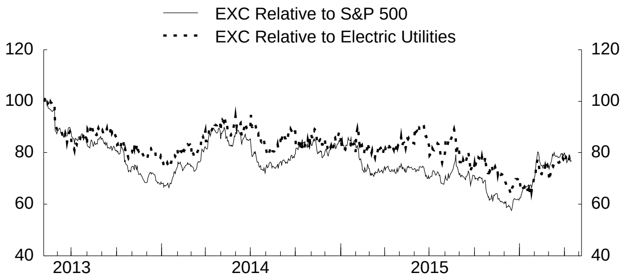
Zone	States	2016/17 Price ($/MW-day)	2015/16 Price ($/MW-day)	2014/15 Price ($/MW-day)
1	MN, MT, ND, SD, WI	**$19.72**	$3.48	$3.29
2	MI, WI	**$72.00**	$3.48	$16.75
3	IL, IA, MN	**$72.00**	$3.48	$16.75
4	IL	**$72.00**	$150.00	$16.75
5	MO	**$72.00**	$3.48	$16.75
6	KY, IN	**$72.00**	$3.48	$16.75
7	MI	**$72.00**	$3.48	$16.75
8	AR	**$2.99**	$3.29	$16.44
9	LA, TX	**$2.99**	$3.29	$16.44
10	MS	**$2.99**	N/A	N/A

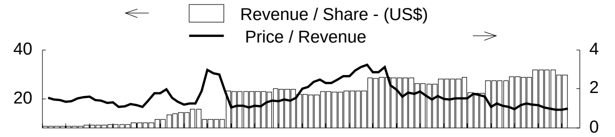
Source: MISO, BMO Capital Markets

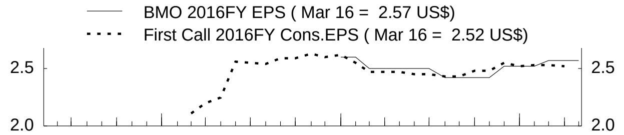
Exelon Corporation (EXC)

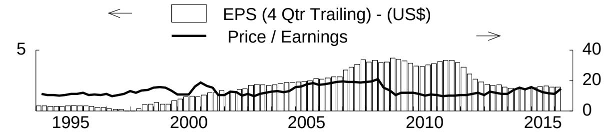


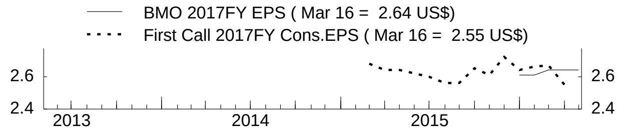












FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1994	1.21	12.9	9.8	0.77	6.5	5.0	64	9.7	1.6	1.2	
1995	1.27	12.0	9.3	0.83	7.0	5.5	65	10.2	1.5	1.2	13
1996	1.17	13.9	9.6	0.88	7.8	5.4	75	10.4	1.6	1.1	11
1997	0.63	20.9	14.9	0.90	9.6	6.8	>100	6.1	2.2	1.5	8
1998	1.33	15.9	7.1	0.50	5.3	2.4	38	6.8	3.1	1.4	20
1999	1.59	15.9	9.7	0.50	3.3	2.0	31	4.9	5.2	3.1	27
2000	1.90	18.7	8.4	0.50	3.1	1.4	26	11.3	3.1	1.4	23
2001	2.25	15.8	8.6	0.91	4.7	2.6	41	12.8	2.8	1.5	19
2002	2.42	11.8	7.8	0.88	4.6	3.1	36	12.0	2.4	1.6	19
2003	2.61	12.8	8.8	0.96	4.2	2.9	37	13.0	2.6	1.8	21
2004	2.77	16.2	11.1	1.26	4.1	2.8	45	14.1	3.2	2.2	20
2005	3.09	18.6	13.2	1.60	3.9	2.8	52	13.7	4.2	3.0	22
2006	3.22	19.8	15.9	1.60	3.1	2.5	50	14.9	4.3	3.4	23
2007	4.32	20.1	13.6	1.76	3.0	2.0	41	15.3	5.7	3.8	29
2008	4.20	21.9	9.8	2.03	4.9	2.2	48	16.8	5.5	2.5	26
2009	4.12	14.3	9.3	2.10	5.5	3.6	51	19.2	3.1	2.0	23
2010	4.06	12.8	0.0	2.10	2.1E6	4.0	52	20.5	2.5	0.0	20
2011	4.16	10.9	9.4	2.10	5.4	4.6	50	21.7	2.1	1.8	20
2012	2.85	15.6	10.0	2.10	7.4	4.7	74	25.1	1.8	1.1	12
2013	2.50	15.1	10.7	1.24	4.7	3.3	50	26.5	1.4	1.0	10
2014	2.39	16.3	11.1	1.24	4.7	3.2	52	26.3	1.5	1.0	9
2015	2.49	15.6	10.1	1.24	4.9	3.2	50	26.5	1.5	0.9	9
Range*:		21.9	0.0		>100	1.4			5.7	0.0	
Current*	2.51	14.3		1.24	3.5		49	25.5	1.4		10

EXC - Rating as of 12-Mar-09 = Mkt

Growth(%):	EPS	DPS	BV
5 Year:	-9.9	-10.0	5.9
10 Year:	-1.9	-2.5	6.4
20 Year:	3.5	2.1	4.7

* Current EPS is the 4 Quarter Trailing to Q4/2015.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (April 14, 2016): $34.94
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Hold	Market Perform	53.1%	9.0%	32.4%	51.7%	35.6%	39.8%
Sell	Underperform	3.6%	16.7%	4.1%	3.9%	3.4%	5.5%

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NR = No rating at this time;
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April 17, 2016

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MISO Auction Results Should Drive Retirement Decisions for DYN, EXC & Potential Market Reform Initiatives

On 4/14/16, MISO released the results of the 16/17 PRA, with the auction clearing at $72/MW-day for most of MISO Central/North and $2.99/MW-day for MISO South. In the carefully scrutinized Illinois Zone 4 (to which DYN and EXC are exposed), the $72/MW-day price represents a *52% drop* from the 15/16 PRA's contested $150/MW-day price last year, which itself was nearly 9X the $16.76/MW-day mark observed in the prior auction. For the other MISO Central/North zones, conversely, this year's $72/MW-day is *21X higher* than last year's $3.48/MW-day (the exception being the northernmost Zone 1 which cleared at $19.72/MW-day vs. last year's $3.48/MW-day). MISO South (AR, LA, MS, TX) cleared at $2.99/MW-day vs. $3.29/MW-day.

The auction results were a function of resource changes and parameter modifications made since the '15/'16 PRA, which include a much lower conduct threshold, expanded import capability into MISO zones generally decreasing local clearing requirements, and a reduction in transfer limits between MISO South and Central/North. The use of a new $0/MW-day initial reference level for the offer cap – instead of the past reference level which had been based on the opportunity cost of neighboring prices in PJM, or $155.79/MW-day as it was calculated in the '15/'16 PRA – ensured that the conduct threshold (the mitigation review trigger price) would be dramatically lowered in the auction. This threshold – a function of the reference level plus 10% of a zone's CONE – went from ~$180/MW-day in the prior PRA to ~$25/MW-day in this latest, the implication being that all resources desiring to offer above ~$25/MW-day would have to have received a facility-specific reference level based on a documented, defensible going forward cost to avoid potential mitigation (putting downward pressure on offers, one would surmise). Further, a revised means of calculating import limits into MISO zones had the effect of increasing import capability and reducing the threshold local clearing requirements for most zones. The transfer limit between MISO South and MISO "classic" was reduced to 876 MW from 1,000 MW. The ~135.5 GW of generation that cleared (-876 MW YoY) included 122,379 MW of conventional generation (-586 MW YoY), 3,462 MW of behind-the-meter generation (-524 MW YoY), 5,819 MW of demand resources (-119 MW YoY), and 3,823 MW of external resources (+354 MW YoY).

DYN offered 2,197 MW into the auction (including 870 MW from its IPH segment) but cleared nothing, while EXC's struggling Clinton nuclear plant again cleared as a price-taker. CMS offered and cleared 76 additional MW at its Dearborn Industrial Generation (DIG) merchant plant. In the prior auction when prices had been $150/MW-day in Zone 4, DYN's IPH segment cleared 1,864 MW, with its coal segment clearing 398 MW. Having no volumes clearing at the auction's $72/MW-day clearing price, DYN took care to note in its press release it had bid its megawatts at "cost, as approved by MISO's independent market monitor" in apparent reference to (and the results supportive of) its contention that it had offered appropriately in the last auction as well. Having aggressively diversified their fleet, the company will be less dependent on MISO outcomes going forward with its Atlas Power JV. We expect DYN to discuss its thought process with regard to its MISO assets on its Q1 earnings call. EXC's 1,069 MW Clinton nuclear unit again cleared the auction, ensuring its commitment to operation through 5/31/17 consistent with the company's decision to extend its retirement date last year. However, the plant continues to lose money and EXC noted that a combination of market and legislative reform will be needed to keep it viable beyond that. EXC reiterated it will come to a final decision on the plant before YE and we expect EXC to discuss its thought process on both Clinton and Quad Cities on their Q1 call. We expect them to reiterate their commitment to shutting those plants if they don't receive some financial relief. CMS indicated it had cleared another 76 MW (8%) at its 950 MW DIG plant in Zone 7, the $2.19/kW-m it will receive supportive of the company's ~$2-3/kW-m expectation for the plant (between its contracted and open positions) in 2016 and 2017. CMS had sold/contracted 75% of its available capacity (relative to the 950 MW total) as of the Q4'15 earnings call, indicating there remains a bit of price exposure in 2017 even with the new cleared volumes. The plant's capacity is 90% open beyond 2017, with CMS bullish on future price expectations for the zone as it sees the market continuing to tighten with impending capacity retirements.

What's next? MISO will release detailed auction results on 5/5/16 and offer data on 5/13/16. The FERC investigation into allegations of market manipulation in last year's PRA continues behind the scenes, with no clear timetable as to when the Commission might issue an order on the matter. MISO's proposal to reform its capacity market construct, the Competitive Retail Solution (CRS) introduced on 3/18/16, continues to be debated by stakeholders. The next significant stakeholder meeting will occur on 5/5/16, with the goal of filing changes with FERC by 7/1/16. Key features of the proposal include a separate forward three-year auction for deregulated zones (Zone 4) and a shift to a downward-sloping demand curve. MISO envisions a phase-in of some the market changes beginning in March 2017 with the 17/18 PRA, with the aforementioned three-year forward auction design to be introduced in Spring 2018.

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ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 04/17/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	341	52%
Hold	283	43%
Sell	23	3%
Coverage Suspended	7	1%
Rating Suspended	7	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	48	14%
Hold	12	4%
Sell	2	9%
Coverage Suspended	2	29%
Rating Suspended	0	0%

Issuer-Specific Disclosures (as of April 17, 2016)

The analyst has a financial interest in Energy Capital Partners, which operates a joint venture, Atlas Partners, with Dynegy Inc.

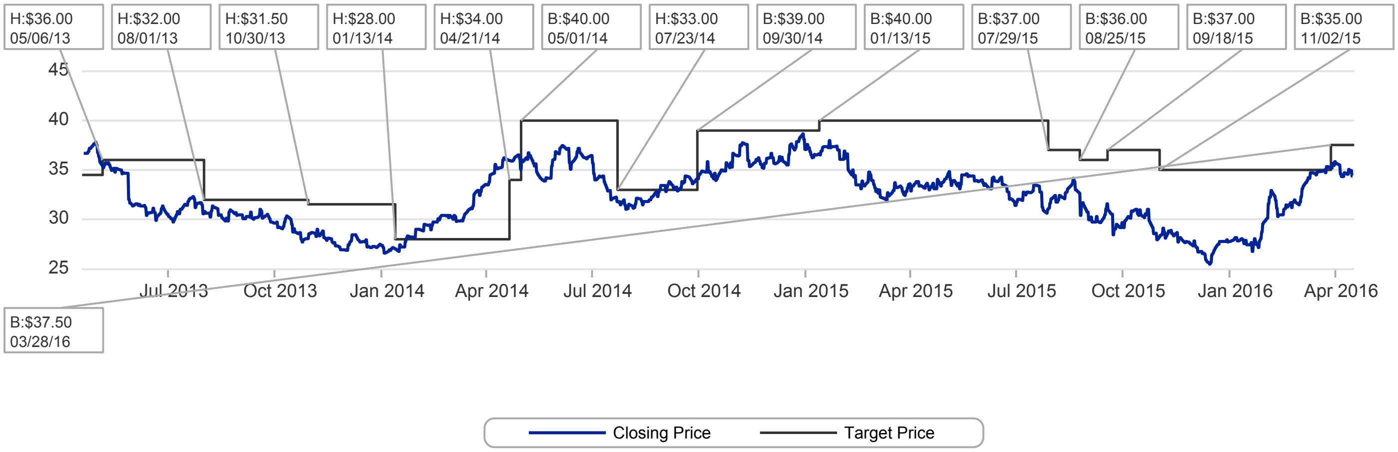
Price Charts

CMS Energy Corp. Rating History as of 04/16/2016

powered by: BlueMatrix

Dynegy Inc. Rating History as of 04/16/2016

powered by: BlueMatrix



Exelon Corp. Rating History as of 04/16/2016

powered by: BlueMatrix

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: ED, PNW, DUK, EXC, D, SO, NEE

April 18, 2016

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What's New?

For current Guggenheim Utility Corporate Access Calendar, scroll to bottom.

Guggenheim initiates coverage of alternative energy - Alternative Energy: Basking in the Sun; Launching Sector Coverage

Guggenheim initiates coverage of IPPs – Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities

2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea

Texas Showdown: Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out

AEP/FE – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC (see our note here)

ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront (see note HERE)
PNW – Arizona ACC getting tough on solar proceedings? Watch UNS
DUK – Electricity sales remain in the hands of the utilities in NC
EXC – More calls to save Clinton nuclear plan…only the beginning in Illinois
D/DUK/SO – Atlantic Coast Pipeline continues to move forward
D/DUK/SO – Forest Service issues permits for ACP surveys of recently proposed route
NEE – Re-zoning approved in Florida allows FP&L to develop 325MW solar facility

PNW – Arizona ACC getting tough on solar proceedings? Watch UNS

- Hearings continue in the UNS solar proceedings.
- UNS proposing 3-part rate design with mandatory demand charges and higher monthly minimum.
- Commissioner Burns wants more options presented for them to make an informed decision. He also thinks timing could be too tight to implement design changes.
- UNS looking to implement new rate in Q1 2017.

Guggenheim takeaway: *Everyone watching UNS as they are ahead of PNW with the solar proceedings. We get the sense that the language coming out of UNS is more noise; political posturing. We hosted several ACC members at Guggenheim for breakfast on a few occasions and didn't get a sense solar proceedings for PNW would be an issue (see our notes HERE and HERE). We believe the solar* *proceedings will likely be concluded in May for PNW right before they file a GRC in June.*

DUK – Electricity sales remain in the hands of the utilities in NC

- Utilities in NC will remain the only entities that can sell renewable energy.
- NC WARN attempted to test the law by installing solar panels on the roof of the Greensboro church (Faith Community Church) and sell power to them directly.
- This was rejected by the NC Utilities Commissions and the advocacy group was fined ~$60K, which it doesn't have to pay if it removes the panels and refund payments made by the Church.

Guggenheim takeaway: *No surprise here. Regulated states will always (in most instances) side with the monopoly utility. In instances when this hasn't happened, issues have arisen (i.e. AZ). We have hosted a lot of Commissioners over the past year and in most instances, Commissioners seem to want the utilities to step up on renewable spending, not third party suppliers (i.e. FL).*

EXC – More calls to save Clinton nuclear plan…only the beginning in Illinois

- State Rep. Bill Mitchell pushing for Illinois General Assembly to pass Bill to support de-regulated nuclear.
- EXC management has already held meetings with House Speaker Michael Madigan (D-Chicago) and Senate President John Cullerton (D-Chicago).
- Clinton cleared in the latest 2016/17 MISO Zone 4 auction but remains CF negative.
- Support centers on potential legislation to help provide cash flows to Byron, Quad Cities and Clinton nuclear plants.
- Low Carbon Portfolio Standard remains open (SB1485, HB3293).
- Negotiations/conversations continue.

Guggenheim takeaway: *Ultimately, we should see some form of legislation. The state cannot afford to lose ~5GW of clean energy capacity – not only from a reliability standpoint but also from an environmental policy standpoint. EXC remains our top hybrid name for a multitude of factors including positive policy shifts towards U.S. nuclear. See HERE for our thoughts on U.S. nuclear. "While EXC deferred its decision to retire IL nukes (Quad Cities, Byron, and Clinton) for another year, we believe MISO capacity market reforms and carbon legislation are key items for sustaining these economically challenged plants. We note the Low Carbon Portfolio Standard will be back on the table in 2016 and is key to setting carbon prices as a bridge to Clean Power Plan compliance. While we believe the legislature will compromise on this plan, in our view, execution is key in 2016.*

D/DUK/SO – Atlantic Coast Pipeline continues to move forward

- Dominion, the lead developer and majority owner of the Atlantic Coast Pipeline (ACP), filed responses to comments and data requests, addressing concerns around the environmental impact of the project.
- The responses filed by ACP developers (see HERE) include ~7,000 pages of information; addressing all FERC environmental information requests from December 2015 and January 2016.
- Next, the pipeline developers are looking to obtain a notice of schedule from FERC, which will provide a timeline for the remainder of the environmental review process.
- D expects to receive a certificate early next year, which would keep the project on-track toward a targeted in-service date in late 2018.

Guggenheim takeaway: *ACP continues to move forward addressing concerns from conservationists and environmental advocates that is typical for projects of this nature, using information obtained through survey activities such as those we highlight below. Despite recent route changes, developers continue to maintain course and expect the project to come on-line in 2018, in line with our expectations.*

D/DUK/SO – Forest Service issues permits for ACP surveys of recently proposed route

- The Forest Service issued temporary special use permits for developers of the Atlatic Coast Pipeline to survey portions of the recently proposed route in the George Washington and Monongahela national forests.
- The permits, which expire in 1 year, allow surveying activity along 14 miles of the George Washington National Forest and 5 miles of the Monongahela National Forest.

Guggenheim takeaway: *Despite relatively consistent headline noise from opponents, ACP developers have managed to survey most of the proposed route with permission from over 90% of the 2,800 landowners along the way; 500 of which have signed easements. Despite recent route changes, developers continue to maintain course and expect the project to come on-line in 2018, in line with our expectations.*

NEE – Re-zoning approved in Florida allows FP&L to develop 325MW solar facility

- County commissioners approved FP&L's application for re-zoning a 3,127-acre parcel that would allow the utility to develop a solar facility up to 325MW.
- The application originally requested approval for a solar facility and a gas-fired plant, however it was revised and limited to solar power production.

Guggenheim takeaway: *If NEE's Florida utility develops a 325MW solar project, it would be the largest in the southeast, however the company indicated it has to firm plans at this time. We recently hosted investors in Florida and solar was a topic of discussion in meetings with NEE and FL commissioners and while the outlook for distributed solar is bleak in the "sunshine state", we believe large-scale development will be an opportunity for utilities – for additional insight see our note.*

Links

- *Guggenheim's Comp Sheet*
- *Forward Commodity Curves for Power and Utility Modeling*

Key Research

1. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
2. Texas Showdown: Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out
3. AEP/FE – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC (see our note here)
4. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM Merged – EXC Remains Our Top Integrated Idea
5. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
6. DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates, PT
7. Justice Scalia’s Passing: Far-Reaching Implications – Impact to Power Sector Noteworthy with Clean Power Plan First Key Test
8. *D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM*
9. Quick Take: Surprise - Supreme Court Sides with FERC over Demand Response
10. Power Breakfast Part Deux: Guggenheim-Hosted Utility Commissioner Meetings
11. Guggenheim's Power & Utilities 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
12. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
13. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
14. GXP - BUY - Mgmt Meeting Takeaways: It’s About Navigating MO Energy Policy – Unified and on a Better Footing
15. FE - Upgrading to BUY - The Buckeye State Now Fully Investable
16. *EEI Full Recap*
17. *Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings*
18. PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve
19. *NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected*
20. EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off
21. PEG - BUY - Management Meeting Takeaways: Constructive Meetings—Solid Regulated Growth, Making Some Moves in Power

22. FE - NEUTRAL - Quick Take: PUCO Staff Submits PPA Positions, Start of a Settlement Conversation
23. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
24. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
25. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables
26. EPA Clean Power Plan: Much Ado About Everything

Keys Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
04/19-05/6	PNW	Value of solar hearings		AZ	E-00000J-14-0023	
04/20-04/21	SO	Regulatory review of proposed acquisition		IL		Regulatory hearings scheduled to consider proposed acquisition
04/20	PCG	Ex Parte investigation	Pacific Gas & Electric Co.	CA	I 15-11-015	Pre-hearing conference
04/26	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
04/29	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Intervenor testimony
05/02	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
05/11		PJM capacity auction (2019/2020)				Base Residual Auction window opens
05/11		PJM Base Residual Auction for 2019/2020				Base Residual Auction window closes
05/17-05/20	SO	Regulatory review of proposed acquisition		MD		Regulatory hearings scheduled to consider proposed acquisition
05/24		PJM capacity auction				2019/2020 Base Residual Auction results posted
05/24	SO	Regulatory review of proposed acquisition		GA		GA commission vote to approve proposed merger settlement
06/01	PNW	PNW files rate case	Arizona Public Service Co.	AZ		
06/02		Clean Power Plan				Federal Appeals Court hearing
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
08/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Opening briefs

Other upcoming events and proceedings

April	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
April	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	PG&E's 2015 gas transmission and storage rate case
April	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PEG	5/2-4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
WR	7/6-8	TX, Midwest	Tony Somma, CFO
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 04/15/2016)

As of 4/15/2016

								Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	**Company**	**Mkt. Cap ($Bn)**	**Rating**	**Target Price[1]**	**Current Price**	**Price Change**	**Diluted Shares**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	32.4	Buy	$62	$66.05	-6%	491	3.70	3.93	4.21	7%	17.9	16.8	15.7	5,619	5,918	6,259	6%	9.6	9.2	8.9	3.70	3.90	4.16	6%	17.9	16.9	15.9	5,690	5,971	6,249	5%	9.5	9.2	8.9
ED	Consolidated Edison, Inc.	22.3	Neutral	$61	$75.85	-20%	294	4.01	4.16	4.27	3%	18.9	18.2	17.8	3,860	4,070	4,396	7%	9.6	9.4	8.9	4.00	4.15	4.31	4%	18.9	18.3	17.6	3,826	4,036	4,267	6%	9.7	9.4	9.2
D	Dominion Resources, Inc.	43.6	Buy	$76	$73.05	4%	597	3.84	3.99	4.47	8%	19.0	18.3	16.3	6,140	6,476	7,094	7%	11.9	11.3	10.4	3.80	3.93	4.37	7%	19.2	18.6	16.7	6,046	6,373	7,071	8%	12.1	11.5	10.4
DTE	DTE Energy Company	16.0	Buy	$92	$89.12	3%	179	4.98	5.27	5.66	7%	17.9	16.9	15.7	2,526	2,686	2,881	7%	10.5	10.1	9.7	4.94	5.26	5.63	7%	18.0	17.0	15.8	2,613	2,771	2,947	6%	10.1	9.8	9.5
DUK	Duke Energy Corporation	55.1	Buy	$81	$80.00	1%	689	4.60	4.83	4.94	4%	17.4	16.6	16.2	8,899	9,122	9,843	5%	11.4	11.3	10.6	4.61	4.77	5.01	4%	17.4	16.8	16.0	9,256	9,795	10,207	5%	10.9	10.5	10.3
EIX	Edison International	23.2	Neutral	$66	$71.06	-7%	326	3.85	4.15	4.33	6%	18.5	17.1	16.4	4,944	5,294	5,647	7%	7.7	7.4	7.1	3.89	4.11	4.31	5%	18.3	17.3	16.5	4,598	4,861	5,172	6%	8.3	8.0	7.7
ES	Eversource Energy	18.0	Buy	$58	$56.72	2%	317	2.99	3.19	3.43	7%	19.0	17.8	16.5	2,560	2,655	2,754	4%	11.2	11.2	11.1	3.00	3.18	3.39	6%	18.9	17.8	16.7	2,601	2,700	2,805	4%	11.1	11.0	10.9
GXP	Great Plains Energy	4.9	Buy	$31	$31.63	-2%	154	1.74	1.87	1.98	7%	18.2	16.9	16.0	1,011	1,068	1,102	4%	8.9	8.4	8.2	1.74	1.83	1.93	5%	18.2	17.3	16.4	989	1,036	1,106	6%	9.1	8.7	8.2
NEE	NextEra Energy, Inc.	54.2	Buy	$124	$117.43	6%	461	6.19	6.60	7.04	7%	19.0	17.8	16.7	6,989	7,610	8,012	7%	12.3	11.5	11.1	6.14	6.53	6.96	6%	19.1	18.0	16.9	7,510	8,230	8,672	7%	11.5	10.6	10.3
PCG	PG&E Corporation	29.4	Neutral	$54	$59.28	-9%	495	3.67	3.70	3.89	3%	16.2	16.0	15.2	6,566	6,825	7,113	4%	7.2	7.1	7.0	3.72	3.68	3.86	2%	15.9	16.1	15.3	6,158	6,514	6,900	6%	7.7	7.5	7.2
PNW	Pinnacle West Capital	8.3	Neutral	$62	$74.34	-17%	111	4.02	4.18	4.43	5%	18.5	17.8	16.8	1,440	1,529	1,634	7%	8.6	8.5	8.1	4.00	4.20	4.38	5%	18.6	17.7	17.0	1,398	1,499	1,594	7%	8.9	8.6	8.3
PPL	PPL Corporation	25.4	Buy	$39	$37.54	4%	676	2.33	2.44	2.57	5%	16.1	15.4	14.6	4,214	4,420	4,689	5%	11.3	11.0	10.5	2.35	2.44	2.51	3%	16.0	15.4	15.0	4,078	4,282	4,555	6%	11.6	11.3	10.8
SO	Southern Company	46.6	Neutral	$41	$50.68	-19%	919	2.85	2.93	3.06	4%	17.8	17.3	16.6	6,677	6,961	7,260	4%	12.3	11.9	11.8	2.85	2.96	3.08	4%	17.8	17.1	16.4	7,153	7,880	8,057	6%	11.5	10.5	10.6
WR	Westar Energy, Inc.	7.2	Buy	$46	$50.60	-9%	142	2.43	2.50	2.60	3%	20.8	20.2	19.5	1,036	1,066	1,105	3%	10.9	10.8	10.5	2.44	2.53	2.62	4%	20.8	20.0	19.3	1,051	1,086	1,124	3%	10.8	10.6	10.3
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.69	1%	235	1.18	1.27	1.35	7%	23.5	21.8	20.5	987	1,033	1,076	4%	10.6	10.1	10.0	1.18	1.28	1.36	7%	23.5	21.6	20.4	1,005	1,068	1,076	3%	10.4	9.7	10.0
Average[2]											**5%**	**18.2**	**17.4**	**16.4**				**6%**	**10.2**	**9.9**	**9.6**				**5%**	**18.2**	**17.4**	**16.5**				**6%**	**10.2**	**9.8**	**9.5**
Integrated utilities																																			
ETR	Entergy Corporation	13.7	Neutral	$69	$76.12	-9%	179	5.18	5.10	5.18	0%	14.7	14.9	14.7	3,682	3,698	3,832	2%	8.0	8.3	8.0	5.17	5.23	5.17	0%	14.7	14.6	14.7	3,451	3,559	3,622	2%	8.6	8.6	8.5
EXC	Exelon Corporation	31.7	Buy	$37	$34.37	8%	922	2.56	2.80	2.99	8%	13.4	12.3	11.5	7,701	8,148	8,575	6%	8.1	7.8	7.6	2.53	2.64	2.77	5%	13.6	13.0	12.4	7,354	7,757	8,533	8%	8.5	8.1	7.6
FE	FirstEnergy Corp.	15.1	Buy	$39	$35.66	9%	425	2.80	2.86	2.92	2%	12.7	12.5	12.2	4,422	4,562	4,628	2%	8.5	8.3	8.1	2.84	2.71	2.70	(2%)	12.6	13.2	13.2	4,497	4,522	4,578	1%	8.4	8.4	8.2
PEG	Public Service Enterprise Grou	23.5	Buy	$46	$46.40	-1%	506	2.95	3.01	3.04	2%	15.7	15.4	15.3	4,203	4,420	4,597	5%	8.3	8.2	8.1	2.90	2.89	2.95	1%	16.0	16.0	15.7	4,129	4,263	4,360	3%	8.4	8.5	8.5
Average											**3%**	**14.1**	**13.8**	**13.4**				**4%**	**8.2**	**8.1**	**7.9**				**1%**	**14.2**	**14.2**	**14.0**				**3%**	**8.5**	**8.4**	**8.2**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.4	Buy	$22	$14.97	47%	359	0.39	0.88	1.44	92%	38.2	17.0	10.4	1,862	2,169	2,544	17%	9.0	7.6	6.3	0.59	1.05	1.40	55%	25.5	14.3	10.7	1,888	2,065	2,232	9%	8.9	8.0	7.2
DYN	Dynegy Inc.	1.8	Buy	$22	$15.58	41%	117	(1.24)	(0.66)	0.40	NA	-12.6	-23.5	39.3	1,097	1,421	1,691	24%	7.5	6.1	5.1	(0.64)	(0.46)	0.47	NA	-24.2	-33.8	33.1	1,103	1,149	1,396	13%	7.5	7.5	6.2
NRG	NRG Energy, Inc.	4.3	Buy	$16	$13.65	17%	316	0.85	(0.52)	0.11	-65%	16.1	-26.1	129.3	3,128	2,809	3,004	(2%)	6.6	7.1	6.3	0.85	0.22	0.75	(6%)	16.0	63.4	18.2	3,115	2,762	2,983	(2%)	6.6	7.2	6.3
TLN	Talen Energy Corp	1.5	Neutral	$7	$11.40	-39%	129	0.72	0.69	0.19	-49%	15.8	16.5	60.0	778	762	716	(4%)	6.5	6.5	6.0	0.69	0.27	0.09	(63%)	16.5	42.7	121.7	757	742	651	(7%)	6.7	6.7	6.6
Average											**-7%**	**14.4**	**-4.0**	**59.7**				**9%**	**7.4**	**6.8**	**5.9**				**(5%)**	**8.4**	**21.7**	**45.9**				**3%**	**7.4**	**7.4**	**6.6**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$12	$14.88	-19%	183	1.06	1.20	1.32	12%	14.0	12.4	11.3	867	1,004	1,120	14%	7.2	6.4	6.7	1.07	1.21	1.25	9%	14.0	12.3	11.9	825	922	1,033	12%	7.5	6.9	7.3
AWK	American Water Works	12.7	Buy	$72	$71.26	1%	178	2.83	3.03	3.20	6%	25.2	23.5	22.3	1,652	1,748	1,835	5%	11.6	11.3	10.9	2.82	3.04	3.25	7%	25.3	23.5	21.9	1,648	1,748	1,835	6%	11.6	11.3	10.9

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	Company	Rating	Price	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Regulated utilities												
AEP	American Electric Power	Buy	$66.05	2.25	2.36	2.48	3.4%	3.6%	3.7%	61%	60%	59%
ED	Consolidated Edison, Inc.	Neutral	$75.85	2.66	2.72	2.77	3.5%	3.6%	3.7%	67%	66%	64%
D	Dominion Resources, Inc.	Buy	$73.05	2.77	2.97	3.23	3.8%	4.1%	4.4%	73%	75%	74%
DTE	DTE Energy Company	Buy	$89.12	2.98	3.13	3.30	3.3%	3.5%	3.7%	60%	60%	59%
DUK	Duke Energy Corporation	Buy	$80.00	3.39	3.55	3.71	4.2%	4.4%	4.6%	74%	75%	74%
EIX	Edison International	Neutral	$71.06	1.98	2.19	2.38	2.8%	3.1%	3.3%	51%	53%	55%
ES	Eversource Energy	Buy	$56.72	1.79	1.90	2.02	3.1%	3.4%	3.6%	60%	60%	60%
GXP	Great Plains Energy	Buy	$31.63	1.09	1.16	1.27	3.4%	3.7%	4.0%	63%	64%	66%
NEE	NextEra Energy, Inc.	Buy	$117.43	3.47	3.90	4.45	3.0%	3.3%	3.8%	57%	60%	64%
PCG	PG&E Corporation	Neutral	$59.28	1.92	2.04	2.19	3.2%	3.4%	3.7%	52%	55%	57%
PNW	Pinnacle West Capital	Neutral	$74.34	2.53	2.65	2.77	3.4%	3.6%	3.7%	63%	63%	63%
PPL	PPL Corporation	Buy	$37.54	1.52	1.56	1.55	4.1%	4.2%	4.1%	65%	64%	62%
SO	Southern Company	Neutral	$50.68	2.22	2.30	2.38	4.4%	4.5%	4.7%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$50.60	1.51	1.60	1.69	3.0%	3.2%	3.3%	62%	63%	64%
TE	TECO Energy, Inc.	Neutral	$27.69	0.92	0.94	0.97	3.3%	3.4%	3.5%	78%	74%	71%
Average							**3.5%**	**3.7%**	**3.9%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$76.12	3.44	3.52	3.55	4.5%	4.6%	4.7%	67%	67%	69%
EXC	Exelon Corporation	Buy	$34.37	1.26	1.29	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$35.66	1.45	1.44	1.44	4.1%	4.0%	4.0%	51%	53%	53%
PEG	Public Service Enterprise Group	Buy	$46.40	1.64	1.72	1.81	3.5%	3.7%	3.9%	57%	59%	61%
Average							**3.9%**	**4.0%**	**4.1%**	**56%**	**57%**	**58%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.97	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$15.58	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$13.65	0.16	0.12	0.12	1.2%	0.9%	0.9%	19%	NA	16%
TLN	Talen Energy Corp	Neutral	$11.40	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$14.88	0.96	1.10	1.26	6.4%	7.4%	8.5%	90%	91%	100%
AWK	American Water Works	Buy	$71.26	1.42	1.59	1.72	2.0%	2.2%	2.4%	50%	52%	53%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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The Guggenheim Daily Transmission: ETR, EXC, ED, AEP, FE, SO April 19, 2016

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What's New?

For current Guggenheim Utility Corporate Access Calendar, scroll to bottom.

Solar – NV regulators don't regret approving solar charges despite pushback
ETR/EXC – Discussion of nuclear subsidies continues in NY, except for Indian Point
ED – Rooftop solar customers now generate 100MW in NYC and Westchester County
AEP/FE – PPAs continue to draw fire; EL&PC argues PPAs limit retail choice
SO – First reactor coolant pump delivered to Vogtle expansion

Recent research highlights:

- ***Guggenheim initiates coverage of alternative energy -*** Alternative Energy: Basking in the Sun; Launching Sector Coverage
- ***Guggenheim initiates coverage of IPPs –*** Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities
- **2016 Outlook:** Liking Utilities but Choose Wisely with a Return to Stock Picking
- **Texas Showdown:** Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out
- **AEP/FE** – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC
- **ED** – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront (see note HERE)

Solar – NV regulators don't regret approving solar charges despite pushback

- Local media published an interview with a Nevada regulator regarding the Commission's decision to increase bills for solar customers without grandfathering existing customers.
- The commissioner defended the decision based on their directive under SB 374, legislation directing the PUC to develop new rooftop solar rates that eliminate cost-shifting from solar customers to other customers.
- The NV decision intends to eliminate cost shifting by raising solar customer bills with higher fixed charges, coupled with lower credits provided for excess power generated.
- The commissioner denied allegations that utilities influenced the decision, noting the only people who tried to intimidate or influence the outcome were from the solar industry itself, which staged protests in front of the PUC

building, distributed home addresses, and filed public data requests before every agenda hearing.

- On solar growth falling to 90 new applications from 1,311 the prior month, the commissioner indicated growth was not expected to keep-pace at 400% increases witnessed in the 6 previous months, and notes the growing balance of credits implied by the incremental net metering customers. The commissioner described recent solar growth as a clamoring to very lucrative incentives, and suggested solar developers that left NV when incentives were reduced are to blame for lower solar growth.

Guggenheim takeaway: *The rate-design debate for solar customers has been charged in many states, however as a judicial body, NV commissioners are precluded from discussing open cases; so we are now beginning to see regulators defend decisions perceived to be utility-friendly as the case is closed. Solar advocates claim the PUC aimed to kill the solar industry – emphasized by SolarCity (SCTY, NC, $30.25) and SunRun (RUN, NC, $7.09) closing their doors in NV. The commissioner, on the other hand, notes this is one of the best rate-design proposals he's seen - which is why it received so much scrutiny. In AZ, we believe the three-part rate design could be accepted by the Commission for PNW's upcoming rate case, but it remains to be seen what the reaction from installers could be.*

ETR/EXC – Discussion of nuclear subsidies continues in NY, except for Indian Point

- EXC is threatening to retire nuclear plants (Nine Mile Point and R.E. Ginna) in uptate NY unless state regulators provide compensation; calling for subsidies allowing them to operate above market prices.
- ETR announced plans to retire its 851MW FitzPatrick plant in upstate NY last year, noting the facility is uneconomic.
- To support carbon reduction goals, the governor supports compensation for upstate nuclear via “zero-emissions credits”; the PSC would look to provide payments in the meantime, to maintain economic viability while the credit program is developed.
- ETR's 2GW Indian Point units 2 & 3 would not be eligible for the proposed credits, which the company argues is disingenuous.

Guggenheim takeaway: *Nuclear accounts for one-third of NY'S electric mix, so the governor acknowledges it is essential to carbon-reduction and energy policy, regulators recognize a NT life-line is more cost-effective than planning around retirement, and the NY-ISO recently cautioned losing ETR's 851MW Fitzpatrick facility would threaten state reliability – everyone appears to be on-board in support of nuclear, however ETR's Indian Point facility in lower NYS still lacks license renewals and is not eligible; the governor continues to target Indian Point for retirement under any circumstance. For additional thoughts on the viability of nuclear, see our note HERE.*

ED – Rooftop solar customers now generate 100MW in NYC and Westchester County

- ED announced customers with rooftop solar now generate 105MW of power in its New York City and Westchester County electric service territories.
- There was only 8.5MW of solar in New York City and Westchester at the end of 2010.

- ED notes the pace has accelerated dramatically since 2010; customers installed ~35MW in 2015 while there was only a total of 8.5MW in NYC and Westchester at the end of 2010.

***Guggenheim takeaway**: Smaller-scale customer applications could drive half the renewable capacity deployed to meet NY's 50% renewable aspiration according to a recent white paper published by the PSC (see HERE), but NY still has a long way to go before it looks like CA, and we don't see a NT threat from distributed resources. ED has constructive rate mechanisms to recover costs so sales erosion isn't really a concern for us - ratebase growth still the NT driver. While we often question how lower demand from DG might impact utility investment plans, ED's investment plans are intact, in our view, because they are driven by replacement, and considering replacement costs likely far exceed depreciated embedded costs in NYC. These were areas of interest in recent meetings we hosted with senior management; see our note HERE for additional takeaways.*

AEP/FE – PPAs continue to draw fire; EL&PC argues PPAs limit retail choice

- Environmental Law & Policy Center (EL&PC) filed comments on the FERC complaint looking to rescind AEP's waiver of affiliate power sales restrictions (EL16-33), specifically on AEP's position that their customers in Ohio are not "captive".
- The EL&PC argues the PPA limits retail choice since it imposes a non-bypassable rider on all customers; implying customers in Ohio would be captive, and Ohio would be limited to 70% retail choice while the remaining 30% services PPAs.

***Guggenheim takeaway:** We don't believe AEP and FE will lose the "captive customer" argument. Captive customers are defined as customers without the ability to shop for retail supply. Although the PPA does include an RSSA rider, this is a DISTRIBUTION CHARGE – distribution falls under state jurisdiction, not FERC jurisdiction. The distribution charge is non-bypassable, but it does not interfere with the definition of a "captive customer." For takeaways on the recently approved PPAs see our note HERE.*

SO – First reactor coolant pump delivered to Vogtle expansion

- SO announced its Georgia utility reached another Vogtle expansion milestone with the delivery of the first reactor coolant pump for the project.
- The 188-ton reactor coolant pump circulates hot water within the reactor and is the first to be delivered to any U.S. AP1000 project.
- Four reactor coolant pumps are needed for each unit.

***Guggenheim takeaway:** We continue to believe that Vogtle yields little concern from an investor standpoint given GA's stance surrounding nuclear and elected commission's vested interest. SO remains confident they can meet their current construction schedule – we think it's achievable but timing is close so execution is key.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
2. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
3. AEP/FE – OH Regulators Approve PPAs - Merchants Likely Turn to FERC
4. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
5. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
6. DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
7. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
8. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
9. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
10. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
11. GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing
12. FE - Upgrading to BUY - The Buckeye State Now Fully Investable
13. EEI Full Recap
14. Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings
15. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
16. PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off
19. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
20. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
21. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
22. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables
23. EPA Clean Power Plan: Much Ado About Everything

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
04/19-05/6	PNW	Value of solar hearings		AZ	E-00000J-14-0023	
04/20-04/21	SO	Regulatory review of proposed acquisition		IL		Regulatory hearings scheduled to consider proposed acquisition
04/20	PCG	Ex Parte investigation	Pacific Gas & Electric Co.	CA	I 15-11-015	Pre-hearing conference
04/21		Regularly-scheduled FERC meeting				Topics could include DUK ROE complaints, OH PPA complaints
04/26	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
04/29	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Intervenor testimony
05/02	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
05/12	EIX	West-of-Devers transmission project	Southern California Edison	CA		Earliest possible CPUC action
05/17-05/20	SO	Regulatory review of proposed acquisition		MD		Regulatory hearings scheduled to consider proposed acquisition
05/19		Regularly-scheduled FERC meeting				Topics could include OH PPA complaints
05/24		PJM capacity auction				2019/2020 Base Residual Auction results posted
05/24	SO	Regulatory review of proposed acquisition		GA		GA commission vote to approve proposed merger settlement
06/01	PNW	PNW files rate case	Arizona Public Service Co.	AZ		
06/02		Clean Power Plan				Federal Appeals Court hearing
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
08/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Opening briefs

Other upcoming events and proceedings

April	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
April	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	PG&E's 2015 gas transmission and storage rate case
April	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PEG	5/2-4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
WR	7/6-8	TX, Midwest	Tony Somma, CFO
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 04/18/2016)

As of 4/18/2016

								Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	32.5	Buy	$62	$66.24	-6%	491	3.70	3.93	4.21	7%	17.9	16.9	15.7	5,619	5,918	6,259	6%	9.5	9.2	8.9	3.70	3.90	4.16	6%	17.9	17.0	15.9	5,677	5,832	6,093	4%	9.4	9.3	9.1
ED	Consolidated Edison, Inc.	22.3	Neutral	$61	$75.77	-19%	294	4.01	4.16	4.27	3%	18.9	18.2	17.7	3,860	4,070	4,396	7%	9.6	9.4	8.9	4.00	4.15	4.31	4%	18.9	18.3	17.6	3,826	4,036	4,267	6%	9.7	9.4	9.2
D	Dominion Resources, Inc.	43.4	Buy	$76	$72.87	4%	597	3.84	3.99	4.47	8%	19.0	18.3	16.3	6,140	6,476	7,094	7%	11.9	11.3	10.4	3.79	3.92	4.34	7%	19.2	18.6	16.8	5,939	6,274	6,903	8%	12.3	11.7	10.7
DTE	DTE Energy Company	16.0	Buy	$92	$89.24	3%	179	4.98	5.27	5.66	7%	17.9	16.9	15.8	2,526	2,686	2,881	7%	10.5	10.1	9.7	4.94	5.26	5.63	7%	18.1	17.0	15.8	2,613	2,771	2,947	6%	10.2	9.8	9.5
DUK	Duke Energy Corporation	55.4	Buy	$81	$80.40	1%	689	4.60	4.83	4.94	4%	17.5	16.6	16.3	8,899	9,122	9,843	5%	11.4	11.4	10.7	4.60	4.77	5.01	4%	17.5	16.9	16.0	9,212	9,733	10,072	5%	11.0	10.6	10.5
EIX	Edison International	23.2	Neutral	$66	$71.06	-7%	326	3.85	4.15	4.33	6%	18.5	17.1	16.4	4,944	5,294	5,647	7%	7.6	7.3	7.0	3.89	4.11	4.31	5%	18.3	17.3	16.5	4,598	4,861	5,172	6%	8.2	8.0	7.6
ES	Eversource Energy	18.1	Buy	$58	$57.12	2%	317	2.99	3.19	3.43	7%	19.1	17.9	16.7	2,560	2,655	2,754	4%	11.3	11.2	11.1	3.00	3.18	3.39	6%	19.1	17.9	16.8	2,607	2,707	2,813	4%	11.1	11.0	10.9
GXP	Great Plains Energy	4.9	Buy	$31	$31.82	-3%	154	1.74	1.87	1.98	7%	18.3	17.0	16.1	1,011	1,068	1,102	4%	9.0	8.5	8.2	1.74	1.83	1.93	5%	18.3	17.4	16.5	989	1,036	1,106	6%	9.2	8.7	8.2
NEE	NextEra Energy, Inc.	54.3	Buy	$124	$117.77	5%	461	6.19	6.60	7.04	7%	19.0	17.8	16.7	6,989	7,610	8,012	7%	12.3	11.5	11.2	6.14	6.53	6.96	6%	19.2	18.0	16.9	7,527	8,235	8,682	7%	11.5	10.7	10.3
PCG	PG&E Corporation	29.5	Neutral	$54	$59.55	-9%	495	3.67	3.70	3.89	3%	16.2	16.1	15.3	6,566	6,825	7,113	4%	7.2	7.2	7.0	3.72	3.68	3.86	2%	16.0	16.2	15.4	6,158	6,514	6,900	6%	7.7	7.5	7.2
PNW	Pinnacle West Capital	8.3	Neutral	$62	$74.73	-17%	111	4.02	4.18	4.43	5%	18.6	17.9	16.9	1,440	1,529	1,634	7%	8.7	8.5	8.1	4.00	4.20	4.38	5%	18.7	17.8	17.0	1,398	1,499	1,594	7%	8.9	8.7	8.3
PPL	PPL Corporation	25.5	Buy	$39	$37.73	3%	676	2.33	2.44	2.57	5%	16.2	15.5	14.7	4,214	4,420	4,689	5%	11.3	11.0	10.6	2.35	2.44	2.51	3%	16.0	15.5	15.0	4,077	4,281	4,536	5%	11.7	11.4	11.0
SO	Southern Company	46.8	Neutral	$41	$50.91	-19%	919	2.85	2.93	3.06	4%	17.9	17.4	16.6	6,677	6,961	7,260	4%	12.3	11.9	11.8	2.85	2.96	3.08	4%	17.9	17.2	16.5	7,151	7,878	8,053	6%	11.5	10.5	10.6
WR	Westar Energy, Inc.	7.2	Buy	$46	$50.86	-10%	142	2.43	2.50	2.60	3%	20.9	20.3	19.6	1,036	1,066	1,105	3%	11.0	10.8	10.5	2.44	2.53	2.62	4%	20.9	20.1	19.4	1,051	1,086	1,124	3%	10.8	10.6	10.4
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.75	1%	235	1.18	1.27	1.35	7%	23.5	21.9	20.6	987	1,033	1,076	4%	10.6	10.1	10.0	1.18	1.28	1.36	7%	23.5	21.6	20.4	1,005	1,068	1,076	3%	10.5	9.7	10.0
Average[2]											**5%**	**18.3**	**17.4**	**16.5**				**6%**	**10.3**	**10.0**	**9.6**				**5%**	**18.3**	**17.5**	**16.6**				**6%**	**10.2**	**9.9**	**9.5**
Integrated utilities																																			
ETR	Entergy Corporation	13.7	Neutral	$69	$76.25	-10%	179	5.18	5.10	5.18	0%	14.7	15.0	14.7	3,682	3,698	3,832	2%	8.1	8.4	8.1	5.17	5.23	5.15	(0%)	14.8	14.6	14.8	3,434	3,573	3,614	3%	8.7	8.7	8.6
EXC	Exelon Corporation	31.7	Buy	$37	$34.43	7%	922	2.56	2.80	2.99	8%	13.5	12.3	11.5	7,701	8,148	8,575	6%	8.1	7.8	7.4	2.53	2.64	2.78	5%	13.6	13.0	12.4	7,324	7,745	8,531	8%	8.6	8.2	7.5
FE	FirstEnergy Corp.	15.2	Buy	$39	$35.85	9%	425	2.80	2.86	2.92	2%	12.8	12.5	12.3	4,422	4,562	4,628	2%	8.5	8.3	8.1	2.83	2.70	2.68	(3%)	12.7	13.3	13.4	4,497	4,521	4,578	1%	8.4	8.4	8.2
PEG	Public Service Enterprise Grou	23.7	Buy	$46	$46.74	-2%	506	2.95	3.01	3.04	2%	15.8	15.5	15.4	4,203	4,420	4,597	5%	8.3	8.3	8.1	2.90	2.90	2.96	1%	16.1	16.1	15.8	4,129	4,272	4,375	3%	8.4	8.5	8.5
Average											**3%**	**14.2**	**13.8**	**13.5**				**4%**	**8.3**	**8.2**	**7.9**				**1%**	**14.3**	**14.3**	**14.1**				**4%**	**8.5**	**8.4**	**8.2**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.5	Buy	$22	$15.23	44%	359	0.39	0.88	1.44	92%	38.8	17.3	10.5	1,862	2,169	2,544	17%	9.1	7.7	6.4	0.59	1.02	1.39	54%	26.0	14.9	11.0	1,888	2,051	2,222	9%	8.9	8.1	7.3
DYN	Dynegy Inc.	1.9	Buy	$22	$16.02	37%	117	(1.24)	(0.66)	0.40	NA	-12.9	-24.2	40.5	1,097	1,421	1,691	24%	7.5	6.1	5.2	(0.69)	(0.36)	0.50	NA	-23.4	-44.3	32.1	1,099	1,139	1,404	13%	7.5	7.6	6.2
NRG	NRG Energy, Inc.	4.3	Buy	$16	$13.78	16%	316	0.85	(0.52)	0.11	-65%	16.2	-26.4	130.5	3,128	2,809	3,004	(2%)	6.6	7.1	6.3	0.85	0.20	0.74	(6%)	16.3	70.6	18.5	3,109	2,749	2,991	(2%)	6.6	7.2	6.3
TLN	Talen Energy Corp	1.5	Neutral	$7	$11.87	-41%	129	0.72	0.69	0.19	-49%	16.5	17.2	62.5	778	762	716	(4%)	6.6	6.6	7.0	0.70	0.24	(0.02)	NA	16.9	49.8	-557	761	733	665	(7%)	6.7	6.8	7.5
Average											**-7%**	**14.7**	**-4.0**	**61.0**				**9%**	**7.4**	**6.9**	**6.2**				**24%**	**8.9**	**22.7**	**-124**				**3%**	**7.4**	**7.5**	**6.8**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$12	$14.87	-19%	183	1.06	1.20	1.32	12%	14.0	12.4	11.3	867	1,004	1,120	14%	7.2	6.4	6.7	1.07	1.21	1.25	9%	14.0	12.3	11.9	825	922	1,033	12%	7.5	6.9	7.3
AWK	American Water Works	12.8	Buy	$72	$71.70	0%	178	2.83	3.03	3.20	6%	25.3	23.7	22.4	1,652	1,748	1,835	5%	11.8	11.3	11.0	2.82	3.04	3.25	7%	25.4	23.6	22.0	1,652	1,748	1,835	5%	11.8	11.3	11.0

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Ticker	Company	Rating	Current Price	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
				2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Regulated utilities												
AEP	American Electric Power	Buy	$66.24	2.25	2.36	2.48	3.4%	3.6%	3.7%	61%	60%	60%
ED	Consolidated Edison, Inc.	Neutral	$75.77	2.66	2.73	2.78	3.5%	3.6%	3.7%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$72.87	2.77	2.97	3.23	3.8%	4.1%	4.4%	73%	76%	74%
DTE	DTE Energy Company	Buy	$89.24	2.98	3.13	3.30	3.3%	3.5%	3.7%	60%	60%	59%
DUK	Duke Energy Corporation	Buy	$80.40	3.40	3.54	3.71	4.2%	4.4%	4.6%	74%	74%	74%
EIX	Edison International	Neutral	$71.06	1.98	2.19	2.38	2.8%	3.1%	3.3%	51%	53%	55%
ES	Eversource Energy	Buy	$57.12	1.79	1.90	2.02	3.1%	3.3%	3.5%	60%	60%	60%
GXP	Great Plains Energy	Buy	$31.82	1.09	1.16	1.27	3.4%	3.7%	4.0%	63%	64%	66%
NEE	NextEra Energy, Inc.	Buy	$117.77	3.47	3.90	4.45	2.9%	3.3%	3.8%	57%	60%	64%
PCG	PG&E Corporation	Neutral	$59.55	1.92	2.04	2.19	3.2%	3.4%	3.7%	52%	55%	57%
PNW	Pinnacle West Capital	Neutral	$74.73	2.53	2.65	2.77	3.4%	3.5%	3.7%	63%	63%	63%
PPL	PPL Corporation	Buy	$37.73	1.52	1.56	1.56	4.0%	4.1%	4.1%	65%	64%	62%
SO	Southern Company	Neutral	$50.91	2.22	2.30	2.38	4.4%	4.5%	4.7%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$50.86	1.51	1.60	1.69	3.0%	3.1%	3.3%	62%	63%	64%
TE	TECO Energy, Inc.	Neutral	$27.75	0.92	0.94	0.97	3.3%	3.4%	3.5%	78%	74%	71%
Average							**3.5%**	**3.6%**	**3.9%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$76.25	3.44	3.52	3.55	4.5%	4.6%	4.7%	67%	67%	69%
EXC	Exelon Corporation	Buy	$34.43	1.26	1.29	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$35.85	1.45	1.44	1.44	4.0%	4.0%	4.0%	51%	53%	54%
PEG	Public Service Enterprise Group	Buy	$46.74	1.64	1.72	1.81	3.5%	3.7%	3.9%	57%	59%	61%
Average							**3.9%**	**4.0%**	**4.1%**	**56%**	**57%**	**58%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.23	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$16.02	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$13.78	0.16	0.12	0.12	1.2%	0.9%	0.9%	19%	NA	16%
TLN	Talen Energy Corp	Neutral	$11.87	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$14.87	0.96	1.10	1.26	6.4%	7.4%	8.5%	90%	91%	100%
AWK	American Water Works	Buy	$71.70	1.46	1.59	1.72	2.0%	2.2%	2.4%	52%	52%	53%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	153	60.47%	30	19.61%
Neutral	99	39.13%	1	1.01%
Sell	1	0.40%	0	0.00%

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Exelon Corp EXC (XNYS)

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Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.04	0.85	1.02	0.99
Price/Earnings	13.7	15.6	17.2	20.8
Forward P/E	13.4	—	16.1	14.3
Price/Cash Flow	4.1	5.1	6.1	11.6
Price/Free Cash Flow	—	74.7	11.0	18.0
Trailing Dividend Yield%	3.56	4.65	3.62	2.31

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Are Utilities Overheated or Are Their Yields too Good to Pass Up?

Travis Miller, Sector Director, 13 April 2016

Investment Thesis

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Travis Miller, Sector Director, 20 April 2016

Analyst Note

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Exelon Corp EXC (XNYS)

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	23,863	10,415	28.44	14.27
FirstEnergy Corp FE	USD	15,040	15,026	15.25	25.91
Entergy Corp ETR	USD	13,642	11,513	-2.60	0.00

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to

$2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 24 March 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on

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19 Apr 2016	19 Apr 2016			19 Apr 2016	19 Apr 2016	19 Apr 2016		

the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

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Analyst Notes Archive

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Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40%

Travis Miller, Sector Director, 06 April 2016

We are cutting our midcycle assumptions for Brent oil, U.S. Henry Hub natural gas, and U.S. and European power prices. This will lead us to cut our fair value estimates 10%-40% for utilities with merchant power market exposure. We are maintaining our midcycle assumptions for coal, Eastern U.S. gas basis, and regional market heat rates.

Our new long-term marginal cost for U.S. natural gas is $3 per thousand cubic feet, down from $4/mcf. The cut is based on a more optimistic outlook for low-cost U.S. gas production primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica. We see more evidence that U.S. shale producers can survive at much lower prices than we previously assumed.

The midcycle gas price cut results in a similar cut to our midcycle U.S. power prices. Our benchmark PJM West around-the-clock midcycle price falls to $30.60 per megawatt hour from $43.35 when including our $0.60/mmBtu gas basis discount. The rest of our U.S. midcycle power prices fall 25%.

Power producers with large coal and nuclear fleets face the biggest fair value estimate cuts. These include Dynegy and NRG Energy. Diversified utilities with large coal and nuclear fleets such as Exelon and FirstEnergy could have 10%-20% fair value estimate cuts as we incorporate the new midcycle prices. Power producers with large gas generation fleets such as Calpine will experience smaller fair value estimate cuts because gas generation should benefit from lower costs and higher run times in our midcycle forecasts.

Our new Brent oil midcycle price is $60 per barrel, down from $70. The long-term structural issue facing crude markets is that the world needs some U.S. production growth, but not nearly as much as tight oil can supply. Our Brent oil price cut will lead us to cut our fair value estimate for Centrica.

We will be publishing updated reports and valuations on all companies within the next week.

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Exelon and Pepco Join to Sing a Duet: At Last

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 02 March 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 29 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 19 Apr 2016	34.80 USD 19 Apr 2016	30.00 USD	1.16	3.56 19 Apr 2016	3.56 19 Apr 2016	32.01 19 Apr 2016	Utilities - Diversified	Standard

take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Still Awaiting Power Market Upside and Pepco Acquisition Approvals

Travis Miller, Sector Director, 30 October 2015

We are reaffirming our $35 fair value estimate and narrow economic moat and stable moat trend ratings for Exelon after the firm reported adjusted earnings of $0.83 per share in the third quarter, up from $0.78 per share in the third quarter of 2014. Management raised its full-year earnings guidance range $0.05 per share to $2.40-$2.60, in line with our full-year outlook.

Management noted Exelon's retail-wholesale combination was a meaningful contributor to the higher quarterly and year-to-date earnings, amplified by last year's Integrys acquisition. We've long believed Exelon's retail-wholesale combination and scale can be value-accretive for shareholders, and it appears to be paying off, albeit at still a small level. Favorable weather for Exelon's regulated utilities was a key reason for higher earnings in the quarter. On a weather-normalized basis, we expect capital investment and recent rate activity in Pennsylvania and Maryland to be the key earnings growth driver in 2016-18.

Estimated 2015-17 gross margin for Exelon Generation climbed during the quarter primarily due to above-market hedges. Management now projects $7.8 billion gross margin in 2016 and 2017 with a 2017 upside near $9.0 billion based on hedging about half of its projected generation. We think this is a good position given our bullish power market outlook. Management also announced its intention to delay its nuclear plant retirement decision until next year. We continue to assume a high likelihood that it retires four plants by 2018 based on current market conditions.

Management now expects to close the Pepco acquisition in the first quarter of 2016. We continue to incorporate $1 per share fair value dilution. On Oct. 28, the D.C. commission accepted Exelon-Pepco's appeal and said it expects to make a decision in less than 150 days, suggesting mid-March.

Pepco Reports Third-Quarter Earnings; Acquisition by Exelon Likely to Close Early Next Year

Charles Fishman, Eq. Analyst, 26 October 2015

We are reiterating our $35 per share fair value estimate for Exelon and $26 fair value estimate for Pepco after Pepco reported third-quarter earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

Pepco reported operating earnings of $0.33 per share versus $0.46 in the same period last year. Earnings were negatively affected by higher operations and maintenance expense, implementation costs associated with a new customer information system, increased transmission revenue reserves related to a return on equity challenge and higher property taxes.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining approval of the Public Service Commission of the District of Columbia and being completed following the agreement with Washington, D.C., Mayor Muriel Bowser. We expect the D.C. commission to approve Exelon and Pepco's request to reopen the merger proceeding in their meeting on Oct. 28. Assuming the D.C. commission does reopen the proceeding, briefings would not be completed until late December. Therefore, we would not expect the merger to close until early 2016.

Although the merger appears to be on track in D.C., it is unclear whether the proceedings will be reopened in Delaware, New Jersey, and Maryland, jurisdictions that have already approved the transaction. The commitments Exelon made to these states to obtain approval are subject to most-favored-nation clauses and may need to be enhanced.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Exelon Corp EXC ★★★^{Q}

Last Close 19 Apr 2016	**Quantitative Fair Value Est** 19 Apr 2016	**Market Cap** 19 Apr 2016	**Sector**	**Industry**	**Country of Domicile**
34.80	33.62	32,013.4 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	90	88	86
Valuation	Fairly Valued	25	46	37
Quantitative Uncertainty	High	93	84	89
Financial Health	Moderate	61	56	61

Source: Morningstar Equity Research

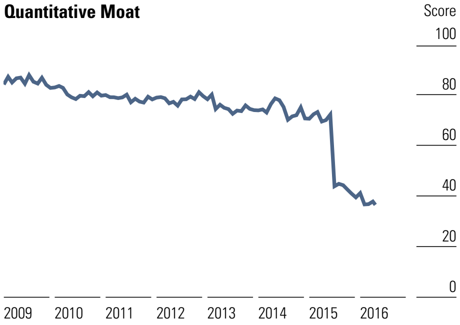
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.04	0.85	1.02	0.99
Price/Earnings	13.7	15.6	17.2	20.8
Forward P/E	13.4	—	16.1	14.3
Price/Cash Flow	4.1	5.1	6.1	11.6
Price/Free Cash Flow	—	74.7	11.0	18.0
Trailing Dividend Yield %	3.56	4.65	3.62	2.31
Price/Book	1.2	1.5	1.2	2.3
Price/Sales	1.1	1.2	1.3	1.8

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.4	9.7	9.6	12.1
Return on Assets %	2.5	2.6	3.1	4.7
Revenue/Employee (K)	989.4	958.0	1,248.9	298.3

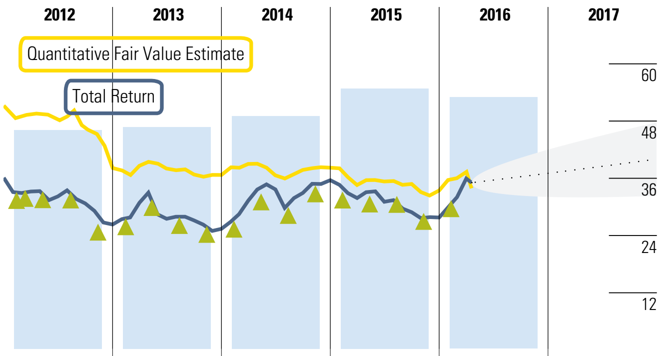
Quantitative Moat



Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.5
Solvency Score	—	—	625.0	577.3
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

Price Versus Quantitative Fair Value



▇ Sales/Share
◁ Forecast Range
···· Forcasted Price
▲ Dividend
△ Split

Momentum: Neutral
Standard Deviation: 21.83
Liquidity: High

25.09 52-Wk 35.95 ▼

25.09 5-Yr 45.45 ▼

2012	2013	2014	2015	2016	2017	
-26.6	-3.0	39.9	-21.8	26.4		Total Return %
-42.9	-36.1	27.1	-22.5	23.2		+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—		Trailing Dividend Yield %
—	—	—	—	3.56		Forward Dividend Yield %
21.0	14.7	15.2	12.3	13.7		Price/Earnings
1.0	0.9	1.2	0.8	1.1		Price/Revenue

Morningstar Rating^{Q}

2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	29,447	Revenue
1.5	24.1	6.0	10.2	7.4	0.0	% Change
4,480	2,380	3,656	3,096	4,409	4,409	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	0.0	% Change
2,495	1,160	1,719	1,623	2,269	2,269	Net Income
4,853	6,131	6,343	4,457	7,616	7,616	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-7,624	Capital Spending
811	321	948	-1,620	-8	-8	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	0.0	% Sales
3.75	1.42	2.00	1.88	2.54	2.54	EPS
-3.1	-62.1	40.8	-6.0	35.1	0.0	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.01	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.04	Book Value/Share
855,000	857,000	860,000	920,000	919,925	919,925	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	9.4	Return on Equity %
4.7	1.7	2.2	2.0	2.5	2.5	Return on Assets %
13.2	4.9	6.9	5.9	7.7	7.7	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.32	Asset Turnover
3.8	3.7	3.5	3.8	3.7	3.7	Financial Leverage
62.3	56.8	56.9	52.6	55.6	55.6	Gross Margin %
23.7	10.1	14.7	11.3	15.0	15.0	Operating Margin %
12,189	18,346	18,271	20,010	24,286	24,286	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,793	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

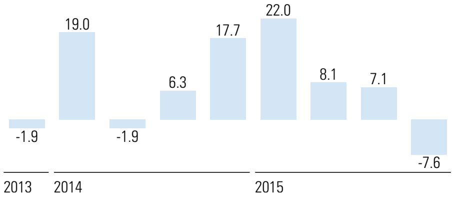
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	9.2	1.6	1.2	-0.1

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

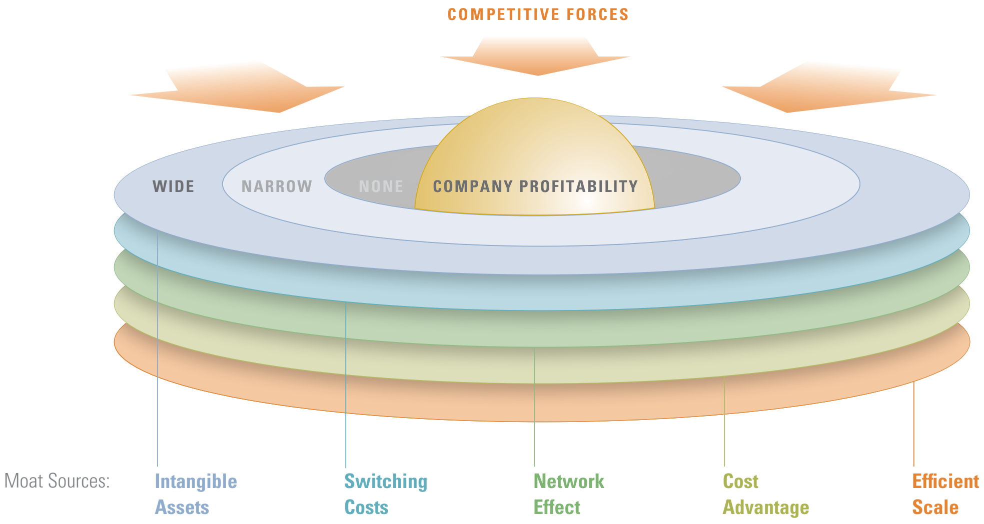
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

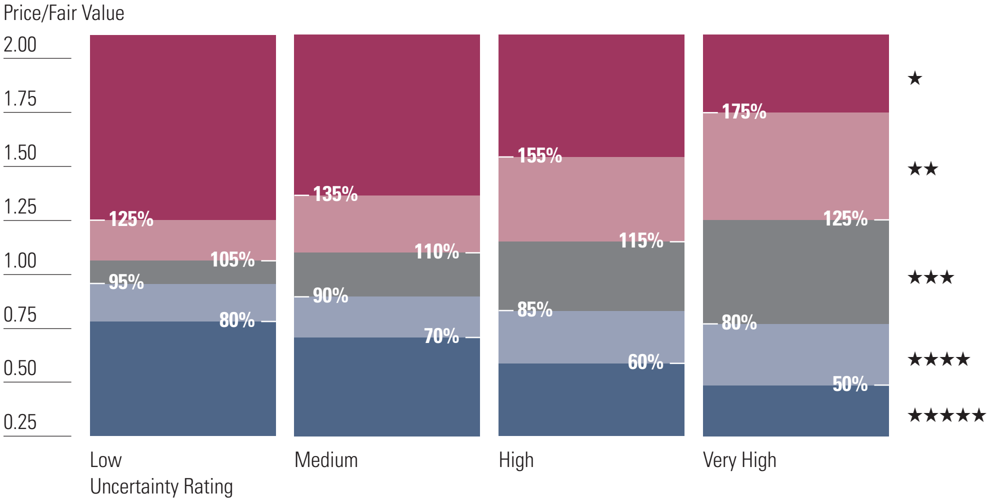
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	**Last Price**	**Fair Value Estimate**	**Price/Fair Value**	**Trailing Dividend Yield %**	**Forward Dividend Yield %**	**Market Cap (Bil)**	**Industry**	**Stewardship**
★★ 19 Apr 2016	34.80 USD 19 Apr 2016	30.00 USD	1.16	3.56 19 Apr 2016	3.56 19 Apr 2016	32.01 19 Apr 2016	Utilities - Diversified	Standard

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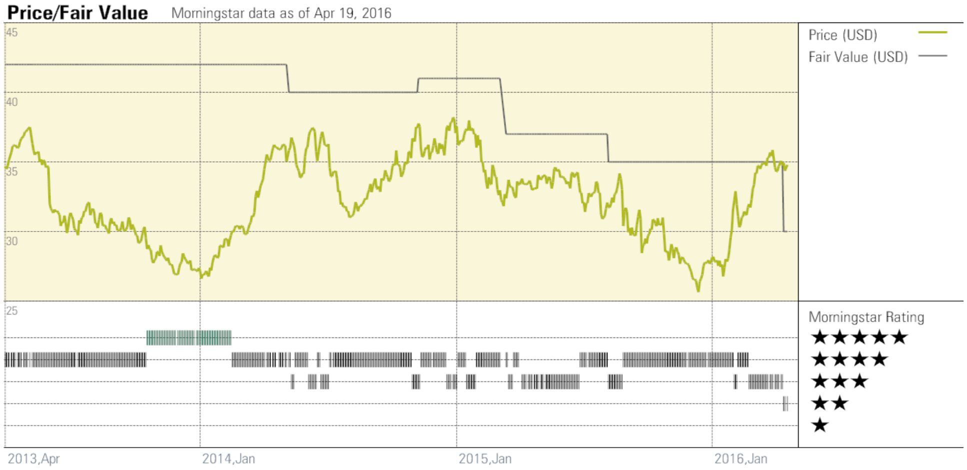
Price/Fair Value Morningstar data as of Apr 19, 2016



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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.80 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Are Utilities Overheated or Are Their Yields too Good to Pass Up?

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The primary analyst covering this company does not own its stock.

Research as of 20 Apr 2016
Estimates as of 13 Apr 2016
Pricing data through 19 Apr 2016
Rating updated as of 19 Apr 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 20 Apr 2016

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

Vital Statistics

Market Cap (USD Mil)	32,013
52-Week High (USD)	35.95
52-Week Low (USD)	25.09
52-Week Total Return %	9.3
YTD Total Return %	26.4
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.16

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*14.5*	*14.7*
EV/EBITDA	9.5	6.6	*7.8*	*7.6*
EV/EBIT	16.7	10.2	*12.4*	*12.4*
Free Cash Flow Yield %	-5.1	0.0	*-5.3*	*-3.8*
Dividend Yield %	3.3	4.3	*3.6*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.80 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Cheap debt, low commodity prices, and a renewed focus on regulated infrastructure investment have contributed to the sector's financial health. We project the median dividend payout ratio will fall below 60% during the next four years, down from mid-60% in past years. We also forecast median 5% annualized dividend growth during the next four years, up from 3% in recent years.

Duke Energy, the largest U.S. utility, is a Morningstar Best Idea and yields 4.1% as of April 20. We think the market has focused too much on the weak Latin American unit and pricey Piedmont Natural Gas acquisition. We believe investors should pay attention to Duke's strong management team that has long focused on regulated capital investment opportunities, supporting our 5.5% earnings growth estimate, divesting noncore no-moat assets, and driving efficiencies across all of its businesses.

In 2016-20, we anticipate Duke will invest $42 billion, of which nearly $30 billion is growth capital supporting our earnings growth estimate. We anticipate that Duke will be able to recover these costs through constructive regulatory outcomes. Adding Piedmont boosts its growth potential further.

We are hosting an investor call June 8 at 2 p.m. CST with Duke Energy CFO, Steve Young. Contact Andy Bischof at Andrew.bischof@morningstar.com or (312) 696-6433 if you would like to join.

Morningstar's Utilities Sector Outlook presentation for spring 2016 is now available.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.80 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	2016	2017	5-Year Proj. CAGR
Revenue	7.8	6.0	10.2	7.4	-13.6	10.5	1.0
EBIT	22.8	53.6	-15.3	42.4	-5.5	0.5	4.5
EBITDA	17.2	36.3	-6.9	26.8	-2.8	1.8	3.9
Net Income	-1.6	-7.9	-4.0	7.7	-0.3	-1.8	5.3
Diluted EPS	-4.4	-12.3	-4.4	4.2	-3.6	-1.9	4.5
Earnings Before Interest, after Tax	15.0	-13.0	53.5	13.7	-37.4	3.1	-3.6
Free Cash Flow	-33.9	-22.3	-92.0	365.5	-253.2	-31.1	33.2

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	13.7	14.7	11.3	15.0	16.4	14.9	16.9
EBITDA Margin %	22.1	23.3	19.7	23.3	26.2	24.2	26.1
Net Margin %	7.9	8.6	7.5	7.6	8.7	7.8	8.9
Free Cash Flow Margin %	2.8	6.1	0.4	1.9	-3.4	-2.1	1.9
ROIC %	3.1	2.5	2.5	4.1	4.6	5.0	5.3
Adjusted ROIC %	3.2	2.7	2.7	4.3	4.8	5.2	5.6
Return on Assets %	2.2	2.2	2.0	2.5	2.3	2.2	2.6
Return on Equity %	8.0	7.7	7.1	9.3	8.3	7.8	8.7

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.49	0.47	0.49	0.50	0.49	0.49	0.48
Total Debt/EBITDA	3.81	3.46	4.12	3.84	4.02	4.04	3.74
EBITDA/Interest Expense	5.33	4.28	5.08	6.64	5.85	5.57	5.75

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	14.5	14.7
EV/EBITDA	9.5	6.6	7.8	7.6
EV/EBIT	16.7	10.2	12.4	12.4
Free Cash Flow Yield %	-5.1	0.0	-5.3	-3.8
Dividend Yield %	3.3	4.3	3.6	3.7

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	—	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.80 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.80 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Exelon Corp EXC (NYSE) | ★★

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34.80 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Exelon Corp EXC (NYSE) | ★★

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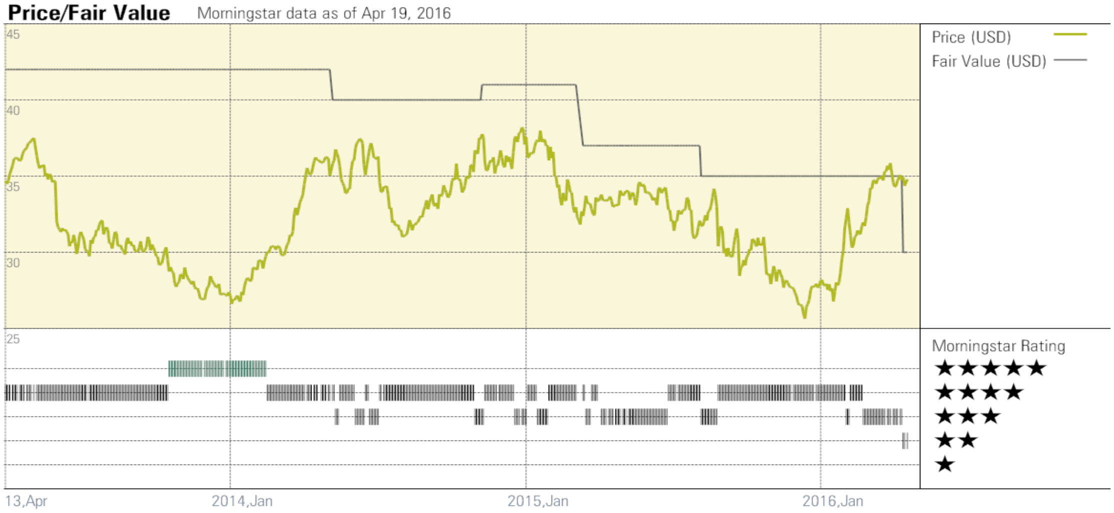

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.80 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: AEP, FE, PCG, D, DUK, SO, ED, EXC, GXP April 20, 2016

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What's New?

For current Guggenheim Utility Corporate Access Calendar, scroll to bottom.

AEP/FE – FERC authority affirmed with Supreme Court rejecting subsidized contracts in MD.
PCG – Judge limits evidence jury may hear in San Bruno trial.
D/DUK/SO – Atlantic Coast Pipeline continues to move forward.
ED – Utilities and solar companies file joint proposal to encourage more renewables.
EXC – MD rate case filed for Pepco.
GXP – MO H.B. 2689 moving forward.

Recent research highlights:

- ***Guggenheim initiates coverage of alternative energy -*** Alternative Energy: Basking in the Sun; Launching Sector Coverage
- ***Guggenheim initiates coverage of IPPs –*** Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities
- **2016 Outlook:** Liking Utilities but Choose Wisely with a Return to Stock Picking
- **Texas Showdown:** Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out
- **AEP/FE** – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC
- **ED** – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront (see note HERE)

AEP/FE – Supreme Court strikes down MD contracts; NJ likely up next

- U.S. Supreme Court struck down the power plant subsidy law in Maryland for interference with FERC jurisdiction in wholesale power markets.
- We expect the same for NJ case.

Guggenheim takeaway: *Although Supreme Court support for the MD contracts would have been a net positive overall, the ruling doesn't have a direct read-through into the Ohio PPAs – the situations and structure of contracts are completely different. Justices' rationale for rejected the MD contract didn't give much color for the Ohio PPA requests. As we have highlighted before, we don't believe AEP and FE will lose the "captive customer" argument. Captive customers are defined as customers without the ability to shop for retail supply. Although the PPA does include an RSSA rider, this is a DISTRIBUTION CHARGE – distribution falls under state jurisdiction, not FERC jurisdiction. The distribution charge is non-*

bypassable, but it does not interfere with the definition of a "captive customer." For takeaways on the recently approved PPAs, see our note HERE.

PCG – Judge limits evidence jury may hear in San Bruno trial

- A judge ruled that jurors in PCG's criminal trial wil not hear graphic evidence, or view the damaged pipe itself.
- The judge barred evidence specific to fatalities, testimony from first responders, and prosecutor attempts to bring the 3,000-lb pipe to court as an exhibit.
- The judge also granted PCG's request to exclude evidence from the federal safety board and the California Public Utilities Commission (CPUC) that found the utility at fault for the explosion.

***Guggenheim takeaway:** Incrementally positive for PCG as the judge rules against prosecutors that were likely intending to focus juror attention on the aftermath of the explosion, rather than the cause. Cause shouldn't be relevant to the federal charges, and investigators that already found PCG at fault could influence jurors.*

D/DUK/SO – Atlantic Coast Pipeline continues to move forward

- Dominion, the lead developer and majority owner of the Atlantic Coast Pipeline (ACP), filed responses to comments and data requests, addressing concerns around the environmental impact of the project.
- The responses filed by ACP developers (see HERE) include ~7,000 pages of information; addressing all FERC environmental information requests from December 2015 and January 2016.
- Next, the pipeline developers are looking to obtain a notice of schedule from FERC, which will provide a timeline for the remainder of the environmental review process.
- D expects to receive a certificate early next year, which would keep the project on-track toward a targeted in-service date in late 2018.

***Guggenheim takeaway:** ACP continues to move forward addressing concerns from conservationists and environmental advocates that are typical for projects of this nature, using information obtained through survey activities such as those we highlight below. Despite recent route changes, developers continue to maintain course and expect the project to come on-line in 2018, in line with our expectations.*

ED – Utilities and solar companies file joint proposal to encourage more renewables

- 6 NY utilities and 3 solar companies formed a partnership to support more solar development in the state, while ensuring adequate funding available to maintain reliability.
- This week, the Partnership proposed a transition from the current net metering model to one that also addresses cost-sharing issues with solar.
- The filing recommends a payment from solar developers to the grid, while preserving utility bill savings for their customers.

***Guggenheim takeaway:** ED appears to be adapting to the ever-evolving regulatory climate in New York based on recent partnerships aligned with the state's energy agenda; although still not clear what the end-game is here – NT posturing for rate case? Going-along to get-along? Or simply fishing for a longer-term growth opportunity outside of a general rate case? We just hosted management for Roadshow – see our note:* **CLICK HERE TO ACCESS THIS REPORT**

EXC – EXC rate case filed for Pepco in MD

- Company ask of $127mm, 10.6% ROE.
- Opponents/interveners already complaining filing came too fast as merger just closed including the People's Counsel.
- Recovery for Smart Meter deployment among other items.

Guggenheim takeaway: *These rapid filings are very consistent with our merger closing note: Rate case filings for POM are where a lot of EXC organic growth opportunities will come from as the newly acquired utilities are major under-earners. See our note where we provide rate case assumptions for POM utilities here:* **CLICK HERE TO ACCESS THIS REPORT.**

GXP – Key MO legislation takes another step forward

- House votes 142 to 2 in favor of passing H.B. 2689.
- Bill now in front of Senate.
- In addition to helping to provide some reprieve to Noranda, Bill would push for comprehensive policy changes the in-state utilities are looking for including GXP.

Guggenheim takeaway: *This is the Bill everyone should follow as MO policy changes are crucial to our GXP thesis – seems like it's moving forward at a very healthy clip. As we highlighted in the past, we believe MO energy legislation is key to GXP to reduce its regulatory lag and we believe momentum will continue for this legislation to be passed before the session ends on May 13.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
2. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
3. AEP/FE – OH Regulators Approve PPAs - Merchants Likely Turn to FERC
4. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
5. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
6. DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
7. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
8. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
9. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
10. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
11. GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing
12. FE - Upgrading to BUY - The Buckeye State Now Fully Investable
13. EEI Full Recap
14. Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings
15. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
16. PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off
19. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
20. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
21. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
22. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables
23. EPA Clean Power Plan: Much Ado About Everything

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
04/19-05/6	PNW	Value of solar hearings		AZ	E-00000J-14-0023	
04/20-04/21	SO	Regulatory review of proposed acquisition		IL		Regulatory hearings scheduled to consider proposed acquisition
04/20	PCG	Ex Parte investigation	Pacific Gas & Electric Co.	CA	I 15-11-015	Pre-hearing conference
04/21		Regularly-scheduled FERC meeting				Topics could include DUK ROE complaints, OH PPA complaints
04/26	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
04/29	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Intervenor testimony
05/02	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
05/12	EIX	West-of-Devers transmission project	Southern California Edison	CA		Earliest possible CPUC action
05/17-05/20	SO	Regulatory review of proposed acquisition		MD		Regulatory hearings scheduled to consider proposed acquisition
05/19		Regularly-scheduled FERC meeting				Topics could include OH PPA complaints
05/24		PJM capacity auction				2019/2020 Base Residual Auction results posted
05/24	SO	Regulatory review of proposed acquisition		GA		GA commission vote to approve proposed merger settlement
06/01	PNW	PNW files rate case	Arizona Public Service Co.	AZ		
06/02		Clean Power Plan				Federal Appeals Court hearing
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
08/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Opening briefs

Other upcoming events and proceedings

April	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
April	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	PG&E's 2015 gas transmission and storage rate case
April	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PEG	5/2-4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
WR	7/6-8	TX, Midwest	Tony Somma, CFO
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 04/19/2016)

As of	**4/19/2016**							**Guggenheim Estimates**														**Consensus Estimates**													
Ticker	**Company**	**Mkt. Cap ($Bn)**	**Rating**	**Target Price (1)**	**Current Price**	**Price Change**	**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**			**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**		
								'16E	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	32.3	Buy	$62	$65.84	-6%	491	3.70	3.93	4.21	7%	17.8	16.8	15.6	5,619	5,918	6,259	6%	9.5	9.2	8.8	3.70	3.90	4.16	6%	17.8	16.9	15.8	5,677	5,832	6,093	4%	9.4	9.3	9.1
ED	Consolidated Edison, Inc.	22.3	Neutral	$61	$76.01	-20%	294	4.01	4.16	4.27	3%	19.0	18.3	17.8	3,860	4,070	4,396	7%	9.6	9.4	8.9	4.00	4.15	4.31	4%	19.0	18.3	17.6	3,826	4,036	4,267	6%	9.7	9.4	9.2
D	Dominion Resources, Inc.	43.4	Buy	$76	$72.82	4%	597	3.84	3.99	4.47	8%	19.0	18.3	16.3	6,140	6,476	7,094	7%	11.9	11.3	10.4	3.79	3.92	4.35	7%	19.2	18.6	16.7	5,939	6,274	6,903	8%	12.3	11.7	10.7
DTE	DTE Energy Company	16.1	Buy	$92	$89.55	3%	179	4.98	5.27	5.66	7%	18.0	17.0	15.8	2,526	2,686	2,881	7%	10.5	10.2	9.7	4.94	5.26	5.63	7%	18.1	17.0	15.9	2,613	2,771	2,947	6%	10.2	9.8	9.5
DUK	Duke Energy Corporation	55.0	Buy	$81	$79.79	2%	689	4.60	4.83	4.94	4%	17.3	16.5	16.2	8,899	9,122	9,843	5%	11.4	11.3	10.7	4.60	4.76	5.01	4%	17.4	16.8	15.9	9,212	9,733	10,072	5%	11.0	10.6	10.4
EIX	Edison International	23.3	Neutral	$66	$71.42	-8%	326	3.85	4.15	4.33	6%	18.6	17.2	16.5	4,944	5,294	5,647	7%	7.7	7.3	7.0	3.89	4.12	4.32	5%	18.4	17.3	16.5	4,598	4,861	5,172	6%	8.2	8.0	7.7
ES	Eversource Energy	18.1	Buy	$58	$57.04	2%	317	2.99	3.19	3.43	7%	19.1	17.9	16.6	2,560	2,655	2,754	4%	11.3	11.2	11.1	3.00	3.18	3.39	6%	19.0	17.9	16.8	2,607	2,707	2,813	4%	11.1	11.0	10.9
GXP	Great Plains Energy	4.9	Buy	$31	$31.87	-3%	154	1.74	1.87	1.98	7%	18.3	17.0	16.1	1,011	1,068	1,102	4%	9.0	8.5	8.2	1.74	1.83	1.93	5%	18.3	17.4	16.5	989	1,036	1,106	6%	9.2	8.7	8.2
NEE	NextEra Energy, Inc.	54.5	Buy	$124	$118.10	5%	461	6.19	6.60	7.04	7%	19.1	17.9	16.8	6,989	7,610	8,012	7%	12.4	11.5	11.1	6.14	6.53	6.96	6%	19.2	18.1	17.0	7,527	8,235	8,682	7%	11.5	10.7	10.2
PCG	PG&E Corporation	29.5	Neutral	$54	$59.58	-9%	495	3.67	3.70	3.89	3%	16.2	16.1	15.3	6,566	6,825	7,113	4%	7.2	7.2	7.0	3.72	3.68	3.86	2%	16.0	16.2	15.4	6,158	6,514	6,900	6%	7.7	7.5	7.2
PNW	Pinnacle West Capital	8.3	Neutral	$62	$74.85	-17%	111	4.02	4.18	4.43	5%	18.6	17.9	16.9	1,440	1,529	1,634	7%	8.7	8.5	8.1	4.00	4.20	4.38	5%	18.7	17.8	17.1	1,398	1,499	1,594	7%	8.9	8.7	8.3
PPL	PPL Corporation	25.5	Buy	$39	$37.80	3%	676	2.33	2.44	2.57	5%	16.2	15.5	14.7	4,214	4,420	4,689	5%	11.3	11.0	10.6	2.35	2.44	2.51	3%	16.1	15.5	15.1	4,077	4,281	4,536	5%	11.7	11.4	11.0
SO	Southern Company	46.9	Neutral	$41	$51.00	-20%	919	2.85	2.93	3.06	4%	17.9	17.4	16.7	6,677	6,961	7,260	4%	12.3	11.9	11.8	2.84	2.97	3.08	4%	17.9	17.2	16.5	7,151	7,878	8,053	6%	11.5	10.6	10.6
WR	Westar Energy, Inc.	7.3	Buy	$46	$51.21	-10%	142	2.43	2.50	2.60	3%	21.1	20.5	19.7	1,036	1,066	1,105	3%	11.0	10.9	10.6	2.44	2.53	2.62	4%	21.0	20.2	19.6	1,051	1,086	1,124	3%	10.9	10.7	10.4
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.78	1%	235	1.18	1.27	1.35	7%	23.5	21.9	20.6	987	1,033	1,076	4%	10.7	10.1	9.5	1.18	1.28	1.36	7%	23.5	21.6	20.4	1,005	1,068	1,076	3%	10.5	9.8	9.5
Average (2)											**5%**	**18.3**	**17.4**	**16.5**				**6%**	**10.3**	**10.0**	**9.6**				**5%**	**18.3**	**17.5**	**16.6**				**6%**	**10.2**	**9.9**	**9.5**
Integrated utilities																																			
ETR	Entergy Corporation	13.7	Neutral	$69	$76.43	-10%	179	5.18	5.10	5.18	0%	14.8	15.0	14.8	3,682	3,698	3,832	2%	8.1	8.4	8.4	5.17	5.23	5.14	(0%)	14.8	14.6	14.9	3,434	3,573	3,614	3%	8.7	8.7	8.9
EXC	Exelon Corporation	32.1	Buy	$37	$34.80	6%	922	2.56	2.80	2.99	8%	13.6	12.4	11.6	7,701	8,148	8,575	6%	8.2	7.8	7.5	2.53	2.64	2.78	5%	13.8	13.2	12.5	7,324	7,745	8,531	8%	8.6	8.2	7.5
FE	FirstEnergy Corp.	15.1	Buy	$39	$35.50	10%	425	2.80	2.86	2.92	2%	12.7	12.4	12.2	4,422	4,562	4,628	2%	8.5	8.3	8.2	2.82	2.70	2.69	(2%)	12.6	13.1	13.2	4,497	4,521	4,626	1%	8.3	8.4	8.2
PEG	Public Service Enterprise Grou	23.9	Buy	$46	$47.12	-2%	506	2.95	3.01	3.04	2%	16.0	15.7	15.5	4,203	4,420	4,597	5%	8.3	8.3	8.2	2.90	2.90	2.96	1%	16.2	16.3	15.9	4,129	4,272	4,375	3%	8.5	8.6	8.6
Average											**3%**	**14.3**	**13.9**	**13.5**				**4%**	**8.3**	**8.2**	**8.0**				**1%**	**14.3**	**14.3**	**14.1**				**4%**	**8.5**	**8.5**	**8.3**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.6	Buy	$22	$15.73	40%	359	0.39	0.88	1.44	92%	40.1	17.9	10.9	1,862	2,169	2,544	17%	9.2	7.8	6.4	0.59	1.02	1.39	54%	26.8	15.4	11.3	1,888	2,051	2,222	9%	9.0	8.2	7.4
DYN	Dynegy Inc.	2.0	Buy	$22	$17.05	29%	117	(1.24)	(0.66)	0.40	NA	-13.7	-25.7	43.1	1,097	1,421	1,691	24%	7.6	6.2	5.2	(0.69)	(0.36)	0.50	NA	-24.9	-47.1	34.1	1,099	1,139	1,404	13%	7.6	7.7	6.3
NRG	NRG Energy, Inc.	4.4	Buy	$16	$14.31	12%	316	0.85	(0.52)	0.11	-65%	16.8	-27.4	135.5	3,128	2,809	3,004	(2%)	6.6	7.2	6.4	0.85	0.20	0.74	(6%)	16.9	73.0	19.3	3,109	2,749	2,991	(2%)	6.7	7.3	6.4
TLN	Talen Energy Corp	1.6	Neutral	$7	$12.30	-43%	129	0.72	0.69	0.19	-49%	17.1	17.8	64.7	778	762	716	(4%)	6.6	6.6	7.0	0.83	0.24	(0.02)	NA	14.8	51.7	-500	761	733	665	(7%)	6.8	6.9	7.6
Average											**-7%**	**15.1**	**-4.4**	**63.6**				**9%**	**7.5**	**6.9**	**6.3**				**24%**	**8.4**	**23.2**	**-109**				**3%**	**7.5**	**7.5**	**6.9**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$12	$15.20	-21%	183	1.06	1.20	1.32	12%	14.3	12.7	11.5	867	1,004	1,120	14%	7.2	6.4	6.7	1.07	1.21	1.25	9%	14.3	12.6	12.1	825	922	1,033	12%	7.6	7.0	7.3
AWK	American Water Works	12.8	Buy	$72	$72.20	0%	178	2.83	3.03	3.20	6%	25.5	23.8	22.6	1,652	1,748	1,835	5%	11.8	11.4	11.0	2.82	3.04	3.25	7%	25.6	23.8	22.2	1,652	1,748	1,835	5%	11.8	11.4	11.0

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	Company	Rating	Price	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Regulated utilities												
AEP	American Electric Power	Buy	$65.84	2.25	2.36	2.48	3.4%	3.6%	3.8%	61%	60%	60%
ED	Consolidated Edison, Inc.	Neutral	$76.01	2.66	2.73	2.78	3.5%	3.6%	3.7%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$72.82	2.77	2.97	3.22	3.8%	4.1%	4.4%	73%	76%	74%
DTE	DTE Energy Company	Buy	$89.55	2.98	3.13	3.30	3.3%	3.5%	3.7%	60%	60%	59%
DUK	Duke Energy Corporation	Buy	$79.79	3.40	3.54	3.71	4.3%	4.4%	4.6%	74%	74%	74%
EIX	Edison International	Neutral	$71.42	1.98	2.19	2.38	2.8%	3.1%	3.3%	51%	53%	55%
ES	Eversource Energy	Buy	$57.04	1.79	1.90	2.02	3.1%	3.3%	3.5%	60%	60%	60%
GXP	Great Plains Energy	Buy	$31.87	1.09	1.16	1.27	3.4%	3.7%	4.0%	63%	64%	66%
NEE	NextEra Energy, Inc.	Buy	$118.10	3.47	3.90	4.44	2.9%	3.3%	3.8%	57%	60%	64%
PCG	PG&E Corporation	Neutral	$59.58	1.92	2.04	2.19	3.2%	3.4%	3.7%	52%	55%	57%
PNW	Pinnacle West Capital	Neutral	$74.85	2.53	2.65	2.77	3.4%	3.5%	3.7%	63%	63%	63%
PPL	PPL Corporation	Buy	$37.80	1.52	1.56	1.56	4.0%	4.1%	4.1%	65%	64%	62%
SO	Southern Company	Neutral	$51.00	2.22	2.30	2.38	4.4%	4.5%	4.7%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$51.21	1.51	1.60	1.69	3.0%	3.1%	3.3%	62%	63%	64%
TE	TECO Energy, Inc.	Neutral	$27.78	0.92	0.94	0.97	3.3%	3.4%	3.5%	78%	73%	71%
Average							**3.5%**	**3.6%**	**3.8%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$76.43	3.44	3.52	3.57	4.5%	4.6%	4.7%	67%	67%	69%
EXC	Exelon Corporation	Buy	$34.80	1.26	1.29	1.33	3.6%	3.7%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$35.50	1.45	1.44	1.44	4.1%	4.1%	4.1%	51%	53%	53%
PEG	Public Service Enterprise Group	Buy	$47.12	1.64	1.72	1.81	3.5%	3.7%	3.8%	57%	59%	61%
Average							**3.9%**	**4.0%**	**4.1%**	**56%**	**57%**	**58%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.73	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$17.05	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$14.31	0.16	0.12	0.12	1.1%	0.9%	0.8%	19%	NA	16%
TLN	Talen Energy Corp	Neutral	$12.30	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.20	0.96	1.10	1.26	6.3%	7.3%	8.3%	90%	91%	100%
AWK	American Water Works	Buy	$72.20	1.46	1.59	1.72	2.0%	2.2%	2.4%	52%	52%	53%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: ES, ETR, EXC, NEE, Transmission, Solar April 25, 2016

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What's New?

For current Guggenheim Utility Corporate Access Calendar, scroll to bottom.

Transmission – Mexico continues to open up energy sector
Solar – Starting to make a dent in TX?
EXC – DC Office of the People's Counsel still pushing back on POM acquisition
CA Solar – CPUC votes to cap net metering credits for residential solar
ES – Office of Consumer Counsel finds CT electric customers overpaid $58mm in 2015
ES – Northern Pass progresses as gas pipeline is pulled
NEE – FL court rejects transmission elements of FP&L's Turkey Point nuclear plans
ETR/EXC – Study finds customer savings from nuclear subsidies

Recent research highlights:

- ***Guggenheim initiates coverage of alternative energy -*** Alternative Energy: Basking in the Sun; Launching Sector Coverage
- ***Guggenheim initiates coverage of IPPs –*** Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities
- **2016 Outlook:** Liking Utilities but Choose Wisely with a Return to Stock Picking
- **Texas Showdown:** Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out
- **AEP/FE** – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC
- **ED** – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront (see note HERE)
- Quick Take: Supreme Court Decision on MD Provides Some Implicit Support for Ohio PPA Requests – Clearly Distinguishes the Two Contracts; Good Guidance if Ohio PPAs Appealed to Supreme Court

Transmission – Mexico continues to open up energy sector

- Mexico tendering first two high voltage transmission projects with funding coming from the private sector.
- The first is a ~$200mm line from Istmo de Tehuantepec in Oaxaca to central Mexico linked to wind generation.
- The second is a ~$215mm line from the state of Sonora to Baja California.
- Just the start – more opportunities are expected to open up.

***Guggenheim takeaway:** The energy/power sector in Mexico continues to open up for investment opportunities. Too early to tell if our U.S. utilities will get involved through their TransCo's and competitive transmission subs – presents some good opportunities especially for utilities in TX and CA.*

Solar – Starting to make a dent in TX?

- TX projected to build over 1,500MW of solar by YE – per grid operator.
- IA agreements signed – question remains financing.
- A lot of the build is in West TX where we have seen negative pricing at times.

***Guggenheim takeaway:** Solar still too small to make major dent as the State has almost 80,000MW of installed capacity. That said, it's something that needs to be monitored with the continuous drop in downstream/upstream costs for solar projects. Texas is a market where we could see material spark spread upside as coal retires in an energy-only market. As a reminder, we project ~8.6GW of coal retirements in the State. Excess solar growth could partially mitigate our coal retirement thesis/TX power market recovery – renewables have proven to be disruptive like in MISO and CAISO.*

EXC – DC Office of the People's Counsel still pushing back on POM acquisition

- Asking State regulators to reconsider the POM merger approval.
- Siting "errors of laws and facts."

***Guggenheim takeaway:** Worth a mention but this ship as sailed. All noise.*

CA Solar – CPUC votes to cap net metering credits for residential solar

- Cap applies to solar mixed with battery storage with 10 kW or less.
- Credits cease after certain production levels.
- The caps try and capture only solar generation and not the battery storage portion as some of the power stored in the battery could be sourced from the grid and not the homeowner roof.

***Guggenheim takeaway:** We don't expect this to hamper rooftop growth as a majority of homes do not have onsite battery storage. That said, policy in the State will continue to evolve as disruptive technologies like battery storage grow as a larger percentage of the energy mix. At this stage and for the next several years, we do not project battery storage, especially at the residential level, to display real economics.*

ES – Office of Consumer Counsel finds CT electric customers overpaid $58mm in 2015

- Local media highlighted a Connecticut Office of Consumer Counsel (OCC) report finding Connecticut electricity customers paid ~$58mm more than they should have in 2015.
- Connecticut Consumer Counsel pointed out higher prices in automatically renewed contracts could be to blame, as lower pricing expires after an initial contract period ends.

***Guggenheim takeaway:** The report highlights retail electric suppliers, which served 34% of ES customers last year; 64% of ES residential customers paid higher than standard rates.*

ES – Northern Pass progresses as gas pipeline is pulled

- Local media highlighted continued progress of Northern Pass Transmission (NPT) project, despite Kinder Morgan's (KMI, NC, $18.12) Northeast Energy Direct pipeline being suspended.
- The article suggests the KMI project competed with Northern Pass as an energy supply for New England.

Guggenheim takeaway: *While Northern Pass does continue to make progress, we believe the removal of KMI's gas pipeline project is a more direct positive read through to ES's Access Northeast Pipeline project.*

NEE – FL court rejects transmission elements of FP&L's Turkey Point nuclear plans

- A Florida state court rejected transmission elements of FP&L's plan for two 1,117-MW nuclear units at its Turkey Point facility.
- FPL reviewing the court's opinion and evaluating legal options; FPL gave no indication the ruling would impede the nuclear project's progress.

Guggenheim takeaway: *FPL has been planning the potential addition of two nuclear units at Turkey Point for several years, and while they continue to pursue licenses, they haven't committed to building the units. New units not likely without proper cost recovery, in our view.*

ETR/EXC – Study finds customer savings from nuclear subsidies

- A study done by the Brattle group finds subsidies proposed to support nuclear plants in up-state NY would produce cost savings that will enable an additional $3.2bn of annual GDP, and be more effective than renewable subsidies.
- A NY PSC analysis concluded the nuclear subsidies would cost the state $270mm; the Brattle report suggests preserving upstate nuclear plants would save ratepayers $10 billion through 2023.
- The report shows over 75% of expected avoided carbon emissions under the clean energy standard would come from subsidizing emissions-free generation at Ginna, Nine Mile Point, and FitzPatrick nuclear plants.

Guggenheim takeaway: *Nuclear accounts for one-third of NY'S electric mix, so the governor acknowledges it is essential to carbon-reduction and energy policy, regulators recognize a NT life-line is more cost-effective than planning around retirement, and the NY-ISO recently cautioned losing ETR's 851MW Fitzpatrick facility would threaten state reliability – everyone appears to be on-board in support of nuclear, however ETR's Indian Point facility in lower NYS is not included, and continues to be targeted by the governor for retirement under any circumstance. For additional thoughts on the viability of nuclear, see our note HERE.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
2. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
3. AEP/FE – OH Regulators Approve PPAs - Merchants Likely Turn to FERC
4. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
5. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
6. DUK - BUY - Modest Miss; Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
7. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
8. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
9. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
10. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
11. GXP - BUY - Mgmt Meeting Takeaways: It’s About Navigating MO Energy Policy – Unified and on a Better Footing
12. FE - Upgrading to BUY - The Buckeye State Now Fully Investable
13. EEI Full Recap
14. Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings
15. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
16. PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. EXC - Upgrading to BUY- ExGen Now a Free Call Option on Gas, Valuation Cannot Be Ignored with Recent Sell-Off
19. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
20. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
21. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
22. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables
23. EPA Clean Power Plan: Much Ado About Everything

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
04/19-05/6	PNW	Value of solar hearings		AZ	E-00000J-14-0023	
04/26	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
04/29	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Intervenor testimony
05/02	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Reply briefings from intervenors and merger applicants are due in Hawaii
05/12	EIX	West-of-Devers transmission project	Southern California Edison	CA		Earliest possible CPUC action
05/17-05/20	SO	Regulatory review of proposed acquisition		MD		Regulatory hearings scheduled to consider proposed acquisition
05/19		Regularly-scheduled FERC meeting				Topics could include OH PPA complaints
05/24		PJM capacity auction				2019/2020 Base Residual Auction results posted
05/24	SO	Regulatory review of proposed acquisition		GA		GA commission vote to approve proposed merger settlement
06/01	PNW	PNW files rate case	Arizona Public Service Co.	AZ		
06/02		Clean Power Plan				Federal Appeals Court hearing
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
08/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Opening briefs

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PEG	5/2-4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
WR	7/6-8	TX, Midwest	Tony Somma, CFO
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

As of **4/22/2016**

Ticker	Company	Mkt. Cap ($Bn)	Rating	Current Price
Regulated utilities				
AEP	American Electric Power	30.8	Buy	$62.74
ED	Consolidated Edison, Inc.	21.0	Neutral	$71.58
D	Dominion Resources, Inc.	41.8	Buy	$70.06
DTE	DTE Energy Company	15.4	Buy	$85.77
DUK	Duke Energy Corporation	53.1	Buy	$77.01
EIX	Edison International	22.4	Neutral	$68.65
ES	Eversource Energy	17.6	Buy	$55.40
GXP	Great Plains Energy	4.7	Buy	$30.40
NEE	NextEra Energy, Inc.	52.8	Buy	$114.44
PCG	PG&E Corporation	28.2	Neutral	$56.99
PNW	Pinnacle West Capital	7.9	Neutral	$71.46
PPL	PPL Corporation	24.7	Buy	$36.51
SO	Southern Company	45.3	Neutral	$49.26
WR	Westar Energy, Inc.	7.1	Buy	$50.13
TE	TECO Energy, Inc.	6.5	Neutral	$27.72
Integrated utilities				
ETR	Entergy Corporation	13.3	Neutral	$74.35
EXC	Exelon Corporation	31.4	Buy	$34.09
FE	FirstEnergy Corp.	14.6	Buy	$34.47
PEG	Public Service Enterprise Group	22.9	Buy	$45.21
Independent Power Producers (IPPs)				
CPN	Calpine Corporation	5.5	Buy	$15.41
DYN	Dynegy Inc.	2.0	Buy	$17.14
NRG	NRG Energy, Inc.	4.5	Buy	$14.20
TLN	Talen Energy Corp	1.5	Neutral	$11.35
Other				
NYLD	NRG Yield	1.5	Neutral	$15.19
AWK	American Water Works	12.3	Buy	$69.24

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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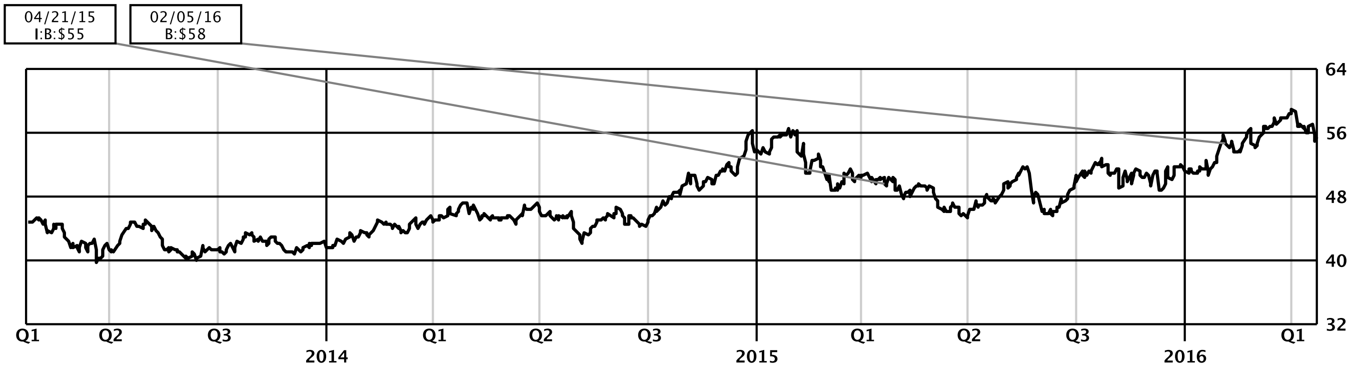
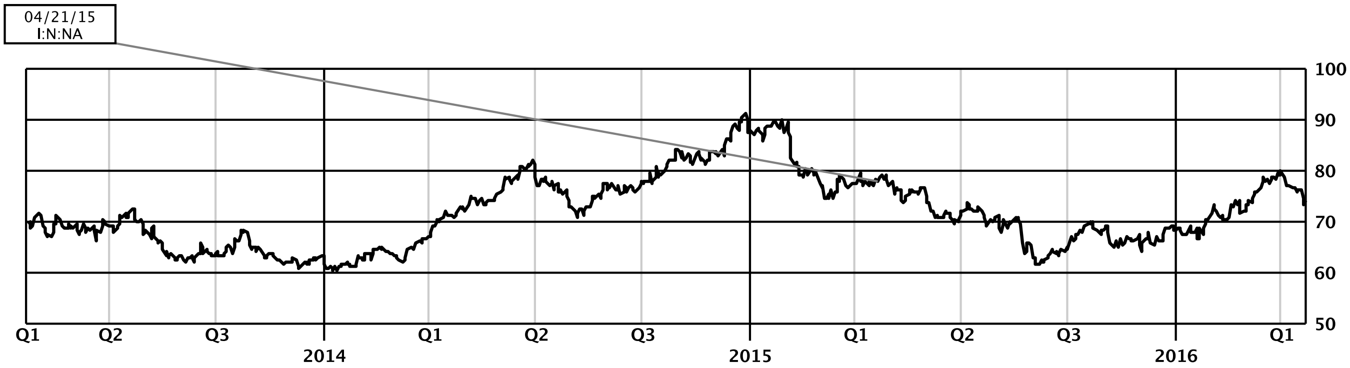
Rating and Price Target History for: Eversource Energy (ES) as of 04-22-2016



Created by BlueMatrix

Rating and Price Target History for: Entergy Corporation (ETR) as of 04-22-2016



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Rating and Price Target History for: Exelon Corporation (EXC) as of 04-22-2016

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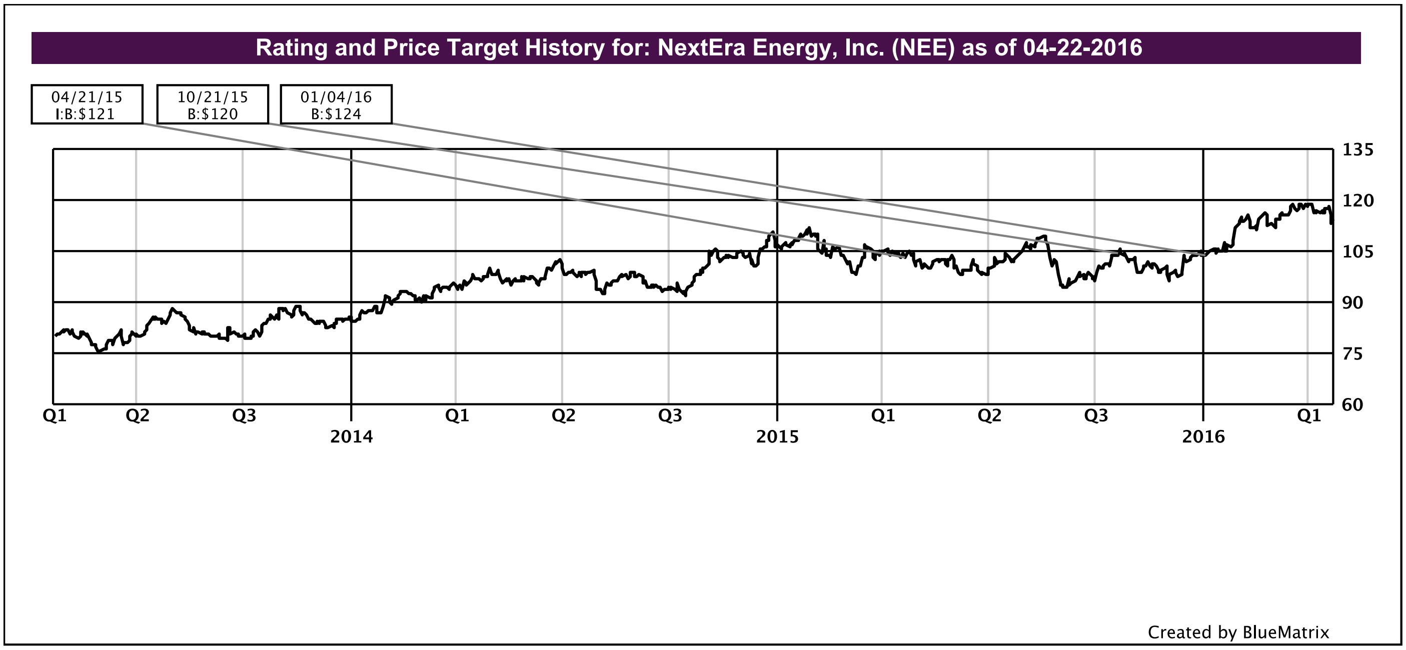

Rating and Price Target History for: NextEra Energy, Inc. (NEE) as of 04-22-2016

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

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Prior to 12/8/14, Guggenheim Securities, LLC's BUY, NEUTRAL, and SELL ratings definitions were as follows (no other ratings definitions were changed):

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	152	60.08%	30	19.74%
Neutral	100	39.53%	1	1.00%
Sell	1	0.40%	0	0.00%

OTHER DISCLOSURES

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May 6, 2016

WELLS FARGO SECURITIES

Equity Research

Exelon Corporation

EXC: Clinton & Quad Cities Decision Imminent

Outperform

- **Summary.** We reiterate our Outperform rating and narrow our 12-18 month valuation range to $39-40/share from $39-41/share to reflect the impact of lower peer group multiples on our utility valuation. While we maintain our 16E EPS of $2.55, we lower our 17E & 18E EPS to/from $2.70/$2.75 & $2.90/$2.95 to reflect the impact of lower forward power prices on ExGen's outlook along with a one-time tax item that is expected to have a $0.06-0.08 negative impact on '18 EPS, partially offset by projected accretion from planned nuclear retirements. On the strategic front, the recent closing of the Pepco acquisition puts a longstanding issue to bed and helps provide clarity on the business mix and utility earnings outlook. In addition, the clear plan for the Clinton and Quad Cities nuclear plants helps ease any lingering concerns that management would continue to operate the facilities at losses.

- **Nuclear Update.** In conjunction with Q1'16 earnings, EXC laid out a clear strategy for the economically challenged Clinton & Quad Cities nuclear plants. EXC plans to retire the facilities on 6/1/17 & 6/1/18 in the absence of nuclear friendly state legislation (the IL session ends on 5/31/16) or, in the case of Quad Cities, if the plant does not clear the May 2016 PJM capacity auction for 2019/20. While we view the decision favorably and expect it to be $0.10+ accretive to annual EPS, it does not come as a surprise as management previously indicated a willingness to shut down the units in the absence of sufficient revenues (in one form or another). That being said, the retirements shine a spotlight on a risk to our positive thesis - the potential for continued deterioration in power market dynamics that result in much earlier than anticipated retirements for the rest of ExGen's nuclear fleet (2020's vs. 2030's). We view that scenario as unlikely - but ten years ago we also viewed the likelihood of nuclear retirements in the 2010's as unlikely.

- **Utility Growth.** EXC affirmed targeted annual net income growth of 7-9% during the period 2015-18 and (preliminarily) expects the Pepco acquisition to support the growth rate. Pepco's utilities offer substantial EPS growth prospects through both improving earned distribution ROEs and T&D rate base additions. That said, management has their work cut out for them as the distribution utilities are currently earning 4.5-7.5% ROEs (vs. allowed ROEs of 9.4-9.75%) in jurisdictions that are at best considered challenging. While EXC has embarked on the first round of rate filings, we fully expect it will be a multi-year process to bring the earned ROEs up to near the allowed levels.

Valuation Range: $39.00 to $40.00 from $39.00 to $41.00

Our $39-40/sh valuation range is premised on a sum-of-the-parts analysis (1) Utility & Parent value of $29/sh (based on a P/E multiple of 17.0-17.5X our 2018E of $1.65) and (2) $10-11/sh for ExGen using a DCF analysis. Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

Investment Thesis:

Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

Please see page 4 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 05/06/16 unless otherwise stated.

Sector: Diversified Electric Utilities
Market Weight

Earnings Estimate Revised Down

	2015A	2016E		2017E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	$0.71	**$0.68 A**	**0.65**	NE	
Q2 (June)	0.59	**0.55**	**0.60**	NE	
Q3 (Sep.)	0.83	**0.82**	**0.75**	NE	
Q4 (Dec.)	0.38	**0.50**	**0.55**	NE	
FY	$2.49	$2.55	NC	**$2.70**	**2.75**
CY	$2.49	$2.55		$2.70	
FY P/EPS	14.3x	14.0x		13.2x	
Rev.(MM)	$29,447	$20,681		$20,994	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ⚑ = Company is on the Priority Stock List

Ticker	EXC
Price (05/06/2016)	$35.68
52-Week Range:	$25-36
Shares Outstanding: (MM)	921.7
Market Cap.: (MM)	$32,886.3
S&P 500:	2,057.14
Avg. Daily Vol.:	5,492,790
Dividend/Yield:	$1.27/3.6%
LT Debt: (MM)	$23,645.0
LT Debt/Total Cap.:	46.9%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	4.0%
CY 2016 Est. P/EPS-to-Growth:	3.5x
Last Reporting Date:	05/06/2016 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Together we'll go far

Earnings Model

(in millions except per share data)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues								
Total	$24,888	$27,429	$29,447	$20,681	$20,994	$21,426	$21,802	$22,153
Operating Expenses								
Purchased Pow er*	$10,724	$13,003	$13,084	$4,196	$4,196	$4,192	$4,205	$4,236
Fuel	0	0	0	995	996	1,017	1,018	1,018
Other O&M	7,270	8,568	8,322	7,640	7,663	7,681	7,781	7,912
Depreciation & Amortization	2,153	2,314	2,450	2,521	2,677	2,828	2,976	3,126
Other Taxes	1,095	428	1,182	1,188	1,206	1,226	1,245	1,265
Total	**$21,242**	**$24,313**	**$25,038**	**$16,540**	**$16,739**	**$16,943**	**$17,225**	**$17,557**
EBIT	**$3,646**	**$3,116**	**$4,409**	**$4,142**	**$4,254**	**$4,483**	**$4,577**	**$4,596**
Other Income & Interest Expense	($873)	($630)	($1,086)	($598)	($576)	($526)	($562)	($529)
Income Taxes	$1,044	$666	$1,073	$1,257	$1,313	$1,469	$1,439	$1,462
Earnings								
Net Income	$1,729	$1,820	$2,250	$2,286	$2,366	$2,489	$2,576	$2,605
Dicontinued Operations	0	0	0	0	0	0	0	0
Prefered Stock Dividends	(10)	(197)	19	(13)	(13)	(13)	(13)	(13)
Earnings available for common	**$1,719**	**$1,623**	**$2,269**	**$2,273**	**$2,352**	**$2,476**	**$2,563**	**$2,591**
Avg Common Shrs Outstanding - Diluted	860	864	893	893	881	886	887	888
EPS	$2.00	$1.88	$2.54	$2.55	$2.67	$2.80	$2.89	$2.92
Extraordinary Item	(0.50)	(0.51)	0.05	0.00	0.00	0.00	0.00	0.00
POM Adjustment	0.00	0.00	0.00	0.00	0.03	0.10	0.16	0.18
Operating EPS*	**$2.50**	**$2.39**	**$2.49**	**$2.55**	**$2.70**	**$2.90**	**$3.05**	**$3.10**
EPS By Segment								
ComEd			$0.00	$0.55	$0.60	$0.65	$0.71	$0.74
PECO			0.00	0.45	0.45	0.46	0.46	0.46
BGE			0.00	0.30	0.32	0.34	0.36	0.36
Generation			0.00	1.29	1.32	1.36	1.38	1.39
Other			0.00	(0.05)	(0.02)	(0.01)	(0.01)	(0.03)
POM Adjustment				0.00	0.03	0.10	0.16	0.18
Total EXC			**$0.00**	**$2.55**	**$2.70**	**$2.90**	**$3.05**	**$3.10**
Dividends								
Dividends Per Share - YE Rate	$1.24	$1.24	$1.24	$1.27	$1.30	$1.34	$1.37	$1.40
Dividends Paid Per Share	$1.46	$1.24	$1.24	$1.26	$1.29	$1.33	$1.36	$1.39
Payout Ratio	58%	52%	50%	50%	48%	46%	45%	45%
Statisitics								
Book Value / Share (year end)	$26.53	$26.29	$28.04	$31.62	$33.04	$34.56	$36.15	$37.74
Average Book Value / Share	$25.80	$26.41	$27.16	$29.83	$32.33	$33.80	$35.36	$36.95
ROE (%)	9.7	9.0	9.2	8.5	8.3	8.3	8.2	7.9
Cash Flow / Share	$7.38	$5.16	$8.53	$6.89	$7.03	$7.22	$7.28	$7.53

Source: Wells Fargo Securities, LLC estimates and company filings

Cash Flow Model (in millions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Operating Cash Flow								
Net Income	$1,729	$1,820	$2,250	$2,286	$2,366	$2,489	$2,576	$2,605
Depreciation & Amortization (incl. nuclear fuel)	3,779	3,868	3,987	3,571	3,502	3,578	3,726	3,926
Other	380	2,016	1,643	690	515	515	340	340
Working Capital	455	(3,247)	(264)	(400)	(190)	(190)	(190)	(190)
Net Operating Cash flow	**$6,343**	**$4,457**	**$7,616**	**$6,147**	**$6,193**	**$6,392**	**$6,452**	**$6,681**
Investing Cash Flow								
Capital Expenditures	($5,395)	($6,077)	($7,624)	($7,500)	($6,050)	($5,625)	($5,225)	($5,274)
Other	1	1,478	(198)	(125)	0	0	0	0
Net Investing Cash Flow	**($5,394)**	**($4,599)**	**($7,822)**	**($7,625)**	**($6,050)**	**($5,625)**	**($5,225)**	**($5,274)**
Financing Cash Flow								
Issuance of LT Debt - Utilities	2,055	3,463	6,709	275	1,250	2,150	1,200	2,475
Issuance of Projected Debt	0	0	0	0	0	0	0	0
Retirement of LT Debt - Parent	(1,589)	(1,545)	(2,687)	(1,487)	(1,841)	(1,393)	(973)	(3,311)
ST Debt (net)	332	122	80	1,500	0	0	0	0
Dividends on Common Stock	(1,249)	(1,065)	(1,105)	(1,124)	(1,129)	(1,158)	(1,188)	(1,219)
Proceeds from Employee Stock Plans	47	35	32	35	35	35	35	35
Other	(422)	(599)	(67)	0	0	0	0	0
Net Financing Cash Flow	**($826)**	**$411**	**$4,830**	**($2,301)**	**($2,185)**	**($1,116)**	**($926)**	**($1,220)**
Net Change in Cash	$123	$269	$4,624	($3,778)	($2,042)	($350)	$301	$186
Cash at beginning of period	1,486	1,609	1,878	6,502	2,724	682	332	633
Cash at end of period	**$1,609**	**$1,878**	**$6,502**	**$2,724**	**$682**	**$332**	**$633**	**$819**
Capital Structure								
Common Equity	$22,732	$22,608	$25,793	$27,540	$28,813	$30,178	$31,601	$33,021
LT Debt	17,623	19,362	23,645	28,470	27,379	27,386	27,613	27,577
ST Debt	1,850	2,262	2,033	2,046	2,046	2,046	2,046	2,046
Preferred Equity	193	193	193	193	193	193	193	193
Total Capitalization	**$42,398**	**$44,425**	**$51,664**	**$58,249**	**$58,431**	**$59,803**	**$61,453**	**$62,837**
% Equity	54	51	50	47	49	50	51	53
% Long-Term Debt	42	44	46	49	47	46	45	44
% Short-Term Debt	4	5	4	4	4	3	3	3
% Preferred Equity	0	0	0	0	0	0	0	0

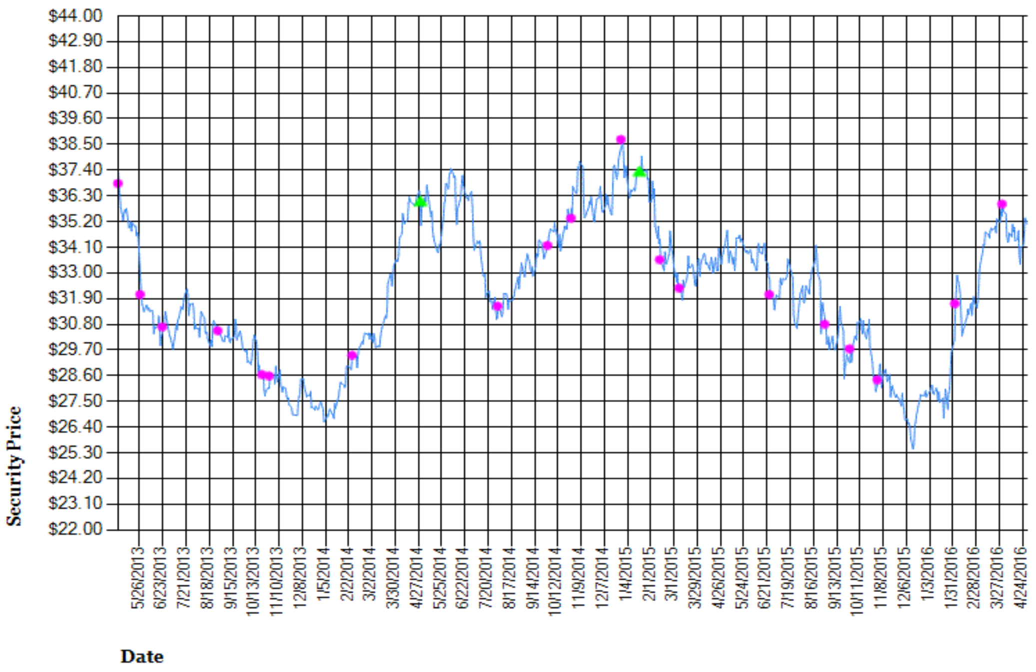
Source: Wells Fargo Securities, LLC estimates and company filings

Company Description:

Exelon Corporation was formed in October 2000 through the merger of Unicom, which was the parent company of Commonwealth Edison (ComEd) and PECO Energy (PECO). The company's business segments include independent power production (Exelon Generation) and Energy Delivery (ComEd and PECO). Exelon Generation owns approximately 25,000 MW of unregulated electric generating capacity, primarily located in Illinois and Pennsylvania. The company's 17,000 MW nuclear fleet is the largest in the nation. Generation currently accounts for approximately 70% of EXC's overall earnings. The Energy Delivery businesses serve roughly 3.8 million electric distribution customers in Northern Illinois (ComEd) and approximately 1.6 million electric and 0.5 million natural gas distribution customers in Southeastern Pennsylvania (PECO).

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	4/30/2013		Kalton			
	4/30/2013	NA	3	31.00	32.00	37.51
●	5/1/2013	36.75	3	32.00	33.00	36.75
●	5/28/2013	34.65	3	29.00	30.00	32.04
●	6/24/2013	30.30	3	26.00	27.00	30.62
●	8/30/2013	30.49	3	25.00	26.00	30.49
●	10/21/2013	28.58	3	23.00	24.00	28.58
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲ ●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲ ●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61
●	3/31/2016	35.86	1	39.00	41.00	35.86

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ☐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

I certify that:
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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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As of: May 6, 2016

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Alert

May 6, 2016

Energy: Electric Utilities

NYSE: EXC

Exelon Corporation (Sector Weight)

EXC - ALERT: 1Q16 Earnings Results in Line

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John Barta / (216) 689-3386 / john_j_barta@key.com

Key Investment Points

May 5, 2016 Close: $35.38

1Q16 Ongoing EPS: $0.68 vs. $0.71 in 1Q15 / Consensus of $0.68/ KBCM of $0.63

Initial Take: We expect a neutral response as results were aligned with consensus expectations.

2016 KBCM EPS Estimate: $2.55 (Consensus: $2.53)

2017 KBCM EPS Estimate: $2.65 (Consensus: $2.64)

Guidance: EXC reaffirmed full-year EPS guidance in the range of $2.40-$2.70. However, Generation and HoldCo are now expected to be lower, offset by the addtion of $0.10 to $0.20 of Pepco earnings. Other changes are a higher share count and acquisition debt interest. EXC issued 2Q16 guidance of $0.50-$0.60 per share vs. $0.59 (consensus is at $0.55 for 2Q16).

Highlights:

- Results were in line with consensus expectations and above our estimate. Relative to our estimate, Generation results were higher than our forecast.
- EXC announced that it would close its Clinton and Quad Cities nuclear units absent Illinois legislation to support low-emitting generation.
- Generation segment ongoing earnings fell ($0.34 vs. $0.35 per share) due to lower pricing for energy and higher depreciation, partly offset by lower outage days.
  - EXC Generation is substantially hedged for 2016 at 96-99%, 69-72% hedged in 2017 and 37-40% hedged in 2018. 2017 and 2018 gross margin at ExGen fell $150 million and $200 million, respectively, since the 4Q15 slide deck.
- ComEd ongoing results rose ($0.12 vs. $0.11), driven by new rates partly offset by warmer weather. Heating degree days fell 20.2% compared to 1Q15 and were 8.3% below normal. Deliveries fell 4.3%. Weather normalized deliveries fell slightly.
- PECO ongoing results fell ($0.14 vs. $0.16), primarily due to weather partly offset by new rates. Electric deliveries fell 8.2% vs. 1Q15 and were essentially flat on a weather-normalized basis. Gas deliveries fell 20.1% (up 4% on a weather-normalized basis) on higher transport volumes. HDDs were down 27.2% vs. the prior year and were 13.7% below normal.
- BGE earnings fell ($0.11 vs. $0.12 in the prior year) due to increased storm costs. BGE has revenue decoupling, so weather minimally impacts earnings.
- PHI earned $2 million in the quarter, and was not in EXC's portfolio in 1Q15.

11:00 a.m. ET Conference Call #: (800) 690-3108 ID#: 97958832

We will be focused on:

- Nuclear plant subsidization.
- Commentary around POM acquisition and approvals.
- Cost cutting opportunities.
- Outlook for nuclear assets.

Disclosure Appendix

Exelon Corporation - EXC

We have managed or co-managed a public offering of securities for Exelon Corporation within the past 12 months.

Exelon Corporation is an investment banking client of ours.

We have received compensation for investment banking services from Exelon Corporation during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

During the past 12 months, Exelon Corporation has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in Exelon Corporation.

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three-Year Rating and Price Target History

Rating and Price Target History for: Exelon Corporation (EXC) as of 05-05-2016

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Created by BlueMatrix

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
Overweight [OW]	320	42.95	65	20.31
Sector Weight [SW]	416	55.84	62	14.90
Underweight [UW]	9	1.21	0	0.00

Energy

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
Overweight [OW]	35	38.89	19	54.29
Sector Weight [SW]	55	61.11	22	40.00
Underweight [UW]	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

Other Disclosures

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Citi Research
Equities

6 May 2016 │ 13 pages

Diversified Utilities
North America │ United States

Exelon Corp (EXC)

It is still all about Gas, Carbon and Future of Nuclear

- **Citi's Take — Results in line.** Exelon reported 1Q16 adjusted operating EPS of $0.68/share vs Citi's projection of $0.93/share. Difference primarily driven by Citi's modeling of seasonality of ExGen. EXC reaffirmed 2016 guidance range of $2.40 - $2.70/share, in line with Citi's estimate of $2.59/share. Note that Citi's EPS estimates by subsidiary are also in line (see page 2).

- **Utilities on track. Valuation, cash flows, deleveraging really all hinges on views of ExGen.** Even though EXC has successfully increased the proportion of utility earnings, the swing factor on valuation and cash flows really comes down to ExGen. We are sure most models capture the utility growth rates that EXC points to (and so do ours). All the variability comes from valuation of ExGen.

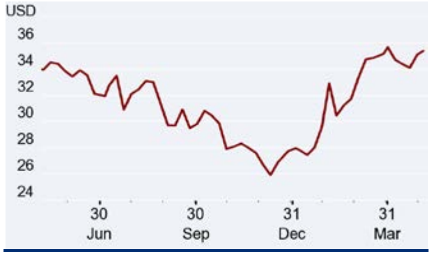
- **ExGen challenges remain if gas stays at $3.00 long-term with no Carbon pricing.** While we aren't surprised with the potential retirement announcements (see our previously done analysis included on the next pages), we think challenges for the remaining nuclear fleet will remain given the average cash cost of generation of $30 - $35/MWh. With nuclear not really part of Hilary Clinton's current focus, we think risks remain on viability of nuclear and a carbon pricing regime.

- **We believe EXC has done well thanks to bullish gas views…but there are risks.** We think EXC, together with other IPPs, benefit form bullish 2017 gas price views. However, with higher gas comes incentive for new build for renewables and gas plants that will further eat into economics of nuclear long-term = lower multiple.

- **Key Takeaway – We retain our $27PT** given our view on gas (long-term $3), carbon (not in near – medium term) and nuclear asset life (~20yrs). See our detailed valuation buildup on the next page. Our detail report on EXC, including Pepco, is in our Feb 22nd report.

Sell	3
Price (06 May 16)	US$35.90
Target price	US$27.00
Expected share price return	-24.8%
Expected dividend yield	3.5%
Expected total return	-21.3%
Market Cap	US$33,089M

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.71A	0.59A	0.83A	0.37A	2.49A	2.49A
2016E	0.93E	0.33E	0.77E	0.55E	2.59E	2.52E
Previous	0.93E	0.33E	0.77E	0.55E	2.59E	na
2017E	na	na	na	na	2.69E	2.64E
Previous	na	na	na	na	2.69E	na
2018E	na	na	na	na	2.88E	2.76E
Previous	na	na	na	na	2.88E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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EXC.N: Fiscal year end 31-Dec

Price: US$35.90; TP: US$27.00; Market Cap: US$33,089m; Recomm: Sell

Profit & Loss (US$m)	2014	2015	2016E	2017E	2018E
Sales revenue	27,429	29,447	32,245	34,137	35,195
Cost of sales	-13,003	-13,087	-14,652	-15,388	-15,748
Gross profit	14,426	16,360	17,593	18,750	19,447
Gross Margin (%)	52.6	55.6	54.6	54.9	55.3
EBITDA (Adj)	4,704	6,837	7,933	8,676	9,315
EBITDA Margin (Adj) (%)	17.1	23.2	24.6	25.4	26.5
Depreciation	-2,314	-2,451	-2,983	-3,333	-3,590
Amortisation	0	0	0	0	0
EBIT (Adj)	3,096	4,404	4,950	5,343	5,725
EBIT Margin (Adj) (%)	11.3	15.0	15.4	15.7	16.3
Net interest	-1,065	-1,069	-1,537	-1,667	-1,715
Associates	-20	0	0	0	0
Non-op/Except	1,181	9	-300	28	221
Pre-tax profit	2,486	3,326	3,113	3,704	4,230
Tax	-666	-1,074	-1,042	-1,257	-1,444
Extraord./Min.Int./Pref.div.	-197	16	-16	-16	-16
Reported net profit	1,623	2,268	2,055	2,431	2,770
Net Margin (%)	5.9	7.7	6.4	7.1	7.9
Core NPAT	1,623	2,226	2,394	2,559	2,774

Per share data	2014	2015	2016E	2017E	2018E
Reported EPS ($)	1.88	2.54	2.22	2.55	2.88
Core EPS ($)	1.88	2.49	2.59	2.69	2.88
DPS ($)	1.24	1.24	1.26	1.29	1.33
CFPS ($)	5.16	8.55	7.29	7.65	7.73
FCFPS ($)	-1.88	0.01	-1.03	-0.73	0.50
BVPS ($)	26.29	29.00	28.98	30.67	31.94
Wtd avg ord shares (m)	860	889	921	948	958
Wtd avg diluted shares (m)	864	893	925	952	962

Growth rates	2014	2015	2016E	2017E	2018E
Sales revenue (%)	10.2	7.4	9.5	5.9	3.1
EBIT (Adj) (%)	-15.6	42.2	12.4	7.9	7.1
Core NPAT (%)	-5.6	37.2	7.5	6.9	8.4
Core EPS (%)	-6.0	32.7	3.8	3.9	7.3

Balance Sheet (US$m)	2014	2015	2016E	2017E	2018E
Cash & cash equiv.	1,878	6,502	100	100	100
Accounts receivables	4,709	4,099	4,099	4,099	4,099
Inventory	1,603	1,566	1,566	1,566	1,566
Net fixed & other tangibles	64,652	69,916	85,372	89,009	91,465
Goodwill & intangibles	8,748	8,737	10,493	10,493	10,493
Financial & other assets	5,224	4,564	4,564	4,575	4,592
Total assets	86,814	95,384	106,193	109,841	112,315
Accounts payable	3,048	2,883	2,883	2,883	2,883
Short-term debt	2,262	2,033	3,582	3,806	3,253
Long-term debt	20,010	24,286	31,422	31,963	33,310
Provisions & other liab	37,361	38,860	40,081	40,589	40,758
Total liabilities	62,681	68,062	77,968	79,241	80,204
Shareholders' equity	22,801	25,986	26,889	29,264	30,775
Minority interests	1,332	1,308	1,308	1,308	1,308
Total equity	24,133	27,294	28,197	30,572	32,083
Net debt (Adj)	20,394	19,817	34,904	35,669	36,463
Net debt to equity (Adj) (%)	84.5	72.6	123.8	116.7	113.7

Valuation ratios	2014	2015	2016E	2017E	2018E
PE (x)	19.1	14.4	13.9	13.4	12.4
PB (x)	1.4	1.2	1.2	1.2	1.1
EV/EBITDA (x)	11.8	8.5	8.3	8.5	8.0
FCF yield (%)	-5.2	0.0	-2.9	-2.0	1.4
Dividend yield (%)	3.5	3.5	3.5	3.6	3.7
Payout ratio (%)	66	50	49	48	46
ROE (%)	7.2	9.4	7.8	8.7	9.3

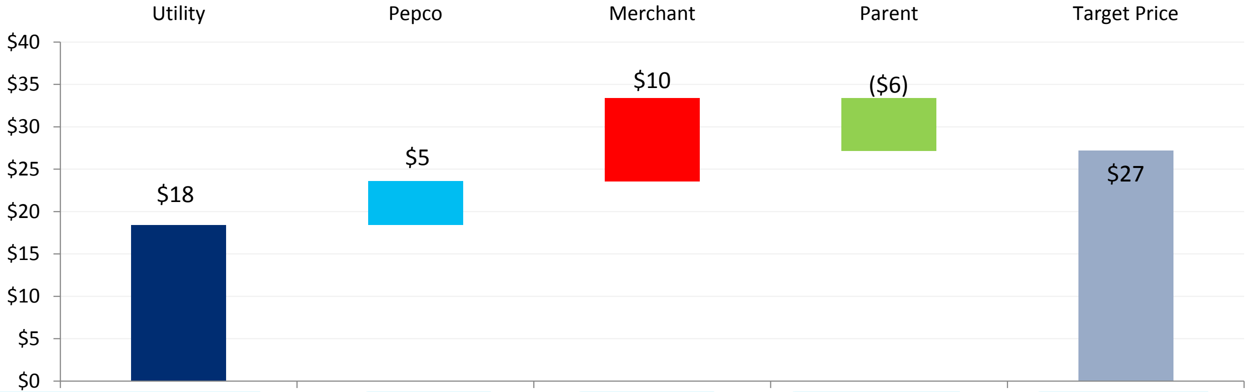
Cashflow (US$m)	2014	2015	2016E	2017E	2018E
EBITDA	4,704	6,837	7,933	8,676	9,315
Working capital	-3,247	-246	0	0	0
Other	3,000	1,045	-1,189	-1,394	-1,884
Operating cashflow	4,457	7,636	6,744	7,281	7,431
Capex	-6,077	-7,624	-7,696	-7,975	-6,950
Net acq/disposals	1,657	-145	-6,911	0	0
Other	-179	-71	0	0	0
Investing cashflow	-4,599	-7,840	-14,607	-7,975	-6,950
Dividends paid	-1,486	-1,105	-1,168	-1,221	-1,276
Financing cashflow	411	4,830	1,461	694	-481
Net change in cash	269	4,626	-6,402	0	0
Free cashflow to s/holders	-1,620	12	-952	-694	481

For definitions of the items in this table, please click here.

Valuation Sum-of-Parts

- Figure below lays out our valuation of Exelon.

Figure 1. EXC Post Merger Valuation ($mm except per share data)



Components	**Utility**	**Pepco**	**Merchant**	**Parent**	**Consolidated**
Terminal Multiple	15.0x	15.5x	5.5x		
Discount Rate	6.5%	6.5%	8.5%		
Firm Value	$29,569	$11,020	$17,497		$58,086
Net Debt	(12,534)	(6,260)	(8,382)		(27,175)
Equity Value	$17,034	$4,760	$9,116	($5,749)	$25,162
Share Price	**$18**	**$5**	**$10**	**($6)**	**$27**

Source: Citi Research

Assumed 927 Shares Outstanding

- In the table below we show EXC EPS Guidance as well as Citi estimates by each business segment. Note that the average shares outstanding will increase in 2018 to ~962m with the full impact of the Pepco related stock issuance and the mandatory converts that convert into 33m shares in Q2 2017.

Figure 2. EPS Model (Guidance and Citi Model)

EPS ($/share)	**EXC Guidance***	**Citi Estimates**			
Exelon Subs	**2016**	**2016**	**2017**	**2018**	**2019**
Holdco	($0.15)	($0.19)	($0.17)	($0.15)	($0.14)
ComED	0.55	0.50	0.53	0.56	0.58
PECO	0.45	0.41	0.39	0.40	0.41
PHI	0.15	0.32	0.36	0.39	0.42
BGE	0.30	0.32	0.34	0.37	0.40
ExGen	1.25	1.27	1.19	1.27	1.17
Total	$2.55	$2.63	$2.65	$2.84	$2.85
Share Count (mm)	925	925	952	962	963

Source: Citi Research

EXC Guidance shows midpoint EPS guidance from 5/5/2016 call.

Subs don't add up to consolidated EPS due to differences in tax rates at the subsidiary and consolidated level

Byron, Clinton, Quad and Ginna Early Shutdown – Value Implications (from our Feb 22nd report)

We evaluated the financial impact of the early retirement of Clinton, Quad Cities and Ginna as EXC highlights these plants being at most risk related to an early retirement.

- **Byron** is a single unit with net operating capacity of 2347MW. The plant is already obligated to operate through May 2019. Exelon has decided to defer it decision on operations of its Byron plant and will offer it in the 2019/20 auction in May 2016.
- **Clinton** is a single unit plant located in Illinois with 1069MW net capacity. On October 29th, 2015, the company declared deferral of its decision related to future operations of the plant for one year. ExGen plans to bid the plant in MISO capacity auction for 2016/2017 Planning year.
- **Quad Cities** is a two unit plant located in Illinois with 1403MW net capacity. The plant cleared 2017/2018 PJM auction. EXC is planning to operate this unit till atleast May 2018. Exelon has decided to defer it decision on operations of its Quad Cities plant and will offer it in the 2019/20 auction in May 2016.
- **Ginna** is a single unit plant located in New York with 288MW net capacity. The plant is under PPA until March 31, 2017 and its currently under active consideration.

What about the Decommissioning Liabilities?
In case of early retirement, Clinton and Ginna don't meet the NRC minimum funding requirement due to early commencement of decommissioning and Quad Cities would also be at risk. This is because the funds don't get enough time to accrete in value to meet the liability. Given there are different approaches to decommissioning including SAFSTOR the actual liability isn't clear. However, EXC highlights that parental guarantees of $315, $260m and $65m may be needed for Clinton, Ginna and Quad Cities, respectively. ExGen also highlights that some portion of spent fuel management would need to be funded by Generation (Clinton: $165m; Ginna: $115). Given there is still meaningful uncertainty around the costs and type of decommissioning, we don't incorporate the potential additional liability in our analysis.

How much do you save by early decommissioning?
In the table below, we have quantified potential uplift in FCF and value, if these plants were to close in 2017. Our analysis suggests these plants are losing ~$60m of FCF every year and that shutting down these plants could unlock $560m in value.

Impact of early retirement

We do see $560m of uplift in value from early retirement related to elimination of the negative FCF of these plants. However, after you contrast this uplift with some of the potential decommissioning liabilities, we aren't certain the value uplift will be meaningful.

Figure 3. Nuclear Plant Shutdown Analysis

Financials	Units	FY2019
Energy Margin	$mm	483
Capacity Revenue	$mm	108
Commodity Margin	$mm	591
Total O&M	$mm	594
EBITDA	$mm	(3)
Depreciation Expense	$mm	86
EBIT	$mm	(89)
Interest Expense	$mm	0
EBT	$mm	(89)
Tax Expense/Income	$mm	(31)
Net Income	$mm	(58)
EBITDA	$mm	(3)
Less		
Capex	$mm	96
Cash Interest	$mm	0
Cash Taxes	$mm	(31)
FCF	$mm	(67)
Discount Rate	%	8.50%
Assumed year of operatior	yrs	15.0
Value uplift	$mm	$558

Source: Citi Research

Pepco Overview and Valuation (from our Feb 22nd report)

POM is comprised of three electric T&D utilities: Potomac, Delmarva (DPL and Atlantic City Electric. In addition to electric, Delmarva has a small gas distribution business (we estimate ~290m in rate base at 2014 year end).

Historically, POM struggled to earn up to its allowed state distribution ROEs across all of its utilities, with ACE being the most visible under-earner. The company's relationships with regulators in DC and other jurisdictions have been historically challenging, and up until recently POM lacked contemporaneous recovery mechanisms that could help it eliminate persistent regulatory lag. As such, POM has been relying on annual ratecase filings, cost containing measures and lower investment levels (particularly at ACE) to offset negative impact of their regulatory construct.

Among POM's utilities, ACE has been particularly challenged due to well-advertised weakness in the underlying economy at Atlantic City. ACE has seen negative load growth and restrictive regulatory environment, which throttled its effective earned ROEs into low single digit range. The situation was partially mitigated by 2014-2015 change in tax treatment by the NJ BPU, however ROEs remained depressed.

Citi Projections

We do not expect POM's state earned ROEs to improve dramatically. EXC and POM did not agree to any rate case stay-outs as a part of their settlements, and we expect the strategy of annual rate case filings to continue. We note that POM's FERC rate base is earning formula rate returns, and we expect it to earn close to authorized across all periods. We expect state ROEs to stay flat. Given load growth profile (we assume 0.5% growth at DPL and Pepco and 0% at ACE) and considering projected cost-containment measures (we assume 0% O&M growth and 0.5% property tax creep), maintaining flat ROE will require annual rate increases across all three utilities. Our assumptions and model outputs with respect to POM are summarized in Figure below.

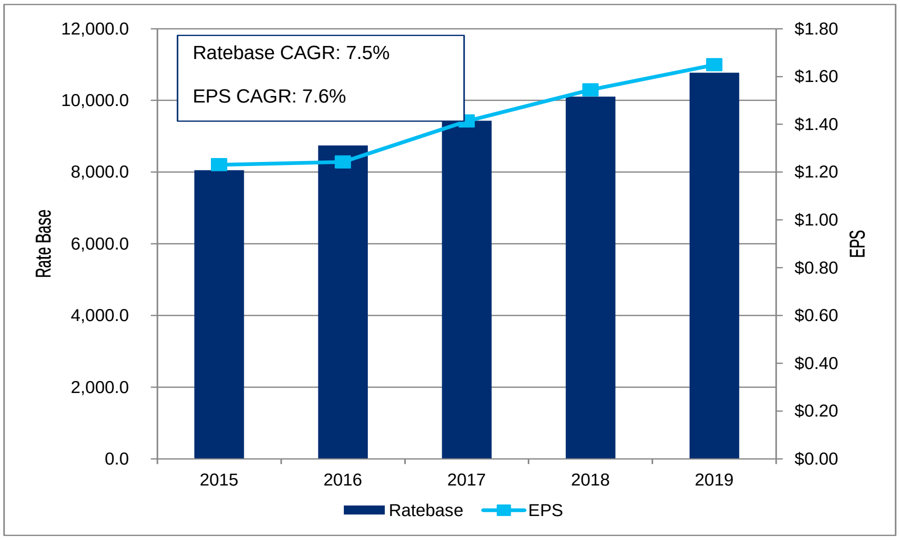
Figure 4. POM Model Assumptions and Outputs

	DPL	Pepco	ACE
Auth. ROE Auth. Equity Layer	9.70% 49.2%	9.40% 49.2%	8.75% 49.83%
Earned Distr. ROE Forecast 2016-2019	7.3%	8.8%	2.2%
FERC ROE FERC Equity Layer	11.49% 48%	11.65% 50%	11.47% 50%
Earned T&D ROE Forecast: 2016-2019	8.3%	9.3%	4.6%
Ratebase Forecast:			
2016	$2.5B	$4.3B	$2.0B
2017	$2.6B	$4.7B	$2.1B
2018	$2.8B	$5.0B	$2.2B
2019	$3.0B	$5.4B	$2.3B
EPS Forecast (standalone):			
2016	$0.42	$0.62	$0.20
2017	$0.48	$0.71	$0.22
2018	$0.55	$0.78	$0.21
2019	$0.58	$0.86	$0.21

Source: Citi Research

Our assumptions translate into ~7.5% ratebase CAGR through 2019 and 7.6% theoretical EPS CAGR (calculated using POM flat 254m share count)

Figure 5. POM Ratebase ($mm except per share data) and Earnings Growth



Source: Citi Research

Standalone Valuation

We believe POM’s equity is worth $5/share with EXC (assuming 926m shares of EXC after financing). On a standalone basis using POM’s share count, this value would be $19/share. We use the same DCF approach as with other regulated utilities with 15.5x terminal P/E multiple, which reflects a long-term growth rate of 3.5% which is in line with our view on growth of the average utility post 2019.

Figure 6. POM Standalone Valuation ($mm except per share data)

POM Utility Valuation	12/31/2016	12/31/2017	12/31/2018	12/31/2019
EBIT	$174	$866	$935	$992
less taxes	(61)	(303)	(327)	(347)
EBIAT	$113	$563	$608	$645
add deferred income taxes	20	82	(1)	(34)
add depreciation	157	674	786	786
Less capex	(344)	(1,400)	(1,350)	(1,350)
Unlevered FCF	($53)	($81)	$43	$47
Terminal Value				$13,588

Valuation Summary	**9/30/2016**
Value of cash flows	($52)
Terminal Value	11,071
Total Firm Value	$11,020
Less Net Debt	(6,259)
Equity Value	$4,760
Shares outstanding	926
Share price	$5

Source: Citi Research

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates three

utilities in Pennsylvania, Illinois, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, and Baltimore Gas & Electric in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants located concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Sell (3). Our rating is based on concerns around the management team’s strategic vision and execution, downside related to the Pepco transaction, concerns around the economics of Exelon’s nuclear fleet with low unlevered free cash flow conversion (UFCF) of ~45% and a weak utility business with below average growth of ~4% through 2019

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $10/share and believe ExGen’s core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $18/share based on a 15x terminal PE multiple. We also add $5/share value provided by PepCo. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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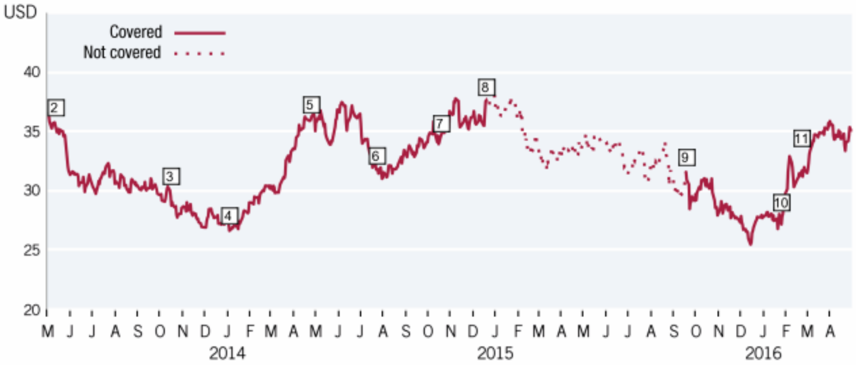
Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	10-May-13	2	*37.00	35.75
3	14-Oct-13	2	*29.00	30.02
4	03-Jan-14	*3	*21.00	26.62
5	24-Apr-14	3	*27.00	36.01
6	23-Jul-14	3	*30.00	31.76
7	17-Oct-14	*2	*37.00	34.38
8	18-Dec-14	Coverage terminated		
9	17-Sep-15	*3	*27.00	31.57
10	26-Jan-16	*2	27.00	27.84
11	22-Feb-16	*3	27.00	31.69

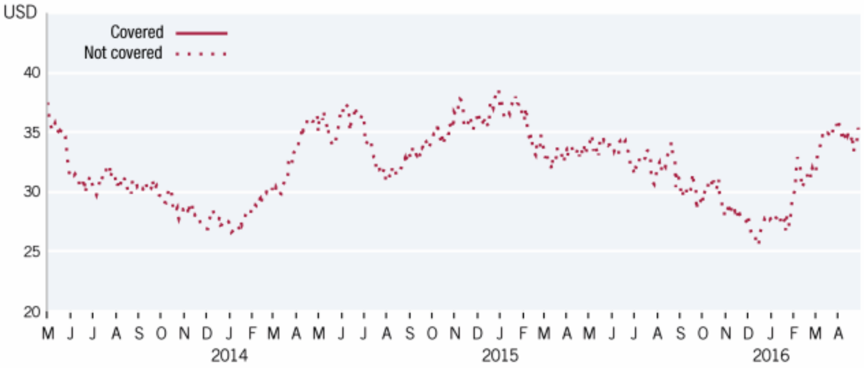
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

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	12 Month Rating		
Data current as of 31 Mar 2016	Buy	Hold	Sell
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Exelon Corp (EXC): Mostly in-line 1Q16; 2016 guidance reaffirmed at $2.40-$2.70 now including Pepco

Sentiment Indicator : negative

Posted by Tucker, Shelby (RBC Capital Markets, LLC) on Friday, May 06, 2016, 09:23 AM ET

Our View: We expect the focus on today's call will be on the potential for the Clinton and Quad Cities closures; we await for updates on management's conversations with the Illinois legislators. Given the completion of the Pepco acquisition, we also expect management to provide updated guidance on their earnings growth rate from 2015-2018; the previous range was 3-5% annually. We expect the reduced 2017-2018 gross margin guidance for ExGen to pressure the stock somewhat today.

Exelon Corp (EXC; $35.38; Outperform; $34 price target) reported 1Q16 adjusted earnings of $0.68 per share, $0.02 above our estimate of $0.66 per share but in line with consensus. The result is below 1Q15 adjusted earnings of $0.71 per share. Management guided 2Q16 adjusted earnings of $0.50-$0.60 per share and reiterated their full-year guidance of $2.40-$2.70 per share, which now incorporates the Pepco acquisition. Our current estimate of $2.53 does not yet incorporate Pepco (PHI); we are unsure whether consensus of $2.53 does as well. The following highlight some of the key drivers of the quarter on a year-over-year (YoY) basis versus our estimates (although actuals impacted by PHI results from March 24 to March 31):

ExGen:

- Nuclear volume: $0.06, $0.04 better.
- Portfolio management/capacity revenue/CENG non-controlling int: -$0.02, $0.05 worse.

Utilities:

- Weather: -$0.06, $0.02 better.
- Rate cases/investments: $0.11, $0.06 better.

Expenses/Other

- O&M expense: -$0.02, $0.03 worse.
- Depreciation expense: -$0.05, $0.03 worse.
- Interest expense: -$0.02, $0.01 worse.
- Share count dilution: -$0.04, in-line.

Exelon Generation (ExGen) gross margins down in 2017 and 2018. 2016-2018 total gross margin estimates are now $7.8 billion, $7.7 billion, and $7.7 billion, respectively; this is a $150 million and $200 million decrease for 2017 and 2018 due to lower power prices since December 31, 2015. ExGen continues to remain behind ratable in hedging their power by around 5-8% given its belief of a fundamental upside in future power prices.

Plans to retire Clinton, Quad Cities nukes without support. Management plans to retire Clinton (1,069 MW) on June 1, 2017 and Quad Cities (1,403 MW) on June 1, 2018, respectively, without Illinois legislative support by the end of this spring session (May 31, 2016) and if Quad Cities does not clear in this month's 2019/2020 PJM capacity auction.

PHI inclusion increases bonus depreciation cash benefit, but lowers earnings. In addition to the earnings impact of -$0.09, -$0.11, and -$0.06 in 2016-2018 from bonus depreciation expected on a stand-alone basis, the PHI acquisition is expected to have an incremental earnings impact of (at midpoint) -$0.01, -$0.07, and -$0.005 for the three years. On the flip side, the company expects to see additional cash flow of (at midpoint) $75 million, $250 million, and $450 million. Consolidated tax rate is expected to increase up to 34% by 2018 but should revert to ~32% by 2019.

Conference call at 11 AM ET. The dial-in number is (800) 690-3108, with pass code 97958832.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Exelon Corporation	NYSE	EXC	Outperform	Not Assigned	34.00	US Dollar	35.37	06 May 2016 07:59:45 ET

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6 May 2016

Exelon Corp.

Putting Clinton and Quad Cities on the Clock

EXC has set closure dates for Clinton and Quad Cities: As a part of the Q1 earnings call, EXC stated that Clinton would close in June of 2017 and Quad Cities would close in June of 2018 unless adequate legislation passes in Illinois by May 31, 2016 and if Quad Cities does not clear the 2019/2020 RPM capacity auction.

Q1 earnings of $0.68 and 2016 guidance reaffirmed: EXC reported Q1 earnings of $0.68 in line with consensus. The company also reaffirmed 2016 guidance of $2.40-$2.70; however the guidance now includes contribution from the PHI acquisition and the associated financing, as well as updated Exelon Generation earnings.

As expected Exelon Generation gross margin was lower: 2016 gross margin remained unchanged, while 2017 gross margin was down by $150M and 2018 gross margin was down by $200M. The main driver was the significantly lower forward power curves on 3/31/16 as compared to those on 12/31/15. It should be noted that since the end of the quarter there has been a strong rebound in the forward curves.

We reiterate our Overweight rating and $39 price target: Our model has been updated based on company disclosures. It should be noted that we provide a table showing the impact of MTM moves, but do not incorporate them into our estimates on a quarterly basis given the continually changing forward curves. Our 2016 estimate remains unchanged at $2.55. Our updated 2017 and 2018 estimates are $2.68 and $2.78, respectively.

EXC: Quarterly and Annual EPS (USD)

	2015	2016			2017			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2016	2017
Q1	0.71A	0.67E	0.68A	0.70E	N/A	N/A	0.74E	-4%	N/A
Q2	0.59A	N/A	N/A	0.54E	N/A	N/A	0.56E	N/A	N/A
Q3	0.83A	N/A	N/A	0.76E	N/A	N/A	0.79E	N/A	N/A
Q4	0.38A	N/A	N/A	0.51E	N/A	N/A	0.58E	N/A	N/A
Year	2.50A	2.55E	2.55E	2.52E	2.69E	2.68E	2.64E	2%	5%
P/E	14.2		13.9			13.2			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT	Unchanged
Industry View	NEUTRAL	Unchanged
Price Target	USD 39.00	Unchanged

Price (05-May-2016)	USD 35.38
Potential Upside/Downside	+10.2%
Tickers	EXC

Market Cap (USD mn)	32610
Shares Outstanding (mn)	921.69
Free Float (%)	99.77
52 Wk Avg Daily Volume (mn)	7.7
52 Wk Avg Daily Value (USD mn)	240.51
Dividend Yield (%)	3.6
Return on Equity TTM (%)	9.38
Current BVPS (USD)	28.04

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 35.95-25.09

Link to Barclays Live for interactive charting

North America Power & Utilities

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North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corp. (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2015A	2016E	2017E	2018E	CAGR
Revenue	27,549	32,056	33,356	33,879	7.1%
EBITDA (adj)	6,583	7,764	8,462	8,957	10.8%
EBIT (adj)	4,077	4,529	4,914	5,184	8.3%
Pre-tax income (adj)	3,496	3,619	3,907	4,161	6.0%
Net income (adj)	2,229	2,366	2,543	2,680	6.3%
EPS (adj) ($)	2.50	2.55	2.68	2.78	3.6%
Diluted shares (mn)	893.0	927.0	947.0	965.0	2.6%
DPS ($)	1.24	1.26	1.29	1.33	2.3%

Margin and return data					Average
EBITDA (adj) margin (%)	23.9	24.2	25.4	26.4	25.0
EBIT (adj) margin (%)	14.8	14.1	14.7	15.3	14.7
Pre-tax (adj) margin (%)	12.7	11.3	11.7	12.3	12.0
Net (adj) margin (%)	8.1	7.4	7.6	7.9	7.8
ROIC (%)	7.4	7.8	8.1	8.3	7.9
ROA (%)	2.4	2.5	2.6	2.7	2.5
ROE (%)	9.2	9.3	9.5	9.5	9.4

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	55,994	62,240	67,488	72,236	8.9%
Total net assets	94,732	97,805	100,118	102,082	2.5%
Capital employed	54,860	57,952	60,360	62,469	4.4%
Shareholders' equity	24,759	26,017	27,421	28,931	5.3%
Net debt/(funds)	29,139	31,490	32,420	32,745	4.0%
Cash flow from operations	6,749	7,614	8,104	8,466	7.8%
Capital expenditure	-5,800	-9,482	-8,796	-8,521	N/A
Free cash flow	-183	-3,023	-1,878	-1,272	N/A
Pre-dividend FCF	949	-1,868	-692	-55	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	14.2	13.9	13.2	12.7	13.5
EV/EBITDA (adj) (x)	9.4	8.2	7.7	7.3	8.1
EV/EBIT (adj) (x)	15.1	14.1	13.2	12.6	13.8
P/BV (x)	1.3	1.3	1.2	1.2	1.2
Dividend yield (%)	3.5	3.6	3.7	3.8	3.6
Total debt/capital (%)	54.9	55.1	54.6	53.7	54.6
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					Average
Payout ratio (%)	49.7	49.5	48.2	47.8	48.8
Interest cover (x)	3.9	3.3	3.3	3.5	3.5
Regulated (%)	44.0	50.1	52.8	56.0	50.7

Price (05-May-2016)	USD 35.38
Price Target	**USD 39.00**

Why Overweight? We believe EXC has strong leverage to a rebound in demand or price in its markets that should be to its advantage if/when markets improve. That said, on current market forwards we do not see a bounce in margins, making the stock fairly valued versus its earnings opportunities over the next 2-3 years.

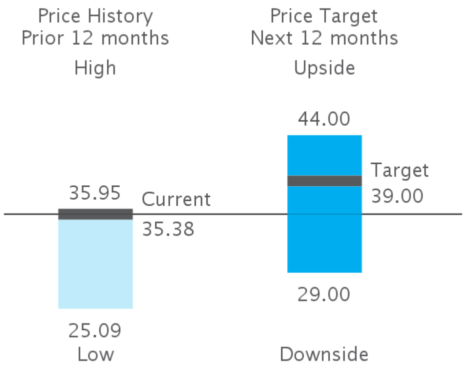
Upside case USD 44.00

Our upside case assumes a more bullish commodity outlook that results in margin expansion and corresponding increase in valuation by 10%.

Downside case USD 29.00

Our downside case assumes a $0.50 reduction in gas prices from the current forward curve, resulting in negative impacts to open EBTIDA and asset-based valuations, and the attribution of a discount due to challenged market location.

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

Clinton, Quad Cities and Illinois Legislation

Currently based on forward curves Clinton and Quad Cities are the only nuclear plants in Illinois losing money. From 2009-2015 these plants have lost more than $800M in cash flow on a pre-tax basis. The current expectations are for $140M of loss on a cash flow basis in 2017. Given that a path to profitability did not seem to exist in the current power markets, the decision has been made to shut down Clinton on June 1, 2017 and Quad Cities on June 1, 2018 if Illinois does not pass adequate legislation by May 31, 2016 and if Quad Cities does not clear the 19/20 PJM capacity auction in May.

The Illinois legislation that Exelon is trying to push is a bill introduced yesterday. The bill grew out of the coalition between Exelon Generation, ComEd, the Clean Jobs Coalition, and other stakeholders. The bill is called the Next Generation Energy Plan and the major provisions are as follows:

- Nearly doubles the energy efficiency programs to create $4.1B in energy savings.
- Commit $1B of funding for low-income assistance.
- Provide more than $140M per year in new funding for solar development.
- Strengthen and expand renewable portfolio standards.
- Introduce a Zero Emission Standard (this is where aid for at risk nuclear plants comes in).
- Reduce fixed charge on ComEd bills.
- Create thousands of new clean energy jobs.
- Enhance the reliability and security of the power grid.

The Zero Emission Standard would only compensate financially challenged plants after a full and complete review of costs by the ICC and the Illinois Power Agency. Apparently there would be a limit of 20Twhrs of production that could qualify. The financial support would provide for a full recovery of costs and risk capital. Currently only Clinton and Quad Cities are projected to need this support to continue operation.

Other At-Risk Nuclear Plants

Beyond Clinton and Quad Cities, there are other at risk nuclear plants in the fleet. In New York, Ginna and Nine Mile unit 1 have questionable economics. However; there may be a solution given the proposed clean energy standard in the state. This standard would provide a value on CO2 and as such provide a payment for non-carbon emitters. The next plants to consider are Oyster Creek, which has a known shut down date and Three Mile Island.

Exelon Generation

As expected gross margin was down as marked to the March 31, 2016 forward curves. The comparison of Gross margin from 12/31/15 to 3/31/16 are shown in Figure 1 on the next page. It should be noted that based on the recovery of forward curves since 3/31/16 that the gross margin is likely back to or above the levels disclosed in the Q4 2015 earnings deck.

FIGURE 1
Exelon Generation Gross Margin Comparison

	March 31, 2016			December 31, 2015			Difference		
Gross Margin Category ($Millions)	2016	2017	2018	2016	2017	2018	2016	2017	2018
Open Gross Margin	$4,450	$5,350	$5,800	$5,200	$5,800	$6,150	($750)	($450)	($350)
Mark-to-Market of Hedges	$2,650	$1,150	$400	$1,700	$800	$250	$950	$350	$150
Power New Business/ To Go	$250	$750	$1,000	$450	$800	$1,000	($200)	($50)	$0
Non-Power Margins Executed	$350	$150	$100	$250	$150	$100	$100	$0	$0
Non-Power New Business/ To Go	$100	$300	$400	$200	$300	$400	($100)	$0	$0
Total Gross Margin	$7,800	$7,700	$7,700	$7,800	$7,850	$7,900	$0	($150)	($200)
Imputed EPS Impact							$0.00	($0.10)	($0.13)
Imputed Valuation Impact @ 6.5x EV/EBITDA							$0	($1.03)	($1.35)

Source: Company Filing, Barclays Research estimates

Updated Estimates

We have updated our earnings estimates, mainly on tax issues associated with the Domestic Production Activity Deduction (DPAD). As a result of bonus depreciation and net operating losses for the legacy PHI assets, the amount of DPAD that can be booked will be lower in 2017 through 2019 with the largest impact being in 2018. Although this works to lower the earnings contribution from Exelon Generation by $0.00-$0.08 depending on the year, the overall cash flow is $700-$850M higher for the period 2017-2019. The expectation is for the impact to the DPAD to normalize in 2019. The expected impact to earnings is 0-2 cents in 2017, 6-8 cents in 2018 and 0-1 cent in 2019. All of these impacts are a drag on earnings.

Our updated 2016/2017/2018 estimates are $2.55/$2.68/$2.78, respectively vs. our previous estimates of $2.55/$2.69/$2.82. Again the tax issue associated with DPAD drives the majority of this change. We did not update the forward curves and flow those changes to the as the forward curves are continually moving. The earnings and valuation impact of the forward curves are shown in Figure 1.

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Primary Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 05-May-2016, USD 35.38), Overweight/Neutral, A/CD/CE/D/J/K/L/M

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Aqua America (WTR)
Brookfield Infrastructure Partners LP (BIP)
Brookfield Infrastructure Partners LP (BIP_u.TO)
Brookfield Renewable Energy Partners LP (BEP)
Brookfield Renewable Energy Partners LP (BEP_u.TO)
California Water Service Group (CWT)
Calpine Corp. (CPN)
Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)
Consolidated Edison (ED)
Dominion Resources (D)
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Duke Energy (DUK)
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Edison International (EIX)
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National Grid Plc (NGG)
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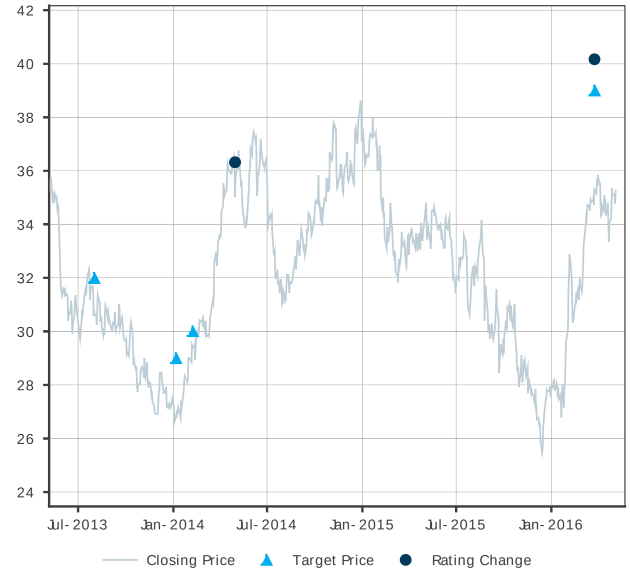
Exelon Corp. (EXC / EXC)	Stock Rating	Industry View
USD 35.38 (05-May-2016)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 05-May-2016)



Source: IDC, Barclays Research

Currency=USD

Date	Closing Price	Rating	Adjusted Price Target
24-Mar-2016	35.31	Overweight	39.00
30-Apr-2014	35.03	Rating Suspended	
07-Feb-2014	29.44		30.00
06-Jan-2014	26.79		29.00
01-Aug-2013	30.80		32.00

Source: Thomson Reuters, Barclays Research

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Link to Barclays Live for interactive charting

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 05 May 2016	35.38 USD 05 May 2016	30.00 USD	1.18	3.50 05 May 2016	3.60 05 May 2016	32.55 05 May 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.04	0.85	1.04	0.99
Price/Earnings	13.9	15.6	17.1	20.7
Forward P/E	13.8	—	16.2	14.1
Price/Cash Flow	4.1	5.1	6.0	11.5
Price/Free Cash Flow	—	74.7	11.1	17.5
Trailing Dividend Yield%	3.50	4.65	3.53	2.29

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon Threatens to Close Clinton, Quad Cities Nuclear Plants...Again

Investment Thesis

Travis Miller, Sector Director, 06 October 2015

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Travis Miller, Sector Director, 06 May 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after management used its strongest language to-date regarding the fate of the beleaguered Clinton and Quad Cities nuclear plants, both in Illinois. Management said it will close the plants by 2017-18 but also said the decision depends on several developments. These are the same contingencies management has used for several years to justify postponing the plant closures.

We continue to assume Exelon closes Clinton, Quad Cities, and two other nuclear plants by 2020. But we think management remains hesitant to pull the cord. The plants could survive if Illinois politicians pass what effectively is a nuclear bailout bill; Clinton clears the Mid-Continent Independent System Operator's 2017-18 capacity auction next spring; or Quad Cities clears the mid-Atlantic capacity auction later this month. Quad Cities cleared last year's 2017-18 transitional capacity auction at $151.50 per megawatt-day but did not clear the 2018-19 auction at $215/MW-day. We expect similar clears in this year's 2019-20 auction.

Exelon earned $0.68 per share on an adjusted basis and reaffirmed its $2.40-$2.70 per share 2016 guidance, in line with our estimates. It continues running its nuclear fleet at world-class levels, achieving a 95.8% capacity factor in the quarter and proving it can capture the full upside if energy prices rebound. Exelon also filed rate cases at two of its newly acquired Pepco utilities, which should boost earnings and returns on the pricey acquisition if the utilities receive constructive decisions.

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 05 May 2016	35.38 USD 05 May 2016	30.00 USD	1.18	3.50 05 May 2016	3.60 05 May 2016	32.55 05 May 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	23,500	9,896	27.70	15.08
FirstEnergy Corp FE	USD	14,232	14,998	16.50	20.79
Entergy Corp ETR	USD	13,717	11,513	-2.60	0.00

increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 24 March 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

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Analyst Notes Archive

Exelon Threatens to Close Clinton, Quad Cities Nuclear Plants...Again

Travis Miller, Sector Director, 06 May 2016

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Are Utilities Overheated or Are Their Yields too Good to Pass Up?

Travis Miller, Sector Director, 20 April 2016

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40%

Travis Miller, Sector Director, 06 April 2016

We are cutting our midcycle assumptions for Brent oil, U.S. Henry Hub natural gas, and U.S. and European power prices. This will lead us to cut our fair value estimates 10%-40% for utilities with merchant power market exposure. We are maintaining our midcycle assumptions for coal, Eastern U.S. gas basis, and regional market heat rates.

Our new long-term marginal cost for U.S. natural gas is

$3 per thousand cubic feet, down from $4/mcf. The cut is based on a more optimistic outlook for low-cost U.S. gas production primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica. We see more evidence that U.S. shale producers can survive at much lower prices than we previously assumed.

The midcycle gas price cut results in a similar cut to our midcycle U.S. power prices. Our benchmark PJM West around-the-clock midcycle price falls to $30.60 per megawatt hour from $43.35 when including our $0.60/mmBtu gas basis discount. The rest of our U.S. midcycle power prices fall 25%.

Power producers with large coal and nuclear fleets face the biggest fair value estimate cuts. These include Dynegy and NRG Energy. Diversified utilities with large coal and nuclear fleets such as Exelon and FirstEnergy could have 10%-20% fair value estimate cuts as we incorporate the new midcycle prices. Power producers with large gas generation fleets such as Calpine will experience smaller fair value estimate cuts because gas generation should benefit from lower costs and higher run times in our midcycle forecasts.

Our new Brent oil midcycle price is $60 per barrel, down from $70. The long-term structural issue facing crude markets is that the world needs some U.S. production growth, but not nearly as much as tight oil can supply. Our Brent oil price cut will lead us to cut our fair value estimate for Centrica.

We will be publishing updated reports and valuations on all companies within the next week.

Exelon and Pepco Join to Sing a Duet: At Last

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 02 March 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 29 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Management Meeting: Exelon Sticks to March 4 Drop-Dead Date for Pepco Deal

Travis Miller, Sector Director, 11 November 2015

We are reaffirming our $35 and $26 fair value estimates for Exelon and Pepco Holdings, respectively, after meeting with Exelon's senior management at the Edison Electric Institute Financial Conference in Hollywood, Florida. Our narrow moat and stable moat trend ratings for both companies are unchanged.

Management reiterated it will withdraw its offer to acquire Pepco if Washington, D.C., regulators do not approve the transaction by March 4, 2016. We continue to incorporate in our fair value estimates a 75% probability of the deal closing as proposed. D.C. regulators' written approval for rehearing suggested they expect to rule within that time frame. We expect Exelon will be able to close the deal immediately following approval.

The most-favored-states contingencies in other states' approvals would take effect after the deal closed and thus are not an impediment to the deal closing. Exelon would file with those states to offer customer benefits comparable with those offered in D.C. We don't expect this to be material to our assessment of the transaction or our fair value estimate for Exelon, which includes $1 per share of dilution from the deal.

Management pushed out the start of its full $0.15-$0.20 earnings per share run-rate accretion to 2019 from 2017 initially. Apart from the closing delay, management said the 2017-18 reduction was based on Pepco's reassessment of its near-term outlook for earned returns. At this point, most of the earnings accretion should come from the extra leverage Exelon will use. We expect it will take two to three years of operational improvements on Exelon's side before it can achieve more constructive regulatory outcomes.

Management estimated the deal could be $0.25 per share earnings-accretive by 2020 if Pepco can achieve a 9% earned return on equity. We think this is a stretch, but even an 8% achieved ROE could make the deal value-neutral relative to our previous stand-alone forecasts for Pepco.

Exelon Corp EXC ★★★Q

Last Close 05 May 2016	Quantitative Fair Value Est 05 May 2016	Market Cap 05 May 2016	Sector	Industry	Country of Domicile
35.38	33.93	32,546.9 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	92	89	88
Valuation	—	30	50	40
Quantitative Uncertainty	Medium	97	89	94
Financial Health	Moderate	61	56	61

Source: Morningstar Equity Research

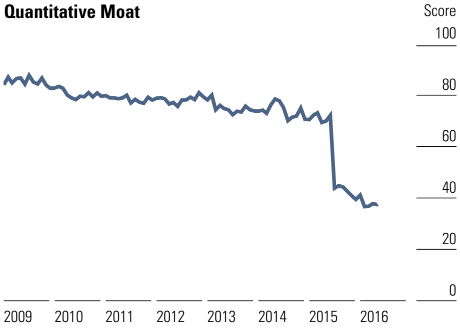
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.04	0.85	1.04	0.99
Price/Earnings	13.9	15.6	17.1	20.7
Forward P/E	13.8	—	16.2	14.1
Price/Cash Flow	4.1	5.1	6.0	11.5
Price/Free Cash Flow	—	74.7	11.1	17.5
Trailing Dividend Yield %	3.50	4.65	3.53	2.29
Price/Book	1.3	1.5	1.3	2.2
Price/Sales	1.1	1.2	1.3	1.8

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	9.4	9.7	9.5	11.9
Return on Assets %	2.5	2.6	3.1	4.7
Revenue/Employee (K)	989.4	958.0	1,210.9	298.5

Quantitative Moat



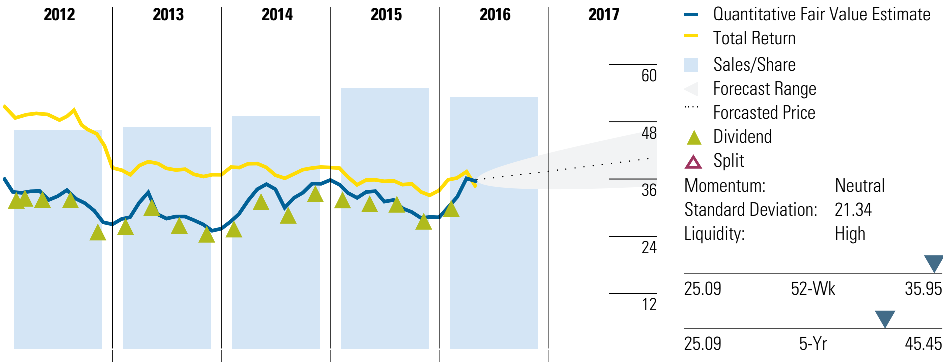
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.5
Solvency Score	—	—	628.8	579.7
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

Growth Per Share

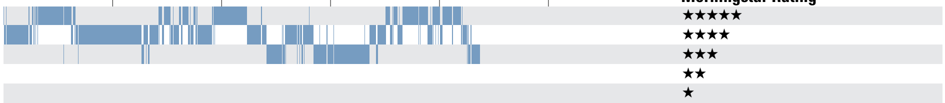
	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	7.6	3.0	1.0	-0.7

Price vs. Quantitative Fair Value



2012	2013	2014	2015	2016	2017	
-26.6	-3.0	39.9	-21.8	28.5		Total Return %
-42.9	-36.1	27.1	-22.5	27.7		+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—		Trailing Dividend Yield %
—	—	—	—	3.50		Forward Dividend Yield %
21.0	14.7	15.2	12.3	13.9		Price/Earnings
1.0	0.9	1.2	0.8	1.1		Price/Revenue

Morningstar RatingQ

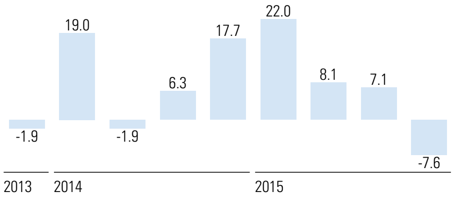


2011	2012	2013	2014	2015	TTM	Financials (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	29,447	Revenue
1.5	24.1	6.0	10.2	7.4	0.0	% Change
4,480	2,380	3,656	3,096	4,409	4,409	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	0.0	% Change
2,495	1,160	1,719	1,623	2,269	2,269	Net Income
4,853	6,131	6,343	4,457	7,616	7,616	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-7,624	Capital Spending
811	321	948	-1,620	-8	-8	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	0.0	% Sales
3.75	1.42	2.00	1.88	2.54	2.54	EPS
-3.1	-62.1	40.8	-6.0	35.1	0.0	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.01	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.04	Book Value/Share
855,000	857,000	860,000	920,000	919,925	919,925	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	9.4	Return on Equity %
4.7	1.7	2.2	2.0	2.5	2.5	Return on Assets %
13.2	4.9	6.9	5.9	7.7	7.7	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.32	Asset Turnover
3.8	3.7	3.5	3.8	3.7	3.7	Financial Leverage
62.3	56.8	56.9	52.6	55.6	55.6	Gross Margin %
23.7	10.1	14.7	11.3	15.0	15.0	Operating Margin %
12,189	18,346	18,271	20,010	24,286	24,286	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,793	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
2012	4,686.0	5,954.0	6,565.0	6,284.0	23,489.0
Earnings Per Share ()					
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00
2012	0.28	0.33	0.35	0.44	1.42

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

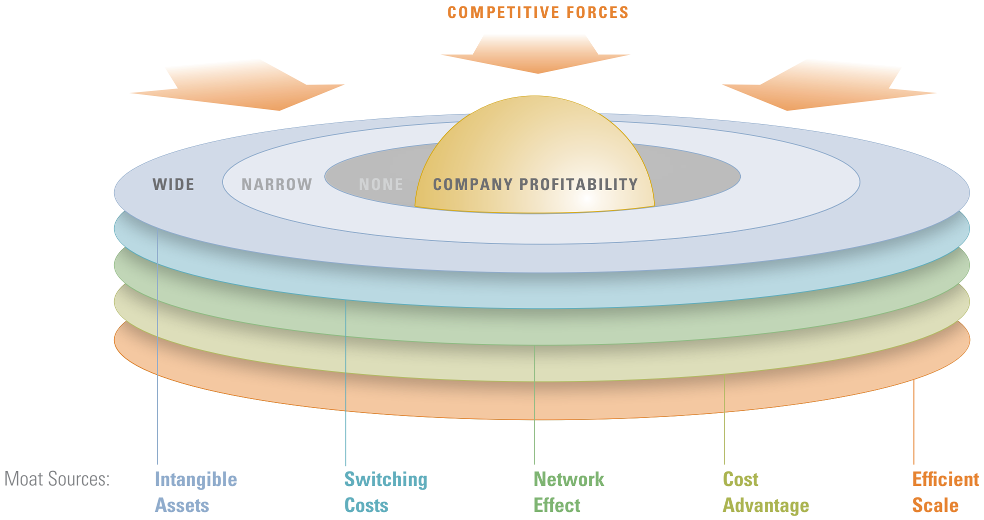
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

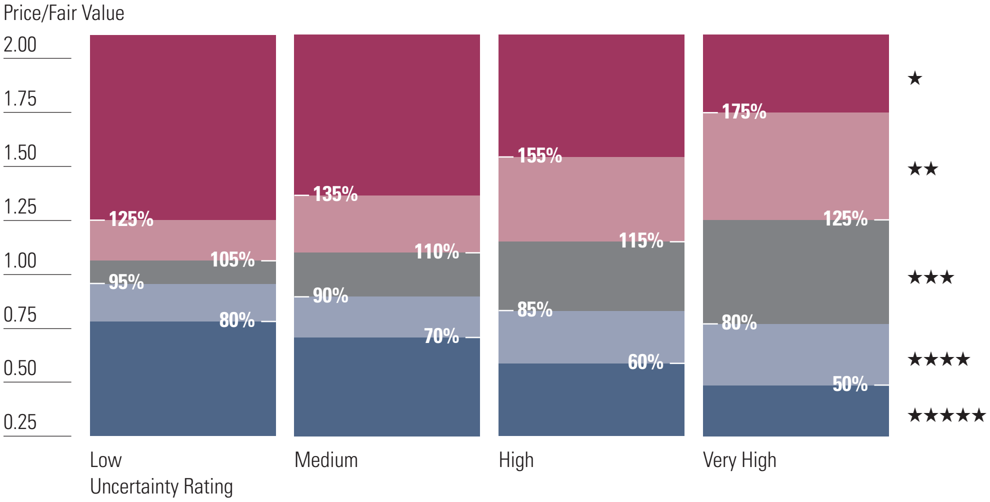
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

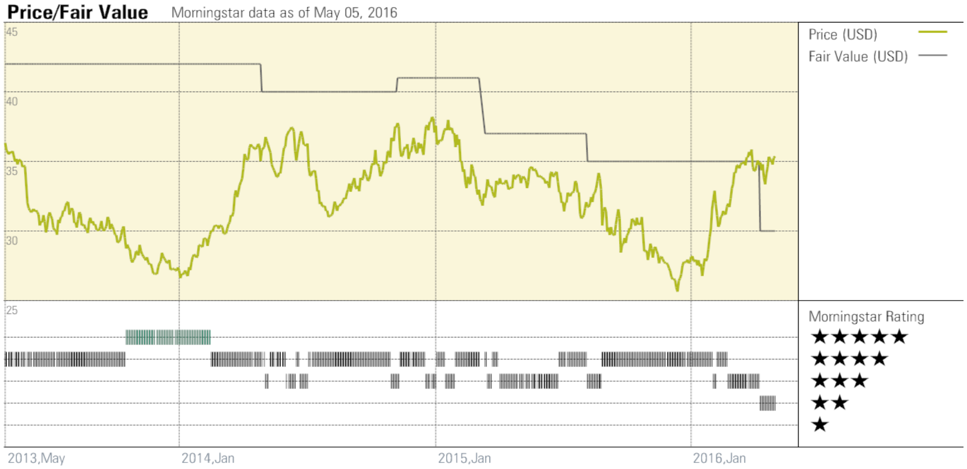
If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	35.38 USD	30.00 USD	1.18	3.50	3.60	32.55	Utilities - Diversified	Standard
05 May 2016	05 May 2016			05 May 2016	05 May 2016	05 May 2016		



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Exelon Corp EXC (XNYS)

Morningstar Rating	**Last Price**	**Fair Value Estimate**	**Price/Fair Value**	**Trailing Dividend Yield %**	**Forward Dividend Yield %**	**Market Cap (Bil)**	**Industry**	**Stewardship**
★★ 05 May 2016	35.38 USD 05 May 2016	30.00 USD	1.18	3.50 05 May 2016	3.60 05 May 2016	32.55 05 May 2016	Utilities - Diversified	Standard

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.38 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon Threatens to Close Clinton, Quad Cities Nuclear Plants...Again

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The primary analyst covering this company does not own its stock.

Research as of 06 May 2016
Estimates as of 13 Apr 2016
Pricing data through 05 May 2016
Rating updated as of 05 May 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 06 May 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after management used its strongest language to-date regarding the fate of the beleaguered Clinton and Quad Cities nuclear plants, both in Illinois. Management said it will close the plants by 2017-18 but also said the decision depends on several developments. These are the same contingencies management has used for several years to justify postponing the plant closures.

We continue to assume Exelon closes Clinton, Quad Cities, and two other nuclear plants by 2020. But we think management remains hesitant to pull the cord. The plants could survive if Illinois politicians pass what effectively is a nuclear bailout bill; Clinton clears the Mid-Continent Independent System Operator's 2017-18 capacity auction next spring; or Quad Cities clears the mid-Atlantic capacity auction later this month. Quad Cities cleared last year's 2017-18 transitional capacity auction at $151.50 per megawatt-day but did not clear the 2018-19 auction at $215/ MW-day. We expect similar clears in this year's 2019-20 auction.

Exelon earned $0.68 per share on an adjusted basis and reaffirmed its $2.40-$2.70 per share 2016 guidance, in line with our estimates. It continues running its nuclear fleet at world-class levels, achieving a 95.8% capacity factor in the quarter and proving it can capture the full upside if energy prices rebound. Exelon also filed rate cases at two of its newly acquired Pepco utilities, which should boost earnings and returns on the pricey acquisition if the utilities receive constructive decisions.

Vital Statistics

Market Cap (USD Mil)	32,547
52-Week High (USD)	35.95
52-Week Low (USD)	25.09
52-Week Total Return %	7.6
YTD Total Return %	28.5
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.18

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*14.7*	*15.0*
EV/EBITDA	9.5	6.6	*7.9*	*7.7*
EV/EBIT	16.7	10.2	*12.6*	*12.5*
Free Cash Flow Yield %	-5.1	0.0	*-5.2*	*-3.7*
Dividend Yield %	3.3	4.3	*3.6*	*3.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.38 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* *2016*	*2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*14.7*	*15.0*
EV/EBITDA	9.5	6.6	*7.9*	*7.7*
EV/EBIT	16.7	10.2	*12.6*	*12.5*
Free Cash Flow Yield %	-5.1	0.0	*-5.2*	*-3.7*
Dividend Yield %	3.3	4.3	*3.6*	*3.6*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.38 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.38 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.38 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

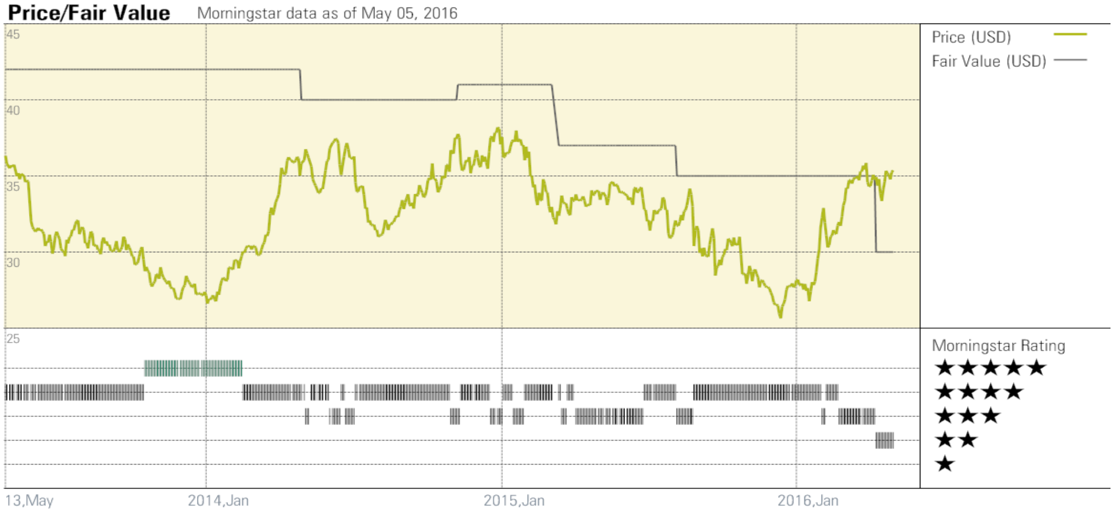
Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	*Forecast* *2016*	*Forecast* *2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.38 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
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Electric Utilities and Independent Power BMO Capital Markets

Exelon

(EXC-NYSE)

Rating: **Market Perform**
Target Price: **$36.00** **Total Return: 4%**
Price (6-May): **$35.68**

May 8, 2016

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1Q16 EPS in Line; Intends to Retire Clinton and Quad Cities Absent IL Legislation

Event

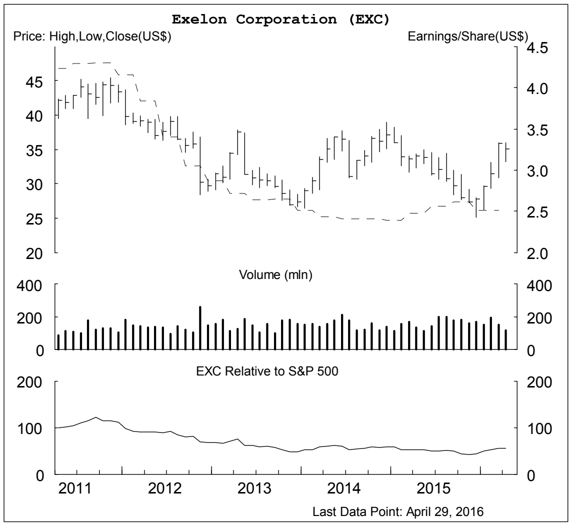
Exelon reported 1Q16 operating EPS of $0.68, a 4% decline vs. 1Q15, but in line with consensus. EPS for EXC's three legacy utilities were lower by $0.02 in 1Q16 versus 1Q15 at $0.37, reflecting increased storm costs at BGE and mild winter weather at PECO and ComEd, partially offset by rate relief at ComEd. PHI's actual results for the period 3/24-3/31 were not a significant contributor to overall results. ExGen's 1Q16 EPS were largely unchanged at $0.34 ($0.35 in 1Q15). ExGen gross margin guidance for 2016 was unchanged at $7,800 million, while 2017/2018 guidance was revised lower by $150 million/$200 million, respectively, to $7,700 million in each year.

Impact & Analysis

Management reiterated 2016 EPS guidance at $2.40-2.70, reflecting financing associated with the acquisition of PHI and $0.10-0.20 of expected EPS contribution from PHI for the remainder of 2016. EXC intends to retire its Clinton (1,069 MW) and Quad Cities (1,403 MW) nuclear units in Illinois on 6/1/17 and 6/1/18, respectively, if Illinois does not pass adequate legislation by 5/31/16, and if Quad Cities does not clear the 2019/20 PJM capacity auction. All three of the PHI utilities intend to file rate cases this year: ACE filed its rate case with the NJBPU in March seeking an $84.4 million (6.3%) increase in rates and 10.6% ROE, and Pepco filed its rate case in Maryland seeking a $126.8 million (10.4%) increase in rates and 10.6% ROE. In addition, rate filings are expected by Pepco in Washington, DC, and DPL intends to file in Delaware and Maryland in 2Q16/3Q16. Final orders are expected from all PHI rate cases by year-end 2016/1Q2017.

Valuation & Recommendation

We are maintaining our 2016 and 2017 EPS estimates. We reaffirm our Market Perform rating and $36 SOTP price target, based on a 16x 2017E P/E for the regulated utilities and 8x 2017E EV/EBITDA multiple for ExGen.



Last Data Point: April 29, 2016

(FY-Dec.)	2014A	2015A	2016E	2017E
EPS	$2.39	$2.49	$2.57	$2.64
P/E			13.9x	13.5x
CFPS	- $0.16	- $0.23	- $2.38↓	- $2.32↓
P/CFPS			na	na
Rev. ($mm)	$27,429	$29,447	$26,232	$28,663
EV ($mm)	$42,084	$46,850	$52,981	$56,528
EBITDA ($mm)	$5,865	$6,813	$8,158	$8,842
EV/EBITDA	7.2x	6.9x	6.5x	6.4x

Quarterly EPS	Q1	Q2	Q3	Q4
2014A	$0.62	$0.51	$0.78	$0.48
2015A	$0.71	$0.59	$0.83	$0.38
2016E	$0.68a	na	na	na

Dividend	$1.24	**Yield**	3.5%
Book Value	$25.51	**Price/Book**	1.4x
Shares O/S (mm)	861.0	**Mkt. Cap (mm)**	$30,720
Float O/S (mm)	855.5	**Float Cap (mm)**	$30,524
Wkly Vol (000s)	37,590	**Wkly $ Vol (mm)**	$1,167
Net Debt ($mm)	$18,247	**Next Rep. Date**	na

Notes: All values in US$
Major Shareholders:
First Call Mean Estimates: EXELON CORP (US$) 2016E: $2.52; 2017E: $2.64

Changes

Annual CFPS
2016E -$2.13 to -$2.38
2017E -$1.84 to -$2.32

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1Q16 Recap

Exelon reported 1Q16 operating EPS of $0.68, a 4% decline vs. 1Q15, but in line with consensus. EPS for EXC's three legacy utilities were lower by $0.02 in 1Q16 versus 1Q15 at $0.37, reflecting increased storm costs at BGE and mild winter weather at PECO and ComEd, partially offset by rate relief at ComEd. PHI's actual results for the period 3/24-3/31 were not a significant contributor to overall results. ExGen's 1Q16 EPS were largely unchanged at $0.34 ($0.35 in 1Q15). ExGen gross margin guidance for 2016 was unchanged at $7,800 million, while 2017/2018 guidance was revised lower by $150 million/$200 million, respectively, to $7,700 million in each year.

Key Takeaways From the Conference Call

Acquisition of Pepco Holdings Inc. (PHI) Completed

Exelon completed the all-cash $7 billion acquisition of PHI on March 23. Approval of the merger was conditioned upon Exelon agreeing to certain commitments, aimed at providing benefits to PHI customers. As a result, EXC recorded a total pre-tax charge of $508 million ($394 million after-tax).

2016 Adjusted Operating EPS Guidance Reiterated at $2.40–2.70

Management reaffirmed 2016 adjusted operating EPS guidance at $2.40–2.70, reflecting an average share count of 926 million shares outstanding, interest on debt issued for the PHI transaction captured at the HoldCo and PHI's expected contribution to 2016 earnings for the remainder of the year.

Segment EPS guidance for 2016 is as follows:

- $1.20–1.30 for ExGen (down $0.05 from previous guidance of $1.25–1.35)
- $0.25–0.35 for BGE
- $0.10–0.20 for PHI
- $0.40–0.50 for PECO
- $0.50–0.60 for ComEd
- ($0.10)–(0.20) for the HoldCo

Management also reiterated its 7–9% 2015–2018 annual EPS growth expectations for the legacy EXC utilities and signaled that it expects earnings from the PHI utilities in 2017 and 2018 to be at least in line to possibly better than guidance given at EEI in November 2015. EXC's previous guidance for PHI accretion, on a base case scenario, was earnings neutral in 2017, $0.07–0.12/share in 2018 and $0.15–0.20/share in 2019.

Regulatory Round-up

Management indicated a final order in its BGE rate case is expected next month. In addition, ComEd filed its formula rate case in Illinois last month, seeking a $138 million rate increase. A final Illinois order is expected in December 2016.

All three PHI utilities - Pepco, Atlantic City Electric (ACE) and Delmarva Power and Light (DPL), have already or will file rate cases in their respective jurisdictions by the end of 3Q16. They have been out of rate cases for at least two years.

- Last month, Pepco filed a rate case in Maryland, seeking a $126.8 million (10.4%) increase in base rates and a 10.6% ROE. A final order is expected in December 2016. Pepco also intends to file a rate case in Washington, DC by the end of next quarter.
- In March, ACE filed its rate case with the New Jersey commission, seeking an $84.4 million (6.3%) increase in rates and 10.6% ROE. A final order from the NJBPU is expected in 1H2017.
- DPL intends to file rate cases in Delaware and Maryland in 2Q16 and 3Q16, respectively with final orders expected in 1Q2017.

Possible Early Retirement of Clinton and Quad Cities Nuclear Facilities

Management announced its intention to shut down the Clinton (1,069 MW/8,700 GWh of production in 2015) and Quad Cities (1,403 MW/11,700 GWh of 2015 production) nuclear facilities in Illinois on June 1, 2017 and June 1, 2018, respectively, if Illinois does not pass enabling legislation aimed at supporting nuclear generation by the end of the legislature's spring session on May 31, 2016 and, if Quad Cities does not clear PJM's upcoming 2019/20 capacity auction. According to EXC, the two aforementioned facilities have lost more than $800 million in cash flow on a pre-tax basis from 2009 through 2015.

Support for favorable legislation has been forthcoming from various parties, including climate scientists and other environmental groups. The proposed ZEC program, which functions much the same way as renewable energy credits (REC) do in the state's existing renewable portfolio standards (RPS) programs, is a payment mechanism for the state value of zero-emission credits from nuclear plants, which represent the delta between the needed revenues to operate the facilities and their respective operating costs. In short, where operating costs and associated risks for operating the plant are not covered by available market revenues, the ZEC program would provide relief for greenhouse gas avoidance.

Reliability Support Services Agreement (RSSA) Approved for Ginna Nuclear Plant

Last month, the Federal Energy Regulatory Commission (FERC) and New York Public Service Commission (NYPSC) approved an RSSA under which the Ginna nuclear plant would continue to operate through the term (March 31, 2017). ExGen recognized a one-time revenue adjustment of ~$101 million (included in 2016 guidance), representing the net cumulative previously unrecognized revenue retroactive from the April 1, 2015 effective date through March 31, 2016.

Income Statement	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Revenues	$27,429	$29,447	$26,232	$28,663	$29,558
Fuel and purchased power	-$13,003	-$13,084	-$7,740	-$8,952	-$9,250
Operating, maintenance and other	-$9,722	-$9,522	-$10,476	-$11,011	-$11,095
Restructuring, Other etc.	$0	$0	$0	$0	$0
EBITDA	**$5,865**	**$6,813**	**$8,158**	**$8,842**	**$9,351**
Depreciation and amortization	-$2,314	-$2,450	-$3,110	-$3,483	-$3,679
EBIT	**$3,551**	**$4,363**	**$5,048**	**$5,359**	**$5,671**
Equity in earnings of affiliates	$706	$18	$10	$10	$10
Interest income & Other	$0	$0	$35	$26	$21
Interest expense	-$1,065	-$1,033	-$1,565	-$1,763	-$1,858
Other income/(expense)	$455	-$46	$97	$106	$106
EBT	**$2,486**	**$3,330**	**$3,483**	**$3,596**	**$3,813**
Income tax expense	-$666	-$1,080	-$1,111	-$1,152	-$1,251
Income from continuing ops.	**$1,820**	**$2,250**	**$2,372**	**$2,444**	**$2,562**
Extraordinary items – net of tax	$0	$0	$0	$0	$0
Discontinued operations – net of tax	$0	$0	$0	$0	$0
Dividends on preferred stock	$0	$0	$0	$0	$0
Minority interest	-$197	$19	-$4	-$4	-$4
Net Income	**$1,623**	**$2,269**	**$2,368**	**$2,440**	**$2,558**
Average shares outstanding (diluted)	864	893	923	923	923
GAAP Reported EPS (diluted)	**$1.88**	**$2.54**	**$2.57**	**$2.64**	**$2.77**
Reconciliation to adjusted earnings/diluted share	$0.52	-$0.05	$0.00	$0.00	$0.00
EPS (ongoing)	**$2.39**	**$2.49**	**$2.57**	**$2.64**	**$2.77**
EPS (Consensus)			**$2.53**	**$2.64**	**$2.77**

Cash Flow Statement	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net income	$1,820	$2,250	$2,372	$2,444	$2,562
Depreciation and amortization	$3,868	$3,987	$3,106	$3,477	$3,673
Changes in working capital	-$1,231	$1,379	$263	-$30	$4
Cash flow from operations	**$4,457**	**$7,616**	**$5,741**	**$5,890**	**$6,239**
Capital expense (net of asset sales)	-$4,599	-$7,822	-$7,939	-$8,036	-$7,836
Cash flow from investing	**-$4,599**	**-$7,822**	**-$7,939**	**-$8,036**	**-$7,836**
Common stock	$0	$1,868	$0	$0	$0
Dividends paid	-$1,065	-$1,105	-$2,435	-$2,737	-$2,747
Net debt borrowal/(repayment)[1]	$2,040	$4,102	$5,094	$1,136	$3,440
Other financings	-$564	-$35	-$230	-$690	-$490
Cash flow from financing	**$411**	**$4,830**	**$2,428**	**-$2,292**	**$202**
Net cash flow	**$269**	**$4,624**	**$230**	**-$4,437**	**-$1,394**

Balance Sheet	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Assets					
Cash and cash equivalents	$2,149	$6,707	$312	$2,507	$1,100
Accounts receivable	$4,709	$4,099	$4,938	$4,938	$4,938
Inventories	$1,603	$1,566	$1,707	$1,707	$1,707
Other current assets	$3,636	$2,962	$3,145	$3,145	$3,145
Total current assets	**$12,097**	**$15,334**	**$10,102**	**$12,297**	**$10,890**
Net fixed assets	$52,087	$57,439	$80,107	$78,051	$82,210
Intangibles & other assets	$22,630	$22,611	$26,431	$26,431	$26,431
Total assets	**$86,814**	**$95,384**	**$116,640**	**$116,779**	**$119,530**
Liabilities					
Accounts payable	$3,056	$2,891	$3,388	$3,388	$3,388
Short-term debt	$2,262	$2,033	$5,571	$6,697	$7,847
Other current liabilities	$3,444	$4,194	$4,601	$4,601	$4,601
Total current liabilities	**$8,762**	**$9,118**	**$13,560**	**$14,686**	**$15,836**
Long-term debt	$20,010	$24,286	$32,259	$32,269	$34,559
Deferred credits & other liabilities	$33,909	$34,686	$39,285	$39,285	$39,285
Total long-term liabilities	**$53,919**	**$58,972**	**$71,544**	**$71,554**	**$73,844**
Stockholders' equity	**$24,133**	**$27,294**	**$31,536**	**$30,539**	**$29,850**
Preferred stock	$0	$0	$183	$183	$183
Total common equity	$24,133	$27,294	$31,353	$30,356	$29,667
Total liabilities	**$86,814**	**$95,384**	**$116,640**	**$116,779**	**$119,530**

Stock Data	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Year-end/Latest stock price	$37.08	$27.77	$35.68	$35.68	$35.68
Year-end/Latest shares o/s (mm)	864.0	893.0	922.9	922.9	922.9
Year-end/Latest market cap. ($ mm)	$32,037	$24,799	$32,930	$32,930	$32,930
Book value per share	$27.93	$30.56	$33.97	$32.89	$32.14
Dividend per share	$1.24	$1.24	$1.26	$1.29	$1.33
Dividend payout ratio	51.8%	49.7%	49.2%	49.0%	47.9%
Dividend yield	3.34%	4.47%	3.54%	3.63%	3.72%
% Regulated ongoing income	20%	19%	21%	22%	22%
FCF (after div.)	-$1,207	-$1,311	-$4,634	-$4,883	-$4,344
FCF/share	-$0.16	-$0.23	-$2.38	-$2.32	-$1.73
FCF yield	-0.44%	-0.83%	-6.68%	-6.52%	-4.85%

Leverage Ratios	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Coverage ratios					
Interest coverage	1.9x	2.2x	1.5x	1.4x	1.4x
EBIT interest coverage	3.3x	4.2x	3.2x	3.0x	3.1x
EBITDA interest coverage	5.5x	6.6x	5.2x	5.0x	5.0x
Debt service coverage	0.6x	0.7x	0.3x	0.3x	0.3x
Leverage ratios					
Net debt to EBITDA	3.4x	2.9x	4.6x	4.1x	0.0x
Total debt to EBITDA	3.8x	3.9x	4.6x	4.4x	16.4x

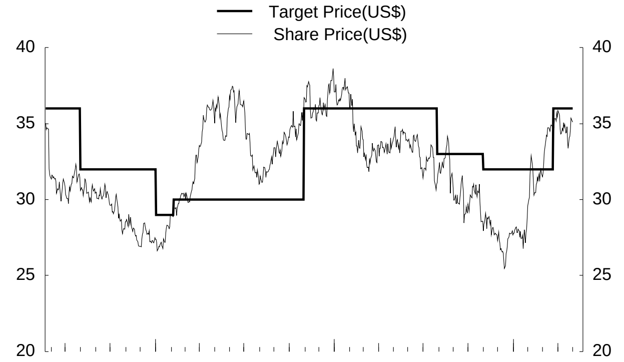
EPS and EBITDA Summary	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Ongoing EPS					
Comed	$0.47	$0.48	$0.55	$0.57	$0.62
PECO	$0.41	$0.43	$0.46	$0.48	$0.51
BGE	$0.23	$0.31	$0.31	$0.33	$0.36
DP&L			$0.03	$0.06	$0.08
ACE			$0.02	$0.03	$0.05
Pepco DC			$0.11	$0.12	$0.16
Exelon Generation	$1.34	$1.40	$1.24	$1.26	$1.19
Corporate/Other	-$0.06	-$0.13	-$0.16	-$0.20	-$0.20
Consolidated Ongoing EPS	**$2.39**	**$2.49**	**$2.57**	**$2.64**	**$2.77**
EBITDA					
Comed	$1,684	$1,745	$1,926	$2,076	$2,248
PECO	$815	$895	$939	$1,001	$1,063
BGE	$828	$942	$996	$1,050	$1,118
Exelon Generation	$2,549	$3,269	$3,124	$3,270	$3,313
Corporate/Other	-$11	$0	$213	$171	$141
Consolidated EBITDA	**$5,865**	**$6,851**	**$7,197**	**$7,568**	**$7,882**

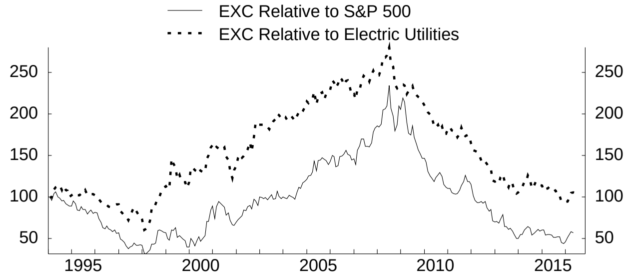
Valuation & Other Metrics	**2014**	**2015**	**2016E**	**2017E**	**2018E**
P/E	15.5x	11.1x	13.9x	13.5x	12.9x
P/E - discount(-)/premium(+) to peer group			-21%	-20%	n/a
P/E - discount(-)/premium(+) to industry			-22%	-21%	n/a
EV/EBITDA	8.9x	6.5x	8.6x	7.8x	7.4x
Price/Book value	1.3x	0.9x	1.1x	1.1x	1.1x
ROE	7.5%	8.2%	7.5%	8.0%	8.6%
ROA	2.1%	2.4%	2.0%	2.1%	2.1%
ROIC	3.9%	4.2%	3.4%	3.5%	3.5%

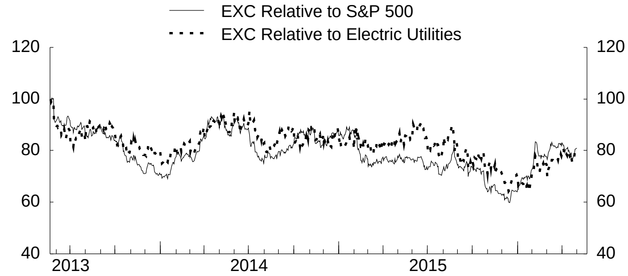
Capital Structure	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Total Debt (excl. securitized debt)	48.0%	49.1%	54.4%	55.9%	58.5%
Total debt	48.0%	49.1%	54.4%	55.9%	58.5%
Long-term debt	43.1%	45.3%	46.4%	46.3%	47.7%
Short-term debt	4.9%	3.8%	8.0%	9.6%	10.8%
Securitized debt	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred	0.0%	0.0%	0.3%	0.3%	0.3%
Adjusted Equity	52.0%	50.9%	45.3%	43.8%	41.2%

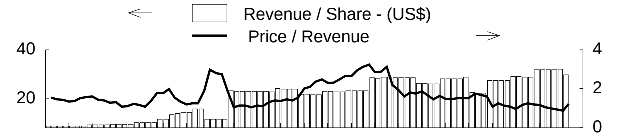
Source: Company data and BMO Capital Markets estimates. Note: 1 Debt includes securitized debt, if any. 2 All figures in $ million except per share.

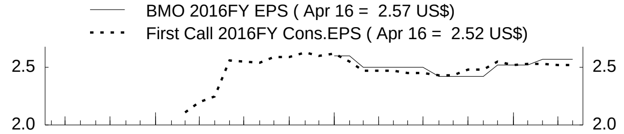
Exelon Corporation (EXC)

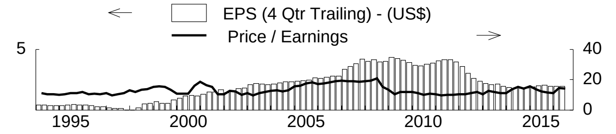


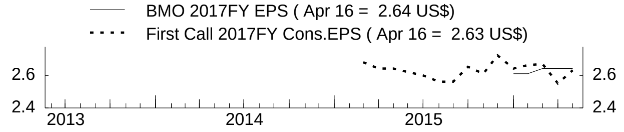












FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1994	1.21	12.9	9.8	0.77	6.5	5.0	64	9.7	1.6	1.2	
1995	1.27	12.0	9.3	0.83	7.0	5.5	65	10.2	1.5	1.2	13
1996	1.17	13.9	9.6	0.88	7.8	5.4	75	10.4	1.6	1.1	11
1997	0.63	20.9	14.9	0.90	9.6	6.8	>100	6.1	2.2	1.5	8
1998	1.33	15.9	7.1	0.50	5.3	2.4	38	6.8	3.1	1.4	20
1999	1.59	15.9	9.7	0.50	3.3	2.0	31	4.9	5.2	3.1	27
2000	1.90	18.7	8.4	0.50	3.1	1.4	26	11.3	3.1	1.4	23
2001	2.25	15.8	8.6	0.91	4.7	2.6	41	12.8	2.8	1.5	19
2002	2.42	11.8	7.8	0.88	4.6	3.1	36	12.0	2.4	1.6	19
2003	2.61	12.8	8.8	0.96	4.2	2.9	37	13.0	2.6	1.8	21
2004	2.77	16.2	11.1	1.26	4.1	2.8	45	14.1	3.2	2.2	20
2005	3.09	18.6	13.2	1.60	3.9	2.8	52	13.7	4.2	3.0	22
2006	3.22	19.8	15.9	1.60	3.1	2.5	50	14.9	4.3	3.4	23
2007	4.32	20.1	13.6	1.76	3.0	2.0	41	15.3	5.7	3.8	29
2008	4.20	21.9	9.8	2.03	4.9	2.2	48	16.8	5.5	2.5	26
2009	4.12	14.3	9.3	2.10	5.5	3.6	51	19.2	3.1	2.0	23
2010	4.06	12.8	0.0	2.10	2.1E6	4.0	52	20.5	2.5	0.0	20
2011	4.16	10.9	9.4	2.10	5.4	4.6	50	21.7	2.1	1.8	20
2012	2.85	15.6	10.0	2.10	7.4	4.7	74	25.1	1.8	1.1	12
2013	2.50	15.1	10.7	1.24	4.7	3.3	50	26.5	1.4	1.0	10
2014	2.39	16.3	11.1	1.24	4.7	3.2	52	26.3	1.5	1.0	9
2015	2.49	15.6	10.1	1.24	4.9	3.2	50	28.0	1.4	0.9	9
Range*:		21.9	0.0		>100	1.4			5.7	0.0	
Current*	2.51	14.0		1.27	3.6		51	25.5	1.4		10
Growth(%):											
5 Year:	-9.9			-9.5				5.9			
10 Year:	-1.9			-2.3				6.4			
20 Year:	3.5			2.2				4.7			

EXC - Rating as of 12-Mar-09 = Mkt

* Current EPS is the 4 Quarter Trailing to Q4/2015.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (April 29, 2016): $35.09
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology: Our valuation is based on a combination of our 2017 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and 16x 2017E P/E multiple.
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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.3%	21.6%	63.5%	44.4%	60.9%	54.7%
Hold	Market Perform	53.1%	9.0%	32.4%	51.7%	35.6%	39.8%
Sell	Underperform	3.6%	16.7%	4.1%	3.9%	3.4%	5.5%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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Exelon (EXC)

Another Clinton Needs Money

BUY
Price target $40.00
(from $36.00)
Price $35.68

Key Takeaway

Exelon reported strong 1Q16 EPS of $0.68 that was inline with Consensus and slightly above our estimate. Results were negatively impacted by mild weather and increased storm costs at the regulated wires business. Since 2009 EXC has suffered $800M of cash flow losses at the Clinton and Quad Cities nuclear plants and if Illinois does not come up with a carbon initiative the company plans to close the plants in 2017-18.

Exelon operating EPS was $0.68 on a diluted basis, versus $0.71 for the same period a year ago, our estimate of $0.65, and Consensus of $0.68. The year-over-year decline was primarily driven by reduced earnings at the regulated utility business due to unfavorable weather.

Exelon affirmed its 2016 earnings guidance of $2.40-$2.70 (Street at $2.53) and 1Q16 guidance of $0.60-$0.70. Sector guidance is $1.25-$1.35 ExGen, $0.50-$0.60 ComEd, $0.40-$0.50 PECO and $0.25-$0.35 from BGE.

Next Stop...Philadelphia: In place of a 2Q16 earnings call management will host an analyst conference in Philadelphia on August 10.

More Bonus? As a result of the merger PHI had existing net operating losses (NOLs) and its impact from bonus depreciation transferred over to Exelon Generation. As a result the co. is forecasting a decrease in 2017 earnings by ($0.02)-($0.00), 2018 impact ($0.08)-($0.06) and 2019 impact of ($0.02)-($0.00). In 2019 the co. expects its tax rate to normalize to 32%.

Clinton and Quad Cities nuclear plants will retire unless Illinois passes carbon legislation by May 31, 2016 and Quad Cities clears the PJM auction. The company has decided to retire Clinton (1,069 MW), on June 1, 2017, unless Illinois passes its much awaited carbon reform. Additionally Exelon plans to retire Quad Cities (1,473 MW), on June 1, 2018 unless there is Illinois legislation and the plant must clear the 2019-20 PJM capacity auction.

Valuation/Risks

Our $40.00 price target is based on P/E analysis. Taking our 2017 EPS estimate of $2.70 in conjunction with a P/E group average multiple of 14.8x results in a price target of $40.00. Based on Friday's closing price of $35.68, this would result in a 12-month price appreciation potential of 12.4% and total return potential of 16.0% including the current yield of 3.6%. **Risks** –Risks include exposure to change in the commodity price for electricity associated with Exelon's merchant generation business, and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	**2014A**	*Prev.*	**2015A**	*Prev.*	**2016E**	*Prev.*	**2017E**
Cons. EPS Diluted	--	--	--	2.51	--	2.53	*2.68*	2.64
EPS								
Mar	--	0.62	--	0.71	*0.65*	0.68A	--	--
Jun	--	0.51	--	0.59	*0.60*	0.55	--	--
Sep	--	0.78	--	0.83	--	0.85	--	--
Dec	--	0.48	--	0.38	--	0.40	--	--
FY Dec	--	2.39	--	2.51	--	2.50	--	2.70
FY P/E		14.9x		14.2x		14.3x		13.2x

Financial Summary	
Book Value (MM):	**$13.7**
Net Debt (MM):	**$14,029.0**
Return on Avg. Equity:	**22.2%**
Net Debt/Capital:	**NM**
Long-Term Debt (MM):	**$13,960.0**
LTD/Cap:	**56.0%**
Dividend Yield:	**3.6%**

Market Data	
52 Week Range:	**$35.95 - $25.09**
Total Entprs. Value (MM):	**$47,068.7**
Market Cap. (MM):	**$33,039.7**
Insider Ownership:	**0.1%**
Institutional Ownership:	**65.6%**
Shares Out. (MM):	**926.0**
Float (MM):	**920.1**
Avg. Daily Vol.:	**6,896,592**

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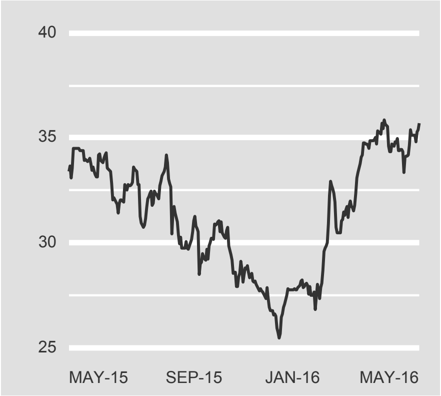
Price Performance



Scenarios

Target Investment Thesis

- Exelon should trade at a group average P/E multiple.
- Expected growth in regulated earnings and accretion from the Pepco acquisition.
- Company moves to a more regulated P/E valuation since the merger with Pepco.
- 2017 EPS $2.70; Target Multiple: 14.8x. Target Price $40.00.

Upside Scenario

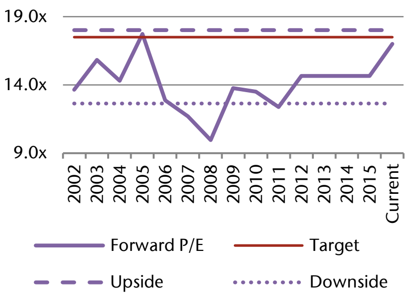
- Exelon Generation earnings increase due to improvement in gas and power prices.
- Power plant values increase due to growing short supply.
- Regulated business earns at or above its allowed ROE.
- Carbon regulation increases nuclear margins
- 2017 EPS $3.25; target multiple: 14.8x. Target Price $48.00

Downside Scenario

- Exelon EBITDA decreases due to declining gas and power prices.
- Power plant prices in the secondary market which are currently at less than replacement value move lower
- Reinvestment opportunities become more limited.
- Regulated utilities under-earn their allowed ROE.
- 2017 EPS: $2.25; Target Multiple: 14.8x Target Price: $33.50.

Long Term Analysis

1 Year Forward P/E



Long Term Financial Model Drivers

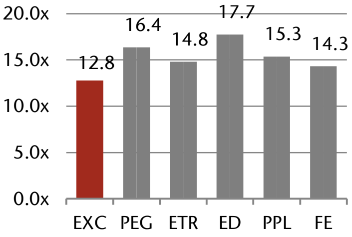
LT EBITDA CAGR	**(8.5%)**
LT EPS Growth	**4.6%**
FFO/Debt	**31%**
Equity Ratio	**52%**

Other Considerations

In Illinois, no progress has yet been made on the Lower Carbon Initiative, and Exelon plans on offering Quad Cities and Byron in the next capacity auction in May 2016.

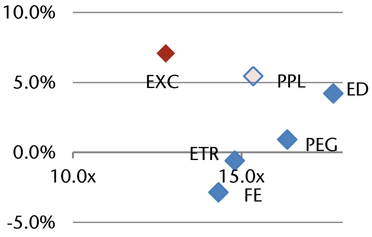
Peer Group

Group P/Es



Source: Factset, Jefferies estimates

Earnings Growth vs P/E



Source: Fastset, Jefferies estimates

Recommendation / Price Target

Ticker	**Rec.**	**PT**
EXC	**Buy**	**$40**
PEG	Hold	$47.50
ETR	Hold	$79
ED	Hold	$77
PPL	Buy	$41.50
FE	Buy	$35

Catalysts

- EPA new rules limiting carbon emissions expected to be finalized next year.
- PJM Capacity Auction.
- PECO Electric Rate Case.

Company Description

Exelon, incorporated in Pennsylvania in February 1999, is a utility services holding company engaged, through its principal subsidiary Generation, in the energy generation business, and through its principal subsidiaries Com Ed, PECO and BGE, in the energy delivery businesses discussed below. Exelon is headquartered in Chicago and trades on the NYSE under the ticker symbol EXC.

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Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation.

Exelon operating EPS was $0.68 on a diluted basis, versus $0.71 for the same period a year ago, our estimate of $0.65, and Consensus of $0.68. The year-over-year decline was primarily driven by reduced earnings at the regulated utility business due to unfavorable weather.

Exelon affirmed its 2016 earnings guidance of $2.40-$2.70 (Street at $2.53) and 1Q16 guidance of $0.60-$0.70. Sector guidance is $1.25-$1.35 ExGen, $0.50-$0.60 ComEd, $0.40-$0.50 PECO and $0.25-$0.35 from BGE.

Guidance for 2Q16 is $0.50-$0.60 and for 2016 management is forecasting an average share count of 926 million.

More Bonus? As a result of the merger PHI had existing net operating losses (NOLs) and its impact from bonus depreciation transferred over to Exelon Generation. As a result the company is forecasting a decrease in 2017 earnings by ($0.02)-($0.00), 2018 impact ($0.08)-($0.06) and 2019 impact of ($0.02)-($0.00). In 2019 the company expects its tax rate to normalize to 32%.

Clinton and Quad Cities nuclear plants will retire unless Illinois passes carbon legislation by May 31, 2016 and Quad Cities clears the PJM auction. The company has decided to retire Clinton (1,069 MW), on June 1, 2017, unless Illinois passes its much awaited carbon reform. Additionally Exelon plans to retire Quad Cities (1,473 MW), on June 1, 2018 unless there is Illinois legislation providing relief to baseload nuclear plants and the plant must clear the 2019-20 PJM capacity auction. On the earnings call management stated that from 2009-2015 both these nuclear plants have sustained more than $800 million in cash flow losses as revenues are not covering cash operating expenses.

Busy 2016 regulatory calendar as all of PHI's businesses are in rate cases – With the completion of PHI the company has rate cases planed for Maryland (Pepco and Delmarva), DC (Pepco), Delaware (Delmarva), and New Jersey (Atlantic City).

PHI Merger – At the end of March Exelon closed the PHI merger and 1Q16 results contain 7 days of PHI benefit. Approval of the merger involved certain benefits to customers for which the company recorded a pre-tax charge of $508 million (or $394 million after-tax) during the quarter.

BGE Electric and Gas Distribution Rate Case – On November 6 BGE filed for an increase of $121 million and $79.5 million for the utility's electric and gas business, respectively. BGE requested an electric ROE of 10.6% and a gas ROE of 10.5%. A final order is expected in June 2016.

1Q16 operating EPS excludes $0.50 of non-recurring items as follows: a $0.42 charge from PHI merger commitments, a $0.03 unrealized gain related to nuclear decommissioning trust investments, a $0.07 market to market gain associated with the impact of economic hedging activities, a $0.08 loss related to merger and integration costs, a $0.08 loss from an asset impairment, a $0.01 loss associated with CENG non-controlling interest, a $0.01 loss due to a cost management program, and a $0.01 gain associated with the amortization of commodity contract intangibles. 1Q15 earnings exclude $0.09 of non-recurring loss primarily associated with asset impairment.

Commonwealth Edison (CWE) earnings improved by $0.01 to $0.12 on a year-over-year comparison. Increased capital investment was offset by unfavorable weather. Gross margin increased 5.0% to $901 million reflecting increased electric distribution earnings from the impact of greater capital investment and higher electric rates. Retail sales decreased 4.6%, or 0.5% on a weather-adjusted projection, during the quarter due to unfavorable weather. Heating degree days were down 20.2% relative to the same period last year and 8.3% below normal. The Company estimates the negative impact of weather relative to last year to be $0.01.

Operating income increased 15.9% to $269 million due to greater gross margin reflecting the impacts of increased capital investment. Operating and maintenance expense declined 2.0% to $368 million which was more than offset by an 8.0% to $189 million increase in depreciation expense due to greater net plant. Earnings increased 19.6% to $110 million driven primarily by higher gross margin, offset slightly by higher depreciation expense. The effective tax rate for the quarter was 41.2% versus 39.1% last year.

In December the Illinois Commerce Commission approved ComEd's $67 million rate reduction based on a 9.14% ROE and an allowed return on capital of 7.02%. New rates went into effect in January 2016.

PECO earnings decreased by $0.02 to $0.14 due to unfavorable weather. The principal driver for the year-over-year change was a reduction in heating degree days, which were down 27.2% versus the prior year and down 13.7% relative to normal. Gross margin declined 4.9% to $520 million reflecting unfavorable weather and lower volumes. Retail electric sales declined 8.2% but were up 0.3% on a weather adjusted basis. Gas sales declined 20.1% but experienced a 4.0% improvement on a weather adjusted basis. Heating degree days were down 27.2% versus the same period last year and 13.7% below normal. The company estimates the effect of weather to be negative $0.04.

Operating Income declined 11.6% to $198 million due to reduced gross margin partly offset by lower O&M expense. Operating and maintenance expense fell 3.2% to $213 million. Depreciation expense grew by 8.1% to $67 million driven by additional plant in service. Earnings declined 10% to $126 million due to lower operating income. The effective tax rate during the quarter was 25.4% versus 29.3% last year.

BGE earnings declined by $0.01 to $0.11 during the quarter. The principal drivers of the year-over-year change were increased storm costs that impacted the utility's service territory. Gross margin grew by 1.3% to $556 million based on higher rates.

Operating income decreased 7.8% to $189 million reflecting increased O&M expense. Operating and maintenance expense increased 10.5% to $200 million reflecting the impact of winter storms. Earnings declined 6.5% to $100 million due to lower operating margin. The effective tax rate during the quarter was 39.8% versus 40.9% last year.

Earnings at Exelon Generation decreased $0.01 to $0.34 during the quarter. The decline in earnings reflects lower realized energy prices in the Midwest, New York, and New England regions, partially offset by the timing of nuclear projects and increased capacity pricing. Also negatively impacting the quarter were higher nuclear decommissioning amortization and ongoing capital expenditures.

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The company updated its open gross margin and hedging assumptions. Since the 4Q15 call 2016 total gross margin was unchanged while 2017-2018 gross margin decreased $150 million in 2017 and $200 million in 2018, all largely driven by a decline in PJM market prices that have declined $1.60-$2.10 since the beginning of the year. Management highlighted that since the beginning of 2Q16 power prices have started to improve making up for most of the degradation that was experienced in 1Q16.

The company's Other business segment improved by $0.01 to a loss of ($0.02).

We are maintaining our 2016 and 2017 EPS estimates of $2.50, and $2.70 respectively.

Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2014A	**2015A**	**2016E**	**2017E**
PECO	$641	$669	$754	$842
CWE	1,057	1,105	1,216	1,338
BGE	440	530	602	653
PEPCO			428	449
DPL			229	245
ACE			169	184
Adjustment		80		
Energy Delivery	**2,137**	**2,383**	**3,397**	**3,710**
Genco	1,964	1,725	1,780	1,911
Corporate	(8)	(8)	(8)	(8)
PEPCO Holding Company			35	35
Earnings on Cash	3	30	1	(6)
Reconcile	0	230	(20)	(80)
EBIT	**$4,097**	**$4,361**	**$5,185**	**$5,562**
EBITDA	$5,736	$5,425	$7,050	$7,839
MIPS Obligation	0	0	0	0
Capitalized Interest	0	0	0	0
Long-Term Interest Expense		(1,096)	(1,522)	(1,539)
Total Interest & P/S				
Income Before Taxes	**$3,101**	**$3,265**	**$3,663**	**$4,023**
Income Taxes	(1,082)	(1,138)	(1,406)	(1,540)
Synfuel PTC	0	0	0	0
Minority Interest/preferred	(7)	(7)	(7)	(7)
Wind PTC	50	50	51	52
Net Income	**$2,061**	**$2,171**	**$2,300**	**$2,527**
Preferred Dividends				
Earnings for Common	**$2,061**	**$2,171**	**$2,300**	**$2,527**
Non-Recurring Items				
Merger Cost to Achieve	0	0	0	0
Total Non-Recurring	0	0	0	0
Reported Earnings	2,061	2,171	2,300	2,527
Earnings Per Share	**$2.39**	**$2.51**	**$2.50**	**$2.70**

Source: Jefferies estimates, company data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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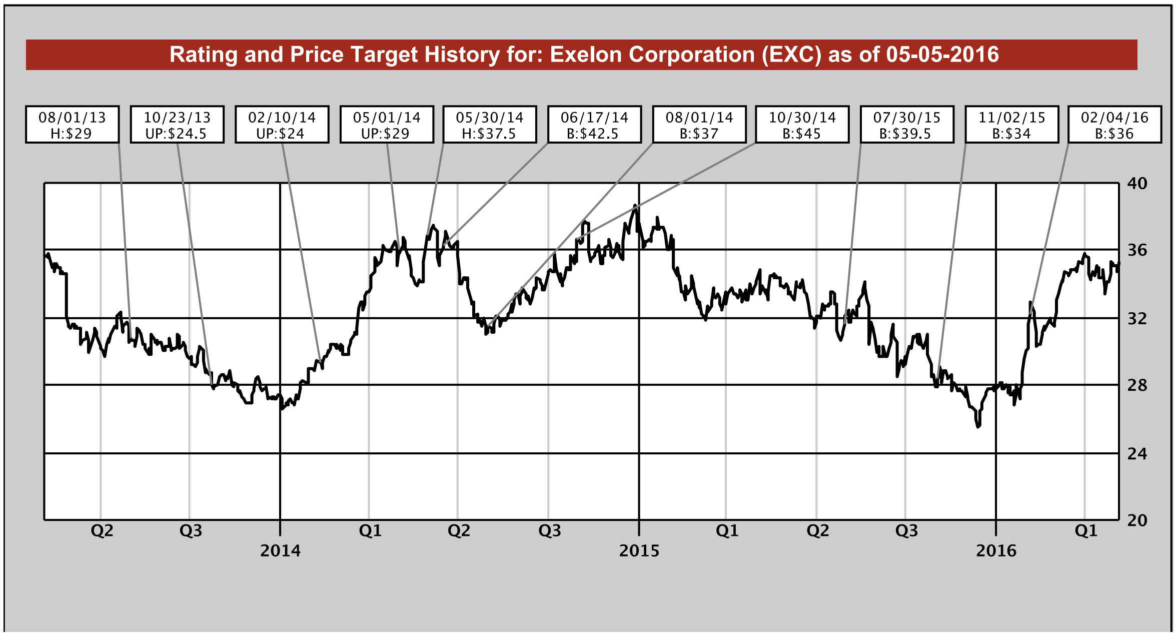
Other Companies Mentioned in This Report

- Consolidated Edison Inc. (ED: $74.16, HOLD)
- Entergy Corporation (ETR: $76.16, HOLD)
- FirstEnergy Corp. (FE: $33.09, HOLD)
- PPL Corp. (PPL: $38.30, BUY)
- Public Service Enterprise Group Inc. (PEG: $45.71, HOLD)



Rating and Price Target History for: Exelon Corporation (EXC) as of 05-05-2016

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1165	53.79%	322	27.64%
HOLD	839	38.73%	163	19.43%
UNDERPERFORM	162	7.48%	19	11.73%

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Exelon

Pepco accretion & cash flows highlight a positive quarterly release

Maintain Rating: NEUTRAL | PO: 36.00 USD | Price: 35.68 USD

Bank of America Merrill Lynch

Equity | 08 May 2016

Exelon reported 1Q16 EPS in line with consensus

On 5/6/16, Exelon reported 1Q16 EPS of $0.68, beating our estimate of $0.67 and matching Street estimates. The company reaffirmed its 2016 EPS guidance of $2.40-$2.70, yet this range was restructured with ExGen dropping $0.05 due to the dilutive impact of the Pepco transaction to merchant generation and weaker power prices. This was offset by $0.05 uplift from a combination of Holdco and the inclusion of Pepco.

State help needed to save certain nuclear assets

Exelon is seeking help from the Illinois legislature before the legislative session ends on 5/31/16. Exelon is seeking assistance primarily for Clinton and Quad Cities, mirroring a failed push last year for a surcharge that would have provided as much as $300 million in revenue to the nuclear fleet. While this year's financial aid target is less, we believe the legislation is still more likely to fail given partisan wrangling between the GOP-controlled governor's office and the Democratically-controlled legislature. The Illinois situation is in contrast to New York, where Exelon successfully attained FERC approval for a Reliability and Support Services Agreement in March of this year. In our view, Exelon's requests for state assistance reflects our view the merchant nuclear business should be valued at a multiple less than the group's historically average 8.0x EBITDA level, unless one takes an above-market view of natural gas prices.

Pepco closure brings guidance & cash flow relief

The successful closure of the Pepco merger prompted a revision to guidance. EPS guidance was unchanged at $2.40-2.70, but the segment mix within that guidance was adjusted in which Pepco added EPS while changes in forward commodity price offset that accretion. The revision means the Pepco deal may actually be neutral to accretive for 2016 rather than dilutive, and should be viewed as a marginal positive for EXC shares. In addition, legacy NOLs and bonus depreciation from the deal frees $700-850 million of additional cash flow for 2017-19. The positive impact of these items overshadows the quarterly results; we view this quarterly release in aggregate as a positive due mainly to the new Pepco disclosures.

Commodity prices rebound, brightening outlook

Forward commodity prices have rebounded (see Chart 3) to a meaningful degree. Exelon remains one of the most levered electric utility names (short of an independent power producer) to a rally in forward commodity prices. Our view on EXC shares generally does not take an out of market view on forward commodity prices, but our BofAML Commodities Research team is generally bullish on forward natural gas prices. The rally in forward commodity prices, coupled with Exelon's dividend increase on the 4Q15 call, and its completion of the Pepco merger, explain much of the shares' outperformance versus other utilities YTD.

We rate EXC shares Neutral

At this juncture, we believe EXC shares are fairly priced and reflect to a reasonable degree Pepco accretion, DPS growth of 2.5%, and a combination of healthy regulated utilities and a merchant nuclear fleet that is underearning returns. Key to the story will be the upcoming analyst day on 8/10/16. We maintain our Neutral EXC rating for now.

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Stock Data

Price	35.68 USD
Price Objective	36.00 USD
Date Established	28-Mar-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 35.95 USD
Mrkt Val (mn) / Shares Out (mn)	32,968 USD / 924.0
Average Daily Value (mn)	198.50 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2016E)	8.8%
Net Dbt to Eqty (Dec-2015A)	72.5%

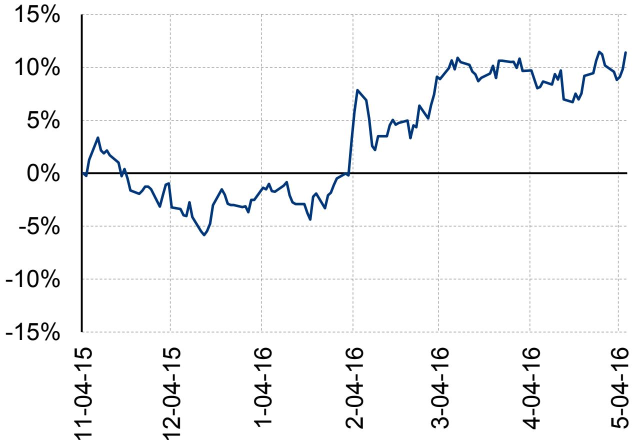
Exelon: Exelon receives final approval for Pepco merger from D.C. 23 March 2016

Exelon: While Pepco saga continues, forward power prices continue to slide 10 March 2016

Exelon: Snatching defeat from the jaws of victory; could SMIDs lose their premium? 01 March 2016

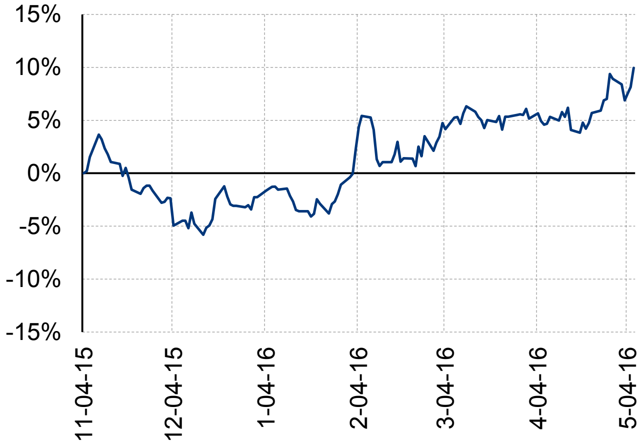
Relative Performance Charts

Chart 1: EXC relative performance vs. utilities group average



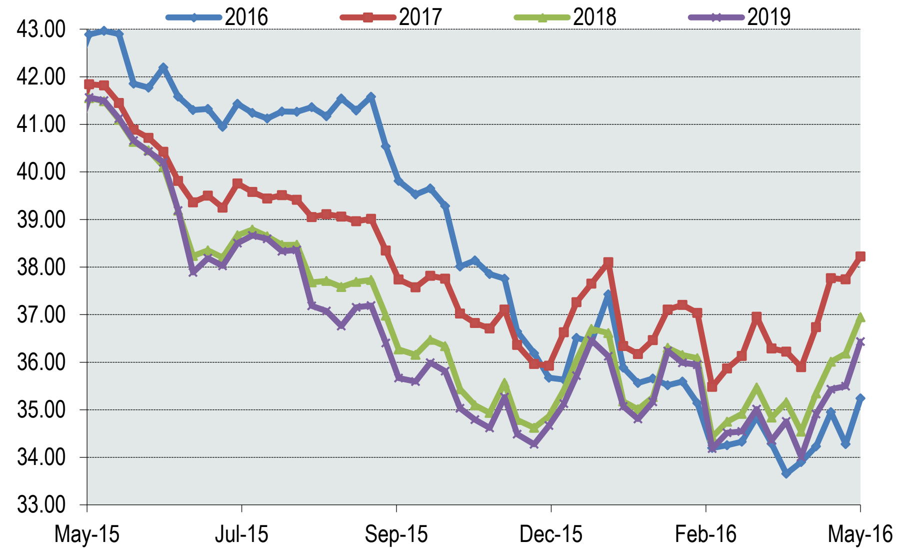
Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 3: Penn/Jersey/Maryland ATC Power Forward Trends ($/MWh)



Source: BofA Merrill Lynch Global Research, Bloomberg

Price objective basis & risk

Exelon (EXC)

Our $36/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $9 of value to ExGen, ($3) for the parent, and approximately $30 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2018E earnings and EBITDA. For Exelon specifically we use a target 7.2x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply a target 16.0 P/E multiple to value the regulated side of the business, which is a discount to regulated peers at 16.5x to reflect the generally below-average ROEs allowed by the state commissioners for the states in which Exelon has regulated operations.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario.

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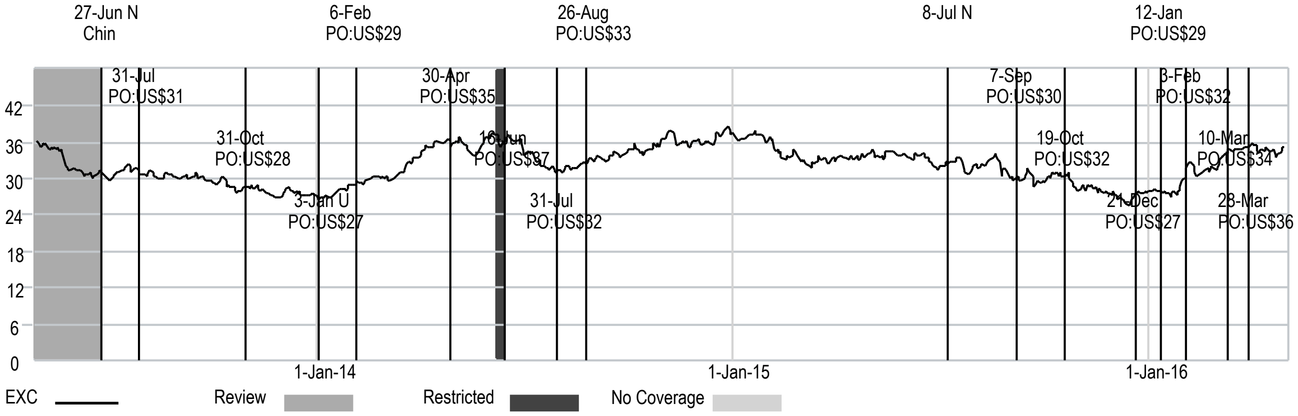
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	48.94%	Buy	56	81.16%
Hold	41	29.08%	Hold	32	78.05%
Sell	31	21.99%	Sell	20	64.52%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1602	49.61%	Buy	1195	74.59%
Hold	754	23.35%	Hold	563	74.67%
Sell	873	27.04%	Sell	552	63.23%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Deutsche Bank
Markets Research

Rating
Hold

North America
United States

Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
6 May 2016

Results

Price at 6 May 2016 (USD)	35.68
Price target	36.00
52-week range	35.86 - 25.46

Ultimatum game in Illinois

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We're serious this time: Clinton and Quad Cities to (potentially) close

EXC had a solid Q1, but the key announcement was management's decision to shut down the Clinton and Quad Cities nuclear plants if the IL legislature does not pass supportive legislation by the end of this session (likely later this month or early June). Quad Cities may also remain open if it clears the upcoming PJM capacity auction. The ultimatum was read positively with either outcome (close or legislative support) likely accretive. We maintain our Hold and $36 PT seeing greater upside leverage in our IPP Buys. That said, EXC has a decent catalyst set going into summer with Illinois and an August Analyst Day.

New ZES-based legislation introduced in IL to save Clinton/Quad Cities

Late last week, legislation dubbed the Next Generation Energy Plan (NGEP) was introduced to the Illinois legislature. The NGEP includes a Zero Emission Standard overtly designed to support EXC's two most at-risk nuclear plants (Quad Cities in PJM and Clinton in MISO), new energy efficiency programs, low-income assistance, and an expanded RPS. The NGEP effectively combines three separate energy bills introduced last year. For EXC investors, the focus is the ZES, which is tailored to ensure that EXC is able to recover plant costs, including basis and unit-contingent risks, plus a yet to be determined return on investment. EXC's Friday announcement on Quad Cities and Clinton is clearly intended to spur action on the bill, and this time CEO Crane has Board authorization to move forward with early shut-downs if unsuccessful.

Clarity on proforma outlook, plant shutdown impacts expected at Analyst Day

EXC updated 2016 guidance to include POM (leaving the range unchanged from the prior $2.40-$2.70) but will not give more detailed guidance on the proforma outlook until the August Analyst Day. That said, management noted that the outlook for POM's utilities is consistent or better than what they had discussed at EEI in November. While this was a clear positive, it was later offset by CFO Thayer's commentary that utility net income growth would still be in the 7-9% range with POM. We (and at least some investors we spoke with) currently have the utility growing faster.

Maintaining $36 PT based on sum-of-the-parts (more details on page 4)

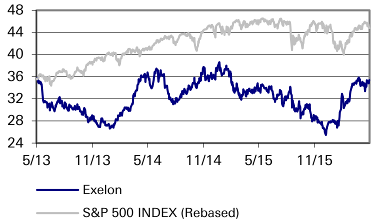
Downside risks are lower power and gas prices; degradation of earned utility ROEs; higher interest rates; higher-than-expected operating expenses; weaker retail margins; and a weaker-than-expected contribution from POM. Upside risks include higher gas and power prices, elimination of IL nuclear drag, lower interest rates, and a better-than-anticipated contribution from the POM utilities.

Key changes

EPS (USD)	2.50 to 2.55	↑	1.9%
Revenue (USDm)	33,201.3 to 32,097.2	↓	-3.3%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.0	8.4	6.7
S&P 500 INDEX	-0.5	9.4	-1.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2015A	2016E	2017E
FY EPS (USD)	2.49	2.55	2.65
OLD FY EPS (USD)	2.49	2.50	2.65
P/E (x)	12.8	14.0	13.4
DPS (USD)	1.24	1.26	1.29
Dividend yield (%)	3.9	3.5	3.6

Source: Deutsche Bank estimates, company data

Deutsche Bank Securities Inc.

Model updated:06 May 2016

Running the numbers

North America

United States

Utilities and Power

Exelon

Reuters: EXC.N Bloomberg: EXC UN

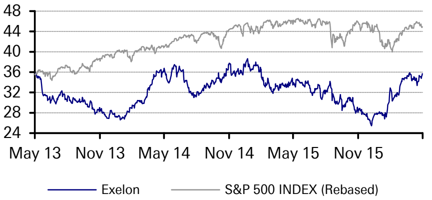
Hold

Price (6 May 16)	USD 35.68
Target Price	USD 36.00
52 Week range	USD 25.46 - 35.86
Market Cap (m)	USDm 32,950
	EURm 28,847

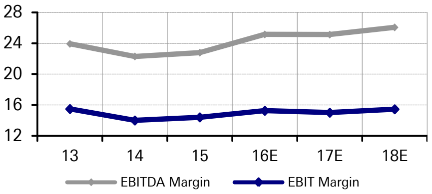
Company Profile

Exelon is a diversified utility with ownership of the largest nuclear fleet and retail services business in the U.S. and three regulated utilities serving Chicago, Philadelphia and Baltimore. EXC owns ~35,000MW of merchant generation capacity located primarily in the Midwest and Mid-Atlantic, with smaller gas-fired and nuclear assets in New England, New York, and Texas.

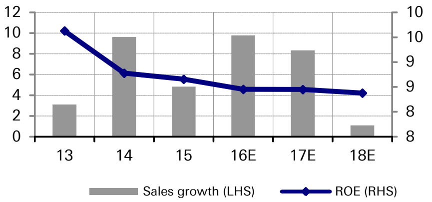
Price Performance



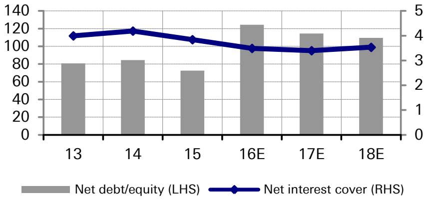
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (USD)	2.50	2.39	2.49	2.55	2.65	2.75
Reported EPS (USD)	2.50	2.39	2.49	2.55	2.65	2.75
DPS (USD)	1.46	1.24	1.24	1.26	1.29	1.33
BVPS (USD)	26.80	28.07	30.70	30.92	32.82	33.69
Valuation Metrics						
Price/Sales (x)	1.0	1.0	1.0	1.0	0.9	0.9
P/E (DB) (x)	12.4	14.0	12.8	14.0	13.4	13.0
P/E (Reported) (x)	12.4	14.0	12.8	14.0	13.4	13.0
P/BV (x)	1.0	1.3	0.9	1.2	1.1	1.1
FCF yield (%)	3.7	0.3	0.5	nm	0.6	4.2
Dividend yield (%)	4.7	3.7	3.9	3.5	3.6	3.7
EV/Sales	1.3	1.4	1.3	1.8	1.7	1.6
EV/EBITDA	5.6	6.1	5.6	7.1	6.6	6.3
EV/EBIT	8.6	9.8	8.9	11.7	11.0	10.6
Income Statement (USDm)						
Sales	25,442	27,889	29,237	32,097	34,772	35,150
EBITDA	6,089	6,219	6,664	8,074	8,738	9,163
EBIT	3,941	3,906	4,213	4,899	5,221	5,434
Pre-tax profit	3,295	3,254	3,410	3,812	3,972	4,188
Net income	2,149	2,066	2,227	2,362	2,519	2,662
Cash Flow (USDm)						
Cash flow from operations	6,343	4,457	7,616	7,485	7,850	8,128
Net Capex	-5,363	-4,358	-7,477	-7,931	-7,650	-6,678
Free cash flow	980	99	139	-446	200	1,450
Equity raised/(bought back)	47	0	1,900	40	1,215	40
Dividends paid	-1,249	-1,065	-1,105	-1,167	-1,226	-1,280
Net inc/(dec) in borrowings	588	2,040	4,102	2,914	775	-100
Other investing/financing cash flows	-150	-805	-412	-7,012	-237	-262
Net cash flow	216	269	4,624	-5,671	727	-152
Change in working capital	*455*	*-3,247*	*-264*	*300*	*0*	*0*
Balance Sheet (USDm)						
Cash and cash equivalents	1,609	1,878	6,502	832	1,558	1,406
Property, plant & equipment	47,330	52,087	57,439	72,181	75,297	77,229
Goodwill	2,625	2,672	2,672	5,637	5,637	5,637
Other assets	28,360	30,177	28,771	32,417	32,417	32,417
Total assets	79,924	86,814	95,384	111,067	114,910	116,689
Debt	20,121	22,272	26,319	36,344	37,119	37,019
Other liabilities	36,863	40,409	41,743	46,166	46,726	47,183
Total liabilities	56,984	62,681	68,062	82,510	83,845	84,202
Total shareholders' equity	22,940	24,133	27,322	28,557	31,065	32,487
Net debt	*18,512*	*20,394*	*19,817*	*35,512*	*35,561*	*35,613*
Key Company Metrics						
Sales growth (%)	3.1	9.6	4.8	9.8	8.3	1.1
DB EPS growth (%)	-12.2	-4.3	4.3	2.3	4.1	3.8
Payout ratio (%)	58.0	51.6	49.6	49.4	48.7	48.1
EBITDA Margin (%)	23.9	22.3	22.8	25.2	25.1	26.1
EBIT Margin (%)	15.5	14.0	14.4	15.3	15.0	15.5
ROE (%)	9.6	8.8	8.7	8.5	8.4	8.4
Net debt/equity (%)	80.7	84.5	72.5	124.4	114.5	109.6
Net interest cover (x)	4.0	4.2	3.8	3.5	3.4	3.5
DuPont Analysis						
EBIT margin (%)	15.5	14.0	14.4	15.3	15.0	15.5
x Asset turnover (x)	0.3	0.3	0.3	0.3	0.3	0.3
x Financial cost ratio (x)	0.7	0.8	0.7	0.7	0.7	0.7
x Tax and other effects (x)	0.7	0.7	0.7	0.7	0.7	0.7
= ROA (post tax) (%)	2.7	2.5	2.4	2.3	2.2	2.3
x Financial leverage (x)	3.6	3.5	3.5	3.7	3.8	3.6
= ROE (%)	9.6	8.8	8.7	8.5	8.4	8.4
annual growth (%)	*-25.4*	*-8.8*	*-1.4*	*-2.4*	*0.0*	*-0.8*
x NTA/share (avg) (x)	25.9	27.2	28.8	30.2	31.4	32.9
= Reported EPS	2.50	2.39	2.49	2.55	2.65	2.75
annual growth (%)	*-12.1*	*-4.3*	*4.3*	*2.3*	*4.1*	*3.8*

Source: Company data, Deutsche Bank estimates

Raising 2016 but leaving 17/18 unchanged… for now

We are raising our 2016E by $0.05 to $2.55 and are now at the midpoint of EXC's reaffirmed (but adjusted for POM) guidance range of $2.40-$2.70. Our POM estimate is toward the higher end of EXC's forecast for that segment, while our Corporate & Other drag estimate is at the lower end. Meanwhile our estimates for Exelon Generation (ExGen) and the EXC legacy utilities are now close to the midpoint of segment ranges.

For 2017 and 2018, we have not yet included any specific assumption on an earnings and cash flow benefit from the closure of Clinton and/or Quad Cities or uplift from the potential passage of new ZES legislation in IL. That said, we discuss the potential impact to our EPS forecast based on management's commentary that they expect the two plants to lose $140M in cash flow in 2017 (clarified later to mean FCF and not including any benefit from hedges) in the following section. We are effectively assuming some level of uplift vs. our prior estimates as we have decided not to lower them for the disclosure on the call that the combination with POM results in an incremental negative impact on ExGen EPS at the tax line. This results from increased tax benefits with POM (bonus depreciation and legacy NOLs) which further limit ExGen's ability to claim the Domestic Production Activities Deduction (DPAD). All else equal this is supposed to lower EPS by $0.06-$0.08/sh in 2018 but impacts normalize in 2019 assuming that EXC then becomes more of a cash taxpayer.

How much are Quad Cities and Clinton losing now?

Management provided some details to help investors figure out how much the Quad Cities and Clinton nuclear plants are losing now, but stopped short of providing specific net income impacts. First management pointed to "cash flow" loses of more than $800M from 2009-2015 on a pre-tax basis (note this calculation also excludes all hedge benefits). When pushed for clarity on the outlook for the future, management indicated that the plants would lose $140M in 2017 (also excludes any hedge value which EXC treats at the portfolio rather than plant level). This was also later clarified to be a free cash flow number (i.e. including capex). Estimating capital expenditures at the plants and D&A, we can take a stab at projected net losses. We calculate capex for the plants of just over $200M (this includes $126M for nuke fuel cost and the rest is base spending). We then calculate D&A using asset values included in the 10K (assuming 15-year service life) and then factor in nuclear fuel amortization. With these estimates we can then calculate a net income loss of about $165M as shown below. That said, there are fleet wide costs allocated to these plants so uplift from closure is probably less, and we intend to wait for more clarity from management before adjusting our estimates.

Figure 1: 2017 Net Income Estimate for Quad Cities, Clinton ($ in Millions)

Net Income	(166)	No hedge benefit
D&A	242	Estimated based on asset values, nuke fuel amortization
CFO	76	Back out capex from FCF
Capex	(216)	Nuke fuel and base capex assumption
FCF	(140)	EXC provided on Q1-16 call

Source: Deutsche Bank

Leverage comments point to lower ExGen EBITDA by 2020

EXC did not update the projected Debt to EBITDA ratio trajectory shown for ExGen in the Q4 earnings presentation, but in response to our question mgmt did comment on the proforma outlook now that POM has closed. The Q4 presentation assumed the POM deal did not close and showed ExGen Net Debt to EBITDA declining from 3.2x in 2016 to 2.3x by 2018 – at the time this was an important component of a well-received investor call. Management now expects the ExGen leverage ratio to decline to 2.7x over five years (i.e. by 2020) as EXC will be using more of the cash flow generated at ExGen to fund the larger regulated capex budget including the newly-acquired POM utilities. In addition there will also be a larger dividend payment to fund with POM closed (absent POM the shares issued for the deal would have been bought back) but this is in turn tempered by a more regulated business mix overall.

As well as the 2020 target of 2.7x Net Debt to EBITDA, CFO Thayer also articulated an expectation that ExGen debt would be reduced by $3B over this same time frame. With ExGen net debt of $8.6B at year-end 2015 this reduction would imply $5.6B by 2020. If we relate this to the 2020 Net Debt to EBITDA target of 2.7x, we calculate implied ExGen EBITDA in the low-$2B range which is well below the $3B+ we currently project for 2018. While 2020 PJM forward curves are hardly robust so far out, this implied forecast certainly suggests a fair degree of caution on EXC's part around the sustainability of either last year's capacity pricing, and/or longer-term power/gas prices. We expect further clarity on these longer-term numbers at the August Analyst Day.

Utility only growing 7-9% with POM?

EXC clarified on the call that they expect their utilities proforma for POM to grow net income by 7-9%. This is the growth that management had been expecting EXC's legacy utilities to achieve so we had expected a pick-up when adding POM's under-earning utilities as the ROE gap is closed. That said, mgmt was fairly clear on Friday's call that they see growth of 7-9% with POM in the mix as well. Currently, we assume the utilities grow about 10% on average from 2016 through 2018, and this assumption may have to be tempered post the Analyst Day.

Valuation

We value the utility segment by applying a 16.5x P/E multiple to our 2018 estimates for ComEd, PECO and the POM utilities, and an average 16x multiple for BG&E. We believe POM earnings merit a premium as we anticipate faster growth at this segment as EXC closes the gap between authorized and earned returns in 2018 and beyond. We also apply premiums to ComEd earnings given potential upside from higher interest rates as ComEd's ROE is set based on a formula incorporating the yield on the 30-year Treasury bond. We also give PECO a premium given a history of over-earning.

Meanwhile, we value ExGen by applying a 6.0x EV/EBITDA multiple to our 2018 estimate. Our 6.0x multiple is now relatively in line with our targeted EV/EBITDA multiple for merchant generators. On the one hand, we believe a modest discount is merited given ExGen's still more limited free cash flow generation than IPP peers given their capital-intensive nuke fleet. On the flipside, EXC's nuclear fleet merits some incremental value vs. IPPs given the potential for new revenue streams from clean energy standards (NY and IL) or a carbon trading scheme. EXC also has a stronger credit and leverage profile at ExGen than pure-play IPP peers.

Similar to our valuation methodologies for FirstEnergy and Entergy, we take a hybrid approach for the corporate / other segment. We derive a $33 price target when valuing the corporate segment EBITDA at a 6.0x EBITDA multiple and then subtracting corporate debt as a direct offset to equity value (effectively treating parent debt as being on the merchant business). In our other scenario we see a $38 price target valuing EXC's corporate earnings drag of $0.18/sh using our regulated distribution P/E multiple of 16x (treats parent debt as being on the utilities). Our $36 price target reflects a 50/50 weighting of these two book-end valuation approaches, which we believe is currently appropriate. As the regulated component grows, however, and if ExGen follows through on planned de-levering, arguably over time we could justify shifting our weighting towards the higher Valuation B scenario.

Figure 2: Exelon Sum-of-the-Parts Valuation

Valuation A

Business Segment	Valuation Metric	2018E	Multiple	Value
ComEd	P/E	$0.57	16.5x	9,150
PECO	P/E	$0.43	16.5x	6,902
BG&E	P/E	$0.35	16.0x	5,414
POM	P/E	$0.38	16.5x	6,129
Utility Equity Value				**27,595**
Generation / Retail / Corp	EV/EBITDA	3,362	6.00x	20,175
Less: Generation Net Debt				(7,997)
Less: Corp Net Debt				(7,114)
Non-Utility Equity Value				**5,064**
Total Equity Value				**32,659**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**34**

Valuation B

Business Segment	Valuation Metric	2018E	Multiple	Value
ComEd	P/E	$0.57	16.5x	9,150
PECO	P/E	$0.43	16.5x	6,902
BG&E	P/E	$0.35	16.0x	5,414
POM	P/E	$0.38	16.5x	6,129
Corp	P/E	($0.13)	16.4x	(2,106)
Utility & Corp. Equity Value				**25,488**
Generation / Retail	EV/EBITDA	3,245	6.00x	19,473
Less: Generation Net Debt (2018E)				(7,997)
Non-Utility Equity Value				**11,476**
Total Equity Value				**36,965**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**38**

Source: Deutsche Bank

Risks

Downside risks include lower-than-expected forward power prices, worse-than-anticipated rate case outcomes, lower retail margins given heightened competition, higher interest rates, and a lower-than-expected contribution from POM. Upside risks include higher gas and power prices, lower interest rates, and a better-than-anticipated contribution from the POM utilities.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	35.68 (USD) 6 May 16	14,15,17

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr.

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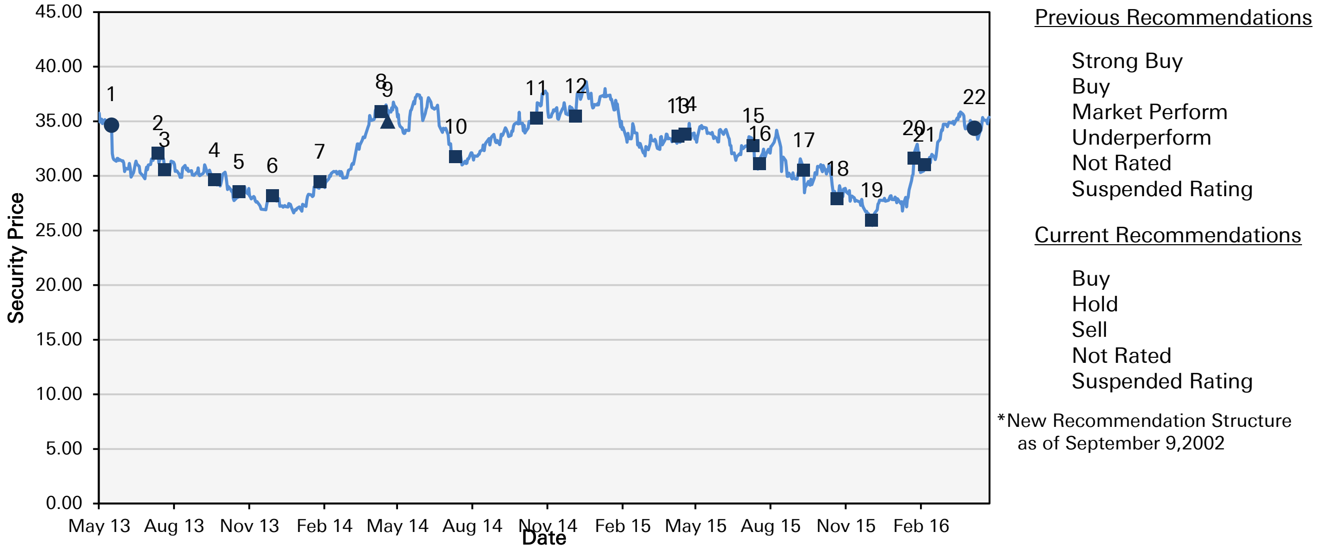
Historical recommendations and target price: Exelon (EXC.N)

(as of 5/6/2016)



1.	05/28/2013:	Downgrade to Hold, Target Price Change USD34.00
2.	07/24/2013:	Hold, Target Price Change USD33.00
3.	08/01/2013:	Hold, Target Price Change USD32.00
4.	10/01/2013:	Hold, Target Price Change USD30.00
5.	10/31/2013:	Hold, Target Price Change USD31.00
6.	12/11/2013:	Hold, Target Price Change USD30.00
7.	02/07/2014:	Hold, Target Price Change USD31.00
8.	04/23/2014:	Hold, Target Price Change USD34.00
9.	05/01/2014:	Upgrade to Buy, Target Price Change USD38.00
10.	07/23/2014:	Buy, Target Price Change USD36.00
11.	10/30/2014:	Buy, Target Price Change USD38.00
12.	12/17/2014:	Buy, Target Price Change USD43.00
13.	04/21/2015:	Buy, Target Price Change USD42.00
14.	04/30/2015:	Buy, Target Price Change USD41.00
15.	07/22/2015:	Buy, Target Price Change USD40.00
16.	07/30/2015:	Buy, Target Price Change USD41.00
17.	09/22/2015:	Buy, Target Price Change USD42.00
18.	11/02/2015:	Buy, Target Price Change USD37.00
19.	12/14/2015:	Buy, Target Price Change USD35.00
20.	02/04/2016:	Buy, Target Price Change USD36.00
21.	02/17/2016:	Buy, Target Price Change USD34.00
22.	04/18/2016:	Downgrade to Hold, Target Price Change USD36.00

Equity rating key

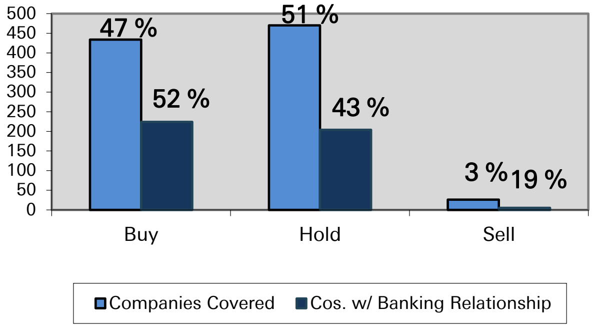
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



North American Universe

Regulatory Disclosures

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EVERCORE ISI

Energy | Power & Utilities

May 9, 2016

EXELON CORP.

EXC | $35.68

BUY | TARGET PRICE: $38.00

Change in Price Target

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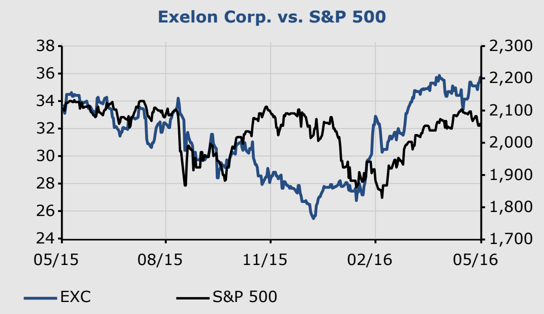
Company Statistics

Market Capitalization (M):	$32,886
Shares Outstanding (M):	922
Dividend:	$1.26
Dividend Yield:	3.5%
Payout Ratio:	48.6%
Expected Total Return:	10.0%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	**$2.60**	**$2.70**	**$2.75**
P/E	**13.7x**	**13.2x**	**13.0x**
EPS vs Consensus	**2.9%**	**2.5%**	**(0.7)%**
Consensus EPS	**$2.53**	**$2.63**	**$2.77**
Consensus P/E	**14.1x**	**13.5x**	**12.9x**

1 Year Price History



Source: FactSet

Imminent Decisions on Distressed Nukes are Welcome News for Investors

Rating Buy, Target to $38 from $37.50

EXC reported 1Q16 adjusted EPS of $0.68, down slightly from $0.71 in 1Q15 but right on consensus and near the top of its previously articulated $0.60 - $0.70 guidance range. FY'16 guidance was reaffirmed. At the utilities, unfavorable weather was a -$0.05 drag at PECO and ComEd YoY in the quarter, partially offset by increased electric distribution rates at the former (+$0.02) and higher earnings due to increased capital investment at the latter (+$0.02). BGE was -$0.01 lower YoY on higher storm costs. ExGen was -$0.01 lower YoY, primarily due to lower power prices in MISO, NYISO, and ISO-NE and higher depreciation costs due to increased nuclear decommissioning amortization and capex. Partial offsetting this were the timing of nuclear outages (19 fewer refueling days), higher capacity prices, and fewer plant outages not related to refueling (overall nuclear capacity factor was 95.8% 1Q16 vs. 92.7% in 1Q15). PHI results were included for the eight days from 3/24-3/31/16, but were not a significant driver of operating earnings (+$2mm). Adjusted earnings exclude $394mm in after-tax direct benefits paid to customers as part of EXC's acquisition of PHI, as well as -$0.03 of financing impacts associated with the acquisition. Adjusted EPS guidance for FY16 was reaffirmed at $2.40-$2.70 (our estimate is $2.60). ExGen's expected contribution to operating earnings was reduced -$0.05 from a range of $1.25-$1.35 to $1.20-$1.30 and parent drag was increased (-$0.10) on the allocation of debt issued for the PHI transaction, but these were offset by the inclusion of PHI operating earnings of +$0.15 at the midpoint of newly issued $0.10 - $0.20 guidance.

The fate of Clinton and Quad Cities will be determined soon - hinging on whether Illinois passes supportive legislation before the end of the current session and also, in the case of the latter, whether the units clear the upcoming PJM auction. On 5/5/16, Exelon announced the filing of a Next Generation Energy Plan with the state. The plan includes more aggressive energy efficiency programs, low-income assistance and solar funding, an expanded renewable portfolio standard, a reduction in fixed delivery charges for customers, and - most importantly for ExGen – would create a zero emission standard that would be financially supportive of units like the struggling Clinton and Quad reactors. Unlike the previously proposed Low Carbon Portfolio Standard, the zero emission standard would more judiciously allocate subsidies towards those plants truly "at-risk", which would be determined through a comprehensive review by the Illinois Commerce Commission and the Illinois Power Agency. EXC has asserted that legislation must be passed before the end of the session on 5/31/16 if the plants are to continue to operate, and Quad Cities must also clear the upcoming PJM BRA for '19/'20. That auction begins on 5/11/16, with results to be posted on 5/24/16. If these conditions do not occur, Clinton and Quad Cities will be closed on 5/31/17 and 5/31/18, respectively – consistent with their existing capacity market obligations. We expect that closing the plants would be earnings and cash flow accretive as EXC has indicated that in aggregate the plants have drained $800mm in cash from 2009 through 2015. However early retirement of these units would result in a funding shortfall relative to their NRC minimum nuclear decommissioning trust fund (NDTF) obligations. This could require additional parent guarantees (per EXC's worst case estimates as of the 10-K) of as much as $315mm for Clinton and $65mm for Quad Cities to allow ExGen to access its NDTF fund for *radiological* decommissioning costs. There may also be an additional $165mm and $180mm cost required for each of the facilities if they are not granted an exemption allowing them to use the NDTF for *spent fuel management* and *site-restoration* costs (with Quad Cities better positioned to receive the waiver). These fuel and site restorations costs would not need to be funded immediately and would be capable of being expensed over the next 10 years so wouldn't be a massive drag on cash. EXC will update the aforementioned cost estimates in its 10-Q filing this week.

Our '16 / '17 / '18 EPS forecast is now $2.60 / $2.70 / $2.75 – flat in '16 and '18 but up $0.05 in 2017 vs. our prior estimate on the latest company disclosures, hedging guidance, and fresher commodity curves. EXC reaffirmed net income guidance at its legacy utilities and its articulated 7-9% earnings growth rate for '15-'18, but lowered ExGen gross margin guidance for '17 / '18 by -$150mm / -$200mm using 3/31/16 forward pricing. Generation hedging for '16 / '17 / '18 increased to 97.5% / 70.5% / 38.5% from the 91.5% / 61.5% / 29.5%, with average power hedges at lower prices in MISO and PJM but generally higher in ERCOT, NYISO, and ISO-NE. Higher generation output is projected in 2016 relative to the last call, but with lower output projected in '17 and '18 primarily on tempered dispatch of its natural gas plants due to the run up in gas pricing. Our updated $2.60 / $2.70 / $2.75 forecast is based on higher 5/4/16 power curves and would have been higher given the commodity price improvement since 3/31/16 but for the inability of ExGen to take the Domestic Production Activities Deduction (DPAD) through 2018 stemming from additional NOLs and bonus depreciation from the acquired PHI utilities. EXC estimates ExGen's higher effective tax rate resulting from said inability to utilize DPAD is a -$0.01 / -$0.07 drag on '17 / '18 EPS (returning to normal by 2019). Still, the ~$775mm in additional cash flow ($0.80/share of cash on '18 pro forma shares) attributable to bonus D and NOLs at PHI will help supplement the FCF generated by ExGen.

Price target increased to $38.00 from $37.50, rating BUY. Taking apart EXC in the wake of the POM deal we think its regulated business is worth +/-$28/share, assuming the utility business (including POM net of all parent financing costs) contributes $1.70 of EPS in '18 and deserves a 16.5X P/E. That is on an average valuation multiple for the peer group currently for a utility portfolio at EXC with the opportunity for sustained EPS growth from rising earned ROEs at three of its four subsidiaries (BGE, ComEd and POM). That means ExGen is trading at $7.50 a share or roughly $7.5bn of equity value on '18 pro forma shares (a ~5.6x EV/EBITDA multiple on our '18 estimates and a debt/EBITDA multiple of +/-3X). Our target price of $38 assumes an EV/EBITDA multiple a little less than a turn higher at 6.5X which we think is reasonable looking at ExGen's free cash flow profile, cost of capital, and the useful life of its assets. If the forward curve for gas were to rise to $3.25/MMBtu over the next 12 months, and ExGen's valuation expanded to 6.5X, all things equal the stock could rise to $39. On the flip side, at 15X '18 EPS, assuming a $0.50/MMBtu decline in natural gas in FY '18 and no multiple expansion at ExGen we see downside to $32.50/share.

What's next? EXC is intent on shepherding its energy plan through the Illinois legislature before the session concludes at the end of this month, in the hopes that its passage will adequately support continued operation of Clinton and Quad Cities beyond 5/31/17 and 5/31/18, respectively. The PJM '19/'20 BRA begins on 5/11/16 and results will be posted on 5/24/16. The MD PSC is expected to issue a final order on the pending BGE electric and gas distribution rate case by 6/3/16. EXC plans to make rate filings in Pepco and Delmarva's DC, DE, and MD jurisdictions within the next few months, which would result in much-needed rate relief across all of the legacy PHI companies beginning next year. The IL PSC will issue a final order on ComEd's electric FRP by December, with a final order by the MD PSC on the electric distribution rate case PEPCO filed on 4/19/16 expected then as well. A NJBPU decision on the electric distribution rate filing ACE made on 3/22/16 is expected in 1H'17. Possible action by NY that might create zero emissions credits to subside nuclear generation like Ginna can be beneficial to margins out the curve, though by the company's admission the state would have to move relatively quickly for it to be meaningful beyond expiration of its RSSA after 3/31/17. EXC will be hosting an Analyst Day on 8/10/16 in Philadelphia.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of legislation to bolster the revenue stream of the Illinois nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in Illinois to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-05-06)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$48.19	$49.00
AEP	American Electric Power	Buy	$64.56	$66.50
CPN	Calpine Corp.	Buy	$15.28	$18.00
CMS	CMS Energy Corp.	Hold	$41.11	$38.50
ED	Consolidated Edison Inc.	Hold	$74.16	$65.00
D	Dominion Resources Inc.	Buy	$71.27	$74.00
DTE	DTE Energy Co.	Hold	$90.04	$86.00
DUK	Duke Energy Corp.	Hold	$79.38	$73.00
DYN	Dynegy Inc.	Buy	$19.02	$25.00
EIX	Edison International	Buy	$71.99	$70.00
ETR	Entergy Corp.	Hold	$76.16	$75.00
ES	Eversource Energy	Hold	$57.16	$53.00
EXC	Exelon Corp.	Buy	$35.68	$37.50
FE	FirstEnergy Corp.	Hold	$33.09	$36.00
HE	Hawaiian Electric Industries Inc.	Hold	$32.91	$32.00
HIFR	InfraREIT, Inc.	Buy	$16.91	$22.00
ITC	ITC Holdings	Hold	$44.16	$44.00
NEE	NextEra Energy Inc	Buy	$118.49	$114.00
NI	NiSource Inc	Hold	$23.41	$22.00
NRG	NRG Energy Inc.	Buy	$15.52	$20.00
NYLD	NRG Yield, Inc.	Buy	$15.94	$18.00
PCG	PG&E Corp.	Buy	$59.00	$57.00
PNW	Pinnacle West Capital Corp.	Hold	$72.98	$71.00
PPL	PPL Corp.	Hold	$38.30	$36.00
PEG	Public Service Enterprise Group	Hold	$45.71	$46.00
SRE	Sempra Energy	Buy	$104.76	$110.00
SO	Southern Co.	Hold	$49.49	$46.00
TLN	Talen Energy Corporation	Buy	$12.38	$11.50
TE	TECO Energy Inc.	Hold	$27.74	$26.50
AES	The AES Corporation	Buy	$11.08	$12.25
WEC	WEC Energy Group, Inc.	Hold	$59.25	$51.50
WR	Westar Energy Inc.	Hold	$51.36	$42.50
XEL	Xcel Energy Inc.	Hold	$40.46	$36.50

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* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

Historical Ratings Definitions

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 05/09/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	331	50%
Hold	294	44%
Sell	24	4%
Coverage Suspended	8	1%
Rating Suspended	7	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	47	14%
Hold	14	5%
Sell	2	8%
Coverage Suspended	2	25%
Rating Suspended	0	0%

Issuer-Specific Disclosures (as of May 9, 2016)

Price Charts

Exelon Corp. Rating History as of 05/07/2016

powered by: BlueMatrix

General Disclosures

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COMPANY UPDATE
May 9, 2016

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

Raising 2016-17 Estimates, But Trimming 2018 Estimate

What's Incremental To Our View

Based on updated assumptions, we have raised our 2016-17 estimates but reduced our 2018 estimates. Separately, we identify $0.08-$0.12 of upside potential to our 2017-18 estimates. Our PT remains $39.

IMPORTANT POINTS

- EXC reported 1Q results of $0.68 vs $0.71, above our estimate of $0.64 but in line with consensus of $0.68. The positive variance (vs our estimate) was primarily driven by lower than expected operating costs at the Generation segment.

- Based on updated hedge disclosures, latest forward commodity curves, and revised tax rate assumptions, we have made the following changes to our full year estimates: 2016 is increased to $2.51 from $2.47; 2017 is increased to $2.63 from $2.62; and 2018 is reduced to $2.71 from $2.74.

- Our revised estimates could still have two sources of potential upside: (1) higher than expected contribution from the Pepco acquisition – based on timing of rate case filings and incremental cost reduction opportunities, we believe there could be $0.03-$0.05 of annual upside to our 2017-18 estimates; and (2) the final status of the Clinton (1069mw) and Quad Cities (1403mw) nuclear plants – management has indicated its decision to retire these two nuclear plants unless there is regulatory relief from Illinois, which could result in $0.05-$0.07 of incremental annual earnings.

- EXC trades at an 8% P/E multiple discount to the peer group (based on our 2018 estimates). In addition, our calculations suggest that, in the current stock price, EXC's merchant generation assets are being valued at a 23% EV/EBITDA multiple discount to the publicly traded merchant generation peer group (based on our 2018 estimates).

- Assuming a 14.3x P/E multiple on our 2018 estimate of $2.71 (in line with the peer group), we derive our price target of $39. We reiterate our **Buy** rating.

- We have included our revised 2016-18 earnings and cash flow models in this report.

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Buy

Price Target: $39.00
Prior: $39.00

Δ Key Drivers

- *Updated hedge disclosures.*
- *Latest forward commodity curves.*
- *Revised tax assumptions.*

Price (May 6, 2016)	$35.68
52-Wk Range	$35.86-$25.46
Market Cap ($M)	$32,822
ADTV	6,672,119
Shares Out (M)	919.9
Short Interest Ratio/% Of Float	2.3%
Dividend/Yield	$1.27/3.6%
TR to Target	12.9%

ROE	9.0%
5 Year EPS Growth	5.0%
Debt/Cap	55%
P/B	1.20x
Enterprise Value ($M)	$69,067.1

	2016E	2017E		2018E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.68A	$0.71	$0.68	$0.73	$0.71
2Q	$0.55	$0.58	$0.64	$0.59	$0.67
3Q	$0.88	$0.92	$0.90	$0.95	$0.94
4Q	$0.40	$0.42	$0.41	$0.44	$0.43
CY	$2.51	$2.63	$2.62	$2.71	$2.74
P/E	14.2x	13.6x		13.2x	
Consensus					
CY	$2.53	$2.65		$2.80	
Revenue ($M)					
CY	$32,645	$34,285	$34,285	$34,780	$34,780
Operating Margin (%)					
CY	13.90%	14.10%	14.30%	14.60%	14.80%
EBITDA ($M)					
CY	$7,457	$8,031	$8,102	$8,433	$8,513
EV/ EBITDA	9.3x	8.6x		8.2x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2011A-2018E

(dollars in millions, except per share)

	2018E		2017E		2016E		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)																
Com Ed	5,280		5,150		5,000		4,905		4,564		4,464		5,443		6,056	
PECO	3,515		3,430		3,350		3,032		3,094		3,100		3,186		3,720	
BGE	3,570		3,465		3,380		3,135		3,165		3,065		2,204			
PEPCO	5,370		5,265		3,915											
Generation	18,070		18,000		18,000		18,925		17,853		16,190		15,502		10,502	
Other	(1,025)		(1,025)		(1,000)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,780	1.4%	34,285	5.0%	32,645	11.7%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)																
Com Ed	1,200	22.7%	1,120	21.7%	1,060	21.2%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	725	20.6%	680	19.8%	650	19.4%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	635	17.8%	600	17.3%	550	16.3%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	710		600		400											
Generation	1,836	10.2%	1,851	10.3%	1,887	10.5%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(23)		(25)		(25)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)									(8)		102		59		(1)	
Total Operating Income	5,083	14.6%	4,826	14.1%	4,522	13.9%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,350)		(1,345)		(1,285)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	255		253		250		276		262		238		252		178	
Pretax income	3,988		3,734		3,487		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,356	34.0%	1,232	33.0%	1,151	33.0%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	15		15		15		13		134		14		11			
Equity Income (Loss)							(7)									
Net Income (% change)	2,617	5.2%	2,487	7.1%	2,321	4.2%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	965.0		947.0		926.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.71	3.0%	$2.63	4.8%	$2.51	0.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items																
Reported GAAP EPS																
EBITDA	8,433		8,031		7,457		6,684		6,242		6,191		6,180		6,177	
ComEd																
Total Retail Sales (millions mwhs)	93.0		93.0		92.0		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$12.9		$12.0		$11.5		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO																
Total Electric Retail Sales (millions mwhs)	39.5		39.5		39.0		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$18.4		$17.2		$16.7		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO																
Total Electric Retail Sales (millions mwhs)	50.0		50.0		38.0											
Implied Operating Margin ($/MWh)	$14.2		$12.0		$10.5											
Generation																
Total Power Sales (millions mwhs)	204.2		204.2		198.5		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mwh)	$9.0		$9.1		$9.5		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment																
Com Ed	565		525		490		432		410		421		381		403	
PECO	435		415		395		380		353		393		387		388	
BGE	325		310		270		277		199		195		46			
Generation	1,107		1,116		1,141		1,253		1,155		1,202		1,548		2,002	
PEPCO	330		265		180											
Other	(145)		(144)		(155)		(115)		(49)		(62)		(32)		(30)	
Total	2,617		2,487		2,321		2,227		2,068		2,149		2,330		2,763	

Note

1) Our PECO Implied Margin ratios factor in the impact of Gas sales.

2) Rate Base - Com Ed: $10.8bn in 2015, $11.8bn in 2016E, $12.8bn in 2017E, $13.6bn in 2018E; PECO: $6.0bn in 2015, $6.5bn in 2016E, $6.9bn in 2017E, $7.3bn in 2018E;
BGE: $5.0bn in 2015, $5.3bn in 2016E, $5.9bn in 2017E, $6.4bn in 2018E; PEPCO: $8.8bn in 2016E and $9.7bn in 2017E, $10.2bn in 2018E.

3) Earned ROE - Com Ed: 8.0% in 2015, 8.3% in 2016, 8.2% in 2017, 8.3% in 2018; PECO: 11.7% in 2015, 11.5% in 2016, 11.3% in 2017, 11.2% in 2018;
BGE: 10.7% in 2015, 10.2% in 2016, 10.5% in 2017, 10.2% in 2018; PEPCO: 5.5% in 2016, 5.5% in 2017, 6.5% in 2018.

4) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

5) We assume EXC achieves its growth targets for Power and Non Power new business for 2016 onwards.

6) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

7) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

8) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

9) Forward curves as of 5/5/16.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2018E

($ in millions except per share)

	2018E	2017E	2016E	2015A	2014A	2013A	2012A	2011A
Net income	2,617	2,487	2,321	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	5,000	4,925	4,820	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	(125)	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,492	7,287	7,016	7,634	4,457	6,343	6,131	4,853
Dividends	(1,196)	(1,174)	(1,148)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(6,875)	(7,775)	(8,005)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	(579)	(1,662)	(2,137)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Incremental earnings potential from eliminating losses at the nuclear plants, earnings accretion and strategic benefits of the POM acquisition, and a discounted stock valuation imply attractive total return prospects.

Valuation and Risks

VALUATION

Assuming a P/E multiple of 14.3x our 2018 estimate of $2.71 (in line with the peer group), we derive our price target of $39.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending regulatory issues

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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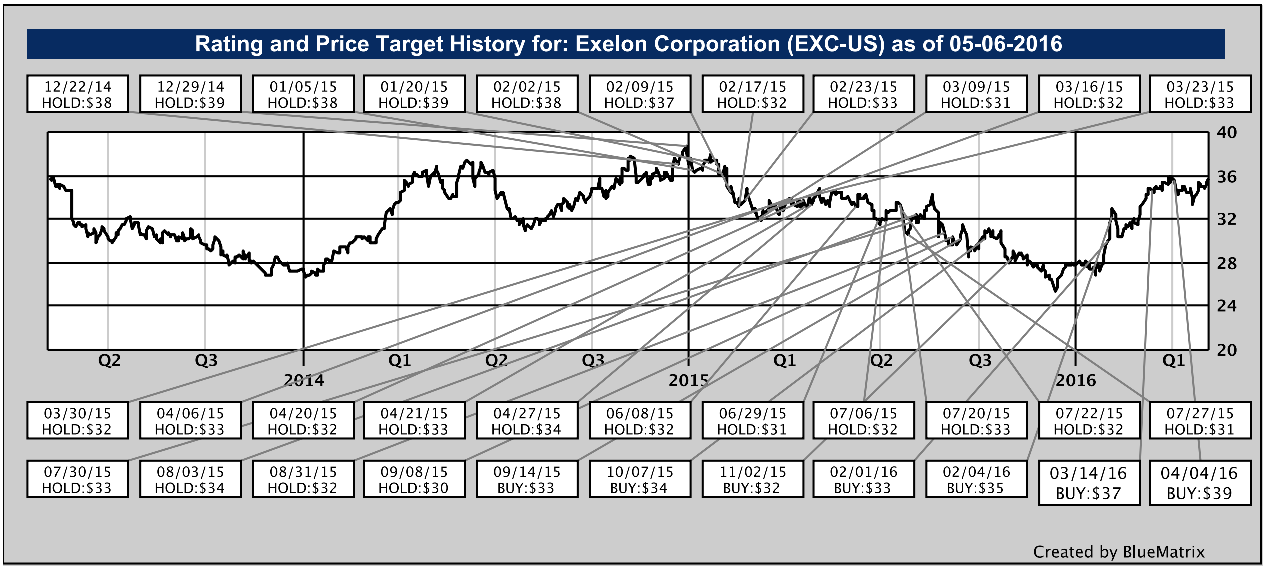

Rating and Price Target History for: Exelon Corporation (EXC-US) as of 05-06-2016

Created by BlueMatrix

STRH Ratings System for Equity Securities

3 designations based on total returns* within a 12-month period**

- **Buy** – total return ≥ 15% (10% for low-Beta securities)***
- **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
- **Neutral** – total return is within the bounds above
- **NR** – NOT RATED, STRH does not provide equity research coverage
- **CS** – Coverage Suspended

*Total return (price appreciation + dividends)
**Price targets are within a 12-month period, unless otherwise noted
***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average Beta

Legend for Rating and Price Target History Charts:
D = drop coverage
I = initiate coverage
T = transfer coverage

SunTrust Robinson Humphrey ratings distribution (as of 05/09/2016):

Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	350	56.09%	Buy	131	37.43%
Neutral	268	42.95%	Neutral	71	26.49%
Sell/Reduce	6	0.96%	Sell/Reduce	0	0.00%

Other Disclosures

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: EXC, GXP, ED, SO, PCG, NEE May 9, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

EXC – Results In Line - Nuclear Rationalization Coming to a Head: Illinois Policy Makers in Tough Stance; POM Growth to Provide Upside Surprise? (see note HERE)
GXP – In Line with Guggenheim - MO Legislation Delay Disappointing Despite Traction - Focus on Rate Cases and Regulatory Lag: Outlook Maintained (see note HERE)
ED – Outlook Maintained Despite 1Q Miss; Additional $1bn CapEx Driven by Midstream (see note HERE)
Wind – IRS extends window for wind to qualify for tax credits
SO – Settlement reached in NJ regarding acquisition of AGL Resources
SO – $900mm equity offering to finance AGL acquisition is priced
SO – Acquiring majority interest in 102MW solar facility in CA
SO – Technical conference to address concern around SO market power
PCG – ALJ recommends GT&S rate increase
NEE – Renewed interest in sale of FL municipal utility

Recent research highlights:

- ***Guggenheim initiates coverage of alternative energy -*** Alternative Energy: Basking in the Sun; Launching Sector Coverage
- ***Guggenheim initiates coverage of IPPs –*** Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities
- **2016 Outlook:** Liking Utilities but Choose Wisely with a Return to Stock Picking
- **Texas Showdown:** Has the Wave of Coal Retirements Finally Reached Texas? Deep-Dive on How the Perfect Storm Plays Out
- **AEP/FE** – Ohio Regulators Approve PPAs - Benefits AEP, FE - Merchants Likely Turn to FERC
- **1Q16 Preview**: Can Utilities Maintain Altitude? For Now. Regulateds Getting Toppy with Power Looking More Troughy

Wind – IRS extends window for wind projects to qualify for tax credits

- The IRS extended the construction timeframe in which wind projects must be completed to qualify for tax credits.
- The safe harbor provision regarding the construction timeframe was extended to four years from two years.
- Congress extended production tax credits for wind in December 2015 for projects that began construction before 2020, but credits phase-down to 80%

for projects beginning construction in 2017, 60% in 2018, and 40% for projects beginning construction in 2019.

Guggenheim takeaway: *The ruling is likely to spur wind development activity for longer, potentially pushing the buildout further out; however, we see most of the NT impact accruing to equipment manufactures and early stage developers, with limited impact on wind-exposed names under our coverage. NEE is the largest wind developer in our coverage, although there has been growing activity from utilities such as DUK and SO. See our note HERE.*

SO – Settlement reached in NJ regarding acquisition of AGL Resources

- SO and AGL Resources (GAS, NC, $66.14) reached a settlement agreement with parties to the New Jersey regulatory proceeding evaluating their proposed acquisition.
- In addition to agreements regarding governance, ring-fencing, and employee/ community benefits, AGL's NJ customers would receive direct rate credits of $17.5mm; a rate case would be filed by September 1, 2016, and another filed within 3 years of a decision on the 2016 case.
- The rate filing would be premised on AGL's capital structure (excluding goodwill), ROE would not recognize a risk premium associated with SO, shared service costs would not exceed 2015 levels, and transaction cost savings would go to customers.
- Parties to the settlement include SO, AGL, the NJ Division of Rate Counsel, BPU staff and the NJ Large Energy Users Coalition.
- SO and AGL requested the NJ BPU approve the settlement at its 6/29/16 open meeting.

Guggenheim takeaway: *SO is one step closer to closing the acquisition with this settlement; requiring approval here in NJ, and in IL. SO expects to close the transaction in 2H16; we are optimistic it could close in 3Q16. We estimate this transaction could be 6-7% accretive in outer years. Still waiting on a procedural schedule for NJ. For our analysis on this transaction, see HERE.*

SO – $900mm equity offering to finance AGL acquisition is priced

- SO announced a $900mm offering of common shares to finance its acquisition of AGL Resources has been priced.
- Underwriters will sell 18.3mm shares in one or more transactions at market prices.
- The offering is expected to close 5/11/16.

Guggenheim takeaway: *Offering in line and expected. As we mention above, SO is one step closer to closing the acquisition with a settlement in NJ. SO expects to close the transaction in 2H16, and we are optimistic it could close in 3Q16. We estimate this transaction could be 6-7% accretive in outer years. For our analysis on this transaction, see HERE.*

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SO – Acquiring majority interest in 102MW solar facility in CA

- SO announced plans to acquire a 51% interest in a 102MW solar project in CA.
- SO is acquiring the interest from SunPower (SPWR, NEUTRAL, $17.39).
- The facility will sell its output to PCG through a 20-year PPA.
- The project began construction last year and is expected to be in-service in October.

***Guggenheim takeaway:** Southern Power continues to grow and could, one day, be 15-20% of consolidated results IF management wants to grow the business this large – there are opportunities. With continued investment in renewables, Southern Power will continue to become a larger driver of the story, in our view. These assets are a good strategic fit within Southern Power.*

SO – Technical conference to address concern around SO market power

- FERC announced a technical conference to discuss issues related to market-based rate authorizations of SO subsidiaries.
- The announcement follows previous findings of SO subsidiaries failing to refute market-power concerns in several areas.
- Conference participants will look for improvements to the current auction and explore alternative methods of mitigation to address market-power concerns.
- The conference will be 5/23/16.

***Guggenheim takeaway:** Too early to really tell what this means. At this juncture, not a material concern for SO, in our view.*

PCG – ALJ recommends GT&S rate increase

- The ALJ issued a proposed decision in PCG's 2015 GT&S rate case, recommending a $394mm increase for 2015 (a net increase of $230mm after penalties), attrition rate increases of $238mm for 2016, and an incremental $126mm for 2017.
- The net increase for 2015 includes $164mm of penalties for Ex Parte violations.
- The recommendation is based on a $2.9bn ratebase and 10.4% ROE at 52% equity ratio.
- The PUC could issue a decision 6/9/16 at the earliest, while determination of CapEx subject to the $850mm San Bruno penalty is expected later this year.

***Guggenheim takeaway:** An ALJ recommendation brings PCG one step closer to a long-awaited resolution of the GT&S case – and some much needed guidance around growth and dividend. This could be the start of a much needed inflection point but let's see if something else doesn't crop up. PCG initiated the GT&S case in December 2013, initially requesting $555mm for 2015 based on a $3.56bn ratebase (revised later). Penalties mentioned above stem from a November 2014 order regarding Ex Parte communication violations, and a provision from the 2015 San Bruno order requiring PCG shareholders to fund $850mm of pipeline improvements in the still-pending GT&S case (at least $689mm of which will be CapEx precluded from rate base and therefore a return of and on investment).*

NEE – Renewed interest in sale of FL municipal utility

- Local media reports of renewed interest from the Vero Beach city council regarding a sale of the municipal utility to NEE.
- The city council reportedly authorized its electric counsel to coordinate a meeting with a municipal power utility, the utilities commission, and other county representatives.
- NEE's previous plans to acquire the municipal utility were side-tracked by wholesale power contracts with the city that couldn't be unraveled.

***Guggenheim takeaway:** Relatively small for NEE, but we have highlighted municipal utility acquisitions as a trend we believe will continue in the industry since we initiated coverage last year. The question is, can the electric utility business go the way of the water utility business as far as acquisitions in the muni sector – plenty of opportunities, in our view.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. 1Q16 Preview: Can Utilities Maintain Altitude? For Now. Regulateds Getting Toppy with Power Looking More Troughy
2. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
3. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
4. AEP/FE – OH Regulators Approve PPAs - Merchants Likely Turn to FERC
5. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
6. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
7. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
8. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
9. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
10. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
11. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
12. GXP - BUY - Mgmt Meeting Takeaways: It’s About Navigating MO Energy Policy – Unified and on a Better Footing
13. EEI Full Recap
14. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
15. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
16. PPL - BUY - Mgmt Meeting Takeaways: Underappreciated, Misunderstood; Discount Good Entry Point; Strategic Moves Could Evolve
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
21. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables
22. EPA Clean Power Plan: Much Ado About Everything

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
On-going	PNW	Value of solar hearings		AZ	E-00000J-14-0023	
On-going	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
05/12	AEP	Ohio ESP (PPAs)		OH	14-1693-EL-RDR 14-1694-EL-AAM	Responses to re-hearing applications due
05/19		Regularly-scheduled FERC meeting				Topics could include OH PPA complaints
05/24		PJM capacity auction				2019/2020 Base Residual Auction results posted
06/01	PNW	PNW files rate case	Arizona Public Service Co.	AZ		
06/02		Clean Power Plan				Federal Appeals Court hearing
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting

Other upcoming events and proceedings

May	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
May	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
May	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos

Guggenheim Corporate Access Participants

Upcoming Corporate Access	Dates	Regions	Confirmed Management Attendees
EIX	5/18-19	Mid Atlantic	Ted Craver, CEO
GXP	6/21-23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-3	TBA	Art Beattie, CFO
ETR	8/11-12	Midwest	Drew Marsh, CFO and Theo Bunting, President – Utility Operations
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
PPL	5/11-5/12	Boston	Vincent Sorgi, CFO
WR	7/6-8	TX, Midwest	Tony Somma, CFO
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
AEP	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-4	Mid Atlantic	Dan Cregg, CFO
MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…			

Guggenheim Power & Utilities Comp Sheet (As of 05/06/2016)

As of 5/6/2016

								Guggenheim Estimates														Consensus Estimates													
		Mkt. Cap	Rating	Target	Current	Price	Diluted	Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	**Company**	**($Bn)**		**Price[1]**	**Price**	**Change**	**Shares**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	31.7	Buy	$68	$64.56	5%	491	3.63	3.87	4.17	7%	17.8	16.7	15.5	5,512	5,849	6,246	6%	9.6	9.2	8.8	3.67	3.85	4.09	6%	17.6	16.8	15.8	5,679	5,765	6,040	3%	9.3	9.3	9.1
ED	Consolidated Edison, Inc.	21.8	Neutral	$70	$74.16	-6%	294	3.99	4.15	4.31	4%	18.6	17.9	17.2	3,867	4,058	4,226	5%	9.5	9.3	9.2	4.00	4.15	4.31	4%	18.5	17.9	17.2	3,826	4,036	4,267	6%	9.6	9.3	9.1
D	Dominion Resources, Inc.	43.9	Buy	$78	$71.27	9%	616	3.85	3.92	4.40	7%	18.5	18.2	16.2	6,230	6,470	7,054	6%	11.8	11.4	10.6	3.79	3.91	4.35	7%	18.8	18.2	16.4	5,941	6,274	6,909	8%	12.4	11.8	10.8
DTE	DTE Energy Company	16.2	Buy	$97	$90.04	8%	179	5.03	5.27	5.66	6%	17.9	17.1	15.9	2,628	2,728	2,925	5%	9.3	9.1	8.7	4.95	5.25	5.62	7%	18.2	17.1	16.0	2,538	2,704	2,879	6%	9.6	9.2	8.8
DUK	Duke Energy Corporation	54.7	Buy	$86	$79.38	8%	689	4.55	4.61	4.79	3%	17.4	17.2	16.6	9,033	8,878	9,383	2%	11.2	11.6	11.2	4.58	4.76	5.01	5%	17.3	16.7	15.9	9,183	9,738	10,091	5%	11.0	10.6	10.4
EIX	Edison International	23.5	Neutral	$70	$71.99	-3%	326	3.85	4.15	4.33	6%	18.7	17.3	16.6	5,011	5,372	5,690	7%	7.5	7.1	6.9	3.89	4.13	4.33	5%	18.5	17.4	16.6	4,566	4,845	5,172	6%	8.2	7.9	7.6
ES	Eversource Energy	18.1	Buy	$59	$57.16	3%	317	2.95	3.19	3.43	8%	19.4	17.9	16.7	2,607	2,569	2,625	0%	11.1	11.6	11.7	2.99	3.19	3.38	6%	19.1	17.9	16.9	2,587	2,747	2,813	4%	11.2	10.9	10.9
GXP	Great Plains Energy	4.8	Buy	$35	$31.08	13%	155	1.74	1.88	1.97	6%	17.9	16.5	15.8	860	908	929	4%	10.3	9.8	9.4	1.74	1.83	1.92	5%	17.9	17.0	16.2	989	1,036	1,106	6%	9.0	8.5	7.9
NEE	NextEra Energy, Inc.	54.7	Buy	$129	$118.49	9%	461	6.35	6.60	7.04	5%	18.7	18.0	16.8	7,019	7,458	7,796	5%	12.5	12.1	11.9	6.18	6.57	7.02	7%	19.2	18.0	16.9	7,636	8,248	8,776	7%	11.5	10.9	10.5
PCG	PG&E Corporation	29.2	Neutral	$59	$59.00	0%	495	3.67	3.70	3.89	3%	16.1	15.9	15.2	6,566	6,825	7,210	5%	7.2	7.1	6.9	3.72	3.68	3.86	2%	15.9	16.0	15.3	6,147	6,510	6,905	6%	7.7	7.5	7.2
PNW	Pinnacle West Capital	8.1	Neutral	$79	$72.98	8%	111	3.91	4.19	4.43	6%	18.7	17.4	16.5	1,407	1,512	1,608	7%	8.7	8.5	8.1	3.99	4.20	4.39	5%	18.3	17.4	16.6	1,398	1,499	1,594	7%	8.8	8.5	8.2
PPL	PPL Corporation	25.9	Buy	$41	$38.30	7%	677	2.36	2.46	2.60	5%	16.2	15.6	14.7	4,012	4,219	4,461	5%	11.7	11.3	11.0	2.35	2.44	2.51	3%	16.3	15.7	15.2	4,079	4,287	4,566	6%	11.5	11.1	10.7
SO	Southern Company	45.5	Neutral	$47	$49.49	-5%	920	2.91	2.93	3.06	3%	17.0	16.9	16.2	7,011	7,202	7,505	3%	11.4	11.2	11.1	2.85	2.97	3.08	4%	17.4	16.7	16.1	7,145	7,878	8,130	7%	11.2	10.3	10.3
WR	Westar Energy, Inc.	7.3	Buy	$57	$51.36	11%	142	2.46	2.53	2.63	3%	20.9	20.3	19.5	1,064	1,100	1,145	4%	10.8	10.6	10.2	2.43	2.54	2.62	4%	21.1	20.2	19.6	1,038	1,097	1,124	4%	11.0	10.6	10.4
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.74	1%	236	1.18	1.28	1.33	6%	23.5	21.7	20.9	985	1,033	1,067	4%	10.9	10.3	9.8	1.19	1.28	1.36	7%	23.4	21.6	20.4	1,005	1,068	1,076	3%	10.7	9.9	9.8
Average [2]											**5%**	**18.1**	**17.4**	**16.4**				**5%**	**10.2**	**10.0**	**9.7**				**5%**	**18.1**	**17.4**	**16.5**				**6%**	**10.1**	**9.7**	**9.4**
Integrated utilities																																			
ETR	Entergy Corporation	13.6	Neutral	$75	$76.16	-2%	179	5.36	5.16	5.17	-2%	14.2	14.8	14.7	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.10	5.27	5.14	0%	14.9	14.4	14.8	3,430	3,580	3,624	3%	8.8	8.7	8.9
EXC	Exelon Corporation	32.9	Buy	$38	$35.68	7%	922	2.53	2.65	2.86	6%	14.1	13.5	12.5	7,686	7,971	8,452	5%	8.3	8.1	7.7	2.53	2.63	2.77	5%	14.1	13.5	12.9	7,324	7,745	8,531	8%	8.7	8.3	7.6
FE	FirstEnergy Corp.	14.1	Buy	$43	$33.09	30%	425	2.87	2.83	2.89	0%	11.5	11.7	11.4	4,322	4,450	4,510	2%	8.4	8.2	8.1	2.67	2.50	2.52	(3%)	12.4	13.2	13.1	4,422	4,463	4,531	1%	8.2	8.1	8.0
PEG	Public Service Enterprise Group	23.1	Buy	$50	$45.71	9%	506	2.92	2.95	3.02	2%	15.7	15.5	15.1	4,097	4,293	4,501	5%	8.4	8.4	8.2	2.88	2.89	2.96	1%	15.9	15.8	15.4	4,023	4,184	4,371	4%	8.5	8.6	8.4
Average											**2%**	**13.9**	**13.9**	**13.4**				**3%**	**8.3**	**8.3**	**8.1**				**1%**	**14.3**	**14.3**	**14.1**				**4%**	**8.6**	**8.4**	**8.2**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.5	Buy	$20	$15.28	31%	359	0.42	0.87	0.60	20%	36.8	17.5	25.4	1,881	2,144	2,076	5%	9.0	7.8	7.9	0.55	0.92	1.27	52%	27.8	16.6	12.0	1,882	2,017	2,132	6%	9.0	8.3	7.7
DYN	Dynegy Inc.	2.2	Buy	$21	$19.02	10%	117	(1.69)	(1.33)	(0.60)	NA	-11.2	-14.3	-31.7	1,006	1,287	1,490	22%	8.6	7.1	5.9	(0.52)	(0.40)	0.73	NA	-36.5	-47.5	25.9	1,098	1,123	1,337	10%	7.9	8.1	6.6
NRG	NRG Energy, Inc.	4.9	Buy	$16	$15.52	3%	315	0.75	(0.51)	(0.03)	NA	20.8	-30.7	-495.5	3,104	2,808	2,941	(3%)	6.8	7.3	6.6	1.00	0.26	0.88	(6%)	15.6	59.4	17.6	3,103	2,759	2,960	(2%)	6.8	7.4	6.6
TLN	Talen Energy Corp	1.6	Neutral	$7	$12.38	-43%	129	0.41	0.63	0.38	-4%	30.3	19.5	32.9	756	788	733	(1%)	6.8	6.4	6.9	0.69	0.23	0.04	(77%)	18.1	53.0	335	746	732	678	(5%)	6.9	6.9	7.4
Average											**8%**	**19.1**	**-2.0**	**-117.2**				**6%**	**7.8**	**7.1**	**6.8**				**(10%)**	**6.2**	**20.4**	**98**				**2%**	**7.6**	**7.7**	**7.1**
Other																																			
NYLD	NRG Yield	1.6	Neutral	$15	$15.94	-6%	183	0.92	1.21	1.31	19%	17.3	13.1	12.2	806	984	1,093	16%	7.9	6.6	7.0	0.94	1.10	1.09	8%	16.9	14.5	14.6	826	921	1,032	12%	7.7	7.1	7.4
AWK	American Water Works	13.2	Buy	$79	$74.02	7%	178	2.85	3.05	3.26	7%	26.0	24.3	22.7	1,643	1,753	1,863	6%	12.1	11.5	11.0	2.82	3.04	3.26	7%	26.2	24.4	22.7	1,633	1,730	1,821	6%	12.1	11.7	11.3

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$64.56	2.26	2.37	2.48	3.5%	3.7%	3.8%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$74.16	2.65	2.72	2.77	3.6%	3.7%	3.7%	66%	65%	64%
D	Dominion Resources, Inc.	Buy	$71.27	2.79	2.98	3.20	3.9%	4.2%	4.5%	74%	76%	74%
DTE	DTE Energy Company	Buy	$90.04	3.00	3.15	3.30	3.3%	3.5%	3.7%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$79.38	3.40	3.54	3.71	4.3%	4.5%	4.7%	74%	75%	74%
EIX	Edison International	Neutral	$71.99	1.94	2.15	2.35	2.7%	3.0%	3.3%	50%	52%	54%
ES	Eversource Energy	Buy	$57.16	1.78	1.90	2.02	3.1%	3.3%	3.5%	60%	60%	60%
GXP	Great Plains Energy	Buy	$31.08	1.08	1.15	1.25	3.5%	3.7%	4.0%	62%	63%	65%
NEE	NextEra Energy, Inc.	Buy	$118.49	3.47	3.91	4.46	2.9%	3.3%	3.8%	56%	60%	64%
PCG	PG&E Corporation	Neutral	$59.00	1.92	2.03	2.20	3.2%	3.4%	3.7%	51%	55%	57%
PNW	Pinnacle West Capital	Neutral	$72.98	2.54	2.66	2.79	3.5%	3.7%	3.8%	64%	63%	63%
PPL	PPL Corporation	Buy	$38.30	1.52	1.56	1.61	4.0%	4.1%	4.2%	65%	64%	64%
SO	Southern Company	Neutral	$49.49	2.22	2.30	2.38	4.5%	4.7%	4.8%	78%	78%	77%
WR	Westar Energy, Inc.	Buy	$51.36	1.52	1.60	1.69	3.0%	3.1%	3.3%	62%	63%	65%
TE	TECO Energy, Inc.	Neutral	$27.74	0.92	0.95	0.97	3.3%	3.4%	3.5%	78%	74%	71%
Average							**3.5%**	**3.7%**	**3.9%**	**64%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$76.16	3.43	3.52	3.60	4.5%	4.6%	4.7%	67%	67%	70%
EXC	Exelon Corporation	Buy	$35.68	1.26	1.29	1.33	3.5%	3.6%	3.7%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.09	1.44	1.45	1.44	4.4%	4.4%	4.4%	54%	58%	57%
PEG	Public Service Enterprise Group	Buy	$45.71	1.64	1.72	1.81	3.6%	3.8%	4.0%	57%	60%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.28	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$19.02	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$15.52	0.17	0.14	0.14	1.1%	0.9%	0.9%	17%	NA	16%
TLN	Talen Energy Corp	Neutral	$12.38	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**4%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.94	0.96	1.10	1.26	6.0%	6.9%	7.9%	101%	101%	115%
AWK	American Water Works	Buy	$74.02	1.48	1.62	1.77	2.0%	2.2%	2.4%	52%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	155	60.55%	30	19.35%
Neutral	100	39.06%	3	3.00%
Sell	1	0.39%	0	0.00%

OTHER DISCLOSURES

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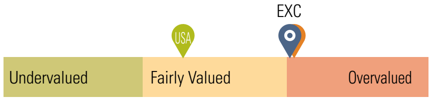
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 12 May 2016	35.46 USD 12 May 2016	30.00 USD	1.18	3.52 12 May 2016	3.59 12 May 2016	31.46 12 May 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.05	0.85	1.06	1.02
Price/Earnings	18.4	15.6	17.0	20.7
Forward P/E	13.7	—	16.2	14.2
Price/Cash Flow	4.2	5.1	6.0	11.5
Price/Free Cash Flow	—	74.7	11.1	17.2
Trailing Dividend Yield%	3.52	4.65	3.53	2.26

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

Investment Thesis

Travis Miller, Sector Director, 06 October 2015

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Andrew Bischof, CFA, Eq. Analyst, 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 12 May 2016	35.46 USD 12 May 2016	30.00 USD	1.18	3.52 12 May 2016	3.59 12 May 2016	31.46 12 May 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	23,455	9,896	27.70	15.06
FirstEnergy Corp FE	USD	14,427	14,998	16.50	21.10
Entergy Corp ETR	USD	13,776	11,203	-3.07	0.00

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50%

higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 24 March 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder

among executives and directors with 3.5 million shares and vested options as of January 2016.

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Analyst Notes Archive

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

Andrew Bischof, CFA, Eq. Analyst, 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

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Exelon Threatens to Close Clinton, Quad Cities Nuclear Plants...Again

Travis Miller, Sector Director, 06 May 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after management used its strongest language to-date regarding the fate of the beleaguered Clinton and Quad Cities nuclear plants, both in Illinois. Management said it will close the plants by 2017-18 but also said the decision depends on several developments. These are the same contingencies management has used for several years to justify postponing the plant closures.

We continue to assume Exelon closes Clinton, Quad Cities, and two other nuclear plants by 2020. But we think management remains hesitant to pull the cord. The plants could survive if Illinois politicians pass what effectively is a nuclear bailout bill; Clinton clears the Mid-Continent Independent System Operator's 2017-18 capacity auction next spring; or Quad Cities clears the mid-Atlantic capacity auction later this month. Quad Cities cleared last year's 2017-18 transitional capacity auction at $151.50 per megawatt-day but did not clear the 2018-19 auction at $215/MW-day. We expect similar clears in this year's 2019-20 auction.

Exelon earned $0.68 per share on an adjusted basis and reaffirmed its $2.40-$2.70 per share 2016 guidance, in line with our estimates. It continues running its nuclear fleet at world-class levels, achieving a 95.8% capacity factor in the quarter and proving it can capture the full upside if energy prices rebound. Exelon also filed rate cases at two of its newly acquired Pepco utilities, which should boost earnings and returns on the pricey acquisition if the utilities receive constructive decisions.

Are Utilities Overheated or Are Their Yields too Good to Pass Up?

Travis Miller, Sector Director, 20 April 2016

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40%

Travis Miller, Sector Director, 06 April 2016

We are cutting our midcycle assumptions for Brent oil, U.S. Henry Hub natural gas, and U.S. and European power prices. This will lead us to cut our fair value estimates 10%-40% for utilities with merchant power market exposure. We are maintaining our midcycle assumptions for coal, Eastern U.S. gas basis, and regional market heat rates.

Our new long-term marginal cost for U.S. natural gas is $3 per thousand cubic feet, down from $4/mcf. The cut is based on a more optimistic outlook for low-cost U.S. gas production primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica. We see more evidence that U.S. shale producers can survive at much lower prices than we previously assumed.

The midcycle gas price cut results in a similar cut to our midcycle U.S. power prices. Our benchmark PJM West around-the-clock midcycle price falls to $30.60 per megawatt hour from $43.35 when including our $0.60/mmBtu gas basis discount. The rest of our U.S. midcycle power prices fall 25%.

Power producers with large coal and nuclear fleets face the biggest fair value estimate cuts. These include Dynegy and NRG Energy. Diversified utilities with large coal and nuclear fleets such as Exelon and FirstEnergy could have 10%-20% fair value estimate cuts as we incorporate the new midcycle prices. Power producers with large gas generation fleets such as Calpine will experience smaller fair value estimate cuts because gas generation should benefit from lower costs and higher run times in our midcycle forecasts.

Our new Brent oil midcycle price is $60 per barrel, down from $70. The long-term structural issue facing crude markets is that the world needs some U.S. production growth, but not nearly as much as tight oil can supply. Our Brent oil price cut will lead us to cut our fair value estimate for Centrica.

We will be publishing updated reports and valuations on all companies within the next week.

Exelon and Pepco Join to Sing a Duet: At Last

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 02 March 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 29 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

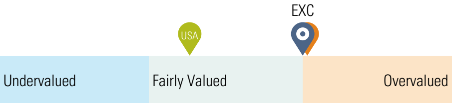
Exelon Corp EXC ★★★Q

Last Close 13 May 2016	Quantitative Fair Value Est 12 May 2016	Market Cap 13 May 2016	Sector	Industry	Country of Domicile
34.94	33.67	31,464.2 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	88	85	85
Valuation	Overvalued	32	57	41
Quantitative Uncertainty	Medium	97	89	94
Financial Health	Moderate	56	49	56



Source: Morningstar Equity Research

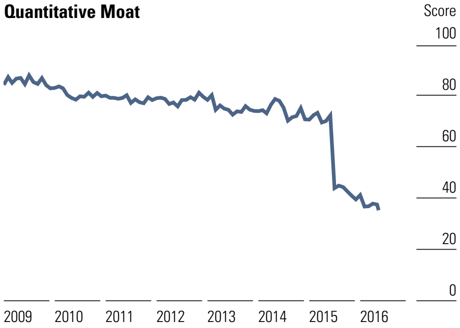
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.05	0.85	1.06	1.02
Price/Earnings	18.4	15.6	17.0	20.7
Forward P/E	13.7	—	16.2	14.2
Price/Cash Flow	4.2	5.1	6.0	11.5
Price/Free Cash Flow	—	74.7	11.1	17.2
Trailing Dividend Yield %	3.52	4.65	3.53	2.26
Price/Book	1.2	1.5	1.3	2.2
Price/Sales	1.1	1.2	1.3	1.8

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	7.2	9.7	9.5	11.8
Return on Assets %	1.8	2.6	3.1	4.7
Revenue/Employee (K)	947.2	958.0	1,209.6	297.8

Quantitative Moat



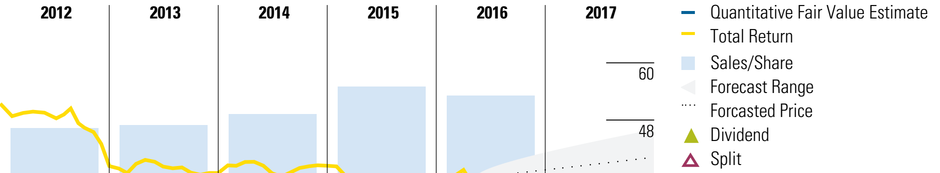
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.5
Solvency Score	—	—	628.8	580.3
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	9.4	3.4	0.4	-0.5

Price vs. Quantitative Fair Value



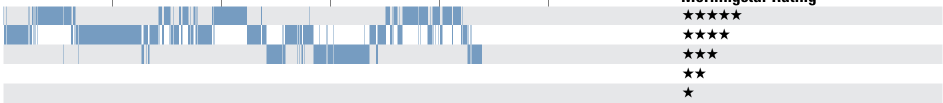
Momentum: Neutral
Standard Deviation: 21.34
Liquidity: High

25.09 52-Wk 35.95

25.09 5-Yr 45.45

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	28.1	Total Return %
-42.9	-36.1	27.1	-22.5	26.6	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—	Trailing Dividend Yield %
—	—	—	—	3.52	Forward Dividend Yield %
21.0	14.7	15.2	12.3	18.4	Price/Earnings
1.0	0.9	1.2	0.8	1.1	Price/Revenue

Morningstar RatingQ

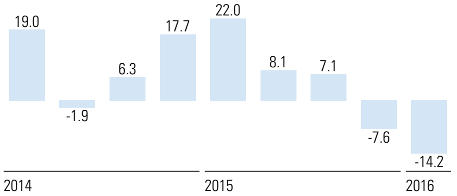


2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	28,190	Revenue
1.5	24.1	6.0	10.2	7.4	-4.3	% Change
4,480	2,380	3,656	3,096	4,409	3,526	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-20.0	% Change
2,495	1,160	1,719	1,623	2,269	1,749	Net Income
4,853	6,131	6,343	4,457	7,616	7,599	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,042	Capital Spending
811	321	948	-1,620	-8	-443	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	-1.6	% Sales
3.75	1.42	2.00	1.88	2.54	1.93	EPS
-3.1	-62.1	40.8	-6.0	35.1	-24.1	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.01	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.04	Book Value/Share
855,000	857,000	860,000	920,000	887,314	887,314	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	7.2	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.8	Return on Assets %
13.2	4.9	6.9	5.9	7.7	6.2	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.28	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.3	Financial Leverage
62.3	56.8	56.9	52.6	55.6	57.9	Gross Margin %
23.7	10.1	14.7	11.3	15.0	12.5	Operating Margin %
12,189	18,346	18,271	20,010	24,286	29,955	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,717	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	—	—	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	—	—	—	—
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

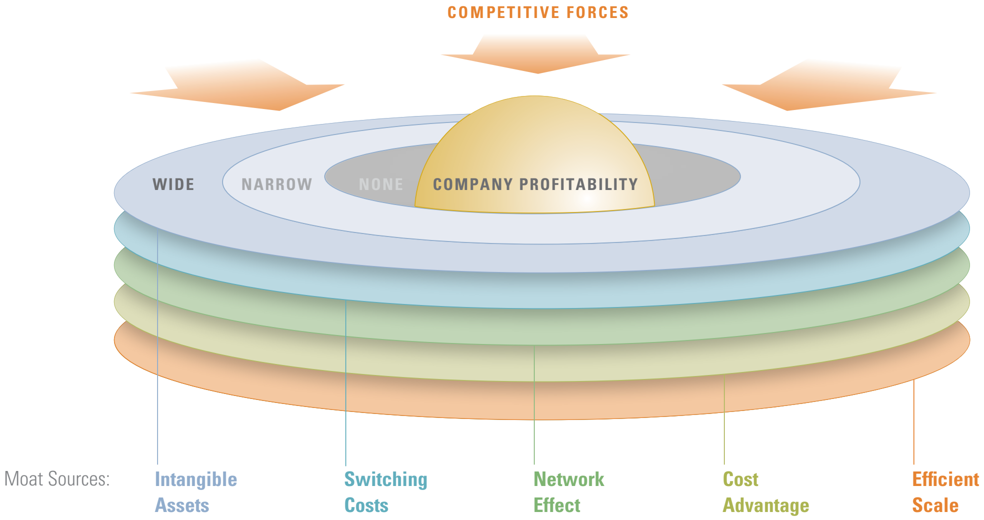
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

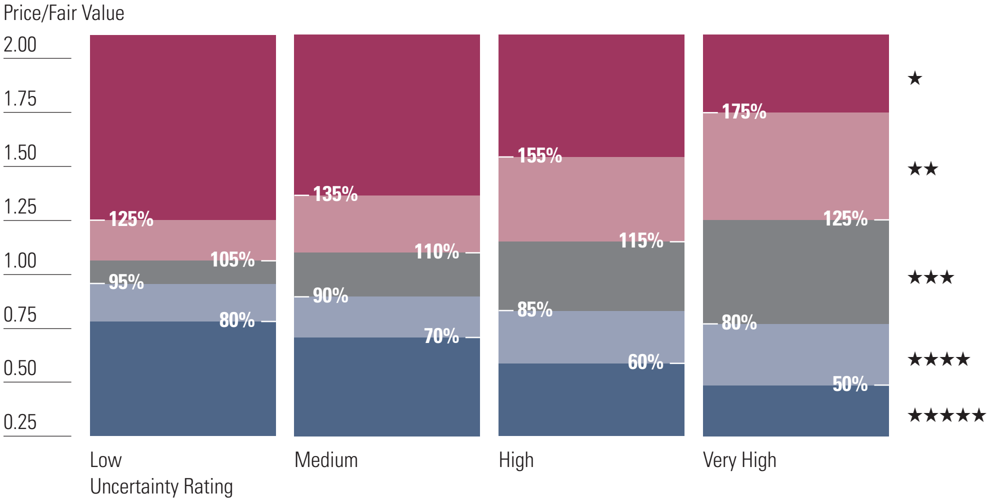
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

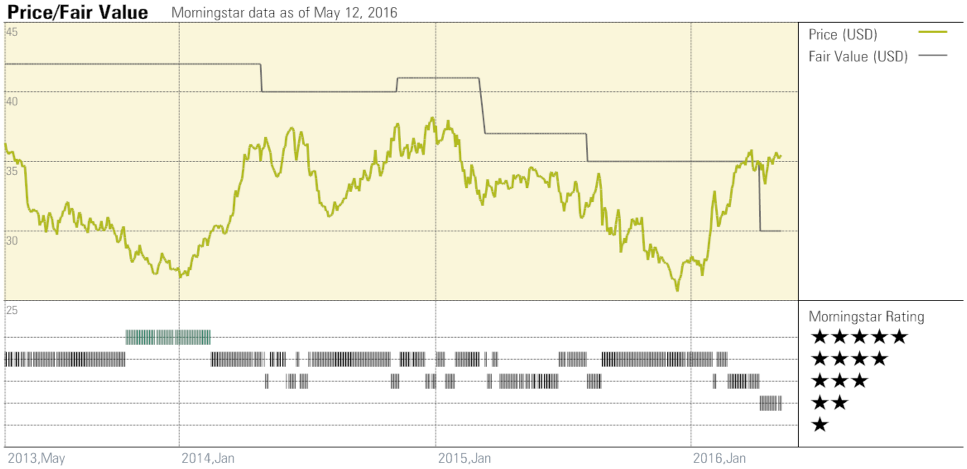
If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 12 May 2016	35.46 USD 12 May 2016	30.00 USD	1.18	3.52 12 May 2016	3.59 12 May 2016	31.46 12 May 2016	Utilities - Diversified	Standard


Price/Fair Value Morningstar data as of May 12, 2016

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-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earnings and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not have authority over Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this Report.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 12 May 2016	35.46 USD 12 May 2016	30.00 USD	1.18	3.52 12 May 2016	3.59 12 May 2016	31.46 12 May 2016	Utilities - Diversified	Standard

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Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.46 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

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The primary analyst covering this company does not own its stock.

Research as of 13 May 2016
Estimates as of 13 Apr 2016
Pricing data through 12 May 2016
Rating updated as of 12 May 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share

Vital Statistics

Market Cap (USD Mil)	31,464
52-Week High (USD)	35.95
52-Week Low (USD)	25.09
52-Week Total Return %	10.0
YTD Total Return %	30.0
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.18

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*14.8*	*15.0*
EV/EBITDA	9.5	6.6	*9.9*	*9.7*
EV/EBIT	16.7	10.2	*15.9*	*15.8*
Free Cash Flow Yield %	-5.1	0.0	*-5.4*	*-3.8*
Dividend Yield %	3.3	4.3	*3.7*	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.46 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

For a more detailed analysis, see our report, “Morningstar Outlook: PJM 2019-20 Capacity Auction," on Morningstar Select Investment Research.

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Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.46 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*2016* (Forecast)	*2017* (Forecast)	*5-Year Proj. CAGR* (Forecast)
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*14.8*	*15.0*
EV/EBITDA	9.5	6.6	*9.9*	*9.7*
EV/EBIT	16.7	10.2	*15.9*	*15.8*
Free Cash Flow Yield %	-5.1	0.0	*-5.4*	*-3.8*
Dividend Yield %	3.3	4.3	*3.7*	*3.8*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	—	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.46 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.46 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.46 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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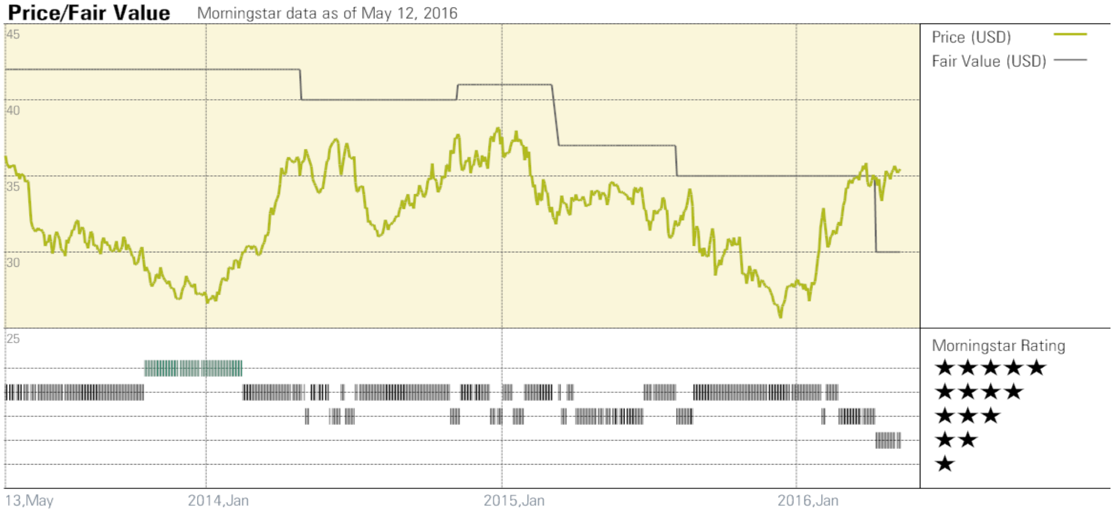

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.46 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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RBC Capital Markets

May 18, 2016

Company: Exelon Corporation, EXC - Analyst Shelby Tucker, Currency: USD, Price Target: 36.00, Rating: Outperform

FY Dec	**2015A**	**2016E**	**2017E**	**2018E**
EPS, adjusted	2.49	2.52	2.65	2.87
prev.		2.53	2.60	2.84
P/E	13.8x	13.6x	13.0x	12.0x
DPS	1.24	1.26	1.29	1.32
Dividend yield	3.6%	3.7%	3.8%	3.8%

EPS, adjusted	**Q1**	**Q2**	**Q3**	**Q4**
2015	0.71A	0.59A	0.83A	0.38A
2016	0.68A			
Prev.				

May 18, 2016

Equity Research

EXC/PEG: Power Operations Remain Undervalued

Sector Rating: Diversified Electric Utilities, Market Weight

				FY EPS				Valuation Range	
	Rating		Price	2016		2017			
Ticker	Curr.	Prior	05/18/16	Curr.	Prior	Curr.	Prior	Curr	Prior
Diversified Electric Utilities									
EXC	1	NC	$33.85	$2.55	NC	$2.70	NC	$42-43	$39-40
PEG	1	NC	44.33	2.85	NC	2.90	NC	$51-52	NC

Source: Company data and Wells Fargo Securities, LLC estimates 1= Outperform, 2 = Market Perform, 3 = Underperform, V = Volatile
⚑ = Company is on the Priority Stock List NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

- **Summary.** Despite the strong year-to-date relative performances of EXC & PEG, our valuation analyses indicate that the current share prices arguably reflect highly pessimistic outlooks for the companies' unregulated (merchant generation) operations. We conclude that EXC's and PEG's valuations imply EV/EBITDA multiples for the companies' unregulated operations of 5.0x and 3.6x, respectively--well below our estimated fair values of 7x (EXC) and 5x (PEG). We reiterate our Outperform ratings for both EXC & PEG. Our 12 month valuation range for EXC is $42-43/share (up from $39-40/share) and for PEG it remains $51-52/share.

- **Taking Stock of EXC & PEG.** Year to date, shares of EXC and PEG have materially outperformed the S&P Utilities providing investors total returns of 24% & 16%, respectively, versus the index up 11%. The strong relative performance coupled with the PJM Interconnection's upcoming capacity auction results for 2019/20 (due May 24) prompts us to critically evaluate our thought process toward the companies. Specifically, is there sufficient upside potential on a risk-adjusted basis to warrant sticking with our Outperform ratings? We conclude that there is.

- **Our Approach.** We consistently approach our valuation analyses of EXC and PEG by focusing on the following questions: (1) What is the implied equity value of the merchant generation operations based on the current share prices of the companies? (2) What do we perceive the value of the merchant operations to be based on reasonable discounted cash flow (DCF) analysis? (3) Is there a meaningful difference (positive or negative) between the implied value and our perceived value?

- **Valuation Methodology.** We performed sum-of-the-parts analyses for both EXC and PEG consisting of a P/E multiple analysis for the regulated operations and a DCF analysis for the unregulated operations. Our DCF analyses are based on what we consider to be reasonable assumptions (laid out in the note) for long-term power & capacity prices, ongoing capex and nuclear asset lives. Based on our calculations, EXC's and PEG's current share prices arguably reflect no meaningful cash flow contribution from the companies' nuclear fleets beyond 2030 – vs. operating licenses that run (on avg.) through 2040.

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Please see page 9 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 05/18/16 unless otherwise stated.

Taking Stock of EXC & PEG

Year to date, shares of EXC and PEG have outperformed the S&P Utility index providing investors total returns of 24% & 16%, respectively, versus the index up 11%. ***The strong relative performance coupled with the PJM Interconnection's (PJM's) upcoming capacity auction results for 2019/20 (due May 24) prompts us to critically evaluate our thought process toward the companies. Specifically, is there sufficient upside potential on a risk-adjusted basis to warrant sticking with our Outperform ratings? We conclude that there is.***

We consistently approach our valuation analyses of EXC and PEG by focusing on the following questions:

- What is the implied equity value of the merchant generation operations based on the current share prices of the companies?
- What do we perceive the value of the merchant operations to be based on reasonable discounted cash flow (DCF) analyses?
- Is there a meaningful difference (positive or negative) between the implied value and our perceived value?

While a DCF approach requires difficult assumptions around long-term power and capacity prices, we have been mindful to not stray too far from the forward curves as it relates to power prices. As for capacity prices, we have elected to assume a capacity price that represents a modest discount to the cost of new entry (CONE). ***Bottom line, our DCF analyses are not based on power prices that are $10/MWh (megawatt hour) higher than the current forward curves nor do we assume a long-term capacity price in excess of $250/MW-Day (megawatt day).*** We have long resisted the temptation to make bold power market calls.

EXC: Meaningful Upside Potential Remains – But Positive Thesis Depends on Longevity of Nuclear Fleet

We reiterate our Outperform rating and increase our 12-18 month valuation range for EXC to $42-43/share from $39-40/share. We continue to believe EXC shares offer investors an attractive risk/reward opportunity. Figure 1 lays out the primary features and considerations underlying our positive thesis.

Figure 1: EXC – Our Pros & Cons

EXC Outperform Thesis: Pros & Cons	
Features	**Considerations**
Core regulated utility operations	Challenging regulatory environments (MD, DC)
→ Account for 50-60% of annual EPS (incl. parent)	Active rate case cycle in Pepco jurisdictions
→ Strong 5-yr annual EPS growth potential of 7-9%	
Attractive 3.7% dividend yield & 2-3% annual growth	
Largest owner / operator of nuclear in U.S.	Increase in early shutdowns due to poor economics / other
	→ Oyster Creek ('19) & likely Clinton ('17) & Quad Cities ('18)
Implied ExGen EV/EBITDA multiple of ~5X	→ Risk of higher capex / shutdowns for structural problems
→ Valuation arguably reflects pessimistic outlook	
→ Our DCF analysis indicates ~7X multiple appropriate	
ExGen has strong financial profile	Capital allocation
→ FFO/Debt of 40%+	→ Disciplined approach for new ExGen opportunities?
→ Debt-to-EBITDA of 3X	
→ FCF of $1.6-2.0B annually (excl. growth capex)	
→ Intent to harvest ExGen cash to fund utility capex	

Source: Wells Fargo Securities, LLC estimates and Company Filings

Valuation

Our valuation range is based on a sum-of-the-parts analysis:

- **Utility / Parent** – we value Utility/Parent at $27/share under a P/E multiple analysis. We apply the Regulated Electric group's median 2017 P/E multiple of 17.0x to our 2018 EPS estimate of $1.58. We apply the group's 2017 multiple to our 2018 EPS estimate due to the forward looking nature of our valuation range. On a present value (PV) basis, we value Utility/Parent at $26/share by applying the 2018 peer group median multiple of 16.3x to our 2018 EPS estimate.

- **ExGen** – we value Exelon Generation (ExGen) at $16/share on a forward basis and at ~$14.50/share on a PV basis. Our analysis is based on a DCF analysis. Key assumptions:

    - $8.6B of unlevered free cash flow (FCF) during the period 2016-20E. Our outlook incorporates EXC's planned capex, which includes over $2B of growth capex.

    - Annual average unlevered FCF of $2.1B during the period 2021-2040E and, conservatively, no FCF after 2040. The time period reflects the weighted average remaining life of ExGen's nuclear fleet based on the existing license extension periods (we assume the LaSalle units receive 20-yr license extensions). Our post-2021 unlevered FCF excludes the Clinton, Quad Cities and Oyster Creek nuclear facilities, which we assume are shut down in 2017, 2018 & 2019, respectively.

    - Flat post-2020 around-the-clock (ATC) power prices of $30/MWh and $36/MWh for ExGen's Midwest and Mid-Atlantic fleets, respectively. This compares with current 2020 forward NiHub and PJM West ATC prices of $28/MWh and $33/MWh, respectively. In addition, we add an incremental $2-3/MWh marketing margin to the ATC price.

    - Average capacity prices of $200/MW-Day, which compares with 2018/19 capacity prices of $200+/MW-Day for the high majority of ExGen's PJM fleet.

    - Annual maintenance capex of ~$800MM, which is consistent with ExGen's base capex guidance during the period 2016-2018.

    - A discount rate of ~7% based on a calculated weighted average cost of capital (WACC). We assume 60%/40% equity/debt financing, a 10% cost of equity and a 4.5% pre-tax cost of debt. We also assume ExGen debt of $9B.

Our DCF analysis suggests that ExGen should trade at an EV/EBITDA multiple of ~7x versus the current market price implied EV/EBITDA of ~5x. Please refer to Figure 2 for the assumptions underlying our EV/EBITDA analysis along with key assumptions underlying our DCF and our PV share price analysis.

Figure 2: ExGen Appears Undervalued Under Our Valuation Analysis

ExGen EV/EBITDA Analysis		Notes
ExGen: DCF Present Value / Sh	**$14.49**	DCF analysis - key assumptions:
		(1) Unlevered FCF of $8.6B during 2016-20
		(2) Unlevered FCF of $2.1B annually 2021-2040
		(3) Post-2020 NiHub/PJM East power prices of $30 & $36/MWh
		(4) Post-2020, avg capacity price of $200-MW-day
		(5) Discount Rate of ~7% (WACC)

EV/EBITDA of ExGen based on our DCF analysis		
Enterprise Value		
ExGen Debt	$8,969	
Equity	$13,460	$14.49 (PV / sh) X 929M shares outstanding
Total EV	$22,429	
EBITDA - 2016E	$3,260	Includes Other Income
EV/EBITDA (X)	**6.9**	Compares with Regulated Utility 2016 median of ~9X

EV/EBITDA implied by current equity valuation		
Utility / Parent Value		
EPS - 2018E	$1.58	
Median 2018 Regulated P/E (X)	16.3	
Utility / Parent Valuation / Sh	$25.81	Median peer group P/E for 2018 X 18E EPS of $1.58
Implied Utility / Parent Equity Value	$23,981	
Total Market Capitalization	$31,447	
Implied ExGen Equity Value	$7,466	Market cap less implied Utility / Parent Value
ExGen Debt	$8,969	
Total ExGen Implied EV	$16,435	
EBITDA - 2016E	$3,260	
Implied EV/EBITDA (X)	**5.0**	Multiple implied by EXC's current valuation

EXC Present Value Analysis		**Notes**
Utility / Parent PV	$25.81	
ExGen	$14.49	
Total PV	$40.30	
EXC Share Price	**$33.85**	Holding all other variables constant, the current valuation
% Discount	*16%*	reflects no ExGen unlevered FCF after 2030.

Source: Wells Fargo Securities, LLC estimates and Company Filings

While we believe our DCF analysis is predicated on reasonable assumptions, 2040 is a long way away and much can happen between now and then that could have both positive and negative impacts on our end result. That being said, in our view, EXC's current valuation reflects an overly pessimistic outlook for ExGen. Some food for thought:

- **Power Price Sensitivity** - Holding all other variables constant, we believe EXC's current valuation would be supported by $1.4B of unlevered FCF during the period 2021-2040E. Isolating for power prices, we estimate that this would require lower realized power prices of ~$8/MWh.

  Of course, a $700MM decrease in unlevered FCF relative to our $2.1B base case could be accomplished by a combination of factors including lower power *and* capacity prices, higher capex needs and/or earlier than anticipated plant shut downs.

- **Nuclear Life Sensitivity** – Holding all other variables constant, we estimate that EXC's current valuation effectively reflects the retirement of the nuclear fleet at year-end 2030. While we have seen a number of earlier than expected nuclear unit retirements due to economic reasons, we are not convinced that we will see the mass extinction of PJM's nuclear fleet within the next 10-15 years given (1) likely major reliability issues in such an event and (2) lack of other baseload options (aside from gas-fired combined cycle plants).

PEG: Steady as She Goes

We continue to hold PEG in high esteem largely due to management's clear strategic vision and highly disciplined approach to the merchant generation business. We believe new unregulated generation projects are only undertaken after undergoing a robust vetting process with a keen eye toward achieving satisfactory risk-adjusted returns. Since 2010, PSEG Power's development activities have been limited to the Keys Energy Center, a 755 MW combined cycle facility, the 540 MW Sewaren repowering project and the small New Haven peaking generation project.

In our view, PEG's management does an excellent job of (1) executing on strategic objectives, (2) managing variables where the company has the ability to exercise some level of control (i.e., regulatory relationships, operations & maintenance (O&M) costs, capital allocation decisions) and (3) de-risking the impact to shareholders of variables over which the company has little to no control (commodity price sensitivity). We also believe the company is not beholden to the integrated structure (utility + merchant generator) and is open to other structures if it is deemed to be in the best long-term interest of shareholders. Please refer to Figure 3 for pros and cons to our positive thesis.

Figure 3: PEG – Our Pros & Cons

PEG Outperform Thesis: Pros & Cons	
Features	**Considerations**
Best-in-class regulated utility (PSE&G) → Accounts for 60%+ of annual EPS → Strong annual EPS growth potential of 8%+ → Rider/tracker recovery for majority of growth capex → Constructive NJ & FERC regulatory environments	PSEG Power EPS volatility masks PSE&G EPS growth → Our 2016-20E consolidated EPS CAGR is 4%
Shareholder friendly management team	
Attractive 3.6% dividend yield & 5-6% annual growth	
Diversified & attractively located generation fleet	Potential new transmission could hurt generation margins Planned pipeline capacity expected to impact margins by '18 Nuclear related risks - unplanned outages / compliance costs
Strong financial profile → Estimated FFO/Debt of 23-25% ('17-20) → Debt-to-EBITDA of 3.0-3.5X ('17-20) → Use of PSEG FCF to fund PSE&G investment	
Implied PSEG Power EV/EBITDA multiple of ~3.5X → Valuation arguably reflects pessimistic outlook → Our DCF analysis indicates ~5X multiple appropriate	

Source: Wells Fargo Securities, LLC estimates and Company Filings

Valuation

Our $51-52/share valuation range is based on a sum-of-the-parts analysis:

- **PSE&G & Other (PSEG Enterprise/Other)** – we value PSE&G & Other at $40-41/share under a P/E multiple analysis. We apply a 7.5% premium to the Regulated Electric group's median 2017 P/E multiple of 17.0x to our 2018 EPS estimate of $2.21. We apply the group's 2017 multiple to our 2018 EPS estimate due to the forward looking nature of our valuation range. On a present value (PV) basis, we value PSE&G & Other at $39/share by applying a 7.5% premium to the 2018 peer group median multiple of 16.3x to our 2018 EPS estimate.

- **PSEG Power** – we value PSEG Power at $11/share on a forward basis and at $10/share on a PV basis. Our analysis is based on DCF analysis. Key assumptions:

  - $1.8B of unlevered free cash flow (FCF) during the period 2016-20E, which is based on our estimates and reflects growth investment related to the Keys Energy Center and Sewaren.

  - Annual average unlevered FCF of $0.8B during the period 2021-2030. Post-2030, we only assume cash flow contributions from PSEG Power's nuclear fleet and newer combined cycle facilities (Bethlehem, Keys and Sewaren). We assume the nuclear units plus combined cycle facilities account for ~$550MM of annual unlevered FCF and that this contribution gradually phases down in conjunction with the estimated lives of the facilities – the licenses for PSEG Power's nuclear units expire during the period 2033-2046.

  - Flat post-2020 around-the-clock (ATC) power prices of $36/MWh. This compares with current 2020 forward PJM East and PJM West ATC prices of $36/MWh and $33/MWh, respectively. In addition, we add an incremental $2-3/MWh margin to the ATC price.

  - Average capacity prices of $200/MW-Day, which compares with 2018/19 capacity prices of $200+/MW-Day for PSEG Power's PJM fleet.

  - Annual maintenance capex of ~$250-300MM, which is consistent with PSEG Power's base capex guidance during the period 2016-2018. We assume the base capex declines to ~$150MM annually post-2030, which is consistent with our assumption that PSEG Power's coal/oil/combustion turbine fleet is fully retired at year-end 2030.

  - A discount rate of ~6.5% based on a calculated weighted average cost of capital (WACC). We assume 60%/40% equity/debt financing, a 9% cost of equity and a 4.5% pre-tax cost of debt. We also assume PSEG Power debt of $2.2B.

  Our DCF analysis suggests that PSEG Power should trade at an EV/EBITDA multiple of ~5x versus the current market price implied EV/EBITDA of ~3.5x. Please refer to Figure 4 for the assumptions underlying our EV/EBITDA analysis along with key assumptions underlying our DCF and our PV share price analysis.

Figure 4: PEG Shares Remain Attractive Under Our Valuation Analysis

PSEG Power EV/EBITDA Analysis		**Notes**
PSEG Power: DCF Present Value / Sh	**$10.02**	DCF analysis assumptions: (1) Unlevered FCF of $1.8B during 2016-20 (2) Annual unlevered FCF of $0.8B annually 2021-2030 (3) Post-2030, unlevered FCF phases out with estimated end of lives for nuclear units and new combined cycle units (4) Discount Rate of ~6.5% (WACC)

EV/EBITDA of PSEG Power based on our DCF analysis		
Enterprise Value		
PSEG Power Debt	$2,237	
Equity	$5,081	$10.02 (PV / sh) X 507M shares outstanding
Total EV	$7,318	
EBITDA - 2016E	$1,394	Includes Other Income
EV/EBITDA (X)	**5.2**	Compares with Regulated Utility 2016 median of ~9X

EV/EBITDA implied by current equity valuation		
PSE&G & Other (PSEG Enterprise/Other) PV		
EPS - 2018E	$2.21	
Median 2018 Regulated P/E (X)	16.3	
PSE&G & Other Valuation / Sh	$38.72	7.5% premium to peer P/E for 2018 X 18E EPS of $2.21
Implied PSE&G / Other Equity Value	$19,629	
Total Market Capitalization	$22,475	
Implied PSEG Power Equity Value	$2,847	Market cap less implied PSE&G & Enterprise / Other Value
PSEG Power Debt	$2,237	
Total PSEG Power Implied EV	$5,084	
EBITDA - 2016E	$1,394	
Implied EV/EBITDA (X)	**3.6**	Multiple implied by PEG's current valuation

PEG Present Value Analysis		**Notes**
PSE&G & PSEG Enterprise / Other PV	$38.72	
PSEG Power	$10.02	
Total PV	$48.74	
PEG Share Price	**$44.33**	Holding all other variables constant, the current valuation
% Discount	*9%*	reflects no PSEG Power unlevered FCF after 2030.

Source: Wells Fargo Securities, LLC estimates and Company Filings

Rating Basis Information:

EXC Thesis: Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

PEG Thesis: We believe the current valuation offers investors a compelling risk/reward proposition. Features include a premier utility growth story, a well-positioned and diverse unregulated generation asset mix and a strong financial position, in our opinion.

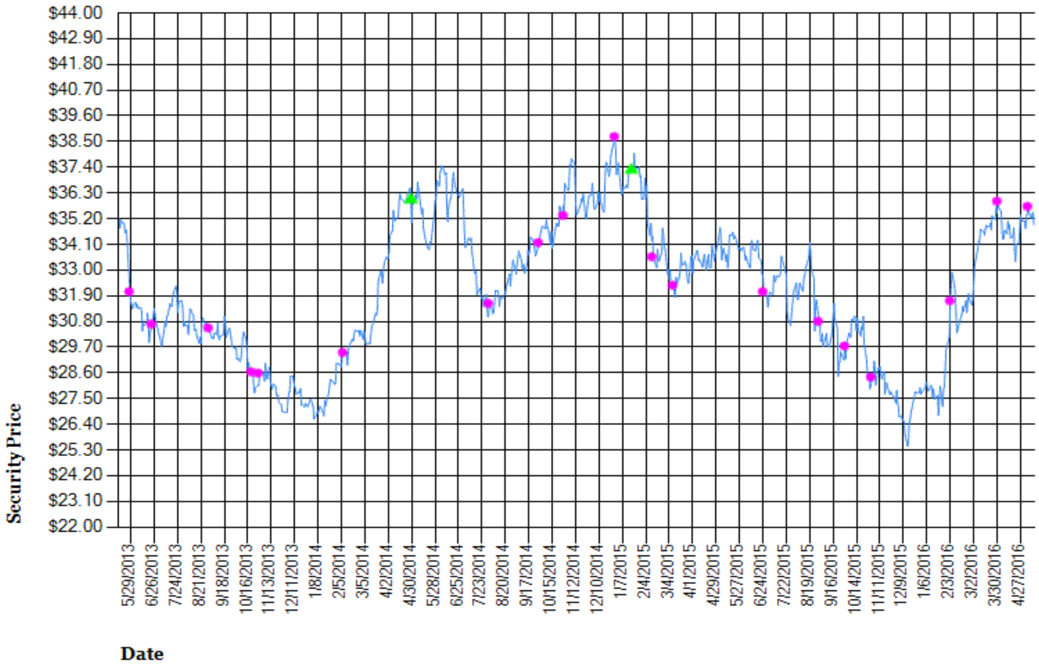
Valuation Range Information:

EXC Basis and Risks: Our $42-43/sh valuation range is premised on a sum-of-the-parts analysis (1) Utility & Parent value of $27/sh (based on a P/E multiple of ~17.0X our 2018E of $1.58) and (2) $16/sh for ExGen using a DCF analysis. Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

PEG Basis and Risks: Our valuation range is based on a sum-of-the-parts (we value PSE&G, Enterprise, & Other at $40-41/sh and Power at $11/sh) and residual income analysis. Risks to our valuation include earnings sensitivity to commodity prices, operational risks and unfavorable regulatory/political developments.

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	5/14/2013		Kalton			
	5/14/2013	NA	3	32.00	33.00	35.00
●	5/28/2013	34.65	3	29.00	30.00	32.04
●	6/24/2013	30.30	3	26.00	27.00	30.62
●	8/30/2013	30.49	3	25.00	26.00	30.49
●	10/21/2013	28.58	3	23.00	24.00	28.58
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61
●	3/31/2016	35.86	1	39.00	41.00	35.86
●	5/6/2016	35.68	1	39.00	40.00	35.68

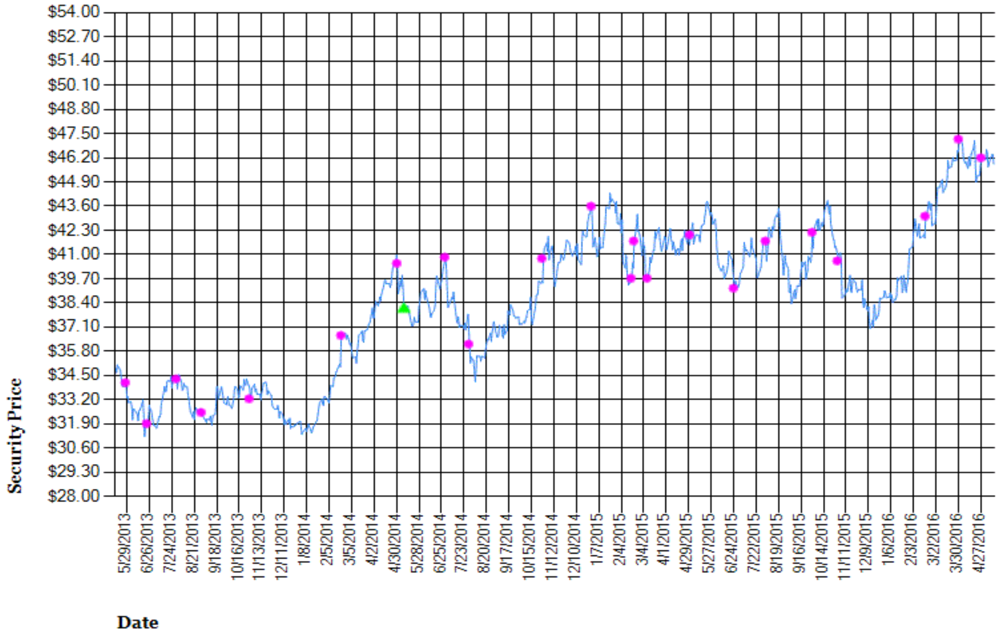
Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
☐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Public Service Enterprise Group Incorporated (PEG) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	5/14/2013		Kalton			
	5/14/2013	NA	2	37.00	38.00	34.75
●	5/28/2013	33.89	2	35.00	36.00	34.02
●	6/24/2013	31.67	2	32.00	33.00	31.85
●	7/30/2013	34.24	2	34.00	35.00	34.24
●	8/30/2013	32.41	2	32.00	33.00	32.42
●	10/30/2013	33.18	2	34.00	35.00	33.18
●	2/21/2014	36.58	2	38.00	39.00	36.58
●	5/1/2014	40.46	2	43.00	44.00	40.46
▲ ●	5/12/2014	38.37	1	44.00	45.00	38.06
●	6/30/2014	40.74	1	45.00	46.00	40.79
●	7/30/2014	36.11	1	42.00	44.00	36.09
●	10/30/2014	40.73	1	46.00	47.00	40.73
●	12/29/2014	43.16	1	48.00	50.00	43.53
●	2/17/2015	39.36	1	45.00	46.00	39.65
●	2/20/2015	41.63	1	46.00	47.00	41.63
●	3/9/2015	39.63	1	44.00	45.00	39.63
●	5/1/2015	41.96	1	46.00	47.00	41.96
●	6/25/2015	39.41	1	42.00	43.00	39.14
●	8/3/2015	41.67	1	46.00	47.00	41.63
●	9/30/2015	41.55	1	44.00	45.00	42.16
●	11/2/2015	41.29	1	45.00	46.00	40.62
●	2/19/2016	42.97	1	49.00	51.00	42.97
●	3/31/2016	47.14	1	52.00	54.00	47.14
●	4/29/2016	45.62	1	51.00	52.00	46.13

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	☐	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: May 18, 2016

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: DUK, PPL, EXC, AEP, FE, ED, NEE

May 19, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

DUK – NC DEQ proposes intermediate risk for remaining coal ash basins, requests more time
PPL – New Brexit poll shows majority want to stay
EXC – Delmarva files for rate increases in Delaware; 11% electric and 13% gas increase
AEP/FE/EXC – PJM finds proposed $341mm transmission project offers most cost savings
ED – Distributed resources advancing toward wholesale market participation in NY
NEE/ED – New study estimates $8bn of secondary costs for Mountain Valley
NEE – Hunt withdraws request for TX PUC re-consideration of Oncor acquisition
EXC – IL lawmakers considering surcharge to support nuclear today

DUK – NC DEQ proposes intermediate risk for remaining coal ash basins, requests more time

- The North Carolina Department of Environmental Quality (NCDEQ) proposed "intermediate" risk rankings for remaining coal ash basins.
- Acknowledging their work was not complete, the NCDEQ also requested the Coal Ash Management Act (CAMA) be modified to allow its risk classifications to be re-considered.
- DUK is evaluating its options, but will seek to clarify CAMA within 60 days.

Guggenheim takeaway: *The NCDEQ released their proposed rankings yesterday to comply with their deadline, but acknowledges repairs are currently being made to some of the underlying basins, and requested the state general assembly modify CAMA so the risk classifications can be re-considered; creating an opportunity for DUK to potentially lower risk classifications, in our view. Without modifications to CAMA, the proposed risk rankings would be considered final, implying the state would have chosen a more expensive option; DUK notes the basins are operating safely and the additional scope of work would not have measurable environmental benefits. DUK's previous ~$4bn cost estimate was based on weighted average probabilities of risk classifications, and the additional work entailed with incremental intermediate rankings could increase that cost estimate to upwards of $10bn, or toward the high-end of DUK's previous $2-10bn range. In light of the additional cost and the short window of time for the general assembly to act, we would expect CAMA will be modified to allow more time for final recommendations; we would also expect an update on the earlier-end of the 60-day timeframe offered by DUK. We recently hosted investor meetings with DUK management, for additional takeaways see our note HERE.*

PPL – New Brexit poll shows majority want to stay

- A new poll conducted by Ipsos Mori shows 55% of respondents intend to vote to stay in the European Union, an 18-point lead over respondents intending to vote to leave.

Guggenheim takeaway: *Stay vote would be a positive for PPL, and it looks like the British are leaning incrementally more toward staying. Management believes the UK will ultimately vote to stay, and we agree based on simple logic: younger demographics lean toward exit while older lean to stay, and the latter generally has better attendance. PPL is managing the uncertainty by opportunistically positioning hedges to capture upside, which we believe is more suffice than over-reacting to potential downside. We believe UK's unique rate design also offsets risk as rates would adjust for the accompanying inflation. PPL will likely revisit hedges and update investors after the referendum. We recently hosted investor meetings with senior management where this was a key area of interest, for additional takeaways and our thoughts on valuing the UK segment, see our note HERE.*

EXC – Delmarva files for rate increases in Delaware; 11% electric and 13% gas increase

- Delmarva Power & Light filed for a $63mm electric rate increase (11%) and a $22mm gas rate increase (13%).
- The rate increase is premised upon a 10.6% ROE and 49.4% equity on a $846mm electric rate base and a $362mm gas rate base.

Guggenheim takeaway: *EXC will be seeking rate increases at recently-acquired Pepco utilities in order to achieve its targeted accretion. Management expects 7-9% regulated growth but we could see the top end achieved given better-than-expected opportunities at Pepco utilities – over 200-300bps of lag. As we have seen with EXC's past performance including cost reduction and attaining higher earned ROEs at BG&E, we expect improved earnings with POM – EXC has managed its legacy utilities well, so we believe material reduction in POM regulatory lag is a reality in time. We model rate cases at each utility with procedural cycles ranging between 9-12 months. Accretion steps up in 2017 – we continue to estimate $0.04, $0.11, and $0.12 for '16/'17/'18 – this will likely be upsized following the Analyst day. Outside of annual rate case filings, we expect POM to reduce regulatory drag through cost reductions (~40% is recovered by EXC), which should help improve consolidated earned ROE by ~1% starting in 2017, in our view. We model a weighted average ROE between distribution, transmission, and gas delivery for '16/'17/'18 of 5.7%, 6.0% and 7.0%, respectively. See our prior pro-forma analysis HERE.*

AEP/FE/EXC – PJM finds proposed $341mm transmission project offers most cost savings

- PJM staff made their final recommendation for a proposed $341mm transmission project to relieve congestion along the MD/PA border.
- The project would be developed by AEP, EXC, and FE.
- Staff found the proposed project provides the most savings in terms of production costs and PJM congestion.
- The PJM board will consider the project this summer.

Guggenheim takeaway: *Positive for would-be developers AEP, EXC, and FE; we continue to highlight examples of AEP's robust transmission development pipeline.*

ED – Distributed resources advancing toward wholesale market participation in NY

- FERC approved tariff revisions set to become effective later this year supporting participation from distributed resources in New York's wholesale power market.
- NYISO proposed tariff revisions earlier this year to allow customers with excess on-site generation to bid into their wholesale markets.

Guggenheim takeaway: *Efforts intended to remove obstacles or advance opportunities for distributed resources continue to gain momentum in NY, driven by the state's REV initiative. We don't see REV as a near-term concern. ED's revenue is decoupled from sales volume, so sales erosion from customer-sited resources isn't a near-term concern; long-term pressure on ratebase growth is limited because CapEx is largely driven by replacement or reliability (rather than capacity need). That said, an IPP in NY would not avoid the impact of lower volume and lower prices. We recently hosted investor meetings with senior management for ED, for additional takeaways see our note HERE.*

DUK – NY AG calls for FERC sanctions against Constitution developers related to permitting

- The New York Attorney General alleges Constitution pipeline developers carried out construction activities without proper permitting.
- The AG requests FERC sanction developers for activity such as clearing trees without necessary permits.

Guggenheim takeaway: *DUK's interest in the pipeline is through its pending acquisition of PNY (NC, $59.77). The pipeline was approved by federal regulators but met opposition from "fracktivists" in NY and was ultimately blocked. NOTE: Investors shouldn't look at the issues of this pipe and try and draw any correlations with other projects like PennEast or Access Northeast. This issue is very NY specific.*

NEE/ED – New study estimates $8bn of secondary costs for Mountain Valley

- Local media highlighted a study that estimates secondary costs of the Mountain Valley Pipeline (MVP) to be at least $8bn.
- The study defines secondary costs as those incurred by local residents, businesses, and governments; including lost property value, tourism, and timber production, amongst other things.
- The study was commissioned by a group called "Protect our Water, Heritage, Rights," which opposes the pipeline.

Guggenheim takeaway: *Developers estimate the pipeline will cost ~$3.5bn. Another study by the INGAA had contrary findings, concluding there is no measurable impact on the sales price of properties located along or in proximity to a natural gas pipeline. We wouldn't expect indirect costs such as these to be considered by FERC; project moving right along. Construction is expected to begin in late 2016, with in-service targeted for 4Q18; MVP contributes $0.08 of EPS to our 2018 NEE estimates, and $0.06 to our 2018 ED estimates.*

NEE – Hunt withdraws request for TX PUC re-consideration of Oncor acquisition

- The Hunt-led investor consortium looking to acquire Oncor electric withdrew their request for the Texas PUC to re-consider approval, and to dismiss the proceeding.
- If the investor group can salvage plans to acquire Oncor, Hunt indicated they would file a new request for approval.

- The TX PUC approved the Hunt-led investor consortium's proposed acquisition of Oncor in March, which entailed converting the utility into a REIT, however the commission postponed decisions around sharing of transaction cost savings.

Guggenheim takeaway: *While NEE has not come out and made a public comment that they are re-interested in the Oncor assets, it has been reported by Bloomberg. We think these assets are a great strategic fit for NEE; despite a potential equity raise, the transaction should be noticeably accretive – this should not present an overhang on NEE shares.*

EXC – IL lawmakers considering surcharge to support nuclear today

- IL lawmakers are considering a bill today that would allow EXC to implement a surcharge on customer bills to support nuclear plants in the state.

Guggenheim takeaway: *Ultimately, we should see some form of legislation and the clock is ticking. The state cannot afford to lose over ~3GW of clean energy capacity – not only from a reliability standpoint but also from an environmental policy standpoint. See our last thoughts on EXC nuclear rationalization* HERE*.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
2. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
3. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
4. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
5. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
6. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
7. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
8. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
9. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
10. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
11. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
12. GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing
13. EEI Full Recap
14. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
15. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
16. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
17. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
18. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
19. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
20. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables
21. EPA Clean Power Plan: Much Ado About Everything

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
05/19	ES	Northern Pass review		NH	2015-06	NH SEC hearing on Northern Pass review schedule
05/24		PJM capacity auction				2019/2020 Base Residual Auction results posted
06/02	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	EIX to file summary of settlement and implementation status
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/23	PPL	BREXIT referendum	WPD	UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other upcoming events and proceedings

May	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
May	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
May	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
GXP	6/21-6/23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
WR	7/6-7/8	TX, Midwest	Tony Somma, CFO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-10/5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 05/18/2016)

As of 5/18/2016								Guggenheim Estimates														Consensus Estimates													
		Mkt. Cap	Rating	Target	Current	Price	Diluted	Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	Company	($Bn)		Price[1]	Price	Change	Shares	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	31.1	Buy	$68	$63.30	7%	491	3.63	3.87	4.17	7%	17.4	16.4	15.2	5,512	5,849	6,246	6%	9.5	9.1	8.7	3.67	3.85	4.09	6%	17.2	16.4	15.5	5,663	5,503	5,339	(3%)	9.2	9.7	10.2
ED	Consolidated Edison, Inc.	21.5	Neutral	$70	$71.14	-2%	303	3.99	4.15	4.31	4%	17.8	17.1	16.5	3,867	4,058	4,226	5%	9.4	9.2	9.0	4.00	4.16	4.32	4%	17.8	17.1	16.5	3,676	3,880	4,096	6%	9.9	9.6	9.3
D	Dominion Resources, Inc.	42.9	Buy	$78	$69.61	12%	616	3.85	3.92	4.40	7%	18.1	17.8	15.8	6,255	6,470	7,054	6%	11.6	11.2	10.4	3.79	3.91	4.36	7%	18.4	17.8	16.0	5,841	6,072	6,724	7%	12.4	12.0	10.9
DTE	DTE Energy Company	15.7	Buy	$97	$87.72	11%	179	5.03	5.27	5.66	6%	17.4	16.6	15.5	2,628	2,728	2,925	5%	9.1	9.0	8.5	4.95	5.25	5.62	7%	17.7	16.7	15.6	2,541	2,704	2,846	6%	9.4	9.1	8.8
DUK	Duke Energy Corporation	52.7	Buy	$86	$76.57	12%	689	4.55	4.61	4.79	3%	16.8	16.6	16.0	9,033	8,878	9,383	2%	11.0	11.4	11.0	4.58	4.76	5.01	5%	16.7	16.1	15.3	9,310	####	10,245	5%	10.7	10.1	10.0
EIX	Edison International	22.5	Neutral	$70	$68.99	1%	326	3.85	4.15	4.33	6%	17.9	16.6	15.9	5,011	5,372	5,690	7%	7.3	7.0	6.7	3.89	4.13	4.33	5%	17.7	16.7	15.9	4,441	4,695	4,935	5%	8.2	8.0	7.8
ES	Eversource Energy	17.4	Buy	$59	$54.79	8%	317	2.95	3.19	3.43	8%	18.6	17.2	16.0	2,607	2,569	2,625	0%	10.8	11.3	11.4	2.98	3.19	3.38	6%	18.4	17.2	16.2	2,601	2,794	2,871	5%	10.8	10.4	10.4
GXP	Great Plains Energy	4.7	Buy	$35	$30.56	15%	155	1.74	1.88	1.97	6%	17.6	16.3	15.5	860	908	929	4%	10.3	9.6	9.1	1.74	1.82	1.92	5%	17.6	16.8	15.9	967	1,002	NA	NA	9.1	8.7	NA
NEE	NextEra Energy, Inc.	54.5	Buy	$129	$118.02	9%	461	6.35	6.60	7.04	5%	18.6	17.9	16.8	7,019	7,458	7,796	5%	12.4	12.0	11.8	6.18	6.56	7.01	7%	19.1	18.0	16.8	7,960	8,567	9,540	9%	11.0	10.5	9.7
PCG	PG&E Corporation	28.3	Neutral	$59	$57.01	3%	496	3.67	3.70	3.89	3%	15.5	15.4	14.7	6,500	6,739	7,134	5%	7.1	7.1	6.8	3.71	3.67	3.85	2%	15.3	15.5	14.8	6,169	6,511	6,904	6%	7.5	7.3	7.1
PNW	Pinnacle West Capital	7.9	Neutral	$79	$70.75	12%	111	3.91	4.19	4.43	6%	18.1	16.9	16.0	1,407	1,512	1,608	7%	8.6	8.3	8.0	3.99	4.20	4.39	5%	17.7	16.8	16.1	1,390	1,470	1,555	6%	8.7	8.5	8.2
PPL	PPL Corporation	25.4	Buy	$41	$37.48	9%	677	2.36	2.46	2.60	5%	15.9	15.2	14.4	4,012	4,219	4,461	5%	11.5	11.2	10.8	2.35	2.44	2.51	3%	16.0	15.3	14.9	4,025	4,210	4,450	5%	11.5	11.2	10.9
SO	Southern Company	45.1	Neutral	$47	$48.04	-2%	939	2.91	2.93	3.06	3%	16.5	16.4	15.7	7,011	7,202	7,505	3%	11.3	11.2	11.1	2.85	2.97	3.08	4%	16.8	16.2	15.6	7,177	7,957	8,227	7%	11.1	10.1	10.1
WR	Westar Energy, Inc.	7.3	Buy	$57	$51.33	11%	142	2.46	2.53	2.63	3%	20.9	20.3	19.5	1,059	1,100	1,145	4%	10.8	10.6	10.2	2.43	2.54	2.62	4%	21.1	20.2	19.6	1,026	1,107	NA	NA	11.2	10.5	NA
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.50	2%	236	1.18	1.28	1.33	6%	23.3	21.5	20.7	985	1,033	1,067	4%	10.7	10.1	9.7	1.18	1.28	1.36	7%	23.2	21.4	20.2	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.0	Buy	$32	$27.70	16%	71	1.34	1.26	1.69	12%	20.7	22.0	16.4	253	249	271	3%	NA	NA	NA	1.37	1.44	1.66	10%	20.2	19.2	16.7	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**17.9**	**17.2**	**16.0**				**5%**	**10.1**	**9.9**	**9.5**				**5%**	**17.9**	**17.1**	**16.1**				**5%**	**10.0**	**9.7**	**9.4**
Integrated utilities																																			
ETR	Entergy Corporation	13.1	Neutral	$75	$73.37	2%	179	5.36	5.16	5.17	-2%	13.7	14.2	14.2	3,730	3,712	3,825	1%	8.0	8.3	8.3	5.12	5.30	5.19	1%	14.3	13.8	14.1	3,345	3,517	3,491	2%	8.9	8.7	9.1
EXC	Exelon Corporation	31.2	Buy	$38	$33.85	12%	922	2.53	2.65	2.86	6%	13.4	12.8	11.8	7,686	7,971	8,452	5%	8.1	7.9	7.4	2.53	2.64	2.79	5%	13.4	12.8	12.1	7,371	7,763	9,163	11%	8.4	8.1	6.9
FE	FirstEnergy Corp.	13.7	Buy	$43	$32.15	34%	425	2.87	2.83	2.89	0%	11.2	11.4	11.1	4,322	4,450	4,510	2%	8.3	8.1	8.0	2.69	2.53	2.56	(2%)	12.0	12.7	12.6	4,422	4,463	4,537	1%	8.1	8.0	7.9
PEG	Public Service Enterprise Grou	22.4	Buy	$50	$44.33	13%	506	2.92	2.95	3.02	2%	15.2	15.0	14.7	4,097	4,293	4,501	5%	8.2	8.2	8.0	2.88	2.89	2.97	2%	15.4	15.3	14.9	3,991	4,170	4,357	4%	8.4	8.5	8.3
Average											**2%**	**13.4**	**13.3**	**13.0**				**3%**	**8.1**	**8.1**	**7.9**				**1%**	**13.8**	**13.7**	**13.4**				**5%**	**8.5**	**8.3**	**8.0**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.2	Buy	$20	$14.42	39%	359	0.42	0.87	0.60	20%	34.7	16.5	24.0	1,881	2,144	2,076	5%	8.8	7.6	7.8	0.55	0.93	1.29	53%	26.1	15.5	11.2	1,882	2,017	2,132	6%	8.8	8.1	7.5
DYN	Dynegy Inc.	2.1	Buy	$21	$18.29	15%	117	(1.69)	(1.33)	(0.60)	NA	-10.8	-13.7	-30.5	1,006	1,287	1,490	22%	8.6	7.0	5.8	(0.48)	(0.32)	0.83	NA	-38.0	-56.3	22.0	1,095	1,127	1,338	11%	7.9	8.0	6.5
NRG	NRG Energy, Inc.	4.8	Buy	$16	$15.31	5%	315	0.75	(0.51)	(0.03)	NA	20.5	-30.2	-488.8	3,104	2,808	2,941	(3%)	6.7	7.2	6.6	1.01	0.26	0.97	(2%)	15.1	58.6	15.8	3,103	2,759	2,960	(2%)	6.8	7.4	6.5
TLN	Talen Energy Corp	1.6	Neutral	$7	$12.33	-43%	129	0.41	0.63	0.38	-4%	30.2	19.5	32.7	756	788	733	(1%)	6.8	6.4	6.8	0.98	0.39	0.19	(56%)	12.6	31.2	64	763	755	698	(4%)	6.7	6.7	7.1
Average											**8%**	**18.6**	**-2.0**	**-115.6**				**6%**	**7.7**	**7.1**	**6.7**				**(2%)**	**3.9**	**12.2**	**28**				**3%**	**7.5**	**7.5**	**6.9**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$14.96	0%	183	0.92	1.21	1.31	19%	16.3	12.3	11.4	806	984	1,093	16%	7.8	6.6	7.0	0.96	0.94	0.97	0%	15.6	15.9	15.4	821	903	1,010	11%	7.7	7.2	7.6
AWK	American Water Works	12.9	Buy	$79	$72.65	9%	178	2.85	3.05	3.26	7%	25.5	23.8	22.3	1,648	1,753	1,863	6%	11.9	11.4	10.9	2.82	3.04	3.26	7%	25.7	23.9	22.3	1,614	1,711	1,806	6%	12.2	11.7	11.3

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	Company	Rating	Price	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Regulated utilities												
AEP	American Electric Power	Buy	$63.30	2.26	2.37	2.48	3.6%	3.7%	3.9%	62%	61%	61%
ED	Consolidated Edison, Inc.	Neutral	$71.14	2.66	2.73	2.79	3.7%	3.8%	3.9%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$69.61	2.79	2.99	3.20	4.0%	4.3%	4.6%	74%	76%	74%
DTE	DTE Energy Company	Buy	$87.72	3.00	3.15	3.30	3.4%	3.6%	3.8%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$76.57	3.40	3.54	3.71	4.4%	4.6%	4.8%	74%	74%	74%
EIX	Edison International	Neutral	$68.99	1.92	2.15	2.35	2.8%	3.1%	3.4%	49%	52%	54%
ES	Eversource Energy	Buy	$54.79	1.79	1.90	2.02	3.3%	3.5%	3.7%	60%	60%	60%
GXP	Great Plains Energy	Buy	$30.56	1.08	1.15	1.24	3.5%	3.8%	4.1%	62%	63%	65%
NEE	NextEra Energy, Inc.	Buy	$118.02	3.43	3.86	4.40	2.9%	3.3%	3.7%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$57.01	1.92	2.03	2.20	3.4%	3.6%	3.9%	52%	55%	57%
PNW	Pinnacle West Capital	Neutral	$70.75	2.54	2.67	2.80	3.6%	3.8%	4.0%	64%	64%	64%
PPL	PPL Corporation	Buy	$37.48	1.52	1.56	1.60	4.1%	4.2%	4.3%	65%	64%	64%
SO	Southern Company	Neutral	$48.04	2.22	2.30	2.38	4.6%	4.8%	5.0%	78%	77%	77%
WR	Westar Energy, Inc.	Buy	$51.33	1.52	1.60	1.69	3.0%	3.1%	3.3%	62%	63%	65%
TE	TECO Energy, Inc.	Neutral	$27.50	0.93	0.95	0.97	3.4%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$27.70	1.09	1.12	NA	3.9%	4.1%	NA	79%	78%	NA
Average							**3.6%**	**3.8%**	**4.0%**	**65%**	**65%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$73.37	3.43	3.52	3.60	4.7%	4.8%	4.9%	67%	66%	69%
EXC	Exelon Corporation	Buy	$33.85	1.26	1.29	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$32.15	1.44	1.45	1.44	4.5%	4.5%	4.5%	54%	57%	56%
PEG	Public Service Enterprise Group	Buy	$44.33	1.64	1.72	1.81	3.7%	3.9%	4.1%	57%	59%	61%
Average							**4.1%**	**4.3%**	**4.3%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.42	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$18.29	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$15.31	0.19	0.14	0.14	1.3%	0.9%	0.9%	19%	NA	14%
TLN	Talen Energy Corp	Neutral	$12.33	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$14.96	0.96	1.10	1.26	6.4%	7.4%	8.4%	99%	117%	129%
AWK	American Water Works	Buy	$72.65	1.48	1.62	1.77	2.0%	2.2%	2.4%	52%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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Neutral	102	39.84%	3	2.94%
Sell	0	0.00%	0	0.00%

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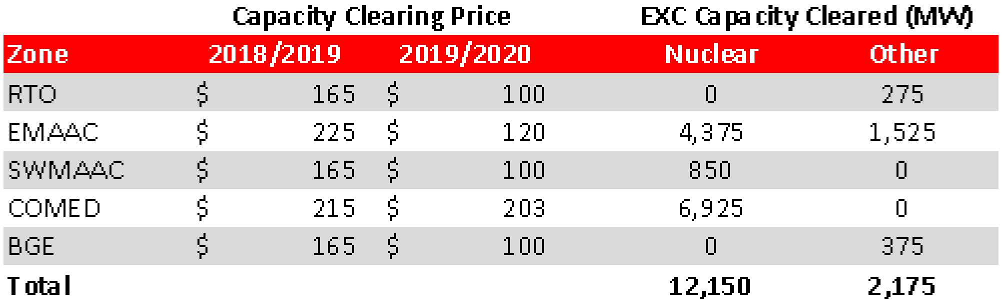
Exelon Corporation $33.99 (SP): Announces PJM Capacity Auction Results ***/ Jon Donnel (713) 393-4503 jonathand@howardweil.com***

Quick Take: The Company announced that its Quad Cities and Three Mile Island nuclear plants did not clear the PJM capacity auction for the delivery year 2019/2020, increasing the need for supportive legislation in Illinois to ensure that the Quad Cities and Clinton units can remain in operation. EXC continues to rally support for its preferred bill, but doubt remains it will be passed by the Company's deadline of the end of this month. Lower capacity clearing prices throughout the RTO relative to the prior auction is a negative for the stock, all else equal, but we believe EXC would benefit from either the passage of supportive legislation or the retirement of these nuclear units that have lost about $800 million over the past seven years. We believe the stock is fairly valued at current levels and **maintain our Sector Perform rating.**

PJM Auction Results: The PJM RTO announced clearing prices for its capacity auction for delivery year 2019/2020. Clearing prices decreased relative to results for the 2018/2019 auction across the entire RTO. EXC has indicated its Quad Cities and Three Mile Island nuclear units did not clear the current auction and therefore will not receive capacity revenues for the 2019/2020 delivery year. The Company had indicated on its recent conference call that Quad Cities and Clinton (that operates in the MISO RTO) would require incremental support from either the current auction or new legislation in order to remain in service. Please see our Takeaway Note dated May 9, 2016 for more details.



	Capacity Clearing Price		EXC Capacity Cleared (MW)	
Zone	**2018/2019**	**2019/2020**	**Nuclear**	**Other**
RTO	$ 165	$ 100	0	275
EMAAC	$ 225	$ 120	4,375	1,525
SWMAAC	$ 165	$ 100	850	0
COMED	$ 215	$ 203	6,925	0
BGE	$ 165	$ 100	0	375
Total			**12,150**	**2,175**

Source: PJM, SNL Financial, Company Filings

FY16 CAPEX and Production Analysis ***(Click link to see expanded Snapshot)***

Quick Take: The link above is a daily snapshot of our E&P coverage universe's CAPEX and production outlook for 2016. Within the link, we update our quarterly and annual production and CAPEX estimates for 1Q16 earnings reports, as well as new company-stated guidance, and compare with previous SHW estimates to show estimate trends.

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Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.99 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

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The primary analyst covering this company does not own its stock.

Research as of 24 May 2016
Estimates as of 13 Apr 2016
Pricing data through 24 May 2016
Rating updated as of 24 May 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Vital Statistics

Market Cap (USD Mil)	30,160
52-Week High (USD)	35.95
52-Week Low (USD)	25.09
52-Week Total Return %	2.4
YTD Total Return %	24.7
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.13

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*14.2*	*14.4*
EV/EBITDA	9.5	6.6	*9.7*	*9.6*
EV/EBIT	16.7	10.2	*15.6*	*15.5*
Free Cash Flow Yield %	-5.1	0.0	*-5.6*	*-4.0*
Dividend Yield %	3.3	4.3	*3.8*	*3.9*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

ComEd zone cleared at $202.77/MW-day for CP and $182.77/MW-day for base, slightly below the strong 2018-19 results. Base capacity cleared in the Eastern Mid-Atlantic Area Council, or EMAAC, LDC cleared at CP clearing at $119.77/MW-day for CP and $99.77/MW-day for base generation, but well below last year's $210/MW-day for base

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.99 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* 2016	2017	5-Year Proj. CAGR
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	5-Year Proj. Avg
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	5-Year Proj. Avg
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*14.2*	*14.4*
EV/EBITDA	9.5	6.6	*9.7*	*9.6*
EV/EBIT	16.7	10.2	*15.6*	*15.5*
Free Cash Flow Yield %	-5.1	0.0	*-5.6*	*-4.0*
Dividend Yield %	3.3	4.3	*3.8*	*3.9*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.99 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.99 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2013	2014	2015	*Forecast* *2016*	*Forecast* *2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Exelon Corp EXC (NYSE) | ★★

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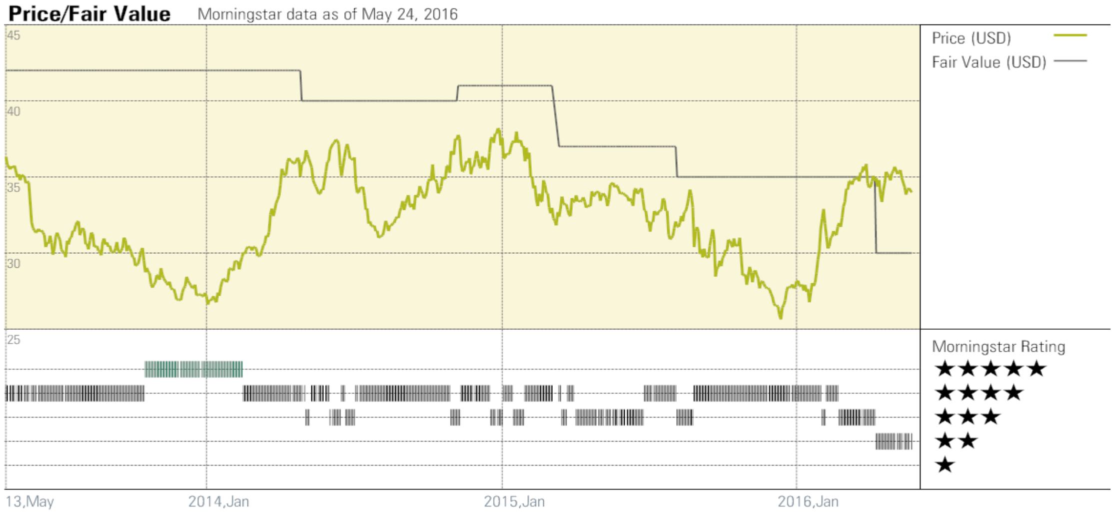

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	33.99 USD	30.00 USD	1.13	3.67	3.74	30.16	Utilities - Diversified	Standard
24 May 2016	24 May 2016			24 May 2016	24 May 2016	24 May 2016		

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.03	0.86	1.04	1.01
Price/Earnings	17.5	15.6	16.9	20.4
Forward P/E	13.1	—	15.6	13.9
Price/Cash Flow	4.0	5.1	5.8	11.3
Price/Free Cash Flow	—	74.7	11.1	17.1
Trailing Dividend Yield%	3.67	4.65	3.57	2.27

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

Investment Thesis

Travis Miller, Sector Director, 06 October 2015

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Andrew Bischof, CFA, Eq. Analyst, 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 24 May 2016	33.99 USD 24 May 2016	30.00 USD	1.13	3.67 24 May 2016	3.74 24 May 2016	30.16 24 May 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,767	9,896	27.70	14.62
FirstEnergy Corp FE	USD	13,629	14,998	16.50	19.92
Entergy Corp ETR	USD	13,241	11,203	-3.07	0.00

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50%

higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 24 March 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder

among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 29 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 02 March 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Exelon and Pepco Join to Sing a Duet: At Last

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40%

Travis Miller, Sector Director, 06 April 2016

We are cutting our midcycle assumptions for Brent oil, U.S. Henry Hub natural gas, and U.S. and European power prices. This will lead us to cut our fair value estimates 10%-40% for utilities with merchant power market exposure. We are maintaining our midcycle assumptions for coal, Eastern U.S. gas basis, and regional market heat rates.

Our new long-term marginal cost for U.S. natural gas is $3 per thousand cubic feet, down from $4/mcf. The cut is based on a more optimistic outlook for low-cost U.S. gas production primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica. We see more evidence that U.S. shale producers can survive at much lower prices than we previously assumed.

The midcycle gas price cut results in a similar cut to our midcycle U.S. power prices. Our benchmark PJM West around-the-clock midcycle price falls to $30.60 per megawatt hour from $43.35 when including our $0.60/mmBtu gas basis discount. The rest of our U.S. midcycle power prices fall 25%.

Power producers with large coal and nuclear fleets face the biggest fair value estimate cuts. These include Dynegy and NRG Energy. Diversified utilities with large coal and nuclear fleets such as Exelon and FirstEnergy could have

10%-20% fair value estimate cuts as we incorporate the new midcycle prices. Power producers with large gas generation fleets such as Calpine will experience smaller fair value estimate cuts because gas generation should benefit from lower costs and higher run times in our midcycle forecasts.

Our new Brent oil midcycle price is $60 per barrel, down from $70. The long-term structural issue facing crude markets is that the world needs some U.S. production growth, but not nearly as much as tight oil can supply. Our Brent oil price cut will lead us to cut our fair value estimate for Centrica.

We will be publishing updated reports and valuations on all companies within the next week.

Are Utilities Overheated or Are Their Yields too Good to Pass Up?

Travis Miller, Sector Director, 20 April 2016

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Exelon Threatens to Close Clinton, Quad Cities Nuclear Plants...Again

Travis Miller, Sector Director, 06 May 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after management used its strongest language to-date regarding the fate of the beleaguered Clinton and Quad Cities nuclear plants, both in Illinois. Management said it will close the plants by 2017-18 but also said the decision depends on several developments. These are the same contingencies management has used for several years to justify postponing the plant closures.

We continue to assume Exelon closes Clinton, Quad Cities, and two other nuclear plants by 2020. But we think management remains hesitant to pull the cord. The plants could survive if Illinois politicians pass what effectively is a nuclear bailout bill; Clinton clears the Mid-Continent Independent System Operator's 2017-18 capacity auction next spring; or Quad Cities clears the mid-Atlantic capacity auction later this month. Quad Cities cleared last year's 2017-18 transitional capacity auction at $151.50 per megawatt-day but did not clear the 2018-19 auction at $215/MW-day. We expect similar clears in this year's 2019-20 auction.

Exelon earned $0.68 per share on an adjusted basis and reaffirmed its $2.40-$2.70 per share 2016 guidance, in line with our estimates. It continues running its nuclear fleet at world-class levels, achieving a 95.8% capacity factor in the quarter and proving it can capture the full upside if energy prices rebound. Exelon also filed rate cases at two of its newly acquired Pepco utilities, which should boost earnings and returns on the pricey acquisition if the utilities receive constructive decisions.

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

Andrew Bischof, CFA, Eq. Analyst, 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

Andrew Bischof, CFA, Eq. Analyst, 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

Exelon Corp EXC ★★★Q

Last Close 24 May 2016	**Quantitative Fair Value Est** 24 May 2016	**Market Cap** 24 May 2016	**Sector**	**Industry**	**Country of Domicile**
33.99	33.04	30,159.8 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	88	84	84
Valuation	Fairly Valued	38	54	46
Quantitative Uncertainty	Medium	98	89	94
Financial Health	Moderate	57	51	57

Source: Morningstar Equity Research

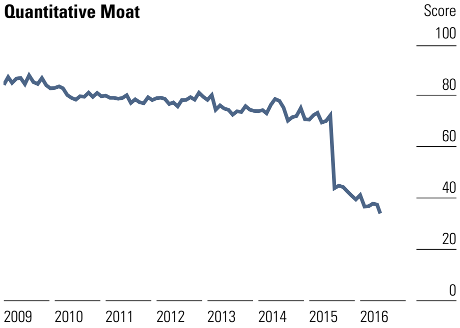
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.03	0.86	1.04	1.01
Price/Earnings	17.5	15.6	16.9	20.4
Forward P/E	13.1	—	15.6	13.9
Price/Cash Flow	4.0	5.1	5.8	11.3
Price/Free Cash Flow	—	74.7	11.1	17.1
Trailing Dividend Yield %	3.67	4.65	3.57	2.27
Price/Book	1.2	1.5	1.3	2.2
Price/Sales	1.1	1.2	1.3	1.8

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	7.2	9.7	9.1	11.8
Return on Assets %	1.8	2.6	3.1	4.7
Revenue/Employee (K)	947.2	958.0	1,220.8	298.5

Quantitative Moat



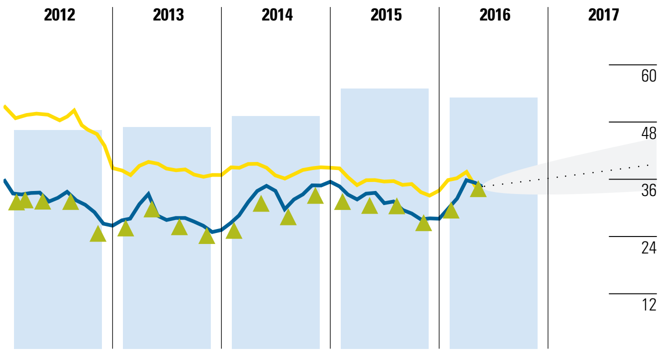
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.5
Solvency Score	—	—	628.8	581.9
Assets/Equity	3.7	3.7	2.6	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	2.4	2.9	-0.2	-0.6

Price vs. Quantitative Fair Value



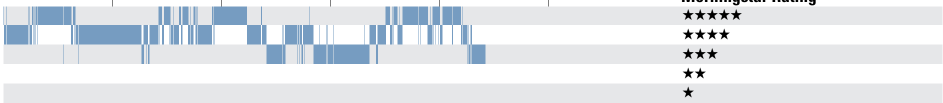
Momentum: Neutral
Standard Deviation: 21.34
Liquidity: High

25.09 52-Wk 35.95

25.09 5-Yr 45.45

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	24.7	Total Return %
-42.9	-36.1	27.1	-22.5	22.3	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—	Trailing Dividend Yield %
—	—	—	—	3.67	Forward Dividend Yield %
21.0	14.7	15.2	12.3	17.6	Price/Earnings
1.0	0.9	1.2	0.8	1.1	Price/Revenue

Morningstar RatingQ



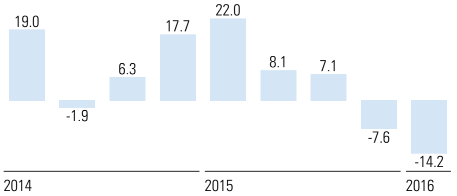
2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	28,190	Revenue
1.5	24.1	6.0	10.2	7.4	-4.3	% Change
4,480	2,380	3,656	3,096	4,409	3,526	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-20.0	% Change
2,495	1,160	1,719	1,623	2,269	1,749	Net Income
4,853	6,131	6,343	4,457	7,616	7,599	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,042	Capital Spending
811	321	948	-1,620	-8	-443	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	-1.6	% Sales
3.75	1.42	2.00	1.88	2.54	1.93	EPS
-3.1	-62.1	40.8	-6.0	35.1	-24.1	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.01	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	29.07	Book Value/Share
855,000	857,000	860,000	920,000	887,314	887,314	Shares Outstanding (K)

						Profitability
17.9	6.5	7.8	7.2	9.4	7.2	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.8	Return on Assets %
13.2	4.9	6.9	5.9	7.7	6.2	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.28	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.3	Financial Leverage
62.3	56.8	56.9	52.6	55.6	57.9	Gross Margin %
23.7	10.1	14.7	11.3	15.0	12.5	Operating Margin %
12,189	18,346	18,271	20,010	24,286	29,955	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,717	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	—	—	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	—	—	—	—
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

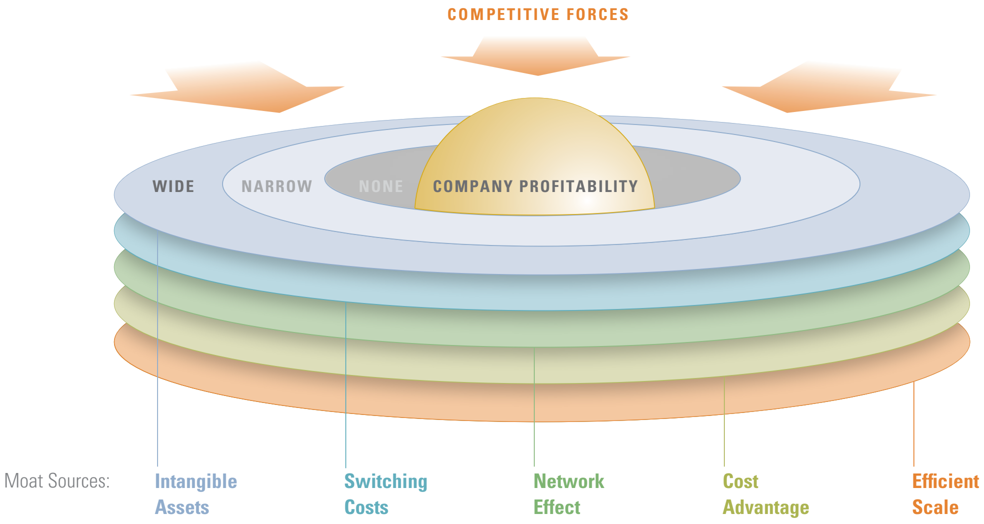
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

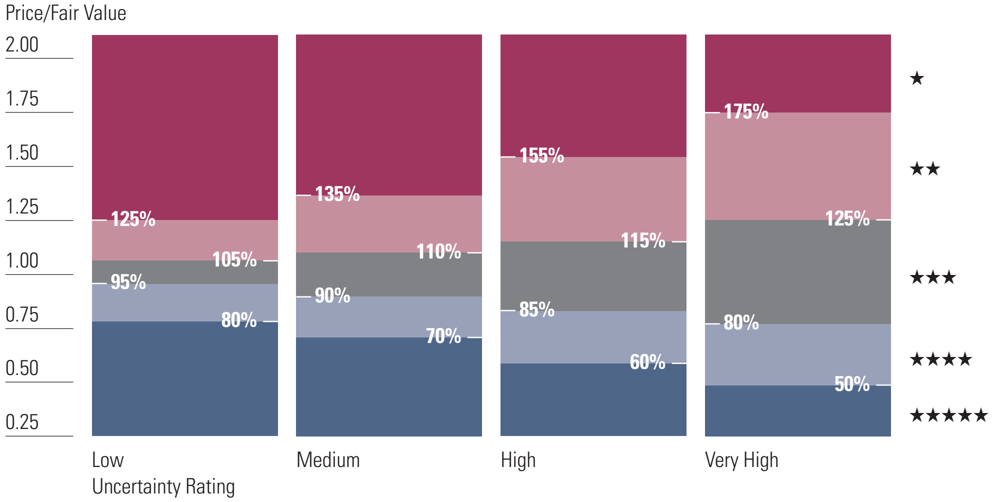
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

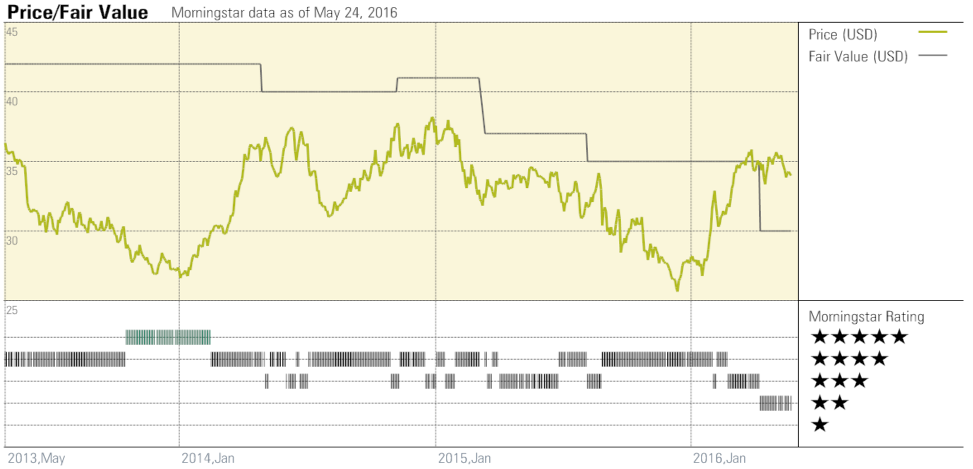
If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 24 May 2016	33.99 USD 24 May 2016	30.00 USD	1.13	3.67 24 May 2016	3.74 24 May 2016	30.16 24 May 2016	Utilities - Diversified	Standard



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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: PJM, ES, CPN, NEE, PCG, EXC May 25, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

PJM – Capacity auction clears 39% below last year's price
Weather – El Niño expected to change to La Niña by fall/winter
ES – Kinder Morgan officially pulls the plug on Northeast Energy Direct pipeline
CPN – Debt raised to re-finance
NEE – Media outlets suggest that Oncor back on as outlook for HE becomes less certain
PCG – Battle over what evidence may be subpoenaed in criminal trial continues
EXC – 1,500 supporters rally for Illinois energy legislation

PJM – Capacity auction clears 39% below last year's price

- PJM published 2019/2020 Reliability Pricing Model (RPM) Base Residual Auction (BRA) results.
- The clearing prices for resources in the rest of RTO were $100/MW-day; EMAAC, ComEd, and BGE were constrained with locational price adders of $19.77/MW-day, $102.77/MW-day and $0.30/MW-day, respectively.
- The clearing price for EMAAC was $119.77/MW-day, COMED was $202.77 / MW-day, and BGE was $100.30/MW-day.
- 22.4% reserve margin is 5.9% higher than the 16.5% target reserve margin; achieved at prices 33-60% of Net CONE, depending on the zone, while attracting over 5GW of new gas CCGTs.

Guggenheim takeaway: *Results came in below expectations except for ComEd. Capacity payments fell 39%; down from $164.77 in the rest of RTO, $225/MW-day in EMAAC and $215/MW-day in ComEd. We expect companies to report on the results this morning; net-net negative.*

Weather – El Niño expected to change to La Niña by fall/winter

- The current El Niño is expected by meteorologists to change to a La Niña this fall/winter.
- A La Niña with jet stream flows across the U.S. and Canada in the winter brings colder weather and fewer storms.

Guggenheim takeaway*: The current El Nino resulted in an abnormally mild winter, weighing on gas demand and utility earnings in 1Q16, is expected by meteorologists to change to a La Nina this fall/winter. A La Nina would support recovery of gas demand.*

ES – Kinder Morgan officially pulls the plug on Northeast Energy Direct pipeline

- Kinder Morgan (KMI, NC, $17.32) officially withdrew its FERC application for their proposed Northeast Energy Direct gas pipeline.

- KMI announced their intent to suspend the project in April.

Guggenheim takeaway: *We believe the removal of KMI's gas pipeline project is a positive readthrough to ES's Access Northeast Pipeline project.*

CPN – Debt raised to re-finance

- CPN announced plans to raise debt in order to pay off over $1bn of outstanding debt under its first-lien term loan facilities due in 2019 and 2020.
- The announcement indicated the company will offer $625mm of 2026 secured notes (upsized from $500mm) in a private placement and enter a new $500mm first-lien 2023 term loan.

Guggenheim takeaway: *Continued focus on strengthening the balance sheet. We view buybacks as increasingly attractive considering share price performance, but we support financial discipline in light of weak power market fundamentals and the structural changes taking place in the industry.*

NEE – Media outlets suggest that Oncor back on as outlook for HE becomes less certain

- Bloomberg reported that NEE's proposed acquisition of HE (NC, $32.85) is looking less likely as the company has a chance to acquire Oncor.

Guggenheim takeaway: *While NEE has not come out and made a public comment that they are re-interested in the Oncor assets, it has been increasingly reported in the press. We think these assets are a great strategic fit for NEE; despite a potential equity raise, the transaction should be noticeably accretive – this should not present an overhang on NEE shares.*

PCG – Battle over what evidence may be subpoenaed in criminal trial continues

- PCG and federal prosecutors both filed motions against one another regarding evidence that could be subpoenaed in the utility's criminal trial associated with the San Bruno explosion.
- PCG is looking to subpoena consultants used by the prosecution but government prosecutors argue some of their findings do not reflect the attorney general's conclusions and could be confusing.
- PCG argues prosecutors are looking for additional evidence from the company beyond the appropriate time-frame for evidence collection.

Guggenheim takeaway: *The battle over what evidence is appropriate has entailed enormous filings from both sides, continuously delaying the trial. Yesterday we highlighted PCG's first dividend increase since 2010, which we believe was a show of confidence from management in light of potential penalties the utility faces, and evidence the company is eager to put this trial in the rear view.*

EXC – 1,500 supporters rally for Illinois energy legislation

- EXC highlighted 1,500 Illinoisans that came out in support of the Next Generation Energy Plan, energy legislation currently pending before the state general assembly.
- The company noted supporters included community leaders, elected officials, nuclear plant employees, and business leaders.

Guggenheim takeaway: *Ultimately, we should see some form of legislation and the clock is ticking. The state cannot afford to lose over ~3GW of clean energy capacity – not only from a reliability standpoint but also from an environmental policy standpoint. See our last thoughts on EXC nuclear rationalization HERE.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
2. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
3. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
4. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
5. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
6. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
7. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
8. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
9. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
10. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
11. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
12. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
13. GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing
14. EEI Full Recap
15. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
16. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
21. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
05/31	EXC	Illinois legislation		IL		Illinois legislative session ends
06/01	PNW	APS rate case	Arizona Public Service Co.	AZ		PNW to file GRC for APS
06/02	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	EIX to file summary of settlement and implementation status
06/03	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Regulatory approval clause in the merger agreement expires
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other upcoming events and proceedings

May	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
May	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
May	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
May	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
GXP	6/21-6/23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
WR	7/6-7/8	TX, Midwest	Tony Somma, CFO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-10/5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 05/24/2016)

As of	5/24/2016							Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	31.3	Buy	$68	$63.63	7%	491	3.63	3.87	4.17	7%	17.5	16.4	15.3	5,512	5,849	6,246	6%	9.5	9.1	8.7	3.67	3.85	4.09	6%	17.3	16.5	15.5	5,663	5,503	5,339	(3%)	9.3	9.7	10.2
ED	Consolidated Edison, Inc.	21.8	Neutral	$70	$72.14	-3%	303	3.99	4.15	4.31	4%	18.1	17.4	16.7	3,867	4,058	4,226	5%	9.5	9.2	9.1	4.00	4.16	4.32	4%	18.0	17.3	16.7	3,676	3,880	4,096	6%	10.0	9.7	9.4
D	Dominion Resources, Inc.	43.6	Buy	$78	$70.78	10%	616	3.85	3.92	4.40	7%	18.4	18.1	16.1	6,255	6,470	7,054	6%	11.7	11.4	10.5	3.80	3.91	4.35	7%	18.6	18.1	16.3	5,841	6,072	6,724	7%	12.5	12.1	11.0
DTE	DTE Energy Company	16.0	Buy	$97	$89.22	9%	179	5.03	5.27	5.66	6%	17.7	16.9	15.8	2,628	2,728	2,925	5%	9.2	9.1	8.6	4.95	5.25	5.62	7%	18.0	17.0	15.9	2,541	2,704	2,846	6%	9.5	9.2	8.9
DUK	Duke Energy Corporation	53.0	Buy	$86	$76.99	12%	689	4.55	4.61	4.79	3%	16.9	16.7	16.1	9,033	8,878	9,383	2%	11.0	11.4	11.0	4.58	4.75	4.99	4%	16.8	16.2	15.4	9,310	10,002	10,245	5%	10.7	10.1	10.1
EIX	Edison International	22.8	Neutral	$70	$69.91	0%	326	3.85	4.15	4.33	6%	18.2	16.8	16.1	5,011	5,372	5,690	7%	7.4	7.0	6.8	3.89	4.13	4.33	5%	18.0	16.9	16.1	4,441	4,695	4,935	5%	8.3	8.0	7.8
ES	Eversource Energy	17.3	Buy	$59	$54.67	8%	317	2.95	3.19	3.43	8%	18.5	17.1	15.9	2,607	2,569	2,625	0%	10.8	11.3	11.4	2.98	3.17	3.36	6%	18.3	17.2	16.3	2,601	2,794	2,871	5%	10.8	10.4	10.4
GXP	Great Plains Energy	4.8	Buy	$35	$30.95	13%	155	1.74	1.88	1.97	6%	17.8	16.5	15.7	860	908	929	4%	10.3	9.6	9.2	1.74	1.82	1.92	5%	17.8	17.0	16.1	967	1,002	NA	NA	9.2	8.7	NA
NEE	NextEra Energy, Inc.	55.3	Buy	$129	$119.89	8%	461	6.35	6.60	7.04	5%	18.9	18.2	17.0	7,019	7,458	7,796	5%	12.6	12.2	12.0	6.18	6.57	7.01	7%	19.4	18.3	17.1	7,960	8,567	9,540	9%	11.1	10.6	9.8
PCG	PG&E Corporation	29.0	Neutral	$59	$58.54	1%	496	3.67	3.70	3.89	3%	16.0	15.8	15.0	6,500	6,739	7,134	5%	7.2	7.2	7.0	3.72	3.67	3.85	2%	15.7	15.9	15.2	6,154	6,533	6,917	6%	7.6	7.4	7.2
PNW	Pinnacle West Capital	8.0	Neutral	$79	$72.07	10%	111	3.91	4.19	4.43	6%	18.4	17.2	16.3	1,407	1,512	1,608	7%	8.7	8.4	8.0	3.99	4.20	4.39	5%	18.0	17.2	16.4	1,390	1,470	1,555	6%	8.8	8.6	8.3
PPL	PPL Corporation	25.8	Buy	$41	$38.06	8%	677	2.36	2.46	2.60	5%	16.1	15.5	14.6	4,012	4,219	4,461	5%	11.6	11.3	10.9	2.35	2.44	2.51	3%	16.2	15.6	15.1	4,025	4,210	4,450	5%	11.6	11.3	10.9
SO	Southern Company	45.5	Neutral	$47	$48.46	-3%	939	2.91	2.93	3.06	3%	16.7	16.5	15.8	7,011	7,202	7,505	3%	11.4	11.2	11.1	2.85	2.97	3.08	4%	17.0	16.3	15.8	7,177	7,957	8,227	7%	11.1	10.2	10.1
WR	Westar Energy, Inc.	7.5	Buy	$57	$52.80	8%	142	2.46	2.53	2.63	3%	21.5	20.9	20.1	1,059	1,100	1,145	4%	11.0	10.8	10.4	2.43	2.54	2.62	4%	21.7	20.8	20.2	1,026	1,107	NA	NA	11.4	10.7	NA
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.54	2%	236	1.18	1.28	1.33	6%	23.3	21.5	20.7	985	1,033	1,067	4%	10.7	10.1	9.7	1.18	1.28	1.36	7%	23.3	21.5	20.2	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.3	Buy	$32	$28.51	12%	79	1.34	1.26	1.69	12%	21.3	22.6	16.9	253	249	271	3%	NA	NA	NA	1.32	1.38	1.64	11%	21.6	20.7	17.4	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.1**	**17.5**	**16.2**				**5%**	**10.1**	**9.9**	**9.6**				**5%**	**18.2**	**17.4**	**16.4**				**5%**	**10.1**	**9.8**	**9.5**
Integrated utilities																																			
ETR	Entergy Corporation	13.2	Neutral	$75	$74.08	1%	179	5.36	5.16	5.17	-2%	13.8	14.4	14.3	3,730	3,712	3,825	1%	8.0	8.3	8.3	5.12	5.30	5.19	1%	14.5	14.0	14.3	3,345	3,517	3,491	2%	8.9	8.8	9.1
EXC	Exelon Corporation	31.3	Buy	$38	$33.99	12%	922	2.53	2.65	2.86	6%	13.4	12.8	11.9	7,686	7,971	8,452	5%	8.1	7.9	7.5	2.53	2.64	2.79	5%	13.4	12.9	12.2	7,371	7,763	9,163	11%	8.4	8.1	6.9
FE	FirstEnergy Corp.	13.6	Buy	$43	$32.09	34%	425	2.87	2.83	2.89	0%	11.2	11.3	11.1	4,322	4,450	4,510	2%	8.3	8.1	8.0	2.68	2.53	2.55	(2%)	12.0	12.7	12.6	4,409	4,452	4,534	1%	8.1	8.1	7.9
PEG	Public Service Enterprise Group	22.8	Buy	$50	$45.00	11%	506	2.92	2.95	3.02	2%	15.4	15.3	14.9	4,097	4,293	4,501	5%	8.3	8.3	8.1	2.88	2.89	2.97	2%	15.6	15.5	15.2	3,991	4,170	4,357	4%	8.5	8.5	8.4
Average											**2%**	**13.5**	**13.4**	**13.1**				**3%**	**8.2**	**8.1**	**8.0**				**1%**	**13.9**	**13.8**	**13.5**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.3	Buy	$20	$14.95	34%	359	0.42	0.87	0.60	20%	36.0	17.1	24.9	1,881	2,144	2,076	5%	8.9	7.7	7.8	0.55	0.93	1.29	53%	27.0	16.0	11.6	1,882	2,017	2,132	6%	8.9	8.2	7.6
DYN	Dynegy Inc.	2.2	Buy	$21	$18.59	13%	117	(1.69)	(1.33)	(0.60)	NA	-11.0	-13.9	-31.0	1,006	1,287	1,490	22%	8.6	7.0	5.8	(0.48)	(0.41)	0.74	NA	-38.6	-45.6	25.1	1,095	1,127	1,338	11%	7.9	8.0	6.5
NRG	NRG Energy, Inc.	5.0	Buy	$16	$16.02	0%	315	0.75	(0.51)	(0.03)	NA	21.4	-31.6	-511.4	3,104	2,808	2,941	(3%)	6.8	7.3	6.6	1.01	0.26	0.97	(2%)	15.8	61.3	16.6	3,103	2,759	2,960	(2%)	6.8	7.5	6.6
TLN	Talen Energy Corp	1.6	Neutral	$7	$12.06	-42%	129	0.41	0.63	0.38	-4%	29.5	19.0	32.0	756	788	733	(1%)	6.8	6.3	6.7	0.98	0.39	0.19	(56%)	12.3	30.5	63	763	755	698	(4%)	6.7	6.6	7.1
Average											**8%**	**19.0**	**-2.4**	**-121.4**				**6%**	**7.8**	**7.1**	**6.8**				**(2%)**	**4.1**	**15.6**	**29**				**3%**	**7.6**	**7.6**	**7.0**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$15.74	-5%	183	0.92	1.21	1.31	19%	17.1	13.0	12.0	806	984	1,093	16%	8.1	6.8	6.9	0.96	0.94	0.97	0%	16.3	16.8	16.3	821	903	1,010	11%	7.9	7.4	7.5
AWK	American Water Works	13.1	Buy	$79	$73.98	7%	178	2.85	3.05	3.26	7%	26.0	24.3	22.7	1,648	1,753	1,863	6%	12.1	11.6	11.1	2.82	3.04	3.26	7%	26.2	24.3	22.7	1,614	1,711	1,806	6%	12.3	11.9	11.4

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$63.63	2.26	2.37	2.48	3.5%	3.7%	3.9%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$72.14	2.66	2.73	2.79	3.7%	3.8%	3.9%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$70.78	2.79	2.99	3.20	3.9%	4.2%	4.5%	74%	77%	74%
DTE	DTE Energy Company	Buy	$89.22	3.00	3.15	3.30	3.4%	3.5%	3.7%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$76.99	3.40	3.54	3.71	4.4%	4.6%	4.8%	74%	75%	74%
EIX	Edison International	Neutral	$69.91	1.92	2.15	2.35	2.8%	3.1%	3.4%	49%	52%	54%
ES	Eversource Energy	Buy	$54.67	1.79	1.90	2.03	3.3%	3.5%	3.7%	60%	60%	60%
GXP	Great Plains Energy	Buy	$30.95	1.08	1.15	1.24	3.5%	3.7%	4.0%	62%	63%	65%
NEE	NextEra Energy, Inc.	Buy	$119.89	3.43	3.86	4.40	2.9%	3.2%	3.7%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$58.54	1.92	2.05	2.21	3.3%	3.5%	3.8%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$72.07	2.54	2.67	2.80	3.5%	3.7%	3.9%	64%	64%	64%
PPL	PPL Corporation	Buy	$38.06	1.52	1.56	1.60	4.0%	4.1%	4.2%	65%	64%	64%
SO	Southern Company	Neutral	$48.46	2.22	2.30	2.38	4.6%	4.7%	4.9%	78%	77%	77%
WR	Westar Energy, Inc.	Buy	$52.80	1.52	1.60	1.69	2.9%	3.0%	3.2%	62%	63%	65%
TE	TECO Energy, Inc.	Neutral	$27.54	0.93	0.95	0.97	3.4%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$28.51	1.09	1.12	NA	3.8%	3.9%	NA	82%	82%	NA
Average							**3.5%**	**3.7%**	**3.9%**	**65%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$74.08	3.43	3.52	3.60	4.6%	4.8%	4.9%	67%	66%	69%
EXC	Exelon Corporation	Buy	$33.99	1.26	1.29	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$32.09	1.44	1.45	1.44	4.5%	4.5%	4.5%	54%	57%	56%
PEG	Public Service Enterprise Group	Buy	$45.00	1.64	1.72	1.81	3.6%	3.8%	4.0%	57%	59%	61%
Average							**4.1%**	**4.2%**	**4.3%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.95	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$18.59	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$16.02	0.19	0.14	0.14	1.2%	0.8%	0.9%	19%	NA	14%
TLN	Talen Energy Corp	Neutral	$12.06	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.74	0.95	1.09	1.25	6.0%	7.0%	7.9%	98%	116%	129%
AWK	American Water Works	Buy	$73.98	1.48	1.62	1.77	2.0%	2.2%	2.4%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

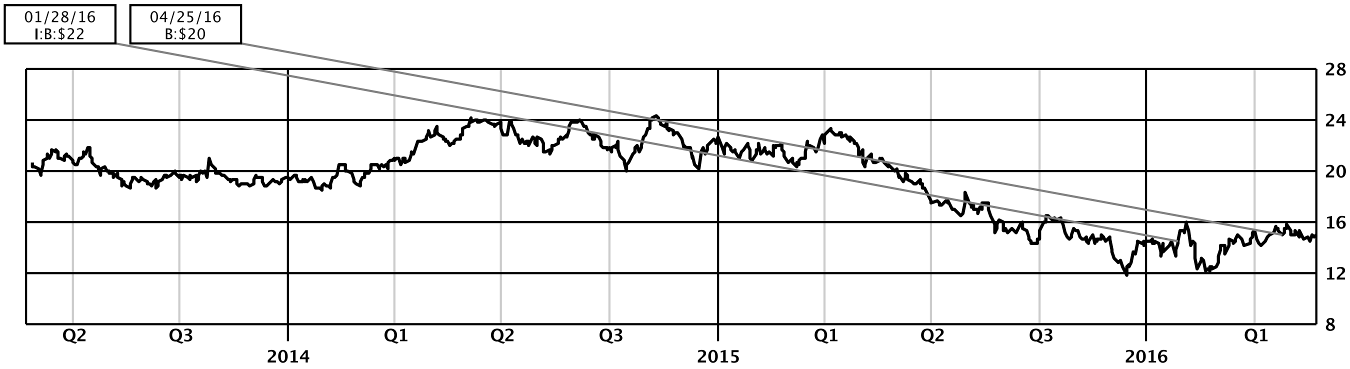
IMPORTANT DISCLOSURES

The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenue, which includes investment banking revenue.

Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Calpine Corp., Eversource Energy, Exelon Corporation, NextEra Energy, Inc. and PG&E Corporation in the next 3 months.

Please refer to this website for company-specific disclosures referenced in this report: https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

Rating and Price Target History for: Calpine Corp. (CPN) as of 05-24-2016



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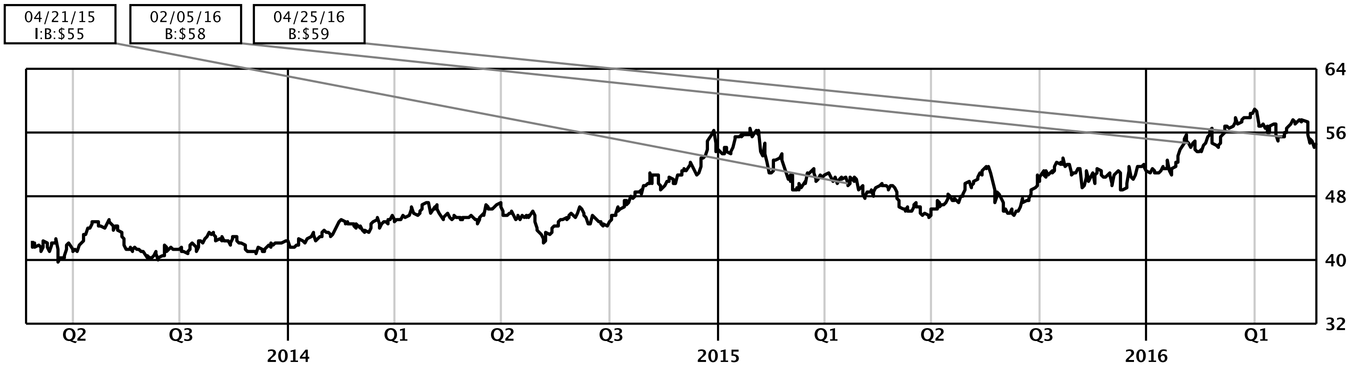
Rating and Price Target History for: Eversource Energy (ES) as of 05-24-2016



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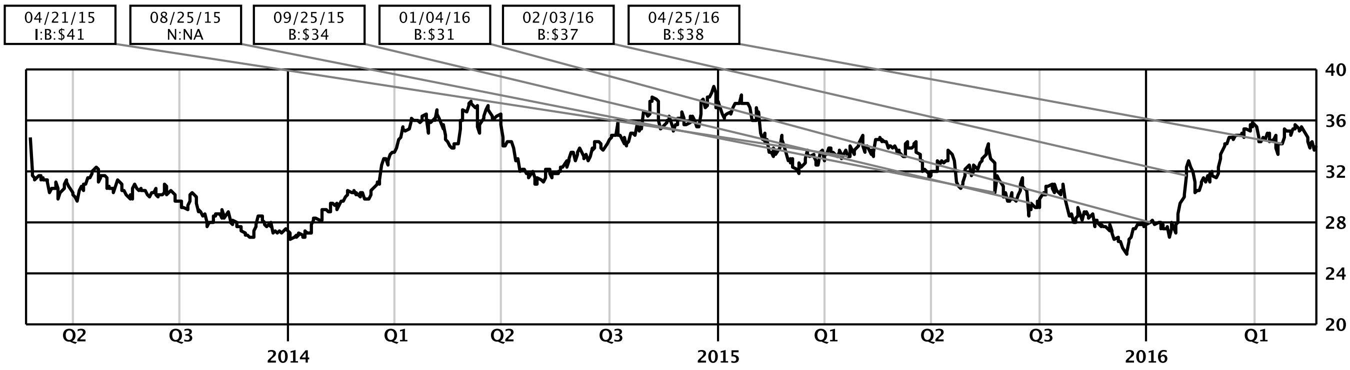
Rating and Price Target History for: Exelon Corporation (EXC) as of 05-24-2016



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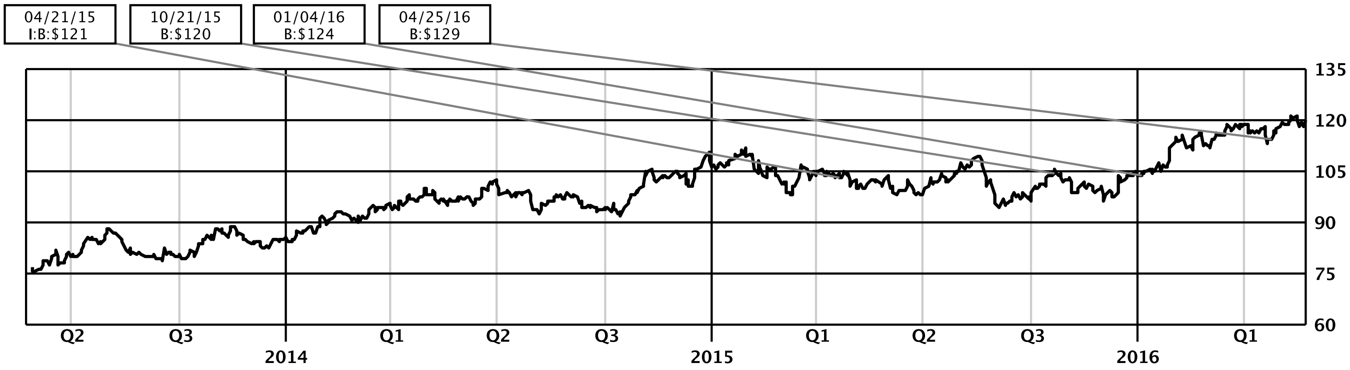
Rating and Price Target History for: NextEra Energy, Inc. (NEE) as of 05-24-2016



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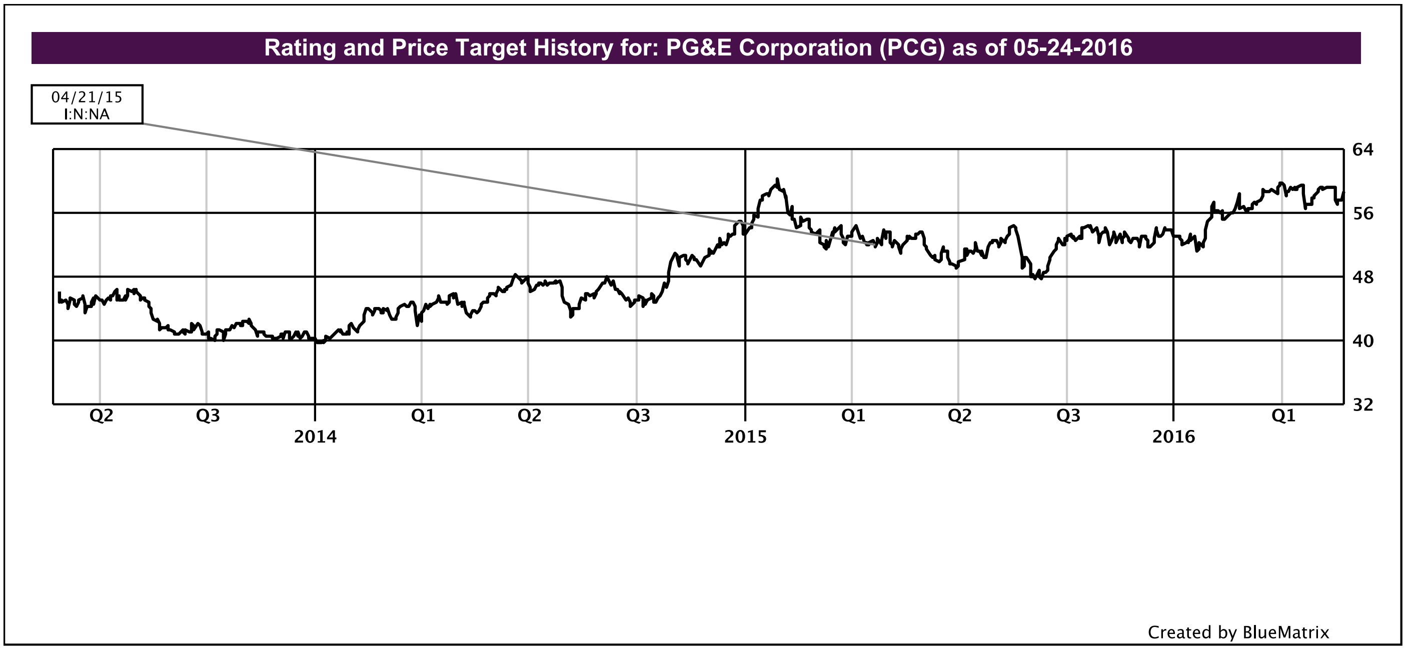

RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

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Prior to 12/8/14, Guggenheim Securities, LLC's BUY, NEUTRAL, and SELL ratings definitions were as follows (no other ratings definitions were changed):

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Neutral	102	39.84%	3	2.94%
Sell	0	0.00%	0	0.00%

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: DYN, PCG, DUK, EIX, EXC May 27, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

DYN – Proposed legislation would move all of IL into PJM
PCG – Prosecutors accused of deception in criminal trial
DUK – Constitution sues NY DEC
EIX – CPUC approves storage procurement to relieve reliability concerns
EXC – 1,500 supporters rally for Illinois energy legislation

DYN – Proposed legislation would move all of IL into PJM

- DYN announced the Illinois Generation Reliability Act, legislation proposing to move all of Illinois into PJM.
- Illinois is currently divided between PJM and MISO.

Guggenheim takeaway: *DYN's proposal highlights the issue in Illinois where plants in the northern part of the state (EXC service territory) receive attractive capacity payments (COMED cleared at $202.77 for 2019/2020), while DYN's plants in southern Illinois participate in the less-attractive MISO wholesale market (MISO Zone 4). DYN recently indicated they would shut down 1.8GW in MISO, where several units did not clear the recent capacity auction because the price was too low and more retirements could be coming. We recently highlighted the potential saving grace for these plants would be if MISO Zone 4 joined PJM – see our note HERE. This obviously isn't a NT scenario given the need for a state legislative push absent a move from the transmission provider – not likely either.*

PCG – Prosecutors accused of lying in criminal trial

- Local media reports that PG&E is accusing federal prosecutors of lying and concealing evidence that federal investigators were part of a probe with direct access to utility records.
- PCG alleges this allowed prosecutors to obtain evidence without court approval and asked a federal judge to exclude a large amount of tainted evidence, and consider dismissing some or all of the 13 felony charges.

Guggenheim takeaway: *The battle over what evidence is appropriate has entailed enormous filings from both sides, continuously delaying the trial. We recently highlighted PCG's first dividend increase since 2010, which we believe was a show of confidence from management in light of potential penalties the utility faces, and evidence the company is eager to put this trial in the rear view.*

DUK – Constitution sues NY DEC

- Constitution pipeline sues the New York Department of Environmental Conservation (DEC) to separate its water quality certificate from other permit reviews.
- Constitution is challenging the water quality certificate denial separately in federal appeals court.

Guggenheim takeaway: *DUK's interest in the pipeline is through its pending acquisition of PNY (NC, $60.00). The pipeline was approved by federal regulators but met opposition from "fracktivists" in NY and was ultimately blocked. On a side note, this isn't an issue that should be a read-through to other pipeline projects as it was a very specific situation with NY.*

EIX – CPUC approves storage procurement to relieve reliability concerns

- The CPUC authorized EIX's southern California utility to expedite its purchase of energy storage in light of reliability concerns in areas impacted by the Aliso Canyon leak.

Guggenheim takeaway: *The CPUC action follows the Governor's declaration of emergency; we recently highlighted an engineering study that found CA could experience two weeks of blackouts this summer as access to gas supply becomes challenged without the Aliso Canyon gas storage facility.*

EXC – 1,500 supporters rally for Illinois energy legislation

- EXC highlighted 1,500 Illinoisans that came out in support of the Next Generation Energy Plan, energy legislation currently pending before the state general assembly.
- The company noted supporters included community leaders, elected officials, nuclear plant employees, and business leaders.

Guggenheim takeaway: *Ultimately, we should see some form of legislation and the clock is ticking. The state cannot afford to lose over ~3GW of clean energy capacity – not only from a reliability standpoint but also from an environmental policy standpoint. See our last thoughts on EXC nuclear rationalization HERE. What happens with EXC plants is a lateral to DYN.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
2. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
3. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
4. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
5. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
6. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
7. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
8. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
9. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
10. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
11. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
12. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
13. GXP - BUY - Mgmt Meeting Takeaways: It's About Navigating MO Energy Policy – Unified and on a Better Footing
14. EEI Full Recap
15. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
16. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
21. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
05/31	EXC	Illinois legislation		IL		Illinois legislative session ends
06/01	PNW	APS rate case	Arizona Public Service Co.	AZ		PNW to file GRC for APS
06/02	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	EIX to file summary of settlement and implementation status
06/03	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Regulatory approval clause in the merger agreement expires
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other upcoming events and proceedings

May	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
May	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
May	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
May	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
GXP	6/21-6/23	Boston/KC	Terry Bassham, CEO and Kevin Bryant, CFO
AWK	6/29-6/30	Midwest	Susan Story, CEO
WR	7/6-7/8	TX, Midwest	Tony Somma, CFO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-10/5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 05/26/2016)

As of 5/26/2016

								Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	31.6	Buy	$68	$64.33	6%	491	3.63	3.87	4.17	7%	17.7	16.6	15.4	5,512	5,849	6,246	6%	9.6	9.2	8.8	3.67	3.85	4.09	6%	17.5	16.7	15.7	5,663	5,503	5,339	(3%)	9.3	9.8	10.3
ED	Consolidated Edison, Inc.	22.0	Neutral	$70	$72.73	-4%	303	3.99	4.15	4.31	4%	18.2	17.5	16.9	3,867	4,058	4,226	5%	9.5	9.3	9.2	4.00	4.16	4.32	4%	18.2	17.5	16.8	3,676	3,880	4,096	6%	10.0	9.7	9.4
D	Dominion Resources, Inc.	44.1	Buy	$78	$71.57	9%	616	3.85	3.92	4.40	7%	18.6	18.3	16.3	6,255	6,470	7,054	6%	11.8	11.4	10.6	3.80	3.91	4.35	7%	18.9	18.3	16.5	5,841	6,072	6,724	7%	12.6	12.2	11.1
DTE	DTE Energy Company	16.1	Buy	$97	$89.72	8%	179	5.03	5.27	5.66	6%	17.8	17.0	15.9	2,628	2,728	2,925	5%	9.3	9.1	8.7	4.95	5.25	5.62	7%	18.1	17.1	16.0	2,541	2,704	2,846	6%	9.6	9.2	8.9
DUK	Duke Energy Corporation	53.7	Buy	$86	$77.96	10%	689	4.55	4.61	4.79	3%	17.1	16.9	16.3	9,033	8,878	9,383	2%	11.1	11.5	11.1	4.58	4.75	4.99	4%	17.0	16.4	15.6	9,310	10,002	10,245	5%	10.8	10.2	10.1
EIX	Edison International	23.1	Neutral	$70	$70.84	-1%	326	3.85	4.15	4.33	6%	18.4	17.1	16.4	5,011	5,372	5,690	7%	7.4	7.1	6.8	3.89	4.13	4.33	5%	18.2	17.1	16.4	4,441	4,695	4,935	5%	8.4	8.1	7.9
ES	Eversource Energy	17.4	Buy	$59	$54.80	8%	317	2.95	3.19	3.43	8%	18.6	17.2	16.0	2,607	2,569	2,625	0%	10.8	11.3	11.4	2.98	3.17	3.36	6%	18.4	17.3	16.3	2,601	2,794	2,871	5%	10.8	10.4	10.4
GXP	Great Plains Energy	4.8	Buy	$35	$30.91	13%	155	1.74	1.88	1.97	6%	17.8	16.4	15.7	860	908	929	4%	10.3	9.6	9.2	1.74	1.82	1.92	5%	17.8	16.9	16.1	967	1,002	NA	NA	9.2	8.7	NA
NEE	NextEra Energy, Inc.	55.3	Buy	$129	$119.82	8%	461	6.35	6.60	7.04	5%	18.9	18.2	17.0	7,019	7,458	7,796	5%	12.6	12.2	12.0	6.18	6.57	7.01	7%	19.4	18.2	17.1	7,960	8,567	9,540	9%	11.1	10.6	9.8
PCG	PG&E Corporation	29.5	Neutral	$59	$59.39	-1%	496	3.67	3.70	3.89	3%	16.2	16.1	15.3	6,500	6,739	7,134	5%	7.3	7.3	7.0	3.72	3.67	3.85	2%	16.0	16.2	15.4	6,154	6,533	6,917	6%	7.7	7.5	7.2
PNW	Pinnacle West Capital	8.1	Neutral	$79	$72.87	8%	111	3.91	4.19	4.43	6%	18.6	17.4	16.4	1,407	1,512	1,608	7%	8.7	8.4	8.1	3.99	4.20	4.39	5%	18.2	17.3	16.6	1,390	1,470	1,555	6%	8.8	8.7	8.4
PPL	PPL Corporation	26.1	Buy	$41	$38.55	6%	677	2.36	2.46	2.60	5%	16.3	15.7	14.8	4,012	4,219	4,461	5%	11.7	11.4	11.0	2.35	2.44	2.51	3%	16.4	15.8	15.3	4,025	4,210	4,450	5%	11.7	11.4	11.0
SO	Southern Company	46.2	Neutral	$47	$49.22	-5%	939	2.91	2.93	3.06	3%	16.9	16.8	16.1	7,011	7,202	7,505	3%	11.5	11.3	11.2	2.85	2.97	3.08	4%	17.3	16.6	16.0	7,177	7,957	8,227	7%	11.2	10.3	10.2
WR	Westar Energy, Inc.	7.5	Buy	$57	$52.90	8%	142	2.46	2.53	2.63	3%	21.5	20.9	20.1	1,059	1,100	1,145	4%	11.0	10.8	10.4	2.43	2.54	2.62	4%	21.7	20.9	20.2	1,026	1,107	NA	NA	11.4	10.7	NA
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.52	2%	236	1.18	1.28	1.33	6%	23.3	21.5	20.7	985	1,033	1,067	4%	10.7	10.1	9.7	1.18	1.28	1.36	7%	23.3	21.5	20.2	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.3	Buy	$32	$28.62	12%	79	1.34	1.26	1.69	12%	21.4	22.7	16.9	253	249	271	3%	NA	NA	NA	1.32	1.38	1.64	11%	21.7	20.8	17.4	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.3**	**17.6**	**16.4**				**5%**	**10.2**	**10.0**	**9.7**				**5%**	**18.3**	**17.5**	**16.5**				**5%**	**10.2**	**9.8**	**9.6**
Integrated utilities																																			
ETR	Entergy Corporation	13.5	Neutral	$75	$75.58	-1%	179	5.36	5.16	5.17	-2%	14.1	14.6	14.6	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.12	5.30	5.19	1%	14.8	14.3	14.6	3,345	3,517	3,491	2%	9.0	8.9	9.2
EXC	Exelon Corporation	31.5	Buy	$38	$34.17	11%	922	2.53	2.65	2.86	6%	13.5	12.9	11.9	7,686	7,971	8,452	5%	8.1	7.9	7.5	2.53	2.64	2.79	5%	13.5	13.0	12.3	7,371	7,763	9,163	11%	8.5	8.1	6.9
FE	FirstEnergy Corp.	13.7	Buy	$43	$32.35	33%	425	2.87	2.83	2.89	0%	11.3	11.4	11.2	4,322	4,450	4,510	2%	8.3	8.1	8.0	2.68	2.53	2.55	(2%)	12.1	12.8	12.7	4,409	4,452	4,534	1%	8.1	8.1	7.9
PEG	Public Service Enterprise Group	22.4	Buy	$50	$44.26	13%	506	2.92	2.95	3.02	2%	15.2	15.0	14.7	4,097	4,293	4,501	5%	8.2	8.2	8.0	2.88	2.89	2.97	2%	15.4	15.3	14.9	3,991	4,170	4,357	4%	8.4	8.5	8.3
Average											**2%**	**13.5**	**13.5**	**13.1**				**3%**	**8.2**	**8.1**	**8.0**				**1%**	**13.9**	**13.8**	**13.6**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.2	Buy	$20	$14.52	38%	359	0.42	0.87	0.60	20%	35.0	16.6	24.2	1,881	2,144	2,076	5%	8.9	7.7	7.8	0.55	0.93	1.29	53%	26.3	15.6	11.3	1,882	2,017	2,132	6%	8.8	8.1	7.6
DYN	Dynegy Inc.	2.0	Buy	$21	$17.42	21%	117	(1.69)	(1.33)	(0.60)	NA	-10.3	-13.1	-29.1	1,006	1,287	1,490	22%	8.5	6.9	5.7	(0.48)	(0.41)	0.74	NA	-36.2	-42.8	23.5	1,095	1,127	1,338	11%	7.8	7.9	6.4
NRG	NRG Energy, Inc.	4.9	Buy	$16	$15.65	2%	315	0.75	(0.51)	(0.03)	NA	20.9	-30.9	-499.6	3,104	2,808	2,941	(3%)	6.8	7.3	6.6	1.01	0.26	0.97	(2%)	15.4	59.9	16.2	3,103	2,759	2,960	(2%)	6.8	7.4	6.6
TLN	Talen Energy Corp	1.4	Neutral	$7	$11.09	-37%	129	0.41	0.63	0.38	-4%	27.1	17.5	29.4	756	788	733	(1%)	6.6	6.2	6.6	0.98	0.39	0.19	(56%)	11.3	28.1	58	763	755	698	(4%)	6.5	6.5	6.9
Average											**8%**	**18.2**	**-2.5**	**-118.8**				**6%**	**7.7**	**7.0**	**6.7**				**(2%)**	**4.2**	**15.2**	**27**				**3%**	**7.5**	**7.5**	**6.9**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$15.66	-4%	183	0.92	1.21	1.31	19%	17.0	12.9	11.9	806	984	1,093	16%	8.1	6.8	6.9	0.96	0.94	0.97	0%	16.3	16.7	16.2	821	903	1,010	11%	7.9	7.4	7.5
AWK	American Water Works	13.1	Buy	$79	$73.98	7%	178	2.85	3.05	3.26	7%	26.0	24.3	22.7	1,648	1,753	1,863	6%	12.1	11.6	11.1	2.82	3.04	3.26	7%	26.2	24.3	22.7	1,614	1,711	1,806	6%	12.3	11.9	11.4

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$64.33	2.26	2.37	2.48	3.5%	3.7%	3.9%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$72.73	2.66	2.73	2.79	3.7%	3.8%	3.8%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$71.57	2.79	2.99	3.20	3.9%	4.2%	4.5%	74%	77%	74%
DTE	DTE Energy Company	Buy	$89.72	3.00	3.15	3.30	3.3%	3.5%	3.7%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$77.96	3.40	3.54	3.71	4.4%	4.5%	4.8%	74%	75%	74%
EIX	Edison International	Neutral	$70.84	1.92	2.15	2.35	2.7%	3.0%	3.3%	49%	52%	54%
ES	Eversource Energy	Buy	$54.80	1.79	1.90	2.03	3.3%	3.5%	3.7%	60%	60%	60%
GXP	Great Plains Energy	Buy	$30.91	1.08	1.15	1.24	3.5%	3.7%	4.0%	62%	63%	65%
NEE	NextEra Energy, Inc.	Buy	$119.82	3.43	3.86	4.40	2.9%	3.2%	3.7%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$59.39	1.92	2.05	2.21	3.2%	3.5%	3.7%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$72.87	2.54	2.67	2.80	3.5%	3.7%	3.8%	64%	64%	64%
PPL	PPL Corporation	Buy	$38.55	1.52	1.56	1.60	3.9%	4.0%	4.2%	65%	64%	64%
SO	Southern Company	Neutral	$49.22	2.22	2.30	2.38	4.5%	4.7%	4.8%	78%	77%	77%
WR	Westar Energy, Inc.	Buy	$52.90	1.52	1.60	1.69	2.9%	3.0%	3.2%	62%	63%	65%
TE	TECO Energy, Inc.	Neutral	$27.52	0.93	0.95	0.97	3.4%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$28.62	1.09	1.12	NA	3.8%	3.9%	NA	82%	82%	NA
Average							**3.5%**	**3.7%**	**3.9%**	**65%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$75.58	3.43	3.52	3.60	4.5%	4.7%	4.8%	67%	66%	69%
EXC	Exelon Corporation	Buy	$34.17	1.26	1.29	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$32.35	1.44	1.45	1.44	4.5%	4.5%	4.5%	54%	57%	56%
PEG	Public Service Enterprise Group	Buy	$44.26	1.64	1.72	1.81	3.7%	3.9%	4.1%	57%	59%	61%
Average							**4.1%**	**4.2%**	**4.3%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.52	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$17.42	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$15.65	0.19	0.14	0.14	1.2%	0.9%	0.9%	19%	NA	14%
TLN	Talen Energy Corp	Neutral	$11.09	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.66	0.95	1.09	1.25	6.1%	7.0%	8.0%	98%	116%	129%
AWK	American Water Works	Buy	$73.98	1.48	1.62	1.77	2.0%	2.2%	2.4%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Duke Energy Corporation, Dynegy Inc., Edison International, Exelon Corporation and PG&E Corporation in the next 3 months.

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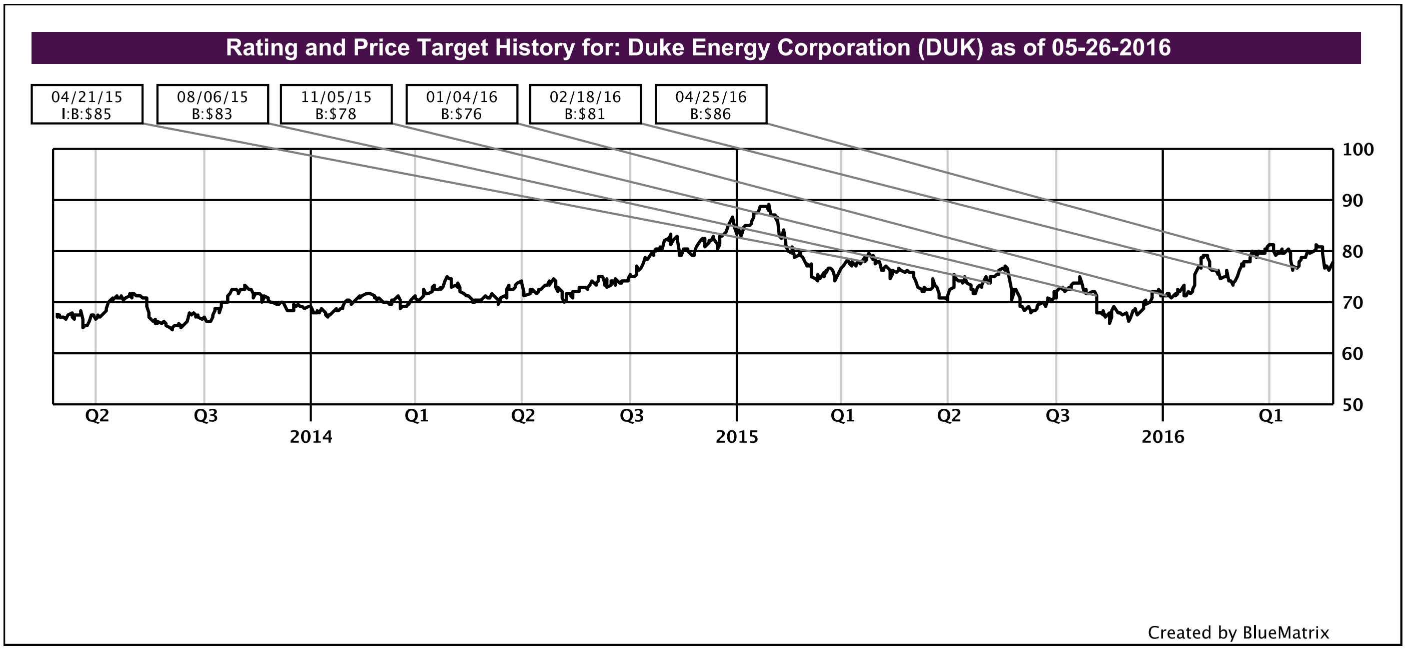

Rating and Price Target History for: Duke Energy Corporation (DUK) as of 05-26-2016

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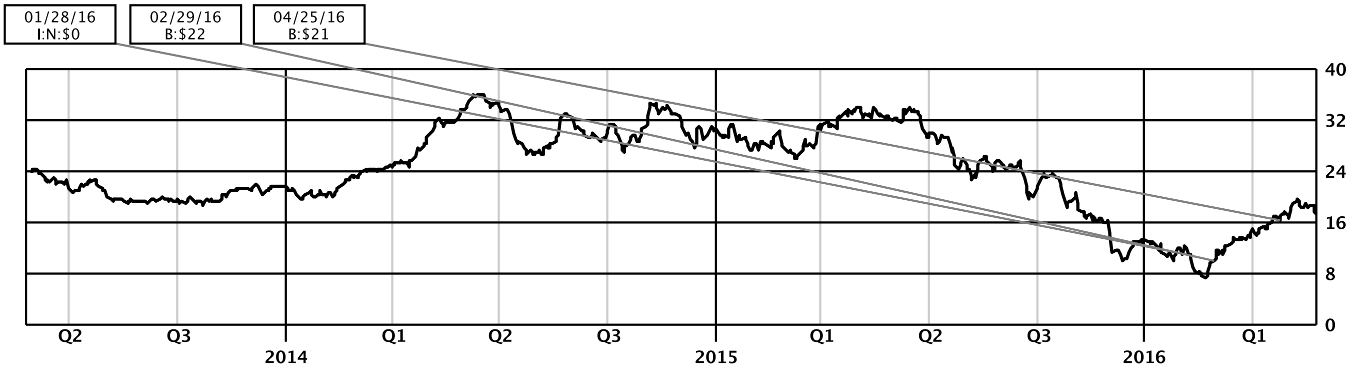
Rating and Price Target History for: Dynegy Inc. (DYN) as of 05-26-2016



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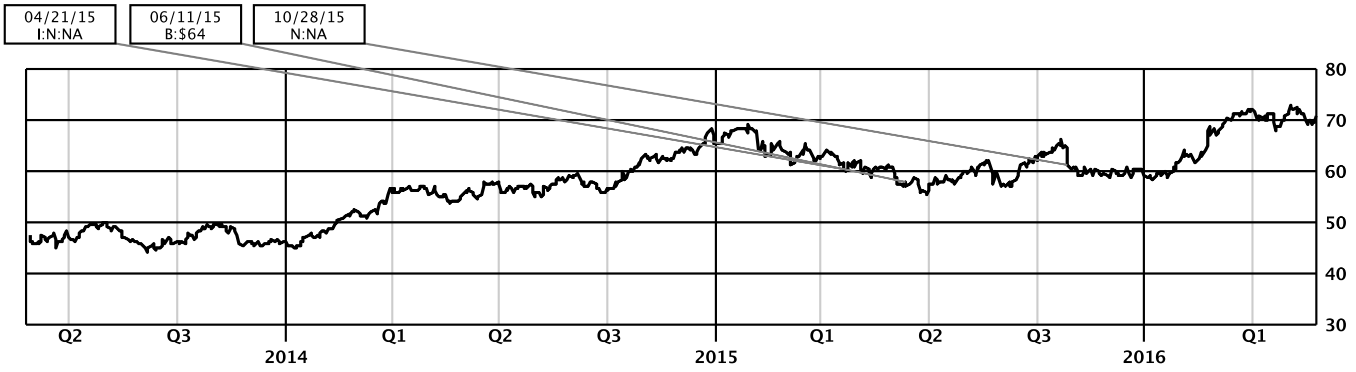
Rating and Price Target History for: Edison International (EIX) as of 05-26-2016



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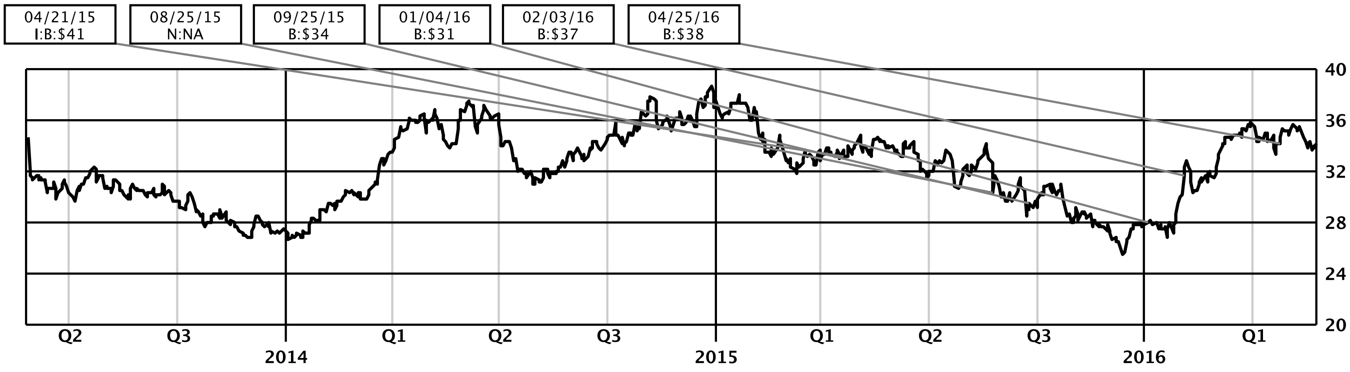
Rating and Price Target History for: Exelon Corporation (EXC) as of 05-26-2016



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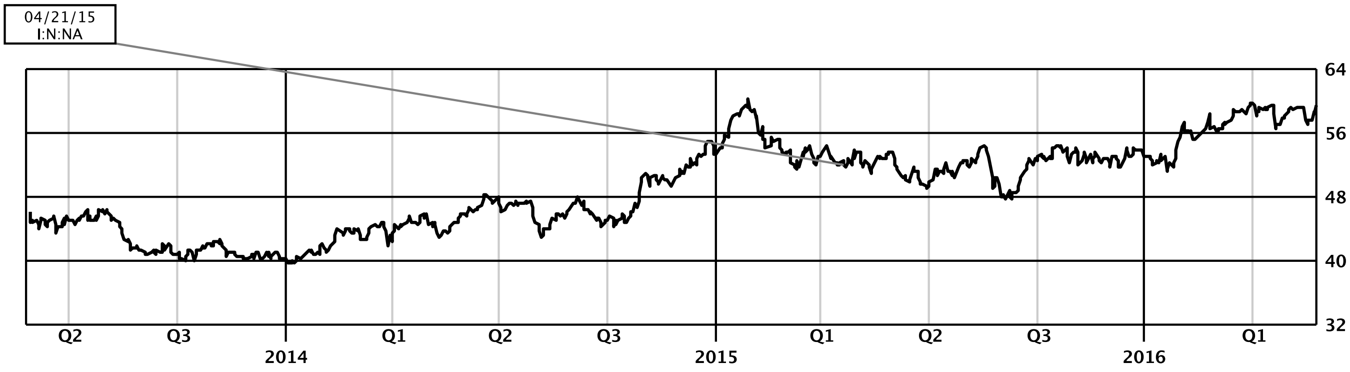
Rating and Price Target History for: PG&E Corporation (PCG) as of 05-26-2016



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RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	154	60.16%	28	18.18%
Neutral	102	39.84%	3	2.94%
Sell	0	0.00%	0	0.00%

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J.P.Morgan

North America Equity Research
31 May 2016

Exelon Corp.

Model Update

Overweight

EXC, EXC US

Price: $34.33

▼ **Price Target: $37.00**
Previous: $39.00

We are updating our model to incorporate our newly revised assumptions. We are lowering our 2016 PT from $39 to $37, which reflects a decrease in forward power prices and a slightly lower regulated peer multiple relative to our prior update.

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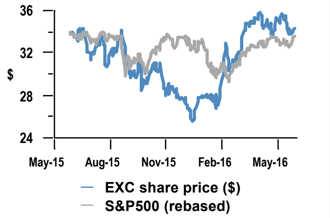
Price Performance



	YTD	1m	3m	12m
Abs	23.6%	-2.9%	8.2%	1.1%
Rel	20.9%	-3.1%	0.4%	2.2%

Exelon Corp. (EXC;EXC US)

FYE Dec	2014A	2015A	2016E (Prev)	2016E (Curr)	2017E (Prev)	2017E (Curr)	2018E (Prev)	2018E (Curr)
adj. EPS ($)								
Q1 (Mar)	0.62	0.71	0.65	0.68A	-	-	-	-
Q2 (Jun)	0.51	0.59	-	0.52	-	-	-	-
Q3 (Sep)	0.78	0.83	-	-	-	-	-	-
Q4 (Dec)	0.49	0.38	-	-	-	-	-	-
FY	2.39	2.49	2.46	2.51	2.68	2.69	2.85	2.82

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	34.33
Date Of Price	27 May 16
52-week Range ($)	35.95-25.09
Market Cap ($ mn)	31,652.26
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	37.00
Price Target End Date	31-Dec-16

See page 4 for analyst certification and important disclosures.

Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $37.00)*

Investment Thesis

We expect the company to host an analyst day in coming months with a focus on executing costs cuts, achieving rate timely relief at the Pepco utilities and future ExGen or other growth opportunities. Despite strong YTD performance, we do not yet see EXC shares as giving appropriate credit to ExGen commodity optionality, future balance sheet flexibility and earned ROE upside at the POM utilities.

Valuation

We are lowering our December 2016 price target to $37/share ($39 prior). Our valuation is based on a sum-of-the-parts analysis using our 2018 forecasts. We use an average 18.5x P/E multiple for the regulated utility and corporate business segments, a minor premium to regulated peers reflecting a constructive regulatory construct at PECO partially offset by a mildly challenging regulatory environment at BGE. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. The downward revision in our PT reflects a decrease in forward power prices and a slightly lower regulated peer multiple relative to our prior update.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company’s earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	**FY15A**	**FY16E**	**FY17E**	**FY18E**	**Income Statement - Quarterly**	**1Q16A**	**2Q16E**	**3Q16E**	**4Q16E**
Sales	29,237	32,425	33,940	34,101	Sales	7,573A	7,808		
COGS	(13,139)	(13,885)	(14,508)	(14,408)	COGS	(3,254)A	(3,251)		
D&A	(2,450)	(3,183)	(3,403)	(3,475)	D&A	(685)A	(815)	-	-
Operations and maintenance	(9,432)	(11,297)	(10,987)	(10,915)	Operations and maintenance	(3,160)A	(2,688)		
Other expenses	-	-	-	-	Other expenses	-	-	-	-
Total operating expenses					Total operating expenses	-	-	-	-
Other income / (expense)	294	246	273	273	Other income / (expense)	128A	44		
EBIT	**4,510**	**4,306**	**5,316**	**5,577**	**EBIT**	**602A**	**1,098**	**-**	**-**
EBITDA	**6,960**	**7,489**	**8,718**	**9,052**	**EBITDA**	**1,287A**	**1,913**	**-**	**-**
Interest expense	(1,098)	(1,374)	(1,369)	(1,362)	Interest expense	(292)A	(360)		
Income tax provision	(1,165)	(1,103)	(1,389)	(1,489)	Income tax provision	(184)A	(258)		
Tax rate	34.1%	37.6%	35.2%	35.3%	Tax rate	59.4%A	34.9%	-	-
Discontinued operations and other					Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-	Preferred dividends	-	-	-	-
Net income	**2,227**	**1,867**	**2,546**	**2,714**	**Net income**	**173A**	**478**	**-**	**-**
Total non-recurring items	0	459	4	4	Total non-recurring items	459A	0		
Net income (Recurring)	**2,227**	**2,326**	**2,550**	**2,718**	**Net income (Recurring)**	**632A**	**478**	**-**	**-**
Diluted shares outstanding	**893**	**925**	**948**	**963**	**Diluted shares outstanding**	**925A**	**924**		
Diluted EPS	**2.49**	**2.02**	**2.68**	**2.82**	**Diluted EPS**	**0.19A**	**0.52**	**-**	**-**
DPS ($)	1.24	1.27	1.30	1.34	DPS ($)	0.32A	0.32		
Payout ratio	49.7%	63.0%	48.6%	47.4%	Payout ratio	170.0%A	61.5%	-	-

Balance Sheet and Cash Flow Data	**FY15A**	**FY16E**	**FY17E**	**FY18E**	**Ratio Analysis**	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Cash and cash equivalents	6,502	0	0	0	Sales growth	4.8%	10.9%	4.7%	0.5%
Current assets	15,334	10,717	11,106	11,450	EBITDA growth	7.0%	7.6%	16.4%	3.8%
PP&E	57,439	72,345	75,617	77,918	EBIT growth	7.6%	(4.5%)	23.5%	4.9%
Non-current assets	22,611	30,667	30,667	30,667	Net income (recurring) growth	7.7%	4.4%	9.6%	6.6%
Total assets	**95,384**	**113,729**	**117,390**	**120,034**					
Current liabilities	9,118	13,301	11,912	10,434	Diluted EPS growth	4.2%	(19.1%)	33.0%	5.0%
Long-term Debt	24,286	30,605	31,705	32,805					
Preferred stock	0	19	19	19	Gross margin	55.1%	57.2%	57.3%	57.7%
Other non-current liabilities	34,658	41,731	43,120	44,609	Operating margin	15.4%	13.3%	15.7%	16.4%
Common equity	25,793	26,605	29,165	30,699					
Total liabilities & equity	95,384	113,729	117,390	120,034	Debt / Capital (book)	50.5%	57.4%	54.9%	53.4%
					Times interest earned	6.3	5.4	6.4	6.6
Net income	2,250	1,817	2,550	2,718					
D&A	3,987	4,386	4,503	4,575					
Change in working capital	(246)	(904)	(389)	(344)	ROE	9.2%	8.9%	9.1%	9.1%
Change in other assets	1,643	2,107	1,389	1,489	Return on capital employed (ROCE)	6.1%	4.7%	5.4%	5.5%
Net operating cash flow	**7,634**	**7,406**	**8,053**	**8,438**					
Cash flow from investing activities	**(7,840)**	**(14,816)**	**(7,775)**	**(6,875)**					
Net common equity issued/(repurchased)	1,868	84	1,250	100					
Net debt issued/(repurchased)	4,022	685	1,100	1,100					
Common dividends paid	(1,105)	(1,168)	(1,239)	(1,285)					
Other financing activity	45	1,776	0	0					
Cash flow from financing activities	**4,830**	**1,377**	**1,111**	**(85)**					
Increase/(decrease) in cash	4,624	(6,033)	1,388	1,478					
Cash at beginning of the period	1,878	6,502	0	0					
Cash at end of the period	6,502	0	(0)	0					

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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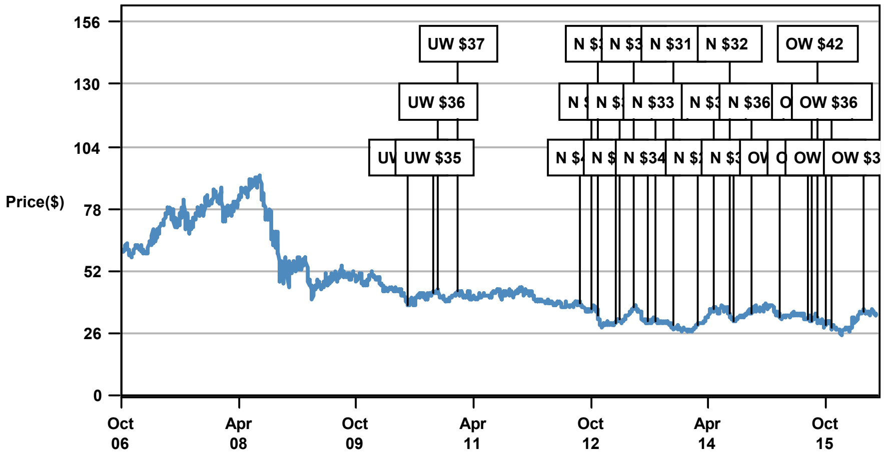
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.92	33.00
29-Sep-10	UW	43.04	35.00
19-Oct-10	UW	44.01	36.00
20-Jan-11	UW	43.35	37.00
07-Aug-12	N	38.06	40.00
08-Oct-12	N	35.95	39.00
02-Nov-12	N	33.58	38.00
23-Jan-13	N	30.45	36.00
08-Feb-13	N	31.37	34.00
19-Apr-13	N	36.46	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.59	33.00
17-Oct-13	N	29.04	31.00
12-Feb-14	N	28.94	29.00
30-Apr-14	N	35.99	33.00
09-Jul-14	N	34.32	32.00
01-Aug-14	N	31.08	35.00
16-Oct-14	N	34.09	36.00
05-Mar-15	OW	32.97	38.00
06-Jul-15	OW	31.94	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	33.00	42.00
28-Sep-15	OW	29.50	39.00
02-Nov-15	OW	28.37	36.00
28-Mar-16	OW	35.16	39.00

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: ED, EXC, DYN, ES, DUK June 1, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

ED – Staff Recommends Electric Rate Increase and Gas Rate Decrease Based on 8.6% ROE
EXC – No Vote on Illinois Nuclear Legislation
DYN – Generation Reliability Act doesn't get a look in IL either
ES – Northern Pass recommends schedule for Site Evaluation Committee
ES – NH Court Rules in Favor of Northern Pass, Dismisses Forest Society Lawsuit
DUK – NC Passes Legislation Providing Flexibility for Decisions regarding Coal Ash Closures

ED – Staff Recommends Electric Rate Increase and Gas Rate Decrease Based on 8.6% ROE

- NY Public Service Commission (PSC) Staff filed their recommendation for a 1% electric rate increase and a 1.5% gas rate decrease for CECONY, premised upon an 8.6% ROE and 48% equity ratio on an average rate base of $18.7bn for electric and $4.8bn for gas (2017 test year).

- ED originally requested a $482mm electric rate increase (revised to $480mm) and a $154mm gas rate increase (revised to $159mm) premised upon a 9.75% ROE and 48% equity ratio on an $18.9bn electric ratebase and $4.8bn gas rate base (revised to $4.9bn).

- CECONY Electric's filing was driven by its $1.3bn plan to deploy 3.6mm smart meters beginning next year. CECONY Gas didn't really have an option other than filing as O&M increased with the uptick in gas leak and repair work following the Harlem explosion.

***Guggenheim takeaway:** Staff's 8.6% ROE recommendation came in noticeably below ED's 9.75% request, which is about where authorized electric returns have averaged so far this year (~9.73%), but slightly above the 8.3-8.4% suggested by the formulaic methodology employed in NY. Our current estimates assume an earned 9.0% ROE for all of CECONY combined (steam, gas, electric). We don't anticipate a contentious proceeding as the electric investment in smart meters facilitates the State's Reforming the Energy Vision (REV) objectives, and we don't see PSC disallowing gas expenditures in the rate case in the wake of the Harlem explosion—no linkage between the two items. For additional takeaways, see our note HERE.*

EXC – No Vote on Illinois Nuclear Legislation

- A bill intended to provide relief for nuclear plants in Illinois (Senate Bill 1585) didn't come to a vote as the state's legislative session came to a close yesterday.

- EXC indicated it would release an update on how the failure to pass this bill impacts the future of its Clinton and Quad Cities nuclear facilities in the next few days.

- EXC had said it would make a final decision to close Clinton in 2017 and Quad-Cities in 2018 if legislation wasn't passed by the end of the spring session.

Guggenheim takeaway: *Not very surprising considering the tight deadline, and likely still incrementally positive for EXC considering plants were operating at a loss. A positive lateral to DYN as well – could swing DYN's incremental 500MW shutdown that has yet to be announced; see our recent note HERE.*

DYN – Generation Reliability Act doesn't get a look in IL either

- The Illinois Generation Reliability Act proposed by DYN did not get attention as the state's legislative session came to an end yesterday.

- The proposed legislation would move all of Illinois into PJM; the state is currently divided between PJM and MISO.

Guggenheim takeaway: *DYN's proposal wasn't hinging on passing before the close of the legislative session as EXC's was, but it highlights the issue in Illinois where plants in the northern part of the state (EXC service territory) receive attractive capacity payments (COMED cleared at $202.77 for 2019/2020), while DYN's plants in southern Illinois participate in the less-attractive MISO wholesale market (MISO Zone 4). DYN recently indicated they would shut down 1.8GW in MISO, where several units did not clear the recent capacity auction because the price was too low and more retirements could be coming. We recently highlighted the potential saving grace for these plants would be if MISO Zone 4 joined PJM – see our note HERE. This obviously isn't a NT scenario given the need for a state legislative push absent a move from the transmission provider – also not likely.*

ES – Northern Pass recommends schedule for Site Evaluation Committee

- Northern Pass Transmission submitted a motion to the NH Site Evaluation Committee (SEC) seeking adoption of a procedural schedule that would lead to a written decision on by 6/30/17.

- At its 5/19/16 hearing, the SEC heard arguments from interveners to extend the timeframe for a decision on NPT's Application beyond 12/18/16, and ultimately determined they would extend the timeframe for a decision to 9/30/17.

Guggenheim takeaway: *We recently highlighted the disappointing news for ES when the SEC established a 9/30/17 deadline by which they must make a determination on the Northern Pass Transmission line; Eversource was hoping to have SEC approval by the end of this year in order to begin construction and have the project in-service in the first half of 2019. Northern Pass contributes $0.22 to our 2018 estimate; if the project is delayed three-quarters (approval in 3Q17 instead of 4Q16) we estimate $0.09 of EPS would be lost in 2018. The schedule proposed by Northern Pass attempts to strike a balance, we expect the SEC to issue a formal procedural schedule in the near future – ideally front-loaded.*

ES – NH Court Rules in Favor of Northern Pass, Dismisses Forest Society Lawsuit

- The New Hampshire Superior Court ruled in favor (see HERE) of Northern Pass and dismissed claims from the Forest Society that use of public highways was subject to its approval.

- Northern Pass proposes burying portions of the 192-mile transmission line along public roadways.

Guggenheim takeaway: *Good news for ES as the Forest Society would have made progress more difficult for Northern Pass, but all eyes on the NH SEC as we* *await a formal schedule for their review of the project – a front-loaded schedule, as we mention above, would be even better news.*

DUK – NC Passes Legislation Providing Flexibility for Decisions regarding Coal Ash Closures

- Senate Bill 71 passed in North Carolina, which re-constitutes the Coal Ash Management Commission to oversee basin closures and how customer bills will be impacted.
- The modified bill extends the period for review of proposed risk classifications for coal combustion residuals.

Guggenheim takeaway: *A win for North Carolina electric customers as the risk classifications recently proposed by the Department of Environmental Quality implied the state would have chosen a more expensive option. We recently highlighted the NCDEQ's rankings, which were proposed to comply with a deadline, but acknowledged repairs are currently being made to some of the underlying basins, and requested the state general assembly modify legislation so the risk classifications can be re-considered – the passing of the legislation creates an opportunity for DUK to potentially lower risk classifications, in our view. We recently hosted investor meetings with DUK management; for additional takeaways, see our note HERE.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
2. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
3. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
4. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
5. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
6. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
7. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
8. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
9. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
10. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
11. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
12. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
13. EEI Full Recap
14. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
15. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
16. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
17. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
18. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
19. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
20. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/01	PNW	APS rate case	Arizona Public Service Co.	AZ		PNW to file GRC for APS
06/02	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	EIX to file summary of settlement and implementation status
06/03	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Regulatory approval clause in the merger agreement expires
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other upcoming events and proceedings

June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Peter Oleksiak, CFO
DTE	10/4-10/5	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 05/31/2016)

As of	**5/31/2016**							**Guggenheim Estimates**														**Consensus Estimates**													
		Mkt. Cap	**Rating**	**Target**	**Current**	**Price**	**Diluted**	**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**			**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**		
Ticker	**Company**	**($Bn)**		**Price**[1]	**Price**	**Change**	**Shares**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	31.8	Buy	$68	$64.73	5%	491	3.63	3.87	4.17	7%	17.8	16.7	15.5	5,512	5,849	6,246	6%	9.6	9.2	8.8	3.67	3.85	4.09	6%	17.6	16.8	15.8	5,663	5,503	5,339	(3%)	9.4	9.8	10.3
ED	Consolidated Edison, Inc.	22.2	Neutral	$70	$73.26	-4%	303	3.99	4.15	4.31	4%	18.4	17.7	17.0	3,867	4,058	4,226	5%	9.6	9.3	9.2	4.00	4.16	4.31	4%	18.3	17.6	17.0	3,676	3,880	4,096	6%	10.1	9.8	9.5
D	Dominion Resources, Inc.	44.5	Buy	$78	$72.25	8%	616	3.85	3.92	4.40	7%	18.8	18.4	16.4	6,255	6,470	7,054	6%	11.8	11.5	10.6	3.79	3.91	4.35	7%	19.1	18.5	16.6	5,673	6,332	6,724	9%	13.1	11.7	11.2
DTE	DTE Energy Company	16.3	Buy	$97	$90.68	7%	179	5.03	5.27	5.66	6%	18.0	17.2	16.0	2,628	2,728	2,925	5%	9.3	9.2	8.7	4.95	5.25	5.62	7%	18.3	17.3	16.1	2,541	2,704	2,846	6%	9.6	9.3	9.0
DUK	Duke Energy Corporation	53.9	Buy	$86	$78.23	10%	689	4.55	4.61	4.79	3%	17.2	17.0	16.3	9,033	8,878	9,383	2%	11.1	11.5	11.1	4.58	4.75	4.99	4%	17.1	16.5	15.7	9,310	10,002	10,245	5%	10.8	10.2	10.1
EIX	Edison International	23.3	Neutral	$70	$71.63	-2%	326	3.85	4.15	4.33	6%	18.6	17.3	16.5	5,011	5,372	5,690	7%	7.5	7.1	6.9	3.89	4.13	4.33	5%	18.4	17.3	16.5	4,441	4,695	4,935	5%	8.4	8.2	7.9
ES	Eversource Energy	17.5	Buy	$59	$55.24	7%	317	2.95	3.19	3.43	8%	18.7	17.3	16.1	2,607	2,569	2,625	0%	10.9	11.3	11.4	2.98	3.17	3.36	6%	18.5	17.4	16.4	2,601	2,794	2,871	5%	10.9	10.4	10.4
NEE	NextEra Energy, Inc.	55.4	Buy	$129	$120.12	7%	461	6.35	6.60	7.04	5%	18.9	18.2	17.1	7,019	7,458	7,796	5%	12.5	12.1	11.9	6.18	6.57	7.02	7%	19.4	18.3	17.1	7,960	8,567	9,540	9%	11.1	10.6	9.7
PCG	PG&E Corporation	29.8	Neutral	$59	$60.08	-2%	496	3.67	3.70	3.89	3%	16.4	16.2	15.4	6,500	6,739	7,134	5%	7.4	7.3	7.1	3.73	3.68	3.86	2%	16.1	16.3	15.6	6,154	6,533	6,917	6%	7.8	7.5	7.3
PNW	Pinnacle West Capital	8.2	Neutral	$79	$73.59	7%	111	3.91	4.19	4.43	6%	18.8	17.6	16.6	1,407	1,512	1,608	7%	8.8	8.5	8.2	3.99	4.20	4.41	5%	18.4	17.5	16.7	NA	NA	NA	NA	NA	NA	NA
PPL	PPL Corporation	26.1	Buy	$41	$38.54	6%	677	2.36	2.46	2.60	5%	16.3	15.7	14.8	4,012	4,219	4,461	5%	11.7	11.4	11.0	2.35	2.44	2.51	3%	16.4	15.8	15.3	4,025	4,210	4,450	5%	11.7	11.4	11.0
SO	Southern Company	46.4	Neutral	$47	$49.44	-5%	939	2.91	2.93	3.06	3%	17.0	16.9	16.2	7,011	7,202	7,505	3%	11.5	11.4	11.2	2.85	2.97	3.08	4%	17.4	16.7	16.1	7,177	7,957	8,227	7%	11.3	10.3	10.3
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.54	2%	236	1.18	1.28	1.33	6%	23.3	21.5	20.7	985	1,033	1,067	4%	10.7	10.1	9.7	1.18	1.28	1.36	7%	23.3	21.5	20.2	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.3	Buy	$32	$28.89	11%	79	1.34	1.26	1.69	12%	21.6	22.9	17.1	253	249	271	3%	NA	NA	NA	1.32	1.38	1.64	11%	21.9	21.0	17.6	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.2**	**17.6**	**16.2**				**5%**	**10.1**	**10.0**	**9.7**				**6%**	**18.2**	**17.5**	**16.3**				**5%**	**10.4**	**9.9**	**9.7**
Integrated utilities																																			
ETR	Entergy Corporation	13.6	Neutral	$75	$75.92	-1%	179	5.36	5.16	5.17	-2%	14.2	14.7	14.7	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.12	5.30	5.19	1%	14.8	14.3	14.6	3,345	3,517	3,491	2%	9.0	8.9	9.2
EXC	Exelon Corporation	30.4	Buy	$38	$34.27	11%	887	2.53	2.65	2.86	6%	13.5	12.9	12.0	7,686	7,971	8,452	5%	8.2	8.0	7.6	2.54	2.64	2.79	5%	13.5	13.0	12.3	7,371	7,763	9,163	11%	8.5	8.2	7.0
FE	FirstEnergy Corp.	13.9	Buy	$43	$32.81	31%	425	2.87	2.83	2.89	0%	11.4	11.6	11.4	4,322	4,450	4,510	2%	8.4	8.1	8.0	2.68	2.52	2.55	(2%)	12.2	13.0	12.8	4,409	4,452	4,534	1%	8.2	8.1	8.0
PEG	Public Service Enterprise Group	22.6	Buy	$50	$44.75	12%	506	2.92	2.95	3.02	2%	15.3	15.2	14.8	4,097	4,293	4,501	5%	8.3	8.3	8.1	2.88	2.90	2.96	1%	15.5	15.5	15.1	3,991	4,170	4,357	4%	8.5	8.5	8.4
Average											**2%**	**13.6**	**13.6**	**13.2**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.0**	**13.9**	**13.7**				**5%**	**8.6**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.3	Buy	$20	$14.80	35%	359	0.42	0.87	0.60	20%	35.6	16.9	24.6	1,881	2,144	2,076	5%	8.9	7.7	7.8	0.55	0.93	1.29	53%	26.8	15.9	11.5	1,882	2,017	2,132	6%	8.9	8.2	7.6
DYN	Dynegy Inc.	2.2	Buy	$21	$18.84	11%	117	(1.69)	(1.33)	(0.60)	NA	-11.1	-14.1	-31.4	1,006	1,287	1,490	22%	8.6	7.0	5.9	(0.48)	(0.41)	0.74	NA	-39.1	-46.2	25.5	1,095	1,127	1,338	11%	7.9	8.0	6.5
NRG	NRG Energy, Inc.	5.2	Buy	$16	$16.38	-2%	315	0.75	(0.51)	(0.03)	NA	21.9	-32.4	-522.9	3,104	2,808	2,941	(3%)	6.9	7.4	6.7	1.01	0.26	0.97	(2%)	16.1	62.7	16.9	3,103	2,759	2,960	(2%)	6.9	7.5	6.6
TLN	Talen Energy Corp	1.5	Neutral	$7	$11.50	-39%	129	0.41	0.63	0.38	-4%	28.1	18.2	30.5	756	788	733	(1%)	6.7	6.3	6.6	0.98	0.39	0.19	(56%)	11.7	29.1	60	763	755	698	(4%)	6.6	6.5	7.0
Average											**8%**	**18.6**	**-2.9**	**-124.8**				**6%**	**7.8**	**7.1**	**6.7**				**(2%)**	**3.9**	**15.4**	**28**				**3%**	**7.6**	**7.6**	**6.9**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$15.46	-3%	183	0.92	1.21	1.31	19%	16.8	12.7	11.8	806	984	1,093	16%	8.0	6.8	6.9	0.96	0.94	0.97	0%	16.0	16.5	16.0	821	903	1,010	11%	7.9	7.4	7.4
AWK	American Water Works	13.2	Buy	$79	$74.10	7%	178	2.85	3.05	3.26	7%	26.0	24.3	22.7	1,648	1,753	1,863	6%	12.1	11.6	11.1	2.82	3.04	3.26	7%	26.2	24.4	22.7	1,614	1,711	1,806	6%	12.4	11.9	11.4

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	**Consensus Dividend Per Share**			**Consensus Dividend Yield**			**Consensus Dividend Payout**		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$64.73	2.26	2.37	2.48	3.5%	3.7%	3.8%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$73.26	2.66	2.73	2.79	3.6%	3.7%	3.8%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$72.25	2.79	2.99	3.20	3.9%	4.1%	4.4%	74%	77%	74%
DTE	DTE Energy Company	Buy	$90.68	3.00	3.15	3.30	3.3%	3.5%	3.6%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$78.23	3.40	3.54	3.71	4.3%	4.5%	4.7%	74%	75%	74%
EIX	Edison International	Neutral	$71.63	1.92	2.15	2.35	2.7%	3.0%	3.3%	49%	52%	54%
ES	Eversource Energy	Buy	$55.24	1.79	1.90	2.03	3.2%	3.4%	3.7%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$120.12	3.43	3.86	4.40	2.9%	3.2%	3.7%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$60.08	1.92	2.04	2.19	3.2%	3.4%	3.6%	51%	55%	57%
PNW	Pinnacle West Capital	Neutral	$73.59	2.54	2.67	2.80	3.5%	3.6%	3.8%	64%	64%	63%
PPL	PPL Corporation	Buy	$38.54	1.52	1.56	1.60	3.9%	4.0%	4.2%	65%	64%	64%
SO	Southern Company	Neutral	$49.44	2.22	2.30	2.38	4.5%	4.7%	4.8%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.54	0.93	0.95	0.97	3.4%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$28.89	1.09	1.12	NA	3.8%	3.9%	NA	82%	82%	NA
Average							**3.5%**	**3.7%**	**3.9%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$75.92	3.43	3.52	3.60	4.5%	4.6%	4.7%	67%	66%	69%
EXC	Exelon Corporation	Buy	$34.27	1.26	1.30	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$32.81	1.44	1.45	1.44	4.4%	4.4%	4.4%	54%	57%	56%
PEG	Public Service Enterprise Group	Buy	$44.75	1.64	1.72	1.80	3.7%	3.8%	4.0%	57%	59%	61%
Average							**4.1%**	**4.2%**	**4.3%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.80	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$18.84	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$16.38	0.19	0.14	0.14	1.2%	0.8%	0.8%	19%	NA	14%
TLN	Talen Energy Corp	Neutral	$11.50	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.46	0.95	1.09	1.25	6.1%	7.1%	8.1%	98%	116%	129%
AWK	American Water Works	Buy	$74.10	1.48	1.62	1.77	2.0%	2.2%	2.4%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Duke Energy Corporation, Dynegy Inc., Consolidated Edison, Inc., Eversource Energy and Exelon Corporation in the next 3 months.

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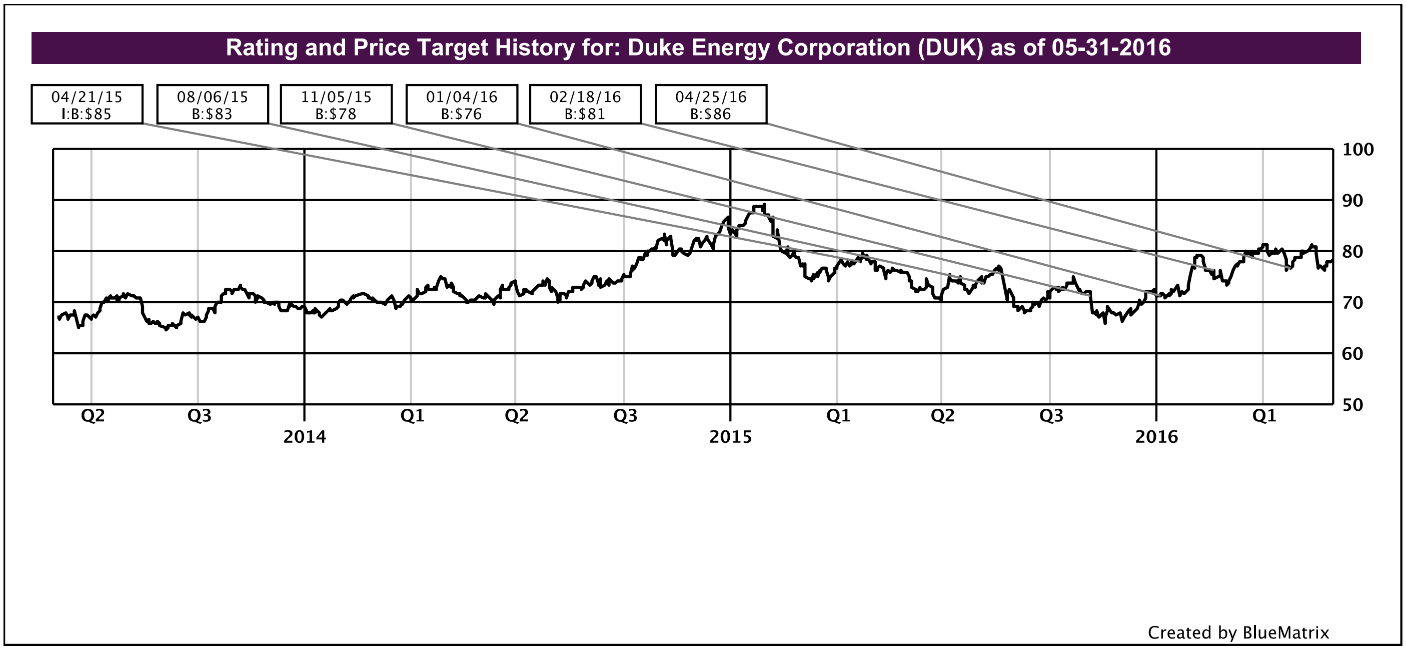
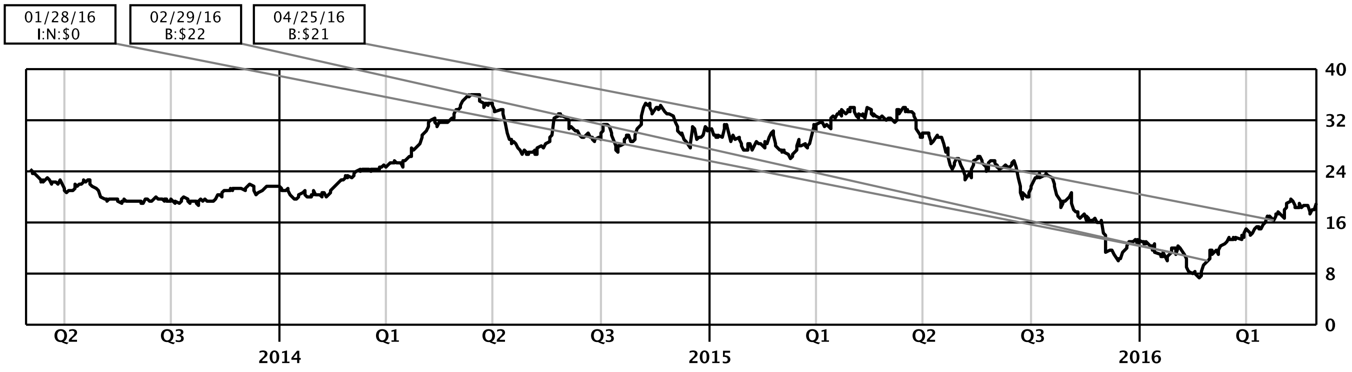


Rating and Price Target History for: Duke Energy Corporation (DUK) as of 05-31-2016

Rating and Price Target History for: Dynegy Inc. (DYN) as of 05-31-2016



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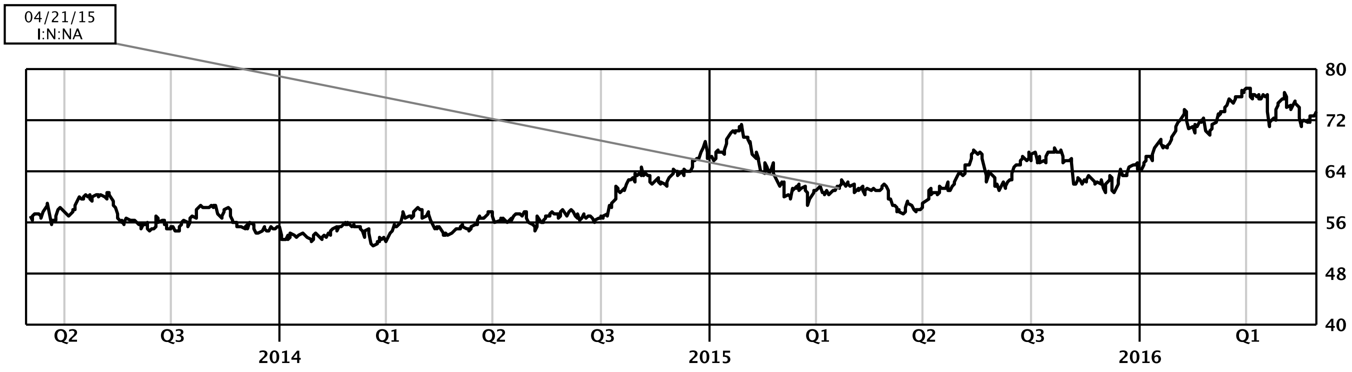
Rating and Price Target History for: Consolidated Edison, Inc. (ED) as of 05-31-2016



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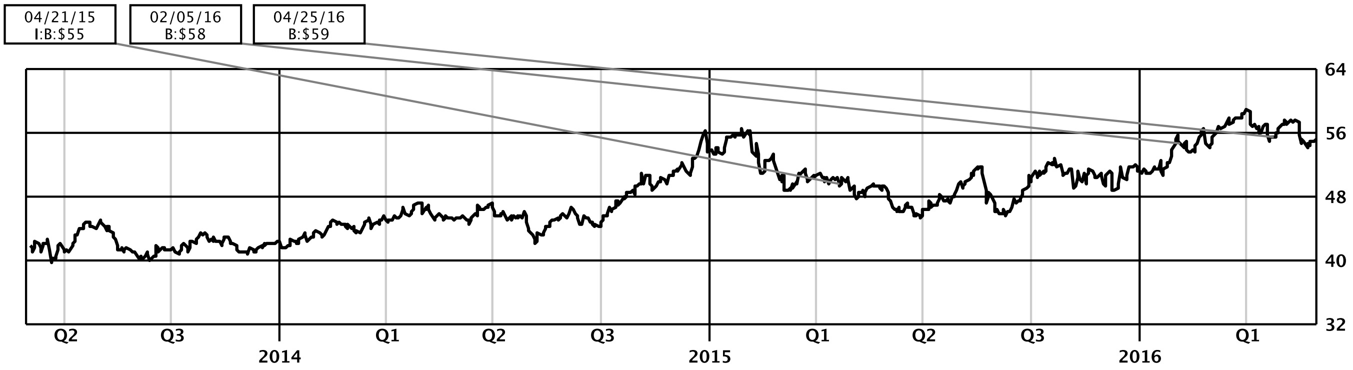
Rating and Price Target History for: Eversource Energy (ES) as of 05-31-2016



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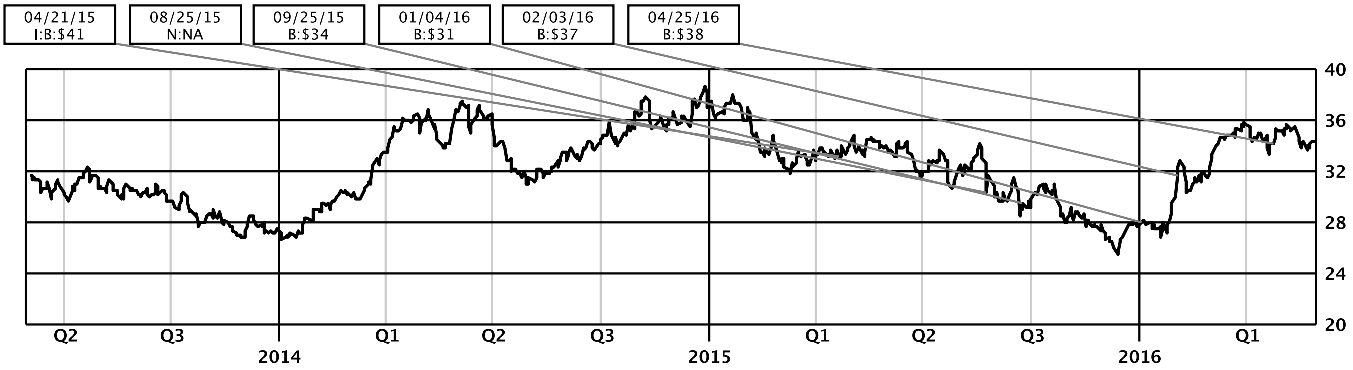
Rating and Price Target History for: Exelon Corporation (EXC) as of 05-31-2016



Created by BlueMatrix

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	152	60.08%	28	18.42%
Neutral	101	39.92%	3	2.97%
Sell	0	0.00%	0	0.00%

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Citi Research
Equities

2 June 2016 | 7 pages

Diversified Utilities
North America | United States

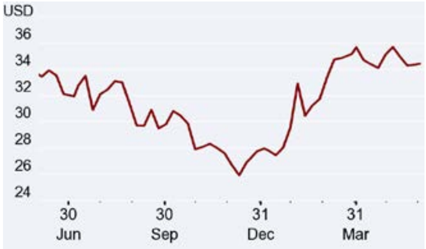
Exelon Corp (EXC)

Alert: Value impact of retirements is Limited. However, implications for remaining nuclear fleet are more ominous.

- With no progress with the Illinois energy legislation, EXC will permanently shut down Clinton (June 1, 2017) and Quad Cities (June 1, 2018).
- Retirements not a surprise as we didn’t expect the Illinois legislation to go through. See our note on the expected impact on Feb 22, 2016.
- **Avoided negative FCF likely in the ~$50m range relative to our model**. Note that our model used a $3.00/MMBtu gas price. We had estimated the savings from the retirement of Byron, Clinton, Ginna and Quad Cities together to be approximately $67m/year.
- **Negative Cash Impact 1: Spent Fuel of $340m:** Without a NRC approval, EXC may have a cash outflow of $340m (post-tax) to pay for spent fuel. However, as this amount will be spent over the next 10yrs, the NPV impact on a per share basis isn’t significant.
- **Negative Cash Impact 2: If no SAFSTOR, decommissioning funding could be $450m.** With a shortfall in NDTF, EXC would need to provide a parent guarantee of $450m in total which will at some point translate to cash funding of the trust fund.
- **With avoided negative FCF offset by significant cash liabilities, we think net value impact of retirements is minimal.**
- **Key Question 1: Can the rest of EXC's nuclear fleet survive without carbon / regulatory support?** We think challenges remain for the rest of EXC's nuclear fleets given their average cash cost of generation in the $30 - $35/MWh range. With low long-term gas prices and increasing penetration of renewables, power and capacity markets will stay weak for some time. In such an environment, nuclear plants will continue to be challenged and we still don’t see any obvious path leading to support for existing nuclear plants. **We expect further retirements in the future.**
- **Key Question 2: Can ExGen's O&M come down proportionally with the reducing size of its fleet?** EXC benefited from synergies of operating a large nuclear fleet. As the size of the fleet shrinks, we expect the O&M / MWh to creep up. The centralized team needed to run all these nukes likely doesn’t reduce in line with its shrinking fleet.
- **Implication:** We stay concerned on the future of EXC's nuclear fleet. Think ExGen is over-levered and should be valued at a 5.5x EBITDA multiple given the low FCF conversion (~45%) and the relatively short (~15yr) economic asset life of its remaining nuclear fleet. **Reiterate our sell rating and $27 target price.**

Sell	3
Price (01 Jun 16)	US$34.41
Target price	US$27.00
Expected share price return	-21.5%
Expected dividend yield	3.6%
Expected total return	-17.9%
Market Cap	US$30,532M

Price Performance
(RIC: EXC.N, BB: EXC US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $10/share and believe ExGen's core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $18/share based on a 15x terminal PE multiple. We also add $5/share value provided by PepCo. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

Analyst Certification

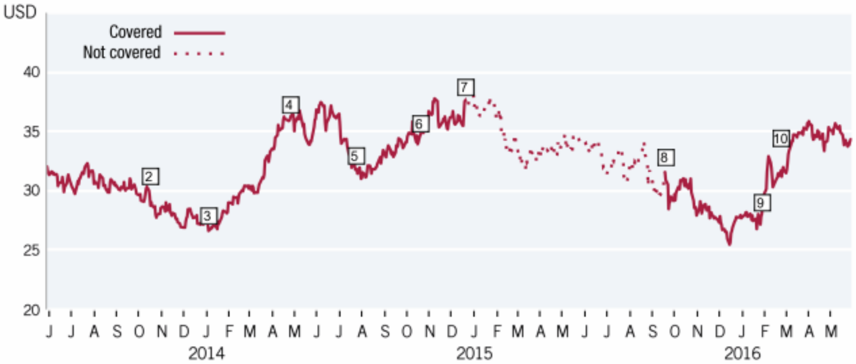
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	14-Oct-13	2	*29.00	30.02
3	03-Jan-14	*3	*21.00	26.62
4	24-Apr-14	3	*27.00	36.01
5	23-Jul-14	3	*30.00	31.76
6	17-Oct-14	*2	*37.00	34.38
7	18-Dec-14	Coverage terminated		
8	17-Sep-15	*3	*27.00	31.57
9	26-Jan-16	*2	27.00	27.84
10	22-Feb-16	*3	27.00	31.69

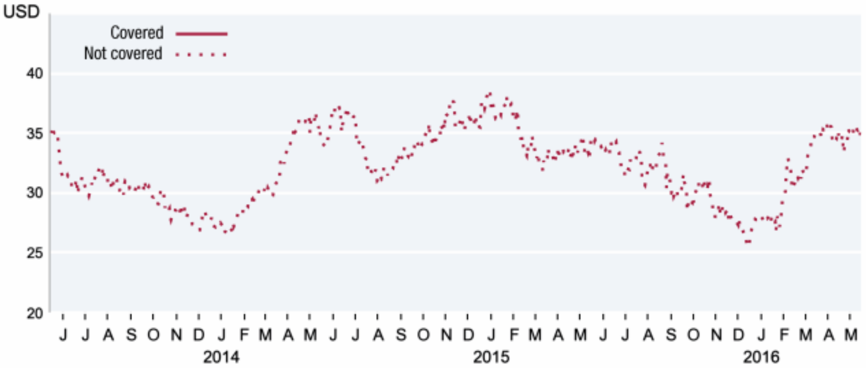
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating		
Data current as of 31 Mar 2016	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	39%	13%
% of companies in each rating category that are investment banking clients	65%	62%	62%

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Exelon Corporation

EXC – BUY – Clinton and Quad Cities to Retire; Not Waiting for IL; Positive in the Long Run and More Needed

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FLASH NOTE

SECTOR: Power and Utilities

June 2, 2016

What's new? EXC (BUY, $34.41) announced plans to retire the Clinton and Quad Cities nuclear facilities in June 2017 and June 2018, respectively, resulting in one-time charges of $150-200mm in 2016. The announcement comes after Quad Cities failed to clear the 2019/2020 PJM auction, Clinton saw insufficient capacity prices clear in MISO, and legislation (Senate Bill 1585) intended to provide relief for nuclear plants stalled in Illinois. EXC previously indicated it would close Clinton in 2017 and Quad-Cities in 2018 if legislation didn't pass by the end of the spring session so shouldn't be a surprise. **The more rationalization of merchant assets, the better the market opportunity – IPPs, especially DYN (BUY, $19.74), are beneficiaries of this trend.**

Guggenheim's quick-take: We weren't expecting IL legislation to pass, so incrementally positive considering plants were operating at a loss. EXC didn't give policy makers much time, calling for action before the end of the spring session, so we aren't surprised it didn't come to a vote, and we expected these plants to close. The asset retirement dates are consistent with refueling outages and beyond any capacity commitments. **Both assets, as discussed in the past, aren't covering their operating costs, return on invested capital and generating negative cash flow – shutdown should be CF/EPS accretive.** As a reminder, the Plants have lost ~$100mm in CF/year since '09 and Management highlights negative CF of $140mm on '17 forwards ex basis and unit contingent risk – vs. our model of $155mm negative FCF using our 3/31 curves.

NY gaining traction quickly to save certain nuclear plants – outside of Clinton and Quad Cities move - Byron (Ill), Ginna (NY), Nine Mile (NY), Oyster Creek (NJ) and Three Mile Island (PA) are ones to watch with the remaining EXC fleet. NY looking to provide support for in-state nuclear including Ginna and Nine Mile plants (similar structure as LCPS in Illinois). As a reminder, the Clean Energy Standard proceeding in NY is considering expanding the state's large-scale renewable energy proceeding and designing a comprehensive program that would include compensation for all forms of non-emitting generation, such as nuclear. Nuclear accounts for one-third of NY's electric mix, so the governor acknowledges it is essential to carbon-reduction and energy policy, regulators recognize a NT life-line is more cost-effective than planning around retirement, and the NY-ISO recently cautioned losing ETR's (NEUTRAL, $76.63) 851MW Fitzpatrick facility would threaten state reliability – everyone appears to be on board in support of nuclear. For additional thoughts on the viability of nuclear, see our note HERE.

A positive lateral to DYN. As we highlighted in our DYN note (see HERE), **we were getting a sense the Clinton announcement was forthcoming and, now that it is confirmed, a net positive for DYN – could swing DYN's incremental 500MW shutdown that has yet to be announced.** As also highlighted in the note, Zone 4 changes in the next years' auction aren't expected to provide enough support to prompt a long-term decision on any assets including a coal plant - available capacity far exceeds local clearing requirements. Asset rationalization short of MISO joining PJM is the only real solution, in our view.

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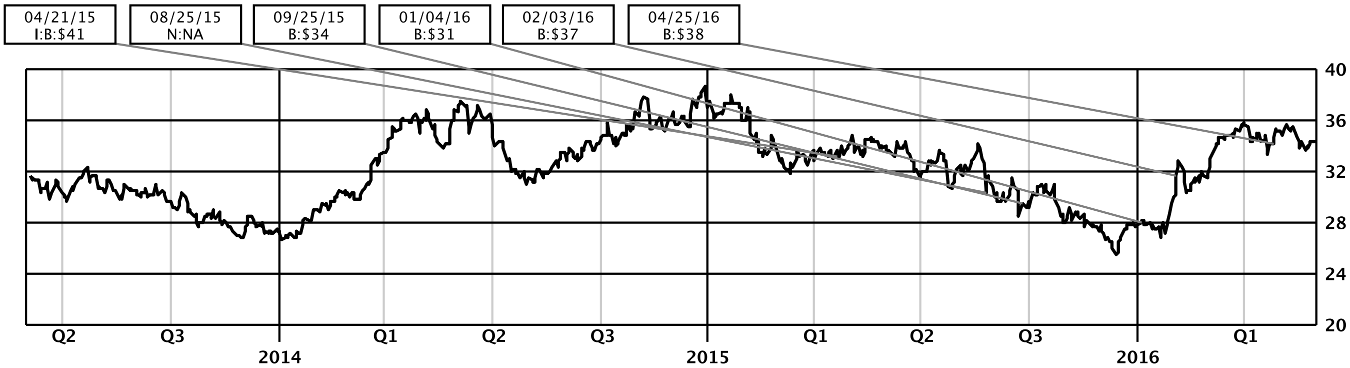

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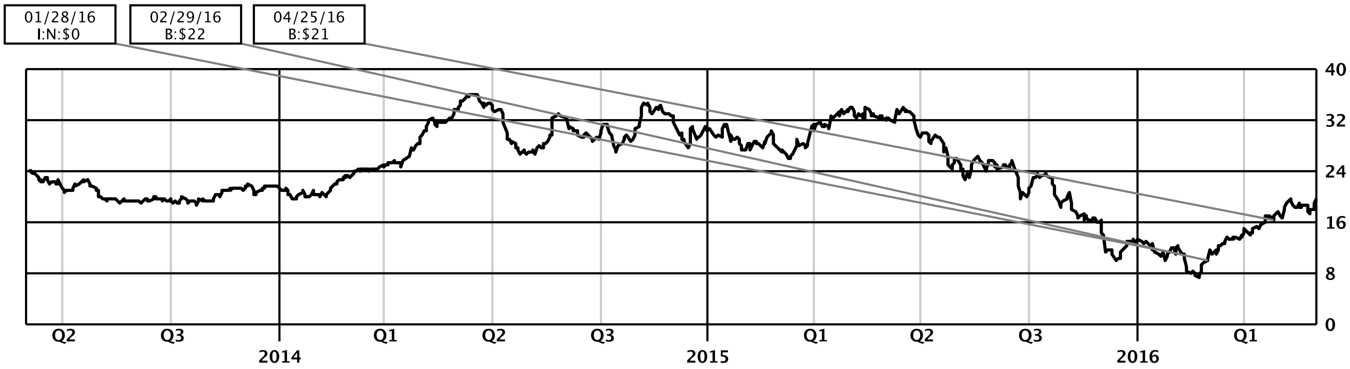

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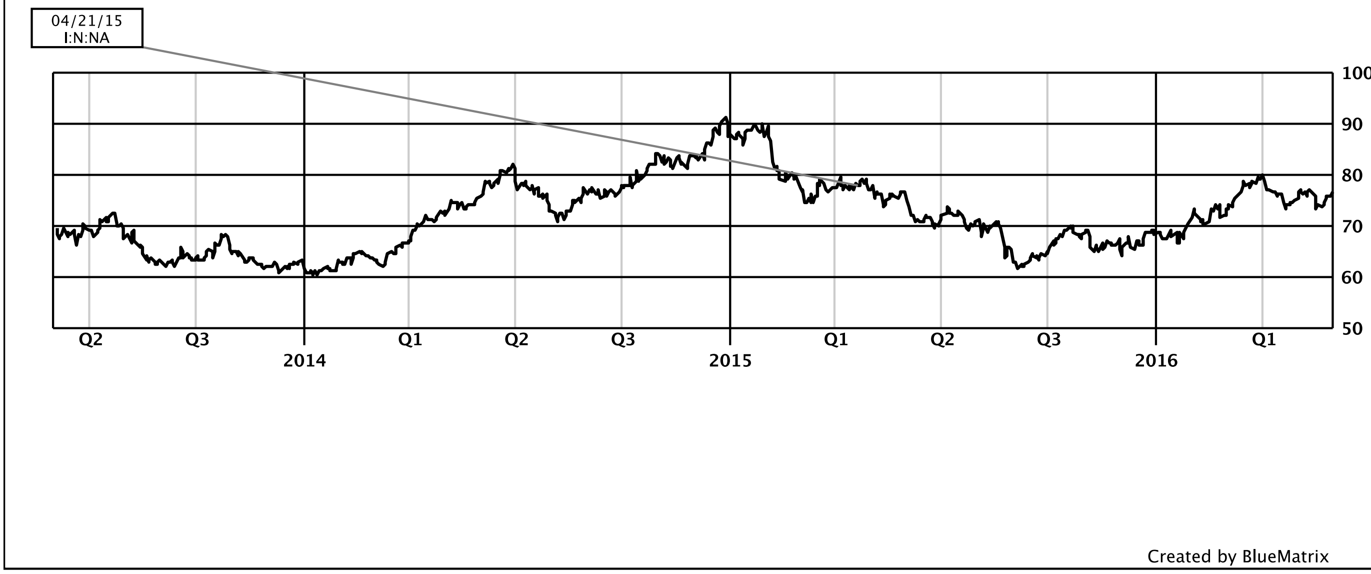

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2 June 2016

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Exelon Corp.

EXC: The Nuclear Option

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 39.00
Price (01-Jun-2016): USD 34.41
Potential Upside/Downside: 13%
Tickers: EXC

Exelon announces closure plans for Clinton and Quad Cities nuclear plants

Exelon had previously stated that without legislation in Illinois to compensate Clinton and Quad Cities for their emission free generation by May 31, the plants would be closed June of 2017 and June of 2018, respectively. The Illinois Spring legislative session came to an end with no vote on SB 1585, this lack of progress on the legislation has prompted Exelon to move forward with the plant closures. Although the possibility exists for this decision to be reversed, it would require enacted legislation prior to this fall, as September marks when Clinton would be de-designated in MISO beginning summer of 2017. Also within 30 days Exelon expects to make permanent shutdown notifications to the Nuclear Regulatory Commission (NRC).

Based upon the decision to close Clinton and Quad Cities, Exelon has stated it would do the following:

- Recognize a one-time charge of $150M-$200M relating to materials and suppose inventory reserve adjustment, employee related costs and CWIP impairment.
- Potentially recognize one-time charges in 2017 and 2018 up to $25M/year Accelerate approximately $2B of depreciation and amortization through the announced shutdown dates.
- Cancelling fuel purchases and outage planning.

What does plant closure ultimately mean?

As we have stated previously, either nuclear plant closure or subsidization is accretive to our estimates for earnings and cash flows for Exelon (exclusive of one-time charges). Per company reports Clinton and Quad Cities have lost a combined $800M over the past 7 years despite top level plant operation. The expectation was for $140M in pretax cash losses in 2017 for these plants. Given Quad Cities will continue to operate through June of 2018 and Clinton will operate through June 2017, the full accretion from this decision will not be realized until 2019. There will ultimately be discussions and noise surrounding the decision both politically and financially; however, the announcement today shows that Exelon is committed to making financially sound decisions no matter how difficult those decisions may be.

A quick note on decommissioning. There will likely be a lot of noise surrounding what the costs to Exelon may be for decommissioning Clinton an Quad Cities. Exelon has highlighted some potential shortfalls on minimum funding levels and potential need for parent guarantees. It should be noted that the ultimate shortfall and need for financial guarantees will be highly dependent upon which decommissioning option is selected. Our view is that SAFSTOR will be the ultimate choice which provides for a longer-time horizon prior to when significant decommissioning spending is required. This time frame allows large flexibility in reaching funding level thresholds. For a more detailed examination of decommissioning please see our note from last fall North America Power & Utilities: Nuclear Decommissioning a Question of Funding.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	34.41 USD	30.00 USD	1.15	3.63	3.70	30.53	Utilities - Diversified	Standard
01 Jun 2016	01 Jun 2016			01 Jun 2016	01 Jun 2016	01 Jun 2016		

Morningstar Pillars	**Analyst**	**Quantitative**
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.04	0.86	1.05	1.01
Price/Earnings	17.9	15.6	17.0	21.0
Forward P/E	13.3	—	15.7	14.4
Price/Cash Flow	4.1	5.1	5.8	11.6
Price/Free Cash Flow	—	74.7	11.2	17.6
Trailing Dividend Yield%	3.63	4.65	3.51	2.19

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real

Investment Thesis

Travis Miller, Sector Director, 06 October 2015

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Travis Miller, Sector Director, 02 June 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 01 Jun 2016	34.41 USD 01 Jun 2016	30.00 USD	1.15	3.63 01 Jun 2016	3.70 01 Jun 2016	30.53 01 Jun 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,787	9,896	27.70	14.62
FirstEnergy Corp FE	USD	14,045	14,998	16.50	20.53
Entergy Corp ETR	USD	13,697	11,203	-3.07	0.00

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 24 March 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Supreme Court Sides With Demand Response; No Fair Value Impacts

Andrew Bischof, CFA, Eq. Analyst, 25 January 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for U.S. power producers and diversified utilities after the U.S. Supreme Court issued a 6-2 decision effectively supporting the Federal Energy Regulatory Commission's Order No. 745.

The decision on its face appears to be a win for demand response providers and a loss for power producers such as NRG Energy, Dynegy, and Calpine. However, we think the actual impact on energy and capacity prices will be muted. Near-term capacity prices might go down, but energy prices should go up since demand response has much higher marginal costs than conventional generation. We expect the trade-off to be mostly neutral.

Despite the Supreme Court win, demand response faces other challenges. Mid-Atlantic grid operator PJM is implementing rule changes that hurt the economics of demand response and should boost margins for conventional generators. We expect little change in the amount of demand response that clears the 2019-20 base capacity auction and are maintaining our long-term outlook. Demand response participation might even drop if PJM continues to make rule changes recommended by the market monitor. This would be a benefit for conventional generators.

Ultimately we think demand response market saturation will be the limiting factor. As demand response gains market share, capacity values will go down. This will erode the profitability for new demand response entrants since demand response providers typically receive more than 90% of their revenue from capacity payments.

Exelon Surprises With 2.5% Dividend Growth Target

Travis Miller, Sector Director, 03 February 2016

We are reaffirming our $35 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company reported earning $2.49 per share on an adjusted basis in 2015. This was in line with our estimate and within management's guidance range.

We think the biggest positive for shareholders was management's announcement that it plans to recommend to the board a 2.5% annual dividend increase for at least the next three years, likely starting in the second half of 2016. We had not expected a dividend increase until at least 2018, given our expected plateau in earnings the next three years.

If the board accepts this policy, we estimate Exelon's payout ratio will top 50% by 2018. This is at the high end of what we think is reasonable for Exelon's cash flow profile and debt load. We're not yet entirely convinced that management has added sufficient regulated distribution earnings and contracted generation revenue to decouple cash flows from volatile energy markets.

Management continues to evaluate the economic viability of at least three nuclear plants. We assume in our long-term forecasts that Exelon closes three plants representing 25% of its fleet capacity. We also expect a final Pepco merger decision by early March, in line with timeline indications from Washington, D.C., regulators. We continue to assume $1 per share of value dilution based on a 75% probability of the deal closing as proposed. We don't think ongoing legal challenges in other states will be an impediment.

We remain long-term bullish on fixed-price PJM power, especially in the East, where we expect gas prices to strengthen as takeaway capacity increases and demand remains more robust than other regions. This drives the bulk of the value upside as of early February. Our $8.4 billion midcycle gross margin outlook for Exelon Generation remains at the high end of management's 2018 outlook range.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain

Travis Miller, Sector Director, 11 February 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

Pepco Reports In-Line 2015 Earnings; Exelon Believes D.C. Will Approve Merger by March 4

Charles Fishman, Eq. Analyst, 22 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Pepco reported in-line 2015 earnings. Our narrow moat and stable moat trend ratings are also unchanged for both companies.

We continue to believe Exelon's proposed acquisition of Pepco has a 75% chance of gaining the approval of the District of Columbia Public Service Commission and being completed following an agreement with D.C. Mayor Muriel Bowser that sweetened the benefits for customers and provided other benefits to the district.

Pepco Holdings or Exelon may terminate the merger agreement if the D.C. commission fails to issue a final order approving the merger without condition or modification of the terms of the settlement agreement by March 4. Exelon has made clear that if the D.C. commission does not approve the deal by March 4, it will terminate the agreement. However, Exelon's CEO recently said he believes D.C. will approve the transaction at its next meeting before the termination date.

Pepco reported 2015 adjusted operating earnings of $1.28, in line with our estimate and up from $1.27 per share in 2014. Earnings were favorably affected by rate increases due to infrastructure investment, partially offset by higher operation and maintenance expenses.

Our stand-alone fair value estimate for Pepco remains $21 per share, a 23% discount to Exelon's $27.25 cash offer. Despite this premium, the deal as proposed on a probability-adjusted basis is too small to have a material impact on our Exelon fair value estimate.

The Never-Ending Exelon-Pepco Saga Gets Another Two Weeks of Life, but No Real Changes

Travis Miller, Sector Director, 29 February 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after Washington, D.C., regulators again rejected Exelon's offer to acquire Pepco but left open an option for the companies to gain approval.

We still include $1 per share of value dilution in our fair value estimate for Exelon and $5 per share of incremental value for Pepco, based on a 75% probability that the companies will close the transaction at Exelon's $27.25 cash offer. We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Even though Washington, D.C., regulators formally rejected the deal, we think the companies are committed enough to closing the deal that there is a good likelihood they will accept the terms set by regulators. The terms sap additional value from shareholders to benefit customers through rate refunds and benefits, limiting cost reductions, returning merger synergies to customers, and limiting recovery for some costs. However, the D.C. service territory is not big enough for the incremental lost value to have an impact on our valuation of the deal. The terms also set strict ringfencing provisions, but those are typical and don't have any impact on our valuations.

Exelon management had said they would terminate the deal if regulators did not approve it by March 4, but we don't think that date is sacred any longer, as regulators have said the companies have until March 11.

Reaffirming Outlook for Now, but Politics Could Yank Cord Out From Exelon-Pepco

Travis Miller, Sector Director, 02 March 2016

We are reiterating our $26 fair value estimate for Pepco Holdings and $35 fair value estimate for Exelon after fissures opened in the settlement negotiations related to Washington, D.C., regulatory approval for the companies' proposed merger. As of midday Wednesday, Pepco was trading at a 10% discount to our fair value estimate and a 15% discount to Exelon's $27.25 per share cash offer price, both of which we think offer good return opportunities.

Our Pepco fair value estimate continues to include a 75% probability that the settling parties--including D.C. Mayor Muriel Bowser's office, the D.C. regulatory staff, the lead consumer advocate group, and the companies--will reach an agreement regulators will approve. We think the companies remain committed to the deal and will accept any final settlement terms regulators approve. The key points of contention appear to involve less than $100 million, an immaterial impact on the $6.8 billion deal value.

However, we think the companies could be losing control over the outcome, and the deal could now be a proxy political fight among several D.C. entities. If we get more information that supports this theory, we would be inclined to cut our probability of the deal closing to 50%, leading to a $2 per share cut in Pepco's fair value estimate. We include $5 per share of incremental value in our fair value estimate for Pepco. A probability change is not likely to have a material impact on the $1 per share of value dilution we include in our Exelon fair value estimate related to the deal.

We continue to think Exelon management would be willing to go past its previously stated March 4 deadline if settlement negotiations move forward.

We are reaffirming our narrow moat and stable moat trend ratings for both companies.

Exelon and Pepco Join to Sing a Duet: At Last

Travis Miller, Sector Director, 24 March 2016

We are reaffirming our $35 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after Washington, D.C., regulators approved its acquisition of Pepco with a 2-1 vote on Wednesday afternoon. The companies closed the acquisition following the vote, nearly two years after initially announcing the deal. Pepco stock will no longer trade as of March 24.

For Exelon, we have already incorporated $1 per share of value dilution into our fair value estimate, based on a 75% probability of the deal closing at Exelon's $27.25 per share cash offer. Using a 100% probability doesn't have a material impact on that dilution estimate.

We were confident that the management teams would negotiate until they received deal approval, even though the companies missed several self-imposed deadlines. The terms of the settlement in Washington, D.C., will benefit customers there, but they are too small to have a material impact on the $12 billion deal, including debt.

Cutting Midcycle Energy Prices; Fair Value Estimates for Power Producers to Fall 10%-40%

Travis Miller, Sector Director, 06 April 2016

We are cutting our midcycle assumptions for Brent oil, U.S. Henry Hub natural gas, and U.S. and European power prices. This will lead us to cut our fair value estimates 10%-40% for utilities with merchant power market exposure. We are maintaining our midcycle assumptions for coal, Eastern U.S. gas basis, and regional market heat rates.

Our new long-term marginal cost for U.S. natural gas is $3 per thousand cubic feet, down from $4/mcf. The cut is based on a more optimistic outlook for low-cost U.S. gas production primarily as a result of slowing declines in associated gas volumes, as well as improved productivity and resource potential from the Marcellus and Utica. We see more evidence that U.S. shale producers can survive at much lower prices than we previously assumed.

The midcycle gas price cut results in a similar cut to our midcycle U.S. power prices. Our benchmark PJM West around-the-clock midcycle price falls to $30.60 per megawatt hour from $43.35 when including our $0.60/mmBtu gas basis discount. The rest of our U.S. midcycle power prices fall 25%.

Power producers with large coal and nuclear fleets face the biggest fair value estimate cuts. These include Dynegy and NRG Energy. Diversified utilities with large coal and nuclear fleets such as Exelon and FirstEnergy could have

10%-20% fair value estimate cuts as we incorporate the new midcycle prices. Power producers with large gas generation fleets such as Calpine will experience smaller fair value estimate cuts because gas generation should benefit from lower costs and higher run times in our midcycle forecasts.

Our new Brent oil midcycle price is $60 per barrel, down from $70. The long-term structural issue facing crude markets is that the world needs some U.S. production growth, but not nearly as much as tight oil can supply. Our Brent oil price cut will lead us to cut our fair value estimate for Centrica.

We will be publishing updated reports and valuations on all companies within the next week.

Are Utilities Overheated or Are Their Yields too Good to Pass Up?

Travis Miller, Sector Director, 20 April 2016

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Exelon Threatens to Close Clinton, Quad Cities Nuclear Plants...Again

Travis Miller, Sector Director, 06 May 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after management used its strongest language to-date regarding the fate of the beleaguered Clinton and Quad Cities nuclear plants, both in Illinois. Management said it will close the plants by 2017-18 but also said the decision depends on several developments. These are the same contingencies management has used for several years to justify postponing the plant closures.

We continue to assume Exelon closes Clinton, Quad Cities, and two other nuclear plants by 2020. But we think management remains hesitant to pull the cord. The plants could survive if Illinois politicians pass what effectively is a nuclear bailout bill; Clinton clears the Mid-Continent Independent System Operator's 2017-18 capacity auction next spring; or Quad Cities clears the mid-Atlantic capacity auction later this month. Quad Cities cleared last year's 2017-18 transitional capacity auction at $151.50 per megawatt-day but did not clear the 2018-19 auction at $215/MW-day. We expect similar clears in this year's 2019-20 auction.

Exelon earned $0.68 per share on an adjusted basis and reaffirmed its $2.40-$2.70 per share 2016 guidance, in line with our estimates. It continues running its nuclear fleet at world-class levels, achieving a 95.8% capacity factor in the quarter and proving it can capture the full upside if energy prices rebound. Exelon also filed rate cases at two of its newly acquired Pepco utilities, which should boost earnings and returns on the pricey acquisition if the utilities receive constructive decisions.

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

Andrew Bischof, CFA, Eq. Analyst, 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

Andrew Bischof, CFA, Eq. Analyst, 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real

Travis Miller, Sector Director, 02 June 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

Exelon Corp EXC ★★★ᵠ

Last Close 01 Jun 2016	**Quantitative Fair Value Est** 01 Jun 2016	**Market Cap** 01 Jun 2016	**Sector**	**Industry**	**Country of Domicile**
34.41	33.24	30,532.5 Mil	Utilities	Utilities - Diversified	USA United States

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	91	87	87
Valuation	Fairly Valued	42	58	46
Quantitative Uncertainty	Medium	96	87	93
Financial Health	Moderate	58	52	58

Source: Morningstar Equity Research

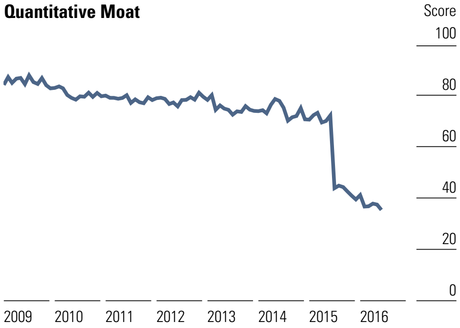
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.04	0.86	1.05	1.01
Price/Earnings	17.9	15.6	17.0	21.0
Forward P/E	13.3	—	15.7	14.4
Price/Cash Flow	4.1	5.1	5.8	11.6
Price/Free Cash Flow	—	74.7	11.2	17.6
Trailing Dividend Yield %	3.63	4.65	3.51	2.19
Price/Book	1.2	1.5	1.3	2.3
Price/Sales	1.1	1.2	1.3	1.9

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	7.2	9.7	9.1	11.8
Return on Assets %	1.8	2.6	3.1	4.7
Revenue/Employee (K)	947.2	958.0	1,229.4	298.7

Quantitative Moat



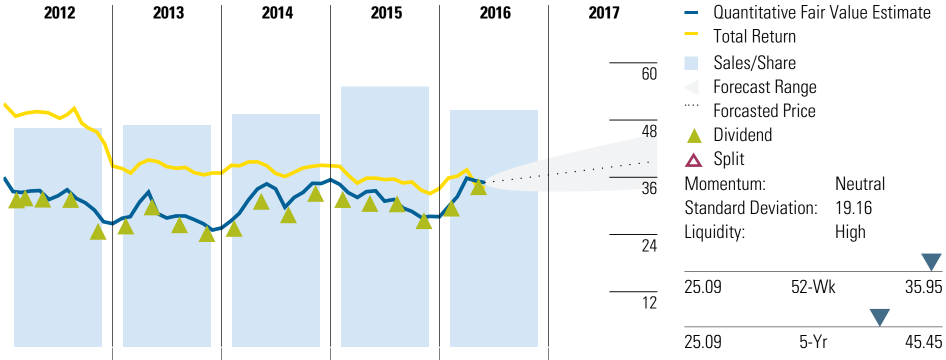
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.7	0.6	0.5
Solvency Score	—	—	628.8	582.5
Assets/Equity	3.7	3.7	2.7	1.7
Long-Term Debt/Equity	0.9	0.9	0.8	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.3	21.5	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	4.9	6.8	0.2	-1.1

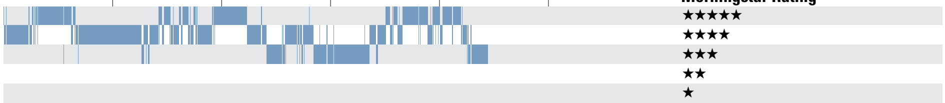
Price vs. Quantitative Fair Value



Momentum: Neutral
Standard Deviation: 19.16
Liquidity: High

	2012	2013	2014	2015	2016	2017
Total Return %	-26.6	-3.0	39.9	-21.8	26.2	
+/– Market (Morningstar US Index)	-42.9	-36.1	27.1	-22.5	22.5	
Trailing Dividend Yield %	5.30	5.31	3.34	4.47	—	
Forward Dividend Yield %	—	—	—	—	3.63	
Price/Earnings	21.0	14.7	15.2	12.3	17.9	
Price/Revenue	1.0	0.9	1.2	0.8	1.1	

Morningstar Ratingᵠ

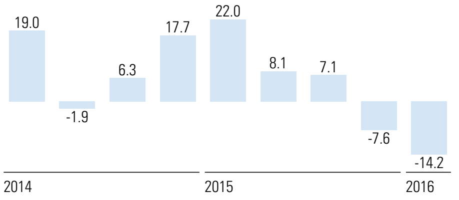


2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	28,190	Revenue
1.5	24.1	6.0	10.2	7.4	-4.3	% Change
4,480	2,380	3,656	3,096	4,409	3,526	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-20.0	% Change
2,495	1,160	1,719	1,623	2,269	1,749	Net Income
4,853	6,131	6,343	4,457	7,616	7,599	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,042	Capital Spending
811	321	948	-1,620	-8	-443	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	-1.6	% Sales
3.75	1.42	2.00	1.88	2.54	1.93	EPS
-3.1	-62.1	40.8	-6.0	35.1	-24.1	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.49	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.24	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.98	Book Value/Share
855,000	857,000	860,000	920,000	887,314	887,314	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	7.2	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.8	Return on Assets %
13.2	4.9	6.9	5.9	7.7	6.2	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.28	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.3	Financial Leverage
62.3	56.8	56.9	52.6	55.6	57.9	Gross Margin %
23.7	10.1	14.7	11.3	15.0	12.5	Operating Margin %
12,189	18,346	18,271	20,010	24,286	29,955	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,717	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	—	—	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	—	—	—	—
2015	0.80	0.74	0.69	0.34	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

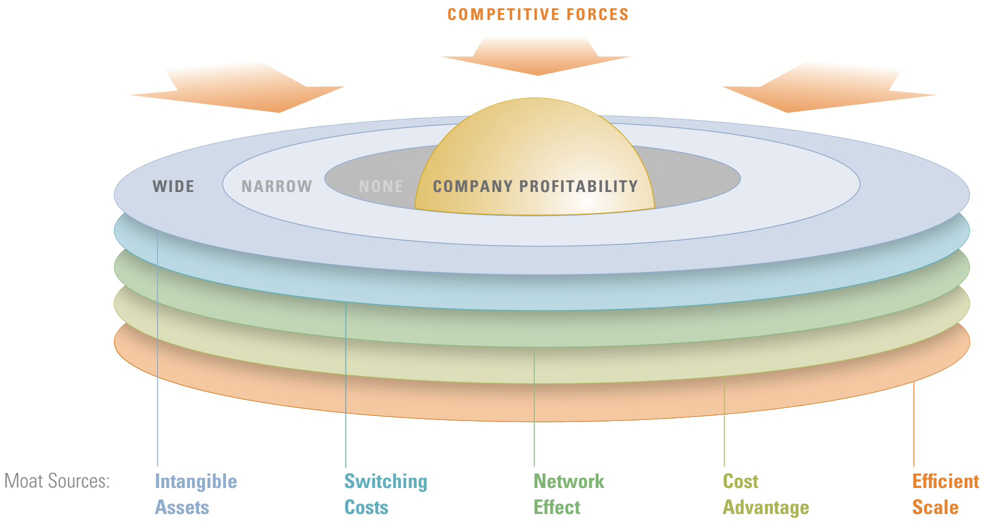
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

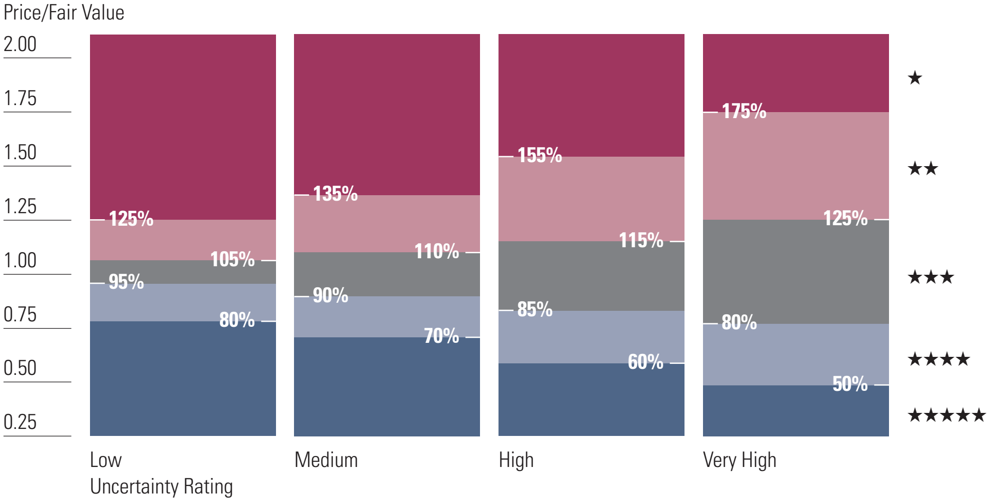
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

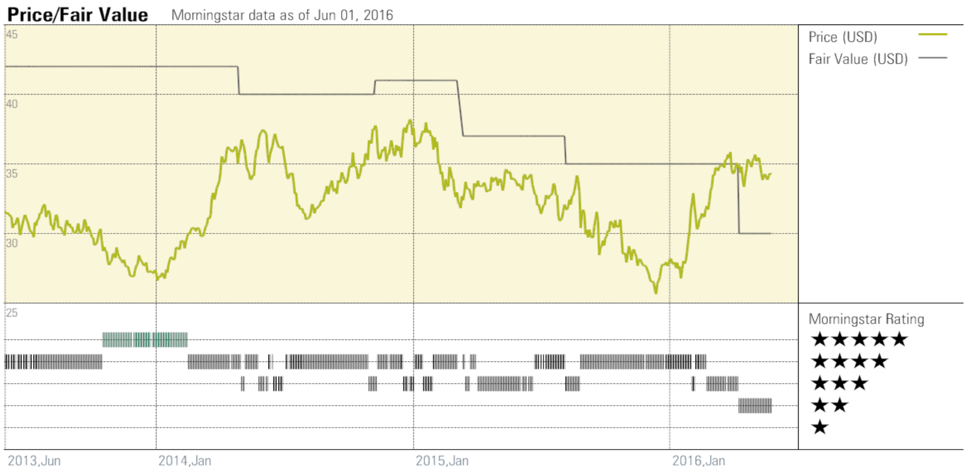
If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 01 Jun 2016	34.41 USD 01 Jun 2016	30.00 USD	1.15	3.63 01 Jun 2016	3.70 01 Jun 2016	30.53 01 Jun 2016	Utilities - Diversified	Standard



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Exelon Corp EXC (XNYS)

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★★ 01 Jun 2016	34.41 USD 01 Jun 2016	30.00 USD	1.15	3.63 01 Jun 2016	3.70 01 Jun 2016	30.53 01 Jun 2016	Utilities - Diversified	Standard

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Consider Buy**	**Consider Sell**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.41 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real

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The primary analyst covering this company does not own its stock.

Research as of 02 Jun 2016
Estimates as of 13 Apr 2016
Pricing data through 01 Jun 2016
Rating updated as of 01 Jun 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 02 Jun 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's

Vital Statistics

Market Cap (USD Mil)	30,532
52-Week High (USD)	35.95
52-Week Low (USD)	25.09
52-Week Total Return %	4.9
YTD Total Return %	26.2
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.15

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*14.3*	*14.6*
EV/EBITDA	9.5	6.6	*9.8*	*9.6*
EV/EBIT	16.7	10.2	*15.7*	*15.6*
Free Cash Flow Yield %	-5.1	0.0	*-5.5*	*-4.0*
Dividend Yield %	3.3	4.3	*3.8*	*3.9*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

auction.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.41 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	2016	2017	5-Year Proj. CAGR
Revenue	7.8	6.0	10.2	7.4	-13.6	10.5	1.0
EBIT	22.8	53.6	-15.3	42.4	-5.5	0.5	4.5
EBITDA	17.2	36.3	-6.9	26.8	-2.8	1.8	3.9
Net Income	-1.6	-7.9	-4.0	7.7	-0.3	-1.8	5.3
Diluted EPS	-4.4	-12.3	-4.4	4.2	-3.6	-1.9	4.5
Earnings Before Interest, after Tax	15.0	-13.0	53.5	13.7	-37.4	3.1	-3.6
Free Cash Flow	-33.9	-22.3	-92.0	365.5	-253.2	-31.1	33.2

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	13.7	14.7	11.3	15.0	16.4	14.9	16.9
EBITDA Margin %	22.1	23.3	19.7	23.3	26.2	24.2	26.1
Net Margin %	7.9	8.6	7.5	7.6	8.7	7.8	8.9
Free Cash Flow Margin %	2.8	6.1	0.4	1.9	-3.4	-2.1	1.9
ROIC %	3.1	2.5	2.5	4.1	4.6	5.0	5.3
Adjusted ROIC %	3.2	2.7	2.7	4.3	4.8	5.2	5.6
Return on Assets %	2.2	2.2	2.0	2.5	2.3	2.2	2.6
Return on Equity %	8.0	7.7	7.1	9.3	8.3	7.8	8.7

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.49	0.47	0.49	0.50	0.49	0.49	0.48
Total Debt/EBITDA	3.81	3.46	4.12	3.84	4.02	4.04	3.74
EBITDA/Interest Expense	5.33	4.28	5.08	6.64	5.85	5.57	5.75

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	14.3	14.6
EV/EBITDA	9.5	6.6	9.8	9.6
EV/EBIT	16.7	10.2	15.7	15.6
Free Cash Flow Yield %	-5.1	0.0	-5.5	-4.0
Dividend Yield %	3.3	4.3	3.8	3.9

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.41 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Exelon Corp EXC (NYSE) | ★★

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34.41 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Exelon Corp EXC (NYSE) | ★★

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34.41 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Exelon Corp EXC (NYSE) | ★★

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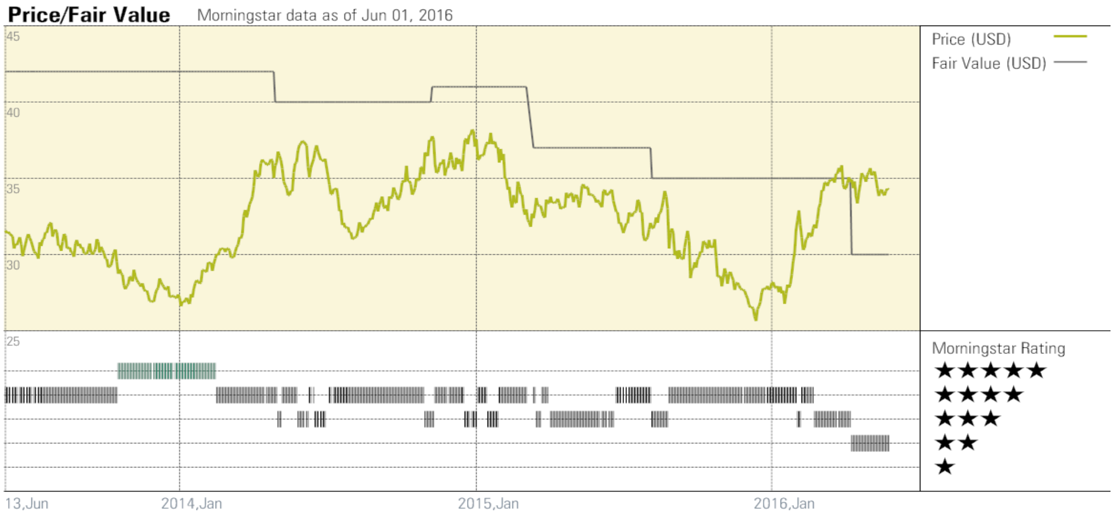

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34.41 USD	30.00 USD	21.00 USD	40.50 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: PNW, EXC, NEE, SO, Solar, Renewables, Coal

June 2, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

PNW – AZ rate filing looks to overhaul rate design to support sustainable infrastructure investment (see note HERE)
Solar – GTM Research forecasts lower solar costs than DOE's 2020 goal
EXC – Plans for Illinois nuclear plants expected to be announced today
Renewables – EIA data shows renewables reached 10% of US power generation for first time
Coal – Bankrupt coal producer claims utilities breached supply contracts in bankruptcy court
NEE – Hawaii regulators aren't in a rush to meet merger agreement deadline
SO – Kemper monthly status report shows an additional $19mm through April 2016

PNW – AZ rate filing looks to overhaul rate design to support sustainable infrastructure investment

- PNW's Arizona utility, APS, filed a rate case (E-01345A-16-0036) seeking a net increase of $166mm to become effective 7/1/17 premised upon a 10.5% ROE and 55.8% equity ratio on a $6.8bn rate base in the ACC's jurisdiction (total rate base is $8bn).
- In addition to traditional utility investments and new investments to modernize the grid and facilitate clean energy, APS is looking to overhaul rate design to improve cost recovery and eliminate cross-subsidization between customer classes.
- APS is looking to better align rates with its cost of service by creating a new sub-category for customers with solar, and shift from volumetric rates based on customer usage to fixed rates based on peak demand and basic service costs incurred by all customers connected to its grid.
- APS is also looking to modify net metering rates to align with avoided costs rather than compensating excess generation at the full retail rate.

Guggenheim takeaway: *Rate case could provide upside to our numbers (see our note HERE). The filing is in line with our expectations, with inputs slightly higher than modeling assumptions driving our estimates and a heavy focus on rate design. Our current estimates assume a 10.1% allowed (vs 10.5% ask) on a $6.43bn YE ratebase ($6.77B ask) and revenue increase of $60mm (vs. $165.88mm ask). Rate base and revenue ask are higher than our estimates and so could provide upside. Rate filing not contentious – outside of rate design, filing not expected to be contentious. As a reminder, we have hosted events with various ACC commissioners over the past few months – for examples, see Power Breakfast: Guggenheim-Hosted Utility Commissioner Meetings and Power Breakfast Part Deux: Guggenheim-Hosted Utility Commissioner Meetings.*

Solar – GTM Research forecasts lower solar costs than DOE's 2020 goal

- GTM Research estimates utility-scale solar costs will decline 21% to $0.99/watt by 2020.
- Its cost estimate comes in just below the Department of Energy's (DOE) $1/watt goal established in 2011 through the SunShot initiative.
- The DOE estimated their $1/watt goal would allow solar to meet ~14% of U.S. power demand by 2030.

Guggenheim takeaway: *The estimate is in line with our $0.92-$1.65/watt estimate, which we discuss in detail in our LCOE analysis of various generation technologies (see HERE). While not yet competitive with combined-cycle gas turbines (we estimate $0.56-0.93/watt), utility-scale solar costs have continued to come down as utilities deploy low-cost capital in solar to meet state RPS goals and non-utility investors have developed innovative financing vehicles to lower their cost of capital in order to participate in the growth (i.e. tax equity, YieldCos).*

EXC – Plans for Illinois nuclear plants expected to be announced today

- Local media notes EXC is expected to announce the first steps toward closing its Clinton and Quad Cities nuclear facilities today.
- Expectations stem from legislation that would have provided relief for the plants, but did not come to a vote as the legislative session ended 5/31/16.
- EXC indicated they would retire the plants if the legislation was not passed before the end of this legislative session.

Guggenheim takeaway: *We weren't surprised the legislation stalled considering the tight deadline, but would still view this as incrementally positive for EXC as these plants were operating at a loss. Also a positive lateral to DYN – could swing DYN's incremental 500MW shutdown that has yet to be announced; see our recent note HERE.*

Renewables – EIA shows renewables reached 10% of U.S. power generation for first time

- According to data from the Energy Information Administration (EIA), renewables accounted for 10.6% of U.S. power generation in March, up from 7.7% in March 2015 and 2.6% ten years ago.

Guggenheim takeaway: *A major milestone for renewable generation, and as we mention above, we expect growth will likely continue as solar costs continue to decline and become increasingly competitive with conventional generation sources, and as utilities develop large-scale projects to support RPS goals in states with relatively low cost power (which makes the economics more challenging for developers).*

Coal – Bankrupt coal producer claims utilities breached supply contracts in bankruptcy court

- In its recent bankruptcy court proceeding, coal producer Peabody Energy (BTU, NC, $1.08) claimed PacifiCorp (BRK.B, NC, $142.44) and a PNW utility in Arizona (APS) breached a long-term coal supply contract by refusing to accept agreed-upon shipments of coal to the Cholla power plant that they jointly own.
- Peabody claims the utilities refused May and June coal shipments but accepted deliveries after the producer filed for bankruptcy protection in April.

Guggenheim takeaway: *The utilities didn't comment on their plant's availability or other issues that could have caused them to take less coal, but they have been looking to terminate the contract with Peabody – which should be expected from utilities and IPPs with out-of-the-money coal contracts in a depressed gas price environment.*

NEE – Hawaii regulators aren't in a rush to meet merger agreement deadline

- Local media reports that as the 6/3 deadline in the merger agreement between NEE and HE (NC, $32.64) approaches, regulators indicate they won't be rushed to make a decision regarding approval of the proposed transaction.
- HE indicated the process could continue beyond 6/3 without having to affirmatively extend the deadline; NEE reportedly declined to comment.

Guggenheim takeaway: *While the process could continue past 6/3, we think NEE simply pays the $90mm break-up fee and walks away from the uphill battle in Hawaii; potentially focusing its efforts back on Oncor in Texas as its arrangement with Hunt has been unwinding. We think these assets are a great strategic fit for NEE; despite a potential equity raise, the transaction should be noticeably accretive – this should not present an overhang on NEE shares.*

SO – Kemper monthly status report shows an additional $19mm through April 2016

- SO reported an incremental $19mm in the Kemper's monthly status report through April 2016 versus the previous month.

Guggenheim takeaway: *The first-of-its-kind project continues to cast uncertainty as we approach its estimated 3Q16 in-service date; hopefully the ultimate schedule remains in place and there isn't much room to incur incremental costs.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
2. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
3. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
4. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
5. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
6. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
7. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
8. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
9. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
10. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
11. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
12. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
13. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
14. EEI Full Recap
15. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
16. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
21. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/02	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	EIX to file summary of settlement and implementation status
06/03	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Regulatory approval clause in the merger agreement expires
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other upcoming events and proceedings

May	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
May	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
May	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
May	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/01/2016)

As of 6/1/2016

								Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	**Company**	**Mkt. Cap ($Bn)**	**Rating**	**Target Price[1]**	**Current Price**	**Price Change**	**Diluted Shares**	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	31.9	Buy	$68	$64.89	5%	491	3.63	3.87	4.17	7%	17.9	16.8	15.6	5,512	5,849	6,246	6%	9.6	9.2	8.8	3.67	3.85	4.09	6%	17.7	16.9	15.9	5,663	5,503	5,339	(3%)	9.4	9.8	10.3
ED	Consolidated Edison, Inc.	22.3	Neutral	$70	$73.65	-5%	303	3.99	4.15	4.31	4%	18.5	17.7	17.1	3,867	4,058	4,226	5%	9.6	9.4	9.2	4.00	4.16	4.32	4%	18.4	17.7	17.1	3,676	3,880	4,096	6%	10.1	9.8	9.5
D	Dominion Resources, Inc.	44.2	Buy	$78	$71.68	9%	616	3.85	3.92	4.40	7%	18.6	18.3	16.3	6,255	6,470	7,054	6%	11.8	11.4	10.6	3.79	3.91	4.34	7%	18.9	18.3	16.5	5,673	6,332	6,724	9%	13.0	11.7	11.1
DTE	DTE Energy Company	16.4	Buy	$97	$91.12	6%	179	5.03	5.27	5.66	6%	18.1	17.3	16.1	2,628	2,728	2,925	5%	9.3	9.2	8.7	4.95	5.26	5.63	7%	18.4	17.3	16.2	2,541	2,704	2,846	6%	9.7	9.3	9.0
DUK	Duke Energy Corporation	54.4	Buy	$86	$79.02	9%	689	4.55	4.61	4.79	3%	17.4	17.1	16.5	9,033	8,878	9,383	2%	11.2	11.6	11.1	4.58	4.75	4.99	4%	17.3	16.6	15.8	9,310	10,002	10,245	5%	10.8	10.3	10.2
EIX	Edison International	23.3	Neutral	$70	$71.57	-2%	326	3.85	4.15	4.33	6%	18.6	17.2	16.5	5,011	5,372	5,690	7%	7.5	7.1	6.9	3.89	4.13	4.33	5%	18.4	17.3	16.5	4,441	4,695	4,935	5%	8.4	8.1	7.9
ES	Eversource Energy	17.6	Buy	$59	$55.52	6%	317	2.95	3.19	3.43	8%	18.8	17.4	16.2	2,607	2,569	2,625	0%	10.9	11.4	11.5	2.98	3.17	3.36	6%	18.6	17.5	16.5	2,601	2,794	2,871	5%	10.9	10.5	10.5
NEE	NextEra Energy, Inc.	55.4	Buy	$129	$120.15	7%	461	6.35	6.60	7.04	5%	18.9	18.2	17.1	7,019	7,458	7,796	5%	12.5	12.1	11.9	6.18	6.57	7.02	7%	19.4	18.3	17.1	7,960	8,567	9,540	9%	11.1	10.6	9.7
PCG	PG&E Corporation	29.9	Neutral	$59	$60.31	-2%	496	3.67	3.70	3.89	3%	16.4	16.3	15.5	6,500	6,739	7,134	5%	7.4	7.3	7.1	3.73	3.68	3.86	2%	16.2	16.4	15.6	6,154	6,533	6,918	6%	7.8	7.6	7.3
PNW	Pinnacle West Capital	8.3	Neutral	$79	$74.33	6%	111	3.91	4.19	4.43	6%	19.0	17.7	16.8	1,407	1,512	1,608	7%	8.8	8.6	8.2	3.99	4.20	4.41	5%	18.6	17.7	16.9	NA	NA	NA	NA	NA	NA	NA
PPL	PPL Corporation	26.2	Buy	$41	$38.64	6%	677	2.36	2.46	2.60	5%	16.4	15.7	14.9	4,012	4,219	4,461	5%	11.7	11.4	11.0	2.35	2.44	2.52	3%	16.4	15.8	15.4	4,025	4,210	4,450	5%	11.7	11.4	11.0
SO	Southern Company	46.5	Neutral	$47	$49.57	-5%	939	2.91	2.93	3.06	3%	17.0	16.9	16.2	7,011	7,202	7,505	3%	11.5	11.4	11.3	2.85	2.97	3.08	4%	17.4	16.7	16.1	7,177	7,957	8,227	7%	11.3	10.3	10.3
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.60	1%	236	1.18	1.28	1.33	6%	23.4	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	7%	23.4	21.5	20.3	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.3	Buy	$32	$29.01	10%	79	1.34	1.26	1.69	12%	21.6	23.0	17.2	253	249	271	3%	NA	NA	NA	1.32	1.38	1.64	11%	21.9	21.1	17.7	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.3**	**17.7**	**16.3**				**5%**	**10.2**	**10.0**	**9.7**				**6%**	**18.3**	**17.5**	**16.4**				**5%**	**10.4**	**9.9**	**9.7**
Integrated utilities																																			
ETR	Entergy Corporation	13.7	Neutral	$75	$76.63	-2%	179	5.36	5.16	5.17	-2%	14.3	14.9	14.8	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.12	5.30	5.19	1%	15.0	14.5	14.8	3,345	3,517	3,491	2%	9.1	8.9	9.3
EXC	Exelon Corporation	30.5	Buy	$38	$34.41	10%	887	2.53	2.65	2.86	6%	13.6	13.0	12.0	7,686	7,971	8,452	5%	8.0	7.8	7.4	2.53	2.64	2.78	5%	13.6	13.1	12.4	7,371	7,763	9,163	11%	8.4	8.0	6.9
FE	FirstEnergy Corp.	14.0	Buy	$43	$33.07	30%	425	2.87	2.83	2.89	0%	11.5	11.7	11.4	4,322	4,450	4,510	2%	8.4	8.2	8.1	2.68	2.53	2.55	(3%)	12.3	13.1	13.0	4,409	4,452	4,534	1%	8.2	8.2	8.0
PEG	Public Service Enterprise Group	22.8	Buy	$50	$45.04	11%	506	2.92	2.95	3.02	2%	15.4	15.3	14.9	4,097	4,293	4,501	5%	8.3	8.3	8.1	2.88	2.90	2.95	1%	15.6	15.5	15.3	3,991	4,170	4,357	4%	8.5	8.5	8.4
Average											**2%**	**13.7**	**13.7**	**13.3**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.1**	**14.0**	**13.8**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.4	Buy	$20	$15.08	33%	359	0.42	0.87	0.60	20%	36.3	17.2	25.1	1,881	2,144	2,076	5%	9.0	7.7	7.9	0.55	0.93	1.29	53%	27.3	16.2	11.7	1,882	2,017	2,132	6%	9.0	8.2	7.7
DYN	Dynegy Inc.	2.3	Buy	$21	$19.74	6%	117	(1.69)	(1.33)	(0.60)	NA	-11.7	-14.8	-32.9	1,006	1,287	1,490	22%	8.7	7.1	5.9	(0.48)	(0.41)	0.74	NA	-41.0	-48.4	26.7	1,095	1,127	1,338	11%	8.0	8.1	6.6
NRG	NRG Energy, Inc.	5.3	Buy	$16	$16.85	-5%	315	0.75	(0.51)	(0.03)	NA	22.5	-33.3	-537.9	3,104	2,808	2,941	(3%)	6.9	7.4	6.7	1.08	0.34	1.09	0%	15.6	49.9	15.5	3,103	2,759	2,960	(2%)	6.9	7.5	6.7
TLN	Talen Energy Corp	1.5	Neutral	$7	$12.03	-42%	129	0.41	0.63	0.38	-4%	29.4	19.0	31.9	756	788	733	(1%)	6.8	6.3	6.7	0.98	0.39	0.19	(56%)	12.3	30.5	63	763	755	698	(4%)	6.7	6.6	7.1
Average											**8%**	**19.1**	**-3.0**	**-128.5**				**6%**	**7.8**	**7.2**	**6.8**				**(1%)**	**3.5**	**12.0**	**29**				**3%**	**7.6**	**7.6**	**7.0**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$15.53	-3%	183	0.92	1.21	1.31	19%	16.9	12.8	11.8	806	984	1,093	16%	8.0	6.8	6.9	0.96	0.94	0.97	0%	16.1	16.5	16.0	821	903	1,010	11%	7.9	7.4	7.4
AWK	American Water Works	13.4	Buy	$79	$75.24	5%	178	2.85	3.05	3.26	7%	26.4	24.7	23.1	1,648	1,753	1,863	6%	12.2	11.7	11.2	2.82	3.04	3.26	7%	26.6	24.7	23.1	1,614	1,711	1,806	6%	12.5	12.0	11.5

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$64.89	2.26	2.37	2.48	3.5%	3.7%	3.8%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$73.65	2.66	2.73	2.79	3.6%	3.7%	3.8%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$71.68	2.79	2.99	3.20	3.9%	4.2%	4.5%	74%	77%	74%
DTE	DTE Energy Company	Buy	$91.12	3.00	3.15	3.30	3.3%	3.5%	3.6%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$79.02	3.40	3.54	3.71	4.3%	4.5%	4.7%	74%	75%	74%
EIX	Edison International	Neutral	$71.57	1.92	2.15	2.35	2.7%	3.0%	3.3%	49%	52%	54%
ES	Eversource Energy	Buy	$55.52	1.79	1.90	2.03	3.2%	3.4%	3.7%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$120.15	3.43	3.86	4.40	2.9%	3.2%	3.7%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$60.31	1.92	2.04	2.18	3.2%	3.4%	3.6%	51%	55%	57%
PNW	Pinnacle West Capital	Neutral	$74.33	2.54	2.67	2.80	3.4%	3.6%	3.8%	64%	64%	63%
PPL	PPL Corporation	Buy	$38.64	1.52	1.56	1.60	3.9%	4.0%	4.2%	65%	64%	64%
SO	Southern Company	Neutral	$49.57	2.22	2.30	2.38	4.5%	4.6%	4.8%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.60	0.93	0.95	0.97	3.4%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$29.01	1.09	1.12	NA	3.8%	3.9%	NA	82%	82%	NA
Average							**3.5%**	**3.7%**	**3.9%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$76.63	3.43	3.52	3.60	4.5%	4.6%	4.7%	67%	66%	69%
EXC	Exelon Corporation	Buy	$34.41	1.26	1.30	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.07	1.44	1.45	1.44	4.4%	4.4%	4.4%	54%	57%	57%
PEG	Public Service Enterprise Group	Buy	$45.04	1.64	1.72	1.80	3.6%	3.8%	4.0%	57%	59%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.08	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$19.74	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$16.85	0.20	0.14	0.14	1.2%	0.8%	0.8%	19%	NA	13%
TLN	Talen Energy Corp	Neutral	$12.03	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**3%**
Other												
NYLD	NRG Yield	Neutral	$15.53	0.95	1.09	1.25	6.1%	7.0%	8.0%	98%	116%	129%
AWK	American Water Works	Buy	$75.24	1.48	1.62	1.77	2.0%	2.2%	2.4%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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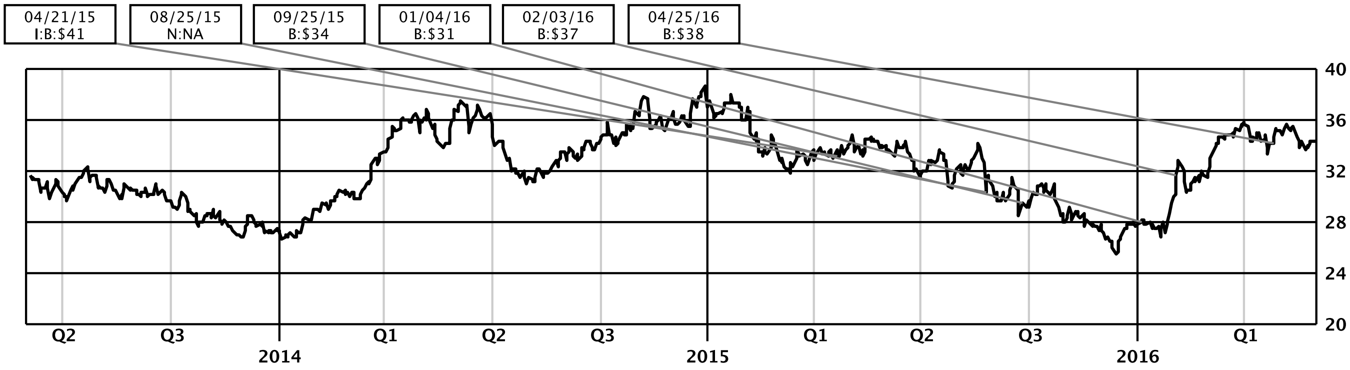
Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Exelon Corporation, NextEra Energy, Inc., Pinnacle West Capital Corporation and Southern Company in the next 3 months.

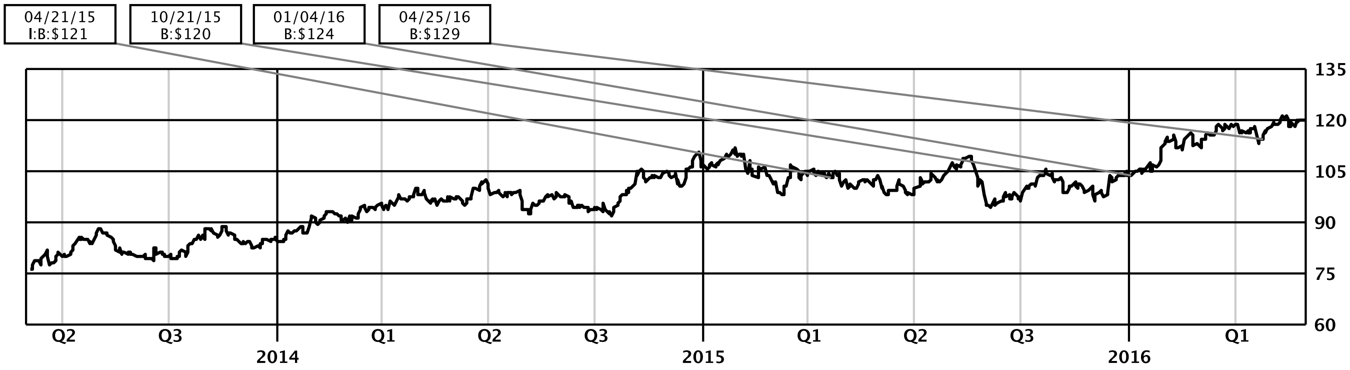
Please refer to this website for company-specific disclosures referenced in this report: https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

Rating and Price Target History for: Exelon Corporation (EXC) as of 06-01-2016



Created by BlueMatrix

Rating and Price Target History for: NextEra Energy, Inc. (NEE) as of 06-01-2016



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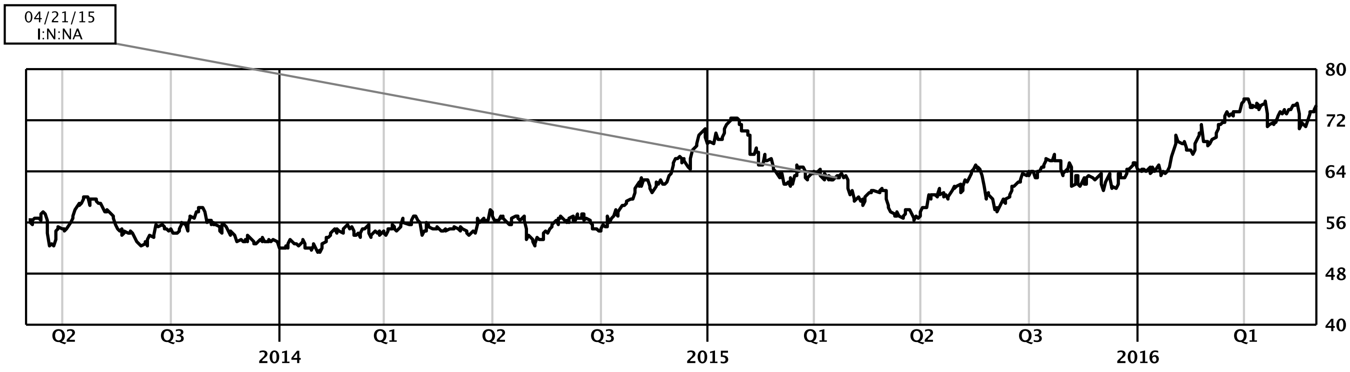
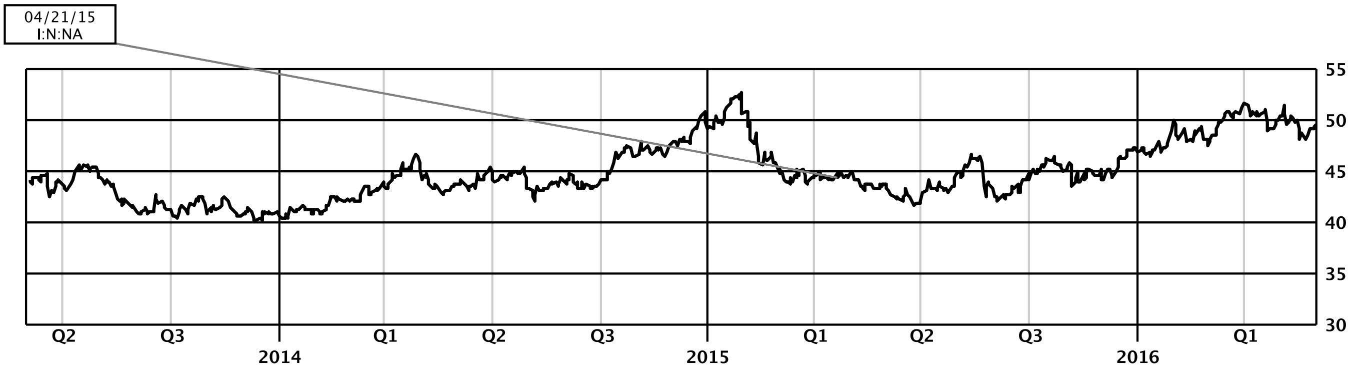
Rating and Price Target History for: Pinnacle West Capital Corporation (PNW) as of 06-01-2016



Created by BlueMatrix

Rating and Price Target History for: Southern Company (SO) as of 06-01-2016



Created by BlueMatrix

RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	152	60.08%	28	18.42%
Neutral	101	39.92%	3	2.97%
Sell	0	0.00%	0	0.00%

OTHER DISCLOSURES

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Industry
Utilities and Power

Date
2 June 2016

Breaking News

DB Power Flash

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Focus stocks

Exelon (EXC.N),USD34.41 Hold Price Target USD36.00
PG&E Corp (PCG.N),USD60.31 Buy Price Target USD62.00
Dynegy Inc. (DYN.N),USD19.74 Buy Price Target USD21.00

Source: Deutsche Bank

EXC - They weren't bluffing

This morning EXC announced that they would commence actions within 30 days to shut down the Quad Cities and Clinton nuclear plants on June 1, 2018 and June 1, 2017, respectively. EXC had said they would take these actions if the IL legislature did not pass supportive legislation by May 31. While some investors or legislators may have thought EXC was bluffing, management were clearly serious. That said, there is still a path for the plants to remain open if the legislature were to pass EXC's supported bill, the Next Generation Energy Plan, by the end of August. There are "no return" dates in MISO and PJM in September. In an 8K filing this morning, EXC discussed potential accounting repercussions associated with the plant closures. These include a $150M to $200M charge in June 2016, accelerated depreciation and nuclear fuel amortization given the shortened useful life, and asset retirement obligation and asset retirement cost considerations. The June 2016 charge and D&A implications will be excluded from EXC's operating earnings. The company is also likely to be required to make an incremental cash contribution to Clinton's nuclear decommissioning trust fund and also potentially Quad Cities', depending on the decommissioning methods approved by the NRC. In a worst case scenario, these contributions are estimated at $385M for Clinton and $65M for Quad Cities. Additional cash costs may also be incurred if the NRC does not authorize EXC to use the plants' NDTFs for non-radiological decommissioning costs. More precise financial impacts will be disclosed at the August Analyst Day. However, mgmt had noted on the Q1 call that the plants were projected to lose $140M in 2017 (free cash flow basis). As a result, we believe the closures would be accretive to EXC's EPS and value. Separately, we also believe the Clinton retirement should tighten MISO Zone 4 further, potentially benefitting DYN.

PCG – POD orders $24.3M penalty for Gas Distribution Recordkeeping OII

In late-2014, the CPUC opened this Order Instituting an Investigation (OII) into PG&E's gas distribution recordkeeping in response to a report by the Safety and Enforcement Division (SED) describing several gas distribution incidents in PCG's system from 2010-2014. The SED recommended a $112M penalty, while the City of Carmel recommended a $652M penalty. Yesterday's POD instead adopted a penalty of $24.3M on top of the $10.8M the company already paid for the City of Carmel explosion. The POD finds the fines appropriate for "systemic failures and isolated mistakes in an otherwise compliant system." In addition, the POD requires PCG and stakeholders to engage in a "meet and confer process" to remedy recordkeeping issues raised in the POD going forward. All told, we would view an outcome consistent with the POD as another step for Buy-rated PCG to put its challenging past behind it and move towards a group average valuation multiple or better.

The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: EXC, PEG, TLN June 3, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

TLN – Being acquired by Riverstone
EXC – Early retirement of Clinton and Quad Cities announced (see our note HERE)
PCG – ALJ proposes $24mm penalty for gas distribution record keeping

TLN – Being acquired by Riverstone

- TLN announced it would be acquired by Riverstone Holdings, a private investment firm.
- All outstanding shares will be acquired for $14 per share in cash.
- The transaction has a total enterprise value of $5.2bn.
- Riverstone affiliates currently own ~35% of the outstanding shares.
- The agreement provides a "go-shop" period where TLN may actively solicit alternative proposals for 40 days, and continue discussions with qualifying offers for an additional 20 days.

Guggenheim takeaway: *Not a surprise. Not a lot of value for assets in public markets and management has signaled they would look to the private route if the spread between public and private markets continue. In our view, TLN is in better hands with private equity vs. public markets given asset quality, different return threshold, and longer time horizon to weather power market recovery. The TLN situation is an isolated situation, in our view.*

EXC – Early retirement of Clinton and Quad Cities announced (see our note HERE)

- EXC announced plans to retire the Clinton and Quad Cities nuclear facilities in June 2017 and June 2018, respectively, resulting in one-time charges of $150-200mm in 2016.
- The announcement comes after Quad Cities failed to clear the 2019/2020 PJM auction, Clinton saw insufficient capacity prices clear in MISO, and legislation (Senate Bill 1585) intended to provide relief for nuclear plants stalled in Illinois.
- EXC previously indicated it would close Clinton in 2017 and Quad-Cities in 2018 if legislation didn't pass by the end of the spring session so shouldn't be a surprise.

Guggenheim takeaway: *The more rationalization of merchant assets, the better the market opportunity – IPPs, especially DYN, are beneficiaries of this trend. We weren't expecting IL legislation to pass, so incrementally positive considering plants were operating at a loss. EXC didn't give policy makers much time, calling for action before the end of the spring session, so we aren't surprised it didn't come to a vote, and we expected these plants to close. The asset retirement dates are* *consistent with refueling outages and beyond any capacity commitments. Both assets, as discussed in the past, aren't covering their operating costs, return on invested capital and generating negative cash flow – shutdown should be CF/EPS accretive. As a reminder, the Plants have lost ~$100mm in CF/year since '09 and Management highlights negative CF of $140mm on '17 forwards ex basis and unit contingent risk – vs. our model of $155mm negative FCF using our 3/31 curves.*

PCG – ALJ proposes $24mm penalty for gas distribution record keeping

- The ALJ presiding over the CPUC's investigation into PG&E record-keeping practices found the utility failed to comply with record keeping laws and assessed a $24mm penalty.
- With the citation previously assessed for the Carmel incident, the total fine imposed is $35mm.
- Unless any party files an appeal of the POD or a CPUC commissioner requests a CPUC review of the POD within 30 days of the POD, the decision will become final.

Guggenheim takeaway: *The proposed fine came in a lot closer to PG&E's recommended cap of $34mm versus penalties recommended by the Safety Enforcement Decision totaling $112mm and up to $652mm recommended by the City of Carmel.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
2. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
3. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
4. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
5. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
6. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
7. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
8. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
9. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
10. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
11. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
12. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
13. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
14. EEI Full Recap
15. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
16. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
21. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/03	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Regulatory approval clause in the merger agreement expires
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other upcoming events and proceedings

June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/02/2016)

As of 6/2/2016

								Guggenheim Estimates															Consensus Estimates														
		Mkt. Cap	Rating	Target	Current	Price	Diluted	Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	**Company**	**($Bn)**		**Price[1]**	**Price**	**Change**	**Shares**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																					
AEP	American Electric Power	31.8	Buy	$68	$64.68	5%	491	3.63	3.87	4.17	7%	17.8	16.7	15.5	5,512	5,849	6,246	6%	9.6	9.2	8.8	3.67	3.85	4.09	6%	17.6	16.8	15.8	5,663	5,503	5,339	(3%)	9.3	9.8	10.3
ED	Consolidated Edison, Inc.	22.3	Neutral	$70	$73.64	-5%	303	3.99	4.15	4.31	4%	18.5	17.7	17.1	3,867	4,058	4,226	5%	9.6	9.4	9.2	4.00	4.16	4.32	4%	18.4	17.7	17.1	3,676	3,880	4,096	6%	10.1	9.8	9.5
D	Dominion Resources, Inc.	44.1	Buy	$78	$71.49	9%	616	3.85	3.92	4.40	7%	18.6	18.2	16.2	6,255	6,470	7,054	6%	11.8	11.4	10.6	3.79	3.91	4.34	7%	18.9	18.3	16.5	5,673	6,332	6,724	9%	13.0	11.7	11.1
DTE	DTE Energy Company	16.3	Buy	$97	$91.11	6%	179	5.03	5.27	5.66	6%	18.1	17.3	16.1	2,628	2,728	2,925	5%	9.3	9.2	8.7	4.95	5.26	5.63	7%	18.4	17.3	16.2	2,541	2,704	2,846	6%	9.7	9.3	9.0
DUK	Duke Energy Corporation	54.4	Buy	$86	$78.94	9%	689	4.55	4.61	4.79	3%	17.3	17.1	16.5	9,033	8,878	9,383	2%	11.2	11.6	11.1	4.58	4.75	4.99	4%	17.2	16.6	15.8	9,310	10,002	10,245	5%	10.8	10.3	10.2
EIX	Edison International	23.4	Neutral	$70	$71.76	-2%	326	3.85	4.15	4.33	6%	18.6	17.3	16.6	5,011	5,372	5,690	7%	7.5	7.1	6.9	3.89	4.13	4.33	5%	18.4	17.4	16.6	4,441	4,695	4,935	5%	8.4	8.2	7.9
ES	Eversource Energy	17.6	Buy	$59	$55.35	7%	317	2.95	3.19	3.43	8%	18.8	17.4	16.1	2,607	2,569	2,625	0%	10.9	11.3	11.4	2.98	3.17	3.36	6%	18.6	17.4	16.5	2,601	2,794	2,871	5%	10.9	10.4	10.5
NEE	NextEra Energy, Inc.	55.3	Buy	$129	$119.81	8%	461	6.35	6.60	7.04	5%	18.9	18.2	17.0	7,019	7,458	7,796	5%	12.5	12.1	11.9	6.18	6.57	7.02	7%	19.4	18.2	17.1	7,960	8,567	9,540	9%	11.0	10.5	9.7
PCG	PG&E Corporation	30.1	Neutral	$59	$60.60	-3%	496	3.67	3.70	3.89	3%	16.5	16.4	15.6	6,500	6,739	7,134	5%	7.4	7.3	7.1	3.73	3.68	3.86	2%	16.3	16.5	15.7	6,154	6,533	6,918	6%	7.8	7.6	7.3
PNW	Pinnacle West Capital	8.3	Neutral	$79	$74.26	6%	111	3.91	4.19	4.43	6%	19.0	17.7	16.8	1,407	1,512	1,608	7%	8.8	8.5	8.2	3.99	4.20	4.41	5%	18.6	17.7	16.8	NA	NA	NA	NA	NA	NA	NA
PPL	PPL Corporation	26.1	Buy	$41	$38.57	6%	677	2.36	2.46	2.60	5%	16.3	15.7	14.8	4,012	4,219	4,461	5%	11.7	11.4	11.0	2.35	2.44	2.52	3%	16.4	15.8	15.3	4,025	4,210	4,450	5%	11.7	11.4	11.0
SO	Southern Company	46.3	Neutral	$47	$49.36	-5%	939	2.91	2.93	3.06	3%	17.0	16.8	16.1	7,011	7,202	7,505	3%	11.5	11.3	11.2	2.85	2.97	3.08	4%	17.3	16.6	16.0	7,177	7,957	8,227	7%	11.2	10.3	10.3
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.64	1%	236	1.18	1.28	1.33	6%	23.4	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	7%	23.4	21.6	20.3	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.3	Buy	$32	$28.99	10%	79	1.34	1.26	1.69	12%	21.6	23.0	17.2	253	249	271	3%	NA	NA	NA	1.32	1.38	1.64	11%	21.9	21.1	17.6	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.2**	**17.7**	**16.3**				**5%**	**10.2**	**10.0**	**9.7**				**6%**	**18.3**	**17.5**	**16.4**				**5%**	**10.4**	**9.9**	**9.7**
Integrated utilities																																					
ETR	Entergy Corporation	13.7	Neutral	$75	$76.89	-2%	179	5.36	5.16	5.17	-2%	14.3	14.9	14.9	3,730	3,712	3,825	1%	8.1	8.4	8.5	5.12	5.30	5.19	1%	15.0	14.5	14.8	3,345	3,517	3,491	2%	9.1	8.9	9.3
EXC	Exelon Corporation	30.8	Buy	$38	$34.72	9%	887	2.53	2.65	2.86	6%	13.7	13.1	12.1	7,686	7,971	8,452	5%	8.1	7.9	7.5	2.53	2.64	2.78	5%	13.7	13.2	12.5	7,371	7,763	9,163	11%	8.4	8.1	6.9
FE	FirstEnergy Corp.	14.1	Buy	$43	$33.31	29%	425	2.87	2.83	2.89	0%	11.6	11.8	11.5	4,322	4,450	4,510	2%	8.4	8.2	8.1	2.68	2.54	2.55	(3%)	12.4	13.1	13.1	4,409	4,452	4,534	1%	8.2	8.2	8.0
PEG	Public Service Enterprise Grou	22.7	Buy	$50	$44.85	11%	506	2.92	2.95	3.02	2%	15.4	15.2	14.9	4,097	4,293	4,501	5%	8.3	8.3	8.1	2.88	2.90	2.95	1%	15.6	15.5	15.2	3,991	4,170	4,357	4%	8.5	8.5	8.4
Average											**2%**	**13.8**	**13.7**	**13.3**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.2**	**14.1**	**13.9**				**5%**	**8.6**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																					
CPN	Calpine Corporation	5.5	Buy	$20	$15.19	32%	359	0.42	0.87	0.60	20%	36.6	17.4	25.3	1,881	2,144	2,076	5%	9.0	7.8	7.9	0.55	0.93	1.29	53%	27.5	16.3	11.8	1,882	2,017	2,132	6%	9.0	8.3	7.7
DYN	Dynegy Inc.	2.4	Buy	$21	$20.16	4%	117	(1.69)	(1.33)	(0.60)	NA	-11.9	-15.1	-33.6	1,006	1,287	1,490	22%	8.8	7.2	6.0	(0.48)	(0.41)	0.74	NA	-41.9	-49.5	27.2	1,095	1,127	1,338	11%	8.1	8.2	6.6
NRG	NRG Energy, Inc.	5.4	Buy	$16	$17.15	-7%	315	0.75	(0.51)	(0.03)	NA	22.9	-33.9	-547.5	3,104	2,808	2,941	(3%)	6.9	7.5	6.8	1.01	0.26	0.97	(2%)	16.9	65.6	17.7	3,103	2,759	2,960	(2%)	6.9	7.6	6.7
TLN	Talen Energy Corp	1.5	Neutral	$7	$11.94	-41%	129	0.41	0.63	0.38	-4%	29.2	18.9	31.7	756	788	733	(1%)	6.7	6.3	6.7	0.98	0.39	0.19	(56%)	12.2	30.2	62	763	755	698	(4%)	6.7	6.6	7.1
Average											**8%**	**19.2**	**-3.2**	**-131.0**				**6%**	**7.9**	**7.2**	**6.8**				**(2%)**	**3.7**	**15.7**	**30**				**3%**	**7.7**	**7.7**	**7.0**
Other																																					
NYLD	NRG Yield	1.5	Neutral	$15	$15.51	-3%	183	0.92	1.21	1.31	19%	16.9	12.8	11.8	806	984	1,093	16%	8.0	6.8	6.9	0.96	0.94	0.97	0%	16.1	16.5	16.0	821	903	1,010	11%	7.9	7.4	7.4
AWK	American Water Works	13.4	Buy	$79	$75.20	5%	178	2.85	3.05	3.26	7%	26.4	24.7	23.1	1,648	1,753	1,863	6%	12.2	11.7	11.2	2.82	3.04	3.26	7%	26.6	24.7	23.1	1,614	1,711	1,806	6%	12.5	12.0	11.5

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$64.68	2.26	2.37	2.48	3.5%	3.7%	3.8%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$73.64	2.66	2.73	2.79	3.6%	3.7%	3.8%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$71.49	2.79	2.99	3.20	3.9%	4.2%	4.5%	74%	77%	74%
DTE	DTE Energy Company	Buy	$91.11	3.00	3.15	3.30	3.3%	3.5%	3.6%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$78.94	3.40	3.54	3.71	4.3%	4.5%	4.7%	74%	75%	74%
EIX	Edison International	Neutral	$71.76	1.92	2.15	2.35	2.7%	3.0%	3.3%	49%	52%	54%
ES	Eversource Energy	Buy	$55.35	1.79	1.90	2.03	3.2%	3.4%	3.7%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$119.81	3.43	3.86	4.40	2.9%	3.2%	3.7%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$60.60	1.92	2.04	2.18	3.2%	3.4%	3.6%	51%	55%	57%
PNW	Pinnacle West Capital	Neutral	$74.26	2.54	2.67	2.80	3.4%	3.6%	3.8%	64%	64%	63%
PPL	PPL Corporation	Buy	$38.57	1.52	1.56	1.60	3.9%	4.0%	4.2%	65%	64%	64%
SO	Southern Company	Neutral	$49.36	2.22	2.30	2.38	4.5%	4.7%	4.8%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.64	0.93	0.95	0.97	3.3%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$28.99	1.09	1.12	NA	3.8%	3.9%	NA	82%	82%	NA
Average							**3.5%**	**3.7%**	**3.9%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$76.89	3.43	3.52	3.60	4.5%	4.6%	4.7%	67%	66%	69%
EXC	Exelon Corporation	Buy	$34.72	1.26	1.30	1.33	3.6%	3.7%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.31	1.44	1.45	1.44	4.3%	4.3%	4.3%	54%	57%	57%
PEG	Public Service Enterprise Group	Buy	$44.85	1.64	1.72	1.80	3.7%	3.8%	4.0%	57%	59%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.19	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$20.16	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$17.15	0.19	0.14	0.14	1.1%	0.8%	0.8%	19%	NA	14%
TLN	Talen Energy Corp	Neutral	$11.94	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.51	0.95	1.09	1.25	6.1%	7.1%	8.1%	98%	116%	129%
AWK	American Water Works	Buy	$75.20	1.48	1.62	1.77	2.0%	2.2%	2.4%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

ANALYST CERTIFICATION

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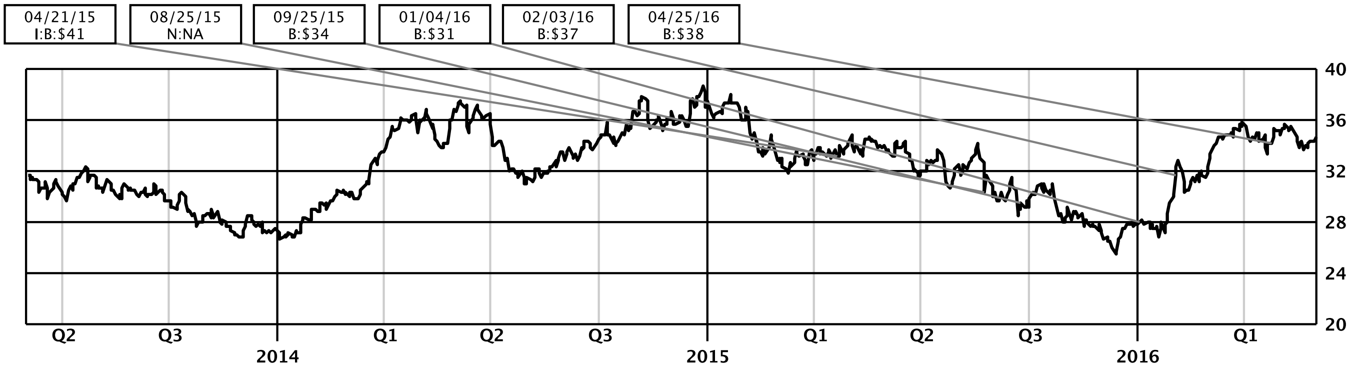
Rating and Price Target History for: Exelon Corporation (EXC) as of 06-02-2016



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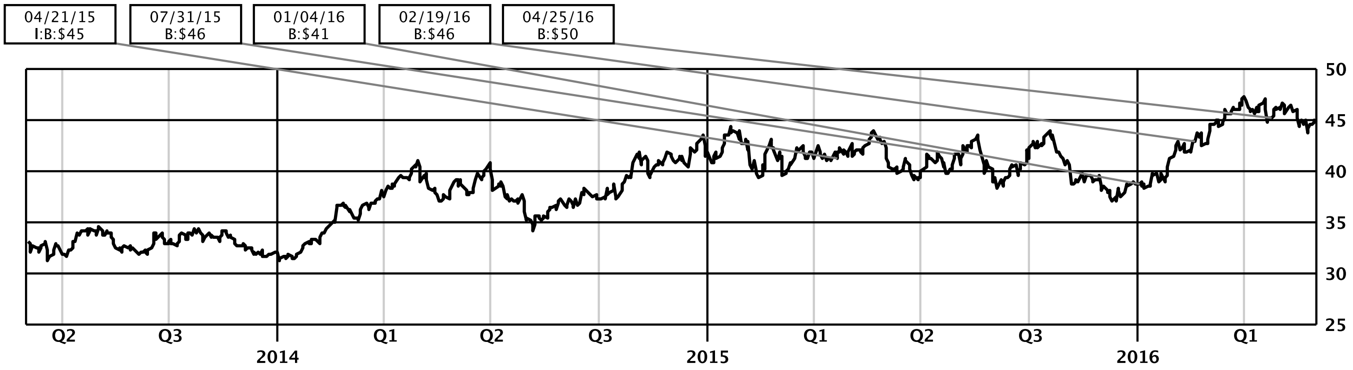
Rating and Price Target History for: Public Service Enterprise Group Inc. (PEG) as of 06-02-2016



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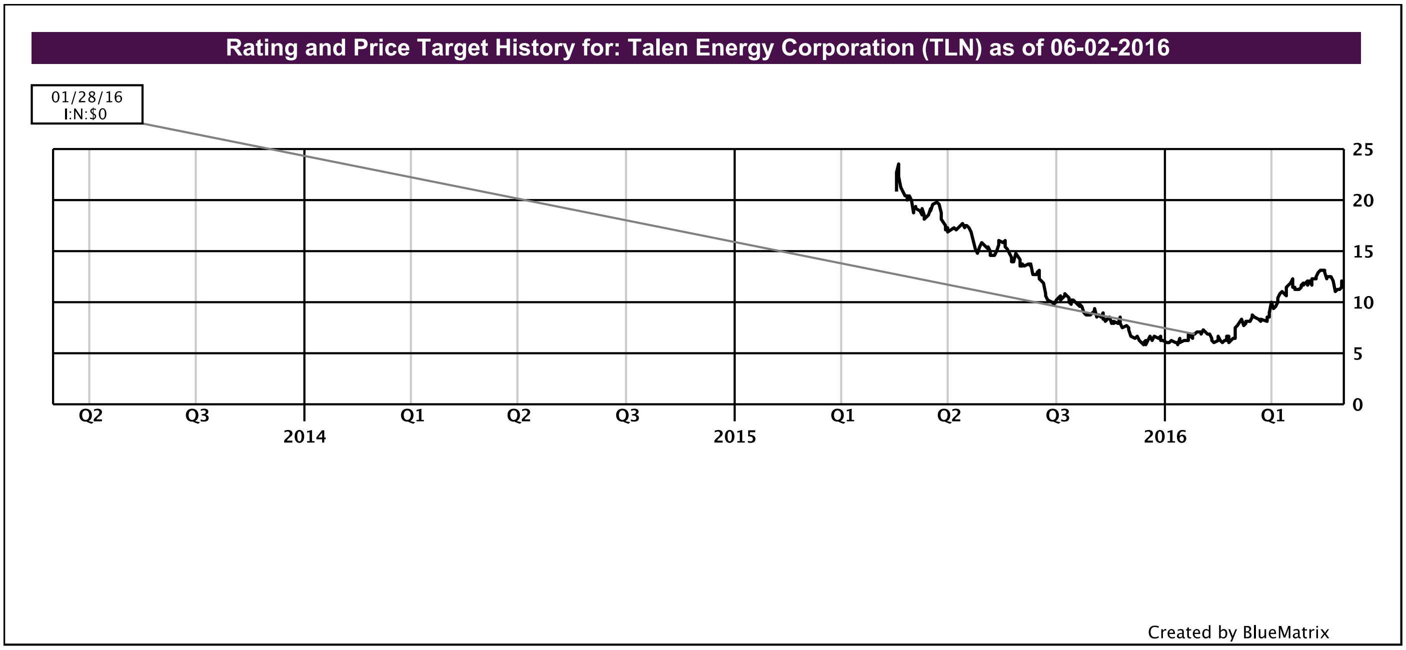

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

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NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	152	60.08%	28	18.42%
Neutral	101	39.92%	3	2.97%
Sell	0	0.00%	0	0.00%

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RBC Capital Markets®

RBC Insight

Exelon Corp (EXC) - Highlights from the RBC Global Energy and Power Executive Conference

Sentiment Indicator : neutral

Posted by Tucker, Shelby (RBC Capital Markets, LLC) on Monday, June 06, 2016, 17:10 PM ET

We met with Jack Thayer, SVP and CFO, and Dan Eggers, VP of IR. Below are our key takeaways from the breakout session:

- **Still possible for Illinois legislation on nukes, but Clinton/Quad Cities mostly a done deal.** The Illinois legislature's troubles passing the state budget played a big part in the nuclear legislation being delayed. Midwest ISO (MISO) has until September to decide whether it needs Clinton and Quad Cities for reliability purposes; if needed, Exelon would file for Reliability Must Run (RMR) permits. Even if the recent proposal to move MISO zone 4 into PJM is implemented, Clinton would require materially higher capacity revenues to cover its negative cash position (i.e. $150/MW-Day would only cover half of its negative cash flow). Management plans to provide details on potential earnings impacts of the plant closures at the upcoming Analyst Day on August 10 in Philadelphia.
- **PJM auction disappointed at EMAAC; expect rebound all-around next year.** While the COMED region continued to receive premium capacity pricing, management was surprised at the lower-than-expected premium received at the EMAAC zone, which they believe was largely due to bidding behavior. They still are not seeing the appropriate risk premium being bid in to reflect the more stringent requirements of Capacity Performance (CP), but they expect prices to rebound in the 2020/2021 auction as 100% of capacity becomes CP.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Exelon Corporation	NYSE	EXC	Outperform	Not Assigned	36.00	US Dollar	34.96	06 Jun 2016 08:50:57 ET

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: NEE, D, DUK, SO, EXC, ED, NRG June 6, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

NEE – Neither party terminates the deal; PUC chairman has hope for June decision
D/DUK/SO – Anti-trust complaint filed against Atlantic Coast Pipeline developers
EXC – Clinton and Quad Cities could be saved if IL passes energy bill by September
NEE – MA lawmakers criticize NH nuclear plant, urge NRC to close
ED – NY State Assembly passes bill for zero emissions by 2050
NRG – ERCOT awards RMR agreement for Greens Bayou

NEE – Neither party walks away from the deal; PUC chairman has hope for June decision

- Neither NEE or HE terminated their proposed merger despite the June 3rd deadline passing.
- NEE issued a statement noting the merger agreement didn't automatically terminate on June 3rd, and that action on the part of one of the parties is required to terminate the merger.
- The Chairman of the Hawaii PUC noted he is hopeful a decision will be issued in June.
- The PUC previously indicated its decision would be issued by written order and without a public meeting.

Guggenheim takeaway: *We still don't think regulators will approve the merger, still think NEE walks away soon.*

D/DUK/SO – Anti-trust complaint filed against Atlantic Coast Pipeline developers

- A retired antitrust attorney filed a complaint with the Federal Trade Commission alleging antitrust violations against Atlantic Coast Pipeline developers.
- They claim there is a conflict of interest with developers whose utility subsidiaries would be pipeline customers.

Guggenheim takeaway: *Competitive market participants have increasingly taken issue with affiliate transactions between a utility's regulated and unregulated subsidiaries; this complaint however, doesn't come from anyone with a competitive interest - likely just someone that doesn't want the project built. That said, utilities are becoming increasingly dependent on natural gas and will likely continue investing further upstream to access low-cost supply for their customers; whereas traditional pipeline developers may not see worthwhile opportunity in a depressed commodity price environment.*

EXC – Clinton and Quad Cities could be saved if IL passes energy bill by September

- Local media notes the recent decision to retire Clinton and Quad Cities could be reversed if Illinois lawmakers approve an energy reform bill by September.
- Company officials reportedly indicated the September deadline is based on when the utility must procure nuclear fuel for the reactor.

Guggenheim takeaway: *Potentially some hope but we weren't expecting the legislation to pass to begin with, considering the short timeframe. While the bill could gain traction with some more time, it will still have some hurdles to clear before a September refueling decision; the governor's potential veto, for example.*

NEE – MA lawmakers criticize NH nuclear plant, urge NRC to close

- Massachusetts lawmakers published a letter to the Nuclear Regulatory Commission (NRC) criticizing NEE's Seabrook nuclear plant in New Hampshire and calling for the facility to be closed.
- The letter notes degradation of concrete walls and criticizes the NRC for inadequate oversight.
- The NRC responded indicating they have been aware of the issue since 2012.

Guggenheim takeaway: *Not a new issue, as the NRC's response notes, but has delayed the renewal of Seabrook's operating license that runs through 2030.*

ED – NY State Assembly passes bill for zero emissions by 2050

- The NY State Assembly passed the New York State Climate and Community Protection Act, legislation looking to establish a zero-emission standard by 2050 for major sources of greenhouse gas emissions.

Guggenheim takeaway: *Quite a leap from an already lofty 50% renewable aspiration, but the bill has yet to see if a senator will step-up to sponsor it – and probably not likely, in our view, as the legislative session ends next week.*

NRG – ERCOT awards RMR agreement for Greens Bayou

- ERCOT entered a reliability-must-run agreement with NRG for its 371MW gas-fired Greens Bayou facility.
- The agreement follows NRG's recent notice of intent to suspend operations at the plant.
- The agreement is subject to approval from ERCOT's board of directors.

Guggenheim takeaway: *We have been highlighting challenging power market fundamentals in Texas but this is the first RMR contract we've seen surface here in quite a while. While ERCOT has to address immediate reliability concerns, and despite this being a gas plant, these contracts delay much-needed capacity rationalization that other market participants have been holding out for. We recently did a deep-dive analysis on the Texas power market, identifying over 8GW of coal-fired generation we believe will retire; of which we estimate 6.6GW is already operating out-of-the-money - likely holding out for capacity rationalization and tighter reserve margins that should follow (we estimate the remaining ~2GW would retire when faced with CapEx required to comply with regional haze). For additional takeaways on the situation in Texas, see our recent deep-dive analysis HERE.*

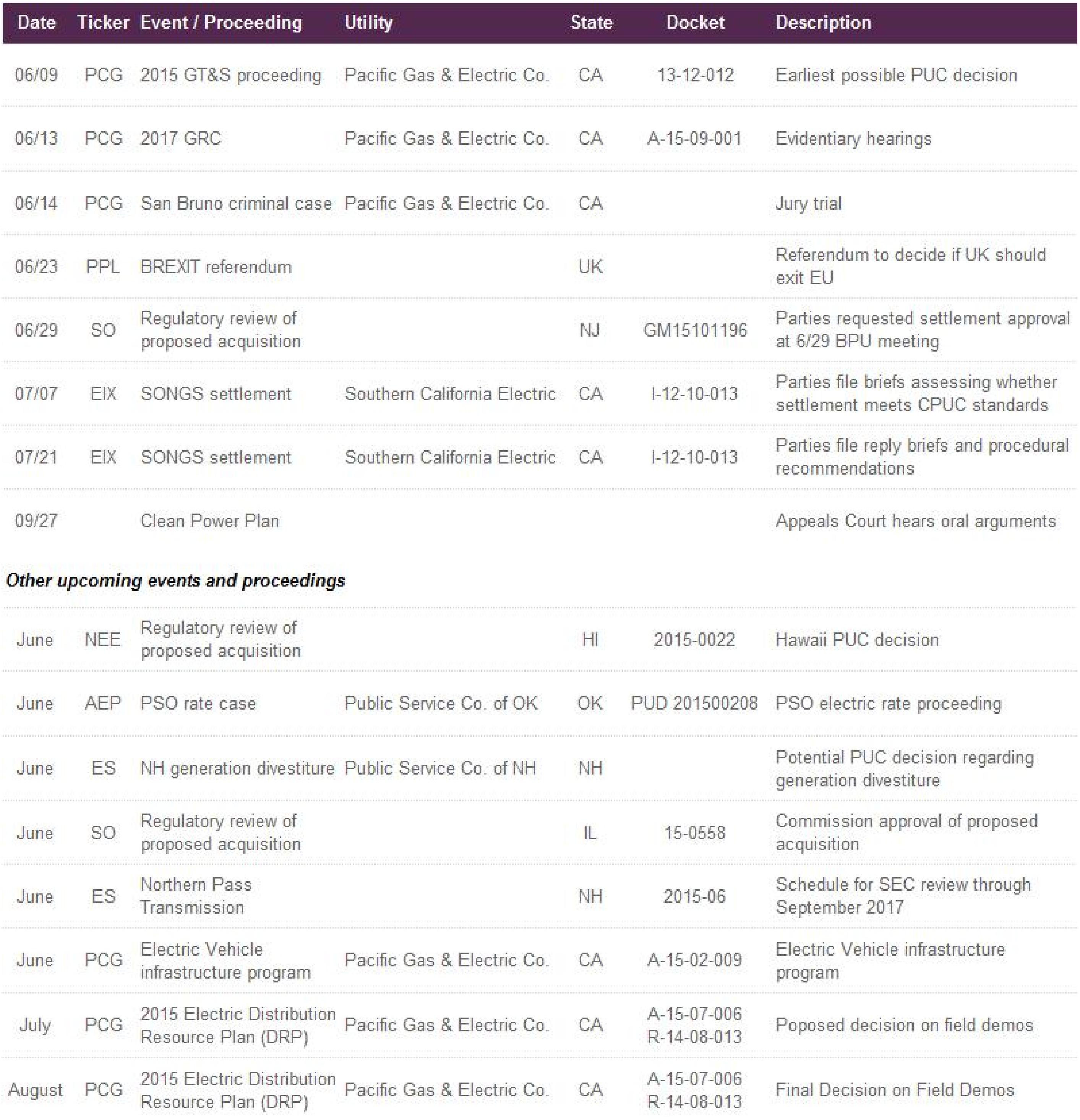
Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
2. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
3. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
4. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
5. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
6. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
7. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
8. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
9. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
10. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
11. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
12. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
13. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
14. EEI Full Recap
15. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
16. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
21. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar



Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments
Other upcoming events and proceedings						
June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/03/2016)

As of 6/3/2016

Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
								'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	32.3	Buy	$68	$65.81	3%	491	3.63	3.87	4.17	7%	18.1	17.0	15.8	5,512	5,849	6,246	6%	9.7	9.3	8.9	3.67	3.85	4.09	6%	17.9	17.1	16.1	5,663	5,503	5,339	(3%)	9.4	9.9	10.4
ED	Consolidated Edison, Inc.	22.8	Neutral	$70	$75.35	-7%	303	3.99	4.15	4.31	4%	18.9	18.2	17.5	3,867	4,058	4,226	5%	9.7	9.5	9.3	3.99	4.16	4.32	4%	18.9	18.1	17.5	3,676	3,880	4,096	6%	10.2	9.9	9.6
D	Dominion Resources, Inc.	45.0	Buy	$78	$72.97	7%	616	3.85	3.92	4.40	7%	19.0	18.6	16.6	6,255	6,470	7,054	6%	11.9	11.6	10.7	3.79	3.91	4.34	7%	19.2	18.7	16.8	5,673	6,332	6,724	9%	13.1	11.8	11.2
DTE	DTE Energy Company	16.7	Buy	$97	$92.83	4%	179	5.03	5.27	5.66	6%	18.5	17.6	16.4	2,628	2,728	2,925	5%	9.5	9.3	8.8	4.95	5.26	5.63	7%	18.8	17.7	16.5	2,541	2,704	2,846	6%	9.8	9.4	9.1
DUK	Duke Energy Corporation	55.2	Buy	$86	$80.08	7%	689	4.55	4.61	4.79	3%	17.6	17.4	16.7	9,033	8,878	9,383	2%	11.2	11.7	11.2	4.58	4.75	4.99	4%	17.5	16.9	16.0	9,310	10,002	10,245	5%	10.9	10.4	10.3
EIX	Edison International	23.6	Neutral	$70	$72.53	-3%	326	3.85	4.15	4.33	6%	18.8	17.5	16.8	5,011	5,372	5,690	7%	7.5	7.2	6.9	3.89	4.13	4.33	5%	18.6	17.6	16.7	4,441	4,695	4,935	5%	8.5	8.2	8.0
ES	Eversource Energy	17.8	Buy	$59	$56.16	5%	317	2.95	3.19	3.43	8%	19.0	17.6	16.4	2,607	2,569	2,625	0%	11.0	11.4	11.5	2.98	3.17	3.36	6%	18.8	17.7	16.7	2,601	2,794	2,871	5%	11.0	10.5	10.5
NEE	NextEra Energy, Inc.	56.2	Buy	$129	$121.80	6%	461	6.35	6.60	7.04	5%	19.2	18.5	17.3	7,019	7,458	7,796	5%	12.6	12.2	12.0	6.18	6.57	7.02	7%	19.7	18.5	17.4	7,960	8,567	9,540	9%	11.2	10.6	9.8
PCG	PG&E Corporation	30.5	Neutral	$59	$61.55	-4%	496	3.67	3.70	3.89	3%	16.8	16.6	15.8	6,500	6,739	7,134	5%	7.5	7.4	7.2	3.73	3.68	3.86	2%	16.5	16.7	15.9	6,154	6,533	6,918	6%	7.9	7.6	7.4
PNW	Pinnacle West Capital	8.4	Neutral	$79	$75.76	4%	111	3.91	4.19	4.43	6%	19.4	18.1	17.1	1,407	1,512	1,608	7%	8.9	8.7	8.3	3.99	4.20	4.41	5%	19.0	18.0	17.2	NA	NA	NA	NA	NA	NA	NA
PPL	PPL Corporation	26.6	Buy	$41	$39.30	4%	677	2.36	2.46	2.60	5%	16.7	16.0	15.1	4,012	4,219	4,461	5%	11.8	11.5	11.1	2.35	2.44	2.52	3%	16.7	16.1	15.6	4,025	4,210	4,450	5%	11.8	11.5	11.1
SO	Southern Company	47.1	Neutral	$47	$50.18	-6%	939	2.91	2.93	3.06	3%	17.2	17.1	16.4	7,011	7,202	7,505	3%	11.6	11.5	11.3	2.85	2.97	3.08	4%	17.6	16.9	16.3	7,177	7,957	8,227	7%	11.4	10.4	10.3
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.59	1%	236	1.18	1.28	1.33	6%	23.4	21.6	20.7	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	7%	23.4	21.5	20.3	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.3	Buy	$32	$29.19	10%	79	1.34	1.26	1.69	12%	21.8	23.2	17.3	253	249	271	3%	NA	NA	NA	1.32	1.38	1.64	11%	22.1	21.2	17.8	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.5**	**17.9**	**16.5**				**5%**	**10.3**	**10.1**	**9.8**				**6%**	**18.6**	**17.8**	**16.7**				**5%**	**10.5**	**10.0**	**9.8**
Integrated utilities																																			
ETR	Entergy Corporation	14.0	Neutral	$75	$78.24	-4%	179	5.36	5.16	5.17	-2%	14.6	15.2	15.1	3,730	3,712	3,825	1%	8.2	8.5	8.5	5.12	5.31	5.20	1%	15.3	14.7	15.1	3,345	3,517	3,491	2%	9.1	9.0	9.3
EXC	Exelon Corporation	31.0	Buy	$38	$34.96	9%	887	2.53	2.65	2.86	6%	13.8	13.2	12.2	7,686	7,971	8,452	5%	8.1	7.9	7.5	2.54	2.64	2.77	5%	13.8	13.3	12.6	7,371	7,763	9,163	11%	8.5	8.1	6.9
FE	FirstEnergy Corp.	14.4	Buy	$43	$33.82	27%	425	2.87	2.83	2.89	0%	11.8	12.0	11.7	4,322	4,450	4,510	2%	8.5	8.2	8.1	2.68	2.54	2.55	(3%)	12.6	13.3	13.3	4,409	4,452	4,534	1%	8.3	8.2	8.1
PEG	Public Service Enterprise Grou	22.9	Buy	$50	$45.36	10%	506	2.92	2.95	3.02	2%	15.5	15.4	15.0	4,097	4,293	4,501	5%	8.3	8.3	8.2	2.88	2.90	2.95	1%	15.7	15.7	15.4	3,991	4,170	4,357	4%	8.5	8.6	8.4
Average											**2%**	**13.9**	**13.9**	**13.5**				**3%**	**8.3**	**8.2**	**8.1**				**1%**	**14.4**	**14.2**	**14.1**				**5%**	**8.6**	**8.5**	**8.2**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.5	Buy	$20	$15.30	31%	359	0.42	0.87	0.60	20%	36.8	17.5	25.5	1,881	2,144	2,076	5%	9.0	7.8	7.9	0.55	0.93	1.29	53%	27.7	16.4	11.9	1,882	2,017	2,132	6%	9.0	8.3	7.7
DYN	Dynegy Inc.	2.4	Buy	$21	$20.67	2%	117	(1.69)	(1.33)	(0.60)	NA	-12.2	-15.5	-34.5	1,006	1,287	1,490	22%	8.8	7.2	6.0	(0.48)	(0.41)	0.74	NA	-42.9	-50.7	27.9	1,095	1,127	1,338	11%	8.1	8.2	6.7
NRG	NRG Energy, Inc.	5.5	Buy	$16	$17.39	-8%	315	0.75	(0.51)	(0.03)	NA	23.3	-34.3	-555.2	3,104	2,808	2,941	(3%)	7.0	7.5	6.8	1.00	0.24	0.92	(4%)	17.4	72.0	18.8	3,103	2,759	2,960	(2%)	7.0	7.6	6.7
TLN	Talen Energy Corp	1.8	Neutral	$7	$13.99	-50%	129	0.41	0.63	0.38	-4%	34.2	22.1	37.1	756	788	733	(1%)	7.1	6.7	7.1	0.98	0.39	0.22	(53%)	14.3	35.9	65	763	755	698	(4%)	7.0	6.9	7.4
Average											**8%**	**20.5**	**-2.6**	**-131.8**				**6%**	**8.0**	**7.3**	**6.9**				**(1%)**	**4.1**	**18.4**	**31**				**3%**	**7.8**	**7.8**	**7.1**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$15.70	-4%	183	0.92	1.21	1.31	19%	17.1	12.9	12.0	806	984	1,093	16%	8.1	6.8	6.9	0.96	0.94	0.97	0%	16.3	16.7	16.2	821	903	1,010	11%	7.9	7.4	7.5
AWK	American Water Works	13.6	Buy	$79	$76.46	3%	178	2.85	3.05	3.26	7%	26.8	25.1	23.5	1,648	1,753	1,863	6%	12.4	11.8	11.3	2.82	3.04	3.26	7%	27.1	25.1	23.5	1,614	1,711	1,806	6%	12.6	12.1	11.6

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$65.81	2.26	2.37	2.48	3.4%	3.6%	3.8%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$75.35	2.66	2.73	2.79	3.5%	3.6%	3.7%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$72.97	2.79	2.99	3.20	3.8%	4.1%	4.4%	74%	77%	74%
DTE	DTE Energy Company	Buy	$92.83	3.00	3.15	3.30	3.2%	3.4%	3.6%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$80.08	3.40	3.54	3.71	4.2%	4.4%	4.6%	74%	75%	74%
EIX	Edison International	Neutral	$72.53	1.92	2.15	2.35	2.7%	3.0%	3.2%	49%	52%	54%
ES	Eversource Energy	Buy	$56.16	1.79	1.90	2.03	3.2%	3.4%	3.6%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$121.80	3.43	3.86	4.40	2.8%	3.2%	3.6%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$61.55	1.92	2.04	2.18	3.1%	3.3%	3.5%	51%	55%	57%
PNW	Pinnacle West Capital	Neutral	$75.76	2.54	2.67	2.80	3.4%	3.5%	3.7%	64%	64%	63%
PPL	PPL Corporation	Buy	$39.30	1.52	1.56	1.60	3.9%	4.0%	4.1%	65%	64%	64%
SO	Southern Company	Neutral	$50.18	2.22	2.30	2.38	4.4%	4.6%	4.7%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.59	0.93	0.95	0.97	3.4%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$29.19	1.09	1.12	NA	3.7%	3.8%	NA	82%	82%	NA
Average							**3.5%**	**3.7%**	**3.9%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$78.24	3.43	3.52	3.60	4.4%	4.5%	4.6%	67%	66%	69%
EXC	Exelon Corporation	Buy	$34.96	1.26	1.30	1.33	3.6%	3.7%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.82	1.44	1.45	1.44	4.3%	4.3%	4.3%	54%	57%	57%
PEG	Public Service Enterprise Group	Buy	$45.36	1.64	1.72	1.80	3.6%	3.8%	4.0%	57%	59%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.30	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$20.67	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$17.39	0.19	0.14	0.14	1.1%	0.8%	0.8%	19%	NA	15%
TLN	Talen Energy Corp	Neutral	$13.99	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.70	0.95	1.09	1.25	6.0%	7.0%	8.0%	98%	116%	129%
AWK	American Water Works	Buy	$76.46	1.48	1.62	1.77	1.9%	2.1%	2.3%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: SO, EXC, EIA June 8, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

SO/AGL – Illinois regulators approve of merger
EXC – Seeks 2nd license renewal for PA nuke
EIA – U.S. retail residential power sales are anticipated to drop by 0.1% this summer

SO/AGL – Illinois regulators approve of merger

- The Illinois Commerce Commission unanimously approved SO's proposed acquisition of AGL (GAS, NC, $65.79), with all intervening parties in support of the previously announced settlement agreements.

Guggenheim takeaway: *SO is one step away from closing the acquisition with this settlement; requiring the last approval from NJ's BPU. SO expects to close the transaction in 2H16; we are optimistic it could close in 3Q16. We estimate this transaction could be 6-7% accretive in outer years. For our analysis on this transaction, see HERE*

EXC – Seeks 2nd license renewal for PA nuke

- EXC intends to ask federal regulators for a license renewal of the Peach Bottom nuclear plant in 2018, thereby allowing the facility to operate for 80 years, making the Pennsylvania facility only the second U.S. nuclear plant to announce it will reach for that milestone.

Guggenheim takeaway: Despite unsuccessful attempts to reform IL energy policy, resulting in EXC's recent announcement to retire Clinton and Quad Cities, hope for nuclear in states with carbon reduction aspirations such as PA - unclear to us how states reach carbon reduction goals without nuclear.

EIA – U.S. retail residential power sales are anticipated to drop slightly this year

- The EIA forecasts average U.S. electricity sales to the residential sectors are likely to be 1.6% lower than 2015. In 2016, retail sales of electricity to the commercial and industrial sectors are expected to rise by 0.5% and 0.2%, respectively, on the year.
- Total U.S. generation of electricity is likely to average 11,140 GWh per day for the year, down 0.5% from 2015 levels.

Guggenheim takeaway: No surprise coming off an abnormally mild winter caused by El Nino, which negatively impacted 1Q16 earnings comps for most utilities.

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
2. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
3. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
4. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
5. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
6. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
7. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
8. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
9. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
10. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
11. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
12. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
13. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
14. EEI Full Recap
15. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
16. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
17. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
18. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
19. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
20. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
21. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/22	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Intervenor testimony
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/01	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Discovery requests due
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/11	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Evidentiary hearings
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments
Other upcoming events and proceedings						
June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
GXP	6/21-6/23	Boston/KC	Terry Bassham (CEO), Kevin Bryant (CFO)
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/07/2016)

As of 6/7/2016

								Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	**Company**	**Mkt. Cap ($Bn)**	**Rating**	**Target Price[1]**	**Current Price**	**Price Change**	**Diluted Shares**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	32.4	Buy	$68	$65.84	3%	491	3.63	3.87	4.17	7%	18.1	17.0	15.8	5,512	5,849	6,246	6%	9.7	9.3	8.9	3.67	3.85	4.09	6%	17.9	17.1	16.1	5,663	5,503	5,339	(3%)	9.4	9.9	10.4
ED	Consolidated Edison, Inc.	22.6	Neutral	$70	$74.65	-6%	303	3.99	4.15	4.31	4%	18.7	18.0	17.3	3,867	4,058	4,226	5%	9.7	9.5	9.3	3.98	4.10	4.31	4%	18.7	18.2	17.3	3,676	3,880	4,096	6%	10.2	9.9	9.6
D	Dominion Resources, Inc.	44.7	Buy	$78	$72.50	8%	616	3.85	3.92	4.40	7%	18.8	18.5	16.5	6,255	6,470	7,054	6%	11.9	11.5	10.7	3.79	3.90	4.34	7%	19.1	18.6	16.7	5,673	6,332	6,724	9%	13.1	11.8	11.2
DTE	DTE Energy Company	16.7	Buy	$97	$92.70	5%	179	5.03	5.27	5.66	6%	18.4	17.6	16.4	2,628	2,728	2,925	5%	9.5	9.3	8.8	4.95	5.26	5.63	7%	18.7	17.6	16.5	2,541	2,704	2,846	6%	9.8	9.4	9.1
DUK	Duke Energy Corporation	55.2	Buy	$86	$79.99	8%	689	4.55	4.61	4.79	3%	17.6	17.4	16.7	9,033	8,878	9,383	2%	11.2	11.6	11.2	4.59	4.75	4.99	4%	17.4	16.8	16.0	9,310	10,002	10,245	5%	10.9	10.3	10.3
EIX	Edison International	23.6	Neutral	$70	$72.44	-3%	326	3.85	4.15	4.33	6%	18.8	17.5	16.7	5,011	5,372	5,690	7%	7.5	7.2	6.9	3.89	4.13	4.33	5%	18.6	17.5	16.7	4,420	4,679	4,928	6%	8.5	8.2	8.0
ES	Eversource Energy	17.7	Buy	$59	$55.70	6%	317	2.95	3.19	3.43	8%	18.9	17.5	16.2	2,607	2,569	2,625	0%	10.9	11.4	11.4	2.98	3.17	3.36	6%	18.7	17.6	16.6	2,601	2,794	2,871	5%	11.0	10.5	10.5
NEE	NextEra Energy, Inc.	56.0	Buy	$129	$121.11	7%	461	6.35	6.60	7.04	5%	19.1	18.4	17.2	7,019	7,458	7,796	5%	12.6	12.2	11.9	6.18	6.57	7.02	7%	19.6	18.4	17.3	7,960	8,567	9,540	9%	11.1	10.6	9.8
PCG	PG&E Corporation	30.5	Neutral	$59	$61.64	-4%	496	3.67	3.70	3.89	3%	16.8	16.7	15.8	6,500	6,739	7,134	5%	7.5	7.4	7.2	3.72	3.69	3.86	2%	16.6	16.7	16.0	6,026	6,533	6,918	7%	8.1	7.7	7.4
PNW	Pinnacle West Capital	8.4	Neutral	$79	$75.54	5%	111	3.91	4.19	4.43	6%	19.3	18.0	17.1	1,407	1,512	1,608	7%	8.9	8.6	8.3	3.99	4.20	4.41	5%	18.9	18.0	17.1	NA	NA	NA	NA	NA	NA	NA
PPL	PPL Corporation	26.6	Buy	$41	$39.24	4%	677	2.36	2.46	2.60	5%	16.6	16.0	15.1	4,012	4,219	4,461	5%	11.8	11.5	11.1	2.35	2.44	2.52	3%	16.7	16.1	15.6	4,025	4,210	4,450	5%	11.8	11.5	11.1
SO	Southern Company	47.1	Neutral	$47	$50.09	-6%	939	2.91	2.93	3.06	3%	17.2	17.1	16.4	7,011	7,202	7,505	3%	11.6	11.4	11.3	2.85	2.97	3.08	4%	17.6	16.9	16.3	7,177	7,957	8,227	7%	11.3	10.4	10.3
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.64	1%	236	1.18	1.28	1.33	6%	23.4	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	7%	23.4	21.6	20.3	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.4	Buy	$32	$29.80	7%	79	1.34	1.26	1.69	12%	22.2	23.7	17.6	253	249	271	3%	NA	NA	NA	1.32	1.38	1.64	11%	22.5	21.6	18.1	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.5**	**17.9**	**16.5**				**5%**	**10.2**	**10.1**	**9.8**				**6%**	**18.6**	**17.8**	**16.6**				**6%**	**10.5**	**10.0**	**9.8**
Integrated utilities																																			
ETR	Entergy Corporation	14.0	Neutral	$75	$78.42	-4%	179	5.36	5.16	5.17	-2%	14.6	15.2	15.2	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.12	5.32	5.20	1%	15.3	14.8	15.1	3,345	3,517	3,491	2%	9.0	8.8	9.2
EXC	Exelon Corporation	30.9	Buy	$38	$34.72	9%	887	2.53	2.65	2.86	6%	13.7	13.1	12.1	7,686	7,971	8,452	5%	8.1	7.9	7.5	2.54	2.64	2.79	5%	13.7	13.1	12.4	7,371	7,763	9,163	11%	8.5	8.1	6.9
FE	FirstEnergy Corp.	14.5	Buy	$43	$34.07	26%	425	2.87	2.83	2.89	0%	11.9	12.0	11.8	4,322	4,450	4,510	2%	8.5	8.2	8.1	2.68	2.53	2.54	(3%)	12.7	13.5	13.4	4,409	4,452	4,534	1%	8.3	8.2	8.1
PEG	Public Service Enterprise Grou	22.4	Buy	$50	$44.18	13%	506	2.92	2.95	3.02	2%	15.1	15.0	14.6	4,097	4,293	4,501	5%	8.2	8.2	8.0	2.88	2.89	2.95	1%	15.3	15.3	15.0	3,991	4,170	4,357	4%	8.4	8.4	8.3
Average											**2%**	**13.8**	**13.8**	**13.4**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.3**	**14.2**	**14.0**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.7	Buy	$20	$15.86	26%	359	0.42	0.87	0.60	20%	38.2	18.1	26.4	1,881	2,144	2,076	5%	9.1	7.9	8.0	0.55	0.93	1.29	53%	28.7	17.0	12.3	1,882	2,017	2,132	6%	9.1	8.4	7.8
DYN	Dynegy Inc.	2.5	Buy	$21	$21.51	-2%	117	(1.69)	(1.33)	(0.60)	NA	-12.7	-16.1	-35.9	1,006	1,287	1,490	22%	8.9	7.3	6.0	(0.50)	(0.39)	0.84	NA	-42.8	-55.5	25.6	1,095	1,127	1,338	11%	8.2	8.3	6.7
NRG	NRG Energy, Inc.	5.6	Buy	$16	$17.90	-11%	315	0.75	(0.51)	(0.03)	NA	23.9	-35.4	-571.4	3,104	2,808	2,941	(3%)	7.0	7.5	6.8	1.00	0.24	0.92	(4%)	17.9	76.1	19.5	3,103	2,759	2,960	(2%)	7.0	7.7	6.8
TLN	Talen Energy Corp	1.8	Neutral	$7	$13.81	-49%	129	0.41	0.63	0.38	-4%	33.8	21.8	36.6	756	788	733	(1%)	7.1	6.7	7.1	0.98	0.36	0.19	(56%)	14.1	38.0	73	763	746	687	(5%)	7.0	7.0	7.6
Average											**8%**	**20.8**	**-2.9**	**-136.1**				**6%**	**8.0**	**7.3**	**7.0**				**(3%)**	**4.5**	**18.9**	**33**				**2%**	**7.8**	**7.8**	**7.2**
Other																																			
NYLD	NRG Yield	1.6	Neutral	$15	$16.21	-7%	183	0.92	1.21	1.31	19%	17.6	13.4	12.4	806	984	1,093	16%	8.1	6.9	6.9	0.96	0.94	0.97	0%	16.8	17.3	16.8	821	903	1,010	11%	8.0	7.5	7.5
AWK	American Water Works	13.5	Buy	$79	$75.97	4%	178	2.85	3.05	3.26	7%	26.7	24.9	23.3	1,648	1,753	1,863	6%	12.3	11.8	11.2	2.82	3.04	3.26	7%	26.9	25.0	23.3	1,614	1,711	1,806	6%	12.6	12.1	11.6

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$65.84	2.26	2.37	2.48	3.4%	3.6%	3.8%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$74.65	2.66	2.72	2.78	3.6%	3.6%	3.7%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$72.50	2.79	2.99	3.20	3.8%	4.1%	4.4%	74%	77%	74%
DTE	DTE Energy Company	Buy	$92.70	3.00	3.15	3.30	3.2%	3.4%	3.6%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$79.99	3.39	3.53	3.69	4.2%	4.4%	4.6%	74%	74%	74%
EIX	Edison International	Neutral	$72.44	1.92	2.15	2.35	2.7%	3.0%	3.2%	49%	52%	54%
ES	Eversource Energy	Buy	$55.70	1.79	1.90	2.03	3.2%	3.4%	3.6%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$121.11	3.43	3.86	4.40	2.8%	3.2%	3.6%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$61.64	1.92	2.04	2.18	3.1%	3.3%	3.5%	52%	55%	57%
PNW	Pinnacle West Capital	Neutral	$75.54	2.54	2.67	2.80	3.4%	3.5%	3.7%	64%	64%	63%
PPL	PPL Corporation	Buy	$39.24	1.52	1.56	1.60	3.9%	4.0%	4.1%	65%	64%	64%
SO	Southern Company	Neutral	$50.09	2.22	2.30	2.38	4.4%	4.6%	4.8%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.64	0.93	0.95	0.97	3.3%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$29.80	1.09	1.12	NA	3.7%	3.8%	NA	82%	82%	NA
Average							**3.5%**	**3.7%**	**3.9%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$78.42	3.43	3.53	3.61	4.4%	4.5%	4.6%	67%	66%	69%
EXC	Exelon Corporation	Buy	$34.72	1.26	1.29	1.33	3.6%	3.7%	3.8%	50%	49%	47%
FE	FirstEnergy Corp.	Buy	$34.07	1.44	1.45	1.45	4.2%	4.3%	4.2%	54%	57%	57%
PEG	Public Service Enterprise Group	Buy	$44.18	1.64	1.72	1.80	3.7%	3.9%	4.1%	57%	60%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.86	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$21.51	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$17.90	0.19	0.14	0.14	1.1%	0.8%	0.8%	19%	NA	15%
TLN	Talen Energy Corp	Neutral	$13.81	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$16.21	0.95	1.09	1.25	5.9%	6.8%	7.7%	98%	116%	129%
AWK	American Water Works	Buy	$75.97	1.48	1.62	1.77	2.0%	2.1%	2.3%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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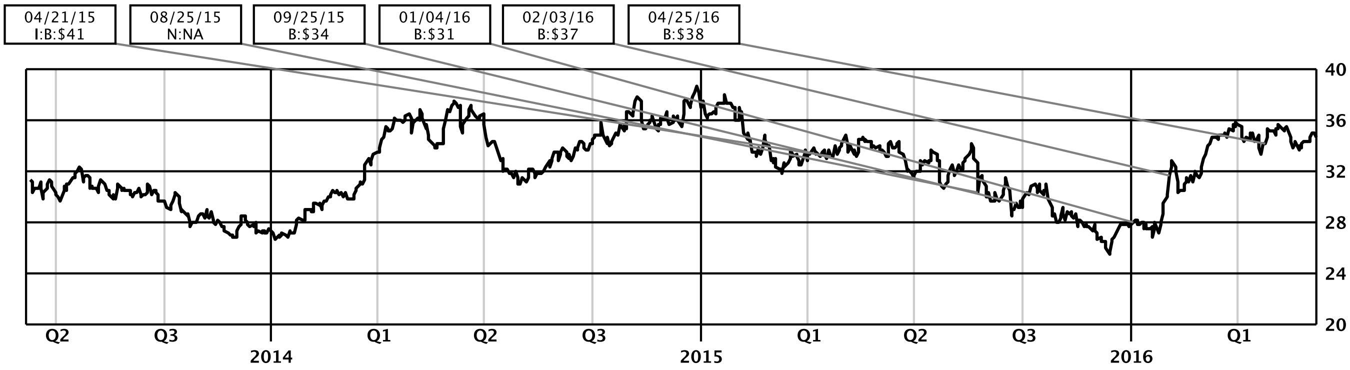
Rating and Price Target History for: Exelon Corporation (EXC) as of 06-07-2016



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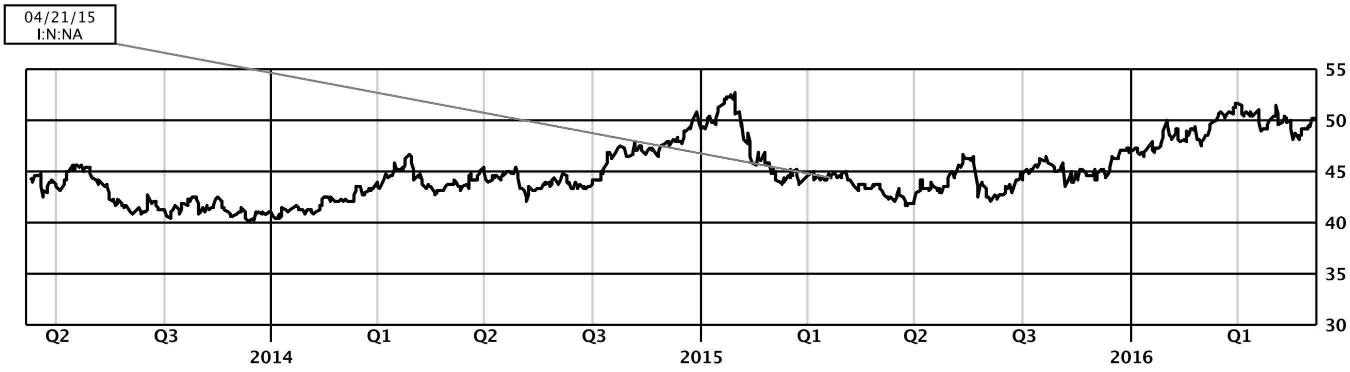
Rating and Price Target History for: Southern Company (SO) as of 06-07-2016



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	152	60.08%	28	18.42%
Neutral	101	39.92%	3	2.97%
Sell	0	0.00%	0	0.00%

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: TE, NEE, DUK, PPL, EXC, FE, ES June 10, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

TE – NM hearing examiner supports EMA's proposed acquisition of TE
NEE/TE/DUK – FL Public Service Commission approves plan to cut electric utilities hedging
PPL/FE/EXC – PA utility regulators drop cap from net metering rule proposal
EXC – MD Public Service Commission orders cost disallowances on BGE's AMI program
ES – Hydro-Québec cheers advancement of MA energy bill

TE – NM hearing examiner supports EMA's proposed acquisition of TE

- The New Mexico Public Regulation Commission examiner recommends adoption of a Certification of Stipulation in support of EMA's acquisition, and states that it's in the public interest and has quantifiable and unquantifiable benefits to New Mexico Gas Co. customers.

Guggenheim takeaway: *This decision is in line and makes sense to us as concern over the merger by the NM Commission were addressed in Emera's integration plan, i.e., no change in number of employees, and rate freeze until 2018.*

NEE/TE/DUK/SO – FL Public Service Commission approves plan to cut electric utilities hedging

- The state Public Service Commission approved a plan by Florida's electric utilities to cut their hedging by 25 percent; rejecting calls by critics to end hedging altogether given nearly $6.6 billion in total losses since 2002, yet maintaining the option of revisiting the issue later in the year.

Guggenheim takeaway: *Utilities in Florida have traditionally defended hedging losses by emphasizing the programs are designed to reduce volatility, not prices. Most notably NEE, whose Florida utility (FP&L) has lost ~$4bn since they began their hedging program in 2002 -. Not material from an earnings standpoint but a data point.*

PPL – PA utility regulators drop cap from net metering rule proposal

- The Public Utility Commission voted 4-0 without comment to resubmit a proposed update of regulations covering alternative energy; dropping a section that would have capped net metering by electricity owners of solar and wind systems.

Guggenheim takeaway: *Not quite a battleground state in the net metering debate; rates are too low for economics to work without net metering, and solar penetration is too low for utilities to be concerned.*

EXC – MD Public Service Commission orders cost disallowances on BGE's AMI program

- The MDPSC issued a final rate order in BGE's 2015 electric and gas distribution rate case, granting an $89.5 million rate increase; yet precluding BGE from recovering through future electric and gas rates the full amount of costs incurred and invested in its AMI system.
- EXC will have an impairment charge in 2Q of $85 - $95 million for the AMI system cost disallowances and adjustments.

Guggenheim takeaway: *After tax, ~$59mm disallowance (midpoint of range) should translate to a ~$0.06/share charge. Non-operating so shouldn't impact core earnings.*

ES – MA House approves legislation requiring utility renewable procurement

- The Massachusetts House of Representatives approved H. 4385, a bill requiring utilities to procure hydro and wind.
- The legislation is now with the State Senate.

Guggenheim takeaway: *Although the NH SEC's review of ES's Northern Pass transmission line was recently delayed, this ruling is further evidence of policy support for the project, which would bring Canadian hydro into New England. A lot of mixed data points in New England but ultimately, we believe Eversouce should prevail.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome
2. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
3. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
4. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
5. SJI - Initiating with BUY Rating - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
6. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
7. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
8. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
9. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
10. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
11. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
12. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
13. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
14. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
15. EEI Full Recap
16. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
17. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
18. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
19. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
20. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
21. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
22. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/09	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
06/13	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/22	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Intervenor testimony
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/01	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Discovery requests due
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/11	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Evidentiary hearings
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/27		Clean Power Plan				Appeals Court hears oral arguments
Other upcoming events and proceedings						
June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
GXP	6/21-6/23	Boston/KC	Terry Bassham (CEO), Kevin Bryant (CFO)
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/09/2016)

As of 6/9/2016

Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price(1)	Current Price	Price Change	Diluted Shares	Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
								'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	32.9	Buy	$68	$66.96	2%	491	3.63	3.87	4.17	7%	18.4	17.3	16.1	5,512	5,849	6,246	6%	9.8	9.4	9.0	3.67	3.85	4.09	6%	18.3	17.4	16.4	5,663	5,503	5,339	(3%)	9.5	10.0	10.5
ED	Consolidated Edison, Inc.	23.2	Neutral	$70	$76.54	-9%	303	3.99	4.15	4.31	4%	19.2	18.4	17.8	3,867	4,058	4,226	5%	9.9	9.6	9.5	3.98	4.14	4.31	4%	19.2	18.5	17.8	3,676	3,880	4,096	6%	10.4	10.1	9.8
D	Dominion Resources, Inc.	45.4	Buy	$78	$73.74	6%	616	3.85	3.92	4.40	7%	19.2	18.8	16.8	6,255	6,470	7,054	6%	12.0	11.6	10.8	3.79	3.90	4.34	7%	19.4	18.9	17.0	5,673	6,332	6,724	9%	13.2	11.9	11.3
DTE	DTE Energy Company	16.9	Buy	$97	$94.05	3%	179	5.03	5.27	5.66	6%	18.7	17.8	16.6	2,628	2,728	2,925	5%	9.5	9.4	8.9	4.95	5.26	5.63	7%	19.0	17.9	16.7	2,541	2,704	2,846	6%	9.9	9.5	9.2
DUK	Duke Energy Corporation	56.0	Buy	$86	$81.26	6%	689	4.55	4.61	4.79	3%	17.9	17.6	17.0	9,033	8,878	9,383	2%	11.3	11.7	11.3	4.59	4.75	4.99	4%	17.7	17.1	16.3	9,310	10,002	10,245	5%	11.0	10.4	10.3
EIX	Edison International	24.0	Neutral	$70	$73.66	-5%	326	3.85	4.15	4.33	6%	19.1	17.7	17.0	5,011	5,372	5,690	7%	7.6	7.2	7.0	3.89	4.13	4.33	5%	18.9	17.8	17.0	4,420	4,679	4,928	6%	8.6	8.3	8.1
ES	Eversource Energy	18.0	Buy	$59	$56.88	4%	317	2.95	3.19	3.43	8%	19.3	17.8	16.6	2,607	2,569	2,625	0%	11.1	11.5	11.6	2.98	3.17	3.36	6%	19.1	17.9	16.9	2,601	2,794	2,871	5%	11.1	10.6	10.6
NEE	NextEra Energy, Inc.	57.2	Buy	$129	$123.98	4%	461	6.35	6.60	7.04	5%	19.5	18.8	17.6	7,019	7,458	7,796	5%	12.8	12.4	12.1	6.18	6.57	7.02	7%	20.1	18.9	17.7	7,960	8,567	9,540	9%	11.3	10.8	9.9
PCG	PG&E Corporation	31.2	Neutral	$59	$62.98	-6%	496	3.67	3.70	3.89	3%	17.2	17.0	16.2	6,500	6,739	7,134	5%	7.6	7.5	7.3	3.72	3.69	3.86	2%	16.9	17.1	16.3	6,026	6,533	6,918	7%	8.2	7.8	7.5
PNW	Pinnacle West Capital	8.6	Neutral	$79	$77.17	2%	111	3.91	4.19	4.43	6%	19.7	18.4	17.4	1,407	1,512	1,608	7%	9.1	8.8	8.4	3.99	4.20	4.41	5%	19.3	18.4	17.5	NA	NA	NA	NA	NA	NA	NA
PPL	PPL Corporation	26.6	Buy	$41	$39.25	4%	677	2.36	2.46	2.60	5%	16.6	16.0	15.1	4,012	4,219	4,461	5%	11.8	11.5	11.1	2.35	2.44	2.52	3%	16.7	16.1	15.6	4,025	4,210	4,450	5%	11.8	11.5	11.1
SO	Southern Company	47.7	Neutral	$47	$50.86	-8%	939	2.91	2.93	3.06	3%	17.5	17.4	16.6	7,011	7,202	7,505	3%	11.7	11.5	11.4	2.85	2.97	3.08	4%	17.9	17.1	16.5	7,177	7,957	8,227	7%	11.4	10.4	10.4
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.69	1%	236	1.18	1.28	1.33	6%	23.5	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	7%	23.5	21.6	20.3	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.4	Buy	$32	$30.13	6%	79	1.34	1.26	1.69	12%	22.5	23.9	17.8	253	249	271	3%	NA	NA	NA	1.32	1.38	1.64	11%	22.8	21.9	18.3	NA	NA	NA	NA	NA	NA	NA
Average(2)											**6%**	**18.8**	**18.2**	**16.8**				**5%**	**10.3**	**10.2**	**9.9**				**6%**	**18.9**	**18.1**	**16.9**				**6%**	**10.6**	**10.1**	**9.9**
Integrated utilities																																			
ETR	Entergy Corporation	14.1	Neutral	$75	$78.68	-5%	179	5.36	5.16	5.17	-2%	14.7	15.2	15.2	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.11	5.32	5.20	1%	15.4	14.8	15.1	3,345	3,517	3,491	2%	9.0	8.8	9.2
EXC	Exelon Corporation	31.2	Buy	$38	$35.14	8%	887	2.53	2.65	2.86	6%	13.9	13.3	12.3	7,686	7,971	8,452	5%	8.2	7.9	7.5	2.54	2.64	2.79	5%	13.9	13.3	12.6	7,371	7,763	9,163	11%	8.5	8.1	7.0
FE	FirstEnergy Corp.	14.5	Buy	$43	$34.25	26%	425	2.87	2.83	2.89	0%	11.9	12.1	11.9	4,322	4,450	4,510	2%	8.5	8.3	8.2	2.68	2.53	2.54	(3%)	12.8	13.5	13.5	4,409	4,452	4,534	1%	8.3	8.3	8.1
PEG	Public Service Enterprise Grou	22.6	Buy	$50	$44.62	12%	506	2.92	2.95	3.02	2%	15.3	15.1	14.8	4,097	4,293	4,501	5%	8.2	8.3	8.1	2.88	2.89	2.95	1%	15.5	15.5	15.1	3,991	4,170	4,357	4%	8.5	8.5	8.3
Average											**2%**	**13.9**	**13.9**	**13.5**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.4**	**14.3**	**14.1**				**5%**	**8.6**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.6	Buy	$20	$15.60	28%	359	0.42	0.87	0.60	20%	37.6	17.8	26.0	1,881	2,144	2,076	5%	9.1	7.8	7.9	0.55	0.93	1.29	53%	28.2	16.7	12.1	1,882	2,017	2,132	6%	9.1	8.3	7.7
DYN	Dynegy Inc.	2.4	Buy	$21	$20.74	1%	117	(1.69)	(1.33)	(0.60)	NA	-12.3	-15.6	-34.6	1,006	1,287	1,490	22%	8.8	7.2	6.0	(0.66)	(0.36)	0.86	NA	-31.4	-58.4	24.2	1,095	1,127	1,338	11%	8.1	8.2	6.7
NRG	NRG Energy, Inc.	5.2	Buy	$16	$16.59	-4%	315	0.75	(0.51)	(0.03)	NA	22.2	-32.8	-529.6	3,104	2,808	2,941	(3%)	7.1	7.6	6.9	1.00	0.23	0.89	(6%)	16.6	72.0	18.7	3,103	2,759	2,960	(2%)	7.1	7.7	6.9
TLN	Talen Energy Corp	1.8	Neutral	$7	$13.81	-49%	129	0.41	0.63	0.38	-4%	33.8	21.8	36.6	756	788	733	(1%)	7.1	6.7	7.1	0.98	0.36	0.19	(56%)	14.1	38.0	73	763	746	687	(5%)	7.0	7.0	7.6
Average											**8%**	**20.3**	**-2.2**	**-125.4**				**6%**	**8.0**	**7.3**	**7.0**				**(3%)**	**6.9**	**17.1**	**32**				**2%**	**7.8**	**7.8**	**7.2**
Other																																			
NYLD	NRG Yield	1.6	Neutral	$15	$16.58	-10%	183	0.92	1.21	1.31	19%	18.0	13.7	12.6	806	984	1,093	16%	8.2	6.9	7.0	0.96	0.94	0.97	0%	17.2	17.6	17.1	821	903	1,010	11%	8.0	7.5	7.6
AWK	American Water Works	13.8	Buy	$79	$77.47	2%	178	2.85	3.05	3.26	7%	27.2	25.4	23.8	1,648	1,753	1,863	6%	12.5	11.9	11.4	2.82	3.04	3.26	7%	27.4	25.5	23.8	1,614	1,711	1,806	6%	12.7	12.2	11.7

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$66.96	2.26	2.37	2.48	3.4%	3.5%	3.7%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$76.54	2.66	2.72	2.78	3.5%	3.6%	3.6%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$73.74	2.79	2.99	3.20	3.8%	4.1%	4.3%	74%	77%	74%
DTE	DTE Energy Company	Buy	$94.05	3.00	3.15	3.30	3.2%	3.4%	3.5%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$81.26	3.39	3.53	3.69	4.2%	4.3%	4.5%	74%	74%	74%
EIX	Edison International	Neutral	$73.66	1.92	2.15	2.35	2.6%	2.9%	3.2%	49%	52%	54%
ES	Eversource Energy	Buy	$56.88	1.79	1.90	2.03	3.1%	3.3%	3.6%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$123.98	3.43	3.86	4.40	2.8%	3.1%	3.5%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$62.98	1.92	2.04	2.18	3.0%	3.2%	3.5%	52%	55%	57%
PNW	Pinnacle West Capital	Neutral	$77.17	2.54	2.67	2.80	3.3%	3.5%	3.6%	64%	64%	63%
PPL	PPL Corporation	Buy	$39.25	1.52	1.56	1.60	3.9%	4.0%	4.1%	65%	64%	64%
SO	Southern Company	Neutral	$50.86	2.22	2.30	2.38	4.4%	4.5%	4.7%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.69	0.93	0.95	0.97	3.3%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$30.13	1.09	1.12	NA	3.6%	3.7%	NA	82%	82%	NA
Average							**3.4%**	**3.6%**	**3.8%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$78.68	3.43	3.53	3.61	4.4%	4.5%	4.6%	67%	66%	69%
EXC	Exelon Corporation	Buy	$35.14	1.26	1.29	1.33	3.6%	3.7%	3.8%	50%	49%	47%
FE	FirstEnergy Corp.	Buy	$34.25	1.44	1.45	1.45	4.2%	4.2%	4.2%	54%	57%	57%
PEG	Public Service Enterprise Group	Buy	$44.62	1.64	1.72	1.80	3.7%	3.8%	4.0%	57%	60%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.60	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$20.74	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$16.59	0.19	0.14	0.14	1.2%	0.8%	0.8%	19%	NA	15%
TLN	Talen Energy Corp	Neutral	$13.81	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$16.58	0.95	1.09	1.25	5.7%	6.6%	7.5%	98%	116%	129%
AWK	American Water Works	Buy	$77.47	1.48	1.62	1.77	1.9%	2.1%	2.3%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	157	59.92%	28	17.83%
Neutral	105	40.08%	3	2.86%
Sell	0	0.00%	0	0.00%

OTHER DISCLOSURES

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: DYN, CPP, NYISO, EXC June 16, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

DYN – Buying out ECP; we liked the prior deal… we like it even more now
Fed – Officials opted not to raise the federal funds rate
CPP – U.S. House Speaker proposes legislation to dismantle wide range of federal regulations
NYISO – NYPA and NYSEG complete $120 million transmission project
EXC – NY PSC indicates possible closure of Nine Mile Point 1

DYN – Buying out ECP; we liked the prior deal… we like it even more now

- DYN eliminates the joint venture by acquiring ECP's 35% interest in the Atlas JV.
- Transaction calls for the remaining share of the upfront equity funding at closing, then pay a revised - discounted by 20% - floor price of $375mm post-closing; for a total transaction value of $750mm.
- Cost of the original buyout is lowered by $184mm.
- Financing will include $400mm tangible equity units, $2b term loan.
- ECP remains committed to the purchase of $150mm of DYN equity at $10.94/ share, becoming the largest shareholder of DYN.

Guggenheim takeaway: *We liked the prior deal…we like it even more now. Reminder – we upgraded shares on 2/29 following the ENGIE announcement. With yesterday's action, DYN has simplified the transformational ENGIE acquisition and took control of the entire fleet in a cash flow accretive and value enhancement manner while maintaining pre-existing credit rating metrics. Total purchase price of $3.675b, which includes $375mm to buy out ECP, equates to ~ $400Kw for 100% ownership of the entire fleet. More focusing on the remaining 35% piece announced today includes a negotiated floor price of $375mm (down from $519mm) and assuming ECP capital funding commitment of $415mm. For a more in depth view on this, see our note HERE.*

Fed – Officials opted not to raise the federal funds rate

- The Federal Open Market Committee kept the federal funds rates at 1/4 to 1/2 percent.
- Fewer Reserve officials expect the central bank to raise interest rates more than once this year, given a mixed picture of the economy (growth picking up and slowing job creation).
- The Fed continues to hold the position that rates are likely to rise at a "gradual" pace.

Guggenheim takeaway: *Since we launched on the sector, one of our primary thesis has been that we do not see material downside risk from tightening* *monetary policy given our view that rate increases would be gradual. This story remains the same and continues to play out as such; we will monitor the situation should producer and consumer price indexes signal higher than expected inflationary pressures. That said, we continue to have more Buys than Neutrals in the sector given our viewpoint that there is still some room to run for the regulated utilities. That said, we could be inching closer to the 9th inning given forward yield expectations and utility multiples. Where will incremental buyers go? Likely into more power levered names.*

CPP – House Speaker proposes legislation to dismantle wide range of federal regulations

- Proposal consists of bills that would dismantle many of President Obama's signature reforms, including those focused on the environment, labor and rules on financial institutions in place after the 2008 economic crisis.

Guggenheim takeaway: *Not a surprise coming from the Republicans, who claim regulatory overreach.*

NYISO – NYPA and NYSEG complete $120 million transmission project

- The New York Power Authority (NYPA) and New York State Electric & Gas (IBE-M, NC, $5.74) announced the completion of a $120mm transmission project enabling more electricity to flow from upstate to downstate NY.
- The Marcy South Compensation Project, is expected to provide ~440MW of additional transmission capacity, supporting the state's 50% renewable goal.

Guggenheim takeaway: *The State continues to take steps towards meeting its 50% renewable 40% carbon reduction aspirations.*

EXC – NY PSC indicates possible closure of Nine Mile Point 1

- In a filing for case 16-E-0270, EXC indicated it has not yet ordered fuel for Nine Mile Unit 1, as the company wants a pricing formula determined by the PSC by August 1.
- Refueling is scheduled March 2017.
- EXC notes it requires PSC approval of Clean Energy Standards (CES) and the submitted compensation program prior to making the investment.
- Refueling the unit would cost ~$55mm, and EXC believes the process could be compressed to 6 months (typically 9-12 months).

Guggenheim takeaway: *The more rationalization of merchant assets, the better for IPPs, particularly for BUY-rated DYN and NRG. As we've noted, nuclear retirements are often in line with refueling outages. We aren't calling the conclusion of proceedings, but the move makes sense to us and the process is likely on a shorter timeframe now. We do see more nuclear rationalization over the next couple of years.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
2. ETR – NEUTRAL – Analyst Day Offers Some Incremental CapEx, but No Price Tag on Nuclear Cost
3. FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome
4. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
5. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
6. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
7. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
8. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
9. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
10. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
11. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
12. DYN – Upgrading to BUY - Atlas Holding DYN on its Shoulder: ENGIE Acquisition Transformational
13. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
14. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
15. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
16. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
17. EEI Full Recap
18. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
19. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
20. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
21. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
22. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
23.

SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years

24. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables

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Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/14	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
06/22	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Intervenor testimony
06/23	PPL	BREXIT referendum		UK		Referendum to decide if UK should exit EU
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
07/01	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Discovery requests due
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/11	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Evidentiary hearings
07/18	DUK	Regulatory review of proposed acquisition		NC		NCUC holding public hearings on the proposed acquisition
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
09/07	DTE	Michigan energy policy		MI	S.B. 437 S.B. 438	Upper house returns from summer recess
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other upcoming events and proceedings

June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
June	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	Earliest possible PUC decision
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	PSO electric rate proceeding
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program
July	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Poposed decision on field demos
August	PCG	2015 Electric Distribution Resource Plan (DRP)	Pacific Gas & Electric Co.	CA	A-15-07-006 R-14-08-013	Final Decision on Field Demos

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/15/2016)

As of	**6/15/2016**							**Guggenheim Estimates**														**Consensus Estimates**													
								Earnings Per Share				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**			**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**		
Ticker	**Company**	**Mkt. Cap ($Bn)**	**Rating**	**Target Price**[1]	**Current Price**	**Price Change**	**Diluted Shares**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	32.5	Buy	$68	$66.24	3%	491	3.63	3.87	4.17	7%	18.2	17.1	15.9	5,512	5,849	6,246	6%	9.7	9.4	8.9	3.67	3.84	4.08	5%	18.1	17.2	16.2	5,663	5,503	5,339	(3%)	9.5	9.9	10.5
ED	Consolidated Edison, Inc.	23.4	Neutral	$70	$77.31	-9%	303	3.99	4.15	4.31	4%	19.4	18.6	17.9	3,867	4,058	4,226	5%	9.9	9.7	9.5	3.98	4.14	4.31	4%	19.4	18.7	17.9	3,676	3,880	4,096	6%	10.4	10.1	9.8
D	Dominion Resources, Inc.	45.4	Buy	$78	$73.68	6%	616	3.85	3.92	4.40	7%	19.1	18.8	16.7	6,255	6,470	7,054	6%	12.0	11.6	10.8	3.79	3.90	4.33	7%	19.4	18.9	17.0	5,673	6,332	6,724	9%	13.2	11.9	11.3
DTE	DTE Energy Company	16.9	Buy	$97	$94.00	3%	179	5.03	5.27	5.66	6%	18.7	17.8	16.6	2,628	2,728	2,925	5%	9.5	9.4	8.9	4.95	5.26	5.63	7%	19.0	17.9	16.7	2,541	2,704	2,846	6%	9.9	9.5	9.2
DUK	Duke Energy Corporation	56.2	Buy	$86	$81.53	5%	689	4.55	4.61	4.79	3%	17.9	17.7	17.0	9,033	8,878	9,383	2%	11.3	11.8	11.3	4.59	4.75	4.99	4%	17.7	17.2	16.3	9,310	10,002	10,245	5%	11.0	10.4	10.4
EIX	Edison International	23.9	Neutral	$70	$73.46	-5%	326	3.85	4.15	4.33	6%	19.1	17.7	17.0	5,011	5,372	5,690	7%	7.6	7.2	7.0	3.89	4.14	4.33	5%	18.9	17.8	17.0	4,420	4,679	4,928	6%	8.6	8.3	8.1
ES	Eversource Energy	17.9	Buy	$59	$56.52	4%	317	2.95	3.19	3.43	8%	19.2	17.7	16.5	2,607	2,569	2,625	0%	11.0	11.5	11.5	2.98	3.17	3.36	6%	19.0	17.8	16.8	2,601	2,794	2,871	5%	11.1	10.5	10.6
NEE	NextEra Energy, Inc.	57.1	Buy	$129	$123.84	4%	461	6.35	6.60	7.04	5%	19.5	18.8	17.6	7,019	7,458	7,796	5%	12.8	12.4	12.1	6.18	6.57	7.02	7%	20.0	18.9	17.7	7,960	8,567	9,540	9%	11.3	10.8	9.9
PCG	PG&E Corporation	30.9	Neutral	$59	$62.35	-5%	496	3.67	3.70	3.89	3%	17.0	16.9	16.0	6,500	6,739	7,134	5%	7.5	7.5	7.2	3.72	3.69	3.86	2%	16.8	16.9	16.1	6,026	6,534	6,919	7%	8.1	7.7	7.4
PNW	Pinnacle West Capital	8.5	Neutral	$79	$76.73	3%	111	3.91	4.19	4.43	6%	19.6	18.3	17.3	1,407	1,512	1,608	7%	9.0	8.7	8.4	3.99	4.20	4.41	5%	19.2	18.3	17.4	NA	NA	NA	NA	NA	NA	NA
PPL	PPL Corporation	26.3	Buy	$41	$38.83	6%	677	2.36	2.46	2.60	5%	16.5	15.8	14.9	4,012	4,219	4,461	5%	11.8	11.4	11.0	2.35	2.44	2.52	3%	16.5	15.9	15.4	4,025	4,210	4,450	5%	11.7	11.4	11.1
SO	Southern Company	47.8	Neutral	$47	$50.88	-8%	939	2.91	2.93	3.06	3%	17.5	17.4	16.6	7,011	7,202	7,505	3%	11.7	11.5	11.4	2.85	2.97	3.08	4%	17.9	17.1	16.5	7,177	7,957	8,227	7%	11.4	10.4	10.4
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.66	1%	236	1.18	1.28	1.33	6%	23.4	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	8%	23.5	21.6	20.3	NA	NA	NA	NA	NA	NA	NA
SJI	South Jersey Industries, Inc.	2.4	Buy	$32	$30.14	6%	79	1.34	1.26	1.69	12%	22.5	23.9	17.8	253	249	271	3%	14.9	15.7	14.4	1.32	1.36	1.60	10%	22.8	22.2	18.8	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.8**	**18.2**	**16.8**				**5%**	**10.7**	**10.6**	**10.2**				**6%**	**18.8**	**18.1**	**16.9**				**6%**	**10.6**	**10.1**	**9.9**
Integrated utilities																																			
ETR	Entergy Corporation	14.0	Neutral	$75	$78.08	-4%	179	5.36	5.16	5.17	-2%	14.6	15.1	15.1	3,730	3,712	3,825	1%	8.1	8.4	8.3	5.11	5.25	5.18	1%	15.3	14.9	15.1	3,345	3,517	3,491	2%	9.0	8.8	9.1
EXC	Exelon Corporation	30.3	Buy	$38	$34.19	11%	887	2.53	2.65	2.86	6%	13.5	12.9	12.0	7,686	7,971	8,452	5%	8.0	7.8	7.4	2.53	2.64	2.78	5%	13.5	13.0	12.3	7,371	7,763	9,163	11%	8.4	8.0	6.9
FE	FirstEnergy Corp.	14.3	Buy	$43	$33.65	28%	425	2.87	2.83	2.89	0%	11.7	11.9	11.6	4,322	4,450	4,510	2%	8.4	8.2	8.1	2.68	2.52	2.53	(3%)	12.6	13.4	13.3	4,409	4,441	4,522	1%	8.3	8.2	8.1
PEG	Public Service Enterprise Grou	22.4	Buy	$50	$44.31	13%	506	2.92	2.95	3.02	2%	15.2	15.0	14.7	4,097	4,293	4,501	5%	8.2	8.2	8.0	2.88	2.89	2.95	1%	15.4	15.3	15.0	3,991	4,170	4,357	4%	8.4	8.5	8.3
Average											**2%**	**13.7**	**13.7**	**13.3**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.2**	**14.1**	**13.9**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	4.9	Buy	$20	$13.56	47%	359	0.42	0.87	0.60	20%	32.7	15.5	22.6	1,881	2,144	2,076	5%	8.7	7.5	7.6	0.54	0.91	1.26	52%	24.9	14.9	10.8	1,882	2,014	2,133	6%	8.7	8.0	7.4
DYN	Dynegy Inc.	1.9	Buy	$21	$16.13	30%	117	(1.69)	(1.33)	(0.60)	NA	-9.5	-12.1	-26.9	1,006	1,287	1,490	22%	8.3	6.8	5.7	(0.92)	(0.13)	0.72	NA	-17.4	-122.8	22.4	1,076	1,219	1,337	11%	7.8	7.2	6.3
NRG	NRG Energy, Inc.	4.4	Buy	$16	$13.95	15%	315	0.75	(0.51)	(0.03)	NA	18.7	-27.6	-445.3	3,104	2,808	2,941	(3%)	6.8	7.3	6.6	0.98	0.28	0.96	(1%)	14.2	50.2	14.5	3,103	2,759	2,960	(2%)	6.8	7.4	6.6
TLN	Talen Energy Corp	1.8	Neutral	$7	$13.65	-49%	129	0.41	0.63	0.38	-4%	33.4	21.6	36.2	756	788	733	(1%)	7.1	6.6	7.1	0.98	0.36	0.19	(56%)	13.9	37.5	72	763	746	687	(5%)	7.0	7.0	7.5
Average											**8%**	**18.8**	**-0.6**	**-103.4**				**6%**	**7.7**	**7.1**	**6.7**				**(2%)**	**8.9**	**-5.0**	**30**				**3%**	**7.6**	**7.4**	**7.0**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$14.95	0%	183	0.92	1.21	1.31	19%	16.2	12.3	11.4	806	984	1,093	16%	8.0	6.8	6.8	0.96	0.94	0.96	0%	15.6	16.0	15.5	821	903	1,010	11%	7.8	7.4	7.4
AWK	American Water Works	13.8	Buy	$79	$77.81	2%	178	2.85	3.05	3.26	7%	27.3	25.5	23.9	1,648	1,753	1,863	6%	12.5	12.0	11.4	2.82	3.04	3.26	7%	27.6	25.6	23.9	1,614	1,711	1,806	6%	12.8	12.2	11.8

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$66.24	2.26	2.37	2.48	3.4%	3.6%	3.7%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$77.31	2.66	2.72	2.78	3.4%	3.5%	3.6%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$73.68	2.79	2.99	3.20	3.8%	4.1%	4.3%	74%	77%	74%
DTE	DTE Energy Company	Buy	$94.00	3.00	3.15	3.30	3.2%	3.4%	3.5%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$81.53	3.39	3.53	3.69	4.2%	4.3%	4.5%	74%	74%	74%
EIX	Edison International	Neutral	$73.46	1.92	2.15	2.35	2.6%	2.9%	3.2%	49%	52%	54%
ES	Eversource Energy	Buy	$56.52	1.79	1.90	2.03	3.2%	3.4%	3.6%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$123.84	3.43	3.86	4.40	2.8%	3.1%	3.6%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$62.35	1.93	2.05	2.19	3.1%	3.3%	3.5%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$76.73	2.54	2.67	2.80	3.3%	3.5%	3.6%	64%	64%	63%
PPL	PPL Corporation	Buy	$38.83	1.52	1.56	1.60	3.9%	4.0%	4.1%	65%	64%	64%
SO	Southern Company	Neutral	$50.88	2.22	2.30	2.38	4.4%	4.5%	4.7%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.66	0.93	0.95	0.97	3.4%	3.4%	3.5%	79%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$30.14	1.08	1.10	1.10	3.6%	3.7%	3.6%	82%	81%	69%
Average							**3.4%**	**3.6%**	**3.8%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$78.08	3.43	3.53	3.61	4.4%	4.5%	4.6%	67%	67%	70%
EXC	Exelon Corporation	Buy	$34.19	1.26	1.29	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.65	1.44	1.45	1.45	4.3%	4.3%	4.3%	54%	58%	57%
PEG	Public Service Enterprise Group	Buy	$44.31	1.64	1.72	1.80	3.7%	3.9%	4.1%	57%	59%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$13.56	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$16.13	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$13.95	0.20	0.14	0.14	1.5%	1.0%	1.0%	21%	NA	15%
TLN	Talen Energy Corp	Neutral	$13.65	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.4%**	**0.2%**	**0.3%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$14.95	0.95	1.09	1.25	6.3%	7.3%	8.3%	99%	117%	130%
AWK	American Water Works	Buy	$77.81	1.48	1.62	1.77	1.9%	2.1%	2.3%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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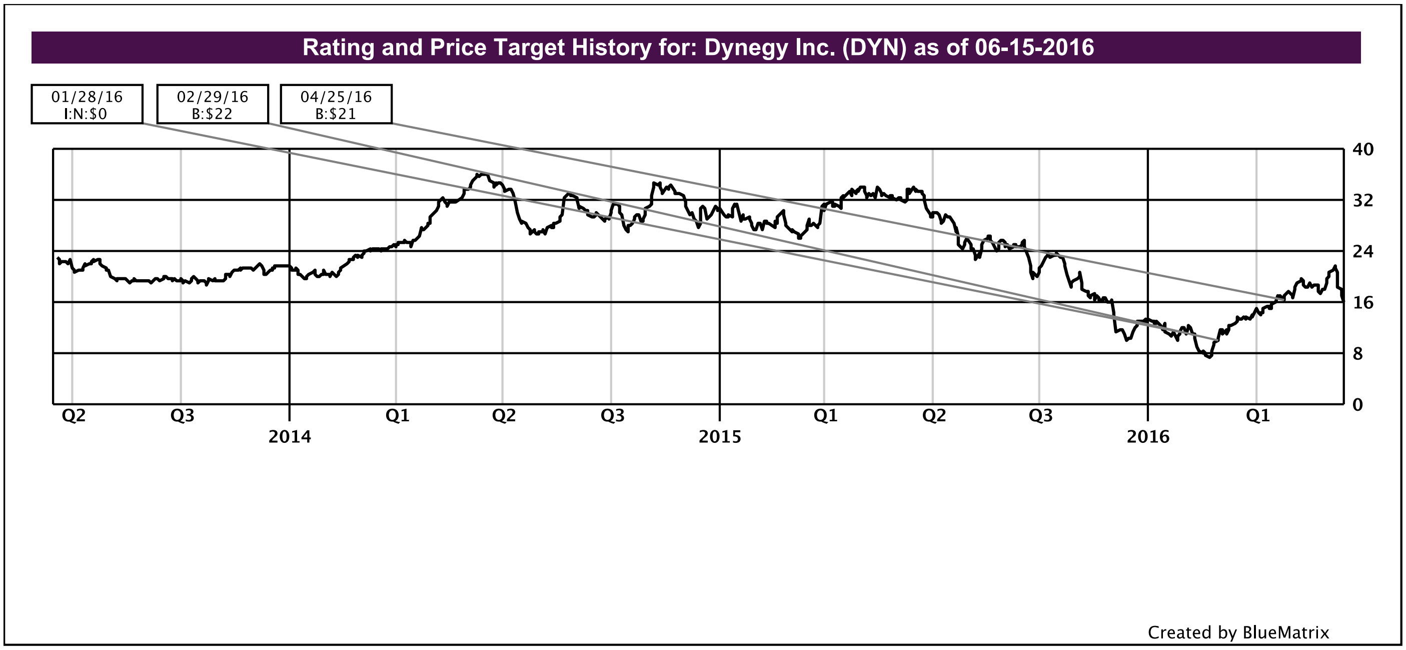
Rating and Price Target History for: Dynegy Inc. (DYN) as of 06-15-2016

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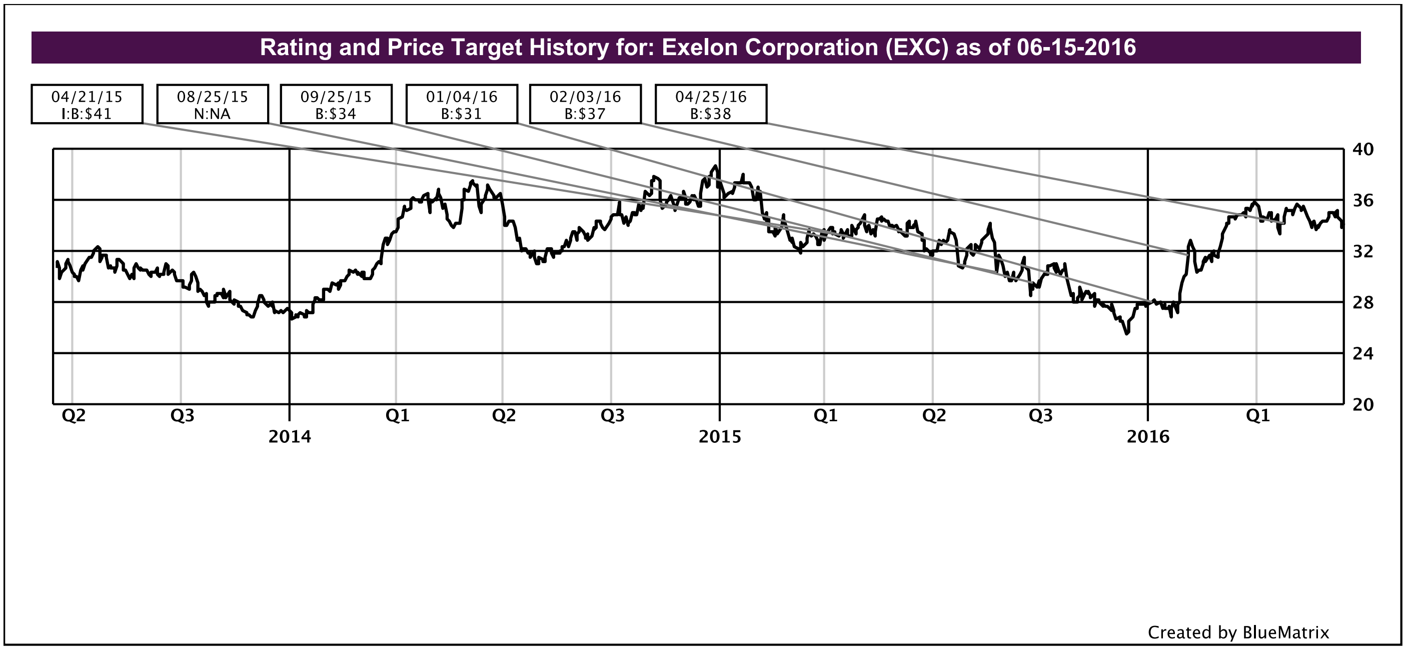
Rating and Price Target History for: Exelon Corporation (EXC) as of 06-15-2016

Created by BlueMatrix

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	155	59.62%	25	16.13%
Neutral	105	40.38%	3	2.86%
Sell	0	0.00%	0	0.00%

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: EXC, CAISO, NEE, FE

June 21, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

EXC – Reclamation fund for the Clinton and Quad Cities nuclear facilities has shortfall
CAISO – California ISO declares Flex Alert for Southern California
NEE – FPL plans to buy interest in Indiantown Cogeneration for $451m
FE – IPPs protest FE Rider, call on FERC for further action

EXC – Reclamation fund for the Clinton and Quad Cities nuclear facilities has shortfall

- EXC may have to disburse up to an additional $790mm to restore the sites for the three reactors. (Quad Cities is a dual-unit station.)
- Clinton's restoration fund held $501mm, while the company estimates cost to restore the site is $997mm.
- Quad Cities restoration funds hold $833 million, yet there is no public disclosure of estimates for the site at this time.
- EXC had counted on the continued operation of the plants to help build the cleanup funds through investment gains.

Guggenheim takeaway: *The gap in cleanup funds is dependent on the funds realized returns and the period chosen for decommissioning. Both assets, as discussed in the past, weren't covering their operating costs, return on invested capital and generating negative cash flow – shutdown should be CF/EPS accretive. As a reminder, the Plants have lost ~$100mm in CF/year since '09 and management highlights negative CF of $140mm on '17 forwards ex basis and unit contingent risk – vs. our model of $155mm negative FCF using our 3/31 curves.*

CAISO – California ISO declares Flex Alert for Southern California

- The California Independent System Operator (ISO) issued a Flex Alert asking consumers to conserve energy to help prevent rotating power outages.
- Electricity demand is expected to rise during the heat wave on Monday and Tuesday, June 20 and 21, with forecasted system-wide energy use expected to exceed 46,000 MWs; a total slightly lower than the 2015 system peak of 47,358 MWs.
- With the shut-in of Aliso Canyon, following a massive leak at the underground storage facility in October, the grid is at risk.

Guggenheim takeaway: *Not surprising given the higher level of heating degree days, coupled with the limited operations of the Aliso Canyon storage facility. Key beneficiaries are BUY-rated CPN and NRG but weather impact needs to be sustainable.*

NEE – FPL plans to buy interest in Indiantown Cogeneration for $451m

- NEE's Florida Power & Light Co. (FPL) files petition with state's Public Service Commission (PSC) to approve purchase of coal-fired power plant located in Indiantown, FL for $451m, including debt.
- Seeking approval of the purchase by December, upon taking ownership from Calypso Energy, FPL plans to immediately reduce the plant's operations with the intention of phasing it out.

Guggenheim takeaway: *This directed rationalization, if approved by PSC, will be the 2nd coal power plant in two years FPL has bought to phase out. Not super material to the story.*

FE – IPPs protest FE Rider, call on FERC for further action

- Several groups, led by the Electric Power Supply Association (EPSA), submitted a protest against FE's Rider RRS.
- In addition, the group called on FERC to issue a further order to prevent FE from circumventing the Commission's affiliate restrictions.

Guggenheim takeaway: *They make some valid arguments in the filing as they did the first go-ahead; we think FE can get its proposal approved in OH, but it's unclear how it fares with FERC, as we were wrong the first time. For additional thoughts see our note HERE.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
2. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
3. ETR – NEUTRAL – Analyst Day Offers Some Incremental CapEx, but No Price Tag on Nuclear Cost
4. FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome
5. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
6. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
7. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
8. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
9. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
10. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
11. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
12. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
13. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates

14. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
15. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
16. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
17. EEI Full Recap
18. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
19. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
20. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
21. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
22. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
23. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
24. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/22	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Intervenor testimony
06/22	EXC	Request for rehearing of merger approval		DC	FC 1119	Deadline for PSC action on request for rehearing of merger order (FC 1119)
06/23	PPL	BREXIT referendum		UK		Referendum vote to decide if UK should exit EU
06/23	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	PUC decision possible
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
06/29	EXC	ComEd electric formula rate plan	Commonwealth Edison	IL	16-0259	Staff and intervenor testimony expected to be filed
06/30	D	Brunswick rider proceeding	Virginia Electric and Power	VA	PUE-2015-00102	VA SCC decision expected on Rider BW for the Brunswick power plant
07/01	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Discovery requests due
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/11	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Evidentiary hearings
07/18	DUK	Regulatory review of proposed acquisition		NC		NCUC holding public hearings on the proposed acquisition
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
07/26	ES	Access Northeast		MA		
09/07	DTE	Michigan energy policy		MI	S.B. 437 S.B. 438	Upper house returns from summer recess
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other events and proceedings

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/13 - 07/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
On-going	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	Potential PUC decision.
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/20/2016)

As of 6/20/2016

Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
								'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	32.8	Buy	$68	$66.79	2%	491	3.63	3.87	4.17	7%	18.4	17.3	16.0	5,512	5,849	6,246	6%	9.8	9.4	9.0	3.67	3.84	4.08	5%	18.2	17.4	16.4	5,663	5,503	5,339	(3%)	9.5	10.0	10.5
ED	Consolidated Edison, Inc.	23.4	Neutral	$70	$77.16	-9%	303	3.99	4.15	4.31	4%	19.3	18.6	17.9	3,867	4,058	4,226	5%	9.9	9.7	9.5	3.98	4.14	4.31	4%	19.4	18.6	17.9	3,654	3,864	4,096	6%	10.5	10.1	9.8
D	Dominion Resources, Inc.	45.8	Buy	$78	$74.36	5%	616	3.85	3.92	4.40	7%	19.3	19.0	16.9	6,255	6,470	7,054	6%	12.1	11.7	10.8	3.79	3.89	4.34	7%	19.6	19.1	17.1	5,673	6,332	6,724	9%	13.3	11.9	11.3
DTE	DTE Energy Company	16.9	Buy	$97	$93.91	3%	179	5.03	5.27	5.66	6%	18.7	17.8	16.6	2,628	2,728	2,925	5%	9.5	9.4	8.9	4.95	5.26	5.63	7%	19.0	17.9	16.7	2,541	2,704	2,846	6%	9.9	9.5	9.2
DUK	Duke Energy Corporation	56.5	Buy	$86	$82.00	5%	689	4.55	4.61	4.79	3%	18.0	17.8	17.1	9,033	8,878	9,383	2%	11.4	11.8	11.3	4.59	4.75	4.99	4%	17.9	17.3	16.4	9,310	10,002	10,245	5%	11.0	10.5	10.4
EIX	Edison International	24.1	Neutral	$70	$73.93	-5%	326	3.85	4.15	4.33	6%	19.2	17.8	17.1	5,011	5,372	5,690	7%	7.6	7.3	7.0	3.89	4.14	4.33	5%	19.0	17.9	17.1	4,420	4,679	4,928	6%	8.6	8.3	8.1
ES	Eversource Energy	18.0	Buy	$59	$56.82	4%	317	2.95	3.19	3.43	8%	19.3	17.8	16.6	2,607	2,569	2,625	0%	11.1	11.5	11.6	2.98	3.17	3.36	6%	19.1	17.9	16.9	2,601	2,794	2,871	5%	11.1	10.6	10.6
NEE	NextEra Energy, Inc.	57.3	Buy	$129	$124.24	4%	461	6.35	6.60	7.04	5%	19.6	18.8	17.6	7,019	7,458	7,796	5%	12.8	12.4	12.1	6.18	6.57	7.02	7%	20.1	18.9	17.7	7,960	8,567	9,540	9%	11.3	10.8	9.9
PCG	PG&E Corporation	31.0	Neutral	$59	$62.57	-6%	496	3.67	3.70	3.89	3%	17.0	16.9	16.1	6,500	6,739	7,134	5%	7.5	7.5	7.2	3.72	3.69	3.86	2%	16.8	17.0	16.2	6,026	6,534	6,919	7%	8.1	7.7	7.5
PNW	Pinnacle West Capital	8.6	Neutral	$79	$77.48	2%	111	3.91	4.19	4.43	6%	19.8	18.5	17.5	1,407	1,512	1,608	7%	9.1	8.8	8.4	3.99	4.20	4.42	5%	19.4	18.4	17.5	1,390	1,470	1,557	6%	9.2	9.0	8.7
PPL	PPL Corporation	26.9	Buy	$41	$39.68	3%	677	2.36	2.46	2.60	5%	16.8	16.1	15.3	4,012	4,219	4,461	5%	11.9	11.5	11.2	2.35	2.44	2.52	3%	16.9	16.3	15.8	4,025	4,210	4,450	5%	11.9	11.6	11.2
SO	Southern Company	47.8	Neutral	$47	$50.94	-8%	939	2.91	2.93	3.06	3%	17.5	17.4	16.6	7,011	7,202	7,505	3%	11.7	11.6	11.4	2.85	2.96	3.08	4%	17.9	17.2	16.5	7,169	7,946	8,205	7%	11.5	10.5	10.5
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.68	1%	236	1.18	1.28	1.33	6%	23.5	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	8%	23.5	21.6	20.3	NA	NA	NA	NA	NA	NA	NA
SJI	South Jersey Industries, Inc.	2.4	Buy	$32	$30.11	6%	79	1.34	1.26	1.69	12%	22.5	23.9	17.8	253	249	271	3%	14.9	15.7	14.4	1.32	1.36	1.60	10%	22.8	22.2	18.8	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**18.9**	**18.3**	**16.9**				**5%**	**10.7**	**10.6**	**10.2**				**6%**	**18.9**	**18.1**	**17.0**				**6%**	**10.5**	**10.0**	**9.8**
Integrated utilities																																			
ETR	Entergy Corporation	14.0	Neutral	$75	$78.11	-4%	179	5.36	5.16	5.17	-2%	14.6	15.1	15.1	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.11	5.24	5.18	1%	15.3	14.9	15.1	3,345	3,517	3,491	2%	9.0	8.8	9.1
EXC	Exelon Corporation	30.6	Buy	$38	$34.44	10%	887	2.53	2.65	2.86	6%	13.6	13.0	12.0	7,686	7,971	8,452	5%	8.1	7.9	7.5	2.53	2.64	2.78	5%	13.6	13.0	12.4	7,371	7,763	9,163	11%	8.4	8.1	6.9
FE	FirstEnergy Corp.	14.3	Buy	$43	$33.74	27%	425	2.87	2.83	2.89	0%	11.8	11.9	11.7	4,322	4,450	4,510	2%	8.4	8.2	8.1	2.68	2.52	2.53	(3%)	12.6	13.4	13.3	4,409	4,441	4,522	1%	8.3	8.2	8.1
PEG	Public Service Enterprise Grou	22.4	Buy	$50	$44.37	13%	506	2.92	2.95	3.02	2%	15.2	15.0	14.7	4,097	4,293	4,501	5%	8.2	8.2	8.0	2.88	2.89	2.95	1%	15.4	15.4	15.0	3,991	4,170	4,357	4%	8.4	8.5	8.3
Average											**2%**	**13.8**	**13.8**	**13.4**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.2**	**14.2**	**14.0**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.1	Buy	$20	$14.14	41%	359	0.42	0.87	0.60	20%	34.0	16.2	23.5	1,881	2,144	2,076	5%	8.8	7.6	7.7	0.52	0.89	1.26	55%	27.1	15.8	11.2	1,882	2,014	2,133	6%	8.8	8.1	7.5
DYN	Dynegy Inc.	1.9	Buy	$21	$16.47	28%	117	(1.97)	(0.26)	0.57	NA	-8.4	-63.3	28.9	1,006	1,528	1,775	33%	9.6	6.6	5.4	(1.06)	0.25	1.18	NA	-15.6	66.2	14.0	1,081	1,479	1,649	24%	9.0	6.8	5.8
NRG	NRG Energy, Inc.	4.5	Buy	$16	$14.25	12%	315	0.75	(0.51)	(0.03)	NA	19.1	-28.1	-454.9	3,104	2,808	2,941	(3%)	6.9	7.3	6.7	0.98	0.28	0.97	(1%)	14.5	50.4	14.7	3,103	2,759	2,960	(2%)	6.9	7.5	6.6
TLN	Talen Energy Corp	1.7	Neutral	$7	$13.57	-48%	129	0.41	0.63	0.38	-4%	33.2	21.4	36.0	756	788	733	(1%)	7.0	6.6	7.1	0.98	0.36	0.19	(56%)	13.8	37.3	72	763	746	687	(5%)	7.0	7.0	7.5
Average											**8%**	**19.5**	**-13.5**	**-91.6**				**8%**	**8.1**	**7.0**	**6.7**				**(0%)**	**10.0**	**42.4**	**28**				**6%**	**7.9**	**7.3**	**6.9**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$15	$14.82	1%	183	0.92	1.21	1.31	19%	16.1	12.2	11.3	806	984	1,093	16%	8.0	6.8	6.8	0.96	0.94	0.96	0%	15.4	15.8	15.4	821	903	1,010	11%	7.8	7.4	7.4
AWK	American Water Works	13.8	Buy	$79	$77.60	2%	178	2.85	3.05	3.26	7%	27.2	25.4	23.8	1,648	1,753	1,863	6%	12.5	11.9	11.4	2.82	3.04	3.26	7%	27.5	25.5	23.8	1,614	1,711	1,806	6%	12.7	12.2	11.8

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$66.79	2.26	2.37	2.48	3.4%	3.5%	3.7%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$77.16	2.67	2.72	2.78	3.5%	3.5%	3.6%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$74.36	2.79	2.99	3.21	3.8%	4.0%	4.3%	74%	77%	74%
DTE	DTE Energy Company	Buy	$93.91	3.00	3.15	3.30	3.2%	3.4%	3.5%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$82.00	3.39	3.53	3.69	4.1%	4.3%	4.5%	74%	74%	74%
EIX	Edison International	Neutral	$73.93	1.92	2.15	2.35	2.6%	2.9%	3.2%	49%	52%	54%
ES	Eversource Energy	Buy	$56.82	1.79	1.90	2.03	3.1%	3.4%	3.6%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$124.24	3.43	3.86	4.40	2.8%	3.1%	3.5%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$62.57	1.93	2.05	2.19	3.1%	3.3%	3.5%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$77.48	2.54	2.67	2.80	3.3%	3.4%	3.6%	64%	64%	63%
PPL	PPL Corporation	Buy	$39.68	1.52	1.56	1.60	3.8%	3.9%	4.0%	65%	64%	64%
SO	Southern Company	Neutral	$50.94	2.22	2.30	2.38	4.4%	4.5%	4.7%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.68	0.93	0.95	0.97	3.4%	3.4%	3.5%	79%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$30.11	1.08	1.10	1.10	3.6%	3.7%	3.7%	82%	81%	69%
Average							**3.4%**	**3.6%**	**3.8%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$78.11	3.43	3.53	3.61	4.4%	4.5%	4.6%	67%	67%	70%
EXC	Exelon Corporation	Buy	$34.44	1.26	1.29	1.33	3.7%	3.8%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.74	1.44	1.45	1.45	4.3%	4.3%	4.3%	54%	58%	57%
PEG	Public Service Enterprise Group	Buy	$44.37	1.64	1.72	1.80	3.7%	3.9%	4.0%	57%	59%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.14	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$16.47	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$14.25	0.20	0.14	0.14	1.4%	1.0%	1.0%	21%	NA	14%
TLN	Talen Energy Corp	Neutral	$13.57	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.4%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$14.82	0.95	1.09	1.25	6.4%	7.4%	8.4%	99%	117%	130%
AWK	American Water Works	Buy	$77.60	1.48	1.62	1.77	1.9%	2.1%	2.3%	53%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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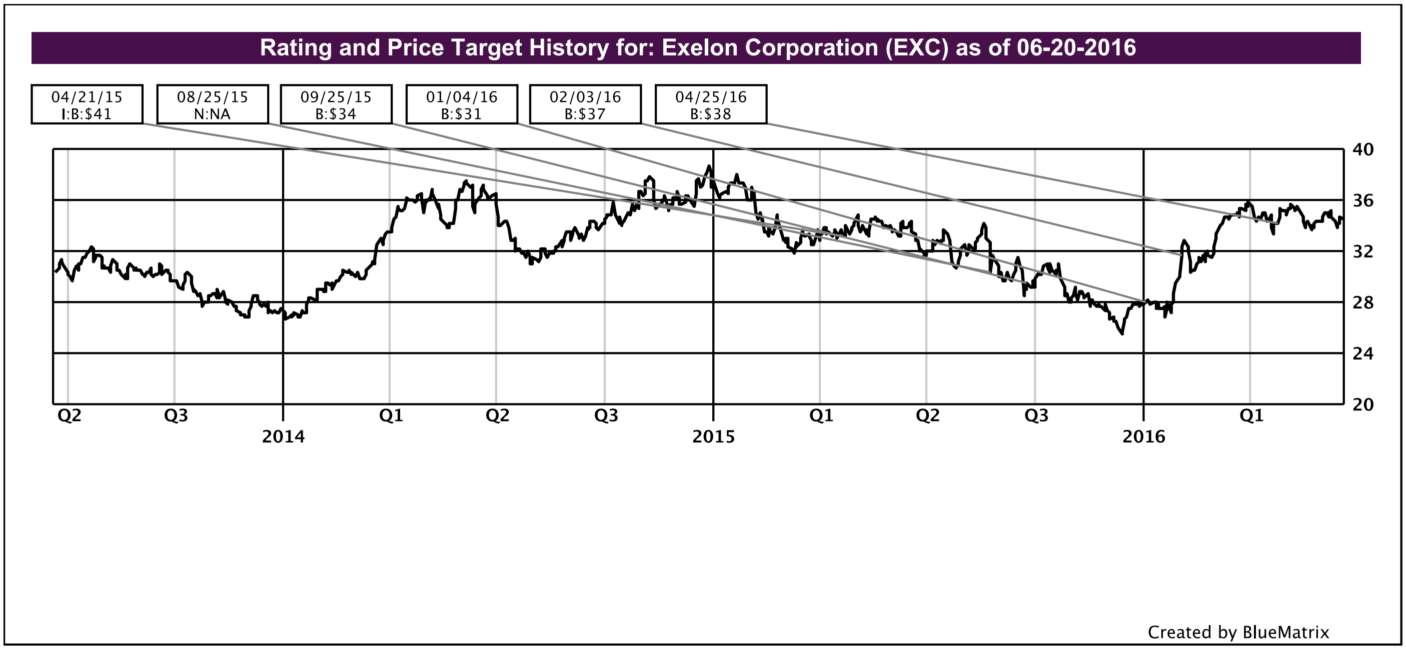
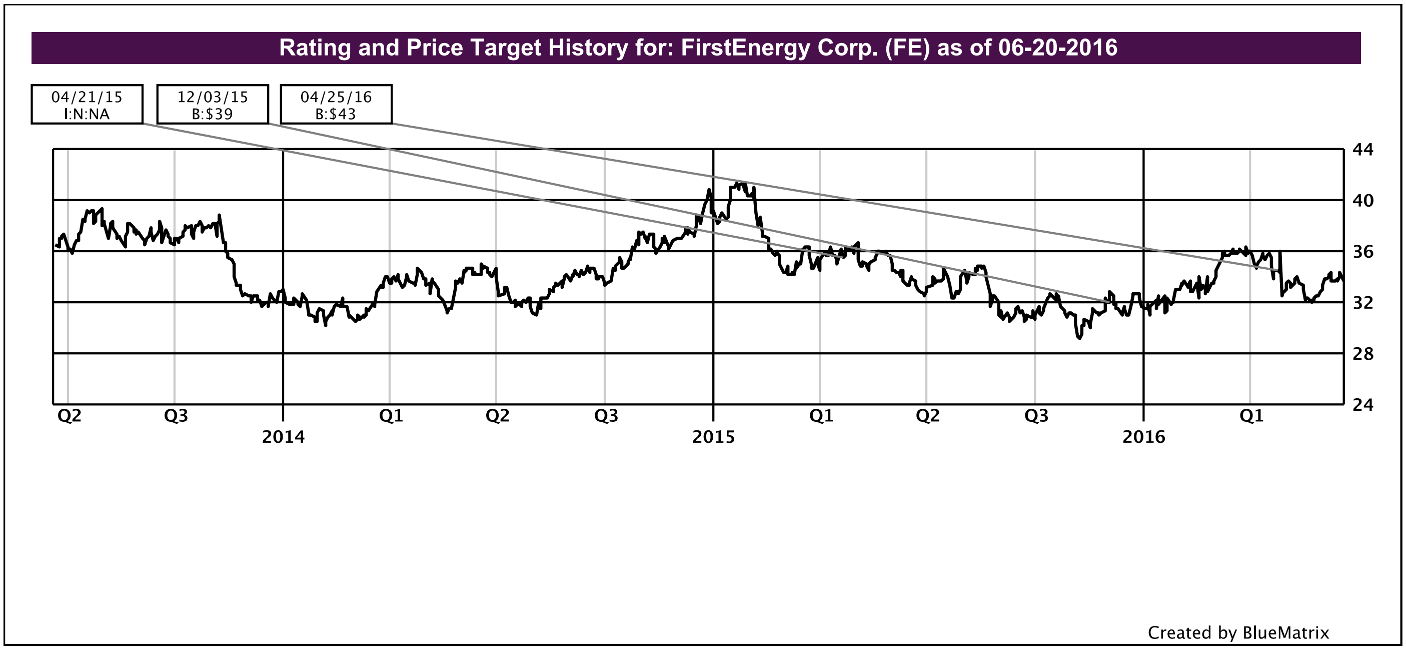
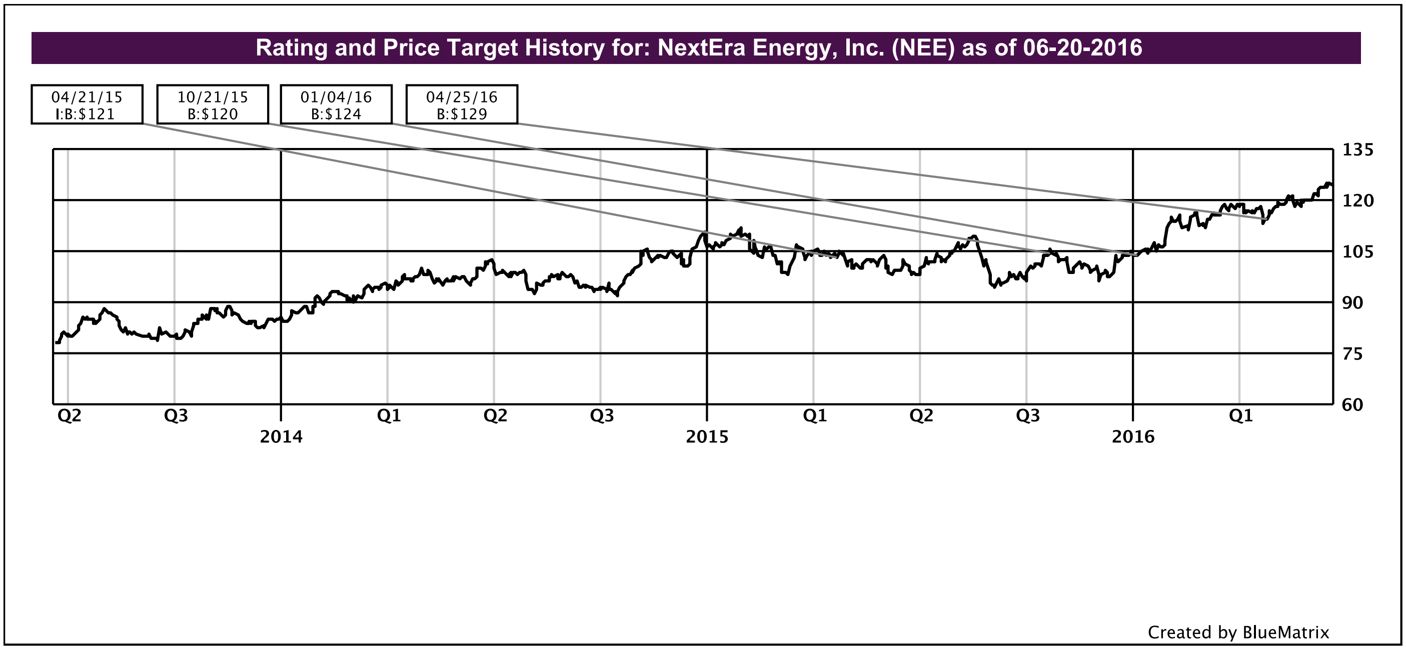


Rating and Price Target History for: Exelon Corporation (EXC) as of 06-20-2016



Rating and Price Target History for: FirstEnergy Corp. (FE) as of 06-20-2016



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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	157	59.92%	28	17.83%
Neutral	105	40.08%	3	2.86%
Sell	0	0.00%	0	0.00%

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

PPL – Focus Beyond Brexit – Now is the Time to Own - (see note HERE)
ETR – Congressman calls for IP shutdown
EXC – NRC notified of Clinton and Quad Cities retirement plans
PCG – Federal expert testifies in San Bruno trial
TE – NM regulators approve Emera's merger and acquisition
PHMSA – Legislation grants new authority to federal regulator
CAISO - Senator warns FERC to look out for market manipulation
Solar – Renewed push for a referendum on net metering in NV

ETR – Congressman calls for IP2 shutdown

- A US congressman, along with the Hudson Riverkeeper President, has called for the immediate shutdown of Indian Point Unit 2.
- The congressman is calling for an analysis of the 227 bolts the were recently replaced.

***Guggenheim takeaway:** We recently highlighted ETR brining IP2 back online, although likely at the frustration of various nuclear opponents that have been petitioning the appeals court demanding answers to questions around issues with degrading bolts. We recently toured the plant and found operations to be top-notch.*

EXC – NRC notified of Clinton and Quad Cities retirement plans

- EXC notified the Nuclear Regulatory Commission (NRC) of plans to retire its Clinton (2017) and Quad Cities (2018) nuclear facilities in Illinois.
- EXC announced its intent to close the plants on 6/2/16.

***Guggenheim takeaway:** Both assets, as we've discussed in the past, weren't covering their operating costs, return on invested capital and generating negative cash flow – shutdown should be CF/EPS accretive. As a reminder, the Plants have lost ~$100mm in CF/year since '09 and management highlights negative CF of $140mm on '17 forwards ex basis and unit contingent risk – vs. our model of $155mm negative FCF using our 3/31 curves.*

PCG – Federal expert testifies in San Bruno trial

- A senior engineer with the Pipeline and Hazardous Materials Safety Administration (PHMSA) noted the law requires operators to review potential risks for pipelines in "high concentration areas" such as the San Bruno neighborhood.
- Testimony notes the pipeline safety code spells out what operators must do, but it allows for an engineer's judgment in prioritizing the greatest potential threats to the system.

Guggenheim takeaway: *PCG is not on trial for the cause of the explosion but whether or not it violated the Pipeline Safety Act and obstructed the investigation. That said, PCG recently announced its first dividend increase since 2010, which we believe was a show of confidence from management in light of potential penalties the utility faces, and evidence the company is eager to put this trial in the rear view.*

TE – NM regulators approve Emera's merger and acquisition

- The New Mexico Public Regulation Commission (NMPRC) has unanimously approved Emera Inc.'s (EMA, NC, C$46.80) $10.4b acquisition of TECO Energy.
- The transaction is expected to close on or about July 1st, 2016, following the filing of the NMPRC's written order;
- On or prior to closing, Emera will issue to holders of its 4% convertible unsecured subordinated debentures a final installment notice.

Guggenheim takeaway: *As expected the NM Commission has approved Emera's acquisition, likely due to a robust integration plan, which will accept all conditions TE agreed to when they acquired NMGC, e.g., no change in number of employees, rate freeze until 2018, and TE maintains ownership for at least ten years after closing.*

PHMSA – Legislation grants new authority to federal regulator

- President Obama signed The Pipeline Safety Act re-authorization, which passed both houses of Congress unanimously.
- The legislation gives the U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA) emergency-order authority, allowing it to quickly instate nationwide regulations to address imminent safety concerns.
- The agency has 60 days to issue temporary rules and 9 months to write regulations governing the emergency-order process.

Guggenheim takeaway: *This legislation is partially the result of Sempra Energy's (SRE, NC, $109.53) multi-month Aliso Canyon natural gas storage leak; market participants will likely contribute to the development of standards for underground storage. The PHMSA will try to act quickly to improve oversight, but the agency must go through a lengthy rule-making process before issuing regulations.*

CAISO - Senator warns FERC to look out for market manipulation

- A US senator voiced concern that natural gas shortages and supply disruptions in Southern California would increase energy prices throughout the region.
- The senator further noted concern around generators and marketers engaging in "Enron-like" tactics at the expense of consumers.

Guggenheim takeaway: *Many policy makers have not forgotten the CA energy crisis from 2000/2001, and will be on the lookout for instances where consumers may have been exploited.*

Solar – Renewed push for a referendum on net metering in NV

- The Bring Back Solar Alliance submitted twice the 55,234 signatures needed to place a referendum to restore net metering on the November ballot.
- The alliance must still win appeal of a lower court decision disqualifying the ballot measure.

Guggenheim takeaway: *Not sure if this effort has legs yet, or if a referendum is a practical approach; legislature would have to amend existing law. Solar advocates claim the PUC aimed to kill the solar industry – emphasized by*

SolarCity (SCTY, BUY, $21.88) and SunRun (RUN, BUY, $5.90) closing their doors in NV. Commissioners, on the other hand, have noted satisfaction with their rate-design.

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
2. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
3. ETR – NEUTRAL – Analyst Day Offers Some Incremental CapEx, but No Price Tag on Nuclear Cost
4. FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome
5. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
6. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
7. PPL – BUY – Management Roadshow – Low-Risk Growth Story; BREXIT/UK Concerns Manageable
8. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
9. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
10. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
11. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
12. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
13. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
14. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
15. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
16. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
17. EEI Full Recap
18. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
19. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
20. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
21. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power

22. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
23. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
24. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/23	PPL	BREXIT referendum		UK		Referendum vote to decide if UK should exit EU
06/23	PCG	2015 GT&S proceeding	Pacific Gas & Electric Co.	CA	13-12-012	PUC decision possible
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
06/29	EXC	ComEd electric formula rate plan	Commonwealth Edison	IL	16-0259	Staff and intervenor testimony expected to be filed
06/30	D	Brunswick rider proceeding	Virginia Electric and Power	VA	PUE-2015-00102	VA SCC decision expected on Rider BW for the Brunswick power plant
07/01	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Discovery requests due
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/11	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Evidentiary hearings
07/18	DUK	Regulatory review of proposed acquisition		NC		NCUC holding public hearings on the proposed acquisition
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
07/26	ES	Access Northeast		MA		
09/07	DTE	Michigan energy policy		MI	S.B. 437 S.B. 438	Upper house returns from summer recess
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other events and proceedings

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/13 - 07/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
On-going	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	Potential PUC decision.
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Jim Judge, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/22/2016)

As of	**6/22/2016**							**Guggenheim Estimates**														**Consensus Estimates**													
		Mkt. Cap ($Bn)	**Rating**	**Target Price(1)**	**Current Price**	**Price Change**	**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**			**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**		
Ticker	**Company**							**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	32.7	Buy	$68	$66.50	2%	491	3.63	3.87	4.17	7%	18.3	17.2	15.9	5,512	5,849	6,246	6%	9.8	9.4	9.0	3.67	3.84	4.08	5%	18.1	17.3	16.3	5,663	5,503	5,339	(3%)	9.5	10.0	10.5
ED	Consolidated Edison, Inc.	23.4	Neutral	$70	$77.16	-9%	303	3.99	4.15	4.31	4%	19.3	18.6	17.9	3,867	4,058	4,226	5%	9.9	9.7	9.5	3.98	4.14	4.31	4%	19.4	18.6	17.9	3,654	3,864	4,096	6%	10.5	10.1	9.8
D	Dominion Resources, Inc.	45.5	Buy	$78	$73.79	6%	616	3.85	3.92	4.40	7%	19.2	18.8	16.8	6,255	6,470	7,054	6%	12.0	11.6	10.7	3.79	3.89	4.34	7%	19.5	19.0	17.0	5,673	6,332	6,724	9%	13.2	11.9	11.3
DTE	DTE Energy Company	16.8	Buy	$97	$93.75	3%	179	5.03	5.27	5.66	6%	18.6	17.8	16.6	2,628	2,728	2,925	5%	9.5	9.4	8.9	4.95	5.26	5.63	7%	18.9	17.8	16.7	2,541	2,704	2,846	6%	9.9	9.5	9.1
DUK	Duke Energy Corporation	56.4	Buy	$86	$81.83	5%	689	4.55	4.61	4.79	3%	18.0	17.8	17.1	9,033	8,878	9,383	2%	11.4	11.8	11.3	4.59	4.75	4.99	4%	17.8	17.2	16.4	9,310	10,002	10,245	5%	11.0	10.5	10.4
EIX	Edison International	24.1	Neutral	$70	$73.84	-5%	326	3.85	4.15	4.33	6%	19.2	17.8	17.1	5,011	5,372	5,690	7%	7.6	7.3	7.0	3.89	4.14	4.33	5%	19.0	17.8	17.0	4,420	4,679	4,928	6%	8.6	8.3	8.1
ES	Eversource Energy	18.0	Buy	$59	$56.69	4%	317	2.95	3.19	3.43	8%	19.2	17.8	16.5	2,607	2,569	2,625	0%	11.1	11.5	11.6	2.98	3.17	3.36	6%	19.0	17.9	16.9	2,601	2,794	2,871	5%	11.1	10.6	10.6
NEE	NextEra Energy, Inc.	57.1	Buy	$129	$123.64	4%	461	6.35	6.60	7.04	5%	19.5	18.7	17.6	7,019	7,458	7,796	5%	12.8	12.3	12.1	6.18	6.57	7.02	7%	20.0	18.8	17.6	7,960	8,567	9,540	9%	11.3	10.7	9.9
PCG	PG&E Corporation	30.8	Neutral	$59	$62.15	-5%	496	3.67	3.70	3.89	3%	16.9	16.8	16.0	6,500	6,739	7,134	5%	7.5	7.5	7.2	3.72	3.69	3.86	2%	16.7	16.8	16.1	6,026	6,534	6,919	7%	8.1	7.7	7.4
PNW	Pinnacle West Capital	8.6	Neutral	$79	$77.08	2%	111	3.91	4.19	4.43	6%	19.7	18.4	17.4	1,407	1,512	1,608	7%	9.1	8.8	8.4	3.99	4.20	4.42	5%	19.3	18.3	17.5	1,367	1,462	1,557	7%	9.3	9.0	8.7
PPL	PPL Corporation	26.6	Buy	$41	$39.31	4%	677	2.36	2.46	2.60	5%	16.7	16.0	15.1	4,012	4,219	4,461	5%	11.8	11.5	11.1	2.35	2.44	2.52	3%	16.7	16.1	15.6	4,025	4,210	4,450	5%	11.8	11.5	11.1
SO	Southern Company	47.7	Neutral	$47	$50.85	-8%	939	2.91	2.93	3.06	3%	17.5	17.4	16.6	7,011	7,202	7,505	3%	11.7	11.6	11.4	2.85	2.96	3.08	4%	17.9	17.2	16.5	7,169	7,946	8,205	7%	11.5	10.5	10.5
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.69	1%	236	1.18	1.28	1.33	6%	23.5	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	8%	23.5	21.6	20.3	NA	NA	NA	NA	NA	NA	NA
SJI	South Jersey Industries, Inc.	2.4	Buy	$32	$30.36	5%	79	1.34	1.26	1.69	12%	22.7	24.1	18.0	253	249	271	3%	15.0	15.7	14.5	1.32	1.36	1.60	10%	23.0	22.3	19.0	NA	NA	NA	NA	NA	NA	NA
Average (2)											**6%**	**18.8**	**18.2**	**16.8**				**5%**	**10.7**	**10.6**	**10.2**				**6%**	**18.9**	**18.1**	**17.0**				**6%**	**10.5**	**10.0**	**9.8**
Integrated utilities																																			
ETR	Entergy Corporation	13.9	Neutral	$75	$77.88	-4%	179	5.36	5.16	5.17	-2%	14.5	15.1	15.1	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.11	5.22	5.18	1%	15.2	14.9	15.0	3,345	3,517	3,491	2%	9.0	8.8	9.2
EXC	Exelon Corporation	30.6	Buy	$38	$34.43	10%	887	2.53	2.65	2.86	6%	13.6	13.0	12.0	7,686	7,971	8,452	5%	8.1	7.8	7.5	2.53	2.64	2.78	5%	13.6	13.0	12.4	7,371	7,763	9,163	11%	8.4	8.1	6.9
FE	FirstEnergy Corp.	14.0	Buy	$43	$33.04	30%	425	2.87	2.83	2.89	0%	11.5	11.7	11.4	4,322	4,450	4,510	2%	8.4	8.1	8.1	2.68	2.51	2.52	(3%)	12.3	13.1	13.1	4,404	4,434	4,513	1%	8.2	8.2	8.0
PEG	Public Service Enterprise Grou	22.3	Buy	$50	$44.09	13%	506	2.92	2.95	3.02	2%	15.1	14.9	14.6	4,097	4,293	4,501	5%	8.2	8.2	8.0	2.88	2.89	2.95	1%	15.3	15.3	14.9	3,991	4,170	4,357	4%	8.4	8.4	8.3
Average											**2%**	**13.7**	**13.7**	**13.3**				**3%**	**8.2**	**8.1**	**8.0**				**1%**	**14.1**	**14.1**	**13.9**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.0	Buy	$20	$13.79	45%	359	0.42	0.87	0.60	20%	33.2	15.8	23.0	1,881	2,144	2,076	5%	8.7	7.5	7.6	0.52	0.89	1.26	55%	26.5	15.4	11.0	1,882	2,014	2,133	6%	8.7	8.0	7.4
DYN	Dynegy Inc.	1.9	Buy	$21	$15.97	31%	117	(1.97)	(0.26)	0.57	NA	-8.1	-61.4	28.0	1,006	1,528	1,775	33%	9.6	6.6	5.4	(1.06)	0.25	1.18	NA	-15.1	64.2	13.5	1,081	1,479	1,649	24%	8.9	6.8	5.8
NRG	NRG Energy, Inc.	4.5	Buy	$16	$14.14	13%	315	0.75	(0.51)	(0.03)	NA	18.9	-27.9	-451.4	3,104	2,808	2,941	(3%)	6.9	7.3	6.7	0.98	0.28	0.97	(1%)	14.4	50.0	14.6	3,103	2,759	2,960	(2%)	6.9	7.5	6.6
TLN	Talen Energy Corp	1.7	Neutral	$7	$13.51	-48%	129	0.41	0.63	0.38	-4%	33.0	21.3	35.9	756	788	733	(1%)	7.0	6.6	7.0	0.98	0.36	0.19	(56%)	13.8	37.1	72	763	746	687	(5%)	7.0	7.0	7.5
Average											**8%**	**19.3**	**-13.1**	**-91.1**				**8%**	**8.0**	**7.0**	**6.7**				**(0%)**	**9.9**	**41.7**	**28**				**6%**	**7.9**	**7.3**	**6.8**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$15	$14.48	4%	183	0.92	1.21	1.31	19%	15.7	11.9	11.0	806	984	1,093	16%	7.9	6.7	6.8	0.96	0.94	0.96	0%	15.1	15.5	15.1	821	903	1,010	11%	7.8	7.3	7.4
AWK	American Water Works	13.9	Buy	$79	$78.26	1%	178	2.85	3.05	3.26	7%	27.5	25.7	24.0	1,648	1,753	1,863	6%	12.5	12.0	11.5	2.83	3.04	3.26	7%	27.7	25.7	24.0	1,648	1,736	1,806	5%	12.5	12.1	11.8

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$66.50	2.26	2.37	2.48	3.4%	3.6%	3.7%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$77.16	2.67	2.72	2.78	3.5%	3.5%	3.6%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$73.79	2.79	2.99	3.21	3.8%	4.1%	4.3%	74%	77%	74%
DTE	DTE Energy Company	Buy	$93.75	3.00	3.15	3.30	3.2%	3.4%	3.5%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$81.83	3.39	3.53	3.69	4.1%	4.3%	4.5%	74%	74%	74%
EIX	Edison International	Neutral	$73.84	1.92	2.15	2.35	2.6%	2.9%	3.2%	49%	52%	54%
ES	Eversource Energy	Buy	$56.69	1.79	1.90	2.03	3.2%	3.4%	3.6%	60%	60%	60%
NEE	NextEra Energy, Inc.	Buy	$123.64	3.43	3.86	4.40	2.8%	3.1%	3.6%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$62.15	1.93	2.05	2.19	3.1%	3.3%	3.5%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$77.08	2.54	2.67	2.80	3.3%	3.5%	3.6%	64%	64%	63%
PPL	PPL Corporation	Buy	$39.31	1.52	1.56	1.60	3.9%	4.0%	4.1%	65%	64%	64%
SO	Southern Company	Neutral	$50.85	2.22	2.30	2.38	4.4%	4.5%	4.7%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.69	0.93	0.95	0.97	3.3%	3.4%	3.5%	79%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$30.36	1.08	1.10	1.10	3.6%	3.6%	3.6%	82%	81%	69%
Average							**3.4%**	**3.6%**	**3.8%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$77.88	3.43	3.53	3.61	4.4%	4.5%	4.6%	67%	68%	70%
EXC	Exelon Corporation	Buy	$34.43	1.26	1.29	1.33	3.7%	3.8%	3.9%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.04	1.44	1.45	1.45	4.4%	4.4%	4.4%	54%	58%	57%
PEG	Public Service Enterprise Group	Buy	$44.09	1.64	1.72	1.80	3.7%	3.9%	4.1%	57%	59%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$13.79	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$15.97	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$14.14	0.20	0.14	0.14	1.4%	1.0%	1.0%	21%	NA	14%
TLN	Talen Energy Corp	Neutral	$13.51	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.4%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$14.48	0.95	1.09	1.25	6.6%	7.6%	8.6%	99%	117%	130%
AWK	American Water Works	Buy	$78.26	1.48	1.62	1.77	1.9%	2.1%	2.3%	52%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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Citi Research
Equities

| 7 pages

Electric Utilities
North America

The Best Safe Utilities

Alert: If safety you seek, seek out AEP, EIX, ES. Do not be tempted by hybrid utilities like EXC and FE.

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- **With Brexit, interest rates likely stay lower for longer and safety of utilities will be sought.** However, the utility asset class is not uniform.
  - **Hybrid utilities (EXC, FE) are ones to avoid** given their unregulated generation businesses adds commodity price volatility to a utility story.
  - **Pure-play utilities are clearly the better choice.** Utilities with 100% regulated operations offer the most safety. However, important to find management teams that have a track record of sticking to their core business and not destroying value with poor M&A. Our top picks (AEP, EIX, ES) offer that combination.
- **Utilities not cheap on a fundamental valuation basis.** Our DCF suggests utilities are fully valued and that is why we don't have any Buys among pure-play utilities. However, we highlight our top relative picks at a time when safety is sought.
- **Transmission and Gas Infrastructure – businesses we like the most**. With declining load growth, we think transmission and gas infrastructure investments will have the least regulatory resistance. Again, all our top picks are levered to these.

Top Relative Picks: Utilities:

- **AEP:** We like the transmission growth story and the focus of management team to exit the generation business. *Risk:* If leveraged finance markets get impacted by Brexit, the sale price for its Ohio assets will be impacted negatively.
- **ES:** We like the strong growth story (5-7% LT EPS growth) with leverage to transmission and gas infrastructure. *Risk:* Delays in the approval of their Northern Pass transmission line will impact growth trajectory.
- **EIX:** Strong transmission and distribution growth story (7% rate base growth through 2017) in a relatively good regulatory construct. *Risk:* The re-opening of the SONGs settlement adds a near term overhang to the story.

Top Names to Avoid: Hybrid Utilities

- **FE:** Owns an unregulated coal and nuclear generation fleet in Ohio which is challenged by weak gas prices. They are effectively looking to re-regulate assets but have already been turned down once by FERC. If re-regulation doesn't go through, ~$1B equity issuance could be coming to support their credit rating. We think there is a high likelihood of this outcome and have a sell rating on the stock.
- **EXC:** Owns a large unregulated nuclear generation fleet that is struggling in a low power price environment. Have already announced retirements of some of their nuclear units and we think more to come. Pressures on the credit will continue to build and this is another story where we think the risks outweigh the safety.

Figure 1. Comp Sheet 1

6/23/2016		Target	Current		Diluted	Market	Firm	P/E - Citi				P/E - Consensus				Citi Div Yield				Consensus Div Yield			
Ticker	Rating	Price	Price	ETR	Shares	Cap	Value	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E
Regulated Utilities																							
AEP	Neutral	$61	$67	(5.1%)	491	$32,717	$52,727	18.3x	17.6x	16.6x	15.9x	18.2x	17.3x	16.3x	15.9x	3.3%	3.4%	3.6%	3.7%	3.4%	3.6%	3.8%	3.9%
D	Neutral	78	74	9.1%	597	45,569	69,402	19.7	18.3	17.6	15.6	19.5	18.9	17.1	15.6	3.7%	4.0%	4.2%	4.4%	3.8%	4.1%	4.3%	4.8%
DUK	Neutral	72	82	(8.1%)	688	56,524	31,571	18.3	16.7	16.0	15.3	17.9	17.2	16.4	16.0	4.1%	4.4%	4.6%	4.8%	4.1%	4.3%	4.5%	4.6%
EIX	Neutral	70	74	(2.8%)	326	24,107	97,463	19.4	18.0	17.1	16.3	19.0	17.9	17.1	16.1	2.6%	2.9%	3.1%	3.3%	2.6%	2.9%	3.2%	3.4%
PCG	Neutral	56	62	(6.7%)	496	30,819	48,241	16.2	16.6	15.8	15.0	16.8	16.9	16.1	15.3	3.2%	3.5%	3.8%	4.2%	3.1%	3.3%	3.6%	3.7%
Min								16.2	16.6	15.8	15.0	16.8	16.2	15.2	14.2	2.6%	2.9%	3.1%	3.3%	2.6%	2.9%	3.0%	3.1%
Median								18.3	17.6	16.6	15.6	19.2	18.1	17.1	16.0	3.3%	3.5%	3.8%	4.2%	3.2%	3.4%	3.6%	3.8%
Average								18.4	17.4	16.6	15.6	19.4	18.3	17.3	16.2	3.4%	3.6%	3.9%	4.1%	3.3%	3.5%	3.7%	3.9%
Max								19.7	18.3	17.6	16.3	23.4	22.1	21.4	20.1	4.1%	4.4%	4.6%	4.8%	4.4%	4.5%	4.7%	4.8%
T&D																							
ES	Neutral	$53	$56	(2.9%)	319	$17,897	$28,324	18.7x	18.2x	17.1x	16.1x	18.9x	17.8x	16.9x	15.7x	3.2%	3.4%	3.6%	3.9%	3.2%	3.4%	3.6%	3.8%
Min								18.7	18.2	17.1	16.1	18.9	17.8	16.9	15.7	3.2%	3.4%	3.6%	3.9%	1.7%	2.0%	2.1%	3.8%
Median								18.7	18.2	17.1	16.1	21.7	20.7	18.9	16.0	3.2%	3.4%	3.6%	3.9%	3.2%	3.4%	3.6%	4.0%
Average								18.7	18.2	17.1	16.1	21.7	21.5	19.4	17.0	3.2%	3.4%	3.6%	3.9%	2.8%	2.9%	3.1%	4.0%
Max								18.7	18.2	17.1	16.1	24.6	26.1	22.5	19.2	3.2%	3.4%	3.6%	3.9%	3.4%	3.4%	3.7%	4.2%
Hybrid Utilities																							
ETR	Neutral	$72	$78	(3.7%)	178	13,994	27,825	15.1x	14.5x	15.0x	14.4x	15.3x	15.0x	15.1x	14.9x	4.4%	4.5%	4.6%	4.7%	4.4%	4.5%	4.6%	4.8%
EXC	Sell	27	35	(19.2%)	923	31,012	54,909	13.5	13.0	12.1	12.1	14.0	13.2	12.6	12.9	3.6%	3.7%	3.8%	3.9%	3.6%	3.7%	3.8%	3.9%
FE	Sell	28	33	(11.2%)	422	14,083	34,809	12.7	14.9	14.6	14.0	12.4	13.2	13.2	14.1	4.3%	4.3%	4.3%	4.3%	4.3%	4.4%	4.4%	4.3%
PEG	Neutral	44	44	3.1%	508	22,413	32,636	15.2	15.4	15.6	14.7	15.4	15.3	15.0	14.2	3.7%	3.9%	4.4%	4.8%	3.7%	3.9%	4.1%	4.3%
Min								12.7	13.0	12.1	12.1	12.4	13.2	12.6	12.9	3.6%	3.7%	3.8%	3.9%	3.6%	3.7%	3.8%	3.9%
Median								14.3	14.7	14.8	14.2	14.7	14.1	14.1	14.1	4.0%	4.1%	4.4%	4.5%	4.0%	4.1%	4.2%	4.3%
Average								14.1	14.5	14.3	13.8	14.3	14.2	13.9	14.0	4.0%	4.1%	4.3%	4.4%	4.0%	4.1%	4.2%	4.3%
Max								15.2	15.4	15.6	14.7	15.4	15.3	15.1	14.9	4.4%	4.5%	4.6%	4.8%	4.4%	4.5%	4.6%	4.8%

Source: Citi Research

Figure 2. Comp Sheet 2

6/23/2016		Target	Current		Diluted	Market	Firm	EPS - Citi					EPS - Consensus					DPS - Citi				DPS - Consensus			
Ticker	Rating	Price	Price	ETR	Shares	Cap	Value	2016E	2017E	2018E	2019E	CAGR	2016E	2017E	2018E	2019E	CAGR	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E
Regulated Utilities																									
AEP	Neutral	$61	$67	(5.1%)	491	$32,717	$52,727	$3.63	$3.78	$4.00	$4.18	4.8%	$3.67	$3.84	$4.08	$4.19	4.5%	$2.20	$2.29	$2.38	$2.48	$2.26	$2.38	$2.50	$2.61
D	Neutral	78	74	9.1%	597	45,569	69,402	3.76	4.05	4.20	4.73	8.0%	3.79	3.90	4.33	4.74	7.7%	2.76	2.93	3.11	3.28	2.80	3.00	3.21	3.52
DUK	Neutral	72	82	(8.1%)	688	56,524	31,571	4.48	4.91	5.13	5.38	6.3%	4.59	4.76	5.00	5.13	3.7%	3.39	3.59	3.79	3.94	3.39	3.53	3.68	3.78
EIX	Neutral	70	74	(2.8%)	326	24,107	97,463	3.82	4.11	4.32	4.54	5.9%	3.89	4.14	4.33	4.59	5.7%	1.92	2.11	2.30	2.46	1.92	2.14	2.34	2.52
PCG	Neutral	56	62	(6.7%)	496	30,819	48,241	3.84	3.74	3.94	4.14	2.6%	3.71	3.68	3.86	4.07	3.1%	1.97	2.15	2.36	2.58	1.93	2.06	2.21	2.28
Min								3.63	3.74	3.94	4.14	2.6%	1.18	1.28	1.35	2.00	3.1%	1.92	2.11	2.30	2.46	0.92	0.94	0.96	1.32
Median								3.82	4.05	4.20	4.54	5.9%	2.89	3.04	3.19	3.50	5.7%	2.20	2.29	2.38	2.58	1.93	2.09	2.23	2.42
Average								3.91	4.12	4.32	4.59	5.5%	3.13	3.29	3.49	3.81	5.6%	2.45	2.62	2.79	2.95	1.97	2.10	2.23	2.48
Max								4.48	4.91	5.13	5.38	8.0%	6.17	6.57	7.03	7.54	8.5%	3.39	3.59	3.79	3.94	3.47	3.90	4.44	4.86
T&D																									
ES	Neutral	$53	$56	(2.9%)	319	$17,897	$28,324	$3.02	$3.10	$3.30	$3.51	5.2%	$2.98	$3.18	$3.35	$3.59	6.4%	$1.80	$1.92	$2.06	$2.20	$1.78	$1.90	$2.02	$2.16
Min								3.02	3.10	3.30	3.51	5.2%	1.20	1.13	1.31	1.53	6.4%	1.80	1.92	2.06	2.20	0.80	0.90	0.98	1.24
Median								3.02	3.10	3.30	3.51	5.2%	2.10	2.21	2.41	2.85	8.5%	1.80	1.92	2.06	2.20	0.99	1.01	1.09	1.70
Average								3.02	3.10	3.30	3.51	5.2%	2.09	2.17	2.35	2.66	8.5%	1.80	1.92	2.06	2.20	1.19	1.27	1.36	1.70
Max								3.02	3.10	3.30	3.51	5.2%	2.98	3.18	3.35	3.59	10.7%	1.80	1.92	2.06	2.20	1.78	1.90	2.02	2.16
Hybrid Utilities																									
ETR	Neutral	$72	$78	(3.7%)	178	$13,994	$27,825	$5.19	$5.40	$5.22	$5.44	1.6%	$5.11	$5.22	$5.19	$5.25	0.9%	$3.42	$3.50	$3.59	$3.67	$3.43	$3.52	$3.61	$3.78
EXC	Sell	27	35	(19.2%)	923	31,012	54,909	2.59	2.69	2.88	2.89	3.7%	2.50	2.64	2.78	2.72	2.9%	1.26	1.29	1.33	1.36	1.26	1.29	1.33	1.36
FE	Sell	28	33	(11.2%)	422	14,083	34,809	2.61	2.22	2.28	2.37	(3.2%)	2.68	2.51	2.52	2.36	(4.1%)	1.44	1.44	1.44	1.44	1.44	1.45	1.45	1.44
PEG	Neutral	44	44	3.1%	508	22,413	32,636	2.92	2.87	2.84	3.01	1.0%	2.87	2.89	2.96	3.12	2.8%	1.64	1.74	1.94	2.14	1.64	1.72	1.81	1.92
Min								2.59	2.22	2.28	2.37	(3.2%)	2.50	2.51	2.52	2.36	(4.1%)	1.26	1.29	1.33	1.36	1.26	1.29	1.33	1.36
Median								2.77	2.78	2.86	2.95	1.3%	2.77	2.76	2.87	2.92	1.9%	1.54	1.59	1.69	1.79	1.54	1.58	1.63	1.68
Average								3.33	3.30	3.31	3.43	0.8%	3.29	3.31	3.36	3.36	0.6%	1.94	1.99	2.07	2.15	1.94	2.00	2.05	2.13
Max								5.19	5.40	5.22	5.44	3.7%	5.11	5.22	5.19	5.25	2.9%	3.42	3.50	3.59	3.67	3.43	3.52	3.61	3.78

Source: Citi Research

Figure 3. Comp Sheet 3

6/23/2016		Target	Current		Diluted	Market	Firm	Citi FFO/Debt				Citi Debt/EBITDA				Citi Debt/Cap			
Ticker	Rating	Price	Price	ETR	Shares	Cap	Value	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E
Regulated Utilities																			
AEP	Neutral	$61	$66.59	(5.1%)	491	$32,717	$52,727	50.8%	51.3%	51.5%	51.7%	3.6x	3.6x	3.6x	3.7x	50.8%	51.3%	51.5%	51.7%
D	Neutral	78	73.95	9.1%	597	45,569	69,402	19.3%	19.4%	19.9%	17.0%	5.3	5.0	4.6	4.5	64.3%	64.9%	64.1%	63.1%
DUK	Neutral	72	82.05	(8.1%)	688	56,524	31,571	14.6%	14.9%	14.5%	14.0%	5.1	4.9	5.1	5.2	52.3%	53.0%	53.6%	54.4%
EIX	Neutral	70	73.99	(2.8%)	326	24,107	97,463	26.2%	26.4%	26.6%	26.8%	2.7	2.6	2.6	2.5	46.9%	47.1%	47.1%	47.0%
PCG	Neutral	56	62.13	(6.7%)	496	30,819	48,241	25.4%	29.2%	29.5%	25.3%	2.9	2.9	2.9	3.0	50.5%	50.8%	50.6%	51.2%
T&D																			
ES	Neutral	$53	$56.42	(2.9%)	319	$17,897	$28,324	19.2%	17.4%	15.6%	14.3%	4.0x	4.3x	4.6x	4.9x	48.9%	50.4%	51.9%	52.9%
Hybrid Utilities																			
ETR	Neutral	$72	$78.29	(3.7%)	178	$13,994	$27,825	21.4%	21.7%	22.1%	22.0%	4.3x	4.3x	4.4x	4.4x	61.5%	62.2%	62.8%	63.6%
EXC	Sell	27	34.95	(19.2%)	923	31,012	54,909	19.7%	20.8%	20.7%	20.3%	4.3	4.0	3.8	3.8	54.8%	53.4%	52.7%	52.0%
FE	Sell	28	33.16	(11.2%)	422	14,083	34,809	14.9%	14.4%	15.9%	13.6%	4.9	5.0	5.0	5.0	60.4%	58.5%	58.8%	58.9%
PEG	Neutral	44	44.30	3.1%	508	22,413	32,636	30.6%	27.6%	25.3%	24.3%	2.9	3.1	3.1	3.0	46.0%	47.8%	48.5%	47.9%

Source: Citi Research

Appendix A-1

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: NEE, ES, PEG, TLN, ETR, EXC, SO, M&A June 28, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

NEE – Media reports of a bid for Oncor amidst a process with several parties
ES/NEE/PEG – NEE, PEG argue against New England utilities buying pipeline capacity
M&A – Macquarie is said to be weighing the sale of Duquesne
TLN – Takeover raises debt concerns
ETR – Flow of oil stopped at FitzPatrick
EXC – DC PSC examines impact of merger on standard offers service
SO – Georgia Power reaches IRP settlement entailing 1.2GW of renewables
ETR – Governor rejects Nuclear Society proposed lifeline to FitzPatrick via NYPA takeover

NEE – Media reports of a bid for Oncor amidst a process with several parties

- Bloomberg reported NEE is closest to reaching a deal to buy Energy Future Holdings Corp.'s Oncor Electric Delivery Co.
- At least seven companies reportedly expressed interest in the utility; it may be valued at $17B to $18B.
- Other suiters highlighted in the article include EIX and Berkshire (BRK.B, NC, $138.50).

Guggenheim takeaway: *We look to the bankruptcy proceeding as a catalyst for coal retirement in ERCOT as well as a potential new opportunity for NEE. While NEE has not come out and made a public comment that it is re-interested in the Oncor assets, it has been reported by Bloomberg. We think these assets are a great strategic fit for NEE; despite a potential equity raise, the transaction should be noticeably accretive – this should not present an overhang on NEE shares.*

ES/NEE/PEG – NEE, PEG argue against New England utilities buying pipeline capacity

- NEE and PEG filed a joint complaint against efforts underway in four New England states that would allow electric utilities to procure capacity on gas pipelines.
- The complaint takes aim at ES's Access Northeast Project, which will be funded in part by customers of ES's utility subsidiaries.

Guggenheim takeaway: *What's interesting to us is that NEE (FPL) has undertaken similar efforts in FL, essentially looking to put costs incurred to secure natural gas supplies into electric rates (ultimately rejected by State Supreme Court) BUT FL is a regulated state vs a de-regulated region like New England. We see arguments for both sides in New England but ultimately ES should prevail given region 's gas needs and ES's relationships with local constituencies. Tough call at this juncture but we remain on the approval camp given recent data points.*

M&A – Macquarie is said to be weighing the sale of Duquesne

- *SparkSpread* reports, *"Infra investor said to explore U.S. utility sale,"* the infrastructure arm of Macquarie is understood to be weighing the sale of Duquesne Light.
- Other shareholders include Singaporean sovereign wealth fund GIC (31%); IFM Investors (25.2%); and Australian pension funds First State Super (6.6%) and STC Funds (6.8%).

Guggenheim takeaway: *Considering the amount of participation in recent competitive processes for gas utility acquisitions, we would expect several large-cap regulated utilities to be interested.*

TLN – Takeover raises debt concerns

- Riverstone's plan to acquire the remaining 65% of TLN will cost about $1.2B, but most of that will come from Talen's cash reserves ($1B) and a new term loan ($250mm).
- Moody's Investors Service has the company under review for a potential downgrade due to the increased leverage and diminished financial flexibility.

Guggenheim takeaway: This news shouldn't be a surprise. *Not a lot of value for assets in public markets and management has signaled they would look to the private route if the spread between public and private markets continue, which they did. In our view, TLN is in better hands with private equity vs. public markets given asset quality, different return threshold, and longer time horizon to weather power market recovery. The TLN situation is an isolated situation, in our view.*

ETR – Flow of oil stopped at Fitzpatrick

- Personnel identified and stopped the source of oil released to the FitzPatrick plants discharge canal.
- The lubricating oil contains no PCBs, is non-radioactive, non-hazardous and has low potential health effects; ETR is taking all appropriate actions for cleanup.

Guggenheim takeaway: *As we have highlighted in our research, the State has been attempting to keep Fitzpatrick alive ever since ETR announced plans to retire the unit. Despite the NY Commissions proposed zero-carbon credit and the recent Senate bill to keep the plant operating, we believe that ETR is already on track to closing the plant. This ship has sailed.*

EXC – DC PSC examines impact of merger on standard service

- The District of Columbia Public Service Commission requested comments on maintaining the competiveness of default service, as EXC acquired the auction's program administrator.
- EXC subsidiaries were a "frequent winning bidder" in the administered auctions; the commission is aware interested parties may raise issues and seeks to address this in its review.
- Considering a shift from a sealed-bid format, to a descending clock auction; as well as the length of SOS contracts.

Guggenheim takeaway: *We don't anticipate any market manipulation to arise from a review, and always welcome any additional market transparency. Non-event for now.*

SO – Georgia Power reaches IRP settlement entailing 1.2GW of renewables

- Georgia Public Service Commission Staff and other intervenors agreed to a stipulation with SO where it's GA utility would develop 1.2GW of renewables by 2021 as part of its 2016 integrated resource plan.
- SO will issue two RFPs for utility-scale renewable (solar, wind or biomass): **(1)** 525 MW in 2018/2019; and **(2)** 525 MW in 2020/2021. SO also committed to procure 150 MW of DG by the end of 2018.
- The agreement would also allow SO to develop up to 200MW of projects that would not otherwise be feasible through a competitive bidding process.

Guggenheim takeaway: *Southern Power should win some of this, in our view.*

ETR – Governor rejects Nuclear Society proposed lifeline to FitzPatrick via NYPA takeover

- New York Gov. Andrew Cuomo rejected the idea that the New York Power Authority take back ownership of ETR's Fitzpatrick plant.

Guggenheim takeaway: *The Governor is advocating for a Clean Energy Standard that would recognize value of zero-emission nuclear capacity and ironically, been trying to save a nuclear plant in a relatively oversupplied zone in NY (Fitzpatrick) while trying to shut another plant in a constrained zone in NY (Indian Point).*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
2. PPL – BUY – Focus Beyond Brexit – Now is the Time to Own
3. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
4. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
5. ETR – NEUTRAL – Analyst Day Offers Some Incremental CapEx, but No Price Tag on Nuclear Cost
6. FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome
7. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
8. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
9. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
10. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
11. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
12. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
13. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
14. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
15. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
16. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
17. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
18. EEI Full Recap
19. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
20. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
21. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
22. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
23. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance

24. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
25. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
06/29	EXC	ComEd electric formula rate plan	Commonwealth Edison	IL	16-0259	Staff and intervenor testimony expected to be filed
06/30	D	Brunswick rider proceeding	Virginia Electric and Power	VA	PUE-2015-00102	VA SCC decision expected on Rider BW for the Brunswick power plant
07/01	TE	Acquisition				Acquisition expected to close
07/01	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Discovery requests due
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/11	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Evidentiary hearings
07/18	DUK	Regulatory review of proposed acquisition		NC		NCUC holding public hearings on the proposed acquisition
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
07/26	ES	Access Northeast		MA		
09/07	DTE	Michigan energy policy		MI	S.B. 437 S.B. 438	Upper house returns from summer recess
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other events and proceedings

06/13 - 07/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
On-going	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	Potential PUC decision.
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Phil Lembo, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/27/2016)

As of	**6/27/2016**							**Guggenheim Estimates**														**Consensus Estimates**													
		Mkt. Cap	**Rating**	**Target**	**Current**	**Price**	**Diluted**	**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**			**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**		
Ticker	**Company**	**($Bn)**		**Price**[1]	**Price**	**Change**	**Shares**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	33.6	Buy	$68	$68.35	-1%	491	3.63	3.87	4.17	7%	18.8	17.7	16.4	5,512	5,849	6,246	6%	9.9	9.5	9.1	3.67	3.84	4.08	5%	18.6	17.8	16.8	5,663	5,503	5,339	(3%)	9.7	10.1	10.7
ED	Consolidated Edison, Inc.	24.1	Neutral	$70	$79.73	-12%	303	3.99	4.15	4.31	4%	20.0	19.2	18.5	3,867	4,058	4,226	5%	10.1	9.8	9.7	3.99	4.14	4.31	4%	20.0	19.3	18.5	3,654	3,864	4,096	6%	10.7	10.3	10.0
D	Dominion Resources, Inc.	46.2	Buy	$78	$74.95	4%	616	3.85	3.92	4.40	7%	19.5	19.1	17.0	6,255	6,470	7,054	6%	12.1	11.7	10.8	3.79	3.87	4.31	7%	19.8	19.4	17.4	5,673	6,332	6,724	9%	13.4	12.0	11.4
DTE	DTE Energy Company	17.3	Buy	$97	$96.49	1%	179	5.03	5.27	5.66	6%	19.2	18.3	17.0	2,628	2,728	2,925	5%	9.7	9.6	9.1	4.95	5.26	5.63	7%	19.5	18.4	17.2	2,541	2,704	2,846	6%	10.0	9.6	9.3
DUK	Duke Energy Corporation	57.9	Buy	$86	$83.99	2%	689	4.55	4.61	4.79	3%	18.5	18.2	17.5	9,033	8,878	9,383	2%	11.5	12.0	11.5	4.59	4.75	4.99	4%	18.3	17.7	16.8	9,310	10,002	10,245	5%	11.2	10.6	10.5
EIX	Edison International	24.9	Neutral	$70	$76.45	-8%	326	3.85	4.15	4.33	6%	19.9	18.4	17.7	5,011	5,372	5,690	7%	7.8	7.4	7.2	3.89	4.14	4.33	5%	19.6	18.5	17.6	4,420	4,679	4,928	6%	8.8	8.5	8.3
ES	Eversource Energy	18.6	Buy	$59	$58.59	1%	317	2.95	3.19	3.43	8%	19.9	18.4	17.1	2,607	2,569	2,625	0%	11.3	11.7	11.8	2.98	3.17	3.35	6%	19.7	18.5	17.5	2,601	2,794	2,871	5%	11.3	10.8	10.8
NEE	NextEra Energy, Inc.	59.0	Buy	$129	$127.88	1%	461	6.35	6.60	7.04	5%	20.1	19.4	18.2	7,019	7,458	7,796	5%	13.0	12.6	12.3	6.19	6.57	7.02	7%	20.7	19.5	18.2	7,960	8,567	9,540	9%	11.5	11.0	10.1
PCG	PG&E Corporation	31.3	Neutral	$59	$63.17	-7%	496	3.67	3.70	3.89	3%	17.2	17.1	16.2	6,500	6,739	7,134	5%	7.6	7.5	7.3	3.72	3.69	3.86	2%	17.0	17.1	16.4	6,026	6,534	6,919	7%	8.2	7.8	7.5
PNW	Pinnacle West Capital	8.8	Neutral	$79	$79.13	0%	111	3.91	4.19	4.43	6%	20.2	18.9	17.9	1,407	1,512	1,608	7%	9.2	8.9	8.5	3.99	4.20	4.42	5%	19.8	18.8	17.9	1,367	1,462	1,557	7%	9.5	9.2	8.8
PPL	PPL Corporation	24.8	Buy	$41	$36.57	12%	677	2.36	2.46	2.60	5%	15.5	14.9	14.1	4,012	4,219	4,461	5%	11.4	11.0	10.7	2.35	2.44	2.49	3%	15.6	15.0	14.7	4,036	4,241	4,447	5%	11.3	11.0	10.7
SO	Southern Company	49.0	Neutral	$47	$52.20	-10%	939	2.91	2.93	3.06	3%	17.9	17.8	17.1	7,011	7,202	7,505	3%	11.9	11.7	11.6	2.85	2.96	3.08	4%	18.3	17.6	17.0	7,169	7,946	8,205	7%	11.6	10.6	10.6
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.65	1%	236	1.18	1.28	1.33	6%	23.4	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	7%	23.4	21.6	20.3	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.5	Buy	$32	$31.09	3%	79	1.34	1.26	1.69	12%	23.2	24.7	18.4	253	249	271	3%	15.2	16.0	14.7	1.32	1.36	1.60	10%	23.5	22.9	19.4	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**19.2**	**18.6**	**17.2**				**5%**	**10.8**	**10.7**	**10.3**				**5%**	**19.3**	**18.5**	**17.3**				**6%**	**10.6**	**10.1**	**9.9**
Integrated utilities																																			
ETR	Entergy Corporation	14.1	Neutral	$75	$78.91	-5%	179	5.36	5.16	5.17	-2%	14.7	15.3	15.3	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.12	5.24	5.19	1%	15.4	15.1	15.2	3,387	3,553	3,491	2%	8.9	8.8	9.2
EXC	Exelon Corporation	30.7	Buy	$38	$34.59	10%	887	2.53	2.65	2.86	6%	13.7	13.1	12.1	7,686	7,971	8,452	5%	8.1	7.9	7.5	2.53	2.64	2.78	5%	13.7	13.1	12.4	7,371	7,763	9,163	11%	8.4	8.1	6.9
FE	FirstEnergy Corp.	14.1	Buy	$43	$33.11	30%	425	2.87	2.83	2.89	0%	11.5	11.7	11.5	4,322	4,450	4,510	2%	8.4	8.2	8.1	2.68	2.51	2.52	(3%)	12.4	13.2	13.1	4,404	4,434	4,513	1%	8.2	8.2	8.1
PEG	Public Service Enterprise Grou	22.5	Buy	$50	$44.42	13%	506	2.92	2.95	3.02	2%	15.2	15.1	14.7	4,097	4,293	4,501	5%	8.2	8.2	8.0	2.88	2.89	2.95	1%	15.4	15.4	15.1	3,991	4,170	4,357	4%	8.4	8.5	8.3
Average											**2%**	**13.8**	**13.8**	**13.4**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.2**	**14.2**	**14.0**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	4.8	Buy	$20	$13.41	49%	359	0.42	0.87	0.60	20%	32.3	15.3	22.3	1,881	2,144	2,076	5%	8.6	7.5	7.6	0.52	0.89	1.26	55%	25.7	15.0	10.7	1,882	2,014	2,133	6%	8.6	8.0	7.4
DYN	Dynegy Inc.	1.7	Buy	$21	$14.62	44%	117	(1.97)	(0.26)	0.57	NA	-7.4	-56.2	25.6	1,006	1,528	1,775	33%	9.4	6.5	5.3	(1.06)	0.25	1.18	NA	-13.8	58.8	12.4	1,081	1,479	1,649	24%	8.8	6.7	5.7
NRG	NRG Energy, Inc.	4.4	Buy	$16	$13.32	20%	315	0.75	(0.51)	(0.03)	NA	17.8	-26.3	-425.2	3,104	2,808	2,941	(3%)	6.8	7.2	6.6	0.98	0.28	0.97	(1%)	13.5	47.1	13.7	3,103	2,759	2,960	(2%)	6.8	7.4	6.5
TLN	Talen Energy Corp	1.7	Neutral	$7	$13.19	-47%	129	0.41	0.63	0.38	-4%	32.3	20.8	35.0	786	788	733	(3%)	6.7	6.6	7.0	0.98	0.36	0.19	(56%)	13.5	36.3	70	763	746	687	(5%)	6.9	6.9	7.5
Average											**8%**	**18.7**	**-11.6**	**-85.6**				**8%**	**7.9**	**6.9**	**6.6**				**(0%)**	**9.7**	**39.3**	**27**				**6%**	**7.8**	**7.2**	**6.8**
Other																																			
NYLD	NRG Yield	1.4	Neutral	$15	$14.59	3%	183	0.92	1.21	1.31	19%	15.9	12.0	11.1	806	984	1,093	16%	7.9	6.7	6.8	0.96	0.94	0.96	0%	15.2	15.6	15.2	821	903	1,010	11%	7.8	7.3	7.4
AWK	American Water Works	14.5	Buy	$79	$81.71	-3%	178	2.85	3.05	3.26	7%	28.7	26.8	25.1	1,648	1,753	1,863	6%	12.9	12.3	11.8	2.83	3.04	3.26	7%	28.9	26.9	25.1	1,648	1,736	1,806	5%	12.9	12.5	12.2

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$68.35	2.26	2.37	2.48	3.3%	3.5%	3.6%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$79.73	2.67	2.72	2.78	3.3%	3.4%	3.5%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$74.95	2.79	2.99	3.21	3.7%	4.0%	4.3%	74%	77%	74%
DTE	DTE Energy Company	Buy	$96.49	3.00	3.15	3.30	3.1%	3.3%	3.4%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$83.99	3.39	3.53	3.69	4.0%	4.2%	4.4%	74%	74%	74%
EIX	Edison International	Neutral	$76.45	1.92	2.15	2.35	2.5%	2.8%	3.1%	49%	52%	54%
ES	Eversource Energy	Buy	$58.59	1.79	1.90	2.03	3.0%	3.2%	3.5%	60%	60%	61%
NEE	NextEra Energy, Inc.	Buy	$127.88	3.43	3.86	4.40	2.7%	3.0%	3.4%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$63.17	1.93	2.05	2.19	3.0%	3.2%	3.5%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$79.13	2.54	2.67	2.80	3.2%	3.4%	3.5%	64%	64%	63%
PPL	PPL Corporation	Buy	$36.57	1.52	1.56	1.61	4.2%	4.3%	4.4%	65%	64%	65%
SO	Southern Company	Neutral	$52.20	2.22	2.30	2.38	4.3%	4.4%	4.6%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.65	0.93	0.95	0.97	3.3%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$31.09	1.08	1.10	1.10	3.5%	3.5%	3.5%	82%	81%	69%
Average							**3.4%**	**3.5%**	**3.7%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$78.91	3.43	3.53	3.61	4.4%	4.5%	4.6%	67%	67%	70%
EXC	Exelon Corporation	Buy	$34.59	1.26	1.29	1.33	3.6%	3.7%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.11	1.44	1.45	1.45	4.3%	4.4%	4.4%	54%	58%	57%
PEG	Public Service Enterprise Group	Buy	$44.42	1.64	1.72	1.80	3.7%	3.9%	4.0%	57%	59%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$13.41	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$14.62	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$13.32	0.20	0.14	0.14	1.5%	1.0%	1.1%	21%	NA	14%
TLN	Talen Energy Corp	Neutral	$13.19	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.4%**	**0.3%**	**0.3%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$14.59	0.95	1.09	1.25	6.5%	7.5%	8.6%	99%	117%	130%
AWK	American Water Works	Buy	$81.71	1.48	1.62	1.77	1.8%	2.0%	2.2%	52%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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			IB Serv./ Past 12Mos.	
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Buy	158	60.31%	28	17.72%
Neutral	104	39.69%	3	2.88%
Sell	0	0.00%	0	0.00%

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: ES, SO, EXC, EIX, PCG, Renewables June 29, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

ES – A signed PPA with Hydro-Quebec was filed with the NH PUC
SO – Progress update on Vogtle expansion
EXC – ComEd's request for transmission incentive is rejected by FERC
ES – Environmental group appeals the dismissal of its Northern Pass complaint
Renewables – North American countries agree to new regional climate pact
EIX/PCG – Reorganization of California regulation

ES – A signed PPA with Hydro-Quebec was filed with the NH PUC

- ES and Hydro-Québec filed with the New Hampshire Public Utilities Commission (NHPUC) its agreed upon 20-year power purchase agreement (PPA) to deliver hydro power via the Northern Pass Transmission project (NPT).
- PPA guarantees NH customers a proportional share of ISO-NE regional demand (9%) on Northern Pass.

***Guggenheim takeaway:** Constructive filing as it specifies NH's share of benefits from the project traversing its state, and as it addresses concern around NH's "fair share"; the NH SEC recently pushed back its date for a final decision to Sept. 30, 2017.*

SO – Progress update on Vogtle expansion

- The CA05 module was installed at Vogtle unit 4; this provides structural support and separates rooms in the containment building.

***Guggenheim takeaway:** An incremental positive; SO remains confident it can meet its current construction schedule – we think it's achievable but timing is close, so execution is key.*

EXC – ComEd's request for transmission incentive is rejected by FERC

- FERC refused to grant EXC's request for an abandoned plant incentive for its Loretto-Wilton Center Line.
- FERC noted the risk is faced by every entity developing a transmission facility in PJM.

***Guggenheim takeaway:** Disappointing but not a major upset.*

ES – Environmental group appeals the dismissal of its Northern Pass complaint

- The Society for the Protection of New Hampshire Forests appealed the dismissal of its complaint against ES's Northern Pass.
- The original suit, which sought to prevent the burial of lines in a highway right of way, will go before the New Hampshire Supreme Court.

Guggenheim takeaway: *We don't believe there will be progress for the Society given the legal precedents on right of ways; all eyes will focus on the NH SEC review of the project.*

Renewables – North American countries agree to new regional climate pact

- Reuters reports that the United States, Mexico and Canada agreed to produce 50% of their combined electricity by 2025 from clean energy sources (wind, solar, nuclear, and hydropower.)
- An official agreement, which builds on existing climate change efforts is set to be released at the North American Leader's Summit.
- The agreement includes provisions to ease the procurement of power across international borders.

Guggenheim takeaway: *Unclear if there is much incremental advancement of U.S. policy considering momentum already established by the EPA, but we would highlight nuclear is included in the pool of clean energy resources. We would also highlight support for cross-border transmission as an incremental positive for ES's Northern Pass transmission project (see above) to bring hydro from Canada into New England.*

EIX/PCG – Reorganization of California regulation

- The reform package includes a push for greater transparency and oversight at the California Public Utilities Commission, including more frequent online disclosure of communications between commissioners and those affected by their decisions.

Guggenheim takeaway: *We frequently highlight efforts underway in CA to reform utility regulation, making the state an increasingly challenging jurisdiction for utilities to navigate, and in turn, a less appealing place for investors to deploy capital.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
2. PPL – BUY – Focus Beyond Brexit – Now is the Time to Own
3. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
4. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
5. ETR – NEUTRAL – Analyst Day Offers Some Incremental CapEx, but No Price Tag on Nuclear Cost
6. FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome
7. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
8. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
9. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest

10. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
11. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
12. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
13. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
14. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
15. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
16. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
17. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
18. EEI Full Recap
19. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
20. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
21. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
22. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
23. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
24. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
25. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/29	SO	Regulatory review of proposed acquisition		NJ	GM15101196	Parties requested settlement approval at 6/29 BPU meeting
06/29	EXC	ComEd electric formula rate plan	Commonwealth Edison	IL	16-0259	Staff and intervenor testimony expected to be filed
06/30	D	Brunswick rider proceeding	Virginia Electric and Power	VA	PUE-2015-00102	VA SCC decision expected on Rider BW for the Brunswick power plant
07/01	TE	Acquisition				Acquisition expected to close
07/01	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Discovery requests due
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/11	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Evidentiary hearings
07/18	DUK	Regulatory review of proposed acquisition		NC		NCUC holding public hearings on the proposed acquisition
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
07/26	ES	Access Northeast		MA		
09/07	DTE	Michigan energy policy		MI	S.B. 437 S.B. 438	Upper house returns from summer recess
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other events and proceedings

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/13 - 07/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
On-going	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	Potential PUC decision.
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	SO	Regulatory review of proposed acquisition		IL	15-0558	Commission approval of proposed acquisition
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Phil Lembo, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/28/2016)

As of 6/28/2016

								Guggenheim Estimates														Consensus Estimates													
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA			Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	33.4	Buy	$68	$68.64	-1%	491	3.63	3.87	4.17	7%	18.9	17.7	16.5	5,512	5,849	6,246	6%	10.0	9.6	9.1	3.67	3.84	4.08	5%	18.7	17.9	16.8	5,663	5,503	5,339	(3%)	9.7	10.2	10.7
ED	Consolidated Edison, Inc.	24.0	Neutral	$70	$79.20	-12%	303	3.99	4.15	4.31	4%	19.8	19.1	18.4	3,867	4,058	4,226	5%	10.1	9.8	9.6	3.99	4.14	4.31	4%	19.9	19.1	18.4	3,654	3,864	4,096	6%	10.7	10.3	10.0
D	Dominion Resources, Inc.	46.5	Buy	$78	$76.44	2%	616	3.85	3.92	4.40	7%	19.9	19.5	17.4	6,255	6,470	7,054	6%	12.3	11.9	11.0	3.79	3.87	4.31	7%	20.2	19.8	17.7	5,673	6,332	6,724	9%	13.5	12.1	11.5
DTE	DTE Energy Company	17.4	Buy	$97	$96.79	0%	179	5.03	5.27	5.66	6%	19.2	18.4	17.1	2,628	2,728	2,925	5%	9.7	9.6	9.1	4.95	5.26	5.63	7%	19.6	18.4	17.2	2,541	2,704	2,846	6%	10.1	9.7	9.3
DUK	Duke Energy Corporation	57.7	Buy	$86	$83.94	2%	689	4.55	4.61	4.79	3%	18.4	18.2	17.5	9,033	8,878	9,383	2%	11.5	12.0	11.5	4.59	4.75	4.99	4%	18.3	17.7	16.8	9,310	10,002	10,245	5%	11.2	10.6	10.5
EIX	Edison International	24.4	Neutral	$70	$76.04	-8%	326	3.85	4.15	4.33	6%	19.8	18.3	17.6	5,011	5,372	5,690	7%	7.8	7.4	7.1	3.89	4.14	4.33	5%	19.5	18.4	17.6	4,420	4,679	4,928	6%	8.8	8.5	8.2
ES	Eversource Energy	18.4	Buy	$59	$58.33	1%	317	2.95	3.19	3.43	8%	19.8	18.3	17.0	2,607	2,569	2,625	0%	11.3	11.7	11.8	2.98	3.17	3.35	6%	19.6	18.4	17.4	2,601	2,794	2,871	5%	11.3	10.8	10.8
NEE	NextEra Energy, Inc.	58.7	Buy	$129	$128.46	0%	461	6.35	6.60	7.04	5%	20.2	19.5	18.2	7,019	7,458	7,796	5%	13.1	12.6	12.4	6.19	6.57	7.02	7%	20.8	19.6	18.3	7,960	8,567	9,540	9%	11.5	11.0	10.1
PCG	PG&E Corporation	30.9	Neutral	$59	$62.40	-5%	496	3.67	3.70	3.89	3%	17.0	16.9	16.0	6,500	6,739	7,134	5%	7.5	7.5	7.2	3.72	3.69	3.86	2%	16.8	16.9	16.2	6,026	6,534	6,919	7%	8.1	7.7	7.5
PNW	Pinnacle West Capital	8.7	Neutral	$79	$79.05	0%	111	3.91	4.19	4.43	6%	20.2	18.9	17.8	1,407	1,512	1,608	7%	9.2	8.9	8.5	3.99	4.20	4.42	5%	19.8	18.8	17.9	1,367	1,462	1,557	7%	9.5	9.2	8.8
PPL	PPL Corporation	24.6	Buy	$41	$36.66	12%	677	2.36	2.46	2.60	5%	15.5	14.9	14.1	4,012	4,219	4,461	5%	11.4	11.1	10.7	2.34	2.44	2.48	3%	15.6	15.0	14.8	4,036	4,241	4,447	5%	11.3	11.0	10.8
SO	Southern Company	48.9	Neutral	$47	$52.31	-10%	939	2.91	2.93	3.06	3%	18.0	17.9	17.1	7,011	7,202	7,505	3%	11.9	11.7	11.6	2.85	2.96	3.08	4%	18.4	17.6	17.0	7,169	7,946	8,205	7%	11.7	10.6	10.6
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.66	1%	236	1.18	1.28	1.33	6%	23.4	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	7%	23.5	21.6	20.3	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.4	Buy	$32	$30.38	5%	79	1.34	1.26	1.69	12%	22.7	24.1	18.0	253	249	271	3%	15.0	15.7	14.5	1.32	1.36	1.60	10%	23.0	22.4	19.0	NA	NA	NA	NA	NA	NA	NA
Average [2]											**6%**	**19.2**	**18.6**	**17.1**				**5%**	**10.8**	**10.7**	**10.3**				**5%**	**19.2**	**18.5**	**17.3**				**6%**	**10.6**	**10.1**	**9.9**
Integrated utilities																																			
ETR	Entergy Corporation	14.0	Neutral	$75	$79.15	-5%	179	5.36	5.16	5.17	-2%	14.8	15.3	15.3	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.12	5.24	5.19	1%	15.5	15.1	15.3	3,387	3,553	3,491	2%	8.9	8.8	9.2
EXC	Exelon Corporation	30.7	Buy	$38	$34.88	9%	887	2.53	2.65	2.86	6%	13.8	13.2	12.2	7,686	7,971	8,452	5%	8.1	7.9	7.5	2.53	2.64	2.78	5%	13.8	13.2	12.5	7,371	7,763	9,163	11%	8.5	8.1	6.9
FE	FirstEnergy Corp.	14.1	Buy	$43	$33.73	27%	425	2.87	2.83	2.89	0%	11.8	11.9	11.7	4,322	4,450	4,510	2%	8.4	8.2	8.1	2.68	2.51	2.52	(3%)	12.6	13.4	13.4	4,404	4,434	4,513	1%	8.3	8.2	8.1
PEG	Public Service Enterprise Grou	22.3	Buy	$50	$44.54	12%	506	2.92	2.95	3.02	2%	15.3	15.1	14.7	4,097	4,293	4,501	5%	8.2	8.2	8.1	2.88	2.89	2.95	1%	15.5	15.4	15.1	3,991	4,170	4,357	4%	8.4	8.5	8.3
Average											**2%**	**13.9**	**13.9**	**13.5**				**3%**	**8.2**	**8.2**	**8.0**				**1%**	**14.3**	**14.3**	**14.1**				**5%**	**8.5**	**8.4**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.1	Buy	$20	$14.22	41%	359	0.42	0.87	0.60	20%	34.2	16.3	23.7	1,881	2,144	2,076	5%	8.8	7.6	7.7	0.52	0.89	1.26	55%	27.3	15.9	11.3	1,882	2,014	2,133	6%	8.8	8.1	7.5
DYN	Dynegy Inc.	1.9	Buy	$21	$15.93	32%	117	(1.97)	(0.26)	0.57	NA	-8.1	-61.3	27.9	1,006	1,528	1,775	33%	9.6	6.6	5.4	(1.06)	0.25	1.18	NA	-15.1	64.1	13.5	1,081	1,479	1,649	24%	8.9	6.8	5.8
NRG	NRG Energy, Inc.	4.4	Buy	$16	$14.19	13%	315	0.75	(0.51)	(0.03)	NA	19.0	-28.0	-453.0	3,104	2,808	2,941	(3%)	6.9	7.3	6.7	0.98	0.28	0.97	(1%)	14.4	50.2	14.6	3,103	2,759	2,960	(2%)	6.9	7.5	6.6
TLN	Talen Energy Corp	1.7	Neutral	$7	$13.48	-48%	129	0.41	0.63	0.38	-4%	33.0	21.3	35.8	786	788	733	(3%)	6.8	6.6	7.0	0.98	0.36	0.19	(56%)	13.8	37.1	72	763	746	687	(5%)	7.0	7.0	7.5
Average											**8%**	**19.5**	**-12.9**	**-91.4**				**8%**	**8.0**	**7.0**	**6.7**				**(0%)**	**10.1**	**41.8**	**28**				**6%**	**7.9**	**7.3**	**6.9**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$15.20	-1%	183	0.92	1.21	1.31	19%	16.5	12.5	11.6	806	984	1,093	16%	8.0	6.8	6.9	0.96	0.94	0.96	0%	15.8	16.3	15.8	821	903	1,010	11%	7.9	7.4	7.4
AWK	American Water Works	14.5	Buy	$79	$82.12	-4%	178	2.85	3.05	3.26	7%	28.8	26.9	25.2	1,648	1,753	1,863	6%	13.0	12.4	11.8	2.83	3.04	3.26	7%	29.1	27.0	25.2	1,648	1,736	1,806	5%	13.0	12.5	12.2

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$68.64	2.26	2.37	2.48	3.3%	3.5%	3.6%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$79.20	2.67	2.72	2.78	3.4%	3.4%	3.5%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$76.44	2.79	2.99	3.21	3.7%	3.9%	4.2%	74%	77%	74%
DTE	DTE Energy Company	Buy	$96.79	3.00	3.15	3.30	3.1%	3.3%	3.4%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$83.94	3.39	3.53	3.69	4.0%	4.2%	4.4%	74%	74%	74%
EIX	Edison International	Neutral	$76.04	1.92	2.15	2.35	2.5%	2.8%	3.1%	49%	52%	54%
ES	Eversource Energy	Buy	$58.33	1.79	1.90	2.03	3.1%	3.3%	3.5%	60%	60%	61%
NEE	NextEra Energy, Inc.	Buy	$128.46	3.43	3.86	4.40	2.7%	3.0%	3.4%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$62.40	1.93	2.05	2.19	3.1%	3.3%	3.5%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$79.05	2.54	2.67	2.80	3.2%	3.4%	3.5%	64%	64%	63%
PPL	PPL Corporation	Buy	$36.66	1.52	1.56	1.61	4.1%	4.3%	4.4%	65%	64%	65%
SO	Southern Company	Neutral	$52.31	2.22	2.30	2.38	4.3%	4.4%	4.6%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.66	0.93	0.95	0.97	3.3%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$30.38	1.08	1.10	1.10	3.6%	3.6%	3.6%	82%	81%	69%
Average							**3.4%**	**3.6%**	**3.7%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$79.15	3.43	3.53	3.61	4.3%	4.5%	4.6%	67%	67%	70%
EXC	Exelon Corporation	Buy	$34.88	1.26	1.29	1.33	3.6%	3.7%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$33.73	1.44	1.45	1.45	4.3%	4.3%	4.3%	54%	58%	57%
PEG	Public Service Enterprise Group	Buy	$44.54	1.64	1.72	1.80	3.7%	3.9%	4.0%	57%	59%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.22	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$15.93	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$14.19	0.20	0.14	0.14	1.4%	1.0%	1.0%	21%	NA	14%
TLN	Talen Energy Corp	Neutral	$13.48	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.4%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.20	0.95	1.09	1.25	6.2%	7.2%	8.2%	99%	117%	130%
AWK	American Water Works	Buy	$82.12	1.48	1.62	1.77	1.8%	2.0%	2.2%	52%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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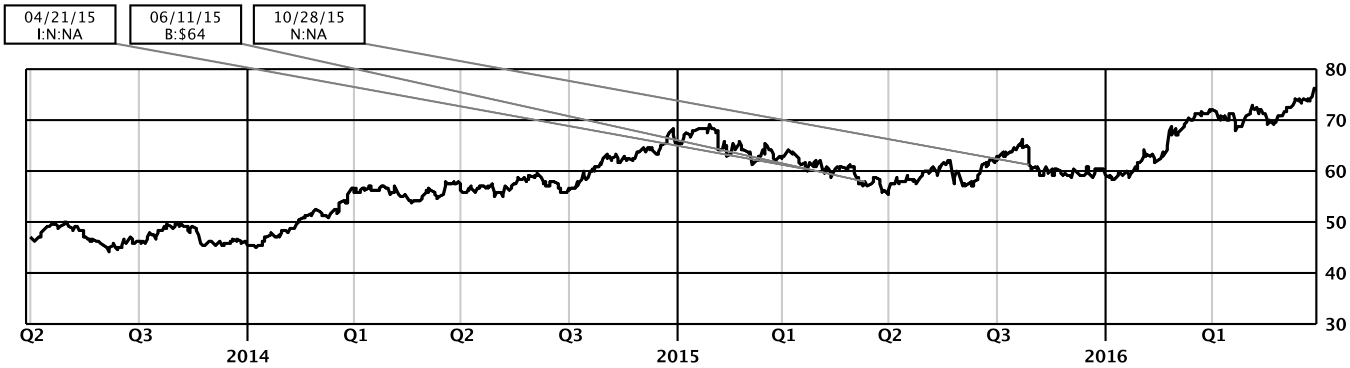
Rating and Price Target History for: Edison International (EIX) as of 06-28-2016



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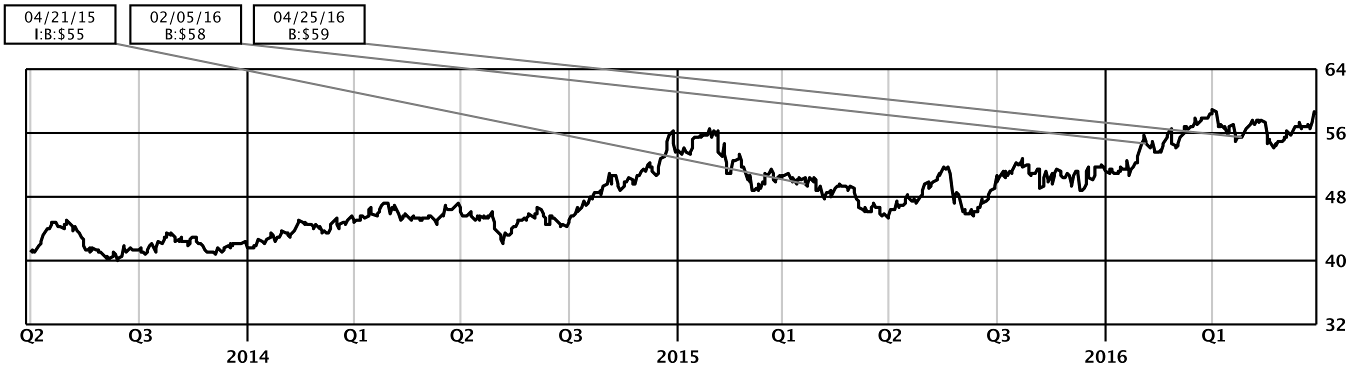
Rating and Price Target History for: Eversource Energy (ES) as of 06-28-2016



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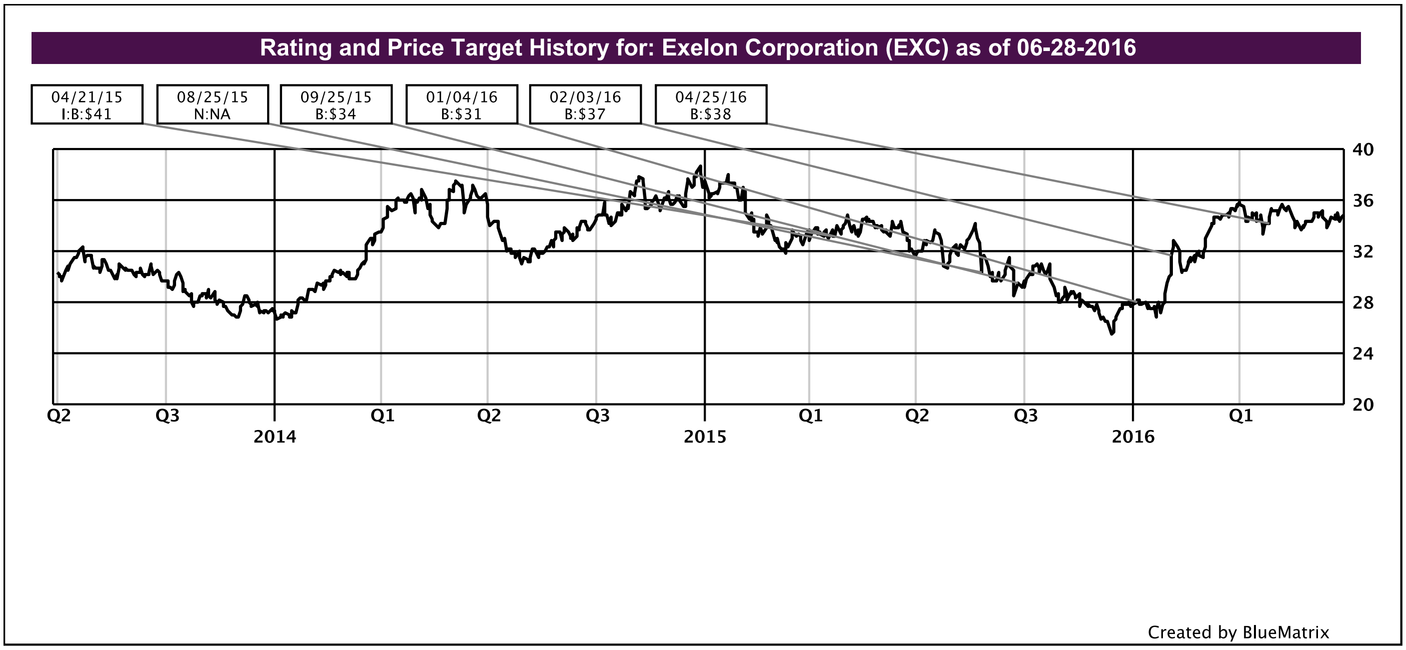

Rating and Price Target History for: Exelon Corporation (EXC) as of 06-28-2016

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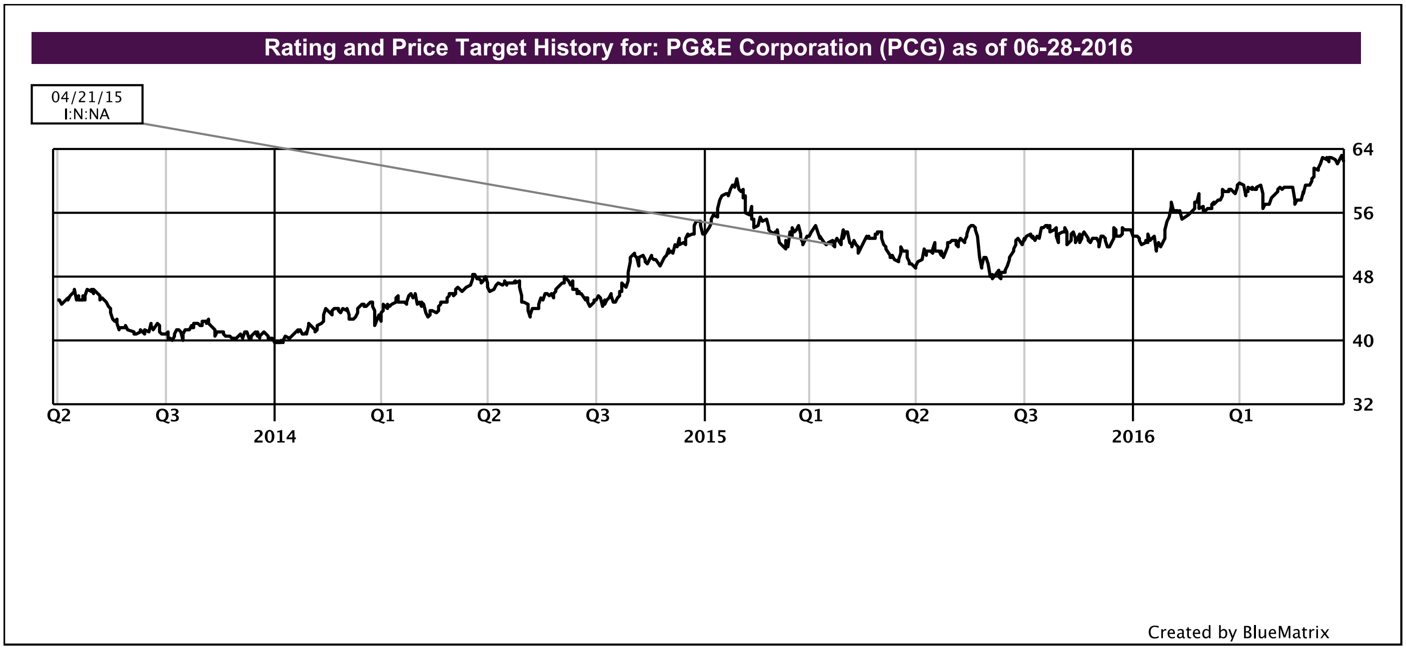

Rating and Price Target History for: PG&E Corporation (PCG) as of 06-28-2016

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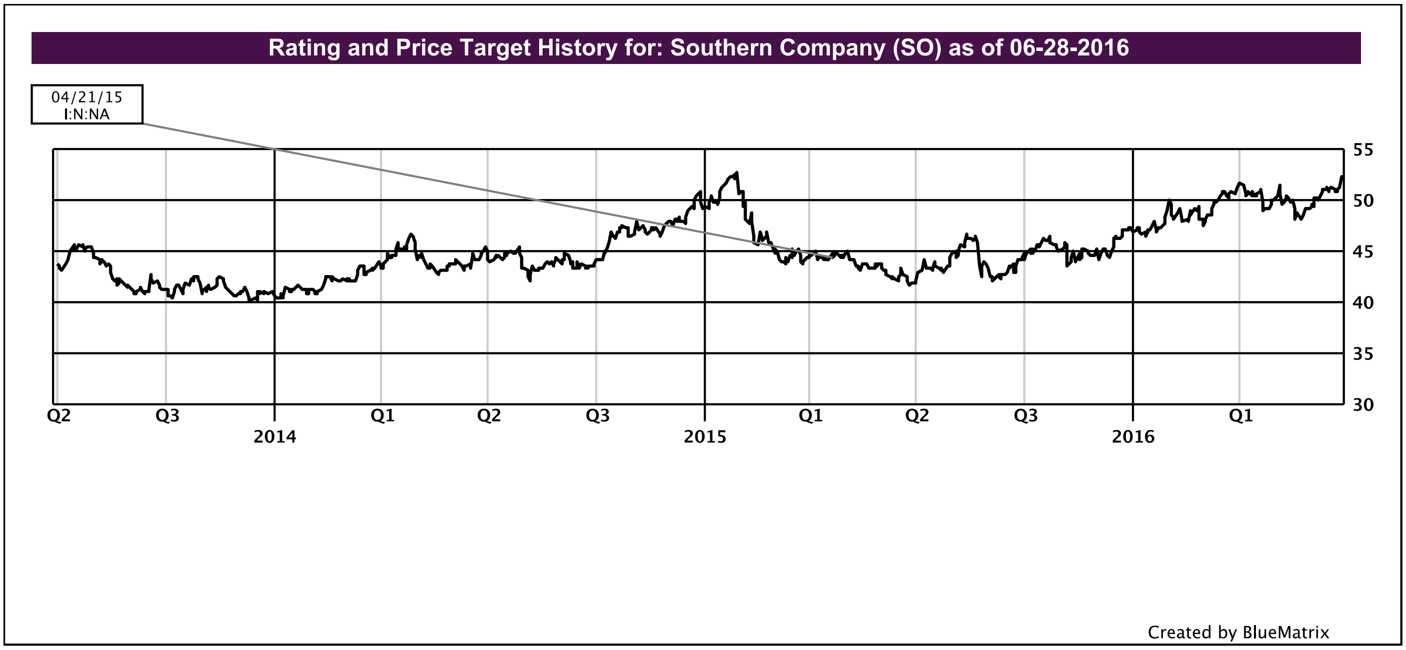
Rating and Price Target History for: Southern Company (SO) as of 06-28-2016

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	158	60.31%	28	17.72%
Neutral	104	39.69%	3	2.88%
Sell	0	0.00%	0	0.00%

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: ED, NEE, SO, ES, EXC, DUK June 30, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

ED/NEE – MVP delayed
NEE – Energy Future Holdings to update disclosure for Oncor
SO – New Jersey regulators provide final approval for merger with AGL
ES – Legislators to debate modified clean energy bill
EXC – DC Council increases renewables target to 50% by 2032
DUK – Indiana regulator approves $1.4 billion transmission plan
DUK – Taking more time to evaluate route for proposed pipeline
NEE – Governor appoints a new PUC commissioner; PUC chairman notes ruling is next week
DUK – NC Senate passes legislation that reopens coal ash evaluation

ED/NEE – MVP delayed

- FERC announced a final Environmental Impact Statement (EIS) for the Mountain Valley Pipeline wouldn't be available until March 2017.
- Commissioners would then have 90 days to approve the project.
- Mountain Valley Pipeline's initial schedule anticipated construction beginning by year end 2016.

Guggenheim takeaway: *Disappointing delay for the $3.5bn JV, but not a major impact for ED (12.5% stake) or NEE (35% stake).* MVP contributes $0.08 of EPS to our 2018 NEE estimates, and $0.06 to our 2018 ED estimates; this delay would put construction back to June 2017. A six month delay would defer ~$0.01 of EPS for ED, ~$0.02 for NEE – not major.

NEE – Energy Future Holdings to update disclosure for Oncor

- *Bloomberg* reports that Energy Future Holdings has until July 8th to file an amended plan and disclosure statement for Energy Future Intermediate Holding ("E-Side"); E-Side indirectly owns Oncor.
- On July 21st, there will be an approval hearing and the firm will seek court confirmation starting on September 26th.

Guggenheim takeaway: *This should provide guidance regarding the bankruptcy proceeding, which we have highlighted as a catalyst for coal retirement in ERCOT as well as a potential new opportunity for NEE. While NEE has not come out and made a public comment that it is re-interested in the Oncor assets, it has been reported by several sources, including Bloomberg, but not officially by NEE. We think these assets are a great strategic fit for NEE; despite a potential equity raise, the transaction should be noticeably accretive – this should not present an overhang on NEE shares.*

SO – New Jersey regulators provide approval for merger with AGL

- The New Jersey Board of Public Utilities (BPU) unanimously approved the merger of SO and AGL Resources (AGL, NC, $65.99); this ruling clears final regulatory hurdle.

- SO anticipates closure of the transaction on or around July 1st.

***Guggenheim takeaway:** We estimate 3-4% accretion to SO without assuming any synergies, see recent note, and deep-dive HERE). The acquisition gives them a stake in three major midstream developments: (1) 5% stake in the $5bn Atlantic Coast Pipeline, (2) Penneast, and (3) Prarie State… as well as better positioning to capture future midstream opportunities.*

ES – Legislators to debate modified clean energy bill

- MA senators plan to debate amendments to S.2372 today, a bill requiring electric utilities sign LT PPAs for hydroelectric and/or wind.

- The offshore wind targets shift from 1,200 MW to 2,000 MW by 2030 and exclusionary language towards Cape Wind's planned 468 MW Nantucket Sound was removed.

***Guggenheim takeaway:** Could support ES's Northern Pass project to bring hydro from Canada.*

EXC – DC Council increases renewables target to 50% by 2032

- The District of Columbia Council ratified B21-0650 increasing the territory's RPS 50% by 2032 with a 5% solar mandate vs. the prior RPS 20% renewable by 2020 and a 2.5% solar mandate by 2023.

- Institutes a compliance fee for violating the solar mandate: 50 cents/kWh of shortfall from 2016 through 2023, 40 cents/kWh in 2024 through 2028, 30 cents/kWh in 2029 through 2032, and 5 cents/kWh in 2033 and beyond.

***Guggenheim takeaway:** Worthwhile for EXC to support the policy initiative despite merchant generation in the vicinity, considering its shift to a more regulated business mix with the acquisition of Pepco and better cementing of relationships with regulators.*

DUK – Indiana regulator approves $1.4 billion transmission plan

- The Indiana Utility Regulatory Commission (IURC) approved the settlement agreement for DUK's seven-year, $1.4 billion grid modernization plan (allowed return on equity of 10.5%).

***Guggenheim takeaway:** Positive news for DUK. The 7-year plan allows 80% recovery of its investment through a tracker (remaining 20% deferred for review until DUK's next base rate case). Helps support growth trajectory.*

DUK – Taking more time to evaluate route for proposed pipeline

- DUK extends the review of two alternative routes to the proposed Central Corridor Gas Pipeline; application to the Ohio Power Siting Board originally delayed past July.

- Taking this step to "enable the company to meet with community leaders, elected officials and neighbors and review customer feedback on the project."

***Guggenheim takeaway:** Not a major driver for DUK, but considering opposition typically encountered with projects of this nature, we believe DUK is taking a prudent approach.*

NEE – Governor appoints a new PUC commissioner; PUC chairman notes ruling is next week

- The Chairman of the Hawaii Public Utilities Commission is leading the commission with a target deadline for the first week of July
- Hawaii Gov. David Ige appointed Tom Gorak, chief counsel for the state Public Utilities Commission, to serve as a PUC commissioner beginning Friday; term of Commissioner Michael Champley expires today.

Guggenheim takeaway: *We still don't think regulators will approve the merger; potentially freeing NEE resources to focus on an Oncor opportunity (mentioned above). It's time for NEE to walk and look elsewhere, in our view. We believe the market will perceive the potential news of NEE walking away as a constructive event.*

DUK – NC Senate passes legislation that reopens coal ash evaluation

- Senate passed H.B. 630, a compromise to legislation vetoed by Gov. McCrory in June.
- The modified bill extends the review period of proposed risk classifications for coal ash.
- In addition it promotes the reuse of coal ash for construction products via recycling.
- Duke Energy must submit its plans no later than Dec. 15 with the Department of Environmental Quality submitting a final decision no later than Jan. 15, 2017.

Guggenheim takeaway: *A welcome development for DUK, and constructive for all stakeholders, in our view – let's see if/how the governor responds.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
2. PPL – BUY – Focus Beyond Brexit – Now is the Time to Own
3. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
4. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
5. ETR – NEUTRAL – Analyst Day Offers Some Incremental CapEx, but No Price Tag on Nuclear Cost
6. FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome
7. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
8. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
9. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
10. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking

11. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
12. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
13. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
14. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
15. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
16. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
17. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
18. EEI Full Recap
19. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
20. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
21. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
22. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
23. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
24. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
25. Evolving Economics of Power & Alternative Energy: Balance of “Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/30	D	Brunswick rider proceeding	Virginia Electric and Power	VA	PUE-2015-00102	VA SCC decision expected on Rider BW for the Brunswick power plant
07/01	TE	Acquisition				Acquisition expected to close
07/01	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Discovery requests due
07/07	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file briefs assessing whether settlement meets CPUC standards
07/11	FE	Electric Security Plan (formerly PPAs)	Ohio Edison, Cleveland Electric, and Toledo Edison	OH	14-1297-EL-SSO	Evidentiary hearings
07/18	DUK	Regulatory review of proposed acquisition		NC		NCUC holding public hearings on the proposed acquisition
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
07/26	ES	Access Northeast		MA		
09/07	DTE	Michigan energy policy		MI	S.B. 437 S.B. 438	Upper house returns from summer recess
09/27		Clean Power Plan				Appeals Court hears oral arguments

Other events and proceedings

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
06/13 - 07/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Evidentiary hearings
On-going	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
June	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
June	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	Potential PUC decision.
June	ES	NH generation divestiture	Public Service Co. of NH	NH		Potential PUC decision regarding generation divestiture
June	ES	Northern Pass Transmission		NH	2015-06	Schedule for SEC review through September 2017
June	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
AWK	6/29-6/30	Midwest	Susan Story, CEO
SO	8/2-8/3	TBA	Art Beattie, CFO
ETR	8/11-8/12	Midwest	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Phil Lembo, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 06/29/2016)

As of	6/29/2016							Guggenheim Estimates															Consensus Estimates														
								Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA				Earnings Per Share				Price / Earnings			Adjusted EBITDA				EV / EBITDA		
Ticker	Company	Mkt. Cap ($Bn)	Rating	Target Price[1]	Current Price	Price Change	Diluted Shares	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
Regulated utilities																																			
AEP	American Electric Power	33.7	Buy	$68	$68.72	-1%	491	3.63	3.87	4.17	7%	18.9	17.8	16.5	5,512	5,849	6,246	6%	10.0	9.6	9.1	3.67	3.84	4.08	5%	18.7	17.9	16.9	5,663	5,503	5,339	(3%)	9.7	10.2	10.7
ED	Consolidated Edison, Inc.	23.8	Neutral	$70	$79.07	-11%	303	3.99	4.15	4.31	4%	19.8	19.1	18.3	3,867	4,058	4,226	5%	10.1	9.8	9.6	3.99	4.14	4.31	4%	19.8	19.1	18.4	3,654	3,864	4,096	6%	10.7	10.3	9.9
D	Dominion Resources, Inc.	46.9	Buy	$78	$76.41	2%	616	3.85	3.92	4.40	7%	19.8	19.5	17.4	6,255	6,470	7,054	6%	12.3	11.9	11.0	3.79	3.87	4.31	7%	20.1	19.8	17.7	5,673	6,332	6,724	9%	13.5	12.1	11.5
DTE	DTE Energy Company	17.4	Buy	$97	$97.10	0%	179	5.03	5.27	5.66	6%	19.3	18.4	17.2	2,628	2,728	2,925	5%	9.8	9.6	9.1	4.95	5.26	5.63	7%	19.6	18.5	17.3	2,541	2,704	2,846	6%	10.1	9.7	9.4
DUK	Duke Energy Corporation	57.8	Buy	$86	$84.15	2%	689	4.55	4.61	4.79	3%	18.5	18.3	17.6	9,033	8,878	9,383	2%	11.5	12.0	11.5	4.59	4.75	4.99	4%	18.3	17.7	16.9	9,310	10,002	10,245	5%	11.2	10.6	10.5
EIX	Edison International	24.7	Neutral	$70	$76.10	-8%	326	3.85	4.15	4.33	6%	19.8	18.3	17.6	5,011	5,372	5,690	7%	7.8	7.4	7.1	3.89	4.14	4.33	5%	19.6	18.4	17.6	4,420	4,679	4,928	6%	8.8	8.5	8.2
ES	Eversource Energy	18.5	Buy	$59	$58.58	1%	317	2.95	3.19	3.43	8%	19.9	18.4	17.1	2,607	2,569	2,625	0%	11.3	11.7	11.8	2.98	3.17	3.35	6%	19.7	18.5	17.5	2,601	2,794	2,871	5%	11.3	10.8	10.8
NEE	NextEra Energy, Inc.	58.8	Buy	$129	$127.75	1%	461	6.35	6.60	7.04	5%	20.1	19.4	18.1	7,019	7,458	7,796	5%	13.0	12.6	12.3	6.19	6.57	7.02	7%	20.7	19.4	18.2	7,960	8,567	9,540	9%	11.5	11.0	10.1
PCG	PG&E Corporation	31.0	Neutral	$59	$62.58	-6%	496	3.67	3.70	3.89	3%	17.1	16.9	16.1	6,500	6,739	7,134	5%	7.5	7.5	7.2	3.72	3.69	3.86	2%	16.8	17.0	16.2	6,026	6,534	6,919	7%	8.1	7.7	7.5
PNW	Pinnacle West Capital	8.8	Neutral	$79	$79.14	0%	111	3.91	4.19	4.43	6%	20.2	18.9	17.9	1,407	1,512	1,608	7%	9.2	8.9	8.5	3.99	4.20	4.42	5%	19.8	18.8	17.9	1,367	1,462	1,557	7%	9.5	9.2	8.8
PPL	PPL Corporation	24.9	Buy	$41	$37.05	11%	677	2.36	2.46	2.60	5%	15.7	15.1	14.3	4,012	4,219	4,461	5%	11.5	11.1	10.8	2.34	2.44	2.48	3%	15.8	15.2	14.9	4,036	4,241	4,447	5%	11.4	11.1	10.8
SO	Southern Company	48.9	Neutral	$47	$52.22	-10%	939	2.91	2.93	3.06	3%	17.9	17.8	17.1	7,011	7,202	7,505	3%	11.9	11.7	11.6	2.85	2.96	3.08	4%	18.3	17.6	17.0	7,169	7,946	8,205	7%	11.6	10.6	10.6
TE	TECO Energy, Inc.	6.5	Neutral	$28	$27.65	1%	236	1.18	1.28	1.33	6%	23.4	21.6	20.8	985	1,033	1,067	4%	10.7	10.2	9.8	1.18	1.28	1.36	7%	23.4	21.6	20.3	1,022	1,103	NA	NA	10.3	9.5	NA
SJI	South Jersey Industries, Inc.	2.4	Buy	$32	$30.33	6%	79	1.34	1.26	1.69	12%	22.6	24.1	17.9	253	249	271	3%	15.0	15.7	14.5	1.32	1.36	1.60	10%	22.9	22.3	19.0	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**19.2**	**18.6**	**17.1**				**5%**	**10.8**	**10.7**	**10.3**				**5%**	**19.3**	**18.5**	**17.3**				**6%**	**10.6**	**10.1**	**9.9**
Integrated utilities																																			
ETR	Entergy Corporation	14.1	Neutral	$75	$78.84	-5%	179	5.36	5.16	5.17	-2%	14.7	15.3	15.2	3,730	3,712	3,825	1%	8.1	8.4	8.4	5.12	5.24	5.19	1%	15.4	15.1	15.2	3,387	3,553	3,491	2%	8.9	8.8	9.2
EXC	Exelon Corporation	31.2	Buy	$38	$35.12	8%	887	2.53	2.65	2.86	6%	13.9	13.3	12.3	7,686	7,971	8,452	5%	8.2	7.9	7.5	2.53	2.64	2.78	5%	13.9	13.3	12.6	7,371	7,763	9,163	11%	8.5	8.1	7.0
FE	FirstEnergy Corp.	14.5	Buy	$43	$34.19	26%	425	2.87	2.83	2.89	0%	11.9	12.1	11.8	4,322	4,450	4,510	2%	8.5	8.3	8.2	2.68	2.51	2.52	(3%)	12.8	13.6	13.5	4,404	4,434	4,513	1%	8.3	8.3	8.2
PEG	Public Service Enterprise Grou	22.8	Buy	$50	$45.29	10%	506	2.92	2.95	3.02	2%	15.5	15.4	15.0	4,097	4,293	4,501	5%	8.3	8.3	8.1	2.88	2.89	2.95	1%	15.7	15.7	15.4	3,991	4,170	4,357	4%	8.5	8.6	8.4
Average											**2%**	**14.0**	**14.0**	**13.6**				**3%**	**8.3**	**8.2**	**8.1**				**1%**	**14.4**	**14.4**	**14.2**				**5%**	**8.6**	**8.4**	**8.2**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.2	Buy	$20	$14.58	37%	359	0.42	0.87	0.60	20%	35.1	16.7	24.3	1,881	2,144	2,076	5%	8.9	7.7	7.8	0.52	0.89	1.26	55%	28.0	16.3	11.6	1,882	2,014	2,133	6%	8.9	8.2	7.6
DYN	Dynegy Inc.	2.0	Buy	$21	$17.03	23%	117	(1.97)	(0.26)	0.57	NA	-8.6	-65.5	29.9	1,006	1,528	1,775	33%	9.7	6.6	5.4	(1.04)	0.40	1.38	NA	-16.4	42.4	12.4	1,079	1,543	1,736	27%	9.0	6.6	5.6
NRG	NRG Energy, Inc.	4.6	Buy	$16	$14.71	9%	315	0.75	(0.51)	(0.03)	NA	19.7	-29.1	-469.6	3,104	2,808	2,941	(3%)	6.9	7.4	6.7	0.98	0.28	0.97	(1%)	15.0	52.0	15.2	3,103	2,759	2,960	(2%)	6.9	7.5	6.7
TLN	Talen Energy Corp	1.7	Neutral	$7	$13.54	-48%	129	0.41	0.63	0.38	-4%	33.1	21.4	35.9	786	788	733	(3%)	6.8	6.6	7.1	0.98	0.36	0.19	(56%)	13.8	37.2	72	763	746	687	(5%)	7.0	7.0	7.5
Average											**8%**	**19.8**	**-14.1**	**-94.9**				**8%**	**8.1**	**7.1**	**6.7**				**(0%)**	**10.1**	**37.0**	**28**				**6%**	**7.9**	**7.3**	**6.8**
Other																																			
NYLD	NRG Yield	1.5	Neutral	$15	$15.64	-4%	183	0.92	1.21	1.31	19%	17.0	12.9	11.9	806	984	1,093	16%	8.1	6.8	6.9	0.96	0.94	0.96	0%	16.3	16.7	16.3	821	903	1,010	11%	7.9	7.5	7.5
AWK	American Water Works	14.6	Buy	$79	$82.32	-4%	178	2.85	3.05	3.26	7%	28.9	27.0	25.3	1,648	1,753	1,863	6%	13.0	12.4	11.8	2.83	3.04	3.26	7%	29.1	27.1	25.3	1,648	1,736	1,806	5%	13.0	12.5	12.2

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.
2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$68.72	2.26	2.37	2.48	3.3%	3.4%	3.6%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$79.07	2.67	2.72	2.78	3.4%	3.4%	3.5%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$76.41	2.79	2.99	3.21	3.7%	3.9%	4.2%	74%	77%	74%
DTE	DTE Energy Company	Buy	$97.10	3.00	3.15	3.30	3.1%	3.2%	3.4%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$84.15	3.39	3.53	3.69	4.0%	4.2%	4.4%	74%	74%	74%
EIX	Edison International	Neutral	$76.10	1.92	2.15	2.35	2.5%	2.8%	3.1%	49%	52%	54%
ES	Eversource Energy	Buy	$58.58	1.79	1.90	2.03	3.0%	3.3%	3.5%	60%	60%	61%
NEE	NextEra Energy, Inc.	Buy	$127.75	3.43	3.86	4.40	2.7%	3.0%	3.4%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$62.58	1.93	2.05	2.19	3.1%	3.3%	3.5%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$79.14	2.54	2.67	2.80	3.2%	3.4%	3.5%	64%	64%	63%
PPL	PPL Corporation	Buy	$37.05	1.52	1.56	1.61	4.1%	4.2%	4.4%	65%	64%	65%
SO	Southern Company	Neutral	$52.22	2.22	2.30	2.38	4.3%	4.4%	4.6%	78%	78%	77%
TE	TECO Energy, Inc.	Neutral	$27.65	0.93	0.95	0.97	3.3%	3.4%	3.5%	78%	74%	71%
SJI	South Jersey Industries, Inc.	Buy	$30.33	1.08	1.10	1.10	3.6%	3.6%	3.6%	82%	81%	69%
Average							**3.4%**	**3.5%**	**3.7%**	**66%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$78.84	3.43	3.53	3.61	4.4%	4.5%	4.6%	67%	67%	70%
EXC	Exelon Corporation	Buy	$35.12	1.26	1.29	1.33	3.6%	3.7%	3.8%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$34.19	1.44	1.45	1.45	4.2%	4.2%	4.2%	54%	58%	57%
PEG	Public Service Enterprise Group	Buy	$45.29	1.64	1.72	1.80	3.6%	3.8%	4.0%	57%	59%	61%
Average							**3.9%**	**4.0%**	**4.1%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$14.58	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$17.03	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$14.71	0.20	0.14	0.14	1.4%	0.9%	1.0%	21%	NA	14%
TLN	Talen Energy Corp	Neutral	$13.54	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$15.64	0.95	1.09	1.25	6.1%	7.0%	8.0%	99%	117%	130%
AWK	American Water Works	Buy	$82.32	1.48	1.62	1.77	1.8%	2.0%	2.2%	52%	53%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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			IB Serv./ Past 12Mos.	
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Buy	158	60.31%	28	17.72%
Neutral	104	39.69%	3	2.88%
Sell	0	0.00%	0	0.00%

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Electric Utilities and Independent Power

BMO Capital Markets

Exelon

(EXC-NYSE)

Rating:	**Market Perform**	
Target Price:	**$38.00**	**Total Return: 11%**
Price Intraday:	**$35.29**	

August 12, 2016

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2016 Analyst Day: Growth Outlook Intact at Utilities; Support for NY Nuclear Plants a Positive

Event

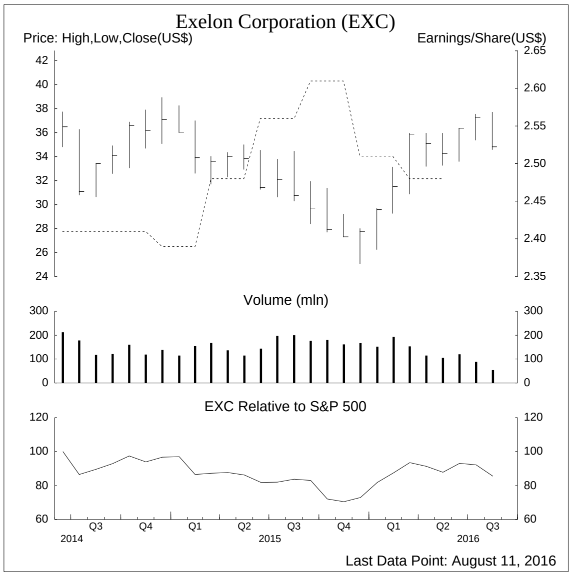
Exelon reaffirmed its regulated utility EPS growth expectations of 7%-9% from 2016-20 and rate base growth of 6.1%, reflecting a ~$25 billion capex program, although slightly reduced from prior expectations. Using the midpoint of its regulated utility EPS guidance ranges for 2016-20, the growth is more front end loaded through 2018. EXC's merchant generation business, ExGen, is expected to generate ~$8.2 billion in free cash flow that should result in ~$3 billion of reduced debt during that time period. Management is also committed to 2.5% dividend growth through 2018, with the possibility of increasing it beyond.

Impact & Analysis

EXC reiterated 2016 EPS guidance of $2.40-2.70. Meeting EXC's regulated earnings goals beyond 2016 depends on supportive and balanced rate relief for its PHI acquisition. Closing the gap between allowed and earned ROE will involve several iterations of rate requests, in our opinion. A new commissioner could be appointed to the DC commission that could possibly complicate things going forward. At ExGen, the approval by the NY PSC of the ZEC should add $0.08-$0.10 to EPS annually and $350 million in additional after tax cash that will improve profitability of its nuclear plants. The assumed acquisition of the FitzPatrick nuclear plant should add an additional $0.05 to EPS, while shutting two nuclear plants in Illinois could add $0.07 in 2019.

Valuation & Recommendation

We are increasing our 2017 and 2018 EPS estimates to $2.67 and $2.80 from $2.64 and $2.77, respectively, as we update our model for current forwards and hedging details, as well updated guidance given by management at the conference. Our SOTP target price remains at $38, reflective of an 18x P/E multiple on EXC's regulated 2017E EPS and 8x EV/EBITDA multiple on ExGen's 2017E EBITDA.



Last Data Point: August 11, 2016

(FY-Dec.)	2014A	2015A	2016E	2017E
EPS	$2.39	$2.49	$2.57	$2.67↑
P/E			13.7x	13.2x
CFPS	- $0.16	- $0.23	- $2.79↓	- $2.73↓
P/CFPS			na	na
Rev. ($mm)	$27,429	$29,447	$26,367	$28,682
EV ($mm)	$42,084	$46,850	$52,981	$56,528
EBITDA ($mm)	$5,865	$6,813	$8,164	$8,902
EV/EBITDA	7.2x	6.9x	6.5x	6.4x

Quarterly EPS	Q1	Q2	Q3	Q4
2014A	$0.62	$0.51	$0.78	$0.48
2015A	$0.71	$0.59	$0.83	$0.38
2016E	$0.68a	$0.65a	na	na

Dividend	$1.24	**Yield**	3.5%
Book Value	$25.51	**Price/Book**	1.4x
Shares O/S (mm)	861.0	**Mkt. Cap (mm)**	$30,385
Float O/S (mm)	855.5	**Float Cap (mm)**	$30,191
Wkly Vol (000s)	35,879	**Wkly $ Vol (mm)**	$1,121
Net Debt ($mm)	$18,247	**Next Rep. Date**	na

Notes: All values in US$
First Call Mean Estimates: EXELON CORP (US$) 2016E: $2.53; 2017E: $2.63

Changes	Annual EPS	Annual CFPS	Quarterly EPS
	2017E $2.64 to $2.67	2016E -$2.38 to -$2.79 2017E -$2.32 to -$2.73	Q2/16E na to $0.65

Please refer to pages 5 to 7 for Important Disclosures, including the Analyst's Certification. ~12:00 ET

Key Takeaways from the Conference

- Regulated EPS growth is forecast at 7%-9% over the 2016-20 period, although we note that growth is greater in the 2016-18 period and a bit lower in the outer years of the forecast.
  - Much of the growth is predicated on the assumption that EXC will be successful in closing the gap between earned and allowed ROEs, particularly at its recently acquired utilities from the Pepco Holdings transaction.
  - We note that there will likely be a new commissioner appointed to the Washington DC commission by Mayor Muriel Bowser. This could possibly complicate matters, since Mayor Bowser was opposed to the acquisition of Pepco.
- ExGen is expected to generate $8.2 billion in free cash flow over the 2016-20 period, with $2.3 billion used for growth capex; $2.7-$3.2 billion for utility investment; and $2.7-$3.2 billion for debt reduction at the subsidiary.
- Recent disclosures by EXC suggest a $100 million decline in ExGen's 2017 gross margin to $7,600 million from $7,700 million last quarter and a $200 million decrease in 2018 gross margin to $7,500 million from $7,700 million. These declines are largely reflective of a decrease in the value of mark-to-market hedges in both 2017 and 2018.
- Recently adopted Clean Energy Standard by the New York Public Service Commission, which includes the Zero Emission Credits (ZEC) should add $0.08-$0.10 per share to earnings annually from ExGen's existing New York nuclear plants and an additional $0.05 for the FitzPatrick nuclear plant that EXC has agreed to purchase from Entergy, which we assume will occur.
- The potential closure of the Clinton and Quad Cities nuclear plants in Illinois in June 2017 and June 2018, respectively, (assuming no enabling legislation occurs prior to those dates) could add $0.07 to EPS and $75 million in pre-tax cash flow in 2019.
- EXC's acquisition of the retail business from Consolidated Edison could add modestly to earnings going forward.
- EXC is targeting an 18%-20% FFO/debt ratio going forward and a 3.0x Debt/EBITDA for ExGen.
- EXC is committed to its 2.5% annual dividend increase through 2018, with the possibility of accelerating growth beyond 2018.

Earnings Estimates

We are adjusting our EPS estimates to incorporate the following:

- $100 million and $200 million decline in ExGen's gross margins for 2017 and 2018, respectively, reflecting a decrease in mark-to-market hedges in both years;
- The benefits derived from New York's ZEC program, which begins in April 2017 and is fully in place in 2018; and
- Modest benefit from the acquisition of the ConEd retail business.

Exhibit 1: EPS Breakdown by Business Segment

	2016E	2017E	2018E
Electric Utilities	$1.45	$1.58	$1.74
Exelon Generation	$1.25	$1.24	$1.21
Holdco	-$0.13	-$0.15	-$0.15
Total	**$2.57**	**$2.67**	**$2.80**

Source: BMO Capital Markets estimates and company data

Companies mentioned (priced intraday on August 12, 2016):

Consolidated Edison (ED, $78.92, Market Perform)
Entergy Corp. (ETR, $79.88, Market Perform)

Income Statement	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Revenues	$27,429	$29,447	$26,367	$28,682	$29,558
Fuel and purchased power	-$13,003	-$13,084	-$7,865	-$8,904	-$9,152
Operating, maintenance and other	-$9,722	-$9,522	-$10,477	-$11,014	-$11,099
Restructuring, Other etc.	$0	$0	$0	$0	$0
EBITDA	**$5,865**	**$6,813**	**$8,164**	**$8,902**	**$9,441**
Depreciation and amortization	-$2,314	-$2,450	-$3,114	-$3,507	-$3,728
EBIT	**$3,551**	**$4,363**	**$5,049**	**$5,395**	**$5,714**
Equity in earnings of affiliates	$706	$18	$10	$10	$10
Interest income & Other	$0	$0	$31	$22	$18
Interest expense	-$1,065	-$1,033	-$1,565	-$1,769	-$1,873
Other income/(expense)	$455	-$46	$97	$106	$106
EBT	**$2,486**	**$3,330**	**$3,484**	**$3,626**	**$3,841**
Income tax expense	-$666	-$1,080	-$1,108	-$1,160	-$1,250
Income from continuing ops.	**$1,820**	**$2,250**	**$2,376**	**$2,466**	**$2,592**
Extraordinary items – net of tax	$0	$0	$0	$0	$0
Discontinued operations – net of tax	$0	$0	$0	$0	$0
Dividends on preferred stock	$0	$0	$0	$0	$0
Minority interest	-$197	$19	-$4	-$4	-$4
Net Income	**$1,623**	**$2,269**	**$2,372**	**$2,462**	**$2,588**
Average shares outstanding (diluted)	864	893	923	923	923
GAAP Reported EPS (diluted)	**$1.88**	**$2.54**	**$2.57**	**$2.67**	**$2.80**
Reconciliation to adjusted earnings/diluted share	$0.52	-$0.05	$0.00	$0.00	$0.00
EPS (ongoing)	**$2.39**	**$2.49**	**$2.57**	**$2.67**	**$2.80**
EPS (Consensus)			**$2.54**	**$2.64**	**$2.82**

Cash Flow Statement	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net income	$1,820	$2,250	$2,376	$2,466	$2,592
Depreciation and amortization	$3,868	$3,987	$3,111	$3,501	$3,721
Changes in working capital	-$1,231	$1,379	$302	$14	$10
Cash flow from operations	**$4,457**	**$7,616**	**$5,788**	**$5,982**	**$6,323**
Capital expense (net of asset sales)	-$4,599	-$7,822	-$8,365	-$8,503	-$8,380
Cash flow from investing	**-$4,599**	**-$7,822**	**-$8,365**	**-$8,503**	**-$8,380**
Common stock	$0	$1,868	$0	$0	$0
Dividends paid	-$1,065	-$1,105	-$2,435	-$2,737	-$2,747
Net debt borrowal/(repayment)[1]	$2,040	$4,102	$5,094	$1,436	$3,440
Other financings	-$564	-$35	-$230	-$690	-$490
Cash flow from financing	**$411**	**$4,830**	**$2,428**	**-$1,992**	**$202**
Net cash flow	**$269**	**$4,624**	**-$148**	**-$4,513**	**-$1,855**

Balance Sheet	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Assets					
Cash and cash equivalents	$2,149	$6,707	-$45	$1,964	$96
Accounts receivable	$4,709	$4,099	$4,938	$4,938	$4,938
Inventories	$1,603	$1,566	$1,707	$1,707	$1,707
Other current assets	$3,636	$2,962	$3,145	$3,145	$3,145
Total current assets	**$12,097**	**$15,334**	**$9,745**	**$11,754**	**$9,886**
Net fixed assets	$52,087	$57,439	$80,465	$78,918	$83,567
Intangibles & other assets	$22,630	$22,611	$26,431	$26,431	$26,431
Total assets	**$86,814**	**$95,384**	**$116,640**	**$117,102**	**$119,883**
Liabilities					
Accounts payable	$3,056	$2,891	$3,388	$3,388	$3,388
Short-term debt	$2,262	$2,033	$5,571	$6,697	$7,847
Other current liabilities	$3,444	$4,194	$4,601	$4,601	$4,601
Total current liabilities	**$8,762**	**$9,118**	**$13,560**	**$14,686**	**$15,836**
Long-term debt	$20,010	$24,286	$32,259	$32,569	$34,859
Deferred credits & other liabilities	$33,909	$34,686	$39,285	$39,285	$39,285
Total long-term liabilities	**$53,919**	**$58,972**	**$71,544**	**$71,854**	**$74,144**
Stockholders' equity	**$24,133**	**$27,294**	**$31,536**	**$30,562**	**$29,903**
Preferred stock	$0	$0	$183	$183	$183
Total common equity	$24,133	$27,294	$31,353	$30,379	$29,720
Total liabilities	**$86,814**	**$95,384**	**$116,640**	**$117,102**	**$119,883**

Stock Data	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Year-end/Latest stock price	$37.08	$27.77	$34.90	$34.90	$34.90
Year-end/Latest shares o/s (mm)	864.0	893.0	922.9	922.9	922.9
Year-end/Latest market cap. ($ mm)	$32,037	$24,799	$32,210	$32,210	$32,210
Book value per share	$27.93	$30.56	$33.97	$32.92	$32.20
Dividend per share	$1.24	$1.24	$1.26	$1.29	$1.33
Dividend payout ratio	51.8%	49.7%	49.2%	48.5%	47.3%
Dividend yield	3.34%	4.47%	3.62%	3.71%	3.80%
% Regulated ongoing income	20%	19%	21%	22%	22%
FCF (after div.)	-$1,207	-$1,311	-$5,012	-$5,259	-$4,805
FCF/share	-$0.16	-$0.23	-$2.79	-$2.73	-$2.23
FCF yield	-0.44%	-0.83%	-8.00%	-7.83%	-6.39%

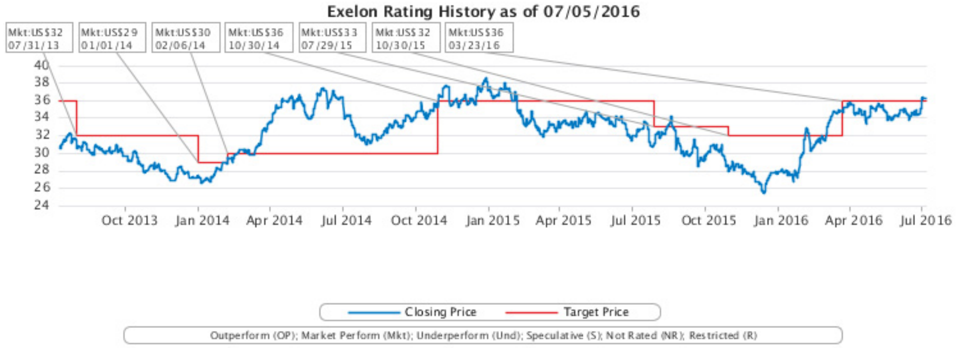
Leverage Ratios	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Coverage ratios					
Interest coverage	1.9x	2.2x	1.5x	1.4x	1.4x
EBIT interest coverage	3.3x	4.2x	3.2x	3.0x	3.1x
EBITDA interest coverage	5.5x	6.6x	5.2x	5.0x	5.0x
Debt service coverage	0.6x	0.7x	0.3x	0.3x	0.3x
Leverage ratios					
Net debt to EBITDA	3.4x	2.9x	4.6x	4.2x	4.5x
Total debt to EBITDA	3.8x	3.9x	4.6x	4.4x	4.5x

EPS and EBITDA Summary	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Ongoing EPS					
Comed	$0.47	$0.48	$0.55	$0.59	$0.63
PECO	$0.41	$0.43	$0.44	$0.47	$0.50
BGE	$0.23	$0.31	$0.31	$0.33	$0.36
DP&L			$0.03	$0.05	$0.08
ACE			$0.02	$0.02	$0.04
Pepco DC			$0.10	$0.11	$0.15
Exelon Generation	$1.34	$1.40	$1.25	$1.24	$1.21
Corporate/Other	-$0.06	-$0.13	-$0.13	-$0.15	-$0.15
Consolidated Ongoing EPS	**$2.39**	**$2.49**	**$2.57**	**$2.67**	**$2.80**
EBITDA					
Comed	$1,684	$1,745	$1,926	$2,116	$2,263
PECO	$815	$895	$926	$989	$1,050
BGE	$828	$942	$983	$1,050	$1,118
Exelon Generation	$2,549	$3,269	$3,133	$3,253	$3,348
Corporate/Other	-$11	$0	$251	$233	$206
Consolidated EBITDA	**$5,865**	**$6,851**	**$7,219**	**$7,640**	**$7,984**

Valuation & Other Metrics	**2014**	**2015**	**2016E**	**2017E**	**2018E**
P/E	15.5x	11.1x	13.6x	13.1x	12.4x
P/E - discount(-)/premium(+) to peer group			-23%	-23%	n/a
P/E - discount(-)/premium(+) to industry			-25%	-24%	n/a
EV/EBITDA	8.9x	6.5x	8.6x	7.8x	7.4x
Price/Book value	1.3x	0.9x	1.0x	1.1x	1.1x
ROE	7.5%	8.2%	7.5%	8.1%	8.7%
ROA	2.1%	2.4%	2.0%	2.1%	2.2%
ROIC	3.9%	4.2%	3.4%	3.5%	3.6%

Capital Structure	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Total Debt (excl. securitized debt)	48.0%	49.1%	54.4%	56.1%	58.7%
Total debt	48.0%	49.1%	54.4%	56.1%	58.7%
Long-term debt	43.1%	45.3%	46.4%	46.5%	47.9%
Short-term debt	4.9%	3.8%	8.0%	9.6%	10.8%
Securitized debt	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred	0.0%	0.0%	0.3%	0.3%	0.3%
Adjusted Equity	52.0%	50.9%	45.3%	43.7%	41.1%

Source: Company data and BMO Capital Markets estimates. Note: 1 Debt includes securitized debt, if any. 2 All figures in $ million except per share.



Source: FactSet, BMO Capital Markets

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Methodology and Risks to Price Target/Valuation

Methodology: Our valuation is based on a combination of our 2017 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and 18x 2017E P/E multiple.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Distribution of Ratings (June 30, 2016)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe
Buy	Outperform	41.8%	18.9%	59.5%	42.5%	56.8%	53.6%
Hold	Market Perform	54.8%	8.8%	36.5%	54.1%	41.1%	40.8%
Sell	Underperform	3.4%	15.8%	4.1%	3.4%	2.2%	5.6%

*	Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis
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Citi Research
Equities

21 Oct 2016 13:44:49 ET | 8 pages

Diversified Utilities
North America | United States

Exelon Corp (EXC)

Alert: IPPs make credible challenge against ZECs. We remain skeptical that ZECs get implemented.

- **IPPs filed lawsuit in the US District Court for the Southern District of New York against ZECs on 10/19.** Some of the key points made are that ZECs intrude with FERC authority, will impact wholesale energy and capacity markets, will reverse retirement decisions and will result in captive retail customers bailing out specific power plants.

- **We agree – ZECs will definitely impact energy and capacity markets.** Keeping around nuclear generation that would otherwise have retired by giving them an out of market payment will clearly negatively impact power markets. We think both energy and capacity prices will be negatively impacted resulting in lower margins and cash flows of all the other market participants.

- **If States start choosing winners and losers, we don't have a functioning power market.** If every state starts choosing certain power plants, fuel types or owners to receive some form of out-of-market payment then power markets become irrelevant and it is time for re-regulation. We think re-regulation is too complicated a path to go down. So the only choice for regulators is to hold on to the integrity of power markets and the only way to do that is to not allow any such individual state-sponsored bailout programs, in our view. That is why we think the ZECs will not be implemented and aren't a part of our base case valuation or TP.

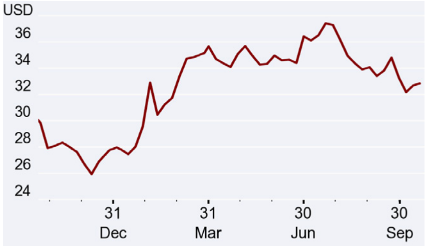
- **Whether nuclear is needed to meet environmental goals is not the right question.** The right question is who has authority to regulate wholesale power markets and that authority clearly rests with the FERC, in our view.

- **Is a federal nuclear bailout coming?** We don't see a federal carbon program on the horizon. While we expect Hilary Clinton to push renewables supported by natural gas generation, her agenda doesn't indicate explicit support for nuclear. The increasing penetration of renewables, in fact, will likely only make the market for nuclear more challenging given nuclear's high ($30-$35/MWh) cash cost of generation vs. renewables near zero marginal cost of generation.

- **Reiterate our Sell rating for EXC.** We continue to believe EXC's nuclear generation will face further weakening power prices and won't benefit from bailouts. Our rating on EXC is primarily drive by views on ExGen which is 25% of our PT. We value ExGen using a 5.5x terminal 2019 EBITDA multiple in our DCF. This multiple reflects a 15yr economic asset life of its remaining nuclear fleet. We struggle to see many scenarios where EXC's nuclear assets operate at current economics beyond 2034 (i.e. 15yrs after 2019).

Sell	**3**
Price (20 Oct 16)	US$32.84
Target price	US$27.00
Expected share price return	-17.8%
Expected dividend yield	3.9%
Expected total return	**-13.9%**
Market Cap	US$30,307M

Price Performance
(RIC: EXC.N, BB: EXC US)



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Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $6/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $21/share based on a 16x terminal PE multiple. We also add $6/share value provided by PEPCO. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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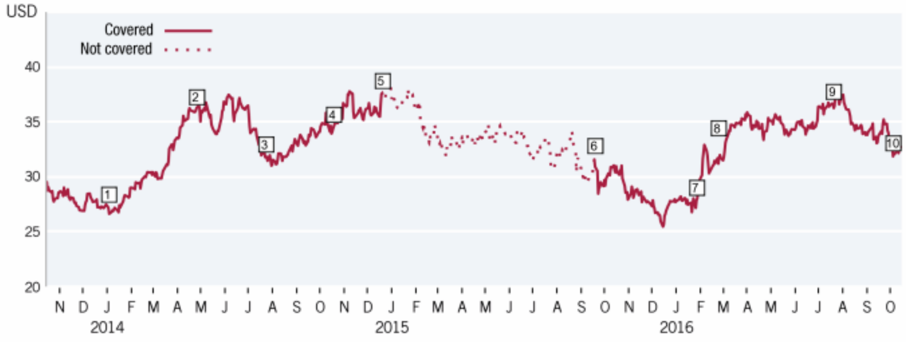
Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	02-Jan-14 21:22:43	*3	*21.00	27.17
2	24-Apr-14 05:02:25	3	*27.00	36.01
3	22-Jul-14 20:24:08	3	*30.00	31.78
4	17-Oct-14 03:01:08	*2	*37.00	34.38

	Date	Rating	Target Price	Closing Price
5	18-Dec-14 16:46:48	Coverage terminated		
6	17-Sep-15 16:01:15	*3	*27.00	31.57
7	26-Jan-16 17:07:46	*2	27.00	27.84
8	22-Feb-16 16:00:00	*3	27.00	31.69

	Date	Rating	Target Price	Closing Price
9	19-Jul-16 23:43:46	3	*29.00	36.58
10	04-Oct-16 03:14:34	3	*27.00	31.86

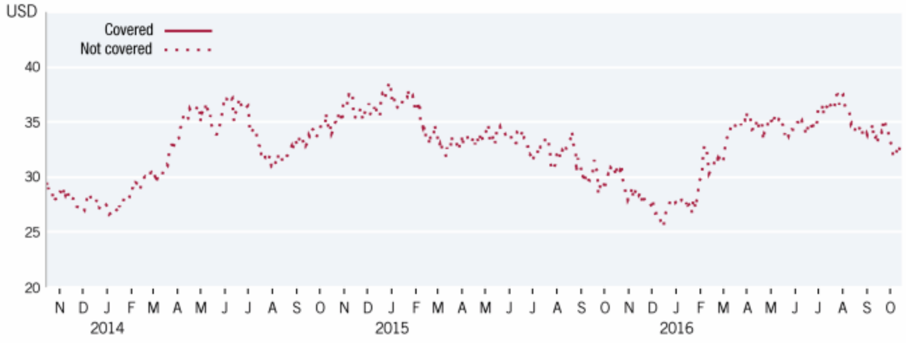
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

Rating/target price changes above reflect Eastern Time

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% of companies in each rating category that are investment banking clients	66%	61%	60%	0%	64%	0%

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Equities

01 Dec 2016 01:09:45 ET | 8 pages

Diversified Utilities
North America | United States

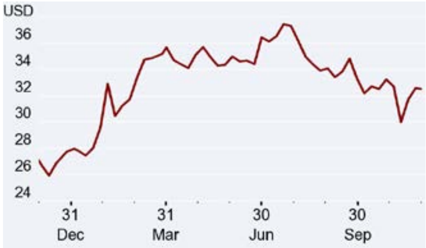
Exelon Corp (EXC)

Alert: This Round Goes to EXC. IL Governor Support on SB 2814 gives EXC the Edge.

Sell	3
Price (30 Nov 16)	US$32.51
Target price	US$29.00
Expected share price return	-10.8%
Expected dividend yield	3.9%
Expected total return	-6.9%
Market Cap	US$30,016M

- **EXC reached agreement with Governor Rauner on SB 2814 – Significant Positive Development.** While the bill does need to go to the House and Senate for a vote on 12/1, the Governor's support is meaningful and, we think, significantly increases the chances of the bill being passed.
- **If the bill is passed, what next?** The Governor then has 60 days to sign the bill and given his support, we think he will likely sign the bill. We do, however, expect legal challenges after it is signed.
- **What are the implications for EXC? Is this a broader mandate to support nuclear generation across the U.S.?** Couple of factors gives us pause. IL is Exelon's home turf and even then it has taken a significant amount of effort to get the bill to this stage. We also heard a number of valid arguments against the bill in the Energy Committee session and believe this type of one-off effort will face opposition in every state. Finally, we expect IPPs like NRG, DYN and CPN to increase their efforts against such bills as it poses a threat to their business.
- **What is the economic impact for EXC?** From a value perspective, the IL bill could add about $1/share to our PT, all else equal. We calculate this value by first estimating the annual impact using the methodology noted in the bill. We then estimate the value by taking the NPV of ~130m/year of post-tax cash flows (~$200m/year pre-tax) over 10 years. Apart from the value impact, the cash flows would help EXC delever ExGen and the parent which is a meaningful benefit.
- **Competitive markets…well they aren't staying competitive anymore…**With individual states choosing winners and losers based on preferred technologies and justifying payments based on 'social cost of carbon' math, competitive markets are starting to break down. While a federal carbon trading program not on the horizon, IPPs unfortunately will continue to face efforts like this in different states.
- **What does this mean for IPPs?** Impact is clearly negative but estimating the full economic impact has a few dimensions:
  - Lower volatility: The business case for gas assets (and some coal assets) in a world with increasing renewables is to benefit from volatility events. If reserve margins are kept artificially high, probability of volatility events clearly reduces.
  - May delay renewable build out, but maybe not? If power prices don't increase with exit of nuclear, renewable developers may not find economics compelling. However, ITC/PTC may be incentive enough.
  - Impact on forward curves: This is the more immediate and obvious impact though it is unclear what is currently built into the forward curves. We will be able to evaluate this impact after the final decision on the bill.
  - Effectively, a decision on this bill could impact both forward EBITDA (based on forward curve impact) as well as the EBITDA multiple (based on the impact on future cash flows and economic asset life of coal and gas assets).

Price Performance
(RIC: EXC.N, BB: EXC US)



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Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $29 target. We value ExGen at $4/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $22/share based on a 17x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	02-Jan-14 21:22:43	*3	*21.00	27.17
2	24-Apr-14 05:02:25	3	*27.00	36.01
3	22-Jul-14 20:24:08	3	*30.00	31.78
4	17-Oct-14 03:01:08	*2	*37.00	34.38
5	18-Dec-14 16:46:48	Coverage terminated		
6	17-Sep-15 16:01:15	*3	*27.00	31.57
7	26-Jan-16 17:07:46	*2	27.00	27.84
8	22-Feb-16 16:00:00	*3	27.00	31.69
9	19-Jul-16 23:43:46	3	*29.00	36.58
10	04-Oct-16 03:14:34	3	*27.00	31.86
11	28-Nov-16 20:37:44	3	*29.00	33.39

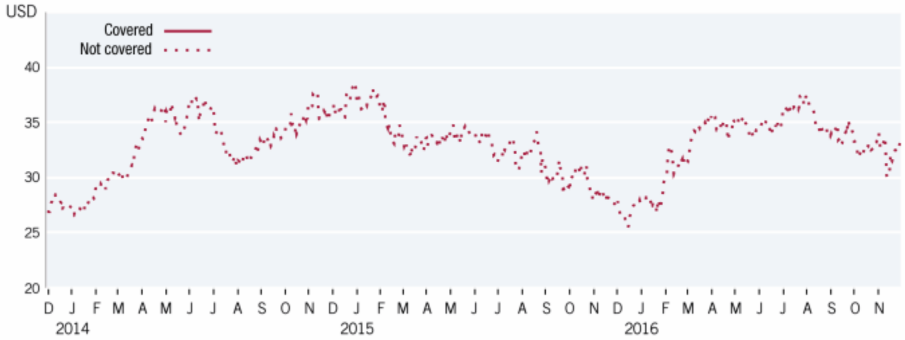
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



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COMPANY NOTE

Estimate Change

USA | Energy | Electric Utilities

August 12, 2016

Jefferies

EQUITY RESEARCH AMERICAS

Exelon (EXC)
Closing The Gap

BUY
Price target $40.00
Price $35.53^

Key Takeaway

EXC hosted an analyst meeting on Wednesday, highlighting the strong 7-9% EPS growth from its regulated utilities driven by rate increases at PHI which should close the under-earning gap. Mgmt believes that the build-out of the regulated business and $8.2B of FCF from ExGen will help narrow the valuation gap that currently exists on the stock. We continue to recommend EXC and view it as an execution story on management's ability to narrow the under-earning gap.

Exelon announced that it entered into an agreement with Entergy to acquire the Fitzpatrick nuclear plant in New York for $110 million. Once the transaction is approved the company estimates that the recently approved Zero Emission Credit (ZEC) will provide $0.08-$0.10 of annual earnings. The ZEC initiative nuclear plants will be paid at an initial two-year rate of $17.48/MWh before increasing to a rate of $29.15/MWh.

The dividend will be supported by the utilities and by the end of the forecast period expect a utility payout ratio of 77%. The company has affirmed its 2.5% dividend growth rate through 2018 and if that rate continues through 2020 Exelon's regulated utilities will have a payout ratio of 77%.

The company highlighted the strong 7-9% EPS growth through 2020 at the regulated utilities (including $0.15 of Parent losses) which are driven by rate increases at PHI. At PHI the company plans to file 6 distribution rate case filing and 3 transmission formula rate filings seeking $465 million of revenue increases. By 2020 EXC is forecasting earnings at Utility, Parent, and Other of $1.70-$2.00.

ExGen will be a cash machine generating $8.2 billion of free cash flow through 2020. Management highlighted the benefit of its large retail supply business that creates a natural hedge for its generating plants.

Valuation/Risks

Our $40.00 price target is based on P/E analysis. Taking our 2017 EPS estimate of $2.70 in conjunction with a P/E group average multiple of 14.8x results in a price target of $40.00. Based on yesterday's closing price of $34.81, this would result in a 12-month price appreciation potential of 14.9% and total return potential of 18.6% including the current yield of 3.7%. **Risks** –Risks include exposure to change in the commodity price for electricity associated with Exelon's merchant generation business, and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	**2015A**	*Prev.*	**2016E**	*Prev.*	**2017E**	*Prev.*	
Cons. EPS Diluted	--	2.51	*2.53*	2.54	--	2.64	--	--
EPS								
Mar	--	0.71	--	0.68A	--	--	--	--
Jun	--	0.59	*0.55*	0.65A	--	--	--	--
Sep	--	0.83	*0.85*	0.75	--	--	--	--
Dec	--	0.38	--	0.40	--	--	--	--
FY Dec	--	2.51	--	2.50	--	2.70	--	--
FY P/E		14.2x		14.2x		13.2x		

Financial Summary	
Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	3.7%

Market Data	
52 Week Range:	$37.70 - $25.09
Total Entprs. Value (MM):	$46,929.8
Market Cap. (MM):	$32,900.8
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	926.0
Float (MM):	920.1
Avg. Daily Vol.:	4,922,643

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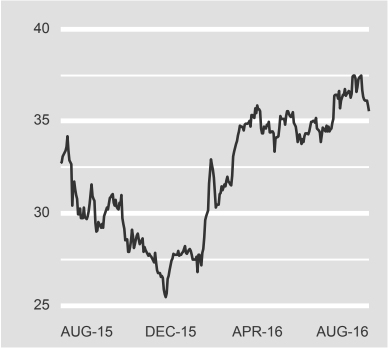
Price Performance



^Prior trading day's closing price unless otherwise noted.

Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation.

Exelon operating EPS was $0.65 on a diluted basis, versus $0.59 for the same period a year ago, our estimate of $0.55, and Consensus of $0.56. The year-over-year improvement was driven by increased earnings at the regulated utilities offset by a slight decline at ExGen.

Exelon announced that it entered into an agreement with Entergy (ETR - $79.27; Hold) to acquire the Fitzpatrick nuclear plant in New York for $110 million. Once the transaction is approved the company estimates that the recently approved Zero Emission Credit (ZEC) will provide $0.08-$0.10 of annual earnings. The program spans from April 2017 to March 2029 and is split between six tranches. The ZEC initiative nuclear plants will be paid at an initial two-year rate of $17.48/MWh before increasing to a rate of $29.15/MWh.

Exelon's robust 7-9% EPS growth at the utility also includes $0.15/yr of Parent expenses.

The company highlighted the strong 7-9% EPS growth through 2020 at the regulated utilities (including $0.15 of Parent losses) which are driven by rate increases at PHI. At PHI the company plans to file 6 distribution rate case filing and 3 transmission formula rate filings seeking $465 million of revenue increases. The PHI utilities are currently earning an ROE between 4.75% and 7.4% and management believes that by 2020 all the companies should be earning within 100 bps of their allowed return. By 2020 Exelon is forecasting earnings at Utility, Parent, and Other of $1.70-$2.00.

Exelon is forecasting rate base growth of 6.1% through 2020. Management laid out its rate base growth forecast through 2020 and expects to grow rate base from current levels of $32.0 billion to $40.6 billion. 70% of the growth will come from investment that will be recovered via a tracker mechanism.

The dividend will be supported by the utilities and by the end of the forecast period expect a utility payout ratio of 77%. The company has affirmed its 2.5% dividend growth rate through 2018 and if that rate continues through 2020 Exelon's regulated utilities will have a payout ratio of 77%. This compares to a utility group average of 63%.

Exelon Generation will be a cash machine generating $8.2 billion of free cash flow through 2020. Management highlighted the benefit of its large retail supply business that creates a natural hedge for its generating plants. The company is forecasting $2.3 billion of growth CAPEX at ExGen and the remainder of the free cash flow will go to fund utility investment ($2.7-$3.2B) and ExGen debt reduction ($2.7-$3.2B). Excluded from this forecast is the NY ZEC program that would provide an incremental $750 million of free cash flow.

Exelon affirmed its 2016 earnings guidance of $2.40-$2.70 (Street at $2.54) and 3Q16 guidance of $0.65-$0.75. Sector guidance is $1.20-$1.30 ExGen, $0.50-$0.60 ComEd, $0.40-$0.50 PECO , $0.25-$0.35 from BGE and $0.10-$0.20 for PHI.

2Q16 operating EPS excludes $0.36 of non-recurring items as follows: a $0.20 market to market loss associated with the impact of economic hedging activities, a $0.14 charge due to the retirement and divestiture of the Clinton and Quad Cities nuclear power plants, a $0.03 gain associated with nuclear decommission trust, a $0.01 loss associated with the amortization of commodity contract intangibles, a $0.02 loss from an asset impairment, a $0.01 charge related to a cost management program, and a $0.01 loss due to CENG non-controlling interest. 2Q15 earnings exclude $0.15 of non-recurring gains primarily associated with mark-to-market gains.

Commonwealth Edison (CWE) earnings improved by $0.04 to $0.16 on a year-over-year comparison. Increased capital investment and favorable weather was slightly offset by a decline in ROE. Gross margin increased 8.6% to $948 million reflecting increased electric distribution earnings from the impact of greater capital investment. Retail sales decreased 4.3%, or 0.2% on a weather-adjusted projection, during the quarter due to beneficial weather. Heating degree days were up 10.1% relative to the same period last year and 1.3% below normal. Cooling degree days increased 69.6% versus 2Q15 and were up 33% versus normal. The Company estimates the beneficial impact of weather relative to last year to be $0.02.

Operating income increased 32.1% to $325 million due to greater gross margin reflecting the impact of increased capital investment. Operating and maintenance expense declined 3.0% to $368 million which was more than offset by a 7.3% to $190 million increase in depreciation expense due to greater net plant. Earnings increased 44.6% to $146 million driven primarily by higher operating income, offset by higher interest expense. The effective tax rate for the quarter was 38.4% versus 40.6% last year.

PECO earnings increased by $0.03 to $0.11 due to new electric rates. The principal driver for the year-over-year change was new electric rates which contributed $0.02 to the quarterly improvement. Gross margin grew by 5.4% to $447 million due to new electric rates at PECO. Electric sales versus 2Q15 declined 1.9% or increased 0.3% on a weather adjusted basis. Gas sales grew by 8.9% as compared to 2Q15 but were down 1.5% on a weather-adjusted basis. Heating degree days were up 42.1% versus the same period a year ago but in-line relative to normal. Cooling degree days were down 23.8% versus 2Q15 but up 12.4% relative to normal. Operating Income improved by 23.2% to $154 million due to greater gross margin. Operating and maintenance expense fell 1.6% to $188 million and depreciation expense declined by 2.9% to $67 million. Earnings increased by 42.3% to $101 million due to greater operating income and a tax adjustment related to an anticipated gas repairs tax return accounting method change. The effective tax rate during the quarter was 19.2% versus 27.6% last year.

BGE earnings declined by $0.02 to $0.03 during the quarter. The principal drivers of the year-over-year change were impairment charges resulting from certain disallowances in the June and July rate case orders. Gross margin grew by 7.7% to $419 million based on higher rates.

Operating income decreased 45.5% to $55 million reflecting increased O&M expense. Operating and maintenance expense increased 44.2% to $212 million reflecting the disallowances associated with BGE's smart grid initiative from the utility's rate case. Earnings declined 35.6% to $29 million due to lower operating margin. The effective tax rate during the quarter was 12.1% versus 42.3% last year.

PHI earnings added $0.06 to the quarterly improvement with no contribution in 2015. The company closed on the PHI transaction earlier this year and is guiding to 2016 EPS contribution of $0.10-$0.20.

Earnings at Exelon Generation decreased $0.01 to $0.35 during the quarter mainly due to an extended outage at Salem. Gross margin improved by 8.1% to $2,337 million which was driven by increased RNF due to the approval of the Ginna Reliability Support services Agreement. Partly offsetting the improvement in gross margin were lower energy prices. Nuclear generation decreased 3.1% to 42.453 million MMh with NY nuclear production declining 10.8% and Mid-Atlantic/Mid-West output decreasing 2.2%. Operating income increased 18.0% to $569 million driven by greater gross margin offset by higher O&M expense. O&M expense increased 4.2% to $1,356 million due to the timing and extended duration at the Salem nuclear power plant. Management estimates the Salem outage negatively impacted earnings by $0.05. Deprecation expense grew by 15.3% to $294 million due to increased nuclear decommissioning amortization. Net income rose by 6.1% to $328 million driven by greater operating income partially offset by lower Other income. Other income declined by 70.8% due to lower realized NDT gains. Dilution impacted the quarter by $0.03.

The company's Other business segment declined by $0.04 to a loss of ($0.06).

We are maintaining our 2016 and 2017 EPS estimates of $2.50, and $2.70 respectively.

Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2014A	2015A	2016E	2017E
PECO	$641	$669	$754	$842
CWE	1,057	1,105	1,216	1,338
BGE	440	530	602	653
PEPCO			428	449
DPL			229	245
ACE			169	184
Adjustment		80		
Energy Delivery	**2,137**	**2,383**	**3,397**	**3,710**
Genco	1,964	1,725	1,780	1,911
Corporate	(8)	(8)	(8)	(8)
PEPCO Holding Company			35	35
Earnings on Cash	3	30	1	(6)
Reconcile	0	230	(20)	(80)
EBIT	**$4,097**	**$4,361**	**$5,185**	**$5,562**
EBITDA	$5,736	$5,425	$7,050	$7,839
MIPS Obligation	0	0	0	0
Capitalized Interest	0	0	0	0
Long-Term Interest Expense		(1,096)	(1,522)	(1,539)
Total Interest & P/S				
Income Before Taxes	**$3,101**	**$3,265**	**$3,663**	**$4,023**
Income Taxes	(1,082)	(1,138)	(1,406)	(1,540)
Synfuel PTC	0	0	0	0
Minority Interest/preferred	(7)	(7)	(7)	(7)
Wind PTC	50	50	51	52
Net Income	**$2,061**	**$2,171**	**$2,300**	**$2,527**
Preferred Dividends				
Earnings for Common	**$2,061**	**$2,171**	**$2,300**	**$2,527**
Non-Recurring Items				
Merger Cost to Achieve	0	0	0	0
Total Non-Recurring	0	0	0	0
Reported Earnings	2,061	2,171	2,300	2,527
Earnings Per Share	**$2.39**	**$2.51**	**$2.50**	**$2.70**

Source: Jefferies estimates, company data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 18:04 ET. August 11, 2016
Recommendation Distributed	, 00:00 ET. August 12, 2016

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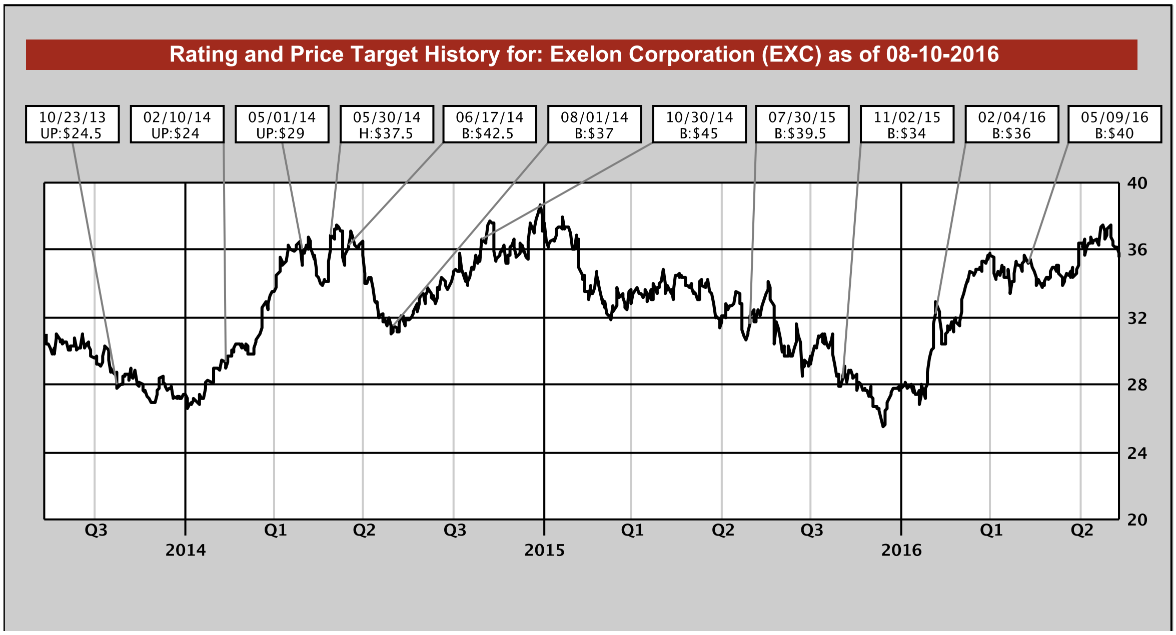
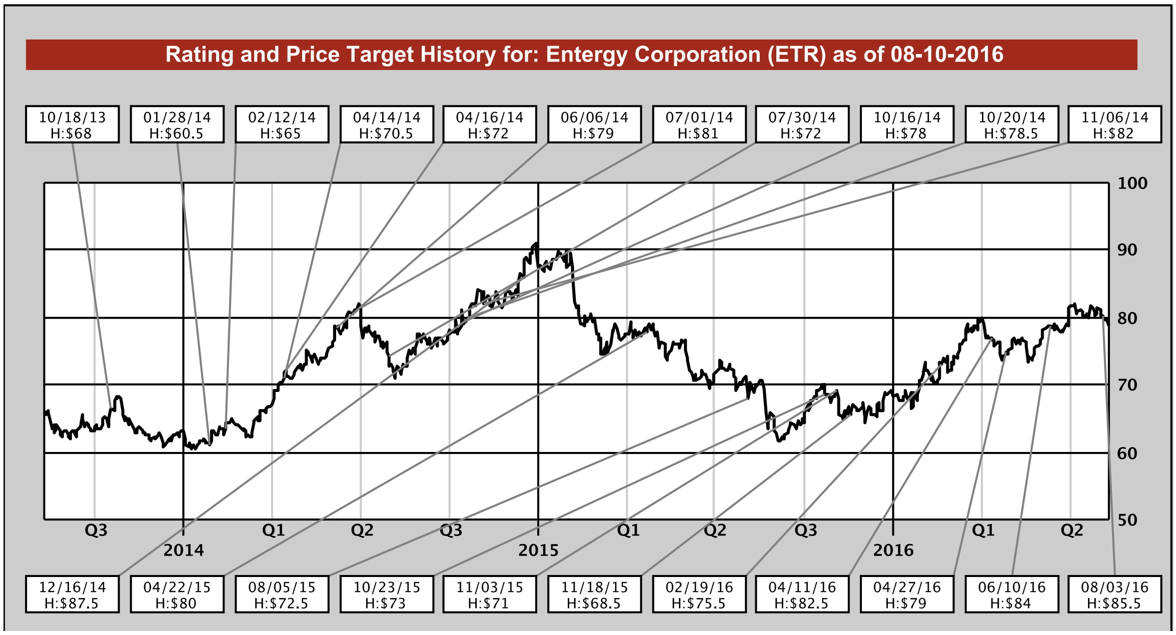
Other Companies Mentioned in This Report

- Entergy Corporation (ETR: $78.80, HOLD)
- Exelon Corporation (EXC: $35.53, BUY)



Rating and Price Target History for: Exelon Corporation (EXC) as of 08-10-2016



Rating and Price Target History for: Entergy Corporation (ETR) as of 08-10-2016

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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1129	51.84%	320	28.34%
HOLD	872	40.04%	175	20.07%
UNDERPERFORM	177	8.13%	19	10.73%

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RBC Capital Markets

October 24, 2016

Company: Exelon Corporation, EXC - Analyst Shelby Tucker, Currency: USD, Price Target: 38.00, Rating: Outperform

FY Dec	**2015A**	**2016E**	**2017E**	**2018E**
EPS, Adj Diluted	2.49	2.60	2.72	2.91
Prev.			2.76	3.03
P/AEPS	13.1x	12.5x	11.9x	11.2x
DPS	1.24	1.26	1.29	1.32
Div Yield	3.8%	3.9%	4.0%	4.1%

EPS, Adj Diluted	**Q1**	**Q2**	**Q3**	**Q4**
2015	0.71A	0.59A	0.83A	0.38A
2016	0.68A	0.65A	0.84E	

RBC Capital Markets

August 15, 2016

Company: Exelon Corporation, EXC - Analyst Shelby Tucker, Currency: USD, Price Target: 41.00, Rating: Outperform

FY Dec	**2015A**	**2016E**	**2017E**	**2018E**
EPS, adjusted	2.49	2.60	2.76	3.03
prev.		2.52	2.63	2.87
P/E	13.9x	13.3x	12.5x	11.4x
DPS	1.24	1.26	1.29	1.32
Dividend yield	3.6%	3.7%	3.7%	3.8%

EPS, adjusted	**Q1**	**Q2**	**Q3**	**Q4**
2015	0.71A	0.59A	0.83A	0.38A
2016	0.68A	0.65A		
Prev.				

September 20, 2016

Company: Exelon Corporation, EXC - Analyst Shelby Tucker, Currency: USD, Price Target: 41.00, Rating: Outperform

FY Dec	2015A	2016E	2017E	2018E
EPS, Adj Diluted	2.49	2.60	2.76	3.03
P/AEPS	13.7x	13.1x	12.4x	11.3x
DPS	1.24	1.26	1.29	1.32
Div Yield	3.6%	3.7%	3.8%	3.9%

EPS, Adj Diluted	**Q1**	**Q2**	**Q3**	**Q4**
2015	0.71A	0.59A	0.83A	0.38A
2016	0.68A	0.65A		

July 15, 2016

Company: Exelon Corporation, EXC - Analyst Shelby Tucker, Currency: USD, Price Target: 40.00, Rating: Outperform

FY Dec	**2015A**	**2016E**	**2017E**	**2018E**
EPS, adjusted	2.49	2.52	2.63	2.87
prev.			2.65	
P/E	14.8x	14.6x	14.0x	12.8x
DPS	1.24	1.26	1.29	1.32
Dividend yield	3.4%	3.4%	3.5%	3.6%

EPS, adjusted	**Q1**	**Q2**	**Q3**	**Q4**
2015	0.71A	0.59A	0.83A	0.38A
2016	0.68A			

EVERCORE ISI

Energy | Power & Utilities

December 15, 2016

EXELON CORP.

EXC | $35.73

BUY | TARGET PRICE: $39.00

Change in Price Target

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Company Statistics

Market Capitalization (M):	$29,702
Shares Outstanding (M):	923
Dividend:	$1.26
Dividend Yield:	3.5%
Payout Ratio:	47.7%
Expected Total Return:	12.7%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	**$2.65**	**$2.60**	**$2.80**
P/E	**13.5x**	**13.7x**	**12.8x**
EPS vs Consensus	**(0.8)%**	**(0.2)%**	**0.9%**
Consensus EPS	**$2.67**	**$2.61**	**$2.78**
Consensus P/E	**13.4x**	**13.7x**	**12.9x**

EVRISI Sum Of The Parts Valuation

Share Price	$	35.73
2019 EPS: Utility - parent	$	1.85
P/E Multiple		15.8x
Utility Value	$	29.14
ExGen Implied Equity Value (per share)	$	6.59
ExGen 2019 Net Debt (mm)	$	8,032
ExGen 2019 Enterprise Value*	$	14,407
ExGen 2019 EBITDA**	$	2,700
ExGen 2019 EV/EBITDA		5.3x
ExGen 2019 Net Debt/EBITDA		3.0x

*967m EXC shares outstanding 2019
**12/7/16 forward curves

EVRISI EPS Forecasts

	2017	2018	2019
ComEd	0.57	0.59	0.67
PECO	0.42	0.43	0.46
BGE	0.33	0.37	0.39
POM	0.39	0.46	0.51
Regulated EPS	**1.71**	**1.85**	**2.02**
ExGen EPS	**1.04**	**1.10**	**0.97**
Parent / Other	**-0.15**	**-0.15**	**-0.14**
Consolidated EPS	**2.60**	**2.80**	**2.85**
Dividend	1.30	1.33	1.33
Payout Ratio	50%	48%	47%

Despite Strong YTD Performance Stock Still Has Some Upside; Rolling Out 2019 EPS Forecast

Rating Buy, Trimming Target to $39 from $40

We are rolling out our 2019 EPS forecast of $2.85. Our '16-'19 EPS forecast is now $2.65 / $2.60 / $2.80 / $2.85 vs. our prior forecast of $2.65 / $2.65 / $2.85 for '16-18. Our forecast is based on 12/7/16 forward power curves and incorporates the net benefit of continued operation of Clinton and Quad Cities following the approval of the ZES in Illinois. Our 2019 forecast is based on EPS of ~$1.85/share at the "utility-parent", up $0.15 or +/-8.5% (near the high end of their guidance) and $0.97/share at ExGen down +/-12% (falling from $1.10 for FY'18). We continue to view the assumptions EXC management outlined at their 8/10/16 analyst day regarding earnings growth drivers in its core utilities business and Exelon Generation (ExGen) as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals as wholly credible. The core utilities are forecast to grow rate base at 6% from '16-20, with earnings growth of 7-9% due to the assumption of improved earned ROE's at recently acquired POM. With the ACE rate case recently settled, rate cases pending at most of the PHI companies and the ability to harvest operating synergies we see a turnaround similar to the one EXC engineered at BGE after the CEG acquisition as feasible. So, there is line of sight for EPS at EXC's utilities (ex-parent overheads) growing from $1.38 in FY '16 to $1.85+ in 2020, consistent with our prior expectations, that has been modestly bolstered by the capital expenditures authorized in the recently passed IL Energy Future Jobs Bill. From a cash flow perspective we now see ExGen producing ~$4.9bn of free cash flow through FY'19, ~78% of the $6.3bn they are targeting through 2020 ($5.2bn base case plus $1.1bn at ExGen and repayment of a loan to their nuke JV partner EDF), with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. They are committed to 2.5% dividend growth through 2018 but are confident the financial profile supports at least that level of growth through 2020.That profile has been also been improved by the above mentioned IL legislation, offset by somewhat softer power forward curves. There are also the pending sales of the Mystic plant in ISO-NE and a 49% stake in its renewables JV, which we think could add as much as $1.9bn in cash to amortize debt if executed (by our estimate $1.25-1.5bn from Mystic, $300-400mm from the renewables sale). There would be a near-term reduction to EBITDA with those sales—especially at Mystic— but it appears front-loaded and we believe the sale prices for both portfolios will be well in excess of the implied EV/EBITDA multiple of 5.3X '19 at which ExGen is currently trading.

Trimming our price target to $39 from $40, maintaining BUY rating. Our forecast for utility EPS contribution minus parent overheads (+/-$0.15) is $1.38/share which by 2019 we expect to be ~$1.85 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to in excess of >$1.85/share. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth ~$29/share (15.75X ’19 EPS, a somewhat conservative multiple in our view). That implies ExGen is worth only ~ $6.60/share today, which is around 6.8X ’19 EPS or 5.3X ’19 EV/EBITDA and a levered free cash flow yield to EV of 13% with debt/EBITDA at YE ’19 of ~3.0X. They are taking all the cash flow from that lower multiple part of the business and either returning it to shareholders or investing in the higher multiple utility business. Overall, EXC is trading at +/-12.5X FY ’19 earnings while pure regulated names are at +/-15.5X. The EXC dividend yield is now in line with the regulated peer group at ~3.5%. While the dividend growth commitment of 2.5% annually through at least 2018 is lower than that articulated by purely regulated peers we think that the overall valuation gap, given our view of the value of the businesses and capital allocation plan, still remains too high. We have not factored into our forecast or valuation the positive benefit to EPS at ComEd from a higher earned ROE if interest rates continue to rise or lower pension costs at ExGen from a higher discount rate. We also don’t include the modest EPS benefit in ’19 and beyond vs. current forecast assumptions from a lower FIT rate at ExGen. From an absolute and relative perspective EXC is a winner vs most of the utility peer group in a “post Trump” scenario with higher interest rates and lower tax rates (see our recent note on tax issues here for more details) and investors retain a call option on Trump pro-nuclear energy policy and/or upside to economic growth from Federal economic stimulus.

What’s next? EXC has not provided a specific timetable on when the sale of the Mystic facility in ISO-NE, or the ~50% stake in its renewables JV, might close but we think a sales price for both could be forthcoming in Q1 ’17. The purchase of Fitzpatrick from EXC is expected to close before 4/1/17, after NRC approval in Q1’17. EXC will appeal the IRS’ assessed tax penalty for the 1999 gain on sale of fossil assets from ComEd in Q1’17, which could result in a refund of ~$200mm. A decision in DPL’s electric distribution rate case in MD (in which they are requesting $57.0mm based on a 10.60% ROE) is expected by 2/17/17. A decision in Pepco’s electric distribution rate case in DC (in which they are requesting an $82.1mm increase premised on 10.60% ROE) is expected by 7/25/17. A decision in Delmarva’s pending electric and gas distribution rate cases (in which they are requesting $84mm in aggregate based on a 10.60% ROE) is expected in Q3’17.

On 12/7/16, Governor Rauner signed the Energy Future Jobs Bill into law after it was pushed through both the House and Senate during the veto session earlier this month. Amongst other items, the main provisions of the bill provide up to $235mm in annual revenues that will keep ExGen’s Clinton and Quad Cities nuclear plants online through at least 5/31/27, while a robust energy efficiency implementation program will permit $400mm in annual spend at the ComEd utility. The nuclear plant revenues will be +/-$0.15/share accretive to EPS vs. the run-rate $0.07/share benefit ExGen would have realized were the plants instead retired on 6/1/17 and 6/1/18 as otherwise planned, while the latter adds $0.01/share to annual EPS earnings power, totaling $0.04 of EPS accretion by 2020. In sum, these provisions of the bill are worth $2.50/share to our valuation.

PJM’s preliminary load forecast is a headwind for the next capacity auction in May 2017 but we still expect pricing for the ’20 / ’21 delivery year to be supported by the move to 100% CP. The projected RTO peak load of 153,684 MW released on 12/14/16 is 3,272 MW lower (-2%) than the 156,956 MW of expected demand going into last year’s ’19 / ’20 auction In addition based on what cleared the last auction we have 5,530 MW of new supply in the form of generating capacity and uprates. On the flip side of the coin, offsets may include the loss of ~4,200 MW of DR in the transition to 100% capacity performance and ~16,800 MW of generation capacity that cleared as the base product. Additionally, for disciplined bidders at the margin both (a) the decline in energy market revenues in FY’16 and (b) rising financing costs with higher interest rates, incremental investments by generators, incremental cost allocation associated with potential non-performance penalties for those going from base to CP, and the lack of bonus depreciation should all be supportive of offer prices. EXC’s PJM generation is mostly located in EMAAC and ComEd.

ExGen’s ZES revenues in IL offer meaningful YoY earnings downside protection if ComEd capacity prices decline significantly in the upcoming PJM ’20/’21 BRA. And we do not believe such an outcome is likely. We have looked at possible clearing outcomes for EXC’s aggregate ~10,200 MW of nuclear capacity in the ComEd zone (Braidwood, Byron, Dresden, LaSalle, and Quad Cities) which priced at a premium in the last auction. For context, in the past year’s BRA for ’19/’20 delivery, Braidwood, Dresden, and LaSalle cleared 100% of their available UCAP (6,466 MW), while Byron cleared ~20% of its available 2,347 MW UCAP (459 MW), all at the CP product clearing price of $202.77/MW-d, bringing in $513mm in revenue. Quad Cities did not clear. In the attached *Exhibit 1*, we looked at a bull and bear case for the upcoming auction – in which we conservatively assume Quad Cities now offers in as a price taker under both scenarios but with different price outcomes (ComEd breaking out at last year’s price of $202.77/MW-d vs. collapsing to an assumed RTO price of $100/MW-d, equal to last year). We also assume different clearing outcomes on the part of Byron (clearing partially as per last year vs. not clearing). To be clear, we think the bear case in which prices at ComEd converge to last year's RTO price is highly unlikely because (a) even though the updated RTO peak load dropped by >3,000 MW, the ComEd peak load only dropped by 266 MW YoY, and so should still break out barring a sizable improvement in capacity deliverability to that LDA, and (b) even in such a case, were there convergence it would likely be at an RTO price marginally higher than '19/'20 given it would lead to selection of a more costly unit on the stack all things equal, on top of the move to 100% CP. On the other hand, our bull case assumption that Byron continues to clear 20% may be slightly aggressive given the addition of Quad Cities to the bottom of the stack. But you can see in Exhibit 1 that would only be a reduction of $33mm. So for EXC the risk/reward for the next PJM capacity auction looks pretty favorable if you think about the ZES revenue as a hedge.

Exhibit 1

Clearing Outcomes for EXC Nuclear Assets in ComEd in ’20 / ‘21 PJM BRA

’19 / ’20 BRA Actuals (ComEd @ $202.77/MW-d)

Byron partially cleared, Quad Cities did not clear.

Plant	UCAP Available (MW)	UCAP Cleared	UCAP Sold (MW)	Revenue ($)
Braidwood	2,349	100%	2,349	$ 173,851,956
Byron	2,347	**20%**	459	$ 33,971,072
Dresden	1,790	100%	1,790	$ 132,479,780
LaSalle	2,327	100%	2,327	$ 172,223,713
Quad Cities	1,403	**0%**	0	$ -
			ComEd Capacity Revenue:	**$ 512,526,521**

’20 / ’21 BRA Bear Case (ComEd @ ‘19/’20 RTO Price of $100/MW-d)

ComEd fails to break out, collapses to ’19 / ’20 RTO price. Quad Cities now clears, but Byron does not.

Plant	UCAP Available (MW)	UCAP Cleared	UCAP Sold (MW)	Revenue ($)
Braidwood	2,349	100%	2,349	$ 85,738,500
Byron	2,347	**0%**	0	$ -
Dresden	1,790	100%	1,790	$ 65,335,000
LaSalle	2,327	100%	2,327	$ 84,935,500
Quad Cities	1,403	**100%**	1,403	$ 51,209,500
			ComEd Capacity Revenue:	$ 287,218,500
			w/ ZES Revenues:	**$ 522,218,500**

’20 / ’21 BRA Bull Case (ComEd @ ‘19/’20 ComEd Price of $202.77/MW-d)

ComEd breaks out again at ’19 / ’20 ComEd price. Quad Cities now clears, Byron clears partially again.

Plant	UCAP Available (MW)	UCAP Cleared	UCAP Sold (MW)	Revenue ($)
Braidwood	2,349	100%	2,349	$ 173,851,956
Byron	2,347	**20%**	459	$ 33,971,072
Dresden	1,790	100%	1,790	$ 132,479,780
LaSalle	2,327	100%	2,327	$ 172,223,713
Quad Cities	1,403	**100%**	1,403	$ 103,837,503
			ComEd Capacity Revenue:	$ 616,364,024
			w/ ZES Revenues:	**$ 851,364,024**

Source: Evercore ISI Research

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions would be accretive but a significantly lower PJM capacity auction price would be negative.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-12-15)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$51.10	$52.50
AEP	American Electric Power	Hold	$62.11	$66.50
CPN	Calpine Corp.	Buy	$11.50	$16.00
CNP	CenterPoint Energy, Inc.	Hold	$24.31	$24.50
CMS	CMS Energy Corp.	Hold	$40.90	$42.50
ED	Consolidated Edison Inc.	Hold	$71.75	$76.00
D	Dominion Resources Inc.	Coverage Suspended	$74.57	$NA
DTE	DTE Energy Co.	Hold	$96.69	$95.00
DUK	Duke Energy Corp.	Hold	$76.03	$80.00
DYN	Dynegy Inc.	Buy	$8.41	$15.00
EIX	Edison International	Hold	$70.19	$76.00
ETR	Entergy Corp.	Hold	$72.39	$72.00
ES	Eversource Energy	Hold	$53.68	$56.00
EXC	Exelon Corp.	Buy	$35.73	$40.00
FE	FirstEnergy Corp.	Buy	$31.32	$35.50
HE	Hawaiian Electric Industries Inc.	Hold	$32.98	$31.00
HIFR	InfraREIT, Inc.	Buy	$17.36	$19.00
NEE	NextEra Energy Inc	Buy	$117.03	$137.00
NI	NiSource Inc	Hold	$22.01	$22.00
NRG	NRG Energy Inc.	Buy	$12.58	$16.00
NYLD	NRG Yield, Inc.	Buy	$15.70	$20.00
PCG	PG&E Corp.	Buy	$60.01	$65.50
PNW	Pinnacle West Capital Corp.	Hold	$75.85	$77.00
PPL	PPL Corp.	Hold	$34.15	$34.00
PEG	Public Service Enterprise Group	Hold	$42.95	$44.00
SRE	Sempra Energy	Buy	$100.77	$115.00
SO	Southern Co.	Hold	$48.46	$52.00
AES	The AES Corporation	Buy	$11.80	$12.25
WEC	WEC Energy Group, Inc.	Hold	$57.14	$62.00
WR	Westar Energy Inc.	Hold	$57.23	$58.50
XEL	Xcel Energy Inc.	Hold	$40.22	$41.50

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: December 15, 2016, 17:43 ET.

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Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
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* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

Historical Ratings Definitions

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%

Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 12/15/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	335	51%
Hold	275	42%
Sell	23	4%
Coverage Suspended	15	2%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

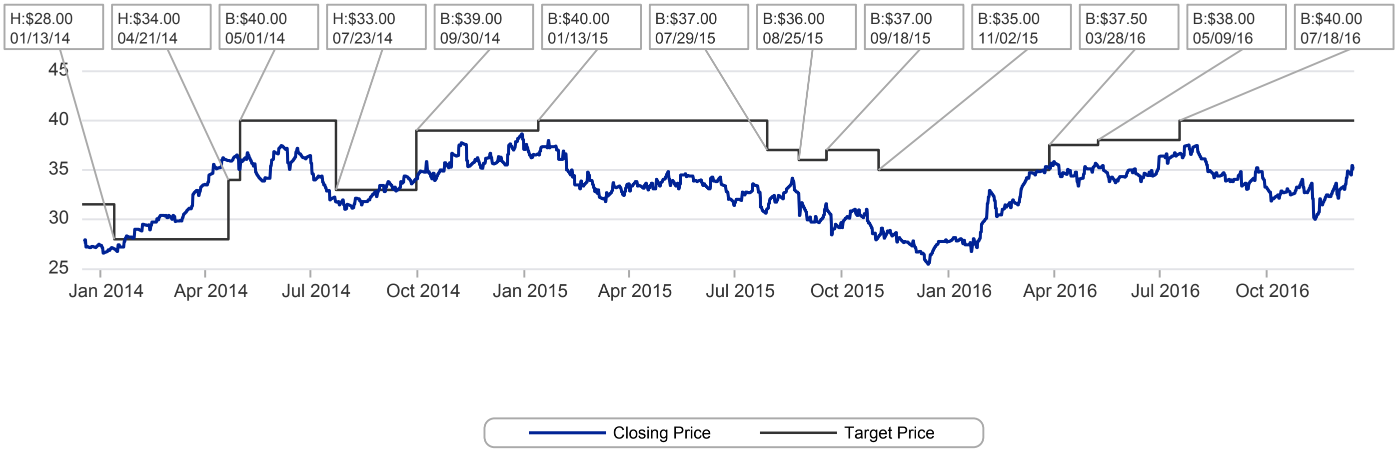
Rating	Count	Pct.
Buy	49	15%
Hold	17	6%
Sell	1	4%
Coverage Suspended	2	13%
Rating Suspended	1	12%

Issuer-Specific Disclosures (as of December 15, 2016)

Price Charts

Exelon Corp. Rating History as of 12/14/2016

powered by: BlueMatrix



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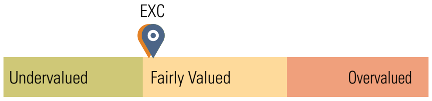
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 11 Nov 2016 06:00, UTC	30.00 USD 11 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.00	4.21 11 Nov 2016	4.24 11 Nov 2016	27.70 11 Nov 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.96	0.88	0.96	0.96
Price/Earnings	22.7	15.4	16.0	21.1
Forward P/E	11.8	—	15.7	15.8
Price/Cash Flow	3.0	5.1	5.8	12.0
Price/Free Cash Flow	36.7	74.7	12.0	18.0
Trailing Dividend Yield%	4.21	4.65	3.60	1.97

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

Investment Thesis

Travis Miller, Sector Director, 24 March 2016

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Travis Miller, Sector Director, 14 November 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 11 Nov 2016 06:00, UTC	30.00 USD 11 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.00	4.21 11 Nov 2016	4.24 11 Nov 2016	27.70 11 Nov 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	20,018	9,249	24.68	15.58
FirstEnergy Corp FE	USD	13,462	14,728	6.10	0.00
Entergy Corp ETR	USD	12,075	10,706	13.62	9.43

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to

$2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 13 April 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

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★★★ 11 Nov 2016 06:00, UTC	30.00 USD 11 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.00	4.21 11 Nov 2016	4.24 11 Nov 2016	27.70 11 Nov 2016	Utilities - Diversified	Standard

Analyst Notes Archive

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

Andrew Bischof, CFA, Eq. Analyst, 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real

Travis Miller, Sector Director, 02 June 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

Travis Miller, Sector Director, 09 August 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Regulated Utilities Continue Driving Growth for Exelon

Travis Miller, Sector Director, 26 October 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Travis Miller, Sector Director, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities

Travis Miller, Sector Director, 09 November 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

Travis Miller, Sector Director, 14 November 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Exelon Corp EXC ★★★Q 14 Nov 2016 02:00 UTC

Last Close	Fair ValueQ	Market Cap	Sector	Industry	Country of Domicile
14 Nov 2016 30.77	14 Nov 2016 02:00 UTC 31.12	14 Nov 2016 27,698.1 Mil	Utilities	Utilities - Diversified	USA United States

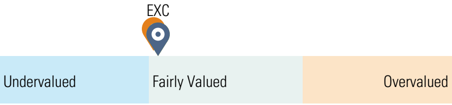
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	77	73	72
Valuation	Fairly Valued	48	48	54
Quantitative Uncertainty	Medium	98	92	96
Financial Health	Moderate	60	54	60



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.96	0.88	0.96	0.96
Price/Earnings	22.7	15.4	16.0	21.1
Forward P/E	11.8	—	15.7	15.8
Price/Cash Flow	3.0	5.1	5.8	12.0
Price/Free Cash Flow	36.7	74.7	12.0	18.0
Trailing Dividend Yield %	4.21	4.65	3.60	1.97
Price/Book	1.1	1.5	1.3	2.4
Price/Sales	0.9	1.2	1.4	2.0

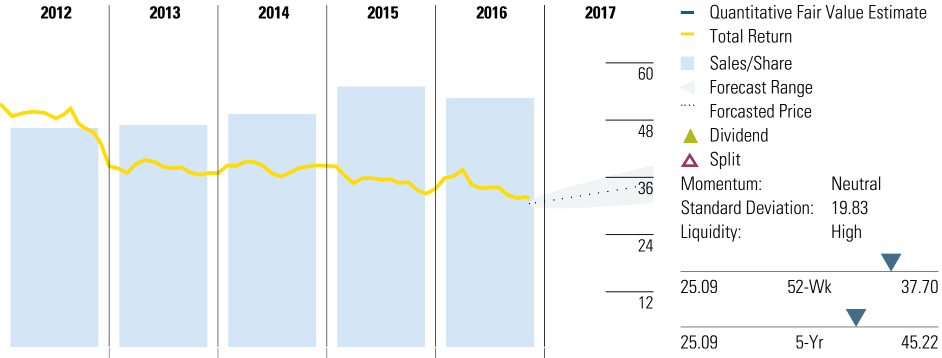
Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.8	9.7	9.2	11.9
Return on Assets %	1.2	2.6	3.2	4.6
Revenue/Employee (Mil)	1.0	1.0	1.2	0.3

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	623.8	583.5
Assets/Equity	3.7	3.7	2.7	1.7
Long-Term Debt/Equity	0.9	0.9	0.8	0.3

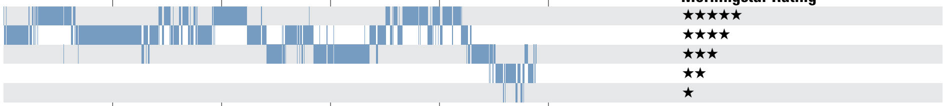
Price vs. Quantitative Fair Value



Momentum:	Neutral
Standard Deviation:	19.83
Liquidity:	High

2012	2013	2014	2015	2016	
-26.6	-3.0	39.9	-21.8	15.4	Total Return %
-42.9	-36.1	27.1	-22.5	7.2	+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—	Trailing Dividend Yield %
—	—	—	—	4.21	Forward Dividend Yield %
21.0	14.6	15.2	12.4	22.7	Price/Earnings
1.0	0.9	1.2	0.8	0.9	Price/Revenue

Morningstar RatingQ



2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	30,187	Revenue
1.5	24.1	6.0	10.2	7.4	2.5	% Change
4,480	2,380	3,656	3,096	4,409	3,107	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-29.5	% Change
2,495	1,160	1,719	1,623	2,269	1,240	Net Income
4,853	6,131	6,343	4,457	7,616	9,305	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,549	Capital Spending
811	321	948	-1,620	-8	756	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	2.5	% Sales
3.75	1.42	2.00	1.88	2.54	1.32	EPS
-3.1	-62.1	40.8	-6.0	35.1	-48.0	% Change
0.20	0.39	0.48	-0.03	-1.04	0.82	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.26	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.19	Book Value/Share
855,000	857,000	860,000	920,000	923,270	923,270	Shares Outstanding (K)

						Profitability
17.9	6.5	7.8	7.2	9.4	4.8	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.2	Return on Assets %
13.2	4.9	6.9	5.9	7.7	4.1	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.29	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.4	Financial Leverage
62.3	56.8	56.9	52.6	55.6	59.1	Gross Margin %
23.7	10.1	14.7	11.3	15.0	10.3	Operating Margin %
12,189	18,346	18,271	20,010	24,286	32,972	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	26,027	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

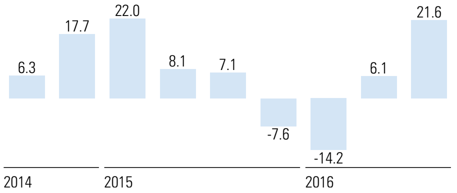
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.1	21.4	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	13.0	7.3	-3.1	-2.0

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	—	—
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

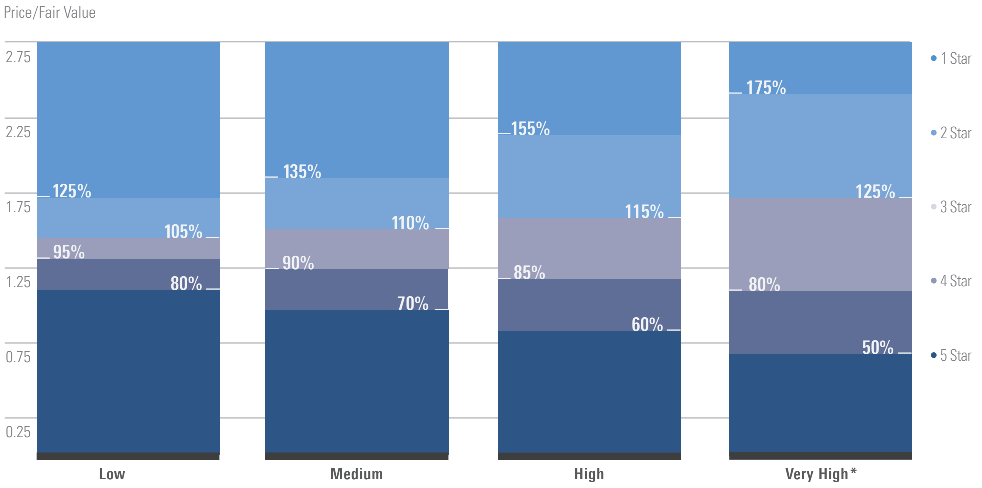
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- **One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- **Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- **Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- **Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- **Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

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This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

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The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit www.corporate.morningstar.com.

General Qualitative Disclosure

The analysis within this report is prepared by the person (s) noted in their capacity as an analyst for Morningstar. The opinions expressed within the report are given in good faith, are as of the date of the report and are subject to change without notice. Neither the analyst nor Morningstar commits themselves in advance to whether and in which intervals updates to the report are expected to be made. The written analysis and Morningstar Star Rating for stocks are statements of opinions; they are not statements of fact.

Morningstar believes its analysts make a reasonable effort to carefully research information contained in the analysis. The information on which the analysis is based has been obtained from sources which we believe to be reliable such as, for example, the company's financial statements filed with a regulator, company website, Bloomberg and any other the relevant press sources. Only the information obtained from such sources is made available to the issuer who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this sharing of information result in considerable changes, a statement of that fact will be noted within the report. While Morningstar has obtained data, statistics and information from sources it believes to be reliable, Morningstar does not perform an audit or seek independent verification of any of the data, statistics, and information it receives.

General Quantitative Disclosure

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 11 Nov 2016 06:00, UTC	30.00 USD 11 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.00	4.21 11 Nov 2016	4.24 11 Nov 2016	27.70 11 Nov 2016	Utilities - Diversified	Standard

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August 11, 2016

WELLS FARGO SECURITIES

Equity Research

Exelon Corporation

EXC: Clear Strategic Vision - ExGen's Value Remains Murky

Outperform

Sector: Diversified Electric Utilities
Market Weight

- **Summary.** EXC's shares have had a muted response to the company's analyst day - since 8/9, shares are down nearly 4% vs. roughly flat for the S&P Utilities. From our perspective, the messaging and outlook were largely consistent with our expectations - though the post-2017 utility/parent EPS outlook was somewhat higher than our assumptions. And while we thought management provided a coherent, focused strategy, the outstanding issue remains the valuation of ExGen given the persistent fog that has engulfed the power markets. In our view, the bull case for EXC - and our positive thesis - is increasingly contingent on regulatory/legislative solutions that provide EXC's nuclear power plants with long-term economic incentives to remain in-service. After adjusting our model for EXC's disclosures our 16-18E EPS go to/from \$2.55/\$2.55, \$2.60/\$2.70 & \$2.73/\$2.80. We continue to think EXC's valuation reflects an overly pessimistic view for ExGen - arguably no unlevered FCF post-2030. We reiterate our Outperform rating and 12-18 month valuation range of \$43-44/share.
- **Utility Growth.** EXC targets a 7-9% EPS CAGR through 2020 for Utility/Parent driven by 6% rate base growth and an assumed improvement in earned ROEs as EXC brings best practices to the chronically underperforming PHI utilities. While management has their work cut out for them in the PHI jurisdictions (frequent rate cases and historically tough regulatory environments), we believe that EXC has the ability to achieve the growth target and point out that 70% of the rate base growth is derived from capex with formulaic or tracking type recovery mechanisms. Our 16-20E EPS for Utility/Parent are \$1.30, \$1.54, \$1.67, \$1.79 & \$1.88 – our 18-20E EPS are each approx. \$0.10 higher than our prior estimates.
- **ExGen - Disciplined Approach.** Management focused on ExGen's cash generation outlook and emphasized a highly disciplined approach to new unregulated opportunities. Based on the 6/30/16 forward power curves – prices are down \$2-4/megawatt hour since then - ExGen is forecasted to generate \$8.2B of FCF from '16-20. The guidance does not include up to (1) \$750M of incremental cash related to New York's proposed Zero Emission Credit (ZEC) program or (2) incremental cash flow from the pending acquisition of the 838 megawatt Fitzpatrick nuclear plant, which also qualifies for the ZEC program. EXC intends to use FCF to pay down ExGen debt (\$3B), help fund utility investment (\$3B) and fund modest ExGen growth capex (\$2B).

Valuation Range: \$43.00 to \$44.00
Our \$43-44/sh valuation range is premised on a sum-of-the-parts analysis (1) Utility & Parent value of \$28/sh (based on a P/E multiple of 18.5-19.0X our 2018E of \$1.58) and (2) \$15/sh for ExGen using a DCF analysis. Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

Investment Thesis:
Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

Earnings Estimate Revised Down

	2015A	2016E		2017E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	\$0.71	\$0.68 A	NC	NE	
Q2 (June)	0.59	**0.65 A**	**0.55**	NE	
Q3 (Sep.)	0.83	**0.77**	**0.82**	NE	
Q4 (Dec.)	0.38	**0.45**	**0.50**	NE	
FY	\$2.49	\$2.55	NC	**\$2.60**	**2.70**
CY	\$2.49	\$2.55		\$2.60	
FY P/EPS	14.0x	13.7x		13.4x	
Rev.(MM)	\$29,447	\$24,283		\$25,999	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, 🚩 = Company is on the Priority Stock List

EPS from continuing operations.

Ticker	EXC
Price (08/11/2016)	\$34.81
52-Week Range:	\$25-38
Shares Outstanding: (MM)	921.7
Market Cap.: (MM)	\$32,084.4
S&P 500:	2,185.79
Avg. Daily Vol.:	4,721,370
Dividend/Yield:	\$1.27/3.6%
LT Debt: (MM)	\$23,645.0
LT Debt/Total Cap.:	46.9%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	4.0%
CY 2016 Est. P/EPS-to-Growth:	3.4x
Last Reporting Date:	08/09/2016 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Please see page 6 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 08/11/16 unless otherwise stated.

Exhibits 1: Our Pros & Cons

EXC Outperform Thesis: Pros & Cons	
Features	**Considerations**
Core regulated utility operations	Challenging regulatory environments (MD, DC)
→ Account for 50-60% of annual EPS (incl. parent)	Active rate case cycle in Pepco jurisdictions
→ Strong 5-yr annual EPS growth potential of 7-9%	
Attractive 3.6% dividend yield & 2-3% annual growth	
Largest owner / operator of nuclear in U.S.	Increase in early shutdowns due to poor economics / other
	→ Oyster Creek ('19) & likely Clinton ('17) & Quad Cities ('18)
Implied ExGen EV/EBITDA multiple of ~5X	→ Risk of higher capex / shutdowns for structural problems
→ Valuation arguably reflects pessimistic outlook	
→ Our DCF analysis indicates ~6-7X multiple appropriate	
ExGen has strong financial profile	Capital allocation
→ FFO/Debt of 35-40%	→ Disciplined approach for new ExGen opportunities?
→ Debt-to-EBITDA of 3.5X	
→ FCF of $1.5B annually (excl. growth capex)	
→ Intent to harvest ExGen cash to fund utility capex	

Source: Wells Fargo Securities, LLC estimates and Company Filings

Exhibit 2: Shares Remain Attractive Under Our Valuation Analysis

ExGen EV/EBITDA Analysis		Notes
ExGen: DCF Present Value / Sh	**$11.30**	DCF analysis - key assumptions:
		(1) Unlevered FCF of $6.7B during 2016-20
		(2) Unlevered FCF of $1.8B annually 2021-2040
		(3) Post-2020 NiHub/PJM East power prices of $30 & $36/MWh
		(4) Post-2020, avg capacity price of $200-MW-day
		(5) Discount Rate of ~7% (WACC)

EV/EBITDA of ExGen based on our DCF analysis		
Enterprise Value		
ExGen Debt	$9,919	
Equity	$10,496	$11.30 (PV / sh) X 929M shares outstanding
Total EV	$20,415	
EBITDA - 2016E	$3,178	Includes Other Income
EV/EBITDA (X)	**6.4**	Compares with Regulated Utility 2016 median of ~9X

EV/EBITDA implied by current equity valuation		
Utility / Parent Value		
EPS - 2018E	$1.67	
Median 2018 Regulated P/E (X)	17.5	
Utility / Parent Valuation / Sh	$29.15	Median peer group P/E for 2018 X 18E EPS of $1.67
Implied Utility / Parent Equity Value	$27,078	
Total Market Capitalization	$32,338	
Implied ExGen Equity Value	$5,260	Market cap less implied Utility / Parent Value
ExGen Debt	$9,919	
Total ExGen Implied EV	$15,179	
EBITDA - 2016E	$3,178	
Implied EV/EBITDA (X)	**4.8**	Multiple implied by EXC's current valuation

EXC Present Value Analysis		Notes
Utility / Parent PV	$29.15	
ExGen	$11.30	
Total PV	$40.45	
EXC Share Price	**$34.81**	Holding all other variables constant, the current valuation
% Discount	*14%*	reflects no ExGen unlevered FCF after 2030.

Source: Wells Fargo Securities, LLC estimates and Company Filings

Earnings Model (in millions except per share data)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues								
Total	$24,888	$27,429	$29,447	$24,283	$25,999	$26,331	$26,377	$26,543
Operating Expenses								
Purchased Pow er*	$10,724	$13,003	$13,084	$5,746	$6,262	$6,280	$6,323	$6,365
Fuel	0	0	0	995	988	944	909	878
Other O&M	7,270	8,568	8,322	8,538	8,870	8,690	8,718	8,781
Depreciation & Amortization	2,153	2,314	2,450	3,004	3,396	3,557	3,693	3,858
Other Taxes	1,095	428	1,182	1,506	1,626	1,639	1,663	1,677
Total	**$21,242**	**$24,313**	**$25,038**	**$19,789**	**$21,142**	**$21,109**	**$21,306**	**$21,559**
EBIT	**$3,646**	**$3,116**	**$4,409**	**$4,494**	**$4,857**	**$5,222**	**$5,071**	**$4,984**
Other Income & Interest Expense	($873)	($630)	($1,086)	($728)	($996)	($995)	($1,005)	($971)
Income Taxes	$1,044	$666	$1,073	$1,281	$1,377	$1,565	$1,449	$1,427
Earnings								
Net Income	$1,729	$1,820	$2,250	$2,485	$2,484	$2,663	$2,617	$2,586
Dicontinued Operations	0	0	0	0	0	0	0	0
Prefered Stock Dividends	(10)	(197)	19	(13)	(13)	(13)	(13)	(13)
Earnings available for common	**$1,719**	**$1,623**	**$2,269**	**$2,472**	**$2,471**	**$2,649**	**$2,604**	**$2,573**
Avg Common Shrs Outstanding - Diluted	860	864	893	929	951	969	970	971
EPS	$2.00	$1.88	$2.54	$2.66	$2.60	$2.73	$2.68	$2.65
Extraordinary Item	(0.50)	(0.51)	0.05	0.00	0.00	0.00	0.00	0.00
Reconciling Adjustment				(0.11)				
Operating EPS*	**$2.50**	**$2.39**	**$2.49**	**$2.55**	**$2.60**	**$2.73**	**$2.68**	**$2.65**
EPS By Segment								
Utilities								
ComEd				0.52	0.56	0.60	0.62	0.63
PECO				0.44	0.45	0.46	0.48	0.50
BGE				0.29	0.31	0.32	0.35	0.36
Potomac				0.10	0.19	0.21	0.24	0.25
DPL				0.05	0.11	0.12	0.13	0.14
ACE				0.03	0.07	0.08	0.10	0.11
Total Utilities				**1.42**	**1.68**	**1.79**	**1.92**	**2.00**
Generation				1.18	1.05	1.07	0.89	0.77
Other				(0.12)	(0.13)	(0.12)	(0.12)	(0.12)
Total EXC				**$2.48**	**$2.60**	**$2.73**	**$2.68**	**$2.65**
Dividends								
Dividends Per Share - YE Rate	$1.24	$1.24	$1.24	$1.27	$1.30	$1.34	$1.37	$1.40
Dividends Paid Per Share	$1.46	$1.24	$1.24	$1.26	$1.29	$1.33	$1.36	$1.39
Payout Ratio	58%	52%	50%	50%	50%	49%	51%	53%
Statisitics								
Book Value / Share (year end)	$26.53	$26.29	$28.04	$29.15	$30.66	$32.10	$33.45	$34.73
Average Book Value / Share	$25.80	$26.41	$27.16	$28.59	$29.91	$31.38	$32.77	$34.09
ROE (%)	9.7	9.0	9.2	8.9	8.7	8.7	8.2	7.8
Cash Flow / Share	$7.38	$5.16	$8.53	$7.58	$7.74	$8.01	$7.83	$7.68

Source: Wells Fargo Securities, LLC estimates and company filings

Cash Flow Model (in millions)	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Cash Flow								
Net Income	$1,729	$1,820	$2,250	$2,485	$2,484	$2,663	$2,617	$2,586
Depreciation & Amortization (incl. nuclear fuel)	3,779	3,868	3,987	4,054	4,271	4,432	4,568	4,708
Other	380	2,016	1,643	895	695	755	505	255
Working Capital	455	(3,247)	(264)	(390)	(90)	(90)	(90)	(90)
Net Operating Cash flow	**$6,343**	**$4,457**	**$7,616**	**$7,044**	**$7,360**	**$7,759**	**$7,601**	**$7,459**
Investing Cash Flow								
Capital Expenditures	($5,395)	($6,077)	($7,624)	($8,444)	($7,975)	($7,100)	($6,500)	($6,350)
Other	1	1,478	(198)	(6,405)	(230)	(120)	(120)	(120)
Net Investing Cash Flow	**($5,394)**	**($4,599)**	**($7,822)**	**($14,849)**	**($8,205)**	**($7,220)**	**($6,620)**	**($6,470)**
Financing Cash Flow								
Issuance of LT Debt - Utilities	2,055	3,463	6,709	4,475	1,775	2,410	1,075	1,225
Issuance of Projected Debt	0	0	0	0	0	0	0	0
Retirement of LT Debt - Parent	(1,589)	(1,545)	(2,687)	(1,592)	(1,875)	(1,659)	(995)	(3,321)
ST Debt (net)	332	122	80	300	500	0	500	1,000
Dividends on Common Stock	(1,249)	(1,065)	(1,105)	(1,170)	(1,228)	(1,282)	(1,316)	(1,350)
Proceeds from Employee Stock Plans	47	35	32	45	45	45	45	45
Other	(422)	(599)	(67)	0	0	0	0	0
Net Financing Cash Flow	**($826)**	**$411**	**$4,830**	**$3,108**	**$367**	**($486)**	**($691)**	**($1,901)**
Net Change in Cash	$123	$269	$4,624	($4,697)	($478)	$53	$290	($912)
Cash at beginning of period	1,486	1,609	1,878	6,502	1,805	1,328	1,380	1,670
Cash at end of period	**$1,609**	**$1,878**	**$6,502**	**$1,805**	**$1,328**	**$1,380**	**$1,670**	**$758**
Capital Structure								
Common Equity	$22,732	$22,608	$25,793	$27,153	$29,604	$31,030	$32,376	$33,657
LT Debt	17,623	19,362	23,645	34,142	34,042	34,793	34,873	33,277
ST Debt	1,850	2,262	2,033	741	1,241	1,241	1,741	2,741
Preferred Equity	193	193	193	193	193	193	193	193
Total Capitalization	**$42,398**	**$44,425**	**$51,664**	**$62,229**	**$65,080**	**$67,257**	**$69,183**	**$69,868**
% Equity	54	51	50	44	45	46	47	48
% Long-Term Debt	42	44	46	55	52	52	50	48
% Short-Term Debt	4	5	4	1	2	2	3	4
% Preferred Equity	0	0	0	0	0	0	0	0

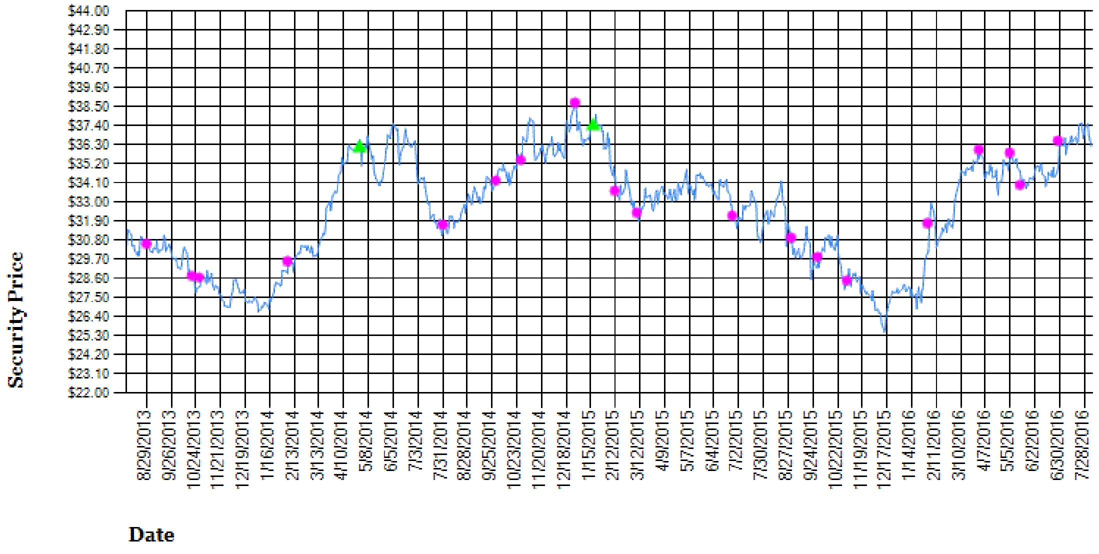
Source: Wells Fargo Securities, LLC estimates and company filings

Company Description:

Exelon Corporation was formed in October 2000 through the merger of Unicom, which was the parent company of Commonwealth Edison (ComEd) and PECO Energy (PECO). The company's business segments include independent power production (Exelon Generation) and Energy Delivery (ComEd and PECO). Exelon Generation owns approximately 25,000 MW of unregulated electric generating capacity, primarily located in Illinois and Pennsylvania. The company's 17,000 MW nuclear fleet is the largest in the nation. Generation currently accounts for approximately 70% of EXC's overall earnings. The Energy Delivery businesses serve roughly 3.8 million electric distribution customers in Northern Illinois (ComEd) and approximately 1.6 million electric and 0.5 million natural gas distribution customers in Southeastern Pennsylvania (PECO).

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	8/6/2013		Kalton			
	8/6/2013	NA	3	26.00	27.00	30.25
●	8/30/2013	30.49	3	25.00	26.00	30.49
●	10/21/2013	28.58	3	23.00	24.00	28.58
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61
●	3/31/2016	35.86	1	39.00	41.00	35.86
●	5/6/2016	35.68	1	39.00	40.00	35.68
●	5/18/2016	33.85	1	42.00	43.00	33.85
●	6/30/2016	36.02	1	43.00	44.00	36.36

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	□	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

I certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Exelon Corporation in the past 12 months.
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- Exelon Corporation currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided nonsecurities services to Exelon Corporation.
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- Wells Fargo Securities, LLC or its affiliates managed or co-managed a public offering of securities for an affiliate of Exelon Corporation within the past 12 months.
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EXC: Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: August 11, 2016

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3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.	Wells Fargo Securities, LLC has provided investment banking services for 4% of its Equity Research Underperform-rated companies.

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October 26, 2016

Equity Research

Exelon Corporation

EXC: Mixed Bag For EXC As Power Prices Temper Outlook

- **Summary.** Q3 positives: EXC raised ’16 EPS guidance by 4%, the PHI integration appears to be well underway and EXC continues to drive cost improvements. Q3 negatives: power prices continue to remain depressed pressuring open gross margins and ExGen’s longer-term earnings outlook. Our 16-18E EPS go to/from $2.65/$2.55, $2.62/$2.60 & $2.70/$2.73. The key rationales underlying our positive thesis remain largely unchanged. Namely, we believe Exelon Utilities has the potential to be one of the highest growth utilities in the industry and that the value of ExGen’s nuclear assets is not adequately reflected in the current valuation – noting that realization of this value will likely require either an improvement in power prices and/or additional regulatory or legislative actions that provide economic incentives for nuclear. We reiterate our Outperform rating and notch down our 12-18 month valuation range to $39-40/share from $42-43/share (primarily due to lower peer group multiples).
- **Power Market Dynamics.** On the Q3 call, management once again lamented that forward power curves do not reflect market fundamentals due to (1) market illiquidity beyond ’17 and (2) arguably irrational behavior on the part of some generation owners, which is distorting the market. We buy into the notion that a substantial amount of baseload coal (and nuclear) plants in the PJM Interconnection do not appear to be economically viable based on forward power and capacity prices and are likely to be retired over the next 3-5 years. That said, we think it is highly likely that some of the resistance to retiring these units reflects the owners’ belief that regulatory intervention - similar to the zero-emission credits (ZECs) in NY and the legislative action in IL (which is possible in November) – will provide an economic incentive to keep plants in-service. Thus, until there is more clarity on regulatory/legislative initiatives, we think many units will continue to be strung along. Ultimately, we strongly believe that potential economic incentives will be largely aimed at carbon-free resources - to the benefit of EXC.
- **Robust Regulatory Cycle.** PHI’s multi-year rate cycle got off to a successful start with the Q3 rate settlement and approval for Atlantic City Energy, which resulted in the implementation of a $45mm annual revenue increase roughly 6 months earlier than anticipated. PHI has 5 other base rate cases pending in what will likely be a 2-3 year process to bring PHI’s distribution ROEs closer to the allowed levels while at the same time recognizing new rate base. Our EPS outlook reflects a nearly 9% CAGR for Exelon Utilities during the period 2017-20 (off the 16E EPS base of $1.35), which is towards the top end of EXC’s 7-9% guidance.

Valuation Range: $39.00 to $40.00 from $42.00 to $43.00

Our $39-40/sh valuation range is premised on a sum-of-the-parts analysis (1) Utility & Parent value of $29/sh (based on a P/E multiple of 17.0-17.5X our 2018E of $1.69) and (2) $10-11/sh for ExGen using a DCF analysis. Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

Investment Thesis:

Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

Please see page 4 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 10/26/16 unless otherwise stated.

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Outperform

Sector: Diversified Electric Utilities
Market Weight

Earnings Estimates Revised Up

	2015A	2016E		2017E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	$0.71	$0.68 A	NC	NE	
Q2 (June)	0.59	0.65 A	NC	NE	
Q3 (Sep.)	0.83	**0.91 A**	**0.77**	NE	
Q4 (Dec.)	0.38	**0.41**	**0.45**	NE	
FY	$2.49	**$2.65**	**2.55**	**$2.62**	**2.60**
CY	$2.49	$2.65		$2.62	
FY P/EPS	13.4x	12.6x		12.7x	
Rev.(MM)	$29,447	$24,399		$26,070	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ⚑ = Company is on the Priority Stock List

EPS from continuing operations.

Ticker	EXC
Price (10/26/2016)	$33.26
52-Week Range:	$25-38
Shares Outstanding: (MM)	922.9
Market Cap.: (MM)	$30,695.7
S&P 500:	2,139.43
Avg. Daily Vol.:	4,519,730
Dividend/Yield:	$1.27/3.8%
LT Debt: (MM)	$32,330.0
LT Debt/Total Cap.:	46.9%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	4.0%
CY 2016 Est. P/EPS-to-Growth:	3.1x
Last Reporting Date:	10/26/2016 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Earnings Model

(in millions except per share data)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues								
Total	$24,888	$27,429	$29,447	$24,399	$26,070	$26,375	$26,373	$26,536
Operating Expenses								
Purchased Power*	$10,724	$13,003	$13,084	$5,754	$6,269	$6,276	$6,310	$6,349
Fuel	0	0	0	995	988	964	929	898
Other O&M	7,270	8,568	8,322	8,499	8,856	8,734	8,781	8,818
Depreciation & Amortization	2,153	2,314	2,450	3,005	3,406	3,566	3,703	3,867
Other Taxes	1,095	428	1,182	1,506	1,626	1,639	1,663	1,667
Total	**$21,242**	**$24,313**	**$25,038**	**$19,760**	**$21,145**	**$21,179**	**$21,385**	**$21,598**
EBIT	**$3,646**	**$3,116**	**$4,409**	**$4,639**	**$4,924**	**$5,195**	**$4,988**	**$4,938**
Other Income & Interest Expense	($873)	($630)	($1,086)	($725)	($1,024)	($1,022)	($1,052)	($1,006)
Income Taxes	$1,044	$666	$1,073	$1,338	$1,392	$1,546	$1,399	$1,396
Earnings								
Net Income	$1,729	$1,820	$2,250	$2,577	$2,508	$2,628	$2,536	$2,535
Dicontinued Operations	0	0	0	0	0	0	0	0
Prefered Stock Dividends	(10)	(197)	19	(13)	(13)	(13)	(13)	(13)
Earnings available for common	**$1,719**	**$1,623**	**$2,269**	**$2,563**	**$2,495**	**$2,615**	**$2,523**	**$2,521**
Avg Common Shrs Outstanding - Diluted	860	864	893	929	951	969	970	971
EPS	$2.00	$1.88	$2.54	$2.76	$2.62	$2.70	$2.60	$2.60
Extraordinary Item	(0.50)	(0.51)	0.05	0.00	0.00	0.00	0.00	0.00
Reconciling Adjustment				(0.11)				
Operating EPS*	**$2.50**	**$2.39**	**$2.49**	**$2.65**	**$2.62**	**$2.70**	**$2.60**	**$2.60**
EPS By Segment								
Utilities								
ComEd				0.56	0.59	0.63	0.65	0.66
PECO				0.44	0.45	0.46	0.48	0.50
BGE				0.29	0.31	0.32	0.35	0.36
Potomac				0.10	0.19	0.21	0.24	0.25
DPL				0.05	0.10	0.13	0.14	0.14
ACE				0.03	0.06	0.09	0.09	0.10
Total Utilities				**1.46**	**1.70**	**1.84**	**1.94**	**2.02**
Generation				1.24	1.07	1.01	0.81	0.72
Other				(0.12)	(0.14)	(0.15)	(0.15)	(0.14)
Reconciling Adjustment				0.07				
Total EXC				**$2.65**	**$2.62**	**$2.70**	**$2.60**	**$2.60**
Dividends								
Dividends Per Share - YE Rate	$1.24	$1.24	$1.24	$1.27	$1.30	$1.34	$1.37	$1.40
Dividends Paid Per Share	$1.46	$1.24	$1.24	$1.26	$1.29	$1.33	$1.36	$1.39
Payout Ratio	58%	52%	50%	48%	49%	49%	52%	54%
Statisitics								
Book Value / Share (year end)	$26.53	$26.29	$28.04	$29.25	$30.78	$32.18	$33.45	$34.68
Average Book Value / Share	$25.80	$26.41	$27.16	$28.64	$30.02	$31.48	$32.81	$34.06
ROE (%)	9.7	9.0	9.2	9.2	8.7	8.6	7.9	7.6
Cash Flow / Share	$7.38	$5.16	$8.53	$7.41	$7.79	$8.00	$7.78	$7.66

Source: Wells Fargo Securities, LLC estimates and company filings

Cash Flow Model (in millions)	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Operating Cash Flow								
Net Income	$1,729	$1,820	$2,250	$2,577	$2,508	$2,628	$2,536	$2,535
Depreciation & Amortization (incl. nuclear fuel)	3,779	3,868	3,987	4,105	4,281	4,441	4,578	4,717
Other	380	2,016	1,643	895	695	755	505	255
Working Capital	455	(3,247)	(264)	(690)	(70)	(70)	(70)	(70)
Net Operating Cash flow	**$6,343**	**$4,457**	**$7,616**	**$6,886**	**$7,414**	**$7,754**	**$7,549**	**$7,437**
Investing Cash Flow								
Capital Expenditures	($5,395)	($6,077)	($7,624)	($8,694)	($7,975)	($7,100)	($6,500)	($6,350)
Other	1	1,478	(198)	(6,662)	(1,230)	(120)	(120)	(120)
Net Investing Cash Flow	**($5,394)**	**($4,599)**	**($7,822)**	**($15,356)**	**($9,205)**	**($7,220)**	**($6,620)**	**($6,470)**
Financing Cash Flow								
Issuance of LT Debt - Utilities	2,055	3,463	6,709	4,475	2,775	2,410	1,075	1,225
Issuance of Projected Debt	0	0	0	0	0	0	0	0
Retirement of LT Debt - Parent	(1,589)	(1,545)	(2,687)	(1,592)	(1,875)	(1,659)	(995)	(3,321)
ST Debt (net)	332	122	80	300	500	0	500	1,000
Dividends on Common Stock	(1,249)	(1,065)	(1,105)	(1,170)	(1,228)	(1,282)	(1,316)	(1,350)
Proceeds from Employee Stock Plans	47	35	32	45	45	45	45	45
Other	(422)	(599)	(67)	0	0	0	0	0
Net Financing Cash Flow	**($826)**	**$411**	**$4,830**	**$3,333**	**$1,367**	**($486)**	**($691)**	**($2,401)**
Net Change in Cash	$123	$269	$4,624	($5,136)	($424)	$48	$238	($1,435)
Cash at beginning of period	1,486	1,609	1,878	6,502	1,366	941	989	1,227
Cash at end of period	**$1,609**	**$1,878**	**$6,502**	**$1,366**	**$941**	**$989**	**$1,227**	**($208)**
Capital Structure								
Common Equity	$22,732	$22,608	$25,793	$27,245	$29,720	$31,110	$32,375	$33,605
LT Debt	17,623	19,362	23,645	34,367	35,267	36,018	36,098	34,002
ST Debt	1,850	2,262	2,033	741	1,241	1,241	1,741	2,741
Preferred Equity	193	193	193	193	193	193	193	193
Total Capitalization	**$42,398**	**$44,425**	**$51,664**	**$62,546**	**$66,421**	**$68,562**	**$70,407**	**$70,541**
% Equity	54	51	50	44	45	45	46	48
% Long-Term Debt	42	44	46	55	53	53	51	48
% Short-Term Debt	4	5	4	1	2	2	2	4
% Preferred Equity	0	0	0	0	0	0	0	0

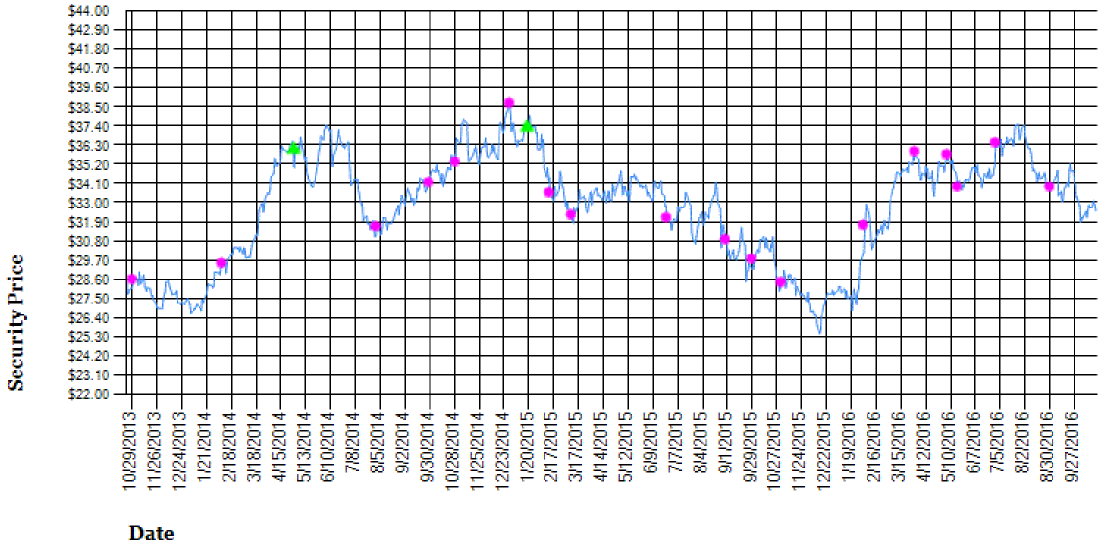
Source: Wells Fargo Securities, LLC estimates and company filings

Company Description:

Exelon Corporation was formed in October 2000 through the merger of Unicom, which was the parent company of Commonwealth Edison (ComEd) and PECO Energy (PECO). The company's business segments include independent power production (Exelon Generation) and Energy Delivery (ComEd and PECO). Exelon Generation owns approximately 25,000 MW of unregulated electric generating capacity, primarily located in Illinois and Pennsylvania. The company's 17,000 MW nuclear fleet is the largest in the nation. Generation currently accounts for approximately 70% of EXC's overall earnings. The Energy Delivery businesses serve roughly 3.8 million electric distribution customers in Northern Illinois (ComEd) and approximately 1.6 million electric and 0.5 million natural gas distribution customers in Southeastern Pennsylvania (PECO).

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	10/22/2013		Kalton			
	10/22/2013	NA	3	23.00	24.00	28.69
●	10/30/2013	28.55	3	24.00	25.00	28.55
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
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●	6/30/2016	36.02	1	43.00	44.00	36.36
●	8/30/2016	33.69	1	42.00	43.00	33.81

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
□ Split Adjustment

Rating Code Key
1 Outperform/Buy
2 Market Perform/Hold
3 Underperform/Sell
SR Suspended
NR Not Rated
NE No Estimate

Additional Information Available Upon Request

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3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

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U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: October 26, 2016

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KeyBanc
Capital Markets

Alert

August 9, 2016

Energy: Electric Utilities

NYSE: EXC

Exelon Corporation

EXC - ALERT: 2Q16 Earnings Results Beat; Guidance Reaffirmed

Paul T. Ridzon / (216) 689-0270 / pridzon@key.com
John Barta / (216) 689-3386 / john_j_barta@key.com

Key Investment Points

August 8, 2016 Close: $36.11

2Q16 Ongoing EPS: $0.65 vs. $0.59 in 2Q15/Consensus of $0.56/KBCM of $0.58

Initial Take: We expect a positive response to the EPS beat and reaffirmed guidance.

2016 KBCM EPS Estimate: $2.55 (Consensus: $2.54)

2017 KBCM EPS Estimate: $2.65 (Consensus: $2.66)

Guidance: EXC reaffirmed full-year EPS guidance in the range of $2.40-$2.70. EXC issued 3Q16 guidance of $0.65-$0.75 per share.

Highlights:

- Relative to our estimate, the retroactive application of support payments for the Ginna nuclear plant drove the beat.
- Generation segment ongoing earnings increased ($328 million vs. $309 million) due to higher revenue under the reliability support services agreement at Ginna for retroactive periods, largely offset by an extended Salem outage, lower nuclear decommissioning trust gains, and increased nuclear decommissioning expense.
- ComEd ongoing results rose ($146 million vs. $101 million), driven by new rates and beneficial warmer weather.
  - Heating degree days increased 10.1% compared to 2Q15 and were 1.3% below normal.
  - Cooling Degree days were up 69.6% YOY and 33% above normal.
  - Deliveries increased 4.3%, while weather normalized deliveries were largely flat.
- PECO ongoing results increased ($101 million vs. $71 million), primarily due to increased electric distribution revenue pursuant to a rate increase and from an accounting method change.
  - Heating degree days increased 42.1% compared to 2Q15 and were 0.6% above normal.
  - Cooling Degree days were down 23.8% YOY and 12.4% above normal.
  - Electric deliveries fell 1.9% vs. 2Q15 and were essentially flat on a weather-normalized basis.
  - Gas deliveries increased 8.9% YOY and decreased 1.5% on a weather normalized basis due to lower use per customer.
- BGE earnings fell ($29 million vs. $45 million) due to disallowances in the June and July rate orders and increased underground conduit fees in Baltimore, partly offset by increased T&D revenue.
  - BGE has revenue decoupling, so weather minimally impacts earnings.
- PHI earned $53 million in the quarter.

There is no conference call with the EXC Analyst Day tomorrow.

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

Disclosure Appendix

Exelon Corporation - EXC

Exelon Corporation is an investment banking client of ours.

We have received compensation for investment banking services from Exelon Corporation during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

During the past 12 months, Exelon Corporation has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in Exelon Corporation.

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Reg A/C Certification

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Three-Year Rating and Price Target History

Rating and Price Target History for: Exelon Corporation (EXC) as of 08-08-2016

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Created by BlueMatrix

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		Energy			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	318	41.62	64	20.13	**Overweight [OW]**	36	40.91	19	52.78
Sector Weight [SW]	437	57.20	60	13.73	**Sector Weight [SW]**	52	59.09	20	38.46
Underweight [UW]	9	1.18	0	0.00	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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KeyBanc Capital Markets

Alert

October 26, 2016

Energy: Electric Utilities

NYSE: EXC

Exelon Corporation

EXC - ALERT: 3Q16 Earnings Results Show Strong Quarter; Guidance Raised

Paul T. Ridzon / (216) 689-0270 / pridzon@key.com
John Barta / (216) 689-3386 / john_j_barta@key.com

Key Investment Points

October 25, 2016 Close: $32.90

3Q16 Ongoing EPS: $0.91 vs. $0.83 in 3Q15/Consensus of $0.79/KBCM of $0.74

Initial Take: We expect a positive response to the EPS beat and increased 2016 EPS guidance.

2016 KBCM EPS Estimate: $2.55 (Consensus: $2.57)

2017 KBCM EPS Estimate: $2.65 (Consensus: $2.62)

Guidance: EXC increased full-year EPS guidance to a range of $2.55-$2.75 from a range of $2.40-$2.70. The two drivers of the revised 2016 EPS guidance come from Pepco and ComEd as segment expectations are for EPS of $0.15-$0.25 from $0.10-$0.20 and for EPS of $0.55-$0.65 from $0.50-$0.60.

Highlights:

- Relative to our estimate, weather and PHI results drove the beat.
- Generation segment ongoing earnings decreased $123 million ($376 million vs. $499 million) due to higher income taxes from a decrease in the domestic production activities deduction, decreased capacity prices, and increased nuclear decommissioning amortization expense.
- ComEd ongoing results rose $35 million ($186 million vs. $151 million), driven by favorable weather and higher electric T&D formula rates.
  - Cooling degree days increased 32.5% compared to 3Q15 and were 37% above normal.
  - Deliveries increased 7.0%, while weather normalized deliveries were largely flat.
- PECO ongoing results increased $32 million ($123 million vs. $91 million), primarily due to favorable weather and increased electric distribution revenue from the Jan. 1 rate increase.
  - Cooling Degree days were up 8.6% YOY and 38.6% above normal.
  - Electric deliveries increased 5.1% vs. 3Q15 and were essentially flat on a weather-normalized basis.
  - Gas deliveries decreased 2.6% YOY and decreased 3.0% on a weather normalized basis due to lower use per customer.
- BGE earnings increase $3 million ($55 million vs. $52 million) due to June 2016 rates and transmission revenue largely offset by increased amortization associated with the AMI program and by the increased underground conduit rental fees from the City of Baltimore.
  - BGE has revenue decoupling, so weather minimally impacts earnings.
- PHI earned $130 million in the quarter.

11:00 A.M. ET Conference Call #: (800) 690-3108 ID#: 97958834

We will be focused on:

- Commentary on Pepco and ComEd EPS guidance revisions
- View of the market for Generation segment
- Details on ETR nuclear assets as well as currently owned nuclear assets
- Sales trend and economic commentary
- Update on ConEd Solutions Business

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Disclosure Appendix

Exelon Corporation - EXC

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For the three-year history represented in this chart, this stock has been rated Sector Weight.

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Three-Year Rating and Price Target History

Rating and Price Target History for: Exelon Corporation (EXC) as of 10-25-2016

For the three-year history represented in this chart, this stock has been rated Sector Weight.

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Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets					Energy				
			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	290	40.90	63	21.72	**Overweight [OW]**	37	42.05	20	54.05
Sector Weight [SW]	410	57.83	52	12.68	**Sector Weight [SW]**	51	57.95	18	35.29
Underweight [UW]	9	1.27	0	0.00	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

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KeyBanc
Capital Markets

Alert

December 2, 2016

Energy: Electric Utilities

NYSE: EXC

Exelon Corporation

EXC - ALERT: Nuclear Support Legislation Passes in Illinois

Paul T. Ridzon / (216) 689-0270 / pridzon@key.com
John Barta / (216) 689-3386 / john_j_barta@key.com

Key Investment Points

Last night, the Illinois legislature passed a bill to support Exelon's Quad Cities and Clinton nuclear plants. The bill also funds energy efficiency and renewables. The $235 million/year higher rates to support the plants will take effect in June 2017, rather than January, a move that reduced the number of votes required for the bill to pass (bills in the veto session need a supermajority to take effect immediately). Our sense is that investors were assuming the bill had a below average to even chance of passing. We expect a positive response to the passage and indications the governor will sign the legislation.

EXC had indicated that the two affected plants were losing money, as oversupply and increased renewables coming on line continued to pressure wholesale power pricing. The Company had planned to close the plants absent any legislative relief.

Disclosure Appendix

Exelon Corporation - EXC

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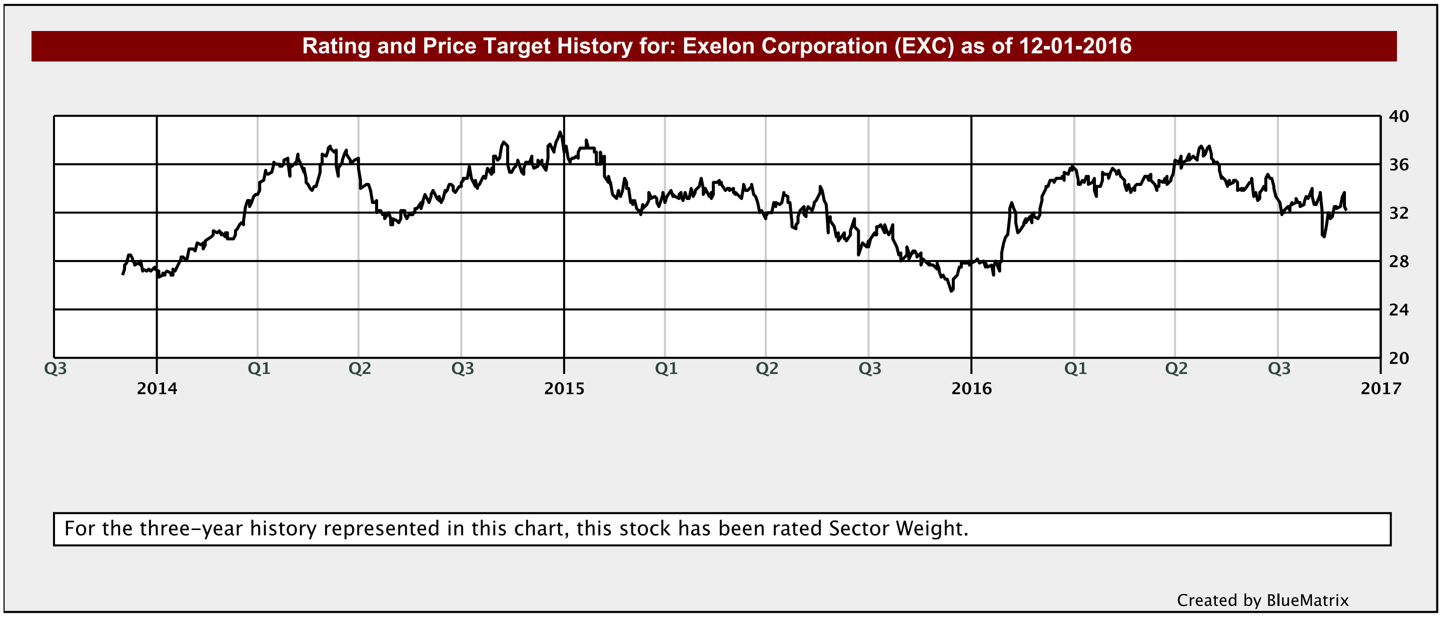
Three-Year Rating and Price Target History


Rating and Price Target History for: Exelon Corporation (EXC) as of 12-01-2016

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KeyBanc Capital Markets					Energy				
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Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**Count**	**Percent**	**Count**	**Percent**
Overweight [OW]	304	40.75	69	22.70	**Overweight [OW]**	38	42.70	19	50.00
Sector Weight [SW]	431	57.77	52	12.06	**Sector Weight [SW]**	51	57.30	17	33.33
Underweight [UW]	11	1.47	0	0.00	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

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KeyBanc Capital Markets

August 12, 2016

Energy: Electric Utilities

Event Recap

Exelon Corporation

EXC - Analyst Day Recap - Focus Shifts to Regulated Utilities Growth

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On August 10, 2016, EXC hosted an investor meeting in Philadelphia. Key takeaways were a renewed focus on regulated operations as a growth driver (funded in part with merchant cash flow) and a capitulation that power markets may remain weak for the foreseeable future. A key aspect of bridging 6.1% rate base growth and 7-9% regulated EPS growth is improving earned ROEs at the Pepco subs by filing rate cases over the coming years. In our view, investors are taking a wait-and-see approach, given a history of challenging regulation at these utilities.

Key Investment Points

Renewed Regulated Focus - EXC hosted an analyst day to provide a strategic update to investors. While no major announcements were made, we believe the focus of discussion shifted more toward growing earnings at the regulated utilities, stepping back from prior views around fundamentally mispriced power markets.

Regulated/Merchant Symbiosis – EXC looks for a regulated EPS CAGR of 7-9% through 2020. Merchant cash flow is expected to contribute to the $25 billion of cumulative regulated 2016-2020 capex, as well as pay down debt at Exelon Generation (ExGen). The strong consolidated balance sheet backstops ExGen's credit needs.

In Digestion Mode After Pepco Close – Management indicated that its near-term focus was the successful integration of the Pepco assets, incorporating best practices to bring down costs and fixing challenged regulatory relations to drive ROE closer to allowed levels (and set the stage for higher authorized returns). We would not look for incremental sizable acquisitions over the coming years, although we could see Constellation continue a strategy of rolling-up smaller retail suppliers.

Investor Reaction Muted – Shares have underperformed utility peers since the meeting. We believe investors' tepid reaction is driven by a few factors. No major new announcements were made at the conference. Success at fixing Pepco regulation will take a few years to manifest itself, and a rocky history is giving some investors pause. Lastly, commodity markets remain an unknown at ExGen as fundamentals remain challenged.

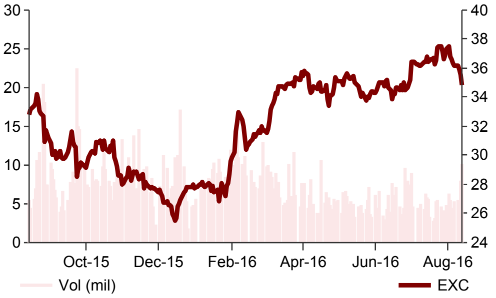
Upside Opportunities Exist - EXC's prospects could improve beyond those in EXC's base case outlook, including: improved natural gas pricing would benefit ExGen (but pressure overall rates at the utilities); legislation supporting low-carbon nukes in Illinois; approval of the Fitzpatrick sale.

Estimates

FY ends 12/31	F2015A	1Q16A	2Q16A	3Q16E	4Q16E	F2016E	F2017E
EPS (Net)	**$2.49**	**$0.68**	**$0.65**	**$0.72**	**--**	**$2.55**	**$2.65**
Cons. EPS	*$2.52*	*$0.68*	*$0.65*	*$0.80*	*$0.56*	*$2.54*	*$2.64*
Previous	--	--	$0.58	--	--	--	--
Valuation							
P/E	14.0x	--	--	--	--	13.7x	13.1x

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

NYSE: EXC	
Rating:	**Sector Weight**
Price Target:	**NA**
Price:	**$34.81**



Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Company Data

52-week range	$25 - $38
Market Cap. (M)	$32,009.9
Shares Out. (M)	919.56
Enterprise Value (M)	$52,730.9
Avg. Daily Volume (30D)	5,045,940.0
Annual Dividend	$1.27
Dividend Yield	3.6%
SI as % of Float	2.1%
SI % Chg. from Last Per.	0.1%
Book Value/Share	$25.55
Book Value/Share	$25.55

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

Valuation

Based upon our 2017 estimate, shares of EXC stock recently traded ($35.30) at a P/E ratio of 13.3x, while larger cap commodity exposed peers trade at 16.1x. We note EXC has relatively higher commodity exposure than the average peer. We find shares modestly attractive, but remain **Sector Weight** on shares around commodity uncertainty.

Investment Risks

We believe the primary risks facing EXC are any deterioration of regulatory relationships in the jurisdictions where EXC has regulated operations, any further weakening of commodity pricing and any potential changes in policy toward reduced support of nuclear plants.

Analyst Day Highlights

As discussed, EXC hosted an analyst meeting in Philadelphia on August 10, 2016. Key meeting highlights are discussed below:

Spotlight on Regulated Operations - With the close of the Pepco deal, EXC appears to have shifted the investment thesis more toward the regulated operations. Previous discussion around upside related to mispriced commodity forwards was notably absent. A large part of the strategic value is that $8 billion+ of 2016-2020 ExGen cash flow will be used to fund utility capex, driving 6.1% rate base growth through 2020.

ExGen Cash Flow Earmarked - Through 2020, ExGen is expected to generate cumulative free cash of roughly $8.2 billion (at current market pricing). Of this, management indicated $2.3 billion will be reinvested at ExGen. $2.7 billion-$3.2 billion will be used to support the dividend and utility capex. Lastly, the remaining $2.7 billion-$3.2 billion will be used to retire ExGen debt. We note upside to the $8.2 billion of ExGen free cash if the New York zero emissions credit program is approved. EXC indicated that this would generate $750 million of additional cash flow. This additional cash would be used to reduce holding company debt and/or be redeployed at the regulated utilities.

Pepco Regulatory Turnaround Is Key to Thesis - EXC forecasts 7-9% utility EPS CAGR for the 2016-2020 period, based on 6.1% rate base growth. The difference between the two growth rates is driven primarily by improving weak earned ROE's at the Pepco subsidiaries. Because Pepco did not file any rate cases during the ~two-year merger approval process, the companies are experiencing lag. We estimate Pepco under-earned its authorized returns by over 340 bps in 2015 (on a rate base weighted average of the six utilities), with some utilities earning less than half their authorized returns. Since the close of the deal, EXC has initiated nine rate proceedings (six general rate cases and three formula rate plans). Aside from lag, POM has had issues with punitive authorized ROEs as a result of reliability issues. EXC intends to use its scale and experience to address reliability issues to improve relationships. Management acknowledged this could be a long process and expects to be very active in the Pepco regulatory arena for several years. Beyond 2020, with Pepco regulation addressed and fewer capex opportunities, EXC expects EPS CAGR to moderate to around 5%.

Illinois Legislative Efforts - EXC is focused on two key Illinois legislative efforts before year-end. We got the sense that management's primary focus is around extending and improving the Illinois formulaic rate construct beyond the 2019 expiration. EXC currently earns a debt return on pension assets, which drives a 50-60 bps drag on earned ROE relative to the assets earning at EXC's WACC. The other issue EXC would like to change in a new plan is the base of the formulaic ROE, which is viewed as punitive in the prolonged low interest rate cycle we have seen. The current formula to determine authorized ROE is the average 30-year treasury yield (for the rate year) plus 580 bps. The other legislative pursuit is the ongoing effort to protect the Clinton and Quad Cities nuclear plants from planned early retirement. With New York recently approving plans to subsidize upstate plants, EXC is hopeful the Illinois legislature will see the value of preserving the jobs, tax base and low carbon footprint that these plants offer. Absent supportive legislation, EXC has indicated it will not continue to lose money and will retire the plants at the end of the current fuel cycle. Closing these plants would eliminate $0.07 of earnings drag and add $75 million of pretax cash flow. Our read is that the legislature is focused on the state budget and has limited bandwidth to address other issues in the balance of the year.

Views on Potential Further M&A – EXC indicated that the focus through 2020 was executing on the current plan, and that incremental consolidation could prove to be an unwanted distraction. As such, we view any further near- to intermediate-term acquisitions as unlikely. One place we do envision EXC possibly doing smaller acquisitions is at the Constellation retail energy supply business. The competition was described as highly fragmented, and many competitors do not have the advantage of a diverse generation portfolio standing behind them with excess load to commit. Management views this as a meaningful competitive advantage that can immediately add value to acquisitions based on more traditional $/customer acquired valuation metric (with competitors having to procure supply in uncertain wholesale markets).

Business Separation Would Destroy Value – Management indicated that a business separation is given regular consideration. At this point in time, however, EXC believes such action would be value destructive. On the regulated side, multiple expansion would certainly occur. However, without the cash flow from the merchant side to support the dividend and capex well in excess depreciation, the necessary equity issuance would offset the valuation uplift. On the merchant side, the consolidated balance sheet supports the unregulated operation's credit needs around its sizable commodity positions, and credit for ExGen standalone would be much more expensive.

O&M Initiative Provides Tailwind - EXC looks to reduce consolidated O&M expense 1.1% annually through the planning period. O&M at ExGen is expected to decline 1.3% annually. Much of the savings at the utility is enabled through its investment initiatve, which will improve efficiency and productivity. If successfully executed, we estimate this will provide an incremental $0.06-$0.07 of EPS tailwind annually.

Dividend Discussion - EXC indicated it would grow the dividend at 2.5% through 2018 and that as the utility earnings grow at 7-9%, the payout ratio will drop. With an improved payout ratio, EXC indicated it could consider a higher dividend growth rate post 2018.

Disclosure Appendix

Exelon Corporation - EXC

Exelon Corporation is an investment banking client of ours.

We have received compensation for investment banking services from Exelon Corporation during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

During the past 12 months, Exelon Corporation has been a client of the firm or its affiliates for non-securities related services.

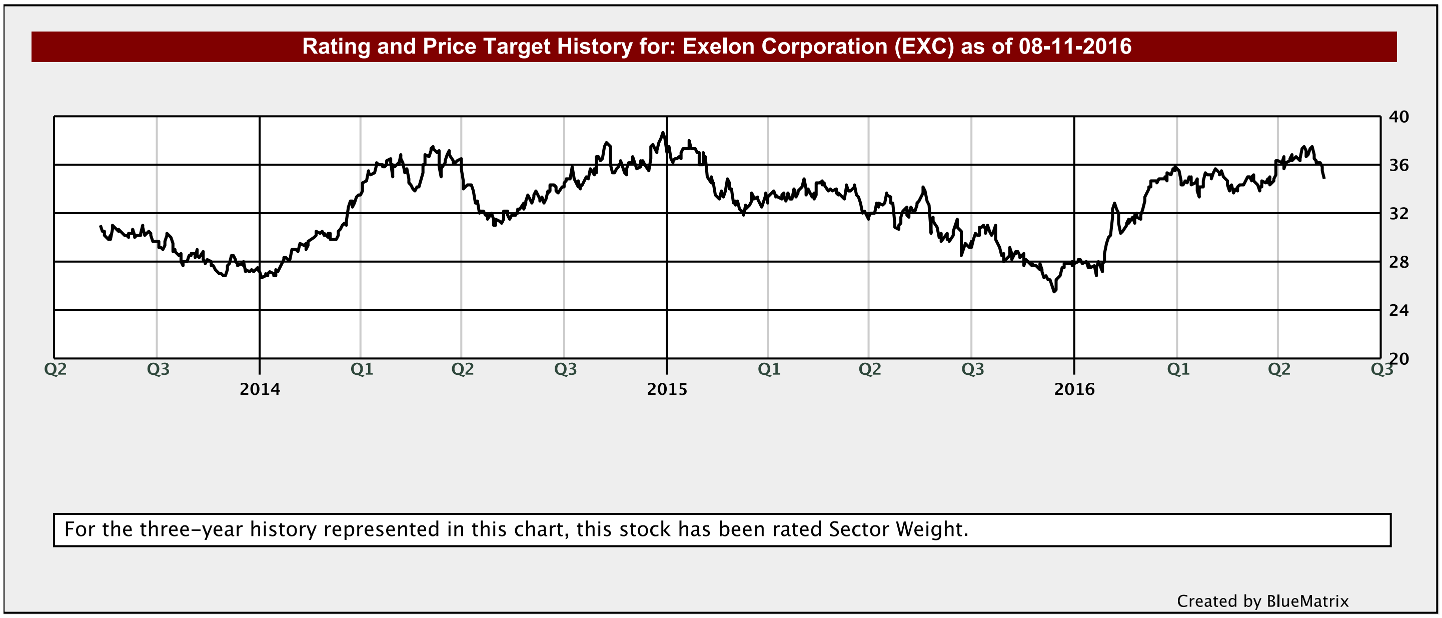
As of the date of this report, we make a market in Exelon Corporation.

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three-Year Rating and Price Target History



Rating and Price Target History for: Exelon Corporation (EXC) as of 08-11-2016

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Created by BlueMatrix

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

	KeyBanc Capital Markets		IB Serv/Past 12 Mos.			Energy		IB Serv/Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**Count**	**Percent**	**Count**	**Percent**
Overweight [OW]	320	41.88	65	20.31	**Overweight [OW]**	37	42.05	20	54.05
Sector Weight [SW]	435	56.94	60	13.79	**Sector Weight [SW]**	51	57.95	19	37.25
Underweight [UW]	9	1.18	0	0.00	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

Other Disclosures

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Exelon Corporation

EXC - BUY - Illinois Energy Policy Proposal: Everything but the Kitchen Sink, but Likely Too much, Too late

November 16, 2016

Illinois Senate bill includes everything but the kitchen sink. Illinois Lawmakers introduced a long-awaited energy bill (see HERE) that includes a wide range of policy support for nuclear, coal, and renewables, as well as a variety of utility investment opportunities (e.g., energy efficiency, community solar, micro-grids). **Our quick-take: sounds great for EXC and partially for DYN (BUY, $9.01) , but while the variety of energy-related topics addressed likely won support from stakeholders along the way, it likely added too much complexity to a bill with a short window of opportunity.** The bill has to be passed in the veto session, which will require both house and senate approval; given the short veto session ahead, the fact that a majority (three-fifths) is needed to pass, and the sheer scope of issues addressed, it's difficult for us to see how this gets passed. **Key point – our BUY thesis on EXC and DYN are not predicated on passage of this legislation though it could provide upside.**

Clearly positive for EXC, in our view, as it's written… EXC announced plans to retire Clinton and Quad Cities in IL, expecting ~$0.07 EPS accretion from shutting down those two plants; whereas **we estimate ~$0.16-0.27 of accretion; $3-4/share in valuation uplift with the bill** based on our interpretation of the zero emission credits as its written. If the bill was approved, EXC would benefit from Zero Emission Credits similar to those being proposed in NY, albeit with a much smoother path to fruition in New York, in our view. We would also view this as EXC taking further advantage of opportunities to shed merchant nuclear exposure and lock-in long-term contracted cash flows as it did in NY – not any sort of renewed interest in merchant nuclear. That said, we believe the EXC story is still well cemented with or without this legislation. **See our Illinois Zero Emission Credit model on page 2 (full model available upon request).**

DYN would potentially be a beneficiary as well, but even a taller-order, in our view; but let's see how this plays out. DYN would also benefit from the bill as its written, to the extent its coal plants are compensated beyond just their costs, and get recognition for their capacity (the bill proposes 25% of retail load be met with "clean coal"). While the President-elect brings a more constructive back-drop for coal, and keeping DYN's plants operational are more important for certain stakeholders focused on jobs within their jurisdiction, it comes on top of an already tall order with a short window of opportunity, in our view, as we describe here.

But likely too many cooks in the kitchen as the sheer scope of issues covered may now be too complex to navigate policy approvals in such a short window of time – could provide a roadmap for next year but EXC won't wait. Even though the proposal is an amendment, the Bill will require both House and Senate approval, with each of them potentially looking for expert testimony before making a decision. **We also note that the policy window for this bill to pass is extremely limited given that Illinois' legislative veto session runs this week for three days (though tomorrow, 11/17) and for three days the week after Thanksgiving (11/29-12/1).** As a reminder, Illinois has not even been able to pass a 2016 budget, as the Republican Governor and Democratic legislature have been in a contentious standoff for months. As we mentioned in our previous note HERE, passing this energy bill soon is likely a long shot, in our view - history is not on their side.

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EXC BUY

COMPANY UPDATE

Investment Thesis: Value

SHARE PRICE	$32.07
PRICE TARGET	$39.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2016	0.68	0.65	0.91	0.46E	2.71E
P/E					11.8x
2017	0.76E	0.55E	0.68E	0.63E	2.62E
P/E					12.2x
2018	0.80E	0.62E	0.68E	0.67E	2.77E
P/E					11.6x

Market Data	
Price	$32.07
52-Week Range	$25.09 - $37.70
Market Cap (M)	$29,559
Dividend	$1.28
Dividend Yield	4.0%
ADV (3 mo; 000)	5,021

Guggenheim Zero-Emission Credit Model and Illustrative Valuation Impact

EXC accretion	**2017E**	**2018E**
Incremental CF	236	394
Tax rate	(35%)	(35%)
Taxes	(82)	(138)
Earnings	153	256
Shares	951	967
Incremental EPS	**$0.16**	**$0.27**
Guggenheim EPS estimate	$2.62	$2.77
Accretion	*6.2%*	*9.6%*
Illustrative valuation uplift		
Regulated utility target multiple	16.0x	16.0x
Incremental EPS	$0.16	$0.27
Valuation uplift per share	**$3**	**$4**

Zero-Emission Credit Calculation

	2017						
	Jun	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Energy prices							
Ni-Hub							
Peak ($/MWh)	33.00	38.90	38.15	31.85	30.75	30.70	33.70
Off-peak ($/MWh)	19.55	22.80	20.85	19.85	19.65	20.30	25.15
Avg. ($/MWh)	26.28	30.85	29.50	25.85	25.20	25.50	29.43
Capacity prices							
PJM BRA RTO ($/MW/day)	59	59	120	120	120	120	120
50%	50%	50%	50%	50%	50%	50%	50%
PJM component (50%; $/MW/day)	29.69	29.69	60.00	60.00	60.00	60.00	60.00
PJM component ($/MWh)	1.24	1.24	2.50	2.50	2.50	2.50	2.50
MISO Zone 4	72	72	72	72	72	72	72
50%	50%	50%	50%	50%	50%	50%	50%
MISO component (50%; $/MW/day	36	36	36	36	36	36	36
MISO component (50%; $/MWh)	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Avg. market price index	**29.01**	**33.59**	**33.50**	**29.85**	**29.20**	**29.50**	**33.43**
Baseline ($31.40/MWh)	31.40	31.40	31.40	31.40	31.40	31.40	31.40
Delta bw index and baseline	(2.39)	2.19	2.10	(1.55)	(2.20)	(1.90)	2.03
Carbon value	16.50	16.50	16.50	16.50	16.50	16.50	16.50
ZEC = carbon - delta	**18.89**	**14.31**	**14.40**	**18.05**	**18.70**	**18.40**	**14.48**
EXC IL nuclear capacity (MW)	2,897	2,897	2,897	2,897	2,897	2,897	2,897
Capacity factor	95%	95%	95%	95%	95%	95%	95%
EXC IL nuclear volume (GWh)	2,009	2,009	2,009	2,009	2,009	2,009	2,009
ZEC ($/MWh)	18.89	14.31	14.40	18.05	18.70	18.40	14.48
EXC ZEC cash flow ($MM)	37.95	28.76	28.93	36.26	37.57	36.97	29.08
Annual total - EXC ZEC cash flow							**236**

	2018											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Energy prices												
Ni-Hub												
Peak ($/MWh)	44.85	40.85	33.95	30.05	31.20	32.80	40.05	35.00	29.75	28.55	28.60	32.40
Off-peak ($/MWh)	33.20	30.00	24.95	22.00	18.45	18.20	21.25	20.75	17.55	16.80	17.50	20.00
Avg. ($/MWh)	39.03	35.43	29.45	26.03	24.83	25.50	30.65	27.88	23.65	22.68	23.05	26.20
Capacity prices												
PJM BRA RTO ($/MW/day)	120	120	120	120	120	120	120	150	150	150	150	150
50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
PJM component (50%; $/MW/day)	60.00	60.00	60.00	60.00	60.00	60.00	60.00	74.99	74.99	74.99	74.99	74.99
PJM component ($/MWh)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	3.12	3.12	3.12	3.12	3.12
MISO Zone 4	72	72	72	72	72	72	72	72	72	72	72	72
50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
MISO component (50%; $/MW/day	36	36	36	36	36	36	36	36	36	36	36	36
MISO component (50%; $/MWh)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Avg. market price index	**43.03**	**39.43**	**33.45**	**30.03**	**28.83**	**29.50**	**34.65**	**32.50**	**28.27**	**27.30**	**27.67**	**30.82**
Baseline ($31.40/MWh)	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40
Delta bw index and baseline	11.63	8.03	2.05	(1.38)	(2.58)	(1.90)	3.25	1.10	(3.13)	(4.10)	(3.73)	(0.58)
Carbon value	16.50	16.50	16.50	16.50	16.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50
ZEC = carbon - delta	**4.87**	**8.48**	**14.45**	**17.88**	**19.08**	**19.40**	**14.25**	**16.40**	**20.63**	**21.60**	**21.23**	**18.08**
EXC IL nuclear capacity (MW)	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897
Capacity factor	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
EXC IL nuclear volume (GWh)	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009
ZEC ($/MWh)	4.87	8.48	14.45	17.88	19.08	19.40	14.25	16.40	20.63	21.60	21.23	18.08
EXC ZEC cash flow ($MM)	9.79	17.03	29.03	35.91	38.32	38.98	28.63	32.95	41.44	43.40	42.64	36.31
Annual total - EXC ZEC cash flow												**394**

	2019											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Energy prices												
Ni-Hub												
Peak ($/MWh)	44.15	40.85	33.00	29.65	29.10	31.00	40.00	34.80	29.30	27.00	27.45	29.50
Off-peak ($/MWh)	34.10	31.65	26.05	21.35	19.65	19.00	22.45	21.85	18.70	17.30	18.45	19.75
Avg. ($/MWh)	39.13	36.25	29.53	25.50	24.38	25.00	31.23	28.33	24.00	22.15	22.95	24.63
Capacity prices												
PJM BRA RTO ($/MW/day)	150	150	150	150	150	150	150	100	100	100	100	100
50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
PJM component (50%; $/MW/day)	74.99	74.99	74.99	74.99	74.99	74.99	74.99	50.00	50.00	50.00	50.00	50.00
PJM component ($/MWh)	3.12	3.12	3.12	3.12	3.12	3.12	3.12	2.08	2.08	2.08	2.08	2.08
MISO Zone 4	72	72	72	72	72	72	72	72	72	72	72	72
50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
MISO component (50%; $/MW/day	36	36	36	36	36	36	36	36	36	36	36	36
MISO component (50%; $/MWh)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Avg. market price index	**43.75**	**40.87**	**34.15**	**30.12**	**29.00**	**29.62**	**35.85**	**31.91**	**27.58**	**25.73**	**26.53**	**28.21**
Baseline ($31.40/MWh)	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40
Delta bw index and baseline	12.35	9.47	2.75	(1.28)	(2.40)	(1.78)	4.45	0.51	(3.82)	(5.67)	(4.87)	(3.19)
Carbon value	17.50	17.50	17.50	17.50	17.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50
ZEC = carbon - delta	**5.15**	**8.03**	**14.75**	**18.78**	**19.90**	**20.28**	**14.05**	**17.99**	**22.32**	**24.17**	**23.37**	**21.69**
EXC IL nuclear capacity (MW)	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897
Capacity factor	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
EXC IL nuclear volume (GWh)	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009
ZEC ($/MWh)	5.15	8.03	14.75	18.78	19.90	20.28	14.05	17.99	22.32	24.17	23.37	21.69
EXC ZEC cash flow ($MM)	10.35	16.12	29.63	37.72	39.98	40.73	28.23	36.15	44.84	48.55	46.95	43.58
Annual total - EXC ZEC cash flow												**423**

Source: Guggenheim Securities, LLC.

Valuation

Our $39 price target is based on a sum-of-the-parts analysis. We assign ~$14/ share for ExGen using a 7x weighted average EV/EBITDA applied to ExGen's various assets. We assign $28/share for the regulated utilities combined based on our 2018E EPS of $1.78 applied to a 16x regulated utility multiple. Subtracting out ~$3 in parent drag.

Risks

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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Rating and Price Target History for: Exelon Corporation (EXC) as of 11-14-2016

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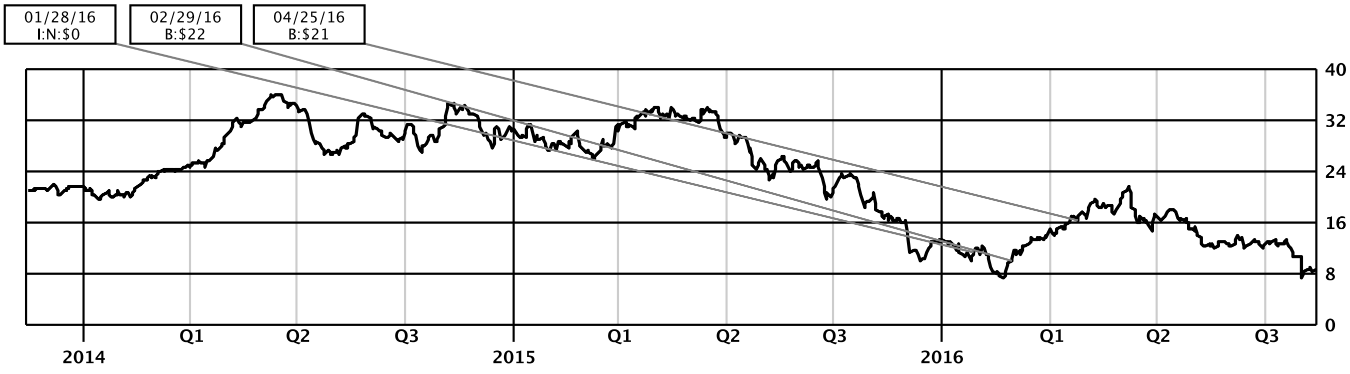
Rating and Price Target History for: Dynegy Inc. (DYN) as of 11-14-2016



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

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NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	169	60.57%	29	17.16%
Neutral	109	39.07%	2	1.83%
Sell	1	0.36%	0	0.00%

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Exelon Corporation

EXC – BUY – Solid Print and Several Items to Look Out For at EEI – Block-and-Tackle

October 26, 2016

NT Potential Catalysts: EEI should be somewhat less of a catalyst for EXC relative to other utilities as management held the analyst day recently, but it's a good opportunity to provide more updates on their LT plan – better discussions than in the past. Last chance for IL nuclear policy with two legislative sessions remaining – more discussions/updates expected at EEI conference; NY nuclear strategy update with potential for more synergies and cost savings; five rate proceedings expecting orders over 12 months at recently acquired PHI utilities and more to come in 2017; sustainability of the integrated model and potential actions to take; update on hedged position.

EXC reported strong results with 3Q16 adjusted earnings of $0.91 vs. our $0.77 estimate, consensus $0.79; company raised FY outlook to $2.75 from $2.55. EXC reported 3Q16 adjusted earnings of $0.91, $0.13 above our estimate of $0.77 despite lower capacity prices, driven by warm summer weather, strong performance from the ExGen and retail, and rate increases. Management raised their FY outlook to $2.75, and our updated estimates reflecting strong YTD performance remain in-line at $2.71.

NY nuclear strategy moving along despite IPP opposition in NY; aiming to close Fitzpatrick in 2Q17. See our prior thoughts HERE. EXC expects $0.08-0.10 of earnings uplift and $350mm of CF from the NY nuclear fleet as the state's Clean Energy Standard is implemented, and another $0.02-0.08 when Fitzpatrick is acquired from ETR (BUY, $72.48), which does NOT include synergies associated with the proximity of this plant with EXC's Nine Mile – synergies could be noticeable. Management discussed a suite of various cost savings initiatives (i.e., ranging from contractor hours/rates, centralized/shared costs, etc.,) which can add up. We anticipate more to come around synergies and cost reductions at Fitzpatrick as the process progresses, so potentially some incremental insight from EXC at EEI after having spent some time at the facility. We've highlighted opposition from IPPs, which we expected, although, in our view, such efforts were also anticipated by EXC, ETR, and ultimately the NY regulators that designed the nuclear subsidies within the state's clean energy standard – difficult for us to imagine a scenario where the Governor balks.

IL nuclear aiming to retire without policy support similar to NY. In IL EXC expects 2019 run rate of up to $0.07/share and $75mm CF (excluding decommissioning costs) associated with their intention of retiring Clinton and Quad Cities – EXC seems a little more constructive around the potential for supportive nuclear policy in IL, although still a long-shot, in our view, particularly as the policy window is closing with two remaining legislative veto sessions 11/15-11/17, and 11/29-12/1 – history is not on their side. **While EXC is growing a nuclear footprint in NY, the NY fleet is a contracted story now, with strong CF to support regulated infrastructure investment.**

Continued on the next page…

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EXC BUY

COMPANY UPDATE

Investment Thesis: Value

SHARE PRICE	$32.90
PRICE TARGET	$39.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2016	0.68	0.65	0.91	0.46E	2.71E
Prior	*—*	*—*	*0.77*	*—*	*2.57E*
P/E					12.1x
2017	0.76E	0.55E	0.68E	0.63E	2.62E
P/E					12.6x
2018	0.80E	0.62E	0.68E	0.67E	2.77E
P/E					11.9x

Market Data	
Price	$32.90
52-Week Range	$25.09 - $37.70
Market Cap (M)	$30,324
Dividend	$1.28
Dividend Yield	3.9%
ADV (3 mo; 000)	4,700

One down, Five to go – Key NJ ratecase in the rearview, but EXC is still pursuing rate increases for five of the recently acquired PHI utilities. In 3Q16 EXC was authorized a $45mm revenue increase in NJ premised upon a 9.75% ROE, but more work to do with open proceedings in MD, IL, and DC for 5 of the other PHI utilities. Management is looking for more constructive authorized returns in 4 of the 5 jurisdictions (10.6% ROE) and expects orders over the next year for each open proceeding. The game plan always had two cycles, in order to earn their ROEs; MD is the main jurisdiction of concern, particularly for PepCo, although DE briefs haven't been as contentious. With some fresh faces at the PHI utilities filing rate cases, we see room for regulatory relationships to improve – any ability to find some rate relief (e.g., cost reductions) going into this proceedings would also strengthen their position.

Leaving a little room for power price upside next year. EXC is hedged 98-101% for 2016, 85-88% for 2017, and 54-57% for 2018; locked-in for now, but going into 2017 12-15% open, power position 7-10% behind ratable – representing upside exposure to constructive power price movement. Management noted a lot of their open position is in the Midwest, which is where EXC sees more of the upside especially on the heels of coal retirements. We would also note EXC operates a large retail business, which is essentially a natural hedge for merchant generation, and greater volumes have been being pushed through the retail business than through wholesale markets recently (e.g., recently acquiring ED's [NEUTRAL, $73.88] retail book); a natural hedge, and likely appealing economics as well considering many of EXC's peers have been taking the same approach (e.g., CPN's [BUY, $11.90] recent acquisition of Noble).

Valuation

Our $39 price target is based on a sum-of-the-parts analysis. We assign ~$14/share for ExGen using a 7x weighted average EV/EBITDA applied to ExGen's various assets. We assign $28/share for the regulated utilities combined based on our 2018E EPS of $1.78 applied to a 16x regulated utility multiple. Subtracting out ~$3 in parent drag.

Risks

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM. The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

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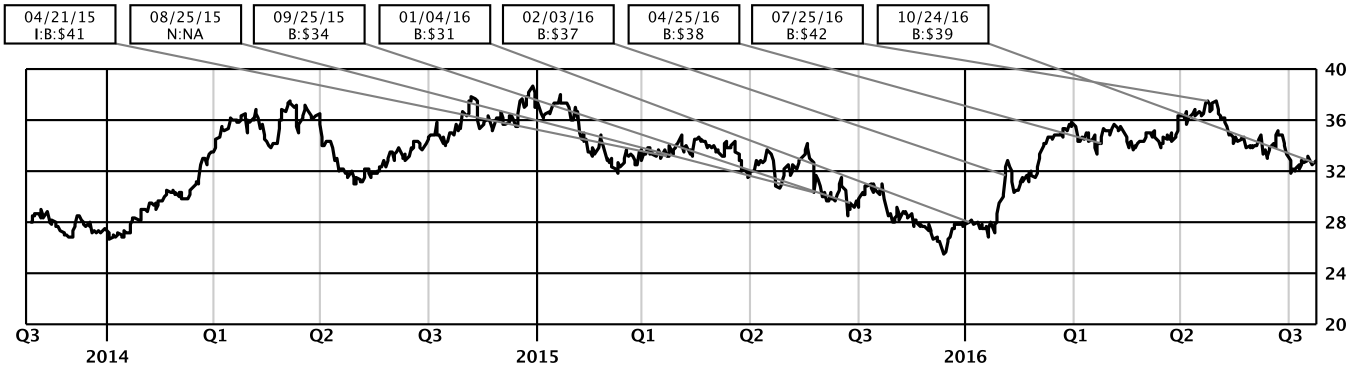
Rating and Price Target History for: Exelon Corporation (EXC) as of 10-25-2016



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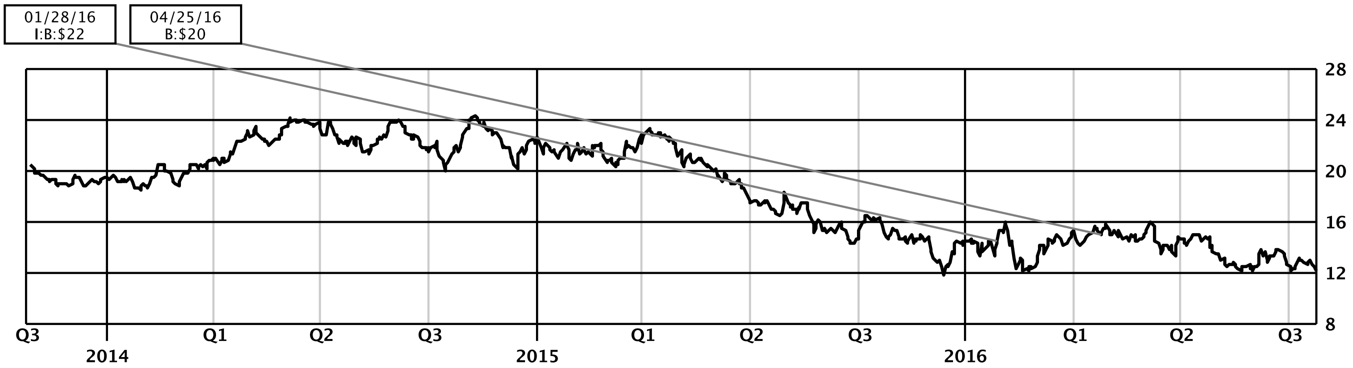
Rating and Price Target History for: Calpine Corp. (CPN) as of 10-25-2016



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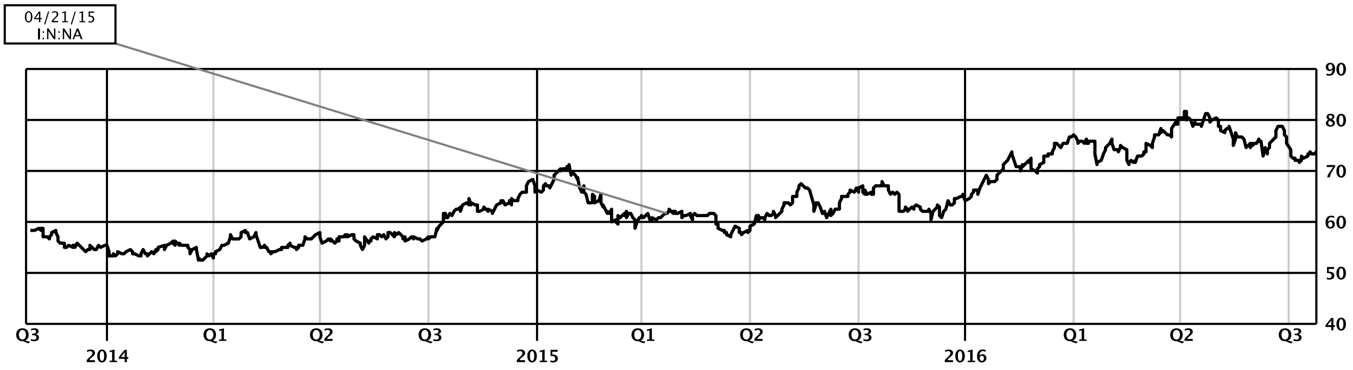
Rating and Price Target History for: Consolidated Edison, Inc. (ED) as of 10-25-2016



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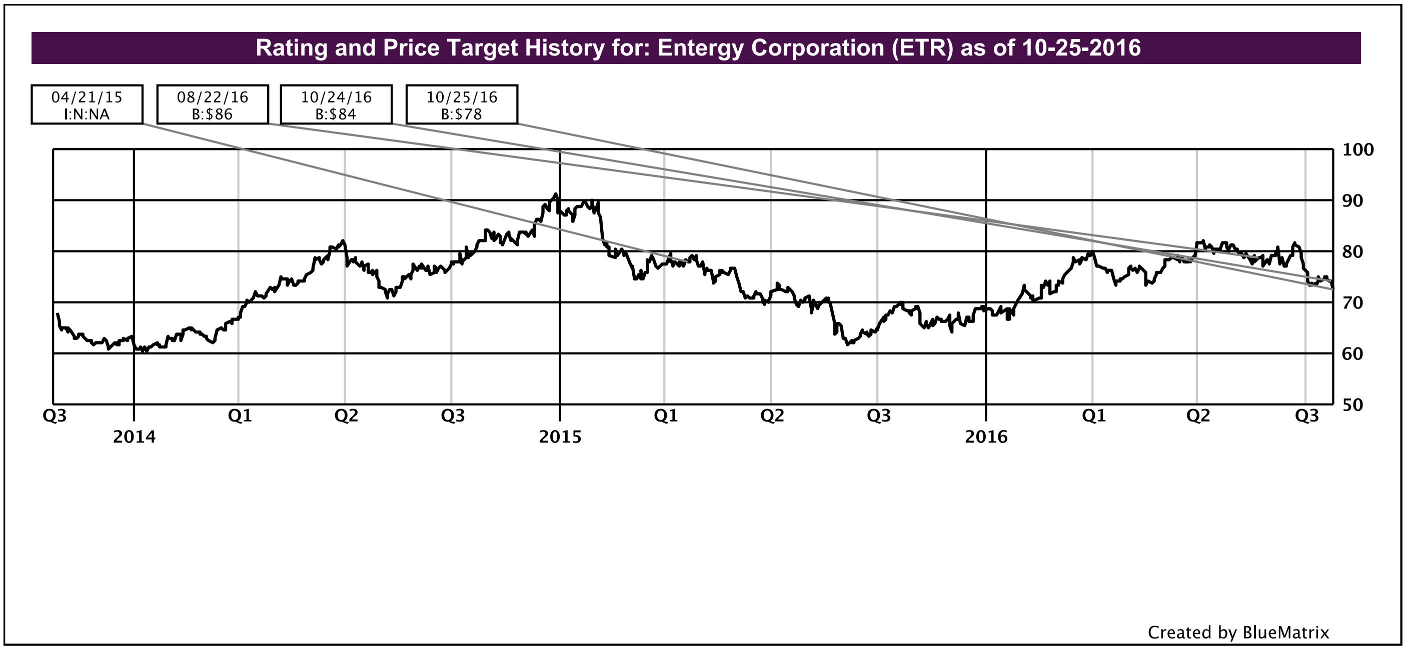

RATING DEFINITIONS

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Rating Category	Count	Percent	Count	Percent
Buy	160	60.84%	28	17.50%
Neutral	103	39.16%	2	1.94%
Sell	0	0.00%	0	0.00%

OTHER DISCLOSURES

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Equity Research | Instant Insights
10 August 2016

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Completed: 11-Aug-16, 03:17 GMT
Released: 11-Aug-16, 03:17 GMT

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Exelon Corp.

EXC: Coming Into Focus

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 41.00
Price (10-Aug-2016): USD 35.53
Potential Upside/Downside: 15%
Tickers: EXC

Analyst Day Provides Clarity on Utilities and Exelon Generation

Exelon held their analyst day and provided detail around the regulated growth plan as well as genco impacts of the New York zero-emission credit (ZEC) plan and the proposed closures of Clinton and Quad Cities. The regulated utility rate base growth is projected to be 6.1% through 2018, which should translate into 7-9% utility EPS growth based on rate base growth combined with closing the earned to allowed ROE gap. A good portion of the utility growth appears to be front-end loaded based on the projections provided by the company with a midpoint to midpoint uplift of 15% for 2017 over 2016. The 5 year $25B capital plan at the utility drives the rate base growth while closing the earned to allowed ROE gap at the utilities (in particular the legacy PHI utilities) pushes earnings higher, all while not requiring equity as the funding is supported by cash flows from the Exelon Generation. To that end the expectation is for Exelon Generation to provide $8.2B in free cash flow through 2020, with $2.7-$3.2 of this cash flow being allocated to utility investment. Additionally there is the expectation for $2.7-$3.2B of debt reduction at Exelon Generation bringing the Debt/EBITDA level down to 3.0x or lower. It is worth noting that the $8.2B is premised upon the closure of Quad Cities and Clinton, but does not include the approximately $750M of cash flow associated with the New York Clean Energy Standard and associated ZEC plan (including additional distributions from CENG related to completion of loan repayment and special distribution). Upon reaching 3.0x debt/EBITDA, the company can either further reduce Exelon Generation debt, reduce holding company debt, or if practical increase utility capex. None of the numbers provided included the potential impact of the recently announce agreement to acquire and operate the FitzPatrick nuclear plant, which would be additive to Exelon Generation earnings and cash flow. At this point in time we are reiterating our Overweight rating and $41 price target as we await the Q3 hedge disclosures, which will incorporate the ZEC plan. However, it should be noted that the increased cash flow from the ZEC plan and the proposed closure of Clinton and Quad Cities would likely be additive to our numbers in 2019 and beyond.

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27 October 2016

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TOP PICK Exelon Corp.

EXC: Good and Getting Better

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 39.00
Price (26-Oct-2016): USD 33.26
Potential Upside/Downside: 17%
Tickers: EXC

Last potential negative catalyst now behind them – looking at positive calendar going forward

Exelon provided initial 2019 gross margin guidance and updated 2016-2018 gross margin for Exgen based on the forward curves as of September 30. Expectations were for weak numbers given the movement in forward curves. The numbers were indeed weaker than the analyst day numbers on a like for like basis; however there were a couple of big positives to take into consideration. First was the expected gross margin contributions from the New York Clean Energy Standard (CES). The second was the expected gross margin contribution from the acquisition of the FitzPatrick nuclear plant. The third was an enhanced expectation for Exgen O&M reductions beyond those laid out at the analyst day. The following table compares the numbers provided at the analyst day to the Q3 disclosures along with the offsets discussed. The key takeaway is that in 2016-2017 the adjusted gross margin improves from the analyst day given the CES, FitzPatrick, and O&M savings more than offset power price declines. For 2019 the adjusted gross margin is only $275M lower than 2018, better than we expected, and going forward we would expect future gross margin revisions to increase based on our internal expectations for natural gas, combined with opportunistic hedging from Exgen. We expect to see the FitzPatrick deal approved in mid to late November with the NYSERDA contracts to follow shortly thereafter.

	Analyst Day				Q3 Earning Disclosures				Difference			
(Values in $Millions)	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
Open Gross Margin	$4,750	$5,650	$5,900	NA	$4,450	$5,200	$5,350	$5,050	-$300	-$450	-$550	NA
Hedge MTMT	$2,450	$800	$200	NA	$2,900	$1,250	$500	$300	$450	$450	$300	NA
Power New Business To Go	$150	$700	$900	NA	$50	$600	$900	$950	-$100	-$100	$0	NA
Non-Power Margins Executed	$350	$150	$100	NA	$400	$150	$100	$50	$50	$0	$0	NA
Non-Power New Business To Go	$100	$300	$400	NA	$50	$300	$400	$450	-$50	$0	$0	NA
Total Gross Margin	$7,800	$7,600	$7,500	NA	$7,850	$7,500	$7,250	$6,800	$50	-$100	-$250	NA
CES Gross Margin	$0	$0	$0	$0	$0	$100	$150	$200	$0	$100	$150	$200
FitzPatrick Gross Margin	$0	$0	$0	$0	$0	$200	$250	$300	$0	$200	$250	$300
O&M Savings	$0	-$25	$200	$250	-$25	-$50	$325	$400	-$25	-$25	$125	$150
Total Offsets	$0	-$25	$200	$250	-$25	$250	$725	$900	-$25	$275	$525	$650
Imputed Gross Margin with Offsets	$7,800	$7,575	$7,700	NA	$7,825	$7,750	$7,975	$7,700	$25	$175	$275	NA

Utilities showing strong results and rate relief progressing

The Q3 results exceeded consensus by $0.13 and the top end of EXC guidance by $0.16. These results were driven by stronger utility results based on weather, lack of storms and higher rate relief. Exelon increased 2016 guidance by $0.10 at the midpoint with ComEd and PHI each accounting for 5 cents. These increases are temporal based on weather and lack of storm costs, but the rate relief story is coming into focus. Atlantic City Electric received approval of their rate settlement resulting in a 45M revenue increase. The following table shows the ongoing rate cases. The rate relief is a critical component as improving the earned returns is what drives a 6.1% rate base growth into a 7-9% earnings growth for the utility segment.

	ACE Electric	PEPCO MD	ComEd	Delmarva MD	PEPCO DC	Delmarva Electric DE	Delmarva DE Gas	Total
Requested Revenue Requirement Increase	$45.0	$102.8	$132.0	$57.0	$82.1	$62.8	$21.5	$503.2
Requested ROE	9.75%	10.60%	8.64%	10.60%	10.60%	10.60%	10.60%	
Requested Equity Layer	49.48%	49.60%	46%	49.10%	49.14%	49.40%	49.40%	
Expected Regulatory Order Date	8/24/2016	11/15/2016	Dec-16	2/17/2017	7/25/2017	Q3 2017	Q3 2017	

Other points of interest

Aside from Exgen numbers and regulatory relief there were a few other items worth noting from the Q3 call release and call.

- Illinois Legislation – no certainty, but the door is open for a deal, owing to the temporary budget and educational funding issues not needing to be dealt with during the veto session. Again passage of a bill could pave the way to keep Quad Cities and Clinton operating if it provides appropriate financial incentives, but 2019 numbers improve by $0.07/share in EPS and by $75M for pretax cashflow if the plants close.

- Aside from the gross margin impact, the CES drives $0.08-$0.10 of EPS and $350M of additional after tax cash flow through 2020. FitzPatrick adds $0.02-$0.08 annually depending on refueling outages.

- Legal challenges to the CES have been filed and timing and outcome are uncertain, although Exelon reiterated confidence in their position. Assuming the FitzPatrick deal is approved Exelon will bear the legal burden associated with challenges to the CES once FitzPatrick is refueled in January 2017.

- Regarding the potential sale of the Mystic power plants in New England the company would not comment beyond to state that the plants are for sale.

We reiterate our Overweight rating and price target and continue to view EXC as a top pick in the sector.

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Equities

02 Dec 2016 07:02:27 ET | 9 pages

Diversified Utilities
North America | United States

Exelon Corp (EXC)

IL Bailout Bill Passed. Increasing PT to $31; Upgrading to Neutral.

- Estimate Change
- Target Price Change
- Rating Change

Neutral	2
from Sell	
Price (01 Dec 16)	US$32.17
Target price	US$31.00
from US$29.00	
Expected share price return	-3.6%
Expected dividend yield	4.0%
Expected total return	0.3%
Market Cap	US$29,702M

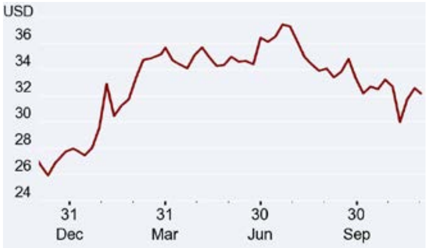
- The IL House and Senate passed SB 2814 bill to support Clinton and Quad Cities on 12/1/2016. This was the likely outcome after EXC got the Governor's support.

- **Increasing PT to $31 from $29. $1 for IL and $1 for Trump tax plan:** We value the IL bailout at $1/share based on post-tax cash flows of ~$125m/year over 10 years. With a potential reduction in the corporate tax rate looking imminent, we add $1/share on a probability adjusted basis for the Trump tax plan.
  - Assuming a 20% rate, ExGen valuation increases by ~$2-3/share given lower cash taxes. Exelon parent valuation drops by ~$0.50 - 1/share given the lower debt tax shield. Assuming limited impact on utility valuation, the net impact is $1.50 – 2/share. See Trump Tax Plan – Implications for IPPs
  - Note that NY ZECs add $2/share of value though we don't assign any value to them in our PT and continue to remain skeptical on the 'tethering' argument.
  - We think IL regulators may not have taken a lower tax rate into account when sizing the bailout. We don't assume the bailout is reduced if tax rate is lowered

- **Rationale for EXC upgrade to a Neutral.** Since earlier this year, EXC has underperformed the XLU by ~12%. Our primary Sell thesis was based on our view of ExGen's weakness. While ExGen weakness is only reconfirmed by the bailouts, external support from bailouts and lower taxes cushions challenges. Recent weakness in utilities has also brought down EXC's price more in line with our PT. The confluence of these factors results in our upgrade to Neutral.

- **Sum-of-parts PT of $31/share.** 2018 utility earnings are unchanged at $1.85/share, and based on our $30/share utility valuation, reflect a ~16x 2018 PE We value the parent at ($5)/share based on net debt at parent less the NPV of the debt tax shield and NOLs. We continue to value ExGen at $4/share. We value the IL ZEC at $1/share. Note that a applying a PE multiple to ZEC earnings significantly overstates ZEC value. We assign $1/share to Trump tax benefits.

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	na	na	na	na	2.49A	2.49A
2016E	0.68A	0.65A	0.91A	0.49E	2.74E	2.67E
Previous	0.68A	0.65A	0.91A	0.49E	2.74E	na
2017E	na	na	na	na	2.59E	2.59E
Previous	na	na	na	na	2.52E	na
2018E	na	na	na	na	2.77E	2.74E
Previous	na	na	na	na	2.63E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

EXC.N: Fiscal year end 31-Dec

Price: US$32.17; TP: US$31.00; Market Cap: US$29,702m; Recomm: Neutral

Profit & Loss (US$m)	2014	2015	2016E	2017E	2018E
Sales revenue	27,429	29,447	29,405	26,608	26,829
Cost of sales	-13,003	-13,084	-11,147	-8,091	-8,117
Gross profit	14,426	16,363	18,258	18,517	18,711
Gross Margin (%)	52.6	55.6	62.1	69.6	69.7
EBITDA (Adj)	4,704	6,841	8,217	8,475	8,990
EBITDA Margin (Adj) (%)	17.1	23.2	27.9	31.9	33.5
Depreciation	-2,314	-2,450	-3,626	-3,305	-3,468
Amortisation	0	0	0	0	0
EBIT (Adj)	3,096	4,409	3,487	5,169	5,523
EBIT Margin (Adj) (%)	11.3	15.0	11.9	19.4	20.6
Net interest	-1,065	-1,033	-1,596	-1,647	-1,690
Associates	-20	0	0	0	0
Non-op/Except	1,181	-28	367	28	221
Pre-tax profit	2,486	3,330	2,217	3,550	4,054
Tax	-666	-1,073	-840	-1,202	-1,383
Extraord./Min.Int./Pref.div.	-197	12	-32	-8	-8
Reported net profit	1,623	2,269	1,345	2,340	2,663
Net Margin (%)	5.9	7.7	4.6	8.8	9.9
Core NPAT	1,623	2,227	2,535	2,469	2,667
Per share data	2014	2015	2016E	2017E	2018E
Reported EPS ($)	1.88	2.54	1.45	2.45	2.77
Core EPS ($)	1.88	2.49	2.74	2.59	2.77
DPS ($)	1.24	1.24	1.27	1.29	1.33
CFPS ($)	5.16	8.53	8.84	7.88	7.31
FCFPS ($)	-1.88	-0.01	-0.45	-0.11	0.32
BVPS ($)	26.29	28.98	27.41	28.82	29.99
Wtd avg ord shares (m)	860	890	922	949	959
Wtd avg diluted shares (m)	864	893	926	953	963
Growth rates	2014	2015	2016E	2017E	2018E
Sales revenue (%)	na	7.4	-0.1	-9.5	0.8
EBIT (Adj) (%)	na	42.4	-20.9	48.2	6.8
Core NPAT (%)	na	37.2	13.8	-2.6	8.0
Core EPS (%)	na	32.8	9.7	-5.4	6.9
Balance Sheet (US$m)	2014	2015	2016E	2017E	2018E
Cash & cash equiv.	1,878	6,502	1,000	100	100
Accounts receivables	4,709	4,099	5,074	5,074	5,074
Inventory	1,603	1,566	1,562	1,562	1,562
Net fixed & other tangibles	64,652	69,916	85,539	89,003	91,532
Goodwill & intangibles	8,748	8,737	16,694	16,694	16,694
Financial & other assets	5,224	4,564	4,936	4,945	4,964
Total assets	86,814	95,384	114,805	117,378	119,926
Accounts payable	3,048	2,883	3,044	3,044	3,044
Short-term debt	2,262	2,033	2,362	1,130	681
Long-term debt	20,010	24,286	34,505	35,020	36,434
Provisions & other liab	37,361	38,888	48,181	49,387	49,577
Total liabilities	62,681	68,090	88,092	88,581	89,735
Shareholders' equity	22,801	25,986	25,279	27,364	28,757
Minority interests	1,332	1,308	1,433	1,433	1,433
Total equity	24,133	27,294	26,712	28,797	30,190
Net debt (Adj)	20,394	19,817	35,867	36,050	37,015
Net debt to equity (Adj) (%)	84.5	72.6	134.3	125.2	122.6

Valuation ratios	2014	2015	2016E	2017E	2018E
PE (x)	17.1	12.9	11.8	12.4	11.6
PB (x)	1.2	1.1	1.2	1.1	1.1
EV/EBITDA (x)	na	8.0	7.7	8.4	8.0
FCF yield (%)	-5.8	0.0	-1.4	-0.4	1.0
Dividend yield (%)	3.9	3.9	3.9	4.0	4.1
Payout ratio (%)	66	50	46	50	48
ROE (%)	na	9.4	5.3	8.9	9.5
Cashflow (US$m)	2014	2015	2016E	2017E	2018E
EBITDA	4,704	6,841	7,072	8,475	8,990
Working capital	-3,247	-264	461	0	0
Other	3,000	1,039	659	-959	-1,952
Operating cashflow	4,457	7,616	8,192	7,516	7,038
Capex	-6,077	-7,624	-8,612	-7,625	-6,725
Net acq/disposals	1,657	-145	-6,666	0	0
Other	-179	-53	-185	0	0
Investing cashflow	-4,599	-7,822	-15,463	-7,625	-6,725
Dividends paid	-1,486	-1,105	-1,645	-1,223	-1,278
Financing cashflow	411	4,830	1,772	-791	-313
Net change in cash	269	4,624	-5,498	-900	0
Free cashflow to s/holders	-1,620	-8	-419	-109	313

For definitions of the items in this table, please click here.

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates three utilities in Pennsylvania, Illinois, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, and Baltimore Gas & Electric in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants located concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Neutral (2). Our rating is based on concerns around the management team’s strategic vision and execution, downside related to the Pepco transaction, concerns around the economics of Exelon’s nuclear fleet with low unlevered free cash flow conversion (UFCF) of ~45% and a weak utility business with below average growth of ~4% through 2019

Valuation

We value EXC using a sum-of-the-parts approach to get to our $31 target. We value ExGen at $4/share and believe ExGen’s core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $22/share based on a 17x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent to get to our price target. We ascribe 1$ per share to the impact of Trump's tax plan and $1 per share due to IL ZEC.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

Analyst Certification

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by “AC” in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	02-Jan-14 21:22:43	*3	*21.00	27.17
2	24-Apr-14 05:02:25	3	*27.00	36.01
3	22-Jul-14 20:24:08	3	*30.00	31.78
4	17-Oct-14 03:01:08	*2	*37.00	34.38
5	18-Dec-14 16:46:48	Coverage terminated		
6	17-Sep-15 16:01:15	*3	*27.00	31.57
7	26-Jan-16 17:07:46	*2	27.00	27.84
8	22-Feb-16 16:00:00	*3	27.00	31.69
9	19-Jul-16 23:43:46	3	*29.00	36.58
10	04-Oct-16 03:14:34	3	*27.00	31.86
11	28-Nov-16 20:37:44	3	*29.00	33.39

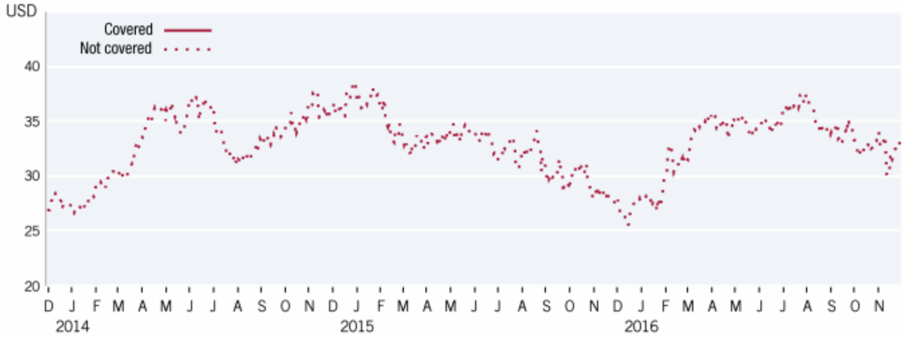
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

Rating/target price changes above reflect Eastern Time

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Citi Research Equity Ratings Distribution

	12 Month Rating			*Catalyst Watch*		
Data current as of 30 Sep 2016	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	47%	39%	14%	0%	100%	0%
% of companies in each rating category that are investment banking clients	66%	61%	60%	0%	64%	0%

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Citi Research
Equities

10 Jul 2016 16:56:44 ET | 12 pages

Diversified Utilities
North America | United States

Exelon Corp (EXC)

Model and Capacity Price Updates. Reiterate Sell and $27PT

- **Model updated for capacity auction results. ExGen continues to drag down Exelon Story.** Our primary updates to our model relate to the weakening EBITDA profile of ExGen which drops by ~$400m in 2019 following the results of the capacity auction and updated commodity curves as of 5/26/2019. We had laid out the impact of the capacity auction in a note following the auction. PJM Auctions – Weaker than Expected: Trigger for further retirements…and then an uptick in prices
- **PT stays at $27 given a more bullish view on growth and valuation of the utility businesses.** We have updated the terminal PE multiples of the utility business to 16.0x from 15.0x primarily driven by a more bullish view on growth of EXC's utilities post 2019. Note that following Brexit we do think interest rates do stay lower for longer. This view on interest rates translates to a lower WACC and, higher multiple for utilities. As interest rates show signs of life, this uplift from a lower WACC and higher multiple will reverse for all utilities.
- **Clinton and Quad Cities retirement is value neutral.** While ~$50m of negative FCF is saved from the retirement of these plants, the cost of decommissioning and spent fuel management will likely limit the economic benefit of retirement.
- **ExGen is still ~25% of EXC's price target.** While the Pepco transaction does increase the proportion of the utility business, we think the key driver of EXC's stock price and valuation is still the view on valuation of ExGen.
- **ExGen should be valued at 5.5x 2019 EBITDA.** We stay concerned on the future of EXC's nuclear fleet given the average cash cost of generation of $30 - $35/MWh. We think without external/political support or carbon pricing, more nuclear plants will retire over time. That is why we think ExGen should be valued at a 5.5x EBITDA multiple – it reflects the low unlevered FCF conversion (~45%) and the relatively short (~15yr) economic asset life of its remaining nuclear fleet.
- **Reiterate our Sell rating and $27 target price.** A challenged and over-levered nuclear fleet drives our valuation and PT.

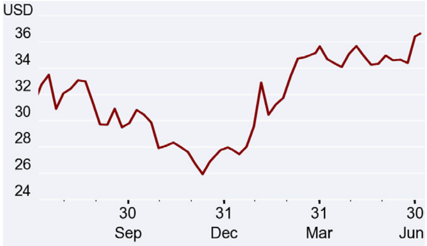
EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.71A	0.59A	0.83A	0.38A	2.49A	2.49A
2016E	**0.68A**	**0.54E**	**0.89E**	**0.59E**	**2.71E**	**2.50E**
Previous	0.93E	0.33E	0.77E	0.55E	2.59E	na
2017E	**na**	**na**	**na**	**na**	**2.72E**	**2.64E**
Previous	na	na	na	na	2.69E	na
2018E	**na**	**na**	**na**	**na**	**2.89E**	**2.78E**
Previous	na	na	na	na	2.88E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

- Estimate Change

Sell	**3**
Price (08 Jul 16)	US$36.11
Target price	US$27.00
Expected share price return	-25.2%
Expected dividend yield	3.5%
Expected total return	**-21.7%**
Market Cap	US$32,041M

Price Performance
(RIC: EXC.N, BB: EXC US)



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EXC.N: Fiscal year end 31-Dec

Price: US$36.11; TP: US$27.00; Market Cap: US$32,041m; Recomm: Sell

Profit & Loss (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue	27,429	29,447	26,925	26,826	27,227
Cost of sales	-13,003	-13,084	-8,887	-8,119	-8,138
Gross profit	14,426	16,363	18,038	18,707	19,089
Gross Margin (%)	52.6	55.6	67.0	69.7	70.1
EBITDA (Adj)	**4,704**	**6,841**	**7,425**	**8,712**	**9,235**
EBITDA Margin (Adj) (%)	17.1	23.2	27.6	32.5	33.9
Depreciation	-2,314	-2,450	-3,091	-3,389	-3,563
Amortisation	0	0	0	0	0
EBIT (Adj)	**3,096**	**4,409**	**4,343**	**5,324**	**5,672**
EBIT Margin (Adj) (%)	11.3	15.0	16.1	19.8	20.8
Net interest	-1,065	-1,033	-1,475	-1,612	-1,659
Associates	-20	0	0	0	0
Non-op/Except	1,181	-28	96	28	221
Pre-tax profit	**2,486**	**3,330**	**2,954**	**3,740**	**4,233**
Tax	-666	-1,073	-1,077	-1,270	-1,446
Extraord./Min.Int./Pref.div.	-197	12	41	-12	-12
Reported net profit	**1,623**	**2,269**	**1,919**	**2,458**	**2,775**
Net Margin (%)	5.9	7.7	7.1	9.2	10.2
Core NPAT	1,623	2,227	2,505	2,586	2,779
Per share data	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Reported EPS ($)	1.88	2.54	2.07	2.58	2.89
Core EPS ($)	1.88	2.49	2.71	2.72	2.89
DPS ($)	1.24	1.24	1.26	1.29	1.33
CFPS ($)	5.16	8.53	7.45	8.13	7.58
FCFPS ($)	-1.88	-0.01	-1.52	-0.21	0.45
BVPS ($)	26.29	28.98	28.86	30.58	31.85
Wtd avg ord shares (m)	860	890	921	948	958
Wtd avg diluted shares (m)	864	893	925	952	962
Growth rates	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue (%)	na	7.4	-8.6	-0.4	1.5
EBIT (Adj) (%)	na	42.4	-1.5	22.6	6.5
Core NPAT (%)	na	37.2	12.5	3.2	7.4
Core EPS (%)	na	32.8	8.6	0.3	6.4
Balance Sheet (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Cash & cash equiv.	1,878	6,502	100	100	100
Accounts receivables	4,709	4,099	4,732	4,732	4,732
Inventory	1,603	1,566	1,514	1,514	1,514
Net fixed & other tangibles	64,652	69,916	84,751	88,295	90,693
Goodwill & intangibles	8,748	8,737	17,095	17,095	17,095
Financial & other assets	5,224	4,564	5,454	5,465	5,484
Total assets	**86,814**	**95,384**	**113,646**	**117,201**	**119,618**
Accounts payable	3,048	2,883	2,874	2,874	2,874
Short-term debt	2,262	2,033	5,139	4,867	4,344
Long-term debt	20,010	24,286	31,210	31,752	33,123
Provisions & other liab	37,361	38,888	46,363	47,251	47,308
Total liabilities	**62,681**	**68,090**	**85,587**	**86,744**	**87,649**
Shareholders' equity	22,801	25,986	26,783	29,181	30,693
Minority interests	1,332	1,308	1,276	1,276	1,276
Total equity	**24,133**	**27,294**	**28,059**	**30,457**	**31,969**
Net debt (Adj)	**20,394**	**19,817**	**36,249**	**36,520**	**37,367**
Net debt to equity (Adj) (%)	84.5	72.6	129.2	119.9	116.9

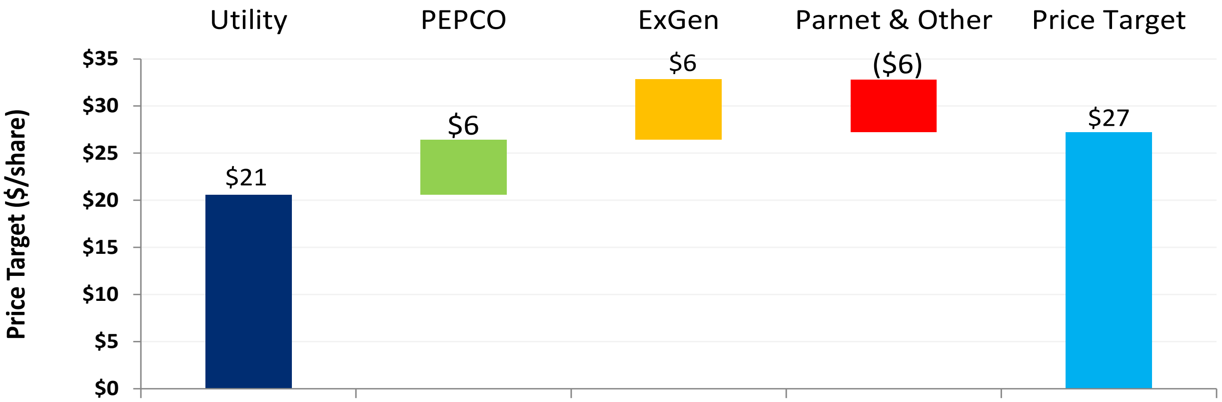
Valuation ratios	**2014**	**2015**	**2016E**	**2017E**	**2018E**
PE (x)	19.2	14.5	13.3	13.3	12.5
PB (x)	1.4	1.2	1.3	1.2	1.1
EV/EBITDA (x)	na	8.4	8.8	8.5	8.1
FCF yield (%)	-5.2	0.0	-4.2	-0.6	1.2
Dividend yield (%)	3.4	3.4	3.5	3.6	3.7
Payout ratio (%)	66	50	47	48	46
ROE (%)	na	9.4	7.3	8.8	9.3
Cashflow (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EBITDA	4,704	6,841	7,425	8,712	9,235
Working capital	-3,247	-264	-592	0	0
Other	3,000	1,039	62	-973	-1,942
Operating cashflow	**4,457**	**7,616**	**6,894**	**7,739**	**7,293**
Capex	-6,077	-7,624	-8,298	-7,938	-6,864
Net acq/disposals	1,657	-145	-6,342	0	0
Other	-179	-53	-4	0	0
Investing cashflow	**-4,599**	**-7,822**	**-14,644**	**-7,938**	**-6,864**
Dividends paid	-1,486	-1,105	-1,169	-1,221	-1,276
Financing cashflow	**411**	**4,830**	**1,348**	**199**	**-429**
Net change in cash	**269**	**4,624**	**-6,402**	**0**	**0**
Free cashflow to s/holders	**-1,620**	**-8**	**-1,404**	**-199**	**429**

For definitions of the items in this table, please click here.

EXC Model Update in details

- Following two tables show our sum-of-part valuation

Figure 1. Sum-of-part valuation – 7/10/2016 (Latest Valuation)

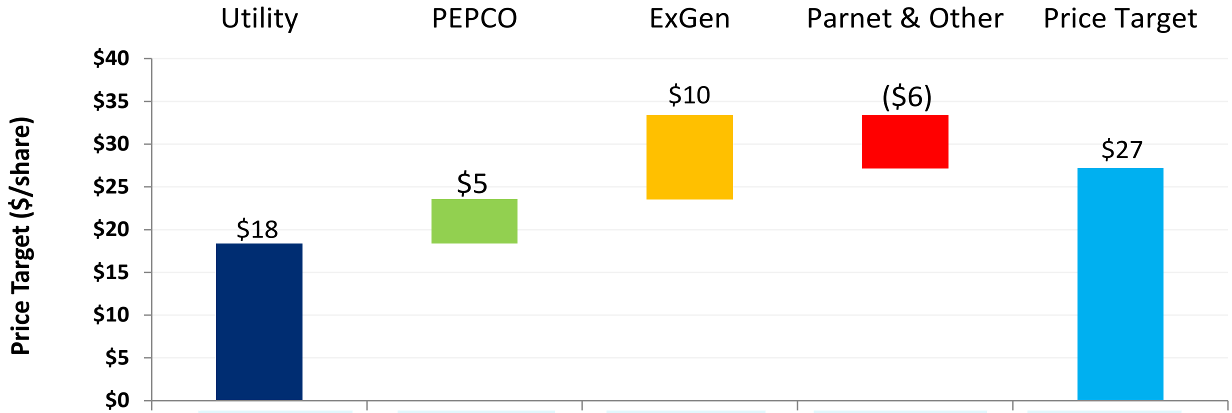


	Utility	**PEPCO**	**ExGen**	**Parent & Other**	**Price Target**
Components					
Terminal Multiple	16.0x	16.5x	5.5x		
Discount Rate	6.5%	6.5%	8.5%		
Firm Value ($mm)	$32,142	$11,592	$15,915		$59,649
Net Debt ($mm)	(13,075)	(6,185)	(9,993)		(29,252)
Equity Value ($mm)	19,067	5,407	5,923	(5,604)	24,793
Share Price ($/share)	**$21**	**$6**	**$6**	**($6)**	**$27**

Source: Citi Research

PT doesn't add up due to rounding

Figure 2. Sum-of-part valuation – 2/22/2016 (Old Valuation)



	Utility	**PEPCO**	**ExGen**	**Parent & Other**	**Price Target**
Components					
Terminal Multiple	15.00x	15.50x	5.50x		
Discount Rate	6.5%	6.5%	8.5%		
Firm Value ($mm)	$29,569	$11,020	$17,497		$58,086
Net Debt ($mm)	(12,534)	(6,260)	(8,382)		(27,175)
Equity Value ($mm)	17,034	4,760	9,116	(5,749)	25,162
Share Price ($/share)	**$18**	**$5**	**$10**	**($6)**	**$27**

Source: Citi Research

Bridge to ExGen EBITDA

- Table below shows our EBITDA bridge. We have updated our model for power curves as of 5/26/2016, latest PJM capacity auction prices and for latest hedge profile.

- The company secured more hedges (on percentage basis), however on lower margins. Therefore, newly secured hedges had net negative contribution to energy margins.

- Our updated model reflects latest PJM auction results. Due to lower auction prices, our FY2019 capacity revenue decreased by ~$240mm.

- We have incorporated Quad Cities and Clinton nuclear power plant closures into our model. We estimate 2019 total generation will be reduced by 20TWh due to retirement of these plants. Our 2018 and 2019 O&M forecasts were reduced to reflect lower generation as well.

Figure 3. ExGen - EBITDA Bridge

ExGen EBITDA	2016	2017	2018	2019
Published model (2.22.2016)	$3,109	$3,141	$3,356	$3,358
Updated Model	2,972	3,187	3,265	2,957
Delta	**($137)**	**$47**	**($91)**	**($400)**

Capacity Revenue	2016	2017	2018	2019
Published model (2.22.2016)	$1,343	$1,456	$1,759	$1,710
Updated Model	1,343	1,456	1,759	1,470
Delta	$0	$0	$0	($240)

Energy Margin	2016	2017	2018	2019
Published model (2.22.2016)	$5,658	$5,227	$4,914	$4,979
Updated Model	5,941	5,239	4,540	4,417
Delta	$283	$12	($375)	($562)

O&M	2016	2017	2018	2019
Published model (2.22.2016)	$4,498	$4,506	$4,524	$4,524
Updated Model	4,680	4,422	4,241	4,122
Delta	$182	($84)	($283)	($402)

Source: Citi Research

- Table below shows our updated DCF output of ExGen

Figure 4. DCF Summary

ExGen Valuation	2017	2018	2019
EBIT	$1,918	$1,958	$1,586
less taxes	(671)	(685)	(555)
EBIAT	$1,247	$1,273	$1,031
add deferred income taxes	25	(128)	(202)
add depreciation	2,206	2,149	2,228
Less capex	(2,538)	(1,864)	(1,764)
Unlevered FCF	$940	$1,430	$1,293
Terminal Value			$16,266

Valuation Summary	**12/30/2016**
Value of cash flows	$3,180
Terminal Value	12,735
Total Firm Value	$15,915
Less Net Debt	(9,993)
Equity Value	$5,923
Shares outstanding	926
Share price	$6

Source: Citi Research

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates three

utilities in Pennsylvania, Illinois, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, and Baltimore Gas & Electric in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants located concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Sell (3). Our rating is based on concerns around the management team’s strategic vision and execution, downside related to the Pepco transaction, concerns around the economics of Exelon’s nuclear fleet with low unlevered free cash flow conversion (UFCF) of ~45% and a weak utility business with below average growth of ~4% through 2019

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $6/share and believe ExGen’s core nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $21/share based on a 16x terminal PE multiple. We also add $6/share value provided by PepCo. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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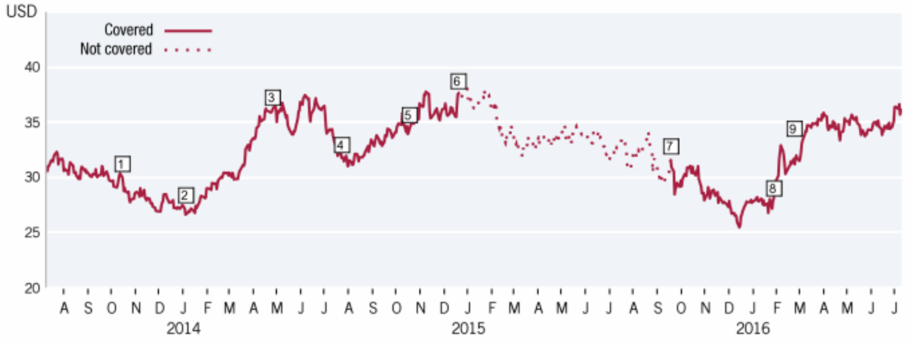
Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	14-Oct-13 19:32:26	2	*29.00	30.02
2	02-Jan-14 21:22:43	*3	*21.00	27.17
3	24-Apr-14 05:02:25	3	*27.00	36.01
4	22-Jul-14 20:24:08	3	*30.00	31.78
5	17-Oct-14 03:01:08	*2	*37.00	34.38
6	18-Dec-14 16:46:48	Coverage terminated		
7	17-Sep-15 16:01:15	*3	*27.00	31.57
8	26-Jan-16 17:07:46	*2	27.00	27.84
9	22-Feb-16 16:00:00	*3	27.00	31.69

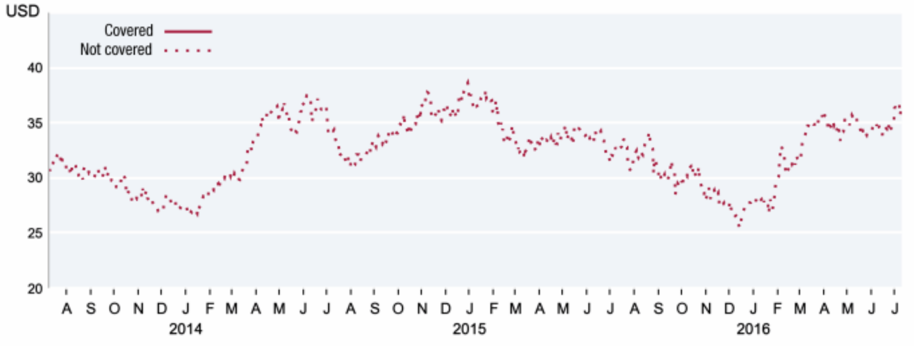
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

Rating/target price changes above reflect Eastern Time

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Equities

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Diversified Utilities
North America │ United States

Exelon Corp (EXC)

Nuclear Bailout key Catalyst for EXC Story. We Remain Skeptical – Reiterate Sell Rating.

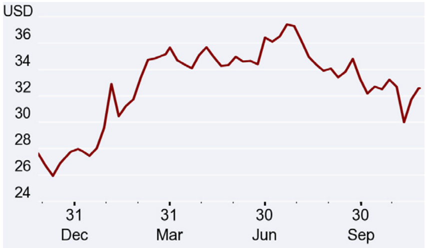
- Estimate Change
- Target Price Change

Sell	**3**
Price (28 Nov 16)	US$33.39
Target price	US$29.00
from US$27.00	
Expected share price return	-13.1%
Expected dividend yield	3.8%
Expected total return	**-9.3%**
Market Cap	US$30,828M

- **ExGen merchant valuation is $4/share. Bailouts in NY and IL worth an additional $3/share.** EXC valuation, on the margin, is primarily driven by views of ExGen and nuclear bailouts. We value ExGen at $4/share on a merchant basis and $7+/share if bailouts in NY, IL come through and set the precedent for more.
- **ExGen FCF decline through 2019 only part of the valuation story.** ExGen 2019 guidance for gross margin, at $6.8B, is ~$1B lower than 2016. Guidance on O&M and TOTI suggest an EBITDA of $2.3B in 2019. Citi estimates EBITDA, Unlevered FCF (UFCF) and FCF of $2.5B, $1.3B and $1.1B, respectively. While our 2019 estimates are in line with guidance, valuation is driven more by views after 2019.
- **Nuclear economics post 2019 key driver. Here is what a $4/share valuation implies post 2019.** Using 2019 FCF as an anchor, a $4/share implies either:
  - A. Nuclear assets have a 15yr life and UFCF grows at 4.9% p.a. post 2019 OR
  - B. Nuclear assets have a 20yr life and UFCF grows at 2.2% post 2019p.a.

  Without a bailout, we think there is more downside risk to the cash flow and asset life vs. what is implied by our $4/share valuation. Market power prices, especially off-peak, continue to decline given demand weakness and renewables impact.
- **Why are we skeptical on the bailout? Key IL catalyst coming.** *NY ZECs:* The fact that existing plant economics drive qualification to a ZEC program, in our view, 'tethers' ZECs to wholesale market. This goes against Hughes vs. Talen. *IL SB2814:* While the scramble to alter the bill on 11/22 may help, we think getting political resolution on a large and fluid bill between 11/29 and 12/1 may be a bridge too far.
- **Increasing PT to $29 driven by utility valuation increased to $22/share. Parent at $(5)/share.** With 2018 utility earnings of $1.85/share, our utility valuation translates to a ~16x 2018 PE and a post 2019 growth rate of ~5%. We value the parent at ($5)/share based on net debt at parent less the NPV of the debt tax shield and value of NOLs. We think a PE multiple understates negative value impact of parent debt given cheap revolver / CP debt is being paid down by cash from ExGen.

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	**Q1**	**Q2**	**Q3**	**Q4**	**FY**	**FC Cons**
2015A	na	na	na	na	2.49A	2.49A
2016E	**0.68A**	**0.65A**	**0.91A**	**0.49E**	**2.74E**	**2.66E**
Previous	0.68A	0.65A	0.72E	0.48E	2.53E	na
2017E	**na**	**na**	**na**	**na**	**2.52E**	**2.59E**
Previous	na	na	na	na	2.59E	na
2018E	**na**	**na**	**na**	**na**	**2.63E**	**2.74E**
Previous	na	na	na	na	2.69E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

EXC.N: Fiscal year end 31-Dec **Price: US$33.39; TP: US$29.00; Market Cap: US$30,828m; Recomm: Sell**

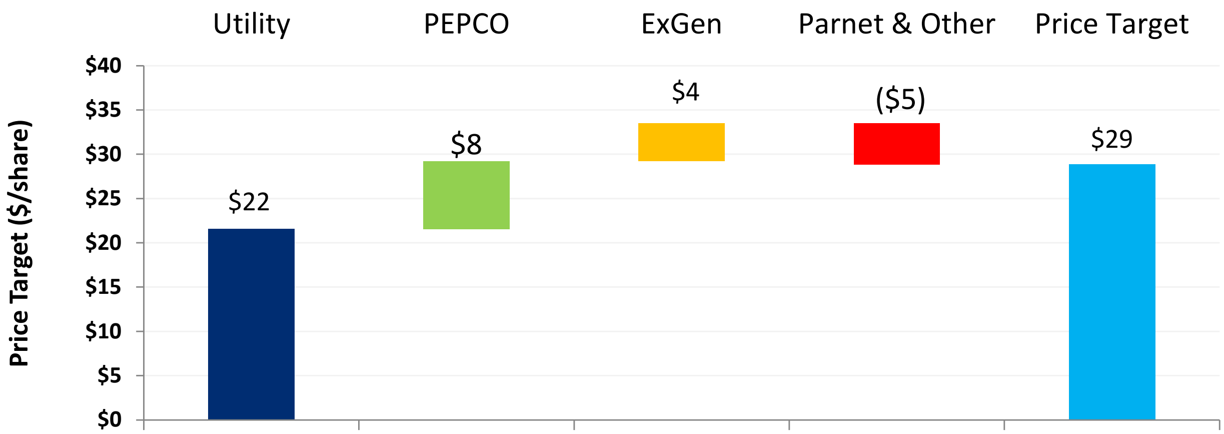
Profit & Loss (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue	27,429	29,447	29,405	26,501	26,634
Cost of sales	-13,003	-13,084	-11,147	-8,091	-8,117
Gross profit	14,426	16,363	18,258	18,410	18,517
Gross Margin (%)	52.6	55.6	62.1	69.5	69.5
EBITDA (Adj)	**4,704**	**6,841**	**8,217**	**8,368**	**8,796**
EBITDA Margin (Adj) (%)	17.1	23.2	27.9	31.6	33.0
Depreciation	-2,314	-2,450	-3,626	-3,305	-3,468
Amortisation	0	0	0	0	0
EBIT (Adj)	**3,096**	**4,409**	**3,487**	**5,062**	**5,328**
EBIT Margin (Adj) (%)	11.3	15.0	11.9	19.1	20.0
Net interest	-1,065	-1,033	-1,596	-1,649	-1,694
Associates	-20	0	0	0	0
Non-op/Except	1,181	-28	367	28	221
Pre-tax profit	**2,486**	**3,330**	**2,217**	**3,442**	**3,855**
Tax	-666	-1,073	-840	-1,164	-1,313
Extraord./Min.Int./Pref.div.	-197	12	-32	-8	-8
Reported net profit	**1,623**	**2,269**	**1,345**	**2,269**	**2,534**
Net Margin (%)	5.9	7.7	4.6	8.6	9.5
Core NPAT	1,623	2,227	2,535	2,398	2,537
Per share data	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Reported EPS ($)	1.88	2.54	1.45	2.38	2.63
Core EPS ($)	1.88	2.49	2.74	2.52	2.63
DPS ($)	1.24	1.24	1.27	1.29	1.33
CFPS ($)	5.16	8.53	8.84	7.97	7.21
FCFPS ($)	-1.88	-0.01	-0.45	-0.03	0.23
BVPS ($)	26.29	28.98	27.41	28.75	29.78
Wtd avg ord shares (m)	860	890	922	949	959
Wtd avg diluted shares (m)	864	893	926	953	963
Growth rates	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue (%)	na	7.4	-0.1	-9.9	0.5
EBIT (Adj) (%)	na	42.4	-20.9	45.2	5.3
Core NPAT (%)	na	37.2	13.8	-5.4	5.8
Core EPS (%)	na	32.8	9.7	-8.1	4.7
Balance Sheet (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Cash & cash equiv.	1,878	6,502	1,000	100	100
Accounts receivables	4,709	4,099	5,074	5,074	5,074
Inventory	1,603	1,566	1,562	1,562	1,562
Net fixed & other tangibles	64,652	69,916	85,539	89,003	91,532
Goodwill & intangibles	8,748	8,737	16,694	16,694	16,694
Financial & other assets	5,224	4,564	4,936	4,945	4,964
Total assets	**86,814**	**95,384**	**114,805**	**117,378**	**119,926**
Accounts payable	3,048	2,883	3,044	3,044	3,044
Short-term debt	2,262	2,033	2,362	1,238	881
Long-term debt	20,010	24,286	34,505	35,020	36,434
Provisions & other liab	37,361	38,888	48,181	49,349	49,577
Total liabilities	**62,681**	**68,090**	**88,092**	**88,652**	**89,935**
Shareholders' equity	22,801	25,986	25,279	27,293	28,558
Minority interests	1,332	1,308	1,433	1,433	1,433
Total equity	**24,133**	**27,294**	**26,712**	**28,726**	**29,991**
Net debt (Adj)	**20,394**	**19,817**	**35,867**	**36,158**	**37,215**
Net debt to equity (Adj) (%)	84.5	72.6	134.3	125.9	124.1

Valuation ratios	**2014**	**2015**	**2016E**	**2017E**	**2018E**
PE (x)	17.8	13.4	12.2	13.3	12.7
PB (x)	1.3	1.2	1.2	1.2	1.1
EV/EBITDA (x)	na	8.2	7.8	8.7	8.3
FCF yield (%)	-5.6	0.0	-1.4	-0.1	0.7
Dividend yield (%)	3.7	3.7	3.8	3.9	4.0
Payout ratio (%)	66	50	46	51	50
ROE (%)	na	9.4	5.3	8.6	9.1
Cashflow (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EBITDA	4,704	6,841	7,072	8,368	8,796
Working capital	-3,247	-264	461	0	0
Other	3,000	1,039	659	-770	-1,849
Operating cashflow	**4,457**	**7,616**	**8,192**	**7,597**	**6,946**
Capex	-6,077	-7,624	-8,612	-7,625	-6,725
Net acq/disposals	1,657	-145	-6,666	0	0
Other	-179	-53	-185	0	0
Investing cashflow	**-4,599**	**-7,822**	**-15,463**	**-7,625**	**-6,725**
Dividends paid	-1,486	-1,105	-1,645	-1,223	-1,278
Financing cashflow	**411**	**4,830**	**1,772**	**-682**	**-221**
Net change in cash	**269**	**4,624**	**-5,498**	**-710**	**0**
Free cashflow to s/holders	**-1,620**	**-8**	**-419**	**-28**	**221**

For definitions of the items in this table, please click here.

ExGen Valuation – Focus on 2019

Figure 1. SOTP Chart



Components	Utility	PEPCO	ExGen	Parent & Other	Price Target
Terminal Multiple	17.0x	17.0x	5.5x		
Discount Rate	6.5%	6.5%	8.5%		
Firm Value ($mm)	$34,241	$13,521	$14,104		$61,866
Net Debt ($mm)	(13,517)	(6,153)	(10,000)		(29,670)
Equity Value ($mm)	20,723	7,368	4,104	(4,453)	27,743
Share Price ($/share)	**$22**	**$8**	**$4**	**($5)**	**$29**

Source: Citi Research. We used 961m shares outstanding for this calculation. SOTP based on 6/30/2017.

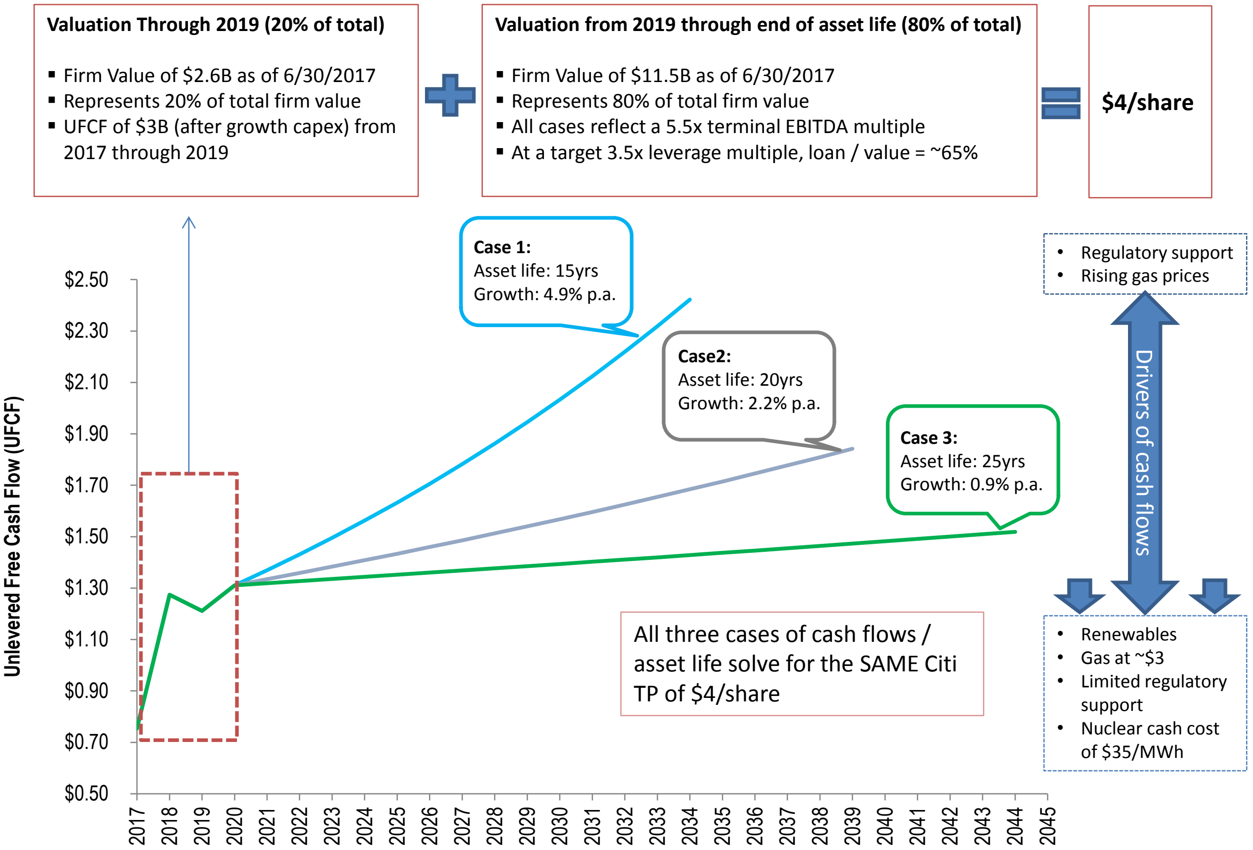
- We value legacy utility business on stand-alone basis using our standard bottoms up DCF approach. We ascribe terminal PE multiple and WACC of 17.0x and 6.5%, respectively, to both legacy utility business as well as PEPCO. Our terminal multiple predicated on long term growth rate of ~5% after 2019.

- We use our standard bottoms up DCF approach to value ExGen. We ascribe terminal EBITDA multiple of 5.5x. Our terminal EBITDA is a function of our views around asset life (~25yrs) and unlevered free cash flow conversion factor (45%).

- We value the parent at ($5)/share based on net debt at parent less the NPV of the debt tax shield and value of NOLs as of 6/30/2017. We value parent debt on standalone basis as it is not linked to utility business. Also, we don't use an earnings multiple as it artificially lowers the value of parent debt given low interest rates of revolver / CP. If Trump's tax plan plays out, this parent debt will get more expensive as the debt tax shield will reduce.

- We have updated our full-year 2016 consolidated operational eps estimates to reflect actual 3Q results, seasonality factor adjustments, power curve updates, the latest management guidance and etc.

Figure 2. ExGen Valuation – Visual Representation of ExGen Valuation. (details in figure 1)



Valuation Through 2019 (20% of total)

- Firm Value of $2.6B as of 6/30/2017
- Represents 20% of total firm value
- UFCF of $3B (after growth capex) from 2017 through 2019

Valuation from 2019 through end of asset life (80% of total)

- Firm Value of $11.5B as of 6/30/2017
- Represents 80% of total firm value
- All cases reflect a 5.5x terminal EBITDA multiple
- At a target 3.5x leverage multiple, loan / value = ~65%

$4/share

Case 1:
Asset life: 15yrs
Growth: 4.9% p.a.

Case2:
Asset life: 20yrs
Growth: 2.2% p.a.

Case 3:
Asset life: 25yrs
Growth: 0.9% p.a.

All three cases of cash flows / asset life solve for the SAME Citi TP of $4/share

- Regulatory support
- Rising gas prices

- Renewables
- Gas at ~$3
- Limited regulatory support
- Nuclear cash cost of $35/MWh

Source: Citi Research

ExGen Valuation Breakdown:

Figure 3. ExGen Economics

Details	Units	Source of EXC Guidance Column	EXC Guidance	Citi Estimates
			2019	2019
Gross Margin	$mm	Q3 Presentation	$6,800	$7,014
O&M	$mm	Q3 Presentation	(4,175)	(4,143)
			$2,625	$2,871
Taxes other than Income Taxes	$mm	Q3 Presentation	(350)	(350)
EBITDA in 2019	**$mm**		**$2,275**	**$2,521**

Calculation for Cash Taxes			EXC Guidance	Citi Estimates
Other Income	$mm	Q3 Presentation for 2016	$200	$200
D&A	$mm	Citi estimate	(1,204)	(1,204)
EBIT	$mm	EBITDA - D&A	$1,271	$1,517
Unlevered Book taxes	$mm	34% Tax rate per Q3	($445)	($531)
Deferred taxes	$mm	Citi estimate	(100)	(113)
Unlevered Cash taxes	$mm	Book + deferred taxes	(545)	(644)
EBITDA	$mm	From above	$2,275	$2,521
add other income	$mm	From above	$200	$200
Less cash taxes	$mm	From above	(545)	(644)
Less maintenance capex	$mm	Analyst Day presentation	(800)	(800)
Unlevered FCF in 2019	**$mm**		**$1,130**	**$1,277**
Interest	$mm	Citi estimate in 2019	($380)	($380)
Tax shield on interest	$mm		133	133
Cash interest (post tax)			($247)	($247)
Net FCF in 2019	**$mm**	UFCF - post-tax interest	**$883**	**$1,030**

Debt Amortization and Net FCF to Equity			EXC Guidance	Citi Estimates
Net Debt 9/30/2016	$mm	10Q	$8,758	$8,758
Additional debt issuance	$mm	Q3 Presentation	1,088	1,088
Total Debt 12/31/2016	$mm		$9,846	$9,846
Assumed paydown through 12/31/2019	$mm	Citi estimate	(623)	(623)
Debt balance 12/31/2019	$mm		$9,223	$9,223
Asset Life post 2019	yrs	Citi estimate	15.0	15.0
Annual Amortization	$mm	Debt / Asset Life	$615	$615
Net Equity Cash Flows post 2019	**$mm**	FCF - Annual Amort	**$268**	**$415**

Implied Growth Rate of UFCF			EXC Guidance	Citi Estimates
Discount rate (r)	%	Citi estimate	8.50%	8.50%
Current terminal Value in DCF	$mm	Per Citi model using 5.5x terminal multiple on $2.5B EBITDA	$14,103	$14,103
UFCF growth assuming asset life through perpetuity	$mm	UFCF / (r-g)	0.5%	(0.5%)
Unlevered FCF (C)	$mm	from above	$1,130	$1,277
Asset Life post 2019	yrs	Citi estimate	15.0	15.0
UFCF growth rate (g)	**%**	Solve for terminal value	**6.9%**	**4.9%**
Tax Rate	%	Q3 Presentation at 34%	35%	35%

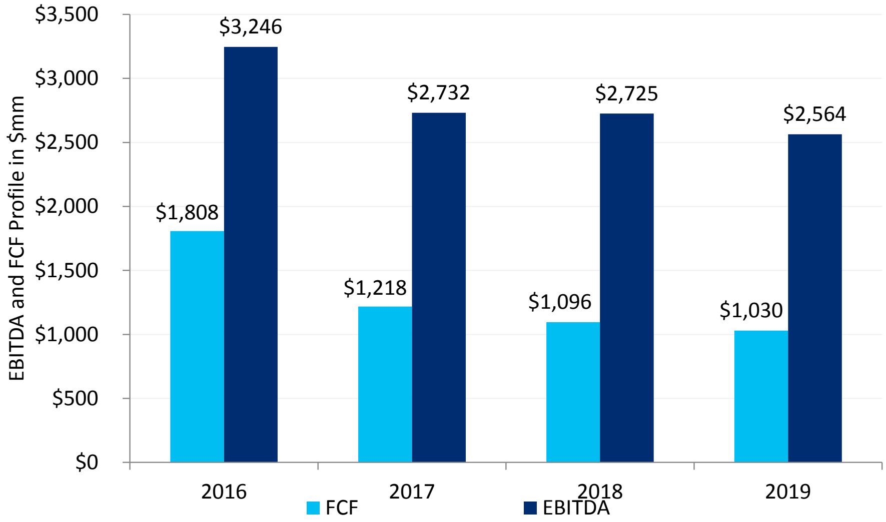
Valuation Summary			EXC Guidance	Citi Estimates
Terminal Value	$mm	As of 12/31/2019	$14,103	$14,103
NPV of Terminal Value	$mm	As of 6/30/2017	$11,497	$11,497
Value of cash flows through 2019	$mm	DCF using 8.5% WACC	$2,609	$2,609
Total firm value	$mm		$14,106	$14,107
Net Debt	$mm	As of 6/30/2017	(10,006)	(10,006)
Equity value	$mm		$4,100	$4,101
Shares outstanding	mm	As of 6/30/2017	961	961
Value per share			**$4.3**	**$4.3**

Source: Citi Research

ExGen Updated Forecast and Valuation

- We have updated our model for the latest management guidance, hedge profile, power curves (as of 10/27/2016) and etc. We haven't incorporated FitzPatrick acquisition in our model as we don't believe ZECs will stand ongoing court challenges. Chart below shows our update EBITDA and FCF forecasts:

Figure 4. ExGen EBITDA and FCF estimates

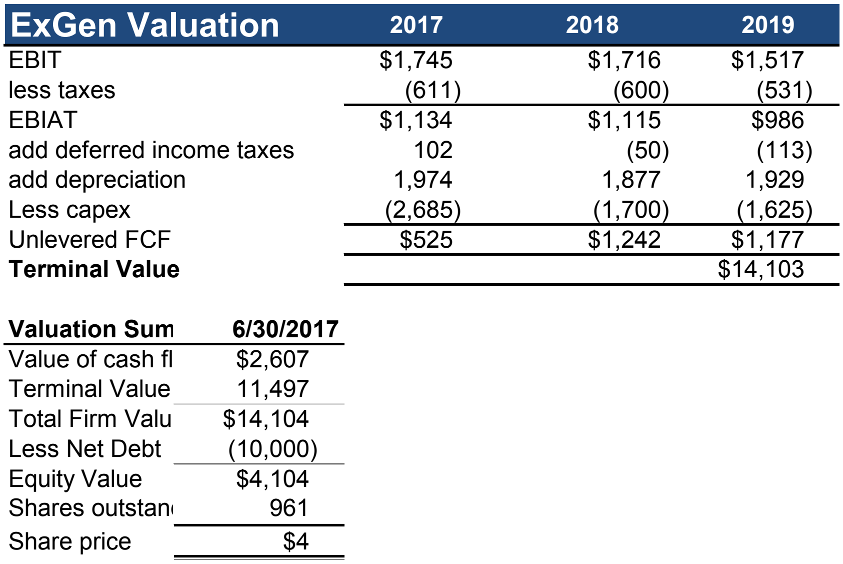


Source: Citi Research

Note that EBITDA above adds back $43m of leases that aren't added back in in figure 1 above.

- We are using our bottoms up DCF approach to value ExGen. We ascribed terminal EBITDA multiple of 5.5x, based on our views around ExGen's fleet asset life and Unlevered Free Cash Flow Conversion (UFCF) factor. We used WACC of 8.5%, which incorporates a risk profile of standard hybrid utility. The table below summarizes our DCF valuation.

Figure 5. DCF Output



ExGen Valuation	2017	2018	2019
EBIT	$1,745	$1,716	$1,517
less taxes	(611)	(600)	(531)
EBIAT	$1,134	$1,115	$986
add deferred income taxes	102	(50)	(113)
add depreciation	1,974	1,877	1,929
Less capex	(2,685)	(1,700)	(1,625)
Unlevered FCF	$525	$1,242	$1,177
Terminal Value			$14,103

Valuation Sum	6/30/2017
Value of cash fl	$2,607
Terminal Value	11,497
Total Firm Valu	$14,104
Less Net Debt	(10,000)
Equity Value	$4,104
Shares outstan	961
Share price	$4

Source: Citi Research

ZECs Not = RECs

- **IPPs filed lawsuit in the US District Court for the Southern District of New York against ZECs on 10/19.** Some of the key points made are that ZECs intrude with FERC authority, will impact wholesale energy and capacity markets, will reverse retirement decisions and will result in captive retail customers bailing out specific power plants.

- **ZECs not the same as RECs.** We think ZECs are different from RECs because the criteria to qualify for ZECs is that the plant isn't adequately compensated in the FERC regulated wholesale power markets. By making plant economics a criteria to qualify for ZECs (to keep plants like IP2/3 out), ZECs by definition are 'tethered' to power markets. The annual adders of ZECs are also tethered to capacity markets. This fact pattern goes against the Supreme Court ruling in Hughes vs. Talen and why we believe ZEC will be cancelled. This decision may finally end up with FERC.

- **Is a federal nuclear bailout coming?** We don’t see a Trump administration moving in that direction.

- **We estimate the value impact to be ~2/share.** We have calculated ZECs revenue based on six tranches, each of them effective for 2 years starting in 2Q17 and going through 1Q29. We model that NY plants (Nine Mile, Gina and Fitzpatrick) would generate around 16TWh annually. We have used WACC of 8.5% and Tax Rate of 35% to calculate the NPV of ZECs benefit at ~$1.7B.

IL SB 2814

- **Time constraints and continued opposition on SB 2814 drive our skepticism.** While meaningful changes made to the bill on Nov 22nd suggest a potential compromise and a positive step, the bill continues to face opposition. Recent reports lay out the large economic impact of the bill. Bridging these gaps to get the bill approved by December 1, we think, is challenging.

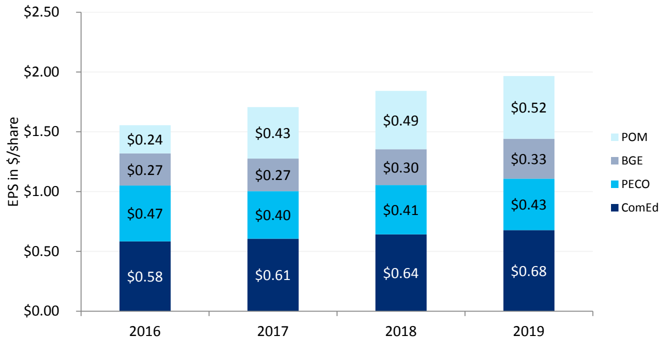
- **We estimate the value impact to be $1/share.** We model that IL nuclear plants (Quad Cities & Clinton) would generate around ~16TWh annually. Our analysis starts on 1Q17 and goes through 4Q29. We have used Social Carbon cost of $16.5/MWh and annual adjustments (as described in the bill) to calculate approximate annual revenue of ~$200mm. We applied WACC of 6.5% and Tax Rate of 35% to calculate the NPV of ZECs at ~$1.0B.

Updated Utility Forecast and Valuation.

- EXC is continuing to invest in utilities business. PHI had a solid contribution in 3Q16. A number of rate cases are filed and push to integrate and streamline PHI is on the way. ExGen is to fund the growth plans at utilities with close to ~$3B in commitments for next four years.

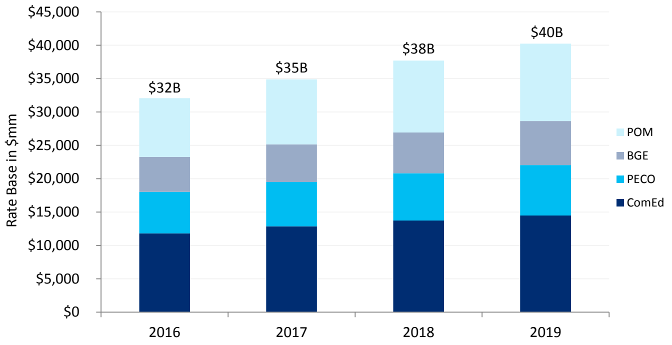
- We have updated our model for the latest financial results, management guidance, and rate case schedule. Charts below show our updated EPS profile and rate base projections at each utility sub.

Figure 6. EPS Profile of Utilities



Source: Citi Research

Figure 7. Rate Base Projections at Utilities



Source: Citi Research

- We are using our bottoms up DCF approach to value Utilities business. We ascribe terminal PE multiple of 17.0x to both legacy utilities as well as PHI. We also apply WACC of 6.5% to both regulated utilities. Our terminal PE multiple is based on long-term growth rate of ~5%. Chart below shows our DCF valuation output.

Figure 8. DCF Output – Legacy Utility

EXC Utility Valuation	2017	2018	2019
EBIT	$2,575	$2,755	$2,932
less taxes	(901)	(964)	(1,026)
EBIAT	$1,673	$1,791	$1,906
add depreciation	1,508	1,566	1,622
Less capex	(3,575)	(3,475)	(3,300)
Unlevered FCF	($394)	($118)	$228
Terminal Value			$39,946

Valuation Summary	6/30/2017
Value of cash flows	$123
Terminal Value	34,118
Total Firm Value	$34,241
Less Net Debt	(13,517)
Equity Value	$20,723
Shares outstanding	961
Share price	$22

Source: Citi Research

Figure 9. PCF Output - POM

POM Utility Valuation	2017	2018	2019
EBIT	$951	$1,065	$1,144
less taxes	(333)	(373)	(400)
EBIAT	$618	$692	$744
add deferred income taxes	94	40	(36)
add depreciation	673	749	792
Less capex	(1,475)	(1,550)	(1,325)
Unlevered FCF	($89)	($69)	$175
Terminal Value			$15,713

Valuation Sumn	6/30/2017
Value of cash flo	$100
Terminal Value	13,421
Total Firm Value	$13,521
Less Net Debt	(6,153)
Equity Value	$7,368
Shares outstandi	961
Share price	$8

Source: Citi Research

Valuation of Parent & Other

- We value the parent at ($5)/share based on net debt at parent less the NPV of the debt tax shield and value of NOLs. As parent debt isn't really linked to utilities, we value this debt separate from our utility valuation. Also, we don't use an earnings multiple as it artificially lowers the value of parent debt given low interest rates of revolver / CP.

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates three

utilities in Pennsylvania, Illinois, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, and Baltimore Gas & Electric in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants located concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Sell (3). Our rating is based on concerns around the management team’s strategic vision and execution, downside related to the Pepco transaction, concerns around the economics of Exelon’s nuclear fleet with low unlevered free cash flow conversion (UFCF) of ~45% and a weak utility business with below average growth of ~4% through 2019

Valuation

We value EXC using a sum-of-the-parts approach to get to our $29 target. We value ExGen at $4/share and believe ExGen’s core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $22/share based on a 17x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

Analyst Certification

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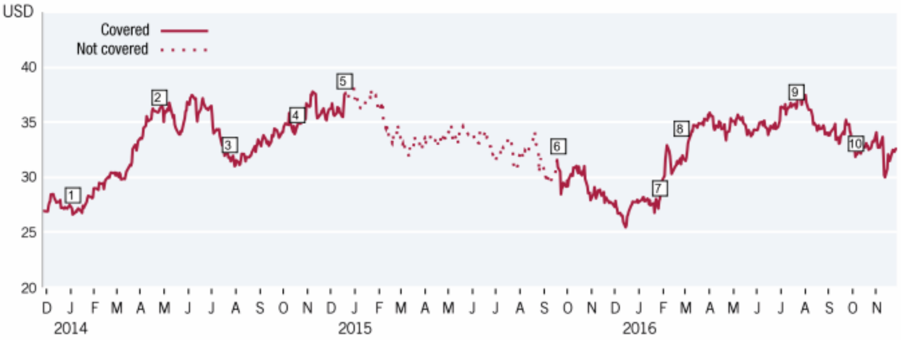
Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	02-Jan-14 21:22:43	*3	*21.00	27.17
2	24-Apr-14 05:02:25	3	*27.00	36.01
3	22-Jul-14 20:24:08	3	*30.00	31.78
4	17-Oct-14 03:01:08	*2	*37.00	34.38
5	18-Dec-14 16:46:48	Coverage terminated		
6	17-Sep-15 16:01:15	*3	*27.00	31.57
7	26-Jan-16 17:07:46	*2	27.00	27.84
8	22-Feb-16 16:00:00	*3	27.00	31.69
9	19-Jul-16 23:43:46	3	*29.00	36.58
10	04-Oct-16 03:14:34	3	*27.00	31.86

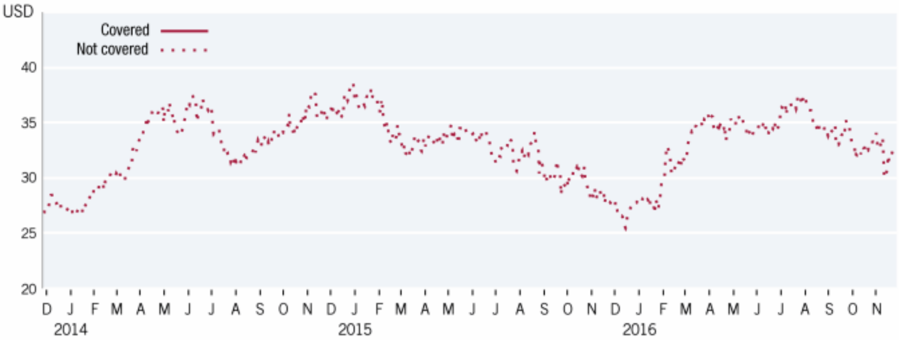
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

Rating/target price changes above reflect Eastern Time

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1 December 2016

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TOP PICK Exelon Corp.

EXC: Quad Cities and Clinton Back from the Brink

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 39.00
Price (01-Dec-2016): USD 32.17
Potential Upside/Downside: 21%
Tickers: EXC

Illinois Senate and House Pass SB2814

On December 1, the Illinois Senate and House of Representatives passed SB2814, which among other things provides zero emission credits. These credits will allow Quad Cities and Clinton to remain viable. The base expectation is that for these plants to remain in operation that the economics have to be at least as good as the economics for closing the plants combined with a risk premium associated with operating nuclear plants. There are many components to this bill that impact renewable energy, distribution utilities, energy efficiency and low income assistance. However, the most critical and followed issue in this bill was to provide zero emission credits to nuclear plants for 10 years. We expect EXC to comment on the specific impacts of this bill on the year end conference call. For now we see the passage of SB2814 as a positive and de-risking event for EXC.

KeyBanc
Capital Markets

October 26, 2016

Energy: Electric Utilities

Estimate Change / Estimates Change

Exelon Corporation

EXC: Strong 3Q Reported; Raising 2016 Estimate

EXC reported ongoing 3Q16 EPS of $0.91 vs. $0.83 in the prior-year period. Results were well above views. EXC raised 2016 guidance to $2.55-$2.75 from $2.40-$2.70, or $0.10 per share at the midpoints. We have raised our 2016 estimate to $2.65 per share from $2.55 following the strong 3Q results.

Key Investment Points

Strong Quarter Reported - On October 25, EXC reported 3Q16 GAAP EPS of $0.53 vs. $0.69. Excluding unusual items, ongoing earnings were $0.91 vs. $0.83, well above consensus expectations of $0.79 per share.

3Q Tailwinds - Results were driven by favorable weather, lower storm activity and favorable market conditions (hot weather and low market prices to serve contracted load) at Constellation.

Guidance Raised - Following the strength of the quarter, EXC raised and narrowed 2016 guidance to $2.55-$2.75 from $2.40-$2.70 per share. The higher earnings outlook is split evenly between the ComEd and PHI segments.

Estimate Raised - Given the strength of the quarter's results, we are raising our 2016 estimate to $2.65 from $2.55 per share.

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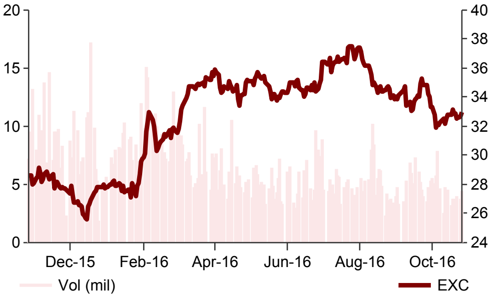
john_j_barta@key.com

NYSE: EXC	
Rating:	**Sector Weight**
Price Target:	**NA**
Price:	**$33.26**



Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Company Data

52-week range	$25 - $38
Market Cap. (M)	$30,584.6
Shares Out. (M)	919.56
Enterprise Value (M)	$51,305.6
Avg. Daily Volume (30D)	4,640,140.0
Annual Dividend	$1.27
Dividend Yield	3.8%
SI as % of Float	2.2%
SI % Chg. from Last Per.	0.1%
Book Value/Share	$25.55
Book Value/Share	$25.55

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Estimates

FY ends 12/31	F2015A	1Q16A	2Q16A	3Q16A	4Q16E	F2016E	F2017E
EPS (Net)	**$2.49**	**$0.68**	**$0.65**	**$0.91**	**$0.41**	**$2.65**	**$2.65**
Cons. EPS	*$2.52*	*$0.68*	*$0.65*	*$0.79*	*$0.47*	*$2.58*	*$2.61*
Previous	--	--	--	$0.74	--	$2.55	--
Valuation							
P/E	13.4x	--	--	--	--	12.6x	12.6x

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

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Valuation

Based upon our 2017 estimate, shares of EXC stock trade at a P/E ratio of 12.6x, while larger-cap, commodity-exposed peers trade at 14.7x. We note EXC has relatively higher commodity exposure than the average peer. We find shares modestly attractive, but remain **Sector Weight** on shares around commodity uncertainty.

Investment Risks

We believe the primary risks facing EXC are any deterioration of regulatory relationships in the jurisdictions where EXC has regulated operations, any further weakening of commodity pricing and any potential changes in policy toward reduced support of nuclear plants.

The Details

On October 26, 2016, EXC reported 3Q16 GAAP EPS of $0.53 vs. $0.69 in the prior-year period. Absent unusual items, ongoing earnings were $0.91 vs. $0.83 per share. Results were well-above guidance of $0.65-$0.75 per share and consensus of $0.79. EXC indicated drivers for the quarter included hot weather at ComEd and PECO, O&M expense below budget due to reduced storm activity and favorable conditions at Constellation. PHI and BGE have decoupling mechanisms, which reduced the impact of hot weather at those subs. Constellation benefited from hot weather driving higher volumes and low market prices to source electricity to serve contracted load. EXC raised its 2016 guidance following the quarter's strength, to $2.55-$2.75 from $2.40-$2.70 per share. The $0.10 increase (at the midpoints) is split evenly between the ComEd and PHI utility outlooks. We have raised our 2016 estimate to $2.65 from $2.55.

3Q16 Highlights:

- Relative to our estimate, weather and lower O&M results drove the beat.
- Generation segment ongoing earnings decreased $123 million ($376 million vs. $499 million) due to higher income taxes from a decrease in the domestic production activities deduction, decreased capacity prices and increased nuclear decommissioning amortization expense.
- ComEd ongoing results rose $35 million ($186 million vs. $151 million), driven by favorable weather and higher electric T&D formula rates.
  - Cooling degree days increased 32.5% compared to 3Q15 and were 37% above normal.
  - Deliveries increased 7.0%, while weather normalized deliveries were largely flat.
- PECO ongoing results increased $32 million ($123 million vs. $91 million), primarily due to favorable weather and increased electric distribution revenue from the January 1 rate increase.
  - Cooling Degree days were up 8.6% YOY and 38.6% above normal.
  - Electric deliveries increased 5.1% vs. 3Q15 and were essentially flat on a weather-normalized basis.
  - Gas deliveries decreased 2.6% YOY and decreased 3.0% on a weather-normalized basis due to lower use per customer.
- BGE earnings increase $3 million ($55 million vs. $52 million) due to June 2016 rates and transmission revenue, largely offset by increased amortization associated with the AMI program and by the increased underground conduit rental fees from the City of Baltimore.
  - BGE has revenue decoupling, so weather minimally impacts earnings.
- PHI earned $130 million in the quarter.

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Exelon Corporation - EXC

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For the three-year history represented in this chart, this stock has been rated Sector Weight.

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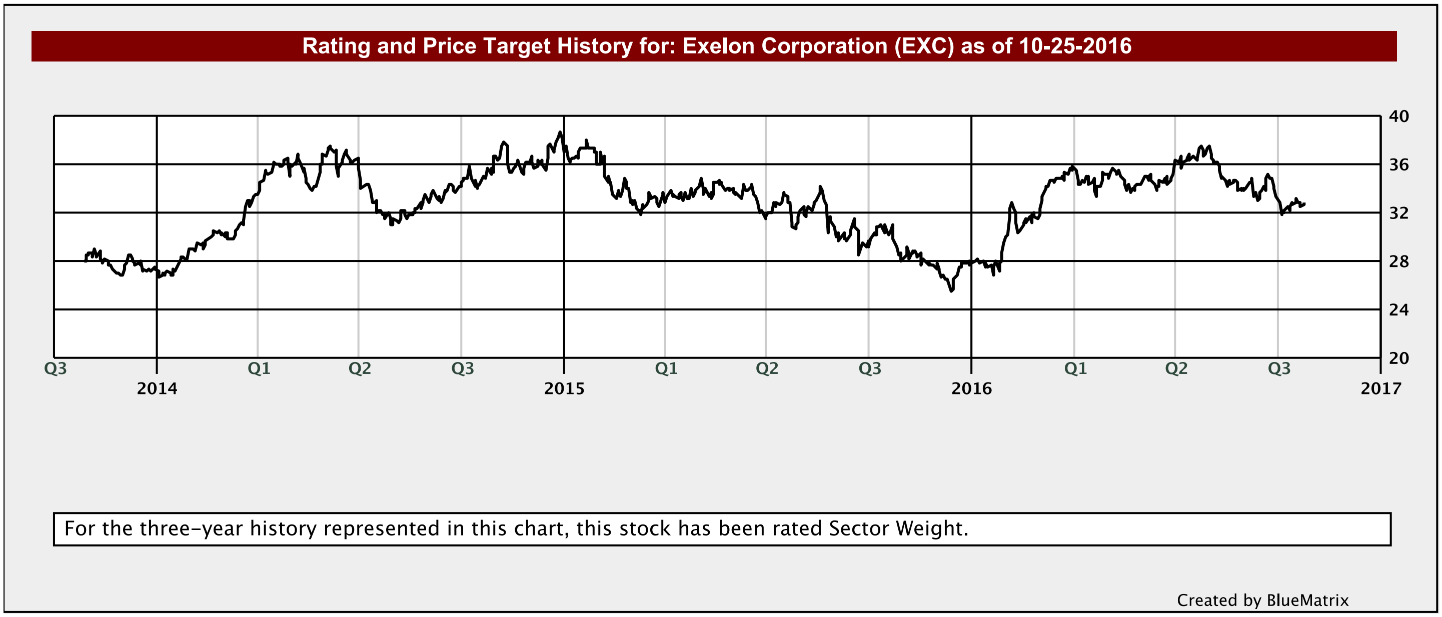

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Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**Count**	**Percent**	**Count**	**Percent**
Overweight [OW]	290	40.90	63	21.72	**Overweight [OW]**	37	42.05	20	54.05
Sector Weight [SW]	410	57.83	52	12.68	**Sector Weight [SW]**	51	57.95	18	35.29
Underweight [UW]	9	1.27	0	0.00	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

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20 September 2016

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Exelon Corp.

EXC: The Taxman Cometh

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 39.00
Price (19-Sep-2016): USD 34.16
Potential Upside/Downside: 14%
Tickers: EXC

Tax Court Rejects Exelon's Position on Like-Kind Exchange

On September 19, the Tax Court rejected Exelon's position in the like-kind exchange case and ruled that Exelon was not entitled to defer tax on the transaction. In addition, the Tax Court ruled that Exelon is liable for accuracy-related penalties. Consistent with previous disclosures, Exelon estimates that the potential tax and after tax interest, exclusive of penalties that could become payable, may be as much as $870M, of which $300M would be attributable to ComEd after consideration of Exelon's agreement to hold ComEd harmless. The $870M is comprised of $1,190M of tax and interest that could become payable in 2016, reduced by $320M of interest benefit that will be realized in subsequent taxable years. The key takeaway is that outside of the penalty, all amounts discussed were planned for and included in disclosures and the analyst day projections. The penalty is $190M comprised of $260M of penalties and interest reduced by $70M of tax benefits. In order to appeal the decision, Exelon would be required to either post a bond or pay the tax, penalties and interest for the tax years before the Court.

The quick background is that in 1999, Exelon took a position on its income tax return to defer approximately $1.2B of tax gain through the sale of ComEd's fossil generating assets. The gain was deferred by reinvesting a portion of the proceeds from the sale in qualifying replacement property under the like-kind exchange provisions of the IRS code. The like-kind exchange replacement property purchased by Exelon included interests in three municipally owned electric generation facilities which were properly leased back to the municipalities. The IRS disagreed with this position and the saga has been ongoing since 2005.

Exelon

Analyst Day Harps on Regulated Business; Story Takes on New Chapter with Pepco

Maintain Rating: NEUTRAL | PO: 37.00 USD | Price: 35.53 USD

Equity | 11 August 2016

Key takeaways

- Story has shifted gears from regulated future outlook to will Pepco execute on improved ROEs; tempered rate base outlook.
- ExGen sees benefit from approval of NY's ZECs, agreement to purchase FitzPatrick, and acquisition of ConEd's Retail Business
- Exelon announced 2Q16 earnings of $0.65, beating street estimates of $0.56; 2016 EPS midpoint guidance remains at $2.55.

Rate base light, but focus on earned ROEs

The rate base we estimated based on prior guidance from 2015 EEI for Pepco came in light at the analyst day. The company trimmed rate base expectations for Pepco of roughly $700M in 2018 from the last time presented at EEI due primarily to bonus D&A. Revised guidance also incorporated the reduction of $200M in unrecoverable capital/lower capex from the BGE rate case into rate base projections. The reduction lowers our regulated earning expectations by roughly $0.04 in 2018, bringing our prior estimate of $1.72 per share to a regulated+parent EPS for 2018 of $1.68 per share and roughly in line with the 2018 EPS midpoint guidance of $1.65 per share. Net result, we see the mild reduction in rate base as a marginal negative to the regulated business.

ExGen gets positive boosts from acquisitions and ZECs

ExGen saw incremental positives of an agreement on Fitzpatrick, purchase of ConEd Solutions Retail business, and NY PSC approval of ZECs. While FitzPatrick is largely thought to contribute negligible net income, the ZEC will contribute $0.06 of EPS. The Ginna and Nine Mile Point plants will also benefit from the ZEC program with a contribution of $0.09 as outlined in our prior note and affirmed by the company. The ZEC at Ginna will come on line as the RSSA rolls off, which we estimate contributes roughly $0.03 to ExGen in 2016. The ConEd Solutions business will provide 15TWh of retail hedging, but it is not expected to significantly contribute to earnings, so we assign $0.03 of accretion to the deal. As we lay out in Table 1, the net result is a $0.15 of uplift to help offset the ($0.20) of margin decline in power markets over the next two years and a dilutive impact of ($0.05). In total, the impacts on bridging the 2016 ExGen EPS midpoint guidance of $1.25 to 2018 EPS expectations lead us to $1.15 per share for ExGen. In our view, the recent events are a marginal positive for the ExGen business model.

Exelon story deepens roots in regulated; Maintain Neutral

Exelon has tightened up the story and laid out fundamental changes to support a more refined focus on the regulated businesses. The cash harvesting program from ExGen will lead to $8.2B of Free Cash Flow over the next five years will provide added flexibility to the continued build out of the regulated business. However, with the focus now on regulated, all eyes are now focused on the improvements in Pepco and whether the company can execute on improving ROEs; maintain Neutral rating on EXC shares.

Refer to important disclosures on page 4 to 6. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Stock Data

Price	35.53 USD
Price Objective	37.00 USD
Date Established	5-Jul-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 37.70 USD
Mrkt Val (mn) / Shares Out (mn)	32,830 USD / 924.0
Average Daily Value (mn)	174.77 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2016E)	8.9%
Net Dbt to Eqty (Dec-2015A)	72.5%

Exelon: Pepco accretion & cash flows highlight a positive quarterly release 08 May 2016

Exelon: Exelon receives final approval for Pepco merger from D.C. 23 March 2016

Exelon: While Pepco saga continues, forward power prices continue to slide 10 March 2016

Other 2Q16 Takeaways

Exelon beats consensus on 2Q16 EPS; guidance affirmed

On 8/9/16, Exelon reported 2Q16 EPS of $0.65, beating our estimate and Street estimates of $0.56. The beat appears to largely be on quarterly allocation as 3Q16 guidance of $0.65-0.75 was roughly a dime lower than estimates. The company also reaffirmed its 2016 EPS guidance of $2.40-$2.70.

Exelon announces agreement to purchase FitzPatrick

Exelon announced on 8/9/16 a tentative deal for the 838 MW FitzPatrick nuclear plant. The proposed deal will pay Entergy $110M in cash and Exelon will provide $200-250M in recovery to Entergy for operations until the deal closes. Exelon will also invest roughly $300M into the plant for fuel and integration. Following the next refueling Exelon will start receiving all revenue streams for the plant. Based on the investment needs and payments to Entergy, the comparable transaction price is $560M and leads us to a price of $668/kW.

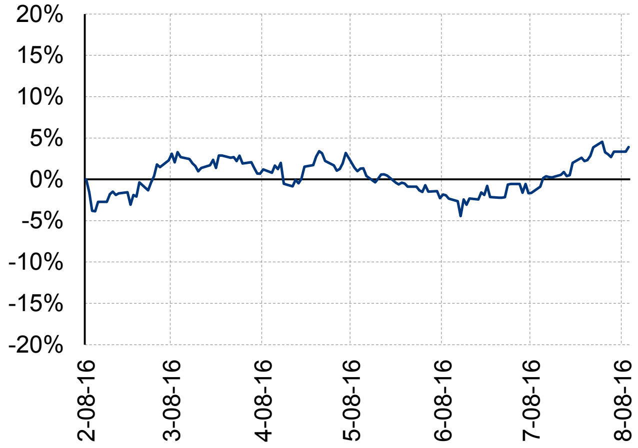
Table 1: 2018 Earnings Bridge for ExGen

a	**2016 ExGen EPS Guidance Midpoint**	**$1.25**
b	ExGen Total Margin Change ($300M) 2016 to 2018	($0.20)
c	Ginna and Nine Mile ZECs	$0.09
d	Rolloff of RSSA for Ginna	($0.03)
e	FitzPatrick Accretion Estimate (No ZEC)	$0.00
f	FitzPatrick ZECs	$0.06
g	ConEd Solutions Accretion Estimate	$0.03
h	Dilution of Shares outstanding (970 shares in 2018)	($0.05)
i = a+b+c+d+e+f+g+h	**2018 ExGen EPS Guidance, adjusted for key items**	**$1.15**

Source: BofA Merrill Lynch Global Research estimates, company report

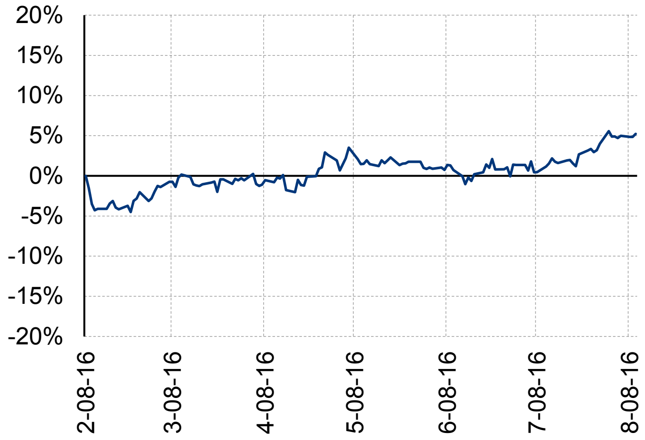
Relative Performance Charts

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

Price objective basis & risk

Exelon (EXC)

Our $37/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $8 of value to ExGen, ($3) for the parent, and approximately $32 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2018E earnings and EBITDA. For Exelon specifically we use a target 7.2x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply a target 17.0 P/E multiple to value the regulated side of the business, which is a discount to regulated peers at 17.5x to reflect the generally below-average ROEs allowed by the state commissioners for the states in which Exelon has regulated operations.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario.

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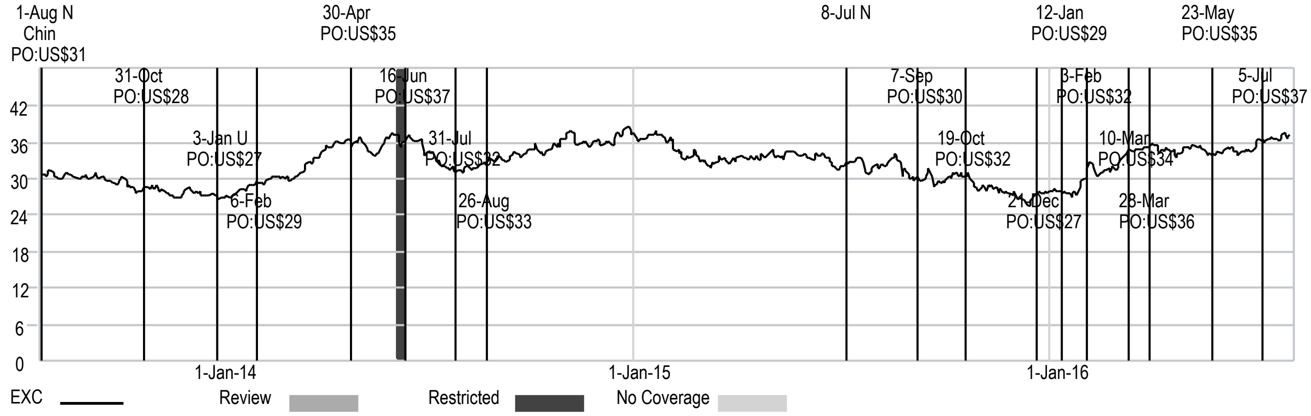
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	47.79%	Buy	53	81.54%
Hold	35	25.74%	Hold	30	85.71%
Sell	36	26.47%	Sell	26	72.22%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1560	49.41%	Buy	1178	75.51%
Hold	729	23.09%	Hold	552	75.72%
Sell	868	27.49%	Sell	547	63.02%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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Date
11 August 2016

Results

Price at 10 Aug 2016 (USD)	35.53
Price target	40.00
52-week range	37.50 - 25.46

Growth runway extended

Much to like in Philadelphia although investors still sold new on the day

EXC's long-awaited analyst day was mostly on target with top-tier utility EPS growth now seen out through 2020 and a commitment to de-levering competitive generation while closing money losing nuclear units if state subsidies are not secured. NY's Clean Energy Standard is an upside – potentially larger if EXC closes on ETR's FitzPatrick unit, but we do not yet include ZEC revenues in our numbers. We continue to see EXC as a cheap way to own high-quality regulated utility growth. EPS in our 2018 valuation year is unchanged, but we raise our target by $1 to $40 as we re-weight our SOTP to credit EXC's ongoing strategic shift towards regulated growth.

Same 7-9% utility growth, but now after dilution and extended to 2020

EXC now forecast L-T utility EPS growth of 7-9% through 2020 starting from a 2016 base adjusted to include a full year of recently acquired Pepco and parent drag. This compares to the prior 7-9% growth in utility net income through 2018 which excluded parent drag and dilution from convertibles issued to buy Pepco. All told, the new 7-9% is higher quality and longer-lived than before. Plus actual annual EPS ranges imply a 9% mid-point CAGR and the trajectory is front-end loaded. With rate base growing at ~6% much of the growth premium comes from raising returns at Pepco, a process expected to take two rate case cycles. EXC was somewhat light on specifics here, but the track record post prior mergers merits some benefit of the doubt in our view.

ExGen numbers complicated by assumed IL nuke shutdowns

Chances of IL passing a clean energy credit in the fall seem remote and EXC has quantified $0.07 of 2019 run-rate uplift from closing Clinton (2017) and Quad Cities (2018). Overall mgmt reaffirmed $3B of debt reduction for ExGen by 2020 and target 3x debt to EBITDA. We see potential for surplus cash vs. this target particularly with ZEC payments. This would be put towards reducing parent leverage but faster dividend growth also seems a possibility given the trajectory for utility coverage ratio (77% by 2020 vs. 98% in 2016).

Lower 2017E but 2018E unchanged; PT raised $1 on SOTP weighting

We leave 2016E unchanged at $2.55, lower 2017E from $2.65 to $2.55 and hold 2018E at $2.80 with the mix shifting towards utility. Value-wise we look at parent debt both capitalized as a drag to utility EPS ($41) and as a direct claim against equity ($37). With regulated growth the focus (80% of 5-year plan capex) and a disciplined ExGen financial plan, we shift our weighting from 50:50 to 75:25 which bumps our price target by $1 from $39 to $40. Downside risks include lower-than-expected forward power prices, worse-than-anticipated rate case outcomes.

Forecasts And Ratios

Year End Dec 31	2015A	2016E	2017E
FY EPS (USD)	2.49	2.55	2.55
OLD FY EPS (USD)	2.49	2.55	2.65
% Change	0.0%	0.3%	-3.9%
P/E (x)	12.8	13.9	13.9
DPS (USD)	1.24	1.26	1.29
Dividend yield (%)	3.9	3.6	3.6

Source: Deutsche Bank estimates, company data

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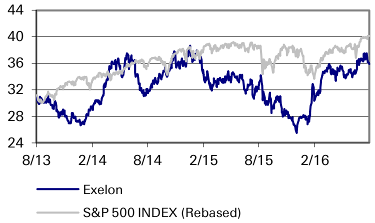
Key changes

Price target	39.00 to 40.00	↑	2.6%
EPS (USD)	-	↑	0.3%
Revenue (USDm)	32,291.3 to 31,610.5	↓	-2.1%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.6	0.9	10.4
S&P 500 INDEX	2.1	4.4	3.4

Source: Deutsche Bank

Deutsche Bank Securities Inc.

Model updated:11 August 2016

Running the numbers

North America

United States

Utilities and Power

Exelon

Reuters: EXC.N   Bloomberg: EXC UN

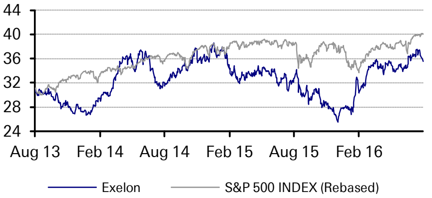
Buy

Price (10 Aug 16)	USD 35.53
Target Price	USD 40.00
52 Week range	USD 25.46 - 37.50
Market Cap (m)	USDm 32,812
	EURm 29,390

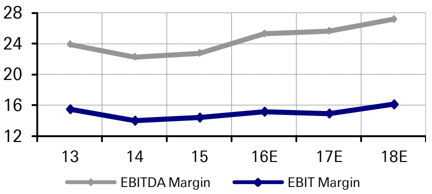
Company Profile

Exelon is a diversified utility with ownership of the largest nuclear fleet and retail services business in the U.S. and three regulated utilities serving Chicago, Philadelphia and Baltimore. EXC owns ~35,000MW of merchant generation capacity located primarily in the Midwest and Mid-Atlantic, with smaller gas-fired and nuclear assets in New England, New York, and Texas.

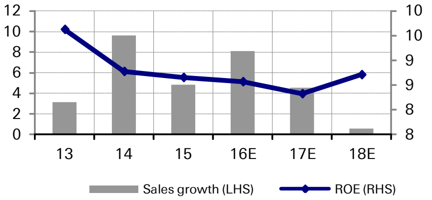
Price Performance



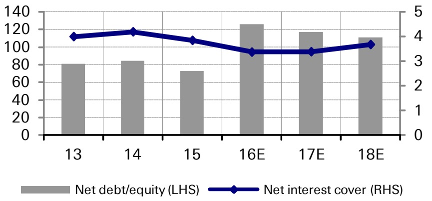
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2013	2014	2015	2016E	2017E	2018E
Financial Summary						
DB EPS (USD)	2.50	2.39	2.49	2.55	2.55	2.80
Reported EPS (USD)	2.50	2.39	2.49	2.55	2.55	2.80
DPS (USD)	1.46	1.24	1.24	1.26	1.29	1.33
BVPS (USD)	26.80	28.07	30.70	30.19	32.00	32.93
Valuation Metrics						
Price/Sales (x)	1.0	1.0	1.0	1.0	1.0	1.0
P/E (DB) (x)	12.4	14.0	12.8	13.9	13.9	12.7
P/E (Reported) (x)	12.4	14.0	12.8	13.9	13.9	12.7
P/BV (x)	1.0	1.3	0.9	1.2	1.1	1.1
FCF yield (%)	3.7	0.3	0.5	nm	nm	4.6
Dividend yield (%)	4.7	3.7	3.9	3.6	3.6	3.7
EV/Sales	1.3	1.4	1.3	1.8	1.7	1.7
EV/EBITDA	5.6	6.1	5.6	7.1	6.7	6.3
EV/EBIT	8.6	9.8	8.9	11.8	11.5	10.6
Income Statement (USDm)						
Sales	25,442	27,889	29,237	31,611	33,038	33,228
EBITDA	6,089	6,219	6,664	8,004	8,483	9,035
EBIT	3,941	3,906	4,213	4,796	4,935	5,358
Pre-tax profit	3,295	3,254	3,410	3,684	3,767	4,194
Net income	2,149	2,066	2,227	2,366	2,422	2,703
Cash Flow (USDm)						
Cash flow from operations	6,343	4,457	7,616	8,532	7,724	8,091
Net Capex	-5,363	-4,358	-7,477	-8,655	-7,750	-6,528
Free cash flow	980	99	139	-124	-26	1,563
Equity raised/(bought back)	47	0	1,900	37	1,215	40
Dividends paid	-1,249	-1,065	-1,105	-1,170	-1,226	-1,280
Net inc/(dec) in borrowings	588	2,040	4,102	2,611	710	-695
Other investing/financing cash flows	-150	-805	-412	-6,543	-237	-262
Net cash flow	216	269	4,624	-5,189	436	-634
Change in working capital	*455*	*-3,247*	*-264*	*431*	*0*	*0*
Balance Sheet (USDm)						
Cash and cash equivalents	1,609	1,878	6,502	1,314	1,749	1,115
Property, plant & equipment	47,330	52,087	57,439	72,641	75,856	77,720
Goodwill	2,625	2,672	2,672	6,696	6,696	6,696
Other assets	28,360	30,177	28,771	33,442	33,442	33,442
Total assets	79,924	86,814	95,384	114,092	117,743	118,973
Debt	20,121	22,272	26,319	36,399	37,109	36,414
Other liabilities	36,863	40,409	41,743	49,811	50,340	50,802
Total liabilities	56,984	62,681	68,062	86,209	87,449	87,215
Total shareholders' equity	22,940	24,133	27,322	27,883	30,294	31,757
Net debt	*18,512*	*20,394*	*19,817*	*35,085*	*35,359*	*35,298*
Key Company Metrics						
Sales growth (%)	3.1	9.6	4.8	8.1	4.5	0.6
DB EPS growth (%)	-12.2	-4.3	4.3	2.4	-0.1	9.6
Payout ratio (%)	58.0	51.6	49.6	49.3	50.6	47.3
EBITDA Margin (%)	23.9	22.3	22.8	25.3	25.7	27.2
EBIT Margin (%)	15.5	14.0	14.4	15.2	14.9	16.1
ROE (%)	9.6	8.8	8.7	8.6	8.3	8.7
Net debt/equity (%)	80.7	84.5	72.5	125.8	116.7	111.1
Net interest cover (x)	4.0	4.2	3.8	3.4	3.4	3.7
DuPont Analysis						
EBIT margin (%)	15.5	14.0	14.4	15.2	14.9	16.1
x Asset turnover (x)	0.3	0.3	0.3	0.3	0.3	0.3
x Financial cost ratio (x)	0.7	0.8	0.7	0.7	0.7	0.7
x Tax and other effects (x)	0.7	0.7	0.7	0.7	0.7	0.7
= ROA (post tax) (%)	2.7	2.5	2.4	2.3	2.1	2.3
x Financial leverage (x)	3.6	3.5	3.5	3.8	4.0	3.8
= ROE (%)	9.6	8.8	8.7	8.6	8.3	8.7
annual growth (%)	*-25.4*	*-8.8*	*-1.4*	*-1.0*	*-2.8*	*4.6*
x NTA/share (avg) (x)	25.9	27.2	28.8	29.8	30.6	32.1
= Reported EPS	2.50	2.39	2.49	2.55	2.55	2.80
annual growth (%)	*-12.1*	*-4.3*	*4.3*	*2.4*	*-0.1*	*9.6*

Source: Company data, Deutsche Bank estimates

Adjusting estimates for new disclosures

EXC released a lot of new information in a 170-page slide deck at their first Analyst Day following the Pepco Holdings acquisition. The slides included updated capital investment projections through 2020, rate base by utility, adjusted O&M forecasts, nuclear fuel spend (lowered for Clinton and Quad Cities retirements), and updated gross margin/hedges for the Generation business. While we have adjusted our model and estimates to reflect these new disclosures, the bottom line impacts are modest. As a reminder, we had incorporated Pepco into the model a while back.

Our 2016E of $2.55 remains unchanged at the midpoint of management's reaffirmed EPS guidance of $2.40-$2.70. Meanwhile, we are lowering our 2017E to $2.55 from $2.65. The reduction is primarily due to a lower forecast at Generation. Our prior forecast for Generation gross margin was about $150M too high, excluding the impacts of the Clinton nuclear plant closure ($100M in 2017). While closing Clinton and Quad Cities is expected to positively impact EPS by $0.07 by 2019, we don't believe the impact would be as favorable in 2017 or 2018. From our reading of the slides EXC is pointing to a gross margin decline of roughly $200M from 2016 to 2017 and for adjusted O&M to rise $25M implying a net reduction in year-over-year ExGen net income of ~$150M or $0.15/sh. That said, we also expect a higher tax rate, interest expense, D&A (even including the impact of Clinton shutting down), and higher shares outstanding to further weigh on YOY comps at this segment, getting us to our $1.05E for ExGen in 2017 vs. $1.26 in 2016. Note that the inclusion of Zero Emission Credit payments on EXC's existing upstate nuclear units and the purchase of FitzPatrick would fully offset this negative adjustment but we are not folding these in quite yet. Meanwhile, we have updated our utility estimates to reflect new rate base disclosures (higher at ComEd but lower at PHI) and management's guidance for HoldCo drag of $0.15/sh, but overall combined Utility and HoldCo projections for 2017 are unchanged at $1.50. We ended up at the midpoint of management's new guidance for these segments on a combined basis of $1.35-$1.65.

For 2018, we are leaving our EPS forecast of $2.80 unchanged. That said, we have lowered our Generation forecast by $0.04/sh but raised our Utility/HoldCo forecast by a similar amount. The reduction at Generation is also due to lower-than-anticipated gross margin, offset by lower O&M and D&A related to the closure of Clinton in 2017 and Quad Cities on June 1, 2018. Meanwhile we have raised our Utility/HoldCo to get us closer to the midpoint of EXC's range of $1.50-$1.80.

Upside likely from FitzPatrick deal/ZEC payments

As noted above, our updated forecasts still do not reflect uplift from the recently announced FitzPatrick acquisition or New York's establishment of a Clean Energy Standard and associated Zero Emissions Credit payments to upstate NY nuclear facilities. As a result, we see **upside of ~$0.15/sh in 2017 and 2018** should the FitzPatrick deal go through and assuming NY's Clean Energy Standard survives expected legal challenges.

On Tuesday, EXC announced a deal to acquire the 838 MW FitzPatrick nuclear plant from ETR for $110M or $131/kW. This headline number is before the cost of refueling the plant which we understand would be funded by EXC. The transaction is expected to close in Q2 2017 but requires sign off by the US DOJ, NRC, FERC, and NY Public Service Commission. While the deal arguably establishes a low value on a $/kW basis for a merchant nuclear plant, FitzPatrick's upstate New York location is really not a fair comparison with the average Exelon unit and Entergy is clearly highly motivated to exit remaining merchant positions where it can. The low headline print may also help EXC down the road given limited other comparables if and when EDF puts its share of CENG to EXC. On our numbers FitzPatrick should be at least a nickel accretive to EPS for Exelon including ZEC payments and depending on the net impact of taking on the decommissioning liability and trust fund.

For EXC's legacy upstate NY plants, which were acquired from Constellation in 2012, management indentified EPS uplift of $0.08-$0.10 per year associated with the Zero Emission Credit payments. While mgmt was vocal in expressing confidence that the ZEC methodology approved by the NY Public Service Commission will overcome expected legal challenges, EXC does not intend to include these payments in their gross margin disclosures until a necessary contract is signed with New York State Energy Research and Development Authority (NYSERDA). Given expected timing for this uplift will likely be included in the Q3 update and November EEI slide deck.

Do-or-die date for Clinton/Quad Cities approaching

EXC continues to press the Illinois legislature to pass supportive legislation in order to prevent the closure of the Clinton and Quad Cities nuclear plants. That said, no one we spoke with during Wednesday's event or the dinner the night before was confident that IL would take action before management reaches the point of no return on retiring these units, which EXC indicates is sometime in December. We would view shutdown or passage of supportive legislation (akin to the Clean Energy Standard in NY) as favorable outcomes for EXC. As management clarified, closing these money-losing plants should result in $0.07/sh of uplift to EPS by 2019 and it seems reasonable to expect at least as much in terms of uplift from legislation, although this could potentially occur before 2019.

Q2 earnings result

Ahead of the Analyst Day, EXC reported Q2 operating EPS of $0.65 vs. our $0.57E and $0.56 consensus. Results beat our estimate on better-than-anticipated performance at EXC's legacy regulated utilities (in part due to $0.03/sh of tax benefits) and at Generation (likely helped by impact of Ginna RSSA implementation retroactive to April 1, 2015). Results at POM and other were slightly weaker than we had anticipated.

Valuation

We value the utility segment by applying a 17.5x P/E multiple to our 2018 estimates for ComEd, PECO and the POM utilities, and an average 17x multiple for BG&E. We believe POM earnings merit a premium as we anticipate faster growth at this segment as EXC closes the gap between authorized and earned returns in 2018 and beyond. We also apply premiums to ComEd earnings given potential upside from higher interest rates as ComEd's ROE is set based on a formula incorporating the yield on the 30-year Treasury bond which remains close to multi-year lows. We also give PECO a premium given a history of over-earning and our expectations for this to continue.

Meanwhile, we value ExGen by applying a 6.5x EV/EBITDA multiple to our 2018 estimate. Our 6.5x multiple is now relatively in line with our targeted EV/EBITDA multiple for merchant generators. On the one hand, we believe a modest discount is merited given ExGen's still more limited free cash flow generation than IPP peers given their capital-intensive nuke fleet. On the flipside, EXC's nuclear fleet merits some incremental value vs. IPPs given the potential for new revenue streams from clean energy standards or a future carbon trading scheme. In addition, EXC also has a stronger credit and lower leverage profile at ExGen than pure-play IPP peers, with a plan to de-lever further over the coming years.

Similar to our valuation methodology for FirstEnergy, we take a hybrid approach for the corporate / other segment. We derive a $37 price target when valuing the corporate segment EBITDA at a 6.5x EBITDA multiple and then subtracting corporate debt as a direct offset to equity value (effectively treating parent debt as being on the merchant business). In our other scenario (Valuation B) we see a $41 price target valuing EXC's corporate earnings drag of $0.16/sh using our regulated distribution P/E multiple of 17.4x (treats parent debt as effectively being on the utilities).

Our $40 price target reflects a 25/75 weighting of these two book-end valuation approaches. We are now giving a higher weighting to Valuation B given EXC's increasing strategic focus on the regulated utilities and ongoing commitment to de-levering at ExGen.

Figure 1: Exelon Sum-of-the-Parts Valuation

Valuation A

Business Segment	Valuation Metric	2018E	Multiple	Value
ComEd	P/E	$0.61	17.5x	10,280
PECO	P/E	$0.45	17.5x	7,578
BG&E	P/E	$0.34	17.0x	5,632
POM	P/E	$0.40	17.5x	6,813
Utility Equity Value				**30,303**
Generation / Retail / Corp	EV/EBITDA	3,222	6.50x	20,940
Less: Generation Net Debt				(8,642)
Less: Corp Net Debt				(7,063)
Non-Utility Equity Value				**5,236**
Total Equity Value				**35,538**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**37**

Valuation B

Business Segment	Valuation Metric	2018E	Multiple	Value
ComEd	P/E	$0.61	17.5x	10,280
PECO	P/E	$0.45	17.5x	7,578
BG&E	P/E	$0.34	17.0x	5,632
POM	P/E	$0.40	17.5x	6,813
Corp	P/E	($0.16)	17.4x	(2,620)
Utility & Corp. Equity Value				**27,683**
Generation / Retail	EV/EBITDA	3,176	6.50x	20,641
Less: Generation Net Debt (2018E)				(8,642)
Non-Utility Equity Value				**12,000**
Total Equity Value				**39,683**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**41**

Source: Deutsche Bank

Risks

Downside risks include lower-than-expected forward power prices, worse-than-anticipated rate case outcomes, lower retail margins given heightened competition, higher interest rates, and a lower-than-expected contribution from POM.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	35.53 (USD) 10 Aug 16	14,15,17

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr.

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Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

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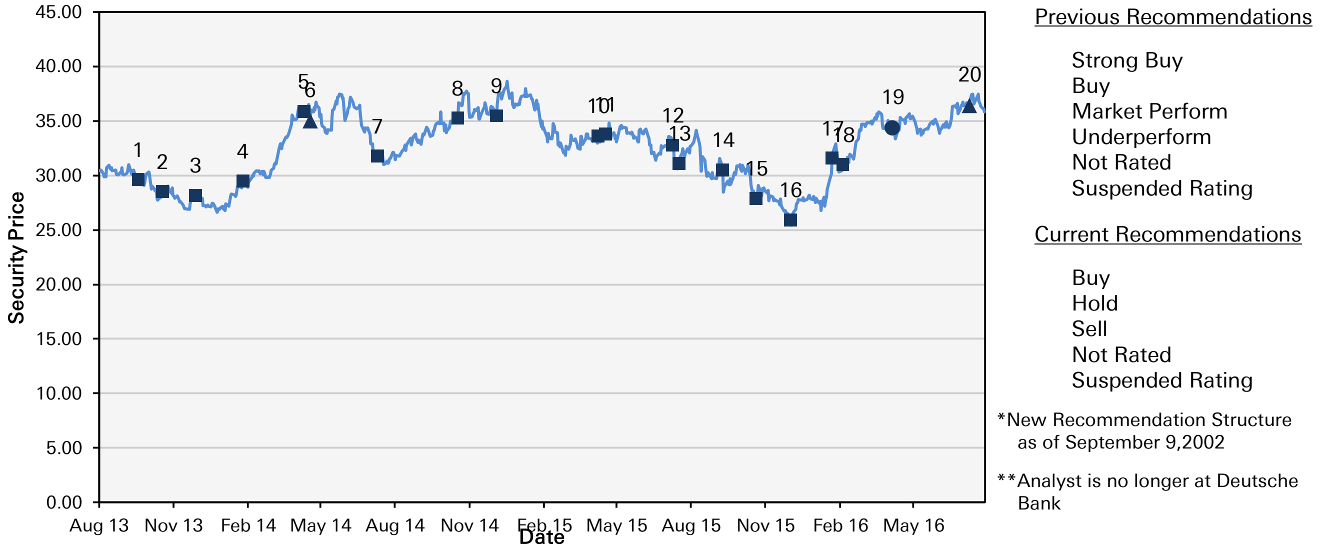
The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Jonathan Arnold

Historical recommendations and target price: Exelon (EXC.N)

(as of 8/10/2016)



1. 10/01/2013: Hold, Target Price Change USD30.00 Jonathan Arnold
2. 10/31/2013: Hold, Target Price Change USD31.00 Jonathan Arnold
3. 12/11/2013: Hold, Target Price Change USD30.00 Jonathan Arnold
4. 02/07/2014: Hold, Target Price Change USD31.00 Jonathan Arnold
5. 04/23/2014: Hold, Target Price Change USD34.00 Jonathan Arnold
6. 05/01/2014: Upgrade to Buy, Target Price Change USD38.00 Jonathan Arnold
7. 07/23/2014: Buy, Target Price Change USD36.00 Jonathan Arnold
8. 10/30/2014: Buy, Target Price Change USD38.00 Jonathan Arnold
9. 12/17/2014: Buy, Target Price Change USD43.00 Jonathan Arnold
10. 04/21/2015: Buy, Target Price Change USD42.00 Jonathan Arnold
11. 04/30/2015: Buy, Target Price Change USD41.00 Jonathan Arnold
12. 07/22/2015: Buy, Target Price Change USD40.00 Jonathan Arnold
13. 07/30/2015: Buy, Target Price Change USD41.00 Jonathan Arnold
14. 09/22/2015: Buy, Target Price Change USD42.00 Jonathan Arnold
15. 11/02/2015: Buy, Target Price Change USD37.00 Jonathan Arnold
16. 12/14/2015: Buy, Target Price Change USD35.00 Jonathan Arnold
17. 02/04/2016: Buy, Target Price Change USD36.00 Jonathan Arnold
18. 02/17/2016: Buy, Target Price Change USD34.00 Jonathan Arnold
19. 04/18/2016: Downgrade to Hold, Target Price Change USD36.00 Jonathan Arnold
20. 07/22/2016: Upgrade to Buy, Target Price Change USD39.00 Jonathan Arnold

Equity rating key

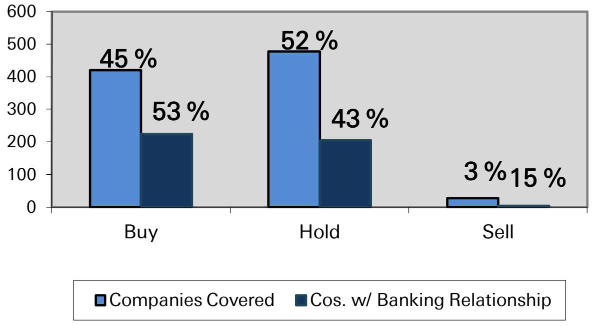
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



North American Universe

Regulatory Disclosures

1.Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2.Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at http://gm.db.com.

Additional Information

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Exelon

Illinois Legislature Passes Bill to Save the Nukes

Bank of America Merrill Lynch

Maintain Rating: NEUTRAL | PO: 32.00 USD | Price: 32.17 USD

Equity | 01 December 2016

Key takeaways

- Illinois passed a bill in support of Zero Emission Credits for Clinton and Quad Cities; we estimate a $0.15 benefit to ExGen.
- Expect legal challenges on the ZEC at both the Illinois Supreme Court and the FERC; PJM's BRA may now see new rules.
- Passage of the ZECs are a marginal positive for Exelon but legal challenges remain; maintain Neutral rating on EXC shares.

Illinois passes bill for zero emission credits

In the final hours on 12/1/16, Illinois legislatures in the House and Senate came together to pass SB 2814 with Governor Rauner expected to sign the bill into law. The bill provides several benefits to Exelon with the most prominent being the Zero Emission Credit (ZEC) program, which was designed to save Clinton and Quad Cities. The program will provide a cap to rate payers of $235M above current rates. However, NiHub power prices have deteriorated since the market index of power prices was set on 6/1/2016 and should lead to a large allocation of rate payers' bill towards ExGen. The structure of the ZEC payment is a function of Societal Cost of Carbon and is laid out in Table 1. The ZECs will run roughly for the next 10 years.

Based on our analysis of the ZEC, the program will add roughly $0.15 of EPS on 2019, based on a payment to generation that contributes $0.21 in 2019 as shown by our calculation in Table 1 while being reduced by roughly ($0.07) for the continued operation earnings drag of those plants as presented by the company at the Analyst Day. Overall, the passage of the legislation is a marginal positive for EXC shares.

Challenges await for Exelon on the ZEC program

The Illinois ZEC is likely to be challenged both at the FERC and Illinois Supreme Court. While the Illinois ZEC is structured in a similar manner as the NY ZEC program, the program is likely to see additional challenges, including an affiliate transaction challenge similar to that of FirstEnergy and AEP's PPAs that were successfully challenged at FERC. In our view, we believe there is higher probability that Illinois ZEC will be challenged and overturned based on the arguments that the impacts distort wholesale power markets. In addition, we now expect PJM to react to the subsidy to Quad Cities and will implement rules that will alter the PJM RPM Base Residual Auction in the ComEd zone.

Energy efficiency programs to now receive a return

The approximate $400M of spending on energy efficiency programs should improve ComEd's net income as the company can now capture a return on that spending. In our view, the increased returns for ComEd are a marginal positive for the regulated utility.

Exelon gets a win in Illinois; maintain Neutral rating

The win in Illinois marginally improves the outlook for ExGen, but we continue to see legal challenges as weighing on the stock for some time. We further see PJM power markets and capacity auctions (see our PJM note) as being a headwind for ExGen; maintain Neutral rating on EXC shares.

Timestamp: 01 December 2016 10:45PM EST

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Stock Data

Price	32.17 USD
Price Objective	32.00 USD
Date Established	22-Nov-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 37.70 USD
Mrkt Val (mn) / Shares Out (mn)	29,789 USD / 926.0
Average Daily Value (mn)	198.00 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2016E)	9.4%
Net Dbt to Eqty (Dec-2015A)	72.5%

Exelon: Nuclear credits to drive story through year end 26 October 2016

Exelon: Analyst Day Harps on Regulated Business; Story Takes on New Chapter with Pepco 11 August 2016

Exelon: Pepco accretion & cash flows highlight a positive quarterly release 08 May 2016

Illinois ZEC Calculation

Table 1: Illinois ZEC Calculation Table

	in $/MWH	6/1/2017	6/1/2018	6/1/2019	6/1/2020	6/1/2021	6/1/2022	6/1/2023	6/1/2024	6/1/2025	6/1/2026	6/1/2027
a	SCC (includes 3% inflation & adder)	$17.00	$17.50	$18.03	$18.57	$19.13	$19.70	$20.29	$21.90	$23.56	$25.27	$27.02
b	Market Base Index	$31.40	$31.40	$31.40	$31.40	$31.40	$31.40	$31.40	$31.40	$31.40	$31.40	$31.40
c	Power: NiHub ATC – mtm*	$28.87	$28.32	$27.49	$27.39	$27.02	$26.52	$26.09	$25.66	$26.49	$26.49	$26.49
d	Capacity: PJM RTO/ComEd	$6.31	$6.87	$4.17	$8.33	$8.33	$8.33	$8.33	$8.33	$8.33	$8.33	$8.33
e	Capacity: MISO Zone 4	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00
f=c+d/2+e/2	Market Price - MtM	$33.52	$33.26	$31.08	$33.06	$32.68	$32.19	$31.75	$31.32	$32.16	$32.16	$32.16
g=max(a-(f-b),0)	ZEC Credit ($/MWH)	$14.87	$15.65	$18.35	$16.91	$17.84	$18.91	$19.94	$21.98	$22.80	$24.51	$26.26
		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
g(annualized)	ZEC Credit ($/MWH)	$15.82	$15.26	$17.00	$17.63	$17.38	$18.38	$19.43	$20.96	$22.39	$23.65	$25.38
h	Generation (M MWH)	20	20	20	20	20	20	20	20	20	20	20
j = g*h	Revenue ($M)	316	305	340	353	348	368	389	419	448	473	508
k = -40%*j	Taxes @ 40%	(127)	(122)	(136)	(141)	(139)	(147)	(155)	(168)	(179)	(189)	(203)
m=j+k	Net Income ($M)	190	183	204	212	209	221	233	252	269	284	305

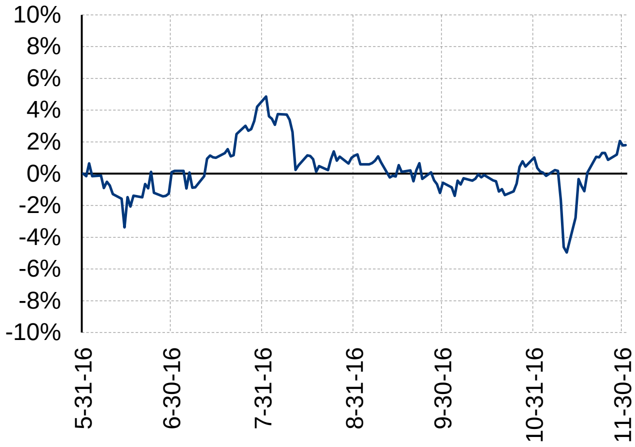
		2019
m	Net income	204
p	Shares (M)	960
q=m/n	EPS	$0.21

Source: BofA Merrill Lynch Global Research estimates, SNL

* NiHub prices from calendar strip for estimation purposes

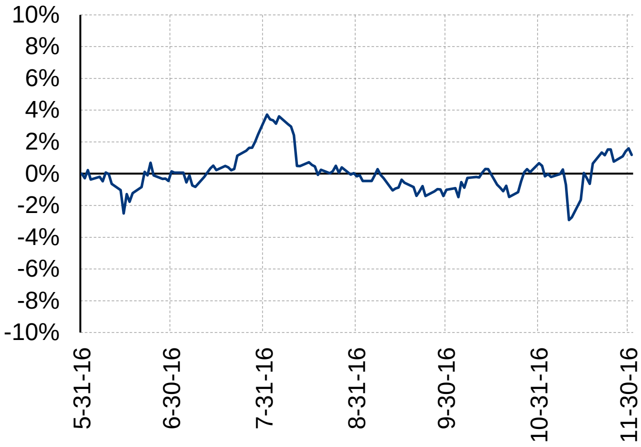
Relative Performance Charts

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

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Price objective basis & risk

Exelon (EXC)

Our $32/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $5 of value to ExGen, ($1) for the parent, and approximately $28 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2019E earnings and EBITDA. For Exelon specifically we use a target 6.8x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply our discounted price target 13.5 P/E multiple with a 0.5x premium for favorable rate case outcomes to value the regulated side of the business.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario.

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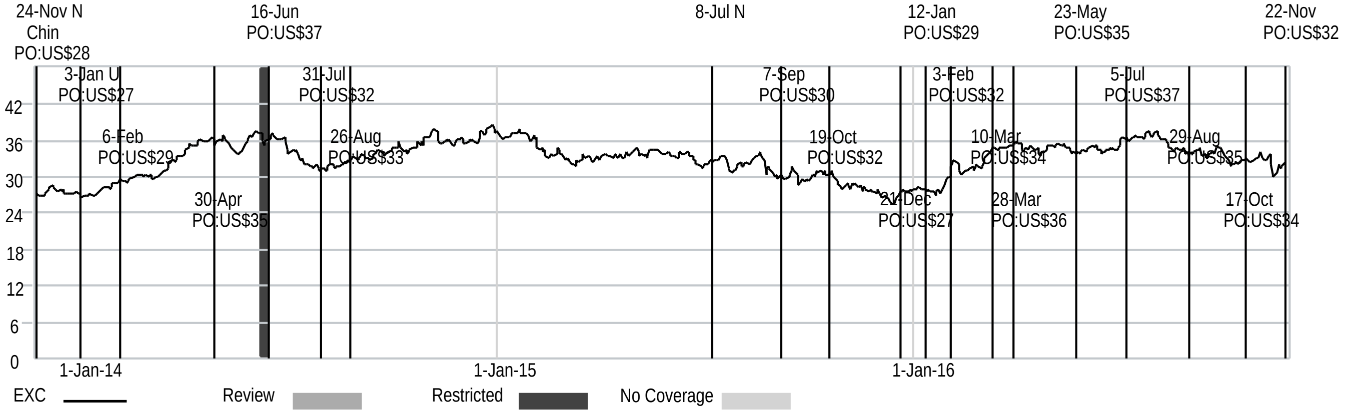
EXC Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	58	46.03%	Buy	45	77.59%
Hold	34	26.98%	Hold	29	85.29%
Sell	34	26.98%	Sell	20	58.82%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Hold	730	23.24%	Hold	538	73.70%
Sell	858	27.32%	Sell	514	59.91%

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Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
20 October 2016

Company Update

Price at 19 Oct 2016 (USD)	32.88
Price target	38.00
52-week range	37.50 - 25.46

Illinois nuke talks gathering steam; endgame remains unclear

Timely Chicago visit focuses on legislative efforts to save EXC nukes

Yesterday in Chicago we met with EXC and ComEd senior mgmt as well as several stakeholders in discussions over proposed legislation supportive of EXC's at-risk nuclear plants (Clinton and Quad Cities) including Sen. Donne Trotter, the sponsor of the Next Generation Energy Plan bill (SB1585). Activity levels and optimism (from some at least) were higher than we thought - but the path remains challenging. In addition our EXC thesis is not premised on legislation and we continue to see the stock offering top-tier regulated growth at a discount, committed de-levering of the Genco and a potential kicker given nuke-favorable legislation in IL or elsewhere. Reiterate Buy and $38 PT.

Discussions ongoing, broader coalition; passing a bill remains a heavy lift

Back in the spring the IL legislature was unable to move a bill to sustain EXC’s at-risk nukes. Our sense post our trip is that momentum on a revised package is picking up ahead of the Nov/Dec Veto Session (begins 11/15). That said, passing a bill in the Veto Session remains very challenging given the need for a super-majority, competing budget issues and lack of clear indications of support from legislative leaders – notably Speaker Madigan and Gov. Rauner. As reported over the summer, a new package could include something for downstate coal plants, in addition to measures targeted at Clinton and Quad Cities along with renewables and changes to ComEd’s regulatory framework that support energy efficiency and microgrid investment. A revised bill is unlikely to emerge before the elections (11/8) with only a narrow window thereafter before the short Veto Session (only 6 days scheduled). Net/net we left Illinois convinced the issue will at least be taken up again with somewhat more momentum than we expected to find. That said, getting something passed and off the Governor’s desk by year-end remains a steep uphill battle.

NY ZEC faces legal challenge but FitzPatrick and program otherwise on track

On a separate but related front, yesterday power generators filed a complaint in US District Court alleging that the NY PSC discriminated against wholesale power markets and violated the Commerce Clause of the US Constitution in establishing a Zero Emissions Credit program to support EXC and ETR’s upstate NY nuclear plants. This was not a focal point of our trip but we note that EXC continues to believe that the ZEC program has strong legal standing and expected this challenge. Per EXC, the FitzPatrick deal and NY ZEC program continue to move forward, with final contracts with NYSERDA expected by mid-November. This is a bit delayed, but only modestly so. We note that our Buy rating, $38 target price and estimates do not include any assumed uplift for NY ZECs or Illinois legislation at this point.

Forecasts And Ratios

Year End Dec 31	2015A	2016E	2017E
FY EPS (USD)	2.49	2.55	2.55
P/E (x)	12.8	12.9	12.9
DPS (USD)	1.24	1.26	1.29
Dividend yield (%)	3.9	3.8	3.9

Source: Deutsche Bank estimates, company data

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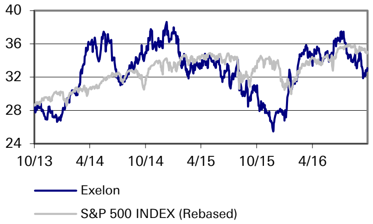
Price/price relative



Performance (%)	1m	3m	12m
Absolute	-3.7	-10.1	8.9
S&P 500 INDEX	0.2	-0.9	5.4

Source: Deutsche Bank

Valuation and risks

Our Sum-of-the-Parts target includes ~$30 for the T&D utilities (17.4x blended P/E on 2018E, including POM) and ~$8 for Generation (6.5x EBITDA). Downside risks are lower power and gas prices; degradation of earned utility ROEs; higher interest rates; higher-than-expected operating expenses; weaker retail margins; and a weaker-than-expected contribution from POM.

Deutsche Bank Securities Inc.

Distributed on: 20/10/2016 20:54:46 GMT

Fight heats up in Illinois

Yesterday we hosted a client field trip to Chicago to visit senior management of Exelon and their Illinois-based utility, ComEd. We also met with key stakeholders involved in the state's ongoing energy policy debate, including Senator Donne Trotter, the sponsor of the Next Generation Energy Plan (SB 1585), introduced earlier this year; Howard Learner, the President and Executive Director of the Environmental Law & Policy Center; Alec Messina, Director of the IL Environmental Protection Agency and former policy advisor to Governor Rauner for energy and the environment; and Anthony Star, Director of the Illinois Power Agency. The main point of our visit was to learn more about ongoing discussions in the state over a potential new energy bill that would, among other things, support the continued operation of Exelon's Clinton and Quad Cities nuclear plants. Timing turned out to be opportune with the November Veto Session around the corner and Senator Trotter having publicly announced at an event on Tuesday his intent to re-introduce SB1585 in the Veto Session and expressing optimism that there would be sufficient consensus to move forward in both the House and Senate. The forum was sponsored by the Illinois AFL-CIO and included a "brief appearance" by House Speaker Michael Madigan. While some suggested this was a positive signal, Madigan's spokesman apparently indicated the speaker is waiting to see a final version before taking a position. Time will tell, but our overall view remains that the pathway to passing a bill is likely to be a challenging one given the particularly fractious state of the overall political dynamics in the state and lingering priorities.

Energy bill gaining momentum ahead of IL Veto Session

One thing that was clear from all the parties we met is that stakeholders continue to negotiate over a new energy bill, with a package likely to be introduced going into the Veto Session, which begins on November 15. The package clearly has not been finalized and EXC and others were unable to share much in the way of details. That said, it seems reasonable to assume any package would include a ZEC-like program designed to allow Clinton and Quad Cities to continue operating, provisions related to renewables and energy efficiency, some kind of help for downstate coal plants, which was not part of the original bill proposed earlier this year, and changes to ComEd's regulatory framework. While details remain sketchy consensus appears to be that the coalition of support includes one key consumer group (CUB) but not AARP. Labor interests and some (but again not all) environmental groups are also seen as on board with the AFL-CIO and University of Illinois' nuclear engineering department sponsoring a high profile event together earlier this week. State Attorney General Lisa Madigan has been vocally opposed, but relatively silent of late – and at least one observer we met with noted that it may be more challenging for her to build a coalition of opposition given some of the parties reported to be on board.

Reasons to think passage might have better chance

Investors may wonder why legislation would stand a chance of passing this time given that Exelon first initiated discussions over a bill to support its Illinois nuclear fleet back in 2014 and nothing has passed yet, even despite EXC's announced plans to close the Clinton and Quad Cities nuclear plants in 2017 and 2018 absent legislative action. The political environment in Illinois has not helped, with Republican Governor Rauner and Democrat House Speaker Michael Madigan openly at odds and according to press reports currently engaged in some particularly hostile proxy campaigning against each other in a number of the ongoing House and Senate election races. As a reminder, the IL legislature was unable to pass a state budget for 18 months and is now only operating on a temporary budget through year-end. That said, there are some valid reasons, in our view, to think the legislation may at least have a better chance this time around. First, the Governor and other parties, particularly labor and local legislators in the state clearly have an interest in preserving the jobs, environmental attributes, and tax revenues generated by the at-risk plants. Second, the parties are theoretically approaching the ‘do-or-die’ deadline, with Exelon saying the legislature’s final chance to pass a bill is at the Veto Session (clarified by management to indicate passage is required by year-end). Otherwise, it will too late to save Clinton and likely Quad Cities as well. Third, the argument was put forth that legislators haven’t been able to pass anything in a long time and will be eager to show their constituents that they can achieve something. In terms of actual votes, political observers note that other recent controversial votes have shown the margin of support in a Democrat party-line vote in the Senate to be more robust than in the House. That said, the same people see a better chance of some Republicans crossing the party divide after the election – particularly those representing downstate districts most impacted by threatened nuclear and coal plant closures. In summary, the optimistic view is that the Veto Session could be an ideal time for the legislature to act, with the elections behind them and the bill expected to have bipartisan support.

We are hopeful, but still skeptical

As noted, we are somewhat more optimistic about something happening later this year than we were this summer. That said, we continue to believe that any bill faces an uphill battle. After all, the political environment in Illinois remains challenged and it seems unlikely this will change that quickly after the November elections. Further, in order to pass in the Veto Session, the bill will require 3/5ths of the legislature’s support, although the possibility was raised in a few of our meetings that a short “lame duck” session could also be held in late December and early January where only a simple majority would be needed. This angle will be worth monitoring but remains a challenge in our view. In addition, it’s not clear Governor Rauner would actually sign the bill even if it makes it to his desk, having called prior iterations a bailout. And from a policy perspective, the strategy of bringing more parties into the support group may help with securing passage in the legislature, but adding further out-of-market subsidies for other asset classes does not seem like an obvious path to winning over a staunch free-market advocate such as Rauner. Finally, while a temporary budget is in place now, this is set to expire at year-end and may still make it tough for legislators to focus on an energy bill.

Illinois the focus but PA and NJ likely to follow

EXC management clearly focuses most on passage of a ZEC-like program in IL, but indicated their attention will turn to Pennsylvania and New Jersey afterwards. Other companies in our sector, FirstEnergy (FE) and PSEG (PEG) have also indicated an interest in pursuing a ZEC-like program in these states.

That said, we believe near-term developments remain unlikely, as discussions appear to be fairly preliminary. For EXC, a ZEC-like program may ensure continued operating of the Three Mile Island facility, which failed to clear the most recent PJM capacity auction and is also clearly at-risk for early closure.

Committed to hybrid structure

On a separate topic, EXC CEO Chris Crane reiterated comments he made at the August Analyst Day that the company remains committed to their hybrid structure (combination of regulated utility and merchant power businesses). EXC is increasingly unique, with many of the company's traditional hybrid peers, AEP, NEE, D, ETR, and FE, having already taken steps to transition to more of a pure-play regulated entity. Through at least 2020, management continues to see a strong rationale for keeping these businesses together, by leveraging free cash flow generated at the merchant power business to help finance above-average earnings growth at their regulated transmission and distribution utilities. This has long been a successful strategy pursued by Public Service Enterprise Group (PEG). Recall that EXC expects to deliver well above peer average utility EPS growth of 7-9% per year, supported by rate base growth of 6%, improved returns at the recently-acquired Pepco Holdings utilities, and the absence of equity financing. Management believes execution on this plan will help narrow the current discount weighing on EXC's stock. That said, beyond 2020, EXC may revisit their hybrid structure, particularly if they don't see the multiple expansion they expect and if the heavy capital spending and growth profile of the regulated business begins to fade.

Valuation

We value EXC's utility segment by applying a 17.5x P/E multiple (half-turn premium over our 17x target average) to our 2018 estimates for ComEd, PECO and the POM utilities, and an average multiple for BG&E. We believe POM earnings merit a premium as we anticipate faster growth at this segment as EXC closes the gap between authorized and earned returns in 2018 and beyond. We also apply premiums to ComEd earnings given potential upside from higher interest rates as ComEd's ROE is set based on an annual formula directly incorporating the yield on the 30-year Treasury bond which remains close to multi-year lows. We also give PECO a premium given a constructive regulatory backdrop and note EXC's history of over-earning as well assumed normalization of returns in management's growth rate projections.

On the merchant side we value ExGen by applying a 6.5x EV/EBITDA multiple to our 2018 estimate. Our 6.5x multiple is now relatively in line with our targeted EV/EBITDA multiple for merchant generators. On the one hand, we believe a modest discount is merited given ExGen's still more limited free cash flow generation than IPP peers given their capital-intensive nuke fleet. On the flipside, EXC's nuclear fleet merits some incremental value vs. IPPs given the potential for new revenue streams from clean energy standards or a future carbon trading scheme (finalized in NY though facing legal challenges and under consideration again in IL this fall). In addition, EXC also has a stronger credit and lower leverage profile at ExGen than pure-play IPP peers, with a strong commitment to de-lever further over the coming years.

Similar to our valuation methodology for FirstEnergy, we take a hybrid approach for the corporate / other segment. We derive a $35 price target when valuing the corporate segment EBITDA at a 6.5x EBITDA multiple and then subtracting corporate debt as a direct offset to equity value (effectively treating parent debt as being wholly on the merchant business). In our other scenario (Valuation B) we see a $40 price target valuing EXC's corporate earnings drag of $0.16/sh using our weighted average regulated distribution P/E multiple of 17.4x (treats parent debt as being on the utilities).

Our $38 price target reflects a 25/75 weighting of these two book-end valuation approaches. Since EXC's August analyst day we have been giving a higher weighting to Valuation B given EXC's increasing strategic focus on the regulated utilities and ongoing commitment to de-levering at ExGen.

Figure 1: EXC Sum-of-the-Parts Valuation

Valuation A

Business Segment	Valuation Metric	2018E	Multiple	Value
ComEd	P/E	$0.61	17.5x	10,280
PECO	P/E	$0.45	17.5x	7,578
BG&E	P/E	$0.34	17.0x	5,632
POM	P/E	$0.40	17.5x	6,813
Utility Equity Value				**30,303**
Generation / Retail / Corp	EV/EBITDA	3,087	6.50x	20,067
Less: Generation Net Debt				(9,142)
Less: Corp Net Debt				(7,713)
Non-Utility Equity Value				**3,212**
Total Equity Value				**33,515**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**35**

Valuation B

Business Segment	Valuation Metric	2018E	Multiple	Value
ComEd	P/E	$0.61	17.5x	10,280
PECO	P/E	$0.45	17.5x	7,578
BG&E	P/E	$0.34	17.0x	5,632
POM	P/E	$0.40	17.5x	6,813
Corp	P/E	($0.16)	17.4x	(2,620)
Utility & Corp. Equity Value				**27,683**
Generation / Retail	EV/EBITDA	3,041	6.50x	19,768
Less: Generation Net Debt (2018E)				(9,142)
Non-Utility Equity Value				**10,626**
Total Equity Value				**38,309**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**40**

Source: Deutsche Bank

Risks

Downside risks include lower-than-expected forward power prices, worse-than-anticipated rate case outcomes, lower retail margins, higher interest rates, and a lower-than-expected contribution from POM.

Appendix 1

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Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	32.88 (USD) 19 Oct 16	14,15

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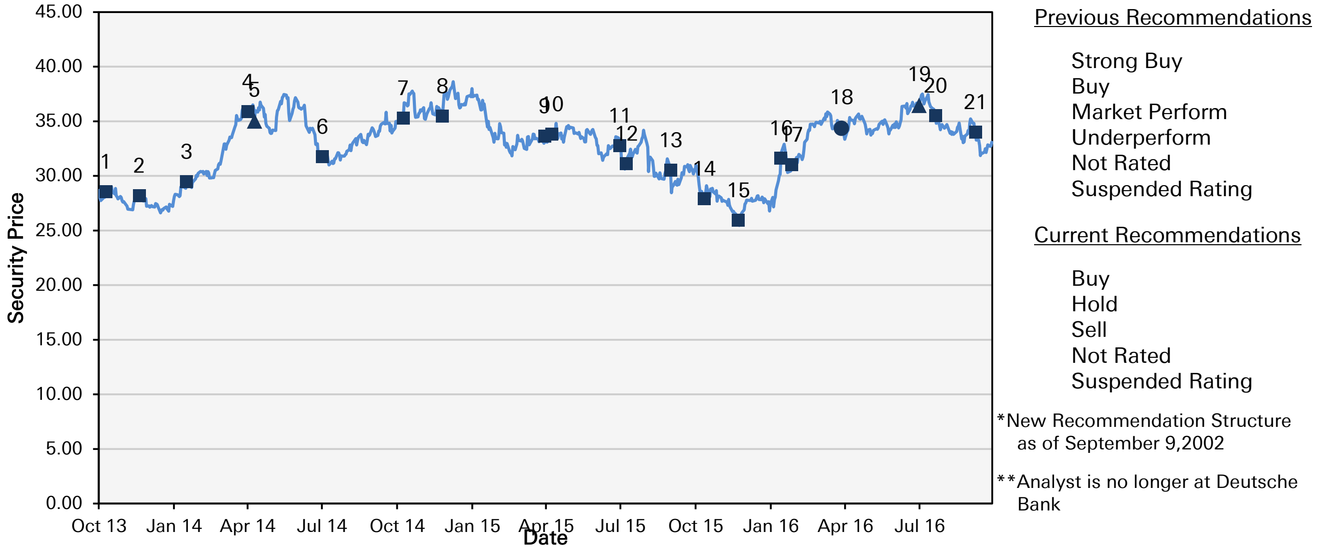
Historical recommendations and target price: Exelon (EXC.N)

(as of 10/19/2016)



1.	10/31/2013:	Hold, Target Price Change USD31.00 Jonathan Arnold
2.	12/11/2013:	Hold, Target Price Change USD30.00 Jonathan Arnold
3.	02/07/2014:	Hold, Target Price Change USD31.00 Jonathan Arnold
4.	04/23/2014:	Hold, Target Price Change USD34.00 Jonathan Arnold
5.	05/01/2014:	Upgrade to Buy, Target Price Change USD38.00 Jonathan Arnold
6.	07/23/2014:	Buy, Target Price Change USD36.00 Jonathan Arnold
7.	10/30/2014:	Buy, Target Price Change USD38.00 Jonathan Arnold
8.	12/17/2014:	Buy, Target Price Change USD43.00 Jonathan Arnold
9.	04/21/2015:	Buy, Target Price Change USD42.00 Jonathan Arnold
10.	04/30/2015:	Buy, Target Price Change USD41.00 Jonathan Arnold
11.	07/22/2015:	Buy, Target Price Change USD40.00 Jonathan Arnold
12.	07/30/2015:	Buy, Target Price Change USD41.00 Jonathan Arnold
13.	09/22/2015:	Buy, Target Price Change USD42.00 Jonathan Arnold
14.	11/02/2015:	Buy, Target Price Change USD37.00 Jonathan Arnold
15.	12/14/2015:	Buy, Target Price Change USD35.00 Jonathan Arnold
16.	02/04/2016:	Buy, Target Price Change USD36.00 Jonathan Arnold
17.	02/17/2016:	Buy, Target Price Change USD34.00 Jonathan Arnold
18.	04/18/2016:	Downgrade to Hold, Target Price Change USD36.00 Jonathan Arnold
19.	07/22/2016:	Upgrade to Buy, Target Price Change USD39.00 Jonathan Arnold
20.	08/11/2016:	Buy, Target Price Change USD40.00 Jonathan Arnold
21.	09/29/2016:	Buy, Target Price Change USD38.00 Jonathan Arnold

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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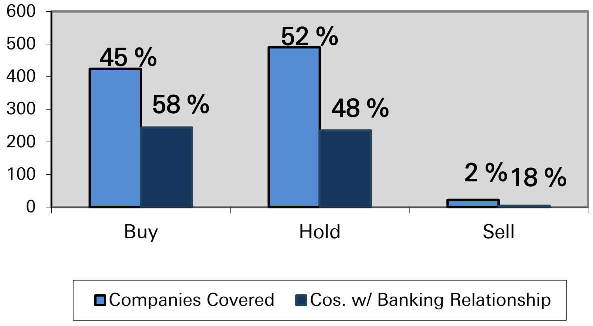

North American Universe

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Exelon

Nuclear credits to drive story through year end

Maintain Rating: NEUTRAL | PO: 34.00 USD | Price: 33.26 USD

Bank of America Merrill Lynch

Equity | 26 October 2016

Key takeaways

- Nuke credits in New York and Illinois should drive EXC into year end. We think NY ZECs survive, but Illinois is a long shot.
- O&M cuts in 2018/19 are good, but ExGen's open gross margin MTM was mixed.
- Maintain Neutral view on EXC. EEI Questions included in this note.

Nuke credits are possible positive upcoming catalysts

On 10/19/16, the Electric Power Supply Association filed a legal challenge in the Southern District Court of New York against the New York Zero Emissions Credit program. Our estimates include ~$0.10 EPS of ZECs. If 1) the court asks FERC and other regulatory agencies to opine (see Hughes v. Talen) and 2) Mrs. Clinton wins the presidency (her campaign platform explicitly promotes nuclear programs as a bridge to renewables), there is a reasonable probability the ZECs program will survive the challenge. This should be a positive catalyst for EXC. Separately, the Illinois legislature veto session could see a comprehensive energy package emerge that might similarly support nuclear. Our estimates do not include Illinois upside as we believe chances for a successful passage are modest at best.

Mixed ExGen gross margin update; O&M reductions a plus

Exelon rolled out its 2019 gross margin forecast of $7.3B (including CES and FitzPatrick), versus our forecast of $7.25B. 2017/18 gross margin forecasts of $7.8B and $7.65B were light relative to our $8.0B and $7.8B forecast, respectively, on a lighter than expected open gross margin. In our view, the sector's valuation rollover to 2019 by year end means the light 2017/18 outlook should not be construed as a material negative. ExGen O&M forecasts for 2018 and 2019 were lowered due to a variety of continued operating improvements and the shifting of capital away from growth to return-enhancing measures. Management struck a confident tone regarding those cost cuts, signaling these were goals with considerable line of sight.

Regulated results drive good quarter & 2016 guidance lift

Exelon reported adjusted EPS of $0.91 versus our and consensus expectations of $0.76 and $0.79, respectively. Relative to our forecast, regulated results from PHI (partly boosted by favorable weather) and deregulated Ex-Gen were positive surprises. 2016 guidance was lifted as we expected (see our 3Q Preview) to $2.55-2.75 from $2.40-2.70, reflecting a midpoint rise of $0.10 and better than forecast regulated results YTD.

Maintain Neutral; gas volatility remains a concern

We maintain our Neutral on EXC shares. Without a doubt, EXC's consolidated PE valuation (2017/18/19 at 12.7x/12.0x/13.1x) relative to integrated peers (2017/18/19 at 17.1x/16.3x/15.6x) appears inexpensive. However, Exelon's open earnings exposure to commodity price swings via ExGen remains high (+/- $1/mmbtu nat gas = EPS +/- $0.30) and also faces structural risk from falling renewable costs. Exelon's push towards a regulatory growth framework is compelling in our view, but its associated commodity exposure still prompts our remaining on the sidelines for now.

Timestamp: 26 October 2016 06:12PM EDT

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Stock Data

Price	33.26 USD
Price Objective	34.00 USD
Date Established	17-Oct-2016
Investment Opinion	B-2-7
52-Week Range	25.09 USD - 37.70 USD
Mrkt Val (mn) / Shares Out (mn)	30,799 USD / 926.0
Average Daily Value (mn)	154.33 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2016E)	9.3%
Net Dbt to Eqty (Dec-2015A)	72.5%

Utilities: 3Q Preview & EEI Conference Question Bank 17 October 2016

Exelon: Analyst Day Harps on Regulated Business; Story Takes on New Chapter with Pepco 11 August 2016

Exelon: Pepco accretion & cash flows highlight a positive quarterly release 08 May 2016

EEI Questions

Where does Illinois legislation stand to support Clinton and Quad Cities?

Closed door negotiations have suggested a potential bill could be proposed at the General Assembly's November veto session or possibly a "lame duck" session in January. How long does MISO take to provide authorization to shut down a resource? What is the protocol for withdrawing an application to retire an asset? Given the short time frame to save Clinton, we still believe the plant is very likely to be shut down, while Quad Cities could potentially be saved if the legislature were to act in the near future.

What is the potential for restructuring rates in ComEd through the legislature?

Do recent articles on the switching from a "pay-for-what-you-use system" to the inclusion of demand charges suggest ComEd is not recovering fast enough? Are there other opportunities that you see by trying to switch to the inclusion of demand charges?

Progress on ZEC-like programs in other jurisdictions?

PaPUC Commissioner Robert Powelson made comments on 10/4/16 with regards to Three Mile Island and Beaver Valley possibly not clearing in the next auction, do you see an opportunity in PA for a ZEC type program? Are you having discussions with any other jurisdictions and would you look to acquire other nuclear units if similar legislation was passed in other states?

Capacity market impact from ZEC-like structures?

What do you think about PJM's proposal to create a two stage adjustment mechanism for its capacity market in light of New York's ZEC program?

What are your views on PJM's next capacity auction?

Discussions with various stakeholders suggest that RTO prices will not rise significantly despite going to full CP, what is the company's view on PJM RPM? Do you see differences in ComEd versus the other regions?

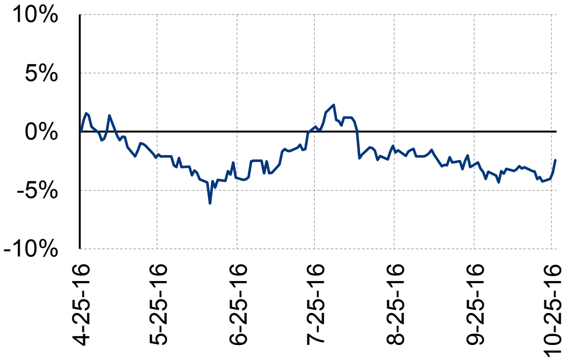
Consumer advocacy groups concerned about the Zero-Emission Credit program

How do you view the EPSA complaint and why did they go straight to the Southern District Court of New York rather than FERC? What clout do these consumer groups have towards potentially overturning the program? If Audrey Zibelman from the NYPSC is appointed by Clinton to FERC, what impact would that have?

Asset monetization status?

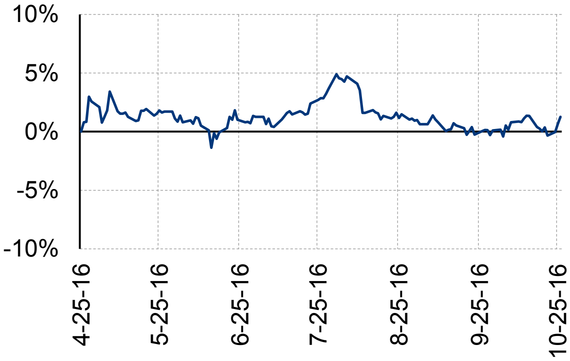
For Texas assets, what would be the rationale for monetizing or project financing those units? For what would the proceeds be used? Have recent events prompted greater consideration for these options than in the past? Where do we stand on Mystic and a potential sale?

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

Price objective basis & risk

Exelon (EXC)
Our $34/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $8 of value to ExGen, ($4) for the parent, and approximately $30 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2018E earnings and EBITDA. For Exelon specifically we use a target 7.3x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply a peer average target 16.5 P/E multiple to value the regulated side of the business.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario.

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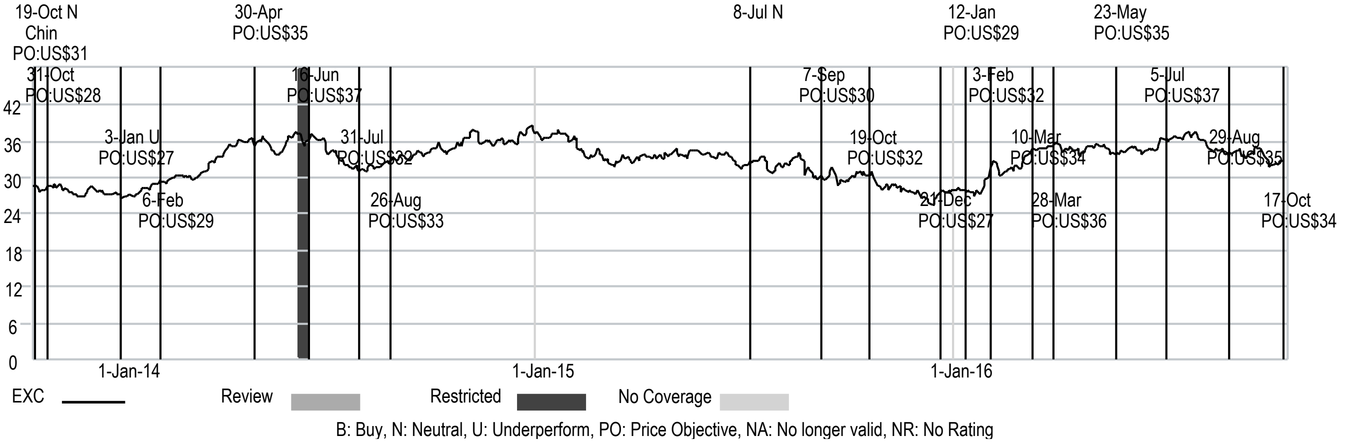

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Buy	58	46.03%	Buy	45	77.59%
Hold	34	26.98%	Hold	29	85.29%
Sell	34	26.98%	Sell	20	58.82%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1553	49.44%	Buy	1130	72.76%
Hold	730	23.24%	Hold	538	73.70%
Sell	858	27.32%	Sell	514	59.91%

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Date
15 November 2016

Breaking News

Price at 15 Nov 2016 (USD)	32.07
Price target	38.00
52-week range	37.50 - 25.46

Take two for Illinois nuclear bill

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EXC bounces with utility group and Illinois legislative progress

Exelon traded up 4.2% today, outperforming a utility bounce after lagging post-election on fears over clean energy thematics under Trump. As we have said, much of this agenda is in fact being advanced in the states and today's move was partly spurred by the latest iteration of state energy legislation in Illinois with a new bill emerging. Later this week we expect to see NY PSC approval of the FitzPatrick purchase and associated completion of NYSERDA contracts required to implement the state's ZEC program. We continue to view EXC as an undervalued play on superior regulated growth with potential for state legislative/regulatory catalysts in the nuclear business.

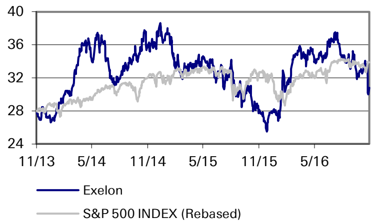
Coal angle and utility efficiency opportunity added to Illinois nuclear bill

As we heard on our trip to the state last month, in addition to Zero Emission Credits (ZECs) targeted at nuclear plants, the bill now also includes a mechanism to protect downstate coal plants owned by Dynegy (DYN) along with energy efficiency incentives that may provide additional earning opportunities for the utilities (EXC’s ComEd and Ameren). How this all plays out in the legislature remains the key question with only five scheduled days remaining in the Veto Session (Weds-Thurs this week and 11/29-12/1).

House now taking the lead; likely a positive signal although still a heavy lift

Local press has been quick to highlight erosion of support from environmental groups as a result of the coal provisions. Politically though, the fact that the bill was introduced in the House rather than the Senate might signal at least a tacit blessing from powerful House Speaker Madigan – a key ingredient for success. Rather than taking up the stalled Senate bill from the Spring session (SB 1585) the new bill (SB 2814) has been inserted into a shell previously passed by the Senate in April and currently sitting at the second reading stage in the House. The new House sponsor of SB 2814 is Rep. Robert Rita while the original sponsor is Senate President Pro Tem Don Harmon. The next step is a hearing before the House Energy Committee tomorrow (11/16) at 3pm ET. If passed by Committee the bill would go to the House Floor, after which we understand that the Senate would only have to vote once on the bill “as amended” since SB 2814 was already passed by them. Politically we believe the House was always likely to be the heavier lift so it may be that the key vote will not be the final one. As a reminder under Veto Session rules a 3/5 super-majority vote is required for passage by the legislature. After this the Governor has sixty days to sign or veto (if he does nothing the bill passes by default) and, in theory at least, the legislature could overturn a veto assuming they still had the required 3/5 majority. How this plays out considering gains made by Rauner’s Republican candidates in last week’s elections and a still openly frosty standoff between the Governor and legislative leaders over the state budget remains a wild card in our view. On balance though, we view the latest as constructive data points in what will still likely be a contentious process with an uncertain outcome. Please see inside for details on the new bill.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.9	-7.4	13.2
S&P 500 INDEX	2.2	-0.4	7.8

Source: Deutsche Bank

Comparatives

Dynegy Inc. (DYN.N),USD9.01			Buy
	2015A	2016E	2017E
EPS (USD)	0.23	-6.22	-0.55
P/E (x)	112.4	–	–
EV/EBITDA (x)	11.6	10.1	7.6

Source: Deutsche Bank

Valuation and risks

We value EXC's utilities at 17-17.5x 2018 EPS and its GenCo at 6.5x EBITDA. Risks are higher interest rates, lower commodity prices and unfavorable regulatory outcomes.

SB2814 — What's in this 446-page bill?

- The Illinois Power Agency (IPA), on behalf of electric utilities, will procure Zero Emission Credits (ZECs) up to 16.75% of Illinois' 2015 energy demand (which approximates the output of EXC's Clinton and Quad Cities).
- ZEC pricing will be $16.50/MWh (Social Cost of Carbon), adjusted annually for inflation. Beginning in 2023, ZECs will rise by $1/MWh per year. Additionally, if the market price for energy and capacity in Illinois rises beyond $31.40/MWh, the ZEC would be adjusted down accordingly. Interestingly the bill specifically keys off the federal agencies' August 2016 Technical Update – a provision likely designed to address the likelihood that this calculation might not be further updated under the incoming Trump administration.
- Winning bidders will be selected based on public interest criteria including limiting Illinois emissions which are incremental due to the procurement. Contracts will last for the useful life of the selected facilities. Clinton is licensed through 2026, Quad Cities licensed through 2032. There is also the potential for ZEC extensions if licenses are extended another 20 years by the NRC.
- IPA will procure capacity to satisfy Planning Reserve Margin Requirement for IL utilities with between 500,000 and 3M customers (i.e. Ameren Illinois). Contracts will be multi-year, with most between 4 and 6 years. The legislation also specifically excludes plants owned by munis or coops, or those with costs recovered through regulated rates in Illinois or another state. With few competing local merchant resources, DYN's coal plants should be well positioned in the procurement, which could provide LT earnings visibility.
- Introduces a long-term renewable resource procurement plan and sets up a competitive procurement process for RECs. The bill also creates the Illinois Solar for All program.
- Increases energy efficiency targets up to 23% cumulative persisting annual savings by 2030. Allows utilities to recover costs for prudently incurred expenditures for energy efficiency and demand response together with opportunities to earn on capital invested for efficiency.
- Provides for a transition in utility billing from a usage based model to peak-demand based rates. This measure, often opposed by the solar industry, ensures customers with solar still pay for their peak demand (when the sun sets), rather than their net usage.
- The bill encourages the development of 6 microgrid projects, 5 in ComEd territory at a cost up to $250M and 1 in AEE's territory for up to $60M.

Continued on next page

Potential legal and operational vulnerabilities

Following the Supreme Court's ruling in Hughes vs. Talen, the bill appears to be crafted to avoid impinging on wholesale power markets by directing specific bidding behavior. While the proposed legislation is clearly designed to support EXC's 2 challenged nuclear plants, Clinton and Quad Cities, as well as DYN's challenged Southern Illinois coal plants, for legal reasons neither party is explicitly guaranteed a contract. In fact, read broadly, the Illinois ZECs could be awarded to some of EXC's other nuclear plants should they choose to apply, or even an out-of-state challenged nuclear plant within the PJM or MISO footprint (such as FE's Davis-Besse). For the downstate capacity contracts, DYN is likely to have competition from EXC's Clinton nuclear plant, other in-state merchant generation (Rockland Capital owns several of these), demand response, new renewables, and perhaps even out of state resources that are able to secure firm transmission rights. The contracts could also potentially lure developers of new gas plants to locate projects in Southern Illinois.

Next Steps

There is a House hearing scheduled for 2pm CT tomorrow. Next, the House Committee would need to vote on the bill. If it passes, the bill would move to the House Floor for a vote. If it passes the House, the bill would go back to the IL Senate for a vote before heading to Governor Rauner's desk. The IL legislature's veto session is scheduled to end on December 1 although it is not inconceivable that additional regular session days might be added later in December or early January. While any such days – not being part of the Veto Session – would not require a 3/5 majority in the legislature, any measures so passed would take significantly longer to be fully adopted.

Reiterate Buy rating; $38 Price Target

We have a Buy rating on EXC as we view it as a rare way to obtain top-tier regulated utility growth (7-9% earnings CAGR) at a substantial discount. We also like the committed de-levering strategy at ExGen along with upside catalyst potential from ZECs in Illinois and New York (with clarity expected over the next three weeks or so). We value EXC's utilities at 17x-17.5x 2018E P/E, and ExGen at 6.5x EV/EBITDA. Corporate debt we weight 75% to a utility multiple on the interest drag and 25% as a direct claim against equity value. Reiterate Buy and $38 PT.

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	32.07 (USD) 15 Nov 16	14,15
Dynegy Inc.	DYN.N	9.01 (USD) 15 Nov 16	1,6,7,8,9,SD11

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr.

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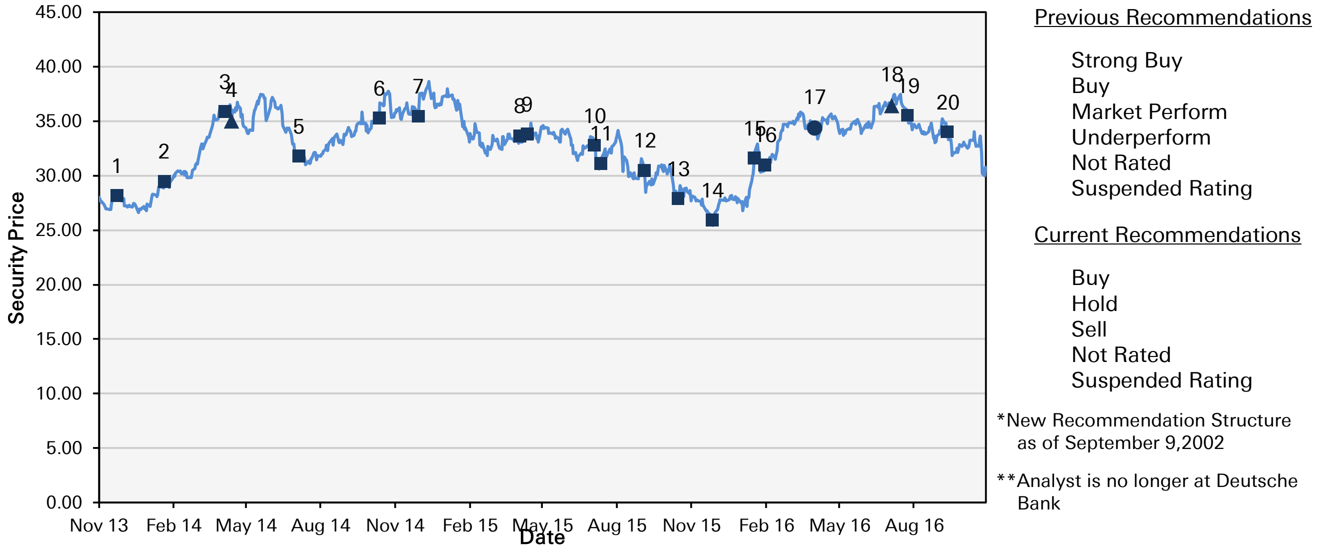
Historical recommendations and target price: Exelon (EXC.N)

(as of 11/15/2016)



1. 12/11/2013: Hold, Target Price Change USD30.00 Jonathan Arnold
2. 02/07/2014: Hold, Target Price Change USD31.00 Jonathan Arnold
3. 04/23/2014: Hold, Target Price Change USD34.00 Jonathan Arnold
4. 05/01/2014: Upgrade to Buy, Target Price Change USD38.00 Jonathan Arnold
5. 07/23/2014: Buy, Target Price Change USD36.00 Jonathan Arnold
6. 10/30/2014: Buy, Target Price Change USD38.00 Jonathan Arnold
7. 12/17/2014: Buy, Target Price Change USD43.00 Jonathan Arnold
8. 04/21/2015: Buy, Target Price Change USD42.00 Jonathan Arnold
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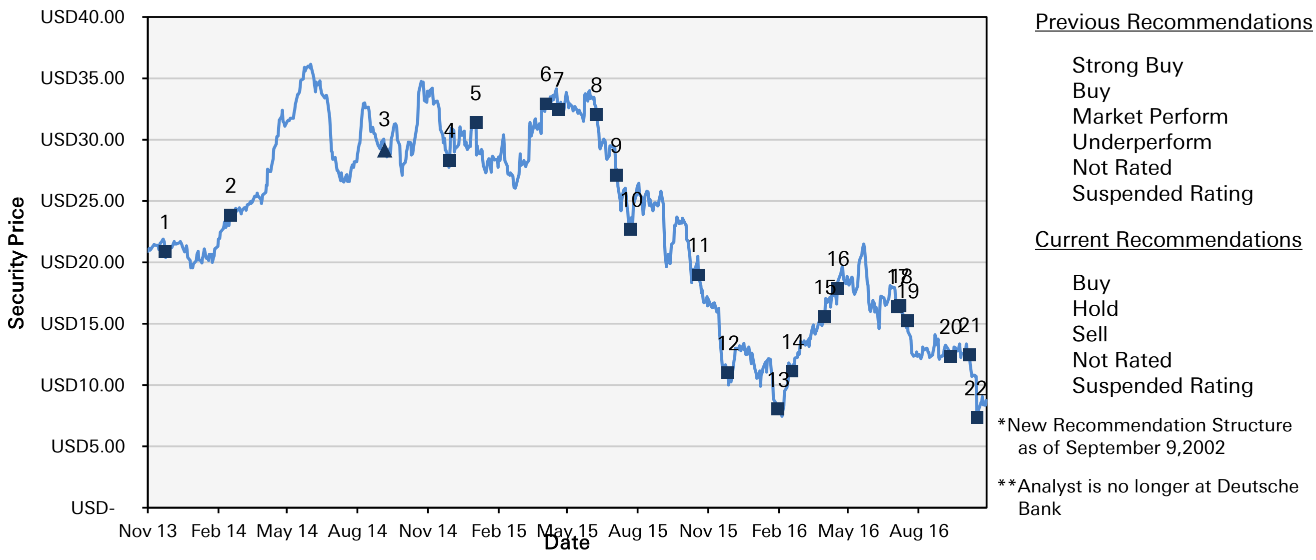
15. 02/04/2016: Buy, Target Price Change USD36.00 Jonathan Arnold
16. 02/17/2016: Buy, Target Price Change USD34.00 Jonathan Arnold
17. 04/18/2016: Downgrade to Hold, Target Price Change USD36.00 Jonathan Arnold
18. 07/22/2016: Upgrade to Buy, Target Price Change USD39.00 Jonathan Arnold
19. 08/11/2016: Buy, Target Price Change USD40.00 Jonathan Arnold
20. 09/29/2016: Buy, Target Price Change USD38.00 Jonathan Arnold

Historical recommendations and target price: Dynegy Inc. (DYN.N)

(as of 11/15/2016)



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7.	05/08/2015:	Buy, Target Price Change USD44.00 Jonathan Arnold
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9.	07/22/2015:	Buy, Target Price Change USD37.00 Jonathan Arnold
10.	08/10/2015:	Buy, Target Price Change USD35.00 Jonathan Arnold
11.	11/06/2015:	Buy, Target Price Change USD31.00 Jonathan Arnold
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19.	08/04/2016:	Buy, Target Price Change USD23.00 Abe Azar
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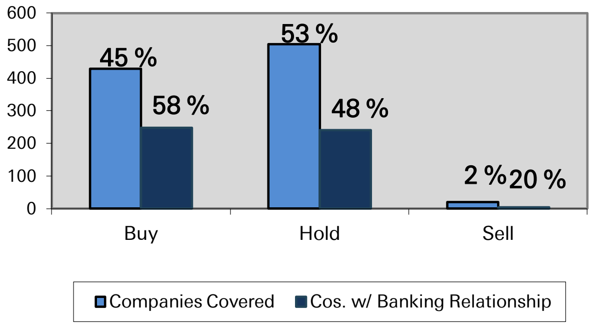

North American Universe

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Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon Alert

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
28 November 2016

Breaking News

Price at 28 Nov 2016 (USD)	33.39
Price target	38.00
52-week range	37.50 - 25.46

Game time in Springfield

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House Amendment 3, latest draft of Illinois legislation (SB 2814) introduced

With just three days (Tues-Thurs) remaining in the Illinois Veto Session the new draft suggests EXC's bill continues to be under serious consideration. For context, we see EXC as an undervalued play on superior regulated growth with potential for uplift from state legislative/regulatory initiatives targeted at challenged nuclear units, including IL. We also see hybrids like EXC as less exposed to uncertainties facing utilities around possible corporate tax reform.

Changes respond to concerns from solar interests, Governor's office

As we suspected they might be, some contentious pieces have been removed, namely the FRAP aimed at helping downstate coal plants along with demand charges and proposed net metering elimination. Three changes address criticisms voiced by Gov. Rauner's staff last week, notably demand charges, a longer commitment to keep subject nuclear plants in operation and the overall impact of the ZEC program on customer rates – now capped at a lower level. Procedurally the bill has been referred back to the House Energy Committee which will take it up at 10am ET Tuesday. Thereafter, it would move to the House floor and then the Senate, both of which require super-majority (3/5) votes. While the legislative process is inherently unpredictable and rife with political posturing, we see grounds for optimism in the latest machinations. First, the House continuing to take the initiative likely signals some level of blessing from Speaker Madigan. Second, it seems notable to us that Rauner's staff articulated specific concerns which now appear to have been addressed.

Notable changes in House Amendment 3

- Removes the so-called FRAP or Illinois Power Agency multi-year procurement of all required capacity in MISO Zone 4 (Southern Illinois). This could have given longer-term price visibility for DYN's coal plants.
- Removes proposed grid impact demand charge which opponents argued would have disadvantaged residential solar. The new draft also retains net energy metering up to 5% of peak load, another hot-button issue for solar.
- Lowers the cap on annual rate increases due to the ZEC program from 2.015% to 1.65% of 2009 rates, an effective 18% cut to the maximum level. We believe this change could reduce ZEC revenues by ~$50M/year.
- Significantly reduces scope of the proposed utility micro-grid pilot program from $310M to $70M.
- Grants the ICC powers to expedite implementation of the bill.
- Provides the AG, who the House Committee directed should be "at the table", access to confidential plant-level cost data regarding ZECs.

Stock & option liquidity data

Market cap (USDm)	30,835.7
Shares outstanding (m)	923.5
Free float (%)	100
Volume (28 Nov 2016)	1,583,424
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.26

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
1Q EPS	0.71	0.68A	–
2Q EPS	0.59	0.65A	–
3Q EPS	0.83	0.91A	–
4Q EPS	0.38	–	–
FY EPS (USD)	2.49	2.70	2.45
P/E (x)	12.8	12.4	13.6

Source: Deutsche Bank

* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank
Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon Alert

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
20 September 2016

Company Update

Price at 19 Sep 2016 (USD)	34.16
Price target	40.00
52-week range	37.50 - 25.46

IRS 1 : EXC 0

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Tax Court orders EXC to pay taxes, interest on 1999 tax gain on sale

On Monday, the US Tax Court ruled in favor of the IRS concerning the agency's view that EXC owed taxes related to a $1.2B gain on sale of the IL-based fossil fleet in 1999. EXC deferred the tax gain through the reinvestment of proceeds in a "like-kind" exchange, in this case the purchase of three municipal-owned generation facilities which were subsequently leased back to the municipalities. The IRS did not believe this qualified as a "like-kind" exchange, making the gain taxable.

What does this mean from a financial perspective?

In addition to ordering EXC to pay taxes on the sale and related interest, which together amounts to $1.19B, the court has also levied a penalty of $260M. While an appeal to the 7th Circuit Court is possible, EXC would still have to post bond or pay the required tax, penalties and interest to do so. They would expect the net payment, including penalties, to be $1.06B after accounting for tax benefits associated with interest expense realized in subsequent years. From an earnings perspective, EXC had already fully reserved for the taxes and related interest (not the penalty). In terms of cash flow impacts, EXC had likely anticipated losing in the US Tax Court this year and has already assumed incremental debt financing in their 2016 plans to pay for the tax and interest component, although it wasn't clear until now that proceeds of planned issuances would be used to pay a large tax bill. EXC may also upsize any offerings to cover the penalty component if necessary.

Stock & option liquidity data

Market cap (USDm)	31,546.8
Shares outstanding (m)	923.5
Free float (%)	100
Volume (19 Sep 2016)	1,076,867
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.26

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
1Q EPS	0.71	0.68A	–
2Q EPS	0.59	0.65A	–
3Q EPS	0.83	–	–
4Q EPS	0.38	–	–
FY EPS (USD)	2.49	2.55	2.55
P/E (x)	12.8	13.4	13.4

Source: Deutsche Bank

* Includes the impact of FAS123R requiring the expensing of stock options.

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Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon Alert

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
2 December 2016

Breaking News

Price at 1 Dec 2016 (USD)	32.17
Price target	38.00
52-week range	37.50 - 25.46

Never say never; IL nuclear bill heads to Governor's desk

Veto Session winds up with Exelon's nuclear bill passing both houses

In a nail-biter of a process, late Thursday the Future Energy Jobs Bill (SB 2814) passed the Illinois legislature by comfortable margins. The bill still needs Governor Rauner's signature but this seems likely after numerous amendments addressing his concerns and a supportive post-vote statement. When we visited stakeholders in October we sensed renewed momentum and saw a chance, albeit still a long-shot, for a bill to pass in the Veto Session. This was far from assured though, particularly given the state's deep political divisions.

After week of drama, legislation receives broad bipartisan support

With Wednesday night's deal apparently falling apart Thursday morning, the final day of the session provided much drama and intrigue. In the end the House voted 63-38 with the Senate voting 32-18. While this met the three fifths threshold required for a bill to take immediate effect, a late amendment was added delaying implementation to June 1. This would have allowed for a lower threshold, perhaps a sign leaders were less than confident in the vote count as legislators began to head for the exits with the session wrapping up.

EXC better placed vs. tax reform uncertainties, rising interest rates

We view EXC as an undervalued play on superior regulated growth, committed de-levering at the GenCo and now upside for more challenged nuclear units in both NY and IL. Post the election surprise we also see EXC better positioned than pure regulated peers vs. uncertainty related to corporate tax reform thanks to a large and profitable non-regulated business, solid balance sheet and relatively modest parent drag. EXC also looks better situated than most utilities facing rising interest rates given 1) a hybrid structure making for less of a bond-proxy investment profile; 2) ComEd rates being directly pegged to 30-Year Treasury yields; and 3) a sizable non-utility pension obligation.

Illinois ZECs worth $235M or incremental $0.09 vs. shut-down scenario

As previously noted, the Illinois ZECs should add $0.09 of unregulated earnings to EXC by 2018, assuming as most expect, Quad Cities and Clinton are selected in the procurement process. These increased earnings and cash flows are expected to persist for at least 10 years, long enough for investors to capitalize this benefit in valuations. With the now passed Illinois uplift, on top of NY ZEC uplift and benefits from acquiring ETR's Fitzpatrick plant, ExGen's outlook now has several uplifts, none of which are yet reflected in our model. Even without these considerable benefits, we see EXC as undervalued and we reiterate our Buy and $38 price target. We value EXC's utilities at 17-17.5x 2018 EPS and the GenCo at 6.5x 2018E EBITDA. Risks are higher interest rates, lower commodity prices and unfavorable regulatory outcomes. Furthermore, support for challenged nuclear plants in NY and IL could provide a template for other states, particularly Pennsylvania, where the Three Mile Island plant has not cleared recent auctions.

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Stock & option liquidity data	
Market cap (USDm)	29,709.0
Shares outstanding (m)	923.5
Free float (%)	100
Volume (1 Dec 2016)	1,824,663
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.26

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
1Q EPS	0.71	0.68A	–
2Q EPS	0.59	0.65A	–
3Q EPS	0.83	0.91A	–
4Q EPS	0.38	–	–
FY EPS (USD)	2.49	2.70	2.45
P/E (x)	12.8	11.9	13.1

Source: Deutsche Bank

* Includes the impact of FAS123R requiring the expensing of stock options.

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Markets Research

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United States

Industrials
Utilities and Power

Company
Exelon Alert

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
26 October 2016

Results

Price at 25 Oct 2016 (USD)	32.90
Price target	38.00
52-week range	37.50 - 25.46

Preferred hybrid with room to run

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Good way to own high-quality regulated utility growth at a discount

Following better-than-expected Q3 results (summer weather led to $0.13/sh beat vs. consensus) and FY guidance raise (now $2.55-$2.75 vs. $2.40-$2.70 previously), we are reiterating our $38 PT and Buy rating. We continue to see EXC as undervalued versus regulated peers (stock trades at 12.4x 2018E EPS vs. regulated avg of 16.6x) given above-average regulated earnings growth (7-9% CAGR) and potential for upside at the merchant nuclear business from pending catalysts in NY and IL (establishment of Zero Emissions Credit programs). With key updates (2019 gross margin) provided early, EXC also de-risked next month's EEI, where discussions can now focus more on strategy.

Highlights and takeaways:

- **Generation (ExGen) gross margin (GM) updates were weaker** than our model in 2017 and 2018 by ~$100M, but offset in 2018 by incremental O&M reductions now expected ($100M). Mgmt also noted that the margin outlook has ticked up $50M on commodity moves since the 9/30 mark. We are raising 2016E to $2.70 from $2.55 on strong Q3, lowering 2017E to $2.45 from $2.55 on weaker ExGen GM, and maintaining our 2018E at $2.70, with lower margin offset by O&M savings. Utility, Parent & Other forecasts are unchanged in 2017/2018 and are close to the midpoint of EXC's guidance ranges disclosed at the August Analyst Day.

- New 2019 gross margin, O&M disclosures imply down EPS in 2019. While we likely will not roll out 2019 estimates until later this year, **we see 2019E EPS in the $2.60 ballpark**, but with a greater weighting towards the higher-quality regulated component offset by lower ExGen.

- **We do not yet include upside from the NY ZEC program and/or FitzPatrick deal.** Per today's slides, these could add $0.10-$0.18/sh to our EPS ests. starting next year. ZEC contract signing is expected mid-November.

- Consistent with our Chicago field trip report last week, **EXC confirmed they are more optimistic on building support in Illinois to pass nuclear-friendly legislation** during the Nov/Dec Veto Session. This would allow the Quad Cities and Clinton nuclear plants to continue operating through the anticipated establishment of a ZEC program. That said, EXC also endorsed our view that this remains a heavy lift given the short Veto Session (6 days) and lack of clear support from either Speaker Madigan or Governor Rauner.

- **Potential for even more O&M cuts at ExGen?** As noted EXC further cut its ExGen O&M forecast by $100M in 2018 and $125M in 2019 and in Q&A sounded optimistic about opportunities for incremental gains to come.

Key changes

EPS (USD)	2.55 to 2.70	↑	5.6%
Revenue (USDm)	31,635.2 to 31,925.4	↑	0.9%

Source: Deutsche Bank

Stock & option liquidity data

Market cap (USDm)	30,383.1
Shares outstanding (m)	923.5
Free float (%)	100
Volume (25 Oct 2016)	999,847
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.26

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
1Q EPS	0.71	0.68A	–
2Q EPS	0.59	0.65A	–
3Q EPS	0.83	0.91A	–
4Q EPS	0.38	–	–
FY EPS (USD)	2.49	2.70	2.45
P/E (x)	12.8	12.2	13.4

Source: Deutsche Bank
* Includes the impact of FAS123R requiring the expensing of stock options.

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IDEA

November 18, 2016 05:02 AM GMT

Exelon Corp

Attractive Core Growth with Upside; Upgrading to OW

Stock Rating	Industry View	Price Target
Overweight	In-Line	$37.00

We see attractive growth at a compelling valuation, with several potential upside opportunities and meaningful headroom for ROE improvement at acquired utilities. As a result, we are increasing our estimates for EXC and upgrading to OW.

Attractive growth at a compelling valuation, with potential upside from state-level nuclear support, commodities prices, and lower corporate taxes. Exelon (EXC) has underperformed peers in recent months due to concerns around declines in gas and power prices, perceived execution risk on ROE improvement at the recently acquired Pepco utilities, and lower likelihood of federal carbon regulations post the results of the US presidential election. However, the move in the stock has far exceeded the slight fundamental decline in gas and power prices. EXC's merchant business, ExGen, now screens cheaper than pure-play independent power producers despite having investment-grade credit metrics and a highly profitable generation and marketing platform. EXC has also recently achieved additional clarity in several of its regulatory proceedings at Pepco, making us more confident that the company can execute on its growth plans. We see a lot to like about the story, with many potential upside catalysts supporting an attractive risk-reward. We are upgrading to Overweight, with our $37 price target (unchanged) implying ~17% upside.

- **Best-in-class 7-9% utility growth,** supported by merchant free cash flow and ROE improvements. EXC has received clarity in a number of its rate case proceedings at its Pepco utilities, reaching settlements or receiving constructive staff recommendations in 3 out of its 6 filings. We believe this clarity helps alleviate concerns around execution risk and view it as indicative of the company's ability to work productively with regulators to achieve its targeted 9% ROE by 2019.

- **ExGen now trades at a ~30% free cash flow to equity yield and a $2.10/mmBtu implied long-term gas price,** which we see as unrealistically low. Furthermore, the business has strong investment grade credit metrics, supporting financial flexibility. Presidential election concerns are overdone, as to-date all carbon initiatives have been carried out at the state level. We believe EXC's recent success in securing revenue for upstate New York nuclear plants to reflect the value of their zero emissions profile is

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Exelon Corp (EXC.N, EXC US)

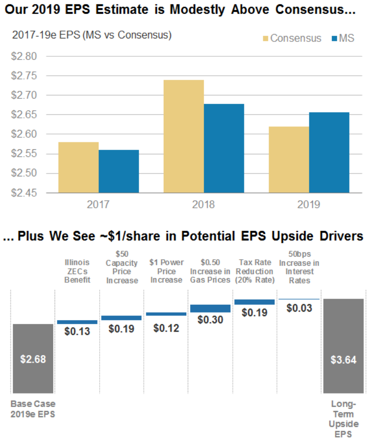
Diversified Utilities / IPPs / United States of America

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	**$37.00**
Shr price, close (Nov 17, 2016)	$31.49
Mkt cap, curr (mm)	$29,128
52-Week Range	$37.70-25.09

Fiscal Year Ending	**12/15**	**12/16e**	**12/17e**	**12/18e**
ModelWare EPS ($)	**2.49**	**2.73**	**2.56**	**2.68**
Prior ModelWare EPS ($)	**-**	**2.46**	**2.42**	**2.59**
P/E	**11.1**	**11.5**	**12.3**	**11.8**
Consensus EPS ($)§	**2.53**	**2.66**	**2.58**	**2.74**
Div yld (%)	4.5	4.0	4.1	4.2

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Thomson Reuters Estimates
e = Morgan Stanley Research estimates

Exhibit 1:



Our 2019 EPS Estimate is Modestly Above Consensus...

... Plus We See ~$1/share in Potential EPS Upside Drivers

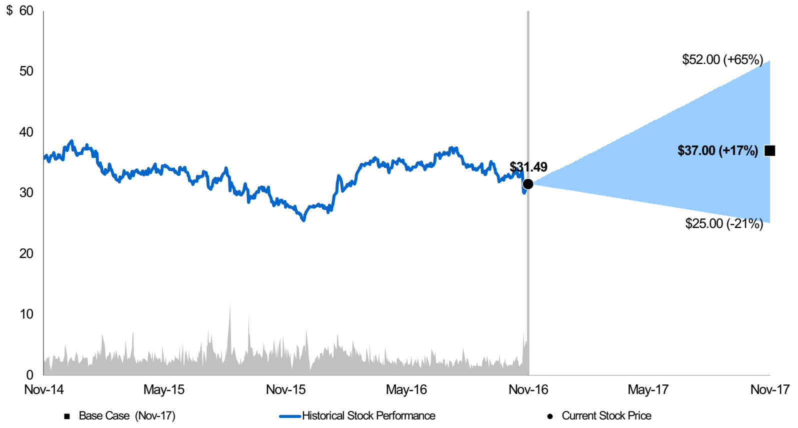
Source: Thomson Reuters, Morgan Stanley Research indicative of the company's ability to ensure market design elements properly value the industry-leading low-carbon profile of its power plant fleet. We see the potential for similar initiatives in Illinois and Pennsylvania over time.

- **Many upside drivers, with ~$1/share of EPS improvements (~37%) that could materialize over the next few years.** Positive drivers include legislative support for Illinois nuclear plants, lower corporate taxes under federal tax reform (driving higher earnings at EXC's unregulated businesses), higher commodities prices (capacity, gas and power), improving allowed returns at ComEd (EXC's largest utility), which automatically increase on a monthly basis with rising interest rates. We believe these upsides position EXC to outperform regulated utility peers as we move into 2017.

Overall, we see an attractive risk-reward at current levels with our $37 price target representing ~17% upside. Our $37 valuation reflects ~$27 per share for utilities and ~$10 per share for ExGen. We use a DCF valuation for the merchant business, ExGen, and an implied in-line 16.0x 2018 P/E multiple for the utilities (including Pepco). As EXC executes on its ROE improvement goals at Pepco, we believe a premium P/E could ultimately be warranted given the above average 7-9% earnings growth, which is attractive relative to the 4-5% peer group average. We believe ExGen is one of the best run merchant generation and marketing businesses in the industry, currently at a compelling valuation. Our DCF-driven $10 valuation for the business implies a ~15% target 2018-19 free cash flow yield and a ~6.5x EV/EBITDA multiple on our 2018 estimate. While our forecasts do not reflect any improvement in commodities prices, we are closely watching the recent rise in coal prices, which would drive higher power prices in the PJM (mid-Atlantic) market, and yesterday's 2-4% increase in forecasted peak demand in ERCOT (Texas), which supports tighter market conditions over the next few years. Overall, we see compelling value with several upside opportunities across EXC's business lines, driving our upgrade to Overweight.

Risk Reward

We See Attractive Risk-Reward with Compelling Upside for EXC



Source: Morgan Stanley Research, Thomson Reuters

Price Target **$37**

Derived from our base case and driven by a 2018e P/E for Utilities and a DCF analysis for Generation and Energy Supply (ExGen). For our DCF we use an 8.2% WACC, 3% risk-free rate, and 1.5% terminal growth rate.

Bull **$52**

$21.50/share ExGen; 16.8x Utilities / Parent $1.80 EPS

ExGen: $4.25 LT natural gas with no basis adjustment, $193 and $242/MW-day MAAC and ComEd PJM capacity prices respectively. Market forward heat rates, $5/ton carbon price in Illinois, $22/MWh Texas sparks.
Utilities/Parent: 5% premium P/E vs. regulated group average, 53% equity ratio and 10% earned ROE

Base **$37**

$10/share ExGen; 16x Utilities / Parent $1.68 EPS

ExGen: $3.75 LT natural gas with ($0.75) Tetco M3 and ($0.30) Chicago gas basis, $175 and $200/MW-day MAAC and ComEd PJM capacity prices respectively. No carbon price, $22/MWh Texas sparks.
Utilities/Parent: Regulated group average P/E, 50% equity ratio and ~10% overall earned ROE

Bear **$25**

$2/share ExGen; 15.2x Utilities / Parent $1.51 EPS

ExGen: $3.50 LT natural gas with ($1.00) Tetco M3 and ($0.30) Chicago gas basis, $100/MW-day MAAC and ComEd PJM capacity prices. No Carbon price, forward curve Texas sparks.
Utilities/Parent: 5% discount P/E vs. regulated group average, 50% equity ratio and 9% earned ROE

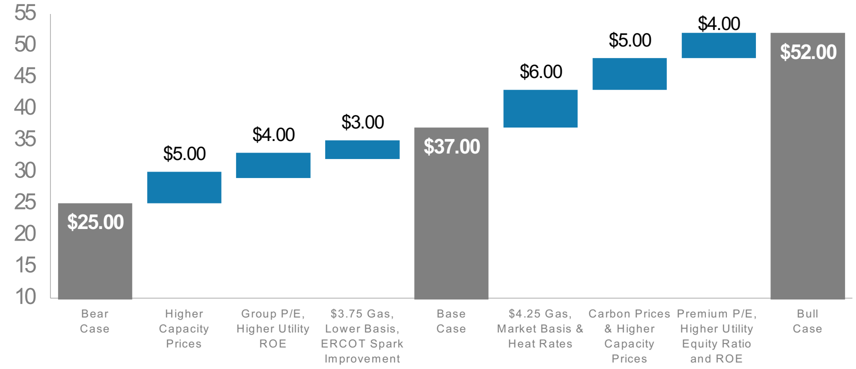
Investment Thesis

- **Merchant free cash flow, attractive investment opportunities, and ROE improvements at Pepco drive above average 7-9% utility growth**. We estimate nearly $9b of free cash flow before growth at ExGen 2016-20, including the benefit from New York's Zero Emission Credit Payments (ZECs) which we expect to fund regulated and unregulated growth as well as delevering. EXC's ~$25.2b regulated utility capital investment plan is over-half recovered through tracker mechanisms or formula rates. Above average growth is also supported by ROE improvements at the recently acquired Pepco utilities. Recent constructive regulatory outcomes and management's track record of improving operations at BG&E make us confident that EXC can improve earned ROEs at Pepco to ~9% by 2019.

- **ExGen now trades at a ~30% free cash flow to equity yield and a $2.10/mmBtu implied long-term gas price,** which we see as unrealistically low. Furthermore, the business has strong investment grade credit metrics, supporting financial flexibility. Presidential election concerns are overdone, as to-date all carbon initiatives have been carried out at the state level. We believe EXC's recent success in securing revenue for upstate New York nuclear plants to reflect the value of their zero emissions profile is indicative of the company's ability to ensure market design elements properly value the industry-leading low-carbon profile of its power plant fleet. We see the potential for similar initiatives in Illinois and Pennsylvania over time.

- **Our EPS estimates are roughly in line with consensus 2017-19 before accounting for any of the potential upside drivers**. We are in line with consensus 2017-19 (modestly below in 2018, above in 2019) without including any of the potential upside from carbon legislation in Illinois, and any reduction in the corporate tax rates resulting from federal tax reform initiatives.

Exhibit 2: EXC Bear-to-Bull Walk



Source: Morgan Stanley Research

Risks to Achieving Price Target

- Natural gas and power prices. EXC is the most sensitive diversified utility to natural gas prices on our math.
- Execution on improving ROEs at Pepco utilities
- Court ruling on legal challenge to NY ZECs
- May 2017 PJM capacity auction

Attractive Core Growth at a Compelling Valuation

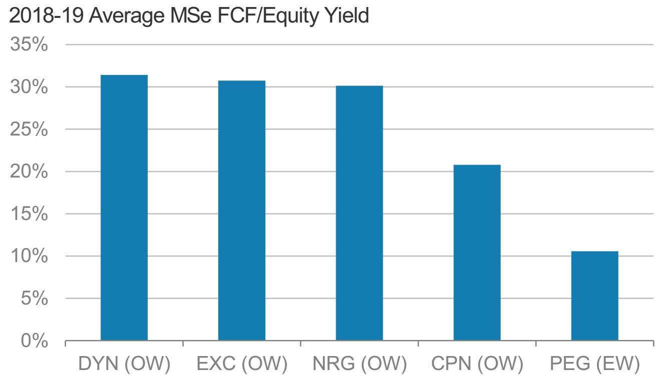
The Big Picture

Exelon (EXC) offers attractive growth at a compelling valuation, with potential upside from state-level nuclear support and lower corporate taxes. EXC has underperformed the utility index by ~200bps since its Analyst Day on August 10th. Drivers of the underperformance include declines in gas and power prices, concerns around execution risk on ROE improvement at the Pepco utilities, and most recently the presidential election results (perceived lower likelihood of federal carbon regulation, which would benefit EXC's merchant nuclear fleet). However, the move in the stock has far exceeded any change in gas and power prices, which only fell 1-3% over the period. ExGen, the company's merchant business, now screens cheaper than pure-play independent power producers despite having investment grade credit metrics and a highly profitable generation and marketing platform. At Pepco, EXC has already achieved several constructive rate outcomes since the Analyst Day, and we expect the company to be able to execute on its ~9% earned ROE target by 2019, anchoring a best in class 7-9% growth rate at the utilities. Furthermore, on carbon, most of the policy initiatives supporting nuclear plants are being carried out at the state level, and we do not expect that to change under a Trump presidency. Lastly, we think EXC's diversified business model sets it apart from peers in the current environment, and expect it to outperform fully regulated peers in a rising rate environment. Our $37 price target implies ~17% upside, and we see the potential for our estimates and valuation to move higher from carbon legislation in Illinois, and any reduction in the corporate tax rates resulting from federal tax reform initiatives.

Merchant free cash flow, attractive investment opportunities, and ROE improvements at Pepco drive above average 7-9% utility growth. We estimate nearly $9b of free cash flow before growth at ExGen 2016-20, including the benefit from New York's Zero Emission Credit payments (ZECs) which we expect to fund regulated and unregulated growth as well as delevering. Management is targeting a balanced approach to deploying this capital (~$2.3b for committed ExGen growth capex, $2.7-3.2b for utility investment, and $2.7-3.2b in ExGen debt reduction). This strong cash flow profile supports attractive utility investments without the need for external equity. 7-9% growth at the utilities is supported by ~6% rate base growth and ROE improvements at the recently acquired Pepco utilities. Recent constructive regulatory outcomes and management's track record of improving operations at BG&E make us confident that EXC can improve earned ROEs at Pepco to ~9% by 2019.

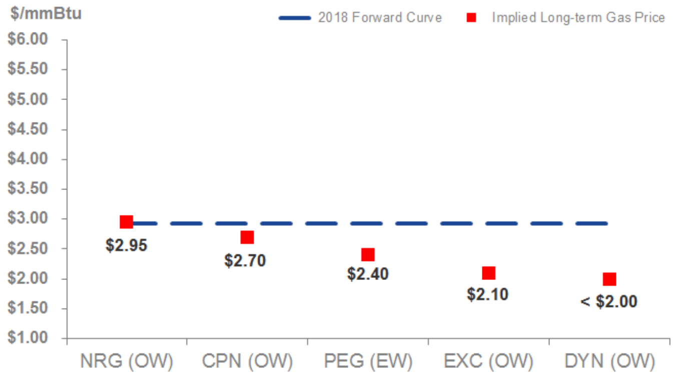
One of the best run merchant generation and marketing businesses in the industry, at a compelling valuation. EXC's current stock price implies a robust ~30% 2018-19 average free cash flow to equity yield at ExGen. In fact, in order for the business to be fairly valued at current levels, we estimate gas prices would need to fall to ~$2.10 in perpetuity (a very unlikely scenario, in our view), with no incremental state or federal support for carbon free generation. Unlike many of the pure-play merchant power companies, ExGen has investment grade credit metrics with ~30% FFO/debt, creating attractive financial flexibility. From a fundamental standpoint, we believe EXC's recent success in New York (securing revenue for upstate nuclear plants to reflect the value of their zero emissions profile) as indicative of the company's ability to ensure market design elements properly value the industry-leading low-carbon profile of its power plant fleet. We expect these zero emissions credits (ZECs) to withstand the pending legal challenge. While our estimates and valuation do not reflect any new carbon regulation or payment in other states, we do believe similar initiatives could be implemented in Illinois and Pennsylvania, further improving cash flow and stability of the business. While our forecasts do not reflect any improvement in commodities prices, we are closely watching the recent rise in coal prices, which would drive higher power prices in the PJM (mid-Atlantic) market, and yesterday's 2-4% increase in forecasted peak demand in ERCOT (Texas), which supports tighter market conditions over the next few years. Lastly, we remain constructive on PJM capacity prices in the upcoming May 2017 auction, another potential upside driver for ExGen.

Exhibit 3: EXC's Generation Business Is Trading at Attractive ~30% FCF-Equity Yield



Source: Morgan Stanley Research. Note, We Show DYN on This Chart, but Our Analysis Shows There Is No Gas Price Low Enough to Make the Stock "Fairly Valued" at Current Levels, Given DYN's Gas Heavy Asset Mix

Exhibit 4: EXC Is Pricing in a Long-Term Gas Price of ~$2.10



Source: Morgan Stanley Research. We Exclude FE And ETR Since the Stocks Currently Reflect $0 of Merchant Value, by Our Calculations.

Our $37 price target represents attractive 17% upside and we see a compelling risk-reward at current levels. Our $37 valuation reflects ~$27 per share for utilities and ~$10 per share for ExGen. We use a DCF valuation for the merchant business, ExGen, and an implied 16.0x 2018 P/E multiple for the utilities (including Pepco), in line with the regulated utility group average. For ExGen, we assume $3.75/MMBtu long-run natural gas price along with an incremental $0.75 negative gas basis for PJM East/West and negative $0.30 for NI Hub, which results in a net ~$3.00 and $3.45 per mmBtu long term gas price assumption for Exelon's PJM East and Illinois nuclear fleets, respectively. In Illinois, we currently do not reflect any uplift from a Clean Energy or Zero Emission Standard and longer term carbon regulation, and any implementation of such a program would represent upside to our price target. On the capacity side, our assumed long-run ComEd and MAAC capacity prices are $200/MW-day and $175/MW-day, respectively. Our terminal power plus capacity price assumptions reflect new build levels for gas generation. Overall, we view the risk-reward for EXC as attractive, and see meaningful potential upside to our estimates.

Several Upside Drivers Create Attractive Risk-Reward

Several upside drivers, including ZECs in IL and/or PA, PJM capacity prices, gas and power prices, and federal tax reform. In addition to what we see as a very attractive core story and valuation for EXC, we see several potential upside drivers which would be incremental to our and consensus estimates:

- **Illinois Zero Emissions Credits (ZECs):** During the Illinois legislature's mid-November veto-session , the house energy committee passed the "Future Energy Jobs Bill" which includes provisions to support at-risk nuclear plants through the form of Zero Emission Credit (ZEC) payment, similar to those seen in NY. If such payments were to be implemented, EXC would likely decide to cancel or delay the planned retirements of its Clinton and Quad Cities nuclear plants, which are currently set to retire in 2018 and 2019, respectively, due to poor market conditions. We estimate that the earnings benefit from the implementation of these ZECs payments would be ~$0.13, relative to retiring the plants.

- **PJM capacity prices**: we see upside in the 2020/2021 auction occurring in May 2017. The upside is driven by a normalization in new build economics (bonus depreciation and discounts on new gas turbines no longer a factor), as well as lower spark spreads, plus the benefit from a 100% phase in of capacity performance. In terms of zonal breakouts, we expect ComEd to continue to breakout at comparable levels to recent auctions (~$200/MW-d), and expect the strongest prices to be seen in EMAAC/PS (likely in excess of $200/MW-d). EXC is one of the most levered companies to an increase in capacity prices, with a ~$50/MW-day change in overall prices impacting earnings by ~$0.19. Looking at EMAAC specifically, each $50/MW-day change in prices will impact EPS by ~$0.09.

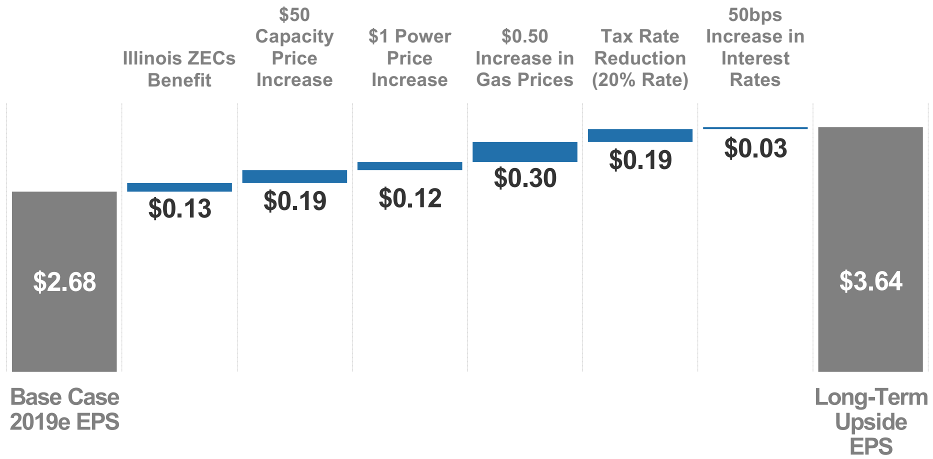
- **Gas and power prices**: While we do not incorporate any improvement in gas or power prices in our estimates, EXC would be one of the largest beneficiaries within our coverage of any increase. We believe the recent rally in coal prices could be supportive of PJM power, where coal power plants set prices ~50% of the time. Each $1/MWh improvement in power prices across all markets increases EXC's EPS by ~$0.12 (~5%), with a $0.50/mmBtu change in gas prices impacting EPS by ~$0.30 (10%) on an open basis.

- **Federal tax reform**: EXC's large unregulated business would be a beneficiary of any reduction in corporate tax rates. A key element of Republican tax reform proposals would reduce the corporate income tax rate from 35% to 15%, or 20%. While this tax reduction could negatively impact the cash flow of regulated utilities with large NOL balances (as we discuss in our Tax Reform deep dive), we calculate a positive ~$0.27 impact to 2018e EPS at EXC's ExGen merchant subsidiary. However, due to a reduction in the tax shield contributed by parent losses, there would be a partially offsetting ~$0.08 negative impact from a greater EPS drag at the parent.

- **Illinois ROEs**: Illinois is the only state in the US where allowed utility returns change in close to real-time with interest rates. EXC's largest electric utility, ComEd, is exposed to this regulatory mechanism. Allowed ROEs are calculated on a monthly basis based on the 30-year US Treasury yield + 580bps. Thus earnings at ComEd will increase with rising interest rates. This unique mechanism should help make EXC a relative outperformer within the utility sector in a rising rate environment, in our view. We estimate that a 50bps increase in rates would have a positive ~$0.03 impact to 2018e ComEd EPS.

- **Further capex potential at the utilities.** The utility capex profile provided by the company shows a deceleration later in the decade, but we believe it is very possible that the company will determine that additional investments are warranted and will provide value to customers, which could boost out-year spending. We have seen similar fact patterns at other utilities in the US, such as in California.

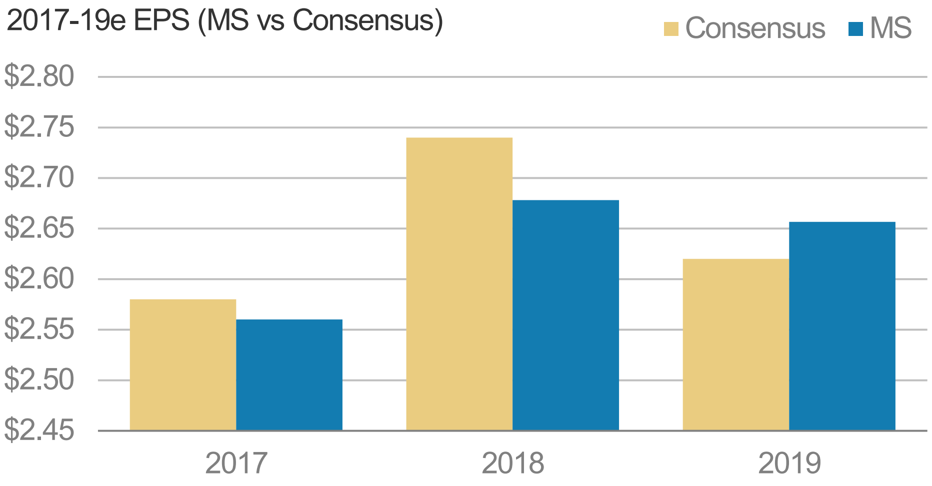
Exhibit 5: We See a Number of Potential Upside Drivers to Our Estimates



Morgan Stanley Research

Our EPS estimates are roughly in-line with consensus 2017-19 before accounting for any of the potential upside drivers… EXC's 2016 EPS guidance of $2.55-2.75 assumes a modest $0.15-0.25 contribution from Pepco. With Pepco having already contributed $0.20 YTD, we think it is likely EPS trends towards the upper end of the current range. Longer-term, we are roughly in-line with consensus without including any of the potential upside drivers discussed above (slightly below in 2018, above in 2019). Additionally, given recent regulatory wins seen across EXC's merchant and regulated businesses, we have increased confidence that EXC will be able to execute on its current growth strategy. As a result, we believe EXC will be able to earn attractive ROEs across its legacy utilities and we expect the company will be able to execute on its ~9% earned ROE target by 2019 for the acquired Pepco utilities.

Exhibit 6: Our 2019 EPS Estimate is Modestly Above Consensus Before Accounting For Any Potential Upside Drivers

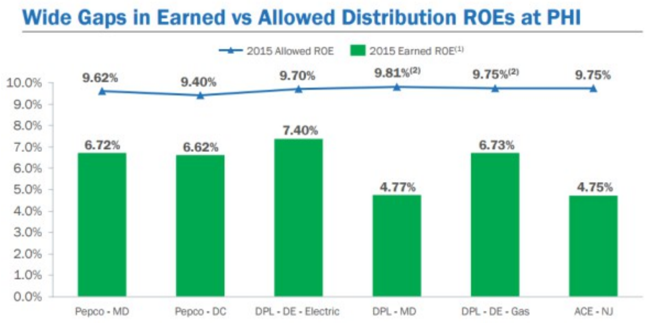


Thomson Reuters, Morgan Stanley Research

Legacy Utilities & Pepco - Attractive Core Regulated Growth

Strong growth at legacy utilities driven by comprehensive capital investment plan with strong recovery mechanisms and attractive ROE improvement opportunity at PHI utilities. EXC forecasts above-average 7-9% utility EPS growth through 2020 driven by a ~$25.2b capital investment plan focused primarily on T&D system upgrades over the same period. Out of the ~$25.2b, $9.7b is expected to be recovered through tracker mechanisms or formula rates, while $5.4b is expected to be recovered through FERC formula transmission rates, which we believe will allow EXC to achieve strong recovery and continue to earn compelling returns. While much of EXC's growth story is predicated on the successful execution of ROE improvements at its acquired Pepco utilities, recent regulatory wins at Pepco, and across the greater EXC complex, have made us more confident in the company's ability to achieve its targeted 9% ROE by 2019. Following the close of the Pepco acquisition on March 23rd, EXC filed for rate increases across all Pepco's jurisdictions. In recent months, EXC has received clarity in a number of these proceedings, reaching settlements or constructive staff recommendations in 3 out of its 6 filings. While management has said it will likely take multiple rate proceedings to reach the targeted ROE level, we believe this clarity helps alleviate some of the concerns around execution risk and view it as indicative of the company's ability to work productively with regulators to improve existing regulatory structures. We also note that management successfully executed on O&M cuts and ROE improvements at Baltimore Gas & Electric (BGE) following the close of the company's merger with Constellation Energy in 2012.

Exhibit 7: EXC Has Significant Room to Improve ROEs at Pepco, Which Has Historically Struggled to Reach Its Allowed Return



Source: EXC 2016 Analyst Day Presentation

EXC has significant room to improve ROEs at the acquired Pepco utilities, which under-earned their allowed ROE by ~3.5% on average in 2015. The company is targeting 9% ROEs across the Pepco utilities by 2019. We believe the company will reach its target and we forecast ~10% EPS CAGR at Pepco 2017-20 as a result of synergy realization, large capital plans with tracked spending and several planned rate cases. Some of Pepco's utility business units (driven by very different state-level regulatory environments) will be more challenging to improve than others, in our view. While we do not expect there will necessarily be a smooth, near-term, or linear path to success, we view Exelon's strong operational and regulatory track record as a key positive the company can bring to bear in improving Pepco and the company has recently received a number of rate outcomes that have increased our confidence in the company's willingness to work constructively with regulators in new jurisdictions:

1. On August 24, the New Jersey Board of Public Utilities (NJBPU) approved a settlement file by Atlantic City Electric (ACE) and BPU staff a week prior. The settlement called for a ~$45m rate increase and a 9.75% ROE, in-line with recent New Jersey ROE outcomes. The authorized revenue increase represented ~57% of ACE's requested ~$79.4m increase.

2. On September 28, the Maryland Public Service Commission staff issued a

recommended rate increase of ~$41.5m and an ROE of 9.48% in Delmarva Power & Light's (DPL) electric rate case. The staff recommendation reflects ~73% of DPL's revised request of ~$57m.

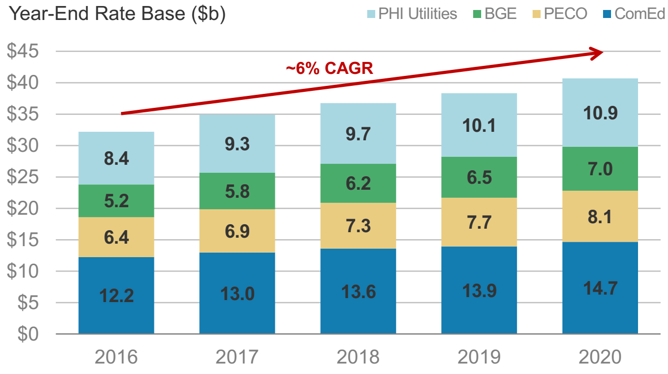
3. On November 15, regulators issued a final order in Potomac Electric Power's Maryland rate case, essentially in-line with (though slightly below) the staff recommendation, designating a rate increase of ~$52.5m and ROE of 9.55%, relative to the staff recommended increase of ~$54.8m and ROE of 9.57%. The authorized revenue increase reflects ~51% of the Potomac's revised rate request of ~$102.8m.

What's left to watch for on the regulatory front?:

1. A final decision on DPL's Maryland Rate Case. The company expects a final order by 2/17/17.
2. Clarity in DPL's Delaware electric & gas rate case. In mid-May, the company requested a ~$84.3m increase in aggregate, with a 10.60% ROE. The company expects to receive an order by 3Q17.
3. Clarity in Potomac Electric Power's D.C. rate case. In mid-October the company modified its rate increase request to reflect a ~$82.1m increase in aggregate, with a 10.60% ROE. The company expects to receive an order by 7/25/17.

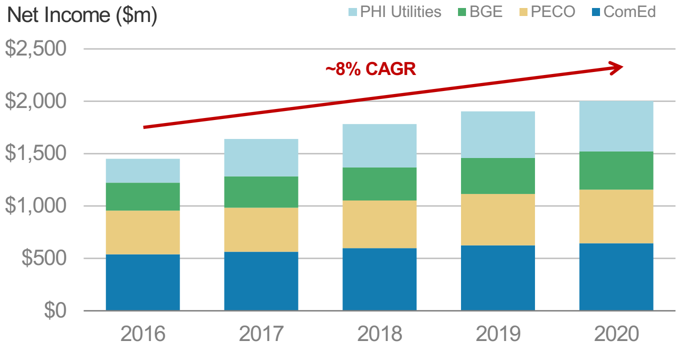
At the legacy utilities, with PECO's and BGE's rate cases complete, a final order on ComEd's formula rate filing is all that is left on the regulatory agenda. On October 21, the ALJ in the ComEd proceeding recommended an increase of ~$130.8m (~96% of ComEd's supported revenue increase). In terms of load, BGE and ComEd are relatively shielded via decoupling / ROE mechanisms, however PECO is somewhat exposed. PECO's load was slightly down in 2015, though EXC is currently forecasting flat load for FY 16.

Exhibit 8: We Expect Strong Rate Base Growth at EXC's Regulated Utilities



Source: Morgan Stanley Research

Exhibit 9: And Similarly Robust Earnings Growth

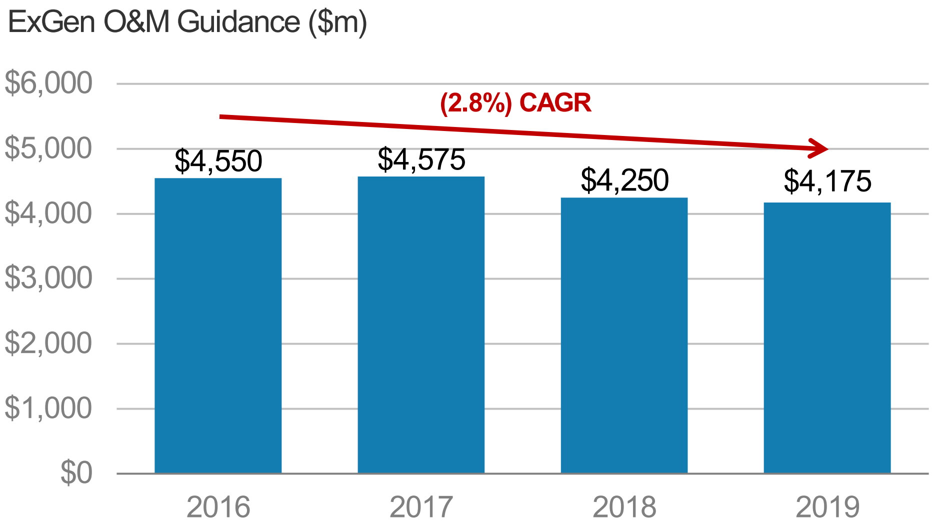


Source: Morgan Stanley Research

ExGen Offers Attractive Value

ExGen offers attractive cash flow and earnings with many potential upside drivers. Exelon's merchant business, ExGen, now trades at a very attractive ~30% 2018-19 free cash flow yield. In order to make ExGen "fairly valued" at current levels, we estimate that long-term gas prices would need to fall to ~$2.10/mmBtu, an unrealistically low level in our view. Management has proactively managed through the current commodity downturn by cutting costs out of the business and seeking carbon-based payments to preserve its financially challenged plants. Furthermore, ExGen's investment grade credit metrics set it apart from pure-play independent power producers, creating financial flexibility. Lastly, ExGen's generation plus retail combination reduces the volatility of the overall business while providing an attractive hedging avenue in light of illiquid financial markets for power. We see several upside drivers for the business, with more limited downside risks over the next few years. Potential catalysts include higher PJM capacity prices, upside to gas and power prices, and zero emissions payments in Illinois or other states.

Exhibit 10: Cost Cutting Initiatives Support Earnings and Cash Flow in the Current Low Commodity Price Environment

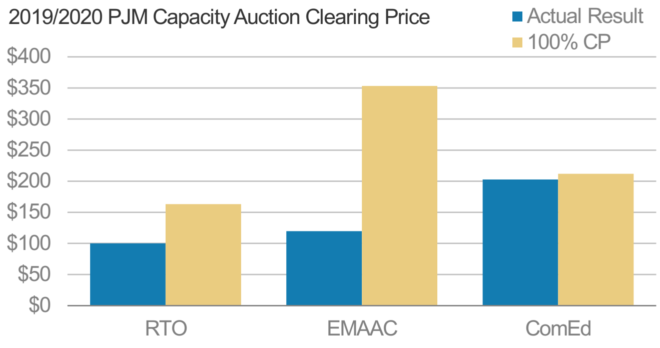


Source: EXC, Company Data, Morgan Stanley Research

PJM Capacity: Constructive Setup into the May 2017 Auction

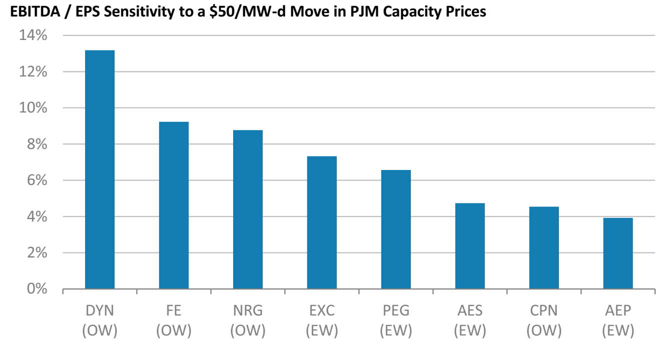
We expect PJM capacity prices to increase in the May 2017 auction (covering the 2020/21 delivery year), benefitting EXC. In the next PJM capacity auction Capacity Performance (CP), which imposes hefty penalties on poor performing generators, will increase to cover 100% of the market. Earlier this fall the Independent Market Monitor released a report on sensitivities and drivers for the 2019/20 Base Residual Capacity Auction, which occurred this past May. The report outlined what the auction price would have been if 100% capacity performance had been procured, and showed constructive prices. The auction would have cleared at $163/MW-day in RTO/MAAC, $212/MW-day in ComEd, and a significant breakout at $353/MW-day in EMAAC. While we do not expect auction prices to reach levels quite this high, we believe the analysis supports our

Exhibit 11: Market Monitor's analysis indicates constructive prices if 100% Capacity Performance was procured in the previous PJM auction



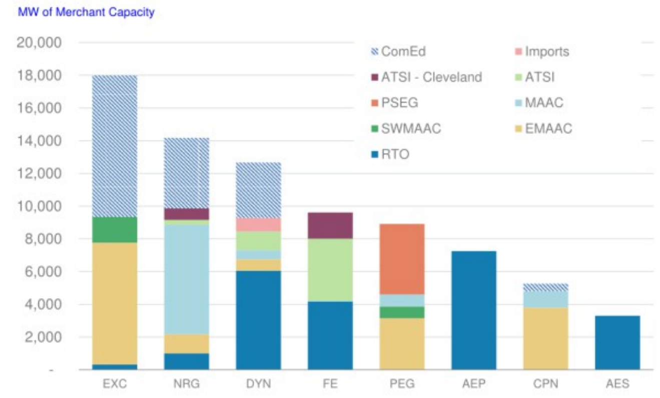
Source: PJM IMM

Exhibit 12: EXC has substantial leverage to an increase in PJM capacity prices...



Source: Morgan Stanley Research, Company Data

Exhibit 13: ...And is one of the Most Exposed to a potential EMAAC Breakout



Source: Morgan Stanley Research, Company Data

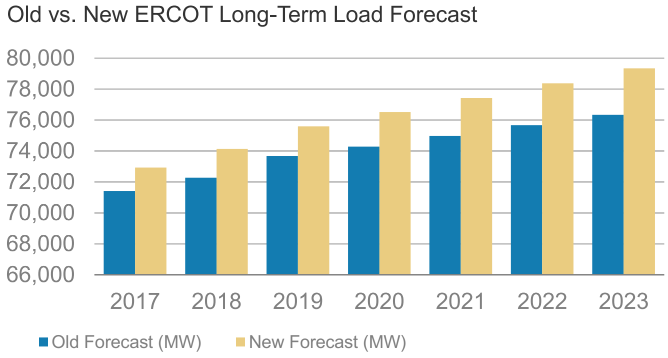
directional view that capacity prices should move higher in next year's auction, with the likelihood of a meaningful breakout in EMAAC.

The 2019/20 auction was negatively influenced by one-time items which go away. We continue to believe the 2019/20 auction was negatively impacted by one-time items including bonus depreciation and a meaningful reduction in PJM's demand forecast, and see upside in next auction from the removal of these one-time impacts and an increase in capacity performance procurement from 80% to 100%. EXC's PJM fleet has meaningful exposure to eastern PJM, making it a large beneficiary of potential EMAAC upside. While persistent new build has been a key headwind for the PJM market (both energy and capacity), our recent dialogue with private developers has indicated that financing incremental projects is becoming more challenging - we plan to monitor this trend closely over the coming months, as it could be positive for incumbent generation owners. Higher interest rates (driving higher financing costs), and lower spark spreads (down ~5% since the last auction) could also put upside pressure on capacity prices. Based on our recent conversations with investors, we believe price expectations for next year's 2020/21 PJM capacity auction are in the $120-140/MW-d range for RTO/MAAC with only a very modest breakout in EMAAC. We believe it is likely that EMAAC prices rise above $200/MW-day.

ERCOT: Higher Demand Tightens Market Without Retirements

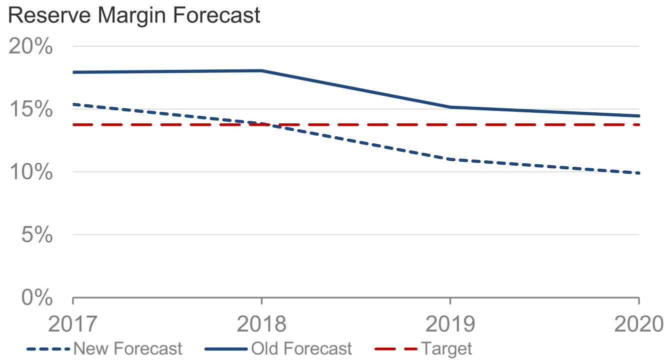
ERCOT's draft load forecast points to much higher peak demand, driving tighter market conditions. Yesterday, ERCOT (the Texas power market) presented a new draft long-term load forecast at its Supply Analysis Working Group (SAWG). The revised forecast represents a ~2-4% increase in peak demand 2017-2020, resulting in much tighter expected reserve margins. Incorporating this revised peak demand, we now estimate reserve margins will fall below target levels (13.75%) by the 2018-19, before incorporating any unannounced retirements. We had previously estimated this would occur by 2021. While renewables are a headwind in ERCOT longer term, current low prices are not sustainable in our view. We believe the revised peak load forecast points to a nearer-term recovery than we had previously anticipated, and is constructive for EXC's ~2GW of new build combined cycle gas plants in the market. Lastly, we note that coal retirements remain a possibility over the next few years due to economic pressure in a low gas price environment, potentially accelerating market tightness even further**.** **Once the company's new build projects are completed, we estimate that every $5/MWh improvement in ERCOT spark spreads would impact EXC's open EPS by ~$0.05.**

Exhibit 14: ERCOT's New Draft Load Forecast Is 2-4% Higher...



Source: Morgan Stanley Research. Note: Reflects ~2 GW of Retirements in 2017, And 1 GW in 2019

Exhibit 15: ...Driving Near Term Market Tightness Without Any Unannounced Coal Retirements



Source: Morgan Stanley Research, ERCOT

Illinois Outlook

Introduction of NY style Zero Emission Credit Payments in Illinois represents attractive upside, though not currently baked into our estimates. During the Illinois legislature's mid-November veto-session , the house energy committee passed the "Future Energy Jobs Bill" which includes provisions to support at-risk nuclear plants through the form of Zero Emission Credit (ZEC) payment, similar to those seen in NY. If such payments were to be implemented, EXC would likely decide to cancel or delay the planned retirements of its Clinton and Quad Cities nuclear plants, which are currently set to retire year in 2018 and 2019, respectively, due to poor market conditions.

The current structure of the ZEC program laid out in bill would stipulates an initial flat payment of $16.50 per MWh produced, a level that was determined by factoring in the federally-determined Social Cost of Carbon. This figure would increase 3% annually until 2024, after which it would increase by $1/MWh annually. The program starts with an assumption that energy and capacity prices will be $31.40/MWh, but then adjusts the ZEC price if power and capacity prices total more than $31.40. This base price is reset annually, and going forward, if the energy and capacity price were to be greater than the baseline price, the ZEC price would be reduced to by the delta. The program also sets a cap on the potential increase to customer rates at 2.015%. We estimate that the earnings benefit from the implementation of these ZECs payments would be ~$0.20. This would represent ~$0.13 incremental benefit to our 2018e EPS estimate, after netting out the $0.07 benefit the company had disclosed resulting from the retirement of the IL nukes.

Timeline from here? Following the bill's approval by the house energy committee, the bill will continue to be refined before being put before a house vote, followed by a subsequent senate review and vote. Despite the approval, we noted that committee members indicated that the passage was primarily a procedural move to allow for continued negotiations on the bill, with several of the members who voted in favor of the bill suggesting amendments were needed and that they would not vote for the bill as it currently stands. Any additional amendment would be reconsidered by the energy committee before a final version is sent through to a house vote.

We note that in the past, opposition to similar energy initiatives has primarily come from the House, which could indicate there would be less push back at the Senate if the bill were to pass the House. However, given the requests for revisions which would then be reconsidered by the energy committee, the existing divides on a number of the reform's dynamics, and the current legislative focus on state budget issues we note that it could be difficult to successfully get a bill passed through both branches prior to the conclusion of the current veto session on December 1st.

Carbon Regs vs. Nuke Retirements in IL: EXC Wins Either Way. If the Future Energy Jobs Bill is not voted through to law, EXC will notify MISO of its intent to retire Clinton on December 1st. EXC currently plants to shut the Clinton and Quad cities nuclear facilities in 2017, and 2018 respectively. While we believe the implementation of New York style ZEC payments in Illinois would represent attractive upside to earnings, cash flow and valuation, we do not include any such benefit in our estimates. We believe EXC is a winner in either outcome, as EXC still receives attractive cash flow and EPS uplift as a result of the nuclear shutdowns. Our estimates currently reflect previous company guidance of run-rate savings of $0.07 of earnings and $75M in avoided pre-tax cash losses from retirement of Clinton and Quad Cities.

New York ZECs Likely Withstand Legal Challenge

Overview of the NY ZEC Order. On August 1, 2016, the NY Public Service Commission (PSC) issued an "Order Adopting a Clean Energy Standard" covering a number of initiatives, including a Zero Emissions Credit (ZEC) payment to four upstate nuclear power plants. The ZECs are scheduled to come into effect in April 2017. The magnitude of the ZEC payments covers a 12 year period of time, and is described in detail in Appendix E of the ZEC Order. The payment in the first tranche (covering the first 2 year period of time) is a flat $17.48 per MWh produced, a level that was determined by factoring in the federally-determined Social Cost of Carbon. For tranche 2, the program starts with an assumption that energy and capacity prices will be $39/MWh, but then makes an adjustment to the ZEC price if power and capacity prices total more than $39. For tranche 2 the adjusted Social Cost of Carbon is assumed to be $19.59 – which would be the ZEC price if the $39 energy and capacity price holds. If the energy and capacity price were to total $41/MWh, the ZEC price would be reduced to $17.59. If the energy and capacity price were to total $37/MWh, the ZEC price would still be $19.59. From tranches 2-6, the ZEC price can fluctuate, but there is an important element of this fluctuation from a legal and economic perspective: If market revenues were to fall significantly, the ZEC payment does not increase, whereas if market revenues were to increase significantly, the ZEC payment can fall to zero. We will discuss the potential legal ramifications of this provision within this section of our report.

Criteria for a nuclear plant to be eligible for the ZEC payments. In Appendix E of the ZEC Order, the NY PSC set forth the criteria for a nuclear plant to be eligible for the ZEC payments:

"(a) the verifiable historic contribution the facility has made to the clean energy resource mix consumed by retail consumers in New York State regardless of the location of the facility; (b) the degree to which energy, capacity and ancillary services revenues projected to be received by the facility are at a level that is insufficient to provide adequate compensation to preserve the zero-emission environmental values or attributes historically provided by the facility; (c) the costs and benefits of such a payment for zero-emissions attributes for the facility in relation to other clean energy alternatives for the benefit of the electric system, its customers and the environment; (d) the impacts of such costs on ratepayers; and (e) the public interest. Units in single ownership located in the same NYISO Zone and that share costs at the same site will be treated as a single facility for the determination. Therefore, Nine Mile Units 1 & 2 will be treated as a single facility, and Indian Point Units 2 and 3 will be treated as a single facility."

Most elements of the legal challenge, filed in the US District Court (Southern District of NY), are in our view not likely to convince a Court to overturn the Order, with one exception: the "financial need" criteria that nuclear plants must show before they can qualify for the ZEC payment. This element has a ~25% probability, in our view, of violating the restriction (as outlined in the *Hughes v. Talen* case) on State-level encouragement of clean generation that is "tethered" to the wholesale market. Because the showing of financial need that is a part of the ZEC Order is arguably related to the wholesale price of energy and capacity, it is possible that the US District Court will find that, because Indian Point has not been able to show financial need due to "a much higher level of market revenues," the ZEC Order is impermissibly tethered to the wholesale market. EPSA et al focused on this point in Paragraph 65 of its complaint, and in Paragraph 63, EPSA highlights the concerns with State-level efforts to subsidize generators where the subsidy is "tethered" to wholesale power and capacity prices. The Court may be persuaded by the argument that the ZEC payment, while not sized to explicitly "solve" for a certain nuclear plant avoiding economic shutdown, in substance resulted in that outcome due to the "financial need" provision of the ZEC Order.

The counterargument that NY can provide regarding "tethering" in the context of the "financial need" criteria: the State is entitled to encourage clean energy production from existing sources, and the State is arguably able, for existing generation, to factor in the incentives required to achieve the State's objective to reduce the overall, state-wide emissions profile. The concept would be: a State should focus its payments for zero carbon energy on the existing plants where the absence of support would result in a setback to the State's clean energy goals. The Court might distinguish between *existing* zero clean generation resources (where the payment can arguably factor in the level needed to ensure that the clean power output continues) and *new* generation (where the payment for renewable attributes is equal to the amount necessary to support construction of the project). In addition, NY can argue that the core of the concern with "tethering" as outlined in the Hughes v. Talen case is a concern with a State "fixing" the total revenue a generator is going to receive. Since the NY ZEC payment provided to generators is not tethered to wholesale prices (we discuss this in more detail in the next paragraph) and is instead based on the Social Cost of Carbon, in substance the payment is not linked to wholesale prices in the manner of a contract for differences that was rejected in the *Hughes v. Talen* case. As far as we are aware, this issue of "financial need" in the context of existing sources of clean generation is a subject of first impression for the courts, and as such it is unclear how a court will rule on the topic.

Even if this "financial need" element of the ZEC Order is held to be a violation of the "wholesale markets tethering" prohibition, this element could be eliminated and the overall Order would in our view likely withstand legal challenge. Indian Point would be the only nuclear plant impacted by this change, and if anything we see a silver lining associated with such a change, from the perspective of the nuclear plant owners: there could be a greater probability of a negotiated early shutdown date for Indian Point, given that the cash flows that Indian Point would receive would be enhanced by this change to the ZEC program. NY could condition the elimination of the "financial need" provision of the ZEC Order on an early shutdown of Indian Point, a plant that the State of NY has unsuccessfully sought to shut down for many years. The ZEC Order would in our view result in a positive cash flow position for Entergy's overall merchant generation business (whereas our current projections show zero net cash flow), which could be viewed as sufficiently valuable to serve as an incentive to accept an early shutdown date, perhaps in 5-8 years, in order to provide sufficient time to ensure replacement power sources and grid upgrades.

The elements of the complaint against the ZEC Order that we view as less persuasive, and why:

(i) *Argument:* the original NY PSC approach showed an intent to size the ZEC payment to specifically generate positive cash flow for nuclear plants. *Response:* the final NY PSC

Order based the payment on the Social Cost of Carbon, and it is always permitted for a State to change course in order to comply with the law. There is nothing invalid in our view with a State modifying its approach to ensure it does not run afoul of federal law.

(ii) *Argument:* the "Dormant Commerce Clause" principle that a State cannot discriminate against out-of-state generation. *Response:* out-of-state generators could qualify for the program. Even though in practice it might be challenging for an out-of-state nuclear generator to wheel power to NY, so long as the program could accept an out-of-state nuclear generator, we do not believe a challenge on this basis is persuasive.

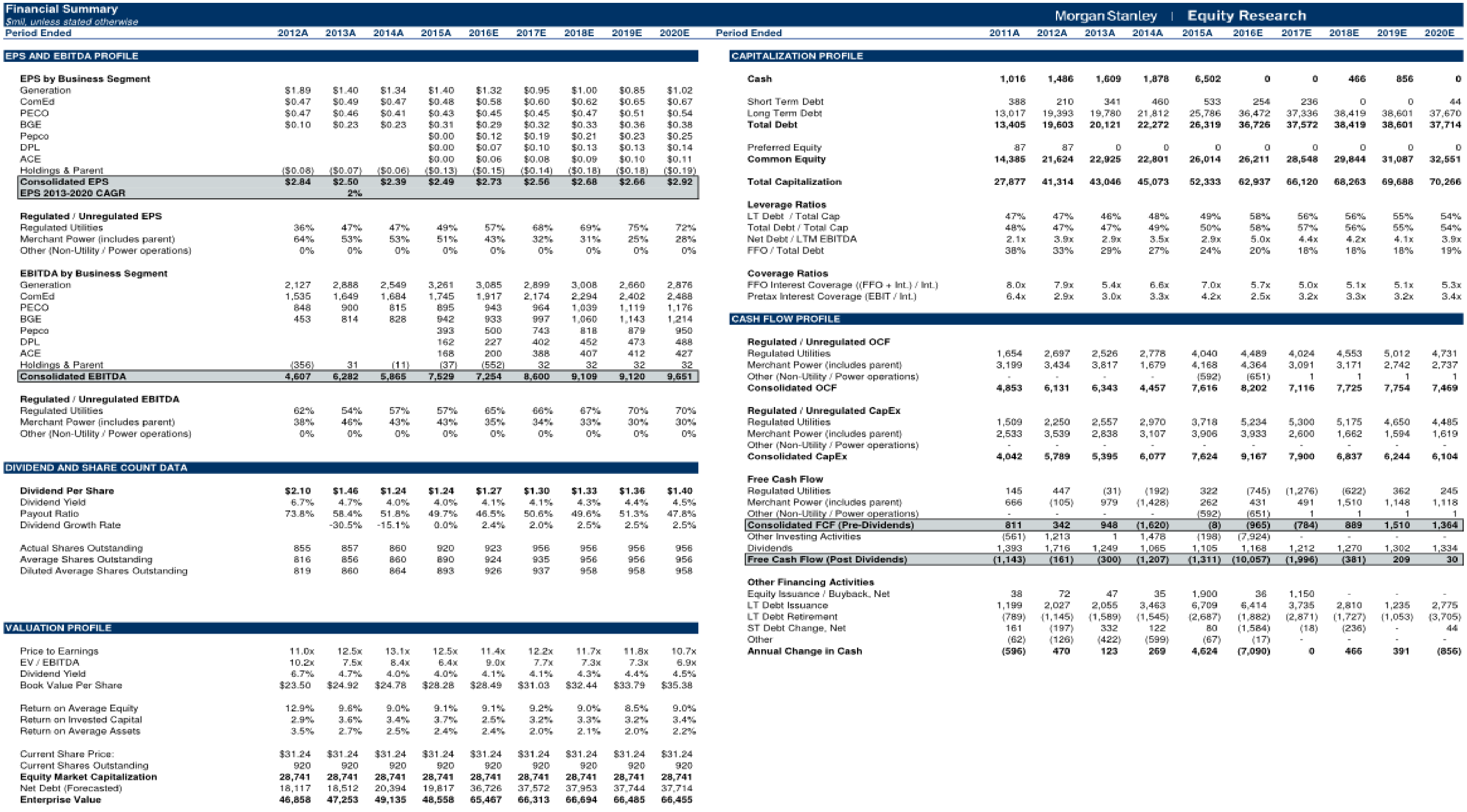
(iii) *Argument:* the Order is also "tethered" to the wholesale market because the ZEC payment size falls if energy + capacity revenues exceeds certain levels. *Response:* this is a consumer protection feature to ensure customers don't pay excessively for the zero emissions attribute, and if energy/capacity prices fall greatly, the ZEC payment does not flex upward to cover this loss, a big distinction from the Hughes case. This provision could be viewed as "tethered" to the wholesale markets, but the type of "tethering" that appears to be the concern is the type of tethering that guarantees a fixed or favorable outcome for the generator; here, the ZEC can only flex downward, and it appears likely in our view that a court will distinguish this approach from the tethering designed to ensure a certain revenue level for a generator, as was the case in *Hughes v. Talen*.

(iv) *Argument:* the Order is discriminatory because it does not cover all existing clean generators such as hydro. *Response:* States are permitted to target their environmental programs to certain types of generation, for example by procuring only solar generation or only wind generation. We can think of many examples of States procuring only certain types of renewable generation, where other forms of generation are excluded.

The authors of this material are not acting in the capacity of attorneys, nor do they hold themselves out as such. This material is not intended as either a legal opinion or legal advice. The information provided herein does not provide all possible outcomes or the probabilities of any outcomes. The result of any legal dispute or controversy is dependent on a variety of factors, including but not limited to, the parties' historical relationship, laws pertaining to the case, relative litigation talent, trial location, jury composition, and judge composition. Investors should contact their legal advisor about any issue of law relating to the subject matter of this material.

Financials

Exhibit 16: EXC Financial Summary



Financial Summary
$mil, unless stated otherwise

Morgan Stanley | Equity Research

Period Ended	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E
EPS AND EBITDA PROFILE									
EPS by Business Segment									
Generation	$1.89	$1.40	$1.34	$1.40	$1.32	$0.95	$1.00	$0.85	$1.02
ComEd	$0.47	$0.49	$0.47	$0.48	$0.58	$0.60	$0.62	$0.65	$0.67
PECO	$0.47	$0.46	$0.41	$0.43	$0.45	$0.45	$0.47	$0.51	$0.54
BGE	$0.10	$0.23	$0.23	$0.31	$0.29	$0.32	$0.33	$0.36	$0.38
Pepco				$0.00	$0.12	$0.19	$0.21	$0.23	$0.25
DPL				$0.00	$0.07	$0.10	$0.13	$0.13	$0.14
ACE				$0.00	$0.06	$0.08	$0.09	$0.10	$0.11
Holdings & Parent	($0.08)	($0.07)	($0.06)	($0.13)	($0.15)	($0.14)	($0.18)	($0.18)	($0.19)
Consolidated EPS	**$2.84**	**$2.50**	**$2.39**	**$2.49**	**$2.73**	**$2.56**	**$2.68**	**$2.66**	**$2.92**
EPS 2013-2020 CAGR		**2%**							
Regulated / Unregulated EPS									
Regulated Utilities	36%	47%	47%	49%	57%	68%	69%	75%	72%
Merchant Power (includes parent)	64%	53%	53%	51%	43%	32%	31%	25%	28%
Other (Non-Utility / Power operations)	0%	0%	0%	0%	0%	0%	0%	0%	0%
EBITDA by Business Segment									
Generation	2,127	2,888	2,549	3,261	3,085	2,899	3,008	2,660	2,876
ComEd	1,535	1,649	1,684	1,745	1,917	2,174	2,294	2,402	2,488
PECO	848	900	815	895	943	964	1,039	1,119	1,176
BGE	453	814	828	942	933	997	1,060	1,143	1,214
Pepco				393	500	743	818	879	950
DPL				162	227	402	452	473	488
ACE				168	200	388	407	412	427
Holdings & Parent	(356)	31	(11)	(37)	(552)	32	32	32	32
Consolidated EBITDA	**4,607**	**6,282**	**5,865**	**7,529**	**7,254**	**8,600**	**9,109**	**9,120**	**9,651**
Regulated / Unregulated EBITDA									
Regulated Utilities	62%	54%	57%	57%	65%	66%	67%	70%	70%
Merchant Power (includes parent)	38%	46%	43%	43%	35%	34%	33%	30%	30%
Other (Non-Utility / Power operations)	0%	0%	0%	0%	0%	0%	0%	0%	0%
DIVIDEND AND SHARE COUNT DATA									
Dividend Per Share	**$2.10**	**$1.46**	**$1.24**	**$1.24**	**$1.27**	**$1.30**	**$1.33**	**$1.36**	**$1.40**
Dividend Yield	6.7%	4.7%	4.0%	4.0%	4.1%	4.1%	4.3%	4.4%	4.5%
Payout Ratio	73.8%	58.4%	51.8%	49.7%	46.5%	50.6%	49.6%	51.3%	47.8%
Dividend Growth Rate		-30.5%	-15.1%	0.0%	2.4%	2.0%	2.5%	2.5%	2.5%
Actual Shares Outstanding	855	857	860	920	923	956	956	956	956
Average Shares Outstanding	816	856	860	890	924	935	956	956	956
Diluted Average Shares Outstanding	819	860	864	893	926	937	958	958	958
VALUATION PROFILE									
Price to Earnings	11.0x	12.5x	13.1x	12.5x	11.4x	12.2x	11.7x	11.8x	10.7x
EV / EBITDA	10.2x	7.5x	8.4x	6.4x	9.0x	7.7x	7.3x	7.3x	6.9x
Dividend Yield	6.7%	4.7%	4.0%	4.0%	4.1%	4.1%	4.3%	4.4%	4.5%
Book Value Per Share	$23.50	$24.92	$24.78	$28.28	$28.49	$31.03	$32.44	$33.79	$35.38
Return on Average Equity	12.9%	9.6%	9.0%	9.1%	9.1%	9.2%	9.0%	8.5%	9.0%
Return on Invested Capital	2.9%	3.6%	3.4%	3.7%	2.5%	3.2%	3.3%	3.2%	3.4%
Return on Average Assets	3.5%	2.7%	2.5%	2.4%	2.4%	2.0%	2.1%	2.0%	2.2%
Current Share Price:	$31.24	$31.24	$31.24	$31.24	$31.24	$31.24	$31.24	$31.24	$31.24
Current Shares Outstanding	920	920	920	920	920	920	920	920	920
Equity Market Capitalization	**28,741**	**28,741**	**28,741**	**28,741**	**28,741**	**28,741**	**28,741**	**28,741**	**28,741**
Net Debt (Forecasted)	18,117	18,512	20,394	19,817	36,726	37,572	37,953	37,744	37,714
Enterprise Value	**46,858**	**47,253**	**49,135**	**48,558**	**65,467**	**66,313**	**66,694**	**66,485**	**66,455**

Period Ended	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E
CAPITALIZATION PROFILE										
Cash	**1,016**	**1,486**	**1,609**	**1,878**	**6,502**	**0**	**0**	**466**	**856**	**0**
Short Term Debt	388	210	341	460	533	254	236	0	0	44
Long Term Debt	13,017	19,393	19,780	21,812	25,786	36,472	37,336	38,419	38,601	37,670
Total Debt	**13,405**	**19,603**	**20,121**	**22,272**	**26,319**	**36,726**	**37,572**	**38,419**	**38,601**	**37,714**
Preferred Equity	87	87	0	0	0	0	0	0	0	0
Common Equity	**14,385**	**21,624**	**22,925**	**22,801**	**26,014**	**26,211**	**28,548**	**29,844**	**31,087**	**32,551**
Total Capitalization	**27,877**	**41,314**	**43,046**	**45,073**	**52,333**	**62,937**	**66,120**	**68,263**	**69,688**	**70,266**
Leverage Ratios										
LT Debt / Total Cap	47%	47%	46%	48%	49%	58%	56%	56%	55%	54%
Total Debt / Total Cap	48%	47%	47%	49%	50%	58%	57%	56%	55%	54%
Net Debt / LTM EBITDA	2.1x	3.9x	2.9x	3.5x	2.9x	5.0x	4.4x	4.2x	4.1x	3.9x
FFO / Total Debt	38%	33%	29%	27%	24%	20%	18%	18%	18%	19%
Coverage Ratios										
FFO Interest Coverage ((FFO + Int.) / Int.)	8.0x	7.9x	5.4x	6.6x	7.0x	5.7x	5.0x	5.1x	5.1x	5.3x
Pretax Interest Coverage (EBIT / Int.)	6.4x	2.9x	3.0x	3.3x	4.2x	2.5x	3.2x	3.3x	3.2x	3.4x
CASH FLOW PROFILE										
Regulated / Unregulated OCF										
Regulated Utilities	1,654	2,697	2,526	2,778	4,040	4,489	4,024	4,553	5,012	4,731
Merchant Power (includes parent)	3,199	3,434	3,817	1,679	4,168	4,364	3,091	3,171	2,742	2,737
Other (Non-Utility / Power operations)	-	-	-	-	(592)	(651)	1	1	1	1
Consolidated OCF	**4,853**	**6,131**	**6,343**	**4,457**	**7,616**	**8,202**	**7,116**	**7,725**	**7,754**	**7,469**
Regulated / Unregulated CapEx										
Regulated Utilities	1,509	2,250	2,557	2,970	3,718	5,234	5,300	5,175	4,650	4,485
Merchant Power (includes parent)	2,533	3,539	2,838	3,107	3,906	3,933	2,600	1,662	1,594	1,619
Other (Non-Utility / Power operations)	-	-	-	-	-	-	-	-	-	-
Consolidated CapEx	**4,042**	**5,789**	**5,395**	**6,077**	**7,624**	**9,167**	**7,900**	**6,837**	**6,244**	**6,104**
Free Cash Flow										
Regulated Utilities	145	447	(31)	(192)	322	(745)	(1,276)	(622)	362	245
Merchant Power (includes parent)	666	(105)	979	(1,428)	262	431	491	1,510	1,148	1,118
Other (Non-Utility / Power operations)	-	-	-	-	(592)	(651)	1	1	1	1
Consolidated FCF (Pre-Dividends)	**811**	**342**	**948**	**(1,620)**	**(8)**	**(965)**	**(784)**	**889**	**1,510**	**1,364**
Other Investing Activities	(561)	1,213	1	1,478	(198)	(7,924)	-	-	-	-
Dividends	1,393	1,716	1,249	1,065	1,105	1,168	1,212	1,270	1,302	1,334
Free Cash Flow (Post Dividends)	**(1,143)**	**(161)**	**(300)**	**(1,207)**	**(1,311)**	**(10,057)**	**(1,996)**	**(381)**	**209**	**30**
Other Financing Activities										
Equity Issuance / Buyback, Net	38	72	47	35	1,900	36	1,150	-	-	-
LT Debt Issuance	1,199	2,027	2,055	3,463	6,709	6,414	3,735	2,810	1,235	2,775
LT Debt Retirement	(789)	(1,145)	(1,589)	(1,545)	(2,687)	(1,882)	(2,871)	(1,727)	(1,053)	(3,705)
ST Debt Change, Net	161	(197)	332	122	80	(1,584)	(18)	(236)	-	44
Other	(62)	(126)	(422)	(599)	(67)	(17)	-	-	-	-
Annual Change in Cash	**(596)**	**470**	**123**	**269**	**4,624**	**(7,090)**	**0**	**466**	**391**	**(856)**

Source: Morgan Stanley Research

Valuation Methodology and Risks to Price Targets

CPN.N

Valuation Methodology:

- We value CPN using a DCF analysis and assume a long-term natural gas price of $3.75/mmBtu and EMAAC capacity prices of $225/MW-day. We also assume Texas peak margins rise to $22/MWh longer-term, which is our estimate of replacement value for new generation in Texas. For our DCF we use a 6.8% WACC, 3% Risk-Free Rate, and 1.5% Terminal Growth Rate.

Risks:

- Market tightness in Texas is not realized due to weaker than expected load growth, increased renewables penetration, and/or additional construction of new conventional generation
- Further renewables penetration in California decreases long-run margin potential of CPN's gas-fired assets and its large Geysers geothermal asset

DYN.N

Valuation Methodology:

- We value DYN via a SOTP, assigning separate values for total GasCo, ENGIE, CoalCo, and IPH. We assume a long-term gas price of $3.75/mmBtu, long-run capacity prices in-line with recent results, and long-run total energy and capacity margins in-line with the replacement value for new generation in PJM and New England.

Risks:

- Changes in gas, power and capacity prices
- Additional environmental regulations driving higher coal capex requirements and/or shut-downs

NRG.N

Valuation Methodology:

- We value NRG using a DCF analysis and assume a long-term natural gas price of $3.75/mmBtu and EMAAC capacity prices of $225/MW-day. We also assume Texas peak margins rise to $22/MWh longer-term, which is our estimate of replacement value for new generation in Texas. For our DCF we use a 7.3% WACC, 3% Risk-Free Rate, and 1.5% Terminal Growth Rate.

Risks:

- Weak gas prices
- Lack of improvement in Texas power prices

- Execution risk on achieving operational merger synergies

PEG.N

Valuation Methodology:

- We value PEG via a SOTP. We value the regulated utility by applying the regulated group P/E multiple to 2018 Utility EPS and use a DCF analysis for the merchant business. For our DCF we use a 7.2% WACC, 3% Risk-Free Rate, and 1.5% Terminal Growth Rate.

Risks:

- Higher energy and capacity could be a positive for shares as the company's Power business is levered to commodities
- Strategic activity is not reflected in our valuation or estimates. But unregulated M&A has shown to be a positive in the sector due to considerable cost synergies

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Global Stock Ratings Distribution

(as of October 31, 2016)

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	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1142**	**35%**	**264**	**40%**	**23%**	**566**	**36%**
Equal-weight/Hold	**1431**	**43%**	**303**	**46%**	**21%**	**713**	**45%**
Not-Rated/Hold	**69**	**2%**	**7**	**1%**	**10%**	**9**	**1%**
Underweight/Sell	**665**	**20%**	**81**	**12%**	**12%**	**288**	**18%**
TOTAL	**3,307**		**655**			**1576**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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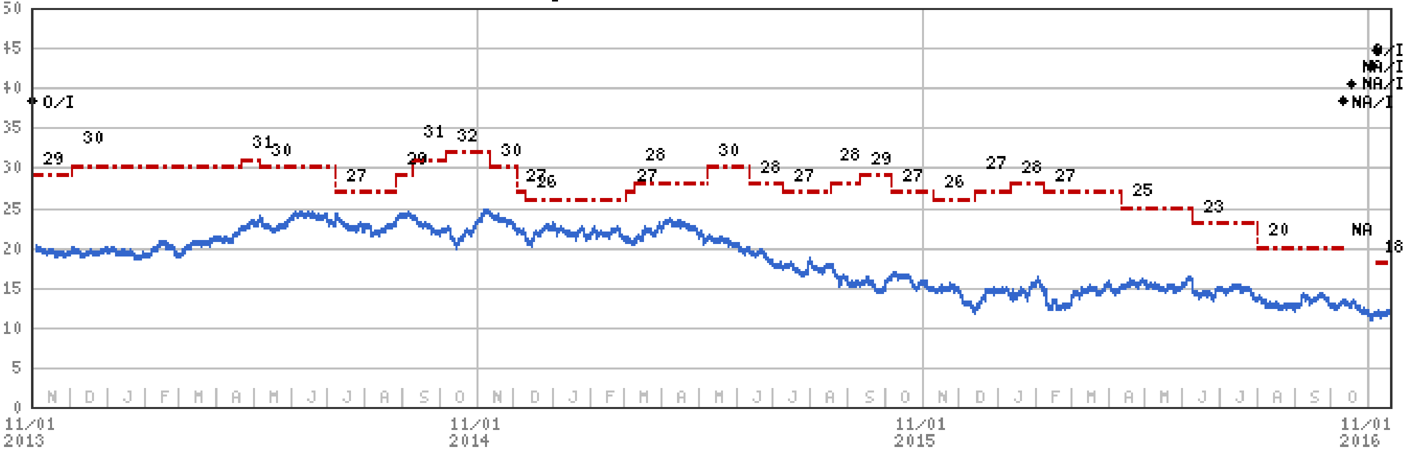
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

Calpine Corp. (CPN.N) - As of 11/17/16 in USD
Industry : Diversified Utilities / IPPs



Stock Rating History: 11/1/13 : O/I; 10/10/16 : NA/I; 10/18/16 : NA/I; 11/4/16 : NA/I; 11/7/16 : O/I

Price Target History: 10/16/13 : 29; 12/3/13 : 30; 4/21/14 : 31; 5/7/14 : 30; 7/7/14 : 27; 8/26/14 : 29;
9/9/14 : 31; 10/7/14 : 32; 11/11/14 : 30; 12/3/14 : 27; 12/11/14 : 26; 3/3/15 : 27; 3/10/15 : 28; 5/8/15 : 30;
6/12/15 : 28; 7/10/15 : 27; 8/17/15 : 28; 9/11/15 : 29; 10/6/15 : 27; 11/10/15 : 26; 12/14/15 : 27; 1/12/16 : 28;
2/9/16 : 27; 4/12/16 : 25; 6/10/16 : 23; 8/2/16 : 20; 10/10/16 : NA; 11/7/16 : 18

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target ▬ No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ▬ Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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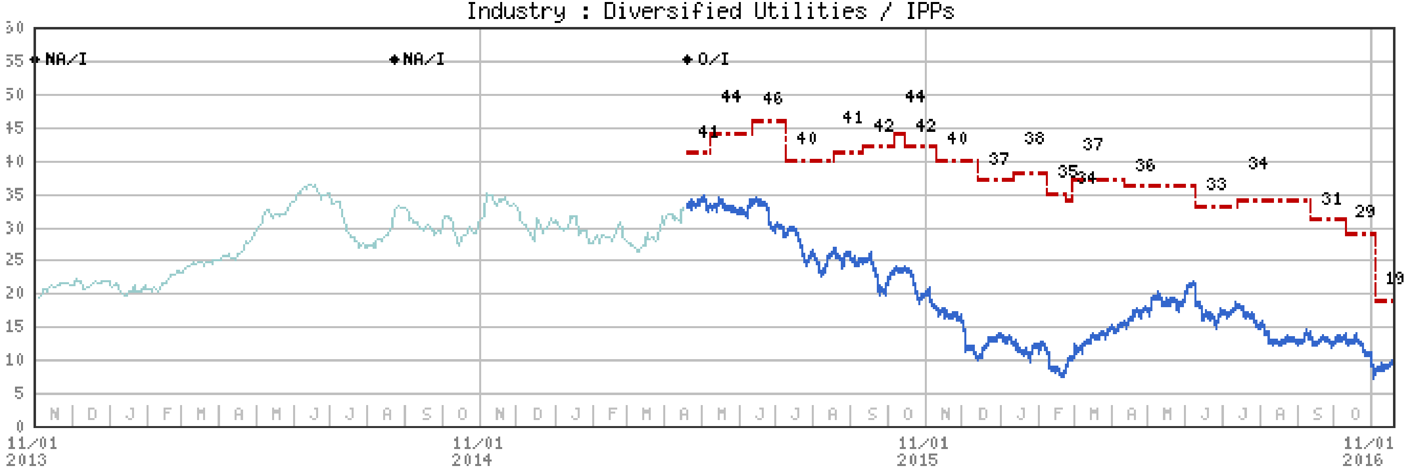
Dynegy Inc. (DYN.N) - As of 11/17/16 in USD
Industry : Diversified Utilities / IPPs



Stock Rating History: 11/1/13 : NA/I; 8/22/14 : NA/I; 4/20/15 : O/I

Price Target History: 5/17/07 : NA; 4/20/15 : 41; 5/8/15 : 44; 6/12/15 : 46; 7/10/15 : 40; 8/17/15 : 41; 9/11/15 : 42; 10/6/15 : 44; 10/15/15 : 42; 11/10/15 : 40; 12/14/15 : 37; 1/12/16 : 38; 2/9/16 : 35; 2/24/16 : 34; 2/29/16 : 37; 4/12/16 : 36; 6/10/16 : 33; 7/13/16 : 34; 9/11/16 : 31; 10/10/16 : 29; 11/3/16 : 19

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ▬ Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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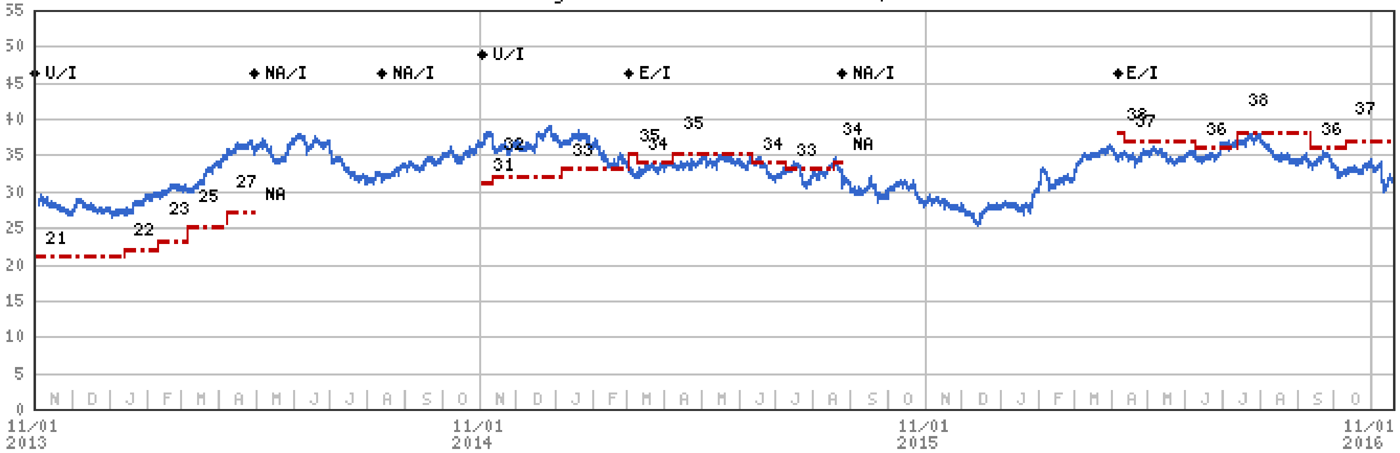
Exelon Corp (EXC.N) - As of 11/17/16 in USD
Industry : Diversified Utilities / IPPs



Stock Rating History: 11/1/13 : U/I; 4/30/14 : NA/I; 8/13/14 : NA/I; 11/3/14 : U/I; 3/3/15 : E/I; 8/25/15 : NA/I;
4/6/16 : E/I

Price Target History: 10/16/13 : 21; 1/13/14 : 22; 2/10/14 : 23; 3/6/14 : 25; 4/7/14 : 27; 4/30/14 : NA;
11/3/14 : 31; 11/11/14 : 32; 1/7/15 : 33; 3/3/15 : 35; 3/10/15 : 34; 4/8/15 : 35; 6/12/15 : 34; 7/10/15 : 33;
8/17/15 : 34; 8/25/15 : NA; 4/6/16 : 38; 4/12/16 : 37; 6/10/16 : 36; 7/13/16 : 38; 9/11/16 : 36; 10/10/16 : 37

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target ▬ No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ▬ Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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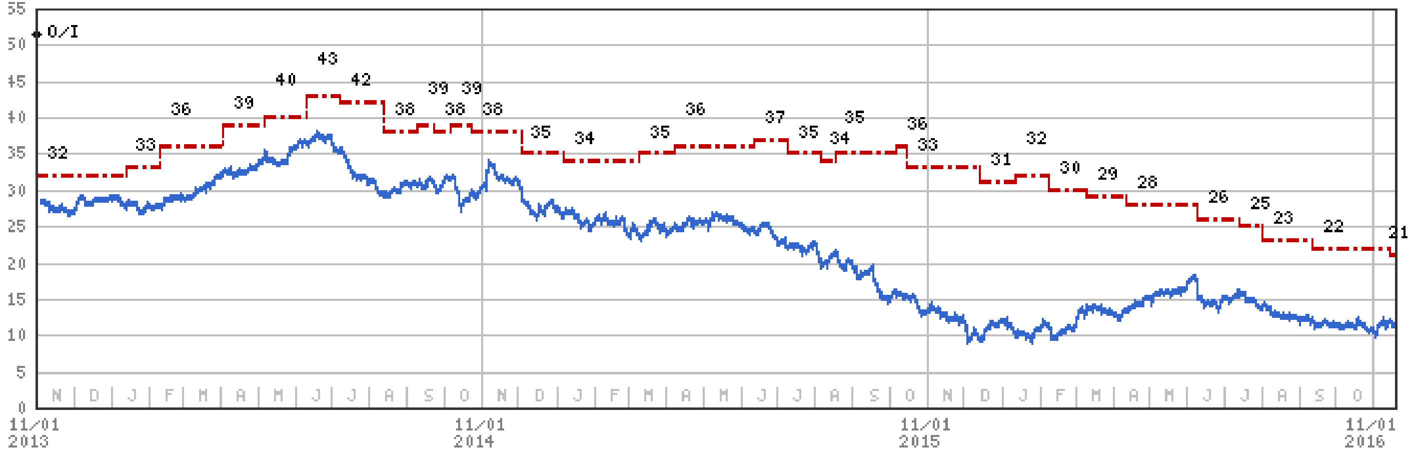
NRG Energy Inc (NRG.N) - As of 11/17/16 in USD
Industry : Diversified Utilities / IPPs



Stock Rating History: 11/1/13 : O/I

Price Target History: 10/16/13 : 32; 1/13/14 : 33; 2/10/14 : 36; 4/3/14 : 39; 5/7/14 : 40; 6/10/14 : 43; 7/7/14 : 42; 8/13/14 : 38; 9/9/14 : 39; 9/23/14 : 38; 10/7/14 : 39; 10/23/14 : 38; 12/3/14 : 35; 1/7/15 : 34; 3/10/15 : 35; 4/8/15 : 36; 6/12/15 : 37; 7/10/15 : 35; 8/5/15 : 34; 8/17/15 : 35; 10/6/15 : 36; 10/15/15 : 33; 12/14/15 : 31; 1/12/16 : 32; 2/9/16 : 30; 3/11/16 : 29; 4/12/16 : 28; 6/10/16 : 26; 7/13/16 : 25; 8/2/16 : 23; 9/11/16 : 22; 11/14/16 : 21

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target ▬▪   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ▬   Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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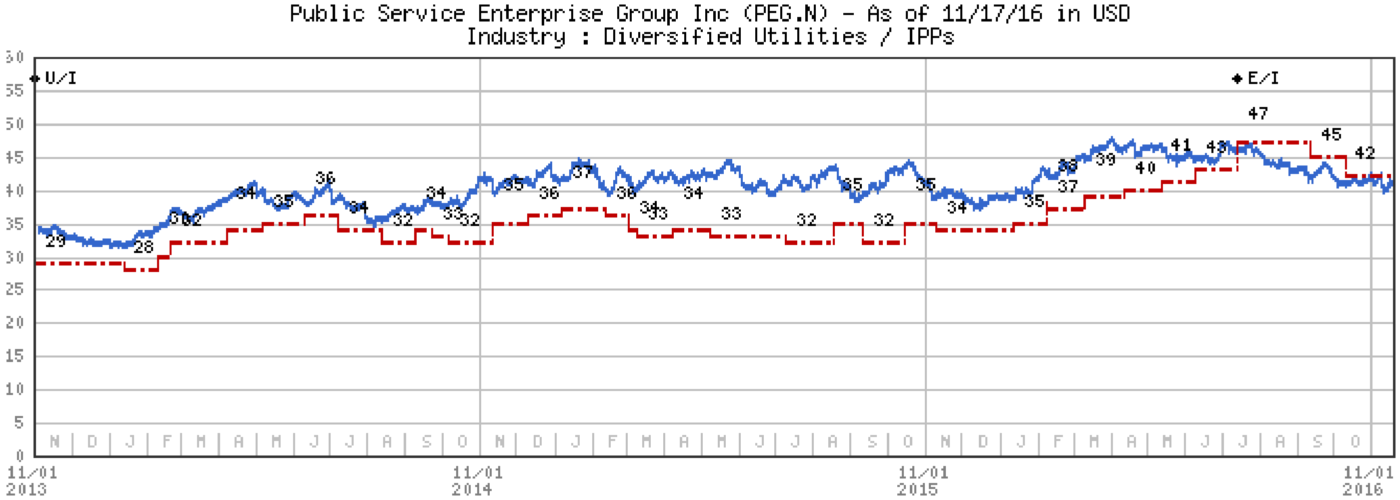

Stock Rating History: 11/1/13 : U/I; 7/13/16 : E/I

Price Target History: 10/16/13 : 29; 1/13/14 : 28; 2/10/14 : 30; 2/20/14 : 32; 4/7/14 : 34; 5/7/14 : 35; 6/10/14 : 36; 7/7/14 : 34; 8/13/14 : 32; 9/9/14 : 34; 9/23/14 : 33; 10/7/14 : 32; 11/11/14 : 35; 12/11/14 : 36; 1/7/15 : 37; 2/12/15 : 36; 3/3/15 : 34; 3/10/15 : 33; 4/8/15 : 34; 5/8/15 : 33; 7/10/15 : 32; 8/17/15 : 35; 9/11/15 : 32; 10/15/15 : 35; 11/10/15 : 34; 1/12/16 : 35; 2/8/16 : 38; 2/9/16 : 37; 3/11/16 : 39; 4/12/16 : 40; 5/12/16 : 41; 6/10/16 : 43; 7/13/16 : 47; 9/11/16 : 45; 10/10/16 : 42

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target --   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ▬   Stock Price (Covered by Current Analyst) ▬
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Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Diversified Utilities / IPPs

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/17/2016)
Devin McDermott		
Dynegy Inc. (DYN.N)	O (04/20/2015)	$9.48
Stephen C Byrd		
AES Corp. (AES.N)	E (05/22/2014)	$11.43
American Electric Power Co (AEP.N)	E (08/04/2014)	$58.86
Calpine Corp. (CPN.N)	O (11/07/2016)	$11.85
Dominion Resources Inc (D.N)	E (08/08/2016)	$71.03
Entergy Corp (ETR.N)	U (10/27/2016)	$68.18
Exelon Corp (EXC.N)	O (11/18/2016)	$31.49
FirstEnergy Corp (FE.N)	O (08/08/2016)	$31.96
NextEra Energy Inc (NEE.N)	O (07/22/2014)	$114.78
NRG Energy Inc (NRG.N)	O (01/17/2013)	$11.25
Public Service Enterprise Group Inc (PEG.N)	E (07/13/2016)	$40.72

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* Historical prices are not split adjusted.

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UPDATE

December 2, 2016 05:38 AM GMT

Exelon Corp

Keeping the Lights On: Passage of Nuclear Illinois Support Represents Upside for EXC

Stock Rating	Industry View	Price Target
Overweight	In-Line	$37.00

Yesterday, the Illinois State Legislature voted to pass the "Future Energy Jobs Bill", which includes payment provisions to support at-risk nuclear plants. We view the passage of the bill as a positive for EXC and see incremental upside to our estimates.

Yesterday, the Illinois House and Senate voted to pass the "Future Energy Jobs Bill" (SB 2814) which includes provisions to provide support to at-risk nuclear plants through the form of Zero Emission Credit (ZEC) payment, similar to those seen in NY. We see this as a positive for EXC (OW) and believe the company will now likely decide to cancel or delay its planned retirements of its Clinton and Quad Cities nuclear plants, which were set to retire in 2017 and 2018, respectively, due to poor market conditions. Our estimates do not yet include any such benefit and we believe the implementation of ZEC payments in Illinois represents compelling incremental upside to earnings, cash flow and valuation. We estimate that the earnings benefit from the implementation of these ZECs payments would be ~$0.16. This would represent ~$0.09 incremental benefit to our 2018e EPS estimate, after netting out the $0.07 benefit the company had disclosed resulting from the retirement of the IL nukes.

Next Steps? After being passed by the house and senate, the bill will now have to be signed into law by the Governor. The final version of the bill states it will be effective 6 months after the Governor signs the bill. While the governor technically has 60 days to sign the bill, it seems likely the bill will be signed sooner rather than later given the Governor's publically expressed support for the legislation.

The structure of the ZEC program laid out in the passed bill had only minor changes to the original proposal. The new structure stipulates an initial flat payment of $16.50 per MWh produced, a level that was determined by factoring in the federally-determined Social Cost of Carbon. The annual step-up in this number is no longer included in the bill, with the original bill calling for annual increases of 3% annually until 2024, and $1/MWh annual increases thereafter. The program starts with an assumption that energy and capacity prices will be $31.40/MWh, but then adjusts the ZEC price if power and capacity prices total more than $31.40. Going forward, if the energy and capacity price were to be

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Exelon Corp (EXC.N, EXC US)

Diversified Utilities / IPPs / United States of America

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	**$37.00**
Shr price, close (Dec 1, 2016)	$32.17
Mkt cap, curr (mm)	$29,757
52-Week Range	$37.70-25.09

greater than the baseline price, the ZEC price would be reduced to by the delta. The program's set cap on the potential increase to customer rates was also reduced from 2.015% to 1.65%. We estimate that the earnings benefit from these ZEC payments would be ~$0.16, modestly below the ~$0.20 benefit we estimated under the original structure. This would represent ~$0.09 incremental benefit to our 2018e EPS estimate, after netting out the $0.07 benefit the company had disclosed resulting from the retirement of the IL nukes.

With another constructive legislative outcome, we continue to see EXC as one of the best run merchant generation businesses in the industry. EXC has a well-deserved reputation for operational excellence at its ExGen merchant business. With the bill originally facing what was generally viewed by investors as a difficult path to passage after it was introduced, the outcome in Illinois reinforces our confidence in EXC's ability to ensure market design elements properly value the industry-leading low-carbon profile of its power plant fleet. Illinois represents the latest in a series of several recent constructive regulatory outcomes in both EXC's regulated segment, where it has received clarity in a meaningful portion of its Pepco rate cases, and its unregulated segment, where it also recently secured revenue for upstate NY nuclear plants to reflect the value of their zero emissions profile. We also believe the decision in Illinois reflects a positive read across in regards to the potential for other states such as Connecticut, Pennsylvania, New Jersey and Ohio, to pursue similar initiatives for nuclear support over time.

Valuation methodology: Our $37 price target is derived from our base case and driven by a 2018e P/E for Utilities and a DCF analysis for Generation and Energy Supply (ExGen). For our DCF we use an 8.2% WACC, 3% risk-free rate, and 1.5% terminal growth rate.

Risks to our price target include:

- Natural gas and power prices. EXC is the most sensitive diversified utility to natural gas prices on our math;

- Execution on improving ROEs at Pepco utilities;

- Court ruling on legal challenge to NY ZECs;

- May 2017 PJM capacity auction.

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(as of November 30, 2016)

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	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1154**	**35%**	**265**	**41%**	**23%**	**574**	**36%**
Equal-weight/Hold	**1432**	**43%**	**297**	**45%**	**21%**	**709**	**45%**
Not-Rated/Hold	**69**	**2%**	**8**	**1%**	**12%**	**9**	**1%**
Underweight/Sell	**666**	**20%**	**83**	**13%**	**12%**	**287**	**18%**
TOTAL	**3,321**		**653**			**1579**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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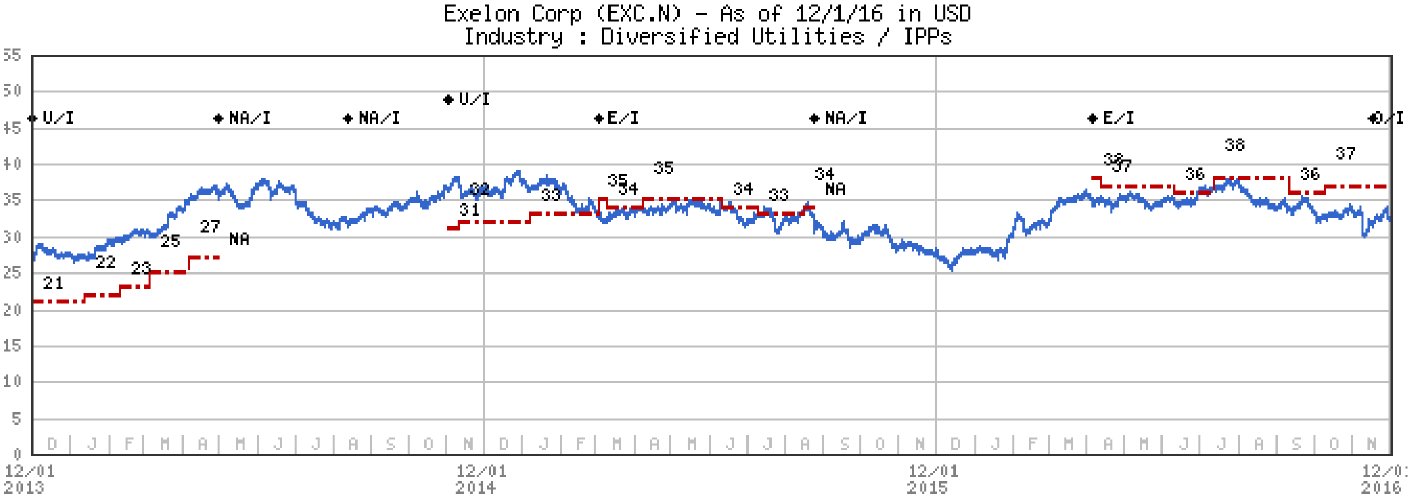
Stock Price, Price Target and Rating History (See Rating Definitions)


Exelon Corp (EXC.N) - As of 12/1/16 in USD
Industry : Diversified Utilities / IPPs

Stock Rating History: 12/1/13 : U/I; 4/30/14 : NA/I; 8/13/14 : NA/I; 11/3/14 : U/I; 3/3/15 : E/I; 8/25/15 : NA/I; 4/6/16 : E/I; 11/18/16 : O/I

Price Target History: 10/16/13 : 21; 1/13/14 : 22; 2/10/14 : 23; 3/6/14 : 25; 4/7/14 : 27; 4/30/14 : NA; 11/3/14 : 31; 11/11/14 : 32; 1/7/15 : 33; 3/3/15 : 35; 3/10/15 : 34; 4/8/15 : 35; 6/12/15 : 34; 7/10/15 : 33; 8/17/15 : 34; 8/25/15 : NA; 4/6/16 : 38; 4/12/16 : 37; 6/10/16 : 36; 7/13/16 : 38; 9/11/16 : 36; 10/10/16 : 37

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target ▬   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ▬   Stock Price (Covered by Current Analyst) ▬
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INDUSTRY COVERAGE: Diversified Utilities / IPPs

COMPANY (TICKER)	RATING (AS OF)	PRICE* (12/01/2016)
Devin McDermott		
Dynegy Inc. (DYN.N)	O (04/20/2015)	$8.17
Stephen C Byrd		
AES Corp. (AES.N)	E (05/22/2014)	$11.03
American Electric Power Co (AEP.N)	E (08/04/2014)	$58.16
Calpine Corp. (CPN.N)	O (11/07/2016)	$10.41
Dominion Resources Inc (D.N)	E (08/08/2016)	$72.75
Entergy Corp (ETR.N)	U (10/27/2016)	$68.88
Exelon Corp (EXC.N)	O (11/18/2016)	$32.17
FirstEnergy Corp (FE.N)	O (08/08/2016)	$30.99
NextEra Energy Inc (NEE.N)	O (07/22/2014)	$112.95
NRG Energy Inc (NRG.N)	O (01/17/2013)	$11.11
Public Service Enterprise Group Inc (PEG.N)	E (07/13/2016)	$41.04

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* Historical prices are not split adjusted.

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UPDATE

August 11, 2016 04:01 AM GMT

Exelon Corp

Solid Strategy, With Upside Potential

Stock Rating	Industry View	Price Target
Equal-weight	In-Line	$38.00

EXC's investor day showed a thoughtful strategy for both the utility and merchant businesses, with potential upside from clean energy incentives and capital deployment. We remain Equal-weight.

A lot to like in terms of Exelon's strategy. We see the merits for EXC (but not necessarily other diversified utilities) of a combined merchant-utility business model. EXC laid out their strategy very clearly, and we see numerous strengths:

1. **The utility business will be able to deploy the strong cash flow from the merchant business.** From 2016-20, Exelon forecasts $8.2b in free cash flow, excluding the up to $750m from the NY Clean Energy Standard, which we expect will be approved. Management laid out a thoughtful, balanced approach to deploying this capital (~$2.3b for committed ExGen growth capex, $2.7-3.2b for utility investment, and $2.7-3.2b in ExGen debt reduction). We like this approach - it will maintain strong credit metrics while resulting in attractive EPS growth.

2. **Potential for above-average 7-9% EPS growth through 2020 at the utility business.** While this growth will require significant improvements in earned ROEs at the recently-acquired Pepco utility, we note management's track record in improving results at BG&E and see potential for a similar trajectory at Pepco. We do acknowledge that there is execution risk here, and we would like to see evidence of ability to achieve regulatory and operational successes before we would value this business at a premium to peers.

3. **Strong balance sheet.** We like the stable credit profile of the utility and the conservative leverage targets at ExGen. At ~30% FFO/debt at the merchant business, and given the hedge profile of this business, should generation market conditions deteriorate, which we do not expect, Exelon would have ample time and cash flow to further deleverage this business.

4. **One of the best run merchant generation and marketing businesses in the industry.** Exelon has a well-deserved reputation for operational excellence at this business unit. We also note Exelon's recent success in NY (securing revenue for upstate nuclear plants to reflect the value of their zero emissions profile) as indicative of the company's ability to ensure market design elements properly value the industry-leading low-

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Exelon Corp (EXC.N, EXC US)

Diversified Utilities / IPPs / United States of America

Stock Rating	**Equal-weight**
Industry View	**In-Line**
Price target	**$38.00**
Shr price, close (Aug 10, 2016)	$35.53
Mkt cap, curr (mm)	$32,830
52-Week Range	$37.70-25.09

Fiscal Year Ending	**12/15**	**12/16e**	**12/17e**	**12/18e**
ModelWare EPS ($)	**2.49**	**2.56**	**2.52**	**2.64**
Prior ModelWare EPS ($)	**-**	**-**	**-**	**-**
P/E	**11.1**	**13.9**	**14.1**	**13.4**
Consensus EPS ($)§	**2.53**	**2.53**	**2.64**	**2.79**
Div yld (%)	4.5	3.5	3.6	3.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Thomson Reuters Estimates
e = Morgan Stanley Research estimates

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carbon profile of its power plant fleet. We were especially intrigued by the potential for federal support for zero emissions power should Secretary Clinton be elected President (see our report here). FERC could utilize a number of mechanisms to provide value for zero emissions power, and we believe it is likely FERC has the legal authority to do so. If FERC decides to support zero emissions generation on a level playing field (i.e. all such generation receives the same incentive), we see EXC as the biggest winner from such an outcome.

Away from the policy side, we believe ExGen's combination of generation and retail marketing offers lower volatility of results and higher margin potential. Management of this business laid out several examples of the synergies from this combination, and we believe this is often under-appreciated by investors.

Given the above, what keeps us from being Overweight the stock? We see upside in the shares, and believe there are several avenues of additional growth. Developments we would like to see that would support an even more positive view of the stock would be:

1. **Execution of improvement strategy at Pepco.** Some of Pepco's utility business units (driven by very different state-level regulatory environments) will be more challenging to improve than others, in our view, and we would like to see some successes in improving this business. If we saw such successes, we would view the utility business as being superior to peers given the EPS growth potential. We do not expect there will be a smooth, near-term, or linear path to success, but we view Exelon's strong operational and regulatory track record as a key positive the company can bring to bear in improving Pepco.

2. **Further constructive developments in terms of properly valuing the zero emissions profile of Exelon's large fleet of nuclear plants.** We highlighted earlier in the note how FERC might be able and willing to provide support for clean energy sources on a level playing field, but it is also possible that at the federal level, emphasis is given to solar and/or wind. We note that Secretary Clinton's energy policy has a heavy emphasis on solar power, and the comments from Donald Trump are indicative of minimal to zero support for clean energy sources.

3. **Further capex potential at the utilities.** The utility capex profile provided by the company shows a deceleration later in the decade, but we believe it is very possible that the company will determine that additional investments are warranted and will provide value to customers, which could boost out-year spending. We have seen similar fact patterns at other utilities in the US, such as in California.

4. **A constructive outcome in the next PJM capacity auction.** We have previously discussed why we are relatively bullish on the May 2017 auction, and we may well see a helpful "back cast" from PJM later this year that will show the price increases that would have occurred if PJM had procured 100% Capacity Performance (CP) in the most recent auction, rather than the 80% procured this year (next year's auction will be the first 100% CP procurement). Exelon would be one of the biggest

beneficiaries of higher PJM capacity prices.

5. **Higher natural gas prices.** We recently updated our 2017 natural gas price forecast, and our forecast is meaningfully above the forward curve. Such a price move, which would result in higher power prices, would significantly benefit Exelon.

EXC.N

Valuation Methodology:

- Derived From Our Base Case And Driven By A 2017e P/E For Utilities And A DCF Analysis For Generation And Energy Supply (ExGen). For Our DCF We Use an 8% WACC, 3% Risk-Free Rate, And 1.5% Terminal Growth Rate.

Risks:

- Natural gas and power prices decline further. EXC is the most sensitive diversified utility to natural gas prices on our math
- PJM capacity prices in the May '16 auction could be disappointing
- Additional states implementing carbon cap and trade programs. Additional carbon regulation would benefit EXC's large nuclear fleet

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(as of July 31, 2016)

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	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1149**	**34%**	**274**	**38%**	**24%**	**566**	**35%**
Equal-weight/Hold	**1461**	**44%**	**351**	**48%**	**24%**	**729**	**46%**
Not-Rated/Hold	**77**	**2%**	**8**	**1%**	**10%**	**11**	**1%**
Underweight/Sell	**647**	**19%**	**95**	**13%**	**15%**	**289**	**18%**
TOTAL	**3,334**		**728**			**1595**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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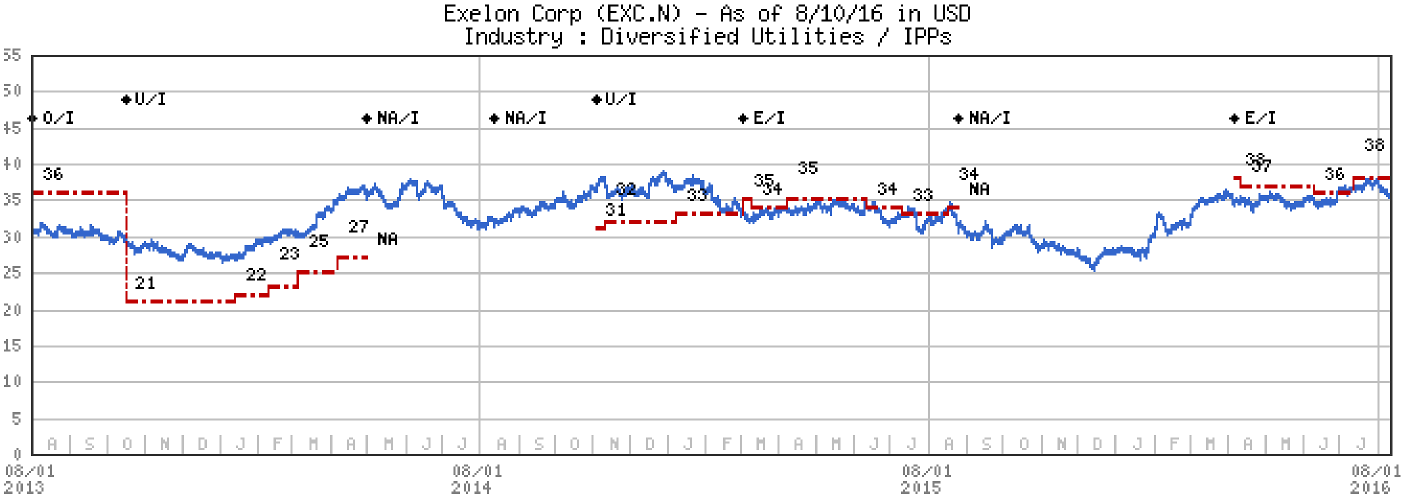
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 8/1/13 : O/I; 10/16/13 : U/I; 4/30/14 : NA/I; 8/13/14 : NA/I; 11/3/14 : U/I; 3/3/15 : E/I; 8/25/15 : NA/I; 4/6/16 : E/I

Price Target History: 6/3/13 : 36; 10/16/13 : 21; 1/13/14 : 22; 2/10/14 : 23; 3/6/14 : 25; 4/7/14 : 27; 4/30/14 : NA; 11/3/14 : 31; 11/11/14 : 32; 1/7/15 : 33; 3/3/15 : 35; 3/10/15 : 34; 4/8/15 : 35; 6/12/15 : 34; 7/10/15 : 33; 8/17/15 : 34; 8/25/15 : NA; 4/6/16 : 38; 4/12/16 : 37; 6/10/16 : 36; 7/13/16 : 38

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) -- Stock Price (Covered by Current Analyst) ▬
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INDUSTRY COVERAGE: Diversified Utilities / IPPs

COMPANY (TICKER)	RATING (AS OF)	PRICE* (08/10/2016)
Devin McDermott		
Dynegy Inc. (DYN.N)	O (04/20/2015)	$12.45
Stephen C Byrd		
AES Corp. (AES.N)	E (05/22/2014)	$12.18
American Electric Power Co (AEP.N)	E (08/04/2014)	$67.56
Calpine Corp. (CPN.N)	O (01/17/2012)	$12.51
Dominion Resources Inc (D.N)	E (08/08/2016)	$75.01
Entergy Corp (ETR.N)	E (12/15/2014)	$78.80
Exelon Corp (EXC.N)	E (04/06/2016)	$35.53
FirstEnergy Corp (FE.N)	O (08/08/2016)	$32.71
NextEra Energy Inc (NEE.N)	O (07/22/2014)	$126.37
NRG Energy Inc (NRG.N)	O (01/17/2013)	$12.75
Public Service Enterprise Group Inc (PEG.N)	E (07/13/2016)	$43.79

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Exelon Corp (EXC): Illinois legislature passes Future Energy Jobs Bill

Sentiment Indicator : positive

Produced by Tucker, Shelby (RBC Capital Markets, LLC) on Thursday, December 01, 2016, 20:27 PM ET
Disseminated on Thursday, December 01, 2016, 20:35 PM ET

Our View: We believe this is a big win for Exelon (EXC, $32.17; Outperform; $38 PT) to get the bill passed at the last hours of the 2016 veto session. While we do not know whether the governor has officially signed the bill as of this writing, our understanding is that he will sign the bill into law. This law would allow Exelon to continue to operate the Clinton and Quad Cities nuclear plants while receiving around $0.16/share of EPS boost. Our current 2016-2018 EPS estimates of $2.65, $2.63, and $2.86 currently do not incorporate this benefit, although they do include the benefit from New York's zero emission credits (ZECs). We expect the stock to outperform tomorrow.

This evening, the Illinois House and Senate both voted to pass Senate Bill (SB) 2814 - Future Energy Jobs Bill, with certain amendments. We note that the passage of the bill allows for Exelon's Clinton (1,078 MW) and Quad Cities (1,819 MW) to receive additional revenues and remain in operation.

Boost for ExGen. The bill, in short, allows Exelon Generation (ExGen) to earn up to $235 million (~$0.16/share in EPS) annually over the next 10 years via zero emission credits (ZECs) collected from ComEd and Ameren customers. The benefit is calculated by assigning a social cost of carbon of $16.50/MWh based on a baseline market power price of $31.40/MWh (as of May 31, 2016), with the carbon cost reduced as power prices rise above the baseline level. The $235 million is the maximum allowed benefit amount, even though the formulaic amount using $16.50/MWh on around 20,000 GWh of energy (16% of Comed/Ameren load supplied by Clinton/Quad Cities) results in a ~$330 million benefit.

Renewables/EE components. The bill retains the 25% by 2025 renewable portfolio standard (RPS) currently in place, with the utilities permitted to recover costs of renewable energy credits. In addition, the bill includes provisions to expand on energy efficiency measures while allowing for the utilities to recover the costs based on a formulaic rate of 580 basis points above the 30-year treasury yield (12-month average).

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Research

Exelon Corp (EXC): Strong 3Q16 beat, 2016 guidance raised a dime to $2.55-$2.75

Sentiment Indicator : positive

Produced by Tucker, Shelby (RBC Capital Markets, LLC) on Wednesday, October 26, 2016, 08:59 AM ET

Disseminated on Wednesday, October 26, 2016, 09:13 AM ET

Our View: Strong quarterly beat on better ExGen margins and Pepco (PHI) earnings contribution. We expect questions on the call to focus on the sources of the additional O&M savings identified, commentary on the CES program and Fitzpatrick acquisition in New York, and details on the various rate case proceedings for the PHI utilities.

Exelon Corp (EXC; $32.90; Outperform; $38 PT) reported 3Q16 operating earnings of $0.91 per share, $0.07 above our estimate of $0.84 per share and $0.12 above consensus of $0.79 per share. The result is also well above 3Q16 guidance of $0.65-$0.75 per share and 3Q15 earnings of $0.83 per share. Management raised their 2016 operating EPS guidance from $2.40-$2.70 ($2.55 midpoint) to $2.55-$2.75 ($2.65 midpoint); our current estimate is $2.60 versus consensus of $2.57. The following highlights some of the key drivers of the quarter on a year-over-year (YoY) basis versus our estimates:

Exelon Generation

- Nuclear volume/fuel: $0.00, $0.01 worse.
- Lower capacity revenue: -$0.02, $0.02 better.
- Market conditions/portfolio management: $0.03, $0.10 better.

Utilities

- PHI utilities - net earnings impact: $0.14, $0.06 better.
- Weather: $0.04, $0.02 worse.
- Higher PECO/ComEd/BGE rates/load: $0.05, $0.01 better.

Expenses/Other (excluding PHI impact):

- O&M expense: -$0.05, $0.03 worse.
- D&A expense: -$0.05, $0.02 worse.
- Interest expense: -$0.02, in-line.
- Share count dilution: -$0.01, in-line.
- Higher income taxes: -$0.04, $0.04 worse.

ExGen forward gross margins lower. As of September 30, ExGen's total gross margin estimate for 2016-2018 stands at $7.5 billion, $7.25 billion, and $6.8 billion, respectively, a change of $50 million, -$100 million, and -$250 million since the end of 2Q16. We note that power prices have improved since the end of 3Q16.

Additional O&M savings expected. Management now expects O&M to trend down at a 2.8% CAGR from 2016-2019, more than the 1.7% CAGR guided to during the August Analyst Day. The bulk of the additional savings is expected to be back-end loaded in 2018 and 2019 (down an additional $100 million and $125 million, respectively).

PHI, ComEd guidance raised. Management's $0.10 raise in the 2016 EPS guidance is allocated to the Pepco utilities (+$0.05 to $0.15-$0.25) and ComEd (+$0.05 to $0.55-$0.65).

Conference call at 11 AM ET. The dial-in number is (800) 690-3108, pass code 97958834.

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Click here for conflict of interest and other disclosures relating to Exelon Corporation, Shelby Tucker, Insoo Kim These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to rbcinsight@rbccm.com

Macquarie Research

Equities

MACQUARIE

UNITED STATES

EXC US	Outperform
Price (at 20:00, 10 Aug 2016 GMT)	US$35.53

Valuation - PER	**US$**	**41.00**
12-month target	**US$**	**41.00**
12-month TSR	**%**	**+19.0**
GICS sector		**Utilities**
Market cap	**US$m**	**32,790**
30-day avg turnover	**US$m**	**173.8**
Number shares on issue	**m**	**922.9**

Investment fundamentals

Year end 31 Dec		2015A	2016E	2017E	2018E
EPS adj	US$	2.49	2.52	2.66	2.88
EPS adj growth	%	4.2	1.0	5.6	8.2
PER adj	x	14.2	14.1	13.4	12.3
Total DPS	US$	1.24	1.26	1.29	1.32
Total div yield	%	3.5	3.5	3.6	3.7

EXC US vs S&P 500, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Capital (USA), August 2016

(all figures in USD unless noted)

Exelon Corp

It's simply a good story all around

Event

- EXC offers an attractive ~9% EPS CAGR for 2016-20E for its regulated utilities less parent, with upside potential to both capex and realized ROEs, especially at Pepco, we believe. Thanks to exceptionally strong operations and retail/wholesale hedges, ExGen continues to deliver on earnings expectations while offering unmatched gas optionality. All of that is supported by a relatively strong balance sheet and a discounted valuation vs diversified utilities. We recognize that there are many moving parts at EXC at the moment, but those could be a source of continuous positive catalysts. We reiterate our Outperform rating and EXC remains our top pick among diversified utilities.
- Yesterday, EXC hosted its analyst day in Philadelphia.

Impact

- **Regulated utility growth:** We had hoped for a slight increase in EXC's 7-9% regulated EPS CAGR, even though we recognize that it is difficult in light of numerous pending rate cases at the recently acquired Pepco. Our estimates reflect a 10% EPS CAGR for EXC's regulated utilities less parent, but we see further upside to our estimates, especially in '19 and beyond, as we would expect EXC to find additional growth capex and further streamline Pepco's operations.
- **ExGen's moving parts:** With changes in forward power and gas curves, power hedges, the recent regulatory support for EXC's nuclear plants in NY, a pending acquisition of the Fitzpatrick nuclear plant in the state, and a recently acquired retail book from ConEd Solutions, it is not easy to project ExGen's net income. Add to that the high sensitivity of ExGen's earnings to changes in natural gas prices (especially in 2018 and beyond) and EDF's put option on three of ExGen's nuclear plants, and there is plenty to keep us busy for the next year or so.

Earnings and target price revision

- We have updated our earnings estimates to reflect YTD results, power hedges, most recent forward power/gas curves, subsidies for EXC's nuclear plants in NY, a pending purchase of the Fitzpatrick nuclear plant and a recently acquired retail book from ConEd Solutions. With limited insight into ExGen's costs pro forma in all of these transactions, we have embedded conservative EBITDA margin assumptions into our updated estimates. Our new '16/'17/'18/'19 EPS estimates are US$2.52/2.66/2.88/2.86 vs. US$2.59/2.63/2.73/2.68, respectively. With higher estimates, we have raised our TP to US$41 from US$40.

Price catalyst

- 12-month price target: US$41.00 based on a Sum of Parts methodology.
- Catalyst: Clarity on the regulatory support for NY nuclear plants and closing of the Fitzpatrick acquisition.

Action and recommendation

- We reiterate our Outperform rating.

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11 August 2016
Macquarie Capital (USA) Inc.

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Fig 1 EXC: EPS breakdown by segment (US$)

	2015	2016E	2017E	2018E	2019E
Regulated utilities	$ 1.22	$ 1.42	$ 1.62	$ 1.77	$ 1.87
ExGen	$ 1.40	$ 1.26	$ 1.19	$ 1.26	$ 1.14
Parent	$ (0.13)	$ (0.15)	$ (0.15)	$ (0.15)	$ (0.15)
Total	**$ 2.49**	**$ 2.52**	**$ 2.66**	**$ 2.88**	**$ 2.86**

Source: Macquarie Capital (USA), August 2016

Fig 2 EXC: Financial projections (US$ m except per-share data)

	2015	2016E	2017E	2018E	2019E
Sales	29,237	31,487	31,725	32,099	32,173
Operating expenses	25,021	27,108	26,968	26,994	27,094
EBITDA	6,666	6,840	7,285	7,701	7,765
Depreciation	2,450	2,461	2,529	2,597	2,686
Operational EBIT	4,216	4,379	4,757	5,104	5,079
Net interest expense	(1,098)	(1,030)	(962)	(974)	(986)
Ordinary Profit Before Tax	3,392	3,599	3,845	4,181	4,143
Income tax	(1,165)	(1,266)	(1,324)	(1,398)	(1,370)
Net profit	2,227	2,332	2,521	2,782	2,773
S/O (m)	**893**	**926**	**948**	**967**	**970**
EPS	**$2.49**	**$2.52**	**$2.66**	**$2.88**	**$2.86**
Current assets	8,596	9,231	9,234	9,300	9,309
Property, plant, and equipment	56,031	60,545	64,391	67,269	70,059
Total assets	**87,960**	**93,483**	**97,706**	**101,025**	**104,197**
Current liabilities	7,097	7,659	7,601	7,623	7,533
Long-term debt	17,111	20,951	23,576	25,416	27,096
Shareholders' equity	32,855	33,376	34,432	35,289	36,271
Total liabilities and equity	**87,960**	**93,483**	**97,706**	**101,025**	**104,197**
Net income	2,227	2,332	2,521	2,782	2,773
Operating cashflow	5,116	5,320	5,589	5,935	6,133
Investing cashflow	(7,375)	(6,975)	(6,375)	(5,475)	(5,475)
Dividends paid	(1,104)	(1,159)	(1,215)	(1,272)	(1,312)
Financing cashflow	2,259	1,655	786	(460)	(658)
Change in cash	0	0	0	0	0
Cash at end of period	700	700	700	700	700

Source: Company data, Macquarie Capital (USA), August 2016

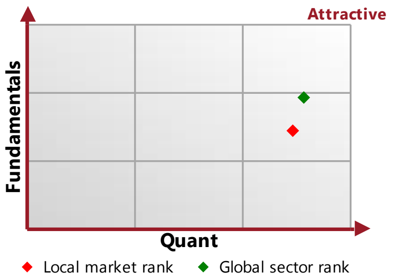
Macquarie Quant View

The quant model currently holds a reasonably positive view on Exelon Corp. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

64/439

Global rank in Utilities

% of BUY recommendations	57% (13/23)
Number of Price Target downgrades	0
Number of Price Target upgrades	13

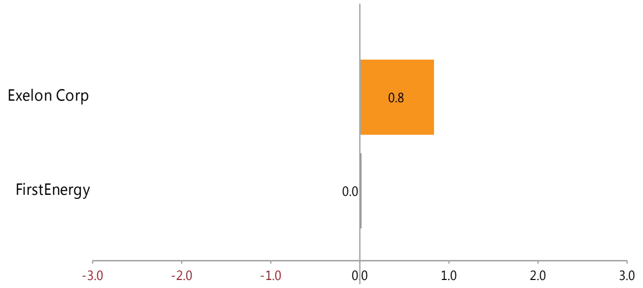


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (United States) and Global sector (Utilities)

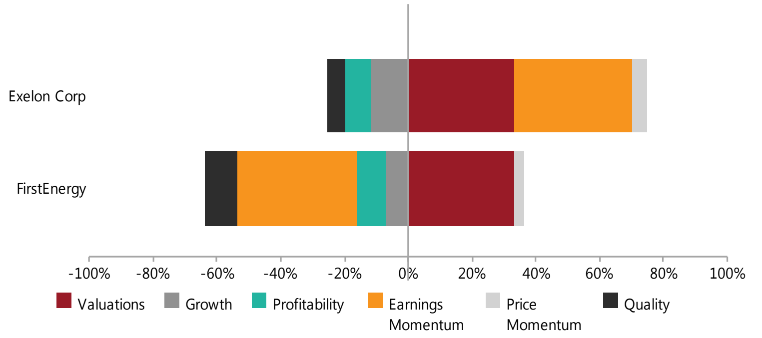
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



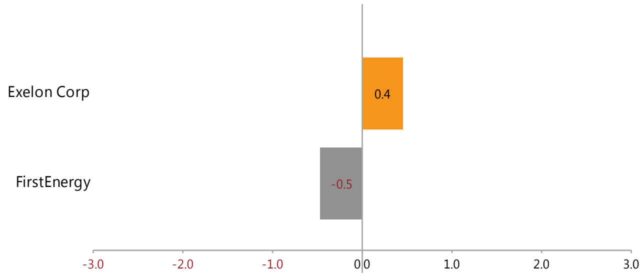
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



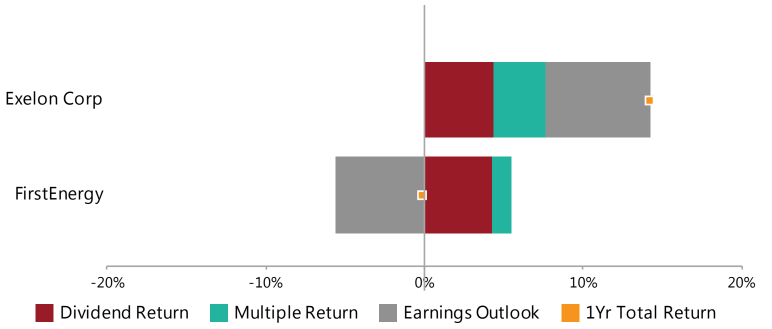
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



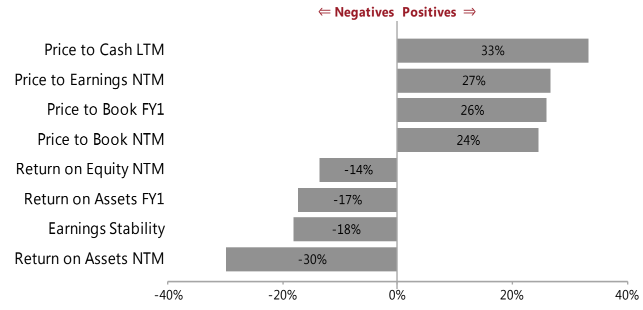
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



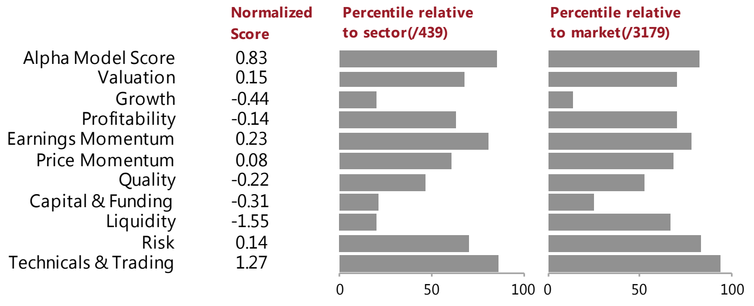
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.17%	56.00%	36.36%	43.16%	63.39%	45.91%	(for global coverage by Macquarie, 6.27% of stocks followed are investment banking clients)
Neutral	36.21%	28.59%	40.26%	50.38%	29.46%	36.96%	(for global coverage by Macquarie, 6.33% of stocks followed are investment banking clients)
Underperform	18.62%	15.41%	23.38%	6.46%	7.14%	17.12%	(for global coverage by Macquarie, 5.38% of stocks followed are investment banking clients)

EXC US vs S&P 500, & rec history

(all figures in USD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Capital (USA), August 2016

12-month target price methodology

EXC US: US$41.00 based on a Sum of Parts methodology

Company-specific disclosures:

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Date	Stock Code (BBG code)	Recommendation	Target Price
17-Jun-2015	EXC US	Outperform	US$40.00
17-Nov-2014	EXC US	Outperform	US$41.00
09-Oct-2014	EXC US	Outperform	US$39.00
21-Jul-2014	EXC US	Outperform	US$36.00
10-Jun-2014	EXC US	Neutral	US$37.00
01-May-2014	EXC US	Neutral	US$34.00
04-Apr-2014	EXC US	Neutral	US$32.00
07-Feb-2014	EXC US	Neutral	US$30.00
10-Dec-2013	EXC US	Neutral	US$29.00
31-Oct-2013	EXC US	Neutral	US$30.00
04-Sep-2013	EXC US	Neutral	US$32.00

Target price risk disclosures:
EXC US: Our US$41 price target is based on our ’18 SOP valuation. Risks include execution of regulated capex and the pace of load growth for EXC’s utilities, the level of forward power prices in particular in PJM West and NI Hub, forward capacity prices in PJM and New England, and incremental cost efficiencies.

Analyst certification:
We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views

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Exelon Corp.

EXC: Nuclear values split between soft power prices and climate change concerns

Earnings Review

26 October 2016

Lowering long-dated Generation bonds to Marketweight

We are revising our rating on Exelon Generation's longer-dated bonds (maturing in 2039 and beyond) to Marketweight from Overweight while reiterating our Overweight rating on Exelon Generation's shorter-dated bonds with final maturities out to June 2022. Our rating change reflects prices slightly above par versus uncertainties regarding longer-term residual value of electricity generation assets in the U.S., given the negative economic impact on power prices ample and growing supplies of cheap shale gas, growing social and political calls for renewable energy resources, excess capacity, and *de minimus* growth of electricity demand in most markets. However, we view Exelon Generation's portfolio as being much better positioned than its competitive generation peers due to its huge fleet of baseload, low-emitting, high-performing nuclear plants, its renewables and its low exposure to fossil fuels. On the one hand, Exelon Generation is preparing to begin shutting down at year-end its Clinton and Quad Cities nuclear plants due to ongoing, large financial losses; on the other hand, New York State has awarded its up-state nuclear plants (which Exelon Generation owns or will buy from Entergy) hundreds of millions of dollars of Zero Emission Credits (ZECs). We maintain our Overweight on Exelon Corporation in light of its bonds trading slightly wide relative to most mid-BBB utility holding companies and management's strong commitment to a solid balance sheet and credit ratings. We consider Baltimore Gas & Electric, Commonwealth Edison and PECO Energy as core holdings for buy-and-hold accounts; our Marketweight rating reflects secondary trading levels in line with peers.

Better-than-expected 3Q leads to FY16 guidance raise

Exelon reported 3Q16 operating EPS of $0.91 ($841 million), beating consensus of $0.79 and up from $0.83 ($757 million) in 3Q15. Key drivers for the YOY improvement were the March 2016 acquisition of Pepco Holdings and favorable weather and higher rates at Commonwealth Edison and PECO Energy, partly offset by higher expense levels and lower capacity prices (Exhibit 2 at right). Exelon raised its FY16 adjusted operating earnings guidance range to $2.55-$2.75 from $2.40-$2.70.

2016 financing plans are mostly complete

Exelon's financing for 2016 is mostly complete, except that it may issue approximately $1 billion for the deposit with the IRS following that agency's recent adverse decision on the 1999 like-kind exchange; Exelon plans to contest the decision vigorously. Next year's potential debt refinancing opportunities include Exelon Corp.'s $550 million notes maturity on June 9th, Commonwealth Edison's $425 million first mortgage bonds maturity on September 15th, and Exelon Generation's $700 million senior notes maturity on October 1st. We also note that Exelon's outstanding corporate units ($1.15 billion face value), issued in 2014 to finance a portion of the Pepco Holdings acquisition, require the holders to purchase Exelon common stock on June 1, 2017.

High Grade
United States
Electric Utilities

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Exhibit 1: Relative Value Recommendations

Overweight
Exelon Corp.
Exelon Generation 2016-2022

Marketweight
Baltimore Gas & Electric
Commonwealth Edison
Exelon Generation 2039+
PECO Energy

Source: BofA Merrill Lynch Global Research.

WHAT YOU'LL DISCOVER INSIDE

Exhibit 2: 3Q EPS Walk

	$MM	EPS
3Q15 GAAP Earnings	$ 629	$0.69
3Q15 Adjustments	128	0.14
3Q15 Adj. Oper. Earnings	**$ 757**	**$0.83**
PHI acquisition	$ 520	$0.56
Utilities - weather	41	0.04
GEN - market, portfolio	32	0.03
Interest expense	(44)	(0.05)
O&M expense	(53)	(0.06)
all other, net	(102)	(0.11)
Depreciation, amortization	(148)	(0.16)
O&M - labor, materials	(162)	(0.17)
3Q16 Adj. Oper. Earnings	**$ 841**	**$0.91**
3Q16 Adjustments	(351)	(0.38)
3Q16 GAAP Earnings	$ 490	$0.53

Source: Company reports, BofA Merrill Lynch Global Research.

Refer to important disclosures on page 12 to 16. Analyst Certification on page 10. Valuation & Risk on page 10.

Summary Profile

Description

Exelon Corporation is a utility service holding company engaged in the energy generation and energy delivery services. Exelon Generation is one of the largest U.S. competitive U.S. power generators with ~32,700 megawatts of owned capacity, including the largest nuclear fleet and a renewables portfolio. Exelon's Constellation business unit provides energy products and services to ~100,000 business and public sector customers and ~1 million residential customers. Exelon's utilities deliver electricity and natural gas to ~10 million customers in Delaware, the District of Columbia, Illinois, Maryland, New Jersey, and Pennsylvania through its Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO and Pepco subsidiaries.

Significant Events

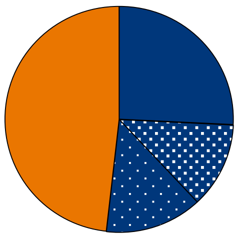
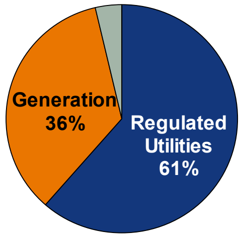
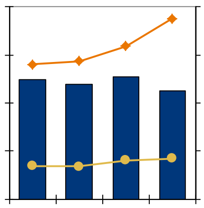
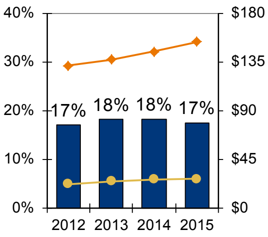
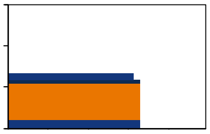
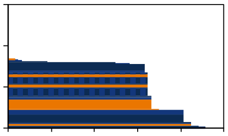
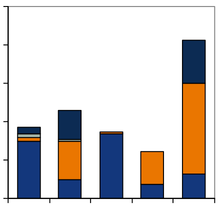
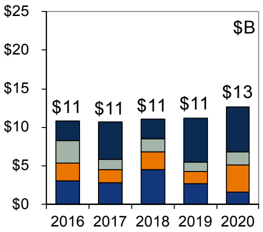
- August 8, 2016: Exelon Generation entered into series of agreements with Entergy Nuclear FitzPatrick LLC to acquire 838 MW FitzPatrick Nuclear Power Station for a cash purchase price of $110 million. Closing is expected in 2Q17.

- March 23, 2016: Exelon and Pepco Holdings close merger following approval by the Public Service Commission of the District of Columbia. In its order approving the merger, the DC PSC included conditions previously outlined in its February 26 order and certain new conditions, which the companies accepted. The merger brings together Exelon's three electric and gas utilities – BGE, ComEd, and PECO – and Pepco Holdings' three electric and gas utilities – Atlantic City Electric, Delmarva Power and Pepco.

Comparables

- Public Service Enterprise Group (PEG)
- NextEra Energy (NEE)
- Entergy (ETR)
- Dominion Resources (D)

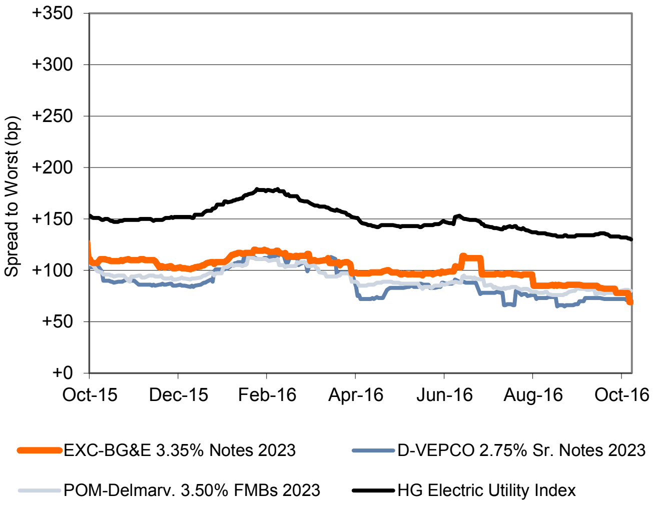
Exhibit 3: Comparable Statistics: Exelon versus Peer Group (FY 31 Dec 2015; $ millions)

Exelon Corp.		Name	Diversified Holdcos	
EXC		Bond Ticker	9 companies	
IL, PA, MD		Primary State(s)	--	
6,797,664	1,172,363	Customers: Electric / Gas	29,716,445	5,062,772
R:62% SmC&I:23% LgC&I:13% O:1%		Retail Electric Revenue Mix	R:53% C:31% I:13% O:3%	
32,741		Net Operating Capacity (MW)	185,221	
		Business Segment EBITDA ■ Regulated Utility ■ Generation/ Competitive ■ Other		
Avg.: 2012-14	2015	Fiscal Years ($MM)	Avg.: 2012-14	2015
$ 25,269	$ 29,447	Total Revenues	$ 108,224	$ 111,838
$ 14,859	$ 15,996	Gross Margin	$ 59,901	$ 64,435
$ 6,602	$ 7,157	EBITDA	$ 33,361	$ 36,980
$ (1,095)	$ (1,165)	Gross Interest Expense	$ (7,063)	$ (7,302)
$ 5,123	$ 5,909	Funds From Operations	$ 24,447	$ 26,748
$ (4,806)	$ (6,524)	Capital Expenditures	$ (23,166)	$ (27,174)
$ 1,094	$ 107	Acquisitions & Investments	$ (1,660)	$ (4,195)
$ (1,343)	$ (1,105)	Dividends	$ (6,079)	$ (6,370)
$ 1,658	$ 6,502	Cash & Equivalents	$ 5,589	$ 11,274
$ 20,665	$ 26,319	Total Debt	$ 137,501	$ 153,556
$ 48,201	$ 57,439	Property Plant & Equipment	$ 245,642	$ 278,031
$ 81,766	$ 95,384	Total Assets	$ 374,413	$ 412,535
5.7x	6.1x	FFO/Interest	4.5x	4.7x
3.1x	3.7x	Debt/EBITDA	4.1x	4.2x
3.5x	3.5x	Net Debt&Lease/Oper.EBITDAR	4.2x	4.0x
48%	50%	Debt/Total Capital	56%	56%
		Funds From Operations/Debt ■ FFO/Debt ◆ Debt ($B) ● FFO ($B)		
		Revolving Credit Facilities ■ Holdco ■ Other ■ Generation ■ Utility		
		Long-term Debt Maturities ■ Holdco ■ Other ■ Generation ■ Utility		
$14,347	$17,753	Pension: Assets / Obligations	$42,754	$52,503
($3,406)	81%	2015 Pension Funding: $ %	($9,749)	81%

Diversified Holdcos: AES, BKH, D, AES-DPL, ETR, EXC, FE, NEE, PEG.
Source: Company reports, BofA Merrill Lynch Global Research.

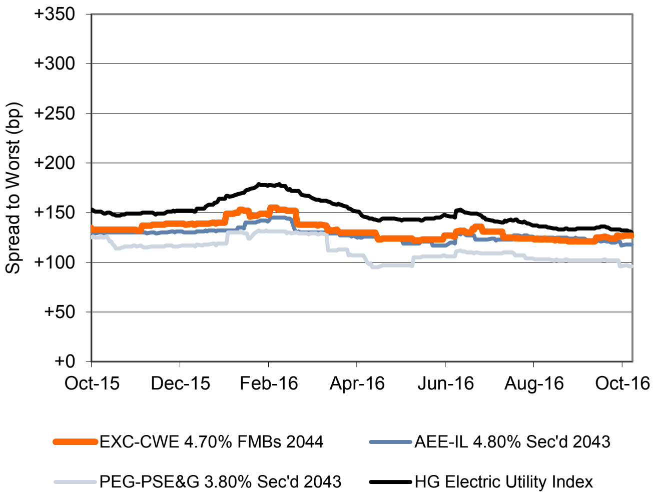
Relative Value: Cash Spreads

Exhibit 4: Baltimore Gas and Electric



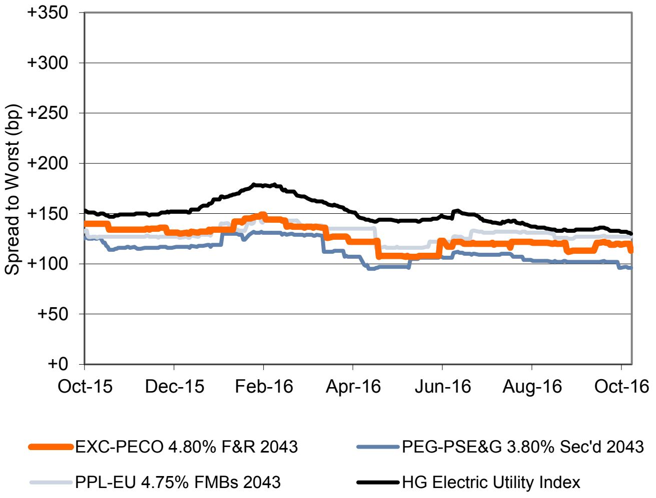
Source: BofA Merrill Lynch Global Research.

Exhibit 5: Commonwealth Edison



Source: BofA Merrill Lynch Global Research.

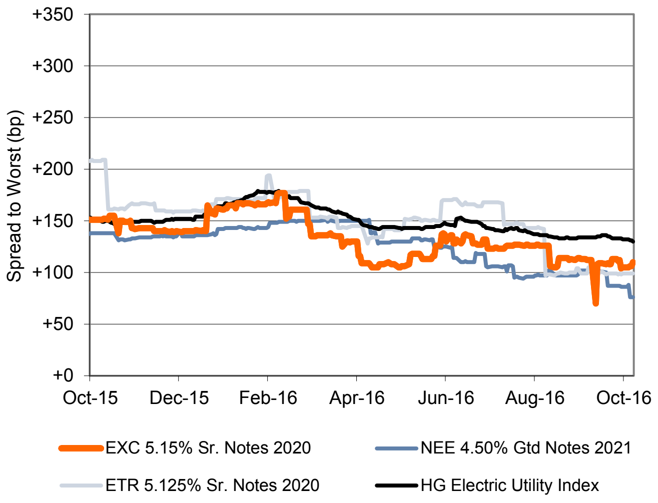
Exhibit 6: PECO Energy



Source: BofA Merrill Lynch Global Research.

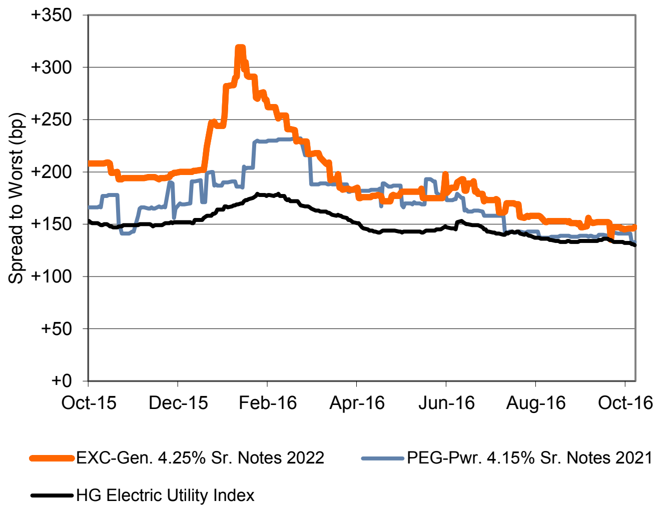
Continued on next page...

Exhibit 7: Exelon Corp.



Source: BofA Merrill Lynch Global Research.

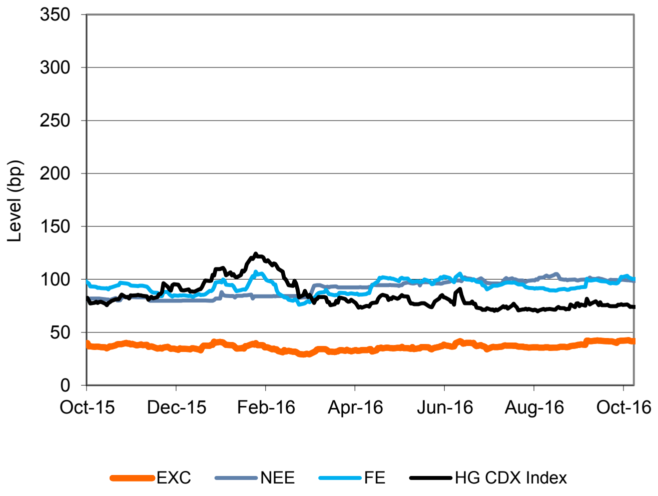
Exhibit 8: Exelon Generation



Source: BofA Merrill Lynch Global Research.

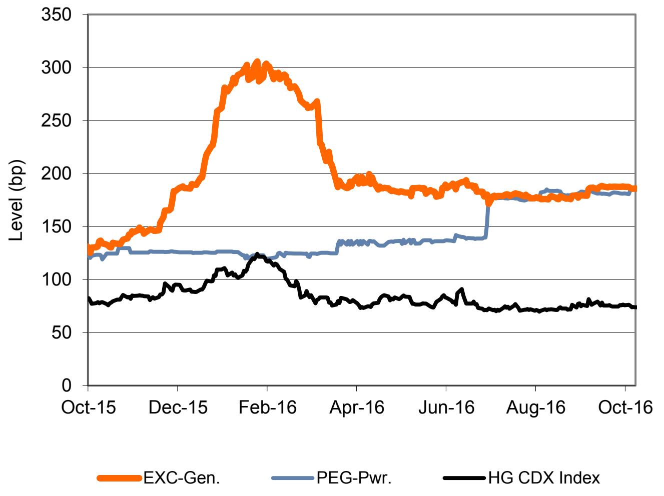
Relative Value: 5-year CDS Levels

Exhibit 9: Exelon Corp. (versus holdcos)



Source: BofA Merrill Lynch Global Research.

Exhibit 10: Exelon Generation (versus gencos)



Source: BofA Merrill Lynch Global Research.

Corporate & Debt Structure

Exhibit 10: Exelon Corp. Summary Debt Profile as of June 30, 2016 ($MM) – Part 1 of 3 (parent and generation)

Metrics thru Issuer within each box				Issuer							
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	3	Security	30-Jun-16 Debt	1H16 Change	31-Dec-15 Debt
$ 8,088								**Exelon Corporation**			
								$600 RCF due 36-May-21 *	$ -	$ -	$ -
								Notes payable to affiliate	$ 188	$ -	$ 188
								Senior Unsecured Notes	$ 5,646	$ 1,800	$ 3,846
								Notes (CEG)	$ 808	$ -	$ 808
								Long-term Software License Agreement	$ 111	$ -	$ 111
								Junior Subordinated Notes	$ 1,150	$ -	$ 1,150
								CEG debt fair value adjustment	*$ 275*	$ -	$ 275
								other, net	*$ (90)*	$ (72)	$ (18)
$ 10,091	**$ 3,243**	**3.1x**	**26.8%**					**1. Exelon Generation Co. LLC**			
								$5,300 RCF due 26-May-21 *	$ -	$ -	$ -
								$325 Bilateral Facility	*$ 150*	*$ 150*	$ -
								$200 CENG Bilateral Facility	*$* -	*$* -	$ -
								Borrowings from Money Pool	$ 817	$ (435)	$ 1,252
								CP and Short-term Notes Payable	$ 58	$ 29	$ 29
								Senior Unsecured Notes	$ 5,038	$ -	$ 5,038
								ILAs with Exelon Corp.	$ 927	$ (6)	$ 933
								Pollution Control Notes	$ 435	$ -	$ 435
								Albany Green Energy Project Financing	$ 163	$ 63	$ 100
								Nuclear Fuel Procurement Contracts	$ 127	$ -	$ 127
								Notes Payable and other	$ 45	$ -	$ 45
								Capital Lease Obligations	$ 21	$ -	$ 21
								CEG Sr Notes fair value adjustment	$ 127	$ -	$ 127
								Unamortized debt costs, net	$ (93)	$ (6)	$ (87)
$ 2,276	**N.A.**	**N.A.**	**N.A.**					**A. Renewables and CEG businesses (non-recourse)**			
								ExGen Texas Power Project Financing	$ 664	$ (2)	$ 666
								Antelope Valley Solar Project Financing	$ 569	$ (5)	$ 574
								Continental Wind	$ 557	$ (15)	$ 572
								ExGen Renewables I Project Financing	$ 408	$ 150	$ 258
								Upstream Gas Property Lending Agreement	$ 61	$ (7)	$ 68
								Holyoke Solar Loan Agreement	$ 10	$ -	$ 10
								Denver Int'l Airport Solar Loan Agreement	$ 7	$ -	$ 7
								Sacramento Solar Project Financing	$ -	$ (33)	$ 33
								Constellation Solar Horizons Loan Agmt.	$ -	$ (32)	$ 32

Source: Company reports, BofA Merrill Lynch Global Research.

Continued on next page…

Exhibit 12: Exelon Corp. Summary Debt Profile as of June 30, 2016 ($MM) – Part 2 of 3 (legacy utilities)

Metrics thru Issuer within each box				Issuer							
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	3	Security	30-Jun-16 Debt	1H16 Change	31-Dec-15 Debt
$ 7,935	**$ 2,088**	**3.8x**	**26.1%**					**2. Commonwealth Edison Co.**			
								$1,000 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ 35	$ (259)	$ 294
								First Mortgage Bonds	$ 7,619	$ 1,200	$ 6,419
								Notes Payable	$ 140	$ -	$ 140
								Capital Leases	$ 8	$ -	$ 8
								Unamortized debt costs, net	$ (72)	$ (14)	$ (58)
								ComEd Financing III			
								Subordinated Debentures	$ 205	$ -	$ 205
$ 2,765	**$ 922**	**3.0x**	**27.2%**					**3. PECO Energy Co.**			
								$600 RCF due 26-May-21 *	$ -	$ -	$ -
								First Mortgage Bonds	$ 2,600	$ -	$ 2,600
								Unamortized debt costs, net	$ (19)	$ 1	$ (20)
								PECO Trusts III & IV			
								Subordinated Debentures	$ 184	$ -	$ 184
$ 2,280	**$ 1,035**	**2.2x**	**28.9%**					**4. Baltimore Gas and Electric Company**			
								$600 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ 208	$ (2)	$ 210
								Senior Notes	$ 1,750	$ -	$ 1,750
								unamortized debt costs	$ (11)	$ 1	$ (12)
								BGE Capital Trust II			
								Deferrable Interest Sub. Debentures	$ 252	$ -	$ 252
$ 81	$ 84	1.0x	95.1%					**A. RSB BondCo LLC**			
								Rate Stabilization Bonds	$ 81	$ (39)	$ 120

Source: Company reports, BofA Merrill Lynch Global Research.

Continued on next page…

Exhibit 12: Exelon Corp. Summary Debt Profile as of June 30, 2016 ($MM) – Part 3 of 3 (Pepco Holdings utilities)

Metrics thru Issuer within each box				Issuer							
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	3	Security	30-Jun-16 Debt	1H16 Change	31-Dec-15 Debt
$ 6,607								**5. Pepco Holdings, Inc.**			
								$750 sub-limit: $1,500 RCF due 1-Aug-18 *	N.A.	$ -	$ -
								Commercial Paper	$ -	$ (484)	$ 484
								Exelon money pool	$ 34	$ 34	$ -
								$300 Term Loan due 28-Jul-16	$ -	$ (300)	$ 300
								$500 Term Loan due 27-Mar-17	$ 500	$ 500	N.A.
								Notes (unsecured)	$ 456	$ -	$ 456
								Notes payable to Potomac Capital Inv. Corp.	$ 498	$ -	$ 498
								unamortized discount and other, net	$ (3)	$ -	$ (3)
$ 2,349	$ 640	3.7x	19.7%					**A. Potomac Electric Power Company**			
								$300 sub-limit: $900 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ -	$ (64)	$ 64
								First Mortgage Bonds	*$ 2,335*	*$ -*	$ 2,335
								Capital Lease Obligations	*$ 46*	*$ (4)*	$ 50
								Project Funding	$ -	$ -	$ -
								unamortized discount and other, net	$ (32)	$ 2	$ (34)
								B. Conectiv			
$ 1,265	$ 302	4.2x	18.2%					**i. Delmarva Power & Light Co.**			
								$300 sub-limit: $900 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ -	$ (105)	$ 105
								Variable Rate Demand Bonds	$ 105	$ -	$ 105
								First Mortgage Bonds	$ 1,050	$ -	$ 1,050
								Medium-Term Notes (unsecured)	$ 40	$ -	$ 40
								Notes (unsecured)	$ -	$ -	$ -
								Unsecured Tax-Exempt Bonds	$ 78	$ -	$ 78
								unamortized discount and other, net	$ (8)	$ -	$ (8)
$ 1,180	$ 283	4.2x	19.2%					**ii. Atlantic City Electric Co.**			
								$300 sub-limit: $900 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ -	$ (5)	$ 5
								First Mortgage Bonds	$ 1,039	$ -	$ 1,039
								unamortized discount	$ (8)	$ -	$ (8)
$ 149	$ 53	2.8x	29.5%					**a. Atlantic City Electric Transition Funding LLC**			
								Transition Bonds	$ 149	$ (22)	$ 171
$ 8	N.A.	N.A.	N.A.					**C. Pepco Energy Services, Inc.**			
								Secured Notes	$ 3	$ -	$ 3
								Project Funding	$ 5	$ -	$ 5
$ 818								Debt fair value adjustment (FVA)	$ 818	$ 818	N.A.
$ 325	N.A.	N.A.	N.A.					**6. Exelon Business Services Co.**			
								Borrowings from money pool	$ 333	$ 107	$ 226
$ 35,826	**$ 7,596**	**4.6x**	**18.2%**					**Consolidated Total (excl. FVAs)**	**$ 36,332**	**$ 10,013**	**$ 26,319**

Last twelve months ending June 30, 2016.

Exelon acquired Pepco Holdings on March 24, 2016.

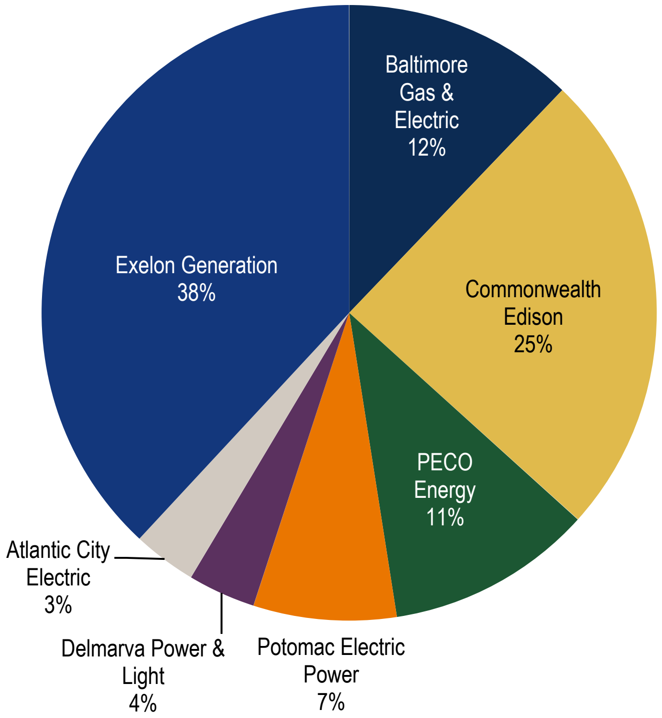
* On May 26, 2016: Exelon Corporation increased its credit facility to $600 from $500; Exelon Corporation, Exelon Generation, Commonwealth Edison, PECO Energy and Baltimore Gas & Electric extended their revolving credit facilities to May 26, 2021; Pepco Holdings, Potomac Electric Power, Delmarva Power & Light and Atlantic City Electric extended their revolving credit facilities to May 26, 2021; Pepco Holdings was removed as a borrower; and the total facility was reduced to $900 from $1,500.

Credit metrics exclude 'fair value adjustments' of debt of Constellation Energy Group, Baltimore Gas & Electric and Pepco Holdings and its subsdiaries..

Source: Company reports, BofA Merrill Lynch Global Research.

EBITDA Profile by Business Segment

Chart 1: Pro-forma LTM ending June 30, 2016



Source: Company reports, BofA Merrill Lynch Global Research.

Financial Profile

Exhibit 13: Exelon Corp.: Summary Financial Profile (2013-2017P; $ millions)

	2013	2014	2015	LTM 3Q16	2016P	2017P	3Q16	3Q15
Income Statement								
Total Revenues	$ 24,888	$ 27,429	$ 29,447	$ 30,187	$ 32,447	$ 34,069	$ 9,001	$ 7,401
Fuel & Purchased Power	(10,724)	(13,003)	(13,084)	(12,336)	(14,520)	(15,469)	(3,754)	(3,291)
Operating & Maintenance	(7,270)	(8,568)	(8,322)	(9,880)	(8,851)	(8,408)	(2,336)	(1,996)
Depreciation & Amortization	(2,153)	(2,314)	(2,450)	(3,453)	(2,965)	(3,415)	(1,195)	(606)
Other Operating Expenses	(1,095)	(1,154)	(1,200)	(1,460)	(1,456)	(1,514)	(448)	(310)
Operating EBIT	$ 3,646	$ 2,390	$ 4,391	$ 3,058	$ 4,655	$ 5,262	$ 1,268	$ 1,198
Other Income, Net	258	1,039	75	620	359	100	92	(208)
Gross Interest Expense	(1,141)	(1,140)	(1,124)	(1,545)	(1,440)	(1,751)	(530)	(247)
Income Taxes	(1,044)	(666)	(1,073)	(893)	(1,215)	(1,264)	(340)	(115)
Net Income for Common Stock	$ 1,719	$ 1,623	$ 2,269	$ 1,240	$ 2,359	$ 2,348	$ 490	$ 628
Statement of Cash Flows								
Operating EBIT	$ 3,646	$ 2,390	$ 4,391	$ 3,058	$ 4,655	$ 5,262	$ 1,268	$ 1,198
Depreciation & Amortization *	2,583	2,450	2,473	3,476	3,265	4,415	1,202	606
Non-Cash Oper. EBIT Exp./(Rev.)	(133)	1,918	20	732	-	-	(805)	(94)
Other Income/(Expenses), Net	(98)	224	217	293	359	100	(20)	(28)
EBITDA	$ 5,998	$ 6,982	$ 7,101	$ 7,559	$ 8,279	$ 9,777	$ 1,645	$ 1,682
Gross Interest Expense	(1,141)	(1,140)	(1,124)	(1,545)	(1,440)	(1,751)	(530)	(247)
Income Taxes	(925)	(164)	(321)	238	(243)	(822)	19	(85)
Other, Net, excl. ΔWC	880	12	237	532	-	-	738	28
Funds from Operations (FFO)	$ 4,812	$ 5,690	$ 5,893	$ 6,784	$ 6,596	$ 7,205	$ 1,872	$ 1,378
Changes of Working Capital	610	(2,306)	625	1,343	-	-	303	(233)
Cash Flow from Operations	$ 5,422	$ 3,384	$ 6,518	$ 8,127	$ 6,596	$ 7,205	$ 2,175	$ 1,145
Capital Expenditures *	(4,474)	(5,004)	(6,508)	(7,357)	(7,463)	(7,000)	(1,248)	(1,423)
Acquisitions & Investments, Net	147	1,821	107	(6,856)	(7,021)	-	(609)	-
Other Investing Items	(146)	(343)	(323)	36	(1,250)	-	147	(160)
Cash Flow after Investing	$ 949	$ (142)	$ (206)	$ (6,050)	$ (9,138)	$ 205	$ 465	$ (438)
Long-term Debt Maturities	(1,047)	(1,509)	(1,802)	(897)	(1,500)	(1,841)	N.A.	N.A.
Common Dividends	(1,249)	(1,065)	(1,105)	(1,159)	(1,170)	(1,202)	(291)	(282)
Other Financing Items	(119)	(599)	(35)	30	-	-	4	(6)
Capital Excess/(Requirements)	$ (1,466)	$ (3,315)	$ (3,148)	$ (8,076)	$ (11,808)	$ (2,838)	$ 178	$ (726)
Change of Debt Outstanding	1,635	3,549	5,904	2,886	7,000	2,837	243	101
Change of Common Equity	47	35	1,868	12	-	-	19	1,876
Changes of Cash Balances	$ 123	$ 269	$ 4,624	$ (5,368)	$ (5,001)	$ (0)	$ 250	$ 1,251
Ending Cash & Equivalents	$ 1,609	$ 1,878	$ 6,502	$ 1,897	$ 1,501	$ 1,500	$ 1,897	$ 7,265
Capital Structure								
Short-term Debt	$ 341	$ 460	$ 533	$ 567	$ 533	$ 533	$ 567	$ 675
Current Maturities of Long-term Debt	1,509	1,802	1,500	2,512	1,841	1,393	2,512	897
Long-term Debt (incl. Capital Leases)	18,271	20,010	24,286	32,972	35,682	37,126	32,972	25,189
Total Debt	$ 20,121	$ 22,272	$ 26,319	$ 36,051	$ 38,056	$ 39,052	$ 36,051	$ 26,761
Preferred Stock	193	193	193	-	-	-	-	193
Shareholders' Equity	22,732	22,608	25,793	26,027	26,981	28,127	26,027	25,770
Total Capital	$ 43,046	$ 45,073	$ 52,305	$ 62,078	$ 65,037	$ 67,179	$ 62,078	$ 52,724
Credit Metrics								
Interest Coverage								
EBITDA/Interest Expense	5.3x	6.1x	6.3x	4.9x	5.7x	5.6x	3.1x	6.8x
FFO/Interest Expense	5.2x	6.0x	6.2x	5.4x	5.6x	5.1x	4.5x	6.6x
EBITDA/Financing Costs	2.5x	3.2x	3.2x	2.8x	3.2x	3.3x	2.0x	3.2x
Leverage								
Total Debt/EBITDA	3.4x	3.2x	3.7x	4.8x	4.6x	4.0x	N.M.	N.M.
Total Debt & Operating Leases/EBITDAL	3.8x	3.8x	4.3x	5.1x	4.9x	4.1x	N.M.	N.M.
Net Debt/EBITDA	3.1x	2.9x	2.8x	4.5x	4.4x	3.8x	N.M.	N.M.
FFO/Total Debt	23.9%	25.5%	22.4%	18.8%	17.3%	18.5%	N.M.	N.M.
Total Debt/Total Capital	46.7%	49.4%	50.3%	58.1%	58.5%	58.1%	58.1%	50.8%
Free Cash Flow								
FFO + Capex	$ 338	$ 686	$ (615)	$ (573)	$ (867)	$ 205	$ 624	$ (45)
FFO + Capex + Dividends	$ (911)	$ (379)	$ (1,720)	$ (1,732)	$ (2,037)	$ (997)	$ 333	$ (327)

Does not include the planned merger with Pepco Holdings. * Amortization of nuclear fuel has been netted against capital expenditures. Exelon and Constellation Energy Group merged on March 12, 2012; numbers prior to that date do not include results of Constellation Energy Group. Not all line items are shown. Source: Company reports, BofA Merrill Lynch Global Research.

Valuation & risk

Exelon Corp. (EXC)

We view Exelon Corporation credit spreads as attractive relative to other mid-BBB electric utility holding company bonds. In addition, Exelon's credit profile has improved slightly following its March 2016 acquisition of Pepco Holdings' three regulated, transmission-and-distribution-only utilities. The utilities not only dilute Exelon Generation's proportion of Exelon's consolidated EBITDA, but also enable a broader and more diversified portfolio of regulated cash flows. Management remains committed to a strong balance sheet and solid credit metrics. Primary risks include a declining EBITDA profile at Exelon Generation as a result of persistently low power prices, or an increase of parent or consolidated leverage.

Baltimore (EXC)

We view Baltimore Gas & Electric as a low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. In addition, Baltimore Gas & Electric has had a ring fence to insulate its credit quality from affiliates. We view secondary credit spreads as fairly valued relative to T&D peers. We view the primary risk to be a below-average regulatory environment in Maryland.

Commonwealth Edison (EXC)

We view Commonwealth Edison as a low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. We view credit spreads as fairly valued relative to other T&D utilities. We view the primary risk to be a below-average regulatory environment in Illinois due to past political interferences, but the environment has been much more stable and somewhat more supportive in recent years.

Exelon Generation Co (EXC)

We view Exelon Corporation and Exelon Generation credit spreads as attractive relative to peers with a large, low-emissions baseload generation portfolio, strong operating performance, substantial capacity revenues, ongoing hedging of commodity prices, the commitment to a strong balance sheet and liquidity, and the implicit support of a diversified, regulated utility portfolio. Risks include soft power prices due to ample supplies of cheap shale gas, and differing views on climate change and nuclear's role in the power markets in the future.

PECO Energy Co. (EXC)

We view PECO Energy as a high-quality, low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. PECO Energy's secondary credit spreads are fair to tightly valued relative to its electric T&D peers. We view the primary potential credit risk to be an action at or development by either its parent or its sister merchant generation business.

Analyst Certification

I, Peter D. Quinn, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security pricing

Baltimore Gas & Electric Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.5, Notes, USD, 2021:B	300	15-NOV-2021	A3/A-/A-	107.48	25-Oct-2016	1.87	55
2.8, Notes, USD, 2022:B	250	15-AUG-2022	A3/A-/A-	103.59	25-Oct-2016	2.11	69
3.35, Notes, USD, 2023:B	300	01-JUL-2023	A3/A-/A-	106.81	25-Oct-2016	2.21	69
6.35, Notes, USD, 2036:B	400	01-OCT-2036	A3/A-/A-	136.70	25-Oct-2016	3.73	144

For pricing information refer to "Other Important Disclosures" below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Commonwealth Edison Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.15, First Mortgage Bonds, USD, 2017:B	425	15-SEP-2017	A2/A-/A	104.25	25-Oct-2016	1.31	62
5.8, First Mortgage Bonds, USD, 2018:B	700	15-Mar-2018	A2/A-/A	106.25	25-Oct-2016	1.24	46
2.15, First Mortgage Bonds, USD, 2019:B	300	15-JAN-2019	A2/A-/A	101.35	25-Oct-2016	1.51	62
4, First Mortgage Bonds, USD, 2020:B	500	01-AUG-2020	A2/A-/A	107.78	25-Oct-2016	1.71	59
3.4, First Mortgage Bonds, USD, 2021:B	350	01-SEP-2021	A2/A-/A	106.89	25-Oct-2016	1.83	54
3.1, First Mortgage Bonds, USD, 2024:B	250	01-Nov-2024	A2/A-/A	104.86	25-Oct-2016	2.41	77
6.45, First Mortgage Bonds, USD, 2038:B	450	15-Jan-2038	A2/A-/A	140.43	25-Oct-2016	3.69	135
3.8, First Mortgage Bonds, USD, 2042:B	350	01-OCT-2042	A2/A-/A	103.65	25-Oct-2016	3.58	111
4.6, First Mortgage Bonds, USD, 2043:B	350	15-AUG-2043	A2/A-/A	115.76	25-Oct-2016	3.66	117
4.7, First Mortgage Bonds, USD, 2044:B	350	15-JAN-2044	A2/A-/A	118.20	25-Oct-2016	3.63	114
3.7, First Mortgage Bonds, USD, 2045:B	400	01-Mar-2045	A2/A-/A	102.47	25-Oct-2016	3.56	105

For pricing information refer to "Other Important Disclosures" below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Corp. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
1.55, Senior Notes, USD, 2017:B	550	09-Jun-2017	Baa2/BBB-/BBB	100.07	25-Oct-2016	1.44	88
2.85, Senior Notes, USD, 2020:B	900	15-Jun-2020	Baa2/BBB-/BBB	102.99	25-Oct-2016	1.97	85
5.15, Senior Notes, USD, 2020:B	550	01-DEC-2020	Baa2/BBB-/BBB	110.83	25-Oct-2016	2.20	103
7.6, Senior Notes, USD, 2032:B	258	01-APR-2032	Baa2/BBB-/BBB	138.34	25-Oct-2016	4.20	213
5.625, Senior Notes, USD, 2035:B	500	15-Jun-2035	Baa2/BBB-/BBB	118.53	25-Oct-2016	4.18	196
5.1, Senior Notes, USD, 2045:B	741	15-JUN-2045	Baa2/N.A./BBB	114.96	25-Oct-2016	4.19	168
2.45, Senior Notes, USD, 2021:B	300	15-Apr-2021	Baa2/BBB-/BBB	101.25	25-Oct-2016	2.15	89
3.4, Senior Notes, USD, 2026:B	750	15-Apr-2026	Baa2/BBB-/BBB	103.73	25-Oct-2016	2.94	119
4.45, Senior Notes, USD, 2046:B	750	15-Apr-2046	Baa2/BBB-/BBB	104.91	25-Oct-2016	4.16	164
3.95, Senior, USD, 2025:B	806	15-JUN-2025	Baa2/BBB-/BBB	106.75	25-Oct-2016	3.03	134
4.95, Senior, USD, 2035:B	333	15-JUN-2035	Baa2/N.A./BBB	111.65	25-Oct-2016	4.04	184

For pricing information refer to "Other Important Disclosures" below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Generation Co. LLC / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.2, Senior Notes, USD, 2017:B	700	01-Oct-2017	Baa2/BBB/BBB	104.34	25-Oct-2016	1.48	77
5.2, Senior Notes, USD, 2019:B	600	01-OCT-2019	Baa2/BBB/BBB	109.40	25-Oct-2016	1.89	87
2.95, Senior Notes, USD, 2020:B	750	15-Jan-2020	Baa2/BBB/BBB	102.90	25-Oct-2016	1.99	94
4, Senior Notes, USD, 2020:B	550	01-OCT-2020	Baa2/BBB/BBB	106.77	25-Oct-2016	2.08	93
4.25, Senior Notes, USD, 2022:B	523	15-JUN-2022	Baa2/BBB/BBB	106.83	25-Oct-2016	2.87	147
6.25, Senior Notes, USD, 2039:B	900	01-OCT-2039	Baa2/BBB/BBB	110.37	25-Oct-2016	5.45	305
5.75, Senior Notes, USD, 2041:B	350	01-Oct-2041	Baa2/BBB/BBB	104.69	25-Oct-2016	5.40	296
5.6, Senior Notes, USD, 2042:B	788	15-JUN-2042	Baa2/BBB/BBB	103.94	25-Oct-2016	5.31	285
Senior Unsecured, USD, Y5, CDS					25-Oct-2016		186

For pricing information refer to "Other Important Disclosures" below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

PECO Energy Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.35, FandR Mortgage Bonds, USD, 2018:B	500	01-Mar-2018	Aa3/A-/A	105.37	25-Oct-2016	1.31	54
2.375, FandR Mortgage Bonds, USD, 2022:B	350	15-SEP-2022	Aa3/A-/A	101.67	25-Oct-2016	2.06	63
3.15, FandR Mortgage Bonds, USD, 2025:B	350	15-Oct-2025	Aa3/A-/A	105.22	25-Oct-2016	2.48	77
5.95, FandR Mortgage Bonds, USD, 2036:B	300	01-Oct-2036	Aa3/A-/A	129.10	25-Oct-2016	3.85	156
4.8, FandR Mortgage Bonds, USD, 2043:B	250	15-OCT-2043	Aa3/A-/A	120.02	25-Oct-2016	3.62	113
4.15, FandR Mortgage Bonds, USD, 2044:B	300	01-Oct-2044	Aa3/A-/A	108.41	25-Oct-2016	3.66	116

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Important Disclosures

Credit opinion history

Baltimore Gas & Electric Co. / EXC

Company	Date^	Action	Recommendation
Baltimore Gas & Electric Co. / EXC	30-Sep-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
3.5, Notes, USD, 2021:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.8, Notes, USD, 2022:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.35, Notes, USD, 2023:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.35, Notes, USD, 2036:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

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Commonwealth Edison Co. / EXC

Company	Date^	Action	Recommendation
Commonwealth Edison Co. / EXC	30-Sep-2013		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
6.15, First Mortgage Bonds, USD, 2017:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.8, First Mortgage Bonds, USD, 2018:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.15, First Mortgage Bonds, USD, 2019:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4, First Mortgage Bonds, USD, 2020:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.4, First Mortgage Bonds, USD, 2021:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.1, First Mortgage Bonds, USD, 2024:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
6.45, First Mortgage Bonds, USD, 2038:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.8, First Mortgage Bonds, USD, 2042:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.6, First Mortgage Bonds, USD, 2043:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.7, First Mortgage Bonds, USD, 2044:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.7, First Mortgage Bonds, USD, 2045:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

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Commonwealth Edison Co. / EXC

Company	Date^	Action	Recommendation

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Exelon Corp. / EXC

Company	Date^	Action	Recommendation
Exelon Corp. / EXC	30-Sep-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Security	**Date^**	**Action**	**Recommendation**
1.55, Senior Notes, USD, 2017:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
2.85, Senior Notes, USD, 2020:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.15, Senior Notes, USD, 2020:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
7.6, Senior Notes, USD, 2032:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.625, Senior Notes, USD, 2035:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.1, Senior Notes, USD, 2045:B	02-Dec-2015	New Issue	Overweight
2.45, Senior Notes, USD, 2021:B	07-Apr-2016	New Issue	Overweight
3.4, Senior Notes, USD, 2026:B	07-Apr-2016	New Issue	Overweight
4.45, Senior Notes, USD, 2046:B	07-Apr-2016	New Issue	Overweight
3.95, Senior, USD, 2025:B	02-Dec-2015	New Issue	Overweight
4.95, Senior, USD, 2035:B	02-Dec-2015	New Issue	Overweight

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Exelon Generation Co. LLC / EXC

Company	Date^	Action	Recommendation
Exelon Generation Co. LLC / EXC	30-Sep-2013		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	17-Feb-2015	Upgrade	Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Security	**Date^**	**Action**	**Recommendation**
6.2, Senior Notes, USD, 2017:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.2, Senior Notes, USD, 2019:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
2.95, Senior Notes, USD, 2020:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4, Senior Notes, USD, 2020:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
4.25, Senior Notes, USD, 2022:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
6.25, Senior Notes, USD, 2039:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.75, Senior Notes, USD, 2041:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
5.6, Senior Notes, USD, 2042:B	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Overweight
Senior Unsecured, USD, Y5, CDS	30-Sep-2015		Overweight-30%
	09-Nov-2015	Rating System Change	Sell Protection

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PECO Energy Co. / EXC

Company	Date^	Action	Recommendation
PECO Energy Co. / EXC	30-Sep-2013		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
Security	**Date^**	**Action**	**Recommendation**
5.35, FandR Mortgage Bonds, USD, 2018:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
2.375, FandR Mortgage Bonds, USD, 2022:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
3.15, FandR Mortgage Bonds, USD, 2025:B	05-Oct-2015	New Issue	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
5.95, FandR Mortgage Bonds, USD, 2036:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.8, FandR Mortgage Bonds, USD, 2043:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight
4.15, FandR Mortgage Bonds, USD, 2044:B	30-Sep-2015		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

BofA Merrill Lynch Credit Opinion Key

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Buy	154	37.65%	Buy	136	88.31%
Hold	178	43.52%	Hold	155	87.08%
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North America Equity Research
02 December 2016

J.P.Morgan

Exelon Corp.

IL Nuclear Deal Inked Despite CPP Uncertainty; Adds 3-8c/yr

Overweight

EXC, EXC US

Price: $33.01

▼ **Price Target: $36.00**
Previous: $37.00

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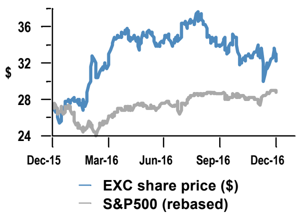
The IL legislature voted to approve of the Future Energy Jobs Bill yesterday with final approval dependent on a likely signature from Gov. Rauner. If successful, EXC will have established a ZEC program in both NY and IL despite CPP uncertainty. The bill stems from EXC's multi-year effort to delay the shutdown of Quad Cities & Clinton and is estimated to raise annual EPS 3-8c net of the annual -7c of higher costs for keeping Quad & Clinton open. From our understanding, an IL approval stands on stronger legal footing relative to NY given the legislative pathway. Approval may facilitate an early 2017 ZEC-like pursuit in Pennsylvania which shares economic characteristics with NY & IL such as the amount of merchant nuclear plants. We continue to reiterate our OW rating.

- **ZEC drives $3-8c of annual EPS vs. prior; NPV of $0.75-1.10/share:** We calculate each ZEC is worth $9-13/MWh or $158m-$226m annually. This equates to $3-8c of incremental EPS after netting out the annual -7c of higher costs for keeping Quad & Clinton open. We believe the ZEC program establishes a collar for Clinton and Quad's earnings contribution and represents a NPV of $0.75-$1.10/ share based on our high and low assumptions for the market price of energy. It is our understanding that the program won't begin until mid-2017 and EXC will record a year and a half worth of ZEC earnings contributions in 2018 and a full year of ZEC beginning 2019.
- **Legislative approval strengthens IL legal footing compared to NY or OH:** From our understanding, IL's ZECs stands on sturdier legal footing given approval from a state legislature rather than from a public utility commission as was the case for NY & OH. Logically, Pennsylvania appears to be the next area to pursue a ZEC program in early 2017 given similar economic characteristics with IL & NY such as the amount of merchant nuclear plants in the state.
- **Reduced ZECs still delays Quad & Clinton shutdown:** The ZEC program largely mirrors NY's ZECS by paying nuclear plants the social cost of carbon adjusted for current energy prices. Relative to the original bill introduced a few months prior, the final version caps the annual retail rate increase at 1.65% vs. 2.05% prior thereby reducing the maximum subsidy from $285m to $235m per annum. The final version also requires ComEd to spend $400m/year on energy efficiency and fully decouples ComEd rates though earnings impact appears minimal as IL already has forward test-years.

Price Performance



	YTD	1m	3m	12m
Abs	18.0%	0.9%	-3.1%	20.7%
Rel	9.1%	-3.6%	-3.6%	15.3%

Exelon Corp. (EXC;EXC US)

FYE Dec	2015A	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*	2019E *(Prev)*	2019E *(Curr)*
adj. EPS ($)									
Q1 (Mar)	0.71	0.68A	0.68A	-	-	-	-	-	-
Q2 (Jun)	0.59	0.65A	0.65A	-	-	-	-	-	-
Q3 (Sep)	0.83	0.91A	0.91A	-	-	-	-	-	-
Q4 (Dec)	0.38	0.45	0.46	-	-	-	-	-	-
FY	2.49	2.70	2.70	2.57	2.53	2.68	2.75	2.58	2.57
Bloomberg EPS FY ($)	2.51	-	2.65	-	2.57	-	2.73	-	-

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	33.01
Date Of Price	02 Dec 16
52-week Range ($)	37.70-25.09
Market Cap ($ mn)	30,435.22
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	36.00
Price Target End Date	31-Dec-17

See page 5 for analyst certification and important disclosures.

Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $36.00)*

Investment Thesis

ExGen continues to generate strong cash flow even in a challenging commodity environment, allowing it to fund a top-tier utility growth story and a growing dividend. We see the potential passage of legislation in Illinois and execution of the ZEC program and Fitzpatrick purchase in New York as potential catalysts, and these represent incremental earnings versus our current published forecasts. EXC shares are the cheapest integrated play on trough commodity prices, and we feel investors are dismissing these catalysts and not appreciating ExGen's value and de-leveraging.

Valuation

We are lowering our December 2017 price target of $37 to $36/share. Our valuation is based on a sum-of-the-parts analysis using our 2019 forecasts. We use an average 17.3x P/E multiple for the regulated utility and corporate business segments. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. The downward revision in our price target is driven by a lower regulated peer multiple relative to our prior estimate.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company’s earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	**27,889**	**29,237**	**31,894**	**34,274**	**34,584**
COGS	(12,752)	(13,139)	(13,048)	(14,756)	(14,756)
Gross profit	**15,137**	**16,098**	**18,846**	**19,519**	**19,829**
SG&A	(8,913)	(9,432)	**(10,729)**	**(11,134)**	**(10,950)**
Adj. EBITDA	**6,504**	**6,960**	**8,430**	**8,569**	**9,063**
D&A	(2,314)	(2,450)	(3,214)	(3,427)	(3,501)
Adj. EBIT	**4,190**	**4,510**	**5,216**	**5,142**	**5,562**
Net Interest	(931)	(1,098)	(1,417)	(1,541)	(1,519)
Adj. PBT	**3,259**	**3,412**	**3,799**	**3,601**	**4,043**
Tax	(1,057)	(1,165)	(1,300)	(1,196)	(1,386)
Minority Interest	(134)	(20)	0	(6)	(6)
Adj. Net Income	**2,068**	**2,227**	**2,499**	**2,399**	**2,651**
Reported EPS	2.39	2.49	2.70	2.53	2.75
Adj. EPS	**2.39**	**2.49**	**2.70**	**2.53**	**2.75**
DPS	**1.24**	**1.24**	**1.27**	**1.30**	**1.34**
Payout ratio	51.8%	49.7%	47.2%	51.6%	48.6%
Shares outstanding	860	920	926	961	964

Income Statement - Quarterly	1Q16A	2Q16A	3Q16A	4Q16E
Revenue	**7,483A**	**7,536A**	**8,836A**	**8,039**
COGS	(3,292)A	(2,754)A	(3,627)A	(3,375)
Gross profit	**4,191A**	**4,782A**	**5,209A**	**4,664**
SG&A	(2,401)A	(2,727)A	(2,764)A	(2,837)
Adj. EBITDA	**1,847A**	**2,141A**	**2,527A**	**1,915**
D&A	(685)A	(827)A	(857)A	(845)
Adj. EBIT	**1,162A**	**1,314A**	**1,670A**	**1,070**
Net Interest	(287)A	(376)A	(363)A	(391)
Adj. PBT	**875A**	**938A**	**1,307A**	**679**
Tax	(300)A	(296)A	(448)A	(256)
Minority Interest	56A	(38)A	(18)A	0
Adj. Net Income	**631A**	**604A**	**841A**	**423**
Reported EPS	0.68A	0.65A	0.91A	0.46
Adj. EPS	**0.68A**	**0.65A**	**0.91A**	**0.46**
DPS	**0.32A**	**0.32A**	**0.32A**	**0.32**
Payout ratio	46.6%A	48.8%A	35.1%A	69.8%
Shares outstanding	922A	923A	925A	926

Balance Sheet & Cash Flow Statement	FY14A	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	1,878	6,502	1,897	1,897	1,897
Accounts receivable	4,709	4,099	5,074	5,074	5,074
Other current assets	5,510	4,733	5,345	5,751	6,112
Current assets	**12,097**	**15,334**	**12,316**	**12,722**	**13,083**
PP&E	52,087	57,439	72,525	77,223	80,947
Other non current assets	22,630	22,611	32,096	31,441	30,486
Total assets	**86,814**	**95,384**	**116,936**	**121,386**	**124,516**
Short term borrowings	2,262	2,033	3,079	3,079	3,079
Payables	3,048	2,883	3,044	3,044	3,044
Other short term liabilities	3,452	4,202	6,035	6,035	6,035
Current liabilities	**8,762**	**9,118**	**12,158**	**12,158**	**12,158**
Long-term debt	20,010	24,286	34,964	35,810	36,090
Other long term liabilities	33,909	34,658	42,175	43,371	44,757
Total liabilities	**62,681**	**68,062**	**89,297**	**91,339**	**93,005**
Shareholders' equity	22,608	25,793	26,180	28,587	30,052
Minority interests	1,525	1,529	1,459	1,459	1,459
Total liabilities & equity	**86,814**	**95,384**	**116,936**	**121,386**	**124,516**
BVPS	**26.29**	**28.04**	**28.28**	**29.74**	**31.18**
y/y Growth	-	*6.6%*	*0.9%*	*5.2%*	*4.8%*
Net debt/(cash)	20,394	19,817	36,146	36,992	37,272
Cash flow from operating activities	**4,457**	**7,634**	**7,797**	**7,271**	**8,132**
o/w Depreciation & amortization	3,868	3,987	5,092	4,382	4,456
o/w Changes in working capital	(3,247)	(246)	353	(406)	(361)
Cash flow from investing activities	**(4,599)**	**(7,840)**	**(15,375)**	**(8,125)**	**(7,225)**
o/w Capital expenditure	(6,077)	(7,624)	(8,524)	(8,125)	(7,225)
as % of sales	*21.8%*	*26.1%*	*26.7%*	*23.7%*	*20.9%*
Cash flow from financing activities	**411**	**4,830**	**2,974**	**854**	**(907)**
o/w Dividends paid	(1,065)	(1,105)	(1,167)	(1,241)	(1,287)
o/w Net debt issued/(repaid)	1,918	4,022	5,506	846	280
Net change in cash	**269**	**4,624**	**(4,605)**	**(0)**	**(0)**
Free cashflow to firm	**(991)**	**733**	**204**	**175**	**1,905**
y/y Growth	*(162.1%)*	*(174.0%)*	*(72.1%)*	*(14.6%)*	*991.2%*

Ratio Analysis	FY14A	FY15A	FY16E	FY17E	FY18E
Gross margin	54.3%	55.1%	59.1%	56.9%	57.3%
EBITDA margin	23.3%	23.8%	26.4%	25.0%	26.2%
EBIT margin	15.0%	15.4%	16.4%	15.0%	16.1%
Net profit margin	7.4%	7.6%	7.8%	7.0%	7.7%
ROE	9.1%	9.2%	9.6%	8.8%	9.0%
ROA	2.5%	2.4%	2.4%	2.0%	2.2%
ROCE	6.6%	6.1%	5.9%	5.2%	5.3%
SG&A/Sales	32.0%	32.3%	33.6%	32.5%	31.7%
Net debt/equity	84.5%	72.5%	130.8%	123.1%	118.3%
P/E (x)	13.8	13.2	12.2	13.1	12.0
P/BV (x)	1.3	1.2	1.2	1.1	1.1
EV/EBITDA (x)	7.6	7.0	8.2	8.2	7.9
Dividend Yield	3.8%	3.8%	3.9%	3.9%	4.0%
Sales/Assets (x)	0.3	0.3	0.3	0.3	0.3
Interest cover (x)	7.0	6.3	5.9	5.6	6.0
Operating leverage	(22.0%)	158.0%	172.2%	(19.0%)	904.6%
Revenue y/y Growth	9.7%	4.8%	9.1%	7.5%	0.9%
EBITDA y/y Growth	1.2%	7.0%	21.1%	1.6%	5.8%
Tax rate	32.4%	34.1%	34.2%	33.2%	34.3%
Adj. Net Income y/y Growth	(3.8%)	7.7%	12.2%	(4.0%)	10.5%
EPS y/y Growth	(4.2%)	4.2%	8.2%	(6.4%)	8.8%
DPS y/y Growth	0.0%	0.0%	2.6%	2.5%	2.5%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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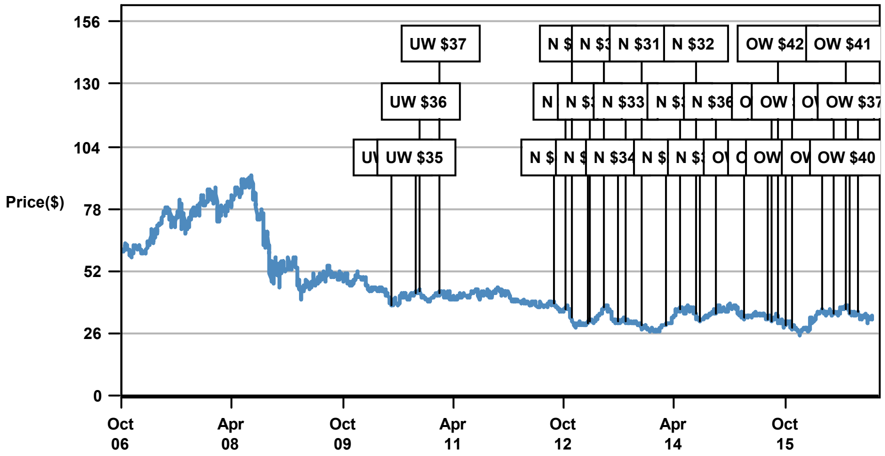
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.92	33.00
29-Sep-10	UW	42.82	35.00
19-Oct-10	UW	43.74	36.00
20-Jan-11	UW	42.82	37.00
07-Aug-12	N	38.06	40.00
08-Oct-12	N	35.91	39.00
02-Nov-12	N	32.77	38.00
23-Jan-13	N	30.45	36.00
08-Feb-13	N	31.08	34.00
19-Apr-13	N	36.46	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.80	33.00
17-Oct-13	N	29.04	31.00
12-Feb-14	N	29.47	29.00
30-Apr-14	N	35.99	33.00
09-Jul-14	N	34.32	32.00
01-Aug-14	N	31.08	35.00
16-Oct-14	N	34.09	36.00
05-Mar-15	OW	32.97	38.00
06-Jul-15	OW	31.94	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	33.00	42.00
28-Sep-15	OW	29.20	39.00
02-Nov-15	OW	28.37	36.00
28-Mar-16	OW	35.69	39.00
31-May-16	OW	34.27	37.00
21-Jul-16	OW	36.25	41.00
15-Aug-16	OW	34.63	40.00
20-Sep-16	OW	34.85	37.00

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IB clients*	51%	48%	34%
JPMS Equity Research Coverage	42%	50%	8%
IB clients*	68%	61%	43%

*Percentage of investment banking clients in each rating category.
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J.P.Morgan

North America Equity Research
15 August 2016

Exelon Corp.

Model Update

ANALYST FOCUS LIST

Overweight

EXC, EXC US

Price: $34.63

▼ **Price Target: $40.00**
Previous: $41.00

We are updating our model to incorporate our newly-revised assumptions after EXC held its analyst day. We are lowering our 2016 PT from $41 to $40, which reflects a slightly lower regulated peer multiple relative to our prior update.

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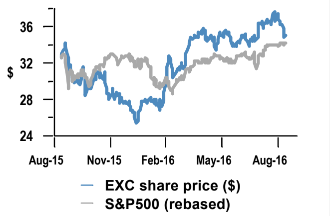
Price Performance



	YTD	1m	3m	12m
Abs	24.9%	-4.1%	-1.5%	6.9%
Rel	16.4%	-5.6%	-7.3%	2.2%

Exelon Corp. (EXC;EXC US)

FYE Dec	2015A	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*	2019E *(Prev)*	2019E *(Curr)*
adj. EPS ($)									
Q1 (Mar)	0.71	0.68A	0.68A	-	-	-	-	-	-
Q2 (Jun)	0.59	0.55A	0.65A	-	-	-	-	-	-
Q3 (Sep)	0.83	-	0.71	-	-	-	-	-	-
Q4 (Dec)	0.38	-	-	-	-	-	-	-	-
FY	2.49	2.53	2.56	2.67	2.66	2.79	2.79	2.79	2.71
Bloomberg EPS FY ($)	2.51	-	2.56	-	2.64	-	2.81	-	-

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	34.63
Date Of Price	15-Aug-16
52-week Range ($)	37.70-25.09
Market Cap ($ mn)	31,928.86
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	40.00
Price Target End Date	31-Dec-16

See page 4 for analyst certification and important disclosures.

Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $40.00)*

Investment Thesis

We view recent developments as finally marking the beginning of the end of nuclear decision limbo for EXC, meaning earnings and cash flow improvement potential in both IL and NY. This coincides with an upcoming utility-driven refreshed cash deployment plan at next month's analyst meeting and an expected reinforcement of a solid balance sheet story with excess investment capacity in 2018-19. EXC shares are the cheapest integrated play on trough commodity prices, and we feel investors are dismissing these and other catalysts in 2H.

Valuation

We are lowering our December 2016 price target to $40 ($41 prior). Our valuation is based on a sum-of-the-parts analysis using our 2018 forecasts. We use an average 19.4x P/E multiple for the regulated utility and corporate business segments, a minor premium to regulated peers reflecting a constructive regulatory construct at PECO and growth potential from lag at PHI partially offset by a mildly challenging regulatory environment at BGE. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. The downward revision in our price target reflects a slightly lower regulated peer multiple relative to our prior update.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company's earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Sales	29,237	31,885	33,844	33,917
COGS	(13,139)	(13,280)	(14,454)	(14,354)
D&A	(2,450)	(3,120)	(3,264)	(3,288)
Operations and maintenance	(9,432)	(10,716)	(10,986)	(10,845)
Other expenses	-	-	-	-
Total operating expenses				
Other income / (expense)	294	211	108	108
EBIT	**4,510**	**4,980**	**5,248**	**5,538**
EBITDA	**6,960**	**8,100**	**8,512**	**8,826**
Interest expense	(1,098)	(1,391)	(1,444)	(1,409)
Income tax provision	(1,165)	(1,232)	(1,275)	(1,430)
Tax rate	34.1%	34.3%	33.5%	34.6%
Discontinued operations and other				
Preferred dividends	-	-	-	-
Net income	**2,227**	**2,371**	**2,519**	**2,689**
Total non-recurring items	0	0	0	0
Net income (Recurring)	**2,227**	**2,371**	**2,519**	**2,689**
Diluted shares outstanding	**893**	**926**	**948**	**963**
Diluted EPS	**2.49**	**2.56**	**2.66**	**2.79**
DPS ($)	1.24	1.27	1.30	1.34
Payout ratio	49.7%	49.6%	49.1%	47.9%

Income Statement - Quarterly	**1Q16A**	**2Q16A**	**3Q16E**	**4Q16E**
Sales	7,483A	7,536A	8,756	
COGS	(3,292)A	(2,754)A	(3,860)	
D&A	(685)A	(827)A	(793)	-
Operations and maintenance	(2,401)A	(2,727)A	(2,710)	
Other expenses	-	-	(3)	-
Total operating expenses	-	-	-	-
Other income / (expense)	57A	86A		
EBIT	**1,162A**	**1,314A**	**1,391**	**-**
EBITDA	**1,847A**	**2,141A**	**2,184**	**-**
Interest expense	(287)A	(376)A	(361)	
Income tax provision	(300)A	(296)A	(369)	
Tax rate	34.3%A	31.6%A	35.8%	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**631A**	**604A**	**659**	**-**
Total non-recurring items	0A	0A		
Net income (Recurring)	**631A**	**604A**	**659**	**-**
Diluted shares outstanding	**925A**	**926A**	**925**	
Diluted EPS	**0.68A**	**0.65A**	**0.71**	**-**
DPS ($)	0.32A	0.32A	0.32	
Payout ratio	46.6%A	48.8%A	44.7%	-

Balance Sheet and Cash Flow Data	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Cash and cash equivalents	6,502	412	168	0
Current assets	15,334	10,476	10,630	10,811
PP&E	57,439	73,398	78,109	81,796
Non-current assets	22,611	30,420	29,795	28,970
Total assets	**95,384**	**114,294**	**118,534**	**121,577**
Current liabilities	9,118	11,894	11,894	11,894
Long-term Debt	24,286	32,463	32,899	33,008
Preferred stock	0	0	0	0
Other non-current liabilities	34,658	42,016	43,290	44,720
Common equity	25,793	26,355	28,885	30,389
Total liabilities & equity	95,384	114,294	118,534	121,577
Net income	2,250	1,566	2,519	2,689
D&A	3,987	4,004	3,264	3,288
Change in working capital	(246)	(85)	(399)	(349)
Change in other assets	1,643	2,402	1,900	2,255
Net operating cash flow	**7,634**	**7,887**	**7,284**	**7,883**
Cash flow from investing activities	**(7,840)**	**(15,190)**	**(7,975)**	**(6,975)**
Net common equity issued/(repurchased)	1,868	67	1,250	100
Net debt issued/(repurchased)	4,022	3,238	436	109
Common dividends paid	(1,105)	(1,170)	(1,240)	(1,285)
Other financing activity	45	(923)	0	0
Cash flow from financing activities	**4,830**	**1,213**	**446**	**(1,076)**
Increase/(decrease) in cash	4,624	(6,090)	(244)	(168)
Cash at beginning of the period	1,878	6,502	412	168
Cash at end of the period	6,502	412	168	(0)

Ratio Analysis	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Sales growth	4.8%	9.1%	6.1%	0.2%
EBITDA growth	7.0%	16.4%	5.1%	3.7%
EBIT growth	7.6%	10.4%	5.4%	5.5%
Net income (recurring) growth	7.7%	6.5%	6.2%	6.7%
Diluted EPS growth	4.2%	2.7%	3.7%	5.1%
Gross margin	55.1%	58.3%	57.3%	57.7%
Operating margin	15.4%	15.6%	15.5%	16.3%
Debt / Capital (book)	50.5%	57.8%	55.9%	54.7%
Times interest earned	6.3	5.8	5.9	6.3
ROE	9.2%	9.1%	9.1%	9.1%
Return on capital employed (ROCE)	6.1%	5.7%	5.5%	5.5%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec

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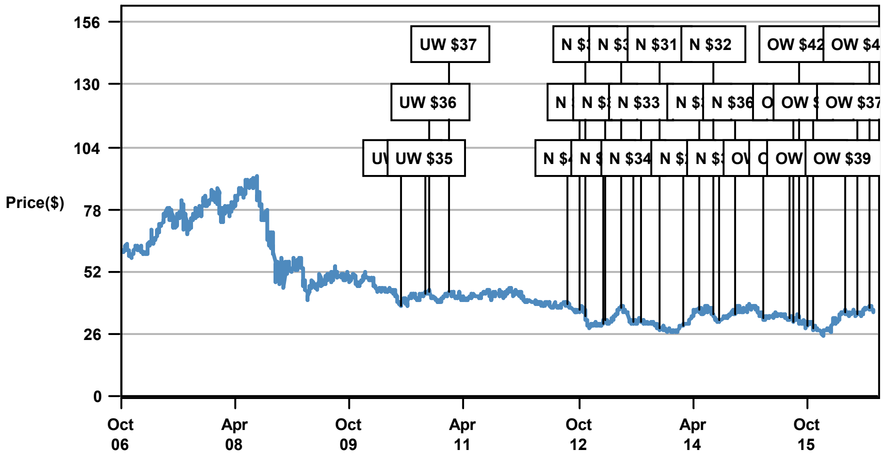
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.65	33.00
29-Sep-10	UW	43.04	35.00
19-Oct-10	UW	43.74	36.00
20-Jan-11	UW	43.35	37.00
07-Aug-12	N	38.06	40.00
08-Oct-12	N	35.91	39.00
02-Nov-12	N	33.58	38.00
23-Jan-13	N	29.99	36.00
08-Feb-13	N	31.37	34.00
19-Apr-13	N	36.68	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.59	33.00
17-Oct-13	N	28.75	31.00
12-Feb-14	N	28.94	29.00
30-Apr-14	N	35.99	33.00
09-Jul-14	N	34.32	32.00
01-Aug-14	N	31.54	35.00
16-Oct-14	N	34.09	36.00
05-Mar-15	OW	32.62	38.00
06-Jul-15	OW	32.77	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	32.64	42.00
28-Sep-15	OW	29.20	39.00
02-Nov-15	OW	28.37	36.00
28-Mar-16	OW	35.16	39.00
31-May-16	OW	34.33	37.00
21-Jul-16	OW	36.46	41.00

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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Exelon Corp.

Multiple Ways to Win in 2H16; Adding to Focus List

We are adding EXC to our U.S. Analyst Focus List (as a value strategy) and raising our price target to $41. We view recent developments as finally marking the beginning of the end of nuclear decision limbo for EXC, meaning earnings and cash flow improvement potential in both IL and NY. This coincides with an upcoming utility-driven refreshed cash deployment plan at next month's analyst meeting and an expected reinforcement of a solid balance sheet story with excess investment capacity in 2018-19. EXC shares are the cheapest integrated play on trough commodity prices, and we feel investors are dismissing these and other catalysts in 2H.

- **Multiple ways to win in 2H:** The second half could hold several positive catalysts for EXC shares, among them a refreshed long-term plan at the August 8 analyst day. We see risk to the upside from a larger long-term utility capex and earnings growth forecast partly from bonus depreciation cash not yet included in plan as well as higher POM lag catch-up/accretion estimates. Additionally, the IL nuke shutdowns could drive incremental cash flow and earnings as could potential NY zero energy credits and corresponding CENG put and Fitzpatrick purchase optionality.

- **Beginning of the end of nuclear limbo, a win/win:** A decision to move forward with the IL nuke shutdowns is less preferable than the legislative support avenue, but it still drives incremental cash flows ($115MM/year per management) and earnings even after taking into consideration decommissioning liabilities. Conversely, the encouraging recent progress in NY could mean a 12-year game-changing contract for the state's upstate units, which means 10c annually as proposed, excluding deals for Fitzpatrick or CENG.

- **Cheap utility and power story at trough of commodity cycle:** At 13.0x 2018E EPS, EXC shares are the cheapest integrated utility play despite being better positioned geographically and more levered within a power and capacity market recovery than most peers. The 13.0x multiple and 3.5% yield compare to regulated peers at 17.6x 2018E and 3.2%, respectively.

- **Worst case scenario already priced in:** We see expectations of continued power and capacity market weakness through 2019 as built into expectations at an implied open 2018 EV/EBITDA of 6.1x, as well as a worst case scenario of no NY energy credit plan, no benefit from IL nuke closures, and mediocre updated utility growth and POM accretion.

Overweight

EXC, EXC US

Price: $36.25

▲ **Price Target: $41.00**
Previous: $37.00

Utilities and Power

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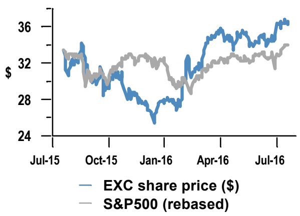
Price Performance



	YTD	1m	3m	12m
Abs	30.5%	5.3%	7.2%	8.6%
Rel	24.2%	1.0%	3.8%	6.5%

Exelon Corp. (EXC;EXC US)

FYE Dec	2015A	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*	2019E *(Prev)*	2019E *(Curr)*
adj. EPS ($)									
Q1 (Mar)	0.71	0.68A	0.68A	-	-	-	-	-	-
Q2 (Jun)	0.59	0.52	0.55	-	-	-	-	-	-
Q3 (Sep)	0.83	-	-	-	-	-	-	-	-
Q4 (Dec)	0.38	-	-	-	-	-	-	-	-
FY	2.49	2.51	2.53	2.69	2.67	2.82	2.79	-	2.79

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	36.25
Date Of Price	20 Jul 16
52-week Range ($)	36.85-25.09
Market Cap ($ mn)	33,422.50
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	41.00
Price Target End Date	31-Dec-16

See page 8 for analyst certification and important disclosures.

Beginning of the end of nuclear limbo, a win/win

We view both shutdown and continued operation under a state-support subsidy as preferable for EXC versus the alternative of continuing to run the units at both earnings and cash flow losses. Management has indicated the Clinton and Quad Cities units in IL have burned through approximately $114MM of cash on average between 2009 and 2015, a figure currently baked into forward EXC gross margin and consolidated earnings guidance of 3-5% growth. Shutdown will require material write-downs and some immediate cash obligations, but ultimate decommissioning liabilities are limited. The worst case company estimate forecasts a total of $790MM of radiological and non-radiological decommissioning liabilities, but we note this is using the worst-case of the three methods offered by the NRC and that the SAFSTOR method could mean a considerably lower amount.

Table 1: Incremental expenses incurred from early retirement of Clinton & Quad Cities

2009-2015 Aggregate Cash Loss from Clinton & Quad Cities	~$800m		
Annualized Cash Loss from Clinton & Quad Cities	~$114m		
	Clinton	**Quad Cities**	
Decommissioning Charges			
Radiological Costs*	Up to $385m	Up to $65m	
Spent Fuel Management and Site Restoration Costs*	Up to $160m	Up to $180m	
	2016	**2017**	**2018**
One time charges**			
Mix of: materials and supplies inventory reserve adjustment, employee costs, CWIP ($MM), among other items	$150m-200m	up to $25m	up to $25m
Depreciation and Amortization			
Accelerated Depreciation	$775m-825m	$'825m-900m	$175m-225m
Accelerated Nuclear Fuel Amortization	$75m-100m	$75m-100m	$25m-50m
O&M			
Increase ARO accretion, net of contractual offset	up to $25m	up to $25m	up to $25m
Contractual offset for ARC depreciation	($75m)-($100m)	($125m)-($175m)	($25m)-($75m)

Source: Company documents

*Decommissioning charge represents the most expensive option of three alternatives

*EXC noted that Quad Cities is in a better position to avoid the maximum radiological and spent fuel management cost payment

*Unclear whether payments represent a NPV or future nominal payment

On July 8 NYPSC's staff outlined its recommendation to help delay the shutdown of Ginna, FitzPatrick, and Nine Mile. Under the proposed structure, each of these nuclear facilities would receive a Zero Emission Credit (ZEC) per MWh of carbon-free emission generated between April 2017 and March 2029. It remains unclear the degree to which intervenors might challenge the subsidy, though logical areas that may be addressed include the purported environmental benefits, size of the ~$7.6bn subsidy, and 12-year term length. These efforts, however, may not be consequential enough to warrant a full-rejection by the NYPSC. We note a decision may come as early as the next scheduled commission meeting on August 1. CENG has noted a desire for a decision to occur prior to Sept 2016. It stands to reason ETR would want a similar lead time before the scheduled closure of Fitzpatrick on Jan 2017.

Approval of at least a reduced subsidy appears logical given New York's environmental goals and vocal support from the government. We note it was originally Governor Cuomo who directed the NYPSC to establish a Clean Energy Standard to achieve the 50% RPS goal by 2030 in his December 2015 letter. Premature closure of these nuclear facilities would logically create a large setback, thereby hindering achievement of this already aggressive initiative. Importantly, both FERC and NYPSC have separately authorized a nuclear subsidy known as the Reliability Support Service Agreement (RSSA) on March 2016 and April 2016, respectively. Under this contract, RG&E would pay Ginna an amount sufficient to keep the nuclear facility open through March 31, 2017. Notably, the composition of the NYPSC hasn't changed since the unanimous approval of the RSSA, and three of the four commission members who sit on NYPSC were appointed by Governor Cuomo.

Table 2: Hypothetical Annual ZEC Subsidies Proposed by NYPSC Staff

Assumed Annual Output	(TWH)	Capacity (MW)
NineMile Point	15.9	1,937
Ginna	4.8	582
Fitzpatrick	7.0	852

Years	1	2	3	4	5	6	7	8	9	10	11	12
$/MWH per ZEC Subsidy	17.48	17.48	19.58	19.58	21.38	21.38	23.83	23.83	26.45	26.45	29.15	29.15
NineMile Point ($MM)	277	277	310	310	339	339	378	378	420	420	462	462
Ginna ($MM)	83	83	93	93	102	102	114	114	126	126	139	139
Fitzpatrick ($MM)	122	122	137	137	149	149	166	166	185	185	203	203
Annual Subsidy ($MM)	483	483	540	540	590	590	658	658	730	730	804	804
Cumulative Subsidy ($MM)	483	965	1,505	2,046	2,636	3,226	3,884	4,542	5,272	6,002	6,806	7,611

Source: Calculated subsidy represents subsidies received by nuclear facilities unadjusted for future energy and capacity prices assuming capacity and output do not change.

JPM European Utilities analyst Javier Garrido sees EDF (EDF.PA, Neutral) as likely exercising the CENG put option in the near future, with the probability having increased over the last six months. There might remain political pressure in France to hold on to U.S. nuclear assets because it sends a general message of support for nuclear power and U.S investment generally. However EDF requires funding for its nuclear construction/renovation projects in France as customer bills have decreased and the outlook for a carbon tax based on the latest proposals seems less beneficial than originally expected.

These factors may be enough to push the company to sell, especially if NY proceeds with the Zero Energy Credit proposal next month. The put option is exercisable from 2016 to 2022, with the price arbitration process taking up to 10 months or longer according to EXC.

Higher capex and rate base growth may flow from bonus depreciation cash

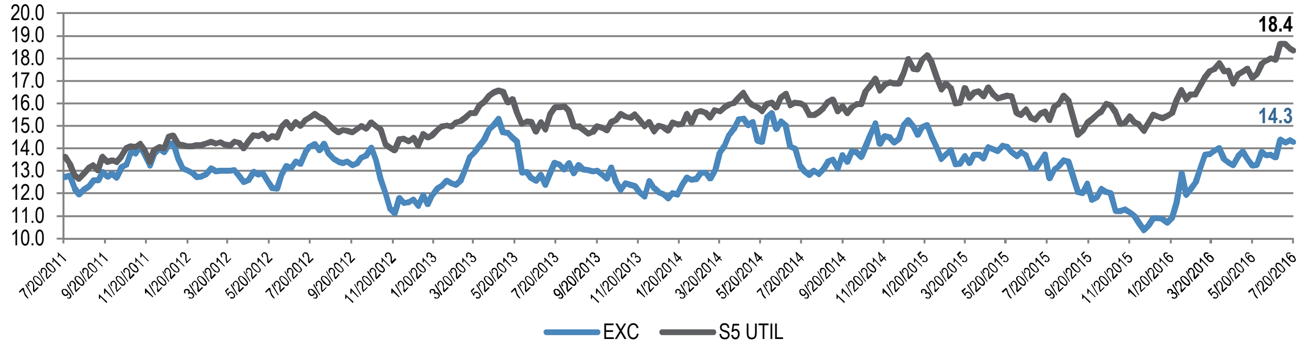
Incremental bonus depreciation-driven cash flow totals $2.5-2.8Bn from 2016-19 including the PHI impact, a meaningful amount considering EXC utility capex underlying guidance is currently ~$4.7-5.4Bn/year. We see potential for a sizable portion of the excess cash to be put to work here through 2019 and upside to the current utility component of guidance.

ExGen continues to generate positive FCF despite hedge roll-offs and power curve backwardation through 2019, helping drive our consolidated FFO-to-debt, debt-to-EBITDA, and interest coverage to 23%, 4.0x, and 3.8x, respectively, by the end of the period. The company is targeting 20% consolidated FFO-to-debt, leaving ~1,100MM of spare capacity according to our modeled forecast.

Cheap utility and power story at trough of commodity cycle

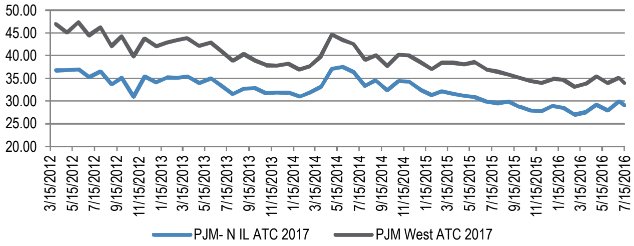
At 13.0x 2018E EPS, EXC shares are the cheapest integrated utility play despite being better geographically positioned and more levered within a power and capacity market recovery than most peers. The 13.0x multiple and 3.5% yield compare to regulated peers at 17.6x 2018E and 3.2%, respectively.

Figure 1: One year Forward P/E: EXC vs. S5UTIL (2011-Present)



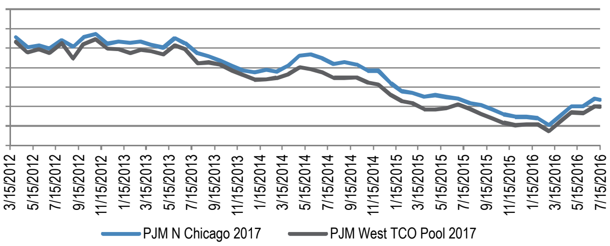
Source: Bloomberg estimates.
Priced as of 7/20/2016 close

Figure 2: PJM N IL & PJM West ATC 2017 Power Forward Curve



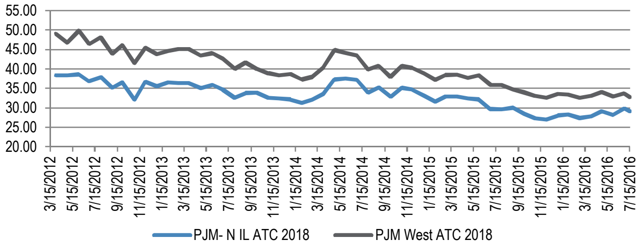
Source: SNL

Figure 3: PJM N Chicago & PJM West TCO Pool 2017 Nat Gas Forward Curve



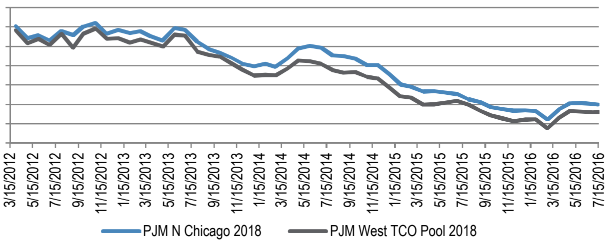
Source: SNL

Figure 4: PJM N IL & PJM West ATC 2018 Power Forward Curve



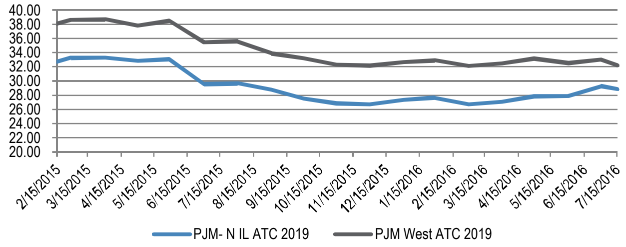
Source: SNL

Figure 5: PJM N Chicago & PJM West TCO Pool 2018 Nat Gas Forward Curve



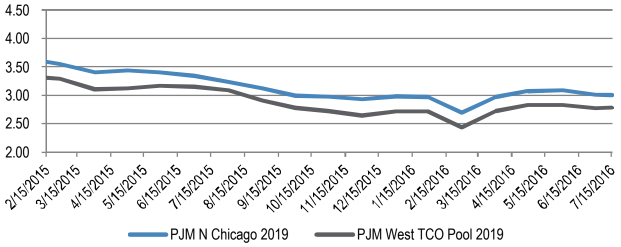
Source: SNL

Figure 6: PJM N IL & PJM West ATC 2019 Power Forward Curve



Source: SNL

Figure 7: PJM N Chicago & PJM West TCO Pool 2019 Nat Gas Forward Curve



Source: SNL

Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $41.00)*

Investment Thesis

We view recent developments as finally marking the beginning of the end of nuclear decision limbo for EXC, meaning earnings and cash flow improvement potential in both IL and NY. This coincides with an upcoming utility-driven refreshed cash deployment plan at next month's analyst meeting and an expected reinforcement of a solid balance sheet story with excess investment capacity in 2018-19. EXC shares are the cheapest integrated play on trough commodity prices, and we feel investors are dismissing these and other catalysts in 2H.

Valuation

We are raising our December 2016 price target to $41 ($37 prior). Our valuation is based on a sum-of-the-parts analysis using our 2018 forecasts. We use an average 20.0x P/E multiple for the regulated utility and corporate business segments, a minor premium to regulated peers reflecting a constructive regulatory construct at PECO and growth potential from lag at PHI partially offset by a mildly challenging regulatory environment at BGE. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. The upward revision in our price target reflects a slightly higher regulated peer multiple and higher GenCo multiple relative to our prior update.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company's earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Sales	29,237	32,429	33,960	34,163
COGS	(13,139)	(13,885)	(14,508)	(14,408)
D&A	(2,450)	(3,183)	(3,403)	(3,475)
Operations and maintenance	(9,432)	(11,297)	(11,078)	(11,016)
Other expenses	-	-	-	-
Total operating expenses				
Other income / (expense)	294	246	274	274
EBIT	**4,510**	**4,309**	**5,246**	**5,538**
EBITDA	**6,960**	**7,493**	**8,648**	**9,013**
Interest expense	(1,098)	(1,352)	(1,460)	(1,437)
Income tax provision	(1,165)	(1,112)	(1,246)	(1,408)
Tax rate	34.1%	37.6%	32.9%	34.3%
Discontinued operations and other				
Preferred dividends	-	-	-	-
Net income	**2,227**	**1,883**	**2,528**	**2,682**
Total non-recurring items	0	459	4	4
Net income (Recurring)	**2,227**	**2,342**	**2,532**	**2,686**
Diluted shares outstanding	**893**	**925**	**948**	**963**
Diluted EPS	**2.49**	**2.04**	**2.67**	**2.78**
DPS ($)	1.24	1.27	1.30	1.34
Payout ratio	49.7%	62.5%	48.9%	48.0%

Income Statement - Quarterly	**1Q16A**	**2Q16E**	**3Q16E**	**4Q16E**
Sales	7,573A	7,843		
COGS	(3,254)A	(3,251)		
D&A	(685)A	(815)	-	-
Operations and maintenance	(3,160)A	(2,688)		
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	128A	44		
EBIT	**602A**	**1,133**	**-**	**-**
EBITDA	**1,287A**	**1,948**	**-**	**-**
Interest expense	(292)A	(352)		
Income tax provision	(184)A	(273)		
Tax rate	59.4%A	34.9%	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**173A**	**506**	**-**	**-**
Total non-recurring items	459A	0		
Net income (Recurring)	**632A**	**506**	**-**	**-**
Diluted shares outstanding	**925A**	**924**		
Diluted EPS	**0.19A**	**0.55**	**-**	**-**
DPS ($)	0.32A	0.32		
Payout ratio	170.0%A	58.1%	-	-

Balance Sheet and Cash Flow Data	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Cash and cash equivalents	6,502	300	300	300
Current assets	15,334	11,017	11,406	11,750
PP&E	57,439	72,345	75,617	77,918
Non-current assets	22,611	31,277	31,577	31,577
Total assets	**95,384**	**114,639**	**118,600**	**121,244**
Current liabilities	9,118	15,917	16,953	17,980
Long-term Debt	24,286	28,872	28,009	26,718
Preferred stock	0	19	19	19
Other non-current liabilities	34,658	41,740	42,987	44,394
Common equity	25,793	26,621	29,163	30,664
Total liabilities & equity	95,384	114,639	118,600	121,244
Net income	2,250	1,833	2,532	2,686
D&A	3,987	4,386	4,503	4,575
Change in working capital	(246)	(904)	(389)	(344)
Change in other assets	1,643	1,506	946	1,408
Net operating cash flow	**7,634**	**6,822**	**7,592**	**8,324**
Cash flow from investing activities	**(7,840)**	**(14,816)**	**(7,775)**	**(6,875)**
Net common equity issued/(repurchased)	1,868	84	1,250	100
Net debt issued/(repurchased)	4,022	(330)	(150)	(100)
Common dividends paid	(1,105)	(1,168)	(1,239)	(1,285)
Other financing activity	45	1,776	0	0
Cash flow from financing activities	**4,830**	**362**	**(139)**	**(1,285)**
Increase/(decrease) in cash	4,624	(7,632)	(323)	164
Cash at beginning of the period	1,878	6,502	300	300
Cash at end of the period	6,502	300	300	300

Ratio Analysis	**FY15A**	**FY16E**	**FY17E**	**FY18E**
Sales growth	4.8%	10.9%	4.7%	0.6%
EBITDA growth	7.0%	7.7%	15.4%	4.2%
EBIT growth	7.6%	(4.5%)	21.7%	5.6%
Net income (recurring) growth	7.7%	5.2%	8.1%	6.1%
Diluted EPS growth	4.2%	(18.4%)	31.0%	4.4%
Gross margin	55.1%	57.2%	57.3%	57.8%
Operating margin	15.4%	13.3%	15.4%	16.2%
Debt / Capital (book)	50.5%	58.0%	55.8%	54.4%
Times interest earned	6.3	5.5	5.9	6.3
ROE	9.2%	8.9%	9.1%	9.0%
Return on capital employed (ROCE)	6.1%	4.7%	5.4%	5.5%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec

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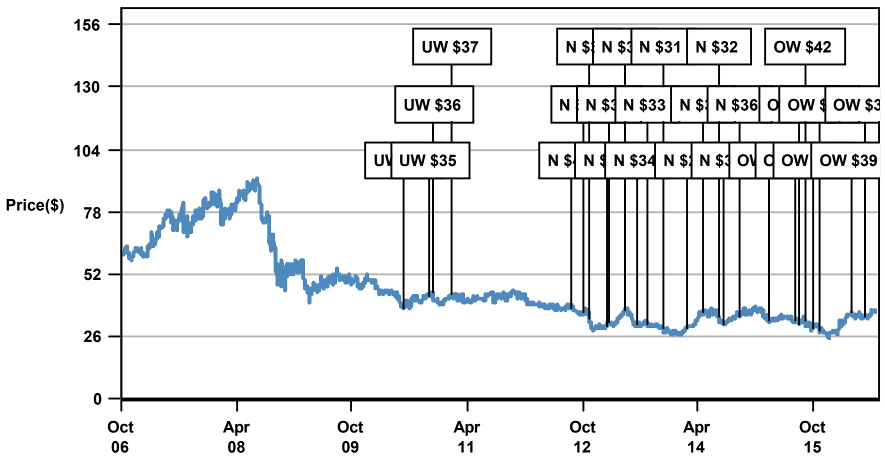
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.92	33.00
29-Sep-10	UW	42.82	35.00
19-Oct-10	UW	44.01	36.00
20-Jan-11	UW	43.35	37.00
07-Aug-12	N	38.01	40.00
08-Oct-12	N	35.91	39.00
02-Nov-12	N	33.58	38.00
23-Jan-13	N	29.99	36.00
08-Feb-13	N	31.37	34.00
19-Apr-13	N	36.68	35.00
19-Jun-13	N	31.15	34.00
31-Jul-13	N	30.80	33.00
17-Oct-13	N	29.04	31.00
12-Feb-14	N	28.94	29.00
30-Apr-14	N	35.99	33.00
09-Jul-14	N	34.26	32.00
01-Aug-14	N	31.08	35.00
16-Oct-14	N	34.09	36.00
05-Mar-15	OW	32.97	38.00
06-Jul-15	OW	32.77	41.00
29-Jul-15	OW	31.00	40.00
24-Aug-15	OW	32.64	42.00
28-Sep-15	OW	29.50	39.00
02-Nov-15	OW	28.37	36.00
28-Mar-16	OW	35.69	39.00
31-May-16	OW	34.27	37.00

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26 October 2016

Exelon Corp.

Strong 3Q; Additional Cost Cuts Support ExGen Outlook

Overweight

ANALYST FOCUS LIST

EXC, EXC US

Price: $33.26

Price Target: $37.00

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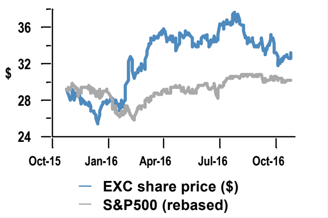
Exelon reported a strong 3Q beat mostly driven by weather and lower storm costs and raised 2016 guidance. ExGen's outlook was extended through 2019 with slightly better gross margin than expected as the retail business continues to insulate against weak power, and additional costs cuts equating to ~8c/share annually were announced. We continue to monitor the challenge in Federal court to NY's Zero Energy Credit as the company moves to sign a formal agreement next month and close the Fitzpatrick transaction in 2Q. We are also awaiting potential IL legislative action before year end, but do not include this or ZEC in our forecasts. We are reiterating our OW rating.

- **Strong 3Q on weather, 2016 guidance raised:** EXC reported a $0.12 beat versus cons. of $0.79 and raised FY16 guide to $2.55-2.75 from $2.40-2.70 driven primarily by weather. The 15c beat versus our $0.76 est. was largely driven by warmer weather at ComEd & PECO, lower storm expense, and the impact from NJBPU's Aug 24th approval of ACE's electric distribution rate case. Despite hot weather and no planned outages, ExGen FY16 guide was maintained.

- **ExGen 2019 guidance intro slightly better than expected:** EXC provided earlier than expected transparency to ExGen earnings by disclosing FY19 guide today instead of at EEI. Given the large hedge roll off, the $6.8bn FY19 gross margin guide was solid and slightly above our expectation demonstrating the insulation provided by the Constellation retail business. Additionally, $100m & $125m of incremental cost cuts were announced in 2018 and 2019, respectively, on top of the large ExGen cuts seen since last year.

- **Another shot in IL legislature before year end; watching ZEC challenge:** We do not model any benefit from ZEC credits nor Fitzpatrick, which add $0.10-0.18 of annual EPS according to the company. Management highlighted the potential for an IL legislature vote on a clean-energy bill during either the Nov 15-17th or Nov 29th - Dec 1st veto sessions. In New York, we continue to monitor the Federal court challenge filed Oct 19th, in parallel with the signing of contracts with NYSERDA in November and the Fitzpatrick expected transaction closing by 2Q17.

Price Performance



	YTD	1m	3m	12m
Abs	18.9%	-4.5%	-10.3%	14.0%
Rel	12.4%	-3.5%	-9.1%	10.5%

Exelon Corp. (EXC;EXC US)

FYE Dec	2015A	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*	2019E *(Prev)*	2019E *(Curr)*
adj. EPS ($)									
Q1 (Mar)	0.71	0.68A	0.68A	-	-	-	-	-	-
Q2 (Jun)	0.59	0.65A	0.65A	-	-	-	-	-	-
Q3 (Sep)	0.83	0.76	0.91A	-	-	-	-	-	-
Q4 (Dec)	0.38	-	0.45	-	-	-	-	-	-
FY	2.49	2.58	2.70	2.67	2.57	2.67	2.68	2.63	2.58
Bloomberg EPS FY ($)	2.51	-	2.57	-	2.62	-	2.78	-	-

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	33.26
Date Of Price	26 Oct 16
52-week Range ($)	37.70-25.09
Market Cap ($ mn)	30,665.72
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	37.00
Price Target End Date	31-Dec-17

See page 5 for analyst certification and important disclosures.

Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $37.00)*

Investment Thesis

ExGen continues to generate strong cash flow even in a challenging commodity environment, allowing it to fund a top-tier utility growth story and a growing dividend. We see the potential passage of legislation in Illinois and execution of the ZEC program and Fitzpatrick purchase in New York as potential catalysts, and these represent incremental earnings versus our current published forecasts. EXC shares are the cheapest integrated play on trough commodity prices, and we feel investors are dismissing these catalysts and not appreciating ExGen's value and de-leveraging.

Valuation

We are introducing our December 2017 price target of $37. Our valuation is based on a sum-of-the-parts analysis using our 2019 forecasts. We use an average 17.9x P/E multiple for the regulated utility and corporate business segments. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company’s earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	**27,889**	**29,237**	**31,894**	**34,288**	**34,278**
COGS	(12,752)	(13,139)	(13,048)	(14,726)	(14,626)
Gross profit	**15,137**	**16,098**	**18,846**	**19,562**	**19,652**
SG&A	(8,913)	(9,432)	**(10,729)**	**(11,134)**	**(10,952)**
Adj. EBITDA	**6,504**	**6,960**	**8,430**	**8,612**	**8,884**
D&A	(2,314)	(2,450)	(3,214)	(3,401)	(3,421)
Adj. EBIT	**4,190**	**4,510**	**5,216**	**5,212**	**5,463**
Net Interest	(931)	(1,098)	(1,417)	(1,540)	(1,517)
Adj. PBT	**3,259**	**3,412**	**3,799**	**3,672**	**3,946**
Tax	(1,057)	(1,165)	(1,300)	(1,219)	(1,353)
Minority Interest	(134)	(20)	0	(6)	(6)
Adj. Net Income	**2,068**	**2,227**	**2,499**	**2,447**	**2,587**
Reported EPS	2.39	2.49	2.70	2.57	2.68
Adj. EPS	**2.39**	**2.49**	**2.70**	**2.57**	**2.68**
DPS	**1.24**	**1.24**	**1.27**	**1.30**	**1.34**
Payout ratio	51.8%	49.7%	47.2%	50.7%	49.9%
Shares outstanding	860	920	928	963	966

Income Statement - Quarterly	1Q16A	2Q16A	3Q16A	4Q16E
Revenue	**7,483A**	**7,536A**	**8,836A**	**8,039**
COGS	(3,292)A	(2,754)A	(3,627)A	(3,375)
Gross profit	**4,191A**	**4,782A**	**5,209A**	**4,664**
SG&A	(2,401)A	(2,727)A	(2,764)A	(2,837)
Adj. EBITDA	**1,847A**	**2,141A**	**2,527A**	**1,915**
D&A	(685)A	(827)A	(857)A	(845)
Adj. EBIT	**1,162A**	**1,314A**	**1,670A**	**1,070**
Net Interest	(287)A	(376)A	(363)A	(391)
Adj. PBT	**875A**	**938A**	**1,307A**	**679**
Tax	(300)A	(296)A	(448)A	(256)
Minority Interest	56A	(38)A	(18)A	0
Adj. Net Income	**631A**	**604A**	**841A**	**423**
Reported EPS	0.68A	0.65A	0.91A	0.45
Adj. EPS	**0.68A**	**0.65A**	**0.91A**	**0.45**
DPS	**0.32A**	**0.32A**	**0.32A**	**0.32**
Payout ratio	46.6%A	48.8%A	35.1%A	69.9%
Shares outstanding	922A	923A	927A	928

Balance Sheet & Cash Flow Statement	FY14A	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	1,878	6,502	1,897	1,897	1,897
Accounts receivable	4,709	4,099	5,074	5,074	5,074
Other current assets	5,510	4,733	5,345	5,744	6,092
Current assets	**12,097**	**15,334**	**12,316**	**12,715**	**13,063**
PP&E	52,087	57,439	72,525	77,099	80,653
Other non current assets	22,630	22,611	32,096	31,471	30,646
Total assets	**86,814**	**95,384**	**116,936**	**121,285**	**124,362**
Short term borrowings	2,262	2,033	3,079	3,079	3,079
Payables	3,048	2,883	3,044	3,044	3,044
Other short term liabilities	3,452	4,202	6,035	6,035	6,035
Current liabilities	**8,762**	**9,118**	**12,158**	**12,158**	**12,158**
Long-term debt	20,010	24,286	34,965	35,641	35,968
Other long term liabilities	33,909	34,658	42,175	43,394	44,747
Total liabilities	**62,681**	**68,062**	**89,298**	**91,193**	**92,873**
Shareholders' equity	22,608	25,793	26,180	28,633	30,030
Minority interests	1,525	1,529	1,459	1,459	1,459
Total liabilities & equity	**86,814**	**95,384**	**116,936**	**121,285**	**124,362**
BVPS	**26.29**	**28.04**	**28.22**	**29.72**	**31.09**
y/y Growth	-	*6.6%*	*0.6%*	*5.3%*	*4.6%*
Net debt/(cash)	20,394	19,817	36,147	36,823	37,150
Cash flow from operating activities	**4,457**	**7,634**	**7,797**	**7,293**	**7,838**
o/w Depreciation & amortization	3,868	3,987	5,092	4,326	4,246
o/w Changes in working capital	(3,247)	(246)	353	(399)	(349)
Cash flow from investing activities	**(4,599)**	**(7,840)**	**(15,375)**	**(7,975)**	**(6,975)**
o/w Capital expenditure	(6,077)	(7,624)	(8,524)	(7,975)	(6,975)
as % of sales	*21.8%*	*26.1%*	*26.7%*	*23.3%*	*20.3%*
Cash flow from financing activities	**411**	**4,830**	**2,974**	**682**	**(863)**
o/w Dividends paid	(1,065)	(1,105)	(1,168)	(1,244)	(1,290)
o/w Net debt issued/(repaid)	1,918	4,022	5,507	676	327
Net change in cash	**269**	**4,624**	**(4,605)**	**0**	**0**
Free cashflow to firm	**(991)**	**733**	**204**	**346**	**1,860**
y/y Growth	*(162.1%)*	*(174.0%)*	*(72.1%)*	*69.5%*	*436.8%*

Ratio Analysis	FY14A	FY15A	FY16E	FY17E	FY18E
Gross margin	54.3%	55.1%	59.1%	57.1%	57.3%
EBITDA margin	23.3%	23.8%	26.4%	25.1%	25.9%
EBIT margin	15.0%	15.4%	16.4%	15.2%	15.9%
Net profit margin	7.4%	7.6%	7.8%	7.1%	7.5%
ROE	9.1%	9.2%	9.6%	8.9%	8.8%
ROA	2.5%	2.4%	2.4%	2.1%	2.1%
ROCE	6.6%	6.1%	5.9%	5.3%	5.3%
SG&A/Sales	32.0%	32.3%	33.6%	32.5%	32.0%
Net debt/equity	84.5%	72.5%	130.8%	122.4%	118.0%
P/E (x)	13.9	13.3	12.3	12.9	12.4
P/BV (x)	1.3	1.2	1.2	1.1	1.1
EV/EBITDA (x)	7.6	7.0	8.2	8.2	8.0
Dividend Yield	3.7%	3.7%	3.8%	3.9%	4.0%
Sales/Assets (x)	0.3	0.3	0.3	0.3	0.3
Interest cover (x)	7.0	6.3	5.9	5.6	5.9
Operating leverage	(22.0%)	158.0%	172.2%	(1.0%)	(16275.9%)
Revenue y/y Growth	9.7%	4.8%	9.1%	7.5%	(0.0%)
EBITDA y/y Growth	1.2%	7.0%	21.1%	2.2%	3.2%
Tax rate	32.4%	34.1%	34.2%	33.2%	34.3%
Adj. Net Income y/y Growth	(3.8%)	7.7%	12.2%	(2.1%)	5.7%
EPS y/y Growth	(4.2%)	4.2%	8.1%	(4.6%)	4.1%
DPS y/y Growth	0.0%	0.0%	2.6%	2.5%	2.5%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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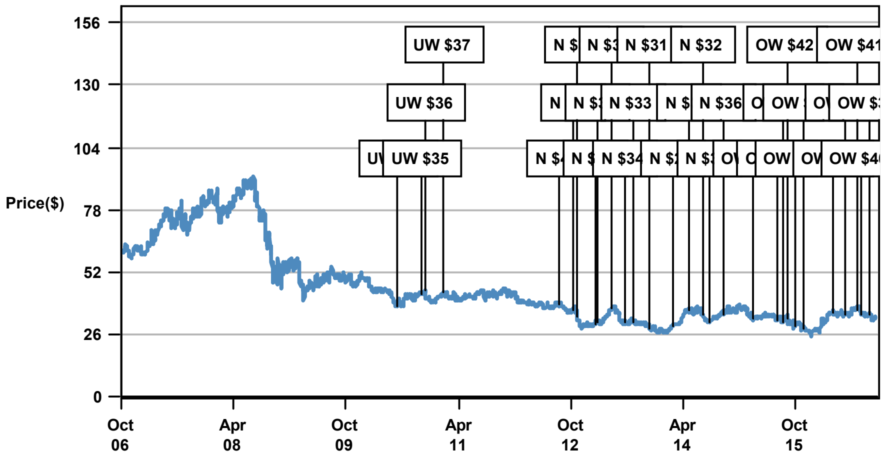
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.65	33.00
29-Sep-10	UW	42.82	35.00
19-Oct-10	UW	44.01	36.00
20-Jan-11	UW	43.35	37.00
07-Aug-12	N	38.06	40.00
08-Oct-12	N	35.95	39.00
02-Nov-12	N	33.58	38.00
23-Jan-13	N	29.99	36.00
08-Feb-13	N	31.08	34.00
19-Apr-13	N	36.68	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.80	33.00
17-Oct-13	N	28.75	31.00
12-Feb-14	N	29.47	29.00
30-Apr-14	N	35.99	33.00
09-Jul-14	N	34.32	32.00
01-Aug-14	N	31.08	35.00
16-Oct-14	N	33.93	36.00
05-Mar-15	OW	32.62	38.00
06-Jul-15	OW	31.94	41.00
29-Jul-15	OW	31.00	40.00
24-Aug-15	OW	32.64	42.00
28-Sep-15	OW	29.50	39.00
02-Nov-15	OW	28.51	36.00
28-Mar-16	OW	35.16	39.00
31-May-16	OW	34.27	37.00
21-Jul-16	OW	36.25	41.00
15-Aug-16	OW	34.63	40.00
20-Sep-16	OW	33.91	37.00

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IB clients*	51%	48%	34%
JPMS Equity Research Coverage	42%	50%	8%
IB clients*	68%	61%	43%

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J.P.Morgan

North America Equity Research
20 September 2016

Exelon Corp.

Tax Ruling Unfavorable, but Largely Expected in Mgmt Plan

Overweight

EXC, EXC US

Price: $33.91

▼ **Price Target: $37.00**
Previous: $40.00

Utilities and Power

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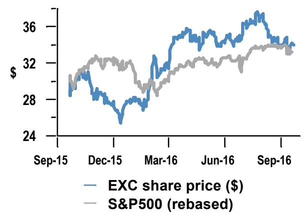
J.P. Morgan Securities LLC

A September 19 tax court ruling on a 1999 sale-leaseback transaction will force EXC to pay ~$870MM after-tax to the IRS for taxes owed and interest. This amount was essentially expected by the company following rulings for utility peers on similar issues since 2012 and is already incorporated into cash flow guidance provided in August. An additional $190MM after tax for penalties was assessed that may be due at a later date following an appeal. The tax and interest component has already been reserved by EXC, and the 4Q payment will be funded by a planned ExGen debt offering. Our thesis remains unchanged, and we are reiterating our OW-rating on EXC shares.

- **Unfavorable tax ruling results in $870MM cash liability:** The total cash amount now due in 4Q16 is likely $1,190MM of tax and interest owed, partly offset by an interest tax shield of $320MM in subsequent years. The liability stems from a $1.2Bn gain on the 1999 sale of generation that was deferred via a sale-leaseback transaction, a tax strategy that had been already struck down for ED, PEG and POM, among others over the last 4 years.
- **Penalty component only piece not reserved:** EXC had already reserved the tax and interest component owed, but may take a charge for the $190MM penalty and begin an appeal process for this. It is not clear on when a penalty cash payment would be due or how long the process may take. Cash raised via a planned $1Bn ExGen debt offering will be contributed to Exelon parent and ComEd for the $1,190MM due this year.
- **Ruling already incorporated into guidance:** We are adjusting our ExGen numbers to incorporate higher interest expense and changes to the power prices since our last update. Our numbers still do not incorporate benefit from NY Zero Energy Credits.

Price Performance



	YTD	1m	3m	12m
Abs	22.1%	-1.5%	-1.5%	11.1%
Rel	15.8%	0.5%	-4.8%	2.3%

Exelon Corp. (EXC;EXC US)

FYE Dec	2015A	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*	2019E *(Prev)*	2019E *(Curr)*
adj. EPS ($)									
Q1 (Mar)	0.71	0.68A	0.68A	-	-	-	-	-	-
Q2 (Jun)	0.59	0.65A	0.65A	-	-	-	-	-	-
Q3 (Sep)	0.83	0.71	0.76	-	-	-	-	-	-
Q4 (Dec)	0.38	-	-	-	-	-	-	-	-
FY	2.49	2.56	2.58	2.66	2.67	2.79	2.67	2.71	2.63
Bloomberg EPS FY ($)	2.51	-	2.56	-	2.64	-	2.82	-	-

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	33.91
Date Of Price	20 Sep 16
52-week Range ($)	37.70-25.09
Market Cap ($ mn)	31,265.02
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	37.00
Price Target End Date	31-Dec-16

See page 5 for analyst certification and important disclosures.

Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $37.00)*

Investment Thesis

We view recent developments as finally marking the beginning of the end of nuclear decision limbo for EXC, meaning earnings and cash flow improvement potential in both IL and NY. This coincides with an upcoming utility-driven refreshed cash deployment plan at next month's analyst meeting and an expected reinforcement of a solid balance sheet story with excess investment capacity in 2018-19. EXC shares are the cheapest integrated play on trough commodity prices, and we feel investors are dismissing these and other catalysts in 2H.

Valuation

We are lowering our December 2016 price target to $37 ($40 prior). Our valuation is based on a sum-of-the-parts analysis using our 2018 forecasts. We use an average 19.4x P/E multiple for the regulated utility and corporate business segments, a minor premium to regulated peers reflecting a constructive regulatory construct at PECO and growth potential from lag at PHI partially offset by a mildly challenging regulatory environment at BGE. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. The downward revision in our price target reflects a slightly lower regulated peer multiple relative to our prior update.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company's earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	**27,889**	**29,237**	**31,893**	**33,861**	**33,738**
COGS	(12,752)	(13,139)	(13,280)	(14,454)	(14,354)
Gross profit	**15,137**	**16,098**	**18,613**	**19,407**	**19,384**
SG&A	(8,913)	(9,432)	**(10,716)**	**(10,986)**	**(10,845)**
Adj. EBITDA	**6,504**	**6,960**	**8,108**	**8,530**	**8,647**
D&A	(2,314)	(2,450)	(3,120)	(3,264)	(3,288)
Adj. EBIT	**4,190**	**4,510**	**4,988**	**5,265**	**5,359**
Net Interest	(931)	(1,098)	(1,379)	(1,436)	(1,401)
Adj. PBT	**3,259**	**3,412**	**3,609**	**3,829**	**3,958**
Tax	(1,057)	(1,165)	(1,239)	(1,286)	(1,375)
Minority Interest	(134)	(20)	14	(10)	(10)
Adj. Net Income	**2,068**	**2,227**	**2,384**	**2,533**	**2,573**
Reported EPS	2.39	2.49	2.58	2.67	2.67
Adj. EPS	**2.39**	**2.49**	**2.58**	**2.67**	**2.67**
DPS	**1.24**	**1.24**	**1.27**	**1.30**	**1.34**
Payout ratio	51.8%	49.7%	49.4%	48.8%	50.0%
Shares outstanding	860	920	924	960	963

Income Statement - Quarterly	1Q16A	2Q16A	3Q16E	4Q16E
Revenue	**7,483A**	**7,536A**	**8,813**	
COGS	(3,292)A	(2,754)A	(3,860)	
Gross profit	**4,191A**	**4,782A**	**4,953**	
SG&A	(2,401)A	(2,727)A	(2,710)	
Adj. EBITDA	**1,847A**	**2,141A**	**2,240**	**-**
D&A	(685)A	(827)A	(793)	-
Adj. EBIT	**1,162A**	**1,314A**	**1,448**	**-**
Net Interest	(287)A	(376)A	(351)	-
Adj. PBT	**875A**	**938A**	**1,097**	**-**
Tax	(300)A	(296)A	(393)	
Minority Interest	56A	(38)A	(2)	
Adj. Net Income	**631A**	**604A**	**702**	**-**
Reported EPS	0.68A	0.65A	0.76	-
Adj. EPS	**0.68A**	**0.65A**	**0.76**	**-**
DPS	**0.32A**	**0.32A**	**0.32**	
Payout ratio	46.6%A	48.8%A	41.9%	-
Shares outstanding	922A	923A	924	

Balance Sheet & Cash flow statement	FY14A	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	1,878	6,502	28	300	353
Accounts receivable	4,709	4,099	4,659	4,659	4,659
Other current assets	5,510	4,733	5,405	5,803	6,152
Current assets	**12,097**	**15,334**	**10,092**	**10,762**	**11,164**
PP&E	52,087	57,439	73,398	78,109	81,796
Other non current assets	22,630	22,611	30,992	29,863	28,544
Total assets	**86,814**	**95,384**	**114,482**	**118,734**	**121,503**
Short term borrowings	2,262	2,033	3,644	3,644	3,644
Payables	3,048	2,883	2,826	2,826	2,826
Other short term liabilities	3,452	4,202	5,424	5,424	5,424
Current liabilities	**8,762**	**9,118**	**11,894**	**11,894**	**11,894**
Long-term debt	20,010	24,286	32,631	33,054	33,061
Other long term liabilities	33,909	34,658	42,023	43,309	44,683
Total liabilities	**62,681**	**68,062**	**86,548**	**88,257**	**89,638**
Shareholders' equity	22,608	25,793	26,367	28,911	30,299
Minority interests	1,525	1,529	1,566	1,566	1,566
Total liabilities & equity	**86,814**	**95,384**	**114,482**	**118,734**	**121,503**
BVPS	**26.29**	**28.04**	**28.52**	**30.12**	**31.48**
y/y Growth	-	*6.6%*	*1.7%*	*5.6%*	*4.5%*
Net debt/(cash)	20,394	19,817	36,247	36,398	36,352
Cash flow from operating activities	**2,903**	**6,097**	**5,976**	**6,889**	**7,381**
o/w Depreciation & amortization	2,314	2,450	3,120	3,264	3,288
o/w Changes in working capital	(3,247)	(246)	(85)	(399)	(349)
Cash flow from investing activities	**(4,599)**	**(7,840)**	**(15,190)**	**(7,975)**	**(6,975)**
o/w Capital expenditure	(6,077)	(7,624)	(8,802)	(7,975)	(6,975)
as % of sales	*21.8%*	*26.1%*	*27.6%*	*23.6%*	*20.7%*
Cash flow from financing activities	**411**	**4,830**	**1,381**	**433**	**(1,178)**
o/w Dividends paid	(1,065)	(1,105)	(1,170)	(1,240)	(1,285)
o/w Net debt issued/(repaid)	1,918	4,022	3,406	423	7
Net change in cash	**(1,285)**	**3,087**	**(7,833)**	**(653)**	**(772)**
Free cashflow to firm	**(2,545)**	**(804)**	**(1,920)**	**(132)**	**1,320**
y/y Growth	*(259.5%)*	*(68.4%)*	*138.8%*	*(93.1%)*	*(1098.5%)*

Ratio Analysis	FY14A	FY15A	FY16E	FY17E	FY18E
Gross margin	54.3%	55.1%	58.4%	57.3%	57.5%
EBITDA margin	23.3%	23.8%	25.4%	25.2%	25.6%
EBIT margin	15.0%	15.4%	15.6%	15.6%	15.9%
Net profit margin	7.4%	7.6%	7.5%	7.5%	7.6%
ROE	9.1%	9.2%	9.1%	9.2%	8.7%
ROA	2.5%	2.4%	2.3%	2.2%	2.1%
ROCE	6.6%	6.1%	5.7%	5.5%	5.3%
SG&A/Sales	32.0%	32.3%	33.6%	32.4%	32.1%
Net debt/equity	84.5%	72.5%	129.8%	119.4%	114.1%
P/E (x)	14.2	13.6	13.2	12.7	12.7
P/BV (x)	1.3	1.2	1.2	1.1	1.1
EV/EBITDA (x)	7.6	7.0	8.5	8.2	8.1
Dividend Yield	3.7%	3.7%	3.8%	3.8%	3.9%
Sales/Assets (x)	0.3	0.3	0.3	0.3	0.3
Interest cover (x)	7.0	6.3	5.9	5.9	6.2
Operating leverage	(22.0%)	158.0%	116.7%	90.1%	(486.0%)
Revenue y/y Growth	9.7%	4.8%	9.1%	6.2%	(0.4%)
EBITDA y/y Growth	1.2%	7.0%	16.5%	5.2%	1.4%
Tax rate	32.4%	34.1%	34.3%	33.6%	34.7%
Adj. Net Income y/y Growth	(3.8%)	7.7%	7.1%	6.3%	1.6%
EPS y/y Growth	(4.2%)	4.2%	3.3%	3.7%	(0.0%)
DPS y/y Growth	0.0%	0.0%	2.6%	2.5%	2.5%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec

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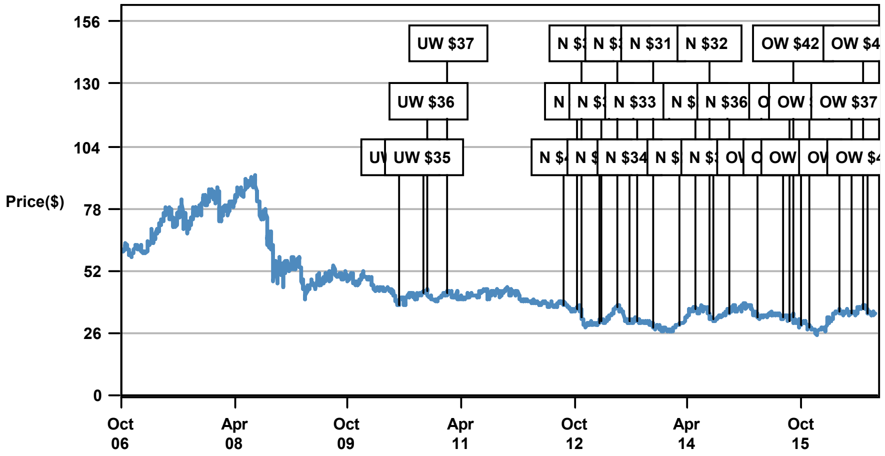
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.65	33.00
29-Sep-10	UW	42.82	35.00
19-Oct-10	UW	43.74	36.00
20-Jan-11	UW	42.82	37.00
07-Aug-12	N	38.01	40.00
08-Oct-12	N	35.95	39.00
02-Nov-12	N	32.77	38.00
23-Jan-13	N	29.99	36.00
08-Feb-13	N	31.08	34.00
19-Apr-13	N	36.68	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.80	33.00
17-Oct-13	N	28.75	31.00
12-Feb-14	N	28.94	29.00
30-Apr-14	N	35.99	33.00
09-Jul-14	N	34.32	32.00
01-Aug-14	N	31.54	35.00
16-Oct-14	N	34.09	36.00
05-Mar-15	OW	32.62	38.00
06-Jul-15	OW	32.77	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	33.00	42.00
28-Sep-15	OW	29.20	39.00
02-Nov-15	OW	28.37	36.00
28-Mar-16	OW	35.16	39.00
31-May-16	OW	34.27	37.00
21-Jul-16	OW	36.25	41.00
15-Aug-16	OW	34.63	40.00

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BARCLAYS

Equity Research

Power & Utilities | North America Power & Utilities

31 August 2016

Exelon Corp.

Moving Forward

We reiterate our Overweight rating and update our earnings estimates and valuation. Our new price target is $2 lower at $39 as our utility valuation is increased but our genco valuation has decreased. Our updated earnings estimates for 2016/2017/2018 are now $2.60/$2.62/$2.82 compared to $2.55/$2.68/$2.80 previously.

The utility earnings profile has strengthened compared to our previous estimates, mainly accounting for earlier rate filings and modestly improved expectations for closing earned-to-allowed ROE gap. Although we have not yet seen a regulatory outcome for the legacy PEPCO Holdings jurisdictions, we believe that Exelon laid out a credible plan to support their projected utility earnings.

The generation earnings and EBITDA are lower for two reasons. First, the power curves have degraded as compared to the end of Q1. Second, the removal of Quad Cities and Clinton from numbers, starting in 2017 and 2018, respectively. Although ultimately the removal of these units will yield positive earnings and cash impacts (beginning in 2019), the removal of these plants lowered projected gross margin for 2017 and 2018 by approximately $100M and $350M respectively. Our numbers do not include any impact from the Clean Energy Standard in New York or from the pending acquisition of the FitzPatrick nuclear plant.

EXC: Quarterly and Annual EPS (USD)

	2015	2016			2017			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2016	2017
Q1	0.71A	0.68A	0.68A	0.68A	N/A	N/A	0.75E	-4%	N/A
Q2	0.59A	0.54E	0.65A	0.65A	N/A	N/A	0.56E	10%	N/A
Q3	0.83A	N/A	N/A	0.76E	N/A	N/A	0.75E	N/A	N/A
Q4	0.38A	N/A	N/A	0.49E	N/A	N/A	0.56E	N/A	N/A
Year	2.50A	2.55E	2.60E	2.57E	2.68E	2.62E	2.63E	4%	0.77%
P/E	13.6		13.1			13.0			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 39.00 lowered -5% from USD 41.00

Price (29-Aug-2016)	USD 34.05
Potential Upside/Downside	+14.5%
Tickers	EXC

Market Cap (USD mn)	31424
Shares Outstanding (mn)	922.87
Free Float (%)	99.79
52 Wk Avg Daily Volume (mn)	6.9
52 Wk Avg Daily Value (USD mn)	N/A
Dividend Yield (%)	3.8
Return on Equity TTM (%)	5.60
Current BVPS (USD)	27.90

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 37.70-25.09

Link to Barclays Live for interactive charting

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North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corp. (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2015A	2016E	2017E	2018E	CAGR
Revenue	27,549	32,087	33,155	33,566	6.8%
EBITDA (adj)	6,583	7,795	8,213	8,799	10.2%
EBIT (adj)	4,077	4,593	4,740	5,140	8.0%
Pre-tax income (adj)	3,496	3,684	3,733	4,117	5.6%
Net income (adj)	2,229	2,407	2,481	2,717	6.8%
EPS (adj) ($)	2.50	2.60	2.62	2.82	4.1%
Diluted shares (mn)	893.0	927.0	947.0	965.0	2.6%
DPS ($)	1.24	1.26	1.29	1.33	2.3%

Margin and return data					Average
EBITDA (adj) margin (%)	23.9	24.3	24.8	26.2	24.8
EBIT (adj) margin (%)	14.8	14.3	14.3	15.3	14.7
Pre-tax (adj) margin (%)	12.7	11.5	11.3	12.3	11.9
Net (adj) margin (%)	8.1	7.5	7.5	8.1	7.8
ROIC (%)	7.4	7.9	7.9	8.2	7.9
ROA (%)	2.4	2.5	2.5	2.7	2.5
ROE (%)	9.2	9.5	9.3	9.6	9.4

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	55,994	61,274	65,346	69,034	7.2%
Total net assets	94,732	97,846	100,097	102,098	2.5%
Capital employed	54,860	57,993	60,339	62,485	4.4%
Shareholders' equity	24,759	26,058	27,400	28,947	5.3%
Net debt/(funds)	29,139	30,482	30,299	29,527	0.4%
Cash flow from operations	6,749	7,621	7,968	8,389	7.5%
Capital expenditure	-5,800	-8,482	-7,546	-7,346	N/A
Free cash flow	-183	-2,015	-764	-175	N/A
Pre-dividend FCF	949	-861	422	1,043	3.2%

Valuation and leverage metrics					Average
P/E (adj) (x)	13.6	13.1	13.0	12.1	13.0
EV/EBITDA (adj) (x)	9.2	8.0	7.5	6.9	7.9
EV/EBIT (adj) (x)	14.9	13.5	13.1	11.9	13.3
P/BV (x)	1.2	1.2	1.2	1.1	1.2
Dividend yield (%)	3.6	3.7	3.8	3.9	3.8
Total debt/capital (%)	54.9	55.1	54.6	53.7	54.5
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					Average
Payout ratio (%)	49.7	48.7	49.4	47.1	48.7
Interest cover (x)	3.9	3.3	3.2	3.4	3.5
Regulated (%)	44.0	50.1	57.6	60.4	53.0

Price (29-Aug-2016)	**USD 34.05**
Price Target	**USD 39.00**

Why Overweight? We believe that that utility growth of 7-9% is achievable and will be funded by cash flow from the generation company even with the current forward curves. Any additional legislation similar to the CES in New York or the inclusion of the CES in our numbers is upside to our estimates.

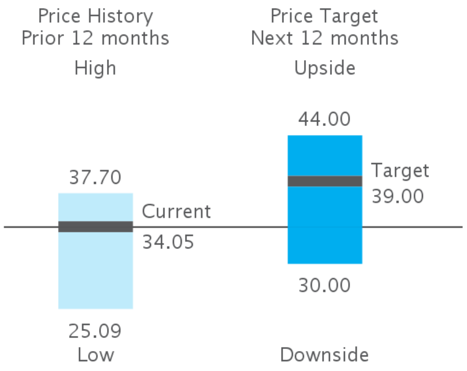
Upside case	**USD 44.00**

Our upside case assumes the impact of the zero emission credits in New York for the genco and assumes a 10% premium for the utility valuation given the above average growth.

Downside case	**USD 30.00**

Our downside case assumes a 10% discount for the utility and a 4x EBITDA at the genco based on current forwards, with no consideration of the CES or FitzPatrick acquisition

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

Regulated Focus Resonates

The enhanced focus on the utility growth provides for a top quartile growth story (excluding the earnings impacts from the genco). The 7-9% projected growth through 2020 is visible and relies on rate base growth of 6.1% annually combined with closing the earned-to-allowed ROE gap corporate-wide. The funding for the more than $25B in utility investment is supported without the need for external equity as cash flow from genco is used to offset this need.

The key to achieving the 7-9% growth rate is to execute on the regulatory rate cases in each jurisdiction. Although investor concern has focused on the legacy PEPCO Holdings jurisdictions, the growth plan appears achievable. Of the approximately $10.8B of increased rate base through 2020, more than 70% will be recovered through existing formula rates and tracker mechanisms. This leaves less than 30% exposed to traditional rate case filings. Another reason for optimism is track record: in many ways BG&E was in worse shape from a performance and earned return standpoint when Exelon acquired Constellation. Over a 3-year period operations and earned return increased significantly.

The expected range of utility net parent EPS for Exelon by year is shown in the following table, along with Barclays estimate.

FIGURE 1

Utility Net Parent EPS Projections (Exelon and Barclays)

	2016	2017	2018	2019	2020
Low	$1.15	$1.35	$1.50	$1.60	$1.70
Midpoint	$1.30	$1.50	$1.65	$1.75	$1.85
High	$1.45	$1.65	$1.80	$1.90	$2.00
Barclays	$1.27	$1.48	$1.68	NA	NA

Source: Company filings, Barclays Research

What About Generation?

Even though generation gross margin is down in 2017 and 2018, there are still plenty of positives to take away. Based on current forwards, Exelon projects over $8B of free cash flow from Exelon Generation through 2020. After accounting for committed ExGen growth capital, there is approximately $6B of free cash flow that will be split between utility investment funding and ExGen debt reduction. The target Debt to EBITDA for ExGen is 3.0x as compared to the current level of 3.4x. It should be noted that these projections are all based on current forwards and do not include the assumption of the zero emission credits in New York nor the acquisition of the FitzPatrick nuclear plant.

The company did provide expected benefits of the New York ZEC program as $0.08-$0.10 average annual accretive to EPS with an expected gross margin impact of $100M in 2017 and $150M in 2018, along with a cumulative free cash flow impact of $350M through 2020. It is further expected that a loan repayment from CENG together with a special distribution would provide an additional $400M in free cash flow. Without knowing the true economics of FitzPatrick, the impact is difficult to assess other than to say it will be accretive to both earnings and cash flow assuming the acquisition takes place. For reference, FitzPatrick's output is approximately 2/3's of the Exelon owned output from Ginna, Nine Mile 1, and Nine Mile 2. However, the benefit of the ZEC program is equivalent for every mwhr, but that assumes every mwhr is profitable at each plant without the ZEC program, which is not the case.

The announced closures of Clinton in 2017 and Quad Cities in 2018 are still planned and will occur, barring action from Illinois prior to year-end. The company has stated that by 2019 the expected annual impact to earnings will be a positive $0.07 from the plant closure/s along with a $75M pretax cash flow impact. For 2017 and 2018, the impact of gross margin is ($100M) and ($350M) respectively. At this point, although discussions are occurring, the likelihood of legislative action to save Clinton and Quad Cities is low and will rest entirely upon the lame duck session post the election.

Corporate-Wide Initiatives

Cost Controls

Exelon has announced initiatives on cost controls and expects the overall CAGR for O&M to be -1.1% through 2020. This will result in an absolute reduction of utility O&M of $200m through 2020 and an absolute reduction of $225M for ExGen through 2020.

Core Business at ExGen

Additionally, the company stated that for ExGen the only portions of the business that should be considered core are the nuclear plants and the retail business. As such, the renewable generation and the fossil plants could be monetized if they were worth more to another party than they were to Exelon.

Dividend

Finally, although no explicit statement was made, it appears that post-2018 the dividend growth rate could accelerate meaningfully beyond the 2.5% commitment through 2018. Both a straight increase or a share buyback keeping the annual dividend payment constant were mentioned as ways to increase the dividend.

Valuation Methodology and Risks

Our $39 price target is premised upon a 2018 group average multiple of 16.7x applied to our 2018 utility net parent EPS of $1.68 combined with our 2018 ExGen EBITDA of $2750M valued at 6.5x.

Our previous price target of $41 was premised upon the previous 2018 group average multiple of 17.7x applied to our previous utility net parent EPS of $1.53 combined with our previous 2018 ExGen EBITDA of $3000M valued at 6.5x.

The major risks to the investment are regulatory and commodity. As discussed previously the 7-9% utility EPS growth is premised upon reasonable regulatory treatment. To the extent that regulators do not approve what would be considered fair and balanced rate outcomes, growth would be below the 7-9% at the utility segment. On the ExGen side, operational risk for running the plants as well as power prices are key risks.

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Primary Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 29-Aug-2016, USD 34.05), Overweight/Neutral, A/CD/CE/D/J/K/L/M

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Alliant Energy (LNT)
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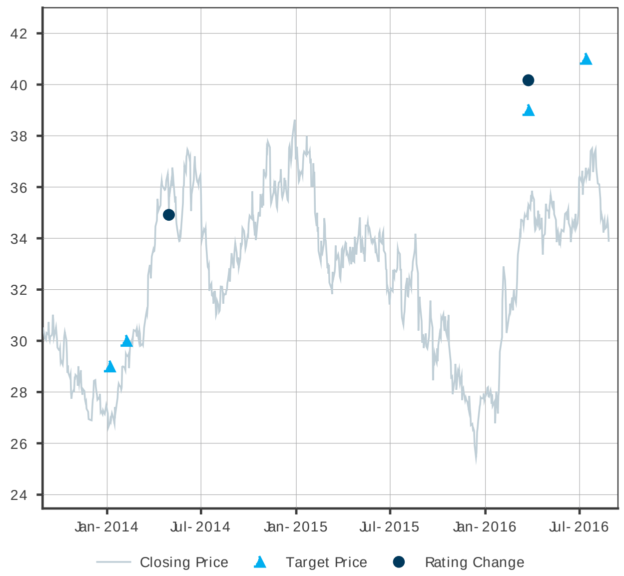
Exelon Corp. (EXC / EXC)	Stock Rating	Industry View
USD 34.05 (29-Aug-2016)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 29-Aug-2016)



Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00
30-Apr-2014	35.03	Rating Suspended	
07-Feb-2014	29.44		30.00
06-Jan-2014	26.79		29.00

Source: Thomson Reuters, Barclays Research

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Valuation Methodology: Our $39 price target is premised upon a 2018 group average multiple of 16.7x applied to the utility net parent earnings of $1.68 resulting in $28 of utility value. Exgen is valued at 6.5x 2018 EBTIDA netted against debt resulting in $11 of value for Exgen, The combined value is $39.

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October 28, 2016

COMPANY UPDATE

Exelon Corp. (EXC)

Neutral

Equity Research

Warming up a bit, but regulatory risks remain – Neutral on EXC

What's changed

Following EXC reported 3Q2016 results, we update estimates – moving our 2016/17/18/19 EPS estimates from $2.66/$2.81/$2.75/$2.67 to $2.74/$2.80/$2.84/$2.64 on revised rate case implementation, updated rate base, operating expense and financing assumptions. We raise our 12-month price target slightly – from $36 to $37 – and while we prefer, among Diversified Utilities, stocks like Buy-rated PEG and ETR over EXC, we become incrementally more positive on EXC here.

Regulatory risk remains – litigation challenges to the rules creating Zero Emission Credits (ZECs) in New York could present risk for $250-300mn in EXC’s revenues or EPS of roughly $0.18-$0.22 in 2018, on our estimates, based on the annual output of EXC's New York based nuclear plants (which varies slightly yoy due to outages) and an established price ($17/MWh or so) set by the NY state regulator.

Implications

EXC raised its 2016 guidance from $2.40-2.70 to $2.55-2.75, partly attributed to higher than expected customer demand, driven by weather positively impacting 3Q results – this does not impact future years. Rate cases filed across the various Pepco Holdings utilities should provide much needed rate relief to support regulated utility EPS. On our revised EPS estimates, EXC trades at 11.9x/11.7x/12.6x 2017-19 EPS, below Diversified Utilities with Merchant Generation peers who trade at 13.7x/13.3x/13.7x – but appears less attractive on a sum of the parts.

Valuation

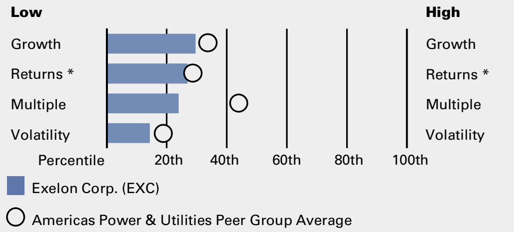
We derive our 12-month price target of $37 by using a sum-of-the-parts valuation and applying a 16.75x 2018E P/E multiple on ComEd, PECO and BGE EPS, a 16.25x 2018E P/E multiple on PHI, and a 5.5x EV multiple on non-regulated 2018E EBITDA.

Key risks

Key risks include natural gas prices, power prices and regulation.

INVESTMENT LIST MEMBERSHIP
Neutral

Investment Profile



* Returns = Return on Capital

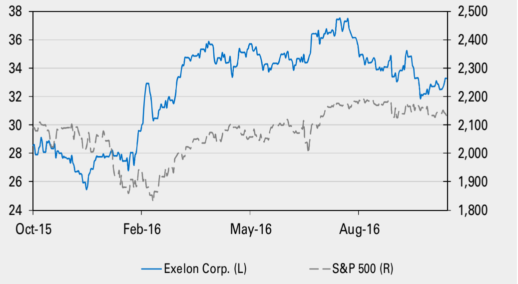
For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price ($)	33.27
12 month price target ($)	37.00
Market cap ($ mn)	30,841.3

	12/15	12/16E	12/17E	12/18E
Revenue ($ mn) New	**29,447.0**	**30,169.3**	**27,931.3**	**27,726.7**
Revenue ($ mn) Old	29,447.0	28,418.1	27,978.0	27,731.7
EPS ($) New	**2.49**	**2.74**	**2.80**	**2.84**
EPS ($) Old	2.49	2.66	2.81	2.75
P/E (X)	12.8	12.1	11.9	11.7
EV/EBITDA (X)	7.3	9.5	7.4	7.2
ROE (%)	9.4	4.4	7.5	9.0

	9/16	12/16E	3/17E	6/17E
EPS ($)	0.91	0.50	0.77	0.61

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(9.1)	(5.9)	16.5
Rel. to S&P 500	(7.6)	(7.6)	12.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/27/2016 close.

Coverage View: Neutral

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Exelon Corp.: Summary Financials

Profit model ($ mn)	12/15	12/16E	12/17E	12/18E
Total revenue	29,447.0	30,169.3	27,931.3	27,726.7
Cost of goods sold	(13,084.0)	(11,283.4)	(7,638.1)	(7,216.5)
SG&A	(8,323.0)	(10,122.0)	(9,214.0)	(9,048.3)
R&D	0.0	0.0	0.0	0.0
Other operating profit/(expense)	(1,200.0)	(1,569.4)	(1,701.6)	(1,720.8)
ESO expense	--	--	--	--
EBITDA	**6,840.0**	**7,194.5**	**9,377.6**	**9,741.1**
Depreciation & amortization	(2,451.0)	(4,091.2)	(4,533.1)	(4,087.6)
EBIT	**4,389.0**	**3,103.3**	**4,844.5**	**5,653.5**
Net interest income/(expense)	(1,073.0)	(1,557.7)	(1,515.4)	(1,568.6)
Income/(loss) from associates	0.0	(15.0)	0.0	0.0
Others	9.0	464.4	126.2	129.8
Pretax profits	**3,325.0**	**1,995.0**	**3,455.4**	**4,214.7**
Provision for taxes	(1,073.0)	(779.2)	(1,264.2)	(1,524.6)
Minority interest	17.0	(72.0)	(166.6)	(115.2)
Net income pre-preferred dividends	**2,269.0**	**1,143.7**	**2,024.6**	**2,574.9**
Preferred dividends	0.0	(10.0)	(12.0)	(12.0)
Net income (pre-exceptionals)	**2,269.0**	**1,133.7**	**2,012.6**	**2,562.9**
Post tax exceptionals	(42.0)	1,405.4	643.5	165.0
Net income (post-exceptionals)	**2,227.0**	**2,539.1**	**2,656.1**	**2,727.9**
EPS (basic, pre-except) ($)	**2.55**	**1.23**	**2.13**	**2.68**
EPS (diluted, pre-except) ($)	**2.54**	**1.22**	**2.12**	**2.67**
EPS (basic, post-except) ($)	**2.50**	**2.75**	**2.81**	**2.85**
EPS (diluted, post-except) ($)	**2.49**	**2.74**	**2.80**	**2.84**
Common dividends paid	0.0	0.0	0.0	0.0
DPS ($)	1.24	1.26	1.30	1.33
Dividend payout ratio (%)	48.6	103.0	60.8	49.6

Growth & margins (%)	12/15	12/16E	12/17E	12/18E
Sales growth	7.4	2.5	(7.4)	(0.7)
EBITDA growth	45.5	5.2	30.3	3.9
EBIT growth	83.7	(29.3)	56.1	16.7
Net income (pre-except) growth	36.9	(50.0)	77.5	27.3
EPS growth	32.4	(51.9)	73.6	25.6
Gross margin	55.6	62.6	72.7	74.0
EBITDA margin	23.2	23.8	33.6	35.1
EBIT margin	14.9	10.3	17.3	20.4

Cash flow statement ($ mn)	12/15	12/16E	12/17E	12/18E
Net income	2,250.0	1,216.7	2,191.2	2,690.1
D&A add-back (incl. ESO)	3,987.0	5,279.2	4,533.1	4,087.6
Minority interest add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	123.0	0.0	0.0	0.0
Other operating cash flow	1,274.0	1,587.9	1,652.6	1,663.3
Cash flow from operations	**7,634.0**	**8,083.9**	**8,376.9**	**8,441.0**
Capital expenditures	(7,624.0)	(8,708.1)	(8,152.5)	(7,090.0)
Acquisitions	(40.0)	(6,896.0)	(110.0)	0.0
Divestitures	147.0	49.0	0.0	0.0
Others	(323.0)	(66.0)	(298.0)	(273.0)
Cash flow from investing	**(7,840.0)**	**(15,621.1)**	**(8,560.5)**	**(7,363.0)**
Dividends paid (common & pref)	(1,105.0)	(1,166.6)	(1,223.7)	(1,271.9)
Inc/(dec) in debt	4,102.0	3,608.0	(285.0)	45.0
Other financing cash flows	1,833.0	(141.0)	1,182.0	32.0
Cash flow from financing	**4,830.0**	**2,300.4**	**(326.7)**	**(1,194.9)**
Total cash flow	**4,624.0**	**(5,236.8)**	**(510.3)**	**(116.9)**

Balance sheet ($ mn)	12/15	12/16E	12/17E	12/18E
Cash & equivalents	6,502.0	1,265.2	754.9	638.0
Accounts receivable	4,099.0	5,074.0	5,074.0	5,074.0
Inventory	1,566.0	1,562.0	1,562.0	1,562.0
Other current assets	3,167.0	3,675.0	3,675.0	3,675.0
Total current assets	**15,334.0**	**11,576.2**	**11,065.9**	**10,949.0**
Net PP&E	57,439.0	73,228.4	75,785.9	77,546.5
Net intangibles	2,672.0	6,672.0	6,672.0	6,672.0
Total investments	639.0	592.0	592.0	592.0
Other long-term assets	19,300.0	23,919.0	24,216.0	24,513.0
Total assets	**95,384.0**	**115,987.6**	**118,331.8**	**120,272.5**
Accounts payable	2,883.0	3,044.0	3,044.0	3,044.0
Short-term debt	2,033.0	3,079.0	3,079.0	3,079.0
Other current liabilities	4,202.0	6,035.0	6,035.0	6,035.0
Total current liabilities	**9,118.0**	**12,158.0**	**12,158.0**	**12,158.0**
Long-term debt	24,286.0	34,307.0	34,022.0	34,067.0
Other long-term liabilities	34,658.0	42,061.5	42,541.2	42,986.7
Total long-term liabilities	**58,944.0**	**76,368.5**	**76,563.2**	**77,053.7**
Total liabilities	**68,062.0**	**88,526.5**	**88,721.2**	**89,211.7**
Preferred shares	**193.0**	**4.0**	**16.0**	**28.0**
Total common equity	**25,793.0**	**25,945.1**	**27,916.0**	**29,238.9**
Minority interest	**1,336.0**	**1,512.0**	**1,678.6**	**1,793.8**
Total liabilities & equity	95,384.0	115,987.6	118,331.8	120,272.5

Additional financials	12/15	12/16E	12/17E	12/18E
Net debt/equity (%)	72.5	131.5	122.7	117.5
Interest cover (X)	4.1	2.0	3.2	3.6
Inventory days	44.2	50.6	74.6	79.0
Receivable days	54.6	55.5	66.3	66.8
BVPS ($)	28.04	28.09	29.16	30.51
ROA (%)	2.5	1.1	1.7	2.1
CROCI (%)	9.7	10.1	8.9	8.4
Dupont ROE (%)	**8.3**	**4.1**	**6.8**	**8.3**
Margin (%)	7.7	3.8	7.2	9.2
Turnover (X)	0.3	0.3	0.2	0.2
Leverage (X)	3.5	4.2	4.0	3.9
Free cash flow per share ($)	0.01	(0.68)	0.24	1.41
Free cash flow yield (%)	0.0	(2.0)	0.7	4.2

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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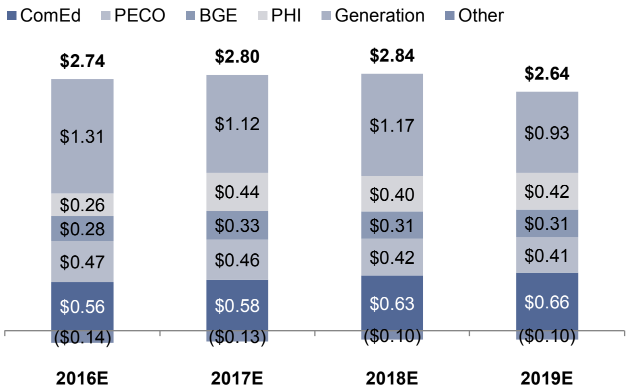
EXC in pictures

Exhibit 1: We update our estimates for 3Q2016 results and are above consensus for 2016-18…
GS New vs. Old vs. Consensus

	EPS Estimates			% Difference	
	New	Old	Cons.	vs. Old	vs. Cons.
2016E	$2.74	$2.66	$2.58	3%	6%
2017E	$2.80	$2.81	$2.63	(0%)	7%
2018E	$2.84	$2.75	$2.78	3%	2%
2019E	$2.64	$2.67	$2.68	(1%)	(2%)

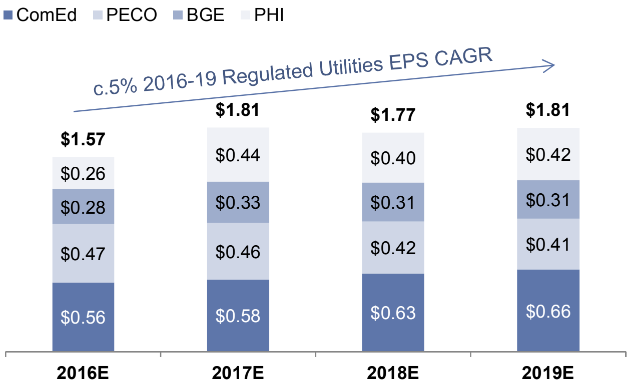
Source: Bloomberg, Goldman Sachs Global Investment Research.

Exhibit 2: …as we revise rate case assumptions…
EPS by segment, 2016-2019



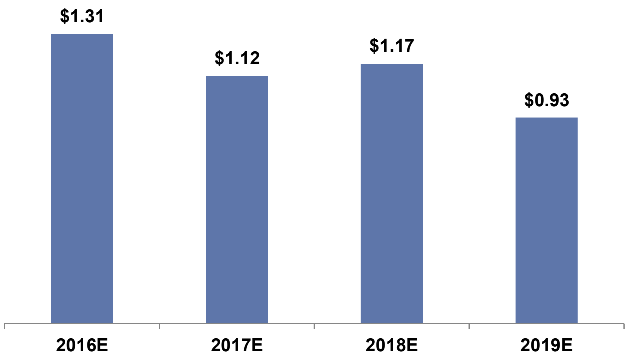
Source: Goldman Sachs Global Investment Research.

Exhibit 3: …supporting regulated utility growth…
EPS by regulated utility, 2016-2019



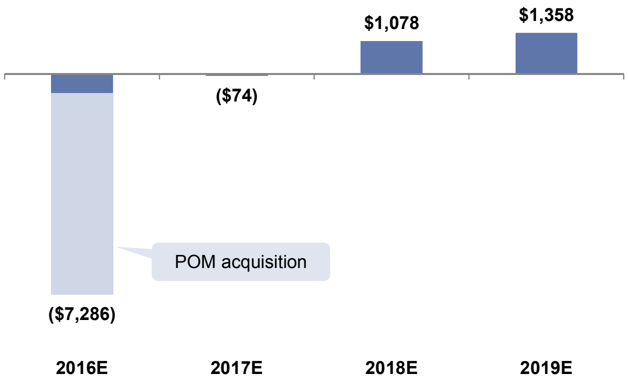
Source: Goldman Sachs Global Investment Research.

Exhibit 4: …as the generation segment EPS declines
Exelon Generation EPS, 2016-2019



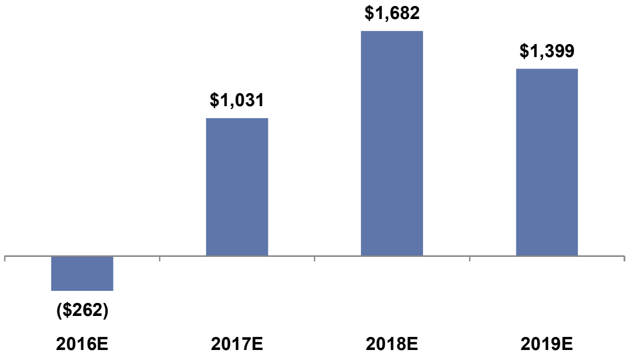
Source: Goldman Sachs Global Investment Research.

Exhibit 5: We expect free cash flow to improve…
EXC Consolidated CFO – CFI in $mn, 2016-2019



Source: Goldman Sachs Global Investment Research.

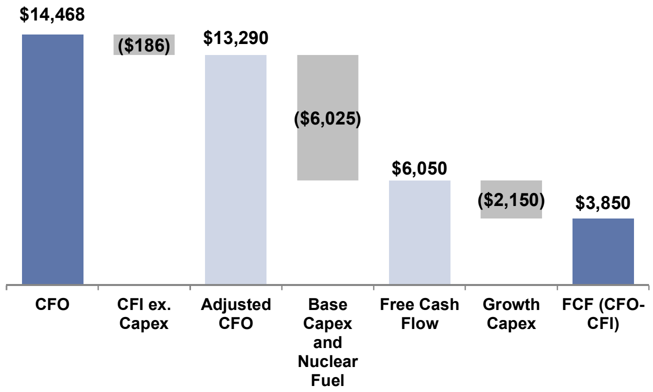
Exhibit 6: With strong free cash flow from Exelon Generation…
Exelon Generation CFO – CFI in $mn, 2016-2019



Source: Goldman Sachs Global Investment Research.

Exhibit 7: …producing excess free cash flow to support the regulated businesses…

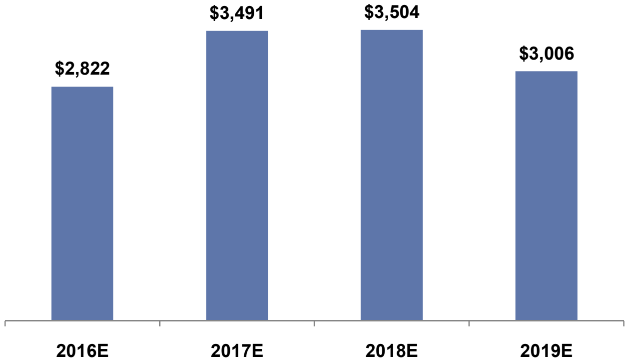
Exelon Generation Free Cash Flow (CFO – CFI) in $mn, 2016-2019



Source: Goldman Sachs Global Investment Research.

Exhibit 8: …despite an EBITDA profile that remains relatively flat

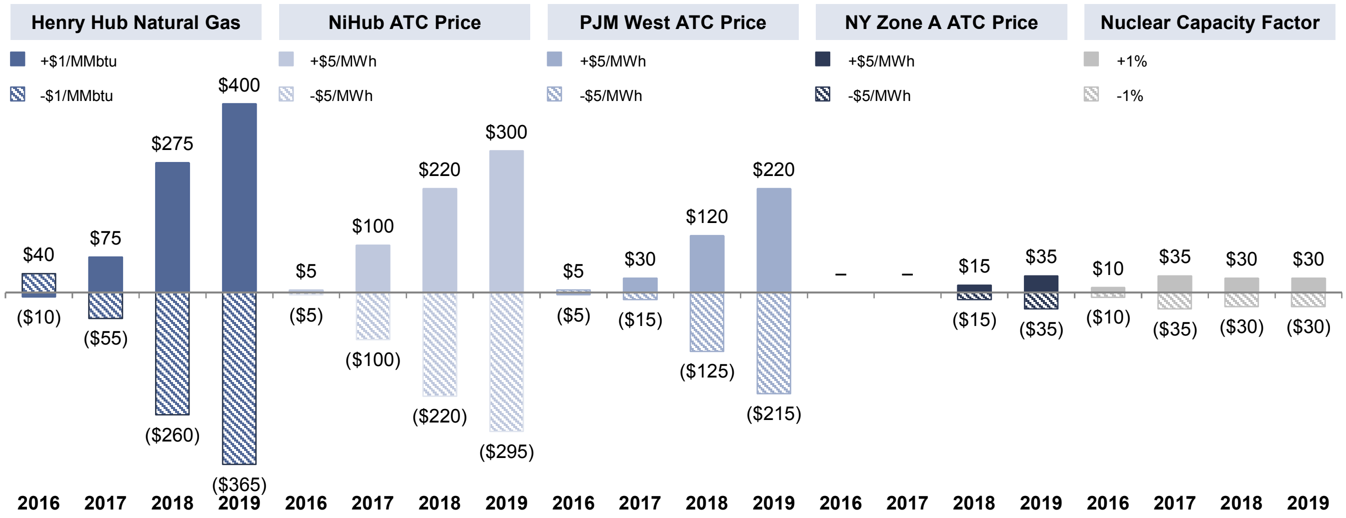
Exelon Generation EBITDA in $mn, 2016-2019



Source: Goldman Sachs Global Investment Research.

Exhibit 9: Exelon Generation’s hedging program reduces near-term commodity risk and reflects their view on upside in pricing in NiHub

Exelon Generation Gross Margin Sensitivities in $mn, 2016-2019



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 10: We derive our $37 price target using a sum-of-the-parts analysis…
EXC Sum-of-the-Parts Analysis

Sum of the Parts Analysis	
Regulated Utilities	**2018 EPS**
ComEd	$0.63
PECO	0.42
BGE	0.31
Legacy EXC Regulated Utilities	**$1.37**
Target P/E multiple	16.8x
Legacy EXC Regulated Utilities Equity Value per Share	**$23**
PHI	**$0.40**
Target P/E multiple	16.3x
PHI Equity Value per Share	**$7**
Exelon Generation	**2018 EBITDA**
Exelon Generation EBITDA ($mm)	$3,504
Target EV/EBITDA multiple	5.50x
Exelon Generation Enterprise Value ($mm)	**$19,274**
Less: Exelon Generation Net Debt ($mm, as of 9/30/2016)	(9,381)
Less: Exelon Generation Noncontrolling interest ($mm, as of 9/30/2016)	(1,432)
Exelon Generation Equity Value ($mm)	**$8,461**
Current Diluted Share Count (mm, as of 9/30/2016)	926
Exelon Generation Equity Value per Share	**$9**
Parent	**2018 EPS**
Exelon Parent EPS	($0.10)
Target P/E multiple	16.8x
Exelon Parent Equity Value per Share	**($2)**
Total Value per Share	**$37**

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 11: EXC trades at a discount relative to other Diversified Utilities with merchant generation
Diversified Utilities Comparable Analysis

Diversified Utilities Comparable Analysis						EPS				P/E					
	Ticker	Rating	Close 10/26/16	12-Mo Px. Tgt	Tot Ret to Target	2016	2017	2018	2019	2016	2017	2018	2019	Dividend Yield	Dividend CAGR 2016-18E
Diversified Utilities															
CenterPoint Energy	CNP	Neutral	$22.66	$24	10%	$1.13	$1.25	$1.34	$1.41	20.0x	18.2x	17.0x	16.1x	4.5%	5.0%
Dominion Resources	D	Neutral	$73.83	$79	11%	$3.95	$3.90	$4.35	$4.51	18.7x	18.9x	17.0x	16.4x	3.8%	8.0%
Entergy	ETR	Buy	$72.28	$82	18%	$7.13	$4.81	$4.86	$5.06	10.1x	15.0x	14.9x	14.3x	4.7%	3.5%
Exelon	EXC	Neutral	$33.26	$37	15%	$2.74	$2.80	$2.84	$2.64	12.1x	11.9x	11.7x	12.6x	3.8%	2.5%
FirstEnergy	FE	Sell	$33.96	$29	(10%)	$2.69	$2.45	$2.54	$2.37	12.6x	13.9x	13.3x	14.4x	4.2%	2.0%
NextEra Energy	NEE	NR	$126.20	--	--	$6.39	$6.77	$7.36	$7.85	19.7x	18.6x	17.2x	16.1x	2.8%	15.4%
Public Service Enterprise Group	PEG	Buy	$41.22	$47	18%	$2.88	$2.97	$3.08	$3.04	14.3x	13.9x	13.4x	13.6x	4.0%	4.5%
Sempra Energy	SRE	Neutral	$105.35	$112	9%	$4.60	$5.10	$6.19	$7.39	22.9x	20.6x	17.0x	14.3x	2.9%	9.0%
Diversified Utilities Mean					**9%**					**16.3x**	**16.4x**	**15.2x**	**14.7x**	**3.8%**	**6.2%**
Diversified Utilities Median					**11%**					**16.5x**	**16.6x**	**15.9x**	**14.3x**	**3.9%**	**4.8%**
Merchant Generation names (PEG, ETR, FE, EXC)															
Diversified Utilities / Merchant Generation Mean					**10%**					**12.3x**	**13.7x**	**13.3x**	**13.7x**	**4.2%**	**3.1%**
Diversified Utilities / Merchant Generation Median					**17%**					**12.4x**	**13.9x**	**13.4x**	**13.9x**	**4.1%**	**3.0%**
Infrastructure names (CNP, D, NEE, SRE)															
Diversified Utilities / Infrastructure Mean					**10%**					**20.3x**	**19.1x**	**17.0x**	**15.7x**	**3.5%**	**9.4%**
Diversified Utilities /Infrastructure Median					**10%**					**19.9x**	**18.8x**	**17.0x**	**16.1x**	**3.3%**	**8.5%**

Source: Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

I, Michael Lapides, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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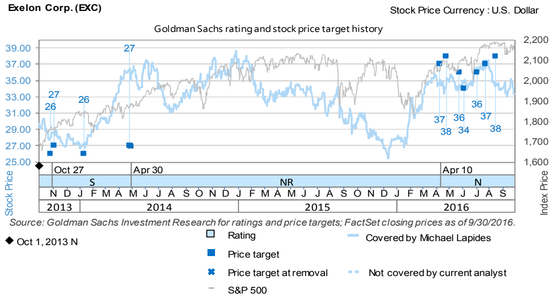

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Jonathan Donnel | Analyst | 713-393-4503

August 17, 2016

Exelon Corporation

EXC – $34.23
Sector Perform – Price Target $37

Analyst Day Takeaways: *Increasing Price Target to $37*

Quick Take: The timing of the Company's analyst day was advantageous given all the puts and takes in the story over the past few months. Representatives from each of the operating segments gave detailed accounts of their strategy and outlook over the next five years, with a clear emphasis on growing utility rate base and returns. The targets laid out by the Company are ambitious and will require successful regulatory outcomes and continued operating improvements. A number of potential catalysts remain in the offing, including the implementation of the zero emission credits in New York, the addition of the FitzPatrick nuclear plant to the fleet, and the closing of the Con Ed retail segment, all of which would be accretive to our forward earnings estimates. **Our price target increases from $34 to $37, reflecting the higher concentration of income to be generated from the regulated segments and we maintain our Sector Perform rating.**

Utility Growth in Focus: Contributions from the utility segments will pace earnings growth for the next few years as the Company focuses on growing rate base and closing the gap between allowed and achieved rates of return. EXC plans over $25 billion in capital expenditures in its regulated businesses over the next five years, driving overall rate base growth in excess of six percent per year. The Company is targeting earnings growth of seven to nine percent from these segments during this timeframe by improving actual returns towards current and expected future allowed levels. The PHI utilities represent some of the clearest opportunities to execute on this strategy as they have been absent from rate case hearings during the merger proceedings and have been tracking in the second to fourth quartile on a number of industry operating benchmarks.

Revisions to Earnings Estimates and Price Target: The Company reiterated guidance for FY16 earnings of $2.40 to $2.70/share, with 3Q16 earnings to be in a range of $0.65 to $0.75/share following 2Q16 results of $0.65/share (about $0.09/share above consensus). Our FY16 estimate increases from $2.50/share to $2.55/share due to the 2Q16 beat, while our FY17 estimate decreases from $2.70/share to $2.60/share as ExGen gross margins move down, offsetting utility growth. We are initiating our FY18 earnings estimate at $2.75/share, indicating an improvement in ExGen bottom line contributions as the Clinton and Quad Cities plant retirements are more fully reflected. **Our new price target of $37 is derived by applying a 14x multiple to our FY17 earnings estimate, in-line with the recent high water mark.**

SA approved: 6/17/16 6:35am CT

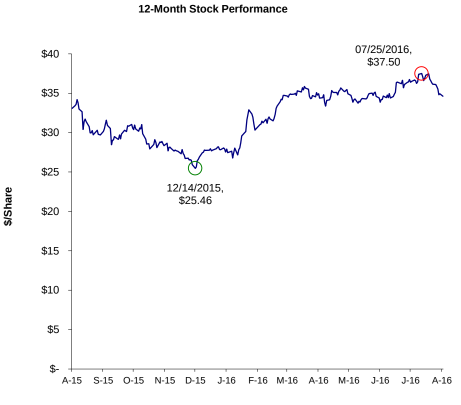
Exelon Corporation
http://www.exeloncorp.com/investor-relations

Price Target		$37
Recommendation		SP
Share Price	(August 16)	$34.23
52-week range		$25.09 - $37.70
YTD Return		23.26%
Dividend Yield		3.7%
Market Cap *(mil.)*		$31,590
Enterprise Value		$66,482

Fiscal Year	**2015A**	**2016E**	**2017E**
HW EPS	$2.50	$2.55	$2.60
P/E	13.7x	13.4x	13.2x
Consensus EPS	$2.49	$2.55	$2.64
P/E	13.7x	13.4x	13.0x

BALANCE SHEET *(mil.)*
6/30/2016

Cash & Equivalents	$1,647
PP&E (net)	$70,693
Goodwill	$6,696
Total Assets	$112,778
Short-term Debt	$3,644
Long-term Debt	$32,182
Total Liabilities	$87,022
Shareholder Equity	$25,756
Working Capital	($399)
Book Value / Share	$27.91
Total Debt / Capital	56.8%



Source: Scotia Howard Weil, FactSet

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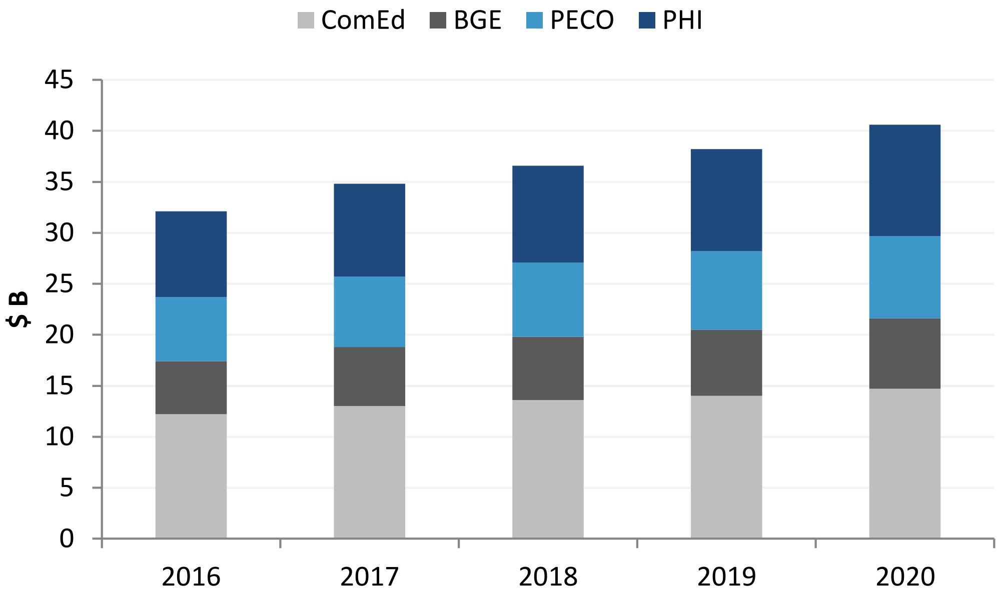
Utility Growth in Focus

Contributions from the utility segments will pace earnings growth for the next few years as the Company focuses on growing rate base and closing the gap between allowed and achieved rates of return. EXC is targeting earnings growth at its regulated utility segments of seven to nine percent annually through 2020, with the largest percentage increases slated to occur over the next two years.

The bulk of the expected earnings growth will be driven by a similar increase in the overall utility rate base. EXC rate base is expected to climb from about $32 billion as of year-end 2016 to almost $41 billion by 2020 (Figure 1), or a little more than six percent per year on a compound annual basis. BGE is anticipated to have the largest rate base CAGR at over seven percent, growing from the smallest beginning base and benefitting from double digit growth in 2017.

Figure 1: Utility Rate Base Growth Forecasts

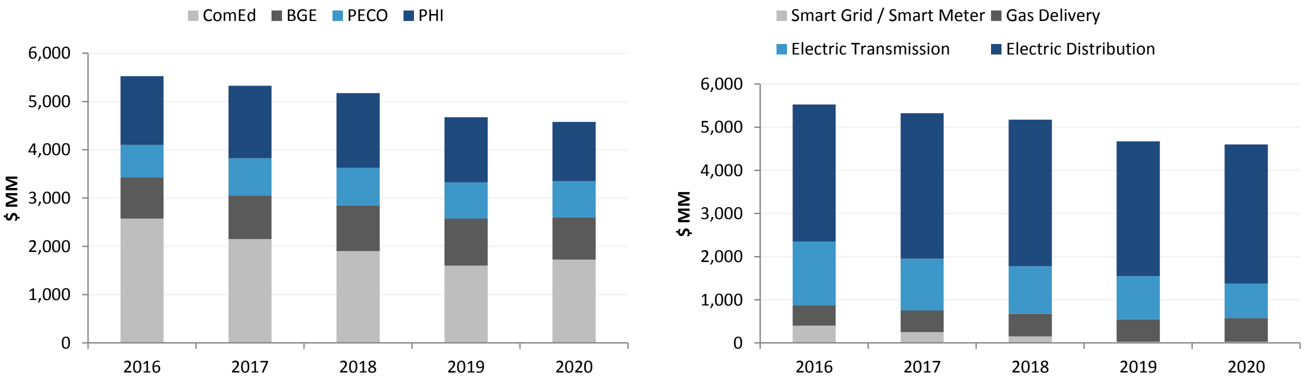


Source: Company Filings, SHW Research

Rate base growth will primarily be a function of a significant capital spending plan across each of the utility segments as the Company aims to invest over $25 billion between 2016 and 2020 across its four utility segments (ACE, DPE, and PEPCO are consolidated within the PHI reporting entity). Figure 2, Page 3, shows the capital spending program by utility and by investment type over the planning cycle.

As would be expected, the highest concentration of planned expenditures will occur at the Company's largest utility, ComEd. Investments at ComEd are front-end loaded during the next two years as spending associated with the Illinois Energy Infrastructure Modernization Act (EIMA) wind down. The EIMA called for $2.6 billion in CAPEX for reliability enhancements to the electric grid and "smart grid" upgrades such as smart meters, new substations, and cyber security over a ten-year period beginning in 2011. ComEd has completed 85 percent of the work and will have installed all of the 4 million smart meters three years ahead of schedule. All of the planned rate base additions at ComEd will be recovered through formulaic rate mechanisms during the next five years.

Figure 2: CAPEX by Utility and Type

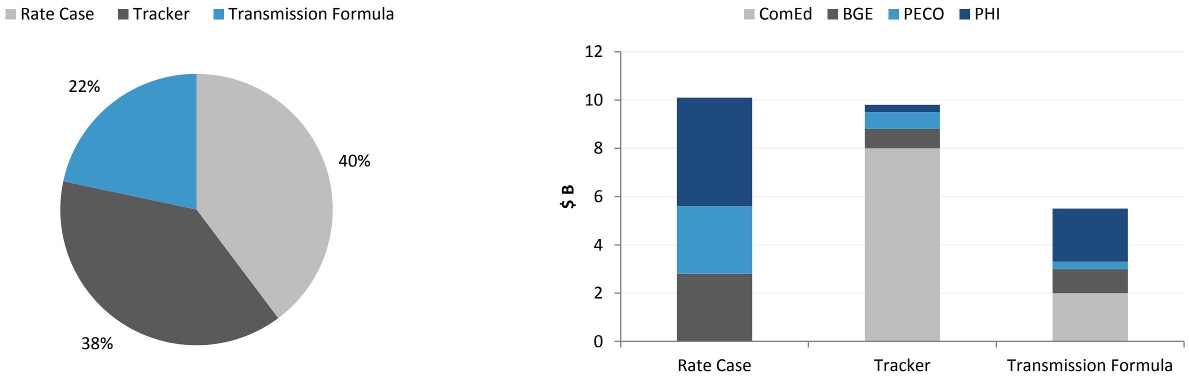


Source: Company Filings, Scotia Howard Weil Research

BGE and PECO are the Company's two smallest utilities by rate base, but are expected to have the highest growth rates in this metric over the next five years. These two utilities earned the highest returns on equity in 2015 (BGE 10.6 percent and PECO 11.9 percent) among the utility segments at EXC. About 55 percent of rate base increases at BGE and PECO are expected to be recovered through trackers and formulaic methods, though these are not expected to kick in at PECO until 2018. PECO will see a large increase in CAPEX for existing gas infrastructure (doubling on an annual basis from 2015 to 2020) as the segment accelerates the replacement cycle for these assets to 20 years. Results at BGE have also benefitted from significant improvements in operating metrics since its merger with EXC in 2012. Figure 5 highlights some of these results which will be a model for similar operating enhancements at PHI going forward.

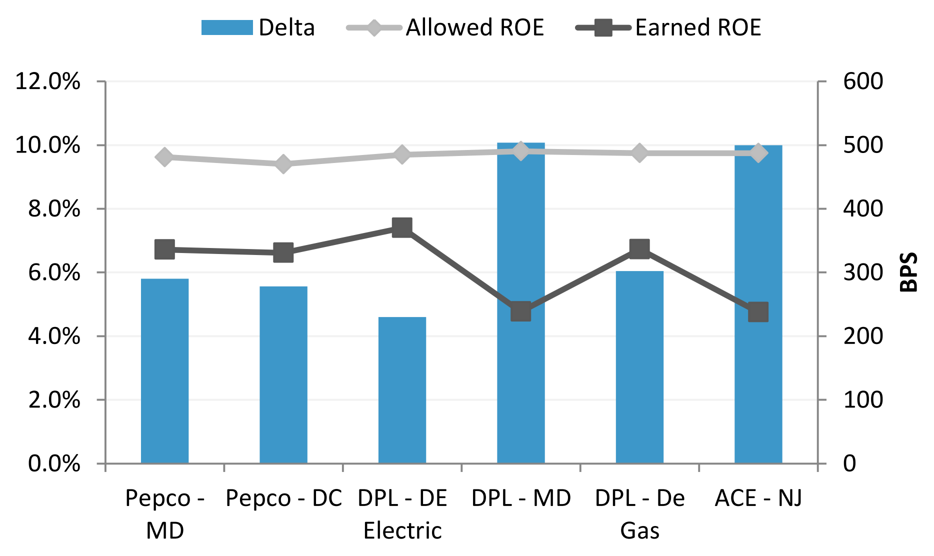
The consolidated PHI utilities (ACE, DPL, and PEPCO) start with the second highest rate base of the EXC utilities and will see commensurate capital spending additions to drive rate base growth above the average compound annual rate among the individual entities. About two-thirds of the projected investments will be directed towards electric distribution projects. Per terms of the merger agreement, EXC has made certain reliability commitments related to outage frequency rates and duration, driving the capital projects. Approximately half of the forecasted expenditures to implement reliability pledges are anticipated to be recovered via traditional rate cases.

Figure 3: CAPEX Recovery Mechanisms



Source: Company Filings, Scotia Howard Weil Research

Figure 4: PHI Earned vs. Allowed Returns



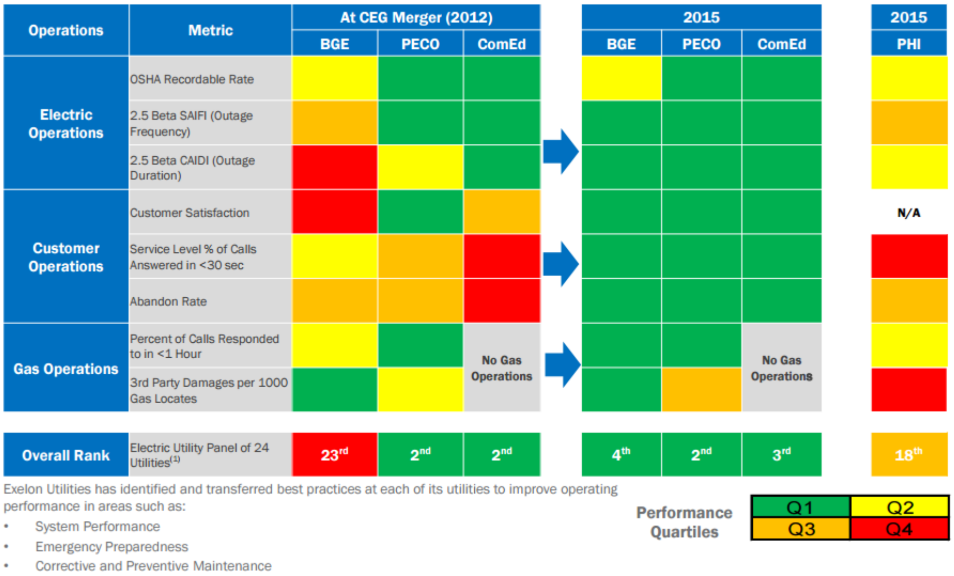
Source: Company Filings, Scotia Howard Weil Research

The difference between forecasted utility income growth (seven to nine percent) and rate base growth (about six percent) is predicated on the Company closing the gap between allowed and actual returns at the utilities. PHI currently has the widest gap to overcome, as shown in Figure 4 above. Earned returns on electric distribution rate base have been running about 200 to 500 bps below allowed rates at PHI. The utilities were absent from traditional rate cases while the proposed merger languished in the regulatory approval phase, creating a drag on the bottom line. Additionally, PHI metrics have generally fallen in the lower end of industry benchmarks across a variety of operating categories, including safety, outage rates, and customer satisfaction. Among 24 electric utilities, PHI came in 18th in overall rank in 2015.

The Company has embarked on an aggressive rate base filing schedule subsequent to the closing of the transaction in late 1Q16 to remedy some of the regulatory lag at PHI. Six electric and gas distribution rate cases have been filed across the Maryland, Delaware, New Jersey, and Washington D.C. territories, with final orders expected between late 2016 and 3Q17. Requested ROEs in the filings are generally in the mid 10 percent range, suggesting a healthy increase from current allowed rates and actual returns. Should the proposed rates be accepted, residential bills would be expected to increase in a range of about five to 15 percent, which is likely to create some pushback from the Commissions and intervenors.

EXC's integration of BGE provides a blueprint for enhancing operating results at PHI, in our opinion. BGE metrics had similar room for improvement when it was acquired by EXC and has quickly improved to the first quartile of comparable utilities. Management highlighted EXC's culture of collaboration and competition between its operating segments, where best practices are shared and individuals are held accountable for results. Figure 5 highlights how these standards have raised operating performance (and therefore returns) at all of the utilities over the past three years. Quickly improving these metrics will be key for the Company to deliver on the forecasted earnings growth, particularly given the higher expected increases over the next two years and the potential for some ongoing regulatory lag given all the current rate cases.

Figure 5: Bringing Utility Operations up to Exelon Standards



Operations	Metric	At CEG Merger (2012) BGE	At CEG Merger (2012) PECO	At CEG Merger (2012) ComEd	2015 BGE	2015 PECO	2015 ComEd	2015 PHI
Electric Operations	OSHA Recordable Rate	🟨	🟩	🟩	🟨	🟩	🟩	🟨
	2.5 Beta SAIFI (Outage Frequency)	🟧	🟩	🟩	🟩	🟩	🟩	🟧
	2.5 Beta CAIDI (Outage Duration)	🟥	🟨	🟩	🟩	🟩	🟩	🟨
Customer Operations	Customer Satisfaction	🟥	🟩	🟧	🟩	🟩	🟩	N/A
	Service Level % of Calls Answered in <30 sec	🟨	🟧	🟥	🟩	🟩	🟩	🟥
	Abandon Rate	🟧	🟧	🟥	🟩	🟩	🟩	🟧
Gas Operations	Percent of Calls Responded to in <1 Hour	🟨	🟩	No Gas Operations	🟩	🟩	No Gas Operations	🟨
	3rd Party Damages per 1000 Gas Locates	🟩	🟨		🟩	🟧		🟥
Overall Rank	Electric Utility Panel of 24 Utilities(1)	🟥 23rd	🟩 2nd	🟩 2nd	🟩 4th	🟩 2nd	🟩 3rd	🟧 18th

Exelon Utilities has identified and transferred best practices at each of its utilities to improve operating performance in areas such as:

- System Performance
- Emergency Preparedness
- Corrective and Preventive Maintenance

Performance Quartiles

🟩 Q1	🟨 Q2
🟧 Q3	🟥 Q4

Source: Company Filings

The utility earnings growth targets will clearly depend on successful outcomes of the rate cases currently underway, and the Company's ability to foster constructive relationships with regulators and constituents in its new service territories as it expects a "steady diet" of regulatory actions over the next few years. An increasing proportion of capital recovery through tracker and formulaic mechanisms should support the overall outlook, but EXC will clearly be engaged in a number of traditional rate cases, particularly for the PHI companies. We note the commissions in these service territories are generally considered to be more difficult from an investor perspective, as shown in Figure 6 below.

As we saw in the PHI merger approval process, individual commissions could prove to be unpredictable. As noted in the presentation material, New Jersey has set a statute requiring rate case decisions in nine months, but enforcement of this requirement has not been successful and most fully-litigated cases take about a year to reach a conclusion. Similarly, the Washington D.C. commission targets a nine-month turnaround, but more often resolves its cases in about a year. These factors add some risk to the overall growth targets, in our opinion.

Figure 6: Commission Rankings

Jurisdiction	Commission Name	RRA Tier Rank (of 7)	RRA Ranking	Ranking Range	Date of Ranking	Pending Rate Cases	Rate Cases in Last 3 Years
Arizona	Arizona Corporation Commission	5	Average	3	3/1/2005	2	3
Oregon	Oregon Public Utility Commission	5	Average	3	9/22/2006	0	7
Vermont	Vermont Public Service Board	5	Average	3	1/4/2007	0	1
Rhode Island	Rhode Island Public Utilities Commission	5	Average	3	5/25/2010	0	0
New Jersey	**New Jersey Board of Public Utilities**	**5**	**Average**	**3**	**4/16/2012**	**2**	**5**
South Dakota	South Dakota Public Utilities Commission	5	Average	3	6/28/2012	0	5
Massachusetts	Massachusetts Department of Public Utilities	5	Average	3	4/9/2013	3	5
Texas	Railroad Commission of Texas	5	Average	3	3/14/2014	0	2
Delaware	**Delaware Public Service Commission**	**5**	**Average**	**3**	**10/24/2014**	**0**	**2**
Washington	Washington Utilities and Transportation Commission	5	Average	3	10/28/2015	4	8
Texas	Public Utility Commission of Texas	6	Below Average	1	5/11/2001	2	8
Montana	Montana Public Service Commission	6	Below Average	1	10/10/2001	1	2
New Mexico	New Mexico Public Regulation Commission	6	Below Average	1	4/1/2008	3	3
West Virginia	Public Service Commission of West Virginia	6	Below Average	1	1/16/2013	1	4
Illinois	Illinois Commerce Commission	6	Below Average	1	10/24/2014	0	13
District of Columbia	**District of Columbia Public Service Commission**	**6**	**Below Average**	**1**	**10/28/2015**	**1**	**3**
Maryland	**Maryland Public Service Commission**	**7**	**Below Average**	**2**	**7/15/2009**	**2**	**13**
Connecticut	Connecticut Public Utilities Regulatory Authority	7	Below Average	2	10/22/2013	0	3

Source: S&P Global, Scotia Howard Weil Research

ExGen Outlook

Generation took a back seat to the utility segments in terms of airtime in the presentations as persistently low power prices have been a drag on gross margin outlook and the Company has worked to minimize exposure to merchant power markets. Details on the planned closure of certain nuclear plants and Zero Emission Credits in New York provided some clarity on impacts to forward earnings and cash flows in the segment.

There is clearly less attention on the segment as a long-term core business line as the EXC is focused on reducing operating expenses, minimizing capital expenditures (particularly for growth projects), and plans on diverting free cash flows towards investment in its utility segments and debt reduction.

Nuclear Retirements: The Company has been pushing for potential legislation in Illinois to support its nuclear generation facilities by recognizing the value created by their carbon-free, baseload generation that is not fully inherent in market power prices. After the legislature failed to enact a new law and the Quad Cities plant failed to clear the 2019/2020 PJM capacity auction, Exelon had announced plans to close its Clinton and Quad Cities nuclear plants, noting they had generated losses of about $800 million over the past seven years.

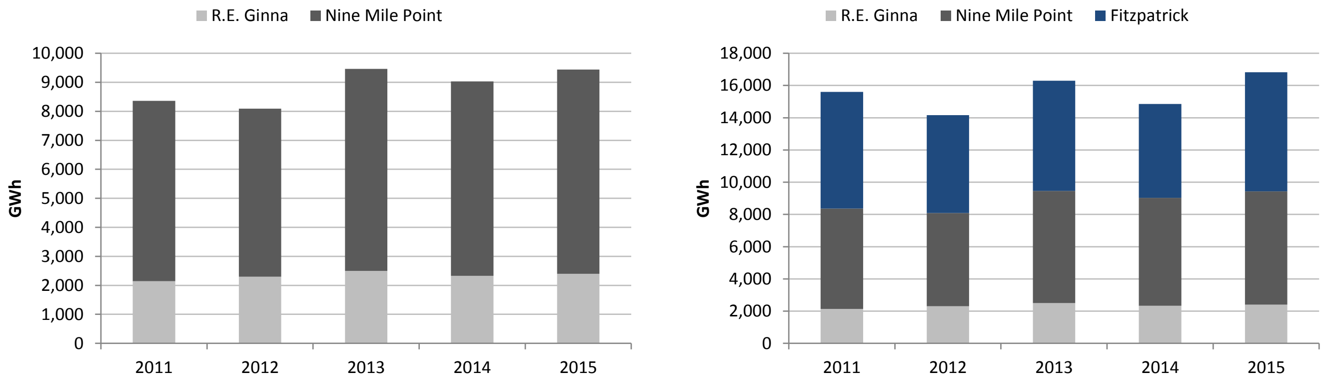
The units are scheduled to close in mid-2017 (Clinton) and mid-2018 (Quad Cities), providing an operating uplift of about $0.07/share to the bottom line and about a $75 million positive impact to pre-tax cash flows on a run-rate basis in 2019. Contributions from these facilities have been removed from the Company’s ExGen gross margin guidance going forward, driving some the year-over-year expected declines in this metric beginning in 2017.

Management has made it clear it is less willing to wait on future market improvements when making decisions on the viability of under-performing assets. In addition to these nuclear plants, EXC has retired an additional 1,350 MWs of fossil generation capacity during the preceding five years and we suspect more closures are likely over the current planning cycle. No specific plants were singled out, but the single-unit Three Mile Island nuclear plant in Pennsylvania would appear to be at the top of the watch list for future action, in our opinion.

New York Zero Emission Credits: On a brighter note, at the beginning of the month, the New York Public Service Commission approved the state’s Clean Energy Standard (CES), counting nuclear generation towards the state’s 50 percent zero-carbon energy target by 2030. The CES establishes a Zero Emission Credit (ZEC) program, similar to other Renewable Energy Credits (REC) in other jurisdictions that compensates generation for its environmental attributes.

Credits would start at about $17.50/MWh generated and gradually increase to about $29/MWh in the final two years of the plan. These credit prices would be based on an assumed $39/MWh wholesale electricity price and would decrease should the market increase from this level. The three plants considered under the proposal are R.E. Ginna (EXC 50.01% owner), Nine Mile Point (EXC 43.97% owner), and James A. FitzPatrick (ETR 100% owner). The plan would add about $100 million to gross margins at ExGen in 2017 and about $150 million in 2018, increasing EPS by about $0.08 to $0.10 per share. These amounts are not included in current guidance as the Company awaits formal contracts from NYSERDA (likely a 3Q16 event).

Figure 7: New York Nuclear Historical Generation



Source: Company Filings, Scotia Howard Weil Research

The CES and ZECs remain subject to judicial review, but the Company is confident the plan will overcome legal challenges for a number of reasons including:

- Similarity to RECs that have never been overturned in other jurisdictions,
- ZECs are not affiliate contracts like those previously proposed to support Ohio nuclear plants and the units will remain price takers in the competitive market,
- FERC has never applied its Minimum Offer Price Rule (MOPR) to existing assets, only for new entrants, and
- The plan has widespread support from a variety of stakeholders including the NY-ISO, New York executive and legislative branches, and a variety of public interest groups.

In conjunction with the adoption and approval of the CES, EXC has entered into an agreement to purchase the 838 MW FitzPatrick nuclear plant from Entergy for $110 million. FitzPatrick is the third facility that meets the standards to qualify for the ZEC program; ETR had previously announced plans to shutter the plant. The transaction remains subject to regulatory approvals and the appropriate transfer of de-commissioning trust funds and liabilities, and is expected to close in mid-2017.

EXC will invest about $400 to $500 million in operating and re-fueling costs for the three plants and will re-fuel the FitzPatrick facility in early 2017 while maintaining current staffing levels.

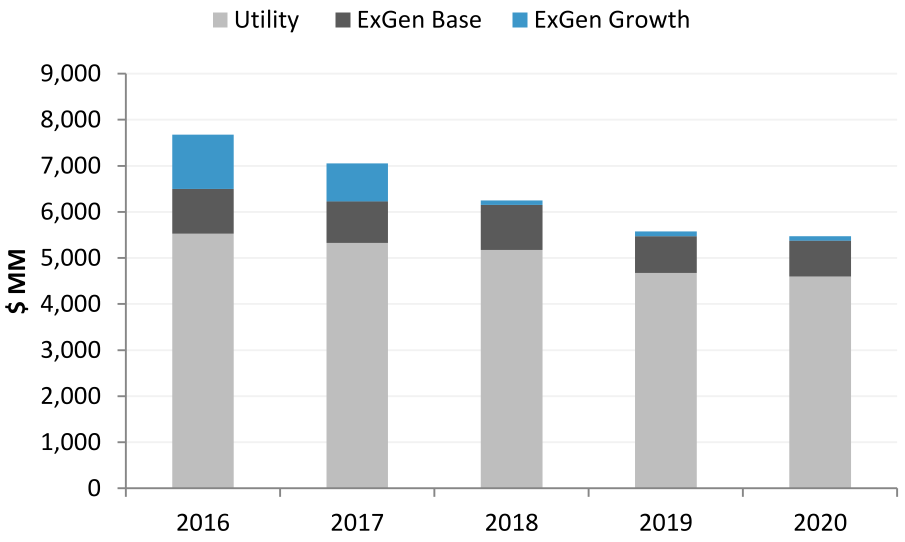
Free Cash Flows at Generation Fund Utility Investment and Debt Reduction: The removal of the contributions from the Clinton and Quad Cities plants lowers the near-term gross margin outlook for the segment, but offsets driven by reduced growth capital expenditures and operating and maintenance expenses support robust free cash flow during the next five years. This should help the Company to continue to grow rate base and earnings at the utility segments while improving the balance sheet through debt repayments.

Updated ExGen disclosures were provided during the Analyst Day and in conjunction with its 2Q16 earnings release. Gross margin forecasts were decreased by $100 million and $200 million for 2017 and 2018, respectively, as the Clinton plant is slated for closure in mid-2017 with the Quad Cities plant following in mid-2018. At this time, the revised guidance does not include any potential positive impacts from the ZEC subsidies or the addition of the FitzPatrick plant to the fleet.

The Company is currently investing in five growth projects in the ExGen segment that have planned commercial in-service dates ranging from 2016 to 2018. About $1.1 billion was spent on growth CAPEX at ExGen in 2015, with about another $2 billion planned for 2016 and 2017 (when four of the planned projects are expected to be up and running). From 2018 forward, the Company is only planning on a nominal ~$100 million of growth capital per year as it continues to transition away from merchant power exposure. Three of the five projects under construction have long-term PPAs and a fourth will receive seven-year capacity payments essentially equal to planned capital outlays.

Ongoing maintenance capital at existing facilities is also forecasted to decline over the planning period. The retirement of the Clinton and Quad Cities plants is the primary driver in reducing base CAPEX by about $200 million per year by 2020, or by about 5.6 percent on a compound annual basis from 2016.

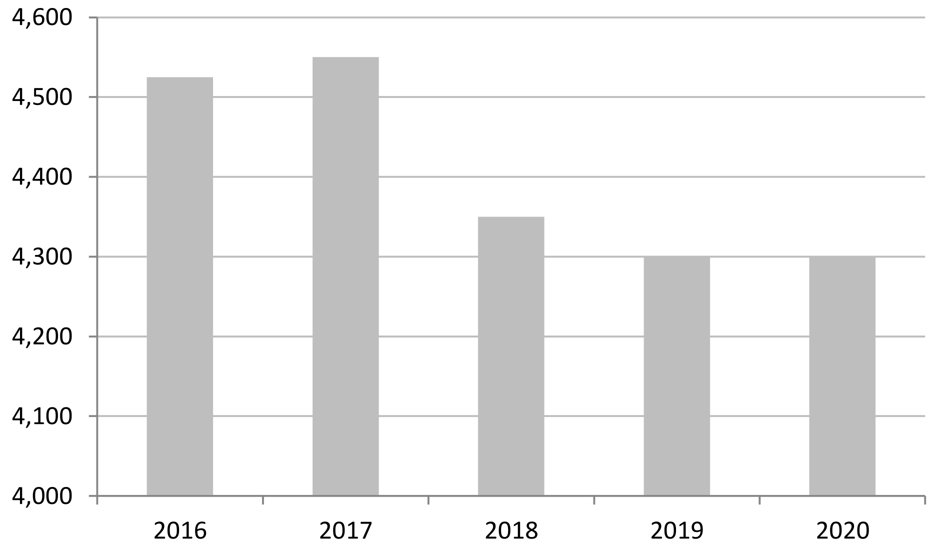
Figure 8: EXC Capex Plans by Segment



Source: Company Filings, Scotia Howard Weil Research

Free cash flow generation should be boosted by ongoing declines in operating and maintenance costs over the next five years. The elimination of the money-losing Clinton and Quad Cities plants is an obvious contributor to this trajectory, but this is also consistent with the cost savings initiatives the Company laid out late last year. The combination of these drivers is expected to result in absolute cost reductions of adjusted operating costs of about one percent per year on a compound annual basis as shown in Figure 9, Page 9.

Figure 9: ExGen O&M Costs Decreasing as Inefficient Plants Leave Fleet



Source: Company Filings, Scotia Howard Weil Research

EXC has sold about 3,000 MW of generation capacity since 2014 at an average price of about $600/kW. Management noted it will continue to be opportunistic in pursuing additional divestitures going forward. We believe there will be an emphasis on selling plants where contracts have expired and that are in jurisdictions without capacity markets. EXC currently owns and operates seven gas-fired plants in Texas with combined capacity of about 3,400 MWs.

Overall, the Company expects to generate a little over $8 billion in free cash flows at ExGen between 2016 and 2020. After accounting for growth CAPEX commitments of about $2.3 billion, the segment can fund close to $3 billion for both incremental utility investment and debt reduction at ExGen. Management reiterated its commitment to maintaining current credit ratings for the parent and the operating companies while targeting a 3.0x Debt to EBITDA ratio at ExGen (down from a 3.4x level estimated at YE16).

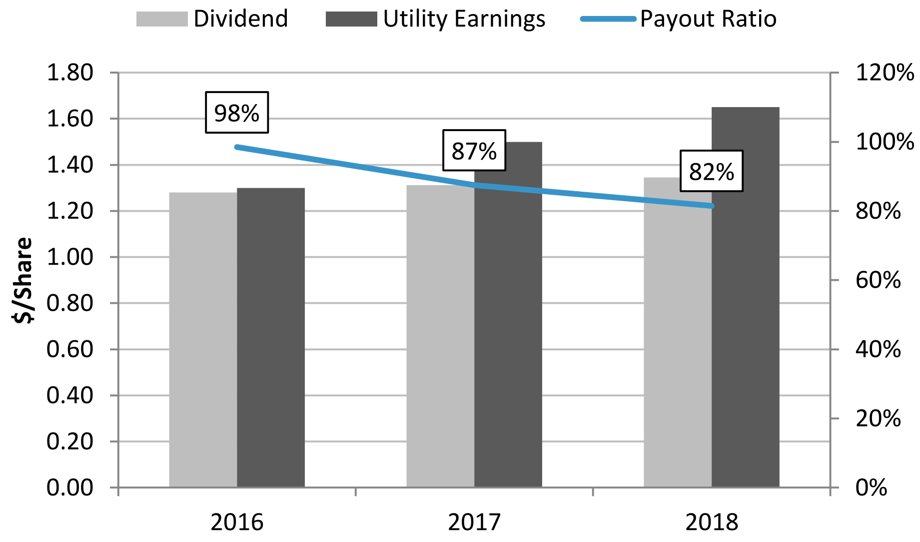
Constellation Grows to Match Generation to Load: Last month, the Company announced plans to acquire ConEdison Solutions for $53 million and about $130 million of net working capital adjustments. The transaction would add about 560,000 retail customers and about 18 TWh of retail load to the Constellation footprint. EXC indicated it will continue to look for similar deals to add retail exposure as a means to reduce volatility by “integrating” its merchant generation operations to retail sales. The Company’s scale and generation capabilities can create value relative to stand-alone or small retail operations and we would expect Constellation to continue to consolidate this fragmented market as opportunities are presented.

Dividend Growth Supported by Utility Operations: Earlier this year, the Board of Directors authorized a 2.5 percent annual increase to the Company’s dividend over a three-year period beginning in mid-2016. This represented the first increase in the dividend since it had been cut to $0.31/share (on a quarterly basis) back in early 2013. The current dividend yields about 3.7 percent, generally in-line with the average for the S&P 500 Electric Utility sub-sector index.

Forecasted earnings from the Company’s utility segments are sufficient to cover the current distributions. With anticipated net income growth at these businesses exceeding authorized dividend growth rates, the theoretical coverage ratio (only considering utility earnings) meaningfully declines over the next two years.

Management stopped short of extending the planned dividend growth rates beyond the current three-year authorization, acknowledging the Board’s responsibility to set this policy. That said, we would expect dividend payments to grow at least at current rates through the extended five-year planning cycle offered in the presentation material given the support of the regulated earnings from the utility segments.

Figure 10: Utility Earnings Cover Current Dividend Commitments



Source: Company Filings, Scotia Howard Weil Research

2Q Results / Updated Guidance: Prior to the Analyst Day, the Company reported 2Q16 adjusted earnings of $0.65/share, beating consensus by $0.09/share and 2Q15 results by $0.06/share. 2Q16 operating results included $0.06/share of contributions from PHI, which essentially offset the higher debt and capital costs associated with the merger that was completed at the end of 1Q16. Net income improvements from the Company’s legacy utility segments drove the beats versus consensus estimates and year-over-year comparisons primarily on higher transmission formula-rate earnings at ComEd and electric distribution rate increases at PECO.

The Company reiterated FY16 earnings to fall within a range of $2.40 to $2.70/share and initiated 3Q16 adjusted earnings guidance of $0.65 to $0.75/share. Expectations for the upcoming quarter are down versus last year on lower forward power prices and higher corporate costs associated with the PHI transaction. Assuming the mid-points of the updated guidance suggests 4Q16 adjusted earnings of about $0.50/share, or about $0.10/share above 4Q15 actuals. Results at the utility segments should drive the year-over-year improvements during 4Q, with contributions from PHI and assuming normal weather compared to the historically mild conditions experienced late last year.

Looking ahead, the Company has guided for earnings from the utility segments to grow at a seven to nine percent compound annual rate over the period 2016 to 2020, with larger annual percentage increases to be realized at the beginning of the planning period. Mid-point guidance suggests utility net income contributions will increase from about $1.30/share to about $1.50/share from 2016 to 2017 (or about 15 percent), driven by rate base increases associated with ongoing capital spending and the resolution of rate cases across multiple jurisdictions and formulaic adjustments. Reaching these targets will require successful navigation of various rate case proceedings across multiple jurisdictions as described above.

ExGen gross margins are expected to decline modestly from 2016 over the next couple of years as the Clinton and Quad Cities plants are retired. Lower forward power prices have also dampened near-term margin guidance, but the Company is behind its typical hedging pace on future generation, leaving room for upside to these forecasts should pricing improve to match internal views. The closing of these inefficient plants will eventually drive operating costs lower at the ExGen level, which combined with ongoing cost reduction efforts and capital spending focused on upgrading infrastructure should result in absolute declines in this metric over the five-year planning period.

Our FY16 estimate increases from $2.50/share to $2.55/share off of the 2Q16 beat, while our FY17 estimate decreases from $2.70/share to $2.60/share as ExGen gross margins move down, offsetting utility growth. We are initiating our FY18 earnings estimate at $2.75/share, indicating an improvement in ExGen bottom line contributions as the Clinton and Quad Cities plant retirements are more fully reflected. Our new price target of $37 suggests a 14x multiple on our FY17 earnings estimate, in-line with the recent high water mark. We note our forward estimates do not include contributions from the New York ZECs for the Company’s R.E. Ginna and Nine Mile Point plants, nor impacts from the proposed acquisition of the FitzPatrick nuclear facility from ETR (that would also be eligible to receive ZECs).

Appendix A: Important Disclosures

Company	Ticker	Disclosures (*click here to view legend*)
Exelon Corporation	EXC	G, U

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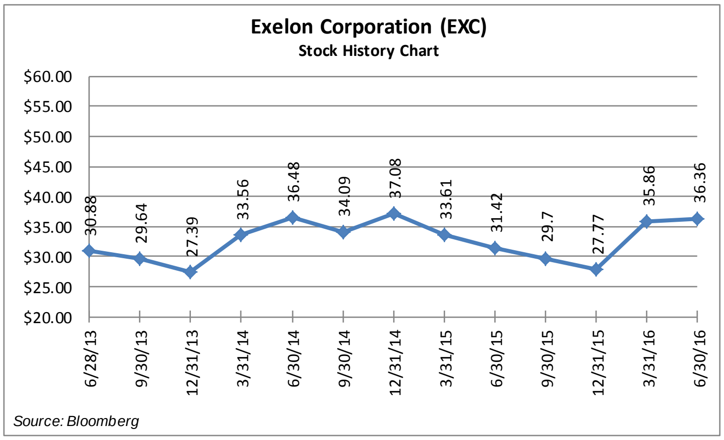

Source: Bloomberg

Recommendation: SP **Price Target:** $37

Date	Rec	Price Target	Date	Rec	Price Target
11/17/15	SP	$34			
8/17/16	SP	$37			

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 04 Oct 2016 05:00, UTC	31.86 USD 04 Oct 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.06	3.83 04 Oct 2016	3.99 04 Oct 2016	29.40 04 Oct 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Fairly Valued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.03	0.87	1.00	1.02
Price/Earnings	22.1	15.4	16.6	21.4
Forward P/E	12.4	—	16.6	15.4
Price/Cash Flow	3.7	5.1	6.0	11.9
Price/Free Cash Flow	—	74.7	12.0	17.6
Trailing Dividend Yield%	3.83	4.65	3.56	2.06

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

Investment Thesis

Travis Miller, Sector Director, 24 March 2016

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Travis Miller, Sector Director, 09 August 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	31.86 USD	30.00 USD	1.06	3.83	3.99	29.40	Utilities - Diversified	Standard
04 Oct 2016 05:00, UTC	04 Oct 2016	13 Apr 2016 22:11, UTC		04 Oct 2016	04 Oct 2016	04 Oct 2016		

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	20,581	9,487	26.56	14.68
FirstEnergy Corp FE	USD	13,449	14,934	6.33	0.00
Entergy Corp ETR	USD	13,248	10,952	-2.55	75.76

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 04 Oct 2016 05:00, UTC	31.86 USD 04 Oct 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.06	3.83 04 Oct 2016	3.99 04 Oct 2016	29.40 04 Oct 2016	Utilities - Diversified	Standard

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 24 March 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 04 Oct 2016 05:00, UTC	31.86 USD 04 Oct 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.06	3.83 04 Oct 2016	3.99 04 Oct 2016	29.40 04 Oct 2016	Utilities - Diversified	Standard

Analyst Notes Archive

Are Utilities Overheated or Are Their Yields too Good to Pass Up?

Travis Miller, Sector Director, 20 April 2016

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Exelon Threatens to Close Clinton, Quad Cities Nuclear Plants...Again

Travis Miller, Sector Director, 06 May 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after management used its strongest language to-date regarding the fate of the beleaguered Clinton and Quad Cities nuclear plants, both in Illinois. Management said it will close the plants by 2017-18 but also said the decision depends on several developments. These are the same contingencies management has used for several years to justify postponing the plant closures.

We continue to assume Exelon closes Clinton, Quad Cities, and two other nuclear plants by 2020. But we think management remains hesitant to pull the cord. The plants could survive if Illinois politicians pass what effectively is a nuclear bailout bill; Clinton clears the Mid-Continent Independent System Operator's 2017-18 capacity auction next spring; or Quad Cities clears the mid-Atlantic capacity auction later this month. Quad Cities cleared last year's 2017-18 transitional capacity auction at $151.50 per megawatt-day but did not clear the 2018-19 auction at $215/MW-day. We expect similar clears in this year's 2019-20 auction.

Exelon earned $0.68 per share on an adjusted basis and reaffirmed its $2.40-$2.70 per share 2016 guidance, in line with our estimates. It continues running its nuclear fleet at world-class levels, achieving a 95.8% capacity factor in the quarter and proving it can capture the full upside if energy prices rebound. Exelon also filed rate cases at two of its newly acquired Pepco utilities, which should boost earnings and returns on the pricey acquisition if the utilities receive constructive decisions.

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

Andrew Bischof, CFA, Eq. Analyst, 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

Andrew Bischof, CFA, Eq. Analyst, 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real

Travis Miller, Sector Director, 02 June 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

Travis Miller, Sector Director, 09 August 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Exelon Corp EXC ★★★^{Q} 04 Oct 2016 02:00 UTC

Last Close	Fair Value^{Q}	Market Cap	Sector	Industry	Country of Domicile
04 Oct 2016 31.86	04 Oct 2016 02:00 UTC 30.91	04 Oct 2016 30,242.5 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

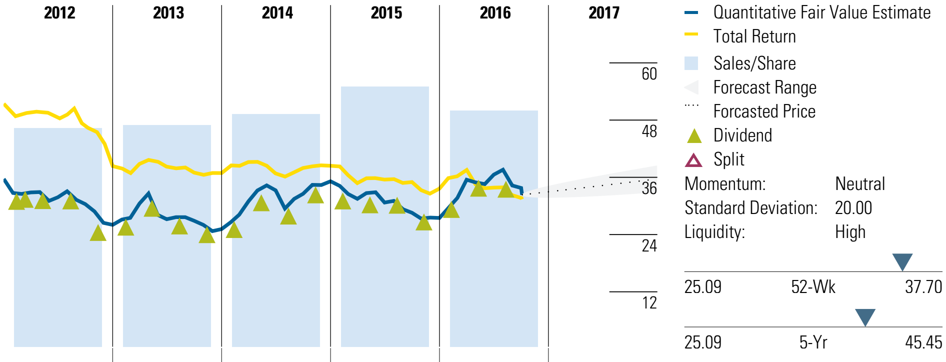
Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	81	73	79
Valuation	Fairly Valued	35	35	45
Quantitative Uncertainty	Low	100	94	99
Financial Health	Moderate	61	58	61

Source: Morningstar Equity Research

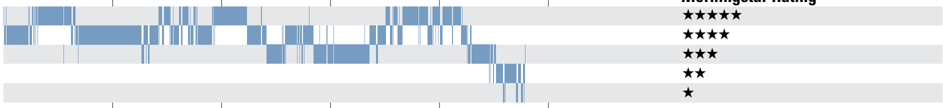
Price vs. Quantitative Fair Value



Momentum:	Neutral
Standard Deviation:	20.00
Liquidity:	High

2012	2013	2014	2015	2016	2017	
-26.6	-3.0	39.9	-21.8	18.1		Total Return %
-42.9	-36.1	27.1	-22.5	10.9		+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—		Trailing Dividend Yield %
—	—	—	—	3.83		Forward Dividend Yield %
21.0	14.6	15.2	12.4	22.1		Price/Earnings
1.0	0.9	1.2	0.8	1.1		Price/Revenue

Morningstar Rating^{Q}



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.03	0.87	1.00	1.02
Price/Earnings	22.1	15.4	16.6	21.4
Forward P/E	12.4	—	16.6	15.4
Price/Cash Flow	3.7	5.1	6.0	11.9
Price/Free Cash Flow	—	74.7	12.0	17.6
Trailing Dividend Yield %	3.83	4.65	3.56	2.06
Price/Book	1.2	1.5	1.4	2.4
Price/Sales	1.1	1.2	1.3	1.9

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	5.6	9.7	9.4	11.9
Return on Assets %	1.3	2.6	3.3	4.7
Revenue/Employee (K)	960.5	958.0	1,271.7	302.9

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	625.0	581.7
Assets/Equity	3.7	3.7	2.7	1.7
Long-Term Debt/Equity	0.9	0.9	0.8	0.3

2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	28,587	Revenue
1.5	24.1	6.0	10.2	7.4	-2.9	% Change
4,480	2,380	3,656	3,096	4,409	3,038	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-31.1	% Change
2,495	1,160	1,719	1,623	2,269	1,378	Net Income
4,853	6,131	6,343	4,457	7,616	8,200	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,653	Capital Spending
811	321	948	-1,620	-8	-453	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	-1.6	% Sales
3.75	1.42	2.00	1.88	2.54	1.48	EPS
-3.1	-62.1	40.8	-6.0	35.1	-41.7	% Change
0.20	0.39	0.48	-0.03	-1.04	-0.49	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.25	Dividends/Share
21.65	25.07	25.51	27.44	28.01	27.91	Book Value/Share
855,000	857,000	860,000	920,000	922,872	922,872	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	5.6	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.3	Return on Assets %
13.2	4.9	6.9	5.9	7.7	4.8	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.28	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.4	Financial Leverage
62.3	56.8	56.9	52.6	55.6	58.5	Gross Margin %
23.7	10.1	14.7	11.3	15.0	10.6	Operating Margin %
12,189	18,346	18,271	20,010	24,286	32,182	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	25,756	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

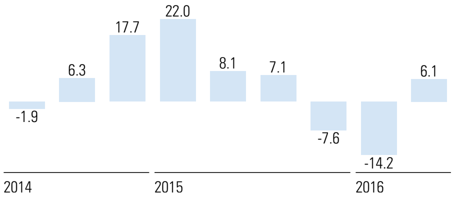
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.1	21.4	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	11.1	6.8	-0.8	-2.1

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	—	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	—	—	—
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

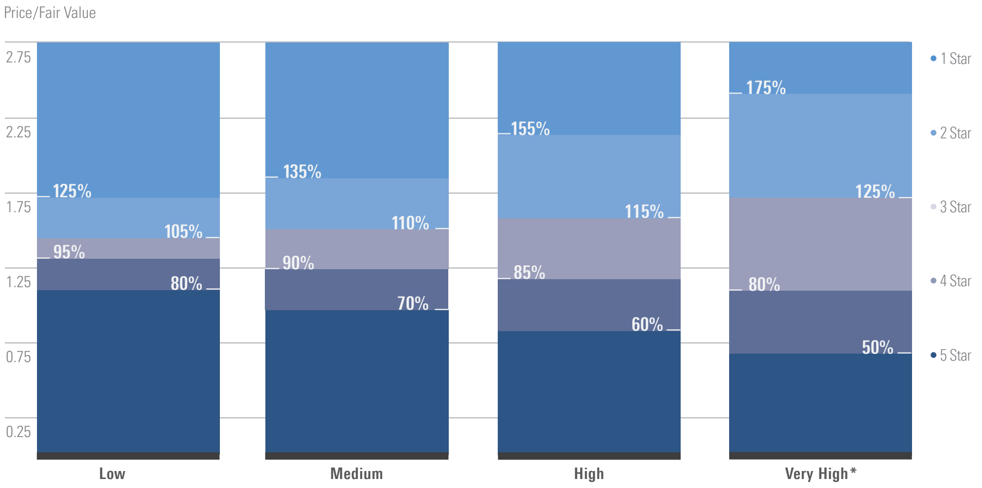
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- **One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- **Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- **Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- **Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- **Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

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The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit www.corporate.morningstar.com.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	31.86 USD	30.00 USD	1.06	3.83	3.99	29.40	Utilities - Diversified	Standard
04 Oct 2016 05:00, UTC	04 Oct 2016	13 Apr 2016 22:11, UTC		04 Oct 2016	04 Oct 2016	04 Oct 2016		

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Price/Fair Value Morningstar data as of Oct 04, 2016

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- Analysts’ compensation is derived from Morningstar's overall earnings and consists of salary, bonus and in some cases restricted stock.

- Morningstar does not receive commissions for providing research and does not charge companies to be rated.

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- Morningstar has not been a lead manager or co-lead manager over the previous 12-months of any publicly disclosed offer of financial instruments of the issuer.

- Morningstar affiliates (i.e., its investment management group) have arrangements with financial institutions to provide portfolio management/investment advice some of which an analyst may issue investment research reports on. However, analysts do not have authority over Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 04 Oct 2016 05:00, UTC	31.86 USD 04 Oct 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.06	3.83 04 Oct 2016	3.99 04 Oct 2016	29.40 04 Oct 2016	Utilities - Diversified	Standard

The Research Analyst has not served as an officer, director or employee of the fund company within the last 12 months, nor has it or its associates engaged in market making activity for the fund company.

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Exelon (EXC)

Finally a Victory for Clinton

BUY
Price target $39.50
(from $37.00)
Price $35.46^

Key Takeaway

Following approval of the Future Energy Jobs Bill we have updated our estimates to reflect the continued operation of Quad Cities and Clinton and the $0.07 benefit associated with the Illinois ZEC. Additionally we now include the benefit associated with the NY ZEC (~$0.09) and FitzPatrick acquisition ($0.02-$0.08). Partly offsetting these positives is an update of our ExGen commodity assumptions.

On December 7, the Governor of Illinois signed the Future Energy Jobs bill that included compensation in the form of a Zero Emission Credit (ZEC) for Exelon's Clinton and Quad Cities nuclear plants. The bill provides $16.50/MWh (up to $235M of annual gross margin benefit) to ExGen beginning June 1, 2017 and extending to 2027. Without the ZECs the two nuclear plants were operating at a loss that management previously estimated at $0.07. Jefferies estimates the annual benefit from ZECs to be approximately $0.08.

Included in the Future Energy Jobs Bill are three benefits to Exelon's regulated utility in Illinois which we estimate to be a $0.02 accretive beginning in 2018.

The NY ZEC program will provide Exelon with $0.08-$0.10 of incremental earnings. In August the NYPSC approved the ZEC plan that will benefit Exelon's Nine Mile Point and Ginna nuclear plants. While a federal court challenge was filed in October we believe the ZECs will survive and have included the benefit in our estimates. The program begins in April 1, 2017.

Earlier this month FERC approved Exelon's purchase of the 837 MW FitzPatrick nuclear plant which we assume adds $0.02-$0.08 The low end of the range will occur during years when the plant is scheduled for a refueling outage.

Our revised 2017-19 EPS estimates reflect the benefit associated with the NY and IL ZEC programs, FitzPatrick ownership, higher earnings at ComEd, partially offset by lower commodity prices at ExGen.

Valuation/Risks

Our $39.50 price target (was $37) is based on P/E analysis. Taking our 2019 EPS estimate of $2.80 in conjunction with a P/E group average multiple of 14.1x results in a price target of $39.50. Based on yesterday's closing price of $35.14 this would result in a 12-month price appreciation potential of 12.4% and total return potential of 16.0% including the current yield of 3.6%. **Risks** –Risks include exposure to change in the commodity prices and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	**2015A**	*Prev.*	**2016E**	*Prev.*	**2017E**	*Prev.*	**2018E**
Cons. EPS Diluted	--	2.51	*2.57*	2.67	*2.62*	2.61	*2.77*	2.78
EPS								
Mar	--	0.71	--	0.68A	--	--	--	--
Jun	--	0.59	--	0.65A	--	--	--	--
Sep	--	0.83	--	0.91A	--	--	--	--
Dec	--	0.38	--	0.45	--	--	--	--
FY Dec	--	2.51	--	2.70	*2.50*	2.60	*2.75*	2.85
FY P/E		14.1x		13.1x		13.6x		12.4x

Financial Summary

Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	3.6%

Market Data

52 Week Range:	$37.70 - $26.26
Total Entprs. Value (MM):	$46,865.0
Market Cap. (MM):	$32,836.0
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	926.0
Float (MM):	920.3
Avg. Daily Vol.:	6,006,975

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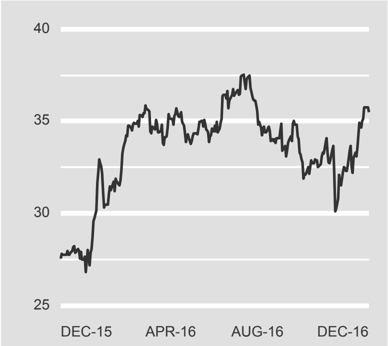
Price Performance



^Prior trading day's closing price unless otherwise noted.

Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation. For investors looking for merchant exposure we believe EXC is the best way to play power.

On December 7, the Governor of Illinois signed the Future Energy Jobs bill that included compensation in the form of a Zero Emission Credit (ZEC) for Exelon's Clinton and Quad Cities nuclear plants. The bill provides $16.50/MWh (up to $235M of annual gross margin benefit) to ExGen beginning June 1, 2017 and extending to 2027. Without the ZECs the two nuclear plants were operating at a loss that management previously estimated at $0.07 and we estimate that the ZECs reverses the loss and provides $0.08 of incremental earnings.

Included in the Future Energy Jobs Bill are three benefits to Exelon's regulated utility in Illinois which we estimate to be a $0.02 accretive beginning in 2018. 1) Return-on energy efficiency investment: the utility currently invests $200-$250M a year in energy efficiency but is not provided any return on the investment. The recently signed bill will provide ComEd with a return on up to $350M a year. 2) Revenue decoupling: additionally the utility will now have a revenue decoupling mechanism which will protect the company from variations in load. 3) Extension of current rate plan through 2022: ComEd's formula rate plan requires annual filings and sets an ROE that is 580 bps about the 30Y Tsy.

The NY ZEC program will provide Exelon with $0.08-$0.10 of incremental earnings. In August the NYPSC approved the ZEC plan that will benefit Exelon’s Nine Mile Point and Ginna nuclear plants. While a federal court challenge was filed in October we believe the ZECs will survive and have included the benefit in our estimates. The program begins in April 1, 2017.

Earlier this month FERC approved Exelon's purchase of the 837 MW FitzPatrick nuclear plant which we assume adds $0.02-$0.08 The low end of the range will occur during years when the plant is scheduled for a refueling outage. The next refueling outage is scheduled for January 2017 followed by another one in August 2018. After that the plant will continue on a 24 month outage schedule. For 2017 and 2018 we are assuming the acquisition of FitzPatrick adds $0.02 to earnings and$0.08 in 2019.

We are maintaining our 2016 estimate of $2.70 which is within the company’s $2.55-$2.75 guidance range.

We are increasing our 2017 EPS estimate by $0.10 to $2.60 reflecting a partial year of the New York and Illinois ZEC programs and the benefit of Fitzpatrick ownership offset slightly by lower commodity prices at ExGen.

We are increasing our 2018 EPS estimate by $0.10 to $2.85 reflecting a full year of the ZEC programs and Fitzpatrick ownership, coupled with $0.02 of higher contribution at ComEd, partially offset by lower commodity prices at ExGen.

We are increasing our 2019 EPS estimate by $0.15 to $2.80 reflecting a full year of the ZEC programs and Fitzpatrick ownership (no outage in 2019), coupled with $0.02 of higher contribution at ComEd, partially offset by lower commodity prices at ExGen.

Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2015A	2016E	2017E	2018E	2019E
PECO	$639	$789	$807	$825	$841
CWE	1,046	1,237	1,371	1,411	1,425
BGE	580	573	587	635	672
PEPCO		321	384	462	515
DPL		187	209	262	295
ACE		142	155	194	189
Adjustment					
Energy Delivery	**2,265**	**3,248**	**3,513**	**3,789**	**3,937**
Genco	2,176	2,224	1,854	2,038	1,827
Corporate	(8)	(8)	(8)	(8)	(8)
Earnings on Cash	105		63	41	37
Reconcile	68	(40)	65	(40)	(30)
EBIT	**$4,606**	**$5,424**	**$5,487**	**$5,821**	**$5,763**
EBITDA	$5,895	$7,624	$7,830	$8,318	$8,427
MIPS Obligation	0	0	0	0	0
Capitalized Interest	0	0	0	0	0
Long-Term Interest Expense		(1,674)	(1,786)	(1,690)	(1,687)
Income Before Taxes	**$3,508**	**$3,749**	**$3,701**	**$4,130**	**$4,076**
Income Taxes	(1,215)	(1,288)	(1,273)	(1,416)	(1,399)
Minority Interest/preferred	(13)	(13)	(13)	(13)	(13)
Wind PTC	50	51	52	53	53
Net Income	**$2,330**	**$2,499**	**$2,466**	**$2,754**	**$2,718**
Preferred Dividends					
Earnings for Common	**$2,330**	**$2,499**	**$2,466**	**$2,754**	**$2,718**
Non-Recurring Items					
Merger Cost to Achieve	0	0	0	0	0
Total Non-Recurring	(100)	0	0	0	0
Reported Earnings	2,230	2,499	2,466	2,754	2,718
Earnings Per Share	**$2.51**	**$2.70**	**$2.60**	**$2.85**	**$2.80**

Source: Jefferies estimates, company data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 17:06 ET. December 21, 2016
Recommendation Distributed	, 00:00 ET. December 22, 2016

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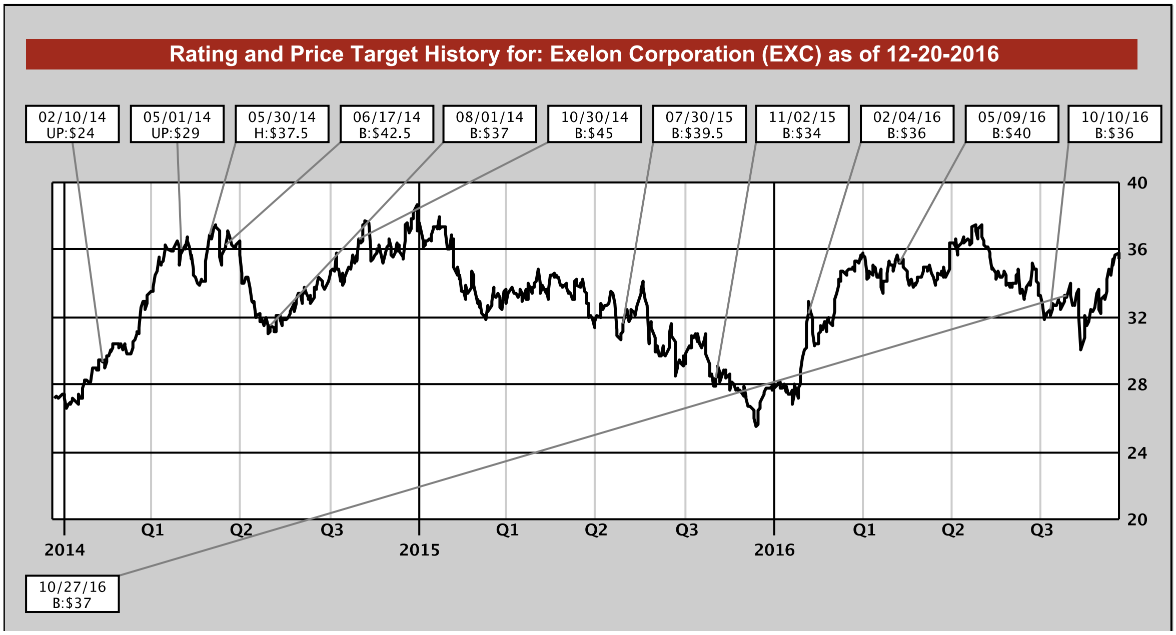
Other Companies Mentioned in This Report

- Consolidated Edison Inc. (ED: $73.44, BUY)
- Entergy Corporation (ETR: $73.23, HOLD)
- Exelon Corporation (EXC: $35.46, BUY)
- FirstEnergy Corp. (FE: $31.29, HOLD)
- PPL Corp. (PPL: $34.50, HOLD)
- Public Service Enterprise Group Inc. (PEG: $43.77, HOLD)


Rating and Price Target History for: Exelon Corporation (EXC) as of 12-20-2016

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1102	51.11%	328	29.76%
HOLD	886	41.09%	172	19.41%
UNDERPERFORM	168	7.79%	17	10.12%

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EVERCORE ISI

Energy | Power & Utilities

October 27, 2016

EXELON CORP.

EXC | $33.26

BUY | TARGET PRICE: $40.00

Change in Earnings Forecast

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Company Statistics

Market Capitalization (M):	$31,959
Shares Outstanding (M):	923
Dividend:	$1.26
Dividend Yield:	3.8%
Payout Ratio:	47.7%
Expected Total Return:	24.1%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	$2.65	$2.65	$2.85
P/E	12.6x	12.6x	11.7x
EPS vs Consensus	2.3%	1.6%	3.1%
Consensus EPS	$2.59	$2.61	$2.76
Consensus P/E	12.8x	12.7x	12.0x

FY ’16 Guidance Up After Strong Q3; Forecast Down on Power Pricing, Net of Cost Cuts

The Value Proposition Still Looks Good. Rating Buy, Target $40.

EXC reported 3Q16 adjusted EPS of $0.91 vs. $0.83 in 3Q15 and above both prior guidance of $0.65-$0.75 and consensus of $0.79. FY’16 guidance was raised from $2.40-$2.70 to $2.55-$2.75. The expected EPS contributions from both ComEd and PHI were raised by $0.05 each due to better than expected weather driven demand and a lack of summer storm expenses. ExGen’s expected contribution to operating earnings was maintained at $1.20-$1.30 despite a strong Q3 at Constellation and strong plant performance improving the outlook for ’16 gross margin by $50mm. In the quarter at the utilities, weather was a +$0.04 benefit at ComEd and PECO YoY, with higher rates / rate base adding another +$0.04. This was partially offset by an ROE decline due to Treasury rates at the former (-$0.01) and higher O&M at the latter (-$0.01). PHI contributed $0.14 in the quarter. BGE was flat YoY. ExGen was -$0.14 lower YoY in the quarter, primarily on higher taxes / DPAD (-$0.06) and lower capacity prices (-$0.02) with increases in nuclear decommissioning expense, share differential and other items a -$0.05 drag collectively. Cash flow for the year is looking a bit better, which mitigates the need for the additional financing we thought would be necessary to fund the recently deposited $1.25bn payment to the IRS relating to a recently lost tax court case (which EXC plans to appeal). Read our recent note on this issue for more details, here.

Our ’16 / ’17 / ’18 EPS forecast is now $2.65 / $2.65 / $2.85 from $2.60 / $2.70 / $2.90. Dividend growth should be 2.5% annually through ’18. Our forecast is based on 10/21/16 forward power curves. On a MTM basis we are higher than where EXC’s disclosures would drive results (particularly in ’17) as pricing is a bit better than the 9/30/16 “mark” used in their Q3 update. The assumptions driving EXC’s view of the earnings growth drivers in its core utilities business and Exelon Generation (ExGen) as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management are still wholly credible. The core utilities are forecast to grow rate base at 6% from ’16-20, with earnings growth of 7-9% due to the assumption of improved earned ROE’s at recently acquired POM. With the ACE rate case recently settled, rate cases pending at most of the PHI companies and the ability to harvest operating synergies we see a turnaround similar to the one EXC engineered at BGE after the CEG acquisition as feasible. So, there is line of sight for EPS at EXC’s utilities (ex-parent overheads) growing from $1.38 in FY ’16 to $1.85 in 2020, consistent with our prior expectations. At ExGen, our forecast of ~$0.10/share uplift by FY ‘18 from passage of the NY Zero Emissions Credit (ZEC) program and our estimate of ~ $.05/share run-rate uplift from recently announced Fitzpatrick plant acquisition from ETR were corroborated by EXC in the Q3 release. The impact of the closing of the Clinton and Quad Cities power plants is $0.07 accretive to EPS with a $75mm improvement to cash flow but it won’t fully hit the P&L until FY 2019. In any case EXC has updated its total expected O&M forecast for ExGen through 2019 showing a $400mm reduction from FY 17 – ’19, vs. prior guidance of $250mm, with another $100m reduction in D&A and TOTI related to the Clinton and Quad plant retirement decisions. Taken in conjunction with their disclosure regarding ’19 gross margin expectations, including an already expected fall in in capacity prices, ExGen today looks like it faces a $0.15 EPS headwind year-over-year in 2019 vs. 2018 as compared to our prior estimate of $0.10. From a cash flow perspective we now see ExGen producing ~$3.1bn of free cash flow through FY ’18 down from $3.4bn, ~49% of the $6.3bn they are targeting through 2020 ($5.2bn base case plus $1.1bn at ExGen and repayment of a loan to their nuke JV partner EDF), with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. ExGen debt/EBITDA, currently at ~3.3X, should fall to ~3X over the forecast period. On the subject of the dividend, they are committed to 2.5% growth through 2018 but are confident the financial profile supports at least that level of growth through 2020.

Our price target remains $40, maintaining BUY rating. Our forecast for utility EPS contribution minus parent overheads (+/-$0.15) is $1.38/share which by 2018 we expect to be $1.70 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to $1.85/share. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth $28/share in our view (16.5X ’18 EPS, an average multiple). That implies ExGen is worth only ~$5.25/share today, which is around 4.6X ’18 EPS or 4.5X ’18 EV/EBITDA and an unlevered free cash flow yield to EV of 19% with debt/EBITDA at YE ’18 of 2.9X. To put it more succinctly, EXC is trading at +/-11.7X overall FY ’18 earnings and a 3.8% dividend yield while pure regulated names are at 16.8X and yields averaging 3.5%. While the dividend growth commitment of 2.5% annually is lower than that articulated by purely regulated peers and ‘19 EPS and EBITDA at ExGen should moderate (we estimated those numbers above at ~$0.15/share / -$220mm of EBITDA the balance sheet will also shrink. Our view is that the overall valuation gap is just too high.

What’s next? EXC believes it is possible that the IL legislature might pass an energy bill that would reverse the retirement decisions regarding the Clinton and Quad Cities nuclear facilities during two veto sessions in November (from 11/15-11/17 and 11/29-12/1). Otherwise the plants will be shut down by 6/1/17 and 6/1/18, respectively. In NY, PSC and FERC approval for the purchase of Fitzpatrick from EXC – as well as execution of ZEC contracts with NYSERDA - is expected before the 11/23/16 deal termination date. The deal is expected to close before 4/1/17, after NRC approval in Q1’17. EXC has not yet provided a timetable on when the sale of the Mystic facility in ISO-NE might close. EXC will appeal the IRS’ assessed tax penalty for the 1999 gain on sale of fossil assets from ComEd in Q1’17, which could result in a refund of ~$200mm. On the utility front, a decision is expected in Pepco’s pending electric rate filing in MD (in which they are requesting $102.8mm premised on a 10.60% ROE) by 11/15/16. The IL PSC will issue a final order on ComEd’s electric FRP by December. A decision in DPL’s electric distribution rate case in MD (in which they are requesting $57.0mm based on a 10.60% ROE) is expected by 2/17/17. A decision in Pepco’s electric distribution rate case in DC (in which they are requesting an $82.1mm increase premised on 10.60% ROE) is expected by 7/25/17. A decision in Delmarva’s pending electric and gas distribution rate cases (in which they are requesting $84mm in aggregate based on a 10.60% ROE) is expected in Q3’17.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of regulation to bolster the revenue stream of the NY nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in NY to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-10-26)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$49.10	$52.50
AEP	American Electric Power	Buy	$63.53	$73.00
CPN	Calpine Corp.	Buy	$11.90	$17.00
CNP	CenterPoint Energy, Inc.	Hold	$22.66	$24.50
CMS	CMS Energy Corp.	Hold	$41.65	$44.25
ED	Consolidated Edison Inc.	Hold	$73.88	$76.00
D	Dominion Resources Inc.	Buy	$73.83	$83.00
DTE	DTE Energy Co.	Hold	$93.90	$97.25
DUK	Duke Energy Corp.	Hold	$78.77	$80.00
DYN	Dynegy Inc.	Buy	$10.72	$25.00
EIX	Edison International	Hold	$71.76	$79.00
ETR	Entergy Corp.	Hold	$72.28	$72.00
ES	Eversource Energy	Hold	$54.31	$56.00
EXC	Exelon Corp.	Buy	$33.26	$40.00
FE	FirstEnergy Corp.	Buy	$33.96	$35.50
HE	Hawaiian Electric Industries Inc.	Hold	$28.96	$31.00
HIFR	InfraREIT, Inc.	Buy	$16.72	$20.00
NEE	NextEra Energy Inc	Buy	$126.20	$140.00
NI	NiSource Inc	Sell	$22.71	$24.00
NRG	NRG Energy Inc.	Buy	$10.53	$20.00
NYLD	NRG Yield, Inc.	Buy	$15.45	$20.00
PCG	PG&E Corp.	Buy	$60.92	$68.00
PNW	Pinnacle West Capital Corp.	Hold	$75.16	$79.00
PPL	PPL Corp.	Hold	$33.84	$34.00
PEG	Public Service Enterprise Group	Hold	$41.22	$45.00
SRE	Sempra Energy	Buy	$105.35	$122.00
SO	Southern Co.	Hold	$50.97	$53.00
TLN	Talen Energy Corporation	Hold	$13.92	$14.00
AES	The AES Corporation	Buy	$12.00	$12.25
WEC	WEC Energy Group, Inc.	Hold	$58.83	$62.00
WR	Westar Energy Inc.	Hold	$57.06	$58.50
XEL	Xcel Energy Inc.	Hold	$40.60	$44.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: October 27, 2016, 04:02 ET.

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Current Ratings Definition

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Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

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On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%

Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 10/27/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	316	50%
Hold	276	43%
Sell	27	4%
Coverage Suspended	11	2%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	46	15%
Hold	16	6%
Sell	2	7%
Coverage Suspended	1	9%
Rating Suspended	1	12%

Issuer-Specific Disclosures (as of October 27, 2016)

Price Charts

Exelon Corp. Rating History as of 10/26/2016

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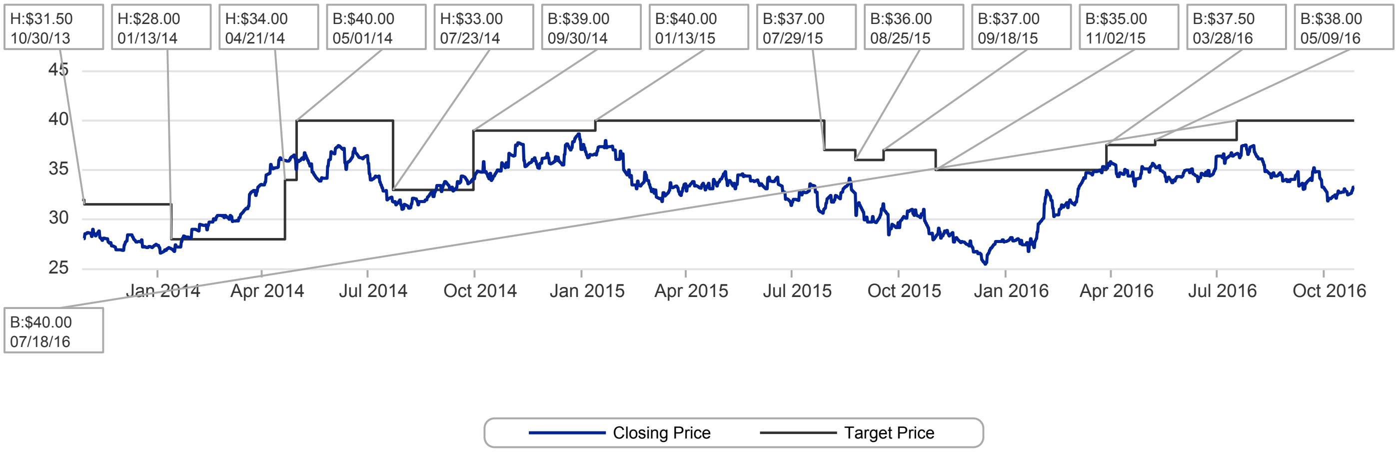

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 15 Dec 2016 06:00, UTC	35.73 USD 15 Dec 2016	32.00 USD 07 Dec 2016 02:29, UTC	1.12	3.60 15 Dec 2016	3.56 15 Dec 2016	32.99 15 Dec 2016	Utilities - Diversified	Standard

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.00	0.88	0.99	1.02
Price/Earnings	26.6	15.4	16.1	22.6
Forward P/E	13.4	—	15.1	16.8
Price/Cash Flow	3.5	5.1	6.1	12.8
Price/Free Cash Flow	42.9	74.7	12.4	19.3
Trailing Dividend Yield%	3.60	4.65	3.62	1.93

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Investment Thesis

Travis Miller, Sector Director, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Sector Director, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	21,728	9,249	24.68	16.92
FirstEnergy Corp FE	USD	13,349	14,728	6.10	0.00
Entergy Corp ETR	USD	12,967	10,706	13.62	10.12

Pennsylvania closes in 2018 absent state support.

Economic Moat

Travis Miller, Sector Director, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10%

above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Sector Director, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

Travis Miller, Sector Director, 09 August 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Regulated Utilities Continue Driving Growth for Exelon

Travis Miller, Sector Director, 26 October 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Travis Miller, Sector Director, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities

Travis Miller, Sector Director, 09 November 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

Travis Miller, Sector Director, 14 November 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Travis Miller, Sector Director, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Exelon Corp EXC ★★★Q 15 Dec 2016 02:00 UTC

Last Close	Fair Value Q	Market Cap	Sector	Industry	Country of Domicile
15 Dec 2016 35.73	15 Dec 2016 02:00 UTC 35.59	15 Dec 2016 32,397.6 Mil	Utilities	Utilities - Diversified	USA United States

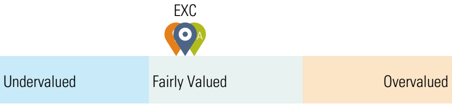
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

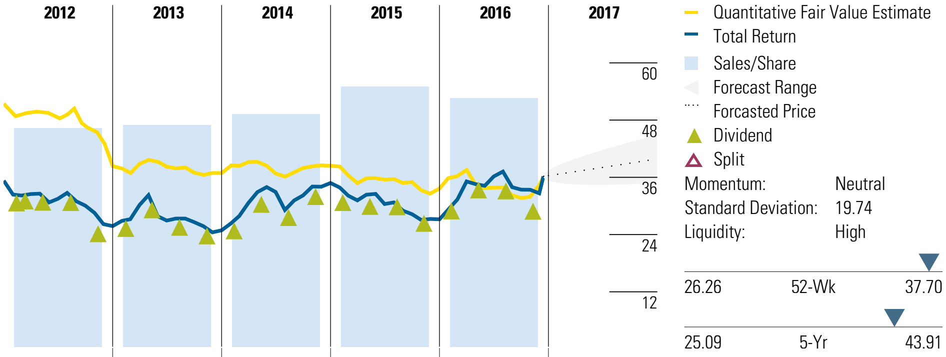
Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	90	89	87
Valuation	Fairly Valued	46	45	53
Quantitative Uncertainty	Medium	97	89	94
Financial Health	Moderate	60	55	60



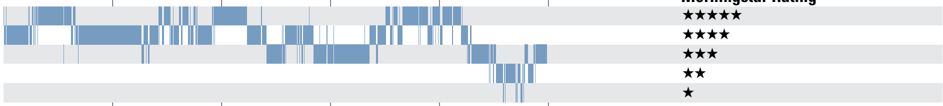
Source: Morningstar Equity Research

Price vs. Quantitative Fair Value



2012	2013	2014	2015	2016	2017	
-26.6	-3.0	39.9	-21.8	33.2		Total Return %
-42.9	-36.1	27.1	-22.5	20.2		+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—		Trailing Dividend Yield %
—	—	—	—	3.60		Forward Dividend Yield %
21.0	14.6	15.2	12.4	26.6		Price/Earnings
1.0	0.9	1.2	0.8	1.1		Price/Revenue

Morningstar Rating Q



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.00	0.88	0.99	1.02
Price/Earnings	26.6	15.4	16.1	22.6
Forward P/E	13.4	—	15.1	16.8
Price/Cash Flow	3.5	5.1	6.1	12.8
Price/Free Cash Flow	42.9	74.7	12.4	19.3
Trailing Dividend Yield %	3.60	4.65	3.62	1.93
Price/Book	1.2	1.5	1.3	2.5
Price/Sales	1.1	1.2	1.4	2.1

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.8	9.7	9.3	11.9
Return on Assets %	1.2	2.6	3.2	4.6
Revenue/Employee (Mil)	1.0	1.0	1.2	0.3

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	622.8	584.2
Assets/Equity	3.7	3.7	2.7	1.7
Long-Term Debt/Equity	0.9	0.9	0.8	0.3

Financials (Fiscal Year in Mil)

2011	2012	2013	2014	2015	TTM	
18,924	23,489	24,888	27,429	29,447	30,187	Revenue
1.5	24.1	6.0	10.2	7.4	2.5	% Change
4,480	2,380	3,656	3,096	4,409	3,107	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-29.5	% Change
2,495	1,160	1,719	1,623	2,269	1,240	Net Income
4,853	6,131	6,343	4,457	7,616	9,305	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,549	Capital Spending
811	321	948	-1,620	-8	756	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	2.5	% Sales
3.75	1.42	2.00	1.88	2.54	1.32	EPS
-3.1	-62.1	40.8	-6.0	35.1	-48.0	% Change
0.20	0.39	0.48	-0.03	-1.04	0.82	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.26	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.19	Book Value/Share
855,000	857,000	860,000	920,000	923,270	923,270	Shares Outstanding (K)

Profitability

2011	2012	2013	2014	2015	TTM	
17.9	6.5	7.8	7.2	9.4	4.8	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.2	Return on Assets %
13.2	4.9	6.9	5.9	7.7	4.1	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.29	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.4	Financial Leverage
62.3	56.8	56.9	52.6	55.6	59.1	Gross Margin %
23.7	10.1	14.7	11.3	15.0	10.3	Operating Margin %
12,189	18,346	18,271	20,010	24,286	32,972	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	26,027	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

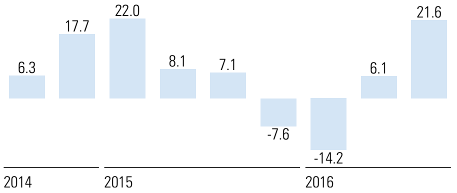
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.1	21.4	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	44.2	12.5	-0.1	-1.6

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	—	—
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

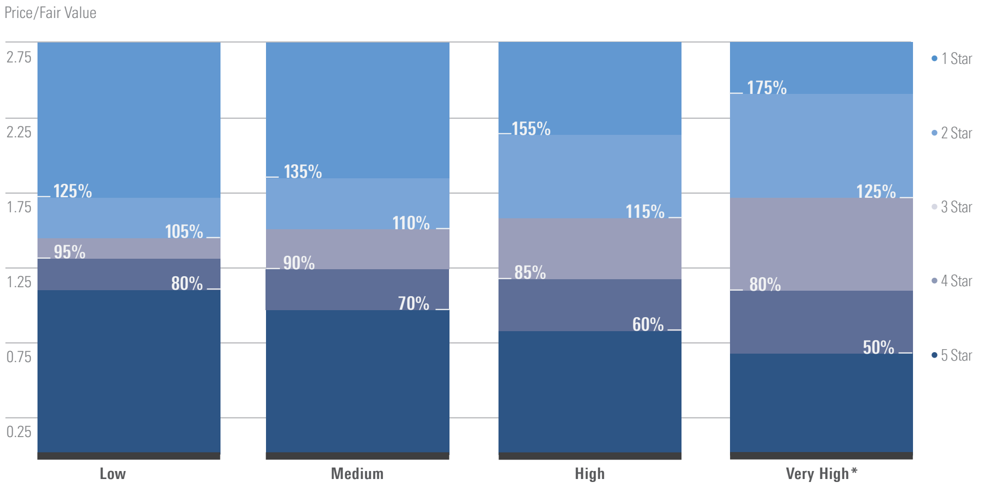
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
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Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ►**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ►**Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ►**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ►**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ►**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ►**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ►**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ►**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

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- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 15 Dec 2016 06:00, UTC	35.73 USD 15 Dec 2016	32.00 USD 07 Dec 2016 02:29, UTC	1.12	3.60 15 Dec 2016	3.56 15 Dec 2016	32.99 15 Dec 2016	Utilities - Diversified	Standard

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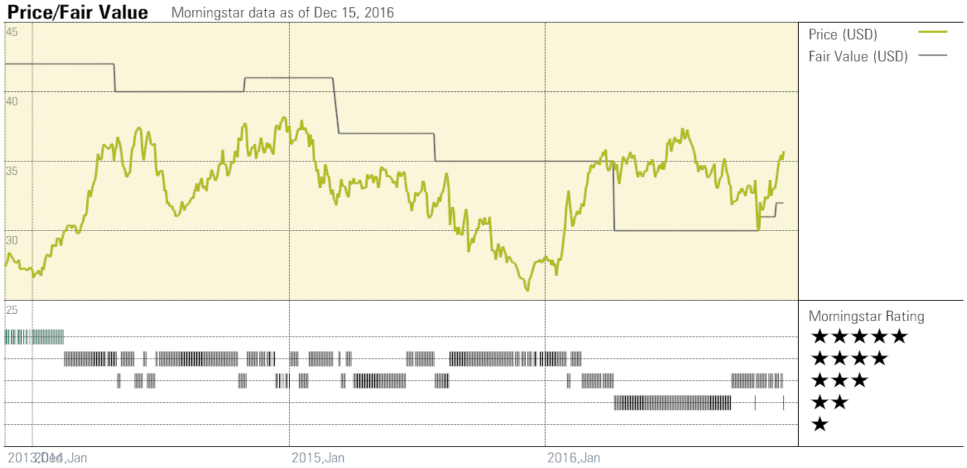
Price/Fair Value Morningstar data as of Dec 15, 2016

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 15 Dec 2016 06:00, UTC	35.73 USD 15 Dec 2016	32.00 USD 07 Dec 2016 02:29, UTC	1.12	3.60 15 Dec 2016	3.56 15 Dec 2016	32.99 15 Dec 2016	Utilities - Diversified	Standard

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EVERCORE ISI

Energy | Power & Utilities

December 1, 2016

EXELON CORP.

EXC | $32.51

BUY | TARGET PRICE: $40.00

Company Update

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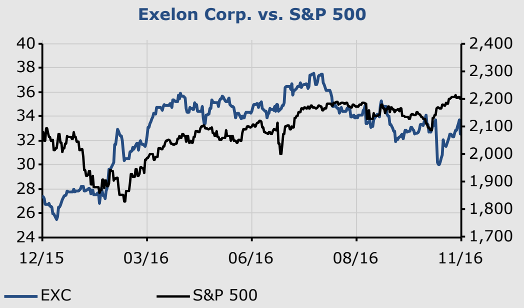
Company Statistics

Market Capitalization (M):	$29,840
Shares Outstanding (M):	923
Dividend:	$1.26
Dividend Yield:	3.9%
Payout Ratio:	47.7%
Expected Total Return:	27.7%
Fiscal Year End	Dec

1 Year Price History



Source: FactSet

IL Governor Lends Support to Amended Energy Bill, Sessions Underway

If it is to pass, the vote must occur today.

On Wednesday, 11/30/16, EXC announced it had gained the support of Governor Rauner (and other stakeholders) through amendments to the Future Energy Jobs Bill. The key changes include additional protections for ratepayers in ComEd, such as removal of ratepayer-funded micro-grid spending and the inclusion of provisions that limit rate hikes for residential customers to $0.25 per month, and 1.3% annually for commercial and industrial customers (based on 2015 rates). Additionally, the Fixed Resource Adequacy Plan (FRAP) for Southern Illinois that would presumably have helped financially constrained DYN coal plants was removed. The controversial demand charges that would have been assigned to residential customers in IL was also removed.

The estimated annual Zero Emission Standard (ZES) revenue proposed for Clinton and Quad Cities appears lower by $50mm, at $235mm vs. $285mm as proposed in Amendment two issued on 11/15/16. The additional limiting factor here is the broader provision that limits these contract volumes so that the total cost increase does not exceed 1.65% of the total cost paid by retail customers for the year ending 5/31/2009. This increase had been higher, at 2.015% as proposed in the earlier second amendment. Otherwise, the substance of the ZES calculation is unchanged (as described in our 11/18/16 note here), but that the duration of the subsidy has also been reduced - from the end of those plants' useful lives previously to 10 years ending May 31, 2027 in the latest amendment. The current license at Clinton extends through 2026 and licenses at the two units at Quad Cities extend through 2032 (though these could be extended). In sum, the ZES still represents a +/-$0.15 EPS improvement at ExGen as compared to the $0.07/share run-rate benefit that ExGen would realize were the plants instead retired. We see a $235mm improvement in cash flow vs. $75mm of cash flow improvement in a shut-down scenario.

EXC would also be asked to spend $400mm at ComEd annually on energy efficiency, and be allowed a regulated return on the investment. It is not currently contemplated in the current capital plan, and would thus represent $0.015 in incremental earnings power annually, totaling $0.05 of EPS accretion by 2020.

The bill will have to pass with a legislative supermajority (3/5) in both the House and the Senate by the end of the day to reach the Governor’s desk. The general House session began at 10:00 AM CT and the Senate session began at 11:00 AM CT, both currently underway. You can follow the House and Senate sessions live, here and here, respectively. Without passage during this veto session, a bill would have to be reintroduced in January, and could conceivably pass during the short lame duck session; however it would be too late to save Clinton at that point (which must give notice to the MISO by the end of the day today) if that unit will retire on 6/1/17 as planned. Quad Cities is due to be retired on 6/1/18.

If the bill passes it is worth $2.50/share. Shut down is worth a bit less than $1/share. We come up with those numbers by doing a simple DCF of the cash flow impact at ExGen under both scenarios and putting a value on $0.05 of EPS accretion at ComEd in 2020 if the deal passes. Our current valuation assumes a shut down case.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of regulation to bolster the revenue stream of the IL nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in IL to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-11-30)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$49.12	$52.50
AEP	American Electric Power	Hold	$59.05	$66.50
CPN	Calpine Corp.	Buy	$11.15	$16.00
CNP	CenterPoint Energy, Inc.	Hold	$23.86	$24.50
CMS	CMS Energy Corp.	Hold	$40.22	$42.50
ED	Consolidated Edison Inc.	Hold	$69.77	$76.00
D	Dominion Resources Inc.	Coverage Suspended	$73.29	$NA
DTE	DTE Energy Co.	Hold	$93.09	$95.00
DUK	Duke Energy Corp.	Hold	$73.77	$80.00
DYN	Dynegy Inc.	Buy	$8.65	$15.00
EIX	Edison International	Hold	$68.77	$76.00
ETR	Entergy Corp.	Hold	$68.73	$72.00
ES	Eversource Energy	Hold	$51.62	$56.00
EXC	Exelon Corp.	Buy	$32.51	$40.00
FE	FirstEnergy Corp.	Buy	$31.29	$37.50
HE	Hawaiian Electric Industries Inc.	Hold	$30.80	$31.00
HIFR	InfraREIT, Inc.	Buy	$17.14	$20.00
NEE	NextEra Energy Inc	Buy	$114.23	$137.00
NI	NiSource Inc	Hold	$21.94	$22.00
NRG	NRG Energy Inc.	Buy	$11.34	$16.00
NYLD	NRG Yield, Inc.	Buy	$15.35	$20.00
PCG	PG&E Corp.	Buy	$58.80	$65.50
PNW	Pinnacle West Capital Corp.	Hold	$73.93	$77.00
PPL	PPL Corp.	Hold	$33.46	$34.00
PEG	Public Service Enterprise Group	Hold	$41.31	$44.00
SRE	Sempra Energy	Buy	$99.80	$115.00
SO	Southern Co.	Hold	$46.82	$52.00
TLN	Talen Energy Corporation	Hold	$13.96	$14.00
AES	The AES Corporation	Buy	$11.45	$12.25
WEC	WEC Energy Group, Inc.	Hold	$56.01	$62.00
WR	Westar Energy Inc.	Hold	$56.96	$58.50
XEL	Xcel Energy Inc.	Hold	$39.01	$41.50

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: December 01, 2016, 13:19 ET.

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Ratings Definitions

Current Ratings Definition

Evercore ISI's recommendations are based on a stock's total forecasted return over the next 12 months. Total forecasted return is equal to the expected percentage price return plus gross dividend yield. We divide our stocks under coverage into three ratings categories, with the following return guidelines:

Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

Historical Ratings Definitions

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%

Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 12/01/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	332	51%
Hold	277	42%
Sell	25	4%
Coverage Suspended	15	2%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

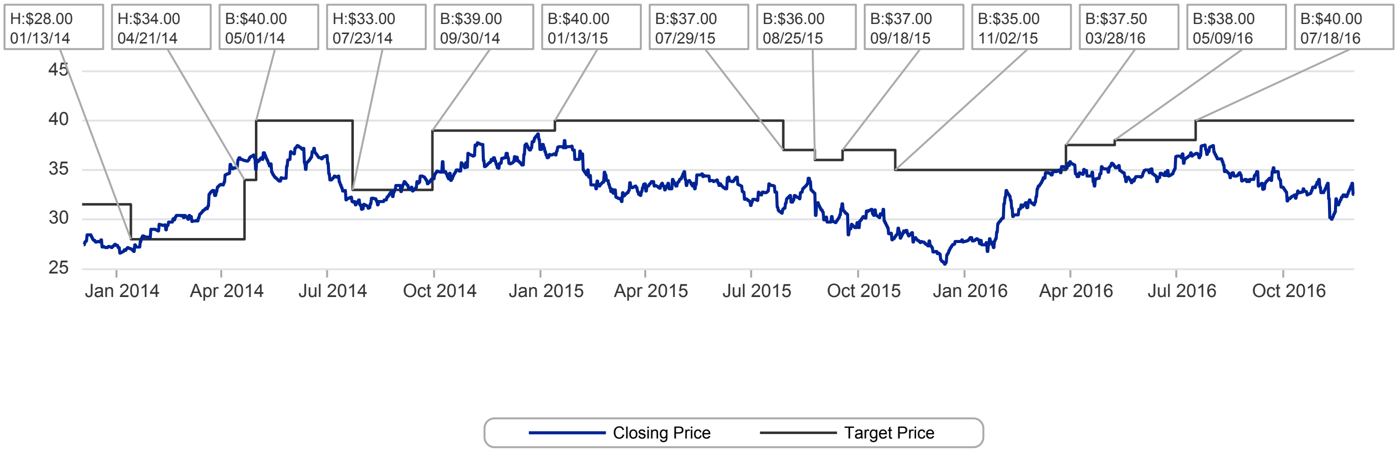
Rating	Count	Pct.
Buy	48	14%
Hold	18	6%
Sell	1	4%
Coverage Suspended	2	13%
Rating Suspended	1	12%

Issuer-Specific Disclosures (as of December 1, 2016)

Price Charts

Exelon Corp. Rating History as of 11/30/2016

powered by: BlueMatrix



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EVERCORE ISI

Energy | Power & Utilities

December 2, 2016

EXELON CORP.

EXC | $32.17

BUY | TARGET PRICE: $40.00

Company Update

Greg Gordon, CFA
212-653-9000
Greg.Gordon@evercoreisi.com

Phil Covello
212-653-8997
Phil.Covello@evercoreisi.com

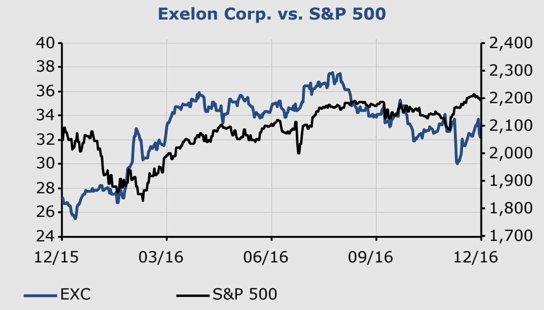
Company Statistics

Market Capitalization (M):	$29,702
Shares Outstanding (M):	923
Dividend:	$1.26
Dividend Yield:	3.9%
Payout Ratio:	47.7%
Expected Total Return:	28.3%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	**$2.65**	**$2.65**	**$2.85**
P/E	**12.1x**	**12.1x**	**11.3x**
EPS vs Consensus	**(0.7)%**	**2.2%**	**3.7%**
Consensus EPS	**$2.67**	**$2.59**	**$2.75**
Consensus P/E	**12.1x**	**12.4x**	**11.7x**

1 Year Price History



Source: FactSet

IL Legislature Passes Energy Bill

It only needs to be signed into law by the Governor.

Yesterday evening, 12/1/16, the Energy Future Jobs Bill (SB 2418) passed both houses. It now only needs to be signed into law by Governor Rauner. The bill passed in a 63-38 vote in the House before moving to the Senate where it passed 32-18 shortly after. A total of 5 additional amendments were introduced to the bill in rapid succession the last 2 days alone, some on additional feedback from the Governor. Among these was also a change to the effective date of the legislation yesterday that had the effect of reducing the necessary threshold to pass the bill to 60 votes. However, the core elements for EXC – including the subsidies that would keep Clinton and Quad Cities online – were unchanged. The deal will be effective June 1, 2017 and run for 10 years.

The estimated annual Zero Emission Standard (ZES) revenue proposed for Clinton and Quad Cities is $235mm vs. the $285mm as proposed in Amendment two issued on 11/15/16. The additional limiting factor here is the broader provision that limits these contract volumes so that the total cost increase does not exceed 1.65% of the total cost paid by retail customers for the year ending 5/31/2009. This increase had been higher, at 2.015% as proposed in the earlier second amendment. Otherwise, the substance of the ZES calculation is mostly unchanged (as described in our 11/18/16 note here), but that the duration of the subsidy has also been reduced - from the end of those plants' useful lives previously to 10 years ending May 31, 2027. The current license at Clinton extends through 2026 and licenses at the two units at Quad Cities extend through 2032 (though these could be extended). In sum, the ZES represents a +/-$0.15 EPS improvement at ExGen as compared to the $0.07/share run-rate benefit that ExGen would realize were the plants instead retired. Retirements for Clinton and Quad Cities were planned for 6/1/17 and 6/1/18, respectively, without legislation. We see a $235mm improvement in cash flow vs. $75mm of cash flow improvement in the shut-down scenario.

EXC would also be asked to spend $400mm at ComEd annually on energy efficiency, and be allowed a regulated return on the investment. It is not currently contemplated in the current capital plan, and would thus represent $0.015 in incremental earnings power annually, totaling $0.05 of EPS accretion by 2020. Other key changes include additional protections for ratepayers in ComEd, such as removal of ratepayer-funded micro-grid spending and the inclusion of provisions that limit rate hikes for residential customers to $0.25 per month, and 1.3% annually for commercial and industrial customers (based on 2015 rates). Additionally, the Fixed Resource Adequacy Plan (FRAP) for Southern Illinois that would presumably have helped financially constrained DYN coal plants was removed. The controversial demand charges that would have been assigned to residential customers in IL was also removed.

All things equal, the bill is worth $2.50/share as we articulated yesterday. For the sake of being conservative, we are maintaining our price target and estimates for the time being.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of regulation to bolster the revenue stream of the IL nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in IL to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-12-01)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$48.91	$52.50
AEP	American Electric Power	Hold	$58.16	$66.50
CPN	Calpine Corp.	Buy	$10.41	$16.00
CNP	CenterPoint Energy, Inc.	Hold	$23.80	$24.50
CMS	CMS Energy Corp.	Hold	$39.69	$42.50
ED	Consolidated Edison Inc.	Hold	$69.47	$76.00
D	Dominion Resources Inc.	Coverage Suspended	$72.75	$NA
DTE	DTE Energy Co.	Hold	$93.61	$95.00
DUK	Duke Energy Corp.	Hold	$72.75	$80.00
DYN	Dynegy Inc.	Buy	$8.17	$15.00
EIX	Edison International	Hold	$68.56	$76.00
ETR	Entergy Corp.	Hold	$68.88	$72.00
ES	Eversource Energy	Hold	$51.10	$56.00
EXC	Exelon Corp.	Buy	$32.17	$40.00
FE	FirstEnergy Corp.	Buy	$30.99	$37.50
HE	Hawaiian Electric Industries Inc.	Hold	$30.72	$31.00
HIFR	InfraREIT, Inc.	Buy	$17.21	$20.00
NEE	NextEra Energy Inc	Buy	$112.94	$137.00
NI	NiSource Inc	Hold	$21.70	$22.00
NRG	NRG Energy Inc.	Buy	$11.12	$16.00
NYLD	NRG Yield, Inc.	Buy	$15.05	$20.00
PCG	PG&E Corp.	Buy	$58.04	$65.50
PNW	Pinnacle West Capital Corp.	Hold	$73.13	$77.00
PPL	PPL Corp.	Hold	$33.10	$34.00
PEG	Public Service Enterprise Group	Hold	$41.04	$44.00
SRE	Sempra Energy	Buy	$99.35	$115.00
SO	Southern Co.	Hold	$46.59	$52.00
TLN	Talen Energy Corporation	Hold	$14.00	$14.00
AES	The AES Corporation	Buy	$11.03	$12.25
WEC	WEC Energy Group, Inc.	Hold	$55.38	$62.00
WR	Westar Energy Inc.	Hold	$56.72	$58.50
XEL	Xcel Energy Inc.	Hold	$38.54	$41.50

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: December 02, 2016, 07:53 ET.

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The analysts, Greg Gordon and Phil Covello, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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ISI Group and ISI UK:

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Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%

Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

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Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 12/02/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	332	51%
Hold	277	42%
Sell	25	4%
Coverage Suspended	15	2%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

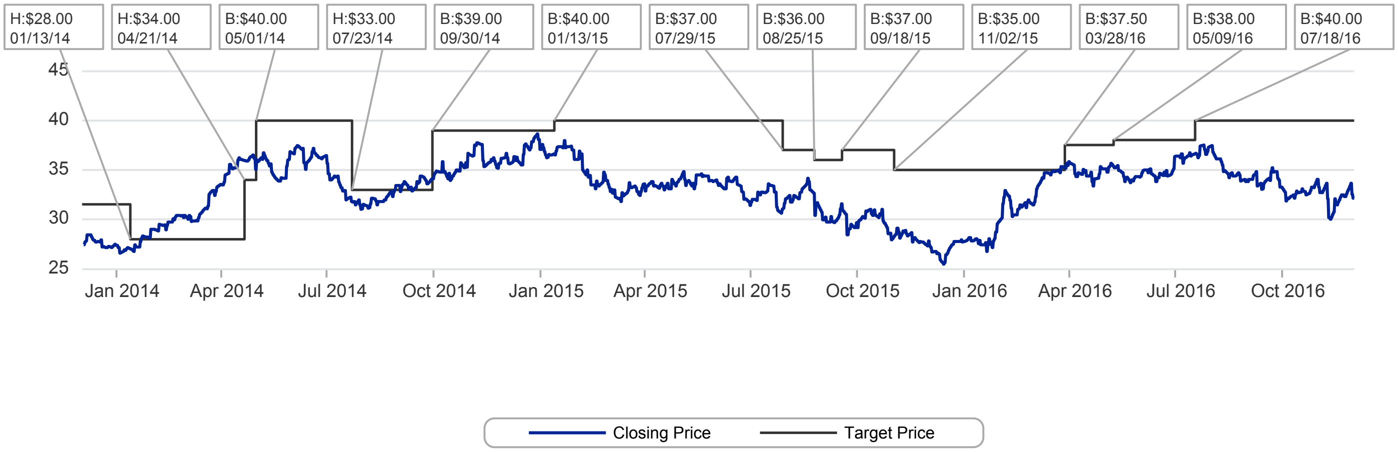
Rating	Count	Pct.
Buy	48	14%
Hold	18	6%
Sell	1	4%
Coverage Suspended	2	13%
Rating Suspended	1	12%

Issuer-Specific Disclosures (as of December 2, 2016)

Price Charts

Exelon Corp. Rating History as of 12/01/2016

powered by: BlueMatrix



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FLASH

Exelon

EXC-NYSE	Rating	Price: Dec-1	Target	Total Rtn
	Market Perform	$32.17	$35.00	13%

Illinois Legislature Supports Nuclear Generation

Bottom Line: Late on December 1 (last day of the veto session), the Illinois legislature passed legislation (SB2814) that will provide much-needed relief to the state's ailing nuclear plants. Under the legislation, which is expected to be signed by Gov. Rauner, EXC stands to collect ~$235 million annually from nuclear subsidies. We regard this legislation as a positive for Exelon, which had stated it would shut down the Quad Cities and Clinton plants absent legislative support.

Key Points

- The Future Energy Jobs Bill (SB2814) is designed to maintain Illinois' competitive electric rates, preserve and create thousands of jobs and expand clean energy. The legislation also supports renewable energy development, expands aid and job training to low-income residents and supports high-paying jobs.

- EXC's utility, ComEd, would collect ~$235 million annually, or about $0.17 per share, from Illinois customers for the nuclear power plant subsidy via Zero Emission Credits that will keep the Quad Cities Clinton nuclear plants operating for 10 years. Absent enabling legislation, EXC was poised to shut the units as they were uneconomic.

- Although last minute changes to the bill could have occurred, we believe ComEd would be allowed to spend ~$400 million annually on energy efficiency (down from the original $500 million); the company currently spends about $240 million a year.

- We also believe the legislation includes customer protections, including an overall cost cap that will limit the impact to all business classes at 1.3% compared to their 2015 rates and to cap the impact to residential customers at $0.25/month for the average ComEd residential customer. Ameren business and residential customers received similar protections.

- The legislation also contains cost caps related to energy efficiency, the Renewable Portfolio Standard and the Zero Emission Standard.

- The legislation does not include subsidies for downstate coal plants as it had in an earlier incarnation.

Please refer to pages 2 to 4 for Important Disclosures, including Analyst's Certification.

BMO Capital Markets

Electric Utilities

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Legal Entity: BMO Capital Markets Corp.

2YR Price Volume Chart

LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Description

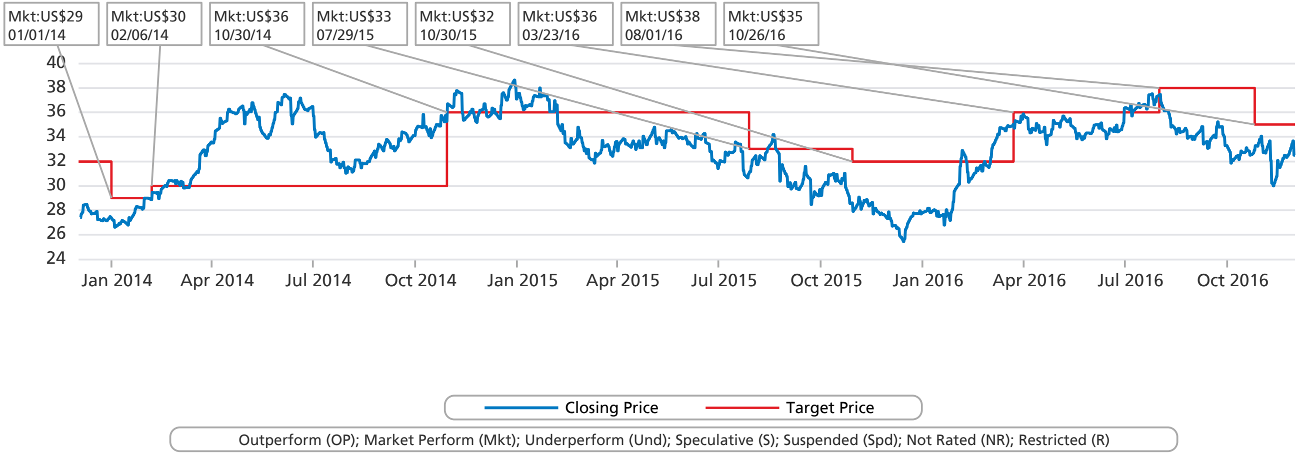
Exelon is the largest competitive U.S. power generator, with ~32,700 MW of owned capacity. Its Constellation business unit provides energy products and services to business, public, and residential sector customers. Exelon's utilities deliver electricity and natural gas to 10 million customers in Delaware, DC, Illinois, Maryland, New Jersey, and Pennsylvania.

EXC-NYSE Research

Industry Research

Company Models

Exelon Rating History as of 11/30/2016



Source: FactSet, BMO Capital Markets

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Company Specific Disclosures

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Methodology and Risks to Price Target/Valuation for Exelon (EXC-NYSE)

Methodology: Our valuation is based on a combination of our 2017 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and a 17x 2017E P/E multiple.

Risks: A material decline in power prices and / or a change in the regulatory environment

Distribution of Ratings (November 30, 2016)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe
Buy	Outperform	41.2%	19.3%	52.4%	42.6%	53.9%	52.9%
Hold	Market Perform	54.9%	12.5%	45.2%	53.8%	44.0%	41.4%
Sell	Underperform	4.0%	9.1%	2.4%	3.4%	2.2%	5.7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings Key (as of October 2016)

We use the following ratings system definitions:
OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis;
Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
NR = No Rated - No rating at this time; and
R = Restricted - Dissemination of research is currently restricted.

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Prior BMO Capital Markets Rating System

(April 2013 – October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 – April 2013)
http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 08 Nov 2016 06:00, UTC	33.66 USD 08 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.12	3.73 08 Nov 2016	3.78 08 Nov 2016	31.08 08 Nov 2016	Utilities - Diversified	Standard

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.07	0.88	0.98	0.94
Price/Earnings	25.5	15.4	16.6	20.7
Forward P/E	13.3	—	16.1	15.4
Price/Cash Flow	3.3	5.1	6.0	11.7
Price/Free Cash Flow	41.2	74.7	12.6	17.6
Trailing Dividend Yield%	3.73	4.65	3.49	2.02

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities

Investment Thesis

Travis Miller, Sector Director, 24 March 2016

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Travis Miller, Sector Director, 09 November 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the

Exelon Corp EXC (XNYS)

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	21,273	9,249	24.68	16.56
FirstEnergy Corp FE	USD	14,688	14,728	6.10	0.00
Entergy Corp ETR	USD	12,849	10,706	13.62	10.03

next few years to lock in current tax benefits.

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 13 April 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

Exelon Corp EXC (XNYS)

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The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

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08 Nov 2016 06:00, UTC	08 Nov 2016	13 Apr 2016 22:11, UTC		08 Nov 2016	08 Nov 2016	08 Nov 2016		

Analyst Notes Archive

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

Andrew Bischof, CFA, Eq. Analyst, 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

Andrew Bischof, CFA, Eq. Analyst, 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real

Travis Miller, Sector Director, 02 June 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management

finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

Travis Miller, Sector Director, 09 August 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Regulated Utilities Continue Driving Growth for Exelon

Travis Miller, Sector Director, 26 October 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon

goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Travis Miller, Sector Director, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities

Travis Miller, Sector Director, 09 November 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Exelon Corp EXC ★★^{Q} 09 Nov 2016 02:00 UTC

Last Close	Fair Value^{Q}	Market Cap	Sector	Industry	Country of Domicile
08 Nov 2016 33.66	09 Nov 2016 02:00 UTC 31.36	08 Nov 2016 31,077.3 Mil	Utilities	Utilities - Diversified	United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	83	77	79
Valuation	Overvalued	16	17	21
Quantitative Uncertainty	Medium	100	94	98
Financial Health	Moderate	61	57	61

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.07	0.88	0.98	0.94
Price/Earnings	25.5	15.4	16.6	20.7
Forward P/E	13.3	—	16.1	15.4
Price/Cash Flow	3.3	5.1	6.0	11.7
Price/Free Cash Flow	41.2	74.7	12.6	17.6
Trailing Dividend Yield %	3.73	4.65	3.49	2.02
Price/Book	1.2	1.5	1.3	2.3
Price/Sales	1.0	1.2	1.4	1.9

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.8	9.7	9.1	11.9
Return on Assets %	1.2	2.6	3.2	4.6
Revenue/Employee (Mil)	1.0	1.0	1.2	0.3

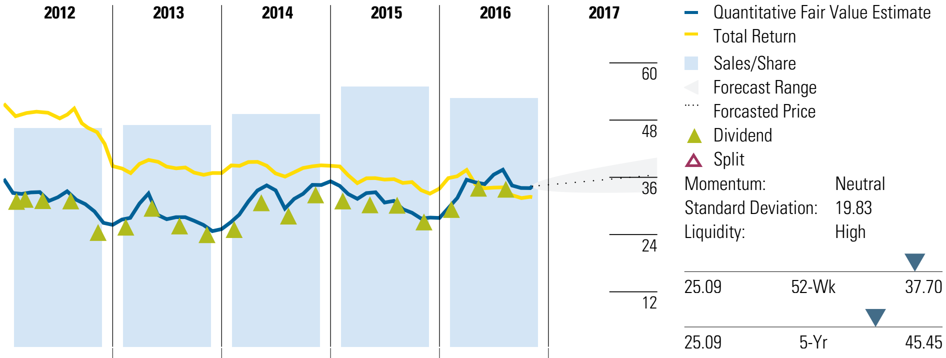
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	624.2	583.6
Assets/Equity	3.7	3.7	2.7	1.7
Long-Term Debt/Equity	0.9	0.9	0.8	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.1	21.4	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	24.3	9.7	-1.9	-1.5

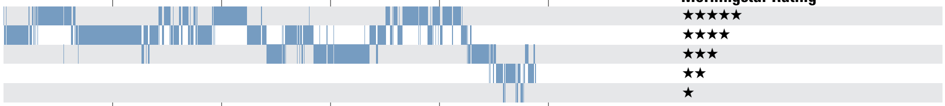
Price vs. Quantitative Fair Value



Momentum: Neutral
Standard Deviation: 19.83
Liquidity: High

2012	2013	2014	2015	2016	2017	
-26.6	-3.0	39.9	-21.8	24.6		Total Return %
-42.9	-36.1	27.1	-22.5	18.1		+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—		Trailing Dividend Yield %
—	—	—	—	3.73		Forward Dividend Yield %
21.0	14.6	15.2	12.4	25.5		Price/Earnings
1.0	0.9	1.2	0.8	1.0		Price/Revenue

Morningstar Rating^{Q}



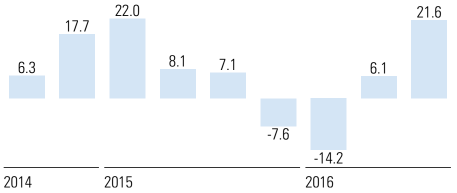
2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	30,187	Revenue
1.5	24.1	6.0	10.2	7.4	2.5	% Change
4,480	2,380	3,656	3,096	4,409	3,107	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-29.5	% Change
2,495	1,160	1,719	1,623	2,269	1,240	Net Income
4,853	6,131	6,343	4,457	7,616	9,305	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,549	Capital Spending
811	321	948	-1,620	-8	756	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	2.5	% Sales
3.75	1.42	2.00	1.88	2.54	1.32	EPS
-3.1	-62.1	40.8	-6.0	35.1	-48.0	% Change
0.20	0.39	0.48	-0.03	-1.04	0.82	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.26	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.19	Book Value/Share
855,000	857,000	860,000	920,000	923,270	923,270	Shares Outstanding (K)

2011	2012	2013	2014	2015	TTM	**Profitability**
17.9	6.5	7.8	7.2	9.4	4.8	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.2	Return on Assets %
13.2	4.9	6.9	5.9	7.7	4.1	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.29	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.4	Financial Leverage
62.3	56.8	56.9	52.6	55.6	59.1	Gross Margin %
23.7	10.1	14.7	11.3	15.0	10.3	Operating Margin %
12,189	18,346	18,271	20,010	24,286	32,972	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	26,027	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	—	—
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

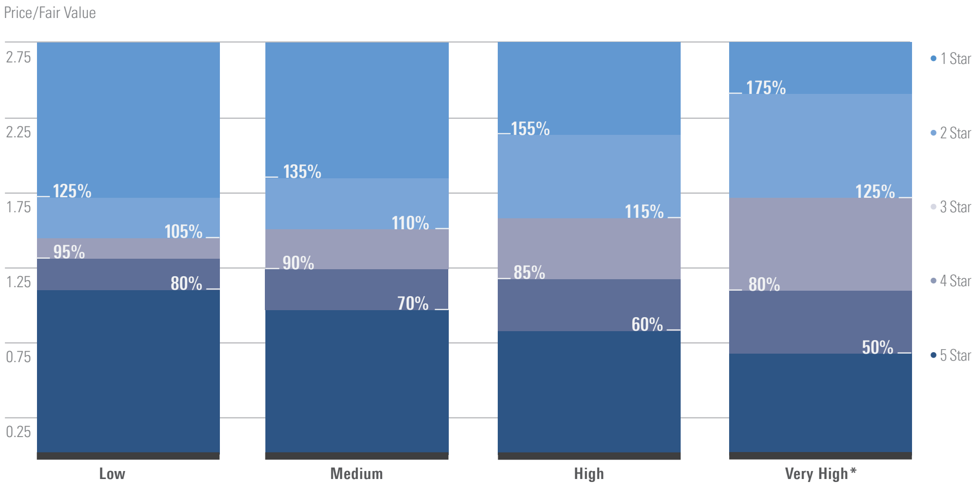
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- **One-Star:** the stock is overvalued with a reasonable margin of safety.
  Log (Quant FVE/Price) < -1*Quantitative Uncertainty
- **Two-Star:** the stock is somewhat overvalued.
  Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)
- **Three-Star:** the stock is approximately fairly valued.
  Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)
- **Four-Star:** the stock is somewhat undervalued.
  Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)
- **Five-Star:** the stock is undervalued with a reasonable margin of safety.
  Log (Quant FVE/Price) > 1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
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- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit www.corporate.morningstar.com.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 08 Nov 2016 06:00, UTC	33.66 USD 08 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.12	3.73 08 Nov 2016	3.78 08 Nov 2016	31.08 08 Nov 2016	Utilities - Diversified	Standard

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 08 Nov 2016 06:00, UTC	33.66 USD 08 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.12	3.73 08 Nov 2016	3.78 08 Nov 2016	31.08 08 Nov 2016	Utilities - Diversified	Standard

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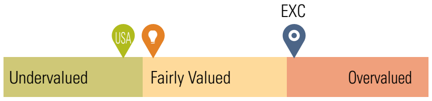
★★ 07 Nov 2016 06:00, UTC	33.42 USD 07 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.11	3.76 07 Nov 2016	3.81 07 Nov 2016	30.86 07 Nov 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.06	0.88	0.96	0.92
Price/Earnings	25.3	15.4	16.4	20.5
Forward P/E	13.4	—	15.9	14.9
Price/Cash Flow	3.3	5.1	5.8	11.4
Price/Free Cash Flow	40.9	74.7	12.4	17.1
Trailing Dividend Yield%	3.76	4.65	3.54	2.05

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Investment Thesis

Travis Miller, Sector Director, 24 March 2016

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Travis Miller, Sector Director, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 07 Nov 2016 06:00, UTC	33.42 USD 07 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.11	3.76 07 Nov 2016	3.81 07 Nov 2016	30.86 07 Nov 2016	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	21,187	9,249	24.68	16.50
FirstEnergy Corp FE	USD	14,650	14,728	6.10	0.00
Entergy Corp ETR	USD	12,809	10,706	13.62	10.00

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50%

higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 13 April 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder

among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

Andrew Bischof, CFA, Eq. Analyst, 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

Andrew Bischof, CFA, Eq. Analyst, 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real

Travis Miller, Sector Director, 02 June 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management

finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

Travis Miller, Sector Director, 09 August 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Regulated Utilities Continue Driving Growth for Exelon

Travis Miller, Sector Director, 26 October 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon

goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Travis Miller, Sector Director, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Exelon Corp EXC ★★^{Q} 08 Nov 2016 02:00 UTC

Last Close	Fair Value^{Q}	Market Cap	Sector	Industry	Country of Domicile
07 Nov 2016 33.42	08 Nov 2016 02:00 UTC 31.40	07 Nov 2016 30,855.7 Mil	Utilities	Utilities - Diversified	USA United States

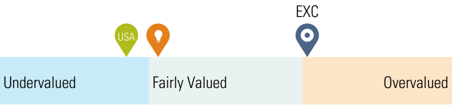
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

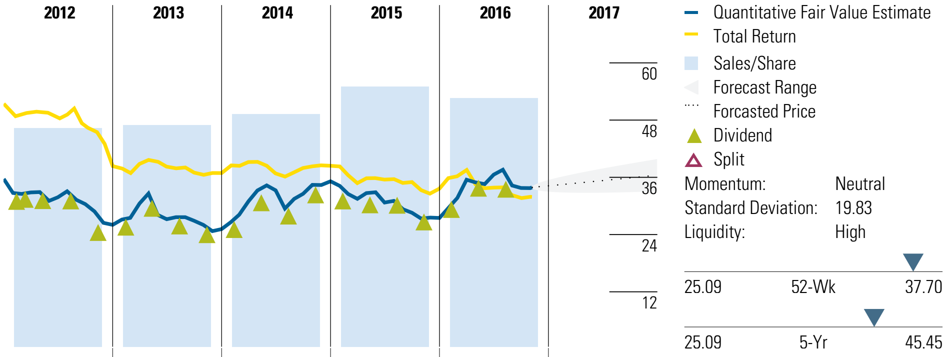
Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	78	71	78
Valuation	Overvalued	17	21	24
Quantitative Uncertainty	Low	100	95	98
Financial Health	Moderate	61	57	61



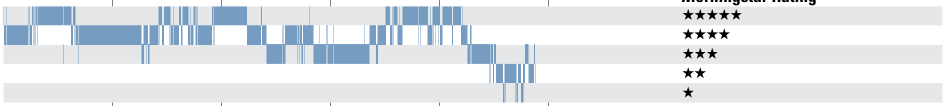
Source: Morningstar Equity Research

Price vs. Quantitative Fair Value



2012	2013	2014	2015	2016	2017	
-26.6	-3.0	39.9	-21.8	23.8		Total Return %
-42.9	-36.1	27.1	-22.5	17.6		+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—		Trailing Dividend Yield %
—	—	—	—	3.76		Forward Dividend Yield %
21.0	14.6	15.2	12.4	25.3		Price/Earnings
1.0	0.9	1.2	0.8	1.0		Price/Revenue

Morningstar Rating^{Q}



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.06	0.88	0.96	0.92
Price/Earnings	25.3	15.4	16.4	20.5
Forward P/E	13.4	—	15.9	14.9
Price/Cash Flow	3.3	5.1	5.8	11.4
Price/Free Cash Flow	40.9	74.7	12.4	17.1
Trailing Dividend Yield %	3.76	4.65	3.54	2.05
Price/Book	1.2	1.5	1.3	2.2
Price/Sales	1.0	1.2	1.3	1.9

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.8	9.7	9.2	12.0
Return on Assets %	1.2	2.6	3.3	4.7
Revenue/Employee (Mil)	1.0	1.0	1.2	0.3

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	625.3	582.7
Assets/Equity	3.7	3.7	2.7	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

Financials (Fiscal Year in Mil)

2011	2012	2013	2014	2015	TTM	
18,924	23,489	24,888	27,429	29,447	30,187	Revenue
1.5	24.1	6.0	10.2	7.4	2.5	% Change
4,480	2,380	3,656	3,096	4,409	3,107	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-29.5	% Change
2,495	1,160	1,719	1,623	2,269	1,240	Net Income
4,853	6,131	6,343	4,457	7,616	9,305	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,549	Capital Spending
811	321	948	-1,620	-8	756	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	2.5	% Sales
3.75	1.42	2.00	1.88	2.54	1.32	EPS
-3.1	-62.1	40.8	-6.0	35.1	-48.0	% Change
0.20	0.39	0.48	-0.03	-1.04	0.82	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.26	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.19	Book Value/Share
855,000	857,000	860,000	920,000	923,270	923,270	Shares Outstanding (K)

Profitability

2011	2012	2013	2014	2015	TTM	
17.9	6.5	7.8	7.2	9.4	4.8	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.2	Return on Assets %
13.2	4.9	6.9	5.9	7.7	4.1	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.29	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.4	Financial Leverage
62.3	56.8	56.9	52.6	55.6	59.1	Gross Margin %
23.7	10.1	14.7	11.3	15.0	10.3	Operating Margin %
12,189	18,346	18,271	20,010	24,286	32,972	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	26,027	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

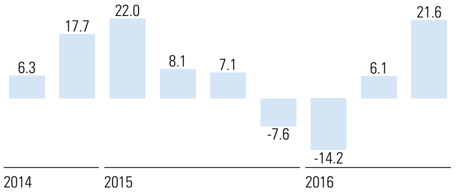
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.1	21.4	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	23.4	9.2	-1.8	-1.6

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	—	—
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

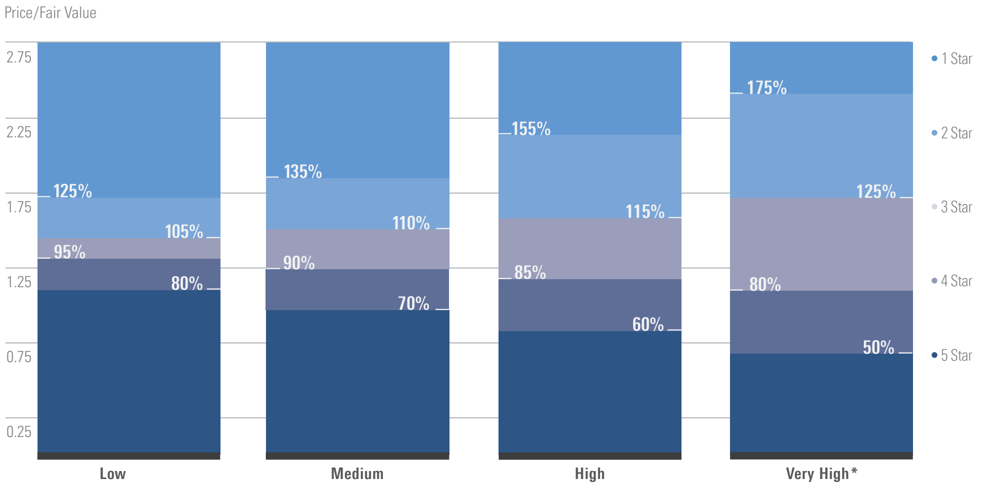
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- **One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- **Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- **Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- **Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- **Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
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- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit www.corporate.morningstar.com.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	33.42 USD	30.00 USD	1.11	3.76	3.81	30.86	Utilities - Diversified	Standard
07 Nov 2016 06:00, UTC	07 Nov 2016	13 Apr 2016 22:11, UTC		07 Nov 2016	07 Nov 2016	07 Nov 2016		

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.00 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

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Research as of 14 Nov 2016
Estimates as of 27 Sep 2016
Pricing data through 11 Nov 2016
Rating updated as of 11 Nov 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect

Vital Statistics

Market Cap (USD Mil)	27,698
52-Week High (USD)	37.70
52-Week Low (USD)	25.09
52-Week Total Return %	8.3
YTD Total Return %	12.6
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.00

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*12.5*	*12.7*
EV/EBITDA	9.5	6.6	*9.3*	*9.1*
EV/EBIT	16.7	10.2	*14.8*	*14.8*
Free Cash Flow Yield %	-5.1	0.0	*-6.1*	*-4.4*
Dividend Yield %	3.3	4.3	*4.2*	*4.3*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
30.00 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast 2016*	*Forecast 2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*12.5*	*12.7*
EV/EBITDA	9.5	6.6	*9.3*	*9.1*
EV/EBIT	16.7	10.2	*14.8*	*14.8*
Free Cash Flow Yield %	-5.1	0.0	*-6.1*	*-4.4*
Dividend Yield %	3.3	4.3	*4.2*	*4.3*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.00 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

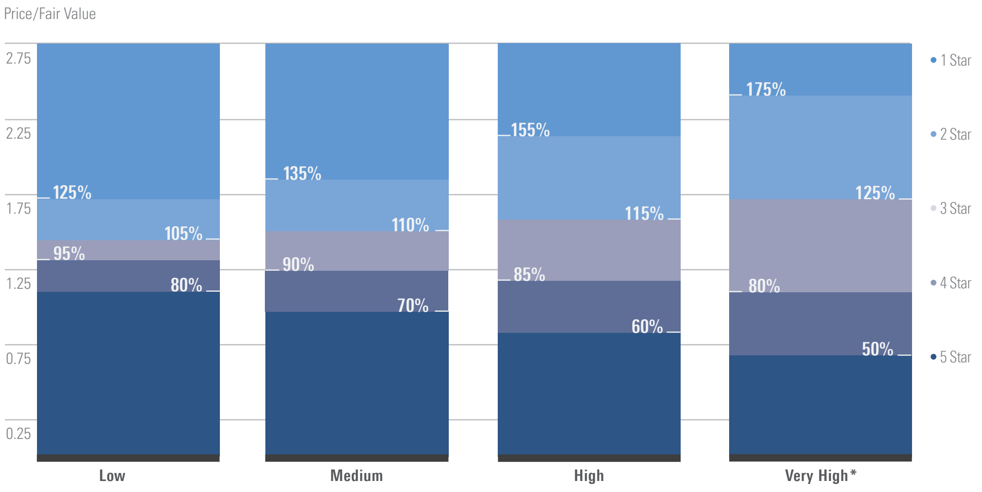
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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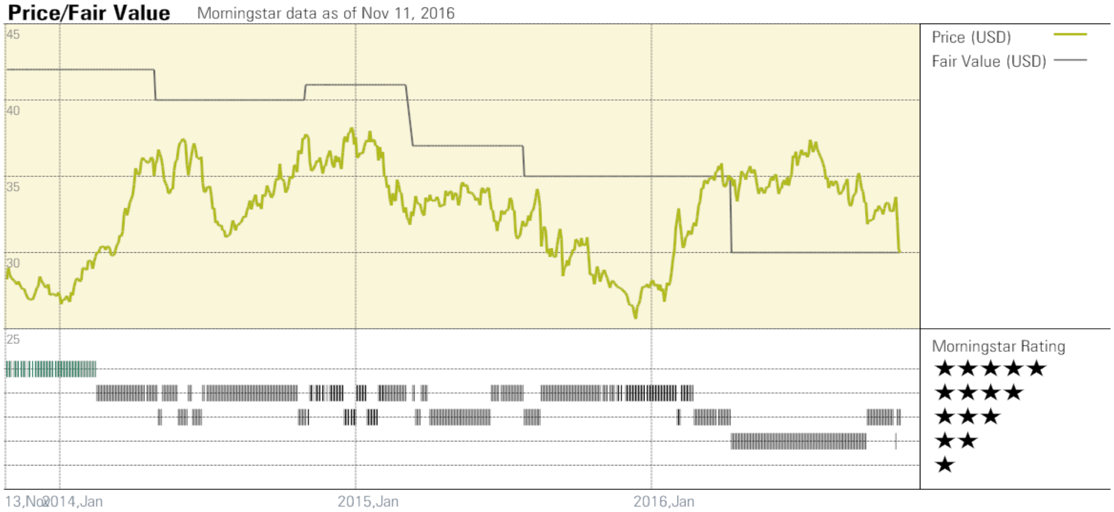
Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.00 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
30.00 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.00 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

Updated Forecasts and Estimates from 27 Sep 2016

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Research as of 09 Aug 2016
Estimates as of 27 Sep 2016
Pricing data through 04 Oct 2016
Rating updated as of 04 Oct 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 24 Mar 2016

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Vital Statistics

Market Cap (USD Mil)	29,403
52-Week High (USD)	37.70
52-Week Low (USD)	25.09
52-Week Total Return %	11.1
YTD Total Return %	18.1
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.06

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*13.3*	*13.5*
EV/EBITDA	9.5	6.6	*9.5*	*9.4*
EV/EBIT	16.7	10.2	*15.3*	*15.2*
Free Cash Flow Yield %	-5.1	0.0	*-5.7*	*-4.1*
Dividend Yield %	3.3	4.3	*3.9*	*4.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet 09 Aug 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Valuation, Growth and Profitability 13 Apr 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings

Price/Fair Value Morningstar data as of Oct 04, 2016

through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $500 million change in EBITDA. Our fair value estimate would change by $4 per share. On a mark-to-market basis as of mid-April, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 2 percentage points to near the industry average, it would change our fair value estimate by $3 per share. If Exelon does not retire the Clinton, Quad Cities, and Byron plants, it would add $3 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition.

These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.

- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.

- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.

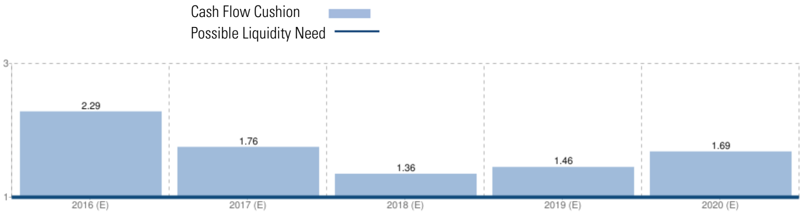
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.

- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	*2017(E)*	*2018(E)*	*2019(E)*	*2020(E)*
Cash and Equivalents (beginning of period)	*6,502*	*4,836*	*3,083*	*2,082*	*2,916*
Adjusted Available Cash Flow	*201*	*704*	*1,485*	*3,612*	*4,201*
Total Cash Available before Debt Service	*6,703*	*5,540*	*4,568*	*5,694*	*7,117*
Principal Payments	*-1,483*	*-1,626*	*-1,600*	*-2,000*	*-2,275*
Interest Payments	*-1,140*	*-1,219*	*-1,299*	*-1,436*	*-1,468*
Other Cash Obligations and Commitments	*-303*	*-303*	*-463*	*-464*	*-463*
Total Cash Obligations and Commitments	*-2,926*	*-3,148*	*-3,362*	*-3,900*	*-4,206*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,502	37.1
Sum of 5-Year Adjusted Free Cash Flow	10,202	58.2
Sum of Cash and 5-Year Cash Generation	16,704	95.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	16,704	95.2
Sum of 5-Year Cash Commitments	-17,542	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets. The 2007-08 commodity boom led management to raise the dividend and buy back stock. But as power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.The Pepco acquisition increases consolidated leverage, but most of that additional leverage will be debt at the regulated utilities. We don't expect a material change in parentco or Exelon Generation leverage.Based on current market conditions, we think Exelon will have sufficient cash coverage to keep its investment-grade credit rating and achieve management's recent pledge to increase the dividend at least 2.5% annually. Even through these lean years, we expect Exelon can generate at least $2 billion of cash flow after incorporating new financing and excluding discretionary growth investments. We project Exelon's consolidated EBITDA/interest coverage will remain near 6 times and leverage will remain below 4 times debt/EBITDA at least through 2018.More than half of Exelon's consolidated debt is secured at the regulated utilities, in line with its regulatory targets. Exelon Generation has an $805 million maturity in 2017 and $1.9 billion due in 2020. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing those maturities.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm could be forced to make contributions.

Enterprise Risk

Investors should pay the most attention to political

developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	187,560	12 Aug 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		69,056	25 Jan 2016	—
MS. ANNE R. PRAMAGGIORE		56,015	13 Mar 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—
MR. KENNETH W. CORNEW		32,844	15 Jul 2016	30,000

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	2.85	1.34	-3,690	30 Jun 2016
Vanguard Total Stock Mkt Idx	2.03	0.14	270	31 Aug 2016
Vanguard Wellington™	1.63	0.61	99	30 Jun 2016
T. Rowe Price Value Fund	1.35	1.99	2,742	30 Jun 2016
Vanguard 500 Index Fund	1.35	0.17	170	31 Aug 2016
Concentrated Holders				
Putnam VT Global Utilities	0.02	7.54	-5	30 Jun 2016
Putnam Global Utilities Fund	0.04	7.45	—	30 Jun 2016
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.41	—	03 Oct 2016
Fidelity® Telecom and Utilities Fund	0.20	5.84	—	31 Aug 2016
Edgar Lomax Value Fund	0.01	5.31	—	30 Jun 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
T. Rowe Price Associates, Inc.	3.99	0.28	6,820	30 Jun 2016
Millennium Management LLC	0.80	0.61	5,670	30 Jun 2016
Arrowstreet Capital Limited Partnership	0.95	1.06	2,091	30 Jun 2016
Balyasny Asset Management LLC	0.21	0.46	1,944	30 Jun 2016
UBS Asset Mgmt Americas Inc	0.26	0.13	1,901	30 Jun 2016
Top 5 Sellers				
Fidelity Management and Research Company	5.20	0.26	-8,065	30 Jun 2016
Royal London Asset Management Ltd	0.03	0.18	-7,714	30 Jun 2016
Capital Research Global Investors	6.05	0.69	-4,323	30 Jun 2016
Franklin Advisers Inc	0.74	0.23	-3,692	30 Jun 2016
Commonwealth Bank of Australia	0.02	0.06	-2,322	30 Jun 2016

Management 24 Mar 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real 02 Jun 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

ComEd zone cleared at $202.77/MW-day for CP and $182.77/MW-day for base, slightly below the strong 2018-19 results. Base capacity cleared in the Eastern Mid-Atlantic Area Council, or EMAAC, LDC cleared at CP clearing at $119.77/MW-day for CP and $99.77/MW-day for base generation, but well below last year's $210/MW-day for base

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results. 13 May 2016
We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

For a more detailed analysis, see our report, “Morningstar Outlook: PJM 2019-20 Capacity Auction," on Morningstar Select Investment Research.

Exelon Threatens to Close Clinton, Quad Cities Nuclear Plants...Again 06 May 2016
We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after management used its strongest language to-date regarding the fate of the beleaguered Clinton and Quad Cities nuclear plants, both in Illinois. Management said it will close the plants by 2017-18 but also said the decision depends on several developments. These are the same contingencies management has used for several years to justify postponing the plant closures.

We continue to assume Exelon closes Clinton, Quad Cities, and two other nuclear plants by 2020. But we think management remains hesitant to pull the cord. The plants could survive if Illinois politicians pass what effectively is

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Analyst Notes

a nuclear bailout bill; Clinton clears the Mid-Continent Independent System Operator's 2017-18 capacity auction next spring; or Quad Cities clears the mid-Atlantic capacity auction later this month. Quad Cities cleared last year's 2017-18 transitional capacity auction at $151.50 per megawatt-day but did not clear the 2018-19 auction at $215/ MW-day. We expect similar clears in this year's 2019-20 auction.

Exelon earned $0.68 per share on an adjusted basis and reaffirmed its $2.40-$2.70 per share 2016 guidance, in line with our estimates. It continues running its nuclear fleet at world-class levels, achieving a 95.8% capacity factor in the quarter and proving it can capture the full upside if energy prices rebound. Exelon also filed rate cases at two of its newly acquired Pepco utilities, which should boost earnings and returns on the pricey acquisition if the utilities receive constructive decisions.

Are Utilities Overheated or Are Their Yields too Good to Pass Up? 20 Apr 2016

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Cheap debt, low commodity prices, and a renewed focus on regulated infrastructure investment have contributed to the sector's financial health. We project the median dividend payout ratio will fall below 60% during the next four years, down from mid-60% in past years. We also forecast median 5% annualized dividend growth during the next four years, up from 3% in recent years.

Duke Energy, the largest U.S. utility, is a Morningstar Best Idea and yields 4.1% as of April 20. We think the market has focused too much on the weak Latin American unit and

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
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Analyst Notes

pricey Piedmont Natural Gas acquisition. We believe investors should pay attention to Duke's strong management team that has long focused on regulated capital investment opportunities, supporting our 5.5% earnings growth estimate, divesting noncore no-moat assets, and driving efficiencies across all of its businesses.

In 2016-20, we anticipate Duke will invest $42 billion, of which nearly $30 billion is growth capital supporting our earnings growth estimate. We anticipate that Duke will be able to recover these costs through constructive regulatory outcomes. Adding Piedmont boosts its growth potential further.

We are hosting an investor call June 8 at 2 p.m. CST with Duke Energy CFO, Steve Young. Contact Andy Bischof at Andrew.bischof@morningstar.com or (312) 696-6433 if you would like to join.

Morningstar's Utilities Sector Outlook presentation for spring 2016 is now available.

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast 2016*	*Forecast 2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*13.3*	*13.5*
EV/EBITDA	9.5	6.6	*9.5*	*9.4*
EV/EBIT	16.7	10.2	*15.3*	*15.2*
Free Cash Flow Yield %	-5.1	0.0	*-5.7*	*-4.1*
Dividend Yield %	3.3	4.3	*3.9*	*4.0*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1.13	13.3	*13.8*	*14.8*	6.8	*7.8*	*7.9*	349.6	*NM*	*NM*	1.5	*1.5*	*1.4*	1.9	*2.1*	*2.0*
FirstEnergy Corp FE USA	0.93	11.8	*12.3*	*12.7*	9.4	*8.3*	*8.4*	18.1	*59.1*	*NM*	1.1	*1.0*	*1.0*	0.9	*0.9*	*0.9*
Entergy Corp ETR USA	0.97	11.4	*10.6*	*14.0*	6.7	*7.9*	*7.7*	15.4	*NM*	*NM*	1.3	*1.4*	*1.3*	1.1	*1.1*	*1.1*
Average		12.2	*12.2*	*13.8*	7.6	*8.0*	*8.0*	127.7	*59.1*	—	1.3	*1.3*	*1.2*	1.3	*1.4*	*1.3*
Exelon Corp EXC US	**1.06**	**11.2**	***13.3***	***13.5***	**6.6**	***9.5***	***9.4***	**NM**	***NM***	***NM***	**1.0**	***1.1***	***1.0***	**0.9**	***1.2***	***1.0***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	37,535 USD	9.5	*8.2*	*7.4*	9.6	*8.2*	*7.4*	13.3	*11.2*	*9.9*	4.6	*3.9*	*3.4*	4.0	*3.8*	*4.1*
FirstEnergy Corp FE USA	52,187 USD	3.8	*4.7*	*4.6*	4.4	*5.6*	*5.5*	4.7	*8.6*	*8.0*	1.1	*2.1*	*1.9*	4.5	*4.6*	*4.8*
Entergy Corp ETR USA	44,648 USD	0.7	*5.7*	*5.7*	0.8	*5.8*	*5.7*	-1.8	*13.2*	*9.6*	-0.4	*2.7*	*2.0*	4.9	*4.6*	*4.8*
Average		4.7	*6.2*	*5.9*	4.9	*6.5*	*6.2*	5.4	*11.0*	*9.2*	1.8	*2.9*	*2.4*	4.5	*4.3*	*4.6*
Exelon Corp EXC US	**95,384** USD	**4.1**	***4.6***	***5.0***	**4.3**	***4.8***	***5.2***	**9.3**	***8.3***	***7.8***	**2.5**	***2.3***	***2.2***	**4.3**	***3.9***	***4.0***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	10,415 USD	-4.3	*-5.7*	*2.7*	12.9	*-9.0*	*-3.3*	5.4	*1.2*	*-6.9*	-58.6	*-619.1*	*-65.1*	5.4	*5.1*	*4.9*
FirstEnergy Corp FE USA	15,026 USD	-0.2	*-4.3*	*-0.4*	119.8	*20.1*	*-3.7*	5.9	*-4.7*	*-3.0*	107.4	*-48.7*	*38.2*	—	—	*5.6*
Entergy Corp ETR USA	11,513 USD	-7.9	*4.4*	*1.9*	-24.5	*28.6*	*3.3*	3.1	*16.6*	*-24.5*	-38.4	*-160.0*	*0.7*	—	*3.2*	*4.0*
Average		-4.1	*-1.9*	*1.4*	36.1	*13.2*	*-1.2*	4.8	*4.4*	*-11.5*	3.5	*-275.9*	*-8.7*	5.4	*4.2*	*4.8*
Exelon Corp EXC US	**29,447** USD	**7.4**	***-13.6***	***10.5***	**42.4**	***-5.5***	***0.5***	**4.2**	***-3.6***	***-1.9***	**365.5**	***-253.2***	***-31.1***	**—**	***1.2***	***2.5***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

		Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Last Historical Year Net Income (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1,478 USD	68.7	*71.3*	*69.5*	40.1	*40.2*	*38.9*	28.4	*27.4*	*25.8*	14.2	*15.3*	*13.9*	0.5	*-13.0*	*-5.4*
FirstEnergy Corp FE USA	1,144 USD	58.9	*59.1*	*58.4*	25.1	*30.1*	*29.7*	15.5	*19.5*	*18.8*	7.6	*7.6*	*7.4*	4.9	*1.6*	*-0.3*
Entergy Corp ETR USA	1,076 USD	66.6	*67.8*	*67.3*	32.7	*28.5*	*28.8*	14.4	*17.7*	*17.9*	9.3	*10.4*	*7.8*	6.9	*-6.0*	*-5.3*
Average		64.7	*66.1*	*65.1*	32.6	*32.9*	*32.5*	19.4	*21.5*	*20.8*	10.4	*11.1*	*9.7*	4.1	*-5.8*	*-3.7*
Exelon Corp EXC US	**2,224** USD	**55.6**	***61.1***	***56.0***	**23.3**	***26.2***	***24.2***	**15.0**	***16.4***	***14.9***	**7.6**	***8.7***	***7.8***	**0.0**	***-6.6***	***-4.3***

Leverage Analysis

		Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Last Historical Year Total Debt (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	9,932 USD	76.0	*85.3*	*90.7*	43.2	*46.0*	*47.6*	10.6	*8.9*	*7.5*	2.4	*3.0*	*3.3*	2.9	*2.9*	*3.0*
FirstEnergy Corp FE USA	22,066 USD	177.7	*176.1*	*173.2*	64.0	*63.8*	*63.4*	3.3	*3.7*	*3.5*	5.9	*5.3*	*5.5*	4.2	*4.2*	*4.1*
Entergy Corp ETR USA	13,820 USD	149.3	*156.6*	*162.9*	59.9	*61.0*	*62.0*	5.9	*5.0*	*4.8*	3.7	*4.5*	*4.7*	4.8	*4.8*	*4.9*
Average		134.3	*139.3*	*142.3*	55.7	*56.9*	*57.7*	6.6	*5.9*	*5.3*	4.0	*4.3*	*4.5*	4.0	*4.0*	*4.0*
Exelon Corp EXC US	**26,319** USD	**101.2**	***97.5***	***96.0***	**50.3**	***49.4***	***49.0***	**6.6**	***5.8***	***5.6***	**3.8**	***4.0***	***4.0***	**3.7**	***3.5***	***3.5***

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	20,581 USD	0.78	*0.70*	*0.64*	0.98	*1.07*	*1.05*	0.85	*0.94*	*0.91*	0.36	*0.33*	*0.30*	47.2	*55.7*	*62.8*
FirstEnergy Corp FE USA	13,449 USD	0.31	*1.26*	*1.39*	0.54	*0.56*	*0.58*	0.40	*0.45*	*0.46*	0.05	*0.18*	*0.20*	105.4	*55.9*	*60.8*
Entergy Corp ETR USA	13,248 USD	7.54	*6.50*	*5.06*	1.32	*0.96*	*0.90*	0.96	*0.70*	*0.64*	1.91	*0.78*	*0.61*	-336.8	*48.9*	*67.4*
Average		2.88	*2.82*	*2.36*	0.95	*0.86*	*0.84*	0.74	*0.70*	*0.67*	0.77	*0.43*	*0.37*	-61.4	*53.5*	*63.7*
Exelon Corp EXC US	**29,403** USD	**7.28**	***5.24***	***3.33***	**1.68**	***1.57***	***1.34***	**1.51**	***1.44***	***1.19***	**3.20**	***2.38***	***1.52***	**48.8**	***52.3***	***54.6***

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

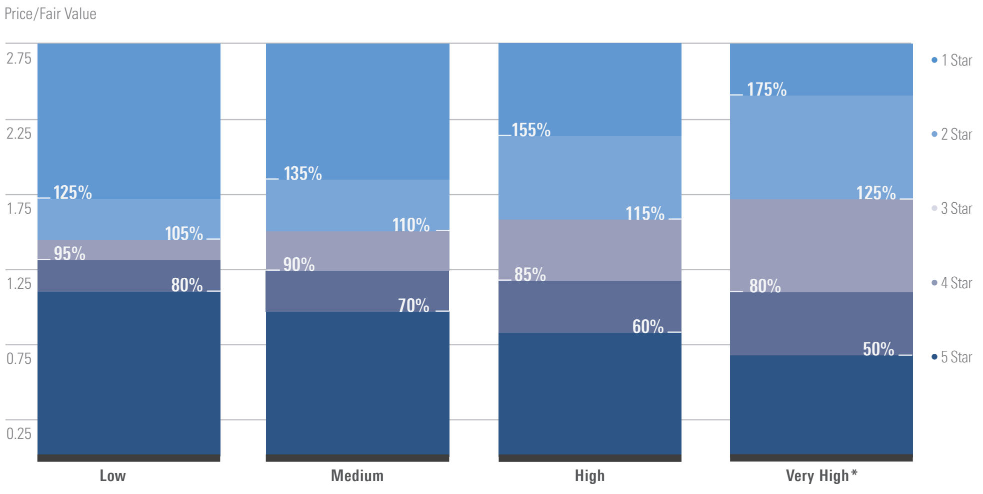
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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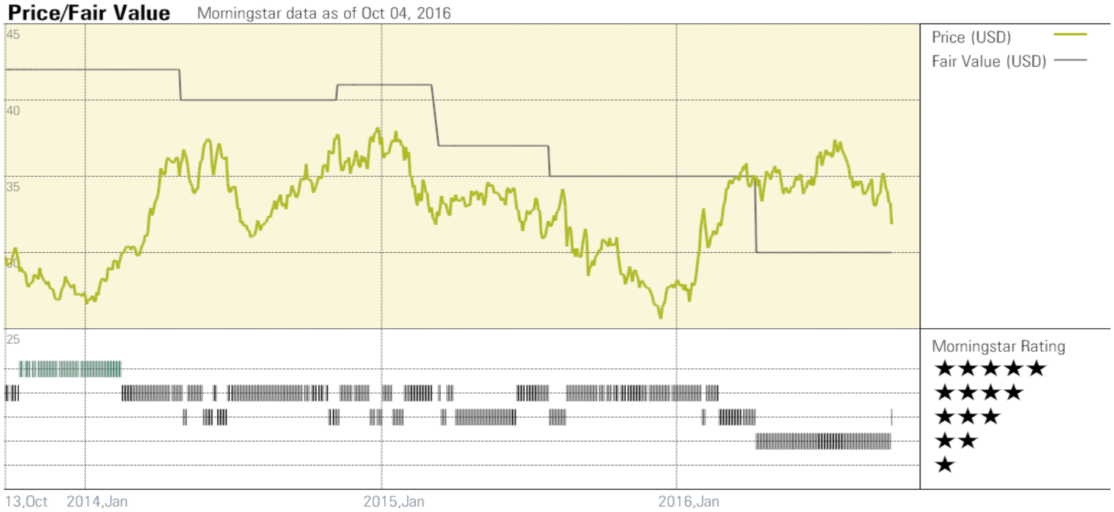
Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
31.86 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Regulated Utilities Continue Driving Growth for Exelon

See Page 2 for the full Analyst Note from 26 Oct 2016

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Research as of 26 Oct 2016
Estimates as of 27 Sep 2016
Pricing data through 07 Nov 2016
Rating updated as of 07 Nov 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 24 Mar 2016

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Vital Statistics

Market Cap (USD Mil)	30,856
52-Week High (USD)	37.70
52-Week Low (USD)	25.09
52-Week Total Return %	23.5
YTD Total Return %	23.8
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.11

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*13.9*	*14.2*
EV/EBITDA	9.5	6.6	*9.7*	*9.6*
EV/EBIT	16.7	10.2	*15.6*	*15.5*
Free Cash Flow Yield %	-5.1	0.0	*-5.5*	*-3.9*
Dividend Yield %	3.3	4.3	*3.7*	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Regulated Utilities Continue Driving Growth for Exelon
26 Oct 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Valuation, Growth and Profitability 13 Apr 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the

Exelon Corp EXC (NYSE) | ★★

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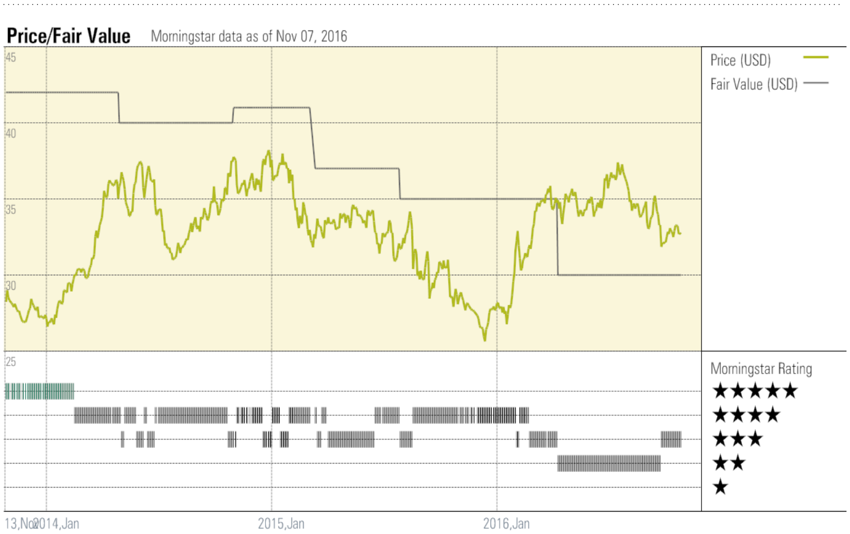


regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $500 million change in EBITDA. Our fair value estimate would change by $4 per share. On a mark-to-market basis as of mid-April, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 2 percentage points to near the industry average, it would change our fair value estimate by $3 per share. If Exelon does not retire the Clinton, Quad Cities, and Byron plants, it would add $3 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

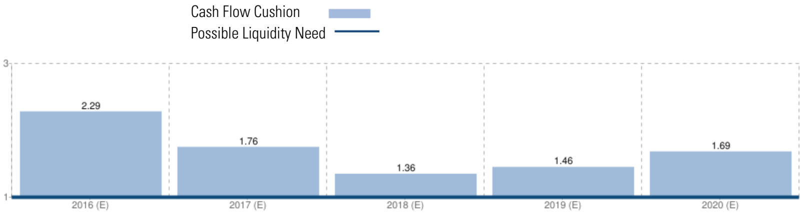
Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	*2017(E)*	*2018(E)*	*2019(E)*	*2020(E)*
Cash and Equivalents (beginning of period)	*6,502*	*4,836*	*3,083*	*2,082*	*2,916*
Adjusted Available Cash Flow	*201*	*704*	*1,485*	*3,612*	*4,201*
Total Cash Available before Debt Service	*6,703*	*5,540*	*4,568*	*5,694*	*7,117*
Principal Payments	*-1,483*	*-1,626*	*-1,600*	*-2,000*	*-2,275*
Interest Payments	*-1,140*	*-1,219*	*-1,299*	*-1,436*	*-1,468*
Other Cash Obligations and Commitments	*-303*	*-303*	*-463*	*-464*	*-463*
Total Cash Obligations and Commitments	*-2,926*	*-3,148*	*-3,362*	*-3,900*	*-4,206*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,502	37.1
Sum of 5-Year Adjusted Free Cash Flow	10,202	58.2
Sum of Cash and 5-Year Cash Generation	16,704	95.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	16,704	95.2
Sum of 5-Year Cash Commitments	-17,542	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets. The 2007-08 commodity boom led management to raise the dividend and buy back stock. But as power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.The Pepco acquisition increases consolidated leverage, but most of that additional leverage will be debt at the regulated utilities. We don't expect a material change in parentco or Exelon Generation leverage.Based on current market conditions, we think Exelon will have sufficient cash coverage to keep its investment-grade credit rating and achieve management's recent pledge to increase the dividend at least 2.5% annually. Even through these lean years, we expect Exelon can generate at least $2 billion of cash flow after incorporating new financing and excluding discretionary growth investments. We project Exelon's consolidated EBITDA/interest coverage will remain near 6 times and leverage will remain below 4 times debt/EBITDA at least through 2018.More than half of Exelon's consolidated debt is secured at the regulated utilities, in line with its regulatory targets. Exelon Generation has an $805 million maturity in 2017 and $1.9 billion due in 2020. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing those maturities.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm could be forced to make contributions.

Enterprise Risk

Investors should pay the most attention to political

developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	187,560	12 Aug 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		69,056	25 Jan 2016	—
MS. ANNE R. PRAMAGGIORE		56,015	13 Mar 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—
MR. KENNETH W. CORNEW		32,844	15 Jul 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	2.81	1.16	-389	30 Sep 2016
Vanguard Total Stock Mkt Idx	2.04	0.13	137	30 Sep 2016
Vanguard Wellington™	1.63	0.61	99	30 Jun 2016
Invesco Diversified Dividend Fund	1.51	2.42	3,483	30 Sep 2016
T. Rowe Price Value Fund	1.40	1.77	536	30 Sep 2016
Concentrated Holders				
Putnam VT Global Utilities	0.02	7.53	—	30 Sep 2016
Putnam Global Utilities Fund	0.04	7.28	—	30 Sep 2016
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.46	—	03 Nov 2016
NN (L) Utilities	0.01	5.86	9	31 Aug 2016
Fidelity® Telecom and Utilities Fund	0.20	5.64	-31	30 Sep 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
T. Rowe Price Associates, Inc.	3.99	0.28	6,820	30 Jun 2016
Millennium Management LLC	0.80	0.61	5,670	30 Jun 2016
J.P. Morgan Investment Management Inc	0.31	0.04	2,178	30 Sep 2016
Arrowstreet Capital Limited Partnership	0.95	1.06	2,091	30 Jun 2016
Balyasny Asset Management LLC	0.21	0.46	1,944	30 Jun 2016
Top 5 Sellers				
Fidelity Management and Research Company	5.20	0.26	-8,065	30 Jun 2016
Royal London Asset Management Ltd	0.03	0.18	-7,714	30 Jun 2016
Capital Research Global Investors	6.05	0.69	-4,323	30 Jun 2016
Franklin Advisers Inc	0.74	0.23	-3,692	30 Jun 2016
Commonwealth Bank of Australia	0.02	0.06	-2,322	30 Jun 2016

Management 13 Apr 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet 09 Aug 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real 02 Jun 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

ComEd zone cleared at $202.77/MW-day for CP and $182.77/MW-day for base, slightly below the strong 2018-19 results. Base capacity cleared in the Eastern Mid-Atlantic Area Council, or EMAAC, LDC cleared at CP clearing at $119.77/MW-day for CP and $99.77/MW-day for base generation, but well below last year's $210/MW-day for base

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results. 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

For a more detailed analysis, see our report, “Morningstar Outlook: PJM 2019-20 Capacity Auction," on Morningstar Select Investment Research.

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* *2016*	*2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*13.9*	*14.2*
EV/EBITDA	9.5	6.6	*9.7*	*9.6*
EV/EBIT	16.7	10.2	*15.6*	*15.5*
Free Cash Flow Yield %	-5.1	0.0	*-5.5*	*-3.9*
Dividend Yield %	3.3	4.3	*3.7*	*3.8*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1.16	13.3	*14.2*	*15.7*	6.8	*8.0*	*8.2*	349.6	*NM*	*NM*	1.5	*1.5*	*1.5*	1.9	*2.2*	*2.1*
FirstEnergy Corp FE USA	1.01	11.8	*13.3*	*13.8*	9.4	*8.5*	*8.6*	18.1	*64.4*	*NM*	1.1	*1.1*	*1.1*	0.9	*1.0*	*1.0*
Entergy Corp ETR USA	0.94	11.4	*10.2*	*13.5*	6.7	*7.8*	*7.5*	15.4	*NM*	*NM*	1.3	*1.3*	*1.3*	1.1	*1.1*	*1.0*
Average		12.2	*12.6*	*14.3*	7.6	*8.1*	*8.1*	127.7	*64.4*	—	1.3	*1.3*	*1.3*	1.3	*1.4*	*1.4*
Exelon Corp EXC US	**1.11**	**11.2**	***13.9***	***14.2***	**6.6**	***9.7***	***9.6***	**NM**	***NM***	***NM***	**1.0**	***1.1***	***1.1***	**0.9**	***1.2***	***1.1***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	37,535 USD	9.5	*8.2*	*7.3*	9.6	*8.2*	*7.3*	13.3	*11.2*	*9.7*	4.6	*3.9*	*3.3*	4.0	*3.7*	*3.9*
FirstEnergy Corp FE USA	52,187 USD	3.8	*4.7*	*4.6*	4.4	*5.6*	*5.5*	4.7	*8.6*	*8.0*	1.1	*2.1*	*1.9*	4.5	*4.2*	*4.4*
Entergy Corp ETR USA	44,648 USD	0.7	*5.7*	*5.7*	0.8	*5.8*	*5.7*	-1.8	*13.2*	*9.6*	-0.4	*2.7*	*2.0*	4.9	*4.8*	*5.0*
Average		4.7	*6.2*	*5.9*	4.9	*6.5*	*6.2*	5.4	*11.0*	*9.1*	1.8	*2.9*	*2.4*	4.5	*4.2*	*4.4*
Exelon Corp EXC US	**95,384** USD	**4.1**	***4.6***	***5.0***	**4.3**	***4.8***	***5.2***	**9.3**	***8.3***	***7.8***	**2.5**	***2.3***	***2.2***	**4.3**	***3.7***	***3.8***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	10,415 USD	-4.3	*-5.7*	*1.6*	12.9	*-9.0*	*-5.7*	5.4	*1.2*	*-9.8*	-58.6	*-619.1*	*-61.0*	5.4	*5.1*	*4.9*
FirstEnergy Corp FE USA	15,026 USD	-0.2	*-4.3*	*-0.4*	119.8	*20.1*	*-3.7*	5.9	*-4.7*	*-3.0*	107.4	*-48.7*	*38.2*	—	—	*5.6*
Entergy Corp ETR USA	11,513 USD	-7.9	*4.4*	*1.9*	-24.5	*28.6*	*3.3*	3.1	*16.6*	*-24.5*	-38.4	*-160.0*	*0.7*	—	*3.2*	*4.0*
Average		-4.1	*-1.9*	*1.0*	36.1	*13.2*	*-2.0*	4.8	*4.4*	*-12.4*	3.5	*-275.9*	*-7.4*	5.4	*4.2*	*4.8*
Exelon Corp EXC US	**29,447** USD	**7.4**	***-13.6***	***10.5***	**42.4**	***-5.5***	***0.5***	**4.2**	***-3.6***	***-1.9***	**365.5**	***-253.2***	***-31.1***	**—**	***1.2***	***2.5***

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker		2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1,478 USD	68.7	*71.3*	*69.3*	40.1	*40.2*	*38.7*	28.4	*27.4*	*25.5*	14.2	*15.3*	*13.6*	0.5	*-13.0*	*-5.8*
FirstEnergy Corp FE USA	1,144 USD	58.9	*59.1*	*58.4*	25.1	*30.1*	*29.7*	15.5	*19.5*	*18.8*	7.6	*7.6*	*7.4*	4.9	*1.6*	*-0.3*
Entergy Corp ETR USA	1,076 USD	66.6	*67.8*	*67.3*	32.7	*28.5*	*28.8*	14.4	*17.7*	*17.9*	9.3	*10.4*	*7.8*	6.9	*-6.0*	*-5.3*
Average		64.7	*66.1*	*65.0*	32.6	*32.9*	*32.4*	19.4	*21.5*	*20.7*	10.4	*11.1*	*9.6*	4.1	*-5.8*	*-3.8*
Exelon Corp EXC US	**2,224** USD	**55.6**	***61.1***	***56.0***	**23.3**	***26.2***	***24.2***	**15.0**	***16.4***	***14.9***	**7.6**	***8.7***	***7.8***	**0.0**	***-6.6***	***-4.3***

Leverage Analysis

	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker		2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	9,932 USD	76.0	*85.3*	*91.0*	43.2	*46.0*	*47.6*	10.6	*8.9*	*7.4*	2.4	*3.0*	*3.4*	2.9	*2.9*	*3.0*
FirstEnergy Corp FE USA	22,066 USD	177.7	*176.1*	*173.2*	64.0	*63.8*	*63.4*	3.3	*3.7*	*3.5*	5.9	*5.3*	*5.5*	4.2	*4.2*	*4.1*
Entergy Corp ETR USA	13,820 USD	149.3	*156.6*	*162.9*	59.9	*61.0*	*62.0*	5.9	*5.0*	*4.8*	3.7	*4.5*	*4.7*	4.8	*4.8*	*4.9*
Average		134.3	*139.3*	*142.4*	55.7	*56.9*	*57.7*	6.6	*5.9*	*5.2*	4.0	*4.3*	*4.5*	4.0	*4.0*	*4.0*
Exelon Corp EXC US	**26,319** USD	**101.2**	***97.5***	***96.0***	**50.3**	***49.4***	***49.0***	**6.6**	***5.8***	***5.6***	**3.8**	***4.0***	***4.0***	**3.7**	***3.5***	***3.5***

Liquidity Analysis

	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker		2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	21,187 USD	0.78	*0.70*	*0.58*	0.98	*1.07*	*1.04*	0.85	*0.94*	*0.90*	0.36	*0.33*	*0.27*	47.2	*55.7*	*64.7*
FirstEnergy Corp FE USA	14,650 USD	0.31	*1.26*	*1.39*	0.54	*0.56*	*0.58*	0.40	*0.45*	*0.46*	0.05	*0.18*	*0.20*	105.4	*55.9*	*60.8*
Entergy Corp ETR USA	12,809 USD	7.54	*6.50*	*5.06*	1.32	*0.96*	*0.90*	0.96	*0.70*	*0.64*	1.91	*0.78*	*0.61*	-336.8	*48.9*	*67.4*
Average		2.88	*2.82*	*2.34*	0.95	*0.86*	*0.84*	0.74	*0.70*	*0.67*	0.77	*0.43*	*0.36*	-61.4	*53.5*	*64.3*
Exelon Corp EXC US	**30,856** USD	**7.28**	***5.24***	***3.33***	**1.68**	***1.57***	***1.34***	**1.51**	***1.44***	***1.19***	**3.20**	***2.38***	***1.52***	**48.8**	***52.3***	***54.6***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

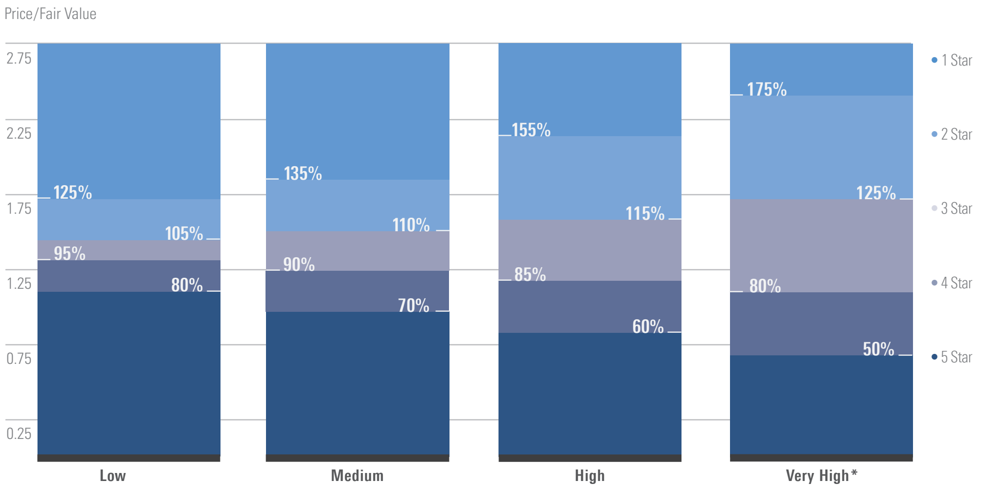
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★

We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★

Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Updated Forecasts and Estimates from 06 Dec 2016

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Research as of 06 Dec 2016
Estimates as of 06 Dec 2016
Pricing data through 15 Dec 2016
Rating updated as of 15 Dec 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Dec 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings

Vital Statistics

Market Cap (USD Mil)	32,988
52-Week High (USD)	37.70
52-Week Low (USD)	25.46
52-Week Total Return %	44.2
YTD Total Return %	33.2
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.12

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*13.7*	*13.6*
EV/EBITDA	9.5	6.6	*8.8*	*8.2*
EV/EBIT	16.7	10.2	*14.2*	*13.4*
Free Cash Flow Yield %	-5.1	0.0	*-19.7*	*-3.8*
Dividend Yield %	3.3	4.3	*3.5*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,776*	*32,425*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*5,000*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,488*
Net Income YoY %	-4.0	7.7	*8.3*	*3.4*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*1.0*
Free Cash Flow	121	561	*-12,392*	*-390*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Morningstar Analysis

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life 06 Dec 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Valuation, Growth and Profitability 06 Dec 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin

Price/Fair Value Morningstar data as of Dec 15, 2016

from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $650 million change in EBITDA. Our fair value estimate would change by $5 per share. On a mark-to-market basis as of mid-November, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 4 percentage points to near the industry average, it would change our fair value estimate by $1 per share. If Exelon does not retire the Clinton, Quad Cities, and Three Mile Island plants, it would add $2 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an

effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. About 70% of the $11 billion of rate base growth in 2016-20 will have rate trackers or formula rates, minimizing regulatory lag. Exelon faces the biggest challenge boosting Pepco's earned returns some 400 basis points to approach its allowed returns. Rate cases in 2016-17 should give it a good start.

In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

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Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

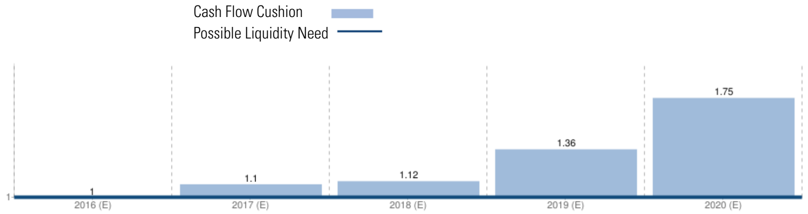
Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	*2017(E)*	*2018(E)*	*2019(E)*	*2020(E)*
Cash and Equivalents (beginning of period)	*6,502*	*1,038*	*1,133*	*1,430*	*2,518*
Adjusted Available Cash Flow	*-3,339*	*2,753*	*2,987*	*4,247*	*5,287*
Total Cash Available before Debt Service	*3,163*	*3,791*	*4,120*	*5,677*	*7,806*
Principal Payments	*-1,483*	*-1,626*	*-1,600*	*-2,000*	*-2,275*
Interest Payments	*-1,377*	*-1,517*	*-1,605*	*-1,706*	*-1,734*
Other Cash Obligations and Commitments	*-303*	*-303*	*-463*	*-464*	*-463*
Total Cash Obligations and Commitments	*-3,163*	*-3,446*	*-3,668*	*-4,170*	*-4,472*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,502	34.4
Sum of 5-Year Adjusted Free Cash Flow	11,936	63.1
Sum of Cash and 5-Year Cash Generation	18,438	97.5
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	18,438	97.5
Sum of 5-Year Cash Commitments	-18,919	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets as it tries to smooth cash flow at its generation unit. As power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.We see no immediate credit concerns based on current energy market conditions. We project Exelon's consolidated EBITDA/interest coverage will remain above 5 times and leverage will remain below 5 times debt/EBITDA at least through 2019. Even those these ratios are weaker following the Pepco acquisition, we think this is acceptable given the higher share of regulated earnings.Only about one-quarter of Exelon's consolidated debt is directly tied to its generation segment. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing its near-term maturities. Management has committed to reducing Exelon Generation debt by $3 billion during the next five years and use the remaining cash to fund the regulated utilities' growth.We also think management can meet its 2.5% dividend growth goal through 2018 with relative ease. However, this is rather unimpressive compared with most of its peers that we think can grow their dividends at least twice as fast.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm might have to make modest cash contributions. Plant closures also could increase cash decommission costs.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's

largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	187,560	12 Aug 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		60,447	12 Dec 2016	—
MS. ANNE R. PRAMAGGIORE		56,015	13 Mar 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—
MR. KENNETH W. CORNEW		32,844	15 Jul 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	2.81	1.16	-389	30 Sep 2016
Vanguard Total Stock Mkt Idx	2.11	0.13	302	30 Nov 2016
Vanguard Wellington™	1.63	0.54	—	30 Sep 2016
Invesco Diversified Dividend Fund	1.51	2.52	3,483	30 Sep 2016
T. Rowe Price Value Fund	1.40	1.77	536	30 Sep 2016
Concentrated Holders				
Putnam VT Global Utilities	0.02	7.53	—	30 Sep 2016
Putnam Global Utilities Fund	0.04	7.28	—	30 Sep 2016
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.89	-5	15 Dec 2016
Fidelity® Telecom and Utilities Fund	0.20	6.04	—	31 Oct 2016
NN Utilities Fund	—	5.74	4	30 Sep 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
BlackRock Fund Advisors	3.71	0.14	5,977	30 Sep 2016
T. Rowe Price Associates, Inc.	4.54	0.28	5,128	30 Sep 2016
Invesco Advisers, Inc	1.88	0.38	2,769	30 Sep 2016
J.P. Morgan Investment Management Inc	0.31	0.04	2,178	30 Sep 2016
Balyasny Asset Management LLC	0.21	0.46	1,944	30 Jun 2016
Top 5 Sellers				
State Street Corp	4.93	0.20	-9,513	30 Sep 2016
Royal London Asset Management Ltd	0.03	0.18	-7,714	30 Jun 2016
BlackRock Investment Management (UK) Ltd.	—	0.01	-5,703	30 Sep 2016
Millennium Management LLC	0.34	0.17	-4,256	30 Sep 2016
Fidelity Management and Research Company	4.88	0.21	-2,927	30 Sep 2016

Management 06 Dec 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life 06 Dec 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV

demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities 09 Nov 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns 08 Nov 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases,

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Analyst Notes

management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Regulated Utilities Continue Driving Growth for Exelon

26 Oct 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

09 Aug 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast

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Analyst Notes

for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	2016	2017	5-Year Proj. CAGR
Revenue	7.8	6.0	10.2	7.4	-5.7	16.7	4.4
EBIT	22.8	53.6	-15.3	42.4	7.5	5.5	6.6
EBITDA	17.2	36.3	-6.9	26.8	11.4	7.4	7.4
Net Income	-1.6	-7.9	-4.0	7.7	8.3	3.4	6.6
Diluted EPS	-4.4	-12.3	-4.4	4.2	4.4	1.0	4.9
Earnings Before Interest, after Tax	15.0	-13.0	53.5	13.7	63.1	-45.4	0.1
Free Cash Flow	-33.9	-22.3	-92.0	365.5	-2,307.6	-96.9	44.4

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	13.7	14.7	11.3	15.0	17.1	15.4	16.4
EBITDA Margin %	22.1	23.3	19.7	23.3	27.5	25.3	26.4
Net Margin %	7.9	8.6	7.5	7.6	8.7	7.7	8.3
Free Cash Flow Margin %	2.8	6.1	0.4	1.9	-44.6	-1.2	-5.1
ROIC %	3.1	2.5	2.5	4.1	11.1	5.6	6.8
Adjusted ROIC %	3.2	2.7	2.7	4.3	12.0	6.1	7.4
Return on Assets %	2.2	2.2	2.0	2.5	2.3	2.2	2.4
Return on Equity %	8.0	7.7	7.1	9.3	9.0	8.8	9.3

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.49	0.47	0.49	0.50	0.56	0.56	0.55
Total Debt/EBITDA	3.81	3.46	4.12	3.84	4.56	4.55	4.30
EBITDA/Interest Expense	5.33	4.28	5.08	6.64	5.55	5.40	5.58

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	13.7	13.6
EV/EBITDA	9.5	6.6	8.8	8.2
EV/EBIT	16.7	10.2	14.2	13.4
Free Cash Flow Yield %	-5.1	0.0	-19.7	-3.8
Dividend Yield %	3.3	4.3	3.5	3.7

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,306	-13.2	-6.82
Present Value Stage II	17,510	36.6	18.94
Present Value Stage III	36,674	76.6	39.66
Total Firm Value	**47,878**	**100.0**	**51.78**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,093**	**—**	**30.38**
Projected Diluted Shares	925		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,776***	***32,425***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,748*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,676***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***5,000***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***5,000***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,733***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,232*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,488***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,488*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,200***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,200***

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35.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,886*
Inventory	1,105	1,603	1,566	*1,079*	*1,507*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,526***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,086***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,825*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,058***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,825***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,592*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,861***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,261***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2013	2014	2015	*Forecast* 2016	*Forecast* 2017
Net Income	1,729	1,820	2,250	*2,420*	*2,501*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-701*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-428*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*263*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***96***

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35.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1.19	13.3	*14.6*	*16.1*	6.8	*8.2*	*8.3*	349.6	*NM*	*NM*	1.5	*1.6*	*1.5*	1.9	*2.2*	*2.2*
FirstEnergy Corp FE USA	0.92	11.8	*12.1*	*12.5*	9.4	*8.2*	*8.3*	18.1	*58.7*	*NM*	1.1	*1.0*	*1.0*	0.9	*0.9*	*0.9*
Entergy Corp ETR USA	0.95	11.4	*10.3*	*13.7*	6.7	*7.8*	*7.6*	15.4	*NM*	*NM*	1.3	*1.3*	*1.3*	1.1	*1.1*	*1.1*
Average		12.2	*12.3*	*14.1*	7.6	*8.1*	*8.1*	127.7	*58.7*	—	1.3	*1.3*	*1.3*	1.3	*1.4*	*1.4*
Exelon Corp EXC US	**1.12**	**11.2**	***13.7***	***13.6***	**6.6**	***8.8***	***8.2***	**NM**	***NM***	***NM***	**1.0**	***1.2***	***1.1***	**0.9**	***1.2***	***1.0***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	37,535 USD	9.5	*8.2*	*7.3*	9.6	*8.2*	*7.3*	13.3	*11.2*	*9.7*	4.6	*3.9*	*3.3*	4.0	*3.6*	*3.8*
FirstEnergy Corp FE USA	52,187 USD	3.8	*4.7*	*4.6*	4.4	*5.6*	*5.5*	4.7	*8.6*	*8.0*	1.1	*2.1*	*1.9*	4.5	*4.6*	*4.9*
Entergy Corp ETR USA	44,648 USD	0.7	*5.7*	*5.7*	0.8	*5.8*	*5.7*	-1.8	*13.2*	*9.6*	-0.4	*2.7*	*2.0*	4.9	*4.7*	*5.0*
Average		4.7	*6.2*	*5.9*	4.9	*6.5*	*6.2*	5.4	*11.0*	*9.1*	1.8	*2.9*	*2.4*	4.5	*4.3*	*4.6*
Exelon Corp EXC US	**95,384** USD	**4.1**	***11.1***	***5.6***	**4.3**	***12.0***	***6.1***	**9.3**	***9.0***	***8.8***	**2.5**	***2.3***	***2.2***	**4.3**	***3.5***	***3.7***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	10,415 USD	-4.3	*-5.7*	*1.6*	12.9	*-9.0*	*-5.7*	5.4	*1.2*	*-9.8*	-58.6	*-619.1*	*-61.0*	5.4	*5.1*	*4.9*
FirstEnergy Corp FE USA	15,026 USD	-0.2	*-4.3*	*-0.4*	119.8	*20.1*	*-3.7*	5.9	*-4.7*	*-3.0*	107.4	*-48.7*	*38.2*	—	—	*5.6*
Entergy Corp ETR USA	11,513 USD	-7.9	*4.4*	*1.9*	-24.5	*28.6*	*3.3*	3.1	*16.6*	*-24.5*	-38.4	*-160.0*	*0.7*	—	*3.2*	*4.0*
Average		-4.1	*-1.9*	*1.0*	36.1	*13.2*	*-2.0*	4.8	*4.4*	*-12.4*	3.5	*-275.9*	*-7.4*	5.4	*4.2*	*4.8*
Exelon Corp EXC US	**29,447** USD	**7.4**	***-5.7***	***16.7***	**42.4**	***7.5***	***5.5***	**4.2**	***4.4***	***1.0***	**365.5**	***-2,307.6***	***-96.9***	**—**	***1.2***	***2.5***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	1,478 USD	68.7	71.3	69.3	40.1	40.2	38.7	28.4	27.4	25.5	14.2	15.3	13.6	0.5	-13.0	-5.8
FirstEnergy Corp FE USA	1,144 USD	58.9	59.1	58.4	25.1	30.1	29.7	15.5	19.5	18.8	7.6	7.6	7.4	4.9	1.6	-0.3
Entergy Corp ETR USA	1,076 USD	66.6	67.8	67.3	32.7	28.5	28.8	14.4	17.7	17.9	9.3	10.4	7.8	6.9	-6.0	-5.3
Average		64.7	66.1	65.0	32.6	32.9	32.4	19.4	21.5	20.7	10.4	11.1	9.6	4.1	-5.8	-3.8
Exelon Corp EXC US	**2,224** USD	**55.6**	**64.6**	**57.6**	**23.3**	**27.5**	**25.3**	**15.0**	**17.1**	**15.4**	**7.6**	**8.7**	**7.7**	**0.0**	**-23.4**	**-3.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	9,932 USD	76.0	85.3	91.0	43.2	46.0	47.6	10.6	8.9	7.4	2.4	3.0	3.4	2.9	2.9	3.0
FirstEnergy Corp FE USA	22,066 USD	177.7	176.1	173.2	64.0	63.8	63.4	3.3	3.7	3.5	5.9	5.3	5.5	4.2	4.2	4.1
Entergy Corp ETR USA	13,820 USD	149.3	156.6	162.9	59.9	61.0	62.0	5.9	5.0	4.8	3.7	4.5	4.7	4.8	4.8	4.9
Average		134.3	139.3	142.4	55.7	56.9	57.7	6.6	5.9	5.2	4.0	4.3	4.5	4.0	4.0	4.0
Exelon Corp EXC US	**26,319** USD	**101.2**	**126.5**	**129.3**	**50.3**	**55.9**	**56.4**	**6.6**	**5.5**	**5.4**	**3.8**	**4.6**	**4.6**	**3.7**	**4.0**	**4.0**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	21,728 USD	0.78	0.70	0.58	0.98	1.07	1.04	0.85	0.94	0.90	0.36	0.33	0.27	47.2	55.7	64.7
FirstEnergy Corp FE USA	13,349 USD	0.31	1.26	1.39	0.54	0.56	0.58	0.40	0.45	0.46	0.05	0.18	0.20	105.4	55.9	60.8
Entergy Corp ETR USA	12,967 USD	7.54	6.50	5.06	1.32	0.96	0.90	0.96	0.70	0.64	1.91	0.78	0.61	-336.8	48.9	67.4
Average		2.88	2.82	2.34	0.95	0.86	0.84	0.74	0.70	0.67	0.77	0.43	0.36	-61.4	53.5	64.3
Exelon Corp EXC US	**32,988** USD	**7.28**	**1.12**	**1.20**	**1.68**	**1.06**	**1.16**	**1.51**	**0.94**	**1.00**	**3.20**	**0.51**	**0.56**	**48.8**	**48.3**	**49.0**

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

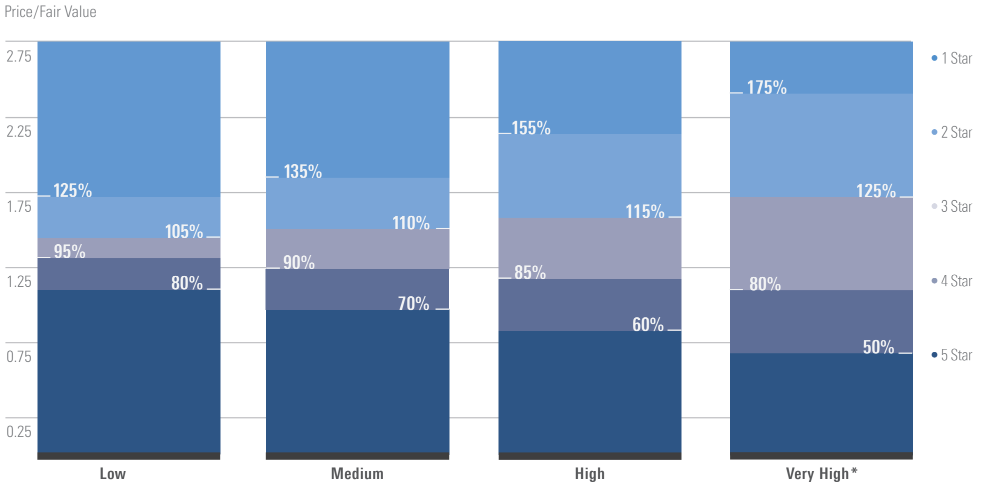
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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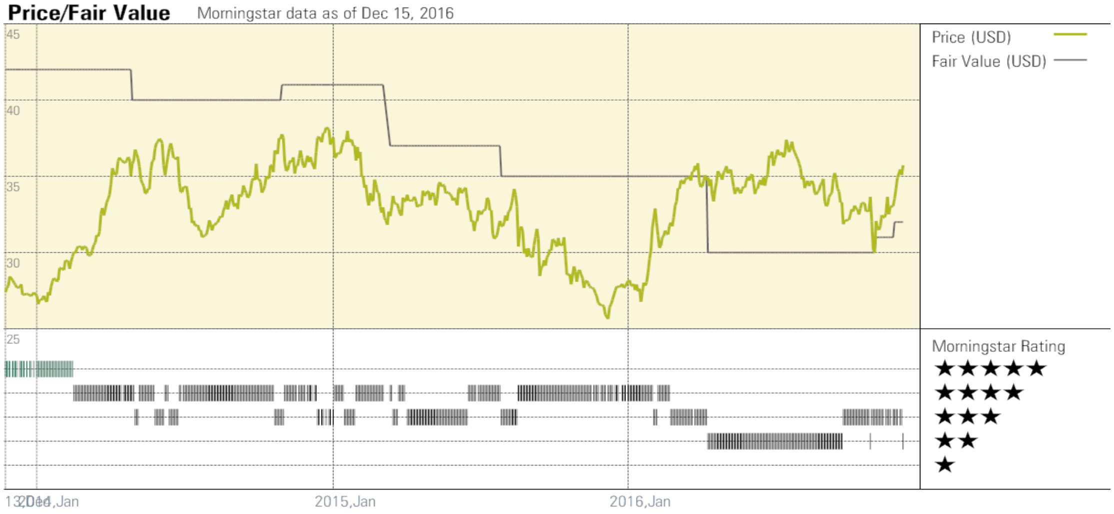
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's distribution investments should offset generation struggles.

Updated Forecasts and Estimates from 14 Nov 2016

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Important Disclosure

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Research as of 14 Nov 2016
Estimates as of 14 Nov 2016
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Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 14 Nov 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels could be a boon for Exelon if nuclear receives clean energy incentives like those for wind and solar, although we think this is unlikely.

Exelon's world-class operating efficiency preserves that upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. Even though we think there is long-term value in these plants, we expect Exelon will have to rationalize its fleet in the coming years to preserve cash. This reduces Exelon's upside.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings

Vital Statistics

Market Cap (USD Mil)	28,409
52-Week High (USD)	37.70
52-Week Low (USD)	25.09
52-Week Total Return %	13.0
YTD Total Return %	15.4
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.2
5-Yr Forward EPS CAGR %	3.9
Price/Fair Value	1.03

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*11.8*	*12.2*
EV/EBITDA	9.5	6.6	*8.2*	*7.8*
EV/EBIT	16.7	10.2	*13.1*	*12.9*
Free Cash Flow Yield %	-5.1	0.0	*-22.9*	*-4.6*
Dividend Yield %	3.3	4.3	*4.1*	*4.3*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,776*	*32,220*
Revenue YoY %	10.2	7.4	*-5.7*	*16.0*
EBIT	3,096	4,409	*4,762*	*4,864*
EBIT YoY %	-15.3	42.4	*8.0*	*2.1*
Net Income, Adjusted	2,065	2,224	*2,422*	*2,397*
Net Income YoY %	-4.0	7.7	*8.9*	*-1.1*
Diluted EPS	2.39	2.49	*2.61*	*2.53*
Diluted EPS YoY %	-4.4	4.2	*5.0*	*-3.3*
Free Cash Flow	121	561	*-12,377*	*-451*
Free Cash Flow YoY %	-92.0	365.5	*-2,304.9*	*-96.4*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

Valuation, Growth and Profitability 14 Nov 2016

We are raising our fair value estimate to $31 from $30 after incorporating time-value appreciation since our last update offset by 2017-19 hedged gross margin at the generation business as of September 30 that was below our previous estimates.

On a consolidated basis, our midcycle earnings estimate is $3.00 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.4 billion, about 10% higher than trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our forecasts assume Exelon retires as many as five nuclear plants by 2020. These include the three announced retirements--Quad Cities, Illinois; Clinton, Illinois; and Oyster Creek, New Jersey--as well as Three Mile Island, Pennsylvania, and Byron, Illinois. Three Mile Island did not

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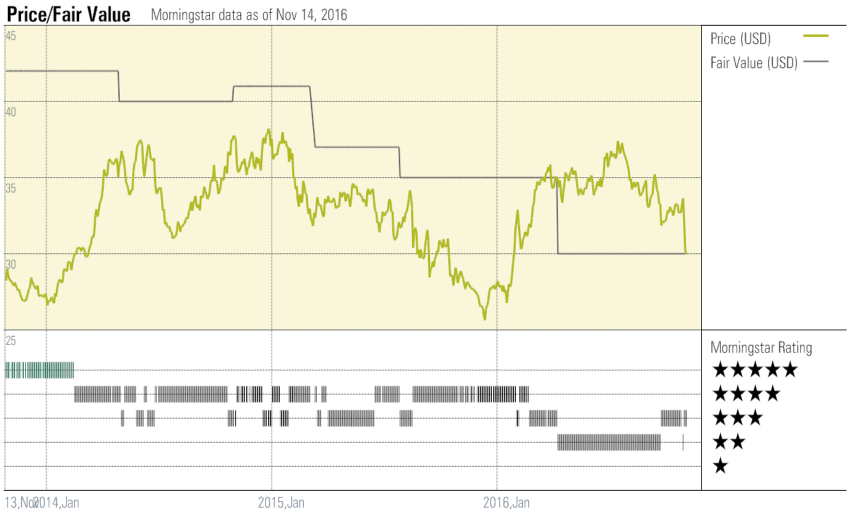
Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Nov 14, 2016



clear the last two PJM capacity auctions and Byron only partially cleared the 2019-20 PJM capacity auction.

Our projected closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $650 million change in EBITDA. Our fair value estimate would change by $5 per share. On a mark-to-market basis as of mid-November, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 4 percentage points to near the industry average, it would change our fair value estimate by $1 per share. If Exelon does not retire the Clinton, Quad Cities, and Three Mile Island plants, it would add $2 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. About 70% of the $11 billion of rate base growth in 2016-20 will have rate trackers or formula rates, minimizing regulatory lag. Exelon faces the biggest challenge boosting Pepco's earned returns some 400 basis points to approach its allowed returns. Rate cases in 2016-17 should give it a good start.

In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Exelon Corp EXC (NYSE) | ★★★

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Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.

- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.

- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.

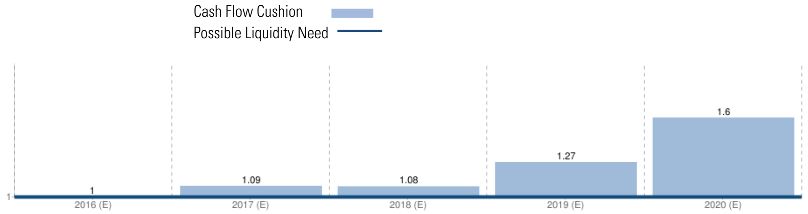
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.

- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	6,502	1,053	1,088	1,284	2,117
Adjusted Available Cash Flow	-3,323	2,693	2,886	3,991	5,030
Total Cash Available before Debt Service	3,179	3,746	3,975	5,275	7,146
Principal Payments	-1,483	-1,626	-1,600	-2,000	-2,275
Interest Payments	-1,377	-1,517	-1,605	-1,706	-1,734
Other Cash Obligations and Commitments	-303	-303	-463	-464	-463
Total Cash Obligations and Commitments	-3,163	-3,446	-3,668	-4,170	-4,472

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,502	34.4
Sum of 5-Year Adjusted Free Cash Flow	11,277	59.6
Sum of Cash and 5-Year Cash Generation	17,779	94.0
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	17,779	94.0
Sum of 5-Year Cash Commitments	-18,919	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets as it tries to smooth cash flow at its generation unit. As power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.We see no immediate credit concerns based on current energy market conditions. We project Exelon's consolidated EBITDA/interest coverage will remain above 5 times and leverage will remain below 5 times debt/EBITDA at least through 2019. Even those these ratios are weaker following the Pepco acquisition, we think this is acceptable given the higher share of regulated earnings.Only about one-quarter of Exelon's consolidated debt is directly tied to its generation segment. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing its near-term maturities. Management has committed to reducing Exelon Generation debt by $3 billion during the next five years and use the remaining cash to fund the regulated utilities' growth.We also think management can meet its 2.5% dividend growth goal through 2018 with relative ease. However, this is rather unimpressive compared with most of its peers that we think can grow their dividends at least twice as fast.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm might have to make modest cash contributions. Plant closures also could increase cash decommission costs.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's

largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	187,560	12 Aug 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		69,056	25 Jan 2016	—
MS. ANNE R. PRAMAGGIORE		56,015	13 Mar 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—
MR. KENNETH W. CORNEW		32,844	15 Jul 2016	—

*Represents the date on which the owner’s name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	2.81	1.16	-389	30 Sep 2016
Vanguard Total Stock Mkt Idx	2.04	0.13	137	30 Sep 2016
Vanguard Wellington™	1.63	0.54	—	30 Sep 2016
Invesco Diversified Dividend Fund	1.51	2.52	3,483	30 Sep 2016
T. Rowe Price Value Fund	1.40	1.77	536	30 Sep 2016
Concentrated Holders				
Putnam VT Global Utilities	0.02	7.53	—	30 Sep 2016
Putnam Global Utilities Fund	0.04	7.28	—	30 Sep 2016
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.34	—	14 Nov 2016
NN (L) Utilities	0.01	5.86	9	31 Aug 2016
Fidelity® Telecom and Utilities Fund	0.20	5.64	-31	30 Sep 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
T. Rowe Price Associates, Inc.	3.99	0.28	6,820	30 Jun 2016
Millennium Management LLC	0.80	0.61	5,670	30 Jun 2016
J.P. Morgan Investment Management Inc	0.31	0.04	2,178	30 Sep 2016
Arrowstreet Capital Limited Partnership	0.95	1.06	2,091	30 Jun 2016
Balyasny Asset Management LLC	0.21	0.46	1,944	30 Jun 2016
Top 5 Sellers				
Fidelity Management and Research Company	5.20	0.26	-8,065	30 Jun 2016
Royal London Asset Management Ltd	0.03	0.18	-7,714	30 Jun 2016
Capital Research Global Investors	6.05	0.69	-4,323	30 Jun 2016
Franklin Advisers Inc	0.74	0.23	-3,692	30 Jun 2016
Commonwealth Bank of Australia	0.02	0.06	-2,322	30 Jun 2016

Management 14 Nov 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. Management already has announced its intention to close at least three of its plants in the coming years. We expect several more are at risk without significant public policy support or improved market conditions.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

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Analyst Notes

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We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

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Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities 09 Nov 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns 08 Nov 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Regulated Utilities Continue Driving Growth for Exelon 26 Oct 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its

Analyst Notes

plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet 09 Aug 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real 02 Jun 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

ComEd zone cleared at $202.77/MW-day for CP and $182.77/MW-day for base, slightly below the strong 2018-19 results. Base capacity cleared in the Eastern Mid-Atlantic Area Council, or EMAAC, LDC cleared at CP clearing at $119.77/MW-day for CP and $99.77/MW-day for base generation, but well below last year's $210/MW-day for base

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* 2016	*Forecast* 2017	*Forecast* 5-Year Proj. CAGR
Revenue	7.8	6.0	10.2	7.4	-5.7	16.0	4.2
EBIT	22.8	53.6	-15.3	42.4	8.0	2.1	5.9
EBITDA	17.2	36.3	-6.9	26.8	11.7	5.2	6.9
Net Income	-1.6	-7.9	-4.0	7.7	8.9	-1.1	5.7
Diluted EPS	-4.4	-12.3	-4.4	4.2	5.0	-3.3	3.9
Earnings Before Interest, after Tax	15.0	-13.0	53.5	13.7	63.4	-46.7	-0.5
Free Cash Flow	-33.9	-22.3	-92.0	365.5	-2,304.9	-96.4	42.2

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	13.7	14.7	11.3	15.0	17.1	15.1	16.0
EBITDA Margin %	22.1	23.3	19.7	23.3	27.6	25.0	26.2
Net Margin %	7.9	8.6	7.5	7.6	8.7	7.4	8.0
Free Cash Flow Margin %	2.8	6.1	0.4	1.9	-44.6	-1.4	-5.3
ROIC %	3.1	2.5	2.5	4.1	11.2	5.4	6.6
Adjusted ROIC %	3.2	2.7	2.7	4.3	12.0	6.0	7.2
Return on Assets %	2.2	2.2	2.0	2.5	2.4	2.1	2.3
Return on Equity %	8.0	7.7	7.1	9.3	9.1	8.5	8.9

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.49	0.47	0.49	0.50	0.56	0.56	0.56
Total Debt/EBITDA	3.81	3.46	4.12	3.84	4.54	4.63	4.40
EBITDA/Interest Expense	5.33	4.28	5.08	6.64	5.56	5.31	5.45

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	11.8	12.2
EV/EBITDA	9.5	6.6	8.2	7.8
EV/EBIT	16.7	10.2	13.1	12.9
Free Cash Flow Yield %	-5.1	0.0	-22.9	-4.6
Dividend Yield %	3.3	4.3	4.1	4.3

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	33.3
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,809	-14.4	-7.36
Present Value Stage II	18,189	38.5	19.67
Present Value Stage III	35,905	75.9	38.83
Total Firm Value	**47,285**	**100.0**	**51.14**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**27,500**	**—**	**29.74**
Projected Diluted Shares	925		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,776***	***32,220***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,748*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,471***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,703*	*8,764*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,762***	***4,864***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,762***	***4,864***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,635***	***3,596***
Income Tax Expense	1,044	666	1,073	*1,200*	*1,187*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,422***	***2,397***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.61***	***2.53***
Adjusted Net Income	2,150	2,065	2,224	*2,422*	*2,397*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.61***	***2.53***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,662***	***8,064***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,662***	***8,064***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2013	2014	2015	*Forecast* *2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,053*	*1,088*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,855*
Inventory	1,105	1,603	1,566	*1,079*	*1,507*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,317***	***10,450***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,402***	***115,010***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,825*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,058***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,825***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,331*	*14,516*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,540***	***28,785***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,940***	***30,185***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,435*	*2,410*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-670*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-428*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*263*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***10,004***	***5,575***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,449***	***35***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1.11	13.3	*13.5*	*15.0*	6.8	*7.8*	*8.0*	349.6	*NM*	*NM*	1.5	*1.5*	*1.4*	1.9	*2.1*	*2.0*
FirstEnergy Corp FE USA	0.94	11.8	*12.3*	*12.7*	9.4	*8.2*	*8.4*	18.1	*59.6*	*NM*	1.1	*1.0*	*1.0*	0.9	*0.9*	*0.9*
Entergy Corp ETR USA	0.90	11.4	*9.7*	*12.9*	6.7	*7.6*	*7.4*	15.4	*NM*	*NM*	1.3	*1.2*	*1.2*	1.1	*1.0*	*1.0*
Average		12.2	*11.8*	*13.5*	7.6	*7.9*	*7.9*	127.7	*59.6*	—	1.3	*1.2*	*1.2*	1.3	*1.3*	*1.3*
Exelon Corp EXC US	**1.03**	**11.2**	***11.8***	***12.2***	**6.6**	***8.2***	***7.8***	**NM**	***NM***	***NM***	**1.0**	***1.0***	***1.0***	**0.9**	***1.0***	***0.9***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	37,535 USD	9.5	*8.2*	*7.3*	9.6	*8.2*	*7.3*	13.3	*11.2*	*9.7*	4.6	*3.9*	*3.3*	4.0	*3.9*	*4.1*
FirstEnergy Corp FE USA	52,187 USD	3.8	*4.7*	*4.6*	4.4	*5.6*	*5.5*	4.7	*8.6*	*8.0*	1.1	*2.1*	*1.9*	4.5	*4.5*	*4.8*
Entergy Corp ETR USA	44,648 USD	0.7	*5.7*	*5.7*	0.8	*5.8*	*5.7*	-1.8	*13.2*	*9.6*	-0.4	*2.7*	*2.0*	4.9	*5.0*	*5.3*
Average		4.7	*6.2*	*5.9*	4.9	*6.5*	*6.2*	5.4	*11.0*	*9.1*	1.8	*2.9*	*2.4*	4.5	*4.5*	*4.7*
Exelon Corp EXC US	**95,384** USD	**4.1**	***11.2***	***5.4***	**4.3**	***12.0***	***6.0***	**9.3**	***9.1***	***8.5***	**2.5**	***2.4***	***2.1***	**4.3**	***4.1***	***4.3***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	10,415 USD	-4.3	*-5.7*	*1.6*	12.9	*-9.0*	*-5.7*	5.4	*1.2*	*-9.8*	-58.6	*-619.1*	*-61.0*	5.4	*5.1*	*4.9*
FirstEnergy Corp FE USA	15,026 USD	-0.2	*-4.3*	*-0.4*	119.8	*20.1*	*-3.7*	5.9	*-4.7*	*-3.0*	107.4	*-48.7*	*38.2*	—	—	*5.6*
Entergy Corp ETR USA	11,513 USD	-7.9	*4.4*	*1.9*	-24.5	*28.6*	*3.3*	3.1	*16.6*	*-24.5*	-38.4	*-160.0*	*0.7*	—	*3.2*	*4.0*
Average		-4.1	*-1.9*	*1.0*	36.1	*13.2*	*-2.0*	4.8	*4.4*	*-12.4*	3.5	*-275.9*	*-7.4*	5.4	*4.2*	*4.8*
Exelon Corp EXC US	**29,447** USD	**7.4**	***-5.7***	***16.0***	**42.4**	***8.0***	***2.1***	**4.2**	***5.0***	***-3.3***	**365.5**	***-2,304.9***	***-96.4***	**—**	***1.2***	***2.5***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

		Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Last Historical Year Net Income (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	1,478 USD	68.7	*71.3*	*69.3*	40.1	*40.2*	*38.7*	28.4	*27.4*	*25.5*	14.2	*15.3*	*13.6*	0.5	*-13.0*	*-5.8*
FirstEnergy Corp FE USA	1,144 USD	58.9	*59.1*	*58.4*	25.1	*30.1*	*29.7*	15.5	*19.5*	*18.8*	7.6	*7.6*	*7.4*	4.9	*1.6*	*-0.3*
Entergy Corp ETR USA	1,076 USD	66.6	*67.8*	*67.3*	32.7	*28.5*	*28.8*	14.4	*17.7*	*17.9*	9.3	*10.4*	*7.8*	6.9	*-6.0*	*-5.3*
Average		64.7	*66.1*	*65.0*	32.6	*32.9*	*32.4*	19.4	*21.5*	*20.7*	10.4	*11.1*	*9.6*	4.1	*-5.8*	*-3.8*
Exelon Corp EXC US	**2,224** USD	**55.6**	***64.6***	***57.3***	**23.3**	***27.6***	***25.0***	**15.0**	***17.1***	***15.1***	**7.6**	***8.7***	***7.4***	**0.0**	***-23.4***	***-4.0***

Leverage Analysis

		Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Last Historical Year Total Debt (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	9,932 USD	76.0	*85.3*	*91.0*	43.2	*46.0*	*47.6*	10.6	*8.9*	*7.4*	2.4	*3.0*	*3.4*	2.9	*2.9*	*3.0*
FirstEnergy Corp FE USA	22,066 USD	177.7	*176.1*	*173.2*	64.0	*63.8*	*63.4*	3.3	*3.7*	*3.5*	5.9	*5.3*	*5.5*	4.2	*4.2*	*4.1*
Entergy Corp ETR USA	13,820 USD	149.3	*156.6*	*162.9*	59.9	*61.0*	*62.0*	5.9	*5.0*	*4.8*	3.7	*4.5*	*4.7*	4.8	*4.8*	*4.9*
Average		134.3	*139.3*	*142.4*	55.7	*56.9*	*57.7*	6.6	*5.9*	*5.2*	4.0	*4.3*	*4.5*	4.0	*4.0*	*4.0*
Exelon Corp EXC US	**26,319** USD	**101.2**	***126.4***	***129.7***	**50.3**	***55.8***	***56.5***	**6.6**	***5.6***	***5.3***	**3.8**	***4.5***	***4.6***	**3.7**	***4.0***	***4.0***

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	20,221 USD	0.78	*0.70*	*0.58*	0.98	*1.07*	*1.04*	0.85	*0.94*	*0.90*	0.36	*0.33*	*0.27*	47.2	*55.7*	*64.7*
FirstEnergy Corp FE USA	13,556 USD	0.31	*1.26*	*1.39*	0.54	*0.56*	*0.58*	0.40	*0.45*	*0.46*	0.05	*0.18*	*0.20*	105.4	*55.9*	*60.8*
Entergy Corp ETR USA	12,186 USD	7.54	*6.50*	*5.06*	1.32	*0.96*	*0.90*	0.96	*0.70*	*0.64*	1.91	*0.78*	*0.61*	-336.8	*48.9*	*67.4*
Average		2.88	*2.82*	*2.34*	0.95	*0.86*	*0.84*	0.74	*0.70*	*0.67*	0.77	*0.43*	*0.36*	-61.4	*53.5*	*64.3*
Exelon Corp EXC US	**28,409** USD	**7.28**	***1.14***	***1.15***	**1.68**	***1.06***	***1.15***	**1.51**	***0.94***	***0.99***	**3.20**	***0.52***	***0.54***	**48.8**	***48.0***	***50.9***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Economic Moat
Financial Health
Stewardship
Uncertainty
Moat Trend

Morningstar Fair Value

Margin of Safety
Market Pricing

Morningstar Rating™ For Stocks
★★★★★

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

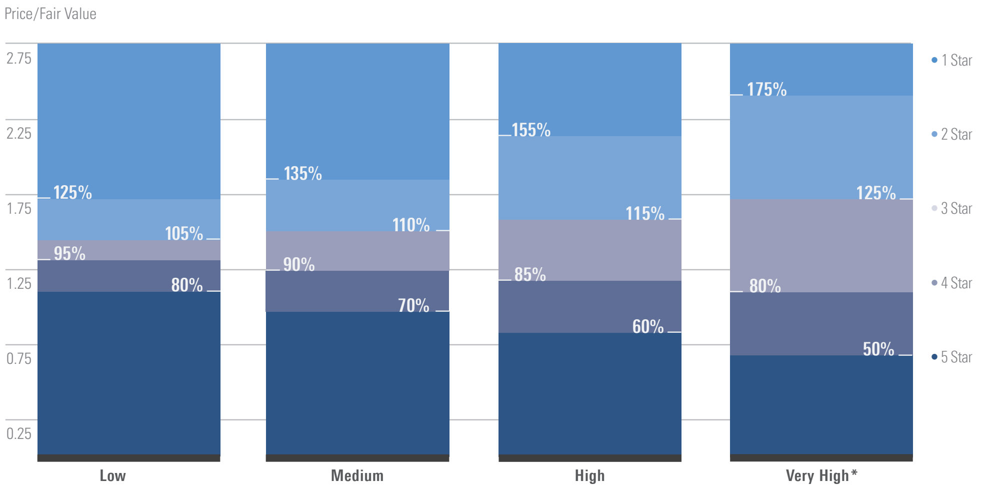
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

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- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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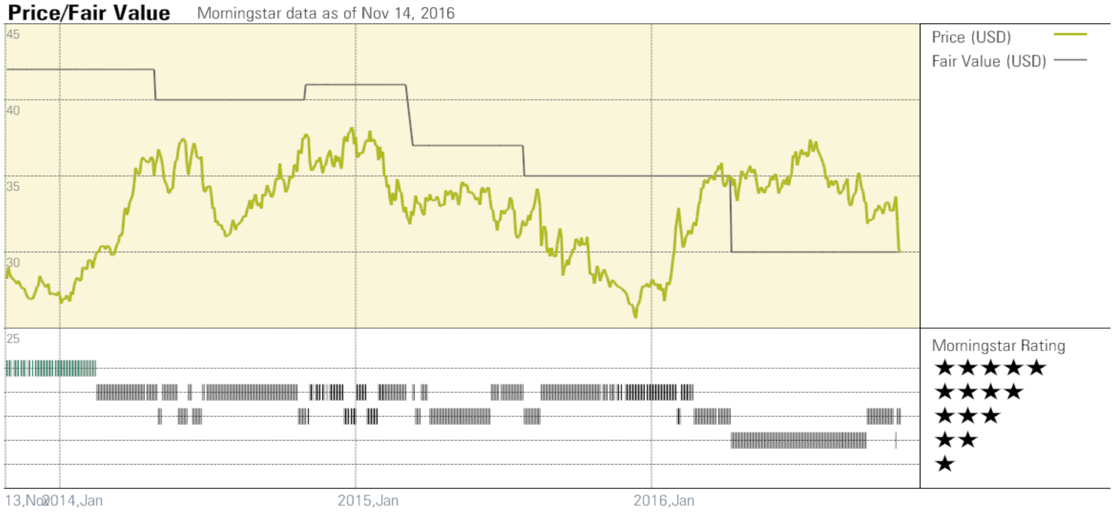
Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
30.77 USD	31.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.11 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

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Research as of 09 Aug 2016
Estimates as of 13 Apr 2016
Pricing data through 08 Aug 2016
Rating updated as of 08 Aug 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 09 Aug 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Vital Statistics

Market Cap (USD Mil)	32,041
52-Week High (USD)	37.70
52-Week Low (USD)	25.09
52-Week Total Return %	15.2
YTD Total Return %	32.3
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.20

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*15.0*	*15.3*
EV/EBITDA	9.5	6.6	*10.0*	*9.8*
EV/EBIT	16.7	10.2	*16.0*	*15.9*
Free Cash Flow Yield %	-5.1	0.0	*-5.3*	*-3.8*
Dividend Yield %	3.3	4.3	*3.6*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.11 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* *2016*	*2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*15.0*	*15.3*
EV/EBITDA	9.5	6.6	*10.0*	*9.8*
EV/EBIT	16.7	10.2	*16.0*	*15.9*
Free Cash Flow Yield %	-5.1	0.0	*-5.3*	*-3.8*
Dividend Yield %	3.3	4.3	*3.6*	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.11 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.11 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2013	2014	2015	*Forecast* *2016*	*Forecast* *2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.11 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

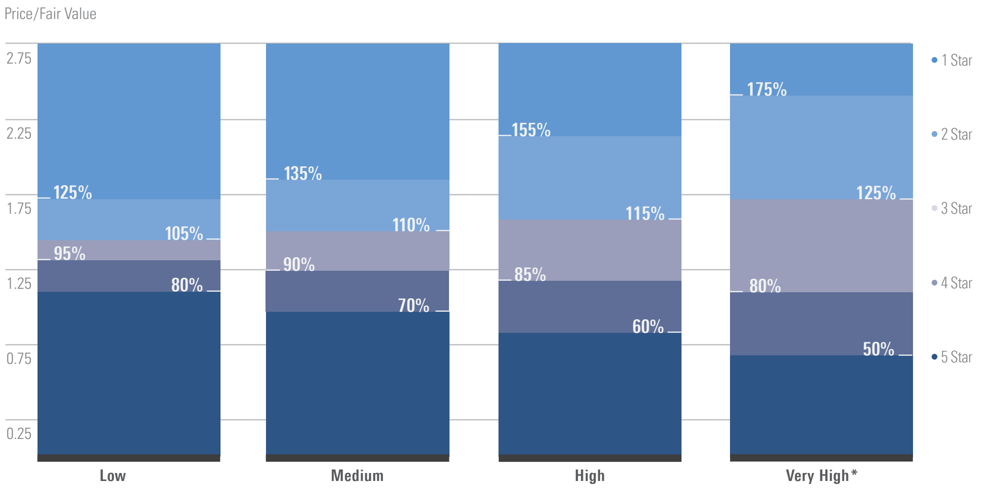
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.11 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.11 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

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Research as of 06 Dec 2016
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Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 06 Dec 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in

Vital Statistics

Market Cap (USD Mil)	30,514
52-Week High (USD)	37.70
52-Week Low (USD)	25.09
52-Week Total Return %	28.5
YTD Total Return %	23.6
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.07

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*12.7*	*12.6*
EV/EBITDA	9.5	6.6	*8.5*	*7.9*
EV/EBIT	16.7	10.2	*13.6*	*12.9*
Free Cash Flow Yield %	-5.1	0.0	*-21.3*	*-4.1*
Dividend Yield %	3.3	4.3	*3.8*	*4.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,776*	*32,425*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*5,000*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,488*
Net Income YoY %	-4.0	7.7	*8.3*	*3.4*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*1.0*
Free Cash Flow	121	561	*-12,392*	*-390*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Pennsylvania closes in 2018 absent state support.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* 2016	*Forecast* 2017	5-Year Proj. CAGR
Revenue	*7.8*	6.0	10.2	7.4	*-5.7*	*16.7*	*4.4*
EBIT	*22.8*	53.6	-15.3	42.4	*7.5*	*5.5*	*6.6*
EBITDA	*17.2*	36.3	-6.9	26.8	*11.4*	*7.4*	*7.4*
Net Income	*-1.6*	-7.9	-4.0	7.7	*8.3*	*3.4*	*6.6*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*4.4*	*1.0*	*4.9*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*63.1*	*-45.4*	*0.1*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-2,307.6*	*-96.9*	*44.4*

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	*13.7*	14.7	11.3	15.0	*17.1*	*15.4*	*16.4*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*27.5*	*25.3*	*26.4*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.7*	*8.3*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-44.6*	*-1.2*	*-5.1*
ROIC %	*3.1*	2.5	2.5	4.1	*11.1*	*5.6*	*6.8*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*12.0*	*6.1*	*7.4*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.4*
Return on Equity %	*8.0*	7.7	7.1	9.3	*9.0*	*8.8*	*9.3*

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.56*	*0.56*	*0.55*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.56*	*4.55*	*4.30*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.55*	*5.40*	*5.58*

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*12.7*	*12.6*
EV/EBITDA	9.5	6.6	*8.5*	*7.9*
EV/EBIT	16.7	10.2	*13.6*	*12.9*
Free Cash Flow Yield %	-5.1	0.0	*-21.3*	*-4.1*
Dividend Yield %	3.3	4.3	*3.8*	*4.0*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,306	-13.2	-6.82
Present Value Stage II	17,510	36.6	18.94
Present Value Stage III	36,674	76.6	39.66
Total Firm Value	**47,878**	**100.0**	**51.78**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,093**	**—**	**30.38**
Projected Diluted Shares	925		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,776***	***32,425***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,748*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,676***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***5,000***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***5,000***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,733***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,232*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,488***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,488*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,200***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,200***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,886*
Inventory	1,105	1,603	1,566	*1,079*	*1,507*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,526***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,086***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,825*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,058***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,825***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,592*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,861***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,261***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,420*	*2,501*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-701*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-428*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*263*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***96***

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

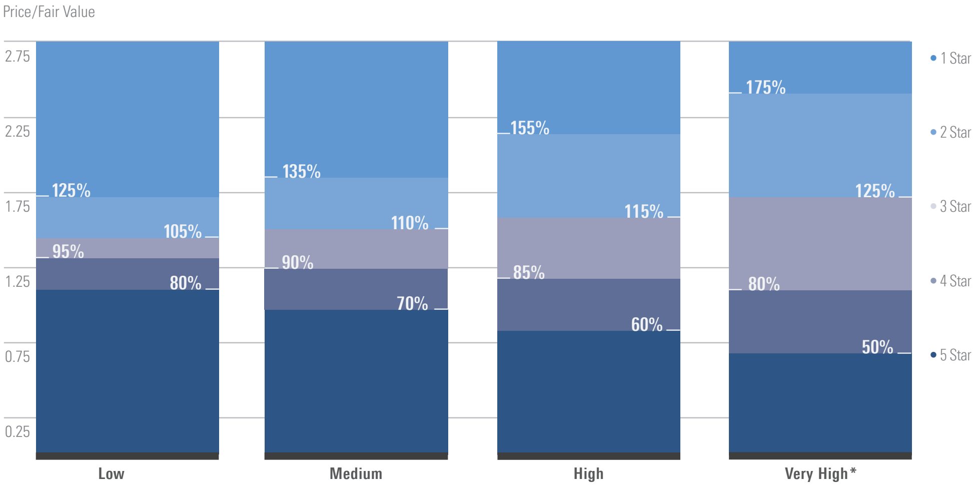
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

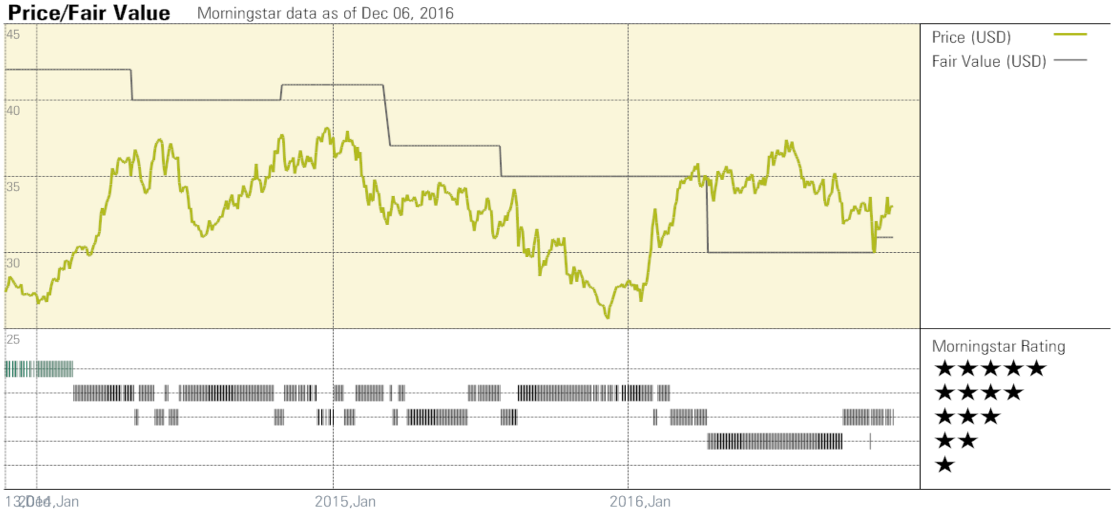
Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.



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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

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Research as of 08 Nov 2016
Estimates as of 27 Sep 2016
Pricing data through 07 Nov 2016
Rating updated as of 07 Nov 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 08 Nov 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and

Vital Statistics

Market Cap (USD Mil)	30,856
52-Week High (USD)	37.70
52-Week Low (USD)	25.09
52-Week Total Return %	23.5
YTD Total Return %	23.8
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.11

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*13.9*	*14.2*
EV/EBITDA	9.5	6.6	*9.7*	*9.6*
EV/EBIT	16.7	10.2	*15.6*	*15.5*
Free Cash Flow Yield %	-5.1	0.0	*-5.5*	*-3.9*
Dividend Yield %	3.3	4.3	*3.7*	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

New York.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. CAGR
Revenue	7.8	6.0	10.2	7.4	-13.6	10.5	1.0
EBIT	22.8	53.6	-15.3	42.4	-5.5	0.5	4.5
EBITDA	17.2	36.3	-6.9	26.8	-2.8	1.8	3.9
Net Income	-1.6	-7.9	-4.0	7.7	-0.3	-1.8	5.3
Diluted EPS	-4.4	-12.3	-4.4	4.2	-3.6	-1.9	4.5
Earnings Before Interest, after Tax	15.0	-13.0	53.5	13.7	-37.4	3.1	-3.6
Free Cash Flow	-33.9	-22.3	-92.0	365.5	-253.2	-31.1	33.2

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	13.7	14.7	11.3	15.0	16.4	14.9	16.9
EBITDA Margin %	22.1	23.3	19.7	23.3	26.2	24.2	26.1
Net Margin %	7.9	8.6	7.5	7.6	8.7	7.8	8.9
Free Cash Flow Margin %	2.8	6.1	0.4	1.9	-3.4	-2.1	1.9
ROIC %	3.1	2.5	2.5	4.1	4.6	5.0	5.3
Adjusted ROIC %	3.2	2.7	2.7	4.3	4.8	5.2	5.6
Return on Assets %	2.2	2.2	2.0	2.5	2.3	2.2	2.6
Return on Equity %	8.0	7.7	7.1	9.3	8.3	7.8	8.7

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.49	0.47	0.49	0.50	0.49	0.49	0.48
Total Debt/EBITDA	3.81	3.46	4.12	3.84	4.02	4.04	3.74
EBITDA/Interest Expense	5.33	4.28	5.08	6.64	5.85	5.57	5.75

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	13.9	14.2
EV/EBITDA	9.5	6.6	9.7	9.6
EV/EBIT	16.7	10.2	15.6	15.5
Free Cash Flow Yield %	-5.1	0.0	-5.5	-3.9
Dividend Yield %	3.3	4.3	3.7	3.8

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

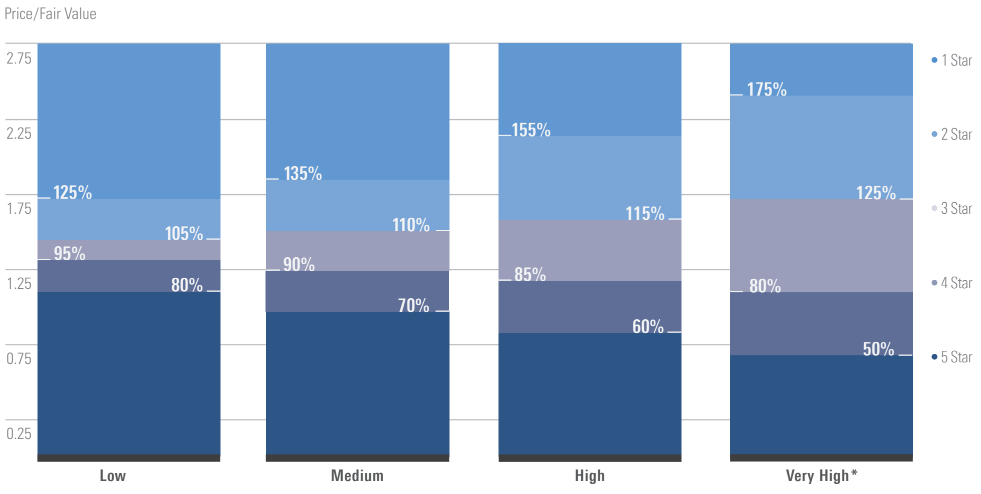
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
33.42 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.90 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Regulated Utilities Continue Driving Growth for Exelon

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Important Disclosure

The primary analyst covering this company does not own its stock.

Research as of 26 Oct 2016
Estimates as of 27 Sep 2016
Pricing data through 25 Oct 2016
Rating updated as of 25 Oct 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 26 Oct 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Vital Statistics

Market Cap (USD Mil)	30,363
52-Week High (USD)	37.70
52-Week Low (USD)	25.09
52-Week Total Return %	14.4
YTD Total Return %	21.9
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.0
5-Yr Forward EPS CAGR %	4.5
Price/Fair Value	1.10

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*13.7*	*13.9*
EV/EBITDA	9.5	6.6	*9.7*	*9.5*
EV/EBIT	16.7	10.2	*15.5*	*15.4*
Free Cash Flow Yield %	-5.1	0.0	*-5.6*	*-4.0*
Dividend Yield %	3.3	4.3	*3.8*	*3.9*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*25,435*	*28,108*
Revenue YoY %	10.2	7.4	*-13.6*	*10.5*
EBIT	3,096	4,409	*4,168*	*4,188*
EBIT YoY %	-15.3	42.4	*-5.5*	*0.5*
Net Income, Adjusted	2,065	2,224	*2,216*	*2,178*
Net Income YoY %	-4.0	7.7	*-0.3*	*-1.8*
Diluted EPS	2.39	2.49	*2.40*	*2.36*
Diluted EPS YoY %	-4.4	4.2	*-3.6*	*-1.9*
Free Cash Flow	121	561	*-860*	*-593*
Free Cash Flow YoY %	-92.0	365.5	*-253.2*	*-31.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Exelon's regulated distribution utilities deliver power and gas to 7.8 million customers in Illinois, Pennsylvania, Maryland, New Jersey, and Washington, D.C. Exelon owns 11 nuclear plants and 35 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.90 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*2016*	*2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-13.6*	*10.5*	*1.0*
EBIT	*22.8*	53.6	-15.3	42.4	*-5.5*	*0.5*	*4.5*
EBITDA	*17.2*	36.3	-6.9	26.8	*-2.8*	*1.8*	*3.9*
Net Income	*-1.6*	-7.9	-4.0	7.7	*-0.3*	*-1.8*	*5.3*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*-3.6*	*-1.9*	*4.5*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*-37.4*	*3.1*	*-3.6*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-253.2*	*-31.1*	*33.2*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*16.4*	*14.9*	*16.9*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*26.2*	*24.2*	*26.1*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.8*	*8.9*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-3.4*	*-2.1*	*1.9*
ROIC %	*3.1*	2.5	2.5	4.1	*4.6*	*5.0*	*5.3*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*4.8*	*5.2*	*5.6*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.6*
Return on Equity %	*8.0*	7.7	7.1	9.3	*8.3*	*7.8*	*8.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.49*	*0.49*	*0.48*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.02*	*4.04*	*3.74*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.85*	*5.57*	*5.75*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*13.7*	*13.9*
EV/EBITDA	9.5	6.6	*9.7*	*9.5*
EV/EBIT	16.7	10.2	*15.5*	*15.4*
Free Cash Flow Yield %	-5.1	0.0	*-5.6*	*-4.0*
Dividend Yield %	3.3	4.3	*3.8*	*3.9*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,124	4.5	2.30
Present Value Stage II	14,556	30.8	15.76
Present Value Stage III	30,557	64.7	33.08
Total Firm Value	**47,236**	**100.0**	**51.13**
Cash and Equivalents	6,502	—	7.04
Debt	-26,319	—	-28.49
Preferred Stock	-28	—	-0.03
Other Adjustments	30	—	0.03
Equity Value	**27,421**	**—**	**29.68**
Projected Diluted Shares	924		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
32.90 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***25,435***	***28,108***
Cost of Goods Sold	10,724	13,003	13,084	*9,899*	*12,365*
Gross Profit	**14,164**	**14,426**	**16,363**	***15,536***	***15,744***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*7,641*	*7,696*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,227*	*1,259*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,500*	*2,600*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,168***	***4,188***
Interest Expense	1,356	1,065	1,033	*1,140*	*1,219*
Interest Income	473	455	-53	*300*	*300*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,328***	***3,270***
Income Tax Expense	1,044	666	1,073	*1,098*	*1,079*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,216***	***2,178***
Weighted Average Diluted Shares Outstanding	860	864	893	*923*	*925*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.40***	***2.36***
Adjusted Net Income	2,150	2,065	2,224	*2,216*	*2,178*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.40***	***2.36***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***6,668***	***6,788***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***6,668***	***6,788***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
32.90 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*4,836*	*3,083*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*3,833*	*4,235*
Inventory	1,105	1,603	1,566	*1,085*	*1,355*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*2,900*	*2,900*
Current Assets	**10,137**	**12,097**	**15,334**	***12,653***	***11,573***
Net Property Plant, and Equipment	47,330	52,087	57,439	*61,414*	*64,914*
Goodwill	2,625	2,672	2,672	*2,672*	*2,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*6,000*	*6,000*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***96,613***	***99,033***
Accounts Payable	2,600	3,056	2,891	*2,305*	*2,879*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*3,700*	*3,700*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,038***	***8,612***
Long-Term Debt	18,271	20,010	24,286	*24,786*	*25,386*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*13,900*	*14,100*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***67,805***	***69,179***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*30*	*80*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,129*	*14,125*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,000*	*-2,000*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,508***	***28,554***
Minority Interest	15	1,332	1,308	*1,300*	*1,300*
Total Equity	**22,940**	**24,133**	**27,322**	***28,808***	***29,854***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
32.90 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,229*	*2,191*
Depreciation	3,779	3,868	3,987	*2,500*	*2,600*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*124*	*200*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*266*	*-403*
(Increase) Decrease in Inventory	-100	-380	4	*481*	*-270*
Change in Other Short-Term Assets	742	-2,758	-387	*267*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-586*	*574*
Change in Other Short-Term Liabilities	—	—	—	*-494*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***4,788***	***4,892***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-6,475*	*-6,100*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*264*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-6,211***	***-6,100***
Common Stock Issuance (or Repurchase)	47	35	1,900	*30*	*50*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,155*	*-1,182*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*500*	*600*
Other Financing Cash Flows	-422	-599	-67	*-49*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***-674***	***-545***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*431*	—
Net Change in Cash	**123**	**269**	**4,624**	***-1,666***	***-1,753***

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

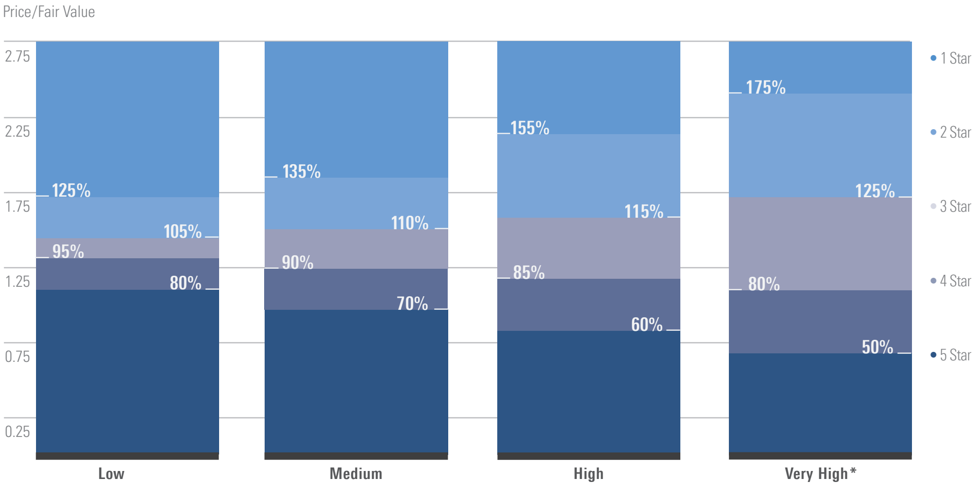
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

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Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
32.90 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Oct 25, 2016

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.90 USD	30.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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COMPANY UPDATE
August 2, 2016

Exelon Corporation (EXC)

SUNTRUST ROBINSON HUMPHREY

New York PSC Vote Has Positive Implications

What's Incremental To Our View

We estimate that the plan approved by the New York PSC yesterday could represent $0.09-$0.12 of incremental earnings per share for EXC in 2017-18.

IMPORTANT POINTS

- Yesterday the New York PSC voted to approve the Clean Energy Standard (CES) plan for the state. Specifically, the plan implies an additional payment (initially set at $17.48/mwh) for EXC's nuclear capacity in New York (1126mw). We expect rates to be in effect from 4/1/17 through 3/31/29.

- We view this development favorably, and make the following observations: (1) we estimate that this plan would represent $0.09 of incremental earnings for EXC in 2017 and $0.12 in 2018 (based on the company's existing nuclear ownership in the state); (2) it increases the probability of EXC buying the 838mw Fitzpatrick nuclear plant in New York; and (3) we would make any required changes to our estimates once we get an update on EXC's latest hedge positions (expected at the company's investor day on 8/10/16).

- Our incremental earnings calculations are based on the following key assumptions: (1) 9.7m mwh of annual output; (2) price of $17.48/mwh; (3) a 33%-34% tax rate; and (4) share count of 947 million shares in 2017 and 965 million shares in 2018.

- EXC appears attractively priced at a 6% P/E multiple discount to the peer group (based on our 2018 estimate). Assuming a 14.7x P/E on our 2018 estimate of $2.71 (in line with the peer group), we derive our price target of $40. We reiterate our **Buy** rating.

- We have included our latest 2016-18 earnings and cash flow models in this report.

Buy

Price Target: $40.00
Prior: $40.00

Price (Aug. 1, 2016)	$37.46
52-Wk Range	$36.36-$25.46
Market Cap ($M)	$34,459
ADTV	4,996,960
Shares Out (M)	919.9
Short Interest Ratio/% Of Float	2.2%
Dividend/Yield	$1.27/3.4%
TR to Target	10.2%

ROE	9.0%
5 Year EPS Growth	5.0%
Debt/Cap	55%
P/B	1.30x
Enterprise Value ($M)	$70,707.7

	2016E	2017E		2018E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.68A	$0.71	$0.71	$0.73	$0.73
2Q	$0.58	$0.61	$0.61	$0.63	$0.63
3Q	$0.86	$0.89	$0.89	$0.92	$0.92
4Q	$0.39	$0.42	$0.42	$0.43	$0.43
CY	$2.51	$2.63	$2.63	$2.71	$2.71
P/E	14.9x	14.2x		13.8x	
Consensus					
CY	$2.55	$2.65		$2.79	
Revenue ($M)					
CY	$32,645	$34,285	$34,285	$34,780	$34,780
Operating Margin (%)					
CY	13.90%	14.10%	14.10%	14.60%	14.60%
EBITDA ($M)					
CY	$7,457	$8,031	$8,031	$8,433	$8,433
EV/ EBITDA	9.5x	8.8x		8.4x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2011A-2018E

(dollars in millions, except per share)

	2018E		2017E		2016E		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)																
Com Ed	5,280		5,150		5,000		4,905		4,564		4,464		5,443		6,056	
PECO	3,515		3,430		3,350		3,032		3,094		3,100		3,186		3,720	
BGE	3,570		3,465		3,380		3,135		3,165		3,065		2,204			
PEPCO	5,370		5,265		3,915											
Generation	18,070		18,000		18,000		18,925		17,853		16,190		15,502		10,502	
Other	(1,025)		(1,025)		(1,000)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,780	1.4%	34,285	5.0%	32,645	11.7%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)																
Com Ed	1,200	22.7%	1,120	21.7%	1,060	21.2%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	725	20.6%	680	19.8%	650	19.4%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	635	17.8%	600	17.3%	550	16.3%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	710		600		400											
Generation	1,836	10.2%	1,851	10.3%	1,887	10.5%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(23)		(25)		(25)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)									(8)		102		59		(1)	
Total Operating Income	5,083	14.6%	4,826	14.1%	4,522	13.9%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,350)		(1,345)		(1,285)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	255		253		250		276		262		238		252		178	
Pretax income	3,988		3,734		3,487		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,356	34.0%	1,232	33.0%	1,151	33.0%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	15		15		15		13		134		14		11			
Equity Income (Loss)							(7)									
Net Income (% change)	2,617	5.2%	2,487	7.1%	2,321	4.2%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	965.0		947.0		926.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.71	3.0%	$2.63	4.8%	$2.51	0.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items																
Reported GAAP EPS																
EBITDA	8,433		8,031		7,457		6,684		6,242		6,191		6,180		6,177	
ComEd																
Total Retail Sales (millions mwhs)	93.0		93.0		92.0		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$12.9		$12.0		$11.5		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO																
Total Electric Retail Sales (millions mwhs)	39.5		39.5		39.0		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$18.4		$17.2		$16.7		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO																
Total Electric Retail Sales (millions mwhs)	50.0		50.0		38.0											
Implied Operating Margin ($/MWh)	$14.2		$12.0		$10.5											
Generation																
Total Power Sales (millions mwhs)	204.2		204.2		198.5		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mwh)	$9.0		$9.1		$9.5		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment																
Com Ed	565		525		490		432		410		421		381		403	
PECO	435		415		395		380		353		393		387		388	
BGE	325		310		270		277		199		195		46			
Generation	1,107		1,116		1,141		1,253		1,155		1,202		1,548		2,002	
PEPCO	330		265		180											
Other	(145)		(144)		(155)		(115)		(49)		(62)		(32)		(30)	
Total	2,617		2,487		2,321		2,227		2,068		2,149		2,330		2,763	

Note

1) Our PECO Implied Margin ratios factor in the impact of Gas sales.

2) Rate Base - Com Ed: $10.8bn in 2015, $11.8bn in 2016E, $12.8bn in 2017E, $13.6bn in 2018E; PECO: $6.0bn in 2015, $6.5bn in 2016E, $6.9bn in 2017E, $7.3bn in 2018E; BGE: $5.0bn in 2015, $5.3bn in 2016E, $5.9bn in 2017E, $6.4bn in 2018E; PEPCO: $8.8bn in 2016E and $9.7bn in 2017E, $10.2bn in 2018E.

3) Earned ROE - Com Ed: 8.0% in 2015, 8.3% in 2016, 8.2% in 2017, 8.3% in 2018; PECO: 11.7% in 2015, 11.5% in 2016, 11.3% in 2017, 11.2% in 2018; BGE: 10.7% in 2015, 10.2% in 2016, 10.5% in 2017, 10.2% in 2018; PEPCO: 5.5% in 2016, 5.5% in 2017, 6.5% in 2018.

4) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

5) We assume EXC achieves its growth targets for Power and Non Power new business for 2016 onwards.

6) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

7) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

8) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

9) Forward curves as of 5/5/16.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2018E

($ in millions except per share)

	2018E	2017E	2016E	2015A	2014A	2013A	2012A	2011A
Net income	2,617	2,487	2,321	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	5,000	4,925	4,820	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	(125)	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,492	7,287	7,016	7,634	4,457	6,343	6,131	4,853
Dividends	(1,196)	(1,174)	(1,148)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(6,875)	(7,775)	(8,005)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	(579)	(1,662)	(2,137)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity.

Valuation and Risks

VALUATION

Assuming a P/E multiple of 14.7x our 2018 estimate of $2.71 (in line with the peer group), we derive our price target of $40.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending regulatory issues

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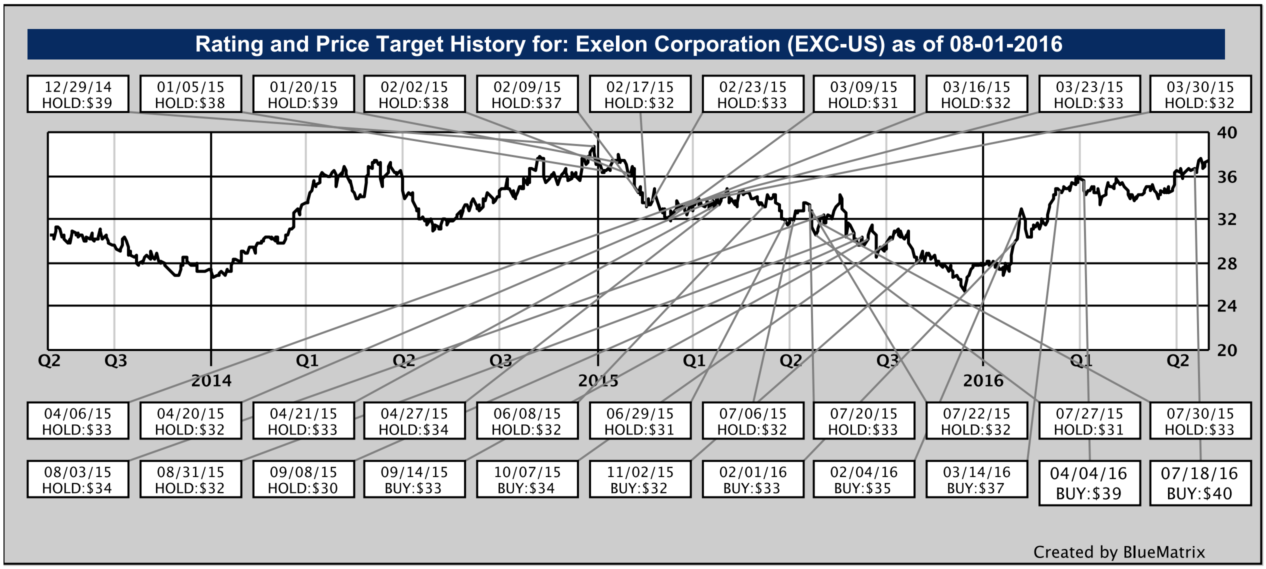

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EVERCORE ISI

FLASH NOTE Energy | Power & Utilities

August 1, 2016

EXELON CORP.
EXC | $37.28
BUY | TARGET PRICE: $40.00
Commentary

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NYPSC Approved Modified ZEC Program for Upstate Nukes

EXC shares are up 35% YTD but we still think they are cheap.

One of the three catalysts we were counting on just happened!

1.The NY Public Service Commission just approved a zero emissions credit (ZEC) program in NY by the Public Service Commission for upstate nuke plants. EXC owns 2 of the 3: Nine Mile Point and Ginna.

a. This could add 10 cents to EPS in FY ’18 for EXC that is NOT in consensus expectations.

1. There are several modifications to the proposal. The most important is a potential ratcheting down of the rate paid for carbon attributes (mostly in the back portion of the 12 year plan) as renewable energy penetration increases in NY state. It could result in the value for carbon leveling off or declining, rather than increase from $17.50 to $29 over the 12 year period as estimated in the initial proposal.

1. The potential acquisition of the third plant—Fitzpatrick—from ETR. The sale will now likely happen because the ZEC deal is done. ETR has been exiting merchant power and has said they would shut the unit.
   a. This could add 5 cents to EPS in FY ’18 for EXC that is not in consensus.

2. EXC’s analyst day on August 10th

1. **Valuation: Our EPS forecast is $2.60 / $2.65 / $2.75 share for ’16-’18 BEFORE the above mentioned potential deals in NY. The stock is at 13.6X ’18 EPS and a 3.4% yield.**
   a. The utility is $1.70 of ’18 EPS. At the peer average multiple today of 18X that is worth $30/share.
   b. So you are paying $6.5/share for the merchant power biz (ExGen), which is 7X ’18 EPS, 5.5X ’18 EV/EBITDA and a FCF/EV for ExGen of 12%. All that cash is being used to fund the utility’s growth, the dividend (growing 2.5% a year) and debt paydown.
   c. Our $40 target assumes just 1 turn on EBITDA to 6.4X for the Genco on our base case estimates (no deal in NY). That would put the valuation at 14.5X FY ’18 EPS and a dividend yield of 3.2%.
   d. Our numbers DO NOT include $0.15 of potential EPS accretion in FY ’18 from the NY ZEC deal / buying Fitzpatrick. Both together add $1.50 a share to value using the most conservative valuation approach (putting 12% FCF yield on the CF uplift).
   e. Our numbers DO NOT include the impact of the company closing two nukes in IL and the run rate cash flow savings is $120mm fully loading by ’19. This would add another $1/share to value.
   f. Our numbers DO NOT include the upside if Stephen Richardson’s nat gas price forecast of $3.25/mmbtu in FY ’18 is correct. That is also over $1/share accretive to value.
   g. So, you have insulation from P/E multiple contraction on the utility side of the equation and can still get to our $40 target if utilities—which are at punchy valuations—decline. We think this is a great long idea and at a bare minimum a definitive relative long vs. the index. PSEG (PEG) is the best individual pair.

1. **The ZEC deal will start adding revenue in April ’17 and have a 12 year term.** The subsidy starts at around $17.5/mwh and goes up over the life of the deal with a revenue cap.
   a. The deal would add a little over $0.10/share and +/-$110 to cash flow at NMP and Ginna

1. **ETR has announced they will either sell Fitzpatrick or shut it down next year. EXC is in negotiations to buy but will only do so if the ZEC deal is approved by the State first.** Probably won’t be done by analyst day.
   a. We did a DCF and come up with a $450mm purchase price and a little over $0.05 of EPS accretion

1. **Shut down of Clinton and Quad Cities nukes in IL is $120mm accretive to cash flow, fully loaded in FY ’19. Clinton shuts mid ’17 and Quad mid ’18**
    a. This is a known. Not new. But our value added is we have done the work to show how you get to the numbers.
    b. The company had said $140mm of savings on a run rate using end of February forward curves. We see $120mm using current curves.
    c. The savings is from capital. It looks like a push on EPS impact.
    d. If the IL government follows suit and gives them a subsidy the uplift could be double the $120mm. We don’t expect it.

1. **Analyst Day is August 10th in Philly.**
    a. We think the analyst day will be positive. They will have the ZEC deal in hand. Probably won’t have Fitzpatrick done.
    b. We expect a more detailed review of what we heard from EXC management in early June when we hosted investor meetings was a continued commitment to invest in and grow rate base/earnings power at their four utility platforms, grow the dividend 2.5% per year at least through 2018, and use cash flow in excess of what is needed for those to activities to de-lever (that amount articulated at the time by EXC at +/-$2.9bn through 2020).
    c. This plan is fully supported by the robust cash flow profile at Exelon Generation without the need for equity. With ExGen projected at <3X debt/EBITDA that deleveraging could (and should) be done at the parent level. EXC’s forecast for utility EPS contribution minus parent overheads this year is $1.30/share which by 2017 we expect to be $1.55-$1.60 per share. With EXC aspiring to grow rate base to +/-$40bn by 2020 that earnings power (utility EPS minus parent) could theoretically grow to $1.85. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth $30/share in our view. As we said above.
    d. They will continue to commit to zero growth capital to ExGen unless the assets are contracted and are accretive to EPS and cash flow.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of regulation to bolster the revenue stream of the NY nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in NY to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: August 01, 2016, 13:04 ET.

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Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
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Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%

Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

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Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
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Ratings	Count	Pct.
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Hold	304	45%
Sell	30	4%
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Rating Suspended	6	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
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Hold	17	6%
Sell	2	7%
Coverage Suspended	0	0%
Rating Suspended	1	17%

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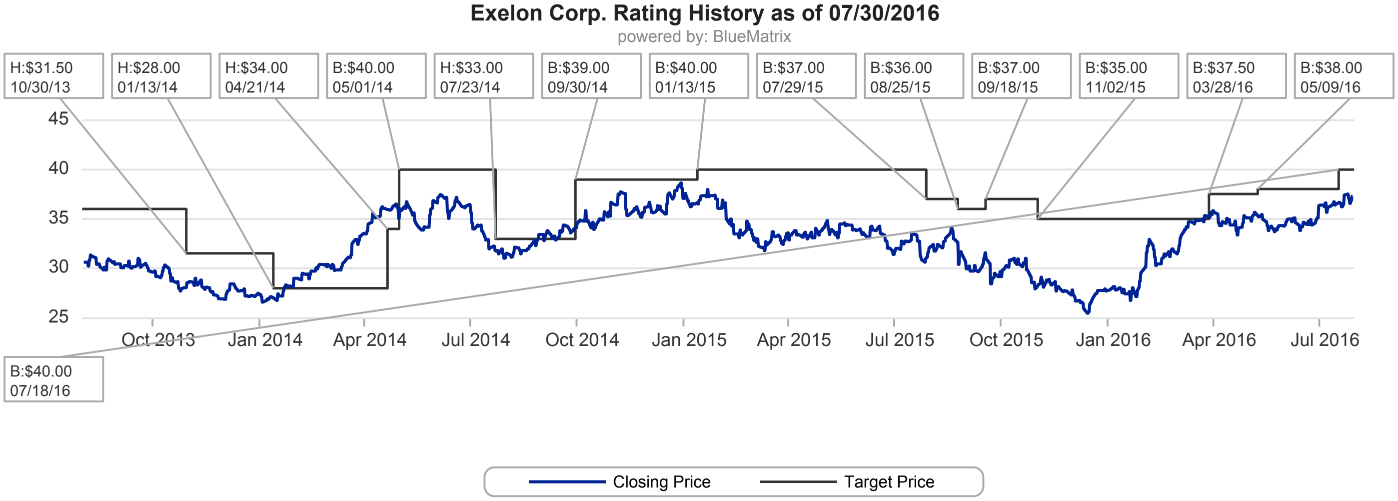
Price Charts


Exelon Corp. Rating History as of 07/30/2016

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Flash BMO Capital Markets

Electric Utilities & Independent Power

August 1, 2016

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NYPSC Approves Nuclear Subsidy

This afternoon, the New York Public Service Commission (NY PSC) voted in favor of the Clean Energy Standard (CES), along with a zero emissions credit (ZEC) provision designed to subsidize upstate nuclear power plants (Ginna and Nine Mile Point owned by Exelon and FitzPatrick owned by Entergy). The plan also calls for a 40% reduction in carbon emissions and an increase in RPS to 50% by 2030.

The proposed nuclear subsidies are capped at $17.48/MWh for the first two years and can only be received by plants located in markets with depressed electricity prices (downstate nuclear plant Indian Point does not qualify).

Entergy had earlier announced its intention to close FitzPatrick, but subsequently, Exelon indicated that should the subsidies be approved, it would be interested in acquiring FitzPatrick. Discussions regarding the potential sale of FitzPatrick to Exelon are ongoing.

Our View:

- We regard the commission’s decision as favorable for Exelon (EXC, $37.46, Market Perform) and Entergy (ETR, $81.27, Market Perform).
- We believe Entergy will still likely sell FitzPatrick as it continues to derisk and focus on its utility operations. We expect additional details on Entergy’s 2Q16 earnings call tomorrow.
- It is possible New York’s action could have a positive read-through to other states (particularly Illinois) where Exelon is facing the early shutdown of certain nuclear plants due to weak market prices adopt similar plans.
- In addition, the RPS should result in incremental investment opportunities for renewable generation developers, such as NextEra Energy (NEE, $128.50, Outperform), Southern Company (SO, $53.65, Market Perform) and Con Edison (ED, $80.46, Market Perform), among others.

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Outperform (OP); Market Perform (Mkt); Underperform (Und); Speculative (S); Not Rated (NR); Restricted (R)

Source: FactSet, BMO Capital Markets

Entergy Rating History as of 07/05/2016

Outperform (OP); Market Perform (Mkt); Underperform (Und); Speculative (S); Not Rated (NR); Restricted (R)

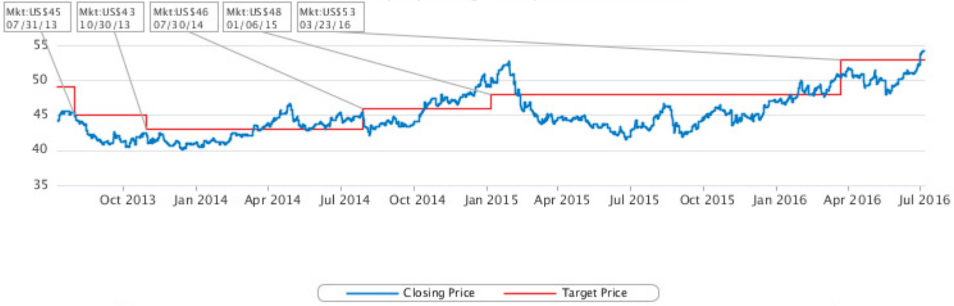
Source: FactSet, BMO Capital Markets

NextEra Energy Rating History as of 07/05/2016

Outperform (OP); Market Perform (Mkt); Underperform (Und); Speculative (S); Not Rated (NR); Restricted (R)

Source: FactSet, BMO Capital Markets

Southern Company Rating History as of 07/05/2016



Outperform (OP); Market Perform (Mkt); Underperform (Und); Speculative (S); Not Rated (NR); Restricted (R)

Source: FactSet, BMO Capital Markets


Consolidated Edison Rating History as of 07/05/2016

Source: FactSet, BMO Capital Markets

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Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

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Methodology and Risks to Our Price Target
Methodology: Our valuation is based on a 16.2x 2016E P/E multiple
Risks: A change in the regulatory environment and weaker economic conditions could affect our price target.

Company specific disclosures for Consolidated Edison
Methodology and Risks to Our Price Target
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Hold	Market Perform	54.8%	8.8%	36.5%	54.1%	41.1%	40.8%
Sell	Underperform	3.4%	15.8%	4.1%	3.4%	2.2%	5.6%

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QUICK THOUGHTS
December 1, 2016

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

Passage Of Illinois Energy Bill Should Be Earnings Accretive

Buy

Price: $32.51

- We expect final clarity today on whether the Illinois legislature will pass the Energy Bill in the state. Late yesterday afternoon, EXC announced an agreement with the state Governor on the Bill, which (in our opinion) appears to have increased the probability of passage.

- Based on our preliminary analysis, we estimate that the passage of the Bill would cause a net addition of $0.07-$0.11 to annual earnings (which is not in our current estimates). We note that our current 2018 estimate is already $0.07 above consensus.

- We reiterate our **Buy** recommendation.

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SEE PAGE 2 FOR REQUIRED DISCLOSURE INFORMATION

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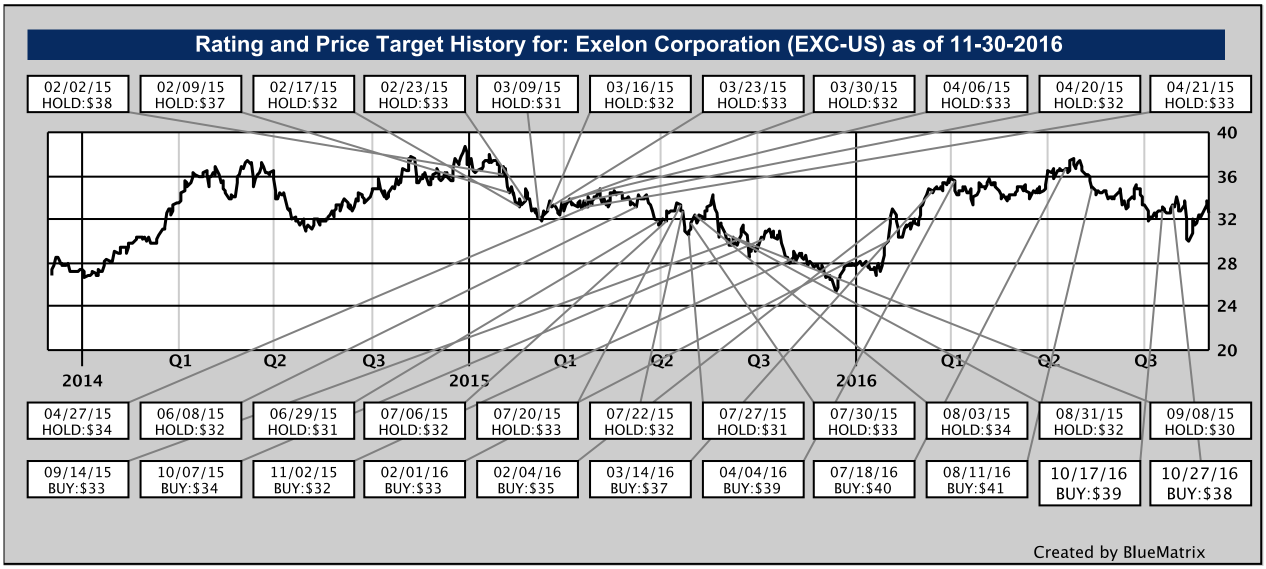
Rating and Price Target History for: Exelon Corporation (EXC-US) as of 11-30-2016

Created by BlueMatrix

STRH Ratings System for Equity Securities

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October 26, 2016 | 16:35 ET | 16:35 ET~

Exelon

EXC-NYSE	Rating	Price: Oct-25	Target ↓	Total Rtn
	Market Perform	$32.90	$35.00	10%

Power Prices Weigh on 2017-2018 Outlook; Lowering Estimates/PT

Bottom Line: Largely reflecting favorable weather, as well as improved margins at Constellation, Exelon reported 3Q16 EPS of $0.91 versus $0.83 in 3Q15 and well above guidance of $0.65-$0.75 (consensus $0.76). As a result of the strong YTD results, Exelon increased its FY2016 EPS guidance to $2.55-$2.75 from $2.40-$2.70. We are raising our 2016 EPS estimate accordingly to $2.69. With ExGen gross margins under continued pressure and despite cost-cutting efforts, we are lowering our 2017 and 2018 EPS estimates to $2.58 and $2.68, respectively.

Key Points

Results for 3Q16 exceeded expectations due to favorable weather (hot summer and fewer storms, ~+$0.08) and improved results at Constellation (higher volumes and lower cost to serve). Other earnings drivers included rate relief partially offset by higher taxes and lower capacity prices at ExGen. Reflecting strong YTD results ($2.24 vs. $2.13), we are raising our 2016 EPS estimate to $2.69.

We are cutting our 2017-2018 EPS estimates as weak power prices continue to weigh on ExGen's outlook. ExGen's gross margin outlook for 2017/2018 was lowered by $100 million/$250 million, respectively, since June 30, 2016, offset in part by increased cost-cutting efforts.

Should New York's Zero Emissions Credits (ZECs) be implemented as currently planned, ExGen's gross margins could rise by $100 million/$150 million in 2017/2018, respectively. In addition, should the acquisition of the FitzPatrick nuclear plant (from Entergy) be completed in 2Q17, incremental gross margin is projected at $200 million/ $250 million in 2017/2018, respectively. While a lawsuit has been filed against the ZEC program, Exelon indicated the suit did not request a stay or expedited treatment.

Exelon believes there is the potential for legislation supporting nuclear subsidies in Illinois to be passed in the November/December veto session. In the absence of such legislation, Exelon will retire the Clinton and Quad Cities nuclear plants as planned.

In light of our earnings revisions, we are lowering our price target to $35 based on our SOTP valuation.

Key Changes

Target	Estimates	2016E	2017E
$35.00↓	EBITDA	$8,418	$8,795
$38.00	*Previous*	*$8,164*	*$8,902*
	FCF after Div.	$(5,220)	$(5,338)
	Previous	*$(5,012)*	*$(5,259)*
	EPS	$2.69	$2.58
	Previous	*$2.57*	*$2.67*

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BMO Capital Markets

Electric Utilities

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2YR Price Volume Chart

LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Data			in $
Dividend	$1.27	Shares O/S (mm)	922.9
Yield	3.9%	Market Cap (mm)	30,362
EV (mm)	$70,085	Net Debt (mm)	$37,875

BMO Estimates (FY-Dec.)	2015A	2016E	2017E	2018E
EBITDA	$6,813	$8,418↑	$8,795↓	$9,282
FCF after Div.	$(1,311)	$(5,220)↓	$(5,338)↓	$(4,922)
EPS	$2.49	$2.69↑	$2.58↓	$2.68
Dividends	$1.24	$1.26	$1.29	$1.33
CFPS	$(0.23)	$(3.02)↓	$(2.82)↓	$(2.36)

Consensus Estimates	2015A	2016E	2017E	2018E
EPS		$2.57	$2.62	$2.77

Valuation	2015A	2016E	2017E	2018E
P/E	13.2x	12.2x	12.7x	12.3x
P/CFPS	NM	NM	NM	NM
EV/EBITDA	10.3x	8.3x	8.0x	7.6x

Our Thesis

We believe EXC will continue to face headwinds at its competitive nuclear generation business stemming from continued weak power and natural gas prices, rising O&M costs, and challenges from renewable generation. Growth at its regulated business could somewhat mitigate the pressures at the competitive business.

Exelon - Block Summary Model

Income Statement	2015A	2016E	2017E	2018E
Revenues	$29,447	$28,249	$28,582	$29,306
Fuel and purchased power	(13,084)	(9,439)	(8,904)	(9,152)
Operating, maintenance and other	(9,522)	(10,592)	(11,014)	(10,999)
Non-recurring gains/(losses)	0	0	0	0
EBITDA	$6,813	$8,418	$8,795	$9,282
Depreciation & Amortization	3,987	3,111	(3,507)	(3,728)
Other income	(28)	201	131	127
EBIT	4,363	4,936	5,288	5,555
Interest Expense	(1,033)	(1,664)	(1,769)	(1,873)
Income Tax	(1,080)	(1,104)	(1,132)	(1,208)
Income from continuing operations	2,250	2,167	2,387	2,475
Adjusted EPS	$2.49	$2.69	$2.58	$2.68
Shares outstanding	893	923	923	923

Cash Flow Statement	2015A	2016E	2017E	2018E
Net Income	2,250	2,167	2,387	2,475
Depreciation & Amortization	3,987	3,111	(3,507)	(3,728)
Deferred taxes/other	1,379	302	14	10
Cash Flow From Operations	7,616	5,580	5,902	6,206
Capex	(7,822)	(8,365)	(8,503)	(8,380)
Net debt issued/(repaid)	4,102	5,094	1,436	3,440
Common stock (net)	1,868	0	0	0
Dividends paid	(1,105)	(2,435)	(2,737)	(2,747)
Cash Flow From Financing	4,830	2,428	(1,992)	202
Net cash flow	4,624	(356)	(4,592)	(1,972)

Balance Sheet	2015A	2016E	2017E	2018E
Cash & Equivalents	6,707	(45)	1,891	(87)
Total Assets	95,384	116,640	117,030	119,701
Short-term debt	2,033	5,571	6,697	7,847
Total common equity	27,294	31,353	30,307	29,538
Debt %	49.1	54.4	56.1	58.8
Preferred %	0	26.3%	26.2%	25.2%
Common equity %	50.9	45.3	43.6	40.9

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

We find EXC shares fairly valued in the current market and see few near-term catalysts that would propel earnings or the stock at this time. Power price fundamentals remain weak and are likely to remain so for some time. Therefore, we expect Exelon to trade in a relatively narrow range, recognizing that downside risk is limited, in our opinion, unless power prices further deteriorate.

Upside Scenario $38.00

In a declining interest rate environment, we could see P/E multiples expand by approximately 5% to 16.8x. This, together with a rising power and natural gas price environment, which could lead to EV/EBITDA multiple expansion by 5% to 8.4x, would equate to a price target of $38.

Downside Scenario $30.00

In a rapidly rising interest rate environment, we could see P/E multiples contract by approximately 10% to 14.4x. This, together with a declining power and natural gas price environment, which could lead to EV/EBITDA multiple contraction by 10% to 7.2x, would equate to a price target of $30.

Company Description

Exelon is the largest competitive U.S. power generator, with ~32,700 MW of owned capacity. Its Constellation business unit provides energy products and services to business, public, and residential sector customers. Exelon's utilities deliver electricity and natural gas to 10 million customers in Delaware, DC, Illinois, Maryland, New Jersey, and Pennsylvania.

EXC-NYSE Research

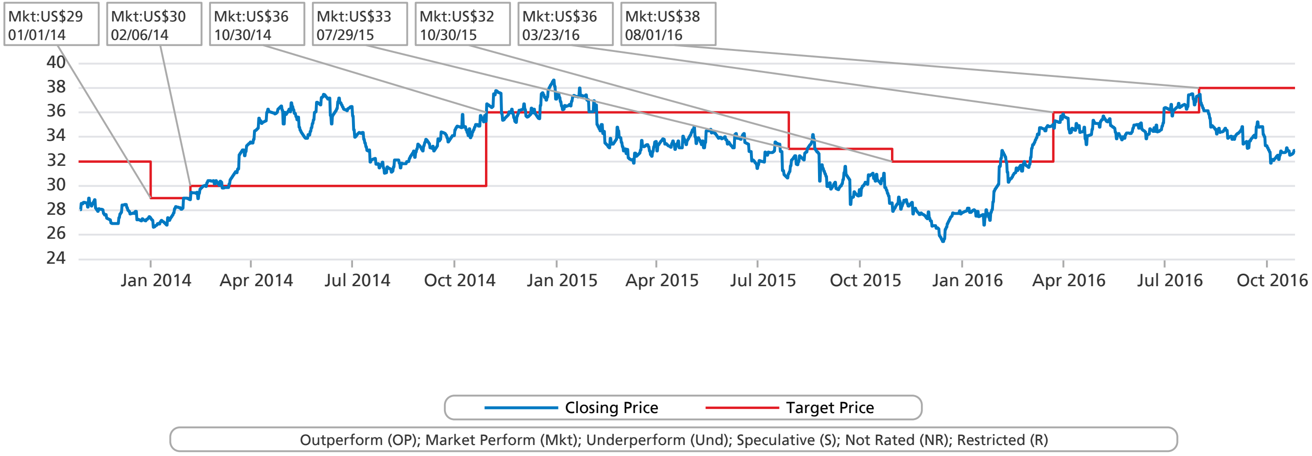
Industry Research

Company Models

Sum-of-the-Parts Valuation

	Measure	Type	Year	$ mm	Multiple	$ mm
Regulated Businesses						
BG&E	Net Income	Regulated	2017	$318	17.0x	$5,411
ComED	Net Income	Regulated	2017	$548	17.0x	$9,314
PECO	Net Income	Regulated	2017	$436	17.0x	$7,413
Pepco	Net Income	Regulated	2017	$98	17.0x	$1,662
ACE	Net Income	Regulated	2017	$23	17.0x	$383
DPL	Net Income	Regulated	2017	$50	17.0x	$845
Add: Net Debt						
BG&E	Net Debt	Regulated	2017			$2,430
ComED	Net Debt	Regulated	2017			$7,362
PECO	Net Debt	Regulated	2017			$2,759
Pepco	Net Debt	Regulated	2018			$3,761
ACE	Net Debt	Regulated	2019			$1,626
DPL	Net Debt	Regulated	2020			$1,373
Regulated Businesses	**Enterprise Value**	**Regulated**	**2017**			**$44,340**
Non-Regulated Business						
Competitive Businesses						
Competitive	EBITDA	Competitive	2017	$3,153	8.0x	$25,222
Nuclear Uprates	NPV	Competitive	2017			$0
Non-Regulated Business	**Enterprise Value**	**Regulated**	**2017**			**$25,222**
Consolidated	**Enterprise Value**					**$69,563**
Adjustments:						
- Consolidated Net Debt			2017			-$37,375
- Preferred Stock			2017			$183
Consolidated Equity Value						**$32,371**
Diluted Shares Outstanding (YE)			2017			922.925
Value per share						**$35**

Source: BMO Capital Markets research



Exelon Rating History as of 10/25/2016

Source: FactSet, BMO Capital Markets

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Methodology and Risks to Price Target/Valuation for Exelon (EXC-NYSE)

Methodology: Our valuation is based on a combination of our 2017 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and a 17x 2017E P/E multiple.

Risks: A material decline in power prices and / or a change in the regulatory environment

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Buy	Outperform	41.8%	19.0%	50.6%	42.6%	53.0%	52.9%
Hold	Market Perform	54.6%	13.5%	47.1%	53.8%	45.2%	41.4%
Sell	Underperform	3.6%	10.0%	2.3%	3.4%	1.7%	5.7%

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COMPANY UPDATE
October 27, 2016

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

Raising 2016 Estimate But Trimming 2017-18 Estimates

What's Incremental To Our View

Based on updated assumptions, we have raised our 2016 estimate but trimmed our 2017-18 estimates. EXC still trades at a discount to the peer group. Factoring in our revised estimates we have trimmed our price target to $38 from $39.

IMPORTANT POINTS

- EXC reported 3Q results of $0.91 vs $0.83, well above our estimate of $0.81 and consensus of $0.79. The positive variance (vs our estimate) was primarily due to stronger than expected Utility results (reflecting favorable weather) and Retail marketing results (driven by higher volume and margins).

- Factoring in year to date results, latest forward commodity curves, updated hedge disclosures, and revised Utility growth assumptions, we make the following changes to our estimates: 2016 is increased to $2.65 from $2.55; 2017 is decreased to $2.57 from $2.65; and 2018 is decreased to $2.81 from $2.85. Our preliminary 2019 estimate is $2.74.

- We note that our estimates include contributions from the New York Zero Emission Credit (ZEC) program and the acquisition of the Fitzpatrick nuclear plant (838mw, $110 million price) from 2Q 2017 onwards. We expect all the relevant contracts to be signed in 4Q 2016, and all the approvals to be finalized in 1Q 2017. We will closely monitor the Federal court challenge filed against these contracts on 10/19/16, although we do not expect the challenge to prevail.

- Our estimates also assume the retirement of the Clinton (1069mw) and Quad City (1403mw) nuclear plants. However, there is still an opportunity later this year for the Illinois Legislature to provide regulatory support for these plants. Key dates are 11/15 – 11/17 and 11/29 – 12/1.

- EXC appears attractively priced at a 13% P/E multiple discount to the peer group (based on our 2018 estimate). Assuming a P/E multiple of 13.5x our 2018 estimate of $2.81 (in line with the peer group), we derive our price target of $38. We reiterate our **Buy** rating.

- We have included our revised 2016-18 earnings and cash flow models in this report.

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Buy

Price Target: $38.00
Prior: $39.00

Δ Key Drivers

- *Latest forward commodity curves.*
- *Updated hedge disclosures.*
- *Revised Utility growth assumptions.*

Price (Oct. 26, 2016)	$33.26
52-Wk Range	$37.50-$25.46
Market Cap ($M)	$30,656
ADTV	4,713,840
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	2.2%
Dividend/Yield	$1.27/3.8%
TR to Target	18.1%

ROE	9.0%
5 Year EPS Growth	5.0%
Debt/Cap	55%
P/B	1.10x
Enterprise Value ($M)	$66,461.6

	2016E	2017E		2018E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.68A	$0.66	$0.71	$0.72	$0.76
2Q	$0.65A	$0.63	$0.68	$0.69	$0.73
3Q	$0.91A	$0.88	$0.73	$0.96	$0.78
4Q	$0.41	$0.40	$0.53	$0.44	$0.58
CY	$2.65	$2.57	$2.65	$2.81	$2.85
P/E	12.6x	12.9x		11.8x	
Consensus					
CY	$2.59	$2.61		$2.76	
Revenue ($M)					
CY	$32,345	$34,285	$34,285	$34,780	$34,780
Operating Margin (%)					
CY	14.80%	14.20%	14.10%	15.20%	15.10%
EBITDA ($M)					
CY	$7,945	$8,179	$8,048	$8,743	$8,607
EV/ EBITDA	8.4x	8.1x		7.6x	
FYE Dec					

SunTrust Robinson Humphrey

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Exelon Corporation (EXC)

Earnings Model, 2011A-2018E

(dollars in millions, except per share)

	2018E		2017E		2016E		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)																
Com Ed	5,280		5,150		5,000		4,905		4,564		4,464		5,443		6,056	
PECO	3,515		3,430		3,050		3,032		3,094		3,100		3,186		3,720	
BGE	3,570		3,465		3,380		3,135		3,165		3,065		2,204			
PEPCO	5,370		5,265		3,915											
Generation	18,070		18,000		18,000		18,925		17,853		16,190		15,502		10,502	
Other	(1,025)		(1,025)		(1,000)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,780	1.4%	34,285	6.0%	32,345	10.6%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)																
Com Ed	1,325	25.1%	1,250	24.3%	1,200	24.0%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	765	21.8%	720	21.0%	685	22.5%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	635	17.8%	585	16.9%	550	16.3%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	760	14.2%	645	12.3%	482	12.3%										
Generation	1,828	10.1%	1,702	9.5%	1,901	10.6%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(20)		(23)		(23)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)									(8)		102		59		(1)	
Total Operating Income	5,293	15.2%	4,879	14.2%	4,795	14.8%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,435)		(1,430)		(1,390)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	266		265		265		276		262		238		252		178	
Pretax income	4,124		3,714		3,670		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,402	34.0%	1,263	34.0%	1,211	33.0%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	15		15		15		13		134		14		11			
Equity Income (Loss)					(20)		(7)									
Net Income (% change)	2,707	11.1%	2,436	0.5%	2,424	8.8%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	965.0		947.0		926.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.81	9.3%	$2.57	-3.0%	$2.65	6.4%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items																
Reported GAAP EPS																
EBITDA	8,743		8,179		7,945		6,684		6,242		6,191		6,180		6,177	
ComEd																
Total Retail Sales (millions mwhs)	93.0		93.0		92.0		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$14.2		$13.4		$13.0		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO																
Total Electric Retail Sales (millions mwhs)	39.5		39.5		39.0		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$19.4		$18.2		$17.6		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO																
Total Electric Retail Sales (millions mwhs)	50.0		50.0		38.0											
Implied Operating Margin ($/MWh)	$15.2		$12.9		$12.7											
Generation																
Total Power Sales (millions mwhs)	204.2		204.2		198.5		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mwh)	$9.0		$8.3		$9.6		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment																
Com Ed	590		555		530		432		410		421		381		403	
PECO	460		430		415		380		353		393		387		388	
BGE	335		310		285		277		199		195		46			
Generation	1,112		1,016		1,189		1,253		1,155		1,202		1,548		2,002	
PEPCO	355		275		180											
Other	(145)		(150)		(145)		(115)		(49)		(62)		(32)		(30)	
Total	2,707		2,436		2,454		2,227		2,068		2,149		2,330		2,763	

Note

1) Our PECO Implied Margin ratios factor in the impact of Gas sales.

2) Rate Base - Com Ed: $10.6bn in 2015, $12.2bn in 2016E, $13.0bn in 2017E, $13.6bn in 2018E; PECO: $6.0bn in 2015, $6.3bn in 2016E, $6.9bn in 2017E, $7.3bn in 2018E; BGE: $5.0bn in 2015, $5.2bn in 2016E, $5.8bn in 2017E, $6.2bn in 2018E; PEPCO: $8.4bn in 2016E and $9.1bn in 2017E, $9.5bn in 2018E.

3) Earned ROE - Com Ed: 8.0% in 2015, 8.7% in 2016, 8.5% in 2017, 8.7% in 2018; PECO: 11.7% in 2015, 12.2% in 2016, 11.5% in 2017, 11.7% in 2018; BGE: 10.7% in 2015, 10.5% in 2016, 10.3% in 2017, 10.4% in 2018; PEPCO: 5.7% in 2016, 6.0% in 2017, 7.5% in 2018.

4) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

5) We assume EXC achieves its growth targets for Power and Non Power new business for 2016 onwards.

6) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

7) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

8) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

9) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw, nuclear $110m price) from Q2 2017.

10) We have factored the retirement of Clinton (1069mw) from 6/1/17 and Quad City (1403mw) from 6/1/18.

11) Forward curves as of 10/25/16.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2018E

($ in millions except per share)

	2018E	2017E	2016E	2015A	2014A	2013A	2012A	2011A
Net income	2,707	2,436	2,424	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	5,000	4,925	4,820	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	(125)	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,582	7,236	7,119	7,634	4,457	6,343	6,131	4,853
Dividends	(1,196)	(1,174)	(1,148)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(6,150)	(7,050)	(7,675)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	236	(988)	(1,704)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a P/E multiple of 13.5x our 2018 estimate of $2.81 (in line with the peer group), we derive our price target of $38.

RISKS

- Outlook for forward power prices.

- Timing of upcoming EPA regulations.

- Outcome of pending and future rate cases.

Analyst Certification

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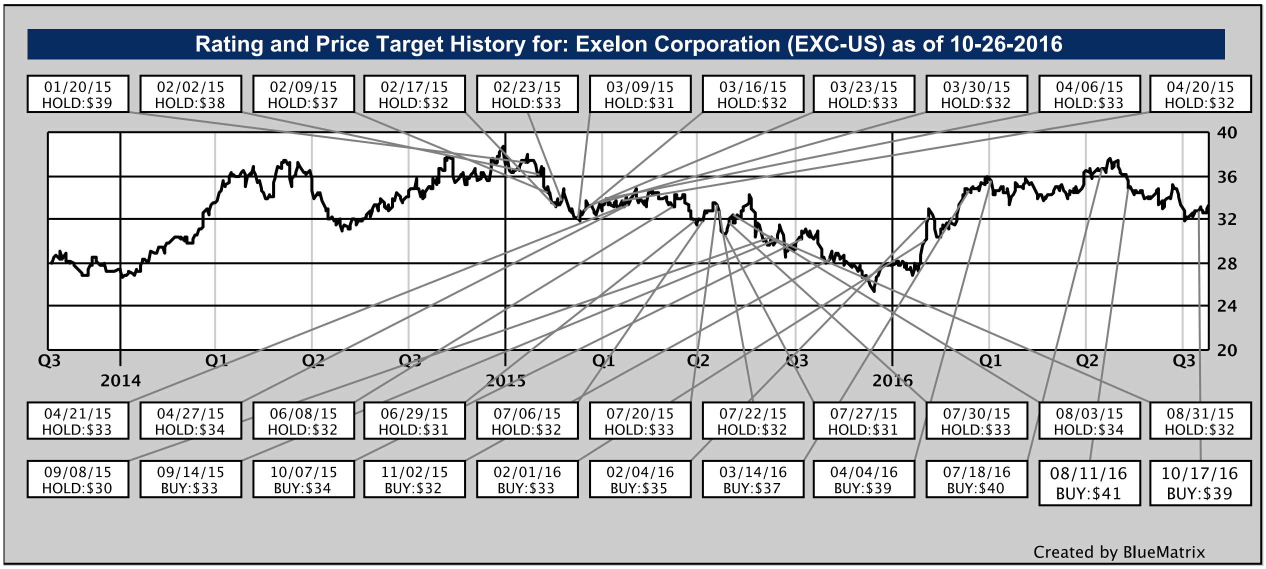
Rating and Price Target History for: Exelon Corporation (EXC-US) as of 10-26-2016

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The prior rating system until Oct. 7, 2016:
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Buy	380	59.10%	Buy	87	22.89%
Hold/Neutral	262	40.75%	Hold/Neutral	44	16.79%
Sell/Reduce	1	0.16%	Sell/Reduce	0	0.00%

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COMPANY UPDATE
August 11, 2016

Exelon Corporation (EXC)

Raising Estimates And Price Target

What's Incremental To Our View

Factoring in updated assumptions, following EXC's investor day, we have raised our 2016-18 estimates. Based on our higher estimates, and latest peer valuations, we have raised our price target to $41 from $40.

IMPORTANT POINTS

Yesterday EXC hosted an investor day. Key takeaways:

- **We are raising our 2016-18 estimates.** Factoring in the announced retirement of two nuclear plants, the implications of the Zero Emission Credit (ZEC) program in New York, the acquisition of the Fitzpatrick (838mw, nuclear) plant, updated hedge disclosures, latest forward commodity curves, and higher return assumptions for the regulated utilities, we have increased our estimates as follows: 2016 to $2.55 from $2.51; 2017 to $2.65 from $2.63; and 2018 to $2.85 from $2.71. Our new 2018 estimate puts us $0.05 above consensus.

- **Our revised estimates could still prove conservative.** We see two areas of potential upside: (1) there is still a possibility that Illinois (like New York) may provide regulatory support for the two nuclear plants that EXC is retiring (we believe the point of no return for the retirement decision is mid December 2016); and (2) our 2017-18 estimates for Pepco still imply $0.11-$0.15 of regulatory lag, leaving further room for upside.

- **Completion of regulatory milestones should provide positive news flow in coming months.** We expect the following upcoming events: (1) completion of the power purchase agreement that locks in the New York ZEC program (expected in the next few weeks); and (2) completion of regulatory approvals for the Fitzpatrick plant acquisition (expected by 1Q 2017).

- **EXC appears attractively priced at a 14% P/E multiple discount to the peer group (based on our 2018 estimate).** Assuming a 14.5x P/E multiple on our 2018 estimate of $2.85 (in line with the peer group), we derive our price target of $41. We reiterate our **Buy** recommendation.

- We have included our revised 2016-18 earnings and cash flow models in this report.

Buy

Price Target: $41.00
Prior: $40.00

Δ Key Drivers

- *Latest forward commodity curves.*
- *Inclusion of New York ZEC program and Fitzpatrick plant acquisition.*
- *Higher return assumptions for the regulated utilities.*

Price (Aug. 10, 2016)	$35.53
52-Wk Range	$37.50-$25.46
Market Cap ($M)	$32,684
ADTV	4,965,610
Shares Out (M)	919.9
Short Interest Ratio/% Of Float	2.1%
Dividend/Yield	$1.27/3.6%
TR to Target	19.0%

ROE	9.0%
5 Year EPS Growth	5.0%
Debt/Cap	55%
P/B	1.20x
Enterprise Value ($M)	$68,492.8

	2016E	2017E		2018E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.68A	$0.71	$0.71	$0.76	$0.73
2Q	$0.65A	$0.68	$0.61	$0.73	$0.63
3Q	$0.70	$0.73	$0.89	$0.78	$0.92
4Q	$0.52	$0.53	$0.42	$0.58	$0.43
CY	$2.55	$2.65	$2.63	$2.85	$2.71
P/E	13.9x	13.4x		12.5x	
Consensus					
CY	$2.55	$2.66		$2.80	
Revenue ($M)					
CY	$32,645	$34,285	$34,285	$34,780	$34,780
Operating Margin (%)					
CY	14.00%	14.10%	14.10%	15.10%	14.60%
EBITDA ($M)					
CY	$7,521	$8,048	$8,031	$8,607	$8,433
EV/ EBITDA	9.1x	8.5x		8.0x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2011A-2018E

(dollars in millions, except per share)

	2018E		2017E		2016E		2015A		2014A		2013A		2012A		2011A	
Revenues (%change)																
Com Ed	5,280		5,150		5,000		4,905		4,564		4,464		5,443		6,056	
PECO	3,515		3,430		3,350		3,032		3,094		3,100		3,186		3,720	
BGE	3,570		3,465		3,380		3,135		3,165		3,065		2,204			
PEPCO	5,370		5,265		3,915											
Generation	18,070		18,000		18,000		18,925		17,853		16,190		15,502		10,502	
Other	(1,025)		(1,025)		(1,000)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,780	1.4%	34,285	5.0%	32,645	11.7%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (%sales)																
Com Ed	1,225	23.2%	1,125	21.8%	1,065	21.3%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	730	20.8%	690	20.1%	655	19.6%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	650	18.2%	610	17.6%	550	16.3%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	710		625		405											
Generation	1,962	10.9%	1,818	10.1%	1,936	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(20)		(25)		(25)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)									(8)		102		59		(1)	
Total Operating Income	5,257	15.1%	4,843	14.1%	4,586	14.0%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,330)		(1,327)		(1,285)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	255		253		250		276		262		238		252		178	
Pretax income	4,182		3,769		3,551		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,422	34.0%	1,244	33.0%	1,172	33.0%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	15		15		15		13		134		14		11			
Equity Income (Loss)							(7)									
Net Income (%change)	2,745	9.4%	2,510	6.2%	2,364	6.2%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	965.0		947.0		926.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (%change)	$2.85	7.5%	$2.65	3.9%	$2.55	2.4%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items																
Reported GAAP EPS																
EBITDA	8,607		8,048		7,521		6,684		6,242		6,191		6,180		6,177	
ComEd																
Total Retail Sales (millions mwhs)	93.0		93.0		92.0		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$13.2		$12.1		$11.6		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO																
Total Electric Retail Sales (millions mwhs)	39.5		39.5		39.0		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$18.5		$17.5		$16.8		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO																
Total Electric Retail Sales (millions mwhs)	50.0		50.0		38.0											
Implied Operating Margin ($/MWh)	$14.2		$12.5		$10.7											
Generation																
Total Power Sales (millions mwhs)	204.2		204.2		198.5		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mwh)	$9.6		$8.9		$9.8		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment																
Com Ed	565		525		490		432		410		421		381		403	
PECO	455		430		395		380		353		393		387		388	
BGE	330		310		270		277		199		195		46			
Generation	1,190		1,094		1,174		1,253		1,155		1,202		1,548		2,002	
PEPCO	350		295		180											
Other	(145)		(144)		(145)		(115)		(49)		(62)		(32)		(30)	
Total	2,745		2,510		2,364		2,227		2,068		2,149		2,330		2,763	

Note

1) Our PECO Implied Margin ratios factor in the impact of Gas sales.

2) Rate Base - Com Ed: $10.6bn in 2015, $12.2bn in 2016E, $13.0bn in 2017E, $13.6bn in 2018E; PECO: $6.0bn in 2015, $6.3bn in 2016E, $6.9bn in 2017E, $7.3bn in 2018E; BGE: $5.0bn in 2015, $5.2bn in 2016E, $5.8bn in 2017E, $6.2bn in 2018E; PEPCO: $8.4bn in 2016E and $9.1bn in 2017E, $9.5bn in 2018E.

3) Earned ROE - Com Ed: 8.0% in 2015, 8.0% in 2016, 8.1% in 2017, 8.3% in 2018; PECO: 11.7% in 2015, 11.6% in 2016, 11.5% in 2017, 11.5% in 2018; BGE: 10.7% in 2015, 10.0% in 2016, 10.3% in 2017, 10.2% in 2018; PEPCO: 5.5% in 2016, 6.5% in 2017, 7.4% in 2018.

4) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

5) We assume EXC achieves its growth targets for Power and Non Power new business for 2016 onwards.

6) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

7) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

8) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

9) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw, nuclear $110m price) from Q2 2017.

10) We have factored the retirement of Clinton (1069mw) from 6/1/17 and Quad City (1403mw) from 6/1/18.

11) Forward curves as of 8/9/16.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2018E

($ in millions except per share)

	2018E	2017E	2016E	2015A	2014A	2013A	2012A	2011A
Net income	2,745	2,510	2,364	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	5,000	4,925	4,820	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	(125)	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,620	7,310	7,059	7,634	4,457	6,343	6,131	4,853
Dividends	(1,196)	(1,174)	(1,148)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(6,150)	(7,050)	(7,675)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	274	(914)	(1,764)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a 14.5x P/E multiple on our 2018 estimate of $2.85 (in line with the peer group), we derive our price target of $41.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending regulatory issues

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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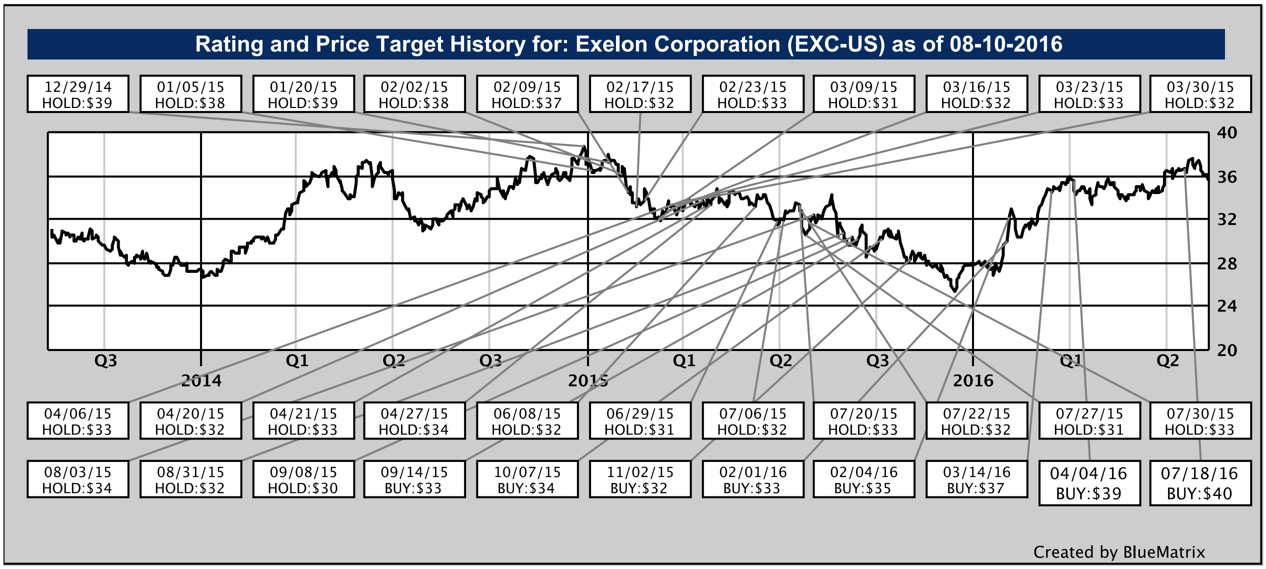

Rating and Price Target History for: Exelon Corporation (EXC-US) as of 08-10-2016

Created by BlueMatrix

STRH Ratings System for Equity Securities

3 designations based on total returns* within a 12-month period**

- **Buy** – total return ≥ 15% (10% for low-Beta securities)***
- **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
- **Neutral** – total return is within the bounds above
- **NR** – NOT RATED, STRH does not provide equity research coverage
- **CS** – Coverage Suspended

*Total return (price appreciation + dividends)
**Price targets are within a 12-month period, unless otherwise noted
***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average Beta

Legend for Rating and Price Target History Charts:
D = drop coverage
I = initiate coverage
T = transfer coverage

SunTrust Robinson Humphrey ratings distribution (as of 08/11/2016):

Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	371	58.15%	Buy	142	38.27%
Neutral	259	40.60%	Neutral	72	27.80%
Sell/Reduce	8	1.25%	Sell/Reduce	1	12.50%

Other Disclosures

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COMPANY
UPDATE
December 2, 2016

SunTrust
Robinson Humphrey

Exelon Corporation (EXC)

Raising Estimates And Price Target To Reflect Illinois Energy Bill Passage

What's Incremental To Our View

Following the passage of the Illinois Energy Bill last night, we are raising our 2017-18 estimates. Based on our higher estimates, and latest peer valuations, we have raised our price target to $39 from $38.

IMPORTANT POINTS

- Late last night the Illinois Legislature passed its Energy Bill, which now goes to the Governor for final approval (which we expect he will sign). The bill goes into effect 6/1/17.

- Factoring in the impact of the bill on two of EXC's nuclear plants (Clinton and Quad City), coupled with the latest forward commodity curves, we have raised our 2017 estimate to $2.64 from $2.57, and our 2018 estimate to $2.92 from $2.81. Our preliminary 2019 estimate is $2.80 - $2.85. Our revised 2017-18 estimates put us well above consensus.

- EXC appears attractively priced at an 18% P/E multiple discount to the peer group (based on our 2018 estimate). Assuming a 13.5x P/E multiple (in line with the peer group) on our 2018 estimate of $2.92, we derive our price target of $39. We reiterate our **Buy** rating.

- We have included our latest 2016-18 earnings and cash flow models in this report.

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Buy

Price Target: $39.00
Prior: $38.00

Δ Key Drivers

- *Passage of the Illinois Energy Bill*
- *Latest forward commodity curves*

Price (Dec. 1, 2016)	$32.17
52-Wk Range	$37.50-$25.46
Market Cap ($M)	$29,651
ADTV	5,453,360
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	2.5%
Dividend/Yield	$1.27/3.9%
TR to Target	25.2%

ROE	9.0%
5 Year EPS Growth	5.0%
Debt/Cap	55%
P/B	1.10x
Enterprise Value ($M)	$65,263.9

	2016E	2017E		2018E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.68A	$0.68	$0.66	$0.75	$0.72
2Q	$0.65A	$0.65	$0.63	$0.72	$0.69
3Q	$0.91A	$0.91	$0.88	$1.00	$0.96
4Q	$0.41	$0.40	$0.40	$0.45	$0.44
CY	$2.65	$2.64	$2.57	$2.92	$2.81
P/E	12.1x	12.2x		11.0x	
Consensus					
CY	$2.67	$2.59		$2.75	
Revenue ($M)					
CY	$32,345	$34,285	$34,285	$34,780	$34,780
Operating Margin (%)					
CY	14.80%	14.50%	14.20%	15.70%	15.20%
EBITDA ($M)					
CY	$7,945	$8,281	$8,179	$8,917	$8,743
EV/ EBITDA	8.2x	7.9x		7.3x	
FYE Dec					

SunTrust Robinson Humphrey

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Exelon Corporation (EXC)

Earnings Model, 2011A-2018E

(dollars in millions, except per share)

	2018E		2017E		2016E		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)																
Com Ed	5,280		5,150		5,000		4,905		4,564		4,464		5,443		6,056	
PECO	3,515		3,430		3,050		3,032		3,094		3,100		3,186		3,720	
BGE	3,570		3,465		3,380		3,135		3,165		3,065		2,204			
PEPCO	5,370		5,265		3,915											
Generation	18,070		18,000		18,000		18,925		17,853		16,190		15,502		10,502	
Other	(1,025)		(1,025)		(1,000)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,780	1.4%	34,285	6.0%	32,345	10.6%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)																
Com Ed	1,325	25.1%	1,250	24.3%	1,200	24.0%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	765	21.8%	720	21.0%	685	22.5%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	635	17.8%	585	16.9%	550	16.3%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	760	14.2%	645	12.3%	482	12.3%										
Generation	2,002	11.1%	1,804	10.0%	1,901	10.6%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(20)		(23)		(23)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)									(8)		102		59		(1)	
Total Operating Income	5,467	15.7%	4,981	14.5%	4,795	14.8%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,435)		(1,430)		(1,390)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	266		265		265		276		262		238		252		178	
Pretax income	4,298		3,816		3,670		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,461	34.0%	1,297	34.0%	1,211	33.0%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	15		15		15		13		134		14		11			
Equity Income (Loss)					(20)		(7)									
Net Income (% change)	2,822	12.7%	2,504	3.3%	2,424	8.8%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	965.0		947.0		926.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.92	10.6%	$2.64	-0.4%	$2.65	6.4%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items																
Reported GAAP EPS																
EBITDA	8,917		8,281		7,945		6,684		6,242		6,191		6,180		6,177	
ComEd																
Total Retail Sales (millions mw hs)	93.0		93.0		92.0		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$14.2		$13.4		$13.0		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO																
Total Electric Retail Sales (millions mw hs)	39.5		39.5		39.0		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$19.4		$18.2		$17.6		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO																
Total Electric Retail Sales (millions mw hs)	50.0		50.0		38.0											
Implied Operating Margin ($/MWh)	$15.2		$12.9		$12.7											
Generation																
Total Pow er Sales (millions mw hs)	204.2		204.2		198.5		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mw h)	$9.8		$8.8		$9.6		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment																
Com Ed	590		555		530		432		410		421		381		403	
PECO	460		430		415		380		353		393		387		388	
BGE	335		310		285		277		199		195		46			
Generation	1,227		1,084		1,189		1,253		1,155		1,202		1,548		2,002	
PEPCO	355		275		180											
Other	(145)		(150)		(145)		(115)		(49)		(62)		(32)		(30)	
Total	2,822		2,504		2,454		2,227		2,068		2,149		2,330		2,763	

Note

1) Our PECO Implied Margin ratios factor in the impact of Gas sales.

2) Rate Base - Com Ed: $10.6bn in 2015, $12.2bn in 2016E, $13.0bn in 2017E, $13.6bn in 2018E; PECO: $6.0bn in 2015, $6.3bn in 2016E, $6.9bn in 2017E, $7.3bn in 2018E;
BGE: $5.0bn in 2015, $5.2bn in 2016E, $5.8bn in 2017E, $6.2bn in 2018E; PEPCO: $8.4bn in 2016E and $9.1bn in 2017E, $9.5bn in 2018E.

3) Earned ROE - Com Ed: 8.0% in 2015, 8.7% in 2016, 8.5% in 2017, 8.7% in 2018; PECO: 11.7% in 2015, 12.2% in 2016, 11.5% in 2017, 11.7% in 2018;
BGE: 10.7% in 2015, 10.5% in 2016, 10.3% in 2017, 10.4% in 2018; PEPCO: 5.7% in 2016, 6.0% in 2017, 7.5% in 2018.

4) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onw ards.

5) We assume EXC achieves its grow th targets for Pow er and Non Pow er new business for 2016 onw ards.

6) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

7) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

8) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forw ard equity sale on 7/14/15).

9) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw , nuclear $110m price) from Q2 2017.

10) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

11) Forw ard curves as of 11/29/16.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2018E

($ in millions except per share)

	2018E	2017E	2016E	2015A	2014A	2013A	2012A	2011A
Net income	2,822	2,504	2,424	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	5,000	4,925	4,820	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	(125)	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,697	7,304	7,119	7,634	4,457	6,343	6,131	4,853
Dividends	(1,196)	(1,174)	(1,148)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(6,150)	(7,050)	(7,675)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	351	(920)	(1,704)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a 13.5x P/E multiple (in line with the peer group) on our 2018 estimate of $2.92, we derive our price target of $39.

RISKS

- Outlook for forward power prices.

- Timing of upcoming EPA regulations.

- Outcome of pending and future rate cases.

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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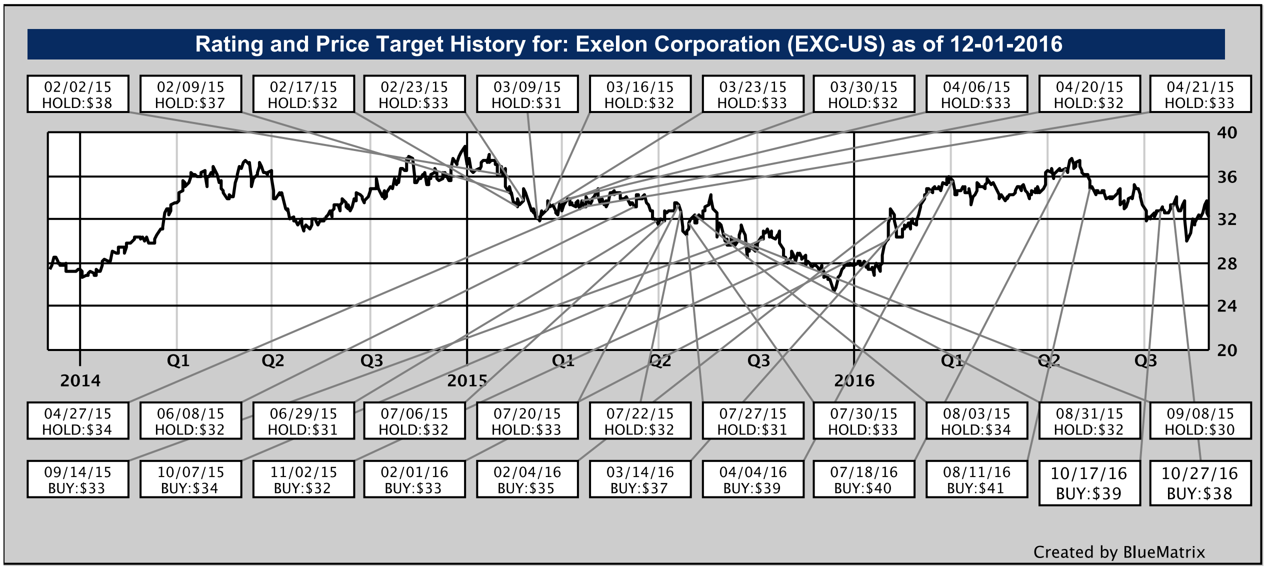

Rating and Price Target History for: Exelon Corporation (EXC-US) as of 12-01-2016

Created by BlueMatrix

STRH Ratings System for Equity Securities

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The prior rating system until Oct. 7, 2016:
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· **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
· **Neutral** – total return is within the bounds above
· **NR** – NOT RATED, STRH does not provide equity research coverage
· **CS** – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Hold/Neutral	266	42.22%	Hold/Neutral	46	17.29%
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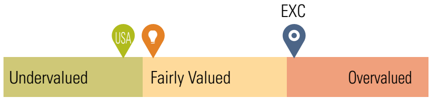
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 07 Nov 2016 06:00, UTC	33.42 USD 07 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.11	3.84 07 Nov 2016	3.81 07 Nov 2016	30.86 07 Nov 2016	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.06	0.88	0.96	0.92
Price/Earnings	24.8	15.4	16.4	20.5
Forward P/E	13.1	—	15.9	14.9
Price/Cash Flow	3.3	5.1	5.8	11.4
Price/Free Cash Flow	40.0	74.7	12.4	17.1
Trailing Dividend Yield%	3.84	4.65	3.54	2.05

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low costs, and generate large profits, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Regulated Utilities Continue Driving Growth for Exelon

Investment Thesis

Travis Miller, Sector Director, 24 March 2016

As the largest nuclear power plant owner in the United States, Exelon has long been a profit machine and an industry-leading source of shareholder value creation. But power prices have crashed hard since their 2008 highs and appear stuck at current levels for at least the next two years, primarily because of cheap gas that has lowered costs for competing generation sources.

That has resulted in a sharp drop in Exelon's returns, a 41% cut in the dividend in 2013, and a shift in strategy to increase contributions from its countercyclical retail supply and regulated distribution businesses. It acquired Constellation Energy in 2012 for $8 billion and Pepco Holdings in 2016 for $12 billion, both including debt. Management's ability to keep the Pepco deal alive through nearly two years of regulatory negotiations shows its commitment to adding more regulated earnings.

Even with increased earnings diversification, Exelon can't escape its overwhelming leverage to Eastern and Midwestern U.S. power prices, which drive almost half of earnings. The low operating costs and clean emission profile of its nuclear fleet make Exelon the utilities sector's biggest winner if our projections for higher power prices and tighter fossil fuel environmental regulations materialize.

Exelon's world-class operating efficiency ensures it can realize that upside. However, persistently low margins are making it difficult to justify continued investment in some of its nuclear plants. Even though we think there is long-term value in these plants, Exelon might choose to close some plants to preserve cash flow. This would reduce Exelon's upside.

We estimate Exelon's regulated distribution utilities will contribute about half of consolidated earnings in 2016, up from just 20% in 2008. Illinois state legislation in 2011 significantly improved the incentives for growth investment by introducing formula rates, annual true-ups, and adjusted allowed returns. We think the regulated utilities can grow 8% annually on average during the next four years.

Analyst Note

Travis Miller, Sector Director, 26 October 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Economic Moat

Travis Miller, Sector Director, 13 April 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	21,187	9,249	24.68	16.50
FirstEnergy Corp FE	USD	14,650	14,934	6.33	0.00
Entergy Corp ETR	USD	12,809	10,952	-2.55	10.00

Nuclear generation in general still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn at least their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 13 April 2016

We are lowering our fair value estimate to $30 per share from $35 after we cut our midcycle Henry Hub natural gas price to $3 per thousand cubic feet from $4/mcf and cut our midcycle power prices by a similar percentage.

The gas price cut is based on a more optimistic volume outlook for low-cost U.S. gas production as a result of slowing declines in associated gas volumes and improved productivity and resource potential from the Marcellus and Utica. We continue to assume a negative $0.60/mcf gas basis for PJM West and heat rates across all regions 10% above current 2017 forward heat rates.

We raised our assumed capacity factors for Exelon's gas generation fleet and retail margins, but those changes were only small offsets to the substantial cut in its nuclear fleet margins. On a consolidated basis, our midcycle earnings estimate fell to $3.10 per share from $3.70. Our midcycle EBITDA estimate at Exelon Generation fell to $2.8 billion from $3.7 billion primarily due to the change in our midcycle commodity price assumptions. This is 50% higher than our 2017 trough mark-to-market EBITDA estimate for Exelon Generation.

We continue to believe it is more likely than not that Exelon will retire the three nuclear plants that did not clear the 2018-19 PJM base capacity auction--Quad Cities, Illinois; Oyster Creek, New Jersey; and Three Mile Island, Pennsylvania--as well as the Clinton, Illinois, plant. We now assume a 50% probability that the Byron, Illinois, plant will retire beyond 2019 after it cleared the 2018-19 capacity auction. These closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term.

We continue to forecast mostly flat consolidated earnings through 2017. Exelon's utilities, excluding Pepco, contribute $1.70 per share by 2019 in our forecasts. We assume the regulated utilities earn 10% returns on equity on average starting in 2018 and increase their rate bases 8% annually on average during 2015-19.

At the retail business, we assume 17% long-term normalized gross margins and volumes that remain near 215 terawatt hours beyond 2016.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 13 April 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk.

Management

Travis Miller, Sector Director, 13 April 2016

We assign Exelon's management team a Standard stewardship rating. We're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. This is the one thing it can control, given the company's sensitivity to big moves in commodity prices.

President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s. Exelon's operational excellence preserves the value-creative opportunities available if power prices rise.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

Crane also faces tough decisions related to flagging profits at several of Exelon's nuclear plants. We wouldn't be surprised if Crane decides to close some plants in the absence of significant public policy support.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Independent Power Producers Stand to Benefit from Supportive PJM Capacity Auction Results.

Andrew Bischof, CFA, Eq. Analyst, 13 May 2016

We are reaffirming our fair value estimates and our moat and moat trend ratings for utilities in the mid-Atlantic region ahead of the 2019-20 PJM Reliability Pricing Model capacity auction. We expect results to be posted May 24.

Since the lower-than-expected New England Forward Capacity Auction clearing, generators have feared a similar outcome in the PJM 2019-20 capacity auction. We believe this fear is unwarranted. We expect the 2019-20 capacity performance to clear at $160 per megawatt-day and base capacity at $150/MW-day. These figures are mostly in line with the 2018-19 results and market consensus. We believe the base auction, which will clear the lowest-quality assets, will continue clearing at a small discount to Capacity Performance because of the high marginal cost of capacity of these assets.

We expect coal and peaking gas will be the marginal capacity sources. Coal plants face higher costs and lower energy revenue, while peaking gas units are facing lower option premiums in fixed-price forwards. We also believe that generators will continue to demand a performance premium associated with potential performance penalty risks in the energy market.

NRG Energy and Dynegy have the most exposure. With depressed margins for coal and nuclear plants, NRG Energy gets most of its value from its $2 billion of pretax contracted and capacity revenue, including $1 billion from PJM. Dynegy's 15 GW of generation in PJM represent 43% of its total fleet after closing its proposed Engie acquisition.

We estimate a $100/MW-day change in capacity prices represents $600 million of pretax earnings and $1.50 per share of value for NRG. For Dynegy, a similar move represents $548 million of pretax earnings and $4 per share of value. Calpine, Exelon, Public Service Enterprise Group and FirstEnergy also have material exposure but much smaller on a proportional basis relative to NRG and Dynegy.

New Generation Capacity Sparks Surprisingly Low PJM Capacity Results

Andrew Bischof, CFA, Eq. Analyst, 24 May 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for utilities with power generation in the Mid-Atlantic region following lower-than-expected PJM capacity auction results. Prices for 2019-20 cleared at $100 per megawatt-day for capacity performance, or CP, and $80/MW-day for base generation, lower than our $160/MW-day CP and $150/MW-day base forecasts.

We expect to cut our 2019-20 earnings forecasts but do not expect it to have a material impact on our fair value estimates since they impact cash flows for just one year. We are reaffirming our long-term capacity price assumptions. Dynegy is the clear loser with 15 GW of generation in PJM. Every $100/MW-day change in capacity prices represents $548 million of pretax earnings in our forecast. We plan to cut NRG Energy's 2019-20 cash flow forecast by $37 million, or 5%, based on the results. Bearish capacity prices hurt Calpine and FirstEnergy to a lesser extent.

We think new power plant developers might have driven prices lower assuming PJM capacity prices will remain strong for many years. The auction cleared 5.4 gigawatts of new combined-cycle gas generation, well above our expectations and bearish for capacity and energy prices. Demand response cleared the least capacity in at least five years, a slightly bullish indicator.

Results were mostly neutral for Exelon with premium prices in Northern Illinois offsetting the weaker Mid-Atlantic prices. We expect the Quad Cities nuclear plant likely did not clear and will shut in 2018 since it did not clear at higher prices last year. We assume it closes in 2018. The Byron nuclear plant, which we give a 50% probability of closing, likely did clear and will run at least through mid-2020.

Premium prices in New Jersey also demonstrate the competitive advantage of Public Service Enterprise Group's fleet, a key part of our narrow moat and positive moat trend ratings.

Exelon to Close Clinton, Quad Cities Nuclear Plants--for Real

Travis Miller, Sector Director, 02 June 2016

After threatening for several years to close its Clinton and Quad Cities nuclear plants in Illinois, Exelon management

finally announced it will begin making plans to pull the plug. We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating. We already assumed these plants would close in 2017-18.

Although the plants likely won't stop operating until June 2017 for Clinton and June 2018 for Quad Cities, management said it plans no more maintenance investment, will make the relevant regulatory filings, and will begin planning for shutdowns. Management has continually postponed its decision, but we consider these steps irreversible even if the market outlook changes sharply in the next year.

Exelon's decision-making delay cost shareholders some $800 million of losses during the last seven years, according to management's calculations and consistent with our estimates. Other utilities have been much faster to close uneconomic plants, preserving shareholder value. We believe Exelon's stock price long has incorporated the assumption that those plants would close. Shareholders might realize some tax savings related to accelerated depreciation during the next two years but also will have to pay for any decommissioning costs above the funds Exelon already has reserved. We expect neither will have an impact on our fair value estimate.

The decision is no surprise following two developments in the past few weeks that we and many others have expected for a long time. First, Illinois legislators failed to pass the state energy reform bill that Exelon had championed. Second, Quad Cities failed to clear the 2019-20 PJM capacity auction last month. It didn't clear the 2018-19 auction last year and we didn't expect it to clear this year's auction.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

Travis Miller, Sector Director, 09 August 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Regulated Utilities Continue Driving Growth for Exelon

Travis Miller, Sector Director, 26 October 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon

goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Exelon Corp EXC ★★Q 07 Nov 2016 02:00 UTC

Last Close	Fair Value^Q	Market Cap	Sector	Industry	Country of Domicile
07 Nov 2016 33.42	07 Nov 2016 02:00 UTC 31.40	07 Nov 2016 30,181.7 Mil	Utilities	Utilities - Diversified	USA United States

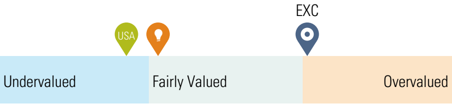
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

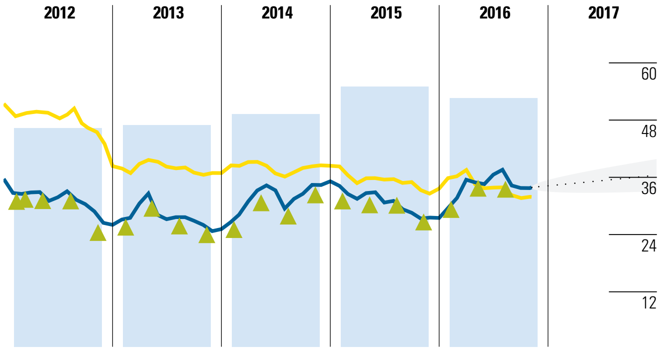
Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	78	71	78
Valuation	Overvalued	17	21	24
Quantitative Uncertainty	Low	100	95	98
Financial Health	Moderate	61	57	61



Source: Morningstar Equity Research

Price vs. Quantitative Fair Value



━ Quantitative Fair Value Estimate
━ Total Return
▨ Sales/Share
◁ Forecast Range
⋯ Forcasted Price
▲ Dividend
△ Split

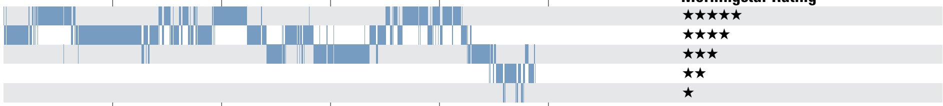
Momentum:	Neutral
Standard Deviation:	19.83
Liquidity:	High

25.09 52-Wk 37.70

25.09 5-Yr 45.45

2012	2013	2014	2015	2016	2017	
-26.6	-3.0	39.9	-21.8	23.8		Total Return %
-42.9	-36.1	27.1	-22.5	19.9		+/– Market (Morningstar US Index)
5.30	5.31	3.34	4.47	—		Trailing Dividend Yield %
—	—	—	—	3.84		Forward Dividend Yield %
21.0	14.6	15.2	12.4	24.8		Price/Earnings
1.0	0.9	1.2	0.8	1.0		Price/Revenue

Morningstar Rating^Q



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.06	0.88	0.96	0.92
Price/Earnings	24.8	15.4	16.4	20.5
Forward P/E	13.1	—	15.9	14.9
Price/Cash Flow	3.3	5.1	5.8	11.4
Price/Free Cash Flow	40.0	74.7	12.4	17.1
Trailing Dividend Yield %	3.84	4.65	3.54	2.05
Price/Book	1.2	1.5	1.3	2.2
Price/Sales	1.0	1.2	1.3	1.9

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.8	9.7	9.2	12.0
Return on Assets %	1.2	2.6	3.3	4.7
Revenue/Employee (Mil)	1.0	1.0	1.2	0.3

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	625.3	582.7
Assets/Equity	3.7	3.7	2.7	1.7
Long-Term Debt/Equity	0.9	0.9	0.7	0.3

2011	2012	2013	2014	2015	TTM	**Financials** (Fiscal Year in Mil)
18,924	23,489	24,888	27,429	29,447	30,187	Revenue
1.5	24.1	6.0	10.2	7.4	2.5	% Change
4,480	2,380	3,656	3,096	4,409	3,107	Operating Income
-5.2	-46.9	53.6	-15.3	42.4	-29.5	% Change
2,495	1,160	1,719	1,623	2,269	1,240	Net Income
4,853	6,131	6,343	4,457	7,616	9,305	Operating Cash Flow
-4,042	-5,810	-5,395	-6,077	-7,624	-8,549	Capital Spending
811	321	948	-1,620	-8	756	Free Cash Flow
4.3	1.4	3.8	-5.9	0.0	2.5	% Sales
3.75	1.42	2.00	1.88	2.54	1.32	EPS
-3.1	-62.1	40.8	-6.0	35.1	-48.0	% Change
0.20	0.39	0.48	-0.03	-1.04	0.82	Free Cash Flow/Share
2.10	2.10	1.46	1.24	1.24	1.26	Dividends/Share
21.65	25.07	25.51	27.44	28.01	28.19	Book Value/Share
855,000	857,000	860,000	920,000	923,270	923,270	Shares Outstanding (K)
						Profitability
17.9	6.5	7.8	7.2	9.4	4.8	Return on Equity %
4.7	1.7	2.2	2.0	2.5	1.2	Return on Assets %
13.2	4.9	6.9	5.9	7.7	4.1	Net Margin %
0.35	0.35	0.31	0.33	0.32	0.29	Asset Turnover
3.8	3.7	3.5	3.8	3.7	4.4	Financial Leverage
62.3	56.8	56.9	52.6	55.6	59.1	Gross Margin %
23.7	10.1	14.7	11.3	15.0	10.3	Operating Margin %
12,189	18,346	18,271	20,010	24,286	32,972	Long-Term Debt
14,385	21,624	22,925	22,801	25,793	26,027	Total Equity
0.6	0.6	0.5	0.6	0.5	0.5	Fixed Asset Turns

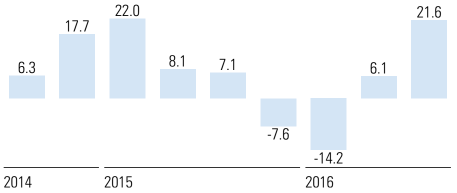
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.4	7.8	9.6	6.7
Operating Income %	42.4	22.9	-1.4	4.9
Earnings %	35.1	21.4	-8.1	6.1
Dividends %	0.0	-16.1	-10.0	-2.5
Book Value %	6.7	3.8	6.5	7.4
Stock Total Return %	23.4	9.2	-1.8	-1.6

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	—	—
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	—	—
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

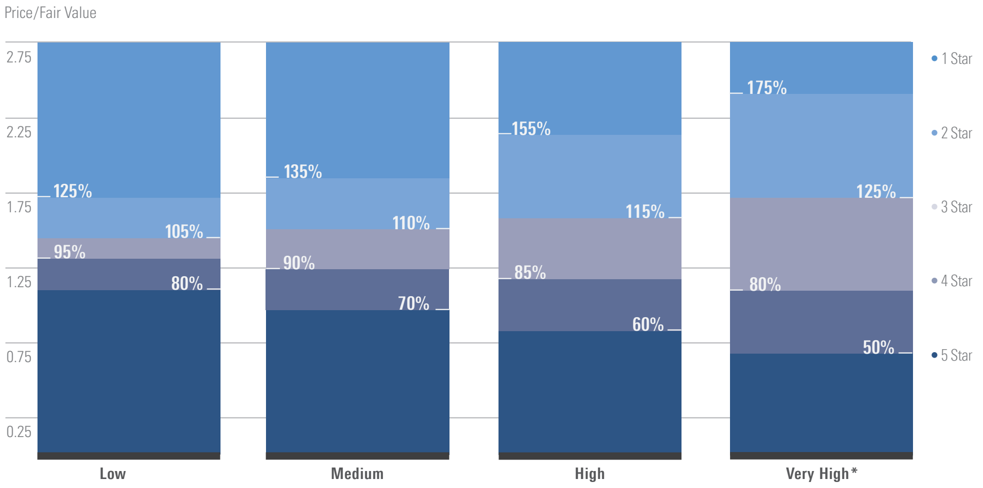
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ▶**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ▶**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ▶**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ▶**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ▶**Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ▶**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ▶**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ▶**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ▶**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ▶**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ▶**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit www.corporate.morningstar.com.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 07 Nov 2016 06:00, UTC	33.42 USD 07 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.11	3.84 07 Nov 2016	3.81 07 Nov 2016	30.86 07 Nov 2016	Utilities - Diversified	Standard

Price/Fair Value Morningstar data as of Nov 07, 2016

General Qualitative Disclosure

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 07 Nov 2016 06:00, UTC	33.42 USD 07 Nov 2016	30.00 USD 13 Apr 2016 22:11, UTC	1.11	3.84 07 Nov 2016	3.81 07 Nov 2016	30.86 07 Nov 2016	Utilities - Diversified	Standard

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Exelon Corp EXC (XNYS)

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Citi Research
Equities

26 Oct 2016 13:08:54 ET | 8 pages

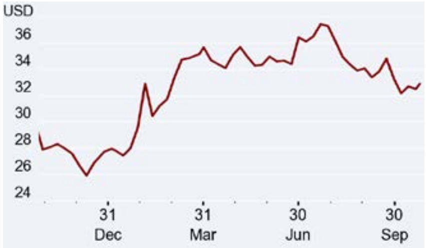
Diversified Utilities
North America | United States

Exelon Corp (EXC)

Results: ExGen Margins Declining; We think ZECs NOT = RECs. Reiterate Sell Rating.

Sell	3
Price (25 Oct 16)	US$32.90
Target price	US$27.00
Expected share price return	-17.9%
Expected dividend yield	3.9%
Expected total return	-14.1%
Market Cap	US$30,363M

Price Performance
(RIC: EXC.N, BB: EXC US)



- **Citi's Take — Good 3Q16 Results above guidance and Citi's estimates.** EXC reported 3Q16 EPS of $0.91/share on an adjusted basis vs. Citi's estimates of $0.72/share. Favorable weather as well as lower O&M helped utilities' business, while solid performance at retail contributed to strong quarter at ExGen.
- **2016 Full-year guidance increased.** EXC has increased 2016 full-year operating EPS range guidance to $2.55-2.75/share vs. initial guidance of $2.40-2.70/share on the back of strong YTD utility performance. ExGen guidance unchanged.
- **We focus on ExGen as it continues to be the key marginal driver of value.**
- **2019 Commodity Margin at $6.8B, almost $1B lower than 2016.** Management indicated that low power market liquidity and uneconomic plants drive down pricing. We think power prices continue to stay challenged as old coal and nuclear units are replaced by renewables and gas plants.
- **So it comes back to the bailout programs. ZECs not the same as RECs.** It is clear that many nuclear plants only survive with some form of bailout given their high cash cost of generation $30-$35/MWh. We think ZECs are different from RECs because the criteria to qualify for ZECs is that the plant isn't adequately compensated in the FERC regulated wholesale power markets. By making plant economics a criteria to qualify for ZECs (to keep plants like IP2/3 out), ZECs by definition are 'tethered' to power markets. The annual adders of ZECs are also tethered to capacity markets. This fact pattern goes against the Supreme Court ruling in Hughes vs. Talen and why we believe ZEC will be cancelled.
- **Implications** — Differing views on EXC TP primarily driven by views on ExGen. Our valuation of ExGen is $6/share because we use a 5.5x EBITDA multiple to value ExGen reflecting a ~15yr asset life. Without a bailout and higher renewables, penetration, nuclear assets will continue to be challenged.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.71A	0.59A	0.83A	0.38A	2.49A	2.49A
2016E	0.68A	0.65A	0.72E	0.48E	2.53E	2.58E
Previous	0.68A	0.65A	0.72E	0.48E	2.53E	na
2017E	na	na	na	na	2.59E	2.62E
Previous	na	na	na	na	2.59E	na
2018E	na	na	na	na	2.69E	2.77E
Previous	na	na	na	na	2.69E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $27 target. We value ExGen at $6/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $21/share based on a 16x terminal PE multiple. We also add $6/share value provided by PEPCO. We back out $6/share for the parent to get to our price target

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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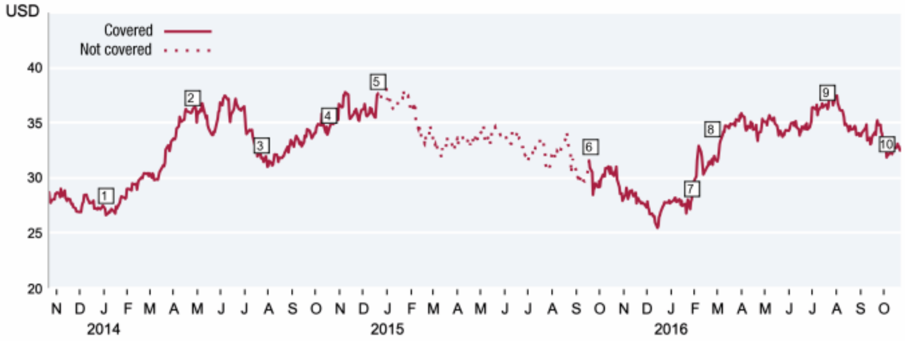
Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	02-Jan-14 21:22:43	*3	*21.00	27.17
2	24-Apr-14 05:02:25	3	*27.00	36.01
3	22-Jul-14 20:24:08	3	*30.00	31.78
4	17-Oct-14 03:01:08	*2	*37.00	34.38
5	18-Dec-14 16:46:48	Coverage terminated		
6	17-Sep-15 16:01:15	*3	*27.00	31.57
7	26-Jan-16 17:07:46	*2	27.00	27.84
8	22-Feb-16 16:00:00	*3	27.00	31.69
9	19-Jul-16 23:43:46	3	*29.00	36.58
10	04-Oct-16 03:14:34	3	*27.00	31.86

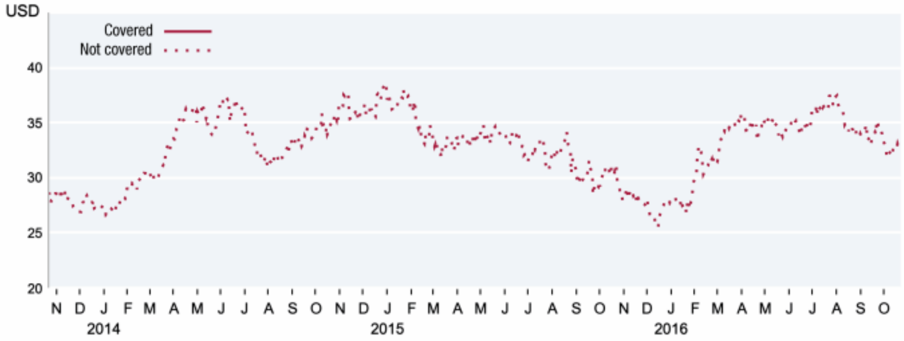
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



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Data current as of 30 Sep 2016	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	66%	61%	60%	0%	64%	0%

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COMPANY NOTE

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October 27, 2016

Jefferies

Exelon (EXC)

Strong 3Q Results but Weak Commodity Lowers Out Year Estimates

BUY
Price target $37.00
(from $36.00)
Price $33.26^

Key Takeaway

Exelon reported strong 3Q EPS of $0.91 versus our estimate $0.85 and Consensus of $0.79. Management provided an update of hedge disclosures for ExGen which highlighted a continued deterioration of power prices. Management announced incremental ExGen O&M savings for $100M-$125M in 2018-19. We continue to believe EXC is the best way to invest in power.

Exelon operating EPS was $0.91 on a diluted basis, versus $0.83 for the same period a year ago, our estimate of $0.85, and Consensus of $0.79. The year-over-year improvement was driven by increased earnings at the regulated utilities, particularly PHI, offset by a decline at ExGen.

Exelon increased its 2016 earnings guidance to $2.55-$2.75 versus a previous range of $2.40-$2.70 (Street at $2.57). Drivers for the increase are better than expected results at the company's regulated utilities. Sector guidance is $1.20-$1.30 ExGen, $0.55-$0.65 ComEd, $0.40-$0.50 PECO, $0.25-$0.35 from BGE, and $0.15-$0.25 for PHI.

Purchase of Fitzpatrick plant. Management is continuing with the transaction and is expecting NYPSC and FERC approval in November and NRC approval in 1Q17. The unit is scheduled for a refueling in 2017 and at that time Exelon will effectively be the owner of the plant regardless of what happens with New York's plan to award upstate nuclear operators with Zero Emission Credit (ZEC) revenues. Exelon estimates the ZEC revenues would add $0.02-$0.08 to earnings.

The company is expecting a 4Q16 decision in the ComEd Distribution Formula Rate case. Back in April the utility filed for a $138 million rate increase based off an 8.64% ROE and 46% equity ratio.

We are lowering our 2017-18 EPS estimates by $0.10 to $2.50 and $2.75; respectively. Our revised estimates reflect ExGen's updated hedging information and the company's new O&M savings program (2018).

Valuation/Risks

Our $37.00 price target is based on P/E analysis. Taking our 2019 EPS estimate of $2.65 in conjunction with a P/E group average multiple of 13.9x results in a price target of $37.00. Based on yesterday's closing price of $33.26 this would result in a 12-month price appreciation potential of 11.2% and total return potential of 15.0% including the current yield of 3.8%. **Risks** –Risks include exposure to change in the commodity price for electricity associated with Exelon's merchant generation business, and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	**2015A**	*Prev.*	**2016E**	*Prev.*	**2017E**	*Prev.*	**2018E**
Cons. EPS Diluted	--	2.51	*2.56*	2.57	*2.63*	2.62	*2.80*	2.77
EPS								
Mar	--	0.71	--	0.68A	--	--	--	--
Jun	--	0.59	--	0.65A	--	--	--	--
Sep	--	0.83	*0.85*	0.91	--	--	--	--
Dec	--	0.38	*0.40*	0.45	--	--	--	--
FY Dec	--	2.51	*2.60*	2.70	*2.60*	2.50	*2.85*	2.75
FY P/E		13.3x		12.3x		13.3x		12.1x

Financial Summary

Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	3.8%

Market Data

52 Week Range:	$37.70 - $25.09
Total Entprs. Value (MM):	$44,827.8
Market Cap. (MM):	$30,798.8
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	926.0
Float (MM):	920.1
Avg. Daily Vol.:	4,696,272

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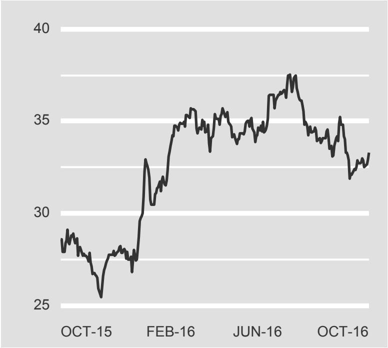

^Prior trading day's closing price unless otherwise noted.

Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation. For investors looking for merchant exposure we believe EXC is the best way to play power.

Exelon operating EPS was $0.91 on a diluted basis, versus $0.83 for the same period a year ago, our estimate of $0.85, and Consensus of $0.79. The year-over-year improvement was driven by increased earnings at the regulated utilities, particularly PHI, offset by a decline at ExGen.

Exelon increased its 2016 earnings guidance to $2.55-$2.75 versus a previous range of $2.40-$2.70 (Street at $2.57). Drivers for the increase are better than expected results at the company's regulated utilities. Sector guidance is $1.20-$1.30 ExGen, $0.55-$0.65 ComEd, $0.40-$0.50 PECO, $0.25-$0.35 from BGE, and $0.15-$0.25 for PHI.

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The company is expecting a 4Q16 decision in the ComEd Distribution Formula Rate case. Back in April the utility filed for a $138 million rate increase based off an 8.64% ROE and 46% equity ratio.

Settlement approved in Atlantic City Electric for $45 million based on a 9.75% ROE. In August the NJ BPU adopted a settlement that calls for a $45 million rate increased predicated on a 9.75% ROE and 49.5% equity ratio. This compares to the utility's request of an $84.4 million increase and a 10.6% ROE.

3Q16 operating EPS excludes $0.38 of non-recurring losses as follows: a $0.22 gain related to accelerated depreciation and amortization expense from the decision to retire Quad Cities and Clinton, a $0.21 charge due to the recognition of a recent court decision associated with Exelon's like-kind exchange tax position, a $0.06 market to market gain associated with the impact of economic hedging activities, a $0.07 gain associated with nuclear decommission trust, a $0.01 loss associated with the amortization of commodity contract intangibles, a $0.01 charge related to merger and integration costs, a $0.01 loss due to merger commitments, a $0.01 charge associated with generation impairment, a $0.01 charge related to a cost management program, and a $0.03 loss due to CENG non-controlling interest. 3Q15 earnings exclude $0.14 of non-recurring losses primarily associated with NDT gains.

Commonwealth Edison (CWE) earnings improved by $0.03 to $0.20 on a year-over-year comparison. Increased capital investment and favorable weather was slightly offset by a decline in ROE. Gross margin increased 5.8% to $1,043 million reflecting increased electric distribution earnings from the impact of greater capital investment. Retail sales increased 7.0%, or 0.9% on a weather-adjusted projection, during the quarter due to beneficial weather. Cooling degree days were up 32.5% relative to the same period last year and 37.0% greater than normal. The company estimates the beneficial impact of weather relative to last year to be $0.02.

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Operating income increased 17.9% to $389 million due to greater gross margin reflecting the impact of increased capital investment. Operating and maintenance expense declined 6.0% to $377 million which was partially offset by an 11.4% to $196 million increase in depreciation expense due to greater net plant. Earnings increased 23.2% to $186 million driven primarily by higher operating income, offset by greater interest expense. The effective tax rate for the quarter was 38.6% versus 39.8% last year.

PECO earnings increased by $0.03 to $0.10 due to new electric rates. The principal drivers for the year-over-year change were new electric rate ($0.02) and beneficial weather ($0.02) partly offset by greater O&M expenses ($0.01). Gross margin grew by 35.2% to $123 million due to new electric rates at PECO. Electric sales versus 3Q15 grew 5.1% but decreased 0.4% on a weather adjusted basis. Gas sales declined 2.6% as compared to 3Q15 and were down 3.0% on a weather-adjusted basis. Cooling degree days increased 8.6% versus 3Q15 and 38.6% relative to normal. Operating Income improved by 32.9% to $206 million due to greater gross margin. Operating and maintenance expense rose $197 million and depreciation expense declined by 1.5% to $67 million. Earnings increased by 35.2% to $123 million due to greater operating income partly offset by increased tax expense. The effective tax rate during the quarter was 30.9% versus 28.9% last year.

BGE earnings were unchanged at $0.06 during the quarter. The benefit from higher rates was offset by increased O&M and depreciation expenses. Gross margin grew by 9.2% to $452 million based on higher rates.

Operating income increased 4.5% to $116 million reflecting greater gross margin partially offset by higher operating expenses. Operating and maintenance expense increased 6.0% to $177 million and depreciation expense rose 27.8% to $101 million driven by higher amortization due to the initiation of costs recovery of the AMI programs. Earnings improved 5.8% to $55 million due to greater operating margin. The effective tax rate during the quarter was 39.6% versus 40.9% last year.

PHI earnings added $0.14 to the quarterly improvement with no contribution in 2015. The company closed on the PHI transaction earlier this year and is guiding to 2016 EPS contribution of $0.15-$0.25 which was increased from a previous range of $0.10-$0.20.

Earnings at Exelon Generation decreased $0.14 to $0.41 during the quarter mainly due to lower capacity prices and higher nuclear decommissioning amortization expense. Gross margin improved slightly by 0.6% to $2,407 million which was driven by increased production offset by lower capacity prices. Nuclear generation increased 5.3% to 44.7 million MWh with NY nuclear production improving 14.5% and Mid-Atlantic/Mid-West output increasing 4.3%. Operating income declined 15.5% to $647 million driven by higher O&M and greater depreciation expense. O&M expense increased 7.3% to $1,330 million. Depreciation expense grew by 11.4% to $294 million due to increased nuclear decommissioning amortization. Net income decreased by 24.6% to $376 million driven by lower operating income partially offset by greater Other income. Other income grew by 82% to $40 million. The effective tax rate during the quarter was 36.5% versus 29.4% in 3Q15. Dilution impacted the quarter by $0.01.

The company's Other business segment improved by $0.01 to a loss of ($0.03).

We are increasing our 2016 EPS estimate by $0.10 to $2.70 reflecting the strong 3Q16 performance and an update of our forecast model. Our revised estimate is at the high-end of management's updated guidance of $2.55-$2.75

We are lowering our 2017-18 EPS estimates by $0.10 to $2.50 and $2.75; respectively. Our revised estimates reflect ExGen's updated hedging information and the company's new O&M savings program (2018).

We are maintaining our 2019 EPS estimate of $2.65 which reflects updated hedging information and $125 million of O&M expense savings.

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Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2015A	2016E	2017E	2018E	2019E
PECO	$639	$789	$807	$825	$841
CWE	1,046	1,237	1,371	1,386	1,392
BGE	580	573	587	635	672
PEPCO		321	384	462	515
DPL		187	209	262	295
ACE		142	155	194	189
Adjustment					
Energy Delivery	**2,265**	**3,248**	**3,513**	**3,764**	**3,905**
Genco	2,176	2,321	1,769	1,894	1,631
Corporate	(8)	(8)	(8)	(8)	(8)
Earnings on Cash	105		63	42	39
Reconcile	68	(130)		(20)	(20)
EBIT	**$4,606**	**$5,431**	**$5,337**	**$5,673**	**$5,546**
EBITDA	$5,895	$7,721	$7,745	$8,024	$7,946
MIPS Obligation	0	0	0	0	0
Capitalized Interest	0	0	0	0	0
Long-Term Interest Expense		(1,674)	(1,786)	(1,690)	(1,687)
Income Before Taxes	**$3,508**	**$3,756**	**$3,551**	**$3,982**	**$3,859**
Income Taxes	(1,215)	(1,291)	(1,224)	(1,367)	(1,327)
Minority Interest/preferred	(13)	(13)	(13)	(13)	(13)
Wind PTC	50	51	52	53	53
Net Income	**$2,330**	**$2,504**	**$2,366**	**$2,655**	**$2,573**
Preferred Dividends					
Earnings for Common	**$2,330**	**$2,504**	**$2,366**	**$2,655**	**$2,573**
Non-Recurring Items					
Merger Cost to Achieve	0	0	0	0	0
Total Non-Recurring	(100)	0	0	0	0
Reported Earnings	2,230	2,504	2,366	2,655	2,573
Earnings Per Share	**$2.51**	**$2.70**	**$2.50**	**$2.75**	**$2.65**

Source: Jefferies estimates, company data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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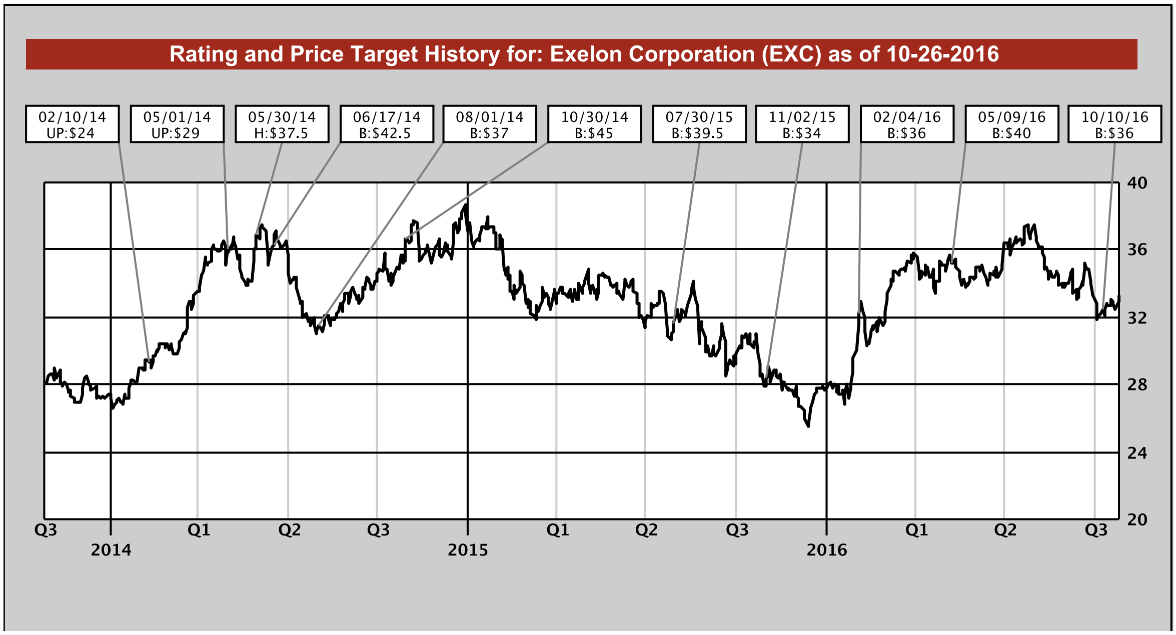
- Consolidated Edison Inc. (ED: $73.88, BUY)
- Entergy Corporation (ETR: $72.28, HOLD)
- Exelon Corporation (EXC: $33.26, BUY)
- FirstEnergy Corp. (FE: $33.96, HOLD)
- PPL Corp. (PPL: $33.84, HOLD)
- Public Service Enterprise Group Inc. (PEG: $41.22, HOLD)



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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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HOLD	859	40.31%	167	19.44%
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EXC | $34.16

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Tax Court Decision A Modest Negative As Financing Plan Had Assumed Paying A Penalty, But Not Quite As Steep

This doesn't materially change the value proposition. Rating Buy, Target $40.

EXC Loses A Tax Court Case Related To A 1999 SILO Lease Transaction, Will Pay +/-$1.1bn To IRS: On 9/19 a United States Tax court ruled against EXC in a case regarding a tax position they took on their 1999 income tax return to defer approximately $1.2 billion of tax gain on the sale of ComEds fossil generating assets. The Internal Revenue Service (IRS) disagreed with this position and asserted that the entire gain of approximately $1.2 billion was taxable in 1999. The IRS asserted that the Exelon purchase and leaseback transaction was substantially similar to a SILO lease transaction which the IRS does not respect as the acquisition of an ownership interest in property. The IRS also asserted a penalty of approximately $90 million for a substantial understatement of tax. While EXC is going to appeal, they will still have to pay the IRS, with the tax and after-tax interest, exclusive of penalties as much as $870 million. In addition, if the penalty ruling stands, the amount of penalties and after-tax interest that would be due is approximately $190 million. So the total amount approaches $1.1bn.

The EXC 2016 Financing Plan Assumed A Payment of approximately $800mm. So the "damage" is $250mm or +/-$0.25/share. This exposure had been disclosed in EXC's 10K/10Q's and the company had a non-cash reserve of $800mm against losing in tax court on this issue. They did not contemplate penalties. As we said above they are going to appeal this ruling, but have to pay it in the interim. We reviewed the impact of this decision with EXC and they indicated that the 2016 financing plan laid out at their analyst day contemplated an $800mm payment to the IRS funded by debt issuance. So the impact of losing this case and imposition of penalties is a $300mm drag on the cash flow forecast over the forecast period. Also recall that their cash flow forecast did NOT include $750m of cash flow from approval of the NY ZEC deal and repayment to EXC of a loan from their nuke JV partner EDF.

Our '16 / '17 / '18 EPS forecast is $2.60 / $2.70 / $2.90. Rating Buy, Target $40/Share based on 8/3/16 forward power curves. On a MTM basis we would be a bit lower as ATC power pricing has come off a bit since then. However, we still believe the assumptions driving EXC's view of the earnings growth drivers in its core utilities business and Exelon Generation (ExGen) as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management and find are wholly credible, taking in to account the +/-$250mm impact of this decision vs. their base plan. The core utilities are forecast to grow rate base at 6% from '16-20, with earnings growth of 7-9% due to the assumption of improved earned ROE's at recently acquired POM. With rate cases pending at most of the PHI companies and the ability to harvest operating synergies we see a turnaround similar to the one EXC engineered at BG&E after the CEG acquisition as feasible. So, there is line of sight for EPS at EXC's utilities (ex-parent overheads) growing from $1.35 in FY '16 to $1.85 in 2020, consistent with our prior expectations. At ExGen, our forecast assumes $0.10/share uplift by FY '18 from passage of the NY Zero Emissions Credit (ZEC) program and our estimate of $.05/share of uplift from recently announced Fitzpatrick plant acquisition from ETR. The impact of the closing of the Clinton and Quad Cities power plants is $0.07 accretive to EPS with a $75mm improvement to cash flow but won't fully hit the P&L until FY 2019. From a cash flow perspective we now see ExGen producing $3.1bn of free cash flow through FY '18 down from $3.4bn, ~53% of the $6.3 billion they are targeting through 2020 ($5.6bn base case plus $750mm from the NY ZEC deal and repayment of a loan to their nuke JV partner EDF), with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. ExGen debt/EBITDA, currently at ~3.4X, should fall to at 3X over the forecast period after adding $300mm to account for the above mentioned tax court decision. On the subject of the dividend, they are committed to 2.5% growth through 2018 but are confident the financial profile supports at least that level of growth through 2020. Investors obviously "wear" commodity price risk at ExGen and 2019 EPS are likely lower at ExGen due to a fall-off in capacity prices at current power forwards (on the margin we calculate that headwind is currently $0.10/share net of $0.07 of improvement from shutting Quad and Clinton, or $200mm of EBITDA). So while the story is not perfect at the current share price the value proposition looks quite compelling.

Our price target remains $40, maintaining BUY rating. Our forecast for utility EPS contribution minus parent overheads (+/-$0.15) is $1.35/share which by 2018 we expect to be $1.70 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to $1.85. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth $29.50/share in our view (17.3X '18 EPS, an average multiple). That implies ExGen is worth only +/-$4.50/share today, which is around 4X '18 EPS or 4.2X '18 EV/EBITDA and an unlevered free cash flow yield to EV of 18% with debt/EBITDA at YE '18 of 3X. To put it more succinctly, EXC is trading at +/-12X overall FY '18 earnings and a 3.5% dividend yield while pure regulated names are at 17.3X and yields averaging 3%. While the dividend growth commitment of 2.5% annually is lower than that articulated by purely regulated peers and '19 EPS and EBITDA at ExGen should moderate (we estimated those numbers above at $0.10/share / $200mm of EBITDA) the balance sheet will also shrink. Our view is that the overall valuation gap is just too high.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of regulation to bolster the revenue stream of the NY nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in NY to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: September 20, 2016, 11:49 ET.

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Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

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Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%

Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

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Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

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Evercore ISI ratings distribution (as of 09/20/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	305	48%
Hold	279	44%
Sell	28	4%
Coverage Suspended	11	2%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

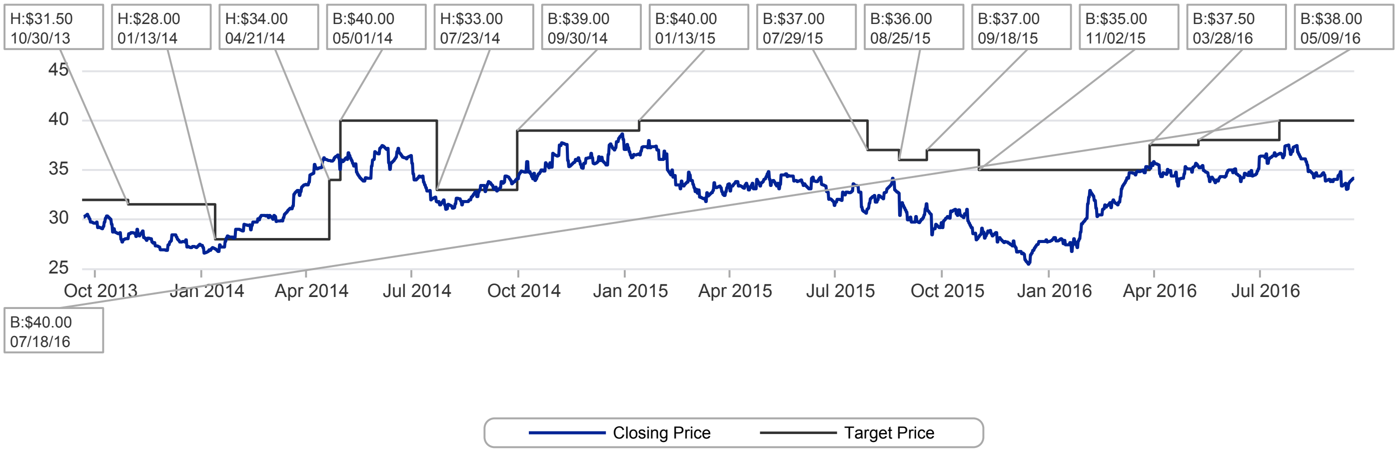
Rating	Count	Pct.
Buy	45	15%
Hold	16	6%
Sell	2	7%
Coverage Suspended	1	9%
Rating Suspended	1	12%

Issuer-Specific Disclosures (as of September 20, 2016)

Price Charts

Exelon Corp. Rating History as of 09/19/2016

powered by: BlueMatrix



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COMPANY NOTE

Target | Estimate Change

USA | Energy | Electric Utilities

October 10, 2016

Jefferies

EQUITY RESEARCH AMERICAS

Exelon (EXC)

The Best Way to Invest in Power

BUY

Price target $36.00
(from $40.00)
Price $32.06^

Key Takeaway

Following an update of our forecast model we believe Exelon is the best way to safely invest in merchant generation. While the recovery in power prices may take time, Exelon gives investors a strong and improving balance sheet, optionality on the Clean Power Plan/ZECs, and a growing base of regulated earnings. We find Exelon's merchant business trading at less than $5/sh on 2019 EV/EBITDA and at less than 4x is the cheapest merchant stock in the sector.

At 32,700 MW investors get significant upside to power and natural gas prices. Our forecast assumes no changes in prices from 2018-19 but for every $5/MWh change in NiHub prices we see a $0.22 impact to 2019 EPS.

Although ExGen is a Nuclear ATM, the cash will be used to fund utility capex and retire debt. Jefferies forecast assumes 7.0% UP&O EPS growth (2016 through 2020) funded primarily by $2.9B of distributions from ExGen. In 2020 ExGen has $2.3B of debt maturities which will consume all of the cash cushion we are modeling.

Jefferies believes that off of 2019 ExGen is trading at 5.6x EV/EBITDA (less maint. capex) or 3.8x EV/EBITDA, making it the cheapest merchant stock in our coverage universe.

Our forecast excludes any benefit from the NY Zero Emission Credit (ZEC) program or passage of Illinois legislation to keep the Clinton and Quad Cities units operating past 2017-2018. If instituted, beginning in 2017 ZEC's will provide up to $350M of cash flow benefit (through 2020) and add an incremental $0.08-$0.10 to earnings.

Jefferies forecast includes only modest (less than 5%) rate increases at the PHI utilities which leaves upside to our estimates if the regulatory outcomes are better than expected.

Valuation/Risks

Our $36.00 price target is based on P/E analysis. Taking our 2019 EPS estimate of $2.65 in conjunction with a P/E group average multiple of 13.6x results in a price target of $36.00. Based on Friday's closing price of $32.18, this would result in a 12-month price appreciation potential of 11.9% and total return potential of 15.8% including the current yield of 3.9%. **Risks** –Risks include exposure to change in the commodity price for electricity associated with Exelon's merchant generation business, and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	**2015A**	*Prev.*	**2016E**	*Prev.*	**2017E**	*Prev.*	**2018E**
Cons. EPS Diluted	--	2.51	*2.54*	2.56	*2.64*	2.63	--	2.80
EPS								
Mar	--	0.71	--	0.68A	--	--	--	--
Jun	--	0.59	--	0.65A	--	--	--	--
Sep	--	0.83	--	0.75	--	--	--	--
Dec	--	0.38	*0.40*	0.50	--	--	--	--
FY Dec	--	2.51	*2.50*	2.60	*2.70*	2.60	--	2.85
FY P/E		12.8x		12.3x		12.3x		11.2x

Financial Summary	
Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	3.9%

Market Data	
52 Week Range:	$37.70 - $25.09
Total Entprs. Value (MM):	$43,716.6
Market Cap. (MM):	$29,687.6
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	926.0
Float (MM):	920.1
Avg. Daily Vol.:	4,819,362

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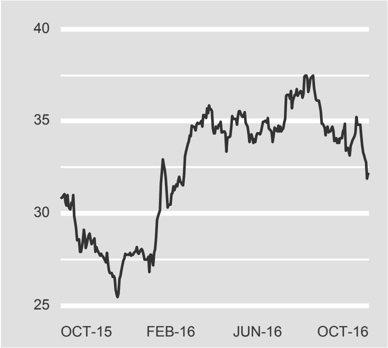
Price Performance



^Prior trading day's closing price unless otherwise noted.

Exelon Corporation

Buy: $36.00 Price Target

Scenarios

Target Investment Thesis

- Exelon should trade at a group average P/E multiple.
- Expected growth in regulated earnings and accretion from the Pepco acquisition.
- Company moves to a more regulated P/E valuation since the merger with Pepco.
- 2019 EPS $2.35; Target Multiple: 13.6x. Target Price $36.00.

Upside Scenario

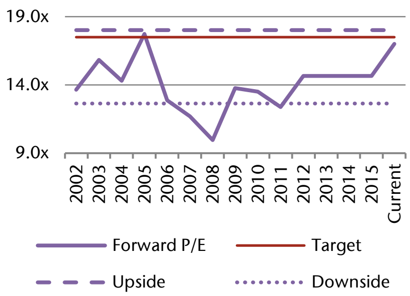
- Exelon Generation earnings increase due to improvement in gas and power prices.
- Power plant values increase due to growing short supply.
- Regulated business earns at or above its allowed ROE.
- Carbon regulation increases nuclear margins
- 2019 EPS $3.00; target multiple: 13.6x. Target Price $41.00

Downside Scenario

- Exelon EBITDA decreases due to declining gas and power prices.
- Power plant prices in the secondary market which are currently at less than replacement value move lower
- Reinvestment opportunities become more limited.
- Regulated utilities under-earn their allowed ROE.
- 2019 EPS: $2.00; Target Multiple: 13.6x Target Price: $27.00.

Long Term Analysis

1 Year Forward P/E



Long Term Financial Model Drivers

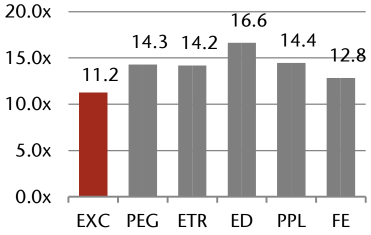
LT EBITDA CAGR	**(8.5%)**
LT EPS Growth	**4.6%**
FFO/Debt	**31%**
Equity Ratio	**52%**

Other Considerations

While we assume no benefit from ZECs or any type of carbon regulation the benefit to Exelon's 19,000 MW of nuclear plants is significant.

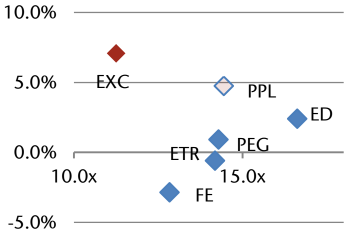
Peer Group

Group P/Es



Source: Factset, Jefferies estimates

Earnings Growth vs P/E



Source: Fastset, Jefferies estimates

Recommendation / Price Target

Ticker	**Rec.**	**PT**
EXC	**Buy**	**$36**
PEG	Hold	$47.50
ETR	Hold	$85.50
ED	Buy	$82
PPL	Hold	$37
FE	Hold	$36

Catalysts

- Legal challenges to New York's ZECs.
- PJM Capacity Auction.
- Rate increases at PHI utilities.

Company Description

Exelon, incorporated in Pennsylvania in February 1999, is a utility services holding company engaged, through its principal subsidiary Generation, in the energy generation business, and through its principal subsidiaries Com Ed, PECO, DPL, ACE, Pepco, and BGE, in the energy delivery businesses discussed below. Exelon is headquartered in Chicago and trades on the NYSE under the ticker symbol EXC.

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Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation. For investors looking for merchant exposure we believe EXC is the only safe way to play power.

Following an update of our Exelon model we are lowering our 2017 EPS estimate by $0.10 and introducing a 2018 and 2019 EPS estimate of $2.85 and $2.65, respectively. Our revised 2017 estimate includes an update of commodity prices and hedges for the company's unregulated generation fleet.

By year-end 2018 we are including the closure of the 1,069 MW Clinton plant (closing on June 1, 2017) and the 1,403 MW Quad Cities (closing on June 1, 2018) but excluding any benefit from NY ZECs. The closure of both Quad Cities and Clinton will aid management on its path of removing costs from the merchant business. Jefferies assumes merchant O&M continues on its 1-2% annual reductions which are helped with the closure of these two plants. Additionally, there is an expected $100 million reduction in depreciate expense as a result of the retirement. Our forecast does not include any benefit from the New York Zero Emission Credit (ZEC) program which would add $0.07 to our 2017 estimate and $0.10 to our 2018-2019 estimates. Although the ZEC program has been approved by the NYPSC we expect some legal challenges and want to sharpen our pencil as the case is heard at FERC.

Valuation: Using a P/E valuation we apply a 2019 group average multiple of 13.6x on our 2019 EPS estimate of $2.65 and arrive at a price target of $36. As an alternative valuation using a SOTP analysis we find the utility business, based on a group average P/E multiple (15.8x), worth $27.50, and the merchant business valued at $8.50 using an 8.0x EV/EBITDA multiple. For every half-turn (0.5) change in the EV/EBITDA multiple the price target is impacted by $1.00. We currently find the merchant business of Exelon trading at 5.6x EV/EBITDA net maintenance capex and 3.9x if you exclude maintenance capex from the calculation. We believe this compares to other merchant stocks trading at an 8.0x EV/EBITDA net maintenance capex or 6.4x excluding maintenance capex.

Table 1: On an EV/EBITDA basis EXC is as cheap as it gets

	2019
EBITDA ($M)	2,480
EV/EBITDA	3.9x
Maintenance Capex ($M)	-800
EV/(EBITDA less MC)	5.6x

Source: Jefferies

Regulated earnings will make up a larger part of consolidated earnings. With the completion of the PHI merger we forecast the regulated utilities going from 50% of EXC earnings to 67% by 2019. We see two main drivers to this transition: 1) rate increases at the regulated utilities, primarily at PHI, and 2) a decline in earnings at ExGen.

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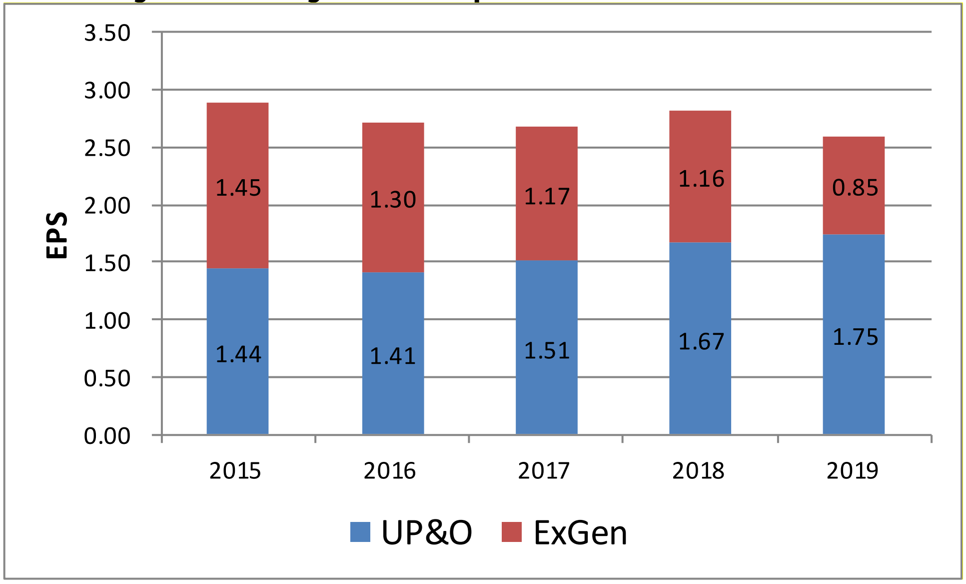
Chart 1: Regulated Earnings will make up 67% of EPS in 2019



Source: Jefferies estimates, company data

We note that management successfully navigated the integration of Baltimore Gas & Electric and improved results even in a challenging regulatory environment.

We believe management will be successful in navigating the rate increases at PHI. While our assumptions are within management's utility growth of 7-9%, we believe they are reasonable and if the company is successful in the rate arena, we could see upside from that range. In each of the three PHI subsidiaries rate increases are all below 5% and have the utilities earning below a 10% ROE. In 2017-2019 we assume a total of $565 million of rate increases across the PHI complex. Also, investors should realize that management successfully navigated the integration of Baltimore Gas & Electric and improved results even in a challenging regulatory environment.

ExGen is a cash machine but proceeds will be used to pay down debt and fund regulated capex. Our forecast has ExGen cash balance growing from $431 million at the end of 2015 growing to $2,300 in 2019. During this time (2016-2019) we have the subsidiary upstreaming $2,500 million cash to the parent. In 2020 ExGen has $2,200 million of debt maturities which, consistent with management's forecast, we assume is paid down.

Should power prices start increasing investors may see some curtailment in regulated capex but the upside at ExGen would be significant and offset any regulated earnings decline.

Concerns over declining utility capex post-2019 are overblown. Some investors believe that management will struggle to find incremental capex opportunities once this construction cycle comes to an end (2019). Jefferies struggles to see that happening as long as power prices stay relatively flat. Utilities have consistently found projects to reinforce the grid or enhance the ratepayer experience and with power prices at historic lows there seems to be ample room in customer bills for new capex. We would view a slowdown in capex spending as more of an industry issue and not specific to Exelon's utilities. Should power prices start increasing investors may see some curtailment in regulated capex but the upside at ExGen would be significant and offset any regulated earnings decline.

ExGen also provides investors with a free option on the Clean Power Plan or some social cost of carbon. Our forecast excludes any benefit from the NY ZEC program, as we are awaiting the legal challenges from intervenors. Based on Exelon's New York nuclear exposure ZECs would add $0.08-$0.10 beginning in 2017. The uncertainty surrounding the Clean Power Plan limits our ability to quantify the earnings potential that it could have on the remainder of Exelon's carbon-free fleet. Just to put in perspective the benefit that a "ZEC like" program would have if it were adopted in all of the states that Exelon has over 19,000 MW of nuclear assets we could see $1.70 of incremental earnings.

We are assuming $0.15 of losses at the parent throughout the forecast period.

Our forecast assumes annual dividend increases of 2.5% and by 2019 assuming a dividend of $1.57 we have a UPO payout ratio of 88%. This compares with an average of 64% for the utility sector.

We are increasing our 2016 EPS estimate by $0.10 to $2.60 due to fine tuning. At the August analyst conference Exelon affirmed its 2016 earnings guidance of $2.40-$2.70 (Street at $2.56) and 3Q16 guidance of $0.65-$0.75. Sector guidance is $1.20-$1.30 ExGen, $0.50-$0.60 ComEd, $0.40-$0.50 PECO, $0.25-$0.35 from BGE and $0.10-$0.20 for PHI.

We are lowering our 2017 EPS estimate by $0.10 to $2.60 following an update of our forecast model.

We are initiating our 2018-19 EPS estimates of $2.85 and $2.65, respectively.

Table 2: Exelon Corporation Income Statement Forecast ($-millions)

	2015A	2016E	2017E	2018E	2019E
PECO	$639	$789	$807	$825	$841
CWE	1,046	1,237	1,371	1,386	1,392
BGE	580	573	587	635	672
PEPCO		321	384	462	515
DPL		187	209	262	295
ACE		142	155	194	189
Adjustment					
Energy Delivery	**2,265**	**3,248**	**3,513**	**3,764**	**3,905**
Genco	2,176	2,216	1,917	2,060	1,596
Corporate	(8)	(8)	(8)	(8)	(8)
Earnings on Cash	105		63	43	40
Reconcile	68	(170)		(40)	10
EBIT	**$4,606**	**$5,286**	**$5,485**	**$5,819**	**$5,542**
EBITDA	$5,895	$7,616	$7,892	$8,190	$7,911
MIPS Obligation	0	0	0	0	0
Capitalized Interest	0	0	0	0	0
Long-Term Interest Expense		(1,674)	(1,786)	(1,690)	(1,687)
Income Before Taxes	**$3,508**	**$3,611**	**$3,698**	**$4,129**	**$3,855**
Income Taxes	(1,215)	(1,243)	(1,272)	(1,415)	(1,326)
Minority Interest/preferred	(13)	(13)	(13)	(13)	(13)
Wind PTC	50	51	52	53	53
Net Income	**$2,330**	**$2,406**	**$2,465**	**$2,753**	**$2,570**
Preferred Dividends					
Earnings for Common	**$2,330**	**$2,406**	**$2,465**	**$2,753**	**$2,570**
Non-Recurring Items					
Merger Cost to Achieve	0	0	0	0	0
Total Non-Recurring	0	0	0	0	0
Reported Earnings	2,330	2,406	2,465	2,753	2,570
Earnings Per Share	**$2.51**	**$2.60**	**$2.60**	**$2.85**	**$2.65**

Source: Jefferies estimates, company data

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Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 16:56 ET. October 7, 2016
Recommendation Distributed	, 00:00 ET. October 10, 2016

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The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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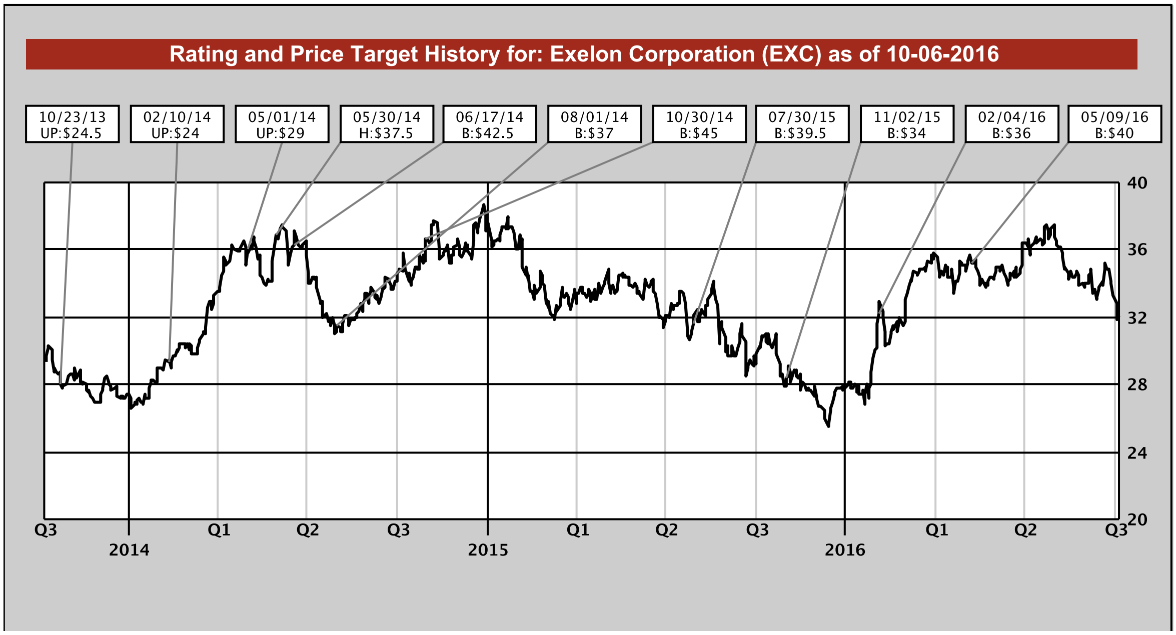
Other Companies Mentioned in This Report

- Consolidated Edison Inc. (ED: $72.33, BUY)
- Entergy Corporation (ETR: $73.81, HOLD)
- Exelon Corporation (EXC: $32.06, BUY)
- FirstEnergy Corp. (FE: $31.47, HOLD)
- PPL Corp. (PPL: $32.50, HOLD)
- Public Service Enterprise Group Inc. (PEG: $40.75, HOLD)



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
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UNDERPERFORM	161	7.59%	17	10.56%

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U.S. Power & Utilities: Day 3 Recap of Edison Electric Institute (EEI) Conference - AEP, AES, CNP, EIX, EXC

Sentiment Indicator : neutral

Produced by Tucker, Shelby (RBC Capital Markets, LLC) on Wednesday, November 09, 2016, 06:33 AM ET

Disseminated on Wednesday, November 09, 2016, 06:44 AM ET

American Electric Power (AEP)

We met with Nick Akins (President & CEO), Bob Powers (EVP & COO), Lisa Barton (EVP, AEP Transmission), and Bette Jo Rozsa (Managing Director of IR).

- **Building a robust regulated portfolio.** With the exit out of the competitive generation business, management plans to focus on maintaining a portfolio of regulated utilities that present robust growth opportunities in a constructive regulatory environment. Use and allocation of capital is of utmost importance; management plans to evaluate each of its utilities to determine whether it deserves additional capital to help growth AEP's book of business. If they deem certain utilities to lack the favorable profiles (i.e. sub-par economic conditions/outlook, non-constructive regulatory environment), they could potentially decide to monetize them and re-allocate the capital toward other utilities or businesses (i.e. transmission, renewables). Regarding regulated earnings growth, they believe upside to 5-7% earnings CAGR is possible through continued O&M management, further reduction in regulatory lag, and legislative changes such as the potential re-regulation of Ohio's generation business.
- **Sticking with the electric side of the equation.** Despite other electric utilities' recent acquisitions of gas utilities, AEP management does not expect to actively look for similar opportunities, especially given high valuations placed on many gas utilities. They believe their strength is in being at the forefront of the electric grid modernization, including implementation of smart meters, as well as investment into energy storage and its integration to the utility model.

The AES Corp (AES)

We met with Andres Gluski (President & CEO), Tom O'Flynn (EVP & CFO), Ahmed Pasha (VP of IR), and Vincent Sipowicz (Director of IR).

- **Pressures in Chile.** Management noted that the delay and the over-budget nature of the Alto Maipo hydro facility was primarily due to unforeseen construction issues with the site's landscape. They are currently in negotiations with the project lenders regarding the 10-20% cost overruns ($200-$400 million). If AES Gener is required to inject a large additional amount of equity, they may choose to walk away from the project; their decision will likely come in the next three months. Another risk with the plant is that it's only 40% contracted; the other 60% would be sold at market prices, which would be materially lower at this point. Combined with the recently procured contract prices that were materially lower year-over-year (YoY), management plans to take a more measured approach to future growth opportunities in the region.
- **OPGC 2 project chugging along, but could see some delays.** Management does not anticipate the OPGC II coal plant construction in India to incur the same type of cost overruns as experienced in Chile. However, they do potentially see some delay in the expected on-line date of the project, currently estimated to be 1H18.
- **Focusing future growth in gas, renewables, energy storage.** In the U.S., they see future investments in all three categories, with 150 MW of contracted solar expected by 2017 and continued build-out of the battery storage platform. Internationally, they see significant storage investment opportunities in India. However, they do not expect any significant earnings or cash contributions from storage investments over the next couple of years.

CenterPoint Energy (CNP)

We met with Scott Prochazka (President & CEO), Bill Rogers (EVP & CFO), David Mordy (Director of IR), and Olivia Webb (Manager of IR).

- **Enabling CNP value: all tracks still in play.** Management reiterated their recent comments on considering a sale, spin, or maintaining stake of the company's stake in Enable Midstream. Their takeaway from recent conversations with investors is that they are not beginning to be less concerned about the Enable strategic review process as before; investors also seemed fairly neutral regarding the C-Corp spin-off option. Management also continued to be open to the possibility of a stock exchange transaction with another midstream entity as an alternative to maintaining the Enable stake. Finally, regarding the sale option, management does not intend to delay the strategic decision timeline to try to capture higher valuation from a positive turn in the commodity markets.
- **Upside to capex; looking to minimize lag.** Management expects to update their capex forecast with the 4Q16 earnings release, but they believe it's likely that the update shows increased level of investments at both the electric and gas utilities. The utilities are doing fairly well in earning close to the allowed ROEs, with an on-going 50-80 basis point drag due to regulatory lag. The utilities plan to continue to work with regulators to implement lag-reducing mechanisms, like the formula rate plan at the Arkansas gas utility. At Houston Electric, the utility would like to legislatively remove the sunset provision related to the Distribution Cost Recovery Factor (DCRF), which currently is set to expire in 2019. Depending on that development, the utility may or may not decide to file a formal rate case in late 2018.
- **Opportunistic in growing Competitive Energy Services.** With the Continuum and proposed Atmos Energy Marketing acquisitions expected to be immediately accretive to earnings, management continues to look to selectively expand this business through additional acquisitions (looking for double-digit return profiles). They see the services business as complementary to the utilities businesses and a sustained part of the CenterPoint value proposition.
- **Positive surprise in 2017 guidance?** While management does not expect to provide 2017 guidance until 4Q16 earnings, we note that management's recent utility earnings walk from 2016 to 2017 implies EPS of $0.96-$0.99, an 8% increase year-over-year (YoY) from 2016 utility guidance of $0.88-$0.92. In addition, Enable's recently announced 2017 net income guidance of $315-$385 million would roughly translate into $0.32-$0.38 of EPS for CenterPoint's stake, based on our calculations. All else being equal, and assuming Enable is still part of CNP, this results in potential 2017 EPS for CenterPoint of $1.28-$1.38 ($1.33 mid-point), or almost 13% increase YoY.

Edison International (EIX)

We met with Pedro Pizarro (President & CEO), Ron Nichols (President, SoCalEd), Tres Petmecky (CFO, SoCalEd), Drew Murphy (SVP, Strategic Planning), and Scott Cunningham (VP, IR).

- **Edison Energy in focus.** With EIX management guiding to $(0.12) of Edison Energy drag this year, our meeting with management focused on the strategic and financial vision for the entity. Specifically, management had two main messages: 1) EIX expects Edison Energy to be a real business that delivers shareholder value, and 2) the guidance for this year represents the upper bound of EPS impact going forward (and it should not be viewed as a perpetuity). We sense that there is currently some investor skepticism regarding the benefits of these investments, but we expect more clarity to emerge when EIX presents a more detailed business plan in its 4Q16 conference call.
- **Cost of capital discussions.** Given that the past two cost of capital mechanism settlements have been announced in late October/early November, we would expect to hear something on this front soon if an agreement is reached between the California utilities and its intervenors. EIX indicated that there are generally four levers to consider in these negotiations - the cost of debt, ROE, the trigger mechanism, and the length of extension. The trigger mechanism was given up last year. We continue to believe that an extension of the cost of capital is likely, although our view is that there could be some tweaks to the mechanism including a true-up of the cost of debt.

Exelon Corp (EXC)

We met with Jack Thayer (Senior EVP & CFO), Joe Nigro (CEO, Constellation), Denis O'Brien (CEO, Exelon Utilities), and Kathleen Barron (SVP, Federal

Regulatory Affairs).

- **Focus on utility growth.** Management reiterated their strategy to increase the regulated profile of Exelon, with earnings mix soon to be 70-80% utilities, and 20-30% unregulated generation. Management wants utility earnings to cover the dividend, while also providing support for holding company debt. At the Pepco utilities, management plans to file rate cases every 12-15 months over a five-year period to improve their earned ROE profile.
- **Continue to see upside in energy markets.** ExGen continues to be hedged behind ratable in the outer years, as the company does not believe the current backwardated forward power curves. They hope to take advantage of the turn if they are proven correct.
- **Looking for positive outcomes to nuclear proposals.** Exelon believes it presents a good case to successfully implement the Zero Emission Credits (ZECs) to New York's nuclear fleet, while it remains on track to finalize the Fitzpatrick sale. In Illinois, the current veto session could potentially bring up the nuclear subsidies program, with a 3/5 majority needed to pass the law.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
American Electric Power Company, Inc.	NYSE	AEP	Sector Perform	Not Assigned	66.00	US Dollar	63.23	08 Nov 2016 22:48:36 ET
The AES Corporation	NYSE	AES	Outperform	Not Assigned	13.00	US Dollar	12.43	08 Nov 2016 22:48:40 ET
CenterPoint Energy, Inc.	NYSE	CNP	Outperform	Not Assigned	27.00	US Dollar	23.70	08 Nov 2016 22:48:43 ET
Edison International	NYSE	EIX	Outperform	Not Assigned	83.00	US Dollar	72.26	08 Nov 2016 22:48:45 ET
Exelon Corporation	NYSE	EXC	Outperform	Not Assigned	38.00	US Dollar	33.66	08 Nov 2016 22:48:51 ET

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October 16, 2016

United States: Utilities

Equity Research

Now what with utilities, after leading in 1H2016, lagging in 2H2016? Sharpen the pencils!

Despite the recent pullback…

After outperforming the S&P500 significantly (18%) in 1H2016, especially in January and in June after Brexit, utilities have lagged by more than 1,200 bps since July 1. P/E multiples now sit just above 17x on FY2 EPS compared to a YTD high of roughly 18.5x-18.6x.

…still too early to get overly bullish, as valuations remain above historical levels

On an absolute value basis, utilities still trade above historical P/E multiple levels. Over the past five years, for example, the average P/E multiple for utilities on FY2 EPS appears closer to 15.3x and the 10-20 year trend is even lower at 12.0x-14.0x. Simply put, compared to their own trading history, utilities do not appear cheap. On a relative basis, versus the broader S&P500 and the interest rate environment, utilities screen less expensively after this pullback – and almost price in already a higher US 10-year Treasury yield of 2.5%. Historically, utilities traded at a premium to the S&P500 when the 10-year remains below 2.5%-3.0% – the futures curve and GS economist forecast imply treasury yields below 3.0% through 2018.

Dividend growth + dividend yield implies more than 10% total return potential

We use P/E multiples to set target prices for most utilities and believe, for the next 12 months, multiples will stay elevated given expectations for the 10-year Treasury yield. Our target prices imply 10%-12% total return on average. Another screen we commonly employ using dividend growth and yield, shows total return of approximately 10%, with median dividend growth for the sector of roughly 5% through 2018/2019.

Our top picks include…

We generally favor stocks that offer above-average capital allocation potential or that trade at a discount on either P/E multiples or a sum of the parts.

- **Our top large cap ideas include PCG** – added to the Conviction List in a note published today as well as PEG (which we upgraded to Buy today), ETR and AEP.
- **Among smaller cap stocks, we prefer CPN, NYLD and NEP** – all capital allocation leaders.

October 16, 2016- "Public Service Enterprise Group (PEG) Buy: An under-appreciated New Jersey story –upgrading PEG to Buy"

October 16, 2016- "PG&E Corp. (PCG) Buy: Growth ahead, dividend acceleration on the horizon; add to CL"

October 16, 2016- "Entergy Corp. (ETR): Near-term risk, long-term relative value – off CL but remain Buy"

August 28, 2016- "Spotlight on solar competitiveness, returns, tax credits and PPAs"

July 26, 2016- "Ohio stocks in focus for 2H16; upgrade AEP to Buy, FE down to Sell"

June 30, 2016- "Part of the answer is blowing in the wind: returns, tax, tech & PPAs"

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PM Summary: Back where we started, here we go round again? Stay Neutral utilities

Although the XLU lagged the S&P500 by 1,200 bps since July 1, we remain Neutral on Utilities and Attractive on IPPs – utilities basically price in a higher US treasury yield, near the levels many investors expect to come in 2017. Utilities currently trade at 17.3x on FY2 or 2017 EPS, below the peak of approximately 18.5x-18.6x reached earlier this year. Multiples remain elevated compared to utilities own trading history, so absolute valuation does not appear overly compelling, in our view. On a relative basis, though (especially in a low interest rate environment as expected by our GS economics team), after this recent pullback, utilities appear more interesting on valuation. Utilities historically traded at a premium to the S&P500 when the 10-year Treasury yield remains below 2.5%-3% and utilities outperform the market in periods when the yield curve flattens – both trends expected by the GS economists, through YE2017 and implied by the futures rate curve – a positive potentially for utilities. We expect more in-line performance for utilities, after significant volatility in the first nine months of 2016 with strong outperformance in January and June almost fully offset by weak relative performance since July and especially in the past 30 days. We believe Utilities can now serve as a defensive ballast, at least over the next 12 months, unless interest rates rise far faster than forecast or implied but futures.

- **Although the utilities sector as a whole exhibits strong correlation to the 10-year UST, subsector and individual stock correlations vary…** We find that Regulated Utilities tend to exhibit stronger correlation to longer-term rates than Diversified Utilities. Among Regulated Utilities, SMid-cap utilities show slightly higher variance explained by the 10-year UST than large-cap utilities, with individual stocks displaying varying degrees of correlation. We generally find that large-cap Regulated Utilities exhibit much stronger correlation to longer-term rates, rather than shorter-term rates. For large caps, PCG, ED and WEC show the strongest correlation, while WR and POR show the strongest correlation among small/mid cap stocks.
- **…while the changing shape of the yield curve also matters – where utilities tend to outperform during a period of flattening.** We find that utilities generally underperform relative to the S&P 500 following Federal Reserve meetings which hint tightening monetary policy. However, during the six-month time frame with periods of yield curve flattening (e.g., when shorter-term rates rise faster than longer-term rates), utilities generally outperform.
- **Total return potential appears solid, but not spectacular; downside may emerge for longer-term P/E multiples, but utilities can provide a defensive attribute in the near term given current valuation**. Utilities offer total return potential (using dividend growth and dividend yield as one screen) of more than10%, while our target prices (which assume a baseline P/E multiple of 16.75x 2018E earnings) imply total return of 10%-12% on average. We believe this low beta sector can provide defensive options for investors concerned about broader market valuations but is not attractive enough for an overweight position at these levels, especially as utilities trade above their 5-year and longer-term average P/E multiple levels.

Our top picks remain capital allocation leaders or stocks trading at a discount to peers. We continue to favor (1) companies with above-average capital allocation potential, like PCG, NEP, NYLD and CPN, and (2) those that trade at a discount such as ETR, AEP and PEG (which was upgrading in a corresponding note published today).

Exhibit 1: We maintain our coverage views of Neutral on Utilities and Attractive on IPPs…

GS Coverage Ratings Grid

	Regulated Utilities (Neutral)	Diversified Utilities (Neutral)	IPPs (Attractive)
Buy	AEP PCG*	ETR PEG	CPN, NEP NYLD
Neutral	AWK, AEE, DUK, EIX, ES, PPL, SO, WEC	CNP, D, EXC, SRE	NRG
Sell	ED PNW POR SCG	FE	
Not Rated	GXP, WR	NEE	DYN

***Part of our Americas Conviction List**

Source: Goldman Sachs Global Investment Research.

Exhibit 2: …and favor either capital allocation leaders or stocks trading at a discount

GS Ratings Drivers

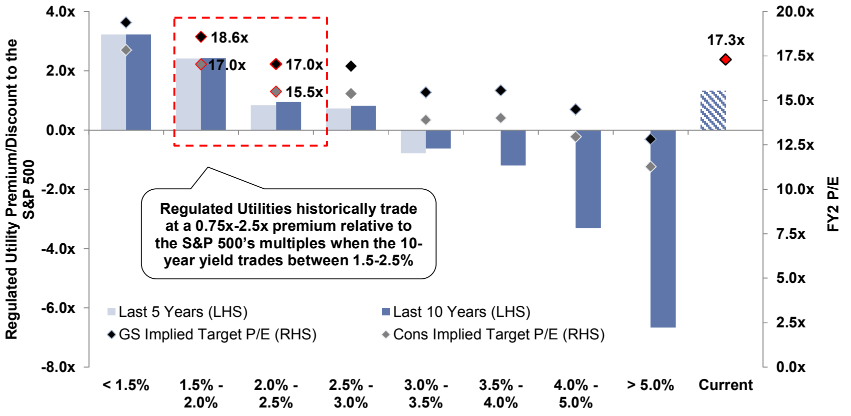
		Capital Allocators	Low Multiples / Consensus Upside	High Consensus Risk	High Multiples
Buy Rated	**AEP**	✓	✓		
	CPN	✓	✓		
	ETR		✓		
	NEP	✓			
	NYLD	✓	✓		
	PCG*	✓	✓		
	PEG		✓		
Sell Rated	**FE**			✓	
	ED			✓	✓
	PNW			✓	✓
	POR			✓	✓
	SCG			✓	

***Part of our Americas Conviction List**

Source: Goldman Sachs Global Investment Research.

Exhibit 3: Given that Utilities historically trade at a meaningful premium to the S&P 500 in a <3% UST 10-year yield environment, we continue to see balanced risk-reward relative to the S&P 500…

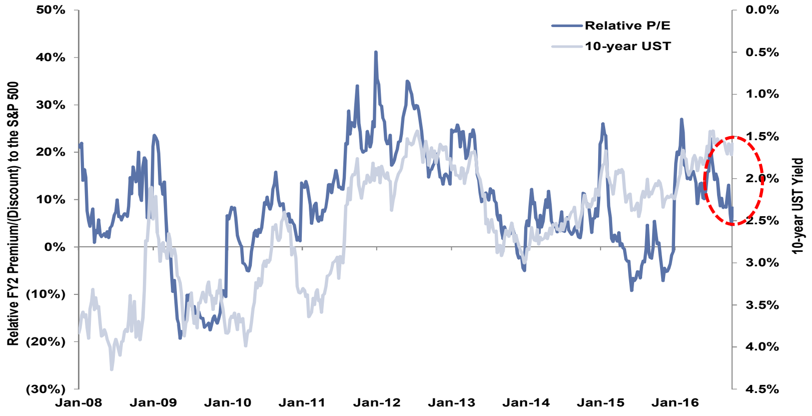
Utility premium/(discount) to S&P 500 in different interest rate environments



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 4: …even seeing a modest dislocation between the UST 10-year yield and Utilities' forward P/E multiples currently…

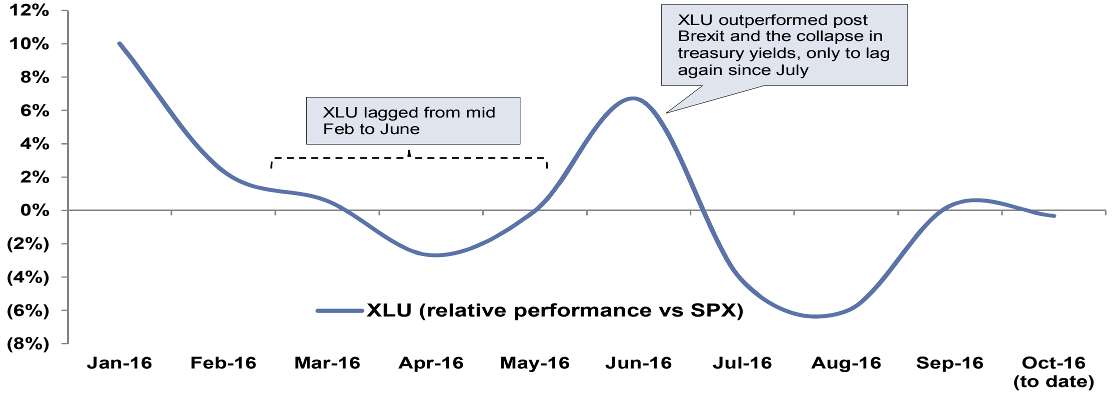
Utility premium tracked over time vs inverted UST 10-year yield



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 5: …as the utility sector meaningfully underperformed the S&P 500 thus far during 2H2016…

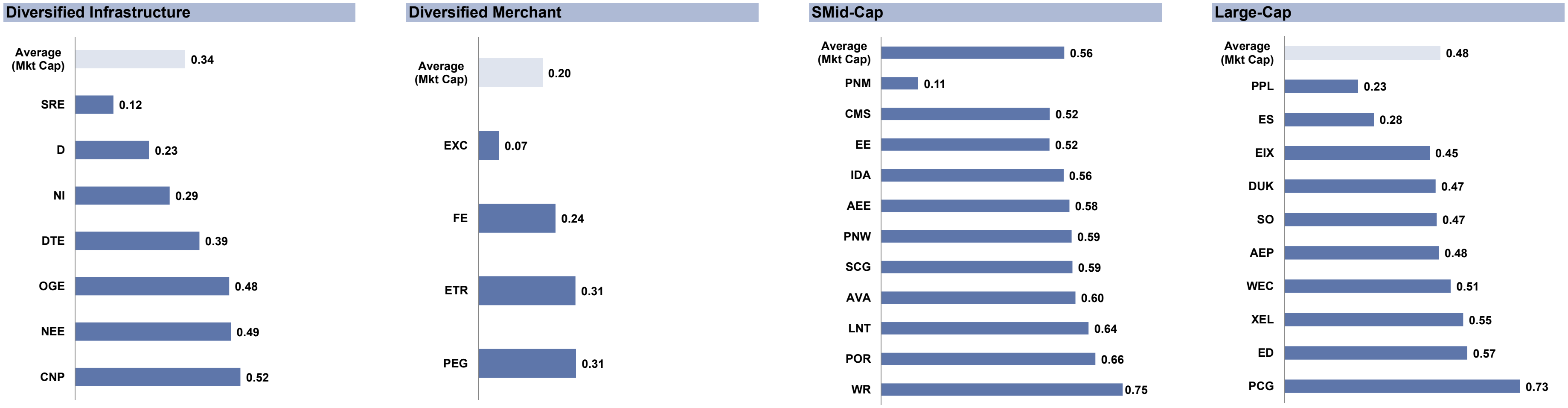
Monthly relative performance, XLU vs S&P 500



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 6: …noting that many regulated utilities maintain a strong relationship between their premium/(discount) multiple to the market and UST 10-year yields

R^2 between utility P/E premium/(discount) to the S&P 500 and the UST 10-year yield, since 2015

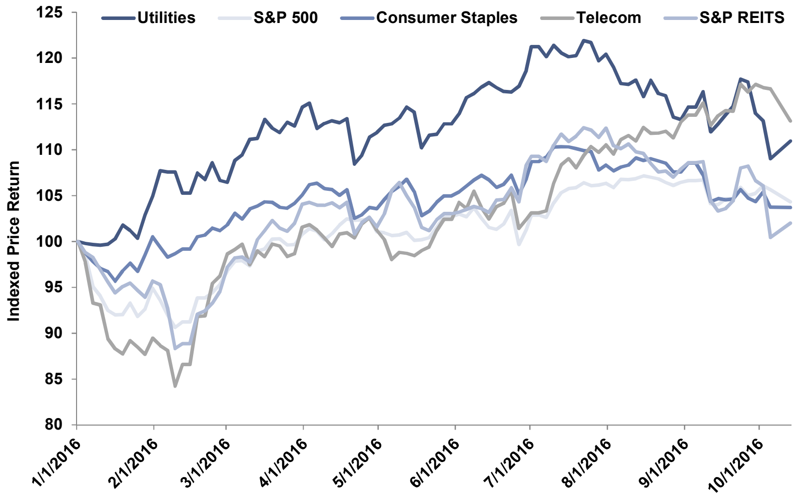


Source: FactSet, Goldman Sachs Global Investment Research.

Absolute P/E multiples remain elevated for the broader utilities sector

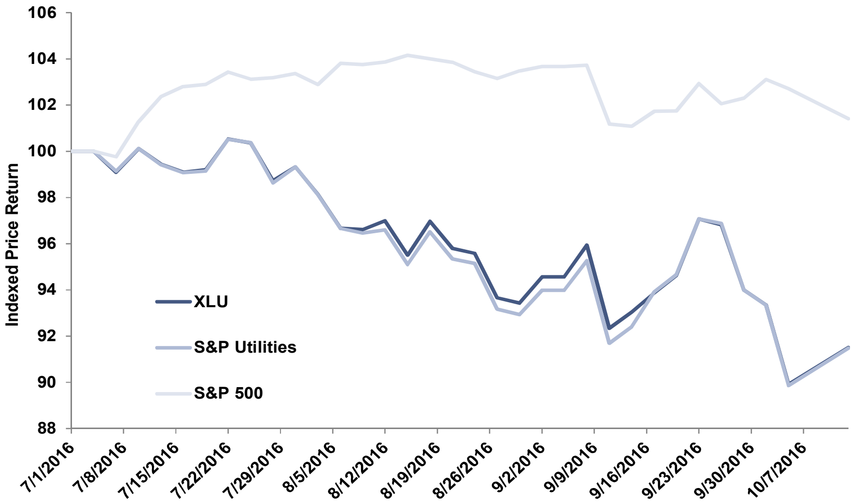
Utilities and other high yielding sectors outperformed the S&P 500 year-to-date, leading to absolute multiples slightly below historical peaks. The majority of the outperformance occurred in 1H2016 due to depressed 10-year UST yields, but the outperformance contracted in 2H2016 primarily as the market, in our view, may have overreacted to investors' perception of "imminent" rate hikes. Utility stocks largely trade as a group, resulting in limited dispersion between sub-sectors.

Exhibit 7: Utilities outperformed the market year-to-date…
Indexed price return YTD for high yielding sectors and the S&P 500



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 8: …while meaningfully underperforming during 2H2016…
Indexed 2H2016 price return for S&P Utilities, XLU, and S&P 500



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 9: …and although slightly off peak, absolute valuation levels, as assessed by P/E multiple trends, remain elevated relative to sector history…

Absolute regulated utility FY2/FY3 P/E multiples, 1990-Current

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 10: …while usually highly correlated with other yield-oriented sectors – i.e., Consumer Staples – that correlation appears less robust recently

Inter-sector top and bottom five correlations (rolling 3mth)

Inter-Sector Correlation Summary (based on SPX Relative Weekly Returns)

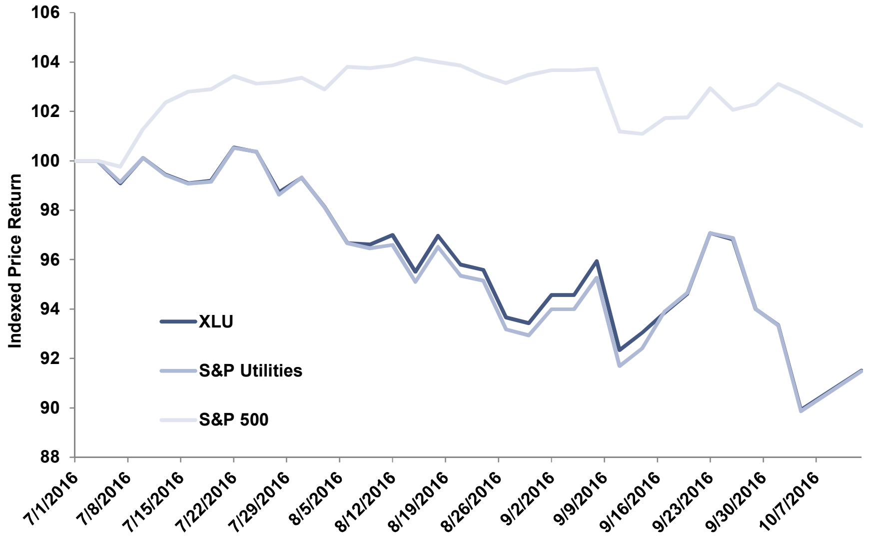
Current 3m Realized - Top 5	Current	10yr Median	Delta	Δ vs 10yr Median - Most Elevated	Current	10yr Median	Delta
Materials & Industrials	73%	35%	38%	Tech & Health Care	26%	-21%	48%
Energy & Industrials	42%	8%	34%	Energy & Staples	8%	-34%	42%
Utilities & Health Care	35%	38%	-3%	Energy & Financials	24%	-17%	41%
Utilities & Staples	33%	56%	-22%	Materials & Industrials	73%	35%	38%
Industrials & Discretionary	31%	17%	14%	Energy & Industrials	42%	8%	34%
Current 3m Realized - Bottom 5	**Current**	**10yr Median**	**Delta**	**Δ vs 10yr Median - Lowest**	**Current**	**10yr Median**	**Delta**
Energy & Tech	-58%	-21%	-36%	Staples & Health Care	-17%	55%	-72%
Utilities & Financials	-57%	-42%	-15%	Energy & Tech	-58%	-21%	-36%
Utilities & Industrials	-53%	-21%	-32%	Industrials & Tech	-46%	-9%	-36%
Industrials & Health Care	-49%	-27%	-23%	Energy & Utilities	-40%	-6%	-34%
Energy & Health Care	-49%	-34%	-15%	Utilities & Industrials	-53%	-21%	-32%

Source: Bloomberg, Goldman Sachs Global Investment Research.

…but relative P/E multiples and valuation levels versus the market appear more attractive here after the recent pullback…

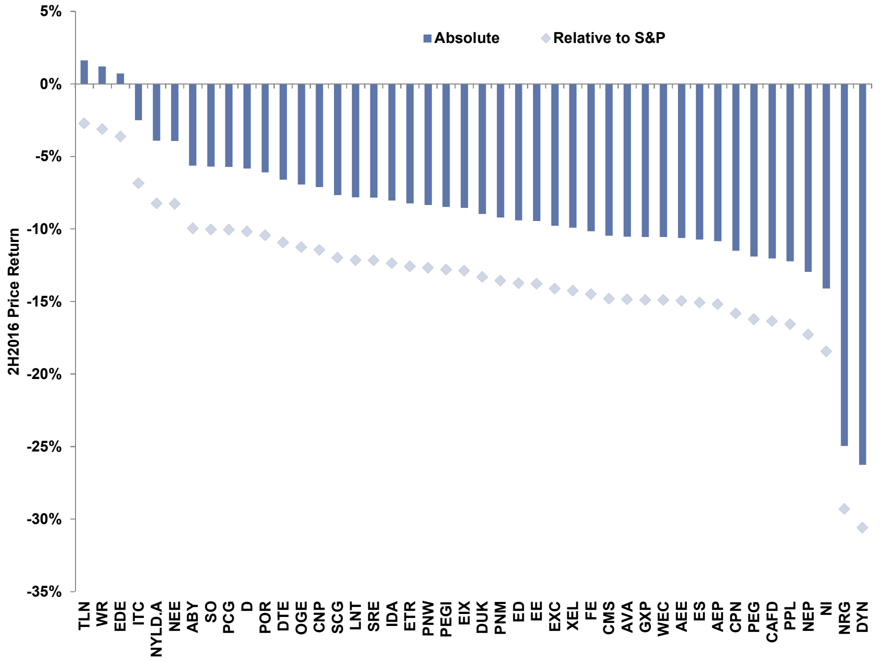
During the second half of 2016, utilities lagged the S&P 500, although recent outperformance reduced that gap. Recent price declines across the sector resulted in utilities coming slightly off peak absolute multiples, with little dispersion between stocks during the second half, similar to overall performance year-to-date.

Exhibit 11: Utility P/E multiples recently contracted…
Indexed price return and FY2 P/E Multiples over time – XLU and S&P Utilities



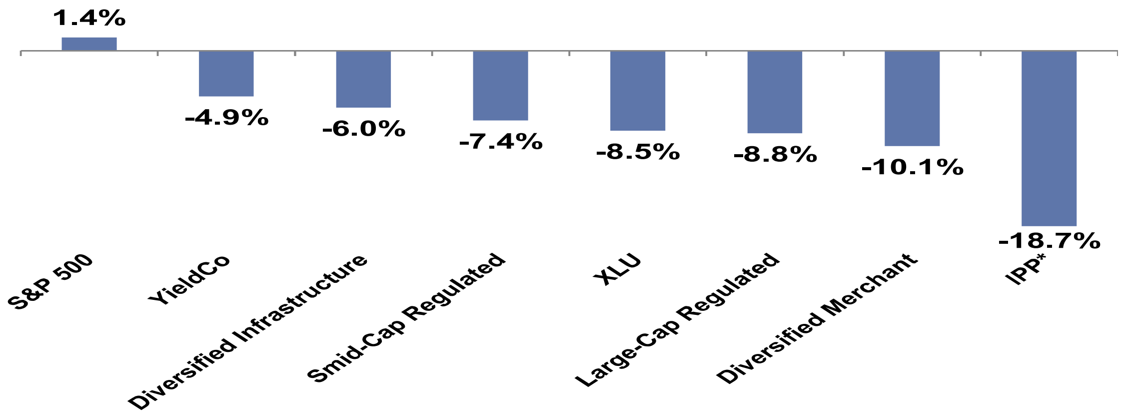
Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 12: …with most power & utility stocks lagging the market significantly during the second half of 2016 to date…
Absolute and relative (to S&P 500) 2H2016 performance



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 13: …and subsector performance continues to demonstrate "tight" correlations during 2H2016 as well…
Utility performance by sub-sector, 2H2016 to date



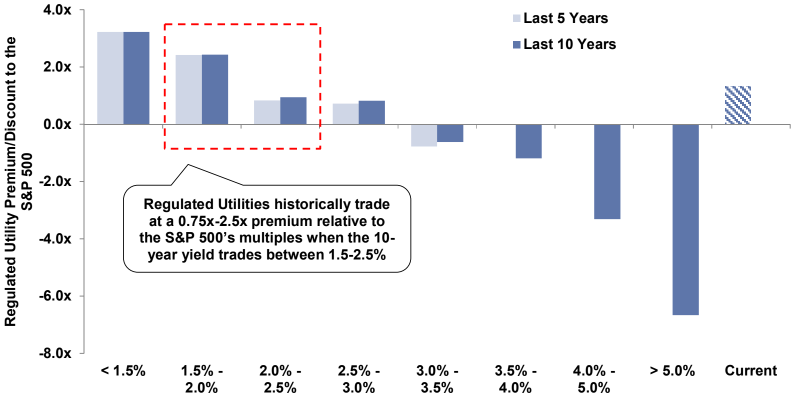
**IPP price return excludes TLN*
Source: FactSet, Goldman Sachs Global Investment Research.

…and the "interest rate" correlation for utilities can be difficult for investors to understand

Although the utility sector as a whole show correlation to overall changes to interest rates, the changing shape of the yield curve also matters. Although GS economists expect 10-year UST yields to increase – even at a faster rate than what the forwards imply – they also expect meaningful flattening of the yield curve. During periods of yield curve flattening – either due to shorter-term rates increasing faster than longer-term rates, or longer-term rates falling faster than shorter-term rates – utilities tend to outperform relative to other S&P sectors.

Exhibit 14: Overall, Utilities tend to trade at a premium to the market when the UST 10-year yield remains below 3%...

Utility premium/(discount) to S&P 500 in different interest rate environments

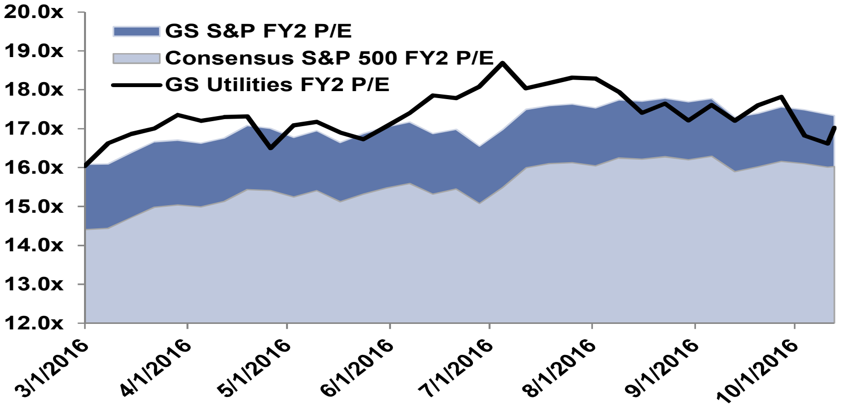


Regulated Utilities historically trade at a 0.75x-2.5x premium relative to the S&P 500's multiples when the 10-year yield trades between 1.5-2.5%

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 15: ...however, using GS forecasts for the S&P 500 and the utilities sector, multiples appear at a discount post the 2H2016 underperformance...

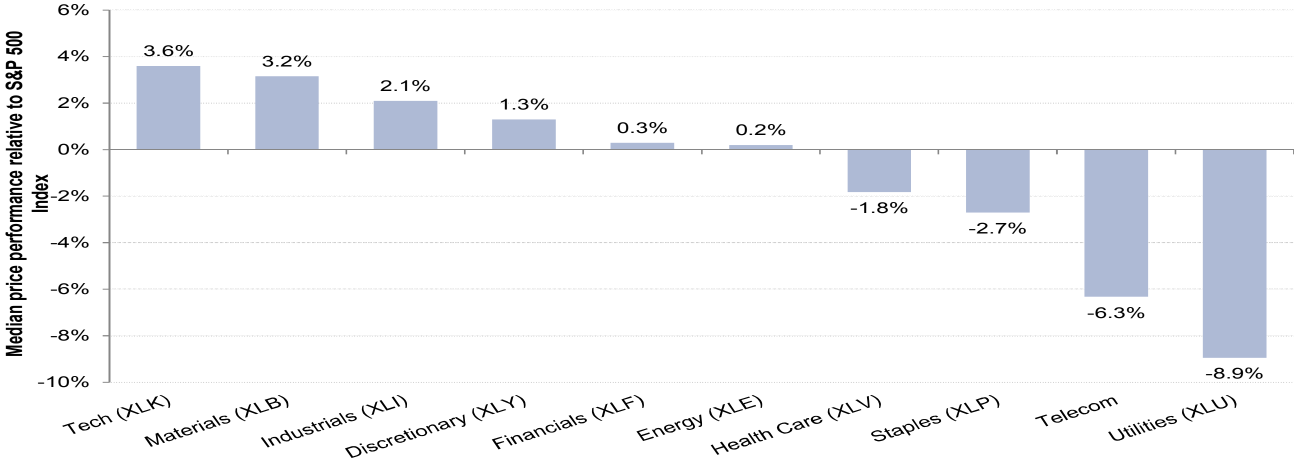
FY2 P/E for S&P 500 using GS and consensus estimates, and GS utilities estimates



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 16: ...while we remain wary that the Utility Sector remains the worst performing sector during a rising rate environment...

Performance of sectors during rising rate environment on a rolling 6-month period



Our Methodology:

- We look across all rolling 6-month periods from 1990 through today, identifying periods during which 10-year US Treasury yields rose by at least 30bps, which represents roughly a "top quartile" move.
- During each of these rising rate periods, the price performances of the selected indices are measured relative to that of the SPX.
- A median of these observations is then taken for each index to identify historically strong and weak subsectors during rising rate environments.

Source: Goldman Sachs Global Investment Research.

Exhibit 17: …with at least one rate hike this year, Utilities can trade poorly ahead of and following a rate hike – but not necessarily…

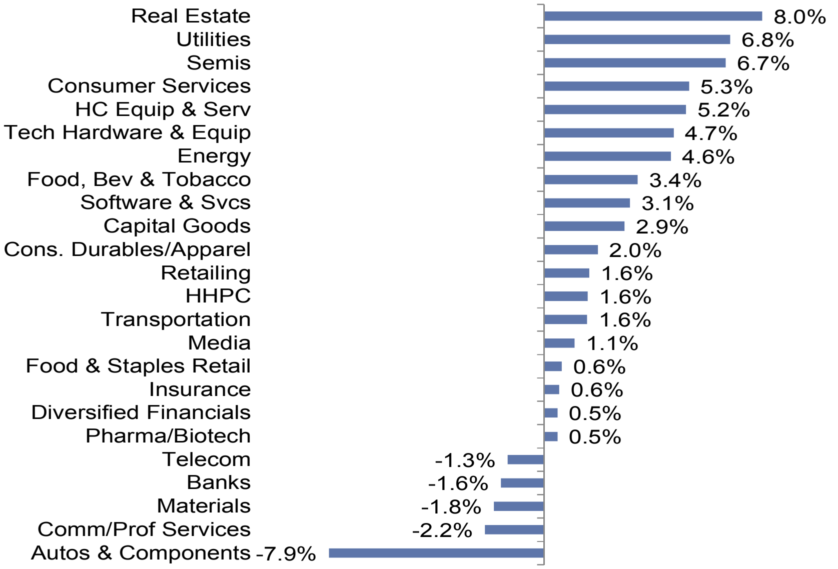
Sector performance 3mth preceding and following a Federal Funds Rate hike

	Returns							
	3-month returns *PRECEDING* first rate hike				3-month returns *FOLLOWING* first rate hike			
	Feb 1994	Jun 1999	Jun 2004	Avg	Feb 1994	Jun 1999	Jun 2004	Avg
S&P 500 Index	**5 %**	**3 %**	**2 %**	**3 %**	**(5)%**	**(6)%**	**(1)%**	**(4)%**
S&P 500 P/E	**0**	**1**	**(3)**	**(1)**	**(10)**	**(9)**	**(5)**	**(8)**
Sectors vs. SPX								
Energy	(3)pp	4 pp	8 pp	3 pp	(0)pp	4 pp	12 pp	5 pp
Telecom	(8)	6	(2)	(2)	2	(1)	8	3
Info Tech	2	7	1	3	2	12	(8)	2
Utilities	(6)	7	(3)	(1)	(4)	(2)	8	1
Industrials	5	6	7	6	(2)	1	1	(0)
Materials	10	19	1	10	(1)	(4)	4	(0)
Health Care	(1)	(12)	1	(4)	1	(2)	(2)	(1)
Con. Discretionary	(0)	(4)	(3)	(2)	(1)	(3)	(0)	(2)
Financials	2	(2)	(4)	(2)	1	(9)	2	(2)
Consumer Staples	(1)	(8)	(1)	(3)	2	(4)	(4)	(2)

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 18: …especially given historically strong performance by the Utility sector when the term structure flattens…

Median absolute S&P 500 GICS Level 2 sector performance during flattening rate environments

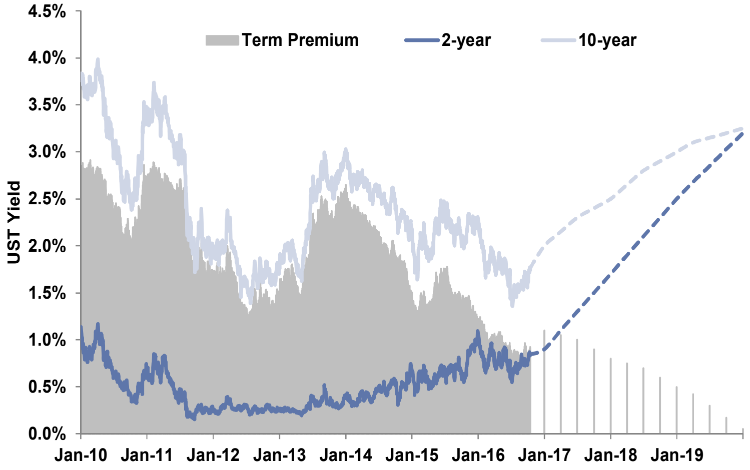


Note on methodology:

We look across all rolling 6-month periods from 1990 through today (except Real Estate which begins in 2001), identifying periods during which US Treasury term structure (10yr vs. 2yr) flattened by at least 50bps, which is roughly a top-decile move.

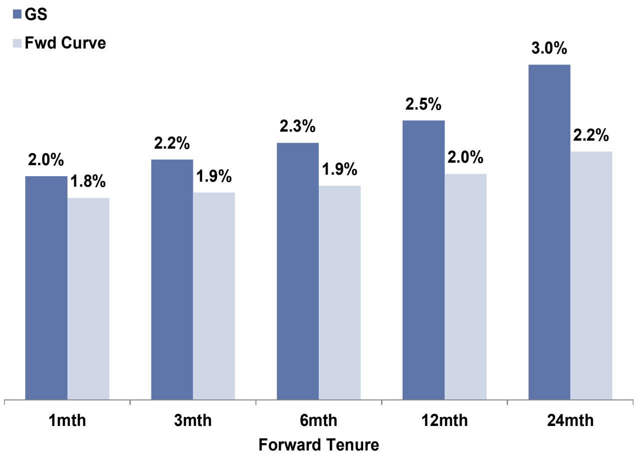
Source: Bloomberg, Goldman Sachs Global Investment Research.

Exhibit 19: …and GS forecasts call for a meaningful flattening through 2019…
Historical and GS forecast UST 2/10-year yield and term premium



Source: Bloomberg, Goldman Sachs Global Investment Research.

Exhibit 20: …while the market continues to maintain a much more mild view on forward treasury yield appreciation over the next few years…
GS forecasted UST 10-year yield vs Forward Curve



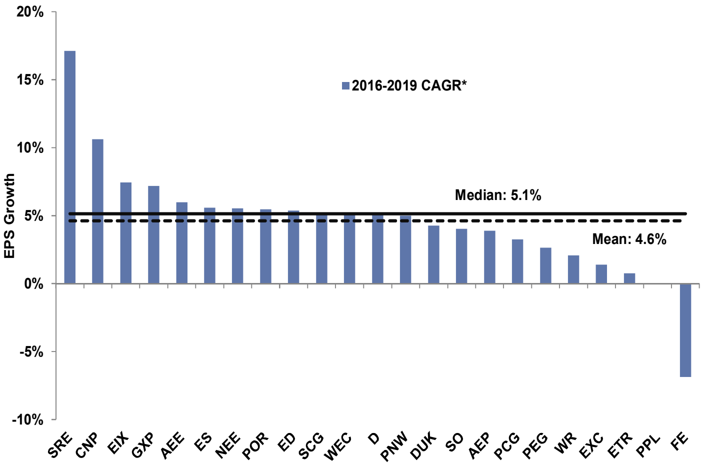
Source: Bloomberg, Goldman Sachs Global Investment Research.

A simplistic "total return" snapshot implies utilities may screen more attractively than investors realize

Despite utility EPS growth falling below average in comparison to other S&P 500 sectors, DPS growth remains attractive. We expect US utility coverage EPS to grow roughly 4-6%, in line with historical trends, but below other S&P 500 sectors. From a dividend yield and DPS growth perspective, utilities screen more attractively given our expectation for a free cash flow inflection in the near future.

Exhibit 21: Sector wide EPS growth remains moderate, in-line with historical trends of 4-6%…

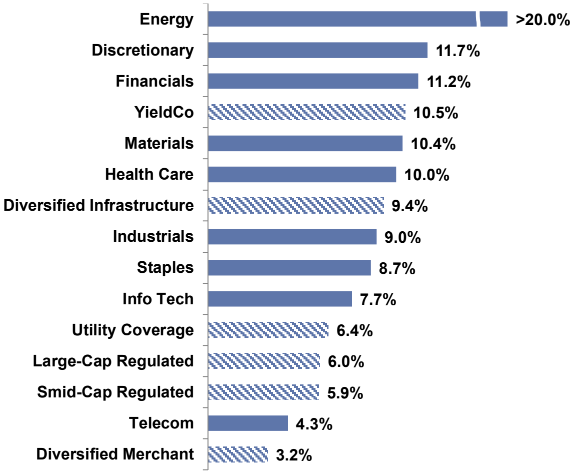
US utility coverage EPS growth CAGR, 2016-2019



*If GS does not maintain a published 2019 estimate, the CAGR refers to 2016-2018
'ETR EPS growth rate removes 1x 2016 tax benefits of $2.01/sh
Source: Goldman Sachs Global Investment Research.

Exhibit 22: …yet relative to other sectors, most utility sub-sectors offer below-average earnings growth…

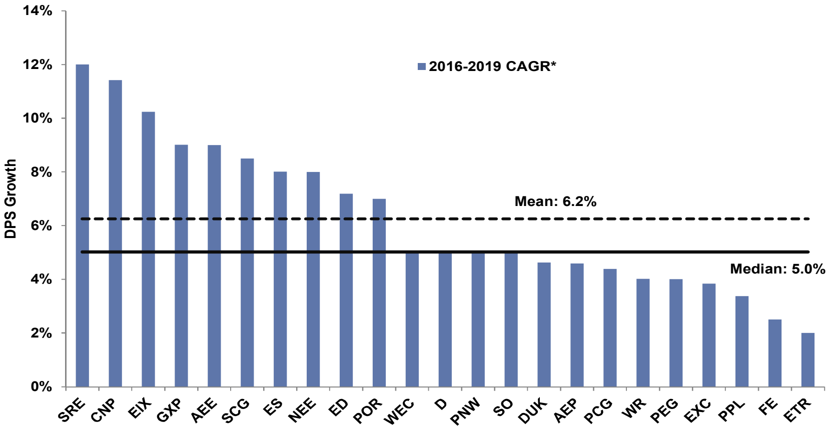
US Utility sub-sector and S&P 500 sector earnings growth CAGRs, 2016-2019



*Where 2019 estimates are unavailable we use a 2016-2018 CAGR
Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 23: …however, utility capital allocation through 2019 appears more attractive…

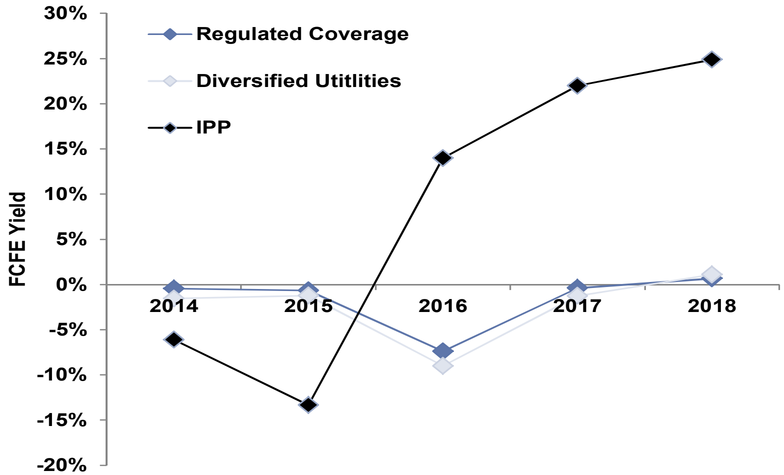
US utility coverage DPS growth CAGR, 2016-2019



*If GS does not maintain a published 2019 estimate, the CAGR refers to 2016-2018
Source: Goldman Sachs Global Investment Research.

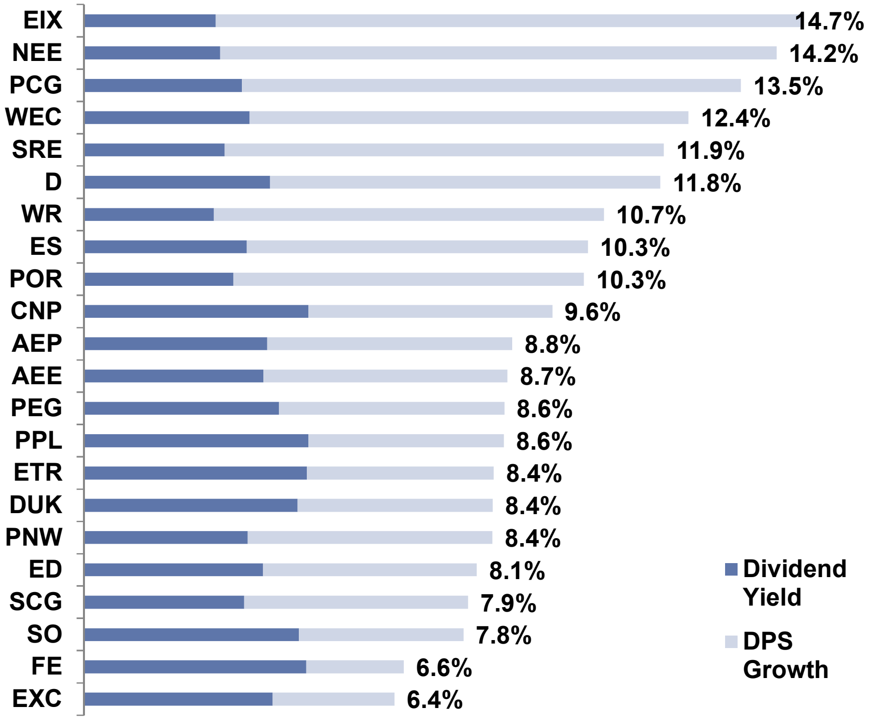
Exhibit 24: …as industry free cash flow improves following a combination of significant 2016 M&A and peak utility capital expenditures…

Total Regulated, Diversified Utility, and IPP FCF, GS estimates



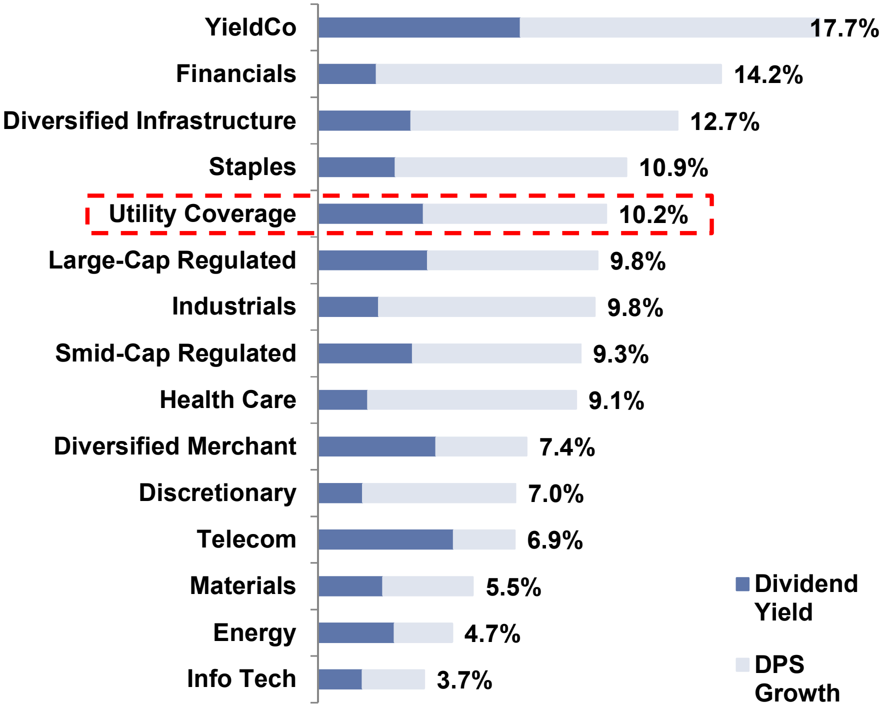
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 25: …the total return proposition appears more attractive…
GS utility coverage current dividend yield + 2016-2019 DPS growth expectations



Source: Goldman Sachs Global Investment Research.

Exhibit 26: …as capital allocation and dividend yield remain elevated…
Current dividend yield + 2016-2019 DPS growth for GS utility sub-sectors and S&P 500 sectors



Note: We use 2016-2018 DPS growth where 2016-2019 dividend growth data is not available

Source: FactSet, Goldman Sachs Global Investment Research.

We recommend waiting before becoming more bullish on utilities

Significant uncertainty surrounding the path of interest rates prevents us from being more bullish on utilities. Utilities as a whole historically underperform following Federal Reserve meetings where tightening policy is hinted. However, changes in shorter-term interest rates generally do not correlate strongly to changes in longer-term rates, with individual stocks exhibiting different levels of correlation.

Exhibit 27: Most mutual funds and hedge funds already remain underweight the utilities sector...
Mutual fund and hedge fund positioning vs. the market weightings

	Aggregate Asset Allocation				vs. Russell 3000		vs. Mutual Funds	
Sector	**Long Portfolio ($1143 bil)**	**Short Portfolio ($652 bil)**	**Allocation Difference**	**Net Weighting**	**Russell 3000 Weighting**	**Net Sector Tilt**	**Multi-cap Core Aggregate Weighting**	**Net Sector Tilt**
Information Technology	20.1 %	16.7 %	337 bp	**24.6 %**	19.3 %	526 bp	18.4 %	622 bp
Consumer Discretionary	19.3	18.9	39	**19.8**	13.4	644	14.5	530
Health Care	15.8	14.7	118	**17.4**	13.9	351	14.5	287
Financials	12.3	14.2	(194)	**9.7**	17.4	(768)	15.1	(543)
Industrials	9.8	11.3	(157)	**7.7**	10.0	(231)	12.6	(488)
Energy	7.7	7.9	(26)	**7.3**	6.5	86	6.6	73
Materials	5.5	4.0	151	**7.5**	3.3	427	5.3	224
Consumer Staples	6.1	7.1	(100)	**4.7**	10.2	(544)	8.6	(388)
Telecom Services	1.5	1.8	(31)	**1.1**	2.6	(152)	1.5	(37)
Utilities	1.9	3.2	(136)	**0.0**	3.5	(340)	2.9	(280)
Total	100.0	100.0	0	**100.0**	100.0	0	100.0	0

Source: FactSet, Goldman Sachs Global Investment Research.

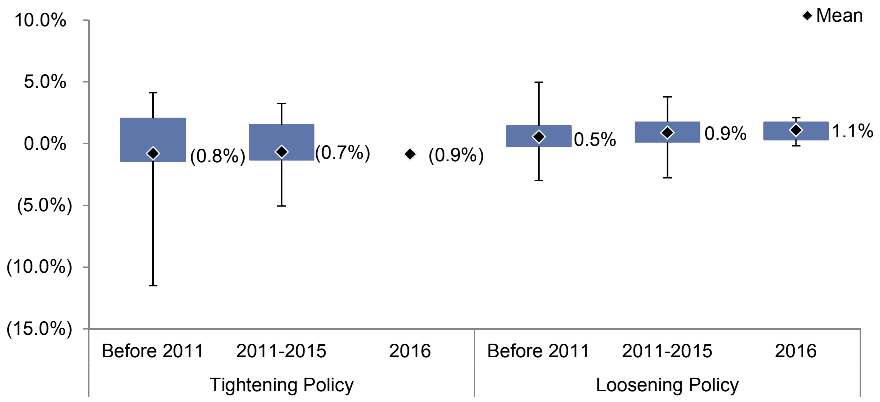
Exhibit 28: Utility total returns lagged the S&P 500 during the past few rising rate environments
Absolute and relative total returns for S&P 500, XLU, S&P utilities and Alerian index

	June 2003 - April 2006	**Dec 2008 - Feb 2010**	**Oct 2010 - April 2011**	**April 2013 - Aug 2013**
Absolute Performance				
S&P 500	39.5%	24.5%	17.1%	7.5%
XLU	55.2%	5.4%	3.6%	(5.6%)
S&P Utilities	56.6%	6.3%	3.7%	(5.7%)
Alerian	55.9%	80.0%	15.3%	0.4%
Front Monthy NYMEX Henry Hub	134.5%	75.0%	38.3%	19.2%
Relative Performance				
XLU	15.7%	(19.2%)	(13.5%)	(13.1%)
S&P Utilities	17.1%	(18.2%)	(13.4%)	(13.2%)
AMZ	16.4%	55.5%	(1.8%)	(7.2%)

Source: FactSet, Alerian, Bloomberg.

Exhibit 29: Utilities generally underperform during one-day period following Federal Reserve meetings when tightening policy is suggested…

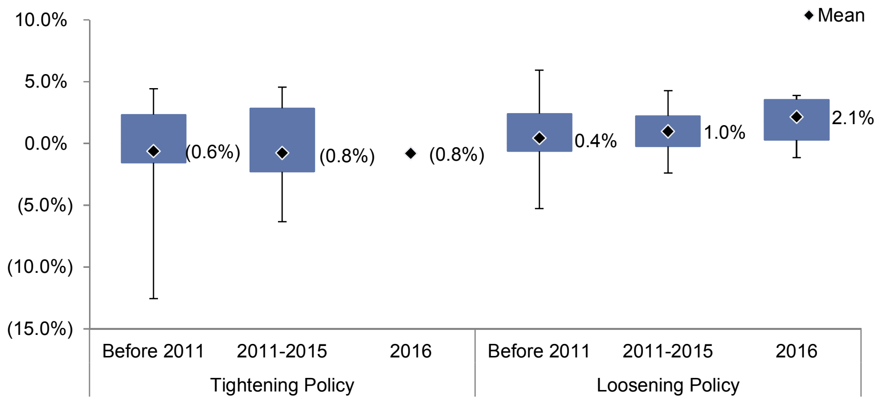
One day XLU performance relative to S&P 500 following Fed meeting



Source: Federal Reserve Board, Goldman Sachs Global Investment Research.

Exhibit 30: …and also over the period of five days

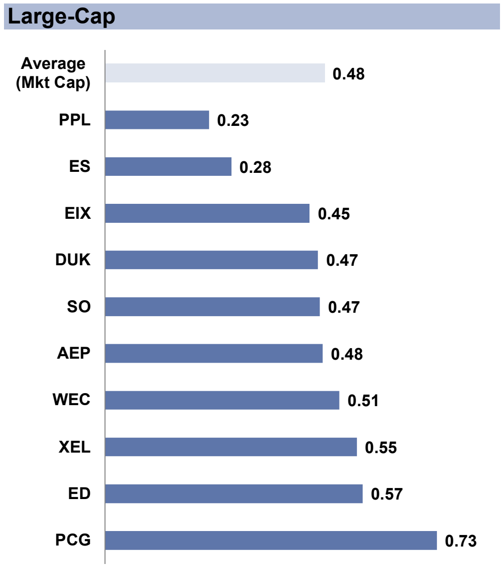
Five day XLU performance relative to S&P 500 following Fed meeting



Source: Federal Reserve Board, Goldman Sachs Global Investment Research.

Exhibit 31: Unsurprising outcomes since a few large cap names show high correlations to moves in the 10-year UST yield…

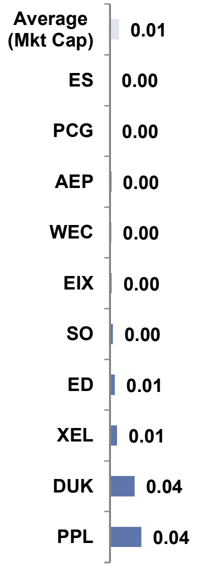
Large-cap utility multiple premium/(discount) R^2 vs UST 10-year yield



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 32: …yet similar stocks show little correlation with moves in shorter-term government bond yields – more greatly impacted by the FFR

Large-cap utility multiple premium/(discount) R^2 vs UST 2-year yield



Source: FactSet, Goldman Sachs Global Investment Research.

We update a number of estimates

Exhibit 33: We revise estimates, introduce 2019 forecasts, and revise our 12-month price targets for a host of names…

GS Old vs New vs Consensus estimates and revised 12-month price targets

Diversified, Merchant Utilities EPS

	GS - Old				GS - New				Consensus				New vs Old				New vs Consensus				12-Month Price Target		Close
	2016E	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**Old**	**New**	**10/13/2016**
EXC	$2.62	$2.78	$2.78	$2.73	$2.63	$2.78	$2.77	$2.72	$2.55	$2.61	$2.79	$2.71	0%	(0%)	(0%)	(0%)	3%	6%	(1%)	1%	$38	$37	$32.85
Mean													**0%**	**(0%)**	**(0%)**	**(0%)**	**3%**	**6%**	**(1%)**	**1%**			
Median													**0%**	**(0%)**	**(0%)**	**(0%)**	**3%**	**6%**	**(1%)**	**1%**			

Diversified, Infrastructure Utilities EPS

	GS - Old				GS - New				Consensus				New vs Old				New vs Consensus				12-Month Price Target		Close
	2016E	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**Old**	**New**	**10/13/2016**
CNP	$1.13	$1.26	$1.38		$1.09	$1.25	$1.34	--	$1.15	$1.21	$1.29	$1.34	(3%)	(1%)	(3%)	--	(5%)	3%	3%	--	$24	$24	$22.34
Mean													**(3%)**	**(1%)**	**(3%)**	**--**	**(5%)**	**3%**	**3%**	**--**			
Median													**(3%)**	**(1%)**	**(3%)**	**--**	**(5%)**	**3%**	**3%**	**--**			

Large-cap Regulated Utilities EPS

	GS - Old				GS - New				Consensus				New vs Old				New vs Consensus				12-Month Price Target		Close
	2016E	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**Old**	**New**	**10/13/2016**
DUK	$4.55	$4.72	$4.92		$4.50	$4.80	$4.88	$5.10	$4.62	$4.69	$4.90	$5.16	(1%)	2%	(1%)	--	(3%)	2%	(0%)	(1%)	$82	$82	$77.94
ES	$2.90	$3.18	$3.31	$3.41	$2.90	$3.18	$3.31	$3.41	$2.97	$3.15	$3.31	$3.54	0%	0%	0%	0%	(2%)	1%	(0%)	(4%)	$59	$57	$53.30
PPL	$2.32	$2.12	$2.27		$2.31	$2.08	$2.27	$2.31	$2.34	$2.16	$2.27	$2.39	(1%)	(2%)	0%	--	(1%)	(4%)	0%	(4%)	$37	$36	$33.00
SO	$2.94	$3.05	$3.21		$2.96	$3.08	$3.23	$3.33	$2.86	$2.98	$3.12	$3.20	0%	1%	1%	--	3%	3%	4%	4%	$52	$53	$50.76
WEC	$3.03	$3.18	$3.36		$3.01	$3.14	$3.33	--	$2.94	$3.11	$3.31	$3.50	(1%)	(1%)	(1%)	--	2%	1%	0%	--	$61	$61	$58.18
Mean													**(0%)**	**(0%)**	**(0%)**	**--**	**0%**	**1%**	**1%**	**(0%)**			
Median													**(1%)**	**(0%)**	**(0%)**	**--**	**1%**	**2%**	**0%**	**(1%)**			

Small and Mid Cap Regulated Utilities EPS

	GS - Old				GS - New				Consensus				New vs Old				New vs Consensus				12-Month Price Target		Close
	2016E	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2018E**	**Old**	**New**	**10/13/2016**
AEE	$2.61	$2.69	$2.97		$2.61	$2.70	$2.98	$3.10	$2.54	$2.75	$2.97	$3.16	0%	0%	0%	--	3%	(2%)	0%	(2%)	$50	$50	$48.04
SCG	$3.84	$4.17	$4.30	$4.63	$3.91	$4.25	$4.41	$4.55	$3.97	$4.19	$4.45	$4.79	2%	2%	3%	(2%)	(2%)	1%	(1%)	(5%)	$68	$69	$69.84
WR	$2.51	$2.56	$2.62		$2.54	$2.58	$2.65	--	$2.44	$2.51	$2.55	$2.72	1%	1%	1%	--	4%	3%	4%	--	--	--	$56.94
Mean													**1%**	**1%**	**1%**	**(2%)**	**2%**	**1%**	**1%**	**(3%)**			
Median													**1%**	**1%**	**1%**	**(2%)**	**3%**	**1%**	**0%**	**(3%)**			

IPPs Adjusted EBITDA ($mm)

	GS - Old				GS - New				Consensus				New vs Old				New vs Consensus				12-Month Price Target		Close
	2016E	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**2016E**	**2017E**	**2018E**	**2019E**	**Old**	**New**	**10/13/2016**
CPN	$1,828	$2,060	$2,119	$1,901	$1,823	$2,013	$2,075	$1,858	$1,845	$1,944	$2,110	$2,162	(0%)	(2%)	(2%)	(2%)	(1%)	4%	(2%)	(14%)	$16	$15	$13.02
Mean													**(0%)**	**(2%)**	**(2%)**	**(2%)**	**(1%)**	**4%**	**(2%)**	**(14%)**			
Median													**(0%)**	**(2%)**	**(2%)**	**(2%)**	**(1%)**	**4%**	**(2%)**	**(14%)**			

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 34: …seeing key risks related to our estimates and price target assumptions
Price target methodologies, drivers of change, and key risks

Price Target Methodologies, Drivers of Change, and Key Risks

Ticker	Price Target Methodology	Rating	Total Return (%)	Drivers of Changes	Key Risks Relate To
EXC	SOTP, 12month	Neutral	17%	Updated forecasts for the ACE rate case and revised our PHI valuation to reflect a 0.5x discount multiple -- now applying a 16.25x 2018 P/E multiple to the segment	Regulatory risk; demand risk; commodity risk; decommissioning risk
CNP	SOTP, 12month	Neutral	12%	Adjusted cash flow and financing assumptions to reflect greater pension contributions, transition bond roll off, and our cash tax assumptions	Regulatory risk; demand risk; commodity risk
DUK	P/E based, 12month, 16.75x P/E multiple on 2018E EPS	Neutral	9%	Revised our estimates to reflect the close of the PNY acquisition, midstream project timing, and introduced our 2019 forecasts	Regulatory risk; demand risk
ES	P/E based, 12month, 17.25x P/E multiple on 2018E EPS	Neutral	10%	Adjusted price target to reflect a 0.5x premium multiple rather than a 1.0x premium given historical averages and upcoming regulatory pressures	Regulatory risk; demand risk
PPL	SOTP, 12month	Neutral	14%	Lower updated estimates for rate case, FX, and operating cost assumptions; we also introduced 2019 estimates; lower PT on lower estimates	Regulatory risk; demand risk; currency risk
SO	P/E based, 12month, 16.25x P/E multiple on 2018E EPS	Neutral	9%	Introduced 2019 estimates while making modest adjustments to SO Power and various rate cases; higher PT on higher estimates	Regulatory risk; construction risk; financing risk
WEC	P/E based, 12month,18.25x P/E multiple on 2018E EPS	Neutral	8%	Updated estimates for new segment disclosures as well as weather-adjusted electric demand	Regulatory risk; demand risk
AEE	P/E based, 12month, 16.75x P/E multiple on 2018E EPS	Neutral	8%	Introduced 2019 estimates and updated forecasts for the 30-year yield, MO rate case, and O&M assumptions	Regulatory risk; demand risk
SCG	P/E based, 12month, 15.75x P/E multiple on 2018E EPS	Sell	2%	Adjusted estimates for rate case and capital expenditure recovery assumptions, while revising assumed nuclear RoE; higher PT on higher estimates	Regulatory risk; demand risk; construction risk; financing risk
WR	--	NR	--	Revise our estimates to reflect operating and pension cost assumptions per disclosures	--
CPN	EV/EBITDA, 12month, EV/EBITDA: 8.0x, M&A EV/EBITDA: 9.5x, 2018 EBITDA	Buy	15%	Revised capacity factor and cost assumptions; maintain multiples; lower PT on lower estimates	Power price risk; volume risk; capacity price risk

Source: FactSet, Goldman Sachs Global Investment Research.

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Disclosure Appendix

Reg AC

We, Michael Lapides, Daniel Yu, CFA, David Fishman, Dylan Campbell and Siddharth Verma, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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COMPANY UPDATE
November 10, 2016

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

Upcoming Milestones Should Help Stock Performance

What's Incremental To Our View

We expect finalization of contracts and clarity on plant retirement plans in coming weeks to potentially cause consensus estimates to increase.

IMPORTANT POINTS

Following our recent meeting with EXC management at the EEI Conference, we wanted to highlight the following upcoming milestones that could be positive for stock performance:

- **We expect the Zero Emission Credit (ZEC) contracts in New York to be signed on November 18th.** The signing of the contract is also a key milestone in the purchase of the Fitzpatrick (838mw, $110 million price) nuclear plant, which we expect to be completed in 1Q 2017. In aggregate, we estimate $0.15 of annual earnings from these related transactions. While this earnings contribution is already factored in our estimates, the signing of these contracts should increase the visibility of the contribution. In addition, we note that our 2018 estimate is $0.06 above consensus.

- **The Illinois legislature has six days in November to come up with legislation to prevent the Clinton (1069mw) and Quad Cities (1403mw) plants from retiring.** The "point of no return" for the retirement decision is December 1st. Our understanding is that the proposal being looked at would be similar to the New York ZEC program. Our current estimates already assume the plants will be retired, so any decision to keep the plants open would require the economics to be even more favorable for EXC.

- **We expect the sale of the Mystic power plant (1998mw) to be announced before year end.** On a preliminary basis, we estimate a value of $700 million - $750 million for the power plant. We expect the proceeds to be primarily used to pay down merchant generation debt (as part of the $3.0 billion debt reduction target over 2016-2020).

- **EXC appears attractively priced at a 16% P/E multiple discount to the peer group (based on our 2018 estimate).** Assuming a 13.5x P/E multiple (in line with the peer group) on our 2018 estimate of $2.81, we derive our price target of $38. We reiterate our **Buy** recommendation.

- We have included our latest 2016-18 earnings and cash flow models in this report.

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SEE PAGE 4 FOR REQUIRED DISCLOSURE INFORMATION

Buy

Price Target: $38.00
Prior: $38.00

Price (Nov. 9, 2016)	$32.07
52-Wk Range	$37.50-$25.46
Market Cap ($M)	$29,559
ADTV	4,819,320
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	2.1%
Dividend/Yield	$1.27/4.0%
TR to Target	22.5%

ROE	9.0%
5 Year EPS Growth	5.0%
Debt/Cap	55%
P/B	1.10x
Enterprise Value ($M)	$65,171.8

	2016E	2017E		2018E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.68A	$0.66	$0.66	$0.72	$0.72
2Q	$0.65A	$0.63	$0.63	$0.69	$0.69
3Q	$0.91A	$0.88	$0.88	$0.96	$0.96
4Q	$0.41	$0.40	$0.40	$0.44	$0.44
CY	$2.65	$2.57	$2.57	$2.81	$2.81
P/E	12.1x	12.5x		11.4x	
Consensus					
CY	$2.63	$2.58		$2.75	
Revenue ($M)					
CY	$32,345	$34,285	$34,285	$34,780	$34,780
Operating Margin (%)					
CY	14.80%	14.20%	14.20%	15.20%	15.20%
EBITDA ($M)					
CY	$7,945	$8,179	$8,179	$8,743	$8,743
EV/ EBITDA	8.2x	8.0x		7.5x	
FYE Dec					

SunTrust Robinson Humphrey

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Exelon Corporation (EXC)

Earnings Model, 2011A-2018E

(dollars in millions, except per share)

	2018E		2017E		2016E		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)																
Com Ed	5,280		5,150		5,000		4,905		4,564		4,464		5,443		6,056	
PECO	3,515		3,430		3,050		3,032		3,094		3,100		3,186		3,720	
BGE	3,570		3,465		3,380		3,135		3,165		3,065		2,204			
PEPCO	5,370		5,265		3,915											
Generation	18,070		18,000		18,000		18,925		17,853		16,190		15,502		10,502	
Other	(1,025)		(1,025)		(1,000)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,780	1.4%	34,285	6.0%	32,345	10.6%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)																
Com Ed	1,325	25.1%	1,250	24.3%	1,200	24.0%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	765	21.8%	720	21.0%	685	22.5%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	635	17.8%	585	16.9%	550	16.3%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	760	14.2%	645	12.3%	482	12.3%										
Generation	1,828	10.1%	1,702	9.5%	1,901	10.6%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(20)		(23)		(23)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)									(8)		102		59		(1)	
Total Operating Income	5,293	15.2%	4,879	14.2%	4,795	14.8%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,435)		(1,430)		(1,390)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	266		265		265		276		262		238		252		178	
Pretax income	4,124		3,714		3,670		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,402	34.0%	1,263	34.0%	1,211	33.0%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	15		15		15		13		134		14		11			
Equity Income (Loss)					(20)		(7)									
Net Income (% change)	2,707	11.1%	2,436	0.5%	2,424	8.8%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	965.0		947.0		926.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.81	9.3%	$2.57	-3.0%	$2.65	6.4%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items																
Reported GAAP EPS																
EBITDA	8,743		8,179		7,945		6,684		6,242		6,191		6,180		6,177	
ComEd																
Total Retail Sales (millions mw hs)	93.0		93.0		92.0		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$14.2		$13.4		$13.0		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO																
Total Electric Retail Sales (millions mw hs)	39.5		39.5		39.0		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$19.4		$18.2		$17.6		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO																
Total Electric Retail Sales (millions mw hs)	50.0		50.0		38.0											
Implied Operating Margin ($/MWh)	$15.2		$12.9		$12.7											
Generation																
Total Pow er Sales (millions mw hs)	204.2		204.2		198.5		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mw h)	$9.0		$8.3		$9.6		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment																
Com Ed	590		555		530		432		410		421		381		403	
PECO	460		430		415		380		353		393		387		388	
BGE	335		310		285		277		199		195		46			
Generation	1,112		1,016		1,189		1,253		1,155		1,202		1,548		2,002	
PEPCO	355		275		180											
Other	(145)		(150)		(145)		(115)		(49)		(62)		(32)		(30)	
Total	2,707		2,436		2,454		2,227		2,068		2,149		2,330		2,763	

Note

1) Our PECO Implied Margin ratios factor in the impact of Gas sales.

2) Rate Base - Com Ed: $10.6bn in 2015, $12.2bn in 2016E, $13.0bn in 2017E, $13.6bn in 2018E; PECO: $6.0bn in 2015, $6.3bn in 2016E, $6.9bn in 2017E, $7.3bn in 2018E;
BGE: $5.0bn in 2015, $5.2bn in 2016E, $5.8bn in 2017E, $6.2bn in 2018E; PEPCO: $8.4bn in 2016E and $9.1bn in 2017E, $9.5bn in 2018E.

3) Earned ROE - Com Ed: 8.0% in 2015, 8.7% in 2016, 8.5% in 2017, 8.7% in 2018; PECO: 11.7% in 2015, 12.2% in 2016, 11.5% in 2017, 11.7% in 2018;
BGE: 10.7% in 2015, 10.5% in 2016, 10.3% in 2017, 10.4% in 2018; PEPCO: 5.7% in 2016, 6.0% in 2017, 7.5% in 2018.

4) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

5) We assume EXC achieves its growth targets for Power and Non Power new business for 2016 onwards.

6) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

7) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

8) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

9) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw , nuclear $110m price) from Q2 2017.

10) We have factored the retirement of Clinton (1069mw) from 6/1/17 and Quad City (1403mw) from 6/1/18.

11) Forward curves as of 10/25/16.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

SunTrust Robinson Humphrey

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2018E

($ in millions except per share)

	2018E	2017E	2016E	2015A	2014A	2013A	2012A	2011A
Net income	2,707	2,436	2,424	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	5,000	4,925	4,820	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	(125)	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,582	7,236	7,119	7,634	4,457	6,343	6,131	4,853
Dividends	(1,196)	(1,174)	(1,148)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(6,150)	(7,050)	(7,675)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	236	(988)	(1,704)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a P/E multiple of 13.5x our 2018 estimate of $2.81 (in line with the peer group), we derive our price target of $38.

RISKS

- Outlook for forward power prices.

- Timing of upcoming EPA regulations.

- Outcome of pending and future rate cases.

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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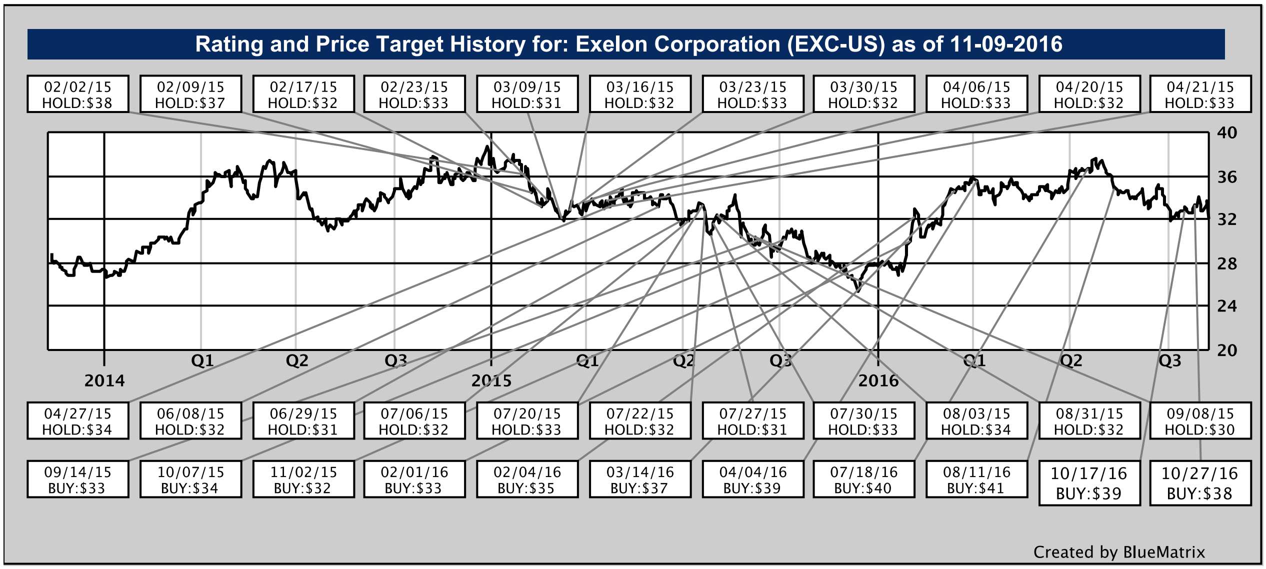

STRH Ratings System for Equity Securities

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Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision.

As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:

B = Buy
H = Hold
S = Sell
D = drop coverage
CS = Coverage Suspended
I = initiate coverage
T = transfer coverage

The prior rating system until Oct. 7, 2016:
3 designations based on total returns* within a 12-month period**
- **Buy** – total return ≥ 15% (10% for low-Beta securities)***
- **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
- **Neutral** – total return is within the bounds above
- **NR** – NOT RATED, STRH does not provide equity research coverage
- **CS** – Coverage Suspended

*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

SunTrust Robinson Humphrey ratings distribution (as of 11/10/2016):

Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	377	58.63%	Buy	86	22.81%
Hold/Neutral	265	41.21%	Hold/Neutral	46	17.36%
Sell/Reduce	1	0.16%	Sell/Reduce	0	0.00%

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Deutsche Bank
Markets Research

North America
United States
Industrials
Utilities and Power

Industry
Utilities & Power

Date
1 August 2016

Breaking News

DB Power Flash

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Focus stocks
Exelon (EXC.N),USD37.28 Buy Price Target USD39.00
Entergy Corp. (ETR.N),USD81.39 Hold Price Target USD83.00
Eversource Energy (ES.N),USD58.49 Hold Price Target USD61.00

Source: Deutsche Bank

EXC/ETR – NY PSC adopts Clean Energy Standard (+ for EXC, ETR)

At their open meeting today, the NY Public Service Commission adopted a Clean Energy Standard to help NY State achieve its goal of generating 50% of electricity from renewable sources by 2030 in “the best possible way.” The CES would establish revised Renewable Energy Credits and, important to EXC and ETR, a new Zero Emissions Credit (ZEC), designed specifically to support upstate NY nuclear units, FitzPatrick, Ginna, and Nine Mile Point. With regard to the ZECs and based on our understanding of the discussion today, the PSC has largely adopted Staff’s original proposal for calculating payments. That said, there were some modest changes to the formula for calculating ZEC payments, including allowing the emissions rate conversion to be variable, which Staff suggested would lower ZEC payments in future years. Consistent with the Staff’s proposal, Zero Emissions Credit payments would start in April 2017 and run through March 2029. Passage of the ZEC framework will result in higher revenues for EXC’s merchant generation business starting in 2017 and ensure EXC’s Nine Mile Point and Ginna remain open. We calculate incremental revenues of $123M in 2017 and $164M in 2018 for Ginna and Nine Mile (assuming initial ZEC price of $17.48/MWh). The CES will also likely pave the way for EXC to purchase ETR’s FitzPatrick nuclear plant. Last month, the companies announced that they had been in discussions regarding a potential transaction, with any deal dependent on the state’s passage of the ZEC methodology. An announcement from the companies is expected later this month.

ES – MA legislature passes energy bill late Sunday (+ for ES)

Late last night before the MA legislature broke for summer recess, the House and Senate passed compromise energy legislation that would require electric utilities in the state to enter into long-term contracts for 1,600 MW of offshore wind power and 1,200 MW of hydropower or other renewables (wind, solar). The passed bill did not include a provision that would prohibit electric ratepayers from paying for new gas pipelines as had originally been included in the Senate’s proposed energy bill, which would have been negative for ES’s Access Northeast gas pipeline expansion project. We view the legislation as favorable for ES by likely creating new transmission investment opportunities in order to connect new offshore wind and renewables. We also believe ES’s Northern Pass will be well positioned to secure contracts to supply hydropower to the state.

Deutsche Bank Securities Inc. Distributed on: 08/01/2016 18:39:30GMT

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Date
16 November 2016

Breaking News

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DB Power Flash

Focus stocks
Exelon (EXC.N),USD31.60 Buy Price Target USD38.00
Dynegy Inc. (DYN.N),USD9.09 Buy Price Target USD11.00

Source: Deutsche Bank

EXC, DYN – IL House Committee considers energy bill amid vocal opposition

On Wednesday afternoon the Energy Committee of the Illinois House of Representatives heard the best part of five hours of at times noisy testimony on Exelon's mammoth energy bill (SB 2814) now dubbed the Future Energy Jobs Bill (FEJB). As would be expected with such a broad piece of energy legislation, certain areas of the new bill drew significant opposition from witnesses during the hearing as well as support from their various proponents and beneficiaries. While the Zero Emission Credits (ZECs) targeted at helping nuclear plants were not without their detractors, the most vigorous pushback seemed to be channeled more towards other areas. Again, not surprisingly, one particularly contentious piece was the so-called Fixed Resource Adequacy Plan (FRAP) which would provide incremental capacity revenues to downstate coal plants – likely those owned by DYN – which many felt had been added to the mix with little time for consideration. And opposition was particularly vigorous for the proposed elimination of net metering and shift towards more demand-based utility rates. This was predictably a notable flashpoint for the solar industry representatives and we found ourselves wondering if this might be an area that may be negotiated out of the bill in future iterations.

Committee votes (9-1) to move forward, but bill still a work in progress

There are only four more days scheduled in the legislature's ongoing Veto Session (Thursday this week and Tues-Thurs 11/30-12/1) so time is clearly getting very short. And next steps remained somewhat opaque to us as at the close of today's hearing. Right at the end the Committee voted (9-1) to recommend adoption of the bill and move it to the House floor. Immediately prior to this vote, however, it was specifically stated that the bill would be held on second reading with several members seeking assurances that it would yet be brought back before the Energy Committee with further amendments and conditioning their votes on this understanding. Bill sponsor Rep. Robert Rita's closing comments highlighted imminent threat of closure for Exelon's Clinton and Quad Cities nuclear plants absent the support provided for in the bill. At the same time he acknowledged that the legislation may still require changes and indicated he intends to continue "working through" the issues brought up at today's hearing before returning to the Energy Committee with amended language. In this discussion Committee Chair Linda Chapa LaVia specifically requested that the Attorney General and AARP should be included in ongoing discussions. Net/net our prior experience with the Illinois state legislature and energy bills reminds us that the process is never simple and often subject to last-minute surprises and intriguing procedural twists. As such, our sense is that SB 2814 remains very much in play, but still far from assured of ultimate passage and a work in progress likely to be further refined as the legislative process unfolds over the next two weeks.

Deutsche Bank Securities Inc. Distributed on: 17/11/2016 03:36:29 GMT

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North America
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Date
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Industry Update

EEI Conference 2016 – DB Meetings

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Meeting List for November Edison Electric Institute (EEI) Conference

The 51st Edison Electric Institute Financial Conference is being held from November 6 to November 9 in Phoenix, Arizona. We will be hosting small group meetings with management from several utilities and power companies over the course of the conference. All meetings will be held at the JW Marriott Desert Ridge Resort & Spa, with specific locations to be provided at a later date to confirmed attendees. Please see our team's current meeting schedule below, but note that we will likely add to this later as we get closer to the event. These meetings are by request only; please submit requests directly to Jonathan Arnold via email at jonathan.arnold@db.com.

Figure 1: DB Utilities & Power – 2016 EEI Meeting List

Sunday, November 6th

6:30 PM	CenterPoint Energy (CNP)

Monday, November 7th

8:00 AM	FirstEnergy (FE)
9:00 AM	Exelon Corp. (EXC)
10:00 AM	Public Service Enterprise Group (PEG)
11:00 AM	Avangrid (AGR)
12:00 PM	CMS Energy (CMS) - Lunch
1:00 PM	PG&E Corp. (PCG)
2:00 PM	American Electric Power (AEP)
4:00 PM	Dominion Resources (D)

Tuesday, November 8th

9:00 AM	Entergy (ETR)
11:00 AM	Xcel Energy (XEL)
12:00 PM	PPL Corp. (PPL) - Lunch
1:00 PM	Edison International (EIX)
2:00 PM	WEC Energy Group (WEC)
3:00 PM	Duke Energy (DUK)
4:00 PM	NextEra Energy (NEE)

Source: Deutsche Bank
Note: Meeting list as of August 19

Deutsche Bank
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15 November 2016

Breaking News

DB Power Flash

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Focus stocks

Exelon (EXC.N),USD30.77 Buy Price Target USD38.00
Dynegy Inc. (DYN.N),USD8.77 Buy Price Target USD11.00
PG&E Corp (PCG.N),USD58.15 Buy Price Target USD67.00

Source: Deutsche Bank

EXC / DYN – Future Energy Jobs Bill (FEJB) takes shape in IL Veto Session

Today, the Illinois legislature's Veto Session begins. EXC, the state's largest utility and power company, is urging the legislature to pass a comprehensive energy reform bill that would save its 2 challenged nuclear plants from closure. Per press reports, key components of the compromise bill include a zero emissions credit for the nukes, a doubling of the state's energy efficiency goals, support for five microgrids, and strengthening IL's renewable portfolio standard, with ~$200M/yr of funding. Also reportedly included, is a capacity reform provision designed to support DYN's down-state coal plants. Unlike MISO, which allows participation from neighboring utilities with excess capacity, IL's procurement would likely be specifically limited to in-state generators, likely raising prices. ExGen and DYN would be beneficiaries of the proposed legislation, but we think FEJB, if enacted, could open additional growth avenues for in-state utilities like EXC's ComEd and AEE. During the Veto Session, legislation needs a 3/5 super-majority to pass with immediate effect. Whether this can be achieved in the face of competing priorities and election gains by Republican candidates last week clearly remains a critical question. House Speaker Madigan (D) is yet to articulate a public position on FEJB and reportedly refused to meet with Gov. Rauner yesterday.

PCG – CEO transition announced as PCG continues to focus forward

PCG continues its forward looking transition, announcing that Geisha Williams will succeed Tony Earley as CEO on March 1, 2017. Earley will remain on the Board as Executive Chairman. Williams is well known by the Street having joined PG&E in 2007 from FP&L (NEE). She currently serves as President of the electric business alongside gas business President Nick Stavropoulos. These two roles are now being consolidated under Stavropoulos who will serve as the sole utility President. In our view, the split role is a preferred structure and we believe it is particularly appropriate in this instance given the ongoing need to continue rebuilding regulatory trust with the CPUC. One issue which had been under scrutiny by the commission is the question of whether the lack of a separate senior management for the gas utility might have contributed to the lapses which ultimately led to the San Bruno gas explosion. This will be an area to watch, although with relations between company and commission on an improving track it is to be hoped regulators are on board. Near-term stock wise we see some risk that investors, hoping for a potential take-out, may see reason to be disappointed by the internal transition. While not inconceivable, we never saw an M&A outcome as the central thesis with PCG, and the stock remains one of our limited regulated Buy-rated names predicated on resolution of legacy issues and reverting to a simpler rate base utility story with above-average growth. In fact, for investors concerned about the overall trajectory of clean energy policy under President-elect Trump, California is the state where we have the highest confidence that policy direction will be little changed. Closer at hand, hopes for an agreement to extend the current cost of capital adjustment can only be helped by the recent upward spike in yields.

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Deutsche Bank
Markets Research

North America
United States
Industrials
Utilities and Power

Industry
Utilities and Power

Date
20 September 2016

Breaking News

DB Power Flash

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Michigan – State to work with MISO/FERC on electric reliability solution

Yesterday, Gov. Snyder and MISO announced a plan designed to address future electric reliability concerns in Michigan. Under the plan, MISO states with competitive retail choice would have the option to select a "state compensation mechanism" for purchasing electric capacity rather than participate in MISO's new proposed forward capacity auction. Alternative electric suppliers would be forced to pay the state-established capacity charge or show how they have contracted adequate capacity elsewhere three-years in advance. MI would then be able to use funds collected under the plan to ensure sufficient investment in new capacity by load-serving entities such as CMS and DTE. The proposal will be filed as part of MISO's proposed competitive retail solution changes to FERC for approval early this November, and could take effect in 2018, if approved next year. We view this as a potentially positive development for CMS/DTE, and perhaps a model which could influence Illinois electricity market restructuring talks for EXC and DYN. On a related note, MI Senator Mike Nofs, Chairman of the Senate Energy and Technology Committee, noted late last week that he hoped to move revised energy legislation through the MI Senate this week but these efforts could be complicated by yesterday's proposal, which accomplishes some of the goals of Nofs' legislation. As reported in the press, various MI parties have now called for action on energy legislation to be suspended until the new MISO proposal can be properly vetted.

NEE – Ups bid for Oncor, wins support from Fidelity, Bankruptcy Court

Yesterday, Energy Future Holdings received approval from the U.S. Bankruptcy Court to enter into an amended merger agreement with NextEra for its 80% stake in Oncor. NEE's bid was raised by $300M, to a total EV of $18.7B, which allowed it to secure support from Fidelity, a key EFH creditor which had at one point been pushing its own plan to buy Oncor. With the bankruptcy court approval in hand, NEE and Oncor will file jointly with the Public Utilities Commission of Texas for approval of the transaction, kicking off a 180 day review period. Prior to closing the proposed transaction, NEE also needs bankruptcy court confirmation of EFH's plan of reorganization, which is expected in December, as well as other regulatory approvals. We view this as an important step for NEE's execution of the proposed transaction and the future regulated growth investment opportunities it could provide.

Focus stocks

Exelon (EXC.N),USD34.16 Buy Price Target USD40.00

NextEra Energy (NEE.N),USD124.74 Buy Price Target USD133.00

CMS Energy (CMS.N),USD42.81 Buy Price Target USD46.00

DTE Energy (DTE.N),USD94.40 Hold Price Target USD96.00

Dynegy Inc. (DYN.N),USD12.54 Buy Price Target USD23.00

Source: Deutsche Bank

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Deutsche Bank
Markets Research

North America

Industrials
Utilities and Power

Industry
Utilities and Power Q2 Preview

Date
22 July 2016

Recommendation Change

Q2 commodity and value mark; back in EXC with PJM discount removed

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Raising regulated values (again); marking power to a July deck

Despite pulling back modestly in the post-Brexit rally, utilities are still on top YTD (+20%) with global macro unease and low bond yields continuing to fuel demand for low beta, high quality income. While absolute values are elevated vs. history, the relative P/E premium (~7%) remains below prior peaks of ~20%+ (2008 and 2011-12) and solid single-digit growth plus growing 3-4% yields clearly have appeal in today's market given limited alternatives. In this note we preview 2Q and raise regulated target values another turn while keeping a conservative bias and narrow focus. Commodities marked to early July; PJM discount removed now sparks have normalized.

Raising regulated values ~7% with lower-for-longer backdrop extended

Our average regulated PT is up ~7% as we raise our base regulated P/E from 16x 2018E to 17x. This reflects 1) further extension of the lower for longer rate backdrop with 10-year yields down 20bp since our April mark; 2) the higher market multiple; and 3) further time-value accretion as 2018 moves closer. While the overall group is no doubt vulnerable to a major shift in the macro and rate outlook, risks do seem balanced to us with upside potential on relative value if US yields end up falling back sub-1.5% as DB strategists expect.

We remain highly selective in regulateds with a limited Buy list

Our focus in regulated utilities is on secular growth (NEE), superior quality (CMS), and late-stage de-risking transitions (AEP, PCG). While we are raising most regulated PTs, upsides remain fairly slim and constrained by a below-market multiple. PPL is the one exception with an unchanged PT as our lower GBP FX ($1.25 on un-hedged 2018E) offsets the higher target multiple.

Upgrading EXC to Buy; cheap play on regulated assets with catalysts

In merchant generation we have removed our PJM discount from valuations given normalization seen in regional spark spreads as gas prices have rallied off lows. We highlighted this in our June Power Q note but kept the discount pending marking our commodity numbers. Combined with a higher regulated multiple this move bolsters valuations on PJM integrated heavyweights EXC and PEG, with both having lagged top-performing regulateds and IPPs. Of the two we see a better near-term catalyst set with EXC and an entry point for a cheaper way to own regulated assets with attractive growth.

IPP valuations remain attractive; in YieldCos we still prefer NYLD over NEP

IPPs have performed well YTD amid mixed fundamentals, but we continue to see decent upside to target valuations and remain buyers of DYN and NRG. Our price target revision is most positive for DYN (+10%) given PJM discount removal. Within our YieldCo coverage we still see better relative value in Buy-rated NYLD versus Hold-rated NEP – a trade which has worked well YTD.

Detailed quarterly earnings preview work inside starting on page 28

Utility earnings begin on Tuesday with DTE and continue through August 9. 2Q is a shoulder demand period and regional weather data versus last year do not look to be a significant driver. DB estimates show average growth for our coverage ex-IPPs and YieldCos of ~1% on a market cap-weighted basis. We are most above consensus for CMS, XEL, NEE and most below for EIX, ITC, PCG. EXC will not hold a 2Q call but we expect their post-POM analyst day update on August 10 to be a key investor focus this quarter.

Key Changes

Company	Target Price	Rating
CPN.N	17.00 to 18.00(USD)	-
DYN.N	21.00 to 23.00(USD)	-
ETR.N	78.00 to 83.00(USD)	-
EXC.N	36.00 to 39.00(USD)	Hold to Buy
FE.N	37.00 to 39.00(USD)	-
NRG.N	19.00 to 20.00(USD)	-
PEG.N	47.00 to 49.00(USD)	-
NEE.N	123.00 to 134.00(USD)	-
NEP.N	28.00 to 30.00(USD)	-
AEP.N	66.00 to 72.00(USD)	-
D.N	72.00 to 78.00(USD)	-
CNP.N	22.50 to 24.50(USD)	-
ED.N	70.00 to 74.00(USD)	-
CMS.N	43.00 to 46.00(USD)	-
DTE.N	90.00 to 96.00(USD)	-
DUK.N	80.00 to 85.00(USD)	-
EIX.N	71.00 to 76.00(USD)	-
ES.N	58.00 to 61.00(USD)	-
ITC.N	45.00 to 47.00(USD)	-
PCG.N	62.00 to 68.00(USD)	-
SO.N	50.00 to 54.00(USD)	-
WEC.N	61.00 to 65.00(USD)	-
XEL.N	40.00 to 43.00(USD)	-

Source: Deutsche Bank

Deutsche Bank Securities Inc.
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Table of Exhibits

Table of Exhibits (Cont'd)

Key ratings and changes

Rating changes and updated investment theses for our Buy-rated stocks are summarized in the following paragraphs. For our full list of rating and target price changes please see Figure 1. Updated estimates which for the most part reflect our July commodity mark are in Figure 2, with an updated comparison of DB estimates with company guidance and consensus in Figure 3. Our valuation methodologies, price target upsides and total returns are in Figure 12, and we discuss individual company quarterly estimates along with updated valuations in our company section beginning on page 28.

Exelon (EXC): Upgrading to Buy, TP raised to $39

Cheaper way to own utility growth with H2 catalysts pending

Target up from $36 to $39 reflecting higher target regulated multiple, removal of PJM multiple discount and detailed quarterly refresh with 2018E up $0.05 to $2.80

We are putting EXC back on the Buy list as we view this genuine hybrid name as a way to add exposure to a superior regulated growth story at a discounted valuation. We also see a favorable catalyst set-up with an Analyst Day coming on August 10 and the potential establishment of a Zero Emissions Credit in NY. With 60% of earnings expected to come from its T&D utilities by 2018, EXC trades at around 13.0x 2018 whereas mostly regulated utilities currently trade at ~17.5x (ex M&A influenced names) on average. We also believe EXC has a more favorable regulated growth story than peers. EXC has indicated that their utility net income growth should be in the 7-9% range (well above peer average) going forward with Pepco Holdings in the mix, although we suspect that it could actually be higher depending on the base year used and whether historical POM earnings are added to that base. Clarity on future growth at the EXC utilities is expected at the Analyst Day. Planned de-levering of the generation company should also help drive higher equity value over time while reducing risk. Separately, we also see potential for incremental value creation at the merchant generation business through the closure of certain value destroying nuclear plants or the establishment of clean energy subsidies for nuclear plants under consideration in IL and NY. Currently, a subsidy through the form of a zero emissions credit (ZEC) looks more likely in NY (potentially as soon as August 1) than in IL where a new law will be required and the legislature is currently on summer recess. Absent new legislation in IL though, we would still expect EXC to move forward with plans to close Quad Cities and Clinton, which EXC has said would lose about $140M in 2017 (excluding hedge value) on a “free cash flow” basis. Clarity on how much these plants are earning presumably could also come at next month’s meeting. Assuming Quad Cities and Clinton are losing as much money as implied by EXC, we believe a shutdown would be accretive to EPS.

AEP (AEP): Reiterating Buy, TP raised to $72

Regulated transition execution story with generation sale nearing

Target up from $66 to $72 on higher target utility multiple plus $1-$2/sh for genco sale optionality (previously zero)

AEP continues to maintain a strategic focus on moving toward a fully-regulated business model and earning a premium valuation relative to regulated peers. We see the potential for a catalyst later this year with an expected announcement of the sale of some of AEP’s merchant generation fleet. AEP might also sell the remaining merchant fleet, though management has also discussed the potential for some (limited) re-regulation in Ohio if new legislation is passed. Overall, we view a sale (or re-regulation) of the generation fleet as a positive for AEP as it would improve earnings quality and predictability and further strengthen management's credibility on execution.

CMS Energy (CMS): Reiterating Buy, TP raised to $46

Top quality regulated at well-deserved premium valuation

Target raised to $46 on higher base regulated multiple; target premium still 15%

We continue to view CMS as an above-average growth utility with below-average execution risks and believe it still merits a significant premium valuation relative to more growth-challenged regulated peers. While upside beyond our $46 price target is limited CMS has shown an ability to execute across a number of conditions and even raised its EPS growth target earlier this year. CMS' ongoing focus on cost containment via process improvements and increasing efficiency continues to deliver results, keeping rate increases lower despite significant rate base investments.

NextEra Energy (NEE): Reiterating Buy, TP raised to $134

Rate case and renewables execution could support LT earnings growth

Target raised from $123 to $134 on higher regulated P/E and higher NEER multiple reflecting growing appeal of contracted renewable book

We continue to view NEE as a premium large cap utility, with above-average growth in EPS (6-8%) and dividends (12-14%) through 2018. NEE's Florida utility FP&L has low bills, high reliability, organic load growth, and strong customer service, arguably an optimal set up in an important rate case year. While the initial rate case bid-ask is unsurprisingly large with different views on ROEs, capital structure, depreciable lives etc., FP&L has worked constructively with stakeholders and regulators in the past and we would expect that to continue. A positive rate case outcome, allowing NEE to provide earnings visibility through the end of the decade, could remove an overhang although we note that investors have seemed relatively unfazed by the case to date. Outside of the utility, NEE's industry-leading renewable development business is well positioned for sustained earnings growth with 5+ year clarity on tax policy and an upcoming management update on potential wind repowering opportunities expected later in the year (likely on the Q3 call). Outside of the current footprint we also could also finally see a resolution of the Oncor M&A process in the coming months, which if NEE were successful, would likely provide earnings accretion, business mix and credit enhancement, plus additional long-term rate base investment opportunities.

PG&E Corp. (PCG): Reiterating Buy, TP raised to $68

California growth at a discount with past overhangs nearing resolution

Target raised from $62 to $68 on higher base utility target multiple plus 2-3% premium for ongoing progress towards L-T overhang resolution

We continue to believe PCG is in the latter stages of a turnaround story, with the company moving to resolve long-standing gas safety-related proceedings. We view this year's dividend increase as a key step forward in PCG's "back to basics" regulated strategy. PCG also has a solid growth outlook driven in part by state-mandated clean energy objectives as well as general infrastructure replacement. We continue to view California as an overall constructive regulatory environment and believe the recently-announced California PUC reform package removes a potential overhang of a major regulatory overhaul.

Dynegy Inc. (DYN): Reiterating Buy, TP raised to $23

DYN continues to surprise with value-enhancing initiatives

Target up from $21 to $23 with lower 2017 and 2018 EBITDA trumped by removal of PJM discount

We are reiterating our Buy on Dynegy, as the company's transformation to a large, regionally diverse, primarily gas-based generation company is nearly complete. A large percentage of DYN's margins are from contracted capacity revenues, where we see significant upside potential (PJM transition to 100% Capacity Performance, MISO tightening and reform potential). DYN's fuel-diverse fleet provides downside protection from lower gas prices (PJM CCGTs), while preserving upside optionality to higher gas prices (coal units, ISO-NE and ERCOT CCGTs). And with its latest Engie transaction, DYN provides exposure to Texas which could tighten with load growth, a lack of new builds and coal retirements – the latter both looking likely to us without meaningful gains in the pricing. With permanent financing for Engie in place and DYN securing 100% control of the assets, we forecast significant free cash flow which the company could use to pay down debt and reward shareholders as soon as 2017. Value-enhancing asset sales (e.g. Independence CCGT) could provide more of a near-term catalyst.

NRG Energy (NRG): Reiterating Buy, TP raised to $20

Recent refinancings provide more time value for the upside option

Price target raised from $19 to $20 with modestly lower 2018 EBITDA offset by cash benefits from Aurora sale and lower interest costs

NRG is a very different company from this time last year. A good chunk of senior management has turned over and the new NRG has a focus on the bottom line rather than top line growth. In recent months, NRG has raised over $4 billion of new debt at attractive rates to repay near and medium term maturities, positioning the company for upside in power and gas prices later in the decade. NRG's leading position in wholesale and retail electric markets is rare and strategically valuable, while its repositioning towards capacity auctions and contracted cash flows helps protects the downside. Environmental CapEx is expected to be way down beginning in 2H16, and with increased cost cutting initiatives, NRG should be poised to deliver significant free cash flow in 2017+. A continued consistent message and more reliable execution will be key to re-earning investor support longer-term.

NRG Yield (NYLD): Reiterating Buy, TP unchanged at $18

Healthy coupon with strategic options intact

NYLD's ~6% current dividend is safe in our view, with 15% DPS growth through 2018 feasible even without new drop downs due to its low CAFD payout ratio. Additionally, we view NYLD's independent CEO position as an improvement, as he would likely be interested in accretive growth whatever the origin (NRG or elsewhere). Further, the absence of an IDR provides NYLD a cost of capital advantage versus some peers.

Commodity, value mark

Marking estimates and valuations to a July deck

In conjunction with our Q2 earnings preview, we are marking our regulated values to a higher base regulated target multiple (17x 2018E vs. 16x before) and commodity exposures to an early July deck (see page 23). As shown in Figure 1 our average PT increases +7% with the highest being PCG (+10%) where we have factored in the higher base multiple and also added a modest relative premium (2-3% vs. zero before). This reflects progress on resolving key multi-year overhangs and our continued positive view of California as a growth utility investment jurisdiction. DYN sees a ~10% target uplift as removal of our PJM discount offsets lower 2017E and 2018E EBITDA marks (-$70M and -$30M, respectively). AEP, CNP and NEE also see above-average 9% increases on a new generation asset sale adder, higher ENBL market value and higher NEER multiple, respectively. As noted on our front page we keep our regulated Buy list intact although a below-market target multiple keeps price target upsides relatively slim – most obviously with CMS which we view as a core high quality holding with returns from here much more likely to come from execution of superior (~8%) growth and yield (~3%) rather than multiple expansion. Our EXC upgrade reflects underperformance versus growthy regulated and IPP peers, higher regulated value, removal of the PJM discount in our merchant valuation and relative cheapness versus pure-play peers.

Figure 1: Summary of Rating and Price Target Changes

	Stock	Price	DB Stock Rating		DB Price Target				Target	Div.	Yield	Total
	Ticker	7/20/16	New	Old	New	Old	Chg.	% Chg.	Return	2016E	2016E	Return
MOSTLY REGULATED												
AMERICAN ELECTRIC POWER	AEP	$69.35	Buy	Buy	$72.00	$66.00	$6.00	9.1%	3.8%	2.27	3.3%	7.1%
CMS ENERGY	CMS	$44.84	Buy	Buy	$46.00	$43.00	$3.00	7.0%	2.6%	1.24	2.8%	5.4%
CENTERPOINT ENERGY	CNP	$24.12	Hold	Hold	$24.50	$22.50	$2.00	8.9%	1.6%	1.04	4.3%	5.9%
DOMINION RESOURCES	D	$77.30	Hold	Hold	$78.00	$72.00	$6.00	8.3%	0.9%	2.80	3.6%	4.5%
DTE ENERGY	DTE	$97.53	Hold	Hold	$96.00	$90.00	$6.00	6.7%	-1.6%	3.08	3.2%	1.6%
DUKE ENERGY	DUK	$84.92	Hold	Hold	$85.00	$80.00	$5.00	6.3%	0.1%	3.42	4.0%	4.1%
CON EDISON	ED	$78.91	Sell	Sell	$74.00	$70.00	$4.00	5.7%	-6.2%	2.68	3.4%	-2.8%
EDISON INTERNATIONAL	EIX	$76.51	Hold	Hold	$76.00	$71.00	$5.00	7.0%	-0.7%	1.92	2.5%	1.8%
EVERSOURCE ENERGY	ES	$57.90	Hold	Hold	$61.00	$58.00	$3.00	5.2%	5.4%	1.78	3.1%	8.4%
ITC HOLDINGS	ITC	$46.21	Hold	Hold	$47.00	$45.00	$2.00	4.4%	1.7%	0.79	1.7%	3.4%
NEXTERA ENERGY	NEE	$127.21	Buy	Buy	$134.00	$123.00	$11.00	8.9%	5.3%	3.48	2.7%	8.1%
PG&E CORP	PCG	$64.26	Buy	Buy	$68.00	$62.00	$6.00	9.7%	5.8%	2.08	3.2%	9.1%
PPL CORP.	PPL	$36.95	Hold	Hold	$39.00	$39.00	--	--	5.5%	1.52	4.1%	9.7%
SOUTHERN COMPANY	SO	$53.33	Hold	Hold	$54.00	$50.00	$4.00	8.0%	1.3%	2.24	4.2%	5.5%
WISCONSIN ENERGY	WEC	$64.02	Hold	Hold	$65.00	$61.00	$4.00	6.6%	1.5%	1.98	3.1%	4.6%
XCEL ENERGY	XEL	$43.61	Hold	Hold	$43.00	$40.00	$3.00	7.5%	-1.4%	1.36	3.1%	1.7%
LESS REGULATEDS												
ENTERGY CORP.	ETR	$79.96	Hold	Hold	$83.00	$78.00	$5.00	6.4%	3.8%	3.40	4.3%	8.1%
EXELON	EXC	$36.25	Buy	Hold	$39.00	$36.00	$3.00	8.3%	7.6%	1.26	3.5%	11.1%
FIRSTENERGY	FE	$35.98	Hold	Hold	$39.00	$37.00	$2.00	5.4%	8.4%	1.44	4.0%	12.4%
PSEG	PEG	$45.41	Hold	Hold	$49.00	$47.00	$2.00	4.3%	7.9%	1.64	3.6%	11.5%
IPPs												
CALPINE	CPN	$14.43	Hold	Hold	$18.00	$17.00	$1.00	5.9%	24.7%	0.00	0.0%	24.7%
DYNEGY INC.	DYN	$16.71	Buy	Buy	$23.00	$21.00	$2.00	9.5%	37.6%	0.00	0.0%	37.6%
NRG ENERGY	NRG	$14.67	Buy	Buy	$20.00	$19.00	$1.00	5.3%	36.3%	0.12	0.8%	37.2%
TALEN ENERGY	TLN	$13.70	Hold	Hold	$14.00	$14.00	--	--	2.2%	0.00	0.0%	2.2%
POWER YIELDCOS												
NEXTERA ENERGY PARTNERS	NEP	$30.98	Hold	Hold	$30.00	$28.00	$2.00	7.1%	-3.2%	1.40	4.5%	1.3%
NRG YIELD	NYLD	$17.31	Buy	Buy	$18.00	$18.00	--	--	4.0%	1.00	5.8%	9.8%

Source: Deutsche Bank. and Thomson Reuters. Rating changes highlighted in blue shading.

2Q estimates, FY changes

Figure 2: Summary of Estimates and Estimate Changes

UTILITIES (EPS)	Stock Ticker	DB Rating	Expected Report Date	DB Operating 2Q16E	Consensus 2Q16E	Operating 2Q15A	Operating 2015A	2016E Old	2016E New	2017E Old	2017E New	2018E Old	2018E New
AMERICAN ELECTRIC POWER	AEP	Buy	28-Jul	0.88	0.89	0.88	3.69	3.70		3.65		3.95	
CENTERPOINT ENERGY	CNP	Hold	5-Aug	0.19	0.20	0.19	1.10	1.15		1.20		1.25	
CMS ENERGY	CMS	Buy	28-Jul	0.37	0.36	0.25	1.89	2.02		2.20		2.35	
CON EDISON	ED	Sell	4-Aug	0.69	0.69	0.77	4.06	4.05		4.20	4.25	4.35	
DOMINION RESOURCES	D	Hold	3-Aug	0.70	0.71	0.73	3.44	3.75		3.80	3.85	4.15	4.20
DTE ENERGY	DTE	Hold	26-Jul	0.87	0.89	0.76	4.82	4.90		5.20		5.45	
DUKE ENERGY	DUK	Hold	4-Aug	1.03	1.01	0.96	4.54	4.60		4.80		5.00	
EDISON INTERNATIONAL	EIX	Hold	28-Jul	0.86	0.98	1.15	4.06	3.90		4.05		4.25	
ENTERGY CORP.	ETR	Hold	2-Aug	1.04	1.07	0.83	6.00	5.05	5.75	5.45	5.30	5.05	5.40
EVERSOURCE ENERGY	ES	Hold	28-Jul	0.65	0.65	0.66	2.81	3.00		3.15		3.25	
EXELON	EXC	Buy	9-Aug	0.57	0.56	0.59	2.49	2.55		2.65		2.75	2.80
FIRSTENERGY	FE	Hold	28-Jul	0.54	0.54	0.53	2.71	2.80	2.55	2.65	2.70	2.60	2.55
ITC HOLDINGS	ITC	Hold	28-Jul	0.49	0.56	0.46	1.61	1.85	1.90	2.05	2.10	2.25	2.30
NEXTERA ENERGY	NEE	Buy	27-Jul	1.60	1.54	1.56	5.71	6.20		6.50		7.10	
PG&E CORP	PCG	Buy	28-Jul	0.89	0.95	0.91	3.12	3.75		3.65		3.90	
PPL CORP.	PPL	Hold	9-Aug	0.50	0.53	0.49	2.21	2.35		2.40		2.45	2.30
PSEG	PEG	Hold	29-Jul	0.56	0.61	0.57	2.91	2.90		2.95		3.00	2.95
SOUTHERN COMPANY	SO	Hold	27-Jul	0.70	0.70	0.71	2.88	2.85	2.95	2.95	3.05	3.10	3.15
WISCONSIN ENERGY	WEC	Hold	27-Jul	0.57	0.56	0.59	2.66	2.95		3.10		3.30	
XCEL ENERGY	XEL	Hold	3-Aug	0.42	0.40	0.39	2.09	2.20		2.30		2.40	
IPPs & YieldCos (EBITDA)	**Stock Ticker**	**DB Rating**	**Expected Report Date**	**DB Operating 2Q16E**	**Consensus 2Q16E**	**Operating 2Q15A**	**Operating 2015A**	**2016E Old**	**2016E New**	**2017E Old**	**2017E New**	**2018E Old**	**2018E New**
CALPINE	CPN	Hold	29-Jul	400	405	457	1,976	1,900		1,975	2,050	2,100	2,175
DYNEGY INC.	DYN	Buy	3-Aug	188	242	193	850	1,110	1,085	1,670	1,600	1,795	1,765
NRG ENERGY	NRG	Buy	9-Aug	685	678	729	3,340	3,100		2,875	2,850	3,100	3,075
TALEN ENERGY	TLN	Hold	4-Aug	101	141	174	1,082	770		700	695	665	690
NEXTERA PARTNERS	NEP	Hold	27-Jul	168	164	102	404	620	655	733	752	825	903
NRG YIELD	NYLD	Buy	9-Aug	235	238	197	726	814		891		955	

Source: Deutsche Bank. and Thomson Reuters

Guidance, DB, consensus

Figure 3: Company Guidance, DB Estimates and Consensus (2016-2018E)

	Stock	Company Guidance	DB Estimates			Consensus			DB Vs. Consensus		
	Ticker	2016E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
MOSTLY REGULATED (EPS)											
AMERICAN ELECTRIC POWER	AEP	3.60 - 3.80	3.70	3.65	3.95	3.67	3.84	4.08	1%	*-5%*	*-3%*
CMS ENERGY	CMS	1.99 - 2.02	2.02	2.20	2.35	2.02	2.18	2.33	0%	1%	1%
CENTERPOINT ENERGY	CNP	1.12 - 1.20	1.15	1.20	1.25	1.15	1.21	1.29	0%	-1%	*-3%*
DOMINION RESOURCES	D	3.60 - 4.00	3.75	3.85	4.20	3.79	3.86	4.29	-1%	0%	-2%
DTE ENERGY	DTE	4.80 - 5.05	4.90	5.20	5.45	4.95	5.26	5.64	-1%	-1%	*-3%*
DUKE ENERGY	DUK	4.50 - 4.70	4.60	4.80	5.00	4.59	4.75	4.99	0%	1%	0%
CON EDISON	ED	3.85 – 4.05	4.05	4.25	4.35	3.98	4.14	4.31	2%	3%	1%
EDISON INTERNATIONAL	EIX	3.81 - 4.01	3.90	4.05	4.25	3.89	4.14	4.33	0%	-2%	-2%
EVERSOURCE ENERGY	ES	2.90 - 3.05	3.00	3.15	3.25	2.98	3.17	3.33	1%	0%	-2%
ITC HOLDINGS	ITC	NA	1.90	2.10	2.30	2.10	2.21	2.41	*-10%*	*-5%*	*-5%*
NEXTERA ENERGY	NEE	5.85 - 6.35	6.20	6.50	7.10	6.17	6.56	7.01	0%	-1%	1%
PG&E CORP	PCG	3.65 - 3.85	3.75	3.65	3.90	3.72	3.68	3.86	1%	-1%	1%
PPL CORP.	PPL	2.25 - 2.45	2.35	2.40	2.30	2.34	2.43	2.45	1%	-1%	*-6%*
SOUTHERN COMPANY	SO	2.76 - 2.88	2.95	3.05	3.15	2.84	2.97	3.08	*4%*	3%	2%
WISCONSIN ENERGY	WEC	2.88 - 2.94	2.95	3.10	3.30	2.93	3.10	3.30	1%	0%	0%
XCEL ENERGY	XEL	2.12 - 2.27	2.20	2.30	2.40	2.20	2.32	2.44	0%	-1%	-2%
LESS REGULATED (EPS)											
ENTERGY CORP.	ETR	4.95 - 5.75	5.75	5.30	5.40	5.10	5.23	5.17	*13%*	1%	*4%*
EXELON	EXC	2.40 - 2.70	2.55	2.65	2.80	2.50	2.64	2.78	2%	1%	1%
FIRSTENERGY	FE	NA	2.55	2.70	2.55	2.67	2.52	2.54	*-5%*	*7%*	0%
PSEG	PEG	2.80 – 3.00	2.90	2.95	2.95	2.88	2.88	2.97	1%	2%	-1%
IPPs & YIELDCOs (EBITDA)											
CALPINE	CPN	1800 - 1950	1,900	2,050	2,175	1,871	2,027	2,140	2%	1%	2%
DYNEGY INC.	DYN	1000 - 1200	1,085	1,600	1,765	1,079	1,563	1,755	1%	2%	1%
NEXTERA ENERGY PARTNERS	NEP	540 - 760	655	752	903	643	834	1,031	2%	*-10%*	*-12%*
NRG ENERGY	NRG	3000 - 3200	3,100	2,850	3,075	3,075	2,809	2,977	1%	1%	*3%*
NRG YIELD	NYLD	805	814	891	955	820	904	999	-1%	-1%	*-4%*
TALEN ENERGY	TLN	635 - 835	770	695	690	761	714	658	1%	-3%	*5%*

Source: Deutsche Bank and Thomson Reuters.

Conference call schedule

Figure 4: Utilities & Power Q2 Conference Calls and Estimate Summary

		Release	Call	Time	Live		2Q15		2Q 2016 Estimates		
Company	**Ticker**	**Date**	**Date**	**(EST)**	**Dial-In**	**Passcode**	**Actual**	**DB**	**Cons.**	**Low**	**High**
NorthWestern Corporation	NWE	22-Jul	22-Jul	11:00 AM	888-427-9376	2437706	0.46	NA	0.53	0.48	0.59
DTE Energy	DTE	26-Jul	26-Jul	9:00 AM	866-249-5224	4762762	0.76	0.87	0.89	0.85	0.93
NextEra Energy	NEE	27-Jul	27-Jul	9:00 AM	866-598-9768	3709431	1.56	1.60	1.54	1.40	1.65
NextEra Energy Partners	NEP	27-Jul	27-Jul	9:00 AM	866-598-9768	3709431	0.51	NA	0.33	0.23	0.50
Southern Company	SO	27-Jul	27-Jul	1:00 PM	800-757-8473		0.71	0.70	0.70	0.61	0.75
Wisconsin Energy	WEC	27-Jul	27-Jul	2:30 PM	866-439-9410	42963664	0.59	0.57	0.56	0.53	0.66
American Electric Power	AEP	28-Jul	28-Jul	9:00 AM	866-233-3843	397614	0.88	0.88	0.89	0.78	0.95
CMS Energy	CMS	28-Jul	28-Jul	10:00 AM	647-788-4901	28643177	0.25	0.37	0.36	0.28	0.42
PG&E Corp	PCG	28-Jul	28-Jul	11:00 AM	800-971-1685	1702	0.91	0.89	0.95	0.75	1.19
SCANA	SCG	28-Jul	28-Jul	3:00 PM	888-347-3258		0.69	NA	0.74	0.67	0.83
Edison International	EIX	28-Jul	28-Jul	4:30 PM	800-369-2198	Edison	1.15	0.86	0.98	0.80	1.10
PSEG	PEG	29-Jul	29-Jul	11:00 AM	877-370-7635	24748645	0.57	0.56	0.61	0.52	0.84
Idacorp	IDA	28-Jul	28-Jul	4:30 PM	973-200-3032	38266593	1.31	NA	0.99	0.93	1.02
ITC Holdings	ITC	28-Jul	No Call				0.46	0.49	0.56	0.54	0.57
Eversource Energy	ES	28-Jul	29-Jul	9:00 AM	800-588-4973	42891648	0.66	0.65	0.65	0.60	0.70
Calpine	CPN	29-Jul	29-Jul	10:00 AM	800-446-1671	42863696	0.05	NA	0.04	(0.10)	0.14
FirstEnergy	FE	28-Jul	29-Jul	10:00 AM	877-269-7756	23669	0.53	0.54	0.54	0.45	0.63
NiSource	NI	2-Aug	2-Aug	9:00 AM			0.18	NA	0.07	0.06	0.08
Entergy Corp.	ETR	2-Aug	2-Aug	11:00 AM	855-893-9849	85416349	0.83	1.04	1.07	0.62	1.34
Pinnacle West Capital	PNW	2-Aug	2-Aug	12:00 PM	877-407-8035		1.10	NA	1.16	1.08	1.22
Dominion Resources	D	3-Aug	3-Aug	10:00 AM	877-410-5657	Dominion	0.73	0.70	0.71	0.68	0.74
Spectra Energy Corp	SE	3-Aug	3-Aug	9:00 AM	888-252-3715	70917862	0.23	NA	0.26	0.20	0.35
Xcel Energy	XEL	3-Aug	3-Aug	10:00 AM	888-427-9421	2308404	0.39	0.42	0.40	0.37	0.45
El Paso Electric	EE	3-Aug	3-Aug	10:30 AM	888-337-8198	6337142	0.52	NA	0.44	0.42	0.45
Avista	AVA	3-Aug	3-Aug	10:30 AM	888-771-4371	42901436	0.40	NA	0.45	0.43	0.46
Portland General Electric	POR	3-Aug	3-Aug	11:00 AM	844-831-4021	37834705	0.44	NA	0.43	0.37	0.46
Dynegy Inc.	DYN	3-Aug	4-Aug	9:00 AM	800-857-5215	Dynegy	3.01	NA	(0.46)	(0.92)	(0.22)
Black Hills Corp	BKH	3-Aug	4-Aug	11:00 AM	866-544-7741	44376717	0.56	NA	0.56	0.55	0.56
Talen Energy	TLN	4-Aug	4-Aug	8:00 AM	888-317-6003	4143588	0.19	NA	(0.23)	(0.81)	0.36
OGE Energy	OGE	4-Aug	4-Aug	9:00 AM			0.44	NA	0.41	0.40	0.42
Duke Energy	DUK	4-Aug	4-Aug	10:00 AM	877-723-9502	4669837	0.96	1.03	1.01	0.95	1.08
Con Edison	ED	4-Aug	No Call				0.77	0.69	0.69	0.61	0.80
Great Plains Energy Inc	GXP	4-Aug	5-Aug	9:00 AM	888-353-7071	44952644	0.28	NA	0.42	0.35	0.51
AES Corporation	AES	5-Aug	5-Aug	9:00 AM	888-317-6003		0.25	NA	0.20	0.14	0.43
Centerpoint Energy	CNP	5-Aug	5-Aug	11:00 AM	800-653-1761	44844288	0.19	0.19	0.20	0.18	0.23
PPL Corp.	PPL	9-Aug	9-Aug	8:30 AM	888-317-6003	2697886	0.49	0.50	0.53	0.50	0.56
NRG Energy	NRG	9-Aug	9-Aug	9:00 AM	877-359-9508	48002023	0.13	NA	0.15	(0.17)	0.82
NRG Yield	NYLD	9-Aug	9-Aug	11:00 AM	877-402-8188	48555925	0.25	NA	0.36	0.32	0.44
Exelon	EXC	9-Aug	No Call				0.59	0.57	0.56	0.50	0.59
PNM Resources	PNM						0.44	NA	0.38	0.36	0.42
Sempra Energy	SRE						1.03	NA	1.00	0.89	1.15
Hawaiian Electric Ind.	HE						0.39	NA	0.40	0.40	0.41
Alliant Energy Corporation	LNT						0.31	NA	0.35	0.28	0.40
Ameren	AEE						0.58	NA	0.52	0.50	0.56

Source: Deutsche Bank. and Thomson Reuters

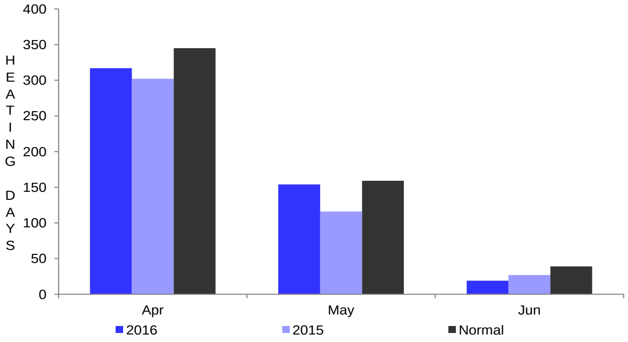
2Q fundamental data

Figure 5: EEI Electric Generation by Region (TWh)

Regions	Quarterly Generation (TWh)		
	Q2 2016	Q2 2015	% Change y-o-y
New England	28	29	-2.5%
Mid-Atlantic	100	105	-4.6%
Central Industrial	161	161	0.5%
West Central	79	79	1.0%
Southeast	245	249	-1.6%
South Central	175	172	1.5%
Rocky Mountain	63	63	-0.4%
Pacific Northwest	35	35	-1.1%
Pacific Southwest	69	69	0.2%
United States	**956**	**962**	**-0.6%**

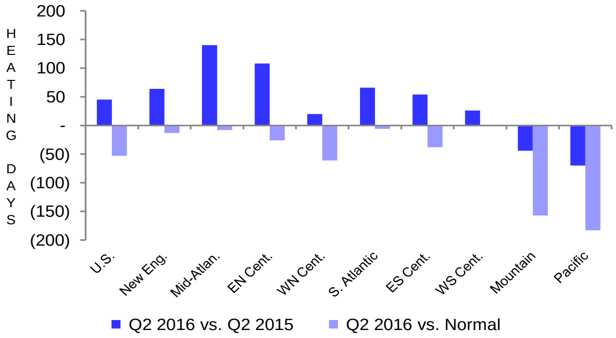
Source: EEI

Figure 6: Q2 Heating Degree Days by Month



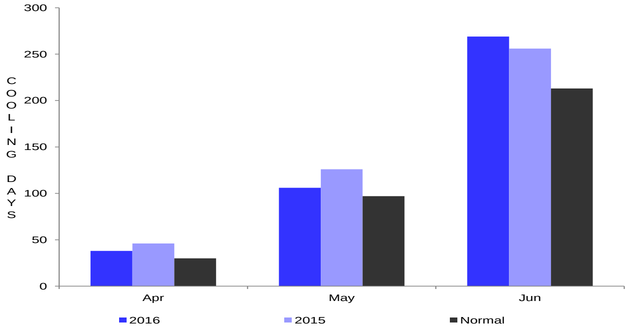
Source: Deutsche Bank, NOAA

Figure 7: Q2 Heating Degree Days by Region



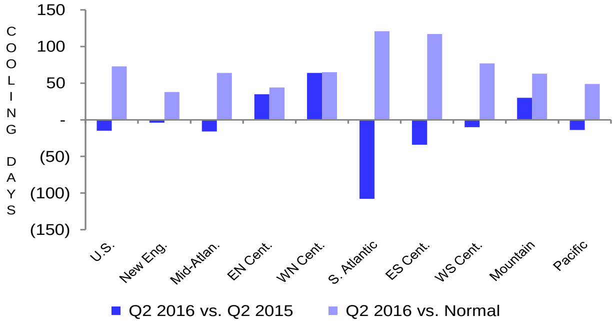
Source: Deutsche Bank, NOAA

Figure 8: Q2 Cooling Degree Days by Month



Source: Deutsche Bank, NOAA

Figure 9: Q2 Cooling Degree Days by Region



Source: Deutsche Bank, NOAA

Figure 10: Regional Heating Degree Days – Q2 '16 vs. Q2 '15 and Normal

Regions	HDD			% Change	
	Q2 2016	Q2 2015	Q2 Normal	Vs. Q2 2015	Vs. Q2 Normal
New England	917	853	930	8%	-1%
Mid Atlantic	744	604	752	23%	-1%
E N Central	772	664	798	16%	-3%
W N Central	668	648	729	3%	-8%
South Atlantic	241	175	247	38%	-2%
E S Central	261	207	299	26%	-13%
W S Central	112	86	112	30%	0%
Mountain	584	628	741	-7%	-21%
Pacific	373	443	556	-16%	-33%
United States	**490**	**445**	**543**	**10%**	**-10%**

Source: NOAA

Figure 11: Regional Cooling Degree Days – Q2 '16 vs. Q2 '15 and Normal

Regions	HDD			% Change	
	Q2 2016	Q2 2015	Q2 Normal	Vs. Q2 2015	Vs. Q2 Normal
New England	107	111	69	-4%	55%
Mid Atlantic	204	220	140	-7%	46%
E N Central	241	206	197	17%	22%
W N Central	328	264	263	24%	25%
South Atlantic	687	795	566	-14%	21%
E S Central	575	609	458	-6%	26%
W S Central	854	864	777	-1%	10%
Mountain	423	393	360	8%	18%
Pacific	199	213	150	-7%	33%
United States	**413**	**428**	**340**	**-4%**	**21%**

Source: NOAA

DB estimates and ratings

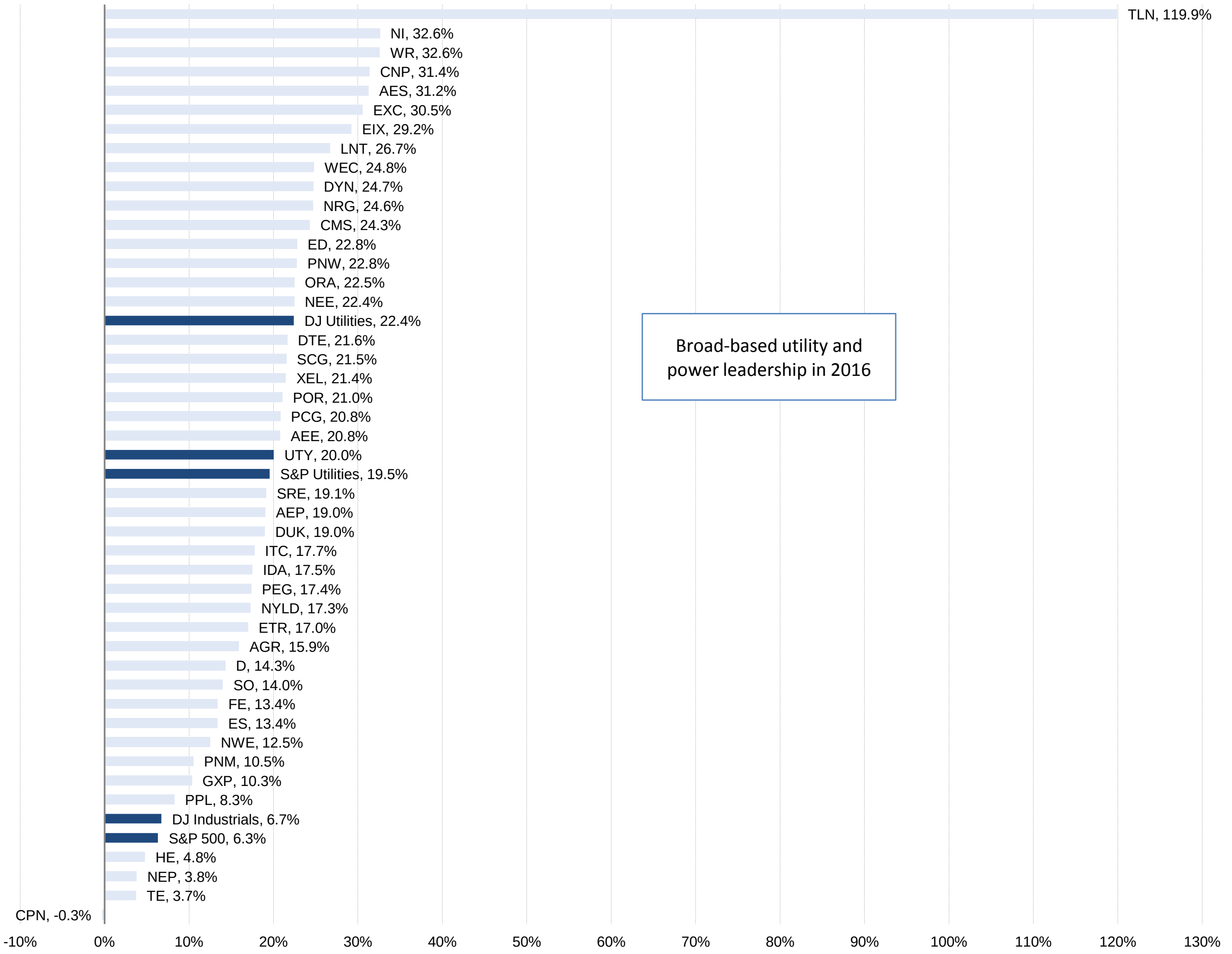
Figure 12: DB Price Targets, Total Returns and Valuation Methodologies

	Stock	DB	Price	DB Price Target				2018E	Actual	Target	Valuation
	Ticker	Rating	7/20/16	Target	Return	Yld '16	TSR '16	EPS	P/E	P/E	Methodology
MOSTLY REGULATED											
AMERICAN ELECTRIC POWER	AEP	Buy	$69.35	$72.00	3.8%	3.3%	7.1%	3.95	17.5x	18.2x	Average 2018E multiple plus 5% premium
CMS ENERGY	CMS	Buy	$44.84	$46.00	2.6%	2.8%	5.4%	2.35	19.1x	19.6x	Average 2018E multiple plus 15% premium
CENTERPOINT ENERGY	CNP	Hold	$24.12	$24.50	1.6%	4.3%	5.9%	1.25	19.3x	19.6x	Sum-of-parts: Utilities at 17.3x 2018E (2% premium); CNP's LP interest in ENBL at market value and GP interest at 30x 2018E cash flows
DOMINION RESOURCES	D	Hold	$77.30	$78.00	0.9%	3.6%	4.5%	4.20	18.4x	18.6x	SOTP: VEPCO+Parent at 19x 2018 EPS, 7x EV/EBITDA for merchant gen, 10.5x for Gas, STR on wtd. avg. 9.5x, DM at market, and 25x disc. 2020 CF for GP
DTE ENERGY	DTE	Hold	$97.53	$96.00	-1.6%	3.2%	1.6%	5.45	17.9x	17.6x	EPS ex-REF at 18.7x 2018E (10% premium); $1/sh for REF
DUKE ENERGY	DUK	Hold	$84.92	$85.00	0.1%	4.0%	4.1%	5.00	17.0x	17.0x	Average multiple with 2-3% premium applied to adjusted 2018 EPS
CON EDISON	ED	Sell	$78.91	$74.00	-6.2%	3.4%	-2.8%	4.35	18.1x	17.0x	Average 2018E multiple
EDISON INTERNATIONAL	EIX	Hold	$76.51	$76.00	-0.7%	2.5%	1.8%	4.25	18.0x	17.9x	Average 2018E multiple plus 5% premium
EVERSOURCE ENERGY	ES	Hold	$57.90	$61.00	5.4%	3.1%	8.4%	3.25	17.8x	18.8x	Average 2018E multiple plus 10% premium
ITC HOLDINGS	ITC	Hold	$46.21	$47.00	1.7%	1.7%	3.4%	2.30	20.1x	20.5x	85% M&A takeout valuation, 15% standlone based on scenario analysis (different ROE, development and repurchase assumptions)
NEXTERA ENERGY	NEE	Buy	$127.21	$134.00	5.3%	2.7%	8.1%	7.10	17.9x	18.9x	SOTP: Average 2018E multiple plus 12% premium for FP&L and Corp., 11.0x EV/EBITDA for core Energy Resources, NEP at market, 25x for IDRs
PG&E CORP	PCG	Buy	$64.26	$68.00	5.8%	3.2%	9.1%	3.90	16.5x	17.4x	Average 2018E multiple plus 2-3% premium
PPL CORP.	PPL	Hold	$36.95	$39.00	5.5%	4.1%	9.7%	2.30	16.0x	16.9x	Average 2018E multiple
SOUTHERN COMPANY	SO	Hold	$53.33	$54.00	1.3%	4.2%	5.5%	3.15	16.9x	17.1x	Average 2018E multiple
WISCONSIN ENERGY	WEC	Hold	$64.02	$65.00	1.5%	3.1%	4.6%	3.30	19.4x	19.7x	Average 2018E multiple plus 15% premium
XCEL ENERGY	XEL	Hold	$43.61	$43.00	-1.4%	3.1%	1.7%	2.40	18.2x	17.9x	Average 2018E multiple plus 5% premium
LESS REGULATED											
ENTERGY CORP.	ETR	Hold	$79.96	$83.00	3.8%	4.3%	8.1%	5.40	14.8x	15.4x	Average 2018E multiple applied to UP&O
EXELON	EXC	Buy	$36.25	$39.00	7.6%	3.5%	11.1%	2.80	12.9x	13.9x	SOTP on 2018: Applies a 17.5x P/E for ComEd, PECO, POM; 17.0x for BG&E; 6.5x EV/EBITDA for ExGen; hybrid P/E and EV/EBITDA approach for Corp
FIRSTENERGY	FE	Hold	$35.98	$39.00	8.4%	4.0%	12.4%	2.55	14.1x	15.3x	SOTP on 2018: Distribution at 15.6x P/E; Transmission at 18.7x P/E; Competitive at 6.5x EV/EBITDA; hybrid P/E and EV/EBITDA approach for Corp
PSEG	PEG	Hold	$45.41	$49.00	7.9%	3.6%	11.5%	2.95	15.4x	16.6x	Sum-of-parts: PSE&G at 18.3x 2018E (7-8% premium); Power at 7.0x EV/EBITDA; Parent/Holdings at 16.0x P/E
IPPs & YIELDCOs											
CALPINE	CPN	Hold	$14.43	$18.00	24.7%	0.0%	24.7%	2.00	NM	NM	Weighted average of 1) 7.0x EV/EBITDA multiple to 2018E EBITDA (75% weight) and 2) 2018 target FCF Yield of 14.0% (25% weight); +$1.00/sh for NOL position
DYNEGY INC.	DYN	Buy	$16.71	$23.00	37.6%	0.0%	37.6%	2.25	NM	NM	Weighted average of 1) 6.9x EV/EBITDA multiple to 2018E EBITDA (75% weight) and 2) 2018 target FCF Yield of 15% (25% weight)
NEXTERA ENERGY PARTNERS	NEP	Hold	$30.98	$30.00	-3.2%	4.5%	1.3%	1.69	18.3x	17.7x	Weighted average of 1) 2018 target dividend yield of 6.0% (75% weight) and 2) 11x EV/EBITDA on 2018E EBITDA (25% weight)
NRG ENERGY	NRG	Buy	$14.67	$20.00	36.3%	0.8%	37.2%	1.76	NM	NM	Weighted average of 1) 6.0x EV/EBITDA multiple to 2018E EBITDA + NYLD at market (75% weight) and 2) 2018 target FCF Yield of 17.0% (25% weight)
NRG YIELD	NYLD	Buy	$17.31	$18.00	4.0%	5.8%	9.8%	1.34	12.9x	13.4x	Avg. of high growth case [weighted average 1) 2018 target dividend yield of 6% (75% weight) and 2) 10x EV/EBITDA on 2018E EBITDA (25% weight)] and lower growth case [weighted average 1) 2018 target dividend yield of 8% (75% weight) and 2) 8x EV/EBITDA net multiple to 2018E EBITDA (25% weight)]
TALEN ENERGY	TLN	Hold	$13.70	$14.00	2.2%	0.0%	2.2%	(0.02)	NM	NM	We value TLN at its $14 takeout price

Source: Deutsche Bank and Thomson Reuters..

2016 stock performance

Figure 13: DB Utilities & Power – Performance Ranking – 2016 YTD



Broad-based utility and power leadership in 2016

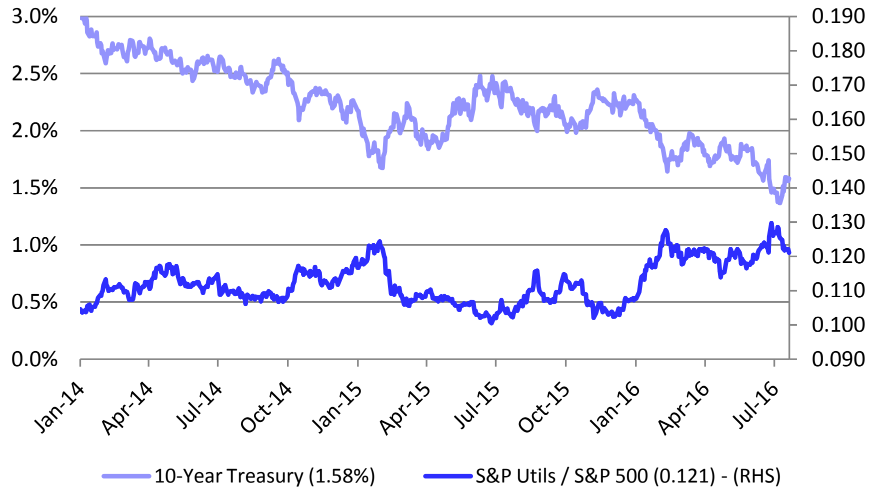
Source: Deutsche Bank

Valuation thoughts

Yields the key driver; marking higher but still selective

Heading into 2016 utility stocks were trading at under 15x 12M forward earnings and looked reasonable value to us at a near-10% discount to the broader US market. Back then investors were fearful of utilities ahead of an expected Fed rate hike cycle, although at the time we argued that the Fed risk was priced in so long as rate hikes were accompanied by a flattening yield curve (as in 2004). In the event, the market environment and macro turbulence which have prevailed so far in 2016 have generally pushed out expectations for timing of Fed hikes and substantially eliminated the fear which dominated the US utility investment backdrop in late 2015. Now after YTD gains of ~20% we see the 12M forward utility P/E multiple at a new high of ~18.5x, effectively having broken through prior resistance in the 17-18x range. Whether this will represent a new high and how long it can be sustained are questions that may well have more to do with the macro picture than underlying utility fundamentals. That said, at these levels we continue to view superior quality and low risk of earnings disappointment as key thematic criteria in stock selection given undeniably elevated valuations.

Figure 14: S&P Utils / S&P 500 vs. 10-Year Yield (2014-2016)



Source: Deutsche Bank

DB 10-Year yield forecast is 1.25% at year-end 2016; hard to get too bearish utilities if that scenario plays out

In Figure 14 above we chart relative performance of the S&P Utilities index versus 10-Year Treasury yields showing the marked correlation of utility strength (and peaks) with periods when the 10-Year bond yield has moved towards or below the 1.5% level. This may end up being the key issue for H2 sector positioning and while we remain as uncertain on which way the macro will break as anybody else, the DB year-end 2016 10-Year forecast of 1.25% is one of the factors leading us to mark our regulated values higher and remain invested in the few regulated names where we still have Buy ratings.

Global context matters - overseas incoming call volume on the rise

Looking at a broader macro context, while we typically view utility stocks as the ultimate domestic plays to be evaluated relative to their local market, it seems increasingly apparent that demand for the group is being further boosted by investors facing ultra-low and negative rates in other geographies - notably Europe. Anecdotally over the past few weeks we have seen an uptick in our incoming requests for sector intro calls from investors outside the US, many of whom are clearly looking at the group with fresh eyes and seem attracted to prospects of predictable mid-single-digit earnings growth, low volatility and 3-4% dividend yields with much less apparent concern over valuation levels than our typical US-focused utility clients. For example, we have been asked more than once lately for comparisons of US utility yields with German bunds - not a relationship we typically track, but a notable line of questioning nonetheless.

Macro-wise it seems clear that low global bond yields and the prospects of these being sustained for substantially longer than previously expected are the primary factors driving demand for US utility stocks at what are unprecedented valuations.

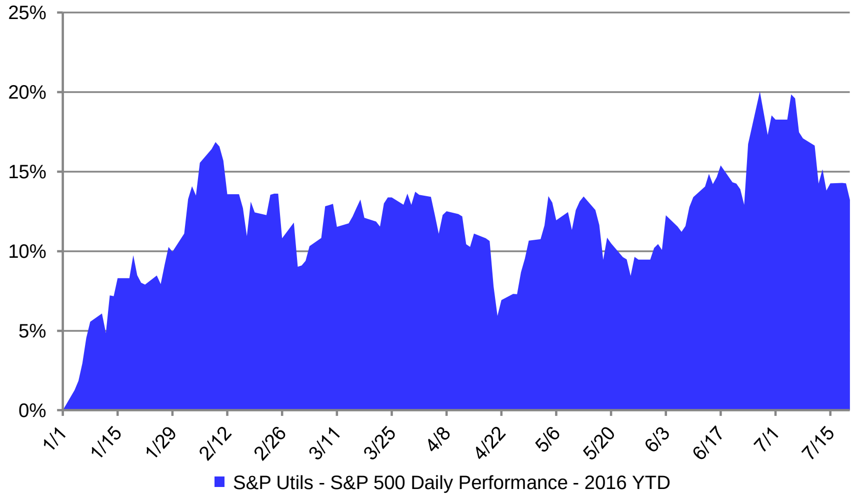
Target regulated valuation of 17x remains below current trading levels

Factors driving utility valuations higher seem fairly clear - and by no means certain to reverse quickly. That said, experience in the post-crisis environment has taught us that reversals in macro sentiment by definition tend to come quickly and catch the market unawares. Reflecting such caution, while we have raised our average regulated valuation by ~7% our new base target regulated P/E multiple of 17x 2018E remains almost a turn below where we see the average regulated stock in our coverage currently trading.

Removing PJM discount on normalized sparks; upgrading EXC

As discussed elsewhere in today's update we are eliminating the valuation discount we have been applying to PJM-heavy generators. This is additive to the valuations of PJM hybrids EXC and PEG, both of which also benefit from our higher target utility valuations. Combined with a higher regulated multiple this move bolsters valuations on PJM integrated heavyweights EXC and PEG, with both also having lagged regulateds as well as IPP peers. Of the two we see a better near-term catalyst set with EXC and an entry point for a much cheaper way to own regulated assets with total return north of 10% and a now-growing dividend. We also view adding EXC as an element of portfolio hedging against risks of a macro-driven pullback in more defensive bond proxy pure-play regulateds.

Figure 15: S&P Utilities vs. S&P 500 Daily Performance (2016 YTD)



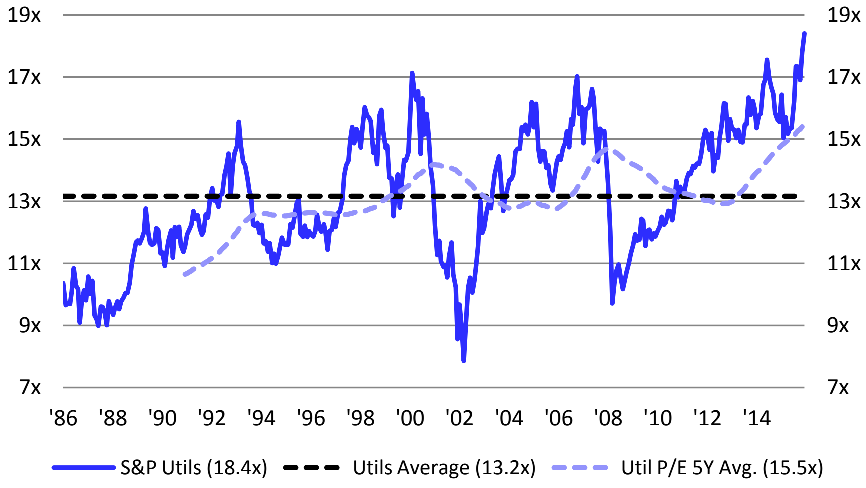
Source: Deutsche Bank, Reuters

Multiple sets a new high as low yield paradigm extended

As shown in Figure 16 the sector multiple has now spiked from sub-15x in late 2015 to a new high of 18.4x, causing us to raise the scale on our chart for the first time ever. While valuations already felt extended at ~17.5x in April the fact that the P/E has now broken through prior resistance further raises the question whether we are indeed entering a new paradigm. While our natural value-oriented bias makes us inherently reluctant to propose such a conclusion we certainly cannot ignore the prevailing low-return environment which is causing yield-hungry investors to further push the historical envelope on value.

For historical context, today's valuation is now beyond the level where the group peaked in early 2015 as well as prior historical peaks in 2001 (pre-Enron) and 2007 (natgas peak). On an absolute basis the current multiple is a 3-turn (20%) premium to the 5-year average and over five turns (40%) ahead of our long-run average which looks back to the mid-1980s. Unless a return to much higher growth, inflation and interest rates is in the cards we would continue to argue that recent history is likely a better guidepost than the long-run average. Even so, utility valuations are clearly at the high end of their historical trading range and therefore vulnerable to any significant shift in macro narrative.

Figure 16: S&P Utilities P/E vs. Long-Run and 5-Yr Average

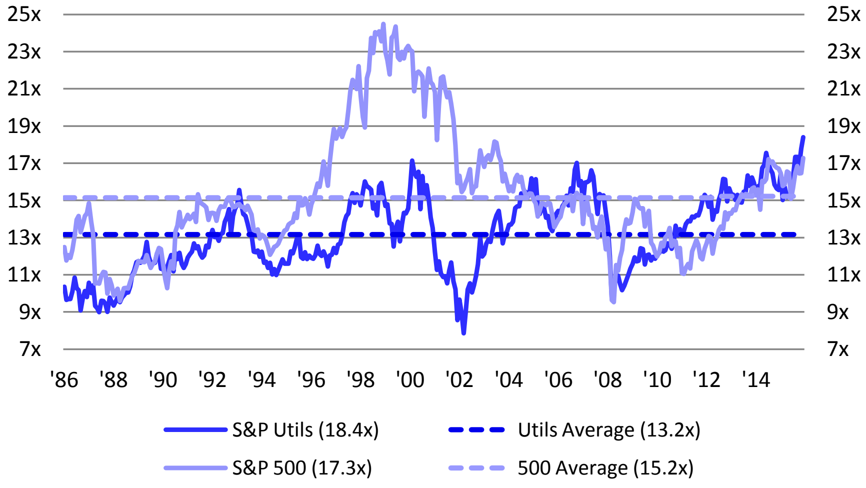


Source: Deutsche Bank and FactSet

Relative now +7% but only in-line with 5-year average

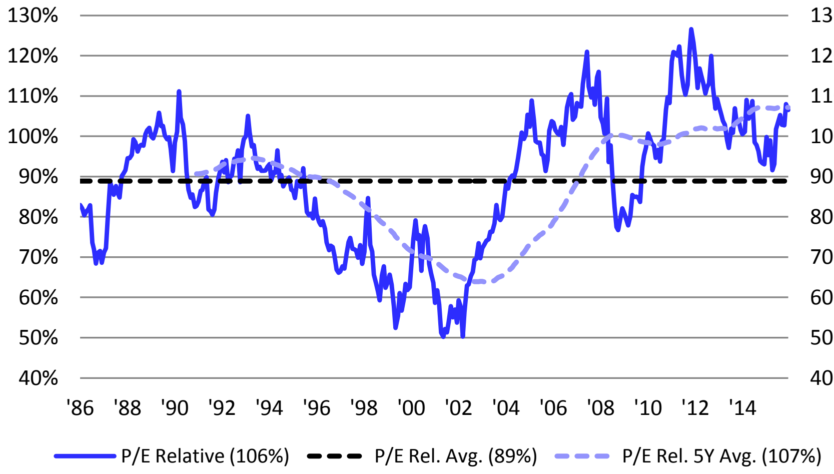
Relative to the broader market the P/E picture is significantly less extended with the group trading 1.1 turns higher than the S&P 500 or a premium of 6%. This isn't dramatically higher than the 3% premium we saw in our April update although clearly the group has now moved significantly from the 10% discount level ahead of the first Fed rate hike in December. It will be interesting to see how valuations hold up if recent heightened expectations around a September Fed hike continue to build. While short-term investors might certainly want to bear that risk in mind over the coming weeks, from our perspective the more important driver will likely be the 10-year and steepness of the curve. Versus history we note that today's 6% premium is clearly far above the long-run 11% discount but actually still more or less in line with the 5-year average (7%).

Figure 17: S&P Utilities and S&P 500 12M Forward P/E



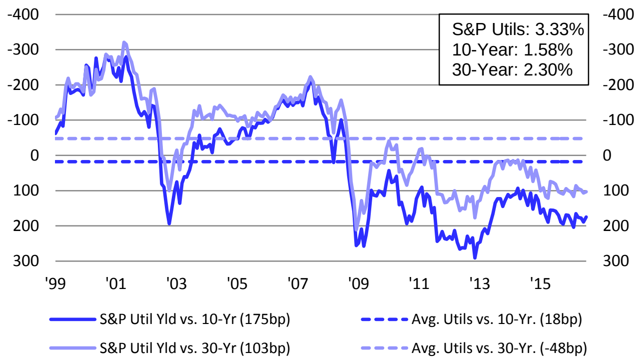
Source: Deutsche Bank and Bloomberg Finance LP

Figure 18: S&P Utilities 12M Forward P/E Relative



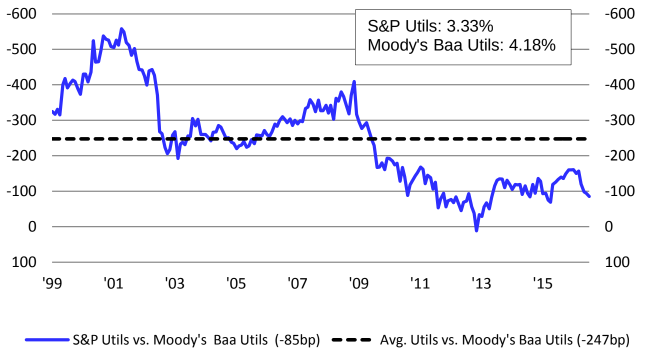
Source: Deutsche Bank and Bloomberg Finance LP

Figure 19: S&P Utilities Yield vs. 10Y, 30Y Treasury



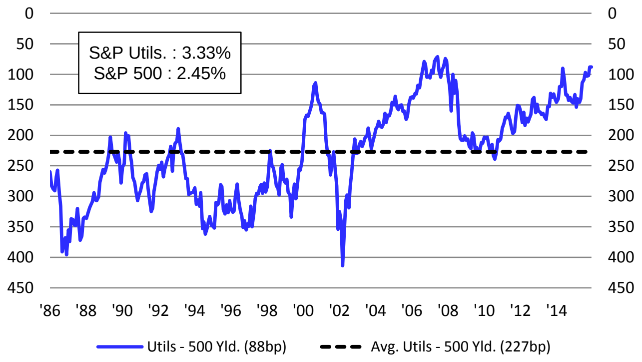
Source: Deutsche Bank

Figure 20: S&P Utils Yield vs. Moody's Baa Util Bonds



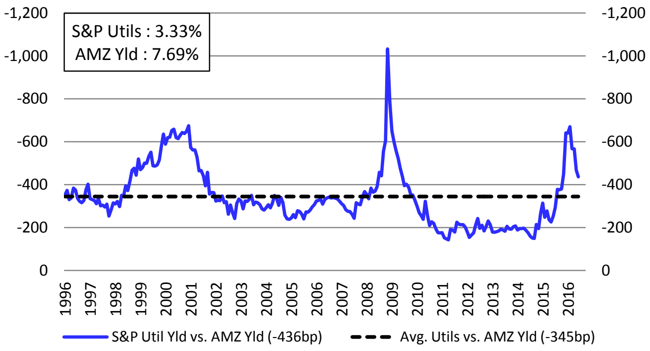
Source: Deutsche Bank

Figure 21: S&P Utils Div. Yield vs. S&P500 Yield



Source: Deutsche Bank

Figure 22: S&P Utils Div. Yield vs. AMZ MLP Yield



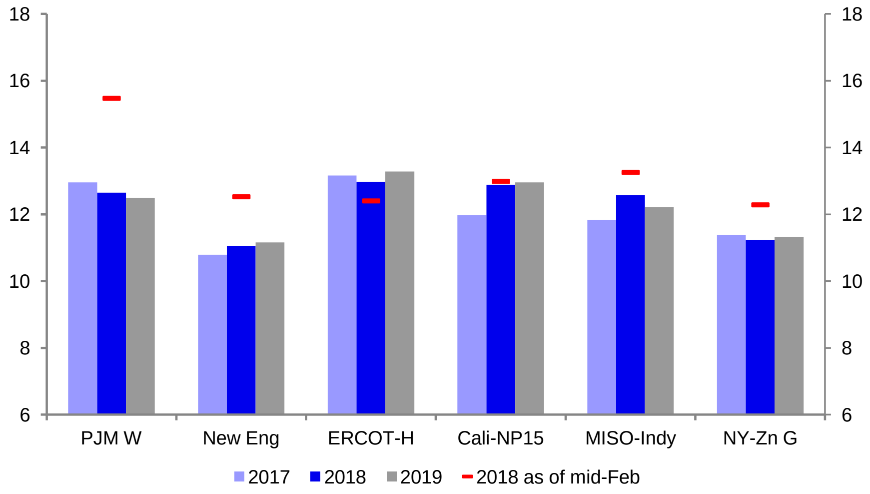
Source: Deutsche Bank

Removing PJM discount from merchant power

Lower heat rates remove some PJM downside risk

In February, coincident with our inaugural DB Power Q analysis, we lowered the EBITDA multiple for PJM-based EBITDA by a half turn, reflecting what we argued at the time were likely to be unsustainable market heat rates. These heat rates were both well above PJM's own history and that of comparable power markets. We argued that if the heat rates were to normalize, profitability could be materially lower justifying the discount. Since then, our thesis largely played out with an additional 5 GW of low-cost supply additions green-lighted, while only 2 GW of low-cost plants announced retirements. Additionally, the pipeline of projects has also increased. Masking this pressure, gas prices rose significantly, helping support power prices, but causing material heat rate and spark spread compression. Having now incorporated the lower margins into our estimate, we believe it is appropriate to remove the PJM discount, as heat rates appear to be more in line with other markets as shown in Figure 23 below. Companies impacted where we applied the discount for PJM-heavy exposure include DYN, EXC, FE and PEG. Detailed valuations and risks are included beginning on page 38.

Figure 23: Forward heat rates across markets, July 2016 vs. Feb 2016



Source: Deutsche Bank, SNL

Marking to a July deck

Figure 24: DB Commodity Price Assumptions (New vs. Prior)

	New Model Assumptions			Prior Deck - April 1, 2016		
	2016	2017	2018	2016	2017	2018
Natural Gas Prices ($/MMBtu)						
NYMEX Natural Gas	2.50	3.20	3.05	2.15	2.80	2.90
Tetco M3 Gas Basis (PJM West Hub)	(0.60)	-	0.10	(0.50)	(0.20)	(0.10)
Dominion South Point Gas Basis	(0.90)	(0.80)	(0.60)	(0.80)	(0.80)	(0.60)
Algonquin Gas Basis (NEPOOL)	0.70	1.20	1.30	0.80	1.00	0.90
Peak Mkt Heat Rate (mmBtu/MWh)						
PJM West	18.4	13.1	12.7	21.8	15.8	13.9
AD Hub	17.4	11.9	11.7	19.4	13.8	12.9
NEPOOL	11.3	10.7	11.0	12.5	11.6	11.8
NY Zone J	14.8	12.3	12.2	16.3	12.9	11.8
NI Hub	13.6	11.3	11.8	14.4	11.8	11.7
ERCOT-Houston	13.3	12.8	12.8	14.0	12.9	12.8
NP-15	11.4	10.0	10.7	12.3	10.6	10.3
SP-15	11.4	10.3	10.8	11.9	10.3	10.3
BGE	25.3	15.3	15.6	28.5	19.2	17.1
Peak Power Prices ($/MWh)						
PJM West	35.00	42.00	40.00	36.00	41.00	39.00
AD Hub	33.00	38.00	37.00	32.00	36.00	36.00
NEPOOL	36.00	47.00	48.00	37.00	44.00	45.00
NY Zone J	37.00	54.00	52.00	35.00	45.00	45.00
NI Hub	34.00	36.00	36.00	31.00	33.00	34.00
ERCOT-Houston	32.00	41.00	39.00	30.00	36.00	37.00
NP-15	32.00	37.00	38.00	29.00	34.00	35.00
SP-15	32.00	35.00	35.00	28.00	32.00	33.00
BGE	48.00	49.00	49.00	47.00	50.00	48.00
Around-the-Clock Power Prices ($/MWh)						
PJM West	29.00	35.00	34.00	30.00	34.00	33.00
AD Hub	28.00	32.00	31.00	27.00	31.00	30.00
NEPOOL	29.00	40.00	41.00	31.00	38.00	38.00
NY Zone J	30.00	45.00	43.00	29.00	37.00	37.00
NI Hub	26.00	30.00	30.00	25.00	28.00	28.00
ERCOT-Houston	25.00	32.00	31.00	23.00	28.00	29.00
NP-15	29.00	35.00	35.00	26.00	31.00	32.00
SP-15	29.00	33.00	34.00	26.00	30.00	31.00
BGE	40.00	43.00	41.00	38.00	41.00	40.00
Market Spark Spreads ($/MWh)						
PJM West	21.70	19.60	18.00	24.50	22.80	19.40
AD Hub	19.70	15.60	15.00	20.50	17.80	16.40
NEPOOL	13.60	16.20	17.60	16.40	17.40	18.40
NY Zone J	19.50	23.20	22.30	20.00	20.50	18.40
NI Hub	16.50	13.60	14.70	16.00	13.40	13.70
ERCOT-Houston	15.20	18.60	17.70	15.00	16.40	16.70
NP-15	12.40	11.10	13.20	12.60	11.60	11.20
SP-15	12.40	11.20	12.30	11.60	10.30	10.60
Coal Costs ($/ton)						
Central App; 12,000 BTU/lb; 1.0 SO2 (NYMEX)	40.00	44.00	47.00	45.00	48.00	51.00
Northern App; 13,000 BTU/lb; 3.0-4.5 SO2	41.00	44.00	46.00	34.00	39.00	41.00
PRB; 8,800 BTU/lb; 0.8 SO2	10.00	11.00	12.00	10.00	11.00	11.00
Market Dark Spreads (excl. rail costs) - $/MWh						
PJM West - NAPP	12.40	17.20	15.40	16.30	18.30	16.40
ERCOT-Houston - PRB 8,800	19.00	25.40	23.80	17.00	21.40	22.40

Source: Deutsche Bank, SNL

Henry Hub up 5-15% since April. Forwards roughly in-line with DB commodity view.

Northeast gas saw further increases

PJM heat rates declined reversing their multi-quarter gains as power price remained "sticky"

Texas and California heat rates remained resilient

Strong gains in Northeast, Texas and California power prices driven by gas

Lower spark spreads in PJM

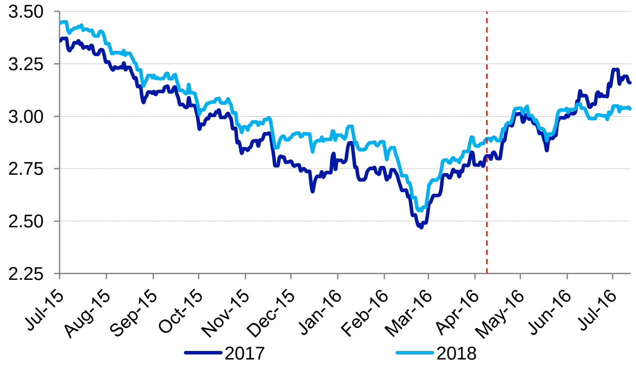
Higher sparks in Texas, California and NYC

CAPP coal prices declined, NAPP and PRB increased

Rising forward gas prices reverse (some of) 2015 pain

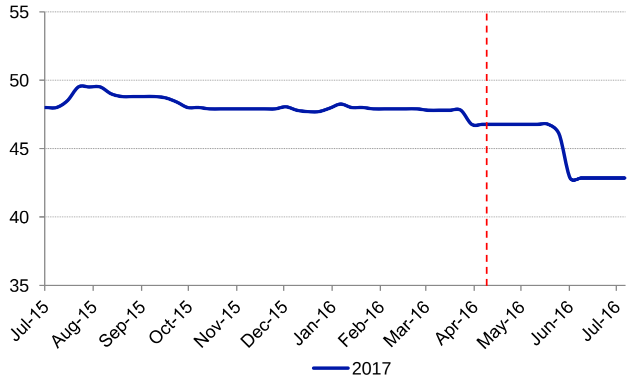
In 2015 and into 1Q16, gas prices fell bringing down wholesale power prices significantly in gas-heavy regions Texas, California and New England. Prices in PJM, where coal was on the margin over half the time, were more resilient leading to record high spark spreads in PJM. In 2Q16, these trends reversed as the gas supply and demand picture tightened. Texas, California and New England saw sharp increases in forward power prices and spark spreads in the quarter. On the other hand, PJM predictably saw little movement in its power price (as it was still coal driven) and the significantly higher gas costs will eat into anticipated gas plant margins.

Figure 25: Natural Gas Henry Hub Price ($/MMBtu)



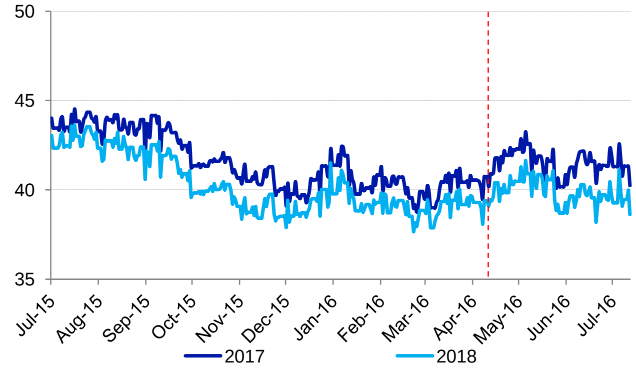
Source: Deutsche Bank, SNL

Figure 26: CAPP Coal Prices ($/Ton)



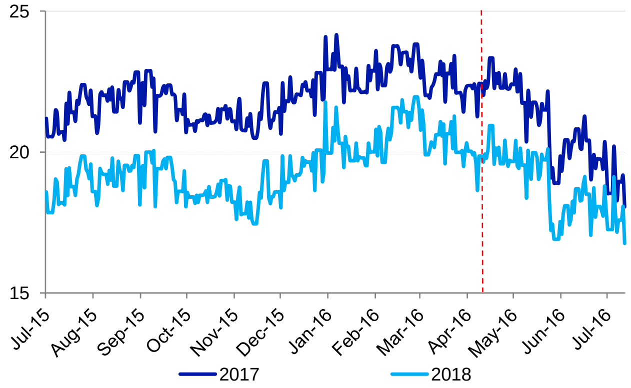
Source: Deutsche Bank, Argus

Figure 27: PJM West Power Prices ($/MWh)



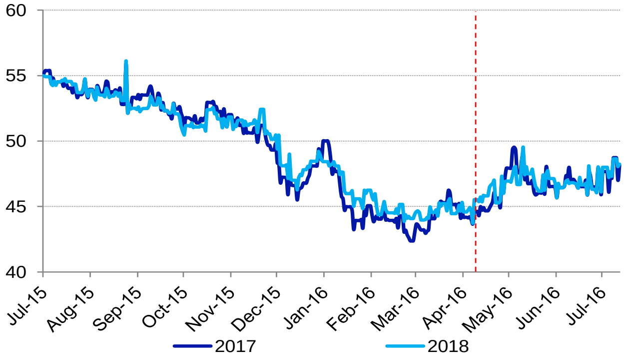
Source: Deutsche Bank, SNL

Figure 28: PJM West Spark Spreads ($/MWh)



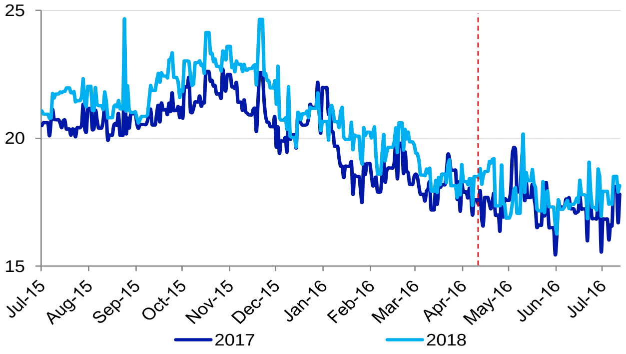
Source: Deutsche Bank, SNL

Figure 29: ISO-NE Power Prices ($/MWh)



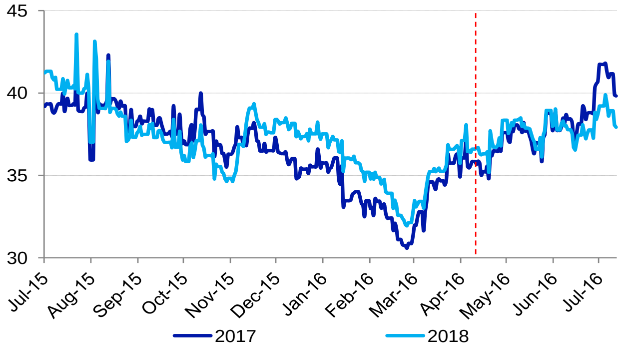
Source: Deutsche Bank, SNL

Figure 30: ISO-NE Spark Spreads ($/MWh)



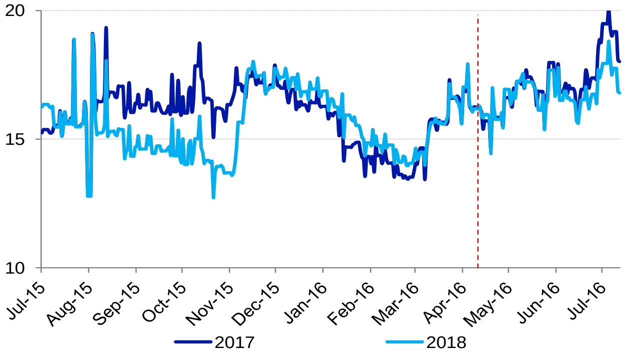
Source: Deutsche Bank, SNL

Figure 31: ERCOT Houston Power Prices ($/MWh)



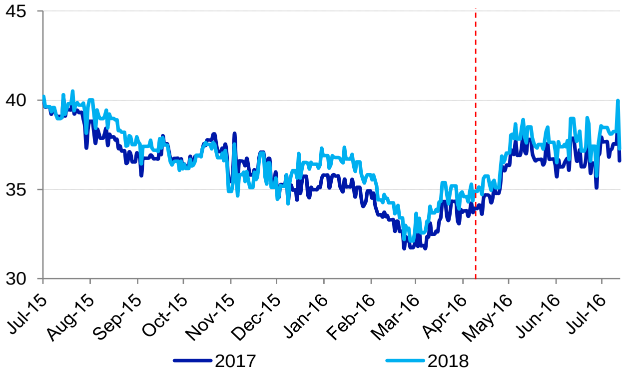
Source: Deutsche Bank

Figure 32: ERCOT Houston Spark Spreads ($/MWh)



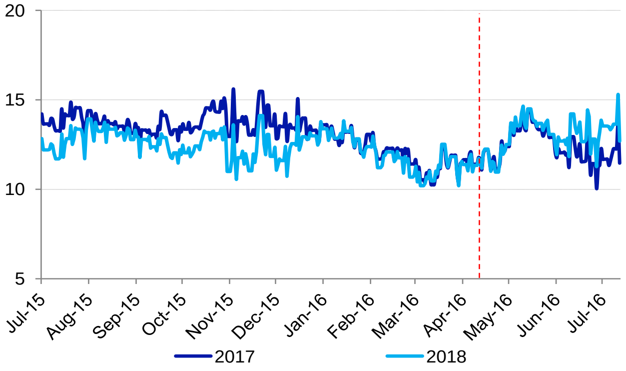
Source: Deutsche Bank

Figure 33: California NP-15 Power Prices ($/MWh)



Source: Deutsche Bank, SNL

Figure 34: California NP-15 Spark Spreads ($/MWh)



Source: Deutsche Bank, SNL

Figure 35: DB Utilities & Power Comparative Valuation Sheet (1)

DEUTSCHE BANK SECURITIES	Basic	Price	DB	DB Price Target			52 Week		Shs (MM)	M. Cap.	EPS			P/E			DPS			Div. Yield			Payout Ratio	
UTILITIES & POWER	Ticker	7/20/16	Rating	Target	Return	TSR '16	Low	High		($Mn.)	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017
MOSTLY REGULATED																								
AMERICAN ELECTRIC POWER	AEP	$69.35	Buy	$72.00	3.8%	7.1%	$52.54	$71.27	491	34,073	3.70	3.65	3.95	18.7x	19.0x	17.5x	2.27	2.39	2.52	3.3%	3.4%	3.6%	61%	65%
CMS ENERGY	CMS	$44.84	Buy	$46.00	2.6%	5.4%	$32.10	$46.17	280	12,553	2.02	2.20	2.35	22.2x	20.4x	19.1x	1.24	1.33	1.42	2.8%	3.0%	3.2%	61%	60%
CENTERPOINT ENERGY	CNP	$24.12	Hold	$24.50	1.6%	5.9%	$16.14	$24.12	431	10,387	1.15	1.20	1.25	21.0x	20.1x	19.3x	1.04	1.09	1.15	4.3%	4.5%	4.8%	90%	91%
DOMINION RESOURCES	D	$77.30	Hold	$78.00	0.9%	4.5%	$64.89	$78.92	616	47,634	3.75	3.85	4.20	20.6x	20.1x	18.4x	2.80	2.97	3.10	3.6%	3.8%	4.0%	75%	77%
DTE ENERGY	DTE	$97.53	Hold	$96.00	-1.6%	1.6%	$75.01	$100.10	179	17,500	4.90	5.20	5.45	19.9x	18.8x	17.9x	3.08	3.24	3.40	3.2%	3.3%	3.5%	63%	62%
DUKE ENERGY	DUK	$84.92	Hold	$85.00	0.1%	4.1%	$65.83	$87.23	689	58,501	4.60	4.80	5.00	18.5x	17.7x	17.0x	3.42	3.54	3.66	4.0%	4.2%	4.3%	74%	74%
CON EDISON	ED	$78.91	Sell	$74.00	-6.2%	-2.8%	$60.50	$81.67	303	23,897	4.05	4.25	4.35	19.5x	18.6x	18.1x	2.68	2.73	2.78	3.4%	3.5%	3.5%	66%	64%
EDISON INTERNATIONAL	EIX	$76.51	Hold	$76.00	-0.7%	1.8%	$57.05	$78.55	326	24,928	3.90	4.05	4.25	19.6x	18.9x	18.0x	1.92	2.13	2.32	2.5%	2.8%	3.0%	49%	53%
EVERSOURCE ENERGY	ES	$57.90	Hold	$61.00	5.4%	8.4%	$45.50	$60.25	317	18,366	3.00	3.15	3.25	19.3x	18.4x	17.8x	1.78	1.90	2.02	3.1%	3.3%	3.5%	59%	60%
ITC HOLDINGS	ITC	$46.21	Hold	$47.00	1.7%	3.4%	$31.28	$47.22	153	7,060	1.90	2.10	2.30	24.3x	22.1x	20.1x	0.79	0.90	0.96	1.7%	2.0%	2.1%	42%	43%
NEXTERA ENERGY	NEE	$127.21	Buy	$134.00	5.3%	8.1%	$94.62	$130.89	461	58,701	6.20	6.50	7.10	20.5x	19.6x	17.9x	3.48	3.93	4.44	2.7%	3.1%	3.5%	56%	60%
PG&E CORP	PCG	$64.26	Buy	$68.00	5.8%	9.1%	$47.60	$65.39	496	31,876	3.75	3.65	3.90	17.1x	17.6x	16.5x	2.08	2.12	2.28	3.2%	3.3%	3.5%	55%	58%
PPL CORP.	PPL	$36.95	Hold	$39.00	5.5%	9.7%	$29.41	$39.68	677	25,013	2.35	2.40	2.30	15.7x	15.4x	16.0x	1.52	1.53	1.54	4.1%	4.1%	4.2%	65%	64%
SOUTHERN COMPANY	SO	$53.33	Hold	$54.00	1.3%	5.5%	$41.98	$54.44	939	50,053	2.95	3.05	3.15	18.1x	17.5x	16.9x	2.24	2.31	2.38	4.2%	4.3%	4.5%	76%	76%
WISCONSIN ENERGY	WEC	$64.02	Hold	$65.00	1.5%	4.6%	$46.57	$65.82	316	20,208	2.95	3.10	3.30	21.7x	20.6x	19.4x	1.98	2.11	2.25	3.1%	3.3%	3.5%	67%	68%
XCEL ENERGY	XEL	$43.61	Hold	$43.00	-1.4%	1.7%	$32.56	$45.33	508	22,152	2.20	2.30	2.40	19.9x	18.9x	18.2x	1.36	1.44	1.53	3.1%	3.3%	3.5%	62%	63%
AMEREN	AEE	$52.21	--	--	--	--	$38.27	$53.77	243	12,668	2.51	2.77	2.99	20.8x	18.8x	17.5x	1.73	1.81	1.89	3.3%	3.5%	3.6%	69%	65%
GREAT PLAINS ENERGY	GXP	$30.13	--	--	--	--	$24.21	$32.68	155	4,662	1.73	1.81	1.91	17.5x	16.6x	15.8x	1.07	1.15	1.23	3.6%	3.8%	4.1%	62%	63%
IDACORP	IDA	$79.89	--	--	--	--	$57.60	$81.87	50	4,028	3.89	4.03	4.10	20.5x	19.8x	19.5x	2.08	2.22	2.42	2.6%	2.8%	3.0%	53%	55%
ALLIANT ENERGY	LNT	$39.55	--	--	--	--	$27.28	$40.87	227	8,983	1.90	2.01	2.13	20.9x	19.6x	18.6x	1.17	1.25	1.33	3.0%	3.2%	3.4%	62%	62%
NISOURCE	NI	$25.87	--	--	--	--	$16.17	$26.77	322	8,318	1.06	1.15	1.19	24.4x	22.6x	21.7x	0.64	0.68	0.71	2.5%	2.6%	2.7%	60%	59%
NORTHWESTERN CORP.	NWE	$61.03	--	--	--	--	$49.31	$63.33	48	2,941	3.28	3.42	3.67	18.6x	17.8x	16.6x	2.00	2.12	2.21	3.3%	3.5%	3.6%	61%	62%
PS NEW MEXICO	PNM	$33.78	--	--	--	--	$24.80	$36.05	80	2,691	1.60	1.88	2.07	21.1x	18.0x	16.3x	0.88	0.99	1.09	2.6%	2.9%	3.2%	55%	52%
PINNACLE WEST CAPITAL	PNW	$79.15	--	--	--	--	$57.60	$82.56	111	8,797	3.99	4.20	4.41	19.8x	18.8x	18.0x	2.54	2.66	2.78	3.2%	3.4%	3.5%	64%	63%
PORTLAND GENERAL ELEC	POR	$44.02	--	--	--	--	$33.70	$45.04	89	3,913	2.11	2.36	2.49	20.9x	18.7x	17.7x	1.26	1.35	1.44	2.9%	3.1%	3.3%	60%	57%
SCANA	SCG	$73.51	--	--	--	--	$50.51	$76.12	143	10,506	3.95	4.15	4.44	18.6x	17.7x	16.6x	2.29	2.39	2.49	3.1%	3.3%	3.4%	58%	58%
SEMPRA ENERGY	SRE	$111.99	--	--	--	--	$87.00	$114.50	249	27,941	4.82	5.19	6.13	23.2x	21.6x	18.3x	3.02	3.26	3.56	2.7%	2.9%	3.2%	63%	63%
WESTAR ENERGY	WR	$56.22	--	--	--	--	$35.05	$56.47	142	7,965	2.45	2.53	2.59	23.0x	22.2x	21.7x	1.52	1.60	1.69	2.7%	2.8%	3.0%	62%	63%
AVERAGE - SIMPLE									**Total**	**566,314**				**20.2x**	**19.1x**	**18.1x**				**3.1%**	**3.3%**	**3.5%**	**63%**	**63%**
GROUP HIGH									**DB Rated**	**462,901**				24.4x	22.6x	21.7x				4.3%	4.5%	4.8%	90%	91%
GROUP LOW														15.7x	15.4x	15.8x				1.7%	2.0%	2.1%	42%	43%
LESS REGULATED																								
ENTERGY CORP.	ETR	$79.96	Hold	$83.00	3.8%	8.1%	$61.53	$82.03	179	14,292	5.75	5.30	5.40	13.9x	15.1x	14.8x	3.40	3.40	3.40	4.3%	4.3%	4.3%	59%	64%
EXELON	EXC	$36.25	Buy	$39.00	7.6%	11.1%	$25.46	$36.75	887	32,165	2.55	2.65	2.80	14.2x	13.7x	12.9x	1.26	1.29	1.33	3.5%	3.6%	3.7%	50%	49%
FIRSTENERGY	FE	$35.98	Hold	$39.00	8.4%	12.4%	$29.12	$36.44	425	15,281	2.55	2.70	2.55	14.1x	13.3x	14.1x	1.44	1.44	1.44	4.0%	4.0%	4.0%	57%	53%
PSEG	PEG	$45.41	Hold	$49.00	7.9%	11.5%	$37.02	$47.32	506	22,974	2.90	2.95	2.95	15.7x	15.4x	15.4x	1.64	1.72	1.80	3.6%	3.8%	4.0%	57%	58%
AVERAGE - SIMPLE									**Total**	**84,713**				**14.5x**	**14.4x**	**14.3x**				**3.8%**	**3.9%**	**4.0%**	**55%**	**56%**
GROUP HIGH									**DB Rated**	**84,713**				**15.7x**	**15.4x**	**15.4x**				**4.3%**	**4.3%**	**4.3%**	**59%**	**64%**
GROUP LOW														13.9x	13.3x	12.9x				3.5%	3.6%	3.7%	50%	49%
MERCHANT & IPPs																								
CALPINE	CPN	$14.43	Hold	$18.00	24.7%	24.7%	$11.80	$18.30	359	5,181	0.22	1.43	2.00	65.6x	10.1x	7.2x	-	-	-	-	-	-	-	-
NRG ENERGY	NRG	$14.67	Buy	$20.00	36.3%	37.2%	$8.98	$22.45	315	4,620	1.59	0.76	1.76	9.2x	19.3x	8.3x	0.12	0.12	0.12	0.8%	0.8%	0.8%	8%	16%
DYNEGY INC.	DYN	$16.71	Buy	$23.00	37.6%	37.6%	$7.43	$27.58	117	1,960	(1.41)	0.96	2.25	NM	17.4x	7.4x	-	-	-	-	-	-	NA	-
TALEN ENERGY	TLN	$13.70	Hold	$14.00	2.2%	2.2%	$5.76	$16.82	129	1,760	1.12	(0.08)	(0.02)	12.2x	NM	NM	-	-	-	-	-	-	-	NA
AES CORPORATION	AES	$12.56	--	--	--	--	$8.54	$13.17	659	8,277	0.99	1.12	1.28	12.6x	11.2x	9.8x	0.44	0.48	0.53	3.5%	3.8%	4.3%	44%	43%
ORMAT TECHNOLOGIES	ORA	$44.66	--	--	--	--	$33.29	$45.14	49	2,206	1.90	1.96	2.32	23.5x	22.8x	19.3x	0.38	0.32	0.37	0.9%	0.7%	0.8%	20%	17%
AVERAGE - SIMPLE									**Total**	**24,003**				**24.6x**	**16.2x**	**10.4x**				**1.7%**	**1.8%**	**2.0%**	**24%**	**25%**
GROUP HIGH									**DB Rated**	**13,521**				65.6x	22.8x	19.3x				3.5%	3.8%	4.3%	44%	43%
GROUP LOW														9x	10.1x	7.2x				0.8%	0.7%	0.8%	8%	16%
POWER YIELDCOs																								
NEXTERA ENERGY PARTNERS	NEP	$30.98	Hold	$30.00	-3.2%	1.3%	$19.91	$35.77	93	2,885	1.06	1.56	1.69	29.2x	19.9x	18.3x	1.40	1.58	1.80	4.5%	5.1%	5.8%	132%	102%
NRG YIELD	NYLD	$17.31	Buy	$18.00	4.0%	9.8%	$10.89	$19.71	77	1,338	1.03	1.30	1.34	16.7x	13.3x	12.9x	1.00	1.16	1.36	5.8%	6.7%	7.9%	97%	89%
ABENGOA YIELD	ABY	$20.21	--	--	--	--	$13.65	$28.89	100	2,025	0.75	0.89	0.88	26.9x	22.8x	23.1x	1.70	1.97	1.97	8.4%	9.7%	9.7%	226%	222%
8POINT3	CAFD	$16.96	--	--	--	--	$10.48	$17.02	20	339	0.93	0.70	0.93	18.2x	24.1x	18.3x	0.94	1.06	1.18	5.5%	6.3%	6.9%	101%	151%
PATTERN ENERGY GROUP	PEGI	$23.89	--	--	--	--	$15.47	$24.87	74	1,774	(0.17)	0.43	0.61	NM	56.1x	39.4x	1.58	1.72	1.89	6.6%	7.2%	7.9%	NA	404%
TERRAFORM POWER	TERP	$12.40	--	--	--	--	$6.90	$32.60	139	1,723	0.62	0.52	0.14	20.0x	23.9x	88.6x	1.29	1.30	1.59	10.4%	10.5%	12.8%	208%	250%
AVERAGE - SIMPLE									**Total**	**10,086**				**22.2x**	**26.7x**	**33.4x**				**6.9%**	**7.6%**	**8.5%**	**153%**	**203%**
GROUP HIGH									**DB Rated**	**4,224**				29.2x	56.1x	88.6x				10.4%	10.5%	12.8%	226%	404%
GROUP LOW														17x	13.3x	12.9x				4.5%	5.1%	5.8%	97%	89%

Source: Deutsche Bank; Reuters

Figure 36: DB Utilities & Power Comparative Valuation Sheet (1)

DEUTSCHE BANK SECURITIES	Consensus EPS			Consensus P/E			EBITDA $MM			EV/EBITDA			FCF Yield			Net Debt: Capital			Net Debt: EBITDA			EBITDA/Interest		
UTILITIES & POWER	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
MOSTLY REGULATED																								
AMERICAN ELECTRIC POWER	3.67	3.84	4.08	18.9x	18.1x	17.0x	5,612	5,497	5,757	9.8x	10.3x	10.0x	0.5%	-0.6%	-0.4%	53%	54%	54%	3.8x	4.1x	4.1x	6.3x	6.3x	6.4x
CMS ENERGY	2.02	2.18	2.33	22.2x	20.6x	19.2x	2,028	2,153	2,259	10.9x	10.4x	10.0x	0.0%	0.3%	1.3%	69%	68%	67%	4.7x	4.5x	4.4x	5.0x	5.1x	5.3x
CENTERPOINT ENERGY	1.15	1.21	1.29	21.0x	19.9x	18.7x	2,000	2,007	1,968	9.4x	9.0x	8.8x	6.4%	6.7%	8.1%	70%	69%	65%	4.2x	3.9x	3.5x	4.7x	5.0x	5.9x
DOMINION RESOURCES	3.78	3.86	4.28	20.4x	20.0x	18.1x	5,676	6,120	6,770	13.7x	12.6x	11.3x	-4.4%	1.1%	3.6%	65%	62%	60%	5.3x	4.8x	4.3x	6.0x	6.6x	7.2x
DTE ENERGY	4.95	5.26	5.64	19.7x	18.5x	17.3x	2,577	2,714	2,846	10.9x	10.5x	10.3x	-2.0%	-0.7%	-1.1%	53%	54%	54%	4.1x	4.1x	4.2x	5.5x	5.4x	5.5x
DUKE ENERGY	4.60	4.74	4.99	18.5x	17.9x	17.0x	9,278	9,835	10,280	11.3x	10.8x	10.5x	-2.0%	0.5%	2.0%	53%	54%	54%	5.0x	4.9x	4.8x	5.5x	5.4x	5.5x
CON EDISON	3.99	4.14	4.31	19.8x	19.1x	18.3x	3,717	3,969	4,195	10.6x	10.1x	9.8x	-8.4%	-1.9%	-1.1%	52%	52%	52%	4.1x	4.1x	4.1x	5.4x	5.4x	5.4x
EDISON INTERNATIONAL	3.89	4.14	4.33	19.6x	18.5x	17.7x	4,369	4,562	4,928	9.0x	8.8x	8.2x	1.1%	-0.1%	0.7%	54%	54%	54%	3.3x	3.3x	3.2x	6.5x	6.4x	6.5x
EVERSOURCE ENERGY	2.98	3.17	3.34	19.4x	18.2x	17.4x	2,611	2,701	2,762	11.3x	11.1x	11.3x	-0.3%	1.0%	-3.5%	51%	53%	55%	4.3x	4.3x	4.7x	6.7x	6.3x	6.0x
ITC HOLDINGS	2.10	2.21	2.41	22.0x	20.9x	19.2x	797	843	895	14.5x	14.0x	13.4x	-0.3%	-2.0%	0.4%	70%	70%	69%	5.6x	5.6x	5.5x	4.6x	5.0x	5.3x
NEXTERA ENERGY	6.17	6.56	7.01	20.6x	19.4x	18.2x	8,343	8,867	9,581	10.9x	10.4x	9.8x	-4.5%	-1.3%	0.1%	57%	56%	56%	3.9x	3.8x	3.7x	5.8x	7.0x	7.2x
PG&E CORP	3.72	3.68	3.86	17.3x	17.5x	16.6x	5,956	6,388	6,799	8.5x	8.1x	7.8x	-3.0%	-1.7%	-0.7%	51%	52%	52%	3.1x	3.2x	3.1x	7.5x	7.4x	7.3x
PPL CORP.	2.33	2.43	2.45	15.8x	15.2x	15.1x	4,122	4,306	4,264	10.8x	10.5x	10.9x	1.5%	0.1%	0.0%	65%	64%	64%	4.8x	4.7x	5.0x	4.6x	4.6x	4.6x
SOUTHERN COMPANY	2.84	2.97	3.08	18.8x	17.9x	17.3x	7,538	8,460	8,780	12.4x	11.3x	11.1x	-2.3%	0.9%	-12.5%	64%	64%	64%	5.8x	5.4x	5.4x	6.1x	5.4x	5.5x
WISCONSIN ENERGY	2.93	3.10	3.30	21.9x	20.6x	19.4x	2,482	2,562	2,678	12.3x	12.0x	11.6x	3.5%	2.1%	2.0%	53%	53%	53%	4.1x	4.1x	4.0x	6.0x	6.3x	6.4x
XCEL ENERGY	2.20	2.32	2.44	19.8x	18.8x	17.9x	3,521	3,657	3,818	10.4x	10.2x	10.0x	-0.4%	-0.3%	-0.5%	57%	57%	57%	4.1x	4.2x	4.2x	5.6x	5.5x	5.3x
AMEREN	2.51	2.77	2.99	20.8x	18.8x	17.5x	2,178	2,351	2,470	9.5x	9.0x	8.8x	NA	NA	NA	53%	54%	55%	3.7x	3.6x	3.7x	5.1x	5.0x	6.4x
GREAT PLAINS ENERGY	1.73	1.81	1.91	17.5x	16.6x	15.8x	949	984	1,002	9.1x	8.8x	6.6x	NA	NA	NA	52%	50%	32%	4.2x	4.1x	1.9x	3.6x	5.0x	5.7x
IDACORP	3.89	4.03	4.10	20.5x	19.8x	19.5x	441	453	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
ALLIANT ENERGY	1.90	2.01	2.13	20.9x	19.6x	18.6x	1,042	1,177	1,276	13.0x	11.9x	11.5x	NA	NA	NA	53%	55%	24%	4.4x	4.3x	4.5x	16.6x	27.3x	44.4x
NISOURCE	1.06	1.15	1.19	24.4x	22.6x	21.7x	1,464	1,552	1,628	10.6x	10.3x	10.0x	NA	NA	NA	61%	66%	66%	5.0x	4.9x	4.9x	3.9x	4.0x	3.9x
NORTHWESTERN CORP.	3.28	3.42	3.67	18.6x	17.8x	16.6x	410	446	473	7.2x	6.8x	NA	NA	NA	NA	NA	5%	0%	NA	0.2x	0.0x	4.2x	5.3x	4.6x
PS NEW MEXICO	1.60	1.88	2.07	21.1x	18.0x	16.3x	542	603	655	9.6x	9.1x	8.8x	NA	NA	NA	59%	59%	58%	4.6x	4.6x	4.7x	4.9x	4.7x	4.9x
PINNACLE WEST CAPITAL	3.99	4.20	4.41	19.8x	18.8x	18.0x	1,362	1,444	1,523	9.2x	9.1x	8.8x	NA	NA	NA	45%	48%	48%	2.8x	3.0x	3.0x	7.5x	8.4x	7.6x
PORTLAND GENERAL ELEC	2.11	2.36	2.49	20.9x	18.7x	17.7x	658	707	740	9.4x	8.5x	7.4x	NA	NA	NA	50%	47%	13%	3.5x	2.9x	2.2x	8.0x	8.0x	8.1x
SCANA	3.95	4.15	4.44	18.6x	17.7x	16.6x	1,520	1,591	1,715	11.8x	11.7x	11.0x	NA	NA	NA	27%	58%	25%	4.9x	5.1x	4.8x	3.4x	4.4x	NM
SEMPRA ENERGY	4.82	5.19	6.13	23.2x	21.6x	18.3x	3,532	3,949	4,447	12.1x	10.5x	NA	NA	NA	NA	55%	51%	51%	4.2x	3.4x	3.2x	8.3x	7.5x	9.5x
WESTAR ENERGY	2.45	2.53	2.59	23.0x	22.2x	21.7x	1,062	1,110	1,148	11.2x	10.8x	9.7x	NA	NA	NA	51%	50%	44%	3.7x	3.6x	2.8x	6.0x	5.5x	6.1x
AVERAGE - SIMPLE				**20.2x**	**19.1x**	**17.9x**				**10.7x**	**10.3x**	**9.9x**	**-0.9%**	**0.3%**	**-0.1%**	**56%**	**55%**	**50%**	**4.3x**	**4.0x**	**3.8x**	**6.0x**	**6.6x**	**7.6x**
GROUP HIGH				24.4x	22.6x	21.7x				14.5x	14.0x	13.4x	6.4%	6.7%	8.1%	70%	70%	69%	5.8x	5.6x	5.5x	16.6x	27.3x	44.4x
GROUP LOW				15.8x	15.2x	15.1x				7.2x	6.8x	6.6x	-8.4%	-2.0%	-12.5%	27%	5%	0%	2.8x	0.2x	0.0x	3.4x	4.0x	3.9x
LESS REGULATED																								
ENTERGY CORP.	5.10	5.22	5.17	15.7x	15.3x	15.5x	3,376	3,472	3,646	8.5x	8.6x	8.5x	-4.6%	-0.4%	0.7%	59%	60%	61%	4.2x	4.5x	4.5x	4.9x	4.9x	4.7x
EXELON	2.54	2.64	2.78	14.3x	13.7x	13.0x	8,148	8,849	9,341	8.4x	7.7x	7.3x	-2.4%	0.8%	4.5%	56%	54%	53%	4.4x	4.1x	3.8x	5.7x	5.7x	5.9x
FIRSTENERGY	2.66	2.52	2.54	13.5x	14.3x	14.2x	4,441	4,831	4,842	8.5x	7.8x	7.9x	-9.6%	-0.5%	-0.9%	61%	59%	57%	5.1x	4.6x	4.7x	4.1x	4.4x	4.4x
PSEG	2.88	2.89	2.95	15.8x	15.7x	15.4x	3,912	4,115	4,278	8.7x	8.7x	8.4x	-5.4%	-2.7%	2.7%	45%	47%	47%	2.9x	3.1x	3.0x	9.1x	8.5x	8.3x
AVERAGE - SIMPLE				**14.8x**	**14.8x**	**14.5x**				**8.5x**	**8.2x**	**8.0x**	**-5.5%**	**-0.7%**	**1.7%**	**55%**	**55%**	**54%**	**4.1x**	**4.1x**	**4.0x**	**5.9x**	**5.9x**	**5.8x**
GROUP HIGH				**15.8x**	**15.7x**	**15.5x**				**8.7x**	**8.7x**	**8.5x**	**-2.4%**	**0.8%**	**4.5%**	**61%**	**60%**	**61%**	**5.1x**	**4.6x**	**4.7x**	**9.1x**	**8.5x**	**8.3x**
GROUP LOW				13.5x	13.7x	13.0x				8.4x	7.7x	7.3x	-9.6%	-2.7%	-0.9%	45%	47%	47%	2.9x	3.1x	3.0x	4.1x	4.4x	4.4x
MERCHANT & IPPs																								
CALPINE	0.50	0.88	1.28	28.9x	16.4x	11.3x	1,900	2,050	2,175	8.6x	7.8x	7.1x	9.4%	16.2%	19.9%	78%	77%	74%	5.9x	5.2x	4.7x	2.8x	3.5x	3.9x
NRG ENERGY	1.15	0.28	0.82	12.7x	52.8x	17.8x	3,100	2,850	3,075	7.8x	8.2x	7.3x	18.5%	16.5%	30.8%	85%	84%	82%	6.3x	6.6x	5.8x	2.8x	2.7x	3.1x
DYNEGY INC.	(1.19)	0.45	1.15	NM	36.9x	14.5x	1,085	1,600	1,765	11.1x	7.3x	6.3x	4.6%	18.6%	27.5%	78%	76%	73%	9.3x	6.1x	5.2x	1.8x	2.5x	2.7x
TALEN ENERGY	0.63	0.27	0.07	21.7x	50.9x	201.5x	770	695	690	6.4x	7.1x	7.0x	4.5%	0.3%	6.1%	41%	41%	41%	4.1x	4.5x	4.4x	3.3x	3.1x	3.3x
AES CORPORATION	0.99	1.12	1.28	12.6x	11.2x	9.8x	3,870	4,068	NA	7.6x	7.6x	NA	NA	NA	NA	55%	85%	61%	5.4x	5.6x	NA	14.6x	8.5x	NA
ORMAT TECHNOLOGIES	1.90	1.96	2.32	23.5x	22.8x	19.3x	306	322	356	9.8x	10.0x	9.1x	NA	NA	NA	43%	49%	18%	2.6x	3.1x	3.0x	4.9x	6.3x	6.4x
AVERAGE - SIMPLE				**19.9x**	**31.8x**	**45.7x**				**8.5x**	**8.0x**	**7.4x**	**9%**	**13%**	**21%**	**63%**	**69%**	**58%**	**5.6x**	**5.2x**	**4.6x**	**5.0x**	**4.4x**	**3.9x**
GROUP HIGH				28.9x	52.8x	201.5x				11.1x	10.0x	9.1x	19%	19%	31%	85%	85%	82%	9.3x	6.6x	5.8x	14.6x	8.5x	6.4x
GROUP LOW				12.6x	11.2x	9.8x				6.4x	7.1x	6.3x	5%	0%	6%	41%	41%	18%	2.6x	3.1x	3.0x	1.8x	2.5x	2.7x
POWER YIELDCOs	**Consensus DPS**			**Consensus Yield**																				
NEXTERA ENERGY PARTNERS	1.34	1.59	1.85	4.3%	5.1%	6.0%	655	752	903	9.7x	8.7x	7.9x	9.8%	13.0%	14.5%	66%	65%	64%	5.3x	4.9x	4.7x	3.4x	4.7x	4.4x
NRG YIELD	0.95	1.10	1.26	5.5%	6.3%	7.3%	814	891	955	9.2x	8.0x	7.6x	17.4%	18.7%	19.1%	77%	73%	72%	7.6x	6.5x	6.2x	3.2x	3.5x	3.9x
ABENGOA YIELD	1.70	1.97	1.97	8.4%	9.7%	9.7%	756	773	791	12.1x	12.3x	12.5x	NA	NA	NA	13%	84%	86%	9.5x	9.7x	9.9x	2.0x	2.2x	2.0x
8POINT3	0.94	1.06	1.18	5.5%	6.3%	6.9%	59	93	124	12.6x	10.4x	NA	NA	NA	NA	36%	33%	NA	6.8x	6.7x	NA	3.7x	4.2x	3.7x
PATTERN ENERGY GROUP	1.58	1.72	1.89	6.6%	7.2%	7.9%	309	380	450	10.9x	8.8x	7.8x	NA	NA	NA	70%	67%	23%	5.1x	4.1x	3.8x	4.2x	5.2x	6.1x
TERRAFORM POWER	1.29	1.30	1.59	10.4%	10.5%	12.8%	609	674	915	9.1x	8.0x	7.8x	NA	NA	NA	25%	88%	73%	6.3x	NA	5.9x	5.3x	6.3x	2.6x
AVERAGE - SIMPLE				**6.8%**	**7.5%**	**8.4%**				**10.6x**	**9.4x**	**8.7x**	**14%**	**16%**	**17%**	**48%**	**68%**	**64%**	**6.8x**	**6.4x**	**6.1x**	**3.6x**	**4.4x**	**3.8x**
GROUP HIGH				10.4%	10.5%	12.8%				12.6x	12.3x	12.5x	17%	19%	19%	77%	88%	86%	9.5x	9.7x	9.9x	5.3x	6.3x	6.1x
GROUP LOW				4.3%	5.1%	6.0%				9.1x	8.0x	7.6x	10%	13%	14%	13%	33%	23%	5.1x	4.1x	3.8x	2.0x	2.2x	2.0x

Source: Deutsche Bank; Reuters

Company updates

American Electric Power (AEP)

AEP is scheduled to report on July 28 and hold a call that day at 9:00am. Our 2Q16 EPS estimate is $0.88 versus $0.89 consensus and $0.88 in 2Q15. On the call, we expect questions on AEP's ongoing efforts to sell its unregulated generation fleet and the potential for Ohio re-regulation.

Figure 37: AEP Quarterly EPS Build-up

Quarterly EPS Build-up	EPS	Notes
2Q15 EPS	**0.88**	
Rate changes	0.06	
Lower Generation & Mktg earnings	(0.12)	
Weather	0.02	Weather was +$0.01 in 1Q16
Higher D&A	(0.02)	
Higher interest expense	(0.02)	
Higher transmission earnings	0.02	
Normal load	0.02	
Lower O&M	0.05	
2Q16 EPS Estimate	**0.88**	

Source: Deutsche Bank

Valuation – Raising PT to $72 from $66

We value AEP by applying a 17.9x P/E multiple to our 2018 EPS estimate. This is a 5% premium to our base regulated target of 17x. We then add in $1.50/sh of value for AEP's merchant generation fleet representing proceeds in line with recent trade press commentary and a conservative view of tax leakage as well as ability to deploy proceeds accretively. A sales process for a portion of the fleet is well underway (final bids expected in Q3), and we expect the remaining fleet to either be sold or potentially re-regulated (if the Ohio legislature passes new legislation).

Risks

Downside risks for AEP include disallowance of capital spending projects or ROE adjustments in regulatory proceedings. A renewed economic downturn could also impact our estimates and slow growth at the utilities.

Calpine Corp (CPN)

CPN is scheduled to report on July 29 and hold a call that day at 10:00am. Our 2Q16 adjusted EBITDA estimate is $400M, slightly below consensus of $405M and below last year's $457M. On the call, we expect CPN will continue its recent efforts to outline its upside sensitivity to higher gas prices and tightening power markets. We also expect CPN will highlight its financing activities in the quarter which leave it with no maturities until 2019, and no recourse corporate maturities until 2022. While certain to be a topic of questions, we believe CPN will wait until after the summer is completed to address further capital allocation decisions.

Figure 38: CPN Quarterly Adjusted EBITDA Build-up

Calpine Corp	Estimate	Commentary
2Q15 Adj. EBITDA	**457**	
Regulatory capacity payments	10	Higher RPM revenues in 1H 2016
Portfolio changes, net	10	Addition of Granite Ridge and Garrison
Contracts	(10)	Pastoria contract expiration
Market prices / hedges /costs	(67)	Lower spark spreads and volumes in PJM and Calif, partially offset by hedges
2Q16 Adj. EBITDA	**400**	

Source: Deutsche Bank

Estimates

Our 2016 adjusted EBITDA estimate of $1,900M is unchanged. We are increasing our 2017 estimate from $1,975M to $2,050 and our 2018 estimate from $2,100M to $2,175M on higher power prices and spark spreads in Texas and California, per our new deck.

Valuation – PT up $1 to $18

We value CPN, and peer IPPs, using a weighted average of two methodologies; EV/EBITDA (75%) and Free Cash Flow yield (25%) as shown in Figure 39 below. We value CPN at 7.0x 2018 EV/EBITDA and 14% FCF yield, a premium to IPP peers due to its more attractive gas-fired portfolio (newer assets, better environmental footprint and EBITDA to cash conversion). We also add the NPV value of CPN's NOL position above peers, which amounts to ~$1/sh.

Figure 39: Calpine Valuation

CPN EV/EBITDA Valuation			
	2018E	**Multiple**	**Value**
2018 Adjusted EBITDA	2,175	7.0x	15,225
Relative benefit of NOLs above peers			335
Enterprise Value			**15,560**
2018E Net Debt			10,130
Add: Net debt from unconsolidated projects			110
Less: Adj. for 75% interest in Russell City			(133)
2018E Adjusted Net Debt			**10,107**
Total Equity Value			**5,453**
2018E Diluted Shares Outstanding			316
EV/EBITDA Based Valuation (75% Weight)			**$17**

CPN FCF Valuation	
2018E Free Cash Flow	934
Target FCF Yield	14.0%
	6,675
Relative benefit of NOLs above peers	**335**
Total Equity Value	**7,009**
2018E Diluted Shares Outstanding	316
FCF Yield Based Valuation (25% Weight)	**$22**
Price Target (75% EV/EBITDA, 25% FCF Yield)	**$18**

Source: Deutsche Bank

Risks

Upside risks are higher spark spreads, value-enhancing M&A and lower interest rates.

Downside risks are lower spark spreads, increased leverage, operational issues, higher interest rates, increased renewable energy penetration, and market intervention.

CenterPoint Energy (CNP)

CNP is scheduled to report on August 5 and hold a call that day at 11:00am. Our 2Q16 EPS estimate is $0.19 versus $0.19 in 2Q15 and $0.20 consensus.

Figure 40: CNP Quarterly EPS Build-up

Quarterly EPS Build-up	EPS	Notes
2Q15 EPS	**0.19**	
Customer growth	0.01	
Higher D&A	(0.02)	
Rate relief	0.05	
Higher O&M	(0.02)	
Less favorable weather	(0.02)	
2Q16 EPS Estimate	**0.19**	

Source: Deutsche Bank

Valuation – Raising PT to $24.50 from $22.50

We value CNP using a sum-of-the-parts analysis. For CNP's utilities, we apply a 17.3x P/E multiple to our 2018E. This is a 2% premium to our target regulated utility multiple reflecting our expectation for above-average rate base growth, solid earnings growth, and ongoing customer growth partially offset by the inclusion of the non-utility gas marketing business and the absence of an execution track record relative to some utility peers. We value CNP's share of ENBL in two parts. The limited partner (LP) units held are valued at ENBL's most recent market value. For the general partner (GP), we value the expected 2018 cash flows at a 30x multiple, though we note that given the current small size of the expected GP cash flows they do not have a meaningful impact on our valuation.

Figure 41: CNP Sum-of-the-Parts Valuation

CenterPoint Energy (NYSE: CNP) Sum of the Parts Valuation	
CNP Ex-Midstream	
Net income	414
P/E multiple	17.3x
Utility Equity Value	**7,175**
Enable Midstream (ENBL)	
Share price	14.62
CNP units held	233.8
LP Equity Value	**3,419**
2018 GP Cash Flows	1
CNP Share	40%
Multiple	30.0x
GP Equity Value	**13**
MLP Equity Value	**3,432**
Total Equity Value	10,607
2018E Share Count	432
Equity Value Per Share	**$24.50**

Source: Deutsche Bank

Risks

Upside risks for CNP include faster growth at the utilities, whether through additional investment or stronger customer growth. Higher commodity prices or faster growth at the MLP are also upside risks. Downside risks include the inability to grow earnings with rate base, lower commodity prices, and slower MLP growth.

CMS Energy (CMS)

CMS is scheduled to report on July 28 and hold a call that day at 10:00am. Our 2Q16 EPS estimate is $0.37 versus $0.25 in 2Q15 and $0.36 consensus. On the call, we expect discussion of the proposed Michigan energy legislation and the ongoing electric rate case.

Figure 42: CMS Quarterly EPS Build-up

Quarterly EPS Build-up	EPS	Notes
2Q15 EPS	**0.25**	
Weather	0.04	
New electric/gas rates	0.07	Apr. gas settlement; Dec. electric decision
Lower O&M and weather offsets	0.06	Adjusting spending/donations to offset weather
Higher investment costs	(0.05)	Depreciation, property taxes
2Q16 EPS Estimate	**0.37**	

Source: Deutsche Bank

Valuation – Raising PT to $46 from $43

We value CMS by applying an 19.6x P/E multiple (15% premium to our target 17x regulated utility multiple) to our 2018 EPS estimate. In our view, a strong premium for CMS is justified based on CMS' execution track record, Michigan's constructive regulatory jurisdiction, and above-average growth.

Risks

The key downside risks for CMS include the disallowance of major capital spending projects, as we expect roughly $17B of spending for 2016-2025 to drive rate base growth, and any inability of the utilities to earn their authorized returns. A negative turn in Michigan's economy is also a downside risk for CMS. A new economic downturn in the state would likely further increase rate pressure and could restrict growth opportunities. Rising natural gas prices would also be a risk since they would push CMS' expected annual electric rate increases higher. A negative outcome in Michigan's review of its 2008 energy legislation could be a risk.

Consolidated Edison (ED)

ED is scheduled to report on August 4 after the market close. They do not hold an earnings call. Our Q2 EPS estimate is $0.69 versus $0.77 last year and $0.69 consensus.

Figure 43: ED Quarterly EPS Build-up

Quarterly EPS Build-up	Est	Notes
Q2 2015 EPS	**0.77**	Excludes mark-to-market
CECONY rate plans	0.07	
CECONY O&M	(0.02)	
Depreciation/property taxes	(0.04)	
Net interest expense	(0.02)	
Other	(0.09)	Back out regulatory benefit in Q2-15, other
O&R	0.02	
Competitive	0.02	Crestwood JV, renewables
Parent	-	Assume flat
Q2 2015 Shares	**0.71**	Excludes mark-to-market
Dilution	(0.01)	Dilution related to equity offering
Q2 2016 EPS	**0.69**	

Source: Deutsche Bank

Estimates

We have adjusted our model to account for ED's joint venture with Crestwood, which closed last quarter. The transaction is expected to be neutral to 2016 but accretive thereafter. We are maintaining our 2016E of $4.05, which is at the top end of management's guidance range ($3.85-$4.05). We are raising our 2017E by $0.05 to $4.25 but are maintaining our 2018E of $4.35. Generally, we see Crestwood as a few pennies accretive assuming relatively steady EBITDA, although with our rounding convention, our 2017 is up a nickel while our 2018 is unchanged.

Valuation – Raising PT to $74 from $70, maintaining Sell

Our price target is based on a 17.0x P/E multiple applied to our 2018 EPS estimate. We believe ED merits no higher than an average valuation given below average growth potential and a pending investigation into the 2014 Harlem explosion, which could result in financial penalties. These negatives are offset by ED's arguably low risk business profile as a primarily delivery-only utility serving NYC which also benefits from revenue decoupling and certain cost deferral mechanisms.

Risks

Upside risks include better-than-anticipated rate case outcomes, including the pending CECONY rate case, stronger-than-anticipated earnings at the competitive business, faster-than-anticipated rate base growth/capital spending, lower financing needs, reduced pension plan contribution requirements, and lower market interest rates.

Dominion Resources (D)

D is scheduled to report on August 3 and hold a call that day at 10:00am. Our 2Q16 EPS estimate is $0.70 versus $0.73 last year and $0.71 consensus. On the call, we expect an update on the progress of receiving the relevant approvals for the Questar (STR, Not covered) acquisition as well as commentary on the FERC approvals process for the Atlantic Coast Pipeline.

Figure 44: D Quarterly EPS Build-up

Quarterly EPS Build-up	EPS	Notes
2Q15 EPS	**0.73**	
Virginia power riders	0.01	
Less favorable weather	(0.01)	
Electric transmission growth	0.02	
Share dilution	(0.02)	
Higher DD&A	(0.03)	
Lower tax rate	0.06	Assume 26% vs. 32% in 2Q15
Higher O&M	(0.02)	
Millstone refueling outage	(0.07)	
Capacity performance	0.02	
Lower capacity expenses	0.02	
Higher interest expense	(0.02)	
New gas transmission projects	0.02	
2Q16 EPS Estimate	**0.70**	D's 2Q16 guidance: $0.65-$0.75

Source: Deutsche Bank

Estimates

We are raising our 2017 and 2018 EPS estimates by $0.05 each to $3.85 and $4.20, respectively, based on our updated commodity price deck.

Valuation – Raising PT to $78 from $72

We value D on a sum-of-the-parts valuation. We apply a 19x P/E multiple to our 2018 EPS estimate for D's electric utility (VEPCO) and parent earnings. We value D's merchant generation and retail EBITDA at 7x, in line with our target multiple for merchant generation. We value D's gas distribution at 10.5x, reflecting its regulated growth profile, and gas transmission at 10.5x, recognizing the strong growth potential. We then add in D's stake in Dominion Midstream (DM, Not Covered) at market value and value D's general partner ownership at 25x discounted 2020 cash flows from DM, which we believe is justifiable given strong growth expectations for the GP cash flows. We also include STR by a weighted average EV/EBITDA multiple to consensus 2018 EBITDA. Our weighted average multiple reflects 10.5x for STR's gas utility and gas pipeline business (consistent with the multiples we apply to D's similar businesses) and 8x for STR's regulated oil and gas business.

Figure 45: D Sum-of-the-Parts Valuation

Dominion Resources (NYSE: D)
Sum of the Parts Valuation

Business Segment	Valuation Metric	2018E	Multiple	Value
VEPCO+Parent	P/E	1.97	19.0x	24,350
Add: 2018 VEPCO/Implied Parent Debt				26,487
VEPCO+Parent EV				50,837
Merchant Generation/Retail	EV/EBITDA	515	7.00x	3,606
Gas Distribution	EV/EBITDA	421	10.50x	4,420
Gas Transmission (less DM)	EV/EBITDA	1,369	10.50x	14,373
STR Consensus EBITDA	EV/EBITDA	651	9.45x	6,152
DM Stake	Market Value	$27.23	49	1,335
DM GP Value (discounted 2020 CF)	Cash Flow	166	25.00x	4,141
Total Enterprise Value				**84,864**
Less: Total Net Debt (2018E)				(34,353)
Total Equity Value				**50,511**
Diluted Average Shares Outstanding (2018E)				648
Equity Value Per Share				**$78**

Source: Deutsche Bank

Risks

The key downside risk for D would be the disallowance of major capital spending projects, which drive our earnings growth outlook. Inability to execute on growth projects, including the Cove Point LNG export project or Atlantic Coast Pipeline are also negative risks. Unfavorable changes to Virginia's utility regulatory framework would be a negative. Upside risks include higher gas and/or power prices than we assume at the merchant generation segment and significant additional growth opportunities at the regulated segments, which we view as most likely at gas transmission.

DTE Energy (DTE)

DTE is scheduled to report on July 26 and hold a call that day at 9:00am. Our 2Q16 EPS estimate is $0.87 versus $0.76 in 2Q15 and $0.89 consensus. On the call, we expect to hear updates on the proposed Michigan energy legislation and the NEXUS pipeline approvals process.

Figure 46: DTE Quarterly Operating Income by Segment

Quarterly Op. Income by Segment	2Q15 Op. Inc.	2Q16 Op. Inc.	Key Drivers
DTE Electric	111	126	New electric rates, weather, no decoupling amort.
DTE Gas	(7)	(4)	Weather
Gas Pipelines & Storage	25	27	
Power & Industrial	18	20	
Energy Trading	3	-	Assume no contribution from Trading
Parent	(13)	(14)	Assume parent even across remaining quarters
DTE Consolidated	**137**	**156**	
Shares Outstanding	179	180	
Operating EPS	**0.76**	**0.87**	

Source: Deutsche Bank

Valuation – Raising PT to $96 from $90

We apply an 18.7x P/E multiple to our 2018 EPS estimate for DTE excluding the Reduced Emissions Fuel (REF) business. This multiple reflects a 10%

premium to our 17x target regulated electric utility multiple, reflecting DTE's solid Michigan utilities with a strong regulatory construct partially offset by the inclusion of DTE's Power & Industrial segment. We add in ~$1/share for DTE's REF business. This represents the NPV of estimated future REF earnings through 2021 when the relevant tax credit expires. We note that our treatment of this segment represents a value decrement of $6/sh versus a more simple capitalization of the 2018 earnings contribution at our target multiple.

Figure 47: DTE Sum-of-the-Parts Valuation

DTE Energy (NYSE: DTE)
Sum of the Parts Valuation

Business Segment	Valuation Metric	2018E	Multiple	Value
DTE ex-REF	P/E	$5.07	18.7x	17,191
Reduced Emissions Fuel Tax Credit NPV				188
Total Equity Value				**17,379**
Diluted Average Shares Outstanding (2018E)				181
Equity Value Per Share				**$96**

Source: Deutsche Bank

Risks

Upside risks include stronger rate base growth than we assume and a stronger economic recovery, which could increase capital spending opportunities. Stronger-than-expected earnings from the Reduced Emissions Fuel (REF) business is also an upside risk. Downside risks include less favorable rate case outcomes than we assume, especially if they disallow capital spending, a renewed economic downturn in Michigan, and a slowdown at DTE's midstream business.

Duke Energy (DUK)

DUK is scheduled to report on August 4 and to hold a call that day at 10:00am. Our 2Q16 EPS estimate is $1.03 versus $0.95 last year and $1.01 consensus. On the call, we expect updates on the status of the LatAm sale, timing for the Piedmont merger to close, and impacts from the recently signed NC coal ash legislation.

Figure 48: DUK Quarterly EPS Build up

Quarterly EPS Build-up	EPS	Notes
Q2 2015 EPS	**0.95**	
USFE&G		
Wholesale	0.02	
Rate actions, riders	0.04	Energy efficiency, riders
NCEMPA acquisition	0.02	July 31 close
Weather	(0.01)	Assume about flat, HDDs offset lower CDDs
O&M	0.02	
Higher D&A	(0.06)	In line with Q1
Commercial Power		
Renewables	0.02	
International		
Oil prices	(0.00)	Every $10/bbl change in oil = $0.015
Foreign exchange	(0.01)	
Stronger Brazilian hydro output	0.05	Reservoir levels much higher
Higher effective tax rate	(0.02)	
Other		
Q2 2015 Shares	**1.02**	
Share Issuance	0.00	
Q2 2016 EPS	**1.03**	

Source: Deutsche Bank

Valuation – Raising PT to $85 from $80

With DUK pursuing a sale of its LatAm business and purchase of Piedmont Natural Gas, we believe it is appropriate to use a pro forma adjusted earnings base in our valuation methodology. Therefore, we adjust our current 2018E of $5.00 for potential dilution from the LatAm sale (we estimate about $0.20/sh) and accretion from the proposed PNY deal (we estimate $0.05-$0.08/sh). We then apply a 17.4x P/E multiple to an adjusted 2018E, which is a 2-3% premium over our target average regulated utility multiple. We believe DUK will merit a premium following the sale of its LatAm business given a more fully regulated business mix, large cap bellwether status and cleaner base. That said with more limited growth than some regulated peers and execution challenges in the near-term we see a modest premium as reasonable at this stage.

Risks

Upside risks include accelerated capital expenditures, lower treasury yields, favorable regulatory outcomes, and stronger-than-expected sales growth. Downside risks include higher treasury yields, regulatory disappointments, higher-than-expected financing needs, a stronger US dollar relative to the Brazilian real, and lower oil prices, which negatively impact the earnings contribution from DUK's National Methanol Corp. interests.

Dynegy Inc (DYN)

DYN is scheduled to report earnings after the close on August 3, and hold a conference call on August 4 at 9:00am. Our 2Q16 adjusted EBITDA estimate is $188M, considerably below consensus at $242M. Gas prices rose in the quarter, which we think led to PJM spark spread compression for relatively less hedged DYN compared to the year ago period. With 2Q16 the first quarter with a clean year-on-year comp since the acquisition of the DUK and ECP assets last year, our analysis shows a similar margin contribution from the same assets which contributed $193M of adjusted EBITDA in the year-ago period.

On the call we expect DYN will provide updates on its plans for retiring several of its MISO coal units and what impact, if any, proposed capacity auction reforms could have. DYN may also explain its capital structure after several unique financing transactions over the past 18 months. DYN may also be asked for updates on restructuring talks with IPH Genco bondholders which on the Q1 call management said would kick-off in May as well as ongoing asset divestiture efforts, particularly its Independence combined-cycle in New York.

Figure 49: DYN Quarterly Adjusted EBITDA Build-up

	Estimate
DYN 2Q15 Adj. EBITDA	**193**
GasCo 2Q15 Adj. EBITDA	**202**
Margins	(6)
GasCo 2Q16E Adj. EBITDA	**196**
CoalCo 2Q15 Adj. EBITDA	**19**
Margins	(4)
CoalCo 2Q16E Adj. EBITDA	**15**
IPH 2Q15 Adj. EBITDA	**5**
Margins	5
IPH 2Q16E Adj. EBITDA	**10**
Corporate 2Q15 Adj. EBITDA	**(33)**
Expenses	1
Corporate 2Q16E Adj. EBITDA	**(32)**
DYN 2Q16E Adj. EBITDA	**188**

Source: Deutsche Bank

Estimates

We are lowering our adjusted EBITDA estimates from $1,110M (2016), $1,670M (2017) and $1,795M (2018) to $1,085M (2016), $1,600M (2017) and $1,765M (2018). Lower PJM spark spreads were the primary driver for the lower earnings outlook.

Valuation – PT up $2 with removal of PJM discount

We value DYN using a weighted average of two methodologies; EV/EBITDA (75%) and Free Cash Flow yield (25%). As discussed earlier, we remove the 0.5x PJM discount on merchant generation we began to apply in February as spark spreads rationalized to more normal levels. As such, we now use 7.0x 2018 EV/EBITDA for the Gas and Engie assets, with Coal up to 6.0x. In our free cash flow based valuation, we now use 15.0% FCF yield target from a prior 16.5% with removal of the PJM discount.

Figure 50: Dynegy Valuation

DYN EV/EBITDA Valuation	**2018E**	**Multiple**	**Value**
GasCo Adjusted EBITDA	994	7.0x	6,958
Engie Assets Adjusted EBITDA	595	7.0x	4,162
CoalCo Adjusted EBITDA	214	6.0x	1,284
Corporate Overhead	(148)	6.9x	(1,017)
DYN EV ex-IPH	**1,655**	**6.9x**	**11,386**
Net Debt ex-IPH			(8,379)
DYN Equity Value ex-IPH			**3,007**
Total DYN Equity Value			**3,007**
2018E Diluted Shares Outstanding			144
EV/EBITDA Based Valuation (75% Weight)			**$21**

DYN FCF Valuation	
2018E Dynegy Free Cash Flow	663
Dynegy Target FCF Yield	15.0%
	4,420
Total DYN Equity Value	**4,420**
2018E Diluted Shares Outstanding	144
FCF Yield Based Valuation (25% Weight)	**$31**
Price Target (75% EV/EBITDA, 25% FCF Yield)	**$23**

Source: Deutsche Bank

Risks

Risks are commodity prices, unfavorable market intervention, operational issues, increased new builds and unfavorable merger approval decisions.

Edison International (EIX)

EIX is scheduled to report after the market closes on July 28 and hold a call that day at 4:30pm. Our 2Q16 diluted EPS estimate is $0.86 versus $1.15 in 2Q15 and $0.98 consensus.

Figure 51: EIX Quarterly EPS Build-up

Quarterly EPS Build-up	**EPS**	**Notes**
2Q15 EPS	**1.15**	
2015 GRC decision	(0.06)	Lower revenues
2016 rate base growth	0.11	
Uncertain tax positions	(0.30)	2Q15 benefit not expected to recur
Higher parent expenses	(0.04)	No Edison Capital earnings, higher costs
2Q16 EPS Estimate	**0.86**	

Source: Deutsche Bank

Valuation – Raising PT to $76 from $71

We value EIX by applying a 5% premium over our 17x P/E multiple to our 2018 EPS estimate. We believe EIX merits a premium valuation based on its above-average earnings and dividend growth outlook, and the constructive California regulatory mechanisms in place.

Risks

In our view, the primary near-term downside risks for EIX are the potential reopening of the San Onofre nuclear plant (SONGS) investigation. Disallowance or delays of major capital spending at SCE is another downside risk. We view this risk as most acute for SCE's transmission projects, which have historically had problems with delays throughout the regulatory review process. Upside risks include a near-term denial of the rehearing requests in the SONGS investigation, better cost management that pushes earned returns above our expectations, and approval by the California PUC for EIX to invest above currently authorized levels over our forecast period (EIX has requested this in the distribution resources plan case).

Entergy Corp (ETR)

ETR is scheduled to report on August 2 and to hold a call at 11:00am. Our Q2 estimate is $1.04 versus $0.83 last year and $1.07 consensus.

Figure 52: ETR Quarterly EPS Build-up

Quarterly EPS Build-up	EPS	Notes
Q2 2015 EPS	**0.83**	
Utility Q2 2015	**1.11**	
Sales/pricing	0.29	Union, EAI rate case, ETI riders, underlying sales
Weather	-	Higher HDDs, lower CDDs
Non-fuel O&M expense	0.05	Lower pension and generation expenses
Higher D&A/Other	(0.08)	guidance
Utility Q2 2016	**1.37**	
EWC Q2 2015	**(0.02)**	
Nuclear revenue	(0.26)	Lower volumes due to IP2 outage
Lower fuel costs	0.12	IP2 outage, lower fuel costs for Pilgrim and Fitz
Non-fuel O&M expense	0.07	
D&A	0.03	VY, and Pilgrim/Fitz impairments
RISEC	0.01	Lost a penny last yr
EWC Q2 2016	**(0.05)**	
Parent & Other Q2 2015	**(0.26)**	
Taxes/Other	(0.03)	
Parent & Other Q2 2016	**(0.28)**	
Q2 2015 Shares	**1.03**	
Share dilution	0.00	
Q2 2016 EPS	**1.04**	

Source: Deutsche Bank

Estimates

We are raising our 2016 EPS estimate to $5.75 from $5.05 to reflect as yet unidentified tax benefits, which ETR expects to realize this year allowing them to achieve the top end of their guidance range or higher. We are lowering our 2017E to $5.30 from $5.45, largely to reflect the removal of a spent nuclear fuel storage litigation benefit, which we had previously included in our estimate consistent with ETR’s prior presentation of EWC’s EBITDA. We then have raised our 2018E to $5.40 from $5.05 to reflect the impact of our revised commodity deck on EWC.

Valuation – Raising PT to $83 from $78

We are revising our methodology for valuing ETR to better reflect the company’s transformation from a true hybrid utility to more of a mostly regulated entity. Therefore, we have retired our somewhat complex sum-of-the-parts valuation, which we use to value hybrid utilities, in favor of a simpler P/E based valuation that we use to value regulated utilities. We now value ETR by focusing entirely on Utility, Parent & Other EPS in 2018 of $4.88. To calculate our new PT, we apply an average regulated utility multiple of 17x to this earnings stream. This results in a valuation of $83. While ETR could theoretically merit a premium valuation given above-average EPS growth potential through 2020 as laid out at the June Analyst Day, there are lingering questions over whether they will be able to deliver on these targets given anticipated future nuclear plant costs that have yet to be identified and might ultimately not be recoverable from ratepayers. We expect clarity on these costs later this year. While we currently see some incremental value to ETR given their merchant nuclear power plant ownership, we feel it makes sense to focus on the value that ETR provides from its regulated business, with the company now focused on transitioning to a regulated pure-play.

Risks

We see the following downside risks to our price target: negative rate case decisions, the inability to deliver on utility growth targets due to unrecoverable nuclear plant costs, weaker-than-expected power and natural gas prices, delays on major capital projects, and a weaker economic environment in ETR’s Gulf South territory. Upside risks are higher gas and power prices, faster than expected utility load growth, a successful extension of Indian Point’s operating license, and the sale of the FitzPatrick nuclear plant to EXC.

Exelon Corp (EXC)

EXC is expected to report ahead of their Analyst Day on August 10 but will not hold an earnings call this quarter. Our Q2 estimate is $0.57 versus $0.59 last year and $0.56 consensus.

Figure 53: EXC Quarterly EPS Build-up

	EPS	Notes
Q2 2015 EPS	**0.59**	
ComEd Q2 2015	**0.12**	
Rate base growth	0.03	Based on annual guidance
Weather	0.01	
O&M	0.00	Based on annual guidance
D&A	(0.01)	Based on annual guidance
Higher interest expense/other	(0.01)	Based on annual guidance
ComEd Q2 2016	**0.14**	
PECO Q2 2015	**0.08**	
Weather	0.01	
Rate increase	0.02	
Higher O&M / other	(0.01)	
PECO Q2 2016	**0.10**	
BG&E Q2 2015	**0.05**	
Higher rates	0.01	Includes transmission
Regulatory write-off	(0.05)	
O&M	(0.01)	Storm costs, bad debt, conduit fee
BG&E Q2 2016	**(0.00)**	
ExGen Q2 2015	**0.36**	
Hedge gross margin	0.00	
Unhedged baseload	(0.00)	
Capacity revenues	0.01	
Refueling outage expense	(0.01)	
O&M expense	0.03	
Higher D&A	(0.02)	
Interest / decom expense	(0.02)	
ExGen Q2 2016	**0.34**	
POM Utilities	**0.07**	First full quarter of contribution
Corporate Q2 2015	**(0.02)**	
YoY change	(0.02)	Higher corporate interest expense
Corporate Q2 2016	**(0.04)**	
Q2 2015 Shares	**0.61**	
Dilution	(0.04)	POM related equity issuance
Q2 2016 EPS	**0.57**	

Source: Deutsche Bank

Estimate changes

We are maintaining our 2016 and 2017 EPS estimates of $2.55 and $2.65 but raising our 2018E to $2.80 from $2.75 to reflect our revised commodity deck.

Valuation – Raising PT to $39 from $36

We value the utility segment by applying a 17.5x P/E multiple to our 2018 estimates for ComEd, PECO and the POM utilities, and an average 17x multiple for BG&E. We believe POM earnings merit a premium as we anticipate faster growth at this segment as EXC closes the gap between authorized and earned returns in 2018 and beyond. We also apply premiums to ComEd earnings given potential upside from higher interest rates as ComEd's ROE is set based on a formula incorporating the yield on the 30-year Treasury bond. We also give PECO a premium given a history of over-earning and our expectations for this to continue.

Meanwhile, we value ExGen by applying a 6.5x EV/EBITDA multiple to our 2018 estimate. Our 6.5x multiple is now relatively in line with our targeted EV/EBITDA multiple for merchant generators. On the one hand, we believe a modest discount is merited given ExGen's still more limited free cash flow generation than IPP peers given their capital-intensive nuke fleet. On the flipside, EXC's nuclear fleet merits some incremental value vs. IPPs given the potential for new revenue streams from clean energy standards (NY and IL) or a future carbon trading scheme. In addition, EXC also has a stronger credit and lower leverage profile at ExGen than pure-play IPP peers, with a plan to de-lever over the coming years.

Similar to our valuation methodology for FirstEnergy, we take a hybrid approach for the corporate / other segment. We derive a $38 price target when valuing the corporate segment EBITDA at a 6.5x EBITDA multiple and then subtracting corporate debt as a direct offset to equity value (effectively treating parent debt as being on the merchant business). In our other scenario we see a $41 price target valuing EXC's corporate earnings drag of $0.12/sh using our regulated distribution P/E multiple of 17.4x (treats parent debt as effectively being on the utilities). Our $39 price target reflects a 50/50 weighting of these two book-end valuation approaches, which we believe is currently appropriate. As the regulated component grows, however, and if ExGen follows through on planned de-levering, arguably over time we could justify shifting our weighting towards the higher Valuation B scenario.

Figure 54: EXC Sum-of-the-Parts Valuation

Valuation A

Business Segment	**Valuation Metric**	**2018E**	**Multiple**	**Value**
ComEd	P/E	$0.56	17.5x	9,463
PECO	P/E	$0.44	17.5x	7,403
BG&E	P/E	$0.35	17.0x	5,789
POM	P/E	$0.38	17.5x	6,461
Utility Equity Value				**29,117**
Generation / Retail / Corp	EV/EBITDA	3,500	6.50x	22,750
Less: Generation Net Debt				(9,420)
Less: Corp Net Debt				(6,055)
Non-Utility Equity Value				**7,275**
Total Equity Value				**36,392**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**38**

Valuation B

Business Segment	**Valuation Metric**	**2018E**	**Multiple**	**Value**
ComEd	P/E	$0.56	17.5x	9,463
PECO	P/E	$0.44	17.5x	7,403
BG&E	P/E	$0.35	17.0x	5,789
POM	P/E	$0.38	17.5x	6,461
Corp	P/E	($0.12)	17.4x	(2,086)
Utility & Corp. Equity Value				**27,031**
Generation / Retail	EV/EBITDA	3,393	6.50x	22,055
Less: Generation Net Debt (2018E)				(9,420)
Non-Utility Equity Value				**12,635**
Total Equity Value				**39,665**
Diluted Average Shares Outstanding (2018E)				967
Price Target ($/sh)				**41**

Source: Deutsche Bank

Risks

Downside risks include lower-than-expected forward power prices, worse-than-anticipated rate case outcomes, lower retail margins given heightened competition, higher interest rates, and a lower-than-expected contribution from POM (expected to be clarified at August Analyst Day).

Eversource Energy (ES)

ES is scheduled to report on July 28 after the close and to hold a call the following day on July 29 at 9:00am. Our Q2 estimate is $0.65 versus $0.66 last year and $0.65 consensus.

Figure 55: ES Quarterly EPS Build-up

Quarterly EPS Build-up	EPS	Notes
Q2 2015 EPS	**0.66**	
Q2-15 Distribution & Generation	**0.40**	
CL&P rate increase	(0.02)	ADIT recovery in Q2
NSTAR gas rate increase	0.01	
Weather	0.01	
O&M expense	-	
D&A/property taxes/interest expense	(0.02)	
Q2-16 Distribution & Generation	**0.38**	
Q2-15 Transmission	**0.25**	
Investment	0.02	Higher rate base/investment
Q2-16 Transmission	**0.27**	ES earned $85.7M in Q1
Q2-15 Parent & Other	**0.01**	
YOY change	(0.01)	Higher parent interest expense
Q2-16 Parent & Other	**(0.00)**	Parent/Other should earn about $0.04/yr
Q2 2015 Shares	**0.65**	
Share dilution	(0.00)	
Q2 2016 EPS	**0.65**	

Source: Deutsche Bank

Valuation – Raising PT to $61 from $58

We believe ES merits a 10% premium vs. our regulated utility target, given above average earnings growth, share repurchasing capability, and strong management. These positives are offset by ES's growth being so sensitive to success on Northern Pass, in particular, and Access Northeast (longer-term). We also remain concerned about next year's NSTAR electric distribution rate case, although we have at least attempted to reflect this risk in our 2018 and 2019 estimates.

Risks

Downside risks include transmission project delays or cancellations, a worse-than-expected outcome in the NSTAR electric rate case, reduced support for transmission at FERC, higher-than-expected O&M, lower-than-expected capital expenditures on growth investments, lower-than-anticipated sales, and higher-than-anticipated financing needs. Upside risks include stronger cost control measures, acceleration of growth projects, higher sales, a larger share repurchase plan than currently anticipated, and lower financing needs/costs.

FirstEnergy (FE)

FE is likely to report after the close on July 28 and to hold a call the following day at 10:00am. Our Q2 estimate is $0.54 versus $0.53 last year and $0.54 consensus.

Figure 56: FE Quarterly EPS Build-up

	EPS	Notes
2Q15 EPS	**0.53**	
Utility distribution sales	(0.02)	CDDs down ~15%
Rate cases	0.03	
Transmission rev	0.05	
PJM capacity revenues	0.07	Based on FE disclosures
Contract sales	(0.15)	Lower price
Reduced purchased power/fuel	0.09	Lower purchased power costs
O&M expense	(0.02)	Pension
Depreciation	(0.01)	
Interest expense	(0.03)	
2Q15 EPS Shares	**0.54**	
Share dilution	(0.00)	
2Q16 EPS	**0.54**	

Source: Deutsche Bank

Estimate changes to remove Rider RRS

Our estimates and valuation assume no longer assume any Ohio rider upside given the ongoing uncertainty

We are lowering our 2016E to $2.55 from $2.80. The reduction primarily reflects the removal of revenue uplift at the competitive business from our prior assumption that the proposed Ohio PPA (Rider RRS) would go into effect starting June 1 of this year. That said, we are raising our 2017E to $2.70 from $2.65 despite the loss of earnings from Rider RRS. The net increase reflects a number of key factors: 1) reduced pension expense as we assume FE issues ~$1.5B of equity at the very end of 2016 to their pension plan. We expect this will lower pension expense given a higher assumed return on assets from an increased pension asset base (FE currently expects a return on assets of 7.5%; 2) a more significant benefit from pending rate cases in PA and NJ than we had previously been modeling; 3) higher shares outstanding (average diluted shares up 51 million vs. 2016), and 4) the loss of Rider RRS revenues. Finally, we lower our 2018E by $0.05 to $2.55. We assume incremental equity issuance in 2017 and 2018 (~$1.4B) will be required to finance FE's capital plans (although we have reduced our assumption on total capex in 2017 and 2018) to offset the loss of Rider RRS. These negative drivers are offset by continued contributions to the pension plan with this equity, which further reduce pension expense, and somewhat higher-than-previously expected revenues at the regulated utilities. In total we now assume total equity issuance of about $3B in order to achieve FFO to debt of over 14% in 2017 and 2018. This results in a total share issuance of about 80 million new shares, which would be above the 67 million FE currently has authorization to issue.

It's important to note that we continue to feel below average conviction in our estimates for FE given the absence of any material guidance from the company and uncertainty over how much equity FE would have to raise to protect their investment grade credit rating and how much assistance the company may receive from Ohio (or other state regulators) to support their credit rating or merchant generation fleet. Further, FE has indicated that they would intend to use any equity raise to contribute to their pension plans rather than pay down corporate or competitive debt. This should be a more efficient way to increase CFO / Debt (credit rating agencies include unfunded pension in their debt calculations), as reducing the unfunded status of the plan will minimize required pension contributions in the future. That said, calculating the implications to earnings and cash flow are a bit more complicated than paying down debt with this approach. As discussed above, we have attempted to account for the impacts we would expect to earnings and cash flow in our model, but given movements in interest rates and other factors that impact ongoing pension expense and plan funded status, not to mention FE's history of excluding mark-to-market impacts from ongoing EPS, makes this a somewhat more challenging exercise than just assuming debt balances are reduced. We also expect that some of the benefits from contributing to the pension at the utility business would eventually flow through to ratepayers through future rate cases, although we have not accounted for this in our model at this time.

Potential upsides

We note the potential for upside to our estimates should FE find more significant cost reductions than we have accounted for or if Ohio should approve the Modified Rider RRS proposal made by FE or even Staff's less helpful Distribution Modernization Rider (DMR) proposal, which would provide $131M of incremental revenue for three years. We note that Staff's proposal would not eliminate all of FE's equity needs, as FFO to Debt would still be below Moody's required 14% level, but would still be preferable to our current assumptions. That said, based on our analysis, we do not believe the stock is pricing in much if any assumed uplift in Ohio at current levels.

Valuation – Raising PT to $39 from $37

We value FE by applying a 15.6x P/E multiple to our 2018E for the distribution utilities, an 8% discount to our baseline regulated multiple of 17x. The utility business could arguably merit a higher multiple in the future, but we have below average conviction in our outlook given FE's history of disappointing on growth at the regulated distribution business and our revised assumptions on pension expense. That said, with FE promising a regulated utility growth rate at their yet-to-be-scheduled analyst day, we think there could be reason to raise this multiple later this year. We apply an 18.7x P/E multiple (10% premium) to our 2018E for transmission to reflect this business' strong growth outlook (over 20% annual EPS growth at ATSI and TrailCo). Finally, we value the competitive segment EBITDA by applying a 6.5x EV/EBITDA multiple to our estimate for EBITDA.

We derive a $37 price target when valuing the corporate segment EBITDA drag at a 6.5x multiple and then subtracting parent debt as a direct offset to equity value (effectively treating parent debt as support for the merchant business). On the other hand, we derive a $42 price target when valuing FE's corporate earnings drag of $0.41/sh using our regulated distribution P/E multiple of 15.6x (treats parent debt as support for the utilities). Our $39 price target reflects a 50/50 weighting of these two valuation approaches, although the latter (higher) one may become more of the focus if FE successfully begins to deliver on its broader de-risking strategy. Other potential equity value upside cases might involve an eventual walk-away scenario from the competitive business although we believe this is not a likely near-term event.

Figure 57: FE Sum-of-the-Parts Valuation

Valuation Framework A

Business Segment	Valuation Metric	2018E	Multiple	Value
Regulated Distribution	P/E	$1.95	15.6x	15,111
Regulated Transmission	P/E	$0.79	18.7x	7,305
Utility Equity Value				**22,416**
Competitive	EV/EBITDA	755	6.50x	4,910
Less: Competitive Debt (2018E)				(3,470)
Competitive Equity Value				**1,440**
Corporate & Other	EV/EBITDA	($57)	6.50x	(371)
Less: Parent Debt (2018E)				(5,425)
Parent Equity Drag				**(5,796)**
Total Equity Value				**18,061**
Diluted Shares Outstanding (2018)				495
Equity Value Per Share				**$37**

Valuation Framework B

Business Segment	Valuation Metric	2018E	Multiple	Value
Regulated Distribution	P/E	$1.95	15.6x	15,111
Regulated Transmission	P/E	$0.79	18.7x	7,305
Corporate and Other	P/E	($0.41)	15.6x	(3,134)
Utility and Parent Equity Value				**19,283**
Competitive	EV/EBITDA	755	6.50x	4,910
Less: Competitive Debt (2018E)				(3,470)
Competitive Equity Value				**1,440**
Total Equity Value				**20,723**
Diluted Shares Outstanding (2018)				495
Equity Value Per Share				**$42**

Source: Deutsche Bank

Risks

Downside risks are lower gas and power prices, disappointing regulated growth, high financial leverage, higher interest rates, and weak electric demand. Upside risks are the approval of a rider in Ohio that will support more significant deleveraging, lower-than-expected equity issuance, lower interest rates, and approval of MAIT.

ITC Holdings (ITC)

ITC is scheduled to report on July 28 but will not hold a call this quarter due to the pending acquisition by Fortis Inc. Our Q2 estimate is $0.49 versus $0.46 last year and $0.56 consensus. Note that we continue to include ROE refund liabilities in our operating earnings and estimates, while other analysts may not do so, thereby skewing consensus.

Estimates

We are raising our estimates modestly in 2016 through 2018 by a nickel each to $1.90, $2.10, and $2.30, respectively. While we have reflected the impacts of bonus depreciation in our model, we believe we may have slightly overstated its impacts in our prior forecasts. Our estimates reflect both bonus depreciation and a reduced MISO ROE assumption (11% all-in).

Valuation – Raising PT to $47 from $45

We are raising our price target to reflect a higher underlying utility base multiple and a higher takeout value implied by the Fortis (FTS) deal. We now see standalone value for ITC of $41 and deal value of almost $48. We continue to weight deal value at 85% as we believe the FTS deal has an above-average chance of closing.

Our view of ITC's takeout value (~$48) is based on the terms of the proposed FTS deal and is therefore tied to movements in FTS's stock price and the Canadian dollar.

Our standalone valuation is based on a weighted average of three scenarios where we have modeled different outcomes on ROE, development capex, and share repurchases and is consistent with how we have historically valued ITC.

See our table below for our assumptions. We give our “Mid Case” scenario the highest weighting (70%) given a greater likelihood of an outcome on both ROE and development spend somewhere between the High and Low Cases. We weight our High Case scenario at only 5% given a low probability for ITC to achieve this level of development spend through 2018 and our view that the FERC will ultimately approve an ROE that is lower than that included in the High Case scenario. We weight our Low Case scenario at 25%.

Figure 58: ITC Standalone Valuation Methodology

	High Case	**Mid Case**	**Low Case**
MISO ROE	10.57%	10.00%	9.00%
Incentive Cap	11.74%	11.00%	10.50%
Development Spend	$650M	$250M	-
Repurchases ('14-'18)	$550M	$400M	$550M
2018 Adjusted EPS	2.60	2.30	2.05
P/E Multiple	19.6x	18.2x	17.0x
Valuation	51.00	42.00	35.00
Weighting	5%	70%	25%
Weighted Average Price Target			**41.00**

Source: Deutsche Bank

Risks

Downside risks include the failure of the FTS deal to close, poor performance of FTS stock pre-close, USD to CAD exchange rate risk, transmission project delays, a worse-than-anticipated outcome in the MISO base ROE proceeding and a challenge to the ITC Great Plains ROE, greater-than-anticipated financing needs, and reduced support for transmission at FERC. Upside risks include success on the development front and in the pending ROE complaints, and a higher FTS stock price.

NextEra Energy (NEE)

NEE is schedule to report on July 27 and hold a combined conference call with NEP at 9:00am. Our 2Q16 EPS estimate is $1.60, above consensus of $1.54 and last year's $1.55. On the call, we expect NEE to provide an update on its pending FP&L rate case and NEER's progress towards achieving its 2017-2018 renewables development program. We expect an update on potential wind repowering opportunities eagerly anticipated by investors will need to wait at least another quarter given prior management commentary and the complex and location specific analysis required.

Figure 59: NEE Quarterly Adjusted EPS Build-Up

NEE	Estimate	Commentary
NEE 2Q15 Consolidated Adjusted EPS	**1.56**	
FP&L 2Q15 Adjusted EPS	**0.97**	
New investments / Sales growth	0.07	
Wholesale operations	0.00	
Interest expense / AFUDC	0.00	
O&M / Dilution	(0.02)	
FP&L 2Q16 Adjusted EPS	**1.02**	
Resources 2Q15 Adjusted EPS	**0.57**	
New investments	0.08	
Existing assets / Wind resource	0.04	Better wind production, Sold Texas CCGTs
Customer supply & trading	(0.04)	
Gas Infrastructure	0.00	
O&M / NEP / PTC / Interest / Dilution	(0.06)	
Resources 2Q16 Adjusted EPS	**0.59**	
Corporate and Other 2Q15 EPS	**0.02**	
YoY change	(0.03)	
Corporate and Other 2Q16 EPS	**(0.01)**	
NEE 2Q16 Adjusted EPS	**1.60**	

Source: Deutsche Bank

Estimates

Our adjusted EPS estimates are unchanged at $6.20 (2016), $6.50 (2017) and $7.10 (2018).

Valuation – PT up $11 on higher utility and contracted renewables multiples

We value NextEra on a sum-of-the-parts approach. We value FP&L at a 12% premium to our regulated utility average multiple, now increased to 17x from 16x. We feel this premium is warranted due to FP&L's above-average growth and a generally supportive Florida regulatory framework. We value Energy Resources at 11.0x EBITDA, up from 10.0x previously, with expected sustainable high growth following the IRS' multi-year extension of renewable tax credits, repowering opportunities and the current low cost of capital environment for predictable cash flows. Next, we value NEE's shareholdings in NEP at NEP's ~$31 stock price, worth $7 per NEE share. Finally, we value NEE's IDRs from NEP at 25x or $5/sh, with rapid growth expected.

Figure 60: NEE Valuation

NextEra Energy (NYSE: NEE) **Sum-of-the-Parts Valuation**	
FP&L & Corporate 2018E EPS	4.00
P/E Multiple	19.0x
FP&L & Corporate Equity Value per Share	**$76**
NEER 2018E EBITDA	4,035
Add: Full year impact of assets added in 2018	200
Less: NEP 2018E EBITDA (ex-IDR)	(996)
Core NEER 2018E EBITDA	3,239
EV/EBITDA Multiple	11.0x
Core NEER EV	35,628
NEER 2018E Allocated Net Debt	(18,208)
Add Back: NEP 2018E Net Debt	4,266
Core NEER 2018E Net Debt	(13,942)
Core NEER Equity Value	21,686
NEE 2018E Shares Outstanding	473
Core NEER Equity Value per Share	**$46**
NEP Shares Owned by NEE	101
NEP at Market 7/19/16	$31
NEP Equity Value to NEE	3,145
NEE 2018E Shares Outstanding	473
NEP Share Value to NEE	**$7**
2018E IDR Payment	93
IDR Multiple	25.0x
IDR Value	2,325
NEE 2018E Shares Outstanding	473
NEP IDR Value to NEE	**$5**
NEE Price Target	**$134**

Source: Deutsche Bank

Risks

Downside risks are higher interest rates, unfavorable capital market conditions, unfavorable regulatory outcomes, increased competition and poorly received M&A.

NextEra Energy Partners (NEP)

NEP is schedule to report on July 27 and hold a combined conference call with NEE at 9:00am. Our 2Q16 adjusted EBITDA estimate is $168M, compared to consensus at $164M and $102M on a smaller fleet last year. On the call, we expect management to reiterate its support and commitment to NEP and its dividend growth, as evidenced by recent drop downs and dividend raise. We expect NEP to also reiterate its ability to add debt at multiple levels (holdco, projects) that could support growth without needing to issue equity near-term.

Estimates

We incorporate NEP's latest drop down of Cedar Bluffs and Golden Hills wind farms into our model and correspondingly delay several assumed drop downs from 2017 to 2018. As such, our new adjusted EBITDA estimates are increased to $655M (2016), $752M (2017) and $903M (2018). Our year-end DPS estimates of $1.40 (2016), $1.58 (2017) and $1.80 (2018), representing 13.5% annual growth, is unchanged.

Valuation – PT up $2 on higher EBITDA

We value NEP using a blended average of two methodologies, the target dividend yield method (weighted 75%) and EV/EBITDA method, reflecting its fundamental nature as a renewable power company (weighted 25%). We utilize a 6% target yield on 2018 forecasted dividend, reflecting growth and income potential. Our EV/EBITDA utilizes a 10x multiple, reflecting the contracted nature of NEP's fleet and its potential growth.

Figure 61: NEP Valuation

NextEra Energy Partners, LP (NYSE: NEP) Valuation	
2018E Dividend per Share - Period End Rate	$1.80
Target Yield	6.0%
Equity Value per Share - Dividend Yield Method	**$30**
2018E Adjusted EBITDA	903
EBITDA Multiple	10.0x
Enterprise Value	9,031
Less: 2018E Net Debt	(4,266)
Total Equity Value	**4,765**
2018E Shares Outstanding - Period End	160
Equity Value Per Share - EV/EBITDA Method	**$30**
75% Dividend Yield method, 25% EV/EBITDA method	**$30**

Source: Deutsche Bank

Risks

Upside risks include faster growth, supportive capital markets and M&A.

Downside risks include slower growth, difficult financing markets, operational issues and weather.

NRG Energy (NRG)

NRG is schedule to report on August 9 and hold a conference call that day at 9:00am. Our adjusted EBITDA estimate is $685M slightly ahead of consensus at $678M and $729M last year. Having completed the GreenCo strategic review last quarter, we expect investor focus to shift back to the core integrated wholesale and retail business. Management could provide an update on its ongoing cost cutting initiatives, asset divestitures and non-recourse financings which would help NRG delever its corporate balance sheet. Management may also provide an update on the status of restructuring talks with GenOn bondholders it kicked off this spring.

Figure 62: NRG Adjusted EBITDA Quarterly Build-Up

	Estimate	Commentary
NRG 2Q15 Adj. EBITDA	**729**	
Business 2Q15 Adj. EBITDA	**285**	
Merchant generation	(90)	Lower spot and hedged prices
Business 2Q16E Adj. EBITDA	**195**	
Renew 2Q15 Adj. EBITDA	**66**	
Wind and solar resource changes	2	
Renew 2Q16E Adj. EBITDA	**68**	
Home Retail 2Q15 Adj. EBITDA	**204**	
Margins & volumes	(1)	
Home Retail 2Q16E Adj. EBITDA	**203**	
NYLD 2Q15 Adj. EBITDA	**187**	
Asset additions, wind conditions	48	
NYLD 2Q16E Adj. EBITDA	**235**	
Corp 2Q15 Adj. EBITDA	**(13)**	
Other	(3)	
Corp 2Q16E Adj. EBITDA	**(16)**	
NRG 2Q16E Adj. EBITDA	**685**	

*In NRG's presentation Business, Renew and NYLD 2015 results could be restated

Source: Deutsche Bank

Estimates

Our 2016 adjusted EBITDA estimate of $3,100M is unchanged. We are lowering our 2017 estimate from $2,875M to $2,850M and our 2018 estimate from $3,100M to $3,075M reflecting asset sales and lower spark spreads in PJM, partially offset by higher power prices in Texas.

Valuation – PT up $1 to $20

We value NRG with a 75% weighting on EV/EBITDA and a 25% weighting on Free Cash Flow yield. For NRG residual – which excludes NYLD, we continue to use a 6.0x 2018 EV/EBITDA multiple which reflects NRG’s asset mix of predominately coal and less-efficient gas plants. We value NRG’s stake in NRG Yield at market. In our FCF yield valuation, we utilize a 17% yield for the core business.

Figure 63: NRG Valuation

NRG Energy Inc. (NRG) EV/EBITDA Valuation	
2018E Adjusted EBITDA - NRG Residual	2,120
EV/EBITDA Multiple	6.00x
2018E NRG Residual Enterprise Value	**12,720**
2018E NRG & Genon Debt	(9,878)
Add: NRG Cash	2,057
Less: Preferred stock	(304)
2018E NRG Residual Adjusted Net Debt	**(8,125)**
NRG Residual Equity Value	**4,596**
NRG 2018E shares in NYLD	85
NYLD at market 7/19/16	$16
Equity Value of NRG Stake in NYLD	**1,389**
Total NRG Inc. Equity Value	**5,985**
2018E Diluted shares outstanding	299
EV/EBITDA Based Valuation (75% Weight)	**$20**
NRG FCF Valuation	
2018E NRG Net Free Cash Flow (ex-NYLD share)	999
Target FCF Yield	17.0%
NRG Equity Value	**5,878**
2018E Diluted shares outstanding	299
FCF Yield Based Valuation (25% Weight)	**$20**
Price Target (75% EV/EBITDA, 25% FCF Yield)	**$20**

Source: Deutsche Bank

Risks

Risks are commodity prices, unfavorable weather, operational challenges, challenging financial markets and regulatory intervention.

NRG Yield (NYLD)

NYLD is scheduled to report August 9 and hold a call that day at 11:00am. Our adjusted EBITDA estimate is $235M vs. consensus at $238M and $187M on an as originally reported basis last year. This will be new CEO Christopher Sotos' first earnings call, and as such we would expect an update on his strategic vision for the company and growth opportunities he sees from NRG drop downs and elsewhere.

PG&E Corp. (PCG)

PCG is scheduled to report July 28 and hold a call that day at 11:00am. Our 2Q16 EPS estimate is $0.89 versus $0.91 in 2Q15 and $0.95 consensus. On the call, we expect discussion of PCG's recently-announced plan to retire the Diablo Canyon nuclear plant.

Figure 64: PCG Quarterly EPS Build-up

Quarterly EPS Build-up	EPS	Notes
2Q15 EPS	**0.91**	
Rate base growth	0.05	
Timing of taxes	0.02	1Q16 timing issue
Absence of GT&S decision	(0.01)	
Nuclear refueling outage	(0.06)	
Share dilution	(0.03)	
2Q16 EPS Estimate	**0.89**	

Source: Deutsche Bank

Valuation – Raising PT to $68 from $62

We value PCG by applying a 2-3% premium over our target 17x P/E multiple to our 2018 EPS estimate.

Risks

The key downside risk for PCG, in our view, is an unfavorable decision in the Gas Transmission & Storage Case. Additional fines, penalties, or disallowances related to PCG's operations, impermissible ex parte communications between PCG and the California PUC, or San Bruno legal cases are also risks.

PPL Corp. (PPL)

PPL is scheduled to report on August 9 and hold a call that day at 8:30am. Our 2Q16 EPS estimate is $0.50 versus $0.49 last year and $0.53 consensus. On the call, we expect discussion of PPL’s post-Brexit currency hedging strategy.

Figure 65: PPL Quarterly EPS by Segment

Quarterly EPS by Segment	2Q15 EPS	2Q16 EPS	Key Drivers
UK Regulated	0.36	0.33	Higher D&A, interest expense
Kentucky Regulated	0.09	0.11	Rate increase
Pennsylvania Regulated	0.07	0.09	Rate increase
Corporate and Other	(0.03)	(0.03)	
PPL Consolidated	**0.49**	**0.50**	

Source: Deutsche Bank

Estimates

We are lowering our 2018E to $2.30 from $2.45 as we are marking our GBP/USD exchange rate to $1.25, down from ~$1.45 previously. In the event PPL decided to monetize its FX hedges and rebase earnings lower we could see ~$0.10-$0.15 of additional downside to our 2018E albeit with potential for some mitigation in the event that proceeds could be deployed to incremental investment on a timely basis.

Valuation – Maintaining $39 PT

We value PPL by applying a 17x P/E multiple to our 2018 EPS estimate. This is in line with our target regulated electric utility P/E multiple, reflecting PPL's solid growth, international-heavy business mix, and above-average dividend yield.

Risks

Downside risks for PPL include delays in capital projects or unfavorable rate case outcomes. A decline in the GBP/USD exchange rate is also a risk. Upside risks include higher earned ROEs at the utilities, a more favorable exchange rate, and an increase in the rate base forecast.

Public Service Enterprise Group (PEG)

PEG is scheduled to report on July 29 and to hold a call that day at 11:00am. Our Q2 estimate is $0.56 vs. $0.57 last year and $0.61 consensus.

Figure 66: PSEG Quarterly EPS Build-up

	EPS	Notes
2Q15 Consolidated EPS	**0.57**	
PSE&G 2Q15 EPS	**0.33**	
Net transmission earnings	0.04	
Energy Strong	0.01	
Weather	(0.01)	
O&M	0.01	Storm expense was negative last quarter
PSE&G 2Q16 EPS	**0.38**	
Power 2Q15 EPS	**0.22**	
Capacity prices	(0.03)	Includes impact of capacity retirements
Hedged baseload power price	(0.04)	Based on hedging update slide
Unhedged power	(0.03)	Lower sparks
Salem outage	(0.01)	
O&M expense	0.04	Assume some offsetting with O&M
Power 2Q16 EPS	**0.15**	
Holdings & Parent 2Q15 EPS	**0.02**	
LIPA contract	0.01	
Holdings & Parent 2Q16 EPS	**0.03**	
PEG 2Q15 EPS	**0.56**	
Dilution	0.00	
PEG 2Q16 EPS	**0.56**	

Source: Deutsche Bank

Estimate changes

We are maintaining our 2016E of $2.90 and our 2017E of $2.95. Our 2018E is down $0.05 to $2.95 primarily reflecting the impact of our new commodity deck (lower spark spreads).

Valuation – Raising PT to $49 from $47

We value PEG based on a sum-of-the-parts analysis. This valuation applies an 18.3x P/E multiple to our 2018E at PSE&G, a 7-8% premium over our baseline 17x regulated multiple given superior medium term growth opportunities, the significant and fast-growing transmission component, weighting towards contemporaneous return investments and a capex plan that is closely aligned with state energy objectives. That said, we have tempered this premium given upcoming rate case risk in NJ, which could lower earned returns, and the potential for a challenge to PEG's above-average transmission ROE. We value the Power business at 7.0x EV/EBITDA on our 2018E, although we note some exposure here if PJM East capacity values fail to rebound from 2019/2020 auction levels. For the Parent/Other segment, we use 16x 2018E a discount to our baseline utility multiple of 17x reflecting some uncertainty as to the ongoing contribution.

Figure 67: PSEG Sum-of-the-Parts Valuation

Business Segment	Valuation Metric	2018E	Multiple	Value
PSE&G Utility	**P/E**	**$1.97**	**18.3x**	**18,314**
Holdings/Other	**P/E**	**$0.12**	**16.0x**	**949**
PSEG Power	EV/EBITDA	$1,338	7.0x	9,368
Less: Non-Utility Net Debt (2018E)				(3,715)
PSEG Power Equity Value				**5,653**
Total Equity Value				**24,916**
Diluted Average Shares Outstanding (2018E)				510
Equity Value Per Share				**$49**

Source: Deutsche Bank

Risks

Upside risks are higher gas and power prices, increased capital investment at the regulated utility, and lower-than-anticipated financing needs. Downside risks include lower gas and power prices, a potential future challenge to PSE&G's transmission ROE, and a worse-than-expected outcome in the upcoming PSE&G rate case.

Southern Company (SO)

SO is expected to report on July 27 and to hold a call that day at 1pm. Our Q2 estimate is $0.71 (consistent with SO's operating EPS methodology which excludes debt issued mid-quarter to finance the AGL Resources acquisition), versus $0.71 last year and $0.70 consensus. Including the impact of the debt offering, our Q2 estimate is $0.70, and this is the number which appears in our published estimate.

Figure 68: SO Quarterly EPS Build-up

	Estimate	Notes
Q2 2015	**0.71**	
Weather	(0.01)	CDDs down 5%
Retail revenue impacts	0.08	
Wholesale revenues	(0.01)	
Non-fuel O&M	-	
D&A	(0.04)	
Interest expense	(0.03)	Last year included $41M benefit
Southern Power	0.03	
Q2 2015 Shares	**0.73**	
Dilution	(0.02)	Issuance related to AGL deal
Q2 2016 EPS	**0.71**	
Including AGL Debt	(0.02)	
Q2 2016 EPS	**0.70**	

Source: Deutsche Bank

Estimate changes

We are revising our model to reflect the recently closed AGL Resources acquisition and the pending transaction with Kinder Morgan (SO intends to acquire a 50% stake in KMI's Southern Natural Gas pipeline company). While SO has not provided an updated view on the impact of AGL since the deal closed earlier this month or specific guidance on the impact from SNG, we believe the combination of these transactions is accretive versus our prior estimates. We are raising our 2016E to $2.95 from $2.85 and our 2017E to $3.05 from $2.95. Our 2016 EPS estimate is above SO's guidance range of $2.76-$2.88 for this year, but SO did not incorporate the net impact of one half year of earnings from AGL Resources (deal closed July 1) and over half a year of incremental interest expense related to deal-related debt. They did incorporate anticipated equity issuance related to the deal, however. On an apples-to-apples basis in 2016, our estimate would be $2.85. In 2018, we have raised our estimate by a nickel to $3.15. Through 2018, we now expect SO to achieve close to the high end of projected 4-5% EPS growth off a 2016 base of $2.76-$2.88.

Valuation – Raising PT to $54 from $50

We calculate our target by applying a 17x P/E multiple to our increased 2018E estimate. SO has historically commanded a premium valuation due to a long-history of delivering or exceeding financial targets, favorable regulatory relationships, and a better-than-average service territory (stronger sales growth). In more recent years, however, the company's premium has eroded due to concerns about cost overruns at the Vogtle new nuclear and Kemper County IGCC projects. Management has lost some credibility as a result of these projects and has also had to reduce long-term growth expectations that were once above-average. We now expect SO to deliver average EPS growth (potentially above-average if AGL is more accretive than we are currently modeling) but still see risks associated with the Vogtle and Kemper capital projects. As a result, we continue to believe SO merits an average valuation.

Risks

Upside risks to our target include better-than-anticipated rate case outcomes, accelerations in construction schedules for major capital projects, higher than-expected electric sales, lower-than-expected market interest rates, and lower-than-anticipated financing needs. Downside risks include worse-than-anticipated rate case outcomes, capital project delays, including SO's new nuclear project, lower-than-anticipated sales, higher interest rates, higher-than-anticipated financing needs, and reduced electricity demand.

Talen Energy (TLN)

TLN is scheduled to report on August 4 and hold a call at 9:00am. Our adjusted EBITDA estimate is $101M vs. consensus at $141M and $174M last year. Investor interest will likely be focused on status and timing of regulatory approvals. The company may also announce optimization plans for its challenged Harquahala plants.

Estimates

Our 2016 adjusted EBITDA estimate of $770M is unchanged. Our 2017 estimate is down $5M to $695M, while our 2018 estimate is up $25M as the additional flexibility of Montour to run on gas more than offsets slight core business weakness.

WEC Energy Group (WEC)

WEC is scheduled to report on July 27 and to hold a call that day at 2:30pm. Our Q2 estimate is $0.57 versus $0.59 last year and $0.56 consensus.

Figure 69: WEC Quarterly EPS Build-up

Quarterly EPS Build-up	**EPS**	**Notes**
Q2 2015 EPS	**0.59**	WEC standalone
Weather	0.05	Higher HDDs in April and CDDs in June
O&M	0.03	
Depreciation	(0.01)	
Power the Future	0.00	
American Transmission Company	0.00	
Interest expense, net	(0.02)	
Other	0.00	
TEG Acquisition	0.13	
Q2 2015 Shares	**0.78**	
Share dilution	(0.22)	Issuance related to TEG
Q2 2016 EPS - Operating	**0.57**	

Source: Deutsche Bank

Valuation – Raising PT to $65 from $61

Our $65 target is based on a 19.6x P/E multiple applied to our 2018E. We believe WEC merits a 15% premium to our 17x regulated target reflecting the company's strong management team, constructive regulatory relationships in Wisconsin, above-average earnings growth, and history of over-delivering on financial targets. WEC merits one of the highest premiums in the regulated sector in our view given these factors.

Risks

Upside risks to our valuation include higher capital spending and therefore rate base, lower interest rates, and higher electric demand. Downside risks include worse-than-anticipated rate case outcomes, capital project delays or cost overruns, lower-than-anticipated sales, higher interest rates, higher-than-anticipated financing needs, and reduced electricity demand.

Xcel Energy (XEL)

XEL is scheduled to report on August 3 and hold a call that day at 10:00am. Our 2Q16 EPS estimate is $0.42 versus $0.39 in 2Q15 and $0.40 consensus.

Figure 70: XEL Quarterly EPS Build-up

Quarterly EPS Build-up	EPS	Notes
2Q15 EPS	**0.39**	
Weather	0.02	
Rate changes	0.06	CO, MN, WI, ND, and SD
Higher rider revenues	0.02	
Higher D&A	(0.06)	
Higher property taxes	(0.01)	
Higher interest expense	(0.01)	
Lower tax rate	0.01	Assume 35% vs. 36% in 2Q15
2Q16 EPS Estimate	**0.42**	

Source: Deutsche Bank

Valuation – Raising PT to $43 from $40

We value XEL by applying a 5% premium over our target regulated utility P/E multiple of 17x to our 2018 EPS estimate. We believe a modest premium is warranted given XEL's low risk profile and solid dividend growth.

Risks

As a fully regulated utility, the most important downside risk is negative rate case decisions. XEL is also exposed to the general economic environment in its territories, and a continued sales decline would weaken earnings growth. Upside risks include a faster or stronger economic recovery in XEL's service territories than we expect and better rate case outcomes than we forecast.

Appendix 1

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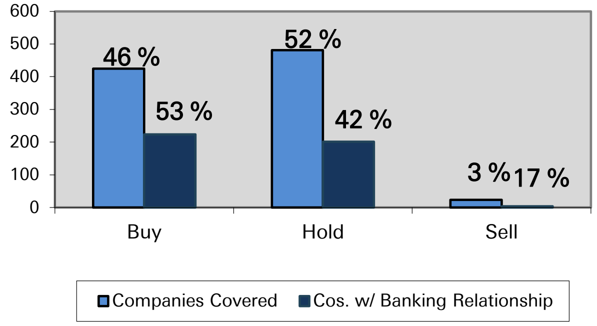

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EVERCORE ISI

Energy | Power & Utilities

August 15, 2016

EXELON CORP.

EXC | $34.63

BUY | TARGET PRICE: $40.00

Change in Earnings Forecast

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Utility Growth Story Funded by Robust Merchant Generation Cash Flow; Stock is Cheap

Analyst Day Confirmed Our Perspective on the Value Proposition

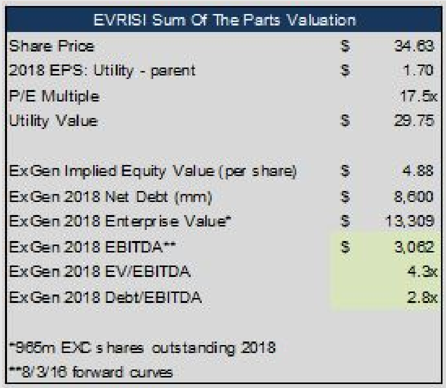
Our ’16 / ’17 / ’18 EPS forecast is $2.60 / $2.70 / $2.90 up from $2.60 / $2.65 / $2.75 based on 8/3/16 forward power curves. We have spent the last few days scrubbing our forecast and “sanity checking” the assumptions driving EXC’s view of the earnings growth drivers in its core utilities business and Exelon Generation (ExGen) as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management and find them wholly credible. The core utilities are forecast to grow rate base at 6% from ’16-20, with earnings growth of 7-9% due to the assumption of improved earned ROE’s at recently acquired POM. With six rate cases pending at the PHI companies and the ability to harvest operating synergies we see a turnaround similar to the one EXC engineered at BG&E after the CEG acquisition as feasible. So, there is line of sight for EPS at EXC’s utilities (ex-parent overheads) growing from $1.35 in FY ’16 to $1.85 in 2020, consistent with our prior expectations. At ExGen, our forecast now assumes $0.10/share uplift by FY ‘18 from passage of the NY Zero Emissions Credit (ZEC) program and our estimate of $.05/ share of uplift from recently announced Fitzpatrick plant acquisition from ETR. The impact of the closing of the Clinton and Quad Cities power plants looks better for earnings ($0.07 accretive) but worse for cash flow ($75mm improvement) than our prior estimates, but won’t fully hit the P&L until FY 2019. From a cash flow perspective we see ExGen producing $3.4bn of free cash flow through FY ’18, ~52% of the $6.6 billion they are targeting through 2020 ($5.9bn base case plus $750mm from the NY ZEC deal and repayment of a loan to their nuke JV partner EDF), with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. ExGen debt/EBITDA, currently at ~3.4X, should fall to at least 3X over the forecast period. On the subject of the dividend, they are committed to 2.5% growth through 2018 but are confident the financial profile supports at least that level of growth through 2020. Investors obviously “wear” commodity price risk at ExGen (in fact our forecast would be closer to $3/share in 2018 using EXC’s disclosures based on 6/30/16 power curves, but prices have fallen since then), and 2019 EPS are likely lower at ExGen due to a fall-off in capacity prices at current power forwards (on the margin we calculate that headwind is currently $0.10/share net of $0.07 of improvement from shutting Quad and Clinton, or $200mm of EBITDA). So while the story is not perfect at the current share price the value proposition looks quite compelling.

Company Statistics

Market Capitalization (M):	$31,959
Shares Outstanding (M):	923
Dividend:	$1.26
Dividend Yield:	3.7%
Payout Ratio:	48.6%
Expected Total Return:	19.2%
Fiscal Year End	Dec

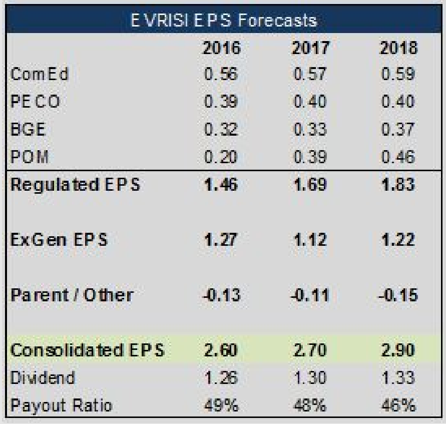
Earnings Summary

	2016E	2017E	2018E
EPS	**$2.60**	**$2.70**	**$2.90**
P/E	**13.3x**	**12.8x**	**11.9x**
EPS vs Consensus	**2.3%**	**2.6%**	**3.3%**
Consensus EPS	**$2.54**	**$2.63**	**$2.81**
Consensus P/E	**13.6x**	**13.2x**	**12.3x**



EVRISI Sum Of The Parts Valuation		
Share Price	$	34.63
2018 EPS: Utility - parent	$	1.70
P/E Multiple		17.5x
Utility Value	$	29.75
ExGen Implied Equity Value (per share)	$	4.88
ExGen 2018 Net Debt (mm)	$	8,600
ExGen 2018 Enterprise Value*	$	13,309
ExGen 2018 EBITDA**	$	3,062
ExGen 2018 EV/EBITDA		4.3x
ExGen 2018 Debt/EBITDA		2.8x

*965m EXC shares outstanding 2018
**8/3/16 forward curves



EVRISI EPS Forecasts	2016	2017	2018
ComEd	0.56	0.57	0.59
PECO	0.39	0.40	0.40
BGE	0.32	0.33	0.37
POM	0.20	0.39	0.46
Regulated EPS	**1.46**	**1.69**	**1.83**
ExGen EPS	**1.27**	**1.12**	**1.22**
Parent / Other	**-0.13**	**-0.11**	**-0.15**
Consolidated EPS	**2.60**	**2.70**	**2.90**
Dividend	1.26	1.30	1.33
Payout Ratio	49%	48%	46%

Our price target remains $40, maintaining BUY rating. Our forecast for utility EPS contribution minus parent overheads (+/-$0.15) is $1.35/share which by 2018 we expect to be $1.70 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to $1.85. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth $30/share in our view (17.5X ’18 EPS, an average multiple). That implies ExGen is worth only +/-$5/share today, which is around 4.2X ’18 EPS or 4.3X ’18 EV/EBITDA and an unlevered free cash flow yield to EV of 19% with debt/EBITDA at YE ’18 of <3X. To put it more succinctly, EXC is trading at 12X overall FY ’18 earnings and a 3.6% dividend yield while pure regulated names are at 17.5X and yields averaging 3%. While the dividend growth commitment of 2.5% annually is lower than that articulated by purely regulated peers and ‘19 EPS and EBITDA at ExGen should moderate (we estimated those numbers above at $0.10/share / $200mm of EBITDA) the balance sheet will also shrink. Our view is that the overall valuation gap is just too high. At a minimum we think investors should consider PEG as EXC’s most comparable peer. Using the same mathematical approach, PEG is trading today at 14.5X FY ’18 EPS, with its merchant power business trading at an implied P/E of 7X and an implied EV/EBITDA multiple of 6X and no demonstrable free cash given growth capital commitments. Debt/EBITDA for PEG at YE ’18 looks strong at a similar 2.6X. If EXC were to trade to PEG’s valuation on its generation business that would lead to $4-$5 of uplift in equity value, more or less validating our target price of $40/share, which is 13.8X 2018 EPS. That is 6X FY ’18 EV/EBITDA which we think is reasonable looking at ExGen’s free cash flow profile, cost of capital, and the useful life of its assets. If the forward curve for ’18 gas were to rise to EVRISI’s $3.25/MMBtu forecast over the next 12 months, ExGen’s valuation expanded to 6.5X, the regulated multiple expanded to 18.5X and they earned towards the high end of utility EPS guidance for FY ‘18, all things equal the stock could rise to ~$45. On the flip side, at 16.5X ’18 EPS, assuming they earn toward the lower end of their guidance range and we assume a $0.50/MMBtu decline in natural gas in FY ’18 and no multiple expansion at ExGen we see downside to ~$32.50/share. We like that risk/reward.

What’s next? The Con Ed Solutions deal is expected to close by YE’16, with the deal for Entergy’s Fitzpatrick plant to close in 2Q17. In Illinois, Clinton and Quad Cities will retire by 6/1/17 and 6/1/18 respectively, barring legislative action during short legislative sessions in November and December 2016. On the rate case front, a decision is expected in Pepco’s pending electric rate filing in MD (in which they requested $126.6mm premised on a 10.60% ROE) by 11/15/16. The IL PSC will issue a final order on ComEd’s electric FRP by December. A decision in DPL’s electric distribution rate case in MD (in which it requested $66mm based on a 10.60% ROE) is expected in Q1’17. A NJBPU decision on the electric distribution rate filing ACE made on 3/22/16 (seeking $79.4mm premised on a 10.60% ROE) is expected on 3/22/17. On 6/30/16, Pepco filed an electric distribution rate case in DC, requesting an $85.5mm increase premised on 10.60% ROE – a decision is expected in Q2 or Q3’17. The DE PSC is expected to rule on Delmarva’s pending electric and gas distribution case (seeking an $84mm increase in aggregate based on a 10.60% ROE) in Q3’17.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of regulation to bolster the revenue stream of the NY nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in NY to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-08-15)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$50.41	$52.50
AEP	American Electric Power	Buy	$66.52	$73.00
CPN	Calpine Corp.	Buy	$12.66	$18.00
CMS	CMS Energy Corp.	Hold	$43.01	$44.25
ED	Consolidated Edison Inc.	Sell	$76.24	$72.50
D	Dominion Resources Inc.	Buy	$75.00	$83.00
DTE	DTE Energy Co.	Hold	$94.76	$97.25
DUK	Duke Energy Corp.	Hold	$81.66	$81.00
DYN	Dynegy Inc.	Buy	$12.72	$25.00
EIX	Edison International	Hold	$74.56	$79.00
ETR	Entergy Corp.	Hold	$78.21	$83.00
ES	Eversource Energy	Hold	$56.35	$59.00
EXC	Exelon Corp.	Buy	$34.64	$40.00
FE	FirstEnergy Corp.	Hold	$32.89	$36.00
HE	Hawaiian Electric Industries Inc.	Hold	$30.47	$31.00
HIFR	InfraREIT, Inc.	Buy	$17.40	$20.00
ITC	ITC Holdings	Hold	$46.36	$47.50
NEE	NextEra Energy Inc	Buy	$125.32	$140.00
NI	NiSource Inc	Sell	$24.56	$24.00
NRG	NRG Energy Inc.	Buy	$12.62	$20.00
NYLD	NRG Yield, Inc.	Buy	$17.56	$18.00
PCG	PG&E Corp.	Buy	$63.45	$68.00
PNW	Pinnacle West Capital Corp.	Hold	$76.45	$79.00
PPL	PPL Corp.	Hold	$35.39	$36.00
PEG	Public Service Enterprise Group	Hold	$43.41	$46.00
SRE	Sempra Energy	Buy	$105.90	$122.00
SO	Southern Co.	Hold	$51.48	$51.00
TLN	Talen Energy Corporation	Hold	$13.73	$14.00
AES	The AES Corporation	Buy	$12.10	$12.25
WEC	WEC Energy Group, Inc.	Hold	$61.17	$62.00
WR	Westar Energy Inc.	Hold	$53.27	$58.50
XEL	Xcel Energy Inc.	Hold	$42.12	$44.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: August 15, 2016, 17:11 ET.

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Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

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ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%

Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Evercore ISI ratings distribution (as of 08/15/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	320	48%
Hold	302	45%
Sell	30	4%
Coverage Suspended	10	1%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	48	15%
Hold	17	6%
Sell	2	7%
Coverage Suspended	0	0%
Rating Suspended	1	12%

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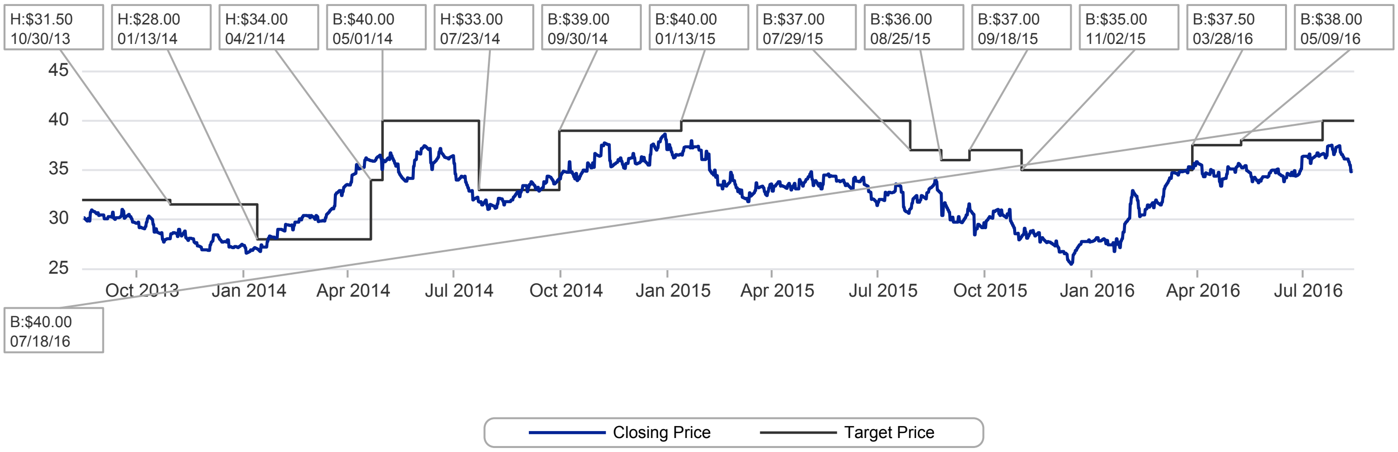
Price Charts

Exelon Corp. Rating History as of 08/13/2016

powered by: BlueMatrix



Entergy Corp. Rating History as of 08/13/2016

powered by: BlueMatrix

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EVERCORE ISI

Energy | Power & Utilities

July 18, 2016

EXELON CORP.

EXC | $36.49

BUY | TARGET PRICE: $40.00

Change in Price Target

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Phil Covello
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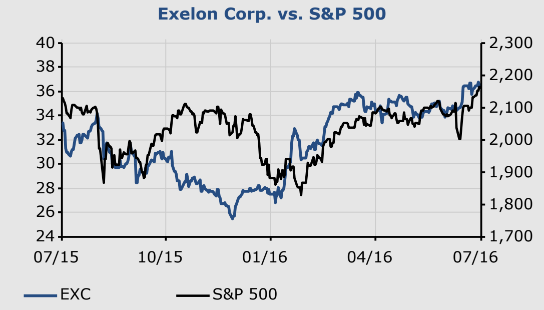
Company Statistics

Market Capitalization (M):	$32,378
Shares Outstanding (M):	887
Dividend:	$1.26
Dividend Yield:	3.5%
Payout Ratio:	48.6%
Expected Total Return:	13.1%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	**$2.60**	**$2.65**	**$2.75**
P/E	**14.0x**	**13.8x**	**13.3x**
EPS vs Consensus	**2.3%**	**0.3%**	**(1.4)%**
Consensus EPS	**$2.54**	**$2.64**	**$2.79**
Consensus P/E	**14.4x**	**13.8x**	**13.1x**

1 Year Price History



Source: FactSet

Utility Rate Base Growth Funded by Generation Cash Flow; Stock Is Cheap, Raising Target to $40 From $38.

Upcoming Analyst Day Should “Shine A Light” on the Value Proposition

EXC’s financial outlook — even before the recent announcement of the shut-down of the Clinton and Quad Cities nuke plants, the pending approval of zero emissions credits in NY for Nine Mile Point and Ginna, and the potential acquisition of Fitzpatrick under that credit construct — supports our view that the stock is fundamentally cheap. What we heard from EXC management a few weeks ago when we hosted investor meetings was a continued commitment to invest in and grow rate base/earnings power at their four utility platforms, grow the dividend 2.5% per year at least through 2018, and use cash flow in excess of what is needed for those two activities to de-lever (that amount articulated at the time by EXC at +/-$2.9bn through 2020). This plan is fully supported by the robust cash flow profile at Exelon Generation without the need for equity. With ExGen projected at <3X debt/EBITDA that deleveraging could (and should) be done at the parent level. EXC’s forecast for utility EPS contribution minus parent overheads this year is $1.30/share which by 2017 we expect to be $1.55-$1.60 per share. With EXC aspiring to grow rate base to +/-$40bn by 2020 that earnings power (utility EPS minus parent) could theoretically grow to $1.85. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth $30/share in our view. That implies ExGen is worth only +/-$6.50/share today, which is around 6X ’18 EPS or 5X ’18 EV/EBITDA and a free cash flow yield to EV of 13%. Or to put it more succinctly, EXC is trading at 13.3X overall FY ’18 earnings and a 3.5% dividend yield while pure regulated names are at 18X and yields averaging 3%. While the dividend growth commitment of 2.5% annually is lower than that articulated by purely regulated peers the overall valuation gap is in our view just too high. And our numbers don’t incorporate $0.15 of accretion that could be derived by FY ‘18 from the passage of a zero emissions credit program in NY and the acquisition of Fitzpatrick from ETR. Our valuation also doesn’t incorporate the shut-down of Clinton and Quad, which should be $120mm accretive to cash flow in FY ’19 (read more on all of these factors in the body of this note). We expect EXC’s analyst day on August 10th to “shine a light” on EXC’s robust financial profile and the cheapness of the shares.

We are increasing our price target to $40 from $38, maintaining BUY rating. Taking apart EXC in the wake of the POM deal we think its regulated business is worth +/-$30/share, as articulated above. That means ExGen is trading at $6.75 a share or roughly $6.5bn of equity value on '18 pro forma shares (a 5X EV/EBITDA multiple on our ’18 estimates and a debt/EBITDA multiple of +/-3X). Our target price of $40 assumes an EV/EBITDA multiple about a turn higher at 6X which we think is more than reasonable looking at ExGen’s free cash flow profile, cost of capital, and the useful life of its assets. If the forward curve for ’18 gas were to rise to EVRISI’s $3.25/MMBtu forecast over the next 12 months, ExGen’s valuation expanded to 6.5X, and the regulated multiple expanded to 18.5X, all things equal the stock could rise to ~$43.50. On the flip side, at 16.5X ’18 EPS, assuming a $0.50/MMBtu decline in natural gas in FY ’18 and no multiple expansion at ExGen we see downside to ~$33.25/share. This math would be skewed higher if the NYPSC approves the proposed zero emission credit (ZEC) scheme supported by PSC Staff, they buy Fitzpatrick, and/or we include the presumed cash flow improvement from the shuttering of Clinton and Quad. We like that risk/reward.

Our ’16 / ’17 / ’18 EPS forecast is $2.60 / $2.65 / $2.75 from $2.60 / $2.70 / $2.75 on 7/13/16 curves. Forward curves are down a bit since our last update, but our forecast does not incorporate upside potential (+/-$0.10/share by FY ‘18) that we estimate could result from passage of the aforementioned ZEC program, over $0.05/share of uplift possible from the Fitzpatrick acquisition, and Clinton / Quad retirements (although the latter won’t have a meaningful “run rate” impact until ’19). We also presume that updated hedging will mitigate the impact from lower forwards. Our forecast would be higher given the commodity price improvement since 3/31/16 but for the inability of ExGen to take the Domestic Production Activities Deduction (DPAD) through 2018 stemming from additional NOLs and bonus depreciation from the acquired PHI utilities. EXC estimates ExGen’s higher effective tax rate resulting from said inability to utilize DPAD is a -$0.01 / -$0.07 drag on ’17 / ’18 EPS (returning to normal by 2019). Still, the ~$775mm in additional cash flow ($0.80/share of cash on ’18 pro forma shares) attributable to bonus D and NOLs at PHI will help supplement the FCF generated by ExGen.

Nine Mile Point (NMP), Ginna, and ETR’s Fitzpatrick may receive incremental revenues with the creation of a Zero-Emissions Credit (ZEC) program in New York. The Cuomo administration has been looking for a financial remedy for upstate reactors to retain both their local economic contributions and to achieve the carbon reduction goals laid out in its broader proposed Clean Energy Standard. As detailed on 7/8/16, the latest iteration of the ZEC program would provide a 12 year revenue program for these plants, starting at $17.48/MWh for generation by those plants over the course of the initial 4/1/17-3/31/19 tranche, a subsidy that escalates to $29.15/MWh by 2029 but would be ratcheted downwards if expected market (upstate energy and capacity) revenues exceed a baseline $39/MWh price. For the initial tranche at current forward curves, the ZEC subsidy would net these generators $52 - $54/MWh revenue. By our math, ZECs would provide ExGen with ~$120mm / ~$40mm in annual EBITDA uplift (EPS of $0.08 / $0.03) for its share of Nine Mile Point and Ginna, respectively (*Exhibit 1*). The public comment period on the PSC’s proposal extends through 7/22/16. EXC is pushing for a NYPSC order on the proposed program by 8/1/16 so that it then has sufficient lead time to execute a ZEC PSA and then make the necessary refueling orders by the end of September. NMP Unit 1 and Ginna have refueling outages scheduled for March and April 2017 if they are to continue to operate, for which expedited reactor fabrication would cost $55mm and $45mm, respectively.

Exhibit 1

ZEC Uplift Estimates for Nine Mile Point and Ginna

Facility	Average Output (Annual MWh)	Total ZEC Revenue (millions)	EBITDA (at EXC Ownership %)	Net Income (@ 34% tax rate)	EPS Impact (2018 Shares)
Nine Mile Point	15,687,027	$ 274	$ 121	$ 80	0.08
Ginna	4,819,061	$ 84	$ 42	$ 28	0.03
Total	**20,506,088**	**$ 358**	**$ 163**	**$ 107**	**0.11**

Source: Evercore ISI Research

On 7/13/16, Entergy announced it was exploring a sale of its 852 MW Fitzpatrick plant to EXC. A deal would be contingent on the establishment of the ZEC program by the state since EXC would only acquire Fitzpatrick if it receives the 12 year ZEC credit revenue plan. This is consistent with EXC’s strategy of only deploying growth capital at ExGen if it is on contracted assets that are accretive to cash flow and earnings. In the absence of a sale, ETR will shut down the unit on 1/27/17 as it looks to shift away from its merchant power business which has been hamstrung by low commodity prices, an observed decline in performance across its entire nuclear fleet (which it is looking to reverse) and political pressure by Cuomo over its operation of Indian Point. As for EXC's interest, the plant lies directly adjacent to its Nine Mile Point units (*Exhibit 2*) so the potential for operating synergies is palpable. A DCF analysis of the plant assuming a '17 / '18 EBITDA uplift of $80mm / $115mm from the ZEC scheme suggests a fair value at ~$450mm (*Exhibit 3).* At that price, which is ~4X '18 EBITDA, Fitzpatrick could provide $0.06 / $0.08 per share to EPS were it folded into ExGen (funded 50% debt). See *Exhibit 4*. EXC had $960mm in cash on hand at the end of Q1.

Exhibit 2

Satellite View of Nine Mile Point and Fitzpatrick in Oswego, NY

Source: Google Earth

Exhibit 3

Fitzpatrick Estimated DCF with 12-Year ZEC Contract

James A FitzPatrick		**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Generation		6,783,832	6,783,832	6,783,832	6,783,832	6,783,832	6,783,832	6,783,832	6,783,832	6,783,832	6,783,832	6,783,832	6,783,832	6,783,832
Energy Pricing / MWh		$27.89	$28.91	$28.04	$28.39	$28.34	$28.28	$28.22	$28.17	$28.11	$28.05	$28.00	$27.94	$27.89
Capacity Pricing / MWh		$6.65	$6.65	$6.65	$6.65	$6.65	$6.65	$6.65	$6.65	$6.65	$6.65	$6.65	$6.65	$6.65
Effective ZEC Price / MWh		$13.11	$17.48	$19.59	$19.59	$21.38	$21.38	$23.83	$23.83	$26.45	$26.45	$29.15	$29.15	$7.29
Production Cost / MWh		$34.30	$34.13	$33.96	$33.79	$33.62	$33.45	$33.28	$33.12	$32.95	$32.79	$32.62	$32.46	$32.30
+Revenue		$323.27	$359.84	$368.22	$370.63	$382.38	$382.00	$398.24	$397.85	$415.25	$414.86	$432.80	$432.42	$283.73
-Costs		-$232.69	-$231.52	-$230.36	-$229.21	-$228.07	-$226.93	-$225.79	-$224.66	-$223.54	-$222.42	-$221.31	-$220.20	-$219.10
Other Income														
Tax		-$30.80	-$43.63	-$46.87	-$48.08	-$52.47	-$52.73	-$58.63	-$58.88	-$65.18	-$65.43	-$71.91	-$72.15	-$21.97
+Dep/Decom tax benefit		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Op Cash Flow		$59.79	$84.69	$90.98	$93.33	$101.85	$102.35	$113.81	$114.31	$126.53	$127.01	$139.58	$140.06	$42.65
-Capex		-$40.00	-$40.00	-$40.00	-$40.00	-$40.00	-$40.00	-$40.00	-$40.00	-$40.00	-$40.00	-$40.00	-$40.00	-$40.00
Free Cash Flow		$19.79	$44.69	$50.98	$53.33	$61.85	$62.35	$73.81	$74.31	$86.53	$87.01	$99.58	$100.06	$2.65
Period		0	1	2	3	4	5	6	7	8	9	10	11	12
Discounted Period		1.00	1.10	1.21	1.33	1.46	1.61	1.77	1.95	2.14	2.36	2.59	2.85	3.14
DCF (millions)	**$455**	**$19.79**	**$40.63**	**$42.14**	**$40.07**	**$42.24**	**$38.71**	**$41.67**	**$38.13**	**$40.36**	**$36.90**	**$38.39**	**$35.07**	**$0.85**

Source: Evercore ISI Research

Exhibit 4

Estimate of Fitzpatrick Accretion to EXC

	17	18	
Total Revenue	$323	$360	
Total Costs	-$233	-$232	
Gross Margin	**$91**	**$128**	
Addt'l Interest	-$9	-$9	*50% of 455m @ 4%*
EBT	**$81**	**$119**	
Taxes	-$28	-$41	*@ 34%*
Net Income	**$54**	**$79**	
EXC Shares	953	964	
EPS Accretion	**$0.06**	**$0.08**	

Source: Evercore ISI Research

In Illinois, the shutdown of Clinton and Quad Cities is now inevitable barring legislative action. The plants have drained $800mm in cash from 2009 through 2015, and their shutdown would be accretive to cash flow. EXC made the requisite filings with the NRC on 6/22/16, to shut down Clinton and Quad Cities on 6/1/17 and 6/1/18, following the failure of the IL legislature to pass desired energy legislation in the session coupled with the latter's continued inability to clear the PJM auction. In Exhibit 5 we estimate the plants are burning ~$165mm in cash annually at current forward curves, and are a +/- 0.05 share drag on earnings. Assuming dis-synergies from shutting the plants of a bit greater than $50mm due to EXC's inability to scale down its nuclear operating company expenses, we estimate on a run-rate basis the shutdown of the plants would add $120mm to cash flow by 2019 and be EPS neutral. This analysis is consistent with EXC's assertion that he plants are losing $140mm of cash flow annually based on 2/29/16 curves. EXC will incur estimated total one-time cash expenses of ~$175mm in '16 and up to $25mm in each of '17 and '18, as well as ongoing non-cash impacts for '16-'18 of ~$825mm / ~$825mm / ~$215mm mostly attributable to accelerated depreciation and nuclear fuel amortization associated with the decision to retire the units early. Early retirement of these units could result in a funding shortfall relative to their NRC minimum nuclear decommissioning trust fund (NDTF) obligations, necessitating additional parent guarantees of as much as $385mm for Clinton (up from $315mm as of the 10-K) and $65mm for Quad Cities to allow ExGen to access its NDTF fund for radiological decommissioning costs in the most expensive decommissioning scenario. There may also be an additional $160mm and $180mm cost required for Clinton and Quad Cities respectively, if they are not granted an exemption allowing them to use the NDTF for spent fuel management and site-restoration costs. These fuel and site restorations costs would not need to be funded immediately, however and are capable of being expensed over the next 10 years so it wouldn't be a massive drag on cash. It is also our understanding that these numbers could come down materially after EXC declares its intent to put the plants in to the SAFSTOR program.

Exhibit 5

EXC's Clinton & Quad Cities Plant Level Financials Before +/- $50mm Of Dis-Synergies

INCOME STATEMENT	
Revenues	493,419,667
Variable Non-Fuel O&M Cost ($)	(116,381,374)
Fixed O&M Cost ($)	(236,162,097)
EBITDA (Gross Margin)	**140,876,195**
Nuclear Fuel Amortization	(120,537,153)
PP&E Depreciation	(73,958,333)
EBIT	**(53,619,291)**
Interest Expense	0
EBT	**(53,619,291)**
Taxes	17,694,366
Net Income	**(35,924,925)**
EPS Impact	**(0.04)**

STATEMENT OF CASH FLOW	
Net Income	(35,924,925)
Add: PP&E Depreciation	73,958,333
Add: Nuclear Fuel Amortization	120,537,153
Cash From Operations	**158,570,561**
Minus: Maintenance Capex	(164,573,267)
Minus: Nuclear Fuel Capex	(160,024,390)
Cash From Investing	**(324,597,656)**
Total Cash Flow Contribution	**(166,027,095)**

Source: Evercore ISI Research

What's next? EXC will be hosting an Analyst Day on 8/10/16 in Philadelphia. A potential acquisition of Fitzpatrick from Entergy is likely to be finalized in mid-August pending NYPSC action authorizing a ZEC program, which could happen by 8/1/16. On 6/30/16, Pepco filed an electric distribution rate case in DC, requesting an $85.5mm increase premised on 10.60% ROE – a decision is expected. Delmarva plans to make an electric distribution rate filing in MD within the next few months. The DE PSC will rule on Delmarva's pending electric and gas distribution case there in 1H17. The IL PSC will issue a final order on ComEd's electric FRP by December, with a final order by the MD PSC on the electric distribution rate case Pepco filed on 4/19/16 expected then as well. A NJBPU decision on the electric distribution rate filing ACE made on 3/22/16 is expected in 1H'17.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions and/or passage of regulation to bolster the revenue stream of the NY nuclear units would be accretive but a significantly lower PJM capacity auction price would be negative. The lack of legislation in NY to bolster the nuclear units could be neutral to value if EXC abides by its commitment to then shutter those money losing units.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-07-15)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$52.51	$52.50
AEP	American Electric Power	Buy	$69.64	$73.00
CPN	Calpine Corp.	Buy	$14.92	$18.00
CMS	CMS Energy Corp.	Hold	$44.82	$44.25
ED	Consolidated Edison Inc.	Sell	$79.15	$72.50
D	Dominion Resources Inc.	Buy	$77.53	$83.00
DTE	DTE Energy Co.	Hold	$97.66	$97.25
DUK	Duke Energy Corp.	Hold	$84.92	$81.00
DYN	Dynegy Inc.	Buy	$17.98	$25.00
EIX	Edison International	Hold	$77.18	$79.00
ETR	Entergy Corp.	Hold	$80.28	$79.00
ES	Eversource Energy	Hold	$57.87	$58.00
EXC	Exelon Corp.	Buy	$36.49	$38.00
FE	FirstEnergy Corp.	Hold	$36.19	$36.00
HE	Hawaiian Electric Industries Inc.	Hold	$32.48	$32.00
HIFR	InfraREIT, Inc.	Buy	$17.64	$22.00
ITC	ITC Holdings	Hold	$46.52	$47.50
NEE	NextEra Energy Inc	Buy	$127.54	$140.00
NI	NiSource Inc	Sell	$26.10	$23.75
NRG	NRG Energy Inc.	Buy	$15.47	$20.00
NYLD	NRG Yield, Inc.	Buy	$16.54	$18.00
PCG	PG&E Corp.	Buy	$64.62	$67.00
PNW	Pinnacle West Capital Corp.	Hold	$79.53	$79.00
PPL	PPL Corp.	Hold	$37.15	$38.00
PEG	Public Service Enterprise Group	Hold	$45.87	$46.00
SRE	Sempra Energy	Buy	$112.93	$122.00
SO	Southern Co.	Hold	$53.62	$51.00
TLN	Talen Energy Corporation	Hold	$13.73	$14.00
AES	The AES Corporation	Buy	$12.63	$12.25
WEC	WEC Energy Group, Inc.	Hold	$63.96	$62.00
WR	Westar Energy Inc.	Hold	$56.22	$58.50
XEL	Xcel Energy Inc.	Hold	$43.75	$44.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

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Buy - Return 10% to 20%
Neutral - Return 0% to 10%

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: SRE, EXC, NEE, VVC, PCG, PPL, FE

November 30, 2016

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Scroll to bottom for Guggenheim's Utility Corporate Access Calendar

What's New?

SRE – Port Arthur LNG files formal application with FERC
EXC – IL House Energy Committee approved revised Future Energy Jobs
NEE – Florida PSC grants FPL multi-year increase totaling $811mm
VVC – Final stakeholder meeting on IRP lays out pathway to modify generation portfolio
EXC – Delaware intervenors recommend lower ROEs
PCG – Released a new report and interactive map to support EV adoption in CA
PPL – Request base rate increases at KU and LG&E subsidiaries
FE – New sustainable management plans for Bruce Mansfield facility

SRE – Port Arthur LNG files formal application with FERC

- SRE subsidiaries filed applications with the Federal Energy Regulatory Commission (FERC) seeking formal authorization to site, construct and operate Port Arthur LNG.
- The project consists of 2 natural gas liquefaction trains with total capacity ~13.5mm metric tons/year (698Bcf per year); 3 LNG storage tanks; NGLS and refrigerant storage; feed gas pre-treatment facilities; 2 berths and associated marine and loading facilities.
- A separate application was filed seeking authorization to construct natural gas pipelines to deliver natural gas to the project.

Guggenheim takeaway: *A positive event as this investment opportunity is not slated in base plans, but rather an incremental development opportunity supporting continued growth post 2020. SRE has no shortage of growth avenues, in our view, so too much investor emphasis or concern around Cameron, which will get built. SRE's current valuation doesn't reflect the above-average growth trajectory.* ***See our recent note HERE.*** *As of late last night, FERC site down so we will provide deeper thoughts in the NT on Port Arthur once we go through the doc's. We recently launched on SRE and highlighted as a core holding for investors at the current phase of the rate cycle.* ***See HERE.***

EXC – IL House Energy Committee approved revised Future Energy Jobs Bill

- The IL House Energy Committee voted 10 to 1 to approve the streamlined version of the Future Energy Jobs Bill, which seeks to create a clean energy standard to support at-risk nuclear facilities.
- The amendment of the Bill was filed Monday with a revised below 25 cents average monthly customer bill increase, lowered revenue that ComEd could generate from customers from $285mm to $235mm annually, and scaled back energy efficiency investments from $500mm to $400mm annually.

Guggenheim takeaway: *EXC continues to reduce the scope of the bill, which, in our view, is an incremental positive; we note that the condensed legislation session still does not bode well but we are seeing some positive light.*

NEE – Florida PSC grants FPL multi-year increase totaling $811mm

- The Florida Public Service Commission unanimously approved a settlement with major intervenors and NEE's Florida Power & Light Co for a total of $811mm through mid-2019.
- Revenue increases call for an additional $400mm in 2017, $211mm in 2018 and $200mm through mid-2019 versus an initial ask of $1.3bn.
- The midpoint of allowed return on equity increases to 10.55%, from 10.5%, also still reflecting a range in which NEE can manage returns by amortizing reserves authorized for that purpose; the authorized range is now 9.6-11.6% ROE.

Guggenheim takeaway: *A positive outcome although no surprise to us as we weren't anticipating a contentious proceeding considering NEE's industry leading operating performance going into the rate case, coupled with relatively low rates to begin with. Post rate case (which just concluded) and Oncor deal, we continue to highlight that NEE is in a good position to revisit growth –* ***see our EEI links below.***

VVC – Final stakeholder meeting on IRP lays out pathway to modify generation portfolio

- VVC held the Final shareholder meeting on its preferred integrated resource plan.
- VVC estimates it will spend approximately $250mm to comply with regulations including Coal Combustion Residual and Effluent Limitations Guideline, regarding coal ash, wastewater and air pollution handling and disposal.
- A final IRP report is expected to be submitted to IURC in December 2016 and details about the plan should be released in Feb 2017, with finalized plan in late summer of 2017.

Guggenheim takeaway: *We note the IRP in Indiana is the NT catalyst that could prompt additional spending opportunities and a revisit of growth; timing of execution is key.* ***For additional details see our EEI takeaway.***

EXC – Delaware intervenors recommend lower ROEs

- The Division of Public Advocate recommends to DE PSC that Delmarva receive a $12mm (2.1%) rate increase with a 9% ROE (49.44% of capital) and a $771.4mm rate base for a 205 test year.
- In a filing with the PSC staff recommends a $9.5mm (1.6%) rate increase with a 9.2% ROE (49.44% equity) and a $773.3mm rate base.
- Delmarva initially filed for a $62.8mm increase based on a 10.6% ROE and $846.2mm rate base.

Guggenheim takeaway: *No surprise here, as is typical of any rate case preceding, interveners set the floor.*

PCG – Released a new report and interactive map to support EV adoption in CA

- PCG released a new report as part of its Electric Program Investment Charge Program (EPIC) and an interactive map to support and ease the installation of DC Fast chargers in CA.

- The EPIC report and mapping tool will support siting of DCFC based on state travel data and other factors so as to increase EV adoption and extend benefits across communities.

Guggenheim takeaway: *CA policy continues to push for further GHG reduction but we believe this won't be achieved without a focus on transportation, and PCG has directed investor attention on electrification and gasification of the transport sector as a long-term opportunity around CA's carbon policy; for* ***additional details see our EEI takeaways from management in our note HERE.***

PPL – Request base rate increases at KU and LG&E subsidiaries

- PPL requested a base rate increase of $103mm (6.4%) at KU and electric and gas increases at LG&E of $94mm (8.5%) and $14mm (4.2%), respectively.
- The filings are based on a forecasted test year of July 1, 2017 through June 30, 2018 and request an authorized ROE of 10.23%; hearings on the applications are expected in 2Q17.

Guggenheim takeaway: *The resolution of this proceeding will be a catalyst for the broader story, as we will likely see management's next moves with regard to their currency positioning once this proceeding is behind them in mid 2017; as a reminder, PPL is well hedged through 2018 now, although investors still look beyond 2018, so the extent to which they roll in-the-money hedge value forward to 2019/2020 will be incremental.*

FE – New sustainable management plans for Bruce Mansfield facility

- FE intends to ship coal combustion residuals (CCRs) from the Bruce Mansfield Plant for use in reclamation of a site owned by the Marshall County Coal Company in WV.
- Now 100% of the CCRs created at the plant will be used for mine reclamation or recycled to drywall materials, with delivery commencing in early December.

Guggenheim takeaway: *An incremental positive towards coal ash management.*

Links

- ***Guggenheim Power & Utility Comp Sheet***
- ***Forward Commodity Curves for Power & Utility Modeling***

Key Research

1. **Guggenheim EEI Takeaways - Day 3**
2. **Guggenheim EEI Takeaways - Day 2**
3. **Guggenheim EEI Takeaways - Day 1**
4. **Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call**
5. ***PPL – NEUTRAL – NT Uncertainty Removed, but No Less Complex; Sum-of-the-Parts Just Won't Add Up Despite Good Story/Mgmt***
6. ***ES - BUY - Management Roadshow – Growth Concerns? Despite Noise, No…And Levers to Pull Post 2019***
7. ***DTE - BUY - Management Roadshow: Strong Story with Disciplined Approach, Minimal Concerns – Valuation Warrants Good Entry Point; Conservative Management; Conservative Outlook***
8. ***DYN - BUY - Restructuring IPH and Moving Forward; Tentative Agreement Reached and Settlement Discussions Continue***
9. ***ED-NEUTRAL-Joint Proposal: ROE Could've Been Worse; Manageable with Constructive Rate Design, Maybe Even Beatable***
10. ***ETR – Upgrading to BUY – The Past Is the Past: Fully-Regulated Growth Utility Emerging from a Mushroom Cloud***
11. ***EXC – BUY – Analyst Day Articulates the Story: Strong Free Cash Flows, Shrinking Balance Sheet & Regulated Growth***
12. ***Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes***
13. ***DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive***
14. ***CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements***
15. ***FE – BUY – PUCO Order: Time to Move On; Story Is Getting Closer to '17 Strategic Moves***
16. ***PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates***
17. ***EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential***
18. ***SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest***
19. ***2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking***
20. ***ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront***
21. ***Texas Showdown: Has Wave of Coal Retirement Reached Texas?***

22. ***DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates***
23. ***D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM***
24. ***AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow***
25. ***PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX***
26. ***Power Breakfast: Guggenheim-Hosted Commissioner Meetings***
27. ***Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings***
28. ***PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power***
29. ***Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance***
30. ***SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years***

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
SO	12/8-12/9	Boston	Art Beattie, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
AWK	6/29-6/30	Midwest	Susan Story, CEO
ETR	8/11	New York	Drew March (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3-10/4	Canada	Peter Oleksiak, CFO
ES	10/6	Mid Atlantic	Phil Lembo, CFO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
12/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Final decision
12/07	EXC	Pepco rate case	Washington Gas Light Co.	DC	FC-1137	Reply briefs due
12/09	EXC	ComEd formulaic rate plan (FRP)	Commonwealth Edison Co.	IL	D-16-0259	Decision Due
12/09	ETR	Electric rate case	ETR Arkansas	AR	D-16-036-FR	Decision Due
12/14		Appeal of CO2 New Source Rule			State of North Dakota v. EPA (No. 15-1381)	Briefs due from respondents
12/15	DUK	Electric rate case	Duke Energy Progress LLC	SC	D-2016-227-E	Decision Due
12/19-12/20		Value and Cost of Distributed Generation Proceeding		AZ	E-00000J-14-0023	Commission Order expected
12/21		Appeal of CO2 New Source Rule			State of North Dakota v. EPA (No. 15-1381)	Briefs due from respondent-intervenors
12/31	LNT	Electric and Gas rate cases	Wisconsin Power and Light Co.	WI	D-6680-UR-120	Decision Due
01/19		Appeal of CO2 New Source Rule			State of North Dakota v. EPA (No. 15-1381)	Reply briefs due
01/27	FE	PA electric distribution rate cases	Metropolitan Edison Pennsylvania Electric Pennsylvania Power Co. West Penn Power	PA	R-2016-2537349 R-2016-2537352 R-2016-2537355 R-2016-2537359	Decision Due

Guggenheim Power & Utilities Comp Sheet (As of 11/29/2016)

As of	11/29/2016									Guggenheim Estimates							Consensus Estimates						
Regulated Utilities(2)		Market Cap ($bn)	Rating	Target Price(1)	Current Price	Price Change	Dividend (2018E)		Diluted Shares	Earnings Per Share				Price / Earnings			Earnings Per Share				Price / Earnings		
							Yield	Payout		'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
AEP	American Electric Power	30.1	Buy	$69	$61.27	13%	4.2%	68%	492	3.83	3.65	3.85	0%	16.0	16.8	15.9	3.79	3.68	3.89	1%	16.2	16.7	15.7
ALE	ALLETE, Inc.	3.1	Neutral	$57	$63.75	-11%	3.6%	62%	49	3.14	3.46	3.68	8%	20.3	18.4	17.3	3.12	3.50	3.71	9%	20.4	18.2	17.2
AVA	Avista Corporation	2.7	Neutral	$39	$42.12	-7%	3.6%	65%	64	2.06	2.16	2.30	6%	20.4	19.5	18.3	2.07	2.17	2.30	5%	20.3	19.4	18.3
CNP	CenterPoint Energy, Inc.	10.4	Buy	$25	$24.09	4%	4.7%	86%	431	1.23	1.27	1.32	4%	19.6	19.0	18.3	1.18	1.25	1.33	6%	20.4	19.3	18.2
D	Dominion Resources, Inc.	47.7	Buy	$85	$76.11	12%	4.3%	75%	627	3.85	3.89	4.32	6%	19.8	19.6	17.6	3.79	3.85	4.21	5%	20.1	19.8	18.1
DTE	DTE Energy Company	17.2	Buy	$104	$95.80	9%	3.4%	58%	179	5.36	5.27	5.66	3%	17.9	18.2	16.9	5.27	5.33	5.70	4%	18.2	18.0	16.8
DUK	Duke Energy Corporation	52.6	Buy	$88	$76.37	15%	4.8%	74%	689	4.70	4.66	4.89	2%	16.2	16.4	15.6	4.67	4.65	4.83	2%	16.4	16.4	15.8
ED	Consolidated Edison, Inc.	22.1	Neutral	$74	$72.65	2%	3.9%	65%	305	4.01	4.16	4.36	4%	18.1	17.5	16.7	3.96	4.14	4.32	4%	18.4	17.5	16.8
EIX	Edison International	23.2	Neutral	$78	$71.15	10%	3.3%	53%	326	3.87	4.12	4.34	6%	18.4	17.3	16.4	3.91	4.11	4.33	5%	18.2	17.3	16.4
ES	Eversource Energy	17.0	Buy	$64	$53.75	19%	3.8%	60%	317	2.93	3.20	3.37	7%	18.3	16.8	15.9	2.98	3.17	3.31	5%	18.0	17.0	16.2
LNT	Alliant Energy Corp	8.5	Neutral	$34	$37.25	-9%	3.6%	62%	228	1.84	1.95	2.13	8%	20.2	19.1	17.5	1.88	2.00	2.13	6%	19.8	18.7	17.5
NEE	NextEra Energy, Inc.	54.8	Buy	$139	$117.27	19%	3.8%	63%	467	6.33	6.56	7.01	5%	18.5	17.9	16.7	6.21	6.56	7.04	6%	18.9	17.9	16.7
OGE	OGE Energy Corp.	6.4	Buy	$33	$32.26	2%	4.3%	73%	200	1.72	1.88	1.93	6%	18.8	17.2	16.7	1.76	1.88	1.87	3%	18.3	17.2	17.3
PCG	PG&E Corporation	30.6	Neutral	$61	$60.46	1%	3.8%	59%	506	3.65	3.70	3.83	2%	16.6	16.3	15.8	3.70	3.66	3.87	2%	16.3	16.5	15.6
PNW	Pinnacle West	8.5	Neutral	$83	$76.68	8%	3.5%	60%	111	3.92	4.18	4.48	7%	19.6	18.3	17.1	3.97	4.22	4.43	6%	19.3	18.2	17.3
POR	Portland General Electric	3.8	Neutral	$40	$43.15	-7%	3.2%	56%	89	2.18	2.35	2.47	6%	19.8	18.4	17.5	2.12	2.34	2.49	8%	20.3	18.4	17.3
PPL	PPL Corporation	23.2	Neutral	$38	$34.19	11%	4.8%	72%	680	2.40	2.20	2.28	-3%	14.2	15.5	15.0	2.36	2.17	2.31	(1%)	14.5	15.8	14.8
SCG	SCANA Corporation	10.4	Buy	$78	$72.45	8%	3.5%	56%	143	3.99	4.25	4.53	7%	18.2	17.0	16.0	4.13	4.23	4.52	5%	17.6	17.1	16.0
SO	Southern Company	47.4	Neutral	$54	$48.31	12%	4.9%	75%	981	2.88	3.02	3.17	5%	16.8	16.0	15.2	2.90	2.99	3.14	4%	16.7	16.2	15.4
WEC	WEC Energy Group Inc	18.3	Buy	$63	$58.03	9%	3.8%	65%	316	2.94	3.16	3.40	8%	19.7	18.4	17.1	2.94	3.11	3.33	6%	19.7	18.7	17.4
Average							**3.9%**	**65%**					**5%**	**18.4**	**17.7**	**16.7**				**5%**	**18.4**	**17.7**	**16.7**

Integrated Utilities(3)		Market Cap ($bn)	Rating	Target Price(1)	Current Price	Price Change	Dividend (2018E)		Diluted Shares	Earnings Per Share				Price / Earnings			Earnings Per Share				Price / Earnings		
							Yield	Payout		'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
ETR	Entergy Corporation	12.8	Buy	$78	$71.40	9%	5.1%	77%	179	6.99	4.73	4.82	-17%	10.2	15.1	14.8	6.83	4.62	4.70	(17%)	10.5	15.5	15.2
EXC	Exelon Corporation	31.1	Buy	$39	$33.66	16%	3.9%	48%	923	2.71	2.62	2.77	1%	12.4	12.8	12.2	2.67	2.59	2.74	1%	12.6	13.0	12.3
FE	FirstEnergy Corp.	13.9	Buy	$42	$32.55	29%	4.4%	59%	426	2.70	2.62	2.59	-2%	12.1	12.4	12.6	2.63	2.64	2.43	(4%)	12.4	12.3	13.4
PEG	PSEG	21.7	Buy	$47	$42.84	10%	4.2%	61%	506	2.86	2.82	2.92	1%	15.0	15.2	14.7	2.87	2.90	2.92	1%	14.9	14.8	14.6
Average							**4.4%**	**62%**					**-4%**	**12.4**	**13.9**	**13.6**				**-5%**	**12.6**	**13.9**	**13.9**

Independent Power Producers (IPPs)(4)		Market Cap ($bn)	Rating	Target Price(1)	Current Price	Price Change	Dividend (2018E)		Diluted Shares	Adjusted EBITDA				EV / EBITDA			Adjusted EBITDA				EV / EBITDA		
							Yield	Payout		'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
CPN	Calpine Corporation	4.1	Buy	$20	$11.53	73%	0.0%	0%	359	1,811	1,880	2,066	7%	8.6	7.9	7.0	1,823	1,891	2,034	6%	8.6	7.9	7.1
DYN	Dynegy Inc.	1.0	Buy	$21	$8.95	135%	0.0%	0%	117	1,068	1,320	1,670	25%	9.4	7.4	5.6	1,031	1,328	1,549	23%	9.8	7.4	6.1
NRG	NRG Energy, Inc.	3.6	Buy	$18	$11.31	59%	1.1%	11%	315	3,293	2,771	2,904	(6%)	6.1	7.0	6.3	3,199	2,699	2,890	(5%)	6.3	7.2	6.3
TLN	Talen Energy Corp	1.8	Neutral	$14	$13.97	0%	0.0%	0%	129	785	755	751	(2%)	7.0	7.3	7.2	770	723	654	(8%)	7.2	7.6	8.3
Average							**0.3%**	**3%**					**6%**	**7.8**	**7.4**	**6.5**				**4%**	**7.9**	**7.5**	**6.9**

Gas Utilities(5)		Market Cap ($bn)	Rating	Target Price(1)	Current Price	Price Change	Dividend (2018E)		Diluted Shares	Earnings Per Share				Price / Earnings			Earnings Per Share				Price / Earnings		
							Yield	Payout		'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
NI	NiSource Inc	7.2	Neutral	$23	$22.37	3%	3.2%	59%	323	1.10	1.16	1.24	6%	20.3	19.3	18.0	1.07	1.15	1.21	6%	20.8	19.4	18.4
NJR	New Jersey Resources	3.0	Buy	$36	$35.30	2%	3.1%	59%	86	1.64	1.75	1.92	8%	21.5	20.2	18.4	1.61	1.71	1.85	7%	21.9	20.6	19.0
NWN	Northwest Natural Gas	1.7	Neutral	$52	$59.65	-13%	3.2%	75%	29	2.23	2.35	2.49	6%	26.7	25.4	24.0	2.22	2.33	2.51	6%	26.8	25.6	23.8
SJI	South Jersey Industries	2.7	Buy	$34	$33.85	0%	3.4%	71%	79	1.32	1.34	1.61	10%	25.6	25.3	21.0	1.34	1.36	1.59	9%	25.3	24.8	21.3
SR	Spire Inc.	3.0	Buy	$69	$66.25	4%	3.3%	59%	46	3.40	3.52	3.65	4%	19.5	18.8	18.2	3.42	3.55	3.68	4%	19.4	18.7	18.0
SRE	Sempra Energy	25.3	Buy	$121	$101.27	19%	3.5%	61%	250	5.36	5.28	5.88	5%	18.9	19.2	17.2	4.83	5.12	5.85	10%	21.0	19.8	17.3
VVC	Vectren Corporation	4.2	Neutral	$46	$51.15	-10%	3.5%	64%	83	2.50	2.67	2.82	6%	20.5	19.2	18.1	2.50	2.66	2.83	6%	20.5	19.2	18.0
Average							**3.3%**	**64%**					**6%**	**21.9**	**21.0**	**19.3**				**7%**	**22.2**	**21.2**	**19.4**

Other		Market Cap ($bn)	Rating	Target Price(1)	Current Price	Price Change	Dividend (2018E)		Diluted Shares	Earnings Per Share				Price / Earnings			Earnings Per Share				Price / Earnings		
							Yield	Payout		'16E	'17E	'18E	CAGR	'16E	'17E	'18E	'16E	'17E	'18E	CAGR	'16E	'17E	'18E
AWK	American Water Works	13.5	Buy	$91	$75.98	20%	2.3%	54%	178	2.86	3.05	3.25	NA	26.6	24.9	23.4	2.85	3.06	3.26	NA	26.7	24.9	23.3
NYLD	NRG Yield	1.5	Neutral	$17	$15.65	9%	8.1%	137%	183	NE	NE	NE	NA	NA	NA	NA	0.83	0.84	0.92	5%	18.8	18.7	16.9

(1) Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

(2) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

(5) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Coverage of WR and GXP suspended due to investment banking activity

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
AEP	American Electric Power	Buy	$61.27	2.27	2.38	2.50	3.7%	3.9%	4.1%	60%	65%	64%
ALE	ALLETE, Inc.	Neutral	$63.75	2.08	2.16	2.25	3.3%	3.4%	3.5%	67%	62%	61%
AVA	Avista Corporation	Neutral	$42.12	1.38	1.44	1.51	3.3%	3.4%	3.6%	67%	66%	66%
CNP	CenterPoint Energy, Inc.	Buy	$24.09	1.03	1.08	1.13	4.3%	4.5%	4.7%	88%	86%	85%
D	Dominion Resources, Inc.	Buy	$76.11	2.80	3.01	3.25	3.7%	4.0%	4.3%	74%	78%	77%
DTE	DTE Energy Company	Buy	$95.80	3.02	3.20	3.35	3.2%	3.3%	3.5%	57%	60%	59%
DUK	Duke Energy Corporation	Buy	$76.37	3.38	3.53	3.66	4.4%	4.6%	4.8%	72%	76%	76%
ED	Consolidated Edison, Inc.	Neutral	$72.65	2.68	2.74	2.82	3.7%	3.8%	3.9%	68%	66%	65%
EIX	Edison International	Neutral	$71.15	1.94	2.14	2.33	2.7%	3.0%	3.3%	50%	52%	54%
ES	Eversource Energy	Buy	$53.75	1.79	1.90	2.03	3.3%	3.5%	3.8%	60%	60%	61%
LNT	Alliant Energy Corp	Neutral	$37.25	1.18	1.25	1.33	3.2%	3.4%	3.6%	62%	63%	63%
NEE	NextEra Energy, Inc.	Buy	$117.27	3.47	3.92	4.46	3.0%	3.3%	3.8%	56%	60%	63%
OGE	OGE Energy Corp.	Buy	$32.26	1.12	1.21	#N/A	3.5%	3.8%	#N/A	64%	64%	#N/A
PCG	PG&E Corporation	Neutral	$60.46	1.94	2.09	2.25	3.2%	3.4%	3.7%	53%	57%	58%
PNW	Pinnacle West	Neutral	$76.68	2.54	2.67	2.80	3.3%	3.5%	3.6%	64%	63%	63%
POR	Portland General Electric	Neutral	$43.15	1.26	1.34	1.43	2.9%	3.1%	3.3%	59%	57%	57%
PPL	PPL Corporation	Neutral	$34.19	1.52	1.57	1.62	4.4%	4.6%	4.7%	64%	73%	70%
SCG	SCANA Corporation	Buy	$72.45	2.29	2.39	2.50	3.2%	3.3%	3.4%	56%	57%	55%
SO	Southern Company	Neutral	$48.31	2.22	2.30	2.39	4.6%	4.8%	4.9%	77%	77%	76%
WEC	WEC Energy Group Inc	Buy	$58.03	1.98	2.11	2.25	3.4%	3.6%	3.9%	67%	68%	67%
Average							**3.5%**	**3.7%**	**3.9%**	**64%**	**66%**	**65%**
Integrated Utilities(3)												
ETR	Entergy Corporation	Buy	$71.40	3.45	3.54	3.62	4.8%	5.0%	5.1%	50%	77%	77%
EXC	Exelon Corporation	Buy	$33.66	1.26	1.29	1.33	3.8%	3.8%	3.9%	47%	50%	48%
FE	FirstEnergy Corp.	Buy	$32.55	1.44	1.44	1.45	4.4%	4.4%	4.4%	55%	55%	59%
PEG	PSEG	Buy	$42.84	1.64	1.72	1.79	3.8%	4.0%	4.2%	57%	59%	61%
Average							**4.2%**	**4.3%**	**4.4%**	**52%**	**60%**	**62%**
Independent Power Producers (IPPs)(4)												
CPN	Calpine Corporation	Buy	$11.53	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$8.95	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$11.31	0.21	0.12	0.12	1.8%	1.1%	1.1%	20%	NA	11%
TLN	Talen Energy Corp	Neutral	$13.97	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.5%**	**0.3%**	**0.3%**	**5%**	**0%**	**3%**
Gas Utilities(5)												
NI	NiSource Inc	Neutral	$22.37	0.64	0.68	0.72	2.9%	3.0%	3.2%	60%	59%	59%
NJR	New Jersey Resources	Buy	$35.30	0.97	1.02	1.09	2.7%	2.9%	3.1%	60%	60%	59%
NWN	Northwest Natural Gas	Neutral	$59.65	1.87	1.88	1.89	3.1%	3.1%	3.2%	84%	80%	75%
SJI	South Jersey Industries	Buy	$33.85	1.06	1.09	1.14	3.1%	3.2%	3.4%	79%	80%	71%
SR	Spire Inc.	Buy	$66.25	1.97	2.10	2.19	3.0%	3.2%	3.3%	58%	59%	59%
SRE	Sempra Energy	Buy	$101.27	3.01	3.27	3.55	3.0%	3.2%	3.5%	62%	64%	61%
VVC	Vectren Corporation	Neutral	$51.15	1.63	1.72	1.81	3.2%	3.4%	3.5%	65%	64%	64%
Average							**3.0%**	**3.1%**	**3.3%**	**67%**	**67%**	**64%**
Other												
AWK	American Water Works	Buy	$75.98	1.48	1.61	1.74	1.9%	2.1%	2.3%	52%	53%	54%
NYLD	NRG Yield	Neutral	$15.65	0.95	1.10	1.27	6.1%	7.0%	8.1%	115%	131%	137%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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			IB Serv./ Past 12Mos.	
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Buy	163	61.98%	28	17.18%
Neutral	98	37.26%	2	2.04%
Sell	2	0.76%	0	0.00%

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BARCLAYS

Equity Research
5 October 2016

North America Power & Utilities

EXC New Top Pick; Still OW NEE

INDUSTRY UPDATE

North America Power & Utilities
NEUTRAL
Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

North America Power & Utilities
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We have removed NextEra Energy as our Top Pick as we see greater near-term upside potential in Exelon. Exelon Corp. is our new Top Pick (replacing NextEra Energy). Exelon's enhanced focus on utility growth provides for a top quartile growth story (excluding the earnings impacts from the genco), in our view. The 7-9% projected utility EPS growth through 2020 is visible based on rate base growth and regulatory outcomes. The funding for the utility investment, which the company estimates at $25bn or higher, is likely to be supported without the need for external equity as cash flow is provided by a stable merchant generating business comprised of primarily nuclear generation. In an ever more carbon-constrained world this generating footprint will have enhanced value as evidenced by the Clean Energy Standard recently passed in New York. Both the utility franchise and the merchant generation franchise appear to trade at meaningful discounts to their peers based on our EPS and EBITDA estimates. We are maintaining our $39 price target.

While we continue to favor NEE owing to its sizable renewable development backlog and CPP-compliant utility opco, two upcoming events give us pause in the near-term. 1) There is ROE risk associated with the pending rate case for Florida Power and Light. FPL is seeking an 11.5% ROE compared to its authorized ROE of 10.5% and recent industry comparisons in the 9–10% range. A staff recommendation is due by October 14 and a final PSC decision is expected by year-end. 2) Should the Republicans win in the presidential election, this would dampen U.S. renewable growth outlook based on the party platform's stated energy policy goals. We still think NEE has significant development growth potential from increasing state renewable mandates, and NEE's general partnership relationship with NextEra Energy Partners, LP provides an intrinsic outlet for developed projects as well as a source of capital. Therefore, we are maintaining our Overweight rating and $142 price target.

Completed: 05-Oct-16, 04:46 GMT Released: 05-Oct-16, 09:55 GMT

Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	04-Oct-16	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
North America Power & Utilities	Neu	Neu										

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.
FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research.
Stock Rating: OW: Overweight; EW: Equal Weight; UW: Underweight; RS: Rating Suspended
Industry View: Pos: Positive; Neu: Neutral; Neg: Negative

Valuation Methodology and Risks

North America Power & Utilities

NextEra Energy (NEE)

Valuation Methodology: Our price target of $142 is based on applying a 10% premium to the regulated utility multiple of 17.7x to our 2018 EPS estimate of $6.90. In addition, we add $7.50/share value for NEE's pro rata ownership of NEP.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: NextEra Energy Resources has merchant exposure to volatile gas and power prices, and risks associated with expansion in the size of its wind asset base. In addition, volatility around fuel prices and high levels of capital spending at its utility present regulatory risk. There is also risk of an extended merger approval process for HE, incremental acquisition announcements, and a contentious FP&L rate case.

Source: Barclays Research.

North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corp. (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2015A	2016E	2017E	2018E	CAGR
Revenue	27,549	32,087	33,155	33,566	6.8%
EBITDA (adj)	6,583	7,795	8,213	8,799	10.2%
EBIT (adj)	4,077	4,593	4,740	5,140	8.0%
Pre-tax income (adj)	3,496	3,684	3,733	4,117	5.6%
Net income (adj)	2,229	2,407	2,481	2,717	6.8%
EPS (adj) ($)	2.50	2.60	2.62	2.82	4.1%
Diluted shares (mn)	893.0	927.0	947.0	965.0	2.6%
DPS ($)	1.24	1.26	1.29	1.33	2.3%

Margin and return data					Average
EBITDA (adj) margin (%)	23.9	24.3	24.8	26.2	24.8
EBIT (adj) margin (%)	14.8	14.3	14.3	15.3	14.7
Pre-tax (adj) margin (%)	12.7	11.5	11.3	12.3	11.9
Net (adj) margin (%)	8.1	7.5	7.5	8.1	7.8
ROIC (%)	7.4	7.9	7.9	8.2	7.9
ROA (%)	2.4	2.5	2.5	2.7	2.5
ROE (%)	9.2	9.5	9.3	9.6	9.4

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	55,994	61,274	65,346	69,034	7.2%
Total net assets	94,732	97,846	100,097	102,098	2.5%
Capital employed	54,860	57,993	60,339	62,485	4.4%
Shareholders' equity	24,759	26,058	27,400	28,947	5.3%
Net debt/(funds)	29,139	30,482	30,299	29,527	0.4%
Cash flow from operations	6,749	7,621	7,968	8,389	7.5%
Capital expenditure	-5,800	-8,482	-7,546	-7,346	N/A
Free cash flow	-183	-2,015	-764	-175	N/A
Pre-dividend FCF	949	-861	422	1,043	3.2%

Valuation and leverage metrics					Average
P/E (adj) (x)	12.8	12.3	12.2	11.3	12.1
EV/EBITDA (adj) (x)	8.9	7.7	7.3	6.7	7.7
EV/EBIT (adj) (x)	14.4	13.1	12.6	11.5	12.9
P/BV (x)	1.1	1.1	1.1	1.1	1.1
Dividend yield (%)	3.9	4.0	4.1	4.2	4.0
Total debt/capital (%)	54.9	55.1	54.6	53.7	54.5
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					Average
Payout ratio (%)	49.7	48.7	49.4	47.1	48.7
Interest cover (x)	3.9	3.3	3.2	3.4	3.5
Regulated (%)	44.0	50.1	57.6	60.4	53.0

Price (04-Oct-2016)	USD 31.86
Price Target	**USD 39.00**

Why Overweight? We believe that that utility growth of 7-9% is achievable and will be funded by cash flow from the generation company even with the current forward curves. Any additional legislation similar to the CES in New York or the inclusion of the CES in our numbers is upside to our estimates.

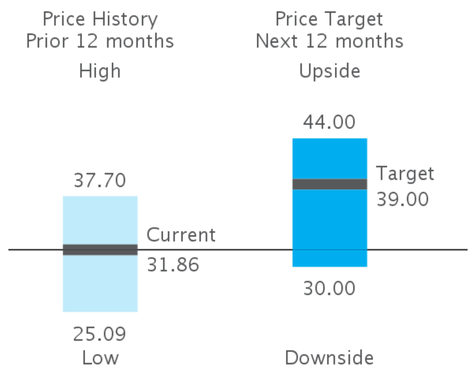
Upside case	USD 44.00

Our upside case assumes the impact of the zero emission credits in New York for the genco and assumes a 10% premium for the utility valuation given the above average growth.

Downside case	USD 30.00

Our downside case assumes a 10% discount for the utility and a 4x EBITDA at the genco based on current forwards, with no consideration of the CES or FitzPatrick acquisition

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

North America Power & Utilities **Industry View: NEUTRAL**

NextEra Energy (NEE)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2015A	2016E	2017E	2018E	CAGR
Revenue	17,486	18,040	18,872	19,535	3.8%
EBITDA (adj)	7,489	7,854	8,401	8,835	5.7%
EBIT (adj)	4,658	4,780	5,111	5,421	5.2%
Pre-tax income (adj)	4,016	4,174	4,415	4,689	5.3%
Net income (adj)	2,782	2,878	3,044	3,238	5.2%
EPS (adj) ($)	5.71	6.15	6.52	6.90	6.5%
Diluted shares (mn)	454	463	462	462	0.6%
DPS ($)	3.08	3.45	3.86	4.32	12.0%

Margin and return data					Average
EBITDA (adj) margin (%)	42.8	43.5	44.5	45.2	44.0
EBIT (adj) margin (%)	26.6	26.5	27.1	27.7	27.0
Pre-tax (adj) margin (%)	23.0	23.1	23.4	24.0	23.4
Net (adj) margin (%)	15.9	16.0	16.1	16.6	16.1
ROIC (%)	9.0	8.5	9.0	9.6	9.0
ROA (%)	3.5	3.4	3.4	3.6	3.5
ROE (%)	13.1	12.4	12.3	12.3	12.5

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	61,386	66,328	71,054	75,656	7.2%
Total net assets	82,479	88,431	90,124	90,721	3.2%
Capital employed	51,475	56,265	56,796	56,231	3.0%
Shareholders' equity	22,574	23,984	25,472	27,061	6.2%
Net debt/(funds)	28,330	29,510	30,896	32,057	4.2%
Cash flow from operations	6,116	7,114	7,496	7,815	8.5%
Capital expenditure	-8,016	-8,016	-8,016	-8,016	N/A
Free cash flow	-3,274	-2,349	-2,055	-1,830	N/A
Pre-dividend FCF	-1,889	-881	-499	-180	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	20.8	19.3	18.2	17.2	18.9
EV/EBITDA (adj) (x)	11.1	10.8	10.2	9.8	10.5
EV/EBIT (adj) (x)	17.9	17.7	16.8	16.0	17.1
P/BV (x)	2.4	2.3	2.2	2.0	2.2
Dividend yield (%)	2.6	2.9	3.2	3.6	3.1
Total debt/capital (%)	56.1	57.4	55.2	51.9	55.1
Net debt/EBITDA (adj) (x)	3.8	3.8	3.7	3.6	3.7

Selected operating metrics					Average
Payout ratio (%)	53.9	56.1	59.2	62.7	58.0
Interest cover (x)	3.8	3.9	4.0	4.2	4.0
Regulated (%)	63.6	63.6	63.6	63.6	63.6

Price (04-Oct-2016)	USD 118.90
Price Target	USD 142.00

Why Overweight? NEE's Overweight rating is supported by 6-8% earnings growth and 12-14% dividend growth which exceeds the industry average. NEE is also considered one of the premier renewable developers in the industry.

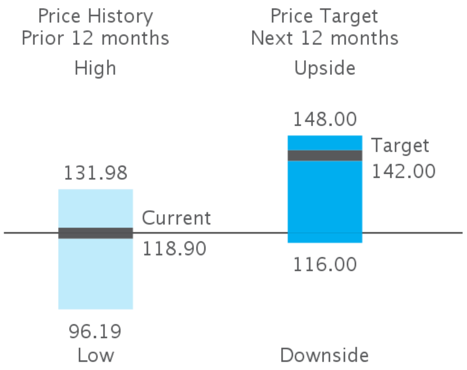
Upside case **USD 148.00**

We assume in this scenario that NEE's core earnings trade at a 15% premium to the regulated utility group on the strength of its growth. We do not include incremental value from NEE's GP stake in NEP, so further upside potential is possible as that value becomes evident.

Downside case **USD 116.00**

Our downside case applies an industry average multiple to 2018E earnings and excludes any value for gas pipelines or yieldco.

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

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Primary Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 04-Oct-2016, USD 31.86), Overweight/Neutral, A/CD/CE/D/J/K/L/M

NextEra Energy (NEE, 04-Oct-2016, USD 118.90), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M

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Ameren Corp. (AEE)
American Electric Power (AEP)
American States Water Company (AWR)
American Water Works (AWK)
Aqua America (WTR)
Brookfield Infrastructure Partners LP (BIP)
Brookfield Infrastructure Partners LP (BIP_u.TO)
Brookfield Renewable Energy Partners LP (BEP)
Brookfield Renewable Energy Partners LP (BEP_u.TO)
California Water Service Group (CWT)
Calpine Corp. (CPN)
Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)
Connecticut Water Service Inc. (CTWS)
Consolidated Edison (ED)
Dominion Resources (D)
DTE Energy (DTE)
Duke Energy (DUK)
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Exelon Corp. (EXC)

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NRG Yield Inc. (NYLD)	OGE Energy Corp. (OGE)	Ormat Technologies (ORA)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	PPL Corporation (PPL)	Public Service Enterprise Gp (PEG)
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IMPORTANT DISCLOSURES CONTINUED

Exelon Corp. (EXC / EXC)	Stock Rating	Industry View
USD 31.86 (04-Oct-2016)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 04-Oct-2016)

Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00
30-Apr-2014	35.03	Rating Suspended	
07-Feb-2014	29.44		30.00
06-Jan-2014	26.79		29.00

Source: Thomson Reuters, Barclays Research

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Valuation Methodology: Our $39 price target is premised upon a 2018 group average multiple of 16.7x applied to the utility net parent earnings of $1.68 resulting in $28 of utility value. Exgen is valued at 6.5x 2018 EBTIDA netted against debt resulting in $11 of value for Exgen, The combined value is $39.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

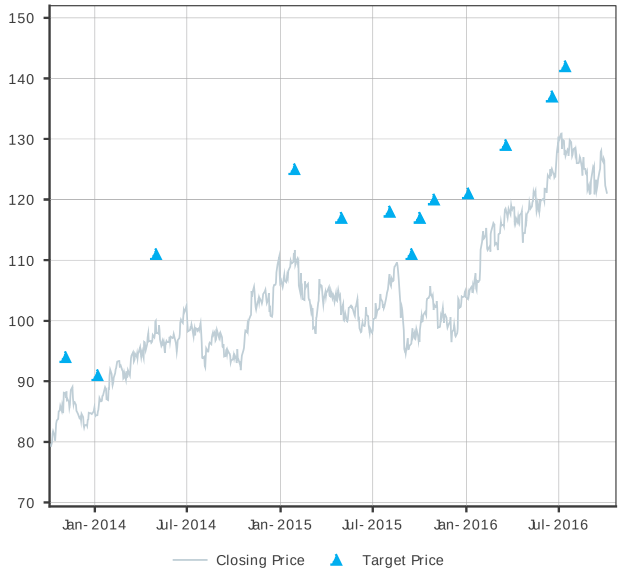
IMPORTANT DISCLOSURES CONTINUED

NextEra Energy (NEE / NEE)

USD 118.90 (04-Oct-2016)

Stock Rating	Industry View
OVERWEIGHT	**NEUTRAL**

Rating and Price Target Chart - USD (as of 04-Oct-2016)



Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating*	Adjusted Price Target
13-Jul-2016	128.17		142.00
17-Jun-2016	125.10		137.00
18-Mar-2016	118.50		129.00
04-Jan-2016	103.57		121.00
29-Oct-2015	101.78		120.00
01-Oct-2015	96.55		117.00
15-Sep-2015	96.23		111.00
03-Aug-2015	107.71		118.00
30-Apr-2015	100.93		117.00
28-Jan-2015	109.92		125.00
01-May-2014	99.97		111.00
06-Jan-2014	84.40		91.00
04-Nov-2013	88.09		94.00

Source: Thomson Reuters, Barclays Research

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*The rating for this security remained Overweight during the relevant period.

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Valuation Methodology: Our price target of $142 is based on applying a 10% premium to the regulated utility multiple of 17.7x to our 2018 EPS estimate of $6.90. In addition, we add $7.50/share value for NEE's pro rata ownership of NEP.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: NextEra Energy Resources has merchant exposure to volatile gas and power prices, and risks associated with expansion in the size of its wind asset base. In addition, volatility around fuel prices and high levels of capital spending at its utility present regulatory risk. There is also risk of an extended merger approval process for HE, incremental acquisition announcements, and a contentious FP&L rate case.

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: PEG, NEE, Natural Gas, CAISO, EXC July 15, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

PEG – LIPA set to approve offshore wind farms
NEE – Berkshire Hathaway has reportedly submitted a bid for Oncor
Natural Gas – EIA expects gas-fired electrical generation to reach new record
CAISO – Utah lawmakers act for greater influence in proposed multi-state energy market
EXC – Partnership talks underway with Japanese firm on emerging market opportunities

PEG – LIPA set to approve offshore wind farms

- There are reports the Long Island Power Authority (LIPA) will approve an offshore wind farm contract for the 90MW, 15-turbine Deep One-South Fork with Deepwater Wind.
- The proposed development would be the nation's largest to date; 3 times larger than the Block Island project (in-service 2016) off of Rhode Island.
- Gov. Andrew Cuomo has urged support for the wind project, calling on LIPA's board of directors to grant approval, and help the state achieve the goals of his Clean Energy Plan.

***Guggenheim takeaway:** At the end of the day, the governor's low carbon aspirations will likely have a hefty price tag, but subsidies to maintain viability of upstate nuclear are likely a more cost-effective solution than offshore wind.*

NEE – Berkshire Hathaway has reportedly submitted a bid for Oncor

- There are claims that Warren Buffet's holding company, Berkshire Hathaway (BRK.A, NC, $218,590.50) has submitted a bid for Oncor Electric Delivery.
- We believe Oncor could be valued at about $18B based on prior indications of interest.

***Guggenheim takeaway:** We look to the bankruptcy proceeding as a catalyst for coal retirement in ERCOT as well as a potential new opportunity for NEE. While NEE has not come out and made a public comment that it is re-interested in the Oncor assets, it is continually mentioned in the press. We think these assets are a great strategic fit for NEE; despite a potential equity raise, the transaction should be noticeably accretive – this should not present an overhang on NEE shares.*

Natural Gas – EIA expects gas-fired electrical generation to reach new record

- The EIA's Short-Term Energy Outlook (STEO) has natural gas-fired generation reaching record highs in July and August; pushing up the year's average to 3.8mm Mwh/day in 2016, or 4% higher than in 2015.
- The forecast has gas ultimately providing 34% of the United States' electricity generated this year, with coal's share of the generating mix at 30%, nuclear at 19%, and renewables at 15%.

Guggenheim takeaway: *In line with our industry outlook; we estimate gas could fuel 41% of U.S. power generation after an additional 33GW of coal retires. For additional takeaways, see our recent coal retirement analysis HERE).*

CAISO – Utah lawmakers act for greater influence in proposed multi-state energy market

- Utah lawmakers began drafting legislation to allow them to block the state's participation in California's proposed regional electrical grid. Utah currently has some of the nation's lowest energy costs and relevant details on the benefits for other participating states remain unknown.
- Moreover truly successful expansion to a singular regional grid would require participation of all 11 western states and uniform transmission fees.

Guggenheim takeaway: *CAISO expansion could create transmission investment opportunities, although policy makers will have to strike a balance – CA wouldn't want to dilute its low-carbon progress by welcoming states with relatively less renewables, while those states likely aren't willing to pay the same low-carbon premium. That said, we hosted Commissioners at Guggenheim for breakfast and Utah rep was, in our view, clearly against the EIM.*

EXC – Partnership talks underway with Japanese firm on emerging market opportunities

- Japan Atomic Power and EXC are in negotiations over a partnership that would focus on emerging countries; with the collaboration leveraging Japanese and American expertise, with a Japanese executives noting "nuclear reactors in emerging economies tend to follow U.S. regulations."

Guggenheim takeaway: *Too early to have investment implications, but potentially some form of service contract or consulting agreements come into play. Maybe they touch on it at the Analyst Day.*

Links

- Guggenheim Power & Utility Comp Sheet
- Forward Commodity Curves for Power and Utility Modeling

Key Research

1. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
2. PPL – BUY – Focus Beyond Brexit – Now is the Time to Own
3. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
4. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
5. ETR – NEUTRAL – Analyst Day Offers Some Incremental CapEx, but No Price Tag on Nuclear Cost

6. FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome
7. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
8. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
9. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
10. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
11. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
12. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
13. EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM
14. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
15. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
16. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
17. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook
18. EEI Full Recap
19. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
20. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
21. NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected
22. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
23. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
24. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
25. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
07/18	DUK	Regulatory review of proposed acquisition		NC	E-2, Sub 1095 E-7, Sub 1100 G-9, Sub 682	NCUC holding public hearings on the proposed acquisition
07/18	PCG	PCG deadline for response to SED appeal	Pacific Gas and Electric Company	CA	I-14-11-008	The Utility's response to the SED appeal and the Carmel appeal is due
07/21	EIX	SONGS settlement	Southern California Electric	CA	I-12-10-013	Parties file reply briefs and procedural recommendations
07/21	EXC	ComEd formulaic rate plan (FRP)	Commonwealth Edison Co.	IL	16-0259	Company rebuttal testimony due
07/22	FE	PA electric distribution rate cases	Metropolitan Edison Pennsylvania Electric Pennsylvania Power Co. West Penn Power	PA	R-2016-2537349 R-2016-2537352 R-2016-2537355 R-2016-2537359	Testimony filed
07/26	ES	Access Northeast		MA	15-181	Evidentiary hearings before MA DPU ruling on using electric rates
07/29	DTE	Electric rate case	DTE Electric	MI	C-U-18014	Rebuttal testimony
08/01	DTE	Electric rate case	DTE Electric	MI	C-U-18014	Possible implementation date for interim rates
08/01	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Opening briefs
08/08	NEE	FP&L rate case	Florida Power & Light	FL	160021-EI	Rebuttal testimony
08/10	DTE	Electric rate case	DTE Electric	MI	C-U-18014	Hearings begin
08/15	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Reply briefs
08/15	EXC	Pepco rate case	Potomac Electric Power Co.	MD	C-9418	Rebuttal testimony
08/16	ES	Access Northeast		MA	15-181	MA DPU ruling on using electric rates to fund pipeline expansion

Other events and proceedings

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
Week of 7/11	NEE	Regulatory review of proposed acquisition		HI	2015-0022	Hawaii PUC decision expected
On-going	PCG	San Bruno criminal case	Pacific Gas & Electric Co.	CA		Jury trial
July	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	Potential PUC decision.
July	PCG	Electric Vehicle infrastructure program	Pacific Gas & Electric Co.	CA	A-15-02-009	Electric Vehicle infrastructure program

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
ETR	8/11	New York	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Phil Lembo, CFO
SO	12/8-12/9	TBA	Art Beattie, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
AWK	6/29-6/30	Midwest	Susan Story, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Guggenheim Power & Utilities Comp Sheet (As of 07/14/2016)

As of 7/14/2016

								Guggenheim Estimates														**Consensus Estimates**																	
Ticker	**Company**	**Mkt. Cap ($Bn)**	**Rating**	**Target Price[1]**	**Current Price**	**Price Change**	**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**			**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**		
								'16E	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	34.1	Buy	$68	$69.38	-2%	491	3.63	3.87	4.17	7%	19.1	17.9	16.6	5,512	5,849	6,246	6%	10.0	9.6	9.2	3.67	3.83	4.08	5%	18.9	18.1	17.0	5,606	5,033	5,339	(2%)	9.9	11.2	10.8
ED	Consolidated Edison, Inc.	24.0	Neutral	$70	$79.12	-12%	303	3.99	4.15	4.31	4%	19.8	19.1	18.4	3,867	4,058	4,226	5%	10.1	9.8	9.7	3.98	4.14	4.31	4%	19.9	19.1	18.4	3,654	3,864	4,096	6%	10.7	10.3	10.0
D	Dominion Resources, Inc.	47.5	Buy	$78	$77.14	1%	616	3.85	3.92	4.40	7%	20.0	19.7	17.5	6,255	6,470	7,054	6%	12.3	12.0	11.0	3.79	3.87	4.29	6%	20.3	19.9	18.0	5,673	6,332	6,724	9%	13.6	12.2	11.6
DTE	DTE Energy Company	17.4	Buy	$97	$97.09	0%	179	5.03	5.27	5.66	6%	19.3	18.4	17.2	2,628	2,728	2,925	5%	9.8	9.6	9.1	4.95	5.26	5.63	7%	19.6	18.5	17.2	2,541	2,704	2,846	6%	10.1	9.7	9.4
DUK	Duke Energy Corporation	58.4	Buy	$86	$84.75	1%	689	4.55	4.61	4.79	3%	18.6	18.4	17.7	9,033	8,878	9,383	2%	11.6	12.0	11.6	4.59	4.74	4.98	4%	18.5	17.9	17.0	9,310	10,002	10,245	5%	11.3	10.7	10.6
EIX	Edison International	25.1	Neutral	$70	$77.11	-9%	326	3.85	4.15	4.33	6%	20.0	18.6	17.8	5,011	5,372	5,690	7%	7.8	7.5	7.2	3.89	4.14	4.33	5%	19.8	18.6	17.8	4,420	4,679	4,928	6%	8.9	8.6	8.3
ES	Eversource Energy	18.3	Buy	$59	$57.75	2%	317	2.95	3.19	3.43	8%	19.6	18.1	16.8	2,607	2,569	2,625	0%	11.2	11.6	11.7	2.98	3.17	3.33	6%	19.4	18.2	17.3	2,601	2,794	2,871	5%	11.2	10.7	10.7
NEE	NextEra Energy, Inc.	58.7	Buy	$129	$127.24	1%	461	6.35	6.60	7.04	5%	20.0	19.3	18.1	7,019	7,458	7,796	5%	13.1	12.6	12.4	6.18	6.57	7.01	6%	20.6	19.4	18.2	7,960	8,567	9,540	9%	11.5	11.0	10.1
PCG	PG&E Corporation	31.8	Neutral	$59	$64.20	-8%	496	3.67	3.70	3.89	3%	17.5	17.4	16.5	6,500	6,739	7,134	5%	7.7	7.6	7.3	3.72	3.68	3.86	2%	17.2	17.4	16.6	6,004	6,526	6,916	7%	8.3	7.9	7.6
PNW	Pinnacle West Capital	8.8	Neutral	$79	$79.35	0%	111	3.91	4.19	4.43	6%	20.3	18.9	17.9	1,407	1,512	1,608	7%	9.2	8.9	8.5	3.99	4.20	4.41	5%	19.9	18.9	18.0	1,367	1,462	1,557	7%	9.5	9.2	8.8
PPL	PPL Corporation	25.1	Buy	$41	$37.09	11%	677	2.36	2.46	2.60	5%	15.7	15.1	14.3	4,012	4,219	4,461	5%	11.5	11.1	10.8	2.34	2.43	2.47	3%	15.9	15.3	15.0	4,093	4,308	4,447	4%	11.2	10.9	10.8
SO	Southern Company	50.3	Neutral	$47	$53.61	-12%	939	2.91	2.93	3.06	3%	18.4	18.3	17.5	7,011	7,202	7,505	3%	12.5	12.3	11.9	2.85	2.98	3.09	4%	18.8	18.0	17.3	7,207	7,877	8,121	6%	12.1	11.2	11.0
SJI	South Jersey Industries, Inc.	2.5	Buy	$32	$31.21	3%	79	1.34	1.26	1.69	12%	23.3	24.8	18.5	253	249	271	3%	15.3	16.0	14.7	1.32	1.36	1.60	10%	23.6	23.0	19.5	NA	NA	NA	NA	NA	NA	NA
Average[2]											**6%**	**19.4**	**18.8**	**17.3**				**5%**	**10.9**	**10.8**	**10.4**				**5%**	**19.4**	**18.6**	**17.5**				**6%**	**10.7**	**10.3**	**10.0**
Integrated utilities																																			
ETR	Entergy Corporation	14.3	Neutral	$75	$79.79	-6%	179	5.36	5.16	5.17	-2%	14.9	15.5	15.4	3,730	3,712	3,825	1%	8.2	8.5	8.5	5.12	5.24	5.17	1%	15.6	15.2	15.4	3,387	3,553	3,491	2%	9.0	8.9	9.3
EXC	Exelon Corporation	32.3	Buy	$38	$36.39	4%	887	2.53	2.65	2.86	6%	14.4	13.7	12.7	7,686	7,971	8,452	5%	8.3	8.1	7.7	2.54	2.64	2.79	5%	14.3	13.8	13.0	7,371	7,763	9,163	11%	8.7	8.3	7.1
FE	FirstEnergy Corp.	15.2	Buy	$43	$35.85	20%	425	2.87	2.83	2.89	0%	12.5	12.7	12.4	4,322	4,450	4,510	2%	8.6	8.4	8.3	2.68	2.53	2.54	(3%)	13.4	14.2	14.1	4,408	4,454	4,535	1%	8.5	8.4	8.3
PEG	Public Service Enterprise Grou	23.1	Buy	$50	$45.72	9%	506	2.92	2.95	3.02	2%	15.7	15.5	15.1	4,097	4,293	4,501	5%	8.4	8.4	8.2	2.88	2.88	2.97	1%	15.9	15.8	15.4	3,991	4,170	4,357	4%	8.6	8.7	8.5
Average											**2%**	**14.4**	**14.3**	**13.9**				**3%**	**8.4**	**8.4**	**8.2**				**1%**	**14.8**	**14.8**	**14.5**				**5%**	**8.7**	**8.6**	**8.3**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	5.4	Buy	$20	$15.00	33%	359	0.42	0.87	0.60	20%	36.1	17.1	25.0	1,881	2,144	2,076	5%	9.0	7.7	7.8	0.51	0.90	1.27	57%	29.2	16.7	11.8	1,882	2,014	2,133	6%	9.0	8.2	7.6
DYN	Dynegy Inc.	2.1	Buy	$21	$18.00	17%	117	(1.97)	(0.26)	0.57	NA	-9.1	-69.2	31.6	1,006	1,528	1,775	33%	9.8	6.7	5.5	(1.04)	0.40	1.38	NA	-17.4	44.9	13.1	1,079	1,543	1,736	27%	9.1	6.7	5.6
NRG	NRG Energy, Inc.	4.8	Buy	$16	$15.31	5%	315	0.75	(0.51)	(0.03)	NA	20.5	-30.2	-488.8	3,104	2,808	2,941	(3%)	7.0	7.5	6.8	1.07	0.43	0.97	(5%)	14.3	35.2	15.8	3,103	2,759	2,960	(2%)	7.0	7.6	6.8
TLN	Talen Energy Corp	1.8	Neutral	$7	$13.69	-49%	129	0.41	0.63	0.38	-4%	33.5	21.6	36.3	786	788	733	(3%)	6.8	6.6	7.1	0.98	0.36	0.19	(56%)	14.0	37.6	73	763	746	687	(5%)	7.0	7.0	7.6
Average											**8%**	**20.2**	**-15.2**	**-99.0**				**8%**	**8.1**	**7.1**	**6.8**				**(1%)**	**10.0**	**33.6**	**28**				**6%**	**8.0**	**7.4**	**6.9**
Other																																			
NYLD	NRG Yield	1.6	Neutral	$15	$16.10	-7%	183	0.92	1.21	1.31	19%	17.5	13.3	12.3	806	984	1,093	16%	8.1	6.9	6.9	0.96	0.94	0.96	0%	16.7	17.2	16.7	821	903	1,010	11%	8.0	7.5	7.5
AWK	American Water Works	14.5	Buy	$79	$81.73	-3%	178	2.85	3.05	3.26	7%	28.7	26.8	25.1	1,648	1,753	1,863	6%	12.8	12.2	11.8	2.83	3.04	3.26	7%	28.9	26.9	25.1	1,646	1,718	1,806	5%	12.8	12.5	12.2

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

2. TE (acquisition pending) excluded from regulated group averages.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

*Coverage of WR and GXP suspended given investment banking activity

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	**Company**	**Rating**	**Price**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**	**2016E**	**2017E**	**2018E**
Regulated utilities												
AEP	American Electric Power	Buy	$69.38	2.26	2.37	2.48	3.3%	3.4%	3.6%	62%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$79.12	2.67	2.73	2.79	3.4%	3.4%	3.5%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$77.14	2.80	3.00	3.21	3.6%	3.9%	4.2%	74%	77%	75%
DTE	DTE Energy Company	Buy	$97.09	3.00	3.15	3.30	3.1%	3.2%	3.4%	61%	60%	59%
DUK	Duke Energy Corporation	Buy	$84.75	3.39	3.53	3.69	4.0%	4.2%	4.4%	74%	74%	74%
EIX	Edison International	Neutral	$77.11	1.92	2.14	2.34	2.5%	2.8%	3.0%	49%	52%	54%
ES	Eversource Energy	Buy	$57.75	1.79	1.90	2.03	3.1%	3.3%	3.5%	60%	60%	61%
NEE	NextEra Energy, Inc.	Buy	$127.24	3.43	3.86	4.40	2.7%	3.0%	3.5%	56%	59%	63%
PCG	PG&E Corporation	Neutral	$64.20	1.93	2.06	2.20	3.0%	3.2%	3.4%	52%	56%	57%
PNW	Pinnacle West Capital	Neutral	$79.35	2.54	2.67	2.80	3.2%	3.4%	3.5%	64%	64%	64%
PPL	PPL Corporation	Buy	$37.09	1.52	1.56	1.61	4.1%	4.2%	4.4%	65%	64%	65%
SO	Southern Company	Neutral	$53.61	2.22	2.30	2.38	4.1%	4.3%	4.4%	78%	77%	77%
SJI	South Jersey Industries, Inc.	Buy	$31.21	1.08	1.10	1.10	3.5%	3.5%	3.5%	82%	81%	69%
Average							**3.3%**	**3.5%**	**3.7%**	**65%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$79.79	3.43	3.53	3.61	4.3%	4.4%	4.5%	67%	67%	70%
EXC	Exelon Corporation	Buy	$36.39	1.26	1.29	1.33	3.5%	3.6%	3.6%	50%	49%	48%
FE	FirstEnergy Corp.	Buy	$35.85	1.44	1.45	1.45	4.0%	4.0%	4.0%	54%	57%	57%
PEG	Public Service Enterprise Group	Buy	$45.72	1.64	1.72	1.81	3.6%	3.8%	4.0%	57%	60%	61%
Average							**3.8%**	**3.9%**	**4.0%**	**57%**	**58%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$15.00	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$18.00	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$15.31	0.20	0.14	0.14	1.3%	0.9%	0.9%	19%	NA	14%
TLN	Talen Energy Corp	Neutral	$13.69	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.3%**	**0.2%**	**0.2%**	**5%**	**0%**	**4%**
Other												
NYLD	NRG Yield	Neutral	$16.10	0.95	1.09	1.25	5.9%	6.8%	7.8%	99%	117%	130%
AWK	American Water Works	Buy	$81.73	1.45	1.56	1.77	1.8%	1.9%	2.2%	51%	51%	54%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

*Coverage of WR and GXP suspended given investment banking activity

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By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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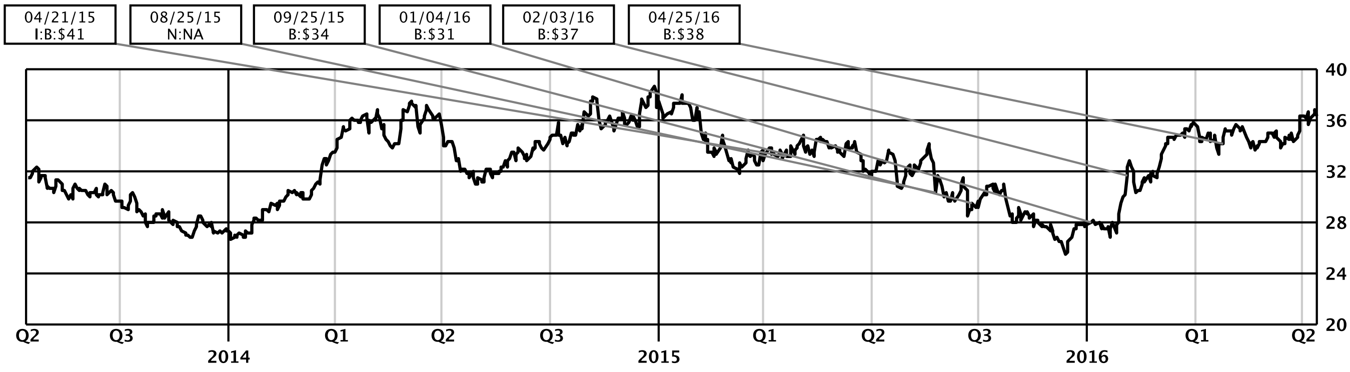
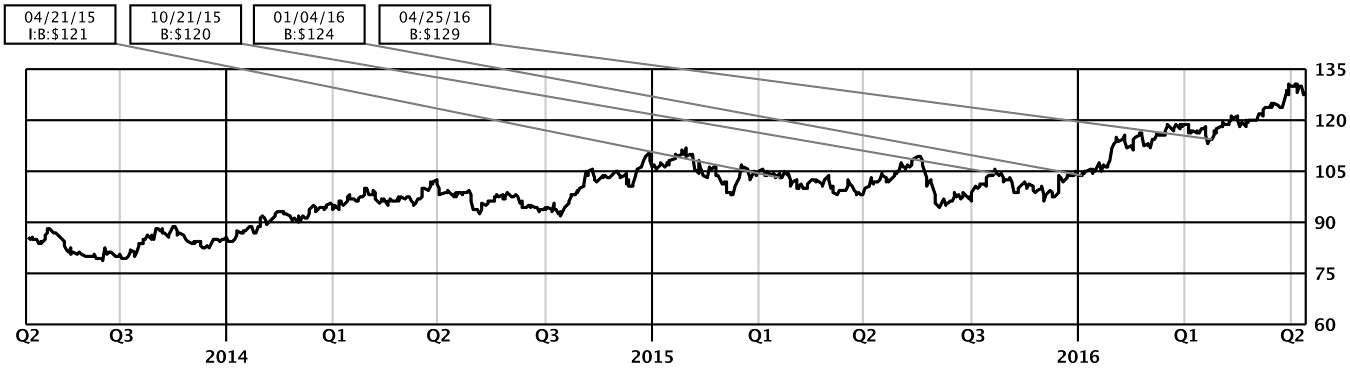
Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Exelon Corporation, NextEra Energy, Inc. and Public Service Enterprise Group Inc. in the next 3 months.



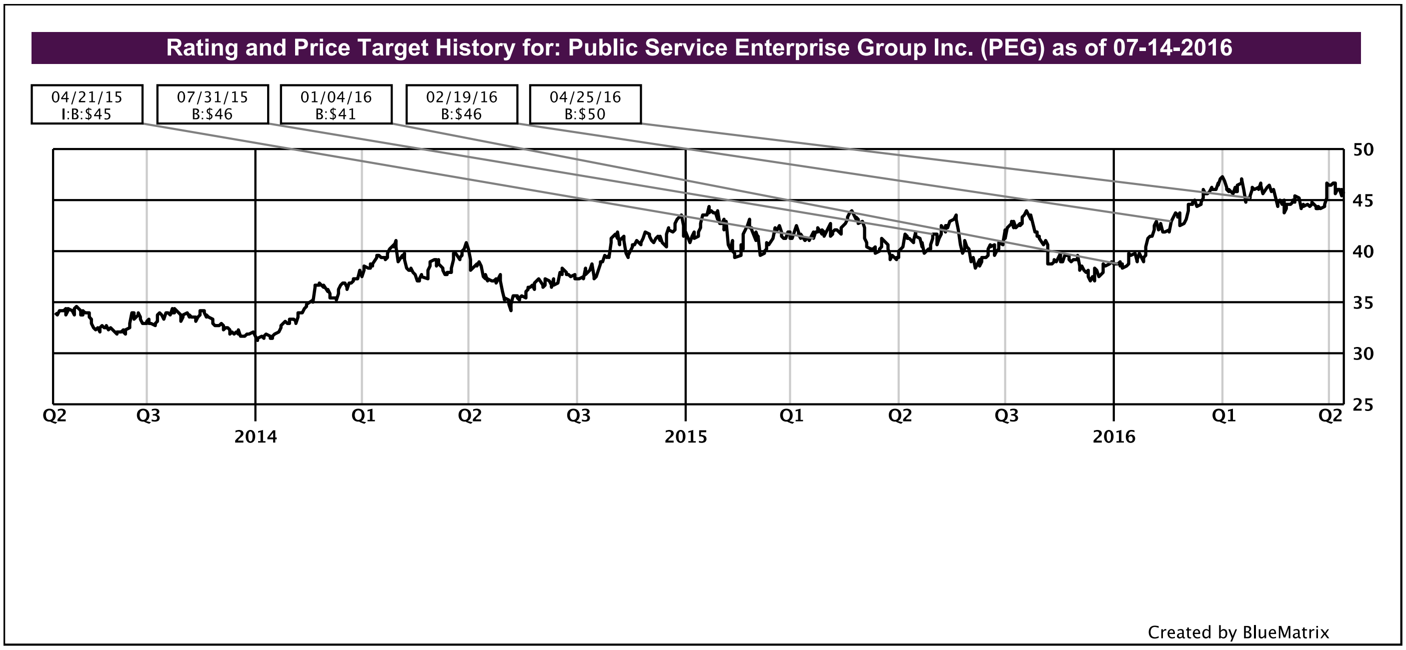
Rating and Price Target History for: Exelon Corporation (EXC) as of 07-14-2016

Created by BlueMatrix



Rating and Price Target History for: NextEra Energy, Inc. (NEE) as of 07-14-2016

Created by BlueMatrix



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	158	60.54%	29	18.35%
Neutral	103	39.46%	3	2.91%
Sell	0	0.00%	0	0.00%

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The Guggenheim Daily Transmission

The Guggenheim Daily Transmission: EXC, ERCOT, ISO-NE, PCG August 11, 2016

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What's New?

For Guggenheim's Utility Corporate Access Calendar scroll to bottom.

EXC – Analyst Day Articulates the Story: Strong Free Cash Flows, Shrinking Balance Sheet & Regulated Growth (See note HERE)
ERCOT – Demand surpasses 70,500MW, breaks hourly peak record set earlier this week
EXC – Illinois leaders promote NY energy program as model
ISO-NE – Demand to hit summer high this week
PCG – City of San Bruno statement regarding guilty verdict in PG&E criminal trial
PCG – Guilty verdict means felon image for PG&E

ERCOT – Demand surpasses 70,500MW, breaks hourly peak record set earlier this week

- ERCOT systemwide demand reached 70,531MW between 3 and 4 p.m. and then breached those levels with another new record at 70,572MW within the hour, topping Monday's record by 403 MW.
- On a month-to-date basis ERCOT load has averaged 68,100MW; more than 2,175MW higher than last year's demand for the same time period.

Guggenheim takeaway: *Positive for IPPs in TX (CPN, DYN, NRG). Energy-only market can produce very healthy returns with a return to weather. Why aren't the IPP share prices starting to reflect a very strong Q3 on weather? This is the biggest quarter for their CFs.*

EXC – Illinois leaders promote NY energy program as model

- In a letter to state lawmakers, a group of Illinois mayors and community leaders called for policy similar to the New York Clean Energy Standard, specifically an energy program to safeguard Illinois' struggling nuclear plants.
- Without passage of new state energy legislation, the Clinton and Quad-cities plants are scheduled to close in 2017 and 2018, respectively.

Guggenheim takeaway: *In light of legislation supporting nuclear in NY, and following the recent sales agreement with ETR (to acquire Fitzpatrick), EXC could emerge as a nuclear savior; although we don't believe management is interested in owning merchant generation, so we wouldn't expect EXC to accept an outcome unless it ensures transparent cash flow to keep the plants open. Management recently iterated December as a drop-dead date for formal notice to MISO. They have some opportunities to move in November and December.*

ISO-NE – Demand to hit summer high this week

- Peak demand in the ISO-NE is forecast to reach 25.1GW, 0.8GW higher than the current season-to-date record set July 22, similarly for the 2015 and 2014 summer peaks, respectively. Peak load has not breached 25GW since summer 2013 when peak demand rose to over 27.3GW.

- Mass Hub on-peak prices jumped $20/MWh day over day to average $64.77/MWh for Thursday delivery on the Intercontinental Exchange. Prices are also up nearly $18/MWh from July 22 levels.

Guggenheim takeaway: *Positive for power generators in New England including CPN, DYN NRG, EXC.*

PCG – City of San Bruno statement regarding guilty verdict in PG&E criminal trial

- The City of San Bruno notes the incident was not an accident but a "man-made disaster, one that resulted from negligent decision making and actions by PG&E corporate executives over 6 decades and from the failure of the California Public Utilities Commission to protect our safety."
- The City will request that the judge install an independent monitor at PG&E for oversight of the company's policy and operational practices.

PCG – Guilty verdict means felon image for PG&E

- A *Bloomberg* piece quotes the city manager opining that the case has "never been about the money" but rather the convictions that "provide a black mark on the corporate seal of PG&E. It is a strong reminder that criminal negligence will not be tolerated."
- Prosecutors dismissed the $562mm charge as the available information was insufficient to charge any individuals with a crime.

Guggenheim takeaway: *While the maximum penalty associated with this trial was recently reduced to ~$6mm, damages to PCG's reputation could present challenges in regulatory proceedings going forward, although not something that's easy to quantify. The above sounds more like sour grapes. Could be time to move on.*

Links

- **Guggenheim Power & Utility Comp Sheet**
- **Forward Commodity Curves for Power and Utility Modeling**

Key Research

1. **2Q16 Earnings Preview with Valuation Update: Regulated Utilities Should Maintain Altitude, But Entering Latter Innings**
2. **EXC/ETR - Look Past Optics Through to Politics: Good Deal for Both; Both in Good Stance**
3. **Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes**
4. **PPL – BUY – Focus Beyond Brexit – Now is the Time to Own**
5. **DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive**
6. **CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements**
7. **ETR – NEUTRAL – Analyst Day Offers Some Incremental CapEx, but No Price Tag on Nuclear Cost**
8. **FE – BUY – Mgmt. Meeting: It's All About Ohio; We Expect Equitable Outcome**
9.

PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates

10. **EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential**
11. **SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest**
12. **2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking**
13. **ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront**
14. **Texas Showdown: Has Wave of Coal Retirement Reached Texas?**
15. **EXC – BUY – DC Approves Acquisition; New Pro-Forma Estimates with POM**
16. **DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates**
17. **D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM**
18. **AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow**
19. **PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX Outlook**
20. **EEI Full Recap**
21. **Power Breakfast: Guggenheim-Hosted Commissioner Meetings**
22. **Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings**
23. **NEE - BUY - Constructive Outlook on FL: Strategic Decisions, Less Contentious Rate Case & More Renewables Expected**
24. **PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power**
25. **Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance**
26. **SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years**
27. **Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables**

Guggenheim Corporate Access Participants

	Dates	Regions	Confirmed Management Attendees
ETR	8/11	New York	Drew Marsh (CFO), Theo Bunting (President – Utility Operations)
AWK	9/14-9/16	West Coast	Linda Sullivan, CFO
DTE	10/3	NYC	Dave Meador, CAO
DTE	10/4-10/5	Canada	Dave Meador, CAO
ES	10/6	Mid Atlantic	Phil Lembo, CFO
SO	12/8-12/9	TBA	Art Beattie, CFO
AEP	TBA	TBA	TBA
FE	TBA	TBA	TBA
PNW	TBA	TBA	TBA
EXC	TBA	TBA	TBA
NYLD	TBA	TBA	TBA
NEE	TBA	TBA	TBA
Recently completed corporate access…			
DTE	3/31	Kansas City	Peter Oleksiak, CFO
DUK	4/6-4/7	TX, KC	Steve Young, CFO
ED	4/13-4/14	Mid Atlantic	Robert Hoglund, CFO
PEG	5/2-5/4	Mid Atlantic	Dan Cregg, CFO
PPL	5/11-5/12	Boston	Bill Spence (CEO), Vincent Sorgi (CFO)
EIX	5/18	Mid Atlantic	Ted Craver, CEO
FE	6/6	New York	Jim Pearson (CFO), Steve Staub (Treasurer)
CPN	6/7	New York	Zamir Rauf (EVP, CFO), Trey Griggs (EVP, CCO)
AWK	6/29-6/30	Midwest	Susan Story, CEO

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
08/15	PCG	2017 GRC	Pacific Gas & Electric Co.	CA	A-15-09-001	Reply briefs
08/15	EXC	Pepco rate case	Potomac Electric Power Co.	MD	C-9418	Rebuttal testimony
08/17	FE	PA electric distribution rate cases	Metropolitan Edison Pennsylvania Electric Pennsylvania Power Co. West Penn Power	PA	R-2016-2537349 R-2016-2537352 R-2016-2537355 R-2016-2537359	Rebuttal testimony
08/22 - 09/02	NEE	FP&L rate case	Florida Power & Light	FL	160021-EI	Hearings scheduled
08/24	EXC	ComEd formulaic rate plan (FRP)	Commonwealth Edison Co.	IL	16-0259	Hearings begin
08/25	DUK	PNY acquisition review	Duke Energy Corporation	NC		Proposed orders are due to commission from all parties
08/26	EXC	Pepco rate case	Washington Gas Light Co.	DC	FC-1137	Rebuttal testimony
09/01	EXC	Pepco rate case	Potomac Electric Power Co.	MD	C-9418	Surrebuttal testimony
09/01	EIX	Rate case	Edison International	CA		Briefs due
09/06 - 09/09	FE	PA electric distribution rate cases	Metropolitan Edison Pennsylvania Electric Pennsylvania Power Co. West Penn Power	PA	R-2016-2537349 R-2016-2537352 R-2016-2537355 R-2016-2537359	Hearings scheduled
09/07	DTE	Michigan energy policy		MI	S.B. 437 S.B. 438	Upper house returns from summer recess
09/12	NEE	FP&L rate case	Florida Power & Light	FL	160021-EI	Briefs due
09/13	EXC	Pepco rate case	Potomac Electric Power Co.	MD	C-9418	Hearings begin
09/16	DTE	Electric rate case	DTE Electric	MI	C-U-18014	Briefs due
Other events and proceedings						
August	AEP	PSO rate case	Public Service Co. of OK	OK	PUD 201500208	Potential PUC decision.
August	SRE	FERC rulings on New England Pipelines	Sempra Energy	MA	EL16-93-000	FERC to decide if New England EDCs can use rates to fund pipeline expansion
Nov. - Dec.	ES	Access Northeast		MA	15-181	MA DPU ruling on using electric rates to fund pipeline expansion

Guggenheim Power & Utilities Comp Sheet (As of 08/10/2016)

As of	**8/10/2016**							**Guggenheim Estimates**														**Consensus Estimates**													
Ticker	**Company**	**Mkt. Cap ($Bn)**	**Rating**	**Target Price(1)**	**Current Price**	**Price Change**	**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**			**Earnings Per Share**				**Price / Earnings**			**Adjusted EBITDA**				**EV / EBITDA**		
								'16E	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**	**'16E**	**'17E**	**'18E**	**CAGR**	**'16E**	**'17E**	**'18E**
Regulated utilities																																			
AEP	American Electric Power	33.2	Buy	$77	$67.56	14%	492	3.64	3.88	4.17	7%	18.6	17.4	16.2	5,438	5,783	6,148	6%	10.0	9.6	9.2	3.69	3.83	4.07	5%	18.3	17.7	16.6	5,623	5,728	6,040	4%	9.7	9.7	9.4
ED	Consolidated Edison, Inc.	23.8	Neutral	$79	$78.24	1%	304	4.00	4.16	4.36	4%	19.6	18.8	17.9	3,810	4,132	4,306	6%	10.2	9.6	9.5	3.98	4.14	4.32	4%	19.7	18.9	18.1	3,660	3,923	4,224	7%	10.7	10.1	9.6
D	Dominion Resources, Inc.	46.2	Buy	$85	$75.01	13%	616	3.83	3.89	4.32	6%	19.6	19.3	17.4	6,040	6,413	6,912	7%	12.5	11.8	11.0	3.78	3.87	4.26	6%	19.8	19.4	17.6	5,667	6,350	6,764	9%	13.3	11.9	11.3
DTE	DTE Energy Company	17.1	Buy	$106	$95.57	11%	179	5.11	5.27	5.66	5%	18.7	18.1	16.9	2,588	2,837	3,043	8%	10.6	10.0	9.5	5.06	5.27	5.64	6%	18.9	18.1	16.9	2,603	2,713	2,845	5%	10.6	10.4	10.2
DUK	Duke Energy Corporation	57.7	Buy	$93	$83.79	11%	689	4.56	4.61	4.79	2%	18.4	18.2	17.5	9,890	9,427	9,597	-1%	10.5	11.3	11.2	4.60	4.73	4.97	4%	18.2	17.7	16.8	9,341	10,034	10,284	5%	11.1	10.6	10.5
EIX	Edison International	24.5	Neutral	$77	$75.11	3%	326	3.86	4.12	4.35	6%	19.5	18.2	17.3	4,829	5,405	5,718	9%	7.9	7.3	7.0	3.90	4.14	4.32	5%	19.3	18.2	17.4	4,432	4,698	4,972	6%	8.7	8.3	8.1
ES	Eversource Energy	18.1	Buy	$64	$56.94	12%	317	2.94	3.20	3.37	7%	19.4	17.8	16.9	2,658	2,663	2,715	1%	10.9	11.1	11.2	2.97	3.17	3.34	6%	19.2	17.9	17.1	2,580	2,765	2,762	3%	11.2	10.7	11.0
NEE	NextEra Energy, Inc.	58.4	Buy	$141	$126.37	12%	462	6.32	6.58	7.04	6%	20.0	19.2	17.9	7,129	7,515	7,896	5%	12.7	12.4	12.1	6.20	6.56	6.99	6%	20.4	19.3	18.1	7,986	8,517	9,455	9%	11.3	10.9	10.1
PCG	PG&E Corporation	31.7	Neutral	$64	$63.61	1%	499	3.65	3.70	3.83	2%	17.4	17.2	16.6	5,813	6,815	7,134	11%	8.6	7.5	7.3	3.71	3.68	3.84	2%	17.1	17.3	16.5	5,921	6,513	6,910	8%	8.4	7.9	7.6
PNW	Pinnacle West Capital	8.6	Neutral	$83	$77.59	7%	111	3.96	4.18	4.48	6%	19.6	18.6	17.3	1,410	1,524	1,630	8%	9.1	8.7	8.3	3.99	4.20	4.42	5%	19.5	18.5	17.6	1,367	1,462	1,557	7%	9.4	9.1	8.7
PPL	PPL Corporation	24.4	Buy	$41	$36.03	14%	678	2.36	2.46	2.42	1%	15.2	14.7	14.9	3,999	4,229	4,438	5%	11.3	10.9	10.7	2.34	2.29	2.33	(0%)	15.4	15.7	15.4	4,098	4,150	4,297	2%	11.0	11.1	11.0
SO	Southern Company	49.8	Neutral	$54	$52.88	2%	942	2.88	3.02	3.17	5%	18.4	17.5	16.7	7,049	7,795	8,242	8%	12.8	11.7	11.2	2.86	2.98	3.10	4%	18.5	17.7	17.0	7,300	8,124	8,404	7%	12.3	11.2	11.0
SJI	South Jersey Industries, Inc.	2.5	Buy	$35	$31.28	12%	79	1.34	1.26	1.69	12%	23.4	24.8	18.5	284	280	301	3%	13.6	14.3	13.3	1.32	1.34	1.63	11%	23.7	23.3	19.2	NA	NA	NA	NA	NA	NA	NA
Average											**5%**	**19.0**	**18.4**	**17.1**				**6%**	**10.8**	**10.5**	**10.1**				**5%**	**19.1**	**18.4**	**17.3**				**6%**	**10.6**	**10.2**	**9.9**
Integrated utilities																																			
ETR	Entergy Corporation	14.1	Neutral	$84	$78.80	7%	179	5.32	5.21	5.18	-1%	14.8	15.1	15.2	3,723	3,758	3,861	2%	8.1	8.3	8.3	6.44	5.18	5.19	(10%)	12.2	15.2	15.2	3,380	3,498	3,608	3%	8.9	8.9	8.9
EXC	Exelon Corporation	32.8	Buy	$42	$35.53	18%	923	2.54	2.65	2.90	7%	14.0	13.4	12.2	7,600	7,771	8,286	4%	8.4	8.2	7.8	2.54	2.64	2.80	5%	14.0	13.4	12.7	7,408	7,818	9,341	12%	8.6	8.2	6.9
FE	FirstEnergy Corp.	13.9	Buy	$43	$32.71	31%	425	2.91	2.84	2.80	-2%	11.2	11.5	11.7	4,437	4,571	4,642	2%	8.1	7.9	7.8	2.56	2.51	2.44	(2%)	12.8	13.0	13.4	4,118	4,436	4,503	5%	8.7	8.1	8.0
PEG	Public Service Enterprise Grou	22.2	Buy	$50	$43.79	14%	506	2.90	2.82	2.92	0%	15.1	15.5	15.0	3,960	4,073	4,301	4%	8.5	8.7	8.4	2.87	2.88	2.93	1%	15.3	15.2	15.0	3,925	4,088	4,298	5%	8.6	8.7	8.5
Average											**1%**	**13.8**	**13.9**	**13.5**				**3%**	**8.3**	**8.3**	**8.1**				**-2%**	**13.6**	**14.2**	**14.1**				**6%**	**8.7**	**8.5**	**8.1**
Independent Power Producers (IPPs)																																			
CPN	Calpine Corporation	4.5	Buy	$20	$12.51	60%	359	0.45	1.12	1.14	59%	27.8	11.2	11.0	1,908	2,074	2,157	6%	8.4	7.5	7.1	0.47	0.83	1.28	65%	26.5	15.1	9.7	1,856	1,950	2,130	7%	8.6	8.0	7.2
DYN	Dynegy Inc.	1.5	Buy	$21	$12.45	69%	117	(2.38)	(0.02)	1.74	NA	-5.2	-622.5	7.2	1,049	1,529	1,904	35%	9.2	6.4	4.9	(2.02)	0.22	1.11	NA	-6.2	55.8	11.2	1,052	1,585	1,793	31%	9.2	6.1	5.2
NRG	NRG Energy, Inc.	4.0	Buy	$17	$12.75	33%	315	0.42	(1.07)	(0.56)	NA	30.4	-11.9	-22.8	3,087	2,841	2,994	(2%)	6.7	7.1	6.4	1.09	0.57	1.15	2%	11.7	22.3	11.1	3,144	2,815	2,908	(4%)	6.6	7.1	6.6
TLN	Talen Energy Corp	1.8	Neutral	$14	$13.75	2%	129	1.55	0.49	0.49	-44%	8.9	28.1	28.1	785	755	751	(2%)	6.8	7.0	7.0	1.19	0.29	0.21	(58%)	11.5	47.5	65	761	727	690	(5%)	7.0	7.3	7.6
Average											**8%**	**15.4**	**-148.8**	**5.9**				**9%**	**7.8**	**7.0**	**6.3**				**3%**	**10.9**	**35.2**	**24**				**7%**	**7.9**	**7.1**	**6.6**
Other																																			
NYLD	NRG Yield	1.7	Neutral	$17	$17.09	-1%	183	0.76	1.23	1.31	31%	22.5	13.9	13.0	806	992	1,098	17%	8.3	7.1	7.0	0.79	0.92	0.95	10%	21.7	18.5	17.9	821	902	1,010	11%	8.2	7.8	7.6
AWK	American Water Works	13.9	Buy	$91	$78.11	17%	178	2.86	3.05	3.25	7%	27.3	25.6	24.0	1,665	1,775	1,884	6%	12.3	11.7	11.4	2.83	3.04	3.26	7%	27.6	25.7	24.0	1,646	1,718	1,806	5%	12.5	12.1	11.9

1. Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

***Coverage of WR and GXP suspended given investment banking activity**

			Current	Consensus Dividend Per Share			Consensus Dividend Yield			Consensus Dividend Payout		
Ticker	Company	Rating	Price	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Regulated utilities												
AEP	American Electric Power	Buy	$67.56	2.26	2.36	2.48	3.3%	3.5%	3.7%	61%	62%	61%
ED	Consolidated Edison, Inc.	Neutral	$78.24	2.67	2.73	2.80	3.4%	3.5%	3.6%	67%	66%	65%
D	Dominion Resources, Inc.	Buy	$75.01	2.80	3.00	3.21	3.7%	4.0%	4.3%	74%	77%	75%
DTE	DTE Energy Company	Buy	$95.57	3.03	3.19	3.37	3.2%	3.3%	3.5%	60%	61%	60%
DUK	Duke Energy Corporation	Buy	$83.79	3.39	3.53	3.68	4.0%	4.2%	4.4%	74%	75%	74%
EIX	Edison International	Neutral	$75.11	1.94	2.14	2.34	2.6%	2.9%	3.1%	50%	52%	54%
ES	Eversource Energy	Buy	$56.94	1.79	1.90	2.03	3.1%	3.3%	3.6%	60%	60%	61%
NEE	NextEra Energy, Inc.	Buy	$126.37	3.48	3.90	4.44	2.8%	3.1%	3.5%	56%	59%	64%
PCG	PG&E Corporation	Neutral	$63.61	1.94	2.08	2.24	3.1%	3.3%	3.5%	52%	56%	58%
PNW	Pinnacle West Capital	Neutral	$77.59	2.54	2.66	2.79	3.3%	3.4%	3.6%	64%	63%	63%
PPL	PPL Corporation	Buy	$36.03	1.52	1.57	1.63	4.2%	4.4%	4.5%	65%	69%	70%
SO	Southern Company	Neutral	$52.88	2.22	2.30	2.38	4.2%	4.3%	4.5%	78%	77%	77%
SJI	South Jersey Industries, Inc.	Buy	$31.28	1.08	1.10	1.10	3.5%	3.5%	3.5%	82%	82%	68%
Average							**3.4%**	**3.6%**	**3.8%**	**65%**	**66%**	**65%**
Integrated utilities												
ETR	Entergy Corporation	Neutral	$78.80	3.44	3.54	3.63	4.4%	4.5%	4.6%	53%	68%	70%
EXC	Exelon Corporation	Buy	$35.53	1.26	1.29	1.33	3.5%	3.6%	3.7%	50%	49%	47%
FE	FirstEnergy Corp.	Buy	$32.71	1.44	1.45	1.45	4.4%	4.4%	4.4%	56%	58%	59%
PEG	Public Service Enterprise Group	Buy	$43.79	1.64	1.71	1.79	3.7%	3.9%	4.1%	57%	60%	61%
Average							**4.0%**	**4.1%**	**4.2%**	**54%**	**59%**	**59%**
Independent Power Producers (IPPs)												
CPN	Calpine Corporation	Buy	$12.51	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
DYN	Dynegy Inc.	Buy	$12.45	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
NRG	NRG Energy, Inc.	Buy	$12.75	0.23	0.12	0.12	1.8%	1.0%	0.9%	21%	NA	10%
TLN	Talen Energy Corp	Neutral	$13.75	0.00	0.00	0.00	0.0%	0.0%	0.0%	0%	0%	0%
Average							**0.5%**	**0.2%**	**0.2%**	**5%**	**0%**	**3%**
Other												
NYLD	NRG Yield	Neutral	$17.09	0.96	1.11	1.26	5.6%	6.5%	7.4%	122%	120%	133%
AWK	American Water Works	Buy	$78.11	1.45	1.57	1.79	1.9%	2.0%	2.3%	51%	52%	55%

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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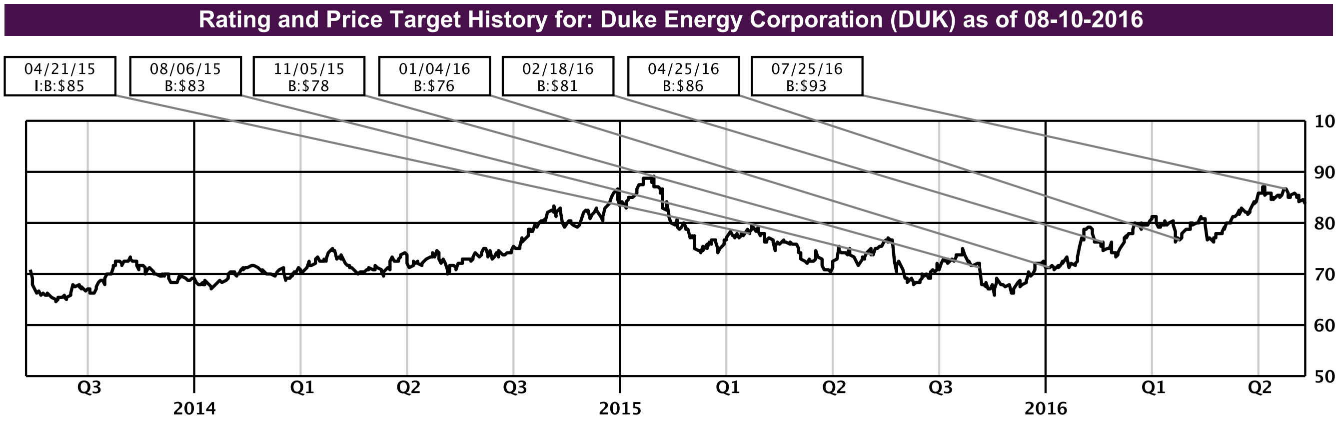

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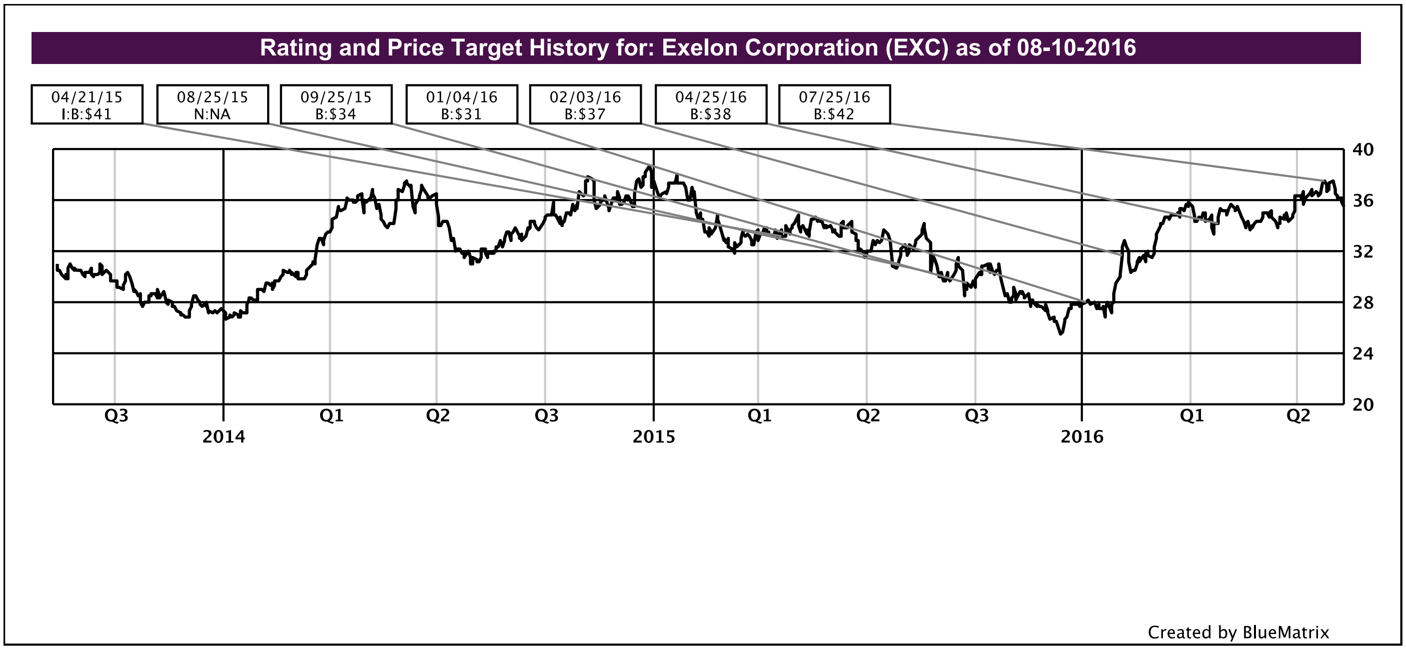

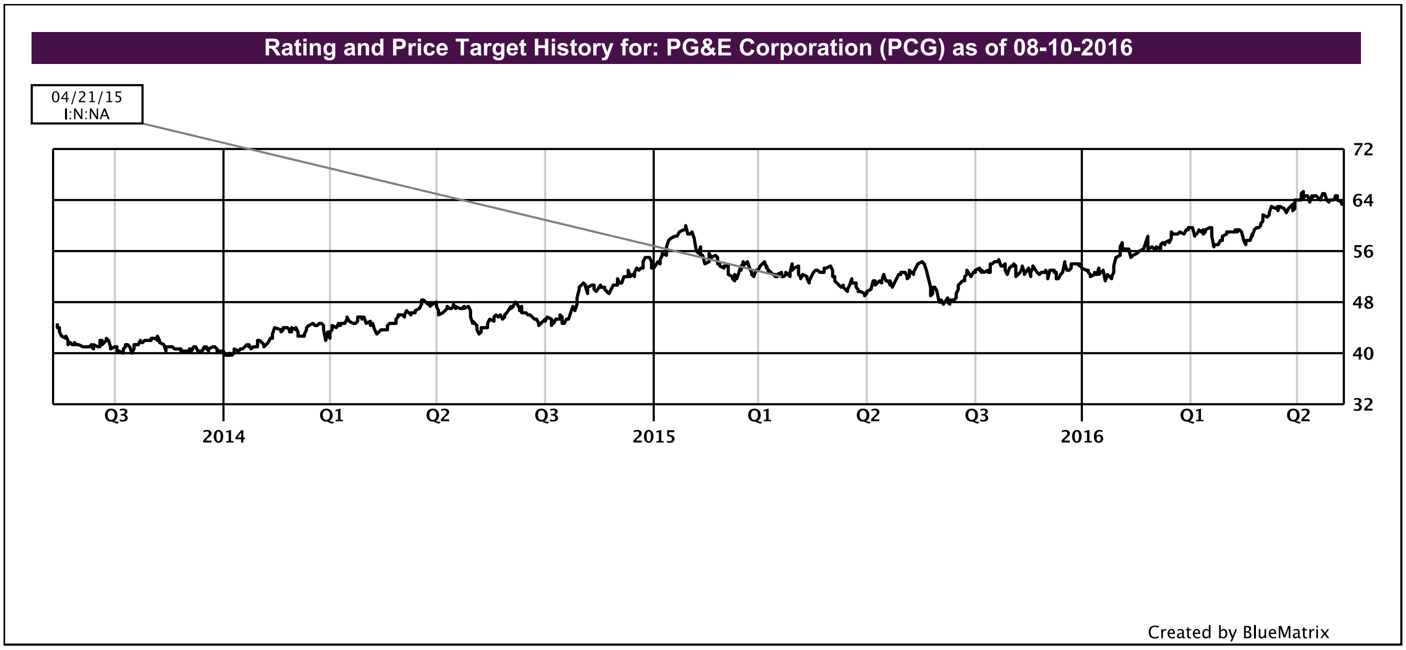

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

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NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	158	60.31%	30	18.99%
Neutral	104	39.69%	3	2.88%
Sell	0	0.00%	0	0.00%

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January 3, 2017

Company: Exelon Corporation, EXC - Analyst Shelby Tucker, Currency: USD, Price Target: 40.00, Rating: Outperform

FY Dec	**2016E**	**2017E**	**2018E**	**2019E**
EPS, Adj Diluted	2.69	2.69	2.98	2.79
Prev.	2.65	2.63	2.86	
P/AEPS	13.1x	13.1x	11.8x	12.6x
DPS	1.26	1.30	1.33	1.37
Prev.		1.29	1.32	
Div Yield	3.6%	3.7%	3.8%	3.9%

EPS, Adj Diluted	**Q1**	**Q2**	**Q3**	**Q4**
2016	0.68A	0.65A	0.91A	0.45E
Prev.				0.41E

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Updated Forecasts and Estimates from 20 Jan 2017

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Research as of 06 Dec 2016
Estimates as of 20 Jan 2017
Pricing data through 20 Jan 2017
Rating updated as of 20 Jan 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Dec 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings

Vital Statistics

Market Cap (USD Mil)	33,053
52-Week High (USD)	37.70
52-Week Low (USD)	26.26
52-Week Total Return %	38.4
YTD Total Return %	0.9
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.12

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*13.8*	*13.7*
EV/EBITDA	9.5	6.6	*8.8*	*8.2*
EV/EBIT	16.7	10.2	*14.2*	*13.4*
Free Cash Flow Yield %	-5.1	0.0	*-19.7*	*-3.8*
Dividend Yield %	3.3	4.3	*3.5*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,775*	*32,405*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*4,998*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,486*
Net Income YoY %	-4.0	7.7	*8.2*	*3.3*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*0.9*
Free Cash Flow	121	561	*-12,392*	*-391*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life 06 Dec 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Valuation, Growth and Profitability 06 Dec 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin

from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $650 million change in EBITDA. Our fair value estimate would change by $5 per share. On a mark-to-market basis as of mid-November, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 4 percentage points to near the industry average, it would change our fair value estimate by $1 per share. If Exelon does not retire the Clinton, Quad Cities, and Three Mile Island plants, it would add $2 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an

effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. About 70% of the $11 billion of rate base growth in 2016-20 will have rate trackers or formula rates, minimizing regulatory lag. Exelon faces the biggest challenge boosting Pepco's earned returns some 400 basis points to approach its allowed returns. Rate cases in 2016-17 should give it a good start.

In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Exelon Corp EXC (NYSE) | ★★

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Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

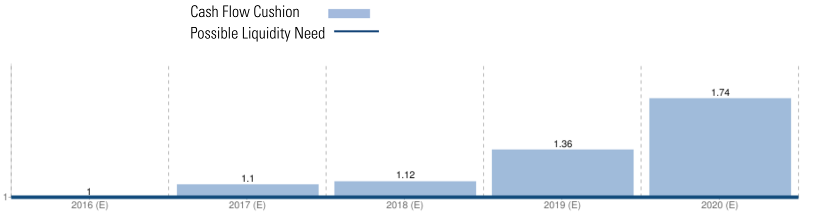
Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	6,502	1,038	1,133	1,428	2,513
Adjusted Available Cash Flow	-3,339	2,753	2,985	4,244	5,284
Total Cash Available before Debt Service	3,163	3,791	4,118	5,672	7,798
Principal Payments	-1,483	-1,626	-1,600	-2,000	-2,275
Interest Payments	-1,377	-1,517	-1,605	-1,706	-1,734
Other Cash Obligations and Commitments	-303	-303	-463	-464	-463
Total Cash Obligations and Commitments	-3,163	-3,446	-3,668	-4,170	-4,472

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,502	34.4
Sum of 5-Year Adjusted Free Cash Flow	11,928	63.1
Sum of Cash and 5-Year Cash Generation	18,430	97.4
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	18,430	97.4
Sum of 5-Year Cash Commitments	-18,919	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets as it tries to smooth cash flow at its generation unit. As power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.We see no immediate credit concerns based on current energy market conditions. We project Exelon's consolidated EBITDA/interest coverage will remain above 5 times and leverage will remain below 5 times debt/EBITDA at least through 2019. Even those these ratios are weaker following the Pepco acquisition, we think this is acceptable given the higher share of regulated earnings.Only about one-quarter of Exelon's consolidated debt is directly tied to its generation segment. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing its near-term maturities. Management has committed to reducing Exelon Generation debt by $3 billion during the next five years and use the remaining cash to fund the regulated utilities' growth.We also think management can meet its 2.5% dividend growth goal through 2018 with relative ease. However, this is rather unimpressive compared with most of its peers that we think can grow their dividends at least twice as fast.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm might have to make modest cash contributions. Plant closures also could increase cash decommission costs.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's

largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	187,560	12 Aug 2016	—
MR. WILLIAM A. VON HOENE, JR		87,509	25 Jan 2016	—
JONATHAN W. (JACK) THAYER		60,447	12 Dec 2016	—
MS. ANNE R. PRAMAGGIORE		56,015	13 Mar 2016	—
MR. CRAIG L. ADAMS		46,218	25 Jan 2016	—
PAYMON ALIABADI		37,923	25 Jan 2016	—
MR. KENNETH W. CORNEW		32,844	15 Jul 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	2.11	0.14	28	31 Dec 2016
Vanguard Wellington™	1.63	0.54	—	30 Sep 2016
Vanguard 500 Index Fund	1.46	0.17	363	31 Dec 2016
Invesco Diversified Dividend Fund	1.51	2.52	3,483	30 Sep 2016
VA CollegeAmerica Invmt Co of America	1.38	0.58	-13,251	31 Dec 2016
Concentrated Holders				
Putnam VT Global Utilities	0.02	7.53	—	30 Sep 2016
Putnam Global Utilities Fund	0.04	7.28	—	30 Sep 2016
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.76	—	19 Jan 2017
Fidelity® Telecom and Utilities Fund	0.20	6.11	—	30 Nov 2016
NN Utilities Fund	—	5.93	-16	31 Oct 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
BlackRock Fund Advisors	3.71	0.14	5,977	30 Sep 2016
T. Rowe Price Associates, Inc.	4.54	0.28	5,128	30 Sep 2016
Invesco Advisers, Inc	1.88	0.38	2,769	30 Sep 2016
J.P. Morgan Investment Management Inc	0.31	0.04	2,178	30 Sep 2016
New Jersey Division of Pensions and Benefits	0.22	0.09	1,433	30 Jun 2010
Top 5 Sellers				
State Street Corp	4.93	0.20	-9,513	30 Sep 2016
BlackRock Investment Management (UK) Ltd.	—	0.01	-5,703	30 Sep 2016
Millennium Management LLC	0.34	0.17	-4,256	30 Sep 2016
Fidelity Management and Research Company	4.88	0.21	-2,927	30 Sep 2016
Arrowstreet Capital Limited Partnership	0.69	0.69	-2,410	30 Sep 2016

Management 06 Dec 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (NYSE) | ★★

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Analyst Notes

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There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV

demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities 09 Nov 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns 08 Nov 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases,

Analyst Notes

management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Regulated Utilities Continue Driving Growth for Exelon

26 Oct 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Exelon's Performance on Track; Adds FitzPatrick Nuclear Plant to Fleet

09 Aug 2016

We are reaffirming our $30 per share fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported earnings of $0.65 per share in the second quarter on an adjusted basis, up from $0.59 per share in the second quarter of 2015. Management reaffirmed its full-year 2016 earnings per share guidance of $2.40-$2.70, in line with our estimate. We expect a more detailed outlook and update from management during Exelon's investor conference on Aug. 10. We don't anticipate any announcements that would affect our fair value estimate, but new updates might affect our 2017-19 projections.

The two key components of future value for Exelon--nuclear generation efficiency and regulated utilities investment--continue to track in line with our expectations. Exelon turned in another world-class nuclear capacity factor above 90% during the quarter. This preserves its upside to our forecast

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

for a modest power price rebound in the eastern U.S. Regulated utilities earnings remain the growth driver in our forecast going into a stretch of critical regulatory activity during the next few months.

In a widely anticipated move, Exelon agreed to pay $110 million to acquire Entergy's FitzPatrick (N.Y.) nuclear plant. Although the purchase price appears low, the plant's economics are challenging and Exelon has committed to spend $400 million-$500 million during the next two years to keep the plant running. New York's Clean Energy Standard payments to nuclear generators will help, but the overall impact is immaterial to our fair value estimate. We think Exelon's $53 million purchase of ConEdison Solutions retail business during the quarter makes strategic sense but is too small to have a material impact on our fair value estimate.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast 2016*	*Forecast 2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-5.7*	*16.7*	*4.4*
EBIT	*22.8*	53.6	-15.3	42.4	*7.5*	*5.5*	*6.6*
EBITDA	*17.2*	36.3	-6.9	26.8	*11.4*	*7.3*	*7.3*
Net Income	*-1.6*	-7.9	-4.0	7.7	*8.2*	*3.3*	*6.6*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*4.4*	*0.9*	*4.9*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*63.1*	*-45.4*	*0.0*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-2,307.6*	*-96.9*	*44.3*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*17.1*	*15.4*	*16.4*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*27.5*	*25.3*	*26.4*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.7*	*8.3*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-44.6*	*-1.2*	*-5.1*
ROIC %	*3.1*	2.5	2.5	4.1	*11.1*	*5.6*	*6.8*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*12.0*	*6.1*	*7.4*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.4*
Return on Equity %	*8.0*	7.7	7.1	9.3	*9.0*	*8.8*	*9.3*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.56*	*0.56*	*0.55*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.56*	*4.55*	*4.30*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.55*	*5.40*	*5.57*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*13.8*	*13.7*
EV/EBITDA	9.5	6.6	*8.8*	*8.2*
EV/EBIT	16.7	10.2	*14.2*	*13.4*
Free Cash Flow Yield %	-5.1	0.0	*-19.7*	*-3.8*
Dividend Yield %	3.3	4.3	*3.5*	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,312	-13.2	-6.83
Present Value Stage II	17,500	36.6	18.92
Present Value Stage III	36,662	76.6	39.65
Total Firm Value	**47,850**	**100.0**	**51.75**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,065**	**—**	**30.35**
Projected Diluted Shares	925		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,775***	***32,405***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,731*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,674***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,730***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,231*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,486***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,486*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,198***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,198***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,883*
Inventory	1,105	1,603	1,566	*1,079*	*1,505*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,521***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,081***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,821*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,054***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,821***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,590*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,859***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,259***

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,420*	*2,499*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-698*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-426*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*260*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***95***

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1.22	13.3	*14.8*	*16.4*	6.8	*8.3*	*8.5*	349.6	*NM*	*NM*	1.5	*1.6*	*1.5*	1.9	*2.3*	*2.2*
FirstEnergy Corp FE USA	0.88	11.8	*11.6*	*12.0*	9.4	*8.1*	*8.2*	18.1	*56.3*	*NM*	1.1	*1.0*	*0.9*	0.9	*0.9*	*0.9*
Entergy Corp ETR USA	0.97	11.4	*10.4*	*15.3*	6.7	*7.9*	*7.9*	15.4	*NM*	*NM*	1.3	*1.3*	*1.3*	1.1	*1.1*	*1.1*
Average		12.2	*12.3*	*14.6*	7.6	*8.1*	*8.2*	127.7	*56.3*	—	1.3	*1.3*	*1.2*	1.3	*1.4*	*1.4*
Exelon Corp EXC US	**1.12**	**11.2**	***13.8***	***13.7***	**6.6**	***8.8***	***8.2***	**NM**	***NM***	***NM***	**1.0**	***1.2***	***1.1***	**0.9**	***1.2***	***1.0***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	37,535 USD	9.5	*8.2*	*7.3*	9.6	*8.2*	*7.3*	13.3	*11.2*	*9.7*	4.6	*3.9*	*3.3*	4.0	*3.6*	*3.8*
FirstEnergy Corp FE USA	52,187 USD	3.8	*4.7*	*4.6*	4.4	*5.6*	*5.5*	4.7	*8.6*	*8.0*	1.1	*2.1*	*1.9*	4.5	*4.8*	*5.1*
Entergy Corp ETR USA	— USD	0.7	*5.6*	*5.3*	0.8	*5.7*	*5.4*	-1.8	*12.9*	*8.5*	-0.4	*2.7*	*1.7*	4.9	*4.8*	*5.0*
Average		4.7	*6.2*	*5.7*	4.9	*6.5*	*6.1*	5.4	*10.9*	*8.7*	1.8	*2.9*	*2.3*	4.5	*4.4*	*4.6*
Exelon Corp EXC US	— USD	**4.1**	***11.1***	***5.6***	**4.3**	***12.0***	***6.1***	**9.3**	***9.0***	***8.8***	**2.5**	***2.3***	***2.2***	**4.3**	***3.5***	***3.7***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	10,415 USD	-4.3	*-5.7*	*1.6*	12.9	*-9.0*	*-5.7*	5.4	*1.2*	*-9.8*	-58.6	*-619.1*	*-61.0*	5.4	*5.1*	*4.9*
FirstEnergy Corp FE USA	15,026 USD	-0.2	*-4.3*	*-0.4*	119.8	*20.1*	*-3.7*	5.9	*-4.7*	*-3.0*	107.4	*-48.7*	*38.2*	—	*—*	*5.6*
Entergy Corp ETR USA	11,513 USD	-7.9	*4.0*	*0.7*	-24.5	*26.2*	*-3.6*	3.1	*13.6*	*-31.8*	-38.4	*-163.8*	*15.6*	—	*3.0*	*3.0*
Average		-4.1	*-2.0*	*0.6*	36.1	*12.4*	*-4.3*	4.8	*3.4*	*-14.9*	3.5	*-277.2*	*-2.4*	5.4	*4.1*	*4.5*
Exelon Corp EXC US	**29,447** USD	**7.4**	***-5.7***	***16.7***	**42.4**	***7.5***	***5.5***	**4.2**	***4.4***	***0.9***	**365.5**	***-2,307.6***	***-96.9***	**—**	***1.2***	***2.5***

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	1,478 USD	68.7	71.3	69.3	40.1	40.2	38.7	28.4	27.4	25.5	14.2	15.3	13.6	0.5	-13.0	-5.8
FirstEnergy Corp FE USA	1,144 USD	58.9	59.1	58.4	25.1	30.1	29.7	15.5	19.5	18.8	7.6	7.6	7.4	4.9	1.6	-0.3
Entergy Corp ETR USA	1,076 USD	66.6	67.7	66.8	32.7	28.2	27.7	14.4	17.4	16.7	9.3	10.2	7.0	6.9	-6.3	-6.2
Average		64.7	66.0	64.8	32.6	32.8	32.0	19.4	21.4	20.3	10.4	11.0	9.3	4.1	-5.9	-4.1
Exelon Corp EXC US	**2,224** USD	**55.6**	**64.6**	**57.6**	**23.3**	**27.5**	**25.3**	**15.0**	**17.1**	**15.4**	**7.6**	**8.7**	**7.7**	**0.0**	**-23.4**	**-3.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	9,932 USD	76.0	85.3	91.0	43.2	46.0	47.6	10.6	8.9	7.4	2.4	3.0	3.4	2.9	2.9	3.0
FirstEnergy Corp FE USA	22,066 USD	177.7	176.1	173.2	64.0	63.8	63.4	3.3	3.7	3.5	5.9	5.3	5.5	4.2	4.2	4.1
Entergy Corp ETR USA	13,820 USD	149.3	157.1	165.1	59.9	61.1	62.3	5.9	4.9	4.5	3.7	4.5	4.9	4.8	4.9	4.9
Average		134.3	139.5	143.1	55.7	57.0	57.8	6.6	5.8	5.1	4.0	4.3	4.6	4.0	4.0	4.0
Exelon Corp EXC US	**26,319** USD	**101.2**	**126.5**	**129.3**	**50.3**	**55.9**	**56.4**	**6.6**	**5.5**	**5.4**	**3.8**	**4.6**	**4.6**	**3.7**	**4.0**	**4.0**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	22,128 USD	0.78	0.70	0.58	0.98	1.07	1.04	0.85	0.94	0.90	0.36	0.33	0.27	47.2	55.7	64.7
FirstEnergy Corp FE USA	12,803 USD	0.31	1.26	1.39	0.54	0.56	0.58	0.40	0.45	0.46	0.05	0.18	0.20	105.4	55.9	60.8
Entergy Corp ETR USA	12,749 USD	7.54	6.34	4.39	1.32	0.95	0.86	0.96	0.69	0.60	1.91	0.76	0.53	-336.8	50.1	75.7
Average		2.88	2.77	2.12	0.95	0.86	0.83	0.74	0.69	0.65	0.77	0.42	0.33	-61.4	53.9	67.1
Exelon Corp EXC US	**33,053** USD	**7.28**	**1.12**	**1.20**	**1.68**	**1.06**	**1.16**	**1.51**	**0.94**	**1.00**	**3.20**	**0.51**	**0.56**	**48.8**	**48.3**	**49.0**

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

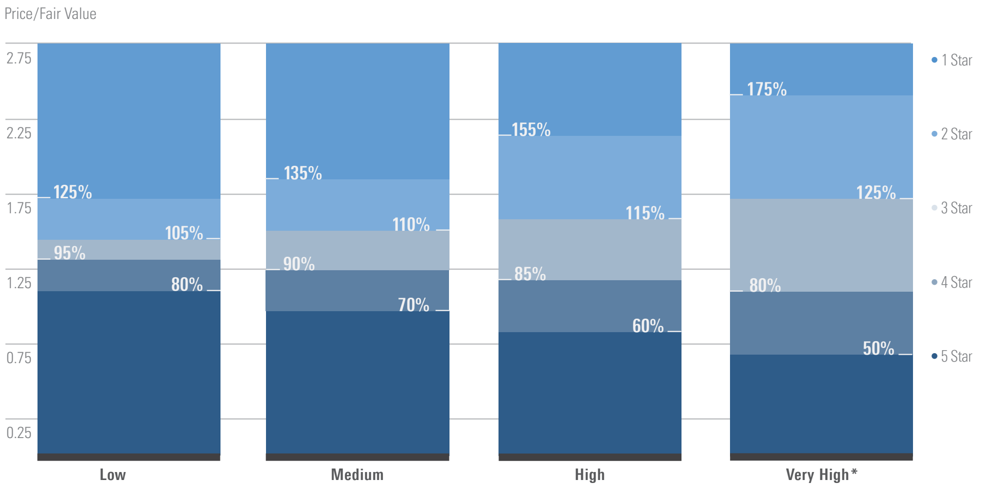
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.80 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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January 30, 2017

COMPANY UPDATE

Exelon Corp. (EXC)

Neutral

Equity Research

Risks do exist at EXC, especially ZEC and RPM; remain Neutral

What's changed

In efforts to halt early nuclear retirements in their states, both New York and Illinois created either regulatory (NY) or legislation (IL) frameworks to provide nuclear subsidies, in the form of Zero Emission Credits (ZECs), to existing nuclear plants owned by Neutral-rated EXC in 2H2016. A coalition of power companies filed a complaint with the US Second Circuit Court of Appeals on 10/19/16, challenging the legal standing of the ZECs in NY, alleging that these ZECs (1) imply an intrusion on federally regulated wholesale power markets by a state authority, and (2) the allocation of the ZECs discriminates against other generators. We believe, given their similarities in design, a read across may exist between the NY case and any potential future cases filed against the ZECs in IL as both ZEC programs provide above-market subsidies to only nuclear generation.

Implications

While we do not take a view on any potential outcome of the litigation, we view the ZEC challenge at the Second Circuit as a near-term risk for EXC's shares. Circuit courts traditionally respond to motions to dismiss within a month of all briefs filed suggesting that the federal court could decide in the coming week(s) whether to accept or dismiss the ZEC complaint. Our forecasts include the ZECs, which represent $500mn+ in EBITDA, and we see the plants with ZECs contributing $0.25-$0.30 to EPS annually. Other near-term risks for EXC's shares also exist. Given reductions in its demand forecast, PJM's planning parameter details for the RPM capacity auction, due out on Jan 31, could prove modestly bearish – a headwind for EXC's merchant given its sizable PJM exposure. Despite our 4Q2016 estimates being above consensus and a modestly compelling valuation, near-term headwinds keep us Neutral.

Valuation

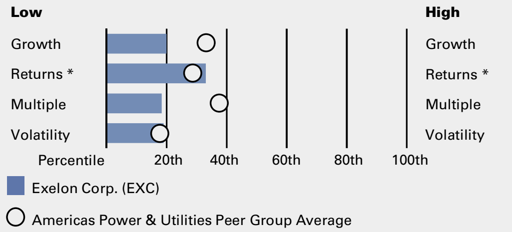
We derive our 12-month PT of $38 using a multiples-based SOTP valuation.

Key risks

Key risks include power prices, litigation, and regulation.

INVESTMENT LIST MEMBERSHIP
Neutral

Investment Profile



* Returns = Return on Capital

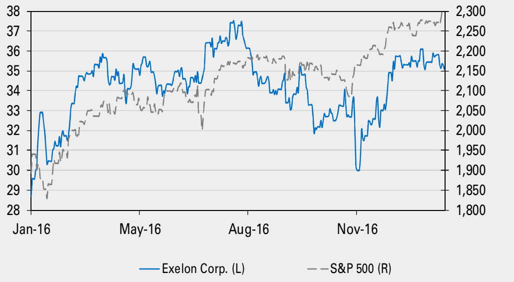
For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price ($)	35.08
12 month price target ($)	38.00
Market cap ($ mn)	32,519.2
Dividend yield (%)	3.6
Net margin (%)	8.4
Debt/total capital (%)	57.1

	12/15	12/16E	12/17E	12/18E
Revenue ($ mn)	29,447.0	30,196.6	28,117.8	28,291.8
EPS ($)	2.49	2.75	2.83	2.89
P/E (X)	12.8	12.8	12.4	12.1
EV/EBITDA (X)	7.3	9.5	7.6	7.4
ROE (%)	9.4	4.9	9.3	9.8

	9/16	12/16E	3/17E	6/17E
EPS ($)	0.91	0.51	0.73	0.58

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	5.4	(4.1)	25.1
Rel. to S&P 500	(2.0)	(9.5)	2.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/27/2017 close.

Coverage View: Neutral

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Exelon Corp.: Summary Financials

Profit model ($ mn)	12/15	12/16E	12/17E	12/18E
Total revenue	29,447.0	30,196.6	28,117.8	28,291.8
Cost of goods sold	(13,084.0)	(11,293.2)	(7,668.1)	(7,316.9)
SG&A	(8,323.0)	(10,002.0)	(9,310.4)	(9,362.7)
R&D	0.0	0.0	0.0	0.0
Other operating profit/(expense)	(1,200.0)	(1,569.4)	(1,707.6)	(1,740.9)
ESO expense	--	--	--	--
EBITDA	**6,840.0**	**7,331.9**	**9,431.7**	**9,871.3**
Depreciation & amortization	(2,451.0)	(4,004.8)	(3,869.8)	(3,743.0)
EBIT	**4,389.0**	**3,327.1**	**5,562.0**	**6,128.3**
Net interest income/(expense)	(1,073.0)	(1,553.2)	(1,522.9)	(1,581.0)
Income/(loss) from associates	0.0	(15.0)	0.0	0.0
Others	9.0	442.7	104.5	108.1
Pretax profits	**3,325.0**	**2,201.6**	**4,143.6**	**4,655.4**
Provision for taxes	(1,073.0)	(852.0)	(1,498.1)	(1,799.8)
Minority interest	17.0	(72.0)	(156.6)	(99.5)
Net income pre-preferred dividends	**2,269.0**	**1,277.7**	**2,488.9**	**2,756.2**
Preferred dividends	0.0	(10.0)	(12.0)	(12.0)
Net income (pre-exceptionals)	**2,269.0**	**1,267.7**	**2,476.9**	**2,744.2**
Post tax exceptionals	(42.0)	1,278.3	207.9	36.0
Net income (post-exceptionals)	**2,227.0**	**2,546.0**	**2,684.8**	**2,780.2**
EPS (basic, pre-except) ($)	**2.55**	**1.37**	**2.62**	**2.87**
EPS (diluted, pre-except) ($)	**2.54**	**1.37**	**2.61**	**2.86**
EPS (basic, post-except) ($)	**2.50**	**2.76**	**2.84**	**2.90**
EPS (diluted, post-except) ($)	**2.49**	**2.75**	**2.83**	**2.89**
Common dividends paid	0.0	0.0	0.0	0.0
DPS ($)	1.24	1.26	1.30	1.33
Dividend payout ratio (%)	48.6	92.1	49.4	46.4

Growth & margins (%)	12/15	12/16E	12/17E	12/18E
Sales growth	7.4	2.5	(6.9)	0.6
EBITDA growth	45.5	7.2	28.6	4.7
EBIT growth	83.7	(24.2)	67.2	10.2
Net income (pre-except) growth	36.9	(44.1)	95.4	10.8
EPS growth	32.4	(46.2)	91.1	9.3
Gross margin	55.6	62.6	72.7	74.1
EBITDA margin	23.2	24.3	33.5	34.9
EBIT margin	14.9	11.0	19.8	21.7

Cash flow statement ($ mn)	12/15	12/16E	12/17E	12/18E
Net income	2,250.0	1,350.7	2,645.5	2,855.6
D&A add-back (incl. ESO)	3,987.0	5,591.4	5,385.5	5,280.4
Minority interest add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	123.0	0.0	0.0	0.0
Other operating cash flow	1,274.0	1,244.7	326.1	422.3
Cash flow from operations	**7,634.0**	**8,186.7**	**8,357.1**	**8,558.3**
Capital expenditures	(7,624.0)	(8,597.8)	(8,120.0)	(7,225.0)
Acquisitions	(40.0)	(6,896.0)	(110.0)	0.0
Divestitures	147.0	49.0	0.0	0.0
Others	(323.0)	(66.0)	(248.0)	(248.0)
Cash flow from investing	**(7,840.0)**	**(15,510.8)**	**(8,478.0)**	**(7,473.0)**
Dividends paid (common & pref)	(1,105.0)	(1,166.6)	(1,223.7)	(1,272.0)
Inc/(dec) in debt	4,102.0	2,996.7	1,285.2	(190.0)
Other financing cash flows	1,833.0	(141.0)	32.0	32.0
Cash flow from financing	**4,830.0**	**1,689.1**	**93.4**	**(1,430.0)**
Total cash flow	**4,624.0**	**(5,634.9)**	**(27.4)**	**(344.6)**

Balance sheet ($ mn)	12/15	12/16E	12/17E	12/18E
Cash & equivalents	6,502.0	867.1	839.6	495.0
Accounts receivable	4,099.0	5,074.0	5,074.0	5,074.0
Inventory	1,566.0	1,562.0	1,562.0	1,562.0
Other current assets	3,167.0	3,675.0	3,675.0	3,675.0
Total current assets	**15,334.0**	**11,178.1**	**11,150.6**	**10,806.0**
Net PP&E	57,439.0	72,144.0	75,982.2	78,920.5
Net intangibles	2,672.0	6,672.0	6,672.0	6,672.0
Total investments	639.0	592.0	592.0	592.0
Other long-term assets	19,300.0	23,636.3	22,939.7	22,243.0
Total assets	**95,384.0**	**114,222.5**	**117,336.5**	**119,233.4**
Accounts payable	2,883.0	3,044.0	3,044.0	3,044.0
Short-term debt	2,033.0	3,079.0	3,079.0	3,079.0
Other current liabilities	4,202.0	6,035.0	6,035.0	6,035.0
Total current liabilities	**9,118.0**	**12,158.0**	**12,158.0**	**12,158.0**
Long-term debt	24,286.0	33,695.7	34,980.9	34,790.9
Other long-term liabilities	34,658.0	40,773.7	41,148.8	41,620.1
Total long-term liabilities	**58,944.0**	**74,469.4**	**76,129.7**	**76,411.0**
Total liabilities	**68,062.0**	**86,627.4**	**88,287.7**	**88,569.0**
Preferred shares	**193.0**	**4.0**	**16.0**	**28.0**
Total common equity	**25,793.0**	**26,079.1**	**27,364.2**	**28,868.4**
Minority interest	**1,336.0**	**1,512.0**	**1,668.6**	**1,768.1**
Total liabilities & equity	**95,384.0**	**114,222.5**	**117,336.5**	**119,233.4**

Additional financials	12/15	12/16E	12/17E	12/18E
Net debt/equity (%)	72.5	130.1	128.1	121.9
Interest cover (X)	4.1	2.1	3.7	3.9
Inventory days	44.2	50.5	74.4	77.9
Receivable days	54.6	55.4	65.9	65.5
BVPS ($)	28.04	28.24	28.58	30.12
ROA (%)	2.5	1.2	2.1	2.3
CROCI (%)	9.7	10.2	8.9	8.5
Dupont ROE (%)	**8.3**	**4.6**	**8.5**	**8.9**
Margin (%)	7.7	4.2	8.8	9.7
Turnover (X)	0.3	0.3	0.2	0.2
Leverage (X)	3.5	4.1	4.0	3.9
Free cash flow per share ($)	0.01	(0.44)	0.25	1.39
Free cash flow yield (%)	0.0	(1.3)	0.7	4.0

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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PM Summary: Potential negative catalysts exist; remain Neutral on EXC

Litigation over the Zero Emissions Credits (ZECs), as well as other factors, could create negative catalysts and weigh on EXC's shares in the coming weeks. The catalyst with the most potential to significantly impact the stock includes a potential ruling on the motion to dismiss the NY nuclear subsidy. As detailed in our recent note on nuclear retirements published January 23 (*"America's Potential Nuclear Power Challenge"*), both NY and IL created new nuclear subsidies (ZECs) to keep select, existing nuclear plants from retiring. A group of other power companies[1] , with assets in NY that did not receive the ZEC, filed a complaint at the US Second Circuit Court of Appeals, claiming the ZEC interferes with the Federal Energy Regulatory Commission's oversight, and not state authority, of wholesale power markets – with specific claims that this will impact energy margins for other generators as well as potentially influence capacity auction results there. The complaint also highlights potential discrimination as the state of NY did not offer ZECs in a competitive process to other zero emission assets in NY or out of state, with access to NY (i.e., interstate commerce).

- **A decision by the Second Circuit Court on whether to dismiss this complaint – or set the case for trial – could come in early / mid-February as circuit courts traditionally rule on a motion to dismiss within a month of all briefs filed, highlighting potential risk to our forecasts**. If the Second Circuit Court accepts the case filed by the complainants, we would view this as a potential risk to EXC's earnings. We note the ZEC designed in IL appears similar to the one in NY as both programs provide above-market subsidies for only nuclear generation – investors could imply a potential read across from the NY case for the IL ZEC's, if the court accepts the NY complaint.
- **We estimate the plants impacted by the ZEC create roughly $0.25-$0.30 in EPS annually (2019E run rate).** We assume the ZEC subsidies contribute $522mn in direct additional revenue for 2019E, and combined (1) with forecast energy and capacity sales from the plants receiving the ZEC, and (2) our estimate of direct cost for these plants, we estimate they create roughly $500mn-$600mn of EBITDA (2019) and $0.25-$0.30 in EPS.
- **PJM's planning parameters, due on January 31, could also weigh on EPS in the near term – given reductions in forecast demand**. Other key catalysts to watch include PJM parameters released on January 31 and 4Q2016 earnings for EXC on February 8. The release of the PJM parameters (publicly released detailed data which highlights supply/demand conditions ahead of the May capacity auction) could appear as a neutral-to-bearish catalyst as PJM recently lowered demand forecasts again in PJM. While our 4Q2016 EPS forecast is above consensus, at $0.51 versus $0.45 for consensus, we note discussion on the ZEC litigation and PJM's capacity auction may outweigh the focus on the 4Q2016 results.

We remain Neutral on EXC given near-term event risk, though the stock already trades at a discount to peers on our sum-of-the-parts. After a 2016 with strong outperformance of 16% above the sector index (XLU), the stock still trades at a 0.5x-1.5x discount to Diversified Utilities peers with merchant generation. That said, we view the upcoming catalysts – particularly the potential ruling on the ZEC program – as substantial enough risks to remain on the sidelines. However, we note that the sum-of-the-parts valuation does appear modestly compelling.

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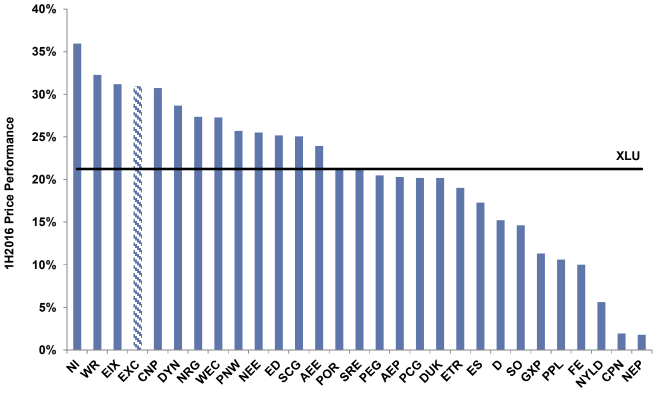
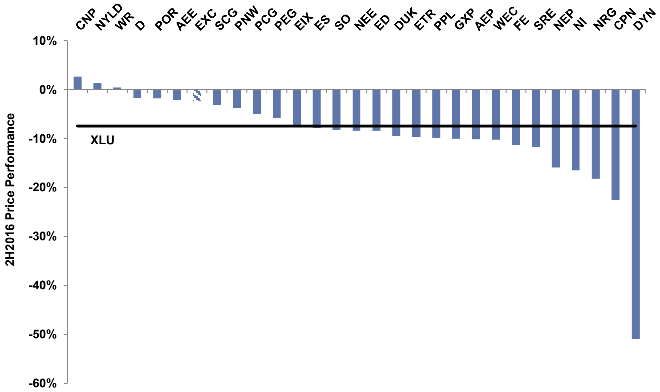
[1] Plaintiff includes: Coalition for Competitive Electricity, Dynegy Inc, Eastern Generation LLC, Electric Power Supply Association, NRG Energy, Inc, Roseton Generating LLC and Selkirk Cogen Partners, L.P.

Exhibit 1: EXC outperformed in both 1H2016…
EXC stock price performance in 1H2016 vs. Utilities coverage



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 2: …and 2H2016, but still trades at a discount to peers
EXC stock price performance in 2H16 vs. Utilities coverage

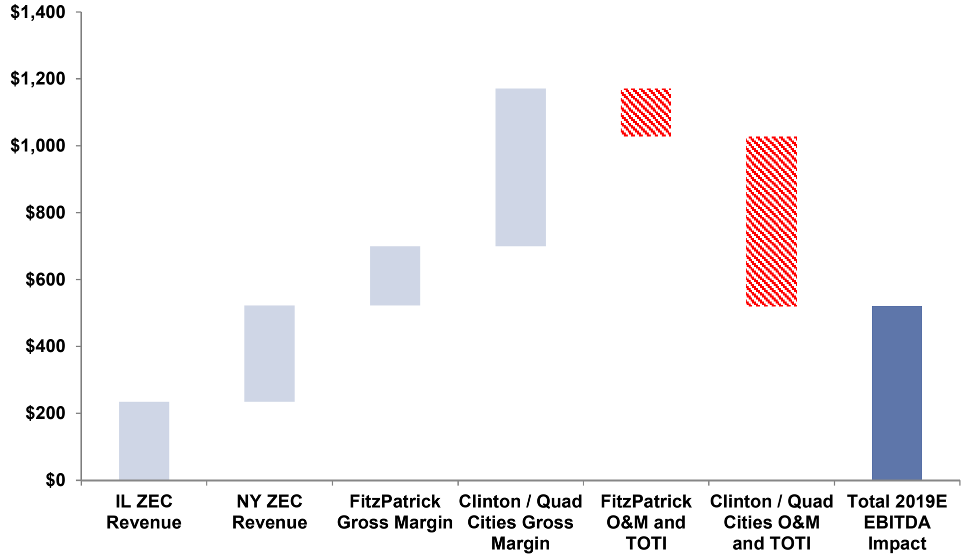


Source: FactSet, Goldman Sachs Global Investment Research.

A potential loss of ZEC revenues, while not our base case, would present risk to EXC…

Key hearings present headwinds for the Zero Emission Credit (ZEC) programs that provide several EXC nuclear plants with subsidies. The ZEC program represents $522mn in additional revenue for EXC's IL and NY nuclear power plants, and we see these plants with ZECs representing close to $0.25-$0.30/share in 2019E EPS. We use 2019 as a baseline given prior assumptions on the expected, but now cancelled, early retirement of these plants. The ZEC subsidy program also ensures that several nuclear plants remain online, including James A. FitzPatrick, Nine Mile Point and Ginna in NY, as well as the Quad Cities and Clinton Power Station in IL. Combined, we see these plants as creating $500mn-$600mn in total EBITDA, with the ZEC subsidy contribution roughly $522mn of this amount.

Exhibit 3: Potential loss of the ZEC program creates headwinds of between $500-$600m in EBITDA and $0.25-$0.30 in EPS
2019E EBITDA ($m) and EPS impact from ZEC program revenues and saved retirements



Summary	2019
IL ZEC	235
NY ZEC	287
FitzPatrick ZEC	123
FitzPatrick Gross Margin (ex. ZEC)	177
Clinton / Quad Cities Gross Margin	472
Total Gross Margin	**1,171**
FitzPatrick O&M	(123)
FitzPatrick TOTI	(20)
FitzPatrick D&A	(40)
Clinton / Quad Cities O&M	(474)
Clinton / Quad Citites D&A and TOTI	(100)
EBT	**414**
Taxes	(141)
Net Income	**274**
Shares	962
EPS at Risk	**$0.28**

Source: Company data, Goldman Sachs Global Investment Research.

…but upside to consensus EPS and discounted valuation keep us sidelined

Our forecasts, which include the ZEC given the existing legislation/regulation, are above consensus – also, EXC trades at a discount. Our EPS estimates come-in 3% above consensus in 2018/2019 – and more in 2017 – which we attribute in part to assumed cost management by EXC, our power price and volume assumptions, and potential use of free cash flow for debt reduction. We still expect improving free-cash-flow for the consolidated business driven partially by strong free-cash-flow at the generation segment. Although these fundamentals and the discounted valuation for EXC appear positive, we remain Neutral as the ZEC litigation presents downside risk – we use a discount multiple of 5.25x on 2018E generation segment EBITDA in our sum of the parts to reflect this risk.

Exhibit 4: Our EXC estimates come-in above consensus…

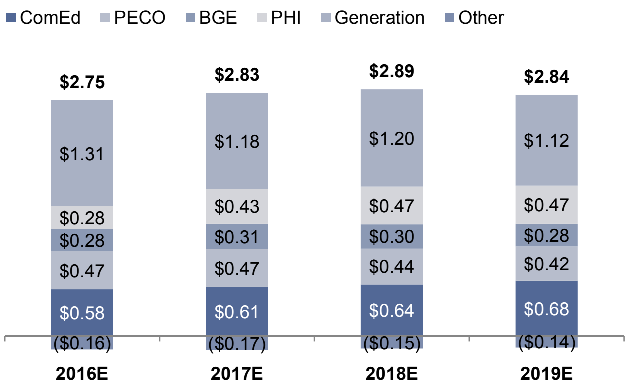
GS vs. Consensus, 2016E-2019E

	EPS Estimates		
	GS	**Cons.**	**vs. Cons.**
2016E	$2.75	$2.68	3%
2017E	$2.83	$2.63	8%
2018E	$2.89	$2.82	3%
2019E	$2.84	$2.77	3%

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 5: …although we still see a decline in EPS from 2018E to 2019E…

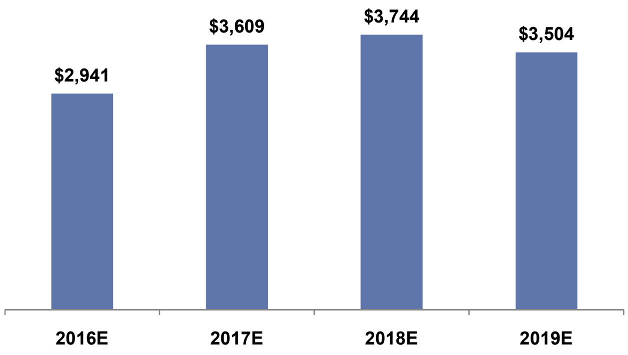
EPS by segment, 2016E-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 6: …as we expect generation earnings to decline after 2018 on lower capacity pricing and expiration of above market hedging

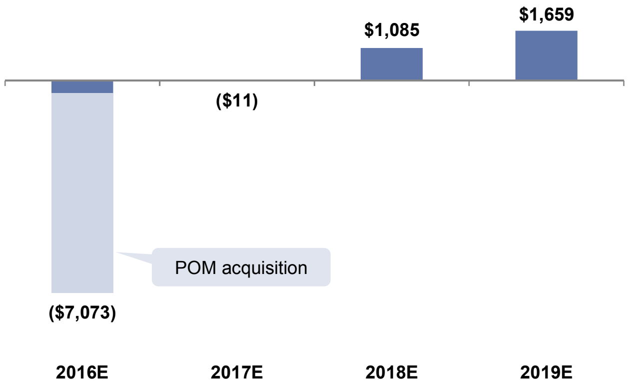
EXC Generation EBITDA ($ mn), 2016E-2019E



Source: Goldman Sachs Global Investment Research.

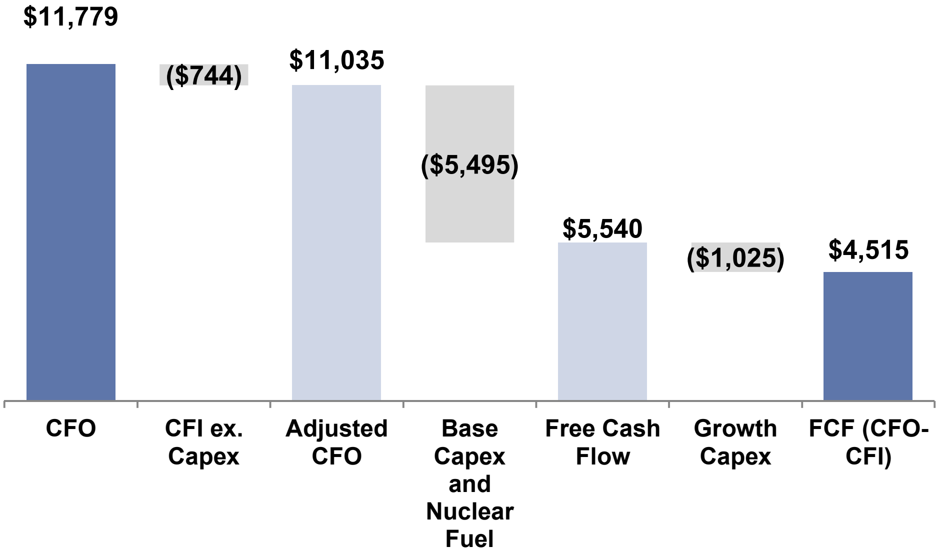
Exhibit 7: We expect improving free cash flow…

EXC consolidated Free Cash Flow (CFO – CFI) in $mn



Source: Goldman Sachs Global Investment Research.

Exhibit 8: …with strong free cash flow from Exelon Generation
EXC generation Free Cash Flow (CFO – CFI) in $mn, 2017E-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 9: We maintain our $38, 12-month price target
EXC sum-of-the-parts valuation

Sum-of-the-Parts Analysis	
Regulated Utilities	
ComEd 2018 EPS	$0.64
PECO 2018 EPS	0.44
BGE 2018 EPS	0.30
Legacy EXC Regulated Utilities 2018 EPS	**$1.38**
Target P/E multiple	16.8x
Legacy EXC Regulated Utilities Equity Value per Share	**$23**
PHI 2018 EPS	**$0.47**
Target P/E multiple	16.3x
PHI Equity Value per Share	**$8**
Exelon Generation	
Exelon Generation 2018 EBITDA ($mm)	$3,744
Target EV/EBITDA multiple	5.25x
Exelon Generation Enterprise Value ($mm)	**$19,656**
Less: Exelon Generation Net Debt ($mm, as of 9/30/2016)	(9,381)
Less: Exelon Generation Noncontrolling interest ($mm, as of 9/30/2016)	(1,432)
Exelon Generation Equity Value ($mm)	**$8,843**
Current Diluted Share Count (mm, as of 9/30/2016)	926
Exelon Generation Equity Value per Share	**$10**
Holding Company	
Exelon Holding Company 2018 EPS	($0.15)
Target P/E multiple	16.8x
Exelon Holding Company Equity Value per Share	**($3)**
Total Value per Share	**$38**
Current Price	$35.08
Current Dividend Yield	3.6%
Price Return	8.3%
Total Potential Return	**11.9%**

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 10: EXC trades at a discount to peers, but we remain Neutral as ZEC litigation presents risks
Diversified Utilities comparable analysis

Diversified Utilities Comparable Analysis

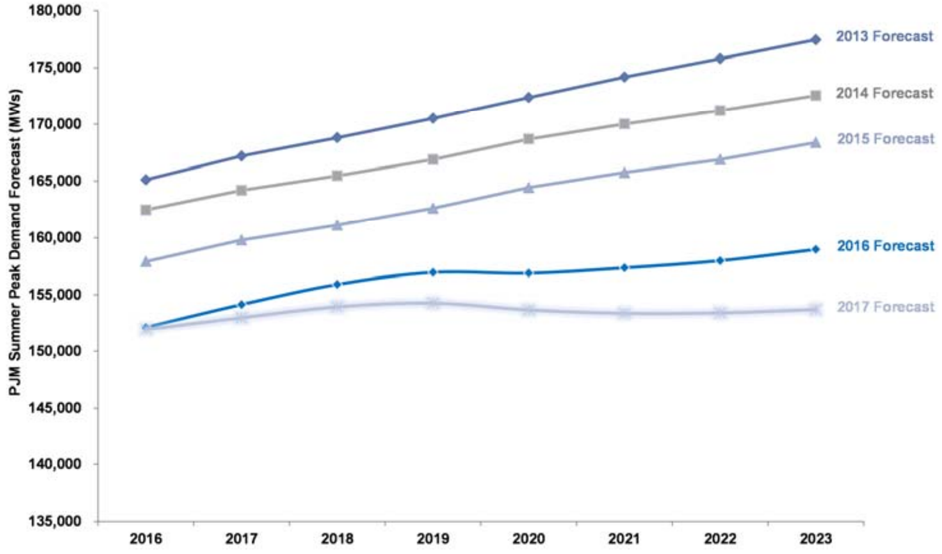
			Close	12-Mo	Tot Ret	EPS				P/E				Dividend	Dividend
	Ticker	Rating	01/27/17	Px. Tgt	to Target	2016	2017	2018	2019	2016	2017	2018	2019	Yield	CAGR 2016-19E
Diversified Utilities															
CenterPoint Energy	CNP	Neutral	$26.06	$24	(4%)	$1.14	$1.28	$1.37	$1.44	22.9x	20.4x	19.1x	18.1x	4.0%	5.0%
Dominion Resources	D	Neutral	$75.52	$77	6%	$3.88	$3.79	$4.21	$4.32	19.5x	19.9x	17.9x	17.5x	3.7%	8.0%
Entergy	ETR	Buy	$70.55	$82	21%	$7.17	$4.54	$4.55	$5.03	9.8x	15.6x	15.5x	14.0x	4.9%	3.7%
Exelon	EXC	Neutral	$35.08	$38	12%	$2.75	$2.83	$2.89	$2.84	12.8x	12.4x	12.1x	12.3x	3.6%	2.5%
FirstEnergy	FE	Neutral	$29.99	$34	18%	$2.73	$2.71	$2.46	$2.53	11.0x	11.1x	12.2x	11.9x	4.8%	1.3%
NextEra Energy	NEE	NR	$121.37	--	--	$6.44	$6.61	$7.09	$7.46	18.8x	18.4x	17.1x	16.3x	2.9%	11.7%
Public Service Enterprise Group	PEG	Buy	$43.06	$48	15%	$2.94	$2.99	$3.10	$3.07	14.6x	14.4x	13.9x	14.0x	3.8%	4.5%
Sempra Energy	SRE	Neutral	$101.44	$106	7%	$4.69	$5.14	$5.66	$7.09	21.6x	19.7x	17.9x	14.3x	3.0%	9.0%
Diversified Utilities Mean					**11%**					**16.4x**	**16.5x**	**15.7x**	**14.8x**	**3.8%**	**5.7%**
Diversified Utilities Median					**11%**					**16.7x**	**17.0x**	**16.3x**	**14.2x**	**3.8%**	**4.8%**
Merchant Generation names (PEG, ETR, FE, EXC)															
Diversified Utilities / Merchant Generation Mean					**17%**					**12.1x**	**13.3x**	**13.4x**	**13.1x**	**4.3%**	**3.0%**
Diversified Utilities / Merchant Generation Median					**17%**					**11.9x**	**13.4x**	**13.0x**	**13.2x**	**4.3%**	**3.1%**
Infrastructure names (CNP, D, NEE, SRE)															
Diversified Utilities / Infrastructure Mean					**3%**					**20.7x**	**19.6x**	**18.0x**	**16.5x**	**3.4%**	**8.4%**
Diversified Utilities /Infrastructure Median					**6%**					**20.5x**	**19.8x**	**17.9x**	**16.9x**	**3.4%**	**8.5%**

Source: FactSet, Goldman Sachs Global Investment Research.

PJM parameters due in late January could also act as a near-term negative catalyst for EXC

EXC's power generation segment remains heavily exposed to PJM and the upcoming PJM parameter release could prove neutral or bearish. PJM releases preliminary parameters for its May capacity auctions on January 31. We estimate, given PJM again reduced its demand forecast earlier in January 2017, that this detailed release could prove either neutral or modestly bearish. With EXC delivering almost 35%-45% of annual EPS from its generation segment, investors could see this as a bearish sign for the upcoming auction, which impacts 2020-2021 capacity revenues.

Exhibit 11: PJM lowered its peak demand forecast again for this year's auction
PJM peak MW demand forecast by year



Source: PJM Interconnection LLC, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

We, Michael Lapides, Daniel Yu, CFA, David Fishman, Dylan Campbell and Siddharth Verma, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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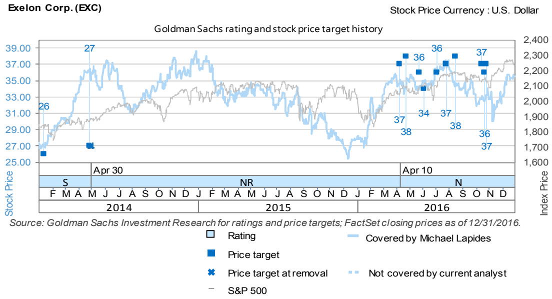

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Dynegy Inc. / TOP PICK Exelon Corp.

PJM and ISO-NE Capacity Auctions

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 14.00
Price (01-Feb-2017): USD 9.32
Potential Upside/Downside: 50%
Tickers: DYN

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 40.00
Price (01-Feb-2017): USD 35.45
Potential Upside/Downside: 13%
Tickers: EXC

PJM Released Planning Parameters on February 1

We See EMAAC and ComEd Breaking Out From RTO. PJM released the planning parameters for the upcoming Reliability Pricing Model (RPM) capacity auction in May. The net cost of new entry (Net CONE) stayed relatively flat in the three regions at $293/MW-day, $283/MW-day, and $330/MW-day this year versus $299/MW-day, $284/MW-day, and $328/MW-day last year for the RTO, EMAAC, and ComEd regions respectively. Drivers we see for this year's auction price versus last year are the move to 100% capacity performance from 80%, a 2.1% reduction in PJM's demand forecast, lower CETO/CETL ratios year on year in EMAAC and ComEd, net MWs between retirements and new build, and the required balancing of demand response (DR) resources in summer with a winter resource. This DR balancing requirement may push DR out of EMAAC and into RTO, shifting EMAAC pricing higher and RTO pricing lower all else equal. Companies with sensitivity to the capacity auction outcome include: DYN, NRG, CPN, AES, FE, EXC, and PEG.

Our predicted ranges for the 2020/21 Capacity Auction to be conducted in May are provided in the table below. The PJM planning parameters can be found on PJM's website at http://www.pjm.com/markets-and-operations.aspx.

Figure 1
RPM Capacity Auction Predictions

$/MW-day	RTO		EMAAC		COMED	
	Low	High	Low	High	Low	High
2019/20 Price	**$100**	**$100**	**$120**	**$120**	**$203**	**$203**
100% CP	30	60	35	70	0	10
Net CONE Chgs	-5	0	-1	-1	1	1
Lower demand	-15	-15	-15	-15	-15	-15
CETO/CETL Chg	0	0	0	20	0	20
Net MWs	-12	0	0	10	-20	-10
DR Shift	-10	0	10	10	0	0
2020/21 Price	88	145	149	214	169	209

2020/21 Prediction (Rounded)	**$90**	**$150**	**$150**	**$210**	**$150**	**$210**
Midpoint	**$120**		**$180**		**$180**	

Source: PJM Planning Parameters, Barclays Research Estimates

ISO-NE Capacity Auction for FCM11 on Monday 2/6

We See Maine and SEMA Breaking out From Rest of Pool. The New England Independent System Operator (ISO-NE) will hold their 11th Forward Capacity Market (FCM11) auction on Monday February 6th. Last year the auction cleared at $7.03/kw-month. We expect this year that Maine and Southeastern Massachusetts (SEMA) could break out at different pricing than the rest of pool. Our predictions are driven by higher Net CONE ($11.64/kw-month vs. $10.81/kw-month last year), higher MWs of capacity resources, and lower demand. Companies with sensitivity to the New England capacity auction include: CPN, D, DYN, EMA.TO, EXC, NEE, NRG, and PEG.

Our predictions are provided in Figure 2 below. The planning parameters for the FCM11 auction can be found on the ISO-NE website at https://www.iso-ne.com/markets-operations/markets/forward-capacity-market.

Figure 2

ISO-NE FCM11 Capacity Auction Prediction

$/kW-month	Cleared '19/20	Predicted '20/21
Maine	$7.030	$7.00 - $7.50
SEMA	$7.030	$7.00 - $7.50
Rest of Pool	$7.030	$6.50 - $7.00

Source: ISO-NE, Barclays Research Estimates

COMPANY NOTE

Company Update

USA | Energy | Electric Utilities

February 9, 2017

Jefferies

EQUITY RESEARCH AMERICAS

Exelon (EXC)

Boston CCGT Party?

BUY
Price target $39.50
Price $35.23^

Key Takeaway

EXC reported solid 4Q earnings of $0.44 vs Street and Jef at $0.45 driven by improvement at the utilities and ExGen. We continue to like EXC and were surprised at the stock performance today given 2017 guidance ($2.50-$2.80) was in line with Consensus ($2.64). Investors seemed to focus on the delays with the sale of non-core assets such as the Mystic CCGT and Renewables JV. Also of concern was the BAT tax impact on nuclear fuel.

We were surprised at the underperformance of the stock today with investors pointing to 1) delays in the sale of non-core assets such as the 1,700 MW Mystic CCGT located in Boston and Renewables JV, 2) was hoping for more color on the impact of the tax reform although we felt EXC did a solid job given all the proposals (we believe tax relief is more of a 2018 event which will align it with the Congressional mid-term elections), and 3) a whisper 2017 number that had consensus at the low end of guidance.

Sale of Non-core assets - At EEI management was guiding to a Mystic sale in 1Q and although we still have time left we don't think a delay changes the value proposition that EXC is cheap stock.

Impact of tax proposals will take time - Given all the proposals with all the different tax plans we believe management provide ample detail and expect more granularity once a final tax proposal is voted on. Until then its just noise.

2017 guidance was spot-on to Consensus - With guidance at $2.50-$2.80 and the Street at $2.64 we never really expected an upside surprise given the company still has to resolve 4 rate cases and doesn't have a full year benefit from the ZECs. The court challenge to the NY ZEC program has been fully briefed and management expects it to be dismissed. If the court were to hear the challenge a trial would start in 2Q with a final decision in the summer.

Springtime for Fitzpatrick. The company expects the 838 MW Fitzpatrick nuclear plant sale to close in the spring and have included its contribution in 2017 guidance.

Valuation/Risks

Our $39.50 price target is based on P/E analysis. Taking our 2019 EPS estimate of $2.80 in conjunction with a P/E group average multiple of 14.1x results in a price target of $39.50. Based on yesterday's closing price of $35.23 this would result in a 12-month price appreciation potential of 12.1% and total return potential of 15.8% including the current yield of 3.7%. **Risks** –Risks include exposure to change in the commodity prices and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	**2016A**	*Prev.*	**2017E**	*Prev.*	**2018E**	*Prev.*	**2019E**
Cons. EPS Diluted	*2.67*	2.69	*2.61*	2.64	*2.78*	2.86	*2.64*	2.80
EPS								
Mar	--	0.68	--	--	--	--	--	--
Jun	--	0.65	--	--	--	--	--	--
Sep	--	0.91	--	--	--	--	--	--
Dec	--	0.45	--	--	--	--	--	--
FY Dec	*2.70*	2.69	--	2.60	--	2.85	--	2.80
FY P/E		13.1x		13.6x		12.4x		12.6x

Financial Summary

Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	3.7%

Market Data

52 Week Range:	$37.70 - $29.82
Total Entprs. Value (MM):	$46,652.0
Market Cap. (MM):	$32,623.0
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	926.0
Float (MM):	920.0
Avg. Daily Vol.:	6,364,705

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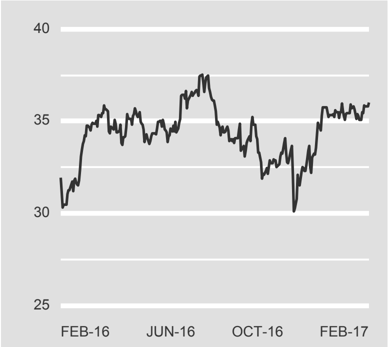
Price Performance



^Prior trading day's closing price unless otherwise noted.

Exelon Corporation

Buy: $39.50 Price Target

Scenarios

Target Investment Thesis

- Exelon should trade at a group average P/E multiple.
- Expected growth in regulated earnings and accretion from the Pepco acquisition.
- Company moves to a more regulated P/E valuation since the merger with Pepco.
- 2019 EPS $2.80; Target Multiple: 14.1x. Target Price $39.50.

Upside Scenario

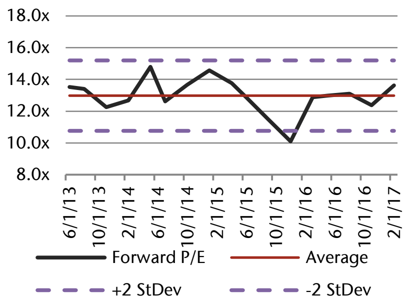
- Exelon Generation earnings increase due to improvement in gas and power prices.
- Power plant values increase due to growing short supply.
- Regulated business earns at or above its allowed ROE.
- Carbon regulation increases nuclear margins
- 2019 EPS $3.00; target multiple: 14.1x. Target Price $42.50

Downside Scenario

- Exelon EBITDA decreases due to declining gas and power prices.
- NY and IL nuclear ZEC programs are found to be in violation of power rules.
- Reinvestment opportunities become more limited.
- Regulated utilities under-earn their allowed ROE.
- 2019 EPS: $2.50; Target Multiple: 14.1x Target Price: $35.00.

Long Term Analysis

1 Year Forward P/E



Source: Facstet, Jefferies estimates

Long Term Financial Model Drivers

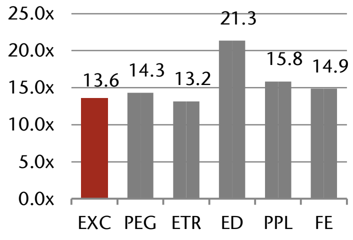
LT EBITDA CAGR	**(8.5%)**
LT EPS Growth	**4.6%**
FFO/Debt	**31%**
Equity Ratio	**52%**

Other Considerations

While we assume no benefit from ZECs or any type of carbon regulation the benefit to Exelon's 19,000 MW of nuclear plants is significant.

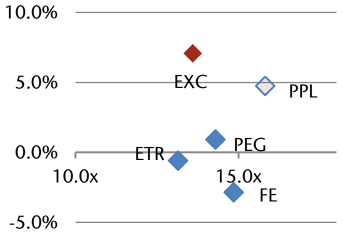
Peer Group

Group P/Es



Source: Factset, Jefferies estimates

Earnings Growth vs P/E



Source: Fastset, Jefferies estimates

Recommendation / Price Target

Ticker	**Rec.**	**PT**
EXC	**Buy**	**$39.50**
PEG	Hold	$43.50
ETR	Hold	$772
ED	Buy	$82.50
PPL	Hold	$36.50
FE	Hold	$34.50

Catalysts

- Legal challenges to Illinois and New York's ZECs.
- PJM Capacity Auction.
- Rate increases at PHI utilities.

Company Description

Exelon, incorporated in Pennsylvania in February 1999, is a utility services holding company engaged, through its principal subsidiary Generation, in the energy generation business, and through its principal subsidiaries Com Ed, PECO, DPL, ACE, Pepco, and BGE, in the energy delivery businesses discussed below. Exelon is headquartered in Chicago and trades on the NYSE under the ticker symbol EXC.

Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation.

Exelon operating EPS was $0.44 on a diluted basis, versus $0.38 for the same period a year ago, our estimate of $0.45, and Consensus of $0.45. The year-over-year improvement was driven by increased earnings at both the regulated utilities and ExGen.

Management issued 2017 guidance of $2.50-$2.80 which compares to Consensus of $2.64 and our estimate of $2.60. For 1Q17 management is guiding to $0.55-$0.65. Earnings include both the NY and IL ZEC programs (reversal of the Quad Cities and Clinton closure), Fitzpatrick ownership, and a full year of PHI contribution.

2017-2020 utility capex increased $400 million driven mainly by higher spending at ComEd as a result of the Illinois Future Energy Jobs Bill. Additionally Exelon Utilities EPS CAGR is now 6-8% off of 2017 versus a previous rate of 7-9%. The decline is due a higher base in 2017 ($1.35-$1.65) versus 2016 ($1.15-$1.45).

Management will wait on tax reform. Given all the moving pieces Exelon felt it was a little premature to comment on the Trump Proposal, House Blueprint, or Senate proposals. According to the House blueprint the change in the BAT would negatively impact the importation of nuclear fuel providing additional drag to ExGen.

Springtime for Fitzpatrick. The company expects the 838 MW Fitzpatrick nuclear plant sale to close in the spring and have included its contribution in 2017 guidance.

ZECtopia – The court challenge to the NY ZEC program has been fully briefed and management expects it to be dismissed. If the court were to hear the challenge a trial would start in 2Q with a final decision in the summer.

Improved cash flow at ExGen as a result of NY and IL ZEC helps pay down debt at both ExGen and Parent. At the analyst day management guided to $2.7 -$3.2 billion of ExGen debt reduction and have revised it to $2.8$3.2 billion of parent/ExGen debt paydown. There is a $900 million 2020 parent maturity that the company could potentially retire all or a portion of it.

Mystic and Renewable Asset Sales – Investors were looking for information on the 1,700 MW Mystic CCGT sale process that was originally expected to be completed in 1Q17 and also the monetization of the company's renewable business. The Mystic sale "continues to be underway" and the renewable process is "going well".

4Q16 operating EPS excludes $0.22 of non-recurring items as follows: a $0.05 market to market gain associated with the impact of economic hedging activities, a $0.08 benefit due to asset retirement obligations, a $0.06 loss related to sales of assets and asset impairment charges, a $0.10 loss due to the reversal of a previous booked charge associated with retiring Clinton and Quad Cities, a $0.04 loss related to merger and integration costs, a $0.07 loss associated with CENG non-controlling interest, a $0.03 loss associated with the amortization of commodity contract intangibles, a $0.02 loss related to merger and integration costs, a $0.01 loss associated with nuclear decommissioning trust investments, a $0.01 loss from the reassessment of state deferred income taxes, and

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a $0.01 loss due to a cost management program. 4Q15 operating EPS excludes $0.05 of non-recurring items primarily due to nuclear decommissioning trust investments.

Commonwealth Edison (CWE) earnings were flat at $0.09 on a year-over-year comparison. Increased capital investment and favorable weather was slightly offset by a decline in ROE. Gross margin increased 4.3% to $906 million reflecting increased electric distribution earnings from the impact of weather. Retail sales improved 3.3% but declined 0.1% on a weather-adjusted projection. Heating degree days were up 18.6% relative to the same period last year and 11.2% below normal.

Operating income increased 0.5% to $218 million due to greater gross margin reflecting the impact of increased capital investment and weather. Operating and maintenance expense increased 3% to $416 million and depreciation expense grew by 12.3% to $201 million due to greater net plant. Earnings declined 6.9% to $81 million driven primarily by higher interest and tax expense. The effective tax rate for the quarter was 41.7% versus 38.3% last year.

PECO earnings increased by $0.01 to $0.10 due to weather and new electric rates. The principal drivers for the year-over-year change were weather, contributing $0.02, and new electric rates which contributed $0.01 to the quarterly improvement. Gross margin grew by 13.2% to $463 million due to new electric rates at PECO. Electric sales versus 4Q15 improved 4.6% but declined 1.3% on a weather adjusted basis. Gas sales grew by 26.1% as compared to 4Q15 but were down 1.3% on a weather-adjusted basis. Heating degree days were up 45.3% versus the same period a year ago but declined 12.7% relative to normal.

Operating Income improved by 19.5% to $153 million due to greater gross margin. Operating and maintenance expense grew 10.3% to $203 million and depreciation expense increased 11.3% to $69 million. Earnings increased by 19.0% to $94 million due to greater operating income offset by higher tax and interest expense. The effective tax rate during the quarter was 24.2% versus 21.0% last year.

BGE earnings improved by $0.03 to $0.11 during the quarter. The principal drivers of the year-over-year change were new rates effective June 2016. Gross margin grew by 7.1% to $512 million based on higher rates.

Operating income increased 34.0% to $193 million driven by greater gross margin and reduced O&M expense. O&M expense declined 21.1% to $146 million due to decreased uncollectible accounts expense and the settlement of the Baltimore City conduit fee dispute. Depreciation expense rose 22.3% to $115 million driven by increased amortization due to the initiation of cost recovery of the AMI programs. Earnings increased 41.9% to $105 million due to greater operating margin. The effective tax rate during the quarter was 38.6% versus 39.3% last year.

PHI earnings added $0.05 to the quarterly improvement with no contribution in 2015. The company closed on the PHI transaction in 2016 and is guiding to 2017 EPS contribution of $0.30-$0.40.

Earnings at Exelon Generation increased $0.02 to $0.17 during the quarter mainly due to fewer nuclear outage days (4Q16: 103 days vs. 4Q15: 124 days). Gross margin improved by 3.5% to $2,160 million which was driven by greater nuclear and fossil output coupled with the Ginna Reliability Support services Agreement. Partly offsetting the improvement in gross margin were lower energy prices. Nuclear generation improved 2.3% to 44.83 million MMh with NY nuclear production declining

0.7% and Mid-Atlantic/Mid-West output increasing 2.6%. Operating income increased 20.2% to $304 million driven by greater gross margin offset by higher depreciation expense. Depreciation expense grew by 6.8% to $299 million due to increased nuclear decommissioning amortization. Net income rose by 14.1% to $162 million driven by greater operating income partially offset by higher tax expense. The effective tax rate during the quarter was 38.6% versus 40.1% last year.

The company's Other business segment declined by $0.04 to a loss of ($0.08).

We are maintaining our 2017 EPS estimate of $2.60 which compares to guidance of $2.50-$2.80. Earnings include both the NY and IL ZEC programs, Fitzpatrick ownership, and a full year of PHI contribution. Management issued segment guidance of: ComEd $0.60-$0.70, PECO $0.40-$0.50, BGE $0.25-$0.35, PHI $0.30-$0.40, ExGen $1.05-$1.15, and parent drag of $0.10-$0.30.

We are maintaining our 2018-19 EPS estimates of $2.85 and $2.80, respectively.

Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2015A	**2016A**	**2017E**	**2018E**	**2019E**
PECO	$639	$789	$807	$825	$841
CWE	1,046	1,237	1,371	1,411	1,425
BGE	580	573	587	635	672
PEPCO		321	384	462	515
DPL		187	209	262	295
ACE		142	155	194	189
Adjustment					
Energy Delivery	**2,265**	**3,248**	**3,513**	**3,789**	**3,937**
Genco	2,176	2,224	1,854	2,038	1,827
Corporate	(8)	(8)	(8)	(8)	(8)
Earnings on Cash	105		63	41	37
Reconcile	68	(45)	65	(40)	(30)
EBIT	**$4,606**	**$5,419**	**$5,487**	**$5,821**	**$5,763**
EBITDA	$5,895	$7,624	$7,830	$8,318	$8,427
MIPS Obligation	0	0	0	0	0
Capitalized Interest	0	0	0	0	0
Long-Term Interest Expense		(1,674)	(1,786)	(1,690)	(1,687)
Income Before Taxes	**$3,508**	**$3,744**	**$3,701**	**$4,130**	**$4,076**
Income Taxes	(1,215)	(1,287)	(1,273)	(1,416)	(1,399)
Minority Interest/preferred	(13)	(13)	(13)	(13)	(13)
Wind PTC	50	51	52	53	53
Net Income	**$2,330**	**$2,496**	**$2,466**	**$2,754**	**$2,718**
Preferred Dividends					
Earnings for Common	**$2,330**	**$2,496**	**$2,466**	**$2,754**	**$2,718**
Non-Recurring Items					
Merger Cost to Achieve	0	0	0	0	0
Total Non-Recurring	(100)	0	0	0	0
Reported Earnings	2,230	2,496	2,466	2,754	2,718
Earnings Per Share	**$2.51**	**$2.69**	**$2.60**	**$2.85**	**$2.80**

Source: Jefferies estimates, company data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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Recommendation Distributed	, 00:00 ET. February 9, 2017

Company Specific Disclosures

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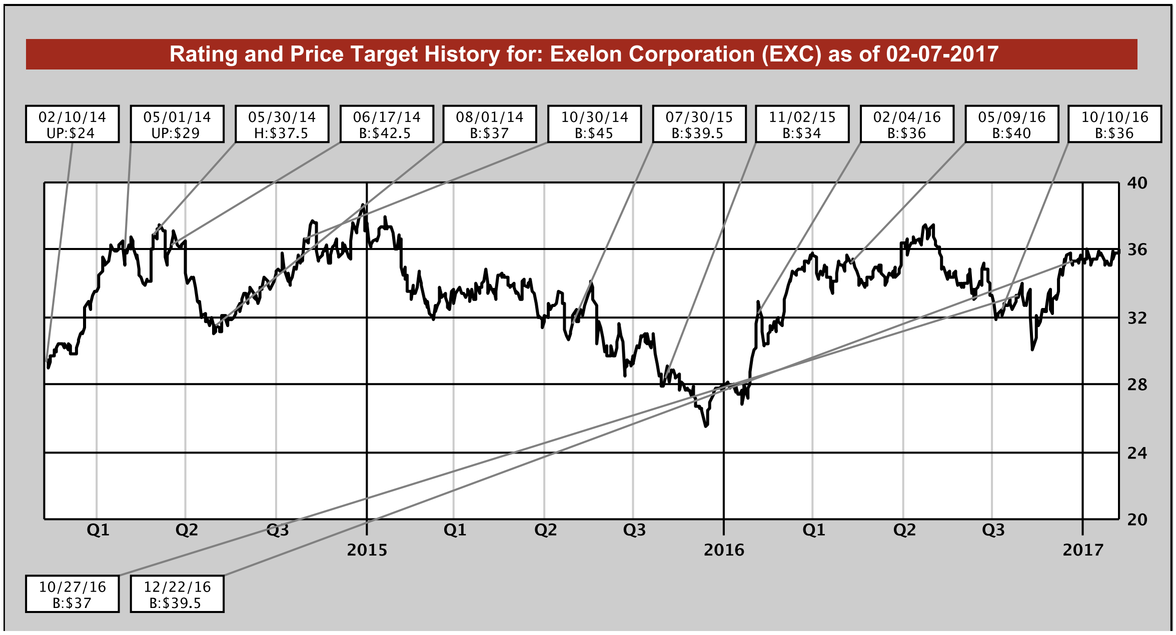
Other Companies Mentioned in This Report

- Consolidated Edison Inc. (ED: $75.25, BUY)
- Entergy Corporation (ETR: $71.40, HOLD)
- Exelon Corporation (EXC: $35.23, BUY)
- FirstEnergy Corp. (FE: $30.04, HOLD)
- PPL Corp. (PPL: $35.65, HOLD)
- Public Service Enterprise Group Inc. (PEG: $43.54, HOLD)


Rating and Price Target History for: Exelon Corporation (EXC) as of 02-07-2017

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1111	50.71%	332	29.88%
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February 8, 2017

WELLS FARGO SECURITIES

Equity Research

Exelon Corporation

EXC: Solid Results & Outlook--Reiterate Outperform

Outperform

Sector: Diversified Electric Utilities
Market Weight

- **Summary.** We reiterate our Outperform rating and nudge up our valuation range to $40-41/share from $39-40/share. We viewed the Q4 results and updated outlook as generally positive (both rate base growth and ExGen free cash flow prospects were modestly higher). In addition, the key factors underpinning our positive thesis remain intact including above average rate base & EPS growth for utility operations and increasing state/regulatory support for the non-regulated nuclear generation fleet. Our 17-20E EPS are $2.67, $2.80 (vs. $2.78 before), $2.70 & $2.70.
- **EPS Outlook.** EXC established '17 EPS guidance of $2.50-2.80, which was in-line with our estimate of $2.67 and the consensus estimate of $2.64. In addition, mgmt. updated the '17-20 rate base outlook, which resulted in a $200M net increase to projected '20 year-end rate base. The net change reflects a positive impact of $800M at ComEd driven by energy efficiency (EE) – under the recently passed Future Energy Jobs Bill, ComEd is now able to earn a return on EE spend – partially offset by lower projected rate base for PHI and PECO (due to in-service date timing as opposed to lower capex). We project '17-20 Utility/Parent annual EPS growth of 8% off of the 16A Utility/Parent EPS of $1.41 – our 20E EPS for Utility/Parent is $1.92, which is near the mid-point of EXC's $1.75-2.05 guidance.
- **ExGen Thoughts.** We continue to believe EXC's shares do not adequately reflect the value of the company's nuclear fleet. Our positive thesis is predicated on our assessment that states will step in to provide incentives to keep a large percentage of EXC's nuclear units running should they become economically distressed. To that end, the Zero Emission Credit (ZEC) programs approved in NY and IL are clearly supportive of our thesis and other states (CT, OH, NJ & PA) could consider similar mechanisms in the future. In the near-term, we will be keenly interested in the pending legal challenge to the NY program – a federal district court could rule on EXC's motion to dismiss in Q1'17. The case boils down to if NY has the right to incent nuclear generation for a justifiable public policy reason (environmental/carbon free resource) or does the ZEC program represent an impermissible state over-reach into the federally regulated wholesale power market?
- **Tax Reform.** EXC indicated that the EPS impact of potential federal tax reform will depend on what is ultimately passed. A lower corporate tax rate should be a modest overall positive but other items, such as a border tax adjustment, could offset the lower rate (ExGen imports nuclear fuel).

Valuation Range: $40.00 to $41.00 from $39.00 to $40.00

Our $40-41/sh valuation range is premised on a sum-of-the-parts analysis (1) Utility & Parent value of $30/sh (based on a P/E multiple of 17.5-18.0X our 2018E of $1.70) and (2) $10-11/sh for ExGen using a DCF analysis. Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

Investment Thesis:

Our Outperform rating is largely premised on our belief that the share price undervalues ExGen's nuclear fleet. Other positive features include above average utility rate base growth prospects and strong nuclear operational track record.

Earnings Estimates Revised Up

	2016A	2017E		2018E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	$0.68	$0.60		NE	
Q2 (June)	0.65	0.67		NE	
Q3 (Sep.)	0.91	0.95		NE	
Q4 (Dec.)	0.44	0.45		NE	
FY	$2.68	$2.67	NC	**$2.80**	**$2.78**
CY	$2.68	$2.67		$2.80	
FY P/EPS	13.1x	13.2x		12.6x	
Rev.(MM)	$31,360	$26,513		$27,177	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ⚑ = Company is on the Priority Stock List

EPS from continuing operations.

Ticker	EXC
Price (02/08/2017)	$35.20
52-Week Range:	$29-38
Shares Outstanding: (MM)	923.3
Market Cap.: (MM)	$32,500.2
S&P 500:	2,295.29
Avg. Daily Vol.:	5,038,830
Dividend/Yield:	$1.31/3.7%
LT Debt: (MM)	$32,216.0
LT Debt/Total Cap.:	49.8%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	2.0%
CY 2017 Est. P/EPS-to-Growth:	6.6x
Last Reporting Date:	02/08/2017 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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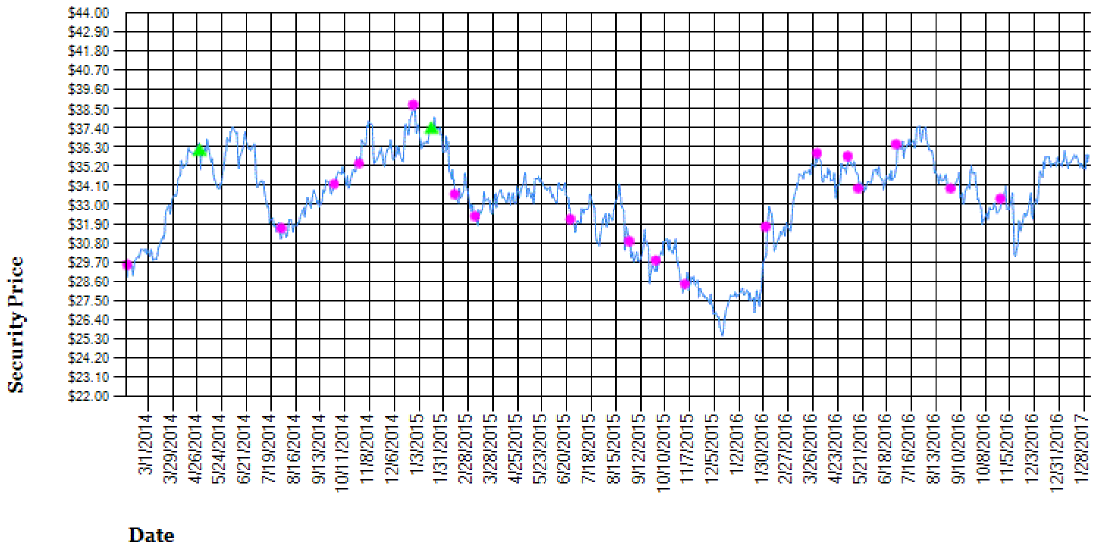
Company Description:

Exelon Corporation was formed in October 2000 through the merger of Unicom, which was the parent company of Commonwealth Edison (ComEd) and PECO Energy (PECO). The company's business segments include independent power production (Exelon Generation) and Energy Delivery (ComEd and PECO). Exelon Generation owns approximately 25,000 MW of unregulated electric generating capacity, primarily located in Illinois and Pennsylvania. The company's 17,000 MW nuclear fleet is the largest in the nation. Generation currently accounts for approximately 70% of EXC's overall earnings. The Energy Delivery businesses serve roughly 3.8 million electric distribution customers in Northern Illinois (ComEd) and approximately 1.6 million electric and 0.5 million natural gas distribution customers in Southeastern Pennsylvania (PECO).

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	2/4/2014		Kalton			
	2/4/2014	NA	3	24.00	25.00	28.91
●	2/7/2014	29.49	3	26.00	27.00	29.44
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61
●	3/31/2016	35.86	1	39.00	41.00	35.86
●	5/6/2016	35.68	1	39.00	40.00	35.68
●	5/18/2016	33.85	1	42.00	43.00	33.85
●	6/30/2016	36.02	1	43.00	44.00	36.36
●	8/30/2016	33.69	1	42.00	43.00	33.81
●	10/26/2016	33.26	1	39.00	40.00	33.26

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ☐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

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3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 8, 2017

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KeyBanc
Capital Markets

Alert

February 8, 2017

Energy: Electric Utilities

NYSE: EXC

Exelon Corporation

EXC - ALERT: 4Q16 Earnings Results and Guidance Aligned with Views

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Key Investment Points

February 7, 2017 Close: $36.01

4Q16 Ongoing EPS: $0.44 vs. $0.38 in 4Q15/Consensus of $0.45/KBCM of $0.42

Initial Take: We expect a neutral response with the in line quarter and newly issued 2017 guidance aligned with views.

2016 KBCM EPS Estimate: $2.65 (Consensus: $2.68)

2017 KBCM EPS Estimate: $2.65 (Consensus: $2.64)

Guidance: Exelon introduced 2017 EPS guidance of $2.50-$2.80 and 1Q17 guidance of $0.55-$0.65

Highlights:

- Relative to our estimate, the Generation segment posted improved results vs. our forecast of flattish earnings.
- Generation segment ongoing earnings increased $20 million ($162 million vs. $142 million) due to lower nuclear outage days, improved gas portfolio results, Ginna support agreement and the addition of ConEd solutions, partly offset by lower energy and capacity prices and higher depreciation.
- ComEd ongoing results fell $6 million ($81 million vs. $87 million), due to retroactive adjustments to formula rates.
  - Heating degree days increased 18.6% compared to 4Q15 and were 11.2% below normal.
  - Deliveries increased 3.3%, while weather normalized deliveries were largely flat.
- PECO ongoing results increased $15 million ($94 million vs. $79 million), primarily due to favorable weather and increased electric distribution revenue from the Jan. 1 rate increase, partially offset by higher uncollectibles.
  - Heating Degree days were up 45.3% YOY and were 12.7% below normal.
  - Electric deliveries increased 4.6% vs. 4Q15 and were down 1.3% on a weather-normalized basis.
  - Gas deliveries increased 26.1% YOY and essentially unchanged on a weather normalized basis.
- BGE earnings increased $31 million ($105 million vs. $74 million) due to June 2016 rates and transmission revenue, lower uncollectibles and the settled Baltimore conduit fee dispute partly offset by increased amortization associated with the AMI program.
  - BGE has revenue decoupling, so weather minimally impacts earnings.
- PHI earned $42 million in the quarter.

11:00 A.M. ET Conference Call #: (800) 690-3108 ID#: 44412052

We will be focused on:

- View of the market for the Generation segment
- Sales trend and economic commentary
- Update on ConEd Solutions Business

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

Disclosure Appendix

Exelon Corporation - EXC

We have managed or co-managed a public offering of securities for Exelon Corporation within the past 12 months.

Exelon Corporation is an investment banking client of ours.

We have received compensation for investment banking services from Exelon Corporation during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

During the past 12 months, Exelon Corporation has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in Exelon Corporation.

For the three-year history represented in this chart, this stock has been rated Sector Weight.

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The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three-Year Rating and Price Target History

Rating and Price Target History for: Exelon Corporation (EXC) as of 02-07-2017

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Created by BlueMatrix

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

	KeyBanc Capital Markets		**IB Serv/Past 12 Mos.**			**Energy**		**IB Serv/Past 12 Mos.**	
Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**Count**	**Percent**	**Count**	**Percent**
Overweight [OW]	299	42.84	62	20.74	**Overweight [OW]**	27	45.00	17	62.96
Sector Weight [SW]	387	55.44	46	11.89	**Sector Weight [SW]**	33	55.00	16	48.48
Underweight [UW]	12	1.72	0	0.00	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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GUGGENHEIM People. Ideas. Success.

Exelon Corporation

EXC – Shares Sell on the News Despite Solid Outlook, Sound Balance Sheet, and Upside Growth Opportunities

February 8, 2017

Today's weak performance was a function of selling-on-the-news in our view, as many perceive EXC as an over-crowded long position; investors shouldn't overlook potential upside though – EXC remains our favored integrated utility. Shares of EXC were down 2.2% today vs. UTY up 0.9%, which in our view reflects a "sell on the news" event (similar to the last Analyst Day), despite some merit to concern around a potential border adjustment tax; and **likely overlooks potential upside presented by nuclear lifelines in PA (See notes from meetings we hosted with commissioners HERE), synergies between Fitzpatrick/Nine-Mile, accelerated de-levering with strong FCF generation, sell-down of renewables and further upside from POM coming in better than expected.** We would also note dividend growth of 2.5% vs. robust 6-8% regulated earnings growth, not to mention incremental CF visibility provided by ZECs in IL and NY – As EXC cements its earnings and CF outlook it could also re-visit its dividend growth trajectory. Reiterate BUY – good entry point given stock reaction.

We view concern around lower growth trajectory as misplaced, as the 6-8% earnings growth is off a ~20% higher base; only incremental negative data point was potential border adjustment tax on nuclear fuel and T&D components imports. We've fielded a lot of questions around the company's "lower" utility growth trajectory, which represents misplaced concerns in our view, as the 6-8% utility growth trajectory has been re-based off a MUCH higher starting point, with the mid-point of management's 2017 outlook reflecting a 19% increase over their 2016 outlook (i.e., growth trajectory is now based off $1.55 vs. $1.35). There is merit to concern around a potential border adjustment tax, which management pro-actively addressed on the call, as the company does import a significant amount of nuclear fuel at the non-regulated segment, in addition to components of T&D infrastructure at the regulated segment; that said, we have yet to see draft tax reform legislation, and it's too early to react to those concerns in our view (See note on our Guggenheim hosted tax symposium HERE). We would also remind investors that while BAT presents an incremental overhang, other parts of the EXC business should benefit from lower corp. tax rates esp. with the deregulated operations.

NOT yet factoring in potential nuclear lifelines elsewhere, or synergies between Fitzpatrick and Nine Mile. While management's outlook now incorporates CF from ZECs for nuclear in NY and IL, as well as the addition of Fitzpatrick to their portfolio, it does not yet factor in potential synergies between Fitzpatrick (which EXC is in the process of acquiring) and their existing Nine Mile facility. Management indicated they are still reviewing potential synergies - We believe synergies could be material between these two facilities, as they effectively share the same property (i.e. savings around corporate overheard, fuel mgmt.).

In-line quarter brings a transformational year to a close; management introduces a healthy 2017 outlook despite misconceived optics. EXC reported 4Q16 operating EPS of $0.44 vs. our estimate of $0.42 and consensus $0.45, bringing full-year earnings to $2.68 vs. our estimate of $2.67. Management introduced their full year 2017 outlook of $2.50-2.80 vs. our new estimate of $2.67. Q1/17 EPS guidance range of $0.55-0.65 is in-line with our new estimate of $0.59. Note the company's earnings expectations in 2017 and 2020 are both $0.05/share higher than their previous outlook.

Continued on page 2...

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EXC BUY

EARNINGS RELEASE

SHARE PRICE $36.01
PRICE TARGET $41.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2016	0.68	0.65	0.91	0.44	2.68
Prior	—	—	—	*0.42*	*2.67*
P/E					13.4x
2017	0.59E	0.54E	0.71E	0.83E	2.67E
Prior	*0.76E*	—	—	*0.66E*	*2.66E*
P/E					13.5x
2018	0.83E	0.61E	0.75E	0.67E	2.87E
Prior	*0.86E*	*0.62E*	—	*0.65E*	—
P/E					12.5x

Market Data	
Price	$36.01
52-Week Range	$29.82 - $37.70
Market Cap (M)	$33,190
Dividend	$1.28
Dividend Yield	3.6%
ADV (3 mo; 000)	6,405

Management announces further de-levering with incremental CF contributions from ZECs for nuclear in their outlook. Management's outlook now reflects not only the additional nuclear generation added to their portfolio with the acquisition of Fitzpatrick (expected to close 2Q17 with $0.05 of upside), but cash flows provided by Zero Emission Credits in IL and NY, which management plans to re-deploy toward shrinking their balance sheet; highlighting a $900mm corporate maturity in particular. Note our estimates don't incorporate ZECs for nuclear at this juncture as there is some opposition that has yet to be overcome, although we estimate annual cash contributions of ~$230-400mm in NY and ~ $220mm in IL, which is in-line with management's outlook. For additional detail see our analysis on NY ZECs HERE and IL ZECs HERE. **We also highlight that the $1.15bn equity issuance simply reflects mandatory converts, not anything incremental.**

Wrapped up a fruitful year of rate recovery, another round expected at PHI in 2017. EXC settled several rate cases in 2016 with fairly constructive outcomes at ComEd, BGE and Pepco. Management indicated plans to close the gap between earned and allowed ROEs at PHI with another round of rate case filings in 2017 at each utilities of PHI – we model lower lag through 2020 at PHI as we note that gap between earned and allowed ROEs at PHI could be an opportunity although could be a challenge to close in the NT. As a reminder, current active rate cases include: (1) Washington D.C.: $82mm electric distribution revenue ask with 10.6% ROE – final decision due 07/2017; (2) Delaware: 63mm electric revenue ask and (3) $22mm gas revenue ask, with 10.6% ROE - decision by 05/2017; (4) Maryland: $82mm electric distribution revenue ask with 10.6% ROE – final decision due 07/2017.

Valuation

Our $41 price target is based on a sum-of-the-parts analysis. We assign ~$17/share for ExGen using a 7x weighted average EV/EBITDA applied to ExGen's various assets. We assign $29/share for the regulated utilities combined based on our 2018E EPS of $1.86 applied to a 15.5x regulated utility multiple. Subtracting out ~$5 in parent drag, we arrive at our 12-month price target.

Risks

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

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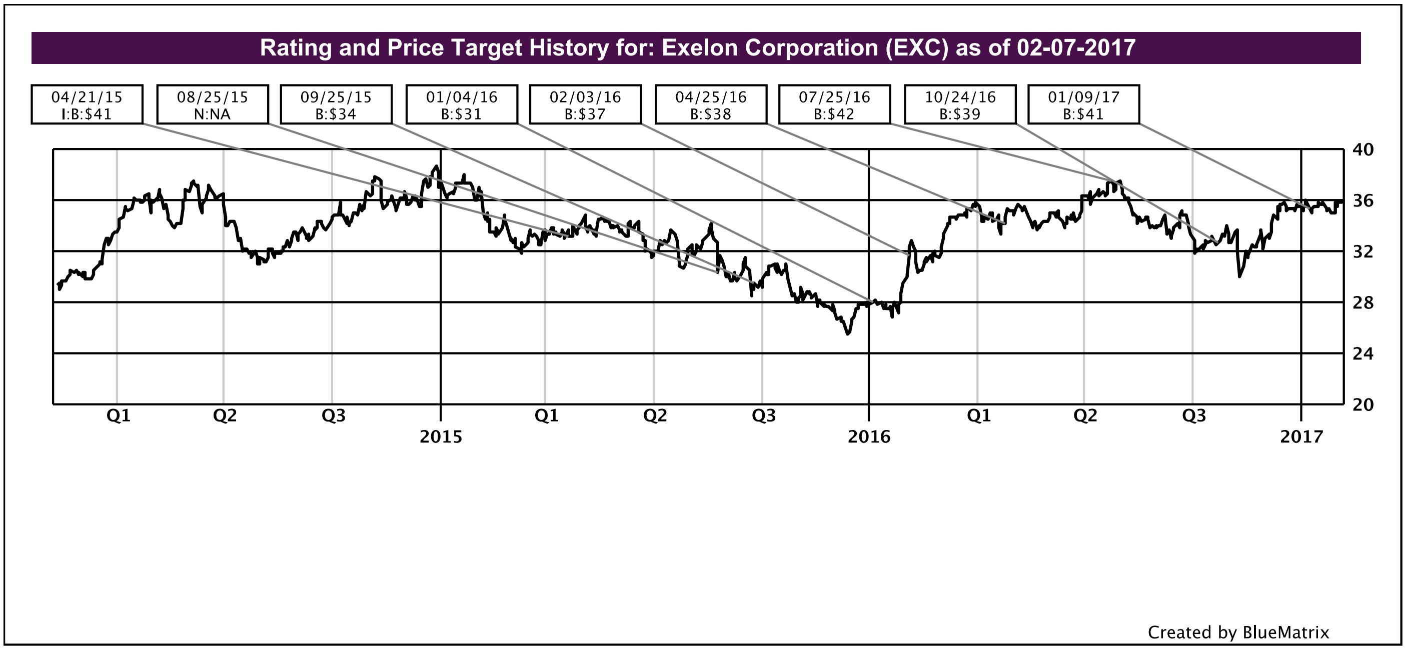
Rating and Price Target History for: Exelon Corporation (EXC) as of 02-07-2017

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

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SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Neutral	112	36.84%	6	5.36%
Sell	2	0.66%	0	0.00%

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Bank of America Merrill Lynch

Exelon

4Q16 delivers solid update as expected; potential border taxes add a new data point

Maintain Rating: NEUTRAL | PO: 37.00 USD | Price: 35.23 USD

Equity | 08 February 2017

Border taxes could be a mixed bag for Exelon & peers

Exelon commented on potential border tax adjustment during its earnings call – the first utility under our coverage to do so. First, the company noted regulated distribution equipment costs, such as transformers, could become more expensive from a border tax, and would put higher bill pressure on ratepayers. Second, it noted nuclear fuel costs could marginally escalate as a portion is typically internationally sourced. Our thoughts on this are as follows:

a) On the positive side, if border taxes are enacted, rate base growth projections could be partly higher, depending on what proportion of regulated capex consists of internationally-sourced parts. We have not yet conducted an analysis of this, but at this stage we would view this as an industry-level potential positive, not just an Exelon positive. Given Exelon's business mix, it would at first glance likely benefit Exelon less so than other more purely regulated utilities.

b) Also on the positive side, Canadian electric imports could become more expensive, particularly in New England and New York. In theory this should marginally help ExGen supply resources in those regions.

c) On the negative side, deregulated nuclear fuel costs could be marginally higher and could impair ExGen gross margins. Nuclear fuel costs consist of the raw uranium (about 20% of the total fuel cost), plus the cost of enrichment. At this stage, it seems likely the uranium raw fuel costs would be higher due to border taxes, but it is unclear to what extent fuel enrichment costs are derived from overseas sources.

d) Also on the negative side, nuclear maintenance costs would likely be higher and potentially impair ExGen cash flows to some extent. Exelon has recently updated major big-ticket nuclear items (steam turbines for example) that could help mitigate against potential border tax effects on maintenance spending at ExGen.

We have yet to quantify any of these considerations. But, we believe utility tax policy analysis has largely ignored border taxes, making this an area of future analytical study.

Slight miss on 4Q16; slight beat on 2017 EPS guidance

Exelon reported 4Q16 EPS of $0.44, slightly below both our and Street's estimates of $0.46 and $0.45, respectively. The company also provided 2017 EPS guidance with a midpoint of $2.65, which is slightly ahead of Street's estimate of $2.64. In addition, the company raised both the 2017 and 2020 midpoints by $0.05, accounting for higher rate base growth trajectory for ComEd. Overall, we saw the earnings release as largely in line with expectations and the revised outlook as a fundamentally solid development. That said, we believe expectations were high that the addition of ZECs and FitzPatrick to ExGen and increased energy efficiency spend at ComEd would boost Exelon's earnings outlook. When the company did so, we think EXC shares sold off as investors "sold the news".

Continues to fine tune the regulateds; maintain Neutral

The improved EPS outlook continues to deliver on the regulated story, but power markets continue to dampen the overall outlook. EXC's attractive valuation offsets ExGen's structural challenges, in our view; maintain Neutral.

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Stock Data

Price	35.23 USD
Price Objective	37.00 USD
Date Established	23-Jan-2017
Investment Opinion	B-2-7
52-Week Range	29.82 USD - 37.70 USD
Mrkt Val (mn) / Shares Out (mn)	32,658 USD / 927.0
Average Daily Value (mn)	173.24 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2016E)	9.7%
Net Dbt to Eqty (Dec-2015A)	72.5%

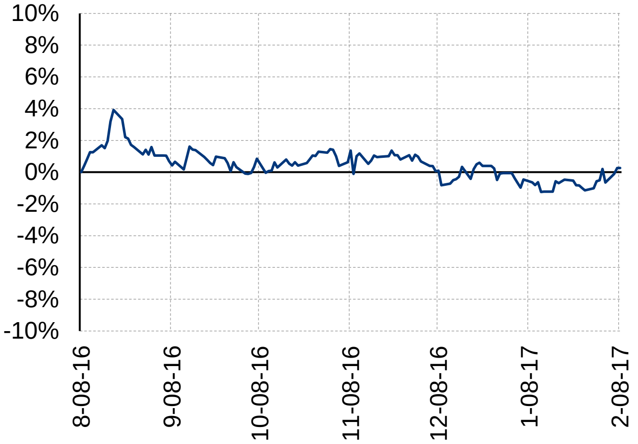
Utilities: Capacity Markets Update: Parameters prompt little change in our RPM forecast 02 February 2017

Utilities: 4Q Earnings Season Positioning 25 January 2017

Timestamp: 08 February 2017 11:00PM EST

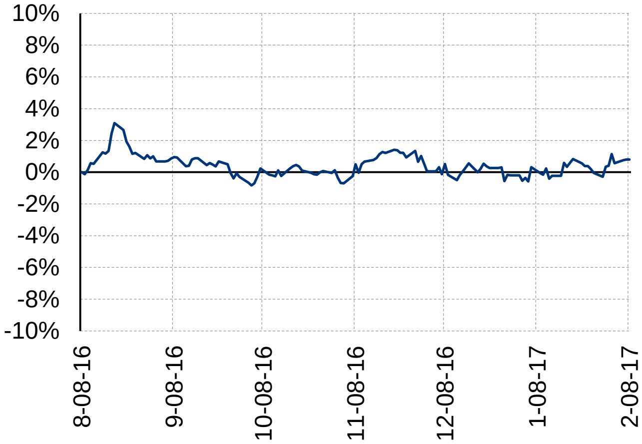
Relative Performance Charts

Chart 1: EXC relative performance vs. utilities group average



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: EXC relative performance vs. integrated electrics average



Source: BofA Merrill Lynch Global Research, Bloomberg

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Price objective basis & risk

Exelon (EXC)

Our $37/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $9 of value to ExGen and approximately $28 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2019E earnings and EBITDA. For Exelon specifically we use a target 6.8x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply our discounted price target 14.5x P/E multiple with a 0.5x premium for favorable rate case outcomes (15.0x total) to value the regulated side of the business based on our 2019 EPS estimates.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario.

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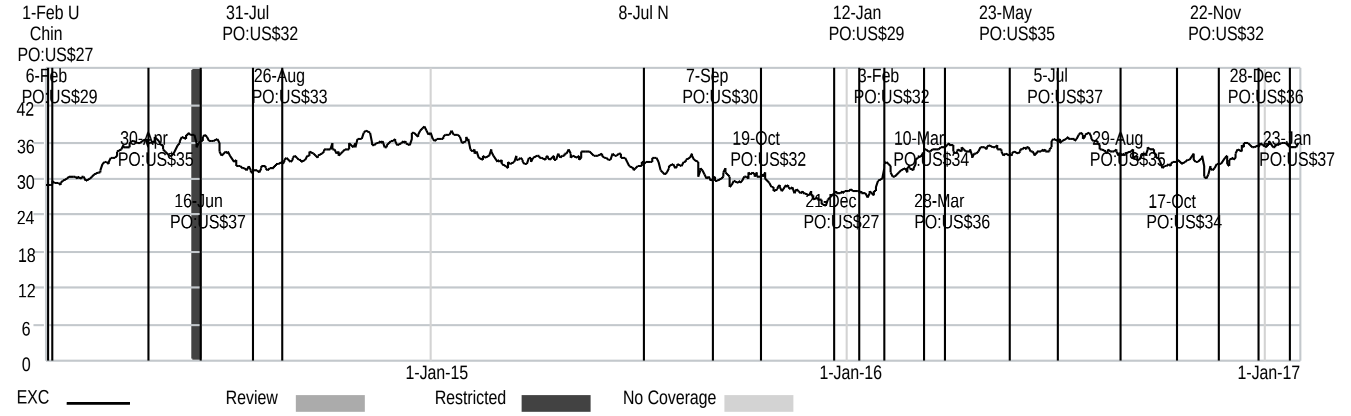
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	62	49.60%	Buy	42	67.74%
Hold	31	24.80%	Hold	24	77.42%
Sell	32	25.60%	Sell	16	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1590	50.64%	Buy	989	62.20%
Hold	702	22.36%	Hold	438	62.39%
Sell	848	27.01%	Sell	406	47.88%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Deutsche Bank
Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
8 February 2017

Results

Price at 8 Feb 2017 (USD)	35.23
Price target	41.00
52-week range	37.50 - 30.00

Profiting from the fine print

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Not much new; lack of tax granularity likely the missing ingredient

EXC missed our 4Q estimate by $0.02, while guidance for 2017 was in line ($2.50-$2.80) with a higher quality mix (more regulated, less ExGen). This also carried into the longer-term utility outlook with Illinois legislation helping drive ComEd rate base forecasts $0.8B or ~5% higher by 2020. With stronger cash flow guidance EXC now see headroom for parent de-levering once ExGen's 3.0x target is met – an incremental positive in our view. Tax reform comments were perhaps less granular than some had hoped for, hence a negative stock reaction (-300bp relative) but we continue to see EXC better positioned than levered HoldCos without a non-utility earnings component. Reiterate Buy.

ExGen update for ZECs as expected; litigation pending but in early rounds

As expected, EXC folded NY and IL Zero Emission Credits (ZECs) and the FitzPatrick acquisition into the ExGen gross margin outlook. This was more or less as expected, although overall margin was ~$300M (4%) below DBe for 2017E and ~$100M (1%) below in 2019E. Attention may now turn to pending legal challenges in NY where a federal court ruling on EXC's dismissal request may come this month. With several rounds of litigation likely – potentially as far as the Supreme Court – and EXC expected to be collecting ZECs while appeals are pending – we would not anticipate a final resolution any time soon.

Waiting for news on ExGen sales processes, other nuclear support

Other catalysts might include the possible JV which EXC is pursuing around its renewables book with CFO Thayer optimistic this will accelerate de-leveraging at ExGen. Similarly a sale process for the Mystic plant in New England is under way with "broad interest" noted. In terms of other states supporting nuclear, EXC see CT as furthest along with efforts in OH, PA and NJ at earlier stages. As for federal nuclear support, CEO Crane endorsed the concept but noted "concrete conversations" with the Administration have yet to occur.

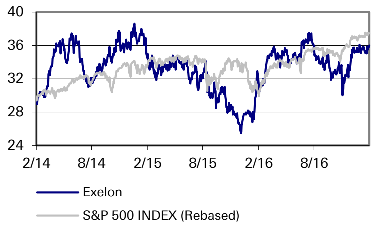
No change to bottom line estimates with several moving parts

After working (78 slides of) updated disclosures through our model, headline estimates are unchanged at $2.65, $2.95 and $2.75 for 2017E-2019E. In terms of moving parts our utility numbers are $0.04-$0.06 higher with ComEd up $0.06-$0.08 on investments in Energy Efficiency and Solar it is now allowed to rate base thanks to a less focused-on provision of the IL ZEC legislation. The offset, lower ExGen contribution and (marginally) higher parent drag. Net-net this is a slightly higher quality business mix than we had expected.

Reiterate Buy, $41 Price Target; valuation makeup skewed slightly more Utility

We value EXC using a SOTP framework in which we value the utilities at an average of 16.4x 2019E EPS (a modest premium to our regulated target of 16.0x). We value the generation and retail businesses using a 7.0x EV/EBITDA multiple on 2019. Our $41/sh Price Target is unchanged, although the makeup is now $1/sh more weighted to the utilities ($30/sh vs. $29/sh previously). Downside risks are lower-than-expected forward power prices, successful legal challenges of nuclear support in NY or IL, less de-levering and falling short of targeted ROE improvements at the underperforming POM utilities.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.4	4.7	8.9
S&P 500 INDEX	0.8	7.2	23.8

Source: Deutsche Bank

Distributed on: 09/02/2017 03:13:24 GMT

Model updated:08 February 2017

Running the numbers

North America

United States

Utilities and Power

Exelon

Reuters: EXC.N	Bloomberg: EXC UN

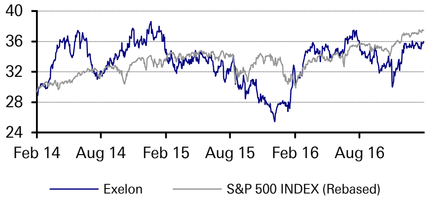
Buy

Price (7 Feb 17)	USD 36.01
Target Price	USD 41.00
52 Week range	USD 30.00 - 37.50
Market Cap (m)	USDm 34,088
	EURm 31,910

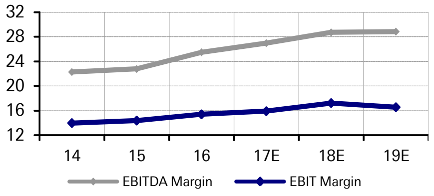
Company Profile

Exelon is a diversified utility with ownership of the largest nuclear fleet and retail services business in the U.S. and three regulated utilities serving Chicago, Philadelphia and Baltimore. EXC owns ~35,000MW of merchant generation capacity located primarily in the Midwest and Mid-Atlantic, with smaller gas-fired and nuclear assets in New England, New York, and Texas.

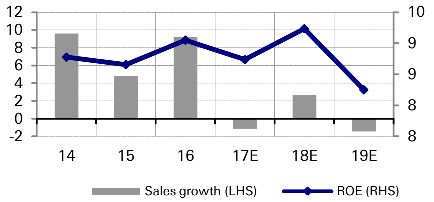
Price Performance



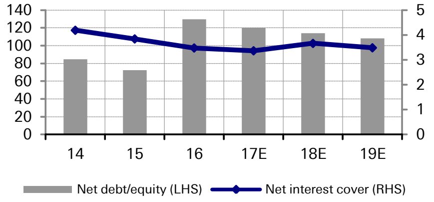
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2014	2015	2016	2017E	2018E	2019E
Financial Summary						
DB EPS (USD)	2.39	2.49	2.68	2.65	2.95	2.75
Reported EPS (USD)	2.39	2.49	2.68	2.65	2.95	2.75
DPS (USD)	1.24	1.24	1.26	1.29	1.33	1.36
BVPS (USD)	28.07	30.70	29.86	31.73	32.81	34.11
Valuation Metrics						
Price/Sales (x)	1.0	1.0	1.0	1.1	1.1	1.1
P/E (DB) (x)	14.0	12.8	13.4	13.6	12.2	13.1
P/E (Reported) (x)	14.0	12.8	13.4	13.6	12.2	13.1
P/BV (x)	1.3	0.9	1.2	1.1	1.1	1.1
FCF yield (%)	0.3	0.5	nm	nm	3.6	4.6
Dividend yield (%)	3.7	3.9	3.5	3.6	3.7	3.8
EV/Sales	1.4	1.3	1.8	1.9	1.8	1.8
EV/EBITDA	6.1	5.6	7.0	6.9	6.3	6.3
EV/EBIT	9.8	8.9	11.6	11.6	10.5	11.0
Income Statement (USDm)						
Sales	27,889	29,237	31,927	31,568	32,412	31,948
EBITDA	6,219	6,664	8,142	8,521	9,313	9,222
EBIT	3,906	4,213	4,924	5,029	5,593	5,298
Pre-tax profit	3,254	3,410	3,857	3,824	4,350	4,063
Net income	2,066	2,227	2,485	2,516	2,848	2,668
Cash Flow (USDm)						
Cash flow from operations	4,457	7,616	8,163	7,802	8,374	8,391
Net Capex	-4,358	-7,477	-8,388	-8,075	-7,125	-6,775
Free cash flow	99	139	-224	-273	1,249	1,616
Equity raised/(bought back)	0	1,900	46	1,215	40	40
Dividends paid	-1,065	-1,105	-1,167	-1,226	-1,280	-1,317
Net inc/(dec) in borrowings	2,040	4,102	2,955	835	-50	-425
Other investing/financing cash flows	-805	-412	-6,923	-12	-12	-12
Net cash flow	269	4,624	-5,314	539	-53	-99
Change in working capital	*-3,247*	*-264*	*785*	*0*	*0*	*0*
Balance Sheet (USDm)						
Cash and cash equivalents	1,878	6,502	999	1,538	1,485	1,387
Property, plant & equipment	52,087	57,439	72,151	75,680	78,031	79,828
Goodwill	2,672	2,672	6,672	6,672	6,672	6,672
Other assets	30,177	28,771	34,452	34,452	34,452	34,452
Total assets	86,814	95,384	114,273	118,342	120,640	122,338
Debt	22,272	26,319	36,755	37,590	37,540	37,115
Other liabilities	40,409	41,743	49,945	50,723	51,463	52,196
Total liabilities	62,681	68,062	86,700	88,313	89,003	89,310
Total shareholders' equity	24,133	27,322	27,576	30,032	31,640	33,031
Net debt	*20,394*	*19,817*	*35,756*	*36,052*	*36,054*	*35,728*
Key Company Metrics						
Sales growth (%)	9.6	4.8	9.2	-1.1	2.7	-1.4
DB EPS growth (%)	-4.3	4.3	7.6	-1.2	11.1	-6.7
Payout ratio (%)	51.6	49.6	46.9	48.7	44.9	49.4
EBITDA Margin (%)	22.3	22.8	25.5	27.0	28.7	28.9
EBIT Margin (%)	14.0	14.4	15.4	15.9	17.3	16.6
ROE (%)	8.8	8.7	9.1	8.7	9.2	8.3
Net debt/equity (%)	84.5	72.5	129.7	120.0	114.0	108.2
Net interest cover (x)	4.2	3.8	3.5	3.4	3.7	3.5
DuPont Analysis						
EBIT margin (%)	14.0	14.4	15.4	15.9	17.3	16.6
x Asset turnover (x)	0.3	0.3	0.3	0.3	0.3	0.3
x Financial cost ratio (x)	0.8	0.7	0.7	0.7	0.7	0.7
x Tax and other effects (x)	0.7	0.7	0.7	0.7	0.7	0.7
= ROA (post tax) (%)	2.5	2.4	2.4	2.2	2.4	2.2
x Financial leverage (x)	3.5	3.5	3.8	4.0	3.9	3.8
= ROE (%)	8.8	8.7	9.1	8.7	9.2	8.3
annual growth (%)	*-8.8*	*-1.4*	*4.6*	*-3.5*	*5.7*	*-10.7*
x NTA/share (avg) (x)	27.2	28.8	29.6	30.3	31.9	33.3
= Reported EPS	2.39	2.49	2.68	2.65	2.95	2.75
annual growth (%)	*-4.3*	*4.3*	*7.6*	*-1.2*	*11.1*	*-6.7*

Source: Company data, Deutsche Bank estimates

Quarterly Review

EXC reported Q4 Operating EPS of $0.44, $0.01 shy of consensus and $0.02 below DBe. Compared to our numbers, ComEd was light by $0.02 on a "one-time" rate adjustment for ComED's 2015 and 2016 electric distribution formula revenues. EXC's corporate segment was also $0.04 below our expectations due to a sizable donation to the corporate foundation. Partially offsetting these pressures were the PHI utilities ($0.01 better) and BG&E ($0.03 better, of which $0.02 was associated with a non-recurring city conduit fee settlement). While excluded from operating earnings, also notable in the quarter, was a $57M charge for "curtailment of generation growth and development activities", the follow through of a prior commitment to focus the bulk of growth investment at the regulated utilities.

Modeling Updates

We update our model to include EXC's latest CapEx and rate base projections by utility. The total utility rate base in 2019 is up $0.4B, with the $0.8B increase at ComEd partially offset by decreases of $0.3B at PECO and $0.1B at PHI. EXC's first round of PHI rate cases are nearing their conclusion, with decisions in DC, Maryland, and 2 in Delaware expected by mid-year. EXC has indicated it intends to file for rate increases every 12-18 months at PHI, which could mean new filings come by Q4. Importantly, 75% of EXC's planned $9B of rate base growth is already subject to trackers or formula rates where cost recovery is more expedited. We see this profile as supportive of a premium valuation when combined with superior growth and visibility plus ComEd's formulaic upside ROE leverage to higher long-term bond yields.

On the ExGen side, we update our model to include EXC's updated hedging disclosures, up 6%, 2% and 5% in 2017, 2018 and 2019 respectively. This leaves EXC over 90% hedged for 2017, more than half in 2018 and just under a third in 2019, behind ratable in those years due to potential for "fundamental upside". We also re-calibrate our expected generation forecast and update line items below gross margin as the shift in portfolio mix led to some changes.

Valuation

We value EXC's utility segment by applying a 16.5x P/E multiple (half-turn premium over our 16x target average) to our 2019 estimates for ComEd, PECO and the POM utilities, and an average multiple for BG&E. We believe POM earnings merit a premium as we anticipate faster growth at this segment as EXC closes the gap between authorized and earned returns. We also apply premiums to ComEd earnings given potential upside from higher interest rates as ComEd's ROE is set based on an annual formula directly incorporating the yield on the 30-year Treasury bond. We also give PECO a premium given a constructive regulatory backdrop. For BG&E we view the regulatory regime as average at best.

We value ExGen by applying a 7.0x EV/EBITDA multiple to our 2018 estimate. This is towards the higher end of multiples for merchant generation which reflects the longer-term visibility into a significant portion of cash flows between ZECs and capacity payments and the expected benefit to ExGen from potential corporate tax reform. In addition, EXC also has a stronger credit and lower leverage profile at ExGen than pure-play IPP peers, with a strong commitment to de-lever further over the coming years.

We continue to take a hybrid approach for the corporate / other segment. We derive a $37 price target when subtracting corporate debt as a direct offset to equity value (effectively treating parent debt as being wholly on the merchant business) while we see a $42 price target when valuing EXC's corporate earnings drag of $0.17/sh using our weighted average regulated distribution P/E multiple of 16.4x (treats parent debt as being on the utilities). Our $41 price target reflects a 25/75 weighting of these two book-end valuation approaches. Since EXC’s August analyst day we have been giving a higher weighting to Valuation B given EXC’s increasing strategic focus on the regulated utilities and ongoing commitment to de-levering at ExGen.

Figure 1: EXC Valuation

Exelon (NYSE: EXC)
Sum of the Parts Valuation

Valuation A

Business Segment	**Valuation Metric**	**2019E**	**Multiple**	**Value**
ComEd	P/E	$0.74	16.5x	11,838
PECO	P/E	$0.45	16.5x	7,195
BG&E	P/E	$0.33	16.0x	5,138
POM	P/E	$0.44	16.5x	7,075
Utility Equity Value				**31,246**
Generation / Retail / Corp	EV/EBITDA	3,044	7.00x	21,307
Less: Generation Net Debt				(8,843)
Less: Corp Net Debt				(7,510)
Non-Utility Equity Value				**4,953**
Total Equity Value				**36,199**
Diluted Average Shares Outstanding (2018E)				971
Price Target ($/sh)				**37**

Valuation B

Business Segment	**Valuation Metric**	**2019E**	**Multiple**	**Value**
ComEd	P/E	$0.74	16.5x	11,838
PECO	P/E	$0.45	16.5x	7,195
BG&E	P/E	$0.33	16.0x	5,138
POM	P/E	$0.44	16.5x	7,075
Corp	P/E	($0.17)	16.4x	(2,696)
Utility & Corp. Equity Value				**28,550**
Generation / Retail	EV/EBITDA	3,020	7.00x	21,139
Less: Generation Net Debt (2018E)				(8,843)
Non-Utility Equity Value				**12,295**
Total Equity Value				**40,845**
Diluted Average Shares Outstanding (2018E)				971
Price Target ($/sh)				**42**

Weighted Average PT (25% Valuation A, 75% Valuation B)	**41**

Source: Deutsche Bank

Financial Statements

Figure 2: EXC Income Statement

Exelon Corporation (NYSE: EXC)					
Income Statement	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Operating Revenue	29,237	31,927	31,568	32,412	31,948
Fuel & Purchased Power	(13,140)	(13,150)	(12,697)	(12,878)	(12,449)
Gross Margin	**16,097**	**18,777**	**18,871**	**19,534**	**19,499**
O&M Expense	(8,233)	(9,078)	(8,809)	(8,655)	(8,686)
Taxes & Other	(1,200)	(1,557)	(1,541)	(1,566)	(1,591)
EBITDA	**6,664**	**8,142**	**8,521**	**9,313**	**9,222**
EBITDA / Gross Margin	41.4%	43.4%	45.2%	47.7%	47.3%
Depreciation & Amortization	(2,451)	(3,218)	(3,492)	(3,720)	(3,924)
EBIT	**4,213**	**4,924**	**5,029**	**5,593**	**5,298**
Interest Income / (Expense)	(1,096)	(1,415)	(1,494)	(1,527)	(1,519)
Other Income / (Expense)	293	348	288	284	284
Earnings Before Taxes	**3,410**	**3,857**	**3,824**	**4,350**	**4,063**
Income Tax Charge	(1,163)	(1,354)	(1,295)	(1,490)	(1,383)
Effective Tax Rate	*34.1%*	*35.1%*	*33.9%*	*34.2%*	*34.0%*
Preferred Dividends	-	-	-	-	-
Minority & Other	(20)	(18)	(12)	(12)	(12)
Net Income - Operating	**2,227**	**2,485**	**2,516**	**2,848**	**2,668**
Adjustments, Net	208	(1,117)	(50)	-	-
Net Income - GAAP	**2,435**	**1,368**	**2,466**	**2,848**	**2,668**
EPS - Operating	**$2.49**	**$2.68**	**$2.65**	**$2.95**	**$2.75**
EPS - GAAP	**$2.73**	**$1.48**	**$2.60**	**$2.95**	**$2.75**
DPS - Period End Rate	$1.24	$1.27	$1.30	$1.34	$1.37
Payout Ratio	49.8%	47.4%	49.2%	45.3%	49.8%
Diluted Avg. Shares (MM)	*893*	*926*	*949*	*967*	*971*
Basic Avg. Shares (MM)	*890*	*924*	*947*	*964*	*968*
End of Period Shares (MM)	*922*	*926*	*962*	*966*	*970*
ComEd	1,732	1,985	2,222	2,405	2,531
PECO	891	984	986	1,022	1,058
BG&E	927	959	1,019	1,097	1,150
Exelon Generation	3,287	3,347	3,148	3,454	3,020
Other	(173)	867	1,146	1,334	1,464
EBITDA Total	**6,664**	**8,142**	**8,521**	**9,313**	**9,222**

Source: Deutsche Bank

Figure 3: EXC Cash Flow Statement

Exelon Corporation (NYSE: EXC) **Cash Flow Statement**	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net Income - GAAP	2,250	1,368	2,466	2,848	2,668
Depreciation & Amortization	3,987	5,142	4,546	4,774	4,978
Regulatory Assets & Liabilities	-	-	-	-	-
Non-Cash Extraordinary Items	-	(41)	-	-	-
Deferred Taxes	752	808	961	1,058	1,051
Other Operating Cash Flow	891	101	(171)	(306)	(306)
Working Capital Changes	(264)	785	-	-	-
Cash Flow From Operations	**7,616**	**8,163**	**7,802**	**8,374**	**8,391**
CFFO Excluding Working Capital	**7,880**	**7,378**	**7,802**	**8,374**	**8,391**
Capital Expenditures	(7,624)	(8,438)	(8,075)	(7,125)	(6,775)
Asset Acquisitions / Cash Received	(40)	(6,896)	-	-	-
Asset Divestitures	147	50	-	-	-
Other Investing Cash Flow	(305)	(54)	-	-	-
Cash Flows From Investing	**(7,822)**	**(15,338)**	**(8,075)**	**(7,125)**	**(6,775)**
Change in Net Debt	4,102	2,955	835	(50)	(425)
Common Stock Issued	1,900	46	1,215	40	40
Common Stock Repurchased	-	-	-	-	-
Preferred Stock Issued (Net)	-	(190)	-	-	-
Preferred Dividends	-	-	-	-	-
Common Dividends	(1,105)	(1,167)	(1,226)	(1,280)	(1,317)
Other Financing	(67)	27	(12)	(12)	(12)
Cash Flow From Financing	**4,830**	**1,671**	**812**	**(1,302)**	**(1,714)**
Other Cash Flow	-	-	-	-	-
Opening Cash & Equivalents	1,878	6,502	999	1,538	1,485
Closing Cash & Equivalents	6,502	999	1,538	1,485	1,387
Net Cash Flow	**4,624**	**(5,504)**	**539**	**(53)**	**(99)**
Unlevered Free Cash Flow	714	644	715	2,253	2,618
Free Cash Flow (Ex. Working Cap.)	256	(1,059)	(273)	1,249	1,616
FCF Per Share (Ex. Working Cap.)	$0.29	($1.14)	($0.29)	$1.29	$1.66
FCF to Equity After Dividends	(849)	(2,226)	(1,499)	(31)	298

Source: Deutsche Bank

Figure 4: EXC Balance Sheet

Exelon Corporation (NYSE: EXC)					
Balance Sheet	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
ASSETS					
Cash & Cash Equivalents	6,502	999	1,538	1,485	1,387
Fuel Inventory & Other	1,566	1,562	1,562	1,562	1,562
Accounts Receivable	4,099	5,074	5,074	5,074	5,074
Regulatory Assets	-	-	-	-	-
Other Current Assets	3,167	3,375	3,375	3,375	3,375
Total Current Assets	**15,334**	**11,010**	**11,549**	**11,496**	**11,398**
Net Property, Plant & Equipment	57,439	72,151	75,680	78,031	79,828
Long-Term Investments	639	592	592	592	592
Goodwill	2,672	6,672	6,672	6,672	6,672
Nuclear Decommissioning Funds	10,342	11,076	11,076	11,076	11,076
Regulatory Assets	6,065	10,022	10,022	10,022	10,022
Other Long-Term Assets	2,893	2,751	2,751	2,751	2,751
Total Assets	**95,384**	**114,273**	**118,342**	**120,640**	**122,338**
LIABILITIES					
Short Term Debt	533	1,367	1,367	1,367	1,367
Currently Maturing LT Debt	1,500	2,512	2,512	2,512	2,512
Accounts Payable	2,883	3,044	3,044	3,044	3,044
Regulatory Liabilities	-	-	-	-	-
Other Current Liabilities	4,202	6,035	6,035	6,035	6,035
Total Current Liabilities	**9,118**	**12,958**	**12,958**	**12,958**	**12,958**
Long Term Debt	24,286	32,876	33,711	33,661	33,236
Deferred Taxes	13,776	17,253	18,214	19,272	20,323
Asset Retirement Obligations	8,585	9,348	9,348	9,348	9,348
Pension & Benefit Reserves	5,003	5,686	5,686	5,686	5,686
Regulatory Liabilities	4,201	4,437	4,437	4,437	4,437
Other Long-Term Liabilities	3,093	4,139	3,956	3,638	3,320
Total Long-Term Liabilities	**58,944**	**73,739**	**75,352**	**76,042**	**76,349**
Minority Interest	1,336	1,459	1,459	1,459	1,459
Preferred Stock	193	-	-	-	-
Common Equity	16,349	16,404	17,619	17,659	17,699
Retained Earnings / (Deficit)	12,068	12,237	13,477	15,046	16,397
Other Comprehensive Income	(2,624)	(2,523)	(2,523)	(2,523)	(2,523)
Total Shareholders' Equity	**25,793**	**26,117**	**28,573**	**30,181**	**31,572**
Total Liabilities & Equity	**95,384**	**114,273**	**118,342**	**120,640**	**122,338**

Source: Deutsche Bank

Figure 5: EXC Credit & Other Metrics

Exelon Corporation (NYSE: EXC) **Credit & Other Metrics**	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Short Term Debt	533	1,367	1,367	1,367	1,367
Long Term Debt	25,786	35,388	36,223	36,173	35,748
Less Cash & Equivalents	(6,502)	(999)	(1,538)	(1,485)	(1,387)
Net Debt (GAAP)	**19,817**	**35,756**	**36,052**	**36,054**	**35,728**
Minority & Preferred	1,529	1,459	1,459	1,459	1,459
Shareholders' Equity	25,793	26,117	28,573	30,181	31,572
Total Capitalization	**47,139**	**63,333**	**66,084**	**67,695**	**68,759**
EBITDA - Income Statement	6,664	8,142	8,521	9,313	9,222
Net Debt / Capitalization	42.0%	56.5%	54.6%	53.3%	52.0%
Net Debt / EBITDA	3.0x	4.4x	4.2x	3.9x	3.9x
EBITDA / Interest	6.1x	5.8x	5.7x	6.1x	6.1x
Retained Cash Flow / Capex	0.9x	0.8x	0.8x	1.0x	1.0x
Recurring Net Income	2,227	2,485	2,516	2,848	2,668
Total Assets (Avg.)	91,386	109,743	116,466	119,530	121,549
Return on Assets	2.4%	2.3%	2.2%	2.4%	2.2%
Recurring NOPAT	2,776	3,195	3,326	3,677	3,495
Capital Employed (Avg.)	49,286	60,119	64,636	66,902	68,185
Return on Capital Employed	5.6%	5.3%	5.1%	5.5%	5.1%
Recurring Net Income	2,227	2,485	2,516	2,848	2,668
Shareholders' Equity (Avg.)	24,148	25,882	27,464	29,372	30,870
Return on Equity	9.2%	9.6%	9.2%	9.7%	8.6%
Book Value per Share	$27.99	$28.22	$29.69	$31.23	$32.54

Source: Deutsche Bank

Figure 6: EXC Valuation & Growth Metrics

Exelon Corporation (NYSE: EXC) **Valuation & Growth Metrics**	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Diluted EPS - Operating	$2.49	$2.68	$2.65	$2.95	$2.75
Diluted EPS - GAAP	$2.73	$1.48	$2.60	$2.95	$2.75
DPS - Period End Rate	$1.24	$1.27	$1.30	$1.34	$1.37
Payout Ratio	49.8%	47.4%	49.2%	45.3%	49.8%
Op. CFPS - Excl. Working Capital	$8.82	$7.97	$8.22	$8.66	$8.64
Free CFPS - Excl. Working Capital	$0.29	($1.14)	($0.29)	$1.29	$1.66
Pricing Date (Period End/Current)	2/8/17	2/8/17	2/8/17	2/8/17	2/8/17
Stock Price ($/Sh)	$35.23	$35.23	$35.23	$35.23	$35.23
P/E Operating	14.1x	13.1x	13.3x	11.9x	12.8x
P/E GAAP	12.9x	23.8x	13.6x	11.9x	12.8x
P/CF	4.0x	4.4x	4.3x	4.1x	4.1x
P/FCF	121.5x	(30.9x)	(121.5x)	27.3x	21.2x
P/BV	1.3x	1.2x	1.2x	1.1x	1.1x
Market Capitalization	32,464	32,605	33,904	34,045	34,186
Adjusted Net Debt	19,817	35,756	36,052	36,054	35,728
Adjusted Enterprise Value	52,281	68,361	69,956	70,099	69,914
Adjusted EBITDA	6,664	8,142	8,521	9,313	9,222
Adjusted EV/EBITDA	7.8x	8.4x	8.2x	7.5x	7.6x
Earnings Yield	7.1%	7.6%	7.5%	8.4%	7.8%
Dividend Yield	3.5%	3.6%	3.7%	3.8%	3.9%
FCF Yield	0.8%	-3.2%	-0.8%	3.7%	4.7%
Growth & Return					
Revenue	4.8%	9.2%	-1.1%	2.7%	-1.4%
EBITDA	7.2%	22.2%	4.7%	9.3%	-1.0%
Net Income - Operating	7.8%	11.6%	1.3%	13.2%	-6.3%
Operating EPS	4.2%	7.6%	-1.1%	11.3%	-6.8%
DPS Growth	0.0%	2.5%	2.5%	2.5%	2.5%
ROCE	5.6%	5.3%	5.1%	5.5%	5.1%
Cost of Debt (A-T)	3.6%	2.9%	2.8%	2.8%	2.8%
Cost of Equity	7.1%	7.6%	7.5%	8.4%	7.8%
WACC	5.3%	4.9%	4.8%	5.2%	5.1%
Calculated EVA	173	235	233	170	39
Calculated EVA/Share	$0.19	$0.25	$0.25	$0.18	$0.04

Source: Deutsche Bank

Appendix 1

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Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	36.01 (USD) 7 Feb 17	14,15

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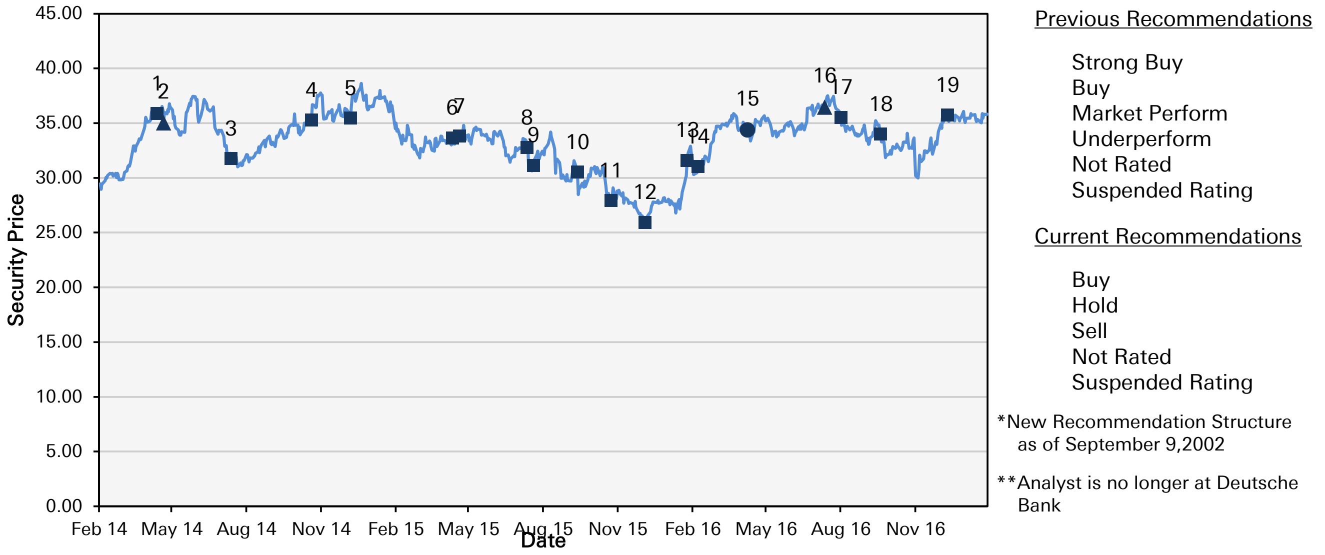
Historical recommendations and target price: Exelon (EXC.N)

(as of 2/7/2017)



1. 04/23/2014: Hold, Target Price Change USD34.00 Jonathan Arnold
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11. 11/02/2015: Buy, Target Price Change USD37.00 Jonathan Arnold
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13. 02/04/2016: Buy, Target Price Change USD36.00 Jonathan Arnold
14. 02/17/2016: Buy, Target Price Change USD34.00 Jonathan Arnold
15. 04/18/2016: Downgrade to Hold, Target Price Change USD36.00 Jonathan Arnold
16. 07/22/2016: Upgrade to Buy, Target Price Change USD39.00 Jonathan Arnold
17. 08/11/2016: Buy, Target Price Change USD40.00 Jonathan Arnold
18. 09/29/2016: Buy, Target Price Change USD38.00 Jonathan Arnold
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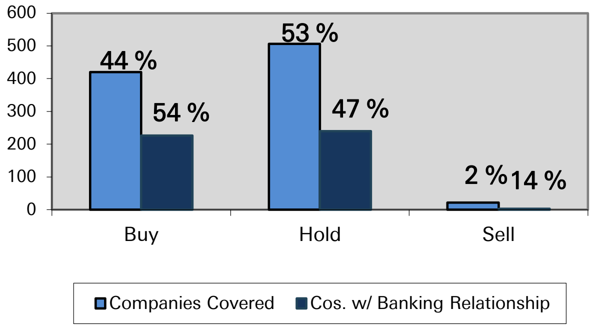

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Exelon Corp (EXC): In-line 2016 results; 2017 guidance range roughly in line

Sentiment Indicator : neutral

Produced by Tucker, Shelby (RBC Capital Markets, LLC) on Wednesday, February 08, 2017, 09:19 AM ET

Disseminated on Wednesday, February 08, 2017, 09:23 AM ET

Our View: Given the better-than-expected gross margin forecast at ExGen, we believe management's 2017 guidance could be relatively conservative. We expect additional commentary on the improved ExGen margin outlook, latest update to the challenges to the nuclear subsidies legislation, and updates at the various utilities as well as details on re-allocation of capex between the utilities.

Exelon Corp (EXC; $36.01; Outperform; $40 PT) reported 4Q16 and 2016 adjusted earnings of $0.44 and $2.68, respectively, a penny below our estimate as well as consensus. Management introduced 2017 adjusted EPS guidance range of $2.50-$2.80; our estimate is $2.69 versus consensus of $2.64. Management also guided 1Q17 adjusted EPS at $0.55-$0.65 versus consensus of $0.72 and 1Q16 result of $0.68, although we note that consensus is comprised of only a few estimates at this point.

ExGen gross margin outlook better than expected. Total gross margin outlook for 2017-2019 as of December 31, 2016 are $8.15 billion, $8.3 billion, and $7.9 billion, respectively, versus our estimates of $7.90 billion, $7.89 billion, and $7.39 billion (an increase of $250 million, $400 million, and $500 million). We believe this is mostly due to higher open gross margins and is an apples-to-apples comparison that includes the impact of the New York and Illinois nuclear subsidies, as well as the benefit from the Fitzpatrick acquisition. Management has kept hedging behind ratable (91-94%, 56-59%, and 28-31% hedged for 2017-2019, respectively), given their view of power price upside.

Regulated growth forecast mostly unchanged; rate base allocation shifted away from PECO/PHI. Management expects annual utility EPS growth to average 6-8% from 2017-2020 versus 7-9% expected from 2016-2020. We note that this is roughly in line given the expected larger growth from 2016-2017. They also increased the 2017 and 2020 range by $0.05, respectively. Rate base growth guidance from 2016-2020 now stands at a 6.5% CAGR versus 6.1% guided previously; however, management moderately decreased the rate base outlook for PHI and PECO while increasing that for ComEd.

2017 segment guidance mostly within range. The company guided ExGen adjusted EPS at $1.05-$1.15 (vs. RBCe of $1.06), ComEd at $0.60-$0.70 (vs. RBCe of $0.61), PECO at $0.40-$0.50 (vs RBCe of $0.47), PHI at $0.30-$0.40 (vs. RBCe of $0.39), and BGE at $0.25-$0.35 (vs. RBCe of $0.29). We note the 2017 expected average shares outstanding of 949 million versus 927 million recorded in 2016 given the expected conversion of $1.15 billion in equity units in 2Q17.

Conference call at 11 AM ET. The dial-in number is (800) 690-3108, with pass code 44412052.

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J.P.Morgan

Exelon Corp.

2017, Long-Term Outlook On-Track; Reiterating OW

Overweight

EXC, EXC US

Price: $36.01

Price Target: $40.00

Exelon reported 4Q16 EPS and introduced 2017 guidance in line with expectations, as well as reiterated long term utility rate base and earnings growth forecasts introduced last summer. We expected more detail to be given regarding the asset sale process for the Mystic unit and a renewables sell-down, but management noted both are still on-track despite perhaps taking longer than originally expected. We view EXC shares' sell-off as a buying opportunity here, and still view the valuation as providing more than enough compensation for ZEC legal and PHI execution risk going forward and we are reiterating our OW rating.

- **PHI integration proceeding according to plan:** 2017-2020 utility and parent EPS guidance was increased 5c in 2017 and 5c in 2020 versus August analyst meeting guidance, and overall rate base growth is slightly more back-weighted but largely unchanged**.** Notably, EXC expects PHI to contribute $0.30-0.40 to 2017 EPS, well above our $0.28 estimate. Management expressed early confidence in integration and lag catch up efforts as the company positions for the 2nd round of rate case filings at the segment this year.
- **Focus remains on NY ZEC legal challenge:** Although EXC formally incorporated the impact of NY & IL ZEC into guidance, we are still awaiting ultimate legal clarity for both programs. The best case scenario entails the federal court granting a motion to dismiss the challenge to NY's ZECs in the next several months. Should the case not be dismissed, a final litigated decision could come in Q3. In either case, a decision by the federal court to uphold the NY ZEC program would bode well for the legal standing of the IL ZEC program given the similar constructs.
- **Underwhelming color on tax reform and asset sales.** Unlike some peers, EXC did not quantify the impact of tax reform and instead provided directional impacts. The Administration's tax plan was described as being "meaningfully" beneficial to earnings, though a border tax adjustment would have negative implications for nuclear fuel costs and significant holdco debt would weigh on any positive factors. No update was provided on the sale of Mystic or renewable assets, and the sale process is ongoing.

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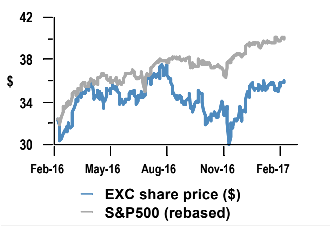
Price Performance



	YTD	1m	3m	12m
Abs	2.3%	2.1%	7.7%	11.3%
Rel	0.7%	1.0%	0.1%	-12.4%

Exelon Corp. (EXC;EXC US)

FYE Dec	2015A	2016A	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*	2019E *(Prev)*	2019E *(Curr)*
adj. EPS ($)								
Q1 (Mar)	0.71	0.68	-	0.60	-	-	-	-
Q2 (Jun)	0.59	0.65	-	-	-	-	-	-
Q3 (Sep)	0.83	0.91	-	-	-	-	-	-
Q4 (Dec)	0.38	0.44	-	-	-	-	-	-
FY	2.49	2.68	2.70	2.69	2.79	2.86	2.81	2.83
Bloomberg EPS FY ($)	2.51	2.68	-	2.64	-	2.85	-	2.81

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	36.01
Date Of Price	07 Feb 17
52-week Range ($)	37.70-29.82
Market Cap ($ mn)	33,201.22
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	40.00
Price Target End Date	31-Dec-17

See page 5 for analyst certification and important disclosures.

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Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $40.00)*

Investment Thesis

ExGen continues to generate strong cash flow even in a challenging commodity environment, allowing it to fund a top-tier utility growth story and a growing dividend. We believe investors may not be fully appreciating the ~4c tailwind from an increase in the 30-year treasury yield since multi-year utility EPS guidance was issued in August. A sale of the company's large Mystic CCGT in MA or renewable assets could bring in several hundred million as well. Resulting ExGen debt reduction will accelerate their de-leveraging strategy and lower interest expense could mostly offset lost earnings, according to our calculations.

Valuation

We are maintaining our December 2017 price target of $40/share. Our valuation is based on a sum-of-the-parts analysis using our 2019 forecasts. We use an average 18.6 P/E multiple for the regulated utility and corporate business segments. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. The maintenance of our price target is driven by a higher regulated peer multiple partially offset by lower earnings estimates relative to our prior estimate.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company’s earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	**29,237**	**31,907**	**35,149**	**35,475**	**35,458**
COGS	(13,139)	(13,035)	(15,046)	(14,996)	(15,021)
Gross profit	**16,098**	**18,872**	**20,103**	**20,479**	**20,437**
SG&A	(9,432)	(10,778)	**(11,505)**	**(11,396)**	**(11,398)**
Adj. EBITDA	**6,960**	**8,389**	**8,895**	**9,380**	**9,337**
D&A	(2,450)	(3,233)	(3,540)	(3,614)	(3,679)
Adj. EBIT	**4,510**	**5,156**	**5,355**	**5,766**	**5,658**
Net Interest	(1,098)	(1,382)	(1,543)	(1,550)	(1,589)
Adj. PBT	**3,412**	**3,774**	**3,813**	**4,216**	**4,069**
Tax	(1,165)	(1,298)	(1,273)	(1,449)	(1,318)
Minority Interest	(20)	10	(5)	(5)	(5)
Adj. Net Income	**2,227**	**2,486**	**2,535**	**2,762**	**2,746**
Reported EPS	2.49	2.68	2.69	2.86	2.83
Adj. EPS	**2.49**	**2.68**	**2.69**	**2.86**	**2.83**
DPS	**1.24**	**1.28**	**1.32**	**1.35**	**1.38**
Payout ratio	49.7%	47.8%	49.1%	47.3%	48.9%
Shares outstanding	920	927	963	965	968

Income Statement - Quarterly	1Q17E	2Q17E	3Q17E	4Q17E
Revenue	**9,048**			
COGS	(4,135)			
Gross profit	**4,913**			
SG&A	(2,832)			
Adj. EBITDA	**2,155**	**-**	**-**	**-**
D&A	(870)	-	-	-
Adj. EBIT	**1,285**	**-**	**-**	**-**
Net Interest	(387)	-	-	-
Adj. PBT	**898**	**-**	**-**	**-**
Tax	(340)			
Minority Interest	(1)			
Adj. Net Income	**557**	**-**	**-**	**-**
Reported EPS	0.60	-	-	-
Adj. EPS	**0.60**	**-**	**-**	**-**
DPS	**0.33**			
Payout ratio	54.7%	-	-	-
Shares outstanding	928			

Balance Sheet & Cash Flow Statement	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalents	6,502	635	635	635	635
Accounts receivable	4,099	5,359	5,359	5,359	5,359
Other current assets	4,733	6,418	6,824	7,187	7,524
Current assets	**15,334**	**12,412**	**12,818**	**13,181**	**13,518**
PP&E	57,439	71,555	76,140	79,776	82,847
Other non current assets	22,611	30,937	30,287	29,387	28,462
Total assets	**95,384**	**114,904**	**119,245**	**122,344**	**124,827**
Short term borrowings	2,033	3,697	3,697	3,697	3,697
Payables	2,883	3,441	3,441	3,441	3,441
Other short term liabilities	4,202	6,319	6,319	6,319	6,319
Current liabilities	**9,118**	**13,457**	**13,457**	**13,457**	**13,457**
Long-term debt	24,286	32,216	32,846	32,936	32,594
Other long term liabilities	34,658	41,619	42,792	44,241	45,559
Total liabilities	**68,062**	**87,292**	**89,095**	**90,634**	**91,610**
Shareholders' equity	25,793	25,837	28,376	29,935	31,442
Minority interests	1,529	1,775	1,775	1,775	1,775
Total liabilities & equity	**95,384**	**114,904**	**119,245**	**122,344**	**124,827**
BVPS	**28.04**	**27.87**	**29.48**	**31.02**	**32.50**
y/y Growth	*6.6%*	*(0.6%)*	*5.8%*	*5.2%*	*4.8%*
Net debt/(cash)	19,817	35,278	35,908	35,998	35,656
Cash flow from operating activities	**7,634**	**8,434**	**7,591**	**8,362**	**8,330**
o/w Depreciation & amortization	3,987	5,576	4,490	4,514	4,604
o/w Changes in working capital	(246)	(492)	(406)	(363)	(338)
Cash flow from investing activities	**(7,840)**	**(15,492)**	**(8,225)**	**(7,250)**	**(6,750)**
o/w Capital expenditure	(7,624)	(8,565)	(8,125)	(7,250)	(6,750)
as % of sales	*26.1%*	*26.8%*	*23.1%*	*20.4%*	*19.0%*
Cash flow from financing activities	**4,830**	**1,191**	**634**	**(1,112)**	**(1,580)**
o/w Dividends paid	(1,105)	(1,166)	(1,246)	(1,303)	(1,339)
o/w Net debt issued/(repaid)	4,022	2,780	630	91	(342)
Net change in cash	**4,624**	**(5,867)**	**(0)**	**(0)**	**(0)**
Free cashflow to firm	**733**	**776**	**494**	**2,130**	**2,655**
y/y Growth	*(174.0%)*	*5.8%*	*(36.3%)*	*331.2%*	*24.7%*

Ratio Analysis	FY15A	FY16A	FY17E	FY18E	FY19E
Gross margin	55.1%	59.1%	57.2%	57.7%	57.6%
EBITDA margin	23.8%	26.3%	25.3%	26.4%	26.3%
EBIT margin	15.4%	16.2%	15.2%	16.3%	16.0%
Net profit margin	7.6%	7.8%	7.2%	7.8%	7.7%
ROE	9.2%	9.6%	9.4%	9.5%	8.9%
ROA	2.4%	2.4%	2.2%	2.3%	2.2%
ROCE	6.1%	5.9%	5.6%	5.8%	5.7%
SG&A/Sales	32.3%	33.8%	32.7%	32.1%	32.1%
Net debt/equity	72.5%	127.8%	119.1%	113.5%	107.3%
P/E (x)	14.4	13.4	13.4	12.6	12.7
P/BV (x)	1.3	1.3	1.2	1.2	1.1
EV/EBITDA (x)	7.0	8.1	7.8	7.5	7.5
Dividend Yield	3.4%	3.6%	3.7%	3.8%	3.8%
Sales/Assets (x)	0.3	0.3	0.3	0.3	0.3
Interest cover (x)	6.3	6.1	5.8	6.1	5.9
Operating leverage	158.0%	156.8%	38.0%	827.4%	3992.5%
Revenue y/y Growth	4.8%	9.1%	10.2%	0.9%	(0.0%)
EBITDA y/y Growth	7.0%	20.5%	6.0%	5.4%	(0.5%)
Tax rate	34.1%	34.4%	33.4%	34.4%	32.4%
Adj. Net Income y/y Growth	7.7%	11.6%	2.0%	9.0%	(0.6%)
EPS y/y Growth	4.2%	7.5%	0.2%	6.4%	(0.8%)
DPS y/y Growth	0.0%	3.3%	2.9%	2.5%	2.5%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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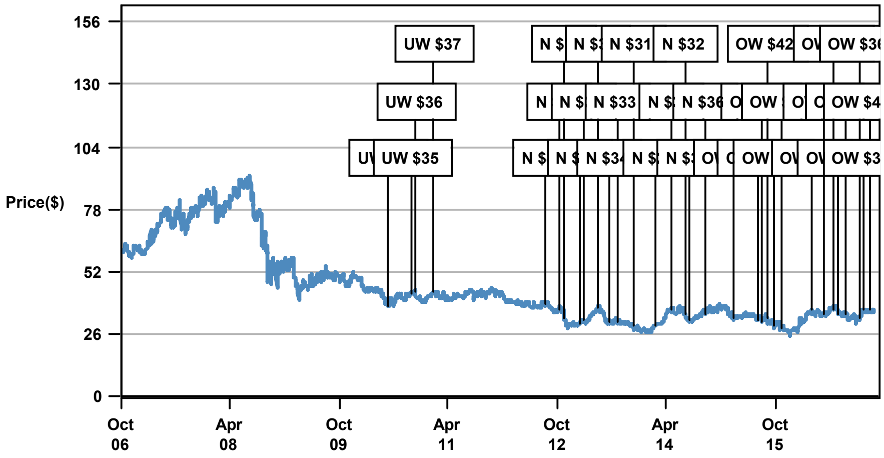
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.65	33.00
29-Sep-10	UW	43.04	35.00
19-Oct-10	UW	43.74	36.00
20-Jan-11	UW	43.35	37.00
07-Aug-12	N	38.06	40.00
08-Oct-12	N	35.91	39.00
02-Nov-12	N	32.77	38.00
23-Jan-13	N	29.99	36.00
08-Feb-13	N	31.37	34.00
19-Apr-13	N	36.68	35.00
19-Jun-13	N	31.15	34.00
31-Jul-13	N	30.80	33.00
17-Oct-13	N	29.04	31.00
12-Feb-14	N	28.94	29.00
30-Apr-14	N	35.99	33.00
09-Jul-14	N	34.26	32.00
01-Aug-14	N	31.54	35.00
16-Oct-14	N	33.93	36.00
05-Mar-15	OW	32.62	38.00
06-Jul-15	OW	31.94	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	32.64	42.00
28-Sep-15	OW	29.20	39.00
02-Nov-15	OW	28.51	36.00
28-Mar-16	OW	35.69	39.00
31-May-16	OW	34.33	37.00
21-Jul-16	OW	36.25	41.00
15-Aug-16	OW	34.63	40.00
20-Sep-16	OW	33.91	37.00
02-Dec-16	OW	33.01	36.00
16-Dec-16	OW	35.72	39.00
18-Jan-17	OW	35.88	40.00

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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IB clients*	52%	48%	34%
JPMS Equity Research Coverage	43%	50%	7%
IB clients*	67%	61%	43%

*Percentage of investment banking clients in each rating category.
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Exelon Corp.

EXC: Faster-growing regulated utilities take over the majority of annual earnings

Bank of America Merrill Lynch

Earnings Review

08 February 2017

High Grade
United States
Electric Utilities

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Maintaining ratings as regulated growth strategy unfolds

We maintain our ratings across Exelon (Exhibit 1) after the company reported FY16 earnings results in line with expectations. Exelon's 2016 accomplishments included 1) closing its acquisition of Pepco Holdings which a) added $8.3 billion of rate base to its asset portfolio, b) provides additional regulated rate base investment opportunities, and c) provides opportunities to reduce regulatory lag of between 220 bp and 440 bp across the Pepco Holdings' utilities, 2) achieving regulatory success in New York and legislative success in Illinois which, combined, will keep five nuclear stations running for at least an additional 10 years as the stations are compensated for their zero-carbon emission attributes, 3) achieved regulatory approvals for utility revenue increases of nearly $400 million, and 4) acquiring ConEd Solutions to extend its capabilities of matching retail customers to its long wholesale generation profile, Exelon's strategy is to 1) invest heavily in its six regulated electric and gas utilities to drive earnings growth, 2) maximize the margins and value contributed by Exelon Generation, and 3) use Exelon Generation's free cash flow to reduce debt by ~$3.0 billion by the end of 2020, first by paring its leverage, expected to be ~3.3x at 2017 year-end, to ~3.0x, and then paying down debt at the parent holding company. As a result of its 2016 accomplishments and strategy, for the first time in Exelon's history, the majority of its annual earnings were contributed by its regulated utilities.

PHI acquisition, utilities' capex drives FY16 earnings growth

Exelon reported FY16 adjusted operating EPS of $2.68 ($2,488 million), matching consensus and up from $2.49 ($2,227 million) in FY15. Key drivers for the YOY improvement were the March 2016 acquisition of Pepco Holdings Inc. ("PHI") and higher utility rates and formula revenues, partly offset by higher depreciation and amortization expense and higher levels of several sub-categories of operating and maintenance ("O&M") expense. (Exhibit 2 at right). Exelon introduced a FY17 adjusted operating earnings guidance range of $2.50 to $2.80; primary factors for YOY changes include a full year of PHI ownership PHI and higher rate-base-investment-related revenues at its three legacy utilities, partly offset by higher depreciation and amortization expense and net negative factors, primarily unfavorable market conditions, at Exelon Generation.

2017 financing plans address debt maturities, utility capex

Exelon's 2017 projected sources and uses of cash include debt issuances primarily to support rate base capex at the regulated utilities and refinancing of long-term debt maturities. Potential 2017 debt issuances include $1,050 million by Commonwealth Edison ($425 million 6.15% first mortgage bonds maturing September 15), $325 million by PECO Energy, $200 million collectively across the PHI complex ($81 million PHI 6.125% notes maturing June 1), $750 million by Exelon Generation ($700 million 6.20% senior notes maturing October 1), and $1,150 million by Exelon Corporation; Exelon also plans equity issuances of $1,150 million. We assume that the pair of the parent company's issuances is related to its outstanding 6.50% corporate units, issued in 2014 to finance a portion of the Pepco Holdings acquisition, which require the holders to purchase Exelon common stock on June 1, 2017 and include an optional remarketing of the junior subordinated notes due 2024. Exelon Corp. also has $550 million 1.55% notes maturing June 9, which we assume are refinanced with commercial paper, based on the 4Q16 earnings presentation.

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Exhibit 1: Relative Value Recommendations

Overweight
Exelon Corp.
Exelon Generation 2017-2022

Marketweight
Baltimore Gas & Electric
Commonwealth Edison
Exelon Generation 2039+
PECO Energy

Source: BofA Merrill Lynch Global Research.

WHAT YOU'LL DISCOVER INSIDE

Exhibit 2: FY EPS Walk

	$MM	EPS
FY15 GAAP Earnings	$2,269	$2.55
FY15 Adjustments	(42)	(0.05)
FY15 Adj. Oper. Earnings	**$2,227**	**$2.50**
PHI acquisition	$1,285	$1.39
Utilities - rates, riders	218	0.24
GEN - market, portfolio	98	0.11
all other, net	92	0.10
GEN - refueling outages	49	0.05
GEN - nuclear volumes	44	0.05
Interest expense	(156)	(0.17)
Other	(231)	(0.25)
O&M expense (other O&M)	(241)	(0.26)
O&M (labor, contracting)	(435)	(0.47)
Depreciation, amortization	(462)	(0.50)
FY16 Adj. Oper. Earnings	**$2,488**	**$2.68**
FY16 Adjustments	(1,354)	(1.46)
FY16 GAAP Earnings	$1,134	$1.22

Source: Company reports, BofA Merrill Lynch Global Research.

Summary Profile

Description

Exelon Corporation is a Fortune 100 energy company with the largest number of utility customers in the U.S. Exelon's six utilities deliver electricity and natural gas to approximately 10 million customers, the largest number of any utility company in the U.S., in Delaware, the District of Columbia, Illinois, Maryland, New Jersey and Pennsylvania. Exelon is one of the largest competitive U.S. power generators, with more than 32,700 megawatts of nuclear, natural gas, wind, solar and hydroelectric generating capacity comprising one of the nation's cleanest and lowest-cost power generation fleets.

Exelon's Value Proposition

- Regulated Utility Growth – EPS rising 6%-8% annually from 2017 to 2020, rate base growth of 6.5%, representing an expanding majority of earnings;
- Exelon Generation's Strong Free Cash Generation – support utility growth while also reducing debt by ~$3B over the next 4 years
- Optimizing Exelon Generation – seek fair compensation for zero-carbon attributes of its fleet; close uneconomic plants; monetize assets; and maximize value of the fleet through generation-to-load matching strategy;
- Strong Balance Sheet – a priority;
- Capital Allocation Priorities – targeting organic utility growth, return of capital to shareholders with 2.5% annual dividend growth through 2018, debt reduction, and modest contracted generation investments.

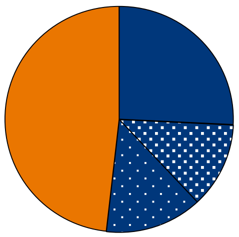
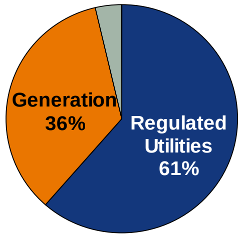
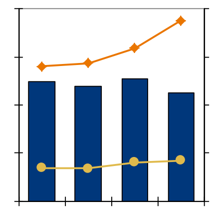
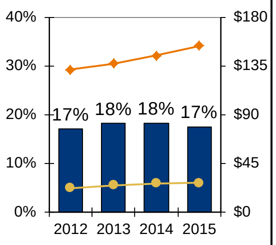
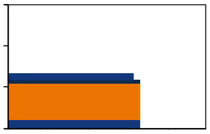
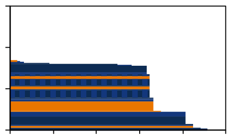
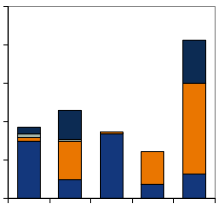
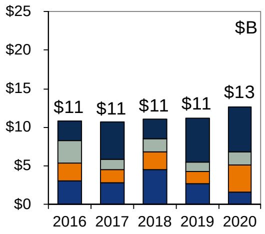
Significant Events

- December 7, 2016: Illinois' Future Energy Jobs Bill enables the Clinton and Quad Cities plants to operate for at least another 10 years.
- August 1, 2016: New York regulators approved the Clean Energy Standard which will provide incremental revenues to upstate nuclear plants for 10 years.
- March 23, 2016: Exelon and Pepco Holdings close their merger following approval by DC regulators.
-

Comparables

- Public Service Enterprise Group (PEG)
- NextEra Energy (NEE)
- Dominion Resources (D)

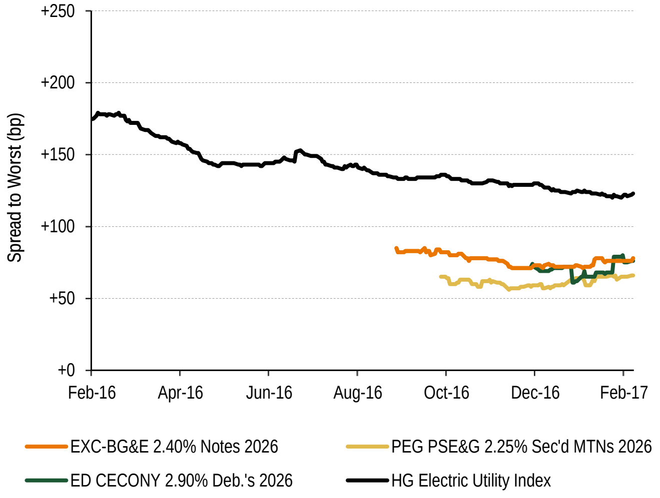
Exhibit 3: Comparable Statistics: Exelon versus Peer Group (FY 31 Dec 2015; $ millions)

Exelon Corp.		Name	Diversified Holdcos	
EXC		Bond Ticker	9 companies	
IL, PA, MD		Primary State(s)	--	
6,797,664	1,172,363	Customers: Electric / Gas	29,716,445	5,062,772
R:62% SmC&I:23% LgC&I:13% O:1%		Retail Electric Revenue Mix	R:53% C:31% I:13% O:3%	
32,741		Net Operating Capacity (MW)	185,221	
		Business Segment EBITDA ■ Regulated Utility ■ Generation/ Competitive ■ Other		
Avg.: 2012-14	2015	Fiscal Years ($MM)	Avg.: 2012-14	2015
$ 25,269	$ 29,447	Total Revenues	$ 108,224	$ 111,838
$ 14,859	$ 15,996	Gross Margin	$ 59,901	$ 64,435
$ 6,602	$ 7,157	EBITDA	$ 33,361	$ 36,980
$ (1,095)	$ (1,165)	Gross Interest Expense	$ (7,063)	$ (7,302)
$ 5,123	$ 5,909	Funds From Operations	$ 24,447	$ 26,748
$ (4,806)	$ (6,524)	Capital Expenditures	$ (23,166)	$ (27,174)
$ 1,094	$ 107	Acquisitions & Investments	$ (1,660)	$ (4,195)
$ (1,343)	$ (1,105)	Dividends	$ (6,079)	$ (6,370)
$ 1,658	$ 6,502	Cash & Equivalents	$ 5,589	$ 11,274
$ 20,665	$ 26,319	Total Debt	$ 137,501	$ 153,556
$ 48,201	$ 57,439	Property Plant & Equipment	$ 245,642	$ 278,031
$ 81,766	$ 95,384	Total Assets	$ 374,413	$ 412,535
5.7x	6.1x	FFO/Interest	4.5x	4.7x
3.1x	3.7x	Debt/EBITDA	4.1x	4.2x
3.5x	3.5x	Net Debt&Lease/Oper.EBITDAR	4.2x	4.0x
48%	50%	Debt/Total Capital	56%	56%
		Funds From Operations/Debt ■ FFO/Debt ◆ Debt ($B) ● FFO ($B)		
		Revolving Credit Facilities ■ Holdco ■ Other ■ Generation ■ Utility		
		Long-term Debt Maturities ■ Holdco ■ Other ■ Generation ■ Utility		
$14,347 ($3,406)	$17,753 81%	Pension: Assets / Obligations 2015 Pension Funding: $ %	$42,754 ($9,749)	$52,503 81%

Diversified Holdcos: AES, BKH, D, AES-DPL, ETR, EXC, FE, NEE, PEG.
Source: Company reports, BofA Merrill Lynch Global Research.

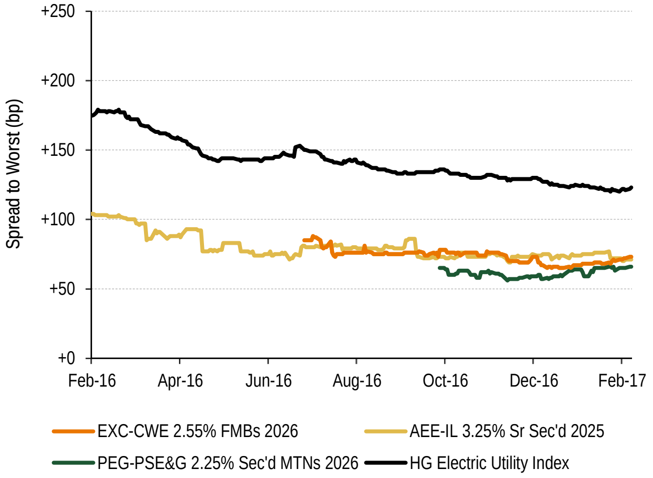
Relative Value: Credit Spreads

Exhibit 4: Baltimore Gas and Electric



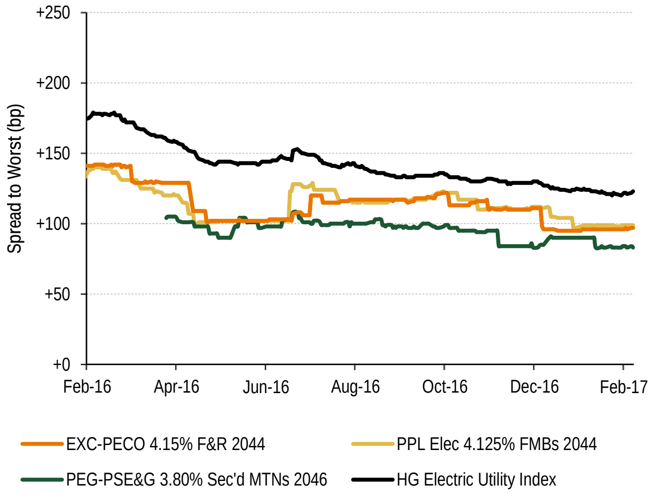
Source: BofA Merrill Lynch Global Research.

Exhibit 5: Commonwealth Edison



Source: BofA Merrill Lynch Global Research.

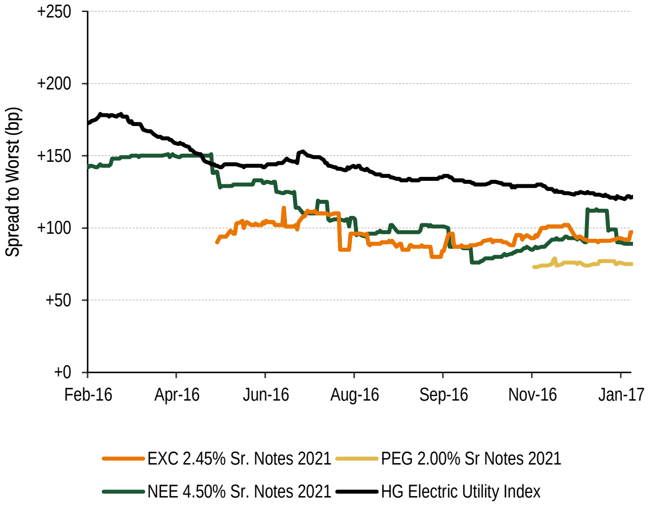
Exhibit 6: PECO Energy



Source: BofA Merrill Lynch Global Research.

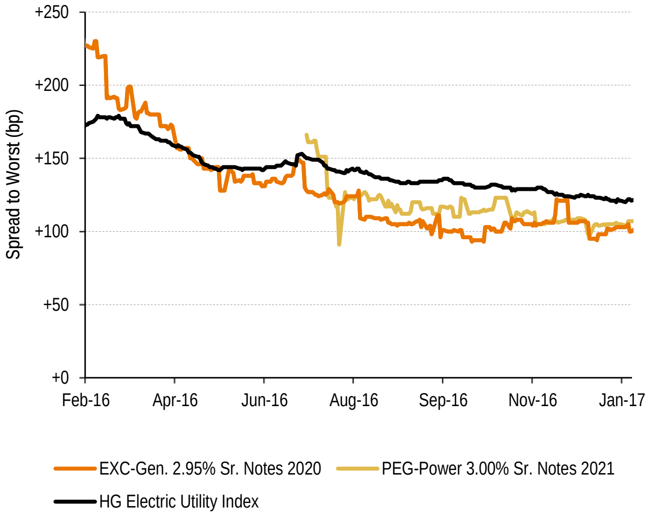
Continued on next page…

Exhibit 7: Exelon Corp.



Source: BofA Merrill Lynch Global Research.

Exhibit 8: Exelon Generation



Source: BofA Merrill Lynch Global Research.

Corporate & Debt Structure

Exhibit 9: Exelon Corp. Summary Debt Profile as of September 30, 2016 ($MM) – Part 1 of 3 (parent and generation)

Metrics thru Issuer within each box				Issuer							
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	3	Security	30-Sep-16 Debt	9mos16 Change	31-Dec-15 Debt
$ 8,084								**Exelon Corporation**			
								$600 RCF due 36-May-21 *	$ -	$ -	$ -
								Notes payable to affiliate	$ 188	$ -	$ 188
								Senior Unsecured Notes	$ 5,646	$ 1,800	$ 3,846
								Notes (CEG)	$ 808	$ -	$ 808
								Long-term Software License Agreement	$ 111	$ -	$ 111
								Junior Subordinated Notes	$ 1,150	$ -	$ 1,150
								CEG debt fair value adjustment	*$ 275*	*$* -	$ 275
								debt discount and other, net	*$ (94)*	*$ (76)*	$ (18)
$ 9,756	**$ 3,252**	**3.0x**	**25.5%**					**1. Exelon Generation Co. LLC**			
								$5,300 RCF due 26-May-21 *	$ -	$ -	$ -
								$325 Bilateral Facility	$ -	$ -	$ -
								$200 CENG Bilateral Facility	$ -	$ -	$ -
								Borrowings from Money Pool	$ 461	$ (791)	$ 1,252
								CP and Short-term Notes Payable	$ 40	$ 11	$ 29
								Senior Unsecured Notes	$ 5,038	$ -	$ 5,038
								ILAs with Exelon Corp.	$ 924	$ (9)	$ 933
								Pollution Control Notes	$ 435	$ -	$ 435
								Albany Green Energy Project Financing	$ 186	$ 86	$ 100
								Nuclear Fuel Procurement Contracts	*$ 127*	*$* -	$ 127
								Notes Payable and other	*$ 4*	*$ (41)*	$ 45
								Capital Lease Obligations	*$ 21*	*$* -	$ 21
								CEG Sr Notes fair value adjustment	$ 118	$ (9)	$ 127
								Unamortized debt costs, net	$ (75)	$ 12	$ (87)
$ 2,477	N.A.	N.A.	N.A.					**A. Renewables and CEG businesses (non-recourse)**			
								ExGen Texas Power Project Financing	$ 661	$ (5)	$ 666
								Antelope Valley Solar Project Financing	*$ 569*	*$ (5)*	$ 574
								Continental Wind	$ 543	$ (29)	$ 572
								ExGen Renewables I Project Financing	$ 427	$ 169	$ 258
								SolGen	*$ 150*	*$ 150*	$ -
								Upstream Gas Property Lending Agreement	*$ 68*	*$* -	$ 68
								Holyoke Solar Loan Agreement	*$ 10*	*$* -	$ 10
								Denver Int'l Airport Solar Loan Agreement	*$ 7*	*$* -	$ 7
								Sacramento Solar Project Financing	$ -	$ (33)	$ 33
								Constellation Solar Horizons Loan Agmt.	$ -	$ (32)	$ 32
								Energy Efficiency Project Financing	$ 42	$ -	$ -

Source: Company reports, BofA Merrill Lynch Global Research.

Continued on next page...

Exhibit 10: Exelon Corp. Summary Debt Profile as of September 30, 2016 ($MM) – Part 2 of 3 (legacy utilities)

Metrics thru Issuer within each box				Issuer							
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	3	Security	30-Sep-16 Debt	9mos16 Change	31-Dec-15 Debt
$ 7,246	**$ 1,961**	**3.7x**	**29.0%**					**2. Commonwealth Edison Co.**			
								$1,000 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ 10	$ (284)	$ 294
								First Mortgage Bonds	$ 6,954	$ 535	$ 6,419
								Notes Payable	$ 140	$ -	$ 140
								Capital Leases	$ 8	$ -	$ 8
								Unamortized debt costs, net	$ (71)	$ (13)	$ (58)
								ComEd Financing III			
								Subordinated Debentures	$ 205	$ -	$ 205
$ 3,063	**$ 975**	**3.1x**	**26.7%**					**3. PECO Energy Co.**			
								$600 RCF due 26-May-21 *	$ -	$ -	$ -
								First Mortgage Bonds	$ 2,900	$ 300	$ 2,600
								Unamortized debt costs, net	$ (21)	$ (1)	$ (20)
								PECO Trusts III & IV			
								Subordinated Debentures	$ 184	$ -	$ 184
$ 2,914	**$ 1,076**	**2.7x**	**27.5%**					**4. Baltimore Gas and Electric Company**			
								$600 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ -	$ (210)	$ 210
								Senior Notes	$ 2,600	$ 850	$ 1,750
								unamortized debt costs	$ (19)	$ (7)	$ (12)
								BGE Capital Trust II			
								Deferrable Interest Sub. Debentures	$ 252	$ -	$ 252
$ 81	$ 84	1.0x	95.1%					**A. RSB BondCo LLC**			
								Rate Stabilization Bonds	$ 81	$ (39)	$ 120

Source: Company reports, BofA Merrill Lynch Global Research.

Continued on next page...

Exhibit 11: Exelon Corp. Summary Debt Profile as of September 30, 2016 ($MM) – Part 3 of 3 (Pepco Holdings utilities)

Metrics thru Issuer within each box				Issuer							
Total Debt	EBITDA	Debt/ EBITDA	FFO/ Debt	P	1	2	3	Security	30-Sep-16 Debt	9mos16 Change	31-Dec-15 Debt
$ 6,568	**$ 1,362**	**4.8x**	**16.9%**					**5. Pepco Holdings, Inc.**			
								$750 sub-limit: $1,500 RCF due 1-Aug-18 *	N.A.	N.A.	$ -
								Commercial Paper	$ -	$ (484)	$ 484
								Exelon money pool	$ 7	$ 7	$ -
								$300 Term Loan due 28-Jul-16	$ -	$ (300)	$ 300
								$500 Term Loan due 27-Mar-17	$ 500	$ 500	N.A.
								Notes (unsecured)	$ 456	$ -	$ 456
								Notes payable to Potomac Capital Inv. Corp.	$ 498	$ -	$ 498
								unamortized discount and other, net	$ (3)	$ -	$ (3)
$ 2,350	$ 673	3.5x	23.4%					**A. Potomac Electric Power Company**			
								$300 sub-limit: $900 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ -	$ (64)	$ 64
								First Mortgage Bonds	$ 2,335	$ -	$ 2,335
								Capital Lease Obligations	$ 45	$ (5)	$ 50
								Project Financing	$ 2	$ 2	$ -
								unamortized discount and other, net	$ (32)	$ 2	$ (34)
								B. Conectiv			
$ 1,282	$ 319	4.0x	20.6%					**i. Delmarva Power & Light Co.**			
								$300 sub-limit: $900 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ 17	$ (88)	$ 105
								Variable Rate Demand Bonds	$ 105	$ -	$ 105
								First Mortgage Bonds	$ 1,050	$ -	$ 1,050
								Medium-Term Notes (unsecured)	$ 40	$ -	$ 40
								Unsecured Tax-Exempt Bonds	$ 78	$ -	$ 78
								unamortized discount and other, net	$ (8)	$ -	$ (8)
$ 1,167	$ 300	3.9x	17.4%					**ii. Atlantic City Electric Co.**			
								$300 sub-limit: $900 RCF due 26-May-21 *	$ -	$ -	$ -
								Commercial Paper	$ -	$ (5)	$ 5
								First Mortgage Bonds	$ 1,039	$ -	$ 1,039
								unamortized discount	$ (8)	$ -	$ (8)
$ 136	$ (129)	-1.1x	-100.0%					**a. Atlantic City Electric Transition Funding LLC**			
								Transition Bonds	$ 136	$ (35)	$ 171
$ 8	N.A.	N.A.	N.A.					**C. Pepco Energy Services, Inc.**			
								Secured Notes	$ 3	$ -	$ 3
								Project Funding	$ 5	$ -	$ 5
$ 801								Debt fair value adjustment (FVA)	*$ 801*	*$ 801*	N.A.
$ 303	**N.A.**	**N.A.**	**N.A.**					**6. Exelon Business Services Co.**			
								Borrowings from money pool	$ 303	$ 77	$ 226
$ 34,975	**$ 8,116**	**4.3x**	**19.6%**					**Consolidated Total (excl. FVAs)**	**$34,975**	**$ 9,154**	**$ 25,821**

Last twelve months ending September 30, 2016.

Exelon acquired Pepco Holdings on March 24, 2016.

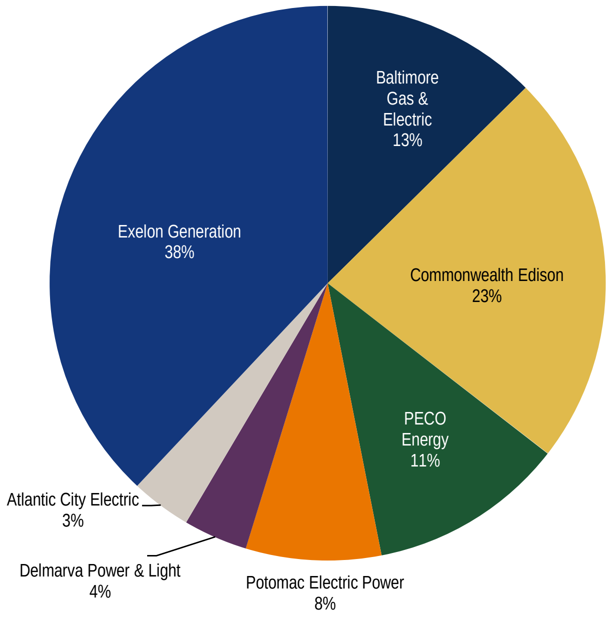
* On May 26, 2016: Exelon Corporation increased its credit facility to $600 from $500; Exelon Corporation, Exelon Generation, Commonwealth Edison, PECO Energy and Baltimore Gas & Electric extended their revolving credit facilities to May 26, 2021; Pepco Holdings, Potomac Electric Power, Delmarva Power & Light and Atlantic City Electric extended their revolving credit facilities to May 26, 2021; Pepco Holdings was removed as a borrower; and the total facility was reduced to $900 from $1,500.

Credit metrics exclude 'fair value adjustments' of debt of Constellation Energy Group, Baltimore Gas & Electric and Pepco Holdings and its subsdiaries..

Source: Company reports, BofA Merrill Lynch Global Research.

EBITDA Profile by Business Segment

Chart 1: Exelon Corp. $8.6B Pro-forma EBITDA (LTM ending September 30, 2016)



Source: Company reports, BofA Merrill Lynch Global Research.

Financial Profile

Exhibit 12: Exelon Corp.: Summary Financial Profile (2013-2017P; $ millions)

	2013	2014	2015	PRELIMINARY 2016	2017P
Income Statement					
Total Revenues	**$ 24,888**	**$ 27,429**	**$ 29,447**	**$ 31,360**	**$ 33,084**
Fuel & Purchased Power	(10,724)	(13,003)	(13,084)	(12,640)	(13,344)
Operating & Maintenance	(7,270)	(8,568)	(8,322)	(10,048)	(9,607)
Depreciation & Amortization	(2,153)	(2,314)	(2,450)	(3,936)	(3,480)
Other Operating Expenses	(1,095)	(1,154)	(1,200)	(1,576)	(1,612)
Operating EBIT	**$ 3,646**	**$ 2,390**	**$ 4,391**	**$ 3,160**	**$ 5,041**
Other Income, Net	258	1,039	75	271	171
Gross Interest Expense	(1,141)	(1,140)	(1,124)	(1,536)	(1,406)
Income Taxes	(1,044)	(666)	(1,073)	(761)	(1,330)
Net Income for Common Stock	**$ 1,719**	**$ 1,623**	**$ 2,269**	**$ 1,134**	**$ 2,476**
Statement of Cash Flows					
Operating EBIT	**$ 3,646**	**$ 2,390**	**$ 4,391**	**$ 3,160**	**$ 5,041**
Depreciation & Amortization *	2,583	2,450	2,473	3,936	3,480
Non-Cash Oper. EBIT Exp./(Rev.)	(133)	1,918	20	330	-
Other Income/(Expenses), Net	(98)	224	217	160	171
EBITDA	**$ 5,998**	**$ 6,982**	**$ 7,101**	**$ 7,586**	**$ 8,692**
Gross Interest Expense	(1,141)	(1,140)	(1,124)	(1,536)	(1,406)
Income Taxes	(925)	(164)	(321)	(97)	(399)
Other, Net, excl. ΔWC	880	12	237	(946)	-
Funds from Operations (FFO)	**$ 4,812**	**$ 5,690**	**$ 5,893**	**$ 5,007**	**$ 6,887**
Changes of Working Capital	610	(2,306)	625	1,787	(500)
Cash Flow from Operations	**$ 5,422**	**$ 3,384**	**$ 6,518**	**$ 6,794**	**$ 6,387**
Capital Expenditures *	(4,474)	(5,004)	(6,508)	(6,925)	(7,025)
Acquisitions & Investments, Net	147	1,821	107	(6,513)	-
Other Investing Items	(146)	(343)	(323)	(414)	(800)
Cash Flow after Investing	**$ 949**	**$ (142)**	**$ (206)**	**$ (7,058)**	**$ (1,438)**
Long-term Debt Maturities	(1,047)	(1,509)	(1,802)	(1,500)	(2,430)
Common Dividends	(1,249)	(1,065)	(1,105)	(1,166)	(1,239)
Other Financing Items	(119)	(599)	(35)	287	-
Capital Excess/(Requirements)	**$ (1,466)**	**$ (3,315)**	**$ (3,148)**	**$ (9,437)**	**$ (5,108)**
Change of Debt Outstanding	1,635	3,549	5,904	3,705	4,480
Change of Preferred Stock	(93)	-	-	(190)	-
Change of Common Equity	47	35	1,868	55	1,150
Changes of Cash Balances	**$ 123**	**$ 269**	**$ 4,624**	**$ (5,867)**	**$ 522**
Ending Cash & Equivalents	**$ 1,609**	**$ 1,878**	**$ 6,502**	**$ 635**	**$ 1,157**
Capital Structure					
Short-term Debt	$ 341	$ 460	$ 533	$ 1,267	$ 2,517
Current Maturities of Long-term Debt	1,509	1,802	1,500	2,430	1,393
Long-term Debt (incl. Capital Leases)	18,271	20,010	24,286	32,216	34,053
Total Debt	**$ 20,121**	**$ 22,272**	**$ 26,319**	**$ 35,913**	**$ 37,963**
Preferred Stock	193	193	193	-	-
Shareholders' Equity	22,732	22,608	25,793	25,837	28,224
Total Capital	**$ 43,046**	**$ 45,073**	**$ 52,305**	**$ 61,750**	**$ 66,187**
Credit Metrics					
Interest Coverage					
EBITDA/Interest Expense	5.3x	6.1x	6.3x	4.9x	6.2x
FFO/Interest Expense	5.2x	6.0x	6.2x	4.3x	5.9x
EBITDA/Financing Costs	2.5x	3.2x	3.2x	2.8x	3.3x
Leverage					
Total Debt/EBITDA	3.4x	3.2x	3.7x	4.7x	4.4x
Net Debt/EBITDA	3.1x	2.9x	2.8x	4.7x	4.2x
FFO/Total Debt	23.9%	25.5%	22.4%	13.9%	18.1%
Total Debt/Total Capital	46.7%	49.4%	50.3%	58.2%	57.4%
Free Cash Flow					
FFO + Capex	**$ 338**	**$ 686**	**$ (615)**	**$ (1,918)**	**$ (138)**
FFO + Capex + Dividends	**$ (911)**	**$ (379)**	**$ (1,720)**	**$ (3,084)**	**$ (1,378)**

Exelon acquired Pepco Holdings Inc. (PHI) on March 23, 2016. * Amortization of nuclear fuel has been netted against capital expenditures. Not all line items are shown.
Sources: Company reports, BofA Merrill Lynch Global Research.

Valuation & risk

Exelon Corp. (EXC)

We view Exelon Corporation credit spreads as attractive relative to other mid-BBB electric utility holding company bonds. In addition, Exelon's credit profile has improved slightly following its March 2016 acquisition of Pepco Holdings' three regulated, transmission-and-distribution-only utilities. The utilities not only dilute Exelon Generation's proportion of Exelon's consolidated EBITDA, but also enable a broader and more diversified portfolio of regulated cash flows and opportunities for reducing regulatory lag and rate base investment. Management remains committed to a strong balance sheet and solid credit metrics and plans to reduce parent debt levels by the end of 2020. Primary risks include a declining EBITDA profile at Exelon Generation as a result of persistently low power prices, or an increase of parent or consolidated leverage. Potential changes to the U.S. income tax code are an uncertainty for the electric utility sector.

Baltimore (EXC)

We view Baltimore Gas & Electric as a low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. In addition, Baltimore Gas & Electric has had a ring fence to insulate its credit quality from affiliates. We view secondary credit spreads as fairly valued relative to T&D peers. We view the primary risk to be a historically below-average regulatory environment in Maryland but which has improved in recent years.

Commonwealth Edison (EXC)

We view Commonwealth Edison as a low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. We view credit spreads as fairly valued relative to other T&D utilities. We view the primary risk to be what has at times in the past been a below-average regulatory environment in Illinois due to political interferences, but the environment has been much more stable and more supportive in recent years.

Exelon Generation Co (EXC)

Exelon Generation is the largest owner and operator of nuclear plants in the U.S. with an excellent track record in operational performance. Also, management is highly committed to investment grade ratings and a solid balance sheet. Recently, both New York State and Illinois have approved electricity price surcharges to recognize the value of non-carbon, baseload nuclear power for 10-year periods. Risks include challenging merchant power market conditions, higher capital and expense requirements following the 2013 Fukushima Daiichi nuclear accident, and varied public perceptions of nuclear power.

PECO Energy Co. (EXC)

We view PECO Energy as a high-quality, low-risk transmission-and-distribution-only regulated electric utility with stable cash flows and good cost recovery mechanisms. PECO Energy's secondary credit spreads are fair to tightly valued relative to its electric T&D peers. Given its solid credit profile, we view the primary potential credit risk to be an adverse action at or development by either its parent or its sister merchant generation business.

Analyst Certification

I, Peter D. Quinn, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security pricing

Baltimore Gas & Electric Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.5, Notes, USD, 2021:B	300	15-NOV-2021	A3/A-/A-	104.20	07-Feb-2017	2.51	71
2.8, Notes, USD, 2022:B	250	15-AUG-2022	A3/A-/A-	100.66	07-Feb-2017	2.67	72
3.35, Notes, USD, 2023:B	300	01-JUL-2023	A3/A-/A-	103.06	07-Feb-2017	2.80	71
6.35, Notes, USD, 2036:B	400	01-OCT-2036	A3/A-/A-	129.88	07-Feb-2017	4.12	131
3.5, Notes, USD, 2046:B	500	15-Aug-2046	A3/A-/A-	90.83	07-Feb-2017	4.03	100
2.4, Notes, USD, 2026:B	350	15-Aug-2026	A3/A-/A-	93.70	07-Feb-2017	3.17	78

For pricing information refer to “Other Important Disclosures” below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Commonwealth Edison Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.15, First Mortgage Bonds, USD, 2017:B	425	15-SEP-2017	A2/A-/A	102.90	07-Feb-2017	1.31	60
5.8, First Mortgage Bonds, USD, 2018:B	700	15-Mar-2018	A2/A-/A	104.73	07-Feb-2017	1.46	55
2.15, First Mortgage Bonds, USD, 2019:B	300	15-JAN-2019	A2/A-/A	100.82	07-Feb-2017	1.70	58
4, First Mortgage Bonds, USD, 2020:B	500	01-AUG-2020	A2/A-/A	105.55	07-Feb-2017	2.21	72
3.4, First Mortgage Bonds, USD, 2021:B	350	01-SEP-2021	A2/A-/A	103.91	07-Feb-2017	2.44	68
3.1, First Mortgage Bonds, USD, 2024:B	250	01-Nov-2024	A2/A-/A	100.78	07-Feb-2017	2.98	73
6.45, First Mortgage Bonds, USD, 2038:B	450	15-Jan-2038	A2/A-/A	132.46	07-Feb-2017	4.12	126
3.8, First Mortgage Bonds, USD, 2042:B	350	01-OCT-2042	A2/A-/A	96.96	07-Feb-2017	3.99	99
4.6, First Mortgage Bonds, USD, 2043:B	350	15-AUG-2043	A2/A-/A	108.21	07-Feb-2017	4.08	108
4.7, First Mortgage Bonds, USD, 2044:B	350	15-JAN-2044	A2/A-/A	110.10	07-Feb-2017	4.07	106
3.7, First Mortgage Bonds, USD, 2045:B	400	01-Mar-2045	A2/A-/A	95.28	07-Feb-2017	3.98	95

For pricing information refer to “Other Important Disclosures” below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Corp. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
1.55, Senior Notes, USD, 2017:B	550	09-Jun-2017	Baa2/BBB-/BBB	100.03	07-Feb-2017	1.45	91
2.85, Senior Notes, USD, 2020:B	900	15-Jun-2020	Baa2/BBB-/BBB	101.70	07-Feb-2017	2.31	80
5.15, Senior Notes, USD, 2020:B	550	01-DEC-2020	Baa2/BBB-/BBB	108.60	07-Feb-2017	2.61	103
7.6, Senior Notes, USD, 2032:B	258	01-APR-2032	Baa2/BBB-/BBB	132.61	07-Feb-2017	4.59	197
5.625, Senior Notes, USD, 2035:B	500	15-Jun-2035	Baa2/BBB-/BBB	113.80	07-Feb-2017	4.51	176
5.1, Senior Notes, USD, 2045:B	741	15-JUN-2045	Baa2/N.A./BBB	107.40	07-Feb-2017	4.62	160
2.45, Senior Notes, USD, 2021:B	300	15-Apr-2021	Baa2/BBB-/BBB	99.04	07-Feb-2017	2.69	96
3.4, Senior Notes, USD, 2026:B	750	15-Apr-2026	Baa2/BBB-/BBB	98.31	07-Feb-2017	3.62	124
4.45, Senior Notes, USD, 2046:B	750	15-Apr-2046	Baa2/BBB-/BBB	99.73	07-Feb-2017	4.47	143
3.95, Senior, USD, 2025:B	806	15-JUN-2025	Baa2/BBB-/BBB	102.66	07-Feb-2017	3.57	127
4.95, Senior, USD, 2035:B	333	15-JUN-2035	Baa2/N.A./BBB	106.89	07-Feb-2017	4.39	166

For pricing information refer to “Other Important Disclosures” below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Exelon Generation Co. LLC / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.2, Senior Notes, USD, 2017:B	700	01-Oct-2017	Baa2/BBB/BBB	102.93	07-Feb-2017	1.62	89
5.2, Senior Notes, USD, 2019:B	600	01-OCT-2019	Baa2/BBB/BBB	107.36	07-Feb-2017	2.32	98
2.95, Senior Notes, USD, 2020:B	750	15-Jan-2020	Baa2/BBB/BBB	101.46	07-Feb-2017	2.42	102
4, Senior Notes, USD, 2020:B	550	01-OCT-2020	Baa2/BBB/BBB	104.27	07-Feb-2017	2.68	114
4.25, Senior Notes, USD, 2022:B	523	15-JUN-2022	Baa2/BBB/BBB	104.56	07-Feb-2017	3.27	135
6.25, Senior Notes, USD, 2039:B	900	01-OCT-2039	Baa2/BBB/BBB	100.97	07-Feb-2017	6.17	325
5.75, Senior Notes, USD, 2041:B	350	01-Oct-2041	Baa2/BBB/BBB	96.57	07-Feb-2017	6.02	304
5.6, Senior Notes, USD, 2042:B	788	15-JUN-2042	Baa2/BBB/BBB	92.73	07-Feb-2017	6.17	318
Senior Unsecured, USD, Y5, CDS					08-Feb-2017		179

For pricing information refer to “Other Important Disclosures” below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

PECO Energy Co. / EXC

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.35, FandR Mortgage Bonds, USD, 2018:B	500	01-Mar-2018	Aa3/A-/A	103.94	07-Feb-2017	1.60	71
2.375, FandR Mortgage Bonds, USD, 2022:B	350	15-SEP-2022	Aa3/A-/A	99.43	07-Feb-2017	2.49	48
3.15, FandR Mortgage Bonds, USD, 2025:B	350	15-Oct-2025	Aa3/A-/A	99.87	07-Feb-2017	3.17	82
5.95, FandR Mortgage Bonds, USD, 2036:B	300	01-Oct-2036	Aa3/A-/A	124.15	07-Feb-2017	4.14	134
4.8, FandR Mortgage Bonds, USD, 2043:B	250	15-OCT-2043	Aa3/A-/A	113.26	07-Feb-2017	3.98	97
4.15, FandR Mortgage Bonds, USD, 2044:B	300	01-Oct-2044	Aa3/A-/A	102.65	07-Feb-2017	3.99	97
1.7, FandR Mortgage Bonds, USD, 2021:B	300	15-Sep-2021	Aa3/A-/A	97.64	07-Feb-2017	2.24	42

For pricing information refer to "Other Important Disclosures" below.
B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Baltimore Gas & Electric Co. / EXC

Company	Date^	Action	Recommendation
Baltimore Gas & Electric Co. / EXC	31-Jan-2014		Overweight-30%
	30-Apr-2014	Downgrade	Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Security	Date^	Action	Recommendation	Price
3.5, Notes, USD, 2021:B	31-Jan-2016		Marketweight	
2.8, Notes, USD, 2022:B	31-Jan-2016		Marketweight	
3.35, Notes, USD, 2023:B	31-Jan-2016		Marketweight	
6.35, Notes, USD, 2036:B	31-Jan-2016		Marketweight	
3.5, Notes, USD, 2046:B	18-Aug-2016	New Issue	Marketweight	
2.4, Notes, USD, 2026:B	18-Aug-2016	New Issue	Marketweight	

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Pricing information in the table is provided for each action occurring after July 2, 2016, where available. In the case of bonds, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.
B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Commonwealth Edison Co. / EXC

Company	Date^	Action	Recommendation
Commonwealth Edison Co. / EXC	31-Jan-2014		Underweight-30%
	09-Nov-2015	Rating System Change	Marketweight

Security	Date^	Action	Recommendation	Price
6.15, First Mortgage Bonds, USD, 2017:B	31-Jan-2016		Marketweight	
5.8, First Mortgage Bonds, USD, 2018:B	31-Jan-2016		Marketweight	
2.15, First Mortgage Bonds, USD, 2019:B	31-Jan-2016		Marketweight	
4, First Mortgage Bonds, USD, 2020:B	31-Jan-2016		Marketweight	
3.4, First Mortgage Bonds, USD, 2021:B	31-Jan-2016		Marketweight	
3.1, First Mortgage Bonds, USD, 2024:B	31-Jan-2016		Marketweight	
6.45, First Mortgage Bonds, USD, 2038:B	31-Jan-2016		Marketweight	
3.8, First Mortgage Bonds, USD, 2042:B	31-Jan-2016		Marketweight	
4.6, First Mortgage Bonds, USD, 2043:B	31-Jan-2016		Marketweight	
4.7, First Mortgage Bonds, USD, 2044:B	31-Jan-2016		Marketweight	
3.7, First Mortgage Bonds, USD, 2045:B	31-Jan-2016		Marketweight	

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Exelon Corp. / EXC

Company	Date^	Action	Recommendation	
Exelon Corp. / EXC	31-Jan-2014		Overweight-30%	
	30-Apr-2014	Downgrade	Underweight-30%	
	17-Feb-2015	Upgrade	Overweight-30%	
	09-Nov-2015	Rating System Change	Overweight	
Security	**Date^**	**Action**	**Recommendation**	**Price**
1.55, Senior Notes, USD, 2017:B	31-Jan-2016		Overweight	
2.85, Senior Notes, USD, 2020:B	31-Jan-2016		Overweight	
5.15, Senior Notes, USD, 2020:B	31-Jan-2016		Overweight	
7.6, Senior Notes, USD, 2032:B	31-Jan-2016		Overweight	
5.625, Senior Notes, USD, 2035:B	31-Jan-2016		Overweight	
5.1, Senior Notes, USD, 2045:B	31-Jan-2016		Overweight	
2.45, Senior Notes, USD, 2021:B	07-Apr-2016	New Issue	Overweight	
3.4, Senior Notes, USD, 2026:B	07-Apr-2016	New Issue	Overweight	
4.45, Senior Notes, USD, 2046:B	07-Apr-2016	New Issue	Overweight	
3.95, Senior, USD, 2025:B	31-Jan-2016		Overweight	
4.95, Senior, USD, 2035:B	31-Jan-2016		Overweight	

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Exelon Generation Co. LLC / EXC

Company	Date^	Action	Recommendation	
Exelon Generation Co. LLC / EXC	31-Jan-2014		Overweight-30%	
	30-Apr-2014	Downgrade	Underweight-30%	
	17-Feb-2015	Upgrade	Overweight-30%	
	09-Nov-2015	Rating System Change	Overweight	
Security	**Date^**	**Action**	**Recommendation**	**Price**
6.2, Senior Notes, USD, 2017:B	31-Jan-2016		Overweight	
5.2, Senior Notes, USD, 2019:B	31-Jan-2016		Overweight	
2.95, Senior Notes, USD, 2020:B	31-Jan-2016		Overweight	
4, Senior Notes, USD, 2020:B	31-Jan-2016		Overweight	
4.25, Senior Notes, USD, 2022:B	31-Jan-2016		Overweight	
6.25, Senior Notes, USD, 2039:B	31-Jan-2016		Overweight	
	26-Oct-2016	Downgrade	Marketweight	110.37
5.75, Senior Notes, USD, 2041:B	31-Jan-2016		Overweight	
	26-Oct-2016	Downgrade	Marketweight	104.69
5.6, Senior Notes, USD, 2042:B	31-Jan-2016		Overweight	
	26-Oct-2016	Downgrade	Marketweight	103.94
Senior Unsecured, USD, Y5, CDS	31-Jan-2016		Sell Protection	
	12-Dec-2016	Rating Change	No Rating	193.51

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PECO Energy Co. / EXC

Company	Date^	Action	Recommendation	
PECO Energy Co. / EXC	31-Jan-2014		Underweight-30%	
	09-Nov-2015	Rating System Change	Marketweight	
Security	**Date^**	**Action**	**Recommendation**	**Price**
5.35, FandR Mortgage Bonds, USD, 2018:B	31-Jan-2016		Marketweight	
2.375, FandR Mortgage Bonds, USD, 2022:B	31-Jan-2016		Marketweight	
3.15, FandR Mortgage Bonds, USD, 2025:B	31-Jan-2016		Marketweight	
5.95, FandR Mortgage Bonds, USD, 2036:B	31-Jan-2016		Marketweight	
4.8, FandR Mortgage Bonds, USD, 2043:B	31-Jan-2016		Marketweight	
4.15, FandR Mortgage Bonds, USD, 2044:B	31-Jan-2016		Marketweight	
1.7, FandR Mortgage Bonds, USD, 2021:B	21-Sep-2016	New Issue	Marketweight	

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PECO Energy Co. / EXC

Company	Date^	Action	Recommendation

Pricing information in the table is provided for each action occurring after July 2, 2016, where available. In the case of bonds, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.
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BofA Merrill Lynch Credit Opinion Key
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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	143	35.93%	Buy	125	87.41%
Hold	183	45.98%	Hold	157	85.79%
Sell	72	18.09%	Sell	58	80.56%

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BARCLAYS

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Exelon Corp.

4Q $0.44; '17 Guidance $2.50-$2.80

Price Target Remains $40: We are reiterating our Overweight rating and our price target of $40. We are updating our EPS estimates to $2.68/$2.90 from $2.69/$2.97 for '17/18 and are publishing at 2019 estimate of $2.81.

Pepco (PHI) Integration Drives the Story: We continue to believe that the PHI integration drives the growth story with benefits also from outperformance at the legacy utilities that could continue. The PHI utilities currently earn ROEs of 5.6%/6.3%/7.5% vs. allowed levels of 10%/10%/9.7% for ACE, Delmarva, and Pepco respectively. The legacy utilities earned 10.5% in 2016 that was somewhat boosted by weather and lower storm costs and would have been 10.1% on a normalized basis.

Power Remains an Upside Option: The ExGen business remains an upside option where we value the business at a 1.0x turn discount to mid-cycle levels of 7.6x and gross margin was marked up $650/$1,050/$1,100 from 9/30/16 related to the ZEC revenues and higher open gross margin related to the reversal of the IL plant closures. Management committed to a 3.0x Net Debt/EBITDA target at ExGen from 3.3x in 2017. The renewable and Mystic sales processes continue and successful execution will lead to incremental deleveraging versus the 3.0x target level.

Risks to the Call: Border adjustment tax could be a risk if included in any tax reform package. Barclay's believes a boarder adjustment tax is unlikely in any final tax package (see *Border adjustments - The feasibility of implementation and the potential effect on retail*, published 2/8/17). However, if included at a 20% marginal rate it could equate to a $200 million hit to EXC. Further, the Federal Court case related to the ZEC programs in New York is moving at a faster pace than expected, and is likely to reach the decision stage by summer. This leads to a much earlier decision risk for the market to weigh than expected. If ZECs are not upheld it could also impact the similar program in Illinois, which would lead to reconsideration of plant closures and in a worst case analysis would hit gross margins by $800 million but lower costs by $575 million.

EXC: Quarterly and Annual EPS (USD)

	2016	2017			2018			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2017	2018
Q1	0.68A	N/A	N/A	0.72E	N/A	N/A	0.75E	N/A	N/A
Q2	0.65A	N/A	N/A	0.59E	N/A	N/A	0.72E	N/A	N/A
Q3	0.91A	N/A	N/A	0.86E	N/A	N/A	1.00E	N/A	N/A
Q4	0.44A	N/A	N/A	0.40E	N/A	N/A	0.45E	N/A	N/A
Year	2.68A	2.69E	2.68E	2.66E	N/A	2.90E	2.87E	0%	8%
P/E	13.2		13.1			12.1			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 8.

Equity Research
Power & Utilities | North America Power & Utilities
9 February 2017

Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 40.00 Unchanged

Price (08-Feb-2017)	USD 35.23
Potential Upside/Downside	+13.5%
Tickers	EXC

Market Cap (USD mn)	32527
Shares Outstanding (mn)	923.27
Free Float (%)	99.62
52 Wk Avg Daily Volume (mn)	5.7
52 Wk Avg Daily Value (USD mn)	N/A
Dividend Yield (%)	3.7
Return on Equity TTM (%)	4.79
Current BVPS (USD)	28.20

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 37.70-29.82

Link to Barclays Live for interactive charting

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North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corp. (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2016A	2017E	2018E	2019E	CAGR
Revenue	32,166	33,586	34,228	34,391	2.3%
EBITDA (adj)	7,577	8,068	8,710	8,827	5.2%
EBIT (adj)	4,530	4,749	5,198	5,078	3.9%
Pre-tax income (adj)	3,630	3,665	4,055	3,914	2.5%
Net income (adj)	2,483	2,546	2,808	2,720	3.1%
EPS (adj) ($)	2.68	2.68	2.90	2.81	1.6%
Diluted shares (mn)	927.0	949.0	967.0	968.0	1.5%
DPS ($)	1.26	1.29	1.33	1.36	2.5%

Margin and return data					Average
EBITDA (adj) margin (%)	23.6	24.0	25.4	25.7	24.7
EBIT (adj) margin (%)	14.1	14.1	15.2	14.8	14.5
Pre-tax (adj) margin (%)	11.3	10.9	11.8	11.4	11.4
Net (adj) margin (%)	7.7	7.6	8.2	7.9	7.9
ROIC (%)	7.8	7.8	8.2	7.9	7.9
ROA (%)	2.6	2.6	2.8	2.6	2.6
ROE (%)	9.7	9.4	9.8	9.0	9.5

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	61,505	67,111	72,374	73,301	6.0%
Total net assets	98,092	100,482	102,650	102,770	1.6%
Capital employed	58,239	60,724	63,037	64,610	3.5%
Shareholders' equity	26,304	27,785	29,499	31,095	5.7%
Net debt/(funds)	31,472	32,689	33,330	27,671	-4.2%
Cash flow from operations	7,538	7,873	8,327	8,477	4.0%
Capital expenditure	-8,482	-8,925	-8,775	-4,675	N/A
Free cash flow	-2,026	-2,164	-1,589	2,630	N/A
Pre-dividend FCF	-944	-1,052	-448	3,802	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	13.2	13.1	12.1	12.5	12.7
EV/EBITDA (adj) (x)	8.5	8.1	7.6	6.8	7.7
EV/EBIT (adj) (x)	14.2	13.8	12.7	11.9	13.1
P/BV (x)	1.2	1.2	1.2	1.1	1.2
Dividend yield (%)	3.6	3.7	3.8	3.9	3.7
Total debt/capital (%)	54.8	54.2	53.2	51.9	53.5
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					Average
Payout ratio (%)	47.2	48.3	45.7	48.4	47.4
Interest cover (x)	3.1	3.1	3.3	3.2	3.2
Regulated (%)	52.4	57.3	57.4	65.5	58.2

Price (08-Feb-2017)	USD 35.23
Price Target	USD 40.00

Why Overweight? We believe that that utility growth of 7-9% is achievable and will be funded by cash flow from the generation company even with the current forward curves. Any additional legislation similar to the CES in New York or the inclusion of the CES in our numbers is upside to our estimates.

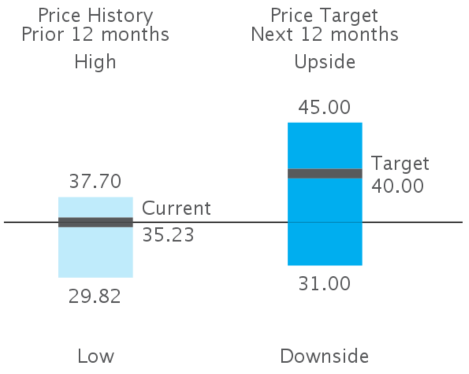
Upside case **USD 45.00**

Our upside case assumes the impact of the zero emission credits in New York for the genco and assumes a 10% premium for the utility valuation given the above average growth.

Downside case **USD 31.00**

Our downside case assumes a 10% discount for the utility and a 4x EBITDA at the genco based on current forwards, with no consideration of the CES or FitzPatrick acquisition

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

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Exelon Remains Our Top Pick – Two Risks to the Call

We believe the Exelon story combines strong growth at the utilities mostly premised upon regulatory and operational recovery with a proven management team that can execute on both fronts. ExGen is more stable with the ZEC programs and with deleveraging will become less risky over time. Further, ExGen provides an upside potential we do not believe the market currently appropriately values should power or natural gas prices recover from their significantly low recent levels.

There are however two risks that may weigh on the stock in the near term and create an overhang to performance that we would view as a buying opportunity.

Border Adjustment Tax

First, any border tax that is included in comprehensive tax reform would hit import of fuels for ExGen and be an approximate $200 million hit (at a 20% rate) to that subsidiary, all else constant. That said, there would likely be other mitigating positive factors, like an overall lower marginal rate that could have offsetting positive impacts for the company, including immediate expensing of capital and the potential for non-deductable nature of interest expense.

Barclays' house view is that the border tax is unlikely to remain in any final tax reform package given the significant impact on several industries in the US, including or most especially retail (see *Border adjustments - The feasibility of implementation and the potential effect on retail*, published 2/8/17 by Shawn Golhar, Barclays Public Policy Research). Even if border tax was included, it cannot be looked at in a vacuum apart from other items that would likely be included within the entire tax reform package. We estimate a range of impacts from tax between ($0.12) - $0.22 per share for our sector universe, depending on the final elements of any passed tax reform bill.

ZEC Federal Court Case

Management indicated on the call that a decision on whether to dismiss the lawsuit filed against the ZEC programs in New York in Federal Court would be forthcoming shortly. Further, and somewhat surprisingly if the trial is not dismissed, management indicated that a decision in the case could come as early as this summer. We believe this was significantly earlier than the market was anticipating and brings the risk of the ZECs being overturned closer into view. We estimate if the ZECs were overturned it could also likely mean the similar program in Illinois could also be overturned and see ($0.17) of earnings per share risk in that scenario. The gross margin loss would be offset by the closure of the nuclear plants in the program, so even in a worst case scenario the impact might not be as great as the market fears. We will have to await the outcome of the case, but Exelon management believes the ZEC program is defendable as it mimics the renewable energy credit (REC) market in New York, is not tethered to the wholesale market price, and cannot be attacked with the commerce clause because it is not confined to only in-state resources.

2017 Earnings per Share Guidance and Growth Outlook

2017 Earnings per Share Guidance

Management released 2017 earnings per share guidance in a range of $2.50 - $2.80 which is in line with our estimate of $2.68. Management expects Q1 2017 earnings per share between $0.55 - $-0.65. The 2017 full year guidance range by business segment is broken down in the table below.

FIGURE 1

2016 Results and 2017 Guidance Breakdown

	2016	2017 Guidance	
	Actual	Low	High
BGE	$ 0.31	$ 0.25	$ 0.35
PHI	$ 0.25	$ 0.30	$ 0.40
PECO	$ 0.48	$ 0.40	$ 0.50
ComEd	$ 0.57	$ 0.60	$ 0.70
ExGen	$ 1.27	$ 1.05	$ 1.15
HoldCo	$ (0.19)	$ (0.20)	$ (0.20)
Total	**$ 2.68**	**$ 2.50**	**$ 2.80**

Source: 2016 EXC Earnings Release and Presentation, Barclays Research Estimates

According to management, BGE will be driven by higher D&A partially offset by normalization of one-time items and distribution revenue. PHI will be driven by a full-year of earnings contribution and higher distribution and transmission revenues. PECO will be driven by higher O&M for storms and higher D&A as a result of higher capital expenditures. ComEd will be driven by higher capital investments under the Illinois tracker and higher treasury yields driving higher allowed return levels. ExGen will be driven by lower realized energy prices partially offset by the New York and Illinois ZEC programs.

PHI Drives Utility Growth Story

The Pepco Holding integration will continue to drive growth through implementation of better operational performance, in our view. Exelon management has a proven track record of closing earned versus allowed return gaps post acquisition. Currently the earned returns at PHI were 5.6%/6.3%/7.5% versus allowed return levels of 10%/10%/9.7% at ACE, Delmarva, and Pepco respectively. The legacy Exelon utilities also outperformed in 2016 even when normalized for lower storm costs and better than normal weather. Reported return levels were 10.5% while normalized returns were approximately 10.1%.

We believe that management has a proven track record of closing the gap to allowed return levels as proven by the improved performance at BGE post the Constellation acquisition. All utilities at Exelon ended 2016 with strong metrics with BGE, ComEd, and PECO achieving 1st quartile performance in customer satisfaction which was the best ever performance at each utility. ComEd and PECO also achieved 1st decile performance for outage frequency which ComEd achieving best ever results. This is important as we should see that operational strength translate into the PHI utilities and drive returns closer to allowed levels as well as potentially create a positive feedback loop with regulators. We began to see the first signs of this with PHI recording their best ever outage frequency performance in 2016.

Rate base growth will be driven by solid capital plan and will also drive earnings growth over time as approximately 75% of the rate base growth for the next four years will be recovered through existing tracker or formula mechanisms. Management sees utility earnings per share growth of 6% - 8% through 2020. It will also allow the utility ex parent earnings of the company to support the dividend going forward with a theoretical affordability dropping from a utility earnings payout ratio of 84% in 2017 to 75% in 2020.

FIGURE 2

Exelon Utilities Guidance for CapEx, Rate Base, Earnings per Share, and Dividend Payout

	2017E	2018E	2019E	2020E
CapEx (US$m)				
PHI	1,375	1,400	1,350	1,425
PECO	775	800	775	750
BGE	925	950	975	875
ComEd	2,200	2,025	1,675	1,775
Total	**5,275**	**5,175**	**4,775**	**4,825**
Rate Base (US$B)				
PHI	8.9	9.4	9.9	10.5
PECO	6.6	7.0	7.4	7.8
BGE	5.7	6.1	6.5	6.9
ComEd	13.2	14.0	14.8	15.5
Total	**34.4**	**36.5**	**38.6**	**40.7**
Rate Base Growth (US$B)	2.8	2.1	2.0	2.1
Rate Base Tracker (US$B)	2.1	2.3	1.1	1.3
EPS Guidance Utilities Low	**$ 1.40**	**$ 1.50**	**$ 1.60**	**$ 1.75**
EPS Guidance Utilities High	**$ 1.70**	**$ 1.80**	**$ 1.90**	**$ 2.05**
Utility Earnings Payout Ratio	84%	81%	79%	75%

Source: 2016 EXC Earnings Release and Presentation, Barclays Research Estimates

ExGen Becomes Less Volatile, Could Provide Upside

With the ZEC programs in place, although a legal challenge remains to be resolved, the ExGen fleet has increased gross margins and changed the mix to become more stable over time. The 2016 year saw record generation from the nuclear fleet with a 94.6% capacity factor and an all-time low refueling outage duration of 22 days. Retail continued to perform well with a 28% new customer win rate at 77% customer retention rate with margins remaining stable.

On a mark to market and inclusion of the ZEC programs, gross margin guidance was increased by $650/$1,050/$1,100 million for '17/18/19 respectively.

FIGURE 3

ExGen Gross Margin Update

US$m	As of December 31, 2016			Chg from September 30,2016		
	2017	2018	2019	2017	2018	2019
Open Gross Margin	4,100	4,200	4,050	300	550	450
Capacity and ZEC Revenues	1,850	2,250	2,050	400	550	600
MTM of Hedges	1,200	450	350	-	(50)	50
Power New Business/To Go	550	900	950	(50)	-	-
Non-Power Margins Executed	200	100	50	50	-	-
Non-Power New Business/To Go	250	400	450	(50)	-	-
Total Gross Margin	**8,150**	**8,300**	**7,900**	**650**	**1,050**	**1,100**

Source: 2016 EXC Earnings Release and Presentation, Barclays Research Estimates

Management also guided to approximately $3 billion in debt reduction over the next four years part of which will be at ExGen. We believe the long-term target of 3.0x Net Debt to EBITDA from current levels of 3.3x can be achieved or even exceeded pending execution of the renewable portfolio joint-venture sale process and the sale process for assets in New England. Further, once the new CCGT plants are commissioned in Texas, there could emerge a scenario where they could either be sold in a deleveraging transaction or be financed with project level non-recourse debt, both of which would reduce ExGen leverage further.

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Primary Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 08-Feb-2017, USD 35.23), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M

Prices are sourced from Thomson Reuters as of the last available closing price in the relevant trading market.

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In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Aqua America (WTR)	Brookfield Infrastructure Partners LP (BIP)	Brookfield Infrastructure Partners LP (BIP_u.TO)
Brookfield Renewable Energy Partners LP (BEP)	Brookfield Renewable Energy Partners LP (BEP_u.TO)	California Water Service Group (CWT)
Calpine Corp. (CPN)	Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)	Connecticut Water Service Inc. (CTWS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
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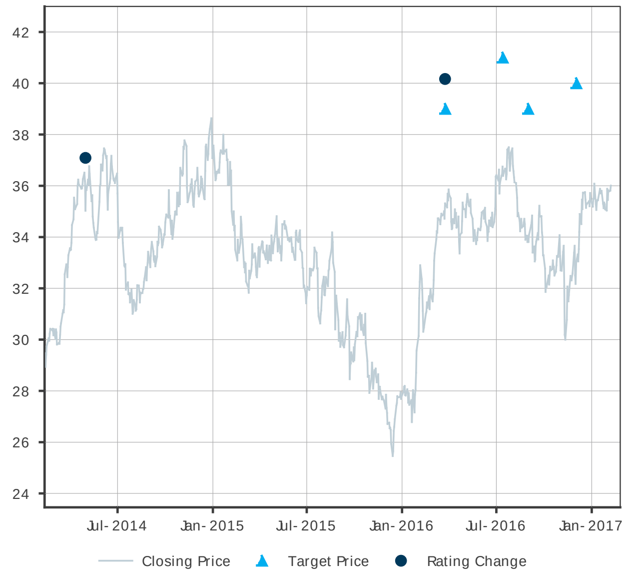
Exelon Corp. (EXC / EXC)	Stock Rating	Industry View
USD 35.23 (08-Feb-2017)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 08-Feb-2017)



Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00
30-Apr-2014	35.03	Rating Suspended	

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

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Valuation Methodology: Our $40 price target is premised upon a 2019 group average multiple of 15.1x applied to the utility net parent earnings of $1.81 resulting in $28 of utility value. Exgen is valued at 6.5x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, The combined value is $40.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

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8 February 2017

Exelon Corp. (EXC): Misses GS 4Q2016 EPS, provides 2017 guidance

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Exelon Corp (EXC, Neutral) reported ongoing 4Q2016 EPS of $0.44, missing GS of $0.50 and coming relatively in line with consensus of $0.45. EXC provided 2017 guidance of $2.50-$2.80, a midpoint below GS estimate of $2.83, but relatively in line with consensus of $2.64.

A few key initial insights include:

- ComEd, EXC's largest regulated segment, reported 4Q2016 ongoing net income of $81mn, lower than GS estimate of $90mn and lower than 4Q2015 of $87mn – driven by one-time ordered and proposed adjustments to ComEd's distribution formula revenues, while PHI reported 4Q2016 ongoing net income of $42mn, lower than GS estimate of $73mn – driven by higher O&M than our estimates.
- ComEd weather-normalized retail electric deliveries decreased by (0.1%) 4Q2016 relative to 4Q2015 while PECO weather-normalized retail electric deliveries decreased by (1.3%) in 4Q2016 relative to 4Q2015.
- Exelon Generation, EXC's non-regulated segment, reported 4Q2016 ongoing net income of $162mn, lower than GS estimate of $194mn, but higher than 4Q2015 net income of $142mn.
- EXC increased Exelon Generation's expected generation volume hedged to 91-94% for 2017, 56-59% for 2018 and 28-31% for 2019 – compared to 85-88% for 2017, 54-57% for 2018, and 23-26% for 2019, as previously disclosed in 3Q2016. Disclosed hedged pricing remained relative flat for most regions, but with New York seeing declines of $3-$7/MWh.
- EXC lowered EPS growth through 2020 from 7-9% off of 2016 to 6-8% off of 2017, although the company raised Utility capital expenditure guidance by $125-$225mn in 2019/2020.

Topics to monitor on the earnings call include (1) cost management relating to EXC's acquisition of Pepco Holdings, (2) an update on regulated earnings growth potential and rate case timing, (3) insights into capacity markets in PJM, ISO-NE and MISO, (4) overview on demand trends and (5) outlook for Exelon Generation, especially its nuclear generation portfolio.

Our 12-month price target of $38 is derived using a sum-of-the-parts valuation and applying a 16.75x 2018E P/E multiple on ComEd, PECO and BGE EPS, a 16.25x

2018E P/E multiple on PHI, and a 5.25x EV multiple on non-regulated 2018E EBITDA. Key risks include natural gas prices, power prices, and regulation (last close price $36.01).

Disclosure Appendix

Reg AC

We, Michael Lapides, Daniel Yu, CFA, David Fishman, Dylan Campbell and Siddharth Verma, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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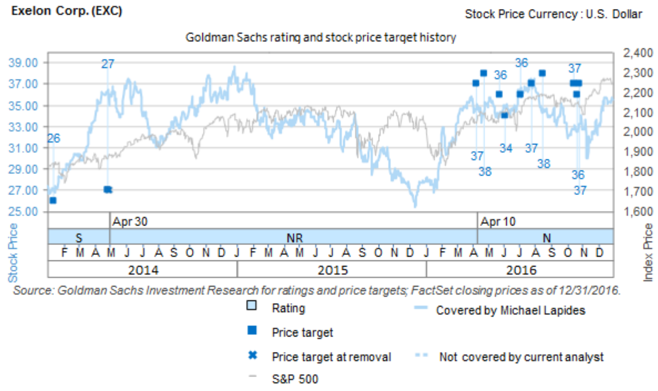

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 17 Feb 2017 22:30, UTC	35.58 USD 17 Feb 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.11	3.62 17 Feb 2017	3.68 17 Feb 2017	32.97 17 Feb 2017	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.02	0.89	1.04	1.05
Price/Earnings	29.0	17.0	16.6	22.6
Forward P/E	13.4	—	15.6	17.3
Price/Cash Flow	3.9	4.5	6.3	13.0
Price/Free Cash Flow	—	57.1	13.1	19.5
Trailing Dividend Yield%	3.62	4.40	3.42	1.91

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Investment Thesis

Travis Miller, Sector Director, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Sector Director, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Exelon Corp EXC (XNYS)

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,001	9,249	24.68	17.12
FirstEnergy Corp FE	USD	13,216	14,728	6.10	0.00
Entergy Corp ETR	USD	13,175	10,706	13.62	10.29

Economic Moat

Travis Miller, Sector Director, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Sector Director, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

Exelon Corp EXC (XNYS)

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We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Sector Director, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets. Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Sector Director, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets.

Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
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Analyst Notes Archive

Regulated Utilities Continue Driving Growth for Exelon

Travis Miller, Sector Director, 26 October 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Travis Miller, Sector Director, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities

Travis Miller, Sector Director, 09 November 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

Travis Miller, Sector Director, 14 November 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Travis Miller, Sector Director, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Sector Director, 08 February 2017

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Exelon Corp EXC ★★★Q 17 Feb 2017 02:00 UTC

Last Close	Fair ValueQ	Market Cap	Sector	Industry	Country of Domicile
17 Feb 2017 35.58	17 Feb 2017 02:00 UTC 34.86	17 Feb 2017 32,819.8 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

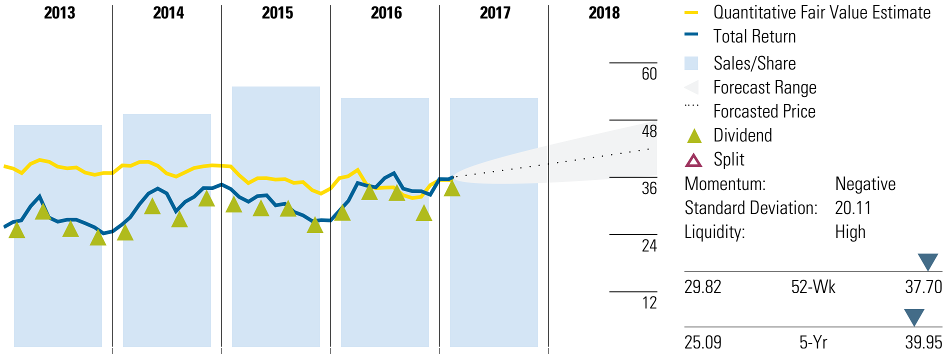
Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	88	87	82
Valuation	Fairly Valued	58	57	65
Quantitative Uncertainty	Medium	98	92	96
Financial Health	Moderate	59	52	59

Source: Morningstar Equity Research

Price vs. Quantitative Fair Value



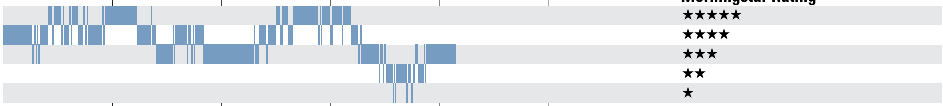
Momentum: Negative
Standard Deviation: 20.11
Liquidity: High

29.82 52-Wk 37.70

25.09 5-Yr 39.95

	2013	2014	2015	2016	2017
Total Return %	-3.0	39.9	-21.8	32.4	1.2
+/– Market (Morningstar US Index)	-36.1	27.1	-22.5	19.9	-4.2
Trailing Dividend Yield %	5.31	3.34	4.47	3.56	—
Forward Dividend Yield %	—	—	—	—	3.62
Price/Earnings	14.6	15.2	12.4	26.9	29.1
Price/Revenue	0.9	1.2	0.8	1.1	1.0

Morningstar RatingQ



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.02	0.89	1.04	1.05
Price/Earnings	29.0	17.0	16.6	22.6
Forward P/E	13.4	—	15.6	17.3
Price/Cash Flow	3.9	4.5	6.3	13.0
Price/Free Cash Flow	—	57.1	13.1	19.5
Trailing Dividend Yield %	3.62	4.40	3.42	1.91
Price/Book	1.3	1.3	1.4	2.5
Price/Sales	1.0	1.1	1.5	2.2

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.4	7.0	9.2	12.0
Return on Assets %	1.1	1.9	3.1	4.6
Revenue/Employee (K)	911.7	942.4	1,241.2	306.7

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	623.8	584.2
Assets/Equity	4.4	3.8	2.7	1.7
Long-Term Debt/Equity	1.2	0.9	0.8	0.3

Financials (Fiscal Year in Mil)

	2012	2013	2014	2015	2016	TTM
Revenue	23,489	24,888	27,429	29,447	31,360	31,360
% Change	24.1	6.0	10.2	7.4	6.5	0.0
Operating Income	2,380	3,656	3,096	4,409	3,112	3,112
% Change	-46.9	53.6	-15.3	42.4	-29.4	0.0
Net Income	1,160	1,719	1,623	2,269	1,134	1,134
Operating Cash Flow	6,131	6,343	4,457	7,616	8,445	8,445
Capital Spending	-5,810	-5,395	-6,077	-7,624	-8,553	-8,553
Free Cash Flow	321	948	-1,620	-8	-108	-108
% Sales	1.4	3.8	-5.9	0.0	-0.3	-0.3
EPS	1.42	2.00	1.88	2.54	1.22	1.22
% Change	-62.1	40.8	-6.0	35.1	-52.0	0.0
Free Cash Flow/Share	0.39	0.48	-0.03	-1.04	0.82	0.82
Dividends/Share	2.10	1.46	1.24	1.24	1.26	1.26
Book Value/Share	25.07	25.51	27.44	28.01	28.19	28.09
Shares Outstanding (K)	857,000	860,000	920,000	924,000	926,590	926,590

Profitability

	2012	2013	2014	2015	2016	TTM
Return on Equity %	6.5	7.8	7.2	9.4	4.4	4.4
Return on Assets %	1.7	2.2	2.0	2.5	1.1	1.1
Net Margin %	4.9	6.9	5.9	7.7	3.6	3.6
Asset Turnover	0.35	0.31	0.33	0.32	0.30	0.30
Financial Leverage	3.7	3.5	3.8	3.7	4.4	4.4
Gross Margin %	56.8	56.9	52.6	55.6	59.7	59.7
Operating Margin %	10.1	14.7	11.3	15.0	9.9	9.9
Long-Term Debt	18,346	18,271	20,010	24,286	32,216	32,216
Total Equity	21,624	22,925	22,801	25,793	25,837	25,837
Fixed Asset Turns	0.6	0.5	0.6	0.5	0.5	0.5

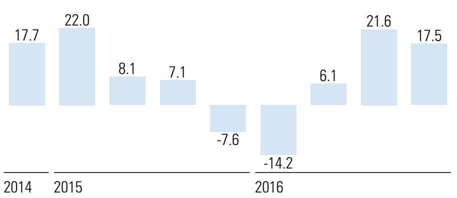
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	18.6	9.8	1.7	-1.8

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

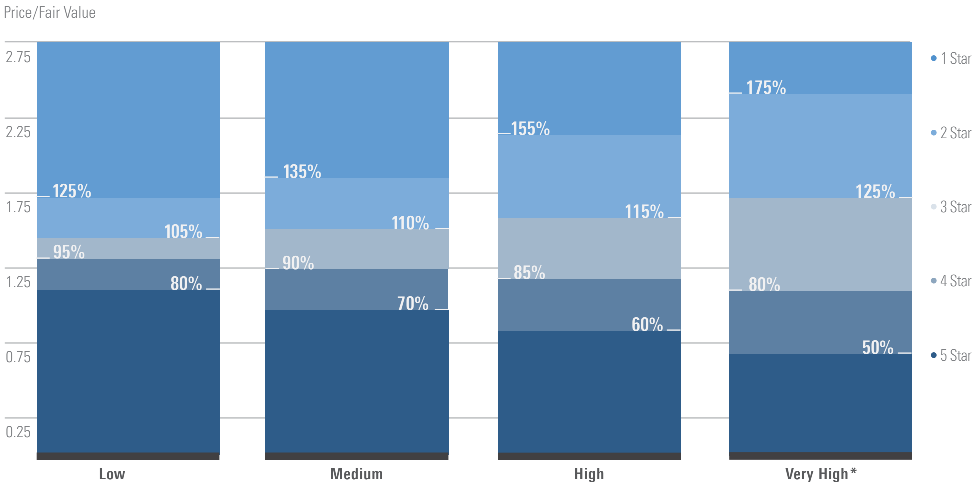
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ►**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ►**Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ►**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ►**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ►**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ►**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ►**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ►**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
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- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

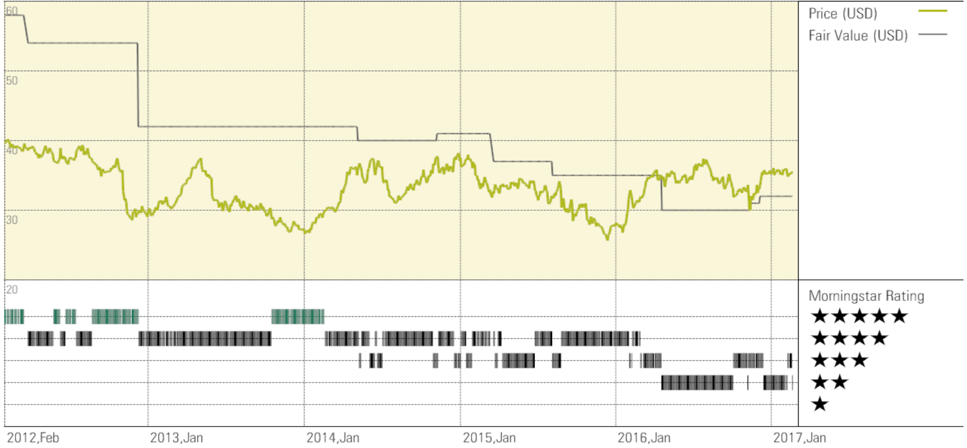
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit www.corporate.morningstar.com.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 17 Feb 2017 22:30, UTC	35.58 USD 17 Feb 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.11	3.62 17 Feb 2017	3.68 17 Feb 2017	32.97 17 Feb 2017	Utilities - Diversified	Standard


Price/Fair Value Morningstar data as of Feb 17, 2017

General Disclosure

The analysis within this report is prepared by the person (s) noted in their capacity as an analyst for Morningstar's equity research group. The equity research group consists of various Morningstar, Inc. subsidiaries ("Equity Research Group)". In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission.

The opinions expressed within the report are given in good faith, are as of the date of the report and are subject to change without notice. Neither the analyst nor Equity Research Group commits themselves in advance to whether and in which intervals updates to the report are expected to be made. The written analysis and Morningstar Star Rating for stocks are statements of opinions; they are not statements of fact.

The Equity Research Group believes its analysts make a reasonable effort to carefully research information contained in the analysis. The information on which the analysis is based has been obtained from sources believed to be reliable such as, for example, the company's financial statements filed with a regulator, company website, Bloomberg and any other the relevant press sources. Only the information obtained from such sources is made available to the issuer who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this sharing of information result in considerable changes, a statement of that fact will be noted within the report. While the Equity Research Group has obtained data, statistics and information from sources it believes to be reliable, neither the Equity Research Group nor Morningstar, Inc. performs an audit or seeks independent verification of any of the data, statistics, and information it receives.

General Quantitative Disclosure

The Quantitative Equity Report ("Report") is derived from data, statistics and information within Morningstar, Inc.'s database as of the date of the Report and is subject to change without notice. The Report is for informational purposes only, intended for financial professionals and/or sophisticated investors ("Users") and should not be the sole piece of information used by such Users or their clients in making an investment decision. The quantitative equity ratings noted the Report are provided in good faith, are as of the date of the Report and are subject to change. While Morningstar has obtained data, statistics and information from sources it believes to be reliable, Morningstar does not perform an audit or seeks independent verification of any of the data, statistics, and information it receives.

The quantitative equity ratings are not a market call, and do not replace the User or User's clients from conducting their own due-diligence on the security. The quantitative equity rating is not a suitability assessment; such assessments take into account may factors including a person's investment objective, personal and financial situation, and risk tolerance all of which are factors the quantitative equity rating statistical model does not and did not consider.

Prices noted with the Report are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

General Disclosure (applicable to both Quantitative and Qualitative Research)

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 17 Feb 2017 22:30, UTC	35.58 USD 17 Feb 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.11	3.62 17 Feb 2017	3.68 17 Feb 2017	32.97 17 Feb 2017	Utilities - Diversified	Standard

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Macquarie Research

Equities

Exelon Corp

Border tax: from avocados to uranium cake

UNITED STATES

EXC US Outperform

Price (at 04:45, 08 Feb 2017 GMT) US$36.01

Valuation - PER	**US$**	**41.00**
12-month target	**US$**	**41.00**
12-month TSR	**%**	**+17.4**
GICS sector		**Utilities**
Market cap	**US$m**	**33,247**
30-day avg turnover	**US$m**	**162.1**
Number shares on issue	**m**	**923.3**

Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
EPS adj	US$	2.68	2.69	2.97	2.88
EPS adj growth	%	7.6	0.4	10.3	-2.9
PER adj	x	13.4	13.4	12.1	12.5
Total DPS	US$	1.26	1.29	1.32	1.36
Total div yield	%	3.5	3.6	3.7	3.8

EXC US vs S&P 500, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Capital (USA), February 2017

(all figures in USD unless noted)

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9 February 2017
Macquarie Capital (USA) Inc.

Event

- Strong retail/generation hedges coupled with cost efficiencies and nuclear subsidies in IL/NY continue to support EXC's merchant power earnings. EXC's large nuclear portfolio spread between the ComEd and EMAAC zones of PJM should continue to command premium capacity prices thanks to EXC's bidding strategies (unaffected by IL nuclear subsidies), transmission constraints, and limited new build in these zones. State subsidies for EXC's nuclear plants in NY/IL are being challenged in court/FERC with a ruling on the NY lawsuit dismissal coming soon. Lastly, we are not concerned about the impact of a potential border tax on ExGen's nuclear fuel given very low uranium prices. We reiterate our OP rating and EXC remains our favourite diversified utility.
- EXC reported '16 adjusted EPS of US$2.68, just shy of our estimate of US$2.69. Management initiated '17 EPS guidance of US$2.50-2.80, with the midpoint just above consensus and just below our previous expectations.

Impact

- **Legal challenge to NY ZECs:** In late October '16, a coalition of power producers filed a lawsuit against the NYPSC's zero emission credits (ZECs), subsidies for nuclear plants in upstate NY, claiming that this state initiative infringed on FERC's jurisdiction over wholesale power markets. We are hopeful the lawsuit gets dismissed, and if not, the court should rule on the case this summer. The ruling would be important for future legal challenges of NY ZECs that IL ZECs are based on. We wonder what happens with the future pricing of the ZECs if the federal government stops publishing estimates of the social cost of carbon.
- **Border tax and imported nuclear fuel:** On the upcoming corporate tax reform, management was concerned about the impact of a potential border tax on the cost of nuclear fuel for ExGen. The company buys uranium from Niger, Australia and Kazakhstan, with the nuclear fuel enrichment also done abroad. Even if the border tax were to be imposed, we would expect uranium (among others) to be excluded as uranium mining cannot be moved back into the US. We also point out that uranium yellow cake prices are close to historical lows (~US$26 per pound vs. all-time highs of ~US$135) due to significant oversupply of the commodity and no real mining discipline with the price of uranium enrichment also low, neither of which has reacted to the debate about a potential border tax. Separately, such a tax would boost the cost of utility T&D capex which in turn could be earnings accretive for regulated utilities.

Earnings and target price revision

- We have updated our estimates to reflect EXC's new utility capex, and higher hedged gross margins at ExGen offset by higher O&M, depreciation and interest expense. Our new '17/'18/'19 EPS estimates are US$2.69/2.97/2.88 vs. US$2.67/2.92/2.90, previously. Our US$41 TP remains unchanged.

Price catalyst

- 12-month price target: US$41.00 based on a Sum of Parts methodology.
- Catalyst: ISO NE capacity auction, potential dismissal of legal challenges to the NY ZEC program, PJM capacity auction.

Action and recommendation

- We reiterate our Outperform rating.

Please refer to page 4 for important disclosures and analyst certification, or on our website www.macquarie.com/research/disclosures.

Fig 1 EXC: EPS breakdown by segment (US$)

	2015	2016	2017E	2018E	2019E
Regulated utilities	$ 1.23	$ 1.61	$ 1.79	$ 1.85	$ 1.95
ExGen	$ 1.40	$ 1.27	$ 1.10	$ 1.32	$ 1.12
Parent	$ (0.13)	$ (0.20)	$ (0.20)	$ (0.20)	$ (0.19)
Total	**$ 2.49**	**$ 2.68**	**$ 2.69**	**$ 2.97**	**$ 2.88**

Source: FactSet, Macquarie Capital (USA), February 2017

Fig 2 EXC: Trading multiples

	2016	2017E	2018E	2019E
EPS	$2.68	$2.69	$2.97	$2.88
Regulated utility EPS as % of total EPS	52%	59%	56%	61%
PE as of 02/08/17	13.1x	13.1x	11.9x	12.3x
DPS	1.26	1.29	1.32	1.36
Dividend yield as of 2/08/17	3.6%	3.6%	3.7%	3.9%
Implied EV/EBITDA for ExGen			5.2x	5.8x

Source: FactSet, Macquarie Capital (USA), February 2017

Fig 3 EXC: Financial projections (US$m except per share data)

	2015	2016	2017E	2018E	2019E
Sales	29,237	31,905	32,499	33,311	33,213
Operating expenses	25,021	27,041	26,985	27,358	27,541
EBITDA	6,666	8,096	8,864	9,423	9,271
Depreciation	2,450	3,232	3,350	3,469	3,599
EBIT	4,216	4,864	5,514	5,954	5,672
Net interest expense	(1,098)	(1,383)	(1,742)	(1,724)	(1,688)
Ordinary Profit Before Tax	3,392	3,787	3,973	4,430	4,183
Income tax	(1,165)	(1,299)	(1,419)	(1,557)	(1,394)
Net profit	2,227	2,488	2,554	2,873	2,789
S/O (m)	**893**	**927**	**948**	**967**	**970**
EPS	**$2.49**	**$2.68**	**$2.69**	**$2.97**	**$2.88**
DPS		**$1.26**	**$1.29**	**$1.32**	**$1.36**
Current assets	8,596	8,971	9,102	9,261	9,247
Property, plant, and equipment	56,031	59,774	62,799	64,805	66,681
Total assets	**87,960**	**92,452**	**95,983**	**98,522**	**100,757**
Current liabilities	7,097	7,076	7,159	7,233	7,146
Long-term debt	17,111	20,349	22,108	23,024	23,748
Shareholders' equity	32,855	33,531	34,620	35,568	36,566
Total liabilities and equity	**87,960**	**92,452**	**95,983**	**98,522**	**100,757**
Net income	2,227	2,488	2,554	2,873	2,789
Operating cashflow	5,116	5,924	6,455	6,858	7,090
Investing cashflow	(7,375)	(6,975)	(6,375)	(5,475)	(5,475)
Dividends paid	(1,104)	(1,160)	(1,215)	(1,272)	(1,312)
Financing cashflow	2,259	1,051	(80)	(1,383)	(1,615)

Source: FactSet, Macquarie Capital (USA), February 2017

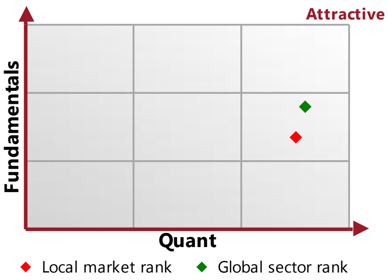
Macquarie Quant View

The quant model currently holds a reasonably positive view on Exelon Corp. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

59/432

Global rank in Utilities

% of BUY recommendations	62% (15/24)
Number of Price Target downgrades	1
Number of Price Target upgrades	6

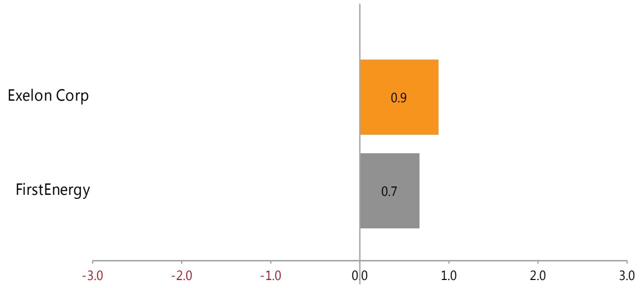


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (United States) and Global sector (Utilities)

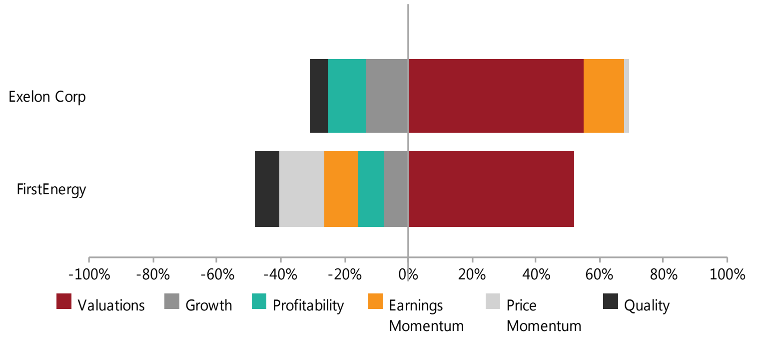
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



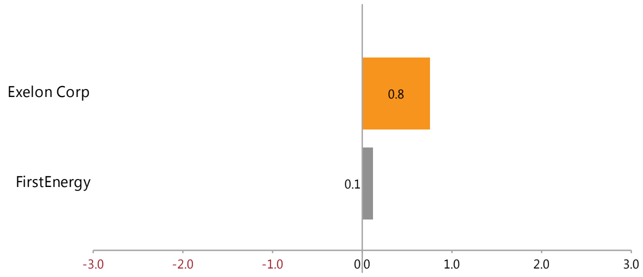
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



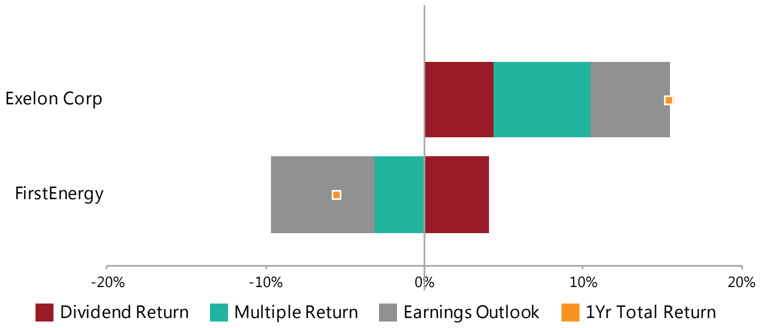
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



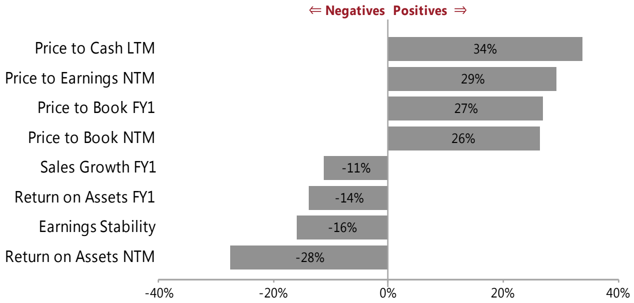
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



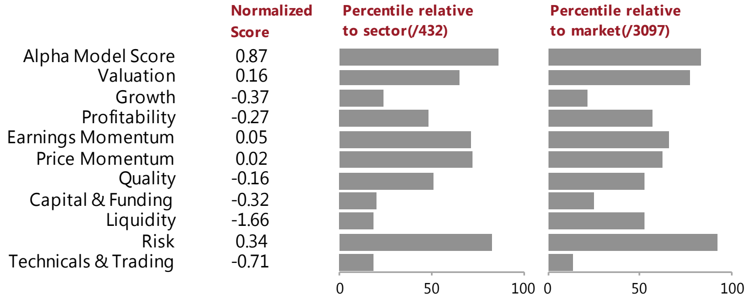
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

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Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	57.53%	50.72%	45.57%	42.28%	60.58%	52.79%	(for global coverage by Macquarie, 8.71% of stocks followed are investment banking clients)
Neutral	33.90%	33.97%	43.04%	50.11%	37.23%	35.62%	(for global coverage by Macquarie, 8.05% of stocks followed are investment banking clients)
Underperform	8.56%	15.30%	11.39%	7.61%	2.19%	11.59%	(for global coverage by Macquarie, 4.63% of stocks followed are investment banking clients)

EXC US vs S&P 500, & rec history

(all figures in USD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Capital (USA), February 2017

12-month target price methodology

EXC US: US$41.00 based on a Sum of Parts methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
11-Aug-2016	EXC US	Outperform	US$41.00
17-Jun-2015	EXC US	Outperform	US$40.00
17-Nov-2014	EXC US	Outperform	US$41.00
09-Oct-2014	EXC US	Outperform	US$39.00
21-Jul-2014	EXC US	Outperform	US$36.00
10-Jun-2014	EXC US	Neutral	US$37.00
01-May-2014	EXC US	Neutral	US$34.00
04-Apr-2014	EXC US	Neutral	US$32.00

Target price risk disclosures:
EXC US: Our US$41 price target is based on our ’19 SOP valuation. Risks include execution of regulated capex and the pace of load growth for EXC’s utilities, the level of forward power prices in particular in PJM West and NI Hub, forward capacity prices in PJM and New England, and incremental cost efficiencies.

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.01 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

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Research as of 08 Feb 2017
Estimates as of 20 Jan 2017
Pricing data through 07 Feb 2017
Rating updated as of 07 Feb 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 08 Feb 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power

Vital Statistics

Market Cap (USD Mil)	33,247
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	13.3
YTD Total Return %	1.5
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.13

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	*13.9*	*13.7*
EV/EBITDA	9.5	6.6	*8.8*	*8.2*
EV/EBIT	16.7	10.2	*14.2*	*13.5*
Free Cash Flow Yield %	-5.1	0.0	*-19.6*	*-3.7*
Dividend Yield %	3.3	4.3	*3.5*	*3.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,775*	*32,405*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*4,998*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,486*
Net Income YoY %	-4.0	7.7	*8.2*	*3.3*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*0.9*
Free Cash Flow	121	561	*-12,392*	*-391*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.01 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

markets or regulation become headwinds.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.01 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*2016*	*2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-5.7*	*16.7*	*4.4*
EBIT	*22.8*	53.6	-15.3	42.4	*7.5*	*5.5*	*6.6*
EBITDA	*17.2*	36.3	-6.9	26.8	*11.4*	*7.3*	*7.3*
Net Income	*-1.6*	-7.9	-4.0	7.7	*8.2*	*3.3*	*6.6*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*4.4*	*0.9*	*4.9*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*63.1*	*-45.4*	*0.0*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-2,307.6*	*-96.9*	*44.3*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*17.1*	*15.4*	*16.4*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*27.5*	*25.3*	*26.4*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.7*	*8.3*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-44.6*	*-1.2*	*-5.1*
ROIC %	*3.1*	2.5	2.5	4.1	*11.1*	*5.6*	*6.8*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*12.0*	*6.1*	*7.4*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.4*
Return on Equity %	*8.0*	7.7	7.1	9.3	*9.0*	*8.8*	*9.3*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.56*	*0.56*	*0.55*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.56*	*4.55*	*4.30*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.55*	*5.40*	*5.57*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	*13.9*	*13.7*
EV/EBITDA	9.5	6.6	*8.8*	*8.2*
EV/EBIT	16.7	10.2	*14.2*	*13.5*
Free Cash Flow Yield %	-5.1	0.0	*-19.6*	*-3.7*
Dividend Yield %	3.3	4.3	*3.5*	*3.6*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,312	-13.2	-6.83
Present Value Stage II	17,500	36.6	18.92
Present Value Stage III	36,662	76.6	39.65
Total Firm Value	**47,850**	**100.0**	**51.75**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,065**	**—**	**30.35**
Projected Diluted Shares	925		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.01 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,775***	***32,405***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,731*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,674***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,730***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,231*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,486***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,486*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,198***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,198***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,883*
Inventory	1,105	1,603	1,566	*1,079*	*1,505*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,521***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,081***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,821*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,054***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,821***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,590*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,859***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,259***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.01 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	*Forecast* *2016*	*2017*
Net Income	1,729	1,820	2,250	*2,420*	*2,499*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-698*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-426*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*260*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***95***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

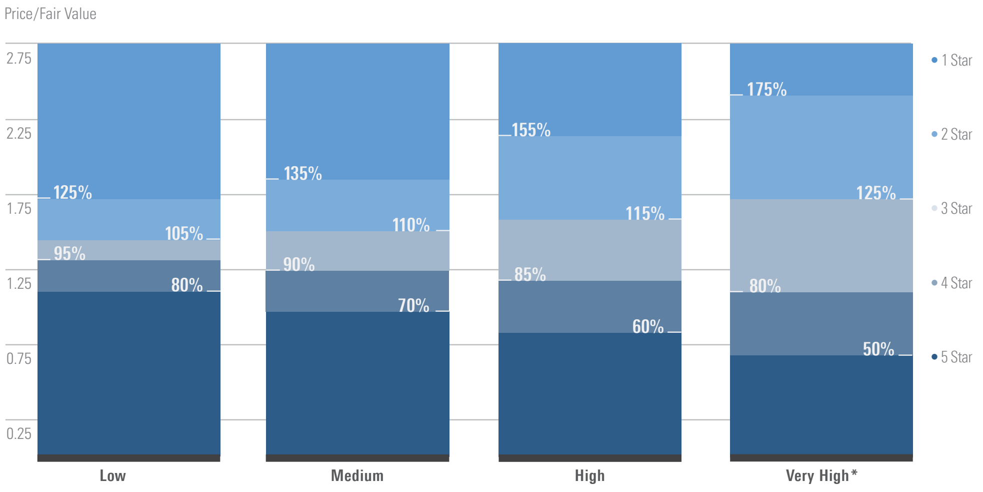
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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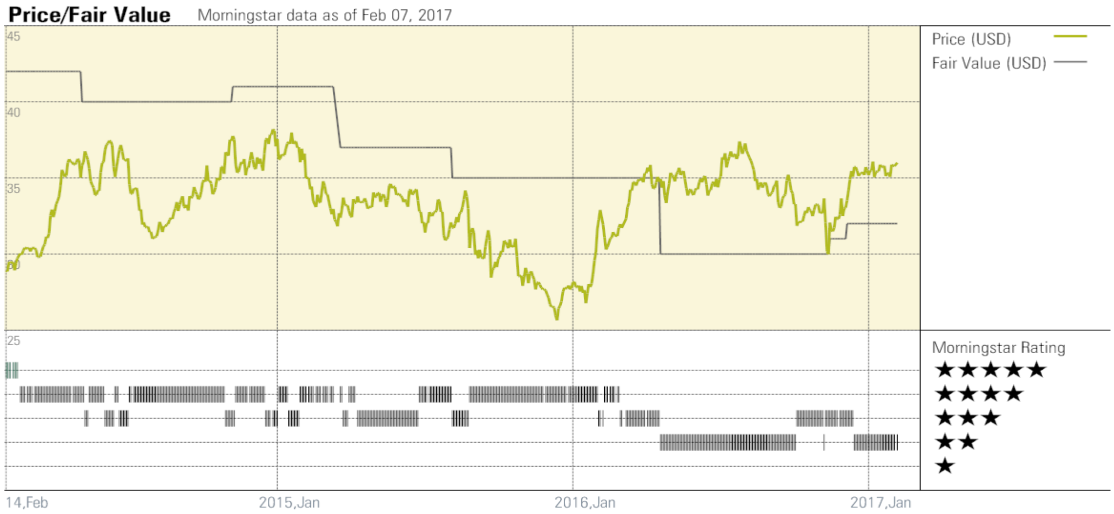
Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.01 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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February 08, 2017 | 20:14 ET | 20:14 ET~

Exelon

EXC-NYSE	Rating	Price: Feb-8	Target	Total Rtn
	Market Perform	$35.23	$37.00	9%

Raising Estimates to Include Nuclear Credits

Bottom Line: EXC reported 2016 EPS as expected, and introduced 2017 EPS guidance of $2.50-2.80, including the benefit of ZECs in New York and Illinois and a slightly higher contribution from the utilities. We are raising our 2017/2018 estimates to $2.70/$2.80, respectively, to include ZECs. While we recognize EXC's de-risking efforts, we believe its merchant generation remains a drag on consolidated growth compared to utility growth of 6-8%. As such, we find EXC shares fairly valued trading at a discount to its peers.

Key Points

2016 adjusted EPS of $2.68, were in line with expectations and largely driven by the March 2016 acquisition of PHI, favorable weather/cost-cutting at the utilities, and lower cost to serve/higher nuclear output at ExGen.

2017 EPS guidance of $2.50-$2.80 comprises utility, $1.55-1.95, supported by rate base growth of 8.5% in 2017 over 2016; ExGen, $1.05-1.15 (down from $1.27 in 2016) as lower energy prices are only partially offset by New York and Illinois ZECs. EXC expects a favorable resolution of the pending NY ZECs lawsuit by 3Q17 at the latest.

Key drivers for 2018 and beyond. Rate relief totaled $317 million in 2016; requests totaling $216 million are expected to be decided by 3Q17. Notably, ~75% of 2017-2020 rate base growth of ~$9 billion (6.5% growth from 6.1% previously) is recoverable through riders/formula. For the remainder, EXC will file timely rate cases, particularly as it seeks to close the gap between earned and allowed ROEs at its PHI utilities.

ExGen's outlook is enhanced by the ZECs approved in New York and Illinois; similar programs possible in Pennsylvania and New Jersey could provide incremental upside. While EXC remains focused on cutting O&M expenses, the planned March 2017 acquisition of the FitzPatrick nuclear plant as well as reversal of costs associated with Clinton and Quad Cities, have raised the spending outlook since EXC's August guidance for ExGen. As such, O&M expenses are expected to decline by only 0.5% (2017-2020) from a previously expected decline of 1.3%.

ExGen is expected to generate ~$7 billion of free cash flow through 2020, with ~$3 billion to be used to lower ExGen debt. Once it reaches its targeted 3.0x ExGen debt/EBITDA ratio (in ~2019), free cash will be applied toward Holdco debt reduction.

Dividend growth is forecast at 2.5% through 2018.

Key Changes

Estimates	2016E	2017E
EBITDA		$8,947
Previous		*$8,795*
FCF after Div.		$(5,253)
Previous		*$(5,338)*
EPS	$2.68	$2.70
Previous	*$2.69*	*$2.58*

Please refer to pages 5 to 7 for Important Disclosures, including Analyst's Certification.

BMO Capital Markets

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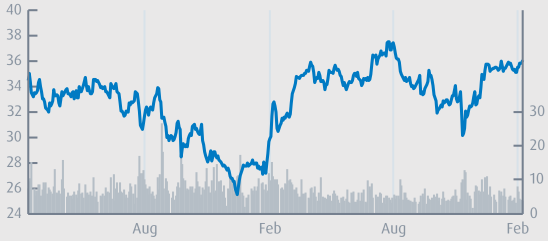
2YR Price Volume Chart



LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Data			in $
Dividend	$1.31	Shares O/S (mm)	923.3
Yield	3.7%	Market Cap (mm)	$32,527
EV (mm)	$68,461	Net Debt (mm)	$37,875

BMO Estimates				in $
(FY-Dec.)	2015A	2016E	2017E	2018E
EBITDA	$6,813	$8,418	$8,947↑	$9,407↑
FCF after Div.	$(1,311)	$(5,220)	$(5,253)↑	$(4,818)↑
EPS	$2.49	$2.68↓	$2.70↑	$2.80↑
Dividends	$1.24	$1.27↑	$1.31↑	$1.34↑
CFPS	$(0.23)	$(3.02)	$(2.73)↑	$(2.24)↑

Consensus Estimates	2015A	2016E	2017E	2018E
EPS		$2.68	$2.64	$2.85

Valuation	2015A	2016E	2017E	2018E
P/E	14.1x	13.1x	13.0x	12.6x
P/CFPS	NM	NM	NM	NM
EV/EBITDA	10.0x	8.1x	7.7x	7.3x

EPS: 2016 adjusted as reported; model will be updated post 10K filing.

Our Thesis

We believe EXC will continue to face headwinds at its competitive mainly nuclear generation business stemming from continued weak power and natural gas prices, rising O&M costs, and challenges from renewable generation, partially offset by ZEC subsidies. Growth at its regulated business could somewhat mitigate the pressures at the competitive business.

Exelon - Block Summary Model

Income Statement	2015A	2016E	2017E	2018E
Revenues	$29,447	$28,249	$28,627	$29,531
Fuel and purchased power	(13,084)	(9,439)	(8,822)	(9,278)
Operating, maintenance and other	(9,522)	(10,592)	(11,014)	(10,999)
Non-recurring gains/(losses)	0	0	0	0
EBITDA	$6,813	$8,418	$8,947	$9,407
Depreciation & Amortization	(2,450)	(3,482)	(3,509)	(3,728)
Other income	(28)	201	156	152
EBIT	4,363	4,936	5,439	5,678
Interest Expense	(1,033)	(1,664)	(1,769)	(1,873)
Income Tax	(1,080)	(1,104)	(1,174)	(1,214)
Income from continuing operations	2,250	2,167	2,496	2,592
Adjusted EPS	$2.49	$2.69	$2.70	$2.80
Shares outstanding	893	923	923	923
Cash Flow Statement	**2015A**	**2016E**	**2017E**	**2018E**
Net Income	2,250	2,167	2,496	2,592
Depreciation & Amortization	3,987	3,111	3,503	3,722
Deferred taxes/other	1,379	302	(37)	(5)
Cash Flow From Operations	7,616	5,580	5,962	6,309
Capex	(7,822)	(8,365)	(8,478)	(8,380)
Net debt issued/(repaid)	4,102	5,094	1,436	3,440
Common stock (net)	1,868	0	0	0
Dividends paid	(1,105)	(2,435)	(2,737)	(2,747)
Cash Flow From Financing	4,830	2,428	(1,992)	202
Net cash flow	4,624	(356)	(4,508)	(1,868)
Balance Sheet	**2015A**	**2016E**	**2017E**	**2018E**
Cash & Equivalents	6,707	(45)	2,700	726
Total Assets	95,384	116,640	117,863	120,552
Short-term debt	2,033	5,571	6,697	7,847
Total common equity	27,294	31,353	31,140	30,389
Debt %	49.1%	54.4%	55.5%	58.1%
Preferred %	0	26.3%	25.9%	24.9%
Common equity %	50.9%	45.3%	44.3%	41.6%

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

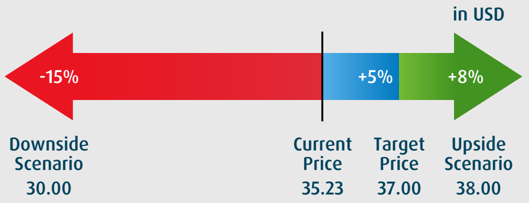
We find EXC shares fairly valued and see few catalysts that would propel earnings or the stock at this time, although proceeds from asset sales would be a near-term positive. Power prices are weak and are likely to remain so for some time. We expect Exelon to trade in a relatively narrow range, recognizing that downside risk is limited, in our opinion, unless power prices further deteriorate.

Upside Scenario $38.00

In a declining interest rate environment, we could see P/E multiples expand. This, together with a rising power and natural gas price environment, which could lead to EV/EBITDA multiple expansion to 8.4x, would equate to a price target of $38.

Downside Scenario $30.00

In a rapidly rising interest rate environment, we could see P/E multiples contract. This, together with a declining power and natural gas price environment, which could lead to EV/EBITDA multiple contraction to 7.2x, would equate to a price target of $30.



Company Description

Exelon is the largest competitive U.S. power generator, with ~32,700 MW of owned capacity. Its Constellation business unit provides energy products and services to business, public, and residential sector customers. Exelon's utilities deliver electricity and natural gas to 10 million customers in Delaware, DC, Illinois, Maryland, New Jersey, and Pennsylvania.

EXC-NYSE Research

Industry Research

Company Models

Key Takeaways From the Conference Call

Raising EPS Estimates

Exelon introduced 2017 EPS operating guidance of $2.50-2.80, with the utilities accounting for $1.55-1.95 ($1.61 in 2016), ExGen at $1.05-1.15 ($1.27 in 2016), and Parent/Other, a loss of $0.20 (-$0.19 in 2016).

Key 2017 utility drivers include a full-year contribution from PHI (integration is ahead of plan), rate-base growth and rate relief, offset by higher O&M at PECO and BGE, assuming a normal storm pattern (fewer than normal storms in 2016) as well as higher depreciation expenses (new investment).

The anticipated 2017 decline at ExGen reflects the impact of hedging at lower energy prices, somewhat offset by partial-year revenues from the New York (April 1, 2017) and Illinois (June 1, 2017) ZEC programs, contributions from the FitzPatrick plant after closing (March 2017) as well as the new Texas CCGTs expected to enter commercial operation this summer.

We are raising our 2017 and 2018 EPS estimates to $2.70 and $2.80, respectively, largely to reflect the Zero Emissions Credits (ZECs) in New York and Illinois as well as other updated drivers.

Utility Update

- The outlook for utility EPS since Analyst Day August 2016 is higher by $0.05 in 2017 and 2020, such that the growth rate remains 6-8%. The increase in the 2017 base is due to continued cost management efforts, while 2020 reflects ComEd ROEs and efficiency-related investments.
- EXC will invest more than $20 billion at its utilities, a slight increase since Analyst Day, largely reflecting the Future Energy Jobs Bill in Illinois.
  - The new legislation provides a number of benefits for ComEd, including a decoupling mechanism, recovery of energy efficiency investments, additional renewable generation and extending the formula rate to 2022. As a result, capex for ComEd was increased such that the 2016-2020 rate base is expected to grow by 6.8% from 4.8% forecast in August 2016.

- Total utility rate base growth is now projected at 6.5% through 2020, from 6.1% previously. As mentioned, ~75% of rate-base spending is recoverable through formulaic mechanisms and more than 70% of rate base is decoupled, providing earnings visibility.
- Pending rate cases total $216 million for Pepco and Delmarva Power & Light. A final ruling on the Delmarva Maryland case is expected in mid-February, with the remaining three cases to be completed over the summer. EXC plans to file rate cases in each of the PHI jurisdictions again in 2017 as it seeks to close the gap between allowed and earned ROEs (EXC expects it will take at least two cycles of “catch-up” rate cases at the PHI utilities).
  - In 2016, the earned ROE for the consolidated electric utilities was 9.5% as a 10.5% ROE for the legacy utilities was hurt by below-average returns at the PHI subsidiaries: Pepco, 7.5% (9.7% allowed); Delmarva, 6.3% (10% allowed) and ACE, 5.6% (10% allowed).

ExGen Update

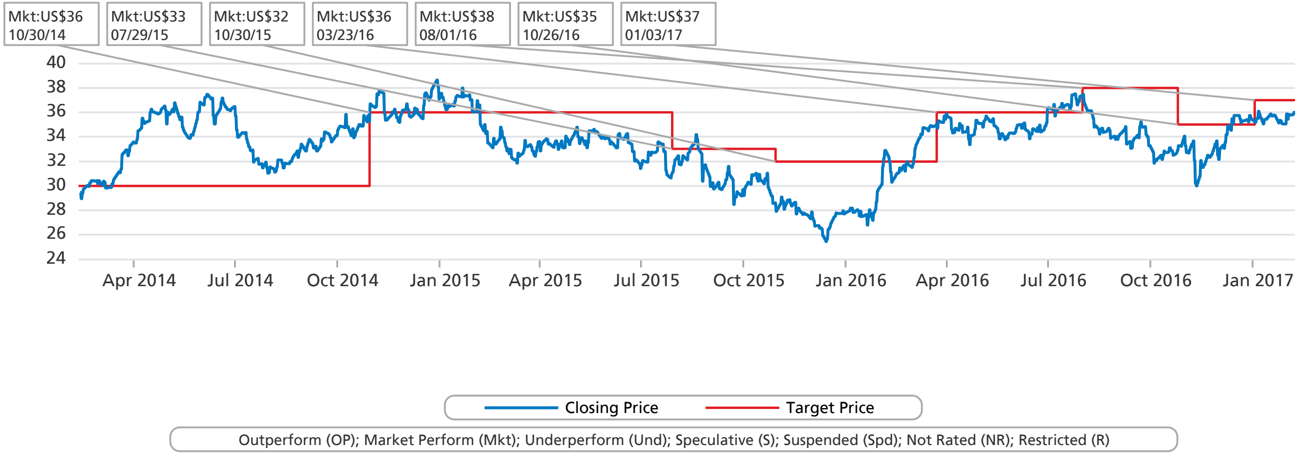
- ExGen gross margins have been updated to include ZEC revenues, the FitzPatrick acquisition, and the reversal of the shutdown decisions for Quad Cities and Clinton. Since August 2016, total gross margin increased by $650 million, $1.05 billion, and $1.1 billion in 2017, 2018, and 2019, respectively, almost entirely related to the fleet updates including ZECs; since September 2016, mark-to-market hedges are lower by $50 million in 2018 and higher by $50 million in 2019. Retail margins remain steady in the $2-$4/MWH range.
  - Gross margin is currently forecast at $8.15 billion in 2017, $8.3 billion in 2018, and $7.9 billion in 2019.

- On the O&M side, EXC updated the outlook to include the FitzPatrick, Quad Cities, and Clinton nuclear plants. In September, EXC had announced it was reducing O&M by $100 million in 2018 and $125 million in 2019 at ExGen, driving O&M costs down by 1.3% through 2020. However, by including FitzPatrick and re-including Quad Cities and Clinton, O&M costs are substantially higher and now are expected to decline by only 0.5% over the 2017-2020 period.

- ExGen is expected to generate ~$7 billion of free cash flow 2017-2020, higher than previous expectations primarily driven by the incremental cash associated with the New York and Illinois ZEC programs, partially offset by the impact of lower power prices in the outer years.
  - ExGen's free cash flow will be used to fund utility investment and pay down more than $3 billion of debt through 2020. The company is forecasting a 3.3x debt to EBITDA ratio at ExGen by YE2017 with a goal of 3.0x within the next few years. Once it has achieved its goal, it will look to retire holding company debt.

- **Update on portfolio rationalization.** EXC has been seeking a joint venture for its renewables business and looks forward to making an announcement in this regard. Proceeds would be used for debt reduction. The company is also pursuing the sale of its ~2,000 MW Mystic natural gas-fired plant (Boston), and indicated there has been broad interest in the plant.

Exelon Rating History as of 02/07/2017



Source: FactSet, BMO Capital Markets

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Methodology and Risks to Price Target/Valuation for Exelon (EXC-NYSE)

Methodology: Our valuation is based on a combination of our 2018 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and a 17x 2018E P/E multiple.

Risks: A material decline in power prices and / or a change in the regulatory environment

Distribution of Ratings (February 07, 2017)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe
Buy	Outperform	42.6%	21.5%	56.8%	42.6%	55.3%	52.8%
Hold	Market Perform	53.5%	12.7%	42.1%	53.8%	43.1%	41.6%
Sell	Underperform	3.6%	4.8%	1.0%	3.2%	1.2%	5.5%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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Ratings Key (as of October 2016)

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
NR = No Rated - No rating at this time; and
R = Restricted - Dissemination of research is currently restricted.

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Prior BMO Capital Markets Rating System

(April 2013 – October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 – April 2013)
http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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Citi Research
Equities

08 Feb 2017 14:44:25 ET | 8 pages

Diversified Utilities
North America | United States

Exelon Corp (EXC)

Results: ZECs are key part of the story…and all is not settled.

- **Citi's Take — Slight miss vs. Citi Estimates mostly driven by HoldCo.** EXC reported full-year 2016 operating EPS of $2.68/share vs Citi's estimate of $2.74/share. The variance was primarily driven by HoldCo EPS of ($0.19)/share vs Citi's forecast of ($0.13)/share. ExGen operating EPS came at $1.27/share slightly below Citi's estimates of $1.30/share.

- **2017 Guidance in line with Citi's estimates adjusted for ZECs.** EXC introduced 2017 full year consolidated operating EPS range of $2.50-$2.80/share vs Citi's estimate of $2.59/share. Regulated EPS guidance range is $1.55-1.95/share inline Citi's forecasts of $1.71/share. ExGen operating EPS range of $1.05-$1.15/share vs. Citi's estimates of $1.01/share. We include IL ZEC ($0.07/share) in our model but not NY. Including NY ZEC EPS impact of $0.14/share does get us on the higher end of ExGen's 2017 guidance.

- **ZEC – on the margin is the key driver of the stock in the near term.** We value NY ZEC at ~$2/share and IL ZEC at $1/share (please see report for details). We think a large part of this $3/share value is already embedded in EXC's current stock price. There is also some probability of potential upside from other states implementing ZECs. With legal challenges that have merit outstanding on the ZECs (ruling is expected in 2Q17), we think the risk / reward isn't attractive at this point. It is important to note that the deleveraging program at EXC relies on the ZECs cash flow as well.

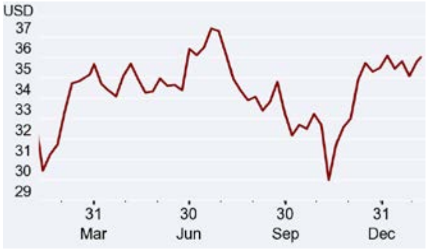
- **Implications — ZEC is the key driver of the story.** We continue to think EXC will deliver on its regulated growth story of ~7% growth through 2020. The economics of nuclear continue to weaken and the importance of ZECs only increases further. With most of the ZEC upside already priced in, we stay on the sidelines.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	na	na	na	na	2.49A	2.49A
2016E	0.68A	0.65A	0.91A	0.49E	2.74E	2.68E
Previous	0.68A	0.65A	0.91A	0.49E	2.74E	na
2017E	na	na	na	na	2.59E	2.66E
Previous	na	na	na	na	2.59E	na
2018E	na	na	na	na	2.77E	2.87E
Previous	na	na	na	na	2.77E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Neutral	2
Price (08 Feb 17)	US$35.52
Target price	US$31.00
Expected share price return	-12.7%
Expected dividend yield	3.6%
Expected total return	-9.1%
Market Cap	US$32,795M

Price Performance
(RIC: EXC.N, BB: EXC US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $31 target. We value ExGen at $4/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple that is supported by an UFCF conversion of 45%. The utilities business is valued at $22/share based on a 17x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent to get to our price target. We ascribe 1$ per share to the impact of Trump's tax plan and $1 per share due to IL ZEC.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	24-Apr-14 05:02:25	3	*27.00	36.01
2	22-Jul-14 20:24:08	3	*30.00	31.78
3	17-Oct-14 03:01:08	*2	*37.00	34.38
4	18-Dec-14 16:46:48	Coverage terminated		
5	17-Sep-15 16:01:15	*3	*27.00	31.57
6	26-Jan-16 17:07:46	*2	27.00	27.84
7	22-Feb-16 16:00:00	*3	27.00	31.69
8	19-Jul-16 23:43:46	3	*29.00	36.58
9	04-Oct-16 03:14:34	3	*27.00	31.86
10	28-Nov-16 20:37:44	3	*29.00	33.39
11	02-Dec-16 07:02:27	*2	*31.00	33.01

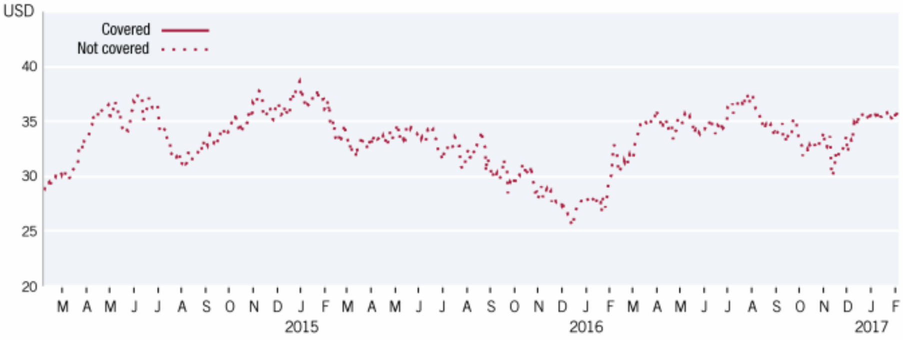
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



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	12 Month Rating			*Catalyst Watch*		
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% of companies in each rating category that are investment banking clients	65%	61%	60%	72%	63%	50%

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Energy | Power & Utilities

February 8, 2017

EXELON CORP.

EXC | $35.23

BUY | TARGET PRICE: $39.00

Change in Earnings Forecast

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Company Statistics

Market Capitalization (M):	$32,527
Shares Outstanding (M):	923
Dividend:	$1.30
Dividend Yield:	3.7%
Payout Ratio:	49.2%
Expected Total Return:	14.4%
Fiscal Year End	Dec

Earnings Summary

	2017E	2018E	2019E
EPS	**$2.65**	**$2.85**	**$2.85**
P/E	**13.3x**	**12.4x**	**12.4x**
EPS vs Consensus	**0.2%**	**(0.6)%**	**0.9%**
Consensus EPS	**$2.65**	**$2.87**	**$2.82**
Consensus P/E	**13.3x**	**12.3x**	**12.5x**

EVRISI Sum Of The Parts Valuation		
Share Price	$	35.23
2019 EPS: Utility - parent	$	1.85
P/E Multiple		16.4x
Utility Value	$	30.34
ExGen Implied Equity Value (per share)	$	4.89
ExGen 2019 Net Debt (mm)	$	8,550
ExGen 2019 Enterprise Value*	$	13,282
ExGen 2019 EBITDA**	$	2,922
ExGen 2019 EV/EBITDA		4.5x
ExGen 2019 Net Debt/EBITDA		3.0x
*968m EXC shares outstanding 2019		
**2/1/17 forward curves		

EVRISI EPS Forecasts	2017	2018	2019
ComEd	0.61	0.59	0.67
PECO	0.42	0.43	0.46
BGE	0.33	0.37	0.39
POM	0.39	0.46	0.51
Regulated EPS	**1.76**	**1.86**	**2.03**
ExGen EPS	**1.06**	**1.19**	**0.99**
Parent / Other	**-0.16**	**-0.19**	**-0.17**
Consolidated EPS	**2.65**	**2.85**	**2.85**
Dividend	1.30	1.33	1.33
Payout Ratio	49%	47%	47%

Utility EPS Outlook Is Modestly Better, and ExGen Cash Flow Profile Has Improved

But EXC Faces Some Near-Term Uncertainties. The Stock Is Cheap. Rating Buy, Target $39.

EXC reported 4Q16 / FY '16 EPS in line with consensus and initiated consolidated EPS guidance for FY'17 of $2.50-$2.80. The LT EPS outlook has improved. Adjusted EPS for the quarter was $0.44 vs. $0.45 consensus, earning $2.68 for FY '16 which was right on top of consensus. The quarter was higher YoY (+$0.06) on favorable weather at ComEd and PECO, higher rates, and decreased nuclear outage days on ExGen, partially offset by lower realized capacity and energy prices (at ExGen) and higher D&A (on higher capex) across all the operating companies. The mid-point of '17 guidance is $2.65 which was also consistent with expectations. Consolidated FY'17 EPS are flat relative to FY'16 guidance, with a significantly improved outlook for PHI contribution (improving $0.15, which we had already assumed in our numbers) and to a lesser extent, ComEd (improving $0.05), offset by a reduction in ExGen (-$0.15, not a surprise) and higher parent expense (-$0.05). The stated guidance range for utility in FY'17 is actually $0.05 above their analyst day forecast from last year, as is the FY '20 forecast, driven by higher capex and rate base growth over the '17-'20 period.

There are a bunch of "puts and takes" to the ExGen forecast which we delineate below but the bottom line is that EXC projects an increase in cash flow at ExGen through 2020 of $500m vs. their analyst day forecast from mid '16. At ExGen, the updated gross margin outlook now reflects the Illinois ZEC deal, the pending acquisition of Fitzpatrick, and Clinton and Quad Cities staying open. The numbers are in line with our expectations. Hedging and forward curves drive a +/- $50mm variance from the 9/30/16 "mark" through YE '16. They are committed to reducing leverage at ExGen from 3.3X Debt/EBITDA today to 3X, then using cash flow in excess of that required to pay the EXC dividend and fund utility capital expenditures to pay down parent debt.

The ExGen outlook now includes ZEC revenues, Fitzpatrick, and the Illinois nukes. Updating their disclosures for changes in nuclear fleet retirement decisions and their ZEC revenue streams from IL and NY serve to drive large increases to EXC's gross margin forecast, offset by accompanying increases to the O&M forecast. Interest expense in FY'17 is expected to be $425mm, higher than the +/-$350mm booked in FY'16 due to the cessation of capitalized interest on the ERCOT CCGTs that come in to service in mid '17. There will be a further impact in FY '18 from capitalized interest ceasing on a peaker investment in ISO-NE. D&A and nuclear fuel expense are also impacted by the ERCOT CCGTs and Fitzpatrick joining the fleet. On the hedging front, NI Hub and NYISO appear more open than last guidance with the re-inclusion of Clinton, Quad, and Fitzpatrick, but elsewhere hedging volumes have increased. The overall hedge position for '17-'19 is now 92.5% / 57.5% / 29.5% from 86.5% / 55.5% / 24.5%, the company remaining behind ratable based on view that an improving price outlook that is not reflected in the forward curves is likely. Their point of view is not in guidance, but a $5 increase in power prices across their major markets would drive an increase in '19 gross margin of $605MM (7.5% of current expected '19 GM).

EXC declined 2.2% yesterday vs. a 0.1% increase for the diversified index despite posting solid numbers and a modestly improved outlook. We are guessing that is due to a combination of factors. Perhaps it was a “sell the news” event with EXC having significantly outperformed the index during FY ’16 / since the election, as the earnings and outlook were good/improved but there was no big incremental change in expectations to the upside. Another factor weighing on sentiment is perhaps that legal action in NY to challenge ZEC revenues might not be dismissed and instead head to trial, which would occur in 1H17. The legal basis for ZECs seems sound (see RECs) but it remains a risk. No further insight was given on the Mystic sale or the expected sell-down of EXC’s stake in their Renewable business, the former perhaps perceived as more challenging given EXC seemingly tempering expectations, the ISO-NE capacity print for ‘20/’21 (released this afternoon, it was ~$5.30/kW-m, which a bit below already low expectations) and the lack of a quorum at FERC to approve a deal in a timely manner even if one was forthcoming. In addition, the PJM capacity auction is coming up in May ’17 and sentiment on the pricing outcome is cautious to negative. Our views on PJM capacity pricing can be found here. Last but not least the “Trump tax” risk of a financial impact from the proposed “border adjustment tax” could drive up nuclear fuel expense as they import the majority of their uranium, making EXC look like less of a relative winner vs. the peer group under tax reform scenarios. From a border tax perspective every 10% increase in nuclear fuel expense would be a ~$90mm annual decrease in cash flow with an increase in nuclear fuel amortization over time becoming a drag on earnings. Before the impact of a presumed border tax EXC would look like a relative winner in our Trump tax scenario, as we outline in our tax note here.

Our ’17-’19 EPS forecast is a nickel higher in ’17 and ’18, unchanged in ’19 at $2.65 / $2.85 / $2.85 vs. our prior forecast of $2.60 / $2.80 / $2.85. Our forecast is based on 2/1/17 curves and the adjustments outlined above for both the utilities and ExGen. On a MTM basis we are lower than EXC’s gross margin forecast in ’18 and ‘19 as pricing is a bit lower than the 12/30/16 “mark” used in their Q4 update. That being said we still think the assumptions driving EXC’s view of the earnings growth drivers in its core utilities business and ExGen as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management are still wholly credible. The core utilities are forecast to grow rate base at 6.5% from ’17-20 with earnings growth of 6-8% (down from 7-9% from ’16-’20 solely due to a higher ’17 base, the ’20 forecast is up a nickel). We see a turnaround at PHI similar to the one EXC engineered at BGE after the CEG acquisition as feasible, with annual rate cases at most of the PHI companies and the ability to harvest operating synergies. So, there is line of sight for EPS at EXC’s utilities (ex-parent overheads) growing from $1.59 in FY ’17 to ~$2.00 in 2020, consistent with our prior expectations. From a cash flow perspective we see ExGen producing ~$4.9bn of free cash flow through FY’19, ~78% of the $6.3bn they are targeting through 2020 with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. They are committed to 2.5% dividend growth through 2018 but are confident the financial profile supports at least that level of growth through 2020. There are also the pending sales of the Mystic plant in ISO-NE and a 49% stake in its renewables JV, which we think could add over $1.5bn in cash to amortize debt at valuations that would accelerate deleveraging (by our estimate $1.25-1.5bn from Mystic, a few hundred million from the renewables sale). There would be a near-term reduction to EBITDA with those sales—especially at Mystic— but it appears front-loaded and we believe the sale prices for both portfolios will be well in excess of the implied EV/EBITDA multiple of 4.5X ’19 at which ExGen is currently trading.

Our price target remains $39, maintaining BUY rating. Our forecast for utility EPS contribution minus parent overheads is $1.59/share in ’17 which by 2019 we expect to be ~ $1.85 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to +/-2.00/share. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth ~$30.50/share (16.4X ’19 EPS). That implies ExGen is worth only ~$4.75/share today, which is around 4.8X ’19 EPS or 4.5X ’19 EV/EBITDA and a levered free cash flow yield to EV of 13% with debt/EBITDA at YE ’19 of ~3.0X. They are taking all the cash flow from that lower multiple part of the business and either returning it to shareholders or investing in the higher multiple utility business. Overall, EXC is trading at +/-12.4X FY ’19 earnings while pure regulated names are at +/-16.4X. The EXC dividend yield is just above that of the regulated peer group at ~3.7%. While the dividend growth commitment of 2.5% annually through at least 2018 is lower than that articulated by purely regulated peers and some risks to ExGen revenues are palpable, we think that the overall valuation gap, given our view of the value of the businesses and capital allocation plan, still remains too high. At $39 share our target price implies a valuation for ExGen of 5.75X ‘19 EV/EBITDA and a levered free cash flow yield of ~10%. The consolidated P/E would still be only 13.6X ’19 EPS.

What’s next? EXC has not provided a specific timetable on when the sale of the Mystic facility in ISO-NE, or the ~50% stake in its renewables JV, might close but we think a sale of both could be forthcoming in 1H ’17. The purchase of Fitzpatrick from EXC is expected to close before 4/1/17. EXC will appeal the IRS’ assessed tax penalty for the 1999 gain on sale of fossil assets from ComEd in Q1’17, which could result in a refund of ~$200mm. We await the outcome of litigation in New York on the ZEC package, with no timetable on a decision to move to trial but the potential for action in 1H ‘17. A decision in DPL’s electric distribution rate case in MD (in which they are requesting $57.0mm based on a 10.60% ROE) is expected by 2/17/17. A decision in Pepco's electric distribution rate case in DC (in which they are requesting a $76.8mm increase premised on 10.60% ROE) is expected by 7/25/17. A decision in Delmarva's pending electric and gas distribution rate cases (in which they are requesting $81.7mm in aggregate based on a 10.60% ROE) is expected in Q3'17. The PJM capacity auction window opens on 5/10/17 and closes on 5/16/17, with results to be posted on 5/23/17.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions would be accretive but a significantly lower PJM capacity auction price would be negative.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2017-02-08)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$52.68	$54.50
AEP	American Electric Power	Hold	$63.93	$66.50
AGR	Avangrid Inc	Buy	$39.33	$42.00
CPN	Calpine Corp.	Buy	$11.10	$16.00
CNP	CenterPoint Energy, Inc.	Hold	$26.17	$26.00
CMS	CMS Energy Corp.	Hold	$42.51	$44.50
ED	Consolidated Edison Inc.	Hold	$74.51	$74.00
D	Dominion Resources Inc.	Hold	$72.35	$74.00
DTE	DTE Energy Co.	Hold	$98.40	$99.00
DUK	Duke Energy Corp.	Hold	$77.75	$79.00
DYN	Dynegy Inc.	Buy	$8.82	$15.00
EIX	Edison International	Hold	$73.05	$76.00
ETR	Entergy Corp.	Hold	$70.68	$75.00
ES	Eversource Energy	Hold	$55.78	$56.00
EXC	Exelon Corp.	Buy	$36.01	$39.00
FE	FirstEnergy Corp.	Buy	$29.99	$34.50
HE	Hawaiian Electric Industries Inc.	Hold	$33.68	$31.00
HIFR	InfraREIT, Inc.	Buy	$16.58	$19.00
NEE	NextEra Energy Inc	Buy	$124.33	$137.00
NI	NiSource Inc	Hold	$22.16	$23.00
NRG	NRG Energy Inc.	Buy	$16.27	$16.00
NYLD	NRG Yield, Inc.	Buy	$16.90	$20.00
PCG	PG&E Corp.	Buy	$61.83	$65.50
PNW	Pinnacle West Capital Corp.	Hold	$77.92	$80.00
PPL	PPL Corp.	Hold	$35.40	$35.00
PEG	Public Service Enterprise Group	Hold	$43.44	$44.00
SRE	Sempra Energy	Buy	$102.55	$115.00
SO	Southern Co.	Hold	$48.77	$51.00
AES	The AES Corporation	Buy	$11.43	$12.25
WEC	WEC Energy Group, Inc.	Hold	$57.90	$59.50
WR	Westar Energy Inc.	Hold	$53.86	$58.25
XEL	Xcel Energy Inc.	Hold	$41.66	$41.50

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: February 08, 2017, 22:37 ET.

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Current Ratings Definition

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Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended".

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On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%

Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
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Short – the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.

No Position – the stock is not included in the model portfolio.

Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.

Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Buy, Hold and Sell. However, for the purposes of ratings distribution disclosure only (below), FINRA requires members who use a ratings system with terms different than "Buy," "Hold/Neutral" and "Sell," to equate their own ratings to these categories. **For this purpose, our Long, No Position and Short ratings can be equated to Buy, Hold and Sell respectively.**

Evercore ISI ratings distribution (as of 02/08/2017)

Coverage Universe

Ratings	Count	Pct.
Buy	333	50%
Hold	280	42%
Sell	26	4%
Coverage Suspended	16	2%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	53	16%
Hold	14	5%
Sell	1	4%
Coverage Suspended	2	12%
Rating Suspended	1	12%

Issuer-Specific Disclosures (as of February 8, 2017)

Price Charts

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

See Page 2 for the full Analyst Note from 08 Feb 2017

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Research as of 08 Feb 2017
Estimates as of 20 Jan 2017
Pricing data through 17 Feb 2017
Rating updated as of 17 Feb 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 06 Dec 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings

Vital Statistics

Market Cap (USD Mil)	32,968
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	18.6
YTD Total Return %	1.2
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.11

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	—	*13.6*
EV/EBITDA	9.5	6.6	—	*8.3*
EV/EBIT	16.7	10.2	—	*13.7*
Free Cash Flow Yield %	-5.1	0.0	—	*-3.8*
Dividend Yield %	3.3	4.3	—	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,775*	*32,405*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*4,998*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,486*
Net Income YoY %	-4.0	7.7	*8.2*	*3.3*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*0.9*
Free Cash Flow	121	561	*-12,392*	*-391*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes 08 Feb 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Valuation, Growth and Profitability 06 Dec 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Feb 17, 2017

from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $650 million change in EBITDA. Our fair value estimate would change by $5 per share. On a mark-to-market basis as of mid-November, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 4 percentage points to near the industry average, it would change our fair value estimate by $1 per share. If Exelon does not retire the Clinton, Quad Cities, and Three Mile Island plants, it would add $2 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an

effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. About 70% of the $11 billion of rate base growth in 2016-20 will have rate trackers or formula rates, minimizing regulatory lag. Exelon faces the biggest challenge boosting Pepco's earned returns some 400 basis points to approach its allowed returns. Rate cases in 2016-17 should give it a good start.

In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

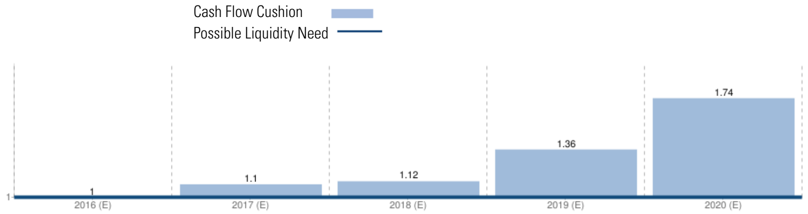
Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	*2017(E)*	*2018(E)*	*2019(E)*	*2020(E)*
Cash and Equivalents (beginning of period)	*6,502*	*1,038*	*1,133*	*1,428*	*2,513*
Adjusted Available Cash Flow	*-3,339*	*2,753*	*2,985*	*4,244*	*5,284*
Total Cash Available before Debt Service	*3,163*	*3,791*	*4,118*	*5,672*	*7,798*
Principal Payments	*-1,483*	*-1,626*	*-1,600*	*-2,000*	*-2,275*
Interest Payments	*-1,377*	*-1,517*	*-1,605*	*-1,706*	*-1,734*
Other Cash Obligations and Commitments	*-303*	*-303*	*-463*	*-464*	*-463*
Total Cash Obligations and Commitments	*-3,163*	*-3,446*	*-3,668*	*-4,170*	*-4,472*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,502	34.4
Sum of 5-Year Adjusted Free Cash Flow	11,928	63.1
Sum of Cash and 5-Year Cash Generation	18,430	97.4
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	18,430	97.4
Sum of 5-Year Cash Commitments	-18,919	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets as it tries to smooth cash flow at its generation unit. As power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.We see no immediate credit concerns based on current energy market conditions. We project Exelon's consolidated EBITDA/interest coverage will remain above 5 times and leverage will remain below 5 times debt/EBITDA at least through 2019. Even those these ratios are weaker following the Pepco acquisition, we think this is acceptable given the higher share of regulated earnings.Only about one-quarter of Exelon's consolidated debt is directly tied to its generation segment. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing its near-term maturities. Management has committed to reducing Exelon Generation debt by $3 billion during the next five years and use the remaining cash to fund the regulated utilities' growth.We also think management can meet its 2.5% dividend growth goal through 2018 with relative ease. However, this is rather unimpressive compared with most of its peers that we think can grow their dividends at least twice as fast.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm might have to make modest cash contributions. Plant closures also could increase cash decommission costs.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's

largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	256,701	30 Jan 2017	—
MR. WILLIAM A. VON HOENE, JR		109,688	30 Jan 2017	—
JONATHAN W. (JACK) THAYER		81,473	30 Jan 2017	—
MS. ANNE R. PRAMAGGIORE		65,162	30 Jan 2017	—
MR. KENNETH W. CORNEW		53,363	30 Jan 2017	—
MR. CALVIN G. BUTLER,JR		32,989	30 Jan 2017	—
DUANE M. DESPARTE		14,914	30 Jan 2017	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	2.15	0.14	441	31 Jan 2017
Vanguard Wellington™	1.63	0.56	—	31 Dec 2016
Invesco Diversified Dividend Fund	1.58	2.50	641	31 Dec 2016
Vanguard 500 Index Fund	1.48	0.17	193	31 Jan 2017
T. Rowe Price Value Fund	1.49	2.04	841	31 Dec 2016
Concentrated Holders				
Putnam Global Utilities Fund	0.04	8.71	—	31 Dec 2016
Putnam VT Global Utilities	0.02	8.64	-6	31 Dec 2016
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.82	—	16 Feb 2017
Fidelity® Telecom and Utilities Fund	0.20	6.57	—	31 Dec 2016
NN Utilities Fund	—	6.03	0	30 Nov 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
BlackRock Fund Advisors	3.71	0.14	5,977	30 Sep 2016
T. Rowe Price Associates, Inc.	4.54	0.28	5,128	30 Sep 2016
Invesco Advisers, Inc	1.88	0.38	2,769	30 Sep 2016
J.P. Morgan Investment Management Inc	0.31	0.04	2,178	30 Sep 2016
New Jersey Division of Pensions and Benefits	0.22	0.09	1,433	30 Jun 2010
Top 5 Sellers				
Capital Research Global Investors	3.87	0.41	-19,394	31 Dec 2016
BlackRock Investment Management (UK) Ltd.	—	0.01	-5,703	30 Sep 2016
Millennium Management LLC	0.34	0.17	-4,256	30 Sep 2016
Fidelity Management and Research Company	4.88	0.21	-2,927	30 Sep 2016
Arrowstreet Capital Limited Partnership	0.69	0.69	-2,410	30 Sep 2016

Management 06 Dec 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life 06 Dec 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Analyst Notes

demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities 09 Nov 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns 08 Nov 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases,

management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Regulated Utilities Continue Driving Growth for Exelon

26 Oct 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. CAGR
Revenue	7.8	6.0	10.2	7.4	-5.7	16.7	4.4
EBIT	22.8	53.6	-15.3	42.4	7.5	5.5	6.6
EBITDA	17.2	36.3	-6.9	26.8	11.4	7.3	7.3
Net Income	-1.6	-7.9	-4.0	7.7	8.2	3.3	6.6
Diluted EPS	-4.4	-12.3	-4.4	4.2	4.4	0.9	4.9
Earnings Before Interest, after Tax	15.0	-13.0	53.5	13.7	63.1	-45.4	0.0
Free Cash Flow	-33.9	-22.3	-92.0	365.5	-2,307.6	-96.9	44.3

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	13.7	14.7	11.3	15.0	17.1	15.4	16.4
EBITDA Margin %	22.1	23.3	19.7	23.3	27.5	25.3	26.4
Net Margin %	7.9	8.6	7.5	7.6	8.7	7.7	8.3
Free Cash Flow Margin %	2.8	6.1	0.4	1.9	-44.6	-1.2	-5.1
ROIC %	3.1	2.5	2.5	4.1	11.1	5.6	6.8
Adjusted ROIC %	3.2	2.7	2.7	4.3	12.0	6.1	7.4
Return on Assets %	2.2	2.2	2.0	2.5	2.3	2.2	2.4
Return on Equity %	8.0	7.7	7.1	9.3	9.0	8.8	9.3

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.49	0.47	0.49	0.50	0.56	0.56	0.55
Total Debt/EBITDA	3.81	3.46	4.12	3.84	4.56	4.55	4.30
EBITDA/Interest Expense	5.33	4.28	5.08	6.64	5.55	5.40	5.57

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	—	13.6
EV/EBITDA	9.5	6.6	—	8.3
EV/EBIT	16.7	10.2	—	13.7
Free Cash Flow Yield %	-5.1	0.0	—	-3.8
Dividend Yield %	3.3	4.3	—	3.7

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,312	-13.2	-6.83
Present Value Stage II	17,500	36.6	18.92
Present Value Stage III	36,662	76.6	39.65
Total Firm Value	**47,850**	**100.0**	**51.75**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,065**	**—**	**30.35**
Projected Diluted Shares	925		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,775***	***32,405***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,731*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,674***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,730***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,231*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,486***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,486*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,198***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,198***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,883*
Inventory	1,105	1,603	1,566	*1,079*	*1,505*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,521***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,081***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,821*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,054***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,821***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,590*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,859***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,259***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,420*	*2,499*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-698*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-426*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*260*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***95***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1.21	13.3	*14.7*	*16.3*	6.8	*8.2*	*8.4*	349.6	*NM*	*NM*	1.5	*1.6*	*1.5*	1.9	*2.2*	*2.2*
FirstEnergy Corp FE USA	0.91	11.8	*12.0*	*12.4*	9.4	*8.2*	*8.3*	18.1	*58.1*	*NM*	1.1	*1.0*	*1.0*	0.9	*0.9*	*0.9*
Entergy Corp ETR USA	1.01	11.4	*10.8*	*15.8*	6.7	*8.0*	*8.1*	15.4	*NM*	*NM*	1.3	*1.4*	*1.3*	1.1	*1.1*	*1.1*
Average		12.2	*12.5*	*14.8*	7.6	*8.1*	*8.3*	127.7	*58.1*	—	1.3	*1.3*	*1.3*	1.3	*1.4*	*1.4*
Exelon Corp EXC US	**1.11**	**11.2**	—	***13.6***	**6.6**	—	***8.3***	**NM**	—	***NM***	**1.0**	—	***1.1***	**0.9**	—	***1.0***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	37,535 USD	9.5	*8.2*	*7.3*	9.6	*8.2*	*7.3*	13.3	*11.2*	*9.7*	4.6	*3.9*	*3.3*	4.0	*3.6*	*3.8*
FirstEnergy Corp FE USA	52,187 USD	3.8	*4.7*	*4.6*	4.4	*5.6*	*5.5*	4.7	*8.6*	*8.0*	1.1	*2.1*	*1.9*	4.5	*4.6*	*4.9*
Entergy Corp ETR USA	— USD	0.7	*5.6*	*5.3*	0.8	*5.7*	*5.4*	-1.8	*12.9*	*8.5*	-0.4	*2.7*	*1.7*	4.9	*4.7*	*4.8*
Average		4.7	*6.2*	*5.7*	4.9	*6.5*	*6.1*	5.4	*10.9*	*8.7*	1.8	*2.9*	*2.3*	4.5	*4.3*	*4.5*
Exelon Corp EXC US	— USD	**4.1**	***11.1***	***5.6***	**4.3**	***12.0***	***6.1***	**9.3**	***9.0***	***8.8***	**2.5**	***2.3***	***2.2***	**4.3**	—	***3.7***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	10,415 USD	-4.3	*-5.7*	*1.6*	12.9	*-9.0*	*-5.7*	5.4	*1.2*	*-9.8*	-58.6	*-619.1*	*-61.0*	5.4	*5.1*	*4.9*
FirstEnergy Corp FE USA	15,026 USD	-0.2	*-4.3*	*-0.4*	119.8	*20.1*	*-3.7*	5.9	*-4.7*	*-3.0*	107.4	*-48.7*	*38.2*	—	—	*5.6*
Entergy Corp ETR USA	11,513 USD	-7.9	*4.0*	*0.7*	-24.5	*26.2*	*-3.6*	3.1	*13.6*	*-31.8*	-38.4	*-163.8*	*15.6*	—	*3.0*	*3.0*
Average		-4.1	*-2.0*	*0.6*	36.1	*12.4*	*-4.3*	4.8	*3.4*	*-14.9*	3.5	*-277.2*	*-2.4*	5.4	*4.1*	*4.5*
Exelon Corp EXC US	**29,447** USD	**7.4**	***-5.7***	***16.7***	**42.4**	***7.5***	***5.5***	**4.2**	***4.4***	***0.9***	**365.5**	***-2,307.6***	***-96.9***	—	***1.2***	***2.5***

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1,478 USD	68.7	*71.3*	*69.3*	40.1	*40.2*	*38.7*	28.4	*27.4*	*25.5*	14.2	*15.3*	*13.6*	0.5	*-13.0*	*-5.8*
FirstEnergy Corp FE USA	1,144 USD	58.9	*59.1*	*58.4*	25.1	*30.1*	*29.7*	15.5	*19.5*	*18.8*	7.6	*7.6*	*7.4*	4.9	*1.6*	*-0.3*
Entergy Corp ETR USA	1,076 USD	66.6	*67.7*	*66.8*	32.7	*28.2*	*27.7*	14.4	*17.4*	*16.7*	9.3	*10.2*	*7.0*	6.9	*-6.3*	*-6.2*
Average		64.7	*66.0*	*64.8*	32.6	*32.8*	*32.0*	19.4	*21.4*	*20.3*	10.4	*11.0*	*9.3*	4.1	*-5.9*	*-4.1*
Exelon Corp EXC US	**2,224** USD	**55.6**	***64.6***	***57.6***	**23.3**	***27.5***	***25.3***	**15.0**	***17.1***	***15.4***	**7.6**	***8.7***	***7.7***	**0.0**	***-23.4***	***-3.8***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	9,932 USD	76.0	*85.3*	*91.0*	43.2	*46.0*	*47.6*	10.6	*8.9*	*7.4*	2.4	*3.0*	*3.4*	2.9	*2.9*	*3.0*
FirstEnergy Corp FE USA	22,066 USD	177.7	*176.1*	*173.2*	64.0	*63.8*	*63.4*	3.3	*3.7*	*3.5*	5.9	*5.3*	*5.5*	4.2	*4.2*	*4.1*
Entergy Corp ETR USA	13,820 USD	149.3	*157.1*	*165.1*	59.9	*61.1*	*62.3*	5.9	*4.9*	*4.5*	3.7	*4.5*	*4.9*	4.8	*4.9*	*4.9*
Average		134.3	*139.5*	*143.1*	55.7	*57.0*	*57.8*	6.6	*5.8*	*5.1*	4.0	*4.3*	*4.6*	4.0	*4.0*	*4.0*
Exelon Corp EXC US	**26,319** USD	**101.2**	***126.5***	***129.3***	**50.3**	***55.9***	***56.4***	**6.6**	***5.5***	***5.4***	**3.8**	***4.6***	***4.6***	**3.7**	***4.0***	***4.0***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	22,001 USD	0.78	*0.70*	*0.58*	0.98	*1.07*	*1.04*	0.85	*0.94*	*0.90*	0.36	*0.33*	*0.27*	47.2	*55.7*	*64.7*
FirstEnergy Corp FE USA	13,216 USD	0.31	*1.26*	*1.39*	0.54	*0.56*	*0.58*	0.40	*0.45*	*0.46*	0.05	*0.18*	*0.20*	105.4	*55.9*	*60.8*
Entergy Corp ETR USA	13,175 USD	7.54	*6.34*	*4.39*	1.32	*0.95*	*0.86*	0.96	*0.69*	*0.60*	1.91	*0.76*	*0.53*	-336.8	*50.1*	*75.7*
Average		2.88	*2.77*	*2.12*	0.95	*0.86*	*0.83*	0.74	*0.69*	*0.65*	0.77	*0.42*	*0.33*	-61.4	*53.9*	*67.1*
Exelon Corp EXC US	**32,968** USD	**7.28**	***1.12***	***1.20***	**1.68**	***1.06***	***1.16***	**1.51**	***0.94***	***1.00***	**3.20**	***0.51***	***0.56***	**48.8**	***48.3***	***49.0***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ▶**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ▶**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ▶**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ▶**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ▶**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

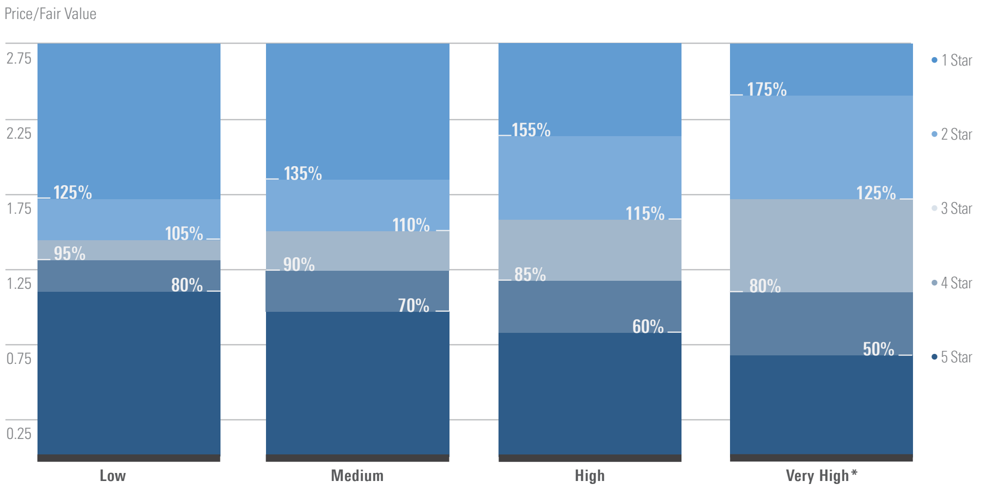
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.58 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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COMPANY UPDATE
February 9, 2017

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

Reducing 2018 Estimate; However, Valuation Appears Attractive

What's Incremental To Our View

Based on updated assumptions, we have reduced our 2018 estimate. Correspondingly, our price target is reduced to $40 from $41. Despite our lower estimate, the stock appears attractively priced.

IMPORTANT POINTS

- EXC reported 4Q results of $0.44 vs $0.38, modestly below our estimate of $0.46 and consensus of $0.45. The shortfall (vs our estimate) was primarily due to a higher than expected tax rate.

- Based on updated hedge disclosures, latest forward commodity curves, and revised operating cost assumptions, we have modestly increased our 2017 estimate to $2.65 from $2.64; however, we have reduced our 2018 estimate to $2.82 from $2.92.

- We remain intrigued by the significant regulatory lag at the Pepco utilities (which we currently estimate at $0.15), and believe that faster than expected reduction in that lag could lead to positive earnings surprises. Our current 2018 estimate assumes a $0.05 reduction in the lag from current levels.

- While there is uncertainty regarding the implications of any corporate tax reform (including a potential tax on imports, which would impact EXC’s nuclear fuel purchases), we believe that the process is in the very early stages and it is unclear what (if any) final outcome will emerge.

- EXC appears attractively priced, trading at a 13% P/E multiple discount to the peer group (based on our 2018 estimate). Assuming a P/E multiple of 14.3x (in line with the peer group) on our 2018 estimate of $2.82, we derive our price target of $40. We reiterate our **Buy** recommendation.

- We have included our revised 2017-18 earnings and cash flow models in this report.

Buy

Price Target: $40.00
Prior: $41.00

Δ Key Drivers

- *Updated hedge disclosures.*
- *Latest forward commodity curves.*
- *Revised operating cost assumptions*

Price (Feb. 8, 2017)	$35.23
52-Wk Range	$37.50-$30.00
Market Cap ($M)	$32,471
ADTV	6,446,650
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	1.6%
Dividend/Yield	$1.31/3.7%
TR to Target	17.3%

ROE	9.0%
5 Year EPS Growth	5.0%
Debt/Cap	55%
P/B	1.20x
Enterprise Value ($M)	$68,804.3

	2016A	2017E		2018E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.68	$0.60	$0.68	$0.64	$0.75
2Q	$0.65	$0.67	$0.65	$0.71	$0.72
3Q	$0.91	$0.93	$0.91	$0.99	$1.00
4Q	$0.44	$0.45	$0.40	$0.48	$0.45
CY	$2.68	$2.65	$2.64	$2.82	$2.92
P/E	13.1x	13.3x		12.5x	
Consensus					
CY	$2.68	$2.64		$2.86	
Revenue ($M)					
CY	$31,905	$33,975	$34,285	$34,545	$34,780
Operating Margin (%)					
CY	15.30%	14.60%	14.50%	15.30%	15.70%
EBITDA ($M)					
CY	$8,105	$8,276	$8,281	$8,684	$8,917
EV/ EBITDA	8.5x	8.3x		7.9x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2011A-2018E

(dollars in millions, except per share)

	2018E		2017E		2016A		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)																
Com Ed	5,485		5,380		5,246		4,905		4,564		4,464		5,443		6,056	
PECO	3,500		3,430		2,994		3,032		3,094		3,100		3,186		3,720	
BGE	3,370		3,300		3,233		3,135		3,165		3,065		2,204			
PEPCO	5,370		5,265		3,643											
Generation	18,070		18,000		18,304		18,925		17,853		16,190		15,502		10,502	
Other	(1,250)		(1,400)		(1,515)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,545	1.7%	33,975	6.5%	31,905	9.1%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)																
Com Ed	1,345	24.5%	1,285	23.9%	1,200	22.9%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	765	21.9%	710	20.7%	712	23.8%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	615	18.2%	555	16.8%	555	17.2%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	745	13.9%	700	13.3%	485	13.3%										
Generation	1,835	10.2%	1,751	9.7%	1,969	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(21)		(25)		(48)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)									(8)		102		59		(1)	
Total Operating Income	5,284	15.3%	4,976	14.6%	4,873	15.3%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,435)		(1,430)		(1,383)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	295		290		289		276		262		238		252		178	
Pretax income	4,144		3,836		3,779		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,409	34.0%	1,304	34.0%	1,299	34.4%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	5		5		(32)		13		134		14		11			
Equity Income (Loss)	(5)		(10)		(24)		(7)									
Net Income (% change)	2,725	8.3%	2,517	1.2%	2,488	11.7%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	968.0		949.0		927.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.82	6.4%	$2.65	-1.3%	$2.68	7.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items																
Reported GAAP EPS																
Regulated Utility (net Parent) EPS	$1.67		$1.55		$1.41		$1.09		$1.06		$1.10		$0.95		$1.14	
Generation EPS	$1.15		$1.10		$1.27		$1.40		$1.33		$1.40		$1.90		$3.02	
EBITDA	8,684		8,276		8,105		6,684		6,242		6,191		6,180		6,177	
ComEd																
Total Retail Sales (millions mwhs)	91.0		90.0		88.9		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$14.8		$14.3		$13.5		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO																
Total Electric Retail Sales (millions mwhs)	39.5		39.0		37.9		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$19.4		$18.2		$18.8		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO																
Total Electric Retail Sales (millions mwhs)	46.0		45.0		26.1											
Implied Operating Margin ($/MWh)	$16.2		$15.6		$18.6											
Generation																
Total Power Sales (millions mwhs)	208.0		205.0		203.0		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mwh)	$8.8		$8.5		$9.7		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment																
Com Ed	660		615		524		432		410		421		381		403	
PECO	460		430		444		380		353		393		387		388	
BGE	325		285		289		277		199		195		46			
Generation	1,105		1,050		1,181		1,253		1,155		1,202		1,548		2,002	
PEPCO	360		330		228											
Other	(185)		(193)		(178)		(115)		(49)		(62)		(32)		(30)	
Total	2,725		2,517		2,488		2,227		2,068		2,149		2,330		2,763	

Note

1) Rate Base - Com Ed: $10.6bn in 2015, $11.9bn in 2016, $13.2bn in 2017E, $14.0bn in 2018E; PECO: $6.0bn in 2015, $6.2bn in 2016, $6.6bn in 2017E, $7.0bn in 2018E;
BGE: $5.0bn in 2015, $5.3bn in 2016, $5.7bn in 2017E, $6.1bn in 2018E; PEPCO: $8.3bn in 2016, $8.9bn in 2017E, $9.4bn in 2018E.

2) Earned ROE - Com Ed: 8.0% in 2015, 8.8% in 2016, 9.3% in 2017, 9.4% in 2018; PECO: 11.7% in 2015, 13.3% in 2016, 12.1% in 2017, 12.2% in 2018;
BGE: 10.7% in 2015, 10.5% in 2016, 9.7% in 2017, 10.3% in 2018; PEPCO: 5.5% in 2016, 7.4% in 2017, 7.7% in 2018.

3) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

4) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

5) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

6) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

7) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw, nuclear $110m price) from Q2 2017.

8) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

9) Forward curves as of 2/7/17.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2018E

($ in millions except per share)

	2018E	2017E	2016A	2015A	2014A	2013A	2012A	2011A
Net income	2,725	2,517	2,488	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	5,000	4,925	5,576	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	370	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,600	7,317	8,434	7,634	4,457	6,343	6,131	4,853
Dividends	(1,196)	(1,174)	(1,166)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(7,250)	(8,125)	(8,565)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	(846)	(1,982)	(1,297)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a P/E multiple of 14.3x (in line with the peer group) on our 2018 estimate of $2.82, we derive our price target of $40.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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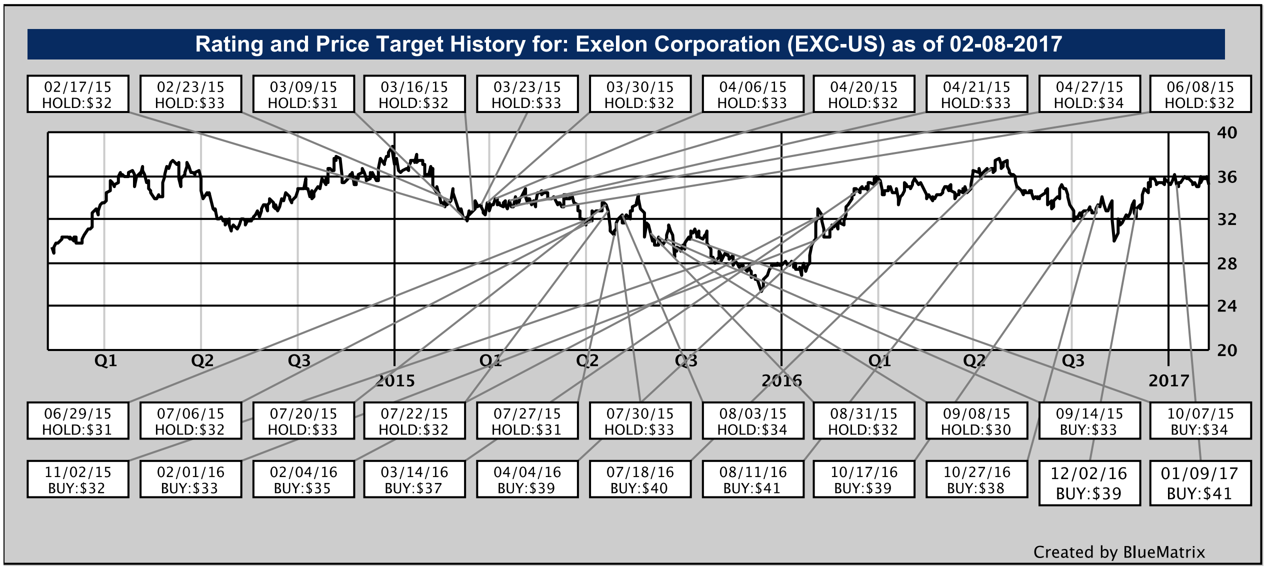

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Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

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B = Buy
H = Hold
S = Sell
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3 designations based on total returns* within a 12-month period**
· **Buy** – total return ≥ 15% (10% for low-Beta securities)***
· **Reduce** – total return ≤ negative 10% (5% for low Beta securities)
· **Neutral** – total return is within the bounds above
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· **CS** – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Buy	375	56.39%	Buy	94	25.07%
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Sell/Reduce	4	0.60%	Sell/Reduce	0	0.00%

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Scotia Howard Weil

COMPANY UPDATE

Friday, February 10, 2017

Exelon Corporation

4Q16 Takeaways: Executing Growth Strategy

QUICK TAKE: Quick Take: The stock underperformed versus the group following the earnings call despite what was largely a reiteration of the Company's long-term outlook as lower headline growth targets at its utility segments and decreasing gross margin outlook at ExGen beginning in 2019 likely weighed on the stock. We are willing to look through these issues and continue to believe the name provides the most potential upside to out-year forecasts among our coverage group and note the stock trades at about one turn below its average forward earnings multiple based on our FY18 forecasts.

KEY POINTS

Guidance In Line with Expectations: The Company offered a projected earnings guidance range for FY17 of $2.50 to $2.80/share in its presentation materials, straddling our estimate and the current Street consensus of $2.65/share. The longer-term outlook was consistent with forecasts provided at the analyst day and subsequent events, with small, positive changes in contributions from both the Utility and Generation segments. We are maintaining our FY17 and FY18 EPS estimates of $2.65 and $2.85, respectively.

ExGen Updates: EXC updated the gross margin and operating costs assumptions for the segment to include contributions from ZEC subsidies in New York and Illinois, the "un-retirement" of the Clinton and Quad Cities facilities, and the upcoming FitzPatrick acquisition (expected 2Q17). The net impact of these changes is about $100 to $200 million per year (pre-tax), which we believe was largely priced into the stock. The Company has hedged about 57% and 30% of expected 2018 and 2019 generation, respectively. This is in line with out-year hedged volumes at this time last year, providing meaningful upside should power prices recover from recent historically low levels. Synergies from the operation of the FitzPatrick plant, located near the Company's Nine Mile Point facility could also materialize over time.

Utility Rate Base Additions Fuel Growth: 2016 actual results were above the midpoint of guidance, reducing long-term growth expectations to 6 to 8% on an annual basis through 2020, compared to forecasts of 7 to 9% growth offered at the Company's analyst day in August. Higher earnings were accomplished despite rate base coming in a bit below forecasts, which conversely creates expectations for better rate base increases over the planning period. The Illinois legislation allows for ComEd to recover energy efficiency investments, more than offsetting relative lag at the other utilities. EXC has four rate cases outstanding at legacy PHI utilities that seek allowed returns well in excess of those currently earned at DPL and PEPCO. Orders are expected through 3Q17 and the Company plans on filing additional rate cases at each PHI utility during 2017.

Qtly EPS (Dil)	Q1	Q2	Q3	Q4	Year	P/EPS
2015A	$0.71	$0.59	$0.83	$0.38	$2.49	11.1x
2016A	$0.68	$0.65	$0.91	$0.44	$2.68	13.2x
2017E	$0.62	$0.61	$0.79	$0.63	$2.65	13.3x
2018E	$0.71	$0.66	$0.82	$0.67	$2.85	12.3x

(FY-Dec.)	2014A	2015A	2016A	2017E	2018E
EBITDA (M)	$6,367	$6,937	$8,376	$8,754	$9,245
Enterprise Value (M)	$53,537	$46,117	$69,934	$71,396	$71,710
EV/EBITDA	8.4x	6.6x	8.3x	8.2x	7.8x

Historical price multiple calculations use FYE prices. All values in US$ unless otherwise indicated.
Source: FactSet; company reports; Scotia Howard Weil estimates.

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ANALYST TEAM Link to Analyst Page

POWER & UTILITIES

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PERTINENT DATA

Rating	**Sector Perform**
1-Yr. Target	**$37.00**
EXC	$34.85
1-Yr. Return	9.9%
Div. (NTM)	$1.31
Div. (Curr.)	$1.27
Yield (Curr.)	3.6%

Valuation: 13.0x our F2018 EPS estimate

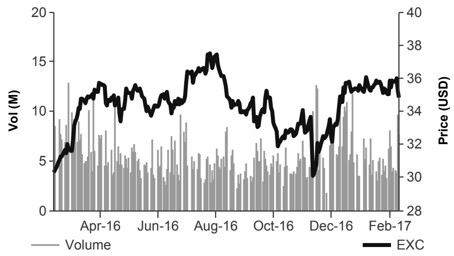
PERTINENT REVISIONS

New Valuation: 13.0x our F2018 EPS estimate
Old Valuation: 14.0x our F2018 EPS estimate

CAPITALIZATION

Market Cap. (M)	$32,176
Net Debt + Pref. (M)	$35,278
Enterprise Value (M)	$69,229
Shares O/S (M)	923
Float O/S (M)	921

Volume and Closing Price for EXC



Source: FactSet.

Tax Policy Implications: EXC earns a relatively large share of earnings from its merchant operations, and as such is widely viewed as having more upside to proposed tax code changes than its utility peers. Management briefly discussed potential impacts to earnings based on a variety of assumptions, keeping the talk at a very high level while noting that no specific legislation has been proposed. The outlook based on the House proposal including no interest deduction, but excluding boarder adjustment taxes would be neutral to the utility segments, neutral to slightly positive at ExGen (assuming a lower corporate tax rate), and negative at HoldCo. Including a boarder tax adjustment would be a negative to ExGen as it imports nuclear fuel.

There are clearly any number of outcomes regarding federal tax policy, but some of the negative reaction in the stock may have been predicated on the potential that changes could be a drag on future earnings, a stark change from the consensus view heading into the call. We believe EXC is prudent to stay away from specific guidance given all of the moving pieces and that the most likely outcome at this point is that final tax code revisions would be positive to neutral for the name, either driven by lower corporate tax rates or the industry receiving certain exemptions that take the regulated nature of its operations into consideration.

Rate Case Schedules: As noted above, the Company has a number of rate cases outstanding after receiving four final orders over the course of 2H16. Legacy EXC utilities (ComEd, PECO, and BGE) earned equity returns of about 10.5% during 2017, compared to 5.6% at ACE, 6.3% at DPL, and 7.5% at PEPCO. The PHI utilities are currently allowed ROEs ranging from 9.7% to 10.0%. Recent orders regarding the ACE electric and PEPCO Maryland filings and the outstanding cases summarized below should help to bridge this gap.

Figure 1: EXC Outstanding Rate Cases - Requests

Jurisdiction	Revenue ($MM)	ROE	Equity Layer	Order Expected
DPL - Maryland	57	10.6%	49.10%	February
PEPCO - DC	77	10.6%	49.14%	3Q17
DPL - Delaware (Electric)	60	10.6%	49.44%	3Q17
DPL - Delaware (Gas)	22	10.6%	49.44%	3Q17

Source: Company reports.

Company Overview

Company Description

Exelon Corporation is a diversified power utility company with operations throughout the United States, operating generation, transmission, and distribution assets in both merchant and regulated markets. The Generation segment operates a large regional and fuel-diversified competitive electricity business, including the largest nuclear power generation fleet in the country. The company owns regulated utilities ComEd, BGE, PECO, and Pepco Holdings, which provide electric transmission and distribution services to customers within their designated service areas.

Risks

Risk Factors Which May Impede the Achievement of the Price Target: (1) Industry fundamentals with respect to customer demand or product/service pricing could change and adversely impact expected revenues and earnings; (2) issues relating to major competitor or market shares or new product expectations could change investor attitudes toward the sector or the company; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) external factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects.

Key Risks: Regulatory factors, interest rates, commodity prices, operational factors, including running fleet of nuclear power reactors

Appendix A: Important Disclosures

Company	Disclosures (see legend below)*
Exelon Corporation	G, I, N1, U

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Exelon Corporation (EXC) as of February 09, 2017 (in USD)

*Represents the value(s) that changed.

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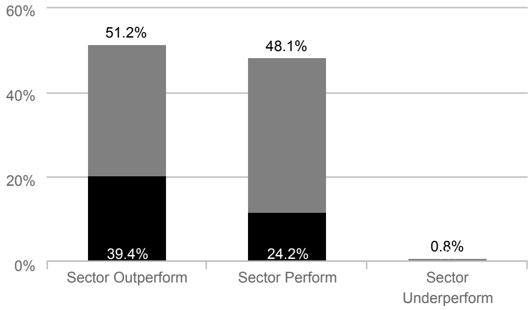

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February 10, 2017

COMPANY UPDATE

Exelon Corp. (EXC)

Neutral

Equity Research

Staying Neutral: Now slightly below consensus & ZEC risks remain

What's changed

After 4Q2016 earnings, we lower our estimates from $2.83/$2.89/$2.84 in 2017/2018/2019 to $2.73/$2.77/$2.70 as we adjust for revised (1) capital spending levels and YE2016 rate base levels, (2) rate case assumptions, (3) operating expense and financing assumptions, and (4) generation output and hedged pricing levels. We assume modestly lower estimates, especially at the PHI segment, given slightly higher costs and lower rate base levels, as well as lower hedged pricing – and our forecasts now appear slightly below consensus in 2018/2019. We remain Neutral and lower our 12-month price target from $38 to $37.

Implications

Weakness during the quarter – where EXC missed GS – appeared driven mostly by higher than expected operating costs at PHI – as we expected even greater cost management at this recently acquired (early 2016) segment. We reiterate our concern regarding a federal court case over the nuclear subsidies – the Zero Emissions Credits (ZECs) – granted to several EXC nuclear plants in New York and Illinois. We view a decision by the federal court in New York on whether to hear or dismiss this case as key, given – as we outlined in our recent note "Risks do exist at EXC, especially ZEC and RPM; remain Neutral" published January 30, 2017 – that losing these subsidies would pose roughly $0.25-$0.30 of EPS risk for EXC.

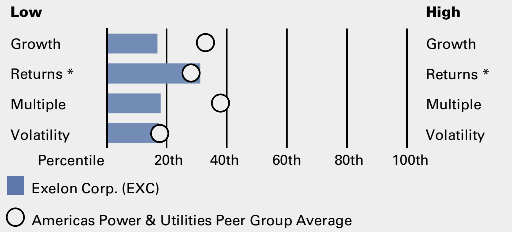
Valuation

We derive our 12-month price target of $37 using a SOTP methodology applying P/E multiples on the regulated segments and an EV multiple on EXC's generation business. We use a discount multiple on the generation segment given the potential litigation risk on the nuclear subsidies.

Key risks

Key risks include power prices, litigation, and regulation.

Investment Profile



* Returns = Return on Capital

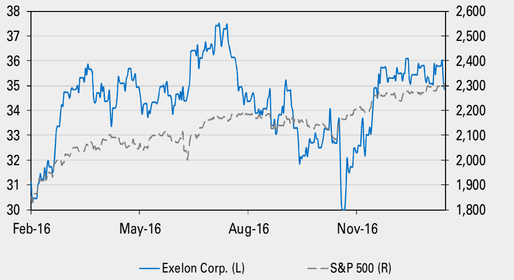
For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price ($)	34.85
12 month price target ($)	37.00
Market cap ($ mn)	32,340.8

	12/16	12/17E	12/18E	12/19E
Revenue ($ mn) New	**31,360.0**	**28,068.4**	**28,103.6**	**28,078.2**
Revenue ($ mn) Old	30,188.7	28,117.9	28,294.5	28,311.1
EPS ($) New	**2.68**	**2.73**	**2.77**	**2.70**
EPS ($) Old	2.74	2.83	2.89	2.84
P/E (X)	12.5	12.7	12.6	12.9
EV/EBITDA (X)	9.6	7.8	7.6	7.6
ROE (%)	4.4	9.0	9.5	8.9

	12/16	3/17E	6/17E	9/17E
EPS ($)	0.44	0.69	0.60	0.85

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	8.7	(2.8)	9.1
Rel. to S&P 500	1.9	(8.1)	(12.4)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/09/2017 close.

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

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Exelon Corp.: Summary Financials

Profit model ($ mn)	**12/16**	**12/17E**	**12/18E**	**12/19E**
Total revenue	31,360.0	28,068.4	28,103.6	28,078.2
Cost of goods sold	(12,640.0)	(7,540.3)	(7,180.2)	(7,113.3)
SG&A	(10,049.0)	(9,634.5)	(9,622.5)	(9,642.1)
R&D	0.0	0.0	0.0	0.0
Other operating profit/(expense)	(1,576.0)	(1,711.7)	(1,745.0)	(1,773.9)
ESO expense	--	--	--	--
EBITDA	**7,095.0**	**9,181.9**	**9,555.9**	**9,548.9**
Depreciation & amortization	(3,936.0)	(3,764.8)	(3,646.3)	(3,709.1)
EBIT	**3,159.0**	**5,417.2**	**5,909.7**	**5,839.7**
Net interest income/(expense)	(1,535.0)	(1,527.2)	(1,585.5)	(1,593.6)
Income/(loss) from associates	(23.0)	0.0	0.0	0.0
Others	363.0	92.5	96.1	101.6
Pretax profits	**1,964.0**	**3,982.5**	**4,420.2**	**4,347.7**
Provision for taxes	(762.0)	(1,441.3)	(1,699.9)	(1,678.0)
Minority interest	(62.0)	(149.9)	(88.5)	(57.9)
Net income pre-preferred dividends	**1,140.0**	**2,391.3**	**2,631.8**	**2,611.8**
Preferred dividends	(6.0)	(8.0)	(8.0)	(8.0)
Net income (pre-exceptionals)	**1,134.0**	**2,383.3**	**2,623.8**	**2,603.8**
Post tax exceptionals	1,353.0	207.9	36.0	0.0
Net income (post-exceptionals)	**2,487.0**	**2,591.2**	**2,659.8**	**2,603.8**
EPS (basic, pre-except) ($)	**1.23**	**2.52**	**2.73**	**2.71**
EPS (diluted, pre-except) ($)	**1.22**	**2.52**	**2.73**	**2.70**
EPS (basic, post-except) ($)	**2.69**	**2.74**	**2.77**	**2.71**
EPS (diluted, post-except) ($)	**2.68**	**2.73**	**2.77**	**2.70**
Common dividends paid	0.0	0.0	0.0	0.0
DPS ($)	1.26	1.31	1.34	1.38
Dividend payout ratio (%)	103.0	52.0	49.1	50.8

Growth & margins (%)	**12/16**	**12/17E**	**12/18E**	**12/19E**
Sales growth	6.5	(10.5)	0.1	(0.1)
EBITDA growth	3.7	29.4	4.1	(0.1)
EBIT growth	(28.0)	71.5	9.1	(1.2)
Net income (pre-except) growth	(50.0)	110.2	10.1	(0.8)
EPS growth	(51.9)	105.5	8.4	(1.0)
Gross margin	59.7	73.1	74.5	74.7
EBITDA margin	22.6	32.7	34.0	34.0
EBIT margin	10.1	19.3	21.0	20.8

Cash flow statement ($ mn)	**12/16**	**12/17E**	**12/18E**	**12/19E**
Net income	1,204.0	2,541.2	2,720.3	2,669.7
D&A add-back (incl. ESO)	5,576.0	5,280.5	5,183.7	5,264.6
Minority interest add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	0.0	0.0	0.0	0.0
Other operating cash flow	1,654.0	445.1	530.6	412.7
Cash flow from operations	**8,434.0**	**8,266.8**	**8,434.6**	**8,347.0**
Capital expenditures	(8,565.0)	(8,200.0)	(7,325.0)	(6,825.0)
Acquisitions	(6,934.0)	(110.0)	0.0	0.0
Divestitures	61.0	0.0	0.0	0.0
Others	(54.0)	(248.0)	(248.0)	(248.0)
Cash flow from investing	**(15,492.0)**	**(8,558.0)**	**(7,573.0)**	**(7,073.0)**
Dividends paid (common & pref)	(1,166.0)	(1,238.3)	(1,288.6)	(1,323.7)
Inc/(dec) in debt	2,205.0	1,415.2	(165.0)	(35.0)
Other financing cash flows	152.0	76.0	76.0	76.0
Cash flow from financing	**1,191.0**	**252.9**	**(1,377.6)**	**(1,282.7)**
Total cash flow	**(5,867.0)**	**(38.3)**	**(515.9)**	**(8.7)**

Balance sheet ($ mn)	**12/16**	**12/17E**	**12/18E**	**12/19E**
Cash & equivalents	635.0	596.7	80.8	72.1
Accounts receivable	5,359.0	5,359.0	5,359.0	5,359.0
Inventory	1,638.0	1,638.0	1,638.0	1,638.0
Other current assets	4,780.0	4,780.0	4,780.0	4,780.0
Total current assets	**12,412.0**	**12,373.7**	**11,857.8**	**11,849.1**
Net PP&E	71,555.0	75,578.1	78,713.1	81,267.2
Net intangibles	6,677.0	6,677.0	6,677.0	6,677.0
Total investments	629.0	629.0	629.0	629.0
Other long-term assets	23,631.0	22,837.3	22,043.7	21,250.0
Total assets	**114,904.0**	**118,095.2**	**119,920.6**	**121,672.3**
Accounts payable	3,441.0	3,441.0	3,441.0	3,441.0
Short-term debt	3,697.0	3,697.0	3,697.0	3,697.0
Other current liabilities	6,319.0	6,319.0	6,319.0	6,319.0
Total current liabilities	**13,457.0**	**13,457.0**	**13,457.0**	**13,457.0**
Long-term debt	32,216.0	33,631.2	33,466.2	33,431.2
Other long-term liabilities	41,619.0	42,016.1	42,498.8	42,863.5
Total long-term liabilities	**73,835.0**	**75,647.3**	**75,964.9**	**76,294.7**
Total liabilities	**87,292.0**	**89,104.3**	**89,421.9**	**89,751.7**
Preferred shares	**0.0**	**8.0**	**16.0**	**24.0**
Total common equity	**25,837.0**	**27,058.0**	**28,469.2**	**29,825.3**
Minority interest	**1,775.0**	**1,924.9**	**2,013.4**	**2,071.3**
Total liabilities & equity	**114,904.0**	**118,095.2**	**119,920.6**	**121,672.3**

Additional financials	**12/16**	**12/17E**	**12/18E**	**12/19E**
Net debt/equity (%)	127.8	126.7	121.6	116.1
Interest cover (X)	2.1	3.5	3.7	3.7
Inventory days	46.3	79.3	83.3	84.0
Receivable days	55.0	69.7	69.6	69.7
BVPS ($)	27.97	28.23	29.63	30.98
ROA (%)	1.1	2.0	2.2	2.2
CROCI (%)	10.5	8.8	8.4	7.8
Dupont ROE (%)	**4.1**	**8.2**	**8.6**	**8.2**
Margin (%)	3.6	8.5	9.3	9.3
Turnover (X)	0.3	0.2	0.2	0.2
Leverage (X)	4.2	4.1	3.9	3.8
Free cash flow per share ($)	(0.14)	0.07	1.16	1.58
Free cash flow yield (%)	(0.4)	0.2	3.3	4.5

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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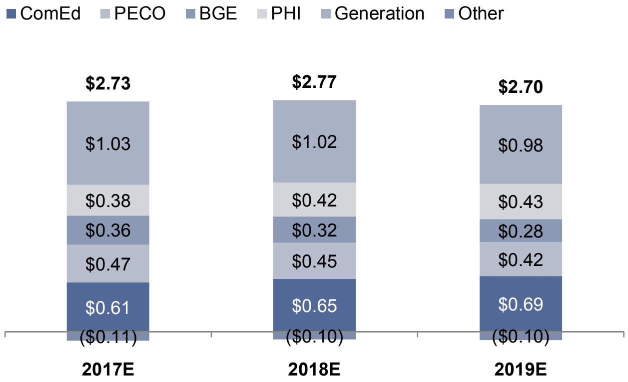
EXC in pictures

Exhibit 1: After 4Q2016 earnings, we lower estimates…
GS new vs. old vs. consensus, 2017E-2019E

	EPS Estimates			% Difference	
	New	Old	Cons.	vs. Old	vs. Cons.
2017E	$2.73	$2.83	$2.65	(3%)	3%
2018E	$2.77	$2.89	$2.86	(4%)	(3%)
2019E	$2.70	$2.84	$2.83	(5%)	(5%)

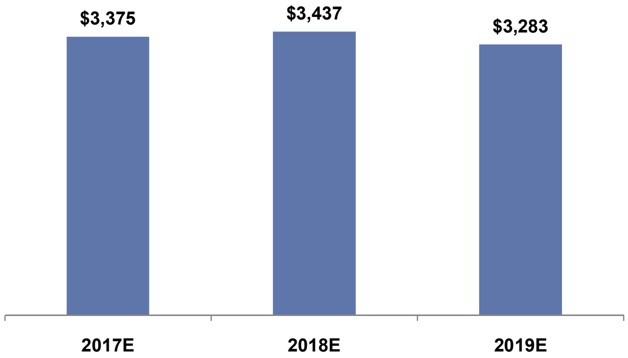
Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 2: …for less cost management at PHI, lower hedged pricing and…
EPS by segment, 2017E-2019E



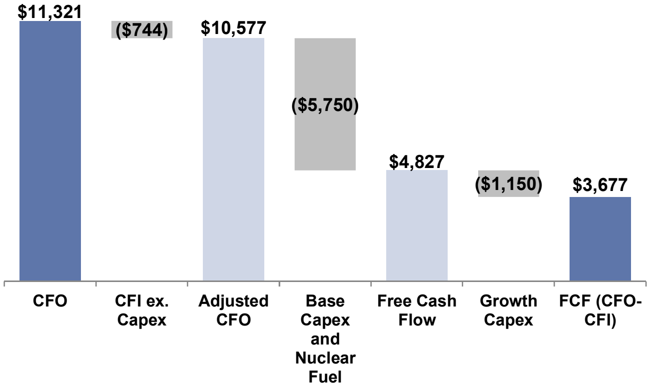
Source: Goldman Sachs Global Investment Research

Exhibit 3: …for lower generation levels at the non-regulated segment…
Exelon Generation EBITDA, 2017E-2019E



Source: Goldman Sachs Global Investment Research.

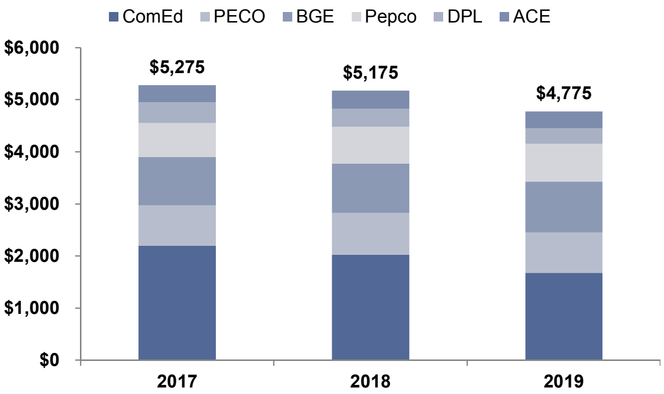
Exhibit 4: …although we expect solid free cash flow at the generation segment
Cumulative FCF for Exelon Generation, 2017E-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 5: We update capital spending levels for the regulated businesses…

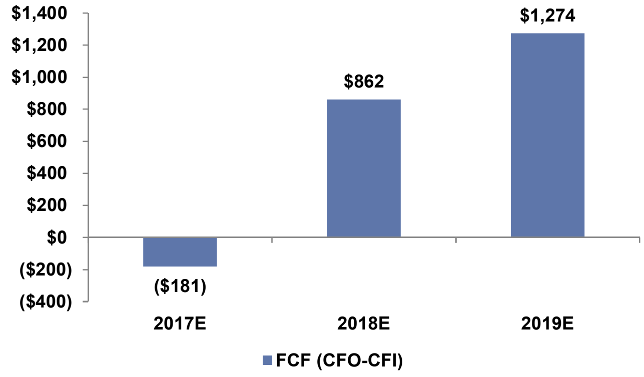
Regulated Utility capital spending by segment, 2017E-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 6: …and still expect strong free cash flow levels at the consolidated level as well

Consolidated FCF, 2017E-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 7: EXC trades at a discount relative to Diversified Utilities with merchant generation peers…

Diversified Utilities comparable analysis

Diversified Utilities Comparable Analysis															
			Close	**12-Mo**	**Tot Ret**	**EPS**				**P/E**				**Dividend**	**Dividend**
	Ticker	**Rating**	**02/09/17**	**Px. Tgt**	**to Target**	**2016**	**2017**	**2018**	**2019**	**2016**	**2017**	**2018**	**2019**	**Yield**	**CAGR 2016-19E**
Diversified Utilities															
CenterPoint Energy	CNP	Neutral	$26.47	$24	(5%)	$1.18	$1.28	$1.37	$1.44	22.5x	20.7x	19.3x	18.4x	3.9%	5.0%
Dominion Resources	D	Neutral	$72.15	$74	6%	$3.80	$3.66	$3.98	$4.14	19.0x	19.7x	18.1x	17.4x	3.9%	8.0%
Entergy	ETR	Buy	$71.00	$82	20%	$7.32	$4.51	$4.54	$5.00	9.7x	15.8x	15.7x	14.2x	4.8%	3.7%
Exelon	EXC	Neutral	$34.85	$37	10%	$2.68	$2.73	$2.77	$2.70	13.0x	12.7x	12.6x	12.9x	3.6%	2.9%
FirstEnergy	FE	Neutral	$29.88	$34	19%	$2.70	$2.71	$2.46	$2.51	11.1x	11.0x	12.2x	11.9x	4.8%	1.3%
NextEra Energy	NEE	NR	$124.65	--	--	$6.19	$6.43	$7.07	$7.53	20.1x	19.4x	17.6x	16.6x	2.8%	12.0%
Public Service Enterprise Group	PEG	Buy	$43.19	$48	15%	$2.95	$2.98	$3.09	$3.04	14.6x	14.5x	14.0x	14.2x	3.8%	4.5%
Sempra Energy	SRE	Neutral	$103.65	$106	5%	$4.69	$5.14	$5.66	$7.09	22.1x	20.2x	18.3x	14.6x	2.9%	9.0%
Diversified Utilities Mean					**10%**					**16.5x**	**16.8x**	**16.0x**	**15.0x**	**3.8%**	**5.8%**
Diversified Utilities Median					**11%**					**16.8x**	**17.6x**	**16.6x**	**14.4x**	**3.8%**	**4.8%**
Merchant Generation names (PEG, ETR, FE, EXC)															
Diversified Utilities / Merchant Generation Mean					**16%**					**12.1x**	**13.5x**	**13.6x**	**13.3x**	**4.3%**	**3.1%**
Diversified Utilities / Merchant Generation Median					**17%**					**12.0x**	**13.6x**	**13.3x**	**13.6x**	**4.3%**	**3.3%**
Infrastructure names (CNP, D, NEE, SRE)															
Diversified Utilities / Infrastructure Mean					**2%**					**20.9x**	**20.0x**	**18.3x**	**16.7x**	**3.4%**	**8.5%**
Diversified Utilities /Infrastructure Median					**5%**					**21.1x**	**20.0x**	**18.2x**	**17.0x**	**3.4%**	**8.5%**

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 8: …but appears less attractive on a sum of the parts analysis

SOTP valuation

Sum-of-the-Parts Analysis	
Regulated Utilities	
ComEd 2018 EPS	$0.65
PECO 2018 EPS	0.45
BGE 2018 EPS	0.32
Legacy EXC Regulated Utilities 2018 EPS	**$1.42**
Target P/E multiple	16.8x
Legacy EXC Regulated Utilities Equity Value per Share	**$24**
PHI 2018 EPS	**$0.42**
Target P/E multiple	16.3x
PHI Equity Value per Share	**$7**
Exelon Generation	
Exelon Generation 2018 EBITDA ($mm)	$3,437
Target EV/EBITDA multiple	5.25x
Exelon Generation Enterprise Value ($mm)	**$18,043**
Less: Exelon Generation Net Debt ($mm, as of 9/30/2016)	(9,381)
Less: Exelon Generation Noncontrolling interest ($mm, as of 9/30/2016)	(1,432)
Exelon Generation Equity Value ($mm)	**$7,230**
Current Diluted Share Count (mm, as of 12/31/2016)	927
Exelon Generation Equity Value per Share	**$8**
Holding Company	
Exelon Holding Company 2018 EPS	($0.10)
Target P/E multiple	16.8x
Exelon Holding Company Equity Value per Share	**($2)**
Total Value per Share	**$37**
Current Price	$34.85
Current Dividend Yield	3.6%
Price Return	6.2%
Total Potential Return	**9.8%**

Source: FactSet, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

We, Michael Lapides, Daniel Yu, CFA, David Fishman, Dylan Campbell and Siddharth Verma, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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Disclosures

Coverage group(s) of stocks by primary analyst(s)

Michael Lapides: America-Diversified Utilities, America-Independent Power Producers, America-Regulated Utilities.

America-Diversified Utilities: Centerpoint Energy Inc., Dominion Resources Inc., Entergy Corp., Exelon Corp., FirstEnergy Corp., NextEra Energy Inc., Public Service Enterprise Group, Sempra Energy.

America-Independent Power Producers: Calpine Corp., Dynegy Inc., NextEra Energy Partners, NRG Energy Inc., NRG Yield Inc..

America-Regulated Utilities: Ameren Corp., American Electric Power, American Water Works, Consolidated Edison Inc., Duke Energy Corp., Edison International, Eversource Energy, Great Plains Energy Inc., NiSource Inc., PG&E Corp., Pinnacle West Capital Corp., Portland General Electric Co., PPL Corp., SCANA Corp., Southern Co., WEC Energy Group Inc., Westar Energy Inc..

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	Rating Distribution			Investment Banking Relationships		
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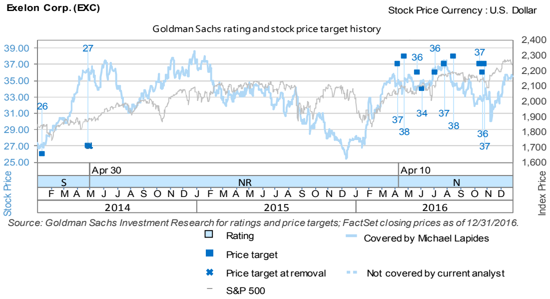
Price target and rating history chart(s)



Source: Goldman Sachs Investment Research for ratings and price targets; FactSet closing prices as of 12/31/2016.

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Sector: US Power & Utilities

February 10, 2017

Exelon Corporation

Keep calm and carry on

Our view: We continue to see Exelon as the best deregulated play with robust utility growth combined with the best leverage to improving power prices. We believe recent concerns regarding impact from potential tax reform, while not unfounded, may have been overdone. We reiterate our Outperform rating.

Key points:

Tax reform and the fear of BATs. Investors seem to be somewhat concerned regarding the impact from potential tax reform, after management only discussed directional impact to the various segments. One item that caught us off guard was the impact from a border adjustment tax (BAT) on ExGen. Our simplified analysis (on page 3) shows that, at a 20% corporate tax rate, the loss of interest deductibility would still result in a net EPS benefit to Exelon, while the addition of BAT would result in modest dilution. While we could see a bad scenario (tax rate lowered only moderately coupled with BAT) having a more meaningful hit to Exelon's earnings, the average of the various scenarios seems to indicate a more neutral impact overall.

Mystic sale mystery? Be patient. Management is continuing their plan to sell the ~2,000 MW Mystic facility in Middlesex, MA (discussed late last year) after evaluating all offers. We believe investors may be a bit concerned that lack of an announcement thus far could be indicating lower-than-expected offer values. We expect the Mystic 8, 9 CCGT (7,500 heat rate) to be sold for average market prices, which we estimate to be around $750/kW. Our model incorporates $1.2 billion in sales proceeds (at a $600/kW blended price) in 3Q17 used to pay down ExGen/HoldCo debt.

Issues for 2017: further nuclear support? With the passage of recent nuclear subsidy legislation in both New York and Illinois, helping nearly 4.5 GW of nuclear capacity for Exelon, other states are in various stages of discussions regarding similar support for their nuclear plants. These states include Connecticut, Pennsylvania, Ohio, and New Jersey. Connecticut seems to be the front runner, with our view that a bill could pass this year. Exelon does not own any nuclear in the state, although it does own 4.5 GW in Pennsylvania and 1.6 GW in New Jersey that could see upside if similar legislation is passed in the respective states.

Maintain Outperform and $40 price target. Despite continued power price pressure for ExGen, we remain positive on the increased cash flow stability provided via the New York/Illinois ZECs, as we estimate around 60% of our 2018 and 2019 EBITDA derived from ZECs and capacity revenues. We also believe there is upside to our utility earnings, as we currently incorporate annual EPS growth at the lower end of the 6-8% CAGR guided by management. Our valuation reflects $32 of value for the utilities; at current levels, we believe there is limited downside for the stock.

Outperform

NYSE: EXC; USD 34.85

Price Target USD 40.00

WHAT'S INSIDE	
☐ Rating/Risk Change	☐ Price Target Change
☐ In-Depth Report	☑ Est. Change
☐ Preview	☐ News Analysis

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
28.00	34.85	40.00	48.00
↓ 16%		↑ 18%	↑ 41%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	887.3	Market Cap (MM):	30,922
Dividend:	1.24	Yield:	3.6%
ROE:	9.7%	Tr. 12 ROE:	9.74%
Float (MM):	864.6	Enterprise Val. (MM):	48,086
Debt to Cap:	47%	Avg. Daily Volume:	5,074,867
Institutional Ownership:	75%		

RBC Estimates

FY Dec	2016A	2017E	2018E	2019E
EPS, Adj Diluted	2.69	2.64	2.93	2.75
Prev.		2.69	2.98	2.79
P/AEPS	13.0x	13.2x	11.9x	12.7x
DPS	1.26	1.31	1.35	1.39
Prev.		1.30	1.33	1.37
Div Yield	3.6%	3.8%	3.9%	4.0%

EPS, Adj Diluted	**Q1**	**Q2**	**Q3**	**Q4**
2016	0.68A	0.65A	0.91A	0.44A
Prev.				0.45E

All values in USD unless otherwise noted.

Disseminated: Feb 10, 2017 12:53ET; Produced: Feb 10, 2017 12:53ET

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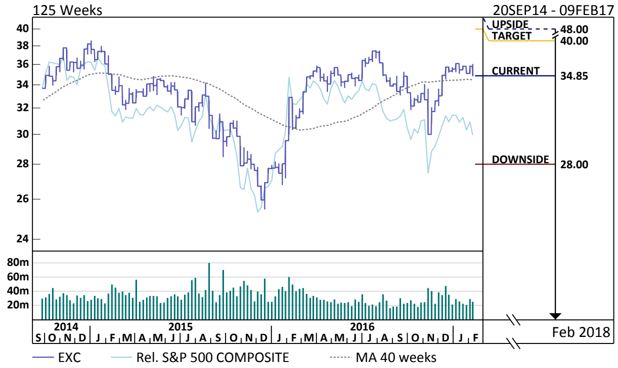
Target/Upside/Downside Scenarios

Exhibit 1: Exelon Corporation



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

- Base case price target of $40.
- 18.2x 2018E P/E for ComEd, PECO, and BGE and 18.2x 2017E P/E for PEPCO, DPL, ACE, which represents a 5% and no premium to our estimated industry average multiple.
- ExGen gross margin for 2017–2019 of $8.16 billion, $8.30 billion, and $7.81 billion, respectively, including the benefit of New York and Illinois' nuclear Zero Emission Credits (ZECs), as well as the earnings accretion from the Fitzpatrick nuclear plant acquisition.
- 7.5x EV/EBITDA multiple on ExGen's 2018 "open" EBITDA.

Upside scenario

- Upside scenario of $48.
- Same premiums on the various utilities but on the upside scenario base P/E multiple of 18.2x.
- 10% increase in forward power prices.
- 8.0x EV/EBITDA multiple on ExGen's 2018 "open" EBITDA.

Downside scenario

- Downside scenario of $28.
- Same premiums on the various utilities but on the downside scenario base P/E multiple of 14.7x.
- 10% decrease in forward power prices.
- 6.0x EV/EBITDA multiple on ExGen's 2018 "open" EBITDA to reflect on-going pressure of power prices on plant economics.

Investment summary

With the Pepco acquisition complete, Exelon now derives over 60% of its earnings from regulated utilities. The company now is tasked with reducing the under-earning profile at the legacy Pepco utilities (PEPCO, DPL, ACE), while working to achieve the projected synergies from the deal. Combined with the expected earnings boost at ExGen due to the recently passed New York and Illinois legislation supporting nuclear plants, we expect Exelon warrants a premium multiple to its de-regulated peers.

Potential catalysts

- Recovery in forward power curves lead to improved ExGen gross margins.
- Successful implementation of O&M expense control through 2019 help offset impact of low power prices.
- Exelon receives constructive rate case decisions in the upcoming rate cases for the three legacy Pepco utilities (PEPCO, DPL, ACE).

Risks to call

- Less-than-expected merger synergies are realized or delayed.
- Unfavorable turn in regulatory environment in the various regulatory states.
- The Pepco utilities continue to materially under-earn.
- EDF put price is much higher than expected.
- Ratings agencies downgrade parent and/or subsidiary debt to non-investment grade.

Incremental thoughts post-4Q16 earnings

Tax reform and the fear of BATs. Management expects the House version of the proposed tax reform to be neutral/neutral-to-positive/negative for utilities/ExGen/HoldCo, respectively, with HoldCo negatively impacted by the potential elimination of interest deductibility. They also noted a potentially negative impact from a border adjustment tax (BAT), which results in loss of deductibility of imported raw materials and would affect Exelon's import of uranium for nuclear fuel. We believe Exelon's underperformance since earnings was partially due to investors' increased concern regarding the impact of tax reform, given initial thoughts may have pointed to a more positive net impact.

Below, we attempted to quantify the net impact of a potential House tax reform, with and without BAT. Exhibit 1 shows that, at a 20% corporate tax rate, the loss of interest deductibility would still result in a net EPS benefit to Exelon, while the addition of BAT would result in modest dilution. We assume that the impact to utilities is net neutral. Our estimate of uranium import cost is based on $5/MWh of total nuclear fuel cost, with around half ($2.50/MWh) comprising the imported uranium, on annual ExGen nuclear generation of around 170,000 GWh.

Exhibit 1: Potential tax reform impact a modest negative to positive @ 20% tax rate

ExGen	2018E	2018E	2018E	Assumed annual uranium import cost ($2.5/MWh on 170,000 GWh)	
	Current	**20% tax rate + loss of int. deduction**	**20% tax rate + loss of int. deduction + BAT**		
EBIT	2,194.2	2,194.2	2,194.2	425.0	(d)
Interest expense	(355.1)	(355.1)	(355.1)	(a)	
EBT	1,839.1	1,839.1	1,839.1	(b)	
Tax rate	32%	20%	20%	(c)	
Tax	(588.5)	(367.8)	(367.8)	(b) * (c)	
non-deductible int. exp. impact	-	(71.0)	(71.0)	(a) * (c)	
non-deductible nuclear fuel impact	-	-	(85.0)	(c) * (d)	
Net income	1,250.6	1,400.3	1,315.3		
Shares O/S	962.5	962.5	962.5		
ExGen EPS	$ 1.30	$ 1.45	$ 1.37		
ExGen EPS impact		*$ 0.16*	*$ 0.07*		
HoldCo		2018E	2018E		
Estimated LTD		6,724.3	6,724.3		
Avg. interest rate		4.31%	4.28%		
Interest expense		289.8	287.6		
Tax rate		33%	33%		
non-deductible int. exp. impact		(95.6)	(94.9)		
Shares O/S		962.5	962.5		
HoldCo EPS impact		*$ (0.10)*	*$ (0.10)*		
Exelon EPS Impact		**$ 0.06**	**$ (0.03)**		
Sentivity to 1% increase in tax rate		*$ (0.023)*	*$ (0.027)*		

Source: Exelon Corp, RBC Capital Markets estimates

We do note that, in this analysis, the net impact is more negative as the corporate tax rate increases from the assumed 20% rate. While we acknowledge that a bad scenario (tax rate lowered only moderately coupled with BAT) could see Exelon taking a more meaningful hit to earnings, the average of various scenarios indicates a more neutral impact overall.

Mystic asset sale process still ongoing. Management is continuing their plan to sell the ~2,000 MW Mystic facility in Middlesex, MA (discussed late last year) after evaluating all offers. We believe investors may be a bit concerned that lack of an announcement thus far could be indicating lower-than-expected offer values. We expect the Mystic 8, 9 CCGT (7,500 heat rate) to be sold for average market prices, which we estimate to be around $750/kW. Our model incorporates $1.2 billion in sales proceeds (at a $600/kW blended price) in 3Q17 used to pay down ExGen/HoldCo debt.

Exhibit 2: Estimating $1.2 billion from Mystic sale to be used for de-leveraging

Plant	Plant Type	State	Owned Capacity	$/kW	Estimated Sales Price
Mystic 7	Peaker	MA	575	$250.0	$143.8
Mystic 8, 9	CCGT	MA	1,415	$750.0	$1,061.3
Mystic Jet	Peaker	MA	8	$100.0	$0.8
			1,998	**$603.5**	**$1,205.8**

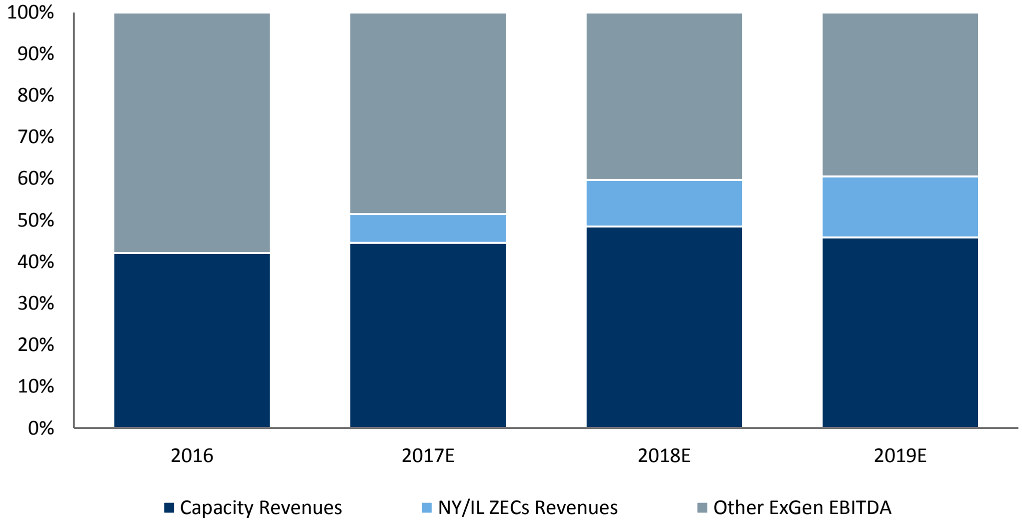
Source: Exelon Corp, RBC Capital Markets estimates

Issues for 2017 and Beyond

Further nuclear support? With the passage of recent nuclear subsidy legislation in both New York and Illinois, helping ~4 GW of nuclear capacity for Exelon, other states are in various stages of discussions regarding similar support for their nuclear plants. These states include Connecticut, Pennsylvania, Ohio, and New Jersey. Connecticut seems to be the front runner, with our view that a bill could pass this year. Exelon does not own any nuclear in the state, although it does own 4.5 GW in Pennsylvania and 1.6 GW in New Jersey that could see upside if similar legislation is passed in the respective states.

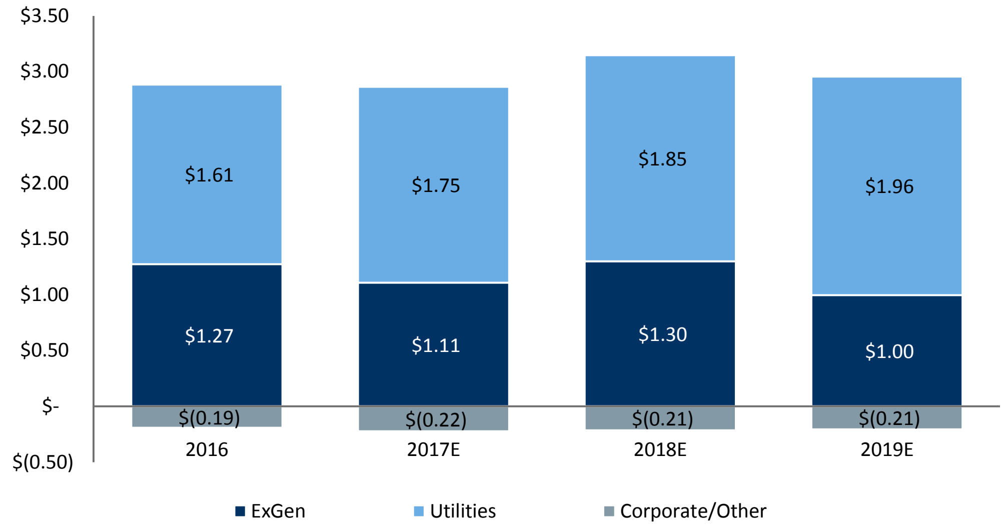
Looking for power price recovery. Exelon continues to maintain that there is upside to power prices, choosing to stay behind ratable in their power hedging plans. Given the downward-sloping forward power curve and potential for lack of a boost in the upcoming 2020/2021 PJM capacity auction, we continue to see a challenging outlook for ExGen for the time being. However, we are encouraged by the increasingly fixed EBITDA profile coming from capacity revenues and ZECs.

Exhibit 3: Majority of ExGen EBITDA fixed via capacity revenues, ZECs



Source: Exelon Corp, RBC Capital Markets estimates

Exhibit 4: 70% of EPS coming from utilities in 2019



Source: Exelon Corp, RBC Capital Markets estimates

Model assumption changes. We lower our 2017-2019 estimates from $2.69, $2.98, and $2.79 to $2.64, $2.93, and $2.75, respectively, mainly to reflect lower earnings at the HoldCo, as well as moderately negative impact from lower power prices at ExGen.

Maintain Outperform and $40 price target. Despite continued power price pressure for ExGen, we remain positive on the increased cash flow stability provided via the New York/Illinois ZECs, as we estimate around 60% of our 2018 and 2019 EBITDA derived from ZECs and capacity revenues. We also believe there is upside to our utility earnings, as we currently incorporate annual EPS growth at the lower end of the 6-8% CAGR guided by management. Our valuation reflects $32 of value for the utilities; at current levels, we believe there is limited downside for the stock.

Exhibit 5: Our valuation reflects $32 of value for the utilities.

Exelon Corp. Sum-of-the-Parts Analysis

Utilities	P/E x	2018E Net Income	
BGE	17.3x	308	5,336
PECO	17.3x	467	8,089
ComEd	17.3x	624	10,817
PEPCO	16.5x	219	3,608
Delmarva	16.5x	101	1,662
ACE	16.5x	58	964
		Total Utility Equity	30,475
		Total Utility Debt	16,013
		Total Utility Cash	154
		Total Utility Enterprise Value	46,335
ExGen	**EV/EBITDA x**	**2018E "Open" EBITDA**	
	7.5x	2,968	22,262
		NPV of In (Out) of Money of Hedges	1,864
		Total Unregulated Enterprise Value	24,126
Consolidated		Total EXC Enterprise Value	70,461
		Total Debt	(32,569)
		Total Cash	782
		Total EXC Equity Value	38,674
		Shares Outstanding	962
		Potential Value per Share	**$40.00**

Source: RBC Capital Markets estimates

Valuation

Our $40 price target uses a sum-of-the-parts analysis. For PECO, ComEd and BGE, we apply a 5% premium to the industry average P/E multiple of 16.5x to the utilities' 2018E net income, while we apply no premium for the Pepco utilities (Potomac Electric, Delmarva Power, Atlantic City Electric). We believe the company's increased regulated profile warrants the premium for the legacy Exelon utilities, but not for the Pepco utilities given their under-earning profiles. For Exelon Generation (ExGen), we apply an 7.5x multiple to its 2018 "open" EBITDA, which reflects the potential value of selling all of its output at the spot price. Finally, we calculate the net present value (NPV) of existing hedges for 2017–2019, which represents an additional cash benefit to the company. Our price target supports an Outperform rating.

Risks to rating and price target

- Further deterioration or non-recovery of forward power curves leads to non-profitable power plant economics .
- Less-than-expected merger synergies are realized or delayed further than forecasted.
- Unfavorable turn in regulatory environment in Illinois and Maryland.
- The Pepco utilities receive non-constructive rate case decisions in upcoming rate cases, resulting in continued under-earning.
- EDF put price is higher than expected.
- Ratings agencies downgrade parent/sub to non-investment grade.

Company description

Exelon Corp., now including the Pepco Holdings utilities, is the nation's leading competitive energy provider. With its generation portfolio providing approximately 19,300 MW of nuclear capacity, Exelon is also the largest nuclear operator in the United States. Exelon's total generation capacity is approximately 32,700 MW. Exelon's six utilities deliver electricity and natural gas to approximately 10 million customers in Delaware, the District of Columbia, Illinois, Maryland, New Jersey and Pennsylvania through its Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO and Pepco subsidiaries.

Exelon Corp. **Shelby G. Tucker, CFA; RBC Capital Markets**

Consolidated Income Statement **+1 (212) 428-6462; shelby.tucker@rbccm.com**

Millions of Dollars Except for Per Share Amounts
Fiscal Year Ending December 31,

			-----> Includes PHI			
	2014	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Total Operating Revenues	27,429	29,447	31,360	33,546	34,379	33,810
Expenses						
Fuel and Purchased Power	(13,003)	(13,084)	(12,640)	(14,458)	(14,673)	(14,118)
Operation & Maintenance	(8,568)	(8,322)	(10,048)	(8,804)	(8,733)	(8,766)
Impairments	-	-	-	-	-	-
Depreciation and Amortization	(2,314)	(2,450)	(3,936)	(3,586)	(3,843)	(4,087)
Taxes Other Than Income	(1,154)	(1,200)	(1,576)	(1,733)	(1,802)	(1,846)
Total Operating Expenses	(25,039)	(25,056)	(28,200)	(28,581)	(29,050)	(28,816)
Operating Income	2,390	4,391	3,160	4,966	5,329	4,994
Gain on sales of assets	437	18	(48)	-	-	-
Gain on consolidation and acquisition of businesses	289	-	-	-	-	-
Other, Net	455	(8)	413	410	410	410
EBIT	**3,571**	**4,401**	**3,525**	**5,376**	**5,739**	**5,404**
EBITDA	**5,885**	**6,851**	**7,461**	**8,961**	**9,581**	**9,491**
Interest Expense	(1,065)	(1,071)	(1,536)	(1,538)	(1,440)	(1,387)
Interest Expense to Affiliates, net	-	-	-	-	-	-
Total Other Income and Deductions	(1,065)	(1,071)	(1,536)	(1,538)	(1,440)	(1,387)
EBT	2,506	3,330	1,989	3,837	4,299	4,017
Income Taxes	(666)	(1,073)	(761)	(1,315)	(1,471)	(1,361)
Effective Tax Rate	*26.6%*	*32.2%*	*38.3%*	*34.3%*	*34.2%*	*33.9%*
Income Before Extraordinary and Accounting Changes	1,840	2,257	1,228	2,522	2,829	2,656
Equity in Earnings (Losses) of Unconsolidated Affiliates	(20)	(7)	(24)	-	-	-
Net Income	1,820	2,250	1,204	2,522	2,829	2,656
Income from Discontinued Operations	-	-	-	-	-	-
Noncontrolling Interests and BGE Preference Stock Dividends	(197)	19	(70)	(8)	(8)	(8)
Cummulative effect of change in accounting principle	-	-	-	-	-	-
Net Income Attributable to common shareholders	**1,623**	**2,269**	**1,134**	**2,514**	**2,821**	**2,648**
Extraordinary Items and GAAP Changes	445	(42)	1,354	-	-	-
Ongoing Income	**2,068**	**2,227**	**2,488**	**2,514**	**2,821**	**2,648**
Earnings per share:						
Net Income (Diluted)	**$ 1.88**	**$ 2.54**	**$ 1.22**	**$ 2.64**	**$ 2.93**	**$ 2.75**
Extraordinary Items	$ -	$ -	$ -	$ -	$ -	$ -
Discontinued Operations	$ -	$ -	$ -	$ -	$ -	$ -
GAAP Changes	$ 0.52	$ (0.05)	$ 1.46	$ -	$ -	$ -
Ongoing Income (Diluted)	**$ 2.39**	**$ 2.49**	**$ 2.69**	**$ 2.64**	**$ 2.93**	**$ 2.75**
Annual Growth	*-4.40%*	*4.19%*	*7.68%*	*-1.76%*	*11.08%*	*-6.25%*
Average Shares Outstanding - Basic	860.0	889.8	924.3	950.0	959.5	960.8
Average Shares Outstanding - Diluted	864.0	893.0	926.5	953.0	962.5	963.8
Dividends per common share	1.2400	1.2400	1.2640	1.3100	1.3500	1.3900
Dividend Growth	-14.78%	0.00%	1.94%	3.64%	3.05%	2.96%
Dividend Payout Ratio	52%	50%	47%	50%	46%	51%

Source: Company Reports, RBC Capital Markets Estimates

Exelon Corp. **Shelby G. Tucker, CFA; RBC Capital Markets**

Balance Sheets and Statement of Cash Flows **+1 (212) 428-6462; shelby.tucker@rbccm.com**

Millions of Dollars Except for Per Share Amounts
Fiscal Year Ending December 31,

BALANCE SHEETS	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Assets						
Cash and Cash Equivalents	1,878	6,502	635	1,049	781	715
Accounts Receivable	4,709	4,099	5,359	5,733	5,875	5,778
Other Current Assets	5,510	4,733	6,418	6,418	6,418	6,418
Total Current Assets	12,097	15,334	12,412	13,200	13,074	12,911
Total PPE	66,829	73,814	89,313	96,474	103,849	110,724
Accumulated Depreciation	(14,742)	(16,375)	(21,951)	(27,072)	(32,449)	(38,072)
Property Plant & Equipment, net	52,087	57,439	71,555	69,402	71,400	72,653
Deferred Debts and Other Assets						
Regulatory Assets	6,076	6,065	10,046	10,046	10,046	10,046
Nuclear Decommisioning Trust Funds	10,537	10,342	11,061	10,760	10,975	11,195
Investment in CENG	-	-	-	-	-	-
Investments	544	639	629	629	629	629
Goodwill, net	2,672	2,672	6,677	6,677	6,677	6,677
Derivative Assets	773	758	492	492	492	492
Other	2,028	2,135	2,032	2,032	2,032	2,032
Total Long-Term Assets	22,630	22,611	30,937	30,636	30,851	31,071
Total Assets	86,814	95,384	114,904	113,238	115,325	116,634
Liabilities						
Commercial Paper and Short-Term Loans	460	533	1,267	1,267	1,267	1,267
Long-Term Debt Due Within One Year	1,802	1,500	2,430	3,089	1,518	2,728
Current Maturities of Transitional Funding Trusts	-	-	-	-	-	-
Accounts Payable	3,048	2,883	3,441	3,936	3,994	3,843
Other Current Liabilities	3,452	4,202	6,319	6,319	6,319	6,319
Total Current Liabilities	8,762	9,118	13,457	14,611	13,098	14,157
Long Term Debt	19,362	23,645	31,575	31,169	31,051	28,323
Long Term Debt- VIE	-	-	-	-	-	-
Transition Trust	-	-	-	-	-	-
Long-Term Debt to Other Transition Financing Trust	648	641	641	641	641	641
Total Long-Term Debt	20,010	24,286	32,216	31,810	31,692	28,964
Deferred Income Taxes	13,019	13,776	18,138	18,138	18,138	18,138
Spent Nuclear Fuel Obligation	1,021	1,021	1,024	1,029	1,034	1,039
Other	19,869	19,861	22,457	17,365	19,492	21,094
Total Long Term Liabilities	33,909	34,658	41,619	36,533	38,665	40,271
Total Liabilities	62,681	68,062	87,292	82,953	83,455	83,392
BGE Preference Stock Not Subject to Mandatory Redemption	193	193	-	193	193	193
Contingently redeemable noncontrolling interest		28	-			
Minority Interest of Consolidated Subs	1,332	1,308	1,775	1,775	1,775	1,775
Preferred	-	-	-	-	-	-
Common Stockholder's Equity	22,608	25,793	25,837	28,317	29,902	31,274
Total Liabilities and Stockholder's Equity	86,814	95,384	114,904	113,238	115,325	116,634

Source: Company Reports, RBC Capital Markets Estimates

Exelon Corp. | **Shelby G. Tucker, CFA; RBC Capital Markets**

Balance Sheets and Statement of Cash Flows | **+1 (212) 428-6462; shelby.tucker@rbccm.com**

Millions of Dollars Except for Per Share Amounts
Fiscal Year Ending December 31,

STATEMENT OF CASH FLOWS	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Operating Activities						
Net Income	1,820	2,250	1,204	2,522	2,829	2,656
Depreciation	2,314	2,450	3,936	3,586	3,843	4,087
Amortization of Nuclear Fuel	1,554	1,537	1,640	1,535	1,535	1,535
All Other Amortization	-	-	-	-	-	-
Impairment Charges	687	36	306	-	-	-
Gain on consolidation and acquisition of businesses	(296)					
(Gain) loss on sales of assets	(437)	(18)	48			
Deferred Income Taxes and Amortization of Investment Tax Credits	502	752	664	750	800	800
Net Realized and Unrealized Mark-to-Market Transactions	506	(236)	(205)	-	-	-
Net Cash from Divestitures						
Other Non-Cash Operating Activities	1,054	1,109	1,333	1,100	1,100	1,100
Change in Working Capital	(2,072)	(246)	1,787	-	-	-
Pension/OPEB contributions	(617)	(502)	(397)	(380)	(415)	(415)
Other, Merger Agreements	(558)	502	(1,882)	100	100	100
Cash Flow from Operations	4,457	7,634	8,434	9,213	9,791	9,863
Cash Flows from Investing Activities						
Additions to PP&E, excl. Capitalized Interest and AFDC	(6,077)	(7,624)	(8,565)	(8,250)	(7,375)	(6,875)
Proceeds/(Investments) from Nuclear Decommisioning Trust	(155)	(252)	(242)	(252)	(252)	(252)
Cash Acquired from Constellation						
Proceeds from sale of long-lived assets	1,719	147	61	-	-	-
Sales (Purchase) of assets/businesses	-	-	(6,934)	1,089	-	-
Net Change in Long-Term Investments	4	-	-	-	-	-
Other	(90)	(111)	188	-	-	-
Cash Flows from Investing Activities	(4,599)	(7,840)	(15,492)	(7,413)	(7,627)	(7,127)
Cash Flow from Financing Activities						
Issuance of long-term debt, net of issuance costs	3,463	6,709	4,716	2,500	1,900	-
Retirement of long-term debt	(1,545)	(2,687)	(1,936)	(3,843)	(3,089)	(1,518)
Retirement of Long-Term Debt, VIE	-	-	-	-	-	-
Retirement of LTD to Financing Affiliates	-	-	-	-	-	-
Change in short-term debt	122	80	(575)	-	-	-
Issuance of common stock	-	1,868	-	1,150	-	-
Common stock repurchases	-	-	-	-	-	-
Redemption of preferred securities of subsidiaries	-	-	(190)	-	-	-
Issuance of preferred securities of subsidiaries	-	-	-	-	-	-
Dividends on common stock	(1,065)	(1,105)	(1,166)	(1,245)	(1,295)	(1,336)
BGE Preference Stock Dividends Paid	-	-	-	-	-	-
Proceeds from Employee Stock Plans	35	32	55	52	52	52
Purchase of Treasury Stock	-	-	-	-	-	-
Other financing activities	(599)	(67)	287	-	-	-
Cash Flow from Financing	411	4,830	1,191	(1,386)	(2,432)	(2,802)
Beginning Cash Balance	1,609	1,878	6,502	635	1,049	781
Change in Cash	269	4,624	(5,867)	414	(268)	(65)
Cash classified as held for sale	-	-	-	-	-	-
Ending Cash Balance	**1,878**	**6,502**	**635**	**1,049**	**781**	**715**

Source: Company Reports, RBC Capital Markets Estimates

Exelon Corp. **Shelby G. Tucker, CFA; RBC Capital Markets**

ExGen Gross Margin Calculation **+1 (212) 428-6462; shelby.tucker@rbccm.com**

Hedged Gross Margin	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Open GM	7,300	5,150	4,450	4,100	4,200	4,050
Capacity & ZEC Revenues				1,850	2,250	2,050
MTM of Hedges	(348)	2,228	2,876	1,211	445	302
Unhedged Impact (using historical 1-month avg. of forward curve)	(6)	5	(0)	2	(0)	(47)
Hedged GM	6,946	7,383	7,326	7,162	6,895	6,355
Power New Business/To Go	50	50	50	550	900	950
Non-Power Margins Executed	350	400	400	200	100	50
Non-Power New Business/To Go	50	50	50	250	400	450
Total Gross Margin	**7,396**	**7,883**	**7,826**	**8,162**	**8,295**	**7,805**

Reference Prices	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Henry Hub	$ 4.44	$ 2.75	$ 2.46	$ 3.63	$ 3.14	$ 2.87
Ni-Hub	$ 39.45	$ 28.80	$ 25.87	$ 28.95	$ 27.76	$ 26.76
PJM-West	$ 51.38	$ 37.05	$ 28.84	$ 33.26	$ 32.02	$ 30.32
ERCOT North Spark Spread	$ 3.02	$ 3.12	$ 1.54	$ 2.51	$ 2.48	$ 2.73
NY Zone A	$ 49.00	$ 33.55	$ 26.51	$ 30.93	$ 30.63	$ 30.37
New England: Mass Hub Spark Spread	$ 3.04	$ 5.57	$ 5.52	$ 5.68	$ 5.93	$ 5.03

Current Prices	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Henry Hub	$ 4.32	$ 2.90	$ 2.42	$ 3.37	$ 3.09	$ 3.18
Ni-Hub	$ 36.97	$ 30.74	$ 25.99	$ 29.05	$ 27.89	$ 27.12
PJM-West	$ 46.53	$ 38.87	$ 30.68	$ 33.58	$ 32.00	$ 30.36
ERCOT North Spark Spread	$ 3.02	$ 4.22	$ 4.25	$ 2.69	$ 2.65	$ (0.60)
NY Zone A	$ 45.45	$ 35.20	$ 27.79	$ 30.78	$ 29.62	$ 29.29
New England: Mass Hub Spark Spread	$ 3.04	$ 7.35	$ 4.77	$ 5.86	$ 5.75	$ 5.15

Generation (Gwh)	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Midwest	*97,000*	*96,600*	*98,000*	*95,400*	*95,900*	*96,900*
Mid-Atlantic	*74,300*	*61,700*	*61,300*	*60,200*	*60,300*	*60,000*
ERCOT	*11,400*	*11,600*	*12,100*	*23,000*	*28,100*	*29,100*
New York	*12,700*	*9,300*	*9,500*	*14,500*	*15,400*	*16,600*
New England	*9,900*	*7,500*	*10,900*	*11,700*	*8,600*	*9,100*
	205,300	*186,700*	*191,800*	*204,800*	*208,300*	*211,700*

Hedges	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Midwest	*99%*	*99%*	*99%*	*90%*	*49%*	*23%*
Mid-Atlantic	*100%*	*97%*	*101%*	*100%*	*69%*	*39%*
ERCOT	*103%*	*102%*	*101%*	*87%*	*62%*	*34%*
New York	*100%*	*96%*	*98%*	*94%*	*53%*	*36%*
New England	*104%*	*117%*	*102%*	*99%*	*68%*	*35%*

Effective Realized Energy Px	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Midwest	$ 36.50	$ 36.00	$ 35.50	$ 32.00	$ 30.00	$ 29.50
Mid-Atlantic	$ 48.50	$ 51.50	$ 48.00	$ 43.50	$ 38.50	$ 40.00
ERCOT Spark Spread	$ 20.00	$ 23.50	$ 18.50	$ 6.50	$ 4.50	$ 3.50
New York	$ 42.50	$ 47.50	$ 59.50	$ 42.00	$ 35.00	$ 31.50
New England Spark Spread	$ 6.00	$ 42.00	$ 28.50	$ 15.00	$ 6.50	$ 6.50

Source: Company Reports, RBC Capital Markets Estimates

Required disclosures

Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

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Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

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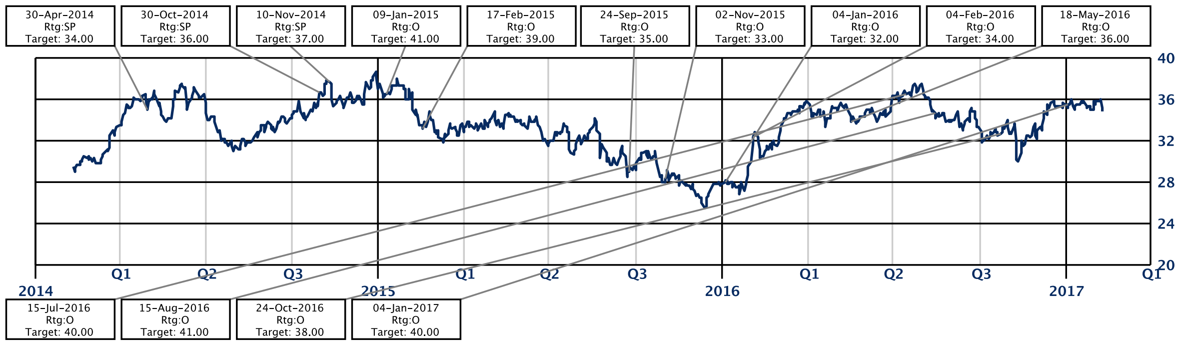
Distribution of ratings
RBC Capital Markets, Equity Research
As of 31-Dec-2016

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**834**	**52.32**	**279**	**33.45**
HOLD [Sector Perform]	**657**	**41.22**	**132**	**20.09**
SELL [Underperform]	**103**	**6.46**	**9**	**8.74**

Rating and price target history for: Exelon Corporation as of 09-Feb-2017 (in USD)



Legend:
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References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: ADR (RL 10), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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Exelon Corporation

Valuation

Our $40 price target uses a sum-of-the-parts analysis. For PECO, ComEd and BGE, we apply a 5% premium to the industry average P/E multiple of 16.5x to the utilities' 2018E net income, while we apply no premium for the Pepco utilities (Potomac Electric, Delmarva Power, Atlantic City Electric). We believe the company's increased regulated profile warrants the premium for the legacy Exelon utilities, but not for the Pepco utilities given their under-earning profiles. For Exelon Generation (ExGen), we apply an 7.5x multiple to its 2018 "open" EBITDA, which reflects the potential value of selling all of its output at the spot price. Finally, we calculate the net present value (NPV) of existing hedges for 2017–2019, which represents an additional cash benefit to the company. Our price target supports an Outperform rating.

Risks to rating and price target

- Further deterioration or non-recovery of forward power curves leads to non-profitable power plant economics .
- Less-than-expected merger synergies are realized or delayed further than forecasted.
- Unfavorable turn in regulatory environment in Illinois and Maryland.
- The Pepco utilities receive non-constructive rate case decisions in upcoming rate cases, resulting in continued under-earning.
- EDF put price is higher than expected.
- Ratings agencies downgrade parent/sub to non-investment grade.

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KeyBanc
Capital Markets

February 13, 2017

Energy: Electric Utilities

Rating Changes / Estimates Change / Rating Change

Exelon Corporation

EXC: Making Nukes Great Again; Upgrading to Overweight and Establishing $41 PT

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We are upgrading shares of EXC to **Overweight** from Sector Weight as we have redefined our view at ExGen, given recent nuclear subsidies, and continue to see strong EPS growth at the regulated entities, with a 6.5% rate-base growth over the coming years under favorable recovery mechanisms.

Key Investment Points

Near to Medium-Term Outlook at ExGen: We have long held a cautious view on names with merchant exposure; however, we have warmed up on EXC as we believe the recent nuclear subsidies provide somewhat of a floor to the at risk assets. Additionally, EXC remains focused on operational efficiencies and deleveraging, which should bode well for profitability.

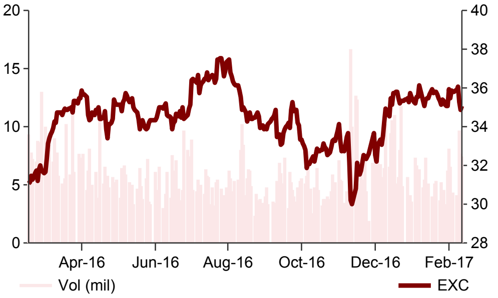
Regulated Utilities: With targeted 6.5% rate-base growth powering utility EPS growth of 6-8% annually from 2017-2020, we view the regulated segment as a best-in-class entity given a status-quo-to-slight improvement in ROEs at the legacy utilities, as well as from operational improvement at Pepco (PHI). Similarly, as management deploys the technology and thought leadership at ComEd to PHI, we believe PHI will see meaningful growth in earned returns over the coming years.

ExGen Is Underappreciated: The dark cloud over ExGen has started to lift; however, we do not believe this is fully reflected in EXC's current valuation. With recent nuclear subsidies in IL and NY likely here to stay and continued focus on deleveraging, we believe there are several incremental opportunities (FitzPatrick synergies, asset divestitures, legislation in other states,) which could drive upside to improved profitability over coming years. Given this dynamic, we see a reduction from the current 35% discount to peers embedded at ExGen (35% discount to IPP peer-average EV/EBITDA of 7.3x).

Top-Tier Regulated Entity + ExGen = $41: We believe the regulated entity should trade at a modest premium to its large-cap, regulated peers as we remain constructive on EXC's ability to reduce lag at PHI and maintain the status quo to show a slight improvement at the legacy utilities, particularly in IL, where a formulaic ROE will capture any rise in treasury rates. Switching gears to ExGen, with recently approved nuclear subsidies and potential asset sales and JV'ing of renewables providing an opportunity for further deleveraging, we believe the segment should trade at a 10-15% discount to IPP peers. We are upgrading shares to **Overweight** from Sector Weight and establishing a $41 price target on a SOTP basis, for which we value the regulated entity at $31 and ExGen at $10.

NYSE: EXC

Rating:	**Overweight▲**
Price Target:	**$41.00**
Price:	**$35.10**



Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Company Data

52-week range	$30 - $38
Market Cap. (M)	$32,537.7
Shares Out. (M)	927.00
Enterprise Value (M)	$53,467.7
Avg. Daily Volume (30D)	5,296,460.0
Annual Dividend	$1.31
Dividend Yield	3.7%
SI as % of Float	1.6%
Book Value/Share	$25.55
Book Value/Share	$25.55

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Estimates

FY ends 12/31	F2016A	1Q17E	2Q17E	3Q17E	4Q17E	F2017E	F2018E
EPS (Net)	**$2.68**	**$0.67**	**$0.63**	**$0.93**	**$0.52**	**$2.75**	**$2.90**
Cons. EPS	*$2.68*	*$0.66*	*$0.59*	*$0.87*	*$0.52*	*$2.65*	*$2.86*
Previous	$2.65	--	--	--	--	$2.65	--
Valuation							
P/E	13.1x	--	--	--	--	12.8x	12.1x

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

Valuation

Based upon our 2018 estimate of $2.90, shares of EXC trade at a P/E ratio of 12.1x, a meaningful discount to larger-cap utilities trading at 17.2x. We view this discount as excessive. We are upgrading shares to **Overweight** from Sector Weight, using a SOTP. We believe the regulated entity should trade a modest premium to large-cap, regulated peers. Based on EXC's regulated 2018 EPS estimate of $1.75 and the current group multiple of 17.2x, we value the regulated part of the business at $31 per share. Similarly, based on our $3.372 billion 2018 EBITDA estimate at ExGen and applying a 10-15% discount to IPP peers of 7.3x EV/EBITDA, we value the unregulated segment at $10 per share. We view our $41 price target as reasonable given its well-performing Regulated Segment and recent legislative actions at ExGen. We find shares attractive and are upgrading to **Overweight** from Sector Weight and are establishing a $41 price target, representing a potential total return of nearly 21% over the coming year.

Investment Risks

We believe the primary risks facing EXC that could impede shares from reaching our price target include any deterioration of regulatory relationships in the jurisdictions where EXC has regulated operations, any further weakening of commodity pricing, and any potential changes in policy toward nuclear plants.

Derivatives

Recent legislation aimed toward EXC's nuclear plants in Illinois and New York could gain greater support from other states as preliminary conversations have started to take place in the following states: Connecticut, Ohio, New Jersey, and Pennsylvania. We view potential legislation positive for D, EXC, or FE.

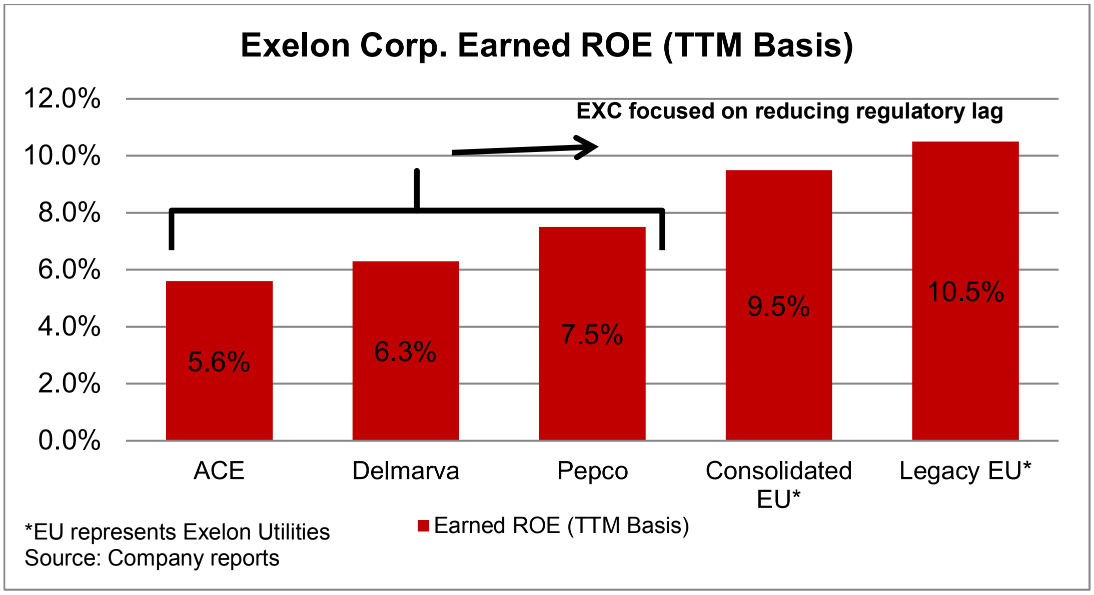
Overview

We view shares of EXC as somewhat of a special situation given our longer-term, selective view on utilities, where we remain cautious on merchant names and hold a preference for regulated names with visible capex, constructive regulation, and credible management. Looking at EXC, we believe the regulated segment has these key characteristics, with $20 billion of utility investment over the next four year, 75% of investment recovered in a timely fashion via formula rates or similar mechanisms, and a credible management team. Although we have historically been cautious around the merchant business, especially over the last several years in light of depressed natural gas prices, we now have a redefined view on the business given the subsidies targeted for at-risk nuclear units and the Company’s emphasis on deleveraging, among other initiatives.

Regulated Utilities

EXC has remained focused on operational efficiencies over the years at the regulated utilities as the majority of operational metrics have obtained first quartile performance (system performance, emergency preparedness, corrective and preventative maintenance, and customer care). Although these metrics are often overlooked, we view these metrics as key characteristics in building regulatory goodwill. We think that over the coming years EXC will be able to move the second and third quartile operational metrics at ACE, Delmarva, and Pepco higher by investing in technology and adopting the Exelon Companies operational focus. Over time, we see actual PHI ROEs moving closer to 9.5-10.5% levels from the current 5.6-7.5% range.

Below we highlight TTM (at 12/31/16) earned ROEs for Exelon Utilities:



*EU represents Exelon Utilities
Source: Company reports

With regulated capital expenditures of roughly $5 billion per year over the next four years under favorable regulatory environments (formula rates and recovery mechanism), we have a high level of confidence EXC Utilities can grow EPS at least 7% per year.

Below, we provide our EPS estimates for each of EXC's businesses:

Exelon EPS Breakdown By Segment:

	2016 EPS	**2017 Guidance**	**2017E EPS**	**2018E EPS**
BGE	$0.31	$0.25-$0.35	$0.31	$0.33
PHI	$0.25	$0.30-$0.40	$0.35	$0.40
PECO	$0.48	$0.40-$0.50	$0.49	$0.49
ComEd	$0.57	$0.60-$0.70	$0.66	$0.72
ExGen	$1.27	$1.05-$1.15	$1.14	$1.15
HoldCo	($0.19)	($0.20)	($0.20)	($0.20)
EPS	**$2.68**	**$2.50-$2.80**	**$2.75**	**$2.90**

Source: Company Reports and KeyBanc Capital Markets Inc. Estimates

ExGen Is Underappreciated

We have a more optimistic view on ExGen than in years past as the volatility from realized energy prices will be more subdued as Illinois and New York both passed legislation to help support struggling nuclear assets. ExGen will benefit from Zero Emission Credit (ZEC) revenues of $400 million in 2017 and $550 million in 2018, the addition of FitzPatrick, and the continued emphasis of cost optimization and deleveraging.

ExGen continues to project annual cost declines of 0.5%, including the reversal of the decision to deactivate the Quad Cities and Clinton plants in IL and the addition of FitzPatrick to the fleet. We believe there could be incremental savings announced from synergies at FitzPatrick once the sale closes. Based on commentary from the 2016 earnings call, management made it seem reasonable that in a worst case scenario, in which a renewables JV or sale of the 2,000 MW Mystic plant (in MA) did not come to fruition, the target 3.0x debt/EBITDA level could be achieved over the next two to three years, after which EXC could target reducing Holdco debt in 2019-2020. We believe the renewables JV and Mystic sale would likely come to fruition sooner rather than later, and are likely a function of "when, not if". Based on this scenario, it appears the target ExGen 3.0x debt/EBITDA level can be achieved with roughly half of the $3.0 billion of cash, while the remainder would be used for $900 million of Holdco debt (maturity in 2020) and $600 million of incremental Holdco debt in 2017 (debt not tied to the mandatory convertibles reissuance of $1.15 billion in 2017). For illustrative purposes, applying the $3 billion of debt reductions evenly over four years would equate to interest savings of roughly $0.03 per year ($750M at 6%). We have baked in a conservative reduction of interest expense into our ExGen income statement.

We think that as the legislative subsidy matters continue to progress through court challenges and work as intended other states may consider similar action, which could act as a positive catalyst for other plants. Currently, Connecticut is farthest along in the process; however, Ohio, New Jersey, or Pennsylvania could also further discussions.

Shares reacted negatively to 2016 earnings call discussion around a headwind from a border tax on uranium. We estimate any such headwind to be in the $0.04-$0.06 per share range and, therefore, manageable. We believe recent concerns are overblown.

Our border tax analysis is shown below:

Analysis of Border Tax on EXC Nuclear Fuel Cost

Fuel Cost ($/MWh)	$5.50
Annual Nuclear Output (TWh) (2016 + Fitzpatrick)	183.7
Annual EXC Nuclear Fuel Cost ($M)	$1,010.35
% of Fuel Related to Imported Uranium/Processing	35%
Cost of Imported Fuel Component ($M)	$353.62
Border Tax Implemented	20%
Extra Cost of Fuel ($M)	$70.72
Tax Complement	65%
After Tax Impact ($M)	$45.97
Per Share Impact	$0.05

Source: KeyBanc Capital Markets Inc. Estimates

With the subsidies acting somewhat as a floor for ExGen, we have started to warm up on ExGen and, ultimately, EXC. We have used a sum-of-the-parts analysis to break down our view of how investors are currently valuing ExGen against peers. We are initiating our 2018 EPS estimate of $2.90 (ExGen earnings of $1.15 and regulated utilities EPS of $1.75). On the regulated EPS of $1.75, we applied the 2018 group multiple of 17.2x to arrive at a value of roughly $30.10. Using $35 (recent trading price) and backing out the implied $30.10 associated with the regulated segment leaves us with roughly $4.90 ascribed to ExGen. Converting our $4.90 a share onto an EV/EBITDA basis, we conclude ExGen is currently being valued at 4.8x EV/EBITDA vs. peers of 7.3x, representing a 35% discount.

Below, we provide our analysis in how shares are being valued today on a SOTP basis:

Exelon Current Sum of the Parts Analysis: Highlighting Deep Discount Embedded at ExGen

	2018E P/E		**2018E EV/EBITDA**		**2018E P/E**
EXC EPS	$2.90	**ExGen EBITDA**	$3,372	**EXC EPS**	$2.90
Less: ExGen	$1.15	**Group Multiple**	7.3x	**Group Multiple**	17.2x
Regulated EPS	$1.75	***ExGen Discount***	*35%*	***Discount to Regulated Group***	*30%*
		Current Multiple	4.8x		
Group Multiple	17.2x			**Current Multiple**	12.1x
		Enterprise Value	$16,176		
		Cash	$375		
		Debt	$10,350		
		Preferred Equity	$26		
		Minority Interest	$1,432		
		Equity	$4,743		
		Shares Outstanding	968		
Regulated Value Per Share	$30.10	**ExGen Value Per Share**	$4.90	**Price**	$35.00

Source: Company Reports and KeyBanc Capital Markets Inc. Estimates

Below, we breakout unregulated peers used in our analysis:

ExGen Independent Power Producer Peers

	Price	**Shares**	**Market Value**	**Cash**	**Debt**	**Preferred Equity**	**Minority Interest**	**Enterprise Value**	**2017 EBITDA (Consensus)**	**2018 EBITDA (Consensus)**	**2017 EV/EBITDA**	**2018 EV/EBITDA**
AES	$11.68	662.0	$7,732	$2,212	$20,831	$775	$2,886	$30,012	$3,958	$4,255	7.6x	7.1x
CPN	$11.71	356.4	$4,173	$418	$12,179	$0	$71	$16,005	$1,868	$1,977	8.6x	8.1x
DYN	$8.75	140.0	$1,225	$1,616	$9,523	$400	($4)	$9,528	$1,288	$1,561	7.4x	6.1x
NRG	$16.75	317.0	$5,310	$3,895	$19,239	$0	$2,470	$23,124	$2,792	$2,857	8.3x	8.1x
										Mean	**8.0x**	**7.3x**

Source: Company Reports and KeyBanc Capital Markets Inc. Estimates

We view this 35% discount as unreasonable, particularly after the legislative initiatives that unfolded in IL and NY over the last several months and the continued emphasis on fuel diversity across the nation. Moving forward, and although we are taking these comments with a grain of salt, President Trump has made general comments on nuclear, which we view positively for EXC given its industry-leading position. Furthermore, with Trump's focus on creating jobs and growing the economy, we see nuclear being well positioned to weather any potential storm given its labor intensity and overall economic impact on local/regional economies.

We highlight our target SOTP analysis on EXC below. At the regulated entity, we are a applying a modest premium (2.5%) to regulated, large-cap peers to arrive at a value of roughly $31. At ExGen, we are applying a 10-15% discount to IPP peers on an EV/EBITDA basis and arriving at a fair value of $10. Looking at the Company on a consolidated basis, this approach leaves us at a 15-20% discount to regulated peers, which we view as reasonable.

Below, we highlight our SOTP and how we arrive at our $41 Price Target:

Exelon Target Sum of the Parts Analysis: Establishing $41 Price Target

	2018E P/E		2018 EV/EBITDA		2018E P/E
EXC EPS	$2.90	**ExGen EBITDA**	$3,372	**EXC EPS**	$2.90
Less: ExGen	$1.15				
Regulated EPS	$1.75	**Group Multiple**	7.3x	**Group Multiple**	17.2x
		Target Discount	*12.5%*	***Discount to Regulated Group***	*17.3%*
		Target Multiple	6.4x		
				Current Multiple	14.2x
Group Multiple	17.2x	**Enterprise Value**	$21,623		
Premium	2.5%				
Target Multiple	17.6x	**Cash**	$375		
		Debt	$10,495		
		Preferred Equity	$26		
		Minority Interest	$1,432		
		Equity	$10,045		
		Shares Outstanding	968		
Regulated Value Per Share	$30.85	**ExGen Value Per Share**	$10.38	**Price Target**	$41.23

Source: Company Reports and KeyBanc Capital Markets Inc. Estimates

Conclusion

Overall, we think EXC has a solid opportunity to transition legacy POM into a top-quartile performing entity, which we think will bode well with regulators given the historical underperformance. As EXC improves the ROEs at legacy PHI, the Company could also see improvement at legacy EXC utilities given a continued focus on efficiencies as well as from ComEd's authorized ROE being formulaically tied to treasury yields. We estimate a 100 bps increase in the 30-year treasury yield equates to EPS power slightly over $0.04. Looking at ExGen, we see meaningful cost savings opportunities as management continues its blocking and tackling approach, particularly as FitzPatrick is added to the fleet. With ExGen currently trading at a 35% discount to merchant peers, we are somewhat perplexed by the disconnect relative to peers, particularly given nuclear's zero carbon attributes, increasing state support and potential for federal support to develop. Over the coming years, EXC is positioning itself more toward regulated EPS by focusing capital on its utilities; however, we have an increased level of confidence in ExGen and strongly recommend owning shares of EXC as we upgrade to **Overweight** from Sector Weight and establish a $41 price target.

Exelon Corporation

Paul T. Ridzon
216-689-0270

Consolidated Income Statement	1Q13	1Q14	1Q15	1Q16	1Q17E	2Q13	2Q14	2Q15	2Q16	2Q17E	3Q13	3Q14	3Q15	3Q16	3Q17E	4Q13	4Q14	4Q15	4Q16	4Q17E	2013	2014	2015	2016	2017E	2018E
Operating revenues	$6,894	$8,087	$8,636	$7,425	$8,376	$5,882	$6,194	$6,507	$7,536	$7,731	$6,412	$6,664	$7,412	$8,836	$9,213	$6,254	$6,944	$6,682	$8,052	$8,467	$25,429	$27,889	$29,237	$31,905	$33,787	$34,503
% Change		17.3%	6.8%	-14.0%	12.8%		5.3%	5.1%	15.8%	2.6%		3.9%	11.2%	19.2%	4.3%		11.0%	-3.8%	20.5%	5.2%		9.7%	4.8%	9.1%	5.9%	2.1%
Purchased power and fuel	$3,234	$4,421	$4,477	$3,254	$3,263	$2,410	$2,520	$2,663	$2,754	$2,799	$2,855	$2,681	$3,159	$3,627	$3,714	$2,801	$3,132	$2,841	$3,362	$3,472	$11,287	$12,752	$13,139	$13,035	$13,248	$13,460
% of revenues	46.9%	54.7%	51.8%	43.8%	39.0%	41.0%	40.7%	40.9%	36.5%	36.2%	44.5%	40.2%	42.6%	41.0%	40.3%	44.8%	45.1%	42.5%	41.8%	41.0%	44.4%	45.7%	44.9%	40.9%	39.2%	39.0%
% Change		36.7%	1.3%	-27.3%	0.3%		4.6%	5.7%	3.4%	1.6%		-6.1%	17.8%	14.8%	2.4%		11.8%	-9.3%	18.3%	3.3%		13.0%	3.0%	-0.8%	1.6%	1.6%
Gross margin	$3,660	$3,666	$4,159	$4,171	$5,114	$3,472	$3,674	$3,844	$4,782	$4,932	$3,557	$3,983	$4,253	$5,209	$5,498	$3,453	$3,812	$3,841	$4,690	$4,995	$14,142	$15,137	$16,098	$18,870	$20,539	$21,043
% of revenues	53.1%	45.3%	48.2%	56.2%	61.0%	59.0%	59.3%	59.1%	63.5%	63.8%	55.5%	59.8%	57.4%	59.0%	59.7%	55.2%	54.9%	57.5%	58.2%	59.0%	55.6%	54.3%	55.1%	59.1%	60.8%	61.0%
% Change		0.2%	13.4%	0.3%	22.6%		5.8%	4.6%	24.4%	3.1%		12.0%	6.8%	22.5%	5.6%		10.4%	0.8%	22.1%	6.5%		7.0%	6.3%	17.2%	8.8%	2.5%
Operating and maintenance	$1,726	$1,844	$2,069	$2,224	$2,741	$1,759	$2,029	$2,001	$2,333	$2,397	$1,639	$1,883	$1,983	$2,315	$2,392	$1,832	$2,006	$2,180	$2,478	$2,559	$6,958	$7,759	$8,232	$9,199	$10,089	$10,023
Depreciation and amortization	$542	$564	$610	$685	$754	$532	$590	$602	$827	$866	$529	$577	$606	$857	$907	$545	$582	$633	$864	$913	$2,148	$2,314	$2,450	$3,232	$3,440	$3,614
Taxes other than income	$277	$293	$304	$325	$376	$271	$288	$294	$394	$400	$277	$306	$310	$449	$460	$270	$267	$292	$408	$418	$989	$1,136	$1,200	$1,575	$1,654	$1,705
Other expenses	($9)	$2	($1)	($4)	$0	$0	($13)	($7)	($31)	$0	($60)	($1)	($2)	($1)	$0	($33)	$3	($8)	$0	$0	$0	$0	($18)	($9)	$0	$0
Total operating expenses	$2,536	$2,703	$2,982	$3,230	$3,871	$2,562	$2,894	$2,890	$3,523	$3,662	$2,385	$2,765	$2,897	$3,620	$3,759	$2,614	$2,858	$3,097	$3,750	$3,890	$10,095	$11,209	$11,864	$13,997	$15,183	$15,342
Operating income	$1,124	$963	$1,177	$941	$1,243	$910	$780	$954	$1,259	$1,270	$1,172	$1,218	$1,356	$1,589	$1,739	$839	$954	$744	$940	$1,104	$4,047	$3,928	$4,234	$4,873	$5,356	$5,701
% of revenues	16.3%	11.9%	13.6%	12.7%	14.8%	15.5%	12.6%	14.7%	16.7%	16.4%	18.3%	18.3%	18.3%	18.0%	18.9%	13.4%	13.7%	11.1%	11.7%	13.0%	15.9%	14.1%	14.5%	15.3%	15.9%	16.5%
% Change		-14.3%	22.2%	-20.0%	32.0%		-14.3%	22.3%	32.0%	0.9%		3.9%	11.3%	17.2%	9.4%		13.7%	-22.0%	26.3%	17.5%		-2.9%	7.8%	15.1%	9.9%	6.4%
Other income and (deductions)	$196	$171	$225	$173	$242	$208	$162	$149	$321	$332	$142	$155	$230	$282	$311	$202	$172	$217	$286	$303	$752	$669	$822	$1,094	$1,189	$1,190
Interest expense	$338	$227	$256	$292	$347	$248	$230	$259	$376	$377	$234	$234	$265	$363	$366	$246	$241	$316	$356	$358	$986	$931	$1,098	$1,383	$1,449	$1,438
Other income, net	($142)	($56)	($31)	($119)	($105)	($40)	($68)	($110)	($55)	($45)	($92)	($79)	($35)	($81)	($55)	($44)	($69)	($99)	($70)	($55)	($234)	($262)	($276)	($289)	($260)	($248)
Income before income taxes	$928	$792	$952	$768	$1,000	$702	$618	$805	$938	$937	$1,030	$1,063	$1,126	$1,307	$1,428	$637	$782	$527	$654	$801	$3,295	$3,259	$3,412	$3,779	$4,167	$4,511
Income taxes	$321	$259	$299	$183	$335	$241	$166	$286	$296	$289	$365	$319	$364	$448	$499	$207	$311	$214	$254	$265	$1,132	$1,057	$1,165	$1,299	$1,387	$1,539
Tax rate	34.6%	32.7%	31.4%	23.9%	33.4%	34.3%	26.9%	35.5%	31.6%	30.8%	35.4%	30.0%	32.3%	34.3%	34.9%	32.5%	39.8%	40.6%	38.8%	33.1%	34.4%	32.4%	34.1%	34.4%	33.3%	34.1%
Equity in losses of unconsolidated affiliates	($4)	($3)	($3)	($6)	($3)	($9)	($3)	($5)	($10)	($3)	($3)	($3)	($4)	($7)	($3)	($3)	($3)	($7)	($8)	($3)	($14)	$0	($19)	($24)	($8)	($8)
Net income	$603	$530	$650	$579	$663	$452	$449	$514	$632	$646	$662	$741	$758	$852	$926	$427	$468	$306	$392	$533	$2,149	$2,202	$2,228	$2,456	$2,772	$2,964
Net (loss) income attributable to NCI	$1	$0	$35	($53)	$40	($2)	$9	$6	$28	$40	($5)	$65	$1	$11	$40	$0	$47	($41)	($18)	$40	$0	$134	$1	($32)	$160	$160
Net income (non-GAAP)	$602	$530	$615	$632	$623	$454	$440	$508	$604	$606	$667	$676	$757	$841	$886	$427	$421	$347	$410	$493	$2,149	$2,068	$2,227	$2,488	$2,612	$2,804
% of revenues	8.7%	6.6%	7.1%	8.5%	7.4%	7.7%	7.1%	7.8%	8.0%	7.8%	10.4%	10.1%	10.2%	9.5%	9.6%	6.8%	6.1%	5.2%	5.1%	5.8%	8.5%	7.4%	7.6%	7.8%	7.7%	8.1%
% Change		-12.0%	16.0%	2.8%	-1.4%		-3.1%	15.5%	18.9%	0.3%		1.3%	12.0%	11.1%	5.4%		-1.4%	-17.6%	18.2%	20.3%		-3.8%	7.7%	11.7%	5.0%	7.4%
Non-Recurring Items (After-Tax)	$436	$440	($78)	$459	$0	($36)	($82)	($130)	$337	$0	($71)	($317)	$128	$351	$0	($68)	$403	$38	$206	$0	$430	$445	($42)	$1,354	$0	$0
Discontinued Operations	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income - GAAP	$166	$90	$693	$173	$623	$490	$522	$638	$267	$606	$738	$993	$629	$490	$886	$495	$18	$309	$204	$493	$1,719	$1,623	$2,269	$1,134	$2,612	$2,804
EPS (non-GAAP)	$0.70	$0.62	$0.71	$0.68	$0.67	$0.53	$0.51	$0.59	$0.65	$0.63	$0.78	$0.78	$0.83	$0.91	$0.93	$0.50	$0.49	$0.38	$0.44	$0.52	$2.50	$2.39	$2.49	$2.68	$2.75	$2.90
EPS (GAAP)	$0.19	$0.10	$0.80	$0.19	$0.67	$0.57	$0.60	$0.74	$0.29	$0.63	$0.86	$1.15	$0.69	$0.53	$0.93	$0.57	$0.02	$0.33	$0.22	$0.52	$2.00	$1.88	$2.54	$1.22	$2.75	$2.90
Diluted Shares Outstanding	855.0	861.0	867.0	925.0	928.0	860.0	864.0	866.0	926.0	955.0	860.0	863.0	915.0	927.0	956.0	861.0	868.0	924.0	928.0	957.0	860.0	864.0	893.0	927.0	949.0	968.0
Change in Shares		6.0	6.0	58.0	3.0		4.0	2.0	60.0	29.0		3.0	52.0	12.0	29.0		7.0	57.5	57.5	29.0		4.0	29.0	34.0	22.0	19.0

EXELON CORPORATION BALANCE SHEET

Paul T. Ridzon
216-689-0270

($ in millions)	2013	2014	2015	2016	2017E	2018E
Cash and Equivalents	$1,609.0	$1,878.0	$6,502.0	$635.0	$2,126.7	$2,574.7
Accounts Receivable	4,156.0	4,709.0	4,099.0	5,359.0	5,359.0	5,359.0
Derivative Assets	1,101.0	1,533.0	1,451.0	1,005.0	1,005.0	1,005.0
Inventories	1,105.0	1,603.0	1,566.0	1,638.0	1,638.0	1,638.0
Other Current Assets	2,166.0	2,130.0	1,716.0	3,775.0	3,775.0	3,775.0
Total Current Assets	10,137.0	11,853.0	15,334.0	12,412.0	13,903.7	14,351.7
M-T-M Derivative Assets	607.0	773.0	758.0	939.0	939.0	939.0
Regulatory Assets	5,910.0	6,076.0	6,065.0	10,046.0	10,046.0	10,046.0
Goodwill	2,625.0	2,672.0	2,672.0	6,677.0	6,677.0	6,677.0
Nuclear Decommissioning Fund	8,071.0	10,537.0	10,342.0	11,174.0	11,174.0	11,174.0
Other Non-Current Assets	5,244.0	2,335.0	2,774.0	2,101.0	2,101.0	2,101.0
Total Non-Current Assets	22,457.0	22,393.0	22,611.0	30,937.0	30,937.0	30,937.0
Property, Plant and Equipment (Net)	47,330.0	52,170.0	57,439.0	71,555.0	74,740.3	76,876.0
TOTAL ASSETS	**$79,924.0**	**$86,416.0**	**$95,384.0**	**$114,904.0**	**$119,581.0**	**$122,164.7**
Accounts Payable	$2,506.0	$3,048.0	$2,883.0	$3,441.0	$3,441.0	$3,441.0
Derivative Liabilities	420.0	472.0	305.0	689.0	689.0	689.0
Short-Term Debt	1,850.0	2,262.0	2,033.0	3,697.0	3,972.0	3,972.0
Accrued Expenses	1,633.0	1,539.0	2,376.0	3,460.0	3,460.0	3,460.0
Other Current Liabilities	1,318.0	1,441.0	1,521.0	2,170.0	2,170.0	2,170.0
Total Current Liabilities	7,727.0	8,762.0	9,118.0	13,457.0	13,732.0	13,732.0
M-T-M Derivative Liabilities	300.0	403.0	491.0	1,222.0	1,222.0	1,222.0
Regulatory Liabilities	4,388.0	4,550.0	4,201.0	4,187.0	4,187.0	4,187.0
Asset Retirement Obligations	5,195.0	7,295.0	8,585.0	9,111.0	9,111.0	9,111.0
Deferred Income Taxes	12,905.0	12,778.0	13,776.0	18,138.0	18,938.0	19,738.0
Other	8,198.0	8,642.0	7,605.0	8,961.0	8,961.0	8,961.0
Total Non-Current Liabilities	30,986.0	33,668.0	34,658.0	41,619.0	42,419.0	43,219.0
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	18,271.0	19,853.0	24,286.0	32,216.0	33,266.0	33,266.0
TOTAL LIABILITIES	**56,984.0**	**62,283.0**	**68,062.0**	**87,292.0**	**89,417.0**	**90,217.0**
Shareholders' Equity	22,940.0	24,133.0	27,322.0	27,612.0	30,164.0	31,947.7
TOTAL LIABILITES & SHAREHOLDERS' EQUITY	**$79,924.0**	**$86,416.0**	**$95,384.0**	**$114,904.0**	**$119,581.0**	**$122,164.7**
Capitalization Totals						
Shareholders' Equity	22,940.0	24,133.0	27,322.0	27,612.0	30,164.0	31,947.7
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Short-Term Debt	1,850.0	2,262.0	2,033.0	3,697.0	3,972.0	3,972.0
Long-Term Debt	18,271.0	19,853.0	24,286.0	32,216.0	33,266.0	33,266.0
Total Capitalization	43,061.0	46,248.0	53,641.0	63,525.0	67,402.0	69,185.7
Capitalization Ratios						
Shareholders' Equity	53.3%	52.2%	50.9%	43.5%	44.8%	46.2%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Short-Term Debt	4.3%	4.9%	3.8%	5.8%	5.9%	5.7%
Long-Term Debt	42.4%	42.9%	45.3%	50.7%	49.4%	48.1%
Other Ratios						
Current Ratio	1.3x	1.4x	1.7x	0.9x	1.0x	1.0x
Interest Coverage	4.1x	4.2x	3.9x	3.5x	3.7x	4.0x
ROIC - EBIT	9.6%	8.8%	8.5%	8.3%	8.2%	8.3%
ROA - EBIT	5.1%	4.7%	4.7%	4.6%	4.6%	4.7%
Total Debt/Cap	46.7%	47.8%	49.1%	56.5%	55.2%	53.8%
Book Value	$26.67	$27.93	$30.60	$29.79	$31.79	$33.00

EXELON CORPORATION CASH FLOW STATEMENT

Paul T. Ridzon
216-689-0270

($ in millions)	2013	2014	2015	2016	2017E	2018E
Cash Flows from Operating Activities						
Net Income	1,729.0	1,820.0	2,250.0	1,204.0	2,611.6	2,804.2
Depreciation and Amortization, Including Nuclear Fuel	3,779.0	3,868.0	3,987.0	5,576.0	4,939.7	5,114.3
Deferred Income Taxes	119.0	502.0	752.0	664.0	800.0	800.0
Impairment Charges	0.0	687.0	36.0	306.0	0.0	0.0
Decommissioning Activities	(170.0)	(210.0)	131.0	(229.0)	0.0	0.0
Provision for Uncollectible Accounts	0.0	0.0	0.0	0.0	0.0	0.0
Earnings of Unconsolidated Affiliates	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Working Capital	455.0	(3,247.0)	(264.0)	(492.0)	0.0	0.0
Other	431.0	1,037.0	724.0	1,405.0	0.0	0.0
Net Cash From (Used By) Operating Activities	6,343.0	4,457.0	7,616.0	8,434.0	8,351.2	8,718.5
Cash Flows From Investing Activities						
Capital Expenditures	(5,395.0)	(6,077.0)	(7,624.0)	(8,565.0)	(8,125.0)	(7,250.0)
Acquisitions/Divestitures	50.0	1,719.0	107.0	(6,873.0)	0.0	0.0
Nuclear Decommissioning Fund, Net	(233.0)	(155.0)	(252.0)	(242.0)	0.0	0.0
Other	184.0	(86.0)	(53.0)	188.0	0.0	0.0
Net Cash From (Used By) Investing Activities	(5,394.0)	(4,599.0)	(7,822.0)	(15,492.0)	(8,125.0)	(7,250.0)
Cash Flows from Financing Activities						
Cash Dividends Paid	(1,249.0)	(1,065.0)	(1,105.0)	(1,166.0)	(1,229.5)	(1,285.5)
Common Stock, Net Change	47.0	35.0	1,868.0	0.0	1,170.0	265.0
Short-Term Debt, Net Change	122.0	122.0	80.0	(575.0)	275.0	0.0
Long-Term Debt, Net Change	466.0	1,918.0	4,022.0	2,780.0	1,050.0	0.0
Preferred Stock, Net Change	(93.0)	0.0	0.0	(190.0)	0.0	0.0
Other	(119.0)	(599.0)	(35.0)	342.0	0.0	0.0
Net Cash From (Used By) Financing Activities	(826.0)	411.0	4,830.0	1,191.0	1,265.5	(1,020.5)
Net Cash From (Used By) Continuing Operations	123.0	269.0	4,624.0	(5,867.0)	1,491.7	448.0
Cash and Cash Equivalents at Beginning of Year	1,486.0	1,609.0	1,878.0	6,502.0	635.0	2,126.7
CASH AND EQUIVALENTS AT END OF YEAR	1,609.0	1,878.0	6,502.0	635.0	2,126.7	2,574.7

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Free Cash Flow Analysis						
Cash From Operations	6,343.0	4,457.0	7,616.0	8,434.0	8,351.2	8,718.5
Capital Expenditures	(5,395.0)	(6,077.0)	(7,624.0)	(8,565.0)	(8,125.0)	(7,250.0)
FCF After Capex	948.0	(1,620.0)	(8.0)	(131.0)	226.2	1,468.5
FCF After Capex (Per Share)	$1.10	($1.88)	($0.01)	($0.14)	$0.24	$1.52
Common Dividends	(1,249.0)	(1,065.0)	(1,105.0)	(1,166.0)	(1,229.5)	(1,285.5)
FCF After Common Dividends	(301.0)	(2,685.0)	(1,113.0)	(1,297.0)	(1,003.3)	183.0
FCF After Common Dividends (Per Share)	($0.35)	($3.11)	($1.25)	($1.40)	($1.06)	$0.19

Disclosure Appendix

Exelon Corporation - EXC

We have managed or co-managed a public offering of securities for Exelon Corporation within the past 12 months.

Exelon Corporation is an investment banking client of ours.

We have received compensation for investment banking services from Exelon Corporation during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

During the past 12 months, Exelon Corporation has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in Exelon Corporation.

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Dominion Resources, Inc. - D

We expect to receive or intend to seek compensation for investment banking services from Dominion Resources, Inc. within the next three months.

During the past 12 months, Dominion Resources, Inc. has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in Dominion Resources, Inc..

FirstEnergy Corp. - FE

We have managed or co-managed a public offering of securities for FirstEnergy Corp. within the past 12 months.

FirstEnergy Corp. is an investment banking client of ours.

We have received compensation for investment banking services from FirstEnergy Corp. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from FirstEnergy Corp. within the next three months.

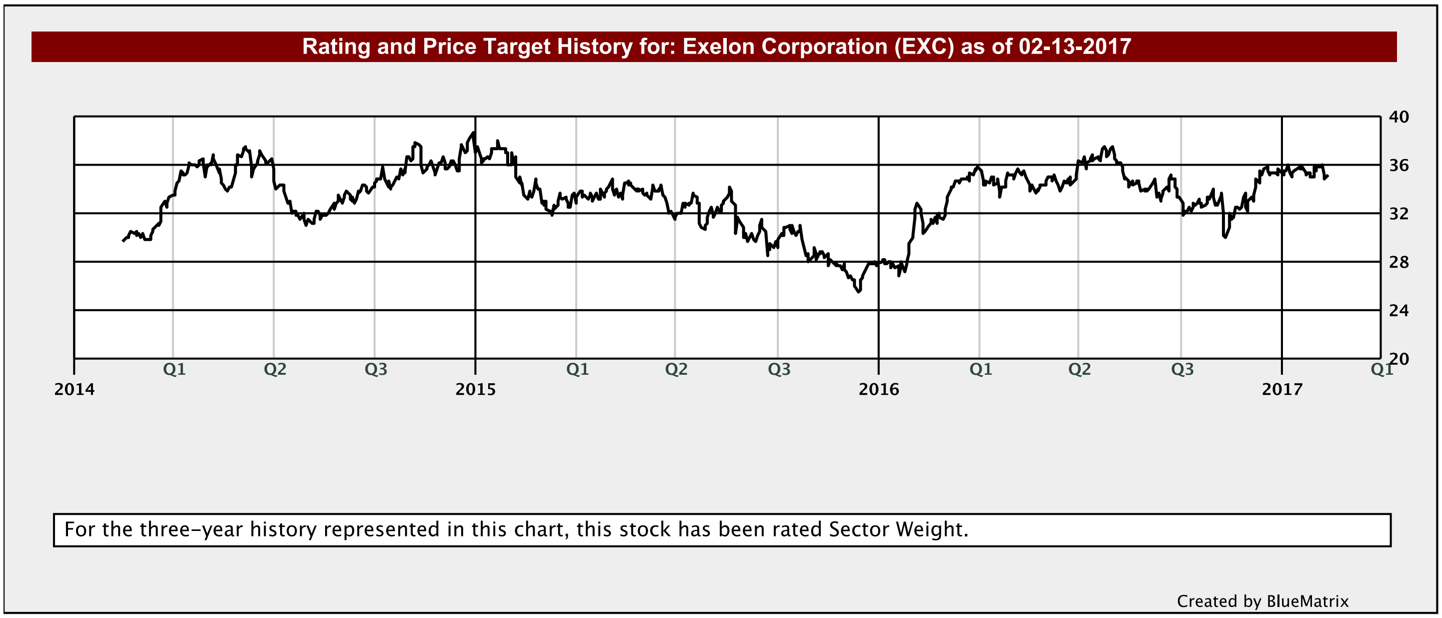
During the past 12 months, FirstEnergy Corp. has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in FirstEnergy Corp..

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

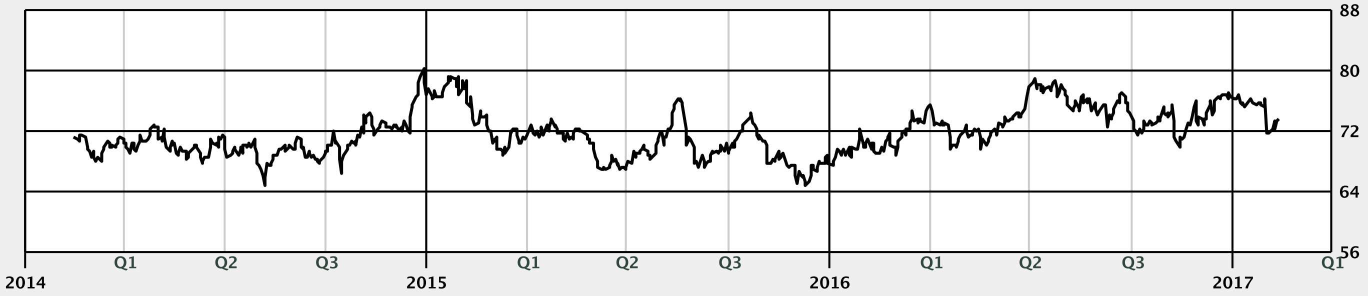
Three-Year Rating and Price Target History



For the three-year history represented in this chart, this stock has been rated Sector Weight.

Disclosure Appendix (cont'd)

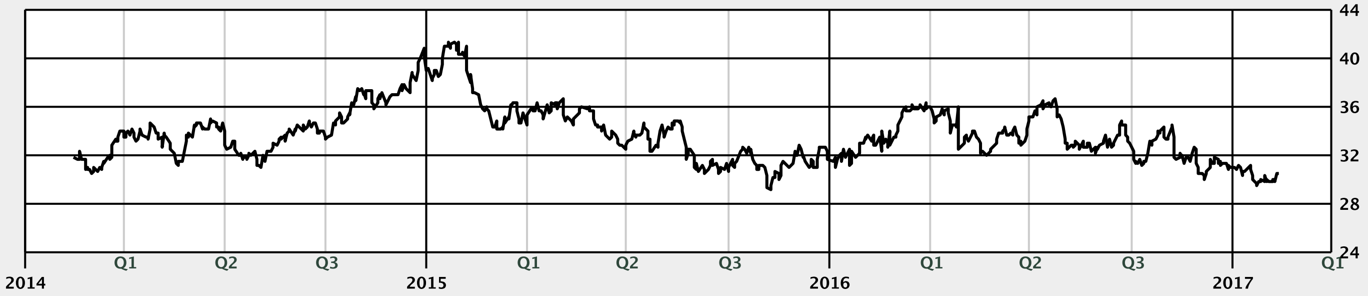
Rating and Price Target History for: Dominion Resources, Inc. (D) as of 02-13-2017



For the three-year history represented in this chart, this stock has been rated Sector Weight.

Created by BlueMatrix

Rating and Price Target History for: FirstEnergy Corp. (FE) as of 02-13-2017



For the three-year history represented in this chart, this stock has been rated Sector Weight.

Created by BlueMatrix

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets					Energy				
			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	299	42.84	62	20.74	Overweight [OW]	27	45.00	17	62.96
Sector Weight [SW]	387	55.44	46	11.89	Sector Weight [SW]	33	55.00	16	48.48
Underweight [UW]	12	1.72	0	0.00	Underweight [UW]	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

Other Disclosures

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Exelon

Analysis of a Potential 20% Border Tax on Nuclear Fuel Costs

Maintain Rating: NEUTRAL | PO: 37.00 USD | Price: 35.10 USD

Bank of America Merrill Lynch

Equity | 13 February 2017

Key takeaways

- Our analysis of a potential 20% border tax on Exelon's nuclear fuel expense suggests an ($0.08) per share terminal headwind.
- Nuclear fuel expenses would rise by roughly 10% based on % of US foreign/domestic sourcing of nuclear fuel fabrication.
- Potential border tax on ExGen nuclear fuel expense likely overstated by the street; maintain Neutral on EXC shares.

Border tax would be ($0.08) EPS headwind for ExGen

Following our EXC 4Q16 note (which qualitatively focused on border taxes), and our New England industry note (which quantified wholesale power price impacts from border taxes), this note looks quantitatively at a potential border tax impact on ExGen's nuclear fuel cost.

Our analysis determines that if the Trump administration were to implement a border tax of 20%, then ExGen would be subjected to an ($0.08) EPS headwind. We compiled Table 1 to arrive at a rough cost of nuclear fuel of $2,300 per kg U in UO2 assembly. Furthermore, we provide a supplier breakdown of domestic versus foreign sourcing in Table 2 for which we can allocate a 20% border tax.

Our analysis suggests that nuclear fuel would increase by slightly over 10% should a border tax be implemented. We constrained our analysis for current domestic production, particularly for enrichment as there is currently only one operating enrichment facility in the United States. In 2009 an attempt was made to construct a second enrichment facility. This failed to receive a DOE loan guarantee which led the plant developer, United States Enrichment Corporation, to cancel the project. Under a Trump administration there could be incentives to construct a new plant further reducing the cost impact.

Our analysis assumes 100% impact on each year, but due to the amortization of nuclear fuel over the life time (4.5 - 6 years) of the fuel the full EPS impact would not be seen until the early 2020's. The cash flow impact on the other hand would be seen immediately and hence lower the amount of free cash flow.

Border tax marginally less negative than believed

Given the relative minor impact from a potential border tax and based on our discussions with investors, we believe some Exelon observers overestimated the potential impact by conservatively assuming 100% of the nuclear fuel expense is from foreign sources. (We believe this partly explains EXC's underperformance on the day of the 4Q16 call.) We believe our analysis demonstrates a marginal positive to Street expectations for impacts from a border tax. Also, as we noted in our EXC 4Q16 note, the positive aspects of distribution equipment procurement from overseas remains a potential positive datapoint for rate base growth projections, both for Exelon and the industry as a whole. We continue to maintain our Neutral rating on EXC shares.

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Stock Data

Price	35.10 USD
Price Objective	37.00 USD
Date Established	23-Jan-2017
Investment Opinion	B-2-7
52-Week Range	29.82 USD - 37.70 USD
Mrkt Val (mn) / Shares Out (mn)	32,538 USD / 927.0
Average Daily Value (mn)	185.00 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2016E)	9.7%
Net Dbt to Eqty (Dec-2015A)	72.5%

Exelon: 4Q16 delivers solid update as expected; potential border taxes add a new data point 08 February 2017

Utilities: Could the border adjustment tax raise New England wholesale power prices? 09 February 2017

Timestamp: 13 February 2017 11:00PM EST

Nuclear Fuel Border Tax Analysis

Without the border tax, the cost to manufacture 1 kg of Uranium in the form of a UO2 fuel assembly is roughly $2,284 and our estimate is provided in Table 1 below.

Table 1: Nuclear Fuel Fabrication Costs

	Process	Units / kg U as UO2	Price/ Unit	Price / kg U as UO2
a	Uranium (kg U3O8):	8.9	94.6	842
b	Conversion (kg U):	7.5	16	120
c	Enrichment (SWU):	7.3	140	1,022
d	Fuel fabrication (per kg):	1	300	300
e = a + b + c + d	Total, approx:			2,284

Source: BofA Merrill Lynch Global Research, EIA, and World Nuclear Association

Using EIA data for all nuclear material processes (except fabrication which we assumed was 100% domestic), the contribution by US sourced materials / process for 2015 are as follows.

Table 2: Foreign Sourcing of Nuclear Fuel

	Process	
f	% of Uranium Foreign Sourced	93%
g	% of Conversion Foreign Sourced	83%
h	% of Enrichment Foreign Sourced	38%
i	% of Fabrication Foreign Sourced	0%
j = (a*f + b*g + c*h + d*i)*20%	Incremental cost from 20% border tax ($ / kg U as UO2)	254
k = j + e	Total cost including 20% border tax ($ / kg U as UO2)	2,538

Source: BofA Merrill Lynch Global Research, EIA

Taking our estimated electric generation by nuclear fueled plants (ex-Salem), we calculate the thermal output needed by those plants for which we use 34% based on typical thermodynamic steam cycles (Source: EIA). Using the thermal generation of those plants we divided it by the burnup of a typical LWR, which is 45,000 MWd / metric ton Heavy Metal or in this case ton of Uranium (Source: World Nuclear Association). The net result is an estimated cost roughly in line with guidance.

Our numbers are likely high in the back years as uranium prices have fallen and contracts for those years are priced lower. Using the roughly 430 metric tons of Uranium in conjunction with the incremental cost (line j), the net tax effected EPS impact to Exelon is roughly ($0.08).

Table 3: Estimated EPS Impact of 20% Border Tax

		2017	2018	2019
l	GWh - electric BofAML estimate	155,953	157,918	157,054
m	Thermal Efficiency	34%	34%	34%
n = l/m	GWh - thermal	458,685	464,465	461,924
p	Typical LWR Burnup (MWd/ metric ton HM)	45,000	45,000	45,000
q = n*1000 / (p *24)	Metric Tons of HM	425	430	428
r = q /1000	kg of HM	424,709	430,060	427,707
s = e* r	Cost ($M)	970	982	977
t	Company Guidance ($M)	950	900	925
u = l / s	$/MWh	$6.22	$6.22	$6.22
v = r * j	Incremental Border tax ($M)	108	109	109
w = 30% * v	Income Tax Expense (Tax rate @ 30%)	32	33	33
x =-(v - w)	Earnings Impact ($M)	(76)	(77)	(76)
y	Shares (M)	948	967	970
z=x/y	EPS Impact	($0.08)	($0.08)	($0.08)

Source: BofA Merrill Lynch Global Research estimates, Company Report, EIA, World Nuclear Association

Price objective basis & risk

Exelon (EXC)

Our $37/share price objective for EXC shares is derived from our sum of the parts valuation model, where we assign approximately $9 of value to ExGen and approximately $28 of value to the regulated utility. We value integrated electric utilities, including Exelon, using a sum of the parts valuation model based on 2019E earnings and EBITDA. For Exelon specifically we use a target 6.8x EV/EBITDA multiple to value the deregulated generation segment, in line with peers. We apply our discounted price target 14.5x P/E multiple with a 0.5x premium for favorable rate case outcomes (15.0x total) to value the regulated side of the business based on our 2019 EPS estimates.

Downside (upside) risks to our price objective are: 1) increasing (decreasing) of forward power prices driven by rising natural gas prices, heat rates, or Northeast and Midwest gas basis to Henry Hub, 2) regulatory outcomes as well as changes in nuclear regulation, 3) deterioration (improvements) in operating efficiency beyond our base scenario.

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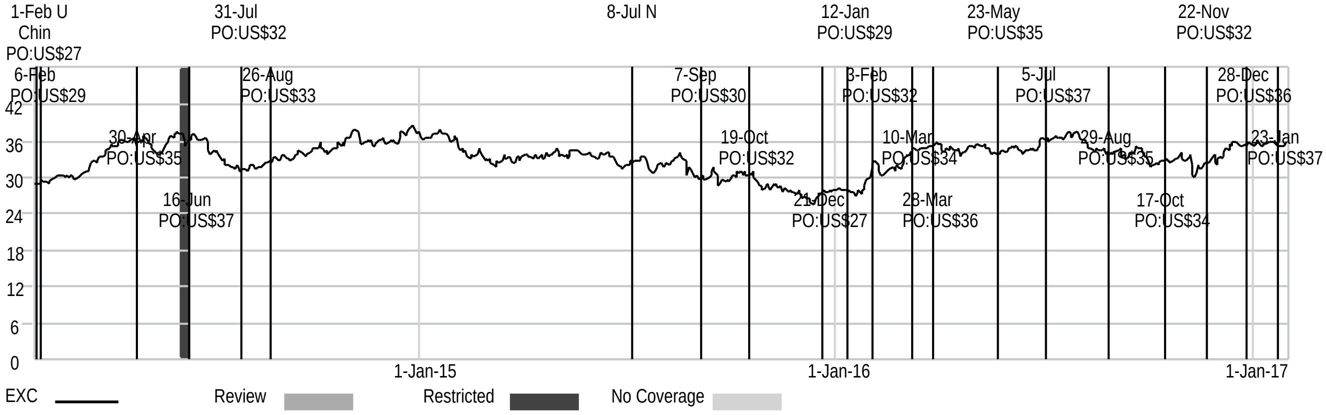
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	62	49.60%	Buy	42	67.74%
Hold	31	24.80%	Hold	24	77.42%
Sell	32	25.60%	Sell	16	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Hold	702	22.36%	Hold	438	62.39%
Sell	848	27.01%	Sell	406	47.88%

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COMPANY NOTE

Company Update

USA | Energy | Electric Utilities

February 17, 2017

Jefferies

Exelon (EXC)

Don't ZEC Out

BUY

Price target $39.50
Price $35.42^

Key Takeaway

While some investors may be concerned about the impact form tax reform or the recently filed ZEC challenges, we view the recent under-performance as a buying opportunity. We believe that the ZECs will not be overturned and that tax reform is still in the early stages providing management with amble time to navigate any negative impact. With the stock trading at a 10% discount, we believe EXC is the safest way to play power.

We believe the challenges to the NY and IL ZECs will be denied providing EXC with approximately $0.30 of "regulated-like" earnings. Comments by former FERC Commissioner Bay seem to support state's rights regarding nuclear subsidies. Additionally with the ability of the current administration to appoint three FERC commissioners, we would expect a FERC that is in line with President Trump's support of blue-collar jobs.

Taxes are still in the early innings and we don't expect any significant impact. Obviously details matter, which the current proposals are lacking. Given the capital intensity of the business and job creation (all of it domestic), we believe the tax proposals will have little impact to Exelon. Jefferies believes any changes in tax law will be timed for the 2018 mid-term elections given companies ample time to solve ways to mitigate any negative impact such as issuing hybrids.

We see the potential for UP&O earnings to hit the high-end of the company's guidance range. Jefferies 2018-19 UP&O estimates are at the mid-point of guidance, and should the company achieve better than expected rate outcomes or manage costs, investors could see an additional $0.10-$0.12 of earnings.

In a sector with few catalysts, we believe the sale of the company's non-core assets will help narrow the valuation gap. While it has taken longer than management's expectations, we believe the company will divest of its Mystic CCGT and Renewable JV in 1H17 providing additional capital that could be used for incremental debt paydown.

Valuation/Risks

Our $39.50 price target is based on P/E analysis. Taking our 2019 EPS estimate of $2.80 in conjunction with a P/E group average multiple of 14.1x results in a price target of $39.50. Based on yesterday's closing price of $35.42, this would result in a 12-month price appreciation potential of 11.5% and total return potential of 15.2% including the current yield of 3.7%. **Risks** include exposure to change in the commodity prices and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	2016A	*Prev.*	2017E	*Prev.*	2018E	*Prev.*	2019E
Cons. EPS Diluted	--	2.69	--	2.64	--	2.86	--	2.80
EPS								
Mar	--	0.68	--	--	--	--	--	--
Jun	--	0.65	--	--	--	--	--	--
Sep	--	0.91	--	--	--	--	--	--
Dec	--	0.45	--	--	--	--	--	--
FY Dec	--	2.69	--	2.60	--	2.85	--	2.80
FY P/E		13.2x		13.6x		12.4x		12.7x

Financial Summary

Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	3.7%

Market Data

52 Week Range:	$37.70 - $29.82
Total Entprs. Value (MM):	$46,827.9
Market Cap. (MM):	$32,798.9
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	926.0
Float (MM):	920.0
Avg. Daily Vol.:	6,078,181

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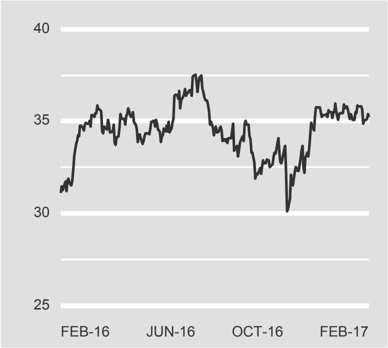
Price Performance



^Prior trading day's closing price unless otherwise noted.

EXC

Company Update

February 17, 2017

Exelon Corporation

Buy: $39.50 Price Target

Scenarios

Target Investment Thesis

- Exelon should trade at a group average P/E multiple.
- Expected growth in regulated earnings and accretion from the Pepco acquisition.
- Company moves to a more regulated P/E valuation since the merger with Pepco.
- 2019 EPS $2.80; Target Multiple: 14.1x. Target Price $39.50.

Upside Scenario

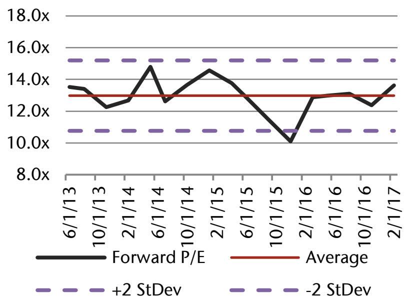
- Exelon Generation earnings increase due to improvement in gas and power prices.
- Power plant values increase due to growing short supply.
- Regulated business earns at or above its allowed ROE.
- Carbon regulation increases nuclear margins
- 2019 EPS $3.00; target multiple: 14.1x. Target Price $42.50

Downside Scenario

- Exelon EBITDA decreases due to declining gas and power prices.
- NY and IL nuclear ZEC programs are found to be in violation of power rules.
- Reinvestment opportunities become more limited.
- Regulated utilities under-earn their allowed ROE.
- 2019 EPS: $2.50; Target Multiple: 14.1x Target Price: $35.00.

Long Term Analysis

1 Year Forward P/E



Source: Facstet, Jefferies estimates

Long Term Financial Model Drivers

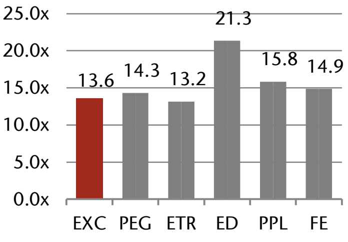
LT EBITDA CAGR	**(8.5%)**
LT EPS Growth	**4.6%**
FFO/Debt	**31%**
Equity Ratio	**52%**

Other Considerations

While we assume no benefit from ZECs or any type of carbon regulation the benefit to Exelon's 19,000 MW of nuclear plants is significant.

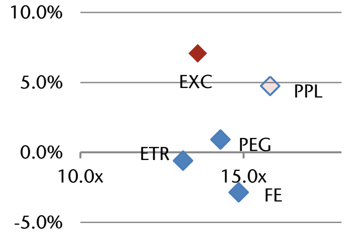
Peer Group

Group P/Es



Source: Factset, Jefferies estimates

Earnings Growth vs P/E



Source: Fastset, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
EXC	**Buy**	**$39.50**
PEG	Hold	$43.50
ETR	Hold	$772
ED	Buy	$82.50
PPL	Hold	$36.50
FE	Hold	$34.50

Catalysts

- Legal challenges to Illinois and New York's ZECs.
- PJM Capacity Auction.
- Rate increases at PHI utilities.

Company Description

Exelon, incorporated in Pennsylvania in February 1999, is a utility services holding company engaged, through its principal subsidiary Generation, in the energy generation business, and through its principal subsidiaries Com Ed, PECO, DPL, ACE, Pepco, and BGE, in the energy delivery businesses discussed below. Exelon is headquartered in Chicago and trades on the NYSE under the ticker symbol EXC.

Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation.

We believe the challenges to the NY and IL ZEC will be denied providing EXC with approximately $0.30 of "regulated-like" earnings. Comments by former FERC Commissioner Bay seem to support state's rights regarding nuclear subsidies. It is understandable that Bay's comments no longer hold the weight since he has resigned form FERC, but we believe it does provide some insight into FERC's thinking on ZECs.

> *The Supreme Court has now made clear that states are permitted to enact a wide range of policy choices that can affect the wholesale market.*
>
> *In our constitutional order, states are rightly celebrated for being laboratories for experimentation. Among other things, those laboratories may incentivize the development of needed energy infrastructure, the deployment of innovative technologies, or the establishment of Renewable Portfolio Standards.*
>
> *States, if they wish, may act as a market participant to benefit their citizens, even if they favor their own at the expense of others and market efficiency.*

While current FERC Chairman Cheryl LaFleur announced that FERC will host a staff-led technical conference on the impacts of state subsidies, we continue to believe these ZECs will survive challenge. FERC currently has three vacancies and given the nuclear plant closures (and loss of jobs) that would happen without a ZEC, we believe any appointees the Trump administration makes will be supportive of these subsidies.

The Electric Power Supply Association (EPSA) had previously filed a challenge in the New York courts related to the ZEC and on Wednesday filed a challenge related to the Illinois ZEC. Some of the key points EPSA makes are:

- While RECs (renewable energy credits) are permitted, a ZEC is very different and should be overturned by the court. RECs are created by all qualified renewable generators, without regard to economic need. A ZEC is only available to qualified nuclear operators and the price of a ZEC is set by the state.

- A ZEC is expressly tied to the price of electricity in the FERC-regulated wholesale markets. EPSA believes the price of a ZEC is currently a 70% premium versus current forwards. With currently power prices in the range of $18-$25 MWh Clinton and Quad Cities would receive a $16.50/MWh subsidy providing the plants with a total of $34.50-$41.50 MWh

- EPSA believes that the Illinois ZEC, which is currently forecasted to provide Exelon with $235 million per year over ten years will hold Illinois ratepayers captive and require them to prop up "two uneconomic nuclear power plants."

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Chart 1: EPSA believes ZECs should not be viewed at a REC

	ZEC	REC
Eligibility	Only for specific nuclear plants	All qualified renewable generators are eligible
Price	Price is fixed by the state and is directly related to wholesale prices	Price is determined by supply and demand
Inclusive	Excludes all other zero carbon resources	

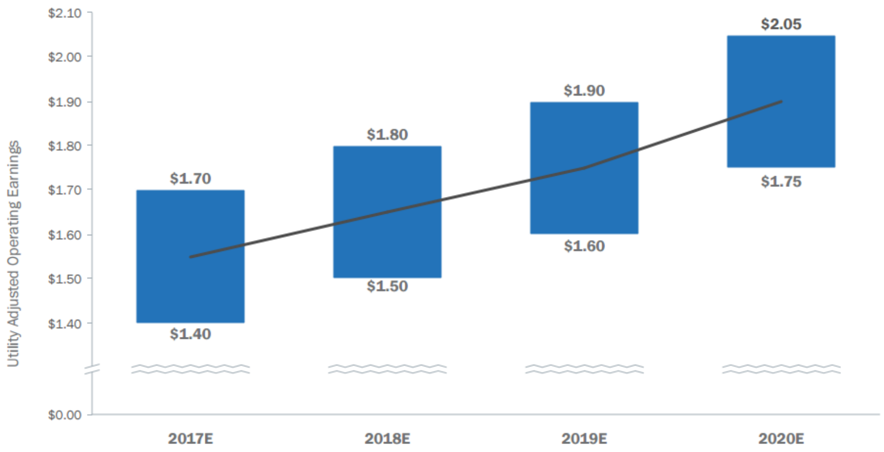
Source: Jefferies estimates

President Trump has also made comments supporting nuclear generation. Bloomberg news recently reported in that Trump advisers were looking for ways to help keep nuclear reactors operating as part of the nation's infrastructure. We are unsure if Trump would seek to do this through regulatory repeal or through a subsidy, although we think a subsidy or tax break is more likely. Trump's advisors are also reportedly considering renewing plans to store radioactive waste at Yucca Mountain in Nevada. In 1982, Congress passed the Nuclear Waste Policy Act, a legally binding pledge to dispose of radioactive material, and in 1987 Congress chose Yucca as the nation's storage site. In 2008, the federal government filed a construction license application for a repository at Yucca, but the Obama administration cut off funding for Yucca in 2010.

Taxes are still in the early innings and we don't expect any significant impact. Obviously details matter, which the current proposals are lacking such as will the non-deductibility of interest expense apply to new or existing debt. Given the capital intensity of the business and job creation (all of it domestic), we believe the tax proposals will have little impact to the utility sector in general. Jefferies believes any changes in tax law will be timed for the 2018 mid-term elections given companies amble time to mitigate any negative impact that tax reform may cause.

We see the potential for UP&O earnings to hit the high-end of the company's guidance range. Jefferies 2018-19 UP&O estimates are at the mid-point of guidance and should the company achieve better than expected rate outcomes or manage costs investors could see an additional $0.10-$0.12 of earnings. Jefferies UP&O forecast is 2017 $1.55, 2018 $1.69, and 2019 $1.78.

Chart 2: UP&O Expected to Grow 6-8%



Source: Company Data

In a sector with few catalysts, we believe the sale of the company's non-core assets will help narrow the valuation gap. While it has taken longer than management's expectations, we believe the company will divest of its Mystic CCGT and Renewable JV in 1H17 providing additional capital that could be used for incremental debt paydown. We don't expect a significant amount of capital from the renewable portfolio given the high level of project financing on the assets and that Exelon is only a 50% holder. For the 1,700 MW Mystic CCGT, recent sales have been transacted at the $500/kW, which would yield $850 million. Jefferies does not include any benefit from the sale of Mystic in our forecast and if the company were to receive $500/kW and use all of the proceeds to pay down parent debt, we believe earnings would benefit by $0.02.

Delmarva-MD provides an estimated $0.03 to EXC consolidated earnings.

Delmarva Power and Light gets 67% of its ask from Maryland regulators. On February 15, the Maryland PSC approved a $38.3 million rate increase based on a 9.6% ROE and $707 million rate base. This compares to the company's July 2016 filing requesting a $57 million (revised from $66M) rate increase predicated on a 10.6% ROE and $726.8 million rate base.

We are maintaining our 2017 EPS estimate of $2.60, which compares to guidance of $2.50-$2.80. Earnings include both the NY and IL ZEC programs, Fitzpatrick ownership, and a full year of PHI contribution. Management issued segment guidance of: ComEd $0.60-$0.70, PECO $0.40-$0.50, BGE $0.25-$0.35, PHI $0.30-$0.40, ExGen $1.05-$1.15, and parent drag of $0.10-$0.30.

We are maintaining our 2018-19 estimates of $2.85 and$ $2.80, respectively.

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Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2015A	2016A	2017E	2018E	2019E
PECO	$639	$789	$790	$794	$810
CWE	1,046	1,237	1,451	1,469	1,516
BGE	580	573	587	619	655
PEPCO		321	384	466	514
DPL		187	209	262	284
ACE		142	155	194	191
Adjustment					
Energy Delivery	**2,265**	**3,248**	**3,575**	**3,804**	**3,970**
Genco	2,176	2,316	1,749	2,126	1,786
Corporate	(8)	(8)	(8)	(8)	(8)
Earnings on Cash	105		68	45	41
Reconcile	68	(150)	120	(40)	0
EBIT	**$4,606**	**$5,406**	**$5,504**	**$5,928**	**$5,788**
EBITDA	$5,895	$8,036	$7,909	$8,485	$8,475
MIPS Obligation	0	0	0	0	0
Capitalized Interest	0	0	0	0	0
Long-Term Interest Expense		(1,674)	(1,804)	(1,720)	(1,717)
Income Before Taxes	**$3,508**	**$3,731**	**$3,700**	**$4,207**	**$4,071**
Income Taxes	(1,215)	(1,282)	(1,273)	(1,441)	(1,397)
Minority Interest/preferred	(13)	(13)	(13)	(13)	(13)
Wind PTC	50	51	52	53	53
Net Income	**$2,330**	**$2,487**	**$2,466**	**$2,806**	**$2,714**
Preferred Dividends					
Earnings for Common	**$2,330**	**$2,487**	**$2,466**	**$2,806**	**$2,714**
Non-Recurring Items					
Merger Cost to Achieve	0	0	0	0	0
Total Non-Recurring	(100)	0	0	0	0
Reported Earnings	2,230	2,487	2,466	2,806	2,714
Earnings Per Share	**$2.51**	**$2.69**	**$2.60**	**$2.90**	**$2.80**

Source: Company Data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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Recommendation Distributed	, 00:00 ET. February 17, 2017

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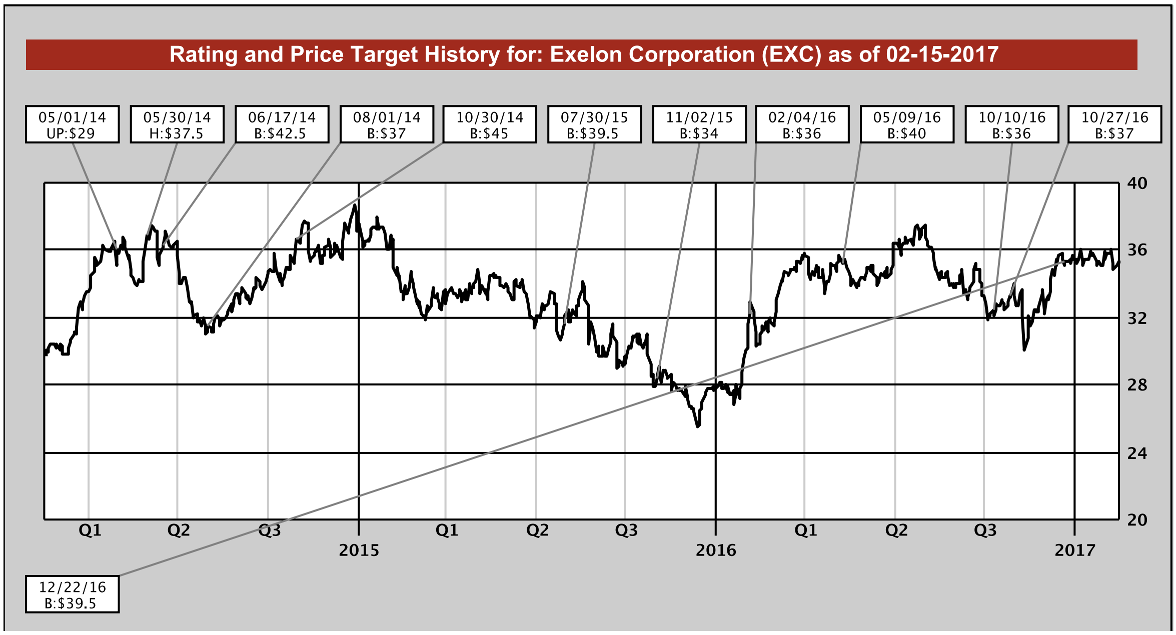
- Consolidated Edison Inc. (ED: $74.29, BUY)
- Entergy Corporation (ETR: $72.77, HOLD)
- FirstEnergy Corp. (FE: $30.62, HOLD)
- PPL Corp. (PPL: $35.72, HOLD)
- Public Service Enterprise Group Inc. (PEG: $43.66, HOLD)



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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1109	50.55%	333	30.03%
HOLD	905	41.25%	173	19.12%
UNDERPERFORM	180	8.20%	16	8.89%

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Exelon Corporation

EXC - Mgmt Roadshow: Please Don't Let Me Be Misunderstood – Message Was Loud and Clear

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FLASH NOTE

SECTOR: Power and Utilities

March 13, 2017

Roadshow with EXC (BUY, $35.97) Management: very well attended, very good dialogue, very clear message - very underappreciated. Meetings certainly reinforced our strong stance on EXC shares – at current levels we continue to see sizeable upside even before accounting for ZEC's; all signs point to our valuation tilting towards the conservative side as we, for now, exclude the subsidies pending modestly higher clarity. But, we are getting there. Our two days of meetings was filled with very good dialogue with a generally under-owned investor base. EXC Mgmt. came out with a very clear message and provided a multitude of takeaways for investors to digest. Reiterate BUY; $41 target price/share which currently exclude ZECs.

A lot of good data points from our meetings – key takes: (1) M&A – on the sidelines for now; at least for the next two to three years; if valuation remains low, could EXC eventually become an accretive target?, **(2) ExGen strategy** – no strategic divestiture; remains core with ~$1B/year in FCF supporting future regulated growth through potential buybacks among other items; despite investor perception, ExGen is not a drag and remains undervalued on any metric including implied gas, **(3) Private YieldCo** – it's coming with very strong demand from potential partners, **(4) Non-core asset sales** - remains on forefront but not a predicator of de-levering success and incremental to plan; Are the Texas CCGT projects next?, **(5) Tax policy** – the reality is that it's not that material, **(6) ZEC's** – on pace and working with stakeholders in other states to help move process along, **(7) Dividend** – could be set up for "material" growth but watch ZECs and upcoming PJM auction for timing, **(8) De-levering** – on pace to reach or even breach, in our view, 3x debt/EBITDA at ExGen, **(9) POM** – lag becoming less of a drag; projected to earn 9.5% by 2019 but this could prove conservative, **(10) Utility growth trajectory** – guidance of 6-8% likely conservative as well with asymmetric upside bias, **(11) Rate cases** – settlement coming in DE; DC expectations tempered – next round in 3-5 months; **(12) Retail** – Oligopoly forming: margins sticky with some expansion signals; opportunities to grow residential but no interest in acquiring a platform; will not be a first mover in CA, **(13) Mystic sale** – sale may or may not happen but too much investor focus as EXC playing with its own money; sale additive to de-levering targets etc.

Merchant GenCo will remain core, for now – the ratings agencies are the governor on any potential strategic divestures... Mgmt. took a "very hard look" at a potential divestiture of the de-regulated ExGen segment – over a year long process. It was very well noted during our meetings that the nuclear aspect of the GenCo adds a level of complexity not seen with other strategic moves – **the importance for an investment grade credit rating for the NRC has been front and center.** As a very recent data point, **Talen had to secure an LOC for Susquehanna equal to 6 months of outages or ~$200mm – EXC has over 24 units so this could get very costly.** Per Mgmt., **any divestures of ExGen will need to come with an investment grade credit rating from the agencies for the standalone IPP** – one of two rating agencies may remain very reluctant to issue an investment grade credit rating to any IPP even despite having very sound credit metrics – it's an ideology that may be very difficult to sway. If rating agencies can support an investment grade merchant IPP, (i.e. Moody's, S&P) then the obstacle to separating diminishes materially – Exelon can move ahead and divest ExGen. **If a spin is unlocked, it will likely not come until the 2022-2023 timeframe at the earliest, according to mgmt.**

In our view, given this very high bar to overcome with the rating agencies, EXC will likely need to make the best of it and continue to garner support with investors… Growth at the regulated utilities diluting ExGen exposure, removal of any remaining ZEC uncertainties coupled with further non-core asset sales will be key. **If ZEC works, retail continues to overachieve expectations, de-levering towards GenCo 3x debt/EBITDA is achieved, remaining non-core assets sales are complete, we do not see any fundamental reason why ExGen cannot trade at a healthier 7-8x EV/EBITDA multiple** (note: we continue to employ a levered free cash flow DCF at the ExGen plant level for valuation purposes; we do not apply flawed mid cycle multiples). We believe EXC's valuation will eventually get rewarded, it's a question of time.

Continued on the next page...

…and don't count out the Merchant anyway – remains a free cash flow generating machine helping to eventually fill utility growth divots with sizeable buyback opportunities among other items. Investors during our roadshow had to be reminded that **ExGen does generate in excess of $1B in FCF/year** and outside of maintenance CAPEX, Mgmt. not deploying any further capital into the business beyond 2017. With ~7% rate base growth at the utility, regulated operations comprising of 75% of consolidated mix, growth will continue to be predicted by the utilities with a free call option on the GenCo - ExGen cash flows could be used to buy back shares to fill any potential growth divots at the utilities as they begin to cover 100% of the dividend/HoldCo level interest rate expense. **For reference, $1B in buybacks equates to 2-3% EPS and dividend growth given less share count.**

Asset Sales – continues to look for more non-core opportunities; Are the Texas CCGT projects next? Outside of the obvious nukes, peakers and pump storage, any other asset is fair game for potential sale. **We believe mgmt. could see a strategic opportunity with the two CCGT projects in TX (Colorado Bend and Wolf Hollow) - either an outright sale or potentially sold-down into a yet-to-be-announced private YieldCo depending on which makes the most economics sense.** It was highlighted that the **assets are likely now worth closer to $500/KW versus new build cost of ~$700/KW** given the current forward curve environment in ERCOT coupled with the absence of volatility – we have seen no volatility in TX despite a very warm '16 summer (**See out Texas analysis HERE**). The key to extracting the most value from these projects could center on potential muni contracts.

…Mystic sale may or may not happen but EXC playing with its own money at this point – de-levering targets not a function of a potential sale; Monetization purely incremental. Potential sale of the Mystic assets in Boston is ongoing but Mgmt. notes that it's been challenging getting investors comfortable with the fact the assets burn LNG (gas supply from LNG delivered to Distrigas LNG facility) – **EXC has worked well with its LNG supplier so potential bidders question whether they can repeat similar economics.** At this juncture, EXC remains in the "education phase." As a reminder, **these assets were purchased for ~$1.15B but with the sale of Fore River (used to help finance POM) for ~$500mm coupled with ~$800mm in cash savings coming out of the plants, EXC playing with its own money at this point.** Given relatively healthy capacity payments, a NT sale could be dilutive prior to capacity payments falling off. Beyond the above mentioned assets, Mgmt. will continue to extrapolate value with further asset sales with non-core units.

Private YieldCo coming – demand high with Infrastructure and Pensions funds but there will be only one winner taking Exelon's 50% stake. While this transaction is not expected to generate a lot of cash, it will very likely bring to light the value of these contracted assets (initially wind followed by solar) and should present an opportunity to drop other noncore assets in time – **all proceeds incremental to EXC debt pay down targets.** Mgmt. in final stages of negotiations and expected to soon announce a new JV partner for 50% of the renewable business. **With $2.2b in project level debt (non-recourse), total transaction enterprise value could equate to ~$3.1B assuming 70% leverage – pre 50-50 split.** While this is expected to be a relatively small transaction, **the private YieldCo could be the entity to serve as an acquisition vehicle for future project dropdowns like AVSR, a wood burning asset in GA, other solar facilities as ITCs phase down and the ~$100mm being spent for rooftop solar for the C&I segment.** Average contracts tenure remaining on the assets equates to 12-15 years. EXC is expected to maintain 50% stake and control of the assets post private YieldCo launch. **The two TX fast start CCGTs could also present a potential drop down opportunity if contracts are struck with investment grade counterparties like munis.**

Losing sleep over tax? Boarder Adjustment Tax (BAT) and interest rate deductibility in focus at investor meetings but the reality is that **it's not so material**. To bookend, **Mgmt. sees potential ~$0.04-$0.08 impact from BAT** with nuclear segment but **drag expected to dissipate in time as fuel enrichment and fabrication is brought back into the US in-between refueling outages** which happen every 1-2 years depending on the unit. The key question is in a BAT scenario, is fuel considered an input or final good – former an obvious lower burden on EXC. On **interest rate deductibility issue**, Mgmt. highlights that every **check seems to point to a tax that is progressive and not regressive** – EXC has an accelerated program to pay down debt; not increase leverage.

We did a deep dive on tax and value potential scenarios under the new regime – **see our analysis HERE.**

All about ZEC's: We are increasingly feeling more confident with building in the accretion and valuation upside into our estimates. As a reminder, we modeled New York and Illinois subsidies in great length (See NY HERE and IL HERE) but stopped short of building in the accretion given the remaining legal overhangs surrounding the program – we have been down this road before with FE. That said, **following our Mgmt. meetings coupled with very constructive dialogue coming out of our Guggenheim hosted Commissioner Breakfast event on 1/18 which included Illinois Chair and PA Commissioner, our confidence has improved (see take HERE).** As one Commissioner noted: the legal hurdles to overturn

ZEC are high given that they were designed to emulate a REC (Renewable Energy Credit). **We are closely watching the oral arguments in New York as a potential catalyst** – discussed below.

New York ZEC further along; could set precedence in Illinois and in Ohio (ZEN's) and other states (i.e., New Jersey). As a reminder, EXC filed a motion to dismiss in New York from a purely mechanical standpoint – to our surprise (and theirs), the Judge decided to hear oral arguments vs. outright rejecting the request – **hearings set for April 29th** with **trials beginning this summer** and **an order with this dismissal request is expected by YE (**the Judge is known to be efficient, business focused but not an energy expert)**.** Key point – in any case, EXC expects appeals will start at the Appellate Court of New York and potentially go all the way through to the Supreme Court. As a reminder, **EXC will continue to earn ZEC revenue which is nonrefundable** (structured to have Fitzpatrick breakeven by two years) – the question for us is whether we should apply a perpetual multiple to it? We are gaining comfort that we should. Reminder, our target price (~$4/share potential upside from ZECs) and EPS estimates exclude any ZEC's upside: $0.15 for existing plants in NY (Ginna and Nine Mile); $0.02-0.03 for Fitzpatrick; ~$0.07 for Clinton and Quad (net of higher OPEX from bringing plants back). Success in NY will be a read through to IL given that they are essentially the exact same case.

Side note: when asked what the potential synergies could equate to by owning Nine Mile next to Fitzpatrick, Mgmt. highlighted that when they brought on the CENG assets, it eventually generated ~$75mm in cash savings – assuming about 1/5th of this with Fitzpatrick/Nine Mile Point is fair.

EXC has a vested interest to make sure other states are successful with their forms of ZECs – will take an active role. It was highlighted in our meetings that EXC is working with FE (BUY, $31.26) in Ohio with ZENs; will play a role in PA once legislation begins to form; expects PSEG (PEG, BUY, $44.43) to run the show in NJ given their political capital. **When asked during our meetings which other states will be successful, Mgmt. highlights**: **(1)** Ohio in better shape than Illinois was at early stage but FE may have challenges keeping rates low given other instate utility support will only come if FE ratepayers solely absorb the subsidy - can cause a large rate impact to FE native load; Illinois and New York subsidies socialized among the entire states; **(2)** PA: slower and more complex to develop given oil and gas lobby and multiple Nuke owners including FE, Talen and Exelon – this is a very consistent read we received from our Commissioner hosted breakfast; **(3)** NJ: should have a much easier process given PSEG's political capital – we agree (**see our PSEG analyst day takes HERE**).

As a reminder, EXC all in cost for nuclear is ~$30-$31/MWh. In NJ, EXC is part owner of Salem nuclear plant with PSEG; in PA. Three Mile Island is negative cash flows but Peach Bottom cash flow positive.

Dividend well set-up for growth but Mgmt. will exercise caution before changing policy – plan set through 2018 but dialogue with board on potential higher growth trajectory happening now. Board taking a very close look at the dividend with growth of 2.5% noticeable below peers and EXC's own regulated EPS growth of 6-8%; rate base growth of 7%. **The goal remains the utilities should cover 100% of the dividend and HoldCo interest rate expense – on pace to do so over the next two years.** Any revisit of dividend policy by Board approval will likely be "meaningfully" but EXC must gain comfort around a successful ZEC process (a successful motion to dismiss in NY could cause a revisit of the dividend sooner than 2018) among other items including better than expected RPM capacity market results (i.e. do generators bid their avoided costs and do we get an excessive number of new assets clear like the prior auction – mgmt. expects ~3GW but anything higher could be an incremental negative data point for a sooner than later dividend increase), in our view. **All signs point to a higher dividend growth rate in 2019 as plan essentially set through.** While ExGen generates significant cash flows now, EXC does not want to be in another position to be forced to cut the dividend – comfort around the above mentioned items will go a long way to garner confidence with the Board.

Regulatory Jurisdictions – good traction in achieving 9.5% ROE at POM by 2019; regulated growth could ultimately prove conservative with asymmetric upside bias given EXC propensity to earn low double returns. Should be filing second round of rate cases in the NT and **sees further savings beyond the $130m target set at POM** (has achieved $131mm to date) – further POM O&M levers will be utilized in the second round of filings which is expected within 4-5 months following each final order. **As a reminder, every dollar of O&M savings equates to $7-$9 of capital deployment with no impact to retail rates.**

Current regulated EPS growth of 6-8%, which appears well cemented, assumes 9.5% earned ROE and likely conservative given EXC's upward bias to earn low double digit returns (i.e. transmission) coupled with additional O&M savings from POM above current plan targets. As a reminder, three rate cases remain: two in Delaware (Delmarva) and one in DC (Pepco) – **Mgmt. expects a settlement in Delaware soon.** So far, first round of filings have been aligned with expectations – ACE settled 6 months sooner than plan; Pepco MD inline. **Expectations low for DC rate outcome** – Chairwoman was against the merger but term ends in 2018 at which point the Governor, who was supportive of the merger (who also appointed the current two Commissioners), will appoint a new Chair – **round 2 filings in DC should be more**

constructive. Reminder, DC is only 6% of rate base. POM utilities remain notable under-earners (ACE earnings 5.6% vs. 10% allowed; Delmarva earning 6.3% vs 10% allowed; Pepco earning 7.5% vs. 9.7% allowed) – Mgmt. confident two rate case cycles should remove the lag at POM. In addition to base rate cases, EXC will be trying to get formula rate plans (i.e. trackers) in DE, MD and NJ. **M&A – sitting on the sidelines for now; accretion through leverage doesn't create value at this juncture.** Mgmt. highlights **POM deal very unique** given the amount of capital needed to be deployed and the transaction multiple the deal was executed at – great fixer-upper given that the prior team chronically underinvested at the utilities. While several gas/electric utilities could present opportunities for EXC, the multiples being paid doesn't make the math work for Mgmt. **Some additional points highlighted during our meetings when thinking of EXC doing further M&A**: **(1)** EXC is going through a major de-levering initiative so a levered deal would run counter to strategic initiatives and **(2)** With potential changes to interest rate deductibility, cash deals will become much harder to come by - despite strong evolution in EXC business mix, shares still continue to trade at a deep discount so relying on equity won't make a deal look as accretive as past transactions (PEG trades at 15.5x vs EXC at 12.5x on '18 EPS). That said, **if EXC finds another utility meeting similar characteristics as POM and EXC equity value rerates as business mix shifts more regulated, another deal could be in the cards – mgmt. doesn't see this happening for the next couple of years.** Muni and coops could present a more nearer term opportunity.

…But we see a floor with valuation. A scenario presented during our meetings: As EXC continues growing the utilities with the business mix shifting to 75% regulated by 2020 coupled with contracted cash flows coming from ZEC's for the core nuclear assets and, the multiple doesn't recover, **shares could become an accretive target for another suitor or at least set groundwork for another integrated merger.**

Retail – some room to expand but not looking for new platforms; any deals will likely not be material enough to move the needle. With 29% mkt share, a leading retail platform, paired book and very few opportunities to acquire assets at around 2x EBITDA as in the past, **Exelon will be disciplined with acquisitive opportunities; will remain a buyer of last resort** – Texas retail markets could be an option – in our view. To date, margins have remained sticky, renewals and wins have been consistent – **Mgmt. has even see some evidence of margin expansion with what appears to be a formation of an oligopoly with the recent IPP buying spree coupled with the industry consolidation.** Mgmt. could selectively look at other nontraditional foot prints (i.e., has a hotel signed up in Nevada) - **CA could present an opportunity if muni and government aggregation picks up steam – won't be a first mover.**

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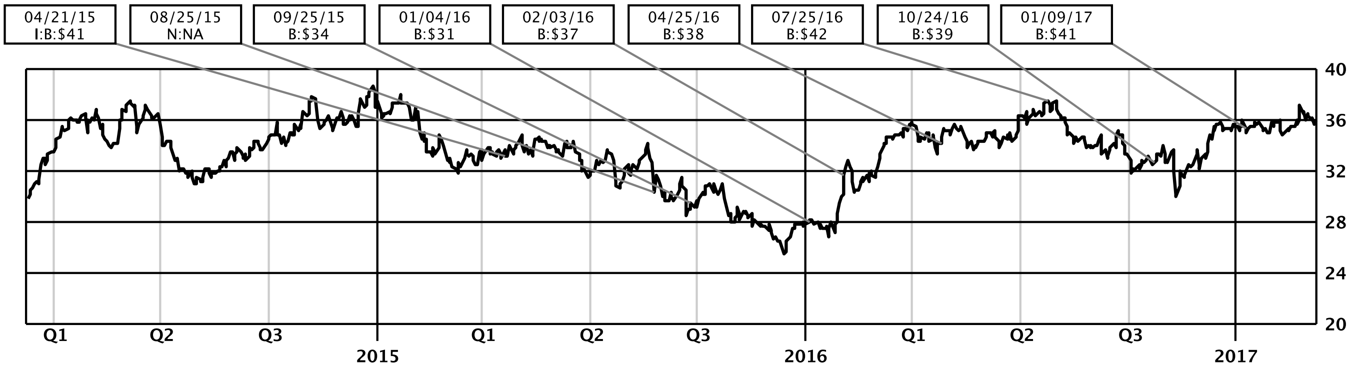

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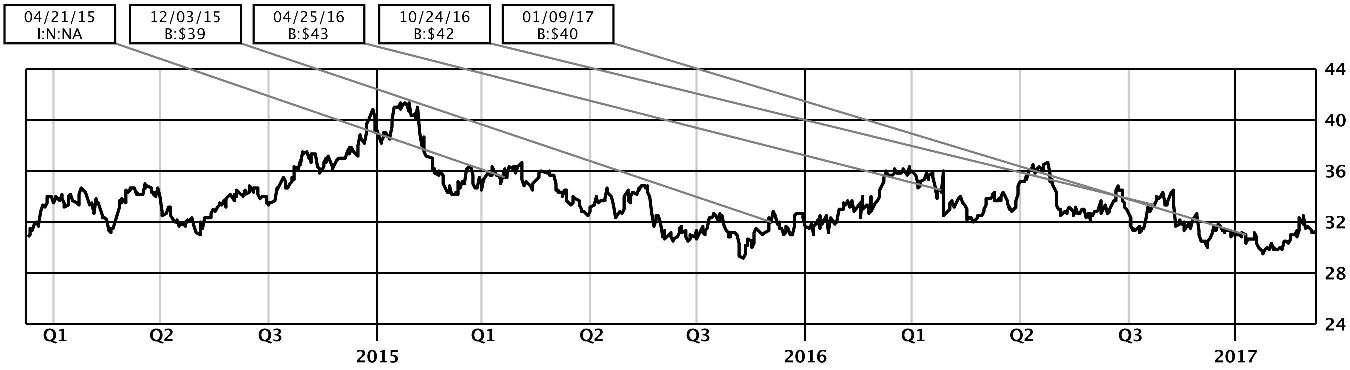

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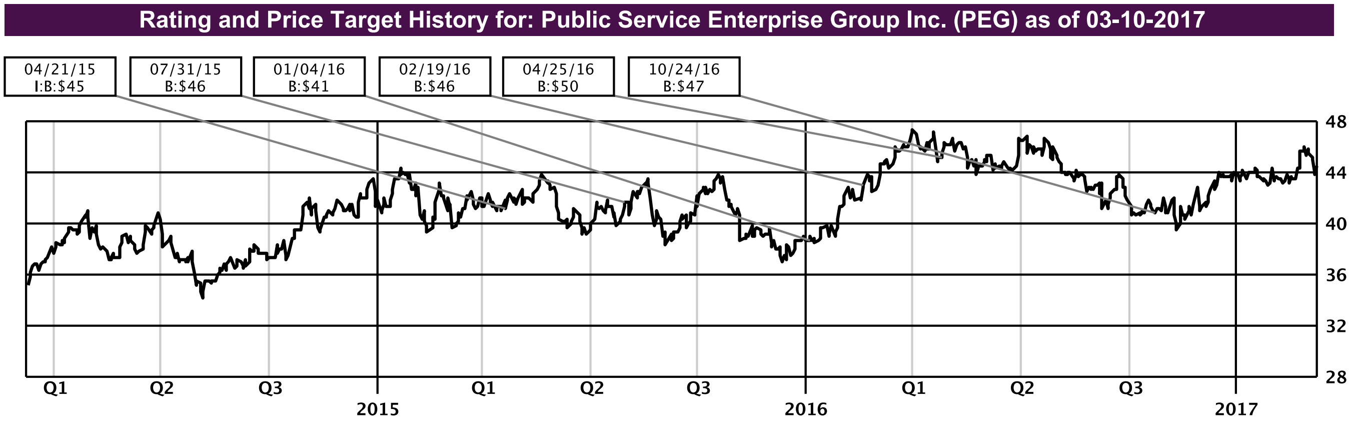

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 27 Mar 2017 22:04, UTC	35.84 USD 27 Mar 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.12	3.58 27 Mar 2017	3.66 27 Mar 2017	33.18 27 Mar 2017	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.02	0.89	1.03	0.93
Price/Earnings	29.4	17.0	16.2	22.3
Forward P/E	13.6	—	16.0	17.2
Price/Cash Flow	3.9	4.5	6.5	12.7
Price/Free Cash Flow	—	57.1	13.1	18.9
Trailing Dividend Yield%	3.58	4.40	3.41	2.03

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Investment Thesis

Travis Miller, Strategist, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Andrew Bischof, CFA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric

Exelon Corp EXC (XNYS)

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27 Mar 2017 22:04, UTC	27 Mar 2017	07 Dec 2016 02:29, UTC		27 Mar 2017	27 Mar 2017	27 Mar 2017		

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,648	9,061	17.39	25.58
FirstEnergy Corp FE	USD	13,889	14,562	-56.74	0.00
Entergy Corp ETR	USD	13,778	10,846	-8.17	0.00

infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Economic Moat

Travis Miller, Strategist, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle

Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move

so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Regulated Utilities Continue Driving Growth for Exelon

Travis Miller, Strategist, 26 October 2016

We are reaffirming our fair value estimate, narrow-moat rating, and stable moat trend rating after Exelon reported $0.91 per share adjusted operating earnings for the third quarter. As we expected, the March acquisition of Pepco Holdings accounted for most of the growth.

Consolidated adjusted earnings in the quarter were down 6% from the third quarter of 2015, excluding the earnings contribution from Pepco. We expect full-year 2016 earnings per share to be down 4% on a comparable basis adjusting for a partial year of Pepco. Management raised the midpoint of its 2016 EPS guidance range by 4% and tightened it to $2.55-$2.75 primarily due to favorable summer weather and in line with our estimate.

Exelon's generation business remains a drag, and we expect that to continue for several years. We expect the generation segment gross margin to remain near $7.5 billion for at least the next five years assuming Exelon goes forward with its plans to shut down the Clinton (Ill.), Quad Cities (Ill.), and Oyster Creek (N.J.) nuclear plants in 2017-19. We expect Exelon will receive a slight earnings uplift from its proposed acquisition of Entergy's Fitzpatrick (N.Y.) nuclear plant and the proposed New York state Clean Energy Standard, but both of those face legal and regulatory hurdles.

Exelon's legacy delivery utilities--ComEd, PECO, and BG&E--remain impressive growth areas. We expect that to continue based on Exelon's planned investment and regulatory activity. However, growth investment will require management to achieve constructive regulatory outcomes, which could be difficult with interest rates low and customer base rates climbing.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Travis Miller, Strategist, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities

Travis Miller, Strategist, 09 November 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

Travis Miller, Strategist, 14 November 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Travis Miller, Strategist, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Strategist, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, Sr. Eq. Analyst, 28 March 2017

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During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Exelon Corp EXC ★★★^{Q} 28 Mar 2017 02:00 UTC

Last Close	Fair Value^{Q}	Market Cap	Sector	Industry	Country of Domicile
27 Mar 2017 35.84	28 Mar 2017 02:00 UTC 35.03	27 Mar 2017 33,179.4 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	89	87	85
Valuation	Fairly Valued	42	53	33
Quantitative Uncertainty	Medium	99	96	98
Financial Health	Moderate	59	51	59

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.02	0.89	1.03	0.93
Price/Earnings	29.4	17.0	16.2	22.3
Forward P/E	13.6	—	16.0	17.2
Price/Cash Flow	3.9	4.5	6.5	12.7
Price/Free Cash Flow	—	57.1	13.1	18.9
Trailing Dividend Yield %	3.58	4.40	3.41	2.03
Price/Book	1.3	1.3	1.4	2.5
Price/Sales	1.1	1.1	1.5	2.2

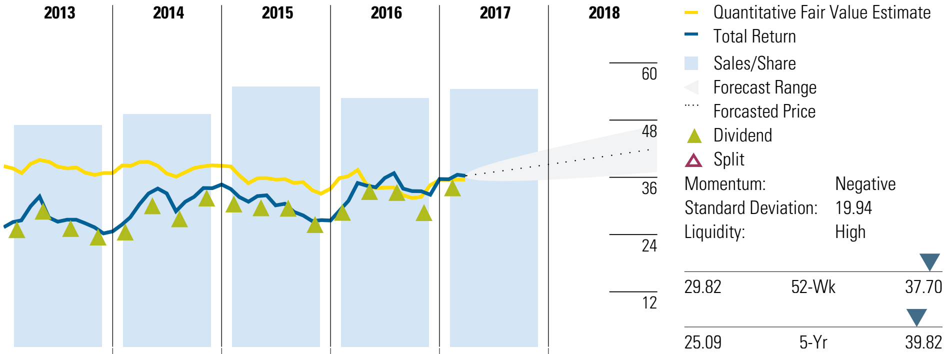
Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.4	7.0	9.8	11.9
Return on Assets %	1.1	1.9	3.2	4.6
Revenue/Employee (K)	911.7	942.4	1,176.9	301.1

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	594.6	—	619.5	582.6
Assets/Equity	4.4	3.8	2.7	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

Price vs. Quantitative Fair Value



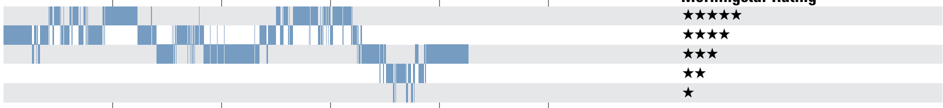
Momentum:	Negative
Standard Deviation:	19.94
Liquidity:	High

29.82 52-Wk 37.70

25.09 5-Yr 39.82

2013	2014	2015	2016	2017	
-3.0	39.9	-21.8	32.4	1.9	Total Return %
-36.1	27.1	-22.5	19.9	-2.9	+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—	Trailing Dividend Yield %
—	—	—	—	3.58	Forward Dividend Yield %
14.6	15.2	12.4	26.9	29.4	Price/Earnings
0.9	1.2	0.8	1.1	1.1	Price/Revenue

Morningstar Rating^{Q}



	2012	2013	2014	2015	2016	TTM
Financials (Fiscal Year in Mil)						
Revenue	23,489	24,888	27,429	29,447	31,360	31,360
% Change	24.1	6.0	10.2	7.4	6.5	0.0
Operating Income	2,380	3,656	3,096	4,409	3,112	3,112
% Change	-46.9	53.6	-15.3	42.4	-29.4	0.0
Net Income	1,160	1,719	1,623	2,269	1,134	1,134
Operating Cash Flow	6,131	6,343	4,457	7,616	8,445	8,445
Capital Spending	-5,810	-5,395	-6,077	-7,624	-8,553	-8,553
Free Cash Flow	321	948	-1,620	-8	-108	-108
% Sales	1.4	3.8	-5.9	0.0	-0.3	-0.3
EPS	1.42	2.00	1.88	2.54	1.22	1.22
% Change	-62.1	40.8	-6.0	35.1	-52.0	0.0
Free Cash Flow/Share	0.39	0.48	-0.03	-1.04	0.82	-0.12
Dividends/Share	2.10	1.46	1.24	1.24	1.26	1.26
Book Value/Share	25.07	25.51	27.44	28.01	28.17	27.88
Shares Outstanding (K)	857,000	860,000	920,000	924,000	925,763	925,763
Profitability						
Return on Equity %	6.5	7.8	7.2	9.4	4.4	4.4
Return on Assets %	1.7	2.2	2.0	2.5	1.1	1.1
Net Margin %	4.9	6.9	5.9	7.7	3.6	3.6
Asset Turnover	0.35	0.31	0.33	0.32	0.30	0.30
Financial Leverage	3.7	3.5	3.8	3.7	4.4	4.4
Gross Margin %	56.8	56.9	52.6	55.6	59.7	59.7
Operating Margin %	10.1	14.7	11.3	15.0	9.9	9.9
Long-Term Debt	18,346	18,271	20,010	24,286	32,216	32,216
Total Equity	21,624	22,925	22,801	25,793	25,837	25,837
Fixed Asset Turns	0.6	0.5	0.6	0.5	0.5	0.5

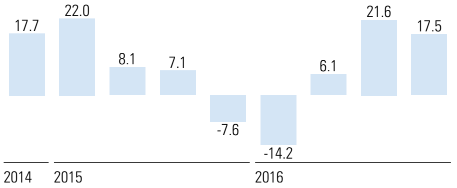
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	5.1	6.5	1.8	-2.4

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

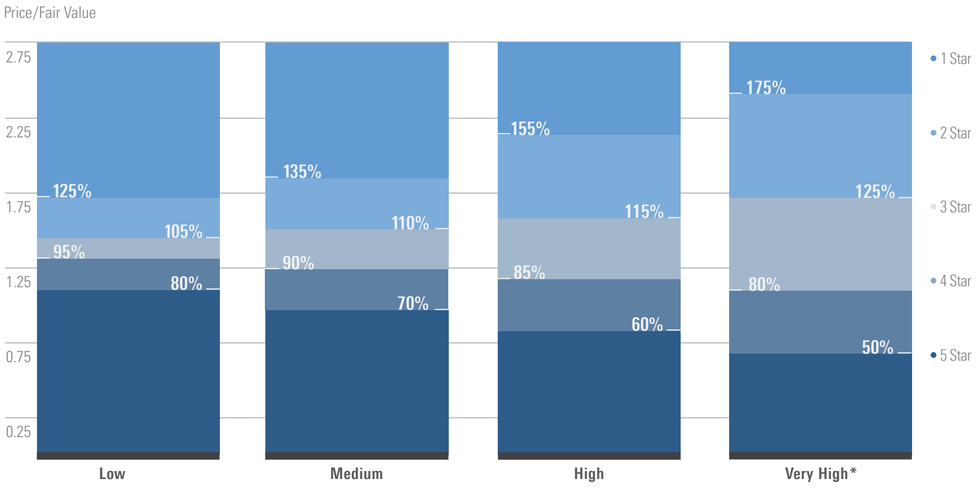
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ►**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ►**Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ►**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ►**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ►**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ►**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ►**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ►**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
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- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit www.corporate.morningstar.com.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	35.84 USD	32.00 USD	1.12	3.58	3.66	33.18	Utilities - Diversified	Standard
27 Mar 2017 22:04, UTC	27 Mar 2017	07 Dec 2016 02:29, UTC		27 Mar 2017	27 Mar 2017	27 Mar 2017		

Price/Fair Value Morningstar data as of Mar 27, 2017

General Disclosure

The analysis within this report is prepared by the person (s) noted in their capacity as an analyst for Morningstar's equity research group. The equity research group consists of various Morningstar, Inc. subsidiaries ("Equity Research Group)". In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission.

The opinions expressed within the report are given in good faith, are as of the date of the report and are subject to change without notice. Neither the analyst nor Equity Research Group commits themselves in advance to whether and in which intervals updates to the report are expected to be made. The written analysis and Morningstar Star Rating for stocks are statements of opinions; they are not statements of fact.

The Equity Research Group believes its analysts make a reasonable effort to carefully research information contained in the analysis. The information on which the analysis is based has been obtained from sources believed to be reliable such as, for example, the company's financial statements filed with a regulator, company website, Bloomberg and any other the relevant press sources. Only the information obtained from such sources is made available to the issuer who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this sharing of information result in considerable changes, a statement of that fact will be noted within the report. While the Equity Research Group has obtained data, statistics and information from sources it believes to be reliable, neither the Equity Research Group nor Morningstar, Inc. performs an audit or seeks independent verification of any of the data, statistics, and information it receives.

General Quantitative Disclosure

The Quantitative Equity Report ("Report") is derived from data, statistics and information within Morningstar, Inc.'s database as of the date of the Report and is subject to change without notice. The Report is for informational purposes only, intended for financial professionals and/or sophisticated investors ("Users") and should not be the sole piece of information used by such Users or their clients in making an investment decision. The quantitative equity ratings noted the Report are provided in good faith, are as of the date of the Report and are subject to change. While Morningstar has obtained data, statistics and information from sources it believes to be reliable, Morningstar does not perform an audit or seeks independent verification of any of the data, statistics, and information it receives.

The quantitative equity ratings are not a market call, and do not replace the User or User's clients from conducting their own due-diligence on the security. The quantitative equity rating is not a suitability assessment; such assessments take into account may factors including a person's investment objective, personal and financial situation, and risk tolerance all of which are factors the quantitative equity rating statistical model does not and did not consider.

Prices noted with the Report are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

General Disclosure (applicable to both Quantitative and Qualitative Research)

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 27 Mar 2017 22:04, UTC	35.84 USD 27 Mar 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.12	3.58 27 Mar 2017	3.66 27 Mar 2017	33.18 27 Mar 2017	Utilities - Diversified	Standard

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

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Research as of 28 Mar 2017
Estimates as of 20 Jan 2017
Pricing data through 27 Mar 2017
Rating updated as of 27 Mar 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 28 Mar 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to

Vital Statistics

Market Cap (USD Mil)	33,179
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	5.1
YTD Total Return %	1.9
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.12

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	—	*13.7*
EV/EBITDA	8.3	9.8	—	*8.4*
EV/EBIT	14.5	15.2	—	*13.7*
Free Cash Flow Yield %	-6.3	0.0	—	*-3.7*
Dividend Yield %	4.2	3.4	—	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,775*	*32,405*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*4,998*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,486*
Net Income YoY %	-4.0	7.7	*8.2*	*3.3*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*0.9*
Free Cash Flow	121	561	*-12,392*	*-391*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

For more information on our outlook for renewable growth and carbon emissions, see our most recent report "Trump Can't Thwart Green Progress" on Morningstar Select Investment Research.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. CAGR
Revenue	*7.8*	6.0	10.2	7.4	*-5.7*	*16.7*	*4.4*
EBIT	*22.8*	53.6	-15.3	42.4	*7.5*	*5.5*	*6.6*
EBITDA	*17.2*	36.3	-6.9	26.8	*11.4*	*7.3*	*7.3*
Net Income	*-1.6*	-7.9	-4.0	7.7	*8.2*	*3.3*	*6.6*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*4.4*	*0.9*	*4.9*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*63.1*	*-45.4*	*0.0*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-2,307.6*	*-96.9*	*44.3*

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	*13.7*	14.7	11.3	15.0	*17.1*	*15.4*	*16.4*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*27.5*	*25.3*	*26.4*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.7*	*8.3*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-44.6*	*-1.2*	*-5.1*
ROIC %	*3.1*	2.5	2.5	4.1	*11.1*	*5.6*	*6.8*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*12.0*	*6.1*	*7.4*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.4*
Return on Equity %	*8.0*	7.7	7.1	9.3	*9.0*	*8.8*	*9.3*

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.56*	*0.56*	*0.55*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.56*	*4.55*	*4.30*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.55*	*5.40*	*5.57*

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	—	*13.7*
EV/EBITDA	8.3	9.8	—	*8.4*
EV/EBIT	14.5	15.2	—	*13.7*
Free Cash Flow Yield %	-6.3	0.0	—	*-3.7*
Dividend Yield %	4.2	3.4	—	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,312	-13.2	-6.83
Present Value Stage II	17,500	36.6	18.92
Present Value Stage III	36,662	76.6	39.65
Total Firm Value	**47,850**	**100.0**	**51.75**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,065**	**—**	**30.35**
Projected Diluted Shares	925		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,775***	***32,405***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,731*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,674***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,730***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,231*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,486***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,486*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,198***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,198***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,883*
Inventory	1,105	1,603	1,566	*1,079*	*1,505*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,521***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,081***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,821*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,054***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,821***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,590*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,859***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,259***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,420*	*2,499*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-698*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-426*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*260*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***95***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

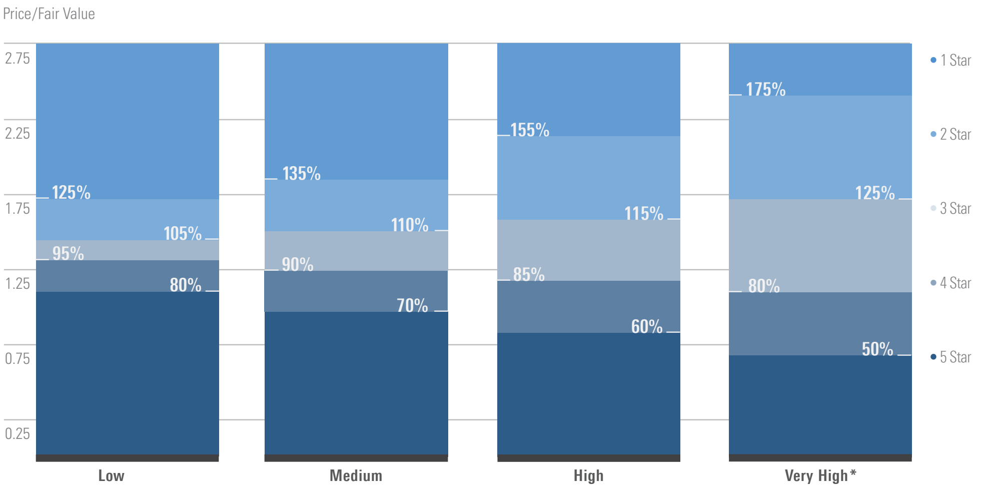
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★

We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★

Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Deutsche Bank
Markets Research

North America
United States
Industrials
Utilities and Power

Industry
DB Power Flash

Date
29 March 2017

Industry Update

Good first day in court for Exelon's ZECs

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Focus stocks

Exelon (EXC.N),USD35.67 Buy Price Target USD41.00

Calpine (CPN.N),USD10.75 Buy Price Target USD15.00

Dynegy Inc. (DYN.N),USD7.57 Sell Price Target USD6.00

NRG Energy (NRG.N),USD18.11 Buy Price Target USD29.00

Source: Deutsche Bank

Key issue for 2017 has its (first) day in court

Subsidies for struggling merchant power plants and their impacts on power markets are one of the key issues we highlighted in our 2017 Outlook, and represent an important part of our thesis for Buy-rated hybrids EXC and potentially PEG, while representing a headwind for IPPs who would not benefit from those subsidies. Today’s arguments over NY Zero Emissions Credits (ZECs) represent the first legal skirmish in what could ultimately be a multi-year battle on this topic, and in our opinion the hybrids may have had the better of the encounter. While many in the industry have viewed a dismissal of the case as highly unlikely, the judge’s statements and tone today seemed to suggest otherwise with EXC stock also reacting well in response. A quick dismissal of the NY case could encourage other states (OH, NJ, PA and CT) to pursue ZECs with less concern for legal challenges, and could perhaps signal that an inevitable appeal would be more of a long-shot.

Case background

In October, a group of generators including CPN, DYN and NRG filed suit in the U.S. District Court for the Southern District of New York against the NY PSC’s approval of Zero Emissions Credits for Exelon’s 3 struggling merchant nuclear plants in upstate NY. Citing the Supreme Court decision in Hughes vs. Talen, the plaintiffs argue that ZECs are tethered to wholesale prices and therefore infringe on FERC’s exclusive authority to regulate wholesale markets. Their complaint also argues that the ZECs specific focus on in-state struggling generation violate the interstate commerce clause. Today’s oral arguments were on the New York PSC and Exelon’s motions to dismiss the IPPs’ case.

What we heard today

Throughout today’s hearing Judge Caproni questioned the plaintiffs’ case. She compared ZECs to state property tax breaks for power plants and to Renewable Energy Credits (RECs), which all parties agreed were legal. Further, with regard to ZECs being tethered to wholesale prices, she seemed to latch on to the defendants’ argument that there is no requirement for the plants to sell into the wholesale market to qualify for ZECs. As for the ZEC price potentially adjusting for changes in higher power prices, the Judge said that since ZEC price could only go lower, not higher, she doesn’t see how that would harm the plaintiffs. Finally, attacking the claim about a preference for in-state resources, the judge asked if any of the complainants owned nuclear plants in surrounding regions that were harmed, which they do not, questioning their standing on this issue.

Judge’s concluding remarks could be telling

In concluding, Judge Caproni commented that this is the best briefed case she’s seen in her time on the bench, and that she does not want any more amicus briefs, suggesting that a decision on the motion to dismiss may come sooner rather than later.

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Citi Research
Equities

30 Mar 2017 06:59:06 ET | 11 pages

Diversified Utilities
North America | United States

Exelon Corp (EXC)

ZECs Continue to Drive the Story

- Estimate Change
- Target Price Change

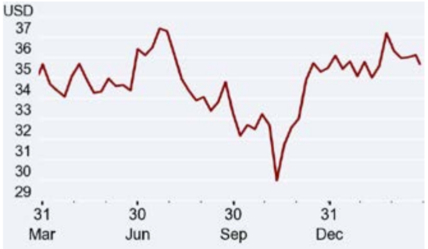
- **Updated Estimates:** Our updated consolidated EPS estimates for 2017, 2018, and 2019 are $2.63/share, $2.90/share, and $2.89/share, respectively. Over the same period, our ExGen EBITDA estimates are $3.0B, $3.2B and $3.1B and our regulated utility EPS estimates are $1.55, $1.70 and $1.84/share.
- **Merchant nuclear challenges continue; ZECs are a key driver:** Without ZECs (Zero Emission Credits) nuclear generation is challenged. For example, 2019 ATC power prices in Midwest and Mid-Atlantic are ~$27/MWh and ~$30/MWh with an additional ~$5/MWh for capacity prices. However, average cash cost of nuclear generation is ~$30-$35/MWh making nuclear breakeven/negative on a cash basis. With renewables increasing, these challenges will only get worse over time.
- **NY and IL ZEC = $3/share; now included in our TP:** We have valued IL and NY ZECs on standalone basis at $1/share and $2/share, respectively. Judge Shah is expected to rule on IL ZEC by June 1st. For NY, court hearings have begun on the motion to dismiss and looks like DYN/NRG/EPSA have an uphill battle. We now include both IL and NY ZECs in our PT. Also, if ZEC programs were implemented in NJ and PA based on similar pricing and tenure as IL/NY ZECs, they could add an additional ~$4/share of value.
- **High HoldCo debt is a concern, but a path to de-leverage is feasible:** EXC had ~$7.2B of HoldCo debt as of 12/31/2016. Cancelation of interest deductibility under the Trump's tax plan is a concern. We do, however, see a credible path to ~$2B of parent debt pay down by 2019. Again, ZECs are critical to the deleveraging story.
- **Higher PEPCO ROEs to support strong growth at utilities:** We expect regulated utilities would achieve 6-8% of growth in the next few years and we do expect PEPCO would be able to achieve ~9% ROEs by 2019.
- **Increase PT to $35 and maintain Neutral rating:** Utility growth and NY, IL ZECs seem to be largely priced in to the stock at this point. Our $4/share increase in PT is driven by 0.5x higher utility multiple reflecting higher growth and inclusion of NY ZECs. We see upside from here driven by ZECs in PA and NJ = +$4/share; Downside from here is if NY and IL ZECs were reversed = ($3)/share.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	na	na	na	0.44A	2.68A	2.68A
2017E	0.61E	0.48E	0.89E	0.64E	2.63E	2.67E
Previous	na	na	na	na	2.59E	na
2018E	na	na	na	na	2.90E	2.87E
Previous	na	na	na	na	2.77E	na
2019E	na	na	na	na	2.89E	2.78E
Previous	na	na	na	na	2.77E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Neutral	2
Price (29 Mar 17 16:00)	US$35.93
Target price	US$35.00
from US$31.00	
Expected share price return	-2.6%
Expected dividend yield	3.6%
Expected total return	1.0%
Market Cap	US$33,263M

Price Performance
(RIC: EXC.N, BB: EXC US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

EXC.N: Fiscal year end 31-Dec

Price: US$35.93; TP: US$35.00; Market Cap: US$33,263m; Recomm: Neutral

Profit & Loss (US$m)	2015	2016	2017E	2018E	2019E
Sales revenue	29,447	31,360	27,020	27,683	27,989
Cost of sales	-13,084	-12,640	-8,118	-8,224	-8,323
Gross profit	16,363	18,720	18,902	19,459	19,666
Gross Margin (%)	55.6	59.7	70.0	70.3	70.3
EBITDA (Adj)	6,841	8,357	8,492	9,152	9,371
EBITDA Margin (Adj) (%)	23.2	26.6	31.4	33.1	33.5
Depreciation	-2,450	-3,936	-3,308	-3,476	-3,640
Amortisation	0	0	0	0	0
EBIT (Adj)	4,409	3,112	5,185	5,677	5,731
EBIT Margin (Adj) (%)	15.0	9.9	19.2	20.5	20.5
Net interest	-1,033	-1,536	-1,631	-1,684	-1,741
Associates	0	0	0	0	0
Non-op/Except	-28	365	40	233	233
Pre-tax profit	3,330	1,989	3,594	4,226	4,223
Tax	-1,073	-761	-1,217	-1,441	-1,441
Extraord./Min.Int./Pref.div.	12	-94	0	0	0
Reported net profit	2,269	1,134	2,378	2,784	2,782
Net Margin (%)	7.7	3.6	8.8	10.1	9.9
Core NPAT	2,227	2,488	2,506	2,788	2,786
Per share data	2015	2016	2017E	2018E	2019E
Reported EPS ($)	2.54	1.22	2.50	2.89	2.89
Core EPS ($)	2.49	2.68	2.63	2.90	2.89
DPS ($)	1.24	1.26	1.29	1.33	1.36
CFPS ($)	8.53	9.14	8.04	7.87	7.47
FCFPS ($)	-0.01	-0.09	-0.49	0.33	0.47
BVPS ($)	28.98	27.96	29.46	30.73	32.22
Wtd avg ord shares (m)	890	924	949	959	960
Wtd avg diluted shares (m)	893	927	953	963	964
Growth rates	2015	2016	2017E	2018E	2019E
Sales revenue (%)	7.4	6.5	-13.8	2.5	1.1
EBIT (Adj) (%)	42.4	-29.4	66.6	9.5	1.0
Core NPAT (%)	37.2	11.7	0.7	11.2	-0.1
Core EPS (%)	32.8	7.6	-2.0	10.1	-0.2
Balance Sheet (US$m)	2015	2016	2017E	2018E	2019E
Cash & cash equiv.	6,502	635	500	500	500
Accounts receivables	4,099	5,359	5,359	5,359	5,359
Inventory	1,566	1,638	1,638	1,638	1,638
Net fixed & other tangibles	69,916	84,648	88,509	91,380	93,561
Goodwill & intangibles	8,737	16,723	16,723	16,723	16,723
Financial & other assets	4,564	5,901	5,908	5,925	5,943
Total assets	95,384	114,904	118,637	121,525	123,724
Accounts payable	2,883	3,441	3,441	3,441	3,441
Short-term debt	2,033	3,697	3,053	2,500	2,019
Long-term debt	24,286	32,216	33,260	34,769	36,106
Provisions & other liab	38,888	47,938	49,156	49,581	49,452
Total liabilities	68,090	87,292	88,910	90,290	91,018
Shareholders' equity	25,986	25,837	27,952	29,459	30,931
Minority interests	1,308	1,775	1,775	1,775	1,775
Total equity	27,294	27,612	29,727	31,234	32,706
Net debt (Adj)	19,817	35,278	35,814	36,769	37,625
Net debt to equity (Adj) (%)	72.6	127.8	120.5	117.7	115.0

Valuation ratios	2015	2016	2017E	2018E	2019E
PE (x)	14.4	13.4	13.7	12.4	12.4
PB (x)	1.2	1.3	1.2	1.2	1.1
EV/EBITDA (x)	8.6	8.0	8.9	8.3	8.2
FCF yield (%)	0.0	-0.3	-1.4	0.9	1.3
Dividend yield (%)	3.5	3.5	3.6	3.7	3.8
Payout ratio (%)	50	47	49	46	47
ROE (%)	9.4	4.4	8.8	9.7	9.2
Cashflow (US$m)	2015	2016	2017E	2018E	2019E
EBITDA	6,841	7,096	8,492	9,152	9,371
Working capital	-264	-481	0	0	0
Other	1,039	1,854	-830	-1,580	-2,167
Operating cashflow	7,616	8,469	7,662	7,572	7,205
Capex	-7,624	-8,553	-8,125	-7,250	-6,750
Net acq/disposals	-145	-6,755	0	0	0
Other	-53	-195	0	0	0
Investing cashflow	-7,822	-15,503	-8,125	-7,250	-6,750
Dividends paid	-1,105	-1,356	-1,223	-1,277	-1,311
Financing cashflow	4,830	1,191	328	-322	-455
Net change in cash	4,624	-5,843	-135	0	0
Free cashflow to s/holders	-8	-84	-463	322	455

For definitions of the items in this table, please click here.

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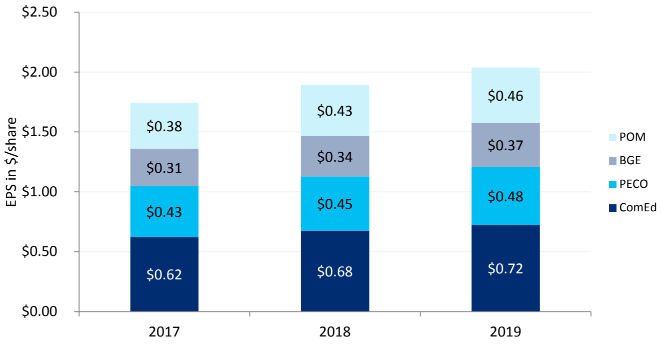
Financial Estimate Updates

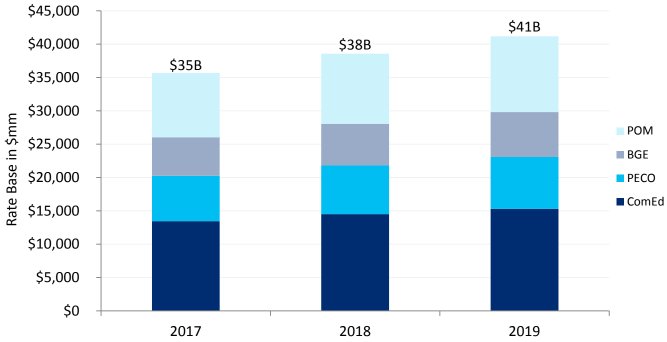
- We have updated our model for 4Q16 financial results, latest management guidance, hedging and generation profile and capital expenditure plans. We have used power curves as of 2/16/2017. Figure 1 shows our updated EPS profile for each regulated utility and Figure 2 depicts rate base for each respective utility.

Figure 1. EPS Estimates – Regulated Utilities



Source: Citi Research

Figure 2. Rate Base – Regulated Utilities

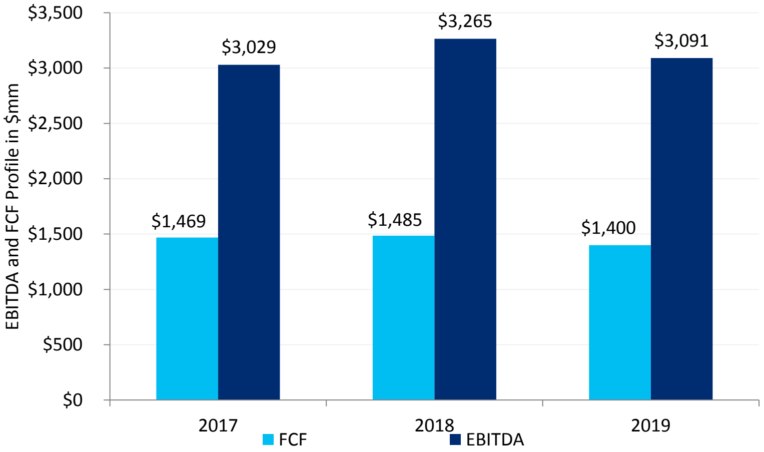


Source: Citi Research

- We have updated our ExGen model to incorporate IL and NY ZEC contributions in line with latest management's updated disclosure. Now, we combine ZEC with Capacity Revenues and flow through our commodity margin calculation. We estimate Capacity and ZEC revenues of $1.8B, $2.2B, and $2.0B for 2017, 2018, and 2019, respectively. Our estimates are in line with management guidance. However, we exclude ZECs from our DCF valuation approach and value them on standalone basis, please see valuation section for details.

- We have also built in Fitzpatrick acquisition into our model and reversed early retirement of Quad Cities and Clinton nuclear plants. We have built in $200m of other revenues into our EBITDA and FCF calculations in line with management guidance. Figure below shows our updated EBITDA and FCF profile for ExGen.

Figure 3. ExGen's EBITDA and FCF profile



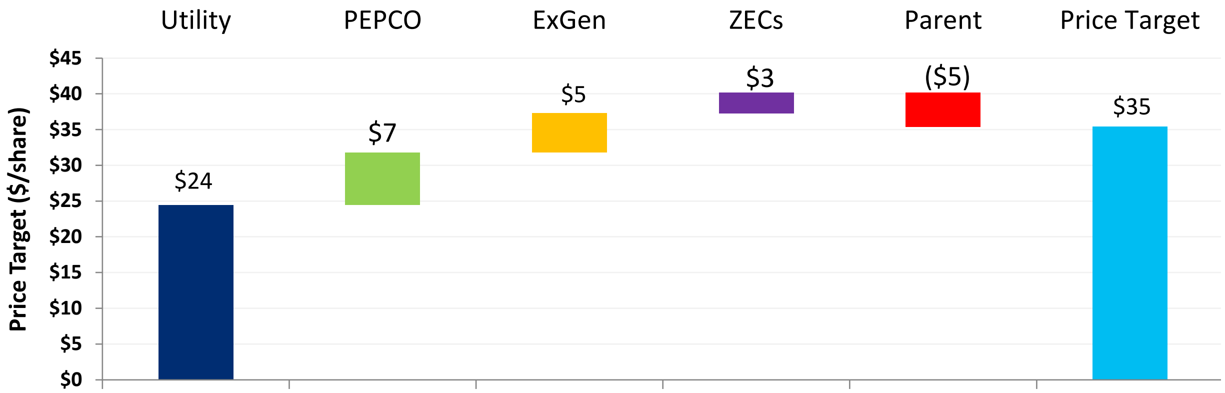
Source: Citi Research Estimates

- We have moved our valuation date to 12/31/2017. We maintain our bottoms up DCF valuation approach for utilities and ExGen. We have increased utilities' terminal PE multiple to 17.5x (from 17.0x) to reflect a robust growth of utility businesses.

- We maintain terminal EBITDA multiple of 5.5x and WACC of 8.5% for ExGen valuation. We exclude ZECs contribution from EBITDA for valuation purposes to avoid capitalizing them over the assumed asset life of nuclear assets. Instead, we value ZECs on standalone basis using their cash flows for next ten years.

- We value ZECs, both NY and IL, on standalone basis at ~$3/share. Essentially, we calculate cash flows associated with these programs and discount them at 8.5% to get to the NPV of these initiatives. Judge Shah is expected to rule on IL ZEC by June 1st. As to NY, the court is expected to rule on the motions to dismiss EPSA complain by the end of March.

Figure 4. SOTP Chart



Components	Utility	PEPCO	ExGen	ZECs	Parent	Price Target
Terminal Multiple	17.5x	17.5x	5.5x			
Discount Rate	6.5%	6.5%	8.5%			
Firm Value ($mm)	$37,105	$13,349	$14,890			
Net Debt ($mm)	(13,589)	(6,286)	(9,604)			
Equity Value ($mm)	23,516	7,064	5,286	2,787	(4,608)	34,044
Share Price ($/share)	**$24**	**$7**	**$5**	**$3**	**($5)**	**$35**

Source: Citi Research Estimates

PT doesn't add up due to rounding.

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates three utilities in Pennsylvania, Illinois, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, and Baltimore Gas & Electric in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants located concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Neutral (2). Our rating is based on concerns around the management team’s strategic vision and execution, downside concerns around the economics of Exelon’s nuclear fleet with low unlevered free cash flow conversion (UFCF) of ~35% . We do like regulated utility's robust growth profile of 6-8% through 2020.

Valuation

We value EXC using a sum-of-the-parts approach to get to our $35 price target. We value ExGen at ~$6/share and believe ExGen’s core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The utilities business is valued at $24/share based on a 17.5x terminal PE multiple. We also add $7/share value provided by PEPCO. We back out $5/share for the parent net debt and add $3/share for ZECs (IL and NY)

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	24-Apr-14 05:02:25	3	*27.00	36.01
2	22-Jul-14 20:24:08	3	*30.00	31.78
3	17-Oct-14 03:01:08	*2	*37.00	34.38
4	18-Dec-14 16:46:48	Coverage terminated		
5	17-Sep-15 16:01:15	*3	*27.00	31.57
6	26-Jan-16 17:07:46	*2	27.00	27.84
7	22-Feb-16 16:00:00	*3	27.00	31.69
8	19-Jul-16 23:43:46	3	*29.00	36.58
9	04-Oct-16 03:14:34	3	*27.00	31.86
10	28-Nov-16 20:37:44	3	*29.00	33.39
11	02-Dec-16 07:02:27	*2	*31.00	33.01

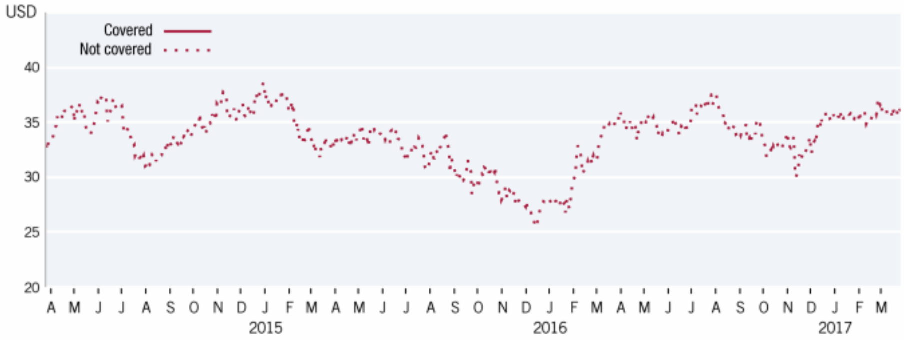
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



*Indicates Change

Rating/target price changes above reflect Eastern Time

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Data current as of 31 Dec 2016	Buy	Hold	Sell	Buy	Hold	Sell
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April 5, 2017

WELLS FARGO SECURITIES

Equity Research

Exelon Corporation

EXC: Downgrading To Market Perform

- **Summary.** We are downgrading shares of EXC to Market Perform from Outperform. We no longer believe the risk/reward proposition is compelling enough to justify a positive rating. Our Outperform rating was, in large part, predicated on our belief that states would eventually subsidize economically challenged nuclear facilities. While this has played out via the zero emissions credit (ZEC) programs in NY and IL (and potential additional states), the ZEC programs face substantial federal legal challenges under –amongst other legal arguments – the dormant Commerce Clause. Historically, courts have liberally applied the Interstate Commerce Clause (ICC). As such, we believe the potential for multi-year legal challenges could create a challenging environment for EXC to outperform peers (absent a sustained power market recovery – which we do not forecast).
- **ZEC Programs.** Under the ZEC programs, targeted EXC-owned nuclear facilities in NY & IL are eligible to receive cash subsidies ($500M+ annually in total). The programs are designed to provide the economic incentive – in the event the power markets remain depressed – for EXC to keep the nukes in service. Ostensibly, the states' rationale for the ZECs is that they support desired social/environmental policy goals related to clean energy akin to the renewable energy credits (RECs) programs under numerous state mandated renewable standards.
- **Legal Challenges.** EXC's opponents (other merchant generators) contend that the ZEC programs violate the Commerce and Supremacy clauses of the Constitution. Essentially, the complainants argue that the ZECs represent an unlawful state infringement on the federally regulated wholesale power markets to the economic detriment of other power market participants. Historically, federal courts have liberally applied the ICC but have permitted exceptions when the benefit of state action to further legitimate local goals outweighs the burden imposed on the market. The District Court for the Southern District of NY heard oral arguments on 3/29 and requested the parties submit additional briefs (the court is considering NY's Motion to Dismiss). In addition, there is a separate lawsuit in an IL District Court. While we do not profess keen insight, we think the legal challenges could be protracted and eventually end up at the Supreme Court.
- **Valuation Comments.** Our forward valuation range is $38-39/sh (down from $40-41/sh). Assumptions underlying our sum-of-the parts (SOTP) valuation include (1) $33/sh for Utility/Parent based on a P/E multiple of 19X our 18E EPS of $1.74, (2) $9/sh for ExGen under a DCF analysis (we nudged up our WACC to approximately 7.5% from 7.0% to better take into account cash flow risk related to the ZEC lawsuits) and (3) a negative $3.50/sh adjustment to reflect the projected use of ExGen '17-21 cash flows to help finance Utility's growth - addresses a potential double-counting risk under the SOTP methodology.

Valuation Range: $38.00 to $39.00 from $40.00 to $41.00

Our $38-39/sh valuation range is premised on a sum-of-the-parts analysis (1) Utility & Parent value of $33/sh (based on a P/E multiple of 19X our 2018E of $1.74), (2) $9/sh for ExGen using a DCF analysis and (3) -$3.50/sh to reflect use of ExGen cash flows at Utility. Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

Investment Thesis:

Our Market Perform rating reflects our belief that shares adequately reflect the value of the nuclear fleet given uncertainties related to legal challenges.

Please see page 4 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 04/05/17 unless otherwise stated. 04/04/17 20:41:58 ET

Market Perform

Sector: Diversified Electric Utilities
Market Weight

Rating Change

	2016A	2017E		2018E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	$0.68	$0.61	NC	NE	
Q2 (June)	0.65	0.68	NC	NE	
Q3 (Sep.)	0.91	0.95	NC	NE	
Q4 (Dec.)	0.44	0.46	NC	NE	
FY	$2.68	$2.70	NC	$2.85	NC
CY	$2.68	$2.70		$2.85	
FY P/EPS	13.5x	13.4x		12.7x	
Rev.(MM)	$31,360	$26,412		$27,064	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ⚑ = Company is on the Priority Stock List

EPS from continuing operations.

Ticker	EXC
Price (04/04/2017)	$36.14
52-Week Range:	$29-38
Shares Outstanding: (MM)	923.3
Market Cap.: (MM)	$33,368.1
S&P 500:	2,367.34
Avg. Daily Vol.:	4,538,930
Dividend/Yield:	$1.31/3.6%
LT Debt: (MM)	$32,216.0
LT Debt/Total Cap.:	49.8%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	2.0%
CY 2017 Est. P/EPS-to-Growth:	6.7x
Last Reporting Date:	02/08/2017 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Together we'll go far

Earnings Model								
(in millions except per share data)	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Revenues								
Total	$27,429	$29,447	$31,360	$26,412	$27,064	$27,143	$27,378	$27,799
Operating Expenses								
Purchased Power*	$13,003	$13,084	$12,640	$6,117	$6,109	$6,134	$6,163	$6,195
Fuel	0	0	0	1,026	1,056	1,056	1,025	1,025
Other O&M	8,568	8,322	10,049	9,185	9,095	9,131	9,243	9,356
Depreciation & Amortization	2,314	2,450	3,936	3,368	3,650	3,833	4,006	4,174
Other Taxes	428	1,182	1,624	1,613	1,636	1,660	1,683	1,707
Total	**$24,313**	**$25,038**	**$28,248**	**$21,310**	**$21,547**	**$21,813**	**$22,121**	**$22,458**
EBIT	**$3,116**	**$4,409**	**$3,112**	**$5,102**	**$5,517**	**$5,329**	**$5,257**	**$5,341**
Other Income & Interest Expense	($630)	($1,086)	($1,147)	($1,130)	($1,146)	($1,113)	($1,101)	($1,093)
Income Taxes	$666	$1,073	$761	$1,426	$1,631	$1,522	$1,502	$1,539
Earnings								
Net Income	$1,820	$2,250	$1,204	$2,546	$2,739	$2,694	$2,655	$2,709
Dicontinued Operations	0	0	0	0	0	0	0	0
Prefered Stock Dividends	(197)	19	(70)	0	0	0	0	0
Earnings available for common	**$1,623**	**$2,269**	**$1,134**	**$2,546**	**$2,739**	**$2,694**	**$2,655**	**$2,709**
Avg Common Shrs Outstanding - Diluted	864	893	927	944	962	964	965	966
EPS	$1.88	$2.54	$1.22	$2.70	$2.85	$2.80	$2.75	$2.80
Extraordinary Item	(0.51)	0.05	(1.46)	0.00	0.00	0.00	0.00	0.00
Reconciling Adjustment			0.00					
Operating EPS*	**$2.39**	**$2.49**	**$2.68**	**$2.70**	**$2.85**	**$2.80**	**$2.75**	**$2.80**
EPS By Segment								
Utilities								
ComEd				0.66	0.71	0.76	0.80	0.85
PECO				0.45	0.46	0.48	0.50	0.51
BGE				0.32	0.34	0.34	0.37	0.39
Potomac				0.20	0.22	0.23	0.25	0.26
DPL				0.11	0.12	0.13	0.14	0.14
ACE				0.08	0.11	0.11	0.13	0.13
Total Utilities				**1.82**	**1.96**	**2.05**	**2.18**	**2.28**
Generation				1.10	1.11	0.96	0.80	0.76
Other				(0.22)	(0.22)	(0.22)	(0.22)	(0.23)
Reconciling Adjustment								
Total EXC				**$2.70**	**$2.85**	**$2.80**	**$2.75**	**$2.80**
Dividends								
Dividends Per Share - YE Rate	$1.24	$1.24	$1.27	$1.30	$1.34	$1.37	$1.40	$1.44
Dividends Paid Per Share	$1.24	$1.24	$1.26	$1.29	$1.33	$1.36	$1.39	$1.43
Payout Ratio	52%	50%	47%	48%	47%	49%	51%	51%
Statisitics								
Book Value / Share (year end)	$26.29	$28.04	$27.96	$29.60	$31.14	$32.59	$33.97	$35.36
Average Book Value / Share	$26.41	$27.16	$28.00	$28.78	$30.37	$31.87	$33.28	$34.66
ROE (%)	9.0	9.2	9.6	9.4	9.4	8.8	8.3	8.1
Cash Flow / Share	$5.16	$8.53	$9.11	$7.13	$8.55	$8.58	$8.41	$7.72

Source: Wells Fargo Securities, LLC estimates and company filings

Cash Flow Model (in millions)	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Operating Cash Flow								
Net Income	$1,820	$2,250	$1,204	$2,546	$2,739	$2,694	$2,655	$2,709
Depreciation & Amortization (incl. nuclear fuel)	3,868	3,987	5,576	4,318	4,550	4,758	4,856	5,024
Other	2,016	1,643	2,146	867	1,017	939	778	0
Working Capital	(3,247)	(264)	(481)	(1,000)	(75)	(125)	(175)	(275)
Net Operating Cash flow	**$4,457**	**$7,616**	**$8,445**	**$6,731**	**$8,231**	**$8,265**	**$8,113**	**$7,458**
Investing Cash Flow								
Capital Expenditures	($6,077)	($7,624)	($8,553)	($8,200)	($7,325)	($6,825)	($6,750)	($6,525)
Other	1,478	(198)	(6,950)	600	(125)	(125)	(125)	(125)
Net Investing Cash Flow	**($4,599)**	**($7,822)**	**($15,503)**	**($7,600)**	**($7,450)**	**($6,950)**	**($6,875)**	**($6,650)**
Financing Cash Flow								
Issuance of LT Debt - Utilities	3,463	6,709	4,716	2,725	2,450	1,000	2,225	2,625
Issuance of Projected Debt	0	0	0	0	0	0	0	0
Retirement of LT Debt - Parent	(1,545)	(2,687)	(1,936)	(2,430)	(1,742)	(1,060)	(3,331)	(2,400)
ST Debt (net)	122	80	(575)	(500)	0	0	150	150
Dividends on Common Stock	(1,065)	(1,105)	(1,166)	(1,219)	(1,273)	(1,307)	(1,341)	(1,377)
Proceeds from Employee Stock Plans	35	32	55	55	55	55	55	55
Other	(599)	(67)	97	0	0	0	0	0
Net Financing Cash Flow	**$411**	**$4,830**	**$1,191**	**$806**	**($510)**	**($1,312)**	**($1,742)**	**($947)**
Net Change in Cash	$269	$4,624	($5,867)	($62)	$271	$4	($504)	($139)
Cash at beginning of period	1,609	1,878	6,502	635	573	843	847	343
Cash at end of period	**$1,878**	**$6,502**	**$635**	**$573**	**$843**	**$847**	**$343**	**$204**
Capital Structure								
Common Equity	$22,608	$25,793	$25,837	$28,369	$29,890	$31,332	$32,700	$34,088
LT Debt	19,362	23,645	31,575	35,325	36,033	35,973	35,367	35,592
ST Debt	2,262	2,033	3,697	767	767	767	917	1,067
Preferred Equity	193	193	0	0	0	0	0	0
Total Capitalization	**$44,425**	**$51,664**	**$61,109**	**$64,461**	**$66,690**	**$68,072**	**$68,984**	**$70,747**
% Equity	51	50	42	44	45	46	47	48
% Long-Term Debt	44	46	52	55	54	53	51	50
% Short-Term Debt	5	4	6	1	1	1	1	2
% Preferred Equity	0	0	0	0	0	0	0	0

Source: Wells Fargo Securities, LLC estimates and company filings

Company Description:

Exelon Corporation was formed in October 2000 through the merger of Unicom, which was the parent company of Commonwealth Edison (ComEd) and PECO Energy (PECO). The company's business segments include independent power production (Exelon Generation) and Energy Delivery (ComEd and PECO). Exelon Generation owns approximately 25,000 MW of unregulated electric generating capacity, primarily located in Illinois and Pennsylvania. The company's 17,000 MW nuclear fleet is the largest in the nation. Generation currently accounts for approximately 70% of EXC's overall earnings. The Energy Delivery businesses serve roughly 3.8 million electric distribution customers in Northern Illinois (ComEd) and approximately 1.6 million electric and 0.5 million natural gas distribution customers in Southeastern Pennsylvania (PECO).

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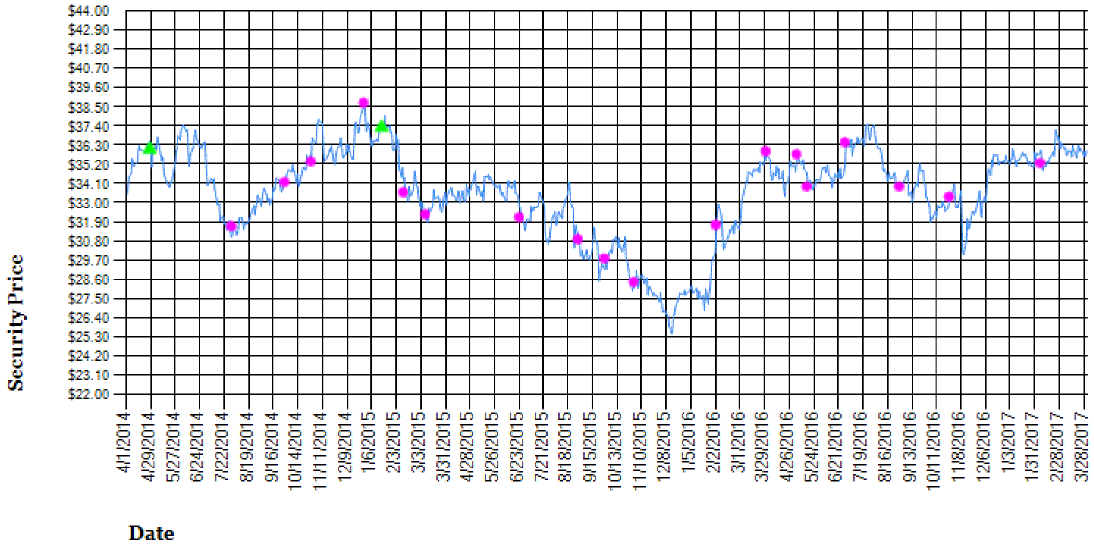
Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	4/1/2014		Kalton			
	4/1/2014	NA	3	26.00	27.00	33.49
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61
●	3/31/2016	35.86	1	39.00	41.00	35.86
●	5/6/2016	35.68	1	39.00	40.00	35.68
●	5/18/2016	33.85	1	42.00	43.00	33.85
●	6/30/2016	36.02	1	43.00	44.00	36.36
●	8/30/2016	33.69	1	42.00	43.00	33.81
●	10/26/2016	33.26	1	39.00	40.00	33.26
●	2/8/2017	35.20	1	40.00	41.00	35.23

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
☐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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As of: April 4, 2017

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4 April 2017

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TOP PICK Exelon Corp.

UPDATE: JV Asset Sale for ExGen Renewables

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 40.00
Price (03-Apr-2017): USD 35.82
Potential Upside/Downside: 12%
Tickers: EXC

This Update is replacing the "JV Asset Sale for ExGen Renewables" which was published on April 4 2017 at 15:52 GMT. In this note we correct the transaction value for the inclusion of the assumption of a 49% interest in the project debt of $924 million which updates the transaction value to $1,340/kW.

John Hancock Purchases 49% JV Stake in ExGen Renewable Holdings, LLC

Purchase Price of $400 Million. On March 31, Exelon entered into a purchase agreement with John Hancock Life Insurance Company, under which John Hancock agreed to purchase a 49% stake in membership interests of ExGen Renewable Partners LLC. ExGen Renewable Partners LLC is an owner and operator of approximately 1,296MWs of wind and solar electric generating facilities. The portfolio consists of 30 different plants located in 13 states and is representative of 34.9% of Exelon Generation's renewable generation assets and 4.0% of Exelon generation total generation assets. The purchase price agreed to was $400 million subject to certain working capital and post-closing adjustments. This was also inclusive of $924 million in outstanding non-recourse project debt or $452 million in debt assumption by John Hancock at the 49% JV stake. Exelon indicated in their 8-K filing that they expect the transaction to close in the late second or early third quarter of 2017 and that the deal is subject to regulatory approvals from the Public Utility Commission of Texas and the Federal Energy Regulatory Commission (FERC). As a reminder the FERC remains with only two current members and therefore until at least one further member is appointed, confirmed, and seated the FERC does not have a voting quorum with which to approve the transaction.

Valuation Inclusive of Project Debt Above Our Long Term Asset View. Premised upon our long term asset valuation and the terms of the transaction disclosed in the 8-K, John Hancock purchased the joint venture interest in the assets for $1,340/kW for the 49% stake ($400 million + $452 million in debt assumption / 635 MWs). This is 20% above our embedded $1,100/kW at which we value the assets in our long term asset valuation work. We do see the joint-venture structure as slightly disappointing versus expectations of a sale of the whole renewable portfolio as it would have led to incrementally more proceeds with which to deleverage the balance sheet. Exelon has targeted a net debt/EBITDA for the ExGen business of 3.0x versus the 3.3x currently projected for 2017, which contemplates $2.9 - $3.4 billion of ExGen and HoldCo debt reduction through 2020, against which the proceeds from this transaction will be applied. In the 8-K Exelon indicated that the proceeds would be used to pay down debt and for general corporate purposes.

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Mentioned Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 03-Apr-2017, USD 35.82), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Valuation Methodology: Our $40 price target is premised upon a 2019 group average multiple of 15.1x applied to the utility net parent earnings of $1.81 resulting in $28 of utility value. Exgen is valued at 6.5x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, The combined value is $40.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

Ratings and Price Target History:
Exelon Corp.
Currency=USD

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00
30-Apr-2014	35.03	Rating Suspended	

On 04-Apr-2014, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 30.00.

Source: Thomson Reuters, Barclays Research

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COMPANY UPDATE
April 4, 2017

Exelon Corporation (EXC)

SUNTRUST ROBINSON HUMPHREY

Monetization Of Renewables Portfolio Appears Attractive

Buy

Price Target: $40.00
Prior: $40.00

Price (Apr. 3, 2017)	$35.82
52-Wk Range	$37.50-$30.00
Market Cap ($M)	$33,015
ADTV	4,979,180
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	2.0%
Dividend/Yield	$1.31/3.7%
TR to Target	15.3%

Enterprise Value ($M)	$68,963.8
Debt/Cap	55%
5 Year EPS Growth	5.0%
ROE	9.0%
P/B	1.20x

	2016A	2017E		2018E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.68	$0.60	$0.60	$0.64	$0.64
2Q	$0.65	$0.67	$0.67	$0.71	$0.71
3Q	$0.91	$0.93	$0.93	$0.99	$0.99
4Q	$0.44	$0.45	$0.45	$0.48	$0.48
CY	$2.68	$2.65	$2.65	$2.82	$2.82
P/E	13.4x	13.5x		12.7x	
Consensus					
CY	$2.68	$2.66		$2.88	
Revenue ($M)					
CY	$31,905	$33,975	$33,975	$34,545	$34,545
Operating Margin (%)					
CY	15.30%	14.60%	14.60%	15.30%	15.30%
EBITDA ($M)					
CY	$8,105	$8,276	$8,276	$8,684	$8,684
EV/ EBITDA	8.5x	8.3x		7.9x	
FYE Dec					

What's Incremental To Our View

We calculate an implied EV/EBITDA multiple of 15.3x for the sale of a minority stake in one of EXC's renewable portfolios, which compares favorably with the implied public market valuation of 5.8x for EXC's total generation portfolio.

IMPORTANT POINTS

- Yesterday, after the close, EXC announced an agreement to sell a 49% stake in a portfolio of 1296mw of wind and solar projects for $400 million. The primary use of proceeds will be debt paydown. The transaction is expected to close in late 2Q / early 3Q 2017.

- We calculate that the transaction will be neutral to earnings, and highlight the following positive attributes of this announcement: (1) **Attractive Valuation** – our calculations suggest an implied EV/EBITDA multiple of 15.3x for this transaction, which compares very favorably with the 5.8x EV/EBITDA multiple at which the public market is currently valuing EXC's total generation portfolio; (2) **Additional Deleveraging** – proceeds from this monetization would be additional to the $2.9 - $3.4 billion debt reduction targets for the company over the 2016-2020 period; and (3) **Potential For Additional Transactions** – the renewables assets included in this transaction represent only 35% of EXC's total renewables portfolio.

- Our financial analysis of this transaction is based on the following key assumptions: (1) annual EBITDA estimate of $150 million for the 1296mw of capacity; (2) annual net income of $30 million (implying $15 million for the 49% stake); (3) total debt of $1.5 billion on the projects (implying a total Enterprise Value of $2.3 billion); (4) proceeds used to pay down debt with an average interest rate of 5%; and (5) a 34% tax rate.

- Assuming a 14.1x P/E multiple (in line with the peer group) on our 2018 estimate of $2.82, we derive our price target of $40. We reiterate our **Buy** recommendation.

- We have included our latest 2017-18 earnings and cash flow models in this report.

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Exelon Corporation (EXC)

Earnings Model, 2011A-2018E

(dollars in millions, except per share)

	2018E		2017E		2016A		2015A		2014A		2013A		2012A		2011A	
Revenues (% change)																
Com Ed	5,485		5,380		5,246		4,905		4,564		4,464		5,443		6,056	
PECO	3,500		3,430		2,994		3,032		3,094		3,100		3,186		3,720	
BGE	3,370		3,300		3,233		3,135		3,165		3,065		2,204			
PEPCO	5,370		5,265		3,643											
Generation	18,070		18,000		18,304		18,925		17,853		16,190		15,502		10,502	
Other	(1,250)		(1,400)		(1,515)		(760)		(787)		(1,377)		(1,661)		(1,160)	
Total Revenues	34,545	1.7%	33,975	6.5%	31,905	9.1%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF	19,118	2.4%
Operating Income (% sales)																
Com Ed	1,345	24.5%	1,285	23.9%	1,200	22.9%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%	969	16.0%
PECO	765	21.9%	710	20.7%	712	23.8%	634	20.9%	574	18.6%	675	21.8%	640	20.1%	654	17.6%
BGE	615	18.2%	555	16.8%	555	17.2%	563	18.0%	441	13.9%	446	14.6%	186	8.4%		
PEPCO	745	13.9%	700	13.3%	485	13.3%										
Generation	1,835	10.2%	1,751	9.7%	1,969	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%	3,267	31.1%
Other	(21)		(25)		(48)		(22)		(19)		(64)		(46)		28	
Equity Income (Loss)									(8)		102		59		(1)	
Total Operating Income	5,284	15.3%	4,976	14.6%	4,873	15.3%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%	4,917	25.7%
Interest Expense, net	(1,435)		(1,430)		(1,383)		(1,098)		(931)		(986)		(941)		(726)	
Other Income (Expense)	295		290		289		276		262		238		252		178	
Pretax income	4,144		3,836		3,779		3,412		3,259		3,295		3,657		4,369	
Taxes (rate)	1,409	34.0%	1,304	34.0%	1,299	34.4%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%	1,606	36.8%
Preferred / Non Controlling Interest	5		5		(32)		13		134		14		11			
Equity Income (Loss)	(5)		(10)		(24)		(7)									
Net Income (% change)	2,725	8.3%	2,517	1.2%	2,488	11.7%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%	2,763	2.8%
Shares Outstanding (ful. dil.)	968.0		949.0		927.0		893.0		864.0		860.0		819.0		665.0	
Operating EPS -- ful. dil. (% change)	$2.82	6.4%	$2.65	-1.3%	$2.68	7.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%	$4.16	2.6%
Extraordinary Items																
Reported GAAP EPS																
Regulated Utility (net Parent) EPS	$1.67		$1.55		$1.41		$1.09		$1.06		$1.10		$0.95		$1.14	
Generation EPS	$1.15		$1.10		$1.27		$1.40		$1.33		$1.40		$1.90		$3.02	
EBITDA	8,684		8,276		8,105		6,684		6,242		6,191		6,180		6,177	
ComEd																
Total Retail Sales (millions mw hs)	91.0		90.0		88.9		86.7		88.6		89.1		90.0		89.5	
Implied Operating Margin ($/MWh)	$14.8		$14.3		$13.5		$11.8		$11.1		$10.7		$9.9		$10.8	
PECO																
Total Electric Retail Sales (millions mw hs)	39.5		39.0		37.9		38.0		37.5		37.8		37.5		38.6	
Implied Operating Margin ($/MWh)	$19.4		$18.2		$18.8		$16.7		$15.3		$17.9		$17.1		$16.9	
PEPCO																
Total Electric Retail Sales (millions mw hs)	46.0		45.0		26.1											
Implied Operating Margin ($/MWh)	$16.2		$15.6		$18.6											
Generation																
Total Pow er Sales (millions mw hs)	208.0		205.0		203.0		196.4		199.2		214.7		219.5		169.8	
Implied Operating Margin ($/mw h)	$8.8		$8.5		$9.7		$10.4		$9.8		$9.0		$12.2		$19.2	
Net Income By Segment																
Com Ed	660		615		524		432		410		421		381		403	
PECO	460		430		444		380		353		393		387		388	
BGE	325		285		289		277		199		195		46			
Generation	1,105		1,050		1,181		1,253		1,155		1,202		1,548		2,002	
PEPCO	360		330		228											
Other	(185)		(193)		(178)		(115)		(49)		(62)		(32)		(30)	
Total	2,725		2,517		2,488		2,227		2,068		2,149		2,330		2,763	

Note

1) Rate Base - Com Ed: $10.6bn in 2015, $11.9bn in 2016, $13.2bn in 2017E, $14.0bn in 2018E; PECO: $6.0bn in 2015, $6.2bn in 2016, $6.6bn in 2017E, $7.0bn in 2018E;
BGE: $5.0bn in 2015, $5.3bn in 2016, $5.7bn in 2017E, $6.1bn in 2018E; PEPCO: $8.3bn in 2016, $8.9bn in 2017E, $9.4bn in 2018E.

2) Earned ROE - Com Ed: 8.0% in 2015, 8.8% in 2016, 9.3% in 2017, 9.4% in 2018; PECO: 11.7% in 2015, 13.3% in 2016, 12.1% in 2017, 12.2% in 2018;
BGE: 10.7% in 2015, 10.5% in 2016, 9.7% in 2017, 10.3% in 2018; PEPCO: 5.5% in 2016, 7.4% in 2017, 7.7% in 2018.

3) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onw ards.

4) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

5) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

6) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forw ard equity sale on 7/14/15).

7) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw , nuclear $110m price) from Q2 2017.

8) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

9) Forw ard curves as of 3/31/17.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2011A-2018E

($ in millions except per share)

	2018E	2017E	2016A	2015A	2014A	2013A	2012A	2011A
Net income	2,725	2,517	2,488	2,227	2,068	2,149	2,330	2,763
Depreciation, depletion, amortization	5,000	4,925	5,576	3,987	3,868	3,779	4,079	2,304
Working Capital Change / Other	(125)	(125)	381	1,420	(1,479)	415	(278)	(214)
Cash Flow From Operations	7,600	7,317	8,445	7,634	4,457	6,343	6,131	4,853
Dividends	(1,196)	(1,174)	(1,166)	(1,105)	(1,065)	(1,249)	(1,716)	(1,393)
Capital expenditures	(7,250)	(8,125)	(8,553)	(7,624)	(6,077)	(5,395)	(5,789)	(4,042)
Free Cash Flow	(846)	(1,982)	(1,274)	(1,095)	(2,685)	(301)	(1,374)	(582)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a 14.1x P/E multiple (in line with the peer group) on our 2018 estimate of $2.82, we derive our price target of $40.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

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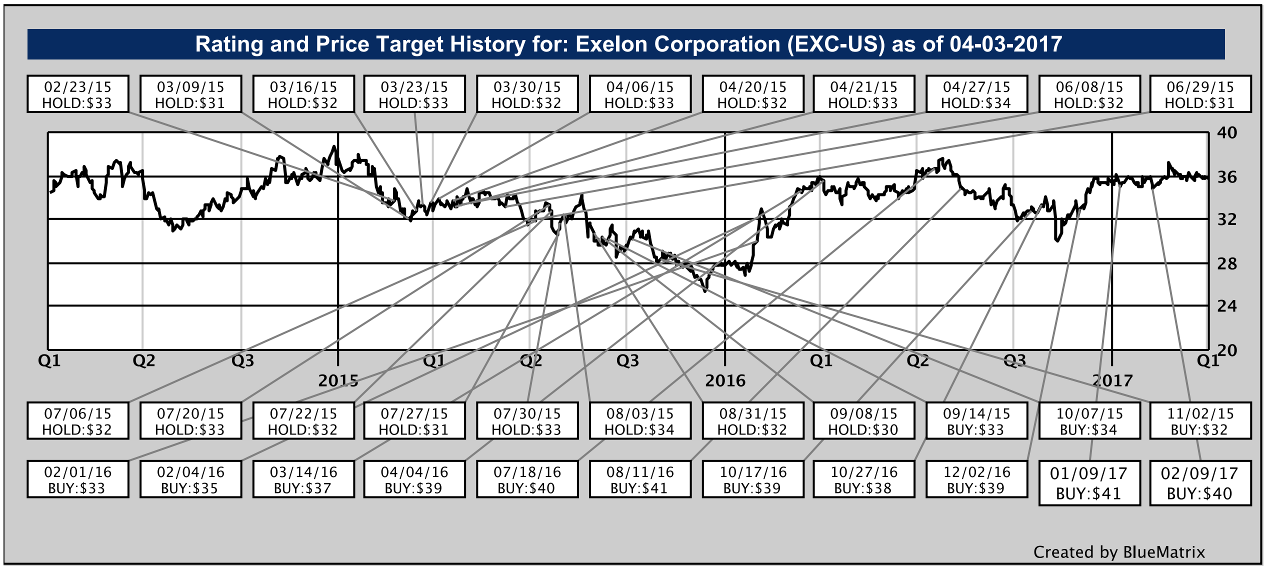

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16 April 2017

Daniel Ford, CFA +1 212 526 0836 daniel.x.ford@barclays.com BCI, US Completed: 16-Apr-17, 23:18 GMT

Ross A. Fowler, CFA +1 212 526 3432 ross.a.fowler@barclays.com BCI, US Released: 16-Apr-17, 23:18 GMT

TOP PICK

Exelon Corp. / Calpine Corp.

PJM Revised Planning Parameters

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 40.00
Price (13-Apr-2017): USD 35.97
Potential Upside/Downside: 11%
Tickers: EXC

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 18.00
Price (13-Apr-2017): USD 10.69
Potential Upside/Downside: 68%
Tickers: CPN

PJM Publishes Revised Planning Parameters April 13

EMAAC Now More Likely to Not Break Out. PJM released revised planning parameters on Thursday April 13. The revised planning parameters show that the regions most likely to break out are PS North and COMED versus our earlier prediction where we saw EMAAC and COMED breaking out. We are also lowering the likely sensitivity to 100% capacity performance which slightly lowers our auction price projections. EMAAC still has a chance to break out with PS North, but we see a greater likelihood of it clearing with RTO. COMED continuing to break out reads positively for Overweight-rated Exelon Corp, while EMAAC now likely clearing with RTO reads negatively for Overweight rated Calpine Corp. versus our earlier projections.

Our current capacity clearing predictions are shown in the table below, with Figure 2 showing our prior capacity clearing price predictions, which we published on February 2.

The PJM planning parameters can be found on PJM's website at http://www.pjm.com/markets-and-operations.aspx.

Figure 1

Revised RPM Capacity Auction Prediction April 17

$/MW-day	RTO		PS NORTH		COMED	
	Low	High	Low	High	Low	High
2019/20 Price	**100**	**100**	**100**	**100**	**203**	**203**
100% CP	25	50	25	50	0	10
Net CONE Chgs	-5	0	-1	-1	1	1
Lower demand	-15	-15	-15	-15	-15	-15
CETO/CETL Chg	0	0	0	20	0	20
Net MWs	-12	0	0	10	-20	-10
DR Shift	-10	0	10	0	0	0
2020/21 Price	83	135	119	164	169	209

2020/21 Prediction	**85**	**135**	**120**	**160**	**170**	**210**
Midpt Rounded	**110**		**140**		**190**	

Source: PJM Planning Prameters, Barclays Research Estimates

Figure 2

Original RPM Capacity Auction Predictions February 2

$/MW-day	RTO		EMAAC		COMED	
	Low	High	Low	High	Low	High
2019/20 Price	**$100**	**$100**	**$120**	**$120**	**$203**	**$203**
100% CP	30	60	35	70	0	10
Net CONE Chgs	-5	0	-1	-1	1	1
Lower demand	-15	-15	-15	-15	-15	-15
CETO/CETL Chg	0	0	0	20	0	20
Net MWs	-12	0	0	10	-20	-10
DR Shift	-10	0	10	10	0	0
2020/21 Price	88	145	149	214	169	209
2020/21 Prediction (Rounded)	**$90**	**$150**	**$150**	**$210**	**$150**	**$210**
Midpoint	**$120**		**$180**		**$180**	

Source: PJM Planning Parameters, Barclays Research Estimates

Analyst(s) Certification(s):

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Mentioned Stocks (Ticker, Date, Price)

Calpine Corp. (CPN, 13-Apr-2017, USD 10.69), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Valuation Methodology: Our $18 price target is premised upon the mid-cycle multiple of 7.6x our 2018E Open EBITDA of $1.901 billion, net debt of $10.7 billion and an NPV of NOLs of $2.6 billion on 359 million shares outstanding.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks for Calpine are the higher reserve margins, recession, wholesale market regulatory risk; risk of environmental mandates, and the gas price.

Ratings and Price Target History:
Calpine Corp.
Currency=USD

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target

20-Jan-2017	12.07	18.00
25-Oct-2016	12.16	17.00
04-Jan-2016	14.45	18.00
30-Oct-2015	15.51	19.00
30-Jul-2015	17.50	22.00
13-Feb-2015	21.48	25.00
06-Nov-2014	24.05	26.00
02-May-2014	22.71	25.00
21-Apr-2014	22.36	23.00

On 16-Apr-2014, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 22.00.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Dynegy Inc. (DYN, 13-Apr-2017, USD 7.19), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M/N

Exelon Corp. (EXC, 13-Apr-2017, USD 35.97), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Valuation Methodology: Our $40 price target is premised upon a 2019 group average multiple of 15.1x applied to the utility net parent earnings of $1.81 resulting in $28 of utility value. Exgen is valued at 6.5x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, The combined value is $40.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

Ratings and Price Target History:
Exelon Corp.
Currency=USD

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00
30-Apr-2014	35.03	Rating Suspended	

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Source: Thomson Reuters, Barclays Research
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FirstEnergy Corp. (FE, 13-Apr-2017, USD 31.27), Equal Weight/Neutral, CD/CE/D/E/J/K/L/M

NRG Energy (NRG, 13-Apr-2017, USD 18.39), Overweight/Neutral, A/CD/CE/D/FA/J/K/L/M

Public Service Enterprise Gp (PEG, 13-Apr-2017, USD 45.65), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

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The primary analyst covering this company does not own its stock.

Research as of 19 Apr 2017
Estimates as of 20 Jan 2017
Pricing data through 19 Apr 2017
Rating updated as of 19 Apr 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 19 Apr 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump

Vital Statistics

Market Cap (USD Mil)	32,828
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	5.6
YTD Total Return %	0.8
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.11

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	—	*13.5*
EV/EBITDA	8.3	9.8	—	*8.3*
EV/EBIT	14.5	15.2	—	*13.6*
Free Cash Flow Yield %	-6.3	0.0	—	*-3.8*
Dividend Yield %	4.2	3.4	—	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,775*	*32,405*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*4,998*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,486*
Net Income YoY %	-4.0	7.7	*8.2*	*3.3*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*0.9*
Free Cash Flow	121	561	*-12,392*	*-391*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Our full report, "Trump Can't Thwart Green Progress," is available on Morningstar Select Investment Research.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. CAGR
Revenue	7.8	6.0	10.2	7.4	-5.7	16.7	4.4
EBIT	22.8	53.6	-15.3	42.4	7.5	5.5	6.6
EBITDA	17.2	36.3	-6.9	26.8	11.4	7.3	7.3
Net Income	-1.6	-7.9	-4.0	7.7	8.2	3.3	6.6
Diluted EPS	-4.4	-12.3	-4.4	4.2	4.4	0.9	4.9
Earnings Before Interest, after Tax	15.0	-13.0	53.5	13.7	63.1	-45.4	0.0
Free Cash Flow	-33.9	-22.3	-92.0	365.5	-2,307.6	-96.9	44.3

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	13.7	14.7	11.3	15.0	17.1	15.4	16.4
EBITDA Margin %	22.1	23.3	19.7	23.3	27.5	25.3	26.4
Net Margin %	7.9	8.6	7.5	7.6	8.7	7.7	8.3
Free Cash Flow Margin %	2.8	6.1	0.4	1.9	-44.6	-1.2	-5.1
ROIC %	3.1	2.5	2.5	4.1	11.1	5.6	6.8
Adjusted ROIC %	3.2	2.7	2.7	4.3	12.0	6.1	7.4
Return on Assets %	2.2	2.2	2.0	2.5	2.3	2.2	2.4
Return on Equity %	8.0	7.7	7.1	9.3	9.0	8.8	9.3

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.49	0.47	0.49	0.50	0.56	0.56	0.55
Total Debt/EBITDA	3.81	3.46	4.12	3.84	4.56	4.55	4.30
EBITDA/Interest Expense	5.33	4.28	5.08	6.64	5.55	5.40	5.57

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	—	13.5
EV/EBITDA	8.3	9.8	—	8.3
EV/EBIT	14.5	15.2	—	13.6
Free Cash Flow Yield %	-6.3	0.0	—	-3.8
Dividend Yield %	4.2	3.4	—	3.7

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,312	-13.2	-6.83
Present Value Stage II	17,500	36.6	18.92
Present Value Stage III	36,662	76.6	39.65
Total Firm Value	**47,850**	**100.0**	**51.75**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,065**	**—**	**30.35**
Projected Diluted Shares	925		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil) Fiscal Year Ends in December				*Forecast*	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,775***	***32,405***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,731*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,674***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,730***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,231*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,486***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,486*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,198***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,198***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,883*
Inventory	1,105	1,603	1,566	*1,079*	*1,505*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,521***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,081***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,821*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,054***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,821***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,590*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,859***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,259***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,420*	*2,499*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-698*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-426*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*260*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***95***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

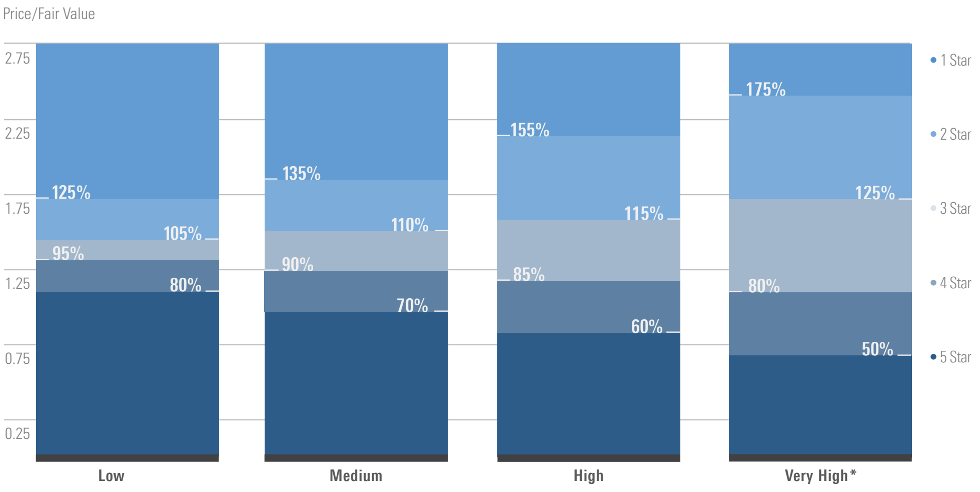
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 27 Apr 2017 22:05, UTC	34.84 USD 27 Apr 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.09	3.67 27 Apr 2017	3.76 27 Apr 2017	32.25 27 Apr 2017	Utilities - Diversified	Standard

Morningstar Pillars	**Analyst**	**Quantitative**
Economic Moat	Narrow	Narrow
Valuation	★★★	Fairly Valued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.03	0.90	1.03	0.86
Price/Earnings	28.6	17.0	16.7	22.7
Forward P/E	13.2	—	16.5	17.7
Price/Cash Flow	3.8	4.5	6.5	12.9
Price/Free Cash Flow	—	57.1	13.7	19.1
Trailing Dividend Yield%	3.67	4.40	3.34	1.89

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Investment Thesis

Travis Miller, Strategist, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more

Exelon Corp EXC (XNYS)

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,481	9,061	17.39	25.38
Entergy Corp ETR	USD	13,814	10,846	-8.17	0.00
FirstEnergy Corp FE	USD	13,542	14,562	-56.74	0.00

gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Economic Moat

Travis Miller, Strategist, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle

Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move

so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Travis Miller, Strategist, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities

Travis Miller, Strategist, 09 November 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

Travis Miller, Strategist, 14 November 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Travis Miller, Strategist, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Strategist, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon Corp EXC ★★★Q 27 Apr 2017 02:00 UTC

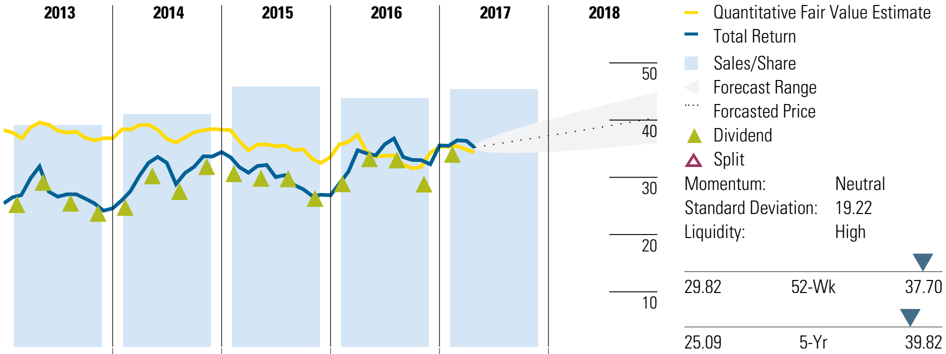
Last Close	Fair ValueQ	Market Cap	Sector	Industry	Country of Domicile
27 Apr 2017 34.84	27 Apr 2017 02:00 UTC 33.98	27 Apr 2017 32,309.1 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Price vs. Quantitative Fair Value



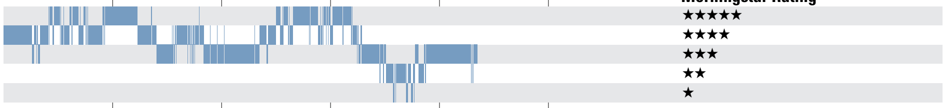
Momentum:	Neutral
Standard Deviation:	19.22
Liquidity:	High

29.82 52-Wk 37.70

25.09 5-Yr 39.82

2013	2014	2015	2016	2017	
-3.0	39.9	-21.8	32.4	-0.9	Total Return %
-36.1	27.1	-22.5	19.9	-8.3	+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—	Trailing Dividend Yield %
—	—	—	—	3.67	Forward Dividend Yield %
14.6	15.2	12.4	26.9	28.6	Price/Earnings
0.9	1.2	0.8	1.1	1.0	Price/Revenue

Morningstar RatingQ



Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	84	82	78
Valuation	Fairly Valued	41	53	33
Quantitative Uncertainty	Low	99	98	98
Financial Health	Moderate	57	51	57

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.03	0.90	1.03	0.86
Price/Earnings	28.6	17.0	16.7	22.7
Forward P/E	13.2	—	16.5	17.7
Price/Cash Flow	3.8	4.5	6.5	12.9
Price/Free Cash Flow	—	57.1	13.7	19.1
Trailing Dividend Yield %	3.67	4.40	3.34	1.89
Price/Book	1.3	1.3	1.4	2.6
Price/Sales	1.0	1.1	1.5	2.2

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.4	7.0	9.6	11.9
Return on Assets %	1.1	1.9	3.0	4.6
Revenue/Employee (K)	911.7	942.4	1,218.5	300.6

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	594.6	—	606.3	583.1
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

Financials (Fiscal Year in Mil)

2012	2013	2014	2015	2016	TTM	
23,489	24,888	27,429	29,447	31,360	31,360	Revenue
24.1	6.0	10.2	7.4	6.5	0.0	% Change
2,380	3,656	3,096	4,409	3,112	3,112	Operating Income
-46.9	53.6	-15.3	42.4	-29.4	0.0	% Change
1,160	1,719	1,623	2,269	1,134	1,134	Net Income
6,131	6,343	4,457	7,616	8,445	8,445	Operating Cash Flow
-5,810	-5,395	-6,077	-7,624	-8,553	-8,553	Capital Spending
321	948	-1,620	-8	-108	-108	Free Cash Flow
1.4	3.8	-5.9	0.0	-0.3	-0.3	% Sales
1.42	2.00	1.88	2.54	1.22	1.22	EPS
-62.1	40.8	-6.0	35.1	-52.0	0.0	% Change
0.39	0.48	-0.03	-1.04	0.82	-0.12	Free Cash Flow/Share
2.10	1.46	1.24	1.24	1.26	1.26	Dividends/Share
25.07	25.51	27.44	28.01	28.17	27.91	Book Value/Share
857,000	860,000	920,000	924,000	925,763	925,763	Shares Outstanding (K)

Profitability

2012	2013	2014	2015	2016	TTM	
6.5	7.8	7.2	9.4	4.4	4.4	Return on Equity %
1.7	2.2	2.0	2.5	1.1	1.1	Return on Assets %
4.9	6.9	5.9	7.7	3.6	3.6	Net Margin %
0.35	0.31	0.33	0.32	0.30	0.30	Asset Turnover
3.7	3.5	3.8	3.7	4.4	4.4	Financial Leverage
56.8	56.9	52.6	55.6	59.7	59.7	Gross Margin %
10.1	14.7	11.3	15.0	9.9	9.9	Operating Margin %
18,346	18,271	20,010	24,286	32,216	32,216	Long-Term Debt
21,624	22,925	22,801	25,793	25,837	25,837	Total Equity
0.6	0.5	0.6	0.5	0.5	0.5	Fixed Asset Turns

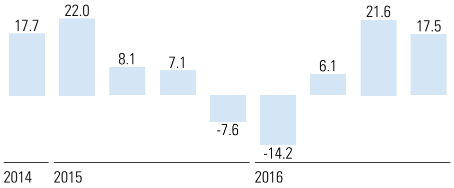
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	2.2	2.1	1.4	-3.7

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

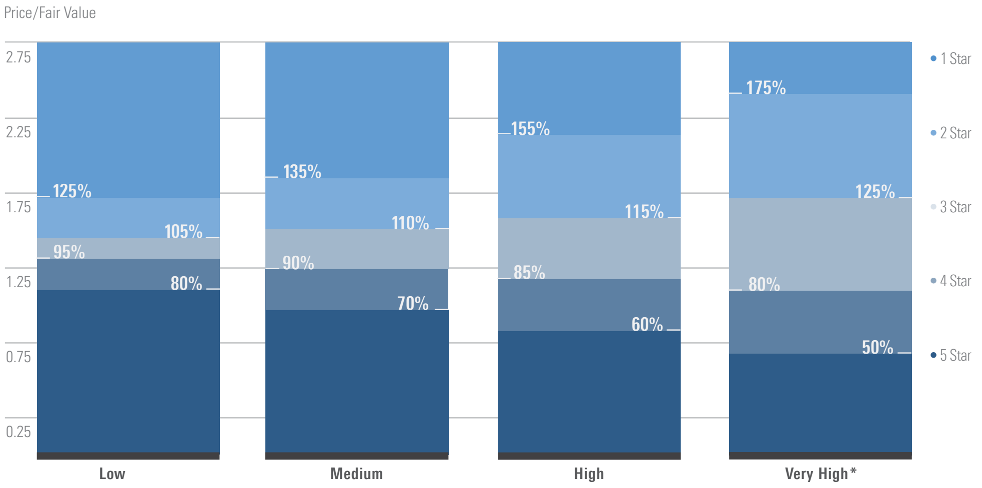
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ►**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ►**Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ►**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ►**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ►**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ►**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ►**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ►**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

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- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
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- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
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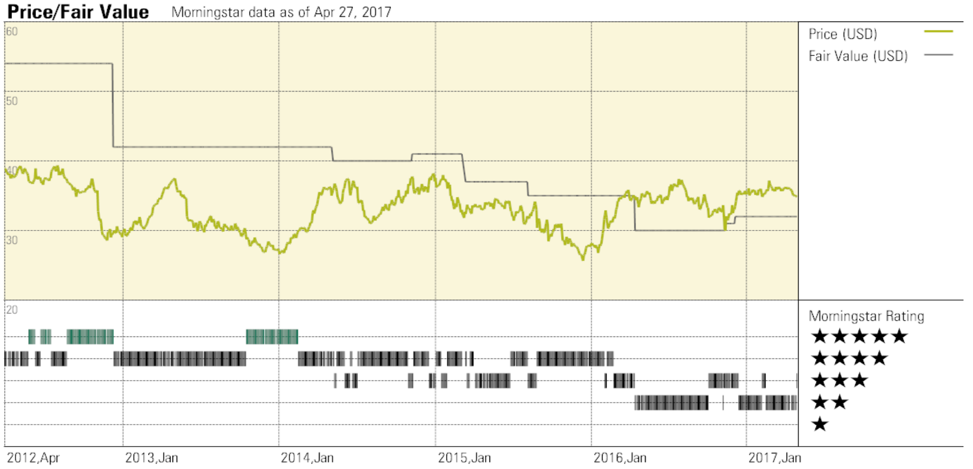
Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 27 Apr 2017 22:05, UTC	34.84 USD 27 Apr 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.09	3.67 27 Apr 2017	3.76 27 Apr 2017	32.25 27 Apr 2017	Utilities - Diversified	Standard



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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 27 Apr 2017 22:05, UTC	34.84 USD 27 Apr 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.09	3.67 27 Apr 2017	3.76 27 Apr 2017	32.25 27 Apr 2017	Utilities - Diversified	Standard

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UPDATE

April 27, 2017 04:02 AM GMT

Exelon Corp

Update on Illinois ZEC Litigation: We Continue to Believe EXC Will Prevail

Stock Rating	Industry View	Price Target
Equal-weight	Attractive	$39.00

This week, we saw numerous amicus briefs in the Illinois Zero Emissions Credit (ZEC) litigation. After reviewing these briefs, we continue to believe EXC will prevail in court.

Over the past week, we have seen numerous amicus ("friend of the court") briefs in the Illinois Zero Emissions Credit (ZEC) litigation taking place in federal district court in Chicago. Among the parties who filed briefs: PJM, the PJM Independent Market Monitor (IMM), and MISO. In addition, the judge invited FERC to submit a brief, an invitation that FERC declined today. A few key takeaways:

1. PJM's brief was supportive of plaintiffs opposing the Illinois ZECs, A few key statements in PJM's brief:

"PJM submits this brief because the Zero Emission Credit ("ZEC") program established pursuant to the Illinois Future Energy Jobs Act, SB 2814, Public Act 099-0906, 99th Gen. Assemb. (Ill. 2016) ('FEJA') will substantially harm the wholesale electricity markets that PJM operates, as well as the investors, competitive energy providers, and (ultimately) consumers that rely on PJM's markets to provide adequate and reliable electricity at the lowest efficient price. Moreover, the ZEC program will frustrate Congress' intent to promote competition in wholesale electricity markets and, in particular, thwart Congress' assignment to the Federal Energy Regulatory Commission ("FERC") of responsibility to set just and reasonable wholesale electricity rates under the Federal Power Act. For these reasons, as explained in detail below, PJM respectfully requests that the Court deny the Motions to Dismiss."

"At its most basic level, the question before the Court is: Who is responsible for managing "resource adequacy" in Illinois—i.e., ensuring that sufficient generation is available in Illinois when needed to meet future demand. [O]nce a state elects to restructure or unbundle the generation function of the utility and place that function in a competitive wholesale environment, the state effectively cedes authority over the economic determination of which generators will be committed to meet resource adequacy. In deregulated states like Illinois, generation entry and exit decisions are determined by supply and demand in competitive markets."

2. We believe the new FERC Commissioners (who we think will be nominated shortly) will likely support the State of Illinois' position that states are

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Exelon Corp (EXC.N, EXC US)

Diversified Utilities / IPPs / **United States of America**

Stock Rating	**Equal-weight**
Industry View	**Attractive**
Price target	**$39.00**
Shr price, close (Apr 26, 2017)	$34.90
Mkt cap, curr (mm)	$32,352
52-Week Range	$37.70-29.82

permitted to pursue environmental objectives as they see fit. Today, FERC formally decline the Chicago federal district court's invitation to submit an amicus brief, stating in part "the Commission has been without a quorum since February 4, 2017, and cannot currently act on the pending complaint." We believe the Illinois ZECs were structured well, allowing the State to pursue a valid environmental goal (zero carbon generation) while avoiding legal issues that have arisen in other situations where states have provided guaranteed, all-in fixed payment streams to new natural gas-fired power plants. The payment level was determined by factoring in a study that calculated the Social Cost of Carbon, which we believe is the critical element of the ZEC structure from a legal perspective. We believe states' rights to pursue environmental objectives results in the ZECs being akin to the payments made by states in support of renewable energy project development. Our view that Exelon will prevail in court is based on the well-structured nature of the ZEC payments, as well as by our view that the Republican nominees to FERC, reflecting a key perspective of President Trump, will respect states' desires to support baseload generation, and will also be likely to defer to state-determined priorities rather than to impose a federally determined outcome on states. We believe a positive legal outcome in Illinois, which we expect, would be a positive read across in regards to the potential for other states such as Connecticut, Pennsylvania, New Jersey and Ohio to successfully pursue similar initiatives for nuclear support over time.

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	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1168**	**36%**	**303**	**43%**	**26%**	**556**	**37%**
Equal-weight/Hold	**1403**	**43%**	**307**	**44%**	**22%**	**692**	**46%**
Not-Rated/Hold	**59**	**2%**	**9**	**1%**	**15%**	**8**	**1%**
Underweight/Sell	**620**	**19%**	**83**	**12%**	**13%**	**264**	**17%**
TOTAL	**3,250**		**702**			**1520**	

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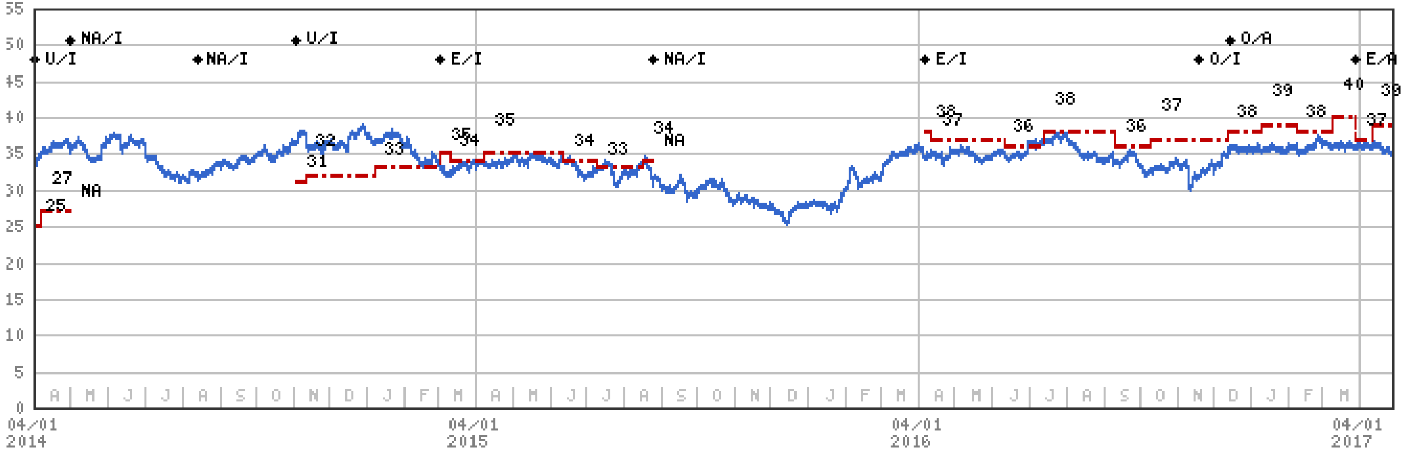
Stock Price, Price Target and Rating History (See Rating Definitions)

Exelon Corp (EXC.N) - As of 4/26/17 in USD
Industry : Diversified Utilities / IPPs



Stock Rating History: 4/1/14 : U/I; 4/30/14 : NA/I; 8/13/14 : NA/I; 11/3/14 : U/I; 3/3/15 : E/I; 8/25/15 : NA/I; 4/6/16 : E/I; 11/18/16 : O/I; 12/15/16 : O/A; 3/28/17 : E/A

Price Target History: 3/6/14 : 25; 4/7/14 : 27; 4/30/14 : NA; 11/3/14 : 31; 11/11/14 : 32; 1/7/15 : 33; 3/3/15 : 35; 3/10/15 : 34; 4/8/15 : 35; 6/12/15 : 34; 7/10/15 : 33; 8/17/15 : 34; 8/25/15 : NA; 4/6/16 : 38; 4/12/16 : 37; 6/10/16 : 36; 7/13/16 : 38; 9/11/16 : 36; 10/10/16 : 37; 12/12/16 : 38; 1/9/17 : 39; 2/7/17 : 38; 3/9/17 : 40; 3/28/17 : 37; 4/10/17 : 39

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target ▬ · No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ▬ Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (04/26/2017)
Devin McDermott		
Dynegy Inc. (DYN.N)	O (04/20/2015)	$6.47
Public Service Enterprise Group Inc (PEG.N)	E (01/09/2017)	$44.49
Stephen C Byrd		
AES Corp. (AES.N)	E (05/22/2014)	$11.45
American Electric Power Co (AEP.N)	E (08/04/2014)	$67.69
Calpine Corp. (CPN.N)	E (02/05/2017)	$9.92
Dominion Resources Inc (D.N)	E (08/08/2016)	$77.49
Entergy Corp (ETR.N)	U (10/27/2016)	$75.99
Exelon Corp (EXC.N)	E (03/28/2017)	$34.90
FirstEnergy Corp (FE.N)	O (08/08/2016)	$30.52
NextEra Energy Inc (NEE.N)	O (07/22/2014)	$132.83
NRG Energy Inc (NRG.N)	O (01/17/2013)	$17.28

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

See Page 2 for the full Analyst Note from 19 Apr 2017

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Research as of 19 Apr 2017
Estimates as of 20 Jan 2017
Pricing data through 27 Apr 2017
Rating updated as of 27 Apr 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Dec 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings

Vital Statistics

Market Cap (USD Mil)	32,254
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	2.2
YTD Total Return %	-0.9
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.09

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	—	*13.3*
EV/EBITDA	8.3	9.8	—	*8.2*
EV/EBIT	14.5	15.2	—	*13.5*
Free Cash Flow Yield %	-6.3	0.0	—	*-3.8*
Dividend Yield %	4.2	3.4	—	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,775*	*32,405*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*4,998*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,486*
Net Income YoY %	-4.0	7.7	*8.2*	*3.3*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*0.9*
Free Cash Flow	121	561	*-12,392*	*-391*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth 19 Apr 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Our full report, "Trump Can't Thwart Green Progress," is available on Morningstar Select Investment Research.

Valuation, Growth and Profitability 06 Dec 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

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Price/Fair Value Morningstar data as of Apr 27, 2017

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $650 million change in EBITDA. Our fair value estimate would change by $5 per share. On a mark-to-market basis as of mid-November, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 4 percentage points to near the industry average, it would change our fair value estimate by $1 per share. If Exelon does not retire the Clinton, Quad Cities, and Three Mile Island plants, it would add $2 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. About 70% of the $11 billion of rate base growth in 2016-20 will have rate trackers or formula rates, minimizing regulatory lag. Exelon faces the biggest challenge boosting Pepco's earned returns some 400 basis points to approach its allowed returns. Rate cases in 2016-17 should give it a good start.

In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're

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Morningstar Analysis

watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.

- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.

- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.

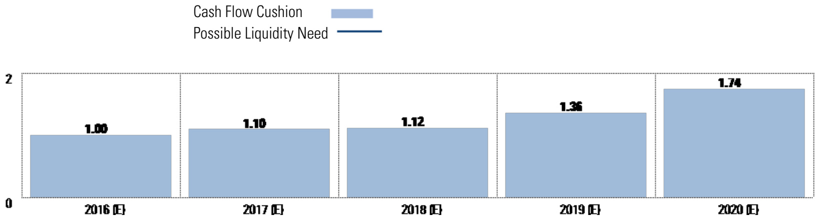
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.

- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	6,502	1,038	1,133	1,428	2,513
Adjusted Available Cash Flow	-3,339	2,753	2,985	4,244	5,284
Total Cash Available before Debt Service	3,163	3,791	4,118	5,672	7,798
Principal Payments	-1,483	-1,626	-1,600	-2,000	-2,275
Interest Payments	-1,377	-1,517	-1,605	-1,706	-1,734
Other Cash Obligations and Commitments	-303	-303	-463	-464	-463
Total Cash Obligations and Commitments	-3,163	-3,446	-3,668	-4,170	-4,472

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,502	34.4
Sum of 5-Year Adjusted Free Cash Flow	11,928	63.1
Sum of Cash and 5-Year Cash Generation	18,430	97.4
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	18,430	97.4
Sum of 5-Year Cash Commitments	-18,919	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets as it tries to smooth cash flow at its generation unit. As power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.We see no immediate credit concerns based on current energy market conditions. We project Exelon's consolidated EBITDA/interest coverage will remain above 5 times and leverage will remain below 5 times debt/EBITDA at least through 2019. Even those these ratios are weaker following the Pepco acquisition, we think this is acceptable given the higher share of regulated earnings.Only about one-quarter of Exelon's consolidated debt is directly tied to its generation segment. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing its near-term maturities. Management has committed to reducing Exelon Generation debt by $3 billion during the next five years and use the remaining cash to fund the regulated utilities' growth.We also think management can meet its 2.5% dividend growth goal through 2018 with relative ease. However, this is rather unimpressive compared with most of its peers that we think can grow their dividends at least twice as fast.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm might have to make modest cash contributions. Plant closures also could increase cash decommission costs.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's

largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	256,701	30 Jan 2017	—
MR. WILLIAM A. VON HOENE, JR		109,688	30 Jan 2017	—
JONATHAN W. (JACK) THAYER		81,473	30 Jan 2017	—
MS. ANNE R. PRAMAGGIORE		65,162	30 Jan 2017	—
MR. KENNETH W. CORNEW		53,363	30 Jan 2017	—
MR. CALVIN G. BUTLER,JR		32,989	30 Jan 2017	—
JOHN W. ROGERS,JR	Director	11,374	31 Mar 2017	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	2.22	0.13	310	31 Mar 2017
Vanguard Wellington™	1.63	0.56	—	31 Dec 2016
Invesco Diversified Dividend Fund	1.58	2.50	641	31 Dec 2016
Vanguard 500 Index Fund	1.53	0.16	284	31 Mar 2017
VA CollegeAmerica Invmt Co of America	1.26	0.51	-1,000	31 Mar 2017
Concentrated Holders				
Putnam Global Utilities Fund	0.04	8.71	—	31 Dec 2016
Putnam VT Global Utilities	0.02	8.64	-6	31 Dec 2016
Fidelity® Telecom and Utilities Fund	0.20	6.80	—	28 Feb 2017
NN (L) Utilities	—	6.33	-10	31 Jan 2017
NN Utilities Fund	—	6.24	-1	31 Jan 2017

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Credit Suisse First Boston (CSFB)	0.60	0.20	4,136	31 Dec 2016
Morgan Stanley Smith Barney LLC	0.35	0.07	2,398	31 Dec 2016
Deutsche Bank AG	0.38	0.26	2,227	31 Dec 2016
BlackRock Fund Advisors	3.90	0.15	1,781	31 Dec 2016
Two Sigma Investments LLC	0.20	0.25	1,741	31 Dec 2016
Top 5 Sellers				
Capital Research Global Investors	3.87	0.41	-19,394	31 Dec 2016
Arrowstreet Capital Limited Partnership	0.39	0.46	-2,765	31 Dec 2016
MFS Investment Management KK	1.58	0.25	-2,657	31 Dec 2016
J.P. Morgan Investment Management Inc	0.08	0.01	-2,137	31 Dec 2016
Millennium Management LLC	0.16	0.11	-1,638	31 Dec 2016

Management 06 Dec 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities 28 Mar 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

For more information on our outlook for renewable growth and carbon emissions, see our most recent report "Trump Can't Thwart Green Progress" on Morningstar Select Investment Research.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes 08 Feb 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life 06 Dec 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about

3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities 09 Nov 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency’s carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don’t expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns 08 Nov 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. CAGR
Revenue	7.8	6.0	10.2	7.4	-5.7	16.7	4.4
EBIT	22.8	53.6	-15.3	42.4	7.5	5.5	6.6
EBITDA	17.2	36.3	-6.9	26.8	11.4	7.3	7.3
Net Income	-1.6	-7.9	-4.0	7.7	8.2	3.3	6.6
Diluted EPS	-4.4	-12.3	-4.4	4.2	4.4	0.9	4.9
Earnings Before Interest, after Tax	15.0	-13.0	53.5	13.7	63.1	-45.4	0.0
Free Cash Flow	-33.9	-22.3	-92.0	365.5	-2,307.6	-96.9	44.3

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	13.7	14.7	11.3	15.0	17.1	15.4	16.4
EBITDA Margin %	22.1	23.3	19.7	23.3	27.5	25.3	26.4
Net Margin %	7.9	8.6	7.5	7.6	8.7	7.7	8.3
Free Cash Flow Margin %	2.8	6.1	0.4	1.9	-44.6	-1.2	-5.1
ROIC %	3.1	2.5	2.5	4.1	11.1	5.6	6.8
Adjusted ROIC %	3.2	2.7	2.7	4.3	12.0	6.1	7.4
Return on Assets %	2.2	2.2	2.0	2.5	2.3	2.2	2.4
Return on Equity %	8.0	7.7	7.1	9.3	9.0	8.8	9.3

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.49	0.47	0.49	0.50	0.56	0.56	0.55
Total Debt/EBITDA	3.81	3.46	4.12	3.84	4.56	4.55	4.30
EBITDA/Interest Expense	5.33	4.28	5.08	6.64	5.55	5.40	5.57

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	—	13.3
EV/EBITDA	8.3	9.8	—	8.2
EV/EBIT	14.5	15.2	—	13.5
Free Cash Flow Yield %	-6.3	0.0	—	-3.8
Dividend Yield %	4.2	3.4	—	3.8

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,312	-13.2	-6.83
Present Value Stage II	17,500	36.6	18.92
Present Value Stage III	36,662	76.6	39.65
Total Firm Value	**47,850**	**100.0**	**51.75**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,065**	**—**	**30.35**
Projected Diluted Shares	925		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,775***	***32,405***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,731*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,674***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,730***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,231*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,486***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,486*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,198***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,198***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,883*
Inventory	1,105	1,603	1,566	*1,079*	*1,505*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,521***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,081***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,821*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,054***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,821***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,590*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,859***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,259***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	1,729	1,820	2,250	*2,420*	*2,499*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-698*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-426*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*260*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***95***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	1.23	13.3	—	*16.2*	7.8	—	*8.6*	395.7	—	*NM*	1.7	—	*1.6*	2.1	—	*2.2*
Entergy Corp ETR USA	1.05	11.4	—	*16.5*	7.1	—	*8.3*	16.7	—	*NM*	1.4	—	*1.4*	1.1	—	*1.1*
FirstEnergy Corp FE USA	0.90	11.7	*11.8*	*10.7*	3.2	*3.0*	*8.2*	18.1	*24.6*	*78.4*	1.1	*2.1*	*1.8*	0.9	*0.9*	*0.9*
Average		12.1	*11.8*	*14.5*	6.0	*3.0*	*8.4*	143.5	*24.6*	*78.4*	1.4	*2.1*	*1.6*	1.4	*0.9*	*1.4*
Exelon Corp EXC US	**1.09**	**11.2**	**—**	***13.3***	**9.8**	**—**	***8.2***	**NM**	**—**	***NM***	**1.3**	**—**	***1.1***	**1.1**	**—**	***1.0***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	— USD	9.5	*8.2*	*7.4*	9.6	*8.2*	*7.4*	13.3	*11.2*	*9.9*	4.6	*3.9*	*3.4*	3.6	—	*3.7*
Entergy Corp ETR USA	— USD	0.7	*5.6*	*5.3*	0.8	*5.7*	*5.4*	-1.8	*12.9*	*8.5*	-0.4	*2.7*	*1.7*	4.6	—	*4.6*
FirstEnergy Corp FE USA	— USD	4.2	*-3.5*	*5.9*	4.9	*-4.2*	*7.0*	4.7	*-66.2*	*18.7*	1.1	*-13.0*	*2.9*	4.5	*4.6*	*4.8*
Average		4.8	*3.4*	*6.2*	5.1	*3.2*	*6.6*	5.4	*-14.0*	*12.4*	1.8	*-2.1*	*2.7*	4.2	*4.6*	*4.4*
Exelon Corp EXC US	— USD	**4.1**	***11.1***	***5.6***	**4.3**	***12.0***	***6.1***	**9.3**	***9.0***	***8.8***	**2.5**	***2.3***	***2.2***	**3.4**	**—**	***3.8***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*	2015	*2016(E)*	*2017(E)*
Public Service Enterprise Group Inc	10,415 USD	-4.3	*-5.7*	*2.7*	12.9	*-9.0*	*-3.3*	5.4	*1.2*	*-6.9*	-58.6	*-619.1*	*-65.1*	5.4	*5.1*	*4.9*
Entergy Corp ETR USA	11,513 USD	-7.9	*4.0*	*0.7*	-24.5	*26.2*	*-3.6*	3.1	*13.6*	*-31.8*	-38.4	*-163.8*	*15.6*	—	*3.0*	*3.0*
FirstEnergy Corp FE USA	15,026 USD	-0.2	*-3.1*	*5.8*	119.8	*3.0*	*26.8*	6.0	*-2.8*	*8.4*	107.4	*-23.0*	*1.3*	—	—	—
Average		-4.1	*-1.6*	*3.1*	36.1	*6.7*	*6.6*	4.8	*4.0*	*-10.1*	3.5	*-268.6*	*-16.1*	5.4	*4.1*	*4.0*
Exelon Corp EXC US	**29,447** USD	**7.4**	***-5.7***	***16.7***	**42.4**	***7.5***	***5.5***	**4.2**	***4.4***	***0.9***	**365.5**	***-2,307.6***	***-96.9***	**—**	***1.2***	***2.5***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	1,478 USD	68.7	71.3	69.5	40.1	40.2	38.9	28.4	27.4	25.8	14.2	15.3	13.9	0.5	-13.0	-5.4
Entergy Corp ETR USA	1,076 USD	66.6	67.7	66.8	32.7	28.2	27.7	14.4	17.4	16.7	9.3	10.2	7.0	6.9	-6.3	-6.2
FirstEnergy Corp FE USA	1,145 USD	58.9	62.4	61.7	27.8	30.2	28.4	15.5	16.5	19.8	7.6	7.7	8.4	4.9	3.7	1.1
Average		64.7	67.1	66.0	33.5	32.9	31.7	19.4	20.4	20.8	10.4	11.1	9.8	4.1	-5.2	-3.5
Exelon Corp EXC US	**2,224** USD	**55.6**	**64.6**	**57.6**	**23.3**	**27.5**	**25.3**	**15.0**	**17.1**	**15.4**	**7.6**	**8.7**	**7.7**	**0.0**	**-23.4**	**-3.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	9,932 USD	76.0	85.3	90.7	43.2	46.0	47.6	10.6	8.9	7.5	2.4	3.0	3.3	2.9	2.9	3.0
Entergy Corp ETR USA	13,820 USD	149.3	157.1	165.1	59.9	61.1	62.3	5.9	4.9	4.5	3.7	4.5	4.9	4.8	4.9	4.9
FirstEnergy Corp FE USA	22,066 USD	177.7	361.4	297.8	64.0	78.3	74.9	3.7	3.8	3.7	5.3	5.1	5.1	4.2	6.9	6.0
Average		134.3	201.3	184.5	55.7	61.8	61.6	6.7	5.9	5.2	3.8	4.2	4.4	4.0	4.9	4.6
Exelon Corp EXC US	**26,319** USD	**101.2**	**126.5**	**129.3**	**50.3**	**55.9**	**56.4**	**6.6**	**5.5**	**5.4**	**3.8**	**4.6**	**4.6**	**3.7**	**4.0**	**4.0**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Public Service Enterprise Group Inc	22,481 USD	0.78	0.70	0.64	0.98	1.07	1.05	0.85	0.94	0.91	0.36	0.33	0.30	47.2	55.7	62.8
Entergy Corp ETR USA	13,814 USD	7.54	6.34	4.39	1.32	0.95	0.86	0.96	0.69	0.60	1.91	0.76	0.53	-336.8	50.1	75.7
FirstEnergy Corp FE USA	13,542 USD	0.31	0.47	0.82	0.54	0.41	0.46	0.40	0.33	0.37	0.05	0.05	0.09	105.4	-9.9	50.5
Average		2.88	2.50	1.95	0.95	0.81	0.79	0.74	0.65	0.63	0.77	0.38	0.31	-61.4	32.0	63.0
Exelon Corp EXC US	**32,254** USD	**7.28**	**1.12**	**1.20**	**1.68**	**1.06**	**1.16**	**1.51**	**0.94**	**1.00**	**3.20**	**0.51**	**0.56**	**48.8**	**48.3**	**49.0**

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

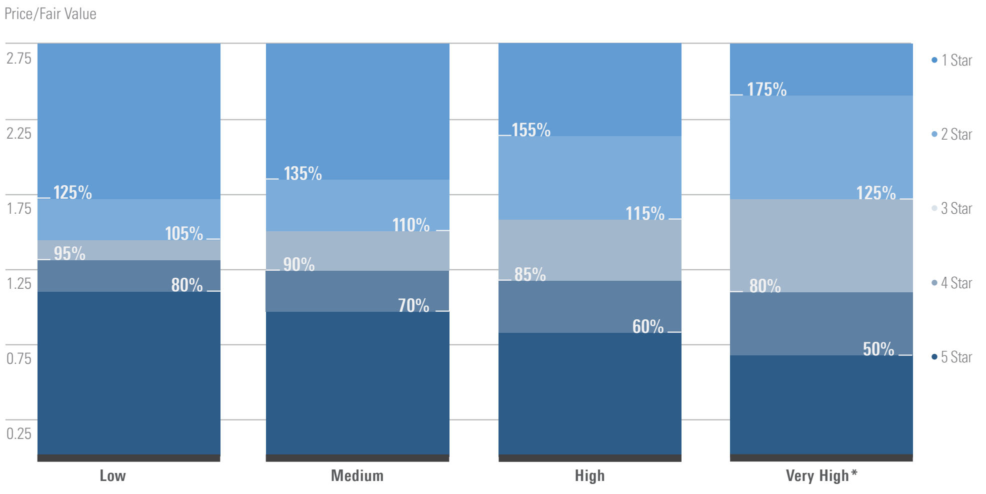
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.84 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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May 3, 2017

WELLS FARGO SECURITIES

Equity Research

Exelon Corporation

EXC: May (Potentially) Shaping Up As Important Month

Market Perform

Sector: Diversified Electric Utilities
Market Weight

- **Summary.** April was a rough month for merchant generation-exposed companies – shares of pure-play IPPs (CPN, DYN & NRG) are down 10-20% relative to the S&P Utilities. And despite EXC's more conservative, hybrid strategy vs. the IPPs – 60% of EPS coming from regulated utilities, a strong balance sheet and shares yielding 3.7% – the company has not been insulated from the sell-off (shares are down 5% vs. the group). It is unclear to us what precipitated the recent merchant sell-off with a poor MISO capacity auction perhaps being the most meaningful data point. Conversely, we view the recent Department of Energy (DOE) decision to evaluate the potential impacts of base load generation retirements on the nation's grid as an incrementally positive development. No meaningful changes to our fundamental outlook or Market Perform thesis and forward valuation range of $38-39/sh. That being said, we believe the risk/reward proposition has marginally improved and acknowledge that positive ZEC legal developments and/or a constructive PJM capacity auction result (due in May) could be meaningful near-term catalysts.

- **ZEC Update.** Legal challenges to the ZEC programs are pending in federal district courts in both NY & IL. In NY, the parties are awaiting word from the judge on the state's motion to dismiss the opponents challenge to the legality of the program. If the judge grants the motion to dismiss then the order is likely to be appealed to the Court of Appeals. If the judge does not grant the motion then the case will proceed at the district court level. In IL, which is sequenced behind NY, the judge intends to inform parties of his intentions with regard to the process on 5/22. While we think the ZECs legal challenges are likely to end up at the U.S. Supreme Court (a multi-year process), near-term victories for EXC at the district court level should increase investor confidence in the chances of ultimate success (and vice versa). We consider the ZEC lawsuits to be the predominant issue for EXC given the increasing possibility, in our view, that additional nuclear units could eventually require state subsidies in order to remain economical.

- **Other Updates.** (1) The PJM capacity auction results for 2020/21 are scheduled to be released after market on 5/23. While EXC refrained from predicting the outcome, mgmt. highlighted positive drivers: first year of 100% capacity performance product requirement and tightening imports into ComEd and Eastern MAAC, which should help those regions "break-out". Negative drivers include a lower demand forecast along with the possibility of uneconomical generation being bid into the auction, particularly in OH & PA. All told, our model assumes modestly higher prices across the region vs. the 2019/20 auction. (2) The DOE study into the nation's grid is expected to be completed by mid-June. While it is unclear what the outcome of the study will be, we think the potential for federal policymaker support for base load nuclear is a positive (keeping in mind the ZECs ongoing federal court challenges).

Valuation Range: $38.00 to $39.00
Our $38-39/sh valuation range is premised on a sum-of-the-parts analysis (1) Utility & Parent value of $33/sh (based on a P/E multiple of 19X our 2018E of $1.74), (2) $9/sh for ExGen using a DCF analysis and (3) -$3.50/sh to reflect use of ExGen cash flows at Utility. Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

Investment Thesis:
Our Market Perform rating reflects our belief that shares adequately reflect the value of the nuclear fleet given uncertainties related to legal challenges.

Please see page 4 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 05/03/17 unless otherwise stated. 05/03/17 14:51:21 ET

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Earnings Reported

	2016A	2017E		2018E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	$0.68	**$0.65** A	**0.61**	NE	
Q2 (June)	0.65	**0.67**	**0.68**	NE	
Q3 (Sep.)	0.91	**0.93**	**0.95**	NE	
Q4 (Dec.)	0.44	**0.45**	**0.46**	NE	
FY	$2.68	$2.70	NC	$2.85	NC
CY	$2.68	$2.70		$2.85	
FY P/EPS	12.7x	12.6x		12.0x	
Rev.(MM)	$31,360	$26,434		$27,055	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ▲ = Company is on the Priority Stock List

EPS from continuing operations.

Ticker	EXC
Price (05/03/2017)	$34.09
52-Week Range:	$29-38
Shares Outstanding: (MM)	926.6
Market Cap.: (MM)	$31,587.8
S&P 500:	2,367.34
Avg. Daily Vol.:	4,756,750
Dividend/Yield:	$1.31/3.8%
LT Debt: (MM)	$31,685.0
LT Debt/Total Cap.:	48.2%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	6.0%
CY 2017 Est. P/EPS-to-Growth:	2.1x
Last Reporting Date:	05/03/2017 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Together we'll go far

Earnings Model

(in millions except per share data)	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Revenues								
Total	$27,429	$29,447	$31,360	$26,434	$27,055	$27,099	$27,316	$27,737
Operating Expenses								
Purchased Power*	$13,003	$13,084	$12,640	$6,124	$6,110	$6,135	$6,163	$6,195
Fuel	0	0	0	1,026	1,056	1,056	1,025	1,025
Other O&M	8,568	8,322	10,049	9,172	9,095	9,134	9,247	9,360
Depreciation & Amortization	2,314	2,450	3,936	3,368	3,651	3,834	4,007	4,175
Other Taxes	428	1,182	1,624	1,613	1,636	1,660	1,683	1,707
Total	**$24,313**	**$25,038**	**$28,248**	**$21,304**	**$21,549**	**$21,819**	**$22,126**	**$22,463**
EBIT	**$3,116**	**$4,409**	**$3,112**	**$5,130**	**$5,507**	**$5,280**	**$5,190**	**$5,274**
Other Income & Interest Expense	($630)	($1,086)	($1,147)	($1,147)	($1,125)	($1,137)	($1,110)	($1,112)
Income Taxes	$666	$1,073	$761	$1,430	$1,635	$1,495	$1,473	$1,506
Earnings								
Net Income	$1,820	$2,250	$1,204	$2,553	$2,746	$2,648	$2,608	$2,656
Dicontinued Operations	0	0	0	0	0	0	0	0
Prefered Stock Dividends	(197)	19	(70)	0	0	0	0	0
Earnings available for common	**$1,623**	**$2,269**	**$1,134**	**$2,553**	**$2,746**	**$2,648**	**$2,608**	**$2,656**
Avg Common Shrs Outstanding - Diluted	864	893	927	944	962	964	965	966
EPS	$1.88	$2.54	$1.22	$2.70	$2.85	$2.75	$2.70	$2.75
Extraordinary Item	(0.51)	0.05	(1.46)	0.00	0.00	0.00	0.00	0.00
Reconciling Adjustment			0.00					
Operating EPS*	**$2.39**	**$2.49**	**$2.68**	**$2.70**	**$2.85**	**$2.75**	**$2.70**	**$2.75**
EPS By Segment								
Utilities								
ComEd				0.66	0.71	0.76	0.80	0.85
PECO				0.45	0.46	0.48	0.50	0.51
BGE				0.32	0.34	0.34	0.37	0.39
Potomac				0.20	0.22	0.23	0.25	0.26
DPL				0.11	0.12	0.13	0.14	0.14
ACE				0.08	0.11	0.11	0.13	0.13
Total Utilities				**1.82**	**1.96**	**2.05**	**2.18**	**2.28**
Generation				1.10	1.11	0.91	0.74	0.70
Other				(0.22)	(0.22)	(0.22)	(0.22)	(0.23)
Reconciling Adjustment								
Total EXC				**$2.70**	**$2.85**	**$2.75**	**$2.70**	**$2.75**
Dividends								
Dividends Per Share - YE Rate	$1.24	$1.24	$1.27	$1.30	$1.34	$1.37	$1.40	$1.44
Dividends Paid Per Share	$1.24	$1.24	$1.26	$1.29	$1.33	$1.36	$1.39	$1.43
Payout Ratio	52%	50%	47%	48%	47%	50%	52%	52%
Statisitics								
Book Value / Share (year end)	$26.29	$28.04	$27.96	$29.61	$31.15	$32.56	$33.89	$35.22
Average Book Value / Share	$26.41	$27.16	$28.00	$28.78	$30.38	$31.86	$33.22	$34.55
ROE (%)	9.0	9.2	9.6	9.4	9.4	8.6	8.1	8.0
Cash Flow / Share	$5.16	$8.53	$9.11	$7.45	$8.56	$8.53	$8.36	$7.66

Source: Wells Fargo Securities, LLC estimates and company filings

Cash Flow Model (in millions)	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Operating Cash Flow								
Net Income	$1,820	$2,250	$1,204	$2,553	$2,746	$2,648	$2,608	$2,656
Depreciation & Amortization (incl. nuclear fuel)	3,868	3,987	5,576	4,318	4,551	4,759	4,857	5,025
Other	2,016	1,643	2,146	867	1,017	939	778	0
Working Capital	(3,247)	(264)	(481)	(700)	(75)	(125)	(175)	(275)
Net Operating Cash flow	**$4,457**	**$7,616**	**$8,445**	**$7,038**	**$8,239**	**$8,222**	**$8,068**	**$7,406**
Investing Cash Flow								
Capital Expenditures	($6,077)	($7,624)	($8,553)	($8,250)	($7,325)	($6,825)	($6,750)	($6,525)
Other	1,478	(198)	(6,950)	1,225	(125)	(125)	(125)	(125)
Net Investing Cash Flow	**($4,599)**	**($7,822)**	**($15,503)**	**($7,025)**	**($7,450)**	**($6,950)**	**($6,875)**	**($6,650)**
Financing Cash Flow								
Issuance of LT Debt - Utilities	3,463	6,709	4,716	2,725	2,450	1,000	2,225	2,625
Issuance of Projected Debt	0	0	0	0	0	0	0	0
Retirement of LT Debt - Parent	(1,545)	(2,687)	(1,936)	(2,430)	(1,742)	(1,060)	(3,331)	(2,400)
ST Debt (net)	122	80	(575)	(1,000)	0	0	150	150
Dividends on Common Stock	(1,065)	(1,105)	(1,166)	(1,219)	(1,273)	(1,307)	(1,341)	(1,377)
Proceeds from Employee Stock Plans	35	32	55	55	55	55	55	55
Other	(599)	(67)	97	0	0	0	0	0
Net Financing Cash Flow	**$411**	**$4,830**	**$1,191**	**$306**	**($510)**	**($1,312)**	**($1,742)**	**($947)**
Net Change in Cash	$269	$4,624	($5,867)	$320	$279	($40)	($550)	($190)
Cash at beginning of period	1,609	1,878	6,502	635	955	1,234	1,193	644
Cash at end of period	**$1,878**	**$6,502**	**$635**	**$955**	**$1,234**	**$1,193**	**$644**	**$453**
Capital Structure								
Common Equity	$22,608	$25,793	$25,837	$28,376	$29,904	$31,300	$32,622	$33,956
LT Debt	19,362	23,645	31,575	35,325	36,033	35,973	35,367	35,592
ST Debt	2,262	2,033	3,697	267	267	267	417	567
Preferred Equity	193	193	0	0	0	0	0	0
Total Capitalization	**$44,425**	**$51,664**	**$61,109**	**$63,968**	**$66,204**	**$67,540**	**$68,406**	**$70,115**
% Equity	51	50	42	44	45	46	48	48
% Long-Term Debt	44	46	52	55	54	53	52	51
% Short-Term Debt	5	4	6	0	0	0	1	1
% Preferred Equity	0	0	0	0	0	0	0	0

Source: Wells Fargo Securities, LLC estimates and company filings

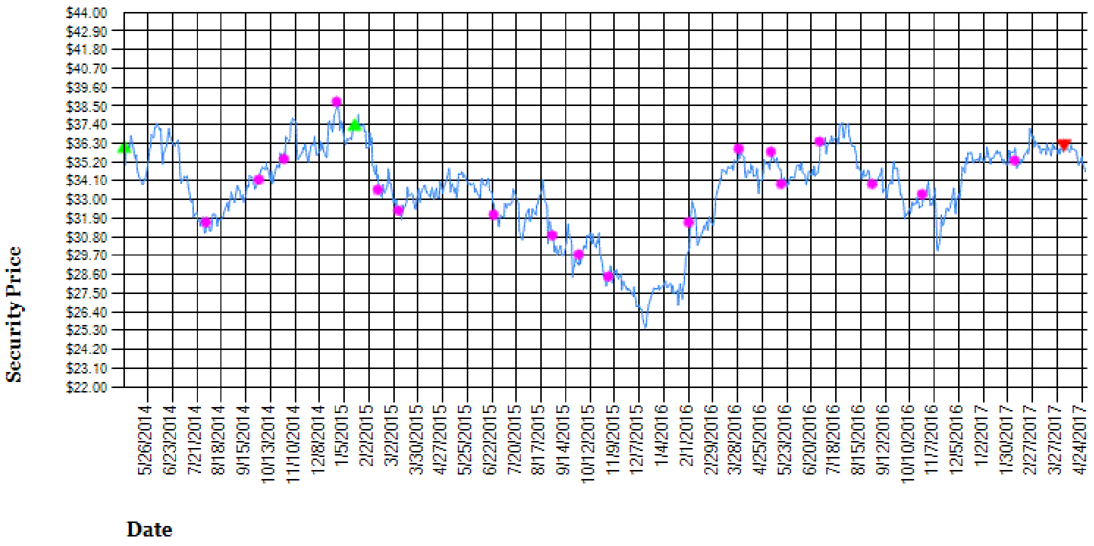
ZEC – Zero-Emission Credit
DOE – Department of Energy

Company Description:

Exelon Corporation was formed in October 2000 through the merger of Unicom, which was the parent company of Commonwealth Edison (ComEd) and PECO Energy (PECO). The company's business segments include independent power production (Exelon Generation) and Energy Delivery (ComEd and PECO). Exelon Generation owns approximately 25,000 MW of unregulated electric generating capacity, primarily located in Illinois and Pennsylvania. The company's 17,000 MW nuclear fleet is the largest in the nation. Generation currently accounts for approximately 70% of EXC's overall earnings. The Energy Delivery businesses serve roughly 3.8 million electric distribution customers in Northern Illinois (ComEd) and approximately 1.6 million electric and 0.5 million natural gas distribution customers in Southeastern Pennsylvania (PECO).

Required Disclosures

Exelon Corporation (EXC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	4/29/2014		Kalton			
	4/29/2014	NA	3	26.00	27.00	36.18
▲●	5/1/2014	35.03	2	36.00	37.00	35.99
●	8/1/2014	31.08	2	34.00	35.00	31.54
●	9/30/2014	34.05	2	33.00	34.00	34.09
●	10/29/2014	34.92	2	37.00	38.00	35.28
●	12/29/2014	38.21	2	41.00	42.00	38.63
▲●	1/20/2015	37.38	1	43.00	44.00	37.25
●	2/13/2015	33.13	1	40.00	41.00	33.51
●	3/9/2015	32.27	1	38.00	39.00	32.27
●	6/25/2015	32.06	1	36.00	37.00	32.03
●	8/31/2015	31.40	1	35.00	36.00	30.76
●	9/30/2015	29.49	1	37.00	38.00	29.70
●	11/2/2015	27.92	1	32.00	34.00	28.37
●	2/3/2016	31.39	1	37.00	39.00	31.61
●	3/31/2016	35.86	1	39.00	41.00	35.86
●	5/6/2016	35.68	1	39.00	40.00	35.68
●	5/18/2016	33.85	1	42.00	43.00	33.85
●	6/30/2016	36.02	1	43.00	44.00	36.36
●	8/30/2016	33.69	1	42.00	43.00	33.81
●	10/26/2016	33.26	1	39.00	40.00	33.26
●	2/8/2017	35.20	1	40.00	41.00	35.23
▼●	4/5/2017	36.14	2	38.00	39.00	36.06

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
☐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
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As of: May 3, 2017

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KeyBanc
Capital Markets

May 3, 2017

Energy: Electric Utilities

Earnings Recap

Exelon Corporation

EXC: 1Q17 Shows Execution on Improving ROE

We remain buyers of EXC and are affirming our **Overweight** rating and $41 price target as the regulated utilities execute on reducing regulatory lag, and as we view the current $2.00-$3.00 value ascribed to ExGen as overly discounted.

Key Investment Points

1Q17 Earnings Results: EXC reported 1Q17 EPS of $0.65 vs. $0.68 in 1Q16 (Consensus of $0.63) as primary drivers include: weaker results at ExGen (-$0.16) and increased expense at the HoldCo (-$0.02), slightly offset by results at ComEd (+$0.03); BGE (+$0.03); PHI (+$0.09); with PECO results remaining flat YOY. EXC affirmed 2017 EPS guidance of $2.50-$2.80 and initiated 2Q17 guidance of $0.45-$0.55.

Regulated Utilities: With targeted 6.5% rate-base growth powering utility EPS growth of 6-8% annually from 2017-2020, we view the regulated segment as well positioned to benefit from improvement in ROEs at the legacy utilities, as well as from operational improvement at Pepco (PHI). At PHI, the first cycle of rate case proceedings is wrapping up, where the second cycle is starting to ramp up. Although we will likely see a little volatility quarter to quarter around earned returns due to timing of rate cases, the positive longer term trend remains on track (9-10% ROE by 2019 at PHI). With continued execution of improving earned ROEs, we look forward to 2018 as an opportune time for the board to give a longer term view of the div./div. growth rate (current 2.5% annual increases).

ExGen: Mgmt. feels confident in its ability to overcome the current challenges to the NY and IL ZECs. The 2018/2019 gross margin saw a $50 million hit each year around lower pricing on open positions; however, mgmt. feels good with falling a little behind its ratable hedging policy as market pricing comes around. In the PJM auction, mgmt. remained committed to a responsible bidding practice, but gave little color around expectations. Lastly, ExGen remains committed to its deleveraging goals as the renewable JV remains on track; despite pulling away from a Mystic sale for now (revisit annually).

DOE Review Sounds Messy...for Now: Currently, the DOE review sounds like a somewhat uncoordinated process, but will likely improve over the coming months as stakeholders determine what issues are most and least important and as technical conferences provide some overarching themes and answer some unfinished business.

2017/2018 Estimates: We are reaffirming our 2017 and 2018 EPS estimates at $2.70 and $2.90, and introducing our 2Q17 EPS estimate at $0.54. We have updated our SOTP valuation on shares of EXC and are affirming our $41 PT and **Overweight** rating.

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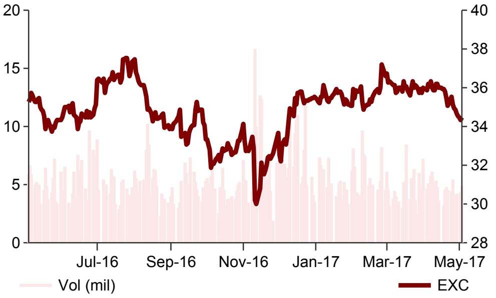
NYSE: EXC	
Rating:	**Overweight**
Price Target:	**$41.00**
Price:	**$34.46**



Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Company Data

52-week range	$30 - $38
Market Cap. (M)	$31,944.4
Shares Out. (M)	927.00
Enterprise Value (M)	$52,874.4
Avg. Daily Volume (30D)	4,727,300.0
Annual Dividend	$1.31
Dividend Yield	3.8%
SI as % of Float	1.8%
Book Value/Share	$25.55

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Estimates

FY ends 12/31	F2016A	1Q17A	2Q17E	3Q17E	4Q17E	F2017E	F2018E
EPS (Net)	**$2.68**	**$0.65**	**$0.54**	**--**	**--**	**$2.70**	**$2.90**
Cons. EPS	--	--	*$0.60*	*$0.88*	*$0.52*	*$2.66*	*$2.88*
Previous	--	$0.61	--	--	--	--	--
Valuation							
P/E	12.9x	--	--	--	--	12.8x	11.9x

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Valuation

Based upon our 2018 estimate of $2.90, shares of EXC trade at a P/E ratio of 11.9x (based on last nights close), a meaningful discount to larger-cap utilities trading at 18.1x. We view this discount as excessive and are affirming our **Overweight** rating. We are using a SOTP analysis to arrive at our $41 price target as we believe the regulated entity should trade at a modest premium to large-cap, regulated peers. Based on our regulated 2018 EPS estimate of $1.74 and a modest premium to the current group multiple of 18.1x, we value the regulated part of the business at $32 per share. Similarly, based on our $3.276 billion 2018 EBITDA estimate at ExGen and applying a 15% discount to IPP peers of 7.2x EV/EBITDA, we value the unregulated segment at $9 per share. We view our $41 price target as reasonable given its well-performing Regulated Segment and recent legislative actions at ExGen.

Investment Risks

We believe the primary risks facing EXC that could impede shares from reaching our price target include any deterioration of regulatory relationships in the jurisdictions where EXC has regulated operations, any further weakening of commodity pricing, any potential changes in policy toward nuclear plants, or from any adverse outcomes to capacity auctions.

Valuation Refresh

Below, we provide our analysis in how shares are being valued today on a SOTP basis:

	2018E P/E
EXC EPS	$2.90
Less: ExGen	$1.16
Regulated EPS	$1.74
Group Multiple	18.1x
Regulated Value Per Share	$31.49

	2018E EV/EBITDA
ExGen EBITDA	$3,276
Group Multiple	7.2x
ExGen Discount	*39%*
Current Multiple	4.4x
Enterprise Value	$14,304
Cash	$375
Debt	$10,350
Preferred Equity	$26
Minority Interest	$1,432
Equity	$2,871
Shares Outstanding	968
ExGen Value Per Share	$2.97

	2018E P/E
EXC EPS	$2.90
Group Multiple	18.1x
Discount to Regulated Group	*34%*
Current Multiple	11.9x
Current Price	$34.46

Below, we highlight our SOTP and how we arrive at our $41 Price Target:

	2018E P/E
EXC EPS	$2.90
Less: ExGen	$1.16
Regulated EPS	$1.74
Group Multiple	18.1x
Premium	2.5%
Target Multiple	18.6x
Regulated Value Per Share	$32.28

	2018 EV/EBITDA
ExGen EBITDA	$3,276
Group Multiple	7.2x
Target Discount	*15.0%*
Target Multiple	6.1x
Enterprise Value	$19,993
Cash	$375
Debt	$10,350
Preferred Equity	$26
Minority Interest	$1,432
Equity	$8,560
Shares Outstanding	968
ExGen Value Per Share	$8.84

	2018E P/E
EXC EPS	$2.90
Group Multiple	18.1x
Discount to Regulated Group	*21.7%*
Price Target Multiple	14.2x
Price Target	$41.12

1Q17 Earnings Details

Exelon affirmed 2017 EPS guidance of $2.50-$2.80 and initiated 2Q17 guidance of $0.45-$0.55 (vs. $0.65).

- EXC will no longer be pursuing sales of Mystic 8 & 9 assets, but remains committed to Debt/EBITDA and debt reduction commentary from the 4Q call.
- Relative to our estimate, O&M timing benefited the quarter.
- EXC reported EPS of $0.65 vs. $0.68 in 1Q16 as primary drivers include: weaker results at ExGen (-$0.16) and increased expense at the HoldCo (-$0.02), slightly offset by results at ComEd (+$0.03); BGE (+$0.03); PHI (+$0.09); and PECO results were flat YOY.
- Generation segment ongoing earnings fell ($172 million vs. $315 million) due to higher nuclear outage days and a weakened commodity environment.
- ComEd ongoing results rose $31 million ($141 million vs. $110 million), due to formula rates. Under IL legislation, ComEd implemented weather decoupling in 2017.
- PECO ongoing results increased $3 million ($129 million vs. $126 million), primarily due to favorable weather and increased electric distribution revenue from the Jan. 1 rate increase, partially offset by higher uncollectibles.
  - Heating Degree days were down 2% YOY and were 15.4% below normal.
  - Electric and gas deliveries were relatively flat.
  - Weather-normalized electric sales fell 1%, while weather-normalized gas sales were essentially unchanged.
- BGE earnings increased $26 million ($126 million vs. $100 million) due to June 2016 rates and lower storm activity, partly offset by higher AMI amortization.
- BGE has revenue decoupling, so weather minimally impacts earnings.
- PHI earned $81 million vs. $2 million in the quarter, as EXC owned PHI for the full quarter after the acquisition closed in March 2016.

Exelon Corporation

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Consolidated Income Statement	1Q13	1Q14	1Q15	1Q16	1Q17	2Q13	2Q14	2Q15	2Q16	2Q17E	3Q13	3Q14	3Q15	3Q16	3Q17E	4Q13	4Q14	4Q15	4Q16	4Q17E	2013	2014	2015	2016	2017E	2018E
Operating revenues	$6,894	$8,087	$8,636	$7,425	$8,715	$5,882	$6,194	$6,507	$7,536	$7,607	$6,412	$6,664	$7,412	$8,836	$9,308	$6,254	$6,944	$6,682	$8,052	$8,494	$25,429	$27,889	$29,237	$31,905	$34,124	$34,771
% Change		17.3%	6.8%	-14.0%	17.4%		5.3%	5.1%	15.8%	0.9%		3.9%	11.2%	19.2%	5.3%		11.0%	-3.8%	20.5%	5.5%		9.7%	4.8%	9.1%	7.0%	1.9%
Purchased power and fuel	$3,234	$4,421	$4,477	$3,254	$3,806	$2,410	$2,520	$2,663	$2,754	$2,824	$2,855	$2,681	$3,159	$3,627	$3,757	$2,801	$3,132	$2,841	$3,362	$3,479	$11,287	$12,752	$13,139	$13,035	$13,866	$13,877
% of revenues	46.9%	54.7%	51.8%	43.8%	43.7%	41.0%	40.7%	40.9%	36.5%	37.1%	44.5%	40.2%	42.6%	41.0%	40.4%	44.8%	45.1%	42.5%	41.8%	41.0%	44.4%	45.7%	44.9%	40.9%	40.6%	39.9%
% Change		36.7%	1.3%	-27.3%	17.0%		4.6%	5.7%	3.4%	2.6%		-6.1%	17.8%	14.8%	3.6%		11.8%	-9.3%	18.3%	3.5%		13.0%	3.0%	-0.8%	6.4%	0.1%
Gross margin	$3,660	$3,666	$4,159	$4,171	$4,909	$3,472	$3,674	$3,844	$4,782	$4,782	$3,557	$3,983	$4,253	$5,209	$5,551	$3,453	$3,812	$3,841	$4,690	$5,016	$14,142	$15,137	$16,098	$18,870	$20,258	$20,894
% of revenues	53.1%	45.3%	48.2%	56.2%	56.3%	59.0%	59.3%	59.1%	63.5%	62.9%	55.5%	59.8%	57.4%	59.0%	59.6%	55.2%	54.9%	57.5%	58.2%	59.0%	55.6%	54.3%	55.1%	59.1%	59.4%	60.1%
% Change		0.2%	13.4%	0.3%	17.7%		5.8%	4.6%	24.4%	0.0%		12.0%	6.8%	22.5%	6.6%		10.4%	0.8%	22.1%	6.9%		7.0%	6.3%	17.2%	7.4%	3.1%
Operating and maintenance	$1,726	$1,844	$2,069	$2,224	$2,412	$1,759	$2,029	$2,001	$2,333	$2,390	$1,639	$1,883	$1,983	$2,315	$2,392	$1,832	$2,006	$2,180	$2,478	$2,559	$6,958	$7,759	$8,232	$9,199	$9,754	$9,634
Depreciation and amortization	$542	$564	$610	$685	$894	$532	$590	$602	$827	$866	$529	$577	$606	$857	$907	$545	$582	$633	$864	$913	$2,148	$2,314	$2,450	$3,232	$3,580	$3,771
Taxes other than income	$277	$293	$304	$325	$436	$271	$288	$294	$394	$400	$277	$306	$310	$449	$460	$270	$267	$292	$408	$418	$989	$1,136	$1,200	$1,575	$1,714	$1,747
Other expenses	($9)	$2	($1)	($4)	($4)	$0	($13)	($7)	($31)	$0	($60)	($1)	($2)	($1)	$0	($33)	$3	($8)	$0	$0	$0	$0	($18)	($9)	($4)	$0
Total operating expenses	$2,536	$2,703	$2,982	$3,230	$3,738	$2,562	$2,894	$2,890	$3,523	$3,656	$2,385	$2,765	$2,897	$3,620	$3,759	$2,614	$2,858	$3,097	$3,750	$3,890	$10,095	$11,209	$11,864	$13,997	$15,043	$15,153
Operating income	$1,124	$963	$1,177	$941	$1,171	$910	$780	$954	$1,259	$1,127	$1,172	$1,218	$1,356	$1,589	$1,792	$839	$954	$744	$940	$1,125	$4,047	$3,928	$4,234	$4,873	$5,215	$5,741
% of revenues	16.3%	11.9%	13.6%	12.7%	13.4%	15.5%	12.6%	14.7%	16.7%	14.8%	18.3%	18.3%	18.3%	18.0%	19.3%	13.4%	13.7%	11.1%	11.7%	13.2%	15.9%	14.1%	14.5%	15.3%	15.3%	16.5%
% Change		-14.3%	22.2%	-20.0%	24.4%		-14.3%	22.3%	32.0%	-10.5%		3.9%	11.3%	17.2%	12.8%		13.7%	-22.0%	26.3%	19.7%		-2.9%	7.8%	15.1%	7.0%	10.1%
Other income and (deductions)	$196	$171	$225	$173	$302	$208	$162	$149	$321	$332	$142	$155	$230	$282	$311	$202	$172	$217	$286	$303	$752	$669	$822	$1,094	$1,249	$1,254
Interest expense	$338	$227	$256	$292	$377	$248	$230	$259	$376	$377	$234	$234	$265	$363	$366	$246	$241	$316	$356	$358	$986	$931	$1,098	$1,383	$1,479	$1,501
Other income, net	($142)	($56)	($31)	($119)	($75)	($40)	($68)	($110)	($55)	($45)	($92)	($79)	($35)	($81)	($55)	($44)	($69)	($99)	($70)	($55)	($234)	($262)	($276)	($289)	($230)	($247)
Income before income taxes	$928	$792	$952	$768	$869	$702	$618	$805	$938	$794	$1,030	$1,063	$1,126	$1,307	$1,481	$637	$782	$527	$654	$822	$3,295	$3,259	$3,412	$3,779	$3,966	$4,488
Income taxes	$321	$259	$299	$183	$303	$241	$166	$286	$296	$238	$365	$319	$364	$448	$502	$207	$311	$214	$254	$268	$1,132	$1,057	$1,165	$1,299	$1,312	$1,592
Tax rate	34.6%	32.7%	31.4%	23.9%	34.9%	34.3%	26.9%	35.5%	31.6%	30.0%	35.4%	30.0%	32.3%	34.3%	33.9%	32.5%	39.8%	40.6%	38.8%	32.6%	34.4%	32.4%	34.1%	34.4%	33.1%	35.5%
Equity in losses of unconsolidated affiliates	($4)	($3)	($3)	($6)	($10)	($9)	($3)	($5)	($10)	($3)	($3)	($3)	($4)	($7)	($3)	($3)	($3)	($7)	($8)	($3)	($14)	$0	($19)	($24)	($18)	($18)
Net income	$603	$530	$650	$579	$556	$452	$449	$514	$632	$553	$662	$741	$758	$852	$975	$427	$468	$306	$392	$551	$2,149	$2,202	$2,228	$2,456	$2,636	$2,878
Net (loss) income attributable to NCI	$1	$0	$35	($53)	($49)	($2)	$9	$6	$28	$40	($5)	$65	$1	$11	$40	$0	$47	($41)	($18)	$40	$0	$134	$1	($32)	$71	$71
Net income (non-GAAP)	$602	$530	$615	$632	$605	$454	$440	$508	$604	$513	$667	$676	$757	$841	$935	$427	$421	$347	$410	$511	$2,149	$2,068	$2,227	$2,488	$2,565	$2,807
% of revenues	8.7%	6.6%	7.1%	8.5%	6.9%	7.7%	7.1%	7.8%	8.0%	6.7%	10.4%	10.1%	10.2%	9.5%	10.0%	6.8%	6.1%	5.2%	5.1%	6.0%	8.5%	7.4%	7.6%	7.8%	7.5%	8.1%
% Change		-12.0%	16.0%	2.8%	-4.3%		-3.1%	15.5%	18.9%	-15.1%		1.3%	12.0%	11.1%	11.2%		-1.4%	-17.6%	18.2%	24.6%		-3.8%	7.7%	11.7%	3.1%	9.4%
Non-Recurring Items (After-Tax)	$436	$440	($78)	$459	($390)	($36)	($82)	($130)	$337	$0	($71)	($317)	$128	$351	$0	($68)	$403	$38	$206	$0	$430	$445	($42)	$1,354	($390)	$0
Discontinued Operations	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income - GAAP	$166	$90	$693	$173	$995	$490	$522	$638	$267	$513	$738	$993	$629	$490	$935	$495	$18	$309	$204	$511	$1,719	$1,623	$2,269	$1,134	$2,955	$2,807
EPS (non-GAAP)	$0.70	$0.62	$0.71	$0.68	$0.65	$0.53	$0.51	$0.59	$0.65	$0.54	$0.78	$0.78	$0.83	$0.91	$0.98	$0.50	$0.49	$0.38	$0.44	$0.53	$2.50	$2.39	$2.49	$2.68	$2.70	$2.90
EPS (GAAP)	$0.19	$0.10	$0.80	$0.19	$1.07	$0.57	$0.60	$0.74	$0.29	$0.54	$0.86	$1.15	$0.69	$0.53	$0.98	$0.57	$0.02	$0.33	$0.22	$0.53	$2.00	$1.88	$2.54	$1.22	$3.11	$2.90
Diluted Shares Outstanding	855.0	861.0	867.0	925.0	930.0	860.0	864.0	866.0	926.0	955.0	860.0	863.0	915.0	927.0	956.0	861.0	868.0	924.0	928.0	957.0	860.0	864.0	893.0	927.0	949.5	968.5
Change in Shares		6.0	6.0	58.0	5.0		4.0	2.0	60.0	29.0		3.0	52.0	12.0	29.0		7.0	57.5	57.5	29.0		4.0	29.0	34.0	22.5	19.0

EXELON CORPORATION BALANCE SHEET

Paul T. Ridzon
216-689-0270

($ in millions)	2013	2014	2015	2016	2017E	2018E
Cash and Equivalents	$1,609.0	$1,878.0	$6,502.0	$635.0	$2,237.2	$2,844.5
Accounts Receivable	4,156.0	4,709.0	4,099.0	5,359.0	5,359.0	5,359.0
Derivative Assets	1,101.0	1,533.0	1,451.0	1,005.0	1,005.0	1,005.0
Inventories	1,105.0	1,603.0	1,566.0	1,638.0	1,638.0	1,638.0
Other Current Assets	2,166.0	2,130.0	1,716.0	3,775.0	3,775.0	3,775.0
Total Current Assets	10,137.0	11,853.0	15,334.0	12,412.0	14,014.2	14,621.5
M-T-M Derivative Assets	607.0	773.0	758.0	939.0	939.0	939.0
Regulatory Assets	5,910.0	6,076.0	6,065.0	10,046.0	10,046.0	10,046.0
Goodwill	2,625.0	2,672.0	2,672.0	6,677.0	6,677.0	6,677.0
Nuclear Decommissioning Fund	8,071.0	10,537.0	10,342.0	11,174.0	11,174.0	11,174.0
Other Non-Current Assets	5,244.0	2,335.0	2,774.0	2,101.0	2,101.0	2,101.0
Total Non-Current Assets	22,457.0	22,393.0	22,611.0	30,937.0	30,937.0	30,937.0
Property, Plant and Equipment (Net)	47,330.0	52,170.0	57,439.0	71,555.0	74,600.1	76,578.7
TOTAL ASSETS	**$79,924.0**	**$86,416.0**	**$95,384.0**	**$114,904.0**	**$119,551.4**	**$122,137.2**
Accounts Payable	$2,506.0	$3,048.0	$2,883.0	$3,441.0	$3,441.0	$3,441.0
Derivative Liabilities	420.0	472.0	305.0	689.0	689.0	689.0
Short-Term Debt	1,850.0	2,262.0	2,033.0	3,697.0	3,972.0	3,972.0
Accrued Expenses	1,633.0	1,539.0	2,376.0	3,460.0	3,460.0	3,460.0
Other Current Liabilities	1,318.0	1,441.0	1,521.0	2,170.0	2,170.0	2,170.0
Total Current Liabilities	7,727.0	8,762.0	9,118.0	13,457.0	13,732.0	13,732.0
M-T-M Derivative Liabilities	300.0	403.0	491.0	1,222.0	1,222.0	1,222.0
Regulatory Liabilities	4,388.0	4,550.0	4,201.0	4,187.0	4,187.0	4,187.0
Asset Retirement Obligations	5,195.0	7,295.0	8,585.0	9,111.0	9,111.0	9,111.0
Deferred Income Taxes	12,905.0	12,778.0	13,776.0	18,138.0	18,938.0	19,738.0
Other	8,198.0	8,642.0	7,605.0	8,961.0	8,961.0	8,961.0
Total Non-Current Liabilities	30,986.0	33,668.0	34,658.0	41,619.0	42,419.0	43,219.0
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	18,271.0	19,853.0	24,286.0	32,216.0	33,266.0	33,266.0
TOTAL LIABILITIES	**56,984.0**	**62,283.0**	**68,062.0**	**87,292.0**	**89,417.0**	**90,217.0**
Shareholders' Equity	22,940.0	24,133.0	27,322.0	27,612.0	30,134.4	31,920.2
TOTAL LIABILITES & SHAREHOLDERS' EQUITY	**$79,924.0**	**$86,416.0**	**$95,384.0**	**$114,904.0**	**$119,551.4**	**$122,137.2**
Capitalization Totals						
Shareholders' Equity	22,940.0	24,133.0	27,322.0	27,612.0	30,134.4	31,920.2
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Short-Term Debt	1,850.0	2,262.0	2,033.0	3,697.0	3,972.0	3,972.0
Long-Term Debt	18,271.0	19,853.0	24,286.0	32,216.0	33,266.0	33,266.0
Total Capitalization	43,061.0	46,248.0	53,641.0	63,525.0	67,372.4	69,158.2
Capitalization Ratios						
Shareholders' Equity	53.3%	52.2%	50.9%	43.5%	44.7%	46.2%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Short-Term Debt	4.3%	4.9%	3.8%	5.8%	5.9%	5.7%
Long-Term Debt	42.4%	42.9%	45.3%	50.7%	49.4%	48.1%
Other Ratios						
Current Ratio	1.3x	1.4x	1.7x	0.9x	1.0x	1.1x
Interest Coverage	4.1x	4.2x	3.9x	3.5x	3.5x	3.8x
ROIC - EBIT	9.6%	8.8%	8.5%	8.3%	8.0%	8.4%
ROA - EBIT	5.1%	4.7%	4.7%	4.6%	4.4%	4.8%
Total Debt/Cap	46.7%	47.8%	49.1%	56.5%	55.3%	53.8%
Book Value	$26.67	$27.93	$30.60	$29.79	$31.74	$32.96

EXELON CORPORATION CASH FLOW STATEMENT

Paul T. Ridzon
216-689-0270

($ in millions)	2013	2014	2015	2016	2017E	2018E
Cash Flows from Operating Activities						
Net Income	1,729.0	1,820.0	2,250.0	1,204.0	2,565.0	2,807.0
Depreciation and Amortization, Including Nuclear Fuel	3,779.0	3,868.0	3,987.0	5,576.0	5,079.9	5,271.5
Deferred Income Taxes	119.0	502.0	752.0	664.0	800.0	800.0
Impairment Charges	0.0	687.0	36.0	306.0	0.0	0.0
Decommissioning Activities	(170.0)	(210.0)	131.0	(229.0)	0.0	0.0
Provision for Uncollectible Accounts	0.0	0.0	0.0	0.0	0.0	0.0
Earnings of Unconsolidated Affiliates	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Working Capital	455.0	(3,247.0)	(264.0)	(492.0)	0.0	0.0
Other	431.0	1,037.0	724.0	1,405.0	0.0	0.0
Net Cash From (Used By) Operating Activities	6,343.0	4,457.0	7,616.0	8,434.0	8,444.9	8,878.4
Cash Flows From Investing Activities						
Capital Expenditures	(5,395.0)	(6,077.0)	(7,624.0)	(8,565.0)	(8,125.0)	(7,250.0)
Acquisitions/Divestitures	50.0	1,719.0	107.0	(6,873.0)	0.0	0.0
Nuclear Decommissioning Fund, Net	(233.0)	(155.0)	(252.0)	(242.0)	0.0	0.0
Other	184.0	(86.0)	(53.0)	188.0	0.0	0.0
Net Cash From (Used By) Investing Activities	(5,394.0)	(4,599.0)	(7,822.0)	(15,492.0)	(8,125.0)	(7,250.0)
Cash Flows from Financing Activities						
Cash Dividends Paid	(1,249.0)	(1,065.0)	(1,105.0)	(1,166.0)	(1,230.2)	(1,286.2)
Common Stock, Net Change	47.0	35.0	1,868.0	0.0	1,187.5	265.0
Short-Term Debt, Net Change	122.0	122.0	80.0	(575.0)	275.0	0.0
Long-Term Debt, Net Change	466.0	1,918.0	4,022.0	2,780.0	1,050.0	0.0
Preferred Stock, Net Change	(93.0)	0.0	0.0	(190.0)	0.0	0.0
Other	(119.0)	(599.0)	(35.0)	342.0	0.0	0.0
Net Cash From (Used By) Financing Activities	(826.0)	411.0	4,830.0	1,191.0	1,282.3	(1,021.2)
Net Cash From (Used By) Continuing Operations	123.0	269.0	4,624.0	(5,867.0)	1,602.2	607.3
Cash and Cash Equivalents at Beginning of Year	1,486.0	1,609.0	1,878.0	6,502.0	635.0	2,237.2
CASH AND EQUIVALENTS AT END OF YEAR	1,609.0	1,878.0	6,502.0	635.0	2,237.2	2,844.5

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Free Cash Flow Analysis						
Cash From Operations	6,343.0	4,457.0	7,616.0	8,434.0	8,444.9	8,878.4
Capital Expenditures	(5,395.0)	(6,077.0)	(7,624.0)	(8,565.0)	(8,125.0)	(7,250.0)
FCF After Capex	948.0	(1,620.0)	(8.0)	(131.0)	319.9	1,628.4
FCF After Capex (Per Share)	$1.10	($1.88)	($0.01)	($0.14)	$0.34	$1.68
Common Dividends	(1,249.0)	(1,065.0)	(1,105.0)	(1,166.0)	(1,230.2)	(1,286.2)
FCF After Common Dividends	(301.0)	(2,685.0)	(1,113.0)	(1,297.0)	(910.3)	342.3
FCF After Common Dividends (Per Share)	($0.35)	($3.11)	($1.25)	($1.40)	($0.96)	$0.35

Disclosure Appendix

Exelon Corporation - EXC

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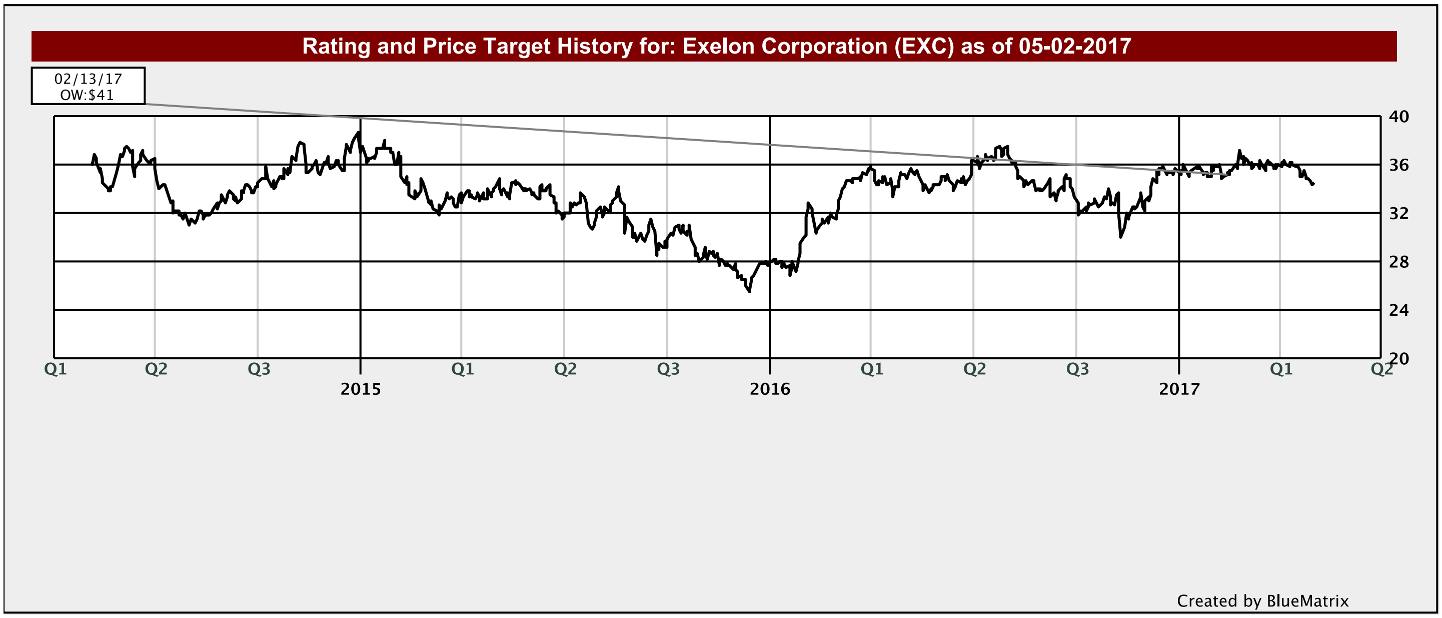
Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		Energy			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	309	43.52	63	20.39	**Overweight [OW]**	28	45.90	18	64.29
Sector Weight [SW]	387	54.51	49	12.66	**Sector Weight [SW]**	33	54.10	17	51.52
Underweight [UW]	14	1.97	1	7.14	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

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Alert

May 3, 2017

Energy: Electric Utilities

NYSE: EXC

Exelon Corporation

EXC - ALERT: 1Q17 Earnings Results Ahead of Views

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Key Investment Points

May 2, 2017 Close: $34.46

1Q17 Ongoing EPS: $0.65 vs. $0.68 in 1Q16/Consensus of $0.63/KBCM of $0.61

Initial Take: We expect a neutral response as the EPS beat is offset by slightly weaker 2018/2019 gross margin.

2017 KBCM EPS Estimate: $2.70 (Consensus: $2.66)

2018 KBCM EPS Estimate: $2.90 (Consensus: $2.88)

Guidance: Exelon affirmed 2017 EPS guidance of $2.50-$2.80 and initiated 2Q17 guidance of $0.45-$0.55 (vs. $0.65)

Highlights:

- EXC will no longer be pursuing sales of Mystic 8 & 9 assets, however remains committed to Debt/EBITDA and debt reduction commentary from 4Q call.
- Relative to our estimate, O&M timing benefited the quarter.
- EXC reported EPS of $0.65 vs. $0.68 in 1Q16 as primary drivers include: weaker results at ExGen (-$0.16) and increased expense at the HoldCo (-$0.02), slightly offset by results at ComEd (+$0.03); BGE (+$0.03); PHI (+$0.09); and PECO results were flat YOY.
- Generation segment ongoing earnings fell ($172 million vs. $315 million) due to higher nuclear outage days and a weakened commodity environment.
- ComEd ongoing results rose $31 million ($141 million vs. $110 million), due to formula rates.
  - Under IL legislation, ComEd implemented weather decoupling in 2017.
- PECO ongoing results increased $3 million ($129 million vs. $126 million), primarily due to favorable weather and increased electric distribution revenue from the Jan. 1 rate increase, partially offset by higher uncollectibles.
  - Heating Degree days were down 2% YOY and were 15.4% below normal.
  - Electric and gas deliveries were relatively flat.
  - Weather-normalized electric sales fell 1%, while weather-normalized gas sales were essentially unchanged.
- BGE earnings increased $26 million ($126 million vs. $100 million) due to June 2016 rates and lower storm activity, partly offset by higher AMI amortization.
  - BGE has revenue decoupling, so weather minimally impacts earnings.
- PHI earned $81 million vs. $2 million in the quarter, as EXC owned PHI for the full quarter.

11:00 A.M. ET Conference Call #: (800) 690-3108 ID#: 44444489

We will be focused on:

- View of the market for the Generation segment
- Nuclear subsidies
- Efforts aimed at reducing PHI regulatory lag
- Sales trend and economic commentary
- Update on ConEd Solutions Business

Disclosure Appendix

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As of the date of this report, we make a market in Exelon Corporation.

For the three-year history represented in this chart, this stock has been rated Sector Weight.

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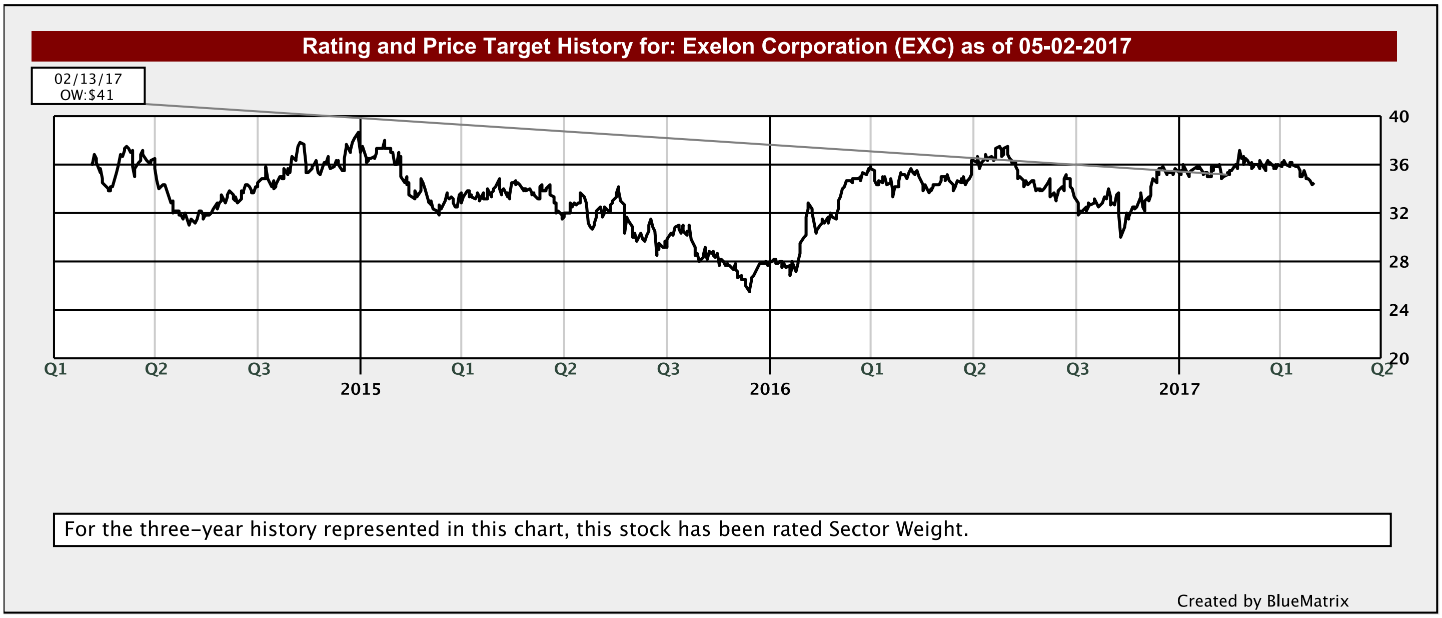
Three-Year Rating and Price Target History


Rating and Price Target History for: Exelon Corporation (EXC) as of 05-02-2017

For the three-year history represented in this chart, this stock has been rated Sector Weight.

Created by BlueMatrix

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

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GUGGENHEIM

People. Ideas. Success.

Exelon Corporation

EXC – Strong 1Q and Guidance Reaffirmed, Consistent Message

May 3, 2017

EXC beats; guidance reaffirmed. EXC reported operating earnings of $0.65 vs. Guggenheim estimate of $0.60, consensus estimate of $0.62; arrived at the top end of Q1 guidance range of $0.55-0.65; strong performance was primarily driven by timing of O&M and fewer refueling outage days at nuclear plants, partially offset by lower power prices and milder winter weather – 2017 guidance reiterated within the range of $2.50-$2.80 and 6-8% utility growth trajectory remains intact vs. Guggenheim EPS '17 estimate of $2.72 and 6% for LT earnings growth – we remain conservative and for now exclude ZEC accretion (~$0.25) from our estimates. Management also provided Q2 EPS guidance range of $0.45-$0.55, in line with Guggenheim estimate of $0.54. **Results constructive and very much supportive of our recent Mgmt. roadshow - see note HERE for additional thoughts.** Reiterate BUY – shares remain materially undervalued on any metric, in our view, esp. when utilizing our SOP analysis which includes a DCF of ExGen cash flows on the current forwards.

New York ZECs further along; could set a precedent in Illinois. New York Federal Court proceeded with hearings on oral arguments from EXC on its motion to dismiss in late March, although the judge did not provide a specific timeline for deadline of the issue. That said, the motion to dismiss is more like a jump ball, and in any case, EXC expects appeals will start at the Appellate Court of New York and potentially go all the way through to the Supreme Court – we believe investors should temper expectations with the current motion to dismiss process. Success in NY could be a read through to IL given that they are essentially the exact same case. Note - we are increasingly feeling more confident with building in the accretion and valuation upside into our estimates following our recent meetings with subject matter experts including Commissioners – just waiting for more clarity on the case in New York. As a reminder, EXC will continue to earn ZEC revenue, which is nonrefundable beginning April 1 in NY and has filed tariffs to begin collecting ZEC payments in IL on June 1.

Dividend plan set through 2018; Mgmt. likely to take a harder look at potential growth next year. Dividend growth is currently set up at 2.5%, below peers and EXC's own regulated EPS growth of 6-8%. As we highlighted recently, we believe constructive PJM auction results and ZECs process could go a long way in providing the much needed confidence to revisit dividend policy. In our view, mgmt. could revisit the dividend with board as early as 2018 – we don't expect a modest bump as any change in policy would likely be more material. Note, visibility with EXC continues to improve even outside of ZECs – utility is well on its way of fully covering the dividend and HoldCo interest expense over the next couple of years. Following this, EXC could be in a good position to re-deploy ExGen FCF in other value enhancing ways.

Not ready for retail expansion but margins remain sticky with few competitors in the market. Management indicated that they would remain disciplined with acquisitive opportunities while monitoring the trend of the market closely. Retail margins for C&I remain in the range of $2-$4 (EXC now has 29% market share for C&I). Mgmt. acknowledged that there are signs of a formation of an oligopoly with consolidation and the recent asset sales in the industry – we may actually start seeing margins improving with fewer participants.

Continued on the next page...

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EXC BUY

EARNINGS RELEASE

SHARE PRICE $34.46
PRICE TARGET $42.00

EPS ($) **(FY Dec)**	**1Q**	**2Q**	**3Q**	**4Q**	**FY**
2017	0.65	0.54E	0.91E	0.63E	2.72E
Prior	*0.60*	—	*0.71E*	*0.82E*	*2.68E*
P/E					12.7x
2018	0.81E	0.66E	0.91E	0.51E	2.88E
Prior	*0.84E*	*0.62E*	*0.75E*	*0.68E*	—
P/E					12.0x
2019	0.75E	0.63E	0.98E	0.44E	2.80E
Prior	*0.82E*	*0.59E*	*0.72E*	*0.67E*	—
P/E					12.3x

Market Data	
Price	$34.46
52-Week Range	$29.82 - $37.70
Market Cap (M)	$31,902
Dividend	$1.28
Dividend Yield	3.7%
ADV (3 mo; 000)	4,803

Near completion of Round I of PHI rate proceedings with constructive outcomes; Kicking off Round II – good start. EXC continued its effort in closing the gap between earned and allowed ROEs at PHI with another round of rate case filings in 2017, after settling several rate cases in 2016 with fairly constructive outcomes and only one rate proceeding (i.e. PEPCO rate case in D.C.) remains open in the first round (we keep our expectation low for a constructive D.C. outcome). **Management remains confident that lags should be mitigated with two rate cycles - we model diminishing lag through 2020.** As a reminder, current active rate cases include: (1) Washington D.C.: $78mm revised electric distribution revenue ask at PEPCO with 8.6% ROE – final decision due 07/2017; we would highlight our expectations are low for DC rate outcome as this same Chairwoman was against the merger (DC only 6% of rate base); (2) Delaware: $32mm electric revenue increase settlement, with 9.7% ROE, and $5mm gas revenue increase settlement, with 9.7% ROE, filed at DPL – decision by 05/2017; (3) Maryland: $69mm electric distribution revenue ask at PEPCO with 10.1% ROE – final decision due 09/2017. (4) Illinois: $100mm FRP filing at ComEd with 8.4% ROE – final decision due 12/2017. (5) New Jersey: $70mm electric revenue ask at ACE with 10.1% ROE – final decision due 12/2017.

On asset level – closure with Mystic strategy; further details provided around TX CCGTs. Potential sale of the Mystic assets in Boston is now off the table given, in our view, the likely difficulty for a new buyer of re-negotiating and emulating the current constructive LNG fuel supply contract that EXC signed with provider; we do not expect this to have any impact on EXC's commitment on debt reduction – this sale was purely incremental. Management also expect to bring on-line the two fast-start CCGT plants (Colorado Bend and Wolf Hollow) in Texas in May and June of 2017 and indicated their intent to divest the two plants through separate processes - have reached agreement with lenders to pursue a potential sale. Sale of TX fast start CCGTs the right move given EXC focus on growing regulated and/or contracted revenues streams.

Valuation

Our $42 price target is based on a sum-of-the-parts analysis. We assign ~$17/share for ExGen using a 7.4x weighted average EV/EBITDA applied to ExGen's various assets. We assign $30/share for the regulated utilities combined based on our 2018E EPS of $1.79 applied to a 17.0x regulated utility multiple. Subtracting out ~$5 in parent drag, we arrive at our 12-month price target.

Risks

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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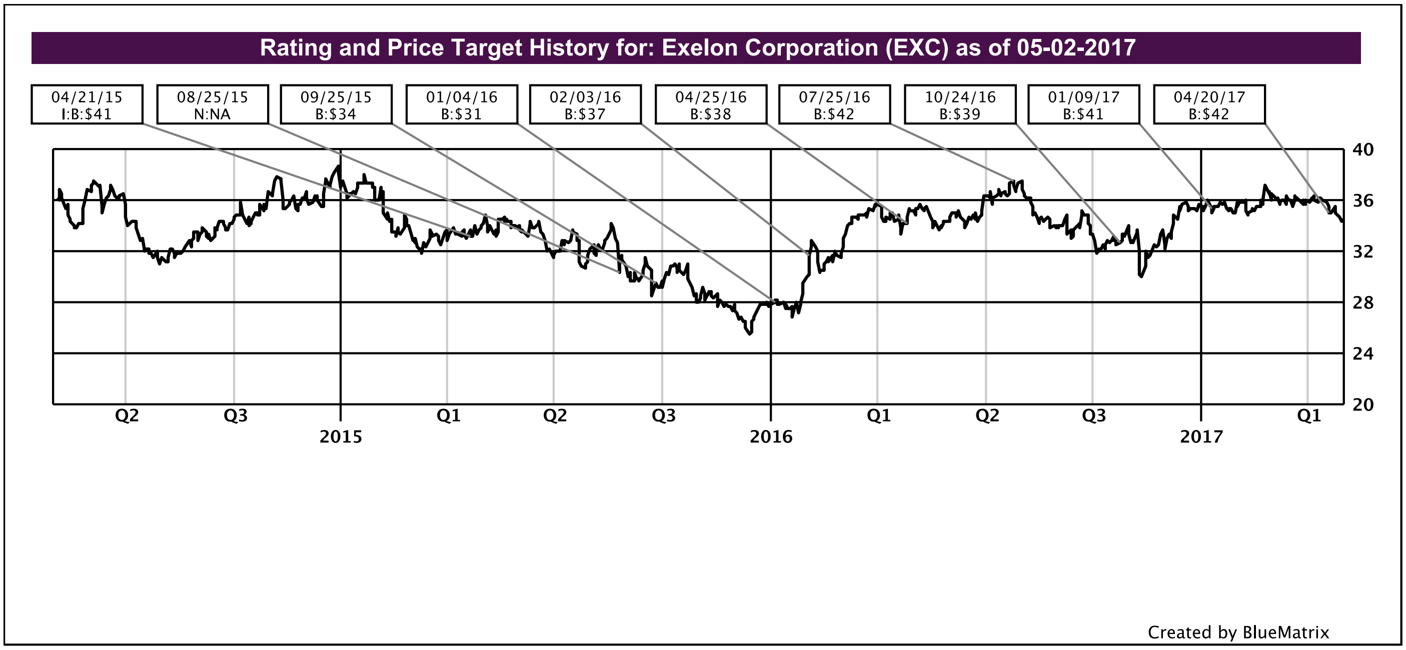

Rating and Price Target History for: Exelon Corporation (EXC) as of 05-02-2017

RATINGS EXPLANATION AND GUIDELINES

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

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Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Sell	1	0.32%	0	0.00%

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May 03, 2017 | 16:25 ET | 16:25 ET~

Exelon

EXC-NYSE	Rating	Price: May-2	Target	Total Rtn
	Market Perform	$34.46	$37.00	11%

EXC on Track to Meet 2017 Expectations

Bottom Line: EXC reported 1Q17 operating EPS generally as expected and in line with consensus. Utility-related earnings benefited mainly from rate relief, while ExGen earnings declined by almost 50%, primarily reflecting declining market conditions. EXC's merchant generation remains a drag on consolidated growth compared to utility growth expectations of 6-8%. Management reaffirmed its 2017 EPS guidance of $2.50-2.80, with all business segment contributions unchanged from prior disclosures. We find EXC shares fairly valued trading at a discount to its peers.

Key Points

1Q17 adjusted EPS of $0.65, at the high end of EXC's expectations, but modestly lower than the $0.68 earned in 1Q16. EPS benefited this quarter largely from incremental rate relief at its utility businesses and the March 2016 acquisition of PHI, offset by increased planned outages and declining market conditions adversely impacting ExGen. Utility earnings were $0.52 in 1Q17, including $0.09 from the PHI acquisition vs. $0.37 a year ago, with virtually no PHI contribution; ExGen earned $0.18 compared to $0.34.

2017 EPS guidance maintained at $2.50-2.80, with no change to segment contributions. EXC's utilities are expected to earn $1.55-1.95/share in 2017, supported by rate base growth of 8.5% over 2016 levels; ExGen's EPS guidance range is $1.05-1.15 (down from $1.27 in 2016) as lower energy prices are only partially offset by New York and Illinois ZECs. As of 3/31/17, ExGen's 2017 gross margin is unchanged from YE16, but is $50 million lower for both 2018 and 2019. EXC expects a favorable resolution of pending ZEC lawsuits in NY and IL, although timing remains unclear.

Portfolio update. EXC recently agreed to sell part of its renewables portfolio, or 1,296 MW, to John Hancock for $400 million pretax, with options to drop additional assets into this newly formed JV. Proceeds will be applied to ExGen debt reduction. Also, EXC reached an agreement with lenders to pursue the sale of 3,476 MW of economically challenged gas plants in Texas, but is no longer pursuing the sale of Mystic 8 & 9 in Massachusetts.

Maintaining EPS estimates and price target. We find EXC shares fairly valued trading at a discount to its peers, as the merchant generation business continues to weigh on EXCs valuation. Our price target remains $37.

Key Changes

Estimates	2017E	2018E
EBITDA	$10,916	$11,717
Previous	*$8,947*	*$9,407*
FCF after Div.	$(3,766)	$(3,622)
Previous	*$(5,253)*	*$(4,818)*

Please refer to pages 6 to 8 for Important Disclosures, including Analyst's Certification.

BMO Capital Markets

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2YR Price Volume Chart

LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Data			in $
Dividend	$1.31	Shares O/S (mm)	926.6
Yield	3.8%	Market Cap (mm)	$31,930
EV (mm)	$70,775	Net Debt (mm)	$37,875

BMO Estimates (FY-Dec.)	2016A	2017E	2018E	2019E
EBITDA	$7,461	$10,916↑	$11,717↑	$12,444
FCF after Div.	$(1,274)	$(3,766)↑	$(3,622)↑	$(3,111)
EPS	$2.68	$2.70	$2.80	$2.75
Dividends	$1.26	$1.31	$1.34	$1.38
CFPS	$(0.12)	$(1.75)↑	$(1.59)↑	$(1.03)

Consensus Estimates	2016A	2017E	2018E	2019E
EPS		$2.66	$2.88	$2.79

Valuation	2016A	2017E	2018E	2019E
P/E	12.9x	12.8x	12.3x	12.5x
P/CFPS	NM	NM	NM	NM
EV/EBITDA	9.5x	6.5x	6.0x	5.7x

EPS: 2016 adjusted as reported; model will be updated post 10K filing.

Our Thesis

We believe EXC will continue to face headwinds at its competitive mainly nuclear generation business stemming from continued weak power and natural gas prices, rising O&M costs, and challenges from renewable generation, partially offset by ZEC subsidies. Growth at its regulated business could somewhat mitigate the pressures at the competitive business.

Exelon - Block Summary Model

Income Statement	2016A	2017E	2018E	2019E
Revenues	$31,360	$32,040	$33,192	$33,075
Fuel and purchased power	(12,640)	(9,254)	(9,613)	(9,872)
Operating, maintenance and other	(11,624)	(12,357)	(12,349)	(11,246)
Non-recurring gains/(losses)	0	0	0	0
EBITDA	$7,461	$10,916	$11,717	$12,444
Depreciation & Amortization	(3,936)	(5,174)	(5,410)	(5,630)
Other income	365	487	487	487
EBIT	3,525	5,742	6,306	6,813
Interest Expense	(1,536)	(1,851)	(2,182)	(2,577)
Income Tax	(785)	(1,390)	(1,531)	(1,690)
Income from continuing operations	1,204	2,501	2,594	2,546
Adjusted EPS	$2.68	$2.70	$2.80	$2.75
Shares outstanding	927	923	923	923
Cash Flow Statement	**2016A**	**2017E**	**2018E**	**2019E**
Net Income	1,204	2,501	2,594	2,546
Depreciation & Amortization	5,576	5,178	5,410	5,627
Deferred taxes/other	1,665	257	10	(25)
Cash Flow From Operations	8,445	7,937	8,014	8,148
Capex	(8,553)	(9,554)	(9,478)	(9,102)
Net debt issued/(repaid)	2,205	8,647	9,387	11,577
Common stock (net)	0	0	0	0
Dividends paid	(1,166)	(2,149)	(2,158)	(2,158)
Cash Flow From Financing	1,191	6,303	7,234	9,224
Net cash flow	1,083	4,686	5,770	8,271
Balance Sheet	**2016A**	**2017E**	**2018E**	**2019E**
Cash & Equivalents	2,138	6,321	11,603	19,475
Total Assets	114,904	144,128	153,467	164,838
Short-term debt	3,697	9,109	16,156	25,719
Total common equity	27,612	35,777	36,119	36,304
Debt %	54.4%	58.8%	62.6%	66.5%
Preferred %	26.3%	0	0	0
Common equity %	45.3%	41.2%	37.4%	33.5%

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

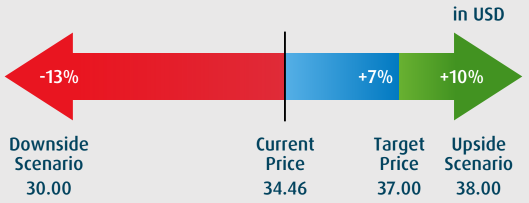
We find EXC shares fairly valued and see few catalysts that would propel earnings or the stock at this time, although proceeds from asset sales would be a near-term positive. Power prices are weak and are likely to remain so for some time. We expect Exelon to trade in a relatively narrow range, recognizing that downside risk is limited, in our opinion, unless power prices further deteriorate.

Upside Scenario $38.00

In a declining interest rate environment, we could see P/E multiples expand. This, together with a rising power and natural gas price environment, which could lead to EV/EBITDA multiple expansion to 8.4x, would equate to a share price of $38.

Downside Scenario $30.00

In a rapidly rising interest rate environment, we could see P/E multiples contract. This, together with a declining power and natural gas price environment, which could lead to EV/EBITDA multiple contraction to 7.2x, would equate to a share price of $30.



Company Description

Exelon is the largest competitive U.S. power generator, with ~32,700 MW of owned capacity. Its Constellation business unit provides energy products and services to business, public, and residential sector customers. Exelon's utilities deliver electricity and natural gas to 10 million customers in Delaware, DC, Illinois, Maryland, New Jersey, and Pennsylvania.

EXC-NYSE Research

Industry Research

Company Models

Key Takeaways From the Conference Call

EPS Estimates

Exelon reaffirmed its 2017 EPS operating guidance of $2.50-2.80, with the utilities accounting for $1.55-1.95 ($1.61 in 2016), ExGen at $1.05-1.15 ($1.27 in 2016), and Parent/Other, a loss of $0.20 (-$0.19 in 2016).

Key 2017 utility drivers include a full-year contribution from PHI (a $0.09 contributor in 1Q17), rate-base growth and rate relief, offset by higher O&M, as well as higher depreciation expenses (new investment).

ExGen earnings guidance reflects the impact of hedging at lower energy prices, somewhat offset by partial-year revenues from the New York (April 1, 2017) and Illinois (June 1, 2017) ZEC programs; contributions from the recently acquired FitzPatrick plant (March 2017); as well as the new Texas CCGTs (2,200 MW) expected to enter commercial operation this summer.

We are making no change to our 2017 and 2018 EPS estimates of $2.70 and $2.80 at this time; we are initiating a 2019 estimate of $2.75, with declines at ExGen again offsetting utility growth.

Utility Update

- EXC continues to make headway towards improving ROEs. It has completed rate cases for Delmarva in Maryland and Delaware with authorized ROEs of 9.6% (MD) and 9.7% (DE). Pepco's DC filing is expected to be completed by July 25, 2017, while filings in MD and NJ are expected to be finalized in 4Q17 and 1Q18, respectively. A final decision on ComEd's Illinois case is expected in 4Q17. In total, EXC has ~$312 million of potential increased revenue pending decisions.
- Total utility rate base growth is projected at 6.5% through 2020. About 75% of rate-base spending is recoverable through formulaic mechanisms and more than 70% of rate base is decoupled, providing earnings visibility.

ExGen Update

- As of March 31, 2017, total gross margin for 2017 is unchanged from EXC's YE16 disclosures at $8.15 billion, but lower by $50 million to $8.25 billion in 2018 and $7.85 billion in 2019. Retail margins remain steady in the $2-4/MWH range.

- EXC's FFO/debt is projected at 21% for 2017, with a goal of 18-20% over the next several years. ExGen's debt/EBITDA ratio should approximate 3.2x in 2017, declining to 3.0x by 2020.

- ExGen is expected to generate ~$7 billion of free cash flow 2017-2020.
  - ExGen's free cash flow, along with proceeds from asset sales/dropdowns will be used to pay down more than $3 billion of debt through 2020.

Update on Portfolio Rationalization

- EXC recently agreed to sell part of its renewables portfolio, or 1,296 MW, to John Hancock for $400 million pretax, representing an EV/EBITDA greater than 10x. It retains the option of dropping additional assets into this newly formed JV. Proceeds will be applied to ExGen debt reduction. Including allocated debt, the total JV enterprise value is ~$1.7 billion. The JV will allow EXC to accelerate its debt reduction goals without undermining its commitment to renewables.

- Although PJM lowered its demand forecast and there continues to be a rash of new gas-fired generation being built, EXC believes that tightening CETL for the ComEd and EMAAC LDAs could result in a more constrained market and therefore, these zones could price separately in the auction later this month.

- EXC reached an agreement with lenders to pursue the sale of 3,476 MW of economically challenged gas-fired CCGTs and simple cycle plants in Texas that are struggling to generate adequate cash flows. The company has reached an agreement with its lenders to pursue the sale of these assets.
  - EXC's two new CCGT units in Texas, totaling 2,200 MW are on budget and on schedule for completion by this summer; these assets are not part of the aforementioned agreement to pursue a sale.

- EXC is no longer pursuing the sale of Mystic 8 & 9 at this time, primarily due to a fuel supply agreement. However, this decision will not impact EXC's commitments on debt/EBITDA and debt reduction goals.

- The acquisition of the FitzPatrick nuclear plant from Entergy was completed on March 31, 2017 for $110 million. The FitzPatrick plant will generate some $0.08-0.10 per share of Zero Emission Credits (ZECs) and $350 million in after tax cash on an annualized basis through 2020.

Income Statement	2016	2017E	2018E	2019E
Revenues	$31,360	$32,040	$33,192	$33,075
Fuel and purchased power	-$12,640	-$9,254	-$9,613	-$9,872
Operating, maintenance and other	-$11,624	-$12,357	-$12,349	-$11,246
Restructuring, Other etc.	$0	$0	$0	$0
EBITDA	**$7,461**	**$10,916**	**$11,717**	**$12,444**
Depreciation and amortization	-$3,936	-$5,174	-$5,410	-$5,630
EBIT	**$3,525**	**$5,742**	**$6,306**	**$6,813**
Equity in earnings of affiliates	-$48	$8	$8	$8
Interest income & Other	$0	$0	$0	$0
Interest expense	-$1,536	-$1,851	-$2,182	-$2,577
Other income/(expense)	$413	$479	$479	$479
EBT	**$1,989**	**$3,892**	**$4,124**	**$4,237**
Income tax expense	-$785	-$1,390	-$1,531	-$1,690
Income from continuing ops.	**$1,204**	**$2,501**	**$2,594**	**$2,546**
Extraordinary items – net of tax	$0	$0	$0	$0
Discontinued operations – net of tax	$0	$0	$0	$0
Dividends on preferred stock	$0	$0	$0	$0
Minority interest	-$70	-$8	-$8	-$8
Net Income	**$1,134**	**$2,493**	**$2,586**	**$2,538**
Average shares outstanding (diluted)	927	923	923	923
GAAP Reported EPS (diluted)	**$1.22**	**$2.70**	**$2.80**	**$2.75**
Reconciliation to adjusted earnings/diluted share	$1.46	$0.00	$0.00	$0.00
EPS (ongoing)	**$2.68**	**$2.70**	**$2.80**	**$2.75**
EPS (Consensus)		**$2.66**	**$2.88**	**$2.79**

Stock Data	2016	2017E	2018E	2019E
Year-end/Latest stock price	$35.49	$34.15	$34.15	$34.15
Year-end/Latest shares o/s (mm)	927.0	922.9	922.9	922.9
Year-end/Latest market cap. ($ mm)	$32,899	$31,518	$31,518	$31,518
Book value per share	$29.79	$38.76	$39.14	$39.34
Dividend per share	$1.26	$1.31	$1.34	$1.38
Dividend payout ratio	47.0%	48.5%	47.9%	50.0%
Dividend yield	3.55%	3.84%	3.93%	4.03%
% Regulated ongoing income	21%	23%	24%	26%
FCF (after div.)	-$1,274	-$3,766	-$3,622	-$3,111
FCF/share	-$0.12	-$1.75	-$1.59	-$1.03
FCF yield	-0.33%	-5.13%	-4.65%	-3.02%

Leverage Ratios	2016	2017E	2018E	2019E
Coverage ratios				
Interest coverage	1.6x	1.3x	1.2x	1.0x
EBIT interest coverage	2.3x	3.1x	2.9x	2.6x
EBITDA interest coverage	4.9x	5.9x	5.4x	4.8x
Debt service coverage	0.5x	0.2x	0.1x	0.1x
Leverage ratios				
Net debt to EBITDA	4.5x	4.1x	4.2x	4.2x
Total debt to EBITDA	5.1x	4.7x	5.2x	5.8x

Cash Flow Statement	2016	2017E	2018E	2019E
Net income	$1,204	$2,501	$2,594	$2,546
Depreciation and amortization	$5,576	$5,178	$5,410	$5,627
Changes in working capital	$1,665	$257	$10	-$25
Cash flow from operations	**$8,445**	**$7,937**	**$8,014**	**$8,148**
Capital expense (net of asset sales)	-$8,553	-$9,554	-$9,478	-$9,102
Cash flow from investing	**-$8,553**	**-$9,554**	**-$9,478**	**-$9,102**
Common stock	$0	$0	$0	$0
Dividends paid	-$1,166	-$2,149	-$2,158	-$2,158
Net debt borrowal/(repayment)[1]	$2,205	$8,647	$9,387	$11,577
Other financings	$152	-$195	$5	-$195
Cash flow from financing	**$1,191**	**$6,303**	**$7,234**	**$9,224**
Net cash flow	**$1,083**	**$4,686**	**$5,770**	**$8,271**

Balance Sheet	2016	2017E	2018E	2019E
Assets				
Cash and cash equivalents	$2,138	$6,321	$11,603	$19,475
Accounts receivable	$5,359	$6,138	$6,138	$6,138
Inventories	$1,638	$1,760	$1,760	$1,760
Other current assets	$3,277	$4,001	$4,001	$4,001
Total current assets	**$12,412**	**$18,220**	**$23,502**	**$31,374**
Net fixed assets	$71,555	$87,381	$91,439	$94,939
Intangibles & other assets	$30,937	$38,526	$38,526	$38,526
Total assets	**$114,904**	**$144,128**	**$153,467**	**$164,838**
Liabilities				
Accounts payable	$3,449	$4,080	$4,080	$4,080
Short-term debt	$3,697	$9,109	$16,156	$25,719
Other current liabilities	$6,311	$6,592	$6,201	$5,811
Total current liabilities	**$13,457**	**$19,781**	**$26,438**	**$35,610**
Long-term debt	$32,216	$41,871	$44,211	$46,225
Deferred credits & other liabilities	$41,619	$46,699	$46,699	$46,699
Total long-term liabilities	**$73,835**	**$88,570**	**$90,910**	**$92,924**
Stockholders' equity	**$27,612**	**$35,777**	**$36,119**	**$36,304**
Preferred stock	$0	$0	$0	$0
Total common equity	$27,612	$35,777	$36,119	$36,304
Total liabilities	**$114,904**	**$144,128**	**$153,467**	**$164,838**

Valuation & Other Metrics	2016	2017E	2018E	2019E
P/E	13.2x	12.6x	12.2x	12.4x
P/E - discount(-)/premium(+) to peer group	-24%	-25%	n/a	n/a
P/E - discount(-)/premium(+) to industry	-25%	-26%	n/a	n/a
EV/EBITDA	9.5x	7.0x	6.5x	6.1x
Price/Book value	1.2x	0.9x	0.9x	0.9x
ROE	4.4%	7.0%	7.2%	7.0%
ROA	1.0%	1.7%	1.7%	1.5%
ROIC	1.9%	2.9%	2.7%	2.4%

Capital Structure	2016	2017E	2018E	2019E
Total Debt (excl. securitized debt)	54.4%	58.8%	62.6%	66.5%
Total debt	54.4%	58.8%	62.6%	66.5%
Long-term debt	46.4%	48.3%	45.8%	42.7%
Short-term debt	8.0%	10.5%	16.7%	23.8%
Securitized debt	0.0%	0.0%	0.0%	0.0%
Preferred	0.3%	0.0%	0.0%	0.0%
Adjusted Equity	45.3%	41.2%	37.4%	33.5%

Source: Company data and BMO Capital Markets estimates. Note: 1 Debt includes securitized debt, if any. 2 All figures in $ million except per share.


Exelon Rating History as of 05/02/2017

Source: FactSet, BMO Capital Markets

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Methodology and Risks to Price Target/Valuation for Exelon (EXC-NYSE)

Methodology: Our valuation is based on a combination of our 2018 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and a 17x 2018E P/E multiple.

Risks: A material decline in power prices and/or a change in the regulatory environment.

Distribution of Ratings (May 02, 2017)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe
Buy	Outperform	43.1%	22.1%	56.0%	44.4%	56.7%	53.1%
Hold	Market Perform	53.2%	13.5%	42.0%	52.2%	41.7%	41.6%
Sell	Underperform	3.8%	9.1%	2.0%	3.3%	1.2%	5.2%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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(S) = Speculative investment;
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Prior BMO Capital Markets Rating System

(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 - April 2013)
http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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Deutsche Bank
Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
3 May 2017

Results

Price at 2 May 2017 (USD)	34.15
Price target	41.00
52-week range	37.50 - 30.00

Subsidies in focus

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Key changes

EPS (USD)	-	↓	-0.0%
Revenue (USDm)	31,492.6 to 31,560.6	↑	0.2%

Source: Deutsche Bank

Valuation and risks: We value EXC using a SOTP framework in which we value the utilities at 16.9x on average. This represents a modest premium to our regulated target of 16.5x reflecting better than average growth prospects offset by some lingering uncertainty over whether EXC can close the gap between POM's earned and authorized returns. We value the generation and retail businesses using a 7.0x EV/EBITDA multiple applied to our 2019 estimate. This above-average multiple for a merchant business reflects longer-term visibility provided by capacity and ZEC revenues and a stronger credit profile than IPP peers. Downside risks include lower-than-expected forward power prices, successful legal challenges of nuclear subsidies in New York or Illinois, falling short of targeted de-levering at ExGen and targeted ROE and operational improvements at the underperforming POM utilities.

Solid quarter but call focus on developing baseload subsidy discussions

EXC beat our Q1 estimate by $0.03 (5%) with segments also in line. Guidance for 2017 was reiterated at $2.50-$2.80 along with ExGen's 3.0x debt:EBITDA target. With limited news, much of the call focused on topical federal and state initiatives to support baseload generation including the recently launched DOE study and FERC's technical conference earlier this week. As the leading nuclear owner in competitive markets EXC is well positioned to benefit from building momentum on this front, with Zero Emissions Credits already being collected in New York and set to begin this fall in Illinois. While the stock has lagged of late along with forward curves, we remain buyers of EXC's solid regulated growth, committed use of cash flow to de-lever at Ex-Gen with potential for further policy-related catalysts. Reiterate Buy, estimates, and $41 price target.

Earnings off $0.04 vs. 1Q16 but ahead of DBe and consensus

Q1 earnings came in right at the top end of EXC's $0.55-$0.65 guidance, ahead of our $0.62E and $0.63 consensus. The combined utilities delivered $0.52 up from $0.37 with the addition of Pepco (PHI) adding $0.09 to the regulated mix. ComEd was $0.02 light versus DBe on lower than expected rate base earnings growth. BGE came in $0.02 ahead with a penny more uplift from higher distribution rates, while PECO and PHI were both a penny better than forecast. ExGen's quarter was down $0.16 at $0.18 but in line with DBe with lower pricing (-$0.06) and higher plant outages (-$0.04) the primary factors. HoldCo drag was $0.05 for the quarter and down $0.02 reflecting financing costs and absence of a 1Q16 gain.

Gathering momentum to support baseload power likely bodes well for EXC

As other merchant generators have done on Q1 calls, EXC highlighted DOE Secretary Perry's recent letter calling for a study on the importance of baseload generation to grid reliability and resiliency. Results of the study and recommendations on how best to move forward are due out of the DOE in mid-June. EXC acknowledged that DOE may be somewhat limited in terms of specific actions but are clearly hopeful the department will set a constructive tone for new legislation or rule changes at the FERC or NRC. Management also referenced the potential use by the DOE of Section 202 of the Federal Power Act to secure baseload resources, but we'd note that the DOE has only invoked Section 202 a few times and then only in emergency situations involving an immediate threat to reliability. Separately, the FERC held a technical conference earlier this week, where potential market reforms to address the state subsidy movement were discussed, one of which would be putting a price on carbon. While parties are far from agreeing on appropriate solutions, there seems to be a growing sense of inevitability that something needs to be done to address the lack of market pricing to appropriately value baseload plant attributes including fuel diversity, resiliency and environmental benefits. It's clearly too early to know for sure how these various efforts will develop, but EXC seems particularly well positioned to benefit from market reforms, particularly if the once unthinkable (and still hard to imagine) federal carbon price regime were to materialize at some point.

EGTP sale expected to be accretive to EPS and debt:EBITDA

On the call, EXC discussed a recent agreement with holders of $650M worth of distressed non-recourse project debt associated with a ~3,500 MW portfolio gas-fired generation in Texas. Per the agreement, EXC will sell the plants on behalf of the bond holders, with the exit expected to be accretive to EPS and debt:EBITDA metrics in 2018. While the ultimate EBITDA contribution is unclear, we are doubtful that these plants are contributing meaningfully in out years and do not expect the exit to have a significant impact on our valuation or price target.

Moving forward with regulated strategy

We found EXC's tone on the regulated utility strategy and anticipated rate case filings to be in line with prior commentary. The company expects to deliver an EPS CAGR of roughly 6-8% at the utilities through 2020. With rate base growth seen in the 6.5% ballpark, this will require closing the gap between the legacy Pepco Holdings utilities' earned and authorized returns through rate relief. EXC targets a 9-10% ROE at these subsidiaries in 2019 after the completion of a second round of rate cases post acquisition close. These have commenced in some jurisdictions with the rest of the filings expected by the end of the year or early next.

Forecasts and ratios

Year End Dec 31	2016A	2017E	2018E
1Q EPS	0.69	0.65A	–
FY EPS (USD)	2.68	2.65	2.90
OLD FY EPS (USD)	2.68	2.65	2.90
% Change	0.0%	-0.0%	0.0%
P/E (x)	12.5	12.9	11.8
TD/TC (%)	–	–	–
Revenue (USDm)	31,905.0	31,560.6	32,168.4

Source: Deutsche Bank estimates, company data

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	33.98 (USD) 3 May 2017	6, 9, 14

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr. Aside from within this report, important conflict disclosures can also be found at https://gm/db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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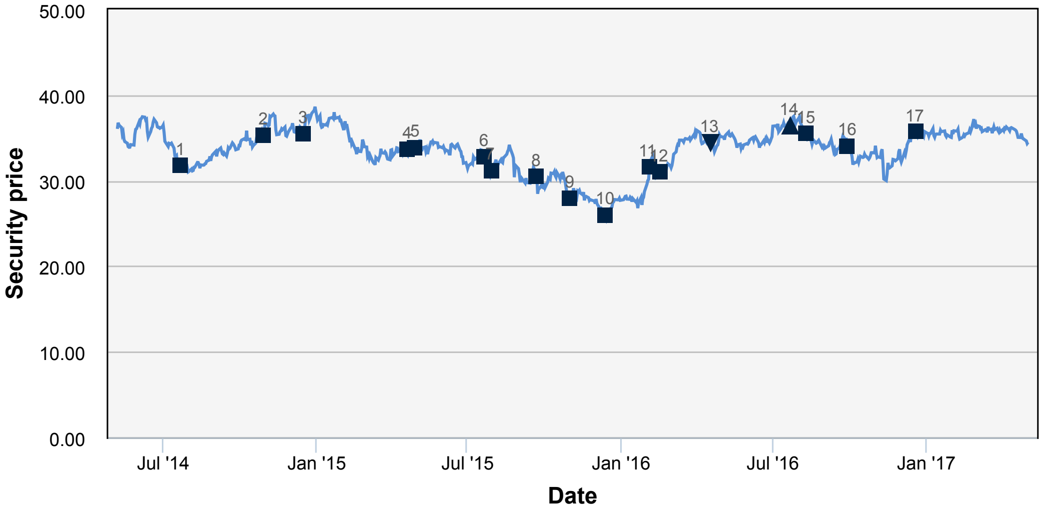
Historical recommendations and target price. Exelon (EXC.N)

(as of 05/03/2017)



<u>Current Recommendations</u>

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	07/23/2014	Buy, Target Price Change USD 36,00 Jonathan Arnold
2.	10/30/2014	Buy, Target Price Change USD 38,00 Jonathan Arnold
3.	12/17/2014	Buy, Target Price Change USD 43,00 Jonathan Arnold
4.	04/21/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
5.	04/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
6.	07/22/2015	Buy, Target Price Change USD 40,00 Jonathan Arnold
7.	07/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
8.	09/22/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
9.	11/02/2015	Buy, Target Price Change USD 37,00 Jonathan Arnold
10.	12/14/2015	Buy, Target Price Change USD 35,00 Jonathan Arnold
11.	02/04/2016	Buy, Target Price Change USD 36,00 Jonathan Arnold
12.	02/17/2016	Buy, Target Price Change USD 34,00 Jonathan Arnold
13.	04/18/2016	Downgraded to Hold, Target Price Change USD 36,00 Jonathan Arnold
14.	07/22/2016	Upgraded to Buy, Target Price Change USD 39,00 Jonathan Arnold
15.	08/11/2016	Buy, Target Price Change USD 40,00 Jonathan Arnold
16.	09/29/2016	Buy, Target Price Change USD 38,00 Jonathan Arnold
17.	12/20/2016	Buy, Target Price Change USD 41,00 Jonathan Arnold

Equity Rating Key

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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
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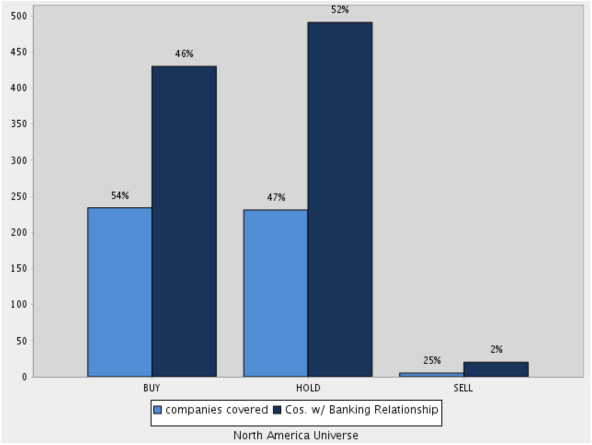

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Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss.

The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may -- by construction -- lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.

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Exelon Corp (EXC): 1Q17 beat on better ExGen margins; 2017 guidance reiterated

Sentiment Indicator : neutral

Produced by Tucker, Shelby (RBC Capital Markets, LLC) on Wednesday, May 03, 2017, 09:05 AM ET

Disseminated on Wednesday, May 03, 2017, 09:09 AM ET

Our View: Modest beat on better ExGen margins and expense control. We expect questions on the call to focus on: 1) details on the reason for deciding to no longer sell Mystic 8 & 9; 2) the company's involvement and discussions regarding potential nuclear subsidies in Pennsylvania; and 3) strategic thoughts at ExGen with the recent renewables JV and the anticipated use of proceeds from future Texas gas asset sale.

Exelon Corp (EXC; $34.46; Outperform; $40 PT) reported 1Q17 adjusted earnings of $0.65 per share, $0.04 above our estimate of $0.61 per share, above consensus of $0.63 per share, and at the top end of management's guidance of $0.55-$0.65 per share. The result also compares to 1Q16 results of $0.68 per share. Management reiterated their 2017 adjusted EPS guidance of $2.50-$2.80; our estimate is $2.64 versus consensus of $2.66. They also guided 2Q17 adjusted EPS at $0.45-$0.55. The following highlight some of the key EPS drivers of the quarter on a year-over-year (YoY) basis versus our estimates:

- **ExGen market conditions:** -$0.03, $0.05 better.
- **Nuclear volume:**- -$0.02, $0.01 worse.
- **ExGen capacity revenue:** -$0.03, in line.
- **Weather:** $0.01, $0.01 better.
- **BGE rates:** $0.02, in line.
- **ComEd rates/investment:** $0.03, $0.01 better.
- **PHI earnings contribution:** $0.06, $0.03 worse.
- **On-going O&M expense:** $0.01, $0.02 better.
- **Planned nuclear refueling outage:** -$0.02, in line.
- **Depreciation expense:** -$0.02, in line.
- **Interest expense:** -$0.02, in line.

Moderate decrease in ExGen gross margin forecasts. Total gross margins for 2017-2019 stand at $8.15 billion, $8.25 billion, and $7.85 billion, respectively, $50 million lower each for 2018 and 2019. The change in margins is due to lower open gross margins, with the business remaining behind ratable in its hedging program.

PHI earned ROEs continuing to improve. As of March 31, the three Pepco utilities (ACE, Delmarva, Pepco) recorded trailing 12-month earned ROEs of 6.5%, 7.2%, and 8.3%. This is up from 5.6%, 6.3%, and 7.5%, respectively, as of December 31, 2016. Both Pepco and ACE have another round of rate cases currently filed, with decisions expected in 4Q17 and 1Q18, respectively.

No longer looking to sell Mystic 8 & 9. As of the 4Q16 earnings call, management had still intended to sell the ~2,000 MW facility in Middlesex, MA and were in the process of evaluating all offers, although the delay in finalizing a sale caused some concern for investors. Our model incorporated a sale in 3Q17 for $600/kW, with the $1.2 billion in sales proceeds used to pay down ExGen/HoldCo debt. The 1Q17 slide deck reiterated the company's goal to reduce debt and improve debt/EBITDA metrics.

Conference call at 11 AM ET. The dial-in number is (800) 690-3108, with pass code 44444489.

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Click here for conflict of interest and other disclosures relating to Exelon Corporation, Shelby Tucker, Insoo Kim These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to rbcinsight@rbccm.com

J.P.Morgan

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North America Equity Research
03 May 2017

Exelon Corp.

Model Update

Overweight

EXC, EXC US

Price: $33.98

▼ **Price Target: $40.00**
Previous: $41.00

We are updating our model to incorporate our newly revised assumptions after EXC reported Q117 earnings. We are revising our December 2017 price target downward to $40 from $41, primarily reflecting a lower regulated peer multiple relative to our prior update.

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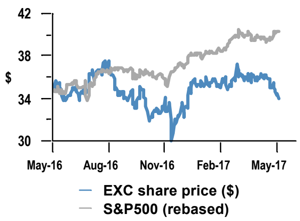
Price Performance



	YTD	1m	3m	12m
Abs	-4.3%	-5.1%	-5.0%	-2.3%
Rel	-11.0%	-6.3%	-8.9%	-18.0%

Exelon Corp. (EXC;EXC US)

FYE Dec	**2015A**	**2016A**	**2017E** *(Prev)*	**2017E** *(Curr)*	**2018E** *(Prev)*	**2018E** *(Curr)*	**2019E** *(Prev)*	**2019E** *(Curr)*
adj. EPS ($)								
Q1 (Mar)	0.71	0.68	0.57A	0.65A	-	-	-	-
Q2 (Jun)	0.59	0.65	-	0.52	-	-	-	-
Q3 (Sep)	0.83	0.91	-	-	-	-	-	-
Q4 (Dec)	0.38	0.44	-	-	-	-	-	-
FY	2.49	2.68	2.67	2.72	2.87	2.88	2.85	2.85
Bloomberg EPS FY ($)	2.51	2.68	-	2.66	-	2.88	-	2.79

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	33.98
Date Of Price	03 May 17
52-week Range ($)	37.70-29.82
Market Cap ($ mn)	31,329.56
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	40.00
Price Target End Date	31-Dec-17

See page 4 for analyst certification and important disclosures.

Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $40.00)*

Investment Thesis

ExGen continues to generate strong cash flow even in a challenging commodity environment, allowing it to fund a top-tier utility growth story and a growing dividend. While the legal standing of ZECs remains a concern, a final litigated decision at NY may come as early as Q3 and would at least bring a greater degree of clarity for the fate of IL ZECs. Given EXC's prior success of lag catchup at BGE, we believe EXC is well positioned to increase ROEs at Pepco as the company prepares for a second round of rate case filings. An announcement of the sale of the renewables or ExGen Texas CCGT assets could also accelerate the ExGen deleveraging process.

Valuation

We are lowering our December 2017 price target to $40/share from $41/share. Our valuation is based on a sum-of-the-parts analysis using our 2019 forecasts. We use an average 19.6x P/E multiple for the regulated utility and corporate business segments. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. The downward revision in our price target is driven by a lower regulated peer multiple relative to our prior estimate.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company's earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	**29,237**	**31,907**	**34,834**	**35,583**	**35,555**
COGS	(13,139)	(13,035)	(14,717)	(14,998)	(15,023)
Gross profit	**16,098**	**18,872**	**20,117**	**20,585**	**20,532**
SG&A	(9,432)	(10,778)	**(11,478)**	**(11,383)**	**(11,384)**
Adj. EBITDA	**6,960**	**8,389**	**8,940**	**9,500**	**9,445**
D&A	(2,450)	(3,233)	(3,612)	(3,669)	(3,732)
Adj. EBIT	**4,510**	**5,156**	**5,328**	**5,831**	**5,713**
Net Interest	(1,098)	(1,382)	(1,498)	(1,537)	(1,574)
Adj. PBT	**3,412**	**3,774**	**3,830**	**4,294**	**4,139**
Tax	(1,165)	(1,298)	(1,293)	(1,494)	(1,360)
Minority Interest	(20)	10	33	(8)	(8)
Adj. Net Income	**2,227**	**2,486**	**2,571**	**2,792**	**2,771**
Reported EPS	2.49	2.68	2.72	2.88	2.85
Adj. EPS	**2.49**	**2.68**	**2.72**	**2.88**	**2.85**
DPS	**1.24**	**1.28**	**1.32**	**1.35**	**1.38**
Payout ratio	49.7%	47.8%	48.5%	47.0%	48.6%
Shares outstanding	920	924	967	970	972

Income Statement - Quarterly	1Q17A	2Q17E	3Q17E	4Q17E
Revenue	**8,715A**	**7,894**		
COGS	(3,806)A	(3,110)		
Gross profit	**4,909A**	**4,784**		
SG&A	(2,848)A	(2,816)		
Adj. EBITDA	**2,140A**	**2,042**	**-**	**-**
D&A	(894)A	(902)	-	-
Adj. EBIT	**1,246A**	**1,140**	**-**	**-**
Net Interest	(377)A	(380)	-	-
Adj. PBT	**869A**	**760**	**-**	**-**
Tax	(303)A	(274)		
Minority Interest	39A	(2)		
Adj. Net Income	**605A**	**484**	**-**	**-**
Reported EPS	0.65A	0.52	-	-
Adj. EPS	**0.65A**	**0.52**	**-**	**-**
DPS	**0.33A**	**0.33**		
Payout ratio	50.3%A	63.2%	-	-
Shares outstanding	932A	933		

Balance Sheet & Cash Flow Statement	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalents	6,502	635	0	0	0
Accounts receivable	4,099	5,359	5,019	5,019	5,019
Other current assets	4,733	6,418	6,871	7,233	7,571
Current assets	**15,334**	**12,412**	**11,890**	**12,252**	**12,590**
PP&E	57,439	71,555	76,006	79,587	82,605
Other non current assets	22,611	30,937	31,832	30,932	30,007
Total assets	**95,384**	**114,904**	**119,727**	**122,770**	**125,201**
Short term borrowings	2,033	3,697	5,693	5,693	5,693
Payables	2,883	3,441	3,011	3,011	3,011
Other short term liabilities	4,202	6,319	5,733	5,733	5,733
Current liabilities	**9,118**	**13,457**	**14,437**	**14,437**	**14,437**
Long-term debt	24,286	32,216	31,110	31,077	30,622
Other long term liabilities	34,658	41,619	43,645	45,139	46,499
Total liabilities	**68,062**	**87,292**	**89,191**	**90,652**	**91,557**
Shareholders' equity	25,793	25,837	28,774	30,357	31,883
Minority interests	1,529	1,775	1,761	1,761	1,761
Total liabilities & equity	**95,384**	**114,904**	**119,727**	**122,770**	**125,201**
BVPS	**28.04**	**27.96**	**29.76**	**31.31**	**32.79**
y/y Growth	*6.6%*	*(0.3%)*	*6.4%*	*5.2%*	*4.7%*
Net debt/(cash)	19,817	35,278	36,803	36,770	36,315
Cash flow from operating activities	**7,634**	**8,434**	**6,982**	**8,492**	**8,450**
o/w Depreciation & amortization	3,987	5,576	4,705	4,569	4,657
o/w Changes in working capital	(246)	(492)	(1,318)	(363)	(338)
Cash flow from investing activities	**(7,840)**	**(15,492)**	**(8,505)**	**(7,250)**	**(6,750)**
o/w Capital expenditure	(7,624)	(8,565)	(8,208)	(7,250)	(6,750)
as % of sales	*26.1%*	*26.8%*	*23.6%*	*20.4%*	*19.0%*
Cash flow from financing activities	**4,830**	**1,191**	**887**	**(1,242)**	**(1,700)**
o/w Dividends paid	(1,105)	(1,166)	(1,249)	(1,309)	(1,345)
o/w Net debt issued/(repaid)	4,022	2,780	123	(33)	(455)
Net change in cash	**4,624**	**(5,867)**	**(635)**	**(0)**	**(0)**
Free cashflow to firm	**733**	**776**	**(233)**	**2,244**	**2,757**
y/y Growth	*(174.0%)*	*5.8%*	*(130.0%)*	*(1063.1%)*	*22.9%*

Ratio Analysis	FY15A	FY16A	FY17E	FY18E	FY19E
Gross margin	55.1%	59.1%	57.8%	57.9%	57.7%
EBITDA margin	23.8%	26.3%	25.7%	26.7%	26.6%
EBIT margin	15.4%	16.2%	15.3%	16.4%	16.1%
Net profit margin	7.6%	7.8%	7.4%	7.8%	7.8%
ROE	9.2%	9.6%	9.4%	9.4%	8.9%
ROA	2.4%	2.4%	2.2%	2.3%	2.2%
ROCE	6.1%	5.9%	5.5%	5.7%	5.7%
SG&A/Sales	32.3%	33.8%	33.0%	32.0%	32.0%
Net debt/equity	72.5%	127.8%	120.5%	114.5%	107.9%
P/E (x)	13.6	12.7	12.5	11.8	11.9
P/BV (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	7.0	8.1	7.9	7.5	7.5
Dividend Yield	3.6%	3.8%	3.9%	4.0%	4.1%
Sales/Assets (x)	0.3	0.3	0.3	0.3	0.3
Interest cover (x)	6.3	6.1	6.0	6.2	6.0
Operating leverage	158.0%	156.8%	36.4%	438.5%	2523.4%
Revenue y/y Growth	4.8%	9.1%	9.2%	2.2%	(0.1%)
EBITDA y/y Growth	7.0%	20.5%	6.6%	6.3%	(0.6%)
Tax rate	34.1%	34.4%	33.7%	34.8%	32.9%
Adj. Net Income y/y Growth	7.7%	11.6%	3.4%	8.6%	(0.8%)
EPS y/y Growth	4.2%	7.5%	1.3%	5.9%	(1.0%)
DPS y/y Growth	0.0%	3.3%	2.9%	2.5%	2.5%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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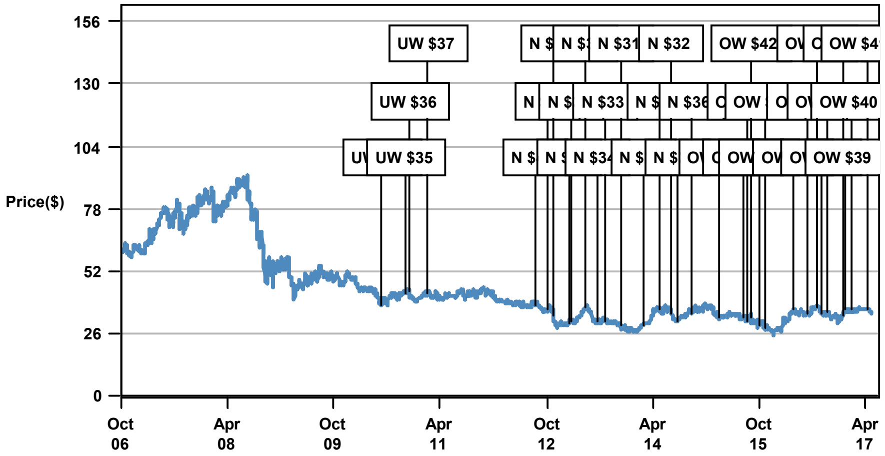
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.65	33.00
29-Sep-10	UW	42.82	35.00
19-Oct-10	UW	43.74	36.00
20-Jan-11	UW	42.82	37.00
07-Aug-12	N	38.01	40.00
08-Oct-12	N	35.95	39.00
02-Nov-12	N	33.58	38.00
23-Jan-13	N	29.99	36.00
08-Feb-13	N	31.08	34.00
19-Apr-13	N	36.68	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.59	33.00
17-Oct-13	N	29.04	31.00
12-Feb-14	N	29.47	29.00
30-Apr-14	N	35.99	33.00
09-Jul-14	N	34.26	32.00
01-Aug-14	N	31.08	35.00
16-Oct-14	N	33.93	36.00
05-Mar-15	OW	32.62	38.00
06-Jul-15	OW	32.77	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	32.64	42.00
28-Sep-15	OW	29.20	39.00
02-Nov-15	OW	28.51	36.00
28-Mar-16	OW	35.69	39.00
31-May-16	OW	34.27	37.00
21-Jul-16	OW	36.46	41.00
15-Aug-16	OW	34.63	40.00
20-Sep-16	OW	34.85	37.00
02-Dec-16	OW	33.32	36.00
16-Dec-16	OW	35.73	39.00
18-Jan-17	OW	35.71	40.00
11-Apr-17	OW	36.14	41.00

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IB clients*	51%	49%	31%
JPMS Equity Research Coverage	43%	50%	7%
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TOP PICK Exelon Corp.

Execution Drives the Upside

Reiterating Overweight Rating and $43 PT: We are reiterating our Overweight rating and our $43 PT. For 1Q17 the company reported Adj. Operating EPS of $0.65 vs. $0.68 last year, guidance of $0.55-$0.65, and consensus of $0.62.

Focus on 2020 Power Earnings Degradation Misplaced: On the earnings call investors expressed some concerns around an earnings cliff in 2020 related to lower year on year quark spreads on the forward curve and likely lower year on year capacity prices pending the outcome of the upcoming capacity auction in May. We believe these concerns are overblown as natural gas prices have shown resilience given exports to Mexico, LNG capacity, and takeaway capacity from the Marcellus and Utica taking shape. Power prices have yet to respond given a lack of liquidity three years out in the forward curve. If gas prices hold, we expect power to trade higher and spreads to widen as liquidity improves. On the capacity side a significant proportion of Exelon's MWs are in the ComEd region which broke out in the '18/19 and '19/20 capacity years and is expected to break out in the upcoming '20/21 auction. If pricing hits expectations there will be very little degradation in capacity revenues for the 2020 calendar year in ComEd. EMAAC should also break out and while it would likely do so at lower pricing Exelon is better positioned that other names to capacity pricing.

Utility Story Underappreciated: We believe investors are not focused on truly appreciating the excellence management applies to regulated utility franchises. The operational metrics for the recently acquired Pepco utilities are ahead of our expectations and regulatory recovery across two rate case cycles drives returns significantly higher toward allowed levels of 10%. This is the same path management took with BG&E and they are proving they can do it again. Our estimate of EPS power excluding ExGen in 2020 is $2.00/share which at the current 16x multiple is a $32/share indicative valuation, which in turn implies investors are only paying $2/share for the ExGen business. As a reminder the ExGen business is projected to be a 3.0x Debt/EBITDA at that time and offers significant upside to a power market recovery.

EXC: Quarterly and Annual EPS (USD)

	2016	2017			2018			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2017	2018
Q1	0.68A	0.64E	0.65A	0.62E	N/A	N/A	0.79E	-4%	N/A
Q2	0.65A	N/A	N/A	0.60E	N/A	N/A	0.62E	N/A	N/A
Q3	0.91A	N/A	N/A	0.88E	N/A	N/A	0.85E	N/A	N/A
Q4	0.44A	N/A	N/A	0.53E	N/A	N/A	0.59E	N/A	N/A
Year	2.68A	2.70E	2.70E	2.66E	2.89E	2.89E	2.88E	0.75%	7%
P/E	12.7		12.6			11.8			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Equity Research
Power & Utilities | North America Power & Utilities
4 May 2017

Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 43.00 Unchanged

Price (03-May-2017)	USD 33.98
Potential Upside/Downside	+26.5%
Tickers	EXC

Market Cap (USD mn)	31457
Shares Outstanding (mn)	925.76
Free Float (%)	99.79
52 Wk Avg Daily Volume (mn)	5.2
52 Wk Avg Daily Value (USD mn)	181.59
Dividend Yield (%)	3.9
Return on Equity TTM (%)	7.49
Current BVPS (USD)	28.71

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 37.70-29.82

Link to Barclays Live for interactive charting

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North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corp. (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2016A	2017E	2018E	2019E	CAGR
Revenue	32,166	33,708	34,209	34,395	2.3%
EBITDA (adj)	7,577	8,127	8,691	8,831	5.2%
EBIT (adj)	4,530	4,808	5,179	5,083	3.9%
Pre-tax income (adj)	3,630	3,725	4,036	3,919	2.6%
Net income (adj)	2,483	2,564	2,795	2,723	3.1%
EPS (adj) ($)	2.68	2.70	2.89	2.81	1.6%
Diluted shares (mn)	927.0	949.0	967.0	968.0	1.5%
DPS ($)	1.26	1.29	1.33	1.36	2.5%

Margin and return data					Average
EBITDA (adj) margin (%)	23.6	24.1	25.4	25.7	24.7
EBIT (adj) margin (%)	14.1	14.3	15.1	14.8	14.6
Pre-tax (adj) margin (%)	11.3	11.0	11.8	11.4	11.4
Net (adj) margin (%)	7.7	7.6	8.2	7.9	7.9
ROIC (%)	7.8	7.9	8.2	7.9	7.9
ROA (%)	2.6	2.6	2.8	2.7	2.6
ROE (%)	9.7	9.5	9.8	9.0	9.5

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	61,505	67,111	72,374	73,301	6.0%
Total net assets	98,092	100,501	102,656	102,779	1.6%
Capital employed	58,239	60,743	63,043	64,619	3.5%
Shareholders' equity	26,304	27,804	29,505	31,104	5.7%
Net debt/(funds)	31,472	32,670	33,325	27,662	-4.2%
Cash flow from operations	7,538	7,891	8,314	8,480	4.0%
Capital expenditure	-8,482	-8,925	-8,775	-4,675	N/A
Free cash flow	-2,026	-2,145	-1,601	2,633	N/A
Pre-dividend FCF	-944	-1,034	-461	3,805	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	12.7	12.6	11.8	12.1	12.3
EV/EBITDA (adj) (x)	8.3	7.9	7.5	6.7	7.6
EV/EBIT (adj) (x)	13.9	13.3	12.5	11.6	12.8
P/BV (x)	1.2	1.2	1.1	1.1	1.1
Dividend yield (%)	3.7	3.8	3.9	4.0	3.9
Total debt/capital (%)	54.8	54.2	53.2	51.9	53.5
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					Average
Payout ratio (%)	47.2	47.9	45.9	48.4	47.3
Interest cover (x)	3.1	3.2	3.3	3.2	3.2
Regulated (%)	52.4	54.4	57.7	65.5	57.5

Price (03-May-2017)	USD 33.98
Price Target	USD 43.00

Why Overweight? We believe that that utility growth of 7-9% is achievable and will be funded by cash flow from the generation company even with the current forward curves. Any additional legislation similar to the CES in New York or the inclusion of the CES in our numbers is upside to our estimates.

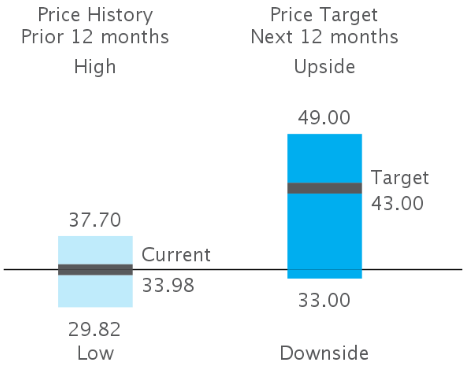
Upside case **USD 49.00**

Our upside case assumes the impact of the zero emission credits in New York for the genco and assumes a 10% premium for the utility valuation given the above average growth.

Downside case **USD 33.00**

Our downside case assumes a 10% discount for the utility and a 4x EBITDA at the genco based on current forwards, with no consideration of the CES or FitzPatrick acquisition

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

Key Ongoing Items Update

Zero Emission Credits (ZECs) Legal Challenges

New York

The legal process around the lawsuit against the ZECs in New York continues to move forward and the motion to dismiss was held on March 29. Currently we are awaiting the decision on the motion to dismiss from the Judge and there is no statutory time limit or schedule for that decision. The decision on the motion to dismiss will determine the next steps and whether, if dismissed there is an appeal, or if the case moves forward to a trial this summer and fall. There is no stay ordered by the courts and the ZEC program in New York went into effect on April 1 2017.

Illinois

Plaintiffs filed for a preliminary injunction to the Illinois ZEC program on March 31 and a subsequent motion to dismiss was filed on April 10. The Judge in Illinois issued a preliminary injunction while a full briefing is received by the court. Plaintiffs filed their responses on April 24 and defendant replies are due by May 15. The judge will inform parties of his intentions regarding the case on May 22, and baring any action by the courts by way of a permanent injunction or stay order, the Illinois ZEC program would become effective on June 1.

PJM Capacity Market Auction

This year's Reliability Pricing Model (RPM) capacity auction in the PJM market will open for bidding on May 10 and bidding will close on May 16. Auction results will be posted on the PJM website on May 23. Management expressed on the call that the move in this year's auction to a 100% capacity performance standard could lead to bidding behavior more in line with long term economic realities for plants in the market. Further, the tightening CETL ratios in the final PJM planning parameters indicate to management that ComEd and EMAAC regions remain likely to break out from the rest of pool and price as more constrained markets. Offsetting these positive drivers is the lower PJM demand forecast and the potential for higher new build bidding in.

We certainly share the view that ComEd is likely to break out and our estimate for pricing is \$170-\$210/MW-day with a mid-point of \$190/MW-day. We also believe at least PS North is likely to break out with pricing \$120-\$160/MW-day with a mid-point expectation of \$140/MW-day. This is versus our RTO expectation of \$85 - \$135/MW-day with a mid-point of \$110/MW-day. While the updated planning parameters showed a tightening for the EMAAC region as well, whether or not that region breaks out will largely depend, in our view as to whether summer demand response resources can aggregate with winter resources to continue to bid in under capacity performance. Importantly if the winter resource that is aggregated is outside of EMAAC and in RTO the demand response and winter resource move to RTO, which could lead EMAAC to break out and also potentially push down RTO pricing all else equal. If the aggregated winter resource is in the EMAAC region then the bid would remain in EMAAC and that region breaking out would be less likely.

Recent Key Transactions

Exelon Generation Renewables Joint Venture

This transaction was executed with John Hancock for \$400 million in pre-tax proceeds for 1,296MWs of renewable generation capacity. The sale price represented a greater that 10x EV/EBITDA multiple. Exelon retains the right to drop further projects into the JV and any proceeds from these drop downs will be used to accelerate the deleveraging of the balance sheet at ExGen toward the 3.0x Debt/EBITDA target. Management indicated during Q&A

on the call that the most likely candidates for drop down to the JV would be the AVRS solar facility in 2019 once tax credits expire and the Albany Green Energy biomass wood burning facility which comes online around the end of 2017 and would likely be a drop down in 2018.

FitzPatrick Nuclear Station

The acquisition of the FitzPatrick Nuclear station from Entergy was completed on March 31 2017 and will contribute to earnings going forward. The plant constitutes 838 MWs of nuclear capacity and is receiving payments as of April 1 under the New York ZEC program discussed above.

Mystic 8 & 9

Management indicated on the call that they are no longer pursuing the sale of these assets, which has no impact on the commitments to ExGen debt reduction to the 3.0x Debt/EBITDA goal. Management also indicated that they could revisit the process for Mystic at some future time and as with all assets in the portfolio, continually evaluate strategic options.

ExGen Texas Power

ExGen Texas Power has 3,476MWs of conventional power plants in the ERCOT market that are all natural gas fired CCGTs or simple cycle peaking turbines. The plants are currently economically challenged given the downturn in ERCOT power prices given the lack of uneconomic plants retiring in the market and the lack of hot summer weather driving scarcity pricing. The portfolio currently has $650 million of debt at a non-recourse level and Exelon has indicated that they will not be supporting the assets with additional equity. An agreement in principal has been reached with the lenders to pursue a potential sale of the assets, which would reduce ExGen leverage all else equal by 0.1x. We believe any sale contemplated by Exelon would need to be at a price that would be EPS accretive.

1Q 2017 Results Review

FIGURE 1

Earnings by Segment for the Quarter

ComEd	$0.15
PECO	$0.14
PHI	$0.09
BGE	$0.14
ExGen	$0.18
HoldCo	($0.05)
TOTAL	**$0.65**

Source: EXC Press Release, Filings, and Presentation, Barclays Research Estimates

FIGURE 2

Earnings Results Waterfall Table

1Q 2016 EPS	**$**	**0.68**
ExGen		
Increased Outages	$	(0.04)
Market Conditions	$	(0.03)
Capacity Prices	$	(0.03)
Taxes	$	(0.01)
D&A	$	(0.01)
Other	$	(0.04)
ComEd		
Rate Base Growth	$	0.02
ROE - US Treasuries	$	0.01
PECO		
PECO	$	-
BGE		
Increased Distribution Rates	$	0.02
Lower Storm Costs	$	0.01
D&A	$	(0.01)
PHI		
Full Qtr vs. 8 days in 1Q16	$	0.09
HoldCo		
Interest Expense	$	(0.01)
Other	$	(0.01)
1Q 2017 EPS	**$**	**0.65**

Source: EXC Press Release, Filings, and Presentation, Barclays Research Estimates

FIGURE 3

Current Year Earnings Guidance by Segment vs. Prior Year Actuals

		Prior Yr Actual	Current Year Guidance
ComEd	$	0.57	$0.60 - $0.70
PECO	$	0.48	$0.40 - $0.50
PHI	$	0.25	$0.30 - $0.40
BGE	$	0.31	$0.25 - $0.35
ExGen	$	1.27	$1.05 - $1.15
HoldCo	$	(0.19)	$(0.20)
TOTAL	**$**	**2.69**	**$2.50 - $2.80**

Source: EXC Press Release, Filings, and Presentation, Barclays Research Estimates

FIGURE 4
ExGen Gross Margin Update

US$m	2017	2018	2019	17 Chg	18 Chg	19 Chg
Open Gross Margin	3,850	4,150	3,950	(250)	(50)	(100)
Capacity and ZEC Revenues	1,850	2,250	2,050	-	-	-
Mart to Market of Hedges	1,600	500	400	400	50	50
Power New Business/To Go	400	850	950	(150)	(50)	-
Non-Power Margins Executed	250	150	100	50	50	50
Non-Power New Business/To Go	200	350	400	(50)	(50)	(50)
Total Gross Margin	**8,150**	**8,250**	**7,850**	**-**	**(50)**	**(50)**

Source: EXC Press Release, Filings, and Presentation, Barclays Research Estimates

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Primary Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 03-May-2017, USD 33.98), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Prices are sourced from Thomson Reuters as of the last available closing price in the relevant trading market.

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Duke Energy (DUK)
Alliant Energy (LNT)
American States Water Company (AWR)
Brookfield Infrastructure Partners LP (BIP)
Brookfield Renewable Energy Partners LP (BEP_u.TO)
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CMS Energy (CMS)
Dominion Resources (D)
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IMPORTANT DISCLOSURES CONTINUED

Exelon Corp. (EXC / EXC)

	Stock Rating	Industry View
USD 33.98 (03-May-2017)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 03-May-2017)

Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
21-Apr-2017	35.03		43.00
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00

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Valuation Methodology: Our current $43 price target is premised upon a 2019 group average multiple of 16.8x applied to the utility net parent earnings of $1.81 resulting in $31 of utility value. Exgen is valued at 6.6x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, the combined value is $43.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	34.46 USD	32.00 USD	1.08	3.72	3.80	31.90	Utilities - Diversified	Standard
02 May 2017 22:29, UTC	02 May 2017	07 Dec 2016 02:29, UTC		02 May 2017	02 May 2017	02 May 2017		

Morningstar Pillars

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.03	0.90	1.03	0.92
Price/Earnings	28.2	17.0	16.8	22.5
Forward P/E	13.0	—	16.6	17.6
Price/Cash Flow	3.8	4.5	6.8	12.9
Price/Free Cash Flow	—	57.1	13.4	19.1
Trailing Dividend Yield%	3.72	4.40	3.31	1.88

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Investment Thesis

Travis Miller, Strategist, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 02 May 2017 22:29, UTC	34.46 USD 02 May 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.08	3.72 02 May 2017	3.80 02 May 2017	31.90 02 May 2017	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,193	9,037	10.26	42.19
Entergy Corp ETR	USD	13,739	10,846	-8.17	0.00
FirstEnergy Corp FE	USD	12,882	14,245	-59.42	0.00

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

Economic Moat

Travis Miller, Strategist, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle

Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move

so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	34.46 USD	32.00 USD	1.08	3.72	3.80	31.90	Utilities - Diversified	Standard
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Analyst Notes Archive

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns

Travis Miller, Strategist, 08 November 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities

Travis Miller, Strategist, 09 November 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

Travis Miller, Strategist, 14 November 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Travis Miller, Strategist, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Strategist, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

Exelon Corp EXC ★★★Q

03 May 2017 02:00 UTC

Last Close	Fair Value Q	Market Cap	Sector	Industry	Country of Domicile
02 May 2017 34.46	03 May 2017 02:00 UTC 33.59	02 May 2017 31,901.8 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	82	81	77
Valuation	Fairly Valued	40	51	32
Quantitative Uncertainty	Medium	98	93	96
Financial Health	Moderate	58	51	58

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.03	0.90	1.03	0.92
Price/Earnings	28.2	17.0	16.8	22.5
Forward P/E	13.0	—	16.6	17.6
Price/Cash Flow	3.8	4.5	6.8	12.9
Price/Free Cash Flow	—	57.1	13.4	19.1
Trailing Dividend Yield %	3.72	4.40	3.31	1.88
Price/Book	1.2	1.3	1.4	2.6
Price/Sales	1.0	1.1	1.5	2.2

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	4.4	7.0	9.3	11.9
Return on Assets %	1.1	1.9	3.1	4.6
Revenue/Employee (K)	911.7	942.4	1,218.5	301.1

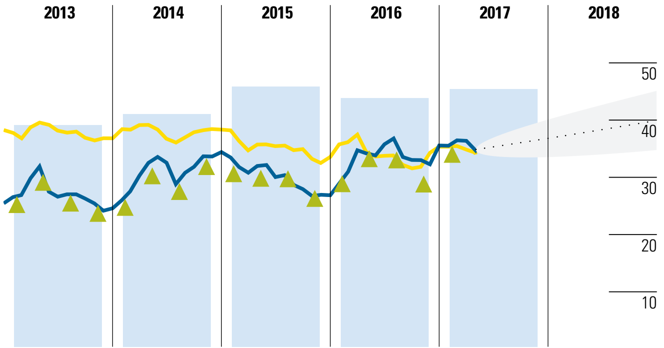
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	594.6	—	606.2	583.6
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	1.9	2.2	1.1	-3.9

Price vs. Quantitative Fair Value



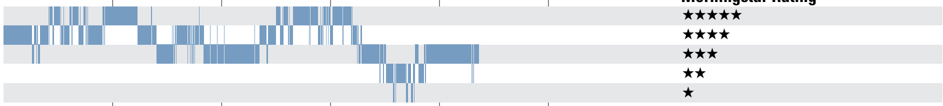
Momentum:	Negative
Standard Deviation:	19.22
Liquidity:	High

29.82 52-Wk 37.70

25.09 5-Yr 39.82

2013	2014	2015	2016	2017	2018	
-3.0	39.9	-21.8	32.4	-2.0		Total Return %
-36.1	27.1	-22.5	19.9	-9.3		+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—		Trailing Dividend Yield %
—	—	—	—	3.72		Forward Dividend Yield %
14.6	15.2	12.4	26.9	28.2		Price/Earnings
0.9	1.2	0.8	1.1	1.0		Price/Revenue

Morningstar Rating Q



Financials (Fiscal Year in Mil)

2012	2013	2014	2015	2016	TTM	
23,489	24,888	27,429	29,447	31,360	31,360	Revenue
24.1	6.0	10.2	7.4	6.5	0.0	% Change
2,380	3,656	3,096	4,409	3,112	3,112	Operating Income
-46.9	53.6	-15.3	42.4	-29.4	0.0	% Change
1,160	1,719	1,623	2,269	1,134	1,134	Net Income
6,131	6,343	4,457	7,616	8,445	8,445	Operating Cash Flow
-5,810	-5,395	-6,077	-7,624	-8,553	-8,553	Capital Spending
321	948	-1,620	-8	-108	-108	Free Cash Flow
1.4	3.8	-5.9	0.0	-0.3	-0.3	% Sales
1.42	2.00	1.88	2.54	1.22	1.22	EPS
-62.1	40.8	-6.0	35.1	-52.0	0.0	% Change
0.39	0.48	-0.03	-1.04	0.82	-0.12	Free Cash Flow/Share
2.10	1.46	1.24	1.24	1.26	1.26	Dividends/Share
25.07	25.51	27.44	28.01	28.17	27.91	Book Value/Share
857,000	860,000	920,000	924,000	925,763	925,763	Shares Outstanding (K)

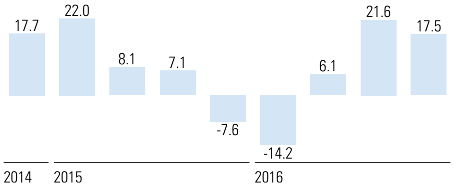
Profitability

2012	2013	2014	2015	2016	TTM	
6.5	7.8	7.2	9.4	4.4	4.4	Return on Equity %
1.7	2.2	2.0	2.5	1.1	1.1	Return on Assets %
4.9	6.9	5.9	7.7	3.6	3.6	Net Margin %
0.35	0.31	0.33	0.32	0.30	0.30	Asset Turnover
3.7	3.5	3.8	3.7	4.4	4.4	Financial Leverage
56.8	56.9	52.6	55.6	59.7	59.7	Gross Margin %
10.1	14.7	11.3	15.0	9.9	9.9	Operating Margin %
18,346	18,271	20,010	24,286	32,216	32,216	Long-Term Debt
21,624	22,925	22,801	25,793	25,837	25,837	Total Equity
0.6	0.5	0.6	0.5	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
2013	6,082.0	6,141.0	6,502.0	6,163.0	24,888.0
Earnings Per Share ()					
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88
2013	-0.01	0.57	0.86	0.58	2.00

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

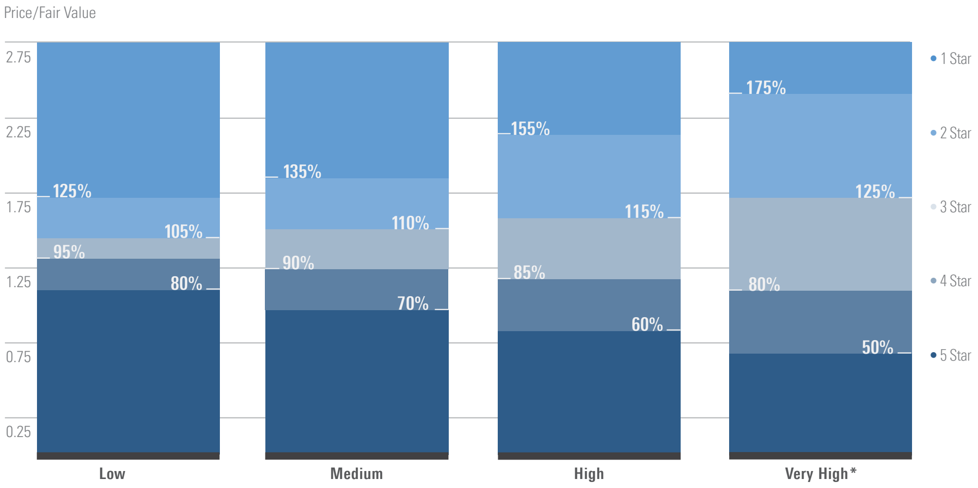
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ►**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ►**Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ►**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ►**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ►**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ►**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ►**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ►**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

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For more information about Morningstar's quantitative methodology, please visit www.corporate.morningstar.com.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 02 May 2017 22:29, UTC	34.46 USD 02 May 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.08	3.72 02 May 2017	3.80 02 May 2017	31.90 02 May 2017	Utilities - Diversified	Standard

Price/Fair Value Morningstar data as of May 02, 2017

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Macquarie Research

MACQUARIE

Equities

UNITED STATES

EXC US	Outperform
Price (at 20:50, 03 May 2017 GMT)	US$34.46

Valuation - PER	**US$**	**41.00**
12-month target	**US$**	**41.00**
12-month TSR	**%**	**+22.8**
GICS sector		**Utilities**
Market cap	**US$m**	**31,930**
30-day avg turnover	**US$m**	**143.2**
Number shares on issue	**m**	**926.6**

Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
EPS adj	US$	2.68	2.70	2.94	2.87
PER adj	x	12.8	12.8	11.7	12.0
Total DPS	US$	1.26	1.29	1.32	1.36
Total div yield	%	3.6	3.7	3.8	3.9

EXC US vs S&P 500, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Capital (USA), May 2017

(all figures in USD unless noted)

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4 May 2017
Macquarie Capital (USA) Inc.

Exelon Corp

Drama-filled May

Event

- While we are optimistic about capacity clearing prices for EXC's zones (COMED and EMAAC), we recognize that PJM capacity auctions are difficult to call, and that investors tend to limit their exposure to PJM-sensitive power names, such as EXC, ahead of them. Add to that upcoming updates on legal challenges to subsidies for some of EXC's nuclear plants in IL and NY, and we can partly justify a weak reaction of the stock to strong 1Q17 updates. We reiterate our Outperform rating as we look toward the summer.
- EXC reported 1Q17 adjusted EPS of US$0.65 beating consensus/our expectations of US$0.62/0.60. The timing of O&M expenses more than offset weak weather at regulated utilities, while hedges supported ExGen's earnings. Management reaffirmed '17 adjusted EPS guidance range of US$2.50-2.80.

Impact

- **PJM capacity auction – COMED/EMAAC zones:** The upcoming capacity auction will be the first following the award of state subsidies, zero emission credits (ZECs), to EXC's Quad Cities nuclear plant (1,400MW) in PJM's portion of IL (COMED zone). Given legal challenges to the IL ZECs and the fact that EXC owns close to 9,000MW in other power plants in the COMED zone, we expect EXC not to include the subsidies in its PJM capacity bids. As a result, we expect the COMED zone to clear between US$180-200/MW-day. We expect the EMAAC zone to separate as well, though the pricing premium for this zone over the RTO price is less clear—we assume US$150/MW-day.
- **Legal challenges to IL/NY ZECs:** On March 29th, a judge in New York Federal Court heard oral arguments on EXC's motion to dismiss legal challenges to ZECs for EXC's nuclear plants in upstate NY. There is no real deadline for the judge to issue her order in this case, but we hope it happens in May. In IL, there are two legal challenges to state's ZECs for Quad Cities and Clinton nuclear plants—both cases are in front of the same judge. The judge should determine if the lawsuits can move forward on May 22nd. EXC plans to start recognizing ZEC revenues in NY on April 1 and IL-July 1. The ZEC collections will not be subject to refund in if it the current (or future) legal challenges are successful.

Earnings and target price revision

- We have updated our estimates to reflect changes in fwd power/gas curves and EXC's power hedges. Our new '17/'18/'19 EPS estimates are US$2.70/2.94/2.87 vs US$2.70/2.98/2.88 previously. Our US$41 TP remains unchanged.

Price catalyst

- 12-month price target: US$41.00 based on a Sum of Parts methodology.
- Catalyst: IL judge's decision on EXC's motion to dismiss legal challenges to IL ZECs (mid-May), results of PJM capacity auction (May 23rd), NY judge's decision on the dismissal of legal challenges to NY ZECs

Action and recommendation

- We reiterate Outperform and EXC remains our top pick for diversified utilities.

Please refer to page 4 for important disclosures and analyst certification, or on our website www.macquarie.com/research/disclosures.

Fig 1 EXC: EPS breakdown by segment (US$)

	2015	2016	2017E	2018E	2019E
Regulated utilities	$ 1.23	$ 1.61	$ 1.79	$ 1.85	$ 1.95
ExGen	$ 1.40	$ 1.27	$ 1.11	$ 1.28	$ 1.11
Parent	$ (0.13)	$ (0.20)	$ (0.20)	$ (0.20)	$ (0.20)
Total	**$ 2.49**	**$ 2.68**	**$ 2.70**	**$ 2.94**	**$ 2.87**

Source: FactSet, Macquarie Capital (USA), May 2017

Fig 2 EXC: Financial projections (US$m except per-share data)

	2016	2017E	2018E	2019E
EBITDA	8,096	8,846	9,377	9,250
Depreciation	3,232	3,350	3,439	3,599
Operational EBIT	4,864	5,496	5,938	5,651
Net interest expense	(1,383)	(1,742)	(1,714)	(1,688)
Ordinary Profit Before Tax	3,787	3,955	4,424	4,163
Income tax	(1,299)	(1,398)	(1,577)	(1,386)
Net profit	2,488	2,557	2,848	2,777
S/O (m)	**927**	**948**	**967**	**970**
EPS	**$2.68**	**$2.70**	**$2.94**	**$2.87**
Current assets	8,971	9,080	9,273	9,239
Property, plant, and equipment	59,774	62,799	64,835	66,711
Total assets	**92,452**	**95,961**	**98,564**	**100,779**
Current liabilities	7,076	7,143	7,247	7,142
Long-term debt	20,349	22,098	23,075	23,809
Shareholders' equity	33,531	34,623	35,545	36,532
Total liabilities and equity	**92,452**	**95,961**	**98,564**	**100,779**
Net income	2,488	2,557	2,848	2,777
Operating cashflow	5,924	6,465	6,797	7,080
Investing cashflow	(6,975)	(6,375)	(5,475)	(5,475)
Dividends paid	(1,160)	(1,215)	(1,272)	(1,312)
Financing cashflow	1,051	(90)	(1,322)	(1,605)
Cash at end of period	700	700	700	700

Source: FactSet, Macquarie Capital (USA), May 2017

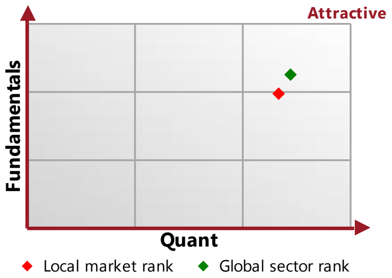
Macquarie Quant View

The quant model currently holds a reasonably positive view on Exelon Corp. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Quality, indicating this stock is likely to have a weaker and less stable underlying earnings stream.

80/428

Global rank in
Utilities

% of BUY recommendations	61% (14/23)
Number of Price Target downgrades	3
Number of Price Target upgrades	5

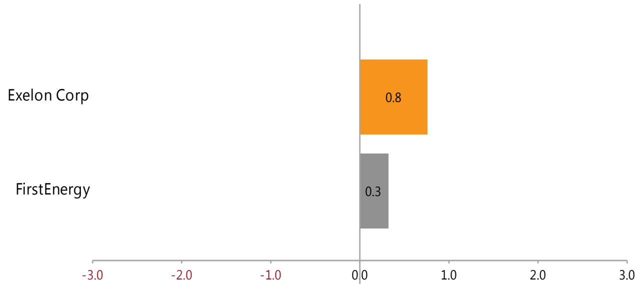


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (United States) and Global sector (Utilities)

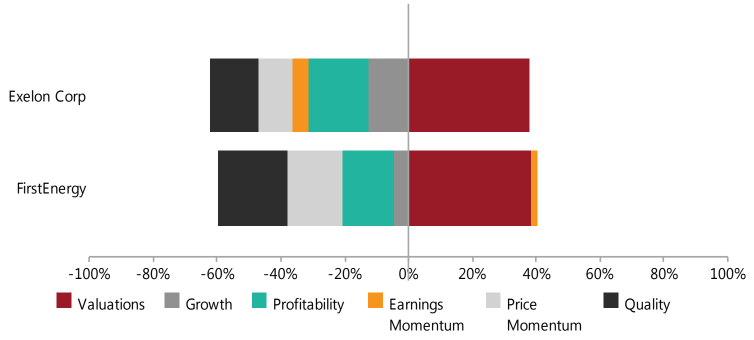
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



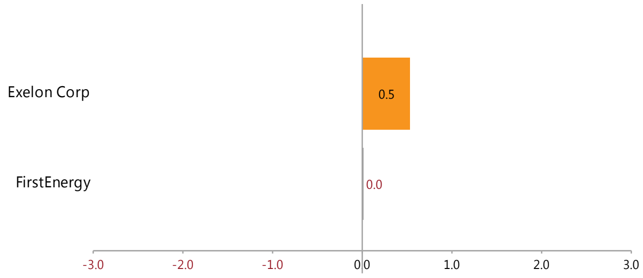
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



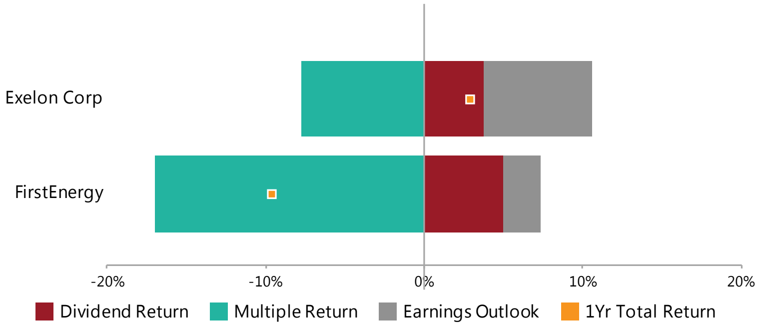
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



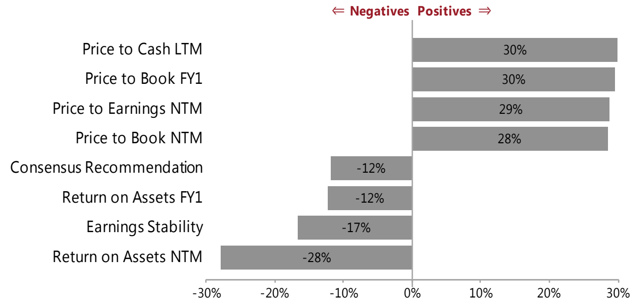
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



What drove this Company in the last 5 years

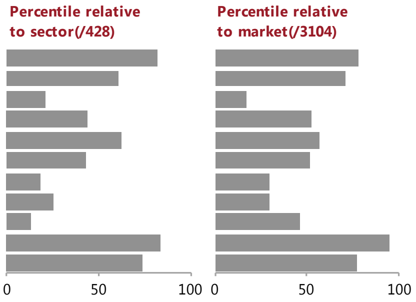
Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.

	Normalized Score
Alpha Model Score	0.75
Valuation	0.12
Growth	-0.36
Profitability	-0.32
Earnings Momentum	-0.03
Price Momentum	-0.12
Quality	-0.43
Capital & Funding	-0.28
Liquidity	-1.64
Risk	0.34
Technicals & Trading	0.76



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.26%	55.50%	38.46%	45.47%	59.09%	48.21%	(for global coverage by Macquarie, 8.20% of stocks followed are investment banking clients)
Neutral	38.01%	29.31%	42.86%	48.77%	37.88%	36.79%	(for global coverage by Macquarie, 8.25% of stocks followed are investment banking clients)
Underperform	14.73%	15.19%	18.68%	5.76%	3.03%	15.00%	(for global coverage by Macquarie, 8.00% of stocks followed are investment banking clients)

EXC US vs S&P 500, & rec history

(all figures in USD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Capital (USA), May 2017

12-month target price methodology

EXC US: US$41.00 based on a Sum of Parts methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
11-Aug-2016	EXC US	Outperform	US$41.00
17-Jun-2015	EXC US	Outperform	US$40.00
17-Nov-2014	EXC US	Outperform	US$41.00
09-Oct-2014	EXC US	Outperform	US$39.00
21-Jul-2014	EXC US	Outperform	US$36.00
10-Jun-2014	EXC US	Neutral	US$37.00

Target price risk disclosures:
EXC US: Our US$41 price target is based on our ’19 SOP valuation. Risks include execution of regulated capex and the pace of load growth for EXC’s utilities, the level of forward power prices in particular in PJM West and NI Hub, forward capacity prices in PJM and New England, and incremental cost efficiencies, and legal challenges to nuclear subsidies in NY and IL.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

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Research as of 03 May 2017
Estimates as of 20 Jan 2017
Pricing data through 02 May 2017
Rating updated as of 02 May 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Vital Statistics

Market Cap (USD Mil)	31,902
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	1.9
YTD Total Return %	-2.0
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	4.9
Price/Fair Value	1.08

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	15.5	11.2	—	*13.2*
EV/EBITDA	4.7	4.8	—	*8.2*
EV/EBIT	8.3	7.4	—	*13.4*
Free Cash Flow Yield %	-6.3	0.0	—	*-3.9*
Dividend Yield %	4.2	3.4	—	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	27,429	29,447	*27,775*	*32,405*
Revenue YoY %	10.2	7.4	*-5.7*	*16.7*
EBIT	3,096	4,409	*4,739*	*4,998*
EBIT YoY %	-15.3	42.4	*7.5*	*5.5*
Net Income, Adjusted	2,065	2,224	*2,407*	*2,486*
Net Income YoY %	-4.0	7.7	*8.2*	*3.3*
Diluted EPS	2.39	2.49	*2.60*	*2.62*
Diluted EPS YoY %	-4.4	4.2	*4.4*	*0.9*
Free Cash Flow	121	561	*-12,392*	*-391*
Free Cash Flow YoY %	-92.0	365.5	*-2,307.6*	*-96.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* *2016*	*2017*	*5-Year Proj. CAGR*
Revenue	*7.8*	6.0	10.2	7.4	*-5.7*	*16.7*	*4.4*
EBIT	*22.8*	53.6	-15.3	42.4	*7.5*	*5.5*	*6.6*
EBITDA	*17.2*	36.3	-6.9	26.8	*11.4*	*7.3*	*7.3*
Net Income	*-1.6*	-7.9	-4.0	7.7	*8.2*	*3.3*	*6.6*
Diluted EPS	*-4.4*	-12.3	-4.4	4.2	*4.4*	*0.9*	*4.9*
Earnings Before Interest, after Tax	*15.0*	-13.0	53.5	13.7	*63.1*	*-45.4*	*0.0*
Free Cash Flow	*-33.9*	-22.3	-92.0	365.5	*-2,307.6*	*-96.9*	*44.3*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*13.7*	14.7	11.3	15.0	*17.1*	*15.4*	*16.4*
EBITDA Margin %	*22.1*	23.3	19.7	23.3	*27.5*	*25.3*	*26.4*
Net Margin %	*7.9*	8.6	7.5	7.6	*8.7*	*7.7*	*8.3*
Free Cash Flow Margin %	*2.8*	6.1	0.4	1.9	*-44.6*	*-1.2*	*-5.1*
ROIC %	*3.1*	2.5	2.5	4.1	*11.1*	*5.6*	*6.8*
Adjusted ROIC %	*3.2*	2.7	2.7	4.3	*12.0*	*6.1*	*7.4*
Return on Assets %	*2.2*	2.2	2.0	2.5	*2.3*	*2.2*	*2.4*
Return on Equity %	*8.0*	7.7	7.1	9.3	*9.0*	*8.8*	*9.3*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.49*	0.47	0.49	0.50	*0.56*	*0.56*	*0.55*
Total Debt/EBITDA	*3.81*	3.46	4.12	3.84	*4.56*	*4.55*	*4.30*
EBITDA/Interest Expense	*5.33*	4.28	5.08	6.64	*5.55*	*5.40*	*5.57*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	0.90	0.79	—	—
Price/Earnings	15.5	11.2	—	*13.2*
EV/EBITDA	4.7	4.8	—	*8.2*
EV/EBIT	8.3	7.4	—	*13.4*
Free Cash Flow Yield %	-6.3	0.0	—	*-3.9*
Dividend Yield %	4.2	3.4	—	*3.8*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-6,312	-13.2	-6.83
Present Value Stage II	17,500	36.6	18.92
Present Value Stage III	36,662	76.6	39.65
Total Firm Value	**47,850**	**100.0**	**51.75**
Cash and Equivalents	6,502	—	7.03
Debt	-26,319	—	-28.46
Preferred Stock	-28	—	-0.03
Other Adjustments	60	—	0.06
Equity Value	**28,065**	**—**	**30.35**
Projected Diluted Shares	925		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**24,888**	**27,429**	**29,447**	***27,775***	***32,405***
Cost of Goods Sold	10,724	13,003	13,084	*9,843*	*13,731*
Gross Profit	**14,164**	**14,426**	**16,363**	***17,932***	***18,674***
Selling, General & Administrative Expenses	7,270	8,568	8,322	*8,726*	*8,833*
Other Operating Expense (Income)	1,095	1,154	1,200	*1,567*	*1,643*
Other Operating Expense (Income)	-10	-706	-18	—	—
Depreciation & Amortization (if reported separately)	2,153	2,314	2,450	*2,900*	*3,200*
Operating Income (ex charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,656**	**3,096**	**4,409**	***4,739***	***4,998***
Interest Expense	1,356	1,065	1,033	*1,377*	*1,517*
Interest Income	473	455	-53	*250*	*250*
Pre-Tax Income	**2,773**	**2,486**	**3,323**	***3,612***	***3,730***
Income Tax Expense	1,044	666	1,073	*1,192*	*1,231*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	10	-184	32	—	—
(Preferred Dividends)	-20	-13	-13	*-13*	*-13*
Net Income	**1,719**	**1,623**	**2,269**	***2,407***	***2,486***
Weighted Average Diluted Shares Outstanding	860	864	893	*926*	*948*
Diluted Earnings Per Share	**2.00**	**1.88**	**2.54**	***2.60***	***2.62***
Adjusted Net Income	2,150	2,065	2,224	*2,407*	*2,486*
Diluted Earnings Per Share (Adjusted)	**2.50**	**2.39**	**2.49**	***2.60***	***2.62***
Dividends Per Common Share	1.46	1.24	1.24	*1.26*	*1.29*
EBITDA	**7,435**	**6,964**	**8,396**	***7,639***	***8,198***
Adjusted EBITDA	**5,809**	**5,410**	**6,859**	***7,639***	***8,198***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	1,609	1,878	6,502	*1,038*	*1,133*
Investments	—	—	—	—	—
Accounts Receivable	4,156	4,709	4,099	*4,185*	*4,883*
Inventory	1,105	1,603	1,566	*1,079*	*1,505*
Deferred Tax Assets (Current)	573	244	—	—	—
Other Short Term Assets	2,694	3,663	3,167	*3,000*	*3,000*
Current Assets	**10,137**	**12,097**	**15,334**	***9,302***	***10,521***
Net Property Plant, and Equipment	47,330	52,087	57,439	*71,039*	*74,714*
Goodwill	2,625	2,672	2,672	*6,672*	*6,672*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	7,835	6,076	6,065	*9,500*	*9,300*
Long-Term Non-Operating Assets	11,997	13,882	13,874	*13,874*	*13,874*
Total Assets	**79,924**	**86,814**	**95,384**	***110,387***	***115,081***
Accounts Payable	2,600	3,056	2,891	*2,562*	*2,821*
Short-Term Debt	1,850	2,262	2,033	*2,033*	*2,033*
Deferred Tax Liabilities (Current)	40	—	—	—	—
Other Short-Term Liabilities	3,238	3,444	4,194	*4,200*	*4,200*
Current Liabilities	**7,728**	**8,762**	**9,118**	***8,795***	***9,054***
Long-Term Debt	18,271	20,010	24,286	*32,786*	*35,286*
Deferred Tax Liabilities (Long-Term)	12,905	13,019	13,776	*18,200*	*19,000*
Other Long-Term Operating Liabilities	4,388	4,550	4,201	*5,000*	*4,800*
Long-Term Non-Operating Liabilities	13,692	16,340	16,681	*16,681*	*16,681*
Total Liabilities	**56,984**	**62,681**	**68,062**	***81,462***	***84,821***
Preferred Stock	—	—	28	—	—
Common Stock	16,741	16,709	18,676	*18,676*	*18,676*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,358	10,910	12,068	*13,316*	*14,590*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-1,847	-2,491	-2,431	*-2,200*	*-2,200*
Shareholder's Equity	**22,925**	**22,801**	**26,014**	***27,525***	***28,859***
Minority Interest	15	1,332	1,308	*1,400*	*1,400*
Total Equity	**22,940**	**24,133**	**27,322**	***28,925***	***30,259***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2013	2014	2015	*Forecast* *2016*	*Forecast* *2017*
Net Income	1,729	1,820	2,250	*2,420*	*2,499*
Depreciation	3,779	3,868	3,987	*2,900*	*3,200*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	119	502	752	*4,424*	*800*
Other Non-Cash Adjustments	261	1,514	891	—	—
(Increase) Decrease in Accounts Receivable	-97	-318	240	*-86*	*-698*
(Increase) Decrease in Inventory	-100	-380	4	*487*	*-426*
Change in Other Short-Term Assets	742	-2,758	-387	*167*	—
Increase (Decrease) in Accounts Payable	-90	209	-121	*-329*	*260*
Change in Other Short-Term Liabilities	—	—	—	*6*	—
Cash From Operations	**6,343**	**4,457**	**7,616**	***9,989***	***5,635***
(Capital Expenditures)	-5,395	-6,077	-7,624	*-16,500*	*-6,875*
Net (Acquisitions), Asset Sales, and Disposals	—	-386	-40	*-4,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1	1,864	-158	*-2,636*	—
Cash From Investing	**-5,394**	**-4,599**	**-7,822**	***-23,136***	***-6,875***
Common Stock Issuance (or Repurchase)	47	35	1,900	*60*	*60*
Common Stock (Dividends)	-1,249	-1,065	-1,105	*-1,159*	*-1,212*
Short-Term Debt Issuance (or Retirement)	332	122	80	—	—
Long-Term Debt Issuance (or Retirement)	466	1,918	4,022	*8,500*	*2,500*
Other Financing Cash Flows	-422	-599	-67	*51*	*-13*
Cash From Financing	**-826**	**411**	**4,830**	***7,452***	***1,335***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*231*	—
Net Change in Cash	**123**	**269**	**4,624**	***-5,464***	***95***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

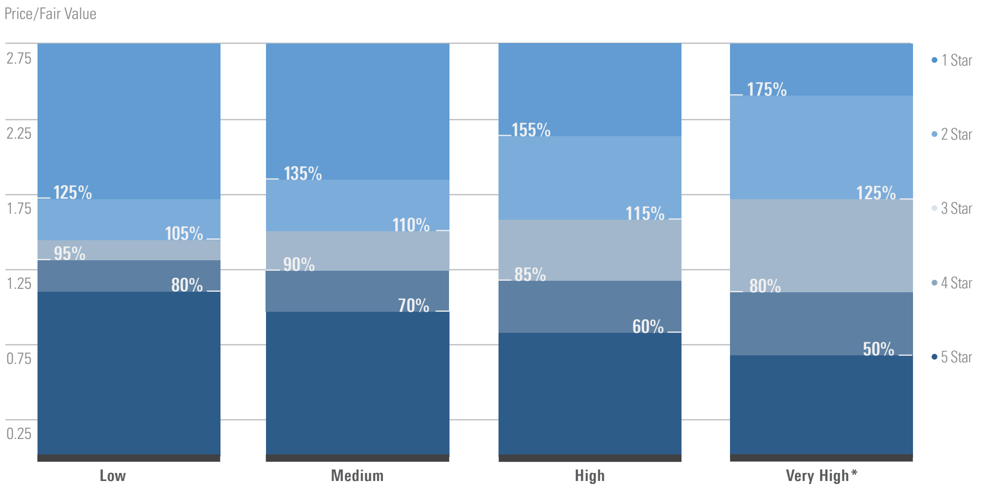
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★

We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★

Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.46 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Scotia Howard Weil

COMPANY UPDATE

Wednesday, May 3, 2017

Exelon Corporation

Reports 1Q17 Earnings

QUICK TAKE: Adjusted earnings at the top end of the prior guidance range should be supportive to the stock. Ongoing legal challenges to the new ZEC policies in New York and Illinois are likely to continue to weigh on the name, but there is potential future upside in the base generation business as the company remains relatively under-hedged for 2018 based on its assessment of market opportunities.

KEY POINTS

1Q17 Results: EXC reported adjusted earnings of $0.65/share, at the top end of the prior guidance range and above our estimate and the Street consensus of $0.62/share and $0.63/share, respectively. Results were down as expected on a year-over-year basis given the out-sized contributions from Generation in 1Q16. The beat versus our model was driven by results at the utility companies as the timing of O&M costs offset unfavorably warm weather.

Guidance Updates: The company reiterated FY17 earnings guidance of $2.50 to $2.80/share, bracketing our estimate of $2.65/share and the Street consensus of $2.66/share. 2Q17 adjusted earnings are expected to fall between $0.45 and $0.55/share, down about $0.15/share on a year-over-year basis at the midpoint and below our current estimate of $0.61/share and consensus at $0.59/share.

ZEC Legal Challenges Ongoing: We expect a fair amount of discussion on the call regarding these court proceedings. The hearing to dismiss the challenges in New York was held at the end of 1Q, with no timeline for a final ruling; rates went into effect on April 1. Preliminary injunction filings and a motion to dismiss were made in Illinois since the end of the quarter. Additional responses are due by May 15, with an update from the judge expected about a week following. Illinois law becomes effective on June 1, 2017.

Qtly EPS (Dil)	Q1	Q2	Q3	Q4	Year	P/EPS
2015A	$0.71	$0.59	$0.83	$0.38	$2.49	11.1x
2016A	$0.68	$0.65	$0.91	$0.44	$2.68	13.2x
2017E	$0.62	$0.61	$0.79	$0.63	$2.65	13.0x
2018E	$0.71	$0.66	$0.82	$0.67	$2.85	12.1x

(FY-Dec.)	2014A	2015A	2016A	2017E	2018E
EBITDA (M)	$6,367	$6,937	$8,376	$8,754	$9,245
Enterprise Value (M)	$53,537	$46,117	$69,934	$70,665	$70,967
EV/EBITDA	8.4x	6.6x	8.3x	8.1x	7.7x

Historical price multiple calculations use FYE prices. All values in US$ unless otherwise indicated.
Source: FactSet; company reports; Scotia Howard Weil estimates.

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ANALYST TEAM Link to Analyst Page

POWER & UTILITIES

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PERTINENT DATA

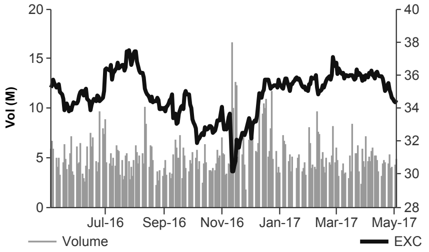
Rating	**Sector Perform**
1-Yr. Target	**$37.00**
EXC	$34.46
1-Yr. Return	11.2%
Div. (NTM)	$1.31
Div. (Curr.)	$1.27
Yield (Curr.)	3.7%

Valuation: 13.0x our F2018 EPS estimate

CAPITALIZATION

Market Cap. (M)	$31,816
Net Debt + Pref. (M)	$35,278
Enterprise Value (M)	$68,869
Shares O/S (M)	923
Float O/S (M)	921

Volume and Closing Price for EXC



Source: FactSet.

Company Overview

Company Description

Exelon Corporation is a diversified power utility company with operations throughout the United States, operating generation, transmission, and distribution assets in both merchant and regulated markets. The Generation segment operates a large regional and fuel-diversified competitive electricity business, including the largest nuclear power generation fleet in the country. The company owns regulated utilities ComEd, BGE, PECO, and Pepco Holdings, which provide electric transmission and distribution services to customers within their designated service areas.

Risks

Risk Factors Which May Impede the Achievement of the Price Target: (1) Industry fundamentals with respect to customer demand or product/service pricing could change and adversely impact expected revenues and earnings; (2) issues relating to major competitor or market shares or new product expectations could change investor attitudes toward the sector or the company; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) external factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects.

Key Risks: Regulatory factors, interest rates, commodity prices, operational factors, including running fleet of nuclear power reactors

Appendix A: Important Disclosures

Company	Disclosures (see legend below)*
Exelon Corporation	I

I, Jonathan Donnel, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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Time of dissemination: May 03, 2017, 08:40 ET. Time of production: May 03, 2017, 08:38 ET. Note: Time of dissemination is defined as the time at which the document was disseminated to clients. Time of production is defined as the time at which the Supervisory Analyst approved the document.

*Legend

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Rating and Price Target History

Exelon Corporation (EXC) as of May 02, 2017 (in USD)

16-Nov-2015
Price: 28.65
Rating: SP
Target: 34.00

17-Aug-2016
Price: 34.58
Rating: SP
Target: 37.00*

*Represents the value(s) that changed.

Powered by: BlueMatrix

Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage

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Ratings

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Sector Perform (SP)
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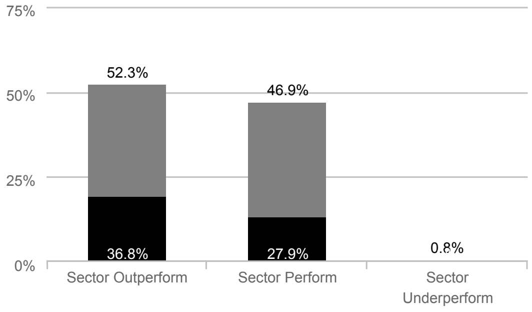
Distribution by Ratings and Equity and Equity-Related Financings*



▨ Percentage of companies covered by Scotia Howard Weil within each rating category.

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* As of April 30, 2017. Source: Scotia Howard Weil.

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Equities

04 May 2017 00:08:05 ET │ 8 pages

Diversified Utilities
North America │ United States

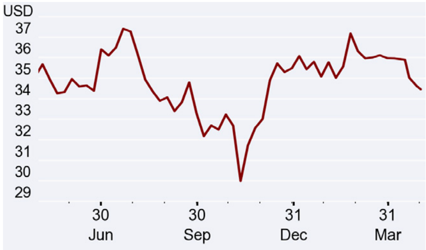
Exelon Corp (EXC)

Results: ZECs Continues to Drive Story.

- **Citi's Take — Results are in line with our estimates.** EXC reported 1Q17 consolidated operating EPS of $0.65/share vs. Citi estimates of $0.61/share. The company reaffirmed full-year guidance range of $2.50-$2.80/share vs. Citi estimates of $2.63/share. Management introduced Q2 guidance range of $0.45-$0.55/share vs. Citi forecasts of $0.48/share.
- **ZECs Rejected = Credit and Valuation negative.** Without ZECs, we think the nuclear plants in NY, IL (and potentially plants in NJ, PA) will be forced to retire. NY and IL ZECs are worth ~$330m/year of post-tax cash flows. Loss of this cash flow will weaken the deleveraging story and the funding plan for utility growth. Note that some of this lost cash flow will be offset by shutting down uneconomic units. From a valuation perspective, the NY and IL ZECs are worth $3/share of value.
- **ZECs Approved = Could show the way to PA and NJ.** A positive decision in NY and IL could mean that plants in PA and the NJ could also get the approval for ZECs over time. Every 1,000MW of generation receiving ZECs equates to ~$80m of annual cash flows and ~$1/share of equity value.
- **Key catalysts and timing.** Given the importance of ZECs to the EXC story, we are tracking the following catalysts: A) Outcome of motion to dismiss in NY ZEC challenge - no defined timeline B) Decision by IL judge on May 22nd with respect to motion to dismiss. C) Progress by PEG on NJ Nuclear units D) Other discussion by FERC and PJM on market design and structure.
- **Implications — On the Fence on ZECs, Retain our neutral rating.** We continue to struggle with the question on ZECs and whether they will pass the legal test. We think the execution on the utility side has been good and in line with our expectations. Management has stayed disciplined on the deleveraging path at ExGen and we like the Texas sale and the Renewable JV. However, in the end, ZECs are what drives this story. For now we retain our neutral rating.

Neutral	**2**
Price (03 May 17 16:00)	US$33.98
Target price	US$35.00
Expected share price return	3.0%
Expected dividend yield	3.8%
Expected total return	**6.8%**
Market Cap	US$31,457M

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	na	na	na	0.44A	2.68A	2.68A
2017E	**0.61E**	**0.48E**	**0.89E**	**0.64E**	**2.63E**	**2.66E**
Previous	0.61E	0.48E	0.89E	0.64E	2.63E	na
2018E	**na**	**na**	**na**	**na**	**2.90E**	**2.88E**
Previous	na	na	na	na	2.90E	na
2019E	**na**	**na**	**na**	**na**	**2.89E**	**2.79E**
Previous	na	na	na	na	2.89E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $35 price target. We value ExGen at ~$6/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The utilities business is valued at $24/share based on a 17.5x terminal PE multiple. We also add $7/share value provided by PEPCO. We back out $5/share for the parent net debt and add $3/share for ZECs (IL and NY)

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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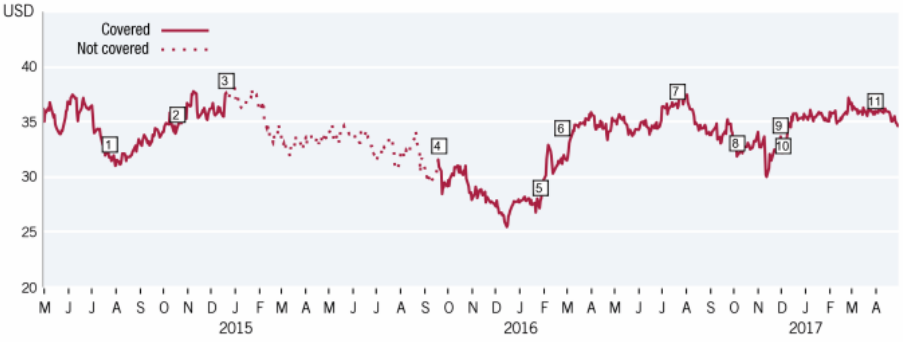
Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015



	Date	Rating	Target Price	Closing Price
1	22-Jul-14 20:24:08	3	*30.00	31.78
2	17-Oct-14 03:01:08	*2	*37.00	34.38
3	18-Dec-14 16:46:48	Coverage terminated		
4	17-Sep-15 16:01:15	*3	*27.00	31.57
5	26-Jan-16 17:07:46	*2	27.00	27.84
6	22-Feb-16 16:00:00	*3	27.00	31.69
7	19-Jul-16 23:43:46	3	*29.00	36.58
8	04-Oct-16 03:14:34	3	*27.00	31.86
9	28-Nov-16 20:37:44	3	*29.00	33.39
10	02-Dec-16 07:02:27	*2	*31.00	33.01
11	30-Mar-17 06:59:06	2	*35.00	35.70

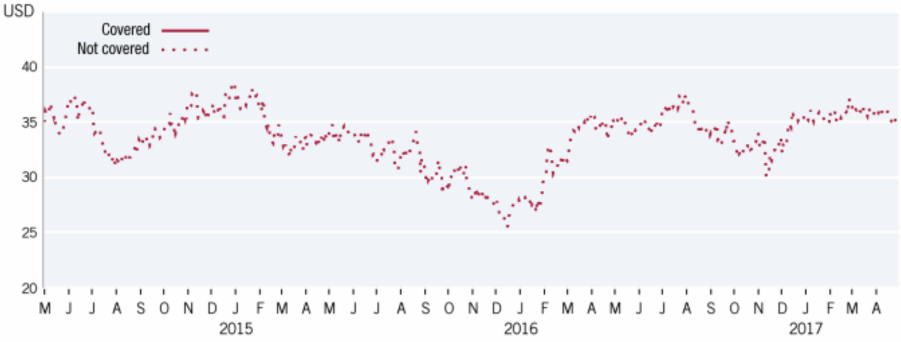
*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Praful Mehta
Covered since September 17 2015



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Rating/target price changes above reflect Eastern Time

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	12 Month Rating			*Catalyst Watch*		
Data current as of 31 Mar 2017	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	47%	39%	14%	1%	98%	1%
% of companies in each rating category that are investment banking clients	64%	63%	61%	61%	64%	47%

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COMPANY NOTE

Estimate Change

USA | Energy | Electric Utilities

May 4, 2017

Jefferies

EQUITY RESEARCH AMERICAS

Exelon (EXC)

Texas Unload'em

BUY
Price target $39.50
Price $33.98^

Key Takeaway

EXC reported in-line quarterly numbers that on a y-o-y comparison were impacted by a lower ExGen contribution. The company announced plans to sell a fleet of economically challenged assets in Texas but reversed course with its plan to sell the ISO-NE Mystic plant. Mgmt is keeping a larger amount of mid-west generation output open given the lack of improvement in power prices even though nat gas has rebounded.

We believe the challenges to the NY and IL ZECs will be denied providing EXC with approximately $0.30 of "regulated-like" earnings. Over the next two months we are expecting the court challenges to both the Illinois and New York ZEC programs to be resolved. The company began collecting ZEC revenue in NY back in April and pending a court order will start collecting Illinois ZECs in June.

Management announced plans to sell 3,476 MW of ERCOT capacity due to the challenging Texas power markets. The portfolio consists of CCGTs and simple cycle steamers that are economically challenged due to suppressed power prices in ERCOT. These assets have $650 million of non-recourse project level debt and struggle to generate adequate cash flows.

ExGen is currently behind its ratable hedging program in 2018 and 2019 due to the expectation that power prices will increase. The majority of the open position is in the Midwest and is due to management's view of the upside that exists at NIHub and other regions. The company highlighted that forward natural gas prices are over $1/mmBtu greater than last year yet power prices are only about $1/MWh higher.

Into the Mystic – Exelon announced that they are no longer pursuing a sale of the Mystic 8&9 CCGT located in Massachusetts. The 1,414 MW plant runs on LNG and management stated that there were issues with the fuel supply contract that complicated the sale process. This decision will have no impact on earnings or cash flow guidance.

Valuation/Risks

Our $39.50 price target is based on P/E analysis. Taking our 2019 EPS estimate of $2.80 in conjunction with a P/E group average multiple of 14.1x results in a price target of $39.50. Based on yesterday's closing price of $33.98, this would result in a 12-month price appreciation potential of 16.2% and total return potential of 20.1% including the current yield of 3.9%. **Risks** include exposure to change in the commodity prices and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	**2016A**	*Prev.*	**2017E**	*Prev.*	**2018E**	*Prev.*	**2019E**
Cons. EPS Diluted	--	2.69	*2.64*	2.66	*2.86*	2.88	*2.80*	2.79
EPS								
Mar	--	0.68	--	0.65A	--	--	--	--
Jun	--	0.65	*0.65*	0.55	--	--	--	--
Sep	--	0.91	*0.90*	1.00	--	--	--	--
Dec	--	0.45	--	0.40	--	--	--	--
FY Dec	--	2.69	--	2.60	--	2.85	--	2.80
FY P/E		12.6x		13.1x		11.9x		12.1x

Financial Summary

Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	3.9%

Market Data

52 Week Range:	$37.70 - $29.82
Total Entprs. Value (MM):	$45,494.5
Market Cap. (MM):	$31,465.5
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	926.0
Float (MM):	924.2
Avg. Daily Vol.:	4,780,186

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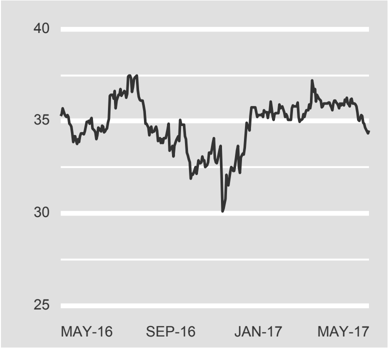

^Prior trading day's closing price unless otherwise noted.

Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation.

Exelon operating EPS was $0.65 on a diluted basis, versus $0.68 for the same period a year ago, our estimate of $0.65, and Consensus of $0.63. The year-over-year decline was related to lower earnings at ExGen related to reduced capacity and energy prices.

Texas Unload'em - Exelon announced that it was selling the ExGen Texas Power (EGTP) fleet of 3,476 MW located in ERCOT. The portfolio consists of CCGTs and simple cycle steamers that are economically challenged due to suppressed power prices in ERCOT. These assets have $650 million of non-recourse project level debt which is currently trading at a discount to face value. This portfolio does not contain two new state-of-the-art CCGTs that Exelon is building in Texas.

Mystic Sale Cancelled – Exelon announced that they are no longer pursuing a sale of the Mystic 8&9 CCGT located in Massachusetts. The 1,414 MW plant runs on LNG and management stated that there were issues with the fuel supply contract that complicated the sale process. This decision will have no impact on earnings or cash flow guidance.

Management affirmed 2017 guidance of $2.50-$2.80 which compares to Consensus of $2.66 and our estimate of $2.60. For 2Q17 management is guiding to $0.45-$0.55. Earnings include both the NY and IL ZEC programs (reversal of the Quad Cities and Clinton closure), Fitzpatrick ownership, and a full year of PHI contribution.

Springtime for Fitzpatrick. On March 31 Exelon closed on the acquisition of the 838 MW Fitzpatrick nuclear plant.

ZEC Update –
New York – Opposition to the program filed a motion to dismiss on March 29. The parties are currently awaiting a decision with no defined timeline although the program went effective on April 1, 2017.

Illinois – On May 22 the judge presiding over the proceeding will inform the parties of his intentions regarding the challenges to the ZEC program. The program will be effective on June 1, 2017.

Maryland PSC authorizes Delmarva 67% of its requested rate increase. In February the MD PSC issued an order granting the utility a $38.3 million rate increase based on a 9.6% ROE. This compares to the company's revised filing of a $57.0 million rate increase on a 10.6% ROE. The PSC staff has recommended a $41.5 million increase on a 9.48% ROE and the Office of People's Counsel (OPC) recommends a $26.3 million increase based on an 8.6% ROE. On January 4 the PULJ recommended a $34.1 million rate increase based on a 9.48% ROE.

In March parties filed a settlement in Delmarva's Delaware electric rate case. The settlement calls for a $31.5 million rate increase but is silent on ROE but will utilize a 9.7% ROE for AFUDC purposes. The company filed for a $62.8 million rate increase based on a 10.6% ROE and that compares to a Staff recommendation of a $9.5 million rate increase based on a 9.2% ROE. A final order is expected in May 2017.

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Atlantic City Electric filed for new rates with the NJBPU. Back in March ACE filed for a $70.2 million rate increase based on a 10.1% ROE and a $1,371 million rate base. The drivers for the rate filing are increased capital investment and declining customer usage. A final decision is expected in December 2017

1Q17 operating EPS excludes $0.42 (GAAP earnings $1.07) of non-recurring items as follows: a $0.24 bargain purchase gain associated with the acquisition of the Fitzpatrick nuclear plant, a $0.15 gain related to merger commitments, a $0.10 gain due to unrealized NDT gains, a $0.04 loss related to CENG non-controlling interest, a $0.03 market to market loss associated with the impact of economic hedging activities, a $0.03 loss related to merger and integration costs, a $0.02 gain due to the reassessment of state deferred income taxes, and a $0.01 gain associated with tax settlements. 1Q16 operating EPS excludes $0.49 (GAAP earnings of $0.19) of non-recurring items primarily due to merger commitments.

Commonwealth Edison (CWE) earnings improved by $0.03 to $0.15 due to new T&D rates. Gross margin increased 8.1% to $964 million reflecting increased electric distribution and transmission earnings. Retail sales decreased 1.8% and on a weather-adjusted basis were down 0.4%. Beginning in 2017 ComEd's customer rates are adjusted to eliminate the impact weather has on earnings.

Operating income increased 18.0% to $314 million due to greater gross margin reflecting the impact of new rates and additional capital investment. Operating and maintenance expense increased nominally to $370 million and depreciation expense grew by 10.1% to $208 million due to greater net plant. Earnings grew by28.2% to $141 million driven by greater operating income partly offset by higher tax expense. The effective tax rate for the quarter was 39.5% versus 40.2% last year.

PECO earnings were unchanged at $0.14. Gross margin declined by 2.1% to $509 million due to the negative impact mild weather had on retail sales. Electric sales versus 1Q16 declined 0.6% and on a weather-adjusted basis down by 1.0%. Gas sales grew by 0.3% as compared to 1Q16 but were down 0.4% on a weather-adjusted basis. Heating degree days declined 2.0% versus the same period a year ago and 15.4% relative to normal.

Operating Income decreased by 2.0% to $195 million due to lower gross margin and higher depreciation expense. Depreciation expense grew by $6.0% to $71 million but was offset by a 3.3% to $205 million reduction in O&M expense. Earnings increased by 2.4% to $129 million due to lower tax expense. The effective tax rate during the quarter was 22.3% versus 25.9% last year.

BGE earnings improved by $0.03 to $0.14 due to a new rate plan. The principal driver of the year-over-year change were new rates effective June 2016. Gross margin grew by 8.1% to $601 million based on higher rates.

Operating income increased 21.1% to $230 million driven by greater gross margin and reduced O&M expense. O&M expense declined 9.0% to $181 million due to decreased storm costs. Depreciation expense rose 17.4% to $128 million driven by increased amortization due to the initiation of cost recovery of the AMI programs. Earnings increased 26.0% to $126 million due to greater operating margin. The effective tax rate during the quarter was 39.1% versus 40.1% last year.

PHI earnings added $0.09 to the quarterly improvement with little contribution in 2016. 1Q16 results have only 8 days of PHI contribution. For 2017 guidance is $0.30-$0.40.

Earnings at Exelon Generation decreased by $0.16 to $0.18 during the quarter mainly due to greater nuclear outage days (1Q17: 103 days vs. 1Q16: 80 days). Gross margin declined by 1.6% to $2,141 million which was driven by lower energy and capacity prices. Due to an increase in outage days nuclear generation decreased 2.9% to 43.5 million MMh with NY nuclear production declining 8.9% and Mid-Atlantic/Mid-West output decreasing 9.9%. Operating income was reduced by 43.4% to $256 million driven by greater operating expenses. As a result of the increased outage days O&M expense rose by 10.1% to $1,442 million while depreciation expense grew by 3.8% to $300 million due to increased nuclear decommissioning amortization. Property taxes increased 14.4% to $143 million. Net income decreased by 45.4% to $172 million driven by lower operating income partially offset by reduced tax expense. The effective tax rate during the quarter was 30.1% versus 28.7% last year.

The company's Other business segment declined by $0.03 to a loss of ($0.05) driven by greater interest and Other expenses.

We are maintaining our 2017 EPS estimate of $2.60 which compares to guidance of $2.50-$2.80. Earnings include both the NY and IL ZEC programs, Fitzpatrick ownership, and a full year of PHI contribution. Management affirmed segment guidance of: ComEd $0.60-$0.70, PECO $0.40-$0.50, BGE $0.25-$0.35, PHI $0.30-$0.40, ExGen $1.05-$1.15, and parent drag of $0.10-$0.30.

We are maintaining our 2018-19 EPS estimates of $2.85 and $2.80, respectively.

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Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2015A	**2016A**	**2017E**	**2018E**	**2019E**
PECO	$639	$789	$807	$825	$841
CWE	1,046	1,237	1,371	1,411	1,425
BGE	580	573	587	635	672
PEPCO		321	384	462	515
DPL		187	209	262	295
ACE		142	155	194	189
Adjustment					
Energy Delivery	**2,265**	**3,248**	**3,513**	**3,789**	**3,937**
Genco	2,176	2,224	1,854	2,038	1,827
Corporate	(8)	(8)	(8)	(8)	(8)
Earnings on Cash	105		63	41	37
Reconcile	68	(45)	65	(40)	(30)
EBIT	**$4,606**	**$5,419**	**$5,487**	**$5,821**	**$5,763**
EBITDA	$5,895	$7,624	$7,830	$8,318	$8,427
MIPS Obligation	0	0	0	0	0
Capitalized Interest	0	0	0	0	0
Long-Term Interest Expense		(1,674)	(1,786)	(1,690)	(1,687)
Income Before Taxes	**$3,508**	**$3,744**	**$3,701**	**$4,130**	**$4,076**
Income Taxes	(1,215)	(1,287)	(1,273)	(1,416)	(1,399)
Minority Interest/preferred	(13)	(13)	(13)	(13)	(13)
Wind PTC	50	51	52	53	53
Net Income	**$2,330**	**$2,496**	**$2,466**	**$2,754**	**$2,718**
Preferred Dividends					
Earnings for Common	**$2,330**	**$2,496**	**$2,466**	**$2,754**	**$2,718**
Non-Recurring Items					
Merger Cost to Achieve	0	0	0	0	0
Total Non-Recurring	(100)	0	0	0	0
Reported Earnings	2,230	2,496	2,466	2,754	2,718
Earnings Per Share	**$2.51**	**$2.69**	**$2.60**	**$2.85**	**$2.80**

Source: Jefferies estimates, company data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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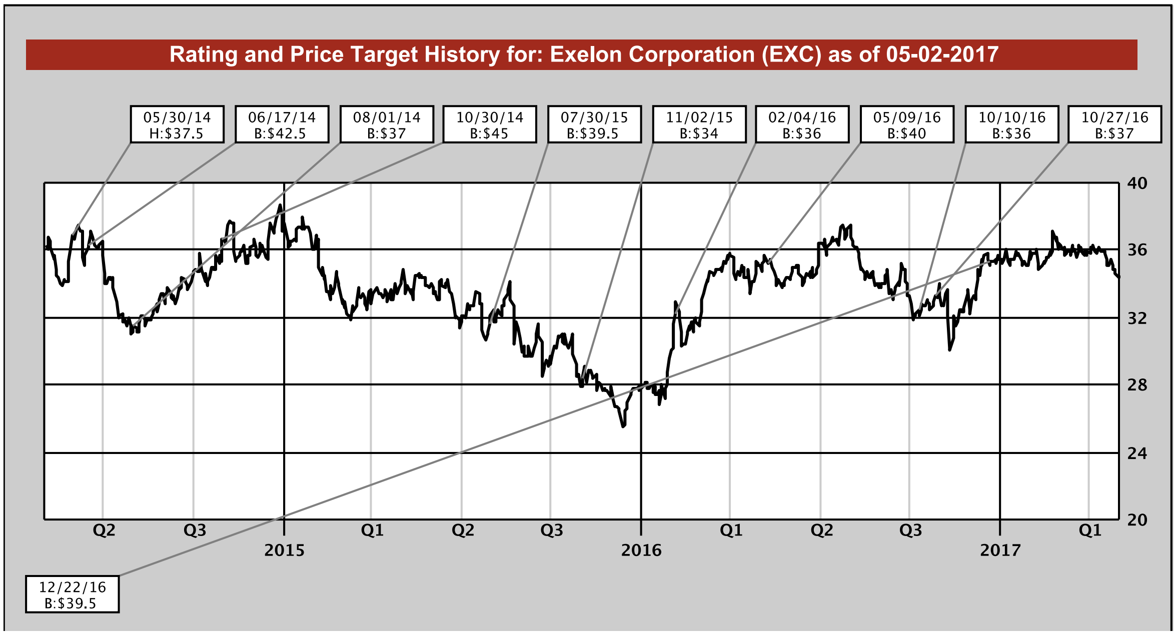
- FirstEnergy Corp. (FE: $28.95, HOLD)
- PPL Corp. (PPL: $37.98, HOLD)
- Public Service Enterprise Group Inc. (PEG: $43.66, HOLD)


Rating and Price Target History for: Exelon Corporation (EXC) as of 05-02-2017

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I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1101	50.78%	336	30.52%
HOLD	897	41.37%	178	19.84%
UNDERPERFORM	170	7.84%	11	6.47%

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Updated Forecasts and Estimates from 03 May 2017

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Research as of 03 May 2017
Estimates as of 03 May 2017
Pricing data through 04 May 2017
Rating updated as of 04 May 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Dec 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings

Vital Statistics

Market Cap (USD Mil)	31,534
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	0.2
YTD Total Return %	-3.1
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.1
5-Yr Forward EPS CAGR %	2.9
Price/Fair Value	1.06

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*12.7*	*11.7*
EV/EBITDA	3.7	4.6	*8.3*	*7.7*
EV/EBIT	5.8	10.5	*13.7*	*12.5*
Free Cash Flow Yield %	0.0	-0.3	*-6.9*	*1.0*
Dividend Yield %	4.3	3.6	*3.8*	*4.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*32,405*	*34,930*
Revenue YoY %	7.4	6.5	*3.3*	*7.8*
EBIT	4,409	3,112	*4,998*	*5,479*
EBIT YoY %	42.4	-29.4	*60.6*	*9.6*
Net Income, Adjusted	2,224	2,484	*2,499*	*2,763*
Net Income YoY %	7.7	11.7	*0.6*	*10.5*
Diluted EPS	2.49	2.68	*2.69*	*2.90*
Diluted EPS YoY %	4.2	7.6	*0.2*	*8.0*
Free Cash Flow	561	-6,417	*45*	*1,223*
Free Cash Flow YoY %	365.5	-1,243.2	*-100.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges 03 May 2017
We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

Valuation, Growth and Profitability 06 Dec 2016
We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of

Exelon Corp EXC (NYSE) | ★★★

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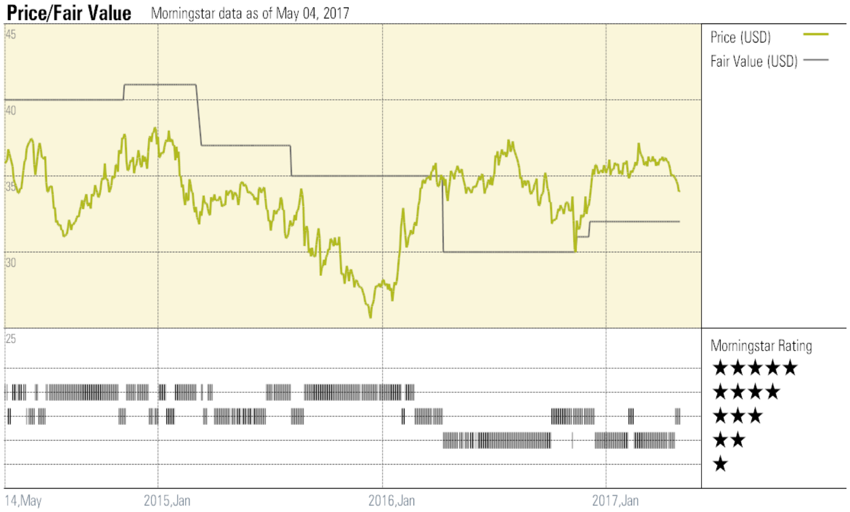

Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $650 million change in EBITDA. Our fair value estimate would change by $5 per share. On a mark-to-market basis as of mid-November, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 4 percentage points to near the industry average, it would change our fair value estimate by $1 per share. If Exelon does not retire the Clinton, Quad Cities, and Three Mile Island plants, it would add $2 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. About 70% of the $11 billion of rate base growth in 2016-20 will have rate trackers or formula rates, minimizing regulatory lag. Exelon faces the biggest challenge boosting Pepco's earned returns some 400 basis points to approach its allowed returns. Rate cases in 2016-17 should give it a good start.

In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.

- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.

- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.

- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.

- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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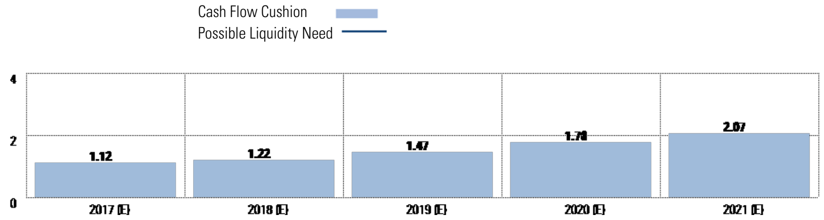
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2017(E)	2018(E)	2019(E)	2020(E)	2021(E)
Cash and Equivalents (beginning of period)	*635*	*1,282*	*1,605*	*2,809*	*4,323*
Adjusted Available Cash Flow	*3,064*	*3,026*	*3,949*	*4,679*	*4,930*
Total Cash Available before Debt Service	*3,699*	*4,309*	*5,554*	*7,488*	*9,253*
Principal Payments	*-1,483*	*-1,626*	*-1,600*	*-2,000*	*-2,275*
Interest Payments	*-1,517*	*-1,605*	*-1,706*	*-1,734*	*-1,734*
Other Cash Obligations and Commitments	*-303*	*-303*	*-463*	*-464*	*-463*
Total Cash Obligations and Commitments	*-3,303*	*-3,534*	*-3,769*	*-4,198*	*-4,472*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	635	3.3
Sum of 5-Year Adjusted Free Cash Flow	19,648	101.9
Sum of Cash and 5-Year Cash Generation	20,283	105.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	20,283	105.2
Sum of 5-Year Cash Commitments	-19,276	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets as it tries to smooth cash flow at its generation unit. As power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.We see no immediate credit concerns based on current energy market conditions. We project Exelon's consolidated EBITDA/interest coverage will remain above 5 times and leverage will remain below 5 times debt/EBITDA at least through 2019. Even those these ratios are weaker following the Pepco acquisition, we think this is acceptable given the higher share of regulated earnings.Only about one-quarter of Exelon's consolidated debt is directly tied to its generation segment. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing its near-term maturities. Management has committed to reducing Exelon Generation debt by $3 billion during the next five years and use the remaining cash to fund the regulated utilities' growth.We also think management can meet its 2.5% dividend growth goal through 2018 with relative ease. However, this is rather unimpressive compared with most of its peers that we think can grow their dividends at least twice as fast.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm might have to make modest cash contributions. Plant closures also could increase cash decommission costs.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's

largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	256,701	30 Jan 2017	—
MR. WILLIAM A. VON HOENE, JR		109,688	30 Jan 2017	—
JONATHAN W. (JACK) THAYER		81,473	30 Jan 2017	—
MS. ANNE R. PRAMAGGIORE		65,162	30 Jan 2017	—
MR. KENNETH W. CORNEW		53,363	30 Jan 2017	—
MR. CALVIN G. BUTLER,JR		32,989	30 Jan 2017	—
JOHN W. ROGERS,JR	Director	11,374	31 Mar 2017	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	2.22	0.13	310	31 Mar 2017
Vanguard Wellington™	1.63	0.56	—	31 Dec 2016
Invesco Diversified Dividend Fund	1.58	2.50	641	31 Dec 2016
Vanguard 500 Index Fund	1.53	0.16	284	31 Mar 2017
VA CollegeAmerica Invmt Co of America	1.26	0.51	-1,000	31 Mar 2017
Concentrated Holders				
Putnam Global Utilities Fund	0.04	8.53	—	31 Mar 2017
Putnam VT Global Utilities	0.02	8.36	—	31 Mar 2017
Fidelity® Telecom and Utilities Fund	0.20	6.51	—	31 Mar 2017
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.02	54	04 May 2017
BMO Covered Call Utilities ETF	0.06	5.15	-12	31 Mar 2017

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Credit Suisse First Boston (CSFB)	0.60	0.20	4,136	31 Dec 2016
Morgan Stanley Smith Barney LLC	0.35	0.07	2,398	31 Dec 2016
Deutsche Bank AG	0.38	0.26	2,227	31 Dec 2016
BlackRock Fund Advisors	3.90	0.15	1,781	31 Dec 2016
Two Sigma Investments LLC	0.20	0.25	1,741	31 Dec 2016
Top 5 Sellers				
Capital Research Global Investors	3.87	0.41	-19,394	31 Dec 2016
Arrowstreet Capital Limited Partnership	0.39	0.46	-2,765	31 Dec 2016
MFS Investment Management KK	1.58	0.25	-2,657	31 Dec 2016
J.P. Morgan Investment Management Inc	0.08	0.01	-2,137	31 Dec 2016
Millennium Management LLC	0.16	0.11	-1,638	31 Dec 2016

Management 06 Dec 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Analyst Notes

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth 19 Apr 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Our full report, "Trump Can't Thwart Green Progress," is available on Morningstar Select Investment Research.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities 28 Mar 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

For more information on our outlook for renewable growth and carbon emissions, see our most recent report "Trump Can't Thwart Green Progress" on Morningstar Select Investment Research.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes 08 Feb 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life 06 Dec 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Analyst Notes

estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities 09 Nov 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

Management Meeting: Work Under Way at Pepco to Achieve Higher Returns 08 Nov 2016

We are reaffirming our $30 fair value estimate, narrow moat rating, and stable moat trend rating for Exelon after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona.

Exelon's key near-term challenge is improving earned returns at the newly acquired Pepco utilities. We think Exelon must raise the Pepco utilities' earned returns by at least 200 basis points to make the deal value-accretive. This first round of rate cases under way in New Jersey, Maryland, Delaware, and Washington, D.C., should stabilize earned returns, but we expect it will take one or two more rounds of rate activity to achieve earned returns on equity in the 9%-10% range.

Rate riders or other interim rate adjustments could speed up the improvement in returns, but Maryland is the only state likely to implement those types of structures in the foreseeable future. Following this round of rate cases, management said they would focus on using operating cost efficiencies and better reliability to offset some of the incremental capital investment planned and minimize customer rate increases. We think this could be an effective strategy.

At Exelon Generation, management already is assuming the Clinton (Ill.) and Quad Cities (Ill.) nuclear plants retire in 2017-18 as part of their operating cost guidance. We also assume the plants will close. The final hope is support from Illinois legislators during the so-called veto sessions on Nov. 15-17 and Nov. 29-Dec. 1, but Exelon has struggled to get enough support to pass the initiative for several years, and we don't think anything is materially different this time. We expect Exelon could start lobbying Pennsylvania and New Jersey politicians and regulators for nuclear energy financial support after resolving its efforts in Illinois and New York.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*Forecast* *2017*	*2018*	*5-Year Proj. CAGR*
Revenue	*8.0*	10.2	7.4	6.5	*3.3*	*7.8*	*3.1*
EBIT	*-5.2*	-15.3	42.4	-29.4	*60.6*	*9.6*	*13.9*
EBITDA	*6.7*	-6.9	26.8	2.8	*16.3*	*8.0*	*6.8*
Net Income	*4.9*	-4.0	7.7	11.7	*0.6*	*10.5*	*3.9*
Diluted EPS	*2.3*	-4.4	4.2	7.6	*0.2*	*8.0*	*2.9*
Earnings Before Interest, after Tax	*14.3*	53.5	13.7	-14.4	*5.5*	*6.2*	*2.4*
Free Cash Flow	*-262.0*	-92.0	365.5	-1,243.2	*-100.7*	*NM*	—

Profitability	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Operating Margin %	*12.1*	11.3	15.0	9.9	*15.4*	*15.7*	*16.2*
EBITDA Margin %	*21.8*	19.7	23.3	22.5	*25.3*	*25.4*	*26.2*
Net Margin %	*7.7*	7.5	7.6	7.9	*7.7*	*7.9*	*8.2*
Free Cash Flow Margin %	*-6.0*	0.4	1.9	-20.5	*0.1*	*3.5*	*5.8*
ROIC %	*2.9*	2.5	4.1	2.1	*5.0*	*5.5*	*5.4*
Adjusted ROIC %	*3.1*	2.7	4.3	2.3	*5.4*	*6.1*	*5.8*
Return on Assets %	*1.8*	2.0	2.5	1.1	*2.2*	*2.3*	*2.4*
Return on Equity %	*6.9*	7.1	9.3	4.4	*9.3*	*9.7*	*9.6*

Leverage	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Debt/Capital	*0.53*	0.49	0.50	0.58	*0.58*	*0.58*	*0.56*
Total Debt/EBITDA	*4.35*	4.12	3.84	5.10	*4.69*	*4.47*	*4.33*
EBITDA/Interest Expense	*5.44*	5.08	6.64	4.59	*5.40*	*5.52*	*5.59*

Valuation Summary and Forecasts

	2015	2016	*2017(E)*	*2018(E)*
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	*12.7*	*11.7*
EV/EBITDA	3.7	4.6	*8.3*	*7.7*
EV/EBIT	5.8	10.5	*13.7*	*12.5*
Free Cash Flow Yield %	0.0	-0.3	*-6.9*	*1.0*
Dividend Yield %	4.3	3.6	*3.8*	*4.0*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.4
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	8,321	12.9	8.96
Present Value Stage II	17,405	26.9	18.74
Present Value Stage III	38,871	60.2	41.85
Total Firm Value	**64,597**	**100.0**	**69.56**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,379**	**—**	**31.63**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***32,405***	***34,930***
Cost of Goods Sold	13,003	13,084	12,640	*13,731*	*15,505*
Gross Profit	**14,426**	**16,363**	**18,720**	***18,674***	***19,425***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*8,833*	*8,888*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,643*	*1,684*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,200*	*3,375*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Interest Expense	1,065	1,033	1,536	*1,517*	*1,605*
Interest Income	455	-53	389	*250*	*250*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,730***	***4,123***
Income Tax Expense	666	1,073	761	*1,231*	*1,361*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	—	—
Net Income	**1,623**	**2,269**	**1,134**	***2,499***	***2,763***
Weighted Average Diluted Shares Outstanding	864	893	927	*930*	*952*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.69***	***2.90***
Adjusted Net Income	2,065	2,224	2,484	*2,499*	*2,763*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.69***	***2.90***
Dividends Per Common Share	1.24	1.24	1.26	*1.29*	*1.32*
EBITDA	**6,964**	**8,396**	**8,688**	***8,198***	***8,854***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,198***	***8,854***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Cash and Equivalents	1,878	6,502	635	*1,282*	*1,605*
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	*4,883*	*5,263*
Inventory	1,603	1,566	1,638	*1,505*	*1,699*
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	*4,500*	*4,500*
Current Assets	**12,097**	**15,334**	**12,412**	***12,170***	***13,068***
Net Property Plant, and Equipment	52,087	57,439	71,555	*75,230*	*78,055*
Goodwill	2,672	2,672	6,677	*6,677*	*6,677*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	*9,300*	*9,300*
Long-Term Non-Operating Assets	13,882	13,874	14,214	*14,214*	*14,214*
Total Assets	**86,814**	**95,384**	**114,904**	***117,591***	***121,314***
Accounts Payable	3,056	2,891	3,449	*2,821*	*2,974*
Short-Term Debt	2,262	2,033	3,697	*3,697*	*3,697*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	*4,200*	*4,200*
Current Liabilities	**8,762**	**9,118**	**13,457**	***10,718***	***10,871***
Long-Term Debt	20,010	24,286	32,216	*34,716*	*35,916*
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	*19,000*	*19,800*
Other Long-Term Operating Liabilities	4,550	4,201	4,187	*4,800*	*4,800*
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	*19,294*	*19,294*
Total Liabilities	**62,681**	**68,062**	**87,292**	***88,528***	***90,681***
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	*18,794*	*18,794*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,910	12,068	12,030	*13,335*	*14,846*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,491	-2,431	-2,660	*-2,200*	*-2,200*
Shareholder's Equity	**22,801**	**26,014**	**25,837**	***27,662***	***29,233***
Minority Interest	1,332	1,308	1,775	*1,400*	*1,400*
Total Equity	**24,133**	**27,322**	**27,612**	***29,062***	***30,633***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Net Income	1,820	2,250	1,204	*2,499*	*2,763*
Depreciation	3,868	3,987	5,576	*3,200*	*3,375*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*800*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*476*	*-381*
(Increase) Decrease in Inventory	-380	4	7	*133*	*-194*
Change in Other Short-Term Assets	-2,758	-387	-827	*280*	—
Increase (Decrease) in Accounts Payable	209	-121	771	*-628*	*152*
Change in Other Short-Term Liabilities	—	—	—	*-2,111*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***4,712***	***6,515***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-6,875*	*-6,200*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*1,359*	—
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-5,516***	***-6,200***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,194*	*-1,252*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*2,500*	*1,200*
Other Financing Cash Flows	-599	-67	97	*-375*	—
Cash From Financing	**411**	**4,830**	**1,191**	***991***	***8***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*460*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***647***	***323***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	1.18	15.1	*15.0*	*16.1*	7.3	*9.2*	*9.7*	NM	*NM*	*NM*	1.7	*1.6*	*1.5*	2.4	*2.3*	*2.2*
Entergy Corp ETR USA	1.05	—	*16.4*	*15.4*	—	*8.3*	*7.8*	—	*NM*	*-21.0*	—	*1.4*	*1.3*	—	*1.1*	*1.1*
FirstEnergy Corp FE USA	0.85	11.8	*10.1*	*10.3*	3.0	*8.1*	*8.2*	24.6	*74.1*	*173.3*	2.1	*1.7*	*1.5*	0.9	*0.8*	*0.9*
Average		13.5	*13.8*	*13.9*	5.2	*8.5*	*8.6*	24.6	*74.1*	*76.2*	1.9	*1.6*	*1.4*	1.7	*1.4*	*1.4*
Exelon Corp EXC US	**1.06**	**13.2**	***12.7***	***11.7***	**4.6**	***8.3***	***7.7***	**NM**	***NM***	***100.2***	**1.3**	***1.1***	***1.1***	**1.0**	***1.0***	***0.9***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	40,070 USD	5.9	*7.8*	*6.7*	5.9	*7.8*	*6.7*	6.8	*11.0*	*9.8*	2.3	*3.6*	*3.1*	3.7	*4.0*	*4.2*
Entergy Corp ETR USA	— USD	5.6	*5.3*	*5.4*	5.7	*5.4*	*5.4*	12.9	*8.5*	*8.9*	2.7	*1.7*	*1.8*	—	*4.6*	*4.8*
FirstEnergy Corp FE USA	43,148 USD	-3.5	*5.9*	*6.1*	-4.2	*7.0*	*7.3*	-66.2	*18.7*	*16.1*	-13.0	*2.9*	*2.9*	4.6	*5.1*	*5.6*
Average		2.7	*6.3*	*6.1*	2.5	*6.7*	*6.5*	-15.5	*12.7*	*11.6*	-2.7	*2.7*	*2.6*	4.2	*4.6*	*4.9*
Exelon Corp EXC US	**114,904** USD	**2.1**	***5.0***	***5.5***	**2.3**	***5.4***	***6.1***	**4.4**	***9.3***	***9.7***	**1.1**	***2.2***	***2.3***	**3.6**	***3.8***	***4.0***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	9,061 USD	-13.0	*6.0*	*2.7*	-46.8	*61.0*	*-10.3*	-0.3	*-0.3*	*-6.7*	-586.1	*40.8*	*-123.1*	5.1	*4.9*	*4.7*
Entergy Corp ETR USA	11,974 USD	4.0	*0.7*	*4.4*	26.2	*-3.6*	*8.8*	13.6	*-31.8*	*6.8*	-163.8	*15.6*	*-22.8*	3.0	*3.0*	*3.5*
FirstEnergy Corp FE USA	14,562 USD	-3.1	*5.8*	*-9.3*	3.0	*26.8*	*1.9*	-2.8	*8.4*	*-2.2*	-23.0	*1.3*	*0.0*	—	*—*	*5.6*
Average		-4.0	*4.2*	*-0.7*	-5.9	*28.1*	*0.1*	3.5	*-7.9*	*-0.7*	-257.6	*19.2*	*-48.6*	4.1	*4.0*	*4.6*
Exelon Corp EXC US	**31,360** USD	**6.5**	***3.3***	***7.8***	**-29.4**	***60.6***	***9.6***	**7.6**	***0.2***	***8.0***	**-1,243.2**	***-100.7***	***NM***	**1.6**	***2.5***	***2.5***

Exelon Corp EXC (NYSE) | ★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

		Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Last Historical Year Net Income (Mil)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Public Service Enterprise Group Inc	1,473 USD	66.9	69.1	65.9	33.7	37.9	34.9	17.4	26.4	23.1	16.3	15.3	14.0	-9.8	-16.7	-0.9
Entergy Corp ETR USA	1,222 USD	67.7	66.8	66.7	28.2	27.7	28.2	17.4	16.7	17.4	10.2	7.0	7.2	-6.3	-6.2	-5.2
FirstEnergy Corp FE USA	1,121 USD	62.4	61.7	62.2	30.2	28.4	30.8	16.5	19.8	22.2	7.7	8.4	9.4	3.7	1.1	0.5
Average		65.7	65.9	64.9	30.7	31.3	31.3	17.1	21.0	20.9	11.4	10.2	10.2	-4.1	-7.3	-1.9
Exelon Corp EXC US	**2,484** USD	**59.7**	**57.6**	**55.6**	**22.5**	**25.3**	**25.4**	**9.9**	**15.4**	**15.7**	**7.9**	**7.7**	**7.9**	**-0.3**	**-6.7**	**0.9**

Leverage Analysis

		Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Last Historical Year Total Debt (Mil)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Public Service Enterprise Group Inc	11,783 USD	89.7	98.6	102.3	47.3	49.6	50.6	7.9	7.7	6.4	3.9	3.7	4.2	3.1	3.1	3.2
Entergy Corp ETR USA	15,300 USD	157.1	165.1	171.7	61.1	62.3	63.2	4.9	4.5	4.4	4.5	4.9	5.1	4.9	4.9	5.0
FirstEnergy Corp FE USA	22,552 USD	361.4	297.8	257.1	78.3	74.9	72.0	3.8	3.7	3.7	5.1	5.1	5.2	6.9	6.0	5.4
Average		202.7	187.2	177.0	62.2	62.3	61.9	5.5	5.3	4.8	4.5	4.6	4.8	5.0	4.7	4.5
Exelon Corp EXC US	**35,913** USD	**139.0**	**138.9**	**135.5**	**58.2**	**58.1**	**57.5**	**4.6**	**5.4**	**5.5**	**5.1**	**4.7**	**4.5**	**4.4**	**4.3**	**4.1**

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Public Service Enterprise Group Inc	21,996 USD	0.83	0.18	0.22	0.99	0.78	0.73	0.89	0.68	0.63	0.48	0.07	0.07	93.9	59.5	66.7
Entergy Corp ETR USA	13,793 USD	6.34	4.39	5.49	0.95	0.86	0.92	0.69	0.60	0.65	0.76	0.53	0.67	50.1	75.7	73.3
FirstEnergy Corp FE USA	12,811 USD	0.47	0.82	0.94	0.41	0.46	0.45	0.33	0.37	0.36	0.05	0.09	0.11	-9.9	50.5	54.5
Average		2.55	1.80	2.22	0.78	0.70	0.70	0.64	0.55	0.55	0.43	0.23	0.28	44.7	61.9	64.8
Exelon Corp EXC US	**31,534** USD	**0.69**	**1.38**	**1.69**	**0.92**	**1.14**	**1.20**	**0.80**	**1.00**	**1.05**	**0.17**	**0.35**	**0.43**	**103.0**	**48.1**	**45.6**

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

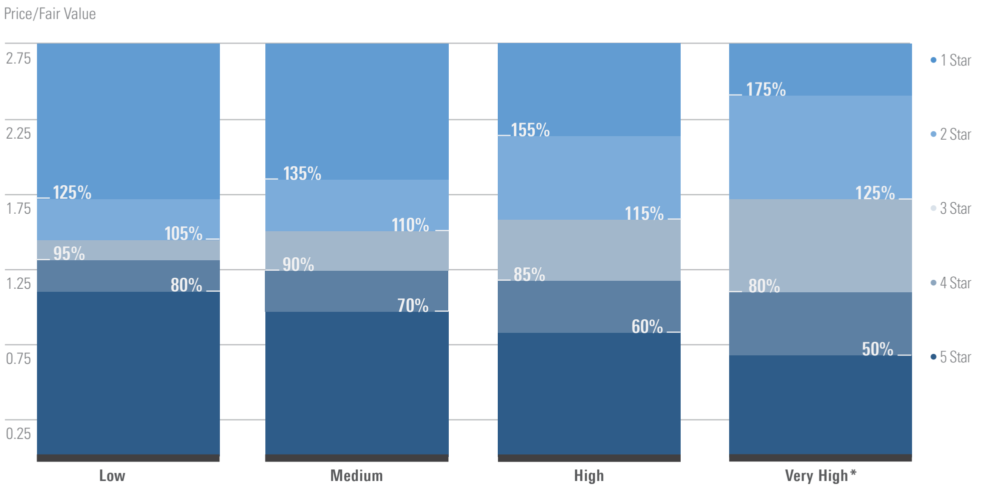
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.05 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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EVERCORE ISI

Energy | Power & Utilities

May 4, 2017

EXELON CORP.

EXC | $33.98

OUTPERFORM | TARGET PRICE: $39.00

Earnings Report

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Company Statistics

Market Capitalization (M):	$31,486
Shares Outstanding (M):	927
Dividend:	$1.30
Dividend Yield:	3.8%
Payout Ratio:	49.2%
Expected Total Return:	18.6%
Fiscal Year End	Dec

Earnings Summary

	2017E	2018E	2019E
EPS	**$2.65**	**$2.85**	**$2.85**
P/E	**12.8x**	**11.9x**	**11.9x**
EPS vs Consensus	**(0.5)%**	**(1.1)%**	**2.2%**
Consensus EPS	**$2.66**	**$2.88**	**$2.79**
Consensus P/E	**12.8x**	**11.8x**	**12.2x**

EVRISI Sum Of The Parts Valuation		
Target Price	$	39.00
2019 EPS: Utility - parent	$	1.88
P/E Multiple		16.2x
Utility Value	$	30.46
ExGen Implied Equity Value (per share)	$	8.54
ExGen 2019 Net Debt (mm)	$	8,593
ExGen 2019 Enterprise Value*	$	16,854
ExGen 2019 EBITDA**	$	2,889
ExGen 2019 EV/EBITDA		5.8x
ExGen 2019 Net Debt/EBITDA		3.0x
*967m EXC shares outstanding 2019		
**4/26/17 forward curves		

EVRISI EPS Forecasts			
	2017	**2018**	**2019**
ComEd	0.61	0.59	0.67
PECO	0.42	0.43	0.46
BGE	0.33	0.37	0.39
POM	0.39	0.46	0.51
Regulated EPS	**1.76**	**1.86**	**2.03**
ExGen EPS	**1.06**	**1.21**	**0.97**
Parent / Other	**-0.17**	**-0.22**	**-0.15**
Consolidated EPS	**2.65**	**2.85**	**2.85**
Dividend	1.30	1.33	1.33
Payout Ratio	49%	47%	47%

Q1 EPS Strong, FY ’17 Guidance Confirmed; Post ’19 Outlook Is Debate Hindering Stock Price

Stock Looks Cheap. Rating Outperform, Target $39.

EXC reported 1Q17 adjusted EPS of $0.65 vs. consensus $0.63 (and $0.68 in 1Q16), which was at the high end of their $0.55 - $0.65 guidance range. Although the largest driver of the YoY decline was ExGen (at -$0.16), this was driven by factors contemplated in guidance. In fact, ExGen’s performance both at wholesale (fewer unplanned outages, better planned outage performance) and at retail from strong Constellation execution was a factor driving earnings to the top end of the range. Unfavorable weather at the utilities was overcome in part by O&M timing. Guidance for 2Q17 was initiated at $0.45-$0.55, which looked a bit light to consensus $0.59.

The FY’17 outlook was affirmed at $2.50 - $2.80. Going forward, the utility outlook was unchanged. While the ExGen outlook looked $0.03 - $0.04 worse in ’18 / ’19 on 3/31/17 forward curves forwards have clawed back a portion of that since the end of March, and thus the outlook is effectively also unchanged. There were a number of “puts and takes” that occurred in the quarter on the commercial side, but the bottom line is that power new business executions and hedges limited the impact of degradation in forward curves between 12/31/16 and 3/31/17 to $50mm in each of ’18 / ’19, and commodity moves since then have essentially closed that gap. Expected generation output is essentially unchanged prospectively with the overall hedge position for ’17-’19 now slightly higher at 98.5% / 61.5% / 31.5% from 92.5% / 57.5% / 29.5%, the company remaining behind ratable (especially at NI Hub) based on their view that an improving supply / demand outlook is not appropriately reflected in the forward curves. Their point of view is not in guidance, but a $1/MWh increase in power prices across their major markets would drive an increase in ’19 gross margin of ~$116mm (1.5% of current expected ’19 GM). They remain committed to reducing leverage at ExGen from 3.3X Debt/EBITDA today to 3X, then using cash flow in excess of that required to pay the EXC dividend and fund utility capital expenditures to shift to pay down parent debt rather than ExGen debt.

Why is EXC down 8.6% from 2/24/17 high of $37.18 and down 3.3% YTD? Over the same time frames our regulated coverage universe is up 1.6% and up 7.8% respectively. We see a combination of issues. First is risk aversion on the pricing outcome of the upcoming PJM capacity auction (after the ISO-NE and MISO disappointments), despite indications that pricing in EMAAC and ComEd may be more robust than RTO (which is where EXC has the majority of its exposure). Our views on PJM capacity pricing can be found in our last merchant note here. Legal action in NY and IL to challenge ZEC revenues could also be successful and we think is a factor as well. The legal basis for ZECs seems sound but it remains a risk and could impact ’19 EPS by +/-$0.25/share if 100% successful in rolling back those programs. Still, with ExGen trading at only 2.3X ’19 EPS on a SOTP basis the exposure seems small at this point if they lose on this front. Furthermore, on the Q1 call EXC indicated the Mystic sale process has been halted, indicated issues surfaced with regard to its LNG fuel supply agreement (although we do not see that a central issue). We also believe that investor concern about 2020 earnings power has been a real factor, despite the long time horizon, since power prices out the forward curve would drive a significant decline in ExGen earnings assuming our base case on capacity pricing. We do not have a formal 2020 EPS forecast for EXC, but a combination of lower energy and capacity pricing could be a significant headwind. Taking in to account 6-8% growth at the core utilities, consolidated EPS could fall as much as $0.15-$0.20 if current forwards were realized. But just a $1/MWh improvement in power price at their given sensitivities is $0.09/share. So it doesn’t take much to start valuing EXC more highly on 2020 forward curves, at least in our view.

We maintain our ’17-’19 EPS forecast of $2.65 / $2.85 / $2.85 on updated 4/26/17 curves. EXC is committed to 2.5% dividend growth through 2018 but are confident the financial profile supports at least that level of growth through 2020. We think the assumptions driving EXC’s view of the earnings growth drivers in its core utilities business and ExGen as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management are still wholly credible. The core utilities are forecast to grow rate base at 6.5% from ’17-20 with earnings growth of 6-8% (down from 7-9% from ’16-’20 solely due to a higher ’17 base, the ’20 forecast is up a nickel). We see a turnaround at PHI similar to the one EXC engineered at BGE after the CEG acquisition as feasible, with annual rate cases at most of the PHI companies (the first “wave” of these largely resolved) and the ability to harvest operating synergies. So, there is line of sight for EPS at EXC’s utilities (ex-parent overheads) growing from $1.59 in FY ’17 to ~$2.00 in 2020, consistent with our prior expectations. From a cash flow perspective we see ExGen organically producing ~$5.9bn of free cash flow through FY’19, >67% of the $8.75bn they are targeting through 2020 with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. That is also without the $400mm from the renewables JV which puts them at 72%. The sale price of that 49% stake implies there may be up to an $85mm degradation in EBITDA but at >10X EV/EBITDA that is not only a good transaction multiple but it is also very accretive as ExGen is trading at an implied 3.7X. Assuming they can sell their impaired TX assets (the EGTP portfolio) that will be another $650mm in debt that comes off the books and should be accretive to credit metrics.

Our price target remains $39, maintaining Outperform rating. Our forecast for utility EPS contribution minus parent overheads is $1.59/share in ’17 which by 2019 we expect to be ~ $1.85 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to +/-2.00/share. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth ~$31.75/share (17.2X ’19 EPS). That implies ExGen is worth only ~$2.25/share today, which is around 2.3X ’19 EPS or 3.7X ’19 EV/EBITDA and a levered free cash flow yield to the EV of 13% with debt/EBITDA at YE ’19 of ~3.0X. They are taking all the cash flow from that lower multiple part of the business and either returning it to shareholders or investing in the higher multiple utility business. Overall, EXC is trading at +/-11.9X FY ’19 earnings while pure regulated names are at +/-17.2X. The EXC dividend yield is 40bps above that of the regulated peer group at ~3.86%. While the dividend growth commitment of 2.5% annually through at least 2018 is lower than that articulated by purely regulated peers and some risks to ExGen revenues are palpable, we think that the overall valuation gap, given our view of the value of the businesses and capital allocation plan, is too high. At $39/share our target price implies a valuation for ExGen of 5.85X ‘19 EV/EBITDA and a levered free cash flow yield of ~10%. The consolidated P/E would still be only 13.6X ’19 EPS.

What’s next at ExGen? The PJM capacity auction window opens on 5/10/17 and closes on 5/16/17, with results to be posted on 5/23/17. The sales process for Mystic units 8 and 9 in ISO-NE (1,415 MW) is no longer being pursued, while the acquisition of Fitzpatrick (838 MW) from ETR closed on 3/31/17 as planned. The new Wolf Hollow and Colorado Bend CCGTs (2,200 MW) in ERCOT will go full COD as planned in 2Q17. ExGen’s announced 3/31/17 sale its 49% share of the renewables JV should close in late 2Q17 or early 3Q17, subject to FERC and PUCT approval. The sale process for the economically-challenged EGTP portfolio of CCGTs and NG peakers (3,398 MW) in ERCOT is just underway, with an agreement possible by late 3Q17 or early 4Q17. There is no timetable for a decision on the motion to dismiss the legal challenges to NY’s ZEC program, which went into effect on 4/1/17. In IL, plaintiffs on 3/31/17 filed a preliminary injunction for the ZES program (which is effective on 6/1/17), with EXC intervening and filing a motion to dismiss on 4/10/17. The judge is expected to rule on the injunction on 5/22/17.

What's next at the utilities? On 3/8/17 and 4/6/17, DPL entered into settlement agreements in its DE electric and gas rate cases for $32mm and $4.9mm, respectively, both based on a 9.7% ROE (they had requested $81.7mm in aggregate based on a 10.60% ROE) with DPSC approval expected in 2Q17. A DCPSC in Pepco's electric distribution rate case (in which they filed on 6/30/16 for a $76.8mm increase premised on 10.60% ROE) is expected by 7/25/17. A MDPSC decision in Pepco's electric distribution rate case (in which they filed on 3/24/17 for a $69mm increase premised on 10.10% ROE) is expected in 4Q17. A NJBPU decision in ACE's electric distribution rate case (in which they filed on 3/30/17 for a $70mm increase premised on 10.10% ROE) is expected in 1H18.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming PJM capacity auctions would be accretive but a significantly lower PJM capacity auction price would be negative.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2017-05-03)	Evercore ISI Target
AEE	Ameren Corp.	In Line	$54.24	$54.50
AEP	American Electric Power	In Line	$67.90	$66.50
AGR	Avangrid Inc	In Line	$43.27	$43.50
CPN	Calpine Corp.	Outperform	$9.85	$16.00
CNP	CenterPoint Energy, Inc.	In Line	$28.10	$27.00
CMS	CMS Energy Corp.	Outperform	$44.98	$45.50
ED	Consolidated Edison Inc.	In Line	$78.76	$74.00
D	Dominion Resources Inc.	In Line	$76.57	$74.00
DTE	DTE Energy Co.	In Line	$103.84	$102.00
DUK	Duke Energy Corp.	In Line	$82.04	$79.00
DYN	Dynegy Inc.	Outperform	$6.02	$15.00
EIX	Edison International	In Line	$78.82	$78.25
ETR	Entergy Corp.	In Line	$76.44	$76.00
ES	Eversource Energy	In Line	$59.11	$57.50
EXC	Exelon Corp.	Outperform	$33.98	$39.00
FE	FirstEnergy Corp.	In Line	$28.95	$30.00
GXP	Great Plains Energy Incorporated	Outperform	$28.86	$31.00
HE	Hawaiian Electric Industries Inc.	Underperform	$33.38	$31.00
HIFR	InfraREIT, Inc.	Outperform	$18.81	$19.00
NEE	NextEra Energy Inc	Outperform	$133.36	$137.00
NI	NiSource Inc	In Line	$24.01	$23.50
NRG	NRG Energy Inc.	Outperform	$14.98	$20.00
NYLD	NRG Yield, Inc.	Outperform	$16.85	$20.00
PCG	PG&E Corp.	Outperform	$66.77	$67.50
PNW	Pinnacle West Capital Corp.	In Line	$84.36	$81.50
PNM	PNM Resources, Inc	In Line	$36.80	$36.00
PPL	PPL Corp.	In Line	$37.98	$36.00
PEG	Public Service Enterprise Group	In Line	$43.66	$45.00
SRE	Sempra Energy	Outperform	$111.42	$115.00
SO	Southern Co.	In Line	$49.47	$48.00
AES	The AES Corporation	Outperform	$11.19	$12.25
WEC	WEC Energy Group, Inc.	In Line	$60.68	$59.50
WR	Westar Energy Inc.	In Line	$52.46	$49.00
XEL	Xcel Energy Inc.	In Line	$44.71	$44.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: May 04, 2017, 09:24 ET.

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The analysts, Greg Gordon and Phil Covello, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Current Ratings Definition

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Outperform – the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line – the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform – the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and

trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Long – the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short – the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position – the stock is not included in the model portfolio.
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI ratings distribution (as of 05/04/2017)

Coverage Universe

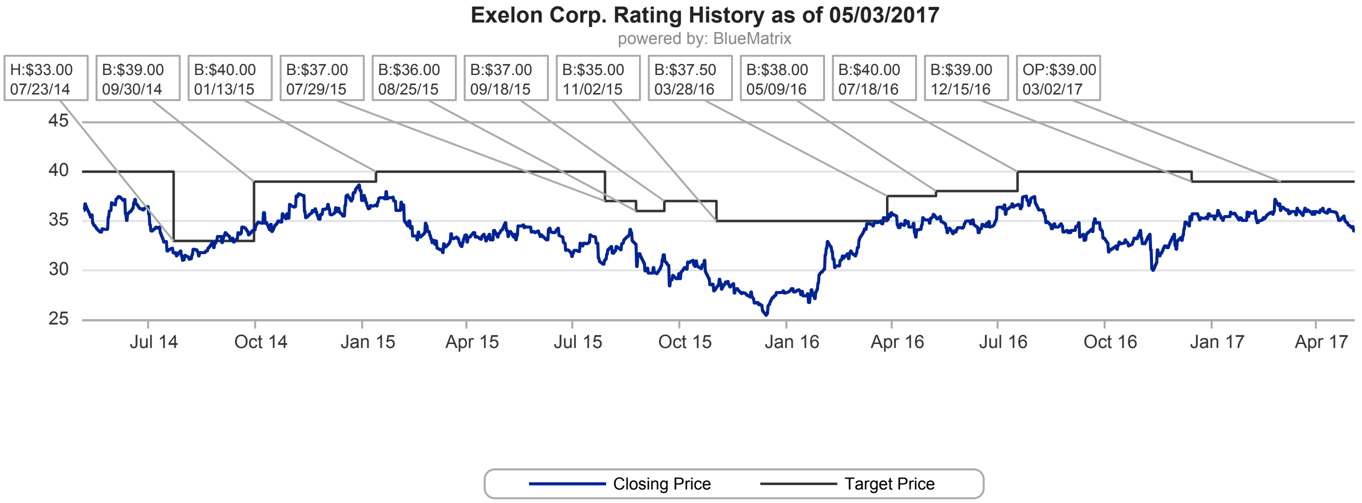
Ratings	Count	Pct.
Buy	341	49%
Hold	268	38%
Sell	62	9%
Coverage Suspended	23	3%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	39	11%
Hold	10	4%
Sell	2	3%
Coverage Suspended	4	17%
Rating Suspended	2	25%

Issuer-Specific Disclosures (as of May 4, 2017)

Price Charts



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COMPANY UPDATE
May 4, 2017

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

Raising 2017-19 Estimates

What's Incremental To Our View

Factoring in updated hedge disclosures and current forward commodity curves, we have raised our 2017-19 estimates.

IMPORTANT POINTS

- EXC reported 1Q results of $0.65 vs $0.68, in line with our estimate of $0.65 and modestly above consensus of $0.63. Relative to our assumptions, modestly higher Com Ed results were offset by higher Corporate expense.

- Factoring in latest hedges disclosures and current forward commodity curves, we make the following increases to our estimates: 2017 to $2.67 from $2.65; 2018 to $2.88 from $2.82; and 2019 to $2.73 from $2.68.

- On the regulatory / legal front we will closely track the legal challenges to EXC's ZEC payments in New York and Illinois. The first key milestone is the New York ruling on the motion to dismiss (although there is no definitive timeline for the decision). According to our calculations, the ZEC payments represent approximately $0.35 of annual earnings for the company, and are essentially getting no value in EXC's current stock price.

- EXC appears attractively priced at an 11%-13% P/E multiple discount to the peer group (based on our 2018-19 estimates). Assuming a P/E multiple of 14.2x (in line with the peer group) on our 2019 estimate of $2.73, we derive our price target of $39. We reiterate our **Buy** rating.

- We have included our revised 2017-19 earnings and cash flow models in this report.

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Buy

Price Target: $39.00
Prior: $39.00

Δ Key Drivers

- *Latest hedge disclosures.*
- *Current forward commodity curves.*

Price (May 3, 2017)	$33.98
52-Wk Range	$37.50-$30.00
Market Cap ($M)	$31,319
ADTV	4,823,980
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	1.8%
Dividend/Yield	$1.31/3.9%
TR to Target	18.6%
Enterprise Value ($M)	$67,260.4

Debt/Cap	55%
5 Year EPS Growth	5.0%
ROE	10.0%
P/B	1.10x

	2017E	2018E		2019E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.65A	$0.70	$0.69	$0.66	$0.66
2Q	$0.50	$0.54	$0.70	$0.51	$0.67
3Q	$0.99	$1.07	$0.96	$1.01	$0.91
4Q	$0.53	$0.57	$0.47	$0.54	$0.44
CY	$2.67	$2.88	$2.82	$2.73	$2.68
P/E	12.7x	11.8x		12.4x	
Consensus					
CY	$2.66	$2.88		$2.79	
Revenue ($M)					
CY	$33,975	$34,545	$34,545	$34,955	$34,955
Operating Margin (%)					
CY	14.70%	15.60%	15.30%	14.60%	14.40%
EBITDA ($M)					
CY	$8,307	$8,785	$8,684	$8,599	$8,531
EV/ EBITDA	8.1x	7.7x		7.8x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2012A-2019E

(dollars in millions, except per share)

	2019E		2018E		2017E		2016A		2015A		2014A		2013A		2012A	
Revenues (% change)																
Com Ed	5,650		5,485		5,380		5,246		4,905		4,564		4,464		5,443	
PECO	3,605		3,500		3,430		2,994		3,032		3,094		3,100		3,186	
BGE	3,470		3,370		3,300		3,233		3,135		3,165		3,065		2,204	
PEPCO	5,530		5,370		5,265		3,643									
Generation	18,000		18,070		18,000		18,304		18,925		17,853		16,190		15,502	
Other	(1,300)		(1,250)		(1,400)		(1,515)		(760)		(787)		(1,377)		(1,661)	
Total Revenues	34,955	1.2%	34,545	1.7%	33,975	6.5%	31,905	9.1%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF
Operating Income (% sales)																
Com Ed	1,435	25.4%	1,345	24.5%	1,285	23.9%	1,200	22.9%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%
PECO	810	22.5%	765	21.9%	710	20.7%	712	23.8%	634	20.9%	574	18.6%	675	21.8%	640	20.1%
BGE	650	18.7%	615	18.2%	555	16.8%	555	17.2%	563	18.0%	441	13.9%	446	14.6%	186	8.4%
PEPCO	790	14.3%	745	13.9%	700	13.3%	485	13.3%								
Generation	1,432	8.0%	1,936	10.7%	1,782	9.9%	1,969	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%
Other	(18)		(21)		(25)		(48)		(22)		(19)		(64)		(46)	
Equity Income (Loss)											(8)		102		59	
Total Operating Income	5,099	14.6%	5,385	15.6%	5,007	14.7%	4,873	15.3%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%
Interest Expense, net	(1,380)		(1,435)		(1,430)		(1,383)		(1,098)		(931)		(986)		(941)	
Other Income (Expense)	305		295		290		289		276		262		238		252	
Pretax income	4,024		4,245		3,867		3,779		3,412		3,259		3,295		3,657	
Taxes (rate)	1,368	34.0%	1,443	34.0%	1,315	34.0%	1,299	34.4%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%
Preferred / Non Controlling Interest	5		5		5		(32)		13		134		14		11	
Equity Income (Loss)	0		(5)		(10)		(24)		(7)							
Net Income (% change)	2,651	-5.0%	2,792	10.0%	2,537	2.0%	2,488	11.7%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%
Shares Outstanding (ful. dil.)	972.0		968.0		949.0		927.0		893.0		864.0		860.0		819.0	
Operating EPS -- ful. dil. (% change)	$2.73	-5.2%	$2.88	7.9%	$2.67	-0.5%	$2.68	7.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%
Extraordinary Items																
Reported GAAP EPS																
Regulated Utility (net Parent) EPS	$1.80		$1.67		$1.55		$1.41		$1.09		$1.06		$1.10		$0.95	
Generation EPS	$0.93		$1.21		$1.12		$1.27		$1.40		$1.33		$1.40		$1.90	
EBITDA	8,599		8,785		8,307		8,105		6,684		6,242		6,191		6,180	
ComEd																
Total Retail Sales (millions mwhs)	92.0		91.0		90.0		88.9		86.7		88.6		89.1		90.0	
Implied Operating Margin ($/MWh)	$15.6		$14.8		$14.3		$13.5		$11.8		$11.1		$10.7		$9.9	
PECO																
Total Electric Retail Sales (millions mwhs)	40.0		39.5		39.0		37.9		38.0		37.5		37.8		37.5	
Implied Operating Margin ($/MWh)	$20.3		$19.4		$18.2		$18.8		$16.7		$15.3		$17.9		$17.1	
PEPCO																
Total Electric Retail Sales (millions mwhs)	47.0		46.0		45.0		26.1									
Implied Operating Margin ($/MWh)	$16.8		$16.2		$15.6		$18.6									
Generation																
Total Power Sales (millions mwhs)	212.0		209.0		203.0		203.0		196.4		199.2		214.7		219.5	
Implied Operating Margin ($/mwh)	$6.8		$9.3		$8.8		$9.7		$10.4		$9.8		$9.0		$12.2	
Net Income By Segment																
Com Ed	700		660		615		524		432		410		421		381	
PECO	480		460		430		444		380		353		393		387	
BGE	345		325		285		289		277		199		195		46	
Generation	901		1,172		1,070		1,181		1,253		1,155		1,202		1,548	
PEPCO	395		360		330		228									
Other	(170)		(185)		(193)		(178)		(115)		(49)		(62)		(32)	
Total	2,651		2,792		2,537		2,488		2,227		2,068		2,149		2,330	

Note

1) Rate Base - Com Ed: $10.6bn in 2015, $11.9bn in 2016, $13.2bn in 2017E, $14.0bn in 2018E, $14.8bn in 2019E; PECO: $6.0bn in 2015, $6.2bn in 2016, $6.6bn in 2017E, $7.0bn in 2018E, $7.4bn in 2019E;
BGE: $5.0bn in 2015, $5.3bn in 2016, $5.7bn in 2017E, $6.1bn in 2018E, $6.5bn in 2019E; PEPCO: $8.3bn in 2016, $8.9bn in 2017E, $9.4bn in 2018E, $9.9bn in 2019E.

2) Earned ROE - Com Ed: 8.0% in 2015, 8.8% in 2016, 9.3% in 2017, 9.4% in 2018, 9.5% in 2019; PECO: 11.7% in 2015, 13.3% in 2016, 12.1% in 2017, 12.2% in 2018, 12.1% in 2019;
BGE: 10.7% in 2015, 10.5% in 2016, 9.7% in 2017, 10.3% in 2018, 10.3% in 2019; PEPCO: 5.5% in 2016, 7.4% in 2017, 7.7% in 2018, 8.0% in 2019.

3) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

4) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

5) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

6) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

7) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw, nuclear $110m price) from Q2 2017.

8) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

9) Forward curves as of 5/2/17.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2012A-2019E

($ in millions except per share)

	2019E	2018E	2017E	2016A	2015A	2014A	2013A	2012A
Net income	2,651	2,792	2,537	2,488	2,227	2,068	2,149	2,330
Depreciation, depletion, amortization	5,100	5,000	4,925	5,576	3,987	3,868	3,779	4,079
Working Capital Change / Other	(125)	(125)	(125)	381	1,420	(1,479)	415	(278)
Cash Flow From Operations	7,626	7,667	7,337	8,445	7,634	4,457	6,343	6,131
Dividends	(1,201)	(1,196)	(1,174)	(1,166)	(1,105)	(1,065)	(1,249)	(1,716)
Capital expenditures	(6,750)	(7,250)	(8,125)	(8,553)	(7,624)	(6,077)	(5,395)	(5,789)
Free Cash Flow	(325)	(779)	(1,962)	(1,274)	(1,095)	(2,685)	(301)	(1,374)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a P/E multiple of 14.2x (in line with the peer group) on our 2019 estimate of $2.73, we derive our price target of $39.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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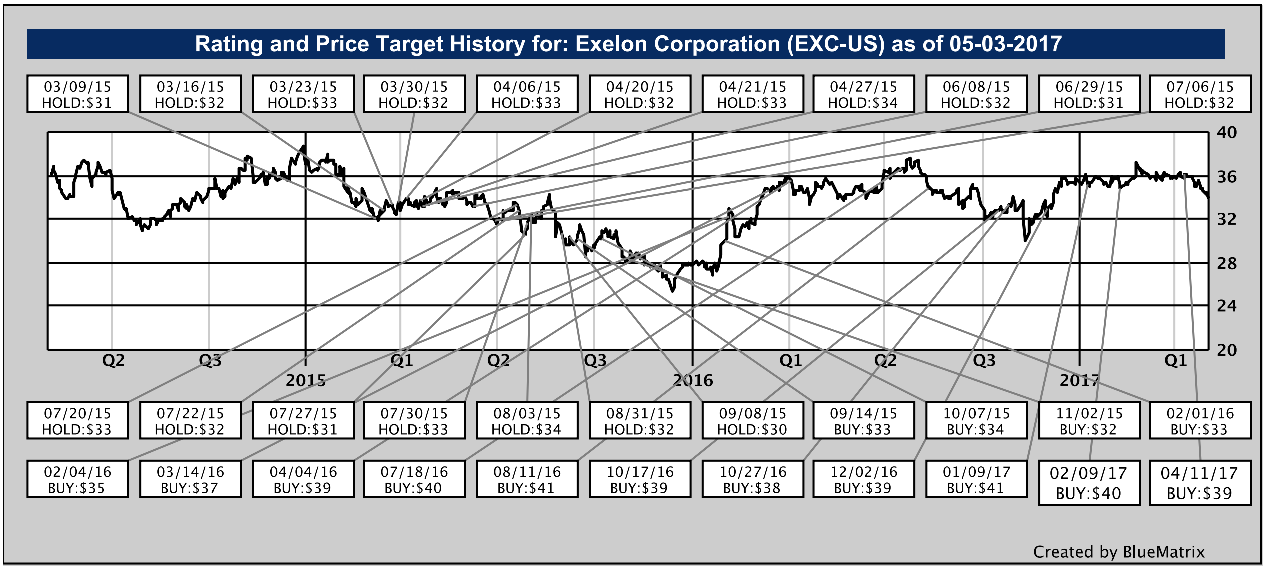

Rating and Price Target History for: Exelon Corporation (EXC-US) as of 05-03-2017

Created by BlueMatrix

STRH Ratings System for Equity Securities

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Hold (H) – the stock’s total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock’s total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

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Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
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· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Hold/Neutral	274	41.02%	Hold/Neutral	55	20.07%
Sell/Reduce	4	0.60%	Sell/Reduce	0	0.00%

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May 5, 2017

United States: Utilities

Equity Research

A post-earnings wrap for PPL (Sell) and EXC (Neutral)

We incorporate EPS changes for Neutral-rated EXC and Sell-rated PPL; increase PPL price target by $1 to $35

We update EXC following 1Q2017 earnings, changing our 2017E-2019E EPS from $2.59/$2.71/$2.69 to $2.56/$2.75/$2.77, reflecting changes to (1) hedging prices and expected output at EXC's merchant generation segment Exelon Generation (ExGen), (2) regulated rate cases at the PHI utilities, (3) operating expenses, and (4) financing assumptions.

EXC trades at 13.3x/12.4x/12.3x on 2017E-2019E EPS, a discount relative to Diversified Utilities with Merchant Generation peer averages of 13.7x/13.0x/12.3x. We remain Neutral on EXC as we believe legal challenges to Zero Emissions Credit (ZEC) programs in IL and NY represent headline risk for EXC, potentially putting $0.25-0.30 of EPS at risk, and we note our estimates remain 4%-5% below consensus already for 2017/2018, less so (by 1%) in 2019.

We derive our unchanged 12-month price target of $36 using a SOTP methodology applying P/E multiples on the regulated segments and an EV multiple on EXC's generation business. Key risks for EXC include power prices, litigation and regulation.

While still Sell-rated, we become slightly more positive on PPL, as we raise 2018-19 EPS estimates by 1%-2% after 1Q2017 earnings. We revise estimates to reflect changes for (1) operating costs, (2) financing, (3) rate case outcomes / timing, (4) currency hedging and (5) capital spending. We note that PPL recently reached a rate case settlement agreement in KY – awaiting Kentucky PSC approvals – which allows a revenue increase starting in July 2017, but excludes approximately $320mm in advanced metering spend, which PPL originally requested. We reduce our capital spending forecast, which lowers rate base. Our 2017-2019 EPS estimates change from $2.22/$2.33/$2.37 to $2.20/$2.38/$2.40.

We value PPL on a sum-of-the-parts basis by applying a 16.75x group P/E multiple to the US operations, a 10.5x EV/EBITDA multiple on open UK EBITDA, and adding the value of PPL's currency hedges. We increase our 12-month price target from $34 to $35, on higher estimates. However, we remain Sell-rated as we see total return potential of -6%, below large-cap Regulated Utilities average of -1%. Key risks for PPL include currency, load growth, regulation, capital spending and cost management.

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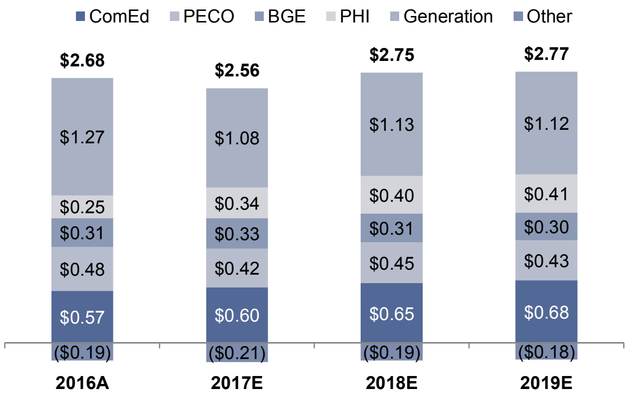
EXC in pictures

Exhibit 1: We update estimates following 1Q2017 results…
EXC GS- New vs. GS- Old vs. Consensus EPS, 2017E-2019E

	EPS Estimates			% Difference	
	GS- New	GS- Old	Cons.	vs. Old	vs. Cons.
2017E	$2.56	$2.59	$2.66	(1%)	(4%)
2018E	$2.75	$2.71	$2.88	1%	(5%)
2019E	$2.77	$2.69	$2.79	3%	(1%)

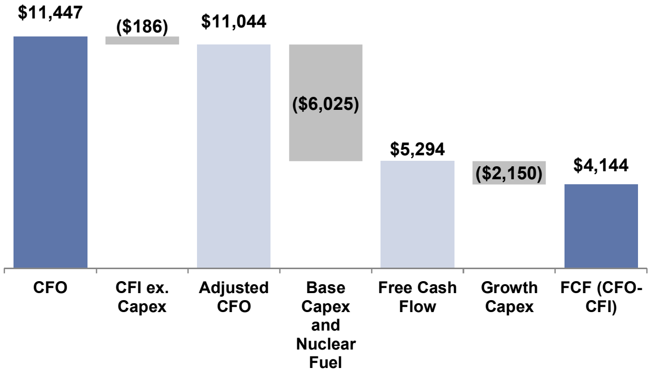
Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 2: …and see EXC shifting earnings toward its regulated businesses…
EXC EPS by segment, 2016A-2019E



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 3: …as EXC directs ExGen FCF toward regulated investments…
ExGen cumulative FCF ($mm), 2017E-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 4: …while we expect consolidated FCF to inflect in 2018
EXC consolidated FCF (CFO-CFI) ($mm), 2017E-2019E

Source: Goldman Sachs Global Investment Research.

Exhibit 5: EXC trades at a slight discount to Diversified Utilities with merchant generation peers

Diversified utilities comparable analysis

	Ticker	Rating	Close 05/04/17	12-Mo Px. Tgt	Tot Ret to Target	EPS 2017E	EPS 2018E	EPS 2019E	P/E 2017E	P/E 2018E	P/E 2019E	Dividend Yield	Dividend CAGR 2016-19E
Diversified Utilities													
CenterPoint Energy	CNP	Neutral	$27.98	$26	(3%)	$1.34	$1.44	$1.51	20.8x	19.4x	18.5x	3.7%	4.0%
Dominion Resources	D	Neutral	$77.30	$71	(5%)	$3.52	$3.96	$4.10	21.9x	19.5x	18.8x	3.6%	8.0%
Entergy	ETR	Neutral	$76.56	$76	4%	$4.55	$5.28	$4.89	16.8x	14.5x	15.7x	4.6%	3.7%
Exelon	EXC	Neutral	$34.05	$36	10%	$2.56	$2.75	$2.77	13.3x	12.4x	12.3x	3.8%	2.9%
FirstEnergy	FE	Buy	$28.87	$34	23%	$2.90	$2.79	$2.57	10.0x	10.4x	11.2x	5.0%	1.3%
NextEra Energy	NEE	NR	$134.34	--	--	$6.78	$7.22	$7.76	19.8x	18.6x	17.3x	2.9%	13.2%
Public Service Enterprise Group	PEG	Buy	$43.48	$46	10%	$2.97	$2.99	$3.02	14.6x	14.5x	14.4x	4.0%	5.0%
Sempra Energy	SRE	Neutral	$111.37	$112	3%	$5.35	$5.67	$6.85	20.8x	19.6x	16.3x	2.7%	9.0%
Diversified Utilities Mean					**5%**				**17.3x**	**16.1x**	**15.6x**	**3.8%**	**5.9%**
Diversified Utilities Median					**4%**				**18.3x**	**16.6x**	**16.0x**	**3.8%**	**4.5%**
Merchant Generation names (PEG, ETR, FE, EXC)													
Diversified Utilities / Merchant Generation Mean					**11%**				**13.7x**	**12.9x**	**13.4x**	**4.4%**	**3.2%**
Diversified Utilities / Merchant Generation Median					**10%**				**14.0x**	**13.5x**	**13.4x**	**4.3%**	**3.3%**
Infrastructure names (CNP, D, NEE, SRE)													
Diversified Utilities / Infrastructure Mean					**-2%**				**20.8x**	**19.3x**	**17.7x**	**3.2%**	**8.5%**
Diversified Utilities /Infrastructure Median					**-3%**				**20.8x**	**19.5x**	**17.9x**	**3.3%**	**8.5%**

Note: NR = Not Rated

Source: FactSet, Goldman Sachs Global Investment Research.

PPL in pictures

Exhibit 6: We update PPL estimates following 1Q2017 earnings...

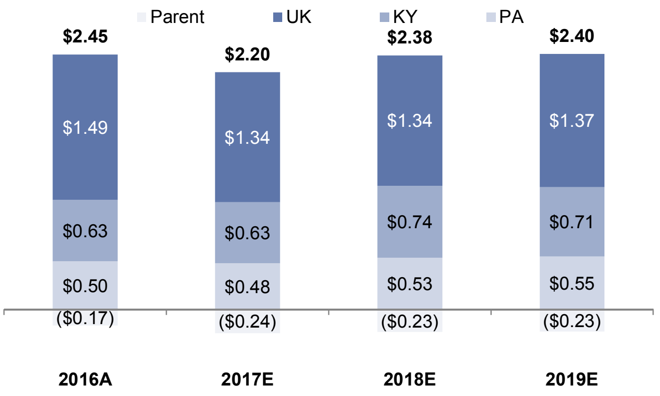
PPL GS- New vs. GS-Old vs. Consensus EPS

	EPS Estimates			% Difference	
	GS-New	GS-Old	Cons	vs. Old	vs. Cons
2017E	$2.20	$2.22	$2.16	(1%)	2%
2018E	$2.38	$2.33	$2.32	2%	3%
2019E	$2.40	$2.37	$2.43	1%	(1%)

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 7: ...and continue to see the UK segment comprising nearly 60% of consolidated EPS

PPL EPS by segment, 2016A-2019E



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 8: We increase our 12-month price target by $1 to $35 on higher estimates…
PPL Sum-of-the-Parts Valuation

Sum-of-the-Parts Analysis	
US Utilities	
PA Utility - 2018E EPS	$0.53
KY Utility - 2018E EPS	$0.74
US Utilities - 2018E EPS	$1.27
P/E, Regulated Utilities	16.75x
Equity value per share - US Utilities	**$21**
UK Utility	
UK Utility - 2018E Open EBITDA	$1,835
EV/EBITDA, Regulated Utilities - UK	10.50x
Enterprise value - UK Utility ($mm)	$19,266
UK Net Debt (3/31/2017)	(6,894)
Value of Hedges	3
Equity value - UK Utility ($mm)	**$12,375**
Current Diluted Share Count (mm)	685
Equity value per share - UK Utility	**$18**
Parent	
Parent EPS - 2018E EPS	($0.23)
P/E, Regulated Utilities	16.75x
Equity value per share - Parent	**($4)**
Target Price per Share	**$35**

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 9: …but remain Sell-rated on PPL as we see total potential return below average large-cap Regulated Utility peers
Large-cap Regulated Utility comparable analysis

			Close	12-Mo	Tot Ret	EPS			P/E			Dividend	Dividend CAGR
	Ticker	Rating	5/04/17	Px. Tgt	to Target	2017E	2018E	2019E	2017E	2018E	2019E	Yield	2016A-19E
Large-Cap													
American Electric Power	AEP	Buy	$68.02	$68	3%	$3.60	$3.90	$4.12	18.9x	17.4x	16.5x	3.5%	4.6%
Duke Energy	DUK	Neutral	$82.59	$81	2%	$4.41	$4.86	$5.18	18.7x	17.0x	15.9x	4.1%	4.0%
Consolidated Edison	ED	Sell	$78.88	$72	(5%)	$4.03	$4.22	$4.42	19.6x	18.7x	17.9x	3.4%	3.9%
Edison International	EIX	Neutral	$79.78	$75	(3%)	$4.22	$4.20	$4.55	18.9x	19.0x	17.5x	2.7%	10.9%
Eversource Energy	ES	Neutral	$59.49	$56	(3%)	$3.07	$3.28	$3.53	19.4x	18.2x	16.9x	3.2%	6.1%
PG&E	PCG	Buy*	$66.96	$68	4%	$3.70	$3.91	$4.10	18.1x	17.1x	16.3x	2.9%	9.4%
PPL Corp	PPL	Sell	$38.44	$35	(5%)	$2.20	$2.38	$2.40	17.5x	16.1x	16.0x	4.1%	4.0%
Southern Company	SO	Neutral	$49.79	$48	1%	$2.89	$3.07	$3.20	17.2x	16.2x	15.5x	4.5%	3.5%
WEC Energy Group	WEC	Neutral	$61.27	$59	(0%)	$3.07	$3.23	$3.42	19.9x	19.0x	17.9x	3.4%	5.7%
Large-Cap Mean					**(1%)**				**18.7x**	**17.6x**	**16.7x**	**3.5%**	**5.8%**
Large-Cap Median					**(0%)**				**18.9x**	**17.4x**	**16.5x**	**3.4%**	**4.6%**

*Denotes on Americas Conviction List

Source: FactSet, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

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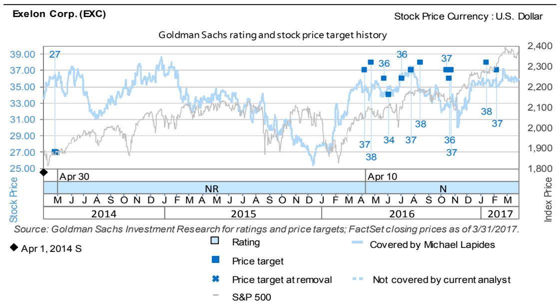

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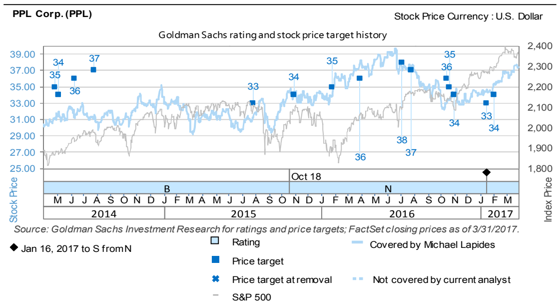

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16 May 2017

EXC & PEG

Revisiting Valuation in a Bear-Case Power Scenario

EXC, EXC US
Overweight
Price: $34.51

Price Target: $39.00

PEG, PEG US
Overweight
Price: $43.10

Price Target: $49.00

Utilities and Power

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Given power sector underperformance QTD we are examining worst-case scenario implied valuations for EXC and PEG. Using open 2019 energy prices, no nuclear support, and flat $100/MWd PJM capacity pricing across all regions, we see shares implying 7.5x and 4.9x EBITDA for EXC and PEG, respectively. Full ZEC credit of $3/share on an NPV basis would bring EXC's multiple to 5.3x. Federal courts may rule shortly on ZEC challenge dismissal motions, and it remains to be seen whether nuclear support effort will gain traction in NJ or PA down the road. However, we would be comfortable owning both names given low relative valuation despite PJM auction uncertainty and ZEC legal risk, and we are reiterating our OW ratings.

- **EXC and PCG imply 7.5x and 4.9 open run-rate 2019 EBITDA, respectively.** Our bear-case scenario uses no nuclear ZEC payments, fully open 2019 energy prices, and a $100/MWd PJM price for all regions for simplification. Values use 2019E utility EPS, with PEG's higher growth partially explaining the differential between companies versus 2017 multiples. For context, IPPs currently trade at 8-9x fully-loaded 2017E EBITDA. Power prices and heat rates have slipped YTD, and power remains backwardated into 2019. Our fully open estimates imply debt/EBITDA of 5.9x for EXC and 6.4x for PEG by year-end 2019, high but not unreasonable leverage given the continued ability for the entities to generate FCF even in this scenario.
- **Comfortable going into PJM results next week.** We forecast $100-120 for RTO and $175-225 for EMACC, but we also see potential for ComEd, DPL-South, and BGE to separate. A $25/MWd price change across all regions would translate into 2.5% and 2.1% share price impacts for EXC and PEG, respectively, assuming full 6.0x EBITDA credit. We feel weaker parameters versus last year and the wildcard of full CP and the accompanying changes to bidding behavior are creating an especially hesitant investor mindset going into this year's results. Results are due after the close on May 23.
- **ZEC legal success means $3/share EXC value.** Estimated NPV of full after-tax cash flows from ZECs is $3.0/share for EXC, assuming the alternative shutdown of these units would be a cash flow neutral event. Approximately two-thirds is from NY and one-third from IL, and full credit for this would bring the implied ExGen segment valuation in the current stock price to 5.3x fully open 2019 EBITDA at $100/MWd, according to our calculations.
- **IL, NY dismissal rulings could come soon, CP challenge likely won't impact 2020-21 PJM results:** Decisions on motions to dismiss could come at any time for the NY ZEC case and are expected on 5/22 for the IL ZEC case. EXC expects a challenger appeal in the event the company is successful in the NY dismissal. Separately, the DC Circuit Court has not yet issued a ruling on the Capacity Performance challenge to FERC, likely allowing for this year's auction to proceed as scheduled with full CP.

Table 1: Implied Bear Case Valuation, EXC & PEG

		EXC	PEG
1	JPM Utility & Corporate 2019E EPS Estimate	1.81	2.41
2	JPM May 16, 2017 Blended Utility & Corp Multiple	19.6	20.1
3=1x2	JPM May 16, 2019 Utility & Corp Share Value	35.61	48.56
4=3/(1.05)^2	JPM May 16, 2017 Utility & Corp Share Value (Re = 5%)	32.30	44.04
5	May 16, 2017 Closing Share Price	34.51	43.10
6=5	JPM May 16, 2017 Utility & Corp Share Value	32.30	44.04
7=6-5	Implied Merchant Generation Share Price	2.21	(0.94)
8	2019E Diluted Ending Share Count (mm)	974	508
9=7x8	Implied Merchant Generation Equity Value ($mm)	2,157	(479)
10	JPM 2019E Merchant Generation Net Debt ($mm)	7,829	2,081
11=9+10	Implied Merchant Generation EV ($mm)	9,986	1,602
12*	Management Estimated Merchant Generation EBITDA ($mm) (A)	2,925	1,145
13*	Less: Capacity and ZEC ($mm) (B)	(2,050)	(677)
14*	Less: MtM of Hedges ($mm) (C)	(400)	(448)
15*=23+24	Add: Straight $100/MWd PJM Auction + Other Regions ($mm)	849	405
16	Add: Change in '17-'19 Spark Spreads (D)	N/A	(158)
17	Add: New Generation Energy Contribution (E)	N/A	59
18=12-13-14-15+16+17	Open 2019 Run-Rate EBITDA($mm)	1,324	327
19=11/18	**Implied EV/EBITDA**	**7.5**	**4.9**
20=10/18	**Net Debt/ EBITDA**	**5.9**	**6.4**
21	UCAP Capacity Clearing at Capacity Performance (MW) (F)	15,338	8,500
22	Capacity Performance Clearing Price ($/MW-Day) (F)	100	100
23	EBITDA contribution from PJM Capacity Performance ($mm)	560	310
24	EBITDA contribution from other auctions (ISO-NY, ISO-NE, MISO) ($mm)	289	95
25	EBITDA Sensitivity +/- $25 $MW-day PJM Clearing Price ($mm)	140	78
26	Share Price Sensitivity +/- $25 $MW-day ($/Share)	0.86	0.92
27	% Change in Share Price +/- $25 $MW-day	2.5%	2.1%

Source: J.P. Morgan estimates, Bloomberg, company documents.

* Rows 12-15 all values represent 2019 numbers for EXC and 2017 numbers for PEG.

(A) EXC's EBITDA derivation uses 2019 ExGen gross margin guidance provided in Q117; assumes 2017 Other Income & TOTI are straight-lined through 2019 and 2019 O&M is reduced by $125m versus 2017 as per guidance.

(A) Uses PEG 2017 EBITDA guidance provided in Q416, Forward Curve was benchmarked to Feb 9, 2017.

(B) EXC provides 2019 Capacity & ZEC contribution; $677m is JPME's estimate for PEG's 2017 capacity payments.

(C) EXC provides 2019 MTM of hedges; Assumes PEG's 2017 MTM of hedges are in the money by $7/MWh.

(D) Represents the impact of a reduction in spark spreads from 2017 through 2019 for PEG's current portfolio of merchant generation. 2017's forward curve is benchmarked to February 9, 2017 and 2019 is benchmarked to May 15, 2017.

(E) Represents JPMe EBITDA contributions from investments in Keys, Sewaren, and Bridgeport, energy only.

(F) Assume no LDA breaks out and every LDA clears at same clearing price.

Table 2: Implied Valuation EXC & PEG, Current 2017 Estimates

		EXC	PEG
1	JPM Utility & Corporate 2017E EPS Estimate	1.59	2.01
2	JPM May 16, 2017 Blended Utility & Corp Multiple	19.6	20.1
3=2x1	JPM May 16, 2017 Utility & Corp Share Value	31.20	40.36
4	May 16, 2017 Share Price	34.51	43.10
5=4-3	Implied Merchant Generation Share Price	3.31	2.74
6	Diluted Share Count 2017E Year-End	946	508
7=5x6	Implied Merchant Generation Equity Value	3,136	1,391
8	JPM 2017E Merchant Generation Net Debt	9,973	2,368
9=7+8	Merchant Generation EV	13,109	3,759
10	Management 2017 EBITDA*	3,100	1145
11**=9/10	EV/EBITDA	4.2	3.3

Source: J.P. Morgan estimates, Bloomberg, company documents.

* 2017 EXC EBITDA is derived by subtracting 2017 ExGen Gross Margin and Guided Adjusted O&M, TOTI, and Other Income.

** Calculation reflects current implied EV/EBITDA of Hybrids by subtracting the implied value of regulated utes & corp from the May 16 share price.

Table 3: IL, NY Nuclear Support Value to EXC

1	NPV of NY ZEC ($mm)	1,981
2	NPV of IL ZEC ($mm)	959
3=2+1	Total ($mm)	2,940
4	EXC 2019 Ending Diluted Share Count (mm)	974
5=3/4	$/Share to EXC, Net Present Value	3.0
6*	EXC fully open Bear Case EV/EBITDA including ZEC's	5.3

Source: J.P. Morgan estimates, Bloomberg, company documents.

* Assumes full ZEC value included in EV in Table 1, Row 11;

Assumes unit shutdown is a cash flow neutral event.

Table 4: Summary of Pending Legal & Legislative Issues

	Lawsuit Against New York Clean Energy Standard	Lawsuit Against Illinois Future Energy Jobs Bill	NJ Nuclear Support Legislation	PA Nuclear Support Legislation	Lawsuit Against PJM Capacity Performance
Description	ZEC requires LSEs to procure Zero Emission Credits from NYSERDA based on each LSE's proportional share of state load.	ZES requires LSEs to procure Zero Emission Credits from NYSERDA based on each LSE's proportional share of state load.	Program will likely share similar characteristics to NY/IL ZEC program in which LSE procure Zero Emission Credits	Program will likely share similar characteristics to NY/IL ZEC program in which LSE procure Zero Emission Credits	The capacity performance product requires generation resources to be capable of delivering energy during “performance assessment hours.” Non-performing generators are forced to pay penalties to resources exceeding performance requirement.
Approved by	August 1, 2016 - Approved by NYPSC	December 7, 2016- Approved by Illinois Legislature	Approval likely through NJ Legislature	Approval likely through PA Legislature	June 2015 - Approved 4:1 by FERC; Commissioner Norman Bay dissented.
Length of Program	April 1, 2017 - March 31, 2029 (12 Years)	June 1, 2017 - May 31, 2027 (10 Years)	N/A	N/A	N/A
Plaintiffs	Coalition of Competitive Energy, DYN, NRG, CPN, EPSA and other parties	1st lawsuit: DYN, NRG,CPN, & Eastern Generation 2nd lawsuit : Village of Old Mill Creek and Comed Customers	N/A	N/A	American Public Power Association, National Rural Electric Cooperative, NJ BPU, and Public Power Association of New Jersey
Alleged Violation	Violates Supremacy Clause (intrudes on FERC's jurisdiction) and Dormant Commerce Clause (unduly discriminates against various generation)	Violates Supremacy Clause (intrudes on FERC's jurisdiction) and Dormant Commerce Clause (unduly discriminates against various generation)	N/A	N/A	Violated procedures of the Federal Power Act by not adequately assessing costs and benefits of capacity product. Capacity Performance is unduly discriminatory to demand response
Legal Challenge	Oct 19, 2016 - Filed complaint at Southern District of New York seeking invalidation. Case assigned to Judge Valerie Caproni (appointed by President Obama)	February 14, 2017 - Two separate lawsuits filed at Northern District of Illinois seeking permanent injunction. Both cases are assigned to Judge Manish Shah (appointed by President Obama)	N/A	N/A	July 2016 - Plaintiffs filed a petition to review FERC's approval of Capacity Performance. DC Circuit Court of Appeals Judge Janice Rogers Brown (appointed by President George Bush), Judge David Sentelle (appointed by Ronald Reagan), and Judge Raymond Randolph (appointed by President George Bush)
Most Recent Events	March 29, 2017 - Southern District Court of New York held a hearing on motion to dismiss plaintiff's challenge	April 10, 2017 - EXC filed a motion to dismiss complaint April 24, 2017 - Plaintiff response filed May 15, 2017 - Defendant response filed	Bill has not been introduced; PEG noted program is still in early stages and legislators are still being educated.	Bill has not been introduced; program still in early stages	February 14, 2017 - Oral arguments were held
Upcoming Key Dates	Awaiting New York District Court Judge Decision on motion to dismiss but no defined timeline	May 22, 2017 - Judge is expected to inform parties of his intentions	Given early stages of program, bill introduction may not occur until the legislature reconvenes in September.	Given early stages of program, bill introduction may not occur until the legislature reconvenes in September.	No deadline for ruling.

Source: Company documents, regulatory filings.

Overweight

Company Data	
Price ($)	43.10
Date Of Price	16 May 17
52-week Range ($)	46.81-39.28
Market Cap ($ mn)	21,803.20
Fiscal Year End	Dec
Shares O/S (mn)	506
Price Target ($)	49.00
Price Target End Date	31-Dec-17

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED (PEG;PEG US)

FYE Dec	**2015A**	**2016A**	**2017E** *(Prev)*	**2017E** *(Curr)*	**2018E** *(Prev)*	**2018E** *(Curr)*	**2019E** *(Prev)*	**2019E** *(Curr)*
EPS ($)								
Q1 (Mar)	1.04	0.91	0.92A	0.92A	-	-	-	-
Q2 (Jun)	0.57	0.57	0.58	0.58	-	-	-	-
Q3 (Sep)	0.80	0.88	-	-	-	-	-	-
Q4 (Dec)	0.50	0.55	-	-	-	-	-	-
FY	2.91	2.90	2.90	2.90	2.93	2.93	2.93	2.94
Bloomberg EPS FY ($)	2.91	2.88	-	2.90	-	2.95	-	2.96

Source: Company data, Bloomberg, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Public Service Enterprise Group *(Overweight; Price Target: $49.00)*

Investment Thesis

PEG is recycling cash from its power business to allow for one of the strongest utility rate base and earnings growth stories among US regulated peers. Capital is deployed into low-lag transmission and distribution investments with little regulatory risk. The power segment is experiencing declining earnings due to weak commodity and capacity prices, but we feel this is more than priced into shares at their current level.

Valuation

We are lowering our December 2017 price target to $49 from $50 prior on a sum-of-the-parts valuation using our 2019 forecasts. The Utilities segment uses a 20.2 P/E multiple valuation, a premium to the pure regulated peer average, and the Corporate segment uses an in-line 19.2 as lower risk and lower lag transmission growth should be offset by higher regulatory risk and lower rate base growth in the New Jersey distribution businesses. The downward revision in our price target primarily reflects a lower regulated peer multiple relative to our prior update.

Risks to Rating and Price Target

- Despite entering into forward sales and hedges to lock in prices for the forward three-year period, PEG is still exposed to volatility in short- and long-term power and natural gas prices. Potential changes to forward commodity and capacity prices within the PJM, ISO-NE, and NY-ISO markets may have a material negative impact on the company’s outer-year earnings potential and could impact our estimates.

- PEG is near the height of its capital spending program exposing its future earnings to project execution- and cost inflation-related risks. At times, inclusion of these investments in rate base could also face the risk of a cost prudency review by the Board of Public Utilities of New Jersey. Difficulty in project execution or cost inflation could add downside risk to our earnings expectations.

- PSE&G’s regulated earnings are subject to federal and state regulations. Any meaningful negative change to the regulatory constructs from NJ’s BPU and FERC may cause future earnings to differ materially from current expectations. Such changes could result from vagaries in political, consumer, or general regulatory sentiment.

Overweight

Company Data	
Price ($)	34.51
Date Of Price	16 May 17
52-week Range ($)	37.70-29.82
Market Cap ($ mn)	31,818.22
Fiscal Year End	Dec
Shares O/S (mn)	922
Price Target ($)	39.00
Price Target End Date	31-Dec-17

Exelon Corp. (EXC;EXC US)

FYE Dec	2015A	2016A	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*	2019E *(Prev)*	2019E *(Curr)*
adj. EPS ($)								
Q1 (Mar)	0.71	0.68	0.65A	0.65A	-	-	-	-
Q2 (Jun)	0.59	0.65	0.52	0.52	-	-	-	-
Q3 (Sep)	0.83	0.91	-	-	-	-	-	-
Q4 (Dec)	0.38	0.44	-	-	-	-	-	-
FY	2.49	2.68	2.72	2.72	2.88	2.87	2.85	2.82
Bloomberg EPS FY ($)	2.51	2.68	-	2.67	-	2.89	-	2.80

Source: Company data, Bloomberg, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Exelon Corp. *(Overweight; Price Target: $39.00)*

Investment Thesis

ExGen continues to generate strong cash flow even in a challenging commodity environment, allowing it to fund a top-tier utility growth story and a growing dividend. While the legal standing of ZECs remains a concern, a final litigated decision at NY may come as early as Q3 and would at least bring a greater degree of clarity for the fate of IL ZECs. Given EXC's prior success of lag catchup at BGE, we believe EXC is well positioned to increase ROEs at Pepco as the company prepares for a second round of rate case filings.

Valuation

We are lowering our December 2017 price target to $39/share from $40/share. Our valuation is based on a sum-of-the-parts analysis using our 2019 forecasts. We use an average 19.6x P/E multiple for the regulated utility and corporate business segments. ExGen is valued using an open EV/EBITDA multiple based on independent power producer peers and adjusted for hedged mark-to-market margins. A 50% risked value of IL and NY is also included in our price target. The downward revision in our price target is driven by a lower regulated peer multiple relative to our prior estimate.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to regulations may cause future earnings power to differ materially from current expectations.
- A portion of the company's earnings are derived from wholesale power sales in deregulated markets. Changes in the price of natural gas are highly correlated to the price of electricity and impact revenues accordingly. Additionally, changes in the price of fuel or fuel transportation such as coal or rail services may have a material impact on gross margin.
- The company operates a fleet of nuclear power plants, exposing it to strict regulatory requirements regarding the operation and maintenance of plants. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

Exelon Corp.: Summary of Financials

Income Statement - Annual	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	**29,237**	**31,907**	**34,834**	**35,567**	**35,507**
COGS	(13,139)	(13,035)	(14,717)	(14,998)	(15,023)
Gross profit	**16,098**	**18,872**	**20,117**	**20,569**	**20,484**
SG&A	(9,432)	(10,778)	**(11,478)**	**(11,383)**	**(11,384)**
Adj. EBITDA	**6,960**	**8,389**	**8,940**	**9,483**	**9,397**
D&A	(2,450)	(3,233)	(3,612)	(3,669)	(3,732)
Adj. EBIT	**4,510**	**5,156**	**5,328**	**5,814**	**5,665**
Net Interest	(1,098)	(1,382)	(1,498)	(1,537)	(1,574)
Adj. PBT	**3,412**	**3,774**	**3,830**	**4,277**	**4,091**
Tax	(1,165)	(1,298)	(1,293)	(1,488)	(1,343)
Minority Interest	(20)	10	33	(8)	(8)
Adj. Net Income	**2,227**	**2,486**	**2,571**	**2,781**	**2,740**
Reported EPS	2.49	2.68	2.72	2.87	2.82
Adj. EPS	**2.49**	**2.68**	**2.72**	**2.87**	**2.82**
DPS	**1.24**	**1.28**	**1.32**	**1.35**	**1.38**
Payout ratio	49.7%	47.8%	48.5%	47.1%	49.2%
Shares outstanding	920	924	967	970	972

Income Statement - Quarterly	1Q17A	2Q17E	3Q17E	4Q17E
Revenue	**8,715A**	**7,894**		
COGS	(3,806)A	(3,110)		
Gross profit	**4,909A**	**4,784**		
SG&A	(2,848)A	(2,816)		
Adj. EBITDA	**2,140A**	**2,042**	**-**	**-**
D&A	(894)A	(902)	-	-
Adj. EBIT	**1,246A**	**1,140**	**-**	**-**
Net Interest	(377)A	(380)	-	-
Adj. PBT	**869A**	**760**	**-**	**-**
Tax	(303)A	(274)		
Minority Interest	39A	(2)		
Adj. Net Income	**605A**	**484**	**-**	**-**
Reported EPS	0.65A	0.52	-	-
Adj. EPS	**0.65A**	**0.52**	**-**	**-**
DPS	**0.33A**	**0.33**		
Payout ratio	50.3%A	63.2%	-	-
Shares outstanding	932A	933		

Balance Sheet & Cash Flow Statement	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalents	6,502	635	0	0	0
Accounts receivable	4,099	5,359	5,019	5,019	5,019
Other current assets	4,733	6,418	6,871	7,233	7,571
Current assets	**15,334**	**12,412**	**11,890**	**12,252**	**12,590**
PP&E	57,439	71,555	76,006	79,587	82,605
Other non current assets	22,611	30,937	31,832	30,932	30,007
Total assets	**95,384**	**114,904**	**119,727**	**122,770**	**125,201**
Short term borrowings	2,033	3,697	5,693	5,693	5,693
Payables	2,883	3,441	3,011	3,011	3,011
Other short term liabilities	4,202	6,319	5,733	5,733	5,733
Current liabilities	**9,118**	**13,457**	**14,437**	**14,437**	**14,437**
Long-term debt	24,286	32,216	31,110	31,093	30,686
Other long term liabilities	34,658	41,619	43,645	45,133	46,476
Total liabilities	**68,062**	**87,292**	**89,191**	**90,663**	**91,599**
Shareholders' equity	25,793	25,837	28,774	30,346	31,841
Minority interests	1,529	1,775	1,761	1,761	1,761
Total liabilities & equity	**95,384**	**114,904**	**119,727**	**122,770**	**125,201**
BVPS	**28.04**	**27.96**	**29.76**	**31.30**	**32.75**
y/y Growth	*6.6%*	*(0.3%)*	*6.4%*	*5.2%*	*4.6%*
Net debt/(cash)	19,817	35,278	36,803	36,786	36,379
Cash flow from operating activities	**7,634**	**8,434**	**6,982**	**8,475**	**8,403**
o/w Depreciation & amortization	3,987	5,576	4,705	4,569	4,657
o/w Changes in working capital	(246)	(492)	(1,318)	(363)	(338)
Cash flow from investing activities	**(7,840)**	**(15,492)**	**(8,505)**	**(7,250)**	**(6,750)**
o/w Capital expenditure	(7,624)	(8,565)	(8,208)	(7,250)	(6,750)
as % of sales	*26.1%*	*26.8%*	*23.6%*	*20.4%*	*19.0%*
Cash flow from financing activities	**4,830**	**1,191**	**887**	**(1,225)**	**(1,653)**
o/w Dividends paid	(1,105)	(1,166)	(1,249)	(1,309)	(1,345)
o/w Net debt issued/(repaid)	4,022	2,780	123	(17)	(407)
Net change in cash	**4,624**	**(5,867)**	**(635)**	**(0)**	**0**
Free cashflow to firm	**733**	**776**	**(233)**	**2,228**	**2,710**
y/y Growth	*(174.0%)*	*5.8%*	*(130.0%)*	*(1056.0%)*	*21.6%*

Ratio Analysis	FY15A	FY16A	FY17E	FY18E	FY19E
Gross margin	55.1%	59.1%	57.8%	57.8%	57.7%
EBITDA margin	23.8%	26.3%	25.7%	26.7%	26.5%
EBIT margin	15.4%	16.2%	15.3%	16.3%	16.0%
Net profit margin	7.6%	7.8%	7.4%	7.8%	7.7%
ROE	9.2%	9.6%	9.4%	9.4%	8.8%
ROA	2.4%	2.4%	2.2%	2.3%	2.2%
ROCE	6.1%	5.9%	5.5%	5.7%	5.6%
SG&A/Sales	32.3%	33.8%	33.0%	32.0%	32.1%
Net debt/equity	72.5%	127.8%	120.5%	114.6%	108.3%
P/E (x)	13.8	12.9	12.7	12.0	12.3
P/BV (x)	1.2	1.2	1.2	1.1	1.1
EV/EBITDA (x)	7.0	8.1	7.9	7.5	7.5
Dividend Yield	3.6%	3.7%	3.8%	3.9%	4.0%
Sales/Assets (x)	0.3	0.3	0.3	0.3	0.3
Interest cover (x)	6.3	6.1	6.0	6.2	6.0
Operating leverage	158.0%	156.8%	36.4%	433.6%	1525.6%
Revenue y/y Growth	4.8%	9.1%	9.2%	2.1%	(0.2%)
EBITDA y/y Growth	7.0%	20.5%	6.6%	6.1%	(0.9%)
Tax rate	34.1%	34.4%	33.7%	34.8%	32.8%
Adj. Net Income y/y Growth	7.7%	11.6%	3.4%	8.2%	(1.5%)
EPS y/y Growth	4.2%	7.5%	1.3%	5.5%	(1.7%)
DPS y/y Growth	0.0%	3.3%	2.9%	2.5%	2.5%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

Public Service Enterprise Group: Summary of Financials

Income Statement - Annual	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	**10,415**	**9,061**	**10,820**	**11,624**	**11,745**
COGS	(3,261)	(3,001)	(4,532)	(5,133)	(5,136)
Gross profit	**7,154**	**6,060**	**6,288**	**6,491**	**6,610**
SG&A	(2,978)	(3,008)	**(2,625)**	**(2,598)**	**(2,645)**
Adj. EBITDA	**4,287**	**3,159**	**3,782**	**3,967**	**4,038**
D&A	(1,214)	(1,476)	(1,630)	(1,122)	(1,180)
Adj. EBIT	**3,073**	**1,683**	**2,152**	**2,845**	**2,858**
Net Interest	(393)	(385)	(416)	(456)	(465)
Adj. PBT	**2,680**	**1,298**	**1,736**	**2,389**	**2,394**
Tax	(1,001)	(411)	(617)	(899)	(900)
Minority Interest	0	0	0	0	0
Adj. Net Income	**1,476**	**1,475**	**1,471**	**1,490**	**1,494**
Reported EPS	2.91	2.90	2.90	2.93	2.94
Adj. EPS	**2.91**	**2.90**	**2.90**	**2.93**	**2.94**
DPS	**1.56**	**1.64**	**1.72**	**1.79**	**1.86**
Payout ratio	53.7%	56.5%	59.4%	61.0%	63.3%
Shares outstanding	508	508	508	508	508

Income Statement - Quarterly	1Q17A	2Q17E	3Q17E	4Q17E
Revenue	**2,592A**	**2,577**		
COGS	(874)A	(1,156)		
Gross profit	**1,718A**	**1,421**		
SG&A	(712)A	(603)		
Adj. EBITDA	**1,069A**	**837**	**-**	**-**
D&A	(828)A	(270)	-	-
Adj. EBIT	**241A**	**567**	**-**	**-**
Net Interest	(98)A	(101)	-	-
Adj. PBT	**143A**	**466**	**-**	**-**
Tax	(29)A	(172)		
Minority Interest	0A	0		
Adj. Net Income	**466A**	**294**	**-**	**-**
Reported EPS	0.92A	0.58	-	-
Adj. EPS	**0.92A**	**0.58**	**-**	**-**
DPS	**0.43A**	**0.43**		
Payout ratio	46.9%A	74.3%	-	-
Shares outstanding	508A	508		

Balance Sheet & Cash Flow Statement	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalents	394	423	0	0	0
Accounts receivable	1,068	1,161	1,161	1,161	1,161
Other current assets	2,032	1,670	1,911	2,089	2,225
Current assets	**3,494**	**3,254**	**3,072**	**3,250**	**3,386**
PP&E	26,539	29,286	32,269	34,510	35,843
Other non current assets	7,502	7,530	7,508	7,503	7,498
Total assets	**37,535**	**40,070**	**42,849**	**45,263**	**46,727**
Short term borrowings	1,098	888	888	888	888
Payables	1,369	1,459	1,459	1,459	1,459
Other short term liabilities	1,108	929	929	929	929
Current liabilities	**3,575**	**3,276**	**3,276**	**3,276**	**3,276**
Long-term debt	8,834	10,895	12,454	13,383	13,393
Other long term liabilities	12,059	12,769	13,386	14,285	15,186
Total liabilities	**24,468**	**26,940**	**29,116**	**30,945**	**31,854**
Shareholders' equity	13,067	13,130	13,733	14,319	14,873
Minority interests	-	-	-	-	-
Total liabilities & equity	**37,535**	**40,070**	**42,849**	**45,263**	**46,727**
BVPS	**25.72**	**25.85**	**27.03**	**28.19**	**29.28**
y/y Growth	*7.2%*	*0.5%*	*4.6%*	*4.3%*	*3.9%*
Net debt/(cash)	9,538	11,360	13,342	14,271	14,281
Cash flow from operating activities	**3,919**	**3,311**	**3,567**	**3,541**	**3,646**
o/w Depreciation & amortization	1,427	1,679	1,833	1,325	1,383
o/w Changes in working capital	225	50	(241)	(178)	(136)
Cash flow from investing activities	**(3,942)**	**(4,248)**	**(4,681)**	**(3,566)**	**(2,716)**
o/w Capital expenditure	(3,863)	(4,199)	(4,816)	(3,566)	(2,716)
as % of sales	*37.1%*	*46.3%*	*44.5%*	*30.7%*	*23.1%*
Cash flow from financing activities	**15**	**966**	**691**	**25**	**(930)**
o/w Dividends paid	(789)	(830)	(869)	(903)	(939)
o/w Net debt issued/(repaid)	855	1,875	1,559	929	10
Net change in cash	**(8)**	**29**	**(423)**	**0**	**(0)**
Free cashflow to firm	**302**	**(625)**	**(981)**	**259**	**1,220**
y/y Growth	*(47.9%)*	*(306.8%)*	*56.9%*	*(126.4%)*	*371.5%*

Ratio Analysis	FY15A	FY16A	FY17E	FY18E	FY19E
Gross margin	68.7%	66.9%	58.1%	55.8%	56.3%
EBITDA margin	41.2%	34.9%	35.0%	34.1%	34.4%
EBIT margin	29.5%	18.6%	19.9%	24.5%	24.3%
Net profit margin	14.2%	16.3%	13.6%	12.8%	12.7%
ROE	11.7%	11.3%	11.0%	10.6%	10.2%
ROA	4.1%	3.8%	3.5%	3.4%	3.2%
ROCE	8.7%	4.8%	5.3%	6.4%	6.2%
SG&A/Sales	28.6%	33.2%	24.3%	22.4%	22.5%
Net debt/equity	73.0%	86.5%	97.2%	99.7%	96.0%
P/E (x)	14.8	14.8	14.9	14.7	14.7
P/BV (x)	1.7	1.7	1.6	1.5	1.5
EV/EBITDA (x)	6.9	9.9	8.8	8.6	8.4
Dividend Yield	3.6%	3.8%	4.0%	4.2%	4.3%
Sales/Assets (x)	0.3	0.2	0.3	0.3	0.3
Interest cover (x)	10.9	8.2	9.1	8.7	8.7
Operating leverage	(185.2%)	347.9%	143.5%	433.3%	45.3%
Revenue y/y Growth	(4.3%)	(13.0%)	19.4%	7.4%	1.0%
EBITDA y/y Growth	5.3%	(26.3%)	19.7%	4.9%	1.8%
Tax rate	37.4%	31.7%	35.5%	37.6%	37.6%
Adj. Net Income y/y Growth	5.4%	(0.1%)	(0.3%)	1.3%	0.3%
EPS y/y Growth	5.4%	(0.1%)	(0.3%)	1.3%	0.3%
DPS y/y Growth	5.4%	5.1%	4.9%	4.0%	4.0%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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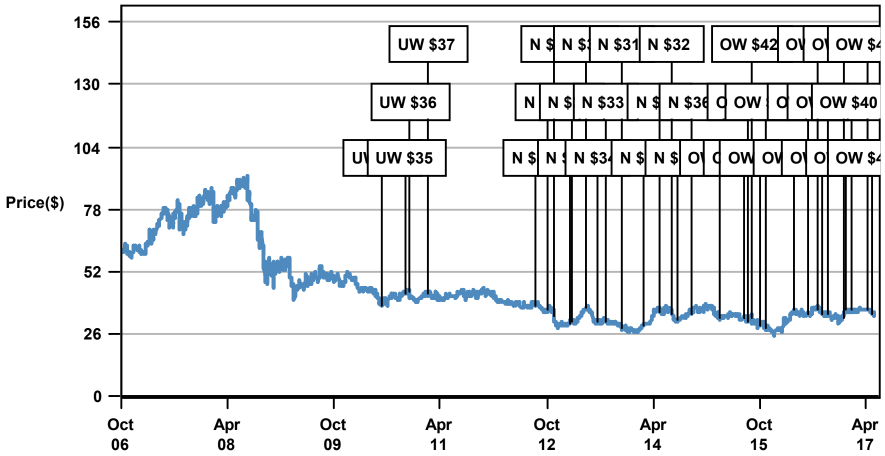
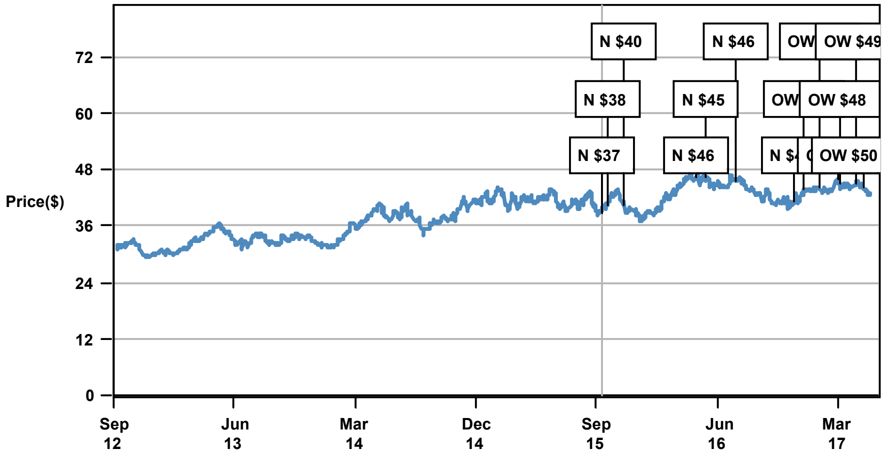
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.65	33.00
29-Sep-10	UW	43.04	35.00
19-Oct-10	UW	43.74	36.00
20-Jan-11	UW	42.82	37.00
07-Aug-12	N	38.01	40.00
08-Oct-12	N	35.95	39.00
02-Nov-12	N	33.58	38.00
23-Jan-13	N	30.45	36.00
08-Feb-13	N	31.08	34.00
19-Apr-13	N	36.68	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.80	33.00
17-Oct-13	N	28.75	31.00
12-Feb-14	N	28.94	29.00
30-Apr-14	N	35.03	33.00
09-Jul-14	N	34.26	32.00
01-Aug-14	N	31.54	35.00
16-Oct-14	N	33.93	36.00
05-Mar-15	OW	32.97	38.00
06-Jul-15	OW	32.77	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	32.64	42.00
28-Sep-15	OW	29.20	39.00
02-Nov-15	OW	28.51	36.00
28-Mar-16	OW	35.69	39.00
31-May-16	OW	34.27	37.00
21-Jul-16	OW	36.25	41.00
15-Aug-16	OW	34.63	40.00
20-Sep-16	OW	33.91	37.00
02-Dec-16	OW	33.01	36.00
16-Dec-16	OW	35.72	39.00
18-Jan-17	OW	35.88	40.00
11-Apr-17	OW	35.81	41.00
03-May-17	OW	33.98	40.00

Public Service Enterprise Group (PEG, PEG US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 11, 2015.

Date	Rating	Share Price ($)	Price Target ($)
11-Sep-15	N	38.88	37.00
28-Sep-15	N	40.59	38.00
02-Nov-15	N	40.62	40.00
15-Apr-16	N	46.40	46.00
05-May-16	N	46.45	45.00
12-Jul-16	N	45.44	46.00
22-Nov-16	N	41.25	43.00
16-Dec-16	OW	43.99	47.00
18-Jan-17	OW	44.18	48.00
02-Mar-17	OW	45.79	49.00
06-Mar-17	OW	45.11	48.00
11-Apr-17	OW	45.29	49.00
28-Apr-17	OW	44.41	50.00

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IB clients*	51%	49%	31%
JPMS Equity Research Coverage	43%	50%	7%
IB clients*	66%	63%	47%

*Percentage of investment banking clients in each rating category.
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BARCLAYS

Equity Research
Power & Utilities | North America Power & Utilities
22 May 2017

TOP PICK Exelon Corp.

Turning Point

We are Reiterating our Overweight Rating and $43 PT: We are updating our eps estimates to $2.68/$2.83/$2.80 from $2.70/$2.89/$2.81 for ‘17/18/19 respectively and publishing a ’20 estimate of $2.91. Exelon remains our Top Pick as shares offer 23.4% upside potential to our PT with a 3.8% dividend yield, the growth of which will rerate in 2019/20 and be fully supported by non-power related earnings.

Core Story Driven by Pepco Regulatory Recovery: Exelon’s core story remains driven by the regulatory recovery at Pepco across two rate case cycles. The company delivered TTM returns of 6.5%/7.2%/8.2% vs allowed levels of 10%/9.9%/9.7%.. The second round of rate case filings has commenced with decisions expected for Pepco DC in July , Pepco MD in 4Q17, ComEd in 4Q17, and ACE in 1Q18. These drive our utility eps from $1.44/share in 2016 to $1.94/share in 2020. On a stand-alone basis our utility and parent only (UPO) eps of $1.82/share at a 10% premium to an indicative 16x multiple yields an indicative valuation of $32/share for UPO, meaning the indicative embedded value of the power business is only $3/share.

Power Assets Undervalued into Positive Catalysts, Lower Volatility Upside Exposure: This power valuation is significantly below mid-cycle valuations of $15/share and our LT asset value of $20/share and the one-turn discount to mid-cycle of $12/share embedded in our price target. It implies an EV/EBITDA multiple of 4.1x on 2018 well below where CPN (6.3x), DYN (5.9x), and NRG (7.3x) trade despite the fact they are IPPs with significantly higher volatility to EBITDA and valuation from power and capacity market exposure. Upside is driven by full recognition of value of the utility recovery story, and by a revaluation of the power business that will find sponsorship amid a calendar that is catalyst constructive through the end of the year. Catalysts include an advantaged outcome in ComEd in the PJM capacity auction (May 23), Zero Emission Credit programs that likely hold up in court in NY and IL (by year end), and market reform white papers from the FERC and the RTOs around changes to better account for subsidies to renewable resources and state credit programs (this summer).

EXC: Quarterly and Annual EPS (USD)

	2016	2017			2018			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2017	2018
Q1	0.68A	0.65A	0.65A	0.65A	N/A	N/A	0.83E	-4%	N/A
Q2	0.65A	N/A	N/A	0.54E	N/A	N/A	0.61E	N/A	N/A
Q3	0.91A	N/A	N/A	0.92E	N/A	N/A	0.96E	N/A	N/A
Q4	0.44A	N/A	N/A	0.55E	N/A	N/A	0.50E	N/A	N/A
Year	2.68A	2.70E	2.68E	2.67E	2.89E	2.83E	2.89E	0%	6%
P/E	13.1		13.1			12.4			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 43.00 Unchanged

Price (19-May-2017)	USD 35.06
Potential Upside/Downside	+22.6%
Tickers	EXC

Market Cap (USD mn)	32469
Shares Outstanding (mn)	926.10
Free Float (%)	99.79
52 Wk Avg Daily Volume (mn)	5.3
52 Wk Avg Daily Value (USD mn)	184.06
Dividend Yield (%)	3.7
Return on Equity TTM (%)	7.49
Current BVPS (USD)	28.65

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 37.70-29.82

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Completed: 21-May-17, 17:14 GMT Released: 22-May-17, 04:10 GMT

North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corp. (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2016A	2017E	2018E	2019E	CAGR
Revenue	32,166	33,446	34,042	34,200	2.1%
EBITDA (adj)	7,577	8,041	8,524	8,636	4.5%
EBIT (adj)	4,530	4,722	5,013	4,887	2.6%
Pre-tax income (adj)	3,630	3,638	3,883	3,852	2.0%
Net income (adj)	2,483	2,547	2,734	2,715	3.0%
EPS (adj) ($)	2.68	2.68	2.83	2.80	1.5%
Diluted shares (mn)	927.0	949.0	967.0	968.0	1.5%
DPS ($)	1.26	1.29	1.33	1.36	2.5%

Margin and return data					Average
EBITDA (adj) margin (%)	23.6	24.0	25.0	25.3	24.5
EBIT (adj) margin (%)	14.1	14.1	14.7	14.3	14.3
Pre-tax (adj) margin (%)	11.3	10.9	11.4	11.3	11.2
Net (adj) margin (%)	7.7	7.6	8.0	7.9	7.8
ROIC (%)	7.8	7.8	8.0	7.9	7.9
ROA (%)	2.6	2.6	2.7	2.7	2.6
ROE (%)	9.7	9.4	9.6	9.0	9.4

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	61,505	67,111	72,374	73,301	6.0%
Total net assets	98,092	100,483	102,577	99,792	0.6%
Capital employed	58,239	60,725	62,464	61,632	1.9%
Shareholders' equity	26,304	27,786	29,426	31,017	5.6%
Net debt/(funds)	31,472	32,687	33,403	25,349	-7.0%
Cash flow from operations	7,538	7,874	8,253	8,471	4.0%
Capital expenditure	-8,482	-8,925	-8,775	-4,675	N/A
Free cash flow	-2,026	-2,163	-1,663	2,625	N/A
Pre-dividend FCF	-944	-1,051	-522	3,796	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	13.1	13.1	12.4	12.5	12.8
EV/EBITDA (adj) (x)	8.4	8.1	7.7	6.7	7.7
EV/EBIT (adj) (x)	14.1	13.8	13.1	11.8	13.2
P/BV (x)	1.2	1.2	1.2	1.1	1.2
Dividend yield (%)	3.6	3.7	3.8	3.9	3.7
Total debt/capital (%)	54.8	54.2	52.9	49.7	52.9
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					Average
Payout ratio (%)	47.2	48.3	47.0	48.5	47.7
Interest cover (x)	3.1	3.1	3.2	3.3	3.2
Regulated (%)	52.4	59.1	59.5	66.4	59.4

Price (19-May-2017)	USD 35.06
Price Target	USD 43.00

Why Overweight? We believe that that utility growth of 7-9% is achievable and will be funded by cash flow from the generation company even with the current forward curves. Any additional legislation similar to the CES in New York or the inclusion of the CES in our numbers is upside to our estimates.

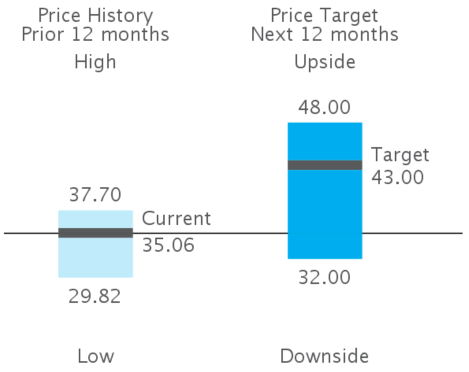
Upside case USD 48.00

Our upside case assumes the impact of the zero emission credits in New York for the genco and assumes a 10% premium for the utility valuation given the above average growth.

Downside case USD 32.00

Our downside case assumes a 10% discount for the utility and a 4x EBITDA at the genco based on current forwards, with no consideration of the CES or FitzPatrick acquisition

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

Upside from Power Valuation with Constructive Catalysts

Core Utility Story Provides Downside Protection and Stability

We believe the utility core story dives a base case for Exelon's valuation that limits downside in the shares from these levels. We have confidence in Exelon management's ability to deliver higher earned returns near allowed levels at the acquired Pepco utilities. This drives utility-only earnings growth significantly through 2020 in line with Exelon's guidance. The foundation for our confidence in the regulatory recovery at Pepco driving utility earnings growth comes from the history of this management team and their previous ability to drive regulatory recovery after the acquisition of Constellation Energy in 2012.

Our overall regulatory rankings of various state jurisdictions demonstrate that positive customer service outcomes lead to better quality and more constructive regulatory outcomes. Once begun this leads to a feedback loop cycle where more constructive regulation drives the ability to improve customer service, which in turn drives more constructive regulation.

FIGURE 1

JD Power Customer Service Ranking Equates to Regulatory Ranking, ROE, and Valuation

State Regulator Ranking Quartiles	Average JD Power Ranking *(out of 1,000)*	Price/ Book	Earned ROE
1st Quartile	676	2.13x	11.9%
2nd Quartile	664	1.83x	10.3%
3rd Quartile	673	1.60x	9.4%
4th Quartile	639	1.60x	9.2%

Source: JD Power & Associates, S&P Market Intelligence, Barclays Research Estimates

As noted above we have confidence in the ability of management to drive a regulatory and operational recovery story at the Pepco utilities given their history of successfully executing the regulatory recovery story at Baltimore Gas & Electric (BGE) after the Constellation Energy merger in 2012. In the roughly four years from the merger through Q1 2017, BGE has gone from 2nd – 4th quartile in most operational/customer metrics to 1st quartile in all but two. We believe management is ahead of expectations related to the operational and customer improvements at the Pepco utilities as in one year they have gone from 2nd – 4th quartile (or off the scale for customer service) to 1st quartile in four metrics, 2nd quartile in two and 3rd quartile in only one (outage frequency). This still leaves room for improvement but is a significant accomplishment in only a year that should lead to more constructive regulatory outcomes.

FIGURE 2

Operational Metrics by Quartile for BGE and PHI at Merger and at 1Q 2017

Operations	BGE		PHI	
Metric	At Merger (2012)	Q1 2017	Pre Merger (2015)	Q1 2017
OSHA Recordable Rate	2nd	2nd	2nd	2nd
2.5 Beta SAIFI (Outage Frequency)	3rd	1st	3rd	3rd
2.5 Beta CAIDI (Outage Duration)	4th	1st	2nd	1st
Customer Satisfaction	4th	1st	N/A	2nd
Service Level % of Calls Answered in <30 sec	2nd	2nd	4th	1st
Abandon Rate	3rd	1st	3rd	1st
Percent of Calls Responded to in <1 Hour	2nd	1st	2nd	1st

Source: EXC Presentations, Barclays Research Estimates.

This improvement in overall operations and customer service, while leaving room for improvement, particularly in outage frequency, should lead to more constructive regulatory outcomes as customer complaints go down. This will allow Exelon the opportunity to earn returns closer to allowed levels over time, similar to what happened at BGE from 2012 – 2015. Over that four year time frame the gap between allowed and earned returns at BGE went from a 568bp under earning position to an 89bp over earning position.

FIGURE 3

Allowed vs. Earned ROEs at Baltimore Gas & Electric

BGE	Allowed	Earned	Gap
2011	9.78%	6.70%	-3.08%
2012	9.78%	4.10%	-5.68%
2013	9.71%	8.60%	-1.11%
2014	9.71%	8.10%	-1.61%
2015	9.71%	10.60%	0.89%
Change	-0.07%	3.90%	3.97%

NOTE: Exelon merger closed in 2012

Source: EXC 2015 Analyst Day Presentation, S&P Market Intelligence, Barclays Research Estimates

With the improvement in operational and customer service metrics leading the way the Pepco utilities appear to be on a similar path. While the ROE gap has only closed between 70bp and 146bps at the various Pepco utilities. That is significant progress in only a year's time and constitutes between a 20-45% narrowing of the starting gap in 2015. As management continues to execute on operational and customer service improvement we see further improvement in earned ROEs toward or potentially even at or slightly above those allowed.

FIGURE 4

Earned and Allowed ROE Gap at Pepco Utilities 2016 vs. 2015

PEPCO	2015 Allowed	2015 Earned	Gap	2016 Allowed	2016 Earned	Gap	Chg
ACE	9.75%	4.79%	-4.96%	10.00%	6.50%	-3.50%	1.46%
Delmarva	9.75%	6.38%	-3.38%	9.90%	7.20%	-2.70%	0.68%
Pepco	9.51%	6.80%	-2.71%	9.70%	8.20%	-1.50%	1.21%

Source: EXC Presentations, S&P Market Intelligence, Barclays Research Estimates.

The dynamic of management repeating a strategy they have executed so successfully in the past gives us confidence in our utility and parent only (UPO) earnings per share estimate in

2020 of $1.82/share. If the management team executes as expected we would value UPO earnings in 2020 at a 10% premium to the average regulated utility given the constructive regulatory environment which at an indicative multiple of 16x would lead to a UPO valuation of $32/share. This would imply then that at the current share price investors are only paying $3/share for the competitive generation business. We feel this leaves little downside in the name, and significant upside potential should the generation business rerate toward more normalized valuation levels.

The one risk we see to this valuation view is if management fails to execute on the regulated utility recovery story. We believe in addition to the ongoing rate cases in various jurisdictions that the one thing investors should watch for red flags is the operational and customer service metrics at Pepco. Any slippage in quartile performance would likely imply poor execution by management and would in our view lead to less constructive regulatory outcomes and an inability to close the earned to allowed return gap.

Several Catalysts Should Demonstrate Value of the Power Business

We believe that the power business at $3/share is significantly undervalued in Exelon's current share price, and the current calendar through the end of the year offers positive catalysts to rerate the valuation of the business. We are reiterating Exelon as our Top Pick and are at what we believe is a turning point for share performance. We believe that not only will continued management execution of the regulated utility recovery story give investors comfort that there is a valuation floor under the stock, but that the power business will move toward normalized valuations across the balance of the year, based upon four distinct catalysts:

(1) The PJM Capacity Auction on May 23

The PJM reliability pricing model capacity auction for the '20/21 capacity year was completed on Tuesday May 16 and results will be posted on the PJM website on Tuesday May 23, likely not until after the close. Our prediction on price leans bullish versus last year, but we see particular resilience and potential for upside to prices in the ComEd and EMAAC/PS North zones. As a reminder this is the first auction under the PJM's 100% capacity performance standard which should move prices higher all else equal. Offsetting this is a lower demand forecast and the potential for new build, energy efficiency, and demand response resources to bid in.

In particular another market change this year, where demand response (DR) and energy efficiency (EE) resources if seasonal must pair with winter resources to create a synthetic annualized capacity bid. An important distinction within this rule is that the bid will clear in the region of the paired resource. In other words, in regions with more constrained DR and EE, those resources may shift bids into RTO. This will increase relative capacity prices in ComEd and in particular EMAAC and lower prices in RTO all else equal. Below are our current predictions for the auction, and dependent upon ultimate bidding behavior around DR EMAAAC could price in line with our expectation for PS North.

FIGURE 5

PJM Reliability Pricing Model (RPM) 20/21 Capacity Year Auction Prediction, $/MW-day

$/MW-day	RTO		PS NORTH		COMED	
	Low	High	Low	High	Low	High
2019/20 Price	**100**	**100**	**100**	**100**	**203**	**203**
100% CP	25	50	25	50	0	10
Net CONE Chgs	-5	0	-1	-1	1	1
Lower demand	-15	-15	-15	-15	-15	-15
CETO/CETL Chg	0	0	0	20	0	20
Net MWs	-12	0	0	10	-20	-10
DR Shift	-10	0	10	0	0	0
2020/21 Price	83	135	119	164	169	209
2020/21 Prediction	**85**	**135**	**120**	**160**	**170**	**210**
Midpt Rounded	**110**		**140**		**190**	

Source: PJM, Independent Market Monitor, S&P Global Market Intelligence, Barclays Research Estimates

(2) A Constructive Resolution to the Zero Emission Credit (ZEC) Programs in NY and IL.

The ZEC programs in both New York and Illinois that pay a price for the non-carbon full baseload characteristics of nuclear power have come under court challenges by other independent power producers. We continue to believe that the ZECs, in some form will be upheld by the courts and the FERC as not tied to wholesale market prices, and allowable for a state to employ, somewhat equivalent to a Renewable Energy Credit (REC), or a property tax credit for a particular generation source.

New York

The ZECs were approved by the New York Public Service Commission (NY PSC) under dockets 15-E-0302 and 16-E-0270. The ZEC program would allow for 12-year payments of ZECs in two six year tranches , the first of which began on April 1 2017. The ZEC price, premised on the avoided cost of carbon dioxide emissions would start at a rate of $17.48/MWh for the first tranche and increase up to $29.15/MWh for the second tranche. The ZEC payments would be adjusted lower if the wholesale price of power exceeded $39/MWh on a around the clock basis in the New York power pool zone in which the nuclear plants are located. Exelon has indicated that without the ZEC program both the Fitzpatrick and Nine Mile in upstate New York would be retired in 2017.

The Electric Power Supply Association, the Coalition for Competitive Electricity, Dynegy Inc., and NRG Energy all filed in Federal Court (Case: 1:16-cv-08164) that the ZEC program was pre-empted by Federal Law and infringed on FERC's jurisdiction of the wholesale power markets and violated the commerce clause by not allowing out of state generators to participate in the ZEC program. The plaintiffs point to the recent U.S. Supreme Court decision *Hughes v. Talen Energy* (Case 14-614) where the SCOTUS ruled that Maryland could not subsidize new construction of instate power plants because the subsidy program adjusted the interstate wholesale rate which violated FERC's authority under the Federal Power Act (FPA).

Exelon argues, rightly, in our view, that the ZECs are allowable under the FPA as the FPA gives states authority over the management of their electric grids and generation fleets while seeding authority to the FERC only for wholesale market rates. We believe that the ZEC program does not violate the commerce clause as out of state nuclear plants could rightfully petition the NY PSC to participate if they could demonstrate a definitive intertie to the New York market and a purchased power agreement with New York based load. In our view the ZEC program falls within a state's right to control aspects of its own generation fleet similar to RECs and any other potential state incentive program such as property tax incentives.

The Federal Court in New York held hearings on Exelon's filed motion to dismiss on March 29 2017. This was a quick timeline versus that typically seen in federal court cases for a hearing. Upon listening to the hearing we believe that the defendants arguments were more solid. The one place where we believe that the ZEC could be rightfully challenged is it's used of the $39/MWh wholesale price to lower the payments could be seen as tethering the ZEC to the wholesale market. Even if it is seen that way by the court, it is a more difficult claim that this harms the plaintiffs as it would only lead to a reduction in ZEC payments.

We believe the hearings as well as without the motion to dismiss Exelon indicated a trial schedule for late summer/fall 2017 was likely on their year-end 2016 earnings call, is indicatory that the judge in this case schedules procedural items in cases before her in a timely fashion. We find it potentially indicative that we are still awaiting a decision from the court on the dismissal motion. We believe that there is some validity to the thought process that the longer it takes for a order for the motion to dismiss, for which there is no statutory deadline, the more likely it is that the judge is crafting a lengthy and careful order to dismiss the case that will be more likely to hold up upon the inevitable appeal. Even if the court decides upon a full trial in the plaintiffs favor, the worst case scenario in our view would be a rewrite of the ZECs by the NY PSC to remove the $39/MWh price at which payments are reduced. In our view, the New York State General Assembly could potentially be a greater risk to the ZEC program if enough downstate legislators can build enough of a coalition to override the NY PSCs ability to implement them. So far, this does not seem to us to be the case, but it remains worth watching.

Illinois

The state of Illinois also instituted a ZEC program similar to New York's. Plaintiffs in that case filed for a preliminary injunction on March 31 2017 and a motion to dismiss was filed by Exelon on April 10 2017 (Case No. 17-cv-01164). The plaintiffs in the Illinois case include Dynegy Inc., Eastern Generation LLC, NRG Energy, Calpine Corp., and the Electric Power Supply Association. The ZECs in Illinois work via the Illinois Power Agency (IPA) being authorized by the Illinois Commerce Commission (ICC) to obtain ZECs for the electric utilities which serve load in the state – Exelon subsidiary ComEd and Ameren Illinois, a subsidiary of Ameren Corp. The plaintiffs argue, similar to the New York case that the ZECs are structured so that they can only be procured from Exelon's Quad Cities and Clinton power plants, and violated FERCs authority over wholesale rates under the FPA. Technically the ZEC is open to all nuclear facilities tied to the ComEd and Ameren Illinois grid's but the plaintiffs argue that the bidding criteria have "rigged" the ZEC procurement so that only Quad Cities and Clinton will be selected by the IPA as the ZEC sources. In the motion to dismiss the defendants argue that the ZECs do not violate FERCs authority over wholesale rates, and like RECs or property tax incentives fall within the authority of a state to incentivize environmental attributes relating to the generation and retail sale of electricity within its borders.

Plaintiffs filed their responses to the motion to dismiss on April 24 2017 and defendants filed their responses in early May. The judge will inform parties of his intentions, to presumably either dismiss the lawsuit or schedule a trial on May 22 2017. Without a stay issued by the court, which we think is unlikely, the Illinois law will become effective on June 1 2017.

(3) White Papers from the DOE and FERC on Market Changes to Deal with Subsidies

New Secretary of Energy Rick Perry has commissioned a study from the Department of Energy on Baseload Power Energy Resources. This study is focused on the long term reliability of the electric grid and will analyze market distorting subsidies that boost one form of energy over the other. The Department of Energy is also expressing a national security concern over fuel diversity. The study was commissioned on April 19 and is expected to be published in 60 days, by June 19. While the DOE has no direct authority over the wholesale power markets, we see the study as a use of the "bully-pulpit" by the administration to push FERC and the regional independent system operators, like PJM and ISO-New England to take action.

In a separate but commensurate process, the PJM is working on a white paper due in 30-60 days around how to deal with state incentives like the ZECs in Illinois within a multi-state competitive market place like PJM and avoid potential distortions in open auctions for capacity pricing under the reliability pricing model (RPM).

In the Energy markets the idea that currently seems to be gaining the most traction is to not allow subsidized resources to set the market clearing price. This would not allow for those resources to not sell into the market and would not allow wholesale markets to clear at some imputed marginal cost absent those resources. Rather, it would set a minimum required wholesale market price for electricity. This would avoid renewable resources, particularly wind pricing electricity negatively essentially due to subsidies in overnight hours when the wind blows and electric demand is not high. While a set minimum price could, and in our view is likely to be, still below the marginal cost of dispatch for other baseload resources, a minimum price of even \$5 - \$10/MWh would increase around the clock pricing and afford non-subsidized baseload resources improved economics. This would allow for support of fuel diversity and limit the potential for intermittent resources to threaten the stability of the grid, or drive non-intermittent unsubsidized resources into retirement that the grid needs to avoid supply scarcity and brownout or blackouts when the wind doesn't blow or the sun doesn't shine.

For capacity two potential market changes are gaining traction in PJM. The first would set a required minimum offer price rule (MOPR) for each distinct resource type in the capacity auction subject to attributes such as intermittency or baseload and level of subsidies or state level incentives. While this has gained some traction there has been some stakeholder pushback around the potential complexity and non-free market basis of such an auction process.

The second idea that has gained traction in the PJM working groups is to employ a two stage auction process. The first auction would be for all resources and load in the market and then those resources would be removed from a stage 2 auction, potentially along with regulated resources and load. This would set one capacity price that cleared resources would receive in the stage 1 auction and a higher capacity price that non-subsidized resources would clear in a stage 2 auction.

Exelon's fleet would on net be advantages by these potential market changes. Since nuclear is an around the clock baseload resource, those plants would benefit from receiving at least some positive compensation for wind heavy overnight hours rather than experiencing hours of negative pricing resulting from wind subsidies. Even if the minimum price is below the plant's marginal cost, the differential would mitigate negative overnight margins and the plant's total margin would improve. In the capacity markets, while ZEC resources would receive a lower, or potentially no price for their capacity, the ZEC payments would fulfil that role, and the balance of Exelon's fleet would benefit from higher capacity pricing that reflected the true cost of capacity without the distortion from state incentives.

(4) Rerating of Power valuations as the IPPs engage in strategic activity

Lastly, we believe sentiment toward the power exposed stocks has changed significantly with the recent reports in the press around different strategic processes underway for the Independent Power Producers (IPPs). Activist shareholders are in charge of a strategic review committee on NRG Energy's Board of Directors that is set to release their recommendations on or before August 15 (see our note *NRG/DYN: Elliot International discloses position in NRG; DYN refinances at lower cost for longer term*, published January 17 2017). Calpine Corp. has reportedly retained Lazard to explore a sale of the company to private equity (see our report *CPN: Reported to Be Exploring a Sale*, published May 12 2017) and, finally Dynegy has reportedly been approached by Vistra Energy about a takeover (see our note *DYN: Vistra Reportedly Makes a Takeover Approach*, published May 19 2017).

Each of these IPP stocks has outperformed the XLE significantly since these announcements as shown in the chart below. Taken together we believe that this has turned the sentiment toward the power exposed names and along with the positive catalyst set for power, and in particular for Exelon's ExGen business, should rerate the valuation of that power subsidiary with Exelon's stock price from currently levels of $3/share to the level of $10/share as incorporated within our $43 price target.

FIGURE 6

IPP Performance vs. the XLE Index Post Strategic Announcements/Press Reports

	1/13/2017	5/19/2017	Chg
NRG	$ 14.60	$ 15.71	7.60%
XLE	$ 74.38	$ 68.08	-8.47%
	5/10/2017	**5/19/2017**	**Chg**
CPN	$ 11.89	$ 13.75	15.64%
XLE	$ 68.12	$ 68.08	-0.06%
	5/18/2017	**5/19/2017**	**Chg**
DYN	$ 7.26	$ 9.12	25.62%
XLE	$ 67.25	$ 68.08	1.23%

Source: ThomsonOne, Barclays Research Estimates

ANALYST(S) CERTIFICATION(S):

We, Daniel Ford, CFA and Ross A. Fowler, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 19-May-2017, USD 35.06), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Materially Mentioned Stocks (Ticker, Date, Price)

Calpine Corp. (CPN, 19-May-2017, USD 13.75), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Dynegy Inc. (DYN, 19-May-2017, USD 9.12), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M/N

NRG Energy (NRG, 19-May-2017, USD 15.71), Overweight/Neutral, A/CD/CE/D/FA/J/K/L/M

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Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Underweight - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

Negative - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

North America Power & Utilities

AES Corp. (AES)	Alliant Energy (LNT)	Ameren Corp. (AEE)
American Electric Power (AEP)	American States Water Company (AWR)	American Water Works (AWK)
Aqua America (WTR)	Brookfield Infrastructure Partners LP (BIP)	Brookfield Infrastructure Partners LP (BIP_u.TO)
Brookfield Renewable Energy Partners LP (BEP)	Brookfield Renewable Energy Partners LP (BEP_u.TO)	California Water Service Group (CWT)

IMPORTANT DISCLOSURES CONTINUED

Calpine Corp. (CPN)
Canadian Utilities Ltd. (CU.TO)
Caribbean Utilities Ltd. (CUPu.TO)
CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)
Connecticut Water Service Inc. (CTWS)
Consolidated Edison (ED)
Dominion Resources (D)
DTE Energy (DTE)
Duke Energy (DUK)
Dynegy Inc. (DYN)
Edison International (EIX)
Emera Inc. (EMA.TO)
Entergy Corp. (ETR)
Eversource Energy (ES)
Exelon Corp. (EXC)
FirstEnergy Corp. (FE)
FORTIS INC (FTS)
Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)
Hydro One Ltd. (H.TO)
National Grid Plc (NGG)
NextEra Energy (NEE)
NextEra Energy Partners, LP. (NEP)
NiSource, Inc. (NI)
NRG Energy (NRG)
NRG Yield Inc. (NYLD)
OGE Energy Corp. (OGE)
Ormat Technologies (ORA)
PG&E Corp. (PCG)
Pinnacle West Capital (PNW)
PNM Resources (PNM)
Portland General Electric Co. (POR)
PPL Corporation (PPL)
Public Service Enterprise Gp (PEG)
SCANA Corp. (SCG)
Sempra Energy (SRE)
Southern Co. (SO)
TerraForm Power, Inc. (TERP)
Vivint Solar Inc. (VSLR)
WEC Energy Group (WEC)
Westar Energy (WR)
Xcel Energy (XEL)

Distribution of Ratings:

Barclays Equity Research has 1776 companies under coverage.

42% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 61% of companies with this rating are investment banking clients of the Firm; 76% of the issuers with this rating have received financial services from the Firm.

40% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 52% of companies with this rating are investment banking clients of the Firm; 74% of the issuers with this rating have received financial services from the Firm.

16% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 38% of companies with this rating are investment banking clients of the Firm; 61% of the issuers with this rating have received financial services from the Firm.

Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

Top Picks:

Barclays Equity Research's "Top Picks" represent the single best alpha-generating investment idea within each industry (as defined by the relevant "industry coverage universe"), taken from among the Overweight-rated stocks within that industry. Barclays Equity Research publishes "Top Picks" reports every quarter and analysts may also publish intra-quarter changes to their Top Picks, as necessary. While analysts may highlight other Overweight-rated stocks in their published research in addition to their Top Pick, there can only be one "Top Pick" for each industry. To view the current list of Top Picks, go to the Top Picks page on Barclays Live (https://live.barcap.com/go/keyword/TopPicks).

To see a list of companies that comprise a particular industry coverage universe, please go to https://publicresearch.barclays.com.

Explanation of other types of investment recommendations produced by Barclays Equity Research:

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IMPORTANT DISCLOSURES CONTINUED

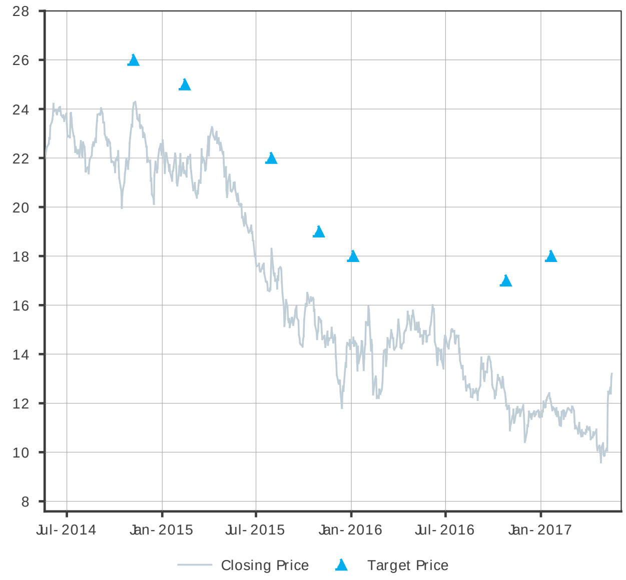
Calpine Corp. (CPN / CPN)

USD 13.75 (19-May-2017)

Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - USD (as of 19-May-2017)



Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
20-Jan-2017	12.07		18.00
25-Oct-2016	12.16		17.00
04-Jan-2016	14.45		18.00
30-Oct-2015	15.51		19.00
30-Jul-2015	17.50		22.00
13-Feb-2015	21.48		25.00
06-Nov-2014	24.05		26.00

On 21-May-2014, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 25.00.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

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Valuation Methodology: Our $18 price target is premised upon a half turn discount the mid-cycle multiple, or 7.1x our 2018E Open EBITDA of $2.0 billion, net debt of $9.8 billion and an NPV of NOLs of $2.1 billion on 359 million shares outstanding.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks for Calpine are the higher reserve margins, recession, wholesale market regulatory risk; risk of environmental mandates, and the gas price.

IMPORTANT DISCLOSURES CONTINUED

Dynegy Inc. (DYN / DYN)

USD 9.12 (19-May-2017)

Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - USD (as of 19-May-2017)

Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
20-Jan-2017	9.42		14.00
02-Dec-2016	7.74		13.00
04-Nov-2016	8.31		15.00
03-Oct-2016	13.13		18.00
04-Aug-2016	14.36		20.00
20-May-2016	18.74		24.00
04-May-2016	17.90		20.00
18-Mar-2016	13.41		18.00
26-Feb-2016	9.78		16.00
22-Jan-2016	11.17		15.00
04-Jan-2016	12.87		16.00
05-Nov-2015	18.98		25.00
10-Aug-2015	23.66		34.00
15-Apr-2015	32.37		40.00
25-Feb-2015	29.55		39.00
19-Jan-2015	31.39		44.00
13-Jan-2015	30.72	Overweight	45.00
22-Aug-2014	32.32	Rating Suspended	

On 21-May-2014, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 33.00.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

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D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Dynegy Inc. in the past 12 months.

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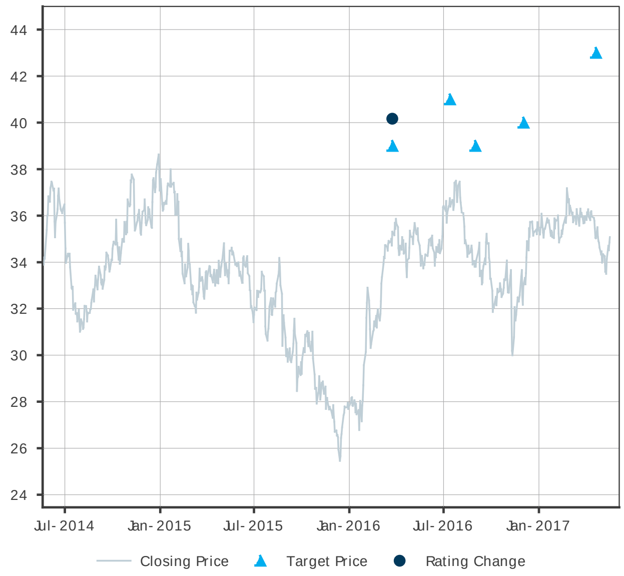
Valuation Methodology: Our $14 price target is premised upon a 7.1x EV/EBITDA mid-cycle multiple, and our 2019E EBITDA of $1.532 billion net of debt of $8.521 billion, environmental capex of $0.4 billion, and a NPV of NOLs of $0.3 billion. We use shares outstanding of 161.08 million.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Dynegy Inc. is an independent power company with a 50% natural gas 50% coal fired fleet diversified across MISO, PJM, New England, and New York. Risks to performance include natural gas, coal, and power prices, as well as annually set capacity prices in PJM and MISO. Risks to our valuation also include the ENGIE asset acquisition not closing as expected.

IMPORTANT DISCLOSURES CONTINUED

Exelon Corp. (EXC / EXC)	Stock Rating	Industry View
USD 35.06 (19-May-2017)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 19-May-2017)



Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
21-Apr-2017	35.03		43.00
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00

On 21-May-2014, prior to any intra-day change that may have been published, the rating and price target for this security were suspended.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

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D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Exelon Corp. in the past 12 months.

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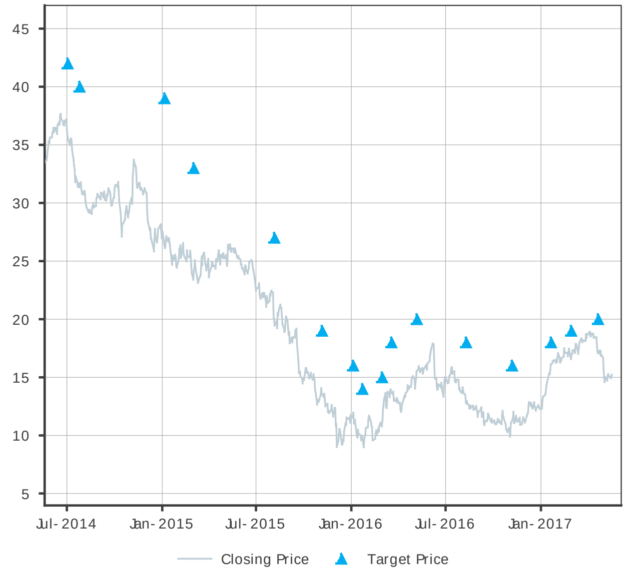
Valuation Methodology: Our current $43 price target is premised upon a 2019 group average multiple of 16.8x applied to the utility net parent earnings of $1.81 resulting in $31 of utility value. Exgen is valued at 6.6x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, the combined value is $43.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

IMPORTANT DISCLOSURES CONTINUED

NRG Energy (NRG / NRG)	Stock Rating	Industry View
USD 15.71 (19-May-2017)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 19-May-2017)



Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
21-Apr-2017	17.07		20.00
28-Feb-2017	16.56		19.00
20-Jan-2017	16.11		18.00
06-Nov-2016	11.03		16.00
09-Aug-2016	12.83		18.00
06-May-2016	15.52		20.00
18-Mar-2016	13.70		18.00
29-Feb-2016	10.78		15.00
22-Jan-2016	9.93		14.00
04-Jan-2016	11.53		16.00
05-Nov-2015	13.58		19.00
05-Aug-2015	20.03		27.00
02-Mar-2015	23.39		33.00
05-Jan-2015	26.45		39.00
25-Jul-2014	31.35		40.00
02-Jul-2014	35.76		42.00

On 21-May-2014, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 40.00.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

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CE: Barclays Bank PLC and/or an affiliate is a market-maker in equity securities issued by NRG Energy.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from NRG Energy in the past 12 months.

FA: Barclays Bank PLC and/or an affiliate beneficially owns 1% or more of a class of equity securities of NRG Energy, as calculated in accordance with US regulations.

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M: NRG Energy is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: Our $20 price target is premised upon a half turn discount to the mid-cycle multiple of 7.6x our recourse basis '18E Open EBITDA of $1.6 billion, $1.5 billion for NYLD at market value, $1.1 billion in NPV of NOLs, $0.2 billion in environmental capex, and $7.6 billion in recourse only net debt.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks include commodity prices, regulation, capital markets, interest rates and environmental policy.

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.37 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

PJM Capacity Auction Results: Surprisingly, No Surprises

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The primary analyst covering this company does not own its stock.

Research as of 24 May 2017
Estimates as of 03 May 2017
Pricing data through 23 May 2017
Rating updated as of 23 May 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

Vital Statistics

Market Cap (USD Mil)	32,756
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	8.7
YTD Total Return %	1.5
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.1
5-Yr Forward EPS CAGR %	2.9
Price/Fair Value	1.11

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*13.1*	*12.2*
EV/EBITDA	6.6	9.5	*8.5*	*7.9*
EV/EBIT	10.2	21.5	*13.9*	*12.7*
Free Cash Flow Yield %	0.0	-0.3	*-6.6*	*1.0*
Dividend Yield %	4.3	3.6	*3.6*	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*32,405*	*34,930*
Revenue YoY %	7.4	6.5	*3.3*	*7.8*
EBIT	4,409	3,112	*4,998*	*5,479*
EBIT YoY %	42.4	-29.4	*60.6*	*9.6*
Net Income, Adjusted	2,224	2,484	*2,499*	*2,763*
Net Income YoY %	7.7	11.7	*0.6*	*10.5*
Diluted EPS	2.49	2.68	*2.69*	*2.90*
Diluted EPS YoY %	4.2	7.6	*0.2*	*8.0*
Free Cash Flow	561	-6,417	*45*	*1,223*
Free Cash Flow YoY %	365.5	-1,243.2	*-100.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.37 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*Forecast* 2017	2018	5-Year Proj. CAGR
Revenue	8.0	10.2	7.4	6.5	3.3	7.8	3.1
EBIT	-5.2	-15.3	42.4	-29.4	60.6	9.6	13.9
EBITDA	6.7	-6.9	26.8	2.8	16.3	8.0	6.8
Net Income	4.9	-4.0	7.7	11.7	0.6	10.5	3.9
Diluted EPS	2.3	-4.4	4.2	7.6	0.2	8.0	2.9
Earnings Before Interest, after Tax	14.3	53.5	13.7	-14.4	5.5	6.2	2.4
Free Cash Flow	-262.0	-92.0	365.5	-1,243.2	-100.7	NM	—

Profitability	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Operating Margin %	12.1	11.3	15.0	9.9	15.4	15.7	16.2
EBITDA Margin %	21.8	19.7	23.3	22.5	25.3	25.4	26.2
Net Margin %	7.7	7.5	7.6	7.9	7.7	7.9	8.2
Free Cash Flow Margin %	-6.0	0.4	1.9	-20.5	0.1	3.5	5.8
ROIC %	2.9	2.5	4.1	2.1	5.0	5.5	5.4
Adjusted ROIC %	3.1	2.7	4.3	2.3	5.4	6.1	5.8
Return on Assets %	1.8	2.0	2.5	1.1	2.2	2.3	2.4
Return on Equity %	6.9	7.1	9.3	4.4	9.3	9.7	9.6

Leverage	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Debt/Capital	0.53	0.49	0.50	0.58	0.58	0.58	0.56
Total Debt/EBITDA	4.35	4.12	3.84	5.10	4.69	4.47	4.33
EBITDA/Interest Expense	5.44	5.08	6.64	4.59	5.40	5.52	5.59

Valuation Summary and Forecasts

	2015	2016	2017(E)	2018(E)
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	13.1	12.2
EV/EBITDA	6.6	9.5	8.5	7.9
EV/EBIT	10.2	21.5	13.9	12.7
Free Cash Flow Yield %	0.0	-0.3	-6.6	1.0
Dividend Yield %	4.3	3.6	3.6	3.8

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.4
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	8,321	12.9	8.96
Present Value Stage II	17,405	26.9	18.74
Present Value Stage III	38,871	60.2	41.85
Total Firm Value	**64,597**	**100.0**	**69.56**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,379**	—	**31.63**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***32,405***	***34,930***
Cost of Goods Sold	13,003	13,084	12,640	*13,731*	*15,505*
Gross Profit	**14,426**	**16,363**	**18,720**	***18,674***	***19,425***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*8,833*	*8,888*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,643*	*1,684*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,200*	*3,375*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Interest Expense	1,065	1,033	1,536	*1,517*	*1,605*
Interest Income	455	-53	389	*250*	*250*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,730***	***4,123***
Income Tax Expense	666	1,073	761	*1,231*	*1,361*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	—	—
Net Income	**1,623**	**2,269**	**1,134**	***2,499***	***2,763***
Weighted Average Diluted Shares Outstanding	864	893	927	*930*	*952*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.69***	***2.90***
Adjusted Net Income	2,065	2,224	2,484	*2,499*	*2,763*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.69***	***2.90***
Dividends Per Common Share	1.24	1.24	1.26	*1.29*	*1.32*
EBITDA	**6,964**	**8,396**	**8,688**	***8,198***	***8,854***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,198***	***8,854***

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.37 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Cash and Equivalents	1,878	6,502	635	1,282	1,605
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	4,883	5,263
Inventory	1,603	1,566	1,638	1,505	1,699
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	4,500	4,500
Current Assets	**12,097**	**15,334**	**12,412**	**12,170**	**13,068**
Net Property Plant, and Equipment	52,087	57,439	71,555	75,230	78,055
Goodwill	2,672	2,672	6,677	6,677	6,677
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	9,300	9,300
Long-Term Non-Operating Assets	13,882	13,874	14,214	14,214	14,214
Total Assets	**86,814**	**95,384**	**114,904**	**117,591**	**121,314**
Accounts Payable	3,056	2,891	3,449	2,821	2,974
Short-Term Debt	2,262	2,033	3,697	3,697	3,697
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	4,200	4,200
Current Liabilities	**8,762**	**9,118**	**13,457**	**10,718**	**10,871**
Long-Term Debt	20,010	24,286	32,216	34,716	35,916
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	19,000	19,800
Other Long-Term Operating Liabilities	4,550	4,201	4,187	4,800	4,800
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	19,294	19,294
Total Liabilities	**62,681**	**68,062**	**87,292**	**88,528**	**90,681**
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	18,794	18,794
Additional Paid-in Capital	—	—	—	60	120
Retained Earnings (Deficit)	10,910	12,068	12,030	13,335	14,846
(Treasury Stock)	-2,327	-2,327	-2,327	-2,327	-2,327
Other Equity	-2,491	-2,431	-2,660	-2,200	-2,200
Shareholder's Equity	**22,801**	**26,014**	**25,837**	**27,662**	**29,233**
Minority Interest	1,332	1,308	1,775	1,400	1,400
Total Equity	**24,133**	**27,322**	**27,612**	**29,062**	**30,633**

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.37 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2014	2015	2016	*2017*	*2018*
Net Income	1,820	2,250	1,204	*2,499*	*2,763*
Depreciation	3,868	3,987	5,576	*3,200*	*3,375*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*800*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*476*	*-381*
(Increase) Decrease in Inventory	-380	4	7	*133*	*-194*
Change in Other Short-Term Assets	-2,758	-387	-827	*280*	—
Increase (Decrease) in Accounts Payable	209	-121	771	*-628*	*152*
Change in Other Short-Term Liabilities	—	—	—	*-2,111*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***4,712***	***6,515***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-6,875*	*-6,200*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*1,359*	—
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-5,516***	***-6,200***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,194*	*-1,252*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*2,500*	*1,200*
Other Financing Cash Flows	-599	-67	97	*-375*	—
Cash From Financing	**411**	**4,830**	**1,191**	***991***	***8***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*460*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***647***	***323***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

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We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
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Three Stars ★★★
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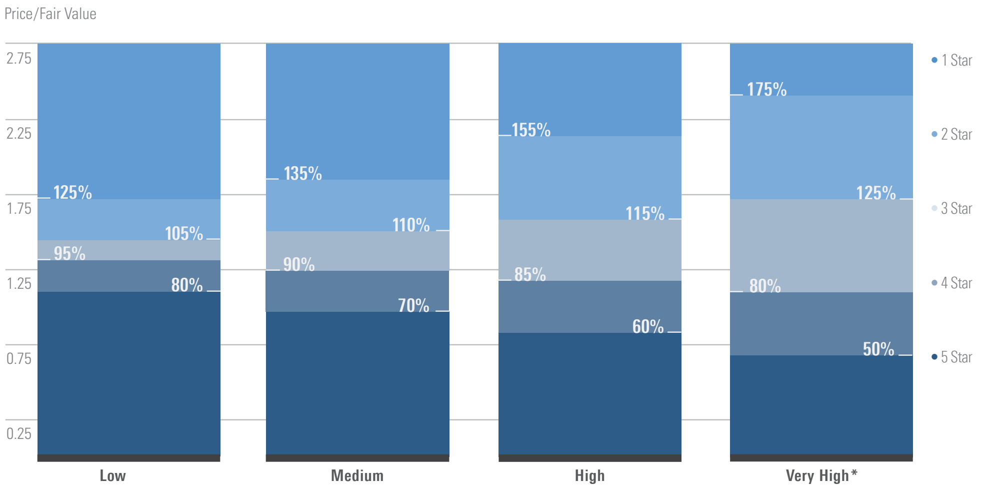
Morningstar Research Methodology for Valuing Companies



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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.37 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.37 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Completed: 24-May-17, 10:15 GMT
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TOP PICK Exelon Corp. / Dynegy Inc.

PJM Capacity Auction Results

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 43.00
Price (23-May-2017): USD 35.37
Potential Upside/Downside: 22%
Tickers: EXC

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 14.00
Price (23-May-2017): USD 8.18
Potential Upside/Downside: 71%
Tickers: DYN

Shift in DR Pushes RTO Pricing Lower than Expected and EMAAC Higher than Expected

RTO Clears Low, EMAAC Clears High, ComEd in Line. Last night the PJM released the Capacity Auction results for the 2020/2021 capacity auction year. Results were mixed depending upon the locational deliverability area (LDA) of PJM. EMAAC was the clear surprise versus our expectations clearing at $187.87/MW-day and DEOK also broke out unexpectedly clearing at $130/MW-day. ComEd was essentially in-line at $188.12/MW-day while MAAC also broke out versus RTO at $86.04/MW-day. RTO was disappointing versus expectations at $76.53/MW-day. Normally we would anticipate that MAAC would tend to clear with EMAAC with such a high premium to RTO, however, 57% of the uprates and new build were bid in to MAAC (1,613MWs of the 2,824MWs).

New Build and DR Both Lower. We are encouraged that both new capacity fell year on year from 5,374MWs in last year's auction to 2,824MWs in this year's auction. Showing some discipline to new build of resources at lower capacity and energy prices. Further, demand response fell from 10,348MW to 7,820MWs around the shift to 100% capacity performance and energy efficiency stayed essentially flat at 1,710MWs versus 1,515 MWs last year. Of the demand response that cleared 7,532MWs (96% of the total) cleared as a annual capacity performance based product, meaning the majority of that paired with a winter peaking resource. Bidding behavior of DR was one reason that EMAAC cleared higher than anticipated and RTO cleared lower. ComEd also saw a slight increase in % of total market DR cleared but still came in around expectations at $188.12/MW-day. Overall bidding behavior forces MAAC (ex the new build impact) and EMAAC higher as EMAAC saw 275MWs in generation increases versus 2269MWs of generation decreases while RTO saw 4,258MWs of increases versus only 3,016MWs of decreases. The table below shows the capacity year auction results for the '18/19, '19/20, and '20/21 capacity years and the resulting capacity price for the 2019 and 2020 calendar years.

Figure 1
PJM Reliability Pricing Model (RPM) Capacity Auction Results

$/MW-day	2018/2019	2019/2020	2020/2021	2019	2020	Change
RTO	$ 164.77	$ 100.00	$ 76.53	$ 137.78	$ 90.22	$ (47.56)
EMAAC	$ 225.42	$ 119.77	$ 188.87	$ 181.40	$ 148.56	$ (32.84)
MAAC	$ 164.77	$ 100.00	$ 86.04	$ 137.78	$ 94.18	$ (43.60)

DEOK	$ 164.77	$ 100.00	$ 130.00	$ 137.78	$ 112.50	$ (25.28)
COMED	$ 215.00	$ 202.77	$ 188.12	$ 209.90	$ 196.67	$ (13.23)

NOTE: Capacity Auction Results are for a given capacity year, the 2019 and 2020 columns convert this into a calendar year basis

Source: PJM, Barclays Research Estimates

Exposures Vary by Company Dependent Upon Location of Fleets. While capacity pricing results were lower on a calendar year basis across the board, versus our capacity pricing expectations for the auction we believe that companies with exposures to EMAAC and ComEd: CPN (OW $18 PT) EXC (OW $43 PT), and PEG (EW $47 PT) will be positively impacted versus expectations, while DYN (OW, $14 PT) will be less negatively impacted than anticipated as the assets in the fleet acquired from Duke Energy in 2015 will clear to the DEOK region which broke out at $130/MW-day. Companies with more exposure to RTO excluding DEOK, FE (OW, $36 PT) and NRG (OW, $20 PT) were impacted more negatively than expected. NRG stand alone could not be impacted as much pending the resolution of the GenOn restructuring agreement and bankruptcy.

Figure 2

PJM Auction Results and Calendar 2020 Impacts to EBITDA vs. Expected Calendar 2020 Impact to EBITDA

Company Ticker	PJM Region	Indicative MW	Calendar Yr Change	Estimated EBITDA Chg	2019E EBITDA	Expected Change	Expected EBITDA Chg	vs. Expected
CPN	MAAC	1,036	$ (43.60)	-$16		$ (33.61)	-$13	
	EMAAC	3,053	$ (32.84)	-$37		$ (53.20)	-$59	
	COMED	487	$ (13.23)	-$2		$ (8.28)	-$1	
	RTO	-	$ (47.56)	$0		$ (33.61)	$0	
	Total			**-$55**	**$1,987**		**-$73**	**$18**
DYN	MAAC	515	$ (43.60)	-$8		$ (33.61)	-$6	
	EMAAC	534	$ (32.84)	-$6		$ (53.20)	-$10	
	COMED	3,461	$ (13.23)	-$17		$ (8.28)	-$10	
	DEOK	3,327	$ (25.28)	-$31		$ (33.61)	-$41	
	RTO	349	$ (47.56)	-$6		$ (33.61)	-$4	
	Total			**-$37**	**$1,446**		**-$31**	**-$6**
NRG	MAAC	2,093	$ (43.60)	-$33		$ (33.61)	-$26	
	EMAAC	895	$ (32.84)	-$11		$ (53.20)	-$17	
	COMED	3,738	$ (13.23)	-$18		$ (8.28)	-$11	
	RTO	4,429	$ (47.56)	-$77		$ (33.61)	-$54	
	Total			**-$139**	**$2,835**		**-$109**	**-$30**
FE	MAAC	-	$ (43.60)	$0		$ (33.61)	$0	
	EMAAC	20	$ (32.84)	$0		$ (53.20)	$0	
	COMED	-	$ (13.23)	$0		$ (8.28)	$0	
	RTO	8,390	$ (47.56)	-$146		$ (33.61)	-$103	
	Total			**-$146**	**$4,238**		**-$103**	**-$43**
PEG	MAAC	1,531	$ (43.60)	-$24		$ (33.61)	-$19	
	EMAAC	7,369	$ (32.84)	-$88		$ (53.20)	-$143	
	COMED	-	$ (13.23)	$0		$ (8.28)	$0	
	RTO	-	$ (47.56)	$0		$ (33.61)	$0	
	Total			**-$113**	**$3,933**		**-$162**	**$49**
EXC	MAAC	850	$ (43.60)	-$14		$ (33.61)	-$10	
	EMAAC	5900	$ (32.84)	-$71		$ (53.20)	-$115	
	COMED	6925	$ (13.23)	-$33		$ (8.28)	-$21	
	RTO	650	$ (47.56)	-$11		$ (33.61)	-$8	
	Total			**-$129**	**$8,636**		**-$154**	**$25**

NOTES:

MWs Cleared by Region uses the CP MWs Cleared in the 2019/2020 Auction last year as a proxy until company's release the MWs they cleared in this auction

Estimated EBITDA change is the estimated change from the calendar 2019 capacity price to the calendar 2020 capacity price using MW proxy as noted

2019E EBITDA is the Barclays estimated EBITDA for 2019 for the company indicated (For FE, EXC, and PEG it includes the regulated utilities) for scale of impact

Expected change uses our predicted prices of $110/MW-day for RTO/DEOK, $140/MW-day for EMAAC, and $200/MW-day for ComEd

Source: PJM, Company 8-K Filings and Press Releases, Barclays Research Estimates

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Mentioned Stocks (Ticker, Date, Price)

Calpine Corp. (CPN, 23-May-2017, USD 13.11), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Dynegy Inc. (DYN, 23-May-2017, USD 8.18), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M/N

Valuation Methodology: Our $14 price target is premised upon a 7.1x EV/EBITDA mid-cycle multiple, and our 2019E EBITDA of $1.532 billion net of debt of $8.521 billion, environmental capex of $0.4 billion, and a NPV of NOLs of $0.3 billion. We use shares outstanding of 161.08 million.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Dynegy Inc. is an

independent power company with a 50% natural gas 50% coal fired fleet diversified across MISO, PJM, New England, and New York. Risks to performance include natural gas, coal, and power prices, as well as annually set capacity prices in PJM and MISO. Risks to our valuation also include the ENGIE asset acquisition not closing as expected.

Ratings and Price Target History:
Dynegy Inc.
Currency=USD

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
20-Jan-2017	9.42		14.00
02-Dec-2016	7.74		13.00
04-Nov-2016	8.31		15.00
03-Oct-2016	13.13		18.00
04-Aug-2016	14.36		20.00
20-May-2016	18.74		24.00
04-May-2016	17.90		20.00
18-Mar-2016	13.41		18.00
26-Feb-2016	9.78		16.00
22-Jan-2016	11.17		15.00
04-Jan-2016	12.87		16.00
05-Nov-2015	18.98		25.00
10-Aug-2015	23.66		34.00
15-Apr-2015	32.37		40.00
25-Feb-2015	29.55		39.00
19-Jan-2015	31.39		44.00
13-Jan-2015	30.72	Overweight	45.00
22-Aug-2014	32.32	Rating Suspended	

On 24-May-2014, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 33.00.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Exelon Corp. (EXC, 23-May-2017, USD 35.37), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Valuation Methodology: Our current $43 price target is premised upon a 2019 group average multiple of 16.8x applied to the utility net parent earnings of $1.81 resulting in $31 of utility value. Exgen is valued at 6.6x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, the combined value is $43.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

Ratings and Price Target History:
Exelon Corp.
Currency=USD

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
21-Apr-2017	35.03		43.00
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00

On 24-May-2014, prior to any intra-day change that may have been published, the rating and price target for this security were suspended.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

FirstEnergy Corp. (FE, 23-May-2017, USD 28.50), Overweight/Neutral, CD/CE/D/E/J/K/L/M

NRG Energy (NRG, 23-May-2017, USD 15.88), Overweight/Neutral, A/CD/CE/D/FA/J/K/L/M

Public Service Enterprise Gp (PEG, 23-May-2017, USD 44.07), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

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In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 23 May 2017 21:54, UTC	35.37 USD 23 May 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.11	3.65 23 May 2017	3.70 23 May 2017	32.76 23 May 2017	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.03	0.90	1.03	0.92
Price/Earnings	16.8	17.0	17.3	21.8
Forward P/E	13.3	—	16.5	17.3
Price/Cash Flow	4.0	4.5	7.1	12.5
Price/Free Cash Flow	—	57.1	13.1	18.7
Trailing Dividend Yield%	3.65	4.40	3.37	1.97

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

PJM Capacity Auction Results: Surprisingly, No Surprises

Investment Thesis

Travis Miller, Strategist, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Strategist, 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	35.37 USD	32.00 USD	1.11	3.65	3.70	32.76	Utilities - Diversified	Standard
23 May 2017 21:54, UTC	23 May 2017	07 Dec 2016 02:29, UTC		23 May 2017	23 May 2017	23 May 2017		

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,294	9,037	10.26	42.37
Entergy Corp ETR	USD	13,740	10,824	-11.18	0.00
FirstEnergy Corp FE	USD	12,647	14,245	-59.42	0.00

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Economic Moat

Travis Miller, Strategist, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Travis Miller, Strategist, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Strategist, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state

renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite

three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

PJM Capacity Auction Results: Surprisingly, No Surprises

Travis Miller, Strategist, 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon Corp EXC ★★★^{Q} 24 May 2017 02:00 UTC

Last Close	**Fair Value**^{Q}	**Market Cap**	**Sector**	**Industry**	**Country of Domicile**
23 May 2017 35.37	24 May 2017 02:00 UTC 34.47	23 May 2017 32,756.0 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

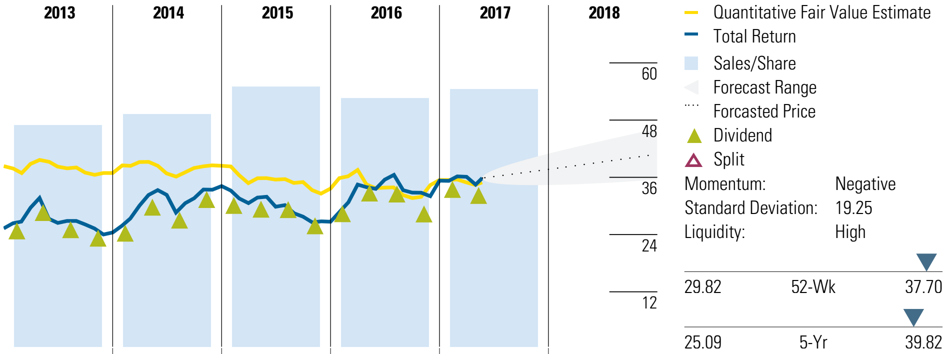
Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	81	80	77
Valuation	Fairly Valued	37	47	31
Quantitative Uncertainty	Medium	98	93	96
Financial Health	Moderate	58	51	58

Source: Morningstar Equity Research

Price vs. Quantitative Fair Value



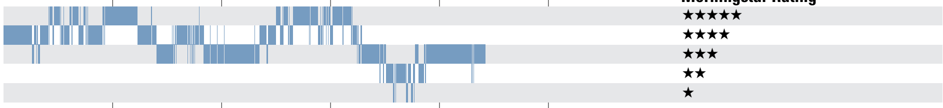
Momentum: Negative
Standard Deviation: 19.25
Liquidity: High

29.82 52-Wk 37.70

25.09 5-Yr 39.82

	2013	2014	2015	2016	2017
Total Return %	-3.0	39.9	-21.8	32.4	1.5
+/– Market (Morningstar US Index)	-36.1	27.1	-22.5	19.9	-6.2
Trailing Dividend Yield %	5.31	3.34	4.47	3.56	—
Forward Dividend Yield %	—	—	—	—	3.65
Price/Earnings	14.6	15.2	12.4	26.9	16.8
Price/Revenue	0.9	1.2	0.8	1.1	1.0

Morningstar Rating^{Q}



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.03	0.90	1.03	0.92
Price/Earnings	16.8	17.0	17.3	21.8
Forward P/E	13.3	—	16.5	17.3
Price/Cash Flow	4.0	4.5	7.1	12.5
Price/Free Cash Flow	—	57.1	13.1	18.7
Trailing Dividend Yield %	3.65	4.40	3.37	1.97
Price/Book	1.2	1.3	1.4	2.5
Price/Sales	1.0	1.1	1.5	2.1

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	7.5	7.0	9.6	12.0
Return on Assets %	1.7	1.9	3.1	4.6
Revenue/Employee (K)	946.2	942.4	1,186.8	304.1

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	596.8	578.3
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

Financials (Fiscal Year in Mil)

	2012	2013	2014	2015	2016	TTM
Revenue	23,489	24,888	27,429	29,447	31,360	32,544
% Change	24.1	6.0	10.2	7.4	6.5	3.8
Operating Income	2,380	3,656	3,096	4,409	3,112	3,925
% Change	-46.9	53.6	-15.3	42.4	-29.4	26.1
Net Income	1,160	1,719	1,623	2,269	1,134	1,956
Operating Cash Flow	6,131	6,343	4,457	7,616	8,445	8,173
Capital Spending	-5,810	-5,395	-6,077	-7,624	-8,553	-8,465
Free Cash Flow	321	948	-1,620	-8	-108	-292
% Sales	1.4	3.8	-5.9	0.0	-0.3	-0.9
EPS	1.42	2.00	1.88	2.54	1.22	2.10
% Change	-62.1	40.8	-6.0	35.1	-52.0	72.1
Free Cash Flow/Share	0.39	0.48	-0.03	-1.04	0.82	-0.12
Dividends/Share	2.10	1.46	1.24	1.24	1.26	1.28
Book Value/Share	25.07	25.51	27.44	28.01	28.17	27.90
Shares Outstanding (K)	857,000	860,000	920,000	924,000	926,097	926,097

Profitability	2012	2013	2014	2015	2016	TTM
Return on Equity %	6.5	7.8	7.2	9.4	4.4	7.5
Return on Assets %	1.7	2.2	2.0	2.5	1.1	1.7
Net Margin %	4.9	6.9	5.9	7.7	3.6	6.0
Asset Turnover	0.35	0.31	0.33	0.32	0.30	0.28
Financial Leverage	3.7	3.5	3.8	3.7	4.4	4.4
Gross Margin %	56.8	56.9	52.6	55.6	59.7	59.2
Operating Margin %	10.1	14.7	11.3	15.0	9.9	12.1
Long-Term Debt	18,346	18,271	20,010	24,286	32,216	31,685
Total Equity	21,624	22,925	22,801	25,793	25,837	26,530
Fixed Asset Turns	0.6	0.5	0.6	0.5	0.5	0.5

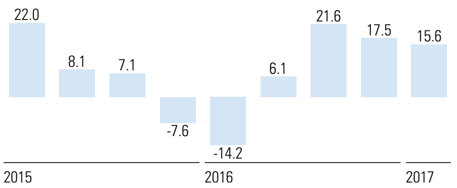
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	8.7	4.7	2.7	-3.7

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2017	8,757.0	—	—	—	—
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
Earnings Per Share ()					
2017	1.07	—	—	—	—
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

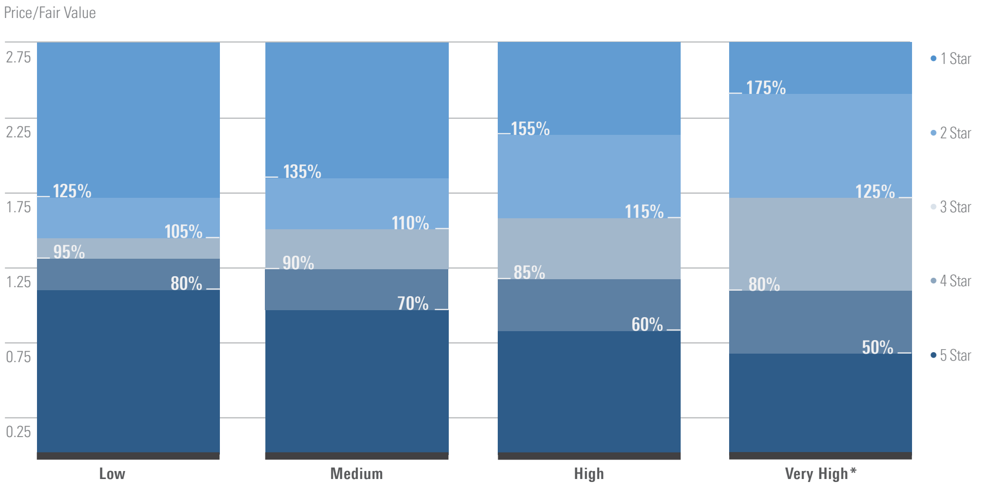
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
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Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ►**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
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- ►**Four-Star:** the stock is somewhat undervalued.
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Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★ 23 May 2017 21:54, UTC	35.37 USD 23 May 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.11	3.65 23 May 2017	3.70 23 May 2017	32.76 23 May 2017	Utilities - Diversified	Standard

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May 25, 2017

United States: Utilities: Power

Equity Research

Company specific PJM results; positive on CPN, less so for DYN

We make modest revisions to estimates for companies with PJM exposure, given updated disclosures provided post PJM's auctions

The nation's largest power market, PJM released details from its annual capacity auction earlier this week. As highlighted in our 5/24/2017 report, *City lights price brighter; the rest of PJM prices poorly as expected*, we saw weak YoY pricing in the largest zones – RTO and MAAC – while PJM saw stronger results in the EMAAC and ComEd zones.

We now see a picture more in focus as most companies, within our coverage, released the amount of their PJM capacity that cleared in the auction. Our initial expectations hold as (1) PEG and CPN with larger EMAAC exposure should benefit, but (2) DYN and FE would face headwinds given exposure to the RTO zone.

Results positive for CPN in 2020, slightly less than expected for PEG

Results for CPN continue to appear strong with capacity cleared increasing by 733 MWs YoY – we raise estimates slightly. We lower slightly for PEG given less capacity cleared than expected – PEG cleared roughly 1,100 fewer MWs on a YoY basis.

We reduce slightly for NRG and DYN…

NRG results appear marginally weaker versus our initial post auction expectations given slightly fewer MWs cleared in the ComEd zone – potentially due to a small coal plant on PJM's deactivation list that likely did not clear, offset mostly by more capacity clearing in the EMAAC zone from NRG's coal/gas plants in Delaware.

We reaffirm our initial expectations for DYN – but lower estimates further given less capacity cleared than we previously modeled. On a YoY basis and updated for plants acquired since the last auction, we note DYN cleared 1.4 GW's less relative to last year's auction.

UPCOMING EVENTS

Goldman Sachs Power Utility Midstream and Pipeline Conference (PUMP)
August 10, 2017
New York, NY

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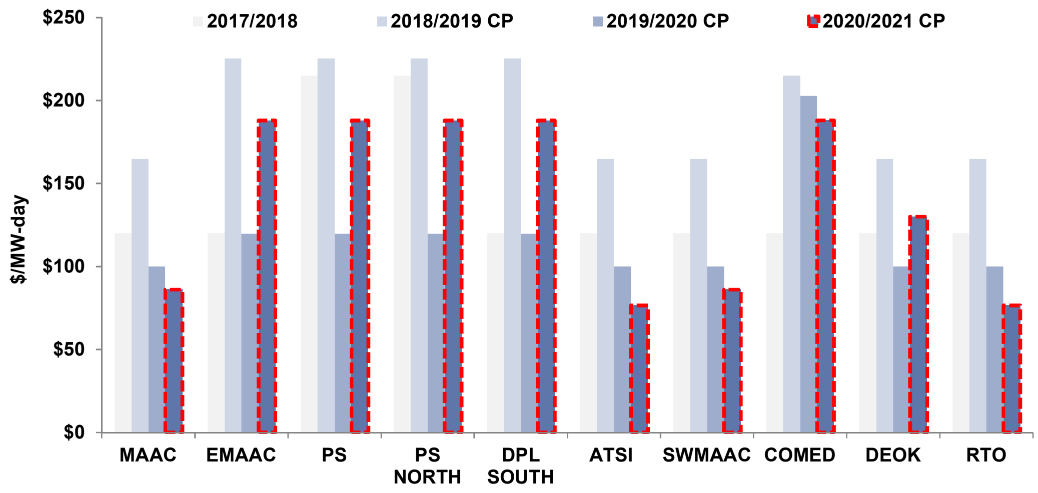
PJM auction in pictures

Exhibit 1: During this year's auction we saw declines in the largest markets (RTO, MAAC, etc), while select markets broke out (EMAAC, ComEd, etc)…
PJM BRA cleared bids



Source: PJM Interconnection LLC, Goldman Sachs Global Investment Research.

Exhibit 2: …while CPN cleared more capacity, select others saw declines (PEG,NRG, DYN)
Company disclosed capacity (MWs) cleared in 2019/2020 auction vs. 2020/2021

	Capacity Cleared (MWs)		
	Region	**2019/2020**	**2020/2021**
EXC	BGE	600	375
	COMED	6,975	8,075
	EMAAC	7,575	6,675
	MAAC	0	225
	RTO	350	0
	SWMAAC	850	850
	TOTAL	**16,350**	**16,200**
PEG	**TOTAL**	**8,900**	**7,800**
CPN	COMED	487	486
	EMAAC	3,053	3,805
	MAAC	1,036	1,018
	TOTAL	**4,576**	**5,309**
DYN	COMED	3,147	3,154
	EMAAC	679	536
	MAAC + PPL	563	547
	RTO + ATSI + DEOK	6,579	5,536
	MISO (pseudo tie)	616	444
	TOTAL	**11,584**	**10,217**
NRG	ATSI	552	230
	COMED	3,803	3,315
	DPL SOUTH	481	519
	EMAAC	517	496
	MAAC	2,103	2,307
	PEPCO	3,879	3,891
	RTO	191	307
	TOTAL	**11,526**	**11,065**

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 3: Our updated estimates reflect updated company guidance for amount of capacity cleared in the auction

EPS and EBITDA estimate changes

Diversified, Merchant Utilities EPS	GS - Old				GS - New				Consensus				New vs Old				New vs Consensus			
	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E
EXC	$2.56	$2.75	$2.76	$2.72	$2.56	$2.75	$2.76	$2.72	$2.67	$2.88	$2.82	$2.74	0%	0%	0%	(0%)	(4%)	(4%)	(2%)	(1%)
PEG	$2.97	$2.99	$3.01	$3.13	$2.97	$2.99	$3.01	$3.11	$2.90	$2.95	$2.97	$3.03	0%	0%	0%	(0%)	3%	1%	1%	3%
Mean													**0%**	**0%**	**0%**	**(0%)**	**1%**	**3%**	**3%**	**4%**
Median													**0%**	**0%**	**0%**	**(0%)**	**3%**	**1%**	**1%**	**3%**

IPPs Adjusted EBITDA ($mm)	GS - Old				GS - New				Consensus				New vs Old				New vs Consensus			
	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E
CPN	$1,862	$2,090	$2,090	$1,934	$1,862	$2,090	$2,090	$1,963	$1,842	$1,985	$2,006	$2,034	0%	0%	0%	1%	1%	5%	4%	(3%)
DYN	$1,259	$1,549	$1,356	$1,125	$1,259	$1,549	$1,356	$1,089	$1,246	$1,491	$1,327	$1,299	0%	0%	0%	(3%)	1%	4%	2%	(16%)
NRG	$2,720	$3,012	$3,201	$2,884	$2,720	$3,012	$3,201	$2,866	$2,728	$2,876	$2,836	$2,705	0%	0%	0%	(1%)	(0%)	5%	13%	6%
Mean													**0%**	**0%**	**0%**	**(1%)**	**1%**	**5%**	**6%**	**(5%)**
Median													**0%**	**0%**	**0%**	**(1%)**	**1%**	**5%**	**4%**	**(3%)**

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 4: We see select key risks to our ratings and price targets (unchanged)

GS price target methodologies, rating, target, implied total return, and key risks

Price Target Methodologies and Key Risks

Ticker	Price Target Methodology	Rating	Target	Total Return (%)	Key Risks Relate To
EXC	SOTP, 12month	Neutral	$36	5%	Regulatory risk; demand risk; commodity risk; capacity payment risk; decommissioning risk
FE	SOTP, 12month	Buy	$34	24%	Regulatory risk; demand risk; commodity risk; capacity payment risk; decommissioning risk
PEG	SOTP, 12month	Buy	$46	8%	Regulatory risk; demand risk; commodity risk; capacity payment risk; decommissioning risk
CPN	EV/EBITDA, 12month, EV/EBITDA: 7.75x, M&A EV/EBITDA: 10.25x, 2018E EBITDA	Buy	$14	7%	Power price risk; volume risk; capacity price risk; retail margin risk
DYN	SOTP, 12month	Neutral	$8	(2%)	Power price risk; volume risk; capacity price risk; retail margin risk
NRG	SOTP, 12month	Buy	$23	46%	Power price risk; volume risk; capacity price risk; financing risk; retail margin risk

Source: FactSet, Goldman Sachs Global Investment Research.

Pricing information: Calpine Corp. ($13.31), Dynegy Inc. ($8.59), Exelon Corp. ($35.81), FirstEnergy Corp. ($28.67), NRG Energy Inc. ($16.76) and Public Service Enterprise Group ($44.42)

Disclosure Appendix

Reg AC

We, Michael Lapides, Daniel Yu, CFA, David Fishman, Dylan Campbell and Siddharth Verma, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Quantum

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GS SUSTAIN

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America-Regulated Utilities: Ameren Corp., American Electric Power, American Water Works, Consolidated Edison Inc., Duke Energy Corp., Edison International, Eversource Energy, Great Plains Energy Inc., NiSource Inc., PG&E Corp., Pinnacle West Capital Corp., Portland General Electric Co., PPL Corp., SCANA Corp., Southern Co., WEC Energy Group, Westar Energy Inc..

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	Buy	Hold	Sell	Buy	Hold	Sell
Global	33%	53%	14%	63%	57%	50%

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Scotia Howard Weil

COMPANY UPDATE

Tuesday, May 30, 2017

Exelon Corporation

Announces Plans to Close TMI

QUICK TAKE: The company's decision to close its Three Mile Island nuclear plant was anticipated given it failed to clear the most recent PJM auction and has been among the under-performing facilities in EXC's nuclear fleet. We view the announcement as a slight positive for the stock as the decision either eventually removes a relatively weak asset from the company's portfolio, or incentivizes incremental support from the state.

KEY POINTS

Announcement Details: EXC plans to close its Three Mile Island nuclear plant by September 30, 2019 as the facility has earned decreasing revenues as wholesale power prices remain low and it has failed to clear recent capacity auctions. The company will recognize a number of non-recurring costs associated with the decision, including:

- Inventory and supplies reserve adjustments, employee costs, and work-in-progress impairments between $65 million and $110 million in 2Q17 (cash costs between $40 million and $70 million). An additional $25 million per year in similar expenses could be incurred during 2018 and 2019.

- Accelerated depreciation and amortization expenses of about $1 billion between 2017 and 2019.

- A potential shortfall in associated nuclear decommissioning trust fund investments. EXC has two years following the closing of the plant to submit a decommissioning activities report; as of now, the most costly alternatives could require about $35 million in parent company guarantees and the plant could incur up to $145 million in spent fuel and site restoration costs during the 10-year period following permanent shutdown.

Qtly EPS (Dil)	**Q1**	**Q2**	**Q3**	**Q4**	**Year**	**P/EPS**
2015A	$0.71	$0.59	$0.83	$0.38	$2.49	11.1x
2016A	$0.68	$0.65	$0.91	$0.44	$2.69	13.2x
2017E	$0.65A	$0.51	$0.83	$0.67	$2.65	13.5x
2018E	$0.73	$0.63	$0.81	$0.68	$2.85	12.6x

(FY-Dec.)	**2014A**	**2015A**	**2016A**	**2017E**	**2018E**
EBITDA (M)	$6,367	$6,937	$8,399	$8,573	$8,973
Enterprise Value (M)	$53,537	$46,117	$69,934	$72,820	$73,437
EV/EBITDA	8.4x	6.6x	8.3x	8.5x	8.2x

Historical price multiple calculations use FYE prices. All values in US$ unless otherwise indicated.
Source: FactSet; company reports; Scotia Howard Weil estimates.

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ANALYST TEAM Link to Analyst Page

POWER & UTILITIES

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PERTINENT DATA

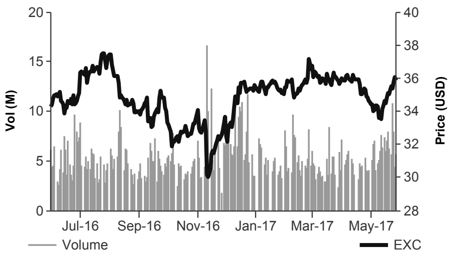
Rating	**Sector Perform**
1-Yr. Target	**$37.00**
EXC	$35.82
1-Yr. Return	6.9%
Div. (NTM)	$1.30
Div. (Curr.)	$1.31
Yield (Curr.)	3.7%

Valuation: 13.0x our F2018 EPS estimate

CAPITALIZATION

Market Cap. (M)	$33,190
Net Debt + Pref. (M)	$36,128
Enterprise Value (M)	$71,079
Shares O/S (M)	927
Float O/S (M)	924

Volume and Closing Price for EXC



Source: FactSet.

Company Overview

Company Description

Exelon Corporation is a diversified power utility company with operations throughout the United States, operating generation, transmission, and distribution assets in both merchant and regulated markets. The Generation segment operates a large regional and fuel-diversified competitive electricity business, including the largest nuclear power generation fleet in the country. The company owns regulated utilities ComEd, BGE, PECO, and Pepco Holdings, which provide electric transmission and distribution services to customers within their designated service areas.

Risks

Risk factors that may impede the achievement of the price target: (1) Industry fundamentals with respect to customer demand or product/service pricing could change and adversely impact expected revenues and earnings; (2) issues relating to major competitor or market shares or new product expectations could change investor attitudes toward the sector or the company; (3) unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) external factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects.

Key Risks: Regulatory factors, interest rates, commodity prices, operational factors, including running fleet of nuclear power reactors

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Company	Disclosures (see legend below)*
Exelon Corporation	I

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Rating and Price Target History

Exelon Corporation (EXC) as of May 29, 2017 (in USD)

16-Nov-2015
Price: 28.65
Rating: SP
Target: 34.00

17-Aug-2016
Price: 34.58
Rating: SP
Target: 37.00*

*Represents the value(s) that changed.

Powered by: BlueMatrix

Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage

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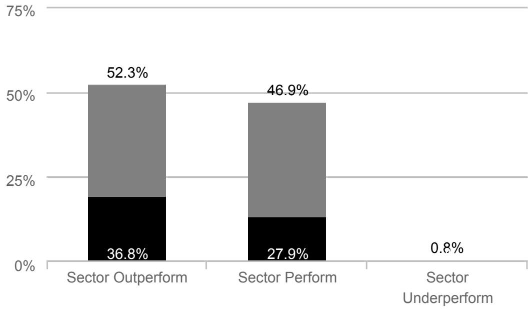

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Exelon Corporation

EXC – No Surprise: TMI Closure Announced; The Right Path to Take But Ball Is in PA's Court

May 30, 2017

EXC announced this morning that it would retire the Three Mile Island (TMI) nuclear plant on or about 9/30/2019, after the plant failed to clear the PJM base residual capacity auction for the third consecutive time this year. EXC plans to cancel a scheduled fuel purchase and planned outage in 2019 but expects to continue to operate the plant until 3Q2019 but shutdown could come sooner. As our TMI model displays below, plant generates negative cash flows before even accounting for allocated corporate overhead costs and interest expense drag.

No surprise here and will not "kick the can down the road"- The announced early retirement of TMI is the right path to take, in our view. We are not surprised by the announcement given that the plant **(1)** has been generating negative cash flow for the past five years due primarily to low wholesale power prices, there is no economic incentive to continue running a plant that's losing money – see our model below; **(2)** sits on top of Marcellus shale gas so we do not expect energy markets to recover as long as gas is cheap; **(3)** has relatively high operating costs as a single-unit site built in the 70s and; **(4)** failed to clear the PJM capacity auction three years in a row including the recently concluded 2020/2021 planning year auction so TMI hasn't had much help from capacity revenues.

We have seen this before - Now the ball is in PA's hand. Management indicated that it would like to see some kind of zero-emission credits from federal or state policies to value nuclear energy attributes for reduction of air pollution as well as contribution of baseload generation to grid reliability and resiliency – **any Federal policy moves likely too late to save TMI; salvaging the plant must come from PA.** We have highlighted in the past that any specific incentive to reflect zero emission generating sources like nuclear might face stronger headwinds than in IL and NY given the relatively powerful oil and gas lobby, **but that said**, PA regulators are also very well aware of the importance of nuclear "baseload" generation. We hosted commissioner meetings (See note HERE) with former PA commissioner, soon expected to be FERC Commissioner Robert Powelson, where he acknowledged the concerns on nuclear price formation in PA and went a step further to address that nuclear power is needed as part of the energy mix during the FERC nominee confirmation hearings last week. We also note that PA legislators have already formed a **bipartisan nuclear caucus** to advance discussions on the future of nuclear power and potential legislature, which may come to a head later this year. PJM also came out offering its help for the state to maintain zero-emission resources without disrupting the competitive marketplace. That said, EXC will not "kick the can down the road": policy must begin to form in PA in '17 or latest Q1 2018 to save TMI.

Key Assumptions	
Capacity	829 MW
Capacity factor	97%
Non-fuel variable O&M *($/MWh)*	$3.81
Fuel expense *($/MWh)*	$8.37
Maintenance CapEx *($/MWh)*	$7.00
Outage expense *($/MWh)*	$1.99

Three Mile Island Mini-model *'($MM)*	
Net Generation *(MWh)*	7,082,652
(x) 2019 PJM West ATC *($/MWh)* (1)	$31.43
Revenue	223
(-) Fuel	(59)
Gross margin	163
(-) Non-fuel variable O&M	(27)
(-) Fixed O&M	(108)
Operating income	**28**
(-) Maintenance CapEx	(50)
(-) Outage expense	(14)
Estimated cash flow (2)	**($35)**

(1) Using 5/25/17 forward curves.
(2) Excluding allocation of corporate overhead.

Source: Guggenheim securities, LLC estimates.

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EXC BUY

COMPANY UPDATE

SHARE PRICE $35.82
PRICE TARGET $42.00

EPS ($) **(FY Dec)**	**1Q**	**2Q**	**3Q**	**4Q**	**FY**
2017	0.65	0.54E	0.91E	0.63E	2.72E
P/E					13.2x
2018	0.81E	0.66E	0.91E	0.51E	2.88E
P/E					12.4x
2019	0.75E	0.63E	0.98E	0.44E	2.80E
P/E					12.8x

Market Data	
Price	$35.82
52-Week Range	$29.82 - $37.70
Market Cap (M)	$33,161
Dividend	$1.28
Dividend Yield	3.6%
ADV (3 mo; 000)	5,112

What if the legislature did not go through? EXC would continue its current plan of shutting down the plant on or about 9/30/2019 and expect to take $65-110mm of one-time charges in 2017 – we would expect EXC to benefit financially in the LT given less O&M expenses and maintenance/outage spending due to the closure of the plant so accretion from plant closure should improve in time.

Valuation

Our $42 price target is based on a sum-of-the-parts analysis. We assign ~$17/share for ExGen using a 7.4x weighted average EV/EBITDA applied to ExGen's various assets. We assign $30/share for the regulated utilities combined based on our 2018E EPS of $1.79 applied to a 17.0x regulated utility multiple. Subtracting out ~$5 in parent drag, we arrive at our 12-month price target.

Risks

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

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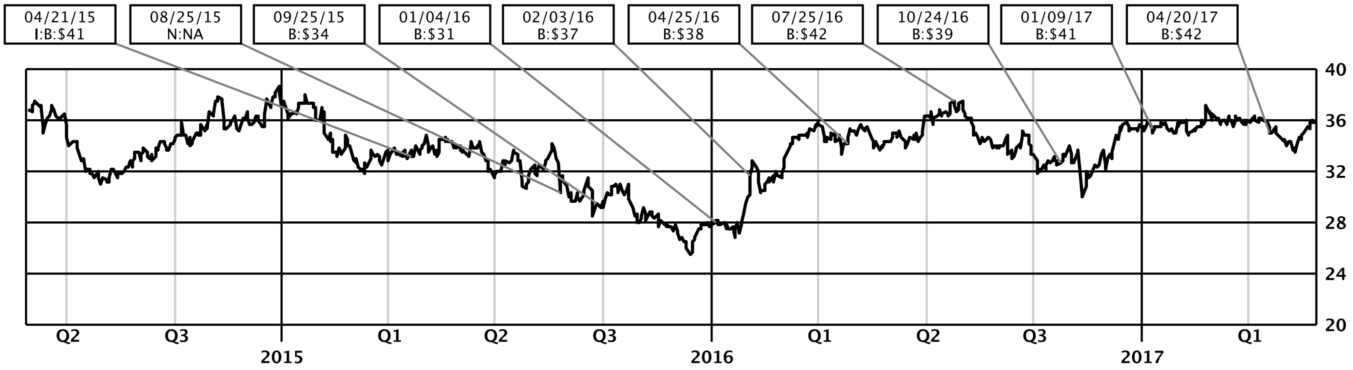
Rating and Price Target History for: Exelon Corporation (EXC) as of 05-29-2017



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

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Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	187	59.94%	23	12.30%
Neutral	124	39.74%	8	6.45%
Sell	1	0.32%	0	0.00%

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 31 May 2017 22:28, UTC	36.31 USD 31 May 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.13	3.58 31 May 2017	3.61 31 May 2017	33.63 31 May 2017	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.06	0.90	1.02	0.88
Price/Earnings	17.2	17.0	17.3	22.1
Forward P/E	13.6	—	16.5	17.5
Price/Cash Flow	4.1	4.5	7.1	12.7
Price/Free Cash Flow	—	57.1	13.3	19.1
Trailing Dividend Yield%	3.58	4.40	3.31	1.99

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

Investment Thesis

Travis Miller, Strategist, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Strategist, 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Exelon Corp EXC (XNYS)

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,719	9,037	10.26	43.10
Entergy Corp ETR	USD	14,189	10,824	-11.18	0.00
FirstEnergy Corp FE	USD	12,975	14,245	-59.42	0.00

Economic Moat

Travis Miller, Strategist, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 31 May 2017 22:28, UTC	36.31 USD 31 May 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.13	3.58 31 May 2017	3.61 31 May 2017	33.63 31 May 2017	Utilities - Diversified	Standard

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets. Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	36.31 USD	32.00 USD	1.13	3.58	3.61	33.63	Utilities - Diversified	Standard
31 May 2017 22:28, UTC	31 May 2017	07 Dec 2016 02:29, UTC		31 May 2017	31 May 2017	31 May 2017		

Analyst Notes Archive

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Travis Miller, Strategist, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Strategist, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state

renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite

three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

PJM Capacity Auction Results: Surprisingly, No Surprises

Travis Miller, Strategist, 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

Travis Miller, Strategist, 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Exelon Corp EXC ★★Q 31 May 2017 02:00 UTC

Last Close	Fair Value Q	Market Cap	Sector	Industry	Country of Domicile
31 May 2017	31 May 2017 02:00 UTC	31 May 2017			
36.31	34.10	33,395.0 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	87	84	83
Valuation	Overvalued	24	39	20
Quantitative Uncertainty	Medium	99	96	98
Financial Health	Moderate	58	52	58

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.06	0.90	1.02	0.88
Price/Earnings	17.2	17.0	17.3	22.1
Forward P/E	13.6	—	16.5	17.5
Price/Cash Flow	4.1	4.5	7.1	12.7
Price/Free Cash Flow	—	57.1	13.3	19.1
Trailing Dividend Yield %	3.58	4.40	3.31	1.99
Price/Book	1.3	1.3	1.4	2.5
Price/Sales	1.0	1.1	1.5	2.2

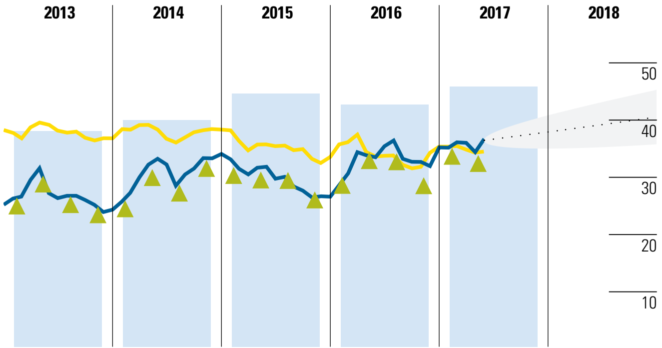
Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	7.5	7.0	9.6	12.1
Return on Assets %	1.7	1.9	3.1	4.6
Revenue/Employee (K)	946.2	942.4	1,186.8	305.4

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	590.3	—	596.9	579.0
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

Price vs. Quantitative Fair Value

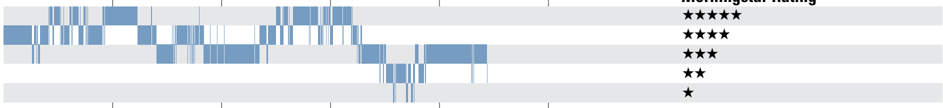


Momentum:	Negative
Standard Deviation:	19.25
Liquidity:	High

29.82	52-Wk	37.70
25.09	5-Yr	39.82

2013	2014	2015	2016	2017	2018	
-3.0	39.9	-21.8	32.4	4.2		Total Return %
-36.1	27.1	-22.5	19.9	-4.1		+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—		Trailing Dividend Yield %
—	—	—	—	3.58		Forward Dividend Yield %
14.6	15.2	12.4	26.9	17.2		Price/Earnings
0.9	1.2	0.8	1.1	1.0		Price/Revenue

Morningstar Rating Q



2012	2013	2014	2015	2016	TTM	**Financials** (Fiscal Year in Mil)
23,489	24,888	27,429	29,447	31,360	32,544	Revenue
24.1	6.0	10.2	7.4	6.5	3.8	% Change
2,380	3,656	3,096	4,409	3,112	3,925	Operating Income
-46.9	53.6	-15.3	42.4	-29.4	26.1	% Change
1,160	1,719	1,623	2,269	1,134	1,956	Net Income
6,131	6,343	4,457	7,616	8,445	8,173	Operating Cash Flow
-5,810	-5,395	-6,077	-7,624	-8,553	-8,465	Capital Spending
321	948	-1,620	-8	-108	-292	Free Cash Flow
1.4	3.8	-5.9	0.0	-0.3	-0.9	% Sales
1.42	2.00	1.88	2.54	1.22	2.10	EPS
-62.1	40.8	-6.0	35.1	-52.0	72.1	% Change
0.39	0.48	-0.03	-1.04	0.82	-0.31	Free Cash Flow/Share
2.10	1.46	1.24	1.24	1.26	1.28	Dividends/Share
25.07	25.51	27.44	28.01	28.17	28.65	Book Value/Share
857,000	860,000	920,000	924,000	926,097	926,097	Shares Outstanding (K)
						Profitability
6.5	7.8	7.2	9.4	4.4	7.5	Return on Equity %
1.7	2.2	2.0	2.5	1.1	1.7	Return on Assets %
4.9	6.9	5.9	7.7	3.6	6.0	Net Margin %
0.35	0.31	0.33	0.32	0.30	0.28	Asset Turnover
3.7	3.5	3.8	3.7	4.4	4.4	Financial Leverage
56.8	56.9	52.6	55.6	59.7	59.2	Gross Margin %
10.1	14.7	11.3	15.0	9.9	12.1	Operating Margin %
18,346	18,271	20,010	24,286	32,216	31,685	Long-Term Debt
21,624	22,925	22,801	25,793	25,837	26,530	Total Equity
0.6	0.5	0.6	0.5	0.5	0.5	Fixed Asset Turns

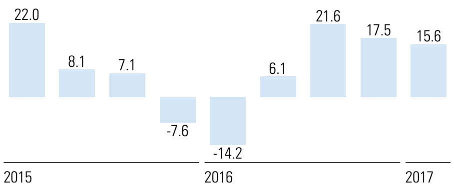
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	9.7	2.9	3.2	-3.7

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2017	8,757.0	—	—	—	—
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
Earnings Per Share ()					
2017	1.07	—	—	—	—
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

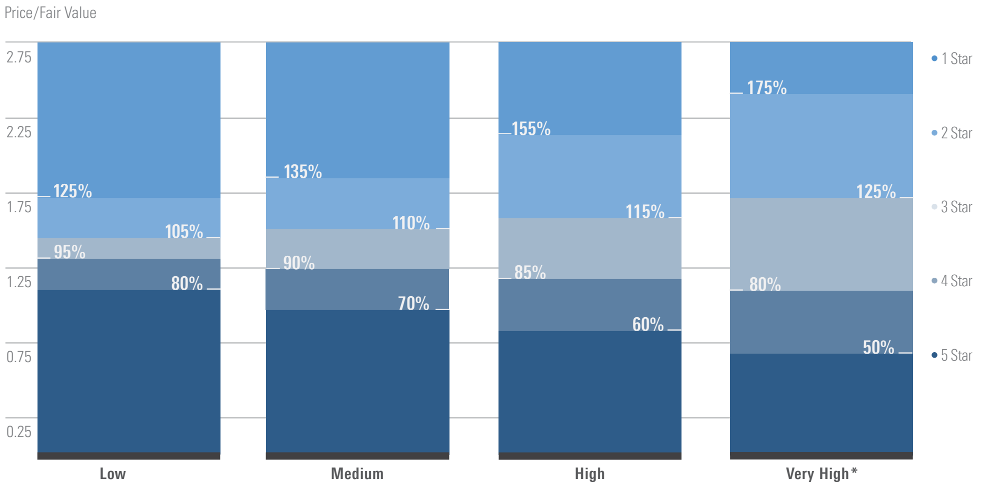
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

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- **Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- **One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- **Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- **Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- **Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- **Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

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- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

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- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

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Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
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Exelon Corp EXC (XNYS)

Morningstar Rating	**Last Price**	**Fair Value Estimate**	**Price/Fair Value**	**Trailing Dividend Yield %**	**Forward Dividend Yield %**	**Market Cap (Bil)**	**Industry**	**Stewardship**
★★	36.31 USD	32.00 USD	1.13	3.58	3.61	33.63	Utilities - Diversified	Standard
31 May 2017 22:28, UTC	31 May 2017	07 Dec 2016 02:29, UTC		31 May 2017	31 May 2017	31 May 2017		

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Exelon Corp EXC (XNYS)

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Exelon Corp EXC (XNYS)

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31 May 2017 22:28, UTC	31 May 2017	07 Dec 2016 02:29, UTC		31 May 2017	31 May 2017	31 May 2017		

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Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.82 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

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Research as of 30 May 2017
Estimates as of 03 May 2017
Pricing data through 29 May 2017
Rating updated as of 26 May 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Vital Statistics

Market Cap (USD Mil)	33,173
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	8.6
YTD Total Return %	2.8
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.1
5-Yr Forward EPS CAGR %	2.9
Price/Fair Value	1.12

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*13.3*	*12.4*
EV/EBITDA	6.6	9.5	*8.5*	*7.9*
EV/EBIT	10.2	21.5	*14.0*	*12.8*
Free Cash Flow Yield %	0.0	-0.3	*-6.5*	*1.0*
Dividend Yield %	4.3	3.6	*3.6*	*3.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*32,405*	*34,930*
Revenue YoY %	7.4	6.5	*3.3*	*7.8*
EBIT	4,409	3,112	*4,998*	*5,479*
EBIT YoY %	42.4	-29.4	*60.6*	*9.6*
Net Income, Adjusted	2,224	2,484	*2,499*	*2,763*
Net Income YoY %	7.7	11.7	*0.6*	*10.5*
Diluted EPS	2.49	2.68	*2.69*	*2.90*
Diluted EPS YoY %	4.2	7.6	*0.2*	*8.0*
Free Cash Flow	561	-6,417	*45*	*1,223*
Free Cash Flow YoY %	365.5	-1,243.2	*-100.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.82 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*Forecast* 2017	2018	5-Year Proj. CAGR
Revenue	*8.0*	10.2	7.4	6.5	*3.3*	*7.8*	*3.1*
EBIT	*-5.2*	-15.3	42.4	-29.4	*60.6*	*9.6*	*13.9*
EBITDA	*6.7*	-6.9	26.8	2.8	*16.3*	*8.0*	*6.8*
Net Income	*4.9*	-4.0	7.7	11.7	*0.6*	*10.5*	*3.9*
Diluted EPS	*2.3*	-4.4	4.2	7.6	*0.2*	*8.0*	*2.9*
Earnings Before Interest, after Tax	*14.3*	53.5	13.7	-14.4	*5.5*	*6.2*	*2.4*
Free Cash Flow	*-262.0*	-92.0	365.5	-1,243.2	*-100.7*	*NM*	—

Profitability	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Operating Margin %	*12.1*	11.3	15.0	9.9	*15.4*	*15.7*	*16.2*
EBITDA Margin %	*21.8*	19.7	23.3	22.5	*25.3*	*25.4*	*26.2*
Net Margin %	*7.7*	7.5	7.6	7.9	*7.7*	*7.9*	*8.2*
Free Cash Flow Margin %	*-6.0*	0.4	1.9	-20.5	*0.1*	*3.5*	*5.8*
ROIC %	*2.9*	2.5	4.1	2.1	*5.0*	*5.5*	*5.4*
Adjusted ROIC %	*3.1*	2.7	4.3	2.3	*5.4*	*6.1*	*5.8*
Return on Assets %	*1.8*	2.0	2.5	1.1	*2.2*	*2.3*	*2.4*
Return on Equity %	*6.9*	7.1	9.3	4.4	*9.3*	*9.7*	*9.6*

Leverage	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Debt/Capital	*0.53*	0.49	0.50	0.58	*0.58*	*0.58*	*0.56*
Total Debt/EBITDA	*4.35*	4.12	3.84	5.10	*4.69*	*4.47*	*4.33*
EBITDA/Interest Expense	*5.44*	5.08	6.64	4.59	*5.40*	*5.52*	*5.59*

Valuation Summary and Forecasts

	2015	2016	*2017(E)*	*2018(E)*
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	*13.3*	*12.4*
EV/EBITDA	6.6	9.5	*8.5*	*7.9*
EV/EBIT	10.2	21.5	*14.0*	*12.8*
Free Cash Flow Yield %	0.0	-0.3	*-6.5*	*1.0*
Dividend Yield %	4.3	3.6	*3.6*	*3.8*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.4
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	8,321	12.9	8.96
Present Value Stage II	17,405	26.9	18.74
Present Value Stage III	38,871	60.2	41.85
Total Firm Value	**64,597**	**100.0**	**69.56**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,379**	**—**	**31.63**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.82 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***32,405***	***34,930***
Cost of Goods Sold	13,003	13,084	12,640	*13,731*	*15,505*
Gross Profit	**14,426**	**16,363**	**18,720**	***18,674***	***19,425***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*8,833*	*8,888*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,643*	*1,684*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,200*	*3,375*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Interest Expense	1,065	1,033	1,536	*1,517*	*1,605*
Interest Income	455	-53	389	*250*	*250*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,730***	***4,123***
Income Tax Expense	666	1,073	761	*1,231*	*1,361*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	—	—
Net Income	**1,623**	**2,269**	**1,134**	***2,499***	***2,763***
Weighted Average Diluted Shares Outstanding	864	893	927	*930*	*952*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.69***	***2.90***
Adjusted Net Income	2,065	2,224	2,484	*2,499*	*2,763*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.69***	***2.90***
Dividends Per Common Share	1.24	1.24	1.26	*1.29*	*1.32*
EBITDA	**6,964**	**8,396**	**8,688**	***8,198***	***8,854***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,198***	***8,854***

Exelon Corp EXC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.82 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2014	2015	2016	*Forecast* *2017*	*Forecast* *2018*
Cash and Equivalents	1,878	6,502	635	*1,282*	*1,605*
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	*4,883*	*5,263*
Inventory	1,603	1,566	1,638	*1,505*	*1,699*
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	*4,500*	*4,500*
Current Assets	**12,097**	**15,334**	**12,412**	***12,170***	***13,068***
Net Property Plant, and Equipment	52,087	57,439	71,555	*75,230*	*78,055*
Goodwill	2,672	2,672	6,677	*6,677*	*6,677*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	*9,300*	*9,300*
Long-Term Non-Operating Assets	13,882	13,874	14,214	*14,214*	*14,214*
Total Assets	**86,814**	**95,384**	**114,904**	***117,591***	***121,314***
Accounts Payable	3,056	2,891	3,449	*2,821*	*2,974*
Short-Term Debt	2,262	2,033	3,697	*3,697*	*3,697*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	*4,200*	*4,200*
Current Liabilities	**8,762**	**9,118**	**13,457**	***10,718***	***10,871***
Long-Term Debt	20,010	24,286	32,216	*34,716*	*35,916*
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	*19,000*	*19,800*
Other Long-Term Operating Liabilities	4,550	4,201	4,187	*4,800*	*4,800*
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	*19,294*	*19,294*
Total Liabilities	**62,681**	**68,062**	**87,292**	***88,528***	***90,681***
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	*18,794*	*18,794*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,910	12,068	12,030	*13,335*	*14,846*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,491	-2,431	-2,660	*-2,200*	*-2,200*
Shareholder's Equity	**22,801**	**26,014**	**25,837**	***27,662***	***29,233***
Minority Interest	1,332	1,308	1,775	*1,400*	*1,400*
Total Equity	**24,133**	**27,322**	**27,612**	***29,062***	***30,633***

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Net Income	1,820	2,250	1,204	*2,499*	*2,763*
Depreciation	3,868	3,987	5,576	*3,200*	*3,375*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*800*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*476*	*-381*
(Increase) Decrease in Inventory	-380	4	7	*133*	*-194*
Change in Other Short-Term Assets	-2,758	-387	-827	*280*	—
Increase (Decrease) in Accounts Payable	209	-121	771	*-628*	*152*
Change in Other Short-Term Liabilities	—	—	—	*-2,111*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***4,712***	***6,515***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-6,875*	*-6,200*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*1,359*	—
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-5,516***	***-6,200***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,194*	*-1,252*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*2,500*	*1,200*
Other Financing Cash Flows	-599	-67	97	*-375*	—
Cash From Financing	**411**	**4,830**	**1,191**	***991***	***8***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*460*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***647***	***323***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

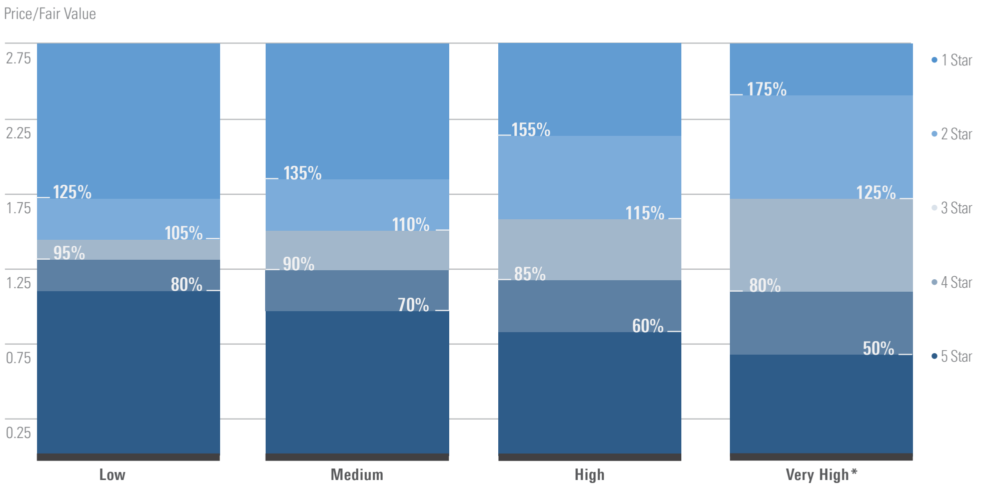
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
35.82 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of May 29, 2017

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
35.82 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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EVERCORE ISI

Energy | Power & Utilities

May 30, 2017

EXELON CORP.

EXC | $36.06

OUTPERFORM | TARGET PRICE: $39.00

Company Update

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Company Statistics

Market Capitalization (M):	$33,395
Shares Outstanding (M):	926
Dividend:	$1.31
Dividend Yield:	3.6%
Payout Ratio:	49.4%
Expected Total Return:	11.8%
Fiscal Year End	Dec

Earnings Summary

	2017E	2018E	2019E
EPS	**$2.65**	**$2.85**	**$2.85**
P/E	**13.6x**	**12.7x**	**12.7x**
EPS vs Consensus	**(0.7)%**	**(1.0)%**	**1.1%**
Consensus EPS	**$2.67**	**$2.88**	**$2.82**
Consensus P/E	**13.5x**	**12.5x**	**12.8x**

EVRISI Sum Of The Parts Valuation		
Target Price	$	39.00
2019 EPS: Utility - parent	$	1.86
P/E Multiple		16.2x
Utility Value	$	30.13
ExGen Implied Equity Value (per share)	$	8.87
ExGen 2019 Net Debt (mm)	$	8,593
ExGen 2019 Enterprise Value*	$	17,172
ExGen 2019 EBITDA**	$	2,922
ExGen 2019 EV/EBITDA		5.9x
ExGen 2019 Net Debt/EBITDA		3.0x
*967m EXC shares outstanding 2019		
**5/24/17 forward curves		

Three Mile Island Shutdown Decision Modestly Bolsters Post-'19 Financial Profile

Rating Outperform, Target $39

Today EXC announced it would retire the 837 MW Three Mile Island (TMI) nuclear plant in Middletown, PA by 9/30/19. A higher cost, single unit facility that had not cleared any of the PJM base residual capacity auctions since the CP transitional auction for the '17/'18 delivery year back in 2015 (though it cleared the incremental '18/'19 auction), the plant has for a while been "on the bubble" for premature retirement (its operating license doesn't expire until 2034). A deactivation notice for TMI will be filed with PJM and the NRC in the next 30 days. It is not clear whether anything can be instituted in the state to "save" the plant. There has been movement regarding nuclear unit revenue support in PA - which is one of the largest generators of nuclear power in the country – with the state General Assembly on 3/16/17 announcing the formation of the Nuclear Energy Caucus to consider such issues, but specific legislation or programs have yet to materialize. The current legislative session ends on 6/30/17. EXC retains the ability to reverse the deactivation up to the shutdown date provided they have adequate lead time to make refueling and maintenance arrangements for 4Q19. Assuming TMI is retired, EXC will still own 3,618 MW of nuclear capacity in PA between Limerick and Peach Bottom, both dual-unit facilities (the latter which EXC operates, but co-owns with PEG).

The shutdown of TMI would be modestly accretive to cash flow and EPS after potential decommissioning costs. We estimate the plant is currently a $0.02-$0.05 drag on annual earnings through 2019, and a roughly $50mm drag on cash flow annually over the same period (it looks best in 2018 on both counts due to capacity revenue and the absence of a refueling outage). On a run-rate basis at current curves *before* decommissioning costs, we think EXC would realize a >$0.05 EPS benefit beginning 2020, and $50-$60mm improvement in annual free cash flow. Estimated decommissioning costs for TMI will be adjusted later in 2Q17 after a new study is completed, but under the most expensive / immediate decommissioning option currently ExGen may incur spent fuel management and site restoration costs of up to $145mm net of taxes over 10 years. That would reduce our estimated effective EPS and cash flow benefits to $0.04-$0.05 and $35-$45mm, respectively. Other potential requirements associated with the shutdown look manageable as well - EXC estimates the accelerated retirement could result in additional parent guarantees of up to $35mm needed for radiological decommissioning given the current size of the NDT fund under the most expensive decommissioning approach. One time charges of $65-$110mm will occur in '17, and up to $25mm in each of '18 and '19 (total employee-related cash costs associated with these charges are expected to be $40-$70mm).

We maintain our ’17-’19 EPS forecast of $2.65 / $2.85 / $2.85 on 5/24/17 power curves. EXC is committed to 2.5% dividend growth through 2018 but are confident the financial profile supports at least that level of growth through 2020. We think the assumptions driving EXC’s view of the earnings growth drivers in its core utilities business and ExGen as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management are still wholly credible. The core utilities are forecast to grow rate base at 6.5% from ’17-20 with earnings growth of 6-8% (down from 7-9% from ’16-’20 solely due to a higher ’17 base, the ’20 forecast is up a nickel). We see a turnaround at PHI similar to the one EXC engineered at BGE after the CEG acquisition as feasible, with annual rate cases at most of the PHI companies (the first “wave” of these largely resolved) and the ability to harvest operating synergies. So, there is line of sight for EPS at EXC’s utilities (ex-parent overheads) growing from $1.59 in FY ’17 to ~$2.00 in 2020. From a cash flow perspective we see ExGen organically producing ~$5.8bn of free cash flow through FY’19, >66% of the $8.75bn they are targeting through 2020 with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. That is also without the $400mm from the renewables JV which puts them at 71%. The sale price of that 49% stake implies there may be up to an $85mm degradation in EBITDA but at >10X EV/EBITDA that is not only a good transaction multiple but it is also very accretive as ExGen is trading at an implied 3.9X. Assuming they can sell their impaired TX assets (the EGTP portfolio) that will be another $650mm in debt that comes off the books and should be accretive to credit metrics.

EXC fared OK vs. expectations in the ‘20/’21 PJM capacity auction. Our base case expectations for EMAAC and ComEd leading up the auction were $160/MW-d and $180/MW-d respectively, and those zones ended up clearing higher at $187.87/MW-d and $188.12/MW-d. EXC disclosed that an additional 1,150 MW of nuclear capacity cleared at ComEd in the auction YoY, however as they also said that Quad Cities didn't clear (again) the balance presumably came from Byron. We estimated Byron cleared about 20% of its available capacity last year, and thus estimate closer to 70% this year. We think it is justifiable Quad Cities was not offered more aggressively in the auction, as the plant has yet to formally receive the ZEC contract and associated revenues. Our full discussion of the last PJM capacity auction can be found here.

Our price target remains $39; maintaining Outperform rating. Our forecast for utility EPS contribution minus parent overheads is $1.59/share in ’17 which by 2019 we expect to be ~ $1.85 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to +/-$2.00/share. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth ~$33.15/share (17.8X ’19 EPS). That implies ExGen is worth only ~$2.90/share today, which is around 2.9X ’19 EPS or 3.9X ’19 EV/EBITDA and a levered free cash flow yield to the EV of 12% with debt/EBITDA at YE ’19 of ~3.0X. They are taking all the cash flow from that lower multiple part of the business and either returning it to shareholders or investing in the higher multiple utility business. Overall, EXC is trading at +/-12.7X FY ’19 earnings while pure regulated names are at +/-17.8X. The EXC dividend yield is 30bps above that of the regulated peer group at ~3.6%. While the dividend growth commitment of 2.5% annually through at least 2018 is lower than that articulated by purely regulated peers and some risks to ExGen revenues are palpable, we think that the overall valuation gap, given our view of the value of the businesses and capital allocation plan, is too high. At $39/share our target price implies a valuation for ExGen of 5.85X ‘19 EV/EBITDA and a levered free cash flow yield of ~9%. The consolidated P/E would still be only 13.7X ’19 EPS.

EXC reported 1Q17 adjusted EPS of $0.65 vs. consensus $0.63 (and $0.68 in 1Q16), which was at the high end of their $0.55 - $0.65 guidance range. Although the largest driver of the YoY decline was ExGen (at -$0.16), this was driven by factors contemplated in guidance. In fact, ExGen’s performance both at wholesale (fewer unplanned outages, better planned outage performance) and at retail from strong Constellation execution was a factor driving earnings to the top end of the range. Unfavorable weather at the utilities was overcome in part by O&M timing. Guidance for 2Q17 was initiated at $0.45-$0.55, which looked a bit light to consensus $0.59.

The FY’17 outlook was affirmed at $2.50 - $2.80. Going forward, the utility outlook was unchanged. While the ExGen outlook looked $0.03 - $0.04 worse in ’18 / ’19 on 3/31/17 forward curves forwards have clawed back a portion of that since the end of March, and thus the outlook is effectively also unchanged. There were a number of “puts and takes” that occurred in the quarter on the commercial side, but the bottom line is that power new business executions and hedges limited the impact of degradation in forward curves between 12/31/16 and 3/31/17 to $50mm in each of ’18 / ’19, and commodity moves since then have essentially closed that gap. Expected generation output is essentially unchanged prospectively with the overall hedge position for ’17-’19 now slightly higher at 98.5% / 61.5% / 31.5% from 92.5% / 57.5% / 29.5%, the company remaining behind ratable (especially at NI Hub) based on their view that an improving supply / demand outlook is not appropriately reflected in the forward curves. Their point of view is not in guidance, but a $1/MWh increase in power prices across their major markets would drive an increase in ’19 gross margin of ~$116mm (1.5% of current expected ’19 GM). They remain committed to reducing leverage at ExGen from 3.3X Debt/EBITDA today to 3X, then using cash flow in excess of that required to pay the EXC dividend and fund utility capital expenditures to pay down parent debt rather than ExGen debt.

Since hitting $33.50 on 5/11/17, the stock has climbed nearly 8%. Valuation got extremely compressed and risk aversion on the pricing outcome of the last PJM capacity auction (after the ISO-NE and MISO disappointments) proved misplaced. As we discussed earlier the EMAAC and ComEd zones (where EXC has the majority of its exposure) both priced better than expectations. That being said legal action in NY and IL to challenge ZEC revenues could be successful and we think that remains a factor still impacting valuation. The legal basis for ZECs seems sound but it remains a risk and could impact ’19 EPS by +/-$0.25/share if 100% successful in rolling back those programs. Still, with ExGen trading at only 2.9X ’19 EPS on a SOTP basis the exposure seems small at this point if they lose on this front. Generally we also think that investor concern about 2020 earnings power has been a real factor, despite the long time horizon, since power prices out the forward curve would drive a significant decline in ExGen earnings. We do not have a formal 2020 EPS forecast for EXC. We now know the capacity revenue delta and include the TMI shut-down benefit. Those factors mitigate lower energy pricing that could be a significant headwind. Taking in to account 6-8% growth at the core utilities, consolidated EPS could fall as much as $0.15/share if current forwards were realized. But just a $1/MWh improvement in power price at their given sensitivities is $0.09/share. So it doesn’t take much to start valuing EXC more highly on 2020 forward curves, at least in our view.

What’s next at ExGen? The new Wolf Hollow and Colorado Bend CCGTs (2,200 MW) in ERCOT will go full COD as planned in 2Q17. ExGen’s announced 3/31/17 sale its 49% share of the renewables JV should close in late 2Q17 or early 3Q17, subject to FERC and PUCT approval. The sale process for the economically-challenged EGTP portfolio of CCGTs and NG peakers (3,398 MW) in ERCOT is underway, with an agreement possible by late 3Q17 or early 4Q17. There is no timetable for a decision on the motion to dismiss the legal challenges to NY’s ZEC program, which went into effect on 4/1/17. In IL, plaintiffs on 3/31/17 filed a preliminary injunction for the ZES program (which is effective on 6/1/17), with EXC intervening and filing a motion to dismiss on 4/10/17. The judge is expected to rule on the motion to dismiss in the coming weeks before addressing the injunction sought by the plaintiffs, but like NY there is no timetable.

What’s next at the utilities? On 3/8/17 and 4/6/17, DPL entered into settlement agreements in its DE electric and gas rate cases for $32mm and $4.9mm, respectively, both based on a 9.7% ROE (they had requested $81.7mm in aggregate based on a 10.60% ROE) with DPSC approval expected in 2Q17. A DCPSC in Pepco’s electric distribution rate case (in which they filed on 6/30/16 for a $76.8mm increase premised on 10.60% ROE) is expected by 7/25/17. A MDPSC decision in Pepco’s electric distribution rate case (in which they filed on 3/24/17 for a $69mm increase premised on 10.10% ROE) is expected in 4Q17. A NJBPU decision in ACE’s electric distribution rate case (in which they filed on 3/30/17 for a $70mm increase premised on 10.10% ROE) is expected in 1H18.

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming capacity auctions would be accretive but a significantly lower capacity auction price would be negative.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2017-05-30)	Evercore ISI Target
AEE	Ameren Corp.	In Line	$56.15	$54.50
AEP	American Electric Power	In Line	$70.87	$66.50
AGR	Avangrid Inc	In Line	$45.28	$43.50
CPN	Calpine Corp.	Outperform	$13.30	$16.00
CNP	CenterPoint Energy, Inc.	In Line	$28.33	$27.00
CMS	CMS Energy Corp.	Outperform	$47.41	$45.50
ED	Consolidated Edison Inc.	In Line	$82.10	$74.00
D	Dominion Resources Inc.	In Line	$81.03	$74.00
DTE	DTE Energy Co.	In Line	$108.88	$102.00
DUK	Duke Energy Corp.	In Line	$85.07	$79.00
DYN	Dynegy Inc.	Outperform	$8.58	$15.00
EIX	Edison International	In Line	$79.96	$78.25
ETR	Entergy Corp.	In Line	$77.65	$76.00
ES	Eversource Energy	In Line	$61.40	$57.50
EXC	Exelon Corp.	Outperform	$35.82	$39.00
FE	FirstEnergy Corp.	In Line	$28.92	$30.00
GXP	Great Plains Energy Incorporated	Outperform	$28.66	$31.00
HE	Hawaiian Electric Industries Inc.	Underperform	$32.86	$31.00
HIFR	InfraREIT, Inc.	Outperform	$19.28	$19.00
NEE	NextEra Energy Inc	Outperform	$140.71	$137.00
NI	NiSource Inc	In Line	$25.56	$23.50
NRG	NRG Energy Inc.	Outperform	$16.47	$20.00
NYLD	NRG Yield, Inc.	Outperform	$18.35	$20.00
PCG	PG&E Corp.	Outperform	$67.37	$67.50
PNW	Pinnacle West Capital Corp.	In Line	$87.40	$81.50
PNM	PNM Resources, Inc	In Line	$37.70	$36.00
PPL	PPL Corp.	In Line	$39.86	$37.00
PEG	Public Service Enterprise Group	In Line	$44.43	$45.00
SRE	Sempra Energy	Outperform	$114.48	$115.00
SO	Southern Co.	In Line	$50.45	$48.00
AES	The AES Corporation	Outperform	$11.79	$12.25
WEC	WEC Energy Group, Inc.	In Line	$62.45	$59.50
WR	Westar Energy Inc.	In Line	$52.92	$49.00
XEL	Xcel Energy Inc.	In Line	$47.30	$44.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: May 30, 2017, 18:34 ET.

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Current Ratings Definition

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Outperform – the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line – the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform – the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%

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Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Short – the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position – the stock is not included in the model portfolio.
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

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Evercore ISI ratings distribution (as of 05/30/2017)

Coverage Universe

Ratings	Count	Pct.
Buy	351	50%
Hold	265	37%
Sell	61	9%
Coverage Suspended	23	3%
Rating Suspended	8	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	41	12%
Hold	12	5%
Sell	1	2%
Coverage Suspended	5	22%
Rating Suspended	2	25%

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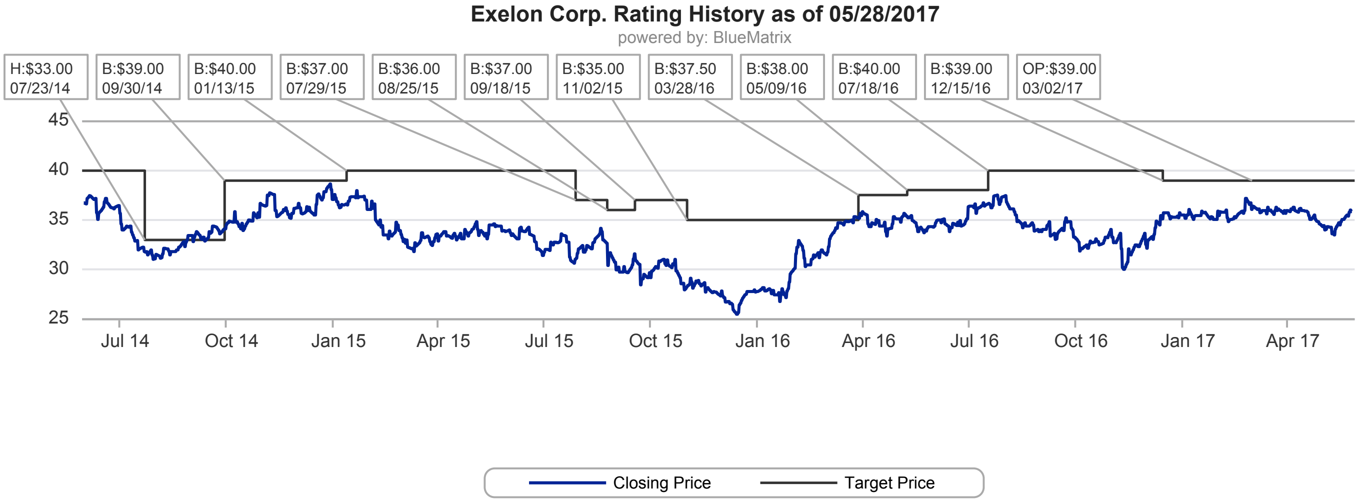

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

See Page 2 for the full Analyst Note from 30 May 2017

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Research as of 30 May 2017
Estimates as of 03 May 2017
Pricing data through 31 May 2017
Rating updated as of 31 May 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Dec 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings

Vital Statistics

Market Cap (USD Mil)	33,627
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	9.7
YTD Total Return %	4.2
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.1
5-Yr Forward EPS CAGR %	2.9
Price/Fair Value	1.13

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*13.5*	*12.5*
EV/EBITDA	6.6	9.5	*8.6*	*8.0*
EV/EBIT	10.2	21.5	*14.1*	*12.8*
Free Cash Flow Yield %	0.0	-0.3	*-6.4*	*0.9*
Dividend Yield %	4.3	3.6	*3.6*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*32,405*	*34,930*
Revenue YoY %	7.4	6.5	*3.3*	*7.8*
EBIT	4,409	3,112	*4,998*	*5,479*
EBIT YoY %	42.4	-29.4	*60.6*	*9.6*
Net Income, Adjusted	2,224	2,484	*2,499*	*2,763*
Net Income YoY %	7.7	11.7	*0.6*	*10.5*
Diluted EPS	2.49	2.68	*2.69*	*2.90*
Diluted EPS YoY %	4.2	7.6	*0.2*	*8.0*
Free Cash Flow	561	-6,417	*45*	*1,223*
Free Cash Flow YoY %	365.5	-1,243.2	*-100.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

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Morningstar Analysis

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Valuation, Growth and Profitability 06 Dec 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the

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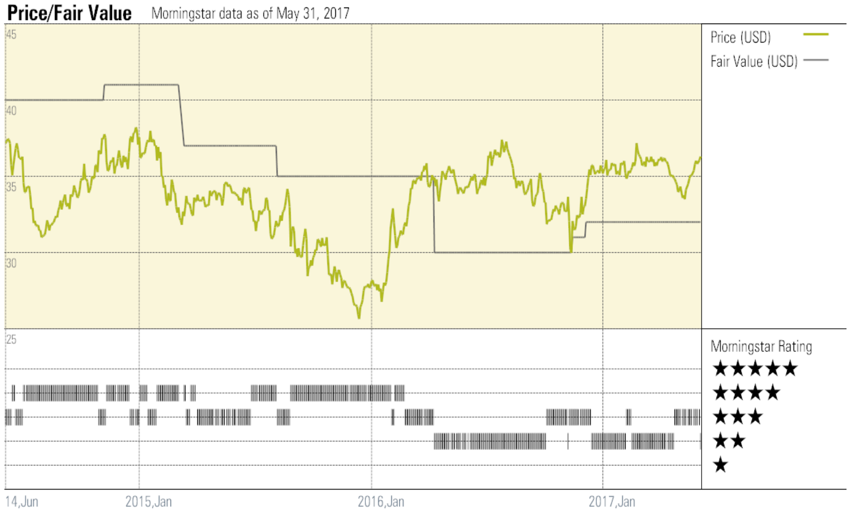
Price/Fair Value Morningstar data as of May 31, 2017



near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $650 million change in EBITDA. Our fair value estimate would change by $5 per share. On a mark-to-market basis as of mid-November, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 4 percentage points to near the industry average, it would change our fair value estimate by $1 per share. If Exelon does not retire the Clinton, Quad Cities, and Three Mile Island plants, it would add $2 per share to our fair value estimate.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. About 70% of the $11 billion of rate base growth in 2016-20 will have rate trackers or formula rates, minimizing regulatory lag. Exelon faces the biggest challenge boosting Pepco's earned returns some 400 basis points to approach its allowed returns. Rate cases in 2016-17 should give it a good start.

In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

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Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.

- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.

- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.

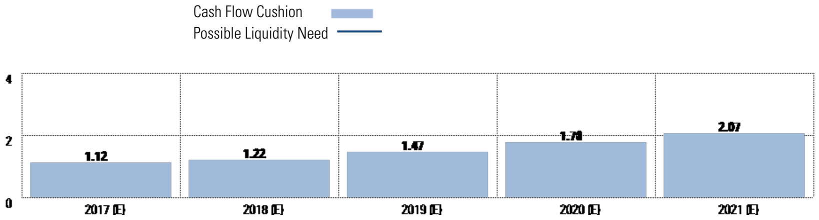
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.

- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2017(E)	2018(E)	2019(E)	2020(E)	2021(E)
Cash and Equivalents (beginning of period)	*635*	*1,282*	*1,605*	*2,809*	*4,323*
Adjusted Available Cash Flow	*3,064*	*3,026*	*3,949*	*4,679*	*4,930*
Total Cash Available before Debt Service	*3,699*	*4,309*	*5,554*	*7,488*	*9,253*
Principal Payments	*-1,483*	*-1,626*	*-1,600*	*-2,000*	*-2,275*
Interest Payments	*-1,517*	*-1,605*	*-1,706*	*-1,734*	*-1,734*
Other Cash Obligations and Commitments	*-303*	*-303*	*-463*	*-464*	*-463*
Total Cash Obligations and Commitments	*-3,303*	*-3,534*	*-3,769*	*-4,198*	*-4,472*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	635	3.3
Sum of 5-Year Adjusted Free Cash Flow	19,648	101.9
Sum of Cash and 5-Year Cash Generation	20,283	105.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	20,283	105.2
Sum of 5-Year Cash Commitments	-19,276	—

Financial Health

Exelon's biggest challenge is warding off cash constraints in unfavorable power markets as it tries to smooth cash flow at its generation unit. As power markets have fallen from their 2008 peaks, the company has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow.We see no immediate credit concerns based on current energy market conditions. We project Exelon's consolidated EBITDA/interest coverage will remain above 5 times and leverage will remain below 5 times debt/EBITDA at least through 2019. Even those these ratios are weaker following the Pepco acquisition, we think this is acceptable given the higher share of regulated earnings.Only about one-quarter of Exelon's consolidated debt is directly tied to its generation segment. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing its near-term maturities. Management has committed to reducing Exelon Generation debt by $3 billion during the next five years and use the remaining cash to fund the regulated utilities' growth.We also think management can meet its 2.5% dividend growth goal through 2018 with relative ease. However, this is rather unimpressive compared with most of its peers that we think can grow their dividends at least twice as fast.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm might have to make modest cash contributions. Plant closures also could increase cash decommission costs.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's

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largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	256,701	30 Jan 2017	—
MR. WILLIAM A. VON HOENE, JR		109,688	30 Jan 2017	—
JONATHAN W. (JACK) THAYER		81,473	30 Jan 2017	—
MS. ANNE R. PRAMAGGIORE		65,162	30 Jan 2017	—
MR. KENNETH W. CORNEW		53,363	30 Jan 2017	—
MR. CALVIN G. BUTLER,JR		32,989	30 Jan 2017	—
JOHN W. ROGERS,JR	Director	14,374	11 May 2017	3,000

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	2.24	0.13	210	30 Apr 2017
Invesco Diversified Dividend Fund	1.64	2.42	575	31 Mar 2017
Vanguard Wellington™	1.63	0.55	—	31 Mar 2017
Vanguard 500 Index Fund	1.54	0.16	108	30 Apr 2017
VA CollegeAmerica Invmt Co of America	1.26	0.51	-1,000	31 Mar 2017
Concentrated Holders				
Putnam Global Utilities Fund	0.04	8.53	—	31 Mar 2017
Putnam VT Global Utilities	0.02	8.36	—	31 Mar 2017
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.20	—	30 May 2017
Fidelity® Telecom and Utilities Fund	0.20	5.96	—	30 Apr 2017
BMO Covered Call Utilities ETF	0.06	5.08	18	30 Apr 2017

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Credit Suisse First Boston (CSFB)	0.60	0.20	4,136	31 Dec 2016
Morgan Stanley Smith Barney LLC	0.35	0.07	2,398	31 Dec 2016
Deutsche Bank AG	0.38	0.26	2,227	31 Dec 2016
Fidelity Management and Research Company	5.08	0.23	1,906	31 Mar 2017
BlackRock Fund Advisors	3.90	0.15	1,781	31 Dec 2016
Top 5 Sellers				
T. Rowe Price Associates, Inc.	3.44	0.21	-11,298	31 Mar 2017
Arrowstreet Capital Limited Partnership	0.39	0.46	-2,765	31 Dec 2016
J.P. Morgan Investment Management Inc	0.08	0.01	-2,137	31 Dec 2016
Parametric Portfolio Associates LLC	0.20	0.10	-2,026	31 Mar 2017
Capital Research Global Investors	3.66	0.38	-1,862	31 Mar 2017

Management 06 Dec 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

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Analyst Notes

PJM Capacity Auction Results: Surprisingly, No Surprises 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet. NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth 19 Apr 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Our full report, "Trump Can't Thwart Green Progress," is available on Morningstar Select Investment Research.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities 28 Mar 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

For more information on our outlook for renewable growth and carbon emissions, see our most recent report "Trump Can't Thwart Green Progress" on Morningstar Select Investment Research.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes 08 Feb 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life 06 Dec 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50%

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*2017*	*2018*	*5-Year Proj. CAGR*
Revenue	*8.0*	10.2	7.4	6.5	*3.3*	*7.8*	*3.1*
EBIT	*-5.2*	-15.3	42.4	-29.4	*60.6*	*9.6*	*13.9*
EBITDA	*6.7*	-6.9	26.8	2.8	*16.3*	*8.0*	*6.8*
Net Income	*4.9*	-4.0	7.7	11.7	*0.6*	*10.5*	*3.9*
Diluted EPS	*2.3*	-4.4	4.2	7.6	*0.2*	*8.0*	*2.9*
Earnings Before Interest, after Tax	*14.3*	53.5	13.7	-14.4	*5.5*	*6.2*	*2.4*
Free Cash Flow	*-262.0*	-92.0	365.5	-1,243.2	*-100.7*	*NM*	—

Profitability	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Operating Margin %	*12.1*	11.3	15.0	9.9	*15.4*	*15.7*	*16.2*
EBITDA Margin %	*21.8*	19.7	23.3	22.5	*25.3*	*25.4*	*26.2*
Net Margin %	*7.7*	7.5	7.6	7.9	*7.7*	*7.9*	*8.2*
Free Cash Flow Margin %	*-6.0*	0.4	1.9	-20.5	*0.1*	*3.5*	*5.8*
ROIC %	*2.9*	2.5	4.1	2.1	*5.0*	*5.5*	*5.4*
Adjusted ROIC %	*3.1*	2.7	4.3	2.3	*5.4*	*6.1*	*5.8*
Return on Assets %	*1.8*	2.0	2.5	1.1	*2.2*	*2.3*	*2.4*
Return on Equity %	*6.9*	7.1	9.3	4.4	*9.3*	*9.7*	*9.6*

Leverage	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Debt/Capital	*0.53*	0.49	0.50	0.58	*0.58*	*0.58*	*0.56*
Total Debt/EBITDA	*4.35*	4.12	3.84	5.10	*4.69*	*4.47*	*4.33*
EBITDA/Interest Expense	*5.44*	5.08	6.64	4.59	*5.40*	*5.52*	*5.59*

Valuation Summary and Forecasts

	2015	2016	*2017(E)*	*2018(E)*
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	*13.5*	*12.5*
EV/EBITDA	6.6	9.5	*8.6*	*8.0*
EV/EBIT	10.2	21.5	*14.1*	*12.8*
Free Cash Flow Yield %	0.0	-0.3	*-6.4*	*0.9*
Dividend Yield %	4.3	3.6	*3.6*	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.4
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	8,321	12.9	8.96
Present Value Stage II	17,405	26.9	18.74
Present Value Stage III	38,871	60.2	41.85
Total Firm Value	**64,597**	**100.0**	**69.56**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,379**	**—**	**31.63**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***32,405***	***34,930***
Cost of Goods Sold	13,003	13,084	12,640	*13,731*	*15,505*
Gross Profit	**14,426**	**16,363**	**18,720**	***18,674***	***19,425***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*8,833*	*8,888*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,643*	*1,684*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,200*	*3,375*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Interest Expense	1,065	1,033	1,536	*1,517*	*1,605*
Interest Income	455	-53	389	*250*	*250*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,730***	***4,123***
Income Tax Expense	666	1,073	761	*1,231*	*1,361*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	—	—
Net Income	**1,623**	**2,269**	**1,134**	***2,499***	***2,763***
Weighted Average Diluted Shares Outstanding	864	893	927	*930*	*952*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.69***	***2.90***
Adjusted Net Income	2,065	2,224	2,484	*2,499*	*2,763*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.69***	***2.90***
Dividends Per Common Share	1.24	1.24	1.26	*1.29*	*1.32*
EBITDA	**6,964**	**8,396**	**8,688**	***8,198***	***8,854***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,198***	***8,854***

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Cash and Equivalents	1,878	6,502	635	*1,282*	*1,605*
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	*4,883*	*5,263*
Inventory	1,603	1,566	1,638	*1,505*	*1,699*
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	*4,500*	*4,500*
Current Assets	**12,097**	**15,334**	**12,412**	***12,170***	***13,068***
Net Property Plant, and Equipment	52,087	57,439	71,555	*75,230*	*78,055*
Goodwill	2,672	2,672	6,677	*6,677*	*6,677*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	*9,300*	*9,300*
Long-Term Non-Operating Assets	13,882	13,874	14,214	*14,214*	*14,214*
Total Assets	**86,814**	**95,384**	**114,904**	***117,591***	***121,314***
Accounts Payable	3,056	2,891	3,449	*2,821*	*2,974*
Short-Term Debt	2,262	2,033	3,697	*3,697*	*3,697*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	*4,200*	*4,200*
Current Liabilities	**8,762**	**9,118**	**13,457**	***10,718***	***10,871***
Long-Term Debt	20,010	24,286	32,216	*34,716*	*35,916*
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	*19,000*	*19,800*
Other Long-Term Operating Liabilities	4,550	4,201	4,187	*4,800*	*4,800*
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	*19,294*	*19,294*
Total Liabilities	**62,681**	**68,062**	**87,292**	***88,528***	***90,681***
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	*18,794*	*18,794*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,910	12,068	12,030	*13,335*	*14,846*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,491	-2,431	-2,660	*-2,200*	*-2,200*
Shareholder's Equity	**22,801**	**26,014**	**25,837**	***27,662***	***29,233***
Minority Interest	1,332	1,308	1,775	*1,400*	*1,400*
Total Equity	**24,133**	**27,322**	**27,612**	***29,062***	***30,633***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Net Income	1,820	2,250	1,204	*2,499*	*2,763*
Depreciation	3,868	3,987	5,576	*3,200*	*3,375*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*800*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*476*	*-381*
(Increase) Decrease in Inventory	-380	4	7	*133*	*-194*
Change in Other Short-Term Assets	-2,758	-387	-827	*280*	—
Increase (Decrease) in Accounts Payable	209	-121	771	*-628*	*152*
Change in Other Short-Term Liabilities	—	—	—	*-2,111*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***4,712***	***6,515***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-6,875*	*-6,200*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*1,359*	—
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-5,516***	***-6,200***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,194*	*-1,252*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*2,500*	*1,200*
Other Financing Cash Flows	-599	-67	97	*-375*	—
Cash From Financing	**411**	**4,830**	**1,191**	***991***	***8***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*460*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***647***	***323***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	1.21	15.1	*15.5*	*16.6*	7.3	*9.4*	*9.9*	NM	*NM*	*NM*	1.7	*1.6*	*1.6*	2.4	*2.4*	*2.3*
Entergy Corp ETR USA	1.07	10.3	*15.7*	*16.5*	3.2	*7.9*	*8.3*	60.2	*NM*	*NM*	1.6	*1.7*	*1.7*	1.2	*1.2*	*1.2*
FirstEnergy Corp FE USA	0.86	11.8	*10.3*	*10.5*	3.0	*8.1*	*8.2*	24.6	*75.1*	*175.5*	2.1	*1.7*	*1.5*	0.9	*0.8*	*0.9*
Average		12.4	*13.8*	*14.5*	4.5	*8.5*	*8.8*	42.4	*75.1*	*175.5*	1.8	*1.7*	*1.6*	1.5	*1.5*	*1.5*
Exelon Corp EXC US	**1.13**	**13.2**	***13.5***	***12.5***	**9.5**	***8.6***	***8.0***	**NM**	***NM***	***106.8***	**1.3**	***1.2***	***1.2***	**1.0**	***1.0***	***1.0***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	40,070 USD	5.9	*7.8*	*6.7*	5.9	*7.8*	*6.7*	6.8	*11.0*	*9.8*	2.3	*3.6*	*3.1*	3.7	*3.9*	*4.0*
Entergy Corp ETR USA	45,904 USD	1.9	*6.4*	*4.6*	2.0	*6.5*	*4.7*	-6.7	*11.1*	*10.3*	-1.3	*1.9*	*1.7*	4.7	*4.4*	*4.6*
FirstEnergy Corp FE USA	43,148 USD	-3.5	*5.9*	*6.1*	-4.2	*7.0*	*7.3*	-66.2	*18.7*	*16.1*	-13.0	*2.9*	*2.9*	4.6	*5.0*	*5.5*
Average		1.4	*6.7*	*5.8*	1.2	*7.1*	*6.2*	-22.0	*13.6*	*12.1*	-4.0	*2.8*	*2.6*	4.3	*4.4*	*4.7*
Exelon Corp EXC US	**114,904** USD	**2.1**	***5.0***	***5.5***	**2.3**	***5.4***	***6.1***	**4.4**	***9.3***	***9.7***	**1.1**	***2.2***	***2.3***	**3.6**	***3.6***	***3.7***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	9,061 USD	-13.0	*6.0*	*2.7*	-46.8	*61.0*	*-10.3*	-0.3	*-0.3*	*-6.7*	-586.1	*40.8*	*-123.1*	5.1	*4.9*	*4.7*
Entergy Corp ETR USA	10,846 USD	-5.8	*10.2*	*-1.3*	18.0	*14.8*	*-10.7*	18.4	*-29.1*	*-5.3*	-186.5	*-2.3*	*-80.9*	2.4	*2.3*	*3.0*
FirstEnergy Corp FE USA	14,562 USD	-3.1	*5.8*	*-9.3*	3.0	*26.8*	*1.9*	-2.8	*8.4*	*-2.2*	-23.0	*1.3*	*0.0*	—	*—*	*5.6*
Average		-7.3	*7.3*	*-2.6*	-8.6	*34.2*	*-6.4*	5.1	*-7.0*	*-4.7*	-265.2	*13.3*	*-68.0*	3.8	*3.6*	*4.4*
Exelon Corp EXC US	**31,360** USD	**6.5**	***3.3***	***7.8***	**-29.4**	***60.6***	***9.6***	**7.6**	***0.2***	***8.0***	**-1,243.2**	***-100.7***	***NM***	**1.6**	***2.5***	***2.5***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

		Gross Margin %			**EBITDA Margin %**			**Operating Margin %**			**Net Margin %**			**Free Cash Flow Margin %**		
Company/Ticker	Last Historical Year Net Income (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	1,473 USD	66.9	*69.1*	*65.9*	33.7	*37.9*	*34.9*	17.4	*26.4*	*23.1*	16.3	*15.3*	*14.0*	-9.8	*-16.7*	*-0.9*
Entergy Corp ETR USA	1,272 USD	72.1	*67.5*	*67.1*	37.6	*30.6*	*29.4*	18.0	*18.7*	*16.9*	11.7	*7.6*	*7.3*	2.0	*-9.7*	*-12.0*
FirstEnergy Corp FE USA	1,121 USD	62.4	*61.7*	*62.2*	30.2	*28.4*	*30.8*	16.5	*19.8*	*22.2*	7.7	*8.4*	*9.4*	3.7	*1.1*	*0.5*
Average		67.1	*66.1*	*65.1*	33.8	*32.3*	*31.7*	17.3	*21.6*	*20.7*	11.9	*10.4*	*10.2*	-1.4	*-8.4*	*-4.1*
Exelon Corp EXC US	**2,484** USD	**59.7**	***57.6***	***55.6***	**22.5**	***25.3***	***25.4***	**9.9**	***15.4***	***15.7***	**7.9**	***7.7***	***7.9***	**-0.3**	***-6.7***	***0.9***

Leverage Analysis

		Debt/Equity %			**Debt/Total Cap %**			**EBITDA/Interest Exp.**			**Total Debt/EBITDA**			**Assets/Equity**		
Company/Ticker	Last Historical Year Total Debt (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	11,783 USD	89.7	*98.6*	*102.3*	47.3	*49.6*	*50.6*	7.9	*7.7*	*6.4*	3.9	*3.7*	*4.2*	3.1	*3.1*	*3.2*
Entergy Corp ETR USA	15,248 USD	188.7	*208.4*	*219.6*	65.4	*67.6*	*68.7*	6.1	*4.7*	*4.1*	3.7	*4.7*	*5.4*	5.7	*5.9*	*6.0*
FirstEnergy Corp FE USA	22,552 USD	361.4	*297.8*	*257.1*	78.3	*74.9*	*72.0*	3.8	*3.7*	*3.7*	5.1	*5.1*	*5.2*	6.9	*6.0*	*5.4*
Average		213.3	*201.6*	*193.0*	63.7	*64.0*	*63.8*	5.9	*5.4*	*4.7*	4.2	*4.5*	*4.9*	5.2	*5.0*	*4.9*
Exelon Corp EXC US	**35,913** USD	**139.0**	***138.9***	***135.5***	**58.2**	***58.1***	***57.5***	**4.6**	***5.4***	***5.5***	**5.1**	***4.7***	***4.5***	**4.4**	***4.3***	***4.1***

Liquidity Analysis

		Cash per Share			**Current Ratio**			**Quick Ratio**			**Cash/Short-Term Debt**			**Payout Ratio %**		
Company/Ticker	Market Cap (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	22,719 USD	0.83	*0.18*	*0.22*	0.99	*0.78*	*0.73*	0.89	*0.68*	*0.63*	0.48	*0.07*	*0.07*	93.9	*59.5*	*66.7*
Entergy Corp ETR USA	14,189 USD	6.64	*7.57*	*8.65*	1.15	*1.20*	*1.24*	0.88	*0.88*	*0.93*	1.52	*1.82*	*2.09*	-104.8	*69.4*	*75.5*
FirstEnergy Corp FE USA	12,975 USD	0.47	*0.82*	*0.94*	0.41	*0.46*	*0.45*	0.33	*0.37*	*0.36*	0.05	*0.09*	*0.11*	-9.9	*50.5*	*54.5*
Average		2.65	*2.86*	*3.27*	0.85	*0.81*	*0.81*	0.70	*0.64*	*0.64*	0.68	*0.66*	*0.76*	-6.9	*59.8*	*65.6*
Exelon Corp EXC US	**33,627** USD	**0.69**	***1.38***	***1.69***	**0.92**	***1.14***	***1.20***	**0.80**	***1.00***	***1.05***	**0.17**	***0.35***	***0.43***	**103.0**	***48.1***	***45.6***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ▸**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ▸**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ▸**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ▸**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ▸**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

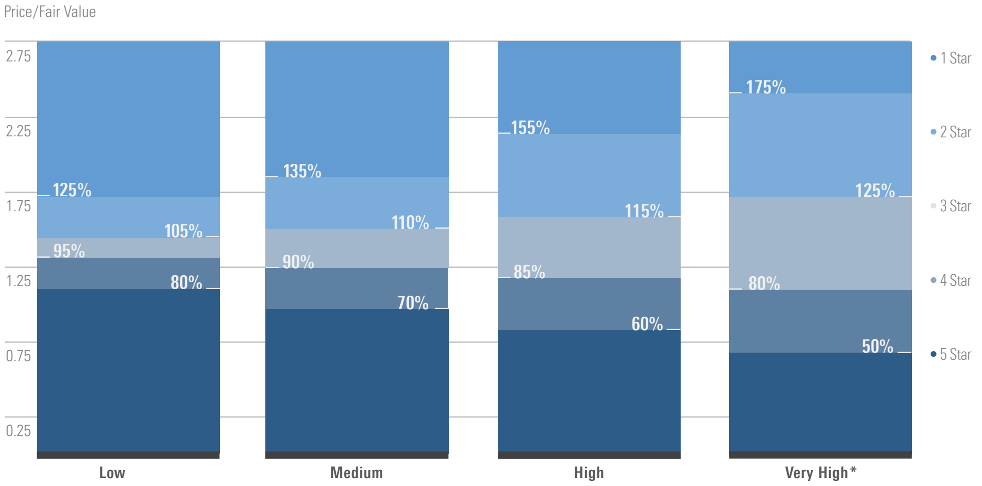
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★

We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★

Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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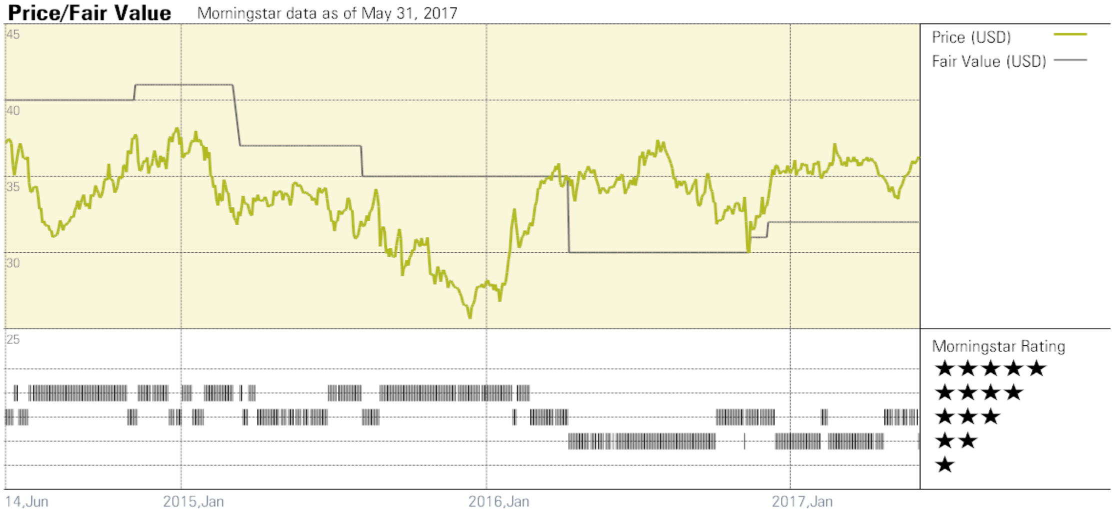
Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.31 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Trump's Announcement to Exit Paris Agreement Has Little Effect on Utilities

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The primary analyst covering this company does not own its stock.

Research as of 02 Jun 2017
Estimates as of 03 May 2017
Pricing data through 01 Jun 2017
Rating updated as of 01 Jun 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 02 Jun 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities after President Trump announced plans to exit the Paris Climate Agreement.

Despite the withdrawal, we continue to forecast U.S. renewable energy capacity doubling during the next eight years. State renewable portfolio standards, or RPS, and other local policies remain the industry's primary growth driver, not federal environmental policy. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use by 2025, up from 15% now, based solely on existing state RPS.

We think Trump's move to abandon the U.S. Clean Power Plan and Paris Agreement could even embolden states to strengthen renewable energy standards, offering upside to our forecasts. Supportive tax policy and pro-manufacturing initiatives also offer upside. And corporate renewable energy purchases should continue to grow as businesses realize the economic and public perception benefits. Thus, we are not surprised that many business leaders denounced Trump's decision.

We also forecast carbon emissions from the power generation sector will keep falling toward Paris Agreement targets given the growth in renewable energy and gas generation. Low natural gas prices and turbine efficiency improvements are forcing coal plant shutdowns and reduced run times for competing coal generators, which emit twice as much carbon as an equivalent gas plant.

Utilities operating in states with constructive regulation and environmental policy support could realize 7%-9% annual earnings and dividend growth the next three to five years. Best positioned are utilities like Dominion Energy, Duke Energy, American Electric Power, and CMS Energy that are

Vital Statistics

Market Cap (USD Mil)	34,016
52-Week High (USD)	37.70
52-Week Low (USD)	29.82
52-Week Total Return %	10.5
YTD Total Return %	5.3
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.1
5-Yr Forward EPS CAGR %	2.9
Price/Fair Value	1.15

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*13.7*	*12.7*
EV/EBITDA	6.6	9.5	*8.6*	*8.0*
EV/EBIT	10.2	21.5	*14.2*	*12.9*
Free Cash Flow Yield %	0.0	-0.3	*-6.4*	*0.9*
Dividend Yield %	4.3	3.6	*3.5*	*3.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*32,405*	*34,930*
Revenue YoY %	7.4	6.5	*3.3*	*7.8*
EBIT	4,409	3,112	*4,998*	*5,479*
EBIT YoY %	42.4	-29.4	*60.6*	*9.6*
Net Income, Adjusted	2,224	2,484	*2,499*	*2,763*
Net Income YoY %	7.7	11.7	*0.6*	*10.5*
Diluted EPS	2.49	2.68	*2.69*	*2.90*
Diluted EPS YoY %	4.2	7.6	*0.2*	*8.0*
Free Cash Flow	561	-6,417	*45*	*1,223*
Free Cash Flow YoY %	365.5	-1,243.2	*-100.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

investing billions of dollars in new infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Our full report, "Trump Can't Thwart Green Progress," is available on Morningstar Select Investment Research.

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*Forecast* *2017*	*2018*	*5-Year Proj. CAGR*
Revenue	*8.0*	10.2	7.4	6.5	*3.3*	*7.8*	*3.1*
EBIT	*-5.2*	-15.3	42.4	-29.4	*60.6*	*9.6*	*13.9*
EBITDA	*6.7*	-6.9	26.8	2.8	*16.3*	*8.0*	*6.8*
Net Income	*4.9*	-4.0	7.7	11.7	*0.6*	*10.5*	*3.9*
Diluted EPS	*2.3*	-4.4	4.2	7.6	*0.2*	*8.0*	*2.9*
Earnings Before Interest, after Tax	*14.3*	53.5	13.7	-14.4	*5.5*	*6.2*	*2.4*
Free Cash Flow	*-262.0*	-92.0	365.5	-1,243.2	*-100.7*	*NM*	—

Profitability	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Operating Margin %	*12.1*	11.3	15.0	9.9	*15.4*	*15.7*	*16.2*
EBITDA Margin %	*21.8*	19.7	23.3	22.5	*25.3*	*25.4*	*26.2*
Net Margin %	*7.7*	7.5	7.6	7.9	*7.7*	*7.9*	*8.2*
Free Cash Flow Margin %	*-6.0*	0.4	1.9	-20.5	*0.1*	*3.5*	*5.8*
ROIC %	*2.9*	2.5	4.1	2.1	*5.0*	*5.5*	*5.4*
Adjusted ROIC %	*3.1*	2.7	4.3	2.3	*5.4*	*6.1*	*5.8*
Return on Assets %	*1.8*	2.0	2.5	1.1	*2.2*	*2.3*	*2.4*
Return on Equity %	*6.9*	7.1	9.3	4.4	*9.3*	*9.7*	*9.6*

Leverage	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Debt/Capital	*0.53*	0.49	0.50	0.58	*0.58*	*0.58*	*0.56*
Total Debt/EBITDA	*4.35*	4.12	3.84	5.10	*4.69*	*4.47*	*4.33*
EBITDA/Interest Expense	*5.44*	5.08	6.64	4.59	*5.40*	*5.52*	*5.59*

Valuation Summary and Forecasts

	2015	2016	*2017(E)*	*2018(E)*
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	*13.7*	*12.7*
EV/EBITDA	6.6	9.5	*8.6*	*8.0*
EV/EBIT	10.2	21.5	*14.2*	*12.9*
Free Cash Flow Yield %	0.0	-0.3	*-6.4*	*0.9*
Dividend Yield %	4.3	3.6	*3.5*	*3.7*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.4
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	8,321	12.9	8.96
Present Value Stage II	17,405	26.9	18.74
Present Value Stage III	38,871	60.2	41.85
Total Firm Value	**64,597**	**100.0**	**69.56**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,379**	**—**	**31.63**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***32,405***	***34,930***
Cost of Goods Sold	13,003	13,084	12,640	*13,731*	*15,505*
Gross Profit	**14,426**	**16,363**	**18,720**	***18,674***	***19,425***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*8,833*	*8,888*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,643*	*1,684*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,200*	*3,375*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Interest Expense	1,065	1,033	1,536	*1,517*	*1,605*
Interest Income	455	-53	389	*250*	*250*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,730***	***4,123***
Income Tax Expense	666	1,073	761	*1,231*	*1,361*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	—	—
Net Income	**1,623**	**2,269**	**1,134**	***2,499***	***2,763***
Weighted Average Diluted Shares Outstanding	864	893	927	*930*	*952*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.69***	***2.90***
Adjusted Net Income	2,065	2,224	2,484	*2,499*	*2,763*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.69***	***2.90***
Dividends Per Common Share	1.24	1.24	1.26	*1.29*	*1.32*
EBITDA	**6,964**	**8,396**	**8,688**	***8,198***	***8,854***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,198***	***8,854***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Cash and Equivalents	1,878	6,502	635	*1,282*	*1,605*
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	*4,883*	*5,263*
Inventory	1,603	1,566	1,638	*1,505*	*1,699*
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	*4,500*	*4,500*
Current Assets	**12,097**	**15,334**	**12,412**	***12,170***	***13,068***
Net Property Plant, and Equipment	52,087	57,439	71,555	*75,230*	*78,055*
Goodwill	2,672	2,672	6,677	*6,677*	*6,677*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	*9,300*	*9,300*
Long-Term Non-Operating Assets	13,882	13,874	14,214	*14,214*	*14,214*
Total Assets	**86,814**	**95,384**	**114,904**	***117,591***	***121,314***
Accounts Payable	3,056	2,891	3,449	*2,821*	*2,974*
Short-Term Debt	2,262	2,033	3,697	*3,697*	*3,697*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	*4,200*	*4,200*
Current Liabilities	**8,762**	**9,118**	**13,457**	***10,718***	***10,871***
Long-Term Debt	20,010	24,286	32,216	*34,716*	*35,916*
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	*19,000*	*19,800*
Other Long-Term Operating Liabilities	4,550	4,201	4,187	*4,800*	*4,800*
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	*19,294*	*19,294*
Total Liabilities	**62,681**	**68,062**	**87,292**	***88,528***	***90,681***
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	*18,794*	*18,794*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,910	12,068	12,030	*13,335*	*14,846*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,491	-2,431	-2,660	*-2,200*	*-2,200*
Shareholder's Equity	**22,801**	**26,014**	**25,837**	***27,662***	***29,233***
Minority Interest	1,332	1,308	1,775	*1,400*	*1,400*
Total Equity	**24,133**	**27,322**	**27,612**	***29,062***	***30,633***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	*Forecast* 2017	*Forecast* 2018
Net Income	1,820	2,250	1,204	*2,499*	*2,763*
Depreciation	3,868	3,987	5,576	*3,200*	*3,375*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*800*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*476*	*-381*
(Increase) Decrease in Inventory	-380	4	7	*133*	*-194*
Change in Other Short-Term Assets	-2,758	-387	-827	*280*	—
Increase (Decrease) in Accounts Payable	209	-121	771	*-628*	*152*
Change in Other Short-Term Liabilities	—	—	—	*-2,111*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***4,712***	***6,515***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-6,875*	*-6,200*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*1,359*	—
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-5,516***	***-6,200***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,194*	*-1,252*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*2,500*	*1,200*
Other Financing Cash Flows	-599	-67	97	*-375*	—
Cash From Financing	**411**	**4,830**	**1,191**	***991***	***8***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*460*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***647***	***323***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

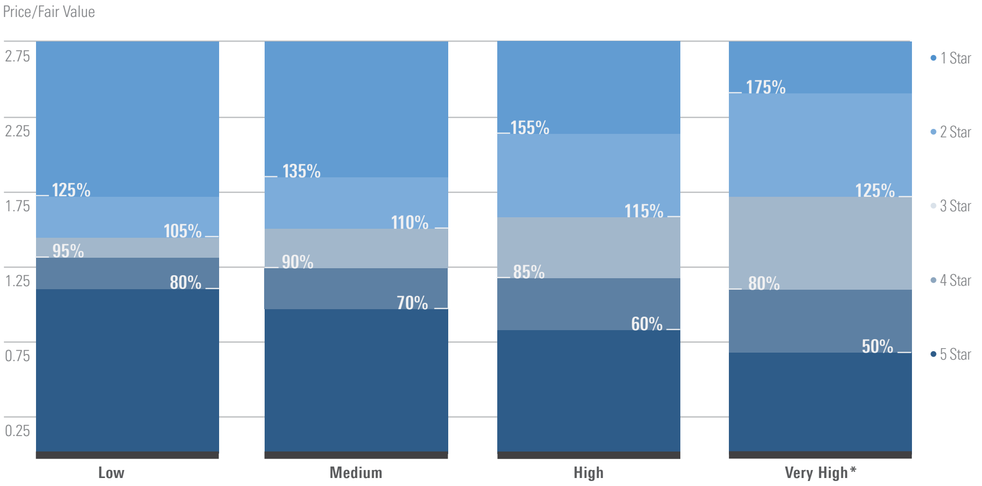
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

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Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

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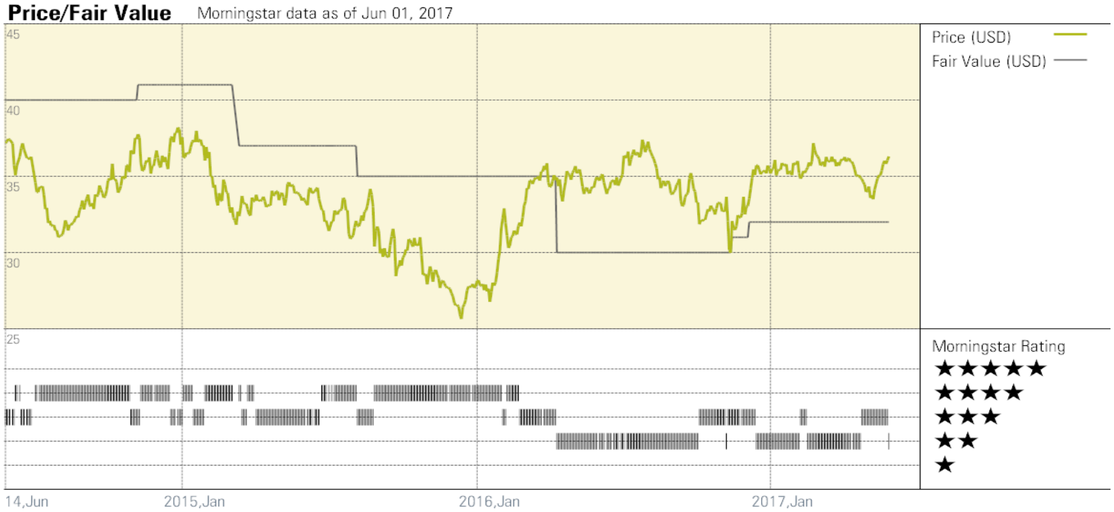
Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
36.73 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	36.73 USD	32.00 USD	1.15	3.51	3.57	34.02	Utilities - Diversified	Standard
01 Jun 2017 22:17, UTC	01 Jun 2017	07 Dec 2016 02:29, UTC		01 Jun 2017	01 Jun 2017	01 Jun 2017		

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Medium	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.08	0.90	1.01	0.88
Price/Earnings	17.5	17.0	17.4	21.9
Forward P/E	13.8	—	16.9	17.3
Price/Cash Flow	4.2	4.5	7.1	12.6
Price/Free Cash Flow	—	57.1	13.3	18.9
Trailing Dividend Yield%	3.51	4.40	3.32	2.00

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Trump's Announcement to Exit Paris Agreement Has Little Effect on Utilities

Investment Thesis

Travis Miller, Strategist, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Andrew Bischof, CFA, Sr. Eq. Analyst, 02 June 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities after President Trump announced plans to exit the Paris Climate Agreement.

Despite the withdrawal, we continue to forecast U.S. renewable energy capacity doubling during the next eight years. State renewable portfolio standards, or RPS, and other local policies remain the industry's primary growth driver, not federal environmental policy. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use by 2025, up from 15% now, based solely on existing state RPS.

We think Trump's move to abandon the U.S. Clean Power Plan and Paris Agreement could even embolden states to strengthen renewable energy standards, offering upside to our forecasts. Supportive tax policy and pro-manufacturing initiatives also offer upside. And corporate renewable energy purchases should continue to grow as businesses realize the economic and public perception benefits. Thus, we are not surprised that many business leaders denounced Trump's decision.

We also forecast carbon emissions from the power generation sector will keep falling toward Paris Agreement targets given the growth in renewable energy and gas generation. Low natural gas prices and turbine efficiency improvements are forcing coal plant shutdowns and reduced run times for competing coal generators, which emit twice as much carbon as an equivalent gas plant.

Utilities operating in states with constructive regulation and environmental policy support could realize 7%-9% annual earnings and dividend growth the next three to five years. Best positioned are utilities like Dominion Energy, Duke Energy, American Electric Power, and CMS Energy

Exelon Corp EXC (XNYS)

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★★	36.73 USD	32.00 USD	1.15	3.51	3.57	34.02	Utilities - Diversified	Standard
01 Jun 2017 22:17, UTC	01 Jun 2017	07 Dec 2016 02:29, UTC		01 Jun 2017	01 Jun 2017	01 Jun 2017		

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	23,038	9,037	10.26	43.86
Entergy Corp ETR	USD	14,334	10,824	-11.18	0.00
FirstEnergy Corp FE	USD	13,042	14,245	-59.42	0.00

that are investing billions of dollars in new infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Economic Moat

Travis Miller, Strategist, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle

Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move

so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

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★★ 01 Jun 2017 22:17, UTC	36.73 USD 01 Jun 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.15	3.51 01 Jun 2017	3.57 01 Jun 2017	34.02 01 Jun 2017	Utilities - Diversified	Standard

Analyst Notes Archive

Hand Up or Hand Out? Exelon's Illinois Nuclear Plants Find New Life

Travis Miller, Strategist, 06 December 2016

Call it what you will--a hand up or a handout--new Illinois legislation appears set to give Exelon's beleaguered Illinois nuclear plants another 10 years of life. After reviewing details of the Illinois Future Energy Jobs Bill, we are raising our fair value to $32 per share from $31 per share.

We previously assumed the Clinton and Quad Cities nuclear plants would close in 2017-18 and assumed a 50% probability that the Byron plant would close by 2019. We now assume all three will continue operating through our five-year forecasts. We expect Exelon could realize $250 million of annual incremental cash flow relative to our previous forecasts, primarily for those three plants.

We still think the three plants will struggle to reach breakeven economics in the long run based on our midcycle commodity price assumptions. Thus, we continue to exclude those plants from our long-term normalized cash flow estimate. However, the cash that we expect Exelon to receive for the next 10 years does boost shareholder value.

There remains a decent chance the Illinois legislation will not withstand anticipated legal challenges likely from other competing generators or will receive a rebuke from the Federal Energy Regulatory Commission. Legislation several years ago that would have offered state subsidies for select generators in Maryland and New Jersey failed to pass legal and regulatory challenges. Recent disputes in Ohio also suggest a strong legal precedent supporting competitive markets. We expect other generators in the region that will be at a competitive disadvantage, like Dynegy, will challenge the law.

On the flip side, Exelon could next target legislation in Pennsylvania given its success in Illinois and New York. We continue to assume the Three Mile Island plant in Pennsylvania closes in 2018 absent state support.

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Strategist, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state

renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite

three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

PJM Capacity Auction Results: Surprisingly, No Surprises

Travis Miller, Strategist, 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

Travis Miller, Strategist, 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Trump's Announcement to Exit Paris Agreement Has Little Effect on Utilities

Andrew Bischof, CFA, Sr. Eq. Analyst, 02 June 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities after President Trump announced plans to exit the Paris Climate Agreement.

Despite the withdrawal, we continue to forecast U.S. renewable energy capacity doubling during the next eight years. State renewable portfolio standards, or RPS, and other local policies remain the industry's primary growth driver, not federal environmental policy. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use by 2025, up from 15% now, based solely on existing state RPS.

We think Trump's move to abandon the U.S. Clean Power Plan and Paris Agreement could even embolden states to strengthen renewable energy standards, offering upside to our forecasts. Supportive tax policy and pro-manufacturing initiatives also offer upside. And corporate renewable energy purchases should continue to grow as businesses realize the economic and public perception benefits. Thus, we are not surprised that many business leaders denounced Trump's decision.

We also forecast carbon emissions from the power generation sector will keep falling toward Paris Agreement targets given the growth in renewable energy and gas generation. Low natural gas prices and turbine efficiency improvements are forcing coal plant shutdowns and reduced run times for competing coal generators, which emit twice as much carbon as an equivalent gas plant.

Utilities operating in states with constructive regulation and environmental policy support could realize 7%-9% annual earnings and dividend growth the next three to five years. Best positioned are utilities like Dominion Energy, Duke Energy, American Electric Power, and CMS Energy that are investing billions of dollars in new infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Exelon Corp EXC ★★Q 02 Jun 2017 02:00 UTC

Last Close	Fair ValueQ	Market Cap	Sector	Industry	Country of Domicile
01 Jun 2017 36.73	02 Jun 2017 02:00 UTC 33.98	01 Jun 2017 34,015.5 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

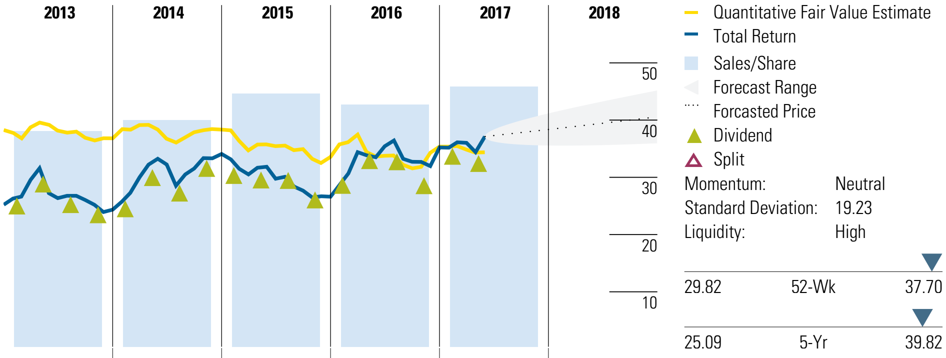
Exelon Corp is a utility services holding company engaged, through Generation, in the energy generation business, and through ComEd, PECO and BGE, in the energy delivery businesses.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	89	86	85
Valuation	Overvalued	19	32	16
Quantitative Uncertainty	Low	100	96	98
Financial Health	Moderate	58	51	58

Source: Morningstar Equity Research

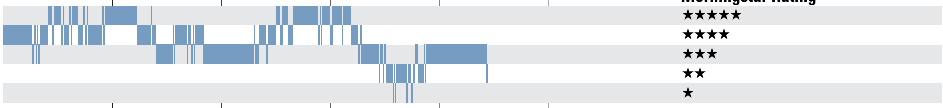
Price vs. Quantitative Fair Value



Momentum: Neutral
Standard Deviation: 19.23
Liquidity: High

2013	2014	2015	2016	2017	
-3.0	39.9	-21.8	32.4	5.3	Total Return %
-36.1	27.1	-22.5	19.9	-3.9	+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—	Trailing Dividend Yield %
—	—	—	—	3.51	Forward Dividend Yield %
14.6	15.2	12.4	26.9	17.5	Price/Earnings
0.9	1.2	0.8	1.1	1.0	Price/Revenue

Morningstar RatingQ



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.08	0.90	1.01	0.88
Price/Earnings	17.5	17.0	17.4	21.9
Forward P/E	13.8	—	16.9	17.3
Price/Cash Flow	4.2	4.5	7.1	12.6
Price/Free Cash Flow	—	57.1	13.3	18.9
Trailing Dividend Yield %	3.51	4.40	3.32	2.00
Price/Book	1.3	1.3	1.4	2.5
Price/Sales	1.0	1.1	1.5	2.2

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	7.5	7.0	9.6	12.1
Return on Assets %	1.7	1.9	3.2	4.6
Revenue/Employee (K)	946.2	942.4	1,186.8	305.0

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	590.3	—	596.9	579.0
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

2012	2013	2014	2015	2016	TTM	**Financials** (Fiscal Year in Mil)
23,489	24,888	27,429	29,447	31,360	32,544	Revenue
24.1	6.0	10.2	7.4	6.5	3.8	% Change
2,380	3,656	3,096	4,409	3,112	3,925	Operating Income
-46.9	53.6	-15.3	42.4	-29.4	26.1	% Change
1,160	1,719	1,623	2,269	1,134	1,956	Net Income
6,131	6,343	4,457	7,616	8,445	8,173	Operating Cash Flow
-5,810	-5,395	-6,077	-7,624	-8,553	-8,465	Capital Spending
321	948	-1,620	-8	-108	-292	Free Cash Flow
1.4	3.8	-5.9	0.0	-0.3	-0.9	% Sales
1.42	2.00	1.88	2.54	1.22	2.10	EPS
-62.1	40.8	-6.0	35.1	-52.0	72.1	% Change
0.39	0.48	-0.03	-1.04	0.82	-0.31	Free Cash Flow/Share
2.10	1.46	1.24	1.24	1.26	1.28	Dividends/Share
25.07	25.51	27.44	28.01	28.17	28.65	Book Value/Share
857,000	860,000	920,000	924,000	926,097	926,097	Shares Outstanding (K)

2012	2013	2014	2015	2016	TTM	**Profitability**
6.5	7.8	7.2	9.4	4.4	7.5	Return on Equity %
1.7	2.2	2.0	2.5	1.1	1.7	Return on Assets %
4.9	6.9	5.9	7.7	3.6	6.0	Net Margin %
0.35	0.31	0.33	0.32	0.30	0.28	Asset Turnover
3.7	3.5	3.8	3.7	4.4	4.4	Financial Leverage
56.8	56.9	52.6	55.6	59.7	59.2	Gross Margin %
10.1	14.7	11.3	15.0	9.9	12.1	Operating Margin %
18,346	18,271	20,010	24,286	32,216	31,685	Long-Term Debt
21,624	22,925	22,801	25,793	25,837	26,530	Total Equity
0.6	0.5	0.6	0.5	0.5	0.5	Fixed Asset Turns

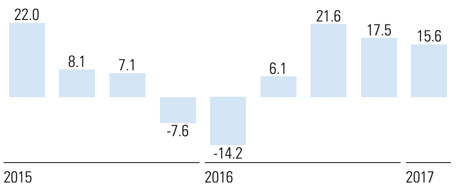
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	10.5	3.2	3.5	-3.5

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2017	8,757.0	—	—	—	—
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
Earnings Per Share ()					
2017	1.07	—	—	—	—
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

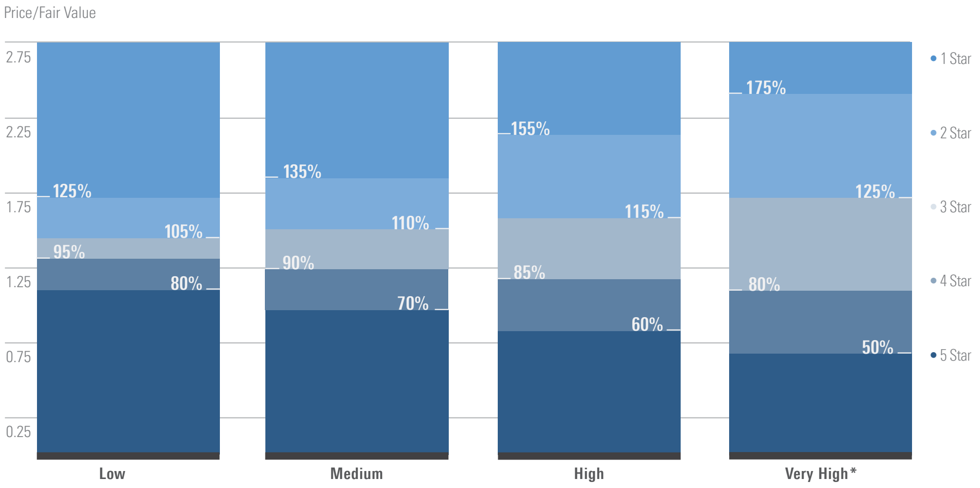
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

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- ►**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
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- ►**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ►**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ►**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ►**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ►**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ►**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

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Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

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- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	36.73 USD	32.00 USD	1.15	3.51	3.57	34.02	Utilities - Diversified	Standard
01 Jun 2017 22:17, UTC	01 Jun 2017	07 Dec 2016 02:29, UTC		01 Jun 2017	01 Jun 2017	01 Jun 2017		

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Price/Fair Value Morningstar data as of Jun 01, 2017

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COMPANY UPDATE
June 14, 2017

SunTrust Robinson Humphrey

Exelon Corporation (EXC)

Merchant Assets Significantly Undervalued In Current Stock Price

What's Incremental To Our View

Our key takeaway from the reception we hosted for EXC's CFO yesterday is that there are several scenarios that could lead to the overall improvement in the stock's current valuation. Based on the latest forward commodity curves, we have raised our 2018-19 estimates. Factoring in our higher estimates, we have increased our price target to $40 from $39.

IMPORTANT POINTS

Yesterday evening, we hosted a reception for Jack Thayer (CFO) of EXC. Key takeaways:

- **We expect clarity on the path forward on the Zero Emission Credit (ZEC) payments in the next few months.** While both the states of Illinois and New York have incorporated ZEC payments to prevent specific EXC nuclear plants from shutting down, the payments have been legally challenged by the IPP industry. We expect the New York court to be the first to rule on the motion to dismiss the case. We make the following observations on the outcome: (1) if the New York court agrees to EXC's arguments to dismiss the case, it would set a strong precedence for Illinois and be viewed favorably by the market; and (2) if the court decides to proceed with the case, the legal process will likely last through 2020, by which time EXC would have completed its targeted $3.0 billion Merchant / Parent debt reduction (since there is no claw back on the ZEC payments). Separately, there is activity in the New Jersey and Pennsylvania legislatures to also look at similar programs to support nuclear plants. We calculate that the New York and Illinois ZEC payments represent $0.34 of annual earnings for EXC (from 2018 onwards), and the company is getting minimal / no value for these earnings in the current stock valuation.

- **We believe EXC's merchant assets are significantly undervalued.** Assuming an average Regulated Utility P/E multiple for EXC's utility earnings, we derive an implied EV/EBITDA multiple of 5.1x-5.8x for EXC's merchant assets (based on our 2018-19 estimates), which is a 31%-37% discount to publicly traded merchant power stocks. We expect management to proactively address this valuation discrepancy over the next 12-18 months, with some of the potential actions including: (1) allocating a portion of the merchant free cash flow for share buybacks; and (2) selling a stake in the business. On a related matter, we expect the sale of the legacy Texas assets (3398mw) to be finalized over the next 10-12 weeks. While we are not anticipating any additional cash proceeds for the company from this sale (since proceeds will be utilized for debt paydown), the elimination of these assets should be earnings accretive.

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Buy

Price Target: $40.00
Prior: $39.00

Δ Key Drivers

- *Latest forward commodity curves.*

Price (Jun. 13, 2017)	$36.55
52-Wk Range	$37.50-$30.00
Market Cap ($M)	$33,688
ADTV	5,133,050
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	2.5%
Dividend/Yield	$1.31/3.6%
TR to Target	13.0%
Enterprise Value ($M)	$71,116.6

Debt/Cap	55%
5 Year EPS Growth	5.0%
ROE	10.0%
P/B	1.20x

	2017E	2018E		2019E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.65A	$0.70	$0.70	$0.67	$0.66
2Q	$0.50	$0.55	$0.54	$0.52	$0.51
3Q	$0.99	$1.08	$1.07	$1.02	$1.01
4Q	$0.53	$0.58	$0.57	$0.56	$0.54
CY	$2.67	$2.91	$2.88	$2.78	$2.73
P/E	13.7x	12.6x		13.1x	
Consensus					
CY	$2.67	$2.88		$2.82	
Revenue ($M)					
CY	$33,975	$34,545	$34,545	$34,955	$34,955
Operating Margin (%)					
CY	14.70%	15.60%	15.60%	14.60%	14.60%
EBITDA ($M)					
CY	$8,307	$8,821	$8,785	$8,672	$8,599
EV/ EBITDA	8.6x	8.1x		8.2x	
FYE Dec					

- **We are raising our 2018-19 estimates.** Based on the latest forward commodity curves, and utilizing the most current hedge disclosure, we have increased our 2018 estimate to $2.91 from $2.88, and our 2019 estimate to $2.78 from $2.73.

- **EXC is currently trading at a 9%-13% P/E multiple discount to the peer group (based on our 2018-19 estimates).** Assuming a 14.5x P/E multiple (in line with the peer group) on our 2019 estimate of $2.78, we derive our price target of $40. We reiterate our **Buy** rating.

- We have included our revised 2017-19 earnings and cash flow models in this report.

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Exelon Corporation (EXC)

Earnings Model, 2012A-2019E

(dollars in millions, except per share)

	2019E		2018E		2017E		2016A		2015A		2014A		2013A		2012A	
Revenues (% change)																
Com Ed	5,650		5,485		5,380		5,246		4,905		4,564		4,464		5,443	
PECO	3,605		3,500		3,430		2,994		3,032		3,094		3,100		3,186	
BGE	3,470		3,370		3,300		3,233		3,135		3,165		3,065		2,204	
PEPCO	5,530		5,370		5,265		3,643									
Generation	18,000		18,070		18,000		18,304		18,925		17,853		16,190		15,502	
Other	(1,300)		(1,250)		(1,400)		(1,515)		(760)		(787)		(1,377)		(1,661)	
Total Revenues	34,955	1.2%	34,545	1.7%	33,975	6.5%	31,905	9.1%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF
Operating Income (% sales)																
Com Ed	1,435	25.4%	1,345	24.5%	1,285	23.9%	1,200	22.9%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%
PECO	810	22.5%	765	21.9%	710	20.7%	712	23.8%	634	20.9%	574	18.6%	675	21.8%	640	20.1%
BGE	650	18.7%	615	18.2%	555	16.8%	555	17.2%	563	18.0%	441	13.9%	446	14.6%	186	8.4%
PEPCO	790	14.3%	745	13.9%	700	13.3%	485	13.3%								
Generation	1,517	8.4%	1,986	11.0%	1,782	9.9%	1,969	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%
Other	(30)		(35)		(25)		(48)		(22)		(19)		(64)		(46)	
Equity Income (Loss)											(8)		102		59	
Total Operating Income	5,172	14.8%	5,421	15.7%	5,007	14.7%	4,873	15.3%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%
Interest Expense, net	(1,380)		(1,435)		(1,430)		(1,383)		(1,098)		(931)		(986)		(941)	
Other Income (Expense)	305		295		290		289		276		262		238		252	
Pretax income	4,097		4,281		3,867		3,779		3,412		3,259		3,295		3,657	
Taxes (rate)	1,393	34.0%	1,456	34.0%	1,315	34.0%	1,299	34.4%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%
Preferred / Non Controlling Interest	5		5		5		(32)		13		134		14		11	
Equity Income (Loss)	0		(5)		(10)		(24)		(7)							
Net Income (% change)	2,699	-4.1%	2,815	11.0%	2,537	2.0%	2,488	11.7%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%
Shares Outstanding (ful. dil.)	972.0		968.0		949.0		927.0		893.0		864.0		860.0		819.0	
Operating EPS -- ful. dil. (% change)	$2.78	-4.5%	$2.91	9.0%	$2.67	-0.5%	$2.68	7.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%
Extraordinary Items																
Reported GAAP EPS																
Regulated Utility (net Parent) EPS	$1.80		$1.67		$1.55		$1.41		$1.09		$1.06		$1.10		$0.95	
Generation EPS	$0.98		$1.24		$1.12		$1.27		$1.40		$1.33		$1.40		$1.90	
EBITDA	8,672		8,821		8,307		8,105		6,684		6,242		6,191		6,180	
ComEd																
Total Retail Sales (millions mwhs)	92.0		91.0		90.0		88.9		86.7		88.6		89.1		90.0	
Implied Operating Margin ($/MWh)	$15.6		$14.8		$14.3		$13.5		$11.8		$11.1		$10.7		$9.9	
PECO																
Total Electric Retail Sales (millions mwhs)	40.0		39.5		39.0		37.9		38.0		37.5		37.8		37.5	
Implied Operating Margin ($/MWh)	$20.3		$19.4		$18.2		$18.8		$16.7		$15.3		$17.9		$17.1	
PEPCO																
Total Electric Retail Sales (millions mwhs)	47.0		46.0		45.0		26.1									
Implied Operating Margin ($/MWh)	$16.8		$16.2		$15.6		$18.6									
Generation																
Total Power Sales (millions mwhs)	212.0		209.0		203.0		203.0		196.4		199.2		214.7		219.5	
Implied Operating Margin ($/mwh)	$7.2		$9.5		$8.8		$9.7		$10.4		$9.8		$9.0		$12.2	
Net Income By Segment																
Com Ed	700		660		615		524		432		410		421		381	
PECO	480		460		430		444		380		353		393		387	
BGE	345		325		285		289		277		199		195		46	
Generation	949		1,195		1,070		1,181		1,253		1,155		1,202		1,548	
PEPCO	395		360		330		228									
Other	(170)		(185)		(193)		(178)		(115)		(49)		(62)		(32)	
Total	2,699		2,815		2,537		2,488		2,227		2,068		2,149		2,330	

Note

1) Rate Base - Com Ed: $10.6bn in 2015, $11.9bn in 2016, $13.2bn in 2017E, $14.0bn in 2018E, $14.8bn in 2019E; PECO: $6.0bn in 2015, $6.2bn in 2016, $6.6bn in 2017E, $7.0bn in 2018E, $7.4bn in 2019E;
BGE: $5.0bn in 2015, $5.3bn in 2016, $5.7bn in 2017E, $6.1bn in 2018E, $6.5bn in 2019E; PEPCO: $8.3bn in 2016, $8.9bn in 2017E, $9.4bn in 2018E, $9.9bn in 2019E.

2) Earned ROE - Com Ed: 8.0% in 2015, 8.8% in 2016, 9.3% in 2017, 9.4% in 2018, 9.5% in 2019; PECO: 11.7% in 2015, 13.3% in 2016, 12.1% in 2017, 12.2% in 2018, 12.1% in 2019;
BGE: 10.7% in 2015, 10.5% in 2016, 9.7% in 2017, 10.3% in 2018, 10.3% in 2019; PEPCO: 5.5% in 2016, 7.4% in 2017, 7.7% in 2018, 8.0% in 2019.

3) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

4) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

5) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

6) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

7) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw, nuclear $110m price) from Q2 2017.

8) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

9) Total ZEC payments represent $500m / year of pre tax income (from 2018 onwards).

10) Forward curves as of 6/12/17.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2012A-2019E

($ in millions except per share)

	2019E	2018E	2017E	2016A	2015A	2014A	2013A	2012A
Net income	2,699	2,815	2,537	2,488	2,227	2,068	2,149	2,330
Depreciation, depletion, amortization	5,100	5,000	4,925	5,576	3,987	3,868	3,779	4,079
Working Capital Change / Other	(125)	(125)	(125)	381	1,420	(1,479)	415	(278)
Cash Flow From Operations	7,674	7,690	7,337	8,445	7,634	4,457	6,343	6,131
Dividends	(1,201)	(1,196)	(1,174)	(1,166)	(1,105)	(1,065)	(1,249)	(1,716)
Capital expenditures	(6,750)	(7,250)	(8,125)	(8,553)	(7,624)	(6,077)	(5,395)	(5,789)
Free Cash Flow	(277)	(756)	(1,962)	(1,274)	(1,095)	(2,685)	(301)	(1,374)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a 14.5x P/E multiple (in line with the peer group) on our 2019 estimate of $2.78, we derive our price target of $40.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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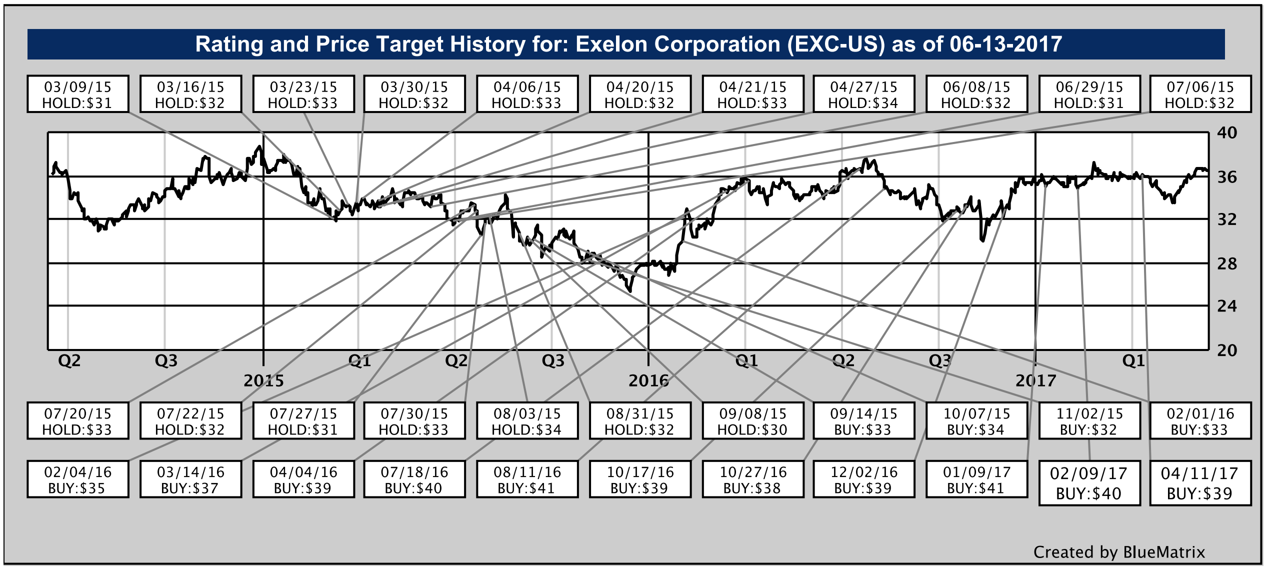

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Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

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Legend for Rating and Price Target History Charts:
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NR = Not Rated
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· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Hold/Neutral	277	41.22%	Hold/Neutral	58	20.94%
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TOP PICK Exelon Corp. / FirstEnergy Corp.

The Merchant Nuclear Backdrop Improves

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 43.00
Price (15-Jun-2017): USD 36.82
Potential Upside/Downside: 17%
Tickers: EXC

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 36.00
Price (15-Jun-2017): USD 29.79
Potential Upside/Downside: 21%
Tickers: FE

Policy Improvements Emerging on Three Fronts

Federal Courts, PJM Whitepapers, and DOE Study. Policy improvements for merchant nuclear are emerging on three fronts. First, we are awaiting outcomes in Federal courts in the zero emission credit (ZEC) lawsuits in New York and Illinois. Second, carbon pricing and capacity price formation whitepapers from PJM suggest potential policy improvements. And third, the coming grid reliability study from the U.S. Department of Energy to be released on June 26. The PJM whitepapers can be found here: http://pjm.com/~/media/library/reports-notices/special-reports/20170612-context-for-pjm-market-design-proposals-responding-to-state-public-policy-initiatives.ashx. Should any of these efforts result in policy implementation the largest owners of merchant nuclear assets are Exelon (EXC, OW, $43 PT), Public Service Enterprise Group (PEG, EW, $49 PT), and First Energy Corp. (FE, OW, $36 PT).

ZEC Rulings – Still to Come from New York

Longer Timeline Could Suggest More than Just Moving Forward with the Trial As Is. We are still waiting for a written ruling from the Federal Court judge in New York (Southern District case 1:16-cv-8164) regarding the case to dismiss Zero Emission Credit legislation. We believe that the length of time it is taking to write this order may indicate a positive outcome for EXC. The two most likely results in our view would be either a careful and thorough order to dismiss or a rendering that would narrow the scope of the complaint to carry forward to trial. We expect the order any time now. A separate order in Illinois (Northern District case 1:17 cv 01164) is due in the next 6 weeks.

PJM Whitepapers Constructive; DOE Whitepaper to Come on June 26

Pricing Carbon in PJM? Two anticipated PJM whitepapers were published Wednesday. We view both as positive steps forward for price formation in the energy and capacity markets that would adjust for subsidized assets. The first was on zero emission objectives within PJM and indicated that a carbon price would be the best way forward. The carbon pricing model in the PJM whitepaper has the following proposed framework. Any state or regional carbon price would (1) Apply to carbon emitting suppliers on a per-ton basis and be reflected in offers; (2) be revealed in wholesale market prices; (3) Alter economic dispatch; (4) Improve competitiveness of non-emitters of carbon; and (5) provide a revenue stream to participating states based on unit specific carbon emissions.

One of the largest problems with the Regional Greenhouse Gas Initiative (RGGI) of which Delaware and Maryland within the PJM are already participating, is price leakage to and from other states without a carbon pricing regime. PJM proposes to fix this issue by having an adjustment credit for power transmitted between the carbon states and the non-carbon states and adjustment charge for power from the non-carbon region to the carbon region. It would be easier to accomplish these border adjustments if the states participating in a carbon regime were contiguous although this would not be required. While legally PJM believes states can implement their own carbon policy and PJM can administer it outside of federal jurisdiction from the Federal Energy Regulatory Commission (FERC), the border adjustments may fall within FERC jurisdiction over wholesale rates. Regardless, any incremental price on carbon would be beneficial for nuclear fleets. Each $1/ton of carbon price would roughly equate to $0.30/MWh upside to around the clock power prices in wind heavy regions and $0.80/MWh in regions where coal would set the marginal price of electricity off-peak.

Addressing Subsidies in Capacity Markets. PJM also released a whitepaper proposing a two-stage capacity auction to compensate unsubsidized generation from resources with “actionable” subsidies from the auction. In the proposed process bidders would make offers into a single capacity market auction. Then the price determination would be split into two stages. The first stage would determine which resources receive a capacity commitment and produce a suppressed capacity price. The second stage would then recalculate capacity prices by removing resources with actionable subsidies. These resources would then be replaced with reference price offers that would represent a competitive offer from a unit of that type and vintage sans subsidies. PJM would credit all cleared resources and charge all demand the restated capacity price from the second stage unless a state directed PJM to pay those particular subsidies resources less.

While PJM might be able to get through these changes to the market in time for the 2021/22 auction in May 2018 similar to the streamlined process for implementation of the capacity performance standard, the most difficult part of the proposal may be that it only triggers repricing for certain actionable subsidies but not other non-actionable subsidies. This might lead to a reduction in capacity prices in certain sub-regions in PJM in scenarios where states heavily subsidize new build via non-actionable subsidy items. The white paper defines actionable subsidies as ones that: (1) are not part of a federal subsidy program; (2) directly focus on supply side participation; (3) impact more that 1,000MWs of subsidies unforced capacity of resource class in PJM, and (4) is greater than 1% of the actual or anticipated market revenues.

Energy Market Whitepapers to Come. PJM and DOE are also set to issue whitepapers on grid stability and the importance of diversity of supply and the impact of subsidies on both. The DOE whitepaper is set to be published on June 26 and the PJM whitepaper will likely be published along the same timeframe. The most likely proposal to address market subsidies that create scenarios for negative off-peak pricing when demand is low is to set a minimum price for electricity per hour as some positive level. While unlikely to be the marginal cost of the clearing unit without subsidies, even some floor level would be beneficial to around the clock pricing. Now, when subsidized wind blows when demand is low, overnight electricity can price negatively in those hours. For baseload resources like nuclear that run on an around the clock basis this significantly reduces off-peak and around the clock average pricing and revenues.

Analyst(s) Certification(s):
We, Daniel Ford, CFA, Ross A. Fowler, CFA and Gregg Orrill, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Mentioned Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 15-Jun-2017, USD 36.82), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Valuation Methodology: Our current $43 price target is premised upon a 2019 group average multiple of 16.8x applied to the utility net parent earnings of $1.81 resulting in $31 of utility value. Exgen is valued at 6.6x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, the combined value is $43.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

Ratings and Price Target History:
Exelon Corp.
Currency=USD

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
21-Apr-2017	35.03		43.00
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00

On 15-Jun-2014, prior to any intra-day change that may have been published, the rating and price target for this security were suspended.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

FirstEnergy Corp. (FE, 15-Jun-2017, USD 29.79), Overweight/Neutral, CD/CE/D/E/J/K/L/M

Valuation Methodology: Our $36 price target is a 5% discount to the group applied to the 2019 Regulated Utility P/E of 17.0x and our $2.24 EPS estimate for Utility net of parent EPS which contemplates a FES bankruptcy assumes only 1/2 of the Ohio rider mechanism. The EPS reflects $0.18 to fund $2.0B in potential FES liabilities with 25% equity and 75% debt and $0,10 for other FES ongoing support services.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks are an interruption in the delevering strategy from failure to close/announce asset sales, nuclear plant performance, interest rates, and the economy.

Ratings and Price Target History:
FirstEnergy Corp.
Currency=USD

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
01-May-2017	29.46	Overweight	36.00
21-Apr-2017	30.61		38.00
22-Feb-2017	30.79		35.00
02-Dec-2016	30.57	Equal Weight	34.00
07-Nov-2016	34.41		38.00
13-Oct-2016	31.56	Overweight	37.00
16-Sep-2016	32.99		36.00
13-Jul-2016	36.44		38.00
09-May-2016	33.55		36.00
28-Apr-2016	32.47	Equal Weight	33.00
22-Apr-2016	34.47		39.00
18-Mar-2016	35.76		38.00
17-Feb-2016	32.27		36.00
04-Jan-2016	31.50		35.00
02-Dec-2015	31.98		34.00
30-Mar-2015	35.51	Overweight	40.00
18-Feb-2015	36.11		38.00
05-Feb-2015	41.03		43.00
04-Nov-2014	36.92		38.00
06-Aug-2014	31.48		35.00

On 15-Jun-2014, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 38.00.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Public Service Enterprise Gp (PEG, 15-Jun-2017, USD 44.32), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

Valuation Methodology: Our $49 target reflects a sum of the parts including $42 for PSE&G at a 11% premium including +2% for exposure to tax reform applied to the 2019 Regulated Utility average of 17.4x and our $2.29E, $5 for PSEG Power at 7.4x '19 Open EBITDA of $0.8B less $3.66B of net debt.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key risks are wholesale power prices, New Jersey and federal utility regulation, and interest rates.

Ratings and Price Target History:
Public Service Enterprise Gp

Currency=USD

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
01-Jun-2017	45.54		49.00
03-Apr-2017	44.26		47.00
06-Mar-2017	45.11		49.00
20-Jan-2017	43.74		48.00
02-Dec-2016	41.25		46.00
31-Oct-2016	42.08		47.00
05-Oct-2016	40.77		45.00
21-Sep-2016	43.63		47.00
13-Jul-2016	45.97		50.00
29-Apr-2016	46.13		49.00
14-Mar-2016	44.61		47.00
22-Feb-2016	43.84		45.00
21-Oct-2015	43.18		43.00
16-Sep-2015	40.15		42.00
17-Jun-2015	40.49		43.00
20-Feb-2015	41.63		44.00
30-Oct-2014	40.73		42.00

On 15-Jun-2014, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 41.00.

Source: Thomson Reuters, Barclays Research

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Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

Negative - industry coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:

Barclays Equity Research has 1782 companies under coverage.

42% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 61% of companies with this rating are investment banking clients of the Firm; 76% of the issuers with this rating have received financial services from the Firm.

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Citi Research
Equities

05 Jul 2017 09:14:07 ET | 9 pages

Diversified Utilities
North America | United States

Exelon Corp (EXC)

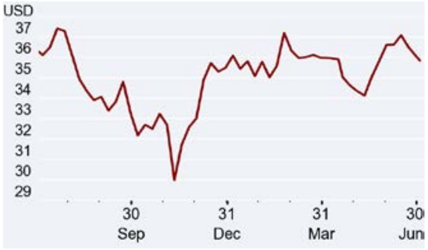
Model Update

- We have updated our model for 1Q17 financial results and latest management guidance.

- Estimate Change

Neutral	2
Price (03 Jul 17 16:00)	US$35.84
Target price	US$36.00
Expected share price return	0.4%
Expected dividend yield	3.6%
Expected total return	4.0%
Market Cap	US$33,191M

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	na	na	na	0.44A	2.68A	2.68A
2017E	0.65A	0.50E	0.91E	0.59E	2.64E	2.67E
Previous	0.61E	0.48E	0.89E	0.64E	2.63E	na
2018E	na	na	na	na	2.91E	2.89E
Previous	na	na	na	na	2.90E	na
2019E	na	na	na	na	2.90E	2.79E
Previous	na	na	na	na	2.89E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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EXC.N: Fiscal year end 31-Dec

Price: US$35.84; TP: US$36.00; Market Cap: US$33,191m; Recomm: Neutral

Profit & Loss (US$m)	2015	2016	2017E	2018E	2019E
Sales revenue	29,447	31,360	28,885	27,584	27,883
Cost of sales	-13,084	-12,640	-9,824	-8,064	-8,162
Gross profit	16,363	18,720	19,061	19,521	19,722
Gross Margin (%)	55.6	59.7	66.0	70.8	70.7
EBITDA (Adj)	6,841	8,357	8,797	9,235	9,448
EBITDA Margin (Adj) (%)	23.2	26.6	30.5	33.5	33.9
Depreciation	-2,450	-3,936	-3,363	-3,475	-3,639
Amortisation	0	0	0	0	0
EBIT (Adj)	4,409	3,112	5,561	5,760	5,809
EBIT Margin (Adj) (%)	15.0	9.9	19.3	20.9	20.8
Net interest	-1,033	-1,536	-1,674	-1,731	-1,786
Associates	0	0	0	0	0
Non-op/Except	-28	365	325	233	233
Pre-tax profit	3,330	1,989	3,983	4,263	4,255
Tax	-1,073	-761	-1,166	-1,454	-1,452
Extraord./Min.Int./Pref.div.	12	-94	14	0	0
Reported net profit	2,269	1,134	2,831	2,808	2,803
Net Margin (%)	7.7	3.6	9.8	10.2	10.1
Core NPAT	2,227	2,488	2,527	2,812	2,807

Per share data	2015	2016	2017E	2018E	2019E
Reported EPS ($)	2.54	1.22	2.96	2.91	2.90
Core EPS ($)	2.49	2.68	2.64	2.91	2.90
DPS ($)	1.24	1.26	1.29	1.33	1.36
CFPS ($)	8.53	9.14	7.29	7.87	7.48
FCFPS ($)	-0.01	-0.09	-1.30	0.36	0.49
BVPS ($)	28.98	27.96	29.85	31.14	32.64
Wtd avg ord shares (m)	890	924	951	961	962
Wtd avg diluted shares (m)	893	927	955	965	966

Growth rates	2015	2016	2017E	2018E	2019E
Sales revenue (%)	7.4	6.5	-7.9	-4.5	1.1
EBIT (Adj) (%)	42.4	-29.4	78.7	3.6	0.8
Core NPAT (%)	37.2	11.7	1.6	11.3	-0.2
Core EPS (%)	32.8	7.6	-1.5	10.1	-0.3

Balance Sheet (US$m)	2015	2016	2017E	2018E	2019E
Cash & cash equiv.	6,502	635	500	500	500
Accounts receivables	4,099	5,359	5,019	5,019	5,019
Inventory	1,566	1,638	1,561	1,561	1,561
Net fixed & other tangibles	69,916	84,648	89,869	92,740	94,922
Goodwill & intangibles	8,737	16,723	16,728	16,728	16,728
Financial & other assets	4,564	5,901	6,197	6,214	6,232
Total assets	95,384	114,904	119,874	122,762	124,963
Accounts payable	2,883	3,441	3,011	3,011	3,011
Short-term debt	2,033	3,697	5,740	5,167	4,669
Long-term debt	24,286	32,216	31,637	33,146	34,483
Provisions & other liab	38,888	47,938	49,330	49,754	49,626
Total liabilities	68,090	87,292	89,718	91,078	91,789
Shareholders' equity	25,986	25,837	28,395	29,923	31,412
Minority interests	1,308	1,775	1,761	1,761	1,761
Total equity	27,294	27,612	30,156	31,684	33,173
Net debt (Adj)	19,817	35,278	36,877	37,813	38,652
Net debt to equity (Adj) (%)	72.6	127.8	122.3	119.3	116.5

Valuation ratios	2015	2016	2017E	2018E	2019E
PE (x)	14.4	13.4	13.6	12.3	12.3
PB (x)	1.2	1.3	1.2	1.2	1.1
EV/EBITDA (x)	8.6	8.0	8.6	8.4	8.3
FCF yield (%)	0.0	-0.3	-3.6	1.0	1.4
Dividend yield (%)	3.5	3.5	3.6	3.7	3.8
Payout ratio (%)	50	47	49	46	47
ROE (%)	9.4	4.4	10.4	9.6	9.1

Cashflow (US$m)	2015	2016	2017E	2018E	2019E
EBITDA	6,841	7,096	8,694	9,235	9,448
Working capital	-264	-481	-1,013	0	0
Other	1,039	1,854	-714	-1,640	-2,224
Operating cashflow	7,616	8,469	6,967	7,595	7,224
Capex	-7,624	-8,553	-8,208	-7,250	-6,750
Net acq/disposals	-145	-6,755	-278	0	0
Other	-53	-195	-19	0	0
Investing cashflow	-7,822	-15,503	-8,505	-7,250	-6,750
Dividends paid	-1,105	-1,356	-1,234	-1,281	-1,314
Financing cashflow	4,830	1,191	1,403	-345	-474
Net change in cash	4,624	-5,843	-135	0	0
Free cashflow to s/holders	-8	-84	-1,241	345	474

For definitions of the items in this table, please click here.

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Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates six utilities in Pennsylvania, Illinois, New Jersey, DC, Delaware, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO, and Pepco. Exelon Generation operates the largest nuclear fleet in the United States, with plants concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Neutral (2). Our rating is based on concerns around the management team’s strategic vision and execution, downside concerns around the economics of Exelon’s nuclear fleet with low unlevered free cash flow conversion (UFCF) of ~35%. We do like regulated utility's robust growth profile of 6-8% through 2020.

Valuation

We value EXC using a sum-of-the-parts approach to get to our $36 price target. We value ExGen at ~$5/share and believe ExGen’s core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The legacy utility business is valued at $25/share based on a 17.5x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $4/share for the parent net debt and add $3/share for ZECs (IL and NY) to get to our rounded PT of $36/share.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	22-Jul-14 20:24:08	3	*30.00	31.78
2	17-Oct-14 03:01:08	*2	*37.00	34.38
3	18-Dec-14 16:46:48	Coverage terminated		
4	17-Sep-15 16:01:15	*3	*27.00	31.57
5	26-Jan-16 17:07:46	*2	27.00	27.84
6	22-Feb-16 16:00:00	*3	27.00	31.69
7	19-Jul-16 23:43:46	3	*29.00	36.58
8	04-Oct-16 03:14:34	3	*27.00	31.86
9	28-Nov-16 20:37:44	3	*29.00	33.39
10	02-Dec-16 07:02:27	*2	*31.00	33.01
11	30-Mar-17 06:59:06	2	*35.00	35.70
12	07-Jun-17 06:52:17	2	*36.00	36.61

*Indicates Change

Rating/target price changes above reflect Eastern Time

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Exelon Corp (EXC)

Alert: IL ZECs Complaints Dismissed. Read through Nuanced.

- **District court rules in favor of ZECs and Exelon.** EPSA and another plaintiff brought claims against Director of the Illinois Power Agency and the Commissioners of the Illinois Commerce Commission seeking to invalidate The Future Energy Jobs Act that supports Zero Emission Credits (ZECs) for nuclear power plants. Exelon intervened to defend the ZEC program and the court granted Exelon's motion to dismiss the complaints on 7-14-2017.

- **Court finds ZECs are not really tethered to the wholesale market.** We think the key debate is around whether ZECs are viewed as tethered to wholesale markets. Per the earlier Supreme Court ruling in Hughes v. Talen, a subsidy cannot be linked to the wholesale market as that is the purview of the FERC.

  - **Price adjustment – not relevant:** The argument by the plaintiffs was that annual price adjustment in the ZEC is linked to the wholesale market. However, the Judge here found that the price adjustment clause in the ZEC is not really the part that causes harm to the plaintiff. Without the price adjustment the impact on the plaintiff could be even worse.

  - **Federal Power Act Exemption – participation in power markets not required.** One of the arguments made by plaintiffs was that by participating in the wholesale energy and capacity auction, bailed out nuclear plants impact the markets and that is the jurisdiction of FERC. However, the court found that the IL ZECs do not really require participation or clearing of capacity in PJM capacity auctions. We do think that energy markets are impacted but the courts clearly didn't think so.

  - **Direct effect on markets.** In terms of being tethered to wholesale markets, the court found that the tether should have a direct effect on the wholesale market and, in this case, subsidizing a nuclear operator who may then underbid in the energy or capacity market isn't a direct effect. This argument on a direct effect will be a little tougher to prove in future challenges for the plaintiffs.

- **Other legal arguments also not supported.** The judge found that Plaintiffs do not have prudential standing for preemption claims and plaintiffs do not have article III standing for dormant commerce clause claims.

Neutral	**2**
Price (14 Jul 17 16:00)	US$36.06
Target price	US$36.00
Expected share price return	-0.2%
Expected dividend yield	3.6%
Expected total return	**3.4%**
Market Cap	US$33,395M

Price Performance
(RIC: EXC.N, BB: EXC US)

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

- **EXC Impact – Clearly a Positive but IL ZECs already priced in.** We think the IL and NY subsidies are already priced into the stock. We estimate NY and IL ZEC programs contribute $3/share of value to our PT of $36/share. For now, we aren't attributing value of ZECs in other states to our EXC PT but that would clearly be the next key catalyst. We think this matter is far from settled but EXC clearly well positioned with the plaintiffs really on the defensive here to make their case.

- **What does this mean for other states?** The ZECs were designed to avoid the legal challenges around tethering. This decision lines up with this initial structuring by legal teams. However, we expect further legal challenges from the plaintiffs. Also, the discussion in other states is not necessarily linked to the legality of the ZEC structure – it is more about economics and broader support of nuclear plants/jobs and economics. In the end, giving nuclear plants a bailout that helps them earn a meaningful profit at the expense of customers doesn't make for easy politics in any state. Note also that in NY, the exclusion of IP2/3, based on a test of economic viability of a plant, adds further opportunity for plaintiffs to highlight tethering.

- **IPP Impact – Appeal + Push for Market reform.** While the decision clearly is a negative, we think this decision will likely drive two reactions:

  - Decision will likely be appealed. We continue to believe there are different interpretations to the tethering argument and all parties involved agree that markets will be impacted by bailouts. This topic is too important for IPPs and they will likely appeal. Having larger investors now vested in IPPs may add more firepower.

  - Further push for market reform. We think this decision will highlight the need for a market structure that excludes bailed out units from energy markets and capacity auctions. We think the discussion at the FERC technical conference was a good start but there is a lot of wood to chop to get to a reasonable solution/outcome. We think these legal outcomes will act as a catalyst to push for a more reasonable solution on price formation in both the energy and capacity market.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $36 price target. We value ExGen at ~$5/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The legacy utility business is valued at $25/share based on a 17.5x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $4/share for the parent net debt and add $3/share for ZECs (IL and NY) to get to our rounded PT of $36/share.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Exelon Corp (EXC)

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Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	22-Jul-14 20:24:08	3	*30.00	31.78
2	17-Oct-14 03:01:08	*2	*37.00	34.38
3	18-Dec-14 16:46:48	Coverage terminated		
4	17-Sep-15 16:01:15	*3	*27.00	31.57
5	26-Jan-16 17:07:46	*2	27.00	27.84
6	22-Feb-16 16:00:00	*3	27.00	31.69
7	19-Jul-16 23:43:46	3	*29.00	36.58
8	04-Oct-16 03:14:34	3	*27.00	31.86
9	28-Nov-16 20:37:44	3	*29.00	33.39
10	02-Dec-16 07:02:27	*2	*31.00	33.01
11	30-Mar-17 06:59:06	2	*35.00	35.70
12	07-Jun-17 06:52:17	2	*36.00	36.61

*Indicates Change

Rating/target price changes above reflect Eastern Time

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16 July 2017

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TOP PICK Exelon Corp.

Illinois Zero Emissions Credit (ZEC) Case Dismissed

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 43.00
Price (14-Jul-2017): USD 36.06
Potential Upside/Downside: 19%
Tickers: EXC

Motion to Dismiss in Illinois ZEC Lawsuit Granted, Plaintiffs Claims Dismissed in Full

Illinois ZEC Program Upheld, New York next to Rule. Friday after the close, Judge Manish S. Shah of the United States District Court for the Northern District of Illinois, Eastern Division, granted the motion to dismiss in cases No.17 CV 1163 an No. 17 CV 1164. The cases were brought by the Electric Power Supply Association, representing several other generators in the market, and consumer groups in Illinois. The ruling on our reading offered a straightforward conclusion that the Defendants' (Exelon and the Illinois Power Authority) motion to dismiss is granted, the plaintiffs' claims were dismissed in full, and the plaintiff's motion for a preliminary injunction was also denied. The cases have thus been terminated by the ruling. The ruling could be appealed, but based on our reading it seemed a thorough and conclusive order dismissing the plaintiffs' claims. The ruling did indicate a role for the FERC in the adjudication of "fair and reasonable" wholesale rates as allowed under its statute, so a complaint could still be brought to the FERC by the plaintiffs, but we believe the path in the Courts will be more challenging going forward after Friday's ruling. Further, we believe this ruling is likely to point to a similar decision in the ongoing ZEC case in New York (United States District Court for the Southern District of New York, case 1:16-CV-8164).

ZEC Programs Are Included in Our Estimates, Contribute $625mln to Gross Margins. We have both the Illinois and New York ZEC programs in our estimated gross margins for the Exelon Generation business ("ExGen") as we believed it to be significantly more likely than not that the programs would survive legal challenge. The Illinois program in and of itself prices each ZEC for each MWh of energy produced at $16.50/MWh which is the calculated social cost of carbon. On that basis the IL ZEC program contributes $350mln to gross margins (Clinton station contributes approximately $150mln while Quad Cities contributes approximately $200mln). The New York program prices carbon at $17.50/MWh and constitutes $275mln in gross margin uplift (Fitzpatrick - $110mln, Ginna - $45mln, Nine Mile - $120mln). Overall therefore, current margin included in our model from both the New York and Illinois ZEC programs constitutes $625mln, or at our valuation methodologies 6.6x the mid-cycle valuation multiple approximately $4/share of our $43/share price target.

Next Catalysts. We believe that the ZEC ruling to dismiss the case in Illinois will catalyze upside in the shares as the widened risk premium in the market for risk of ZECs being overturned fades. Although there is no statutory deadline for a ruling in the New York case we would anticipate a ruling to come soon now that the Illinois courts have ruled on the matter. Importantly the Illinois ruling calls out that although the ZEC price references a market forecast price at which it is reduced, this does not constitute "tethering" to wholesale markets and does not impinge of the FERC's jurisdiction. This is important because a key factor in the plaintiffs' argument in the New York case also hinged on the market reference price at which payments are lowered as "tethering". The judge in Illinois ruled that not only does the reference price lower the ZEC price, thus not produce any injury to the plaintiffs (ex the reference price not existing at all), but further that the reference price relies on forward projected prices rather than actual wholesale rates, and therefore "tethering" is not created regardless of lack of injury.

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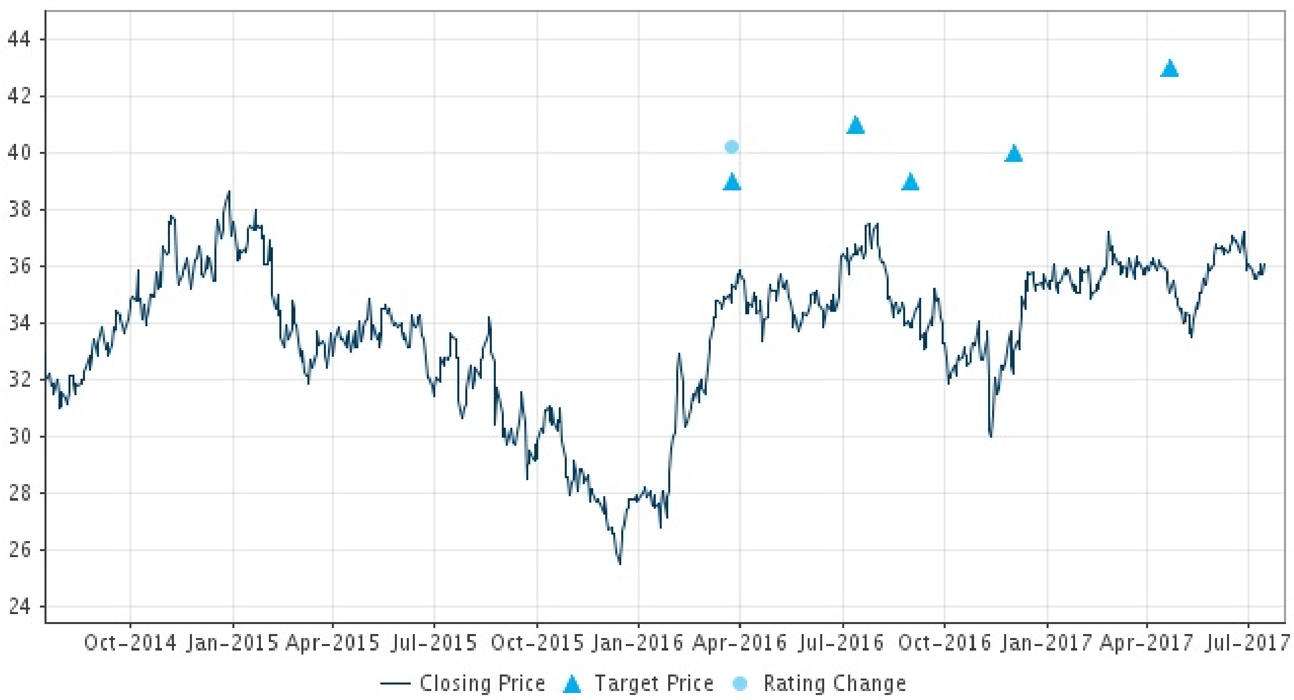
Mentioned Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 14-Jul-2017, USD 36.06), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M

Valuation Methodology: Our current $43 price target is premised upon a 2019 group average multiple of 16.8x applied to the utility net parent earnings of $1.81 resulting in $31 of utility value. Exgen is valued at 6.6x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, the combined value is $43.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

Ratings and Price Target History:
Exelon Corp.
Currency=USD



Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
21-Apr-2017	35.03		43.00
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00

On 16-Jul-2014, prior to any intra-day change that may have been published, the rating and price target for this security were suspended.

Source: Thomson Reuters, Barclays Research

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Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
16 July 2017

Breaking News

Price at 14 Jul 2017 (USD)	36.06
Price target	41.00
52-week range	37.50 - 30.00

Big legal win as judge dismisses challenges to Illinois nuclear credits

District Court decision upholds Illinois ZEC program on all counts

Late Friday afternoon we learned that the judge in the challenge brought against the Illinois Zero Emission Credit (ZEC) program had ruled categorically in favor of Exelon's motion to dismiss the case. While unlikely to be the final word in a multi-stage and high-profile legal battle over state-level nuclear subsidies, the Illinois decision looks like an important and comprehensive first win for Exelon in a case with direct implications for $235M of annual revenues. There is also an indirect read-across into other existing programs (New York) and efforts to pursue similar arrangements in other key states (Pennsylvania, New Jersey).

Motions to dismiss had been seen as heavy legal lift; still pending in NY

From the outset the motions to dismiss had been seen as relatively heavy lifts legally, making Friday's news yet more welcome. The ruling from Judge Manish Shah of the U.S. District Court for the Northern District of Illinois Eastern Division also had not been expected so soon, with the case against the New York ZEC program in the Southern District of New York further along in the process. Judge Shah's Friday ruling covers two cases, one brought by various individual consumers and the other by the Electric Power Supply Association (EPSA) and various independent generators (IPPs).

Judge rejects plaintiffs standing and legal arguments

As noted, the Illinois ruling looks like a significant win for Exelon and proponents of the ZEC nuclear subsidies, with the judge essentially ruling that the parties wanting to argue states have intruded into wholesale power markets need to bring such challenges before the FERC. The ruling rejected the standing of the plaintiffs to bring their case in several respects. In addition the 43-page ruling included a comprehensive rejection of the plaintiffs' arguments on their merits, citing several Supreme Court precedents and in multiple instances explicitly endorsing key components of Exelon's motion. On key arguments such as the alleged "tethering" of ZEC pricing to wholesale market prices, Judge Shah makes the distinction that the Illinois credits are not "directly conditioned on clearing wholesale auctions" and therefore do not suffer from the "fatal defect" in the *Hughes* case which overturned Maryland's attempt to subsidize new entrants and circumvent the PJM capacity auction. Per Judge Shah's ruling "to read *Hughes* to apply to this program [Illinois] would intrude on the state's authority to regulate wholesale power generation". The judge goes on to argue that Illinois "has sufficiently separated ZECs from wholesale transactions such that the Federal Power Act does not preempt the state program under principles of field preemption". Later he argues that the "market distortion created by subsidizing

Valuation & Risks

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nuclear power can be addressed by FERC". On Commerce Clause arguments that the Illinois ZEC program discriminates by pre-determining Clinton and Quad Cities as the "winners" of the ZEC contracts, Judge Shah disagrees. Instead, he argues that the statute does not preclude out-of-state generators from submitting bids noting the "neutral, non-discriminatory standards" given to the state agencies to adjudicate the ZEC auctions. Importantly in our view the judge also notes that it is "possible that the ICC will decide that Illinois generators are in the best position to reduce air pollution in Illinois, which would justify a decision to select only Illinois generators". This appears to be a key position in the ongoing states vs. wholesale markets discussion.

Next stop likely appeal to the 7th Circuit; plaintiffs have 30-days to file

In terms of next steps the plaintiffs would have to argue that Judge Shah erred in his findings, but the comprehensive nature of the decision does not appear to invite further discussion at the District Court level. The next appeal would be to the 7th Circuit and plaintiffs have 30 days to indicate their intent to make such a filing although we imagine this could happen sooner. Once filed it is likely that briefs before the 7th Circuit would come in the fall with arguments over the winter and a decision next spring. Beyond the 7th Circuit the case could then be appealed to the Supreme Court.

Keeping an eye on NY ZEC challenge; decision possible at any time

One logical question will be what are the implications for the pending decision in the similar case challenging the NY ZEC program at the Southern District of New York. In this case the judge recently called for additional briefing related to the Allco Finance case decision, but the initial read of the hearings back in March already was fairly constructive for EXC's position. We would expect EXC and related parties to waste no time filing to make Judge Caproni in the New York case formally aware of the Illinois decision, although we note that she is under no obligation to reach the same conclusion.

DOE baseload and reliability still pending; Perry tweet on nuclear over the weekend

In terms of other potential newsflow, industry sources suggest that the DOE's delayed study on baseload resources and grid reliability could be forthcoming shortly. To this end we note that over the weekend Energy Secretary Rick Perry tweeted "Nuclear power is a key component of our all-of-the-above energy strategy. Zero emissions, always on." While the context wasn't entirely clear this appeared to be in response to the DOE Press Office tweeting a link to an article in the Baltimore Sun which had highlighted the "need for federal action to reverse the U.S. nuclear industry's impending decline" as a "national security imperative". Whether this means the DOE study release is imminent or not remains to be seen, but nuclear certainly seems to be top of mind currently for Secretary Perry.

Appendix 1

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Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	36.06 (USD) 14 Jul 2017	6, 9, 14, 15

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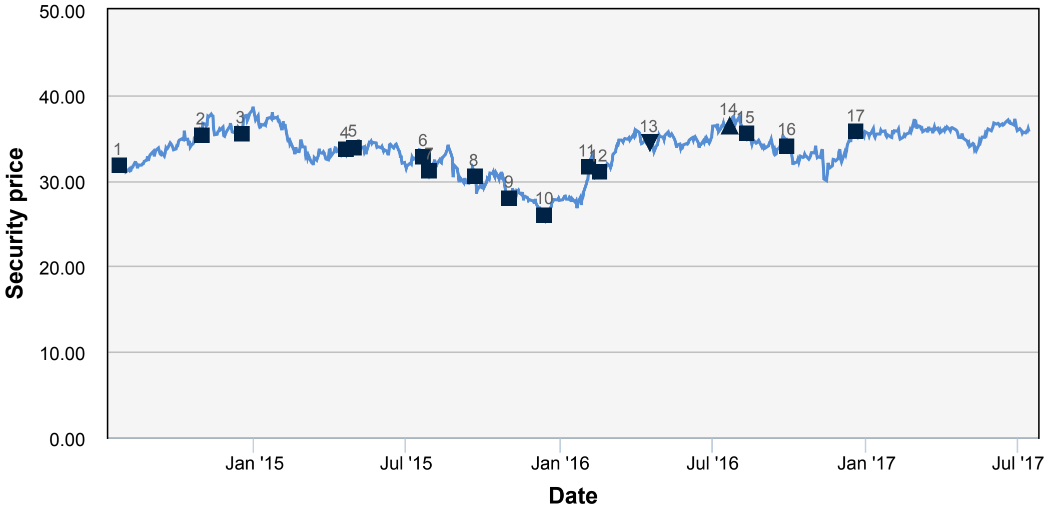
(as of 07/14/2017)



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Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

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2.	10/30/2014	Buy, Target Price Change USD 38,00 Jonathan Arnold
3.	12/17/2014	Buy, Target Price Change USD 43,00 Jonathan Arnold
4.	04/21/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
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7.	07/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
8.	09/22/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
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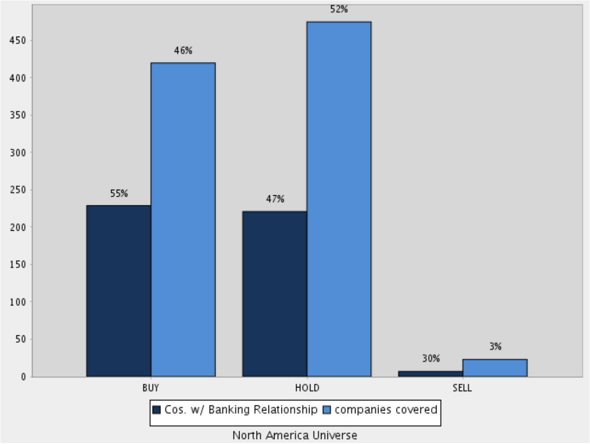

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EVERCORE ISI

Energy | Power & Utilities

July 17, 2017

EXELON CORP.

EXC | $36.06

OUTPERFORM | TARGET PRICE: $39.00

Company Update

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Company Statistics

Market Capitalization (M):	$33,395
Shares Outstanding (M):	926
Dividend:	$1.31
Dividend Yield:	3.6%
Payout Ratio:	49.4%
Expected Total Return:	11.8%
Fiscal Year End	Dec

Earnings Summary

	2017E	2018E	2019E
EPS	**$2.65**	**$2.85**	**$2.85**
P/E	**13.6x**	**12.7x**	**12.7x**
EPS vs Consensus	**(0.7)%**	**(1.0)%**	**1.1%**
Consensus EPS	**$2.67**	**$2.88**	**$2.82**
Consensus P/E	**13.5x**	**12.5x**	**12.8x**

EVRISI Sum Of The Parts Valuation		
Target Price	$	39.00
2019 EPS: Utility - parent	$	1.86
P/E Multiple		16.7x
Utility Value	$	31.06
ExGen Implied Equity Value (per share)	$	7.94
ExGen 2019 Net Debt (mm)	$	8,593
ExGen 2019 Enterprise Value*	$	16,272
ExGen 2019 EBITDA**	$	2,922
ExGen 2019 EV/EBITDA		5.6x
ExGen 2019 Net Debt/EBITDA		3.0x
*967m EXC shares outstanding 2019		
**5/24/17 forward curves		

District Court Dismisses ZEC Legal Challenge in Illinois

Rating Outperform, Target $39

On 7/14/17, District Judge Shah granted motions by EXC, the Illinois Commerce Commission, and the Illinois Power Agency to dismiss lawsuits filed by EPSA, other power producers, and certain ComEd customers (17-CV-01164) that would have put a stay on that state's "Zero Emissions Credit" (ZEC) program. The ZEC program was instituted with the passage of the Energy Future Jobs Act on 12/7/16 and became effective on 6/1/17, providing up to $235mm in annual revenues to keep the economically challenged Clinton and Quad Cities nuclear plants online. In his ruling in favor of the defendants, Judge Shah cited both (1) a lack of subject matter jurisdiction on the part of the plaintiffs and (2) a failure to state a claim as grounds for the dismissal. The plaintiffs are likely to appeal the decision in IL, which would move it U.S. Court of Appeals for the Seventh Circuit. If they do so, such an appeal must be made within the next 30 days (we think it will be much sooner). It is likely that the legal challenges will be a protracted affair. However, we think for the district court to have dismissed the case outright (decision here) on both merits and jurisdiction represents a significant legal victory.

The New York court case is still pending. Furthermore, it is possible the strength of this outcome may influence the parallel legal challenge underway in New York in EXC's favor. On that front, on 3/29/17 the Southern District Court heard oral arguments on the state and EXC's motion to dismiss the legal complaint to that ZEC program brought by a number of IPPs and consumer watchdogs (16-CV-8164). The judge has yet to set a date on which it will rule on said motion. The New York Clean Emissions Standard (CES) was established on 8/1/16, went into effect on 4/1/17, and provides up to ~$480mm in annual revenues for the Ginna, Nine Mile Point, and Fitzpatrick nuclear plants.

The DOE study may be imminent. Tax policy changes are being studied. Back on 4/14/17, Secretary of Energy Rick Perry directed the DOE to perform a study exploring issues critical to maintaining the reliability of the electric grid, including the efficacy of wholesale electricity markets and the role that tax policies, subsidies, and regulation are having on early retirement of baseload power plants. We think the DOE is supportive of the idea that price formation in energy and capacity markets is not adequate for baseload generators and want to help bolster economic outcomes for nuclear and coal plants. However, practically speaking they have limited jurisdiction. We think DOE may intervene by opining that the FERC should take action to change market rules. Also the pending FY18 Energy and Water Development Appropriations Bill orders the DOE to analyze the potential impact of a "Zero Emissions Energy Credit" which contemplates a change in the Federal tax code that would replace the renewable energy subsidies (after they phase out) with a broader tax benefit applicable to all zero-emissions power plants like nuclear units. That analysis would be provided to Congress within 180 days of the enactment. It is not at all clear how much momentum this idea has in Congress, whether it will receive a favorable analysis from DOE, or whether it would be a component of any near-term tax reform package. *However, its biggest beneficiaries would be merchant nuclear operators like EXC, PEG, and FE.*

We maintain our ’17-’19 EPS forecast of $2.65 / $2.85 / $2.85, which include the full ZEC revenues across its portfolio. EXC is committed to 2.5% dividend growth through 2018 but are confident the financial profile supports at least that level of growth through 2020. We think the assumptions driving EXC’s view of the earnings growth drivers in its core utilities business and ExGen as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management are still wholly credible. The core utilities are forecast to grow rate base at 6.5% from ’17-20 with earnings growth of 6-8% (down from 7-9% from ’16-’20 solely due to a higher ’17 base, the ’20 forecast is up a nickel). We see a turnaround at PHI similar to the one EXC engineered at BGE after the CEG acquisition as feasible, with annual rate cases at most of the PHI companies (the first “wave” of these largely resolved) and the ability to harvest operating synergies. So, there is line of sight for EPS at EXC’s utilities (ex-parent overheads) growing from $1.59 in FY ’17 to ~$2.00 in 2020. From a cash flow perspective we see ExGen organically producing ~$5.8bn of free cash flow through FY’19, >66% of the $8.75bn they are targeting through 2020 with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. That is also without the $400mm from the renewables JV which puts them at 71%. The sale price of that 49% stake implies there may be up to an $85mm degradation in EBITDA but at >10X EV/EBITDA that is not only a good transaction multiple but it is also very accretive as ExGen is trading at an implied 3.9X. Assuming they can sell their impaired TX assets (the EGTP portfolio) that will be another $650mm in debt that comes off the books and should be accretive to credit metrics.

Our price target remains $39, maintaining Outperform rating. Our forecast for utility EPS contribution minus parent overheads is $1.59/share in ’17 which by 2019 we expect to be ~ $1.85 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to +/-$2.00/share. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth ~$32.25/share (17.3X ’19 EPS). That implies ExGen is worth only ~$3.85/share today, which is around 3.9X ’19 EPS or 4.2X ’19 EV/EBITDA and a levered free cash flow yield to the EV of 11% with debt/EBITDA at YE ’19 of ~3.0X. They are taking all the cash flow from that lower multiple part of the business and either returning it to shareholders or investing in the higher multiple utility business. Overall, EXC is trading at +/-12.7X FY ’19 earnings while pure regulated names are at +/-17.3X. The EXC dividend yield is 20bps above that of the regulated peer group at ~3.6%. While the dividend growth commitment of 2.5% annually through at least 2018 is lower than that articulated by purely regulated peers and some risks to ExGen revenues are palpable, we think that the overall valuation gap, given our view of the value of the businesses and capital allocation plan, is too high. At $39/share our target price implies a valuation for ExGen of 5.6X ‘19 EV/EBITDA and a levered free cash flow yield of ~8%. The consolidated P/E would still be only 13.7X ’19 EPS.

Since hitting $33.50 on 5/11/17, the stock has climbed nearly 8%. Valuation got extremely compressed and risk aversion on the pricing outcome of the last PJM capacity auction (after the ISO-NE and MISO disappointments) proved misplaced. As we discussed earlier the EMAAC and ComEd zones (where EXC has the majority of its exposure) both priced better than expectations. That being said legal action in NY and IL to challenge ZEC revenues could be successful and we think that remains a factor still impacting valuation. The legal basis for ZECs seems sound but it remains a risk and could impact ’19 EPS by +/-$0.25/share if 100% successful in rolling back those programs. Still, with ExGen trading at only 3.9X ’19 EPS on a SOTP basis the exposure seems small at this point if they lose on this front. Generally we also think that investor concern about 2020 earnings power has been a real factor, despite the long time horizon, since power prices out the forward curve would drive a significant decline in ExGen earnings. We do not have a formal 2020 EPS forecast for EXC. We now know the capacity revenue delta and include the TMI shut-down benefit. Those factors mitigate lower energy pricing that could be a significant headwind. Taking in to account 6-8% growth at the core utilities, consolidated EPS could fall as much as $0.15/share if current forwards were realized. But just a $1/MWh improvement in power price at their given sensitivities is $0.09/share. So it doesn’t take much to start valuing EXC more highly on 2020 forward curves, at least in our view.

EXC fared OK vs. expectations in the ‘20/’21 PJM capacity auction. Our base case expectations for EMAAC and ComEd leading up the auction were $160/MW-d and $180/MW-d respectively, and those zones ended up clearing higher at $187.87/MW-d and $188.12/MW-d. EXC disclosed that an additional 1,150 MW of nuclear capacity cleared at ComEd in the auction YoY, however as they also said that Quad Cities didn't clear (again) the balance presumably came from Byron. We estimated Byron cleared about 20% of its available capacity last year, and thus estimate closer to 70% this year. We think it is justifiable Quad Cities was not offered more aggressively in the auction, as the plant had yet to formally receive the ZEC contract and associated revenues. Our full discussion of the last PJM capacity auction can be found here.

What’s next at ExGen? ExGen’s announced 3/31/17 sale its 49% share of the renewables JV should close in late 2Q17 or early 3Q17, subject to FERC and PUCT approval. The sale process for the economically-challenged EGTP portfolio of CCGTs and NG peakers (3,398 MW) in ERCOT is underway, with an agreement possible by late 3Q17 or early 4Q17. There is no timetable for a decision on the motion to dismiss the legal challenges to NY's ZEC program, which went into effect on 4/1/17.

What's next at the utilities? On 3/8/17 and 4/6/17, DPL entered into settlement agreements in its DE electric (16-0649) and gas rate cases (16-0650) for $32mm and $4.9mm, respectively, both based on a 9.7% ROE (they had requested $81.7mm in aggregate based on a 10.60% ROE) with DPSC approval received on 5/23/17 and 6/6/17, respectively. A DCPSC in Pepco's electric distribution rate case (in which they filed on 6/30/16 for a $76.8mm increase premised on 10.60% ROE) is expected by 7/25/17 (1139). A MDPSC decision in Pepco's electric distribution rate case (in which they filed on 3/24/17 for a $69mm increase premised on 10.10% ROE) is expected by 10/20/17 (9443). A NJBPU decision in ACE's electric distribution rate case (in which they filed on 3/30/17 for a $70mm increase premised on 10.10% ROE) is expected in 1H18 (ER17030308).

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming capacity auctions would be accretive but a significantly lower capacity auction price would be negative.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2017-07-14)	Evercore ISI Target
AEE	Ameren Corp.	In Line	$54.43	$54.50
AEP	American Electric Power	In Line	$68.17	$66.50
AES	The AES Corporation	Outperform	$11.03	$12.25
AGR	Avangrid Inc	In Line	$44.03	$43.50
CMS	CMS Energy Corp.	Outperform	$45.90	$45.50
CNP	CenterPoint Energy, Inc.	In Line	$27.62	$27.00
CPN	Calpine Corp.	Outperform	$13.87	$16.00
D	Dominion Resources Inc.	In Line	$76.55	$75.00
DTE	DTE Energy Co.	In Line	$105.39	$102.00
DUK	Duke Energy Corp.	In Line	$83.84	$82.00
DYN	Dynegy Inc.	Outperform	$8.24	$15.00
ED	Consolidated Edison Inc.	In Line	$80.73	$74.00
EIX	Edison International	In Line	$77.45	$78.25
ES	Eversource Energy	Coverage Suspended	$60.22	NA
ETR	Entergy Corp.	In Line	$75.49	$76.00
EXC	Exelon Corp.	Outperform	$36.06	$39.00
FE	FirstEnergy Corp.	In Line	$30.20	$30.00
GXP	Great Plains Energy Incorporated	Outperform	$29.92	$31.70
HE	Hawaiian Electric Industries Inc.	Underperform	$32.06	$31.00
HIFR	InfraREIT, Inc.	Outperform	$19.51	$19.00
NEE	NextEra Energy Inc	Outperform	$141.66	$147.00
NI	NiSource Inc	In Line	$25.75	$25.00
NRG	NRG Energy Inc.	Outperform	$23.24	$30.00
NYLD	NRG Yield, Inc.	Outperform	$17.90	$20.00
PCG	PG&E Corp.	Outperform	$66.35	$67.50
PEG	Public Service Enterprise Group	In Line	$42.36	$45.00
PNM	PNM Resources, Inc	In Line	$37.40	$36.00
PNW	Pinnacle West Capital Corp.	In Line	$85.13	$81.50
PPL	PPL Corp.	In Line	$37.36	$38.50
SO	Southern Co.	In Line	$47.26	$48.00
SRE	Sempra Energy	Outperform	$112.15	$118.00
WEC	WEC Energy Group, Inc.	In Line	$61.23	$59.50
WR	Westar Energy Inc.	Outperform	$49.94	$53.00
XEL	Xcel Energy Inc.	In Line	$45.92	$46.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: July 17, 2017, 09:02 ET.

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Outperform – the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line – the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform – the total forecasted return is expected to be less than the expected total return of the analyst's universe
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* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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Sell – the total forecasted return is expected to be less than 0%

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Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

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Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

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Long – the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short – the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

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Evercore ISI ratings distribution (as of 07/17/2017)

Coverage Universe

Ratings	Count	Pct.
Buy	339	48%
Hold	246	35%
Sell	62	9%
Coverage Suspended	24	3%
Rating Suspended	7	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	46	14%
Hold	11	4%
Sell	1	2%
Coverage Suspended	6	25%
Rating Suspended	2	29%

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Exelon Corporation

EXC – Illinois Judge Rules in Favor of EXC in ZECs Case, Direct Read-Through to NY

July 17, 2017

What's new? The U.S. District Court for the Northern District of IL, Eastern Division granted (see HERE) EXC's motion to dismiss complaints against Zero Emission Credits (ZECs) on 7/14, thus denying motions for a preliminary injunction; ultimately ruling the ZEC program does not intrude on FERC jurisdiction over wholesale electric markets and the plaintiffs' preemption and dormant commerce clause claims are not justiciable. The ruling came in as we expected, albeit the timing is ahead of our expectations, as we expected IL to follow NY. **DYN (BUY, $8.24), one of the plaintiffs in the case, expects to file an appeal to the ruling as soon as Today** – either way, EXC is inching closer to cementing the benefits of the IL ZECs as well as NY. Reiterate BUY.

Now what about New York? We are still awaiting a decision from the U.S. District Court for the Southern District of New York on EXC's motion to dismiss complaints against the NY ZECs program. EXC filed a brief on the implication of the recent second U.S. Court of Appeals ruling in CT (i.e. rejected challenges to the CT's renewable energy procurement law – see our take on D's (BUY, $76.55) Millstone nuclear plant HERE) per the Judge's request – now we are truly waiting. That said, at the time it was to our surprise (and many others') that the Judge even decided to hear oral arguments in NY, as EXC's filing was purely mechanical – we wouldn't expect the Judge to take too long to form a ruling given the direct read-through from the CT REC and IL ZEC cases – likely before YE 2017. In any case, many expect appeals will start at the Appellate Court and potentially go all the way through to the Supreme Court, but bars are very high to overturn given structures formed similarly to renewable energy credits (REC) – This was a point in the order which basically found that Illinois did not encroach on FERC.

Our EPS/valuation has upside: our estimates do not reflect accretion from ZECs, although we are becoming increasingly confident. EXC will continue to earn ZEC revenue, which is nonrefundable, and with the constructive ruling in IL, coupled with read-throughs from CT, **we are increasingly confident the accretion can be achieved and a perpetual multiple can be assigned to it** – Representing upside to our estimates and valuation as we are not currently modeling ZEC accretion; **we estimate accretion from ZECs to EXC could amount to ~$0.25 comprising**: **(1)** $0.15 for existing plants in NY (Ginna and Nine Mile); **(2)** $0.02-0.03 for Fitzpatrick; and **(3)** ~$0.07 for Clinton and Quad (net of higher OPEX from bringing plants back)… **which would translate to upside of ~$5/share to our EXC price target**. See our analysis for NY HERE and IL HERE.

Reiterate BUY – We continue to like the story and see sizeable upside potential on EXC shares. We expect growth will continue to be driven by EXC's regulated utilities, currently accounting for 75% of EXC's business mix, with investments driving ~7% rate base growth and eventually self-funding the HoldCo interest expense and dividend; while we view GenCo as more of a free call option on merchant power fundamentals (e.g., natural gas prices), albeit still generating very healthy FCF which could eventually be given back to shareholders in multiple forms, including buybacks as leverage approaches ~2.5x net debt/EBITDA (we still model ~3x). Management's outlook for 6-8% regulated EPS growth is also conservative in our view, given EXC's tendency to manage low-double-digit returns from some segments... ***Continued on the next page...***

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EXC BUY

COMPANY UPDATE

SHARE PRICE $36.06
PRICE TARGET $42.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2017	0.65	0.54E	0.91E	0.63E	2.72E
P/E					13.3x
2018	0.81E	0.66E	0.91E	0.51E	2.88E
P/E					12.5x
2019	0.75E	0.63E	0.98E	0.44E	2.80E
P/E					12.9x

Market Data	
52-Week Range	$29.82 - $37.70
Market Cap (M)	$33,383
Dividend	$1.28
Dividend Yield	3.5%
ADV (3 mo; 000)	4,891

coupled with incremental O&M saving opportunities from former POM utilities, where regulatory lag is becoming less of a drag with the first round of rate filings tracking ahead of expectations, and a second round already kicking off. EXC's Dividend is well-positioned for growth beyond 2018 as well especially as ZEC's become more of a sustainable reality.

Signposts are increasingly suggesting our valuation may likely prove conservative. **For additional insight see HERE for our note following investor meetings we recently hosted with senior management.**

Valuation

Our $42 price target is based on a sum-of-the-parts analysis. We assign ~$17/share for ExGen using a 7.4x weighted average EV/EBITDA applied to ExGen's various assets. We assign $30/share for the regulated utilities combined based on our 2018E EPS of $1.79 applied to a 17.0x regulated utility multiple. Subtracting out ~$5 in parent drag, we arrive at our 12-month price target.

Risks

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

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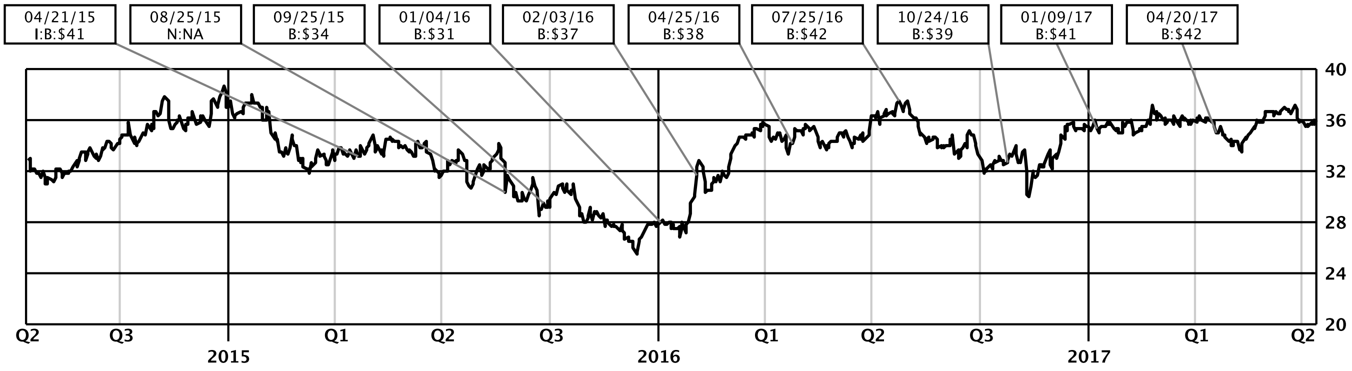
Rating and Price Target History for: Exelon Corporation (EXC) as of 07-14-2017



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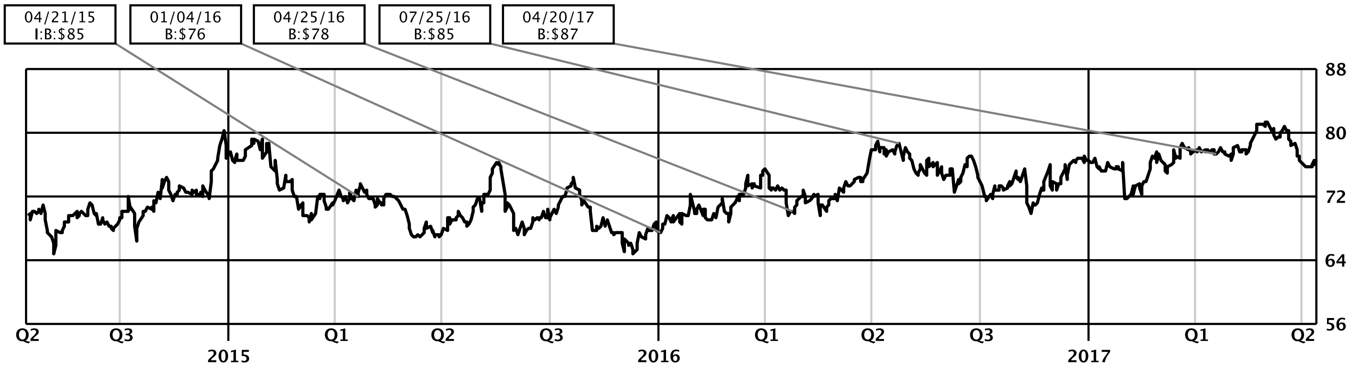
Rating and Price Target History for: Dominion Resources, Inc. (D) as of 07-14-2017



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Rating and Price Target History for: Dynegy Inc. (DYN) as of 07-14-2017

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Rating Category	Count	Percent	Count	Percent
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Sell	1	0.32%	0	0.00%

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Exelon Corp (EXC): Illinois District Court dismisses case against ZECs program

Sentiment Indicator : positive

Produced by Tucker, Shelby (RBC Capital Markets, LLC) on Monday, July 17, 2017, 09:35 AM ET

Disseminated on Monday, July 17, 2017, 09:40 AM ET

Our view: We expect Exelon (EXC; $36.06; Outperform; $40 price target) to outperform the group today, as the ruling further solidifies the company's ability to receive $235 million (~$0.16 per share) per year for its Clinton and Quad Cities nuclear plants in Illinois. We also see this ruling as positive for the pending litigation in New York associated with the ZECs program for that state (court decision expected soon), which also involves EXC's nuclear plants. Finally, we see this ruling as a positive data for other states also considering similar programs (NJ, OH, PA), as it sets a precedent. Our 2017-2019 EPS estimates of $2.67, $2.93, and $2.76 assume both the New York and Illinois ZECs programs are ultimately upheld.

On Friday, U.S. District Court for the Northern District of Illinois dismissed the case by the Electric Power Supply Association (EPSA) challenging the Zero Emission Credits (ZECs) program passed by the state legislature in December 2016. In the ruling, the federal judge noted that the state has the authority to determine the appropriate fuel mix and thus compensate specific plants to achieve that goal, and that ZECS do not directly infringe on the wholesale power market system.

EPSA and associated plaintiffs have 30 days to file an appeal with the 7th Circuit Court of Appeals.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Exelon Corporation	NYSE	EXC	Outperform	Not Assigned	40.00	US Dollar	36.06	17 Jul 2017 09:40:18 ET

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COMPANY UPDATE
July 17, 2017

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

IL Court Decision Is A Positive

What's Incremental To Our View

We believe that the favorable court ruling in Illinois (after the close on Friday) could potentially translate into an incremental $2/share value for the stock.

IMPORTANT POINTS

- Late on Friday, a Federal Judge upheld the Zero Emission Credit (ZEC) payments that two of EXC's nuclear plants in Illinois - Quad City (1403mw) and Clinton (1069mw) - are scheduled to receive.

- While we do expect the court decision to be appealed, we see this as a positive development, and make the following observations: (1) we estimate that the ZEC payments in IL represent $0.16 of annual earnings for the company (starting in 2018); (2) while these payments are included in our current estimates, our analysis suggests that these earnings are getting essentially no value in the current stock price; (3) we calculate that increased confidence in this payment stream could potentially translate into $2/share of incremental stock value; and (4) we believe that this ruling also bodes well for a similar legal case pending in New York, which represents an annual earnings stream of $0.18 for the company.

- EXC appears attractively priced, trading at an 8%-11% P/E multiple discount to the peer group (based on our 2018-19 estimates). Assuming a P/E multiple of 14.3x (in line with the peer group) on our 2019 estimate of $2.78, we derive our price target of $40. We reiterate our **Buy** rating.

- We have included our latest 2017-19 earnings and cash flow models in this report.

Buy

Price Target: $40.00
Prior: $40.00

Price (Jul. 14, 2017)	$36.06
52-Wk Range	$37.50-$30.00
Market Cap ($M)	$33,237
ADTV	3,343,260
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	1.3%
Dividend/Yield	$1.31/3.6%
TR to Target	14.6%
Enterprise Value ($M)	$71,116.6

Debt/Cap	55%
5 Year EPS Growth	5.0%
ROE	10.0%
P/B	1.20x

	2017E	2018E		2019E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.65A	$0.70	$0.70	$0.67	$0.67
2Q	$0.50	$0.55	$0.55	$0.52	$0.52
3Q	$0.99	$1.08	$1.08	$1.02	$1.02
4Q	$0.53	$0.58	$0.58	$0.56	$0.56
CY	$2.67	$2.91	$2.91	$2.78	$2.78
P/E	13.5x	12.4x		13.0x	
Consensus					
CY	$2.67	$2.88		$2.82	
Revenue ($M)					
CY	$33,975	$34,545	$34,545	$34,955	$34,955
Operating Margin (%)					
CY	14.70%	15.60%	15.60%	14.60%	14.60%
EBITDA ($M)					
CY	$8,307	$8,821	$8,821	$8,672	$8,672
EV/ EBITDA	8.6x	8.1x		8.2x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2012A-2019E

(dollars in millions, except per share)

	2019E		2018E		2017E		2016A		2015A		2014A		2013A		2012A	
Revenues (% change)																
Com Ed	5,650		5,485		5,380		5,246		4,905		4,564		4,464		5,443	
PECO	3,605		3,500		3,430		2,994		3,032		3,094		3,100		3,186	
BGE	3,470		3,370		3,300		3,233		3,135		3,165		3,065		2,204	
PEPCO	5,530		5,370		5,265		3,643									
Generation	18,000		18,070		18,000		18,304		18,925		17,853		16,190		15,502	
Other	(1,300)		(1,250)		(1,400)		(1,515)		(760)		(787)		(1,377)		(1,661)	
Total Revenues	34,955	1.2%	34,545	1.7%	33,975	6.5%	31,905	9.1%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF
Operating Income (% sales)																
Com Ed	1,435	25.4%	1,345	24.5%	1,285	23.9%	1,200	22.9%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%
PECO	810	22.5%	765	21.9%	710	20.7%	712	23.8%	634	20.9%	574	18.6%	675	21.8%	640	20.1%
BGE	650	18.7%	615	18.2%	555	16.8%	555	17.2%	563	18.0%	441	13.9%	446	14.6%	186	8.4%
PEPCO	790	14.3%	745	13.9%	700	13.3%	485	13.3%								
Generation	1,517	8.4%	1,986	11.0%	1,782	9.9%	1,969	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%
Other	(30)		(35)		(25)		(48)		(22)		(19)		(64)		(46)	
Equity Income (Loss)											(8)		102		59	
Total Operating Income	5,172	14.8%	5,421	15.7%	5,007	14.7%	4,873	15.3%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%
Interest Expense, net	(1,380)		(1,435)		(1,430)		(1,383)		(1,098)		(931)		(986)		(941)	
Other Income (Expense)	305		295		290		289		276		262		238		252	
Pretax income	4,097		4,281		3,867		3,779		3,412		3,259		3,295		3,657	
Taxes (rate)	1,393	34.0%	1,456	34.0%	1,315	34.0%	1,299	34.4%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%
Preferred / Non Controlling Interest	5		5		5		(32)		13		134		14		11	
Equity Income (Loss)	0		(5)		(10)		(24)		(7)							
Net Income (% change)	2,699	-4.1%	2,815	11.0%	2,537	2.0%	2,488	11.7%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%
Shares Outstanding (ful. dil.)	972.0		968.0		949.0		927.0		893.0		864.0		860.0		819.0	
Operating EPS -- ful. dil. (% change)	$2.78	-4.5%	$2.91	9.0%	$2.67	-0.5%	$2.68	7.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%
Extraordinary Items																
Reported GAAP EPS																
Regulated Utility (net Parent) EPS	$1.80		$1.67		$1.55		$1.41		$1.09		$1.06		$1.10		$0.95	
Generation EPS	$0.98		$1.24		$1.12		$1.27		$1.40		$1.33		$1.40		$1.90	
EBITDA	8,672		8,821		8,307		8,105		6,684		6,242		6,191		6,180	
ComEd																
Total Retail Sales (millions mwhs)	92.0		91.0		90.0		88.9		86.7		88.6		89.1		90.0	
Implied Operating Margin ($/MWh)	$15.6		$14.8		$14.3		$13.5		$11.8		$11.1		$10.7		$9.9	
PECO																
Total Electric Retail Sales (millions mwhs)	40.0		39.5		39.0		37.9		38.0		37.5		37.8		37.5	
Implied Operating Margin ($/MWh)	$20.3		$19.4		$18.2		$18.8		$16.7		$15.3		$17.9		$17.1	
PEPCO																
Total Electric Retail Sales (millions mwhs)	47.0		46.0		45.0		26.1									
Implied Operating Margin ($/MWh)	$16.8		$16.2		$15.6		$18.6									
Generation																
Total Power Sales (millions mwhs)	212.0		209.0		203.0		203.0		196.4		199.2		214.7		219.5	
Implied Operating Margin ($/mwh)	$7.2		$9.5		$8.8		$9.7		$10.4		$9.8		$9.0		$12.2	
Net Income By Segment																
Com Ed	700		660		615		524		432		410		421		381	
PECO	480		460		430		444		380		353		393		387	
BGE	345		325		285		289		277		199		195		46	
Generation	949		1,195		1,070		1,181		1,253		1,155		1,202		1,548	
PEPCO	395		360		330		228									
Other	(170)		(185)		(193)		(178)		(115)		(49)		(62)		(32)	
Total	2,699		2,815		2,537		2,488		2,227		2,068		2,149		2,330	

Note

1) Rate Base - Com Ed: $10.6bn in 2015, $11.9bn in 2016, $13.2bn in 2017E, $14.0bn in 2018E, $14.8bn in 2019E; PECO: $6.0bn in 2015, $6.2bn in 2016, $6.6bn in 2017E, $7.0bn in 2018E, $7.4bn in 2019E;
BGE: $5.0bn in 2015, $5.3bn in 2016, $5.7bn in 2017E, $6.1bn in 2018E, $6.5bn in 2019E; PEPCO: $8.3bn in 2016, $8.9bn in 2017E, $9.4bn in 2018E, $9.9bn in 2019E.

2) Earned ROE - Com Ed: 8.0% in 2015, 8.8% in 2016, 9.3% in 2017, 9.4% in 2018, 9.5% in 2019; PECO: 11.7% in 2015, 13.3% in 2016, 12.1% in 2017, 12.2% in 2018, 12.1% in 2019;
BGE: 10.7% in 2015, 10.5% in 2016, 9.7% in 2017, 10.3% in 2018, 10.3% in 2019; PEPCO: 5.5% in 2016, 7.4% in 2017, 7.7% in 2018, 8.0% in 2019.

3) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

4) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

5) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

6) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

7) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw, nuclear $110m price) from Q2 2017.

8) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

9) Total ZEC payments represent $500m / year of pre tax income (from 2018 onwards).

10) Forward curves as of 6/12/17.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

SunTrust Robinson Humphrey

Ali Agha 212-319-3920 ali.agha@suntrust.com

Exelon Corporation (EXC)

Cash Flow Model, 2012A-2019E

($ in millions except per share)

	2019E	2018E	2017E	2016A	2015A	2014A	2013A	2012A
Net income	2,699	2,815	2,537	2,488	2,227	2,068	2,149	2,330
Depreciation, depletion, amortization	5,100	5,000	4,925	5,576	3,987	3,868	3,779	4,079
Working Capital Change / Other	(125)	(125)	(125)	381	1,420	(1,479)	415	(278)
Cash Flow From Operations	7,674	7,690	7,337	8,445	7,634	4,457	6,343	6,131
Dividends	(1,201)	(1,196)	(1,174)	(1,166)	(1,105)	(1,065)	(1,249)	(1,716)
Capital expenditures	(6,750)	(7,250)	(8,125)	(8,553)	(7,624)	(6,077)	(5,395)	(5,789)
Free Cash Flow	(277)	(756)	(1,962)	(1,274)	(1,095)	(2,685)	(301)	(1,374)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a 14.3x P/E multiple (in line with the peer group) on our 2019 estimate of $2.78, we derive our price target of $40.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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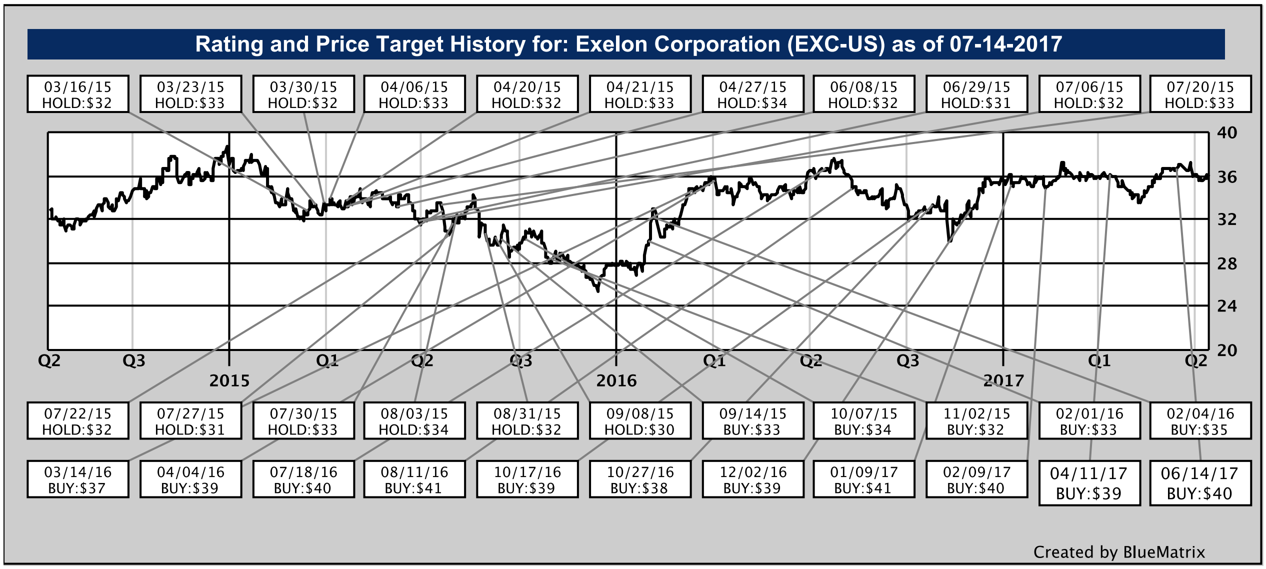

STRH Ratings System for Equity Securities

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The rating system effective as of Oct. 7, 2016:

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Buy (B) – the stock’s total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock’s total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock’s total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH’s rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

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Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	405	59.47%	Buy	118	29.14%
Hold/Neutral	274	40.23%	Hold/Neutral	58	21.17%
Sell/Reduce	2	0.29%	Sell/Reduce	0	0.00%

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KeyBanc
Capital Markets

Alert
July 25, 2017
Energy: Electric Utilities
NYSE: EXC

Exelon Corporation

EXC - ALERT: NY Lex Ejects Hex to ZEC's

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Following a similar ruling in Illinois on July 13, a judge for the U.S. District Court for the Southern District of New York on July 25 dismissed a lawsuit challenging New York's authority to permit Zero Emission Credits (ZEC's) to Exelon's nuclear plants in the state. The suit was brought by competitive generators. While we would expect this decision to be appealed, we find that the ruling by two separate courts bodes well for the ultimate outcome of continued support for EXC's unregulated nuclear plants in IL and NY. We view this development as incrementally positive and expect shares to react positively tomorrow.

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

Disclosure Appendix

Exelon Corporation - EXC

We have managed or co-managed a public offering of securities for Exelon Corporation within the past 12 months.

Exelon Corporation is an investment banking client of ours.

We have received compensation for investment banking services from Exelon Corporation during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

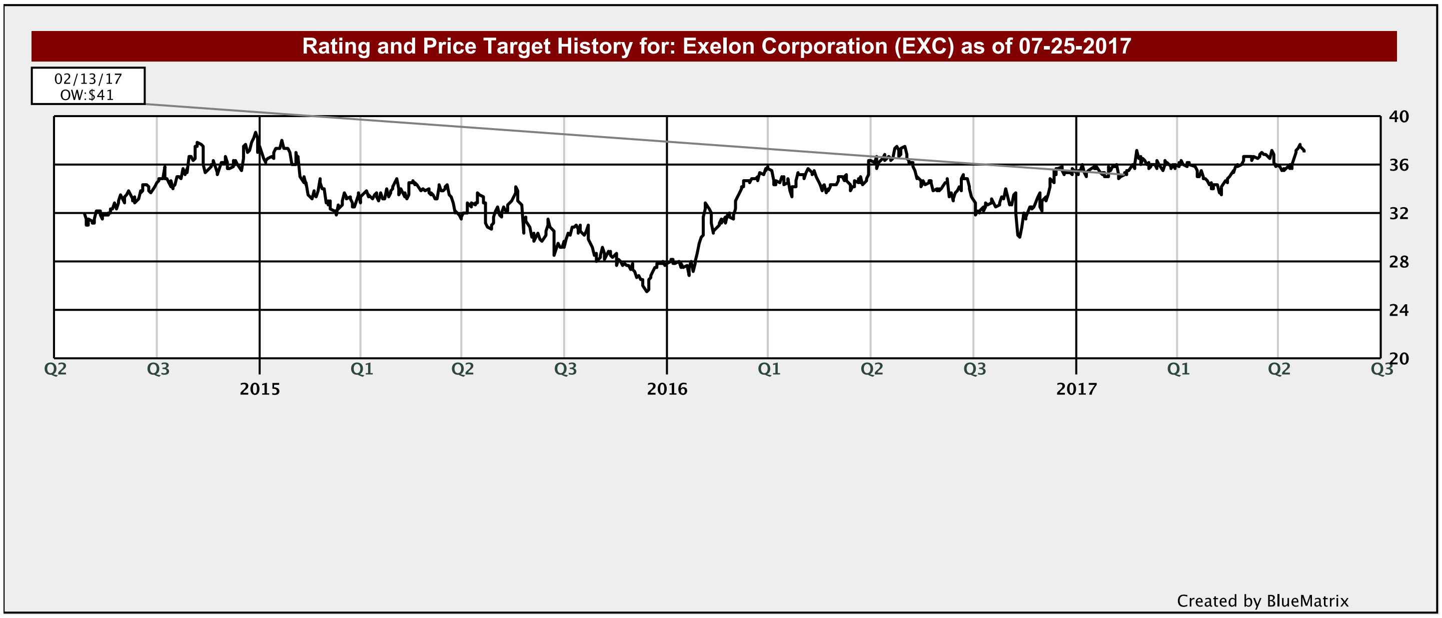
During the past 12 months, Exelon Corporation has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in Exelon Corporation.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three-Year Rating and Price Target History



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	KeyBanc Capital Markets		IB Serv/Past 12 Mos.		Energy			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	283	42.88	59	20.85	**Overweight [OW]**	28	45.90	21	75.00
Sector Weight [SW]	365	55.30	50	13.70	**Sector Weight [SW]**	33	54.10	15	45.45
Underweight [UW]	12	1.82	1	8.33	**Underweight [UW]**	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

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26 July 2017

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Completed: 25-Jul-17, 23:27 GMT
Released: 26-Jul-17, 04:20 GMT

TOP PICK Exelon Corp.

Court Upholds New York Zero Emission Credits

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 43.00
Price (25-Jul-2017): USD 37.02
Potential Upside/Downside: 16%
Tickers: EXC

U.S. District Court for the Southern District of New York Dismisses ZEC Lawsuit

Fear of Downward Revision Removed. The Honorable Judge Valerie Caproni dismissed the Zero Emission Credit (ZEC) lawsuit by the Coalition for Competitive Electricity, et. al. In her written order, she indicated that the ZECs do not violate the Federal Power Act, are rightfully within a state's jurisdiction over its electricity grid, and are fully Constitutional. With two ZEC programs upheld in both Illinois (see our earlier note: EXC: Illinois Zero Emissions Credit (ZEC) Case Dismissed, published July 16 2017) and New York, we believe that the market will assume ZEC programs are legal in spite of the potential for further appeal. The ZEC margins are in our numbers, and we believe that they are also in consensus estimates. We believe that these decisions should remove fears of downward estimate and valuation revisions. We reiterate our earnings per share estimates of $2.68/$2.83/$2.80/$2.97 for '17/18/19/20, respectively, and our price target remains $43/share.

The ZECs in New York price the avoided cost of carbon at $17.48/MWh and contribute $275 million in gross margins to Exelon. The Illinois program prices carbon at $16.50/MWh and contributes $350 million in gross margin. With two ZEC programs now upheld by Federal District Courts in two states there is the possibility that other states in PJM could consider similar programs. Exelon has nuclear plants that would benefit from ZEC programs in both New Jersey (Oyster Creek – 637MWs and Salem – 422MWs) and Pennsylvania (Limerick – 2,386MWs, Peach Bottom – 646MWs, and Three Mile Island (TMI) 829MWs – TMI has been slated for retirement in 2018 absent any ZEC like program).

Next Catalysts. We are awaiting the grid reliability and security study from the U.S. Department of Energy, where release is now expected for some time around mid-August. Outcomes could range from promoting better price formation by removing subsidized resources from being the price setting unit in both energy and capacity markets (see our latest Monthly for an analysis: North America Power & Utilities: July Preview/June Review, published July 17, 2017). Or in a unlikely scenario, the DOE could use emergency powers under a national security mandate to enforce minimum price rules. This would benefit all generators but significantly benefit Exelon's nuclear fleet, which is a price taker in the market. Exelon will report earnings for the second quarter on August 2, and we estimate earnings per share of $0.53 essentially in line with consensus estimates of $0.54/share. We expect Exelon to highlight the ZEC case dismissals, its progress on improving ROEs at the Pepco utilities, potential strategic decisions around its ExGen Texas Power portfolio, and the targeted deleveraging at ExGen. We anticipate a reiteration of guidance for 2017 of $2.50 - $2.80, with $1.05 - $1.15 from ExGen. We also anticipate a reiteration of utility operating earnings guidance of $1.40 - $1.70 in '17, $1.50 - $1.80 in '18, $1.60 - $1.90 in '19, and $1.75 - $2.05 in '20.

Analyst(s) Certification(s):
We, Daniel Ford, CFA and Ross A. Fowler, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Mentioned Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 25-Jul-2017, USD 37.02), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M

Valuation Methodology: Our current $43 price target is premised upon a 2019 group average multiple of 16.8x applied to the utility net parent earnings of $1.81 resulting in $31 of utility value. Exgen is valued at 6.6x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, the combined value is $43.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

Ratings and Price Target History:
Exelon Corp.
Currency=USD

Source: IDC, Barclays Research

Publication Date	**Closing Price**	**Rating**	**Adjusted Price Target**
21-Apr-2017	35.03		43.00
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00

On 25-Jul-2014, prior to any intra-day change that may have been published, the rating and price target for this security were suspended.

Source: Thomson Reuters, Barclays Research

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GUGGENHEIM

Exelon Corporation

EXC – Stood In Line but NY State of Mind Didn't Keep Us Waiting Too Long: Rules In Favor of ZECs

July 25, 2017

What's new? The U.S. District Court for the Southern District of New York granted (see HERE) EXC's motions to dismiss complaints against Zero Emission Credits (ZECs) in NY, citing the plaintiffs' failure to distinguish ZECs from RECs as the "death knell"; ultimately dismissing the plaintiffs' preemption and dormant commerce clause claims and thus ruling that the ZECs program does not intrude on FERC jurisdiction over wholesale electric markets. The decision came in not too long after the IL court's decision to uphold ZECs programs on July 13 (See HERE), further cementing the benefit of the ZECs overall for EXC. Reiterate BUY.

New York didn't keep us waiting too long… As we noted in our previous note after IL ZECs ruling, we wouldn't expect the Judge in NY to take too long to form a ruling given the direct read-through from the CT REC and IL ZECs cases. The NY court's ruling gives us additional confidence that the legal arguments around ZECs would be a very high hurdle to overcome, given structures formed similar to renewable energy credits (REC), which are exactly what the Judge's ruling was based on in NY. In any case, many expect appeals will continue at the Appellate Court and potentially go all the way through to the Supreme Court.

… and the ruling further reinforces confidence in our decision to build-in the full amount of the ZECs accretion without risk adjusting which we recently did in our Q2 preview note. As a reminder, the full amount of NY and IL ZECs accretions are now embedded in our updated estimates and PT, which were published this AM together with our 2Q17 earnings preview for the Power and Utility sector (see HERE), given the increasing clarity provided by recent legislative outcomes (i.e., in IL, CT, and now in NY). As a reminder, **our estimates now include: (1)** ~$0.15 for existing plants in NY (Ginna and Nine Mile); **(2)** ~$0.02-0.03 for Fitzpatrick; and **(3)** ~$0.07 for Clinton and Quad (net of higher OPEX from bringing plants back). We are increasingly confident that the accretion can be achieved and a perpetual multiple can be assigned to it – hence the change in our PT, which increased to $44 from $42, with full amount of ZECs upside (~$5/share) more than offsetting the negative impact as we marked our regulated utility valuations to reflect current yield expectations (16x vs. 17x of group multiple) as well as earnings impact from asset sales at ExGen Renewable through the JV. See our Q2 earnings preview piece – link above.

Reiterate BUY – We continue to like the story. Growth will continue to be driven by EXC's regulated utilities, currently accounting for 75% of EXC's business mix, with investments driving ~7% rate base growth and eventually self-funding the HoldCo interest expense and dividend; while we view GenCo as more of a free call option on merchant power fundamentals (e.g., natural gas prices) albeit still generating very healthy FCF which could eventually be given back to shareholders in multiple forms including buybacks as leverage approaches ~2.5x net debt/EBITDA (we still model ~3x). Management's outlook for 6-8% regulated EPS growth is also conservative in our view, given EXC's tendency to manage low-double-digit returns from some segments, coupled with incremental O&M saving opportunities from former POM utilities – where regulatory lag is becoming less of a drag with the first round of rate filings tracking ahead of expectations, and a second round already kicking off. EXC's dividend is well-positioned for growth in 2018 and beyond as ZECs become more of a sustainable reality. **For additional insight see HERE for our note following investor meetings we recently hosted with senior management.**

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EXC BUY

COMPANY UPDATE

SHARE PRICE $37.02
PRICE TARGET $44.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2017	0.65	0.53E	0.92E	0.61E	2.71E
P/E					13.7x
2018	0.81E	0.67E	0.93E	0.51E	2.93E
P/E					12.6x
2019	0.77E	0.65E	1.02E	0.45E	2.89E
P/E					12.8x

Market Data	
52-Week Range	$29.82 - $37.76
Market Cap (M)	$34,272
Dividend	$1.28
Dividend Yield	3.5%
ADV (3 mo; 000)	4,914

Valuation

Our $44 price target is based on a sum-of-the-parts analysis. We assign ~$19/share for ExGen using a 7x weighted average EV/EBITDA applied to ExGen's various assets. We assign $30/share for the regulated utilities combined based on our 2018E EPS of $1.88 applied to a 16x regulated utility multiple. Subtracting out ~$5 in parent drag, we arrive at our 12-month PT.

Risk

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

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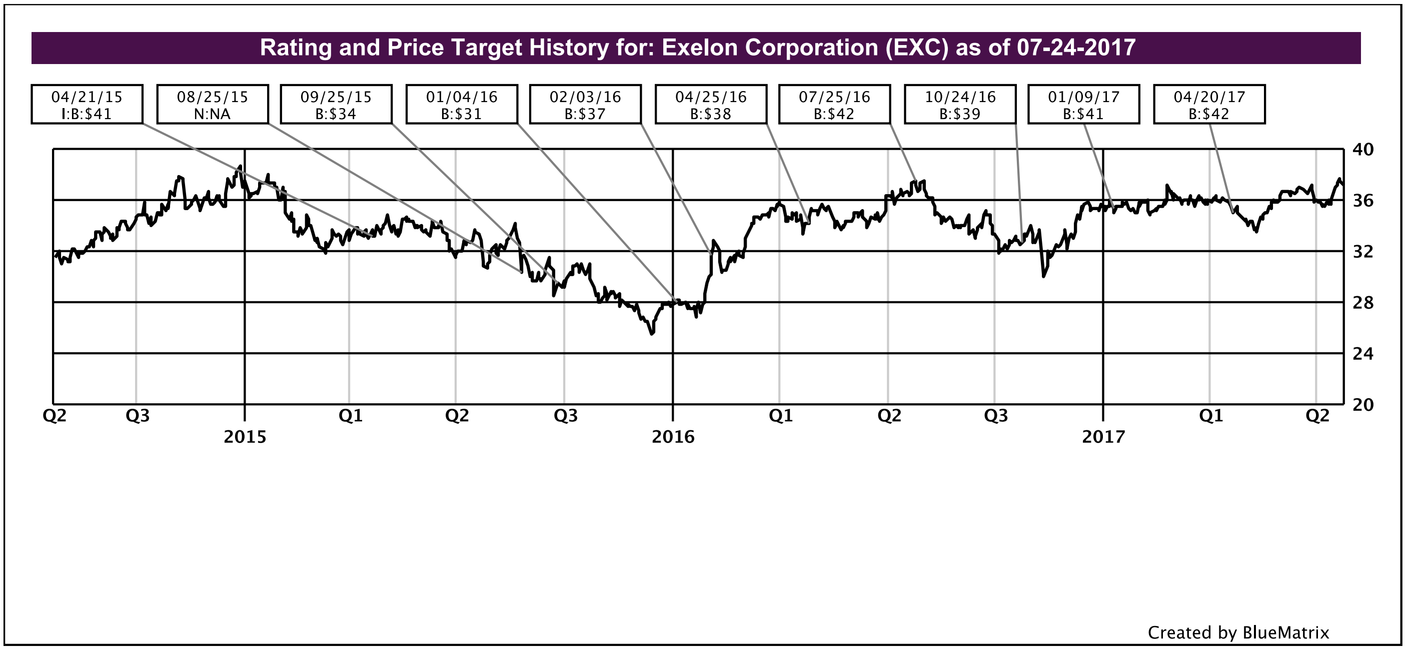

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Sell	1	0.32%	0	0.00%

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North America Equity Research
25 July 2017

Exelon Corp.

Nuclear Subsidies Take Big Step Forward with 2nd Federal Court Dismissal - ALERT

Overweight

EXC, EXC US
Price: $37.02
25 Jul 2017

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Today's Federal District Court dismissal of the NY ZEC challenge was another positive surprise for growing state nuclear subsidy efforts, in our opinion, with investors having generally seen both this and the IL ZEC challenge as more likely than not to go to trial. The rulings are clear positive signs for similar programs in other states, potentially emboldening legislatures and diminishing chances of future FERC interference. In our view the court outcomes were wildcards, but we saw EXC shares pricing in little benefit since the programs were initiated in 2H16. We see continued challenges lingering well past this year, but view the decisions as material de-risking events.

- **Dismissal is 2nd victory this month:** Today the U.S. District Court for the Southern District of NY dismissed a challenge to NY's Zero Energy Credit program initiated by the NYPSC last summer to subsidize nuclear plants in the State. This follows a July 14 dismissal of a Federal Court challenge to the IL ZEC program passed by the IL legislature in December. Both programs took effect in 2Q17 despite the legal challenges.
- **Court rejected all plaintiff arguments:** All key plaintiff arguments were rejected, with the Court finding no grounds for violation of interstate commerce or cause for Federal preemption of State interference with power markets. Like the District Court decision regarding IL ZECs, today's decision relied on subtle distinction in the U.S. Supreme Court ruling in the *Hughes* case preserving wide latitude for States to indirectly impact FERC regulated wholesale markets.
- **Appeals process likely to continue well past 2017:** Trade group EPSA has already filed an appeal at the U.S. 7th Circuit Court of Appeals for the IL ZEC case, and a briefing schedule has been set through October. We expect a similar challenge to the NY ZEC decision, and for the appeals process to continue well past this year.
- **Positive for EXC, PEG, D and FE, negative for non-nuclear gencos:** We estimate both programs have a $3/shr NPV using a 4% discount rate for EXC, and continue to reflect 50% of this in our valuation given the likely continued legal challenges. PEG, D and, to a lesser degree, FE now stand a better chance of seeing supportive policies in NJ, PA, CT and OH, partially offset by the perpetuation of oversupplied wholesale energy and capacity markets stemming from such programs.

See page 2 for analyst certification and important disclosures.

Other Companies Discussed in This Report (all prices in this report as of market close on 25 July 2017)
Dominion Energy Inc (D/$76.79/Neutral), FirstEnergy (FE/$30.87/Neutral), Public Service Enterprise Group (PEG/$43.86/Overweight)

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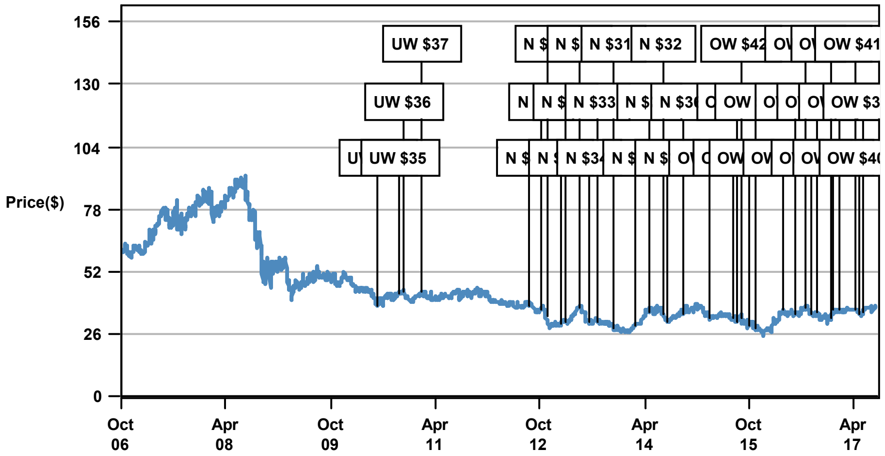
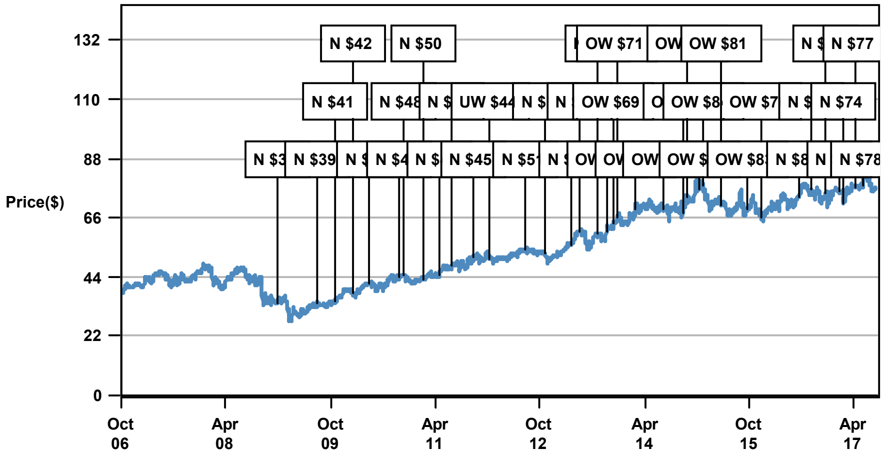
Exelon Corp. (EXC, EXC US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 02, 2010.

Date	Rating	Share Price ($)	Price Target ($)
02-Jun-10	UW	37.92	33.00
29-Sep-10	UW	42.82	35.00
19-Oct-10	UW	43.74	36.00
20-Jan-11	UW	43.35	37.00
07-Aug-12	N	38.01	40.00
08-Oct-12	N	35.95	39.00
02-Nov-12	N	33.58	38.00
23-Jan-13	N	30.45	36.00
08-Feb-13	N	31.08	34.00
19-Apr-13	N	36.46	35.00
19-Jun-13	N	30.68	34.00
31-Jul-13	N	30.59	33.00
17-Oct-13	N	28.75	31.00
12-Feb-14	N	29.47	29.00
30-Apr-14	N	35.03	33.00
09-Jul-14	N	34.26	32.00
01-Aug-14	N	31.08	35.00
16-Oct-14	N	34.09	36.00
05-Mar-15	OW	32.97	38.00
06-Jul-15	OW	32.77	41.00
29-Jul-15	OW	31.14	40.00
24-Aug-15	OW	33.00	42.00
28-Sep-15	OW	29.20	39.00
02-Nov-15	OW	28.51	36.00
28-Mar-16	OW	35.69	39.00
31-May-16	OW	34.33	37.00
21-Jul-16	OW	36.46	41.00
15-Aug-16	OW	34.63	40.00
20-Sep-16	OW	34.85	37.00
02-Dec-16	OW	33.01	36.00
16-Dec-16	OW	35.73	39.00
18-Jan-17	OW	35.71	40.00
11-Apr-17	OW	36.14	41.00
03-May-17	OW	33.98	40.00
16-May-17	OW	34.85	39.00

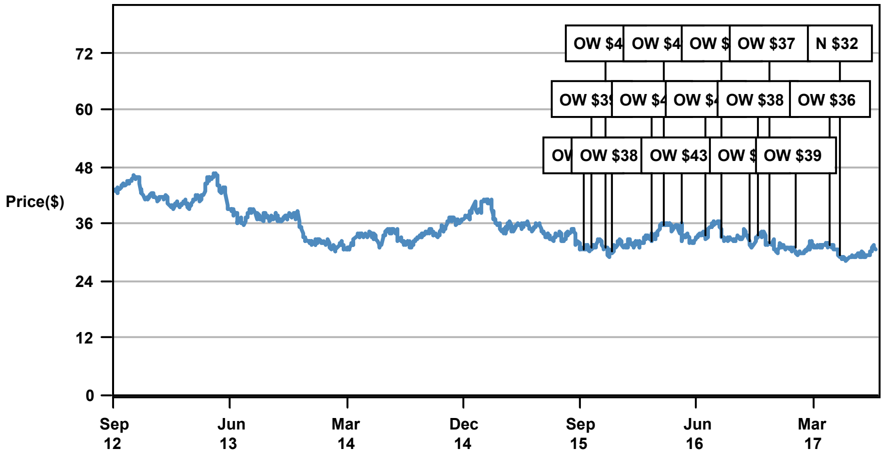
Dominion Energy Inc (D, D US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 23, 2008.

Date	Rating	Share Price ($)	Price Target ($)
23-Dec-08	N	34.41	34.00
23-Jul-09	N	33.90	39.00
22-Oct-09	N	35.07	41.00
26-Jan-10	N	38.10	42.00
20-Apr-10	N	41.42	44.00
29-Sep-10	N	43.95	47.00
19-Oct-10	N	44.50	48.00
24-Jan-11	N	43.35	50.00
21-Apr-11	N	44.75	47.00
21-Jun-11	N	48.23	48.00
20-Oct-11	N	51.04	45.00
13-Jan-12	UW	50.60	44.00
19-Jul-12	N	54.19	51.00
23-Oct-12	N	52.69	50.00
11-Mar-13	N	55.87	56.00
23-Apr-13	N	61.12	57.00
23-Jul-13	N	59.86	61.00
13-Sep-13	OW	61.28	68.00
17-Oct-13	OW	63.68	69.00
05-Nov-13	OW	66.03	71.00
12-Feb-14	OW	69.14	72.00
09-Jul-14	OW	69.20	77.00
16-Oct-14	OW	67.98	75.00
10-Nov-14	OW	73.89	78.00
12-Jan-15	OW	76.50	80.00
02-Feb-15	OW	77.72	84.00
04-May-15	OW	70.82	81.00
16-Sep-15	OW	69.46	83.00
07-Dec-15	OW	65.91	76.00
16-Jun-16	N	73.89	81.00
17-Aug-16	N	76.65	79.00
31-Oct-16	N	75.20	78.00
18-Jan-17	N	76.17	77.00
01-Feb-17	N	71.68	74.00
11-Apr-17	N	77.48	77.00
15-May-17	N	77.97	78.00

FirstEnergy (FE, FE US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 11, 2015.

Date	Rating	Share Price ($)	Price Target ($)
11-Sep-15	OW	30.59	38.00
28-Sep-15	OW	31.04	39.00
02-Nov-15	OW	31.16	40.00
15-Nov-15	OW	30.44	38.00
17-Feb-16	OW	32.27	40.00
16-Mar-16	OW	35.59	41.00
27-Apr-16	OW	36.05	43.00
21-Jun-16	OW	33.54	41.00
01-Aug-16	OW	33.31	39.00
03-Oct-16	OW	32.30	36.00
24-Oct-16	OW	33.62	38.00
21-Nov-16	OW	31.90	37.00
18-Jan-17	OW	31.15	39.00
11-Apr-17	OW	31.60	36.00
01-May-17	N	29.46	32.00

Public Service Enterprise Group (PEG, PEG US) Price Chart

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 11, 2015.

Date	Rating	Share Price ($)	Price Target ($)
11-Sep-15	N	38.88	37.00
28-Sep-15	N	40.59	38.00
02-Nov-15	N	41.02	40.00
15-Apr-16	N	45.86	46.00
05-May-16	N	46.45	45.00
12-Jul-16	N	45.44	46.00
22-Nov-16	N	41.25	43.00
16-Dec-16	OW	43.99	47.00
18-Jan-17	OW	44.41	48.00
02-Mar-17	OW	45.79	49.00
06-Mar-17	OW	44.98	48.00
11-Apr-17	OW	44.66	49.00
28-Apr-17	OW	44.41	50.00
16-May-17	OW	43.64	49.00

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IB clients*	52%	50%	31%
JPMS Equity Research Coverage	44%	50%	6%
IB clients*	68%	65%	46%

*Percentage of investment banking clients in each rating category.
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EVERCORE ISI

Energy | Power & Utilities

July 25, 2017

EXELON CORP.

EXC | $37.02

OUTPERFORM | TARGET PRICE: $39.00

Company Update

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Company Statistics

Market Capitalization (M):	$34,284
Shares Outstanding (M):	926
Dividend:	$1.31
Dividend Yield:	3.5%
Payout Ratio:	49.4%
Expected Total Return:	8.9%
Fiscal Year End	Dec

Earnings Summary

	2017E	2018E	2019E
EPS	$2.65	$2.85	$2.85
P/E	14.0x	13.0x	13.0x
EPS vs Consensus	(0.7)%	(1.1)%	1.1%
Consensus EPS	$2.67	$2.88	$2.82
Consensus P/E	13.9x	12.9x	13.1x

EVRISI Sum Of The Parts Valuation		
Target Price	$	39.00
2019 EPS: Utility - parent	$	1.86
P/E Multiple		16.7x
Utility Value	$	31.06
ExGen Implied Equity Value (per share)	$	7.94
ExGen 2019 Net Debt (mm)	$	8,593
ExGen 2019 Enterprise Value*	$	16,272
ExGen 2019 EBITDA**	$	2,922
ExGen 2019 EV/EBITDA		5.6x
ExGen 2019 Net Debt/EBITDA		3.0x
*967m EXC shares outstanding 2019		
**5/24/17 forward curves		

NY District Court Dismisses ZEC Legal Challenge Just Over a Week After IL Court Did the Same

Rating Remains Outperform, Target Still $39

Today, District Judge Valerie Caproni granted motions by the NYPSC and EXC to dismiss a lawsuit filed by the Coalition for Competitive Electricity, EPSA, and other power producers (16-CV-8164) challenging the legality of the state's zero emissions credit (ZEC) revenues provided under the state's "Clean Energy Standard" (CES). The New York CES was established on 8/1/16, went into effect on 4/1/17, and amongst other items provides up to ~$480mm in annual ZEC revenues for EXC's Ginna, Nine Mile Point, and Fitzpatrick nuclear plants. In her opinion here, Judge Caproni stated that "the effect of ZECs on the wholesale auction is legally indistinguishable from the effect of RECs" and thus "the Court cannot find any principled basis to hold that the ZEC program is preempted even though its sibling REC program is not." This is a claim EXC has repeatedly made (to apparent success) and one which we have agreed with. A number of the 29 states that have adopted renewable portfolio standards have continued to employ RECs as a means of compensation, so we find the strength of the opinion here especially salient. The plaintiffs are likely to appeal the decision, which would move it U.S. Court of Appeals for the Second Circuit. We think such an appeal will occur very quickly based on the IL proceedings (discussed below). In that case, an appeal was filed by EPSA within one business day of the motion to dismiss being granted. We reiterate it is likely that the totality of legal challenges will be a protracted affair. However, we think - *yet again* - for a district court to have dismissed a case outright represents a significant legal victory.

On 7/14/17, District Judge Shah granted motions by EXC, the Illinois Commerce Commission, and the Illinois Power Agency to dismiss lawsuits filed by EPSA, other power producers, and certain ComEd customers (17-CV-01164) that would have put a stay on that state's ZEC program. The appellate court has since set a briefing schedule. The ZEC program was instituted with the passage of the Energy Future Jobs Act on 12/7/16 and became effective on 6/1/17, providing up to $235mm in annual revenues to keep the economically challenged Clinton and Quad Cities nuclear plants online. In his ruling in favor of the defendants, Judge Shah cited both (1) a lack of subject matter jurisdiction on the part of the plaintiffs and (2) a failure to state a claim as grounds for the dismissal. That opinion can be found here. The plaintiffs appealed the decision on 7/17/17, which moved it to the U.S. Court of Appeals for the Seventh Circuit. That court has since set an expedited schedule requiring appellant briefs by 8/28/17, appellee briefs by 9/27/17, and appellant reply briefs by 10/27/17.

The DOE study may be imminent. Tax policy changes are being studied. Back on 4/14/17, Secretary of Energy Rick Perry directed the DOE to perform a study exploring issues critical to maintaining the reliability of the electric grid, including the efficacy of wholesale electricity markets and the role that tax policies, subsidies, and regulation are having on early retirement of baseload power plants. We think the DOE is supportive of the idea that price formation in energy and capacity markets is not adequate for baseload generators and want to help bolster economic outcomes for nuclear and coal plants. However, practically speaking they have limited jurisdiction. We think DOE may intervene by opining that the FERC should take action to change market rules. Also the pending FY18 Energy and Water Development Appropriations Bill orders the DOE to analyze the potential impact of a "Zero Emissions Energy Credit" which contemplates a change in the Federal tax code that would replace the renewable energy subsidies (after they phase out) with a broader tax benefit applicable to all zero-emissions power plants like nuclear units. That analysis would be provided to Congress within 180 days of the enactment. It is not at all clear how much momentum this idea has in Congress, whether it will receive a favorable analysis from DOE, or whether it would be a component of any near-term tax reform package. *However, its biggest beneficiaries would be merchant nuclear operators like EXC, PEG, and FE.*

We maintain our '17-'19 EPS forecast of $2.65 / $2.85 / $2.85, which include the full ZEC revenues across its portfolio. EXC is committed to 2.5% dividend growth through 2018 but are confident the financial profile supports at least that level of growth through 2020. We think the assumptions driving EXC's view of the earnings growth drivers in its core utilities business and ExGen as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management are still wholly credible. The core utilities are forecast to grow rate base at 6.5% from '17-20 with earnings growth of 6-8% (down from 7-9% from '16-'20 solely due to a higher '17 base, the '20 forecast is up a nickel). We see a turnaround at PHI similar to the one EXC engineered at BGE after the CEG acquisition as feasible, with annual rate cases at most of the PHI companies (the first "wave" of these largely resolved) and the ability to harvest operating synergies. So, there is line of sight for EPS at EXC's utilities (ex-parent overheads) growing from $1.59 in FY '17 to ~$2.00 in 2020. From a cash flow perspective we see ExGen organically producing ~$5.8bn of free cash flow through FY'19, >66% of the $8.75bn they are targeting through 2020 with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. That is also without the $400mm from the renewables JV which puts them at 71%. The sale price of that 49% stake implies there may be up to an $85mm degradation in EBITDA but at >10X EV/EBITDA that is not only a good transaction multiple but it is also very accretive as ExGen is trading at an implied 4.4X. Assuming they can sell their impaired TX assets (the EGTP portfolio) that will be another $650mm in debt that comes off the books and should be accretive to credit metrics.

Our price target remains $39, maintaining Outperform rating. Our forecast for utility EPS contribution minus parent overheads is $1.59/share in '17 which by 2019 we expect to be ~ $1.85 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to +/-$2.00/share. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth ~$32.60/share (17.5X '19 EPS). That implies ExGen is worth only ~$4.40/share today, which is around 4.5X '19 EPS or 4.4X '19 EV/EBITDA and a levered free cash flow yield to the EV of 10% with debt/EBITDA at YE '19 of ~3.0X. They are taking all the cash flow from that lower multiple part of the business and either returning it to shareholders or investing in the higher multiple utility business. Overall, EXC is trading at +/-13X FY'19 earnings while pure regulated names are at +/-17.5X. The EXC dividend yield is 10bps above that of the regulated peer group at ~3.5%. While the dividend growth commitment of 2.5% annually through at least 2018 is lower than that articulated by purely regulated peers and some risks to ExGen revenues are palpable, we think that the overall valuation gap, given our view of the value of the businesses and capital allocation plan, is too high. At $39/share our target price implies a valuation for ExGen of 5.6X '19 EV/EBITDA and a levered free cash flow yield of ~8%. The consolidated P/E would still be only 13.7X '19 EPS.

Since hitting $33.50 on 5/11/17, the stock has climbed nearly 11%. Valuation got extremely compressed, and risk aversion on the pricing outcome of the last PJM capacity auction (after the ISO-NE and MISO disappointments) proved misplaced. As we discussed earlier the EMAAC and ComEd zones (where EXC has the majority of its exposure) both priced better than expectations. That said, legal action in NY and IL to challenge ZEC revenues could be successful and we think that remains a factor still impacting valuation. The legal basis for ZECs seems sound but it remains a risk and could impact '19 EPS by +/-$0.25/share if 100% successful in rolling back those programs. Still, with ExGen trading at only 4.5X '19 EPS on a SOTP basis the exposure seems small at this point if they lose on this front. Generally we also think that investor concern about 2020 earnings power has been a real factor, despite the long time horizon, since power prices out the forward curve would drive a significant decline in ExGen earnings. We do not have a formal 2020 EPS forecast for EXC. We now know the capacity revenue delta and include the TMI shut-down benefit. Those factors mitigate lower energy pricing that could be a significant headwind. Taking in to account 6-8% growth at the core utilities, consolidated EPS could fall as much as $0.15/share if current forwards were realized.

But just a $1/MWh improvement in power price at their given sensitivities is $0.09/share. So it doesn't take much to start valuing EXC more highly on 2020 forward curves, at least in our view.

EXC fared OK vs. expectations in the '20/'21 PJM capacity auction. Our base case expectations for EMAAC and ComEd leading up the auction were $160/MW-d and $180/MW-d respectively, and those zones ended up clearing higher at $187.87/MW-d and $188.12/MW-d. EXC disclosed that an additional 1,150 MW of nuclear capacity cleared at ComEd in the auction YoY, however as they also said that Quad Cities didn't clear (again) the balance presumably came from Byron. We estimated Byron cleared about 20% of its available capacity last year, and thus estimate closer to 70% this year. We think it is justifiable Quad Cities was not offered more aggressively in the auction, as the plant had yet to formally receive the ZEC contract and associated revenues. Our full discussion of the last PJM capacity auction can be found here.

What's next at ExGen? ExGen's announced 3/31/17 the sale its 49% share of the renewables JV should close in late 2Q17 or early 3Q17, subject to FERC and PUCT approval. The sale process for the economically-challenged EGTP portfolio of CCGTs and NG peakers (3,398 MW) in ERCOT is underway, with an agreement possible by late 3Q17 or early 4Q17.

What's next at the utilities? On 3/8/17 and 4/6/17, DPL entered into settlement agreements in its DE electric (16-0649) and gas rate cases (16-0650) for $32mm and $4.9mm, respectively, both based on a 9.7% ROE (they had requested $81.7mm in aggregate based on a 10.60% ROE) with DPSC approval received on 5/23/17 and 6/6/17, respectively. A DCPSC in Pepco's electric distribution rate case (in which they filed on 6/30/16 for a $76.8mm increase premised on 10.60% ROE) is expected by 7/25/17 (1139). A MDPSC decision in Pepco's electric distribution rate case (in which they filed on 3/24/17 for a $69mm increase premised on 10.10% ROE) is expected by 10/20/17 (9443). A NJBPU decision in ACE's electric distribution rate case (in which they filed on 3/30/17 for a $70mm increase premised on 10.10% ROE) is expected in 1H18 (ER17030308).

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming capacity auctions would be accretive but a significantly lower capacity auction price would be negative.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2017-07-25)	Evercore ISI Target
AEE	Ameren Corp.	In Line	$55.92	$54.50
AEP	American Electric Power	In Line	$69.19	$66.50
AES	The AES Corporation	Outperform	$11.32	$12.25
AGR	Avangrid Inc	Outperform	$45.63	$46.50
CMS	CMS Energy Corp.	Outperform	$46.39	$45.50
CNP	CenterPoint Energy, Inc.	In Line	$28.17	$27.00
CPN	Calpine Corp.	Outperform	$13.72	$16.00
D	Dominion Resources Inc.	In Line	$76.77	$75.00
DTE	DTE Energy Co.	In Line	$106.37	$102.00
DUK	Duke Energy Corp.	In Line	$84.55	$82.00
DYN	Dynegy Inc.	Outperform	$8.76	$15.00
ED	Consolidated Edison Inc.	In Line	$82.14	$74.00
EIX	Edison International	In Line	$78.48	$78.25
ES	Eversource Energy	Coverage Suspended	$60.74	NA
ETR	Entergy Corp.	In Line	$76.31	$76.00
EXC	Exelon Corp.	Outperform	$37.20	$39.00
FE	FirstEnergy Corp.	In Line	$31.25	$30.00
GXP	Great Plains Energy Incorporated	Outperform	$30.34	$31.70
HE	Hawaiian Electric Industries Inc.	Underperform	$32.59	$31.00
HIFR	InfraREIT, Inc.	Outperform	$21.70	$19.00
NEE	NextEra Energy Inc	Outperform	$143.15	$147.00
NI	NiSource Inc	In Line	$26.09	$25.00
NRG	NRG Energy Inc.	Outperform	$25.28	$30.00
NYLD	NRG Yield, Inc.	Outperform	$18.60	$20.00
OGE	OGE Energy Corp	Outperform	$35.58	$37.00
PCG	PG&E Corp.	Outperform	$67.90	$67.50
PEG	Public Service Enterprise Group	In Line	$44.03	$45.00
PNM	PNM Resources, Inc	In Line	$38.85	$36.00
PNW	Pinnacle West Capital Corp.	In Line	$86.48	$81.50
PPL	PPL Corp.	In Line	$38.40	$38.50
SO	Southern Co.	In Line	$47.25	$48.00
SRE	Sempra Energy	Outperform	$113.33	$118.00
WEC	WEC Energy Group, Inc.	In Line	$62.50	$61.00
WR	Westar Energy Inc.	Outperform	$50.30	$53.00
XEL	Xcel Energy Inc.	In Line	$46.90	$46.00

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Ratings Definitions

Current Ratings Definition

Evercore ISI's recommendations are based on a stock's total forecasted return over the next 12 months. Total forecasted return is equal to the expected percentage price return plus gross dividend yield. We divide our stocks under coverage into three primary ratings categories, with the following return guidelines:

Outperform – the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line – the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform – the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and

trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long – the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short – the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position – the stock is not included in the model portfolio.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

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Evercore ISI ratings distribution (as of 07/25/2017)

Coverage Universe

Ratings	Count	Pct.
Buy	340	50%
Hold	241	36%
Sell	64	9%
Coverage Suspended	24	4%
Rating Suspended	7	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	47	14%
Hold	10	4%
Sell	1	2%
Coverage Suspended	6	25%
Rating Suspended	2	29%

Issuer-Specific Disclosures (as of July 25, 2017)

Price Charts

Exelon Corp. Rating History as of 07/25/2017

powered by: BlueMatrix

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Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
26 July 2017

Breaking News

Price at 25 Jul 2017 (USD)	37.02
Price target	41.00
52-week range	37.60 - 30.00

Another legal win on ZECs

Valuation & Risks

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Judge dismisses challenges to NY ZEC program

After the close on Tuesday the judge presiding over the challenge brought against the New York Zero Emissions Credit (ZEC) Program ruled to dismiss the case. The ruling from Judge Valerie Caproni of the U.S. District Court for the Southern District of New York follows a similar decision in the Illinois ZEC case earlier this month. Like the Illinois decision, Judge Caproni's dismissal is likely to be quickly appealed by the plaintiffs, with the next level in this instance being the Second Circuit Court of Appeals. While unlikely to be the final legal word on an issue widely expected to wind up before the Supreme Court, this latest ruling is undoubtedly another win for state-sponsored ZEC programs and for EXC in particular. And as with the Illinois ruling, we also see an indirect read-across into efforts to pursue similar nuclear support arrangements in other key states such as Pennsylvania and New Jersey (PEG).

Another first round victory an incremental positive data point

Following a hearing held on the motions to dismiss in late March, investors have been hoping that Judge Caproni could dismiss the case given her line of questioning. This hope was bolstered after she asked for briefing on a related case involving Connecticut renewable credits (Allco Finance) and then again after the comprehensive dismissal in the Illinois ZEC case. There was no guarantee of a similar dismissal, however, so this week's news is an incremental positive for EXC with direct relevance for around $280M in annual revenues under the New York ZEC program along with the $235M expected from Illinois.

As in Illinois, plaintiffs' standing and arguments roundly rejected

Judge Caproni ruled that the District Court does not have jurisdiction over the plaintiffs' claims since they fall under FERC. However, she also determined that the plaintiffs' claims would fail regardless. While the plaintiffs argued that the NY ZEC Program is field and conflict preempted by the Federal Power Act like a Maryland program overturned by the Supreme Court in *Hughes vs. Talen Energy Marketing*, Caproni disagreed. Like Judge Shah in the Illinois case, Caproni concluded that the New York ZEC program "does not require the nuclear generators to sell into the NYISO auction" and that "the ZEC program is critically different from the challenged program in *Hughes*, which specifically conditioned subsidy payments on the generator’s sale of capacity into the auction." The Judge also noted that the plaintiffs could not justify why the ZECs were preempted whereas other state incentives such as land grants, tax exemptions, Renewable Energy Credits (RECs) or direct financial subsidies are not. Per the Judge, this was a fatal flaw in their argument as *Hughes* was never intended to restrict

Key indicators (FY1)	
ROE (%)	8.7
ROA (%)	2.1
Net debt/equity (x)	119.6
Book value/share (USD)	32.12
Price/book (x)	1.2
Net interest cover (x)	3.3
EBIT margin (%)	15.8

Source: Deutsche Bank

Deutsche Bank Securities Inc. Distributed on: 26/07/2017 09:00:09 GMT

state's abilities to incentivize clean energy development with such measures. With regard to conflict preemption, the Judge agrees that the Federal Energy Regulatory Commission could take action if it determined that the ZEC program was interfering with federal objectives, which it has not done. Finally with regard to the plaintiffs' allegations that the ZEC program violates the Commerce Clause, the Judge noted that the plaintiffs did not represent any out-of-state nuclear generators and could not claim sufficient injury.

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	37.02 (USD) 25 Jul 2017	6, 9, 14, 15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr. Aside from within this report, important conflict disclosures can also be found at https://gm/db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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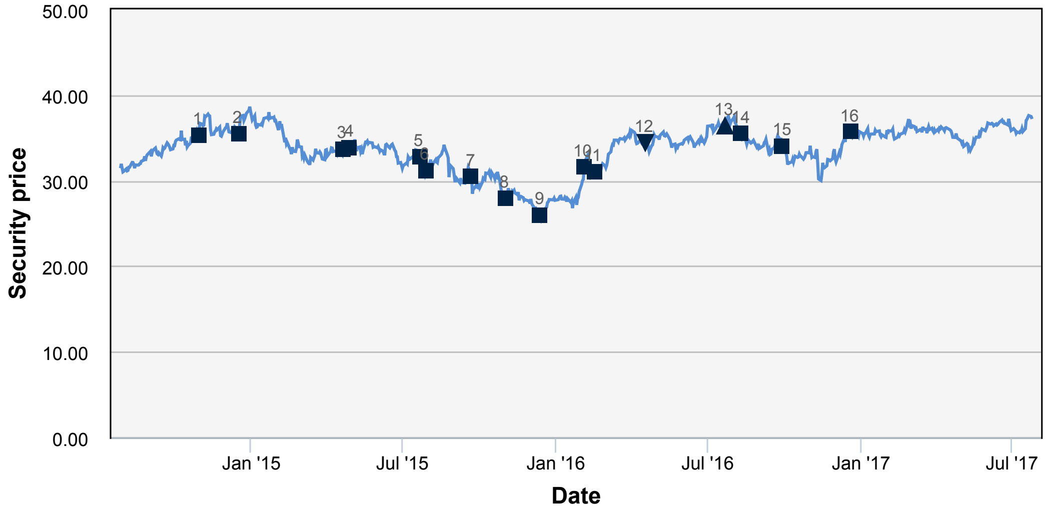
Historical recommendations and target price. Exelon (EXC.N)

(as of 07/25/2017)



<u>Current Recommendations</u>

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	10/30/2014	Buy, Target Price Change USD 38,00 Jonathan Arnold
2.	12/17/2014	Buy, Target Price Change USD 43,00 Jonathan Arnold
3.	04/21/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
4.	04/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
5.	07/22/2015	Buy, Target Price Change USD 40,00 Jonathan Arnold
6.	07/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
7.	09/22/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
8.	11/02/2015	Buy, Target Price Change USD 37,00 Jonathan Arnold
9.	12/14/2015	Buy, Target Price Change USD 35,00 Jonathan Arnold
10.	02/04/2016	Buy, Target Price Change USD 36,00 Jonathan Arnold
11.	02/17/2016	Buy, Target Price Change USD 34,00 Jonathan Arnold
12.	04/18/2016	Downgraded to Hold, Target Price Change USD 36,00 Jonathan Arnold
13.	07/22/2016	Upgraded to Buy, Target Price Change USD 39,00 Jonathan Arnold
14.	08/11/2016	Buy, Target Price Change USD 40,00 Jonathan Arnold
15.	09/29/2016	Buy, Target Price Change USD 38,00 Jonathan Arnold
16.	12/20/2016	Buy, Target Price Change USD 41,00 Jonathan Arnold

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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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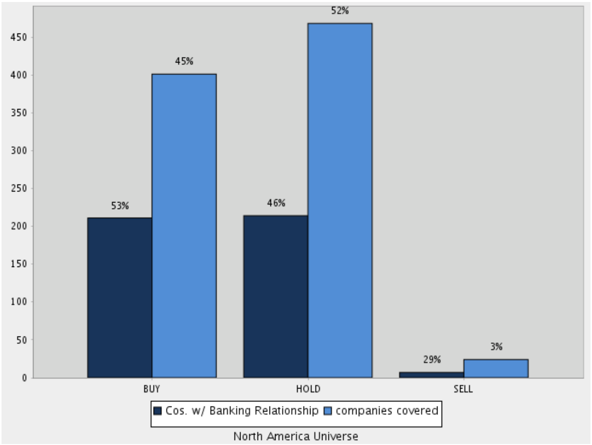

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COMPANY UPDATE
July 26, 2017

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

NY Court Decision Another Positive Data Point

What's Incremental To Our View

We believe that the favorable court ruling in New York could translate into an incremental $3/share of value for the stock.

IMPORTANT POINTS

- Yesterday, after the close, a New York District Court dismissed the legal challenge to the Zero Emission Credit (ZEC) payments that EXC's nuclear plants in New York State are receiving. We note this is a similar outcome to Illinois, where a District Court recently dismissed a legal challenge for that state's ZEC payments. See our July 17, 2017 research report for more details.

- While we expect this ruling to be appealed (similar to the appeal already filed on the Illinois court ruling), we see this as a positive development for the following reasons: (1) we estimate that the ZEC payments in New York represent $0.18 of annual earnings for EXC; (2) while our estimates include the New York (and Illinois) ZEC payments, our analysis suggests that, in the current stock price, EXC is receiving minimal credit for this earnings stream; (3) we estimate that increased confidence in this earnings stream could potentially translate into $3/share of incremental equity value; and (4) given favorable court decisions in two different states, EXC appears to have strong legal standing even if the decisions are challenged in a different court.

- EXC is currently trading at a 7%-11% P/E multiple discount to the peer group (based on our 2018-19 estimates). Assuming a 14.3x P/E multiple (in line with the peer group) on our 2019 estimate of $2.78, we derive our price target of $40. We reiterate our **Buy** rating.

- We have included our latest 2017-19 earnings and cash flow models in this report.

Buy

Price Target: $40.00
Prior: $40.00

Price (Jul. 25, 2017)	$37.02
52-Wk Range	$37.60-$30.00
Market Cap ($M)	$34,121
ADTV	3,411,570
Shares Out (M)	921.7
Short Interest Ratio/% Of Float	1.2%
Dividend/Yield	$1.31/3.5%
TR to Target	11.6%
Enterprise Value ($M)	$71,551.8

Debt/Cap	55%
5 Year EPS Growth	3.0%
ROE	10.0%
P/B	1.20x

	2017E	2018E		2019E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.65A	$0.71	$0.71	$0.68	$0.68
2Q	$0.54	$0.59	$0.59	$0.56	$0.56
3Q	$0.97	$1.06	$1.06	$1.01	$1.01
4Q	$0.51	$0.56	$0.56	$0.53	$0.53
CY	$2.67	$2.91	$2.91	$2.78	$2.78
P/E	13.9x	12.7x		13.3x	
Consensus					
CY	$2.67	$2.88		$2.82	
Revenue ($M)					
CY	$33,975	$34,545	$34,545	$34,955	$34,955
Operating Margin (%)					
CY	14.70%	15.60%	15.60%	14.60%	14.60%
EBITDA ($M)					
CY	$8,307	$8,821	$8,821	$8,672	$8,672
EV/ EBITDA	8.6x	8.1x		8.3x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2012A-2019E

(dollars in millions, except per share)

	2019E		2018E		2017E		2016A		2015A		2014A		2013A		2012A	
Revenues (% change)																
Com Ed	5,650		5,485		5,380		5,246		4,905		4,564		4,464		5,443	
PECO	3,605		3,500		3,430		2,994		3,032		3,094		3,100		3,186	
BGE	3,470		3,370		3,300		3,233		3,135		3,165		3,065		2,204	
PEPCO	5,530		5,370		5,265		3,643									
Generation	18,000		18,070		18,000		18,304		18,925		17,853		16,190		15,502	
Other	(1,300)		(1,250)		(1,400)		(1,515)		(760)		(787)		(1,377)		(1,661)	
Total Revenues	34,955	1.2%	34,545	1.7%	33,975	6.5%	31,905	9.1%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF
Operating Income (% sales)																
Com Ed	1,435	25.4%	1,345	24.5%	1,285	23.9%	1,200	22.9%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%
PECO	810	22.5%	765	21.9%	710	20.7%	712	23.8%	634	20.9%	574	18.6%	675	21.8%	640	20.1%
BGE	650	18.7%	615	18.2%	555	16.8%	555	17.2%	563	18.0%	441	13.9%	446	14.6%	186	8.4%
PEPCO	790	14.3%	745	13.9%	700	13.3%	485	13.3%								
Generation	1,517	8.4%	1,986	11.0%	1,782	9.9%	1,969	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%
Other	(30)		(35)		(25)		(48)		(22)		(19)		(64)		(46)	
Equity Income (Loss)											(8)		102		59	
Total Operating Income	5,172	14.8%	5,421	15.7%	5,007	14.7%	4,873	15.3%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%
Interest Expense, net	(1,380)		(1,435)		(1,430)		(1,383)		(1,098)		(931)		(986)		(941)	
Other Income (Expense)	305		295		290		289		276		262		238		252	
Pretax income	4,097		4,281		3,867		3,779		3,412		3,259		3,295		3,657	
Taxes (rate)	1,393	34.0%	1,456	34.0%	1,315	34.0%	1,299	34.4%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%
Preferred / Non Controlling Interest	5		5		5		(32)		13		134		14		11	
Equity Income (Loss)	0		(5)		(10)		(24)		(7)							
Net Income (% change)	2,699	-4.1%	2,815	11.0%	2,537	2.0%	2,488	11.7%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%
Shares Outstanding (ful. dil.)	972.0		968.0		949.0		927.0		893.0		864.0		860.0		819.0	
Operating EPS -- ful. dil. (% change)	$2.78	-4.5%	$2.91	9.0%	$2.67	-0.5%	$2.68	7.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%
Extraordinary Items																
Reported GAAP EPS																
Regulated Utility (net Parent) EPS	$1.80		$1.67		$1.55		$1.41		$1.09		$1.06		$1.10		$0.95	
Generation EPS	$0.98		$1.24		$1.12		$1.27		$1.40		$1.33		$1.40		$1.90	
EBITDA	8,672		8,821		8,307		8,105		6,684		6,242		6,191		6,180	
ComEd																
Total Retail Sales (millions mw hs)	92.0		91.0		90.0		88.9		86.7		88.6		89.1		90.0	
Implied Operating Margin ($/MWh)	$15.6		$14.8		$14.3		$13.5		$11.8		$11.1		$10.7		$9.9	
PECO																
Total Electric Retail Sales (millions mw hs)	40.0		39.5		39.0		37.9		38.0		37.5		37.8		37.5	
Implied Operating Margin ($/MWh)	$20.3		$19.4		$18.2		$18.8		$16.7		$15.3		$17.9		$17.1	
PEPCO																
Total Electric Retail Sales (millions mw hs)	47.0		46.0		45.0		26.1									
Implied Operating Margin ($/MWh)	$16.8		$16.2		$15.6		$18.6									
Generation																
Total Power Sales (millions mw hs)	212.0		209.0		203.0		203.0		196.4		199.2		214.7		219.5	
Implied Operating Margin ($/mw h)	$7.2		$9.5		$8.8		$9.7		$10.4		$9.8		$9.0		$12.2	
Net Income By Segment																
Com Ed	700		660		615		524		432		410		421		381	
PECO	480		460		430		444		380		353		393		387	
BGE	345		325		285		289		277		199		195		46	
Generation	949		1,195		1,070		1,181		1,253		1,155		1,202		1,548	
PEPCO	395		360		330		228									
Other	(170)		(185)		(193)		(178)		(115)		(49)		(62)		(32)	
Total	2,699		2,815		2,537		2,488		2,227		2,068		2,149		2,330	

Note

1) Rate Base - Com Ed: $10.6bn in 2015, $11.9bn in 2016, $13.2bn in 2017E, $14.0bn in 2018E, $14.8bn in 2019E; PECO: $6.0bn in 2015, $6.2bn in 2016, $6.6bn in 2017E, $7.0bn in 2018E, $7.4bn in 2019E;
BGE: $5.0bn in 2015, $5.3bn in 2016, $5.7bn in 2017E, $6.1bn in 2018E, $6.5bn in 2019E; PEPCO: $8.3bn in 2016, $8.9bn in 2017E, $9.4bn in 2018E, $9.9bn in 2019E.

2) Earned ROE - Com Ed: 8.0% in 2015, 8.8% in 2016, 9.3% in 2017, 9.4% in 2018, 9.5% in 2019; PECO: 11.7% in 2015, 13.3% in 2016, 12.1% in 2017, 12.2% in 2018, 12.1% in 2019;
BGE: 10.7% in 2015, 10.5% in 2016, 9.7% in 2017, 10.3% in 2018, 10.3% in 2019; PEPCO: 5.5% in 2016, 7.4% in 2017, 7.7% in 2018, 8.0% in 2019.

3) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

4) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

5) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

6) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

7) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw , nuclear $110m price) from Q2 2017.

8) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

9) Total ZEC payments represent $500m / year of pre tax income (from 2018 onwards).

10) Forward curves as of 6/12/17.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2012A-2019E

($ in millions except per share)

	2019E	2018E	2017E	2016A	2015A	2014A	2013A	2012A
Net income	2,699	2,815	2,537	2,488	2,227	2,068	2,149	2,330
Depreciation, depletion, amortization	5,100	5,000	4,925	5,576	3,987	3,868	3,779	4,079
Working Capital Change / Other	(125)	(125)	(125)	381	1,420	(1,479)	415	(278)
Cash Flow From Operations	7,674	7,690	7,337	8,445	7,634	4,457	6,343	6,131
Dividends	(1,201)	(1,196)	(1,174)	(1,166)	(1,105)	(1,065)	(1,249)	(1,716)
Capital expenditures	(6,750)	(7,250)	(8,125)	(8,553)	(7,624)	(6,077)	(5,395)	(5,789)
Free Cash Flow	(277)	(756)	(1,962)	(1,274)	(1,095)	(2,685)	(301)	(1,374)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a 14.3x P/E multiple (in line with the peer group) on our 2019 estimate of $2.78, we derive our price target of $40.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

Analyst Certification

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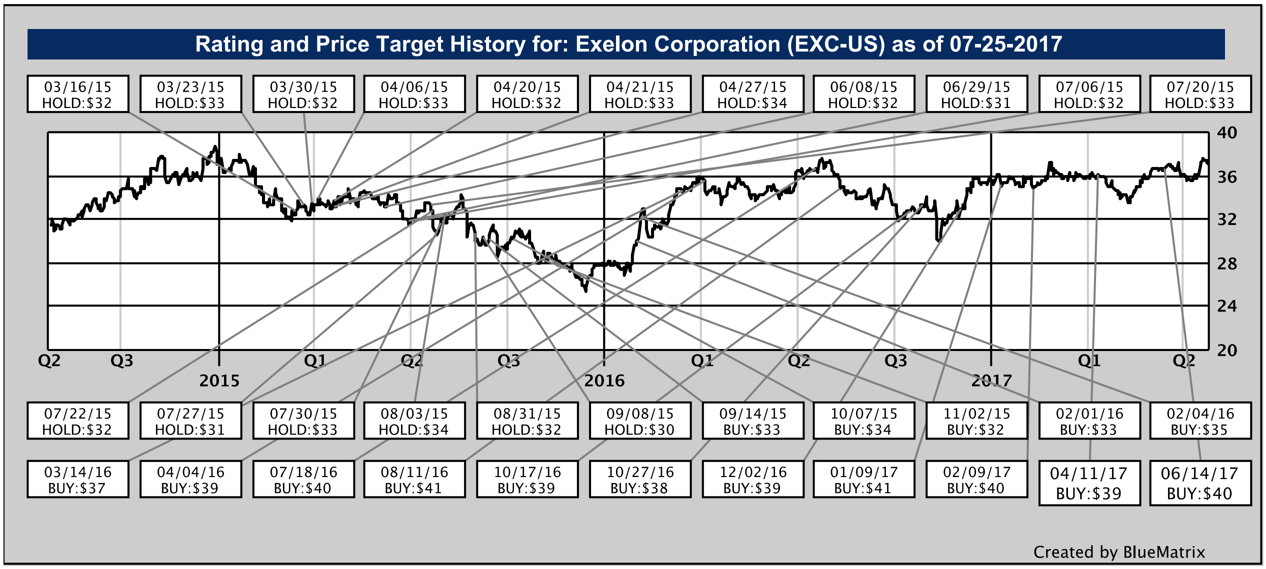

Rating and Price Target History for: Exelon Corporation (EXC-US) as of 07-25-2017

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Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
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Hold/Neutral	277	40.68%	Hold/Neutral	59	21.30%
Sell/Reduce	2	0.29%	Sell/Reduce	0	0.00%

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Exelon Corp (EXC)

Jump on the ZEC Train with EXC. Upgrade to Buy, $43PT.

- Target Price Change
- Rating Change
- Estimate Change

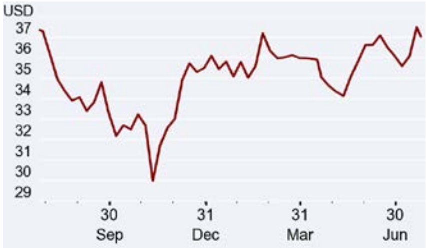
- **NY District Court Grants EXC Motion to Dismiss Challenging NY ZECs.** On July 25th, NY District Judge Valerie Caproni dismissed a lawsuit challenging ZECs, a second positive outcome on ZECs given the IL ruling earlier. Key points from ruling:
  - **Tethering is linked to market *participation*.** The key argument of the Plaintiff was that ZECs go against the Hughes vs. Talen Supreme Court ruling in which states cannot offer an incentive that is 'tethered' to participation in markets. The key point here is *participation* and Judge Caproni makes the point that ZECs do not require nuclear plants to participate in the wholesale market/auction for them to receive ZECs.
  - **ZECs don't directly impact wholesale prices.** The key test applied here was a direct impact on prices and clearly ZECs have been designed to ensure there isn't a direct impact on wholesale energy/capacity prices.
  - **ZECs and RECs.** Judge found that they are effectively the same from a legal perspective in terms of their impact on wholesale markets.
  - **ZECs do not conflict with FERCs goals on power markets.**
- **Comprehensive victories in NY, IL on ZECs pave way for other states.** While these rulings will be challenged, we think the tethering challenge is in tatters. With a strong legal structure in place and the political will to keep nuclear plants around, we think NJ, PA, CT will come around to offering ZECs.
- **With ZECs working, power prices down = EXC wins; power prices up = EXC wins!** If prices stay low, states should step in to support the weakest nuclear units with ZECs. If power prices go up, the fleet becomes more valuable and EXC wins.
- **We calculate potential upside for EXC at $8/share by valuing ZECs in other states.** Note that there are multiple paths to value the upside. Our approach of assuming ZECs in other states is only one approach – an increase in 2019 prices could also result in upside without the need for ZECs. We model an additional 10.5GW of EXC's nuclear generation would get ZEC revenues in a phased manner from 2019-2022. This includes plants in PA, NJ and IL. While timing of support may vary, we believe the trend of nuclear support will play out and the cash flows will allow EXC to further de-lever balance sheet and grow their utility business.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	na	na	na	0.44A	2.68A	2.68A
2017E	0.65A	0.51E	0.96E	0.64E	2.76E	2.67E
Previous	0.65A	0.50E	0.91E	0.59E	2.64E	na
2018E	na	na	na	na	2.92E	2.88E
Previous	na	na	na	na	2.91E	na
2019E	na	na	na	na	3.26E	2.79E
Previous	na	na	na	na	2.90E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Buy	1
from Neutral	
Price (26 Jul 17 16:00)	US$37.68
Target price	US$43.00
from US$36.00	
Expected share price return	14.1%
Expected dividend yield	3.4%
Expected total return	17.5%
Market Cap	US$34,895M

Price Performance
(RIC: EXC.N, BB: EXC US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

EXC.N: Fiscal year end 31-Dec

Price: US$37.68; TP: US$43.00; Market Cap: US$34,895m; Recomm: Buy

Profit & Loss (US$m)	2015	2016	2017E	2018E	2019E
Sales revenue	29,447	31,360	29,038	27,584	28,387
Cost of sales	-13,084	-12,640	-9,824	-8,064	-8,162
Gross profit	16,363	18,720	19,214	19,521	20,226
Gross Margin (%)	55.6	59.7	66.2	70.8	71.2
EBITDA (Adj)	6,841	8,357	8,951	9,235	9,952
EBITDA Margin (Adj) (%)	23.2	26.6	30.8	33.5	35.1
Depreciation	-2,450	-3,936	-3,363	-3,475	-3,639
Amortisation	0	0	0	0	0
EBIT (Adj)	4,409	3,112	5,715	5,760	6,313
EBIT Margin (Adj) (%)	15.0	9.9	19.7	20.9	22.2
Net interest	-1,033	-1,536	-1,659	-1,716	-1,764
Associates	0	0	0	0	0
Non-op/Except	-28	365	325	233	233
Pre-tax profit	3,330	1,989	4,152	4,277	4,782
Tax	-1,073	-761	-1,225	-1,459	-1,636
Extraord./Min.Int./Pref.div.	12	-94	14	0	0
Reported net profit	2,269	1,134	2,941	2,818	3,145
Net Margin (%)	7.7	3.6	10.1	10.2	11.1
Core NPAT	2,227	2,488	2,637	2,821	3,149
Per share data	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Reported EPS ($)	2.54	1.22	3.08	2.92	3.25
Core EPS ($)	2.49	2.68	2.76	2.92	3.26
DPS ($)	1.24	1.26	1.29	1.33	1.36
CFPS ($)	8.53	9.14	7.47	7.59	7.83
FCFPS ($)	-0.01	-0.09	-1.12	0.08	0.84
BVPS ($)	28.98	27.96	29.96	31.26	33.12
Wtd avg ord shares (m)	890	924	951	961	962
Wtd avg diluted shares (m)	893	927	955	965	966
Growth rates	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Sales revenue (%)	7.4	6.5	-7.4	-5.0	2.9
EBIT (Adj) (%)	42.4	-29.4	83.6	0.8	9.6
Core NPAT (%)	37.2	11.7	6.0	7.0	11.6
Core EPS (%)	32.8	7.6	2.8	5.9	11.4
Balance Sheet (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Cash & cash equiv.	6,502	635	500	500	500
Accounts receivables	4,099	5,359	5,019	5,019	5,019
Inventory	1,566	1,638	1,561	1,561	1,561
Net fixed & other tangibles	69,916	84,648	89,869	92,740	94,922
Goodwill & intangibles	8,737	16,723	16,728	16,728	16,728
Financial & other assets	4,564	5,901	6,197	6,214	6,232
Total assets	95,384	114,904	119,874	122,762	124,963
Accounts payable	2,883	3,441	3,011	3,011	3,011
Short-term debt	2,033	3,697	5,572	5,267	4,428
Long-term debt	24,286	32,216	31,637	33,146	34,483
Provisions & other liab	38,888	47,938	49,387	49,535	49,406
Total liabilities	68,090	87,292	89,608	90,959	91,328
Shareholders' equity	25,986	25,837	28,505	30,042	31,873
Minority interests	1,308	1,775	1,761	1,761	1,761
Total equity	27,294	27,612	30,266	31,803	33,634
Net debt (Adj)	19,817	35,278	36,710	37,913	38,411
Net debt to equity (Adj) (%)	72.6	127.8	121.3	119.2	114.2

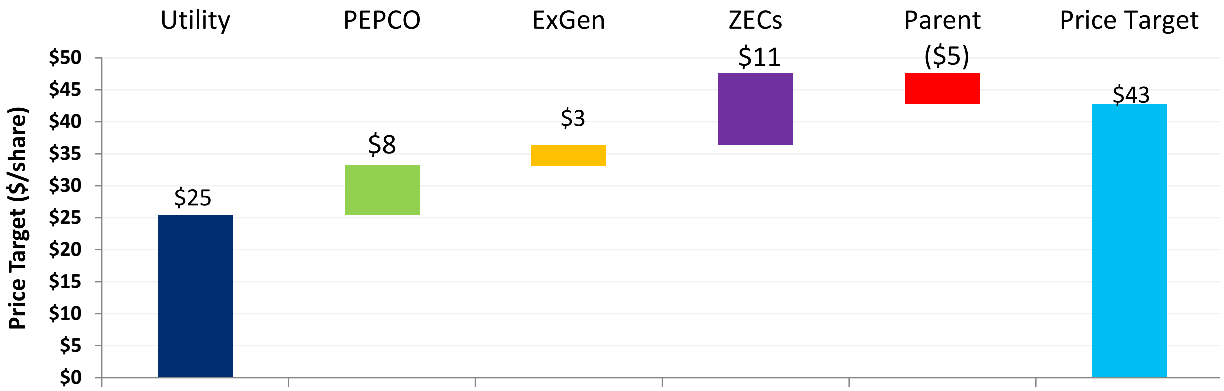
Valuation ratios	2015	2016	2017E	2018E	2019E
PE (x)	15.1	14.0	13.7	12.9	11.6
PB (x)	1.3	1.3	1.3	1.2	1.1
EV/EBITDA (x)	8.8	8.2	8.7	8.5	8.0
FCF yield (%)	0.0	-0.2	-3.0	0.2	2.2
Dividend yield (%)	3.3	3.3	3.4	3.5	3.6
Payout ratio (%)	50	47	47	45	42
ROE (%)	9.4	4.4	10.8	9.6	10.2
Cashflow (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
EBITDA	6,841	7,096	8,848	9,235	9,952
Working capital	-264	-481	-1,013	0	0
Other	1,039	1,854	-700	-1,908	-2,386
Operating cashflow	7,616	8,469	7,135	7,327	7,566
Capex	-7,624	-8,553	-8,208	-7,250	-6,750
Net acq/disposals	-145	-6,755	-278	0	0
Other	-53	-195	-19	0	0
Investing cashflow	-7,822	-15,503	-8,505	-7,250	-6,750
Dividends paid	-1,105	-1,356	-1,234	-1,281	-1,314
Financing cashflow	4,830	1,191	1,235	-77	-816
Net change in cash	4,624	-5,843	-135	0	0
Free cashflow to s/holders	-8	-84	-1,073	77	816

For definitions of the items in this table, please click here.

Sum-of-Parts Valuation

- In the Figure below we lay out our sum-of-parts valuation of EXC
- The change in the valuation is the value of ZECs for all their other nuclear generation assets worth $8/share. Note, we initially estimated the benefits of ZECs in NY and IL worth $3/share.
- We also think this incremental cash flow from ZECs will help EXC de-lever its balance sheet and fund further growth at the utility business

Figure 1. Sum-of-the-parts



Components	Utility	PEPCO	ExGen	ZECs	Parent	Price Target
Terminal Multiple	18.0x	18.0x	5.5x			
Discount Rate	6.5%	6.5%	8.5%			
Firm Value ($mm)	$38,269	$13,805	$12,984			
Net Debt ($mm)	(13,742)	(6,357)	(9,935)			
Equity Value ($mm)	24,527	7,448	3,048	10,802	(4,539)	41,286
Share Price ($/share)	**$25**	**$8**	**$3**	**$11**	**($5)**	**$43**

Source: Citi Research

- **Key Assumptions:** To value the incremental ZECs we assumed:
  - 3GW of nuclear capacity annually would be eligible for ZECs for 12 years starting in 2019. In total, we have assumed 10.5GW of nuclear capacity would receive ZECs by 2022.
  - We have calculated value of ZECs based on NY CES structure and pricing. In particular, we have assumed first two year tranche would get $17.48/MWh. Next five tranches would gradually increase by approximately ~$2/MWh per tranche.
  - We have applied a tax rate of 35% to calculate after tax cash flow impact. Next we discounted back ZEC cash flows at WACC of 6.0% to get to NPV of ~$7.6B or $8/share. Table below shows annual cash flows and EPS impact.
- **ZECs Allows EXC to Win in Most Scenarios.** If power prices stay at current levels, then, as hedges roll-off, further nuclear plants will be economically challenged and will go in for support. If power prices pick up then EXC's fleet is significantly more valuable and they won't need ZECs. We think there is a higher likelihood of prices continuing their trajectory downwards as renewables continue their march in the U.S.

- **Table below Highlights How EXC Is Well Positioned in Most Power Price Scenarios:**
  - Under the base case, which reflects current forward energy and capacity prices in 2019, the net margin for a nuclear plant is only $6/MWh. If cost of operations are higher or if prices drop, then the ZECs case kick in and offers $780m of value for every 1,000MW of capacity that gets ZECs
  - If energy prices go up by $5/MWh, then net margin increases and keeping the same multiple, value of a 1,000MW plant goes up by $519m. Note that we are keeping the terminal EBITDA multiple flat in this case. The reality is that if power prices do go up, the economic asset life of nuclear plants also increase and the terminal EBITDA multiple could increase as well.

Figure 2. Scenario Analysis

Financial Metrics PJM 2020	Units	Base Case	Prices Up Case	Downside Case - ZECs
Power Prices (ATC)	$/MWh	$32	$37	$17.5
Capacity Prices	$/MWh	7	7	
Forward Prices & Capacity Prices	$/MWh	38	43	
Cash Cost of Operation	$/MWh	32	32	
Net Margin	$/MWh	$6	$11	
Nuclear Plant	MW	1,000	1,000	1,000
Capacity Factor	%	95.0%	95.0%	95.0%
Generation	MWh	8,322	8,322	8,322
ZECs Revenue (post tax)				$95
EBITDA	**$mm**	**$53**	**$94**	
Terminal Multiple	x	5.5x	5.5x	
Valuation Impact		$291	$519	$780 [1]
ZECs 1st Tranche	$/MWh	$17.5		
ZEC Revenue	$mm	$145		

1.Valuation of ZECs based on WACC of 6%. ZEC valuation is based on 12 yrs

Source: Citi Research

Updated Estimates

- With additional benefits of ZECs starting in 2019, our estimates reflect higher EPS. The charts below lay out our updated EPS estimates for EXC and the updated ExGen EBITDA and FCF. We have refined our ZEC calculations based on latest management guidance.

- We also highlight the improved FFO/Debt as a result of the assumed additional ZEC revenues.

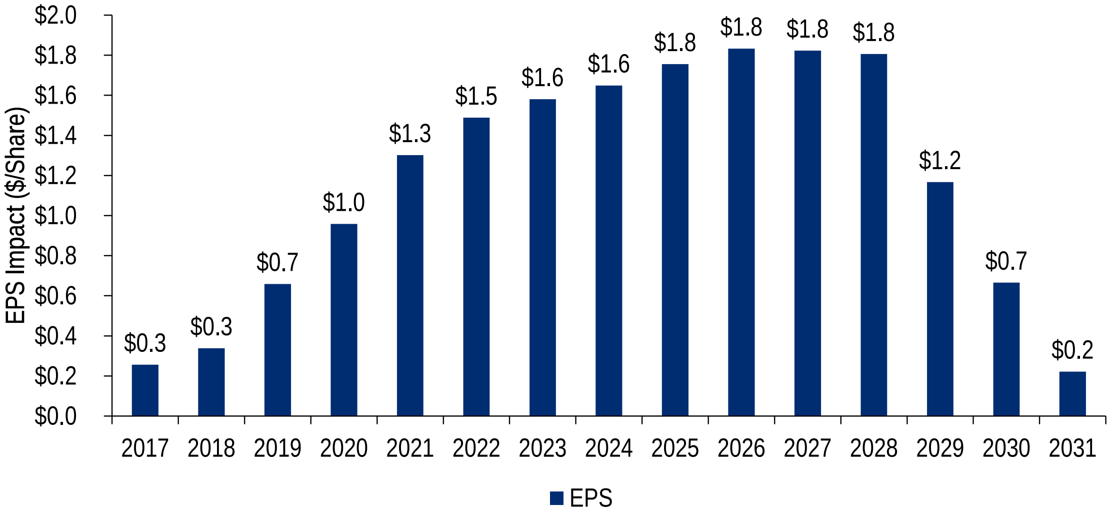
- **Key Assumptions to Model ZECs**

  - 3GW of nuclear capacity annually would be eligible for ZECs for 12 years starting in 2019. In total, we have assumed 10.5GW of nuclear capacity would receive ZECs by 2022.

  - We have calculated value of ZECs based on NY CES structure and pricing. In particular, we have assumed the first two-year tranche would get $17.48/MWh. Next five tranches would gradually increase by approximately ~$2/MWh per tranche.

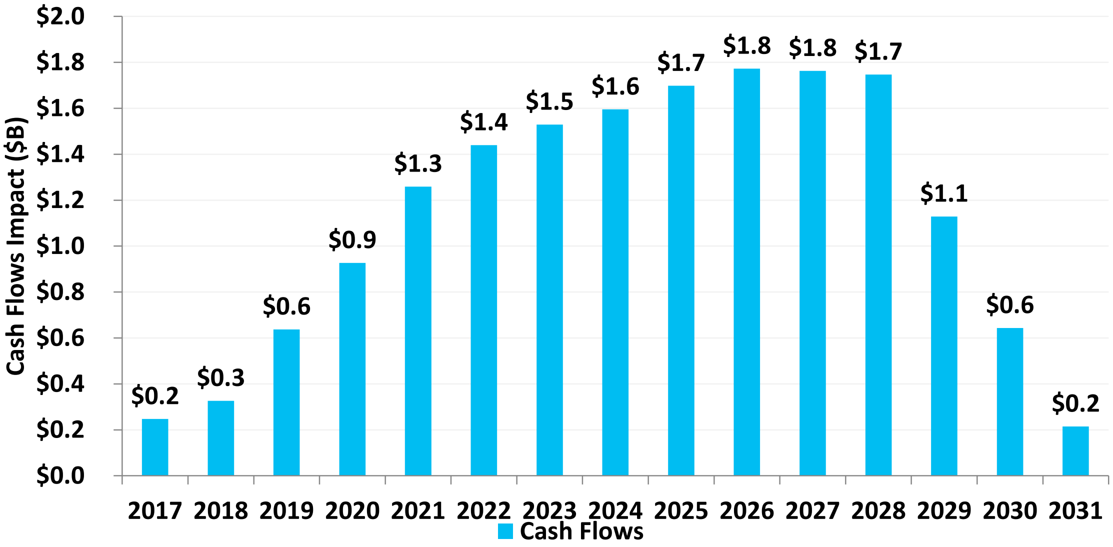
  - We have applied a tax rate of 35% to calculate the after tax cash flow impact. Next we discounted back ZEC cash flows at WACC of 6.0% to get to NPV of ~$7.6B or $8/share. Table below shows annual cash flows and EPS impact.

Figure 3. EPS Impact of 10.5GWs of Capacity Receiving ZECs.



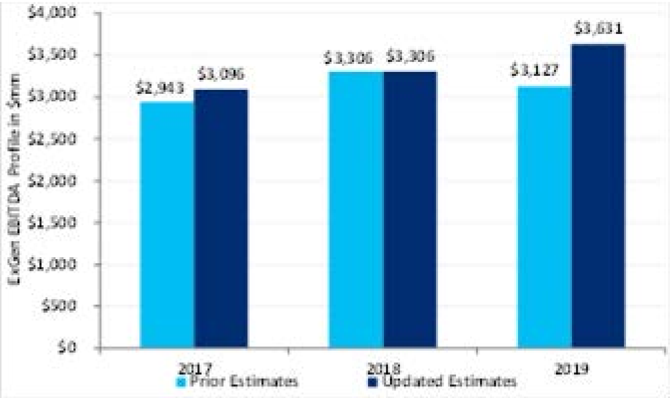
Source: Citi Research

Figure 4. Cash Flow Impact of 10.5GWs of Capacity Receiving ZECs.



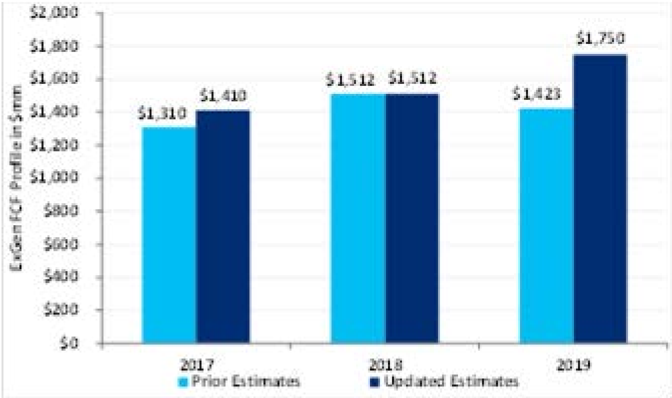
Source: Citi Research

Figure 5. ExGen EBITDA Estimates



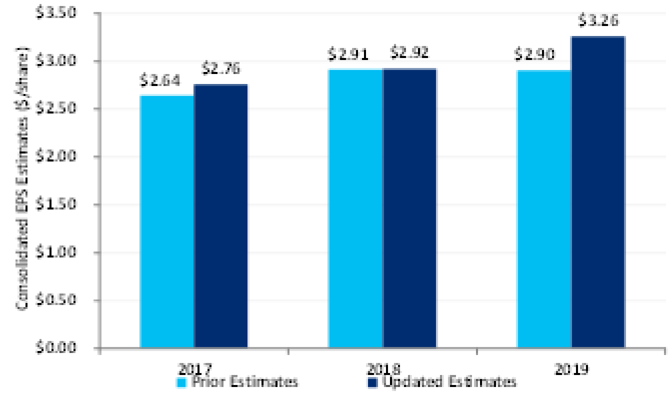
Source: Citi Research

Figure 6. ExGen FCF Estimates



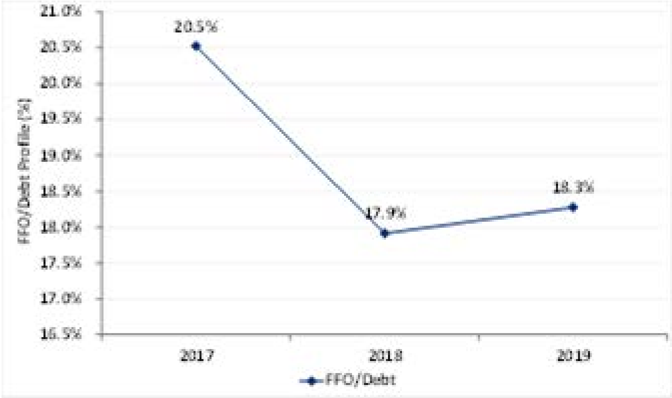
Source: Citi Research

Figure 7. Consolidated EPS Estimates



Source: Citi Research

Figure 8. FFO/Debt Estimates



Source: Citi Research

Read-through for Rest of Sector

- **IPPs likely saved by market reform.** With ZECs gaining further momentum, we think the need for market reform will increase further to protect price signals in capacity and energy markets. Given the significant GWs that will put their hand up for bailouts, we think FERC and different markets will have to come up with a solution soon. That is why we don't think the negative impact for IPPs is significant.

- **PEG clearly should benefit as well with the NJ & PA bailout.** From a value perspective, the ZECs in NJ & PA will be worth $2.8B assuming ~3.6GW of nuclear capacity would be eligible for ZECs

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates six utilities in Pennsylvania, Illinois, New Jersey, DC, Delaware, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO, and Pepco. Exelon Generation operates the largest nuclear fleet in the United States, with plants concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Buy (1).

Our rating is not only based on the IL and NY ZECs but we believe that other states will follow suit in providing support for nuclear plants and that will further improve EXC's financial strength and valuation. We like this regulated utility's robust growth profile of 6-8% through 2020E.

Valuation

We value EXC using a sum-of-the-parts approach to get to our $43 price target. We value ExGen at ~$3/share and believe ExGen’s core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The legacy utility business is valued at $25/share based on a 18.0x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent net debt and add $11/share for ZECs to get to our rounded PT of $43/share.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the risks get rejected after further legal challenge then the stock has downside as some value of ZEC is already in the stock price

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Public Service Enterprise Group Inc

(PEG.N; US$44.29; 2; 26 Jul 17; 16:00)

Valuation

We value PEG using sum of the parts approach. We value PEG's Utility business using our standard DCF methodology with 17.5x terminal multiple. We believe this multiple is appropriate given PEG's strategic positioning. Our value per share for the Utility business is $35. We value PEG's Merchant business using the DCF approach as well. We use terminal EV/EBITDA multiple of 7.0x. As with other merchants, we're using lower multiple to account for a hybrid discount. Our value per share for the Merchant business is $9. Lastly, Parent & Other adds ($0)/share to our combined valuation of $44.

Risks

Commodities price risk affecting merchant generation – If natural gas prices fall (rise), wholesale power prices will likely fall (rise), limiting (raising) commodity margins. PSEG is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices fall significantly from current prices, PSEG might have to re-contract at incrementally lower margins. Regulatory risk – PSEG relies on regulatory recovery mechanisms in NJ and has a substantial growth capex program in the state. If PSEG was unable to obtain regulatory recovery at the rates that we are projecting, our estimates and valuation could be adversely impacted. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Appendix A-1

Analyst Certification

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by “AC” in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Public Service Enterprise Group Inc (PEG)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	22-Jul-14 20:24:08	1	*50.00	37.18
2	21-Oct-14 05:01:58	1	*51.00	38.76
3	18-Dec-14 16:47:17	Coverage terminated		

	Date	Rating	Target Price	Closing Price
4	17-Sep-15 16:01:15	*2	*42.00	40.60
5	19-Feb-16 17:38:53	2	*45.00	42.97
6	04-Oct-16 03:14:34	2	*41.00	40.68

	Date	Rating	Target Price	Closing Price
7	10-Jan-17 07:36:15	2	*43.00	43.46
8	23-Apr-17 16:58:38	2	*45.00	44.51
9	07-Jun-17 06:52:17	2	*44.00	44.58

*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	22-Jul-14 20:24:08	3	*30.00	31.78
2	17-Oct-14 03:01:08	*2	*37.00	34.38
3	18-Dec-14 16:46:48	Coverage terminated		
4	17-Sep-15 16:01:15	*3	*27.00	31.57

	Date	Rating	Target Price	Closing Price
5	26-Jan-16 17:07:46	*2	27.00	27.84
6	22-Feb-16 16:00:00	*3	27.00	31.69
7	19-Jul-16 23:43:46	3	*29.00	36.58
8	04-Oct-16 03:14:34	3	*27.00	31.86

	Date	Rating	Target Price	Closing Price
9	28-Nov-16 20:37:44	3	*29.00	33.39
10	02-Dec-16 07:02:27	*2	*31.00	33.01
11	30-Mar-17 06:59:06	2	*35.00	35.70
12	07-Jun-17 06:52:17	2	*36.00	36.61

*Indicates Change

Rating/target price changes above reflect Eastern Time

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U.S. Nuclear: Down but Not Out

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Research as of 27 Jul 2017
Estimates as of 03 May 2017
Pricing data through 27 Jul 2017
Rating updated as of 27 Jul 2017

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Analyst Note 27 Jul 2017

We are reaffirming our fair value estimates, moat and moat trend ratings for all U.S. utilities with nuclear exposure after analyzing the economics, regulation, and sustainability attributes of nuclear generation in the U.S.

Nuclear power is at an inflection point in the U.S., with a wide gap developing between the anti-nuclear and pro-nuclear factions. This is a critical debate. The 99 nuclear units in the U.S. provide 20% of the nation's electricity and meet essential reliability needs for major cities. Competition from cheap natural gas generation and renewable energy are pinching profits now, but we think a long-term perspective is important.

Our forecast for flat or growing U.S. nuclear capacity is more bullish than most forecasts. In particular, we think the U.S. could add as much as 5% net new nuclear capacity by 2040 primarily due to nuclear uprates. Most market forecasts assume natural gas is the marginal generation source, but our calculations show nuclear uprates have similar economic returns and less long-term capital reinvestment risk. We think nuclear has a more favorable environmental, social, and governance, or ESG, profile than most other nonrenewable energy sources. Its low carbon-emissions profile and reliability make it a critical contributor to meeting state and federal environmental policy goals.

We think the best opportunity for investors is to take advantage of the market's concerns about spiraling new-build nuclear costs and regulatory risk. Scana and Southern Company trade at steep discounts to peers even after adjusting for their new-build project risks. Among existing plant owners, only one utility has maintained a big bet on nuclear: Exelon. The stock looks pricey now, but its scale and political clout as the largest U.S. operator give it more option upside than any U.S. utility. We also think top-tier

Vital Statistics

Market Cap (USD Mil)	35,182
52-Week High (USD)	38.04
52-Week Low (USD)	29.82
52-Week Total Return %	7.4
YTD Total Return %	8.9
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.1
5-Yr Forward EPS CAGR %	2.9
Price/Fair Value	1.19

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*14.1*	*13.1*
EV/EBITDA	6.6	9.5	*8.8*	*8.1*
EV/EBIT	10.2	21.5	*14.4*	*13.1*
Free Cash Flow Yield %	0.0	-0.3	*-6.2*	*0.9*
Dividend Yield %	4.3	3.6	*3.4*	*3.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*32,405*	*34,930*
Revenue YoY %	7.4	6.5	*3.3*	*7.8*
EBIT	4,409	3,112	*4,998*	*5,479*
EBIT YoY %	42.4	-29.4	*60.6*	*9.6*
Net Income, Adjusted	2,224	2,484	*2,499*	*2,763*
Net Income YoY %	7.7	11.7	*0.6*	*10.5*
Diluted EPS	2.49	2.68	*2.69*	*2.90*
Diluted EPS YoY %	4.2	7.6	*0.2*	*8.0*
Free Cash Flow	561	-6,417	*45*	*1,223*
Free Cash Flow YoY %	365.5	-1,243.2	*-100.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

nuclear operators such as Exelon and Xcel Energy should earn premium valuations for their positive ESG characteristics.

For our full analysis, see our Utilities Observer: U.S. Nuclear Down But Not Out.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.99 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*Forecast 2017*	*Forecast 2018*	*5-Year Proj. CAGR*
Revenue	*8.0*	10.2	7.4	6.5	*3.3*	*7.8*	*3.1*
EBIT	*-5.2*	-15.3	42.4	-29.4	*60.6*	*9.6*	*13.9*
EBITDA	*6.7*	-6.9	26.8	2.8	*16.3*	*8.0*	*6.8*
Net Income	*4.9*	-4.0	7.7	11.7	*0.6*	*10.5*	*3.9*
Diluted EPS	*2.3*	-4.4	4.2	7.6	*0.2*	*8.0*	*2.9*
Earnings Before Interest, after Tax	*14.3*	53.5	13.7	-14.4	*5.5*	*6.2*	*2.4*
Free Cash Flow	*-262.0*	-92.0	365.5	-1,243.2	*-100.7*	*NM*	—

Profitability	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Operating Margin %	*12.1*	11.3	15.0	9.9	*15.4*	*15.7*	*16.2*
EBITDA Margin %	*21.8*	19.7	23.3	22.5	*25.3*	*25.4*	*26.2*
Net Margin %	*7.7*	7.5	7.6	7.9	*7.7*	*7.9*	*8.2*
Free Cash Flow Margin %	*-6.0*	0.4	1.9	-20.5	*0.1*	*3.5*	*5.8*
ROIC %	*2.9*	2.5	4.1	2.1	*5.0*	*5.5*	*5.4*
Adjusted ROIC %	*3.1*	2.7	4.3	2.3	*5.4*	*6.1*	*5.8*
Return on Assets %	*1.8*	2.0	2.5	1.1	*2.2*	*2.3*	*2.4*
Return on Equity %	*6.9*	7.1	9.3	4.4	*9.3*	*9.7*	*9.6*

Leverage	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Debt/Capital	*0.53*	0.49	0.50	0.58	*0.58*	*0.58*	*0.56*
Total Debt/EBITDA	*4.35*	4.12	3.84	5.10	*4.69*	*4.47*	*4.33*
EBITDA/Interest Expense	*5.44*	5.08	6.64	4.59	*5.40*	*5.52*	*5.59*

Valuation Summary and Forecasts

	2015	2016	*2017(E)*	*2018(E)*
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	*14.1*	*13.1*
EV/EBITDA	6.6	9.5	*8.8*	*8.1*
EV/EBIT	10.2	21.5	*14.4*	*13.1*
Free Cash Flow Yield %	0.0	-0.3	*-6.2*	*0.9*
Dividend Yield %	4.3	3.6	*3.4*	*3.6*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.4
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	8,321	12.9	8.96
Present Value Stage II	17,405	26.9	18.74
Present Value Stage III	38,871	60.2	41.85
Total Firm Value	**64,597**	**100.0**	**69.56**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,379**	**—**	**31.63**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.99 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***32,405***	***34,930***
Cost of Goods Sold	13,003	13,084	12,640	*13,731*	*15,505*
Gross Profit	**14,426**	**16,363**	**18,720**	***18,674***	***19,425***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*8,833*	*8,888*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,643*	*1,684*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,200*	*3,375*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Interest Expense	1,065	1,033	1,536	*1,517*	*1,605*
Interest Income	455	-53	389	*250*	*250*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,730***	***4,123***
Income Tax Expense	666	1,073	761	*1,231*	*1,361*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	—	—
Net Income	**1,623**	**2,269**	**1,134**	***2,499***	***2,763***
Weighted Average Diluted Shares Outstanding	864	893	927	*930*	*952*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.69***	***2.90***
Adjusted Net Income	2,065	2,224	2,484	*2,499*	*2,763*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.69***	***2.90***
Dividends Per Common Share	1.24	1.24	1.26	*1.29*	*1.32*
EBITDA	**6,964**	**8,396**	**8,688**	***8,198***	***8,854***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,198***	***8,854***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.99 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Cash and Equivalents	1,878	6,502	635	*1,282*	*1,605*
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	*4,883*	*5,263*
Inventory	1,603	1,566	1,638	*1,505*	*1,699*
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	*4,500*	*4,500*
Current Assets	**12,097**	**15,334**	**12,412**	***12,170***	***13,068***
Net Property Plant, and Equipment	52,087	57,439	71,555	*75,230*	*78,055*
Goodwill	2,672	2,672	6,677	*6,677*	*6,677*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	*9,300*	*9,300*
Long-Term Non-Operating Assets	13,882	13,874	14,214	*14,214*	*14,214*
Total Assets	**86,814**	**95,384**	**114,904**	***117,591***	***121,314***
Accounts Payable	3,056	2,891	3,449	*2,821*	*2,974*
Short-Term Debt	2,262	2,033	3,697	*3,697*	*3,697*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	*4,200*	*4,200*
Current Liabilities	**8,762**	**9,118**	**13,457**	***10,718***	***10,871***
Long-Term Debt	20,010	24,286	32,216	*34,716*	*35,916*
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	*19,000*	*19,800*
Other Long-Term Operating Liabilities	4,550	4,201	4,187	*4,800*	*4,800*
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	*19,294*	*19,294*
Total Liabilities	**62,681**	**68,062**	**87,292**	***88,528***	***90,681***
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	*18,794*	*18,794*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,910	12,068	12,030	*13,335*	*14,846*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,491	-2,431	-2,660	*-2,200*	*-2,200*
Shareholder's Equity	**22,801**	**26,014**	**25,837**	***27,662***	***29,233***
Minority Interest	1,332	1,308	1,775	*1,400*	*1,400*
Total Equity	**24,133**	**27,322**	**27,612**	***29,062***	***30,633***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.99 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Net Income	1,820	2,250	1,204	*2,499*	*2,763*
Depreciation	3,868	3,987	5,576	*3,200*	*3,375*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*800*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*476*	*-381*
(Increase) Decrease in Inventory	-380	4	7	*133*	*-194*
Change in Other Short-Term Assets	-2,758	-387	-827	*280*	—
Increase (Decrease) in Accounts Payable	209	-121	771	*-628*	*152*
Change in Other Short-Term Liabilities	—	—	—	*-2,111*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***4,712***	***6,515***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-6,875*	*-6,200*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*1,359*	—
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-5,516***	***-6,200***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,194*	*-1,252*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*2,500*	*1,200*
Other Financing Cash Flows	-599	-67	97	*-375*	—
Cash From Financing	**411**	**4,830**	**1,191**	***991***	***8***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*460*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***647***	***323***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth — or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital — the return on capital of the next dollar invested ("RONIC") — to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ▸**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ▸**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ▸**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ▸**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ▸**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

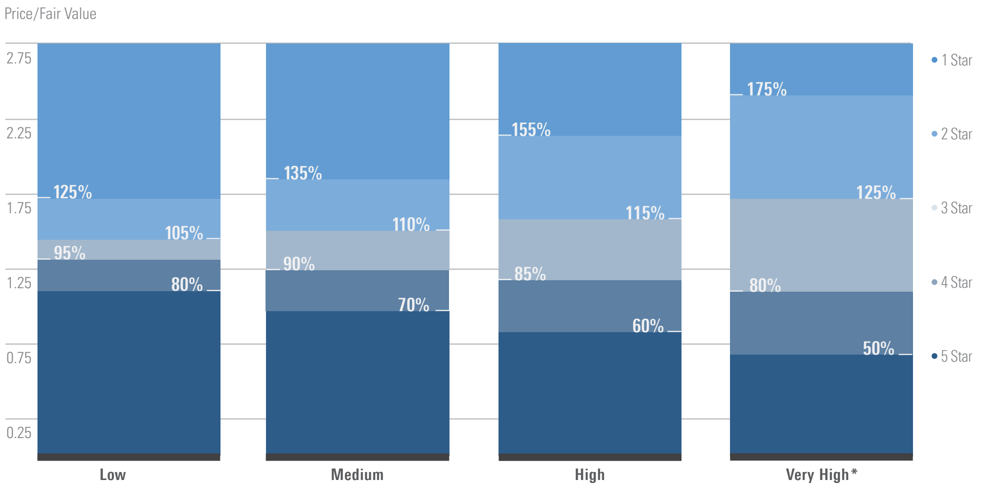
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

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Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

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- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
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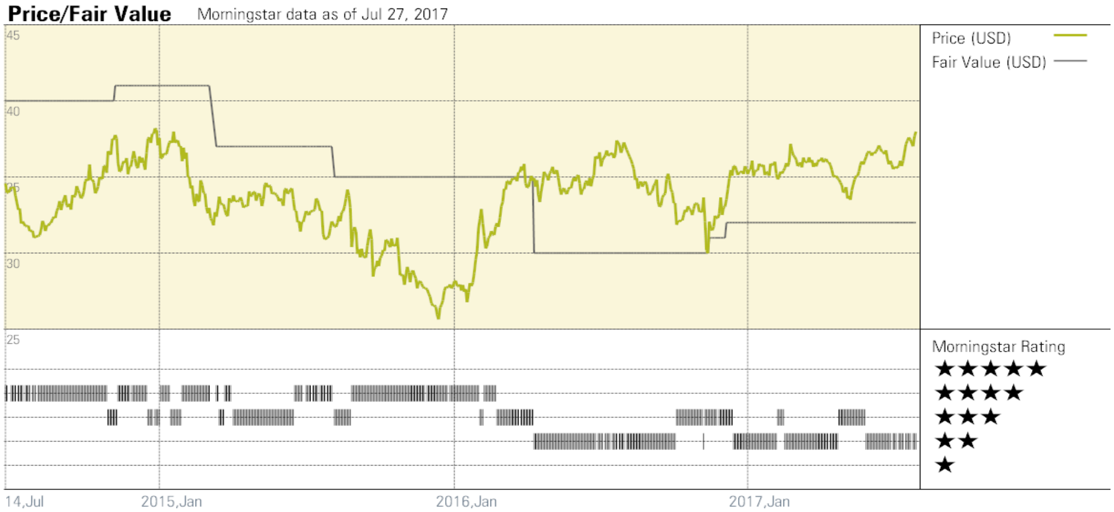
Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.99 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated



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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.99 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	37.99 USD	32.00 USD	1.19	3.43	3.45	35.18	Utilities - Diversified	Standard
27 Jul 2017 21:33, UTC	27 Jul 2017	07 Dec 2016 02:29, UTC		27 Jul 2017	27 Jul 2017	27 Jul 2017		

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.06	0.91	1.03	0.97
Price/Earnings	17.9	17.0	17.3	22.4
Forward P/E	14.2	—	17.2	17.6
Price/Cash Flow	4.3	4.5	7.0	13.0
Price/Free Cash Flow	—	57.1	12.9	19.6
Trailing Dividend Yield%	3.43	4.40	3.42	2.04

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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U.S. Nuclear: Down but Not Out

Investment Thesis

Travis Miller, Strategist, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Strategist, 27 July 2017

We are reaffirming our fair value estimates, moat and moat trend ratings for all U.S. utilities with nuclear exposure after analyzing the economics, regulation, and sustainability attributes of nuclear generation in the U.S.

Nuclear power is at an inflection point in the U.S., with a wide gap developing between the anti-nuclear and pro-nuclear factions. This is a critical debate. The 99 nuclear units in the U.S. provide 20% of the nation's electricity and meet essential reliability needs for major cities. Competition from cheap natural gas generation and renewable energy are pinching profits now, but we think a long-term perspective is important.

Our forecast for flat or growing U.S. nuclear capacity is more bullish than most forecasts. In particular, we think the U.S. could add as much as 5% net new nuclear capacity by 2040 primarily due to nuclear uprates. Most market forecasts assume natural gas is the marginal generation source, but our calculations show nuclear uprates have similar economic returns and less long-term capital reinvestment risk. We think nuclear has a more favorable environmental, social, and governance, or ESG, profile than most other nonrenewable energy sources. Its low carbon-emissions profile and reliability make it a critical contributor to meeting state and federal environmental policy goals.

We think the best opportunity for investors is to take advantage of the market's concerns about spiraling new-build nuclear costs and regulatory risk. Scana and Southern Company trade at steep discounts to peers even after adjusting for their new-build project risks. Among existing plant owners, only one utility has maintained a big bet on nuclear: Exelon. The stock looks pricey now, but its scale and political clout as the largest U.S. operator give it more option upside than any U.S. utility. We also think top-tier nuclear operators such as Exelon and Xcel

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 27 Jul 2017 21:33, UTC	37.99 USD 27 Jul 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.19	3.43 27 Jul 2017	3.45 27 Jul 2017	35.18 27 Jul 2017	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,431	9,037	10.26	42.55
FirstEnergy Corp FE	USD	13,867	14,245	-59.42	0.00
Entergy Corp ETR	USD	13,666	10,824	-11.18	0.00

Energy should earn premium valuations for their positive ESG characteristics.

Economic Moat

Travis Miller, Strategist, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Analyst Notes Archive

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Strategist, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

PJM Capacity Auction Results: Surprisingly, No Surprises

Travis Miller, Strategist, 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

Travis Miller, Strategist, 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Trump's Announcement to Exit Paris Agreement Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 02 June 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities after President Trump announced plans to exit the Paris Climate Agreement.

Despite the withdrawal, we continue to forecast U.S. renewable energy capacity doubling during the next eight years. State renewable portfolio standards, or RPS, and other local policies remain the industry's primary growth driver, not federal environmental policy. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use by 2025, up from 15% now, based solely on existing state RPS.

We think Trump's move to abandon the U.S. Clean Power Plan and Paris Agreement could even embolden states to strengthen renewable energy standards, offering upside to our forecasts. Supportive tax policy and pro-manufacturing initiatives also offer upside. And corporate renewable energy purchases should continue to grow as businesses realize the economic and public perception benefits. Thus, we are not surprised that many business leaders denounced Trump's decision.

We also forecast carbon emissions from the power generation sector will keep falling toward Paris Agreement targets given the growth in renewable energy and gas generation. Low natural gas prices and turbine efficiency improvements are forcing coal plant shutdowns and reduced run times for competing coal generators, which emit twice as much carbon as an equivalent gas plant.

Utilities operating in states with constructive regulation and environmental policy support could realize 7%-9% annual earnings and dividend growth the next three to five years. Best positioned are utilities like Dominion Energy, Duke Energy, American Electric Power, and CMS Energy that are investing billions of dollars in new infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

U.S. Nuclear: Down but Not Out

Travis Miller, Strategist, 27 July 2017

We are reaffirming our fair value estimates, moat and moat trend ratings for all U.S. utilities with nuclear exposure after analyzing the economics, regulation, and sustainability attributes of nuclear generation in the U.S.

Nuclear power is at an inflection point in the U.S., with a wide gap developing between the anti-nuclear and pro-nuclear factions. This is a critical debate. The 99 nuclear units in the U.S. provide 20% of the nation’s electricity and meet essential reliability needs for major cities. Competition from cheap natural gas generation and renewable energy are pinching profits now, but we think a long-term perspective is important.

Our forecast for flat or growing U.S. nuclear capacity is more bullish than most forecasts. In particular, we think the U.S. could add as much as 5% net new nuclear capacity by 2040 primarily due to nuclear uprates. Most market forecasts assume natural gas is the marginal generation source, but our calculations show nuclear uprates have similar economic returns and less long-term capital reinvestment risk. We think nuclear has a more favorable environmental, social, and governance, or ESG, profile than most other nonrenewable energy sources. Its low carbon-emissions profile and reliability make it a critical contributor to meeting state and federal environmental policy goals.

We think the best opportunity for investors is to take advantage of the market's concerns about spiraling new-build nuclear costs and regulatory risk. Scana and Southern Company trade at steep discounts to peers even after adjusting for their new-build project risks. Among existing plant owners, only one utility has maintained a big bet on nuclear: Exelon. The stock looks pricey now, but its scale and political clout as the largest U.S. operator give it more option upside than any U.S. utility. We also think top-tier nuclear operators such as Exelon and Xcel Energy should earn premium valuations for their positive ESG characteristics.

Exelon Corp EXC ★★★Q 27 Jul 2017 02:00 UTC

Last Close	Fair Value^Q	Market Cap	Sector	Industry	Country of Domicile
27 Jul 2017 37.99	27 Jul 2017 02:00 UTC 35.90	27 Jul 2017 34,895.3 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is one of the largest power retailer engaged in the utilities sector of United States. The company involves in the power generation and transmission activities.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	86	86	81
Valuation	Overvalued	30	38	25
Quantitative Uncertainty	Medium	95	85	92
Financial Health	Moderate	60	52	60

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.06	0.91	1.03	0.97
Price/Earnings	17.9	17.0	17.3	22.4
Forward P/E	14.2	—	17.2	17.6
Price/Cash Flow	4.3	4.5	7.0	13.0
Price/Free Cash Flow	—	57.1	12.9	19.6
Trailing Dividend Yield %	3.43	4.40	3.42	2.04
Price/Book	1.3	1.3	1.4	2.6
Price/Sales	1.1	1.1	1.5	2.2

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	7.5	7.0	9.5	12.2
Return on Assets %	1.7	1.9	3.2	4.6
Revenue/Employee (K)	946.2	942.4	1,274.9	308.8

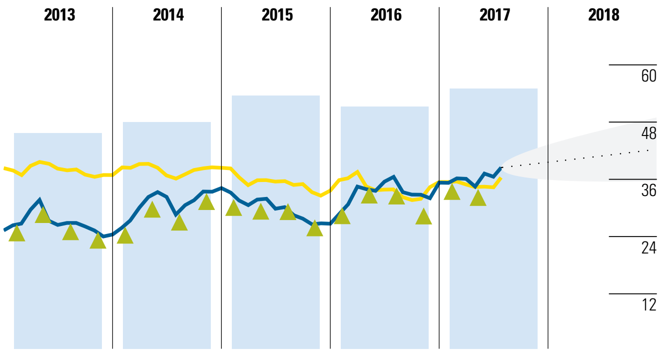
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	590.3	—	598.7	579.6
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	7.4	9.9	2.7	-2.3

Price vs. Quantitative Fair Value



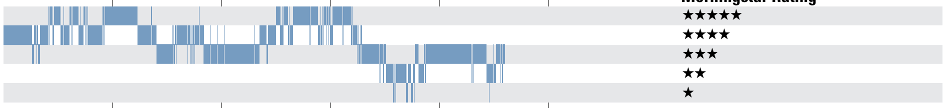
- Quantitative Fair Value Estimate
- Total Return
- Sales/Share
- Forecast Range
- Forecasted Price
- Dividend
- Split

Momentum:	Neutral
Standard Deviation:	19.22
Liquidity:	High

29.82	52-Wk	38.04
25.09	5-Yr	39.82

2013	2014	2015	2016	2017	2018	
-3.0	39.9	-21.8	32.4	8.9		Total Return %
-36.1	27.1	-22.5	19.9	-2.8		+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—		Trailing Dividend Yield %
—	—	—	—	3.43		Forward Dividend Yield %
14.6	15.2	12.4	26.9	18.0		Price/Earnings
0.9	1.2	0.8	1.1	1.1		Price/Revenue

Morningstar Rating^Q

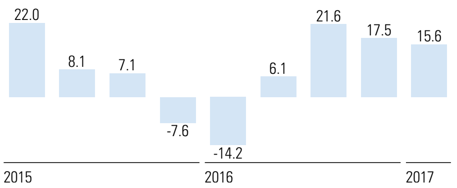


2012	2013	2014	2015	2016	TTM	**Financials** (Fiscal Year in Mil)
23,489	24,888	27,429	29,447	31,360	32,544	Revenue
24.1	6.0	10.2	7.4	6.5	3.8	% Change
2,380	3,656	3,096	4,409	3,112	3,925	Operating Income
-46.9	53.6	-15.3	42.4	-29.4	26.1	% Change
1,160	1,719	1,623	2,269	1,134	1,956	Net Income
6,131	6,343	4,457	7,616	8,445	8,173	Operating Cash Flow
-5,810	-5,395	-6,077	-7,624	-8,553	-8,465	Capital Spending
321	948	-1,620	-8	-108	-292	Free Cash Flow
1.4	3.8	-5.9	0.0	-0.3	-0.9	% Sales
1.42	2.00	1.88	2.54	1.22	2.10	EPS
-62.1	40.8	-6.0	35.1	-52.0	72.1	% Change
0.39	0.48	-0.03	-1.04	0.82	-0.31	Free Cash Flow/Share
2.10	1.46	1.24	1.24	1.26	1.28	Dividends/Share
25.07	25.51	27.44	28.01	28.17	28.65	Book Value/Share
855,000	857,000	860,000	920,000	924,000	926,097	Shares Outstanding (K)
						Profitability
6.5	7.8	7.2	9.4	4.4	7.5	Return on Equity %
1.7	2.2	2.0	2.5	1.1	1.7	Return on Assets %
4.9	6.9	5.9	7.7	3.6	6.0	Net Margin %
0.35	0.31	0.33	0.32	0.30	0.28	Asset Turnover
3.7	3.5	3.8	3.7	4.4	4.4	Financial Leverage
56.8	56.9	52.6	55.6	59.7	59.2	Gross Margin %
10.1	14.7	11.3	15.0	9.9	12.1	Operating Margin %
18,346	18,271	20,010	24,286	32,216	31,685	Long-Term Debt
21,624	22,925	22,801	25,793	25,837	26,530	Total Equity
0.6	0.5	0.6	0.5	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2017	8,757.0	—	—	—	—
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
Earnings Per Share ()					
2017	1.07	—	—	—	—
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

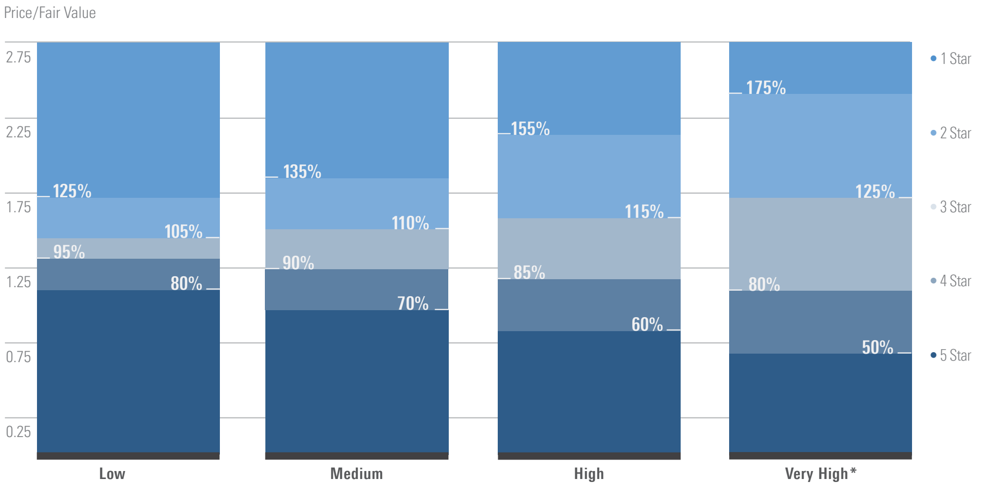
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ▶**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ▶**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ▶**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ▶**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ▶**Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ▶**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ▶**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ▶**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ▶**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ▶**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ▶**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
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- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

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Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

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This Report has not been made available to the issuer of the security prior to publication.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	37.99 USD	32.00 USD	1.19	3.43	3.45	35.18	Utilities - Diversified	Standard
27 Jul 2017 21:33, UTC	27 Jul 2017	07 Dec 2016 02:29, UTC		27 Jul 2017	27 Jul 2017	27 Jul 2017		

Price/Fair Value Morningstar data as of Jul 27, 2017

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 27 Jul 2017 21:33, UTC	37.99 USD 27 Jul 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.19	3.43 27 Jul 2017	3.45 27 Jul 2017	35.18 27 Jul 2017	Utilities - Diversified	Standard

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Scotia Howard Weil

COMPANY UPDATE

Wednesday, August 2, 2017

Exelon Corporation

2Q17 Results at Top End of Range, Reiterate Full-Year Guidance

QUICK TAKE: A positive release, with adjusted earnings at the top end of the guidance range, reiteration of full-year operating expectations, and the previously announced news regarding the dismissal of legal challenges to the ZEC programs in Illinois and New York late last month. The company continues to execute on its strategic objectives by optimizing its nuclear fleet and maintaining a consistent schedule of rate cases at its utility subsidiaries, which should ultimately drive improved cash flows and lower debt levels. These results and updates should be supportive of the stock in the near term, in our opinion.

KEY POINTS

2Q17 Earnings at Top End of Guidance: The company reported GAAP earnings of $0.09/share, including non-recurring items totalling $0.45/share, including mark-to-market hedge activity and asset impairments. Recurring earnings of $0.54/share were a bit above our estimate of $0.51/share, in line with the Street consensus, and at the top end of the prior $0.45 to $0.55/share guidance range. The company reiterated FY17 earnings guidance of $2.50 to $2.80/share (SHW $2.65/share pre-2Q17 print). 3Q17 earnings are guided to be between $0.80 and $0.90.share (SHW $0.83/share, Street $0.93/share pre-2Q17 print).

Nuclear Updates: Federal courts in Illinois and New York dismissed cases challenging those states' ZEC programs supporting some of the underperforming plants in the company's nuclear fleet. These results add some certainty to the ultimate recognition of these payments for EXC, and the outcomes also create a template for future programs that could benefit facilities in other states, in our opinion. Along those lines, the company announced plans for the early retirement by September 2019 of its Three Mile Island nuclear plant after it failed to clear the most recent PJM capacity auction.

Rate Cases Underway: The company entered into settlement agreements on DPL electric and gas cases during 2Q17 and received an order to increase DC electric distribution rates by $37 million at Pepco late last month. DPL filed another electric rate case last month requesting a 10.1% ROE and $27 million rate increase, with a decision expected 1Q18.

Qtly EPS (Dil)	Q1	Q2	Q3	Q4	Year	P/EPS
2015A	$0.71	$0.59	$0.83	$0.38	$2.49	11.1x
2016A	$0.68	$0.65	$0.91	$0.44	$2.69	13.2x
2017E	$0.65A	$0.51	$0.83	$0.67	$2.65	14.5x
2018E	$0.73	$0.63	$0.81	$0.68	$2.85	13.5x

(FY-Dec.)	2014A	2015A	2016A	2017E	2018E
EBITDA (M)	$6,367	$6,937	$8,399	$8,573	$8,973
Enterprise Value (M)	$53,537	$46,117	$69,934	$75,415	$76,071
EV/EBITDA	8.4x	6.6x	8.3x	8.8x	8.5x

Historical price multiple calculations use FYE prices. All values in US$ unless otherwise indicated.
Source: FactSet; company reports; Scotia Howard Weil estimates.

Dissemination: August 02, 2017, 08:41 ET. Production: August 02, 2017, 08:40 ET.

ANALYST TEAM Link to Analyst Page

POWER & UTILITIES

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PERTINENT DATA

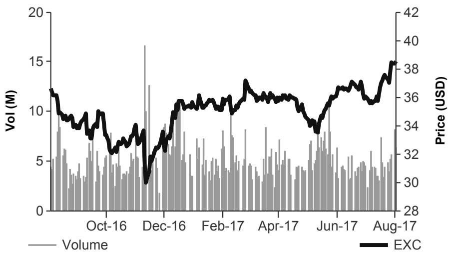
Rating	**Sector Perform**
1-Yr. Target	**$37.00**
EXC	$38.55
1-Yr. Return	-0.6%
Div. (NTM)	$1.30
Div. (Curr.)	$1.31
Yield (Curr.)	3.4%

Valuation: 13.0x our F2018 EPS estimate

CAPITALIZATION

Market Cap. (M)	$35,720
Net Debt + Pref. (M)	$36,128
Enterprise Value (M)	$73,609
Shares O/S (M)	927
Float O/S (M)	924

Volume and Closing Price for EXC



Source: FactSet.

Company Overview

Company Description

Exelon Corporation is a diversified power utility company with operations throughout the United States, operating generation, transmission, and distribution assets in both merchant and regulated markets. The Generation segment operates a large regional and fuel-diversified competitive electricity business, including the largest nuclear power generation fleet in the country. The company owns regulated utilities ComEd, BGE, PECO, and Pepco Holdings, which provide electric transmission and distribution services to customers within their designated service areas.

Risks

Risk factors that may impede the achievement of the price target: (1) Industry fundamentals with respect to customer demand or product/service pricing could change and adversely impact expected revenues and earnings; (2) issues relating to major competitor or market shares or new product expectations could change investor attitudes toward the sector or the company; (3) unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) external factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects.

Key Risks:
Regulatory factors, interest rates, commodity prices, operational factors, including running fleet of nuclear power reactors

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Rating and Price Target History

Exelon Corporation (EXC) as of August 01, 2017 (in USD)

16-Nov-2015
Price: 28.65
Rating: SP
Target: 34.00

17-Aug-2016
Price: 34.58
Rating: SP
Target: 37.00*

*Represents the value(s) that changed.

Powered by: BlueMatrix

Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage

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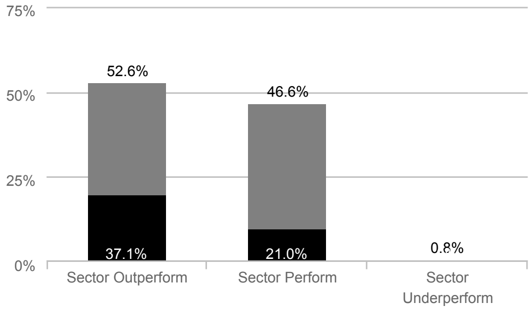

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KeyBanc
Capital Markets

Alert
August 2, 2017
Energy: Electric Utilities
NYSE: EXC

Exelon Corporation

EXC - ALERT: 2Q17 Results Point to in Line Quarter

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We expect a mixed response to the in line quarter and affirmed FY guidance, muted by 3Q17 guidance coming in below current expectations.

August 1, 2017 Close: $38.55

2Q17 Ongoing EPS: $0.54 vs. $0.65 in 2Q16 / Consensus of $0.53 / KBCM of $0.53

Initial Take: We expect a mixed response to a largely in line quarter and affirmed 2017 EPS guidance; however, we could see some pressure from a 3Q17 guidance range with a midpoint ($0.85) below current consensus ($0.93).

2017 KBCM EPS Estimate: $2.70 (Consensus: $2.67)

2018 KBCM EPS Estimate: $2.90 (Consensus: $2.88)

Guidance: Exelon affirmed 2017 EPS guidance of $2.50-$2.80 and initiated 3Q17 guidance of $0.80-$0.90 (consensus of $0.93)

Highlights:

- Results were in line with our estimate.
- Courts granted motions to dismiss legal challenges to the ZEC programs in Illinois and New York.
- TTM Consolidated Earned ROE came in at 9.7% vs. 9.9% sequentially.
- EXC reported EPS of $0.54 vs. $0.65 in 2Q16 as primary drivers include: weaker results at ExGen (-$0.13), lower ComEd (-$0.01), and lower PECO (-$0.01), slightly offset by HoldCo (+$0.03), BGE (+$0.02), and PHI (+$0.01). We note rounding.
- Generation segment ongoing earnings fell $0.22 vs. $0.35 as poor market conditions (-$0.16) and higher O&M (-$0.05) were slightly offset by ZEC revenue (+$0.05) and other (+$0.03).
- ComEd ongoing results were $0.15 vs. $0.16 as rate base (+$0.01) and Treasuries/ROE (+$0.01) were offset by weather (-$0.01) and other (-$0.01). We note rounding.
- PECO ongoing results were $0.10 vs. $0.11 as weather and load impacted results (-$0.01).
  - Heating Degree days were down 29.9% YOY and were 28.9% below normal.
  - Cooling Degree days were up 6.1% YOY and were 19.3% above normal.
  - Weather-normalized electric sales fell 0.8%, while weather-normalized gas sales increased 5.3%.
- BGE earnings increased to $0.05 vs. $0.03 due to increased distribution rates (+$0.01) and the absence of 2016 rate case disallowances (+$0.03), which were slightly offset by income taxes (-$0.01) and other (-$0.01).
  - BGE has revenue decoupling, so weather minimally impacts earnings.
- PHI earned $0.07 vs. $0.06 in the quarter from increased distribution rates (+$0.02), slightly offset by O&M (-$0.01).
- HoldCo reported a loss of $0.03 vs. a loss of $0.06 from income taxes (+$0.02) and O&M (+$0.01).

11:00 A.M. ET Conference Call #: (800) 690-3108 ID#: 44816529

We will be focused on:

- View of the market for the Generation segment
- Update on Next Steps for Nuclear subsidies
- Commentary on mitigating regulatory lag across regulated jurisdictions

Disclosure Appendix

Exelon Corporation - EXC

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We have received compensation for investment banking services from Exelon Corporation during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

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As of the date of this report, we make a market in Exelon Corporation.

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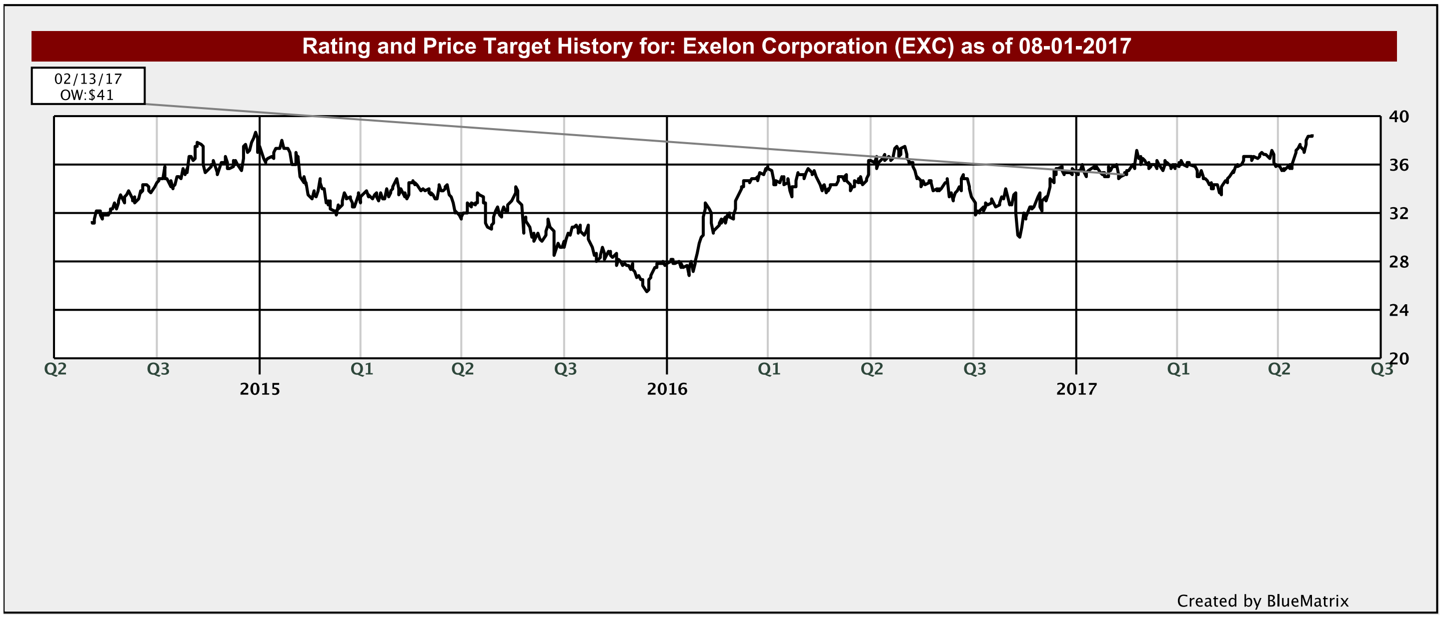

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KeyBanc Capital Markets

Rating	Count	Percent	IB Serv/Past 12 Mos. Count	IB Serv/Past 12 Mos. Percent
Overweight [OW]	286	43.40	59	20.63
Sector Weight [SW]	361	54.78	50	13.85
Underweight [UW]	12	1.82	2	16.67

Energy

Rating	Count	Percent	IB Serv/Past 12 Mos. Count	IB Serv/Past 12 Mos. Percent
Overweight [OW]	28	45.90	21	75.00
Sector Weight [SW]	33	54.10	15	45.45
Underweight [UW]	0	0.00	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

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Exelon Corporation

EXC – Strong 1Q and Guidance Reaffirmed, Moving Towards Debt Reduction Target Among Other Items at Full Speed

August 2, 2017

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EXC reported inline results; guidance reaffirmed. EXC reported operating earnings of $0.54 vs. Guggenheim estimate of $0.53, consensus estimate of $0.54. Inline results despite weak power forwards which was somewhat offset by ZEC revenues, distribution rates etc. 2017 guidance reiterated within the range of $2.50-$2.80 and 6-8% utility growth trajectory vs. Guggenheim updated EPS estimate of $2.72 for 2017 as we incorporate 2Q17 results and 7% LT earnings growth.

Wow, a lot of focus (too much) on future ExGen spin scenario - We were certainly surprised by the number of inquiries on the call regarding a potential ExGen spin scenario as management has done a good job, in our view, addressing this topic on the past several calls. And, as we have highlighted in the past, the Merchant GenCo should remain core, for now – the ratings agencies are the governor on any potential strategic divestures...Mgmt. already took a very hard look at a potential divestiture of the de-regulated ExGen segment – over a year long process. It was very well noted during our past meetings that the nuclear aspect of the GenCo adds a level of complexity not seen with other strategic moves – the importance of an investment grade credit rating for the NRC has been front and center. In our view, given this very high bar to overcome with the rating agencies, EXC will likely need to make the best of it and continue to garner support with investors…Growth at the regulated utilities diluting ExGen exposure, removal of any remaining ZEC uncertainties coupled with further non-core asset sales will be key. As the utility self-funds dividend and HoldCo interest expense, we believe ExGen FCF could be used to further de-lever debt and even buy back stock IF the valuation disconnect continues – low valuation doesn't necessarily mean the company will spin the two businesses. And, IF a spin is unlocked, it would likely not come until the 2022-2023 time frame at the earliest, in our view. For reference, we estimate $1B in buybacks equates to 2-3% EPS and dividend growth given lower share count.

Dividend upside? Mgmt. reiterated that the board will be in discussions over the next couple of meetings for a possible change in dividend policy – recent ZEC rulings likely went a long way to building much needed confidence on potential policy changes. As we have noted in the past, the dividend appears well set up for growth but mgmt. will likely exercise caution before changing policy with growth of 2.5% noticeably below peers - any revisit of the dividend policy by Board approval would likely be meaningful, in our view. ***See our recent management roadshow note HERE for additional thoughts.***

ZEC in PA – given recent wins, Mgmt. underway with discussions with policymakers, intervenors and various other constituencies. With the bar set very high in recent decisions in Illinois and New York (and even CT), focus should turn to PA. Management reiterated TMI closure by September 2019 with end of the current refueling cycle – closure expected to be EPS accretive within the $0.04-0.07 range. Too early in the process to estimate traction – for our recent thoughts on PA ZEC opportunities, see our recent Commissioner hosted breakfast note HERE. ***See our note following the Judge rulings in IL HERE and NY HERE.***

Regulatory Jurisdictions – good traction in achieving ROE targets at POM by 2019; Mgmt. remains confident that two rate case cycles should remove the lag at POM... ***Continued on the next page...***

EXC BUY

EARNINGS RELEASE

SHARE PRICE $38.55
PRICE TARGET $44.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2017	0.65	0.54	0.92E	0.61E	2.72E
Prior	—	*0.53*	—	—	*2.71E*
P/E					14.2x
2018	0.81E	0.67E	0.93E	0.51E	2.93E
P/E					13.2x
2019	0.77E	0.65E	1.02E	0.45E	2.89E
P/E					13.3x

Market Data	
52-Week Range	$29.82 - $38.78
Market Cap (M)	$35,688
Dividend	$1.35
Dividend Yield	3.5%
ADV (3 mo; 000)	5,005

Management wrapped up the first cycle of rate cases and is underway with the second set of filings which are expected to conclude between Q4/17-Q1/18. As a reminder, current active rate cases include: (1) Maryland: $68.6mm electric distribution revenue ask at PEPCO with 10.10% ROE – final decision expected 10/2017; $27mm electric distribution revenue ask at DPL with 10.1% ROE – final decision due 02/2018; (2) Illinois: $95.6mm FRP filing at ComEd with 8.4% ROE – final decision due 12/2017. (3) New Jersey: $72.6mm electric revenue ask at ACE with 10.1% ROE – final decision due 12/2017.

Valuation

Our $44 price target is based on a sum-of-the-parts analysis. We assign ~$19/share for ExGen using a 7x weighted average EV/EBITDA applied to ExGen's various assets. We assign $30/share for the regulated utilities combined based on our 2018E EPS of $1.88 applied to a 16x regulated utility multiple. Subtracting out ~$5 in parent drag, we arrive at our 12-month PT.

Risks

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

The remaining risks center on the regulated utilities and transmission assets, which encompass traditional risk factors inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

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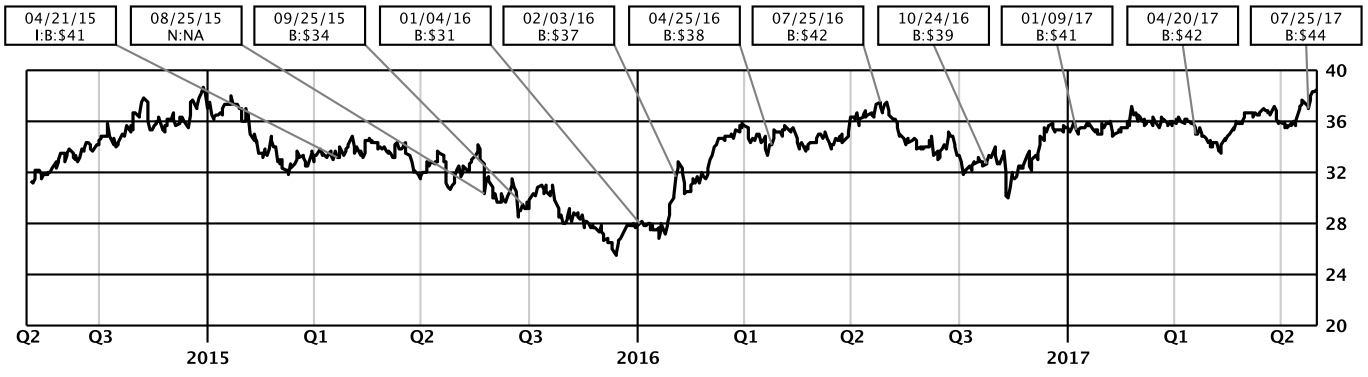
Rating and Price Target History for: Exelon Corporation (EXC) as of 08-01-2017



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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Neutral	125	39.94%	11	8.80%
Sell	2	0.64%	0	0.00%

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August 02, 2017 | 17:53 ET | 17:53 ET~

Exelon

EXC-NYSE	Rating	Price: Aug-2	Target	Total Rtn
	Market Perform	$38.42	$37.00	-0.3%

EXC Remains on Track to Meet Expectations

Bottom Line: EXC reported 2Q17 operating EPS in line with consensus and at the high-end of its guidance range. Utility earnings were slightly favorable relative to plan, driven primarily by O&M timing across all utilities/rate relief. ExGen EPS were also favorable to plan, although $0.13 below 2Q16, reflecting timing of O&M and realized gains from the nuclear decommissioning trust, offset by weaker market conditions. EXC reaffirmed 2017 EPS guidance of $2.50-2.80, with all business segment contributions unchanged from prior disclosures. We find EXC fairly valued trading at a discount to its peers.

Key Points

2Q17 adjusted EPS of $0.54, at the high end of EXC's expectations, but $0.11 lower than the $0.65 earned in 2Q16. EPS benefited this quarter largely from incremental rate relief at its utility businesses and timing of O&M, offset by higher increased planned outages and declining market conditions adversely impacting ExGen, which were partially offset by a $0.05 ZEC contribution in NY and gains from the NDT. Utility earnings were $0.33 in 2Q17, compared to $0.36 a year ago, while ExGen earned $0.22 compared to $0.35.

2017 EPS guidance maintained at $2.50-2.80, with no change to segment contributions. EXC's utilities are expected to earn $1.55-1.95/share in 2017, supported by rate base growth of 8.5% over 2016 levels; ExGen's EPS guidance range is $1.05-1.15 (down from $1.27 in 2016) as lower energy prices and higher O&M are only partially offset by New York ZECs. As of 6/30/17, ExGen's 2017 gross margin is unchanged from prior guidance, but is $150 million lower for both 2018 and 2019, mainly reflecting the expected sale of EGTP and the expected closure of TMI.

Maintaining EPS estimates and price target. We find EXC shares fairly valued trading at a discount to its peers, as the merchant generation business continues to weigh on EXCs valuation, in our opinion. Our price target remains $37.

BMO Capital Markets

Electric Utilities

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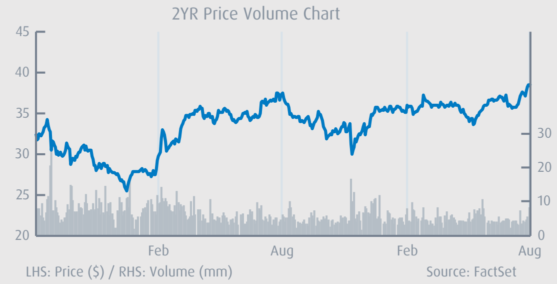


Source: FactSet

Company Data			in $
Dividend	$1.31	Shares O/S (mm)	926.1
Yield	3.4%	Market Cap (mm)	$35,581
EV (mm)	$70,775	Net Debt (mm)	$37,875

BMO Estimates				in $
(FY-Dec.)	2016A	2017E	2018E	2019E
EBITDA	$7,461	$10,916	$11,717	$12,444
FCF after Div.	$(1,274)	$(3,766)	$(3,622)	$(3,111)
EPS	$2.68	$2.70	$2.80	$2.75
Dividends	$1.26	$1.31	$1.34	$1.38
CFPS	$(0.12)	$(1.75)	$(1.59)	$(1.03)

Consensus Estimates				
	2016A	2017E	2018E	2019E
EPS		$2.68	$2.88	$2.84

Valuation				
	2016A	2017E	2018E	2019E
P/E	14.3x	14.2x	13.7x	14.0x
P/CFPS	NM	NM	NM	NM
EV/EBITDA	9.5x	6.5x	6.0x	5.7x

EPS: 2016 adjusted as reported; model will be updated post 10K filing.

Our Thesis

We believe EXC will continue to face headwinds at its competitive mainly nuclear generation business stemming from continued weak power and natural gas prices, rising O&M costs, and challenges from renewable generation, partially offset by ZEC subsidies. Growth at its regulated business could somewhat mitigate the pressures at the competitive business.

Exelon - Block Summary Model

Income Statement	2016A	2017E	2018E	2019E
Revenues	$31,360	$32,040	$33,192	$33,075
Fuel and purchased power	(12,640)	(9,254)	(9,613)	(9,872)
Operating, maintenance and other	(11,624)	(12,357)	(12,349)	(11,246)
Non-recurring gains/(losses)	0	0	0	0
EBITDA	$7,461	$10,916	$11,717	$12,444
Depreciation & Amortization	(3,936)	(5,174)	(5,410)	(5,630)
Other income	365	487	487	487
EBIT	3,525	5,742	6,306	6,813
Interest Expense	(1,536)	(1,851)	(2,182)	(2,577)
Income Tax	(785)	(1,390)	(1,531)	(1,690)
Income from continuing operations	1,204	2,501	2,594	2,546
Adjusted EPS	$2.68	$2.70	$2.80	$2.75
Shares outstanding	927	923	923	923

Cash Flow Statement	2016A	2017E	2018E	2019E
Net Income	1,204	2,501	2,594	2,546
Depreciation & Amortization	5,576	5,178	5,410	5,627
Deferred taxes/other	1,665	257	10	(25)
Cash Flow From Operations	8,445	7,937	8,014	8,148
Capex	(8,553)	(9,554)	(9,478)	(9,102)
Net debt issued/(repaid)	2,205	8,647	9,387	11,577
Common stock (net)	0	0	0	0
Dividends paid	(1,166)	(2,149)	(2,158)	(2,158)
Cash Flow From Financing	1,191	6,303	7,234	9,224
Net cash flow	1,083	4,686	5,770	8,271

Balance Sheet	2016A	2017E	2018E	2019E
Cash & Equivalents	2,138	6,321	11,603	19,475
Total Assets	114,904	144,128	153,467	164,838
Short-term debt	3,697	9,109	16,156	25,719
Total common equity	27,612	35,777	36,119	36,304
Debt %	54.4%	58.8%	62.6%	66.5%
Preferred %	26.3%	0.0	0.0	0.0
Common equity %	45.3%	41.2%	37.4%	33.5%

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

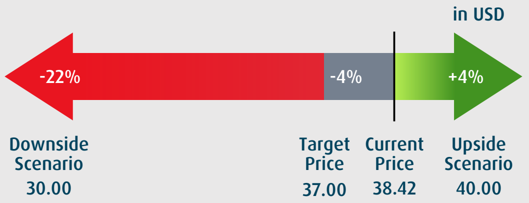
We find EXC shares fairly valued with few catalysts that would propel earnings or the stock at this time, although proceeds from asset sales would be a near-term positive. Power prices are weak and likely to remain so for some time. We expect Exelon to trade in a relatively narrow range, recognizing that downside risk is limited, in our opinion, unless power prices further deteriorate.

Upside Scenario $40.00

In a declining interest rate environment, we could see P/E multiples expand. This, together with a rising power and natural gas price environment, which could lead to EV/EBITDA multiple expansion to 8.9x, would equate to a share price of $40.

Downside Scenario $30.00

In a rapidly rising interest rate environment, we could see P/E multiples contract. This, together with a declining power and natural gas price environment, which could lead to EV/EBITDA multiple contraction to 7.2x, would equate to a share price of $30.



Company Description

Exelon is the largest competitive U.S. power generator, with ~32,700 MW of owned capacity. Its Constellation business unit provides energy products and services to business, public, and residential sector customers. Exelon's utilities deliver electricity and natural gas to 10 million customers in Delaware, DC, Illinois, Maryland, New Jersey, and Pennsylvania.

EXC-NYSE Research

Industry Research

Company Models

Key Takeaways From the Conference Call

EPS Estimates

Exelon reaffirmed its 2017 EPS operating guidance of $2.50-2.80, with the utilities accounting for $1.55-1.95 ($1.61 in 2016), ExGen at $1.05-1.15 ($1.27 in 2016), and Parent/Other, a loss of $0.20 (-$0.19 in 2016).

Key 2017 utility drivers include a full-year contribution from PHI, rate-base growth and rate relief, offset by higher O&M, as well as higher depreciation expenses (new investment).

ExGen earnings guidance reflects the impact of hedging at lower energy prices, somewhat offset by partial-year revenues from the New York (April 1, 2017) ZEC program; contributions from the recently acquired FitzPatrick plant (March 2017); as well as the new Texas CCGTs (2,200 MW) that entered commercial operation this summer. While the ZEC program went into effect in Illinois on June 1, 2017, the Illinois Commerce Commission (ICC) has not yet conducted its ZEC procurement process. Therefore, EXC now expects this process to be completed and the ICC to award the winning ZEC contracts in 4Q17. As such, no ZEC-related revenue from Illinois will be recognized until the process is completed, although once in place, the Illinois ZEC revenue will be recognized retroactive to June 1, 2017.

We are making no change to our 2017-2019 EPS estimates of $2.70, $2.80 and $2.75, with declines at ExGen offsetting utility growth.

Utility Update

- EXC continues to make headway toward improving ROEs. That said, earned ROEs are still woefully low for its PHI units, with ACE currently at 6.4% on a trailing 12-month basis, and Delmarva and Pepco, both at 7.3%.
- EXC entered into settlement agreements in Delaware; with both the electric and gas cases approved totaling some $36 million and ROEs of 9.7%.
- Recently, EXC received a commission decision for its Pepco unit in D.C. for $36.9 million based on a 9.5% ROE.
- Recent filings for its PHI electric companies include cases for Pepco Maryland, ACE and Delmarva Maryland, totaling $168 million. Decisions are expected in October for Pepco MD and in 1Q18 for ACE and Delmarva MD.
- EXC also has a $95.6 million request pending before the ICC in Illinois with an expected decision during 4Q17.
- Total utility rate base growth is projected at 6.5% through 2020. About 75% of rate-base spending is recoverable through formulaic mechanisms and more than 70% of rate base is decoupled, providing earnings visibility.

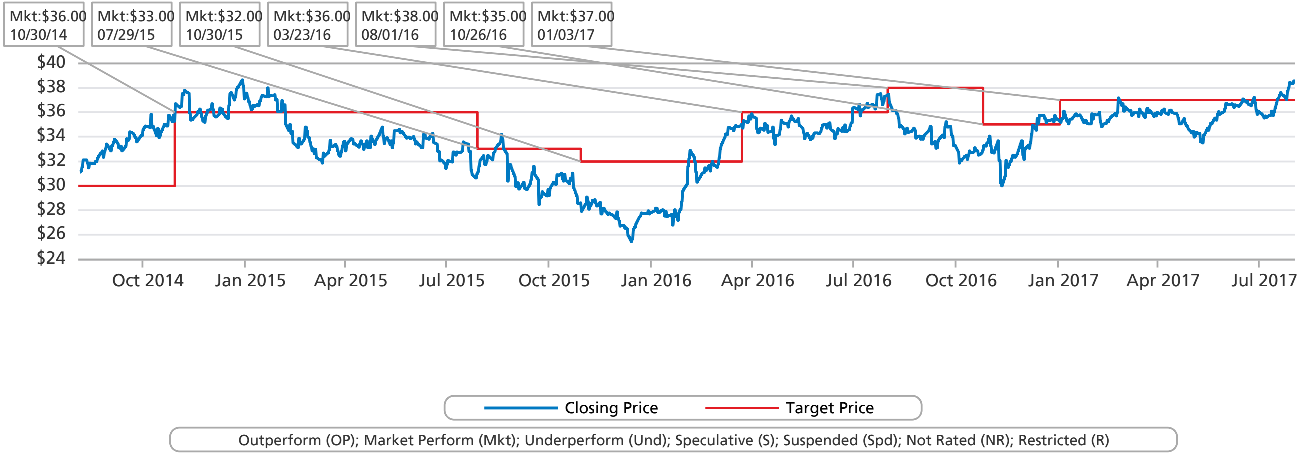
ExGen Update

- As of June 30, 2017, total gross margin for 2017 is unchanged from EXC's YE16 disclosures at $8.15 billion, but lower by $50 million to $8.1 billion in 2018 and $7.77 billion in 2019. The lower margins in 2018 and 2019 reflect the anticipated sale of ExGen Texas Power, LLC (EGTP) and the possible retirement of the TMI nuclear plant in September 2019, after the next fuel cycle. That being said, EXC is working with stakeholders in Pennsylvania on a ZEC-like process that would enable the plant to continue to operate.

  - While the sale of EGTP will result in lower gross margin in 2018 and 2019 by about $100 million each year, it is nonetheless accretive to EPS by $0.02-0.03.
  - Should TMI be ultimately closed prematurely, due to poor economics and the lack of a ZEC being adopted in Pennsylvania. The 2019 impact on gross margin (from September 2019 to YE19) would approximate $50 million. However, as is the case with EGTP, the closure would benefit EPS by $0.04-0.07 annually beyond 2019 depending on the refueling year and positive cumulative cash flows of some $225 million through 2021.
  - The lower gross margin in 2018 of $150 million reflects the removal of EGTP from its portfolio and the impact of lower capacity revenue in MISO and New York. The lower gross margin in 2019 of $150 million is due to EGTP and the anticipated closure of TMI in September 2019.
  - As has been the case for some time now, EXC is about 11-14% behind its ratable hedging program for 2018 and is 8-11% behind for 2019. The majority of this is in the Midwest, as EXC's fundamental view of the spot market is higher in NiHub than current forward prices, which the company believes will correct itself.

- EXC's FFO/debt is projected at 21% for 2017, with a goal of 18-20% over the next several years. ExGen's debt/EBITDA ratio should approximate 2.9x in 2017, in line with its 3.0x target by 2020.

Exelon Rating History as of 08/01/2017



Source: FactSet, BMO Capital Markets

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Methodology and Risks to Target Price/Valuation for Exelon (EXC-NYSE)

Methodology: Our valuation is based on a combination of our 2018 adjusted EBITDA estimate with an 8x EV/EBITDA multiple and a 17x 2018E P/E multiple.

Risks: A material decline in power prices and/or a change in the regulatory environment.

Distribution of Ratings (August 01, 2017)

Rating category	BMO rating	BMOCM US Universe[*]	BMOCM US IB Clients[**]	BMOCM US IB Clients[***]	BMOCM Universe[****]	BMOCM IB Clients[*****]	StarMine Universe
Buy	Outperform	45.6%	20.1%	55.9%	47.3%	58.1%	53.9%
Hold	Market Perform	51.4%	13.7%	43.0%	49.7%	40.3%	41.1%
Sell	Underperform	3.0%	5.9%	1.1%	2.8%	1.2%	5.0%

[*] Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
NR = No Rated - No rating at this time; and
R = Restricted - Dissemination of research is currently restricted.

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Prior BMO Capital Markets Rating System

(April 2013 - October 2016)

http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 - April 2013)

http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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Exelon Corp (EXC): Largely in-line 2Q17; 2017 guidance reiterated at $2.50-$2.80

Sentiment Indicator : neutral

Produced by Tucker, Shelby (RBC Capital Markets, LLC) on Wednesday, August 02, 2017, 08:58 AM ET

Disseminated on Wednesday, August 02, 2017, 09:05 AM ET

Our View: 2Q17 driven by better than expected nuclear volumes and other ExGEn margins, partially offset by worse than expected weather and higher expenses from nuclear refueling outages. We expect questions on the call to focus on: 1) thoughts on key points to be argued in the NY/IL appeal process; 2) updated expectations on timing and results of the DOE study on baseload generation; and 3) latest management thoughts regarding potential NJ/PA nuclear subsidy legislation.

Exelon Corp (EXC; $38.55; Outperform; $40 PT) reported 2Q17 adjusted earnings of $0.54 per share, $0.02 above our estimate of $0.52 per share and in line with consensus. The result is also at the upper end of management's guidance of $0.45-$0.55 per share and compares to 2Q16 results of $0.65 per share. Management reiterated their 2017 adjusted EPS guidance of $2.50-$2.80; our estimate is $2.67 versus consensus of $2.68. They also guided 3Q17 adjusted EPS to $0.80-$0.90. The following highlight some of the key EPS drivers of the quarter on a year-over-year (YoY) basis versus our estimates:

Exelon Generation margins: -$0.08 YoY, $0.06 above our estimate.

- Nuclear volume: $0.03, $0.05 better.
- Market conditions/portfolio management/ZECs: -$0.11, $0.01 better.

Utility margins (ComEd, PECO, BGE, PHI): +$0.04 YoY; $0.04 below our estimate.

- Weather: -$0.02, $0.02 worse.
- ComEd/BGE/PHI rates: $0.06, $0.02 worse.

Expenses/Other

- Planned refueling outage: -$0.05, $0.02 worse.
- Depreciation expense: -$0.04, $0.01 worse.
- Interest expense, net: $0.01 better.
- Share dilution: -$0.01, $0.01 better.

Consolidated trailing 12mo. earned ROEs at 9.7%. This compares to 9.9% reported as of 1Q17.

ExGen gross margin lower for 2018-2019 but mainly due to EGTP/TMI. The $8.1 billion and $7.7 billion in margin expectations for 2018 and 2019, respectively, are $150 million lower in both years versus that reported in 1Q17. We do note that most of the net decline is impacted by the removal of ExGen Texas Power (EGTP) and Three Mile Island (TMI) margins, both which are expected to have positive annual EPS impacts ($0.02-$0.03 for EGTP and $0.04-$0.07 for TMI).

Conference call at 11 AM ET. The dial-in number is (800) 690-3108, with pass code 44816529.

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BARCLAYS

TOP PICK Exelon Corp.

2Q 2017 Results; Story on Track

Reiterate Overweight rating: We reiterate our Overweight rating and raise our price target to $44 from $43 on higher earnings per share estimates of $2.74/$2.85/$2.82 from $2.68/$2.83/$2.80 for ‘17/18/19 respectively mainly on deconsolidation of the Texas power portfolio. Exelon remains our Top Pick and we see upside drivers to our base case valuation related to the potential for further zero emission credit programs in NJ, PA, and OH similar to those recently legally upheld in IL and NY. Further, PJM has released white papers on corrective actions to address price formation to eliminate the impact of subsidies in the market, and we believe the impacts could be greater than those we cited in our July monthly (see *North America Power & Utilities: July Preview/June Review*, 7/17/’17). This is a result of minimum pricing potentially being higher than our $15/MWh assumption and the impacts of addressing the “missing-money” problem related to letting intermittent units set the marginal price could be significantly larger than the impacts of the other two market corrections we were able to analyze. We await the U.S. Department of Energy’s report on grid security and supply diversity which is expected this month.

Deconsolidation of Texas EPS Accretive: In the quarter EXC deconsolidated the Texas based assets in the ETGP portfolio. While this lowers ExGen gross margins by $100mln in ‘18/19 it is EPS accretive by $0.02-$0.03 as costs related to ETGP must also be removed. Three Mile Island (TMI) has not cleared a capacity auction in three years and therefore EXC announced that short of a zero emission credit like program in PA, TMI will shut down in September ‘19 at the end of the current fuel cycle. This impacts gross margins at ExGen by $50mln in ’19. Management noted on the call that the nuclear industry in PA contributes $2Bln to the state economy and is responsible for 1,600 jobs.

Utility Progress Continuing: Exelon management continues to improve the performance of the Pepco utilities with Pepco identified in the JD Power customer satisfaction survey as one of the most improved utilities ’17 over ’16. LTM ROEs remain at 7.3% versus 9.7% allowed levels but we anticipate continued constructive regulatory outcomes consistent with the Pepco D.C. order last week will allow EXC to continue to close the ROE gap. For the quarter EXC reported $0.54 vs. $0.65 last year, consensus and our estimate of $0.53. Management reiterated 2017 guidance of $2.50-$2.80.

EXC: Quarterly and Annual EPS (USD)

	2016	2017			2018			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2017	2018
Q1	0.68A	0.65A	0.65A	0.65A	N/A	N/A	0.83E	-4%	N/A
Q2	0.65A	0.53E	0.54A	0.53E	N/A	N/A	0.62E	-17%	N/A
Q3	0.91A	N/A	N/A	0.94E	N/A	N/A	0.95E	N/A	N/A
Q4	0.44A	N/A	N/A	0.57E	N/A	N/A	0.49E	N/A	N/A
Year	2.68A	2.68E	2.74E	2.68E	2.83E	2.85E	2.89E	2%	4%
P/E	14.3		14.0			13.5			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Completed: 02-Aug-17, 23:20 GMT Released: 02-Aug-17, 23:24 GMT

Equity Research

Power & Utilities | North America Power & Utilities
2 August 2017

Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 44.00 raised 2% from USD 43.00

Price (02-Aug-2017)	USD 38.42
Potential Upside/Downside	+14.5%
Tickers	EXC

Market Cap (USD mn)	35581
Shares Outstanding (mn)	926.10
Free Float (%)	99.79
52 Wk Avg Daily Volume (mn)	5.3
52 Wk Avg Daily Value (USD mn)	N/A
Dividend Yield (%)	3.4
Return on Equity TTM (%)	7.49
Current BVPS (USD)	28.65

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 38.78-29.82

Link to Barclays Live for interactive charting

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North America Power & Utilities **Industry View: NEUTRAL**

Exelon Corp. (EXC)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2016A	2017E	2018E	2019E	CAGR
Revenue	32,166	33,365	33,781	33,943	1.8%
EBITDA (adj)	7,577	8,085	8,479	8,504	3.9%
EBIT (adj)	4,530	4,766	4,967	4,756	1.6%
Pre-tax income (adj)	3,630	3,757	3,878	3,765	1.2%
Net income (adj)	2,483	2,601	2,759	2,734	3.3%
EPS (adj) ($)	2.68	2.74	2.85	2.82	1.8%
Diluted shares (mn)	927.0	949.0	967.0	968.0	1.5%
DPS ($)	1.26	1.29	1.33	1.36	2.5%

Margin and return data					Average
EBITDA (adj) margin (%)	23.6	24.2	25.1	25.1	24.5
EBIT (adj) margin (%)	14.1	14.3	14.7	14.0	14.3
Pre-tax (adj) margin (%)	11.3	11.3	11.5	11.1	11.3
Net (adj) margin (%)	7.7	7.8	8.2	8.1	7.9
ROIC (%)	7.8	7.8	7.9	7.7	7.8
ROA (%)	2.6	2.6	2.7	2.7	2.7
ROE (%)	9.7	9.6	9.6	9.0	9.5

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	61,505	67,111	72,374	73,301	6.0%
Total net assets	98,092	100,538	102,658	99,892	0.6%
Capital employed	58,239	60,780	62,545	61,732	2.0%
Shareholders' equity	26,304	27,841	29,507	31,117	5.8%
Net debt/(funds)	31,472	32,633	33,323	25,249	-7.1%
Cash flow from operations	7,538	7,928	8,279	8,491	4.0%
Capital expenditure	-8,482	-8,925	-8,775	-4,675	N/A
Free cash flow	-2,026	-2,108	-1,637	2,644	N/A
Pre-dividend FCF	-944	-997	-496	3,816	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	14.3	14.0	13.5	13.6	13.8
EV/EBITDA (adj) (x)	8.9	8.4	8.1	7.2	8.1
EV/EBIT (adj) (x)	14.8	14.3	13.9	12.8	13.9
P/BV (x)	1.4	1.3	1.3	1.2	1.3
Dividend yield (%)	3.3	3.4	3.5	3.5	3.4
Total debt/capital (%)	54.8	54.2	52.8	49.6	52.9
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics					Average
Payout ratio (%)	47.2	47.2	46.5	48.2	47.3
Interest cover (x)	3.1	3.1	3.2	3.2	3.2
Regulated (%)	52.4	48.7	55.3	63.8	55.1

Price (02-Aug-2017)	USD 38.42
Price Target	USD 44.00

Why Overweight? We believe that that utility growth of 7-9% is achievable and will be funded by cash flow from the generation company even with the current forward curves. Any additional legislation similar to the CES in New York or the inclusion of the CES in our numbers is upside to our estimates.

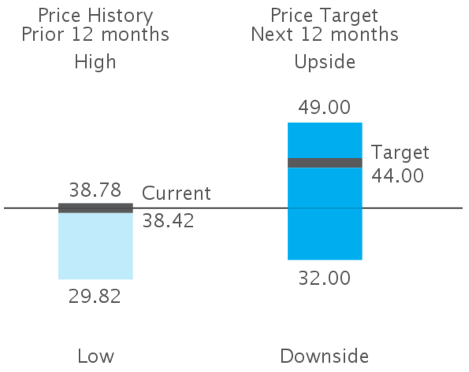
Upside case USD 49.00

Our upside case assumes the impact of the zero emission credits in New York for the genco and assumes a 10% premium for the utility valuation given the above average growth.

Downside case USD 32.00

Our downside case assumes a 10% discount for the utility and a 4x EBITDA at the genco based on current forwards, with no consideration of the CES or FitzPatrick acquisition

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

2Q 2017 Results Review

FIGURE 1

2Q 2017 Earnings by Segment

ComEd	$0.15
PECO	$0.10
PHI	$0.07
BGE	$0.05
ExGen	$0.22
HoldCo/Other/Rounding	($0.05)
TOTAL	**$0.54**

Source: 2Q 2017 EXC Press Release and Presentation, Barclays Research Estimates

FIGURE 2

2017 Guidance by Segment vs. Prior Year Actuals

	Prior Yr Actual	Current Year Guidance
ComEd	$ 0.57	$0.60 - $0.70
PECO	$ 0.48	$0.40 - $0.50
PHI	$ 0.25	$0.30 - $0.40
BGE	$ 0.31	$0.25 - $0.35
ExGen	$ 1.27	$1.05 - $1.15
HoldCo	$ (0.19)	$(0.20)
TOTAL	**$ 2.69**	**$2.50 - $2.80**

Source: 2Q 2017 EXC Press Release and Presentation, Barclays Research Estimates

FIGURE 3

2Q 2017 Earnings Waterfall

2Q 2016 EPS	**$ 0.65**
ExGen	
Increased Outages	$ (0.05)
Market Conditions	$ (0.16)
ZECs	$ 0.05
Other	$ 0.03
ComEd	
2016 Weather	$ (0.01)
Rate Base	$ 0.01
ROE - US Treasuries	$ 0.01
Other	$ (0.02)
PECO	
Weather & Load	$ (0.01)
BGE	
Absence of Rate Case Disallowances	$ 0.03
Increase in Distribution Rates	$ 0.01
Income Taxes	$ (0.01)
Other	$ (0.01)
PHI	
Increased Distribution Rates	$ 0.02
Increased O&M	$ (0.01)
HoldCo	
Income Taxes	$ 0.02
O&M	$ 0.01
Other Rounding	$ (0.02)
2Q 2017 EPS	**$ 0.54**

Source: 2Q 2017 EXC Press Release and Presentation, Barclays Research Estimates

FIGURE 4

ExGen Gross Margin Update

US$m	2017	2018	2019	17 Chg	18 Chg	19 Chg
Open Gross Margin	3,750	4,000	3,800	(100)	(150)	(150)
Capacity and ZEC Revenues	1,850	2,200	2,050	-	(50)	-
Mart to Market of Hedges	1,900	550	400	300	50	-
Power New Business/To Go	200	850	950	(200)	-	-
Non-Power Margins Executed	300	150	100	50	-	-
Non-Power New Business/To Go	150	350	400	(50)	-	-
Total Gross Margin	**8,150**	**8,100**	**7,700**	**-**	**(150)**	**(150)**

Source: 2017 EXC Press Release and Presentation, Barclays Research Estimates

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Primary Stocks (Ticker, Date, Price)

Exelon Corp. (EXC, 02-Aug-2017, USD 38.42), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M

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Alliant Energy (LNT)
American States Water Company (AWR)
Brookfield Infrastructure Partners LP (BIP)
Brookfield Renewable Energy Partners LP (BEP_u.TO)
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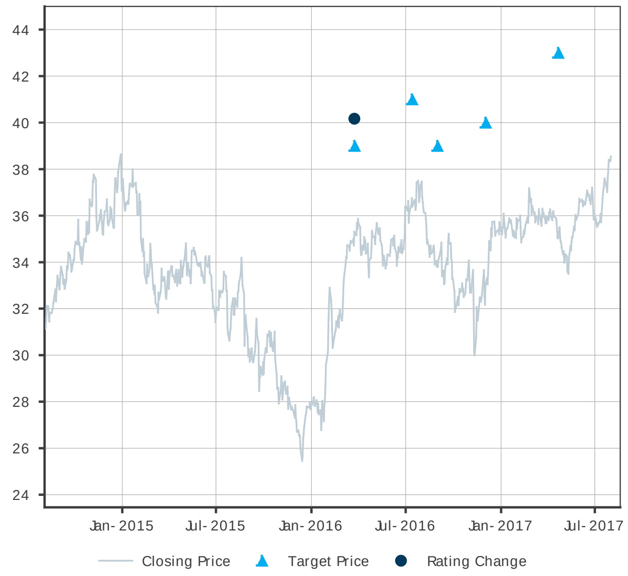
Exelon Corp. (EXC / EXC)	Stock Rating	Industry View
USD 38.42 (02-Aug-2017)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 02-Aug-2017)



Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
21-Apr-2017	35.03		43.00
02-Dec-2016	33.01		40.00
31-Aug-2016	34.00		39.00
13-Jul-2016	36.75		41.00
24-Mar-2016	35.31	Overweight	39.00

On 02-Aug-2014, prior to any intra-day change that may have been published, the rating and price target for this security were suspended.

Source: Thomson Reuters, Barclays Research

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Valuation Methodology: Our current $44 price target is premised upon a 2019 group average multiple of 16.9x applied to the utility net parent earnings of $1.81 resulting in $31 of utility value. Exgen is valued at 6.6x 2018 EBTIDA netted against debt resulting in $12 of value for Exgen, the combined value is $44.

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
38.55 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

With Nuclear Subsidy Debate Past, Exelon Hits Core Growth Expectations

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Research as of 02 Aug 2017
Estimates as of 03 May 2017
Pricing data through 01 Aug 2017
Rating updated as of 01 Aug 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 02 Aug 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced earnings per share of $0.54 on an adjusted basis during the second quarter of 2017, down from $0.65 in the second quarter of 2016. Earnings are tracking in line with our full-year estimate, and management reaffirmed its $2.50-$2.80 EPS guidance range.

Exelon achieved two key court victories in July affirming the legality of nuclear subsidies it began receiving this year in New York and Illinois. We think this is just the start of the legal and regulatory debate. We do not include the five subsidized plants in our long-term forecast, but including them would not have a sizable impact on our fair value estimate because the subsidies limit their value upside and downside.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed by Exelon's ability remain the world's premier nuclear operator. The fleet realized a 91% capacity factor in the quarter despite six refueling outages.

This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations. Its next area of focus is in Pennsylvania, where it has committed to close its Three Mile Island nuclear plant by September 2019 unless it receives subsidies. We assume TMI closes as scheduled.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020. Management reported the utilities'

Vital Statistics

Market Cap (USD Mil)	35,701
52-Week High (USD)	38.78
52-Week Low (USD)	29.82
52-Week Total Return %	6.4
YTD Total Return %	10.5
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.1
5-Yr Forward EPS CAGR %	2.9
Price/Fair Value	1.20

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*14.3*	*13.3*
EV/EBITDA	6.6	9.5	*8.8*	*8.2*
EV/EBIT	10.2	21.5	*14.5*	*13.2*
Free Cash Flow Yield %	0.0	-0.3	*-6.1*	*0.9*
Dividend Yield %	4.3	3.6	*3.3*	*3.5*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*32,405*	*34,930*
Revenue YoY %	7.4	6.5	*3.3*	*7.8*
EBIT	4,409	3,112	*4,998*	*5,479*
EBIT YoY %	42.4	-29.4	*60.6*	*9.6*
Net Income, Adjusted	2,224	2,484	*2,499*	*2,763*
Net Income YoY %	7.7	11.7	*0.6*	*10.5*
Diluted EPS	2.49	2.68	*2.69*	*2.90*
Diluted EPS YoY %	4.2	7.6	*0.2*	*8.0*
Free Cash Flow	561	-6,417	*45*	*1,223*
Free Cash Flow YoY %	365.5	-1,243.2	*-100.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

returns on equity are near 10% with upside potential at the Pepco Holdings utilities. This return is better than many of Exelon's peers'.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
38.55 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*Forecast* 2017	*Forecast* 2018	5-Year Proj. CAGR
Revenue	*8.0*	10.2	7.4	6.5	*3.3*	*7.8*	*3.1*
EBIT	*-5.2*	-15.3	42.4	-29.4	*60.6*	*9.6*	*13.9*
EBITDA	*6.7*	-6.9	26.8	2.8	*16.3*	*8.0*	*6.8*
Net Income	*4.9*	-4.0	7.7	11.7	*0.6*	*10.5*	*3.9*
Diluted EPS	*2.3*	-4.4	4.2	7.6	*0.2*	*8.0*	*2.9*
Earnings Before Interest, after Tax	*14.3*	53.5	13.7	-14.4	*5.5*	*6.2*	*2.4*
Free Cash Flow	*-262.0*	-92.0	365.5	-1,243.2	*-100.7*	*NM*	—

Profitability	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Operating Margin %	*12.1*	11.3	15.0	9.9	*15.4*	*15.7*	*16.2*
EBITDA Margin %	*21.8*	19.7	23.3	22.5	*25.3*	*25.4*	*26.2*
Net Margin %	*7.7*	7.5	7.6	7.9	*7.7*	*7.9*	*8.2*
Free Cash Flow Margin %	*-6.0*	0.4	1.9	-20.5	*0.1*	*3.5*	*5.8*
ROIC %	*2.9*	2.5	4.1	2.1	*5.0*	*5.5*	*5.4*
Adjusted ROIC %	*3.1*	2.7	4.3	2.3	*5.4*	*6.1*	*5.8*
Return on Assets %	*1.8*	2.0	2.5	1.1	*2.2*	*2.3*	*2.4*
Return on Equity %	*6.9*	7.1	9.3	4.4	*9.3*	*9.7*	*9.6*

Leverage	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Debt/Capital	*0.53*	0.49	0.50	0.58	*0.58*	*0.58*	*0.56*
Total Debt/EBITDA	*4.35*	4.12	3.84	5.10	*4.69*	*4.47*	*4.33*
EBITDA/Interest Expense	*5.44*	5.08	6.64	4.59	*5.40*	*5.52*	*5.59*

Valuation Summary and Forecasts

	2015	2016	*2017(E)*	*2018(E)*
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	*14.3*	*13.3*
EV/EBITDA	6.6	9.5	*8.8*	*8.2*
EV/EBIT	10.2	21.5	*14.5*	*13.2*
Free Cash Flow Yield %	0.0	-0.3	*-6.1*	*0.9*
Dividend Yield %	4.3	3.6	*3.3*	*3.5*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.4
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	37.5
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	8,321	12.9	8.96
Present Value Stage II	17,405	26.9	18.74
Present Value Stage III	38,871	60.2	41.85
Total Firm Value	**64,597**	**100.0**	**69.56**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,379**	**—**	**31.63**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**32.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***32,405***	***34,930***
Cost of Goods Sold	13,003	13,084	12,640	*13,731*	*15,505*
Gross Profit	**14,426**	**16,363**	**18,720**	***18,674***	***19,425***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*8,833*	*8,888*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,643*	*1,684*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,200*	*3,375*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,998***	***5,479***
Interest Expense	1,065	1,033	1,536	*1,517*	*1,605*
Interest Income	455	-53	389	*250*	*250*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,730***	***4,123***
Income Tax Expense	666	1,073	761	*1,231*	*1,361*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	—	—
Net Income	**1,623**	**2,269**	**1,134**	***2,499***	***2,763***
Weighted Average Diluted Shares Outstanding	864	893	927	*930*	*952*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.69***	***2.90***
Adjusted Net Income	2,065	2,224	2,484	*2,499*	*2,763*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.69***	***2.90***
Dividends Per Common Share	1.24	1.24	1.26	*1.29*	*1.32*
EBITDA	**6,964**	**8,396**	**8,688**	***8,198***	***8,854***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,198***	***8,854***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
38.55 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Cash and Equivalents	1,878	6,502	635	*1,282*	*1,605*
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	*4,883*	*5,263*
Inventory	1,603	1,566	1,638	*1,505*	*1,699*
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	*4,500*	*4,500*
Current Assets	**12,097**	**15,334**	**12,412**	***12,170***	***13,068***
Net Property Plant, and Equipment	52,087	57,439	71,555	*75,230*	*78,055*
Goodwill	2,672	2,672	6,677	*6,677*	*6,677*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	*9,300*	*9,300*
Long-Term Non-Operating Assets	13,882	13,874	14,214	*14,214*	*14,214*
Total Assets	**86,814**	**95,384**	**114,904**	***117,591***	***121,314***
Accounts Payable	3,056	2,891	3,449	*2,821*	*2,974*
Short-Term Debt	2,262	2,033	3,697	*3,697*	*3,697*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	*4,200*	*4,200*
Current Liabilities	**8,762**	**9,118**	**13,457**	***10,718***	***10,871***
Long-Term Debt	20,010	24,286	32,216	*34,716*	*35,916*
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	*19,000*	*19,800*
Other Long-Term Operating Liabilities	4,550	4,201	4,187	*4,800*	*4,800*
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	*19,294*	*19,294*
Total Liabilities	**62,681**	**68,062**	**87,292**	***88,528***	***90,681***
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	*18,794*	*18,794*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,910	12,068	12,030	*13,335*	*14,846*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,491	-2,431	-2,660	*-2,200*	*-2,200*
Shareholder's Equity	**22,801**	**26,014**	**25,837**	***27,662***	***29,233***
Minority Interest	1,332	1,308	1,775	*1,400*	*1,400*
Total Equity	**24,133**	**27,322**	**27,612**	***29,062***	***30,633***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
38.55 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	*Forecast* *2017*	*2018*
Net Income	1,820	2,250	1,204	*2,499*	*2,763*
Depreciation	3,868	3,987	5,576	*3,200*	*3,375*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*800*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*476*	*-381*
(Increase) Decrease in Inventory	-380	4	7	*133*	*-194*
Change in Other Short-Term Assets	-2,758	-387	-827	*280*	—
Increase (Decrease) in Accounts Payable	209	-121	771	*-628*	*152*
Change in Other Short-Term Liabilities	—	—	—	*-2,111*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***4,712***	***6,515***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-6,875*	*-6,200*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*1,359*	—
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-5,516***	***-6,200***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,194*	*-1,252*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*2,500*	*1,200*
Other Financing Cash Flows	-599	-67	97	*-375*	—
Cash From Financing	**411**	**4,830**	**1,191**	***991***	***8***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*460*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***647***	***323***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ▶**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ▶**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ▶**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ▶**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ▶**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

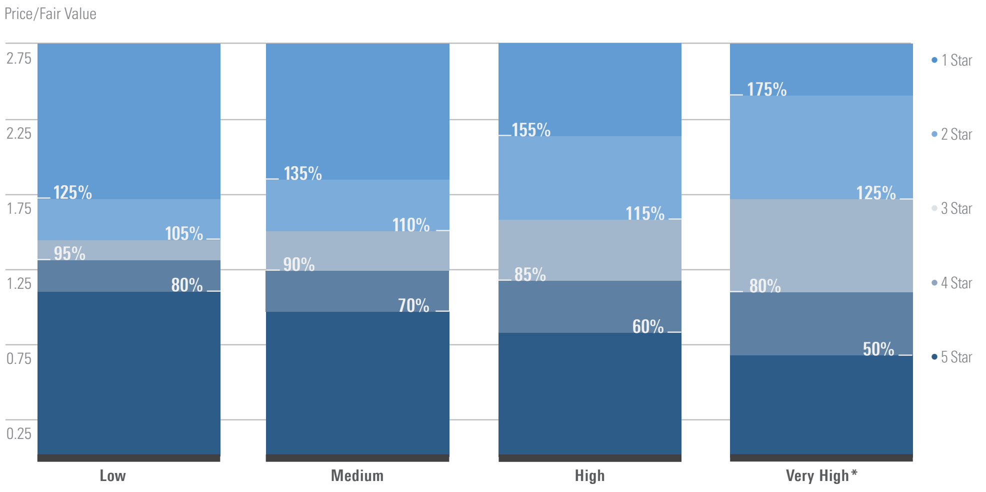
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
38.55 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
38.55 USD	32.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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EVERCORE ISI

Energy | Power & Utilities

August 2, 2017

EXELON CORP.

EXC | $38.42

OUTPERFORM | TARGET PRICE: $41.00

Change in Price Target

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Company Statistics

Market Capitalization (M):	$35,581
Shares Outstanding (M):	926
Dividend:	$1.31
Dividend Yield:	3.4%
Payout Ratio:	48.4%
Expected Total Return:	10.1%
Fiscal Year End	Dec

Earnings Summary

	2017E	2018E	2019E
EPS	**$2.70**	**$2.80**	**$2.85**
P/E	**14.2x**	**13.7x**	**13.5x**
EPS vs Consensus	**0.9%**	**(2.8)%**	**0.4%**
Consensus EPS	**$2.68**	**$2.88**	**$2.84**
Consensus P/E	**14.4x**	**13.3x**	**13.5x**

EVRISI Sum of the Parts Valuation		
Target Price	$	41.00
2019 EPS: Utility - parent	$	1.85
P/E Multiple		16.7x
Utility Value	$	30.90
ExGen Implied Equity Value (per share)	$	10.11
ExGen 2019 Net Debt (mm)	$	8,593
ExGen 2019 Enterprise Value*	$	18,368
ExGen 2019 EBITDA**	$	2,846
ExGen 2019 EV/EBITDA		6.5x
ExGen 2019 Net Debt/EBITDA		3.0x
*967m EXC shares outstanding 2019		
**7/26/17 forward curves		

Solid Quarter & Good L-T Reasons to Stay "Long"

Rating Outperform, 12 Month Target up to $41 from $39

EXC reported 2Q17 adjusted EPS of $0.54 vs. consensus $0.55 ($0.65 in 2Q16), which was just below the high end of their $0.45 - $0.55 guidance range for the quarter. The FY'17 outlook was affirmed at $2.50 - $2.80. ExGen was down $0.13 but this was driven by factors contemplated in guidance. That includes lower realized power prices and the expiration of the Ginna nuke plant RSSA payment (-$0.16 in aggregate) and higher O&M on planned outages (-$0.05) offset by NY ZEC revenues that became effective 4/1/17 (+$0.05) and other items (+$0.03). Also lower were ComEd and PECO (by -$0.01 YoY). At the former higher rate base and formula earnings (+$0.02) were more than offset by the absence of a 2016 weather benefit and other items (-$0.02). At the latter it was primarily on weather / sales volumes (-$0.01). BGE was the biggest utility gainer, adding $0.02 YoY on the absence of a 2016 rate case disallowance and distribution rates (+$0.04) partially offset by income taxes / other (-$0.02). PHI was also higher, adding $0.01 YoY as higher distribution rates (+$0.02) were partially offset by higher O&M (-$0.01). Guidance for 3Q17 was initiated at $0.80-$0.90, which does *not* include the impact of IL ZEC revenues. Although that program went into effect on 6/1/17, ZEC procurement and contract execution will not occur until Q4, at which point they will be recognized retroactive to the program start date. We discuss recent developments on those ZEC legal proceedings and the pending DOE study here.

The cash flow outlook is still very solid through 2020. Going forward, their utility financial outlook was unchanged. At ExGen the outlook looked worse at first glance but that was not an accurate read. Gross margin is forecast now to drop $150mm in each of FY'18 and FY'19, however that is due to the removal of the ExGen Texas Power (EGTP) portfolio from guidance (assets are for sale) - which is responsible for $100mm of that delta in each of those years - and the removal of Three Mile Island (TMI is being retired in '19) - which is responsible for the remaining $50mm of the delta in FY'19. That leaves a $50mm reduction to FY'18, which is due to lower realized and expected capacity revenues in MISO and NYISO. Otherwise, the ExGen gross margin outlook was fundamentally unchanged through the forecast period, even as they updated for 6/30/17 power forward curves. New business executions and hedges limited the impact of degradation in forwards. Cash flow actually looks marginally better over the forecast period as these decisions are accretive to earnings and cash flow. TMI's shutdown will add $0.05 to FY'19 EPS, as even though it will not retire until 9/30/19 ExGen will be able to avoid a costly refueling outage. The run-rate EPS accretion number associated with shutting down TMI will be $0.04 in refueling and $0.07 in non-refueling years. Similarly, EGTP's sale will produce $0.02-$0.03 in EPS benefits. EXC remains committed to maintaining leverage at ExGen below 3X debt/EBITDA and is ahead of that target based on the current outlook. They indicated they now have flexibility to consider parent debt paydown (although they don't have material maturities until 2020) and may revisit the current divided growth policy (EXC is committed to 2.5% dividend growth through 2018) at YE'17.

We are updating our '17-'19 EPS forecast to $2.70 / $2.80 / $2.85 from $2.65 / $2.85 / $2.85, taking in to account updated guidance and 7/26/17 curves. We think the assumptions driving EXC's view of the earnings growth drivers in its core utilities business and ExGen as well as the robustness of the cash flow profile supporting the utility investment, dividend growth and deleveraging goals articulated by management are still wholly credible. The core utilities are forecast to grow rate base at 6.5% from '17-20 with earnings growth of 6-8% (down from 7-9% from '16-'20 solely due to a higher '17 base, the '20 forecast is up a nickel). We see a turnaround at PHI similar to the one EXC engineered at BGE after the CEG acquisition as feasible, with annual rate cases at most of the PHI companies (the first "wave" of these largely resolved) and the ability to harvest operating synergies. So, there is line of sight for EPS at EXC's utilities (ex-parent overheads) growing from ~$1.60 in FY '17 to ~$2.00 in 2020. From a cash flow perspective we see ExGen organically producing ~$5.85bn of free cash flow through FY'19, 67% of the $8.75bn they are targeting through 2020 with that money supporting utility investment, dividend growth, and debt reduction of at least $3bn. The ~$300mm garnered from the 7/6/17 sale of 49% of its interest in the renewables JV puts that at 70%. Assuming they can sell their TX assets (the EGTP portfolio) that will be another $662mm in debt that comes off the books and should be accretive to credit metrics.

Our 12-month price target is increased to $41 from $39, maintaining Outperform rating. Our forecast for utility EPS contribution minus parent overheads is ~$1.60/share in '17 which by 2019 we expect to be ~$1.85 per share. With EXC aspiring to grow rate base to >$40bn by 2020 that earnings power could theoretically grow to +/-$2.00/share. That type of growth profile for a T&D only utility when compared to the regulated peer group today is worth ~$33.15/share (17.8X '19 EPS). That implies ExGen is worth only ~$5.25/share today, which is around 5.1X '19 EPS or 4.8X '19 EV/EBITDA and an unlevered free cash flow yield to the EV of 13% with debt/EBITDA at YE '19 of ~3.0X. They are taking all the cash flow from that lower multiple part of the business and either returning it to shareholders or investing in the higher multiple utility business. Overall, EXC is trading at 13.5X FY'19 earnings while pure regulated names are at +/-17.8X. The EXC dividend yield is 7bps above that of the regulated peer group at ~3.4%. While The dividend growth commitment of 2.5% annually through 2018 is below average that may change in early '18 given their success in meeting debt reduction goals at ExGen. Some risks to ExGen revenues are also palpable, but we think that the overall valuation gap, given our view of the businesses risk and capital allocation plan, is too high. This is especially considering the wins EXC recently gained on nuke plant revenue enhancements in IL and NY and potentially growing momentum for this type of action in other states and/or price formation reform in the organized power markets. At $41/share our target price implies a valuation for ExGen of 6.5X '19 EV/EBITDA and an unlevered free cash flow yield of ~10%. The consolidated P/E would still be only 14.4X '19 EPS.

On 7/25/17 District Judge Valerie Caproni granted motions by the NYPSC and EXC to dismiss a lawsuit filed by the Coalition for Competitive Electricity, EPSA, and other power producers (16-CV-8164) challenging the legality of the state's zero emissions credit (ZEC) revenues provided under the state's "Clean Energy Standard" (CES). The New York CES was established on 8/1/16, went into effect on 4/1/17, and amongst other items provides up to ~$480mm in annual ZEC revenues for EXC's Ginna, Nine Mile Point, and Fitzpatrick nuclear plants. In her opinion here, Judge Caproni stated that "the effect of ZECs on the wholesale auction is legally indistinguishable from the effect of RECs" and thus "the Court cannot find any principled basis to hold that the ZEC program is preempted even though its sibling REC program is not." This is a claim EXC has repeatedly made (to apparent success) and one which we have agreed with. A number of the 29 states that have adopted renewable portfolio standards have continued to employ RECs as a means of compensation, so we find the strength of the opinion here especially salient. The plaintiffs are likely to appeal the decision, which would move it U.S. Court of Appeals for the Second Circuit. We think such an appeal will occur very quickly based on the IL proceedings (discussed below). In that case, an appeal was filed by EPSA within one business day of the motion to dismiss being granted. We reiterate it is likely that the totality of legal challenges will be a protracted affair. However, we think - *yet again* - for a district court to have dismissed a case outright represents a significant legal victory.

On 7/14/17, District Judge Shah granted motions by EXC, the Illinois Commerce Commission, and the Illinois Power Agency to dismiss lawsuits filed by EPSA, other power producers, and certain ComEd customers (17-CV-01164) that would have put a stay on that state's ZEC program. The appellate court has since set a briefing schedule. The ZEC program was instituted with the passage of the Energy Future Jobs Act on 12/7/16 and became effective on 6/1/17, providing up to $235mm in annual revenues to keep the economically challenged Clinton and Quad Cities nuclear plants online. In his ruling in favor of the defendants, Judge Shah cited both (1) a lack of subject matter jurisdiction on the part of the plaintiffs and (2) a failure to state a claim as grounds for the dismissal. That decision can be found here. The plaintiffs appealed the decision on 7/17/17, which moves it U.S. Court of Appeals for the Seventh Circuit. That court has since set an expedited schedule requiring appellant briefs by 8/28/17, appellee briefs by 9/27/17, and appellant reply briefs by 10/27/17.

The DOE study may be imminent. Tax policy changes are being studied. Back on 4/14/17, Secretary of Energy Rick Perry directed the DOE to perform a study exploring issues critical to maintaining the reliability of the electric grid, including the efficacy of wholesale electricity markets and the role that tax policies, subsidies, and regulation are having on early retirement of baseload power plants. We think the DOE is supportive of the idea that price formation in energy and capacity markets is not adequate for baseload generators and want to help bolster economic outcomes for nuclear and coal plants. However, practically speaking they have limited jurisdiction. We think DOE may intervene by opining that the FERC should take action to change market rules. Also the pending FY18 Energy and Water Development Appropriations Bill orders the DOE to analyze the potential impact of a "Zero Emissions Energy Credit" which contemplates a change in the Federal tax code that would replace the renewable energy subsidies (after they phase out) with a broader tax benefit applicable to all zero-emissions power plants like nuclear units. That analysis would be provided to Congress within 180 days of the enactment. It is not at all clear how much momentum this idea has in Congress, whether it will receive a favorable analysis from DOE, or whether it would be a component of any near-term tax reform package. However, its biggest beneficiaries would be merchant nuclear operators like EXC, PEG, and FE.

What's next? The sale process for the economically-challenged EGTP portfolio of CCGTs and NG peakers (3,398 MW) in ERCOT is underway, with an agreement possible by late 3Q17 or early 4Q17. On 7/25/17, the DCPSC in Pepco's electric distribution rate case (in which they filed on 6/30/16 for a $76.8mm increase premised on a 10.60% ROE) authorized a $36.9mm increase premised on a 9.50% ROE (1139). A MDPSC decision in Pepco's electric distribution rate case (in which they filed on 3/24/17 for a $69mm increase premised on 10.10% ROE) is expected by 10/20/17 (9443). A final MDPSC decision in Delmarva Power & Light's pending electric rate case (filed on 7/14/17 seeking a $27mm increase premised on a 10.10% ROE) is expected by 2/14/18. A NJBPU decision in ACE's electric distribution rate case (in which they filed on 3/30/17 for a $70mm increase premised on 10.10% ROE) is expected in March 2018 (ER17030308).

VALUATION METHODOLOGY

Our valuation is based on a sum of the parts analysis. We use a P/E multiple on the utility and an EBITDA multiple for the merchant power business.

RISKS

Higher or lower power / capacity prices and favorable / unfavorable outcomes in regulatory proceedings would cause our valuation to be either higher or lower. Higher interest rates would pull utility earnings up in IL but pressure multiples so the net impact would likely be negative overall. A favorable outcome in the upcoming capacity auctions would be accretive but a significantly lower capacity auction price would be negative.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2017-08-02)	Evercore ISI Target
AEE	Ameren Corp.	In Line	$56.53	$54.50
AEP	American Electric Power	In Line	$70.62	$71.00
AES	The AES Corporation	Outperform	$11.20	$12.25
AGR	Avangrid Inc	Outperform	$45.58	$46.50
CMS	CMS Energy Corp.	Outperform	$46.64	$47.00
CNP	CenterPoint Energy, Inc.	In Line	$28.25	$27.00
CPN	Calpine Corp.	Outperform	$14.42	$16.00
D	Dominion Resources Inc.	In Line	$77.30	$75.00
DTE	DTE Energy Co.	In Line	$106.99	$106.00
DUK	Duke Energy Corp.	In Line	$85.17	$82.00
DYN	Dynegy Inc.	Outperform	$8.98	$15.00
ED	Consolidated Edison Inc.	In Line	$82.74	$74.00
EIX	Edison International	In Line	$78.88	$80.50
ES	Eversource Energy	Coverage Suspended	$60.89	NA
ETR	Entergy Corp.	In Line	$77.15	$76.00
EXC	Exelon Corp.	Outperform	$38.55	$39.00
FE	FirstEnergy Corp.	In Line	$31.93	$30.00
GXP	Great Plains Energy Incorporated	Outperform	$30.95	$31.70
HE	Hawaiian Electric Industries Inc.	Underperform	$33.12	$31.00
HIFR	InfraREIT, Inc.	Coverage Suspended	$22.50	NA
NEE	NextEra Energy Inc	Outperform	$146.57	$147.00
NI	NiSource Inc	In Line	$26.24	$25.00
NRG	NRG Energy Inc.	Outperform	$24.53	$30.00
NYLD	NRG Yield, Inc.	Outperform	$18.55	$20.00
OGE	OGE Energy Corp	Outperform	$35.90	$37.00
PCG	PG&E Corp.	Outperform	$68.22	$69.25
PEG	Public Service Enterprise Group	In Line	$45.26	$45.00
PNM	PNM Resources, Inc	In Line	$40.40	$37.50
PNW	Pinnacle West Capital Corp.	In Line	$87.13	$84.00
PPL	PPL Corp.	In Line	$38.61	$38.50
SO	Southern Co.	In Line	$48.53	$48.00
SRE	Sempra Energy	Outperform	$114.49	$118.00
WEC	WEC Energy Group, Inc.	In Line	$63.11	$61.00
WR	Westar Energy Inc.	Outperform	$51.08	$53.00
XEL	Xcel Energy Inc.	In Line	$47.57	$46.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: August 02, 2017, 23:31 ET.

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The analysts, Greg Gordon and Phil Covello, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Current Ratings Definition

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Outperform – the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line – the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform – the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

* Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and

trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Long – the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short – the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
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Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI ratings distribution (as of 08/02/2017)

Coverage Universe

Ratings	Count	Pct.
Buy	338	50%
Hold	242	36%
Sell	62	9%
Coverage Suspended	27	4%
Rating Suspended	7	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	48	14%
Hold	11	5%
Sell	1	2%
Coverage Suspended	7	26%
Rating Suspended	2	29%

Issuer-Specific Disclosures (as of August 2, 2017)

Price Charts

Exelon Corp. Rating History as of 08/02/2017

powered by: BlueMatrix

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 01 Aug 2017 21:39, UTC	38.55 USD 01 Aug 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.20	3.35 01 Aug 2017	3.40 01 Aug 2017	35.70 01 Aug 2017	Utilities - Diversified	Standard

Morningstar Pillars

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Medium	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.06	0.91	1.03	0.95
Price/Earnings	18.4	17.0	17.2	22.3
Forward P/E	14.5	—	16.8	17.5
Price/Cash Flow	4.4	4.5	7.1	12.9
Price/Free Cash Flow	—	57.1	12.9	19.5
Trailing Dividend Yield%	3.35	4.40	3.42	2.02

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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With Nuclear Subsidy Debate Past, Exelon Hits Core Growth Expectations

Investment Thesis

Travis Miller, Strategist, 06 December 2016

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future.

Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions and management's plan to retire at least three nuclear plants.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly. Regulatory and legislative efforts at state and federal levels, particularly in New York and Illinois, should be a boon for Exelon as nuclear receives clean energy incentives like those for wind and solar.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think Exelon will have to close as many as five plants once the state subsidies expire or if they fail to survive legal challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2018, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Strategist, 02 August 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced earnings per share of $0.54 on an adjusted basis during the second quarter of 2017, down from $0.65 in the second quarter of 2016. Earnings are tracking in line with our full-year estimate, and management reaffirmed its $2.50-$2.80 EPS guidance range.

Exelon achieved two key court victories in July affirming the legality of nuclear subsidies it began receiving this year in New York and Illinois. We think this is just the start of the legal and regulatory debate. We do not include the five subsidized plants in our long-term forecast, but including them would not have a sizable impact on our fair value estimate because the subsidies limit their value upside and downside.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed by Exelon's ability remain the world's premier nuclear operator. The fleet realized a 91% capacity factor in the quarter despite six refueling outages.

This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations. Its next area of focus is in Pennsylvania, where it has committed to close its Three Mile Island nuclear plant by September 2019 unless it receives subsidies. We assume TMI closes as scheduled.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020. Management reported the

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	38.55 USD	32.00 USD	1.20	3.35	3.40	35.70	Utilities - Diversified	Standard
01 Aug 2017 21:39, UTC	01 Aug 2017	07 Dec 2016 02:29, UTC		01 Aug 2017	01 Aug 2017	01 Aug 2017		

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	22,897	9,265	8.38	50.76
FirstEnergy Corp FE	USD	14,187	14,153	-49.07	0.00
Entergy Corp ETR	USD	13,846	10,824	-11.18	0.00

utilities' returns on equity are near 10% with upside potential at the Pepco Holdings utilities. This return is better than many of Exelon's peers'.

Economic Moat

Travis Miller, Strategist, 06 December 2016

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 December 2016

We are raising our fair value estimate to $32 per share from $31 per share after incorporating the benefits from Illinois legislation passed in early December, which will result in additional cash flow for its Illinois nuclear plants.

On a consolidated basis, our midcycle earnings estimate is $3.15 per share. Our midcycle EBITDA estimate at Exelon Generation is $2.6 billion, in line with trough EBITDA we expect in 2017-18. We expect a jump in the generation segment's earnings in 2019 reflecting higher capacity prices, but we don't think that represents a midcycle earnings level. We assume a $3 per million btu midcycle

Henry Hub gas price, a negative $0.60/mmbtu gas basis in the mid-Atlantic region and market heat rates 10% above current 2017 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 5% consolidated earnings growth through 2019. Our forecasts show Exelon's regulated utilities contributing two-thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2019 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. Exelon has announced its intention to close Oyster Creek, New Jersey, and we think its Three Mile Island, Pennsylvania, plant is at risk after it failed to clear the last two PJM capacity auctions.

Our projected long-term closures represent about 25% of Exelon's current nuclear capacity. Lower operating costs and capital expenditures partially offset the lost gross margin from these plants, making them cash flow-neutral in the near term. We do not include the addition of FitzPatrick (N.Y.), pending regulatory approval, but don't expect it will have a material net impact on our fair value estimate.

At the retail business, we assume 17% long-term normalized gross margins and volumes that grow to 240 terawatt hours by 2019.

We assume a 9% cost of equity and a 6.7% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 December 2016

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 December 2016

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the distressed plants' lives. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move

so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 3.5 million shares and vested options as of January 2016.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 01 Aug 2017 21:39, UTC	38.55 USD 01 Aug 2017	32.00 USD 07 Dec 2016 02:29, UTC	1.20	3.35 01 Aug 2017	3.40 01 Aug 2017	35.70 01 Aug 2017	Utilities - Diversified	Standard

Analyst Notes Archive

Exelon Generation Moving Toward Growth After Regulatory, Operational Successes

Travis Miller, Strategist, 08 February 2017

We are reaffirming our $32 per share fair value, narrow moat and stable moat trend for Exelon after the company announced earning $2.68 per share in 2016, slightly ahead of our estimate.

We are reaffirming our forecasts for 2017 and beyond. Our $2.62 per-share earnings estimate for 2017 is near the midpoint of the $2.50-$2.80 per share guidance range management initiated. We do not include the impact from Exelon's proposed acquisition of Entergy's FitzPatrick nuclear plant in New York, but we expect it would have a small positive impact on earnings if the deal closes as proposed in 2017. We don't expect it to have a material impact on our fair value estimate.

We think the next opportunity for regulatory upside is in Pennsylvania where Exelon has three nuclear plants. This includes Three Mile Island, which we think is at risk of closing as soon as 2018.

We continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized all-time records for capacity factor (94.6%) and generation in 2016. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

In a good sign that Exelon's earnings have stabilized, the board raised the dividend 3% for 2017 to $1.31 per share annualized, slightly ahead of management's 2.5% growth target and our estimate. If the company pays this rate all year, it will be Exelon's first full year of dividend growth since it cut the dividend 41% in mid-2013. Exelon's 50% payout ratio based on our 2017 earnings estimate remains near the bottom of the sector, giving it some cushion if power markets or regulation become headwinds.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

PJM Capacity Auction Results: Surprisingly, No Surprises

Travis Miller, Strategist, 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

Travis Miller, Strategist, 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Trump's Announcement to Exit Paris Agreement Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 02 June 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities after President Trump announced plans to exit the Paris Climate Agreement.

Despite the withdrawal, we continue to forecast U.S. renewable energy capacity doubling during the next eight years. State renewable portfolio standards, or RPS, and other local policies remain the industry's primary growth driver, not federal environmental policy. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use by 2025, up from 15% now, based solely on existing state RPS.

We think Trump's move to abandon the U.S. Clean Power Plan and Paris Agreement could even embolden states to strengthen renewable energy standards, offering upside to our forecasts. Supportive tax policy and pro-manufacturing initiatives also offer upside. And corporate renewable energy purchases should continue to grow as businesses realize the economic and public perception benefits. Thus, we are not surprised that many business leaders denounced Trump's decision.

We also forecast carbon emissions from the power generation sector will keep falling toward Paris Agreement targets given the growth in renewable energy and gas generation. Low natural gas prices and turbine efficiency improvements are forcing coal plant shutdowns and reduced run times for competing coal generators, which emit twice as much carbon as an equivalent gas plant.

Utilities operating in states with constructive regulation and environmental policy support could realize 7%-9% annual earnings and dividend growth the next three to five years. Best positioned are utilities like Dominion Energy, Duke Energy, American Electric Power, and CMS Energy that are investing billions of dollars in new infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

U.S. Nuclear: Down but Not Out

Travis Miller, Strategist, 27 July 2017

We are reaffirming our fair value estimates, moat and moat trend ratings for all U.S. utilities with nuclear exposure after analyzing the economics, regulation, and sustainability attributes of nuclear generation in the U.S.

Nuclear power is at an inflection point in the U.S., with a wide gap developing between the anti-nuclear and pro-nuclear factions. This is a critical debate. The 99 nuclear units in the U.S. provide 20% of the nation’s electricity and meet essential reliability needs for major cities. Competition from cheap natural gas generation and renewable energy are pinching profits now, but we think a long-term perspective is important.

Our forecast for flat or growing U.S. nuclear capacity is more bullish than most forecasts. In particular, we think the U.S. could add as much as 5% net new nuclear capacity by 2040 primarily due to nuclear uprates. Most market forecasts assume natural gas is the marginal generation source, but our calculations show nuclear uprates have similar economic returns and less long-term capital reinvestment risk. We think nuclear has a more favorable environmental, social, and governance, or ESG, profile than most other nonrenewable energy sources. Its low carbon-emissions profile and reliability make it a critical contributor to meeting state and federal environmental policy goals.

We think the best opportunity for investors is to take advantage of the market's concerns about spiraling new-build nuclear costs and regulatory risk. Scana and Southern Company trade at steep discounts to peers even after adjusting for their new-build project risks. Among existing plant owners, only one utility has maintained a big bet on nuclear: Exelon. The stock looks pricey now, but its scale and political clout as the largest U.S. operator give it more option upside than any U.S. utility. We also think top-tier nuclear operators such as Exelon and Xcel Energy should earn premium valuations for their positive ESG characteristics.

With Nuclear Subsidy Debate Past, Exelon Hits Core Growth Expectations

Travis Miller, Strategist, 02 August 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced earnings per share of $0.54 on an adjusted basis during the second quarter of 2017, down from $0.65 in the second quarter of 2016. Earnings are tracking in line with our full-year estimate, and management reaffirmed its $2.50-$2.80 EPS guidance range.

Exelon achieved two key court victories in July affirming the legality of nuclear subsidies it began receiving this year in New York and Illinois. We think this is just the start of the legal and regulatory debate. We do not include the five subsidized plants in our long-term forecast, but including them would not have a sizable impact on our fair value estimate because the subsidies limit their value upside and downside.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed by Exelon's ability remain the world's premier nuclear operator. The fleet realized a 91% capacity factor in the quarter despite six refueling outages.

This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations. Its next area of focus is in Pennsylvania, where it has committed to close its Three Mile Island nuclear plant by September 2019 unless it receives subsidies. We assume TMI closes as scheduled.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020. Management reported the utilities' returns on equity are near 10% with upside potential at the Pepco Holdings utilities. This return is better than many of Exelon's peers'.

Exelon Corp EXC ★★★Q 02 Aug 2017 02:00 UTC

Last Close	Fair Value^Q	Market Cap	Sector	Industry	Country of Domicile
01 Aug 2017 38.55	02 Aug 2017 02:00 UTC 36.08	01 Aug 2017 35,701.0 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

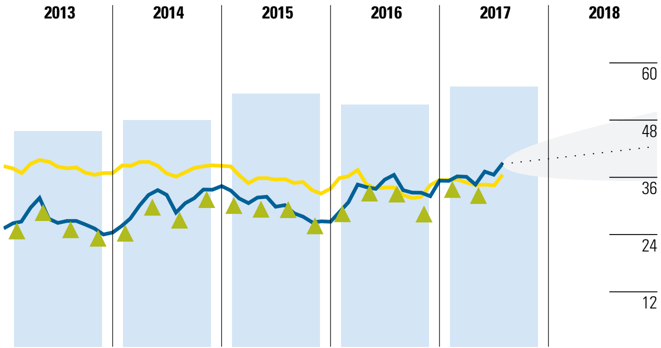
Exelon Corp is one of the largest power retailer engaged in the utilities sector of United States. The company involves in the power generation and transmission activities.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	88	87	83
Valuation	Overvalued	26	35	21
Quantitative Uncertainty	High	93	83	90
Financial Health	Moderate	60	53	60

Source: Morningstar Equity Research

Price vs. Quantitative Fair Value

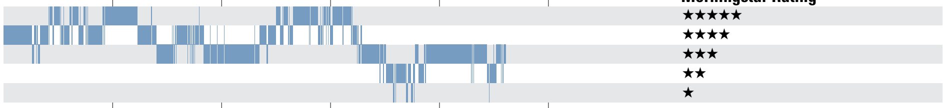


Momentum:	Neutral
Standard Deviation:	17.25
Liquidity:	High

29.82	52-Wk	38.78
25.09	5-Yr	39.75

2013	2014	2015	2016	2017	
-3.0	39.9	-21.8	32.4	10.5	Total Return %
-36.1	27.1	-22.5	19.9	-1.1	+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—	Trailing Dividend Yield %
—	—	—	—	3.35	Forward Dividend Yield %
14.6	15.2	12.4	26.9	18.3	Price/Earnings
0.9	1.2	0.8	1.1	1.1	Price/Revenue

Morningstar Rating^Q



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.06	0.91	1.03	0.95
Price/Earnings	18.4	17.0	17.2	22.3
Forward P/E	14.5	—	16.8	17.5
Price/Cash Flow	4.4	4.5	7.1	12.9
Price/Free Cash Flow	—	57.1	12.9	19.5
Trailing Dividend Yield %	3.35	4.40	3.42	2.02
Price/Book	1.3	1.3	1.4	2.5
Price/Sales	1.1	1.1	1.5	2.2

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	7.5	7.0	9.5	12.0
Return on Assets %	1.7	1.9	3.2	4.6
Revenue/Employee (K)	946.2	942.4	1,188.3	308.8

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	590.3	—	601.6	581.6
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

2012	2013	2014	2015	2016	TTM	**Financials** (Fiscal Year in Mil)
23,489	24,888	27,429	29,447	31,360	32,544	Revenue
24.1	6.0	10.2	7.4	6.5	3.8	% Change
2,380	3,656	3,096	4,409	3,112	3,925	Operating Income
-46.9	53.6	-15.3	42.4	-29.4	26.1	% Change
1,160	1,719	1,623	2,269	1,134	1,956	Net Income
6,131	6,343	4,457	7,616	8,445	8,173	Operating Cash Flow
-5,810	-5,395	-6,077	-7,624	-8,553	-8,465	Capital Spending
321	948	-1,620	-8	-108	-292	Free Cash Flow
1.4	3.8	-5.9	0.0	-0.3	-0.9	% Sales
1.42	2.00	1.88	2.54	1.22	2.10	EPS
-62.1	40.8	-6.0	35.1	-52.0	72.1	% Change
0.39	0.48	-0.03	-1.04	0.82	-0.31	Free Cash Flow/Share
2.10	1.46	1.24	1.24	1.26	1.28	Dividends/Share
25.07	25.51	27.44	28.01	28.17	28.65	Book Value/Share
855,000	857,000	860,000	920,000	924,000	926,097	Shares Outstanding (K)

						Profitability
6.5	7.8	7.2	9.4	4.4	7.5	Return on Equity %
1.7	2.2	2.0	2.5	1.1	1.7	Return on Assets %
4.9	6.9	5.9	7.7	3.6	6.0	Net Margin %
0.35	0.31	0.33	0.32	0.30	0.28	Asset Turnover
3.7	3.5	3.8	3.7	4.4	4.4	Financial Leverage
56.8	56.9	52.6	55.6	59.7	59.2	Gross Margin %
10.1	14.7	11.3	15.0	9.9	12.1	Operating Margin %
18,346	18,271	20,010	24,286	32,216	31,685	Long-Term Debt
21,624	22,925	22,801	25,793	25,837	26,530	Total Equity
0.6	0.5	0.6	0.5	0.5	0.5	Fixed Asset Turns

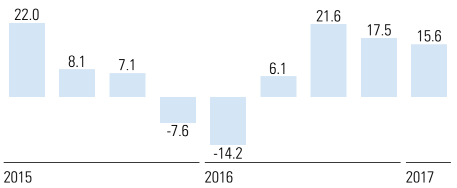
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	6.4	10.3	3.0	-2.8

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2017	8,757.0	—	—	—	—
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
Earnings Per Share ()					
2017	1.07	—	—	—	—
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

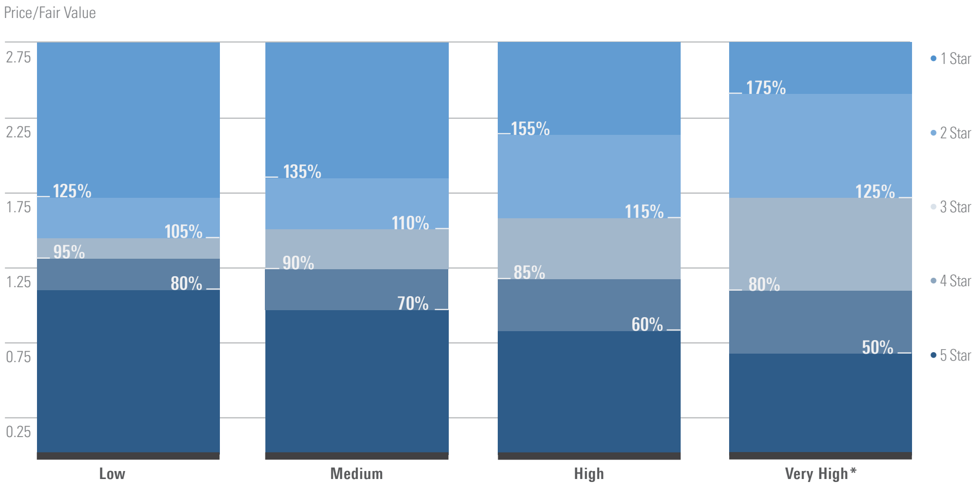
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ▶**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ▶**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ▶**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ▶**Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ▶**Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ▶**None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- ▶**One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- ▶**Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- ▶**Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- ▶**Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- ▶**Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

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- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	38.55 USD	32.00 USD	1.20	3.35	3.40	35.70	Utilities - Diversified	Standard
01 Aug 2017 21:39, UTC	01 Aug 2017	07 Dec 2016 02:29, UTC		01 Aug 2017	01 Aug 2017	01 Aug 2017		

Price/Fair Value Morningstar data as of Aug 01, 2017

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Deutsche Bank
Markets Research

Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
3 August 2017

Results

Price at 2 Aug 2017 (USD)	38.42
Price target	41.00
52-week range	38.55 - 30.00

Building legal momentum

Still a cheap way to play regulated growth

EXC delivered a relatively in line Q2 and reaffirmed 2017 EPS guidance of $2.50-$2.80. The stock has outperformed a shrinking hybrid utility group YTD by 4-5% but has still lagged the S&P utilities. We continue to view EXC as a discounted way to play high-quality regulated utility growth coupled with a cash-flow driven merchant/retail de-levering story. Upside optionality from policy-related catalysts, such as the potential establishment of further state ZEC programs (Pennsylvania or New Jersey) and other power market reforms being worked on in the Regional Transmission Organization (RTO) arena remain a key component of the EXC story. DOE's pending baseload and reliability study may be the next data point with our core expectation being that report will support and encourage ongoing initiatives at the FERC and in the RTOs. We reiterate our Buy rating and $41 PT.

Gross margin down on EGTP and TMI removal

EXC updated forecast gross margin disclosures for 2017-2019 to reflect the anticipated retirement of Three Mile Island nuclear plant (TMI) and the sale of the ExGen Texas portfolio as well as new hedges added in the quarter. Versus the Q1 stage, 2018 gross margin declined $150M to $8.1B with 2019 also $150M lower at $7.7B. The planned sale of EGTP accounts for $100M of the reduction in each year while the assumed shut-down of TMI lowers 2019 by $50M for the partial year. While these margin declines for portfolio changes are notable, lower ongoing expenses will more than offset, with EXC disclosing that the EGTP sale should be $0.02-$0.03 accretive to EPS with the TMI shut-down adding $0.04-$0.07 in 2020 and beyond. Management also expect $0.05 of TMI-related accretion in 2019 as they will no longer have refueling outage costs at the facility in that year, if it indeed retires.

Largely maintaining estimates

While we have adjusted our model for Q2 results, updated gross margin, and other adjustments, we largely leave our 2017-2019 EPS estimates unchanged. 2017 is still $2.65, 2018 is down $0.05 to $2.85 driven by modestly lower UP&O and generation forecasts and 2019 is unchanged at $2.70. For Utility and Parent our forecasts are close to the midpoint of management's previously provided guidance, with an expectation that EXC will be able to narrow the gap between the PHI utilities' earned and authorized return on equity.

Pushing for action in Pennsylvania and elsewhere; FERC quorum imminent?

Sounding confident after robust first-round legal wins on NY and IL ZEC programs, EXC highlighted that they are continuing to push for market reforms that will

Valuation & Risks

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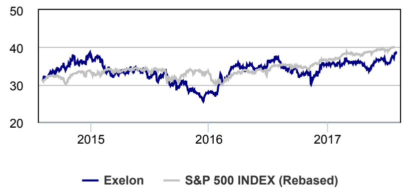
Key changes

EPS (USD)	-	↓	-0.2%
Revenue (USDm)	31,641.8 to 31,806.5	↑	0.5%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.5	11.5	4.5
S&P 500 INDEX	2.1	3.5	14.8

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	8.7
ROA (%)	2.1
Net debt/equity (x)	122.7
Book value/share (USD)	31.71
Price/book (x)	1.2
Net interest cover (x)	3.3
EBIT margin (%)	15.5

Source: Deutsche Bank

better value the benefits of reliable and zero emissions nuclear plants. Attention is now clearly focused on the potential for a ZEC program in PA and also the potential for wholesale market reforms stemming from the DOE's ongoing baseload power study, with the results expected later this month. Relatively consistent with our view, EXC believes the results of the study will help set an agenda for the newly appointed FERC commissioners rather than result in any immediate targeted benefits for specific generators. Overall, though with potential action this fall in Pennsylvania and a pick-up in activity at FERC once the new commissioners are eventually confirmed by the Senate, we continue to believe EXC is favorably positioned. **As a late side note, industry reports this evening indicate that late on Wednesday the White House sent the formal nomination packages for Democrat nominee Richard Glick and expected chairman Kevin McIntyre to the Senate Energy and Natural Resources Committee. This reportedly could pave the way for a Senate floor vote before the August recess on a package of pending nominees including Robert Powelson and Neil Chatterjee who have already been approved by the Committee.**

Stock & option liquidity data

Market cap (USDm)	36,364.4
Shares outstanding (m)	946.5
Free float (%)	100
Volume (2 Aug 2017)	1,583,505
Option volume (und. shrs., 1M avg.)	532,137
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.29

Source: Deutsche Bank

Merchant-utility split? Not so fast, at least while stock is working

While a lot of investor attention, including ours, has focused on the possibility for EXC to potentially separate its regulated and merchant businesses, management did not appear in any rush. CEO Crane reiterated the benefits of the combination with EXC's utilities utilizing ExGen's free cash flow for infrastructure investment while also noting a recent improvement in stock value. From our perspective it is probably this recent uptick in relative performance which limits the urgency of considering a more significant strategic transaction. In terms of metrics, EXC will most likely continue to assess their relative valuation versus peers through a combination of measures including P/E and sum-of-parts.

Dividend update expected early next year

With debt targets largely met, EXC noted plans to discuss a dividend strategy with their board in the coming months with the expectations being for another multi-year outlook to be communicated in early 2018. Incremental dividend growth is likely to be weighed against incremental debt reduction at the holding company.

Forecasts and ratios

Year End Dec 31	2016A	2017E	2018E
1Q EPS	0.69	0.65A	–
2Q EPS	0.65	0.54A	–
FY EPS (USD)	2.68	2.65	2.85
OLD FY EPS (USD)	2.68	2.65	2.90
% Change	0.0%	-0.2%	-1.8%
P/E (x)	12.5	14.5	13.5
DPS (USD)	1.26	1.29	1.33
Dividend yield (%)	3.8	3.4	3.5

Source: Deutsche Bank estimates, company data

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	38.42 (USD) 2 Aug 2017	6, 9, 14, 15

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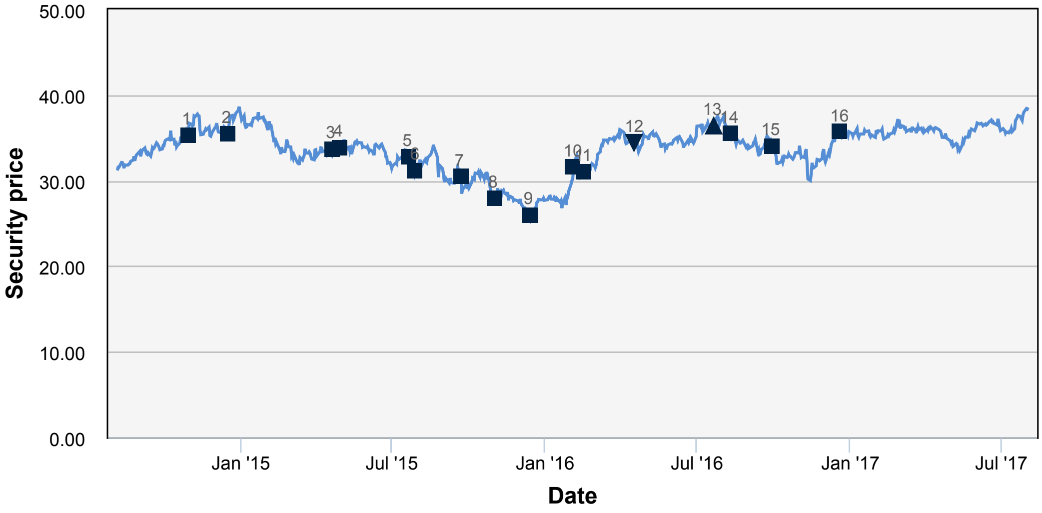
Historical recommendations and target price. Exelon (EXC.N)

(as of 08/02/2017)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	10/30/2014	Buy, Target Price Change USD 38,00 Jonathan Arnold
2.	12/17/2014	Buy, Target Price Change USD 43,00 Jonathan Arnold
3.	04/21/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
4.	04/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
5.	07/22/2015	Buy, Target Price Change USD 40,00 Jonathan Arnold
6.	07/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
7.	09/22/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
8.	11/02/2015	Buy, Target Price Change USD 37,00 Jonathan Arnold
9.	12/14/2015	Buy, Target Price Change USD 35,00 Jonathan Arnold
10.	02/04/2016	Buy, Target Price Change USD 36,00 Jonathan Arnold
11.	02/17/2016	Buy, Target Price Change USD 34,00 Jonathan Arnold
12.	04/18/2016	Downgraded to Hold, Target Price Change USD 36,00 Jonathan Arnold
13.	07/22/2016	Upgraded to Buy, Target Price Change USD 39,00 Jonathan Arnold
14.	08/11/2016	Buy, Target Price Change USD 40,00 Jonathan Arnold
15.	09/29/2016	Buy, Target Price Change USD 38,00 Jonathan Arnold
16.	12/20/2016	Buy, Target Price Change USD 41,00 Jonathan Arnold

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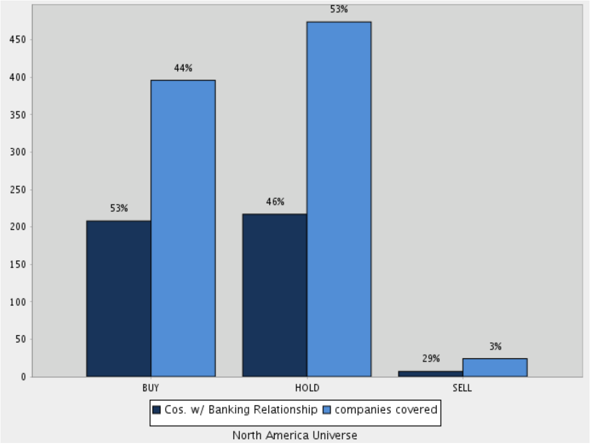
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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COMPANY UPDATE

Thursday, August 3, 2017

Exelon Corporation

Improved Visibility Drives Multiple Expansion

QUICK TAKE: The stock traded off versus the group despite the reiteration of guidance and earnings beat, giving back some of its recent outperformance. Concerns regarding the downtick in gross margin expectations at ExGen for the guidance period and the chance this trend extends into 2020 and beyond given the current market dynamics are overblown, in our opinion. We view the outlook at ExGen to have more clarity following the dismissals of the ZEC lawsuits and the likelihood of improved cash flows resulting from the planned retirement of underperforming assets. **We are increasing our price target from $37 to $40**, expanding our P/E multiple to reflect these factors and the increasing contributions from the company's utility segments.

KEY POINTS

ZEC Lawsuits Dismissed: Cases in New York and Illinois contesting the legality of the state programs were dismissed in separate federal court rulings last month on both procedural and substantive grounds, suggesting a higher probability of the rulings being upheld at the pending appeals. These rulings create more certainty regarding the ultimate receipt of the ZEC subsidies for the eligible plants, and also provide a clear road map for similar legislative relief for underperforming plants in other jurisdictions. EXC has clearly demonstrated an ability to influence outcomes to support its nuclear fleet and we would expect this trend to continue.

TMI Shutdown: On that note, the company has announced it will retire the Three Mile Island nuclear plant after it once again failed to clear the most recent PJM capacity auction. The facility will close by September 2019 before its refueling cycle should a ZEC-like subsidy not materialize. The planned closing reduces out-year gross margin forecasts, but greater cash flow savings make the plans about $0.05/share accretive to earnings on an annualized basis.

PHI Rate Cases On Schedule: EXC has received rulings on four legacy PHI rate cases year-to-date, with total revenue increases of about $112 million. Authorized ROEs range from 9.5% to 9.7%, well ahead of current returns closer to 7%. Three more rate cases are outstanding with aggregate revenue requests of about $168 million with associated ROEs of 10.1%. Execution of a steady succession of these claims drives the 6.5% rate base and 6%-8% earnings CAGRs at the utility segments.

Qtly EPS (Dil)	Q1	Q2	Q3	Q4	Year	P/EPS
2015A	$0.71	$0.59	$0.83	$0.38	$2.49	11.1x
2016A	$0.68	$0.65	$0.91	$0.44	$2.69	13.2x
2017E	$0.65A	$0.54A	$0.83	$0.63	$2.65	14.5x
2018E	$0.73	$0.63	$0.81	$0.68	$2.85	13.5x

(FY-Dec.)	2014A	2015A	2016A	2017E	2018E
EBITDA (M)	$6,367	$6,937	$8,399	$7,690	$8,864
Enterprise Value (M)	$53,537	$46,117	$69,934	$74,439	$75,143
EV/EBITDA	8.4x	6.6x	8.3x	9.7x	8.5x

Historical price multiple calculations use FYE prices. All values in US$ unless otherwise indicated.
Source: FactSet; company reports; Scotia Howard Weil estimates.

Dissemination: August 03, 2017, 05:56 ET. Production: August 02, 2017, 23:08 ET.

ANALYST TEAM Link to Analyst Page

POWER & UTILITIES

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PERTINENT DATA

Rating	**Sector Perform**
1-Yr. Target	**$40.00**
EXC	$38.42
1-Yr. Return	7.6%
Div. (NTM)	$1.33
Div. (Curr.)	$1.31
Yield (Curr.)	3.4%

Valuation: 14.0x our F2018 EPS estimate

PERTINENT REVISIONS

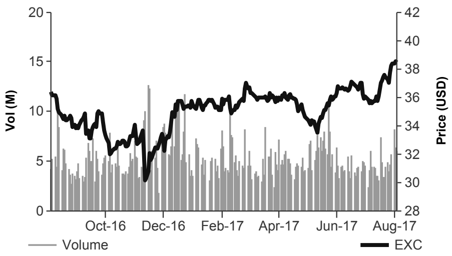
	New	Old
1-Yr. Target	$40.00	$37.00

New Valuation: 14.0x our F2018 EPS estimate
Old Valuation: 13.0x our F2018 EPS estimate

CAPITALIZATION

Market Cap. (M)	$35,581
Net Debt + Pref. (M)	$35,796
Enterprise Value (M)	$73,121
Shares O/S (M)	926
Float O/S (M)	924

Volume and Closing Price for EXC



Source: FactSet.

Company Overview

Company Description

Exelon Corporation is a diversified power utility company with operations throughout the United States, operating generation, transmission, and distribution assets in both merchant and regulated markets. The Generation segment operates a large regional and fuel-diversified competitive electricity business, including the largest nuclear power generation fleet in the country. The company owns regulated utilities ComEd, BGE, PECO, and Pepco Holdings, which provide electric transmission and distribution services to customers within their designated service areas.

Risks

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Key Risks:
Regulatory factors, interest rates, commodity prices, operational factors, including running fleet of nuclear power reactors

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Rating and Price Target History

Exelon Corporation (EXC) as of August 02, 2017 (in USD)

16-Nov-2015
Price: 28.65
Rating: SP
Target: 34.00

17-Aug-2016
Price: 34.58
Rating: SP
Target: 37.00*

*Represents the value(s) that changed.

Powered by: BlueMatrix

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Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Ranking
As of June 22, 2015, Scotiabank, Global Banking and Markets discontinued its Low, Medium, and High risk rankings. The Speculative risk ranking reflects exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, and exceptionally high stock volatility. The Director of Research and the Supervisory Analyst jointly make the final determination of the Speculative risk ranking.

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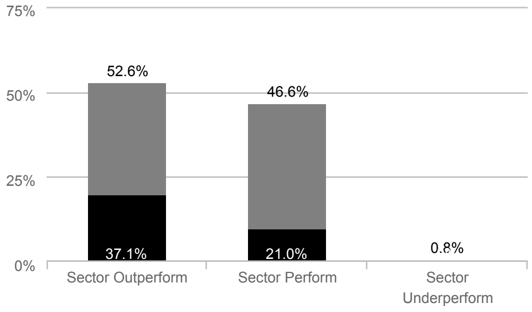
Distribution by Ratings and Equity and Equity-Related Financings*



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* As of July 31, 2017. Source: Scotia Howard Weil.

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Macquarie Research

Equities

MACQUARIE

Exelon Corp

Another believer in DOE's power study

UNITED STATES

EXC US		Outperform
Price (at 20:50, 02 Aug 2017 GMT)		US$38.55
Valuation - DCF (WACC 8.0%, beta 0.8)	**US$**	**41.45**
12-month target	**US$**	**41.00**
12-month TSR	**%**	**+9.7**
GICS sector		**Utilities**
Market cap	**US$m**	**35,701**
30-day avg turnover	**US$m**	**160.2**
Number shares on issue	**m**	**926.1**

Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
EPS adj	US$	2.68	2.71	2.92	2.86
EPS adj growth	%	7.6	1.0	7.7	-2.0
PER adj	x	14.4	14.2	13.2	13.5
Total DPS	US$	1.26	1.29	1.32	1.36
Total div yield	%	3.3	3.3	3.4	3.5

EXC US vs S&P 500, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Capital (USA), August 2017

(all figures in USD unless noted)

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3 August 2017
Macquarie Capital (USA) Inc.

Event

- While EXC's regulated utilities likely account for ~80-85% of EXC's market cap, merchant power-related topics dominated EXC's 2Q17 earnings call, starting with (initial) legal wins for EXC's nuclear subsidies in IL and NY, the pending DOE study of baseload power resources, the PJM capacity auction, and ending with a discussion about the limited liquidity in forward power curves. EXC's newly-founded enthusiasm toward the DOE study caught us by surprise – management hopes that the report (to be released sometime this month) together with the reconstituted FERC quorum could result in meaningful and timely changes in competitive power markets, starting with changes to the power price formation in PJM. EXC believes that those could result in meaningful upside to power prices (especially during off-peak hours) thus reducing the amount of state support needed to maintain continued operations of merchant nuclear plants. The need for the federal/state support for baseload power plants keeps growing as forward power prices keep sliding along with falling natural gas prices. We reiterate Outperform on EXC as we await the release of the DOE study.
- EXC reported 2Q17 adjusted EPS of US$0.54, ahead of our estimate of US$0.51 thanks to the timing of O&M expenses. Management reiterated its '17 EPS guidance range of US$2.50-2.80.

Impact

- **Falling power prices, cost cutting and power market changes:** ExGen keeps delivering on current and future earnings expectations despite falling forward power/gas curves thanks to its large (and growing) retail book, power plant portfolio changes, and cost efficiencies. Federal and state subsidies together with changes in the power price formation in competitive power markets could largely negate the impact of falling natural gas prices and the low trading liquidity in forward power curves on ExGen's earnings. Even more importantly, those would make ExGen's earnings and cash flows even more regulated-like, thus supporting an even higher valuation, we believe. But first we need to see the DOE study and judge ourselves if EXC (and FE) have been justifiably optimistic.

Earnings and target price revision

- We have updated our earnings estimates to reflect ExGen's power hedges as well as changes (reductions) in forward power/gas curves. Our new '17/'18/'19/'20 EPS estimates are US$2.71/2.92/2.86/2.72 vs. US$2.71/2.92/2.87/-, respectively. Our US$41 TP remains unchanged.

Price catalyst

- 12-month price target: US$41.00 based on a Sum of Parts methodology.
- Catalyst: The release of the baseload power study by the DOE

Action and recommendation

- We reiterate our Outperform rating.

Please refer to page 4 for important disclosures and analyst certification, or on our website www.macquarie.com/research/disclosures.

Fig 1 EXC: EPS breakdown by subsidiary (US$)

	2016	2017E	2018E	2019E	2019E
ComEd	0.57	0.64	0.65	0.69	0.73
PECO	0.48	0.47	0.47	0.49	0.51
BGE	0.31	0.31	0.33	0.36	0.36
PHI	0.25	0.35	0.40	0.42	0.49
ExGen	1.27	1.12	1.26	1.10	0.84
Parent	-0.20	-0.20	-0.20	-0.20	-0.20
TOTAL EPS	**2.67**	**2.71**	**2.92**	**2.86**	**2.72**

Source: Company data, Macquarie Capital (USA), August 2017

Fig 2 EXC: Financial projections (US$m except per share data)

	2016	2017E	2018E	2019E
Sales	31,905	32,405	32,707	32,635
Operating expenses	27,041	26,824	26,828	26,993
EBITDA	8,096	8,930	9,279	9,201
Depreciation	3,232	3,350	3,399	3,559
Operational EBIT	4,864	5,580	5,879	5,642
Net interest expense	(1,383)	(1,742)	(1,714)	(1,688)
Ordinary Profit Before Tax	3,787	4,039	4,366	4,153
Income tax	(1,299)	(1,465)	(1,541)	(1,386)
Net profit	2,488	2,573	2,825	2,767
S/O (m)	**927**	**949**	**967**	**970**
EPS	**$2.68**	**$2.71**	**$2.92**	**$2.86**
Current assets	8,971	9,072	9,134	9,120
Property, plant, and equipment	59,774	62,799	64,875	66,791
Total assets	**92,452**	**95,953**	**98,464**	**100,741**
Current liabilities	7,076	7,128	7,160	7,156
Long-term debt	20,349	22,090	23,070	23,949
Shareholders' equity	33,531	34,638	35,537	36,340
Total liabilities and equity	**92,452**	**95,953**	**98,464**	**100,741**
Net income	2,488	2,573	2,825	2,767
Operating cashflow	5,924	6,474	6,795	6,935
Investing cashflow	(6,975)	(6,375)	(5,475)	(5,475)
Dividends paid	(1,160)	(1,216)	(1,272)	(1,312)
Financing cashflow	1,051	(99)	(1,320)	(1,460)
Cash at end of period	700	700	700	700

Source: FactSet, Macquarie Capital (USA), August 2017

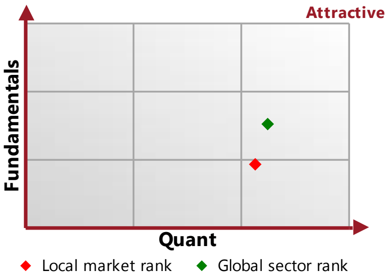
Macquarie Quant View

The quant model currently holds a reasonably positive view on Exelon Corp. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Quality, indicating this stock is likely to have a weaker and less stable underlying earnings stream.

110/435

Global rank in Utilities

% of BUY recommendations	73% (16/22)
Number of Price Target downgrades	1
Number of Price Target upgrades	4

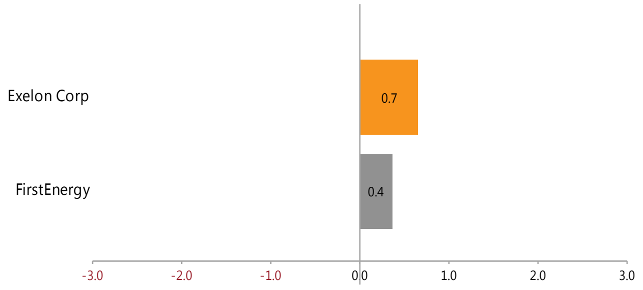


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (United States) and Global sector (Utilities)

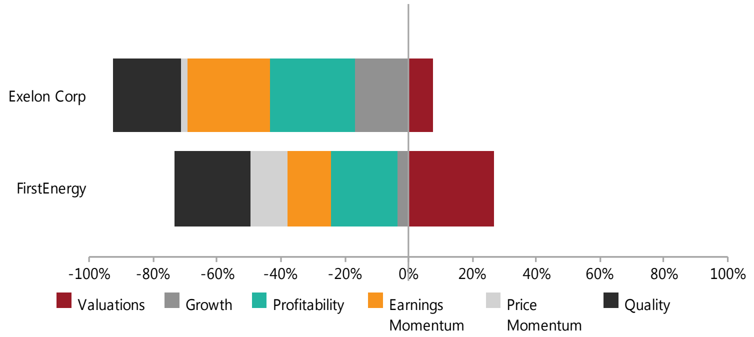
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



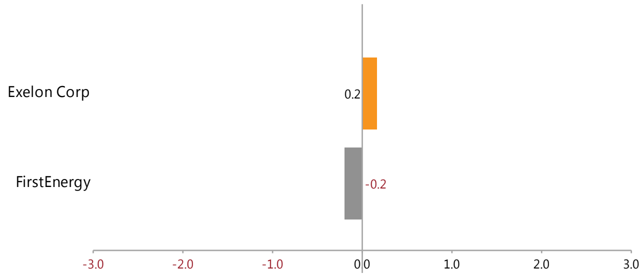
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



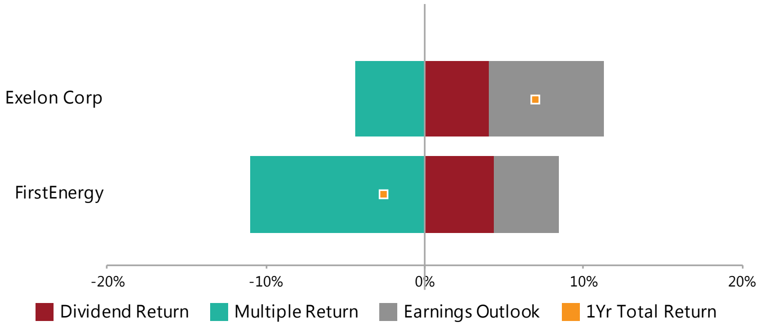
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



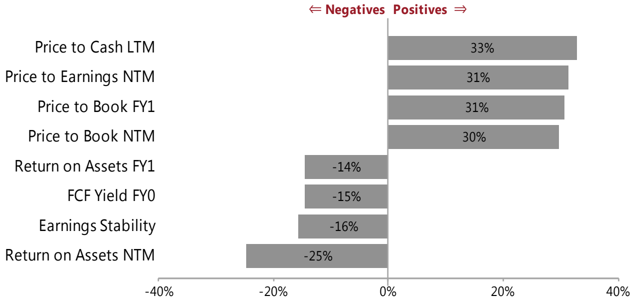
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



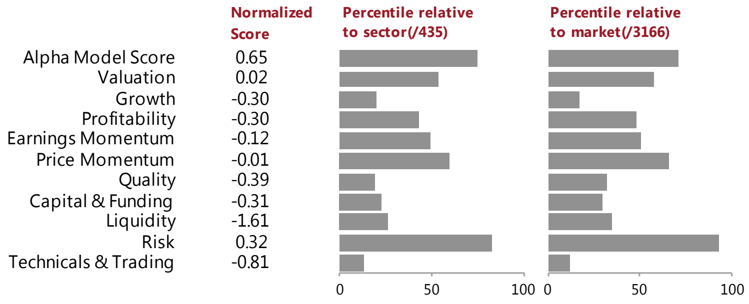
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.01%	55.36%	42.05%	46.38%	66.67%	43.60%	(for global coverage by Macquarie, 2.98% of stocks followed are investment banking clients)
Neutral	37.73%	29.86%	42.05%	47.88%	27.91%	40.14%	(for global coverage by Macquarie, 2.33% of stocks followed are investment banking clients)
Underperform	10.26%	14.78%	15.91%	5.74%	5.43%	16.26%	(for global coverage by Macquarie, 1.15% of stocks followed are investment banking clients)

EXC US vs S&P 500, & rec history

(all figures in USD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Capital (USA), August 2017

12-month target price methodology

EXC US: US$41.00 based on a Sum of Parts methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
11-Aug-2016	EXC US	Outperform	US$41.00
17-Jun-2015	EXC US	Outperform	US$40.00
17-Nov-2014	EXC US	Outperform	US$41.00
09-Oct-2014	EXC US	Outperform	US$39.00

Target price risk disclosures:
EXC US: Our US$41 price target is based on our ’19 SOP valuation. Risks include execution of regulated capex and the pace of load growth for EXC’s utilities, the level of forward power prices in particular in PJM West and NI Hub, forward capacity prices in PJM and New England, and incremental cost efficiencies, and legal challenges to nuclear subsidies in NY and IL.

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COMPANY NOTE

Target | Estimate Change

USA | Energy | Electric Utilities

August 3, 2017

Jefferies

EQUITY RESEARCH AMERICAS

Exelon (EXC)

Nothing Compares 2U

BUY
Price target $43.50
(from $39.50)
Price $38.42^

Key Takeaway

Exelon reported in-line results of $0.54 driven by lower power and capacity prices at ExGen. Given the recent strength in IPPs investors were wondering if management would consider spinning off ExGen but management highlighted the benefit of a diverse business mix and the "free cash flow" machine at ExGen. With the addition of ZECs we think it is unlikely that EXC would spin-off ExGen and continue to recommend EXC as the best way to invest in power.

Jefferies does not expect EXC to split ExGen even with surging merchant valuations. With investors wondering if management would spin-off ExGen we would highlight the significant cash it generates and the ability (over the last year) for EXC to receive ZECs to stablize the nuclear fleet.

Exelon operating EPS was $0.54 on a diluted basis, versus $0.68 for the same period a year ago, our estimate of $0.52, and Consensus of $0.54. The year-over-year decline was related to lower earnings at ExGen driven by lower capacity and energy prices.

Going for the Hail Mary on ZEC Challenges – Recent court decisions in NY and Illinois have dismissed challenges to the ZEC program. In NY EXC expects a challenge at the Court of Appeals and given the decisive ruling from a lower court management does not expect the petitioners to be successful. The quarterly results were positively impacted from the NY ZEC program and although the IL program went into effect on June 1 the state has yet to conduct its ZEC procurement process. Once that process is complete the company will book ZEC revenues retroactive to June 1.

Three Mile Island Retirement announced back in May. Following the PJM capacity auction in which TMI did not clear it was revealed that TMI would retire after this current fuel cycle (September 30, 2019). Absent a legislative change, Pennsylvania ZEC, the retirement would be accretive to EPS by $0.04-$0.07 and improve cumulative cash flow through 2021 by $225 million.

Valuation/Risks

Our $39.50 price target is based on P/E analysis. Taking our 2019 EPS estimate of $2.80 in conjunction with a P/E group average multiple of 15.5x results in a price target of $43.50. Based on yesterday's closing price of $38.42, this would result in a 12-month price appreciation potential of 13.2% and total return potential of 16.6% including the current yield of 3.4%. **Risks** include exposure to change in the commodity prices and regulatory issues associated with the company's regulated subsidiaries.

USD	*Prev.*	**2016A**	*Prev.*	**2017E**	*Prev.*	**2018E**	*Prev.*	**2019E**
Cons. EPS Diluted	--	2.69	*2.66*	2.98	--	2.88	*2.79*	2.84
EPS								
Mar	--	0.68	--	0.65A	--	--	--	--
Jun	--	0.65	*0.52*	0.54A	--	--	--	--
Sep	--	0.91	*1.00*	0.90	--	--	--	--
Dec	--	0.45	*0.43*	0.51	--	--	--	--
FY Dec	--	2.69	--	2.60	--	2.85	--	2.80
FY P/E		14.3x		14.8x		13.5x		13.7x

Financial Summary

Book Value (MM):	$13.7
Net Debt (MM):	$14,029.0
Return on Avg. Equity:	22.2%
Net Debt/Capital:	NM
Long-Term Debt (MM):	$13,960.0
LTD/Cap:	56.0%
Dividend Yield:	3.4%

Market Data

52 Week Range:	$38.78 - $29.82
Total Entprs. Value (MM):	$49,605.9
Market Cap. (MM):	$35,576.9
Insider Ownership:	0.1%
Institutional Ownership:	65.6%
Shares Out. (MM):	926.0
Float (MM):	924.2
Avg. Daily Vol.:	5,025,651

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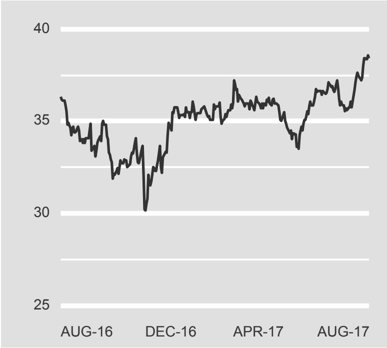
Price Performance



^Prior trading day's closing price unless otherwise noted.

Scenarios

Target Investment Thesis

- Exelon should trade at a group average P/E multiple.
- Company moves to a more regulated P/E valuation since completing the merger last year.
- The Nuclear ZECs in Illinois and New York only add to the solid "regulated-like" earnings profile.
- 2019 EPS $2.80; Target Multiple: 15.5x. Target Price $43.50.

Upside Scenario

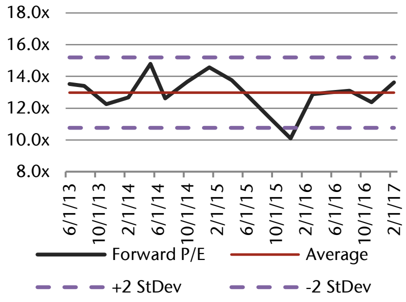
- Exelon Generation earnings increase due to improvement in gas and power prices.
- Power plant values increase due to growing short supply.
- Regulated business earns at or above its allowed ROE.
- 30Y US TSY yields increase raising the ROE at ComEd through its distribution formula rate
- 2019 EPS $3.00; target multiple: 15.5x Target Price $46.50

Downside Scenario

- Exelon EBITDA decreases due to declining gas and power prices.
- NY and IL nuclear ZEC programs are found to be in violation of power rules.
- Reinvestment opportunities become more limited.
- Regulated utilities under-earn their allowed ROE.
- 2019 EPS: $2.50; Target Multiple: 15.5x Target Price: $38.50.

Long Term Analysis

1 Year Forward P/E



Source: Facstet, Jefferies estimates

Long Term Financial Model Drivers

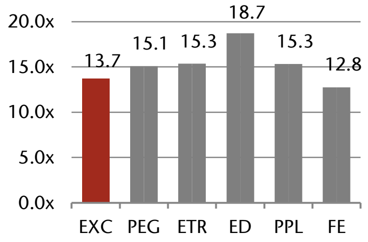
LT EBITDA CAGR	**(8.5%)**
LT EPS Growth	**7.0%**
FFO/Debt	**31%**
Equity Ratio	**52%**

Other Considerations

While we assume no benefit from ZECs or any type of carbon regulation the benefit to Exelon's 19,000 MW of nuclear plants is significant.

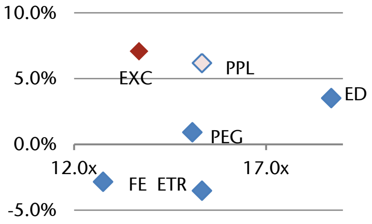
Peer Group

Group P/Es



Source: Factset, Jefferies estimates

Earnings Growth vs P/E



Source: Fastset, Jefferies estimates

Recommendation / Price Target

Ticker	**Rec.**	**PT**
EXC	**Buy**	**$43.50**
PEG	Hold	$46.50
ETR	Hold	$78
ED	Hold	$83.50
PPL	Buy	$42
FE	Hold	$33

Catalysts

- Legal challenges to Illinois and New York's ZECs.
- Rate increases at PHI utilities.

Company Description

Exelon, incorporated in Pennsylvania in February 1999, is a utility services holding company engaged, through its principal subsidiary Generation, in the energy generation business, and through its principal subsidiaries Com Ed, PECO, DPL, ACE, Pepco, and BGE, in the energy delivery businesses discussed below. Exelon is headquartered in Chicago and trades on the NYSE under the ticker symbol EXC.

Investment Summary

We believe that EXC is attractive at current levels trading at a discount to other utilities based on our P/E valuation.

Exelon operating EPS was $0.54 on a diluted basis, versus $0.68 for the same period a year ago, our estimate of $0.52, and Consensus of $0.54. The year-over-year decline was related to lower earnings at ExGen driven by lower capacity and energy prices.

Going for the Hail Mary on ZEC Challenges – Recent court decisions in NY and Illinois have dismissed challenges to the ZEC program. In NY EXC expects a challenge at the Court of Appeals and given the decisive ruling from a lower court management does not expect the petitioners to be successful. The quarterly results were positively impacted from the NY ZEC program and although the IL program went into effect on June 1 the state has yet to conduct its ZEC procurement process. Once that process is complete the company will book ZEC revenues retroactive to June 1.

Three Mile Island Retirement announced back in May. Following the PJM capacity auction in which TMI did not clear it was revealed that TMI would retire after this current fuel cycle (September 30, 2019). Absent a legislative change, Pennsylvania ZEC, the retirement would be accretive to EPS by $0.04-$0.07 and improve cumulative cash flow through 2021 by $225 million.

Texas Unload'em – On May 2, 2017, ExGen Texas Power (EGTP) entered into a consent agreement with its lenders to permit EGTP to sell the assets of its wholly-owned subsidiaries. The fleet of 3,476 MW is located in ERCOT and consists of CCGTs and simple cycle steamers that are economically challenged due to suppressed power prices in ERCOT. These assets have $650 million of non-recourse project level debt which is currently trading at a discount to face value. This portfolio does not contain two new state-of-the-art CCGTs that Exelon is building in Texas.

Management reaffirmed 2017 guidance of $2.50-$2.80 which compares to Consensus of $2.68 and our estimate of $2.60. For 3Q17 management is guiding to $0.80-$0.90. Earnings include both the NY and IL ZEC programs (reversal of the Quad Cities and Clinton closure), Fitzpatrick ownership, and a full year of PHI contribution.

Exelon has completed its first cycle of rate cases at PHI and is beginning its second cycle of rate cases requesting a $168 million rate increase across the platform.

Last month Delmarva Power filed for a $27 million rate increase with the Maryland PSC. The utility is requesting new rates, based on a 10.1% ROE) to cover the costs of system improvements and deferred costs for smart meters that were not recovered in the utility's last rate filing. In February the Maryland PSC authorized 67% of Delmarva's requested rat increase using a 9.6% ROE.

PEPCO DC gets approval for new rates on July 25, 2017. New rates are predicated on a 9.5% ROE and a $36.9 million revenue increase. This compares to the utility request of a 10.6% ROE and a $76.8 million increase.

Atlantic City Electric filed for new rates with the NJBPU. Back in March ACE filed for a $70.2 million rate increase based on a 10.1% ROE and a $1,371 million rate base.

The drivers for the rate filing are increased capital investment and declining customer usage. A final decision is expected in December 2017.

In June the ICC Staff recommended a $99.1 million rate increase in ComEd's formula rate plan. The utility filed its annual formula rate plan requesting a $99.9 million increase based on a 8.4% ROE. The ROE is set based on a 580 bps premium to the 12 month average 30y Treasury Bond yield.

2Q17 operating EPS excludes $0.42 (GAAP earnings $0.09) of non-recurring items as follows: a $0.12 market to market loss associated with the impact of economic hedging activities, a $0.05 gain due to unrealized NDT gain, a $0.29 loss related to a long-lived asset impairment on ExGen Texas assets held for sale, a $0.07 loss from the expected retirement/divestiture of TMI, a $0.01 loss associated with the amortization of commodity contract intangibles, a $0.01 loss from merger and integration costs, a $0.02 loss related to CENG non-controlling interest, and a $0.03 gain from a like-kind exchange tax position. 2Q16 operating EPS excludes $0.65 (GAAP earnings of $0.29) of non-recurring items primarily due to mark-to-market impacts at ExGen.

Commonwealth Edison (CWE) earnings decreased by $0.01 to $0.15. Gross margin increased 3.3% to $979 million reflecting increased electric distribution and transmission earnings and higher ROE partly offset by weather (versus 2016). Retail sales decreased 3.1% and on a weather-adjusted basis were down 1.4%. Beginning in 2017 ComEd's customer rates are adjusted to eliminate the impact weather has on earnings.

Operating income decreased 1.5% to $320 million due to higher operating expenses. Operating and maintenance expense increased 2% to $376 million and depreciation expense grew by 11.1% to $211 million due to greater net plant. Earnings declined by 3.4% to $141 million driven by lower operating income partly offset by reduced interest expense. The effective tax rate for the quarter was 40.5% versus 38.4% last year.

PECO earnings declined by $0.01 to $0.10 mainly due to mild weather. Gross margin declined by 3.1% to $433 million due to the negative impact mild weather had on retail sales. Electric sales versus 2Q16 declined 0.3% and on a weather-adjusted basis down by 0.8%. Gas sales decreased by 3.0% as compared to 2Q16 but were up 5.3% on a weather-adjusted basis. Heating degree days declined 29.9% relative to 2Q16 and were 28.9% below normal.

Operating Income decreased by 12.3% to $135 million due to lower gross margin and higher depreciation expense. Depreciation expense grew by 6.0% to $71 million due to greater net plant balances and O&M expense rose by 2.1% to $192 million. Earnings decreased by 13.9% $87 million due to lower operating income. The effective tax rate during the quarter was 17.9% versus 19.2% last year.

BGE earnings improved by $0.02 to $0.05 due to the absence of 2Q16 rate case disallowances and new rates effective June 2016. Gross margin grew by 5.0% to $440 million based on higher rates.

Operating income increased 81.8% to $100 million driven by greater gross margin and reduced O&M expense. O&M expense declined 18.9% to $100 million while depreciation expense rose by 15.5% to $112 million due to the initiation of cost recovery of the AMI programs. Earnings increased 58.6% to $126 million due to greater operating margin. The effective tax rate during the quarter was 41.0% versus 12.1% last year.

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PHI earnings grew by $0.01 to $0.07 driven by new rates and lower O&M expense. Gross margin rose by 6.3% to $691 million due to new electric rates.

Operating income increased by 5.1% to $143 million due to greater gross margin partially offset by higher operating expenses. O&M expense rose by 11% to $273 million and depreciation expense grew by 3.1% to $165 million. Earnings increased by 18.9% to $63 million due to greater operating income. The effective tax rate during 2Q17 was 35.7% versus 34.6% in 2Q16.

Earnings at Exelon Generation decreased by $0.13 to $0.22 during the quarter mainly due to lower power prices, greater nuclear outage days and the conclusion of a services agreement. Gross margin declined by 4.9% to $2,223 million which was driven by lower energy and capacity prices. Partly offsetting the gross margin erosion was NY ZEC revenue. Nuclear generation increased by 3.8% to 44.1 million MWh with NY nuclear production rising 47.3% to 6.2 million MWh due to the addition of Fitzpatrick. Operating income was reduced by 49.0% to $290 million driven by greater operating expenses. Because of the increased outage days O&M expense rose by 10.2% to $1,494 million while depreciation expense grew by 1.7% to $299 million due to increased nuclear decommissioning amortization. Property taxes increased 18.6% to $140 million. Net income decreased by 38.4% to $202 million driven by lower operating income partially offset by reduced tax expense. The effective tax rate during the quarter was 38.0% versus 33.5% last year.

The company's Other business segment increased by $0.03 to a loss of ($0.03) driven by lower O&M and tax expenses.

We are maintaining our 2017 EPS estimate of $2.60 which compares to guidance of $2.50-$2.80. Earnings include both the NY and IL ZEC programs, Fitzpatrick ownership, and a full year of PHI contribution. Management affirmed segment guidance of: ComEd $0.60-$0.70, PECO $0.40-$0.50, BGE $0.25-$0.35, PHI $0.30-$0.40, ExGen $1.05-$1.15, and parent drag of $0.10-$0.30.

We are maintaining our 2018-19 EPS estimates of $2.85 and $2.80, respectively.

Table 1: Exelon Corporation Income Statement Forecast ($-millions)

	2015A	**2016A**	**2017E**	**2018E**	**2019E**
PECO	$639	$789	$807	$825	$841
CWE	1,046	1,237	1,371	1,411	1,425
BGE	580	573	587	635	672
PEPCO		321	384	462	515
DPL		187	209	262	295
ACE		142	155	194	189
Adjustment					
Energy Delivery	**2,265**	**3,248**	**3,513**	**3,789**	**3,937**
Genco	2,176	2,224	1,854	2,038	1,827
Corporate	(8)	(8)	(8)	(8)	(8)
Earnings on Cash	105		63	41	37
Reconcile	68	(45)	65	(40)	(30)
EBIT	**$4,606**	**$5,419**	**$5,487**	**$5,821**	**$5,763**
EBITDA	$5,895	$7,624	$7,830	$8,318	$8,427
MIPS Obligation	0	0	0	0	0
Capitalized Interest	0	0	0	0	0
Long-Term Interest Expense		(1,674)	(1,786)	(1,690)	(1,687)
Income Before Taxes	**$3,508**	**$3,744**	**$3,701**	**$4,130**	**$4,076**
Income Taxes	(1,215)	(1,287)	(1,273)	(1,416)	(1,399)
Minority Interest/preferred	(13)	(13)	(13)	(13)	(13)
Wind PTC	50	51	52	53	53
Net Income	**$2,330**	**$2,496**	**$2,466**	**$2,754**	**$2,718**
Preferred Dividends					
Earnings for Common	**$2,330**	**$2,496**	**$2,466**	**$2,754**	**$2,718**
Non-Recurring Items					
Merger Cost to Achieve	0	0	0	0	0
Total Non-Recurring	(100)	0	0	0	0
Reported Earnings	2,230	2,496	2,466	2,754	2,718
Earnings Per Share	**$2.51**	**$2.69**	**$2.60**	**$2.85**	**$2.80**

Source: Jefferies estimates, company data

Company Description

Exelon Corporation, through its subsidiaries, Commonwealth Edison Company (CWE) and Peco Energy Company (PECO), is engaged in the regulated distribution and transmission of electricity in Chicago and regulated transmission and distribution of electricity and natural gas in Philadelphia. In 2000, the company formed Exelon Generation, LLC to own and operate 25,543 megawatts (MW) of generation. Roughly 2/3 of the total generating capacity (16,945 MW) is nuclear, with the remaining 1/3 comprised of fossil and hydroelectric facilities.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 03:18 ET. August 3, 2017
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Other Companies Mentioned in This Report

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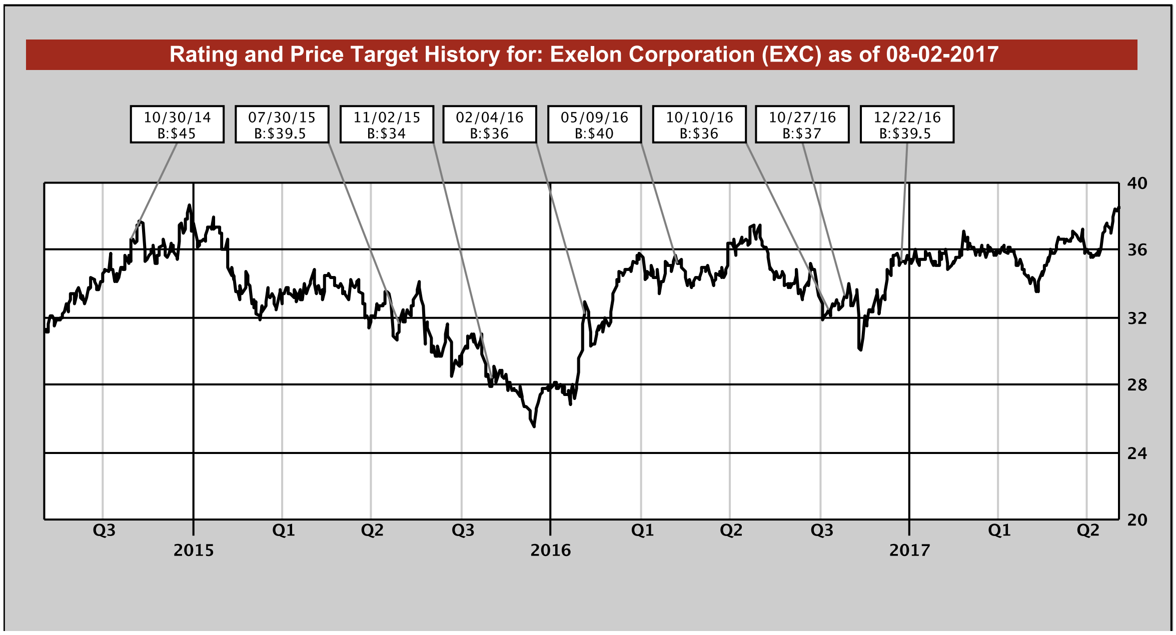
- Entergy Corporation (ETR: $76.53, HOLD)
- FirstEnergy Corp. (FE: $32.21, HOLD)
- PPL Corp. (PPL: $38.96, BUY)
- Public Service Enterprise Group Inc. (PEG: $45.33, HOLD)


Rating and Price Target History for: Exelon Corporation (EXC) as of 08-02-2017

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
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HOLD	904	42.05%	180	19.91%
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COMPANY UPDATE
August 3, 2017

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

Raising 2017 Estimate But Reducing 2018-19 Estimates

What's Incremental To Our View

Based on updated assumptions, we have increased our 2017 estimate but reduced our 2018-19 estimates. Stock still appears attractively priced on our revised estimates.

IMPORTANT POINTS

- EXC reported 2Q results of $0.54 vs $0.65, in line with our estimate of $0.54 and consensus of $0.54. Relative to our assumptions, modestly lower O&M expense was offset by lower contribution from rate increases.

- Factoring in the latest forward commodity curves, updated hedge disclosures, the planned retirements of Three Mile Island (837mw, September 2019) and Oyster Creek (625mw, December 2019), and the planned sale of the legacy Texas portfolio (3398mw), we make the following changes to our estimates: 2017 is increased to $2.70 from $2.67; 2018 is reduced to $2.83 from $2.91; and 2019 is reduced to $2.75 from $2.78.

- EXC appears attractively priced at a 5%-8% discount to the peer group (based on our 2018-19 estimates). Assuming a 14.8x P/E multiple (in line with the peer group) on our 2019 estimate of $2.75, we derive our price target of $41. We reiterate our **Buy** recommendation.

- We have included our revised 2017-19 earnings and cash flow models in this report.

Buy

Price Target: $41.00
Prior: $41.00

Δ Key Drivers

- *Latest forward commodity curves.*
- *Updated hedge disclosures.*
- *Planned retirements of Three Mile Island and Oyster Creek*
- *Planned sale of legacy Texas portfolio.*

Price (Aug. 2, 2017)	$38.42
52-Wk Range	$38.55-$30.00
Market Cap ($M)	$35,569
ADTV	3,531,440
Shares Out (M)	925.8
Short Interest Ratio/% Of Float	1.2%
Dividend/Yield	$1.31/3.4%
TR to Target	10.1%
Enterprise Value ($M)	$73,107.8

Debt/Cap	54%
5 Year EPS Growth	3.0%
ROE	9.0%
P/B	1.20x

	2017E	2018E		2019E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.65A	$0.68	$0.71	$0.66	$0.68
2Q	$0.54A	$0.57	$0.59	$0.55	$0.56
3Q	$0.85	$0.89	$1.06	$0.87	$1.01
4Q	$0.66	$0.69	$0.56	$0.67	$0.53
CY	$2.70	$2.83	$2.91	$2.75	$2.78
P/E	14.2x	13.6x		14.0x	
Consensus					
CY	$2.68	$2.88		$2.84	
Revenue ($M)					
CY	$33,975	$34,545	$34,545	$34,955	$34,955
Operating Margin (%)					
CY	14.90%	15.20%	15.60%	14.60%	14.60%
EBITDA ($M)					
CY	$8,348	$8,663	$8,821	$8,588	$8,672
EV/ EBITDA	8.8x	8.4x		8.5x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2012A-2019E

(dollars in millions, except per share)

	2019E		2018E		2017E		2016A		2015A		2014A		2013A		2012A	
Revenues (%change)																
Com Ed	5,650		5,485		5,380		5,246		4,905		4,564		4,464		5,443	
PECO	3,605		3,500		3,430		2,994		3,032		3,094		3,100		3,186	
BGE	3,470		3,370		3,300		3,233		3,135		3,165		3,065		2,204	
PEPCO	5,530		5,370		5,265		3,643									
Generation	18,000		18,070		18,000		18,304		18,925		17,853		16,190		15,502	
Other	(1,300)		(1,250)		(1,400)		(1,515)		(760)		(787)		(1,377)		(1,661)	
Total Revenues	34,955	1.2%	34,545	1.7%	33,975	6.5%	31,905	9.1%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF
Operating Income (%sales)																
Com Ed	1,435	25.4%	1,345	24.5%	1,285	23.9%	1,200	22.9%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%
PECO	810	22.5%	765	21.9%	710	20.7%	712	23.8%	634	20.9%	574	18.6%	675	21.8%	640	20.1%
BGE	650	18.7%	615	18.2%	555	16.8%	555	17.2%	563	18.0%	441	13.9%	446	14.6%	186	8.4%
PEPCO	790	14.3%	745	13.9%	700	13.3%	485	13.3%								
Generation	1,433	8.0%	1,828	10.1%	1,823	10.1%	1,969	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%
Other	(30)		(35)		(25)		(48)		(22)		(19)		(64)		(46)	
Equity Income (Loss)											(8)		102		59	
Total Operating Income	5,088	14.6%	5,263	15.2%	5,048	14.9%	4,873	15.3%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%
Interest Expense, net	(1,340)		(1,395)		(1,430)		(1,383)		(1,098)		(931)		(986)		(941)	
Other Income (Expense)	305		295		290		289		276		262		238		252	
Pretax income	4,053		4,163		3,908		3,779		3,412		3,259		3,295		3,657	
Taxes (rate)	1,378	34.0%	1,415	34.0%	1,329	34.0%	1,299	34.4%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%
Preferred / Non Controlling Interest	5		5		5		(32)		13		134		14		11	
Equity Income (Loss)	0		(5)		(10)		(24)		(7)							
Net Income (%change)	2,670	-2.5%	2,738	6.8%	2,564	3.1%	2,488	11.7%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%
Shares Outstanding (ful. dil.)	972.0		968.0		949.0		927.0		893.0		864.0		860.0		819.0	
Operating EPS -- ful. dil. (%change)	$2.75	-2.8%	$2.83	4.8%	$2.70	0.6%	$2.68	7.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%
Extraordinary Items																
Reported GAAP EPS																
Regulated Utility (net Parent) EPS	$1.80		$1.67		$1.55		$1.41		$1.09		$1.06		$1.10		$0.95	
Generation EPS	$0.95		$1.16		$1.15		$1.27		$1.40		$1.33		$1.40		$1.90	
EBITDA	8,588		8,663		8,348		8,105		6,684		6,242		6,191		6,180	
ComEd																
Total Retail Sales (millions mwhs)	92.0		91.0		90.0		88.9		86.7		88.6		89.1		90.0	
Implied Operating Margin ($/MWh)	$15.6		$14.8		$14.3		$13.5		$11.8		$11.1		$10.7		$9.9	
PECO																
Total Electric Retail Sales (millions mwhs)	40.0		39.5		39.0		37.9		38.0		37.5		37.8		37.5	
Implied Operating Margin ($/MWh)	$20.3		$19.4		$18.2		$18.8		$16.7		$15.3		$17.9		$17.1	
PEPCO																
Total Electric Retail Sales (millions mwhs)	47.0		46.0		45.0		26.1									
Implied Operating Margin ($/MWh)	$16.8		$16.2		$15.6		$18.6									
Generation																
Total Power Sales (millions mwhs)	212.0		209.0		203.0		203.0		196.4		199.2		214.7		219.5	
Implied Operating Margin ($/mwh)	$6.8		$8.7		$9.0		$9.7		$10.4		$9.8		$9.0		$12.2	
Net Income By Segment																
Com Ed	700		660		615		524		432		410		421		381	
PECO	480		460		430		444		380		353		393		387	
BGE	345		325		285		289		277		199		195		46	
Generation	920		1,118		1,097		1,181		1,253		1,155		1,202		1,548	
PEPCO	395		360		330		228									
Other	(170)		(185)		(193)		(178)		(115)		(49)		(62)		(32)	
Total	2,670		2,738		2,564		2,488		2,227		2,068		2,149		2,330	

Note

1) Rate Base - Com Ed: $10.6bn in 2015, $11.9bn in 2016, $13.2bn in 2017E, $14.0bn in 2018E, $14.8bn in 2019E; PECO: $6.0bn in 2015, $6.2bn in 2016, $6.6bn in 2017E, $7.0bn in 2018E, $7.4bn in 2019E; BGE: $5.0bn in 2015, $5.3bn in 2016, $5.7bn in 2017E, $6.1bn in 2018E, $6.5bn in 2019E; PEPCO: $8.3bn in 2016, $8.9bn in 2017E, $9.4bn in 2018E, $9.9bn in 2019E.

2) Earned ROE - Com Ed: 8.0% in 2015, 8.8% in 2016, 9.3% in 2017, 9.4% in 2018, 9.5% in 2019; PECO: 11.7% in 2015, 13.3% in 2016, 12.1% in 2017, 12.2% in 2018, 12.1% in 2019; BGE: 10.7% in 2015, 10.5% in 2016, 9.7% in 2017, 10.3% in 2018, 10.3% in 2019; PEPCO: 5.5% in 2016, 7.4% in 2017, 7.7% in 2018, 8.0% in 2019.

3) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

4) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

5) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

6) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

7) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw, nuclear $110m price) from Q2 2017.

8) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

9) Total ZEC payments represent $500m / year of pre tax income (from 2018 onwards).

10) We assume retirement of TMI (September 2019), Oyster Creek (December 2019), and exit from EGTP (2018 onwards).

11) Forward curves as of 8/1/17.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2012A-2019E

($ in millions except per share)

	2019E	2018E	2017E	2016A	2015A	2014A	2013A	2012A
Net income	2,670	2,738	2,564	2,488	2,227	2,068	2,149	2,330
Depreciation, depletion, amortization	5,100	5,000	4,925	5,576	3,987	3,868	3,779	4,079
Working Capital Change / Other	(125)	(125)	(125)	381	1,420	(1,479)	415	(278)
Cash Flow From Operations	7,645	7,613	7,364	8,445	7,634	4,457	6,343	6,131
Dividends	(1,201)	(1,196)	(1,174)	(1,166)	(1,105)	(1,065)	(1,249)	(1,716)
Capital expenditures	(6,750)	(7,250)	(8,125)	(8,553)	(7,624)	(6,077)	(5,395)	(5,789)
Free Cash Flow	(306)	(833)	(1,935)	(1,274)	(1,095)	(2,685)	(301)	(1,374)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a 14.8x P/E multiple (in line with the peer group) on our 2019 estimate of $2.75, we derive our price target of $41.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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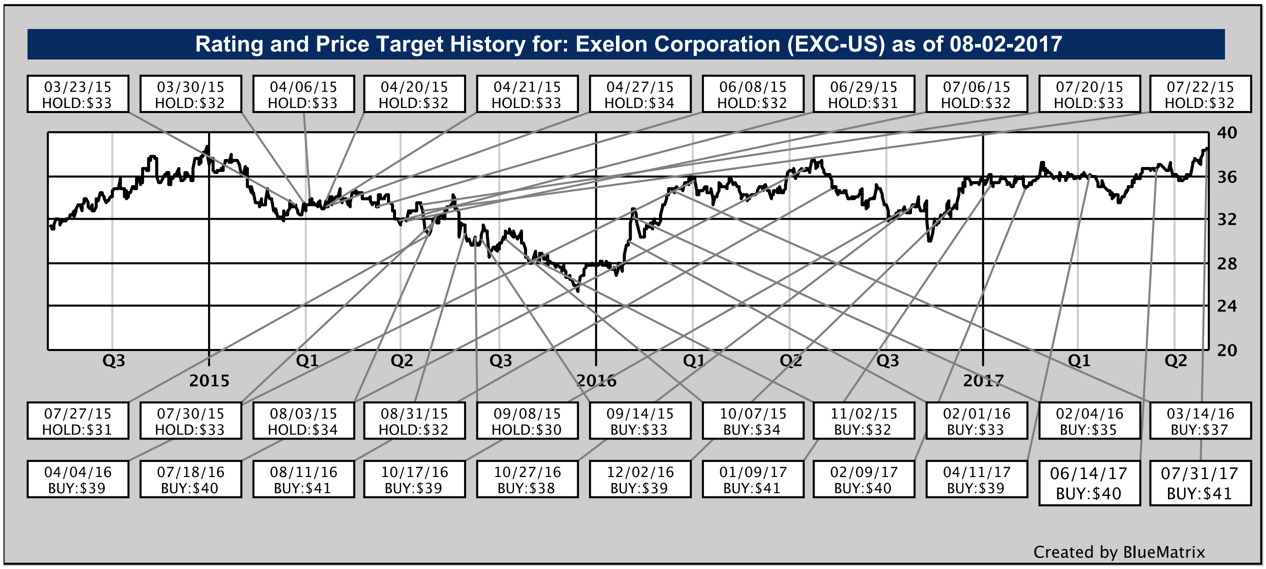

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Buy (B) – the stock’s total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock’s total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock’s total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH’s rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

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Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
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· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			Investment Banking Clients Past 12 Months		
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Hold/Neutral	277	40.68%	Hold/Neutral	60	21.66%
Sell/Reduce	2	0.29%	Sell/Reduce	0	0.00%

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Citi Research
Equities

03 Aug 2017 16:36:15 ET | 8 pages

Diversified Utilities
North America | United States

Exelon Corp (EXC)

Results: ZECs - the Gift that'll keep on Giving.

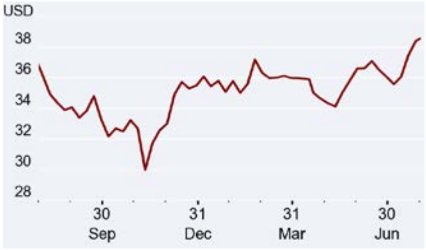
- **Citi's Take — Q2 results slightly higher, FY2017 guidance re-affirmed and in-line with estimates.** EXC reported consolidated operating EPS of $0.54/share vs. Citi estimates of $0.51/share. ExGen came in at $0.22/share slightly above Citi estimates of $0.20/share. O&M management at Utilities and ExGen as well as NDT realized gains drove the strong results. For full year, EXC maintained consolidated EPS guidance range of $2.50-$2.80/share in-line with Citi's estimates of $2.76/share. For Q3, EXC introduced EPS guidance range of $0.80-$0.90. ExGen gross margins were reduced by $150m in 2018 and 2019 to reflect removal of EGTP and early retirement of TMI.
- **Nuclear Support including ZECs – We believe this is bigger than just a couple of assets in a couple of states.** Comprehensive victories in NY & IL on ZECs will pave the way for other states given the legal blessings and the political power of jobs/economy. The DOE study also forms a good safety net. While the actual process in NJ, PA and CT will play out over the next few years, we think nuclear plants will get more than just market prices for their generation. (please see note)

- **More nuclear support creates more financial flexibility.** ExGen has achieved a Debt/EBITDA of 2.9x vs. target of 3.0x. The company maintains its $3B debt reduction plan at ExGen/HoldCo through 2020 and future ZECs can only further support this effort. We think deleveraging at the holdco is an excellent way to allocate capital, de-risk the business and create flexibility for additional utility growth. Over time, we would expect dividend growth to move up from the 2.5% to something more in line with the growth of the utility business.

- **Implications — Nuclear bailouts propel story.** EXC's utility growth story and the transformation of Pepco have been well understood. The nuclear business has completely transformed from one of weakness and potential decommissioning to one that now will generate significant FCF to propel the EXC story. We reiterate our Buy rating and $43PT on the back of this now improving nuclear generation story.

Buy	1
Price (03 Aug 17 16:04)	US$38.44
Target price	US$43.00
Expected share price return	11.9%
Expected dividend yield	3.4%
Expected total return	15.2%
Market Cap	US$35,599M

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	na	na	na	0.44A	2.68A	2.68A
2017E	0.65A	0.51E	0.96E	0.64E	2.76E	2.69E
Previous	0.65A	0.51E	0.96E	0.64E	2.76E	na
2018E	na	na	na	na	2.92E	2.87E
Previous	na	na	na	na	2.92E	na
2019E	na	na	na	na	3.26E	2.82E
Previous	na	na	na	na	3.26E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $43 price target. We value ExGen at ~$3/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The legacy utility business is valued at $25/share based on a 18.0x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent net debt and add $11/share for ZECs to get to our rounded PT of $43/share.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the risks get rejected after further legal challenge then the stock has downside as some value of ZEC is already in the stock price

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

Analyst Certification

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Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	17-Oct-14 03:01:08	*2	*37.00	34.38
2	18-Dec-14 16:46:48	Coverage terminated		
3	17-Sep-15 16:01:15	*3	*27.00	31.57
4	26-Jan-16 17:07:46	*2	27.00	27.84
5	22-Feb-16 16:00:00	*3	27.00	31.69
6	19-Jul-16 23:43:46	3	*29.00	36.58
7	04-Oct-16 03:14:34	3	*27.00	31.86
8	28-Nov-16 20:37:44	3	*29.00	33.39
9	02-Dec-16 07:02:27	*2	*31.00	33.01
10	30-Mar-17 06:59:06	2	*35.00	35.70
11	07-Jun-17 06:52:17	2	*36.00	36.61
12	27-Jul-17 07:37:04	*1	*43.00	37.99

*Indicates Change

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			*Catalyst Watch*		
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% of companies in each rating category that are investment banking clients	64%	64%	58%	57%	64%	51%

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August 3, 2017

United States: Utilities

Equity Research

A post-earnings wrap for EXC (Neutral) and ETR (Neutral)

We incorporate EPS changes for Neutral-rated diversified utilities EXC and ETR after 2Q17 earnings

We update EXC following 2Q2017 earnings, changing our 2017E-2020E EPS to $2.64/$2.79/$2.88/$2.83 from $2.59/$2.78/$2.79/$2.77, reflecting revised rate case, operating expense and financing assumptions. Although we stay Neutral, we become incrementally bearish on valuation as we have (-5%) total return potential to our 12-month price target. We tweak higher (by 0.5x) our applied P/E multiples on the regulated utilities (given favorable regulation/growth particularly at the ComEd and PECO utilities) but see much of this is as already priced-in. We also note every 0.5x change in our EV multiple on the Generation segment implies a ~$1.5/sh change in value in our SOTP. We derive our unchanged 12-month price target of $35 using a SOTP methodology applying P/E multiples on updated EPS for the regulated segments and an EV multiple on EXC's generation business. Key risks for EXC include power prices, litigation and regulation.

For ETR (Neutral), we revise 2017E-2019E EPS estimates from $4.55/$5.28/$4.89 to $7.02/$5.50/$4.76, incorporating revised (1) rate case assumptions, (2) higher operating expenses for the utility segments, (3) updated financing assumptions and (4) lower hedged pricing for EWC. We lower our estimates for the utility, parent/other (UPO) segment to reflect higher costs, greater regulatory lag (especially in the Arkansas utility) and higher debt financing expenses. We see guidance risk for this segment in 2017/18 – and only see ETR hitting its guidance here in 2019, after multiple rate increases at the Arkansas utility and on cost management as higher nuclear spend winds down. For EWC, our estimates move largely on revised & lower hedged pricing. We lower our 12-month price target to $78 (from $80) on lower estimates and continue to remain Neutral-rated. Key risks for ETR include power prices, power demand, O&M costs and utility regulation.

UPCOMING EVENTS

August 10, 2017, Power, Utilities, MLPs and Pipeline Conference (PUMP) in NYC

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EXC in pictures

Exhibit 1: We update estimates following 2Q2017 results…

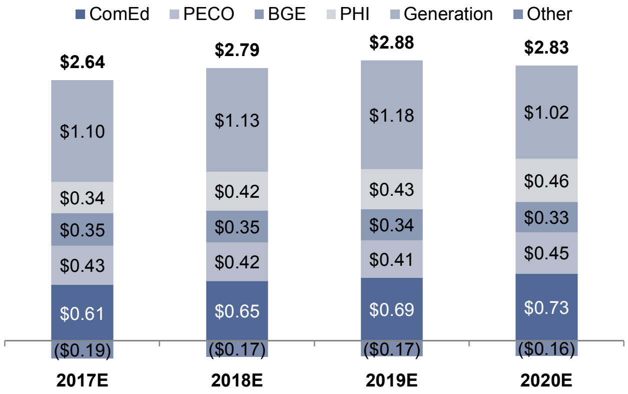
GS New vs GS Old vs Consensus

	EPS Estimates			% Difference	
	GS- New	**GS- Old**	**Cons.**	**vs. Old**	**vs. Cons.**
2017E	$2.64	$2.59	$2.67	2%	(1%)
2018E	$2.79	$2.78	$2.88	0%	(3%)
2019E	$2.88	$2.79	$2.82	3%	2%
2020E	$2.83	$2.77	$2.73	2%	4%

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 2: …for revised rate case, operating expense and financing assumptions

EXC EPS by segment, 2017E-2020E



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 3: We have a total return of (-5%) to our 12-month price target of $35

EXC SOTP

Sum-of-the-Parts Analysis	
Regulated Utilities	
ComEd 2019 EPS	$0.69
PECO 2019 EPS	0.41
BGE 2019 EPS	0.34
Legacy EXC Regulated Utilities 2019 EPS	**$1.43**
Target P/E multiple	17.0x
Legacy EXC Regulated Utilities Equity Value per Share	**$24**
PHI 2019 EPS	**$0.43**
Target P/E multiple	16.5x
PHI Equity Value per Share	**$7**
Exelon Generation	
Exelon Generation 2019 EBITDA ($mm)	$3,184
Target EV/EBITDA multiple	5.50x
Exelon Generation Enterprise Value ($mm)	**$17,511**
Exelon Generation Enterprise Value Adjustments	(10,447)
Exelon Generation Equity Value ($mm)	**$7,064**
Current Diluted Share Count (mm, as of 6/30/2017)	962
Exelon Generation Equity Value per Share	**$7**
Holding Company	
Exelon Holding Company 2019 EPS	($0.17)
Target P/E multiple	16.5x
Exelon Holding Company Equity Value per Share	**($3)**
Total Value per Share	**$35**
Current Price	$38.42
Current Dividend Yield	3.4%
Price Return	(8.9%)
Total Potential Return	**(5.5%)**

Source: Goldman Sachs Global Investment Research.

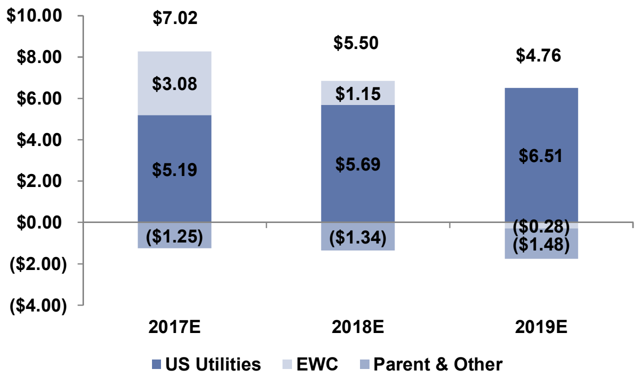
ETR in pictures

Exhibit 4: We update estimates following 2Q2017 results…
GS New vs GS Old vs Consensus

	EPS Estimates			% Difference	
	GS- New	GS- Old	Cons.	vs. Old	vs. Cons.
2017E	$7.02	$4.55	$5.17	54.2%	35.7%
2018E	$5.50	$5.28	$4.86	4.3%	13.2%
2019E	$4.76	$4.89	$5.03	(2.8%)	(5.5%)

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 5: …and continue to see a strong step-up at the regulated segment
EPS by segment by year, 2017-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 6: We lower our 12- month price target to $78 (from $80)
ETR SOTP

Sum-of-the-Parts	
Utility	
Regulated Utility 2019 EPS	$6.51
Target P/E Multiple	**15.5x**
Equity Value Per Share – Utility	**$100.9**
EWC	
EWC 2019 EBITDA ($mm)	($139)
Target EV/EBITDA Multiple	.0x
Implied EV ($mm)	$0
Net Debt (Net Cash) - ($mm)	($143)
Implied Equity Value ($mm)	$143
Diluted Shares Outstanding (mm)	180
Equity Value Per Share – EWC	**$0.8**
Parent and Other	
Parent and Other 2019 EPS	($1.42)
Target P/E Multiple	**16.5x**
Equity Value, Utility	**($23.4)**
Target Price per Share	**$78**

Source: Goldman Sachs Global Investment Research.

Exhibit 7: EXC trades largely in line with generation peers while ETR trades at a premium

Diversified Utilities Comparable Analysis

Diversified Utilities Comparable Analysis

			Close	12-Mo	Tot Ret	EPS			P/E			Dividend	Dividend
	Ticker	Rating	08/02/17	Px. Tgt	to Target	2017E	2018E	2019E	2017E	2018E	2019E	Yield	CAGR 2016-19E
Diversified Utilities													
CenterPoint Energy	CNP	Neutral	$28.17	$28	3%	$1.32	$1.44	$1.52	21.4x	19.6x	18.6x	3.8%	4.0%
Dominion Energy	D	Neutral	$77.86	$78	4%	$3.56	$4.05	$4.16	21.9x	19.2x	18.7x	3.9%	8.0%
Entergy	ETR	Neutral	$76.53	$78	7%	$7.02	$5.50	$4.76	10.9x	13.9x	16.1x	4.6%	3.7%
Exelon	EXC	Neutral	$38.42	$35	(5%)	$2.64	$2.79	$2.88	14.6x	13.8x	13.3x	3.4%	2.9%
FirstEnergy	FE	Buy	$32.21	$34	10%	$2.87	$2.84	$2.62	11.2x	11.3x	12.3x	4.5%	1.3%
NextEra Energy	NEE	Buy	$146.74	$159	11%	$6.86	$7.20	$8.16	21.4x	20.4x	18.0x	2.7%	15.1%
OGE Energy Corp	OGE	Neutral	$35.74	$35	1%	$1.99	$2.03	$2.12	18.0x	17.6x	16.9x	3.4%	10.0%
Public Service Enterprise Group	PEG	Buy	$45.33	$47	7%	$2.99	$3.05	$3.03	15.1x	14.8x	14.9x	3.8%	5.0%
Sempra Energy	SRE	Neutral	$115.04	$111	(1%)	$5.24	$5.61	$6.77	22.0x	20.5x	17.0x	2.9%	9.0%
Diversified Utilities Mean					**4%**				**17.4x**	**16.8x**	**16.2x**	**3.7%**	**6.5%**
Diversified Utilities Median					**4%**				**18.0x**	**17.6x**	**16.9x**	**3.8%**	**5.0%**
Merchant Generation names (PEG, ETR, FE, EXC)													
Diversified Utilities / Merchant Generation Mean					**5%**				**13.0x**	**13.5x**	**14.2x**	**4.1%**	**3.2%**
Diversified Utilities / Merchant Generation Median					**7%**				**12.9x**	**13.8x**	**14.1x**	**4.1%**	**3.3%**
Infrastructure names (CNP, D, NEE, SRE, OGE)													
Diversified Utilities / Infrastructure Mean					**4%**				**20.9x**	**19.5x**	**17.8x**	**3.3%**	**9.2%**
Diversified Utilities /Infrastructure Median					**3%**				**21.4x**	**19.6x**	**18.0x**	**3.4%**	**9.0%**

Source: FactSet, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

We, Michael Lapides, David Fishman and Siddharth Verma, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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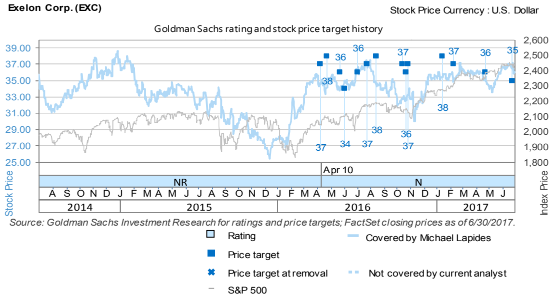
Price target and rating history chart(s)



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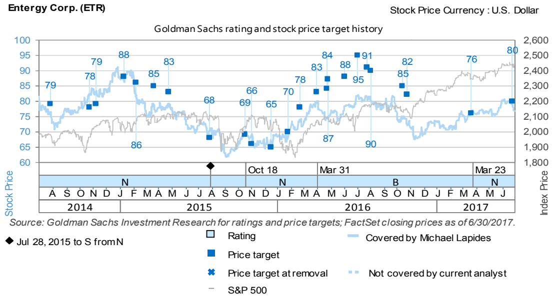

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Industry Update

EEI Conference 2017 – DB Meetings

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DB Meeting List for November Edison Electric Institute (EEI) Conference

The 52nd Edison Electric Institute Financial Conference is being held from November 5 to November 8 in Lake Buena Vista, Florida. We will be hosting small group meetings with management from 19 utilities and power companies over the course of the conference. All meetings will be held at the Walt Disney World Dolphin, with specific locations to be provided at a later date to confirmed attendees. Please see our team's current meeting schedule below. These meetings are by request only; please submit requests directly to Jonathan Arnold via email at jonathan.arnold@db.com. **Note that there are no changes between this list and the one we published on August 8th.**

Sunday, November 5th

4:15 PM - Con Edison (ED) - Drinks

Monday, November 6th

8:00 AM - FirstEnergy (FE)
9:00 AM - Exelon Corp (EXC)
10:00 AM - CMS Energy (CMS)
11:00 AM - Edison International (EIX)
12:00 PM - PSEG (PEG) - Lunch
1:00 PM - PG&E Corp. (PCG)
2:00 PM - American Electric Power (AEP)
3:00 PM - DTE Energy (DTE)
4:00 PM - Dominion Energy (D)

Tuesday, November 7th

8:00 AM - Entergy Corp (ETR)
9:00 AM - Eversource Energy (ES)*
9:00 AM - Xcel Energy (XEL)*
9:55 AM - CenterPoint Energy (CNP)
11:00 AM - Southern Company (SO)
12:00 PM - PPL Corp. (PPL) - Lunch
1:00 PM - NextEra Energy (NEE)
2:00 PM - WEC Energy Group (WEC)
3:00 PM - Duke Energy (DUK)

** indicates overlapping meetings*

Companies featured

Con Edison (ED.N),USD84.42	Sell
FirstEnergy (FE.N),USD32.66	Hold
Exelon (EXC.N),USD38.22	Buy
CMS Energy (CMS.N),USD48.74	Buy
Edison International (EIX.N),USD80.45	Hold
PSEG (PEG.N),USD47.11	Buy
PG&E Corp (PCG.N),USD70.26	Buy
American Electric Power (AEP.N),USD73.94	Buy
DTE Energy (DTE.N),USD112.11	Hold
Dominion Energy (D.N),USD80.24	Hold
Entergy Corp. (ETR.N),USD79.85	Hold
Eversource Energy (ES.N),USD63.29	Hold
Xcel Energy (XEL.N),USD49.50	Hold
CenterPoint Energy (CNP.N),USD29.89	Hold
Southern Company (SO.N),USD48.18	Buy
PPL Corp. (PPL.N),USD39.38	Hold
NextEra Energy (NEE.N),USD150.72	Hold
Duke Energy (DUK.N),USD87.50	Hold
WEC Energy Group (WEC.N),USD65.26	Hold

Source: Deutsche Bank

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Appendix 1

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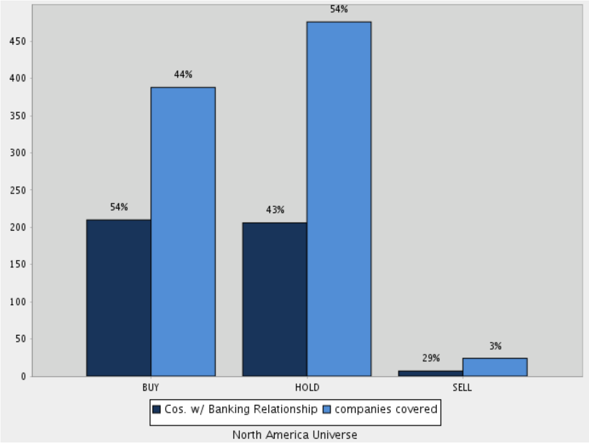

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WELLS FARGO SECURITIES

Between The Lines: Wells Fargo Utility Monthly

Utilities

- **Utilities Shine.** The S&P Utilities +3.2% total return outpaced the S&P 500's +0.3% in August amidst a nearly 20 bps drop in the 10-yr Treasury and as further doubt was cast on the Trump Administration's ability to effect tax reform. The outperformance was widespread among the Diversified Infrastructure (+4.3%), Regulated Electric (+3.6%) and Gas LDC (+3.0%) sub-sectors, while Water Utilities (+0.0%) and Yieldcos (+0.3%) underperformed. Within our coverage, VVC (+9.9%), AGR (+7.5%) & AEE (+6.9%) led the way while SCG (-6.2%), CTWS (-4.3%) & CWT (-3.3%) lagged.

- **Utilities Appear Fully Valued.** The forward P/E is 113% of the S&P 500, above the 103% 10-yr median, and on an absolute basis the 21.2X forward P/E remains rich to the 10-yr median of 15.9X. More importantly, utilities screen modestly expensive versus interest rates.

- **M&A.** Sempra made its debut on the M&A stage this month with the planned acquisition of Oncor. SRE's deal represents the fourth formal agreement to purchase Oncor following the PUCT's denial of both Hunt and NEE as well as Berkshire's July announcement that never got off the ground. If history is any guide, the approval process should be thorny, though SRE has committed to strong ring-fencing provisions, a majority independent Board, and the pay down of Oncor holdco debt within 7 years. Elsewhere in the sector, the Staff of the Maryland Commission recommended against the ALA/WGL deal (though conditions were provided should the Commission approve it) and GXP/WR filed a formal merger application in Kansas. Lastly, July saw another M&A leak as Bloomberg reported that VVC hired an advisor after receiving takeover interest (mgmt. has not commented). Also keeping in mind last month's H/AVA news, utility M&A activity is alive and well as tax reform concerns fade into the background.

- **Renewables Ascendant.** Utilities are announcing major renewables initiatives at a seemingly increasing pace. Recent examples include (1) AEP's 2,000 MW Wind Catcher project (7/26 announcement), (2) XEL's "Colorado Energy Plan" for up to 1,000 MW of wind and up to 700 MW of solar (8/29 announcement) and (3) AQN's plan for 500-800 MW of wind for Empire District. In addition, AEE has indicated that the company's October 2017 MO Integrated Resource Plan will include substantially more wind than previously contemplated. The flurry of activity is due, in part, to the desire to capture the full benefits of the production tax credit, which requires safe harbor projects be in-service by year-end 2020. That said, it is also evident that utilities are increasingly comfortable with renewables on the system and the additions are coming at the expense of not only coal generation (earlier retirements) but also combined cycle generation (mitigating longer-term CC needs as is the case with Wind Catcher).

- **New Nuclear.** SO and partners announced 8/31 a desire to press on with Vogtle 3 & 4 construction subject to GA regulatory approval. This was the first piece of good new nuclear news in a while as SCG/Santee halted work on 7/31 at V.C. Summer and DUK officially pulled the plugs on the proposed Levy County and Lee plants in the last week.

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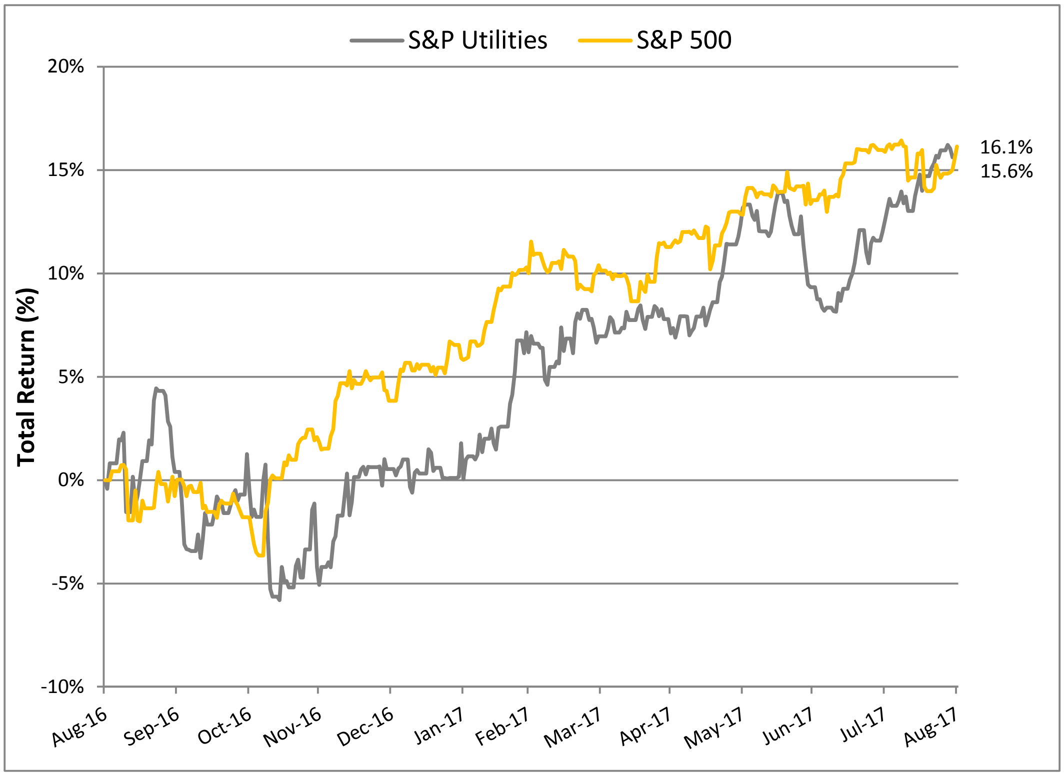
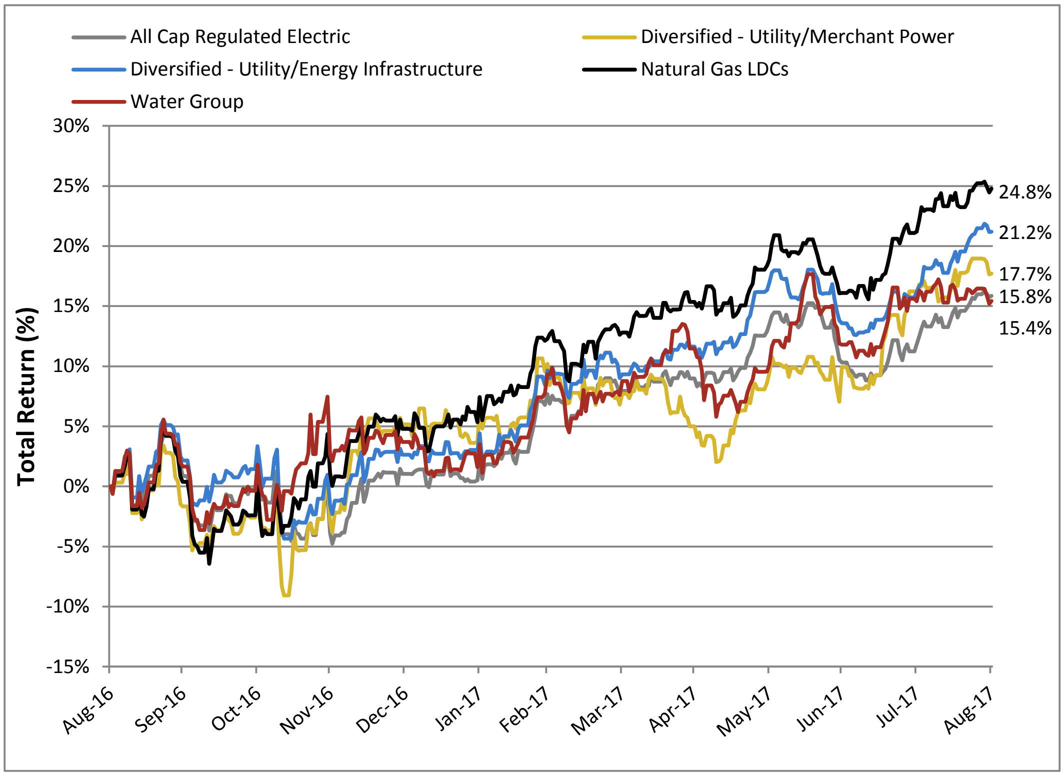
Figure 1: S&P Utilities Total Return vs S&P 500, Trailing Twelve Months



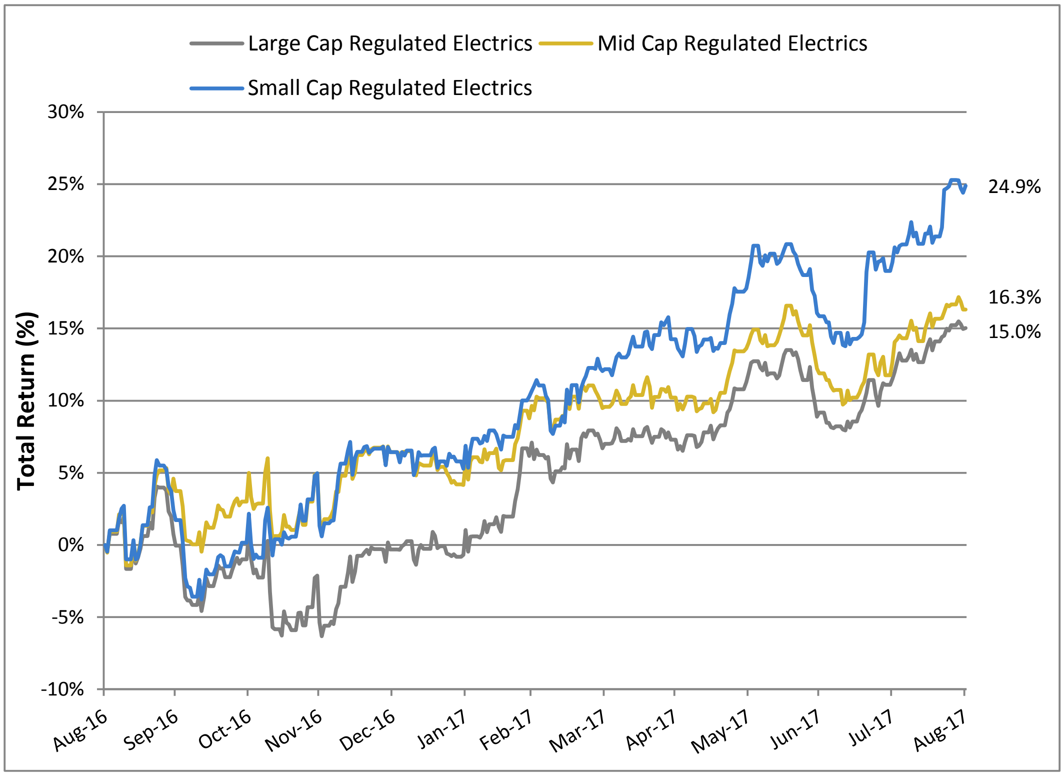
Source: FactSet and Wells Fargo Securities, LLC

Figure 2: Utility Industry Total Return by Sub-Group, Trailing Twelve Months



Source: FactSet and Wells Fargo Securities, LLC

Figure 3: Regulated Electrics Total Return by Market Cap, Trailing Twelve Months



Source: FactSet and Wells Fargo Securities, LLC

Figure 4: Year-to-Date and 1-, 3- & 12-Month Total Returns (Our Coverage Universe)

WELLS FARGO SECURITIES' UTILITY TEAM COVERAGE UNIVERSE

	Symbol	Total Return YTD	 1 Month	 3 Month	 1 Year
Canadian Utilities					
Emera Inc.	EMA-TSE	9.3%	3.4%	0.7%	5.1%
Hydro One Ltd.	H-TSE	0.1%	3.6%	-1.5%	-8.4%
Fortis Inc.	FTS-TSE	13.3%	1.4%	3.6%	15.0%
Algonquin Power & Utes Corp.	AQN-TSE	21.7%	1.7%	-1.9%	20.0%
Canadian Utilities TR		**13.4%**	**1.8%**	**-0.2%**	**20.5%**
Small Cap Regulated Electrics					
Hawaiian Electric Industries	HE	4.0%	2.3%	1.8%	15.8%
IDACORP	IDA	12.7%	3.7%	2.6%	20.2%
InfraREIT, Inc.	HIFR	29.0%	0.0%	18.1%	25.6%
NorthWestern Corp.	NWE	7.9%	4.4%	-1.8%	8.0%
Portland General Electric	POR	11.2%	6.3%	1.1%	16.1%
Vectren Corp.	VVC	28.6%	9.9%	7.7%	38.3%
Small Cap Group TR		**17.4%**	**4.4%**	**5.4%**	**24.9%**
Mid Cap Regulated Electrics					
Alliant Energy Corp.	LNT	15.6%	5.5%	3.9%	16.3%
Ameren Corp.	AEE	16.2%	6.9%	6.5%	25.5%
CMS Energy	CMS	19.3%	5.7%	3.1%	19.2%
Great Plains Energy	GXP	15.4%	0.3%	7.8%	17.4%
Pinnacle West Capital	PNW	18.1%	3.7%	2.6%	23.8%
SCANA Corp.	SCG	-16.1%	-6.2%	-10.7%	-11.6%
Westar Energy	WR	-7.6%	1.1%	-2.4%	-3.9%
Mid Cap Group TR		**9.3%**	**3.2%**	**2.0%**	**16.3%**
Large Cap Regulated Electrics					
American Electric Power	AEP	20.0%	5.2%	3.4%	18.1%
Consolidated Edison	ED	17.4%	2.6%	2.6%	16.1%
Duke Energy	DUK	16.1%	3.6%	2.9%	14.4%
Edison International	EIX	12.9%	1.9%	-1.0%	13.4%
Entergy	ETR	11.6%	4.4%	1.3%	6.1%
Eversource Energy	ES	15.9%	3.6%	1.5%	20.6%
FirstEnergy Corporation	FE	9.0%	3.2%	12.7%	4.3%
PG&E Corp.	PCG	17.6%	4.0%	3.8%	17.2%
PPL Corporation	PPL	17.7%	2.4%	-0.7%	17.8%
Southern Company	SO	1.6%	1.9%	-3.5%	-1.5%
Wisconsin Energy	WEC	14.1%	4.4%	4.8%	12.7%
Xcel Energy	XEL	23.6%	4.6%	4.1%	23.6%
Large Cap Group TR		**15.4%**	**3.2%**	**2.8%**	**15.0%**
U.S. Regulated Electrics Group (All Cap) TR		**14.7%**	**3.6%**	**2.1%**	**15.8%**

	Symbol	Total Return YTD	 1 Month	 3 Month	 1 Year
Yieldcos					
8point3 Energy Partners LP	CAFD	15.2%	-2.2%	7.6%	-0.4%
NextEra Energy Partners LP	NEP	67.5%	1.5%	21.2%	48.7%
Pattern Energy Group	PEGI	37.3%	0.1%	13.2%	13.9%
Yieldcos TR		**28.9%**	**0.3%**	**10.0%**	**27.6%**
Natural Gas Local Distribution Companies (LDCs)					
Chesapeake Utilities Corp.	CPK	19.7%	2.8%	7.5%	27.2%
New Jersey Resources	NJR	24.5%	3.6%	4.8%	33.3%
Northwest Natural Gas Co.	NWN	13.5%	5.1%	9.1%	14.5%
ONE Gas Inc.	OGS	19.8%	4.0%	7.1%	25.9%
Spire Inc.	SR	20.4%	5.4%	8.8%	22.0%
WGL Holdings	WGL	12.6%	-1.7%	2.5%	37.7%
LDC Group TR		**19.1%**	**3.0%**	**5.0%**	**24.8%**
Regulated Water Group					
American States Water	AWR	10.0%	0.2%	8.2%	29.3%
American Water Works	AWK	13.6%	0.3%	4.0%	11.6%
Aqua America	WTR	13.2%	0.7%	2.8%	12.6%
California Water Service	CWT	12.2%	-3.3%	8.6%	25.4%
Connecticut Water Service	CTWS	-1.3%	-4.3%	2.8%	19.5%
Water Group TR		**11.3%**	**0.0%**	**4.8%**	**15.4%**
Diversifieds - Utility/Merchant Power					
Exelon Corporation	EXC	9.7%	-0.4%	5.2%	15.7%
PS Enterprise Group	PEG	8.8%	4.2%	5.3%	13.9%
Utility/Merchant Power Group TR		**12.0%**	**1.4%**	**7.6%**	**17.7%**
Diversifieds - Utility/Energy Infrastructure					
AVANGRID	AGR	31.5%	7.5%	8.5%	22.3%
CenterPoint Energy, Inc.	CNP	23.8%	6.0%	4.5%	37.3%
Dominion Resources	D	5.8%	3.0%	-1.5%	10.4%
DTE Energy	DTE	15.8%	4.9%	3.3%	24.9%
MDU Resources Group, Inc.	MDU	-4.7%	2.6%	0.0%	18.1%
NextEra Energy, Inc.	NEE	28.7%	3.7%	7.1%	28.1%
OGE Energy Corp.	OGE	9.6%	-0.4%	1.1%	19.0%
Sempra Energy	SRE	18.9%	4.4%	2.0%	16.0%
Utility/Energy Infrastructure Group TR		**18.1%**	**4.3%**	**3.6%**	**21.2%**
S&P Utilities		**15.0%**	**3.2%**	**2.9%**	**15.6%**
S&P 500		**11.9%**	**0.3%**	**3.0%**	**16.1%**

	Highest Total Returns for the Month	
1	Vectren Corp.	9.9%
2	AVANGRID	7.5%
3	Ameren Corp.	6.9%
4	Portland General Electric	6.3%
5	CenterPoint Energy, Inc.	6.0%

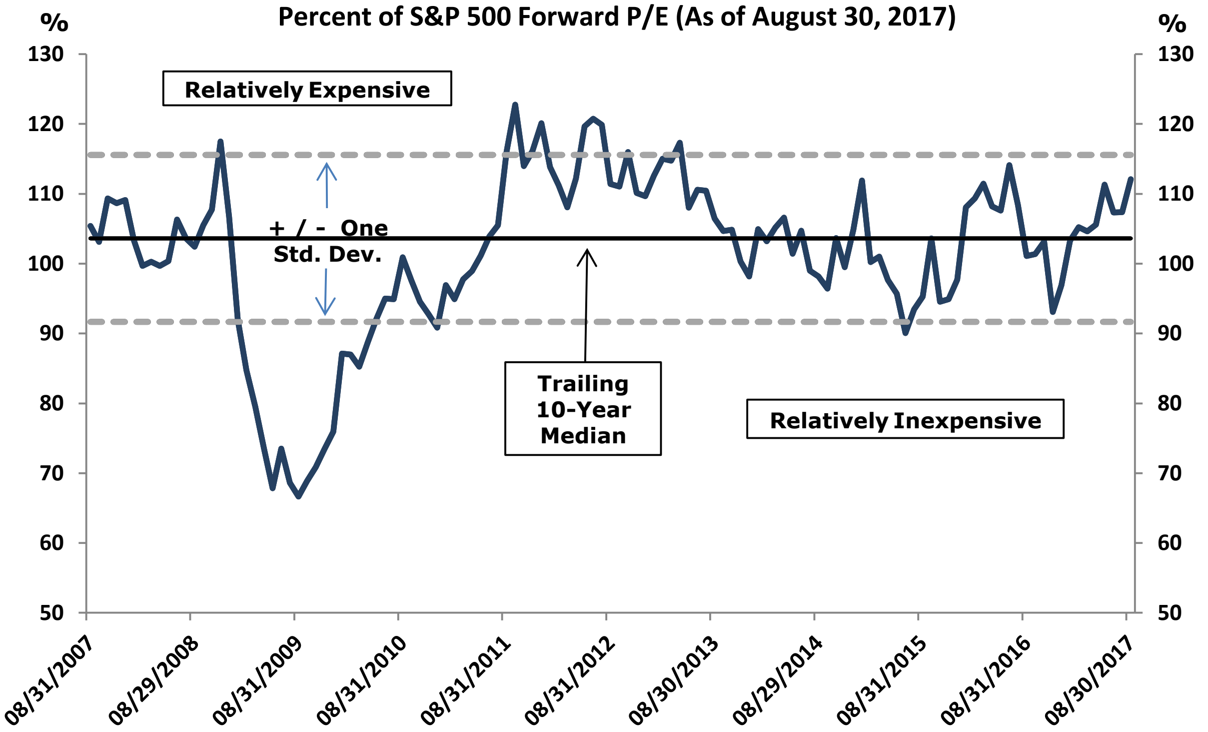
	Lowest Total Returns for the Month	
1	SCANA Corp.	-6.2%
2	Connecticut Water Service	-4.3%
3	California Water Service	-3.3%
4	8point3 Energy Partners LP	-2.2%
5	WGL Holdings	-1.7%

* 3 Month and 1 Year represent trailing 3 month and 12 month values, respectively; 1 Month represents a month-to-date value

Source: Wells Fargo Securities, LLC and Factset

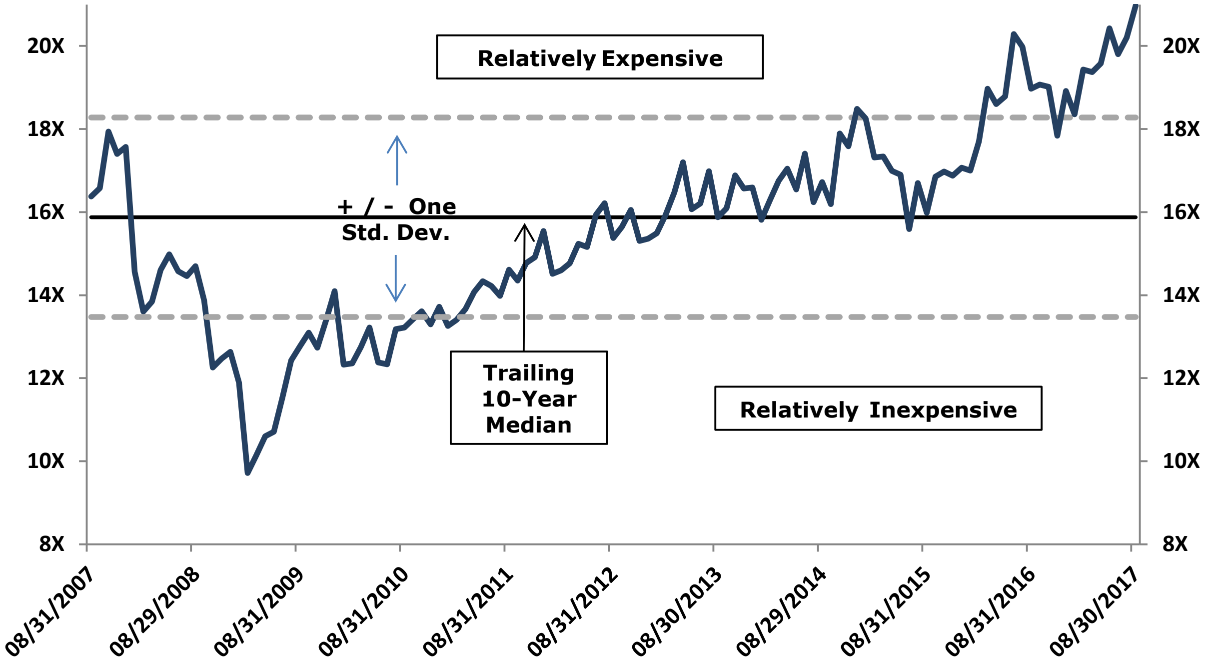
Figures 5-12: Utility Valuation and Dividend Graphs

Wells Fargo Securities Electric Power Universe Forward P/E as Percent of S&P 500 Forward P/E (As of August 30, 2017)



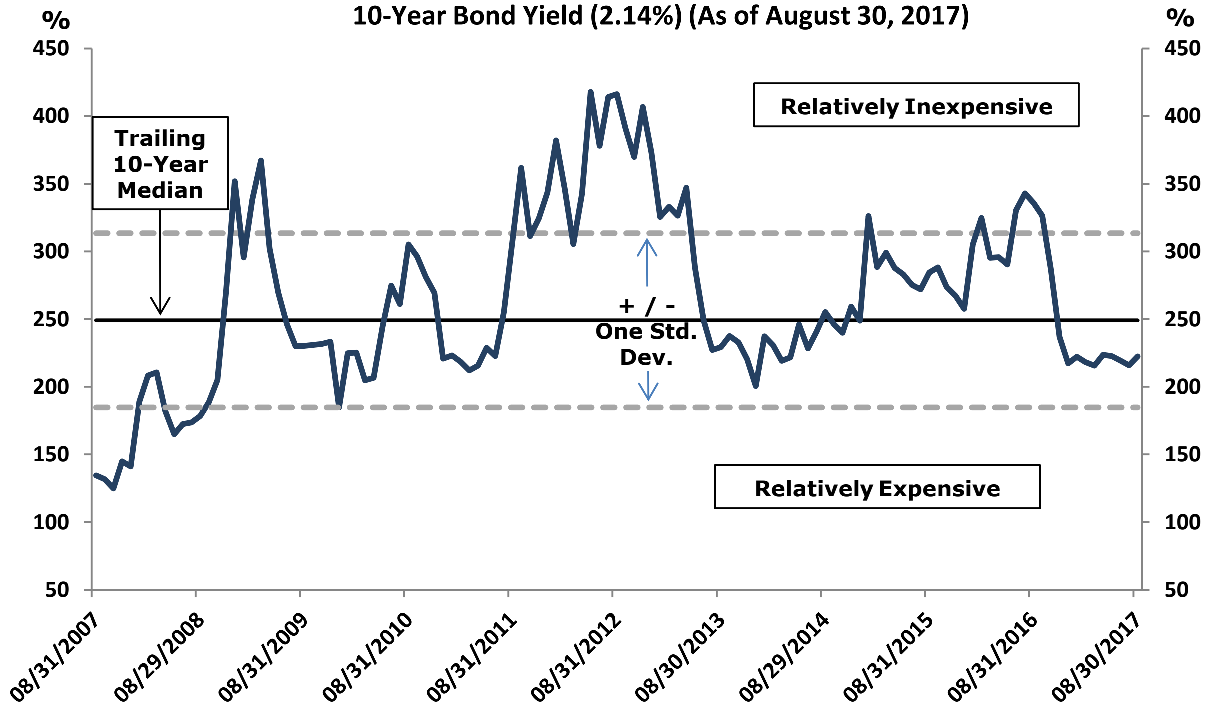
Source: FactSet and Wells Fargo Securities, LLC

Wells Fargo Securities Electric Power Universe Forward P/E vs 10-Year Median (As of August 30, 2017)



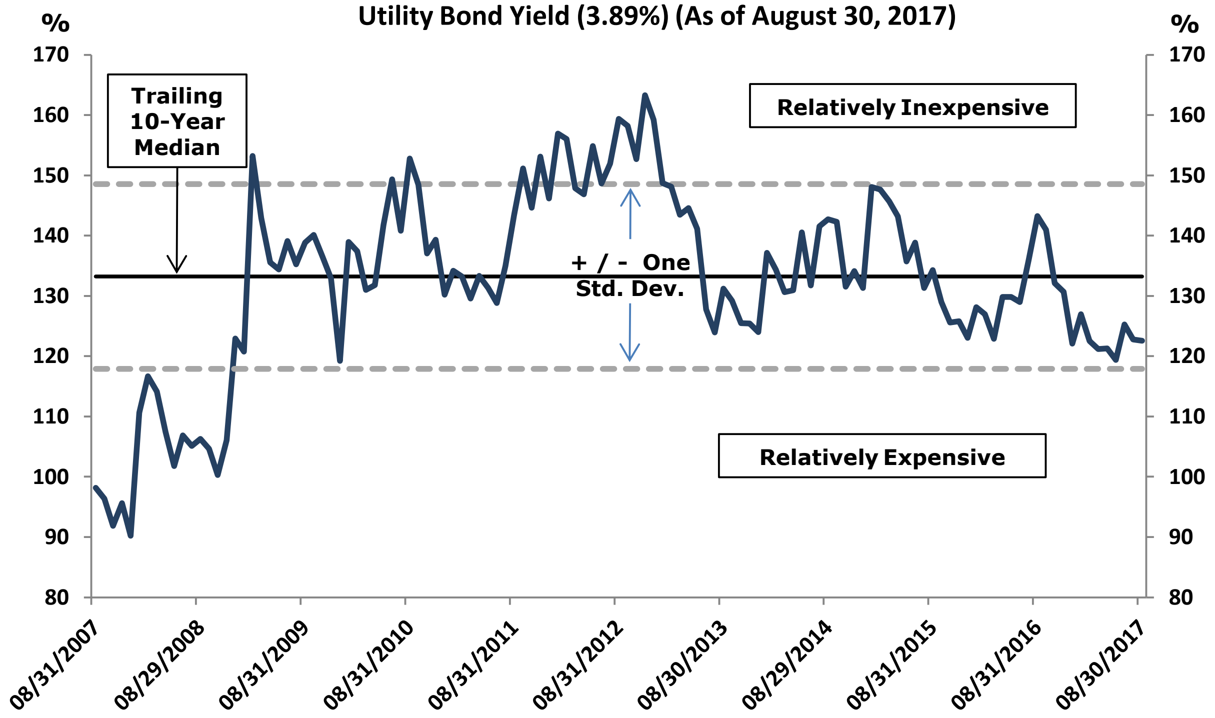
Source: FactSet and Wells Fargo Securities, LLC

Wells Fargo Securities Electric Power Universe Forward Earnings Yield as a % of 10-Year Bond Yield (2.14%) (As of August 30, 2017)

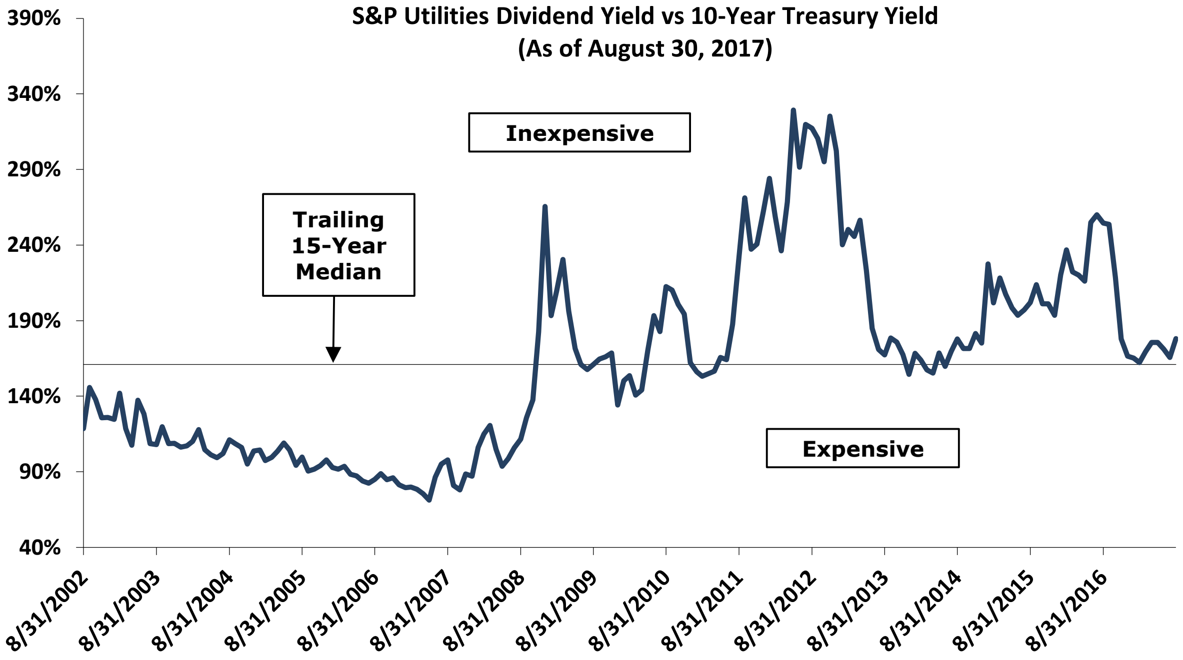


Source: FactSet and Wells Fargo Securities, LLC

Wells Fargo Securities Electric Power Universe Forward Earnings Yield as a % of Utility Bond Yield (3.89%) (As of August 30, 2017)



Source: FactSet and Wells Fargo Securities, LLC

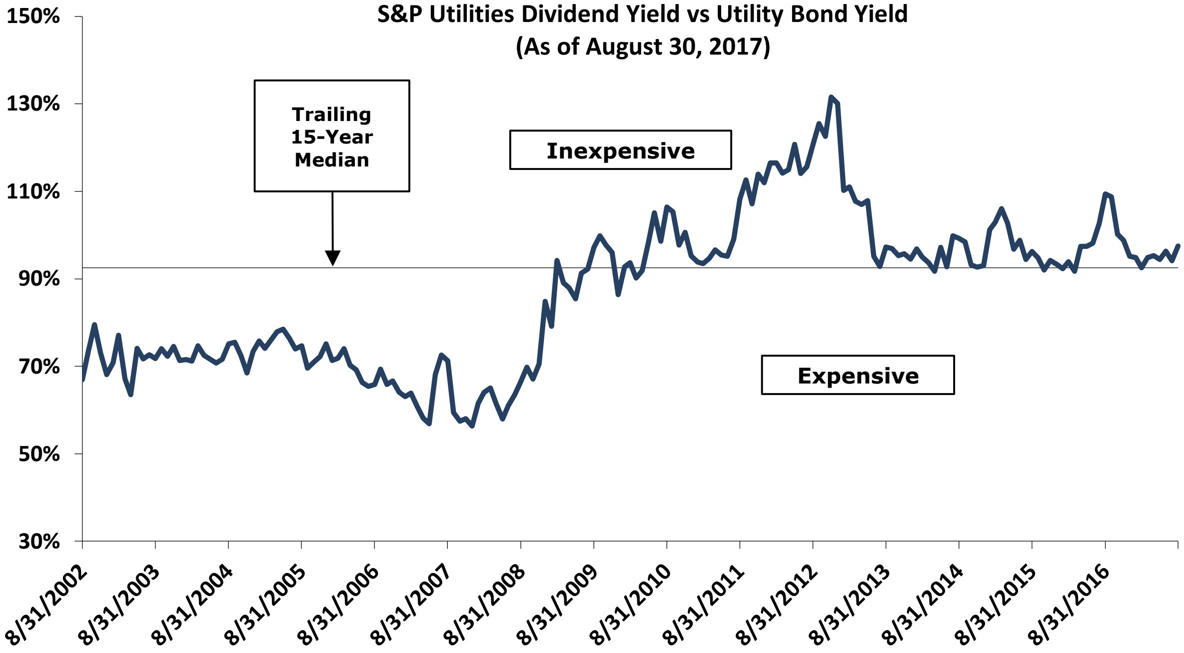


* Yields are calculated after-tax, assuming a 30% tax rate

** Beginning in May 2003, data is adjusted for 15% tax rate for S&P Utilities dividends.

*** Beginning in 2013, data is adjusted for 20% tax rate for S&P Utilities dividends.

Source: FactSet and Wells Fargo Securities, LLC

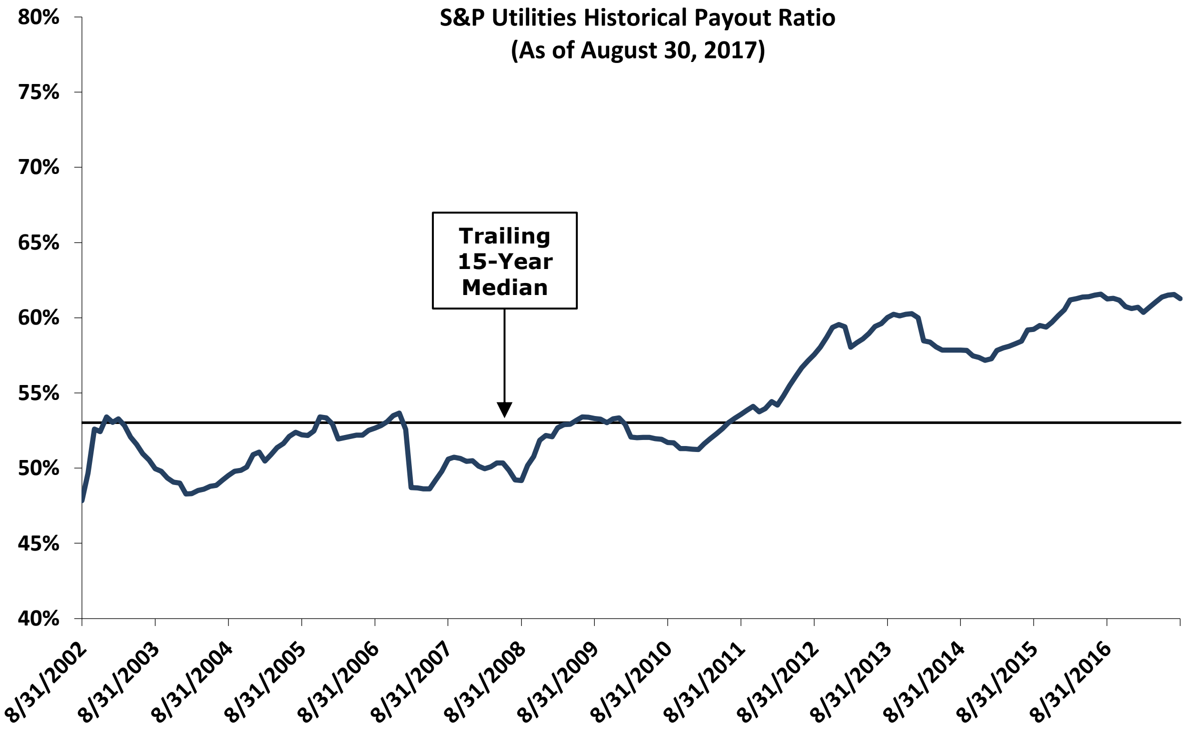


* Yields are calculated after-tax, assuming a 30% tax rate

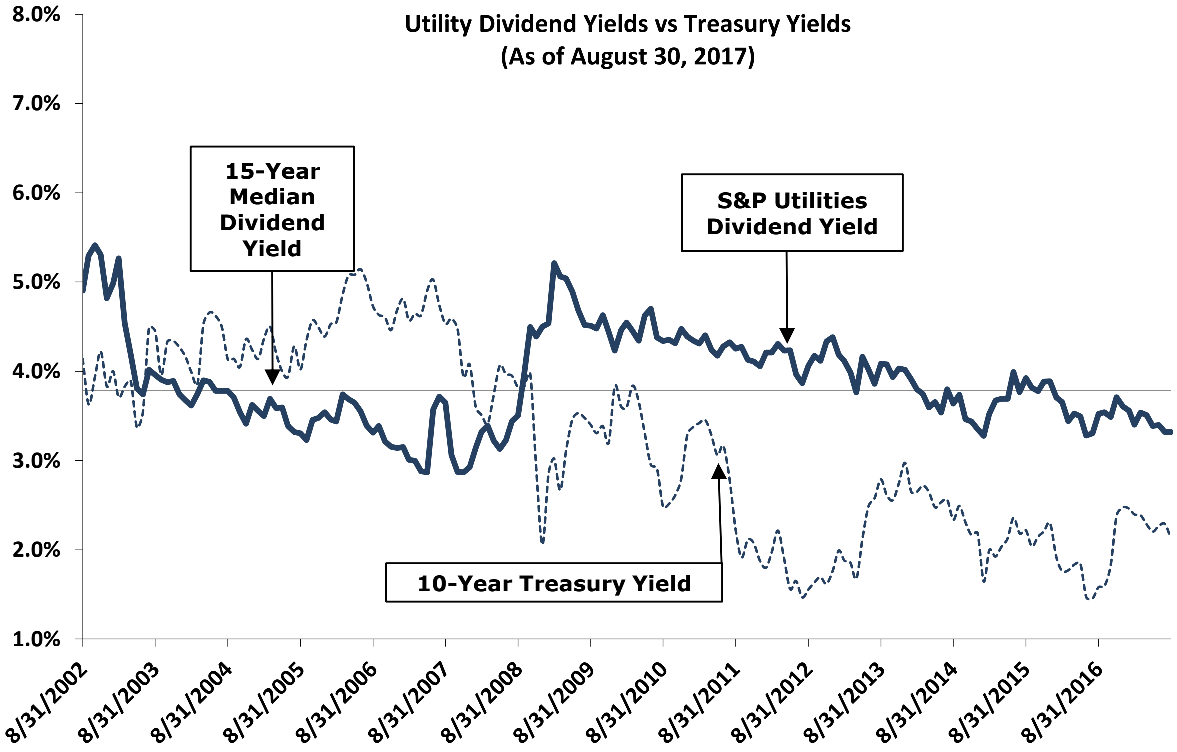
** Beginning in May 2003, data is adjusted for 15% tax rate for S&P Utilities dividends.

*** Beginning in 2013, data is adjusted for 20% tax rate for S&P Utilities dividends.

Source: FactSet and Wells Fargo Securities, LLC

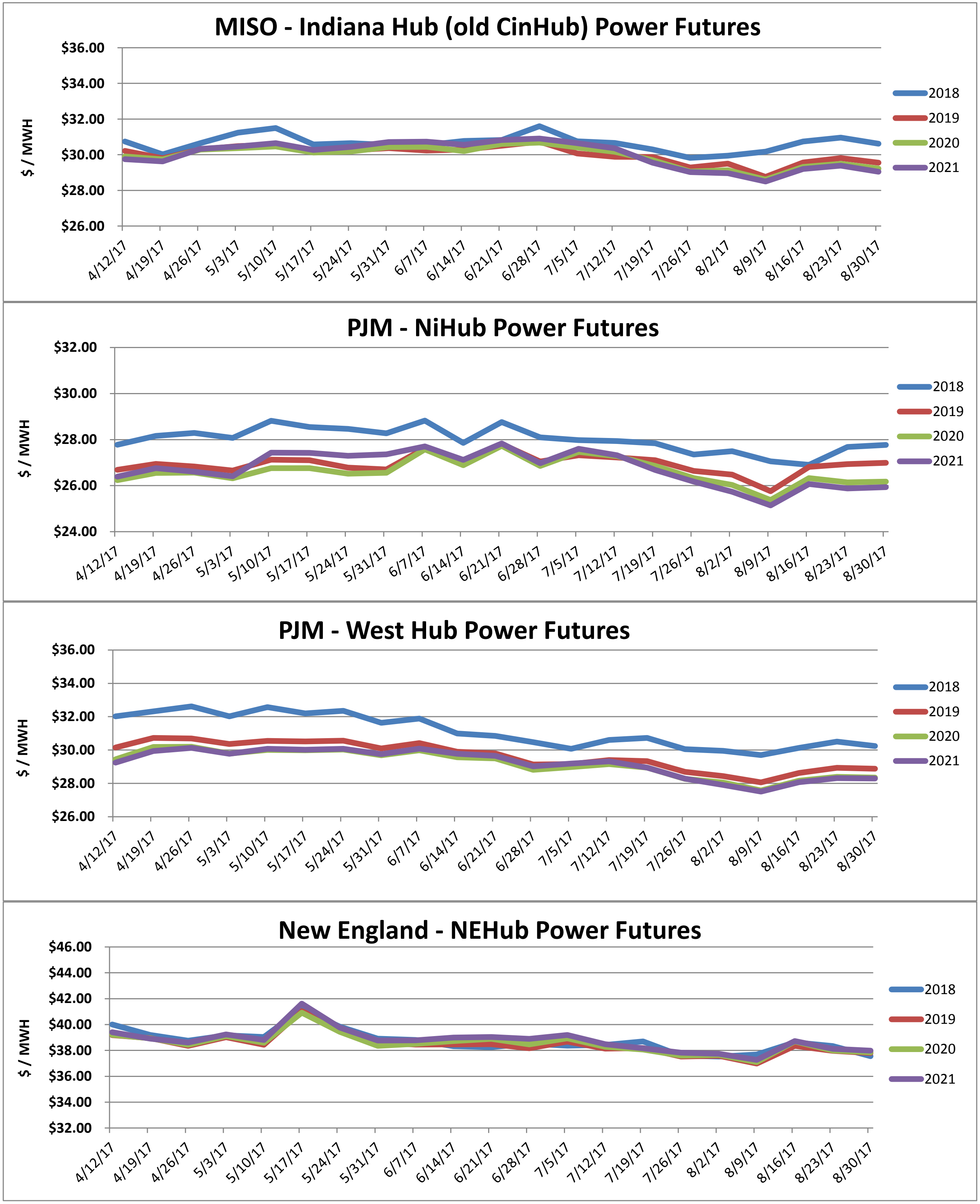


Source: FactSet and Wells Fargo Securities, LLC



Source: FactSet and Wells Fargo Securities, LLC

Figure 13-16: Power Price Futures by Hub *(prices are Around-the-Clock)*



Source for all graphs: Wells Fargo Securities, LLC and SNL Financial LC
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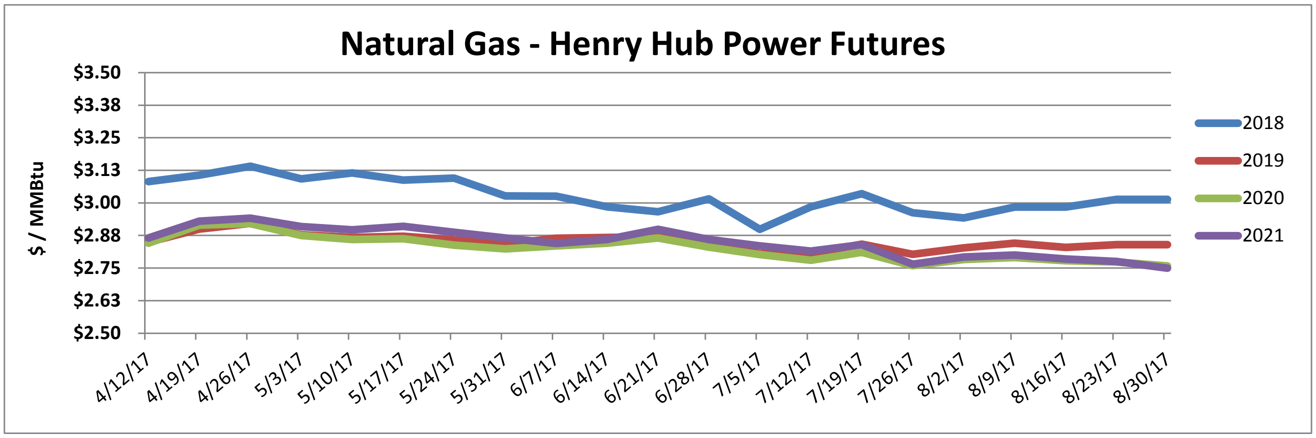
Figure 17: Natural Gas Price Futures



Source: Wells Fargo Securities, LLC and SNL Financial LC

Figure 18: Gas Price Basis Differential (Versus Henry Hub)

Gas Price Basis Differential vs Henry Hub

Wednesday, August 30, 2017

	Henry Hub Price	Chicago	Michcon Detroit CG	NNG Ventura	Rex East
2018E	$3.01	($0.14)	($0.15)	($0.21)	($0.58)
2019E	$2.84	($0.17)	($0.16)	($0.23)	($0.60)
2020E	$2.76	($0.15)	($0.15)	($0.21)	($0.64)
2021E	$2.75	($0.12)	($0.12)	($0.20)	($0.64)
2022E	$2.77	($0.12)	($0.09)	($0.18)	($0.61)
2023E	$2.80	($0.10)	($0.10)	($0.18)	($0.58)

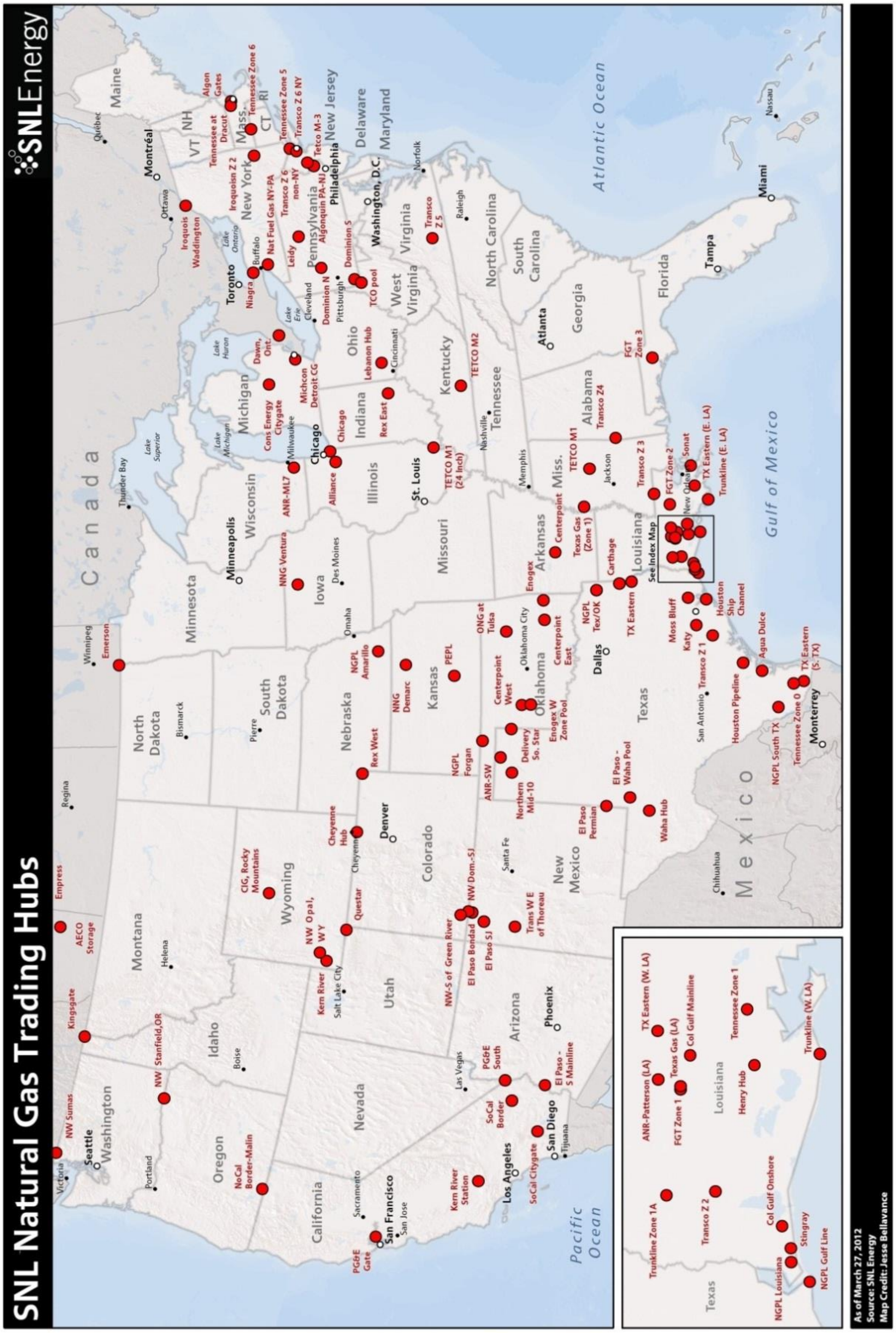
	Dawn - Ontario	Dominion S	Lebanon Hub	Leidy	Parkway - Ontario
2018E	($0.09)	($0.44)	($0.10)	($0.52)	($0.05)
2019E	($0.13)	($0.46)	($0.21)	($0.52)	($0.07)
2020E	($0.10)	($0.50)	($0.21)	($0.59)	($0.05)
2021E	($0.07)	($0.50)	($0.20)	($0.62)	($0.02)
2022E	($0.07)	($0.47)	($0.20)	($0.59)	($0.02)
2023E	($0.06)	($0.44)	($0.19)	($0.56)	($0.01)

	TCO pool	Tetco M-3	Transco Zone 6 Non-NY	Algon Gates	Iroquois Waddington
2018E	($0.23)	$0.13	$0.46	$1.35	$0.65
2019E	($0.34)	$0.10	$0.25	$1.44	$0.63
2020E	($0.34)	$0.07	$0.18	$1.49	$0.63
2021E	($0.33)	$0.06	$0.19	$1.54	$0.62
2022E	($0.33)	$0.06	$0.24	$1.53	$0.58
2023E	($0.32)	$0.05	$0.26	$1.50	$0.55

	Iroquois Zone 1	Iroquois Zone 2	Niagara	Tennessee at Dracut	Tennessee Zone 4
2018E	$0.68	$1.00	($0.65)	$1.57	($0.61)
2019E	$0.66	$0.93	($0.69)	$1.66	($0.62)
2020E	$0.66	$0.86	($0.66)	$1.71	($0.70)
2021E	$0.65	$0.85	($0.63)	$1.76	($0.69)
2022E	$0.61	$0.80	($0.61)	$1.75	($0.66)
2023E	$0.58	$0.76	($0.58)	$1.72	($0.63)

Source: Wells Fargo Securities, LLC and SNL Financial LC

Figure 19: North American Gas Trading Hubs



Source: SNL Financial LC

Appendix 1 – Utility Coverage Statistics

U.S. REGULATED ELECTRIC UTILITY UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	8/31/17 Price ($)	Equity Market Cap (Bil.)	EPS			3-5 Yr EPS Growth	P/E			EV/EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
U.S. Small/Mid-Cap:																		
InfraREIT, Inc.	HIFR	NK	1	26.00	22.49	1.4	1.40	1.50	1.60	8.0%	16.1x	15.0x	14.1x	13.9x	12.2x	11.0x	71%	4.4%
El Paso Electric	EE		NR	–	55.55	2.3	2.56	2.75	2.85	5.8%	21.7x	20.2x	19.5x	12.5x	11.9x	11.4x	52%	2.4%
NorthWestern Corporation	NWE	JR	2	60.00	60.32	2.9	3.35	3.40	3.45	2.0%	18.0x	17.7x	17.5x	11.8x	11.3x	10.9x	63%	3.5%
Avista Corporation	AVA		NR	–	51.40	3.3	1.93	2.02	2.05	-	26.6x	25.4x	25.1x	11.5x	10.6x	9.5x	74%	2.8%
PNM Resources	PNM		NR	–	42.40	3.4	1.85	1.75	2.06	6.3%	23.0x	24.2x	20.6x	10.6x	10.6x	9.8x	53%	2.3%
Hawaiian Electric Industries	HE	NK	2	35.00	33.42	3.6	1.65	1.80	1.90	4.0%	20.2x	18.5x	17.6x	9.8x	9.1x	8.6x	75%	3.7%
ALLETE Inc.	ALE	SA	2	77.00	77.33	3.9	3.36	3.64	3.92	5.0%	23.0x	21.3x	19.7x	12.0x	11.4x	10.8x	64%	2.8%
Portland General Electric	POR	SA	2	49.00	47.51	4.2	2.27	2.38	2.45	4.2%	20.9x	20.0x	19.4x	9.3x	8.9x	8.6x	60%	2.9%
IDACORP, Inc.	IDA	SA	2	89.00	88.98	4.5	4.02	4.12	4.26	4.0%	22.1x	21.6x	20.9x	14.2x	13.7x	13.3x	55%	2.5%
Vectren Corp.	VVC	SA	2	63.00	65.61	5.4	2.60	2.80	3.03	6.0%	25.2x	23.4x	21.7x	11.0x	10.3x	9.7x	65%	2.6%
Great Plains Energy	GXP	SA	2	33.00	30.69	6.6	1.72	1.82	1.87	2.0%	17.8x	16.9x	16.4x	10.0x	9.7x	9.5x	64%	3.6%
Westar Energy, Inc.	WR	SA	2	55.00	51.31	7.3	2.50	2.52	3.12	4.0%	20.5x	20.4x	16.4x	11.0x	10.6x	9.8x	64%	3.1%
SCANA Corp.	SCG	NK	1	77.00	60.38	8.6	4.25	4.10	4.35	4.0%	14.2x	14.7x	13.9x	10.4x	10.3x	10.0x	58%	4.1%
Alliant Energy Corp.	LNT	NK	1	45.00	42.74	9.9	2.00	2.15	2.25	6.0%	21.4x	19.9x	19.0x	12.5x	11.2x	10.5x	63%	2.9%
Pinnacle West Capital Corp.	PNW	SA	1	96.00	89.97	10.0	4.25	4.47	4.60	5.0%	21.2x	20.1x	19.6x	10.7x	9.9x	9.3x	62%	2.9%
CMS Energy Corp.	CMS	NK	2	50.00	48.54	13.7	2.17	2.33	2.50	7.0%	22.4x	20.8x	19.4x	10.6x	9.9x	9.2x	61%	2.7%
Entergy Corp.	ETR	NK	1	90.00	79.17	14.2	4.40	4.70	5.10	7.0%	18.0x	16.8x	15.5x	8.2x	8.1x	7.8x	79%	4.4%
FirstEnergy Corp.	FE	NK	2	35.00	32.58	14.5	2.60	2.59	2.62	1.0%	12.5x	12.6x	12.4x	8.2x	8.6x	8.9x	55%	4.4%
Ameren Corp.	AEE	NK	1	63.00	59.99	14.6	2.80	3.00	3.20	6.0%	21.4x	20.0x	18.7x	9.8x	9.2x	8.7x	63%	2.9%
Small/Mid Cap Regulated Electric Group Median										**5.0%**	**21.2x**	**20.0x**	**19.0x**	**10.7x**	**10.3x**	**9.7x**	**63%**	**2.9%**
U.S. Large Cap:																		
Eversource Energy	ES	NK	1	67.00	63.00	20.0	3.15	3.35	3.55	6.0%	20.0x	18.8x	17.7x	11.5x	11.2x	10.8x	60%	3.0%
WEC Energy Group, Inc.	WEC	NK	1	69.00	65.22	20.6	3.10	3.25	3.40	6.0%	21.0x	20.1x	19.2x	12.0x	11.4x	10.8x	67%	3.2%
Xcel Energy	XEL	NK	1	52.00	49.50	25.1	2.32	2.47	2.65	6.0%	21.3x	20.0x	18.7x	10.9x	10.2x	9.7x	62%	2.9%
Consolidated Edison	ED	SA	2	86.00	84.27	26.1	4.05	4.25	4.42	4.0%	20.8x	19.8x	19.1x	10.5x	10.0x	9.5x	68%	3.3%
Edison International	EIX	NK	1	91.00	80.18	26.1	4.20	4.20	4.45	7.0%	19.1x	19.1x	18.0x	9.3x	8.8x	8.2x	52%	2.7%
PPL Corporation	PPL	NK	2	41.00	39.24	26.8	2.15	2.30	2.40	5.0%	18.3x	17.1x	16.4x	12.6x	11.3x	10.7x	73%	4.0%
PG&E Corporation	PCG	NK	1	79.00	70.38	36.1	3.65	3.85	4.00	6.0%	19.3x	18.3x	17.6x	8.9x	8.2x	7.7x	58%	3.0%
American Electric Power	AEP	NK	1	81.00	73.63	36.2	3.65	3.90	4.15	6.0%	20.2x	18.9x	17.7x	10.7x	9.8x	9.1x	65%	3.2%
Southern Company	SO	NK	2	53.00	48.26	48.2	2.95	3.00	3.15	5.0%	16.4x	16.1x	15.3x	12.0x	11.4x	10.8x	79%	4.8%
Duke Energy	DUK	NK	2	91.00	87.30	61.1	4.60	4.80	5.05	5.0%	19.0x	18.2x	17.3x	11.1x	10.5x	9.9x	77%	4.1%
Large Cap Regulated Electric Group Median										**6.0%**	**19.6x**	**18.8x**	**17.7x**	**11.0x**	**10.4x**	**9.8x**	**66%**	**3.2%**
U.S. Regulated Electric Group Median										**5.4%**	**20.5x**	**19.8x**	**18.0x**	**10.9x**	**10.3x**	**9.7x**	**63%**	**3.3%**

CANADIAN REGULATED UTILITIES

	Symbol	Analyst	Rating	Price Target (C$)	8/31/17 (C$)	Equity Mkt Cap (C$Bil.)	EPS (C$)			3-5 Yr EPS Growth	P/E			EV/EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
Algonquin Power & Utes Corp.	AQN-CA	NK	2	15.00	13.55	3.7	0.72	0.80	0.89	15.0%	18.8x	16.9x	15.2x	9.0x	8.1x	7.3x	81%	4.3%
ATCO Ltd.	ACO.X-CA		NR	–	46.02	5.3	3.17	3.29	3.23	1.4%	14.5x	14.0x	14.2x	6.5x	6.2x	6.0x	41%	2.8%
Canadian Utilities Ltd.	CU-CA		NR	–	38.95	10.5	2.32	2.38	2.44	3.6%	16.8x	16.4x	16.0x	10.7x	10.2x	9.7x	62%	3.7%
Emera Inc.	EMA-CA	NK	2	52.00	48.02	10.2	2.70	3.00	3.20	7.0%	17.8x	16.0x	15.0x	10.7x	9.9x	9.5x	77%	4.4%
Fortis Inc.	FTS-CA	NK	1	51.00	45.75	19.1	2.48	2.60	2.75	5.0%	18.4x	17.6x	16.6x	11.8x	11.1x	10.5x	65%	3.5%
Hydro One Ltd.	H-CA	NK	2	25.50	23.19	13.8	1.20	1.28	1.37	5.0%	19.3x	18.1x	16.9x	12.0x	11.3x	10.6x	73%	3.8%
Canadian Regulated Group Median										**5.0%**	**18.1x**	**16.6x**	**15.6x**	**10.7x**	**10.0x**	**9.6x**	**69%**	**3.7%**

Analyst: NK = Neil Kalton, SA = Sarah Akers, JR = Jonathan Reeder; Estimates for companies that are not covered are First Call consensus estimates.
Wells Fargo Securities, LLC. Ratings: 1 - Outperform, 2 - Market Perform, 3 - Underperform, NR - Not Rated, SR - Suspended Rating
Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg

DIVERSIFIED UTILITIES - UTILITIES/POWER & UTILITIES/INFRASTRUCTURE

	Symbol	Analyst	Rating	Price Target ($)	8/31/17 Price ($)	Equity Market Cap (Bil.)	EPS			3-5 Yr EPS Growth	P/E			EV/EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
Utility/Merchant Power																		
Exelon Corporation	EXC	NK	2	41.00	37.87	36.4	2.70	2.85	2.75	6.0%	14.0x	13.3x	13.8x	8.5x	7.9x	7.9x	49%	3.5%
Public Svc Enterprise Group	PEG	NK	2	49.00	46.84	23.7	2.90	3.00	3.10	3.0%	16.2x	15.6x	15.1x	9.6x	9.0x	8.6x	59%	3.7%
Utility/Merchant Power Group Median										**4.5%**	**15.1x**	**14.5x**	**14.4x**	**9.0x**	**8.4x**	**8.3x**	**54%**	**3.6%**
Utility/Energy Infrastructure																		
AES Corporation	AES		NR	–	11.04	7.3	1.05	1.21	1.31	9.0%	10.5x	9.1x	8.4x	6.6x	6.2x	5.9x	46%	4.3%
AVANGRID, Inc.	AGR	NK	1	53.00	48.82	15.1	2.24	2.40	2.55	9.0%	21.8x	20.3x	19.1x	8.5x	8.0x	7.6x	77%	3.5%
Black Hills	BKH		NR	–	70.38	3.8	3.57	3.76	3.88	5.8%	19.7x	18.7x	18.2x	10.9x	10.3x	9.7x	50%	2.5%
CenterPoint Energy	CNP	SA	2	29.00	29.62	12.8	1.32	1.44	1.52	5.0%	22.4x	20.6x	19.5x	8.6x	8.0x	7.6x	81%	3.6%
Dominion Resources	D	SA	2	81.00	78.77	50.6	3.65	4.05	4.25	6.0%	21.6x	19.4x	18.5x	13.7x	11.9x	11.2x	83%	3.8%
DTE Energy	DTE	NK	2	115.00	112.32	20.1	5.45	5.70	6.05	6.0%	20.6x	19.7x	18.6x	12.2x	11.5x	10.8x	61%	2.9%
MDU Resources Group, Inc.	MDU	SA	2	27.00	27.04	5.3	1.22	1.30	1.38	6.0%	22.2x	20.8x	19.6x	10.6x	10.1x	9.6x	63%	2.8%
NextEra Energy, Inc.	NEE	NK	1	164.00	150.51	70.5	6.70	7.25	7.85	7.0%	22.5x	20.8x	19.2x	11.8x	11.3x	10.1x	59%	2.6%
OGE Energy	OGE	SA	1	39.00	35.73	7.1	1.93	1.99	2.07	4.0%	18.5x	18.0x	17.3x	11.0x	10.3x	9.6x	63%	3.4%
Otter Tail Power	OTTR		NR	–	41.80	1.7	1.73	1.82	1.99	6.2%	24.2x	23.0x	21.0x	NA	NA	NA	74%	3.1%
Sempra Energy	SRE	SA	1	133.00	117.93	29.6	5.15	5.50	6.32	11.0%	22.9x	21.4x	18.7x	12.5x	11.7x	10.5x	64%	2.8%
Utility/Energy Infrastructure Group Median										**6.0%**	**21.8x**	**20.3x**	**18.7x**	**10.9x**	**10.3x**	**9.7x**	**63%**	**3.1%**

ALTERNATIVE STRUCTURES UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	8/31/17 Price ($)	Equity Market Cap (Bil.)	CAFD/Share			3-5 Yr CAFD Growth	P/CAFD			EV/ Adj. EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
Alternative Structures:																		
Atlantica Yield plc	ABY		NR	–	20.76	2.1	NE	NE	NE	NE	NA	NA	NA	9.3x	8.9x	8.5x	--	4.4%
8point3 Energy Partners	CAFD	GP	2	15.00	14.42	0.4	1.31	1.39	1.46	10.0%	11.0x	10.4x	9.9x	12.7x	10.7x	9.9x	81%	7.3%
NextEra Energy Partners LP	NEP	NK	1	47.00	41.46	6.5	2.10	2.31	2.66	18.0%	19.7x	17.9x	15.6x	16.7x	13.3x	7.9x	69%	3.5%
NRG Yield, Inc	NYLD		NR	–	18.50	1.4	NE	NE	NE	NE	NA	NA	NA	7.6x	7.1x	6.6x	--	5.7%
Pattern Energy Group	PEGI	NK	1	27.00	25.12	1.7	1.78	1.95	2.17	12.0%	14.1x	12.9x	11.6x	14.3x	11.9x	9.8x	94%	6.7%
TerraForm Power, Inc	TERP		NR	–	13.96	1.2	NE	NE	NE	NE	NA	NA	NA	9.9x	9.4x	9.4x	--	0.0%
Alternative Structures Group Median										**12.0%**	**14.1x**	**12.9x**	**11.6x**	**11.3x**	**10.0x**	**9.0x**	**81%**	**5.1%**

Analyst: NK = Neil Kalton, SA = Sarah Akers, GP = Glen Pruitt; Estimates for companies that are not covered are First Call consensus estimates.

Wells Fargo Securities, LLC. Ratings: 1 - Outperform, 2 - Market Perform, 3 - Underperform, NR - Not Rated, SR - Suspended Rating

Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg

NATURAL GAS LOCAL DISTRIBUTION COMPANY (LDC) UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	8/31/17 Price ($)	Equity Market Cap (Bil.)	EPS			3-5 Yr EPS	P/E			EV/EBITDA			Dividend Payout	Dividend
							2017E	2018E	2019E	Growth	2017E	2018E	2019E	2017E	2018E	2019E	2017E	Yield
Natural Gas Local Distribution Companies (LDCs)																		
Atmos Energy Corp.	ATO		NR	–	88.04	9.3	3.62	3.85	4.17	7.4%	24.4x	22.9x	21.1x	12.1x	11.2x	10.3x	50%	2.0%
Chesapeake Utilities Corp.	CPK	SA	2	81.00	79.45	1.3	2.84	3.42	3.58	6.0%	28.0x	23.2x	22.2x	13.5x	11.3x	10.4x	46%	1.6%
New Jersey Resources	NJR	SA	2	44.00	43.65	3.8	1.72	1.90	2.04	6.0%	25.4x	22.9x	21.4x	14.8x	13.0x	11.4x	59%	2.3%
NiSource Inc.	NI	SA	1	30.00	26.87	8.8	1.18	1.25	1.32	6.0%	22.8x	21.5x	20.4x	10.9x	10.1x	9.4x	59%	2.6%
Northwest Natural Gas	NWN	SA	2	68.00	66.30	1.9	2.15	2.28	2.62	5.0%	30.8x	29.1x	25.3x	11.6x	10.9x	9.7x	87%	2.8%
ONE Gas Inc.	OGS	SA	2	76.00	75.24	3.9	2.99	3.10	3.22	6.0%	25.2x	24.3x	23.4x	11.6x	11.0x	10.3x	56%	2.2%
South Jersey Industries, Inc.	SJI		SR	–	35.88	2.9	1.19	1.46	1.67	10.0%	30.1x	24.6x	21.4x	15.8x	12.3x	10.8x	91%	3.0%
Southwest Gas Corp.	SWX		NR	–	79.52	3.8	3.41	3.63	3.84	4.0%	23.3x	21.9x	20.7x	9.9x	9.4x	9.1x	58%	2.5%
Spire Inc.	SR	SA	2	78.00	76.50	3.7	3.57	3.74	3.90	5.0%	21.4x	20.5x	19.6x	12.4x	11.4x	10.7x	59%	2.7%
WGL Holdings	WGL	SA	2	88.25	84.26	4.3	3.15	3.62	4.02	7.0%	26.7x	23.3x	21.0x	14.8x	13.6x	12.4x	65%	2.4%
Natural Gas LDC Group Median										**6.0%**	**25.3x**	**23.1x**	**21.2x**	**12.2x**	**11.3x**	**10.4x**	**59%**	**2.5%**
Gas LDC Premium/(Discount) to Regulated Electrics											**23%**	**16%**	**18%**	**12%**	**9%**	**7%**		

WATER UTILITY UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	8/31/17 Price ($)	Equity Market Cap (Bil.)	EPS			3-5 Yr EPS	P/E			EV/EBITDA			Dividend Payout	Dividend
							2017E	2018E	2019E	Growth	2017E	2018E	2019E	2017E	2018E	2019E	2017E	Yield
American States Water	AWR	JR	2	46.00	49.30	1.8	1.70	1.73	1.80	4.0%	29.0x	28.5x	27.4x	13.3x	12.8x	12.3x	60%	2.1%
American Water Works	AWK	JR	2	84.00	80.90	14.4	3.05	3.30	3.55	7.0%	26.5x	24.5x	22.8x	12.7x	11.8x	11.1x	54%	2.1%
Aqua America	WTR	JR	2	35.00	33.40	5.9	1.37	1.42	1.50	5.0%	24.4x	23.5x	22.3x	16.5x	14.9x	13.9x	60%	2.5%
Artesian Resources	ARTNA		NR	–	37.09	0.3	1.46	1.55	NE	-	25.4x	23.9x	NA	11.3x	10.7x	NA	63%	2.5%
California Water Service	CWT	JR	3	34.00	37.45	1.8	1.27	1.32	1.40	6.0%	29.5x	28.4x	26.8x	13.2x	12.5x	11.6x	57%	1.9%
Connecticut Water Service	CTWS	JR	2	60.00	54.24	0.6	2.20	2.35	2.50	6.0%	24.7x	23.1x	21.7x	18.9x	16.2x	14.4x	54%	2.2%
Middlesex Water	MSEX		NR	–	37.98	0.6	1.48	1.61	NE	-	25.7x	23.6x	NA	NA	NA	NA	57%	2.2%
SJW Corp.	SJW		NR	–	55.50	1.1	2.47	2.63	2.68	-	22.5x	21.1x	20.7x	NA	NA	NA	35%	1.6%
York Water	YORW		NR	–	32.90	0.4	0.96	0.99	NE	-	34.3x	33.2x	NA	17.3x	16.5x	NA	67%	1.9%
Water Utility Group Median										**6.0%**	**25.7x**	**23.9x**	**22.5x**	**13.3x**	**12.8x**	**12.3x**	**57%**	**2.1%**
Water Utility Premium/(Discount) to Regulated Electrics											**25%**	**21%**	**25%**	**22%**	**24%**	**27%**		

INFRASTRUCTURE UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	8/31/17 Price ($)	Equity Market Cap (Bil.)	FFO/Share			3-5 Yr EPS	P/FFO			EV/Adj. EBITDA			Dividend Payout	Dividend
							2017E	2018E	2019E	Growth	2017E	2018E	2019E	2017E	2018E	2019E	2017E	Yield
Brookfield Infrastructure Partners LP	BIP	GP	1	44.00	44.13	11.4	3.13	3.55	3.92	11.0%	14.1x	12.4x	11.3x	14.6x	13.1x	12.3x	56%	3.9%
Macquarie Infrastructure Corp.	MIC	GP	1	90.00	74.48	6.2	6.98	7.88	8.14	8.0%	10.7x	9.4x	9.1x	12.3x	11.4x	10.7x	79%	7.4%
Brookfield Renewable Partners LP	BEP	GP	1	37.00	34.69	5.8	2.15	2.29	2.43	13.0%	16.1x	15.1x	14.3x	8.0x	7.8x	7.5x	87%	5.4%
Infrastructure Group Median										**11.0%**	**14.1x**	**12.4x**	**11.3x**	**12.3x**	**11.4x**	**10.7x**	**79%**	**5.4%**

Analyst: NK = Neil Kalton, SA = Sarah Akers, JR = Jonathan Reeder, GP = Glen Pruitt; Estimates for companies that are not covered are First Call consensus estimates.

Wells Fargo Securities, LLC. Ratings: 1 - Outperform, 2 - Market Perform, 3 - Underperform, NR - Not Rated, SR - Suspended Rating

Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg

Appendix 2 – Glossary of Terms Used in Cover Page Bullets

CC – Combined Cycle
LDC – Local Distribution Company
MW – Megawatt
PUCT – Public Utilities Commission of Texas

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Global Utilities

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MARKET COMMENTARY/STRATEGY

Bright Light – 31 August 2017

Our fortnightly Bright Light compiles the latest research reports published by the Global Utilities Team, our high conviction stock ideas, valuation tools and key market performance data.

Report of the week: Brazilian Utilities – Lessons from 2Q17's Earnings Season

Vinicius Canheu shares his take-aways from the 1H17 earnings season of Brazilian Utilities. Click here

- **Recapping the quarter.** After another eventful earnings season, Vinicius recaps the main findings from the Brazilian sector as a whole. He highlights recurring themes and analyzes the major drivers of company performance in the quarter, based on reported figures, conference calls and investor events regarding 2Q17.
- **Seven major themes in 2Q17.** In his work, Vinicius finds 7 major themes that dominated discussions throughout the earnings season. On the operational side, he highlights (1) falling total volumes in distribution; (2) the evolution of delinquency vs. losses, for discos; and the generation dilemma, with gencos (3) having to deal with the hydro short in the short-run while (4) still seeing low prices and liquidity for long-term PPAs. On the financial side, he highlights (5) the impact of lower inflation rates on the transcos' IFRS results; and (6) short-term maturities as well as the companies' de facto leverage situation. Finally, he highlights (7) the very marked split between companies on a growth agenda and those on the sellers' side given their troubled leverage outlooks.
- **Four big changes in recurring themes.** After a rebounding 1Q17, volume growth went back to negative territory. The drop in IFRS revenues led to a lower distributable income for transcos, to which he believes many in the market seemed previously oblivious. Finally, after a quarter, potential M&A and the participation in auctions returned to the spotlight, with several potential deals in the horizon.
- **Sector analysis; individual perspectives.** After the thematic analysis, he includes his perspective on the individual companies he covers, analyzing their results, highlighting the main points of conference calls and meetings, and determining the main triggers for them going forward.

21 August 2017
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SECTOR REVIEW

Lessons from 2Q17's Earnings Season

Recapping the quarter. After another eventful earnings season, we recap the main findings from the sector as a whole. We highlight recurring themes and analyze the major drivers of company performance in the quarter, based on reported figures, conference calls and investor events regarding 2Q17.

Through this product, we seek to provide investors with a single summary of the quarter that could be used as (1) a recap of the main recent developments; (2) a reference for meetings and discussions with management teams, and (3) a guide of potential events and triggers for the stocks.

Seven major themes in 2Q17. In our work, we found 7 major themes that dominated discussions throughout the earnings season. On the operational side, we highlight (1) falling total volumes in distribution; (2) the evolution of delinquency vs losses, for discos; and the generation dilemma, with gencos (3) having to deal with the hydro short (GSF) in the short-run while (4) still seeing low prices and liquidity for long-term PPAs.

On the financial side, we highlight (5) the impact of lower inflation rates on the transcos' IFRS results; and (6) short-term maturities and the companies' *de facto* leverage situation. Finally, we highlight (7) the very marked split between companies on a growth agenda and those on the sellers' side given their troubled leverage outlooks.

Four big changes in recurring themes. After a rebounding 1Q17, volume growth went back to the negative territory. In generation, we saw a much stronger focus on short-term contracting situations increased further, as the hydro short (GSF) started to pressure 2017 results. Meanwhile, the drop in IFRS revenues led to a lower distributable income for transcos, to which we believe many in the market seemed previously oblivious. Finally, after a quarter, potential M&A and the participation in auctions returned to the spotlight, with several potential deals in the horizon.

Sector analysis; individual perspectives. After the thematic analysis, we included our perspective on the individual companies we cover, analyzing their results, highlighting the main points of conference calls and meetings, and determining the main triggers for them going forward.

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Recent Research

Europe

CEZ
Underperform
TP CZK345

- **Vincent Gilles** revises his TP and estimates for **CEZ** (CZK418, TP CZK345, U/P) reflecting a new reporting structure, investments in onshore wind in Germany and France and the acquisition of the energy service company, Elevion. He believes that 2017E earnings will strongly benefit from one-offs. In his estimates, he assumes a 90% pay-out ratio. He forecasts a 2017E DPS of CZK31 which implies a dividend yield of 7.4%, one of the highest in the sector. However, he expects the dividend to halve in 2018 to CZK16 as a result of lower net income. Click here

North America

Brookfield Infrastructure Partners
Neutral
TP US$44

- **Andrew Kuske** downgrades **Brookfield Infrastructure Partners** (US$44, TP US$44, N) to Neutral (from Outperform) as the stock is trading above his target price. He continues to believe there are some near-term trading positives arising from a potential index inclusion. Such an inclusion could further aid stock performance, however, on a more fundamental basis the current valuation is less attractive versus a number of other stocks in his coverage universe. He continues to believe BIP's organic asset base growth underpins an attractive network story. That visibility should be regarded as a positive and enabling a significant high-grading of M&A opportunities. Click here

Latin America

Sabesp
Outperform
TP R$42

- **Vinicius Canheu** comments on the negotiations between **Sabesp** (R$32, TP R$42, O/P) and the city of Guarulhos (one of Sabesp's biggest defaulting municipalities). He notes that part of this deal involves setting up a new contract for future wholesale water supply with a guarantee structure based on utilities-related receivables owned by the city and automatic payments. In exchange, Sabesp will give a 20% discount on the monthly bills for the water supply. After a series of bad news for the company, which included the preliminary draft of its second tariff review, he sees this announcement as positive, as he expects it to lead to the monetization of receivables that were not in investors' numbers. Click here

Asia

China Wind Sector

- **Dave** shares his take-aways from 1H17 results reported by **China Wind Sector**. Despite volatile wind resources, utilisation hours for **Longyuan Power** (HK$5.9, TP HK$7.6, O/P) and **Huaneng Renewables** (HK$2.4, TP HK$3.6, O/P) expanded by 5% and 1%, respectively. Average realised tariff, due to increasing direct sales, declined by 2% for both. Despite curtailment ease, he attributes sector's YTD weakness to the uncertainties of green certificate pricing. However, he expects more clarity of green certificate by year-end including renewables quotas and floor prices. He sees sector valuation as appealing at 0.6x P/B FY18E. Click here

China Power Sector

- **Dave** comments on the proposed merger of Guodian and Shenhua groups approved by SASAC. At the listco level, **GD Power** (Rmb3.6, not covered) and **Shenhua Energy** (HK$20.1, not covered) also announced the proposal to consolidate their thermal assets. He states that there is no mention of the impact on **Longyuan Power** (HK$5.9, TP HK$7.6, O/P), the designated renewable generation platform under Guodian. He believes this supports his view China is pushing for power industry consolidation. He expects this to result in more rational pricing behaviour in the liberalising power market and more effective control on power capacity planning. Click here

China Resources Gas
Outperform
TP HK$36

- Following 1H17 results, **Dave Dai** reviews his estimates for **China Resources Gas** (HK$27, TP HK$36, O/P). He slightly cuts his EPS forecasts with a higher volume growth, but lower industrial dollar margins. CRG has underperformed key peers YTD, but the valuation is appealing at 12x FY18E PE with a 26% FY17-19E EPS CAGR backed by its strength in the city gas business. His TP of HK$36 and Outperform rating are unchanged. Click here

ENN Energy
Outperform
TP HK$57

- **Dave** revisits his estimates for **ENN Energy** (HK$50, TP HK$57, O/P) following the 1H17 results. The company raised its full-year retail gas volume guidance to >25% y-y (from >15%) and the new connection target to 1.9m (from 1.8m). He states that cost control was strong in 1H17 for SG&A. He expects the company to provide more value-added products following the management's positive outlook in energy solutions. He raises his 2017E EPS estimates by 1.7% and retains his Outperform rating. Click here

India Utilities Sector

- **Lokesh Garg** comments on the **Indian Utilities Sector**. Overall, power demand has remained weak with growth of just 5.0- 5.5% in FY17 and 1Q FY18, while renewables have been taking away about 25-30% of the incremental demand. Given weak demand, renewables, and sector reform aimed at system optimisation, he reiterates his Neutral rating on **NTPC** (Rs168, TP Rs180, N). Click here

Malakoff
Neutral
TP RM1.1

- Post 1H17 results, **Joanna Cheah** lowers her TP for **Malakoff** (RM1.1, TP RM1.1, N), as she widens her discount to DCF from 15% to 30%. In her view, the larger discount is warranted due to earnings volatility and management uncertainty. She sees the dividend as the only reason to hold the stock. Her new 2017-18E DPS estimates of 6sen (cut from 7sen) imply a yield of c6%. She thinks cash flows are strong, but the bulk of these goes toward debt servicing and repayment. Click here

Kunlun Energy
Underperform
TP HK$5.2

- **Horace Tse** cuts his estimates for **Kunlun Energy** (HK$7.2, TP HK$5.2, U/P), following disappointing 1H17 results. He lowers his 2017-19E EPS by 8-11% post model update and his forecast point to flat earnings in 2016-18E. He notes that despite all the hype on domestic LNG recovery, the LNG processing segment did not witness any recovery in 1H17, a big mismatch vs. market expectations. He reiterates his Underperform rating and slightly increases his SOTP-based TP to HK$5.2 (from HK$5.0). Click here

Australia / New Zealand

Genesis Energy
Underperform
TP NZ$2.16

- **Nevill Gluyas** downgrades his rating for **Genesis Energy** (NZ$2.43, TP NZ$2.16, U/P) from Neutral to Underperform. He believes the company has a sound strategy to leverage its competitive advantages, but in his view it is trading above underlying value, likely due to a strong dividend yield (albeit sustainable over the medium term, based on his FCF modelling). He notes that the FY18E EBITDAF guidance range of NZ$345m to NZ$365m was weaker than he expected and he revises his FY18E EBITDAF forecast down by 11% to NZ$346m. Click here

Meridian Energy
Neutral
TP NZ$2.87

- Following FY17 results, **Nevill** raises his TP for **Meridian Energy** (NZ$2.91, TP NZ$2.87, N) to NZ$2.87 (from NZ$2.74) on roll-forward. He keeps his FY18E EBITDAF estimate of NZ$668m unchanged and other key driver assumptions change by c1%. He believes that the company continues to plot a steady course despite facing the highest hydro volatility in the sector and maintains his Neutral rating. Click here

Mercury NZ
Underperform
TP NZ$3.07

- **Nevill** increases his TP for **Mercury NZ** (NZ$3.46, TP NZ$3.07, U/P) to NZ$3.07 (from NZ$2.83) and reiterates his Underperform rating. His revised FY18E EBITDAF forecast falls to NZ$501m which is consistent with MCY's maiden FY18E NZ$500m guidance. He believes the company stands out in the sector for relatively stable earnings, very good retail capabilities and reduced exposure to some of the key sector risks due to the location and mix of its generation and retail portfolio. Nevertheless, he struggles to justify the current trading levels against his view of value fundamentals. Click here

APA Group
Underperform
TP A$8.45

- **Peter Wilson** reviews his estimates for **APA Group** (A$8.83, TP A$8.45, U/P) following FY17 results. He increases his forecast EBITDA by 1.7% in FY18E and 3.2% in FY19E incorporating fully the growth projects. While a headline free cash flow yield of c9.2% looks attractive, if he adjusts for the amortisation of the WGP (Wallumbilla Gladstone Pipeline) receipts, this falls to a more modest 7.3% estimated to grow at 4% per annum FY17-20E. **AusNet Services** (A$1.7, TP A$1.8, O/P) and **Spark Infrastructure Group** (A$2.7, TP A$2.4, U/P) offer a similar or better dividend yield with comparable asset growth and lower risk. He increases his TP to A$8.45 (from A$8.10) and retains his Underperform rating. Click here

Spark Infrastructure
Underperform
TP A$2.4

- **Peter** revises his estimates for **Spark Infrastructure** (A$2.7, TP A$2.4, U/P). He raises his consolidated NPAT by 12.3% in FY17 due to an increase in proportionate EBITDA estimates and lower tax and depreciation charges. As SKI gave dividend guidance to FY18, he decreases his growth expectation for FY18-19E to 3% with risk to the downside. He highlights that low rates are clearly a positive for valuation, given SKI's correlation with bond prices. However, low inflation also means that SKI has to spend more to keep its asset base flat in nominal terms, yet its actual capex is well below the regulatory allowance. Click here

Vector
Neutral
TP NZ$3.6

- **Gregory Main** reiterates his Neutral rating for **Vector** (NZ$3.3, TP NZ$3.6, N) and raises his price target from NZ$3.44 to NZ$3.60 on a roll-forward of his DCF and assuming a higher earnings track in the Technology division. He increases his EBITDA forecast for FY18E and FY19E by 2.6% and 1.9%, respectively, rises his near-term capex forecasts and lowers his DPS forecasts. He expects VCT to deliver relatively flat earnings growth over the next few years as it is impacted by a reset in gas distribution and faces headwinds in its gas trading business. VCT can sustain a reasonable dividend, in his view. Click here

Closing prices as of 30th August 2017

Global Utilities Conviction List

MOST PREFERRED STOCKS	Currency	TP	Last close	Upside	Inclusion date	Price on inclusion	Performance since inclusion (vs. MSCI World Utilities)*	YTD performance (vs. MSCI World Utilities)*	Investment rationale
Cheung Kong Infrastructure	HKD	84.0	71.3	18%	8 May 2017	67.4	(2%)	(2%)	The three reasons for choosing the stock as our sector top-pick are: (i) lowest earnings exposure to Hong Kong, (ii) continuing overseas expansion and the acquisition momentum as exhibited by the recent bid for DUET group, and (iii) the recent correction in the share price. **Our latest research:** *Cheung Kong Infrastructure - Further overseas expansion; proposing to buy 35% stake in European energy service provider*
Enel	EUR	5.70	5.09	12%	21 Feb 2017	4.01	29%	20%	Enel's growth prospects remain at the top end of the sector, with an 11% net income CAGR in 2016-19E (excluding the impact of minority buyouts/share buybacks), more than double the average of the sector. We recall that in the latest plan Enel targeted €16.2bn 2018E EBITDA and €17.2bn EBITDA in 2019E. We see upside risk on the company's targets driven by regulation in Latin America and efficiency in the network/supply business. We do not see any rationale to the stock's discount to the sector, given its superior growth prospects, improved track record and restructuring progress. We expect an acceleration in minority buyouts in Q4, following the recent announcement of the corporate reorganization in Chile. Trading at 12.3x 2018E P/E (integrated peers 13.8 x, sector 14.7x) and 7.0x 2018E EV/EBITDA (integrated peers 8.2x, sector 8.9x), we believe the current price provides an attractive entry point. **Our latest research:** *Enel - Unjustified discount*
Powergrid Corporation	INR	250	216	16%	8 May 2017	210	(4%)	8%	We reiterate an Outperform rating on attractive valuation and steady medium-term growth of 10% CAGR over FY17-22E despite potential returns cut. PGCIL is trading at par with Asian utilities and is cheaper than European and US utilities. It has much stronger growth of 15% CAGR vs. low mid-single digit growth rates for others. P/B valuation is positively correlated with benign rates and general market valuation. **Our latest research:** *Powergrid Corporation - Powergrid Corporation: 1Q results: Steady quarter; commissioning progress tad soft, can catch up during the year. Maintain Outperform*
Exelon	USD	42.0	37.8	11%	7 Feb 2017	36.0	(11%)	(10%)	EXC remains our highest conviction top pick after incorporating the company-specific results for the PJM 2020/21 capacity auction; we increase our TP US$2, to US$42, on an increase in capacity revenues which we account for within our capacity payments NPV in our sum of the parts valuation. Risks to our call include ExGen power price/commodity exposure, nuclear operator risk, and PHI regulatory risks. **Our latest research:** *Exelon Corporation - ZECs in Hand; Looking for Market Reforms*

LEAST PREFERRED STOCKS	Currency	TP	Last close	Downside	Inclusion date	Price on inclusion	Performance since inclusion (vs. MSCI World Utilities)*	YTD performance (vs. MSCI World Utilities)*	Investment rationale
Hong Kong Electric	HKD	5.30	7.14	(26%)	21 Feb 2017	6.72	(9%)	(6%)	The stock faces uncertainties in regulated return negotiation and debt re-financing. 100% of its earnings are exposed to regulatory uncertainty in Hong Kong. We also highlight that re-financing risk remains in 2017. The company expects there could be increase in total finance costs after debt refinancing in 2017, if there are further US interest rate hikes. We estimate that a 25bp effective interest rate increase would lower the company's FY17E EPS by 2.5%. **Our latest research:** *Hong Kong Electric Investments: 1H17 distributed income flat despite asset growth; prefer CKI for strong growth*
CGN Power	HKD	1.65	2.14	(23%)	21 Feb 2017	2.37	(24%)	(17%)	The stock is the most expensive vs. H-share power peers trading on 1.6x FY17E P/B. We are less convinced that the management target operations for the Taishan units for 2H17/1H18 will be met on time as no fueling license has been granted. We also feel that utilisation and tariff risks are key downsides for the stock. **Our latest research:** *CGN Power - 1H17 results in line with output momentum but tariff overhang in 2H17*
National Grid	GBp	850	966	(12%)	14 Jan 2015	908	(27%)	(11%)	Concerns core to our Underperform thesis are based upon lower asset base growth. We also believe the company is at peak returns and earns a c12% all-in return on equity. We see most of the £4bn capex comes from the US (7% p.a. rate base growth), where returns are lower than in the UK (5% p.a. RAB growth). We note that the stock is sensitive to the recent rise in bond yields (we estimate each +/-50bps on discount rates is +/-6% on our TP) and this has driven the shares over the past year. We see a lack of short-term catalysts. The stock trades on a c46% premium to combined RAB and ratebase. **Our latest research:** *National Grid - Revisiting our Underperform thesis*

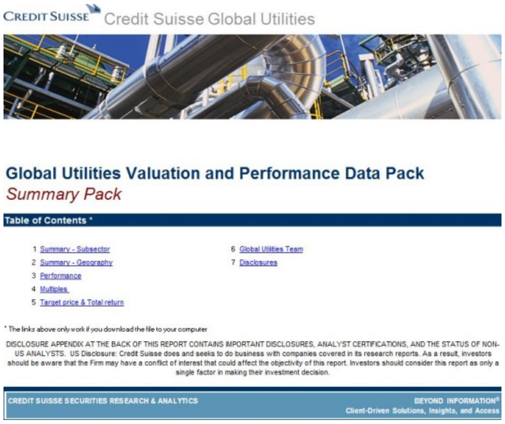
*Source: Credit Suisse Research, Thomson Reuters, * - USD terms; All MOST PREFERRED STOCKS are Outperform rated and all LEAST PREFERRED STOCKS are Underperform rated. Data as of 30th August 2017*

Recent Rating Changes

Company	Old rating	New rating	Change	Change on	Currency	TP	Last close	Country	Rationale for change
Brookfield Infrastructure Partners	Outperform	**Neutral**	▼	22 Aug	USD	44.0	43.7	US	We downgrade to stock to Neutral (from Outperform) as the stock is trading above our target price. We continue to believe there are some near-term trading positives arising from a potential index inclusion. Such an inclusion could further aid stock performance, however, on a more fundamental basis the current valuation is less attractive versus a number of other stocks in our coverage universe. We continue to believe BIP's organic asset base growth underpins an attractive network story. That visibility should be regarded as a positive and enabling a significant high-grading of M&A opportunities.
Gensis Energy	Neutral	Underperform	▼	22 Aug	NZD	2.16	2.43	NZ	We downgrade Genesis Energy from Neutral to Underperform as we believe the company has a sound strategy to leverage its competitive advantages, but in our view it is trading above underlying value, likely due to a strong dividend yield (albeit sustainable over the medium term, based on our FCF modelling).

Source: Credit Suisse Research, Thomson Reuters, Data as of 30th August 2017

Global Utilities Valuation Pack



Credit Suisse Global Utilities

Global Utilities Valuation and Performance Data Pack

Summary Pack

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* The links above only work if you download the file to your computer

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The Valuation and Performance Data Pack comprises wide-ranging information, including company financials, company and sector multiples, relative and absolute stock price performance, Credit Suisse and consensus estimates as well as details on our global coverage universe.

Follow the links to download this week's edition:

Summary Pack
Global Valuation Tables by Geography
Global Valuation Tables by Sub-sector

Source: Credit Suisse Research, Thomson Reuters

Utilities Indices Worldwide

Indices	1 Week	1 Month	3 months	YTD	12 months
MSCI World Utilities	0%	3%	2%	17%	14%
MSCI US Utilities	0%	3%	1%	12%	11%
MSCI Europe Utilities	(0%)	4%	(2%)	9%	5%
MSCI Asia Utilities	0%	(1%)	(1%)	10%	3%
MSCI Australia Utilities	3%	0%	(11%)	4%	10%
MSCI China Utilities	1%	(2%)	5%	20%	7%
MSCI Brazil Utilities	(0%)	4%	15%	6%	(0%)
MSCI Japan Utilities	1%	(0%)	(5%)	(0%)	17%
MSCI Europe-Ex UK Utilities	(0%)	5%	3%	19%	15%
MSCI UK Utilities	(1%)	2%	(7%)	(4%)	(9%)
MSCI Emerging Europe Utilities	2%	5%	3%	24%	20%

Source: Thomson Reuters, Data as of 30th August 2017

Links to Selected Research Reports

Europe

CEZ: Gloomy outlook post 2017 (29 Aug 2017, Vincent Gilles)
VINCI: Delivering growth from diversified assets (16 Aug 2017, Guy MacKenzie)
RWE: Post-H1 estimates update (15 Aug 2017, Vincent Gilles)
SSE: Turning Outperform at an opportune moment (14 Aug 2017, Mark Freshney)
Innogy: H1 results - dull and boring, all you want from a quasi-regulated utility (11 Aug 2017, Vincent Gilles)
Uniper: TP up to €20 – Stock still very attractive (10 Aug 2017, Vincent Gilles)
DONG Energy A/S: Second profit alert in 8 months (8 Aug 2017, Mark Freshney)
Engie: Progress but at slower pace than sector (4 Aug 2017, Vincent Gilles)

North America

Brookfield Infrastructure Partners LP: Downgrade to Neutral from Outperform; Time to Close the Tactical Trade; Index & M&A Next (22 Aug 2017, Andrew M. Kuske)
CenterPoint Energy Inc: Quality Utilities Looking to Shed Midstream (14 Aug 2017, Michael Weinstein)
NiSource Inc.: Nothing but Net; Raise to Outperform (14 Aug 2017, Michael Weinstein)
Hydro One Limited: Reinstating Coverage with a Neutral Rating and C$26 Target: Advancing Avista Acquisition (14 Aug 2017, Andrew M. Kuske)
Azure Power Global Limited: More Fire Power, No Surprises Expected in June Qtr (10 Aug 2017, Maheep Mandloi)
Exelon Corporation: ZECs in Hand; Looking for Market Reforms (3 Aug 2017, Michael Weinstein)
Southern Co.: With Fewer Unknowns, Raising to Neutral (3 Aug 2017, Michael Weinstein)

Asia

China Power Sector: The Shenhua-Guodian merger approved by SASAC; industry consolidation positive to IPPs (29 Aug 2017, Dave Dai)
ENN Energy Holdings Ltd - Maintain OUTPERFORM: Key takeaways from analyst briefing (28 Aug 2017, Dave Dai)
Kunlun Energy - Maintain UNDERPERFORM: 1H17 results a big miss vs consensus (in line with CS); LNG recovery not coming through (23 Aug 2017, Horace Tse)
China Wind Power Sector - Maintain OVERWEIGHT: 1H17 results in a nutshell (22 Aug 2017, Dave Dai)
Malakoff Bhd: Sticking to our NEUTRAL call (21 Aug 2017, Joanna Cheah)
China Resources Gas - Maintain OUTPERFORM: 1H17 results in line: 8% profit growth despite very high base (21 Aug 2017, Dave Dai)
India Utilities Sector: Powerful dynamics: Coal tolling bid, AT&C loss reduction, and ever-growing renewables amid weak demand (21 Aug 2017, Lokesh Garg)
China Resources Power Holdings: No surprise for the 65% 1H17 profit decline; dividend commitment unchanged (16 Aug 2017, Dave Dai)
China Everbright International Ltd - Maintain OUTPERFORM: Strong 1H17 results and positive guidance (15 Aug 2017, Dave Dai)
SIIC Environment Holdings: 1H17 results in line; valuation remains attractive (14 Aug 2017, Gary Zhou)
Beijing Enterprises Water Group Limited: Another major investment fund formed to turn PPP projects into cash flow (9 Aug 2017, Dave Dai)
LONGi Green Energy Technology: Improving demand outlook positive for mono leader (8 Aug 2017, Gary Zhou)
Korea Electric Power: 2Q disappoints on increasing costs related to potential regulatory changes (7 Aug 2017, A-Hyung Cho)
Longyuan Power - Maintain OUTPERFORM: July wind output improved; time to revisit the quality laggard (7 Aug 2017, Dave Dai)
Perusahaan Gas Negara: Emerging discussions on gas policies (4 Aug 2017, Ari Jahja)
NTPC Ltd - Maintain NEUTRAL: Learning to live with reality of growing renewables; fixed charge pooling mooted (2 Aug 2017, Lokesh Garg)

Latin America

Sabesp: Negotiations With Guarulhos Move Forward (29 Aug 2017, Vinicius Canheu)

Brazilian Utilities: Lessons from 2Q17's Earnings Season (21 Aug 2017, Vinicius Canheu)
Sabesp: First Draft of Tariff Review (14 Aug 2017, Vinicius Canheu)
Cesp: Rules Set for Privatization Auction (3 Aug 2017, Vinicius Canheu)
IENOVA: New capacity contract expands fuels terminal business (3 Aug 2017, Vanessa Quiroga)
AES Tiete: AES Tiete to Acquire Rights to Solar Complex (1 Aug 2017, Vinicius Canheu)

Australia & New Zealand

Spark Infrastructure Group: 1H17: Good result, cash flow outlook deteriorating (28 Aug 2017, Peter Wilson)
Vector: FY17 in line with flat FY18 outlook (24 Aug 2017, Gregory Main)
Meridian Energy: Jekyll and Hyde hydro inflows balance out (24 Aug 2017, Nevill Gluyas)
APA Group: FY17: Moving forward as uncertainty prevails (23 Aug 2017, Peter Wilson)
Mercury NZ: FY17 Northern inflow bonus (22 Aug 2017, Nevill Gluyas)
Genesis Energy: FY17: Only a brief glimpse of a dry year (22 Aug 2017, Nevill Gluyas)
Origin Energy: Utility delivers, reflating cost expectations (16 Aug 2017, Mark Samter)
Contact Energy: Higher dividends now in clear sight (14 Aug 2017, Nevill Gluyas)
AGL Energy: Australian Cash Light (10 Aug 2017, Peter Wilson)
Spark Infrastructure Group: 1H17 preview and model update (9 Aug 2017, Peter Wilson)

Global Utilities Coverage

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Companies Mentioned *(Price as of 30-Aug-2017)*

APA Group (APA.AX, A$8.6)
AusNet Services (AST.AX, A$1.7)
Brookfield Infrastructure Partners LP (BIP.N, $43.66)
CEZ (CEZP.PR, Kč418.4)
CGN Power Co., Ltd. (1816.HK, HK$2.14)
CK Infrastructure (1038.HK, HK$71.25)
China Resources Gas (1193.HK, HK$27.0)
China Shenhua Energy Company Limited (1088.HK, HK$20.1)
ENN Energy Holdings Ltd (2688.HK, HK$49.85)
Enel (ENEI.MI, €5.08)
Exelon Corporation (EXC.N, $37.84)
GD Power (600795.SS, Rmb3.6)
Genesis Energy Limited (GNE.NZ, NZ$2.42)
Genesis Energy Limited (GNE.AX, A$2.2)
Hong Kong Electric Investments (2638.HK, HK$7.14)
Huaneng Renewables Corporation (0958.HK, HK$2.43)
Kunlun Energy (0135.HK, HK$7.17)
Longyuan Power (0916.HK, HK$5.9)
Malakoff Bhd (MALA.KL, RM1.13)
Mercury NZ (MCY.NZ, NZ$3.46)
Mercury NZ (MCY.AX, A$3.19)
Meridian Energy (MEL.NZ, NZ$2.9)
Meridian Energy (MEZ.AX, A$2.68)
NTPC Ltd (NTPC.BO, Rs168.0)
National Grid (NG.L, 965.7p)
Powergrid Corporation (PGRD.BO, Rs215.85)
Sabesp (SBSP3.SA, R$32.0)
Spark Infrastructure Group (SKI.AX, A$2.65)
Vector (VCT.NZ, NZ$3.36)

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Global Ratings Distribution

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Underperform/Sell*	14%	(53% banking clients)
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Equities

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Competitive power producers

Price formation reform in PJM and nuclear subsidies in NJ

UNITED STATES

Companies discussed in the report:

Diversified utilities:
EXC (US$38.22, OP, TP: **US$41**)
PEG (US$47.11, N, TP: **US$49 up from US$46.50**)

Independent power producers:
CPN (US$14.54, **N down from OP**, TP: **US$15.25 down from US$16**)
DYN (US$9.60, OP, TP: **US$12**)
NRG (US$24.95, OP, TP: **US$27 up from US$25**)

Note: Share prices as of close on 29 August, 2017.
Source: FactSet, Macquarie Capital (USA), August 2017

***Please see Fig 1 on page 3, and company-specific sections for changes in estimates and TPs.**

Event

- M&A actions, deleveraging, and a potential PJM market reform and state nuclear subsidies have supported stocks of power producers despite mild summer weather. **NRG** and **EXC** remain our top picks among power names. Asset sales, deleveraging, and plant retirements in TX could extend the rally in **NRG**'s stock. **PEG** and **EXC** are about to start their push for nuclear subsidies in NJ, and those together with a change to marginal power pricing in PJM could meaningfully boost their merchant power earnings.
- We have downgraded **CPN** to N from OP on the limited upside to its current market valuation from a pending acquisition offer.

Impact

- **DOE study and PJM's price formation reform:** The long-awaited DOE study on the reliability of competitive power markets was released in late August, and owners of merchant nuclear and coal plants, especially in PJM, seemed unanimously satisfied with it. They all hope FERC now instructs PJM to expeditiously revise its tariff allowing non-flexible power plants to start setting marginal power prices and eliminate negative bids from wind farms as soon as the summer of 2018. This PJM price formation reform was endorsed by the DOE study, but PJM's Board has been reluctant to revise its tariff via a FERC complaint, so power generators are hopeful that the newly reconstituted FERC will order PJM to do so. Initial scenarios imply a US$2-4/MWh upside to ATC power price throughout PJM, especially in off-peak hours, thus benefitting most nuclear and baseload coal plants. Gas fired plants should also benefit from higher margins, especially as PJM power prices would get less dependent on gas prices.
- **State nuclear subsidies and PJM market reforms:** Owners of merchant nuclear plants in PJM seem optimistic about the price formation reform, but they are still pushing their state legislatures for nuclear subsidies. NJ should try to pass a nuclear support bill after the gubernatorial elections in November. Nuclear power generators in the state do not seem discouraged by the lack of support for nuclear subsidies in OH and CT – they are pledging ongoing ownership and operations of the plants as well as financial transparency. While non-nuclear merchant power companies will continue to fight these state subsidies, the state interventions could further accelerate PJM's power price formation reform.
- **Harvey and ERCOT's power supply/demand balances:** For months, we had been waiting for a hot August in TX, Houston in particular. Instead, Hurricane Harvey hit the Houston area, causing widespread flooding, and sharply reducing power demand in the area. NRG's retail book in the area must have been caught long-power, which should make it difficult for the company to deliver on its 2017 EBITDA guidance. The weak load has pressured forward power curves in ERCOT, making power plant retirements even more important. With NRG focused on asset sales and retail margin improvements, we don't expect it to announce plant shutdowns in TX, at least not this year, so all eyes are on Vistra. The DOE study, even if done by the former governor of TX, is unlikely to lead to changes in the power price formation in the TX power market, if only because FERC has no jurisdiction over ERCOT, so those power plant retirements are crucial.

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DOE study and PJM energy price formation reform

The long-awaited DOE study on the reliability of competitive power markets was released in late August (https://energy.gov/sites/prod/files/2017/08/f36/Staff%20Report%20on%20Electricity%20Markets%20and%20Reliability_0.pdf). Frankly, we were somewhat disappointed by the content of the report and its recommendations, but owners of merchant nuclear and coal plants, especially those in PJM, seemed unanimously satisfied with the study, pointing out that DOE's authority over power markets is limited and as such the report should be seen as a list of guidelines for FERC to follow.

The PJM power generators seem particularly happy that the DOE report suggested that FERC should expedite its efforts to improve energy price formation in regional power markets and mitigate negative energy bids from renewable power plants, in a way endorsing PJM's current price formation proposal. FERC has been analyzing various price formation reforms in competitive power markets over the last couple of years, with little (if any progress). In June 2017, PJM came out with its own price formation effort (covered by this working paper http://www.pjm.com/~/media/library/reports-notices/special-reports/20170615-energy-market-price-formation.ashx). In short, PJM is proposing to let inflexible power resources (mainly nuclear and coal plants) set location marginal prices (LMPs). Currently, as these resources have no dispatchable range, they play no role in the price formation in PJM, while wind resources that can dispatch at negative power prices (thanks to federal tax subsidies), do. While PJM has yet to run a scenario analysis of the impact of the price reform on power prices, early estimates suggest a meaningful US$2-4/MWh (10%+) uplift to calendar ATC power prices throughout PJM, with ~US$1/MWh associated with potential failures of natural gas pipeline systems and the rest with the elimination of negative wind offers and the inclusion of coal/nuclear marginal pricing. The uplift to power prices would be particularly pronounced during offpeak hours, thus benefitting nuclear and coal-fired power plants the most, yet gas-fired plants in PJM should also see some benefit during on-peak hours, if only as the price formation reform should make PJM power prices even less correlated with natural gas prices. We would not anticipate any changes in generation volumes from nuclear, coal, or gas-fired plants.

Not surprisingly, the price formation reform is strongly supported by owners of nuclear and coal plants throughout PJM, and they all see the DOE study as instrumental at accelerating the market reform. The question remains if the change can be implemented by the summer of 2018, with power producers pointing to the newly reconstituted FERC which is still awaiting a new Chairman.

It's our understanding that PJM does not have (205) rights to revise the piece of its tariff that covers the price formation change – PJM either needs to file a complaint with FERC claiming that this portion of its tariff is unjust and unreasonable, (a move which the PJM Board seems reluctant to pursue), or make a change to the tariff through a majority vote, which seems even less likely. What the power producers are all hoping for is that based on the findings of the DOE study, FERC will order PJM to make a change to its tariff. For now, however, there is no docket at FERC to discuss the PJM price formation change, making the June 2018 implementation timeline rather ambitious, we believe.

State subsidies for nuclear power plants – NJ should be next

Owners of nuclear power plants in PJM, **EXC** and **PEG** in particular, seem excited about the proposed changes to the energy price formation in PJM, but despite that, they are still pursuing their push for state subsidies for their nuclear plants in NJ and PA. Those state actions could further accelerate PJM's push for a power market reform, we believe.

In OH, **FE** has clearly struggled to garner support for its zero emission nuclear credits (ZENs) from both the Legislature and the Governor. It does not help that FE keeps emphasizing that its OH nuclear plants will be sold and that OH sits on top of the Utica Shale with numerous gas-fired power plants being added to the state. The US$2-4/MWh uplift to Ohio power prices starting in the summer of 2018 (best case) should not be enough to continue operations of FE's nuclear plants, we believe.

D's push for the inclusion of its nuclear plant in CT (Millstone) in the renewable power procurement for the state has been challenged by D's unwillingness to provide any disclosures on the financial standing of the asset. We are still hopeful D could reach an agreement with CT legislators, but that will require at least some level of financial disclosures, maybe provided in a confidential way.

PEG and **EXC** do not seem discouraged by **FE's** and **D's** problems with garnering supporting for their nuclear plants, and we would expect **PEG/EXC** to launch a legislative effort to support their nuclear plants in NJ after the gubernatorial election in November, still this year. It's our understanding that the support for the NJ nuclear units would not take a form of zero emission credits, and as such would have no direct link to energy/capacity prices in PJM. However, the state support could be waived if the financial standing of NJ nukes were to meaningfully improve based on changes in power market fundamentals.

ERCOT: Hurricane Harvey and power plant retirements

For months, we had been waiting for a hot August in TX, Houston in particular. Instead, Hurricane Harvey hit the Corpus Christi/Houston area last Friday causing wide-spread flooding, killing at least 17 people, and sending more than 30,000 people to emergency shelters.

While large baseload power plants have been largely unaffected by the storm, peaking power plants owned by **NRG** and **CPN** have flooded and could take time to restart, with temperatures gradually increasing in Houston – business interruption insurance should cover any damage to the plants, we believe. However, **NRG**'s retail book in the area must have been caught long-power, with high temperatures in Houston in mid 70s F as opposed to low 100s F in late August, typically the peak power usage season. That in turn should make it difficult for NRG to meet even the low-end of its 2017 EBITDA guidance.

The weak load has pressured forward power curves in ERCOT, making power plant retirements even more important. With NRG focused on asset sales and retail margin improvements, we don't expect it to announce plant shutdowns in TX, at least not this year, so all eyes are on Vistra Energy. The DOE study, even if done by the former governor of TX, is unlikely to lead to changes in the power price formation and the elimination of negative power bids from wind farms in the TX power market, if only because FERC has no jurisdiction over ERCOT. Therefore those power plant retirements are crucial to support forward power prices in TX, we believe.

Changes to earnings estimates and TP for competitive power producers

We have updated our earnings estimates and TPs to reflect changes in forward power/gas curves and the upside potential coming from the PJM price formation reform and potential nuclear subsidies in NJ. Please refer to company-specific section for a discussion of changes in estimates and TPs.

Fig 1 Competitive power producers: Changes in TP and earnings estimates

	TP		2017		2018		2019		2020	
	New	Old	New	Old	New	Old	New	Old	New	Old
Diversified utilities - EPS estimates (US$)										
EXC	41	41	2.70	2.71	2.91	2.92	2.81	2.86	2.62	2.72
PEG	49	46.50	2.89	2.90	2.93	2.96	2.89	2.93	2.98	3.00
Independent power producers - EBITDA estimates (US$m)										
CPN	15.25	16	1,830	1,868	1,933	1,944	1,942	1,986	1,887	1,992
DYN	12	12	1,206	1,266	1,354	1,437	1,186	1,357	1,003	1,180
NRG	27	25	2,500	2,600	2,567	2,547	2,692	2,558	2,811	2,623

Source: FactSet, Macquarie Capital (USA), August 2017

NRG Energy (NRG, OP, TP US$27 up from US$25): Deleveraging and cost cutting trump weak power market fundamentals

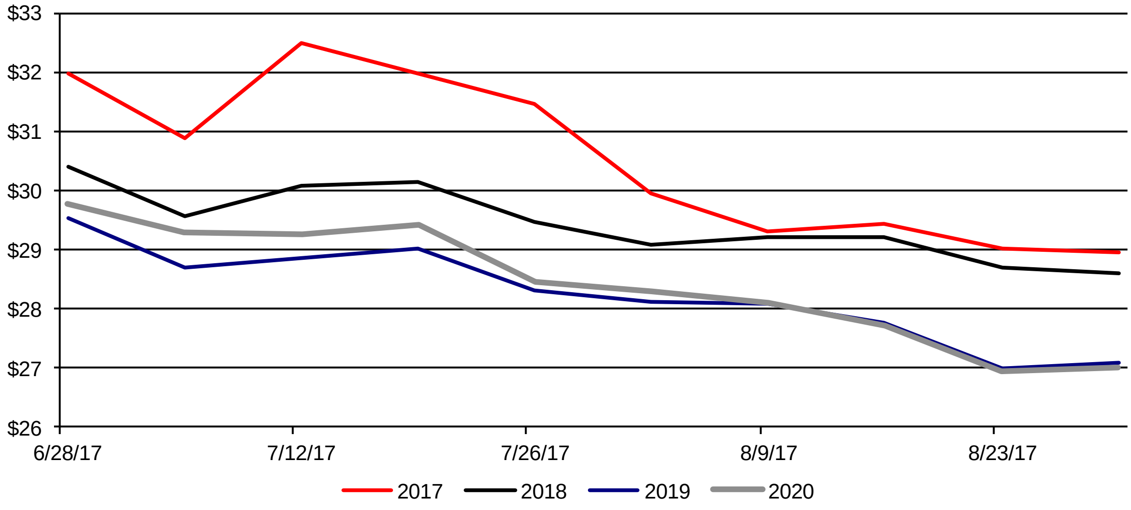
- **Deleveraging and cost cutting:** NRG plans to raise US$2.5-4bn in net cash proceeds from renewable power assets included in its yieldcos, NRG Yield (NYLD US), and C&I renewables at NRG, as well as non-core conventional power plants such as contracted power plants in Louisiana and other non-core operations. We expect the first of these transactions to be announced in September, though the renewable deals could take until November/December, we believe.
- The assets slated for divestitures have an EBITDA of US$1,440m (NYLD accounting for US$920m of it) and ~US$10bn of net debt (~US$8.1bn at NYLD), but NRG expects to replenish ~US$800m of the EBITDA reduction by '19 through cost cutting and margin improvements especially on the retail side. We admit that the latter is rather ambitious given how high retail margins have been and the intense competition among retail providers, hence our proforma estimates do not fully credit NRG for this retail margin expansion. Yet, even under this assumption NRG would end up with less than US$300m in net debt by the end of 2020, assuming NYLD is sold at its current market valuation.
- **Asset acquisitions to follow:** Management plans to maintain a 3x net debt/EBITDA ratio and redeploy excess cash in retail/conventional generation assets. While we may first have to wait for the GenOn restructuring to be complete (which could be as soon as this fall), we would expect NRG to try to grow its retail operations in PJM, likely backed by DYN's power generation assets.
- **ERCOT has disappointed, even before Hurricane Harvey:** We had been excited about the upside to Houston power prices given the load growth in the zone (up ~4% YoY, though partly thanks to the weather) and transmission constraints which will not get relieved until at least next summer. NRG has recently retired Greens Bayou 5 peaker (406MW), CPN shut its Clearlake co-gen (400MW), making the Houston zone truly tight even with EXC's Colorado Bend (1,000MW) coming online. Yet, after a strong 2Q17, ERCOT power prices have been declining due to a combination only party due to weather, and long before the impact of Hurricane Harvey. While NRG's baseload power plants survived the hurricane and flooding that followed largely unaffected, its peaking plants have been flooded and their restart could take some time. Importantly, late August/early September is typically the peak power usage season for Houston and NRG's retail business, Reliant Energy, should have been caught with a large long power position reflective of 100+ F temperatures vs. mid-70s/low 80s F. The low temperatures and rain seem to have eroded the TX load more so than any T&D outages in the region. Forward power prices in TX have fallen on the back of disappointing spot prices this summer, and now all eyes are on Vistra Energy and their potential power plant retirements in TX to be announced this fall, we believe.
- **PJM price formation reform:** Following the divestiture from GenOn, NRG's main exposure to the PJM power market is through the portfolio of coal plants in Northern Illinois (4,336MW in the ComEd zone). If PJM is successful at the price formation reform, these assets could see earnings uplift (at least ~US$40-50m in annualized EBITDA starting as soon as the summer '18, we estimate).
- **Changes in estimates:** We have updated our earnings estimates to reflect changes in forward power curves and lower retail margins in TX this summer. Beyond 2017, the lower forward power prices in TX should be more than offset by lower costs and potentially higher retail margins. Our new '17/'18/'19/'20 EBITDA estimates are US$2,500m/2,567m/2,692m/2,811m vs. US$2,600m/2,547m/2,558m/2,623m, respectively These estimates do not account for the upcoming sales of non-core assets– those are reflected in our proforma estimates in the table below (Fig. 2).

Fig 2 NRG: EBITDA/Net debt proforma the proposed asset divestitures and cost initiatives

	2017E	2018E	2019E	2020E
EBITDA (US$m)	942	1,590	1,710	1,830
Net debt (US$m)	-5,985	-2,709	-1,587	-237
Share count		316	316	316
Equity value per share @ 5.5x EV/EBITDA			**24.74**	**31.10**

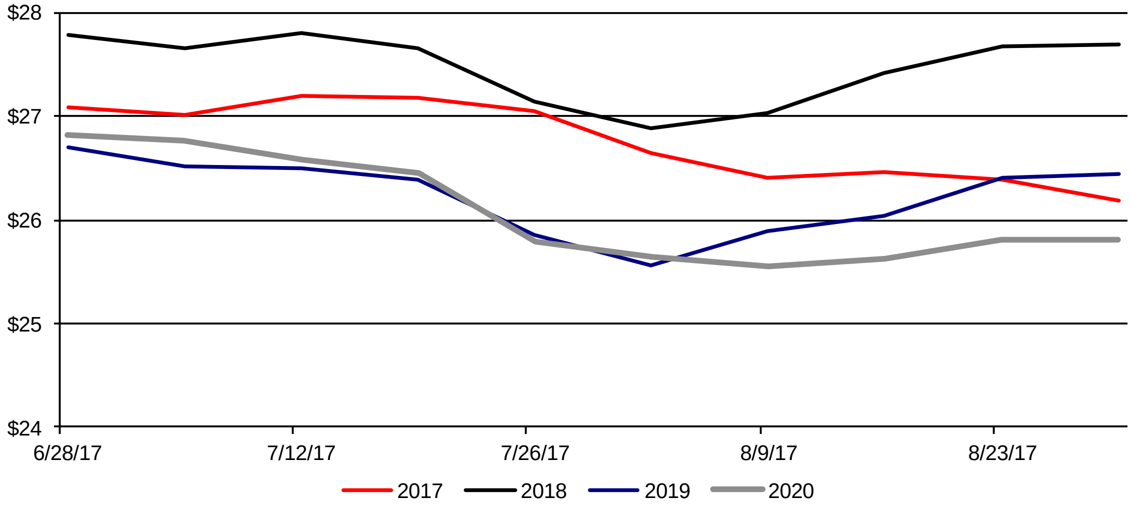
Source: Macquarie Capital (USA), August 2017

Fig 3 ERCOT Houston ATC power prices (US$/MWh) have been falling even before Hurricane Harvey



Source: Macquarie Energy, Macquarie Capital (USA), August 2017

Fig 4 NI Hub ATC power prices (US$/MWh) remain weak, but changes in PJM's price formation could boost calendar prices to low US$30s, we estimate

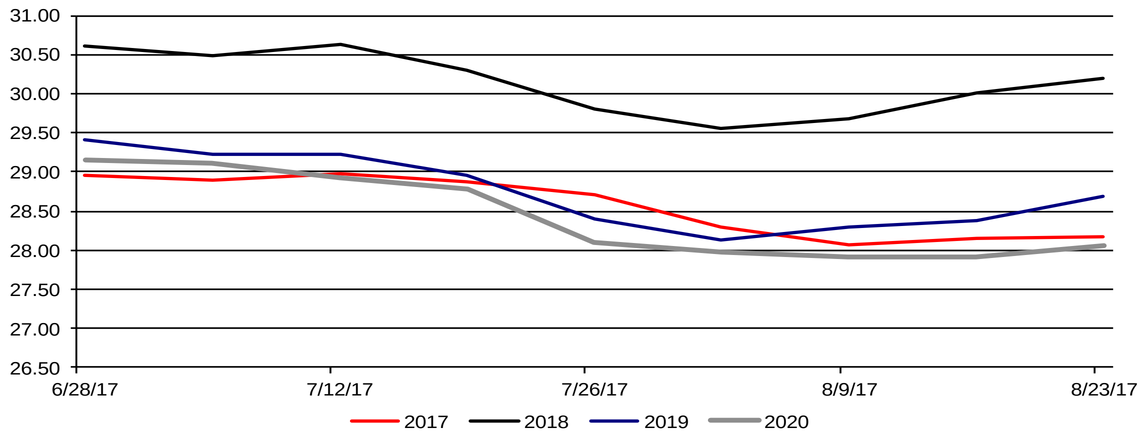


Source: Macquarie Energy, Macquarie Capital (USA), August 2017

Exelon (EXC, OP, TP US$41 unchanged): PJM price formation reform and state support for nukes in NJ

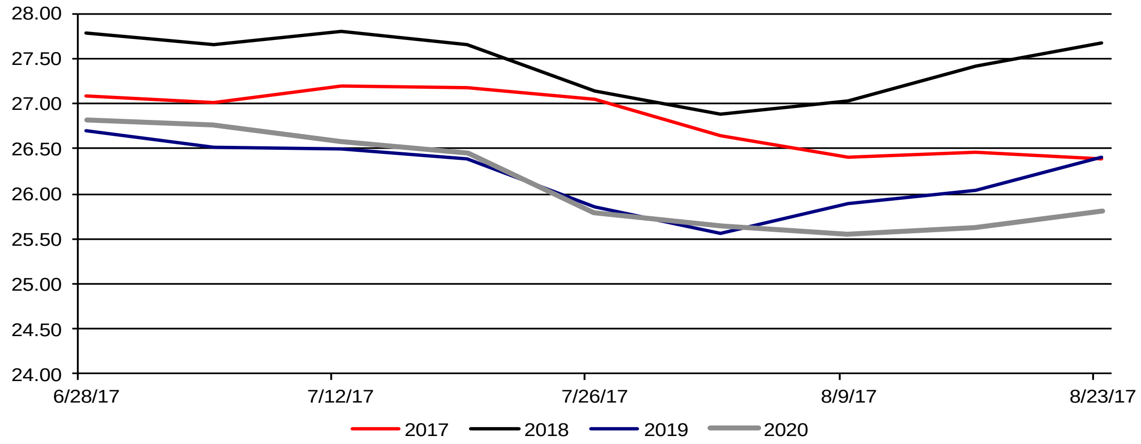
- **Power market fundamentals:** Forward power prices in PJM have weakened since the beginning of the summer, partly due to the mild weather, but also weak weather-normalized power demand. We are hopeful, however, that the DOE study should lead to power price formation reform in PJM, with EXC's nuclear plants as the biggest beneficiaries of the power price uplift on the back of the market reform. EXC should join PEG's efforts to push for state support for its nuclear plants in NJ during the lame duck session, after the gubernatorial elections this November.
- **Changes in estimates:** We have updated our earnings estimates to reflect changes in power/gas prices in the forward curve as of 08/30/17 and mild August. Our new '17/'18/'19/'20 EPS estimates are US$2.70/2.91/2.81/2.62 vs. US$2.71/2.92/2.86/2.72, previously. We see meaningful upside to ExGen earnings from the price formation reform in PJM and potential nuclear subsidies in NJ. Those two could add up to US$0.35-0.40 in an annualized EPS uplift starting as soon as the summer of 2018, we estimate.

Fig 5 PJM West ATC (US$/MWh) have weakened partly due to mild summer weather



Source: Macquarie Energy, Macquarie Capital (USA), August 2017

Fig 6 NI Hub ATC power prices (US$/MWh): 2018/2019 power prices have remained largely unchanged during the summer, but still very weak

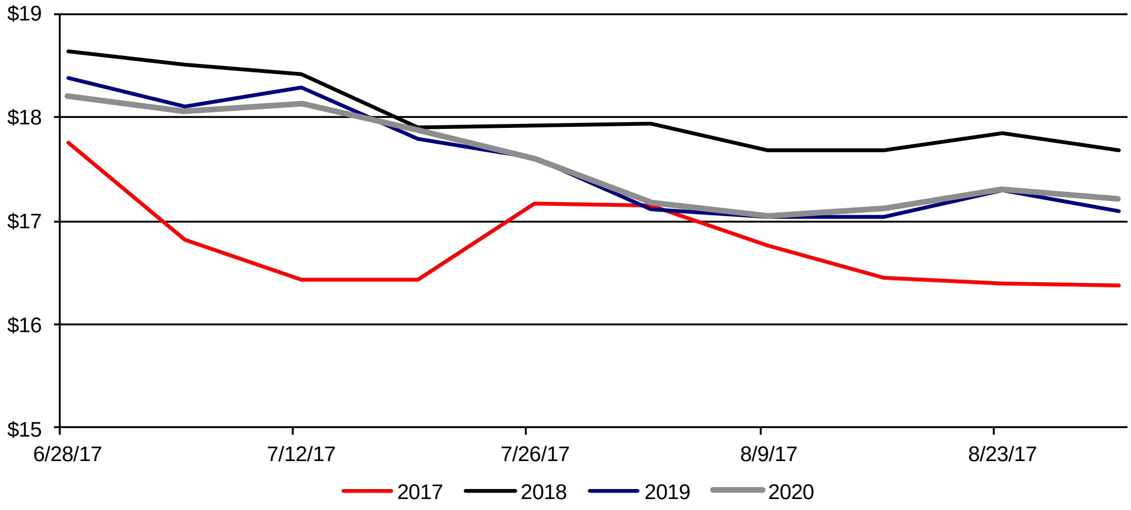


Source: Macquarie Energy, Macquarie Capital (USA), August 2017

Dynegy (DYN, OP, TP US$12 unchanged): Deleveraging and M&A against weakening spark spreads

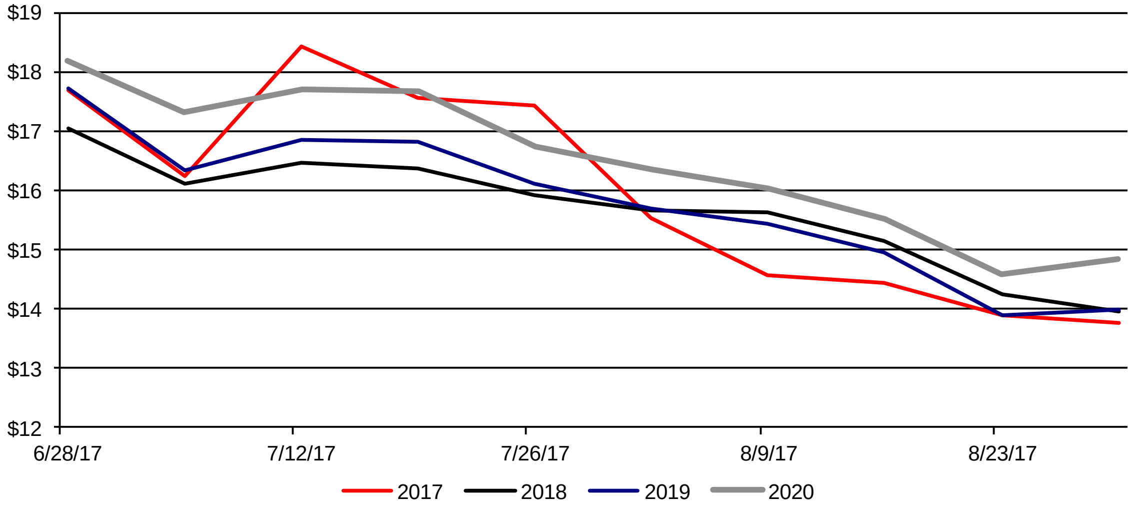
- **Power market fundamentals:** DYN's spark spreads in PJM and ERCOT have continued to shrink on the back of unfavourable summer weather and shrinking load in PJM. DYN could see some margin uplift in both markets on the back of power plant retirements (by Vistra Energy in ERCOT) and the PJM price formation change, but the main impact should be during offpeak hours when DYN's plants are offline. It seems to us that we are getting close to the bottom of the PJM power market, though we wonder if this potential uplift to power prices could be offset by lower capacity prices.
- **Delevering and M&A:** It has been a very busy 3Q17 for DYN – the company sold Armstrong and Troy peakers in PJM, entered into sale deals for Lee/Dighton and Milford peakers in New England, and issued US$850m in 9 year bonds through a private placement. The debt offering together with cash proceeds from asset sales and FCF should allow DYN to repay up to US$1.25bn of its US$2.1bn '19 debt maturity. Additional asset sales together with internally generated cash could allow DYN to address the remainder of the maturity. We continue to see DYN as an acquisition target for either NRG Energy or Vistra Energy, and such a transaction would trigger change of control clauses on all of DYN's debt, but we are still glad to see DYN addressing the 2019 debt maturity.
- **Changes in estimates:** We have updated our earnings estimates to reflect changes in power/gas prices and announced sales of Lee/Dighton/Milford power plants. Our new '17/'18/'19/'20 EBITDA estimates are US$1,206m/1,354m/1,186m/1,003m vs. US$1,266m/1,437m/1,357m/1,180m. Our US$12 TP remains unchanged.

Fig 7 PJM West/Tet M3 on-peak spark spreads (US$/MWh) have continued to weaken mostly due to cool summer weather.



Source: Macquarie Energy, Macquarie Capital (USA), August 2017

Fig 8 ERCOT South/HH on-peak spark spreads (US$/MWh) have fallen sharply since the beginning of the summer, even before Hurricane Harvey

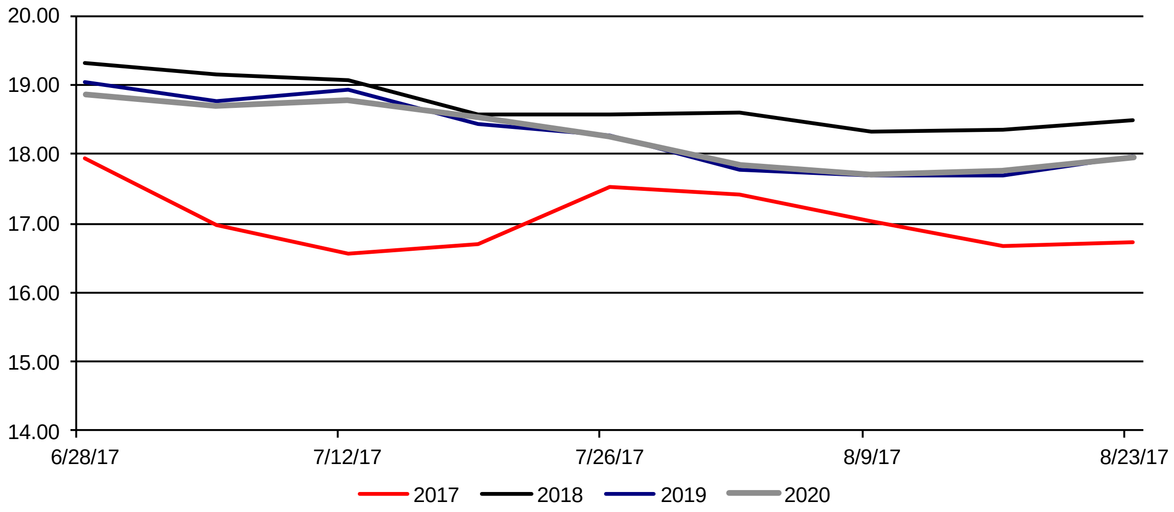


Source: Macquarie Energy, Macquarie Capital (USA), August 2017

PSEG (PEG, N, TP US$49 up from US$46.50) – NJ nuclear subsidies and PJM price formation reform

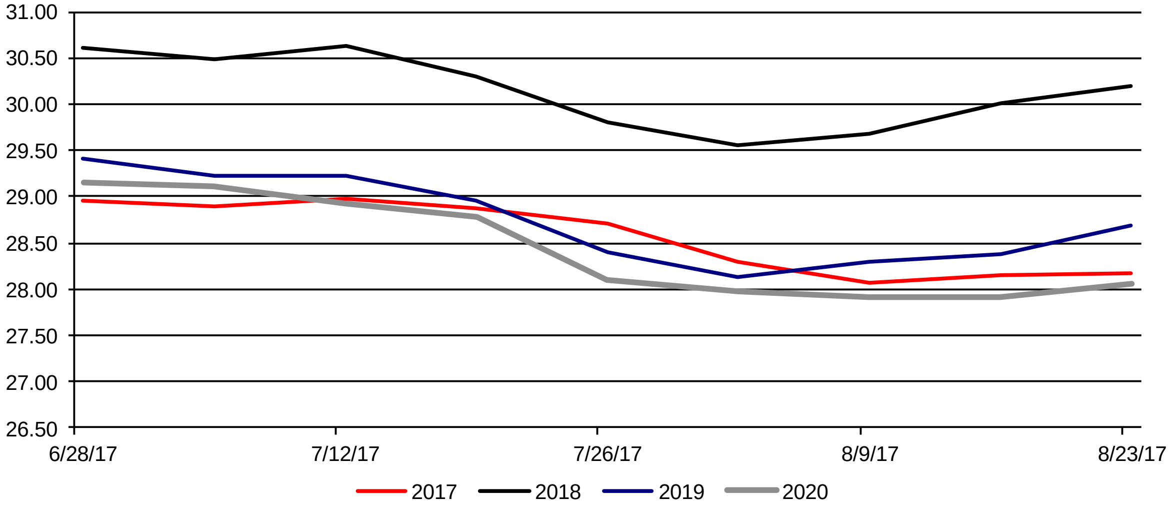
- **NJ nuclear subsidies and changes to PJM energy price formation:** Forward power prices in PJM have weakened since the beginning of the summer, partly due to the mild weather, but also weak weather-normalized power demand. We are hopeful, however, that the DOE study should lead to a power price formation reform in PJM, with PEG's nuclear and coal plants as the biggest beneficiaries of the power price uplift on the back of the market reform.
- Even more importantly, we expect PEG to push for a state support for its nuclear plants in NJ from the NJ Legislature during the lame duck session after the gubernatorial elections in November. The nuclear subsidy would not take the form of zero emission credits, and as such would have no direct link to PJM power/capacity markets. Yet, PSEG Power seems open to waive the state support for its nuclear plants if PJM power market fundamentals were to sharply improve.
- The DOE study should lead to a reform to the power price formation in PJM and that in turn should boost PSEG Power's margins for its coal and nuclear plants in particular, as the uplift should be particularly pronounced during offpeak hours. The power company is likely to push for a state support for its nuclear plants in NJ during the lame duck session, after the gubernatorial elections in November. Not ZECs, no direct link to power/energy markets, but willingness not to rely on the state support if PJM power prices were to meaningfully increase.
- **Changes in estimates, TP:** We have updated our earnings estimates to reflect changes in power/gas prices in the forward curve and mild August. Our new '17/'18/'19/'20 EPS estimates are US$2.89/2.93/2.89/2.98 vs. US$2.90/2.96/2.93/3.00, previously. Despite the lower earnings estimates we have raised our TP to US$49 from US$46.50 to reflect a meaningful upside to PSEG Power earnings from the price formation reform in PJM and potential nuclear subsidies in NJ. Those two could add up to US$0.30 in an annualized EPS starting as soon as the summer of 2018, we estimate.

Fig 9 PJM East/Dom South on-peak spark spreads (US$/MWh) have continued to decline over the summer, at least partly due to mild weather



Source: Macquarie Energy, Macquarie Capital (USA), August 2017

Fig 10 Similarly, PJM West ATC power prices (US$/MWh) have weakened



Source: Macquarie Energy, Macquarie Capital (USA), August 2017

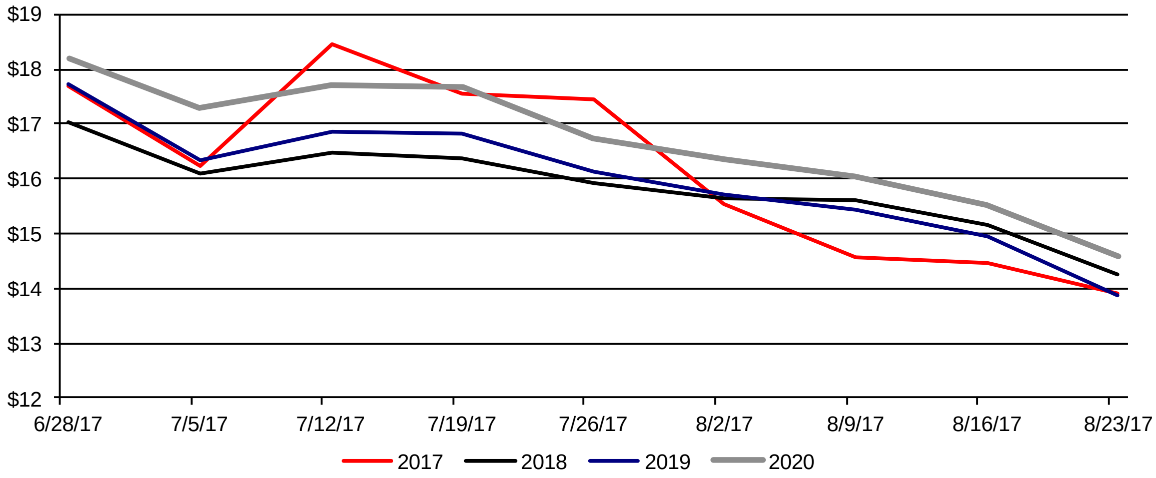
Calpine (CPN, N down from OP, TP US$15.25 down from US$16): Going private at just shy of fair value

M&A: In mid-August, CPN agreed to be acquired for US$15.25 per share in cash by a consortium led by Energy Capital Partners. While the sale price came (just) shy of our expectation of US$16, CPN had little choice but to go private, we believe. Management has cut cost and monetized its most transactable assets, and a merger with one of the other public IPPs would have been difficult given market power issues in TX or balance sheet leverage.

Based on our estimates, the sale price implies a 7.35x ’19 EV/EBITDA, which seems fair to us given the potential upside to TX spark spreads and downside to CAISO earnings as CPN’s long-term capacity contracts gradually expire. The sale agreement includes a 45-day “go-shop” period, but given that the review of strategic options for CPN has been pending since at least early May, we would not expect a higher offer. The transaction should close in 1Q18.

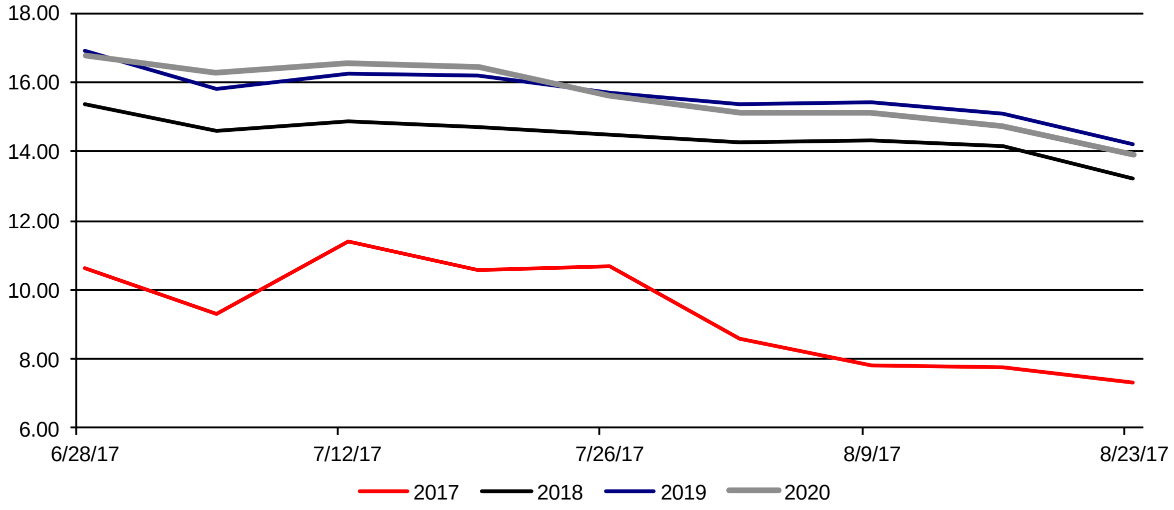
Estimate, TP and rating changes: We have lowered our earnings estimates to reflect lower spark spreads in ERCOT and PJM. Our new ’17/’18/’19/’20 EBITDA estimates are US$1,830m/1,933m/1,942m/1,887m vs. US$1,868m/1,944m/1,986m/1,992m, respectively. We have lowered our TP to US$15.25, down from US$16, to reflect the pending offer from ECP. With limited upside to the current share price, we have downgraded CPN to Neutral from Outperform.

Fig 11 ERCOT Houston/HH: On-peak spark spreads (US$/MWh) have compressed sharply since the beginning of the summer, even before Hurricane Harvey



Source: Macquarie Energy, Macquarie Capital (USA), August 2017

Fig 12 ERCOT North/WAHA on-peak spark spreads (US$/MWh) have also compressed, but to a lesser extent



Source: Macquarie Energy, Macquarie Capital (USA), August 2017

Other stocks mentioned

FirstEnergy (FE US, US$32.66, Outperform, TP: US$38.50)

Dominion Energy (D US, US$80.24, Outperform, TP: US$80.00)

NRG Yield (NYLD/A US, US$18.31, Outperform, TP: US$20.00)

Vistra Energy Corp (VST US, US$17.36, Not Rated)

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Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

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All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.01%	55.36%	42.05%	46.38%	66.67%	43.60%	(for global coverage by Macquarie, 2.98% of stocks followed are investment banking clients)
Neutral	37.73%	29.86%	42.05%	47.88%	27.91%	40.14%	(for global coverage by Macquarie, 2.33% of stocks followed are investment banking clients)
Underperform	10.26%	14.78%	15.91%	5.74%	5.43%	16.26%	(for global coverage by Macquarie, 1.15% of stocks followed are investment banking clients)

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September 01, 2017 | 13:31 ET | 16:03 ET~

Research News

Coverage Discontinued of Electric Utilities

Bottom Line: Due to the planned retirement of Michael S. Worms effective September 1, research coverage of the companies listed on this page has been discontinued.

Key Points

Due to the planned retirement of Michael S. Worms effective September 1, research coverage of the companies listed on this page has been discontinued. Investors should not rely on BMO Capital Markets Research for an investment recommendation on these companies.

BMO Capital Markets

Electric Utilities

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What's Inside

- American Electric Power (AEP)
- Avista (AVA)
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Coverage Discontinued - Companies	Ticker	Previous Rating	(as of date)
American Electric Power	AEP	Outperform	1-Jan-2014
Avista	AVA	Market Perform	2-Jan-2014
Black Hills	BKH	Outperform	25-Jan-2016
CMS Energy	CMS	Outperform	17-Nov-2009
Calpine	CPN	Outperform	8-Jan-2010
Consolidated Edison	ED	Market Perform	6-Dec-2004
DTE Energy	DTE	Market Perform	20-Oct-2006
Dominion Energy	D	Market Perform	4-Jun-2007
Duke Energy	DUK	Market Perform	6-Nov-2015
Edison International	EIX	Outperform	21-Aug-2014
Entergy	ETR	Market Perform	29-Apr-2015
Eversource Energy	ES	Market Perform	3-Jul-2003
Exelon	EXC	Market Perform	12-Mar-2009
FirstEnergy	FE	Market Perform	8-Aug-2012
NextEra Energy	NEE	Outperform	26-Feb-2004
NextEra Energy Partners LP	NEP	Outperform	22-Jul-2014
PG&E	PCG	Market Perform	2-Nov-2007
Pinnacle West Capital	PNW	Market Perform	6-May-2009
Public Service Enterprise Grp	PEG	Market Perform	3-Jul-2003
Sempra Energy	SRE	Market Perform	13-Oct-2006
Southern Company	SO	Market Perform	3-Jul-2003
WEC Energy Group	WEC	Market Perform	3-Jul-2003
XCEL Energy	XEL	Market Perform	3-Jul-2003

Source: BMO Capital Markets

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Hold	Market Perform	51.6%	13.3%	39.8%	49.4%	39.2%	41.1%
Sell	Underperform	3.0%	5.9%	1.0%	2.9%	1.2%	5.0%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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1 September 2017
Americas/United States
Equity Research
Electric Utilities

Electric Utilities

WEEKLY ANALYSIS

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Things We've Learned This Week

Our Take: The sector took a late-summer breather with 130 bps underperformance vs the broader market this past week. The most significant news this week was SO's unsurprising recommendation to move forward with the Vogtle new nuclear project. Notable in the report was the project's positive NPV vs a new gas plant based on updated forward gas price (and other) assumptions. Also, the option to cancel Unit 4 was dismissed given limited savings that would reduce this NPV compared with proceeding on both units.

- **Hurricane Harvey Aftermath.** As Hurricane Harvey swept across the Texas Coast this past week, heavy damage was left in its path as a result of high winds and torrential flooding. As of August 31st, CNP reported 25K of its 2.4M customers and have restored power to over 850K customers, AEP reported 87K of its 1M Texas customers were without power and have restored power to approximately two-thirds of the customers that lost power, ETR reported 56K of its 444K Texas customers were without power and have restored power to 129K customers. Also as of August 31st, ERCOT showed load in areas affected by Harvey to be down by less than 22% compared to August 24th, a week ago. The largest difference was in the Coastal weather region down 5,639MW or 29%, followed by the South Central region down 1,006MW or 13%, and lastly the Southern region down 548MW or 14%. Natural gas infrastructure along the Gulf Coast has seen minimal damage. Though the assets of Houston's largest IPPs are relatively unscathed, weaker electricity demand in Harvey's aftermath is likely to dampen revenues in the near term. While Harvey mostly spared Texas' generation assets and to a lesser extent electric transmission infrastructure, distribution lines have been heavily damaged.
    - While we expect CNP (and other Texas utilities) to ultimately recover storm damage expenses, it's worth noting that Houston Electric does not have insurance covering its transmission and distribution system, other than substations. While the company has issued storm restoration bonds in the past (Hurricane Ike in 2008 with 90% of customers then affected), there could be material regulatory lag depending on the size of any deferred asset. However, in any event, it is still too soon to determine whether any special relief will be needed in the first place. ENBL's assets are mostly away from the coast and underground and likely to be relatively unaffected.
- **EEI Financial Conference 2017 Meetings Signup Now Open**: Please join us in Orlando 11/5-11/7 as we host 24 management meetings and a takeaways dinner on 11/7: *WEC, NI, BKH, AVA, ED, DUK (dinner), DTE, AEP, EXC, NEE, NWE, ES, EIX, D, SRE, CMS, CNP, PNW, XEL, PPL, PEG, PCG, SO, ETR.*

Figure 1: CS Utilities Catalyst Calendar – 2017

Company	Ticker	Description	Timing	Comments
Duke Energy	DUK	Appeals Decision RE: Constitution Pipeline Water Quality Certificate	Mid-2017	Fed court: denial of water quality permit upheld
Eversource	ES	ISO-NE Midyear Analysis, expected to support ANE	Mid-2017	
ALL Regulateds		FOMC September Meeting	9/20/2017	
All Solar		USITC preliminary decision on 201 trade case against solar imports	9/22/2017	
NiSource	NI	PULJ Proposed order in Columbia of MD ratecase	9/26/2017	Expected 9/26
Centerpoint	CNP	Decision in OK PBR Proceeding	September, 2017	
CMS Energy	CMS	MPSC Commission Order on Palisades Securitization	September, 2017	From Aug to End of Sept
Eversource	ES	Northern Pass NHSEC Decision	9/30/2017	Decision postponed six months to March 2018
Southern	SO	DOE additional loan request for Vogtle Plant	September, 2017	"By End of Sept" - Oglethorpe investor call
Southern	SO	Final Decision in Kemper Proceeding	10/6/2017	Expected 10/6 (Docket No. 2017-AD-0112)
DTE Energy	DTE	Possible PSC Decision on Interim Rates in Electric ratecase	10/13/2017	Docket No. C-U-18255
Spire	SR	Rebuttal Testimony on Revenue Requirement in Ratecase	10/17/2017	for MGE and Laclede gas
Exelon	EXC	ALJ proposed order in FRP case	10/19/2017	
Eversource	ES	CT draft decision on Aquarion for ES	10/27/2017	Draft decision due
Eversource	ES	CT final decision on Aquarion for ES	10/27/2017	Decision due
Duke Energy	DUK	Settled outcome for DEP rate request	October, 2017	EC ratecase filing - Aug 25th, DEP outcome exp Oct/No
Dominion	D	Rider BW, U-2 filing	October, 2017	
Spire	SR	Mobile Gas 4-year review of RSE Filing	October, 2017	
ALL Regulateds		FOMC October/November Meeting	11/1/2017	
ALL Utilities		EEI Financial Conference	11/5/2017	*Capex/Guidance Updates*
NiSource		Columbia Gas of MD ratecase - final decision	11/5/2017	final order due
Pinnacle West	PNW	2018 EPS Guidance	3Q17	On the 3Q Call
Duke Energy	DUK	Lee CCGT Completion	November, 2017	
Spire	SR	STL Pipeline Milestone; FERC Final Order	November, 2017	
Eversource	ES	WMECO and NSTAR Electric Ratecase Decisions	November, 2017	decision in Nov, rate design in Dec
ALL Regulateds		FOMC December Meeting	12/13/2017	
Dominion	D	Cove Point In-Service	2H17	on-line in late 2017
Black Hills Corp	BKH	Sale of Non-Core Oil and Gas Properties Completed	2H17	Complete by YE
Northwestern Corp	NWE	Colstrip Litigation Resolution	2H17	Expected 'end of year'
Northwestern Corp	NWE	FERC/DGGS Resolution	2H17	Second half at the earliest'
Southern Company	SO	Mississippi PSC decision on Kemper Settlement	4Q17	If approved, SO expects additional cost of $100-200M
Black Hills Corp	BKH	Renewable RFP Issuance - Approval at year-end	4Q17	Issued June 23rd, up to 60 MW
Southern	SO	Sanmen (China) AP1000 Reactor - Fuel Loaded	4Q17	previously at some point in the summer
DTE Energy	DTE	NEXUS Pipeline completed	4Q17	Before year end, early approval late Aug
All Solar		Trump to decide solar import duty under 201 trade case	Nov-Dec, 2017	60 days approval period starting Nov 11
Spire	SR	Missouri PSC - Commissioner Stoll Term Expires	December, 2017	(D)
Exelon	EXC	Deadline for Decision in FRP proceeding	December, 2017	
Eversource	ES	PSNH Generation Divestiture	2017	Late-2017
Eversource	ES	Aquarion transaction expected close date	2017	Expected to close by 12/31
Eversource	ES	Massachusetts Solar Filing Facility Completion	2017	YE 2017
Black Hills Corp	BKH	Colorado IRP Approval	2017	Expected by YE
Black Hills Corp	BKH	IRP for South Dakota and Wyoming	2017	
DTE Energy	DTE	IRP Filing in Michigan	2017	"later this year", 4q16 call
Black Hills Corp	BKH	Cost of Service Gas Filing	2018	Previously 1H17, 2Q/3Q17
Dominion	D	Millstone study order results	2018	Millstone study order on 7/25, results due Feb. 2018

Source: Company data, Credit Suisse estimates

- **Illinois ZEC Appeal filed.** Following their appeal filing in NY, EPSA and other plaintiffs have now also filed an appeal of the July 14th Memorandum Opinion and Order from the District Court for the Norther District of Illinois (Case 17 CV 1164) that granted defendant's (**EXC**) motions to dismiss the case again ZEC nuclear subsidies in the state. The Illinois ruling upholds $235M/yr of ZEC subsidies for EXC's Quad Cities and Clinton nuclear plants.
    - ***From our 8/27 weekly*: NY ZEC Appeal filed.** As expected, the Electric Power Supply Association (EPSA) and other plaintiffs filed an appeal of the July 25th Memorandum Opinion and Order from the District Court for the Southern District of NY (Case 16 CV 8164) that granted defendants' (EXC) motions to dismiss the case against Zero Emission Credit nuclear subsidies in the state. Recall that the NY ruling upheld approximately ~$330M/yr of subsidies for EXC's Ginna, Nine Mile, and Fitzpatrick plants (*7/25 EXC: Case Dismissed…Again*) and came just over a week after a similar case in IL was dismissed (*7/16 EXC: Case Dismissed*) that upholds $235M/yr of ZEC subsidies for the Clinton and Quad Cities plants. An appeal had already been previously filed for the Illinois ruling in the 7th Circuit. That the two District Court rulings came so close

together is indicative of independent reasoning coming to essentially the same conclusion. This gives us increased confidence for success in these follow-on appeals processes.

- **AEP Ohio Electric Security Plan.** On August 28th, AEP Ohio filed a settlement with the Public Utilities Commission of Ohio (PUCO) addressing its Electric Security Plan (ESP). Key elements of the ESP discussed in the settlement include EV charging, renewable generation, and through 2024. The settlement calls for AEP to invest in grid reliability infrastructure and to develop pilot programs for EV charging station and microgrids. It also offers customer rate stability through 2024 with minimal customer impacts (*details will be available as part of the hearing process*). In addition, the settlement provides support for AEP's efforts to develop wind and solar generation projects through the creation of a renewable generation rider. It also establishes an option for AEP to seek approval for a renewable plant, of which the plant's output can be purchased through a bilateral contract with a retail customer.
- **Winds of change for AEP's Wind Catcher legal case.** The Oklahoma Corporation Commission (OCC) denied a motion to dismiss made by Oklahoma Attorney General Mike Hunter, permitting Wind Catcher's preapproval case to move ahead. (**AEP**)
    - ***From our 8/21 weekly***: **Wind Catcher catching some legal wind**. Following AEP's announcement on July 26 that it would purchase the 2GW Wind Catcher Energy Project for $4.5B, Oklahoma Attorney General Mike Hunter filed his objection to this purchase. He argued that Public Service Co of Oklahoma (PSO), a subsidiary of AEP, did not demonstrate that it needs additional generation capacity and failed to conduct a competitive process before announcing the purchase. On this basis, Hunter asked that PSO's application with the Oklahoma Corporation Commission for cost recovery of the project to be dismissed.
- **Chopped Down to Size – Michigan PSC trims DTE rate request.** On Tuesday (8/29) the Michigan Public Service Commission (MPSC) Staff recommended a $70.8M electric rate increase (1.5%), based on a 9.8% ROE and $15.244B of ratebase. This compares to DTE's requested $230.9M rate increase (4.8%) based on a 10.5% ROE and $15.391B of ratebase and the currently authorized 10.1% ROE based on a $14.244B ratebase. Staff's recommendation would result in a $0.12 EPS increase vs $0.38 from the company's request. Rebuttal testimony is due 9/22, hearings are scheduled 10/9-10/17, briefs are due in November, with an ALJ proposed decision estimated to come by Jan 26, 2018. The MPSC is required to issue a final decision by April 18, 2018. (Case U-18255).
- **Another two bite the dust, XEL retiring coal plants.** Xcel Energy and other stakeholders reached an agreement calling for early retirement of two coal-fired generation units representing 660MW of capacity, a third unit will remain operating. As Xcel continues to shift away from coal, the company will also request competitive bids for 1000MW of wind, 700MW of solar, and 700MW of natural gas under its ~$2.5B "Colorado Energy Plan Portfolio" filed with the Colorado PUC.

Recent Excerpts:

- **Northern Pass decision delay is not a surprise**. On 8/31, the New Hampshire Site Evaluation Committee (NHSEC) voted to postpone their final decision on Eversource Energy's (ES) Northern Pass Transmission (NPT) project for another six months to the end of March 2018. This is considered the most critical gating approval, to be followed by a Presidential permit to construct and operate the line across the US/Canada border. Previously, the decision was due at the end of September; although we had highlighted a probability of delay in our Aug 11 weekly (see below) due to the need for "weeks" of intervenor cross examination after ES witnesses finish (they wrapped on Aug 30). ES stated it was "disappointed considering the review process was already extended by nine months for what was originally a 12-month process", but was also encouraged by the committee's "willingness to pursue options for concluding the review in advance of the new deadline." Also pending are the issuance of federal permits, including the Presidential permit, a Special Use permit from the U.S. Forest Service, and the Section 404 Permit from the U.S. Army Corps of Engineers. All major contractor and equipment contracts are fully executed and ES remains confident in its ability to achieve a 2020 in-service date (recently extended a year), anticipating construction to begin in 2Q18.

  - ***From our 8/11 weekly: Still targeting yearend approvals but New Hampshire unlikely to grant siting approvals by Sept 30.*** On Aug 10, ES received the Final Environmental Impact Statement (FEIS) from the US Department of Energy for NPT. With 11 of 13 ES witness panels now completed, the remaining ES witnesses are expected to testify through mid-Sept, to be followed by rounds of intervenor testimony and cross examination. That could take weeks depending on how tolerant the NH Siting and Evaluation Committee (NHSEC) is of "friendly cross examination" between the various intervenor groups opposed to the project (we hear that the Chair of the committee is inclined to limit such cross). Once finished, we expect another 2-4 weeks of briefs (no replies though) followed by deliberations and finally, a vote. A formal written order would then take another 30-60 days. In addition to the NHSEC process, the NH Public Utility Commission is also reviewing approval for leases of rights of way from Public Service Co of New Hampshire (an ES subsidiary), with hearings in late November. See our 7/28 report "Holding the (Transmission) Line Through 2020".

- **SO: It's a Go; Let the Neutrons Flow.** On Aug 31st, SO filed its 17th Vogtle new nuclear construction Monitoring Report (VCM) with Georgia regulators recommending continued construction of Vogtle Units 3 and 4. The new target in-service dates for Units 3/4 are 29 months delayed from the prior schedule to Nov 2021/Nov 2022, respectively; with $1.41B higher capital costs vs the current regulatory stipulation net of $1.7B guarantee payments from Toshiba. The VCM also seeks the usual approvals for $542M spending from Jan-June 2017. We expect regulators to make a decision by Feb 2018, although likely sooner given their close involvement in the process and the need to contain costs in the very unlikely event that the proposal to proceed is rejected.

  - ***From our 8/21 weekly*: SO pursuing expanded nuclear loan guarantees.** This week, SO and Vogtle new nuclear project partner Oglethorpe Power announced that they had filed an application to increase the amount of federal loan guarantees. The guarantees now stand at a total of $8.3B to help reduce financing costs for the project (45.7% owned by SO), recently estimated to cost as much as $27.5B (excluding $3.7B of guarantee payments from Toshiba). Note that before SCG announced the cancellation of sister project VC Summer, that company had also asked the Department of Energy for federal grants to help defray construction costs, but to no avail.

- **DUK: Sunshine for Another Three Year**

Extension of 2013 Florida rate settlement pushes out a ratecase filing and provides more rate and earnings certainty for at least 3 years. No change to estimates or TP*.* *Florida represents ~18-19% of total ratebase and EPS; we continue to project about 6.2% ratebase growth through 2021. The settlement included the Office of Public Counsel and other consumer advocates. If approved, retail bills would increase 1-3% annually ($67M annual increases plus Solar Base Rate Adjustments) from 2019-2021 vs the prior* *expectation for filing a general ratecase there in mid-2018 for rates in 2019. Key provisions are support for $6B of capital investment at the same 9.5-11.5% ROE band (10.5% for solar), including $1.1B for grid modernization and $1B for 700 MW of solar over a four year period; the latter is a significant acceleration of the previously articulated plan for $1B for 500 MW over 10 years. Solar costs are capped at $1,650/kWac per filing.*

Another nuclear cancellation. *It also formally cancels the proposed Levy nuclear project and forgoes recovery of the remaining $135M unrecovered costs and $15M of previously expensed legal fees (vs over $800M already recovered), with a $135M write-off taken in 3Q17. Other provisions include regulatory deferrals for a small 50-MW battery storage program capped at $115M, and an $8M electric vehicle charging station pilot.*

Potential tax reform impact agreement. *The utility would retain 40% of any reduced revenue requirement to accelerate depreciation of Crystal River coal units 4&5 (60% flow back to customers) and excess deferred taxes would be passed back to customers over 5 or 10 years unless specified by law*

- **Last Week's Things We've Learned This Week (8/25):**

Our Take: *This was a surprisingly busy week for a normally slow end-of-summer period. Beyond continued Texas M&A bidding, we also had the Department of Energy release its long-awaited study of baseload resources and grid reliability. As we've noted previously, we expect the report to push the Federal Energy Regulatory Commission (FERC) to order grid operators to submit proposals in 1H18 for sweeping energy market reforms that will ultimately benefit coal and nuclear units. These reforms could include higher payments for non-intermittent supply, ancillary services, low-carbon attributes, as well as the elimination of negative off-peak nodal energy pricing that frequently results from nighttime tax-subsidized wind energy production.*

Companies Mentioned *(Price as of 31-Aug-2017)*

ALLETE (ALE.N, $77.33)
Ameren (AEE.N, $59.99)
Avangrid (AGR.N, $48.82)
Avista US (AVA.N, $51.4)
Azure Power Global Limited (AZRE.N, $14.51)
BP (BP.N, $34.73)
Black Hills Corp (BKH.N, $70.38)
CMS Energy Corp (CMS.N, $48.54)
Calpine (CPN.N, $14.7)
CenterPoint Energy Inc (CNP.N, $29.62)
Cheniere Energy, Inc. (LNG.A, $42.79)
Consolidated Edison (ED.N, $84.27)
DTE Energy (DTE.N, $112.32)
Dominion Energy (D.N, $78.77)
Duke Energy (DUK.N, $87.3)
Dynegy Corporation (DYN.N, $9.42)
EQT Midstream Partners, LP (EQM.N, $76.37)
Edison International (EIX.N, $80.18)
Enable Midstream Partners (ENBL.N, $14.89)
Enbridge Inc (ENB.N, $39.99)
Energy Transfer Partners, LP (ETP.N, $19.01)
Entergy Corp (ETR.N, $79.17)
Eversource Energy (ES.N, $63.0)
Exelon Corporation (EXC.N, $37.87)
Gt Plains Energy (GXP.N, $30.69)
MDU Rsrcs Group (MDU.N, $27.04)
NRG Energy (NRG.N, $24.91)
National Grid (NG.L, 974.7p)
New Jersey Rsrce (NJR.N, $43.65)
NextEra Energy Inc. (NEE.N, $150.51)
NiSource Inc. (NI.N, $26.87)
NorthWestern Energy (NWE.N, $60.32)
OGE Energy (OGE.N, $35.72)
PG&E Corp. (PCG.N, $70.38)
PPL Corp (PPL.N, $39.24)
Pinnacle West Capital Corp. (PNW.N, $89.97)
Public Service Enterprise Group (PEG.N, $46.84)
SCANA (SCG.N, $60.38)
Sempra Ener (SRE.N, $117.93)
Southern Company (SO.N, $48.26)
Spectra Energy Partners, LP (SEP.N, $44.33)
Spire Inc. (SR.N, $76.5)
Unitil (UTL.N, $49.86)
Vistra Energy (VST.N, $17.7)
Westar Energy (WR.N, $51.31)
Wisconsin Energy Corporation (WEC.N, $65.22)
Xcel Energy (XEL.N, $49.5)

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September 01, 2017 | 14:06 ET | 16:25 ET~

Exelon

EXC-NYSE | Rating **Not Rated** | Price: Aug-31 **$37.87** | Target **NA**

Coverage Discontinued

Bottom Line: Due to the planned retirement of Michael S. Worms effective September 1, research coverage of Exelon (EXC-NYSE) has been discontinued.

Key Points

Due to the planned retirement of Michael S. Worms effective September 1, research coverage of Exelon (EXC-NYSE) has been discontinued. The shares of Exelon have been rated Market Perform since March 12, 2009. Investors should no longer rely on BMO Capital Markets Research for an investment recommendation on Exelon.

BMO Capital Markets

Electric Utilities

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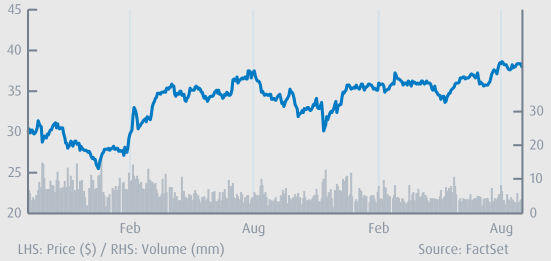
2YR Price Volume Chart



LHS: Price ($) / RHS: Volume (mm)   Source: FactSet

Company Data			in $
Dividend	$1.31	Shares O/S (mm)	960.1
Yield	3.5%	Market Cap (mm)	$36,359
EV (mm)	$70,775	Net Debt (mm)	$37,875

BMO Estimates (FY-Dec.)	2014A	2015A	in $ 2016A
EBITDA	$5,865	$6,813	$7,461
FCF after Div.	$(1,207)	$(1,311)	$(1,274)
EPS	$2.39	$2.49	$2.68
Dividends	$1.24	$1.24	$1.26
CFPS	$(0.16)	$(0.23)	$(0.12)

Valuation	2014A	2015A	2016A
P/E	15.8x	15.2x	14.1x
P/CFPS	NM	NM	NM
EV/EBITDA	12.1x	10.4x	9.5x

Please refer to pages 2 to 4 for Important Disclosures, including Analyst's Certification.

Exelon Rating History as of 08/31/2017

Source: FactSet, BMO Capital Markets

IMPORTANT DISCLOSURES

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Methodology and Risks to Target Price/Valuation for Exelon (EXC-NYSE)

Methodology: NA

Risks: NA

Distribution of Ratings (August 31, 2017)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe
Buy	Outperform	45.4%	22.5%	59.2%	47.7%	59.6%	53.9%
Hold	Market Perform	51.6%	13.3%	39.8%	49.4%	39.2%	41.1%
Sell	Underperform	3.0%	5.9%	1.0%	2.9%	1.2%	5.0%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
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Prior BMO Capital Markets Rating System

(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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GUGGENHEIM

Forward Power Curves, GenCo MtM and Weekly Commentary

SECTOR: Power and Utilities

September 1, 2017

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Forward Power/Gas Curves – 08/31/17. Below, we provide estimated forward curves for power, heat rates, spark, dark, and quark spreads for peak, off-peak, and around-the-clock for various regions in the United States, broken down by each RTO/ISO in North America. In addition, we model forward gas, basis, as well as coal through the 2026 time frame.

Investors should use this link to open an Excel spreadsheet of various curves that can be used for power and utility models (click here to download our weekly price deck summary).

Forward Curve Weekly Highlights: Power and Heat Rates, for the week of 8/31 versus the prior week, **2018 national peak power prices** ($/MWh) were up 0.4% to $34.10 from $33.95 and around-the-clock power was up 0.6% to $29.55 from $29.36. Peak power in PJM was up 0.8% to $37.00 from $36.70; ERCOT was up 0.4% to $32.37 from $32.23; NE-ISO was up 0.4% to $44.58 from $44.39; NY-ISO was down 0.2% to $45.85 from $45.96; and MISO was up 0.1% to $34.70 from $34.69. **2018 peak heat rate (Btu/kWh) contractions:** 1.3% to 11,495 in NYISO, 0.7% to 11,953 in MISO, 0.5% to 10,120 in NE-ISO, 0.3% to 10,870 in ERCOT, 0.1% to 11,650 in PJM.

Forward Curve Weekly Highlights: Spark and Dark Spreads versus the prior week, **2018 Peak Spark Spreads** ($/MWh) in PJM were up 0.6% to $14.77 from $14.68; ERCOT was down 0.1% to $11.52 from $11.54; NE-ISO was down 0.6% to $13.75 from $13.83; NYISO was down 2.2% to $17.93 from $18.33; and MISO was down 1.0% to $14.38 from $14.52. **2018 Around-the-Clock Dark Spreads** ($/MWh) in PJM were up 1.2% to $24.96 from $24.67; ERCOT was up 0.7% to $20.33 from $20.19; NE-ISO was up 0.2% to $31.98 from $31.90; NYISO was up 0.3% to $32.28 from $32.20; and MISO was up 0.7% to $23.22 from $23.07.

Illustrative impact of marking our IPP and integrated utility models to the current forward curves versus published live estimates: PEG, FE, EXC, NRG, and DYN are lower overall, and CPN is higher. **See the next page for illustrative MtM implications on Guggenheim's IPP and Integrated Utility coverage throughout our forecast period.**

Natural Gas Storage Levels and Eastern Gas Basis Tracker, Gas in storage increased to 3,155 Bcf as of 08/25/2017 a weekly increase of 30 Bcf, resulting in storage 7.0 Bcf below one year ago, 0.3 Bcf above the five-year average for this week. Eastern gas basis (TETCO M3) is currently reflecting a discount to Henry Hub for 2017 and a premium from 2018 through 2020 (-$0.36/$0.14/$0.09/$0.09 for '17/'18/'19/'20), contracting since last week.

Continued on the next page…

Illustrative Impact: Marking IPPs and Integrated Utilities to 08/31 Forward Curves

Henry Hub Natural Gas Price		**2017E**	**2018E**	**2019E**	**2020E**
Live Estimates[1]	$ / MMBtu	3.11	2.99	2.85	2.84
Current Curves	$ / MMBtu	3.12	3.04	2.86	2.78
Delta		*0.5%*	*1.6%*	*0.4%*	*(2.0%)*

INTEGRATED UTILITIES / INDEPENDENT POWER PRODUCERS (IPPs)

Exelon (EXC)		**2017E**	**2018E**	**2019E**	**2020E**
Live Estimates[1]	Adj. EBITDA	8,204	8,456	8,473	8,519
	EPS	2.71	2.93	2.89	2.87
Current curves	Adj. EBITDA	8,182	8,440	8,413	8,437
	EPS	2.69	2.91	2.85	2.82
Delta	*Adj. EBITDA*	*(0.3%)*	*(0.2%)*	*(0.7%)*	*(1.0%)*
	EPS	*(0.4%)*	*(0.7%)*	*(1.6%)*	*(1.8%)*

FirstEnergy (FE)		**2017E**	**2018E**	**2019E**	**2020E**
Live Estimates[1]	Adj. EBITDA	4,150	4,291	4,345	4,428
	EPS	2.82	2.49	2.37	2.27
Current curves	Adj. EBITDA	4,138	4,262	4,329	4,393
	EPS	2.80	2.47	2.35	2.24
Delta	*Adj. EBITDA*	*(0.3%)*	*(0.7%)*	*(0.4%)*	*(0.8%)*
	EPS	*(0.6%)*	*(1.1%)*	*(1.0%)*	*(1.3%)*

PSEG (PEG)		**2017E**	**2018E**	**2019E**	**2020E**
Live Estimates[1]	Adj. EBITDA	4,435	4,026	4,142	4,274
	EPS	2.94	2.90	2.93	3.00
Current curves	Adj. EBITDA	4,433	4,016	4,121	4,237
	EPS	2.93	2.89	2.90	2.96
Delta	*Adj. EBITDA*	*(0.1%)*	*(0.2%)*	*(0.5%)*	*(0.9%)*
	EPS	*(0.4%)*	*(0.3%)*	*(1.0%)*	*(1.3%)*

Calpine (CPN)		**2017E**	**2018E**	**2019E**	**2020E**
Live Estimates[2]	Adj. EBITDA	1,826	2,027	1,971	2,042
Current curves	Adj. EBITDA	1,830	1,998	1,978	2,071
Delta	*Adj. EBITDA*	*0.2%*	*(1.4%)*	*0.4%*	*1.4%*

NRG		**2017E**	**2018E**	**2019E**	**2020E**
Live Estimates[1]	Adj. EBITDA	2,613	2,881	3,183	3,146
Current curves	Adj. EBITDA	2,619	2,867	3,096	3,132
Delta	*Adj. EBITDA*	*0.2%*	*(0.5%)*	*(2.7%)*	*(0.4%)*

Dynegy (DYN)		**2017E**	**2018E**	**2019E**	**2020E**
Live Estimates[1]	Adj. EBITDA	1,296	1,494	1,320	1,264
Current curves	Adj. EBITDA	1,306	1,489	1,306	1,235
Delta	*Adj. EBITDA*	*0.7%*	*(0.3%)*	*(1.0%)*	*(2.3%)*

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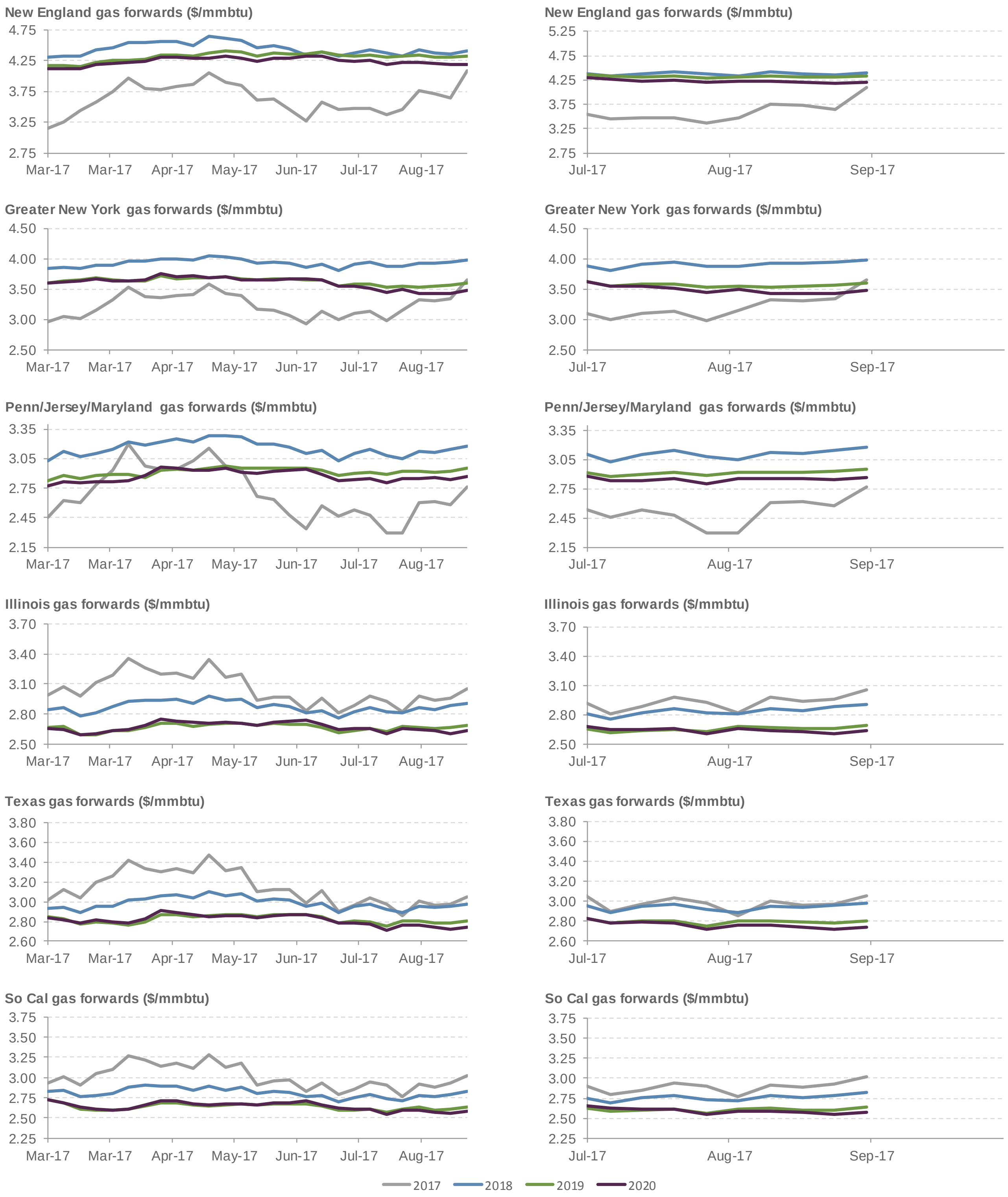
(1) Priced off June 29, 2017 forward curves.

(2) Priced off August 17, 2017 forward curves.

Source: Guggenheim Securities, LLC estimates, ICE, Bentek Energy, NYMEX, ISO/RTO.

Gas Forward Curves 2017-2020

Rolling 6 months | Quarter-to-date

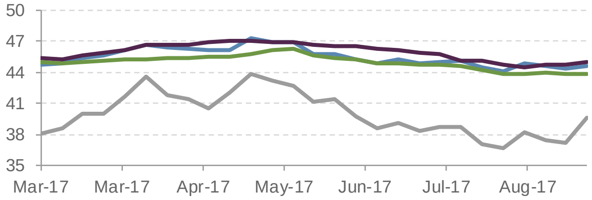


Source: ICE, Bentek, Guggenheim Securities, LLC.

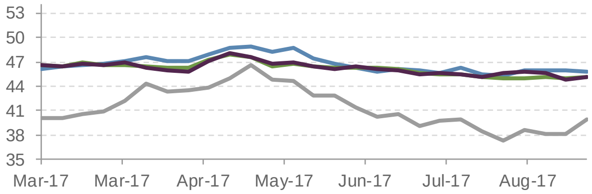
Power Forward Curves 2017-2020

Rolling 6 months

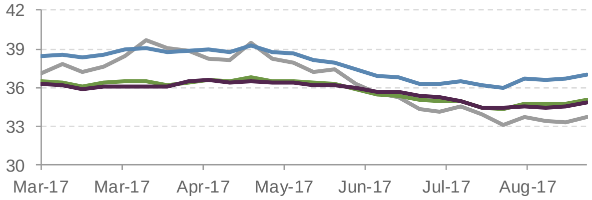
New England power forwards ($/MWh)



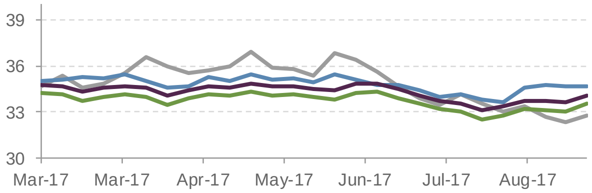
Greater New York power forwards ($/MWh)



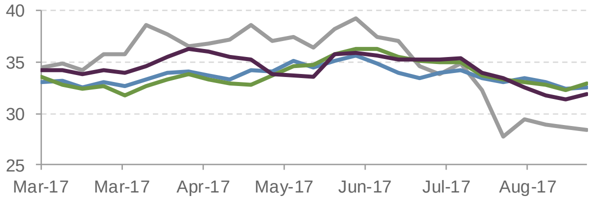
PJM power forwards ($/MWh)



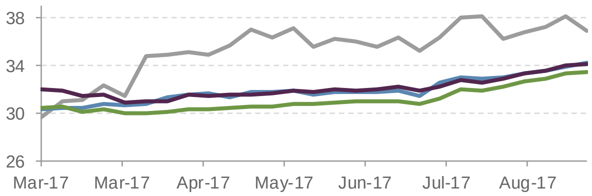
Illinois power forwards ($/MWh)



Texas power forwards ($/MWh)

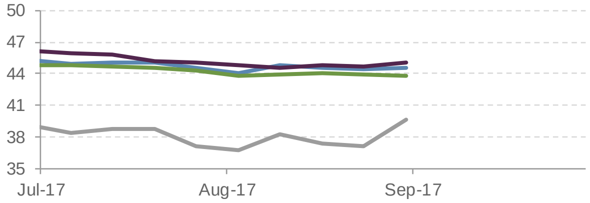


So Cal * power forwards ($/MWh)

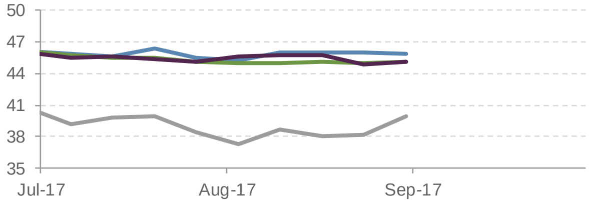


Quarter-to-date

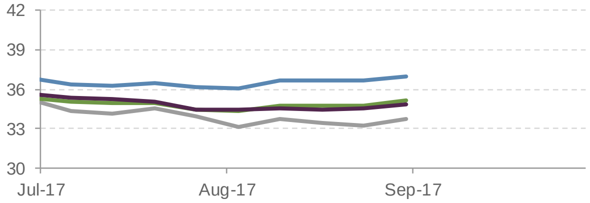
New England power forwards ($/MWh)



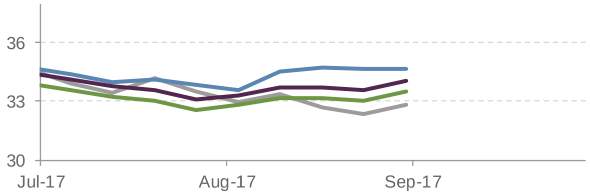
Greater New York power forwards ($/MWh)



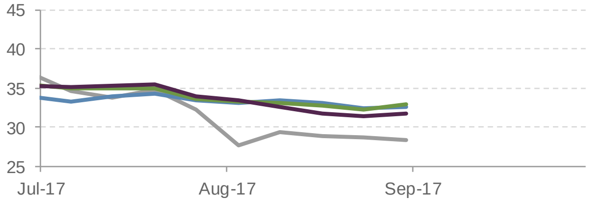
PJM power forwards ($/MWh)



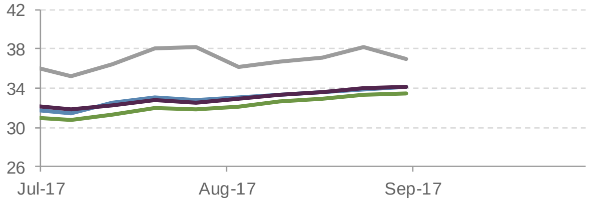
Illinois power forwards ($/MWh)



Texas power forwards ($/MWh)



So Cal * power forwards ($/MWh)



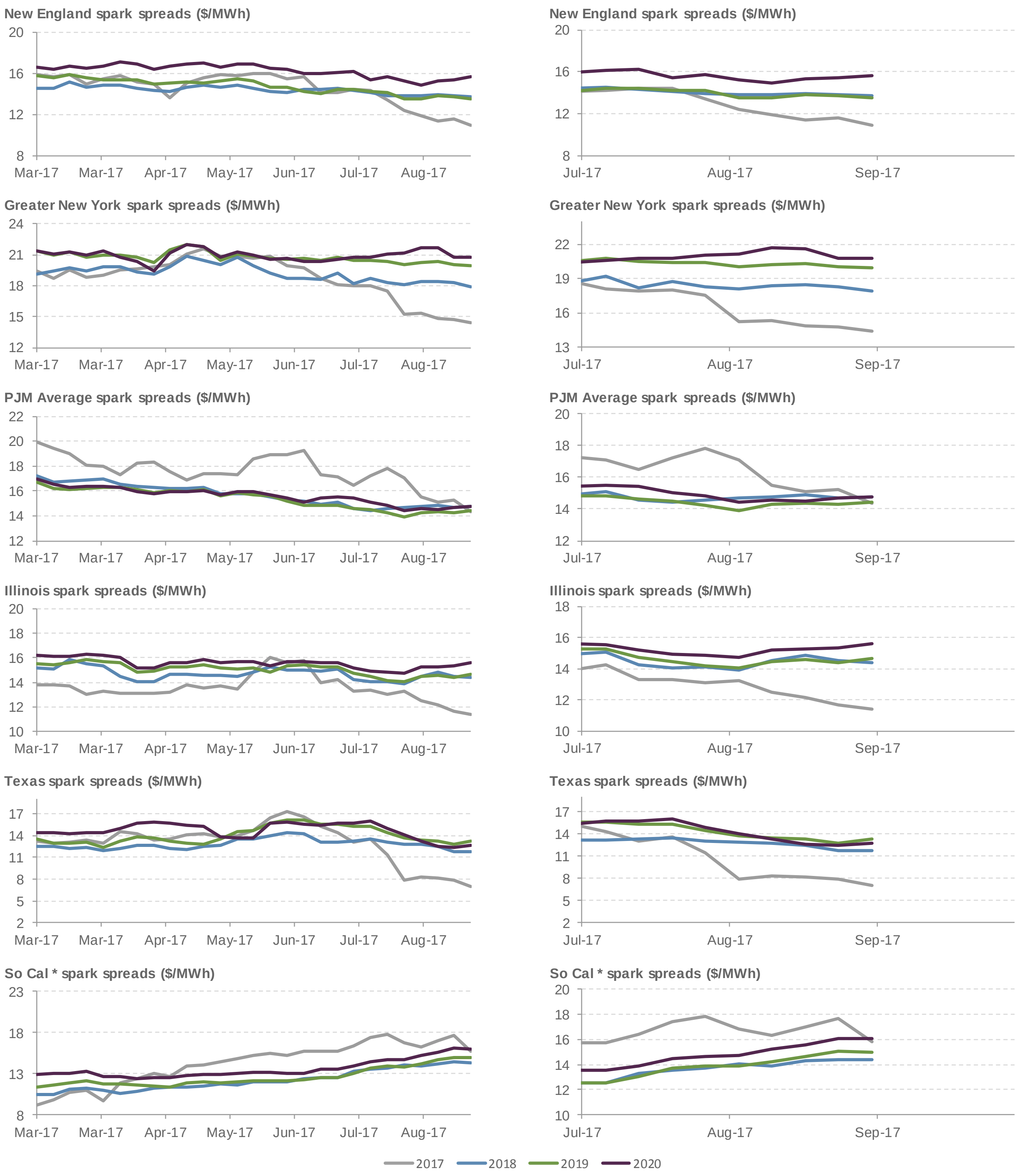
▬ 2017 ▬ 2018 ▬ 2019 ▬ 2020

Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward Spark Spreads 2017-2020

Rolling 6 months

Quarter-to-date

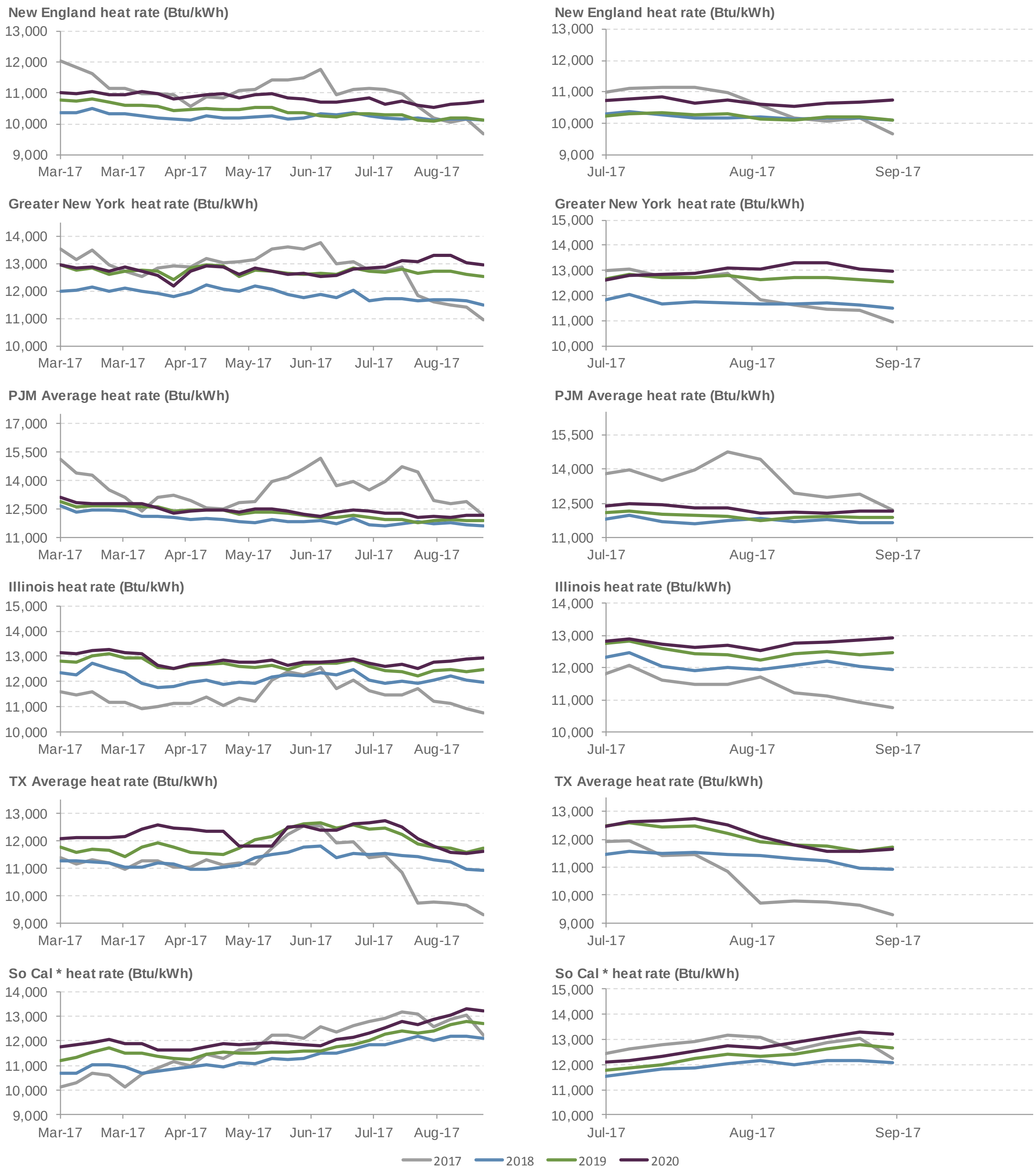


Source: ICE, Bentek, Guggenheim Securities, LLC

Forward Heat Rate 2017-2020

Rolling 6 months

Quarter-to-date

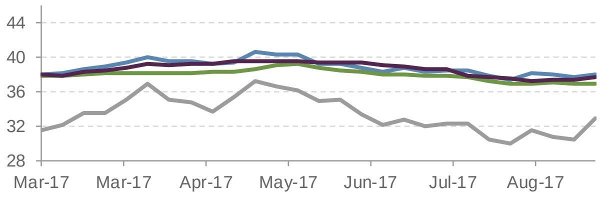


Source: ICE, Bentek, Guggenheim Securities, LLC

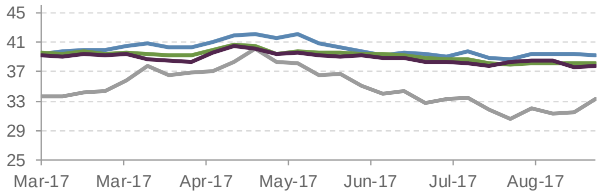
Forward 2017-2020 ATC PRB Dark Spreads

Rolling 6 months

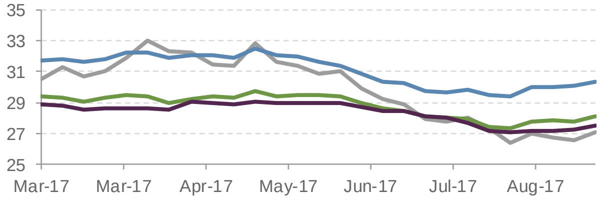
New England ATC darkspreads ($/MWh)



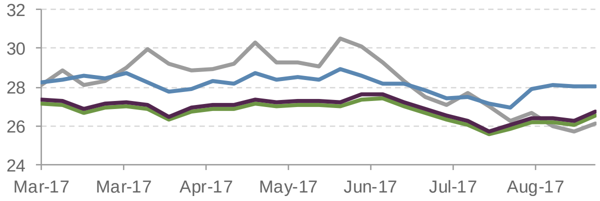
Greater New York ATC darkspreads ($/MWh)



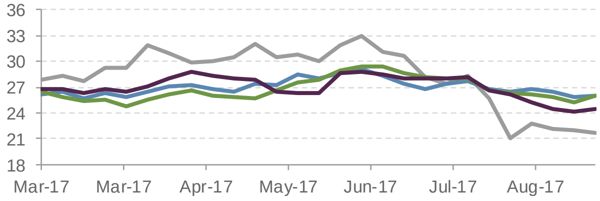
PJM Average ATC darkspreads ($/MWh)



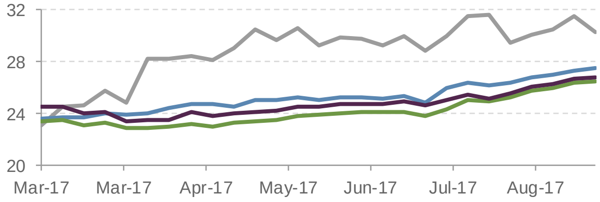
Illinois ATC darkspreads ($/MWh)



TX Average ATC darkspreads ($/MWh)

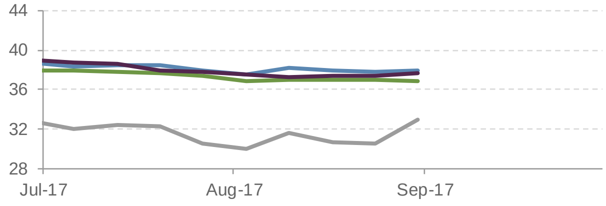


So Cal * ATC darkspreads ($/MWh)

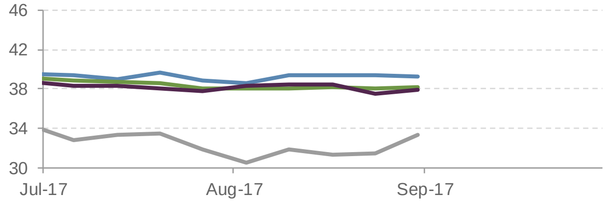


Quarter-to-date

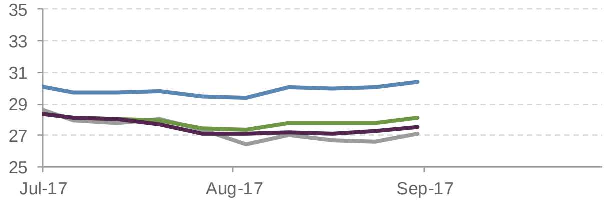
New England ATC darkspreads ($/MWh)



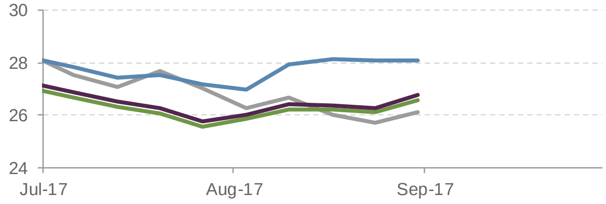
Greater New York ATC darkspreads ($/MWh)



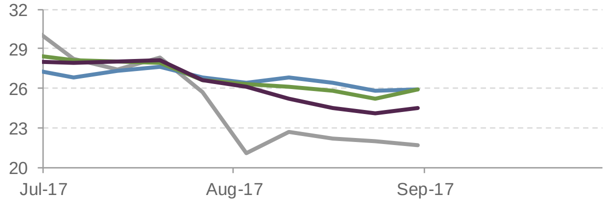
PJM Average ATC darkspreads ($/MWh)



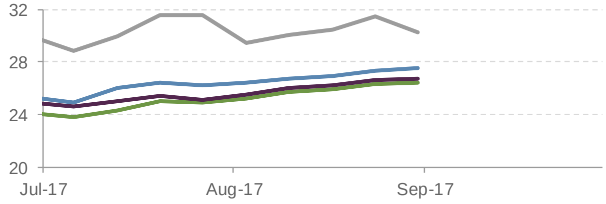
Illinois ATC darkspreads ($/MWh)



TX Average ATC darkspreads ($/MWh)



So Cal * ATC darkspreads ($/MWh)



2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC

Ticker	Rating	Share Price (previous close)
CPN	NEUTRAL	$14.70
DYN	BUY	$9.42
EXC	BUY	$37.87
FE	BUY	$32.58
NRG	BUY	$24.91
PEG	BUY	$46.84

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	185	59.68%	20	10.81%
Neutral	123	39.68%	10	8.13%
Sell	2	0.65%	0	0.00%

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SECTOR UPDATE
September 1, 2017

Electric Power and Utilities

SunTrust Robinson Humphrey

Power/Utilities Monthly Regulatory Tracker

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What's Inside

Figure 1 includes our STRH Electric Power & Utilities Regulatory Tracker. Figure 2 includes our Fact Finder.

What's Incremental To Our View

This report focuses on regulatory trends impacting our utilities coverage, including pending rate cases, status of merger approval processes, and new rate design proposals.

IMPORTANT POINTS

- Specifically, this report highlights the following: (1) a calendar of upcoming milestones in regulatory filings (including their respective Docket numbers); (2) a summary of key stakeholder positions in pending cases; and (3) a quantification of incremental revenue and ROE trends that will have earnings implications for the sector.

- **Key Events In September**:

AEP – Staff Testimony (September 14th) in Michigan rate case [Docket: 18370]; Intervenor Testimony (September 21st) in Oklahoma rate case [Docket: 201700151].
AES – Expected Decision (September) in DPL ESP settlement [Docket: 16-0395].
CMS – Reply Briefs (September 1st) and Expected Decision (September 28th) in proceedings for Early Termination of Palisades PPA [Docket: 18250]; Rebuttal Testimony (September 7th) in Consumers Electric rate case [Docket: 18322].
EIX – Briefs (September 8th) and Reply Briefs (September 29th) in Electric rate case [Docket: A. 16-09-001].
EXC – Hearings (September 5th) in Pepco Maryland rate case [Docket: 9443]; Rebuttal Testimony (September 6th) in Atlantic City Electric rate case [Docket: ER17030308]; Financial True up (September 8th) in Delmarva Maryland rate case [Docket: 9455]; Initial Briefs (September 12th) in ComEd 2016-17 Electric Formula Rate case [Docket: 17-0196].
SO –Deadline to reach settlement with staff (September 5th) on Kemper plant [Docket: 2017-AD-0112]; Hearings (September 6th) and Initial Briefs (September 29th) in Northern Illinois Gas rate case [Docket: 17-0124]; Rebuttal Testimony (September 18th) in Virginia Natural Gas rate case [PUE-2016-00143].
XEL – Staff Testimony (September 12th) and Rebuttal Testimony (September 26th) in Wisconsin Electric and Gas rate cases [Docket: 4220-UR-123].

- Our current **Buy** ideas: AEP, AES, DYN, EIX, EXC

Figure 1: Regulatory Tracker

		Rate Case Filing Components					
		Rate	Equity		Rate		
Company	**Utility**	**Base**	**Ratio**	**ROE**	**Increase**	**Rate Case Status**	
		($MM)			($MM)		
AEP	*AEP Ohio - Extension of ESP					Filed - files for extension through May 2024	11/23/16
	(Docket: 16-1852)					Will not extend PPA Rider. Instead will include OVEC in	
						Generation Energy, Generation Capacity Riders, and Renewable	
						Generation Riders; Requests Distribution Tech Rider based on 10.41% ROE	
						Status Conference	8/16/17
						Stipulation Filed - ROE on DIR reduced to 10.0% from 10.20% but equity ratio	8/25/17
						increased to 50.46% from 48%. OVEC in PPA Rider.	
						Extends ESP term through May 2024	
		Reported	**Adjusted**	**Threshold**			
	*AEP Ohio - 2016 SEET Test	**ROE**	**ROE**	**ROE**		Filed	5/15/17
	(Docket: 17-1230)	13.75%	14.97%	17.69%			
	*SWEPCO - TX	1,239	48.46%	10.00%	69	Filed - includes $106M increase in base revenues less $37M	12/16/16
	(Last Authorized ROE: 9.65%)					of transfer to base rates of amounts currently collected through riders	
	(Docket: 46449)	1,494	48.46%	9.30%	47	Staff Testimony	5/2/17
						ALJ Recommendation	late Sept/early Oct
						Expected Decision	11/9/17
17.1%	*Indiana Michigan - MI	1,015	36.38%	10.60%	52	Filed	5/15/17
	(Last Authorized ROE: 10.20%)					Staff Testimony	9/14/17
	(Docket: 18370)					Rebuttal Testimony	10/2/17
						Hearing	10/18/17
						Initial Briefs	11/20/17
						Reply Briefs	12/7/17
						Proposal For Decision	1/12/18
11.8%	*Kentucky Power - KY	1,192	41.68%	10.31%	70	Filed	6/28/17
	(Last Authorized ROE: 10.25%)	1,192	41.68%	10.31%	63	Revised Filing	8/8/17
	(Docket: 2017-00179)					Staff Testimony	10/3/17
						Rebuttal Testimony	11/3/17
						Hearing	12/6/17
						Expected Decision	January 2018
11%	*PSCo - Oklahoma	2,526	48.50%	10.00%	156	Filed	6/30/17
	(Last Authorized ROE: 9.50%)					Intervenor Testimony	9/21/17
	(Docket: 201700151)					Rebuttal Testimony	10/11/17
						Hearings	10/30/17
						ALJ Report	12/4/17
19.7%	*Indiana Michigan - IN	4,185	46.46%	10.60%	263	Filed	7/26/17
	(Last Authorized ROE: 10.20%)						
	(Docket: 44967)						
	*Purchase of Wind Catcher Project - AR					Filed	7/31/17
	(Docket: 17-038-U)						
	*Purchase of Wind Catcher Project - OK					Filed	7/31/17
	(Docket: 201700267)					Oklahoma AG files motion to dismiss application. Alternatively, if OCC does	8/11/17
						not dismiss, then AG requests OCC to order PSO to bear costs for AG	
						to represent PSO customers' interests.	
						AG motion to dismiss application denied	8/24/17
	*Purchase of Wind Catcher Project - TX					Filed	7/31/17
	(Docket: 47461)					Intervenor Testimony	12/4/17
						Staff Testimony	12/11/17
						Rebuttal Testimony	1/10/18
						Hearings	1/16/18
AES	*DP&L - OH	684	50.00%	10.50%	66	Filed	11/30/15
5.6%	(Docket: 15-1830)						
	*DP&L - OH - Electric Security Plan					Files Updated Stipulation:	3/14/17
	(Docket: 16-0395)					i) annual payment of $105m/yr through DMR for 3 years, with option	
						for Ohio PUC to extend by another 2 years.	
						ii) sale of 862 MW of coal capacity	
						Testimony In Support of Stipulation	3/22/17
						Testimony In Opposition To Stipulation	3/29/17
						Hearings	4/3/17
						Expected Decision	3Q 2017

Sources: Company reports, SunTrust Robinson Humphrey estimates

Figure 1: Regulatory Tracker (Cont'd)

		Rate Case Filing Components					
Company	Utility	Rate Base	Equity Ratio	ROE	Rate Increase	Rate Case Status	
		($MM)			($MM)		
CMS Energy	*Consumers - Electric	10,289	41.14%	10.50%	173	Filed	3/31/17
	(Last Authorized ROE: 10.10%)					Prehearing Conference	5/9/17
	(Docket: 18322)	10,207	41.15%	9.80%	16	Staff Testimony	8/10/17
						Rebuttal Testimony	9/7/17
						Briefs	11/1/17
						Reply Briefs	11/17/17
						Proposal For Decision	1/5/18
						Expected Decision	3/30/18
	Consumers - Gas	4,402	41.27%	10.60%	80	Latest Request- additional rate increases through Investment	3/13/17
	(Last Authorized ROE: 10.30%)					Recovery Mechanism (IRM) of $35m in 2018, $35m in 2019	
	(Docket: 18124)	4,304	41.27%	10.10%	29	Final Decision - additional rate increases through Investment Recovery	7/31/17
						Mechanism (IRM) of $18m in 2018, $18m in 2019 and adopt revenue decoupling	
	*Consumers - Early Termination of Palisades PPA					Filed - securitization of up to $185m (including $172m of Palisades	2/10/17
	(Docket: 18250)					PPA Buyout Payment and other costs related to securitization)	
						from June 1, 2018 to April 11, 2022.	
						Request for Proposal to acquire existing gas capacity to replace	4/3/17
						Palisades PPA issued	
						Staff Testimony - does not recommend approval of regulatory asset	5/16/17
						treatment (securitization) of PPA buyout payment; if commission approves	
						securitization, recommends: 1) regulatory asset treatment of no more than $135m or	
						2) require CMS to file reconciliation of actual replacement costs vs projected, and	
						extend recovery period to 2024.	
						Finds that capacity replacement plan does not result in ratepayer savings and	
						does not entirely mitigate resource adequacy risks	
						Rebuttal Testimony	6/7/17
						Briefs	8/11/17
						Reply Briefs	9/1/17
						Expected Decision	9/28/17
Duke Energy	*Duke - Ohio	1,338	50.75%	10.40%	15	Filed	3/2/17
	(Last Authorized ROE: 9.84%)						
	(Docket: 17-0032)						
	*Duke - Ohio - Electric Security Plan	Full auction based generation				Filed - June 1, 2018 - May 31, 2024	6/1/17
	(Docket: 17-1263)	pricing during ESP term;					
		Extend non-bypassable riders for capital					
		investment and major storm costs					
		Extend non-bypassable price stabilization					
		rider and include OVEC entitlements					
						Staff Testimony	11/6/17
						Hearing	11/13/17
14.90%	*Progress - North Carolina	8,158	53.00%	10.75%	477	Filed - have requested rates to be effective 1/1/18	6/1/17
	(Last Authorized ROE: 10.20%)					Staff Testimony	10/20/17
	(Docket: E-2 Sub 1142)					Rebuttal Testimony	11/6/17
						Hearings	11/20/17
13.60%	*Duke - North Carolina	13,798	53.00%	10.75%	647	Filed	8/25/17
	(Last Authorized ROE: 10.20%)					Rates in Effect	4/1/18
	(Docket: E-7, Sub 1146)						

Sources: Company reports, SunTrust Robinson Humphrey estimates

Figure 1: Regulatory Tracker (Cont'd)

			Rate Case Filing Components					
Company	**Utility**		**Rate Base**	**Equity Ratio**	**ROE**	**Rate Increase**	**Rate Case Status**	
			($MM)			($MM)		
Edison International	*SCE - Rehearing Application on SONGs Settlement Filed by Coalition to Decommission San Onofre (CDSO)						Application For Rehearing Filed	12/18/14
	(Docket: I.12-10-013)							
	*SCE - Petition For Modification on SONGs Settlement Filed By Alliance For Nuclear Responsibility and ORA						Filed - by Alliance For Nuclear Responsibility	4/27/15
							Filed - by ORA	8/11/15
	(Docket: I.12-10-013)						ALJ requests additional information on SONGs settlement	5/9/16
							SCE Files Summary of Settlement Agreement Implementation	6/2/16
							All Parties File Briefs	7/7/16
							All Parties File Reply Briefs	7/21/16
							SCE ordered to confer with parties regarding potential changes to settlement	12/14/16
							Parties agree to engage in mediator and will file to extend settlement deadline of 4/28/17	3/29/17
							Parties ask for an extension of the settlement deadline to 8/15/17	4/26/17
							CPUC grants parties' motion to extend settlement deadline to 8/15/17	5/26/17
							Parties file that they are not able to reach a new settlement	8/15/17
2.70%	*SCE - 2018 General	2018:	23,005			222	Filed	9/1/16
4.20%	Rate Case	2019:	25,212			533		
5.20%	(Docket: A. 16-09-001)	2020:	27,485			570		
0.20%		2018:	22,308			14	ORA Testimony	4/7/17
2.70%		2019:	23,666			354		
4.20%		2020:	25,043			431		
1.90%		2018:	21,308			129	TURN Testimony	5/2/17
-0.60%		2019:	22,666			(27)		
3.40%		2020:	24,243			327		
							Settlement Discussions	May - June 2017
2.50%		2018:				196	Rebuttal Testimony	6/16/17
3.80%		2019:				480		
5.10%		2020:				556		
							Hearings	7/13/17
							Briefs	9/8/17
							Reply Briefs	9/29/17
							Expected Decision	4Q 2017
Exelon	*Atlantic City - Electric		1,371	50.14%	10.10%	70	Filed - Gross amount (including sales & use tax) is $75m	3/30/17
10.60%	(Last Authorized ROE: 9.75%)						Settlement Meeting	7/17/17
	(Docket: ER17030308)		1,104	50.14%	9.00%	5	Intervenor Direct Testimony	8/1/17
							Rebuttal Testimony	9/6/17
							Hearings	10/2/17
							Expected Decision	March 2018
	*ComEd- 2016 Electric Formula Rate		8,807	45.89%	8.34%	18	Filed - reconciliation year	4/13/17
	(Docket: 17-0196)		8,807	45.89%	8.34%	18	Staff Testimony	6/27/17
							Initial Briefs	9/12/17
							Reply Briefs	9/26/17
							Proposed Order	10/19/17
							Expected Decision	4Q 2017
	*ComEd- 2017 Electric Formula Rate		9,662	45.89%	8.40%	78	Filed - filing year	4/13/17
	(Docket: 17-0196)		9,662	45.89%	8.40%	78	Staff Testimony	6/27/17
							Initial Briefs	9/12/17
							Reply Briefs	9/26/17
							Proposed Order	10/19/17
							Expected Decision	4Q 2017
	*Pepco - MD		1,708	50.15%	10.10%	69	Filed	3/24/17
	(Last Authorized ROE: 9.55%)		1,632	50.15%	9.39%	25	Staff Testimony	6/30/17
	(Docket: 9443)						Hearings	9/5/17
							Briefs	10/3/17
							Expected Decision	10/20/17
12.15%	*Delmarva - MD		791	50.68%	10.10%	27	Filed	7/14/17
	(Last Authorized ROE: 9.60%)						Delmarva to file actual financials (10 months) and Supplemental Direct Testimony (if needed)	9/8/17
	(Docket: 9455)						Staff Testimony	10/16/17
							Delmarva to file actual financials (12 months) and Supplemental Direct Testimony (if needed)	11/7/17
							Rebuttal Testimony	11/16/17
							Surrebuttal Testimony	12/4/17
							Hearings	12/11/17
							Briefs	1/9/18
							Expected Decision	2/14/18
4.50%	*Delmarva - DE - Electric		822	50.62%	10.10%	24	Filed	8/17/17
	(Last Authorized ROE: 9.70%)					3	Interim Rates Approved, effective 11/1/17	8/22/17
	(Docket: 17-0977)							
8.80%	*Delmarva - DE - Gas		348	50.62%	10.10%	13	Filed	8/17/17
	(Last Authorized ROE: 9.70%)					3	Interim Rates Approved, effective 11/1/17	8/22/17
	(Docket: 17-0978)							

Sources: Company reports, SunTrust Robinson Humphrey estimates

Figure 1: Regulatory Tracker (Cont'd)

		Rate Case Filing Components					
Company	Utility	Rate Base	Equity Ratio	ROE	Rate Increase	Rate Case Status	
		($MM)			($MM)		
Great Plains	*GXP/WR Merger	*Missouri				Expected Filing for Merger Approval	August 2017
		*Kansas (Docket: 18-KCPE-095-MER)				Filed	8/25/17
		*FERC				Expected Filing for Merger Approval	August 2017
Pinnacle West 3.50%	Arizona Public Service (Last Authorized ROE: 10.00%) (Docket: E-01345A-16-0036)		55.80%	10.00%	95	Settlement Filed - 3-year stay-out (until 6/1/19)	3/1/17
						Cost deferral and $62m step increase on 1/1/19 for Four Corners SCR	
						Cost deferral and rate increase in next rate case for Ocotillo	
						Settlement Approved, with rates in effect on 8/19/17	8/15/17
PNM Resources 2018: 3.90% 2019: 3.40%	*PNM New Mexico (Last Authorized: 9.58%) (Docket: 16-00276)	2,385	49.61%	9.58%	62	Settlement Filed - $32m increase in 2018, additional $30m in 2019	5/5/17
						-$8m financial impact from amortization of excess deferred state taxes over three years	
						-Recovery of SCR investment at Four Corners at debt-only return	
						-Rate design to be addressed in a separate phase	
						Hearing Examiner Recommends NMPRC to reject settlement	5/12/17
		2,385	49.61%	9.58%	62	Modified Settlement Filed. Key financial terms remain same. Removes rate design proposal and eliminates accelerated depreciation proposal.	5/23/17
						Decision Expected	4Q 2017
						Suspension Period Ends	1/6/18
Southern Co	*Mississippi Power - Kemper Plant Construction (596 MW) (Docket: 2009-UA-14)					Settlement Approved - Withdraws pending litigation regarding customer rates relating to Kemper Plant ($2.88bn construction cost cap)	1/24/13
						SO announces additional cost overruns of $186m and extension of expected in service date to end of June 2017; total cost overruns above cap: $3.06bn. Total amount eligible for recovery (including the $600m for the 15% interest that was planned for sale): $4.31bn, of which approximately $900m is already in rates.	6/5/17
						MS PSC passes a motion with the following parameters: (1) Run Kemper as a gas fired plant; and (2) no rate increases for customers.	6/21/17
	*Mississippi Power - Settlement Discussions on Kemper Plant (Docket: 2017-AD-0112)					Docket Opened	7/6/17
						Settlement Filed - no rate increase; no recovery for costs associated with gasifier portion of project; CPCN modified to limit Kemper to natural gas operation; and MS Power to file a reserve margin plan in future.	8/21/17
						Deadline to Reach Settlement with Staff	9/5/17
						Expected Decisions	4Q 2017
	*Georgia Power - Vogtle Units 3 and 4 Cost Approval (1,005 MW) (Docket: 29849)					Seventeenth Semi-Annual Monitoring Report Filed - approve $542m of spending from January 1, 2017 to June 30, 2017. Recommend continued construction of Vogtle with SO as project manager. Revised start up dates: Unit 3 (November 2021) and Unit 4 (November 2022). SO share of additional capital costs: $1.4bn (net of $1.7bn of Toshiba guarantee payments). Total Construction Costs Approved to Date: $3.9bn	8/31/17
						Expected Decision	February 2018
	*Pivotal Utility Holdings - New Jersey (Last Authorized ROE: 10.30%) (Docket: GR16090826)	713	49.03%	10.25%	19	Filed	8/31/16
	*Northern Illinois Gas Company (Last Authorized ROE: 10.17%) (Docket: 17-0124)	2,601	54.21%	10.70%	209	Filed	3/10/17
		2,482	54.21%	9.16%	132	Staff Testimony	6/28/17
						Surrebuttal Testimony	8/30/17
						Hearings	9/6/17
						Initial Briefs	9/29/17
						Reply Briefs	10/11/17
						Expected Decision	2/6/18
	*Virginia Natural Gas (Last Authorized ROE: 10.00%) (Docket: PUE-2016-00143)	737	48.77%	10.25%	31	Filed	3/31/17
		704	48.69%	8.75%	12	Staff Testimony	8/29/17
						Rebuttal Testimony	9/18/17
						Hearings	10/2/17
						Hearing Examiner Recommendation	November 2017
						Expected Decision	End of 2017

Sources: Company reports, SunTrust Robinson Humphrey estimates

Figure 1: Regulatory Tracker (Cont’d)

		Rate Case Filing Components					
Company	Utility	Rate Base	Equity Ratio	ROE	Rate Increase	Rate Case Status	
		($MM)			($MM)		
Xcel Energy	SPS - New Mexico	832	53.97%	10.10%	41	Filed	11/1/16
10.90%	(Docket: 16-00269)					Commission rejects rate case filing- orders SPS to re-file rate application	4/19/17
						SPS files motion for rehearing	4/21/17
						NMPRC denies motion for rehearing	5/10/17
3.60%	*NSP - Wisconsin - Electric	1,219	52.53%	10.00%	25	Filed	5/4/17
	(Last Authorized ROE: 10.00%)					Staff Testimony	9/12/17
	(Docket: 4220-UR-123)					Rebuttal Testimony	9/26/17
						Surrebuttal Testimony	10/3/17
						Hearing	10/5/17
						Expected Decision	4Q 2017
						Rates in Effect	1/1/18
10.00%	*NSP - Wisconsin - Gas	138	52.53%	10.00%	12	Filed	5/4/17
	(Last Authorized ROE: 10.00%)					Staff Testimony	9/12/17
	(Docket: 4220-UR-123)					Rebuttal Testimony	9/26/17
						Surrebuttal Testimony	10/3/17
						Hearing	10/5/17
						Expected Decision	4Q 2017
						Rates in Effect	1/1/18
	*PSCo -Gas - 2018	1,500	55.25%	10.00%	63	Filed - Asked for multi year base rate increase, a stay-out provision, and	6/2/17
	(Last Authorized ROE: 9.50%)					an earnings test through the end of 2020. Final rates expected to be in	
	(Docket: 17AL-0363G)					effect in February 2018.	
	*PSCo - Gas - 2019	2,300	55.25%	10.00%	127	Filed - includes $94m of PSIA revenue to be in base rates.	6/2/17
	(Last Authorized ROE: 9.50%)						
	(Docket: 17AL-0363G)						
	*PSCo - Gas - 2020	2,400	55.25%	10.00%	43	Filed	6/2/17
	(Last Authorized ROE: 9.50%)						
	(Docket: 17AL-0363G)						
	*SPS - Addition of Wind Resources - NM (522 MW)					Filed	3/21/17
	(Docket: 17-00044)					Staff Testimony	10/24/17
						Rebuttal Testimony	11/9/17
						Hearing	11/28/17
						Expected Decision	1Q 2018
	*SPS - Addition of Wind Resources - TX (708 MW)					Filed	3/21/17
	(Docket: 46936)					Intervenor Testimony	10/2/17
						Staff Testimony	10/9/17
						Rebuttal Testimony	10/23/17
						Hearing	11/6/17
						Expected Decision	1Q 2018
7.10%	*SPS - TX	1,900	53.97%	10.25%	66	Filed	8/21/17
	(Docket: 47527)					Expected Decision	2Q 2018

Note: * denotes pending cases.

Sources: Company reports, SunTrust Robinson Humphrey estimates

Figure 2: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder

		VALUATION DATA													FINANCIAL PROJECTIONS										
		Inv.	Price	Price Target		EV/EBITDA			P/E Multiples			Price/	Div.	FCF	14-'19E	Earnings Per Share						Estimated Operating EPS			
COMPANY	Ticker	Rating	8/31/17	12-Month	%	2019E	2018E	2017E	2019E	2018E	2017E	Book	Yield	Yield	CAGR	2019E	2018E	2017E	2016A	2015A	2014A	2Q17A		2Q16A	%
		(A)		(B)										(C)											
ALLIANT ENERGY CORP	LNT		43			10.9	11.9	12.5	19.0	20.0	21.3	2.3	3%		4%	$2.25	$2.13	$2.01	$1.88	$1.87	$1.87				
AMEREN CORPORATION	AEE		60			8.8	9.2	9.7	18.8	19.9	21.6	2.0	3%		4%	$3.19	$3.01	$2.78	$2.69	$2.68	$2.68				
AMERICAN ELECTRIC POWER	**AEP**	**B**	**74**	**78**	**6%**	**10.5**	**10.9**	**11.1**	**17.9**	**19.1**	**20.2**	**2.0**	**3%**	**(4%)**	**4%**	**$4.11**	**$3.85**	**$3.65**	**$3.94**	**$3.69**	**$3.43**	**$0.75**	**A vs**	**$0.95**	**(21%)**
AVISTA CORP	AVA		51			9.5	10.6	11.5	23.8	25.2	26.6	2.0	3%		(0%)	$2.16	$2.04	$1.93	$2.07	$2.17	$2.17				
CENTERPOINT ENERGY INC	**CNP**	**H**	**30**	**27**	**(9%)**	**8.4**	**8.7**	**9.2**	**19.9**	**21.0**	**22.3**	**3.6**	**4%**	**3%**	**3%**	**$1.49**	**$1.41**	**$1.33**	**$1.16**	**$1.10**	**$1.27**	**$0.29**	**A vs**	**$0.17**	**71%**
CMS ENERGY CORP	**CMS**	**H**	**49**	**49**	**1%**	**9.4**	**9.9**	**10.6**	**19.7**	**21.0**	**22.5**	**3.1**	**3%**	**(2%)**	**7%**	**$2.47**	**$2.31**	**$2.16**	**$2.02**	**$1.89**	**$1.77**	**$0.33**	**A vs**	**$0.45**	**(27%)**
CONSOLIDATED EDISON INC	ED		84			9.4	10.0	10.6	18.8	19.8	20.6	1.8	3%		2%	$4.47	$4.26	$4.09	$3.96	$3.96	$3.96				
DTE ENERGY COMPANY	DTE		112			10.3	11.3	12.1	18.6	19.7	20.8	2.1	3%		3%	$6.04	$5.70	$5.39	$5.28	$5.28	$5.28				
DUKE ENERGY CORP	**DUK**	**H**	**87**	**90**	**3%**	**10.3**	**10.7**	**11.1**	**17.2**	**18.0**	**18.9**	**1.5**	**4%**	**(4%)**	**2%**	**$5.09**	**$4.85**	**$4.61**	**$4.69**	**$4.54**	**$4.55**	**$1.01**	**A vs**	**$1.07**	**(6%)**
EDISON INTERNATIONAL	**EIX**	**B**	**80**	**89**	**11%**	**8.5**	**9.0**	**9.4**	**17.1**	**18.5**	**18.9**	**1.8**	**3%**	**(1%)**	**0%**	**$4.69**	**$4.33**	**$4.24**	**$3.97**	**$4.10**	**$4.59**	**$0.85**	**A vs**	**$0.86**	**(1%)**
EVERSOURCE ENERGY	ES		63			10.1	10.4	11.1	17.8	19.0	20.0	1.8	3%		4%	$3.54	$3.31	$3.14	$2.98	$2.96	$2.96				
GREAT PLAINS ENERGY INC	**GXP**	**H**	**31**	**32**	**4%**	**9.3**	**12.7**	**8.6**	**17.1**	**21.9**	**17.7**	**1.4**	**4%**	**2%**	**3%**	**$1.80**	**$1.40**	**$1.73**	**$1.85**	**$1.37**	**$1.57**	**$0.43**	**A vs**	**$0.55**	**(22%)**
P G & E CORP	PCG		70			7.7	8.1	8.6	17.5	18.4	19.1	1.9	3%		1%	$4.01	$3.83	$3.68	$3.71	$3.76	$3.76				
PNM RESOURCES INC	**PNM**	**H**	**42**	**37**	**(13%)**	**10.0**	**10.8**	**10.9**	**20.9**	**24.5**	**22.7**	**1.9**	**2%**	**(5%)**	**6%**	**$2.03**	**$1.73**	**$1.87**	**$1.65**	**$1.64**	**$1.49**	**$0.49**	**A vs**	**$0.40**	**NM**
PINNACLE WEST CAPITAL	**PNW**	**H**	**90**	**87**	**(3%)**	**9.8**	**10.2**	**10.6**	**19.1**	**20.1**	**21.3**	**2.0**	**3%**	**(2%)**	**6%**	**$4.71**	**$4.47**	**$4.22**	**$3.95**	**$3.92**	**$3.58**	**$1.49**	**A vs**	**$1.08**	**NM**
PORTLAND GENERAL ELECTRIC	POR		48			8.3	8.6	9.2	19.0	19.7	21.4	1.8	3%		3%	$2.51	$2.42	$2.23	$2.10	$2.16	$2.16				
PPL CORP	PPL		39			10.4	10.9	12.0	16.1	16.8	18.2	2.6	4%		(0%)	$2.44	$2.33	$2.16	$2.37	$2.45	$2.45				
SCANA CORP	SCG		60			10.9	10.6	11.0	13.7	13.9	14.4	1.5	4%		1%	$4.40	$4.34	$4.19	$4.13	$4.16	$4.16				
SOUTHERN CO/THE	**SO**	**H**	**48**	**52**	**8%**	**10.6**	**11.0**	**11.3**	**15.3**	**16.1**	**16.4**	**1.8**	**5%**	**(8%)**	**2%**	**$3.15**	**$3.00**	**$2.95**	**$2.90**	**$2.89**	**$2.80**	**$0.73**	**A vs**	**$0.74**	**(1%)**
WESTAR ENERGY INC	WR		51			9.7	10.2	10.7	18.2	19.8	20.5	1.9	3%		3%	$2.82	$2.59	$2.50	$2.47	$2.42	$2.42				
WEC ENERGY GROUP INC	WEC		65			10.3	11.1	11.7	19.0	20.0	21.0	2.2	3%		4%	$3.43	$3.27	$3.11	$2.95	$2.88	$2.88				
XCEL ENERGY INC	**XEL**	**H**	**50**	**47**	**(5%)**	**9.6**	**10.0**	**10.6**	**19.0**	**20.1**	**21.2**	**2.3**	**3%**	**(4%)**	**5%**	**$2.60**	**$2.46**	**$2.33**	**$2.21**	**$2.09**	**$2.03**	**$0.45**	**A vs**	**$0.39**	**15%**
Regulated Utilities Average						9.7	10.3	10.7	18.0	19.3	19.9	2.0	3%	(2%)	3%										1%
BLACK HILLS CORP	BKH		70			9.8	10.1	10.6	18.2	18.7	20.0	2.1	3%		4%	$3.87	$3.76	$3.52	$3.06	$3.19	$3.19				
DOMINION ENERGY INC	D		79			11.5	12.5	13.9	18.4	19.4	21.6	2.9	4%		2%	$4.28	$4.07	$3.65	$3.81	$3.80	$3.80				
ENTERGY CORP	ETR		79			8.0	8.3	8.6	15.9	16.3	13.8	1.7	4%		(7%)	$4.98	$4.85	$5.74	$6.89	$7.11	$7.11				
EXELON CORP	**EXC**	**B**	**38**	**41**	**8%**	**8.5**	**8.4**	**8.7**	**13.8**	**13.4**	**14.0**	**1.2**	**3%**	**(2%)**	**3%**	**$2.75**	**$2.83**	**$2.70**	**$2.68**	**$2.49**	**$2.39**	**$0.54**	**A vs**	**$0.65**	**(17%)**
FIRSTENERGY CORP	FE		33			8.6	8.6	8.5	13.5	12.9	11.6	2.3	4%		(2%)	$2.41	$2.53	$2.81	$2.64	$2.62	$2.62				
NEXTERA ENERGY INC	NEE		151			10.1	10.9	11.4	19.4	20.9	22.4	2.6	3%		6%	$7.77	$7.22	$6.73	$6.23	$5.75	$5.75				
MDU RESOURCES GROUP INC	MDU		27			9.8	10.2	11.0	18.9	19.8	22.3	2.4	3%		(5%)	$1.43	$1.36	$1.21	$1.14	$1.87	$1.87				
PUBLIC SERVICE ENTERPRISE (	PEG		47			8.9	9.2	9.2	15.8	16.0	16.0	1.8	4%		0%	$2.96	$2.94	$2.92	$2.88	$2.91	$2.91				
SEMPRA ENERGY	SRE		118			10.8	12.1	13.0	17.7	21.2	22.6	1.9	3%		6%	$6.67	$5.57	$5.21	$4.83	$5.05	$5.05				
Hybrid Utilities Average						9.5	10.0	10.6	16.8	17.6	18.3	2.1	3%	(2%)	1%										(17%)
AES CORP	**AES**	**B**	**11**	**15**	**36%**	**7.0**	**7.2**	**7.8**	**8.4**	**8.8**	**10.5**	**1.1**	**4%**	**19%**	**0%**	**$1.32**	**$1.25**	**$1.05**	**$0.98**	**$1.22**	**$1.30**	**$0.25**	**A vs**	**$0.17**	**47%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**2%**	**8.5**	**8.6**	**9.3**	**NM**	**NM**	**NM**	**1.7**	**NA**	**10%**	**NM**	**$0.89**	**$0.80**	**$0.26**	**($0.08)**	**$1.06**	**$0.76**	**($0.35)**	**A vs**	**$0.09**	**NM**
DYNEGY INC	**DYN**	**B**	**9**	**11**	**17%**	**7.3**	**6.4**	**8.3**	**NM**	**NM**	**NM**	**0.6**	**NA**	**24%**	**NM**	**($0.46)**	**$0.53**	**($1.63)**	**($2.52)**	**$1.95**	**($2.51)**	**($1.31)**	**A vs**	**($1.23)**	**NM**
NRG ENERGY INC	**NRG**	**H**	**25**	**23**	**(8%)**	**9.4**	**10.0**	**10.3**	**NM**	**NM**	**NM**	**2.2**	**0%**	**14%**	**NM**	**$1.59**	**$1.10**	**$0.93**	**$1.64**	**($0.34)**	**$0.94**	**$0.41**	**A vs**	**$0.84**	**NM**
ORMAT TECHNOLOGIES INC	ORA		57			9.8	10.1	11.0	21.0	22.6	24.4	2.3	NA		4%	$2.73	$2.54	$2.36	$2.10	$2.19	$2.19				
VISTRA ENERGY CORP	VST		18			8.4	8.2	8.0	39.3	23.8	30.4	1.1	NA		NM	45%	75%	$0.58	NM	NM	NM				
Independent Power Average						8.4	8.4	9.1	14.7	15.7	17.4	1.6	2%	17%	2%										47%
STRH Power Index						9.7	10.2	10.6	17.6	18.8	19.4	2.0	3%	(3%)	2%										4%
S&P 500	SPX		2472						18.9	15.5	17.0		2%			130.62	159.84	145.19	130.62	110.64	113.60				

Notes:

(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.

(B) Near-term price target over the next 12 months.

(C) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Reports.

Figure 2: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder (Cont'd)

			PRICE PERFORMANCE										TRADING DATA			LEVERAGE/PROFITABILITY			OWNERSHIP DATA			
		Inv.	Price	52-Week Range									30 Wk. Mov. Avg		Daily	Total	ROE	ROIC	Shares	Market	Ownership	
COMPANY	Ticker	Rating	8/31/17	Hi	Low	YTD	2016	2015	2014	2013	2012	2011	Act.	+/-	Vol.	D/C	2017E	2017E	Out.	Cap.	Insider	Instit.
														(A)	(B)				(mm)	($mm)	(C)	
ALLIANT ENERGY CORP	LNT		43	43	35	13%	21%	(6%)	29%	18%	(0%)	20%	$40	6%	1,112	52%	11%	5%	231.1	$9,876	0%	72%
AMEREN CORPORATION	AEE		60	61	47	15%	21%	(6%)	28%	18%	(7%)	18%	$56	8%	794	53%	NM	6%	242.6	$14,556	0%	73%
AMERICAN ELECTRIC POWER	**AEP**	**B**	**74**	**74**	**58**	**17%**	**8%**	**(4%)**	**30%**	**10%**	**3%**	**15%**	**69**	**7%**	**1,813**	**54%**	**10%**	**4%**	**491.8**	**36,214**	**0%**	**76%**
AVISTA CORP	AVA		51	53	38	29%	13%	0%	25%	17%	(6%)	14%	43	19%	382	53%	NM	NM	64.4	3,311	2%	74%
CENTERPOINT ENERGY INC	**CNP**	**H**	**30**	**30**	**22**	**20%**	**34%**	**(22%)**	**1%**	**20%**	**(4%)**	**28%**	**28**	**6%**	**2,258**	**71%**	**16%**	**6%**	**431.0**	**12,767**	**0%**	**85%**
CMS ENERGY CORP	**CMS**	**H**	**49**	**49**	**39**	**17%**	**15%**	**4%**	**30%**	**10%**	**10%**	**19%**	**46**	**6%**	**1,111**	**69%**	**14%**	**6%**	**282.0**	**13,689**	**1%**	**98%**
CONSOLIDATED EDISON INC	ED		84	85	69	15%	14%	(3%)	19%	(0%)	(10%)	25%	80	6%	846	53%	8%	5%	309.8	26,109	0%	59%
DTE ENERGY COMPANY	DTE		112	113	90	14%	23%	(7%)	30%	11%	10%	20%	105	7%	553	55%	10%	5%	179.4	20,149	1%	75%
DUKE ENERGY CORP	**DUK**	**H**	**87**	**88**	**72**	**13%**	**9%**	**(15%)**	**21%**	**8%**	**(3%)**	**24%**	**83**	**5%**	**1,627**	**56%**	**8%**	**5%**	**699.9**	**61,100**	**0%**	**61%**
EDISON INTERNATIONAL	**EIX**	**B**	**80**	**83**	**67**	**12%**	**21%**	**(10%)**	**41%**	**2%**	**9%**	**7%**	**79**	**2%**	**1,238**	**42%**	**9%**	**6%**	**325.8**	**26,124**	**0%**	**88%**
EVERSOURCE ENERGY	ES		63	64	51	14%	8%	(5%)	26%	8%	8%	13%	60	5%	1,079	51%	9%	6%	316.9	19,964	0%	82%
GREAT PLAINS ENERGY INC	**GXP**	**H**	**31**	**32**	**26**	**12%**	**0%**	**(4%)**	**17%**	**19%**	**(7%)**	**12%**	**29**	**5%**	**1,444**	**58%**	**4%**	**4%**	**272.0**	**13,872**	**0%**	**74%**
P G & E CORP	PCG		70	71	58	16%	14%	(0%)	32%	0%	(3%)	(14%)	67	5%	1,553	49%	10%	6%	512.8	36,092	0%	90%
PNM RESOURCES INC	**PNM**	**H**	**42**	**43**	**31**	**24%**	**12%**	**3%**	**23%**	**18%**	**13%**	**40%**	**38**	**12%**	**392**	**59%**	**8%**	**5%**	**79.7**	**3,377**	**1%**	**100%**
PINNACLE WEST CAPITAL	**PNW**	**H**	**90**	**91**	**71**	**15%**	**21%**	**(6%)**	**29%**	**4%**	**6%**	**16%**	**85**	**6%**	**512**	**49%**	**10%**	**6%**	**111.6**	**10,038**	**0%**	**93%**
PORTLAND GENERAL ELECTRIC	POR		48	48	40	10%	19%	(4%)	25%	10%	8%	17%	45	5%	382	50%	8%	5%	89.1	4,231	1%	102%
PPL CORP	PPL		39	40	32	15%	(0%)	(6%)	21%	5%	(3%)	12%	38	3%	1,824	66%	14%	6%	680.8	26,714	0%	78%
SCANA CORP	SCG		60	76	59	(17%)	21%	0%	29%	3%	1%	11%	66	(9%)	1,176	57%	10%	5%	142.9	8,631	0%	72%
SOUTHERN CO/THE	**SO**	**H**	**48**	**54**	**46**	**(2%)**	**5%**	**(5%)**	**19%**	**(4%)**	**(8%)**	**21%**	**49**	**(2%)**	**2,803**	**61%**	**11%**	**6%**	**995.2**	**48,030**	**0%**	**58%**
WESTAR ENERGY INC	WR		51	58	49	(9%)	33%	3%	28%	12%	(1%)	14%	53	(3%)	592	52%	10%	6%	142.1	7,291	1%	89%
WEC ENERGY GROUP INC	WEC		65	66	54	11%	14%	(3%)	28%	12%	5%	19%	61	6%	1,044	53%	11%	6%	315.6	20,582	0%	75%
XCEL ENERGY INC	**XEL**	**H**	**50**	**50**	**38**	**22%**	**13%**	**(0%)**	**29%**	**5%**	**(3%)**	**17%**	**46**	**9%**	**1,906**	**57%**	**11%**	**6%**	**507.8**	**25,134**	**0%**	**78%**
Regulated Utilities Average						13%	15%	(4%)	25%	9%	1%	17%		5%		55%	10%	6%			0%	80%
BLACK HILLS CORP	BKH		70	72	55	15%	32%	(12%)	1%	44%	8%	12%	68	4%	159	64%	10%	6%	53.5	3,764	1%	101%
DOMINION ENERGY INC	D		79	82	70	3%	13%	(12%)	19%	25%	(2%)	24%	77	2%	2,005	66%	14%	5%	642.6	50,616	0%	76%
ENTERGY CORP	ETR		79	82	67	8%	7%	(22%)	38%	(1%)	(13%)	3%	76	4%	848	65%	12%	5%	179.5	14,213	0%	91%
EXELON CORP	**EXC**	**B**	**38**	**39**	**30**	**7%**	**28%**	**(25%)**	**35%**	**(8%)**	**(31%)**	**4%**	**36**	**5%**	**3,893**	**54%**	**9%**	**5%**	**960.1**	**36,359**	**0%**	**86%**
FIRSTENERGY CORP	FE		33	35	28	5%	(3%)	(19%)	18%	(21%)	(6%)	20%	31	6%	2,938	78%	18%	7%	444.3	14,475	0%	106%
NEXTERA ENERGY INC	NEE		151	151	110	26%	15%	(2%)	24%	24%	14%	17%	137	10%	1,177	56%	12%	6%	469.2	70,624	0%	81%
MDU RESOURCES GROUP INC	MDU		27	30	23	(6%)	57%	(22%)	(23%)	44%	(1%)	6%	27	1%	516	44%	NM	7%	195.3	5,281	1%	66%
PUBLIC SERVICE ENTERPRISE (	PEG		47	47	39	7%	13%	(7%)	29%	5%	(7%)	4%	44	5%	1,588	49%	11%	6%	505.9	23,696	0%	74%
SEMPRA ENERGY	SRE		118	120	93	17%	7%	(16%)	24%	27%	29%	5%	112	5%	784	50%	10%	4%	251.1	29,610	0%	93%
Hybrid Utilities Average						9%	19%	(15%)	18%	15%	(1%)	11%		5%		59%	12%	6%			0%	86%
AES CORP	**AES**	**B**	**11**	**13**	**11**	**(5%)**	**21%**	**(31%)**	**(5%)**	**36%**	**(10%)**	**(3%)**	**11**	**(3%)**	**4,084**	**66%**	**10%**	**4%**	**660.3**	**7,289**	**0%**	**104%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**9**	**29%**	**(21%)**	**(35%)**	**13%**	**8%**	**11%**	**22%**	**$12**	**19%**	**17,972**	**79%**	**3%**	**5%**	**360.7**	**$5,302**	**1%**	**109%**
DYNEGY INC	**DYN**	**B**	**9**	**14**	**6**	**12%**	**(37%)**	**(56%)**	**41%**	**12%**	**(4%)**	**NM**	**8**	**16%**	**1,750**	**82%**	**(11%)**	**4%**	**131.4**	**1,239**	**1%**	**126%**
NRG ENERGY INC	**NRG**	**H**	**25**	**26**	**10**	**103%**	**4%**	**(56%)**	**(6%)**	**25%**	**27%**	**(7%)**	**19**	**32%**	**5,096**	**74%**	**8%**	**3%**	**316.5**	**7,883**	**1%**	**91%**
ORMAT TECHNOLOGIES INC	ORA		57	61	45	7%	47%	34%	(0%)	41%	7%	(39%)	58	(0%)	165	41%	10%	6%	49.9	2,867	0%	62%
VISTRA ENERGY CORP	VST		18	18	12	18%	NM	NM	NM	NM	NM	NM	16	9%	819	41%	NM	4%	427.6	7,568	0%	98%
Independent Power Average						27%	3%	(29%)	9%	24%	6%	(7%)		13%		68%	4%	4%			0%	98%
STRH Power Index						14%	15%	(10%)	21%	13%	1%	12%		6%		57%	10%	5%			0%	83%
S&P 500	SPX		$2,472	$2,491	$2,084	10%	9%	(1%)	11%	30%	13%	(0%)										

Notes:

(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.

(B) % current price above or below 30-wk. moving average.

(C) In thousands.

(D) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Reports.

VALUATION

AEP
Assuming an 18.9x P/E multiple (a 10% premium to the peer group to reflect the above average earnings growth profile) on our 2019 estimate of $4.11, we derive our price target of $78.

AES
Assuming an 11.4x P/E multiple (which would still imply a 10% “conglomerate” discount to the peer group) on our 2019 estimate of $1.32, we derive our price target of $15.

CMS
Assuming a 19.8x P/E multiple (a 10% premium to the peer group to reflect the above average growth outlook) on our 2019 estimate of $2.47, we derive our price target of $49.

CNP
Based on the market value of CNP’s ownership in ENBL, we derive an $8.0/share value. Factoring a 17.6x P/E multiple (in line with the peer group) on our 2019 Utility estimate of $1.09, we derive a $19.2/share value. Consequently, our sum of the parts price target is $27.

CPN
Based on the company's take out price, and our assumption that a higher bid will not emerge, we derive our price target of $15.

DUK
Assuming a 17.7x P/E multiple (in line with the peer group) on our 2019 estimate of $5.09, we derive our price target of $90.

DYN
Assuming an EV/EBITDA multiple of 7.8x (a 3% discount to the peer group to reflect the higher leverage at the company) on our 2019 EBITDA estimate of $1.30bn, coupled with implied net debt of $8.26bn (which factors in all the announced asset sales), we derive our price target of $11.

EIX
Assuming a 19.0x P/E multiple (a 7% premium to the peer group to reflect the company’s above average earnings and dividend growth profile) on our 2019 estimate of $4.69, we derive our price target of $89.

EXC
Assuming a 14.8x P/E multiple (in line with the peer group) on our 2019 estimate of $2.75, we derive our price target of $41.

GXP
Assuming a 17.4x P/E multiple (a 2% discount to the peer group to reflect the uncertainties around the final merger approval) on our 2019 estimate of $1.80, we derive our price target of $32.

NRG
Based on the current market value of NRG's ownership in NYLD, we derive a $5/share equity value. Applying a 9.0x EV/EBITDA multiple (a 10% premium to the current peer average to reflect the potential upside from the successful execution of the Transformation Plan) to our residual NRG 2019 EBITDA estimate of $1.90 billion, coupled with implied residual Net Debt of $11.4 billion, we derive an $18/share value for the residual NRG. Consequently, our price target is $23.

PNM
Assuming an 18.1x P/E multiple (in line with the small cap peer group) on our 2019 estimate of $2.03, we derive our price target of $37.

PNW
Assuming a P/E multiple of 18.4x (in line with other small / mid cap peers) on our 2019 estimate of $4.71, we derive our price target of $87.

SO
Assuming a 16.5x P/E multiple (a 5% discount to the large cap peer group, reflecting ongoing uncertainty around the Vogtle project) on our 2019 estimate of $3.15, we derive our price target of $52.

XEL
Assuming a 18.0x P/E (in line with the peer group) on our 2019 EPS estimate of $2.60, we derive our price target of $47.

RISKS

AEP

- Final resolution of pending regulatory issues.
- Future earnings power post merchant exit
- Impact of proposed and future EPA regulations.

AES

- Potential regulatory/economic changes in key international markets.
- Investor sentiment regarding emerging/international markets.
- Successful execution of portfolio restructuring strategy.

CMS

- Outlook for Retail Open Access in Michigan.
- Change in the regulatory regime.
- Load growth trends.

CNP

- Macro trends and growth outlook for the MLP portfolio.
- Load growth trends in service territories.
- Ability to restructure MLP ownership position.

CPN

- Outlook for future spark spreads.
- Timing of additional EPA regulations.
- Electric load growth trends.

DUK

- O&M cost management.
- Future electric load growth trends.
- Impact of future regulatory initiatives.

DYN

- Outlook for forward commodity curves.
- Integration of the pending acquisitions.
- Final outcome of debt restructuring discussions.
- Implication of future EPA regulations.

EIX

- Capital investment and growth plans for non-utility operations.
- Final CPUC decision on applications to reopen SONGS retirement settlement.
- Outcome of pending and future regulatory cases.

EXC

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

GXP

- Load growth outlook in service territories.
- Outcome of pending rate cases.
- Impact of higher property taxes and transmission costs.
- Completion of the WR acquisition.

NRG

- Execution of the Reset plan.
- Outlook for forward commodity curves.

PNM

- Final New Mexico PRC decision on the rate case settlement.
- Electric load growth trends in service territories.

PNW

- Impact of energy efficiency and distributed generation programs.
- Any regulatory changes regarding distributed generation
- Load growth outlook

SO

- Outlook for load growth.
- Dilution from additional equity issuance.
- Potential for further delays and cost increases at the large construction projects.
- Higher than expected accretion from AGL acquisition.

XEL

- Outcome of pending and future rate cases.
- Outlook for future capital expenditure (and rate base) growth.
- Load growth trends in service territories.

Companies Mentioned in This Note

American Electric Power Company, Inc. (AEP, $73.63, Buy, Ali Agha)
The AES Corporation (AES, $11.04, Buy, Ali Agha)
CMS Energy Corporation (CMS, $48.54, Hold, Ali Agha)
CenterPoint Energy, Inc. (CNP, $29.62, Hold, Ali Agha)
Calpine Corporation (CPN, $14.70, Hold, Ali Agha)
Duke Energy Corporation (DUK, $87.30, Hold, Ali Agha)
Dynegy Inc (DYN, $9.42, Buy, Ali Agha)
Edison International (EIX, $80.18, Buy, Ali Agha)
Exelon Corporation (EXC, $37.87, Buy, Ali Agha)
Great Plains Energy (GXP, $30.69, Hold, Ali Agha)
NRG Energy, Inc (NRG, $24.91, Hold, Ali Agha)
PNM Resources, Inc. (PNM, $42.40, Hold, Ali Agha)
Pinnacle West Capital Corporation (PNW, $89.97, Hold, Ali Agha)
Southern Company (SO, $48.26, Hold, Ali Agha)
Xcel Energy, Inc. (XEL, $49.50, Hold, Ali Agha)
Enable Midstream (ENBL, $14.76, Not Rated)

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Required Disclosures

Analyst compensation is based upon stock price performance, quality of analysis, communication skills, and the overall revenue and profitability of the firm, including investment banking revenue.

As a matter of policy and practice, the firm prohibits the offering of favorable research, a specific research rating or a specific target price as consideration or inducement for the receipt of business or compensation. In addition, associated persons preparing research reports are prohibited from owning securities in the subject companies.

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STRH Ratings System for Equity Securities

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The rating system effective as of Oct. 7, 2016:

STRH Rating System for Equity Securities

SunTrust Robinson Humphrey (STRH) rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

SunTrust Robinson Humphrey ratings distribution (as of 09/01/2017):

Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	415	59.20%	Buy	130	31.33%
Hold/Neutral	282	40.23%	Hold/Neutral	58	20.57%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

Other Disclosures

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RESEARCH SUMMARY
September 1, 2017

Daily Spotlight

SunTrust Robinson Humphrey

At a Glance

Symbol	Rating		Est.	Price Target	
	Prior	Current		Prior	Current
PRICE TARGET CHANGES					
EMN	H	H	▲	$80.00	$90.00
FRED	H	H	▼	$8.00	$7.00
GCO	B	B	▼	$42.00	$33.00
COMPANY UPDATES					
ATH	B	B		$66.00	$66.00
HAWK	B	B	▲	$50.00	$50.00
HURN	B	B		$48.00	$48.00
IHG	H	H		$51.00	$51.00
MGNX	B	B		$26.00	$26.00
OLN	B	B		$36.00	$36.00
OXM	B	B	▲▼	$66.00	$66.00

INDUSTRY UPDATES

Biotechnology - The Biotech Monthly Monitor — Preview for September 2017

Electric Power and Utilities - Power/Utilities Monthly Regulatory Tracker

Restaurants - INVITE — (9/8) Restaurant Commodity Outlook Conference Call with David Maloni

Symbol	Rating		Est.	Price Target	
	Prior	Current		Prior	Current
COVERAGE DROPPED/SUSPENDED					
GDEN	H	NA		--	

Morning Meeting Highlights

Eastman Chemical Co. (EMN, $86.20, Hold) - Relatively Unscathed by Hurricane Harvey - We expect higher Chemical Intermediates profitability over the next 4-6 weeks due to rising spot ethylene prices and olefins spreads. Propylene prices are rising due to outages in Texas, while propane prices have weakened due to reduced demand and the closing of export terminals. We caution that disrupted supply chains and distribution networks may erode the gains in intermediates, and that volatility-prone olefins earnings could weaken again in 4Q as markets recover from Hurricane Harvey. We raise our PT to $90, 4.4% upside from current share price. With valuation of 8.4x 2018E EBITDA, Hold. - **James Sheehan**

Other Focus Items Today

Consumer

Golden Entertainment Inc. (GDEN, $22.81, NA) - Dropping Coverage of Golden Entertainment Inc. - We are dropping coverage of Golden Entertainment Inc. (GDEN) due to a reallocation of resources. The last rating on the stock was Hold. Research issued before 9/1/2017, the date of coverage termination, should not be relied upon going forward. - **C. Patrick Scholes**

Oxford Industries, Inc. (OXM, $57.81, Buy) - Expect Momentum to Build for Holiday - OXM beat consensus by a penny, led by strength at TB. LP profitability robust, but comps light. Management has identified and addressed areas of potential improvement at LP, and should see initiatives bear fruit in 4Q. Near term, the division just completed its After-Party Sale, which was a success (and testament to brand strength) and likely ensures that it meets internal 3Q target. Continue to believe that TB and LP are uniquely positioned to gain momentum both online and in-stores. Reiterate Buy, $66 PT (16.2x fwd PE vs. 17.2x historical avg). - **Pamela Quintiliano**

Genesco, Inc. (GCO, $21.15, Buy) - Encouraged by Journeys Improvements - Trends at Journeys and Schuh (58% of F17 revs) built in F2Q and August. Positive response and store traffic on new assortments at Journeys was offset by Lids (30% revs) which had weak traffic on an uninspiring sports calendar and soft hat sales. Trends at Lids worsened 3QTD, with tough Oct comps still ahead (on ly's Cubs win). That said, guidance assumes ongoing struggles. At 5.5x fwd PE, GCO has the lowest multiple in our universe despite operating unique concepts and has initiatives in place to combat challenges LT. Reiterate Buy, lowering PT to $33 (4x EV/EBITDA) on potential NT challenges. - **Pamela Quintiliano**

InterContinental Hotels Group, PLC (IHG, $49.56, Hold) - Our takeaways from today's investor breakfast - **C. Patrick Scholes**

Restaurants - INVITE — (9/8) Restaurant Commodity Outlook Conference Call with David Maloni - **Jake Bartlett**

Fred's Inc. (FRED, $6.03, Hold) - August Comps In Line - Although FRED's August same store sales were still negative (-0.5%), the results were consistent with recent trends on a 1-year basis, and slightly improved on a 2, 3 year basis. Still, while certain categories are growing, overall sales are being dragged down by negative trends in consumables. - **David Magee**

Electric Power and Utilities

Electric Power and Utilities - Power/Utilities Monthly Regulatory Tracker - This report focuses on regulatory trends impacting our utilities coverage, including pending rate cases, status of merger approval processes, and new rate design proposals. - **Ali Agha**

Financials

Athene Holding Ltd. (ATH, $53.00, Buy) - New Data Highlights Momentum in Pension Market - **Mark Hughes**

Healthcare

The Biotech Monthly Monitor — Preview for September 2017 - A recent pickup in M&A activity is likely to have positive read-through for late-stage assets, and with a cooperative FDA we believe a new product cycle is underway (32 approvals YTD vs. 22 in 2016). These factors are leading to improved investor sentiment in biotech (reflected in YTD performance ~+37%/26% BTK/NBI vs. 10% S&P) and are likely to further increase generalist participation in the space. While Aug. fund-flow has swung slightly negative, we believe more clarity over healthcare policy, positive catalyst flow, and good earnings performance should drive investors to overweight biotech.

MacroGenics, Inc. (MGNX, $18.91, Buy) - JNJ Returns Duvortuxizumab — Negative, but No Read Through to Platform - Today JNJ handed back duvortuxizumab, the CD19xCD3 T cell redirecting bispecific antibody, to MacroGenics. The decision was related to 1) side effects (neurotoxicity related to CD19 treatments) and 2) the increasingly competitive nature of the CD19 market (with multiple CAR Ts approaching launch). On the positive, JNJ remains committed to the partnership (with MGD015 entering phase 1 in 2018), and duvortuxizumab's side effects seem related to the target and not MacroGenics' platform. While this is a negative development we remain confident in MacroGenics' pipeline, and reiterate BUY/$26 PT. - **Peter Lawson**

Industrials

Eastman Chemical Co. (EMN, $86.20, Hold) - Relatively Unscathed by Hurricane Harvey - We expect higher Chemical Intermediates profitability over the next 4-6 weeks due to rising spot ethylene prices and olefins spreads. Propylene prices are rising due to outages in Texas, while propane prices have weakened due to reduced demand and the closing of export terminals. We caution that disrupted supply chains and distribution networks may erode the gains in intermediates, and that volatility-prone olefins earnings could weaken again in 4Q as markets recover from Hurricane Harvey. We raise our PT to $90, 4.4% upside from current share price. With valuation of 8.4x 2018E EBITDA, Hold. - **James Sheehan**

Olin Corp. (OLN, $32.23, Buy) - Raises Price Increase Nomination and Declares Production Shipment Force Majeure - **Jason Freuchtel**

IT Services

Blackhawk Network Holdings, Inc. (HAWK, $44.80, Buy) - Bullish On Strategic M&A. Buy. - We reiterate our Buy and maintain our $50 price target (15.8x C18E EPS). We like the CashStar acquisition, as it signals a continued expansion into Digital. CashStar's 25%+ revenue growth boosts our confidence in Blackhawks' ability to achieve its l-t 5%-8% Retail growth target. We update our model to reflect the acquisition. Our new C17 and C18 revenue and EBITDA estimates are $1,124m/$246m and $1,261m/$298m (Prior: $1,109m/$243m and $1,217m/$285m; Street: $1,082m/$237m and $1,195m/$278m). - **Oscar Turner**

Huron Consulting Group Inc. (HURN, $29.90, Buy) - Questions for Management Post-2Q17 Results - **Tobey Sommer**

Management Access / NDRs

Date	Event	Analyst(s)	Region
9/06/17	Group Breakfast with Revance Therapeutics, Inc. (RVNC)	Boris	BOSTON
9/06/17	Shutterfly, Inc. (SFLY) - New York	Squali	NEW YORK
9/06/17	Synovus Financial Corp. (SNV) Headquarters Visit - Atlanta	Demba	SOUTHEAST
9/06/17-9/07/17	Foundation Building Materials, Inc. (FBM) – San Francisco & Portland	K. Hughes	WEST COAST
9/07/17	Mirati Therapeutics, Inc. (MRTX) - Toronto	Lawson	CANADA
9/07/17-9/08/17	Malibu Boats, Inc. (MBUU) - Field Trip - Surf Expo Meetings/Product Demo - Orlando	Swartz	SOUTHEAST
9/08/17	Mirati Therapeutics, Inc. (MRTX) - Madison & Chicago	Lawson	MIDWEST
9/11/17	Salesforce.com, inc. (CRM) - Dallas	Tillman	TEXAS
9/11/17	The Rubicon Project, Inc. (RUBI) - New York	Thornton	NEW YORK
9/11/17	Textainer Group Holdings Ltd (TGH) - Boston	Mewhirter	BOSTON
9/11/17	Probiodrug AG (PBD.EN) - New York	Not Covered	NEW YORK
9/12/17	Probiodrug AG (PBD.EN) - Boston	Not Covered	BOSTON
9/12/17	Huron Consulting Group, Inc. (HURN) - Boston	Sommer	BOSTON
9/12/17	Distributor Bus Tour - Atlanta	K Hughes	SOUTHEAST
9/12/17	Kirkland's, Inc. (KIRK) - Mid-Atlantic	Magee	MID-ATLANTIC
9/12/17-9/13/17	Heritage Insurance Holdings, Inc. (HRTG) - KC/St Louis/Detroit	M. Hughes	MIDWEST
9/12/17-9/13/17	Textainer Group Holdings Ltd (TGH) - Canada	Mewhirter	CANADA
9/13/17	Zions Bancorporation (ZION) - Denver	Demba	WEST COAST
9/13/17	Kirkland's, Inc. (KIRK) - Cleveland	Magee	MIDWEST
9/13/17	First American Financial Corporation (FAF) - Mid-Atlantic	M Hughes	MID-ATLANTIC
9/13/17	Fox Factory Holding Corp. (FOXF) - Boston	Swartz	BOSTON
9/13/17	Burlington Stores, Inc. (BURL) - Philadelphia	Quintiliano	MID-ATLANTIC
9/13/17	Korn/Ferry International (KFY) – New York	Sommer	NEW YORK
9/13/17-9/14/17	MGP Ingredients, Inc. (MGPI) - West Coast	Chappell	WEST COAST
9/13/17-9/14/17	Texas Bank Summit - Dallas, TX	Demba/Young	TEXAS
9/13/17-9/14/17	Oxford Industries, Inc. (OXM) - TX	Quintiliano	TEXAS
9/13/17-9/14/17	Fidelity National Information Services (FIS) - Texas	Jeffrey	TEXAS
9/14/17	Korn/Ferry International (KFY) – Boston	Sommer	BOSTON
9/14/17	Western Union Company (WU) - Texas	Jeffrey	TEXAS
9/14/17	Burlington Stores, Inc. (BURL) - Toronto	Quintiliano	CANADA
9/14/17	Workiva, Inc. (WK) - Boston	Tillman	BOSTON
9/14/17	Heritage Insurance Holdings, Inc. (HRTG) - Boston	M. Hughes	BOSTON
9/15/17	Heritage Insurance Holdings, Inc. (HRTG) - Mid-Atlantic	M. Hughes	MID-ATLANTIC
9/15/17	T-Mobile US, Inc. (TMUS) - Group Lunch - New York	Miller	NEW YORK

Analyst Marketing

Date	Event	Analyst(s)	Region
9/05/17-9/06/17	- John Boris - Analyst Trip - Boston	Boris	BOSTON
9/05/17-9/07/17	- Neal Dingmann - Analyst Trip - New York	Dingmann	NEW YORK
9/06/17-9/07/17	- Terry Tillman - Analyst Trip - Midwest	Tillman	MIDWEST
9/07/17	- Jennifer Demba & Michael Young - Analyst Trip - Mid-Atlantic	Demba/Young	MID-ATLANTIC
9/11/17	- Ki Bin Kim & Michael Lewis - Analyst Trip - Philadelphia	Kim/Lewis	MID-ATLANTIC
9/12/17	- Bill Chappell - Analyst Trip - Houston	Chappell	TEXAS
9/12/17-9/13/17	- Doug Mewhirter - Analyst Trip - Canada	Mewhirter	CANADA
9/13/17	- Keith Hughes - Analyst Trip - Detroit	K. Hughes	MIDWEST
9/14/17	- Keith Hughes - Analyst Trip - New York	K. Hughes	NEW YORK

Conferences

Date	Event	Analyst(s)	Region

Conference Call

Date	Event	Analyst(s)	Region
9/08/17	11AM EST Restaurant Commodity Outlook Conference Call with David Maloni	Bartlett	CONFERENCE CALL

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Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

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Legend for Rating and Price Target History Charts:

B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

<u>The prior rating system until Oct. 7, 2016:</u>

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
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Hold/Neutral	282	40.23%	Hold/Neutral	58	20.57%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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September 1, 2017 | Equity Research

Utility Figure Of The Week

Utility Factor Investing:

High Dividend Growth/Low Dividend Yield Strategies Paid Off

Utilities

- Please see Figure on Page 2

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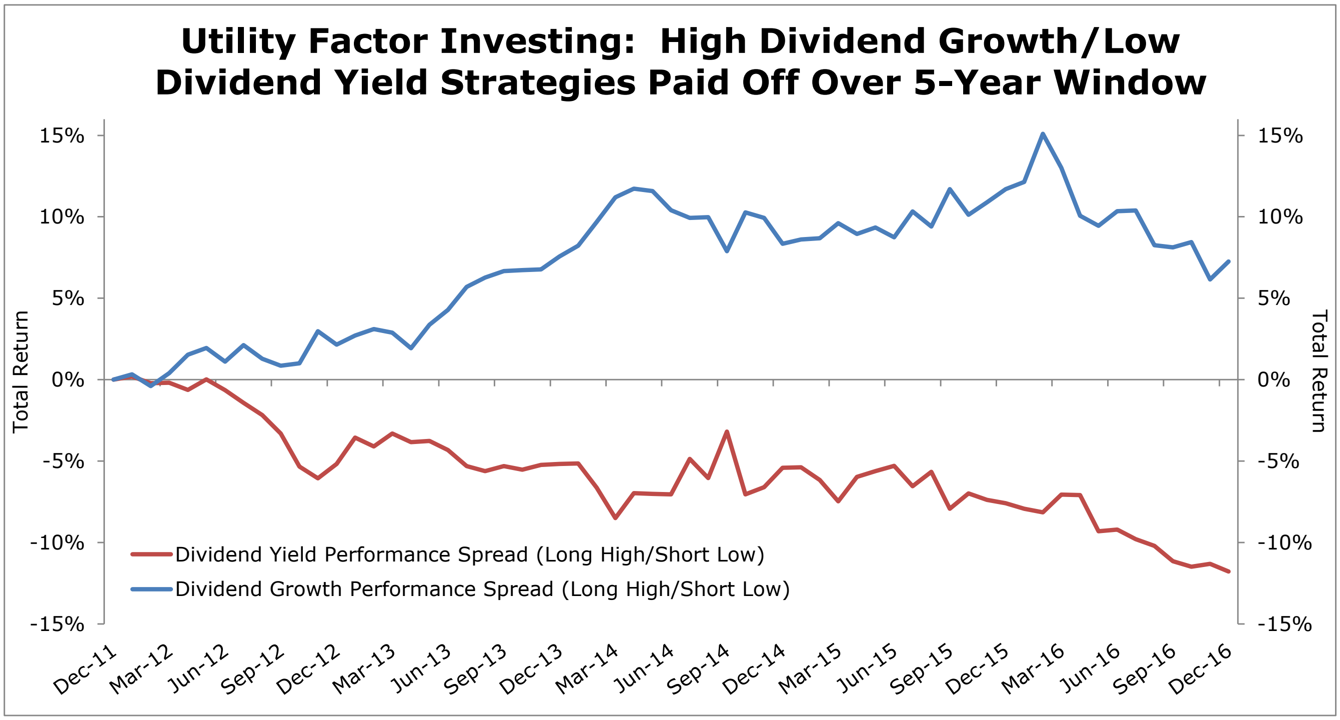

Source: FactSet and Wells Fargo Securities, LLC
Note: Performance analysis run using the ten highest and ten lowest dividend growth/yield companies in our Regulated Electric Utility universe.

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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As of: September 1, 2017

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GUGGENHEIM

Vistra Energy Corp.

VST – Initiating with a BUY Rating – How Can You Not?

September 4, 2017

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VST BUY

INITIATING COVERAGE

SHARE PRICE $17.84
PRICE TARGET $20.00

EBITDA ($M) (FY Dec)	1Q	2Q	3Q	4Q	FY
2017	276.0	345.0	414.4E	451.4E	1,486.8E
2018	314.6E	374.8E	362.2E	415.3E	1,466.9E
2019	303.3E	377.0E	366.2E	437.7E	1,484.1E

Market Data	
52-Week Range	$11.58 - $18.08
Market Cap (M)	$7,628
Dividend	$0.00
ADV (3 mo; 000)	2,376

Initiating coverage with a BUY rating and $20 price target – A well-integrated IPP with strong retail presence and a generation fleet getting younger and gassier; comparatively clean balance sheet supports further strategic move(s) – control is in VST's hands. On a standalone basis, VST fits very well within our IPP thesis: **(1)** boasts the largest asset base among peers in Texas, a region we are more constructive on; **(2)** operates a proven integrated business model, providing advantages when compared to pure play generators or retailers; **(3)** has a highly efficient CF conversion cycle - without as much investment required to maintain the fleet, VST converts its EBITDA into unlevered free cash flows more efficiently vs. other IPP peers; **(4)** newly acquired CCGTs add scale and increasingly make coal a free call option while also providing fast ramp capabilities as a backstop to intermittent resources; **(5)** management expected to maintain a conservative balance sheet strategy on a go-forward basis, aiming to keep Net Debt/EBITDA comfortably below 3.0x vs. IPP peers' >4.0x. At this juncture, finding the right asset(s)/strategic partner to better utilize the balance sheet capacity remains the near-term focus – it is all within VST's control. **VST has been a highly successful offering but we still see a solid entry point with shares trading at a healthy ~14% FCF yield.** We highlight any announcement of strategic combination or further asset acquisitions and potential coal plant retirements are key NT potential catalysts and could present material upside to valuation – helps support our BUY.

Where should VST go from here? Our thought process has evolved… Our initial thoughts were VST wouldn't likely move away from their comfort zone in ERCOT, as uneconomic coal facilities are likely to retire in line with our thesis – opportunities are plentiful inside ERCOT. Management has also been vocal about not feeling compelled to grow outside with their strong presence in Texas, and has been executing in line with our initial thesis by adding another CCGT (Odessa) recently. **But, the bid/ask spread might just be too wide with some other potential gas asset opportunities within the state.** For instance, we highlighted in our EXC non-deal roadshow note (see HERE) that we believed EXC mgmt. could see a strategic opportunity with their newly completed Colorado Bend and Wolf Hollow CCGTs in South/North ERCOT zones. That said, the price that EXC has likely been seeking, in our view, seems materially higher than what VST is willing to pay, resulting in a significant bid/ask spread - we wouldn't expect this to close anytime soon. EXC has other options to realize value while VST isn't willing to pay up for any one asset.

…and we now see strategic corporate combination a more likely scenario. This was well-supported following our conversations with VST management and our recent DYN meetings we hosted with investors (see note HERE) – **Could we eventually see a strategic combination? Why not?** DYN operates a more diverse fleet spread across each US power market and possesses significant NOLs which could benefit VST given the elimination of substantially all its NOL carryforwards with fresh start accounting. The financial rationale also became evident with VST's clean balance sheet (~1.8x net debt/EBITDA — Guggenheim 2018 estimate), need for scale and share liquidity – **we see the logic that could potentially motivate a well-timed combination especially given the valuation levels where DYN trades.** In our view and incorporating some mosaic theory, both companies should be going through an education process with their boards but nothing is confirmed. ***Continued on the next page...***

EBITDA accretive cost saving opportunities in the $200-300MM range could be very plausible post a strategic combo and could actually prove conservative in time – assuming a mid cycle multiple, value creation could equate to $1.5B-2.5B. Note – we assume any deal would be purely a cash transaction given VST underutilized balance sheet and we have in the past valued DYN at ~$15/share assuming Vistra's debt capacity – SEE OUR PRIOR NOTE HERE.

The "Prisoners Dilemma" could be ending – someone's going to bail in TX. ERCOT will experience a greater shift in the generation mix than what's implied in the ISO's own outlook, in our view, and more importantly, we expect tighter market conditions would result from incremental coal retirements. ERCOT has yet to experience tighter conditions as coal plants are sticking it out despite weak power market fundamentals – at least through the summer. We believe the balance of power will continue to shift to natural gas and renewables at the expense of coal; **we expect ~8.2GW of coal retirements in ERCOT in the near term (NT), with 8 out of 17 existing coal plants struggling for survival at the current price environment.** When factoring in potential coal retirements that our analysis in this note suggests possible, **we believe ERCOT could fall below their targeted 13.75% reserve margin much sooner than many expect**, which can provide not only support for power over the LT but also bring back scarcity pricing NT. Note: We emphasize our coal retirement analysis at the asset level by ultimately estimating unlevered free cash flow for each plant in TX, which we believe is reasonable considering the plant could continue operating in default. **Coal retirements build on our IPP thesis: Quality assets generating strong cash flows with long useful lives matter, with a focus on low and sustainable leverage ratios.**

The Retail Oligopoly continues to take shape: Margins have remained sticky for some time. Owning generation assets is a necessity for retail electricity providers in order to mitigate the risk of gas/power price hikes/volatility and to maintain market share, in our view, especially with scarcity pricing coming back to play. VST has been maintaining customers attrition at a fairly low rate (-0.7%) while anticipating 1-2% annual consumption growth of retail business, which is above the average of 0-0.5% annual growth rate in the U.S., primarily driven by above-average population growth in TX. We would also highlight VST's retail business serves as a natural hedge against low commodity prices, with a significant portion (~50%) of its generation sold through contracts within the retail segment – margins have remained sticky for some time. Given current forward outlook, a bend towards a natural retail hedge makes sense to us – tough to sell power based on pure economics in this environment – Calpine and Talen learned this quickly. **VST could potentially look to expand to other retail markets (i.e., NY-ISO and ISO-NE) as well – Dynegy has the generating assets.**

Our $20 price target is based on a bottom-up, asset-by-asset DCF methodology, implying a 12% ETR. We model each plant in VST's fleet using August 24 forward commodity curves. **Our unlevered DCF valuation implies: (1)** ~$624/kw, which is in line with public/private gas asset transactions that have ranged from ~$292-$646/KW over the past three years and **(2)** 7.6x EV/EBITDA on 2018E fundamentals – below theoretical mid cycle. For 2024E terminal year cash flow, we apply a VST-specific 7.4x multiple that's weighted toward the individual asset portfolio, and we calculate NPV at VST's estimated WACC.

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Initiating coverage with a BUY rating and $20 price target – A well-integrated IPP with strong retail presence and a generation fleet getting younger and gassier; comparatively clean balance sheet supports further strategic move(s) – control is in VST's hands. On a standalone basis, VST fits very well within our IPP thesis: **(1)** boasts the largest asset base among peers in Texas, a region we are more constructive on; **(2)** operates a proven integrated business model, providing advantages when compared to pure play generators or retailers; **(3)** has a highly efficient CF conversion cycle - without as much investment required to maintain the fleet, VST converts its EBITDA into unlevered free cash flows more efficiently vs. other IPP peers; **(4)** newly acquired CCGTs add scale and increasingly make coal a free call option while also providing fast ramp capabilities as a backstop to intermittent resources; **(5)** management expected to maintain a conservative balance sheet strategy on a go-forward basis, aiming to keep Net Debt/EBITDA comfortably below 3.0x vs. IPP peers' >4.0x. At this juncture, finding the right asset(s)/strategic partner to better utilize the balance sheet capacity remains the near-term focus – it is all within VST's control. **VST has been a highly successful offering but we still see a solid entry point with shares trading at a healthy ~14% FCF yield.** We highlight any announcement of strategic combination or further asset acquisitions and potential coal plant retirements are key NT potential catalysts and could present material upside to valuation – helps support our BUY.

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Already a lean company emerging from bankruptcy, VST finds no shortage of incremental cost levers to pull – trend in the industry. Upon its emergence from bankruptcy, VST conducted cost saving initiatives which successfully reduced annual corporate overhead, IT and other business function costs by ~$225MM. Upon completion of the support cost structure right-sizing, VST now has turned its attention toward an operational improvement review of its generating fleet for further cost reductions – a trend we have seen in the industry. 2017 new base year is on strong footing, with EBITDA accretive improvements identified equating up to ~$50mm with more upside potential. Management expects to complete the review by 3Q17 – stay tuned.

Our $20 price target is based on a bottom-up, asset-by-asset DCF methodology, implying a 12% ETR. We model each plant in VST's fleet using August 24 forward commodity curves. **Our unlevered DCF valuation implies for VST: (1)** ~$624/kw, which is in line with public/private gas asset transactions that have ranged from ~$292-$646/KW over the past three years and **(2)** 7.6x EV/EBITDA on 2018 fundamentals – below mid cycle figures. For 2024 terminal year cash flow, we apply a VST-specific 7.4x multiple that's weighted toward the individual asset portfolio, and we calculate NPV at VST's estimated WACC.

GUGGENHEIM UTILITY COVERAGE

Figure 1: Guggenheim Power & Utilities Comp Sheet

Prices as of Friday, September 01, 2017

									GUGGENHEIM								Consensus							
***Regulated Utilities*(1)**		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
AEP	American Electric Power	36.2	Neutral	$61	$73.54	3.4%	64%	492	3.64	3.86	4.06	4.28	20.2	19.1	18.1	17.2	3.66	3.87	4.10	4.30	20.1	19.0	17.9	17.1
ALE	ALLETE	3.9	Neutral	$65	$77.52	3.0%	62%	51	3.39	3.72	3.90	4.09	22.9	20.8	19.9	19.0	3.36	3.65	3.84	4.09	23.0	21.2	20.2	19.0
AVA	Avista	3.3	Neutral	$52	$51.54	2.9%	72%	64	1.93	2.07	2.33	2.47	26.7	24.9	22.1	20.9	1.95	2.05	2.19	2.47	26.5	25.1	23.6	20.9
CMS	CMS Energy	13.7	Neutral	$48	$48.42	2.9%	61%	282	2.18	2.34	2.51	2.67	22.2	20.7	19.3	18.1	2.17	2.34	2.51	2.67	22.3	20.7	19.3	18.1
CNP	CenterPoint	12.8	Buy	$30	$29.63	3.8%	81%	431	1.33	1.38	1.44	1.50	22.3	21.5	20.6	19.8	1.33	1.42	1.50	1.55	22.2	20.9	19.8	19.2
D	Dominion	50.3	Buy	$85	$78.33	4.2%	79%	643	3.67	4.19	4.37	4.54	21.3	18.7	17.9	17.3	3.67	4.07	4.29	4.49	21.4	19.2	18.3	17.4
DTE	DTE Energy	20.1	Buy	$112	$112.12	3.1%	60%	179	5.50	5.77	6.07	6.46	20.4	19.4	18.5	17.4	5.41	5.70	6.05	6.41	20.7	19.7	18.5	17.5
DUK	Duke Energy	61.0	Buy	$90	$87.09	4.2%	76%	700	4.67	4.84	5.07	5.28	18.6	18.0	17.2	16.5	4.60	4.83	5.10	5.31	18.9	18.0	17.1	16.4
ED	Consolidated Edison	26.0	Neutral	$72	$83.99	3.4%	67%	310	4.15	4.25	4.56	4.65	20.2	19.8	18.4	18.1	4.09	4.26	4.48	4.65	20.6	19.7	18.8	18.1
EIX	Edison International	26.1	Neutral	$69	$79.96	3.0%	55%	326	4.23	4.30	4.68	5.06	18.9	18.6	17.1	15.8	4.23	4.29	4.67	4.99	18.9	18.6	17.1	16.0
ES	Eversource Energy	19.8	Buy	$64	$62.57	3.3%	61%	317	3.20	3.35	3.60	3.80	19.6	18.7	17.4	16.5	3.15	3.32	3.54	3.73	19.9	18.9	17.7	16.8
LNT	Alliant Energy	9.8	Neutral	$36	$42.57	3.2%	64%	231	2.04	2.12	2.24	2.41	20.9	20.1	19.0	17.7	2.01	2.13	2.25	2.37	21.2	19.9	18.9	17.9
NEE	NextEra	70.3	Buy	$162	$150.16	3.0%	61%	468	6.85	7.30	7.78	8.36	21.9	20.6	19.3	18.0	6.72	7.24	7.76	8.36	22.3	20.7	19.4	18.0
OGE	OGE Energy	7.1	Buy	$38	$35.76	3.8%	67%	200	1.97	2.04	2.14	2.18	18.2	17.5	16.7	16.4	1.97	2.02	2.08	2.13	18.2	17.7	17.2	16.8
PCG	PG&E Corporation	35.8	Neutral	$61	$69.87	3.2%	58%	513	3.70	3.83	4.03	4.11	18.9	18.2	17.3	17.0	3.67	3.83	4.01	4.15	19.0	18.3	17.4	16.8
PNW	Pinnacle West	10.0	Neutral	$85	$89.86	3.1%	63%	112	4.37	4.50	4.77	5.14	20.6	20.0	18.8	17.5	4.25	4.48	4.74	4.99	21.1	20.0	19.0	18.0
POR	Portland General Electric	4.2	Neutral	$44	$47.33	3.0%	58%	89	2.20	2.43	2.54	2.63	21.5	19.5	18.6	18.0	2.22	2.41	2.50	2.71	21.3	19.6	18.9	17.5
PPL	PPL Corporation	26.7	Neutral	$37	$39.11	4.6%	78%	683	2.13	2.32	2.39	2.50	18.4	16.9	16.4	15.6	2.16	2.33	2.44	2.54	18.1	16.8	16.0	15.4
SCG	SCANA	8.6	Sell	$54	$60.14	4.3%	57%	143	4.25	4.50	4.77	4.96	14.2	13.4	12.6	12.1	4.19	4.30	4.40	4.49	14.4	14.0	13.7	13.4
SO	Southern Company	48.2	Neutral	$49	$48.26	4.9%	77%	999	3.00	3.09	3.21	3.34	16.1	15.6	15.0	14.4	2.94	3.02	3.15	3.28	16.4	16.0	15.3	14.7
WEC	WEC Energy	20.6	Buy	$67	$65.13	3.4%	65%	316	3.10	3.35	3.54	3.75	21.0	19.4	18.4	17.4	3.10	3.28	3.44	3.68	21.0	19.9	18.9	17.7
Average						**3.5%**	**66%**						**20.2**	**19.1**	**18.0**	**17.2**					**20.4**	**19.2**	**18.2**	**17.3**

***Integrated Utilities*(2)**		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
ETR	Entergy	14.2	Buy	$80	$79.26	4.5%	75%	180	6.63	4.83	4.99	5.25	12.0	16.4	15.9	15.1	6.36	4.87	5.01	5.18	12.5	16.3	15.8	15.3
EXC	Exelon	36.0	Buy	$44	$37.54	3.6%	47%	960	2.72	2.93	2.89	2.87	13.8	12.8	13.0	13.1	2.69	2.87	2.83	2.65	13.9	13.1	13.3	14.2
FE	FirstEnergy	14.4	Buy	$38	$32.42	4.7%	61%	444	2.82	2.49	2.37	2.27	11.5	13.0	13.7	14.3	2.82	2.54	2.41	2.18	11.5	12.8	13.5	14.9
PEG	PSEG	23.5	Buy	$47	$46.52	3.9%	63%	506	2.94	2.90	2.93	3.00	15.8	16.0	15.9	15.5	2.92	2.94	2.99	3.07	15.9	15.8	15.5	15.2
Average						**4.2%**	**61%**						**13.3**	**14.6**	**14.6**	**14.5**					**13.5**	**14.5**	**14.5**	**14.9**

***Independent Power Producers (IPPs)*(3)**		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Adjusted EBITDA**				**EV / EBITDA**				**Adjusted EBITDA**				**EV / EBITDA**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
CPN	Calpine	5.3	Neutral	$15	$14.67	0.0%	0%	361	1,826	2,027	1,971	2,042	9.2	8.0	7.9	7.3	1,850	2,002	1,958	1,921	8.7	7.6	7.3	7.2
DYN	Dynegy	1.2	Buy	$18	$9.16	0.0%	0%	131	1,296	1,494	1,320	1,264	6.9	5.1	5.8	5.4	1,245	1,449	1,296	1,135	7.2	5.8	6.1	7.3
NRG	NRG Energy	7.9	Buy	$35	$24.81	0.5%	0%	316	2,660	2,881	3,183	3,147	6.8	5.9	4.8	4.5	2,587	2,447	2,411	2,496	8.8	8.9	8.0	8.1
VST	Vistra Energy	7.6	Buy	$20	$17.84	0.0%	0%	428	1,487	1,467	1,484	1,395	7.4	7.0	6.4	6.3	1,431	1,429	1,424	1,352	7.5	7.2	6.8	5.9
Average													**7.6**	**6.5**	**6.2**	**5.9**					**8.0**	**7.4**	**7.1**	**7.1**

***Gas Utilities*(4)**		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
NI	NiSource	8.8	Buy	$28	$26.86	2.8%	59%	326	1.20	1.27	1.34	1.38	22.4	21.1	20.0	19.5	1.19	1.26	1.34	1.41	22.6	21.3	20.0	19.1
NJR	New Jersey Resources	3.8	Buy	$44	$43.50	2.6%	59%	87	1.75	1.88	2.00	2.18	24.9	23.1	21.8	20.0	1.74	1.87	1.97	2.18	25.0	23.2	22.0	20.0
NWN	NW Natural Gas	1.9	Neutral	$54	$66.45	2.8%	82%	29	2.23	2.30	2.44	2.60	29.8	28.9	27.2	25.6	2.18	2.29	2.48	2.60	30.5	29.0	26.8	25.6
SJI	South Jersey Industries	2.9	Neutral	$34	$36.20	3.1%	70%	79	1.20	1.61	1.71	1.83	30.2	22.5	21.2	19.8	1.19	1.47	1.67	1.85	30.3	24.6	21.7	19.6
SR	Spire	3.7	Buy	$78	$77.10	2.9%	59%	48	3.58	3.72	3.80	4.11	21.5	20.7	20.3	18.8	3.57	3.69	3.83	3.99	21.6	20.9	20.1	19.3
SRE	Sempra Energy	29.6	Buy	$124	$117.94	3.0%	61%	251	5.39	5.79	7.00	7.45	21.9	20.4	16.8	15.8	5.22	5.57	6.59	7.43	22.6	21.2	17.9	15.9
VVC	Vectren	5.5	Buy	$65	$65.82	2.8%	66%	83	2.65	2.79	3.05	3.23	24.8	23.6	21.6	20.4	2.62	2.80	3.03	3.23	25.1	23.5	21.8	20.4
Average						**2.9%**	**65%**						**25.1**	**22.9**	**21.3**	**20.0**					**25.4**	**23.4**	**21.5**	**20.0**

Other		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
AWK	American Water Works	14.4	Buy	$91	$80.83	2.2%	54%	178	3.00	3.26	3.52	3.81	26.9	24.8	23.0	21.2	3.01	3.27	3.52	3.74	26.9	24.7	23.0	21.6

		Market Cap ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Adjusted EBITDA**				**EV / EBITDA**				**Adjusted EBITDA**				**EV / EBITDA**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
NYLD	NRG Yield	1.8	Neutral	$16	$18.70	6.7%	NA	183	915	1,046	1,062	1,120	7.2	6.3	6.2	5.8	919	1,001	1,077	1,113	10.1	9.2	8.5	9.2

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(3) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

(4) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Coverage of WR and GXP suspended due to investment banking activity

Source: FactSet, Guggenheim Securities, LLC

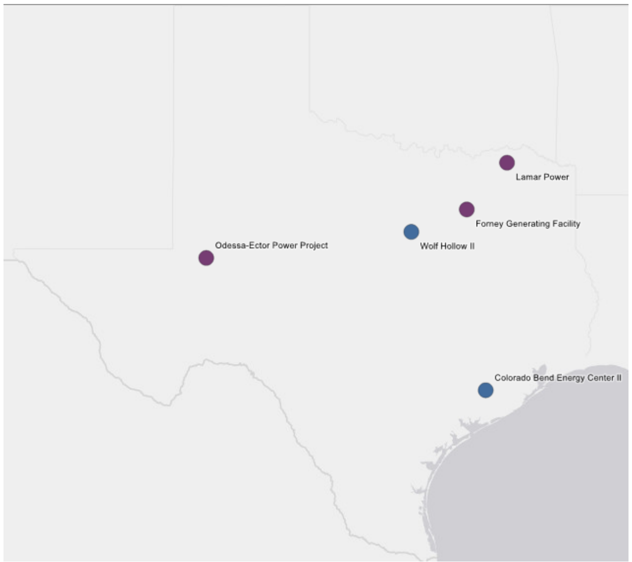
EVOLUTION OF OUR THOUGHT PROCESS

VST operates the largest fleet in Texas (17.8GW), the market with the most upside potential stemming from a pent-up need for capacity rationalization. We also highlight some areas the recently listed IPP lacks are: scale and diversity across power markets, and share liquidity with three holders representing upwards of ~40% of VST's public equity market float.

Our initial thought: focus remains solely in ERCOT.

Our initial thoughts were that VST would not likely come out of its comfort zone in ERCOT… as uneconomic coal facilities are likely to retire in line with our thesis, which we now expect to see 8.2GW of coal retirements as we mark our model to the updated forward commodity curves, while lower power prices will keep pushing more single-asset gas plant operators to capitulate – opportunities are plentiful inside ERCOT. Concurrently, we thought VST would look to acquire more gas fired generating capacity within the state (e.g., EXC's Colorado Bend and Wolf Hollow CCGTs) in order to maintain a balanced hedge position especially as they potentially prepare for further coal retirements including their own Big Brown, Monticello and Martin Lake coal plants in time – **buy gas/shut coal.** Management has also been vocal about not feeling compelled to grow outside of ERCOT with their strong presence there, and has been executing in line with our initial thesis by adding another CCGT, Odessa, in West ERCOT with a similar profile (7.1 MMBtu/MWh heat rate) as Forney and Lamar CCGTs acquired back in 2016.

Figure 2: VST Recent Gas Acquisitions and Potential New Opportunities



Source: Company disclosures, SNL Energy, Guggenheim Securities, LLC.

ERCOT gas asset bid/ask spreads now likely too wide for new opportunities.

...but the bid/ask spread might just be too wide for additional gas asset deals within the state as they executed in the past, in our view… We highlighted in our EXC management roadshow note (See HERE) that we believed EXC could see a strategic opportunity (i.e., an outright sale) with their newly completed Wolf Hollow and Colorado Bend CCGTs in North/South ERCOT Zones (see above), which would fit perfectly with the balance of VST's gas fleet while providing some geographic diversity inside ERCOT – **the EXC assets share very similar plant economics as VST's prior gas deals**. But the timing may not be right as Wolf Hollow and Colorado Bend are now likely worth closer to $500-$600/KW vs. their new build cost of ~$700-900/KW given the current forward curve environment, coupled with the absence of price volatility/scarcity pricing within the state.

So, in our view, **the price that EXC could be asking for these assets may be materially higher than what VST is willing to pay, resulting in a significant bid/ask spread which we wouldn't expect to close anytime soon even though those are comparably non-core assets for EXC** – EXC has other options to realize the value (e.g., drop down to its newly formed private YieldCo if contracted or sell to private equity who could be willing to pay more); while VST is not willing to pay up at this juncture. As a reminder, VST paid ~$350mm, or $332/KW, for the Odessa plant – substantially less than what EXC could be willing to sell their two new CCGTs for.

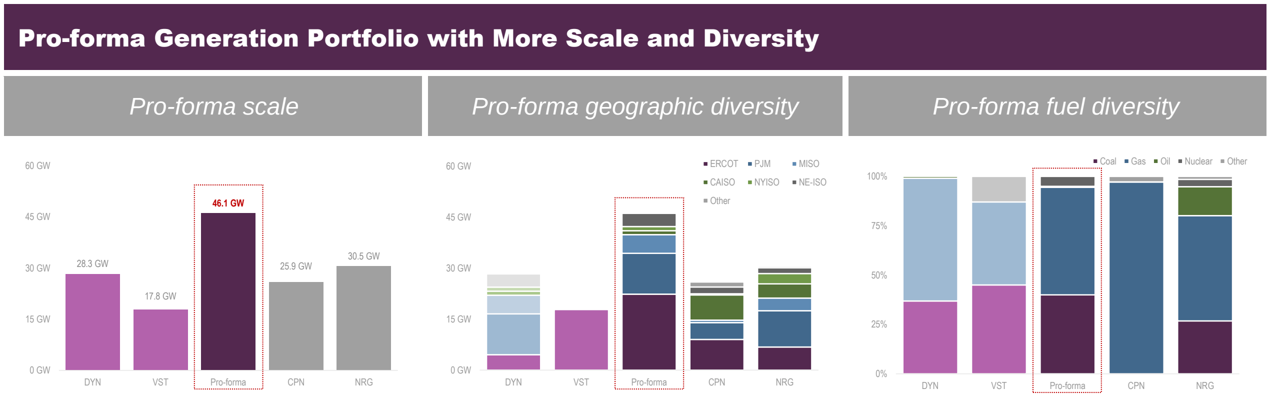
Thought process evolved: strategic combination a more likely scenario.

…so, our thought process has evolved - the stars could finally be aligning for a strategic corporate combination. This was well-supported following our conversations with VST management and our recent DYN meetings we hosted with investors, as well as takeaways from past earnings calls. **EBITDA accretive cost saving opportunities in the $200-300MM range could be very plausible post a strategic combo and could actually prove conservative in time – assuming a mid-cycle multiple, value creation could equate to $1.5B-2.5B. Note – we assume any deal would be purely a cash transaction given VST underutilized balance sheet and we have in the past valued DYN at ~$15/share assuming Vistra's debt capacity – SEE OUR PRIOR NOTE HERE.** The financial rationale also became more evident to us with VST's clean balance sheet, relative to peers in a race to de-lever coupled with the `need to eventually build scale and improve trading liquidity – we see the logic that could potentially motivate a combination especially given the valuation level where DYN trades. **In our view and incorporating some mosaic theory following management conversations, comments on live calls and client hosted meetings, both companies should be going through some education process with their boards, but nothing is confirmed and may not necessarily lead to a combination – this is pure upside to our thesis.**

Industrial logic: diversity, economies of scale and cost synergies.

Industrial logic behind the potential combination is obvious: Scale, diversity and cost synergies. VST has 17 power plants with a total capacity of 17.8GW located in Texas through its wholesale arm, Luminant. A VST-DYN combination would own 46.1GW (before potential mitigation measures), surpassing NRG, which owns 30.5GW (excluding GenOn) of total capacity. In the meantime, adding DYN's 4.5GW of generation capacity in ERCOT (mostly CCGTs) will further enhance VST's leading position with 22.3GW total capacity, thus better positioning VST to further capitalize on economies of scale in the local market. **Pro forma VST would also gain access to PJM and ISO-NE at a trough as well as lower exposure to coal as the main fuel source – coal would essentially become a free call option.** The 46.1GW combined portfolio would consist of 54% of gas-fired generation and 40% coal vs. VST's current mix of 42% gas, 45% coal, and 13% nuclear. **But at the very least, the increase in scale would prompt further coal retirements.**

Figure 3: Pro-forma Generation Portfolio by Region Fuel Type



Source: Company disclosures, Guggenheim Securities, LLC estimates.

VISTRA AT A GLANCE

VST operates one of the more fuel diversified, geographically concentrated generating fleets in the sector, Luminant, which pairs nicely with the largest retail business in ERCOT, TXU Energy. Luminant generates and sells electricity from a fairly fuel-diverse fleet totaling approximately 17.8GW of capacity in ERCOT, including 2.3GW of nuclear, 8.0GW of coal and 7.5GW of natural gas. TXU Energy sells retail electricity and value-added services to ~1.7MM residential, small business and larger C&I customers in Texas.

WHOLESALE – LUMINANT

Concentrated Portfolio Getting Gassier – Age is Everything

Getting gassier and younger.

VST added material gas exposure through two CCGT acquisitions – Forney and Lamar. VST purchased two CCGTs from NEE back in 2015, including the 1.9GW Forney plant with a commercial operation date of 2003 and a 6,600 btu/kWh heat rate, and the 1.1GW Lamar plant with a commercial operation date of 2000 and a heat rate of 6,620 btu/kWh. The purchase price was $1.3Bn (or $439/kW), plus $239MM for cash and $37MM for working capital, with total amount paid equates to $1.6Bn. The transaction closed in April 2016, after receiving regulatory approval from the PUCT. VST also owns several peaking gas plants (4 gas ST and 3 gas CT with 3.5GW total capacity), opportunistically capturing the upside in power prices while adding flexibility to the overall generating fleet.

Figure 4: VST Generation Portfolio

Power plant	ERCOT Zone	Fuel Type	Technology	COD	Capacity Factor (%)	Capacity (MW)
Comanche Peak	North	Nuclear	Nuclear	1990/1993	94%	2,300
Total Nuclear						***2,300***
% of total						***13%***
Big Brown	North	Coal	ST	1971/1972	59%	1,150
Monticello	North	Coal	ST	1975/1978	44%	1,880
Martin Lake	North	Coal	ST	1977/1979	52%	2,250
Oak Grove	Central	Coal	ST	2010/2011	83%	1,600
Sandow 4	Central	Coal	ST	1981	75%	557
Sandow 5	Central	Coal	ST	2010	83%	580
Total Coal						***8,017***
% of total						***45%***
Forney	North	Gas	CCGT	2003	55%	1,912
Lamar	North	Gas	CCGT	2000	63%	1,076
Odessa	West	Gas	CCGT	2001	44%	1,054
Decordova	North	Gas	CT	1990	0.4%	260
Morgan Creek	North	Gas	CT	1988	0.1%	390
Permian Basin	North	Gas	CT	1988/1990	0.4%	325
Graham	North	Gas	ST	1960/1969	2.3%	630
Lake Hubbard	North	Gas	ST	1970/1973	2.9%	921
Stryker Creek	North	Gas	ST	1958/1965	2.2%	685
Trinidad	North	Gas	ST	1965	0.9%	244
Total Gas						***7,497***
% of total						***42%***
					VST Total	**17.8 GW**

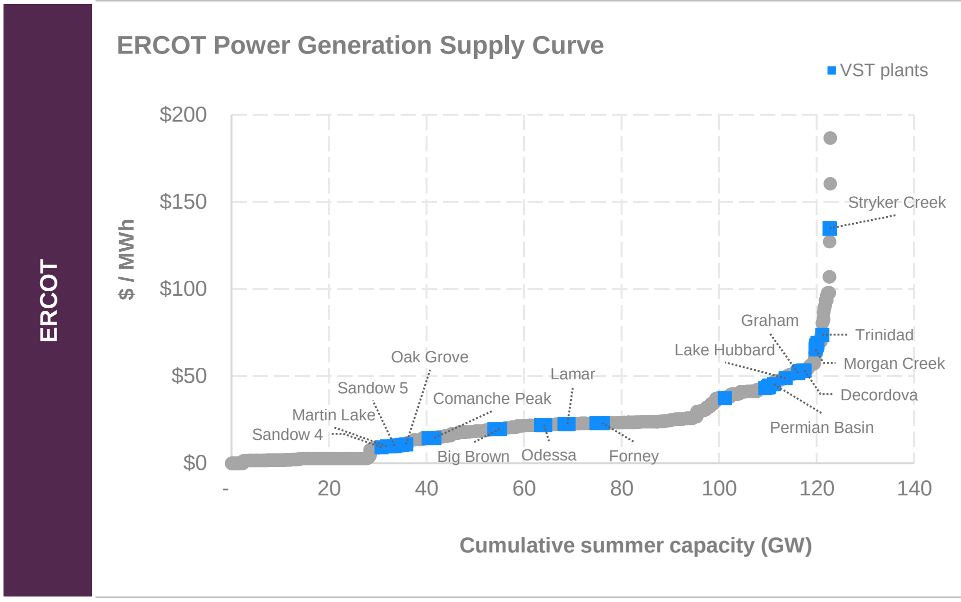
Source: SNL, Company disclosures, Guggenheim Securities, LLC.

CCGTs are key for ERCOT markets – for efficiency and fast ramp capability

Recently, VST added another highly efficient CCGT – Odessa. Completed in early August, the $350MM (or $332/kW) acquisition of the 1.05GW Odessa plant (7,100 btu/kWh) added another efficient gas fired plant to VST's generation portfolio. VST has been selective in acquiring CCGT's in TX, aiming to capture the current natural gas price advantage in the Permian Basin while bringing geographic diversity to the existing fleet into West Texas. To be more specific, the Odessa plant has direct access to both the El Paso and One Oak pipeline, through which multiple gas producers are connected, enabling the plant to source gas from deep within the Permian Basin, adding even a deeper discount than what is seen at the Waha Hub.

Note: Adding highly efficient and fast ramping CCGTs to a fleet in Texas is key as the assets can exploit at various gas price conditions: enabling spark spread expansion at higher gas prices; generating higher volumes at lower gas prices - i.e., generators can *almost* become somewhat agnostic to gas price swings.

Figure 5: VST's Fleet on Various Generation Dispatch Curves



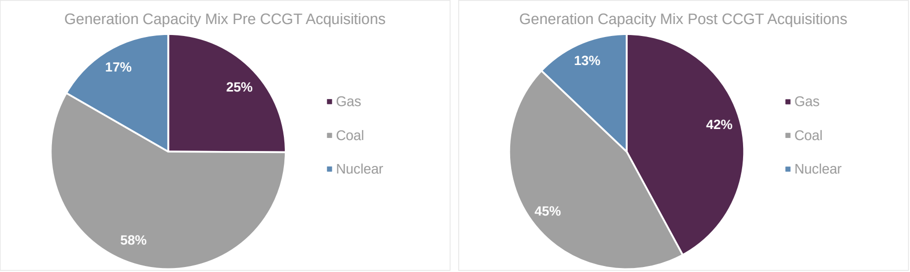
- Electric demand in Texas has been resilient despite weak oil prices; most of the demand is served by competitive retailers (VST is largest in Texas).
- ERCOT's Wholesale Market Subcommittee and the PUCT have initiated projects and workshops to assess the price formation rule changes.
- VST would be a beneficiary of increasing marginal power prices as cost to dispatch coal increases.
- With PTC/ITC extension, further wind and solar growth could impact this stack.

Source: SNL, company disclosures, Guggenheim Securities, LLC

New generation portfolio continues to shift towards gas

Coal is expected to play an ever-decreasing role for VST. VST's diverse fleet now totals ~17.8GW of generation in Texas, including 8GW fueled by coal, 7.5GW fueled by natural gas and 2.3GW fueled by nuclear. **VST owns two of the youngest coal plants in ERCOT – Oak Grove (1.6GW) and Sandow Unit 5 (580MW), both went online in 2010.** Oak Grove and Sandow Unit 4&5 are fully compliant with all existing environmental regulations and fueled by lignite from mines owned/leased and operated by VST, enabling those plants to dispatch more frequently than other coal plants in a low gas price environment with comparably low fuel costs. As a reminder, Sandow Unit 4 (557MW) is partially contracted (120MW) at favorable terms with Alcoa through 2038. VST is also currently developing one of the largest solar facilities in Texas, the 180MW Upton County Solar 2 development project, which is expected to come online the summer of 2018 and sell electricity to TXU Energy retail customers. Luminant is also TX's largest lignite coal miner, which helps fuel some of the power plants in VST's generation portfolio, including 100% of Sandow and Oak Grove and part of Martin Lake and Big Brown.

Figure 6: Generation Capacity Mix Pre vs. Post CCGT Acquisitions



Source: Company disclosures, Guggenheim Securities, LLC.

Nuclear plant now delivering solid performance.

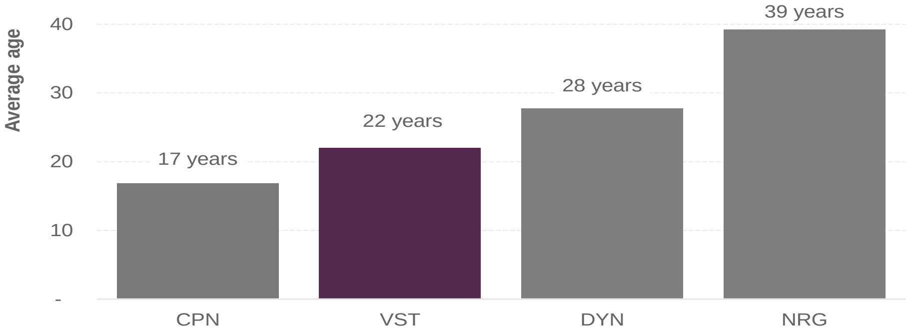
VST operates the second newest nuclear plant in North America – Comanche Peak. Comanche Peak is a dual-unit nuclear facility with 2.3GW of capacity and an average of 90+% capacity factor over the last several years. The plant is also one of the lowest cost nuclear plant in the U.S. based on analysis from EUCG provided by VST. **Management highlighted that the unplanned outage at Comanche Peak's Unit 2 should not be a big concern despite drawing a lot of investor attention and rightfully so – the plant is already back up and running.** As a side note - The Comanche Peak outage began when the plant operators observed increasing temperatures inside the Unit 2 steam turbine generator in May. As a reminder, the steam turbine generator is unrelated to the nuclear power reactor side of the plant. Management expects the full year EBITDA impact of the outage to be $75MM, of which $20MM relates to incremental O&M expenses occurred and the remaining $55MM relates to lose of revenue during the unplanned outage. **Management is working to mitigate the impact through filing insurance claims as well as indemnification claims against third parties, and expects to recover the full out-of-pocket expenses ($20MM)**, although receipt of any insurance proceeds will likely not occur until 2018. **That said, 2017 EBITDA guidance remains unchanged.**

High Quality CCGTs – Younger Fleet; Lower Heat Rates; More Efficient EBITDA-to-UFCF Conversion

Generation fleet becomes younger…

VST's fleet is now fairly young relative to its IPP peers thanks to recent deals – age is everything in this industry. The recent three gas deals helped drive down the average age of VST's fleet – now second youngest in the industry next to Calpine. While age isn't everything (we argue it is in this industry), the composition of VST's fleet of newer and more efficient CCGTs dilutes maintenance CapEx needs compared to an older fleet thereby improving free cash flow conversion cycles among other items – see next section. **Overall, VST's younger fleet is now better positioned to take advantage of structural changes in the power market (i.e., shifting to natural gas; backstop to intermittent resources).**

Figure 7: Average Age of Each IPP Fleet



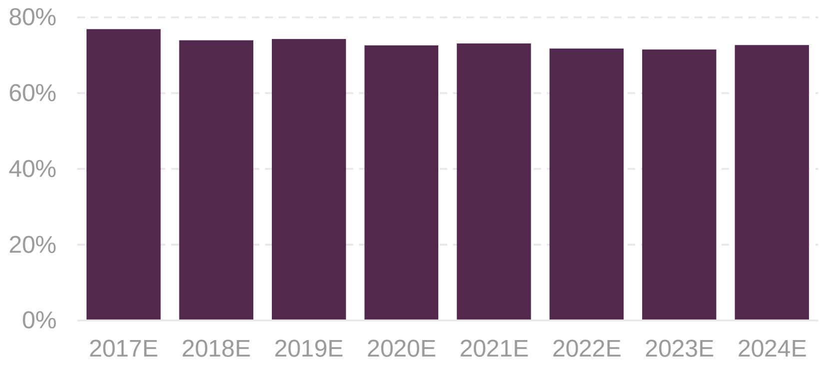
Source: SNL, Guggenheim Securities LLC estimates

…with more efficient EBITDA to cash conversion…

CCGT's lead to more efficient EBITDA-to-unlevered free cash conversion (UFCF) cycles. VST now generates cash more efficiently than most peers because the addition of those CCGT's doesn't require as much maintenance and/or environmental CapEx as other fossil fuel sources. Additionally, lower environmental spending (from $82MM in 2015 to $20MM in 2017E) on the coal plants also help mitigate or moderate concerns that the coal fleet will continue to be a large drag on forward CapEx requirements. **Based on this improved non-growth CapEx profile, VST has a much healthier and almost industry-leading free cash flow conversion rate - at an average of ~73% through 2024.**

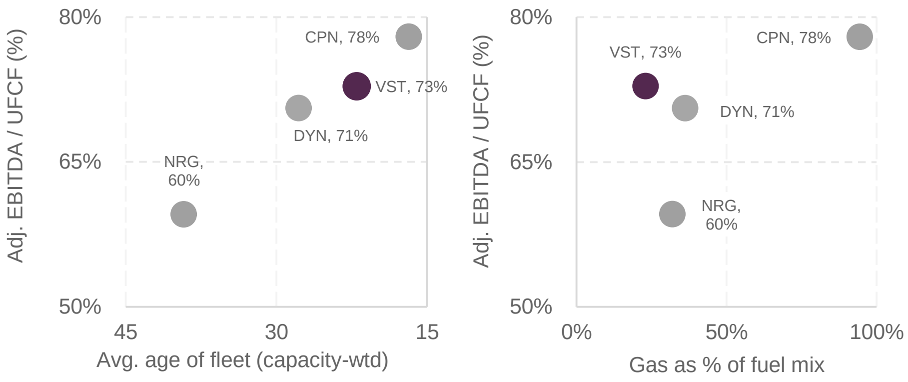
See table below.

Figure 8: VST Adjusted EBITDA / UFCF Conversion



Source: Guggenheim Securities LLC estimates

Figure 9: Cash Flow Conversion Efficiency

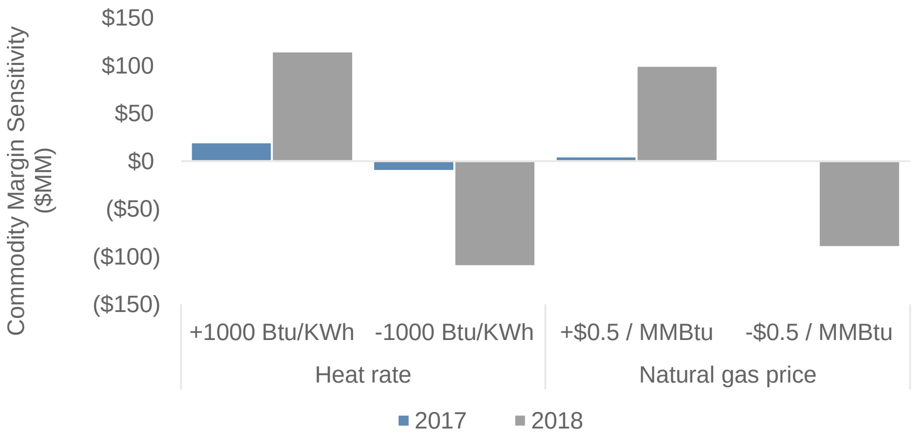


Note: Based on average of 2018-2020 estimates. Source: Guggenheim Securities, LLC estimates.

… and less sensitive to gas price movement.

Impact from gas price movement has also been mitigated - slowly becoming more agnostics to gas prices. Gas plants set marginal power prices for the most part, so higher prices support higher margins for VST, while lower prices drive more volumes as VST's gas plants dispatch ahead of coal and more relied upon/run harder – limiting downside exposure to lower gas prices. VST also has existing and rolling contracts for a significant portion of their output (50%) through sales to its retail segment as well as hedges in place to secure near-term margin – not just through financial markets, but physical.

Figure 10: VST commodity margin sensitivity



Source: Guggenheim Securities, LLC estimates; company disclosures.

Time to Bail as "Prisoners Dilemma" Ends: We See ERCOT Market Tightening

"Prisoners Dilemma" in ERCOT could be coming to an end.

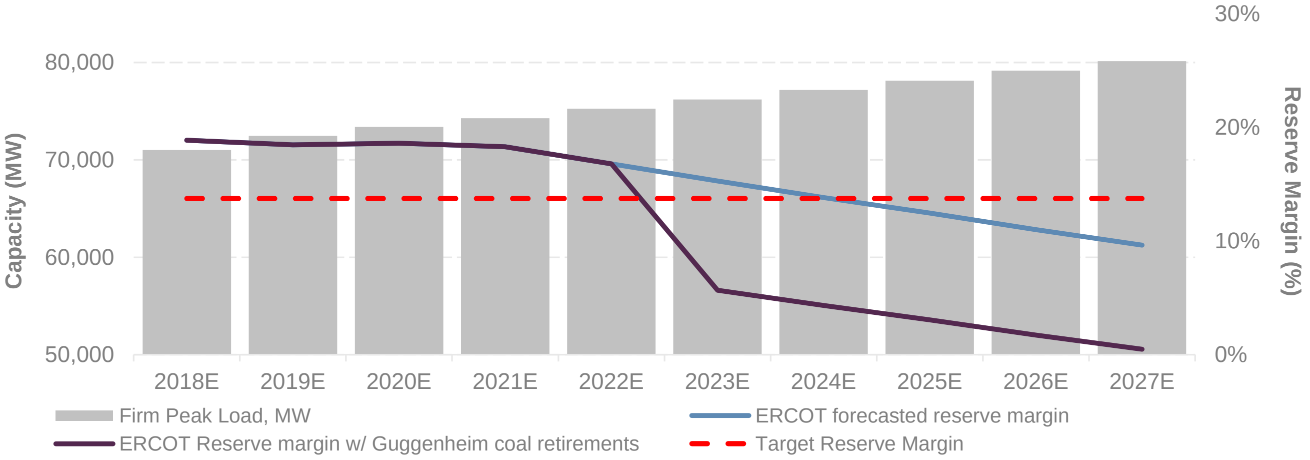
ERCOT has yet to experience tighter conditions as coal plants are sticking it out despite weak forwards. ERCOT's generation has been shifting toward natural gas and will continue to do so, in our view, once uneconomic coal plants are forced to make the decision to shut down. That said, the ISO's current forecast doesn't incorporate the potential coal plant retirements we foresee over the next several years due to weak economic fundamentals. **We believe ERCOT will experience a greater shift in the generation mix than what's implied in their outlook, and, more importantly, we expect tighter market conditions would result from incremental coal retirements.**

Reserve margin could fall below 13.75% sooner than expected.

ERCOT's own CDR report also started to project lower reserve margins, with the most recent estimate for the 2018 summer planning reserve margin projected to be 18.9%, compared to 20.2% reported in December 2016, primarily driven by delays in forecasted commercial operation dates beyond 2018 for several new projects. **The May CDR report reflects a few modest updates from the prior December version though the CDR generally assumes reserve margins will remain above 18% through 2021 – our analysis states otherwise.** Recent new builds in ERCOT have filed for bankruptcy in the last several months, further supporting our view that new build economics are not justifiable in the current market environment. ERCOT, as an energy-only market, has proven to be challenging for single asset owners who do not benefit from the strength and stability offered by an integrated portfolio such as VST's. **We continue to believe some of these irrational new investments will not be completed, in which case we should start to see tightening in the ERCOT market especially when layering in to our projected coal retirements.**

We estimate ERCOT's reserve margin could fall below targeted levels sooner than they think. When factoring in potential coal retirements that our analysis suggests is possible, we believe ERCOT could fall below their targeted 13.75% reserve margin much sooner. **Current forecasted higher-than-expected reserve margins are one of few key inputs impacting the outlook on forward heat rates and thus, forward power prices.**

Figure 11: ERCOT Reserve Margin Forecast – Guggenheim Estimates Quicker Tightening Conditions



Source: ERCOT, SNL, Guggenheim Securities, LLC estimates

Note: We estimate ERCOT's reserve margin would be well below targeted levels, much sooner than the grid operator's current expectations based on their supply and demand assumptions; removing our estimate of uneconomic coal-fired capacity would bring us below ERCOT's targeted level today – That said, timing of these potential retirements is the swing factor here, as we can't predict the behavior of the various parties in this "Prisoners Dilemma."

Coal Retirements in the Near Horizon

Coal outlook remains bleak in ERCOT.

We continue to expect coal retirements on the horizon. We took a bottom-up approach in Texas, modeling each coal plant in ERCOT to understand how they fare with today's forward commodity outlook. Texas has managed to avoid the wave of coal retirement that has hit other markets; coal plants have survived despite ongoing development of highly efficient CCGTs and as wind continues to push thermal plants up the generation supply curve, taking market share; however, **much of the coal capacity is economically irrational and generates negative cash flows, so time is running out, in our view.**

How did our previous analysis change? The difference between the 8.2GW of retirements we now currently project and the 6.9GW we estimated in our previous analysis (December 2016 – see HERE) can be attributed to deterioration of the forward curves; see later in this note where we highlight weekly changes in the forward curves over time. **Refreshing our analysis with the latest forward curves diminished economics for one plant** (1.3GW J.K. Spruce) in our analysis, which was on the fence in our previous outlook. **We also took out the potential impact from incremental investment required to comply with regional haze standards.** At this juncture, we wouldn't expect any near term impact given that as part of the federal Clean Air Act, the Regional Haze Rule is under challenge with President Trump's initiative to make significant cuts to the EPA and rolling back numerous regulations of recent years, and we could see more appeals and revisits coming.

We estimate 8.2GW of coal retirements in the NT.

Long story short, we now estimate 8.2GW of coal retirements in ERCOT based the latest 8/24/17 forward curves – solely on economics: current forward power and commodity price outlook in ERCOT generating negative CFs for ~**8.2GW** of coal assets. We should start to see tightening of the ERCOT market, particularly as older, more challenged assets begin to retire in the NT. **We emphasize our analysis is at the asset level; our assumptions avoid bias based on the owner of an individual plant, as they range between public vs. private, municipal vs. commercial, contracted vs. merchant, etc.** Based on the approach described above, we estimate 8 of the 17 plants aren't generating cash flow that would support continued operation; **this includes the J.T. Deely plant, which has already announced plans to retire, even though it is owned and operated by municipality.**

Figure 12: ERCOT Coal Plants Economics

Power plant	Owner	Regultory status	Capacity *(MW)*	Economic screen	
				8/24/2017	12/23/2016
Monticello ST	VST	Merchant	1,880	No	No
Big Brown	VST	Merchant	1,150	Yes	Yes
Martin Lake	VST	Merchant	2,250	Yes	Yes
Oak Grove Project	VST	Merchant	1,600	Yes	Yes
Sandow	VST	Merchant	557	Yes	Yes
Sandow (Unit 5)	VST	Merchant	580	Yes	Yes
Limestone	NRG	Merchant	1,689	Yes	Yes
Twin Oaks Power	Private	Merchant	307	Yes	Yes
W.A. Parish 5-8	NRG	Merchant	2,499	Yes	Yes
Coleto Creek	DYN	Merchant	635	Yes	Yes
Sandy Creek	Private	Merchant	939	No	No
Fayette Power Project	Muni	Muni	1,662	No	No
Gibbons Creek	Muni	Muni	470	No	No
J.K. Spruce	Muni	Muni	1,340	No	Yes
J.T. Deely	Muni	Muni	840	No	No
Oklaunion	AEP	Regulated	650	No	No
San Miguel	Muni	Muni	391	No	No
17 coal plants			**19 GW total**	**8.2 GW**	**6.9 GW**

Note: J.T. Deely already announced retirement.

Source: Company disclosures, Guggenheim Securities, LLC.

Big Brown, Monticello and Martin Lake likely retired in step functions.

Focusing on VST's three legacy coal plants with seasonal operations – Big Brown, Monticello and Martin Lake. Three legacy coal plants with total capacity of 5.3GW in VST's generation portfolio (Big Brown, Monticello and Martin Lake), are likely more challenged in the current heat rate and gas price environment, comparing to VST's other younger and more efficient coal plants (Oak Grove, Sandow 4&5). **VST has been running those plants, especially in the past three years, on a seasonal dispatch during summer months, which explains the fluctuation in capacity factors for those plants for the past several years.** That said, we expect these plants to run on a full year round basis in 2017 as VST opportunistically executed attractive hedge contracts when natural gas prices climbed at the end of 2016, while **we would not expect this to be repeatable beyond 2017 and capacity factors of those plants will likely return back to normal levels**.

From a purely economic standpoint, we see Monticello as most challenged (as we highlighted above) with the highest likelihood to retire in the NT, while Big Brown and Martin Lake are marginally free cash flow positive, although still not highly attractive on a risk-adjusted basis. **We would note that management is evaluating the prudent path forward with those plants (i.e. shutting down vs. keeping them on lifeline) especially given where they sit on the dispatch curve.** Management indicated that retirement of all three of those plants in one fell swoop is highly unlikely – **retirements could be in step functions**. That said, we fell short of building any retirements for the VST assets mentioned above in our model for now, given an uncertain path forward. **More scale with ERCOT through additional potential gas deals or a strategic combination with another player could prompt a speedier end to these assets.**

Detailed Assumptions for Luminant

Below are our modeling assumptions in greater detail.

Figure 13: VST capital allocation assumptions

VST assumptions - Capital allocation *($ in millions unless noted otherwise)*

CapEx ($MM)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Fuel and Maintenance CapEx	167	253	253	253	253	253	253	253	253
Environmental CapEx	20	55	55	55	55	55	55	55	55
IT, Corporate and Other	32	34	34	34	34	34	34	34	34
Total CapEx	219	342	342	342	342	342	342	342	342
Non recurring CapEx	85	-	-	-	-	-	-	-	-
Net CapEx	304	342	342	342	342	342	342	342	342

Source: Company disclosures, Guggenheim Securities, LLC.

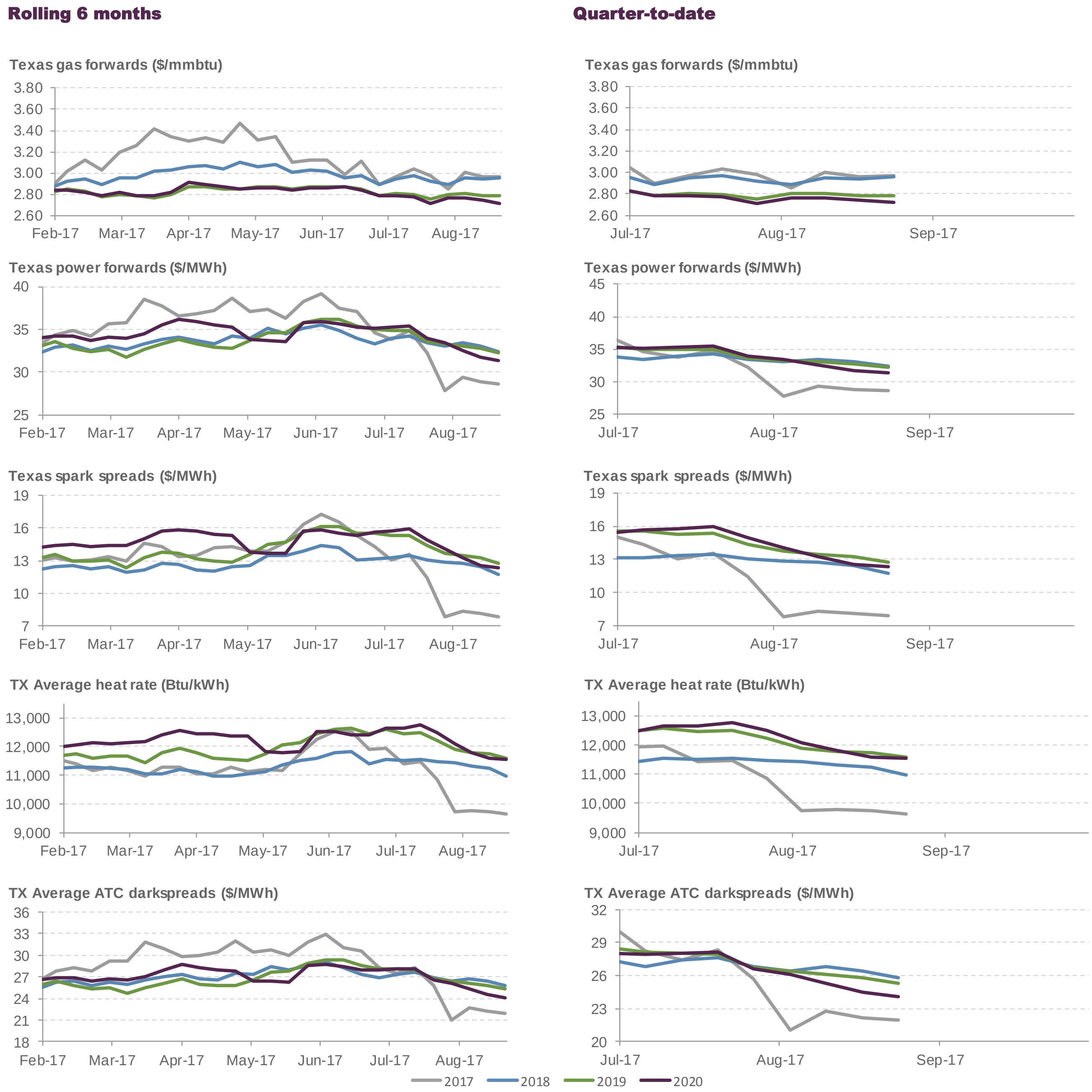
Figure 14: Forward commodity curves and market prices

Forward commodity curves and market prices

Forward commodity prices	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Nymex natural gas ($/MMBtu)	3.04	3.02	2.84	2.76	2.75	2.77	2.80	2.86	2.93
Uranium ($/MWh)	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
PRB Coal ($/ton)	11.76	11.66	12.25	12.86	13.50	14.18	14.88	15.63	16.41
Gas basis ($/MMBtu)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Houston Ship Channel	(0.07)	(0.06)	(0.05)	(0.04)	(0.04)	(0.02)	(0.01)	0.02	0.03
ATC power prices ($/MWh)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
ERCOT	24.56	26.81	26.20	25.57	25.74	25.51	25.62	27.14	27.77
ERCOT North	22.97	25.86	25.34	25.03	25.01	24.95	25.31	26.82	27.44
Peak power prices ($/MWh)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
ERCOT	28.32	32.23	32.06	31.30	31.63	31.29	31.40	33.27	34.04
ERCOT North	25.70	30.85	30.81	30.60	30.59	30.46	31.09	32.94	33.70
ATC spark spreads ($/MWh)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
ERCOT	3.77	6.12	6.71	6.55	6.76	6.28	6.08	6.99	7.05
ERCOT North	3.52	5.90	6.49	6.41	6.57	6.15	6.01	6.91	6.97
Peak spark spreads ($/MWh)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
ERCOT	7.53	11.54	12.56	12.28	12.65	12.07	11.86	13.12	13.32
ERCOT North	6.83	11.04	12.08	12.00	12.23	11.75	11.74	12.99	13.19
ATC dark spreads ($/MWh)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
ERCOT	17.87	20.19	19.24	18.26	18.07	17.45	17.16	18.26	18.44
ERCOT North	16.72	19.47	18.61	17.88	17.56	17.07	16.96	18.04	18.22
Peak dark spreads ($/MWh)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
ERCOT	21.63	25.60	25.10	23.99	23.96	23.24	22.94	24.39	24.71
ERCOT North	19.63	24.51	24.12	23.46	23.17	22.62	22.71	24.14	24.47
ATC quark spreads ($/MWh)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
ERCOT	19.91	22.16	21.55	20.92	21.09	20.86	20.97	22.49	23.12
ERCOT North	18.62	21.37	20.84	20.48	20.49	20.40	20.72	22.22	22.84
Peak quark spreads ($/MWh)	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
ERCOT	23.67	27.58	27.41	26.65	26.98	26.64	26.75	28.62	29.39
ERCOT North	21.18	23.04	21.49	20.94	20.59	20.56	20.06	20.14	19.84

Source: Company disclosures, Guggenheim Securities, LLC

Figure 15: ERCOT commodity forward curves 2017-2020



Source: ICE, Bentek, Guggenheim Securities, LLC

RETAIL – TXU ENERGY

The largest electricity retail service provider in ERCOT.

Crown jewel of the story – VST operates the largest retail platform in ERCOT. VST's retail arm, TXU Energy, is the largest retail electric provider in Texas with a 25% share of the residential retail market. TXU sells retail electricity and value-added services (primarily through TXU Energy brand) to approximately 1.7MM residential and business customers, with concentration in Dallas, Houston and Corpus Christi areas. Management anticipates 1-2% annual consumption growth of retail business, which is above the average of 0-0.5% annual growth rate in the U.S., primarily driven by above-average population growth in TX. Within the retail customer base, ~53% retail load comes from residential customers and the remaining balance comes from small business and larger C&I customers.

Why ERCOT Is So Attractive from a Retail Standpoint?

Oligopoly continues to form with sticky margins and some hints of profit expansion; mature market with growth opportunities as retail books change hands. Starting in 1999, the PUCT established the framework to require retail competition in electricity for customers; the tendency to shop around for electrical providers has been steadily growing ever since, ultimately ending the monopolies over power generation and electricity sales held by a handful of regulated utilities.

ERCOT retail market: oligopoly, mature, resilient margins with growth opportunities.

The favorable retail margins in ERCOT can also be explained by the different market structures. In ERCOT, the retail electric provider has full ownership of the customer relationship, including performing the billing function and customer service, with the exception of outages, which is handled by the regulated utilities. In the other regions, the interface for billing and service is largely through the regulated utilities, who serve as a default to provider that effectively limits the amount of competition and thus curtails the incentive for product design and innovation. That said, (1) the elimination of default service provider/pricing; (2) the full ownership of customer relationship; and (3) ability to offer innovative plants, help sustain the higher margins. ERCOT also enjoys meaningfully higher (~30%) consumption for residential customers than the rest of the U.S. and the strong economy also helps facilitate consumption growth of 1-2% annually - we expect that trend to continue while many other markets are actually shrinking.

How Does TXU Stand Out?

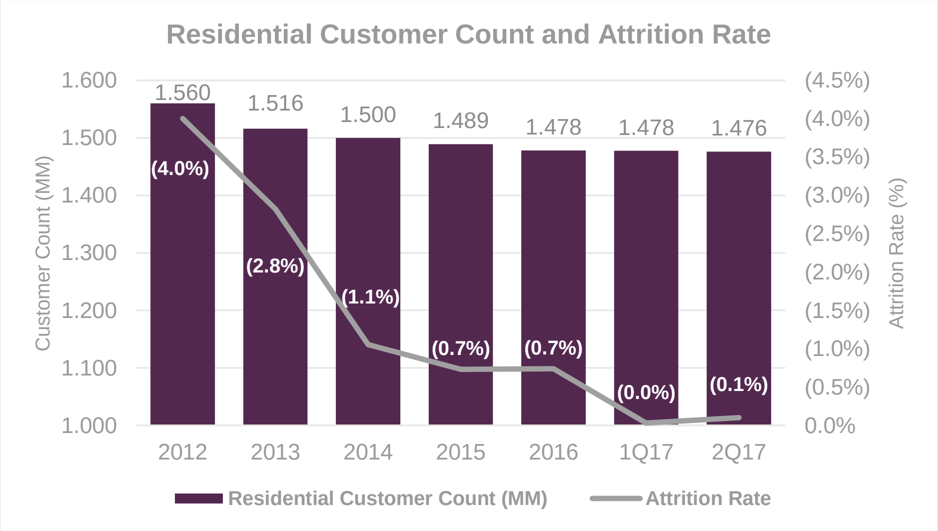
With this highly competitive market structure, nearly every household (+90%) has exercised to choose a retail electric provider at least once since the market opened to competition, as evidenced by the PUCT's 2016 study. Currently, the market has more than 50 REPs, alongside non-competitive municipal, cooperative and investor-owned suppliers. **How does TXU stand out within such a high customer attrition environment?**

A strong brand supported by multi-target strategy and multi-channel marketing.

Apparently having a strong brand and a strong business model enables TXU to maintain market share leadership through time. At TXU, customer attrition has stabilized in recent years through product innovation, customer service, multi-channel marketing and multi-target strategy, as VST strives to maintain and expand its position as the largest retail electricity provider in ERCOT, with positive economy as a solid backdrop. TXU also entered the market with different brands, including 4Change and Express Energy, focusing on the different needs of different customer groups. The 4Change brand offers affordable retail electricity rate through scaled back low touch customer services, while Express Energy differentiate themselves from other providers by providing online only services for Texas electricity customers. **Management continues to look at different needs of customers, and believes the multi-brand strategy will ultimately help grow customer base on an overall basis.**

TXU also executes a multi-channel marketing strategy. Management takes an innovative approach to marketing with Free Nights, Cash Back Rewards and Solar Club, and incorporates a data-driven approach that leverages analytics for how to manage marketing, service as well as energy supply. Despite intense competition, **TXU has been able to drive customer attrition rates substantially lower from -4.0% to -0.7% through 2016 and maintains a fairly stable residential customer count, with 65% of its residential base from loyal customers who are less sensitive to rates and more focused on innovative products as well as quality of customer services.**

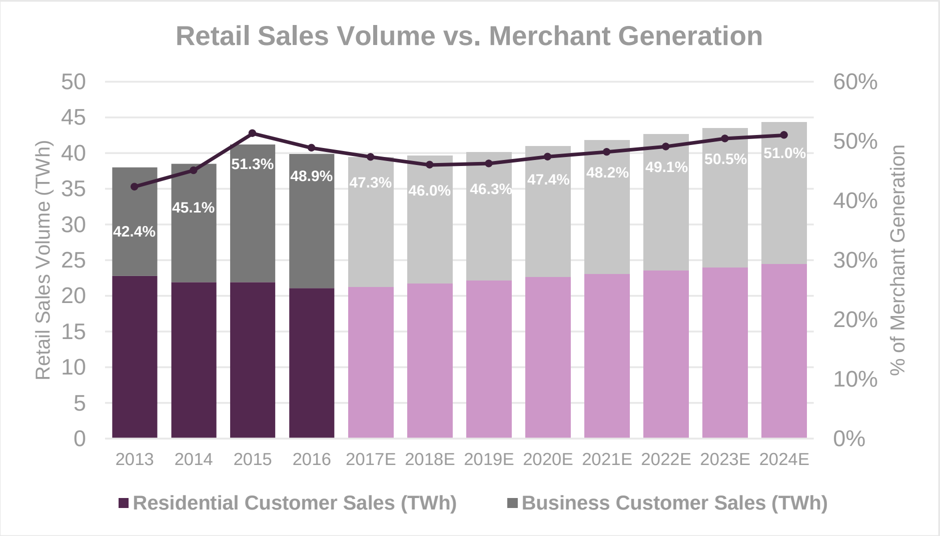
Figure 16: Residential Customer Count and Attrition Rate



Source: Company disclosures, Guggenheim Securities, LLC.

The strong business model is further enhanced by the integration with Luminant. VST's retail business benefited significantly from having a large generation fleet to back its position, avoiding the needs to purchase power at a higher cost from third party providers when markets tighten, as opposed to smaller retailers who run the risk of earning negative margins – we have seen plenty of them go out of business in such cycles in the past. The integration of retail and wholesale also allows VST to avoid certain bid-ask cost of transactions on exchanges. Although smaller retailers would be able to offer much lower promotional contracts at the beginning to attract price sensitive customers, we don't believe this is a viable, sustainable business model without the support of generation in such a cyclical market.

Figure 17: Retail Sales Volume vs. Merchant Generation



Source: Company disclosures, Guggenheim Securities, LLC.

Further Expansion Opportunities

Expansion opportunities targeting the Northeast markets.

Expanding in core markets through organic growth and/or acquisitions. According to management, VST is trying to potentially expand the integrated model into other markets (likely the Northeast) with the current ERCOT position on solid footing. That said, **investing in the existing platform and expanding their retail offering is one component of retail EBITDA enhancement, while M&A is separate**. Acquisition of retail books is likely not off the table either if it aligns with VST's integrated model and further enhances the business. **Management stated it continues to see acquisition opportunities in the market, with some independent retailers willing to sell their books as they typically run into balance sheet capacity constraints when they grow to a certain scale and are unable to sustain the business**. Management also highlighted that scarcity pricing and eventually upward moves (and volatility) in power prices should lead to further asset-light retail providers capitulating.

Valuation Assumptions for TXU Energy

For VST's retail business, we estimate flattish customer attrition rate, in line with the historical average from 2014 through 2Q 2017, and model 2% of electricity demand growth through our forecast period as ERCOT presents meaningfully higher consumption for residential customers than the rest of the U.S. with a strong economy – we expect that trend to continue.

OPERATIONS PERFORMANCE INITIATIVE

Cost saving opportunities beyond $75MM.

Already a lean company emerging from bankruptcy, VST appears to be finding no shortage of incremental cost saving opportunities with potential upside. Upon its emergence from bankruptcy, VST conducted cost saving initiatives that successfully reduced annual corporate overhead, IT and other business function costs by ~$225MM. Upon completion of the support cost structure right-sizing, **VST now has turned its attention toward an operational improvement review of its generating fleet for further cost reductions**, with the low gas prices, and renewable penetration continue to pressure the economics of wholesale generation in ERCOT.

VST is undertaking admirable efforts to strengthen the core. Management has already been engaging third party consultants, as well as internal employee programs, into the process of reviewing operational procedures and cost elements to identify further cost reduction opportunities, which are **expected by the company to yield incremental cost savings beyond the $45-50MM that have been discussed on VST's last earnings call.** Management expects this round of cost saving initiatives to be focused on generation, mining, O&M and CapEx, with the majority (80%) of the already identified opportunities in 2017 to be around the O&M expenses (e.g. consumable optimization, maintenance strategy, etc).

Timing? Management's initial focus was on the three largest coal sites in terms of generation and mining activity (Martin Lake, Oak Grove and Sandow), while management continued their efforts at other sites. **Management expects to complete the review of a majority of the fossil fleet by 3Q17 and the review of Comanche Peak nuclear units by 3Q18.** We expect further enhancements to be communicated on the Q3 earnings conference call. Stay tuned…

> *More clarity expected by 3Q17.*

VALUATION

Below is a summary of our valuation, which brings us to our $20 price target, implying a 12% ETR, supporting our BUY rating. We value IPPs including VST using an unlevered discounted cash flow methodology before accounting for growth CapEx through 2024 terminal year at which point we apply an asset-weighted terminal multiple. VST emerged from bankruptcy with clean start accounting resulting in the elimination of substantially all NOL carryforwards generated through 2013. We subtract net debt (recourse) of ~$2.6bn to arrive at equity value.

Our model is marked to the 8/24/2017 forwards through 2024 terminal year. We project VST's unlevered free cash flows based on consolidated adjusted EBITDA, which is a summation of individual plant-level modeling among other segments including retail, subtracting environmental and maintenance CapEx through 2024 terminal year. We apply an asset weighted 7.4x multiple to derive a terminal value.

Our unlevered DCF valuation implies: (1) ~$624/kw, which is in line with public/private gas asset transactions that have ranged from ~$292-$646/KW over the past three years and **(2)** 7.6x EV/EBITDA on 2018 fundamentals – below theoretical mid cycle.

Figure 18: VST Valuation

VST valuation	2018E
Discounted cash flows	**6,103**
(+) Terminal value (PV)	5,020
Enterprise value	**11,123**
(-) Net debt	(2,640)
Equity value	**8,483**
(÷) Shares outstanding	428
Fair value estimate	$19.84
Price target	**$20.00**
Current price	$17.84
Potential upside	12%
NTM dividend	$0.00
Expected dividend yield	0.0%
Estimated total return	**12.1%**

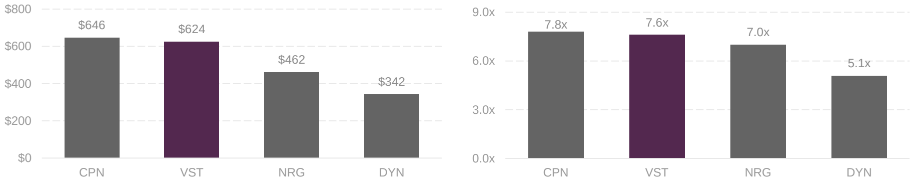
DCF	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Adjusted EBITDA	1,487	1,467	1,484	1,395	1,418	1,351	1,339	1,398
Less non-growth CapEx	(304)	(342)	(342)	(342)	(342)	(342)	(342)	(342)
Less cash taxes	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)
Unlevered Free Cash Flow (UFCF)	1,143	1,085	1,102	1,013	1,036	969	957	1,016
2019 discount factor	0%	0%	6%	12%	19%	26%	33%	41%
UFCF (in 2018 $)		1,085	1,040	902	871	769	717	718
						Terminal value	7.4x	7,521
						PV of terminal value	6%	**5,020**

Source: Guggenheim Securities, LLC estimates, Estimates are in $MM unless noted otherwise.

RELATIVE VALUATION

As we did with our analysis for other IPPs, we look at the value proposition of VST on a relative basis comparing to its IPP peers. When taking into consideration each fleet's quality (i.e., location, fuel type, age of assets), **we believe greater value should be attributed to companies with higher quality assets and the ability to weather the structural changes in deregulated power markets, including those with more balance sheet discipline, higher FCF conversion cycles, etc**. The implied value of VST's portfolio comes to $624/KW, comparing to $462/KW for NRG, which operates also in ERCOT with retail presence although a more geologically diversified fleet. In terms of EV/EBITDA, VST arrives at 7.6x.

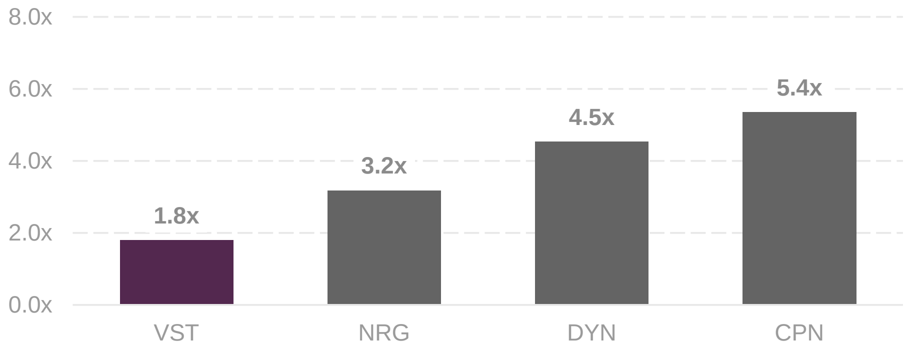
Figure 19: Enterprise value $/KW vs. EV/EBITDA



Source: Guggenheim Securities LLC estimates

VST has much <u>less leverage</u> than IPP peers – an excellent position to grow upon. IPPs may have cash, but a conservative approach to balance sheet is key, especially if highly levered to natural gas. VST emerged from bankruptcy with a clean balance sheet (~1.8x net debt/EBITDA – Guggenheim 2018 estimates), relative to peers in a race to de-lever, although the question remains how to better utilize the balance sheet capacity to grow the company while maintaining a disciplined approach. **Even following growth aspirations, management's target 3.0x leverage ratio would still remain best-in-class.** See Figure 19 below.

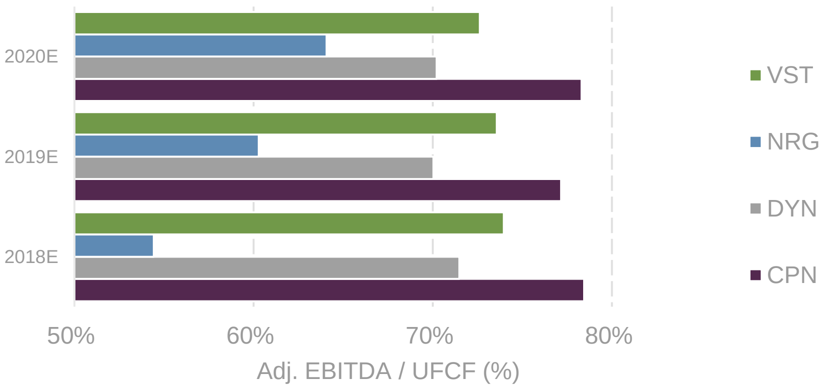
Figure 20: Net Debt / Adjusted EBITDA



Source: Guggenheim Securities LLC estimates

Cash conversion is also <u>comparably efficient</u> among other IPPs. VST's strong cash flow profile is coupled with a disciplined approach to allocating the cash – management highlighted the possiblity of returning cash to shareholders when the right opportunity doesn't exist to do a deal. See Figure 20 below.

Figure 21: Cash Flow Conversion Efficiency



Source: Guggenheim Securities, LLC estimates.

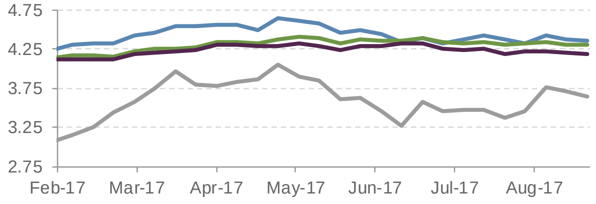
FULL COMMODITY PRICE ENVIRONMENT

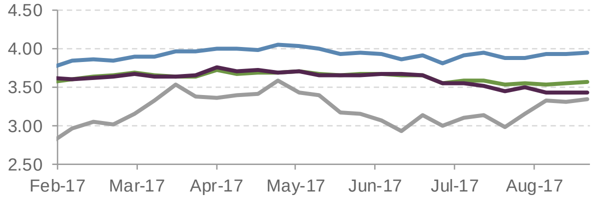
2017 experienced a continued reduction in natural gas and power forward prices, while basis differential volatility continued, driven by weather, midstream capacity constraints, contract relationships and coal retirements.

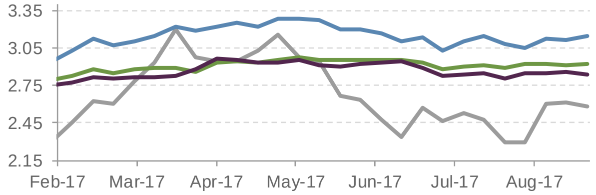
In general, commodity prices decreased since the beginning of 2017. Below we present 2017 gas price, power price, spark spread, dark spread, and heat rate changes in key regions.

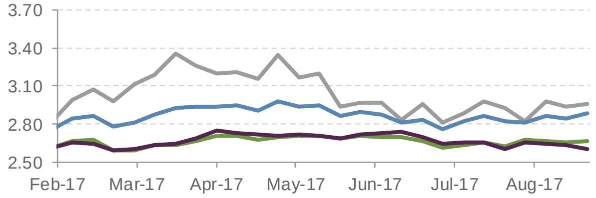
GAS FORWARD CURVES 2017-2020

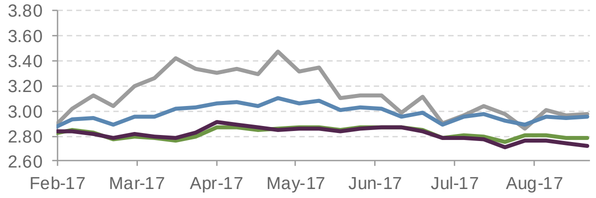
Rolling 6 months

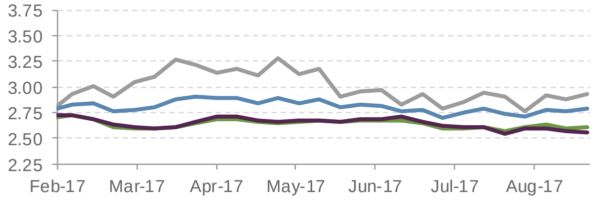

New England gas forwards ($/mmbtu)


Greater New York gas forwards ($/mmbtu)

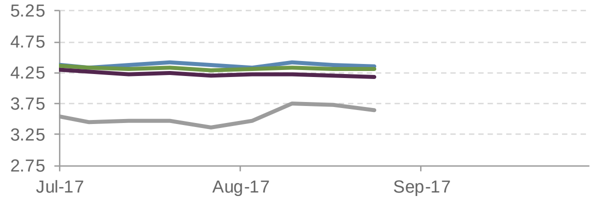

Penn/Jersey/Maryland gas forwards ($/mmbtu)

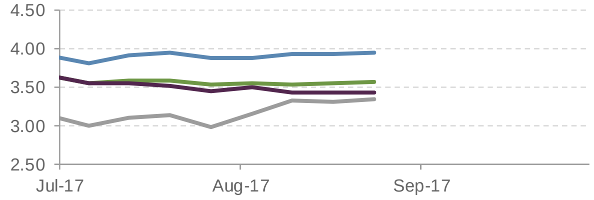

Illinois gas forwards ($/mmbtu)

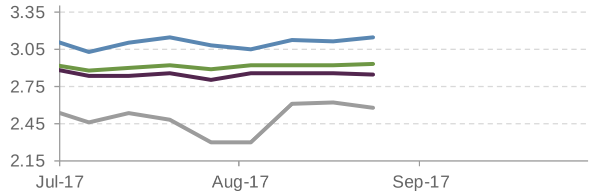

Texas gas forwards ($/mmbtu)

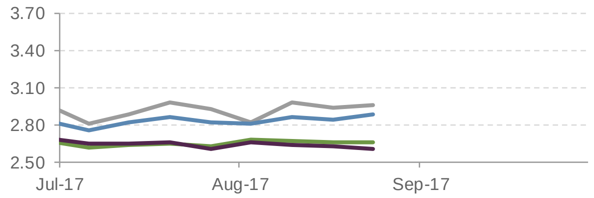

So Cal gas forwards ($/mmbtu)

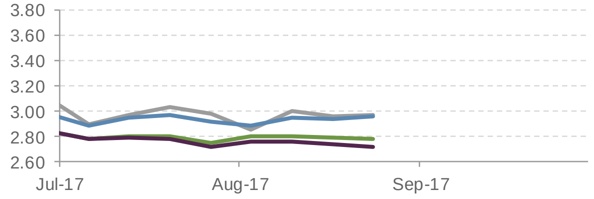
Quarter-to-date

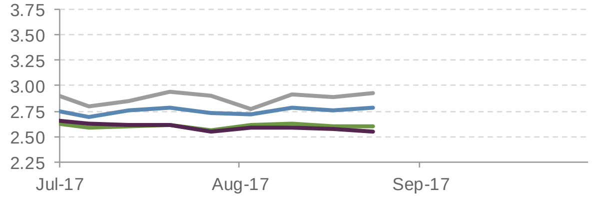

New England gas forwards ($/mmbtu)


Greater New York gas forwards ($/mmbtu)


Penn/Jersey/Maryland gas forwards ($/mmbtu)


Illinois gas forwards ($/mmbtu)


Texas gas forwards ($/mmbtu)

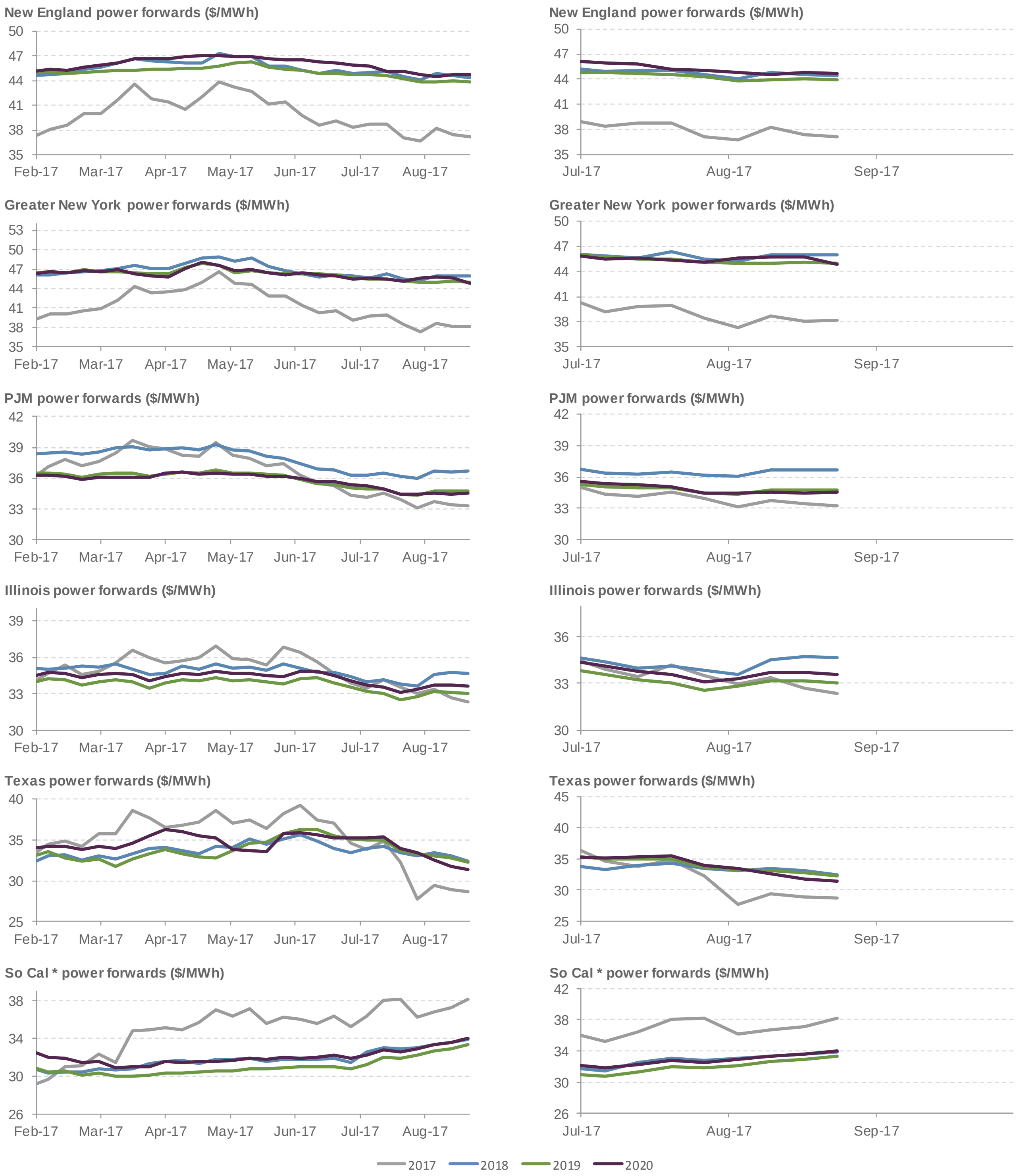

So Cal gas forwards ($/mmbtu)

2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC

POWER FORWARD CURVES 2017-2020

Rolling 6 months **Quarter-to-date**

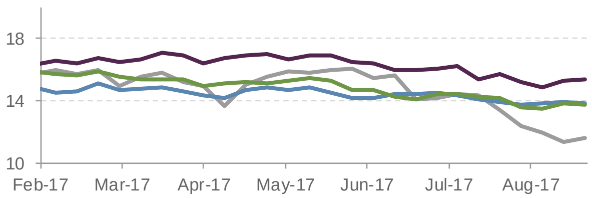


Source: ICE, Bentek, Guggenheim Securities, LLC

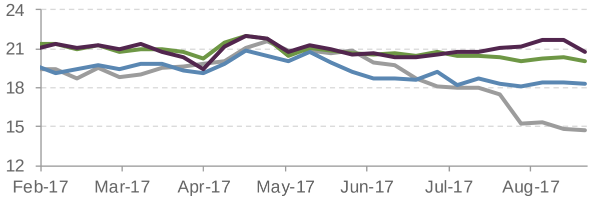
FORWARD SPARK SPREADS 2017-2020

Rolling 6 months

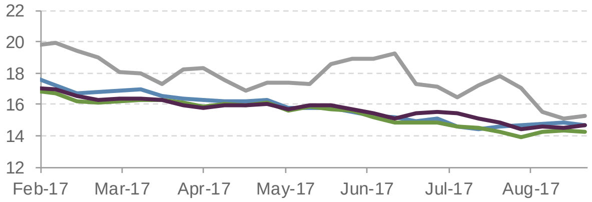
New England spark spreads ($/MWh)



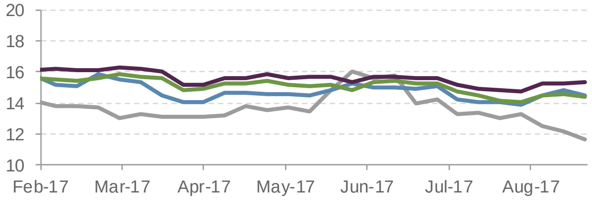
Greater New York spark spreads ($/MWh)



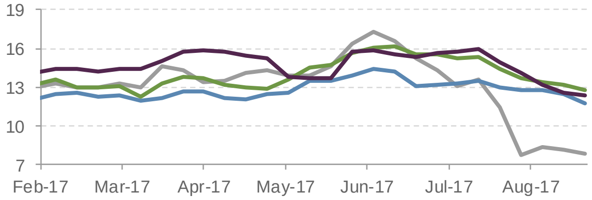
PJM Average spark spreads ($/MWh)



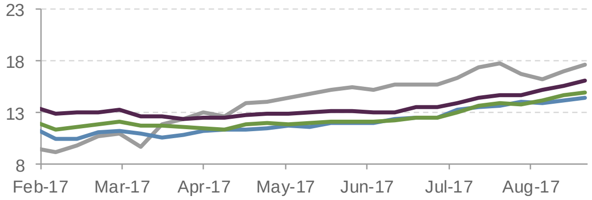
Illinois spark spreads ($/MWh)



Texas spark spreads ($/MWh)

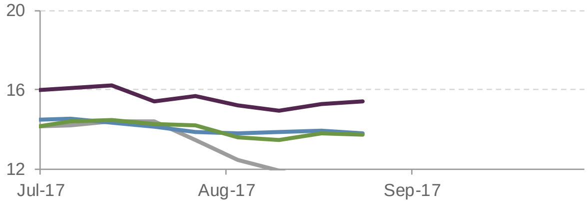


So Cal * spark spreads ($/MWh)

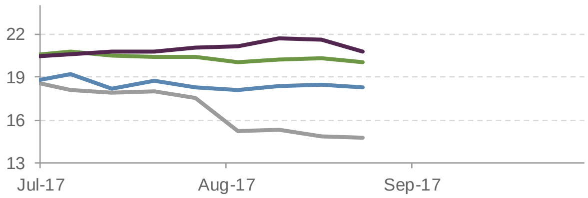


Quarter-to-date

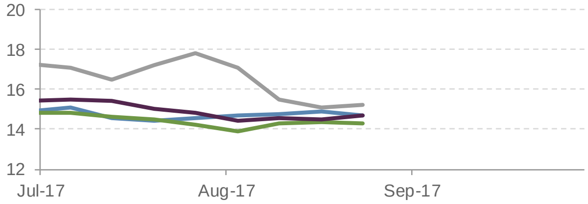
New England spark spreads ($/MWh)



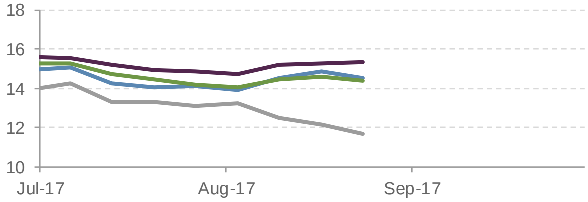
Greater New York spark spreads ($/MWh)



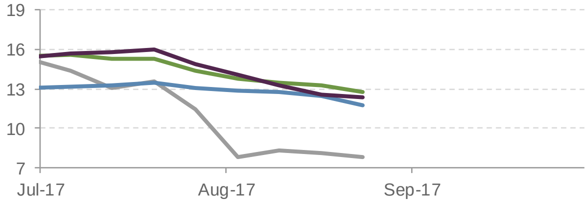
PJM Average spark spreads ($/MWh)



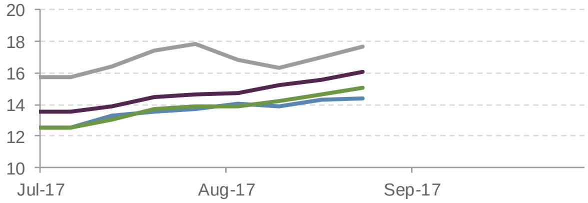
Illinois spark spreads ($/MWh)



Texas spark spreads ($/MWh)



So Cal * spark spreads ($/MWh)

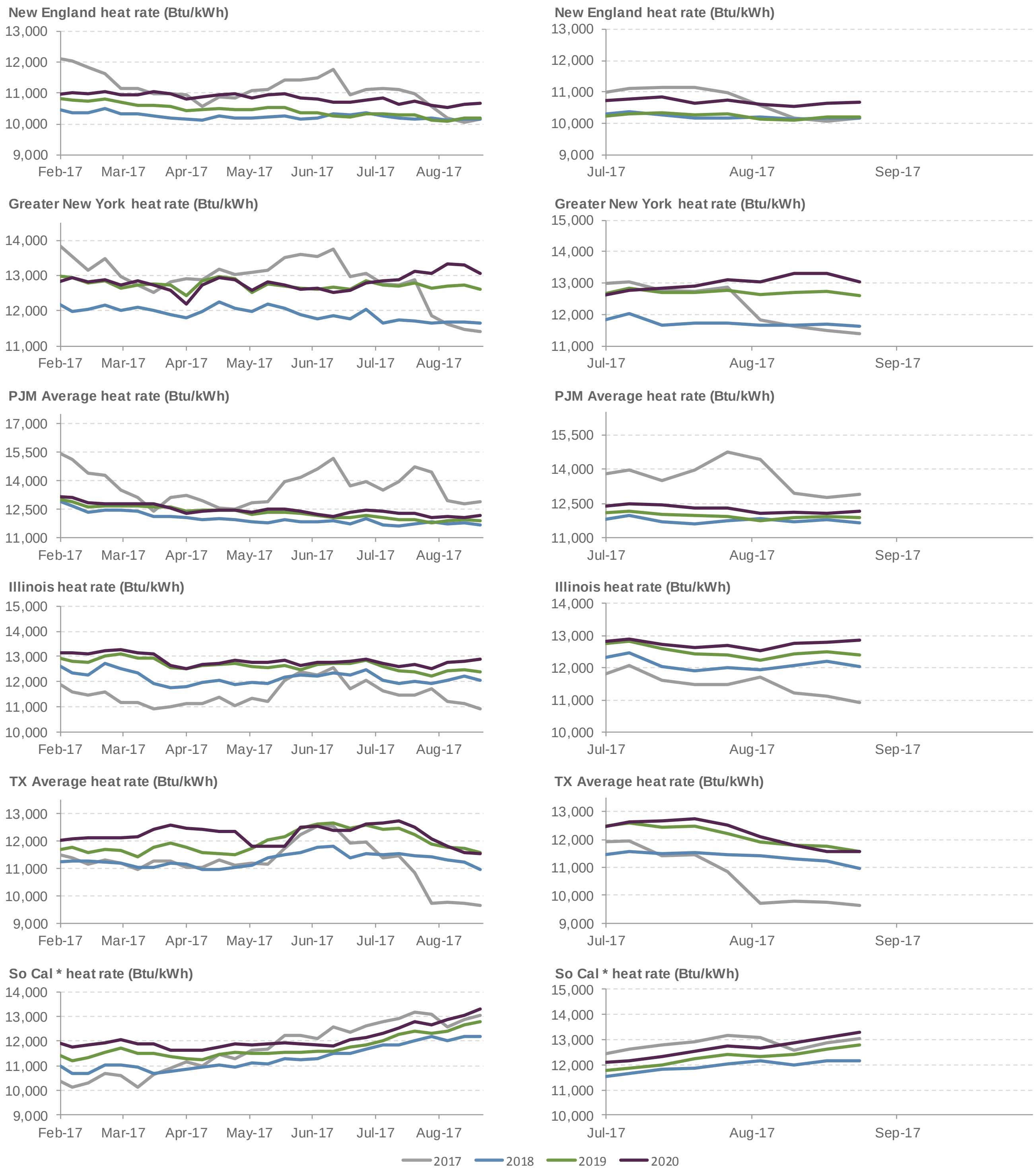


— 2017 — 2018 — 2019 — 2020

Source: ICE, Bentek, Guggenheim Securities, LLC

FORWARD HEAT RATE 2017-2020

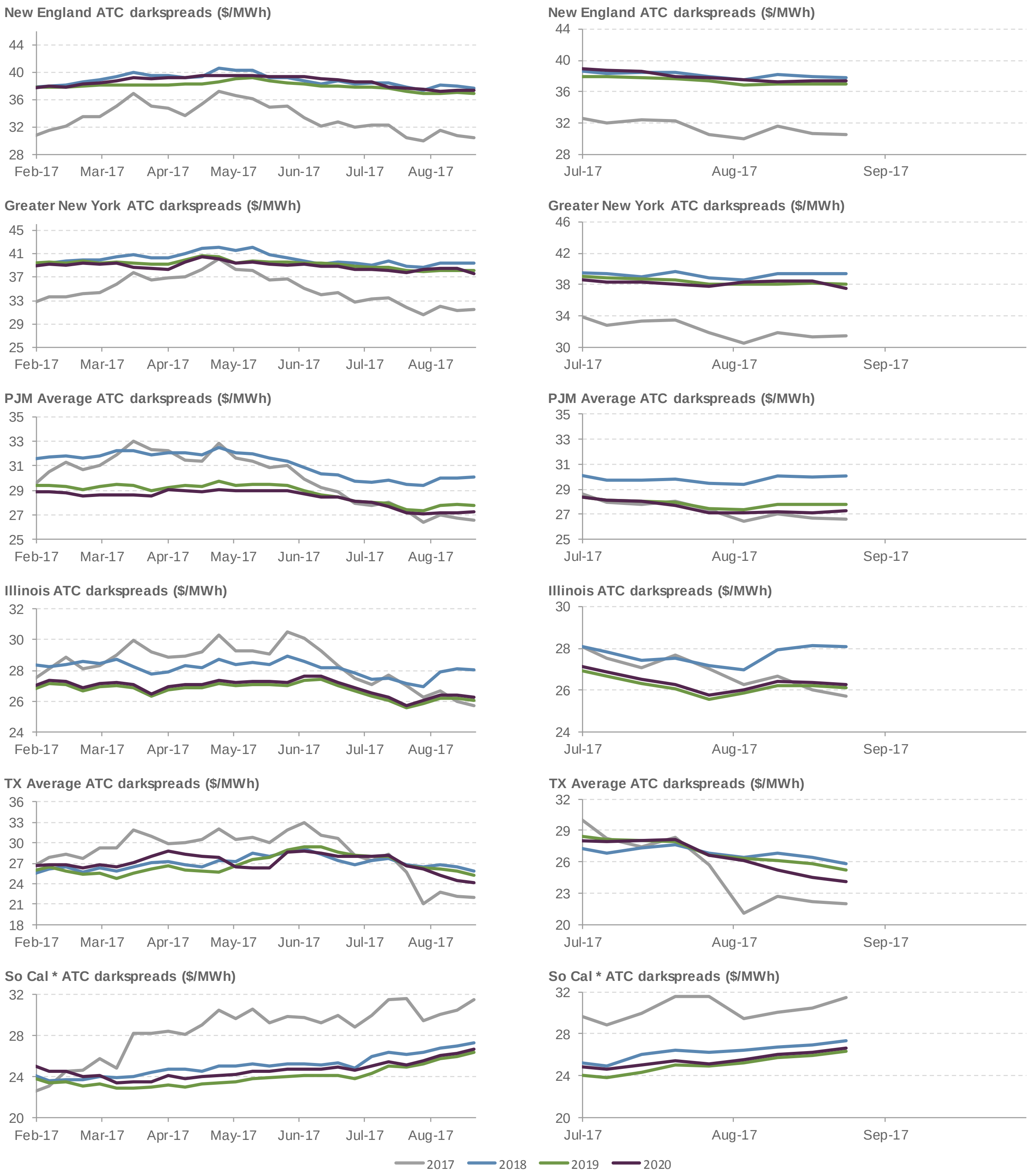
Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC

FORWARD 2017-2020 ATC PRB DARK SPREADS

Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC.

The charts below highlight the curves for natural gas, power, coal, heat rates, and spreads (spark, dark, and quark) that now run our GenCo models. The nature of the forward curve reflects the need of industry participants to hedge their risk even though companies may have a more optimistic view of the pricings. **The 08/24/2017 forward curves are presented below.**

Figure 22: Forward commodity curves – Guggenheim Price Deck

8/24/2017	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
SPREAD SUMMARY $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
Spark Spread (Natural Gas)	10.43	2.81	6.73	12.52	3.31	8.01	13.17	4.09	8.73	13.60	4.75	9.27	14.04	5.25	9.72	14.31	5.58	10.02	14.36	5.89	10.21	15.03	6.10	10.65
Dark Spread (Coal)	8.00	0.13	4.13	10.00	0.66	5.40	7.63	-1.01	3.37	6.04	-2.12	2.02	5.03	-3.11	1.01	4.17	-4.19	0.04	3.09	-5.09	-0.94	2.19	-6.05	-1.87
Quark Spread (Nuclear)	28.24	20.13	24.30	30.01	20.79	25.50	28.94	20.40	24.76	28.97	20.72	24.94	29.44	21.23	25.42	30.07	21.76	25.99	30.44	22.39	26.50	31.27	22.94	27.19

"Peak" prices refer to average daily peak prices, not summer seasonal peak periods.

	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
POWER PRICES $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	37.16	27.83	32.49	44.39	32.67	38.53	43.91	32.83	38.37	44.73	33.36	39.05	45.70	33.61	39.66	46.88	34.47	40.68	47.73	35.10	41.41	49.50	36.40	42.95
Greater New York	38.16	26.28	32.22	45.96	31.69	38.83	45.03	31.03	38.03	44.85	30.67	37.76	45.25	31.35	38.30	46.32	31.73	39.02	47.17	32.31	39.74	49.21	33.71	41.46
Penn/Jersey/Maryland	33.28	24.03	28.65	36.70	25.89	31.30	34.77	24.81	29.79	34.57	24.59	29.58	35.03	24.32	29.67	34.84	23.95	29.39	35.05	24.19	29.62	36.04	24.91	30.48
Midwest	32.88	24.18	28.53	35.28	24.89	30.08	33.47	23.84	28.65	32.10	23.55	27.83	31.89	23.12	27.50	32.44	22.95	27.69	32.63	23.15	27.89	32.43	23.50	27.96
Illinois	32.38	23.53	27.95	34.69	24.70	29.70	33.05	25.73	29.39	33.59	26.16	29.87	34.11	26.56	30.34	34.27	26.68	30.47	34.75	27.05	30.90	36.08	28.09	32.08
Southeast/Gulf Coast	32.02	24.35	28.18	33.55	24.89	29.22	32.10	24.45	28.27	31.90	24.49	28.19	31.81	24.46	28.14	32.20	25.12	28.66	32.01	25.98	29.00	32.29	25.71	29.00
Texas	28.32	20.80	24.56	32.23	21.40	26.81	32.06	20.35	26.20	31.30	19.84	25.57	31.63	19.84	25.74	31.29	19.72	25.51	31.40	19.83	25.62	33.27	21.01	27.14
Desert Southwest *	28.71	23.33	26.40	28.90	23.09	26.40	29.11	23.74	26.80	30.71	25.32	28.39	32.47	28.18	30.62	33.95	29.50	32.04	35.57	30.82	33.52	37.05	32.18	34.95
So Cal *	38.13	30.68	34.92	33.92	28.39	31.54	33.27	28.00	31.00	33.94	29.55	32.05	35.16	31.54	33.60	36.61	32.99	35.05	38.08	34.23	36.42	39.29	35.45	37.64
North CA *	40.11	31.26	36.31	35.78	28.84	32.79	35.87	28.55	32.72	37.16	30.26	34.20	38.79	32.80	36.22	40.73	34.24	37.94	40.75	34.26	37.96	40.95	34.43	38.14
Pac Northwest *	31.68	24.16	28.45	28.33	20.27	24.86	27.63	19.98	24.34	29.03	21.74	25.89	30.71	22.72	27.27	32.41	24.07	28.83	34.00	25.45	30.33	35.13	26.40	31.37
US Average	**32.11**	**24.09**	**28.21**	**33.95**	**24.57**	**29.36**	**32.88**	**24.12**	**28.60**	**32.80**	**24.39**	**28.69**	**33.27**	**24.83**	**29.14**	**33.86**	**25.25**	**29.65**	**34.31**	**25.85**	**30.18**	**35.15**	**26.49**	**30.92**

* Western flat power is 57% peak, 43% off peak, due to its 6X16 bid block schedule. Other regional flat prices are 50% peak, 50% off peak due to a 5X16 bid block schedule.

	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
		Basis	$/mmbtu		Basis	$/mmbtu		Basis	$/mmbtu	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
GAS PRICES $/mmbtu																								
New England		0.61	3.65		1.35	4.37		1.47	4.31		1.43	4.19		1.53	4.28		1.52	4.29		1.51	4.32		1.48	4.35
Greater New York		0.30	3.34		0.93	3.95		0.73	3.57		0.68	3.44		0.71	3.46		0.71	3.48		0.74	3.55		0.70	3.57
Penn/Jersey/Maryland		-0.47	2.58		0.13	3.15		0.09	2.93		0.08	2.84		0.08	2.83		0.08	2.85		0.05	2.85		0.04	2.91
Midwest		-0.07	2.97		-0.15	2.87		-0.16	2.67		-0.15	2.61		-0.13	2.62		-0.10	2.67		-0.10	2.70		-0.07	2.80
Illinois		-0.08	2.96		-0.14	2.88		-0.17	2.66		-0.15	2.61		-0.12	2.62		-0.12	2.65		-0.10	2.71		-0.09	2.77
Southeast/Gulf Coast		**3.04**	**3.04**		**3.02**	**3.02**		**2.84**	**2.84**		**2.76**	**2.76**		**2.75**	**2.75**		**2.77**	**2.77**		**2.80**	**2.80**		**2.86**	**2.86**
Texas		-0.07	2.97		-0.06	2.96		-0.05	2.78		-0.04	2.72		-0.04	2.71		-0.02	2.75		-0.01	2.79		0.02	2.88
Desert Southwest		-0.37	2.67		-0.55	2.47		-0.55	2.29		-0.47	2.29		-0.39	2.36		-0.40	2.37		-0.38	2.43		-0.38	2.48
So Cal		-0.12	2.93		-0.23	2.79		-0.23	2.61		-0.21	2.55		-0.17	2.58		-0.15	2.62		-0.15	2.65		-0.14	2.72
North CA		-0.20	2.85		-0.33	2.69		-0.37	2.47		-0.38	2.38		-0.38	2.37		-0.36	2.41		-0.35	2.45		-0.33	2.53
Pac Northwest		-0.27	2.77		-0.40	2.62		-0.41	2.43		-0.41	2.35		-0.38	2.37		-0.38	2.39		-0.38	2.42		-0.38	2.48

	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
SPARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	11.59	2.25	6.92	13.83	2.11	7.97	13.75	2.67	8.21	15.42	4.05	9.74	15.72	3.63	9.67	16.88	4.47	10.68	17.49	4.87	11.18	19.07	5.97	12.52
Greater New York	14.75	2.86	8.80	18.33	4.06	11.19	20.05	6.05	13.05	20.79	6.61	13.70	21.02	7.13	14.07	21.94	7.35	14.64	22.35	7.49	14.92	24.25	8.75	16.50
Penn/Jersey/Maryland	15.24	6.00	10.62	14.68	3.87	9.27	14.30	4.33	9.31	14.69	4.71	9.70	15.23	4.52	9.87	14.86	3.98	9.42	15.07	4.22	9.65	15.69	4.57	10.13
Midwest	12.07	3.37	7.72	15.17	4.78	9.98	14.76	5.13	9.94	13.83	5.28	9.56	13.53	4.76	9.14	13.72	4.23	8.97	13.69	4.22	8.96	12.87	3.93	8.40
Illinois	11.65	2.80	7.22	14.52	4.53	9.52	14.40	7.08	10.74	15.32	7.89	11.61	15.74	8.19	11.96	15.70	8.11	11.91	15.80	8.10	11.95	16.68	8.69	12.68
Southeast/Gulf Coast	10.71	3.04	6.87	12.42	3.76	8.09	12.24	4.59	8.42	12.59	5.18	8.89	12.56	5.21	8.89	12.81	5.74	9.27	12.37	6.35	9.36	12.25	5.67	8.96
Texas	7.53	0.01	3.77	11.54	0.70	6.12	12.56	0.86	6.71	12.28	0.82	6.55	12.65	0.86	6.76	12.07	0.50	6.28	11.86	0.30	6.08	13.12	0.86	6.99
Desert Southwest	10.02	4.63	7.70	11.61	5.81	9.12	13.07	7.70	10.77	14.70	9.30	12.38	15.94	11.65	14.09	17.34	12.89	15.42	18.57	13.82	16.53	19.67	14.81	17.58
So Cal	17.63	10.18	14.43	14.40	8.87	12.02	15.03	9.76	12.77	16.08	11.70	14.19	17.10	13.48	15.54	18.30	14.67	16.74	19.52	15.67	17.86	20.22	16.38	18.57
North CA	20.17	11.32	16.36	16.97	10.04	13.99	18.58	11.26	15.44	20.50	13.60	17.53	22.22	16.24	19.65	23.84	17.35	21.05	23.58	17.09	20.79	23.24	16.72	20.43
Pac Northwest	12.26	4.75	9.03	9.99	1.94	6.53	10.62	2.98	7.34	12.56	5.27	9.42	14.14	6.15	10.70	15.68	7.34	12.10	17.05	8.50	13.37	17.75	9.02	14.00
	10.43	**2.81**	**6.73**	**12.52**	**3.31**	**8.01**	**13.17**	**4.09**	**8.73**	**13.60**	**4.75**	**9.27**	**14.04**	**5.25**	**9.72**	**14.31**	**5.58**	**10.02**	**14.36**	**5.89**	**10.21**	**15.03**	**6.10**	**10.65**

	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
COAL PRICES	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH	$/Sh ton	$/mmbtu	$/MWH
Central Appalachian	56.48	2.35	23.53	56.71	2.36	23.63	59.55	2.48	24.81	62.53	2.61	26.05	65.65	2.74	27.35	68.93	2.87	28.72	72.38	3.02	30.16	76.00	3.17	31.67
Powder River Basin	11.76	0.67	6.68	11.66	0.66	6.63	12.25	0.70	6.96	12.86	0.73	7.31	13.50	0.77	7.67	14.18	0.81	8.05	14.88	0.85	8.46	15.63	0.89	8.88

CAPP DARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	13.63	4.29	8.96	20.76	9.04	14.90	19.10	8.02	13.56	18.68	7.31	12.99	18.35	6.26	12.30	18.15	5.75	11.95	17.57	4.94	11.25	17.83	4.73	11.28
Greater New York	14.63	2.74	8.69	22.33	8.06	15.20	20.22	6.22	13.22	18.79	4.61	11.70	17.89	4.00	10.94	17.59	3.01	10.30	17.01	2.15	9.58	17.54	2.04	9.79
Penn/Jersey/Maryland	9.74	0.50	5.12	13.07	2.26	7.67	9.96	-0.01	4.98	8.52	-1.46	3.53	7.67	-3.04	2.32	6.11	-4.77	0.67	4.89	-5.97	-0.54	4.37	-6.75	-1.19
Midwest	9.34	0.64	4.99	11.64	1.26	6.45	8.65	-0.97	3.84	6.05	-2.50	1.77	4.53	-4.23	0.15	3.71	-5.78	-1.03	2.47	-7.00	-2.27	0.77	-8.17	-3.70
Illinois	8.84	-0.01	4.42	11.06	1.07	6.07	8.24	0.92	4.58	7.54	0.10	3.82	6.76	-0.79	2.98	5.54	-2.04	1.75	4.59	-3.10	0.74	4.41	-3.58	0.42
Southeast/Gulf Coast	8.49	0.81	4.65	9.92	1.26	5.59	7.28	-0.37	3.46	5.84	-1.57	2.14	4.46	-2.89	0.78	3.48	-3.60	-0.06	1.85	-4.17	-1.16	0.63	-5.95	-2.66
Texas	4.78	-2.74	1.02	8.60	-2.23	3.18	7.24	-4.46	1.39	5.25	-6.21	-0.48	4.28	-7.51	-1.62	2.57	-9.00	-3.21	1.24	-10.32	-4.54	1.60	-10.65	-4.53
Desert Southwest	5.18	-0.21	2.86	5.27	-0.54	2.77	4.30	-1.07	1.99	4.66	-0.74	2.34	5.11	0.82	3.27	5.23	0.78	3.32	5.41	0.66	3.37	5.38	0.52	3.29
So Cal	14.59	7.14	11.39	10.29	4.76	7.91	8.46	3.19	6.19	7.89	3.50	6.00	7.80	4.19	6.25	7.89	4.26	6.33	7.92	4.07	6.26	7.62	3.78	5.97
North CA	16.58	7.73	12.77	12.14	5.21	9.16	11.06	3.74	7.91	11.11	4.21	8.14	11.44	5.45	8.86	12.00	5.52	9.21	10.59	4.10	7.80	9.28	2.76	6.48
Pac Northwest	8.14	0.63	4.91	4.69	-3.36	1.23	2.81	-4.83	-0.47	2.98	-4.32	-0.16	3.35	-4.64	-0.08	3.69	-4.65	0.10	3.84	-4.71	0.17	3.46	-5.27	-0.29
	8.00	**0.13**	**4.13**	**10.00**	**0.66**	**5.40**	**7.63**	**-1.01**	**3.37**	**6.04**	**-2.12**	**2.02**	**5.03**	**-3.11**	**1.01**	**4.17**	**-4.19**	**0.04**	**3.09**	**-5.09**	**-0.94**	**2.19**	**-6.05**	**-1.87**

	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
QUARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	32.51	23.18	27.84	39.74	28.02	33.88	39.26	28.18	33.72	40.08	28.71	34.40	41.05	28.96	35.01	42.23	29.82	36.03	43.08	30.45	36.76	44.85	31.75	38.30
Greater New York	33.51	21.63	27.57	41.31	27.04	34.18	40.38	26.38	33.38	40.20	26.02	33.11	40.60	26.70	33.65	41.67	27.08	34.37	42.52	27.66	35.09	44.56	29.06	36.81
Pen/Jersey/Mrylnd	28.63	19.38	24.00	32.05	21.24	26.65	30.12	20.16	25.14	29.92	19.94	24.93	30.38	19.67	25.02	30.19	19.30	24.74	30.40	19.54	24.97	31.39	20.26	25.83
Midwest	28.23	19.53	23.88	30.63	20.24	25.43	28.82	19.19	24.00	27.45	18.90	23.18	27.24	18.47	22.85	27.79	18.30	23.04	27.98	18.50	23.24	27.78	18.85	23.31
Illinois	27.73	18.88	23.30	30.04	20.05	25.05	28.40	21.08	24.74	28.94	21.51	25.22	29.46	21.91	25.69	29.62	22.03	25.82	30.10	22.40	26.25	31.43	23.44	27.43
Southeast/Gulf Coast	27.37	19.70	23.53	28.90	20.24	24.57	27.45	19.80	23.62	27.25	19.84	23.54	27.16	19.81	23.49	27.55	20.47	24.01	27.36	21.33	24.35	27.64	21.06	24.35
Texas	23.67	16.15	19.91	27.58	16.75	22.16	27.41	15.70	21.55	26.65	15.19	20.92	26.98	15.19	21.09	26.64	15.07	20.86	26.75	15.18	20.97	28.62	16.36	22.49
Desert Southwest	24.06	18.68	21.75	24.25	18.44	21.75	24.46	19.09	22.15	26.06	20.67	23.74	27.82	23.53	25.97	29.30	24.85	27.39	30.92	26.17	28.87	32.40	27.53	30.30
So Cal	33.48	26.03	30.27	29.27	23.74	26.89	28.62	23.35	26.35	29.29	24.90	27.40	30.51	26.89	28.95	31.96	28.34	30.40	33.43	29.58	31.77	34.64	30.80	32.99
North CA	35.46	26.61	31.66	31.13	24.19	28.14	31.22	23.90	28.07	32.51	25.61	29.55	34.14	28.15	31.57	36.08	29.59	33.29	36.10	29.61	33.31	36.30	29.78	33.49
Pac Northwest	27.03	19.51	23.80	23.68	15.62	20.21	22.98	15.33	19.69	24.38	17.09	21.24	26.06	18.07	22.62	27.76	19.42	24.18	29.35	20.80	25.68	30.48	21.75	26.72
	28.24	**20.13**	**24.30**	**30.01**	**20.79**	**25.50**	**28.94**	**20.40**	**24.76**	**28.97**	**20.72**	**24.94**	**29.44**	**21.23**	**25.42**	**30.07**	**21.76**	**25.99**	**30.44**	**22.39**	**26.50**	**31.27**	**22.94**	**27.19**

Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward commodity curves – Guggenheim Price Deck *(continued…)*

	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
PEAK	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**
Greater New York																								
Zone G	35.38	25.38	30.38	41.99	30.00	35.99	40.68	29.40	35.04	41.20	29.49	35.34	41.91	29.63	35.77	42.24	30.01	36.13	42.77	30.38	36.57	44.46	31.58	38.02
Zone J	38.16	26.28	32.22	45.96	31.69	38.83	45.03	31.03	38.03	44.85	30.67	37.76	45.25	31.35	38.30	46.32	31.73	39.02	47.17	32.31	39.74	49.21	33.71	41.46
Zone A	32.24	18.44	25.34	36.76	20.62	28.69	35.18	20.37	27.77	34.68	20.36	27.52	34.50	20.39	27.45	34.40	20.19	27.30	34.83	20.44	27.63	36.21	21.25	28.73
Average, NY Pool	**35.26**	**23.36**	**29.31**	**41.57**	**27.43**	**34.50**	**40.29**	**26.93**	**33.61**	**40.24**	**26.84**	**33.54**	**40.55**	**27.12**	**33.84**	**40.99**	**27.31**	**34.15**	**41.59**	**27.71**	**34.65**	**43.29**	**28.85**	**36.07**
Zone G Heat Rate	10,576	7,586	9,081	10,637	7,598	9,117	11,399	8,238	9,818	11,989	8,582	10,285	12,111	8,560	10,336	12,128	8,615	10,372	12,061	8,569	10,315	12,469	8,858	10,664
Zone J Heat Rate	11,409	7,855	9,632	11,642	8,028	9,835	12,619	8,697	10,658	13,051	8,925	10,988	13,074	9,059	11,067	13,298	9,110	11,204	13,302	9,113	11,207	13,800	9,454	11,627
Zone A Heat Rate	9,638	5,512	7,575	9,311	5,222	7,267	9,858	5,707	7,783	10,091	5,925	8,008	9,970	5,891	7,931	9,876	5,797	7,837	9,822	5,765	7,793	10,155	5,960	8,058

	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
IMPLIED HEAT RATES	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**
New England	10,173	7,617	8,895	10,168	7,483	8,825	10,191	7,620	8,906	10,683	7,967	9,325	10,670	7,847	9,259	10,938	8,044	9,491	11,050	8,127	9,588	11,385	8,373	9,879
Greater New York	11,409	7,855	9,632	11,642	8,028	9,835	12,619	8,697	10,658	13,051	8,925	10,988	13,074	9,059	11,067	13,298	9,110	11,204	13,302	9,113	11,207	13,800	9,454	11,627
Penn/Jersey/Maryland	12,917	9,328	11,123	11,666	8,229	9,948	11,887	8,481	10,184	12,173	8,660	10,417	12,383	8,597	10,490	12,208	8,395	10,301	12,283	8,478	10,380	12,401	8,573	10,487
Midwest	11,063	8,135	9,599	12,281	8,665	10,473	12,520	8,918	10,719	12,301	9,023	10,662	12,156	8,814	10,485	12,131	8,581	10,356	12,063	8,560	10,311	11,603	8,406	10,004
Illinois	10,933	7,945	9,439	12,038	8,573	10,305	12,402	9,656	11,029	12,873	10,024	11,449	12,997	10,120	11,558	12,918	10,058	11,488	12,835	9,993	11,414	13,018	10,136	11,577
Southeast/Gulf Coast	10,518	7,998	9,258	11,115	8,245	9,680	11,316	8,619	9,967	11,565	8,879	10,222	11,570	8,897	10,233	11,626	9,071	10,348	11,412	9,265	10,339	11,278	8,980	10,129
Texas	9,535	7,002	8,268	10,903	7,238	9,070	11,512	7,308	9,410	11,518	7,301	9,410	11,665	7,318	9,491	11,394	7,182	9,288	11,250	7,107	9,178	11,556	7,299	9,428
Desert Southwest	10,752	8,734	9,884	11,704	9,352	10,692	12,708	10,363	11,700	13,427	11,068	12,412	13,748	11,933	12,968	14,304	12,430	13,498	14,646	12,690	13,805	14,923	12,964	14,080
So Cal	13,021	10,476	11,927	12,163	10,180	11,311	12,770	10,747	11,901	13,303	11,585	12,564	13,626	12,224	13,023	13,994	12,609	13,399	14,360	12,908	13,735	14,426	13,016	13,820
North CA	14,078	10,972	12,743	13,319	10,738	12,209	14,526	11,561	13,251	15,612	12,714	14,366	16,391	13,861	15,303	16,880	14,192	15,724	16,612	13,967	15,475	16,184	13,607	15,076
Pac Northwest	11,421	8,712	10,256	10,816	7,741	9,494	11,373	8,227	10,020	12,339	9,239	11,006	12,973	9,598	11,522	13,561	10,071	12,060	14,039	10,508	12,521	14,153	10,635	12,640
Market Heat Rate	**10,962**	**8,308**	**9,635**	**11,573**	**8,479**	**10,026**	**12,027**	**8,934**	**10,480**	**12,301**	**9,263**	**10,782**	**12,421**	**9,386**	**10,904**	**12,512**	**9,450**	**10,981**	**12,509**	**9,543**	**11,026**	**12,500**	**9,544**	**11,022**

	Peak	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**
ERCOT																								
Houston	32.62	21.63	27.13	33.86	22.39	28.12	34.06	20.80	27.43	32.05	20.28	26.16	32.46	20.38	26.42	32.10	19.98	26.04	31.97	20.10	26.04	33.87	21.30	27.58
North	25.70	20.25	22.97	30.85	20.86	25.86	30.81	19.87	25.34	30.60	19.46	25.03	30.59	19.43	25.01	30.46	19.44	24.95	31.09	19.54	25.31	32.94	20.70	26.82
South	27.65	20.73	24.19	32.57	21.14	26.85	31.78	20.59	26.19	31.54	19.95	25.75	32.32	19.89	26.11	31.70	19.88	25.79	31.26	19.99	25.63	33.12	21.18	27.15
Average, ERCOT Pool	**28.32**	**20.80**	**24.56**	**32.23**	**21.40**	**26.81**	**32.06**	**20.35**	**26.20**	**31.30**	**19.84**	**25.57**	**31.63**	**19.84**	**25.74**	**31.29**	**19.72**	**25.51**	**31.40**	**19.83**	**25.62**	**33.27**	**21.01**	**27.14**

PRB DARK SPREADS $/MWH	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
	Peak	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**
New England	30.48	21.14	25.81	37.77	26.04	31.90	36.95	25.87	31.41	37.43	26.05	31.74	38.03	25.94	31.99	38.82	26.42	32.62	39.27	26.64	32.95	40.62	27.52	34.07
Greater New York	31.48	19.59	25.54	39.34	25.07	32.20	38.07	24.08	31.07	37.54	23.36	30.45	37.57	23.68	30.63	38.26	23.67	30.97	38.71	23.85	31.28	40.33	24.83	32.58
Penn/Jersey/Maryland	26.59	17.35	21.97	30.08	19.26	24.67	27.81	17.85	22.83	27.26	17.29	22.27	27.35	16.65	22.00	26.78	15.90	21.34	26.59	15.73	21.16	27.16	16.03	21.60
Midwest	26.19	17.49	21.84	28.65	18.26	23.45	26.51	16.88	21.69	24.80	16.24	20.52	24.22	15.45	19.83	24.38	14.89	19.64	24.17	14.70	19.43	23.55	14.62	19.08
Illinois	25.69	16.84	21.27	28.06	18.08	23.07	26.09	18.78	22.43	26.28	18.85	22.57	26.44	18.89	22.66	26.21	18.62	22.42	26.29	18.60	22.44	27.20	19.21	23.20
Southeast/Gulf Coast	25.34	17.67	21.50	26.93	18.26	22.60	25.14	17.49	21.31	24.59	17.18	20.88	24.14	16.79	20.46	24.15	17.07	20.61	23.55	17.53	20.54	23.41	16.83	20.12
Texas	21.63	14.11	17.87	25.60	14.77	20.19	25.10	13.39	19.24	23.99	12.54	18.26	23.96	12.17	18.07	23.24	11.67	17.45	22.94	11.38	17.16	24.39	12.13	18.26
Desert Southwest	22.03	16.64	19.71	22.27	16.47	19.78	22.15	16.78	19.84	23.41	18.01	21.09	24.80	20.51	22.95	25.90	21.45	23.99	27.11	22.36	25.07	28.17	23.30	26.07
So Cal	31.44	23.99	28.24	27.29	21.76	24.91	26.31	21.04	24.05	26.63	22.25	24.75	27.49	23.87	25.93	28.56	24.93	27.00	29.62	25.77	27.97	30.41	26.57	28.76
North CA	33.43	24.58	29.63	29.15	22.22	26.17	28.91	21.59	25.77	29.86	22.96	26.89	31.12	25.13	28.55	32.67	26.19	29.88	32.29	25.81	29.50	32.07	25.55	29.26
Pac Northwest	25.00	17.48	21.76	21.70	13.65	18.24	20.67	13.03	17.38	21.72	14.43	18.59	23.03	15.05	19.60	24.36	16.02	20.77	25.55	16.99	21.87	26.25	17.52	22.49
U.S. National	**24.67**	**16.61**	**20.71**	**26.59**	**16.98**	**21.85**	**25.09**	**16.51**	**20.87**	**24.73**	**16.39**	**20.62**	**24.78**	**16.29**	**20.60**	**24.76**	**16.21**	**20.55**	**24.73**	**16.34**	**20.61**	**25.31**	**16.62**	**21.04**

	Cal-2017			Cal-2018			Cal-2019			Cal-2020			Cal-2021			Cal-2022			Cal-2023			Cal-2024		
	Peak	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**	**Peak**	**Off-Peak**	**Flat**
PJM																								
East	33.46	23.85	28.66	37.55	26.36	31.96	35.66	25.31	30.48	35.95	25.24	30.59	36.84	24.76	30.80	36.54	23.96	30.25	36.71	24.07	30.39	38.13	25.00	31.56
West	33.09	24.21	28.65	35.85	25.42	30.64	33.88	24.30	29.09	33.19	23.95	28.57	33.21	23.87	28.54	33.13	23.95	28.54	33.38	24.31	28.84	33.95	24.83	29.39
Average,PJM Pool	**33.28**	**24.03**	**28.65**	**36.70**	**25.89**	**31.30**	**34.77**	**24.81**	**29.79**	**34.57**	**24.59**	**29.58**	**35.03**	**24.32**	**29.67**	**34.84**	**23.95**	**29.39**	**35.05**	**24.19**	**29.62**	**36.04**	**24.91**	**30.48**
PJM East Heat Rate	12,989	9,258	11,124	11,936	8,378	10,157	12,191	8,652	10,421	12,658	8,887	10,773	13,024	8,755	10,890	12,804	8,396	10,600	12,867	8,437	10,652	13,119	8,602	10,860
PJM West Heat Rate	12,844	9,399	11,121	11,396	8,080	9,738	11,584	8,309	9,946	11,688	8,432	10,060	11,743	8,440	10,091	11,611	8,393	10,002	11,699	8,520	10,109	11,682	8,544	10,113

Source: Guggenheim Securities, ICE, Bentek Energy, NYMEX, ISO/RTO.

Source: ICE, Bentek, Guggenheim Securities, LLC.

RISKS

Commodity price risk: If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. VST is still inherently a long natural gas call, with gas the marginal price setter in ERCOT.

Environmental/Policy risk: Environmental regulations could require increased spending; permitting and compliance associated with these regulations could require significant capital and operating expenditures. Considering timing to comply with these regulations and costs, some retirements of plants could be accelerated. Changes to these regulations could increase costs of operating these plants and/or increase competition.

Operational risks: VST's fleet could experience unforced outages or other operational issues that are inherent risks of the power generation business.

GUGGENHEIM

VST

Consolidated financials

Income Statement ($mm, unless otherwise noted)	1Q17A	2Q17A	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenue	1,357	1,296	1,701	1,810	6,164	6,810	6,617	6,539	6,616	6,626	6,700	6,794
Fuel and Purchased Power	683	729	931	1,002	3,345	4,033	3,833	3,860	3,911	3,983	4,065	4,096
Gross Margin	**674**	**567**	**770**	**808**	**2,819**	**2,777**	**2,784**	**2,679**	**2,706**	**2,643**	**2,635**	**2,698**
Operating O&M	214	195	192	192	793	787	787	787	787	787	787	787
SG&A	135	147	126	127	535	524	513	497	501	505	509	513
Other (Income) / Loss	8	9	38	38	92	-	-	-	-	-	-	-
Other	41	(129)	-	-	(88)	-	-	-	-	-	-	-
Adjusted EBITDA	**276**	**345**	**414**	**451**	**1,487**	**1,467**	**1,484**	**1,395**	**1,418**	**1,351**	**1,339**	**1,398**
Deprecation & amortization	170	189	190	193	742	793	827	861	870	878	887	896
Interest	23	69	43	38	173	167	160	154	148	142	73	7
Impairments	-	-	-	-	-	-	-	-	-	-	-	-
MTM and other one-time items	(36)	121	-	-	85	-	-	-	-	-	-	-
Earnings Before Taxes	**119**	**(34)**	**181**	**220**	**486**	**507**	**497**	**379**	**400**	**330**	**379**	**495**
Effective Tax Rate	34%	24%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Income Tax Expense/(Benefit)	41	(8)	63	77	170	178	174	133	140	116	133	173
Preferred Dividends	-	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**78**	**(26)**	**117**	**143**	**316**	**330**	**323**	**247**	**260**	**215**	**246**	**322**
Fully Diluted Shares Outstanding	428	428	428	428	428	428	428	428	428	428	428	428
EPS	**$0.18**	**($0.06)**	**$0.27**	**$0.34**	**$0.74**	**$0.77**	**$0.76**	**$0.58**	**$0.61**	**$0.50**	**$0.58**	**$0.75**

Source: Company disclosures, Guggenheim Securities, LLC

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VST

Consolidated financials

Cash Flow Statement ($mm, unless otherwise noted)	1Q17A	2Q17A	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net Income	78	(26)	117	143	313	330	323	247	260	215	246	322
Depreciation & Amortization	226	211	190	193	820	793	827	861	870	878	887	896
Deferred Income Tax	42	(13)	-	(29)	-	-	-	-	-	-	-	-
Other Adjustments to Cash Flow	(103)	127	-	-	24	-	-	-	-	-	-	-
Changes in Working Capital, Other	(102)	(107)	-	109	(100)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
Cash Flow From Operations	**141**	**192**	**308**	**416**	**1,057**	**1,073**	**1,100**	**1,058**	**1,080**	**1,043**	**1,083**	**1,167**
Capital Expenditures	(31)	(32)	(55)	(101)	(219)	(342)	(342)	(342)	(342)	(342)	(342)	(342)
Acquisitions of Assets	-	-	(350)	-	(350)	-	-	-	-	-	-	-
Other (incl. CITC cash grant proceeds)	(19)	(81)	-	-	(100)	-	-	-	-	-	-	-
Cash Flow From Investing	**(50)**	**(113)**	**(405)**	**(101)**	**(669)**	**(342)**	**(342)**	**(342)**	**(342)**	**(342)**	**(342)**	**(342)**
					-	-	-	-				
Issuance/(Redemption) of Debt	(13)	(11)	(45)	(45)	(114)	(174)	(167)	(160)	(156)	(150)	(3,459)	-
Issuance/(Rep.) of Common Equity	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock Dividends	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Stock Dividends	-	-	-	-	-	-	-	-	-	-	-	-
Sale proceeds / contributions from non-control	-	-	-	-	-	-	-	-	-	-	-	-
Other Financing	(5)	2	-	-	(3)	-	-	-	-	-	-	-
Cash Flow From Financing	**(18)**	**(9)**	**(45)**	**(45)**	**(117)**	**(174)**	**(167)**	**(160)**	**(156)**	**(150)**	**(3,459)**	**-**
					-	-	-	-				
Increase/(Decrease) in Cash	73	70	(142)	270	272	557	591	556	581	551	(2,717)	825
Cash at Beginning of Period	843	916	986	844	843	1,115	1,671	2,262	2,818	3,400	3,950	1,233
Cash at End of Period	**916**	**986**	**844**	**1,115**	**1,115**	**1,671**	**2,262**	**2,818**	**3,400**	**3,950**	**1,233**	**2,058**

Source: Company disclosures, Guggenheim Securities, LLC

GUGGENHEIM

VST

Consolidated financials

Balance Sheet ($mm, unless otherwise noted)	1Q17A	2Q17A	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Assets												
Cash and Cash Equivalents	916	986	844	1,115	1,115	1,671	2,262	2,818	3,400	3,950	1,233	2,058
Restricted Cash	94	64	64	64	64	64	64	64	64	64	64	64
Accounts Receivable	482	651	651	651	651	651	651	651	651	651	651	651
Fuel Stocks & Other Inventory	315	310	310	310	310	310	310	310	310	310	310	310
Short Term Derivative Assets	231	207	207	207	207	207	207	207	207	207	207	207
Cash Collateral Postings	75	26	26	26	26	26	26	26	26	26	26	26
Other Current Assets	72	153	153	44	44	94	144	194	244	294	344	394
Total Current Assets	**2,185**	**2,397**	**2,255**	**2,417**	**2,417**	**3,023**	**3,664**	**4,270**	**4,902**	**5,502**	**2,835**	**3,710**
Net PP&E	**4,415**	**4,392**	**4,606**	**4,515**	**4,515**	**4,064**	**3,579**	**3,059**	**2,531**	**1,995**	**1,450**	**896**
Goodwill	1,907	1,907	1,907	1,907	1,907	1,907	1,907	1,907	1,907	1,907	1,907	1,907
Long Term Derivative Assets	90	41	41	41	41	41	41	41	41	41	41	41
Equity Investments	1,113	1,143	1,143	1,143	1,143	1,143	1,143	1,143	1,143	1,143	1,143	1,143
Notes Receivable	3,069	2,936	2,936	2,936	2,936	2,936	2,936	2,936	2,936	2,936	2,936	2,936
Other Long Term Assets	1,936	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Total Other Assets	**8,115**	**7,995**	**7,995**	**7,995**	**7,995**	**7,995**	**7,995**	**7,995**	**7,995**	**7,995**	**7,995**	**7,995**
Total Assets	**14,715**	**14,784**	**14,856**	**14,926**	**14,926**	**15,082**	**15,238**	**15,324**	**15,428**	**15,492**	**12,280**	**12,602**
Liabilities												
Current Portion of LT Debt	45	44	44	44	44	44	44	44	44	44	44	44
Accounts Payable	402	474	474	474	474	474	474	474	474	474	474	474
Short Term Derivative Liabilities	124	118	118	118	118	118	118	118	118	118	118	118
Other Current Liabilities	410	372	372	372	372	372	372	372	372	372	372	372
Total Current Liabilities	**981**	**1,008**	**1,008**	**1,008**	**1,008**	**1,008**	**1,008**	**1,008**	**1,008**	**1,008**	**1,008**	**1,008**
Deferred Income Taxes	-	-	-	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
Long Term Derivative Liabilities	5	41	41	41	41	41	41	41	41	41	41	41
Other Long-Term Liabilities	2,508	2,546	2,546	2,546	2,546	2,546	2,546	2,546	2,546	2,546	2,546	2,546
Long-Term Debt	4,541	4,531	4,486	4,441	4,441	4,268	4,101	3,940	3,784	3,634	175	175
Total Long Term Liabilities	**7,054**	**7,118**	**7,073**	**6,999**	**6,999**	**6,826**	**6,659**	**6,498**	**6,342**	**6,192**	**2,733**	**2,733**
Total Liabilities	**8,035**	**8,126**	**8,081**	**8,007**	**8,007**	**7,834**	**7,667**	**7,506**	**7,350**	**7,200**	**3,741**	**3,741**
Common Stock	4	4	4	4	4	4	4	4	4	4	4	4
Additional Paid-in-Capital	7,746	7,750	7,750	7,750	7,750	7,750	7,750	7,750	7,750	7,750	7,750	7,750
Retained Earnings/(Deficit)	(1,076)	(1,102)	(985)	(841)	(841)	(511)	(189)	58	318	532	779	1,101
Treasury Stock	-	-	-	-	-	-	-	-	-	-	-	-
Other Comp. Income/(Loss)	6	6	6	6	6	6	6	6	6	6	6	6
Total Shareholders' Equity	**6,680**	**6,658**	**6,775**	**6,919**	**6,919**	**7,249**	**7,571**	**7,818**	**8,078**	**8,292**	**8,539**	**8,861**
Liab. & Shareholders' Equity	**14,715**	**14,784**	**14,856**	**14,926**	**14,926**	**15,082**	**15,238**	**15,324**	**15,428**	**15,492**	**12,280**	**12,602**

Source: Company disclosures, Guggenheim Securities, LLC

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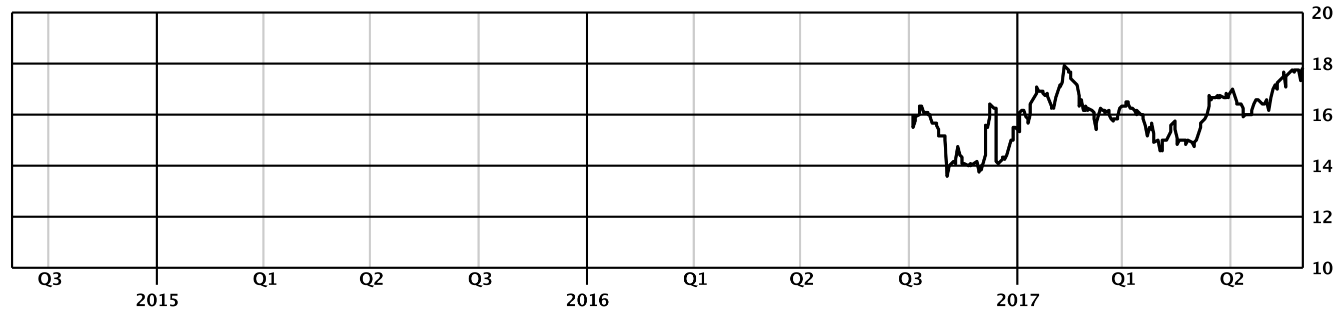
Rating and Price Target History for: Vistra Energy Corp. (VST) as of 09-01-2017



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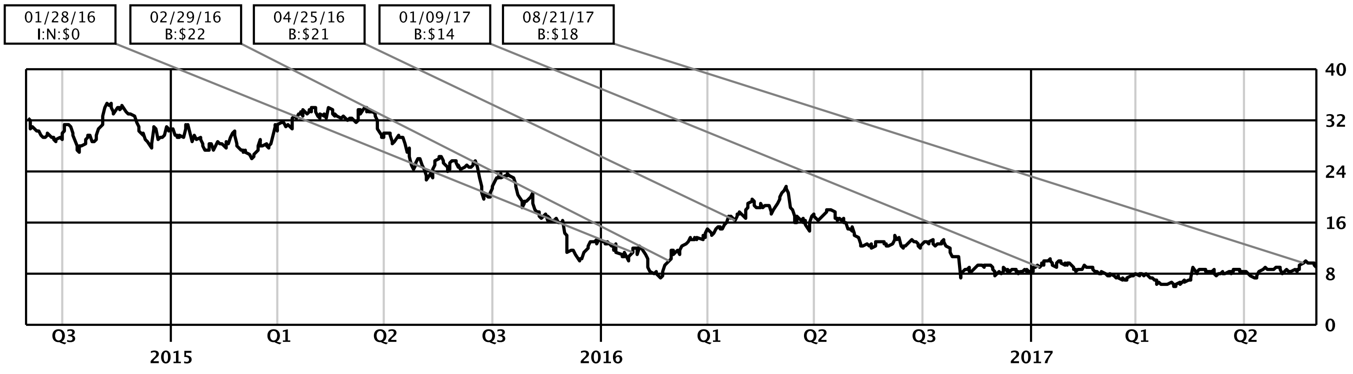
Rating and Price Target History for: Dynegy Inc. (DYN) as of 09-01-2017



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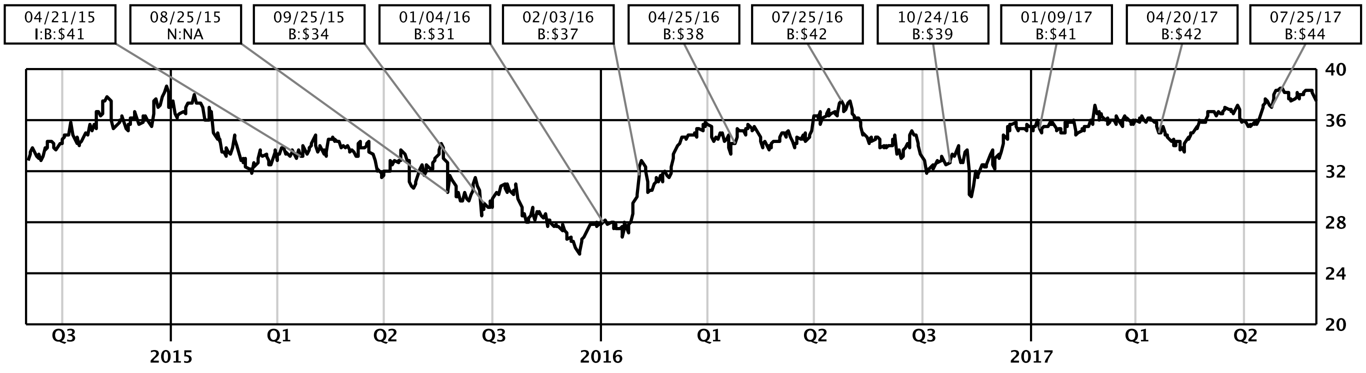
Rating and Price Target History for: Exelon Corporation (EXC) as of 09-01-2017



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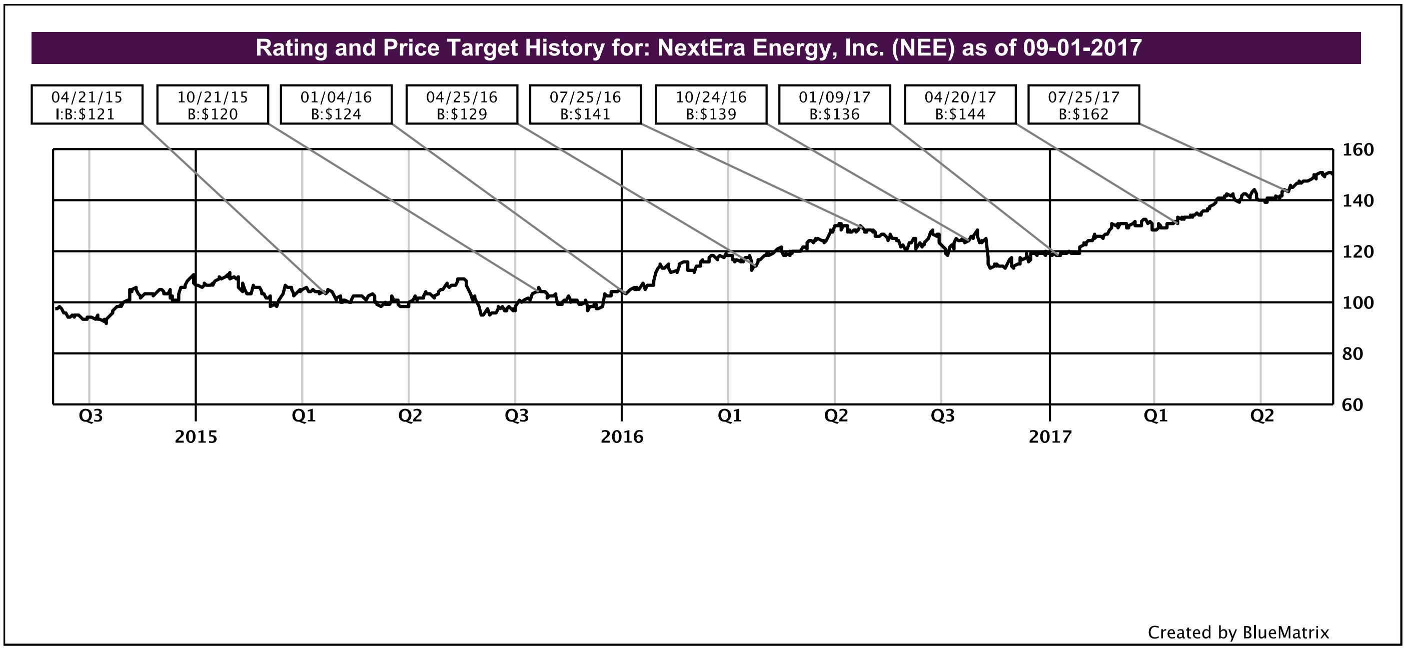
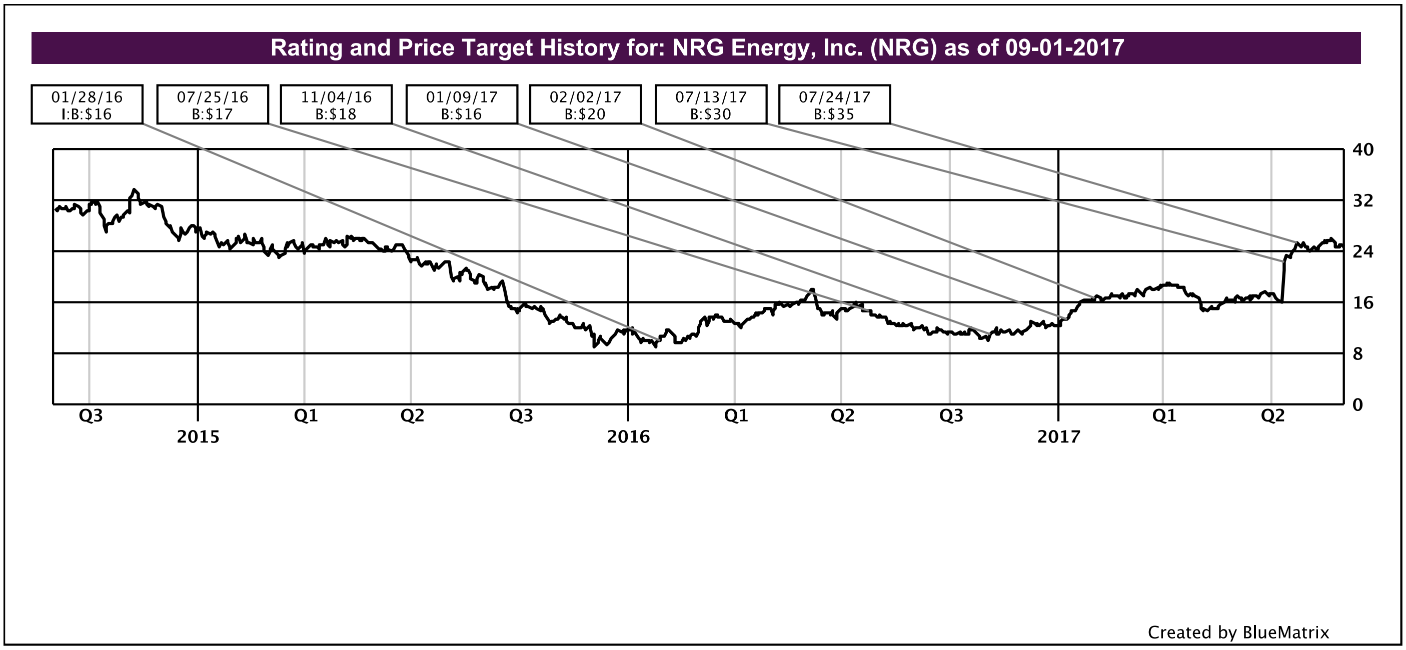


Rating and Price Target History for: NextEra Energy, Inc. (NEE) as of 09-01-2017



Rating and Price Target History for: NRG Energy, Inc. (NRG) as of 09-01-2017

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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	185	59.68%	20	10.81%
Neutral	123	39.68%	10	8.13%
Sell	2	0.65%	0	0.00%

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Research Today

BMO Capital Markets

ESTIMATES / TARGETS INCREASED

BRP

Gerrick L. Johnson - Leisure

2Q Provides Another Beat, but Not Much of a Raise

OP	$40.81	$46.00	$4,561
Rating	Price	Target	Mkt Cap.

COMPANY UPDATES

On Assignment

Jeffrey M. Silber - Business and Industrial Services

Updating Model for Recent Acquisition and Refinancing

OP	$47.80	$59.00	$2,524
Rating	Price	Target	Mkt Cap.

Buffalo Wild Wings

Andrew Strelzik - Restaurants

Weekly Wing Wrap-Up

Mkt	$102.75	$130.00	$1,593
Rating	Price	Target	Mkt Cap.

Cominar REIT

Heather Kirk - Canadian Real Estate

Highlights From Non-Deal Roadshow

OP	$13.54	$15.00	C$2,496
Rating	Price	Target	Mkt Cap.

Dollar General

Wayne Hood - Broadlines/Hardlines

GM Rate Pressure Looks to Persist, Maintaining Market Perform and Target Price

Mkt	$72.56	$85.00	$19,898
Rating	Price	Target	Mkt Cap.

Intact Financial

Tom MacKinnon - Canadian Insurance

Personal Auto Improvement Initiatives Provide Additional Upside Catalyst

OP	$102.31	$110.00	$13,400
Rating	Price	Target	Mkt Cap.

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NHI UDR

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MAT SPN

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ASGN BWLD CXP DG
ESRT FRAC HCP JAKK
PTEN RES TIER

Company Updates - Canada / Int'l

CUF.UN IFC TOY

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Investment Strategy Portfolios

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John P. Kim

REIT Model Updates

September 04, 2017 | 13:55 ET | 18:00 ET~

Intact Financial

IFC-TSX ⑮	Rating	Price: Aug-30	Target	Total Rtn
	Outperform	$102.31	$110.00	10%

Personal Auto Improvement Initiatives Provide Additional Upside Catalyst

Bottom Line: To address a rising personal auto loss ratio and declining outperformance versus the industry, IFC outlined several strategic initiatives at its 2017 Investor Day, including: rate increases, claims initiatives, Ontario auto reforms and improvements in risk selection models. While our estimates and consensus conservatively forecast personal auto loss ratio improvement of 4CR pts in 2018E (vs. Q4/16) we believe IFC could surpass expectations. Delivering the full 6CR pt improvement would add $0.50 to EPS and 80bps to ROE, increasing our target price by 6% to $117.

Key Points

Personal auto improvement initiatives are working so far; opportunity exists to surpass expectations. Initiatives have resulted in 2pts improvement in personal auto CR H1/17 (ex. industry pools and non-CAT weather-related losses). We believe early signs of improvement in 2017 support management's claim that profitability actions to address cost inflation are gaining traction and the majority of benefits are expected to materialize in H2/17. Given our estimates (and consensus') incorporate 4pts of personal auto CR improvement in 2018E (bottom of IFC's 4-6CR pt guidance), the potential exists for IFC to exceed expectations.

Auto Price Hikes (3CR pts) - IFC is currently ahead of the industry. IFC has been taking rate increases across the country and is ahead of the market in this regard. In Ontario and Alberta (30% of total DPW) IFC has increased private passenger auto rates 7% and 18%, respectively, since Q2/16. IFC has a history of taking rate increases early in the auto cycle, and we believe industry leading price action since Q2/16 presents similar to previous auto cycles and will have a meaningful impact over the next 6 to 18 months.

Claims initiatives and Ontario auto reforms (1-3CR pts). Supplementing price increases, IFC has undertaken claims initiatives to control claims costs, including increased BI claims staff, greater focus on supply chain management, tighter indemnity controls, and a new focus on driving higher utilization from IFC's Rely Network. When combined with claims initiatives, IFC expects further benefits from Ontario auto reforms (including changes to the Statutory Accident Benefits Schedule and new CAT definition) to lower the personal auto CR 1-3pts by 2017YE.

Top end of IFC guidance could lead to a potential 6% increase in target price, to $117. Delivering 6CR pts improvement in personal auto would result in 16.2% ROE, and 6% increase to our target price, based on 2.4x 09/30/18E BVPS (vs. current 2.25x 09/30/18E BVPS).

BMO Capital Markets

Canadian Insurance

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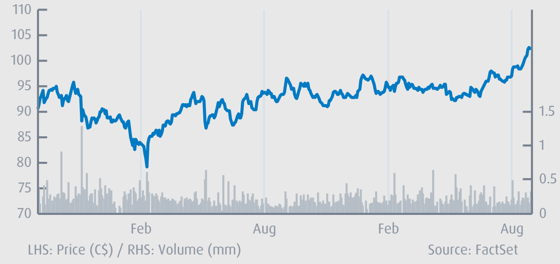
Legal Entity: BMO Nesbitt Burns Inc.

2YR Price Volume Chart



LHS: Price (C$) / RHS: Volume (mm) Source: FactSet

Company Data			in C$
Dividend	$2.56	Net Debt (mm)	$1,660
Yield	2.5%	Shares O/S (mm)	131.0
P/BV	2.4x	Market Cap (mm)	$13,400

BMO Estimates				in C$
(FY-Dec.)	2015A	2016A	2017E	2018E
Operating EPS	$6.38	$4.88	$5.74	$7.42
BVPS	$39.83	$42.72	$46.17	$50.36
Operating ROE	16.4%	11.8%	12.9%	15.4%
EPS	$5.54	$4.53	$6.13	$7.30
Combined Ratio	91.7%	95.3%	93.9%	91.8%

Consensus Estimates	2015A	2016A	2017E	2018E
EPS			$5.86	$7.31

Valuation	2015A	2016A	2017E	2018E
P/Op. EPS	16x	21x	18x	14x
P/BVPS	2.6x	2.4x	2.2x	2.0x

QTR. Op'g EPS	Q1	Q2	Q3	Q4
2015A	$1.37	$1.56	$1.47	$1.97
2016A	$1.46	$0.83	$1.01	$1.58
2017E	$0.90a	$1.44a	$1.54	$1.85

Our Thesis

IFC boasts a "best-in-class" management team and industry-leading 17% Canadian market share. Investment in growth initiatives, including branding, digital leadership, and product innovation, are expected to support strong top-line growth. The potential for market share gains in the highly fragmented Canadian market, where 15-20% market share is expected to change hands, is an additional catalyst.

Intact Financial - Block Summary Model

Key Financial Metrics	2015A	2016A	2017E	2018E
DPW (including pools)	7,941	8,244	8,500	10,596
DPW YoY Growth	7.7%	3.8%	3.1%	24.7%
Net Premiums Earned (NPE)	7,536	7,946	8,282	10,145
Loss Ratio	61.3%	65.0%	64.6%	61.3%
Expense Ratio	30.4%	30.3%	29.3%	30.5%
Combined Ratio (%)	91.7%	95.3%	93.9%	91.8%
Adv. (Fav.) Claims Reserve Development	(477)	(389)	(291)	(345)
Res. Dev.(% of Beg. Yr Unpaid Claims)	-6.2%	-5.0%	-3.5%	-4.0%
Combined Ratio Ex. Reserve Dev.	98.0%	100.2%	97.4%	95.2%
Catastrophe Load as a % of NPE	1.5%	4.8%	4.3%	2.6%
Loss Ratio Ex. Res. Dev.&CAT Load	66.0%	65.0%	63.8%	62.1%
Combined Ratio Ex. Reserve Devmts & CAT Load	96.5%	95.3%	93.1%	92.6%
Interest and Dividends Yield	3.5%	3.3%	3.2%	2.9%
Realized Gains Yield	-0.5%	-0.5%	1.2%	0.4%
Total Income Statement Yield	3.0%	2.8%	4.4%	3.3%
Other income	103	121	130	131
Leverage and Capital Metrics	**2015A**	**2016A**	**2017E**	**2018E**
Invested Assets / Common Equity	2.5x	2.4x	2.7x	2.7x
Net Prem. Earned/Common Eq.	1.4x	1.4x	1.3x	1.4x
Senior Debt / Total Capital	16.6%	18.6%	25.4%	24.0%
EPS, BVPS and Profitability Metrics	**2015A**	**2016A**	**2017E**	**2018E**
ROE (ex. AOCI)	14.4%	11.1%	14.1%	15.2%
EPS	$5.54	$4.53	$6.13	$7.30
EPS YoY Growth	-7.9%	-18.2%	35.5%	19.0%
Operating ROE	16.4%	11.8%	12.9%	15.4%
Operating ROE (ex. AOCI)	16.6%	12.0%	13.2%	15.4%
Operating EPS	$6.38	$4.88	$5.74	$7.42
Operating EPS YoY Growth	12.5%	-23.5%	17.7%	29.3%
BVPS (excl. AOCI)	$39.99	$41.27	$45.99	$50.18
BVPS	$39.83	$42.72	$46.17	$50.36

In C$ millions, unless indicated otherwise.

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

IFC is trading at 2.3x P/BV (proforma OneBeacon acquisition), 7% above the average since 2011 of 2.14x P/BV. On a P/BV versus 2018E operating ROE regression (versus North American P&C Personal Lines and Auto Insurers), IFC trades at a 6% discount to the regression line.

Upside Scenario $120.00

The upside scenario would see IFC exceed its "mid-single-digit" EPS accretion from the OneBeacon acquisition through better-than-expected CR improvement, yield enhancement of OneBeacon's investment portfolio, and increased commercial lines revenue synergies. Assuming 10% EPS accretion and a 16% operating ROE, our upside target is $120, based on a 2.35x 09/30/18E P/BV multiple.

Downside Scenario $88.00

The downside scenario would see IFC's underwriting performance decline, likely resulting in a high 97%+ CR, a decline in operating ROE, and the loss of its premium valuation multiple. We estimate every 1CR point increase reduces operating EPS by $0.50 (8%). Assuming a CR of 98% and a 1.9x P/BV multiple, our downside target is $88.

Company Description

Intact Financial Corp. is the largest property and casualty insurer in Canada. It is focused primarily on personal lines and small to medium-sized businesses, with the majority of products distributed through its broker channel and the rest through direct distribution.

BMO Top 15 List Member

Cdn Large Cap

BMO Top 15 List

Autos/Mobility Equipment & Technology

August U.S. Auto Sales: Similar Trends, With Harvey the Rest-of-Year Wild Card

Bottom Line: August sales volumes again came in below expectations, though mix remains positive while pricing and incentive spending appear stable. The full impacts of Hurricane Harvey remain unknown and likely had a modest negative impact on monthly sales. However, we expect the replacement of vehicles lost in the storm could help support used pricing and provide a small boost to 4Q sales. At this stage of the North American cycle, our preference remains for the more geographically diverse suppliers benefiting from content gains.

Key Points

- **More of the same: volume down but mix positive.** August's U.S. SAAR of 16.0 million was down 6.4% YoY, with the YTD SAAR of 16.8 million down 3.1%. However, mix remains positive with car sales continuing to decline at a double-digit pace while light truck (which includes utilities) showed a modest single-digit decline but expanded its share of the monthly SAAR by 280 bp to 64.2% versus the prior year.
- **Industry ATPs and incentive spending appear stable.** According to J.D. Power's mid-August report, industry average transaction prices (ATPs) were up modestly (less than 0.5%) both YoY and MoM, while incentive spending increased 4.3% YoY, but decreased by the same amount MoM. Incentive spending as a percentage of ATP was 12.3%, which compares to a range over the past 12 months of 11.5-12.8%.
- **Ford: volume decline in line with industry, mix remains positive.** Unadjusted for an extra selling day, Ford's August sales fell 2.1% with retail sales down 2.7%. On a daily sales basis, August volume was down 5.8%. F-Series truck sales were again the star with sales up 15%, which helped the company's ATPs grow well above the industry average, while incentive spending was below the industry. Management also noted that they are seeing high demand particularly in trucks and SUVs for premium trim packages.
- **GM: strong rebound from a weak July, inventory improving.** Unadjusted for an extra selling day, GM's August sales improved 7.5%, with retail sales up 4.2%. On a daily sales basis, August sales were 3.5% better than the prior year. A key driver was a 27% increase in CUV/SUV sales. Passenger car sales surged MoM following a very weak July, but still declined double digits YoY and accounted for just over 25% of total monthly volume. GM's ATPs fell roughly 4% and 2% YoY and MoM, respectively, while incentive spending increased 12.8% and 6.3%, which we believe was driven by both mix (higher fleet sales) and a push to reduce inventory. GM finished the month with a total of 88 days' supply of vehicles, down from 104 days at July month-end but up from 74 a year ago.
- **What about the stocks?** Our preference continues to be for the more geographically diverse suppliers that are strongly positioned to benefit from increased content driven by the demand for advanced features and improved fuel economy. While we believe Ford and GM can continue to report strong profits over the foreseeable future, the high concentration to the peaked North American market keeps us worried we will not see any meaningful multiple expansion this cycle, and thus, we are comfortable on the sidelines. Our top picks remain DLPH, VC, and BWA.

Autos/Mobility Equipment & Technology

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What's Inside

- Summary of August's U.S. light vehicle sales results including the most recent data from JD Power on industry average transaction prices (ATP) and incentive spending.

- Comprehensive analysis of monthly U.S. sales results from both GM and Ford.

Auto Parts & Equipment

LHS: Price / RHS: Volume (mm) Source: FactSet

Ticker	Rating	Mkt Cap.	Target	Total Rtn
BWA	OP	9,848	55.00	19.1%
DLPH	OP	26,049	110.00	13.9%
F	Mkt	45,196	12.00	11.0%
GM	Mkt	54,441	36.00	0.4%
VC	OP	3,611	130.00	12.2%

Notes: Market Cap ($mm)
(S)in Rating denotes Speculative

BMO Top 15 List Member

BMO Top 15 List

Delphi (DLPH) U.S. Large Cap Stock
Visteon (VC) U.S. Small Cap Stock

September 04, 2017 | 08:59 ET | 08:59 ET~

US Real Estate

REIT Model Updates

Bottom Line: As summer fades to an end, we have updated our models for BXP, CPT, CXP, DOC, ESRT, EQR, HCP, MAA, NHI, TIER, UDR post 2Q17 results, and we have updated our price targets by an average of 0.5% based on our revised valuation metrics.

Key Points

Our price targets are primarily based on our NAV and DCF estimates. Changes in our price targets include the following:

- Boston Properties (BXP): $135 (from $145) based on our NAV ($141.87) and DCF ($110.13).
- Camden (CPT): $91 (from $89) based on our NAV ($90.82) and DCF. ($92.82)
- Physicians Realty (DOC): $20 (from $21) based on our NAV ($19.35) and DCF ($20.11).
- Equity Residential (EQR): $68 (from $66) based on our NAV ($65.62) and DCF ($70.04).
- MAA (MAA): $108 (from $105) based on our NAV ($102.89) and DCF ($113.30).
- National Health Investors (NHI): $80 (from $75) based on our NAV ($67.15) and DCF ($88.58).
- UDR (UDR): $40 (from $39) based on our NAV ($39.36) and DCF ($42.57).

BMO Capital Markets

US Real Estate

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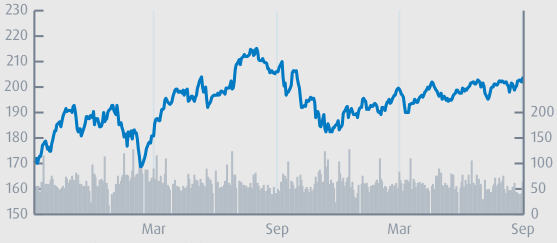
Real Estate Investment Trusts



LHS: Price / RHS: Volume (k) Source: FactSet

BMO Top 15 List Member

Columbia Property Trust (CXP-NYSE) - U.S. Small Cap Stock

BMO Top 15 List

September 03, 2017 | 15:55 ET | 18:00 ET~

Canadian Banks

Q3/17 Express Postview

Bottom Line: Industry operating earnings were $10.5 billion, up 9% y/y driven by surprisingly good results from the Canadian Banking segments which is about half of overall earnings (NIM expansion; positive operating leverage). Credit was a tailwind in all segments with 4% lower y/y industry credit costs as were central bank rate increases in the U.S., Canada, and Mexico (helped with +7% overall NII on +3% average assets). Our 2018E increased most for **TD** (+3%), **NA** (+2%), **CWB** (+4%). We continue to rate **TD** and **BNS** Outperform.

Key Points

- All banks **exceeded consensus expectations** with **widest margin at TD**; we had **dividend increases** at **RY** (+5%), **BNS** (+4%), **CM** (+2%), and **CWB** (+4%). Refer to Exhibit 1.
- **Better net interest margins** (total bank y/y NIM at **NA** and **CWB** +20bps; **TD** +10bps) contributed to **solid revenue growth of 6%** for the industry (see also Exhibit 2).
- This combined with **efficiency gains, particularly in the Canadian Banking** segments (see also Exhibit 3) helped **improve industry NIX ratio to 56.5%** from 56.7% a year ago.
- Industry **PCL ratio was 30bps** with all the banks with the exception of **NA** reporting lower y/y credit costs benefitting from the continued **benign credit environment** (see also Exhibit 4).
- The group **remains well capitalized** (see also Exhibit 5) with the highest excess capital levels to a theoretical 10.5% CET1 threshold at **BMO** and **BNS**; **TD** increased the size of its current NCIB.
- The Canadian bank index is currently trading at valuation multiples in line with its more recent historical average but **relative to the P/E valuation multiple of the broader equity markets in Canada, we see room for ~5% re-rating** (see also Exhibit 6).
- We remain selective favoring well diversified, scale names with sustainable growth drivers and continue to rate **TD** and **BNS** Outperform.

EPS Estimates & Valuation Multiples

	Price	EPS		Current P/E	Target P/E	Forward P/E last 20 years (1)			Current P/E 2018E
	9/1/2017	2018E	18E/17E	2018E	2018E	Average	Min	Max	% 20 yr Avg
BMO(2)	$89.49	$8.37	3.5%	10.7x	N/A	11.1x	6.9x	14.8x	96%
BNS	$77.69	$6.90	6.6%	11.3x	12.3x	11.3x	7.8x	17.0x	100%
CM	$104.79	$11.00	0.0%	9.5x	10.7x	10.4x	7.6x	13.6x	92%
NA	$57.15	$5.65	3.9%	10.1x	10.8x	9.9x	6.1x	12.3x	102%
RY	$92.11	$7.90	4.9%	11.7x	12.7x	11.8x	8.9x	14.8x	99%
TD	$67.50	$5.85	5.4%	11.5x	12.6x	11.5x	7.5x	16.8x	100%

(1) Based on month-end metrics. As of Dec 2016, estimates for BMO are consensus from Bloomberg.
(2) All estimates for Bank of Montreal are consensus from Bloomberg as of Sep 01, 2017.
Source: Bloomberg, BMO CM

BMO Capital Markets

Canadian Banks

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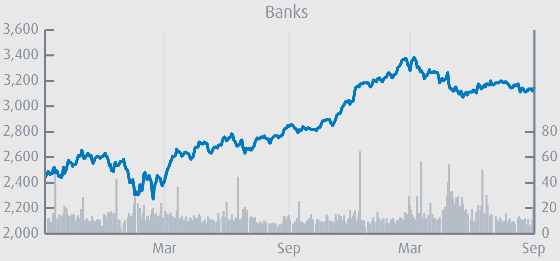

LHS: Price / RHS: Volume (k)
Source: FactSet

September 03, 2017 | 15:56 ET | 18:00 ET~

Canadian Banks

Residential Mortgage "Survival Guide" - Updated for Q3/17

BMO Capital Markets

Canadian Banks

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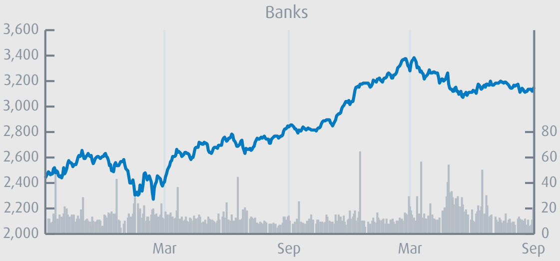

LHS: Price / RHS: Volume (k) Source: FactSet

Bottom Line: Canadian residential mortgages are a key ingredient of the Canadian banks' balance sheet. We have compiled this "survival guide" comprised of eleven pertinent tables and charts on residential mortgage exposures in Canada and at the "Big 6".

Key Points

Canadian residential mortgages are a key ingredient of the Canadian banks' balance sheet. The following eleven exhibits show:

- Exhibit 1 - Snapshot of "Big 6" Canadian banks real estate secured Canadian consumer loans (residential mortgages and home equity lines of credit) (updated for Q3)
- Exhibit 2 - Real estate secured loan (RESL) account for about 25% of the overall assets of the “Big 6” – highest at CM; lowest at BMO (updated for Q3)
- Exhibit 3 - In part a reflection of the robust house price appreciation in Canada, the residential mortgage portfolio average LTV of the "Big 6" is currently below 60% (updated for Q3)
- Exhibit 4 - Excluding HELOC, residential mortgage loans at the “Big 6” account for ~67% of the overall residential mortgage market in Canada (updated)
- Exhibit 5 - Within RESL, home equity lines of credit (HELOC) generally represent a smaller and declining proportion (updated for Q3)
- Exhibit 6 - Post the ‘global financial crisis’ of 2009, growth rate in uninsured residential mortgages has been about 3.3x the growth rate in insured mortgages at the Canadian chartered banks (updated)
- Exhibit 7 - A reflection of both the presence of mortgage insurance and favourable loan-to-value underwriting criteria, the Canadian residential mortgage asset class has historically performed very well through economic cycles (updated for Q3)
- Exhibit 8 - On average, over the past 25 years or so, Canadian residential mortgages have tended to grow at about 1.7-2.2x the nominal GDP growth in Canada (updated)
- Exhibit 9 - Canada Nominal GDP Growth Post Recession/Economic Slowdown (new)
- Exhibit 10 - Canadian Chartered Banks Residential Mortgage Growth Post Recession/ Economic Slowdown (new)
- Exhibit 11 - National Average Home Price Growth Post Recession/Economic Slowdown (new)

September 01, 2017 | 18:49 ET | 18:49 ET~

BRP

DOO-TSX ⑮	Rating	Price: Sep-1	Target ↑	Total Rtn
	Outperform	$40.81	$46.00	14%

2Q Provides Another Beat, but Not Much of a Raise

Bottom Line: BRP (DOO) reported its fifth consecutive earnings beat and its tenth beat in the last 11 quarters. However, a failure to lift operational guidance (the increase came from share buybacks) was met negatively by investors, selling the stock off by 1.7% on the day. Comments on capacity constraints allude to missed sales opportunities and higher levels of spending to satisfy demand. We believe these are high quality problems to have, which the company will overcome. With strong brand momentum in growing worldwide markets, we continue to recommend purchase of shares.

Key Points

BRP reported normalized FY2Q18 (ended July) EPS of $0.18, ahead of our $0.03 expectation, the Street consensus of $0.08, and normalized EPS of $0.01 in FY2Q17.

The company’s North American powersport unit retail sales grew 14% in the quarter, driven by market share capture from new products, mainly the Maverick X3 sport SxS and the Defender utility SxS, as well as continued strength in Sea-Doo personal watercraft.

BRP raised its FY2018 EPS guidance to a range of $2.23-2.35 (midpoint of $2.29), up from prior guidance was $2.20-2.32 (midpoint of $2.26). However, the company did not raise operational guidance but rather only followed through the accretion from the company’s $350 million substantial issuer bid.

Guidance might be viewed as disappointing given the strong performance in the quarter, as well as management's insistence this was not a case of conservatism but rather uncertainty around the global political situation and NAFTA, currency swings as well as capacity constraints. The back half also holds more "weather uncertainty" as snow, or lack thereof, can impact snowmobile retail sales, which, in turn, can affect margin (promotions), and parts, accessories, and clothing.

The company is also set to unveil new products at its dealer meeting (aka "Club") on September 20 where a new off-road vehicle platform (we think a trail-ready side-by-side) is set to be introduced. With consistently positive dealer feedback and additional capacity coming online for FY2019 we expect the company to continue to gain share and increase sales in growing worldwide markets.

Key Changes

Target	Estimates	Q2/18E	2018E	2019E
$46.00↑	Revenue		$4,501	$4,633
$44.00	*Previous*		*$4,387*	*$4,577*
	EBITDA		$594	$631
	Previous		*$578*	*$615*
	EPS	$0.18		$2.80
	Previous	*$0.03*		*$2.75*

BMO Capital Markets

Leisure

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2YR Price Volume Chart

LHS: Price (C$) / RHS: Volume (mm) Source: FactSet

Company Data			in C$
Dividend	$0.32	EV (mm)	$5,527
Yield	0.8%	Shares O/S (mm)	111.8
Net Debt (mm)	$995	Market Cap (mm)	$4,561

BMO Estimates			in C$
(FY-Jan.)	2018E	2019E	2020E
Revenue	$4,501↑	$4,633↑	$4,792
EBITDA	$594↑	$631↑	$672
EPS	$2.55	$2.80↑	$3.05
FCFPS	1.96↑	2.83↓	3.36

Consensus Estimates	2018E	2019E	2020E
EPS	$2.61	$2.83	

Valuation	2018E	2019E	2020E
P/E	16.0x	14.6x	13.4x
EV/EBITDA	9.3x	8.8x	8.2x

QTR. EPS	Q1	Q2	Q3	Q4
2018E	$0.25a	$0.18	$1.03	$1.16
2019E	$0.22	$0.17	$1.16	$1.25
2020E	$0.27	$0.22	$1.23	$1.33

Our Thesis

We think BRP’s brands are gaining momentum and market share due to innovation, design, and performance. We believe BRP is the best positioned in the segment, with its product diversity, opportunities for margin improvement, continued earnings growth, and share price appreciation.

BRP - Block Summary Model

Segment Revenue	**2018E**	**2019E**	**2020E**
Year-Round Products	1,852	1,863	1,920
Seasonal Products	1,515	1,565	1,612
Propulsion Systems	423	441	458
PAC	711	764	802
Income Statement	**2018E**	**2019E**	**2020E**
Total Revenues	4,501	4,633	4,792
Gross Margin	24.3%	24.7%	24.9%
Operating Expenses	656	685	698
Operating Margin	9.6%	9.9%	10.3%
Interest Expense	59	60	60
Pre-Tax Income	412	399	434
Net Income	306	285	311
Adjusted Net Income	273	285	311
Diluted Shares Outstanding	107.2	102.0	102.0
GAAP EPS	$2.85	$2.80	$3.05
Adjusted EPS	$2.55	$2.80	$3.05
Cash Flow Statement	**2018E**	**2019E**	**2020E**
Depreciation	155	172	178
Change in Working Capital	(8)	9	10
Cash Flow From Operations	471	515	548
Capex	(258)	(226)	(205)
Other Investing	(3)	0	0
Free Cash Flow	210	289	343
Cash Provided From Financing	(389)	(272)	(101)
Change in Cash	(181)	17	242
Balance Sheet	**2018E**	**2019E**	**2020E**
Cash	118	135	377
Inventory	750	779	803
Accounts Receivable	350	363	375
PPE (net)	790	845	872
Total Assets	2,539	2,663	2,976
Accounts Payable	765	794	820
Total Debt	1,045	870	870
Total Liabilities	2,547	2,429	2,479
Retained Earnings	(8)	234	496
Total Shareholders' Equity	(8)	234	496

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

Our $46 price target represents a 16.5x multiple on our FY2019/CY2018 EPS estimate of $2.80, or 9x our FY2019/CY2018 EBITDA estimate of $631 million.

Upside Scenario $67.00

If the company's retail mometum contitues and the company can adequately expand capacity we believe BRP can earn $3.36 per share in FY2019 (CY2018), which would be a 20% outperformance relative to our FY2018 EPS estimate of $2.80, we would apply a 20x multiple to shares, offering potential upside to $67.

Downside Scenario $22.00

If demand falls short of expectations or capacity constraints limit the company's ability to satisfy current demand, we see potential downside to our FY2019 (CY2018) EPS estimate of 20% to $2.24. We think the market would award a discount multiple of 10x, putting downside risk to $22.

Company Description

BRP manufactures and markets power sports vehicles and propulsion systems and related parts, accessories, and clothing. The portfolio of brands and products includes Ski-Doo and Lynx snowmobiles, Sea-Doo Personal Watercraft, Can-Am Off-Road Vehicles, Can-Am Spyder roadsters, Evinrude outboard engines, and Rotax engines.

BMO Top 15 List Member

Cdn Small Cap

BMO Top 15 List

September 01, 2017 | 16:20 ET | 16:20 ET~

Cominar REIT

CUF.UN-TSX	Rating	Price: Aug-31	Target	Total Rtn
	Outperform	$13.54	$15.00	19%

Highlights From Non-Deal Roadshow

Bottom Line: We hosted Cominar for a series of meetings with institutional investors in Edmonton, Calgary, and Toronto. Meetings/discussions largely reinforced our conviction in the factors supporting our Outperform thesis on Cominar. We expect Cominar to successfully execute on its strategic plan of selling $1.2 billion of assets, reducing leverage and repurchasing 9 million of trust units. Upon execution of the plan CUF is expected to have a stronger balance sheet and improved operating metrics (higher occupancy, stronger SPNOI) which should support a return to FFO and NAV growth.

Key Points

Confident in the Ability to Sell Assets, Ontario a Key Driver of Success: We are confident in the REIT's ability to achieve the $1.2 billion of asset sales at a 6% cap rate which is below our estimate of the IFRS value of $1.4 billion. An estimated 48% of the NOI identified for sale is in Ontario and primarily in the GTA where cap rates are generally below the 6% targeted. Although Alberta will be harder to sell, at over 50% of the value, success in Ontario will be a key driver of total proceeds. We are forecasting a 6.25% cap rate to be conservative and believe this will be easily achieved.

NCIB: Management intends to repurchase up to 9 million units at up to ~$14.50 per unit and will begin repurchasing prior to executing asset sales. We estimate the repurchase will be ~$0.07 accretive to FFO/unit and will temporarily increase leverage to ~55%.

Option Issue Timing Not Ideal: The REIT is issuing 3.6 million options to management and employees at a conversion price of $13.46/unit (effective strike of $14.80 for management). Investor reaction has understandably been mixed given the poor operating and stock price performance. We think some of the negative reaction has been overdone and outline some of the mitigating factors herein.

Distribution Cut Could Have Been Deeper: Most investors shared our view that a deeper distribution cut would have been preferred. That being said, we do not expect an additional cut. We believe Cominar will maintain distributions at current levels and emerge with a payout ratio at a run rate of ~90% of AFFO based on CUF's capex reserves and in the range of ~100% on ours.

Strategic Plan Accretive to FFO: We estimate the strategic plan adds $0.07 per unit to Q2/17 annualized FFO and outline the build up to that number in our note.

BMO Capital Markets

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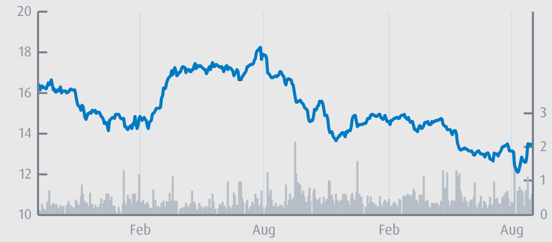
2YR Price Volume Chart



LHS: Price (C$) / RHS: Volume (mm) Source: FactSet

Company Data			in C$
Distribution	$1.14	Units O/S (mm)	184.4
Yield	8.4%	Market Cap. (mm)	C$2,496
NAV	$16.50	Prem/(Disc) to NAV	-22.4%

BMO Estimates (FY-Dec.)	2016A	2017E	2018E	in C$ 2019E
FFO/Unit	$1.61	$1.48	$1.49	$1.39
AFFO/Unit	$1.38	$1.13	$1.15	$1.08
Distributions	$1.47	$1.36	$1.14	$1.14
AFFO Payout %	106.2%	120.1%	99.2%	106.0%
EBITDA (mm)	$458	$439	$433	$399

Consensus Estimates	2016A	2017E	2018E	2019E
FFO		$1.45	$1.53	$1.53

Valuation	2016A	2017E	2018E	2019E
P/FFO	8.4x	9.2x	9.1x	9.7x
P/AFFO	9.8x	12.0x	11.8x	12.6x

Our Thesis

We believe that the REIT's strategic plan will improve operating performance, strengthen the balance sheet, improve the organic growth and provide greater flexibility to pursue acquisitions and development in the Quebec market where Cominar has a competitive advantage and strong platform. We expect the NAV discount to narrow as the strategy is executed.

Cominar REIT - Block Summary Model

Income Statement	**2016A**	**2017E**	**2018E**	**2019E**
Revenues	$877,095	$866,697	$856,252	$786,960
Net Operating Income (NOI)	474,354	457,643	451,572	415,451
NOI Margin	54.1%	52.8%	52.7%	52.8%
G&A	16,787	18,308	18,113	16,877
G&A Margin	1.9%	2.1%	2.1%	2.1%
EBITDA	457,567	439,335	433,458	398,574
EBITDA Margin	52.2%	50.7%	50.6%	50.6%
Funds From Operations (FFO)	278,570	271,062	265,481	244,447
FFO/Unit	$1.61	$1.48	$1.49	$1.39
Adj. Funds From Operations (AFFO)	238,856	208,008	204,655	189,176
AFFO/Unit	$1.38	$1.13	$1.15	$1.08
Fair Value Gains /(Losses)	41,655	(2,284)	0	0
Cash Flow Statement	**2016A**	**2017E**	**2018E**	**2019E**
Cash Flow From Operations	284,090	159,403	200,785	196,538
Cash Flow From Financing	(159,681)	(24,643)	(632,785)	(654,369)
Cash Flow From Investments	(119,806)	(144,707)	432,000	457,831
Balance Sheet	**2016A**	**2017E**	**2018E**	**2019E**
Total Assets	8,357,032	8,617,458	8,243,050	7,826,024
Income Producing Properties	7,775,331	8,089,380	7,762,380	7,342,762
Properties Under Development	63,647	126,043	76,043	76,043
Total Debt	4,417,933	4,644,405	4,303,378	3,847,274
Unitholder's Equity	3,815,513	3,832,582	3,798,816	3,837,509

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

We value Cominar based on a ~10% discount to NAV, which reflects a ~13x 2018E P/AFFO multiple.

Upside Scenario $18.00

Our upside scenario is derived from a 25 bps compression in our cap rate assumption, and the units trading at NAV.

Downside Scenario $11.00

Our downside scenario is derived from a 3% decrease to our NOI estimate, a 25 bps expansion in our cap rate assumption, and the units trading at a 20% discount to NAV.

Company Description

Cominar owns a diversified portfolio of 528 properties comprising ~44 million sf, with about 53% of its net operating income (NOI) generated in Montreal, 24% in Quebec City, 15% Ontario, 5% Western Canada, and 4% Atlantic Canada. By property type, about 43% of NOI is from office, 36% retail, and 22% industrial/mixed use.

September 01, 2017 | 13:31 ET | 16:03 ET~

Research News

Coverage Discontinued of Electric Utilities

Bottom Line: Due to the planned retirement of Michael S. Worms effective September 1, research coverage of the companies listed on this page has been discontinued.

Key Points

Due to the planned retirement of Michael S. Worms effective September 1, research coverage of the companies listed on this page has been discontinued. Investors should not rely on BMO Capital Markets Research for an investment recommendation on these companies.

Electric Utilities

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What's Inside

- American Electric Power (AEP)
- Avista (AVA)
- Black Hills (BKH)
- Calpine (CPN)
- CMS Energy (CMS)
- Consolidated Edison (ED)
- Dominion Energy (D)
- DTE Energy (DTE)
- Duke Energy (DUK)
- Edison International (EIX)
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- NextEra Energy Partners LP (NEP)
- PG&E (PCG)
- Pinnacle West Capital (PNW)
- Public Service Enterprise Grp (PEG)
- Sempra Energy (SRE)
- Southern Company (SO)
- WEC Energy Group (WEC)
- XCEL Energy (XCEL)

September 01, 2017 | 10:10 ET | 13:30 ET~

Buffalo Wild Wings

BWLD-NSDQ	Rating	Price: Aug-31	Target	Total Rtn
	Market Perform	$102.75	$130.00	27%

Weekly Wing Wrap-Up

Bottom Line: Wing prices this week increased sequentially for the fifth consecutive week after remaining largely range-bound in June/July. Specifically, wing prices averaged $2.17-$2.18 this week, which represents approximately 36% inflation from last year. The move higher in wing prices during August poses risk to 3Q17 consensus EPS and holding current wing prices for the rest of 2017 implies risk to BWLD's 2017 guidance.

Key Points

Wing prices continue to realize seasonal sequential increases into football season. Specifically, wing prices reached an average of $2.17-$2.18 this week and increased an average of $0.01-$0.02 per week in August after remaining range-bound at approximately $2.09 through all of June and July. The sequential increases likely reflects supply/demand imbalance as wing demand is increasing ahead of football season against the backdrop of a tight jumbo wing supply environment.

The upward move in wing prices during August creates risk to BWLD's 3Q17 consensus EPS estimates and recently revised guidance. First, our regression analysis implies 3Q17 COGS in the mid-31% range, which would create an approximately $0.05 EPS headwind relative to consensus assumptions. That said, the shift in BWLD's Tuesday promotion to boneless wings from traditional bone-in wings complicates its COGS outlook. Second, holding current wing prices for the remainder of 2017 implies approximately 11% annual wing price inflation for BWLD (after adjusting for its wing price collar), ~100 basis points above the high-end of its 8-10% wing price inflation guidance. We estimate every 100-basis-point change in wing inflation assumptions creates a $0.05-$0.10 impact to BWLD's 2017 EPS.

Typical seasonality into football season implies that wing prices likely will continue to move higher into October. Wing prices typically increase sequentially through the beginning of football season in September and peak in October. Specifically, the historical average increase from the beginning of September to peak levels in October is $0.15.

Restaurants

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2YR Price Volume Chart

LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Data			in $
Dividend	$0.00	FCF (mm)	$147
Yield	0.0%	Shares O/S (mm)	15.5
EV (mm)	$2,300	Market Cap (mm)	$1,593

BMO Estimates			in $
(FY-Dec.)	2016A	2017E	2018E
Revenue	$1,987	$2,088	$2,149
EBITDA	$297	$262	$282
EPS	$5.44	$4.34	$5.90
Co.Owned SSS	-2.4%	-1.6%	1.0%
Store Count	1,240	1,303	1,367

Consensus Estimates	2016A	2017E	2018E
EPS		$4.51	$5.67

Valuation	2016A	2017E	2018E
P/E	18.9x	23.7x	17.4x
EV/EBITDA	7.7x	8.8x	8.2x

QTR. EPS	Q1	Q2	Q3	Q4
2016A	$1.78	$1.34	$1.29	$1.02
2017E	$1.44a	$0.66a	$0.68	$1.57

Our Thesis

Although the conclusion of the proxy process provides some answers and there is a pathway for upside to the stock, we have a hard time becoming more constructive at this time as fundamentals remain challenged and significant uncertainties remain.

Buffalo Wild Wings - Block Summary Model

Income Statement	**2016A**	**2017E**	**2018E**
Revenue	$1,987	$2,088	$2,149
Cost of Sales	565	624	618
Labor	599	636	651
Rent	109	114	118
Other Operating	285	311	322
Restaurant-Level Profit	334	302	331
Preopening	9	6	6
Depreciation & Amortization	152	153	156
G&A	123.11	134.66	150.42
Operating Profit	145	108	125
EBITDA	$297	$262	$282
Interest Expense	(3)	(13)	(12)
Pre-Tax Income	142	95	113
Income Tax	42	28	33
Net Earnings	94	68	80
Wtd. Avg. FD Shares O/S (mm)	18	16	14
EPS	$5.44	$4.34	$5.90
Cash Flow Statement	**2016A**	**2017E**	**2018E**
Net Earnings	94	68	80
Change in Working Capital	35	16	69
Other Non-Cash Items	159	161	165
Cash Flow From Operations	289	243	318
Capex	(142)	(100)	(100)
Dividends	$0.00	$0.00	$0.00
Free Cash Flow	147	143	218
Share Repurchases	(233)	(450)	(200)
Available for Debt Paydown	(90)	(307)	18
Balance Sheet	**2016A**	**2017E**	**2018E**
Cash	49	26	51
Total Current Assets	177	109	119
Total Assets	1,047	926	860
Total Current Liabilities	242	163	267
Long-Term Debt	205	355	355
Total Liabilities	529	605	359
Shareholders' Equity	518	321	501
Total Liabilities and Share Equity	1,047	926	860
Key Metrics	**2016A**	**2017E**	**2018E**
Co.Owned SSS	-2.4%	-1.6%	1.0%
Store Count	1,240	1,303	1,367

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

Our $130 price target is based on a 7.5-8.0x EV/EBITDA multiple on our 2018 estimate, which reflects a discount to its historical average multiple to reflect challenged fundamentals.

Upside Scenario $165.00

We derive upside of $165 assuming a 9.5x EV/EBITDA multiple on our 2018 estimate.

Downside Scenario $90.00

We derive downside to $90 assuming a trough EV/EBITDA multiple of 6.5x on a downside EBITDA that is 10% below our 2018 estimate.

Company Description

Buffalo Wild Wings is the owner, operator, and franchisor of Buffalo Wild Wings restaurants, which aim to provide a superior environment to enjoy sporting events. The company has investments in emerging concept R-Taco. The company operates more than 1,200 restaurants across the U.S. and four other countries, including more than 600 franchise locations.

September 01, 2017 | 10:43 ET | 10:43 ET~

Dollar General

DG-NYSE	Rating	Price: Aug-31	Target	Total Rtn
	Market Perform	$72.56	$85.00	19%

GM Rate Pressure Looks to Persist, Maintaining Market Perform and Target Price

Bottom Line: Comments follow our initial impressions note/conference call with analysts following a better-than-expected 2Q17 EPS print of $1.10 on 2.6% growth in SSS. Despite the $0.01 beat, stronger-than-expected SSS growth and a bump higher in the low-end of the 2017 EPS and SSS guide the stock traded down ~5.4% on GM rate pressure worries. Management attempted to lessen fears about the GM rate pressures, expecting sequential improvement in the 3Q17 on an easing comparison, but we see WMT and others taking deeper y/y price rollbacks causing us to remain MP.

Key Points

GM Pressure to Persist, Albeit Expected to Moderate in the Second Half 2017. Management continues to assert that the headwinds from deflation, changes in SNAP benefits are transitory and its product pricing is competitive with all classes of trade and geographic region. Our concern is the latter, where we see greater dynamic pricing in key traffic driving items (i.e., bread, milk, eggs); WMT taking deeper y/y target price rollbacks; Family Dollar's execution improving; Aldi lowering private label price points 15% on key BTS food items; and apparel under siege with back-to-school graphic tees and leggings priced at $4, dresses at $7, pressuring the dollar stores value/quality proposition in apparel. In short, additional targeted price and promotional investments, above those planned, may be needed to maintain relevancy and drive units/transactions, which in turn could continue to pressure the mix of sales towards lower margin items and manifest itself into unexpected GM pressure as we see emerged in the 2Q17 where it declined 47bp vs 34bp in the 1Q17. Management has several levers to offset price/promotional pressures, including improving inventory shrinkage, reducing global sourcing costs, increasing higher margin private label penetration, and lowering transportation and logistics costs, but these benefits are not yet emerging as full offsets. We look to learn more about how management intends to balance GM and expense levers when we meet with them on September 21, 2017.

Expense Leverage on 2.5% to 3.0% SSS Growth Looks Achievable. Store labor and occupancy costs grew faster than sales in the 2Q17 leading to margin pressure. Management pointed to expected SG&A leverage on 2.5% to 3.0% SSS growth and that excluding one-time expenses in 2Q17 the company would have levered instead of SG&A increasing 51bps to 22.3%. The one-time 2Q17 expenses included approximately 20bps from acquisition-related costs and approximately 40bps from salary investments.

Key Changes

Estimates	Q3/17E	2017E	2018E
Revenue (mm)		$23,441	$25,470
Previous		*$23,463*	*$25,322*
EPS	$0.93	$4.49	$4.97
Previous	*$0.95*	*$4.50*	*$4.98*
SSSG		1.9%	2.5%
Previous		*1.4%*	*2.0%*

BMO Capital Markets

Broadlines/Hardlines

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2YR Price Volume Chart

LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Data			in $
Dividend	$1.04	AD Vol. (mm)	12.44
Yield	1.4%	Shares O/S (mm)	274.2
Net Debt (mm)	$2,924	Market Cap (mm)	$19,898

BMO Estimates			in $
(FY-Jan.)	2016A	2017E	2018E
Revenue (mm)	$21,987	$23,441↓	$25,470↑
EPS	$4.48	$4.49↓	$4.97↓
SSSG	0.9%	1.9%↑	2.5%↑
EBITDA Margin	11.1%	10.5%↓	10.3%↓
EBIT Margin	9.4%	8.7%↓	8.6%↓

Consensus Estimates	2016A	2017E	2018E
EPS		$4.50	$4.98

Valuation	2016A	2017E	2018E
P/E	16.2x	16.2x	14.6x
EV/EBITDA	10.4x	9.8x	9.8x

QTR. EPS	Q1	Q2	Q3	Q4
2016A	$1.03	$1.08	$0.89	$1.49
2017E	$1.03a	$1.10a	$0.93	$1.44

Our Thesis

We maintain our Market Perform rating as intermediate-term SSS growth and margin pressure is leading to below-average EPS growth prospects and our confidence in the timing of a resumption of accelerating growth is not high given industry headwinds. We look to learn more about how management intends to balance GM and expense levers when we meet with them on September 21, 2017.

Dollar General - Block Summary Model

Income Statement	2016A	2017E	2018E
Net Revenue	$21,987	$23,441	$25,470
Cost of Goods Sold	15,208	16,281	17,741
Gross Profit	6,783	7,161	7,729
SG&A	4,339	4,707	5,112
EBITDA	$2,443	$2,454	$2,617
Depreciation & Amortization	380	409	422
EBIT	2,063	2,044	2,195
Interest Expense, Net	98	101	80
Pre-Tax Income	1,966	1,940	2,115
Income Tax	714	722	787
Net Income	1,251	1,218	1,328
EPS	$4.48	$4.49	$4.97
Comp-Store Sales Growth	0.9%	1.9%	2.5%
Gross Margin	30.8%	30.5%	30.3%
Operating (EBIT) Margin	9.4%	8.7%	8.6%
EBITDA Margin	11.1%	10.5%	10.3%
Pretax Margin	8.9%	8.3%	8.3%
Net Margin	5.7%	5.2%	5.2%
Cash Flow Statement	**2016A**	**2017E**	**2018E**
Cash Flow From Operations	1,605	1,615	1,774
Cash Flow From Investments	(551)	(909)	(937)
Cash Flow From Financing	(1,024)	(724)	(1,213)
Balance Sheet	**2016A**	**2017E**	**2018E**
Cash	188	170	(205)
Inventory	3,259	3,340	3,629
Total Assets	11,672	12,265	12,696
Current Liabilities	2,623	2,390	2,996
Long Term Liabilities	3,643	3,568	2,995
Shareholders' Equity	5,406	6,071	6,704
Total Liabilities and Share Equity	11,672	12,029	12,696

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

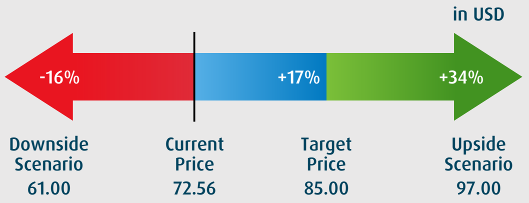
YTD, the stock is down ~1% and trades at ~14.6x our 2018 EPS estimate, which compares to the S&P 500's 10.4% advance and 17.4x P/E on 2017 consensus EPS. If DG is able deliver 3% SSS growth in the 3Q and 1.5% growth in the 4Q17, and achieve our GM forecast, we see the P/E multiple expanding to 17.1x from 14.6x on our 2018 EPS estimate of $4.97 leading to a 12-month price target of $85.

Upside Scenario $97.00

Were SSS growth to accelerate to 3.0% or greater, new store growth remained at 7% and EBIT margin rate looked to be rising 30bp, then we could see the P/E multiple expand to 18.5x, which, coupled with a likely 2018 EPS outcome of $5.24, could lead to upside in the stock to $97.

Downside Scenario $61.00

If management's actions are unable to restore SSS growth to at least 2% and EPS growth is below the low end of target of 10%, we could see the P/E multiple contract to ~13x, or it return back to the most recent low. Applying this assumption to a likely EPS outcome of $4.70 in 2018 would imply downside risk to $61.



Company Description

Dollar General is a discount retailer with more than 14,000 stores located primarily in the southern, southwestern, Midwestern, and eastern U.S. Dollar General offers a broad selection of merchandise, including consumables, seasonal, home products, and apparel. The company offers national brands as well as private brands at everyday low prices (most $10 or less).

September 01, 2017 | 09:10 ET | 09:10 ET~

Business and Industrial Services

August 2017: Headline OK, Temp Penetration Falls Slightly

Bottom Line: The 156,000 non-farm jobs added in August were just below consensus. The unemployment rate rose slightly sequentially, despite the labor participation rate being flat. Annual temp growth was slightly weaker sequentially, and the temp penetration rate fell slightly from last month. Fundamental trends suggest somewhat stable, though slightly slowing, temporary labor demand. Staffing stocks have been volatile this quarter, owing to concerns over choppy demand or elongated purchase decisions. We continue to recommend selective staffing exposure: later-cycle or secular-growth trends (AMN, CCRN, ASGN) or attractive geographic exposure (MAN).

Key Points

The U.S. economy added 156,000 jobs in August, shy of the consensus expectations of a 170,000 increase. Private employment (excluding government agencies) increased by 165,000 jobs; sectors that added jobs included manufacturing, construction, professional and technical services, health care, and mining.

The **unemployment rate of 4.4%** increased slightly from last month's 4.3% rate, while the labor participation rate was 62.9% - flat with last month's 62.9% rate.

Average hourly earnings rose by $0.03 to $26.39 with annualized wage inflation up to 2.5%, stable with last month's 2.5% rate. **Weekly hours for production workers were flat sequentially**, while **average weekly overtime hours were up slightly sequentially.**

Annual temp staffing growth relatively stable, though slowing slightly. Temp staffing volume (seasonally adj.) increased 4.3% y/y in August, relatively stable with last month's 4.4% y/y increase (as revised). On an unadjusted basis (more indicative of actual results), volume rose 4.3% y/y in August, decelerating a bit from last month's 4.7% y/y increase (as revised).

Sequentially, seasonally adjusted volume was flat, relative to the historical 0.3% increase from July to August. On an unadjusted basis, volume rose 1.7%, relative to its historical 2.8% sequential increase.

Temp penetration rate (temp as % of total workforce) hit 2.07% in August, down slightly from the prior month's 2.072% (as revised), which had been an all-time high. The peaks in the prior two cycles were 2.029% (April 2000) and 1.953% (Nov. 2005), respectively.

As always, we caution investors that these data are based on monthly surveys and are notorious for revisions. Staffing stocks have been volatile recently as Trump-related euphoria has subsided and there have been indications of choppy demand or elongated purchase decisions. Still, fundamental trends in this release appear to indicate somewhat stable, though slightly slowing temporary labor demand.

We continue to be selective on staffing exposure. We recommend healthcare staffing names AMN ($43) and CCRN ($15) for attractive healthcare labor dynamics (strong demand and tight supply). We also recommend ASGN ($59, IT staffing; some secular growth components) and MAN ($124) exposure to European recovery).

BMO Capital Markets

Business Services

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Source: FactSet

September 04, 2017 | 23:39 ET | 23:39 ET~

Semiconductors

Extracts From Qs / Ks – ADI, MRVL, MXIM, NVDA, SYNA

Bottom Line: We offer notes from our review of the SEC filings in our coverage universe for C2Q. We have reviewed the filings and extracted what we believe to be important/relevant information. We have also reviewed the risks sections for material changes from the prior period.

Key Points

Analog Devices: In FY3Q17, ADI repaid all of the $4.1 billion of outstanding loans under the 90-day Bridge Credit Agreement, repaid $250.0 million of principal on the five-year unsecured term loan, and repaid $350.0 million of principal on the three-year unsecured term loan.

The amount of revenue attributable to Linear included in ADI's consolidated statements of income for the three- and nine-month periods was $368.6 million and $516.1 million, respectively.

Marvell: In FY2Q18, 10% customers included WDC (21.8% vs. 18.3% a year ago), Toshiba (15.1% vs. 13.6%), STX (9.8% vs. 8.8%), and CSCO (10.6% vs. 10.0%), implying sales to WDC, Toshiba, STX, and CSCO were up 20%, 12%, 12%, and 7% y-y in FY2Q18, respectively. Sony was a 10% customer a year ago, and is not listed in the quarter.

In May 2017, Marvell sold the LTE thin-modem operations for $52.9 million. The divestiture resulted in a pre-tax gain on sale of $34.0 million.

Maxim: Sales to Samsung accounted for approximately 10%, 14%, and 15% of net revenues in FY2017, FY2016, and FY2015, respectively, implying sales to Samsung were down 25% y-y in FY17 and down 10% y-y in FY16.

Sales to distributors were 42% of sales in FY17 vs. 38% of sales in FY17, implying sales to distributors were up 16% y-y in FY17.

In FY17, MXIM's partner foundries and merchant foundries increased, now representing 75% of total wafer production, up from 57% in FY16 and 47% in FY15.

NVIDIA: In F2Q18, NVIDIA terminated all outstanding warrants, settled an aggregate of $136 million principal of the Convertible Notes and had $86 million principal outstanding as of July 30, 2017. The company added some discussion on cryptocurrency, where PC OEM revenue increased by approximately 200% due primarily to strong demand for GPU products targeted for use in cryptocurrency mining. Additionally, information regarding the Polaris Innovations litigation was updated in the Legal section.

Synaptics: The company disclosed that it had one OEM customer, which we believe is Apple, that integrates its discrete display products into its mobile products and that it accounted for approximately 24% of revenue. Revenues to Samsung were 19% of total in FY17 vs. 21% in FY16, implying revenues to Samsung were down 6% y-y.

As of the end of FY2017, Synaptics had an orders backlog of $221.8 million, an increase of $39.0 million compared with an orders backlog as of the end of FY2016 of $182.8 million. Cash and cash equivalents were $367.8 million as of the end of FY2017 compared with $352.2 million as of the end of FY2016, an increase of $15.6 million.

BMO Capital Markets

Semiconductors

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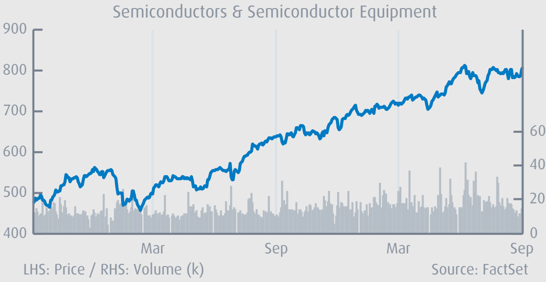

LHS: Price / RHS: Volume (k)

Source: FactSet

September 05, 2017 | 17:18 ET | 00:00 ET~

On Assignment

ASGN-NYSE	Rating	Price: Sep-1	Target	Total Rtn
	Outperform	$47.80	$59.00	23%

Updating Model for Recent Acquisition and Refinancing

Bottom Line: We are updating our model for the company's recent acquisition of StratAcuity Staffing Partners and term loan repricing - both completed in recent weeks. Each item has only a moderate impact on our earnings forecast.

Key Points

- **On August 8, 2017, ASGN completed the acquisition of StratAcuity Staffing Partners.** StratAcuity is a Boston-based provider of specialized clinical/scientific staffing solutions for biotechnology and pharmaceutical organizations, supporting clients with contract, permanent placement and managed services solutions. StratAcuity generated $16 million in 2016 revenues. This tuck-in acquisition will be part of ASGN's Apex Life Sciences segment. Financial details re: the transaction were not disclosed.
- **On August 23, 2017, ASGN announced it had completed a previously announced amendment to its credit facility.** This included a repricing of its existing $594 million (gross) Term B loan, reducing the annual interest rate by 25 bps to LIBOR + 2%.
- **We have updated our model for these transactions.**

Key Changes

Estimates	2017E	2018E
Revenue	$2,611	$2,779
Previous	*$2,605*	*$2,762*
EPS	$2.84	$3.14
Previous	*$2.83*	*$3.12*
EBITDA	$305	$329
Previous	*$306*	*$330*

BMO Capital Markets

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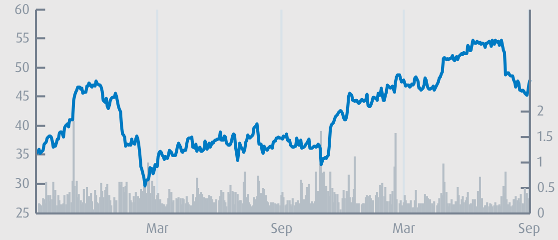
2YR Price Volume Chart



LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Data			in $
Dividend	$0.00	Shares O/S (mm)	52.8
Yield	0.0%	Market Cap (mm)	$2,524
AD Vol. (mm)	0.22	EV (mm)	$3,292

BMO Estimates (FY-Dec.)	2016A	2017E	in $ 2018E
Revenue	$2,440	$2,611↑	$2,779↑
EPS	$2.60	$2.84↑	$3.14↑
EBITDA	$285	$305↓	$329↓
CFPS	$3.15	$3.33↓	$3.74↓

Consensus Estimates	2016A	2017E	2018E
EPS		$2.85	$3.10

Valuation	2016A	2017E	2018E
P/E	18.4x	16.8x	15.2x
P/CFPS	15.2x	14.4x	12.8x
EV/EBITDA	11.5x	10.8x	10.0x

QTR. EPS	Q1	Q2	Q3	Q4
2016A	$0.54	$0.68	$0.74	$0.64
2017E	$0.61a	$0.78	$0.76	$0.74
2018E	$0.67	$0.87	$0.81	$0.79

Notes:

Our Thesis

One of the best-managed and fastest-growing staffing companies, with leadership in the sector and strong secular growth trends (IT staffing).

On Assignment - Block Summary Model

Income Statement ($mm except EPS and Shares OS)	2016A	2017E	2018E
Revenue	$2,440	$2,611	$2,779
EBIT	196	223	248
Net Interest Expense (Income)	32	27	22
Income Before Taxes	157	195	226
Provision (Benefit) for Inc. Tax	60	74	87
Net Income (Continuing Ops.)	97	120	139
Diluted EPS	$2.60	$2.84	$3.14
Diluted Shares Outstanding	53.7	53.4	53.4
Cash Flow Statement	**2016A**	**2017E**	**2018E**
Net Income (Reported)	97	120	139
Depreciation & Amortization	62	56	54
Change in Working Capital	(19)	(9)	9
Operating Cash Flow	196	204	228
Capex	(25)	(27)	(26)
Free Cash Flow	169	178	200
FCF/Share	$3.15	$3.33	$3.74
Balance Sheet	**2016A**	**2017E**	**2018E**
Cash & Equivalents	27	100	252
Total Assets	1,753	1,863	2,015
Short and Long-Term Debt	640	574	521
Total Liabilities	884	856	842
Shareholders' Equity	869	1,007	1,173
Net Debt/(Cash)	613	473	269
Growth and Margin Data	**2016A**	**2017E**	**2018E**
EPS Growth	17.6%	9.4%	10.4%
EBITDA Margin	11.7%	11.7%	11.8%
Incremental EBITDA Margin	11.9%	11.7%	14.2%
Net Income Margin	4.0%	7.0%	5.0%

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

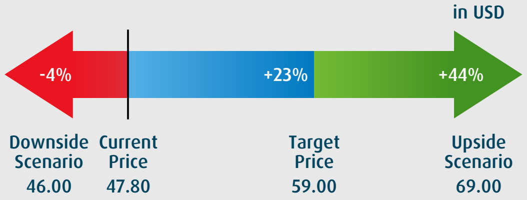
Average of P/E, EV/EBITDA, and Discounted Cash Flow based on forward-looking estimates.

Upside Scenario $69.00

Upside using industry multiples and assuming our EPS estimate for next year is 10% higher.

Downside Scenario $46.00

Downside assuming multiple contraction and our EPS estimate for next year is 10% lower.



Company Description

On Assignment, Inc. is a leading global provider of in-demand, skilled professionals in the growing technology and life sciences sectors.

E&P - US

Can a Lower Growth, FCF Strategy Work for Shale?

BMO Capital Markets

Oil & Gas - E&P

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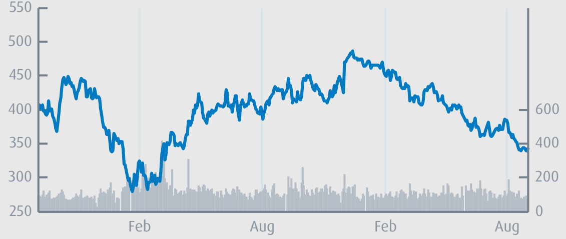
Oil & Gas Exploration & Production



LHS: Price / RHS: Volume (k) Source: FactSet

Bottom Line: The unconventional resource revolution in the U.S. has led to a resurgence of oil and natural gas production growth. However, this has come at the expense of lower commodity prices and corporate level returns. Following prolonged E&P share price underperformance, many investors are calling for a new model, which places less emphasis on growth and more on a combination of moderate production gains, return on capital employed (ROCE), and free cash flow (FCF) generation. In this report, we look whether this new business model (moderate growth, FCF) is a viable strategy and what it could mean for E&P equity valuations and corporate returns. We summarized conclusions from our analysis below.

Key Points

How Much FCF Can Be Generated? We estimate a 25% reduction in U.S. drilling activity versus our base case assumptions would generate a 2020 FCF yield of 2.0% ($50bbl WTI) to 9.2% ($65Bbl WTI), while also achieving high-single digit production growth.

How Does This Growth and Yield Profile Compare to Other Sectors? We compared E&P to non-energy sectors focusing on top-line, EPS, and EBITDA growth, in addition to FCF Yield, valuation multiples, and return on equity (ROE). Estimated top-line (production 16:1) growth for E&Ps of mid to-high teens through 2020 significantly exceeds other sectors (mid-single digits), although FCF yield and ROE are well below. Assuming 25% lower activity, top-line growth would still be high-single digits, while FCF yield would be competitive with other sectors at $60Bbl. We think this growth and FCF profile could help close the sector's broader market multiple discount (3x EV/EBITDA).

A Lower Growth Model Can Still Drive Competitive Total Return Without Higher Commodity Prices. While production growth is reduced with 25% lower activity, total return/debt-adjusted growth is only ~200-500bp lower on a flat price deck, but we think higher commodity prices and multiple expansion would more than offset this.

Reduced Activity Can Be NAV Neutral to Positive. We estimate the negative NAV impact from a 25% reduction in activity would be more than offset by lower OFS costs. In fact, median NAV increases by 4% under our 25% lower activity (10% lower costs) scenario. Commodity prices would provide further upside.

Valuation Multiples Likely to Move Higher Despite Lower Growth; . As E&P valuations are a function of NAV, we think longer inventory lives and improved corporate returns would increase multiples, while FCF generation would reduce WACC, further contributing to multiple expansion.

Multiple Expansion Could Offset Reduced EBITDA. We estimate a 25% reduction in U.S. activity equates to ~5-15% lower equity valuations assuming no change to current multiples. That said, if E&Ps can reduce the EV/EBITDA discount to the S&P to 2x (vs. 3x), this would drive a 15-25% increase in E&P equity valuations, which increases to ~35-40% at a 1x discount assuming no change to commodity prices.

Oil Services

Pressure Pumping Remains Favored; RES Expands Lead

Bottom Line: We continue to favor pressure pumping and expect profitability to remain near current levels as long as oil prices remain in the $47.50-$50.00 range. Pricing gains have slowed but the market remains undersupplied—we think much of any newbuilds will be partially offset by attrition and expanding crew sizes. This report does the heavy lifting to resolve accounting differences and compare 2Q results on an apples-to-apples basis. RES, our top pick, generates more than 2.5x the EBITDA/HHP of peers and expanded its lead during 2Q. SPN/FRAC made improvements but profitability still lags; we prefer CJ due to upside optionality from idle assets. Pumping results should continue to improve in 2H17 and while there is risk of margins peaking in 4Q, we think PP stocks offer best risk/reward due to a combination of attractive valuation on 2H17 annualized EBITDA and significant upside optionality to higher oil prices.

Key Points

This report updates our pressure pumping (PP) supply/demand outlook and continues the work begun in our initiation report, *Not all Horsepower is Equal* and our *1Q17 benchmarking analysis*. We standardize for different accounting of corporate expenses, which are not always reflected in segment results. This meaningfully impacts profitability for some (CJ, FRAC), less for others (PTEN, RES, SPN). The market appears to mostly adjust for these differences when comparing adj. EBITDA/HHP to EV/HHP. There is relative value in CJ vs. FRAC as CJ does not appear to get credit for its idle assets. For 3Q/4Q17, we are 6/12% above consensus for CJ, 6%/12% above for RES, 5%/6% above for SPN, and 5%/11% below adjusted consensus for FRAC.

We still favor PP in the context of a guarded sector view. PP remains undersupplied and should stay tight through year-end even if the rig count declines 10%. SMID stocks are trading near historical averages on 4Q17E ann. EV/EBITDA while most of OFS is trading 1-2 standard deviations above. This suggests that US PP stocks are closer to discounting current oil prices than most OFS stocks. **We estimate PP demand of 15mm HHP with active supply of 13mm going to 14-15mm by year-end and think near leading-edge margins can be sustained in a $47.50-$50.00 oil price environment**. We expect industry leaders, such as HAL, to quietly shift to a market share strategy, preventing a material increase in newbuilds. Newbuild estimates range from 1-2mm HHP but a large portion will likely offset attrition and rising crew sizes due to required redundancy and rotation of equipment between wellsites and repair yards.

Key points: 1) RES's lead expanded in 2Q with adj. EBITDA/HHP increasing by $173 to $441 vs. peers increasing by $117 to $176. **2) FRAC is improving and expects to play catch up**. Adjusted EBITDA/HHP of $145 was up nearly 400% QoQ but was $89 below FRAC's peer average of $234. FRAC offered the most aggressive guidance for 3Q and may narrow the gap to $78. **3) CJ had a strong 2Q despite transitory issues**. We still see upside to consensus but are lowering our estimates partly due to a slower pace of reactivations and lower margins due to higher sand costs as contracts re-set. **4)** SPN continues to lag but delivered high incrementals. **5)** PTEN has idiosyncratic opportunities via normalizing SSE assets. **6) RES's quality not fully reflected in near-term EBITDA multiples.** On annualized 4Q17E, RES trades in line with peers despite lower 2018 estimate risk, in our view, higher capital discipline, and better operational performance. 7**)** We are lowering our CJ/SPN price targets by 10%/17% respectively.

BMO Capital Markets

Oil Services

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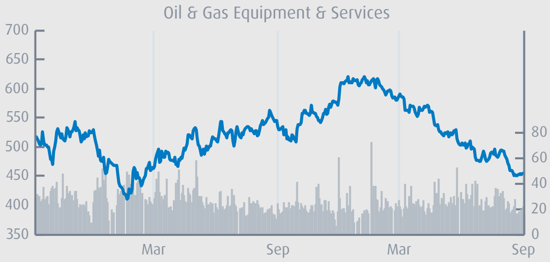

LHS: Price / RHS: Volume (k) Source: FactSet

Precious Metals & Minerals

Trends and the Royalty/Streaming Cost Deck

BMO Capital Markets

Metals & Mining

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What's Inside

In this report, we take a look at cost reporting across the royalty/streaming companies under coverage and which are best-positioned among the peer group. On the back of this report, we introduce GEO production as well as cash cost and AISC data for our royalty/streaming companies as part of our comprehensive *GoldPages*.

LHS: Price / RHS: Volume (mm) Source: FactSet

Bottom Line: In this report, we take a look at some of the evolutionary trends and introduce cost reporting for the precious metal royalty/streaming sector. We ask the question, "who has the better deck of cards?" While all companies under coverage have their respective strengths, we favour Royal Gold on higher margins and cash flow per share and Wheaton Precious Metals on cash generation and liquidity.

Key Points

We are seeing increased competition in the precious metal royalty/streaming sector from new players, private equity, and mining companies that look to spin out their own royalty/streaming companies. We estimate that over the past two years, royalty/streaming companies have conservatively lost out on upward of 290koz of gold equivalent ounce (GEO) delivery potential in deals totaling $2.4B.

While the royalty/streaming companies under coverage appear to be in a reasonably strong position, we are of the view that the sector will have to become increasingly innovative to grow. Gone are the days of the "vanilla" royalty/streaming company. Over the past 12 months we have seen a step change in innovation with a number of companies adding:

- Exploration (Royal Gold) and project ownership, either directly (Sandstorm), or indirectly through a variety of incubator models to organically grow new royalties or streams. While cost effective, we have yet to see a successful conversion to a stream.
- OR has increased the breadth of options available as a royalty/streaming company through the C$1.1B acquisition of Orion Mine Finance. Included in the portfolio were a number of streams with counterparty buyback provisions to shorten the duration of a stream. This is a significant divergence from the traditional royalty/streaming model as it potentially caps exposure to life of mine optionality.

Our concern for the precious metal royalty/streaming sector is that the drive to innovate and maintain a competitive advantage increases risk and may compromise one of the core strengths that royalty/streaming companies provide investors: **low-cost optionality to growth driven by counterparty efforts to build new mines, extend mine life, and/or expand production through ongoing exploration**. There is a view among investors that this portfolio optionality is the principal reason that royalty/streaming companies trade at a premium to the miners.

On a positive note, another core strength of the royalty/streaming companies lies in their cost structure, with companies under coverage realizing all-in sustaining cost margins (AISC) of +60% of the average realized gold price. **Companies with the higher margins are Franco Nevada and Royal Gold.**

Following the old adage that "cash is king," **Wheaton Precious Metals is king, generating +40% of total cash flow among its peer group annually. Royal Gold is the standout leader on a per share basis**. Barring any future equity raises, Franco Nevada and Wheaton Precious Metals have the most enviable liquidity positions to be able to transact on future opportunities.

Toys

Lights, Camera, Inaction! Movie Toys Underperform; Lowering Estimates

Bottom Line: In 2017, we believe the toy industry is experiencing movie fatigue, with toys tied to movies underperforming expectations for retailers, manufacturers, and we expect for investors, as well.

With a heavy slate of toyetic movies to be released in the balance of 2017 and through 2018, we see risk to investor expectations and toy company EPS estimates over the near to intermediate term. We are taking the opportunity to moderate expected contribution from these movie events, reduce our estimate for toy industry growth, as well as our estimates for toy companies reliant on movie licenses.

Key Points

A major focus for investors in recent years has been the impact of movie licenses on toy manufacturers like Hasbro, Mattel, Spin Master, and JAKKS Pacific. This area of licensing has grown rapidly owing to the increased speed to market and popularity of "toyetic" franchise films at the box office.

So far this year, though, total U.S. box office receipts are down about 5%, with the Labor Day weekend being the weakest domestic box office in 178 years. In addition to lackluster performance at the box office, we blame an over-saturated movie market, fatigue in certain properties associated with multiple sequels, and competition from entertainment from other screens for underperformance of movie-related toys.

In this note we are reducing our growth estimate for the U.S. toy industry to 2% from 3% in 2017 and to 1.5% from 2% in 2018. We are also reducing EPS expectations for Hasbro, Mattel, and JAKKS Pacific, while leaving our estimates unchanged for Spin Master. We are also lowering our target price for Hasbro to $90 (from $95) and for Mattel to $23 (from $25) owing to EPS reductions and further risk to earnings owing to exposure to underperforming merchandise programs tied to movies.

BMO Capital Markets

Toys

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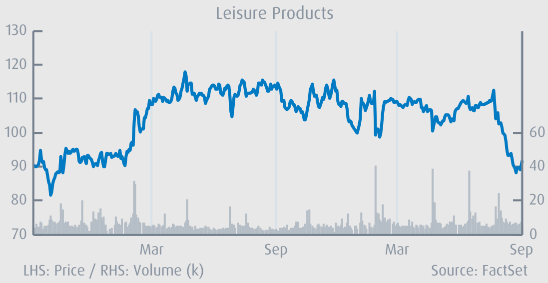

Source: FactSet

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Buy	Outperform	46.1%	22.7%	60.0%	48.1%	59.9%	53.9%
Hold	Market Perform	50.8%	13.4%	39.0%	48.9%	38.8%	41.1%
Sell	Underperform	3.1%	5.9%	1.0%	3.0%	1.2%	5.0%

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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September 5, 2017

Global Energy Best Ideas

In August, the RBC Global Energy Best Ideas List was down 5.0% compared to the S&P Global Energy Sector's decrease of 2.9%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 8.1% compared to the S&P Global Energy Sector's ETF at -13.7%.

September List Removals: PXT

Benchmark Price Returns	August	YTD	Since 2/1/13
S&P Global Energy Sector ETF	-2.9%	-8.8%	-13.7%
RBC Energy Best Ideas - Mean	-5.0%	-23.4%	8.1%

Current Best Ideas List	Ticker	Rating[1]	Market Cap (mn)	Date Added	Opening Price When Added[3]	Current Price	Price Target	Analyst
Integrated Oils								
Suncor Energy	SU-tse	OP	C$65,562	**12/16/16**	C$43.79	C$39.42	C$45.00	Pardy
Galp Energia SGPS, S.A.	GALP-pt	OP	€ 10,727	**7/1/17**	€ 13.26	€ 14.20	€ 16.00	Borkhataria
Canadian E&P and Oil Sands								
Canadian Natural Resources	CNQ-tse	TP	C$47,067	**9/1/15**	C$29.65	C$39.30	C$50.00	Pardy
US E&P								
Devon Energy	DVN	OP	$16,879	**6/1/17**	$33.98	$32.13	$43.00	Hanold
RSP Permian	RSPP	OP	$4,975	**6/1/17**	$35.59	$30.97	$43.00	Hanold
MLPs								
Summit Midstream Partners LP	SMLP	OP	$1,501	**4/1/17**	$24.00	$20.60	$27.00	Scotto
Energy Transfer Partners, L.P.	ETP	OP	$21,269	**12/16/16**	$23.06	$19.17	$28.00	Scotto
Targa Resources	TRGP	OP	$9,597	**6/1/17**	$45.92	$44.72	$60.00	Schultz
Global Oil Services								
Patterson-UTI Energy	PTEN	OP	$2,843	**8/1/17**	$19.34	$17.00	$29.00	Hallead
Halliburton	HAL	OP	$38,389	**8/1/17**	$42.44	$39.83	$60.00	Hallead
Trican Well Service Ltd.	TCW-tse	OP	$1,271	**7/1/16**	$2.47	$3.65	$7.00	Owens
Utilities and Infrastructure								
Exelon	EXC	OP	$36,042	**7/1/17**	$36.07	$37.87	$40.00	Tucker
TransCanada	TRP-tse	OP	C$54,361	**7/1/16**	C$58.46	C$63.41	C$76.00	Kwan

[1] This report is priced as of market close ET on September 5, 2017; TP = Top Pick, O = Outperform, R = Restricted.

[2] Indicates Speculative Risk.

[3] Opening price given is the closing price of the trading day prior to which the stock was added.

[4] Return assumes all dividends and distributions are reinvested. Note: Performance returns do not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in this Equity Best Ideas list. Past performance is not, and should not be viewed as, an indicator of future performance.

Source: RBC Capital Markets estimates, FactSet

Priced as of prior trading day's market close, EST (unless otherwise noted).
All values in USD unless otherwise noted.

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This Month's Additions and Removals from Energy Best Ideas List

Exhibit 1: This Month's Removals

Parex Resources (PXT) Nathan Piper, Analyst (+44) 131-222-3649 nathan.piper@rbccm.com	• We maintain our Outperform rating; however, we are removing Parex from the RBC Best Ideas list due to compliance with the mandatory RBC Best Idea stop loss sell limit reached since it was added to the list.

Investment Highlights

Below, we provide a summary of our analysts' views on each *Best Idea*.

Canadian Natural Resources (CNQ)
Greg Pardy
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- **Attractive free cash flow profile.** By virtue of its Horizon oil sands expansion and the Athabasca Oil Sands Project acquisition, CNQ should see an increase in its free cash flow into 2018 and beyond. CNQ's free cash flow generation opens the door to balance sheet deleveraging, shareholder returns, organic resource development, and opportunistic acquisitions.
- **Superior execution wins the race.** CNQ has evolved into a super independent with an international scope because of its ability to successfully navigate through successive stages of growth under all kinds of conditions.
- **Returns to shareholders.** CNQ has never cut its dividend, and along with Q4-2016 results, the company announced a 10% increase to $1.10/share (annualized).
- **Core energy holding.** We firmly believe that CNQ ought to be a core holding for global energy investors given its compelling combination of visible upstream growth and impressive shareholder returns. Overarching all of this is management + directors' ownership of approximately 2.3% of common shares.

Devon Energy (DVN)
Scott Hanold, Analyst
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- **Three core onshore oil plays underpin growth outlook.** We expect 8% production growth in 2018 led by high-margin US oil production up 15–20%. Activity in the Delaware, STACK, and Eagleford should help the company return to growth in 2H17 and accelerate in 2018. We think there could be upside to 2017 production expectations.
- **STACK provides potential operational catalysts into 2017 and beyond.** Several pilots testing spacing and acreage extent that are under way could increase drilling inventories by 50% or more. The 39-well "Hobson Row" (STACK Woodford) pilot is 40% online and initial results are outperforming the 1.6 MMboe EUR typecurve. DVN also plans a new STACK Meramec test using 15 wells/unit. Strong results will help prove up the play's multi-zone development potential.
- **Asset monetization plans provide increased focus and development capital to the portfolio.** DVN plans to divest assets worth $1 billion that are non-core, including portions of the Barnett Shale (data room opens soon), with a sale anticipated to occur in the next 12–18 months. We think ConocoPhillips' recent non-core Barnett divestiture ($4,000–5,000 Mcfe/d) is a positive read-through for DVN. Continued delineation success in the Delaware Permian and STACK that adds more core inventory could drive additional sales as other portions of the Barnett, Eagleford, and/or PRB become expendable. Proceeds will further enhance the balance sheet but also provide capital to continue to accelerate growth in 2018+, in our view.
- **Valuation is appealing.** DVN trades at a 10–15% discount on EV/EBITDA to large cap peers despite similar oil growth rates in 2018.

Energy Transfer Partners, L.P. (ETP)

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- **Strong position in the Permian; should benefit as basin takeaway capacity tightens.** ETP has sizable exposure to Permian Basin production through its long-haul crude oil pipelines such as Permian Express II and West Texas Gulf. We believe Permian takeaway capacity could become constrained in 2018, which would likely cause the WTI-Midland price spread to widen. We believe ETP can capitalize on widening crude oil price differentials through its marketing business.
- **Merger of SXL/ETP a longer-term positive.** We view the ETP/SXL merger favorably, as we believe the transaction will: (1) improve the overall cost of capital (legacy SXL completes projects at lower cost of capital vs. legacy ETP); (2) diversify legacy SXL's and legacy ETP's businesses; and (3) reduce cash outflows from distributions, which should improve combined leverage. In addition, management believes the surviving entity can generate $200MM of annual commercial synergies starting in 2019.
- **Poised for double-digit distribution growth in 2017.** We expect ETP to deliver distribution growth of 10% and 9% in 2017 and 2018, respectively.
- **Growth projects should deliver increasing cash flows into 2017 year-end.** We expect the Dakota Access Pipeline Project to generate EBITDA of ~$240MM. In addition, we expect ETP to complete its Mariner East 2 and ME2X project in 2H17 at 8.0x EBITDA, resulting in annual EBITDA of ~$375MM.

Exelon Corp (EXC)
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- **Increased regulated footprint.** With the Pepco acquisition in 2016, Exelon now derives more than 60% of its annual earnings from regulated utilities, expected to grow 6–8% annually through 2019 from rate base growth and ROE improvement at the Pepco utilities.
- **State support for nuclear plants.** In late 2016, both Illinois and New York passed legislation to provide financial subsidies to the states' nuclear plants, which included those owned by Exelon. While there is ongoing litigation at both states, we expect the courts to uphold the legislation, which should serve as a positive catalyst. In addition, other states, including New Jersey, are also considering a similar program, which would further support Exelon's merchant power business.
- **Value play.** The stock is currently trading at 13.6x P/E on 2019E, versus 17.6x for the defensive utilities. While we acknowledge the warranted discount for EXC given its exposure to competitive power markets, we believe the valuation gap is not reflecting the increased and growing regulated footprint.

Galp Energia (GALP)
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- **Galp remains one of the few majors that ticks multiple boxes for investors**, with: 1) a strong balance sheet; 2) limited dividend risk; 3) growth pipeline unlikely impacted by a prolonged weaker oil price; and 4) M&A optionality.
- **Locked-in growth in Brazil.** Unlike its peers in other regions, we believe Galp offers investors a growth opportunity that is not dependent on the oil price. Our production forecasts see volumes growing from 68kboed in 2016 to 164kboed by 2021, or a 19% CAGR, through additional production units in Brazil, all of which have been sanctioned and are in development.
- **Valuation remains attractive and justified.** On a price to cash flow basis, Galp is trading at a relative low both versus its history and the peer group average. Although there has been some near-term uncertainty around the risers and well hook-ups, we continue to see a clear path to Galp growing its production base over the next five years.

Halliburton (HAL) Kurt Hallead, Co-Head of Global Energy Research 512-708-6356 kurt.hallead@rbccm.com	• **Direct play on US land and frac.** HAL continues to gain market share and grow revenues, with NAM revenue up 24%, relative to peer SLB up 17% sequentially. HAL is sold out on frac crews through Q3 and looks to align with the most efficient operators to maximize its own returns. • **Limited competition in mature fields.** Revenue from mature fields could triple to $9 billion. The key driver to growth would be two or three integrated asset management projects per year. • **Trading at a discount.** HAL's 2019E EV/EBITDA is at a significant discount to SLB.
Patterson-UTI Energy (PTEN) Kurt Hallead, Co-Head of Global Energy Research 512-708-6356 kurt.hallead@rbccm.com	• **DUCs on the rise, gross margins increase.** DUCs have continued to rise as frac capacity lags drilling activity. Permian DUCs have increased +28% q/q, while Permian wells drilled are +27% q/q. PTEN projects at least 21% gross margin for fac in 3Q17, including reactivation costs of Seventy Seven Energy frac capacity. • **Super-spec rigs driving demand.** Super-spec rigs will likely continue to be 100% utilized, even if rig count were to decline in aggregate. We think PTEN's rig mix will continue to shift toward a higher percentage of Tier 1 rigs over the next two years, which we think should lead to higher cash margins over the long run. We estimate +75% of PTEN's rigs are Tier 1 currently. Dayrates would need to reach the mid-$20k to justify newbuild activity. • **Trading at a discount.** PTEN's 2019E EV/EBITDA is at a significant discount to NBR.
RSP Permian (RSPP) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Disciplined high-rate growth is underappreciated.** There is visibility for more than 30% in 2018 at cash flow levels assuming at least $55/bbl. However, we think the company will be proactive and target near cash flow neutrality and remain disciplined if oil prices remain below $50/bbl. Our current view is that rig activity will increase slightly through 2017 and be at 30–35% in both 2018 and 2019. In 2017, 85% of the company's budget targets wells with IRRs greater than 40% at $55/oil. This helps keeps the balance sheet strong and we model net debt-to-EBITDA below 1.5x through 2018. • **The Delaware Basin is a significant catalyst for improving capital efficient growth.** The "slow" start to activity and growth from the recent entrance into the Delaware caused some investor angst, but we think the infrastructure development is on track. The expansion of infrastructure through the recent acquisition of salt-water disposal wells and improvements to facilities should improve costs and further enhance returns. We think enhanced completion techniques, longer laterals, and additional delineation could also boost returns and drilling locations meaningfully over the coming years. • **Opportunities exist in the Midland to expand resource potential.** Recent strong test results from the company's furthest west Wolfcamp A well in an area not carried in inventory provide confidence that the zone is prospective farther west than previously thought and could add locations to inventory. RSPP is also seeing strong performance from 500' spacing tests in the Lower Spraberry and sees potential for simultaneous development of three landing intervals within the Lower Spraberry in some areas. Additional "high-density spacing" could significantly increase inventory. • **Valuation momentum.** RSPP trades in line (EV/EBITDA) with Permian peers but has one of the best debt-adjusted production growth outlooks among the peer group. RSPP's margins are also among the top in the industry.

Summit Midstream Partners LP (SMLP) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Final dropdown structure shifts performance risk to GP.** Given the deferred payment structure and calculation, SMLP will pay an effective 6.5x EBITDA multiple. Summit Investments bears the risk of asset under-performance or incremental capex. SMLP has the option to make the payment in cash or common units, and can pre-fund the payment by opportunistically issuing debt or equity if capital markets are favorable. • **Well positioned for Utica growth.** Across its Utica AMI, SMLP estimates that its customers have ~1,200–1,500 potential drilling locations. SMLP expects fully developed pad sites to have 6–8 wells (vs. 3.2 currently), which implies an extra ~230–400 future wells that will not require additional pipeline capex. • **MVCs mitigate volume risk; fee-based revenues minimize direct commodity price risk.** SMLP has a weighted average MVC life of 8.4 years and ~98% of its revenue is fee-based. • **Recent acreage sales a positive:** CHK sold its Barnett acreage to a First Reserve-backed entity, which we believe will result in increased activity in SMLP's acreage. Also, four of SMLP's top six producers in the Piceance Basin are now private equity-backed with limited outside drilling options.
Suncor Energy (SU) Greg Pardy (416) 842-7848 greg.pardy@rbccm.com	• **Best in breed.** In our view, Suncor represents a best-in-breed global integrated oil company adhering to capital discipline, cost improvement, and superior execution. We believe that Suncor has emerged as the Canadian integrated name of choice, with well-defined production growth and a strong balance sheet. • **Growth preservation.** Suncor is preserving its longer-term upstream growth profile through the advancement of its Hebron development, and its Fort Hills oil sands mining project. Both projects are expected to come on-line at the end of 2017, collectively adding about 130,000 bbl/d of production net to Suncor. • **Free cash flow potential.** By adhering to long cycle-time projects, Suncor has poured the foundation of substantial free cash flow generation in 2017 and beyond. Along with Q1-2017 results, the company announced a $2.0 billion share buyback program through a Normal Course Issuer Bid (NCIB). As of July 27, the company had repurchased some $450 million (over 11 million shares) of its shares to date.
Targa Resources (TRGP) TJ Schultz, Analyst (512) 708-6385 tj.schultz@rbccm.co	• **Superior position in most attractive basin.** We believe TRGP is well positioned to benefit from increased producer activity in the Permian Basin and from improved NGL fundamentals through 2017/2018. In addition to completing the Outrigger acquisition, TRGP most recently announced a new NGL takeaway pipeline project (300 Mbpd capacity) that will transport NGLs from the Permian to Mont Belvieu. These two strategic actions enhanced the company's footprint in the most lucrative basin in the U.S. At current valuations, we see a good buying opportunity, as TRGP should benefit from increased volumes through its systems in 2H17 and 2018 as producers ramp up D&C activity.

TransCanada (TRP) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com	• **The "new" TransCanada provides a platform for above average growth.** The company has a number of small to medium-sized projects that should underpin 8–10% annual dividend growth through 2020, with upside from the Columbia acquisition providing another avenue for growth with its pipeline footprint in the Marcellus and Utica. The visible growth from the highly executable small to medium-sized initiatives reduces the headline risk from the larger projects (e.g., Keystone XL, Energy East). Further, the sale of the U.S. merchant power business will result in the company's cash flows being almost all regulated or contracted. • **Attractive characteristics and relative valuation.** Management has guided to the upper end of the 8–10% annual dividend growth rate range through 2020 on top of the 3.5–4.0% dividend yield, with that total return profile being above average for our infrastructure coverage universe. Further, the dividend coverage from distributable cash is expected to average roughly 2x through 2020, which is superior to almost all of the Canadian and U.S. peers, and despite superior growth and dividend coverage, the stock trades in line with its peer group.
Trican Well Service Ltd. (TCW) Ben Owens, Analyst (403) 299-2394 benjamin.owens@rbccm.com	• **Industry consolidation a positive for pricing, margins.** We see industry consolidation through the combination of Trican and Canyon as a clear positive for the Canadian frac services market. We expect consolidation to result in greater competition for active equipment and increased industry pricing discipline. • **We see material pricing power for Canadian frac services by 2018.** We forecast a tight WCSB pressure-pumping market by 2018, driving pricing power. We forecast industry utilization breaching the key 80% threshold for pricing power in 4Q17 and forecast full-year 2018 utilization of 85%. In this scenario, we see significant pricing power for Canadian frac services companies.

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Companies mentioned

Parex Resources Inc. (TSX: PXT.TO; C$13.05; Outperform)

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SECTOR UPDATE
September 5, 2017

Power/Utilities Macro Trends Tracker - Increase In Forward Spreads

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What's Inside

Page 2 includes the Table of Contents for all the relevant macro trends that we track.

What's Incremental To Our View

This report includes our analysis of the key macro factors impacting the power/utility sector, including: forward power prices, spark spread, dark spread, and gas/coal spread trends; domestic electric consumption growth; and national weather patterns. Based on the latest peer group valuations, we are changing our price targets on AEP, CNP, EIX, and PNW.

IMPORTANT POINTS

- On-Peak spark spreads currently suggest an increase over the 2017-2020 period ($12.7/MWh - $15.7/MWh) and increased 1% versus the prior week.

- On-Peak dark spreads currently suggest an increase over the 2017-2020 period ($6.2/MWh - $7.5/MWh) and increased 5% versus the prior week.

- Forward power prices increased 1% last week, versus a 2% increase in forward gas prices and no change in forward coal prices.

- Domestic electric consumption decreased 2% for the week ended August 26 and has decreased 1% year to date.

- The STRH Power Index was flat for the week (versus +2% for the S&P 500) and has increased 14% year to date (versus +11% for the S&P 500).

- The STRH Power Index is trading at a P/E multiple of 17.6x our 2019 estimates (a 13% premium to historical levels); an EV/EBITDA multiple of 9.7x our 2019 estimates (an 11% premium); P/B multiple of 2.0x (a 20% premium); and a Treasury-dividend yield spread of -112 basis points (a 13% discount).

- Based on the latest peer group valuations, we make the following changes to our price targets: AEP is increased to $80 from $78; CNP is increased to $28 from $27; EIX is increased to $90 from $89; PNW is decreased to $86 from $87.

INDEX TO FIGURES AND TABLES

Figure 1: Historical Natural Gas Prices, Electricity Prices, and Spark Spread by NERC Region

	Average Quarterly Gas Price ($/MMBtu)					Average Quarterly Electricity Price ($/MWh)					Implied Spark Spread ($/MWh)				
	1Q12	**2Q12**	**3Q12**	**4Q12**	**2012**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**2012**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**2012**
TRE	2.39	2.20	2.81	3.32	2.68	25	38	45	31	35	8.6	22.1	25.5	8.2	16.1
FRCC	2.67	2.82	3.71	3.82	3.25	28	34	40	36	34	9.6	13.9	14.1	9.0	11.6
MRO	2.45	2.22	2.86	3.46	2.75	28	32	38	33	33	10.7	16.0	18.4	9.0	13.5
NPCC	3.25	2.53	3.15	4.25	3.30	37	37	48	48	42	13.9	19.5	26.1	17.8	19.3
RFC	2.58	2.34	2.93	3.52	2.84	32	37	43	38	37	14.4	20.3	22.6	13.1	17.6
SERC	2.44	2.25	2.85	3.37	2.73	27	29	34	33	31	10.0	13.7	14.4	9.6	11.9
SPP	1.58	1.44	1.84	2.20	1.76	24	26	31	30	28	12.7	15.9	18.2	14.7	15.4
WECC	2.51	2.24	2.82	3.45	2.75	26	22	34	34	29	8.0	6.7	14.6	10.1	9.8
Average	**2.48**	**2.25**	**2.87**	**3.42**	**2.76**	**28**	**32**	**39**	**35**	**34**	**11.0**	**16.0**	**19.2**	**11.4**	**14.4**
	1Q13	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**
TRE	3.42	3.93	3.48	3.79	3.65	30	40	41	36	37	6.5	12.9	16.9	9.1	11.3
FRCC	3.73	4.26	3.92	4.02	3.98	33	40	36	38	37	6.9	9.8	8.8	9.9	8.9
MRO	3.58	3.97	3.55	3.97	3.77	34	40	39	37	38	8.8	12.3	14.4	9.0	11.1
NPCC	7.69	4.35	3.82	5.80	5.41	75	48	52	57	58	20.9	17.2	25.5	16.6	20.1
RFC	3.66	4.11	3.57	3.83	3.79	38	44	46	39	42	12.9	15.4	20.5	12.1	15.2
SERC	3.47	3.98	3.51	3.79	3.69	33	40	36	36	36	8.9	11.7	11.5	9.8	10.5
SPP	2.28	2.56	2.27	2.50	2.40	30	36	34	34	34	14.3	18.5	18.6	16.9	17.1
WECC	3.53	3.88	3.50	3.94	3.71	37	41	44	44	41	12.1	13.6	19.6	16.0	15.3
Average	**3.92**	**3.88**	**3.45**	**3.96**	**3.80**	**39**	**41**	**41**	**40**	**40**	**11.4**	**13.9**	**17.0**	**12.4**	**13.7**
	1Q14	**2Q14**	**3Q14**	**4Q14**	**2014**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014**
TRE	5.08	4.46	3.88	3.63	4.26	53	45	43	38	45	17.1	13.5	15.5	12.5	14.6
FRCC	6.32	4.84	4.25	3.98	4.85	53	42	42	37	44	9.1	8.5	12.1	8.7	9.6
MRO	8.51	4.56	3.92	3.83	5.21	64	44	37	37	46	4.7	12.5	9.7	10.4	9.3
NPCC	17.27	4.35	3.35	4.20	7.29	149	48	42	44	71	28.3	17.1	18.9	14.7	19.7
RFC	8.43	4.19	3.28	3.29	4.80	89	49	40	40	55	30.4	19.7	17.4	17.4	21.2
SERC	5.06	4.52	3.90	3.69	4.29	62	43	40	38	46	26.2	11.9	12.8	11.9	15.7
SPP	3.76	2.90	2.52	2.38	2.89	52	53	40	38	46	25.7	32.4	22.2	21.0	25.3
WECC	5.41	4.54	4.00	3.73	4.42	53	44	46	40	46	14.7	12.1	18.1	14.0	14.7
Average	**7.48**	**4.30**	**3.64**	**3.59**	**4.75**	**72**	**46**	**41**	**39**	**50**	**19.5**	**16.0**	**15.8**	**13.8**	**16.3**
	1Q15	**2Q15**	**3Q15**	**4Q15**	**2015**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015**
TRE	2.70	2.60	2.67	2.03	2.50	29	27	45	22	31	10.1	9.1	25.9	8.1	13.3
FRCC	3.13	3.11	3.10	2.35	2.92	36	35	31	29	33	14.3	13.1	9.1	12.1	12.1
MRO	3.20	2.59	2.72	2.11	2.66	34	31	33	27	31	11.7	12.7	13.5	11.8	12.4
NPCC	8.61	2.58	2.58	2.32	4.02	81	33	38	31	46	20.6	15.1	20.0	14.9	17.7
RFC	3.18	2.22	2.16	1.74	2.32	49	37	36	31	38	26.5	21.0	21.2	19.1	21.9
SERC	2.83	2.67	2.70	2.03	2.56	38	33	28	26	31	17.8	14.5	9.5	11.6	13.3
SPP	1.75	1.66	1.74	1.32	1.62	33	31	39	30	33	20.6	19.7	26.5	21.0	22.0
WECC	2.64	2.55	2.70	2.18	2.52	27	31	36	27	30	8.8	13.0	17.0	11.2	12.5
Average	**3.50**	**2.50**	**2.55**	**2.01**	**2.64**	**41**	**32**	**36**	**28**	**34**	**16.3**	**14.8**	**17.9**	**13.7**	**15.7**
	1Q16	**2Q16**	**3Q16**	**4Q16**	**2016**	**1Q16**	**2Q16**	**3Q16**	**4Q16**	**2016**	**1Q16**	**2Q16**	**3Q16**	**4Q16**	**2016**
TRE	1.90	2.00	2.74	2.88	2.38	20	24	33	27	26	6.4	10.2	13.9	6.8	9.3
FRCC	2.34	2.54	3.56	3.23	2.92	24	30	39	32	31	7.9	11.9	14.0	8.9	10.7
MRO	1.96	2.00	2.70	2.91	2.39	24	28	38	33	31	10.5	14.2	19.1	12.3	14.0
NPCC	2.72	2.08	2.52	3.18	2.63	31	30	42	35	35	12.4	15.9	24.8	13.2	16.5
RFC	1.76	1.84	2.13	2.53	2.06	29	30	39	34	33	16.8	17.6	24.4	16.1	18.7
SERC	1.93	2.03	2.78	2.91	2.41	25	28	35	31	30	11.0	13.3	15.7	11.0	12.7
SPP	1.22	1.29	1.75	1.87	1.53	23	33	39	38	33	14.8	24.2	26.7	25.2	22.7
WECC	1.88	1.94	2.70	2.84	2.34	22	22	35	30	27	8.5	8.6	16.6	10.0	10.9
Average	**1.96**	**1.97**	**2.61**	**2.79**	**2.33**	**25**	**28**	**38**	**32**	**31**	**11.0**	**14.5**	**19.4**	**12.9**	**14.5**
	1Q17	**2Q17**	**3Q17**	**4Q17**	**2017**	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**2017**	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**2017**
TRE	2.88	2.93	2.81			24	27	34			3.4	6.2	14.1		
FRCC	3.11	3.40	3.33			29	32	34			7.2	8.2	10.4		
MRO	2.88	2.81	2.71			30	33	33			9.6	13.2	14.4		
NPCC	3.74	2.84	2.53			36	34	36			10.3	14.2	18.5		
RFC	2.87	2.75	2.41			31	33	34			11.3	14.1	17.3		
SERC	2.91	2.97	2.85			29	32	32			8.7	11.3	12.2		
SPP	1.84	1.82	1.73			36	42	39			23.0	29.0	27.1		
WECC	2.85	2.76	2.72			27	27	45			6.8	8.1	26.1		
Average	**2.88**	**2.79**	**2.64**			**30**	**33**	**36**			**10.0**	**13.0**	**17.5**		

Notes:
1) Implied spark spread assumes 7,000 Btu/kWh heat rate.
2) Calculations use On-Peak power pricing.
3) 3Q17 includes July, August only

Sources: Fossil Data Corp.; STRH estimates.

Figure 2: Around-The-Clock Power Prices, 2014A-2020E, as of September 1, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	35.07	38.47	47.59	47.52	48.11	41.44	42.86	43.93	40.59	40.64	41.06	55.66	57.63	69.37	50.92	66.24	**47.94**
2015A	24.00	25.33	33.01	31.96	33.55	29.92	30.28	29.80	26.69	27.72	27.93	38.40	41.18	45.40	33.66	41.32	**32.51**
2016A	21.21	23.43	29.33	28.55	29.79	29.93	30.26	28.46	23.33	24.34	24.98	31.31	30.53	32.07	28.97	30.98	**27.97**
2017E	23.96	29.32	34.48	33.84	29.99	33.55	30.72	28.39	24.55	27.23	30.85	30.05	30.57	31.93	27.33	31.88	**29.91**
2018E	23.54	27.68	33.37	31.99	32.11	34.42	33.20	30.19	27.94	30.16	31.97	32.60	34.05	40.65	31.68	38.97	**32.16**
2019E	22.90	27.80	33.10	31.19	30.51	33.25	31.99	28.88	27.75	29.84	30.51	30.82	32.34	40.04	30.68	37.63	**31.20**
2020E	24.44	29.47	34.57	32.19	29.35	32.43	31.22	27.76	27.63	29.55	30.22	30.12	32.38	40.16	30.27	38.22	**31.25**

Sources: SNL and SunTrust Robinson Humphrey estimates.

Figure 3: On-Peak Power Prices, 2014A-2020E, as of September 1, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	38.71	42.49	51.15	51.22	54.24	45.13	48.02	50.60	44.80	44.86	45.33	62.71	62.71	76.97	57.55	73.60	**53.13**
2015A	26.37	27.32	35.31	33.74	37.27	33.13	33.41	33.86	30.39	30.76	31.00	42.82	46.15	50.28	39.08	46.10	**36.06**
2016A	23.23	25.54	31.61	30.46	33.26	33.80	34.09	32.27	26.85	27.74	28.47	35.03	34.53	35.90	35.04	34.30	**31.38**
2017E	27.31	32.55	37.84	36.78	33.06	37.60	34.03	31.88	27.04	30.10	34.19	33.04	33.80	34.92	31.98	34.56	**33.17**
2018E	25.77	29.76	35.55	33.71	35.53	38.67	36.74	33.76	31.27	33.94	36.14	36.06	37.78	44.58	37.03	42.65	**35.56**
2019E	24.99	29.73	35.42	32.86	33.68	36.66	35.35	32.04	31.49	34.30	34.91	34.00	35.77	43.72	35.76	40.55	**34.45**
2020E	26.32	31.35	36.67	33.50	32.19	35.63	34.39	30.59	31.54	33.86	34.69	33.21	35.95	44.07	35.16	42.52	**34.48**

Sources: SNL and SunTrust Robinson Humphrey estimates.

Figure 4: Gas-Coal Spread, 2003A-2020E, as of September 1, 2017

($/mmBtu)

	NYMEX Henry Hub Gas Futures	NYMEX Spec Coal Futures	Gas-Coal Spread
2003A	5.483	1.378	4.105
2004A	5.892	2.257	3.635
2005A	8.907	2.390	6.516
2006A	6.734	2.024	4.710
2007A	6.956	1.861	5.095
2008A	8.853	3.884	4.969
2009A	3.942	2.037	1.905
2010A	4.386	2.553	1.833
2011A	3.995	3.083	0.913
2012A	2.758	2.413	0.345
2013A	3.730	2.338	1.392
2014A	4.394	2.403	1.990
2015A	2.635	1.886	0.749
2016A	2.581	1.835	0.746
2017E	3.050	2.248	0.802
2018E	3.059	2.250	0.809
2019E	2.867	2.250	0.617
2020E	2.784	2.250	0.534

Sources: Bloomberg, SNL, and SunTrust Robinson Humphrey estimates.

Figure 5: 2014A-2020E Implied On-Peak Spark Spreads, as of September 1, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	8.25	10.36	16.84	19.09	23.93	14.38	13.41	12.42	14.36	14.42	14.89	24.83	24.83	18.90	24.68	40.73	**18.52**
2015A	9.30	8.95	14.33	15.37	19.57	14.69	15.06	14.60	12.40	12.78	13.02	23.82	27.15	16.02	18.35	25.37	**16.30**
2016A	7.56	8.60	12.66	13.52	16.82	15.73	17.45	14.96	9.74	10.63	11.36	22.75	22.25	13.83	17.31	16.57	**14.49**
2017E	8.31	12.18	14.46	16.40	12.96	16.25	16.10	11.19	6.01	9.06	13.16	15.15	15.91	10.59	11.68	14.26	**12.73**
2018E	6.98	9.91	13.11	13.86	15.76	17.26	19.48	13.37	10.30	12.97	15.17	13.75	15.46	13.72	20.19	25.80	**14.82**
2019E	7.49	11.23	14.11	14.36	15.94	16.59	19.38	13.17	11.76	14.57	15.18	13.22	15.00	13.56	20.58	25.37	**15.10**
2020E	9.27	13.28	15.82	15.43	15.07	16.14	19.34	12.13	12.30	14.62	15.45	13.25	15.99	14.28	20.39	27.75	**15.66**

Notes:

1) Assumes 7,000 Btu/kWh heat rate

2) NERC Region: WECC (Mid-C, Palo Verde, NP-15, SP-15); SPP (Entergy); RFC (AEP Dayton, Indiana, NI Hub, PJM); TRE (ERCOT North, ERCOT South, ERCOT West, ERCOT Houston); NPCC (NEPOOL, NY Zone A, NY Zone F)

Source: Bloomberg, SNL, Fossil Data Corp, SunTrust Robinson Humphrey estimates.

Figure 6: 2014A-2020E Implied On-Peak Dark Spreads, as of September 1, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	9.96	13.74	22.40	22.47	25.49	16.38	19.27	21.85	16.05	16.11	16.58	33.96	33.96	48.22	28.80	44.85	**24.38**
2015A	3.74	4.69	12.69	11.11	14.64	10.51	10.78	11.23	7.76	8.13	8.37	20.19	23.52	27.65	16.45	23.48	**13.43**
2016A	1.22	3.52	9.60	8.44	11.24	11.78	12.08	10.26	4.83	5.72	6.45	13.02	12.52	13.89	13.02	12.29	**9.37**
2017E	0.33	5.58	10.87	9.80	6.09	10.63	7.05	4.91	0.07	3.13	7.22	6.07	6.83	7.95	5.01	7.59	**6.19**
2018E	-1.23	2.76	8.55	6.71	8.53	11.67	9.74	6.76	4.27	6.94	9.14	9.06	10.78	17.58	10.03	15.65	**8.56**
2019E	-2.01	2.73	8.42	5.86	6.68	9.66	8.35	5.04	4.49	7.30	7.91	7.00	8.77	16.72	8.76	13.55	**7.45**
2020E	-0.68	4.35	9.67	6.50	5.19	8.63	7.39	3.59	4.54	6.86	7.69	6.21	8.95	17.07	8.16	15.52	**7.48**

Notes:

1) Assumes 12,000 Btu/kWh heat rate

2) NERC Region: WECC (Mid-C, Palo Verde, NP-15, SP-15); SPP (Entergy); RFC (AEP Dayton, Indiana, NI Hub, PJM); TRE (ERCOT North, ERCOT South, ERCOT West, ERCOT Houston); NPCC (NEPOOL, NY Zone A)

Source: Bloomberg, SNL, Fossil Data Corp, SunTrust Robinson Humphrey estimates.

Figure 7: Year to Date Domestic Electric Consumption Summary by Different Geographic Regions

Week Ended August 26 2017

	Current Week's Output		YTD		52-Weeks Ended	
Region	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**
New England	2,542	(7.6%)	79,647	(3.5%)	121,090	(2.3%)
Mid-Atlantic	9,192	(6.5%)	281,747	(3.2%)	426,632	(1.5%)
Central Industrial	13,184	(7.2%)	436,061	(3.6%)	660,584	(1.8%)
West Central	6,541	(2.6%)	214,283	(2.5%)	325,265	(1.3%)
Southeast	22,350	(2.5%)	672,534	(2.2%)	1,016,893	0.1%
South Central	16,022	2.3%	481,863	1.5%	723,403	2.5%
Rocky Mountain	6,452	8.3%	182,964	1.6%	278,139	(0.2%)
Pacific Northwest	2,620	(2.5%)	105,073	6.6%	158,746	4.2%
Pacific Southwest	6,165	0.6%	185,182	(1.0%)	281,847	(1.5%)
Total United States	**85,068**	**(2.1%)**	**2,639,354**	**(1.3%)**	**3,992,599**	**0.1%**

	1Q17A		2Q17A		3Q17 QTD	
Region	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**
New England	30,898	0.0%	28,213	(2.2%)	20,536	(9.9%)
Mid-Atlantic	105,796	(0.4%)	100,289	(1.6%)	75,662	(8.9%)
Central Industrial	167,052	(1.6%)	159,146	(2.3%)	109,863	(8.1%)
West Central	78,718	(0.9%)	79,132	(2.0%)	56,433	(5.4%)
Southeast	240,646	(3.8%)	250,212	0.0%	181,676	(3.0%)
South Central	160,357	1.9%	184,180	2.3%	137,326	(0.0%)
Rocky Mountain	65,862	2.3%	65,880	1.8%	51,222	0.4%
Pacific Northwest	47,047	11.1%	35,881	3.3%	22,145	3.2%
Pacific Southwest	64,687	0.7%	69,171	(2.6%)	51,324	(0.9%)
Total United States	**961,063**	**(0.4%)**	**972,104**	**(0.3%)**	**706,187**	**(3.8%)**

Notes:

Corresponding NERC Regions: New England (NPCC), Mid-Atlantic (RFC), Central Industrial (RFC and SERC), West Central (MRO), Southeast (SERC and FRCC), South Central (SPP and TRE), Rocky Mountain (WECC), Pacific Northwest (WECC), Pacific Southwest (WECC).

Source: Edison Electric Institute, SunTrust Robinson Humphrey

Figure 8: Cooling Degree Days by State

COOLING DEGREE DAYS

State	July 2017 Actual	July 2016 Actual	July Norm	% Change vs. Yr-ago	% Change vs. Norm
ALABAMA	501	544	455	-8%	10%
ARIZONA	657	702	660	-6%	0%
ARKANSAS	501	545	478	-8%	5%
CALIFORNIA	341	294	228	16%	50%
COLORADO	196	193	114	2%	72%
CONNECTICUT	242	297	226	-19%	7%
DELAWARE	416	430	351	-3%	19%
FLORIDA	565	596	522	-5%	8%
GEORGIA	461	530	432	-13%	7%
IDAHO	297	189	175	57%	70%
ILLINOIS	297	322	286	-8%	4%
INDIANA	301	312	285	-4%	6%
IOWA	303	262	281	16%	8%
KANSAS	475	462	441	3%	8%
KENTUCKY	381	409	350	-7%	9%
LOUISIANA	542	580	529	-7%	2%
MAINE	128	170	107	-25%	20%
MARYLAND	412	437	340	-6%	21%
MASSACHUSETTS	198	272	190	-27%	4%
MICHIGAN	180	244	203	-26%	-11%
MINNESOTA	187	195	182	-4%	3%
MISSISSIPPI	515	558	488	-8%	6%
MISSOURI	434	403	387	8%	12%
MONTANA	226	124	99	82%	128%
NEBRASKA	375	322	335	16%	12%
NEVADA	615	586	518	5%	19%
NEW HAMPSHIRE	133	183	136	-27%	-2%
NEW JERSEY	315	356	282	-12%	12%
NEW MEXICO	318	386	290	-18%	10%
NEW YORK	253	319	233	-21%	9%
NORTH CAROLINA	443	483	396	-8%	12%
NORTH DAKOTA	224	180	165	24%	36%
OHIO	272	325	245	-16%	11%
OKLAHOMA	547	564	518	-3%	6%
OREGON	136	95	87	43%	56%
PENNSYLVANIA	291	331	236	-12%	23%
RHODE ISLAND	223	289	194	-23%	15%
SOUTH CAROLINA	498	579	463	-14%	8%
SOUTH DAKOTA	328	270	264	21%	24%
TENNESSEE	401	444	384	-10%	4%
TEXAS	600	638	564	-6%	6%
UTAH	339	312	250	9%	36%
VERMONT	91	128	122	-29%	-25%
VIRGINIA	406	420	334	-3%	22%
WASHINGTON	113	97	73	16%	55%
WEST VIRGINIA	280	311	251	-10%	12%
WISCONSIN	169	208	186	-19%	-9%
WYOMING	192	159	123	21%	56%
UNITED STATES	364	387	321	-6%	13%

Sources: NOAA, SNL, SunTrust Robinson Humphrey estimates.

Figure 9: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder

	VALUATION DATA														FINANCIAL PROJECTIONS										
		Inv.	Price	Price Target		EV/EBITDA			P/E Multiples			Price/	Div.	FCF	14-'19E	Earnings Per Share						Estimated Operating EPS			
COMPANY	Ticker	Rating	9/1/17	12-Month	%	2019E	2018E	2017E	2019E	2018E	2017E	Book	Yield	Yield	CAGR	2019E	2018E	2017E	2016A	2015A	2014A	2Q17A		2Q16A	%
		(A)		(B)										(C)											
ALLIANT ENERGY CORP	LNT		43			10.9	11.9	12.5	18.9	20.0	21.2	2.3	3%		4%	$2.25	$2.13	$2.01	$1.88	$1.87	$1.87				
AMEREN CORPORATION	AEE		60			8.8	9.2	9.7	18.7	19.9	21.5	2.0	3%		4%	$3.19	$3.01	$2.78	$2.69	$2.68	$2.68				
AMERICAN ELECTRIC POWER	**AEP**	**B**	**74**	**80**	**9%**	**10.5**	**10.9**	**11.1**	**17.9**	**19.1**	**20.2**	**2.0**	**3%**	**(4%)**	**4%**	**$4.11**	**$3.85**	**$3.65**	**$3.94**	**$3.69**	**$3.43**	**$0.75**	**A vs**	**$0.95**	**(21%)**
AVISTA CORP	AVA		52			9.6	10.6	11.5	23.8	25.3	26.7	2.0	3%		(0%)	$2.16	$2.04	$1.93	$2.07	$2.17	$2.17				
CENTERPOINT ENERGY INC	**CNP**	**H**	**30**	**28**	**(6%)**	**8.4**	**8.8**	**9.2**	**19.9**	**21.0**	**22.3**	**3.6**	**4%**	**3%**	**3%**	**$1.49**	**$1.41**	**$1.33**	**$1.16**	**$1.10**	**$1.27**	**$0.29**	**A vs**	**$0.17**	**71%**
CMS ENERGY CORP	**CMS**	**H**	**48**	**49**	**1%**	**9.4**	**9.9**	**10.5**	**19.6**	**21.0**	**22.4**	**3.0**	**3%**	**(2%)**	**7%**	**$2.47**	**$2.31**	**$2.16**	**$2.02**	**$1.89**	**$1.77**	**$0.33**	**A vs**	**$0.45**	**(27%)**
CONSOLIDATED EDISON INC	ED		84			9.4	10.0	10.5	18.8	19.7	20.6	1.8	3%		2%	$4.47	$4.26	$4.09	$3.96	$3.96	$3.96				
DTE ENERGY COMPANY	DTE		112			10.3	11.3	12.1	18.6	19.7	20.8	2.1	3%		3%	$6.04	$5.70	$5.39	$5.28	$5.28	$5.28				
DUKE ENERGY CORP	**DUK**	**H**	**87**	**90**	**3%**	**10.3**	**10.7**	**11.1**	**17.1**	**18.0**	**18.9**	**1.5**	**4%**	**(4%)**	**2%**	**$5.09**	**$4.85**	**$4.61**	**$4.69**	**$4.54**	**$4.55**	**$1.01**	**A vs**	**$1.07**	**(6%)**
EDISON INTERNATIONAL	**EIX**	**B**	**80**	**90**	**13%**	**8.5**	**9.0**	**9.3**	**17.1**	**18.5**	**18.9**	**1.8**	**3%**	**(1%)**	**0%**	**$4.69**	**$4.33**	**$4.24**	**$3.97**	**$4.10**	**$4.59**	**$0.85**	**A vs**	**$0.86**	**(1%)**
EVERSOURCE ENERGY	ES		63			10.1	10.4	11.1	17.7	18.9	19.9	1.8	3%		4%	$3.54	$3.31	$3.14	$2.98	$2.96	$2.96				
GREAT PLAINS ENERGY INC	**GXP**	**H**	**31**	**32**	**4%**	**9.3**	**12.7**	**8.6**	**17.1**	**22.0**	**17.8**	**1.4**	**4%**	**2%**	**3%**	**$1.80**	**$1.40**	**$1.73**	**$1.85**	**$1.37**	**$1.57**	**$0.43**	**A vs**	**$0.55**	**(22%)**
P G & E CORP	PCG		70			7.6	8.1	8.6	17.4	18.3	19.0	1.9	3%		1%	$4.01	$3.83	$3.68	$3.71	$3.76	$3.76				
PNM RESOURCES INC	**PNM**	**H**	**43**	**37**	**(13%)**	**10.0**	**10.8**	**10.9**	**21.0**	**24.6**	**22.8**	**1.9**	**2%**	**(5%)**	**6%**	**$2.03**	**$1.73**	**$1.87**	**$1.65**	**$1.64**	**$1.49**	**$0.49**	**A vs**	**$0.40**	**NM**
PINNACLE WEST CAPITAL	**PNW**	**H**	**90**	**86**	**(4%)**	**9.8**	**10.2**	**10.6**	**19.1**	**20.1**	**21.3**	**2.0**	**3%**	**(2%)**	**6%**	**$4.71**	**$4.47**	**$4.22**	**$3.95**	**$3.92**	**$3.58**	**$1.49**	**A vs**	**$1.08**	**NM**
PORTLAND GENERAL ELECTRIC	POR		47			8.2	8.6	9.2	18.9	19.6	21.3	1.8	3%		3%	$2.51	$2.42	$2.23	$2.10	$2.16	$2.16				
PPL CORP	PPL		39			10.4	10.9	12.0	16.0	16.8	18.1	2.5	4%		(0%)	$2.44	$2.33	$2.16	$2.37	$2.45	$2.45				
SCANA CORP	SCG		60			10.9	10.5	11.0	13.7	13.9	14.4	1.5	4%		1%	$4.40	$4.34	$4.19	$4.13	$4.16	$4.16				
SOUTHERN CO/THE	**SO**	**H**	**48**	**52**	**8%**	**10.6**	**11.0**	**11.3**	**15.3**	**16.1**	**16.4**	**1.8**	**5%**	**(8%)**	**2%**	**$3.15**	**$3.00**	**$2.95**	**$2.90**	**$2.89**	**$2.80**	**$0.73**	**A vs**	**$0.74**	**(1%)**
WESTAR ENERGY INC	WR		51			9.7	10.2	10.6	18.1	19.7	20.4	1.9	3%		3%	$2.82	$2.59	$2.50	$2.47	$2.42	$2.42				
WEC ENERGY GROUP INC	WEC		65			10.3	11.1	11.7	19.0	19.9	21.0	2.2	3%		4%	$3.43	$3.27	$3.11	$2.95	$2.88	$2.88				
XCEL ENERGY INC	**XEL**	**H**	**49**	**47**	**(5%)**	**9.6**	**10.0**	**10.6**	**19.0**	**20.1**	**21.2**	**2.3**	**3%**	**(4%)**	**5%**	**$2.60**	**$2.46**	**$2.33**	**$2.21**	**$2.09**	**$2.03**	**$0.45**	**A vs**	**$0.39**	**15%**
Regulated Utilities Average						9.7	10.2	10.6	17.9	19.3	19.9	2.0	3%	(2%)	3%										1%
BLACK HILLS CORP	BKH		70			9.8	10.1	10.6	18.2	18.7	20.0	2.1	3%		4%	$3.87	$3.76	$3.52	$3.06	$3.19	$3.19				
DOMINION ENERGY INC	D		78			11.4	12.4	13.9	18.3	19.3	21.5	2.9	4%		2%	$4.28	$4.07	$3.65	$3.81	$3.80	$3.80				
ENTERGY CORP	ETR		79			8.0	8.3	8.6	15.9	16.3	13.8	1.7	4%		(7%)	$4.98	$4.85	$5.74	$6.89	$7.11	$7.11				
EXELON CORP	**EXC**	**B**	**38**	**41**	**9%**	**8.4**	**8.4**	**8.7**	**13.7**	**13.3**	**13.9**	**1.2**	**3%**	**(2%)**	**3%**	**$2.75**	**$2.83**	**$2.70**	**$2.68**	**$2.49**	**$2.39**	**$0.54**	**A vs**	**$0.65**	**(17%)**
FIRSTENERGY CORP	FE		32			8.6	8.6	8.5	13.5	12.8	11.5	2.3	4%		(2%)	$2.41	$2.53	$2.81	$2.64	$2.62	$2.62				
NEXTERA ENERGY INC	NEE		150			10.1	10.9	11.4	19.3	20.8	22.3	2.6	3%		6%	$7.77	$7.22	$6.73	$6.23	$5.75	$5.75				
MDU RESOURCES GROUP INC	MDU		27			9.8	10.2	11.1	19.0	19.9	22.4	2.4	3%		(5%)	$1.43	$1.36	$1.21	$1.14	$1.87	$1.87				
PUBLIC SERVICE ENTERPRISE G	PEG		47			8.8	9.2	9.2	15.7	15.9	15.9	1.8	4%		0%	$2.96	$2.94	$2.92	$2.88	$2.91	$2.91				
SEMPRA ENERGY	SRE		118			10.8	12.1	13.0	17.7	21.2	22.6	1.9	3%		6%	$6.67	$5.57	$5.21	$4.83	$5.05	$5.05				
Hybrid Utilities Average						9.5	10.0	10.5	16.8	17.6	18.2	2.1	3%	(2%)	1%										(17%)
AES CORP	**AES**	**B**	**11**	**15**	**35%**	**7.0**	**7.3**	**7.8**	**8.4**	**8.9**	**10.6**	**1.1**	**4%**	**18%**	**0%**	**$1.32**	**$1.25**	**$1.05**	**$0.98**	**$1.22**	**$1.30**	**$0.25**	**A vs**	**$0.17**	**47%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**2%**	**8.5**	**8.6**	**9.3**	**NM**	**NM**	**NM**	**1.7**	**NA**	**10%**	**NM**	**$0.89**	**$0.80**	**$0.26**	**($0.08)**	**$1.06**	**$0.76**	**($0.35)**	**A vs**	**$0.09**	**NM**
DYNEGY INC	**DYN**	**B**	**9**	**11**	**20%**	**7.3**	**6.4**	**8.3**	**NM**	**NM**	**NM**	**0.6**	**NA**	**25%**	**NM**	**($0.46)**	**$0.53**	**($1.63)**	**($2.52)**	**$1.95**	**($2.51)**	**($1.31)**	**A vs**	**($1.23)**	**NM**
NRG ENERGY INC	**NRG**	**H**	**25**	**23**	**(7%)**	**9.4**	**10.0**	**10.3**	**NM**	**NM**	**NM**	**2.2**	**0%**	**14%**	**NM**	**$1.59**	**$1.10**	**$0.93**	**$1.64**	**($0.34)**	**$0.94**	**$0.41**	**A vs**	**$0.84**	**NM**
ORMAT TECHNOLOGIES INC	ORA		57			9.8	10.1	11.0	21.0	22.6	24.3	2.3	NA		4%	$2.73	$2.54	$2.36	$2.10	$2.19	$2.19				
VISTRA ENERGY CORP	VST		18			8.4	8.2	8.0	39.6	24.0	30.6	1.2	NA		NM	45%	75%	$0.58	NM	NM	NM				
Independent Power Average						8.4	8.4	9.1	14.7	15.8	17.5	1.6	2%	17%	2%										47%
STRH Power Index						9.7	10.2	10.6	17.6	18.7	19.3	2.0	3%	(3%)	2%										4%
S&P 500	SPX		2477						19.0	15.5	17.1		2%			130.60	159.87	145.20	130.60	110.64	113.60				

Notes:

(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.

(B) Near-term price target over the next 12 months.

(C) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Filings.

Figure 9: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder (Cont'd)

			PRICE PERFORMANCE										TRADING DATA			LEVERAGE/PROFITABILITY			OWNERSHIP DATA			
		Inv.	Price	52-Week Range									30 Wk. Mov. Avg		Daily	Total	ROE	ROIC	Shares	Market	Ownership	
COMPANY	Ticker	Rating	9/1/17	Hi	Low	YTD	2016	2015	2014	2013	2012	2011	Act.	+/-	Vol.	D/C	2017E	2017E	Out.	Cap.	Insider	Instit.
														(A)	(B)				(mm)	($mm)	(C)	
ALLIANT ENERGY CORP	LNT		43	43	35	13%	21%	(6%)	29%	18%	(0%)	20%	$40	6%	1,130	52%	11%	5%	231.1	$9,836	0%	73%
AMEREN CORPORATION	AEE		60	61	47	14%	21%	(6%)	28%	18%	(7%)	18%	$56	8%	1,052	53%	NM	6%	242.6	$14,510	0%	73%
AMERICAN ELECTRIC POWER	**AEP**	**B**	**74**	**74**	**58**	**17%**	**8%**	**(4%)**	**30%**	**10%**	**3%**	**15%**	**69**	**7%**	**1,946**	**54%**	**10%**	**4%**	**491.8**	**36,170**	**0%**	**77%**
AVISTA CORP	AVA		52	53	38	29%	13%	0%	25%	17%	(6%)	14%	43	19%	423	53%	NM	NM	64.4	3,320	2%	74%
CENTERPOINT ENERGY INC	**CNP**	**H**	**30**	**30**	**22**	**20%**	**34%**	**(22%)**	**1%**	**20%**	**(4%)**	**28%**	**28**	**6%**	**2,540**	**71%**	**16%**	**6%**	**431.0**	**12,771**	**0%**	**85%**
CMS ENERGY CORP	**CMS**	**H**	**48**	**49**	**39**	**17%**	**15%**	**4%**	**30%**	**10%**	**10%**	**19%**	**46**	**6%**	**1,195**	**69%**	**14%**	**6%**	**282.0**	**13,655**	**1%**	**98%**
CONSOLIDATED EDISON INC	ED		84	85	69	14%	14%	(3%)	19%	(0%)	(10%)	25%	80	5%	943	53%	8%	5%	309.8	26,022	0%	59%
DTE ENERGY COMPANY	DTE		112	113	90	14%	23%	(7%)	30%	11%	10%	20%	105	7%	586	55%	10%	5%	179.4	20,113	1%	75%
DUKE ENERGY CORP	**DUK**	**H**	**87**	**88**	**72**	**12%**	**9%**	**(15%)**	**21%**	**8%**	**(3%)**	**24%**	**83**	**4%**	**1,667**	**56%**	**8%**	**5%**	**699.9**	**60,953**	**0%**	**62%**
EDISON INTERNATIONAL	**EIX**	**B**	**80**	**83**	**67**	**11%**	**21%**	**(10%)**	**41%**	**2%**	**9%**	**7%**	**79**	**1%**	**1,310**	**42%**	**9%**	**6%**	**325.8**	**26,052**	**0%**	**89%**
EVERSOURCE ENERGY	ES		63	64	51	13%	8%	(5%)	26%	8%	8%	13%	60	4%	1,157	51%	9%	6%	316.9	19,828	0%	82%
GREAT PLAINS ENERGY INC	**GXP**	**H**	**31**	**32**	**26**	**13%**	**0%**	**(4%)**	**17%**	**19%**	**(7%)**	**12%**	**29**	**5%**	**1,449**	**58%**	**4%**	**4%**	**272.0**	**13,872**	**0%**	**74%**
P G & E CORP	PCG		70	71	58	15%	14%	(0%)	32%	0%	(3%)	(14%)	67	5%	1,846	49%	10%	6%	512.8	35,831	0%	91%
PNM RESOURCES INC	**PNM**	**H**	**43**	**43**	**31**	**24%**	**12%**	**3%**	**23%**	**18%**	**13%**	**40%**	**38**	**12%**	**427**	**59%**	**8%**	**5%**	**79.7**	**3,389**	**1%**	**100%**
PINNACLE WEST CAPITAL	**PNW**	**H**	**90**	**91**	**71**	**15%**	**21%**	**(6%)**	**29%**	**4%**	**6%**	**16%**	**85**	**6%**	**520**	**49%**	**10%**	**6%**	**111.6**	**10,031**	**0%**	**93%**
PORTLAND GENERAL ELECTRIC	POR		47	48	40	9%	19%	(4%)	25%	10%	8%	17%	45	4%	479	50%	8%	5%	89.1	4,215	1%	102%
PPL CORP	PPL		39	40	32	15%	(0%)	(6%)	21%	5%	(3%)	12%	38	3%	1,814	66%	14%	6%	680.8	26,626	0%	78%
SCANA CORP	SCG		60	76	59	(18%)	21%	0%	29%	3%	1%	11%	66	(9%)	1,107	57%	10%	5%	142.9	8,595	0%	72%
SOUTHERN CO/THE	**SO**	**H**	**48**	**54**	**46**	**(2%)**	**5%**	**(5%)**	**19%**	**(4%)**	**(8%)**	**21%**	**49**	**(2%)**	**3,093**	**61%**	**11%**	**6%**	**995.2**	**48,030**	**0%**	**58%**
WESTAR ENERGY INC	WR		51	58	49	(9%)	33%	3%	28%	12%	(1%)	14%	53	(3%)	598	52%	10%	6%	142.1	7,261	1%	89%
WEC ENERGY GROUP INC	WEC		65	66	54	11%	14%	(3%)	28%	12%	5%	19%	61	6%	1,131	53%	11%	6%	315.6	20,554	0%	75%
XCEL ENERGY INC	**XEL**	**H**	**49**	**50**	**38**	**21%**	**13%**	**(0%)**	**29%**	**5%**	**(3%)**	**17%**	**46**	**8%**	**2,115**	**57%**	**11%**	**6%**	**507.8**	**25,063**	**0%**	**78%**
Regulated Utilities Average						12%	15%	(4%)	25%	9%	1%	17%		5%		55%	10%	6%			0%	80%
BLACK HILLS CORP	BKH		70	72	55	15%	32%	(12%)	1%	44%	8%	12%	68	4%	151	64%	10%	6%	53.5	3,766	1%	101%
DOMINION ENERGY INC	D		78	82	70	2%	13%	(12%)	19%	25%	(2%)	24%	77	1%	1,996	66%	14%	5%	642.6	50,334	0%	76%
ENTERGY CORP	ETR		79	82	67	8%	7%	(22%)	38%	(1%)	(13%)	3%	76	4%	895	65%	12%	5%	179.5	14,229	0%	91%
EXELON CORP	**EXC**	**B**	**38**	**39**	**30**	**6%**	**28%**	**(25%)**	**35%**	**(8%)**	**(31%)**	**4%**	**36**	**4%**	**3,989**	**54%**	**9%**	**5%**	**960.1**	**36,042**	**0%**	**86%**
FIRSTENERGY CORP	FE		32	35	28	5%	(3%)	(19%)	18%	(21%)	(6%)	20%	31	6%	3,154	78%	18%	7%	444.3	14,404	0%	106%
NEXTERA ENERGY INC	NEE		150	151	110	26%	15%	(2%)	24%	24%	14%	17%	137	10%	1,260	56%	12%	6%	469.2	70,460	0%	82%
MDU RESOURCES GROUP INC	MDU		27	30	23	(6%)	57%	(22%)	(23%)	44%	(1%)	6%	27	2%	517	44%	NM	7%	195.3	5,310	1%	66%
PUBLIC SERVICE ENTERPRISE (	PEG		47	47	39	6%	13%	(7%)	29%	5%	(7%)	4%	44	5%	1,872	49%	11%	6%	505.9	23,534	0%	74%
SEMPRA ENERGY	SRE		118	120	93	17%	7%	(16%)	24%	27%	29%	5%	112	5%	771	50%	10%	4%	251.1	29,612	0%	94%
Hybrid Utilities Average						9%	19%	(15%)	18%	15%	(1%)	11%		4%		59%	12%	6%			0%	86%
AES CORP	**AES**	**B**	**11**	**13**	**11**	**(4%)**	**21%**	**(31%)**	**(5%)**	**36%**	**(10%)**	**(3%)**	**11**	**(2%)**	**3,879**	**66%**	**10%**	**4%**	**660.3**	**7,342**	**0%**	**104%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**9**	**28%**	**(21%)**	**(35%)**	**13%**	**8%**	**11%**	**22%**	**$12**	**18%**	**13,268**	**79%**	**3%**	**5%**	**360.7**	**$5,291**	**1%**	**109%**
DYNEGY INC	**DYN**	**B**	**9**	**14**	**6**	**8%**	**(37%)**	**(56%)**	**41%**	**12%**	**(4%)**	**NM**	**8**	**13%**	**1,897**	**82%**	**(11%)**	**4%**	**131.4**	**1,203**	**1%**	**126%**
NRG ENERGY INC	**NRG**	**H**	**25**	**26**	**10**	**103%**	**4%**	**(56%)**	**(6%)**	**25%**	**27%**	**(7%)**	**19**	**32%**	**5,421**	**74%**	**8%**	**3%**	**316.5**	**7,851**	**1%**	**92%**
ORMAT TECHNOLOGIES INC	ORA		57	61	45	7%	47%	34%	(0%)	41%	7%	(39%)	58	(0%)	178	41%	10%	6%	49.9	2,863	0%	62%
VISTRA ENERGY CORP	VST		18	18	12	19%	NM	NM	NM	NM	NM	NM	16	10%	805	41%	NM	4%	427.6	7,628	0%	98%
Independent Power Average						27%	3%	(29%)	9%	24%	6%	(7%)		12%		68%	4%	4%			0%	98%
STRH Power Index						14%	15%	(10%)	21%	13%	1%	12%		6%		57%	10%	5%			0%	83%
S&P 500	SPX		$2,477	$2,491	$2,084	11%	9%	(1%)	11%	30%	13%	(0%)										

Notes:

(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.

(B) % current price above or below 30-wk. moving average.

(C) In thousands.

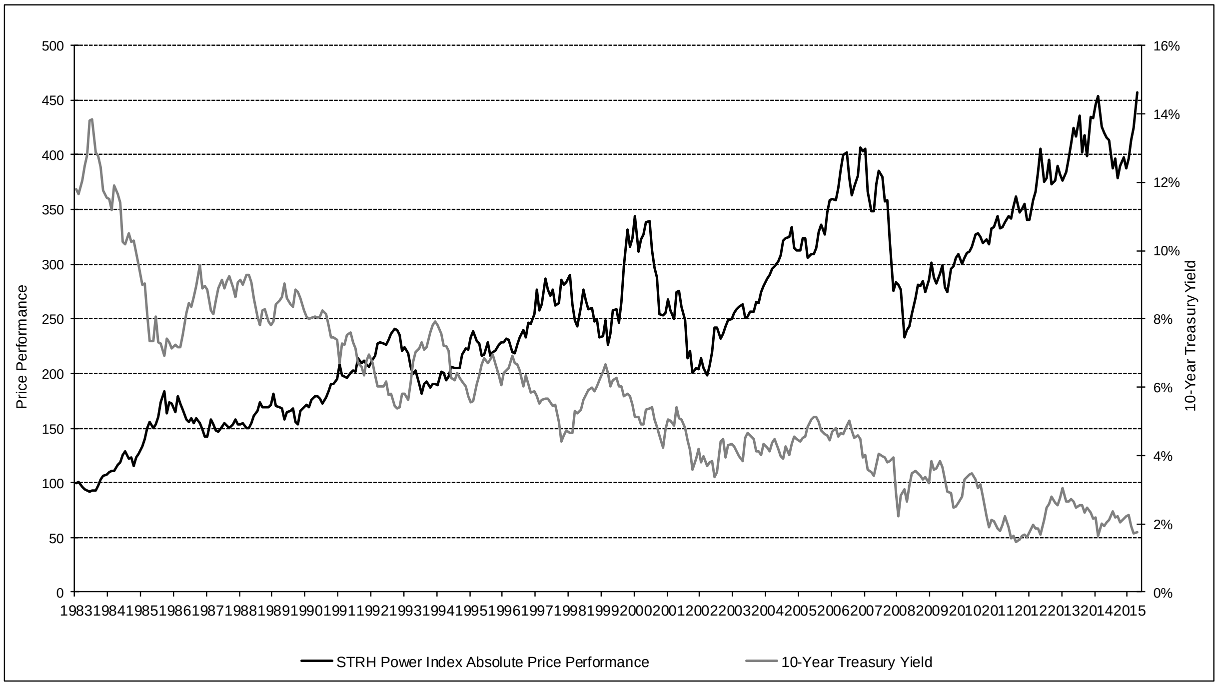
(D) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Filings.

Figure 10: SunTrust Robinson Humphrey Power Index Price Performance Relative to the S&P 500 Index
12/31/83 - Present

Sources: Bloomberg, SunTrust Robinson Humphrey.

Figure 11: SunTrust Robinson Humphrey Power Index Absolute Price Performance vs 10-Year Treasury Yield
12/31/83 - Present



Sources: Bloomberg, SunTrust Robinson Humphrey.

VALUATION

AEP
Assuming a 19.5x P/E multiple (a 9% premium to the peer group to reflect the above average earnings growth profile) on our 2019 estimate of $4.11, we derive our price target of $80.

AES
Assuming an 11.4x P/E multiple (which would still imply a 10% “conglomerate” discount to the peer group) on our 2019 estimate of $1.32, we derive our price target of $15.

CMS
Assuming a 19.8x P/E multiple (a 10% premium to the peer group to reflect the above average growth outlook) on our 2019 estimate of $2.47, we derive our price target of $49.

CNP
Based on the market value of CNP’s ownership in ENBL, we derive an $8.1/share value. Factoring a 17.9x P/E multiple (in line with the peer group) on our 2019 Utility estimate of $1.09, we derive a $19.5/share value. Consequently, our sum of the parts price target is $28.

CPN
Based on the company's take out price, and our assumption that a higher bid will not emerge, we derive our price target of $15.

DUK
Assuming a 17.7x P/E multiple (in line with the peer group) on our 2019 estimate of $5.09, we derive our price target of $90.

DYN
Assuming an EV/EBITDA multiple of 7.8x (a 3% discount to the peer group to reflect the higher leverage at the company) on our 2019 EBITDA estimate of $1.30bn, coupled with implied net debt of $8.26bn (which factors in all the announced asset sales), we derive our price target of $11.

EIX
Assuming a 19.2x P/E multiple (a 7% premium to the peer group to reflect the company’s above average earnings and dividend growth profile) on our 2019 estimate of $4.69, we derive our price target of $90.

EXC
Assuming a 14.8x P/E multiple (in line with the peer group) on our 2019 estimate of $2.75, we derive our price target of $41.

GXP
Assuming a 17.4x P/E multiple (a 2% discount to the peer group to reflect the uncertainties around the final merger approval) on our 2019 estimate of $1.80, we derive our price target of $32.

NRG

Based on the current market value of NRG’s ownership in NYLD, we derive a $5/share equity value. Applying a 9.0x EV/EBITDA multiple (a 10% premium to the current peer average to reflect the potential upside from the successful execution of the Transformation Plan) to our residual NRG 2019 EBITDA estimate of $1.90 billion, coupled with implied residual Net Debt of $11.4 billion, we derive an $18/share value for the residual NRG. Consequently, our price target is $23.

PNM

Assuming an 18.1x P/E multiple (in line with the small cap peer group) on our 2019 estimate of $2.03, we derive our price target of $37.

PNW

Assuming a P/E multiple of 18.3x (in line with other small / mid cap peers) on our 2019 estimate of $4.71, we derive our price target of $86.

SO

Assuming a 16.5x P/E multiple (a 5% discount to the large cap peer group, reflecting ongoing uncertainty around the Vogtle project) on our 2019 estimate of $3.15, we derive our price target of $52.

XEL

Assuming a 18.0x P/E (in line with the peer group) on our 2019 EPS estimate of $2.60, we derive our price target of $47.

RISKS

AEP
- Final resolution of pending regulatory issues.
- Future earnings power post merchant exit
- Impact of proposed and future EPA regulations.

AES
- Potential regulatory/economic changes in key international markets.
- Investor sentiment regarding emerging/international markets.
- Successful execution of portfolio restructuring strategy.

CMS
- Outlook for Retail Open Access in Michigan.
- Change in the regulatory regime.
- Load growth trends.

CNP
- Macro trends and growth outlook for the MLP portfolio.
- Load growth trends in service territories.
- Ability to restructure MLP ownership position.

CPN

- Outlook for future spark spreads.
- Timing of additional EPA regulations.
- Electric load growth trends.

DUK

- O&M cost management.
- Future electric load growth trends.
- Impact of future regulatory initiatives.

DYN

- Outlook for forward commodity curves.
- Integration of the pending acquisitions.
- Final outcome of debt restructuring discussions.
- Implication of future EPA regulations.

EIX

- Capital investment and growth plans for non-utility operations.
- Final CPUC decision on applications to reopen SONGS retirement settlement.
- Outcome of pending and future regulatory cases.

EXC

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

GXP

- Load growth outlook in service territories.
- Outcome of pending rate cases.
- Impact of higher property taxes and transmission costs.
- Completion of the WR acquisition.

NRG

- Execution of the Reset plan.
- Outlook for forward commodity curves.

PNM

- Final New Mexico PRC decision on the rate case settlement.
- Electric load growth trends in service territories.

PNW

- Impact of energy efficiency and distributed generation programs.
- Any regulatory changes regarding distributed generation
- Load growth outlook

SO

- Outlook for load growth.
- Dilution from additional equity issuance.
- Potential for further delays and cost increases at the large construction projects.
- Higher than expected accretion from AGL acquisition.

XEL

- Outcome of pending and future rate cases.
- Outlook for future capital expenditure (and rate base) growth.
- Load growth trends in service territories.

Companies Mentioned in This Note

American Electric Power Company, Inc. (AEP, $73.54, Buy, Ali Agha)
The AES Corporation (AES, $11.12, Buy, Ali Agha)
CMS Energy Corporation (CMS, $48.42, Hold, Ali Agha)
CenterPoint Energy, Inc. (CNP, $29.63, Hold, Ali Agha)
Calpine Corporation (CPN, $14.67, Hold, Ali Agha)
Duke Energy Corporation (DUK, $87.09, Hold, Ali Agha)
Dynegy Inc (DYN, $9.16, Buy, Ali Agha)
Edison International (EIX, $79.96, Buy, Ali Agha)
Exelon Corporation (EXC, $37.54, Buy, Ali Agha)
Great Plains Energy (GXP, $30.75, Hold, Ali Agha)
NRG Energy, Inc (NRG, $24.81, Hold, Ali Agha)
PNM Resources, Inc. (PNM, $42.55, Hold, Ali Agha)
Pinnacle West Capital Corporation (PNW, $89.86, Hold, Ali Agha)
Southern Company (SO, $48.26, Hold, Ali Agha)
Xcel Energy, Inc. (XEL, $49.36, Hold, Ali Agha)
Enable Midstream (ENBL, $14.76, Not Rated)

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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STRH Ratings System for Equity Securities

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Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	417	59.57%	Buy	130	31.18%
Hold/Neutral	279	39.86%	Hold/Neutral	58	20.79%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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RESEARCH SUMMARY
September 5, 2017

Daily Spotlight

SunTrust Robinson Humphrey

At a Glance

Symbol	Rating		Est.	Price Target	
	Prior	Current		Prior	Current
RATING UPGRADES					
CLI	H	B	▼	$30.00	$30.00
PLD	H	B		$58.00	$68.00
PRICE TARGET CHANGES					
AEP	B	B		$78.00	$80.00
AMT	B	B		$148.00	$157.00
CNP	H	H		$27.00	$28.00
CCI	B	B		$108.00	$115.00
EIX	B	B		$89.00	$90.00
IBKR	H	H	▲	$38.00	$40.00
PNW	H	H		$87.00	$86.00
PAA	H	H	▲▼	$23.00	$24.00
PAGP	H	H	▲▼	$23.00	$24.00
SBAC	B	B		$154.00	$167.00
COMPANY UPDATES					
FLT	B	B		$180.00	$180.00
NWL	B	B		$60.00	$60.00
WEX	H	H		$110.00	$110.00
GOOGL	B	B		$1,100.00	$1,100.00
BRO	H	H	▼	$46.00	$46.00
CADE	H	H		$25.00	$25.00
CPN	H	H		$15.00	$15.00
CMS	H	H		$49.00	$49.00
CONN	B	B		$25.00	$25.00
DUK	H	H		$90.00	$90.00
DYN	B	B		$11.00	$11.00
EHTH	B	B		$22.00	$22.00
EXC	B	B		$41.00	$41.00
GBT	B	B		$56.00	$56.00
GXP	H	H		$32.00	$32.00
MXIM	H	H		$47.00	$47.00
NRG	H	H		$23.00	$23.00
PNM	H	H		$37.00	$37.00
RF	B	B		$16.00	$16.00
COL	H	H		$122.00	$122.00
SO	H	H		$52.00	$52.00
TGTX	B	B		$28.00	$28.00
AES	B	B		$15.00	$15.00
SMG	H	H	▲▼	$95.00	$95.00
XEL	H	H		$47.00	$47.00

INDUSTRY UPDATES

Application Software - Tillman's Software Monday Morning Missives Delivered Post Holiday

Building Products/Durable Goods - Building Products Hurricane Update- Biggest Beneficiaries Still Have Upside

Chemicals - Hurricane Harvey Chemicals Outage Update

Morning Meeting Highlights

Prologis Inc. (PLD, $63.78, Buy) - Upgrading PLD to Buy From Hold - We are upgrading PLD to Buy (on a relative basis) from Hold and increasing our price target to $68/sh from $58/sh. To be clear, we think PLD is relatively attractive within the REIT sector and even within the industrial REIT sector. In our view, the industrial warehouse sector feels crowded and multiples are certainly not cheap, but we think PLD offers relatively attractive growth prospects and asset quality per amount of valuation paid. - **Ki Bin Kim**

Mack-Cali Realty Corporation (CLI, $23.38, Buy) - Risks Outweighed by Potential Rewards; Upgrading to Buy - Our upgrade to Buy is driven by a strong growth outlook for 2019 and beyond, coupled with a very compelling valuation. Our Hold rating was partially based on what we viewed as overly optimistic 2018 consensus FFO. We still see '18 guidance (expected on 3Q EPS call) as a potential risk, but since our last note, the consensus estimate came down 2%, and our conversations with investors suggest that buy-side expectations may already be lower than the sell-side consensus. Our $30 PT implies a 32% total return. - **Michael Lewis**

Towers - Increasing Tower Targets as 2018 Poised to Deliver Upside - We believe the accelerating activity levels of AT&T in deploying the FirstNet spectrum in addition to the WCS and AWS-3 bands provides greater clarity on the developing tailwinds for the tower industry for the next 3 years. In combination with other AWS-3, 600 MHz and maybe DISH deployments, we believe our avg. est. of 150bps potential increase in revenue growth could prove conservative. With greater certainty and a continued low probability of a TMUS-S merger, we increase our AMT, CCI and SBAC targets on higher multiples while reiterating our Buy ratings. - **Greg Miller**

Newell Brands Inc. (NWL, $48.28, Buy) - Stop Sniffing the Glue and Check This (Stock) Out - We believe now is the time to Buy NWL shares with a highly attractive valuation and multiple catalysts on the horizon. We are maintaining our $60 price target (17x 2018 EPS, below peers) and reiterate our Buy rating. - **William Chappell, Jr.**

Building Products/Durable Goods - Building Products Hurricane Update- Biggest Beneficiaries Still Have Upside - The hurricane has re-focused investors on our sector. We believe (1) inevitable weak revenue in 3Q17 will be overlooked (2) the storm's impact on demand in 2018 is low single digits but we see more upside in BMCH and BLDR given their Houston exposure while BLD and IBP labor could cause more upside than anticipated (3) petrochemical prices could spike impacting inputs for AFI (vinyl) MHK (carpet, vinyl), OC (roofing), TPX (mattress), SCSS (mattress), TILE (carpet). Again, we believe investors will look past these short-term impacts. TREX use of recycled material should protect availability. - **Keith Hughes**

Industrial REITs - REITs - Warehouse rent is a minor cost in e-commerce biz per AMZN's FBA

Tech, Semis, Components and Distributors - Semiconductor Cycle Path - Proprietary Macro Indicator Remains Strong

COVERAGE DROPPED/SUSPENDED			
FCH	H	NA	--

Today's Events

9/5	John Boris - Analyst Trip - Boston
9/5	Neal Dingmann - Analyst Trip - New York

Application Software - Tillman's Software Monday Morning Missives Delivered Post Holiday - **Terry Tillman**

Industrial REITs - REITs - Warehouse rent is a minor cost in e-commerce biz per AMZN's FBA - Using detailed data from Amazon, we estimate that warehouse rent represents a small portion of e-commerce costs, supporting our view that rents may have room to move higher, especially for well-located high quality product. Cost of labor & transportation dwarfs storage costs for all products and, coupled with the rise of same-day delivery, we believe industrial space closest to consumers has more upside and is currently undervalued vs. more commodity-like assets. We think this bodes well for well-located industrial REITs like PLD, and in this vein we are upgrading PLD to Buy from Hold. - **Ki Bin Kim**

Card Networks - Invitation- Expert Call 9/12 On European Fleet Card Market (FLT/WEX) - **Oscar Turner**

Other Focus Items Today

Consumer

Newell Brands Inc. (NWL, $48.28, Buy) - Stop Sniffing the Glue and Check This (Stock) Out - We believe now is the time to Buy NWL shares with a highly attractive valuation and multiple catalysts on the horizon. We are maintaining our $60 price target (17x 2018 EPS, below peers) and reiterate our Buy rating. - **William Chappell, Jr.**

Conn's, Inc. (CONN, $17.35, Buy) - Hurricane Harvey Impact; Rebuilding an Opportunity - **David Magee**

The Scotts Miracle-Gro Co. (SMG, $95.59, Hold) - Updating Estimates Following Euro Biz Sale, JV Dilution - Based on the company's announcements yesterday after market close (completed sale of European business, incremental dilution from TruGreen JV), we are lowering our FY17 EPS estimate to $3.85 from $4.14. Based on the company's long-term EPS growth target of 8%-10%, we are lowering our FY18 EPS estimate to $4.24 from $4.53 (10% EPS growth). We are maintaining our $95 price target (22x FY18 EPS, high end of peers) and Hold rating. - **William Chappell, Jr.**

Electric Power and Utilities

Electric Power and Utilities - Power/Utilities Macro Trends Tracker - Increase In Forward Spreads - This report includes our analysis of the key macro factors impacting the power/utility sector, including: forward power prices, spark spread, dark spread, and gas/coal spread trends; domestic electric consumption growth; and national weather patterns. Based on the latest peer group valuations, we are changing our price targets on AEP, CNP, EIX, and PNW. - **Ali Agha**

Energy

Midstream Oil and Gas - PAA/PAGP - Money, Cash, Flows - While not unequivocal, the cut brings retained CF (where previously there was none) closer to funding needs and suggests de-levering. That said, we think asset sales and a Preferred (and EBITDA growth) need to occur precisely as planned to see the de-levering occur. With substantial ramp in cash flow guided for 4Q and 2018, paired against investors' patience with the name, the risk of any potential shortfall and the likely impact on the units keeps us sidelined. We are reducing our EBITDA projections but increasing targets to $24 from $23 for both securities as financial risk appears improved. - **Tristan Richardson**

Financials

Regions Financial Corp. (RF, $14.23, Buy) - Reiterate Buy Following Visit With Management - Following a visit with RF management, we are maintaining our Buy rating, '17/'18 EPS estimates of $1.01/$1.13 and PT of $16. The valuation remains compelling at 12.6x '18E EPS/1.6x TBV compared to the peer median at 12.5x/1.8x. While revenue growth has been challenging, management is confident that they can achieve a 12%-14% ROTCE by the end of '18 which should result in an improved valuation. If more rate hikes don’t occur and/or economic growth remains slow, the company has other levers it can pull to achieve the low end of the ROTCE target, primarily through more cost reduction efforts. - **Jennifer Demba**

Brown & Brown Inc. (BRO, $44.96, Hold) - Updating Model - **Mark Hughes**

Interactive Brokers Group, Inc. (IBKR, $41.93, Hold) - Increasing Estimates and PT on Strong August Metrics Report - We are increasing our 2017/2018 EPS estimates following IBKR's August monthly metrics report to $1.54/$1.66 from $1.52/$1.64, due to continued strength in DARTs and margin balance growth, slightly offset by a lower Fed Funds futures curve. We continue to expect strong account growth through the remainder of 2017, but offset slightly by lower DARTs per account. We are increasing our price target to $40 from $38 equaling ~24x FY18E EPS, which we believe adequately reflects the strong growth prospects of the company and diminishing impact from its market-making operations overhang. - **Douglas Mewhirter**

Cadence Bancorporation (CADE, $20.84, Hold) - Cadence Details Minimal Hurricane Harvey Impact - **Jennifer Demba**

Healthcare

Global Blood Therapeutics (GBT, $30.40, Buy) - Highlights from the Road — HOPE Part A & IPF Data The Key N-T Inflection Points - We recently hosted a series of investor meetings with GBT's senior management (CEO Ted Love, CFO Jeff Farrow, and Sr. Director of IR Myesha Lacy). Key takeaways are GBT440's (1) top-line HOPE Part A data in sickle cell disease are more likely in 1H18 (vs. our prior YE17/early 2018E), (2) pivotal HOPE Part B data remain on track for 1H19, and (3) top-line IPF data remain on track for 4Q17. Also in 4Q17, we expect updated HOPE-

KIDS 1 data at ASH. Management indicates that gene therapy is unlikely to pose a threat to GBT440. We reiterate our Buy rating and NPV-derived $56 PT. - **Yatin Suneja**

TG Therapeutics, Inc. (TGTX, $12.70, Buy) - Upcoming ECTRIMS Abstract Titles Indicate TG-1101 Reduces Lesion Size - **Yatin Suneja**

Industrials

Building Products/Durable Goods - Building Products Hurricane Update- Biggest Beneficiaries Still Have Upside - The hurricane has re-focused investors on our sector. We believe (1) inevitable weak revenue in 3Q17 will be overlooked (2) the storm's impact on demand in 2018 is low single digits but we see more upside in BMCH and BLDR given their Houston exposure while BLD and IBP labor could cause more upside than anticipated (3) petrochemical prices could spike impacting inputs for AFI (vinyl) MHK (carpet, vinyl), OC (roofing), TPX (mattress), SCSS (mattress), TILE (carpet). Again, we believe investors will look past these short-term impacts. TREX use of recycled material should protect availability. - **Keith Hughes**

Rockwell Collins Inc. (COL, $130.61, Hold) - Done Deal - UTX To Buy COL for $140 Per Share - **Michael Ciarmoli**

Chemicals - Hurricane Harvey Chemicals Outage Update - Outages at US petrochemical facilities remain substantial. As of August 31 roughly 58% of US commodity chemical capacity and 44% of commodity polymers capacity is shut down or significantly impacted, not counting plants that are in the process of re-starting, according to Chemical Data, Inc. The most severely impacted commodities are ethylene (67%), the industry’s key building block chemical, propylene (77%) and butadiene (80%). Many other plants are operating at low rates due to feedstock supply issues or lack of downstream demand. Please see the summary of chemical industry outages on pg 2. - **James Sheehan**

IT Services

Card Networks - Invitation- Expert Call 9/12 On European Fleet Card Market (FLT/WEX) - **Oscar Turner**

eHealth, Inc. (EHTH, $24.28, Buy) - Tailwind from Cuts to ACA Marketing Spending - **Tobey Sommer**

Real Estate Investment Trusts

Prologis Inc. (PLD, $63.78, Buy) - Upgrading PLD to Buy From Hold - We are upgrading PLD to Buy (on a relative basis) from Hold and increasing our price target to $68/sh from $58/sh. To be clear, we think PLD is relatively attractive within the REIT sector and even within the industrial REIT sector. In our view, the industrial warehouse sector feels crowded and multiples are certainly not cheap, but we think PLD offers relatively attractive growth prospects and asset quality per amount of valuation paid. - Ki Bin Kim

Mack-Cali Realty Corporation (CLI, $23.38, Buy) - Risks Outweighed by Potential Rewards; Upgrading to Buy - Our upgrade to Buy is driven by a strong growth outlook for 2019 and beyond, coupled with a very compelling valuation. Our Hold rating was partially based on what we viewed as overly optimistic 2018 consensus FFO. We still see ‘18 guidance (expected on 3Q EPS call) as a potential risk, but since our last note, the consensus estimate came down 2%, and our conversations with investors suggest that buy-side expectations may already be lower than the sell-side consensus. Our $30 PT implies a 32% total return. - **Michael Lewis**

Industrial REITs - REITs - Warehouse rent is a minor cost in e-commerce biz per AMZN’s FBA - Using detailed data from Amazon, we estimate that warehouse rent represents a small portion of e-commerce costs, supporting our view that rents may have room to move higher, especially for well-located high quality product. Cost of labor & transportation dwarfs storage costs for all products and, coupled with the rise of same-day delivery, we believe industrial space closest to consumers has more upside and is currently undervalued vs. more commodity-like assets. We think this bodes well for well-located industrial REITs like PLD, and in this vein we are upgrading PLD to Buy from Hold. - **Ki Bin Kim**

FelCor Lodging Trust Incorporated (FCH, $7.30, NA) - Dropping coverage - We are dropping coverage of FelCor Lodging Trust (FCH) as a result of the closure of its merger with RLJ Lodging Trust (RLJ, $20.18, NR). Our last rating on the stock was Hold. Research issued before 9/1/2017, the date of coverage termination, should not be relied upon going forward. - **C. Patrick Scholes**

TMT

Towers - Increasing Tower Targets as 2018 Poised to Deliver Upside - We believe the accelerating activity levels of AT&T in deploying the FirstNet spectrum in addition to the WCS and AWS-3 bands provides greater clarity on the developing tailwinds for the tower industry for the next 3 years. In combination with other AWS-3, 600 MHz and maybe DISH deployments, we believe our avg. est. of 150bps potential increase in revenue growth could prove conservative. With greater certainty and a continued low probability of a TMUS-S merger, we increase our AMT, CCI and SBAC targets on higher multiples while reiterating our Buy ratings. - **Greg Miller**

Application Software - Tillman's Software Monday Morning Missives Delivered Post Holiday - **Terry Tillman**

Alphabet Inc. (GOOGL, $951.99, Buy) - EC Could Levy Fine Against GOOGL Over Android As Early As This Month - Media outlets reported over the weekend that the outcome of the EU's anti-trust probe into Google's Android could come as early as this month, resulting perhaps in a fine that exceeds last June's $2.7B penalty over its comparison shopping service. The EC has been looking into whether the Android OS was used to stifle competition; and the bigger concerns for us are whether 1) Google will be forced to dramatically alter Android and unbundle key parts of it, and 2) there'll be further action from the EC on other issues such as AdSense for Search. We are not changing our estimates at this time. - **Youssef Squali**

Maxim Integrated (MXIM, $46.99, Hold) - Business model update should be a positive catalyst; here's why we stay at Hold - MXIM announced its plans to introduce a new business model to investors after market close today. We expect the new model to include a more believable revenue growth view, higher gross & operating margins, and potentially some incremental financial leverage to accelerate growth in FCFE and EPS. If we're right, it will be a near-term positive catalyst for the stock. We retain our Hold rating as we see other stocks in our coverage with better growth vs. valuation characteristics (CY, MSCC) and more consistent, reliable upside potential (ADI, AVGO). - **William Stein**

Tech, Semis, Components and Distributors - Semiconductor Cycle Path - Proprietary Macro Indicator Remains Strong - Consumer sentiment momentum (our proprietary 5-month leading indicator for semiconductor industry growth) remained strong in August at +7.8%. Our other demand indicators are also mostly constructive: inventory momentum supports a gradual growth fade, cycle altitude/duration is at least benign for stocks, and while absolute valuation looks stretched, semis do not look expensive relative to the broader S&P, in our view. The constructive macro supports our more cyclically exposed long ideas: CY, AVGO, MSCC, and ADI. From a structural growth standpoint we like NVDA. - **William Stein**

Management Access / NDRs

Date	Event	Analyst(s)	Region
9/06/17	Group Breakfast with Revance Therapeutics, Inc. (RVNC)	Boris	BOSTON
9/06/17	Shutterfly, Inc. (SFLY) - New York	Squali	NEW YORK
9/06/17	Synovus Financial Corp. (SNV) Headquarters Visit - Atlanta	Demba	SOUTHEAST
9/06/17-9/07/17	Foundation Building Materials, Inc. (FBM) – San Francisco & Portland	K. Hughes	WEST COAST
9/07/17-9/08/17	Malibu Boats, Inc. (MBUU) - Field Trip - Surf Expo Meetings/Product Demo - Orlando	Swartz	SOUTHEAST
9/07/17	Mirati Therapeutics, Inc. (MRTX) - Toronto	Lawson	CANADA
9/08/17	Mirati Therapeutics, Inc. (MRTX) - Madison & Chicago	Lawson	MIDWEST
9/11/17	Salesforce.com, inc. (CRM) - Dallas	Tillman	TEXAS
9/11/17	The Rubicon Project, Inc. (RUBI) - New York	Thornton	NEW YORK
9/11/17	Textainer Group Holdings Ltd (TGH) - Boston	Mewhirter	BOSTON
9/11/17	Probiodrug AG (PBD.EN) - New York	Not Covered	NEW YORK
9/12/17	Probiodrug AG (PBD.EN) - Boston	Not Covered	BOSTON
9/12/17	Huron Consulting Group, Inc. (HURN) - Boston	Sommer	BOSTON
9/12/17	Distributor Bus Tour - Atlanta	K Hughes	SOUTHEAST
9/12/17	Kirkland's, Inc. (KIRK) - Mid-Atlantic	Magee	MID-ATLANTIC
9/12/17-9/13/17	Heritage Insurance Holdings, Inc. (HRTG) - KC/St Louis/Detroit	M. Hughes	MIDWEST
9/12/17-9/13/17	Textainer Group Holdings Ltd (TGH) - Canada	Mewhirter	CANADA
9/13/17	Zions Bancorporation (ZION) - Denver	Demba	WEST COAST
9/13/17	Kirkland's, Inc. (KIRK) - Cleveland	Magee	MIDWEST
9/13/17	First American Financial Corporation (FAF) - Mid-Atlantic	M Hughes	MID-ATLANTIC
9/13/17	Fox Factory Holding Corp. (FOXF) - Boston	Swartz	BOSTON
9/13/17	Burlington Stores, Inc. (BURL) - Philadelphia	Quintiliano	MID-ATLANTIC
9/13/17-9/14/17	MGP Ingredients, Inc. (MGPI) - West Coast	Chappell	WEST COAST
9/13/17-9/14/17	Texas Bank Summit - Dallas, TX	Demba/Young	TEXAS
9/13/17-9/14/17	Oxford Industries, Inc. (OXM) - TX	Quintiliano	TEXAS
9/13/17	Korn/Ferry International (KFY) – New York	Sommer	NEW YORK
9/14/17	Korn/Ferry International (KFY) – Boston	Sommer	BOSTON
9/14/17	Western Union Company (WU) - Texas	Jeffrey	TEXAS
9/14/17	Burlington Stores, Inc. (BURL) - Toronto	Quintiliano	CANADA
9/14/17	Workiva, Inc. (WK) - Boston	Tillman	BOSTON
9/14/17	Heritage Insurance Holdings, Inc. (HRTG) - Boston	M. Hughes	BOSTON
9/15/17	Heritage Insurance Holdings, Inc. (HRTG) - Mid-Atlantic	M. Hughes	MID-ATLANTIC
9/15/17	T-Mobile US, Inc. (TMUS) - Group Lunch - New York	Miller	NEW YORK
9/18/17	Energy Company Management Meetings - Denver	Dingmann	WEST COAST
9/18/17	Virtusa Corporation (VRTU) – San Francisco	Atkins	WEST COAST
9/18/17	Quest Diagnostics (DGX) - Group Dinner - New York	MacDonald	NEW YORK
9/18/17-9/19/17	Macquarie Infrastructure Corporation (MIC) - Canada	Richardson	CANADA
9/19/17	FTI Consulting, Inc. (FCN) - San Francisco	Sommer	WEST COAST
9/19/17	Green Dot Corporation (GDOT) - Boston	Jeffrey	BOSTON
9/19/17	Editas Medicine, Inc. (EDIT) - KC	Lawson	KC
9/19/17-9/20/17	Noodles & Co. (NDLS) – Canada	Bartlett	CANADA
9/19/17	Leggett & Platt, Inc. (LEG) - Dallas	K Hughes	TEXAS

Analyst Marketing

Date	Event	Analyst(s)	Region
9/05/17-9/06/17	- John Boris - Analyst Trip - Boston	Boris	BOSTON
9/05/17-9/07/17	- Neal Dingmann - Analyst Trip - New York	Dingmann	NEW YORK
9/06/17-9/07/17	- Terry Tillman - Analyst Trip - Midwest	Tillman	MIDWEST
9/07/17	- Jennifer Demba & Michael Young - Analyst Trip - Mid-Atlantic	Demba/Young	MID-ATLANTIC
9/11/17	- Ki Bin Kim & Michael Lewis - Analyst Trip - Philadelphia	Kim/Lewis	MID-ATLANTIC
9/12/17	- Bill Chappell - Analyst Trip - Houston	Chappell	TEXAS
9/12/17-9/13/17	- Doug Mewhirter - Analyst Trip - Canada	Mewhirter	CANADA
9/13/17	- Keith Hughes - Analyst Trip - Detroit	K. Hughes	MIDWEST
9/14/17	- Keith Hughes - Analyst Trip - New York	K. Hughes	NEW YORK
9/18/17-9/19/17	- Jennifer Demba & Michael Young - San Francisco	Demba/Young	WEST COAST
9/19/17	- Mark Hughes - Analyst Trip - KC	M Hughes	KC
9/19/17-9/20/17	- Ali Agha - Analyst Marketing - Boston	Agha	BOSTON
9/19/17-9/20/17	- Patrick Scholes - Analyst Trip - LA & SF	Scholes	WEST COAST

Conference Call

Date	Event	Analyst(s)	Region
9/08/17	11AM EST Restaurant Commodity Outlook Conference Call with David Maloni	Bartlett	CONFERENCE CALL

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SunTrust Robinson Humphrey (STRH) rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:

B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	417	59.57%	Buy	130	31.18%
Hold/Neutral	279	39.86%	Hold/Neutral	58	20.79%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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Electric Utilities & Power

Watts and Bonds - Fixed Income Weekly

Industry Overview

06 September 2017

High Grade, High Yield Credit
United States
Electric Utilities / Power

Markets wind down the last days of summer

A mix of the market's constructive view of the U.S. economy, dovish comments from Fed officials, concerns about lack of progress on tax reform, and the slowdown of the last week of summer ahead of the Labor Day holiday added up to a relative lack of direction last week – our investment grade corporate bond index produced negative 2 bp of excess returns. Utilities generated negative 13 bp of excess returns to trail our index by 11 bp (Chart 1). Within the utilities sector last week, there were no clear trends among the leading or lagging bonds. High yield electric utilities generated 9 bp of excess returns last week but trailed our high yield corporate bond index by 24 bp (Chart 2). Bonds of Talen Energy Supply, which went private last year, were among the top performers in the sector, while FirstEnergy Solutions was the lagging performer with multiple tranches of bonds of Calpine and NRG Energy underperforming.

SO: Georgia Power recommends finishing both nuclear units

As expected, Georgia Power recommended to the Georgia Public Service Commission to continue construction of the two nuclear units (Unit 3 and Unit 4), and stated that the other three members of the consortium all support the recommendation. Georgia Power stated that based on all factors considered, completing both units represents the most economic choice for customers and preserves the benefits of carbon-free, baseload generation. The revised estimates for Georgia Power's 45.7% ownership interest are $8.77 billion of construction and capital costs, up from $5.44 billion in the prior semi-annual VCM, though that increase is expected to be mitigated by $1.7 billion of payments (Georgia Power's share) over the next four years from Toshiba (Caa1/CC), which had guaranteed certain obligations of Westinghouse, the EPC contractor which filed for bankruptcy in March 2017. The schedule for commercial operation were extended by 29 months for each of the two units, to November 2021 for Unit 3 and November 22 for Unit 4. Accordingly, Georgia Power's expected financing cost estimates for its 45.7% stake were raised to $3.4 billion from $2.3 billion. The PSC is expected to review the recommendation and make a decision on the project as part of the 17th Vogtle Construction Monitoring proceeding. One of the five PSC commissioners expressed his support for the project in a Wall Street Journal opinion column less than two weeks before Georgia Power filed its recommendation; he is currently serving his second term as commissioner, scheduled to end in December 2022. Among the other commissioners, two are serving terms scheduled to end in December 2018 and two are serving terms scheduled to end in December 2020; all commissioners are elected to their position. Moody's stated that the recommendation to complete the increasingly expensive and significantly-delayed Vogtle units is credit negative, as total costs are open-ended and as Georgia Power's parent company will be assuming construction risk on its balance sheet. Fitch maintained Georgia Power on Rating Watch Negative, stating that the "go-forward" decision increases credit risks of possible further schedule delays and escalation in project costs, potential non-payment by Toshiba, and receipt of production tax credits.

Table of Contents

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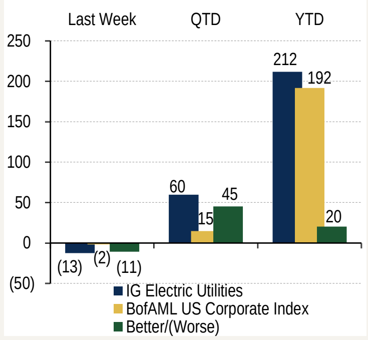
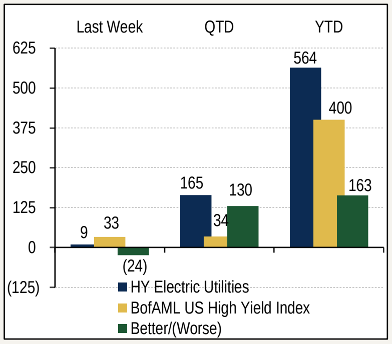
Chart 1: IG Relative Excess Returns (bp)



Source: BofA Merrill Lynch Global Research.

Chart 2: HY Relative Excess Returns (bp)



Source: BofA Merrill Lynch Global Research

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Refer to important disclosures on page 23 to 25.

11784647

Timestamp: 06 September 2017 05:55AM EDT

Recommendations

Recommendations*: Overweight

Recommendation	Ratings*						Corporate Structure			
Issuer	AA	A	BBB	BB	B	CCC<	Holdco	Opco	Genco	Ticker
Overweight										
American Electric Power			🟧				🟪			AEP
CenterPoint Energy Resources		🟧	🟧					🟪		CNP
Cleveland Electric Illuminating [1]			🟧					🟪		FE
Dominion Energy [2]			🟧				🟪			D
Exelon Corp.			🟧				🟪			EXC
Exelon Generation [3]			🟧						🟪	EXC
FirstEnergy Corp.			🟧	🟧			🟪			FE
Florida Power & Light (<125% of par)	🟧	🟧						🟪		NEE
Indiana Michigan Power		🟧	🟧					🟪		AEP
Jersey Central Power & Light			🟧					🟪		FE
Metropolitan Edison			🟧					🟪		FE
Monongahela Power		🟧	🟧					🟪		FE
Ohio Edison		🟧	🟧					🟪		FE
Pennsylvania Electric			🟧					🟪		FE
Public Service Electric & Gas	🟧	🟧						🟪		PEG
Toledo Edison			🟧					🟪		FE
West Penn Power		🟧	🟧					🟪		FE

*Current credit ratings (Moody's, Standard & Poor's, and Fitch) on primary outstanding securities.

[1] Overweight-secured bonds; Underweight-notes

[2] Overweight 6.40% notes due 2018 and 5.20% notes due 2019; Marketweight remaining notes

[3] Overweight notes due 2017-2022; Marketweight notes due 2039 and beyond

Source: BofA Merrill Lynch Global Research

Recommendation	Investor Action Points (Cash and/or CDS)
Overweight	Spreads and /or excess returns are likely to outperform the relevant and comparable market over the next three months.
Marketweight	Spreads and /or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.
Underweight	Spreads and /or excess returns are likely to underperform the relevant and comparable market over the next three months.
BofA Merrill Lynch Global Research uses the following rating system with respect to Credit Default Swaps (CDS):	
Buy Protection	Buy protection, therefore going short credit risk.
Neutral	No purchase or sale of CDS is recommended.
Sell Protection	Sell protection, therefore going long credit risk.

Recommendations*: Marketweight

Recommendation	Ratings*						Corporate Structure			
Issuer	AA	A	BBB	BB	B	CCC<	Holdco	Opco	Genco	Ticker
Marketweight										
AES Corporation, The				🟧			🟪			AES
Alabama Power		🟧						🟪		SO
Allegheny Energy Supply				🟧					🟪	FE
Appalachian Power			🟧					🟪		AEP
Baltimore Gas & Electric		🟧						🟪		EXC
CenterPoint Houston Electric		🟧						🟪		CNP
CMS Energy			🟧				🟪			CMS
Commonwealth Edison		🟧						🟪		EXC
Consolidated Edison Co. of New York		🟧						🟪		ED
Consumers Energy		🟧						🟪		CMS
Dominion Energy [2]			🟧				🟪			D
DTE Electric	🟧	🟧						🟪		DTE
Duke Energy Carolinas	🟧	🟧						🟪		DUK
Duke Energy Corp.			🟧				🟪			DUK
Duke Energy Florida		🟧						🟪		DUK
Duke Energy Indiana	🟧	🟧						🟪		DUK
Duke Energy Ohio		🟧	🟧					🟪		DUK
Duke Energy Progress	🟧	🟧						🟪		DUK
Edison International		🟧	🟧				🟪			EIX
Exelon Generation [3]			🟧						🟪	EXC
FirstEnergy Generation (B. Mansfield)				🟧					🟪	FE
FirstEnergy Solutions				🟧					🟪	FE
Florida Power & Light (>125% of par)	🟧	🟧						🟪		NEE
Georgia Power		🟧						🟪		SO
Kentucky Utilities		🟧						🟪		PPL
LG&E and KU Energy			🟧				🟪			PPL
Louisville Gas & Electric		🟧						🟪		PPL
MidAmerican Energy Co.	🟧	🟧						🟪		BRKHEC
MidAmerican Funding		🟧					🟪			BRKHEC
Nevada Power		🟧						🟪		BRKHEC
NextEra Energy Capital Holdings		🟧	🟧				🟪			NEE
Northern States Power-Minnesota	🟧	🟧						🟪		XEL
NRG Energy [4]				🟧	🟧		🟪			NRG
NV Energy, Inc.		🟧	🟧				🟪			BRKHEC
Ohio Power		🟧	🟧					🟪		AEP
Oncor Electric Delivery		🟧	🟧					🟪		ONCRTX
Pacific Gas & Electric		🟧	🟧					🟪		PCG
PacifiCorp		🟧						🟪		BRKHEC
PECO Energy	🟧	🟧						🟪		EXC
PG&E Corp.			🟧				🟪			PCG
PPL Capital Funding			🟧				🟪			PPL
PPL Electric Utilities		🟧						🟪		PPL
Progress Energy			🟧				🟪			DUK
Public Service Co. of Colorado		🟧						🟪		XEL
Sierra Pacific Power		🟧						🟪		BRKHEC
Southern California Edison	🟧	🟧	🟧					🟪		EIX
Southern Co.		🟧	🟧				🟪			SO
Southern Power Co.			🟧						🟪	SO
Southwestern Electric Power			🟧					🟪		AEP
Southwestern Public Service		🟧	🟧					🟪		XEL
Virginia Electric & Power		🟧	🟧					🟪		D
Xcel Energy		🟧	🟧				🟪			XEL

Recommendations*: Underweight

Recommendation	Ratings*						Corporate Structure			
Issuer	AA	A	BBB	BB	B	CCC<	Holdco	Opco	Genco	Ticker
Underweight										
Berkshire Hathaway Energy		🟧	🟧				🟪			BRKHEC
DTE Energy		🟧	🟧				🟪			DTE
Cleveland Electric Illuminating [1]			🟧					🟪		FE
NRG Energy [4]				🟧	🟧		🟪			NRG
PSEG Power			🟧						🟪	PEG

*Current credit ratings (Moody's, Standard & Poor's, and Fitch) on primary outstanding securities.

1 Overweight-secured bonds; Underweight-notes
2 Overweight 6.40% notes due 2018 and 5.20% notes due 2019; Marketweight remaining notes
3 Overweight notes due 2017-2022; Marketweight notes due 2039 and beyond
4 Marketweight notes due 2018-2021; Underweight remaining notes

Source: BofA Merrill Lynch Global Research

Recommendation	Investor Action Points (Cash and/or CDS)
Overweight	Spreads and /or excess returns are likely to outperform the relevant and comparable market over the next three months.
Marketweight	Spreads and /or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.
Underweight	Spreads and /or excess returns are likely to underperform the relevant and comparable market over the next three months.
BofA Merrill Lynch Global Research uses the following rating system with respect to Credit Default Swaps (CDS):	
Buy Protection	Buy protection, therefore going short credit risk.
Neutral	No purchase or sale of CDS is recommended.
Sell Protection	Sell protection, therefore going long credit risk.

Enterprise Values

		Equity								Debt				
Ticker	Name	Total Debt on B/S 30-Jun-17	Equity Market Cap. 01-Sep-17	Enterprise Value 01-Sep-17	EV as a Multiple of: BofAML EBITDA LTM 2Q17	EV as a Multiple of: Consensus EBITDA (Bloomberg) 2017P	EV as a Multiple of: Consensus EBITDA (Bloomberg) 2018P	Dividend Payout Ratio 2017P	Dividend Yield 01-Sep-17	Total Debt/ EBITDA LTM 2Q17	Funds from Ops /Debt LTM 2Q17	Issuer/ Corp. Family Moody's	Corporate Credit Rating S&P	Issuer Default Rating Fitch
Regulated Electric Utilities														
AEP	American Electric Power Co.	$21.7	$36.2	$57.4	10.5x	10.8x	10.3x	64%	3.2%	4.0x	17.8%	--	BBB	BBB
BRKHEC	Berkshire Hathaway Energy	$38.5	N.A.	N.A.	N.A.	N.A.	N.A.	0%	N.A.	5.3x	16.2%	--	A	BBB+
CMS	CMS Energy	$10.0	$13.7	$23.3	10.6x	10.6x	10.0x	61%	2.7%	4.6x	16.3%	--	BBB+	BBB
CNP	CenterPoint Energy	$8.7	$12.8	$21.2	10.0x	9.8x	9.4x	80%	3.6%	4.1x	18.7%	Baa1	A-	BBB
D	Dominion Energy	$37.0	$50.3	$87.1	13.8x	13.6x	12.1x	83%	3.9%	5.9x	13.0%	--	BBB+	BBB+
DTE	DTE Energy	$12.2	$20.1	$32.2	11.4x	12.0x	11.2x	61%	2.9%	4.3x	15.8%	--	BBB+	BBB+
DUK	Duke Energy (1)	$50.5	$61.0	$111.1	11.6x	11.3x	10.8x	77%	4.1%	5.3x	12.6%	Baa1	A-	BBB+
ED	Consolidated Edison	$16.4	$26.0	$41.6	10.4x	10.6x	10.0x	68%	3.3%	4.1x	21.2%	A3	A-	BBB+
EIX	Edison International	$12.8	$26.1	$41.4	9.4x	9.0x	8.6x	51%	2.7%	2.9x	26.8%	A3	BBB+	A-
ONCRTX	Oncor Electric Delivery	$7.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	3.8x	22.7%	--	BBB+	BBB
PCG	PG&E Corp.	$18.5	$35.8	$54.4	8.7x	8.6x	8.0x	58%	3.0%	2.9x	30.0%	A-	BBB+	BBB+
PPL	PPL Corp.	$20.6	$26.6	$46.7	10.6x	12.0x	10.9x	73%	4.0%	4.7x	12.5%	Baa2	A-	--
SO	Southern Company	$50.0	$48.0	$97.2	11.1x	11.0x	10.7x	79%	4.8%	5.7x	11.9%	Baa2	A-	A-
XEL	Xcel Energy	$15.4	$25.1	$40.4	10.6x	10.9x	10.3x	62%	2.9%	4.0x	19.8%	A3	A-	BBB+
SUB-TOTAL (excl. BRKHEC, ONCRTX)		$273.7	$381.6	$654.0	10.9x	10.9x	10.9x	70%	3.6%	4.6x	16.2%		*high triple-B*	
Diversified: Regulated Utility/Competitive Power														
AES	AES Corporation, The	$20.8	$7.3	$26.8	6.4x	6.8x	6.4x	46%	4.3%	4.9x	12.2%	Ba3	BB	BB-
EXC	Exelon	$36.3	$36.0	$70.5	8.2x	8.4x	7.8x	49%	3.5%	4.2x	15.1%	Baa2	BBB	BBB
FE	FirstEnergy	$22.8	$14.4	$37.1	8.5x	8.5x	8.6x	51%	4.4%	5.2x	13.9%	Baa3	BBB-	BBB-
NEE	NextEra Energy	$34.5	$70.5	$104.3	12.6x	11.4x	11.0x	58%	2.6%	4.2x	18.2%	Baa1	A-	A-
PEG	Public Service Enterprise Group	$12.5	$23.5	$35.6	9.7x	9.2x	9.2x	59%	3.7%	3.4x	25.9%	--	BBB+	BBB+
SUB-TOTAL		$127.0	$151.8	$274.4	9.4x	9.2x	9.2x	54%	3.2%	4.4x	16.3%		*mid-triple-B*	
Merchant Power														
NRG	NRG Energy	$16.9	$7.9	$23.5	9.8x	8.9x	8.3x	15%	0.5%	7.0x	9.5%	Ba3	BB-	--
SUB-TOTAL		$16.9	$7.9	$23.5	9.8x	8.9x	8.9x	15%	0.5%	6.6x	10.7%		*low-double-B*	
TOTAL (excl. BRKHEC, ONCRTX, TLN)		$417.6	$541.3	$951.9	10.4x	10.3x	10.3x	65%	3.5%	4.6x	15.4%		*mid-triple-B*	

Historical numbers are as-reported (unadjusted) GAAP numbers unless otherwise indicated.

(1) DUK: Duke Energy's debt and credit metrics exclude $2,541 of purchase accounting adjustments.

BofAML EBITDA = earnings excluding discontinued operations, plus depreciation and amortization, plus/(minus) non-cash expenses/(revenues) included in earnings.

Total and Sub-totals exclude BRKHEC and ONCRTX for equity-related metrics but include BRKHEC and ONCRTX for debt-related metrics.

Source: BofA Merrill Lynch Global Research, Bloomberg

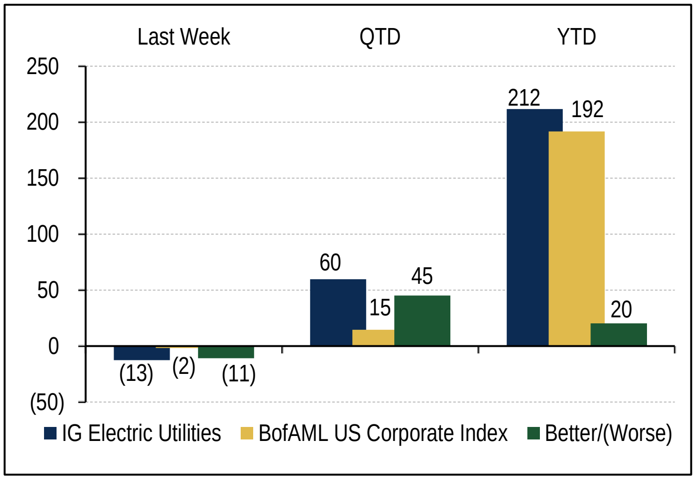
Performance Summaries

Performance Summary: Investment Grade

A mix of the market's constructive view of the U.S. economy, dovish comments from Fed officials, concerns about lack of progress on tax reform, and the slowdown of the last week of summer ahead of the Labor Day holiday added up to a relative lack of direction last week – our investment grade corporate bond index produced negative 2 bp of excess returns. Utilities generated negative 13 bp of excess returns to trail our index by 11 bp (Chart 3). Within the utilities sector last week, there were no clear trends among the leading or lagging bonds. Year-to-date, though, electric utilities have generated 212 bp of excess returns to outperform our investment grade corporate bond index by 20 bp. Issuers whose bonds have contributed meaningfully to the sector's outperformance include Électricité de France, Comision Federal de Electricidad, Enel and Exelon Generation. Bonds whose performance has constrained the sector's year-to-date excess returns are largely bond tranches with less than $300 million outstanding after a competitor raised its index eligibility minimum to $300 million from $250 million.

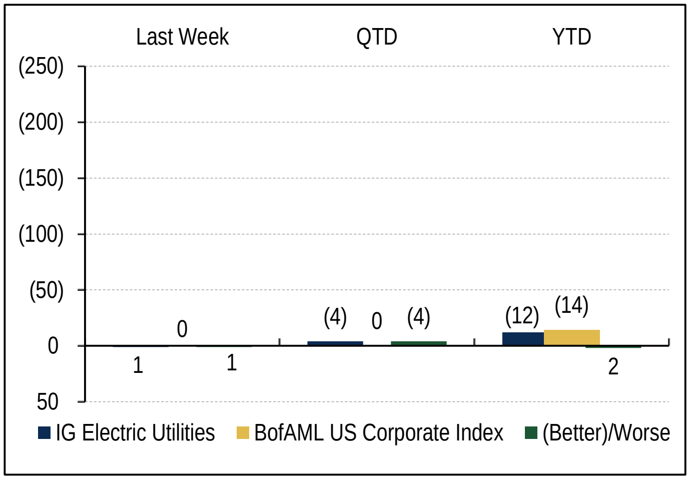
Credit spreads of the electric utilities sector widened by 1 bp last week to lag the unchanged investment grade corporate bond index (Chart 4). Utilities' credit spreads 113 bp wide to Treasuries, 1 bp more than our index (Chart 5).

Chart 3: Relative Excess Returns (bp)



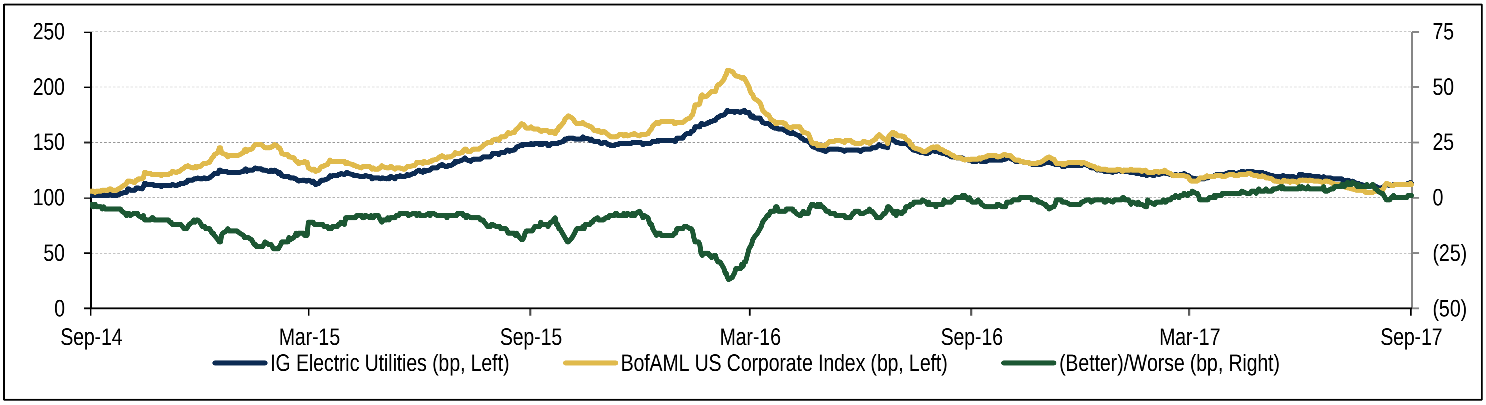
Source: BofA Merrill Lynch Lighthouse Data Analysis & BofA Merrill Lynch Global Index System.

Chart 4: Relative Changes of Credit Spreads (bp)



Source: BofA Merrill Lynch Lighthouse Data Analysis & BofA Merrill Lynch Global Index System.

Chart 5: Relative Credit Spreads (bp)



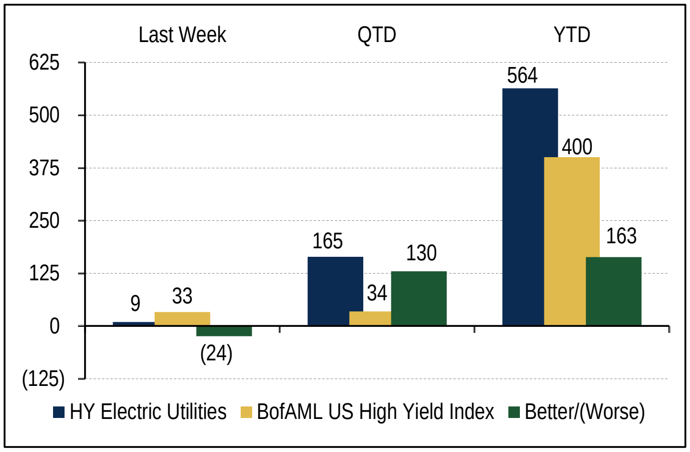
Source: BofA Merrill Lynch Lighthouse Data Analysis & BofA Merrill Lynch Global Index System.

Performance Summary: High Yield

High yield electric utilities generated 9 bp of excess returns last week but trailed our high yield corporate bond index by 24 bp (Chart 6). Bonds of Talen Energy Supply, which went private last year, were among the top performers in the sector, while FirstEnergy Solutions was the lagging performer with multiple tranches of bonds of Calpine and NRG Energy underperforming. Year-to-date, high yield electrics have generated 564 bp of excess returns to lead our high yield corporate bond index by 163 bp. Among the top-performing bonds were those called by Talen Energy Supply, FirstEnergy Solutions and Dynegy, while Calpine's bonds and Talen Energy Supply's still-outstanding bonds have largely lagged.

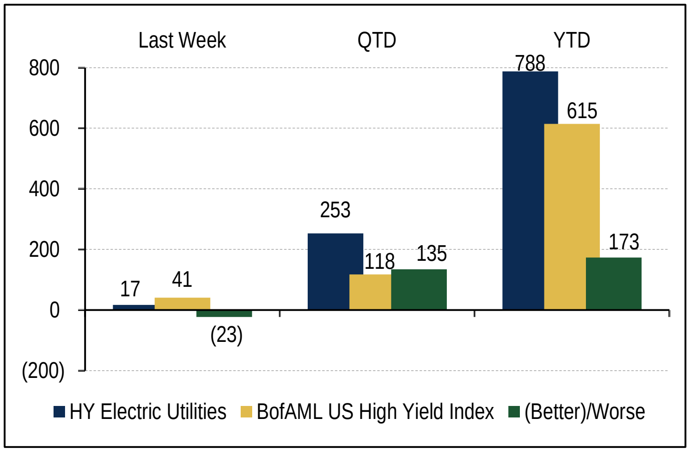
High yield electrics have generated total returns of 788 bp year-to-date to outperform our high yield corporate bond index by 173 bp. Electrics ended the week with an average YTW of 5.72%, 10 bp more than our index's 5.62% (Chart 8).

Chart 6: Excess Returns (bp)



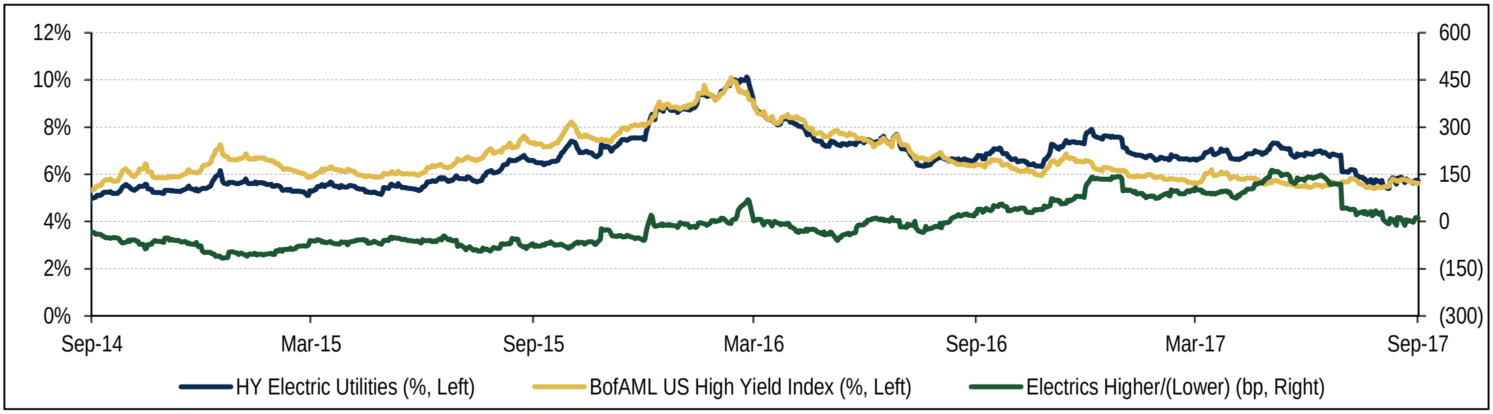
Source: BofA Merrill Lynch Lighthouse Data Analysis & BofA Merrill Lynch Global Index System.

Chart 7: Total Returns (bp)



Source: BofA Merrill Lynch Lighthouse Data Analysis & BofA Merrill Lynch Global Index System.

Chart 8: Yield-to-Worst (% - left axis; bp - right axis)



Source: BofA Merrill Lynch Lighthouse Data Analysis & BofA Merrill Lynch Global Index System.

Credit Pricing

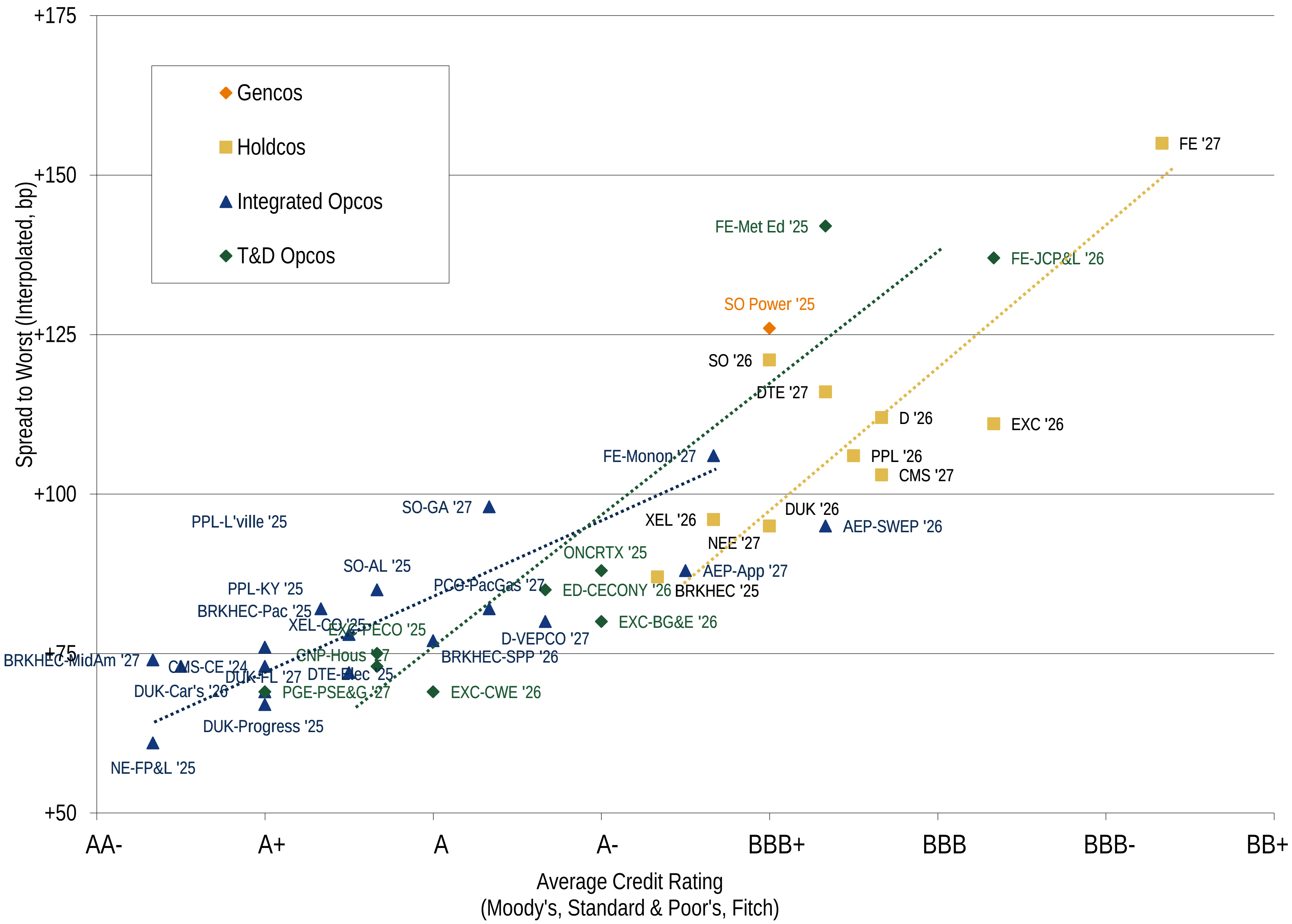
Table 3: Investment Grade: Short Bonds

Tkr	Issuer	Coupon	Description	Maturity	Amt. ($MM)	Mdy's/S&P/Fitch	YTW	STW* (bp)	1 Wk	QTD	YTD
XEL	Northern States Power-MN	2.150%	FMBs	15-Aug-22	$300	Aa3/A/A+	2.18%	40	(2)	(6)	(10)
DUK	Duke Energy Carolinas	2.500%	FMBs	15-Mar-23	$500	Aa2/A/WD	2.24%	41	0	(6)	(8)
DUK	Duke Energy Florida	3.100%	FMBs	15-Aug-21	$300	A1/A/WD	2.03%	44	(1)	(11)	(21)
NEE	Florida Power & Light	2.750%	FMBs	01-Jun-23	$500	Aa2/A/AA-	2.25%	44	(3)	(13)	(17)
CMS	Consumers Energy	2.850%	FMBs	15-May-22	$375	Aa3/A/A+	2.16%	46	(1)	(3)	(7)
DUK	Duke Energy Progress	2.800%	FMBs	15-May-22	$500	Aa3/A/WD	2.17%	47	0	(2)	(11)
XEL	Public Service Co. of Colorado	2.250%	FMBs	15-Sep-22	$300	A1/A/A+	2.19%	47	(1)	1	1
EIX	Southern California Edison	2.400%	F&RMBs	01-Feb-22	$325	Aa3/A/A+	2.14%	47	(2)	(3)	(1)
PEG	Public Service Electric & Gas	1.900%	Sr. Notes	15-Mar-21	$300	Aa3/A/A+	2.04%	48	5	3	(8)
CNP	CenterPoint Energy Houston Elec.	2.250%	Gen. Mtg. Bonds	01-Aug-22	$300	A1/A/A	2.24%	51	3	(7)	(10)
SO	Alabama Power	2.450%	Sr. Notes	30-Mar-22	$550	A1/A-/A+	2.23%	52	2	1	(8)
BRKHEC	PacifiCorp	2.950%	FMBs	01-Feb-22	$450	A1/A+/A+	2.17%	52	(1)	(7)	(9)
DUK	Duke Energy Corp.	1.800%	Sr. Notes	01-Sep-21	$750	Baa1/BBB+/BBB+	2.19%	55	2	(7)	(19)
EXC	Commonwealth Edison	3.400%	FMBs	01-Sep-21	$350	A1/A-/A	2.15%	55	(1)	(2)	(10)
DTE	DTE Electric	2.650%	G&RM Bonds	15-Jun-22	$250	Aa3/A/A+	2.28%	57	(6)	(16)	6
EXC	PECO Energy	2.375%	FMBs	15-Sep-22	$350	Aa3/A-/A	2.37%	59	10	6	(3)
XEL	Xcel Energy	2.600%	Sr. Notes	15-Mar-22	$300	A3/BBB+/BBB+	2.29%	59	0	(3)	(9)
D	Virginia Electric and Power	2.950%	Sr. Notes	15-Jan-22	$450	A2/BBB+/A	2.24%	59	0	(5)	(13)
DUK	Duke Energy Ohio	3.800%	FMBs	01-Sep-23	$300	A2/A/WD	2.48%	61	0	(1)	(13)
PCG	Pacific Gas & Electric	2.450%	Sr. Notes	15-Aug-22	$400	A2/A-/A	2.36%	62	(1)	8	1
AEP	Ohio Power	5.375%	Sr. Notes	01-Oct-21	$500	A2/A-/A-	2.29%	64	2	(11)	(17)
EXC	Baltimore Gas and Electric	2.800%	Sr. Notes	15-Aug-22	$250	A3/A-/A-	2.38%	64	1	(6)	(4)
AEP	Appalachian Power	4.600%	Sr. Notes	30-Mar-21	$350	Baa1/A-/BBB+	2.17%	64	0	(9)	(33)
AEP	American Electric Power	2.950%	Sr. Notes	15-Dec-22	$300	Baa1/BBB+/BBB	2.43%	64	0	1	(10)
BRKHEC	Sierra Pacific Power	3.375%	G&RM Notes	15-Aug-23	$250	A2/A+/A-	2.51%	64	(12)	(20)	(13)
SO	Southern Power	2.500%	Sr. Notes	15-Dec-21	$300	Baa1/BBB+/BBB+	2.35%	69	0	(20)	(30)
PPL	PPL Electric Utilities	2.500%	FMBs	01-Sep-22	$250	A1/A/WD	2.44%	69	(1)	5	(3)
CMS	CMS Energy	5.050%	Sr. Notes	15-Mar-22	$300	Baa1/BBB/BBB	2.39%	71	1	(12)	(30)
D	Dominion Energy	2.750%	Sr. Notes	15-Jan-22	$400	Baa2/BBB/BBB+	2.39%	71	(4)	(8)	(19)
SO	Georgia Power	2.400%	Sr. Notes	01-Apr-21	$325	A3/A-/A+	2.28%	72	0	7	(4)
BRKHEC	Berkshire Hathaway Energy	3.750%	Sr. Notes	15-Nov-23	$500	A3/A-/BBB+	2.61%	72	0	(4)	(4)
PEG	Public Service Enterprise Group	2.000%	Sr. Notes	15-Nov-21	$300	Baa1/BBB/A+	2.40%	74	1	1	(2)
PPL	PPL Capital Funding	3.500%	Gtd. Sr. Notes	01-Dec-22	$400	Baa2/BBB+/WD	2.54%	76	(1)	(11)	(21)
EIX	Edison International	2.950%	Sr. Notes	15-Mar-23	$400	A3/BBB/A-	2.60%	77	(5)	0	(22)
SO	Southern Co.	2.350%	Sr. Notes	01-Jul-21	$1,500	Baa2/BBB+/A-	2.41%	80	1	1	(9)
PEG	PSEG Power	3.000%	Sr. Notes	15-Jun-21	$700	Baa1/BBB+/BBB+	2.39%	80	(1)	(5)	(29)
AEP	Southwestern Electric Power	3.550%	Sr. Notes	15-Feb-22	$275	Baa2/A-/BBB	2.49%	83	(1)	(12)	3
ONCRTX	Oncor Electric Delivery	4.100%	Sr. Sec'd Notes	01-Jun-22	$400	A3/A/BBB+	2.55%	84	0	8	15
DUK	Progress Energy	3.150%	Sr. Notes	01-Apr-22	$450	Baa2/BBB+/WD	2.56%	87	2	5	(12)
DTE	DTE Energy	3.300%	Sr. Notes	15-Jun-22	$300	Baa1/BBB/BBB+	2.62%	90	7	6	(2)
AEP	Indiana Michigan Power	3.200%	Sr. Notes	15-Mar-23	$250	Baa1/A-/BBB	2.73%	91	(1)	(4)	2
NEE	NextEra Energy Capital Holdings	3.625%	Gtd. Sr. Notes	15-Jun-23	$250	Baa1/BBB+/A-	2.77%	93	(2)	(19)	(22)
EXC	Exelon Corp.	3.497%	Sr. Notes	01-Jun-22	$1,150	Baa3/BBB-/A+	2.68%	95	5	(18)	(55)
PPL	LG&E and KU Energy	4.375%	Sr. Notes	01-Oct-21	$250	A3/BBB+/BBB+	2.57%	96	0	1	(2)
CNP	CenterPoint Energy Resources	4.500%	Sr. Notes	15-Jan-21	$593	Baa2/A-/BBB	2.52%	102	(12)	(25)	(40)
FE	Metropolitan Edison Co.	3.500%	Sr. Notes	15-Mar-23	$300	A3/BBB-/BBB+	2.84%	103	(3)	(17)	(33)
EXC	Exelon Generation	4.250%	Sr. Notes	15-Jun-22	$523	Baa2/BBB/BBB	2.76%	104	3	(14)	(46)
FE	FirstEnergy Corp.	2.850%	Sr. Notes	15-Jul-22	$500	Baa3/BB+/BBB+	2.77%	104	0	(6)	(6)

FMBs: First Mortgage Bonds; F&RMBs: First & Refunding Mortgage Bonds; GMBs: General Mortgage Bonds; G&RMNs: General & Refunding Mortgage Notes;
Gtd: Guaranteed; Sec'd MTNs: Secured Medium-Term Notes; Sr. Sec'd Exc. Notes: Senior Secured Exchange Notes.
As of close on September 01, 2017.

Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 9: Investment Grade: Spread-to-Worst



Source: BofA Merrill Lynch Global Research

Table 4: Investment Grade: Intermediate Bonds

Tkr	Issuer	Coupon	Description	Maturity	Amt. ($MM)	Mdy's/S&P/Fitch	YTW	STW* (bp)	1 Wk	QTD	YTD
NEE	Florida Power & Light	3.125%	FMBs	01-Dec-25	$600	Aa2/A/AA-	2.66%	61	0	(1)	4
DTE	DTE Electric	3.375%	G&RMBs	01-Mar-25	$350	Aa3/A/A+	2.69%	67	0	(3)	(1)
PEG	Public Service Electric & Gas	3.000%	Sec'd MTNs	15-May-27	$425	Aa3/A/A+	2.85%	69	0	(4)	(4)
DUK	Duke Energy Progress	3.250%	FMBs	15-Aug-25	$500	Aa3/A/WD	2.74%	69	0	(1)	5
EXC	Commonwealth Edison	2.550%	FMBs	15-Jun-26	$500	A1/A-/A	2.81%	69	(1)	(6)	2
DUK	Duke Energy Florida	3.200%	FMBs	15-Jan-27	$650	A1/A/WD	2.86%	72	(4)	(2)	(3)
DUK	Duke Energy Carolinas	2.950%	FMBs	01-Dec-26	$600	Aa2/A/WD	2.86%	73	4	3	8
CNP	CenterPoint Energy Houston Ele	3.000%	GMBs	01-Feb-27	$300	A1/A/A	2.87%	73	0	(2)	3
CMS	Consumers Energy	3.125%	FMBs	31-Aug-24	$250	Aa3/A/A+	2.71%	73	0	(3)	3
BRKHEC	MidAmerican Energy Co.	3.100%	FMBs	01-May-27	$375	Aa2/A+/A+	2.89%	74	1	4	4
EXC	PECO Energy	3.150%	F&RMBs	15-Oct-25	$350	Aa3/A-/A	2.82%	75	0	2	2
BRKHEC	PacifiCorp	3.350%	FMBs	01-Jul-25	$250	A1/A+/A+	2.80%	76	(3)	(8)	0
BRKHEC	Sierra Pacific Power	2.600%	G&RMNs	01-May-26	$400	A2/A+/A-	2.88%	77	1	0	9
PPL	Kentucky Utilities	3.300%	FMBs	01-Oct-25	$250	A1/A/-	2.84%	78	0	(12)	12
PPL	Louisville Gas & Electric	3.300%	FMBs	01-Oct-25	$300	A1/A/-	2.84%	78	0	(12)	12
EXC	Baltimore Gas and Electric	2.400%	Sr. Notes	15-Aug-26	$350	A3/A-/A-	2.93%	80	0	2	7
D	Virginia Electric and Power	3.500%	Sr. Notes	15-Mar-27	$750	A2/BBB+/A	2.94%	80	(1)	(4)	(10)
XEL	Public Service Co. of Colorado	2.900%	FMBs	15-May-25	$250	A1/A/A+	2.83%	82	0	(2)	18
PCG	Pacific Gas & Electric	3.300%	Sr. Notes	15-Mar-27	$400	A2/A-/A	2.96%	82	(1)	10	(1)
ED	Consolidated Edison Co. of NY	2.900%	Debentures	01-Dec-26	$250	A2/A-/A-	2.99%	85	2	2	23
SO	Alabama Power	2.800%	Sr. Notes	01-Apr-25	$250	A1/A-/A+	2.89%	85	0	(6)	8
BRKHEC	Berkshire Hathaway Energy	3.500%	Sr. Notes	01-Feb-25	$400	A3/A-/BBB+	2.88%	87	0	(5)	1
AEP	Appalachian Power	3.300%	Sr. Notes	01-Jun-27	$325	Baa1/A-/-	3.04%	88	3	(10)	(10)
ONCRTX	Oncor Electric Delivery	2.950%	Sr. Sec'd Notes	01-Apr-25	$350	A3/A/BBB+	2.90%	88	1	12	19
AEP	Southwestern Electric Power	2.750%	Sr. Notes	01-Oct-26	$400	Baa2/A-/BBB	3.08%	95	4	(2)	(1)
DUK	Duke Energy Corp.	2.650%	Sr. Notes	01-Sep-26	$1,500	Baa1/BBB+/BBB+	3.07%	95	(7)	(4)	(4)
XEL	Xcel Energy	3.350%	Sr. Notes	01-Dec-26	$500	A3/BBB+/BBB+	3.08%	96	4	1	8
NEE	NextEra Energy Capital Holdings	3.550%	Gtd. Debs.	01-May-27	$1,250	Baa1/BBB+/A-	3.11%	96	1	(29)	(29)
SO	Georgia Power	3.250%	Sr. Notes	30-Mar-27	$400	A3/A-/A+	3.13%	98	4	2	8
CMS	CMS Energy	3.450%	Sr. Notes	15-Aug-27	$350	Baa1/BBB/BBB	3.20%	103	5	2	(7)
PPL	PPL Capital Funding	3.100%	Gtd. Sr. Notes	15-May-26	$650	Baa2/BBB+/-	3.17%	106	0	(4)	(13)
FE	Monongahela Power	3.550%	FMBs	15-May-27	$250	A3/BBB+/BBB+	3.21%	106	0	(9)	(9)
EXC	Exelon Corp.	3.400%	Sr. Notes	15-Apr-26	$750	Baa2/BBB-/BBB	3.20%	111	(1)	(6)	(7)
D	Dominion Energy	2.850%	Sr. Notes	15-Aug-26	$400	Baa2/BBB/BBB+	3.25%	112	1	(4)	(5)
DTE	DTE Energy	3.800%	Sr. Notes	15-Mar-27	$500	Baa1/BBB/BBB+	3.30%	116	0	(5)	(12)
SO	Southern Co.	3.250%	Sr. Notes	01-Jul-26	$1,750	Baa2/BBB+/A-	3.33%	121	2	(4)	9
SO	Southern Power	4.150%	Sr. Notes	01-Dec-25	$500	Baa1/BBB+/BBB+	3.33%	126	(1)	(2)	2
FE	Jersey Central Power & Light	4.300%	Sr. Notes	15-Jan-26	$250	Baa2/BBB-/BBB	3.45%	137	0	(1)	(3)
FE	Metropolitan Edison Co.	4.000%	Sr. Notes	15-Apr-25	$250	A3/BBB-/BBB+	3.46%	142	6	2	(9)
FE	FirstEnergy Corp.	3.900%	Sr. Notes	15-Jul-27	$1,500	Baa3/BB+/BBB-	3.71%	155	2	(20)	(20)

FMBs: First Mortgage Bonds; F&RMBs: First & Refunding Mortgage Bonds; GMBs: General Mortgage Bonds; G&RMNs: General & Refunding Mortgage Notes;
Gtd: Guaranteed; Sec'd MTNs: Secured Medium-Term Notes; Sr. Sec'd Exc. Notes: Senior Secured Exchange Notes.
As of close on September 01, 2017.

Source: BofA Merrill Lynch Global Research, Bloomberg

Table 5: Investment Grade: Long Bonds

Tkr	Issuer	Coupon	Description	Maturity	Amt. ($MM)	Mdy's/S&P/Fitch	YTW	STW* (bp)	1 Wk	QTD	YTD
XEL	Northern States Power-MN	3.600%	FMBs	15-May-46	$350	Aa3/A/A+	3.59%	82	3	(11)	(2)
NEE	Florida Power & Light	4.050%	FMBs	01-Oct-44	$500	Aa2/A/A+	3.58%	82	(4)	(3)	(1)
XEL	Southwestern Public Service	3.400%	FMBs	15-Aug-46	$300	A2/A/A-	3.60%	83	0	(9)	(9)
EIX	Southern California Edison	4.000%	F&RMBs	01-Apr-47	$700	Aa3/A/A+	3.61%	84	(1)	(5)	(11)
PEG	Public Service Electric & Gas	3.800%	Sec'd MTNs	01-Mar-46	$550	Aa3/A/A+	3.63%	86	0	1	(4)
XEL	Public Service Co. of Colorado	3.800%	FMBs	15-Jun-47	$400	A1/A/A+	3.65%	87	0	(8)	(8)
DTE	DTE Electric	3.700%	G&RMBs	01-Jun-46	$300	Aa3/A/A+	3.65%	88	0	(7)	3
CMS	Consumers Energy	3.950%	FMBs	15-Jul-47	$350	Aa3/A/A+	3.66%	88	0	(3)	1
DUK	Duke Energy Progress	3.700%	FMBs	15-Oct-46	$450	Aa3/A/WD	3.65%	88	(2)	(7)	(6)
BRKHEC	MidAmerican Energy Co.	3.950%	FMBs	01-Aug-47	$475	Aa2/A+/A+	3.65%	88	(5)	(6)	(7)
DUK	Duke Energy Florida	3.400%	FMBs	01-Oct-46	$600	A1/A/WD	3.67%	89	(1)	(7)	(8)
DUK	Duke Energy Carolinas	3.875%	FMBs	15-Mar-46	$500	Aa2/A/WD	3.67%	90	2	(1)	(3)
PPL	PPL Electric Utilities	3.950%	FMBs	01-Jun-47	$475	A1/A/-	3.67%	90	0	(8)	(8)
EXC	Commonwealth Edison	3.650%	FMBs	15-Jun-46	$700	A1/A-/A	3.68%	90	0	(6)	(3)
DUK	Duke Energy Ohio	3.700%	FMBs	15-Jun-46	$350	A2/A/WD	3.68%	91	7	(5)	(4)
ED	Consolidated Edison Co. of NY	3.875%	Debentures	15-Jun-47	$500	A2/A-/A-	3.68%	91	(1)	(14)	(14)
EXC	PECO Energy	4.150%	F&RMBs	01-Oct-44	$300	Aa3/A-/A	3.69%	94	1	(11)	(1)
ONCRTX	Oncor Electric Delivery	3.750%	Sr. Sec'd Notes	01-Apr-45	$550	A3/A/BBB+	3.70%	94	0	(9)	2
DUK	Duke Energy Indiana	3.750%	FMBs	15-May-46	$500	Aa3/A/WD	3.73%	95	0	(3)	(8)
EXC	Baltimore Gas and Electric	3.500%	Sr. Notes	15-Aug-46	$500	A3/A-/A-	3.73%	95	(1)	4	(7)
PCG	Pacific Gas & Electric	4.000%	Sr. Notes	01-Dec-46	$600	A2/A-/A	3.72%	95	(2)	(3)	(6)
CNP	CenterPoint Energy Houston Ele	4.500%	GMBs	01-Apr-44	$600	A1/A/A	3.70%	96	4	1	5
AEP	Indiana Michigan Power	3.750%	Sr. Notes	01-Jul-47	$300	Baa1/A-/BBB+	3.75%	97	(3)	(13)	(13)
D	Virginia Electric and Power	4.000%	Sr. Notes	15-Nov-46	$500	A2/BBB+/BBB	3.76%	98	4	1	3
SO	Alabama Power	4.300%	Sr. Notes	02-Jan-46	$400	A1/A-/A-	3.77%	100	0	(9)	(2)
BRKHEC	PacifiCorp	4.100%	FMBs	01-Feb-42	$300	A1/A+/A+	3.72%	101	0	(6)	(3)
PPL	Louisville Gas & Electric	4.375%	FMBs	01-Oct-45	$250	A1/A/A+	3.80%	103	0	(6)	3
AEP	Appalachian Power	4.450%	Sr. Notes	01-Jun-45	$350	Baa1/A-/BBB+	3.80%	103	(7)	(12)	(21)
AEP	Southwestern Electric Power	3.900%	Sr. Notes	01-Apr-45	$400	Baa2/A-/BBB	3.82%	106	0	(11)	(19)
PPL	Kentucky Utilities	4.375%	FMBs	01-Oct-45	$250	A1/A/-	3.88%	111	0	0	6
BRKHEC	Berkshire Hathaway Energy	4.500%	Sr. Notes	01-Feb-45	$750	A3/A-/BBB+	3.92%	116	2	0	(4)
DUK	Duke Energy Corp.	3.750%	Sr. Notes	01-Sep-46	$1,500	Baa1/BBB+/BBB+	3.96%	118	(2)	(1)	(10)
FE	Monongahela Power	5.400%	FMBs	15-Dec-43	$600	A3/BBB+/BBB+	3.97%	122	0	(1)	(4)
SO	Georgia Power	4.300%	Sr. Notes	15-Mar-43	$400	A3/A-/A+	3.97%	123	0	(6)	5
CMS	CMS Energy	4.875%	Sr. Notes	01-Mar-44	$300	Baa1/BBB/BBB	4.07%	132	5	0	(3)
D	Dominion Energy	4.700%	Sr. Notes	01-Dec-44	$450	Baa2/BBB/BBB+	4.09%	133	3	(2)	(12)
PPL	PPL Capital Funding	5.000%	Gtd. Sr. Notes	15-Mar-44	$400	Baa2/BBB+/BBB+	4.10%	136	0	0	(20)
EXC	Exelon Corp.	5.100%	Sr. Notes	15-Jun-45	$741	Baa2/BBB-/BBB	4.20%	144	1	(6)	(18)
SO	Southern Co.	4.400%	Sr. Notes	01-Jul-46	$2,000	Baa2/BBB+/A-	4.23%	146	5	2	6
SO	Mississippi Power	4.250%	Sr. Notes	15-Mar-42	$450	Ba1/BBB+/BBB	4.41%	169	6	(59)	(48)
SO	Southern Power	4.950%	Sr. Notes	15-Dec-46	$400	Baa1/BBB+/BBB	4.49%	171	(2)	(18)	(34)
FE	FirstEnergy Corp.	4.850%	Sr. Notes	15-Jul-47	$1,000	A3/BBB+/BBB+	4.57%	179	(6)	(31)	(31)
EXC	Exelon Generation	5.600%	Sr. Notes	15-Jun-42	$788	Baa2/BBB/BBB+	5.32%	261	4	(15)	(52)

FMBs: First Mortgage Bonds; F&RMBs: First & Refunding Mortgage Bonds; GMBs: General Mortgage Bonds; G&RMNs: General & Refunding Mortgage Notes;
Gtd: Guaranteed; Sec'd MTNs: Secured Medium-Term Notes; Sr. Sec'd Exc. Notes: Senior Secured Exchange Notes.

As of close on September 01, 2017.

Source: BofA Merrill Lynch Global Research, Bloomberg

Table 6: High Yield Bonds

Tkr	Issuer	Coupon	Description	Maturity	Amt. ($MM)	Next Call	Call Price	Mdy's/S&P/Fitch	Closing Price	Change in Price			YTW	STW* bp
										1 Wk	QTD	YTD		
NRG	NRG Energy	7.875%	Sr. Notes	15-May-21	$206	CC	$102.625	B1/BB-/WD	$103.30	$0.05	($0.22)	($0.02)	-0.48%	(146)
NRG	NRG Energy	7.625%	Sr. Notes	15-Jan-18	$398	CC	MW: T+50	B1/BB-/WD	$102.25	$0.37	($0.28)	($3.50)	1.30%	26
AES	AES Corporation, The	8.000%	Sr. Notes	01-Jun-20	$228	CC	MW: T+50	Ba2/BB-/BB	$115.88	$1.63	$0.13	($0.38)	2.00%	63
AES	AES Corporation, The	7.375%	Sr. Notes	01-Jul-21	$690	CC	MW: T+50	Ba2/BB-/BB	$113.25	$0.25	($1.25)	$1.86	3.57%	197
NRG	NRG Energy	6.625%	Sr. Notes	15-Mar-23	$869	15-Sep-17	$103.313	B1/BB-/WD	$103.50	$0.12	$0.75	$3.25	3.97%	284
NRG	NRG Energy	6.250%	Sr. Notes	15-Jul-22	$992	15-Jul-18	$103.125	B1/BB-/WD	$104.90	($0.10)	$2.27	$4.65	4.01%	277
AES	AES Corporation, The	4.875%	Sr. Notes	15-May-23	$713	15-May-18	$102.438	Ba2/BB-/BB	$102.44	$0.69	$0.56	$3.67	4.16%	257
AES	AES Corporation, The	5.500%	Sr. Notes	15-Mar-24	$738	15-Mar-19	$102.750	Ba2/BB-/BB	$103.75	$0.00	($0.38)	$2.00	4.57%	286
AES	AES Corporation, The	5.500%	Sr. Notes	15-Apr-25	$573	15-Apr-20	$102.750	Ba2/BB-/BB	$104.25	$0.12	($0.38)	$4.25	4.63%	278
AES	AES Corporation, The	6.000%	Sr. Notes	15-May-26	$500	15-May-21	$103.000	Ba2/BB-/BB	$106.50	$0.50	($0.50)	$5.00	4.81%	322
NRG	NRG Energy	6.250%	Sr. Notes	01-May-24	$733	1-May-19	$103.125	B1/BB-/WD	$103.50	($0.50)	$2.50	$6.25	5.39%	366
NRG	NRG Energy	6.625%	Sr. Notes	15-Jan-27	$1,248	15-Jul-21	$103.313	B1/BB-/WD	$105.50	($0.50)	$5.37	$11.00	5.65%	366
NRG	NRG Energy	7.250%	Sr. Notes	15-May-26	$1,000	15-May-21	$103.625	B1/BB-/WD	$108.00	($0.50)	$4.50	$8.50	5.71%	412
FE	FirstEnergy Solutions	6.800%	Sr. Notes	15-Aug-39	$363	CC	MW: T+40	Caa1/CCC-/C	$44.50	($1.00)	$5.25	$9.00	15.98%	1,334
FE	FirstEnergy Gen. (BM 1)	6.850%	Sr. Notes	01-Jun-34	$769	CC	MW: T+35	Caa1/CCC-/--	$46.00	$3.69	$6.00	$16.00	23.37%	2,174
FE	FirstEnergy Solutions	6.050%	Sr. Notes	15-Aug-21	$332	CC	MW: T+40	Caa1/CCC-/C	$45.75	($1.25)	$4.50	$6.25	30.63%	2,900

All securities are Senior Notes of the respective issuers.

CC: Currently Callable; MW: Make-Whole; NCL: Non-Call for Life.

Source: BofA Merrill Lynch Global Research, Bloomberg

Primary Issuance

2017	Tkr	Issuer	$MM	Coupon	Security	Mdy	S&P	Fitch	Maturity	SOT	%Price/Par	Call	Notes
e31-Aug	AEE	Ameren Transmission Co. of Illinois	$ 300	3.430%	Sr Notes	--	--	--	31-Aug-50	+128	100.000	MW+50	B,E.
25-Aug	PNM	Texas-New Mexico Power	$ 60	3.220%	FMBs	--	--	--	25-Aug-27	*+101*	N.A.	MW+50	B,E.
21-Aug	CNP	CenterPoint Energy Resources	$ 300	4.100%	Sr Notes	Baa2	A-	BBB	01-Sep-47	+137.5	99.417	MW+20	
21-Aug	EXC	Baltimore Gas & Electric	$ 300	3.750%	Sr Notes	A3	A-	A-	15-Aug-47	+103	99.199	MW+15	
17-Aug	EIX	Edison International	$ 400	2.400%	Sr Notes	A3	BBB	A-	15-Sep-22	+70	99.672	MW+12.5	
17-Aug	AES	IPALCO Enterprises	$ 405	3.700%	Sec'd Notes	Baa3	BB+	BB+	01-Sep-24	+170	99.901	MW+30	
16-Aug	EXC	Commonwealth Edison	$ 350	2.950%	FMBs	A1	A-	A	15-Aug-27	+75	99.726	MW+12.5	
16-Aug	EXC	Commonwealth Edison	$ 650	3.750%	FMBs	A1	A-	A	15-Aug-47	+95	99.750	MW+15	
8-Aug	OGE	Oklahoma Gas & Electric	$ 300	3.850%	Sr Notes	A1	A-	A+	15-Aug-47	+100	99.682	MW+15	
8-Aug	ES	Connecticut Light & Power	$ 225	4.300%	FMBs	A2	A+	A+	15-Apr-44	+85	109.749	MW+12.5	
7-Aug	DUK	Duke Energy Corp.	$ 500	2.400%	Sr Notes	Baa1	BBB+	BBB+	15-Aug-22	+63	99.793	MW+10	
7-Aug	DUK	Duke Energy Corp.	$ 750	3.150%	Sr Notes	Baa1	BBB+	BBB+	15-Aug-27	+93	99.719	MW+15	
7-Aug	DUK	Duke Energy Corp.	$ 500	3.950%	Sr Notes	Baa1	BBB+	BBB+	15-Aug-47	+113	99.598	MW+20	
7-Aug	CNP	CenterPoint Energy Inc.	$ 500	2.500%	Sr Notes	Baa1	BBB+	BBB	01-Sep-22	+70	99.971	MW+12.5	
7-Aug	DYN	Dynegy	$ 850	8.125%	Sr Notes	B3	B+	--	30-Jan-26	+605	99.259	MW+50	
3-Aug	SO	Georgia Power	$ 500	2.000%	Sr Notes	A3	A-	A+	08-Sep-20	+53	99.966	MW+10	
2-Aug	XEL	Southwestern Public Service	$ 450	3.700%	FMBs	A2	A	A-	15-Aug-47	+88	99.425	MW+15	
31-Jul	DTE	DTE Electric	$ 440	3.750%	G&RMBs	Aa3	A	A+	15-Aug-47	+85	99.946	MW+15	
19-Jul	DQE	Duquesne Light Holdings	$ 325	3.616%	Sr Notes	Baa3	BBB-	--	01-Aug-27	+135	100.000	MW+25	
26-Jun	AEP	Indiana Michigan Power	$ 300	3.750%	Sr Notes	Baa1	A-	--	01-Jul-47	+110	99.304	MW+20	
21-Jun	EDPPL	Energias de Portugal	$ 1,000	3.625%	Notes	Baa3	BB+	BBB-	15-Jul-24	+170	99.580	MW+30	B.
19-Jun	FE	FirstEnergy Corp.	$ 500	2.850%	Sr Notes	Baa3	BB+	BBB-	15-Jul-22	+110	99.811	MW+20	
19-Jun	FE	FirstEnergy Corp.	$ 1,500	3.900%	Sr Notes	Baa3	BB+	BBB-	15-Jul-27	+175	99.667	MW+30	
19-Jun	FE	FirstEnergy Corp.	$ 1,000	4.850%	Sr Notes	Baa3	BB+	BBB-	15-Jul-47	+210	99.369	MW+35	
15-Jun	SO	Southern Co.	$ 300	Floater	Sr Notes	Baa2	BBB+	A-	30-Sep-20	3moL+70	100.000	--	B.
14-Jun	SO	Southern Co.	$ 500	5.325%	Jr Sub Notes	--	BBB	--	21-Jun-57	--	100.000	40NC5	B.
13-Jun	GXP	Kansas City Power & Light	$ 300	4.200%	Sr Notes	Baa1	BBB+	--	15-Jun-47	+135	99.729	MW+20	
12-Jun	XEL	Public Service Co. of Colorado	$ 400	3.800%	FMBs	A1	A	A+	15-Jun-47	+95	99.592	MW+15	
6-Jun	SRE	Sempra Energy	$ 750	3.250%	Sr Notes	Baa1	BBB+	BBB+	15-Jun-27	+115	99.694	MW+20	
6-Jun	AEE	Union Electric	$ 400	2.950%	Fallaway FMBs	A2	A	A	15-Jun-27	+85	99.674	MW+15	
5-Jun	ED	Consolidated Edison Co. of N.Y.	$ 500	3.875%	Debentures	A2	A-	A-	15-Jun-47	+105	99.630	MW+20	
5-Jun	SRE	San Diego Gas & Electric	$ 400	3.750%	FMBs	Aa2	A+	AA-	01-Jun-47	+93	99.554	MW+15	
22-May	ENELIM	Enel Finance International	$ 2,000	2.875%	Sr Notes	Baa2	BBB	BBB+	25-May-22	+115	99.700	MW+20	B.
22-May	ENELIM	Enel Finance International	$ 2,000	3.625%	Sr Notes	Baa2	BBB	BBB+	25-May-27	+150	98.990	MW+25	B.
22-May	ENELIM	Enel Finance International	$ 1,000	4.750%	Sr Notes	Baa2	BBB	BBB+	25-May-47	+185	99.841	MW+30	B.
17-May	AGR	Rochester Gas & Electric	$ 300	3.100%	FMBs	A1	A	--	01-Jun-27	+90	99.803	--	B.
17-May	ETR	Entergy Louisiana	$ 450	3.120%	CTMBs	A2	A	--	01-Sep-27	+90	99.951	MW+15	
15-May	D	Dominion Energy	$ 1,000	2.579%	Jr Sub Notes	Baa3	BBB	BBB	01-Jul-20	+105	100.103	NCL	
15-May	EXC	Potomac Electric Power	$ 200	4.150%	FMBs	A2	A	A-	15-Mar-43	+100	102.032	MW+15	C.
15-May	SO	Gulf Power	$ 300	3.300%	Sr Notes	A2	A-	A	30-May-27	+98	99.830	MW+15	
10-May	ES	NSTAR Electric	$ 350	3.200%	Debentures	A2	A	A+	15-May-27	+80	99.924	MW+15	
9-May	ETR	Entergy Arkansas	$ 220	3.500%	FMBs	A2	A	--	01-Apr-26	+80	102.208	MW+20	C.
9-May	FE	Monongahela Power	$ 250	3.550%	FMBs	A3	BBB+	BBB+	15-May-27	+115	99.958	MW+20	B.
8-May	AEP	Appalachian Power	$ 325	3.300%	Sr Notes	Baa1	A-	BBB+	01-Jun-27	+98	99.490	MW+15	
8-May	PPL	PPL Electric Utilities	$ 475	3.950%	FMBs	A1	A	--	01-Jun-47	+98	98.990	MW+15	
4-May	GENONE	Remote Escrow Vehicle LLC	$ 550	10.500%	1st Lien Notes	--	--	--	01-Jun-22	+857	100.000	MW+50	B.
4-May	SO	Southern Co. Gas Capital	$ 450	4.400%	Sr Notes	Baa1	A-	BBB+	30-May-47	+140	99.765	MW+20	
2-May	PEG	Public Service Electric & Gas	$ 425	3.000%	Sec'd MTNs	Aa3	A	A+	15-May-27	+73	99.707	MW+12.5	

Notes: A. Issued via exchange offer; B. 144A or Reg S; C. add-on/re-opener; D. Remarketing of outstanding securities; E: delayed funding; G: green bonds. *Estimates or expected in italics.*

Source: BofA Merrill Lynch Global Research

Credit Ratings

Actions of the Past Week

Direction	Bond Ticker	Agency	Issuer	Securities	Rating To:	Rating From:	Outlook: To:	Outlook: From:	Rationale
MOST POSITIVE									
	PNW	S&P	Pinnacle West Capital Corp.	CCR	A-	A-	Pos.	Stable	● The positive outlooks reflect the company's continued effective management of regulatory risk and S&P's expectations that the company will effectively manage the potential risks of distributed generation. ● The changes of outlooks follow regulatory approval of an Arizona Public Service settlement with a net rate increase of about $95 million. ● Additionally, the order implements net metering rates for new solar customers consistent with the Arizona Corporation Commission's December 2016 order.
				Commercial Paper	A-2	A-2	Pos.	Stable	
			Arizona Public Service	CCR	A-	A-	Pos.	Stable	
				Senior Unsecured	A-	A-	Pos.	Stable	
				Commercial Paper	A-2	A-2	Pos.	Stable	
MOST NEGATIVE									

CCR: Corporate Credit Rating; CFR: Corporate Family Rating; IDR: Issuer Default Rating; LT: Long-term; ST: Short-term.
CWN: CreditWatch Negative; CWP: CreditWatch Positive; Dev.: Developing; Neg: Negative; Pos: Positive; RWN: Rating Watch Negative; URN: Under Review Negative; URP: Under Review Positive.

Source: Moody's Investors Service, Standard & Poor's Ratings Services, Fitch Ratings, Bloomberg.

Our quarterly credit ratings and index weightings publication (July 3, 2017) includes credit ratings and outlooks for more than 200 issuers as of 2017 second quarter-end and with changes of ratings and outlooks during 2Q17.

‘Watch’ Lists

Credit Ratings – ‘Watch’ Lists

		Market Value*	Rating Agency		
Issuer	Ticker	($MM)	Moody's	S&P	Fitch
Watch - Positive					
Oncor Electric Delivery	ONCRTX	$ 6,460			√
TerraForm Global	GLBL	$ 850		√	
TerraForm Power	TERP	$ 1,307		√	
Watch - Developing / Evolving					
Israel Electric Corp. Ltd.	ISRELE	$ 4,200		√	
Watch - Negative					
AES Gener	AESGEN	$ 863			√
Empresa Angamos	AESGEN	$ 617			√
SCANA Corp.	SCG	$ 861			√
South Carolina Electric & Gas	SCG	$ 1,949			√
Southern Co.	SO	$ 8,120			√
Georgia Power	SO	$ 1,706			√
Mississippi Power	SO	$ 448	√		√

* Market value of bonds in BofA Merrill Lynch High Grade and High Yield Corporate Bond Indices.

As of September 01, 2017

Source: Moody's Investor Services, Standard & Poor's Rating Services, Fitch Ratings, Bloomberg

Primary reasons for the ‘Watch’ listings include:

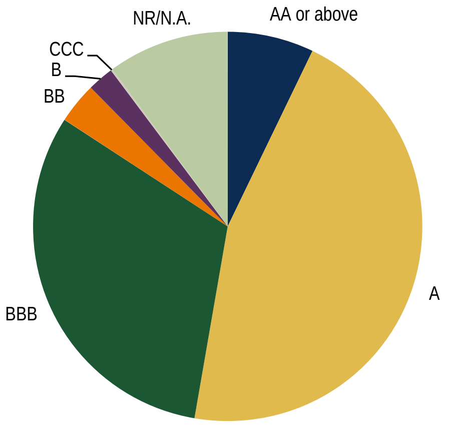
- Uncertainties regarding the costs and schedules of construction projects following Westinghouse’s filing for bankruptcy protection and planned exit from nuclear power plant construction (Southern Company, Georgia Power, South Carolina Electric & Gas and SCANA Corp.),
- Potential removal of a distressed majority parent and elimination of a significant amount of debt above the utility (ONCRTX),
- Supreme Court ruling that can potentially resolve employee strike (Israel Electric Corp. Ltd.),
- M&A-related activities (TerraForm Power and TerraForm Global), and
- Strong rating linkage with potentially weaker parent ratings (Mississippi Power).

Credit Ratings and Outlooks*

Credit Ratings

Rating	HG	HY	Total
AA or above	8%	--	7%
A	54%	--	46%
BBB	37%	--	31%
BB	--	68%	3%
B	--	30%	2%
CCC	--	2%	0%
CC or below	--	0%	0%
NR/N.A.	--	--	10%
Total:	100%	100%	100%

Chart 10: Market Value-Weighted Ratings

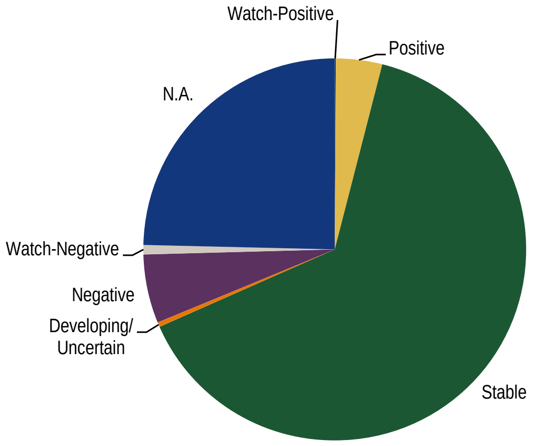


Credit Outlooks

Watch-Positive	0%
Positive	4%
Stable	64%
Developing/Uncertain	0%
Negative	6%
Watch-Negative	1%
N.A.	25%
Total:	100%

*Average credit rating and outlook, on a market-weighted basis, for each bond by Moody's Investors Service, Standard & Poor's Ratings Services, and Fitch Ratings for all electric utility bonds in the BofA Merrill Lynch Global Index System as of August 25, 2017. Numbers may not add due to rounding. Source: BofA Merrill Lynch Global Index System, Bloomberg, Moody's Investors Service, Standard & Poor's Ratings Services, Fitch Ratings

Chart 11: Market Value-Weighted Outlooks



Recent Research Publications

Recent Research Publications

Industry Reports	
23-Aug-17	2017 ElectricUtilities&Power.Comps: Regulated Holdcos
24-Jul-17	2017 ElectricUtilities&Power.Comps: Diversified Holdcos
3-Jul-17	Credit Ratings and Index Weightings
26-Jun-17	2017 ElectricUtilities&Power.Comps: Transmission & Distribution Opcos – Resilient Networks
12-Jun-17	2017 ElectricUtilities&Power.Comps: Integrated Opcos – Core Strength
24-May-17	Companies' PJM auction results: locational constraints mitigate supply/demand issues
3-Apr-17	Credit Ratings and Index Weightings
3-Jan-17	Credit Ratings and Index Weightings
20-Oct-16	Electric Utilities & Power: Deep Dive Debt Guide
3-Oct-16	Electric Utilities & Power: Credit Ratings and Index Weightings
8-Jul-16	Electric Utilities & Power: Credit Ratings and Index Weightings
8-Jul-16	2016 ElectricUtilities&Power.Comps – Volume V: Gencos
5-Jul-16	2016 ElectricUtilities&Power.Comps – Volume IV: Integrated Opcos
28-Jun-16	2016 ElectricUtilities&Power.Comps – Volume III: Transmission & Distribution Opcos
27-Jun-16	2016 ElectricUtilities&Power.Comps – Volume II: Diversified Holdcos
24-Jun-16	2016 ElectricUtilities&Power.Comps – Volume I: Regulated Holdcos
31-May-16	Regulator's coal divestment request not expected to impact electric utility bonds
Company Reports	
21-Aug-17	**ONCRTX:** Sempra Energy's last-minute shot at Oncor expected to miss
8-Aug-17	**AES**: Margin improvements, lower parent interest expense drive 2Q17 results
4-Aug-17	**NRG**: Reaffirms FY17 guidance ranges; implementing Transformation Plan
2-Aug-17	**SO**: Georgia Power expects to submit Vogtle "go/no-go" to regulators this month
31-Jul-17	**FE**: Questions around CES overshadow utilities' progress, transmission growth
31-Jul-17	**AEP**: 'Guidance confirmed, fundamentals getting stronger despite the weather'
27-Jul-17	**DTE**: Nat gas' strategic role continues to expand at utility and non-utility segments
26-Jul-17	**NEE**: Florida P&L and renewables continue to drive above-average growth
13-Jul-17	**NRG**: Repealing Wholesale back to 2007…at much lower price levels
7-Jul-17	**ONCRTX**: A strong, high-quality strategic owner agrees to acquire Oncor. Again.
14-Jun-17	**GENONE:** Terminating coverage due to voluntary Chapter 11 filing
23-May-17	**GENONE**: Key parties reach agreement to restructure GenOn's balance sheet
10-May-17	**TLN**: Terminating coverage of Talen Energy Supply
9-May-17	**AES:** Parent holding company continues to reduce risks, expenses and leverage
2-May-17	**NRG:** 1Q EBITDA comes up short, but full-year guidance ranges are reaffirmed
1-May-17	**AEP:** Diversified rate base growth continues as non-utility assets continue to be divested
1-May-17	**FE**: Focused on executing plans to exit commodity-exposed generation business
26-Apr-17	**DTE**: Income tax items drive better-than-expected 1Q17 operating earnings
24-Apr-17	**NEE**: NextEra reaffirms 2017 guidance and remains confident on growth outlook
6-Mar-17	**PEG**: PSE&G continues to re-invest all earnings as Power transitions its portfolio
3-Mar-17	**CNP**: Raising CERC to Overweight; pending clarity on Enable stake a potential catalyst
28-Feb-17	**NRG**: Sweating all the details keeps NRG squarely on track for '16 results, '17 outlook
23-Feb-17	**FE**: Utilities and transcos show progress but CES remains the markets' primary interest
23-Feb-17	**SO**: Heavy Metal
21-Feb-17	**PCG**: Moving forward
21-Feb-17	**DUK**: With its portfolio transition completed, Duke details 5-year growth plans
13-Feb-17	**NRG**: 'Cooperation' or capitulation?
9-Feb-17	**DTE**: Utilities deliver solid FY16 results; NEXUS and tax reform draw most attention
8-Feb-17	**EXC**: Faster-growing regulated utilities take over the majority of annual earnings
5-Feb-17	**XEL**: Transitioning its fleet to cut fuel costs and emission profiles at customers' request
5-Feb-17	**CMS**: Growing bigger but leaner
5-Feb-17	**PPL**: Higher 2017-19 capex budget offsets sterling's decline to support EPS growth
3-Feb-17	**GENONE**: Revising ratings as Mid-Atlantic secures letters of credit arrangement
29-Jan-17	**NEE**: NextEra Energy extends outlook for compound growth of 6%-8% p.a. thru 2020
26-Jan-17	**AEP**: Executing on aspirations to be "the premier regulated energy company"
12-Dec-16	**Electric Utilities & Power**: Terminating CDS coverage of electric utilities
7-Dec-16	**FE**: Letter of intent to sell assets and new credit facilities move strategy forward
28-Nov-16	**FirstEnergy Solutions**: Solutions Seeking Resolutions; Raising Rating to Marketweight
28-Oct-16	**XEL**: Going with the wind
27-Oct-16	**CMS**: Invest, improve, repeat
26-Oct-16	**EXC:** Nuclear values split between soft power prices and climate change concerns
27-Sep-16	**DTE**: Downgrading parent holdco on $1.3 billion natural gas midstream acquisitions
15-Aug-16	**NRG**: NRG Energy continues progress on corporate fitness regimen
15-Aug-16	**GENONE**: NRG seeks to reduce GenOn's leverage; how and when remain uncertain

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Underweight: Spreads and/or excess returns are likely to underperform the relevant and comparable market over the next three months.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 06 Sep 2017 13:11, UTC	37.60 USD 06 Sep 2017	33.00 USD 06 Sep 2017 13:07, UTC	1.14	3.46 05 Sep 2017	3.48 05 Sep 2017	36.10 05 Sep 2017	Utilities - Diversified	Standard

Morningstar Pillars	**Analyst**	**Quantitative**
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.04	0.92	1.02	0.89
Price/Earnings	19.9	17.0	18.0	21.9
Forward P/E	13.1	—	17.0	16.8
Price/Cash Flow	5.1	4.5	7.2	13.1
Price/Free Cash Flow	—	57.1	13.4	20.0
Trailing Dividend Yield%	3.46	4.40	3.52	2.21

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

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Exelon's political clout has helped it win state subsidies for struggling nuclear plants.

Investment Thesis

Travis Miller, Strategist, 06 September 2017

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future. But Exelon has shown its political clout recently, winning subsidies in key states to keep its nuclear fleet mostly in tact.

However, Exelon's growth engine is its regulated gas and electric distribution utilities. Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think at least five of Exelon's plants remain uneconomic without state subsidies that face stiff legal and regulatory challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2019, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Strategist, 02 August 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced earnings per share of $0.54 on an adjusted basis during the second quarter of 2017, down from $0.65 in the second quarter of 2016. Earnings are tracking in line with our full-year estimate, and management reaffirmed its $2.50-$2.80 EPS guidance range.

Exelon achieved two key court victories in July affirming the legality of nuclear subsidies it began receiving this year in New York and Illinois. We think this is just the start of the legal and regulatory debate. We do not include the five subsidized plants in our long-term forecast, but including them would not have a sizable impact on our fair value estimate because the subsidies limit their value upside and downside.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed by Exelon's ability remain the world's premier nuclear operator. The fleet realized a 91% capacity factor in the quarter despite six refueling outages.

This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations. Its next area of focus is in Pennsylvania, where it has committed to close its Three Mile Island nuclear plant by September 2019 unless it receives subsidies. We assume TMI closes as scheduled.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020. Management reported the utilities' returns on equity are near 10% with upside

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 06 Sep 2017 13:11, UTC	37.60 USD 06 Sep 2017	33.00 USD 06 Sep 2017 13:07, UTC	1.14	3.46 05 Sep 2017	3.48 05 Sep 2017	36.10 05 Sep 2017	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	23,458	9,265	8.38	52.08
FirstEnergy Corp FE	USD	14,449	14,153	-49.07	0.00
Entergy Corp ETR	USD	14,324	10,980	-13.74	0.00

potential at the Pepco Holdings utilities. This return is better than many of Exelon's peers'.

Economic Moat

Travis Miller, Strategist, 06 September 2017

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 September 2017

We are raising our fair value estimate to $33 per share from $32 per share after incorporating time-value appreciation since our last update and year-to-date results in line with our expectations.

On a consolidated basis, our midcycle earnings estimate is now $3.40 per share after adding the New York and Illinois zero emissions credits. Our midcycle EBITDA estimate at Exelon Generation is $2.7 billion, up from trough EBITDA in 2019 when weak power prices and at least two nuclear plant closures will hurt earnings at Exelon Generation. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.50/mmbtu

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gas basis in the mid-Atlantic region and market heat rates 15% above current 2018 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 6% consolidated annual earnings growth through 2020. Our forecasts show Exelon's regulated utilities contributing two thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2020 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. We remove the Oyster Creek (N.J.) and Three Mile Island (Pa.) plants in 2019 per Exelon's current plants. TMI failed to clear the last three PJM capacity auctions but could survive if Pennsylvania passes legislation that would subsidize the state's nuclear plants. Nuclear subsidy legislation in Pennsylvania could have a slight positive impact on our fair value estimate.

At the retail business, we assume 20% long-term normalized gross margins and volumes that grow to 245 terawatt hours by 2020.

We assume a 9% cost of equity and a 6.6% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 September 2017

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 September 2017

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the lives of its distressed nuclear plants. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 2.6 million shares and vested options as of January 2017.

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Analyst Notes Archive

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

PJM Capacity Auction Results: Surprisingly, No Surprises

Travis Miller, Strategist, 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

Travis Miller, Strategist, 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Trump's Announcement to Exit Paris Agreement Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 02 June 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities after President Trump announced plans to exit the Paris Climate Agreement.

Despite the withdrawal, we continue to forecast U.S. renewable energy capacity doubling during the next eight years. State renewable portfolio standards, or RPS, and other local policies remain the industry's primary growth driver, not federal environmental policy. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use by 2025, up from 15% now, based solely on existing state RPS.

We think Trump's move to abandon the U.S. Clean Power Plan and Paris Agreement could even embolden states to strengthen renewable energy standards, offering upside to our forecasts. Supportive tax policy and pro-manufacturing initiatives also offer upside. And corporate renewable energy purchases should continue to grow as businesses realize the economic and public perception benefits. Thus, we are not surprised that many business leaders denounced Trump's decision.

We also forecast carbon emissions from the power generation sector will keep falling toward Paris Agreement targets given the growth in renewable energy and gas generation. Low natural gas prices and turbine efficiency improvements are forcing coal plant shutdowns and reduced run times for competing coal generators, which emit twice as much carbon as an equivalent gas plant.

Utilities operating in states with constructive regulation and environmental policy support could realize 7%-9% annual earnings and dividend growth the next three to five years. Best positioned are utilities like Dominion Energy, Duke Energy, American Electric Power, and CMS Energy that are investing billions of dollars in new infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

U.S. Nuclear: Down but Not Out

Travis Miller, Strategist, 27 July 2017

We are reaffirming our fair value estimates, moat and moat trend ratings for all U.S. utilities with nuclear exposure after analyzing the economics, regulation, and sustainability attributes of nuclear generation in the U.S.

Nuclear power is at an inflection point in the U.S., with a wide gap developing between the anti-nuclear and pro-nuclear factions. This is a critical debate. The 99 nuclear units in the U.S. provide 20% of the nation’s electricity and meet essential reliability needs for major cities. Competition from cheap natural gas generation and renewable energy are pinching profits now, but we think a long-term perspective is important.

Our forecast for flat or growing U.S. nuclear capacity is more bullish than most forecasts. In particular, we think the U.S. could add as much as 5% net new nuclear capacity by 2040 primarily due to nuclear uprates. Most market forecasts assume natural gas is the marginal generation source, but our calculations show nuclear uprates have similar economic returns and less long-term capital reinvestment risk. We think nuclear has a more favorable environmental, social, and governance, or ESG, profile than most other nonrenewable energy sources. Its low carbon-emissions profile and reliability make it a critical contributor to meeting state and federal environmental policy goals.

We think the best opportunity for investors is to take advantage of the market's concerns about spiraling new-build nuclear costs and regulatory risk. Scana and Southern Company trade at steep discounts to peers even after adjusting for their new-build project risks. Among existing plant owners, only one utility has maintained a big bet on nuclear: Exelon. The stock looks pricey now, but its scale and political clout as the largest U.S. operator give it more option upside than any U.S. utility. We also think top-tier nuclear operators such as Exelon and Xcel Energy should earn premium valuations for their positive ESG characteristics.

With Nuclear Subsidy Debate Past, Exelon Hits Core Growth Expectations

Travis Miller, Strategist, 02 August 2017

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Exelon Corp EXC ★★★^{Q} 06 Sep 2017 02:00 UTC

Last Close	Fair Value^{Q}	Market Cap	Sector	Industry	Country of Domicile
05 Sep 2017 37.60	06 Sep 2017 02:00 UTC 36.05	05 Sep 2017 36,099.3 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

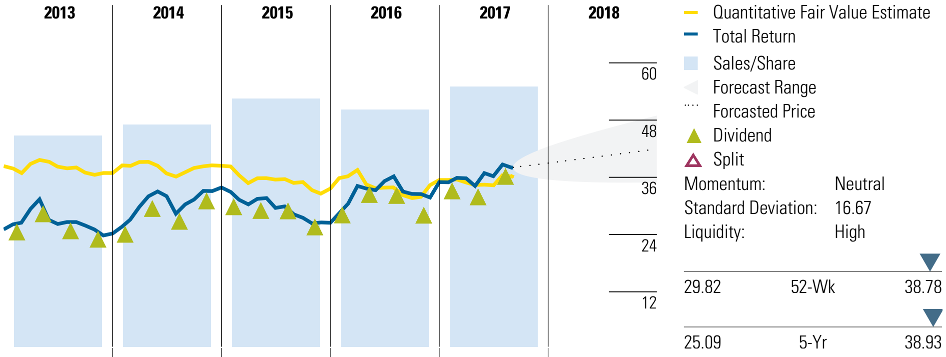
Exelon Corp is one of the largest power retailer engaged in the utilities sector of United States. The company involves in the power generation and transmission activities.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	94	90	91
Valuation	Fairly Valued	18	33	14
Quantitative Uncertainty	High	93	80	91
Financial Health	Moderate	62	58	62

Source: Morningstar Equity Research

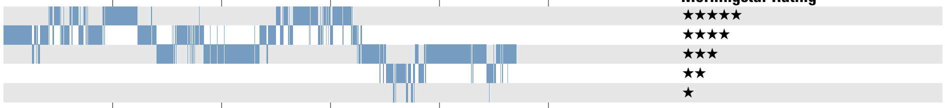
Price vs. Quantitative Fair Value



Momentum:	Neutral
Standard Deviation:	16.67
Liquidity:	High

2013	2014	2015	2016	2017	
-3.0	39.9	-21.8	32.4	8.7	Total Return %
-36.1	27.1	-22.5	19.9	-2.2	+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—	Trailing Dividend Yield %
—	—	—	—	3.46	Forward Dividend Yield %
14.6	15.2	12.4	26.9	19.9	Price/Earnings
0.9	1.2	0.8	1.1	1.1	Price/Revenue

Morningstar Rating^{Q}



Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.04	0.92	1.02	0.89
Price/Earnings	19.9	17.0	18.0	21.9
Forward P/E	13.1	—	17.0	16.8
Price/Cash Flow	5.1	4.5	7.2	13.1
Price/Free Cash Flow	—	57.1	13.4	20.0
Trailing Dividend Yield %	3.46	4.40	3.52	2.21
Price/Book	1.3	1.3	1.4	2.5
Price/Sales	1.1	1.1	1.5	2.1

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	6.6	7.0	9.4	12.1
Return on Assets %	1.5	1.9	3.1	4.5
Revenue/Employee (K)	966.9	942.4	1,187.7	317.0

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	601.8	—	604.8	583.0
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

Financials (Fiscal Year in Mil)

2012	2013	2014	2015	2016	TTM	
23,489	24,888	27,429	29,447	31,360	33,256	Revenue
24.1	6.0	10.2	7.4	6.5	6.0	% Change
2,380	3,656	3,096	4,409	3,112	3,510	Operating Income
-46.9	53.6	-15.3	42.4	-29.4	12.8	% Change
1,160	1,719	1,623	2,269	1,134	1,770	Net Income
6,131	6,343	4,457	7,616	8,445	6,790	Operating Cash Flow
-5,810	-5,395	-6,077	-7,624	-8,553	-7,909	Capital Spending
321	948	-1,620	-8	-108	-1,119	Free Cash Flow
1.4	3.8	-5.9	0.0	-0.3	-3.4	% Sales
1.42	2.00	1.88	2.54	1.22	1.89	EPS
-62.1	40.8	-6.0	35.1	-52.0	54.9	% Change
0.39	0.48	-0.03	-1.04	0.82	-1.20	Free Cash Flow/Share
2.10	1.46	1.24	1.24	1.26	1.29	Dividends/Share
25.07	25.51	27.44	28.01	28.17	28.69	Book Value/Share
855,000	857,000	860,000	920,000	924,000	960,088	Shares Outstanding (K)

Profitability

6.5	7.8	7.2	9.4	4.4	6.6	Return on Equity %
1.7	2.2	2.0	2.5	1.1	1.5	Return on Assets %
4.9	6.9	5.9	7.7	3.6	5.3	Net Margin %
0.35	0.31	0.33	0.32	0.30	0.29	Asset Turnover
3.7	3.5	3.8	3.7	4.4	4.3	Financial Leverage
56.8	56.9	52.6	55.6	59.7	58.2	Gross Margin %
10.1	14.7	11.3	15.0	9.9	10.6	Operating Margin %
18,346	18,271	20,010	24,286	32,216	30,956	Long-Term Debt
21,624	22,925	22,801	25,793	25,837	27,546	Total Equity
0.6	0.5	0.6	0.5	0.5	0.5	Fixed Asset Turns

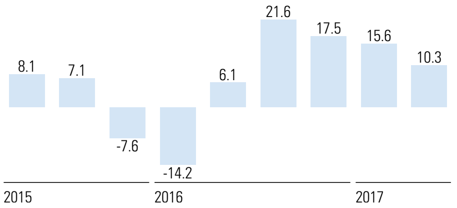
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	14.2	7.0	4.4	-2.9

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2017	8,757.0	7,623.0	—	—	—
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
Earnings Per Share ()					
2017	1.07	0.09	—	—	—
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

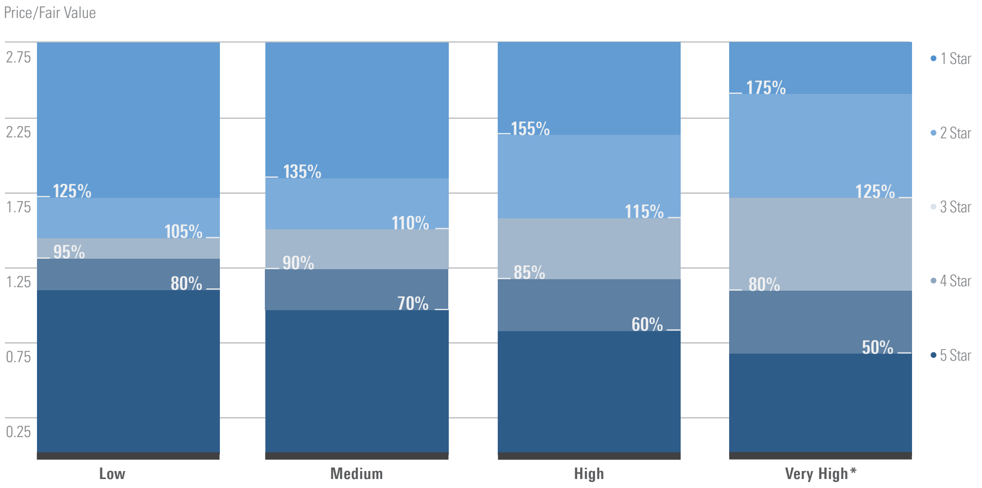
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- **One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- **Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- **Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- **Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- **Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

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The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 06 Sep 2017 13:11, UTC	37.60 USD 06 Sep 2017	33.00 USD 06 Sep 2017 13:07, UTC	1.14	3.46 05 Sep 2017	3.48 05 Sep 2017	36.10 05 Sep 2017	Utilities - Diversified	Standard

Price/Fair Value Morningstar data as of Sep 05, 2017

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Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Exelon's political clout has helped it win state subsidies for struggling nuclear plants.

Updated Forecasts and Estimates from 05 Sep 2017

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The primary analyst covering this company does not own its stock.

Research as of 06 Sep 2017
Estimates as of 05 Sep 2017
Pricing data as of 05 Sep 2017 15:17
Rating updated as of 06 Sep 2017 08:11

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 06 Sep 2017

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future. But Exelon has shown its political clout recently, winning subsidies in key states to keep its nuclear fleet mostly in tact.

However, Exelon's growth engine is its regulated gas and electric distribution utilities. Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think at least five of Exelon's plants remain uneconomic without state subsidies that face stiff legal and regulatory challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2019, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Vital Statistics

Market Cap (USD Mil)	36,099
52-Week High (USD)	38.78
52-Week Low (USD)	29.82
52-Week Total Return %	14.2
YTD Total Return %	8.7
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.4
5-Yr Forward EPS CAGR %	6.7
Price/Fair Value	1.18

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*14.2*	*12.7*
EV/EBITDA	6.6	9.5	*8.7*	*8.0*
EV/EBIT	10.2	21.5	*15.5*	*14.0*
Free Cash Flow Yield %	0.0	-0.3	*-1.0*	*0.6*
Dividend Yield %	4.3	3.6	*3.4*	*3.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*30,869*	*34,380*
Revenue YoY %	7.4	6.5	*-1.6*	*11.4*
EBIT	4,409	3,112	*4,633*	*5,148*
EBIT YoY %	42.4	-29.4	*48.9*	*11.1*
Net Income, Adjusted	2,224	2,484	*2,510*	*2,850*
Net Income YoY %	7.7	11.7	*1.0*	*13.5*
Diluted EPS	2.49	2.68	*2.64*	*2.95*
Diluted EPS YoY %	4.2	7.6	*-1.3*	*11.7*
Free Cash Flow	561	-6,417	*287*	*889*
Free Cash Flow YoY %	365.5	-1,243.2	*-104.5*	*209.7*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analysis

Valuation, Growth and Profitability 06 Sep 2017

We are raising our fair value estimate to $33 per share from $32 per share after incorporating time-value appreciation since our last update and year-to-date results in line with our expectations.

On a consolidated basis, our midcycle earnings estimate is now $3.40 per share after adding the New York and Illinois zero emissions credits. Our midcycle EBITDA estimate at Exelon Generation is $2.7 billion, up from trough EBITDA in 2019 when weak power prices and at least two nuclear plant closures will hurt earnings at Exelon Generation. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.50/mmbtu gas basis in the mid-Atlantic region and market heat rates 15% above current 2018 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 6% consolidated annual earnings growth through 2020. Our forecasts show Exelon's regulated utilities contributing two thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2020 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. We remove the Oyster Creek (N.J.) and Three Mile Island (Pa.) plants in 2019 per Exelon's current plants. TMI failed to clear the last three PJM capacity auctions but could survive if Pennsylvania passes legislation that would subsidize the state's nuclear plants. Nuclear subsidy legislation in Pennsylvania could have a slight positive impact on our fair value estimate.

At the retail business, we assume 20% long-term normalized gross margins and volumes that grow to 245 terawatt hours by 2020.

We assume a 9% cost of equity and a 6.6% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Scenario Analysis

We assign a medium uncertainty rating. Exelon's higher-than-average degree of operating leverage and exposure to volatile power markets lead to a wider range of outcomes in our base, high, and low scenarios.

A $5 per megawatt-hour average move in our midcycle power price assumptions with no change in retail margins results in a 10% change in our open midcycle EPS estimate and a $650 million change in EBITDA. Our fair value estimate would change by $5 per share. On a mark-to-market basis, there would be no change to our fair value or midcycle earnings estimates.

If we reduce our assumption for the operating efficiency and utilization of Exelon's nuclear power plants by 4 percentage points to near the industry average, it would change our fair value estimate by $1 per share.

At the retail segment, every 100 basis points of long-term normalized margin expansion generates $100 million of pretax margin and $1 per share of value.

A 50-basis-point change in our cost of equity changes our fair value estimate by $4 per share.

Economic Moat

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics,

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
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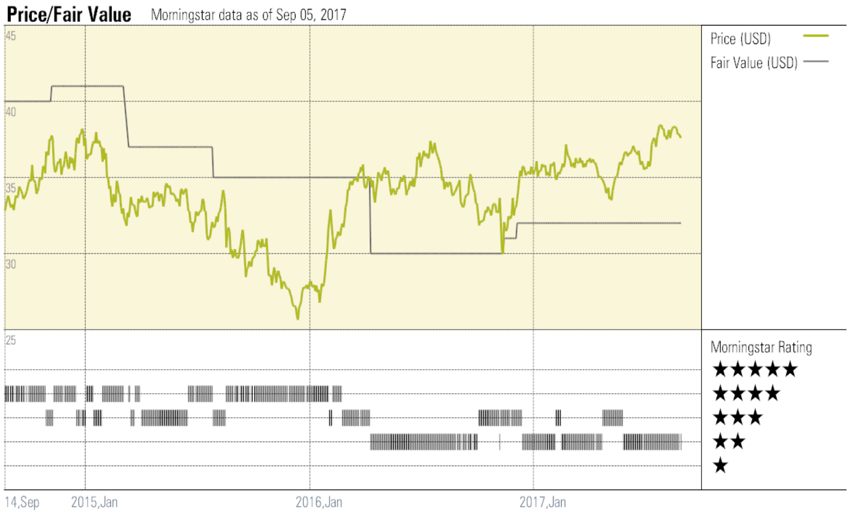

with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Moat Trend

We assign Exelon a stable moat trend. The regulatory environments in Illinois, Pennsylvania, and Maryland have stabilized, allowing its distribution utilities to earn more favorable returns. About 70% of the $11 billion of rate base growth in 2016-20 will have rate trackers or formula rates, minimizing regulatory lag. Exelon faces the biggest challenge boosting Pepco's earned returns some 400 basis points to approach its allowed returns. Rate cases in 2017 should give it a good start.

In the power markets, Exelon faces both positive and negative trend developments. We expect returns on capital will continue to face pressure from cheap gas moving west and increasing renewable energy penetration. However, environmental regulations, coal plant closures, and capacity market changes should help returns on capital. On balance, we think these positive and negative dynamics offset each other.

Since the retail supply business is relatively new following power market deregulation in the early 2000s, we're watching to see if any company can build a sustainable competitive advantage. Exelon and others are demonstrating some scale and cost advantages, particularly in marketing, customer aggregation, risk mitigation, and supply costs.

The one path we see to achieve excess returns in the supply business is to match customer load with wholesale generation. As liquidity has dried up in power markets, it is increasingly difficult and costly to hedge future expected generation. A retail supply business can improve hedging opportunities by reducing collateral and trading costs. This could give a retail supplier a low-cost advantage. As the nation's largest wholesale power generator and retail supplier, Exelon is well positioned to take advantage of these wholesale-retail pairing benefits.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.

- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.

- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.

- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.

- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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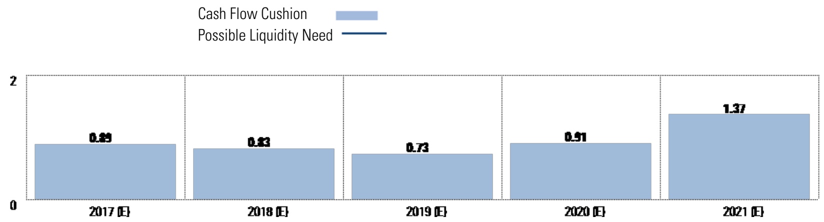
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2017(E)	*2018(E)*	*2019(E)*	*2020(E)*	*2021(E)*
Cash and Equivalents (beginning of period)	*635*	*241*	*205*	*6*	*596*
Adjusted Available Cash Flow	*2,370*	*2,661*	*2,449*	*3,661*	*5,330*
Total Cash Available before Debt Service	*3,005*	*2,902*	*2,654*	*3,667*	*5,926*
Principal Payments	*-1,483*	*-1,626*	*-1,600*	*-2,000*	*-2,275*
Interest Payments	*-1,575*	*-1,583*	*-1,549*	*-1,583*	*-1,583*
Other Cash Obligations and Commitments	*-303*	*-303*	*-463*	*-464*	*-463*
Total Cash Obligations and Commitments	*-3,361*	*-3,512*	*-3,612*	*-4,047*	*-4,321*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	635	3.4
Sum of 5-Year Adjusted Free Cash Flow	16,470	87.4
Sum of Cash and 5-Year Cash Generation	17,105	90.7
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	17,105	90.7
Sum of 5-Year Cash Commitments	-18,853	—

Financial Health

As power markets have fallen from their 2008 peaks, Exelon's generation unit has focused on preserving its investment-grade credit rating. In 2011, the board spent $2.1 billion to reduce its pension liabilities instead of reinstating a $1.5 billion share-repurchase plan approved in September 2008 but never executed. In February 2013, the board cut the dividend 41% to $1.24 per share annualized, freeing up $740 million in annual cash flow. Now management is targeting a $3 billion reduction in parent-level debt through 2020.We see no immediate credit concerns based on current energy market conditions. We project Exelon's consolidated EBITDA/interest coverage will remain above 5 times and leverage will remain below 5 times debt/EBITDA at least through 2019. Even though these ratios are weaker following the Pepco acquisition, we think this is acceptable given the higher share of regulated earnings.Only about one-quarter of Exelon's consolidated debt is directly tied to its generation segment. As long as power markets remain relatively stable and Exelon maintains its investment-grade ratings, we don't expect it to have trouble refinancing its near-term maturities.We also think management can meet its 2.5% dividend growth goal through 2018 with relative ease. However, this is rather unimpressive compared with most of its peers that we think can grow their dividends at least twice as fast.Exelon's pension and nuclear decommissioning funds are well funded now, but if interest rates stay low, the firm might have to make modest cash contributions. Plant closures also could increase cash decommission costs.

Enterprise Risk

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CHRISTOPHER M. CRANE	Director	256,701	30 Jan 2017	—
MR. WILLIAM A. VON HOENE, JR		109,688	30 Jan 2017	—
MS. ANNE R. PRAMAGGIORE		65,162	30 Jan 2017	—
MR. KENNETH W. CORNEW		53,363	30 Jan 2017	—
JONATHAN W. (JACK) THAYER		33,473	27 Jul 2017	215,669
MR. CALVIN G. BUTLER,JR		32,989	30 Jan 2017	—
JOHN W. ROGERS,JR	Director	14,374	30 Jun 2017	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	2.22	0.13	228	30 Jun 2017
Invesco Diversified Dividend Fund	1.70	2.52	1,188	30 Jun 2017
Vanguard Wellington™	1.57	0.54	—	30 Jun 2017
Vanguard 500 Index Fund	1.52	0.16	155	30 Jun 2017
VA CollegeAmerica Invmt Co of America	1.22	0.49	—	30 Jun 2017
Concentrated Holders				
Putnam Global Utilities Fund	0.04	8.49	—	30 Jun 2017
Putnam VT Global Utilities	0.02	8.42	—	30 Jun 2017
Market Vectors® Uranium+Nuclear Engy ETF	0.01	6.76	—	10 Aug 2017
Fidelity® Telecom and Utilities Fund	0.19	6.61	—	30 Jun 2017
MFS Utilities Fund	0.75	6.53	2,557	30 Jun 2017

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Morgan Stanley Smith Barney LLC	1.15	0.11	7,416	31 Mar 2017
Mellon Capital Management Corporation	0.43	0.11	4,013	31 Mar 2017
Vanguard Group Inc	6.97	0.12	2,744	31 Mar 2017
Fidelity Management and Research Company	5.08	0.23	1,906	31 Mar 2017
Canada Pension Plan Investment Board	0.32	0.27	1,516	31 Mar 2017
Top 5 Sellers				
T. Rowe Price Associates, Inc.	3.44	0.21	-11,298	31 Mar 2017
Arrowstreet Capital Limited Partnership	0.02	0.02	-3,472	31 Mar 2017
Parametric Portfolio Associates LLC	0.20	0.10	-2,026	31 Mar 2017
Capital Research Global Investors	3.66	0.38	-1,862	31 Mar 2017
Invesco PowerShares Capital Mgmt LLC	0.11	0.04	-1,455	31 Mar 2017

Management 06 Sep 2017

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the lives of its distressed nuclear plants. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 2.6 million shares and vested options as of January 2017.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

With Nuclear Subsidy Debate Past, Exelon Hits Core Growth Expectations 02 Aug 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced earnings per share of $0.54 on an adjusted basis during the second quarter of 2017, down from $0.65 in the second quarter of 2016. Earnings are tracking in line with our full-year estimate, and management reaffirmed its $2.50-$2.80 EPS guidance range.

Exelon achieved two key court victories in July affirming the legality of nuclear subsidies it began receiving this year in New York and Illinois. We think this is just the start of the legal and regulatory debate. We do not include the five subsidized plants in our long-term forecast, but including them would not have a sizable impact on our fair value estimate because the subsidies limit their value upside and downside.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed by Exelon's ability remain the world's premier nuclear operator. The fleet realized a 91% capacity factor in the quarter despite six refueling outages.

This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations. Its next area of focus is in Pennsylvania, where it has committed to close its Three Mile Island nuclear plant by September 2019 unless it receives subsidies. We assume TMI closes as scheduled.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020. Management reported the utilities' returns on equity are near 10% with upside potential at the Pepco Holdings utilities. This return is better than many of Exelon's peers'.

U.S. Nuclear: Down but Not Out 27 Jul 2017

We are reaffirming our fair value estimates, moat and moat trend ratings for all U.S. utilities with nuclear exposure after analyzing the economics, regulation, and sustainability attributes of nuclear generation in the U.S.

Nuclear power is at an inflection point in the U.S., with a wide gap developing between the anti-nuclear and pro-nuclear factions. This is a critical debate. The 99 nuclear units in the U.S. provide 20% of the nation’s electricity and meet essential reliability needs for major cities. Competition from cheap natural gas generation and renewable energy are pinching profits now, but we think a long-term perspective is important.

Our forecast for flat or growing U.S. nuclear capacity is more bullish than most forecasts. In particular, we think the U.S. could add as much as 5% net new nuclear capacity by 2040 primarily due to nuclear uprates. Most market forecasts assume natural gas is the marginal generation source, but our calculations show nuclear uprates have similar economic returns and less long-term capital reinvestment risk. We think nuclear has a more favorable environmental, social, and governance, or ESG, profile than most other nonrenewable energy sources. Its low carbon-emissions profile and reliability make it a critical contributor to meeting state and federal environmental policy goals.

We think the best opportunity for investors is to take advantage of the market's concerns about spiraling new-build nuclear costs and regulatory risk. Scana and Southern Company trade at steep discounts to peers even after adjusting for their new-build project risks. Among existing

Exelon Corp EXC (NYSE) | ★★

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Analyst Notes

plant owners, only one utility has maintained a big bet on nuclear: Exelon. The stock looks pricey now, but its scale and political clout as the largest U.S. operator give it more option upside than any U.S. utility. We also think top-tier nuclear operators such as Exelon and Xcel Energy should earn premium valuations for their positive ESG characteristics.

For our full analysis, see our Utilities Observer: U.S. Nuclear Down But Not Out.

Trump's Announcement to Exit Paris Agreement Has Little Effect on Utilities 02 Jun 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities after President Trump announced plans to exit the Paris Climate Agreement.

Despite the withdrawal, we continue to forecast U.S. renewable energy capacity doubling during the next eight years. State renewable portfolio standards, or RPS, and other local policies remain the industry's primary growth driver, not federal environmental policy. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use by 2025, up from 15% now, based solely on existing state RPS.

We think Trump's move to abandon the U.S. Clean Power Plan and Paris Agreement could even embolden states to strengthen renewable energy standards, offering upside to our forecasts. Supportive tax policy and pro-manufacturing initiatives also offer upside. And corporate renewable energy purchases should continue to grow as businesses realize the economic and public perception benefits. Thus, we are not surprised that many business leaders denounced Trump's decision.

We also forecast carbon emissions from the power generation sector will keep falling toward Paris Agreement targets given the growth in renewable energy and gas generation. Low natural gas prices and turbine efficiency improvements are forcing coal plant shutdowns and reduced run times for competing coal generators, which emit twice as much carbon as an equivalent gas plant.

Utilities operating in states with constructive regulation and environmental policy support could realize 7%-9% annual earnings and dividend growth the next three to five years. Best positioned are utilities like Dominion Energy, Duke Energy, American Electric Power, and CMS Energy that are investing billions of dollars in new infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Our full report, "Trump Can't Thwart Green Progress," is available on Morningstar Select Investment Research.

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings.

Analyst Notes

Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

PJM Capacity Auction Results: Surprisingly, No Surprises 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth 19 Apr 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Our full report, "Trump Can't Thwart Green Progress," is available on Morningstar Select Investment Research.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities 28 Mar 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

For more information on our outlook for renewable growth and carbon emissions, see our most recent report "Trump Can't Thwart Green Progress" on Morningstar Select Investment Research.

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*Forecast* *2017*	*2018*	*5-Year Proj. CAGR*
Revenue	*8.0*	10.2	7.4	6.5	*-1.6*	*11.4*	*3.4*
EBIT	*-5.2*	-15.3	42.4	-29.4	*48.9*	*11.1*	*15.0*
EBITDA	*6.7*	-6.9	26.8	2.8	*17.5*	*8.0*	*8.2*
Net Income	*4.9*	-4.0	7.7	11.7	*1.0*	*13.5*	*7.7*
Diluted EPS	*2.3*	-4.4	4.2	7.6	*-1.3*	*11.7*	*6.7*
Earnings Before Interest, after Tax	*14.3*	53.5	13.7	-14.4	*-0.6*	*-0.4*	*3.3*
Free Cash Flow	*-262.0*	-92.0	365.5	-1,243.2	*-104.5*	*209.7*	—

Profitability	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Operating Margin %	*12.1*	11.3	15.0	9.9	*15.0*	*15.0*	*15.5*
EBITDA Margin %	*21.8*	19.7	23.3	22.5	*26.8*	*26.0*	*26.8*
Net Margin %	*7.7*	7.5	7.6	7.9	*8.1*	*8.3*	*8.7*
Free Cash Flow Margin %	*-6.0*	0.4	1.9	-20.5	*0.9*	*2.6*	*5.1*
ROIC %	*3.1*	2.7	4.4	2.2	*5.1*	*5.4*	*5.5*
Adjusted ROIC %	*3.3*	2.9	4.6	2.4	*5.6*	*6.0*	*6.0*
Return on Assets %	*1.8*	2.0	2.5	1.1	*2.2*	*2.4*	*2.5*
Return on Equity %	*6.9*	7.1	9.3	4.4	*9.5*	*10.2*	*10.1*

Leverage	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Debt/Capital	*0.53*	0.49	0.50	0.58	*0.58*	*0.57*	*0.55*
Total Debt/EBITDA	*4.35*	4.12	3.84	5.10	*4.49*	*4.26*	*4.09*
EBITDA/Interest Expense	*5.44*	5.08	6.64	4.59	*5.26*	*5.65*	*5.93*

Valuation Summary and Forecasts

	2015	2016	*2017(E)*	*2018(E)*
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	*14.2*	*12.7*
EV/EBITDA	6.6	9.5	*8.7*	*8.0*
EV/EBIT	10.2	21.5	*15.5*	*14.0*
Free Cash Flow Yield %	0.0	-0.3	*-1.0*	*0.6*
Dividend Yield %	4.3	3.6	*3.4*	*3.6*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.6
Long-Run Tax Rate %	30.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	30.0
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	7,164	11.1	7.71
Present Value Stage II	19,850	30.7	21.38
Present Value Stage III	37,695	58.3	40.59
Total Firm Value	**64,708**	**100.0**	**69.68**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,490**	**—**	**31.76**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**33.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***30,869***	***34,380***
Cost of Goods Sold	13,003	13,084	12,640	*11,742*	*14,509*
Gross Profit	**14,426**	**16,363**	**18,720**	***19,127***	***19,871***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*9,125*	*9,165*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,719*	*1,758*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,650*	*3,800*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,633***	***5,148***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,633***	***5,148***
Interest Expense	1,065	1,033	1,536	*1,575*	*1,583*
Interest Income	455	-53	389	*700*	*700*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,758***	***4,265***
Income Tax Expense	666	1,073	761	*1,240*	*1,407*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	*-8*	*-8*
Net Income	**1,623**	**2,269**	**1,134**	***2,510***	***2,850***
Weighted Average Diluted Shares Outstanding	864	893	927	*949*	*964*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.64***	***2.95***
Adjusted Net Income	2,065	2,224	2,484	*2,510*	*2,850*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.64***	***2.95***
Dividends Per Common Share	1.24	1.24	1.26	*1.31*	*1.34*
EBITDA	**6,964**	**8,396**	**8,688**	***8,283***	***8,948***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,283***	***8,948***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Cash and Equivalents	1,878	6,502	635	*241*	*205*
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	*5,328*	*5,934*
Inventory	1,603	1,566	1,638	*1,544*	*1,908*
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	*4,600*	*4,500*
Current Assets	**12,097**	**15,334**	**12,412**	***11,714***	***12,547***
Net Property Plant, and Equipment	52,087	57,439	71,555	*75,555*	*78,405*
Goodwill	2,672	2,672	6,677	*6,677*	*6,677*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	*9,800*	*9,700*
Long-Term Non-Operating Assets	13,882	13,874	14,214	*14,214*	*14,214*
Total Assets	**86,814**	**95,384**	**114,904**	***117,960***	***121,543***
Accounts Payable	3,056	2,891	3,449	*3,217*	*3,776*
Short-Term Debt	2,262	2,033	3,697	*3,697*	*3,697*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	*6,100*	*6,100*
Current Liabilities	**8,762**	**9,118**	**13,457**	***13,014***	***13,573***
Long-Term Debt	20,010	24,286	32,216	*33,516*	*34,416*
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	*19,000*	*19,500*
Other Long-Term Operating Liabilities	4,550	4,201	4,187	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	*19,294*	*19,294*
Total Liabilities	**62,681**	**68,062**	**87,292**	***89,224***	***91,183***
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	*18,794*	*18,794*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,910	12,068	12,030	*13,309*	*14,873*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,491	-2,431	-2,660	*-2,700*	*-2,700*
Shareholder's Equity	**22,801**	**26,014**	**25,837**	***27,136***	***28,760***
Minority Interest	1,332	1,308	1,775	*1,600*	*1,600*
Total Equity	**24,133**	**27,322**	**27,612**	***28,736***	***30,360***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	*Forecast* 2017	*Forecast* 2018
Net Income	1,820	2,250	1,204	*2,518*	*2,858*
Depreciation	3,868	3,987	5,576	*3,650*	*3,800*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*500*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*31*	*-606*
(Increase) Decrease in Inventory	-380	4	7	*94*	*-364*
Change in Other Short-Term Assets	-2,758	-387	-827	*180*	*100*
Increase (Decrease) in Accounts Payable	209	-121	771	*-232*	*559*
Change in Other Short-Term Liabilities	—	—	—	*-211*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***6,892***	***6,847***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-7,250*	*-6,650*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	*-400*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*459*	*100*
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-7,191***	***-6,550***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,231*	*-1,285*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*1,300*	*900*
Other Financing Cash Flows	-599	-67	97	*-183*	*-8*
Cash From Financing	**411**	**4,830**	**1,191**	***-54***	***-333***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*-40*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***-394***	***-36***

Exelon Corp EXC (NYSE) | ★★

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37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			**EV/EBITDA**			**Price/Free Cash Flow**			**Price/Book**			**Price/Sales**		
Company/Ticker	Price/Fair Value	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	1.19	15.1	*16.0*	*17.4*	10.7	*9.9*	*10.4*	NM	*NM*	*NM*	1.7	*1.7*	*1.6*	2.4	*2.5*	*2.4*
FirstEnergy Corp FE USA	0.96	11.8	*11.4*	*11.7*	8.0	*8.5*	*8.6*	24.6	*83.6*	*195.4*	2.1	*1.9*	*1.7*	0.9	*0.9*	*1.0*
Entergy Corp ETR USA	1.08	10.3	*15.8*	*16.7*	6.6	*8.1*	*8.6*	60.2	*NM*	*NM*	1.6	*1.7*	*1.7*	1.2	*1.2*	*1.2*
Average		12.4	*14.4*	*15.3*	8.4	*8.8*	*9.2*	42.4	*83.6*	*195.4*	1.8	*1.8*	*1.7*	1.5	*1.5*	*1.5*
Exelon Corp EXC US	**1.18**	**13.2**	***14.2***	***12.7***	**9.5**	***8.7***	***8.0***	**NM**	***NM***	***183.1***	**1.3**	***1.3***	***1.3***	**1.0**	***1.2***	***1.1***

Returns Analysis

		ROIC %			**Adjusted ROIC %**			**Return on Equity %**			**Return on Assets %**			**Dividend Yield %**		
Company/Ticker	Last Historical Year Total Assets (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	40,070 USD	5.8	*7.6*	*6.5*	5.8	*7.7*	*6.5*	6.8	*11.0*	*9.7*	2.3	*3.6*	*3.1*	3.7	*3.7*	*3.9*
FirstEnergy Corp FE USA	43,148 USD	-3.5	*5.9*	*6.1*	-4.2	*7.0*	*7.3*	-66.2	*18.7*	*16.1*	-13.0	*2.9*	*2.9*	4.6	*4.5*	*5.0*
Entergy Corp ETR USA	45,904 USD	1.9	*6.4*	*4.6*	2.0	*6.5*	*4.7*	-6.7	*11.1*	*10.3*	-1.3	*1.9*	*1.7*	4.7	*4.4*	*4.6*
Average		1.4	*6.6*	*5.7*	1.2	*7.1*	*6.2*	-22.0	*13.6*	*12.0*	-4.0	*2.8*	*2.6*	4.3	*4.2*	*4.5*
Exelon Corp EXC US	**114,904** USD	**2.2**	***5.1***	***5.4***	**2.4**	***5.6***	***6.0***	**4.4**	***9.5***	***10.2***	**1.1**	***2.2***	***2.4***	**3.6**	***3.4***	***3.6***

Growth Analysis

		Revenue Growth %			**EBIT Growth %**			**EPS Growth %**			**Free Cash Flow Growth %**			**Dividend/Share Growth %**		
Company/Ticker	Last Historical Year Revenue (Mil)	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*	2016	*2017(E)*	*2018(E)*
Public Service Enterprise Group Inc	9,061 USD	-13.0	*5.5*	*2.9*	-46.8	*61.6*	*-11.6*	-0.3	*0.2*	*-8.0*	-586.1	*46.2*	*-119.0*	5.1	*4.9*	*4.7*
FirstEnergy Corp FE USA	14,562 USD	-3.1	*5.8*	*-9.3*	3.0	*26.8*	*1.9*	-2.8	*8.4*	*-2.2*	-23.0	*1.3*	*0.0*	—	—	*5.6*
Entergy Corp ETR USA	10,846 USD	-5.8	*10.2*	*-1.3*	18.0	*14.8*	*-10.7*	18.4	*-29.1*	*-5.3*	-186.5	*-2.3*	*-80.9*	2.4	*2.3*	*3.0*
Average		-7.3	*7.2*	*-2.6*	-8.6	*34.4*	*-6.8*	5.1	*-6.8*	*-5.2*	-265.2	*15.1*	*-66.6*	3.8	*3.6*	*4.4*
Exelon Corp EXC US	**31,360** USD	**6.5**	***-1.6***	***11.4***	**-29.4**	***48.9***	***11.1***	**7.6**	***-1.3***	***11.7***	**-1,243.2**	***-104.5***	***209.7***	**1.6**	***4.0***	***2.3***

Exelon Corp EXC (NYSE) | ★★

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37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Public Service Enterprise Group Inc	1,473 USD	66.9	69.1	65.7	33.7	37.6	34.6	17.4	26.7	22.9	16.3	15.5	13.9	-9.8	-17.2	-1.2
FirstEnergy Corp FE USA	1,121 USD	62.4	61.7	62.2	30.2	28.4	30.8	16.5	19.8	22.2	7.7	8.4	9.4	3.7	1.1	0.5
Entergy Corp ETR USA	1,272 USD	72.1	67.5	67.1	37.6	30.6	29.4	18.0	18.7	16.9	11.7	7.6	7.3	2.0	-9.7	-12.0
Average		67.1	66.1	65.0	33.8	32.2	31.6	17.3	21.7	20.7	11.9	10.5	10.2	-1.4	-8.6	-4.2
Exelon Corp EXC US	**2,484** USD	**59.7**	**62.0**	**57.8**	**22.5**	**26.8**	**26.0**	**9.9**	**15.0**	**15.0**	**7.9**	**8.1**	**8.3**	**-0.3**	**-1.2**	**0.6**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Public Service Enterprise Group Inc	11,783 USD	89.7	98.5	102.3	47.3	49.6	50.6	7.9	7.7	6.4	3.9	3.8	4.3	3.1	3.1	3.2
FirstEnergy Corp FE USA	22,552 USD	361.4	297.8	257.1	78.3	74.9	72.0	3.8	3.7	3.7	5.1	5.1	5.2	6.9	6.0	5.4
Entergy Corp ETR USA	15,248 USD	188.7	208.4	219.6	65.4	67.6	68.7	6.1	4.7	4.1	3.7	4.7	5.4	5.7	5.9	6.0
Average		213.3	201.6	193.0	63.7	64.0	63.8	5.9	5.4	4.7	4.2	4.5	5.0	5.2	5.0	4.9
Exelon Corp EXC US	**35,913** USD	**139.0**	**137.1**	**132.5**	**58.2**	**57.8**	**57.0**	**4.6**	**5.3**	**5.7**	**5.1**	**4.5**	**4.3**	**4.4**	**4.3**	**4.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Public Service Enterprise Group Inc	23,458 USD	0.83	0.11	0.08	0.99	0.77	0.75	0.89	0.67	0.64	0.48	0.04	0.03	93.9	59.2	67.3
FirstEnergy Corp FE USA	14,449 USD	0.47	0.82	0.94	0.41	0.46	0.45	0.33	0.37	0.36	0.05	0.09	0.11	-9.9	50.5	54.5
Entergy Corp ETR USA	14,324 USD	6.64	7.57	8.65	1.15	1.20	1.24	0.88	0.88	0.93	1.52	1.82	2.09	-104.8	69.4	75.5
Average		2.65	2.83	3.22	0.85	0.81	0.81	0.70	0.64	0.64	0.68	0.65	0.74	-6.9	59.7	65.8
Exelon Corp EXC US	**36,099** USD	**0.69**	**0.25**	**0.21**	**0.92**	**0.90**	**0.92**	**0.80**	**0.78**	**0.78**	**0.17**	**0.07**	**0.06**	**101.4**	**49.5**	**45.4**

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

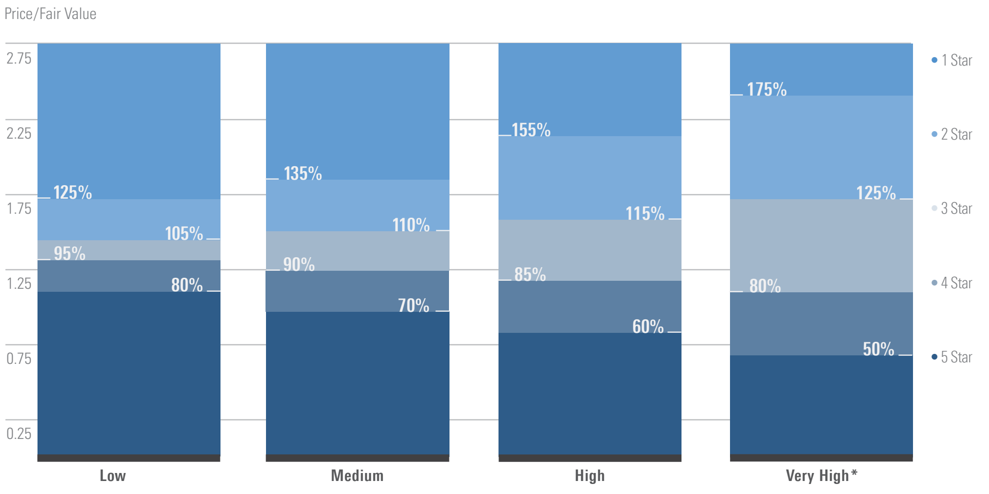
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★

We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★

Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.60 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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CREDIT SUISSE

7 September 2017
Americas/United States
Equity Research
Electric Utilities

Exelon Corporation (EXC)

INCREASE TARGET PRICE

Rating	**OUTPERFORM**
Price (06-Sep-17, US$)	37.55
Target price (US$)	(from 42.00) 43.00
52-week price range (US$)	38.55 - 30.00
Market cap(US$ m)	34,762

Target price is for 12 months.

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Highlighting Potential from Energy Reforms

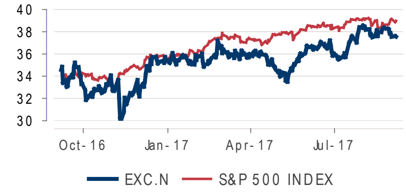
Our Take: We're raising our target price for EXC $1 to $43 and maintain Outperform with no changes to estimates at this time. The increase reflects partial credit for the potential uplift in energy gross margin resulting from expected price formation reform in PJM in 2018 where the energy market could be restructured to provide more support for 'inflexible' baseload generation.

- **"Soft" Section 206 changes could come in 2018.** As previously noted, we expect the 8/23 release of DoE's long-awaited grid reliability study to be the catalyst for FERC to issue a notification this Fall to all regional transmission operators (RTOs) to study problems with energy market designs across the country, with an eye toward avoiding undesirable early retirements of baseload resources. The RTO studies could then result in proposal filings with FERC around Feb/Mar 2018 followed by orders under Section 206 from FERC to make changes sometime thereafter. Sometimes referred to as a "soft 206", this could result in implementation without a full stakeholder review (in PJM, this would otherwise require a tough 66% assent). As such, we are looking closely to PJM's recent white paper review of energy market price formation at PJM, recommends more support for "inflexible" generation (including nuclear) that is harmed by ramped (lower) marginal pricing as well as negative pricing at night that results from nighttime oversupply of power coming from tax-advantaged wind turbines.

- **Our calculations** estimate potential off-peak price uplift ~$1.20-$4.30/MWh across PJMW and NI Hub, resulting in up to $210M-$370M incremental open (unhedged) EBITDA or about $0.15-$0.25 EPS.

- **Valuation and Risks.** Raising TP $1 to $43 to reflect a 50% probability of energy price reform uplift at a 7.5x 2019E EV/EBITDA multiple. Risks include ExGen commodity exposure and nuclear operator risk; regulatory outcomes.

Share price performance



On 06-Sep-2017 the S&P 500 INDEX closed at 2465.54
Daily Sep06, 2016 - Sep06, 2017, 09/06/16 = US$34.45

Quarterly EPS	Q1	Q2	Q3	Q4
2016A	0.68	0.65	0.91	0.44
2017E	0.65	0.54	0.89	0.56
2018E	-	-	-	-

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (CS adj.) (US$)	2.68	2.67	3.01	2.84
Prev. EPS (US$)	-	-	-	-
P/E (x)	14.0	14.1	12.5	13.2
P/E rel. (%)	66.2	73.8	72.5	84.6
EBITDA (US$ m)	8,091	8,466	9,120	8,922
EV/EBITDA (current)	8.8	8.4	7.8	8.0
Net debt (US$ m)	35,278	44,105	44,766	45,059
FFO/Interest	4.1	3.9	4.5	4.4
FFO/Total Debt	0.16	0.14	0.14	0.14

Number of shares (m)	926	BV/Share (Next Qtr., US$)	29
Net debt (Next Qtr., US$ m)	35,796	Dividend (current, US$)	1.4
Net debt/tot eq (Next Qtr., %)	122.2	Dividend yield (%)	3.61

Source: Company data, Thomson Reuters, Credit Suisse estimates

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- **Recall that on June 15th, PJM proposed energy market reforms to support "inflexible" baseload resources and address negative nodal pricing.** One proposal is to create more value for large baseload units that have little/no ramping capability by allowing them to set local marginal pricing (LMP) even when they are forced to flood the system with a chunk of MWhs upon activation (under current rules, their dispatch would immediately suppress the price that triggered their activation in the first place). Simultaneously, the value of flexibility would be enhanced through additional reforms, such as the development of a load-following product to compensate flexible resources forced to ramp up or down uneconomically. A second proposal would seek to end the prevalence of off-peak negative LMP pricing that comes from wind generation subsidized by federal wind production tax credits. These negative LMPs erode the value of revenue streams for baseload, particularly nuclear, and PJM suggests further stakeholder/regulator discussion on ways to address the problem. This may include more price-setting eligibility for inflexible resources as well as possibly some kind of floor price for marginal nodal energy.

- **Our calculations below show PJM energy price formation reform could raise off peak prices ~$1.20-$4.30/MWh across PJMW and NI Hub, although on-peak prices would likely remain mostly unchanged.** In Figures 5 and 6 below, we illustrate that allowing inflexible resources such as baseload nuclear and coal to set off-peak prices could eliminate negative night-time pricing and improve average off-peak prices in PJMW by ~$1.20-$2.70/MWh. Figures 7 and 8 show that off-peak prices in NI Hub could increase by $2.30-$4.30/MWh.

- **Our analysis below assumes that PJM will set a floor for marginal heat rates** to eliminate the negative pricing and suppressed positive pricing sometimes seen when in-merit tax-subsidized wind generation must be curtailed to allow out-of-merit baseload (particularly inflexible nuclear) to continue running, especially at night. Mechanically, we assume a system where energy prices are reset higher in the hours where implied market heat rates fall below a threshold level. We illustrate three scenarios: 4, 5 or 6 MMBtu/MWh. Our guiding assumption is that prices below the threshold are reset higher to a new reference level determined by a hypothetical 7 MMBtu/MWh heat rate.

- **We calculate a $130M - $370M improvement in EBITDA or $0.09 - $0.25 EPS uplift in 2019 coming from energy price formation reform.** The range depends on the heat rate floor level chosen under our hypothetical reform assumptions. In Figures 1, and 2 below, we demonstrate a range of potential impacts on ExGen's 2018 and 2019 EBITDA and EPS resulting from ~$1.30-$4.30/MWh uplift in off peak energy prices. The impact on 2018 ($61M-105M EBITDA and $0.04-0.07 EPS) is somewhat muted due to higher hedging percentages, while more upside can be realized in lesser-hedged 2019 ($129M-$225M and $0.09-$0.15 EPS). Note that we also assume that hedging is skewed heavier (60%) toward on-peak hours, where there's more liquidity, a factor that helps push ExGen's margins higher for off-peak improvements. Finally, in Figure 3 below, we illustrate the effect on open unhedged EBITDA (for 2019), with as much as $366M upside or $0.25 EPS.

Figure 1: 2018 – EBITDA and EPS Impact

2018		**Mid-Atlantic**				**Midwest**			
Total MWh		60,300				96,000			
Hedged %		81.5%				67.5%			
Hedged MWh		49,145				64,800			
	Assumed On/ Off								
Unhedged MWh	Hedge Skew	11,156				31,200			
Off Peak Unhedged MWh	60%	6,693				18,720			
On Peak Unhedged MWh	40%	4,462				12,480			
			Ref. HR - 4	Ref. HR - 5	Ref. HR - 6		Ref. HR - 4	Ref. HR - 5	Ref. HR - 6
Off Peak Energy Price Uplift ($/ MWh)			$ 1.33	$ 1.95	$ 2.58		$ 2.65	$ 3.47	$ 4.29
On Peak Energy Price Uplift ($/ MWh)	Margin		$ 0.02	$ 0.07	$ 0.19		$ 0.19	$ 0.30	$ 0.55
Off Peak EBITDA ($M)	100%		$ 9	$ 13	$ 17		$ 50	$ 65	$ 80
On Peak EBITDA ($M)	100%		$ 0	$ 0	$ 1		$ 2	$ 4	$ 7
EBITDA ($ M)			**$ 9**	**$ 13**	**$ 18**		**$ 52**	**$ 69**	**$ 87**
Share #			960	960	960		960	960	960
EPS			**$ 0.01**	**$ 0.01**	**$ 0.01**		**$ 0.04**	**$ 0.05**	**$ 0.06**
Total EBITDA ($ M)							**$ 61**	**$ 82**	**$ 105**
Total EPS							**$ 0.04**	**$ 0.06**	**$ 0.07**

Source: Company data, Credit Suisse estimates

Figure 2: 2019 (2Q17 Hedges) - EBITDA and EPS Impact

2019		**Mid-Atlantic**				**Midwest**			
Total MWh		58,500				97,000			
Hedged %		46.5%				35.5%			
Hedged MWh		27,203				34,435			
	Assumed On/ Off								
Unhedged MWh	Hedge Skew	31,298				62,565			
Off Peak Unhedged MWh	60%	18,779				37,539			
On Peak Unhedged MWh	40%	12,519				25,026			
			Ref. HR - 4	Ref. HR - 5	Ref. HR - 6		Ref. HR - 4	Ref. HR - 5	Ref. HR - 6
Off Peak Energy Price Uplift ($/ MWh)			$ 1.33	$ 1.95	$ 2.58		$ 2.65	$ 3.47	$ 4.29
On Peak Energy Price Uplift ($/ MWh)	Margin		$ 0.02	$ 0.07	$ 0.19		$ 0.19	$ 0.30	$ 0.55
Off Peak EBITDA ($M)	100%		$ 25	$ 37	$ 49		$ 100	$ 130	$ 161
On Peak EBITDA ($M)	100%		$ 0	$ 1	$ 2		$ 5	$ 8	$ 14
EBITDA ($ M)			**$ 25**	**$ 37**	**$ 51**		**$ 104**	**$ 138**	**$ 175**
Share #			960	960	960		960	960	960
EPS			**$ 0.02**	**$ 0.03**	**$ 0.03**		**$ 0.07**	**$ 0.09**	**$ 0.12**
Total EBITDA ($ M)							**$ 129**	**$ 175**	**$ 225**
Total EPS							**$ 0.09**	**$ 0.12**	**$ 0.15**

Source: Company data, Credit Suisse estimates

Figure 3: 2019 (Open) - EBITDA and EPS Impact

Open 2019		**Mid-Atlantic**				**Midwest**			
Total MWh		58,500				97,000			
Hedged %		-				-			
Hedged MWh		-				-			
	Assumed On/ Off								
Unhedged MWh	Hedge Skew	58,500				97,000			
Off Peak Unhedged MWh	60%	35,100				58,200			
On Peak Unhedged MWh	40%	23,400				38,800			
			Ref. HR - 4	Ref. HR - 5	Ref. HR - 6		Ref. HR - 4	Ref. HR - 5	Ref. HR - 6
Off Peak Energy Price Uplift ($/ MWh)			$ 1.33	$ 1.95	$ 2.58		$ 2.65	$ 3.47	$ 4.29
On Peak Energy Price Uplift ($/ MWh)	Margin		$ 0.02	$ 0.07	$ 0.19		$ 0.19	$ 0.30	$ 0.55
Off Peak EBITDA ($M)	100%		$ 47	$ 68	$ 91		$ 154	$ 202	$ 249
On Peak EBITDA ($M)	100%		$ 1	$ 2	$ 4		$ 7	$ 12	$ 21
EBITDA ($ M)			**$ 47**	**$ 70**	**$ 95**		**$ 162**	**$ 213**	**$ 271**
Share #			960	960	960		960	960	960
EPS			**$ 0.03**	**$ 0.05**	**$ 0.06**		**$ 0.11**	**$ 0.14**	**$ 0.18**
Total EBITDA ($ M)							**$ 209**	**$ 284**	**$ 366**
Total EPS							**$ 0.14**	**$ 0.19**	**$ 0.25**

Source: Company data, Credit Suisse estimates

- ***From our 8/27 weekly*****:** **As expected, the DOE Grid Reliability Report supports baseload coal and nuclear. Next step: FERC changes to energy market structures.** On August 23, the DOE issued its long-awaited grid reliability study. Recall that back in April, Energy Secretary Perry ordered DOE staff to conduct a study evaluating the reliability of the nation's electric grid, pertaining to his concerns regarding closures of baseload power plants, particularly coal and nuclear. He had also warned that the DOE would overrule state renewable energy policies (such as renewable mandates) on the grounds of national security if reliability was found to be threatened.

  However, the study found that persistently low natural gas prices to be the greatest driver of baseload power plant retirements, followed by flat power demand, with increased costs from environmental regulations and the additions of renewables to the grid as lesser drivers. In addition, the study concluded that renewables are not a threat to grid reliability to the surprise of many utility and developer executives and other analysts. Many utility executives had feared that the study might preempt state policies, particularly hard-won financial supports for struggling nuclear fleets if the opposite conclusion had been reached. However, the study concluded that "ultimately, the continued closure of traditional baseload power plants calls for a comprehensive strategy for long-term reliability and resilience." **Perhaps most important, the study also suggested that existing market designs may not be able to address further challenges in the future and recommended that FERC expedite its study of wholesale power market structures to improve energy price formation and create fuel-neutral markets that compensate attributes that boost grid reliability.** The DOE also encouraged the EPA "to allow coal-fired power plants to improve efficiency and reliability without triggering new regulatory approvals and associated costs" as well as target an R&D portfolio to help those plants boost efficiency and that federal agencies accelerate and cut the costs of permitting for grid infrastructure for nuclear, hydropower, and coal generation.

  - ***From our 8/20 weekly*****:** FERC support for baseload. Federal Energy Regulatory Commission (FERC) incoming commissioner Neil Chatterjee said on **FERC's podcast** that all generation facilities, especially coal and nuclear, need to be "properly compensated to recognize the value they provide to the system". We expect FERC to order RTOs to submit energy market reform proposals later this year.
  - ***From our 8/3 EXC report "ZECs in Hand; Looking for Market Reforms*****: FERC action expected next.** The DoE release could be a catalyst for FERC to issue a notification this fall (once a quorum is in place) to all regional transmission operators (RTOs) to study problems with energy market designs across the country with an eye toward avoiding undesirable early retirements of baseload resources.
  - **"Soft" Section 206 changes could come in 2018.** The RTO studies could then result in proposal filings with FERC around Feb/Mar 2018 followed by orders under Section 206 from FERC to make changes sometime thereafter. Sometimes referred to as a "soft 206", this could result in implementation without a full stakeholder review. (In PJM, this would require 66% assent, a tough hurdle.)

- **For PJM, a focus on energy markets.** EXC has previously noted that it would be premature for RTOs to focus on capacity markets and MOPR (minimum offer price rule) extensions when the need to "fix" energy markets and fair energy price formation should be a much higher priority. As such, the company is more focused on PJM's whitepaper reviews of energy market price formation at PJM that among its conclusions, recommends more support for "inflexible" generation (including nuclear) that is harmed by ramped (lower) marginal pricing as well as negative energy pricing at night that results from nighttime oversupply of power coming from tax-advantaged wind turbines. On the capacity side, EXC's look at PJM's initial proposals for a two-stage capacity auction would appear to indicate that only Quad Cities would fail to clear, likely resulting in higher capacity prices for the remaining fleet. See 6/16 Goals Achievable Even Through ZEC Appeals, for full details.

- **Valuation.** Our valuation for EXC as shown in Figure 4 increased to $43 (from $42) after accounting for the average potential EBITDA upside of ~$286M (Figure 3). We assumed a 50% probability that EXC will realize this benefit giving rise to ~$1/sh incremental valuation based on a 7.5x multiple or ~15% upside vs current share price.

Figure 4: EXC - Base Case Valuation

						BASE CASE				
	2019 EPS	2021 Cleared Capacity	2021 Eff. Price ($/ MW-d)	2021 Clearing Price ($/ MW-d)	2019 EBITDA less Maint. Capex	Probability	Prem / Disc	Effective P/E EV/ EBITDA	Equity	Equity / Sh
PECO EPS	$ 0.50						0.0x	17.0x	$ 7,934	$ 8.55
ComEd EPS	$ 0.69						0.0x	17.0x	$ 10,883	$ 11.73
BGE EPS	$ 0.35						0.0x	17.0x	$ 5,572	$ 6.01
PHI (7%-8% earned ROEs)	$ 0.41					70%	-0.5x	16.5x	$ 4,399	$ 4.74
PHI upside from ratecases	$ 0.48					30%	-0.5x	16.5x	$ 2,190	$ 2.36
ExGen										
EBITDA less Maint. Capex	$ 1.08				$ 2,196					
less MtM hedges					$ 255					
less ZECs (IL)					$ 235					
less ZECs (NY)					$ 317					
Less Capacity Revenue 2018					$ 1,266					
Net EBITDA					$ 123		0.0x	7.5x	$ 920	$ 0.99
JV with John Hancock					$ 170		0.0x	8.5x	$ 1,445	$ 1.56
AVSR					$ 80		0.0x	8.5x	$ 680	$ 0.73
EGTP					$ -		0.0x	4.5x	$ -	$ -
Remaining EBITDA					($ 127)		0.0x	6.0x	($ 764)	($ 0.82)
Incremental EBITDA from PJM Energy Market Reform					$ 286	50%		7.5x	$ 1,073	$ 1.16
Less ExGen Debt					$ 7,602				($ 7,602)	($ 8.19)
NPV of hedges					$ 245				$ 245	$ 0.26
NPV of ZECs (IL)					$ 1,158	100%			$ 1,158	$ 1.25
NPV of ZECs (NY)					$ 1,707	100%			$ 1,707	$ 1.84
NPV of Capacity Payments - PJM		16,200	$ 178	$ 122	$ 11,600				$ 11,600	$ 12.51
NPV of Capacity Payments - ISO-NE		2,330	$ 174	$ 174	$ 1,893				$ 1,893	$ 2.04
NPV of Capacity Payments - MISO		1,100	$ 72	$ 72	$ 311				$ 311	$ 0.34
Corp/ Other	($ 0.20)						0.0x	17.0x	($ 3,119)	($ 3.36)
Total EPS	**$ 2.84**								**$ 39,606**	**$ 43.00**
Diluted Shares Outstanding										928
Dividend										$ 1.31
Implied Yield										3.1%
Current Yield										3.5%
Implied P/E										15.1x
Prem / (Disc) To Group										(10.9%)
Upside/ (Downside) to Current Price										14.5%

Sensitivity to Henry Hub nat gas	
($0.10)	per MMbtu
($43)	ExGen Open EBITDA
7.5x	
($323)	Change in EV
($0.35)	Change in PT
-0.9%	**% Change in PT**

Source: Company data, Credit Suisse estimates

Figure 5: PJM West - Energy Price Impact – On Peak Hours

Date	Avg. Price	Avg. Mkt. HR	# Hours with HR < 4	Adj. Avg. Price	Delta	# Hours with HR < 5	Adj. Avg. Price	Delta	# Hours with HR < 6	Adj. Avg. Price	Delta
1/1/2015	$ 45.69	14.23	-	$ 45.69	$ -	-	$ 45.69	$ -	-	$ 45.69	$ -
2/1/2015	$ 83.09	26.70	-	$ 83.09	$ -	-	$ 83.09	$ -	-	$ 83.09	$ -
3/1/2015	$ 46.21	14.40	-	$ 46.21	$ -	-	$ 46.21	$ -	1	$ 46.22	$ 0.01
4/1/2015	$ 36.68	11.23	-	$ 36.68	$ -	1	$ 36.70	$ 0.02	5	$ 36.74	$ 0.06
5/1/2015	$ 40.87	12.62	-	$ 40.87	$ -	-	$ 40.87	$ -	5	$ 40.92	$ 0.05
6/1/2015	$ 37.38	11.46	1	$ 37.44	$ 0.05	2	$ 37.45	$ 0.07	5	$ 37.49	$ 0.11
7/1/2015	$ 41.92	12.97	1	$ 41.97	$ 0.04	1	$ 41.97	$ 0.04	4	$ 42.01	$ 0.08
8/1/2015	$ 35.22	10.74	-	$ 35.22	$ -	-	$ 35.22	$ -	5	$ 35.28	$ 0.06
9/1/2015	$ 38.08	11.69	-	$ 38.08	$ -	3	$ 38.14	$ 0.06	14	$ 38.27	$ 0.19
10/1/2015	$ 33.25	10.08	-	$ 33.25	$ -	2	$ 33.30	$ 0.04	10	$ 33.38	$ 0.12
11/1/2015	$ 32.30	9.77	1	$ 32.33	$ 0.03	11	$ 32.54	$ 0.24	22	$ 32.67	$ 0.38
12/1/2015	$ 29.88	8.96	1	$ 29.90	$ 0.03	10	$ 30.08	$ 0.20	34	$ 30.36	$ 0.49
1/1/2016	$ 35.71	10.90	-	$ 35.71	$ -	2	$ 35.76	$ 0.05	17	$ 35.93	$ 0.22
2/1/2016	$ 30.71	9.24	-	$ 30.71	$ -	4	$ 30.79	$ 0.08	29	$ 31.09	$ 0.37
3/1/2016	$ 26.39	7.80	7	$ 26.57	$ 0.18	19	$ 26.78	$ 0.39	72	$ 27.37	$ 0.98
4/1/2016	$ 34.91	10.64	-	$ 34.91	$ -	-	$ 34.91	$ -	7	$ 34.99	$ 0.08
5/1/2016	$ 29.48	8.83	5	$ 29.67	$ 0.20	13	$ 29.84	$ 0.36	31	$ 30.07	$ 0.60
6/1/2016	$ 31.55	9.52	1	$ 31.58	$ 0.03	4	$ 31.64	$ 0.09	30	$ 31.93	$ 0.38
7/1/2016	$ 37.69	11.56	-	$ 37.69	$ -	-	$ 37.69	$ -	2	$ 37.72	$ 0.03
8/1/2016	$ 40.66	12.55	-	$ 40.66	$ -	-	$ 40.66	$ -	6	$ 40.72	$ 0.06
9/1/2016	$ 35.48	10.83	1	$ 35.51	$ 0.03	2	$ 35.53	$ 0.05	8	$ 35.60	$ 0.11
10/1/2016	$ 34.08	10.36	-	$ 34.08	$ -	1	$ 34.10	$ 0.02	1	$ 34.10	$ 0.02
11/1/2016	$ 29.58	8.86	-	$ 29.58	$ -	-	$ 29.58	$ -	5	$ 29.64	$ 0.06
12/1/2016	$ 35.47	10.82	-	$ 35.47	$ -	-	$ 35.47	$ -	-	$ 35.47	$ -
1/1/2017	$ 34.73	10.58	-	$ 34.73	$ -	-	$ 34.73	$ -	1	$ 34.74	$ 0.01
2/1/2017	$ 27.85	8.28	-	$ 27.85	$ -	-	$ 27.85	$ -	5	$ 27.90	$ 0.06
3/1/2017	$ 33.67	10.22	-	$ 33.67	$ -	2	$ 33.70	$ 0.03	6	$ 33.75	$ 0.08
4/1/2017	$ 31.73	9.58	-	$ 31.73	$ -	-	$ 31.73	$ -	5	$ 31.79	$ 0.05
5/1/2017	$ 34.88	10.63	-	$ 34.88	$ -	-	$ 34.88	$ -	3	$ 34.92	$ 0.04
6/1/2017	$ 29.95	8.98	2	$ 30.02	$ 0.07	4	$ 30.06	$ 0.12	34	$ 30.40	$ 0.45
7/1/2017	$ 35.63	10.88	-	$ 35.63	$ -	-	$ 35.63	$ -	9	$ 35.74	$ 0.11
8/1/2017	$ 30.47	9.16	2	$ 30.55	$ 0.08	6	$ 30.63	$ 0.16	28	$ 30.86	$ 0.40
2015	**$ 41.71**	**12.90**	**4**	**$ 41.73**	**$ 0.01**	**30**	**$ 41.77**	**$ 0.06**	**105**	**$ 41.84**	**$ 0.13**
2016	**$ 33.48**	**10.16**	**14**	**$ 33.51**	**$ 0.04**	**45**	**$ 33.56**	**$ 0.09**	**208**	**$ 33.72**	**$ 0.24**
2017	**$ 32.36**	**9.79**	**4**	**$ 32.38**	**$ 0.02**	**12**	**$ 32.40**	**$ 0.04**	**91**	**$ 32.51**	**$ 0.15**

Source: Company data, Credit Suisse estimates, SNL

Figure 6: PJM West - Energy Price Impact – Off Peak Hours

Date	Avg. Price	Avg. Mkt. HR	# Hours with HR < 4	Adj. Avg. Price	Delta	# Hours with HR < 5	Adj. Avg. Price	Delta	# Hours with HR < 6	Adj. Avg. Price	Delta
1/1/2015	$ 31.14	9.38	3	$ 31.25	$ 0.10	10	$ 31.39	($ 14.30)	19	$ 31.51	($ 14.18)
2/1/2015	$ 59.51	18.84	-	$ 59.51	$ -	2	$ 59.56	($ 23.53)	13	$ 59.69	($ 23.40)
3/1/2015	$ 40.12	12.37	2	$ 40.19	$ 0.07	9	$ 40.33	($ 5.88)	17	$ 40.43	($ 5.78)
4/1/2015	$ 29.80	8.93	6	$ 30.01	$ 0.20	19	$ 30.28	($ 6.39)	51	$ 30.70	($ 5.98)
5/1/2015	$ 25.36	7.45	41	$ 28.73	$ 3.38	67	$ 29.20	($ 11.67)	104	$ 29.60	($ 11.27)
6/1/2015	$ 24.35	7.12	37	$ 25.91	$ 1.56	74	$ 26.73	($ 10.65)	122	$ 27.34	($ 10.05)
7/1/2015	$ 25.84	7.61	48	$ 27.72	$ 1.88	69	$ 28.13	($ 13.79)	112	$ 28.64	($ 13.28)
8/1/2015	$ 23.14	6.71	43	$ 25.58	$ 2.45	75	$ 26.19	($ 9.02)	135	$ 26.87	($ 8.34)
9/1/2015	$ 26.32	7.77	37	$ 27.70	$ 1.38	65	$ 28.30	($ 9.78)	125	$ 28.98	($ 9.10)
10/1/2015	$ 24.69	7.23	46	$ 26.31	$ 1.62	83	$ 27.06	($ 6.20)	136	$ 27.67	($ 5.58)
11/1/2015	$ 21.89	6.30	47	$ 23.39	$ 1.50	99	$ 24.38	($ 7.91)	164	$ 25.12	($ 7.18)
12/1/2015	$ 19.84	5.61	99	$ 23.44	$ 3.60	150	$ 24.46	($ 5.42)	217	$ 25.29	($ 4.59)
1/1/2016	$ 24.63	7.21	13	$ 25.01	$ 0.38	65	$ 25.95	($ 9.77)	159	$ 26.98	($ 8.73)
2/1/2016	$ 23.11	6.70	47	$ 24.65	$ 1.53	93	$ 25.69	($ 5.02)	149	$ 26.41	($ 4.31)
3/1/2016	$ 20.61	5.87	80	$ 23.24	$ 2.63	117	$ 24.02	($ 2.37)	191	$ 24.96	($ 1.43)
4/1/2016	$ 27.04	8.01	9	$ 27.37	$ 0.33	42	$ 28.02	($ 6.89)	93	$ 28.65	($ 6.26)
5/1/2016	$ 19.21	5.40	95	$ 22.31	$ 3.10	181	$ 23.94	($ 5.53)	247	$ 24.72	($ 4.75)
6/1/2016	$ 21.64	6.21	66	$ 24.20	$ 2.56	133	$ 25.64	($ 5.91)	207	$ 26.60	($ 4.95)
7/1/2016	$ 23.80	6.93	34	$ 25.17	$ 1.38	71	$ 25.83	($ 11.86)	165	$ 26.84	($ 10.85)
8/1/2016	$ 25.16	7.39	15	$ 25.78	$ 0.62	42	$ 26.35	($ 14.31)	114	$ 27.22	($ 13.44)
9/1/2016	$ 25.15	7.38	41	$ 26.57	$ 1.42	56	$ 26.88	($ 8.60)	125	$ 27.69	($ 7.79)
10/1/2016	$ 25.59	7.53	-	$ 25.59	$ -	5	$ 25.69	($ 8.39)	31	$ 25.95	($ 8.13)
11/1/2016	$ 22.71	6.57	6	$ 22.89	$ 0.18	25	$ 23.27	($ 6.31)	131	$ 24.50	($ 5.08)
12/1/2016	$ 27.08	8.03	1	$ 27.10	$ 0.03	6	$ 27.19	($ 8.27)	23	$ 27.38	($ 8.09)
1/1/2017	$ 28.83	8.61	4	$ 28.94	$ 0.11	7	$ 29.00	($ 5.73)	35	$ 29.32	($ 5.41)
2/1/2017	$ 23.43	6.81	-	$ 23.43	$ -	10	$ 23.66	($ 4.19)	99	$ 24.72	($ 3.12)
3/1/2017	$ 29.52	8.84	-	$ 29.52	$ -	-	$ 29.52	($ 4.15)	37	$ 29.93	($ 3.74)
4/1/2017	$ 24.34	7.11	7	$ 24.58	$ 0.24	21	$ 24.84	($ 6.89)	114	$ 25.92	($ 5.82)
5/1/2017	$ 23.60	6.87	10	$ 24.01	$ 0.42	20	$ 24.20	($ 10.68)	91	$ 24.97	($ 9.91)
6/1/2017	$ 21.50	6.17	37	$ 23.08	$ 1.57	102	$ 24.44	($ 5.51)	199	$ 25.70	($ 4.24)
7/1/2017	$ 24.38	7.13	10	$ 24.71	$ 0.33	49	$ 25.39	($ 10.24)	154	$ 26.52	($ 9.11)
8/1/2017	$ 22.76	6.59	10	$ 23.08	$ 0.32	62	$ 24.16	($ 6.31)	185	$ 25.74	($ 4.73)
2015	**$ 29.33**	**8.78**	**409**	**$ 30.81**	**$ 1.48**	**722**	**$ 31.33**	**$ 2.00**	**1,215**	**$ 31.82**	**$ 2.49**
2016	**$ 23.81**	**6.94**	**407**	**$ 24.99**	**$ 1.18**	**836**	**$ 25.71**	**$ 1.90**	**1,635**	**$ 26.49**	**$ 2.68**
2017	**$ 24.79**	**7.26**	**78**	**$ 25.17**	**$ 0.37**	**271**	**$ 25.65**	**$ 0.86**	**914**	**$ 26.60**	**$ 1.81**

Source: Company data, Credit Suisse estimates, SNL

Figure 7: NI Hub - Energy Price Impact – On Peak Hours

Date	Avg. Price	Avg. Mkt. HR	# Hours with HR < 4	Adj. Avg. Price	Delta	# Hours with HR < 5	Adj. Avg. Price	Delta	# Hours with HR < 6	Adj. Avg. Price	Delta
1/1/2015	$ 34.04	10.35	2	$ 34.10	$ 0.07	2	$ 34.10	$ 0.07	6	$ 34.15	$ 0.12
2/1/2015	$ 51.78	16.26	-	$ 51.78	$ -	1	$ 51.80	$ 0.02	3	$ 51.82	$ 0.04
3/1/2015	$ 36.14	11.05	2	$ 36.20	$ 0.06	2	$ 36.20	$ 0.06	8	$ 36.28	$ 0.13
4/1/2015	$ 27.84	8.28	11	$ 28.21	$ 0.36	18	$ 28.35	$ 0.51	38	$ 28.61	$ 0.77
5/1/2015	$ 30.22	9.07	16	$ 30.97	$ 0.74	24	$ 31.13	$ 0.91	47	$ 31.43	$ 1.21
6/1/2015	$ 32.09	9.70	10	$ 32.44	$ 0.35	13	$ 32.50	$ 0.41	22	$ 32.61	$ 0.52
7/1/2015	$ 34.65	10.55	5	$ 34.88	$ 0.23	11	$ 34.99	$ 0.33	16	$ 35.04	$ 0.39
8/1/2015	$ 32.38	9.79	5	$ 32.60	$ 0.22	9	$ 32.67	$ 0.30	22	$ 32.83	$ 0.45
9/1/2015	$ 32.67	9.89	4	$ 32.81	$ 0.14	10	$ 32.94	$ 0.26	21	$ 33.06	$ 0.38
10/1/2015	$ 29.97	8.99	10	$ 30.31	$ 0.34	18	$ 30.47	$ 0.50	31	$ 30.61	$ 0.64
11/1/2015	$ 30.94	9.31	6	$ 31.21	$ 0.26	23	$ 31.59	$ 0.64	48	$ 31.92	$ 0.97
12/1/2015	$ 28.39	8.46	7	$ 28.61	$ 0.22	22	$ 28.91	$ 0.52	66	$ 29.39	$ 1.00
1/1/2016	$ 28.92	8.64	3	$ 29.06	$ 0.14	11	$ 29.22	$ 0.31	42	$ 29.61	$ 0.69
2/1/2016	$ 27.25	8.08	2	$ 27.31	$ 0.06	8	$ 27.44	$ 0.18	53	$ 27.96	$ 0.71
3/1/2016	$ 25.01	7.34	11	$ 25.31	$ 0.29	30	$ 25.64	$ 0.63	116	$ 26.59	$ 1.58
4/1/2016	$ 29.81	8.94	6	$ 30.07	$ 0.25	11	$ 30.17	$ 0.35	48	$ 30.62	$ 0.80
5/1/2016	$ 26.35	7.78	6	$ 26.56	$ 0.21	19	$ 26.82	$ 0.47	52	$ 27.23	$ 0.87
6/1/2016	$ 30.63	9.21	5	$ 30.90	$ 0.27	11	$ 31.01	$ 0.37	39	$ 31.32	$ 0.68
7/1/2016	$ 35.25	10.75	1	$ 35.28	$ 0.03	4	$ 35.35	$ 0.09	18	$ 35.51	$ 0.26
8/1/2016	$ 39.55	12.18	-	$ 39.55	$ -	-	$ 39.55	$ -	11	$ 39.67	$ 0.13
9/1/2016	$ 35.11	10.70	1	$ 35.14	$ 0.03	2	$ 35.15	$ 0.05	13	$ 35.28	$ 0.17
10/1/2016	$ 33.35	10.12	-	$ 33.35	$ -	-	$ 33.35	$ -	4	$ 33.39	$ 0.04
11/1/2016	$ 27.48	8.16	1	$ 27.54	$ 0.06	3	$ 27.58	$ 0.10	26	$ 27.83	$ 0.35
12/1/2016	$ 32.39	9.80	5	$ 32.54	$ 0.15	6	$ 32.56	$ 0.17	16	$ 32.65	$ 0.27
1/1/2017	$ 30.75	9.25	1	$ 30.78	$ 0.03	2	$ 30.80	$ 0.06	10	$ 30.88	$ 0.14
2/1/2017	$ 26.33	7.78	-	$ 26.33	$ -	-	$ 26.33	$ -	23	$ 26.58	$ 0.25
3/1/2017	$ 30.43	9.14	4	$ 30.58	$ 0.15	7	$ 30.63	$ 0.20	13	$ 30.70	$ 0.26
4/1/2017	$ 29.14	8.71	2	$ 29.23	$ 0.09	6	$ 29.31	$ 0.17	20	$ 29.48	$ 0.33
5/1/2017	$ 35.21	10.74	14	$ 35.98	$ 0.76	14	$ 35.98	$ 0.76	17	$ 36.01	$ 0.80
6/1/2017	$ 34.55	10.52	3	$ 34.67	$ 0.12	7	$ 34.75	$ 0.20	32	$ 35.03	$ 0.49
7/1/2017	$ 37.93	11.64	-	$ 37.93	$ -	-	$ 37.93	$ -	10	$ 38.05	$ 0.11
8/1/2017	$ 28.34	8.45	1	$ 28.38	$ 0.04	7	$ 28.51	$ 0.17	42	$ 28.90	$ 0.56
2015	**$ 33.43**	**10.14**	**78**	**$ 33.68**	**$ 0.25**	**153**	**$ 33.80**	**$ 0.38**	**328**	**$ 33.98**	**$ 0.55**
2016	**$ 30.93**	**9.31**	**41**	**$ 31.05**	**$ 0.12**	**105**	**$ 31.15**	**$ 0.23**	**438**	**$ 31.47**	**$ 0.55**
2017	**$ 31.59**	**9.53**	**25**	**$ 31.73**	**$ 0.15**	**43**	**$ 31.78**	**$ 0.19**	**167**	**$ 31.95**	**$ 0.37**

Source: Company data, Credit Suisse estimates, SNL

Figure 8: NI Hub - Energy Price Impact – Off Peak Hours

Date	Avg. Price	Avg. Mkt. HR	# Hours with HR < 4	Adj. Avg. Price	Delta	# Hours with HR < 5	Adj. Avg. Price	Delta	# Hours with HR < 6	Adj. Avg. Price	Delta
1/1/2015	$ 24.74	7.25	12	$ 25.20	$ 0.46	25	$ 25.44	($ 8.60)	43	$ 25.63	($ 8.40)
2/1/2015	$ 35.18	10.73	4	$ 35.37	$ 0.19	10	$ 35.50	($ 16.28)	37	$ 35.85	($ 15.93)
3/1/2015	$ 28.37	8.46	21	$ 29.20	$ 0.83	42	$ 29.62	($ 6.52)	67	$ 29.92	($ 6.23)
4/1/2015	$ 21.00	6.00	72	$ 25.17	$ 4.17	102	$ 25.81	($ 2.03)	157	$ 26.52	($ 1.32)
5/1/2015	$ 18.14	5.05	113	$ 25.82	$ 7.69	159	$ 26.67	($ 3.55)	216	$ 27.31	($ 2.92)
6/1/2015	$ 20.30	5.77	86	$ 24.78	$ 4.49	124	$ 25.59	($ 6.50)	167	$ 26.11	($ 5.97)
7/1/2015	$ 23.01	6.67	60	$ 25.74	$ 2.73	86	$ 26.28	($ 8.38)	142	$ 26.98	($ 7.68)
8/1/2015	$ 20.64	5.88	67	$ 24.74	$ 4.10	102	$ 25.39	($ 6.99)	166	$ 26.12	($ 6.26)
9/1/2015	$ 25.79	7.60	41	$ 27.30	$ 1.51	69	$ 27.87	($ 4.80)	134	$ 28.61	($ 4.07)
10/1/2015	$ 20.66	5.89	81	$ 24.23	$ 3.56	120	$ 25.03	($ 4.95)	171	$ 25.59	($ 4.38)
11/1/2015	$ 21.15	6.05	61	$ 23.29	$ 2.14	101	$ 24.07	($ 6.87)	170	$ 24.89	($ 6.06)
12/1/2015	$ 18.70	5.23	110	$ 22.79	$ 4.09	176	$ 24.15	($ 4.24)	242	$ 24.96	($ 3.43)
1/1/2016	$ 19.46	5.49	55	$ 21.52	$ 2.06	137	$ 23.00	($ 5.92)	257	$ 24.30	($ 4.61)
2/1/2016	$ 18.24	5.08	92	$ 21.91	$ 3.66	154	$ 23.25	($ 4.00)	230	$ 24.24	($ 3.01)
3/1/2016	$ 18.55	5.18	99	$ 22.06	$ 3.51	156	$ 23.26	($ 1.75)	244	$ 24.39	($ 0.62)
4/1/2016	$ 19.44	5.48	80	$ 23.20	$ 3.76	138	$ 24.37	($ 5.45)	215	$ 25.31	($ 4.50)
5/1/2016	$ 17.95	4.98	117	$ 21.93	$ 3.98	199	$ 23.49	($ 2.86)	276	$ 24.38	($ 1.97)
6/1/2016	$ 21.62	6.21	77	$ 24.63	$ 3.01	147	$ 26.14	($ 4.50)	230	$ 27.24	($ 3.39)
7/1/2016	$ 22.01	6.34	50	$ 23.98	$ 1.97	106	$ 25.01	($ 10.24)	224	$ 26.26	($ 8.99)
8/1/2016	$ 22.17	6.39	28	$ 23.35	$ 1.18	66	$ 24.15	($ 15.40)	159	$ 25.29	($ 14.25)
9/1/2016	$ 24.11	7.04	50	$ 25.87	$ 1.76	75	$ 26.36	($ 8.75)	160	$ 27.39	($ 7.72)
10/1/2016	$ 23.92	6.97	13	$ 24.54	$ 0.62	20	$ 24.67	($ 8.68)	94	$ 25.44	($ 7.92)
11/1/2016	$ 20.45	5.82	30	$ 21.85	$ 1.40	67	$ 22.61	($ 4.87)	202	$ 24.18	($ 3.30)
12/1/2016	$ 24.65	7.22	22	$ 25.40	$ 0.75	37	$ 25.69	($ 6.70)	79	$ 26.17	($ 6.22)
1/1/2017	$ 23.54	6.85	13	$ 23.98	$ 0.44	24	$ 24.20	($ 6.54)	96	$ 24.99	($ 5.76)
2/1/2017	$ 21.80	6.27	9	$ 22.22	$ 0.42	28	$ 22.62	($ 3.71)	163	$ 24.36	($ 1.97)
3/1/2017	$ 25.08	7.36	15	$ 25.60	$ 0.53	26	$ 25.83	($ 4.60)	86	$ 26.54	($ 3.89)
4/1/2017	$ 21.65	6.22	36	$ 23.07	$ 1.43	69	$ 23.70	($ 5.44)	184	$ 25.06	($ 4.08)
5/1/2017	$ 18.73	5.24	72	$ 23.84	$ 5.11	95	$ 24.32	($ 10.89)	160	$ 25.03	($ 10.18)
6/1/2017	$ 20.41	5.80	52	$ 23.36	$ 2.95	116	$ 24.68	($ 9.87)	202	$ 25.84	($ 8.71)
7/1/2017	$ 24.36	7.12	20	$ 25.08	$ 0.73	66	$ 25.91	($ 12.02)	195	$ 27.26	($ 10.67)
8/1/2017	$ 20.95	5.98	29	$ 22.56	$ 1.62	91	$ 23.88	($ 4.46)	211	$ 25.47	($ 2.88)
2015	**$ 23.14**	**6.71**	**728**	**$ 26.14**	**$ 3.00**	**1,116**	**$ 26.78**	**$ 3.65**	**1,712**	**$ 27.37**	**$ 4.24**
2016	**$ 21.05**	**6.02**	**713**	**$ 23.35**	**$ 2.31**	**1,302**	**$ 24.33**	**$ 3.29**	**2,370**	**$ 25.38**	**$ 4.34**
2017	**$ 22.06**	**6.35**	**246**	**$ 23.72**	**$ 1.65**	**515**	**$ 24.39**	**$ 2.33**	**1,297**	**$ 25.57**	**$ 3.51**

Source: Company data, Credit Suisse estimates, SNL

Companies Mentioned *(Price as of 06-Sep-2017)*

Exelon Corporation (EXC.N, $37.55, OUTPERFORM, TP $43.0)

Disclosure Appendix

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3-Year Price and Rating History for Exelon Corporation (EXC.N)

EXC.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
30-Sep-14	34.09	40.00	O
17-Feb-15	33.09	39.00	
01-Nov-15	27.92	38.00	
02-Mar-16	32.32		NR
24-Jan-17	35.13	39.00	O *
23-Apr-17	35.03	40.00	
26-May-17	35.82	42.00	

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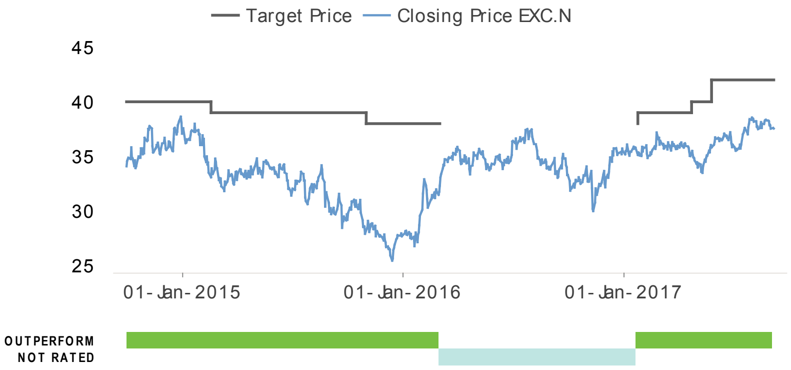

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for Exelon Corporation (EXC.N)

Method: To arrive at our $43 target price for EXC we use a sum of the parts valuation methodology valuing each of the business segments separately. To value the utilities we use a peer average 2019 P/E multiple of 17x discounted to reflect the respective risks at each of the utilities. To value the generation business we apply a 7.5x EV/EBITDA multiple under our embedded power price scenarios. The values of ZECs and capacity payments are removed from EBITDA estimates and valued separately. Our Outperform rating for EXC reflects a forecasted total return greater than the group average.

Risk: Risks to our $43 price target and Outperform rating for EXC are 1) regulatory risk--PHI ratecase risk, 2) legislative risk, 3) commodity and power and capacity price risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk, 7) weather risk, 8) environmental and climate change risk, and 9) physical infrastructure and cybersecurity risk.

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Electric Utilities

WEEKLY ANALYSIS

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Things We've Learned This Week

Our Take: As we watch Hurricane Irma approach Florida, it would appear that the Carolinas are likely to escape serious harm. Nevertheless, we recall that DUK's $25B grid modernization plan includes a 10-year, $13B Power Forward Carolinas utility investment initiative, with $4.9B of undergrounding and $3.5B of storm hardening (DUK has been making storm hardening investments in Florida for years). When this was initially proposed earlier this year (citing the impact from last year's Hurricane Matthew), we noted caution around these programs given PEG's experience in NJ with regulator pushback after Hurricane Sandy. However, we tend to think that on the margin, this Hurricane season is likely to help the company gain buy-in for such long-term plans. See our Feb 20th note "Stronger 5-Year Plan Bears Watching" and May 10th note "Carolinas on their Minds" for more detail.

- **D** presented an updated post-2020 view this week, which emphasized a growing push for programmatic investments recovered through trackers and riders, a notable change from the current 5-year plan heavily sprinkled with major project investments. For Dominion Midstream (DM), we don't see any urgency to reset the GP's IDR with at least a year before the next significant dropdown (Cove Point). In any case, our analysis continues to show a reduction in dropdown multiple could be just as effective and result in similar NPV of overall cash flows to D. See our note today "From Projects to Programs after 2020" for more detail.
- For **EXC**, our analysis shows $1-$4/MWh improvement in off-peak power is a likely result from coming energy market reforms in PJM, although the mechanics of such reforms could vary widely (e.g., would higher nodal pricing apply to all units or just targeted baseload?). We continue to expect FERC to issue a notification this Fall to all regional transmission operators (RTOs) to study problems with energy market designs across the country, with an eye toward avoiding undesirable early retirements of baseload resources. The RTO studies could then result in proposal filings with FERC around Feb/Mar 2018 followed by orders under Section 206 from FERC to make changes sometime thereafter. While some investors think this is more likely, a 2019 event, we don't see reason for skepticism at this time and in any event, a 2019 implementation would change neither our valuation nor view. See our 9/7 note "Highlighting Potential from Energy Reforms" for more detail.
- **EEI Financial Conference 2017 Meetings Signup Now Open**: Please join us in Orlando 11/5-11/7 as we host 24 management meetings and a takeaways dinner on 11/7: *WEC, NI, BKH, AVA, ED, DUK (dinner), DTE, AEP, EXC, NEE, NWE, ES, EIX, D, SRE, CMS, CNP, PNW, XEL, PPL, PEG, PCG, SO, ETR.*

Figure 1: CS Utilities Catalyst Calendar – 2017

Company	Ticker	Description	Timing	Comments
Duke Energy	DUK	Appeals Decision RE: Constitution Pipeline Water Quality Certificate	Mid-2017	Fed court: denial of water quality permit upheld
Eversource	ES	ISO-NE Midyear Analysis, expected to support ANE	Mid-2017	
ALL Regulateds		FOMC September Meeting	9/20/2017	
All Solar		USITC preliminary decision on 201 trade case against solar imports	9/22/2017	
NiSource	NI	PULJ Proposed order in Columbia of MD ratecase	9/26/2017	Expected 9/26
Centerpoint	CNP	Decision in OK PBR Proceeding	September, 2017	
CMS Energy	CMS	MPSC Commission Order on Palisades Securitization	September, 2017	From Aug to End of Sept
Eversource	ES	Northern Pass NHSEC Decision	9/30/2017	Decision postponed six months to March 2018
Southern	SO	DOE additional loan request for Vogtle Plant	September, 2017	"By End of Sept" - Oglethorpe investor call
Southern	SO	Final Decision in Kemper Proceeding	10/6/2017	Expected 10/6 (Docket No. 2017-AD-0112)
DTE Energy	DTE	Possible PSC Decision on Interim Rates in Electric ratecase	10/13/2017	Docket No. C-U-18255
Spire	SR	Rebuttal Testimony on Revenue Requirement in Ratecase	10/17/2017	for MGE and Laclede gas
Exelon	EXC	ALJ proposed order in FRP case	10/19/2017	
Eversource	ES	CT draft decision on Aquarion for ES	10/27/2017	Draft decision due
Eversource	ES	CT final decision on Aquarion for ES	10/27/2017	Decision due
Duke Energy	DUK	Settled outcome for DEP rate request	October, 2017	EC ratecase filing - Aug 25th, DEP outcome exp Oct/No
Dominion	D	Rider BW, U-2 filing	October, 2017	
Spire	SR	Mobile Gas 4-year review of RSE Filing	October, 2017	
ALL Regulateds		FOMC October/November Meeting	11/1/2017	
ALL Utilities		EEI Financial Conference	11/5/2017	*Capex/Guidance Updates*
NiSource		Columbia Gas of MD ratecase - final decision	11/5/2017	final order due
Pinnacle West	PNW	2018 EPS Guidance	3Q17	On the 3Q Call
Duke Energy	DUK	Lee CCGT Completion	November, 2017	
Spire	SR	STL Pipeline Milestone; FERC Final Order	November, 2017	
Eversource	ES	WMECO and NSTAR Electric Ratecase Decisions	November, 2017	decision in Nov, rate design in Dec
ALL Regulateds		FOMC December Meeting	12/13/2017	
Dominion	D	Cove Point In-Service	2H17	on-line in late 2017
Black Hills Corp	BKH	Sale of Non-Core Oil and Gas Properties Completed	2H17	Complete by YE
Northwestern Corp	NWE	Colstrip Litigation Resolution	2H17	Expected 'end of year'
Northwestern Corp	NWE	FERC/DGGS Resolution	2H17	Second half at the earliest'
Southern Company	SO	Mississippi PSC decision on Kemper Settlement	4Q17	If approved, SO expects additional cost of $100-200M
Black Hills Corp	BKH	Renewable RFP Issuance - Approval at year-end	4Q17	Issued June 23rd, up to 60 MW
Southern	SO	Sanmen (China) AP1000 Reactor - Fuel Loaded	4Q17	previously at some point in the summer
DTE Energy	DTE	NEXUS Pipeline completed	4Q17	Before year end, early approval late Aug
All Solar		Trump to decide solar import duty under 201 trade case	Nov-Dec, 2017	60 days approval period starting Nov 11
Spire	SR	Missouri PSC - Commissioner Stoll Term Expires	December, 2017	(D)
Exelon	EXC	Deadline for Decision in FRP proceeding	December, 2017	
Eversource	ES	PSNH Generation Divestiture	2017	Late-2017
Eversource	ES	Aquarion transaction expected close date	2017	Expected to close by 12/31
Eversource	ES	Massachusetts Solar Filing Facility Completion	2017	YE 2017
Black Hills Corp	BKH	Colorado IRP Approval	2017	Expected by YE
Black Hills Corp	BKH	IRP for South Dakota and Wyoming	2017	
DTE Energy	DTE	IRP Filing in Michigan	2017	"later this year", 4q16 call
Black Hills Corp	BKH	Cost of Service Gas Filing	2018	Previously 1H17, 2Q/3Q17
Dominion	D	Millstone study order results	2018	Millstone study order on 7/25, results due Feb. 2018

Source: Company data, Credit Suisse estimates

Yield spreads are widening. Utilities generally performed in-line with the S&P 500 this week. Interestingly, the spread between dividend yields and 10-year bond yields has widened 10 bps since late-August to 131 bps as the Treasury yield has plummeted almost 2.0%. This might suggest some additional defensive yield support for utility sector P/Es. As illustrated below, there is now ~131 bps of “slack” spread between 10-year bond yields and the utility dividend yield (historically this spread is closer to zero). There is usually a high degree of correlation between the 10-year yield and the premium/discount P/E that utilities trade at vs. the S&P 500. This spread acts as a sort of shock absorber, reducing the “control” rates should have over utility valuation if rates begin to rise sustainably.

Figure 2: Spread Between Utility Dividend Yield and 10-Year Treasury Bond Yield

Source: the BLOOMBERG PROFESSIONAL™ service

As the Fed gets closer to finalizing its tightening cycle over the next couple of years, longer-duration bond yields should begin to rise as the yield curve steepens. Once over ~4% yield for the 10-Year, we would expect a return to a more historically "normal" relationship between utility equities and bonds (i.e., no spread between the 10-year and dividend yields and utilities trading at about 70%-80% of the S&P 500 forward P/E).

Figure 3: 10-Year Treasury Yield vs. Utilities / SPX Relative Performance

Source: the BLOOMBERG PROFESSIONAL™ service

- **Newly released audit report bears more woes for VC Summer owners.** An audit report prepared in February 2016, which owners SCG and Santee Cooper previously claimed they did not have access to, was released to South Carolina Governor McMaster on Labor Day. The report warned that the development of the two reactors was not likely to be successful, highlighting multiple problems, including lack of a detailed construction schedule, the reactor design being "often not constructible", and contractor Westinghouse not being "commercially motivated" to finish the project**.** The report came ~1.5 years before the project was scrapped in late July 2017, and three months before regulators were asked for an $800M increase for the budget.
  - ***From our 8/21 weekly*****: VC Summer unlikely to come back despite petition withdrawal.** On August 15th, SCG decided to withdraw its abandonment petition for VC Summer to give the legislative committees and Governor McMaster time to assess the project. We would characterize this largely as a procedural move made necessary by the lack of any way to temporarily suspend abandonment proceedings short of outright withdrawal. On a call, management emphasized that they have not changed their own assessment that abandonment is in the best interests of all stakeholders, and we are very skeptical of the Governor's reported overtures to SO, DUK, and D to partner with SCG on completing either one or both units. All three companies carry significant parent-level debt on their balance sheets, although Dominion is set to begin a significant debt-reduction program once its Cove Point LNG terminal opens later this year. Dominion had been previously considering an expansion at the North Anna nuclear plant, although that plan has been tabled for now. We doubt that SO would be interested in taking on even more construction risk than they already carry. Recall that In Jan 2014, DUK previously rejected the opportunity to buy a 5%-10% stake from Santee Cooper. Furthermore, DUK is currently engaged in a ratecase for Duke Energy Carolinas that seeks recoupment of ~$370M development costs for the proposed Lee nuclear facility, also an AP1000 design ($531M total allocated 70% NC/30% to SC). In any event, SC Senate and House special committees have been set up to review the abandonment of the project. While an option to restart is not ruled out, there is a significant hurdle to get there as SCG management highlighted and emphasized a lengthy procedure required with at least a year with additional costs under a completely new construction contract.
- **Third time's the charm, now can I get an Oncor?** Sempra Energy's (SRE) $9.45B cash bid to acquire Energy Future Holdings (EFH) and its 80% ownership interest in Dallas-area utility Oncor has taken the first step forward, receiving approval from bankruptcy court. The $9.45B offer will be financed with $3B of debt issued by a new holding company to ringfence Oncor from EFH's bankruptcy, with the remaining $6.45B funded 60% by SRE and 40% from currently undisclosed third party investors. This structure would give SRE an initial 48% ownership and the third party investors a 32% ownership, with SRE ultimately purchasing the 32% ownership. The next step is approval by the Public Utility Commission of Texas (PUCT), with Oncor and SRE expected to file a joint application in October.

  Recall that the previous two offers made by Hunt Consolidated and NextEra Energy (NEE) fell through due to PUCT concerns regarding commitments related to infrastructure improvements and customer benefits, retention of existing strict ringfencing provisions, and independence of the utility over dividend payments, investment decision, and board members. In contrast, SRE indicated a commitment to meeting these conditions that had led to the demise of the previous transactions.
- **Showdown on Capitol Hill, clash to reform PURPA.** On Sept. 6th, hearings were held in Congress over the need to reform or repeal the Public Utilities Regulatory

Policies Act (PURPA). Supporters argue that PURPA is essential to expanding US renewable energy and that PURPA has yet to fully achieve its objectives.

Opponents argue that PURPA's requirements are leading to higher costs as QFs displace energy from higher efficiency power plants and impede development of non-QF renewable energy. Complaints include that QF developers are taking advantage of the "1-mile rule" (minimum distance between plants) and are dividing larger projects into batches. Another complaint is that the cost structure is based on outdated (too high) avoided cost rates, which is the cost the utility would have had to pay to build generation itself or to purchase the power from another source.

Proposed reforms include requiring QFs to negotiate with utilities on power purchase contracts or bid into organized wholesale markets like other suppliers, lowering the 80MW qualifying threshold for QFs, and modifying must-purchase contracts to consider utilities' needs and resources.

  - Background: PURPA is a law enacted in 1978 that requires utilities to buy power at avoided cost rates from small co-generation facilities running on renewable, biomass, waste, or geothermal resources, with capacities of <80MW. PURPA was amended by congress in 2015 allowing utilities to terminate PURPA contracts if a qualifying facility (QF) is deemed to have non-discriminatory access to relevant whole markets. FERC established that a QF with 20MW or less does not have non-discriminatory access. FERC regulates QFs, while state regulators decide avoided cost rate.
  - Five states have changed PURPA rules so far - North Carolina reduced PPA terms to 10 years and also introduces a solar bidding process over the next three years, Montana reduced PURPA duration to 5 years (from 25) and PPAs to $40/MWh (from $66/MWh), Idaho reduced contract duration to 2 years (from 20), Utah reduced it to 15 years (from 20), and Oregon lowered opportunity cost for >3 MW solar projects but maintained the 20 year contract duration. Michigan wants to lower avoided cost payments from 7-8c/kWh to ~4.5c/kWh.

- **You're going to need a permit for that – Millennium Pipeline permits denied in NY.** The NY State Department of Environmental Conservation (DEC) denied necessary water permits for the proposed Millennium Pipeline, intended to supply the CPV Valley power plant. DEC Deputy Commissioner stated that FERC's environmental review of the project was "inadequate and deficient" citing the recent Sabal Trail ruling. In addition, the Commissioner stated that under state law, DEC can deny permits for reasons that include "newly discovered material information or a material change in environmental conditions, relevant technology or applicable law or regulations" with an emphasis on "applicable law or regulations".
  - ***From our 8/27 weekly*: DC Circuit rejects FERC approval of Southeast Pipelines Project.** On August 22nd, the Court of Appeals for the DC Circuit ruled that when considering approval of the Southeast Market Pipelines Project last year, FERC should have either "given a quantitative estimate of the downstream greenhouse gas (GHG) emissions that will result from burning the natural gas" transported by the pipelines or offered a satisfactory explanation for why it could not do so. The Southeast Market Pipelines designed to meet growing demand from gas-fired generation in Florida spans a combined 685 miles across Florida, Georgia, and Alabama consisting of three pipelines, the largest of which is the Sabal Trail Pipeline. While the decision should not immediately impact operation of the pipelines, it leads to wide-ranging implications for infrastructure, directing FERC to examine climate impacts of the gas usage particularly in regards to GHG emissions. Furthermore, it is expected that this will lead FERC to require its environmental impact

statement (EIS) contractors to run quantitative analysis in the future, leading to more transparency on emissions.

- **Duke Energy Kentucky (DEK) files for ratecase.** DEK filed for a $49M rate increase with the Kentucky Public Service Commission (KYPSC), representing a 10.3% ROE, 48.9% equity ratio on an average rate base of $705.1M using a test year ending March 31, 2019. The KYPSC is expected to issue a final decision on the case April 2018.
- **Piedmont Natural Gas (PNG) files gas ratecase settlement.** PNG, a wholly owned subsidiary of Duke Energy (DUK) and the South Carolina Office of Regulatory Staff (ORS) filed a settlement with the Public Service Commission (PSC) of South Carolina. The settlement specifies a $5.5M rate increase at a 10.2% ROE, 53% equity ratio, and $304.1M ratebase using a test year ending March 31, 2017. PNG initially filed for a $17.2M base rate increase at a 12.6% ROE based on a 53% equity ratio and a $304.8M ratebase. The PSC is required to issue a final decision by Oct 15th.
- **Nevada back at it with net metering.** The Public Utilities Commission (PUC) of Nevada adopted an order signed by Governor Sandoval in June restoring net metering credits at 95% of retail electricity rates for rooftop solar customers, reversing its 2015 decision to reduce net metering and implement fixed fees. Under new rules, energy exported by customers will receive credit at 95% for the first 80MW, declining by 7% for every additional 80MW exported until reaching the minimum rate of 75%. The PUC also rejected NV Energy's request to raise the fixed service charge for all electricity customers to compensate for higher NEM credits for solar customers, and noted that rate design issues would be discussed in future rate cases. SolarCity (now Tesla), Sunrun, and Vivint, all of which previously ended Nevada operations in 2015, have announced that they will resume operations following this decision.
- **Tweaking Mark Twain.** Ameren (AEE) has finalized a new route for its planned 345-kV Mark Twain transmission line. After receiving resistance to an earlier proposed route in 2015, the proposed route will now pass through almost entirely existing rights of way. The ~100 mile line will run from the Maywood substation to the new Zachary substation up to northern Missouri. AEE expects to invest $250M in the project, including construction of the new Zachary substation, reconstruction of 59 miles of transmission line owned by Northeast Missouri Electric Power Cooperative, and upgrades to an existing 161-kV line. AEE plans to apply for a construction permit with the Missouri Public Service Commission (PSC) in mid-September and hopes to receive approval by 1Q18 to begin the construction process so the project can stay on schedule to be placed in-service in December 2019.

  Separately, NEE is seeking to acquire the remaining 20% minority interest held by Texas Transmission Holdings Corp.
- **Northern Pass comes back with another pass.** The US Forest Service is recommending a special issue permit to be given to Eversource's (ES) Northern Pass, permitting the transmission project to bury 11 miles of power line within the White Mountain National Forest. The permit is one of three key approvals needed before construction can begin, with the others being from the US Department of Energy and the New Hampshire Site Evaluation Committee (NHSEC). This decision comes a week after the NHSEC voted to postpone a decision for six months. Following the decision by the US Forest Service, ES continues to remain confident in meeting a 2020 in-service date, anticipating construction to begin in 2Q18.
  - **Northern Pass decision delay is not a surprise**. On 8/31, the New Hampshire Site Evaluation Committee (NHSEC) voted to postpone their final decision on Eversource Energy's (ES) Northern Pass Transmission (NPT) project for another six months to the end of March 2018. This is considered the most critical gating approval, to be followed by a Presidential permit to construct and operate the line across the US/Canada border. Previously, the decision was due at the end of

September; although we had highlighted a probability of delay in our Aug 11 weekly (see below) due to the need for "weeks" of intervenor cross examination after ES witnesses finish (they wrapped on Aug 30). ES stated it was "disappointed considering the review process was already extended by nine months for what was originally a 12-month process", but was also encouraged by the committee's "willingness to pursue options for concluding the review in advance of the new deadline." Also pending are the issuance of federal permits, including the Presidential permit, a Special Use permit from the U.S. Forest Service, and the Section 404 Permit from the U.S. Army Corps of Engineers. All major contractor and equipment contracts are fully executed and ES remains confident in its ability to achieve a 2020 in-service date (recently extended a year), anticipating construction to begin in 2Q18.

- ***From our 8/11 weekly:* Still targeting yearend approvals but New Hampshire unlikely to grant siting approvals by Sept 30.** On Aug 10, ES received the Final Environmental Impact Statement (FEIS) from the US Department of Energy for NPT. With 11 of 13 ES witness panels now completed, the remaining ES witnesses are expected to testify through mid-Sept, to be followed by rounds of intervenor testimony and cross examination. That could take weeks depending on how tolerant the NH Siting and Evaluation Committee (NHSEC) is of "friendly cross examination" between the various intervenor groups opposed to the project (we hear that the Chair of the committee is inclined to limit such cross). Once finished, we expect another 2-4 weeks of briefs (no replies though) followed by deliberations and finally, a vote. A formal written order would then take another 30-60 days. In addition to the NHSEC process, the NH Public Utility Commission is also reviewing approval for leases of rights of way from Public Service Co of New Hampshire (an ES subsidiary), with hearings in late November. See our 7/28 report "Holding the (Transmission) Line Through 2020".

Recent Excerpts:

- **D: From Projects to Programs after 2020. Laying out a stable foundation beyond 2020:** With the current 5-year capital plan through 2020 focused on discrete large project investments, the company intends to transition to a more programmatic approach with long-term investment programs under various forms of tracked/rider recovery post-2020. This is notably similar to DUK's approach, as we highlighted in our 6/26 report "DUK: Story to Improve Further with Grid Riders". D already has tracked non-ratecase recovery mechanisms for much of its utility investment, including electric transmission, generation, gas utility infrastructure, and is working with the VA legislature to gain support for tracked transmission undergrounding programs as well. On undergrounding, the VA Senate has been very supportive despite some hesitancy from state regulators. As the next step, we expect D to seek programmatic recovery at DTI for its pipeline programs with a 2018 federal ratecase filing, likely followed with similar asks for South Carolina and Utah pipeline investment.
    - **Reiterated $8B cash from Dominion Midstream (DM)** including dropdown proceeds through 2020. Still plan to cut $3B-$4B parent debt, likely around 2019/20 with an objective to reduce the proportion of total debt at the parent to 30%-40% from the current ~50%. D will also pursue opportunistic stock buybacks from 2018-2020 (not a regular program), and continue to raise DM's distribution at 22% annual rate through 2020 (likely less after that). D also announced an increase to 10% annual dividend growth through 2020.
    - **We don't see any urgency to reset the IDR at DM.** With at least a year before the next significant dropdown (Cove Point), D can wait for LP

pricing/liquidity to improve. In any case, our analysis continues to show a reduction in dropdown multiple could be just as effective and result in similar NPV of overall cash flows to D.

- **EXC: Highlighting Potential from Energy Reforms.** We're raising our target price for EXC $1 to $43 and maintain Outperform with no changes to estimates at this time. The increase reflects partial credit for the potential uplift in energy gross margin resulting from expected price formation reform in PJM in 2018 where the energy market could be restructured to provide more support for 'inflexible' baseload generation. Our calculations estimate potential off-peak price uplift ~$1.20-$4.30/MWh across PJMW and NI Hub, resulting in up to $210M-$370M incremental open (unhedged) EBITDA or about $0.15-$0.25 EPS.
- **Last Week's Things We've Learned This Week (9/1): Our Take:** The sector took a late-summer breather with 130 bps underperformance vs the broader market this past week. The most significant news this week was SO's unsurprising recommendation to move forward with the Vogtle new nuclear project. Notable in the report was the project's positive NPV vs a new gas plant based on updated forward gas price (and other) assumptions. Also, the option to cancel Unit 4 was dismissed given limited savings that would reduce this NPV compared with proceeding on both units.

Companies Mentioned *(Price as of 31-Aug-2017)*

ALLETE (ALE.N, $77.33)
Ameren (AEE.N, $59.99)
Avangrid (AGR.N, $48.82)
Avista US (AVA.N, $51.4)
Azure Power Global Limited (AZRE.N, $14.51)
BP (BP.N, $34.73)
Black Hills Corp (BKH.N, $70.38)
CMS Energy Corp (CMS.N, $48.54)
Calpine (CPN.N, $14.7)
CenterPoint Energy Inc (CNP.N, $29.62)
Cheniere Energy, Inc. (LNG.A, $42.79)
Consolidated Edison (ED.N, $84.27)
DTE Energy (DTE.N, $112.32)
Dominion Energy (D.N, $78.77)
Duke Energy (DUK.N, $87.3)
Dynegy Corporation (DYN.N, $9.42)
EQT Midstream Partners, LP (EQM.N, $76.37)
Edison International (EIX.N, $80.18)
Enable Midstream Partners (ENBL.N, $14.89)
Enbridge Inc (ENB.N, $39.99)
Energy Transfer Partners, LP (ETP.N, $19.01)
Entergy Corp (ETR.N, $79.17)
Eversource Energy (ES.N, $63.0)
Exelon Corporation (EXC.N, $37.87)
Gt Plains Energy (GXP.N, $30.69)
MDU Rsrcs Group (MDU.N, $27.04)
NRG Energy (NRG.N, $24.91)
National Grid (NG.L, 974.7p)
New Jersey Rsrce (NJR.N, $43.65)
NextEra Energy Inc. (NEE.N, $150.51)
NiSource Inc. (NI.N, $26.87)
NorthWestern Energy (NWE.N, $60.32)
OGE Energy (OGE.N, $35.72)
PG&E Corp. (PCG.N, $70.38)
PPL Corp (PPL.N, $39.24)
Pinnacle West Capital Corp. (PNW.N, $89.97)
Public Service Enterprise Group (PEG.N, $46.84)
SCANA (SCG.N, $60.38)
Sempra Ener (SRE.N, $117.93)
Southern Company (SO.N, $48.26)
Spectra Energy Partners, LP (SEP.N, $44.33)
Spire Inc. (SR.N, $76.5)
Unitil (UTL.N, $49.86)
Vistra Energy (VST.N, $17.7)
Westar Energy (WR.N, $51.31)
Wisconsin Energy Corporation (WEC.N, $65.22)
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Forward Power Curves, GenCo MtM and Weekly Commentary

SECTOR: Power and Utilities

September 8, 2017

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Forward Power/Gas Curves – 09/07/17. Below, we provide estimated forward curves for power, heat rates, spark, dark, and quark spreads for peak, off-peak, and around-the-clock for various regions in the United States, broken down by each RTO/ISO in North America. In addition, we model forward gas, basis, as well as coal through the 2026 time frame.

Investors should use this link to open an Excel spreadsheet of various curves that can be used for power and utility models (click here to download our weekly price deck summary).

Forward Curve Weekly Highlights: Power and Heat Rates, for the week of 9/7 versus the prior week, **2018 national peak power prices** ($/MWh) were up 0.1% to $34.13 from $34.10 and around-the-clock power was down 0.2% to $29.50 from $29.55. Peak power in PJM was down 0.7% to $36.75 from $37.00; ERCOT was down 0.5% to $32.37 from $32.52; NE-ISO was down 0.7% to $44.25 from $44.58; NY-ISO was up 0.5% to $46.06 from $45.85; and MISO was down 0.7% to $34.45 from $34.70. **2018 peak heat rate (Btu/kWh) contractions:** 0.7% to 10,049 in NE-ISO, 0.7% to 11,870 in MISO. **2018 peak heat rate (Btu/kWh) expansions:** 0.6% to 10,930 in ERCOT, 0.5% to 11,548 in NYISO, 0.1% to 11,662 in PJM. See full price deck for additional details on various other curves and regions.

Forward Curve Weekly Highlights: Spark and Dark Spreads versus the prior week, **2018 Peak Spark Spreads** ($/MWh) in PJM were down 0.5% to $14.69 from $14.77; ERCOT was down 1.5% to $11.52 from $11.69; NE-ISO was down 2.3% to $13.43 from $13.75; NYISO was up 1.2% to $18.14 from $17.93; and MISO was down 1.7% to $14.14 from $14.38. **2018 Around-the-Clock Dark Spreads** ($/MWh) in PJM were down 1.1% to $24.68 from $24.96; ERCOT was down 0.3% to $20.33 from $20.39; NE-ISO was down 0.6% to $31.79 from $31.98; NYISO was down 0.5% to $32.12 from $32.28; and MISO was down 1.0% to $22.99 from $23.22.

Illustrative impact of marking our IPP and integrated utility models to the current forward curves versus published live estimates: We are adding VST into this weekly note (See our initiation HERE). PEG, FE, EXC, NRG, DYN, CPN and VST are lower overall. **See the next page for illustrative MtM implications on Guggenheim's IPP and Integrated Utility coverage throughout our forecast period.**

Natural Gas Storage Levels and Eastern Gas Basis Tracker, Gas in storage increased to 3,220 Bcf as of 09/01/2017 a weekly increase of 65 Bcf, resulting in storage 6.2 Bcf below one year ago, 0.5 Bcf above the five-year average for this week. Eastern gas basis (TETCO M3) is currently reflecting a discount to Henry Hub for 2017 and a premium from 2018 through 2020 (-$0.54/$0.11/$0.08/$0.06 for '17/'18/'19/'20), expanding since last week.

Continued on the next page…

Illustrative Impact: Marking IPPs and Integrated Utilities to 09/07 Forward Curves

Henry Hub Natural Gas Price		2017E	2018E	2019E	2020E
Live Estimates(1)	$ / MMBtu	3.11	2.99	2.85	2.84
Current Curves	$ / MMBtu	3.08	3.04	2.88	2.80
Delta		*(0.9%)*	*1.6%*	*1.1%*	*(1.1%)*

INTEGRATED UTILITIES / INDEPENDENT POWER PRODUCERS (IPPs)

Exelon (EXC)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	8,204	8,456	8,473	8,519
	EPS	2.71	2.93	2.89	2.87
Current curves	Adj. EBITDA	8,182	8,421	8,397	8,359
	EPS	2.69	2.90	2.85	2.80
Delta	*Adj. EBITDA*	*(0.3%)*	*(0.4%)*	*(0.9%)*	*(1.9%)*
	EPS	*(0.4%)*	*(0.8%)*	*(1.3%)*	*(2.6%)*

FirstEnergy (FE)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	4,150	4,291	4,345	4,428
	EPS	2.82	2.49	2.37	2.27
Current curves	Adj. EBITDA	4,138	4,281	4,318	4,358
	EPS	2.80	2.48	2.34	2.20
Delta	*Adj. EBITDA*	*(0.3%)*	*(0.2%)*	*(0.6%)*	*(1.6%)*
	EPS	*(0.6%)*	*(0.5%)*	*(1.5%)*	*(3.0%)*

PSEG (PEG)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	4,435	4,026	4,142	4,274
	EPS	2.94	2.90	2.93	3.00
Current curves	Adj. EBITDA	4,433	4,018	4,118	4,234
	EPS	2.93	2.89	2.90	2.95
Delta	*Adj. EBITDA*	*(0.1%)*	*(0.2%)*	*(0.6%)*	*(0.9%)*
	EPS	*(0.4%)*	*(0.3%)*	*(1.0%)*	*(1.7%)*

Calpine (CPN)		2017E	2018E	2019E	2020E
Live Estimates(2)	Adj. EBITDA	1,826	2,027	1,971	2,042
Current curves	Adj. EBITDA	1,808	2,012	1,977	2,057
Delta	*Adj. EBITDA*	*(0.9%)*	*(0.7%)*	*0.3%*	*0.7%*

NRG		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	2,613	2,881	3,183	3,146
Current curves	Adj. EBITDA	2,603	2,864	3,097	3,128
Delta	*Adj. EBITDA*	*(0.4%)*	*(0.6%)*	*(2.7%)*	*(0.6%)*

Dynegy (DYN)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	1,312	1,544	1,370	1,314
Current curves	Adj. EBITDA	1,302	1,515	1,341	1,266
Delta	*Adj. EBITDA*	*(0.7%)*	*(1.9%)*	*(2.2%)*	*(3.6%)*

Vistra (VST)		2017E	2018E	2019E	2020E
Live Estimates(3)	Adj. EBITDA	1,487	1,467	1,484	1,395
Current curves	Adj. EBITDA	1,480	1,465	1,478	1,383
Delta	*Adj. EBITDA*	*(0.5%)*	*(0.1%)*	*(0.4%)*	*(0.8%)*

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(1) Priced off June 29, 2017 forward curves.

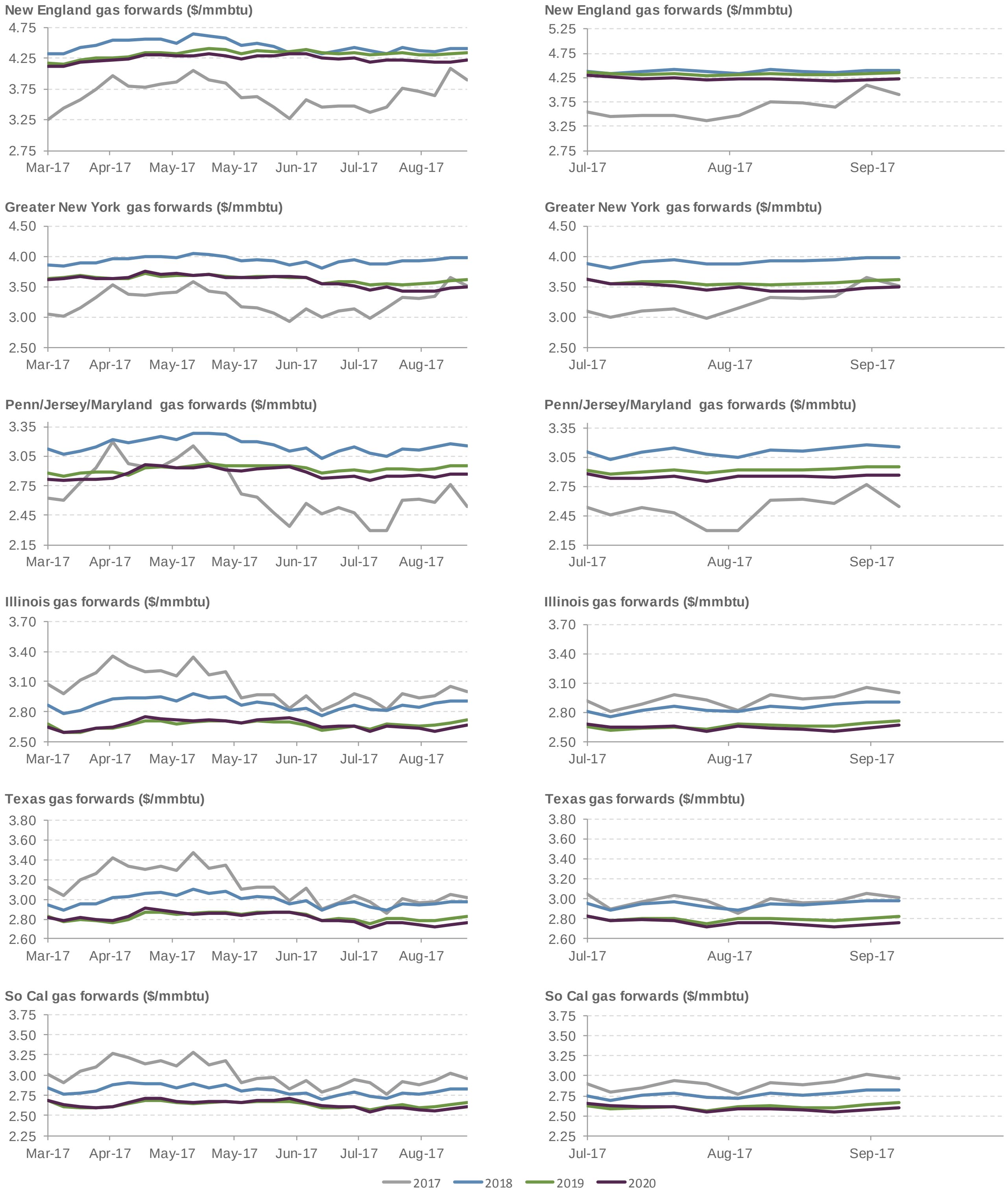
(2) Priced off August 17, 2017 forward curves.

(3) Priced off August 24, 2017 forward curves.

Source: Guggenheim Securities, LLC estimates, ICE, Bentek Energy, NYMEX, ISO/RTO.

Gas Forward Curves 2017-2020

Rolling 6 months **Quarter-to-date**

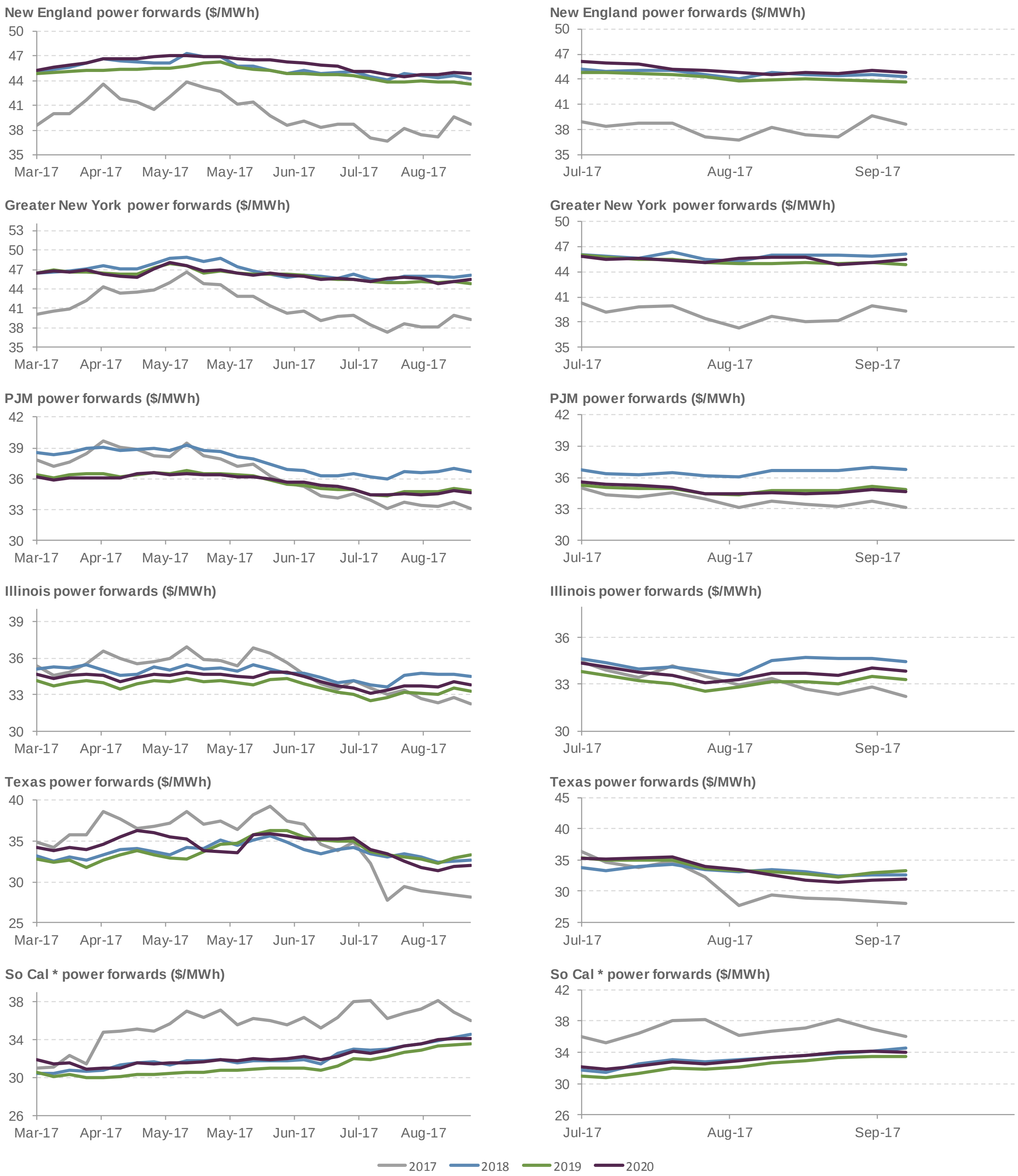


Source: ICE, Bentek, Guggenheim Securities, LLC.

Power Forward Curves 2017-2020

Rolling 6 months

Quarter-to-date

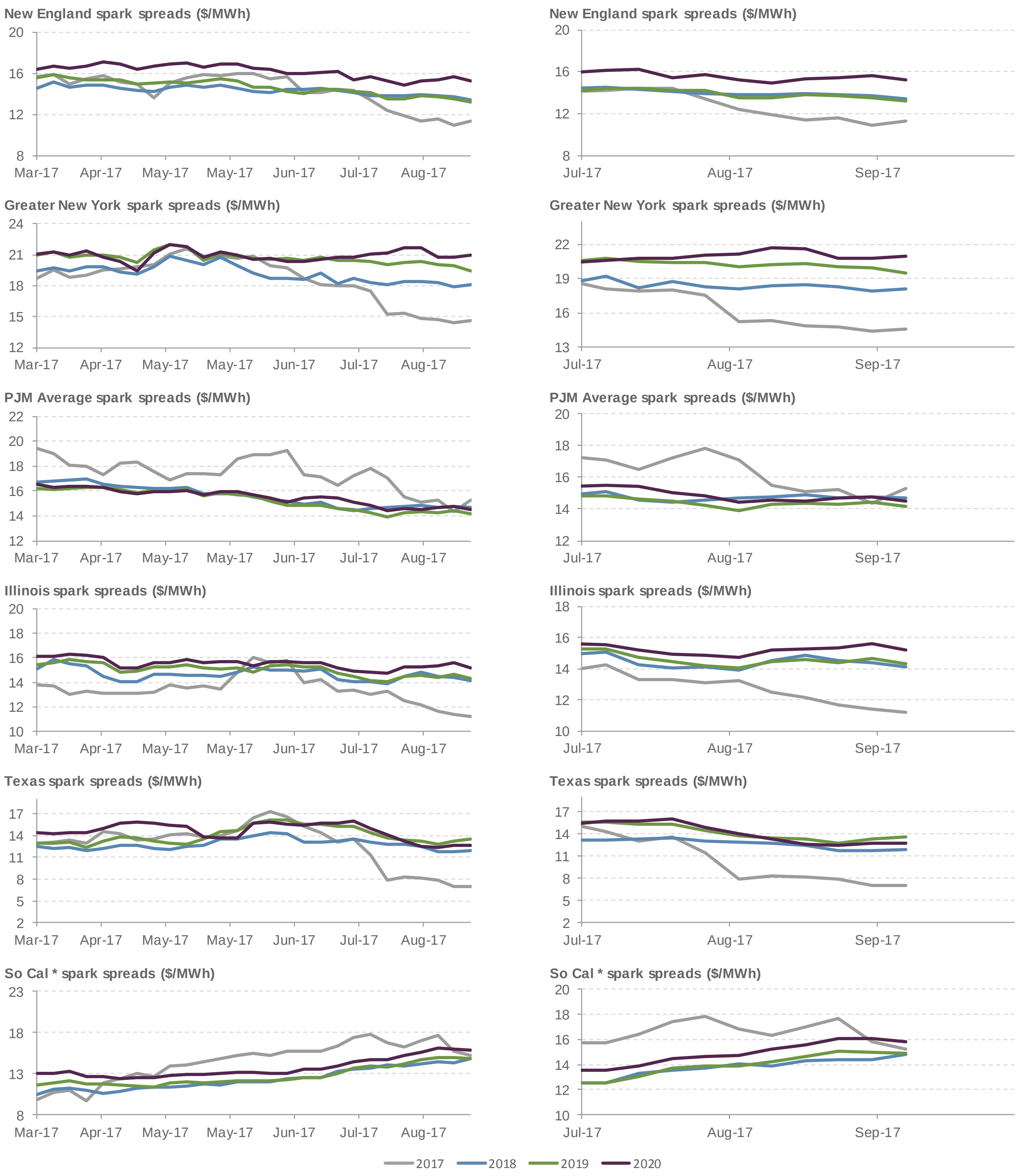


Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward Spark Spreads 2017-2020

Rolling 6 months

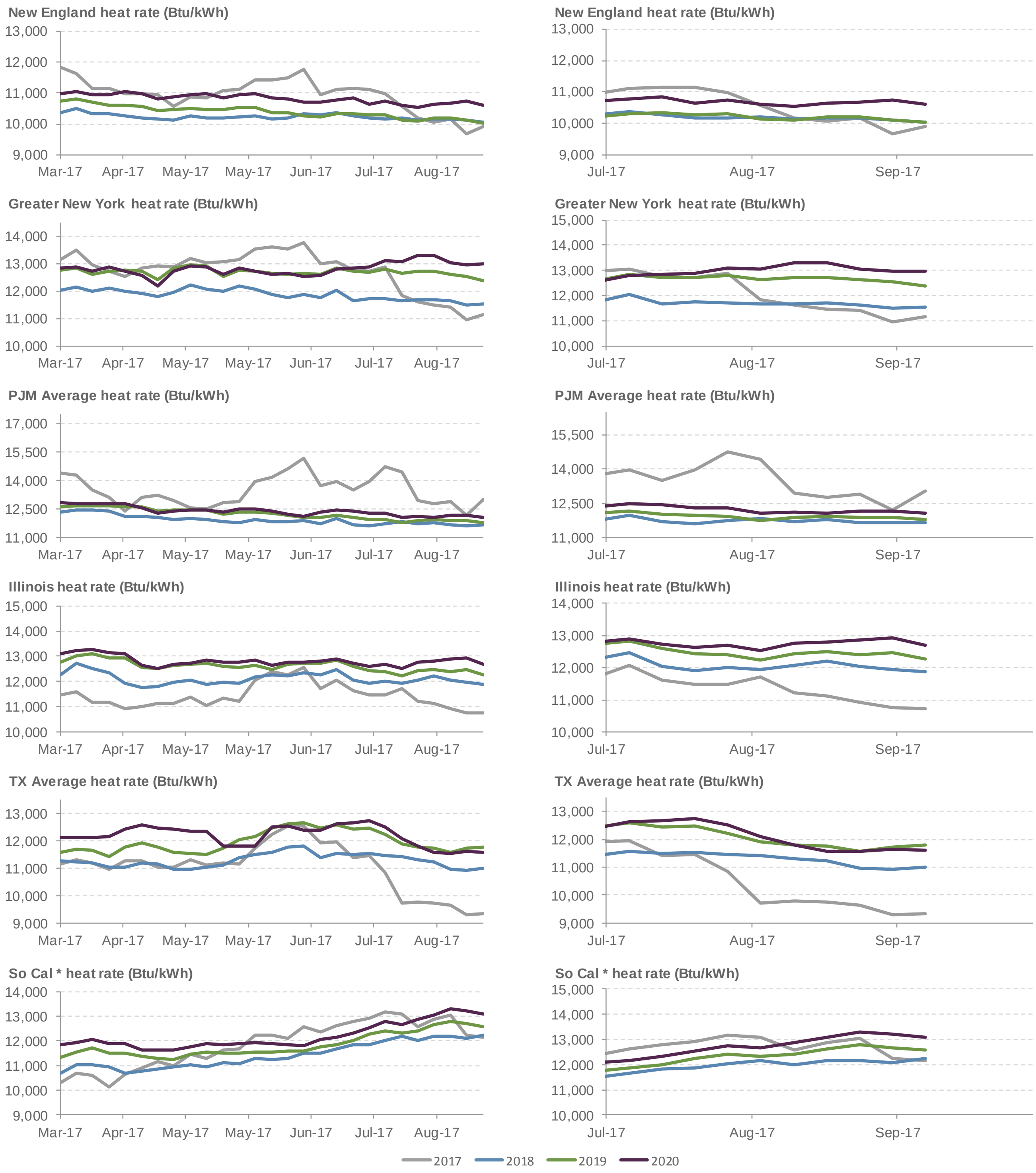
Quarter-to-date



Source: ICE, Bentek, Guggenheim Securities, LLC

Forward Heat Rate 2017-2020

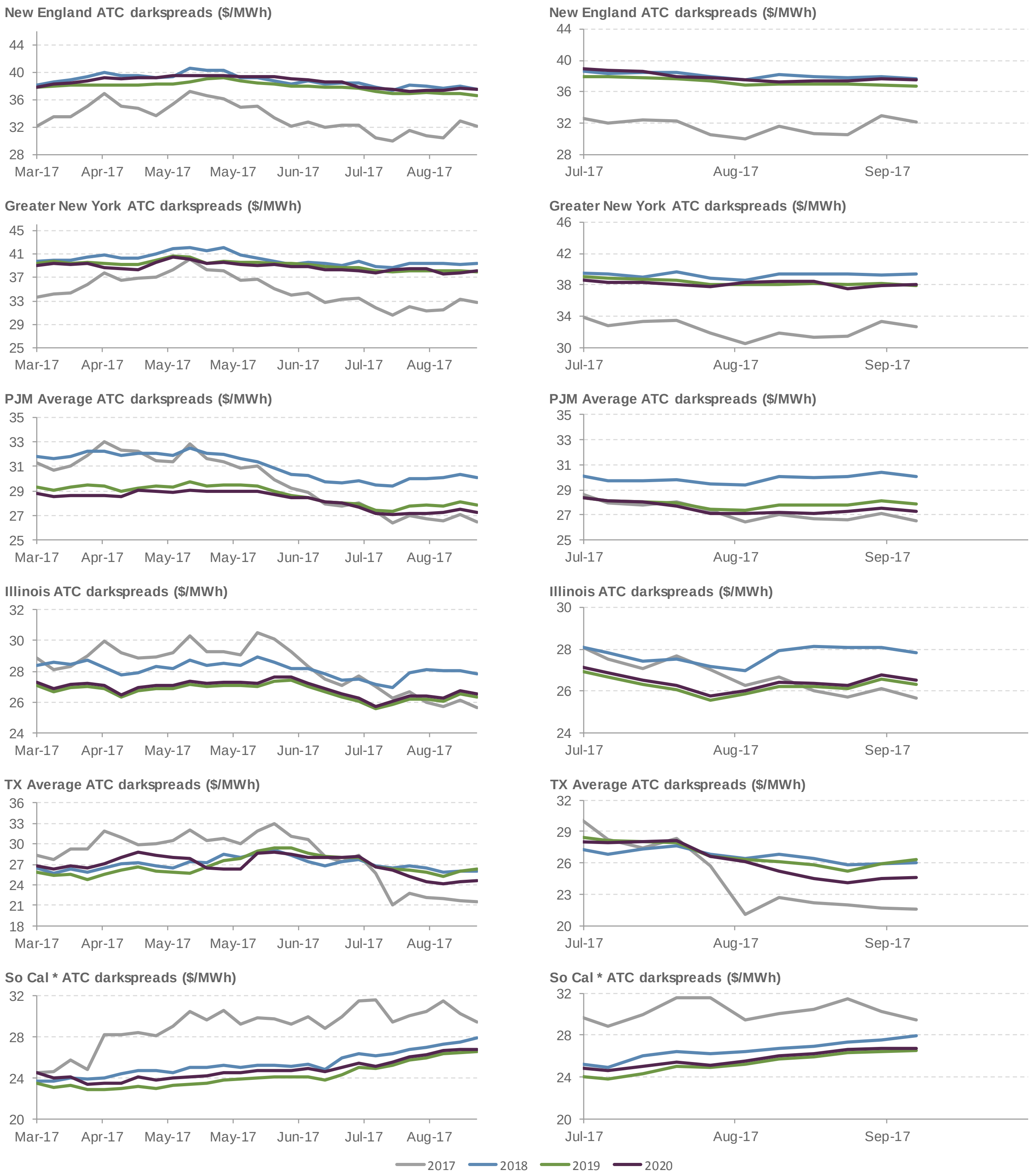
Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC

Forward 2017-2020 ATC PRB Dark Spreads

Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC

Ticker	**Rating**	**Share Price** (previous close)
CPN	NEUTRAL	$14.66
DYN	BUY	$9.36
EXC	BUY	$38.03
FE	BUY	$32.12
NRG	BUY	$24.13
PEG	BUY	$46.04
VST	BUY	$17.87

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Neutral	123	39.17%	11	8.94%
Sell	2	0.64%	0	0.00%

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GUGGENHEIM

September 8, 2017 | Equity Research

Utility Figure Of The Week

Active Inst'l Holdings Skew Large Cap Among Electric Utilities

Defensive Bellwethers And Canadians Buck The Trend

Utilities

- Please see Figure on Page 2

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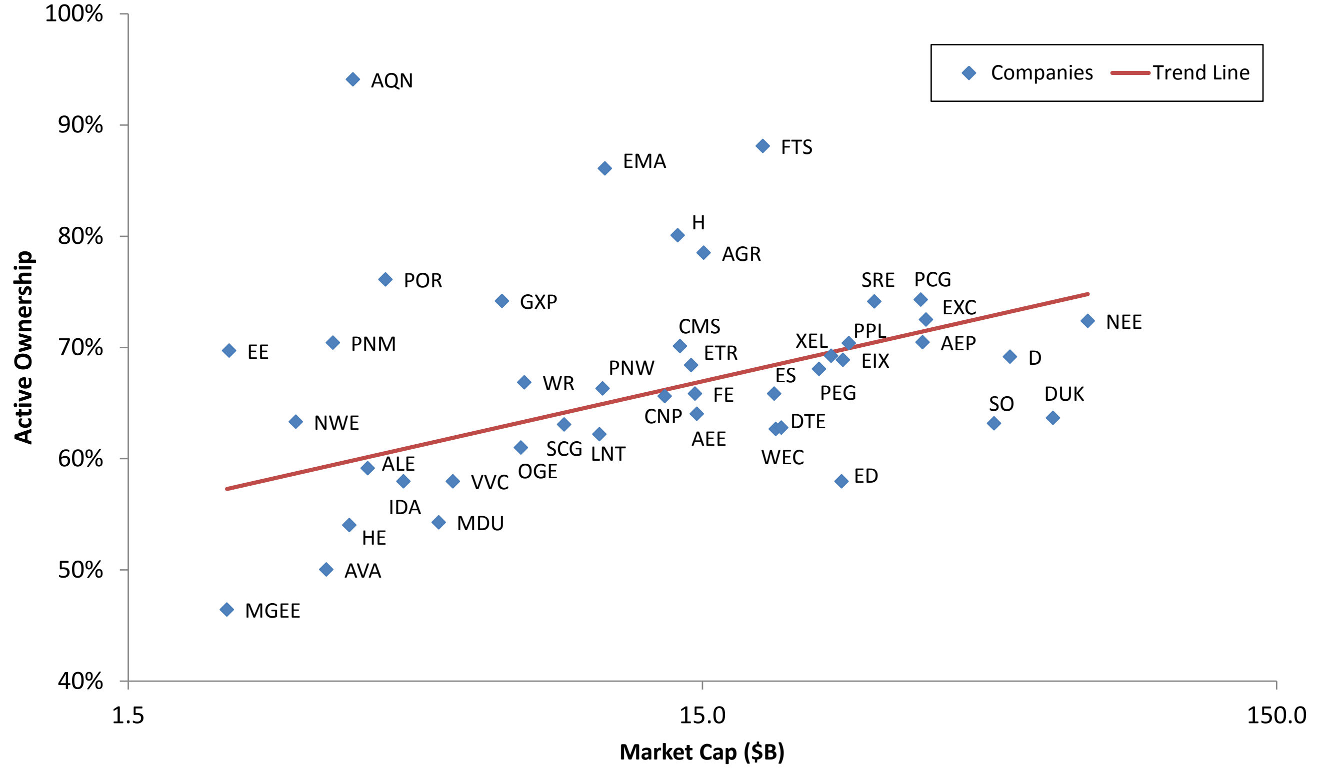
Together we'll go far

Active Institutional Holdings Skew Large Cap Among Electric Utilities; Defensive Bellwethers and Canadians Buck the Trend



Source: FactSet and Wells Fargo Securities, LLC
Note: Active ownership is calculated using institutional data only (retail and other excluded);
horizontal axis is in log scale

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M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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As of: September 8, 2017

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Week in Review

BMO Capital Markets

INITIATIONS

AstraZeneca 🌐

Alex Arfaei - Pharmaceuticals

Initiating Coverage With Outperform: On The Verge of Strong Growth

OP	$30.07	$38.00	$76,131
Rating	Price	Target	Mkt Cap.

Northern Star Resources 🌐

Brian Quast - Precious Metals & Minerals

Initiating at Outperform - Use the Northern Star for Guidance

OP	A$5.44	A$6.50	AUD3,281
Rating	Price	Target	Mkt Cap.

Saracen Mineral Holdings 🌐

Brian Quast - Precious Metals & Minerals

Initiating at Outperform; Spending Some Time on Thunderbox

OP	A$1.46	A$1.90	AUD1,187
Rating	Price	Target	Mkt Cap.

Superior Gold 🌐

Brian Quast - Precious Metals & Minerals

Initiating at Outperform; Investing in a Plutonic Relationship

OP	$0.87	$1.60	$48
Rating	Price	Target	Mkt Cap.

TMX Group 🇨🇦

Nik Priebe - Diversified Financials - Canada

Initiating at Market Perform: Awaiting a More Attractive Entry Point

Mkt	$67.38	$70.00	$3,724
Rating	Price	Target	Mkt Cap.

ESTIMATES / TARGETS INCREASED

Dollarama ↗ 🇨🇦

Peter Sklar - Retailing/Consumer

Strong Beat on Q2/18 EPS due to Basket Growth and Margin Improvement

OP	$121.76	$150.00	$13,694
Rating	Price	Target	Mkt Cap.

For disclosure statements, including the Analyst Certification, please refer to page(s) 12 to 14.

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Macro and Sector Updates

BRP ↗ 🇨🇦

Gerrick L. Johnson - Leisure

2Q Provides Another Beat, but Not Much of a Raise

OP	$40.81	$46.00	$4,561
Rating	Price	Target	Mkt Cap.

Descartes Systems ↗ 🇨🇦

Thanos Moschopoulos - Technology

Q2/18 Results: Solid Quarter

Mkt	$28.40	$29.00	$2,201
Rating	Price	Target	Mkt Cap.

Moody's Corporation ↗ 🇺🇸

Jeffrey M. Silber - Business and Industrial Services

Adjusting Model for BVD Acquisition Impact

Mkt	$133.06	$136.00	$25,414
Rating	Price	Target	Mkt Cap.

SSR Mining ↗ 🇨🇦

Andrew Kaip - Silver

Seabee Expanding to 1,050tpd

OP	$10.58	$14.00	$1,265
Rating	Price	Target	Mkt Cap.

Transcontinental ↗ 🇨🇦

Tim Casey - Telecom/Media/Cable

Q3/F17 Beat

Mkt	$25.96	$26.00	$2,009
Rating	Price	Target	Mkt Cap.

ESTIMATES / TARGETS DECREASED

Alnylam Pharmaceuticals ↘ 🇺🇸

Do Kim - Biotechnology

Fitusiran Delay Partly Offset by Givorsan Acceleration

OP	$72.53	$99.00	$6,636
Rating	Price	Target	Mkt Cap.

Cineplex ↘ 🇨🇦

Tim Casey - Telecom/Media/Cable

Revising Outlook to Reflect Soft Q3 Box Office

OP	$38.13	$44.00	$2,421
Rating	Price	Target	Mkt Cap.

EnQuest

David Round - E&P - International

Kraken Issues Clouding Potential Funding Resolutions

Und	£0.28	£0.10	£319
Rating	Price	Target	Mkt Cap.

Hewlett Packard Enterprise

Tim Long - Communications Equipment & Hardware

Solid Quarter Despite Industry Headwinds

Mkt	$14.04	$15.00	$23,063
Rating	Price	Target	Mkt Cap.

Eli Lilly

Alex Arfaei - Pharmaceuticals

Diabetes Headwinds Offset Earlier Probable Bari Launch; Cautious on Abema

Und	$79.82	$71.00	$87,881
Rating	Price	Target	Mkt Cap.

Dave & Buster's

Andrew Strelzik - Restaurants

Near-Term Concerns Create Opportunity to Capitalize on Long-Term Potential

OP	$58.14	$70.00	$2,446
Rating	Price	Target	Mkt Cap.

COMPANY UPDATES

Duluth Holdings

John D. Morris - Apparel Retail

OP	$19.75	$30.00	$639
Rating	Price	Target	Mkt Cap.

Zumiez

John D. Morris - Apparel Retail

Mkt	$13.20	$16.00	$333
Rating	Price	Target	Mkt Cap.

Shiloh

Richard Carlson - Autos/Mobility Equipment & Technology

OP	$8.70	$11.00	$201
Rating	Price	Target	Mkt Cap.

Alnylam Pharmaceuticals

Do Kim - Biotechnology

OP	$86.80	$105.00	$7,941
Rating	Price	Target	Mkt Cap.

Dollar General

Wayne Hood - Broadlines/Hardlines

Mkt	$72.56	$85.00	$19,898
Rating	Price	Target	Mkt Cap.

On Assignment

Jeffrey M. Silber - Business and Industrial Services

OP	$47.80	$59.00	$2,524
Rating	Price	Target	Mkt Cap.

Intact Financial

Tom MacKinnon - Canadian Insurance

OP	$102.31	$110.00	$13,400
Rating	Price	Target	Mkt Cap.

Cominar REIT

Heather Kirk - Canadian Real Estate

OP	$13.54	$15.00	C$2,496
Rating	Price	Target	Mkt Cap.

InterRent REIT

Troy MacLean - Canadian Real Estate

OP	$7.92	$9.00	657
Rating	Price	Target	Mkt Cap.

Canadian Natural Res.

Randy Ollenberger - E&P - Canada

OP	$39.30	$50.00	$47,748
Rating	Price	Target	Mkt Cap.

Amerisur Resources

David Round - E&P - International

OP	£0.17	£0.30	£206
Rating	Price	Target	Mkt Cap.

PJSC PhosAgro

Joel Jackson - Fertilizers & Chemicals

Mkt	$13.90	$14.00	$5,400
Rating	Price	Target	Mkt Cap.

SQM

Joel Jackson - Fertilizers & Chemicals

Mkt	$49.60	$45.00	$13,055
Rating	Price	Target	Mkt Cap.

VeriFone Systems

Paulo E. Ribeiro - Financials - Financial Technology

Mkt	$19.58	$20.00	$2,190
Rating	Price	Target	Mkt Cap.

VeriFone Systems

Paulo E. Ribeiro - Financials - Financial Technology

Mkt	$19.43	$20.00	$2,173
Rating	Price	Target	Mkt Cap.

Casey's General Stores

Kelly Bania - Food Retail

Mkt	$106.49	$105.00	$4,136
Rating	Price	Target	Mkt Cap.

David's Tea

Kelly Bania - Food Retail

Mkt	$5.10	$5.50	$131
Rating	Price	Target	Mkt Cap.

Franco-Nevada

Andrew Kaip - Gold

Mkt	$102.69	$100.00	$19,045
Rating	Price	Target	Mkt Cap.

IAMGOLD

Andrew Kaip - Gold

OP	$6.93	$7.50	$3,220
Rating	Price	Target	Mkt Cap.

Fastenal

R. Scott Graham - Industrial Distribution

Mkt	$42.37	$46.00	$12,202
Rating	Price	Target	Mkt Cap.

Cenovus Energy

Randy Ollenberger - Integrateds - Canada

Mkt	$10.28	$12.00	$12,632
Rating	Price	Target	Mkt Cap.

Total SA

Brendan Warn - Integrateds - International

OP	€43.72	€55.00	€109,331
Rating	Price	Target	Mkt Cap.

Harley-Davidson

Gerrick L. Johnson - Leisure

OP	$46.95	$56.00	$8,009
Rating	Price	Target	Mkt Cap.

Caterpillar

Joel Tiss - Machinery

OP	$117.77	$130.00	$69,599
Rating	Price	Target	Mkt Cap.

PACCAR

Joel Tiss - Machinery

OP	$65.86	$85.00	$23,142
Rating	Price	Target	Mkt Cap.

Nuvasive

Joanne K. Wuensch - Medical Technology

OP	$61.32	$85.00	$3,115
Rating	Price	Target	Mkt Cap.

Lundin Mining

Alex Terentiew - Metals & Mining - International

OP	$9.64	$10.50	$7,008
Rating	Price	Target	Mkt Cap.

Teck Resources

Alex Terentiew - Metals & Mining - International

OP	$29.47	$40.00	$17,024
Rating	Price	Target	Mkt Cap.

Source Energy Services

Michael Mazar - Oil & Gas - Services

OP	$6.90	$14.00	$356
Rating	Price	Target	Mkt Cap.

Newell Brands

Shannon Coyne - Personal Care and Household Products

Mkt	$47.03	$51.00	$23,049
Rating	Price	Target	Mkt Cap.

Buffalo Wild Wings

Andrew Strelzik - Restaurants

Mkt	$102.75	$130.00	$1,593
Rating	Price	Target	Mkt Cap.

Alimentation Couche-Tard

Peter Sklar - Retailing/Consumer

OP	$61.03	$72.00	$34,693
Rating	Price	Target	Mkt Cap.

North West Company

Stephen MacLeod - Special Situations

Mkt	$31.67	$34.00	$1,542
Rating	Price	Target	Mkt Cap.

CSX

Fadi Chamoun - Transportation

OP	$50.21	$58.00	$45,857
Rating	Price	Target	Mkt Cap.

Union Pacific

Fadi Chamoun - Transportation

OP	$104.10	$123.00	$83,320
Rating	Price	Target	Mkt Cap.

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Buy	Outperform	46.2%	23.8%	60.0%	48.3%	60.2%	53.9%
Hold	Market Perform	50.7%	14.1%	39.0%	48.7%	38.6%	41.1%
Sell	Underperform	3.1%	5.9%	1.0%	3.0%	1.2%	5.0%

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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 - April 2013)
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SECTOR UPDATE
September 11, 2017

Power/Utilities Macro Trends Tracker: Flat Trends In Forward Spreads

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What's Inside

Page 2 includes the Table of Contents for all the relevant macro trends that we track.

What's Incremental To Our View

This report includes our analysis of the key macro factors impacting the power/utility sector, including: forward power prices, spark spread, dark spread, and gas/coal spread trends; domestic electric consumption growth; and national weather patterns. Based on the latest peer group valuations, we are increasing our price targets on DUK and PNW.

IMPORTANT POINTS

- On-Peak spark spreads currently suggest an increase over the 2017-2020 period ($12.7/MWh - $15.7/MWh) but were flat versus the prior week.
- On-Peak dark spreads currently suggest an increase over the 2017-2020 period ($5.9/MWh - $7.7/MWh) but decreased 1% versus the prior week.
- Forward power prices were flat last week, versus a 1% decrease in forward gas prices and no change in forward coal prices.
- Domestic electric consumption decreased 9% for the week ended September 2 and has decreased 2% year to date.
- Cooling Degree Days for July/August 2017 were 6% above normal but 15% below last year.
- The STRH Power Index was flat for the week (versus -1% for the S&P 500) and has increased 14% year to date (versus +10% for the S&P 500).
- The STRH Power Index is trading at a P/E multiple of 17.7x our 2019 estimates (a 14% premium to historical levels); an EV/EBITDA multiple of 9.7x our 2019 estimates (a 12% premium); P/B multiple of 2.0x (a 21% premium); and a Treasury-dividend yield spread of -120 basis points (a 15% discount).
- Based on the latest peer group valuations, we make the following increases to our price targets: DUK to $91 from $90; PNW to $87 from $86.

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Figure 1: Historical Natural Gas Prices, Electricity Prices, and Spark Spread by NERC Region

	Average Quarterly Gas Price ($/MMBtu)					Average Quarterly Electricity Price ($/MWh)					Implied Spark Spread ($/MWh)				
	1Q12	**2Q12**	**3Q12**	**4Q12**	**2012**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**2012**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**2012**
TRE	2.39	2.20	2.81	3.32	2.68	25	38	45	31	35	8.6	22.1	25.5	8.2	16.1
FRCC	2.67	2.82	3.71	3.82	3.25	28	34	40	36	34	9.6	13.9	14.1	9.0	11.6
MRO	2.45	2.22	2.86	3.46	2.75	28	32	38	33	33	10.7	16.0	18.4	9.0	13.5
NPCC	3.25	2.53	3.15	4.25	3.30	37	37	48	48	42	13.9	19.5	26.1	17.8	19.3
RFC	2.58	2.34	2.93	3.52	2.84	32	37	43	38	37	14.4	20.3	22.6	13.1	17.6
SERC	2.44	2.25	2.85	3.37	2.73	27	29	34	33	31	10.0	13.7	14.4	9.6	11.9
SPP	1.58	1.44	1.84	2.20	1.76	24	26	31	30	28	12.7	15.9	18.2	14.7	15.4
WECC	2.51	2.24	2.82	3.45	2.75	26	22	34	34	29	8.0	6.7	14.6	10.1	9.8
Average	**2.48**	**2.25**	**2.87**	**3.42**	**2.76**	**28**	**32**	**39**	**35**	**34**	**11.0**	**16.0**	**19.2**	**11.4**	**14.4**
	1Q13	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**
TRE	3.42	3.93	3.48	3.79	3.65	30	40	41	36	37	6.5	12.9	16.9	9.1	11.3
FRCC	3.73	4.26	3.92	4.02	3.98	33	40	36	38	37	6.9	9.8	8.8	9.9	8.9
MRO	3.58	3.97	3.55	3.97	3.77	34	40	39	37	38	8.8	12.3	14.4	9.0	11.1
NPCC	7.69	4.35	3.82	5.80	5.41	75	48	52	57	58	20.9	17.2	25.5	16.6	20.1
RFC	3.66	4.11	3.57	3.83	3.79	38	44	46	39	42	12.9	15.4	20.5	12.1	15.2
SERC	3.47	3.98	3.51	3.79	3.69	33	40	36	36	36	8.9	11.7	11.5	9.8	10.5
SPP	2.28	2.56	2.27	2.50	2.40	30	36	34	34	34	14.3	18.5	18.6	16.9	17.1
WECC	3.53	3.88	3.50	3.94	3.71	37	41	44	44	41	12.1	13.6	19.6	16.0	15.3
Average	**3.92**	**3.88**	**3.45**	**3.96**	**3.80**	**39**	**41**	**41**	**40**	**40**	**11.4**	**13.9**	**17.0**	**12.4**	**13.7**
	1Q14	**2Q14**	**3Q14**	**4Q14**	**2014**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014**
TRE	5.08	4.46	3.88	3.63	4.26	53	45	43	38	45	17.1	13.5	15.5	12.5	14.6
FRCC	6.32	4.84	4.25	3.98	4.85	53	42	42	37	44	9.1	8.5	12.1	8.7	9.6
MRO	8.51	4.56	3.92	3.83	5.21	64	44	37	37	46	4.7	12.5	9.7	10.4	9.3
NPCC	17.27	4.35	3.35	4.20	7.29	149	48	42	44	71	28.3	17.1	18.9	14.7	19.7
RFC	8.43	4.19	3.28	3.29	4.80	89	49	40	40	55	30.4	19.7	17.4	17.4	21.2
SERC	5.06	4.52	3.90	3.69	4.29	62	43	40	38	46	26.2	11.9	12.8	11.9	15.7
SPP	3.76	2.90	2.52	2.38	2.89	52	53	40	38	46	25.7	32.4	22.2	21.0	25.3
WECC	5.41	4.54	4.00	3.73	4.42	53	44	46	40	46	14.7	12.1	18.1	14.0	14.7
Average	**7.48**	**4.30**	**3.64**	**3.59**	**4.75**	**72**	**46**	**41**	**39**	**50**	**19.5**	**16.0**	**15.8**	**13.8**	**16.3**
	1Q15	**2Q15**	**3Q15**	**4Q15**	**2015**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015**
TRE	2.70	2.60	2.67	2.03	2.50	29	27	45	22	31	10.1	9.1	25.9	8.1	13.3
FRCC	3.13	3.11	3.10	2.35	2.92	36	35	31	29	33	14.3	13.1	9.1	12.1	12.1
MRO	3.20	2.59	2.72	2.11	2.66	34	31	33	27	31	11.7	12.7	13.5	11.8	12.4
NPCC	8.61	2.58	2.58	2.32	4.02	81	33	38	31	46	20.6	15.1	20.0	14.9	17.7
RFC	3.18	2.22	2.16	1.74	2.32	49	37	36	31	38	26.5	21.0	21.2	19.1	21.9
SERC	2.83	2.67	2.70	2.03	2.56	38	33	28	26	31	17.8	14.5	9.5	11.6	13.3
SPP	1.75	1.66	1.74	1.32	1.62	33	31	39	30	33	20.6	19.7	26.5	21.0	22.0
WECC	2.64	2.55	2.70	2.18	2.52	27	31	36	27	30	8.8	13.0	17.0	11.2	12.5
Average	**3.50**	**2.50**	**2.55**	**2.01**	**2.64**	**41**	**32**	**36**	**28**	**34**	**16.3**	**14.8**	**17.9**	**13.7**	**15.7**
	1Q16	**2Q16**	**3Q16**	**4Q16**	**2016**	**1Q16**	**2Q16**	**3Q16**	**4Q16**	**2016**	**1Q16**	**2Q16**	**3Q16**	**4Q16**	**2016**
TRE	1.90	2.00	2.74	2.88	2.38	20	24	33	27	26	6.4	10.2	13.9	6.8	9.3
FRCC	2.34	2.54	3.56	3.23	2.92	24	30	39	32	31	7.9	11.9	14.0	8.9	10.7
MRO	1.96	2.00	2.70	2.91	2.39	24	28	38	33	31	10.5	14.2	19.1	12.3	14.0
NPCC	2.72	2.08	2.52	3.18	2.63	31	30	42	35	35	12.4	15.9	24.8	13.2	16.5
RFC	1.76	1.84	2.13	2.53	2.06	29	30	39	34	33	16.8	17.6	24.4	16.1	18.7
SERC	1.93	2.03	2.78	2.91	2.41	25	28	35	31	30	11.0	13.3	15.7	11.0	12.7
SPP	1.22	1.29	1.75	1.87	1.53	23	33	39	38	33	14.8	24.2	26.7	25.2	22.7
WECC	1.88	1.94	2.70	2.84	2.34	22	22	35	30	27	8.5	8.6	16.6	10.0	10.9
Average	**1.96**	**1.97**	**2.61**	**2.79**	**2.33**	**25**	**28**	**38**	**32**	**31**	**11.0**	**14.5**	**19.4**	**12.9**	**14.5**
	1Q17	**2Q17**	**3Q17**	**4Q17**	**2017**	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**2017**	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**2017**
TRE	2.88	2.93	2.81			24	27	34			3.4	6.2	14.1		
FRCC	3.11	3.40	3.33			29	32	34			7.2	8.2	10.4		
MRO	2.88	2.81	2.71			30	33	33			9.6	13.2	14.4		
NPCC	3.74	2.84	2.53			36	34	36			10.3	14.2	18.5		
RFC	2.87	2.75	2.41			31	33	34			11.3	14.1	17.3		
SERC	2.91	2.97	2.85			29	32	32			8.7	11.3	12.2		
SPP	1.84	1.82	1.73			36	42	39			23.0	29.0	27.1		
WECC	2.85	2.76	2.72			27	27	45			6.8	8.1	26.1		
Average	**2.88**	**2.79**	**2.64**			**30**	**33**	**36**			**10.0**	**13.0**	**17.5**		

Notes:
1) Implied spark spread assumes 7,000 Btu/kWh heat rate.
2) Calculations use On-Peak power pricing.
3) 3Q17 includes July, August only

Sources: Fossil Data Corp.; STRH estimates.

Figure 2: Around-The-Clock Power Prices, 2014A-2020E, as of September 8, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	35.07	38.47	47.59	47.52	48.11	41.44	42.86	43.93	40.59	40.64	41.06	55.66	57.63	69.37	50.92	66.24	**47.94**
2015A	24.00	25.33	33.01	31.96	33.55	29.92	30.28	29.80	26.69	27.72	27.93	38.40	41.18	45.40	33.66	41.32	**32.51**
2016A	21.21	23.43	29.33	28.55	29.79	29.93	30.26	28.46	23.33	24.34	24.98	31.31	30.53	32.07	28.97	30.98	**27.97**
2017E	24.00	29.83	35.20	34.68	29.42	33.02	30.13	27.60	23.98	26.58	29.93	29.53	29.82	31.10	26.34	31.32	**29.53**
2018E	23.04	27.28	33.87	32.58	32.00	33.79	32.63	29.92	27.45	29.64	31.37	32.25	33.68	39.64	30.63	38.81	**31.79**
2019E	22.67	27.45	33.73	31.91	30.65	33.04	31.84	28.99	27.73	29.83	30.46	30.94	32.46	39.68	30.33	37.67	**31.21**
2020E	24.27	29.16	35.15	32.92	29.82	32.36	31.20	27.97	27.83	29.77	30.41	30.36	32.64	39.98	29.74	38.50	**31.38**

Sources: SNL and SunTrust Robinson Humphrey estimates.

Figure 3: On-Peak Power Prices, 2014A-2020E, as of September 8, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	38.71	42.49	51.15	51.22	54.24	45.13	48.02	50.60	44.80	44.86	45.33	62.71	62.71	76.97	57.55	73.60	**53.13**
2015A	26.37	27.32	35.31	33.74	37.27	33.13	33.41	33.86	30.39	30.76	31.00	42.82	46.15	50.28	39.08	46.10	**36.06**
2016A	23.23	25.54	31.61	30.46	33.26	33.80	34.09	32.27	26.85	27.74	28.47	35.03	34.53	35.90	35.04	34.30	**31.38**
2017E	27.52	33.55	39.06	38.04	32.38	36.92	33.31	31.05	26.46	29.48	33.22	32.42	32.96	34.04	30.83	34.05	**32.83**
2018E	25.38	29.61	36.72	34.72	35.60	37.86	36.11	33.63	30.74	33.38	35.54	35.73	37.41	43.41	36.01	42.90	**35.30**
2019E	24.90	29.56	36.50	33.93	33.90	36.27	35.20	32.14	31.48	34.30	34.92	34.13	35.91	43.32	35.56	40.82	**34.55**
2020E	26.30	31.27	37.86	34.58	32.84	35.39	34.36	30.80	31.81	34.15	34.99	33.47	36.24	43.85	34.68	42.75	**34.71**

Sources: SNL and SunTrust Robinson Humphrey estimates.

Figure 4: Gas-Coal Spread, 2003A-2020E, as of September 8, 2017

($/mmBtu)

	NYMEX Henry Hub Gas Futures	NYMEX Spec Coal Futures	Gas-Coal Spread
2003A	5.483	1.378	4.105
2004A	5.892	2.257	3.635
2005A	8.907	2.390	6.516
2006A	6.734	2.024	4.710
2007A	6.956	1.861	5.095
2008A	8.853	3.884	4.969
2009A	3.942	2.037	1.905
2010A	4.386	2.553	1.833
2011A	3.995	3.083	0.913
2012A	2.758	2.413	0.345
2013A	3.730	2.338	1.392
2014A	4.394	2.403	1.990
2015A	2.635	1.886	0.749
2016A	2.581	1.835	0.746
2017E	3.006	2.248	0.758
2018E	3.009	2.250	0.759
2019E	2.875	2.250	0.625
2020E	2.807	2.250	0.557

Sources: Bloomberg, SNL, and SunTrust Robinson Humphrey estimates.

Figure 5: 2014A-2020E Implied On-Peak Spark Spreads, as of September 8, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM- West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	8.25	10.36	16.84	19.09	23.93	14.38	13.41	12.42	14.36	14.42	14.89	24.83	24.83	18.90	24.68	40.73	**18.52**
2015A	9.30	8.95	14.33	15.37	19.57	14.69	15.06	14.60	12.40	12.78	13.02	23.82	27.15	16.02	18.35	25.37	**16.30**
2016A	7.56	8.60	12.66	13.52	16.82	15.73	17.45	14.96	9.74	10.63	11.36	22.75	22.25	13.83	17.31	16.57	**14.49**
2017E	8.81	13.35	15.97	17.84	12.60	15.88	15.54	10.65	5.68	8.70	12.43	15.36	15.91	10.79	10.50	13.71	**12.73**
2018E	6.84	9.99	14.50	15.11	16.14	16.80	19.58	13.60	10.14	12.78	14.94	14.00	15.68	13.49	19.37	26.26	**14.95**
2019E	7.31	10.95	14.97	15.32	16.09	16.15	19.42	13.22	11.70	14.52	15.14	13.43	15.20	13.37	20.29	25.55	**15.16**
2020E	9.07	13.01	16.61	16.32	15.56	15.74	19.35	12.15	12.40	14.75	15.59	13.49	16.27	14.01	19.75	27.82	**15.74**

Notes:

1) Assumes 7,000 Btu/kWh heat rate

2) NERC Region: WECC (Mid-C, Palo Verde, NP-15, SP-15); SPP (Entergy); RFC (AEP Dayton, Indiana, NI Hub, PJM); TRE (ERCOT North, ERCOT South, ERCOT West, ERCOT Houston); NPCC (NEPOOL, NY Zone A, NY Zone F)

Source: Bloomberg, SNL, Fossil Data Corp, SunTrust Robinson Humphrey estimates.

Figure 6: 2014A-2020E Implied On-Peak Dark Spreads, as of September 8, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM- West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	9.96	13.74	22.40	22.47	25.49	16.38	19.27	21.85	16.05	16.11	16.58	33.96	33.96	48.22	28.80	44.85	**24.38**
2015A	3.74	4.69	12.69	11.11	14.64	10.51	10.78	11.23	7.76	8.13	8.37	20.19	23.52	27.65	16.45	23.48	**13.43**
2016A	1.22	3.52	9.60	8.44	11.24	11.78	12.08	10.26	4.83	5.72	6.45	13.02	12.52	13.89	13.02	12.29	**9.37**
2017E	0.54	6.58	12.09	11.07	5.41	9.94	6.33	4.08	-0.51	2.51	6.25	5.44	5.99	7.07	3.86	7.07	**5.86**
2018E	-1.62	2.61	9.72	7.72	8.60	10.86	9.11	6.63	3.74	6.38	8.54	8.73	10.41	16.41	9.01	15.90	**8.30**
2019E	-2.10	2.56	9.50	6.93	6.90	9.27	8.20	5.14	4.48	7.30	7.92	7.13	8.91	16.32	8.56	13.82	**7.55**
2020E	-0.70	4.27	10.86	7.58	5.84	8.39	7.36	3.80	4.81	7.15	7.99	6.47	9.24	16.85	7.68	15.75	**7.71**

Notes:

1) Assumes 12,000 Btu/kWh heat rate

2) NERC Region: WECC (Mid-C, Palo Verde, NP-15, SP-15); SPP (Entergy); RFC (AEP Dayton, Indiana, NI Hub, PJM); TRE (ERCOT North, ERCOT South, ERCOT West, ERCOT Houston); NPCC (NEPOOL, NY Zone A)

Source: Bloomberg, SNL, Fossil Data Corp, SunTrust Robinson Humphrey estimates.

Figure 7: Year to Date Domestic Electric Consumption Summary by Different Geographic Regions

Week Ended September 2 2017

	Current Week's Output		YTD		52-Weeks Ended	
Region	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**
New England	2,150	(17.9%)	81,797	(3.9%)	120,622	(2.5%)
Mid-Atlantic	7,473	(18.6%)	289,220	(3.7%)	434,920	(1.7%)
Central Industrial	11,737	(13.8%)	447,798	(3.9%)	658,705	(1.9%)
West Central	6,324	(8.6%)	220,607	(2.7%)	324,672	(1.4%)
Southeast	18,940	(12.8%)	691,474	(2.5%)	1,014,102	(0.2%)
South Central	14,046	(11.5%)	495,909	1.1%	721,579	2.3%
Rocky Mountain	6,249	9.6%	189,213	1.8%	278,688	0.0%
Pacific Northwest	2,713	7.2%	107,786	6.6%	158,928	4.2%
Pacific Southwest	7,468	20.6%	192,650	(0.3%)	283,125	(1.1%)
Total United States	**77,100**	**(8.6%)**	**2,716,454**	**(1.5%)**	**3,995,341**	**0.2%**

	1Q17A		2Q17A		3Q17 QTD	
Region	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**
New England	30,898	0.0%	28,213	(2.2%)	22,686	(10.7%)
Mid-Atlantic	105,796	(0.4%)	100,289	(1.6%)	83,135	(9.9%)
Central Industrial	167,052	(1.6%)	159,146	(2.3%)	121,600	(8.7%)
West Central	78,718	(0.9%)	79,132	(2.0%)	62,757	(5.7%)
Southeast	240,646	(3.8%)	250,212	0.0%	200,616	(4.0%)
South Central	160,357	1.9%	184,180	2.3%	151,372	(1.2%)
Rocky Mountain	65,862	2.3%	65,880	1.8%	57,471	1.3%
Pacific Northwest	47,047	11.1%	35,881	3.3%	24,858	3.6%
Pacific Southwest	64,687	0.7%	69,171	(2.6%)	58,792	1.4%
Total United States	**961,063**	**(0.4%)**	**972,104**	**(0.3%)**	**783,287**	**(4.3%)**

Notes:

Corresponding NERC Regions: New England (NPCC), Mid-Atlantic (RFC), Central Industrial (RFC and SERC), West Central (MRO), Southeast (SERC and FRCC), South Central (SPP and TRE), Rocky Mountain (WECC), Pacific Northwest (WECC), Pacific Southwest (WECC).

Source: Edison Electric Institute, SunTrust Robinson Humphrey

Figure 8: Cooling Degree Days by State

	COOLING DEGREE DAYS				
State	Jul/Aug 2017 Actual	Jul/Aug 2016 Actual	Jul/Aug Norm	%Change vs. Yr-ago	%Change vs. Norm
ALABAMA	940	1076	884	-13%	6%
ARIZONA	1258	1316	1273	-4%	-1%
ARKANSAS	883	1027	918	-14%	-4%
CALIFORNIA	664	592	461	12%	44%
COLORADO	312	310	195	1%	60%
CONNECTICUT	407	625	411	-35%	-1%
DELAWARE	702	865	650	-19%	8%
FLORIDA	1132	1165	1043	-3%	9%
GEORGIA	868	1022	828	-15%	5%
IDAHO	523	385	330	36%	58%
ILLINOIS	448	649	523	-31%	-14%
INDIANA	454	644	518	-30%	-12%
IOWA	447	503	504	-11%	-11%
KANSAS	733	835	833	-12%	-12%
KENTUCKY	653	825	655	-21%	0%
LOUISIANA	1053	1114	1047	-5%	1%
MAINE	188	293	191	-36%	-2%
MARYLAND	677	874	627	-23%	8%
MASSACHUSETTS	339	597	341	-43%	-1%
MICHIGAN	283	498	365	-43%	-22%
MINNESOTA	279	346	314	-19%	-11%
MISSISSIPPI	976	1093	950	-11%	3%
MISSOURI	655	765	722	-14%	-9%
MONTANA	351	229	186	53%	89%
NEBRASKA	557	583	610	-4%	-9%
NEVADA	1156	1142	987	1%	17%
NEW HAMPSHIRE	221	384	237	-42%	-7%
NEW JERSEY	506	719	511	-30%	-1%
NEW MEXICO	545	616	526	-12%	4%
NEW YORK	423	646	428	-35%	-1%
NORTH CAROLINA	792	954	744	-17%	6%
NORTH DAKOTA	332	321	304	3%	9%
OHIO	432	663	445	-35%	-3%
OKLAHOMA	931	1057	1005	-12%	-7%
OREGON	336	265	174	27%	93%
PENNSYLVANIA	444	668	430	-34%	3%
RHODE ISLAND	392	645	363	-39%	8%
SOUTH CAROLINA	935	1112	880	-16%	6%
SOUTH DAKOTA	462	477	474	-3%	-3%
TENNESSEE	693	871	726	-20%	-5%
TEXAS	1133	1201	1113	-6%	2%
UTAH	579	569	460	2%	26%
VERMONT	159	263	210	-40%	-24%
VIRGINIA	689	856	618	-20%	11%
WASHINGTON	269	241	149	12%	81%
WEST VIRGINIA	481	661	465	-27%	3%
WISCONSIN	237	403	334	-41%	-29%
WYOMING	309	267	217	16%	42%
UNITED STATES	648	761	611	-15%	6%

Sources: NOAA, SNL, SunTrust Robinson Humphrey estimates.

Figure 9: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder

	VALUATION DATA														FINANCIAL PROJECTIONS										
		Inv.	Price	Price Target		EV/EBITDA			P/E Multiples			Price/	Div.	FCF	14-'19E	Earnings Per Share						Estimated Operating EPS			
COMPANY	Ticker	Rating	9/8/17	12-Month	%	2019E	2018E	2017E	2019E	2018E	2017E	Book	Yield	Yield	CAGR	2019E	2018E	2017E	2016A	2015A	2014A	2Q17A		2Q16A	%
		(A)		(B)										(C)											
ALLIANT ENERGY CORP	LNT		43			11.0	12.0	12.6	19.2	20.3	21.5	2.4	3%		4%	$2.25	$2.13	$2.01	$1.88	$1.87	$1.87				
AMEREN CORPORATION	AEE		60			8.8	9.2	9.7	18.8	19.9	21.5	2.0	3%		4%	$3.19	$3.01	$2.79	$2.69	$2.68	$2.68				
AMERICAN ELECTRIC POWER	**AEP**	**B**	**74**	**80**	**8%**	**10.5**	**10.9**	**11.2**	**18.1**	**19.3**	**20.3**	**2.0**	**3%**	**(3%)**	**4%**	**$4.11**	**$3.85**	**$3.65**	**$3.94**	**$3.69**	**$3.43**	**$0.75**	**A vs**	**$0.95**	**(21%)**
AVISTA CORP	AVA		52			8.9	10.5	11.5	23.6	25.2	26.6	2.0	3%		0%	$2.19	$2.05	$1.95	$2.07	$2.17	$2.17				
CENTERPOINT ENERGY INC	**CNP**	**H**	**30**	**28**	**(7%)**	**8.4**	**8.8**	**9.3**	**20.1**	**21.3**	**22.6**	**3.6**	**4%**	**3%**	**3%**	**$1.49**	**$1.41**	**$1.33**	**$1.16**	**$1.10**	**$1.27**	**$0.29**	**A vs**	**$0.17**	**71%**
CMS ENERGY CORP	**CMS**	**H**	**49**	**49**	**1%**	**9.4**	**10.0**	**10.6**	**19.7**	**21.1**	**22.5**	**3.1**	**3%**	**(2%)**	**7%**	**$2.47**	**$2.31**	**$2.16**	**$2.02**	**$1.89**	**$1.77**	**$0.33**	**A vs**	**$0.45**	**(27%)**
CONSOLIDATED EDISON INC	ED		86			9.6	10.1	10.6	19.1	20.1	20.9	1.8	3%		2%	$4.47	$4.26	$4.09	$3.96	$3.96	$3.96				
DTE ENERGY COMPANY	DTE		113			10.4	11.4	12.2	18.7	19.8	20.9	2.1	3%		3%	$6.03	$5.71	$5.41	$5.28	$5.28	$5.28				
DUKE ENERGY CORP	**DUK**	**H**	**88**	**91**	**4%**	**10.3**	**10.7**	**11.1**	**17.3**	**18.1**	**19.0**	**1.5**	**4%**	**(3%)**	**2%**	**$5.09**	**$4.85**	**$4.61**	**$4.69**	**$4.54**	**$4.55**	**$1.01**	**A vs**	**$1.07**	**(6%)**
EDISON INTERNATIONAL	**EIX**	**B**	**81**	**90**	**11%**	**8.6**	**9.0**	**9.4**	**17.2**	**18.7**	**19.0**	**1.8**	**3%**	**(1%)**	**0%**	**$4.69**	**$4.33**	**$4.24**	**$3.97**	**$4.10**	**$4.59**	**$0.85**	**A vs**	**$0.86**	**(1%)**
EVERSOURCE ENERGY	ES		63			10.2	10.7	11.4	18.1	19.2	20.2	1.8	3%		3%	$3.52	$3.31	$3.15	$2.98	$2.96	$2.96				
GREAT PLAINS ENERGY INC	**GXP**	**H**	**31**	**32**	**4%**	**9.3**	**12.7**	**8.6**	**17.1**	**22.0**	**17.8**	**1.4**	**4%**	**2%**	**3%**	**$1.80**	**$1.40**	**$1.73**	**$1.85**	**$1.37**	**$1.57**	**$0.43**	**A vs**	**$0.55**	**(22%)**
P G & E CORP	PCG		71			7.7	8.1	8.6	17.6	18.5	19.2	1.9	3%		1%	$4.01	$3.83	$3.68	$3.71	$3.76	$3.76				
PNM RESOURCES INC	**PNM**	**H**	**43**	**37**	**(13%)**	**10.0**	**10.8**	**10.9**	**21.0**	**24.6**	**22.8**	**1.9**	**2%**	**(5%)**	**6%**	**$2.03**	**$1.73**	**$1.87**	**$1.65**	**$1.64**	**$1.49**	**$0.49**	**A vs**	**$0.40**	**NM**
PINNACLE WEST CAPITAL	**PNW**	**H**	**90**	**87**	**(3%)**	**9.8**	**10.2**	**10.6**	**19.1**	**20.1**	**21.3**	**2.0**	**3%**	**(2%)**	**6%**	**$4.71**	**$4.47**	**$4.22**	**$3.95**	**$3.92**	**$3.58**	**$1.49**	**A vs**	**$1.08**	**NM**
PORTLAND GENERAL ELECTRIC	POR		48			8.3	8.6	9.3	19.1	19.8	21.5	1.8	3%		3%	$2.51	$2.42	$2.23	$2.10	$2.16	$2.16				
PPL CORP	PPL		40			10.5	11.0	12.1	16.2	17.0	18.3	2.6	4%		(0%)	$2.44	$2.33	$2.16	$2.37	$2.45	$2.45				
SCANA CORP	SCG		59			10.8	10.5	10.9	13.5	13.7	14.2	1.5	4%		1%	$4.39	$4.34	$4.19	$4.13	$4.16	$4.16				
SOUTHERN CO/THE	**SO**	**H**	**50**	**52**	**4%**	**10.8**	**11.2**	**11.6**	**15.9**	**16.7**	**17.0**	**1.9**	**5%**	**(7%)**	**2%**	**$3.15**	**$3.00**	**$2.95**	**$2.90**	**$2.89**	**$2.80**	**$0.73**	**A vs**	**$0.74**	**(1%)**
WESTAR ENERGY INC	WR		51			9.6	10.2	10.6	18.1	19.6	20.3	1.9	3%		3%	$2.82	$2.59	$2.50	$2.47	$2.42	$2.42				
WEC ENERGY GROUP INC	WEC		67			10.4	11.3	11.9	19.4	20.4	21.5	2.3	3%		4%	$3.43	$3.27	$3.11	$2.95	$2.88	$2.88				
XCEL ENERGY INC	**XEL**	**H**	**50**	**47**	**(6%)**	**9.7**	**10.1**	**10.7**	**19.3**	**20.4**	**21.6**	**2.3**	**3%**	**(4%)**	**5%**	**$2.60**	**$2.46**	**$2.33**	**$2.21**	**$2.09**	**$2.03**	**$0.45**	**A vs**	**$0.39**	**15%**
Regulated Utilities Average						9.8	10.3	10.7	18.1	19.5	20.1	2.0	3%	(2%)	3%										1%
BLACK HILLS CORP	BKH		70			9.8	10.0	10.6	18.3	18.8	19.9	2.1	3%		4%	$3.84	$3.74	$3.53	$3.06	$3.19	$3.19				
DOMINION ENERGY INC	D		79			11.4	12.5	14.0	18.5	19.5	21.7	3.0	4%		2%	$4.29	$4.07	$3.65	$3.81	$3.80	$3.80				
ENTERGY CORP	ETR		80			8.1	8.4	8.6	16.0	16.4	13.8	1.7	4%		(7%)	$4.98	$4.85	$5.78	$6.89	$7.11	$7.11				
EXELON CORP	**EXC**	**B**	**38**	**41**	**7%**	**8.5**	**8.4**	**8.7**	**13.9**	**13.5**	**14.1**	**1.3**	**3%**	**(2%)**	**3%**	**$2.75**	**$2.83**	**$2.70**	**$2.68**	**$2.49**	**$2.39**	**$0.54**	**A vs**	**$0.65**	**(17%)**
FIRSTENERGY CORP	FE		32			8.5	8.5	8.5	13.4	12.7	11.5	2.3	4%		(2%)	$2.41	$2.54	$2.81	$2.64	$2.62	$2.62				
NEXTERA ENERGY INC	NEE		148			10.1	10.8	11.3	19.1	20.5	22.0	2.6	3%		6%	$7.77	$7.24	$6.74	$6.23	$5.75	$5.75				
MDU RESOURCES GROUP INC	MDU		27			9.9	10.4	11.2	18.8	20.1	22.6	2.4	3%		(5%)	$1.46	$1.36	$1.22	$1.14	$1.87	$1.87				
PUBLIC SERVICE ENTERPRISE (	PEG		46			8.8	9.2	9.2	15.7	15.8	15.9	1.8	4%		0%	$2.97	$2.93	$2.92	$2.88	$2.91	$2.91				
SEMPRA ENERGY	SRE		119			10.8	12.0	12.7	17.9	21.4	22.8	1.9	3%		6%	$6.64	$5.56	$5.22	$4.83	$5.05	$5.05				
Hybrid Utilities Average						9.5	10.0	10.5	16.8	17.6	18.3	2.1	3%	(2%)	1%										(17%)
AES CORP	**AES**	**B**	**11**	**15**	**34%**	**7.1**	**7.3**	**7.8**	**8.5**	**9.0**	**10.7**	**1.1**	**4%**	**18%**	**0%**	**$1.32**	**$1.25**	**$1.05**	**$0.98**	**$1.22**	**$1.30**	**$0.25**	**A vs**	**$0.17**	**47%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**2%**	**8.6**	**8.6**	**9.4**	**NM**	**NM**	**NM**	**1.7**	**NA**	**10%**	**NM**	**$0.89**	**$0.80**	**$0.26**	**($0.08)**	**$1.06**	**$0.76**	**($0.35)**	**A vs**	**$0.09**	**NM**
DYNEGY INC	**DYN**	**B**	**9**	**11**	**20%**	**7.3**	**6.4**	**8.3**	**NM**	**NM**	**NM**	**0.6**	**NA**	**25%**	**NM**	**($0.46)**	**$0.53**	**($1.63)**	**($2.52)**	**$1.95**	**($2.51)**	**($1.31)**	**A vs**	**($1.23)**	**NM**
NRG ENERGY INC	**NRG**	**H**	**24**	**23**	**(4%)**	**9.3**	**9.9**	**10.1**	**NM**	**NM**	**NM**	**2.1**	**1%**	**14%**	**NM**	**$1.59**	**$1.10**	**$0.93**	**$1.64**	**($0.34)**	**$0.94**	**$0.41**	**A vs**	**$0.84**	**NM**
ORMAT TECHNOLOGIES INC	ORA		58			9.8	10.1	11.0	21.1	22.7	24.3	2.3	NA		4%	$2.73	$2.54	$2.37	$2.10	$2.19	$2.19				
VISTRA ENERGY CORP	VST		18			8.1	8.0	7.9	39.2	23.5	28.8	1.1	NA		NM	45%	75%	$0.61	NM	NM	NM				
Independent Power Average						8.4	8.4	9.1	14.8	15.8	17.5	1.6	2%	17%	2%										47%
STRH Power Index						9.7	10.2	10.7	17.7	18.9	19.5	2.0	3%	(3%)	2%										4%
S&P 500	SPX		2461						18.8	15.4	17.0		2%			130.79	159.71	145.15	130.79	110.64	113.60				

Notes:
(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.
(B) Near-term price target over the next 12 months.
(C) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Reports.

Figure 9: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder (Cont'd)

			PRICE PERFORMANCE										TRADING DATA			LEVERAGE/PROFITABILITY			OWNERSHIP DATA			
		Inv.	Price	52-Week Range									30 Wk. Mov. Avg		Daily	Total	ROE	ROIC	Shares	Market	Ownership	
COMPANY	Ticker	Rating	9/8/17	Hi	Low	YTD	2016	2015	2014	2013	2012	2011	Act.	+/-	Vol.	D/C	2017E	2017E	Out.	Cap.	Insider	Instit.
														(A)	(B)				(mm)	($mm)	(C)	
ALLIANT ENERGY CORP	LNT		43	43	35	14%	21%	(6%)	29%	18%	(0%)	20%	$40	7%	990	52%	11%	5%	231.1	$9,980	0%	72%
AMEREN CORPORATION	AEE		60	61	47	15%	21%	(6%)	28%	18%	(7%)	18%	$56	8%	1,440	53%	NM	6%	242.6	$14,580	0%	73%
AMERICAN ELECTRIC POWER	**AEP**	**B**	**74**	**74**	**58**	**18%**	**8%**	**(4%)**	**30%**	**10%**	**3%**	**15%**	**69**	**8%**	**2,427**	**54%**	**10%**	**4%**	**491.8**	**36,490**	**0%**	**76%**
AVISTA CORP	AVA		52	53	38	29%	13%	0%	25%	17%	(6%)	14%	44	19%	510	53%	NM	NM	64.4	3,333	2%	74%
CENTERPOINT ENERGY INC	**CNP**	**H**	**30**	**30**	**22**	**22%**	**34%**	**(22%)**	**1%**	**20%**	**(4%)**	**28%**	**28**	**7%**	**2,930**	**71%**	**16%**	**6%**	**431.0**	**12,935**	**0%**	**85%**
CMS ENERGY CORP	**CMS**	**H**	**49**	**49**	**39**	**17%**	**15%**	**4%**	**30%**	**10%**	**10%**	**19%**	**46**	**6%**	**1,162**	**69%**	**14%**	**6%**	**282.0**	**13,723**	**1%**	**98%**
CONSOLIDATED EDISON INC	ED		86	86	69	16%	14%	(3%)	19%	(0%)	(10%)	25%	80	7%	1,277	53%	9%	5%	309.8	26,499	0%	58%
DTE ENERGY COMPANY	DTE		113	113	90	15%	23%	(7%)	30%	11%	10%	20%	105	7%	680	55%	10%	5%	179.4	20,242	1%	75%
DUKE ENERGY CORP	**DUK**	**H**	**88**	**88**	**72**	**13%**	**9%**	**(15%)**	**21%**	**8%**	**(3%)**	**24%**	**84**	**5%**	**1,894**	**56%**	**8%**	**5%**	**699.9**	**61,436**	**0%**	**61%**
EDISON INTERNATIONAL	**EIX**	**B**	**81**	**83**	**67**	**12%**	**21%**	**(10%)**	**41%**	**2%**	**9%**	**7%**	**79**	**2%**	**1,716**	**42%**	**9%**	**6%**	**325.8**	**26,306**	**0%**	**88%**
EVERSOURCE ENERGY	ES		63	64	51	15%	8%	(5%)	26%	8%	8%	13%	60	5%	1,511	51%	9%	6%	316.9	20,119	0%	82%
GREAT PLAINS ENERGY INC	**GXP**	**H**	**31**	**32**	**26**	**12%**	**0%**	**(4%)**	**17%**	**19%**	**(7%)**	**12%**	**29**	**4%**	**1,164**	**58%**	**4%**	**4%**	**272.0**	**13,872**	**0%**	**74%**
P G & E CORP	PCG		71	71	58	16%	14%	(0%)	32%	0%	(3%)	(14%)	67	5%	2,324	49%	10%	6%	512.8	36,226	0%	90%
PNM RESOURCES INC	**PNM**	**H**	**43**	**43**	**31**	**24%**	**12%**	**3%**	**23%**	**18%**	**13%**	**40%**	**38**	**11%**	**412**	**59%**	**8%**	**5%**	**79.7**	**3,389**	**1%**	**100%**
PINNACLE WEST CAPITAL	**PNW**	**H**	**90**	**91**	**71**	**16%**	**21%**	**(6%)**	**29%**	**4%**	**6%**	**16%**	**85**	**5%**	**555**	**49%**	**10%**	**6%**	**111.6**	**10,047**	**0%**	**93%**
PORTLAND GENERAL ELECTRIC	POR		48	48	40	11%	19%	(4%)	25%	10%	8%	17%	46	5%	575	50%	8%	5%	89.1	4,263	1%	102%
PPL CORP	PPL		40	40	32	16%	(0%)	(6%)	21%	5%	(3%)	12%	38	4%	2,474	66%	14%	6%	680.8	26,925	0%	78%
SCANA CORP	SCG		59	76	59	(19%)	21%	0%	29%	3%	1%	11%	66	(10%)	1,276	57%	10%	5%	142.9	8,465	0%	72%
SOUTHERN CO/THE	**SO**	**H**	**50**	**54**	**46**	**2%**	**5%**	**(5%)**	**19%**	**(4%)**	**(8%)**	**21%**	**49**	**2%**	**5,721**	**61%**	**11%**	**6%**	**995.2**	**49,960**	**0%**	**58%**
WESTAR ENERGY INC	WR		51	58	49	(10%)	33%	3%	28%	12%	(1%)	14%	53	(3%)	586	52%	10%	6%	142.1	7,227	1%	89%
WEC ENERGY GROUP INC	WEC		67	67	54	14%	14%	(3%)	28%	12%	5%	19%	62	8%	1,849	53%	11%	6%	315.6	21,030	0%	75%
XCEL ENERGY INC	**XEL**	**H**	**50**	**50**	**38**	**24%**	**13%**	**(0%)**	**29%**	**5%**	**(3%)**	**17%**	**46**	**9%**	**2,431**	**57%**	**11%**	**6%**	**507.8**	**25,505**	**0%**	**78%**
Regulated Utilities Average						13%	15%	(4%)	25%	9%	1%	17%		5%		55%	10%	6%			0%	80%
BLACK HILLS CORP	BKH		70	72	55	15%	32%	(12%)	1%	44%	8%	12%	68	4%	181	64%	11%	6%	53.5	3,755	1%	101%
DOMINION ENERGY INC	D		79	82	70	4%	13%	(12%)	19%	25%	(2%)	24%	78	2%	2,278	66%	14%	5%	642.6	50,919	0%	76%
ENTERGY CORP	ETR		80	82	67	9%	7%	(22%)	38%	(1%)	(13%)	3%	77	4%	1,089	65%	12%	5%	179.5	14,327	0%	91%
EXELON CORP	**EXC**	**B**	**38**	**39**	**30**	**8%**	**28%**	**(25%)**	**35%**	**(8%)**	**(31%)**	**4%**	**36**	**5%**	**5,598**	**54%**	**9%**	**5%**	**960.1**	**36,647**	**0%**	**86%**
FIRSTENERGY CORP	FE		32	35	28	4%	(3%)	(19%)	18%	(21%)	(6%)	20%	31	5%	3,373	78%	18%	7%	444.3	14,311	0%	106%
NEXTERA ENERGY INC	NEE		148	151	110	24%	15%	(2%)	24%	24%	14%	17%	138	8%	1,615	56%	12%	6%	469.2	69,569	0%	81%
MDU RESOURCES GROUP INC	MDU		27	30	23	(5%)	57%	(22%)	(23%)	44%	(1%)	6%	27	3%	584	44%	NM	7%	195.3	5,357	1%	66%
PUBLIC SERVICE ENTERPRISE (	PEG		46	47	39	6%	13%	(7%)	29%	5%	(7%)	4%	45	4%	2,595	49%	11%	6%	505.9	23,499	0%	73%
SEMPRA ENERGY	SRE		119	120	93	19%	7%	(16%)	24%	27%	29%	5%	113	6%	779	50%	10%	4%	251.1	29,918	0%	93%
Hybrid Utilities Average						9%	19%	(15%)	18%	15%	(1%)	11%		5%		59%	12%	6%			0%	86%
AES CORP	**AES**	**B**	**11**	**13**	**11**	**(3%)**	**21%**	**(31%)**	**(5%)**	**36%**	**(10%)**	**(3%)**	**11**	**(1%)**	**3,286**	**66%**	**10%**	**4%**	**660.3**	**7,401**	**0%**	**104%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**9**	**29%**	**(21%)**	**(35%)**	**13%**	**8%**	**11%**	**22%**	**$12**	**18%**	**8,546**	**79%**	**3%**	**5%**	**360.7**	**$5,323**	**1%**	**109%**
DYNEGY INC	**DYN**	**B**	**9**	**14**	**6**	**9%**	**(37%)**	**(56%)**	**41%**	**12%**	**(4%)**	**NM**	**8**	**14%**	**3,611**	**82%**	**(11%)**	**4%**	**131.4**	**1,207**	**1%**	**126%**
NRG ENERGY INC	**NRG**	**H**	**24**	**26**	**10**	**95%**	**4%**	**(56%)**	**(6%)**	**25%**	**27%**	**(7%)**	**19**	**25%**	**6,026**	**74%**	**8%**	**3%**	**316.5**	**7,570**	**1%**	**91%**
ORMAT TECHNOLOGIES INC	ORA		58	61	45	7%	47%	34%	(0%)	41%	7%	(39%)	58	(0%)	202	41%	10%	6%	49.9	2,870	0%	62%
VISTRA ENERGY CORP	VST		18	18	12	18%	NM	NM	NM	NM	NM	NM	16	8%	1,227	41%	NM	4%	427.6	7,547	0%	98%
Independent Power Average						26%	3%	(29%)	9%	24%	6%	(7%)		11%		68%	4%	4%			0%	98%
STRH Power Index						14%	15%	(10%)	21%	13%	1%	12%		6%		57%	10%	5%			0%	83%
S&P 500	SPX		$2,461	$2,491	$2,084	10%	9%	(1%)	11%	30%	13%	(0%)										

Notes:

(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.

(B) % current price above or below 30-wk. moving average.

(C) In thousands.

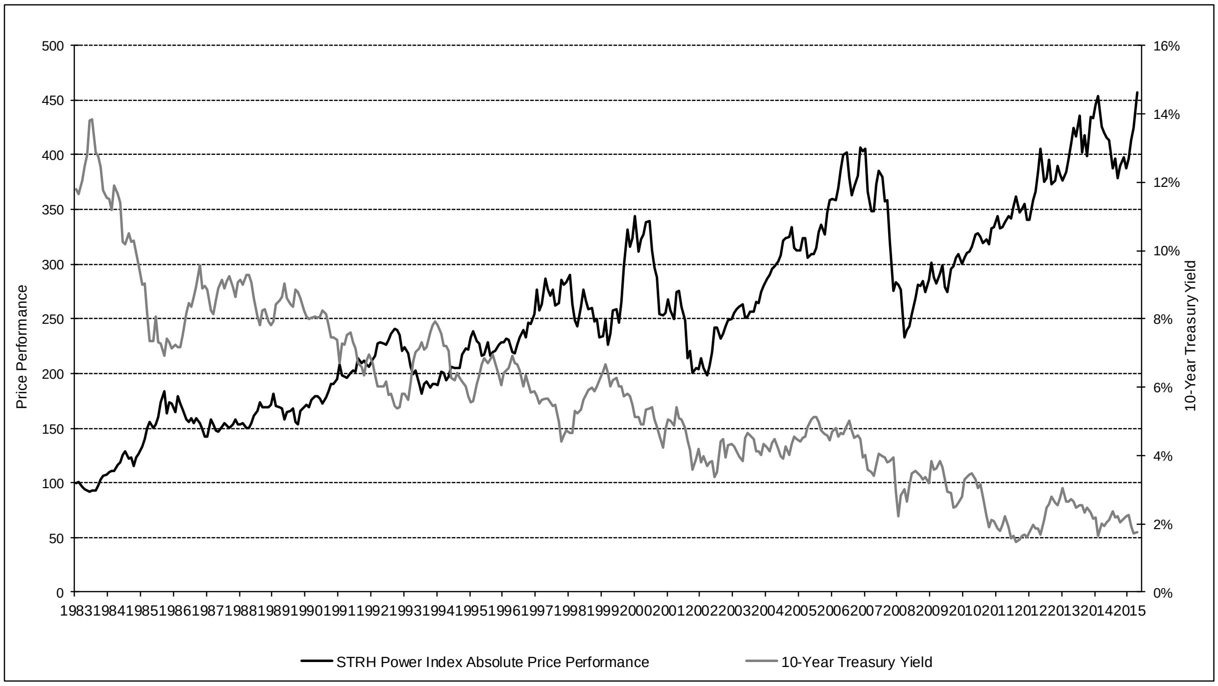
(D) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Reports.

Figure 10: SunTrust Robinson Humphrey Power Index Price Performance Relative to the S&P 500 Index
12/31/83 - Present

Sources: Bloomberg, SunTrust Robinson Humphrey.

Figure 11: SunTrust Robinson Humphrey Power Index Absolute Price Performance vs 10-Year Treasury Yield
12/31/83 - Present



Sources: Bloomberg, SunTrust Robinson Humphrey.

VALUATION

AEP
Assuming a 19.5x P/E multiple (a 9% premium to the peer group to reflect the above average earnings growth profile) on our 2019 estimate of $4.11, we derive our price target of $80.

AES
Assuming an 11.4x P/E multiple (which would still imply a 10% “conglomerate” discount to the peer group) on our 2019 estimate of $1.32, we derive our price target of $15.

CMS
Assuming a 19.8x P/E multiple (a 10% premium to the peer group to reflect the above average growth outlook) on our 2019 estimate of $2.47, we derive our price target of $49.

CNP
Based on the market value of CNP’s ownership in ENBL, we derive an $8.1/share value. Factoring a 17.9x P/E multiple (in line with the peer group) on our 2019 Utility estimate of $1.09, we derive a $19.5/share value. Consequently, our sum of the parts price target is $28.

CPN
Based on the company's take out price, and our assumption that a higher bid will not emerge, we derive our price target of $15.

DUK
Assuming a 17.9x P/E multiple (in line with the peer group) on our 2019 estimate of $5.09, we derive our price target of $91.

DYN
Assuming an EV/EBITDA multiple of 7.8x (a 3% discount to the peer group to reflect the higher leverage at the company) on our 2019 EBITDA estimate of $1.30bn, coupled with implied net debt of $8.26bn (which factors in all the announced asset sales), we derive our price target of $11.

EIX
Assuming a 19.2x P/E multiple (a 7% premium to the peer group to reflect the company’s above average earnings and dividend growth profile) on our 2019 estimate of $4.69, we derive our price target of $90.

EXC
Assuming a 14.8x P/E multiple (in line with the peer group) on our 2019 estimate of $2.75, we derive our price target of $41.

GXP
Assuming a 17.4x P/E multiple (a 2% discount to the peer group to reflect the uncertainties around the final merger approval) on our 2019 estimate of $1.80, we derive our price target of $32.

NRG

Based on the current market value of NRG's ownership in NYLD, we derive a $5/share equity value. Applying a 9.0x EV/EBITDA multiple (a 10% premium to the current peer average to reflect the potential upside from the successful execution of the Transformation Plan) to our residual NRG 2019 EBITDA estimate of $1.90 billion, coupled with implied residual Net Debt of $11.4 billion, we derive an $18/share value for the residual NRG. Consequently, our price target is $23.

PNM

Assuming an 18.1x P/E multiple (in line with the small cap peer group) on our 2019 estimate of $2.03, we derive our price target of $37.

PNW

Assuming a P/E multiple of 18.4x (in line with other small / mid cap peers) on our 2019 estimate of $4.71, we derive our price target of $87.

SO

Assuming a 16.5x P/E multiple (a 5% discount to the large cap peer group, reflecting ongoing uncertainty around the Vogtle project) on our 2019 estimate of $3.15, we derive our price target of $52.

XEL

Assuming a 18.0x P/E (in line with the peer group) on our 2019 EPS estimate of $2.60, we derive our price target of $47.

RISKS

AEP

- Final resolution of pending regulatory issues.
- Future earnings power post merchant exit
- Impact of proposed and future EPA regulations.

AES

- Potential regulatory/economic changes in key international markets.
- Investor sentiment regarding emerging/international markets.
- Successful execution of portfolio restructuring strategy.

CMS

- Outlook for Retail Open Access in Michigan.
- Change in the regulatory regime.
- Load growth trends.

CNP

- Macro trends and growth outlook for the MLP portfolio.
- Load growth trends in service territories.
- Ability to restructure MLP ownership position.

CPN
- Outlook for future spark spreads.
- Timing of additional EPA regulations.
- Electric load growth trends.

DUK
- O&M cost management.
- Future electric load growth trends.
- Impact of future regulatory initiatives.

DYN
- Outlook for forward commodity curves.
- Integration of the pending acquisitions.
- Final outcome of debt restructuring discussions.
- Implication of future EPA regulations.

EIX
- Capital investment and growth plans for non-utility operations.
- Final CPUC decision on applications to reopen SONGS retirement settlement.
- Outcome of pending and future regulatory cases.

EXC
- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

GXP
- Load growth outlook in service territories.
- Outcome of pending rate cases.
- Impact of higher property taxes and transmission costs.
- Completion of the WR acquisition.

NRG
- Execution of the Reset plan.
- Outlook for forward commodity curves.

PNM
- Final New Mexico PRC decision on the rate case settlement.
- Electric load growth trends in service territories.

PNW
- Impact of energy efficiency and distributed generation programs.
- Any regulatory changes regarding distributed generation
- Load growth outlook

SO

- Outlook for load growth.
- Dilution from additional equity issuance.
- Potential for further delays and cost increases at the large construction projects.
- Higher than expected accretion from AGL acquisition.

XEL

- Outcome of pending and future rate cases.
- Outlook for future capital expenditure (and rate base) growth.
- Load growth trends in service territories.

Companies Mentioned in This Note

American Electric Power Company, Inc. (AEP, $74.19, Buy, Ali Agha)
The AES Corporation (AES, $11.21, Buy, Ali Agha)
CMS Energy Corporation (CMS, $48.66, Hold, Ali Agha)
CenterPoint Energy, Inc. (CNP, $30.01, Hold, Ali Agha)
Calpine Corporation (CPN, $14.76, Hold, Ali Agha)
Duke Energy Corporation (DUK, $87.78, Hold, Ali Agha)
Dynegy Inc (DYN, $9.18, Buy, Ali Agha)
Edison International (EIX, $80.74, Buy, Ali Agha)
Exelon Corporation (EXC, $38.17, Buy, Ali Agha)
Great Plains Energy (GXP, $30.74, Hold, Ali Agha)
NRG Energy, Inc (NRG, $23.92, Hold, Ali Agha)
PNM Resources, Inc. (PNM, $42.55, Hold, Ali Agha)
Pinnacle West Capital Corporation (PNW, $90.01, Hold, Ali Agha)
Southern Company (SO, $50.20, Hold, Ali Agha)
Xcel Energy, Inc. (XEL, $50.23, Hold, Ali Agha)
Enable Midstream (ENBL, $14.76, Not Rated)

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Required Disclosures

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STRH Ratings System for Equity Securities

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SunTrust Robinson Humphrey (STRH) rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

SunTrust Robinson Humphrey ratings distribution (as of 09/11/2017):

Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	417	59.57%	Buy	130	31.18%
Hold/Neutral	279	39.86%	Hold/Neutral	58	20.79%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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RESEARCH SUMMARY
September 11, 2017

Daily Spotlight

SunTrust Robinson Humphrey

At a Glance

Symbol	Rating		Est.	Price Target	
	Prior	Current		Prior	Current
PRICE TARGET CHANGES					
DUK	H	H		$90.00	$91.00
MGNX	B	B	▼	$26.00	$30.00
PNW	H	H		$86.00	$87.00
KR	H	H	▼	$28.00	$24.00
COMPANY UPDATES					
CCL	B	B		$72.00	$72.00
LLY	B	B		$96.00	$96.00
EXEL	B	B	▲	$33.00	$33.00
FBM	B	B		$22.00	$22.00
MRK	B	B		$73.00	$73.00
MRK	B	B		$73.00	$73.00
AEP	B	B		$80.00	$80.00
ABCB	B	B		$55.00	$55.00
AWI	B	B		$53.00	$53.00
ARRY	B	B		$13.00	$13.00
ASB	H	H		$24.00	$24.00
CPN	H	H		$15.00	$15.00
CNP	H	H		$28.00	$28.00
CLVS	B	B		$105.00	$105.00
CLVS	B	B		$105.00	$105.00
CLVS	B	B		$105.00	$105.00
CMS	H	H		$49.00	$49.00
DYN	B	B		$11.00	$11.00
EIX	B	B		$90.00	$90.00
ENR	B	B		$60.00	$60.00
EXC	B	B		$41.00	$41.00
GXP	H	H		$32.00	$32.00
INCY	B	B		$155.00	$155.00
KFY	B	B		$42.00	$42.00
NRG	H	H		$23.00	$23.00
PNFP	B	B	▼	$73.00	$73.00
PNM	H	H		$37.00	$37.00
SBRA	B	B	▲▼	$30.00	$30.00
SO	H	H		$52.00	$52.00
TSRO	B	B		$235.00	$235.00
TSRO	B	B		$235.00	$235.00
AES	B	B		$15.00	$15.00
TRTN	B	B	▲▼	$40.00	$40.00
XEL	H	H		$47.00	$47.00

INDUSTRY UPDATES

Building Products/Durable Goods - Mattress Update - Weak Labor Day and Mattress Firm Post TPX Break

Entertainment - STRH Digital Entertainment Weekly: ATVI, LGF, NFLX, P, Spotify

Insurance - Post-Travel Comments / Workers' Comp Update

Morning Meeting Highlights

Eli Lilly and Company (LLY, $82.92, Buy) - ESMO - Abemaciclib MONARCH-3 Data Supports Shift to Greater Use of CDK4/6 Class - We're on ground at ESMO where MONARCH-3 (M3) interim ABEM & Cyramza RANGE data sets were conference highlights. ABEM M3 data was solid with median PFS not reached vs. PBO+LET at 14.7 months (HR = 0.54, p - **John Boris**

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MacroGenics, Inc. (MGNX, $18.94, Buy) - ESMO - Good AML Data, Positive for Platform and Focus - Upping PT - MacroGenics data highlights three important elements to help drive the stock higher; 1) very solid initial AML data show 6/14 patients responded (1 PR, 1 MLFS, 4 CR/CRi), 2) this data helps further

Lodging REITs - Hotel REITS - Insurance considerations in light of the hurricane activity

Restaurants - Restaurants - Commodities Call: Deflation Expected to Return in '18

Today's Events

9/11	Salesforce.com, inc. (CRM) - Dallas - Tillman
9/11	The Rubicon Project, Inc. (RUBI) - New York - Thornton
9/11	Textainer Group Holdings Ltd (TGH) - Boston - Mewhirter
9/11	Probiodrug AG (PBD.EN) - New York
9/11	Ki Bin Kim and Michael Lewis - Analyst Trip - Philadelphia

validate MacroGenics' DART platform, and 3) will help shift the company's strategic focus from a pipeline to AML focused. We are increasing the probability success for AML from 25% to 33%, raising our PT from $26 to $30, and reiterate our BUY rating. - **Peter Lawson**

Foundation Building Materials, Inc. (FBM, $13.48, Buy) - Could See Significant Catch Up With Group/Peer Rally - We remain Buy on FBM and see a particularly attractive entry point now based on: (1) Continued above GDP growth in residential and commercial activity. (2) Acquisition potential as the industry could consolidate at a faster pace than thought last year given recent deals. (3) A roughly 2x multiple gap from peer GMS, given its recent rally. We believe this gap is too large, even accounting for the controversial tax receivable agreement (TRA). A 25% move in the stock would put it back to the one turn discount including the TRA. Maintain Buy rating and $22 PT, applying 8.1x EV/EBITDA to our 2018E. - **Keith Hughes**

Cruise Lines - August Cruise Pricing Survey - Outlook Remains Solid - Better Sequentially - Overall industry-wide advertised pricing (US$) for future sailings in August (pre-recent hurricanes) was +6.8% Y/Y vs. +3.2% Y/Y in July, +5.6% in June, and +4.9% in May. - **C. Patrick Scholes**

Other Focus Items Today

Consumer

Cruise Lines - August Cruise Pricing Survey - Outlook Remains Solid - Better Sequentially - Overall industry-wide advertised pricing (US$) for future sailings in August (pre-recent hurricanes) was +6.8% Y/Y vs. +3.2% Y/Y in July, +5.6% in June, and +4.9% in May. - **C. Patrick Scholes**

Energizer Holdings, Inc. (ENR, $45.57, Buy) - Gauging the Hurricane Impact - Based on our analysis of ENR's historical benefits from US hurricanes, we believe there is at least $20M-$45M in sales or $0.03-$0.07 EPS upside (+7%-15%) to F4Q estimates from the impact of Hurricane Harvey and Hurricane Irma. Additionally, this should serve as a strong tailwind for ENR into FY18 as retailers have to replenish their shelves following the hurricanes in preparation for the upcoming holiday season. We reiterate our Buy rating and $60 price target (12x FY18 EBITDA vs. the peer average of 10x-14x). - **William Chappell, Jr.**

Restaurants - Restaurants - Commodities Call: Deflation Expected to Return in '18 - David Maloni (ARA Group, private), expects key restaurant commodities to be deflationary (hamburger) or flat (chicken breast) in '18, after much higher than expected inflation in '17. While favorable for margins, this could create top-line risk if it leads to continued deep value-oriented discounting and lower grocery pricing relative to restaurants. However, inflation in '17 appears to be shifting the restaurant industry away from deep discounting, and we do not expect relatively minor deflation to drive a reversal (est. '18 hamburger deflation of 5.9% vs. 23.5% in '16). - **Jake Bartlett**

The Kroger Co. (KR, $22.77, Hold) - 2Q In Line; Moves to Ramp Up Investments - KR shares are down about 10% today. While the 2Q release was in line (EPS of $0.39 matched the Street), KR took its long-term earnings growth target off the table. While the decision provides more flexibility to invest, either proactively or reactively, it inherently lessens visibility in the interim. We are maintaining estimates (at the low end of guidance) but trimming our PT to $24 from $28. Maintain Hold. - **David Magee**

Electric Power and Utilities

Electric Power and Utilities - Power/Utilities Macro Trends Tracker: Flat Trends In Forward Spreads - This report includes our analysis of the key macro factors impacting the power/ utility sector, including: forward power prices, spark spread, dark spread, and gas/coal spread trends; domestic electric consumption growth; and national weather patterns. Based on the latest peer group valuations, we are increasing our price targets on DUK and PNW. - **Ali Agha**

Financials

Associated Banc-Corp (ASB, $21.55, Hold) - Announces Acquisition of Wealth Management Firm - **Michael Young**

Pinnacle Financial Partners, Inc. (PNFP, $58.50, Buy) - Model Update - We have made some minor changes to our model. We are reiterating our Buy rating, our 2017/2018 EPS estimates of $3.54/$4.17 and our $73 price target (17.5x ’18 EPS) - **Jennifer Demba**

Ameris Bancorp (ABCB, $41.40, Buy) - Model Update - We have made some minor changes to our model. We are reiterating our Buy rating, our 2017/2018 EPS estimates of $2.55/$3.14 and our $55 price target (17.5x '18E EPS). - **Jennifer Demba**

Insurance - Post-Travel Comments / Workers’ Comp Update - The workers’ compensation line remains healthy, according to the latest industry data along with commentary during our trip with EIG management to visit investors in Boston and Baltimore, though declining loss costs and stepped-up competition are likely to restrain near-term premiums. This narrows the list of potential catalysts that could move the group valuations higher, though the attractive multiples at EIG (EIG, $40.00, Buy), AMSF (AMSF, $53.00, Buy), and AFSI (AFSI, $11.78, Buy) – all influenced by the industry trends discussed in this note – justify our current Buy ratings, we judge. - **Mark Hughes**

Triton International Limited (TRTN, $33.52, Buy) - Adjusting Estimates for Equity Offering; Maintain Buy and $40 PT - We maintain our Buy rating and $40 price target on TRTN shares following the completion of a $175 million equity offering, which we believe will "break even" on an EPS accretion basis in 2H18. Industry conditions remain highly favorable to lessors, and Triton is taking the opportunity to deploy capital at high (15%-20%)

ROE while other competitors are still on their heels. - **Douglas Mewhirter**

Healthcare

Eli Lilly and Company (LLY, $82.92, Buy) - ESMO - Abemaciclib MONARCH-3 Data Supports Shift to Greater Use of CDK4/6 Class - We’re on ground at ESMO where MONARCH-3 (M3) interim ABEM & Cyramza RANGE data sets were conference highlights. ABEM M3 data was solid with median PFS not reached vs. PBO+LET at 14.7 months (HR = 0.54, p - **John Boris**

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Exelixis, Inc. (EXEL, $25.97, Buy) - ESMO – Cabo & IO Data Clears 2L Kidney For Exelixis, and Potentially More - Exelixis’ Cabozantinib failure and IO combo success in showing survival benefit in 1L kidney cancer is a near term negative for EXEL but long term positive in our view, and a buying opportunity on any weakness – (1) we see ESMO data as clearing the 1L/2L kidney landscape – IO could dominate 1L and cabo could dominate 2L kidney cancer, (2) IO should move to 1L (potentially restricted PD-L1 positive) giving cabo more room to grow in the 2L and a broad label – in our opinion, and (3) Cabo+IO combo provides optional 1L upside. Reiterate BUY rating and maintaining $33 PT. - **Peter Lawson**

MacroGenics, Inc. (MGNX, $18.94, Buy) - ESMO - Good AML Data, Positive for Platform and Focus - Upping PT - MacroGenics data highlights three important elements to help drive the stock higher; 1) very solid initial AML data show 6/14 patients responded (1 PR, 1 MLFS, 4 CR/CRi), 2) this data helps further validate MacroGenics' DART platform, and 3) will help shift the company's strategic focus from a pipeline to AML focused. We are increasing the probability success for AML from 25% to 33%, raising our PT from $26 to $30, and reiterate our BUY rating. - **Peter Lawson**

Biotech - Biotech- ESMO – Broad Use of PARPi and More Data on Newcomer - Incremental updates from the PARPi space showed – (1) TESARO's TSR-042 (anti-PD-1) had inline efficacy in 'basket' of solid tumors like Opdivo and Keytruda, the PARPi to be dosed at individual maximum dose & is effective disregard of age, (2) Astra's PARPi showed inline response in bulky disease patients, and (3) Beigene's PARPi showed encouraging early response and expanding into additional indications. Key PARPi catalysts include (1) TESARO's QUADRA data & BRAVO single arm breast cancer data in 2H17, and Pfizer's EMBRACA breast cancer data in 1Q18. - **Peter Lawson**

Clovis Oncology, Inc. (CLVS, $67.17, Buy) - ESMO – Investor & Physician Interest High at ESMO - While no new data, Clovis' Analyst/Investor event was very well attended in Madrid, Spain, around the ESMO conference. Dr. Iain McNeish (Institute of Cancer Sciences, University of Glasgow) helped clarify a liver issue raised by the paper discussant and reiterated the broad efficiency of Rubraca, Clovis' PARP inhibitor in all platinum sensitive patients (see our prior note: bit.ly/2vW2JU9). We expect sNDA filing by Oct end, U.S. approval by 2Q18 and EU approval by early 2H18. Reiterate our BUY rating and $105 PT. - **Peter Lawson**

Incyte Corporation (INCY, $129.46, Buy) - ESMO - Data Consistent With Abstract, KOL Discussion Encouraging - We are attending ESMO, where Incyte presented modestly updated data vs the abstract on Epacadostat + Keytruda in melanoma and held a follow-up call. Our key takes: 1) the presentation had 9 new patients vs the abstract with consistent efficacy, we believe with longer follow up additional PRs will likely convert to CRs, 2) KOL discussion and Q&A was positive, especially around PD-L1+ patients, and 3) Incyte will use the recent ~$650MN raise to be opportunistic on in-licenses and acquisitions. Overall we view the updates as incrementally positive. We reiterate our BUY rating and $155 PT. - **Peter Lawson**

Array BioPharma Inc. (ARRY, $10.98, Buy) - ESMO - CRC Triplet Data Impresses - We are attending ESMO where Array presented updated data in CRC and melanoma. Our key takes: 1) Discussion around the BEACON CRC trial data was very positive, KOLs especially like the durability of responses and await full Phase 3 data after full enrollment in 2018, 2) the discussion of the COLUMBUS melanoma trial was neutral, with the KOL wanting OS data (possibly in 1H18) before declaring Array's doublet data would influence standard of care, however we believe superior PFS and toxicity will drive uptake. Overall we are incrementally more positive on Array. We reiterate BUY and our $13 PT. - **Peter Lawson**

Biotech - Biotech- ESMO Highlighted Broad Use In Ovarian, and We'd Say Even Wider - The ovarian cancer discussant and Q&A session highlighted the broad use of Rubraca (and other PARPi). The discussant was impressed with the subset analysis originally presented in June and the updated KM curves. The Q&A also reiterated the relative similarity in PARPi on efficacy (although CLVS and TSRO have the most robust data), and differences in side effect profile. Importantly, the discussant highlighted the side effects, not as a negative but how to manage the side effects as he believed these drugs would be used over an extended period of time. Reiterate our BUY's on CLVS/TSRO. - **Peter Lawson**

Industrials

Foundation Building Materials, Inc. (FBM, $13.48, Buy) - Could See Significant Catch Up With Group/Peer Rally - We remain Buy on FBM and see a particularly attractive entry point now based on: (1) Continued above GDP growth in residential and commercial activity. (2) Acquisition potential as the industry could consolidate at a faster pace than thought last year given recent deals. (3) A roughly 2x multiple gap from peer GMS, given its recent rally. We believe this gap is too large, even accounting for the controversial tax receivable agreement (TRA). A 25% move in the stock would put it back to the one turn discount including the TRA. Maintain Buy rating and $22 PT, applying 8.1x EV/EBITDA to our 2018E. - **Keith Hughes**

Armstrong World Industries, Inc. (AWI, $49.95, Buy) - Review of Competitor Lawsuit - European competitor ROCK filed a anti-trust lawsuit last week against AWI alleging anti-competitive behavior in the US ceilings market. The main complaint seems to be the exclusive distribution of AWI that ROCK has not been able to penetrate. We believe the suit shows that ROCK is not quite the competitive threat near-term that many believe. Lawsuits of this type are always tough to judge but we would note that the spirit of the suit, in our view, is not the price collusion usually seen in these moves. Whatever the outcome, it will take sometime to resolve. - **Keith Hughes**

Building Products/Durable Goods - Mattress Update - Weak Labor Day and Mattress Firm Post TPX Break - Mattress industry demand over the Labor Day sales weekend (and as discussed on the LEG earnings warning) points to a continued weak industry versus other large ticket durables, in our view. In addition, a recent earnings release from Mattress Firm's owner SNH highlighted a noticeable move down in ticket that could have long-term impacts in the industry. The long-term impact of Irma remains to be seen, but most likely, more long-term gain/short-term pain will be felt. - **Keith Hughes**

IT Services

Korn/Ferry International (KFY, $35.82, Buy) - Questions for Management Post-Fiscal 1Q18 Results - **Tobey Sommer**

Real Estate Investment Trusts

Lodging REITs - Hotel REITS - Insurance considerations in light of the hurricane activity - In light of the growing concerns related to Hurricane Irma, we have spoken with our covered REITS and have provided some takeaways below: - **C. Patrick Scholes**

Sabra Health Care REIT, Inc. (SBRA, $22.78, Buy) - So Far, So Pleased - We are pleased with the comprehensive outlook provided by Sabra Health Care REIT regarding the repositioning and benefits of the Care Capital Properties (CCP) portfolio. With essentially all but one tenant expected to be repositioned by YE2017, Sabra will have a clean slate entering 2018. Add in incremental benefits from the Investment Grade rating and the accretion looks better than originally outlined. With $500M+ in 2017 investment activity guidance, 4Q should be quite active. Solid 2017-2018 guidance and a robust pipeline underpin our bullish outlook. Reiterate Buy. - **Eric Fleming**

TMT

Entertainment - STRH Digital Entertainment Weekly: ATVI, LGF, NFLX, P, Spotify - ATVI: Destiny 2 Metacritic score at 84 vs Destiny 1 at 76; Candy Crush Saga/Soda Saga the #1/#4 top grossing U.S. mobile gaming apps. NFLX: Won’t get future ‘Star Wars' or Marvel Films, but T-Mobile deal could add 1 million domestic subs. P: Spotify/Hulu partner on a $5 bundle for students. LGF.B: ‘Hitman’s Bodyguard’ Domestic box reached ~ $65m vs our $60m target. - **Matthew Thornton**

Management Access / NDRs

Date	Event	Analyst(s)	Region
9/11/17	Salesforce.com, inc. (CRM) - Dallas	Tillman	TEXAS
9/11/17	The Rubicon Project, Inc. (RUBI) - New York	Thornton	NEW YORK
9/11/17	Textainer Group Holdings Ltd (TGH) - Boston	Mewhirter	BOSTON
9/11/17	Probiodrug AG (PBD.EN) - New York	Not Covered	NEW YORK
9/12/17	Probiodrug AG (PBD.EN) - Boston	Not Covered	BOSTON
9/12/17	Huron Consulting Group, Inc. (HURN) - Boston	Sommer	BOSTON
9/12/17	Kirkland's, Inc. (KIRK) - Mid-Atlantic	Magee	MID-ATLANTIC
9/12/17-9/13/17	Heritage Insurance Holdings, Inc. (HRTG) - St Louis/Detroit	M. Hughes	MIDWEST
9/12/17	Textainer Group Holdings Ltd (TGH) - Canada	Mewhirter	CANADA
9/13/17	Zions Bancorporation (ZION) - Denver	Demba	WEST COAST
9/13/17	Kirkland's, Inc. (KIRK) - Cleveland	Magee	MIDWEST
9/13/17	First American Financial Corporation (FAF) - Mid-Atlantic	M Hughes	MID-ATLANTIC
9/13/17	Fox Factory Holding Corp. (FOXF) - Boston	Swartz	BOSTON
9/13/17	Burlington Stores, Inc. (BURL) - Philadelphia	Quintiliano	MID-ATLANTIC
9/13/17-9/14/17	MGP Ingredients, Inc. (MGPI) - West Coast	Chappell	WEST COAST
9/13/17-9/14/17	Texas Bank Summit - Dallas, TX	Demba/Young	TEXAS
9/13/17-9/14/17	Oxford Industries, Inc. (OXM) - TX	Quintiliano	TEXAS
9/13/17	Korn/Ferry International (KFY) – New York	Sommer	NEW YORK
9/14/17	Korn/Ferry International (KFY) – Boston	Sommer	BOSTON
9/14/17	Western Union Company (WU) - Texas	Jeffrey	TEXAS
9/14/17	Burlington Stores, Inc. (BURL) - Toronto	Quintiliano	CANADA
9/14/17	Workiva, Inc. (WK) - Boston	Tillman	BOSTON
9/14/17	Heritage Insurance Holdings, Inc. (HRTG) - Boston	M. Hughes	BOSTON
9/15/17	Heritage Insurance Holdings, Inc. (HRTG) - Mid-Atlantic	M. Hughes	MID-ATLANTIC
9/15/17	T-Mobile US, Inc. (TMUS) - Group Lunch - New York	Miller	NEW YORK
9/18/17	Energy Company Management Meetings - Denver	Dingmann	WEST COAST
9/18/17	Virtusa Corporation (VRTU) – San Francisco	Atkins	WEST COAST
9/18/17	Quest Diagnostics (DGX) - Group Dinner - New York	MacDonald	NEW YORK
9/18/17-9/19/17	Macquarie Infrastructure Corporation (MIC) - Canada	Richardson	CANADA
9/19/17	FTI Consulting, Inc. (FCN) - San Francisco	Sommer	WEST COAST
9/19/17	Green Dot Corporation (GDOT) - Boston	Jeffrey	BOSTON
9/19/17	DowDuPont,Inc. (DWDP) - Minneapolis	Sheehan	MIDWEST
9/19/17	Editas Medicine, Inc. (EDIT) - KC	Lawson	KC
9/19/17-9/20/17	Noodles & Co. (NDLS) – Canada	Bartlett	CANADA
9/19/17	Leggett & Platt, Inc. (LEG) - Dallas	K Hughes	TEXAS
9/19/17-9/20/17	Digital Entertainment and Advertising Bus Tour - West Coast	Thornton	WEST COAST
9/20/17	Macquarie Infrastructure Corporation (MIC) - Ohio	Richardson	MIDWEST
9/20/17	Leggett & Platt, Inc. (LEG) - KC	K Hughes	KC
9/20/17	Editas Medicine, Inc. (EDIT) - Chicago	Lawson	MIDWEST
9/20/17	ICF International (ICFI) - Chicago/Wisconsin	Sommer	MIDWEST
9/20/17	Orthofix International N.V. (OFIX) - KC	Nudell	KC
9/21/17	Orthofix International N.V. (OFIX) - Chicago	Nudell	MIDWEST
9/21/17	Dave & Buster's Entertainment, Inc. (PLAY) - Texas	Bartlett	TEXAS
9/21/17	ICF International (ICFI) - Kansas City	Sommer	KC
9/25/17	JELD-WEN Holding, Inc. (JELD) – New York	K Hughes	NEW YORK
9/25/17	Spark Therapeutics, Inc. (ONCE) - Group Dinner - New York	Nash	NEW YORK
9/25/17-9/26/17	AAR Corp. (AIR) - New York	Ciarmoli	NEW YORK

Analyst Marketing

Date	Event	Analyst(s)	Region
9/11/17	- Ki Bin Kim & Michael Lewis - Analyst Trip - Philadelphia	Kim/Lewis	MID-ATLANTIC
9/12/17	- Bill Chappell - Analyst Trip - Houston	Chappell	TEXAS
9/12/17-9/13/17	- Doug Mewhirter - Analyst Trip - Canada	Mewhirter	CANADA
9/14/17	- Keith Hughes - Analyst Trip - New York	K. Hughes	NEW YORK
9/14/17-9/15/17	- Jake Bartlett - Analyst Trip - New York	Bartlett	NEW YORK
9/14/17-9/15/17	- Michael Ciarmoli - Analyst Trip - New York	Ciarmoli	NEW YORK
9/18/17-9/21/17	- Youssef Squali & Naved Khan - Analyst Trip - West Coast	Squali/Kahn	WEST COAST
9/18/17-9/19/17	- Jennifer Demba & Michael Young - San Francisco	Demba/Young	WEST COAST
9/19/17	- Mark Hughes - Analyst Trip - KC	M Hughes	KC
9/19/17-9/20/17	- Ali Agha - Analyst Marketing - Boston	Agha	BOSTON
9/19/17-9/20/17	- Patrick Scholes - Analyst Trip - LA & SF	Scholes	WEST COAST
9/20/17	- Andrew Jeffrey - Analyst Trip - Boston	Jeffrey	BOSTON
9/20/17	- Charley Brady - Analyst Trip - Boston	Brady	BOSTON
9/21/17	- Jennifer Demba & Michael Young - Analyst Trip - KC	Demba/Young	KC
9/25/17	- Cabot Corp. (CBT) - Boston	Sheehan	BOSTON
9/25/17-9/26/17	- Michael Young - Analyst Trip - Texas	Young	TEXAS
9/25/17-9/26/17	- David MacDonald - Analyst Trip - Midwest	MacDonald	MIDWEST

Conference Call

Date	Event	Analyst(s)	Region
9/12/17	10AM EST Expert Call On European Fleet Card Market (FLT/WEX)	Turner	CONFERENCE CALL

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Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

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Legend for Rating and Price Target History Charts:

B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	417	59.57%	Buy	130	31.18%
Hold/Neutral	279	39.86%	Hold/Neutral	58	20.79%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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12 September 2017
Americas/Canada
Equity Research
Electric Utilities

Emera Inc. (EMA.TO)

Rating	**OUTPERFORM**
Price (11-Sep-17, C$)	47.39
Target price (C$)	58.00
52-week price range (C$)	48.90 - 44.03
Market cap(C$ m)	10,053

Target price is for 12 months.

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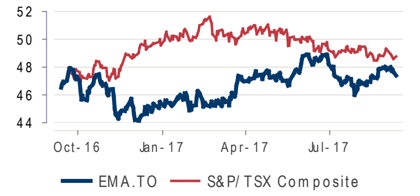
COMPANY UPDATE

Irma's Impact: Catastrophe Considerations

- *Our thoughts are with those affected by the rather dramatic hurricane season impacting vast areas of the Caribbean and the Southern US. Obviously, the situation remains fluid with the continuing devastation from current storms.*
- **Calibrating the Catastrophe:** With the severity of the recent storm season, this note aims to put some perspective around Emera exposure to the recent and ongoing events. On a simple summary basis, EMA's exposure consists of the following: two major Florida utilities (Tampa Electric and Peoples Gas) account for roughly US$6.8bn of rate base and Emera Caribbean of about US$1bn in assets. The Caribbean assets range from Dominica, Barbados, Grand Bahama and St. Lucia. About 48% of the balance sheet is exposed to the Caribbean and Florida.
- **Restoration Realizations:** Clearly, EMA's Florida Utilities form a significant part of the overall business as the TECO deal transformed the company. As discussed in this note, traditional utility doctrines usually permit for capital recovery associated with weather related events from acts of God. Yet, the regulatory approach can create mismatched timing in order to avoid rate shock. These issues should be in focus in the weeks and months ahead.
- **Investment thesis:** We continue to believe EMA's growth opportunities in the TECO asset base along with the Atlantic Canadian transmission projects will help re-rate the stock. The headwinds associated with near-term FX moves (a stronger CAD) and power markets look manageable.
- **Valuation:** We reiterate our Outperform rating and C$58 target price that are obtained from a P/E multiple of 20.6x on 2018 estimates; and, 3.75% dividend yield on 2017 dividend, respectively. EMA remains our preferred utility stock. Risk to our target and rating includes lower economic growth in US and Canada, increased interest rates and CAD strengthening.

Share price performance



On 11-Sep-2017 the S&P/TSX Composite closed at 15040.3
Daily Sep12, 2016 - Sep11, 2017, 09/12/16 = C$47.05

Quarterly EPS	Q1	Q2	Q3	Q4
2016A	0.81	0.33	0.60	0.51
2017E	0.72	0.54	0.71	0.63
2018E	0.71	0.64	0.80	0.66

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (CS adj.) (C$)	2.76	2.59	2.81	2.91
Prev. EPS (C$)	-	-	-	-
P/E (x)	17.2	18.3	16.9	16.3
P/E rel. (%)	81.5	108.6	111.0	119.8
Revenue (C$ m)	4,277.0	6,862.2	7,117.8	6,811.1
EBITDA (C$ m)	1,143.0	2,567.5	2,490.1	2,313.2
OCFPS (C$)	5.96	5.95	7.34	6.92
P/OCF (x)	7.6	8.0	6.5	6.8
EV/EBITDA (current)	22.6	10.1	10.4	11.2
Net debt (C$ m)	15,713	16,053	16,253	16,403
ROIC (%)	3.09	6.03	5.65	5.31

Number of shares (m)	212.14	IC (current, C$ m)	22,529.00
BV/share (Next Qtr., C$)	28.7	EV/IC (x)	1.1
Net debt (Next Qtr., C$ m)	15,753.0	Dividend (current, C$)	2.09
Net debt/tot eq (Next Qtr.,%)	223.5	Dividend yield (%)	1.10

Source: Company data, Thomson Reuters, Credit Suisse estimates

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Emera Inc. (EMA.TO)

Price (11 Sep 2017): **C$47.39**; Rating: **OUTPERFORM**; Target Price: **C$58.00**; Analyst: **Andrew M. Kuske**

Income Statement	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Revenue (C$ m)	**4,277.0**	**6,862.2**	**7,117.8**	**6,811.1**
EBITDA	**1,143**	**2,568**	**2,490**	**2,313**
Depr. & amort.	(588)	(935)	(982)	(872)
EBIT (C$)	**655**	**1,678**	**1,538**	**1,473**
Net interest exp	(585)	(771)	(797)	(704)
PBT (C$)	**344**	**955**	**772**	**769**
Income taxes	22	(160)	(107)	(112)
Profit after tax	**366**	**795**	**665**	**657**
Minorities	(11)	(11)	(11)	(11)
Reported net income (C$)	**327**	**756**	**626**	**618**
Other NPAT adjustments	(148)	206	30	0
Adjusted net income	**475**	**550**	**596**	**618**

Cash Flow	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EBIT	655	1,678	1,538	1,473
Net interest	(585)	(771)	(797)	(704)
Change in working capital	134	(182)	0	0
CAPEX	(1,031)	(1,492)	(1,305)	(1,165)
Free cashflow to the firm	**22**	**(200)**	**282**	**333**
Acquisitions	(8,409)	0	0	0
Divestments	(665)	0	0	0
Cash flow from investments	**(9,105)**	**(1,546)**	**(1,275)**	**(1,134)**
Cashflow from financing activities	(7,661)	(86)	(512)	(514)
Changes in Net Cash/Debt	**(15,713)**	**(340)**	**(200)**	**(150)**

Balance Sheet (C$)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Assets				
Cash & cash equivalents	-	-	-	-
Total current assets	**2,511**	**2,196**	**2,182**	**2,130**
Total assets	**29,221**	**29,302**	**29,612**	**29,853**
Liabilities				
Total current liabilities	**3,724**	**3,249**	**3,249**	**3,249**
Total liabilities	**22,405**	**22,204**	**22,404**	**22,554**
Total liabilities and equity	**29,221**	**29,302**	**29,612**	**29,853**
Net debt	15,713	16,053	16,253	16,403

Per share	**12/16A**	**12/17E**	**12/18E**	**12/19E**
No. of shares (wtd avg)	172	212	212	212
CS adj. EPS	2.76	2.59	2.81	2.91
Prev. EPS (C$)	-	-	-	-
Dividend (C$)	2.00	2.18	2.35	2.54
Free cash flow per share	0.13	(0.94)	1.33	1.57

Earnings	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Sales growth (%)	-	60.4	3.7	(4.3)
EBIT growth (%)		156.2	(8.3)	(4.3)
Net profit growth (%)		15.8	8.4	3.7
EPS growth (%)	-	(6.1)	8.4	3.7
EBITDA margin (%)	26.7	37.4	35.0	34.0
EBIT margin (%)	15.3	24.5	21.6	21.6
Pretax margin (%)	8.0	13.9	10.8	11.3
Net margin (%)	11.1	8.0	8.4	9.1

Valuation	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EV/Sales (x)	6.02	3.80	3.70	3.88
EV/EBITDA (x)	22.6	10.1	10.4	11.2
EV/EBIT (x)	39.3	15.6	17.1	18.0
P/E (x)	17.2	18.3	16.9	16.3
Price to book (x)	1.4	1.6	1.6	1.6
Asset turnover	0.1	0.2	0.2	0.2

Returns	**12/16A**	**12/17E**	**12/18E**	**12/19E**
ROE stated-return on (%)	-	12.7	10.2	9.9
ROIC (%)	3.1	6.0	5.7	5.3

Gearing	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Net debt/equity (%)	230.5	226.2	225.5	224.7
Interest coverage ratio (X)	1.1	2.2	1.9	2.1

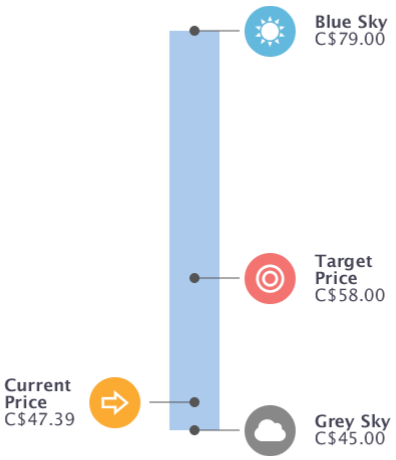
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2016A	0.81	0.33	0.60	0.51
2017E	0.72	0.54	0.71	0.63
2018E	0.71	0.64	0.80	0.66

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

Emera Inc., through its subsidiaries, engages in the generation, transmission, & distribution of electricity to various customers in North America. It generates electricity through coal, oil, natural gas, hydro, & wind energy sources.

Blue/Grey Sky Scenario



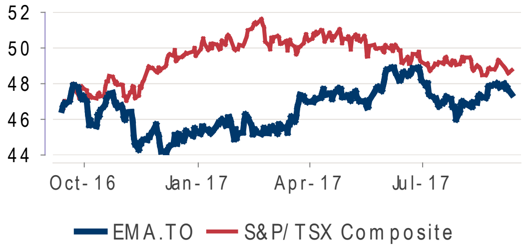
Our Blue Sky Scenario (C$)	**79.00**

Emera Inc.'s Blue Sky scenario includes rate base growth in its utilities in various regions (Canada, United States and Caribbean), stronger power pricing in the US Northeast to benefit its merchant power plants. We lower the yield valuation by 100 bps.

Our Grey Sky Scenario (C$)	**45.00**

Emera Inc.'s Grey Sky scenario includes lower rate base growth in its utilities in various regions (Canada, United States and Caribbean), weak power pricing in the US Northeast that does not benefit its merchant power plants. We increase the yield valuation by 100 bps.

Share price performance



On 11-Sep-2017 the S&P/TSX Composite closed at 15040.3
Daily Sep12, 2016 - Sep11, 2017, 09/12/16 = C$47.05

There are three parts to this note:

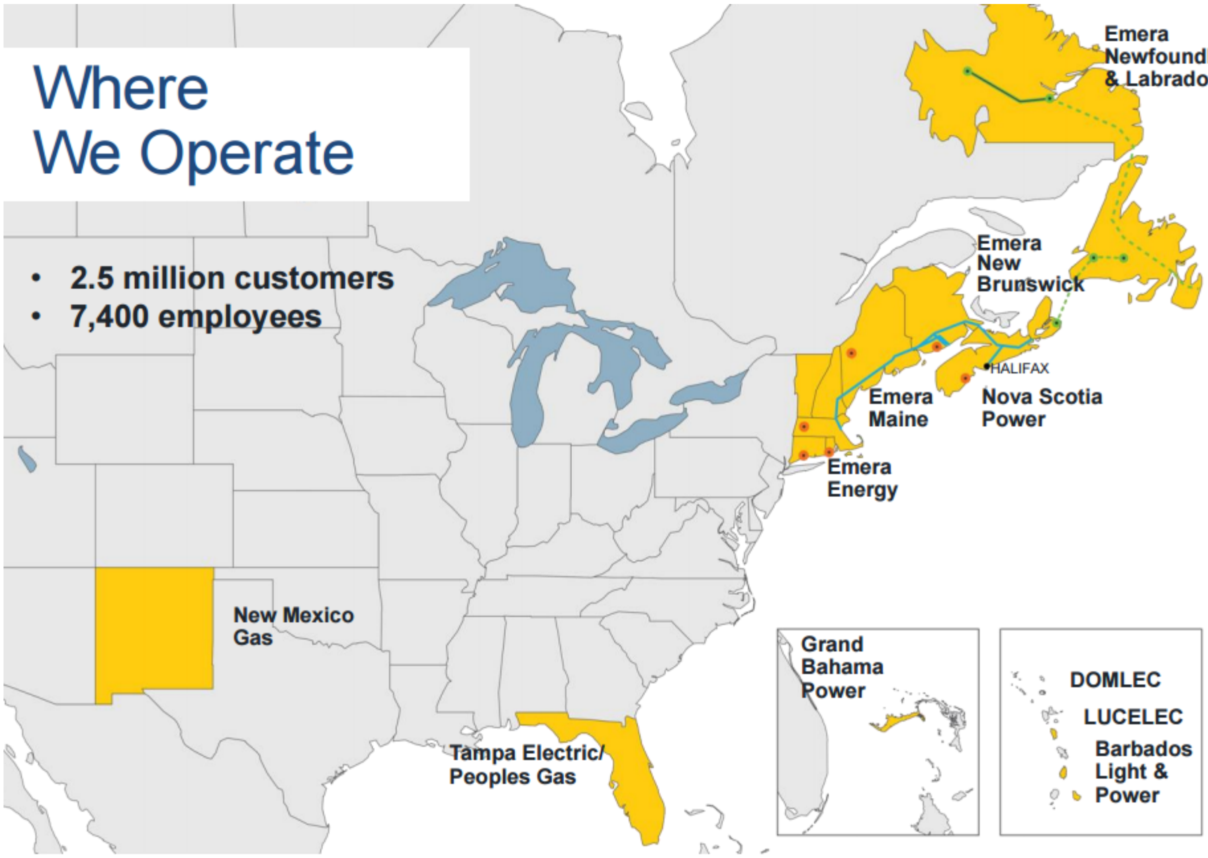
- Asset assessment;
- Regulatory Regimes; and,
- Valuation.

Each of these areas is addressed in more detail below.

Asset assessment

EMA's overall asset exposure appears in Figure 1.

Figure 1: EMA asset base



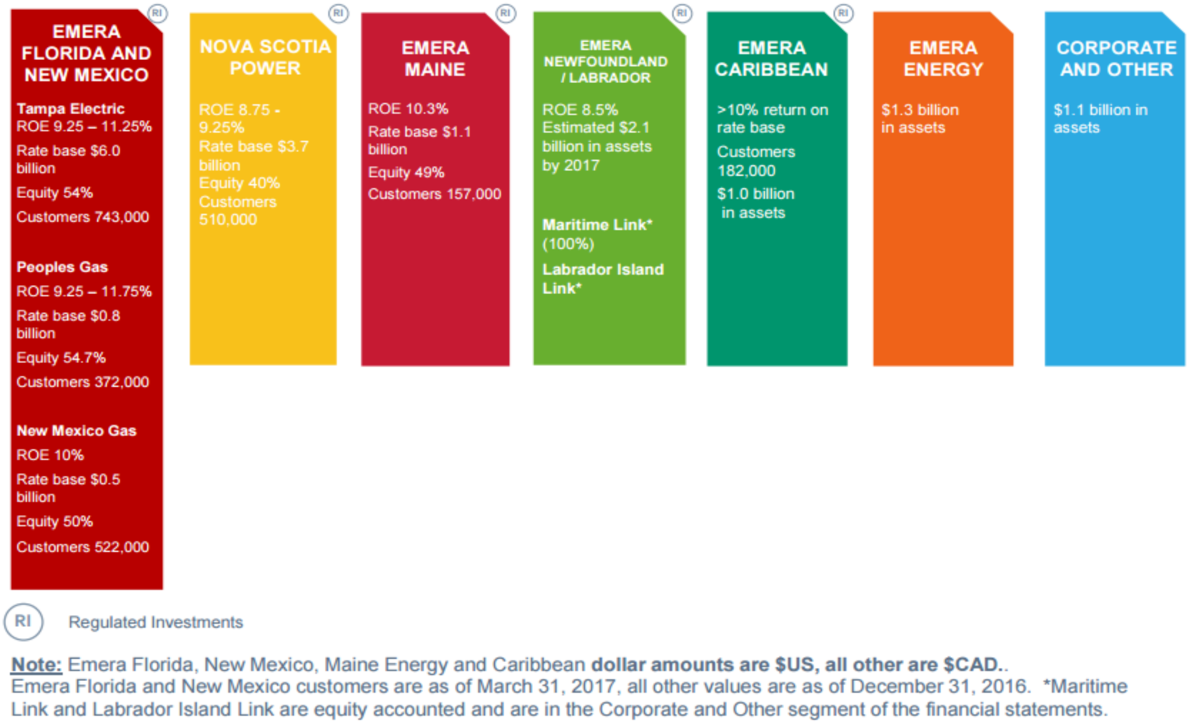
Source: Company data

More specifically, for the purposes of this note, the primary assets in focus are: Tampa Electric; Peoples Gas System; and Emera Caribbean. In relation to the Emera Caribbean (ECI) segment, we note the following details:

- ECI wholly-owns Barbados Light & Power Company Limited (BLPC);
- An 80.4% interest in Grand Bahama Power Company (GBPC);
- A 51.9% interest in Dominica Electricity Services Ltd (Domlec); and,
- A 19.1% interest in Lucelec (serving St. Lucia).

Figure 2 provides a bit more context by highlighting the underlying assets in each of the major segments.

Figure 2: EMA businesses



EMERA FLORIDA AND NEW MEXICO (RI)

Tampa Electric
ROE 9.25 – 11.25%
Rate base $6.0 billion
Equity 54%
Customers 743,000

Peoples Gas
ROE 9.25 – 11.75%
Rate base $0.8 billion
Equity 54.7%
Customers 372,000

New Mexico Gas
ROE 10%
Rate base $0.5 billion
Equity 50%
Customers 522,000

NOVA SCOTIA POWER (RI)

ROE 8.75 - 9.25%
Rate base $3.7 billion
Equity 40%
Customers 510,000

EMERA MAINE (RI)

ROE 10.3%
Rate base $1.1 billion
Equity 49%
Customers 157,000

EMERA NEWFOUNDLAND / LABRADOR (RI)

ROE 8.5%
Estimated $2.1 billion in assets by 2017

Maritime Link* (100%)

Labrador Island Link*

EMERA CARIBBEAN (RI)

>10% return on rate base
Customers 182,000
$1.0 billion in assets

EMERA ENERGY

$1.3 billion in assets

CORPORATE AND OTHER

$1.1 billion in assets

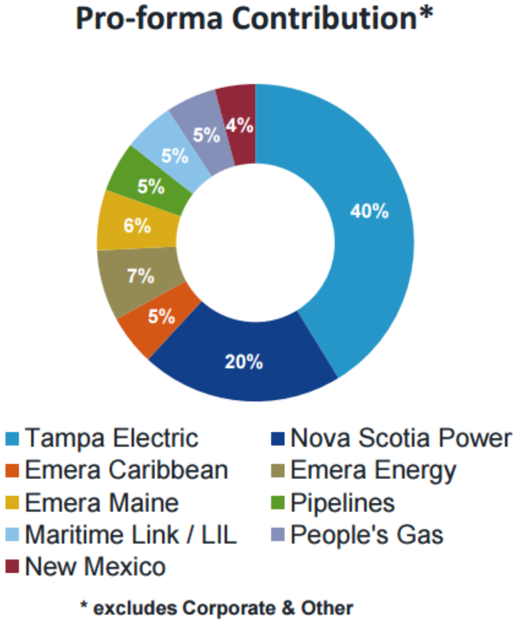
(RI) Regulated Investments

Note: Emera Florida, New Mexico, Maine Energy and Caribbean **dollar amounts are $US, all other are $CAD.**. Emera Florida and New Mexico customers are as of March 31, 2017, all other values are as of December 31, 2016. *Maritime Link and Labrador Island Link are equity accounted and are in the Corporate and Other segment of the financial statements.

Source: Company data

Most notably, the two major Florida utilities (Tampa Electric and Peoples Gas) account for roughly US$6.8bn of rate base and Emera Caribbean for approximately US$1bn in assets. Therefore, about 48% of the balance sheet is exposed to the Caribbean and Florida. On a pro-forma earnings contribution, Figure 3 provides some additional perspective.

Figure 3: EMA segment earnings contribution



- **Well above 75-85% target of regulated earnings**
- **Well-diversified geographically and by regulatory jurisdiction**
- **Portfolio now includes gas LDCs**
- **New utilities are in stronger economic growth markets and offer improved capital structures and higher allowed ROE's**
- **Quarterly earnings profile more consistent post TECO acquisition**

Source: Company data

For a variety of reasons, there is a degree of messiness in the EMA financials over the last 12 months (LTM). Yet, on an LTM basis, Figure 4 and Figure 5 help put the Florida and Caribbean businesses into a bit of context compared to the overall consolidated numbers.

Figure 4: Total LTM

Revenue	6,226.0
EBITDA	2,003.3
Net income	416.0

Source: Company data and the BLOOMBERG PROFESSIONAL ™service

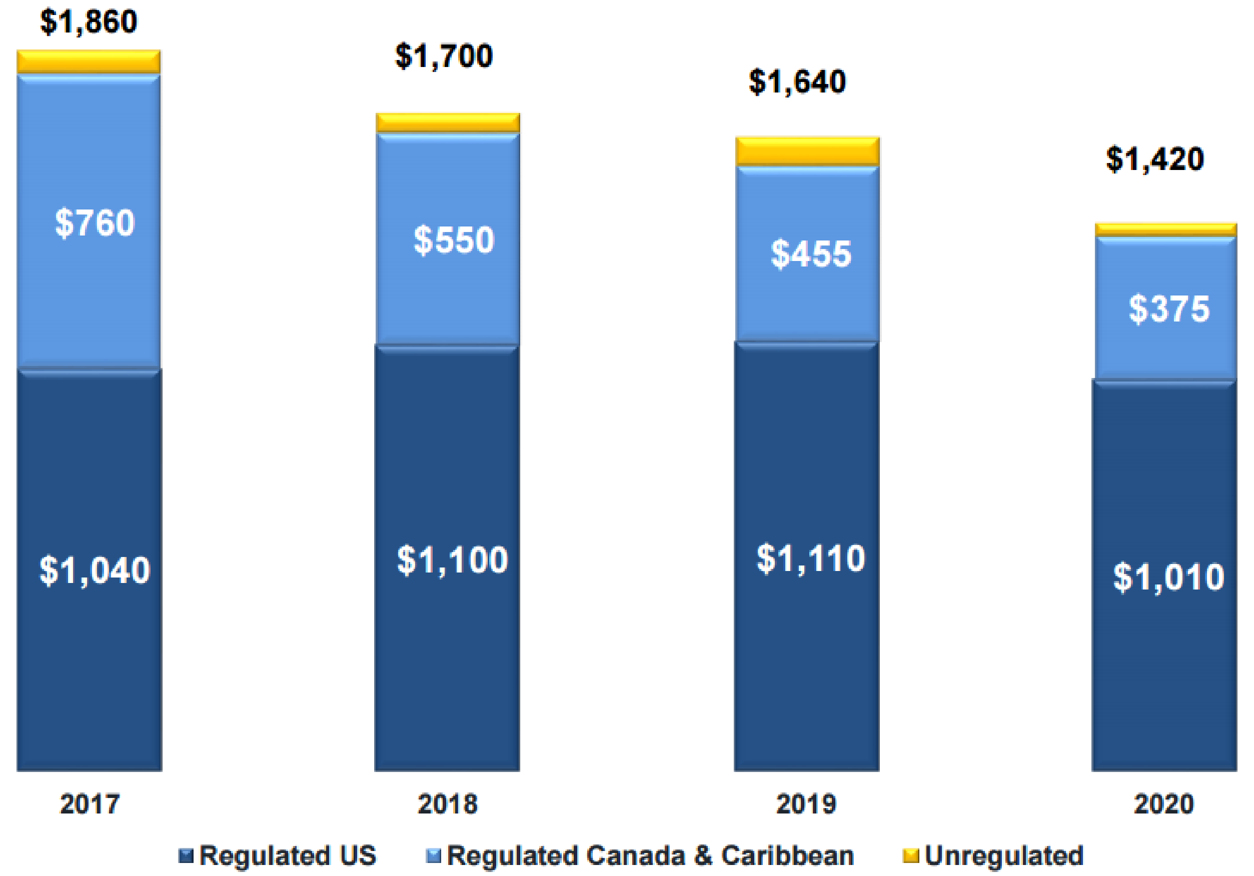
Figure 5: Segmented LTM

	FL & NM	Caribbean
Revenue	2,770.0	330.0
EBITDA - US	987.0	103.0
Net income -US	246.0	43.0

Source: Company data and the BLOOMBERG PROFESSIONAL ™service

Specifically, given the various storms' impact (most notably Irma), the capex numbers for EMA on a consolidated basis appear below, of which there should be particular focus on the Regulated US (which is overwhelmingly TECO).

Figure 6: Capital investment (millions)



Source: Company data

In light of the asset, customer and financial significance, EMA's main areas of focus with storms like Hurricane Irma are the two Florida-based utilities: TECO and PGS. At the time of writing this note, TECO may have escaped the worst case scenarios; however, a large number of customers are without power and restoration efforts are ongoing.

Regulatory Regimes

Critical regulatory compact

Versus much of the capital market, regulated utilities and assets have very specific fundamental nuances that revolve around their critical role for the functioning of society. Essentially, that critical role is underpinned by the notion of a "regulatory compact". Clearly, there are many specific nuances and differences to the application of regulatory principles between jurisdictions. Yet, there are some basic concepts that tend to exist. We address some of these issues in this section.

Very simply, utility assets tend to provide broad-based benefits for societal functioning. In the case of regulated electric and gas utilities in North America (and most jurisdictions), an extremely high capital intensity typically translates into the need for natural or near-natural monopolies to exist. Such an approach can deliver the most efficient capital allocation, but needs to be balanced to prevent the exercise of monopoly power. Accordingly, regulators are very cognizant of this delicate balancing act.

Balancing acts of God with rate shocks and restoration

In time of extreme exogenous events and effective *force majeure* arising from acts of God (in particular weather-related impacts), regulators routinely allow for rate base recovery. To avoid significant rate shock, a variety of smoothing mechanisms may be used, but the core principles of recovery effectively remain intact. Naturally, these recovery mechanisms are subject to reasonableness and prudency doctrines along with formal regulatory processes ahead of major capital spends. Given these fundamental views, EMA's path to regulatory recovery for storm-related damages should not be negatively affected for the underlying utilities. At this time, the sheer magnitude of the capital spending to restore utility service is a significant unknown. Therefore, amount of the future spend, regulatory mechanisms to be put place and the balancing act of utility and corporate holdco cash flows are critical to watch in the weeks, months and quarters ahead.

Valuation

The situation related to Hurricane Irma remains rather challenging and fluid, however, the worst case scenarios look to have been avoided. Very simply, Hurricane Irma weakened to a Category 1 hurricane from the prior 5. There are still challenges ahead for the TECO service territory and there are concerns for the safety of the community and surrounding areas. Winds and rains can be very damaging, however, storm surge and tidal impacts after major hurricanes may be even more destructive. The ultimate impact of these events will take time to fully appreciate and will create an aura of uncertainty associated with EMA in the near-term.

As per our typical practice, we use a variety of methodologies to consider share valuation. To continue this approach, we divided this section into several parts, including:

- Yield related analysis; and,
- Multiple methods.

These areas are addressed below.

Yield related analysis

Our yield-based approaches focus on three related areas: (a) dividend discount model; (b) the dividend yield; and, (c) a dividend yield spread.

Dividend discount model

A preferred approach

For a long time, we have advocated using the dividend discount model as a valuation tool. Very simply, there are many ways to consider yield-driven valuation, but we believe the dividend discount model is one of the preferred methodologies, in part, because of simplicity. Using standard Bloomberg figures, we considered the cost of equity and the potential dividend growth. A dividend discount model would be a useful valuation tool for yield-oriented vehicles such as EMA We used the following assumptions in our DDM:

- Current annual dividend: C$2.09/share;
- Cost of equity: 8.1% (Bloomberg); and,
- Growth rate: 8.0% (target annual dividend growth through 2020).

A dividend discount model would produce an absurd share price value of roughly C$2,090.

Clearly, a major downfall of the DDM is the hypersensitivity under certain assumptions. As a result, we generated the following range of valuations highlighted in Figure 7. A matrix approach may best be used to consider "normalized" growth rates and a cost of equity.

Figure 7: Share Value Under Different Dividend Discount Model Assumptions

	Cost of Equity									
Dividend Growth (%)	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
3.00%	69.67	59.71	52.25	46.44	41.80	38.00	34.83	32.15	29.86	27.87
3.50%	83.60	69.67	59.71	52.25	46.44	41.80	38.00	34.83	32.15	29.86
4.00%	104.50	83.60	69.67	59.71	52.25	46.44	41.80	38.00	34.83	32.15
4.50%	139.33	104.50	83.60	69.67	59.71	52.25	46.44	41.80	38.00	34.83
5.00%	209.00	139.33	104.50	83.60	69.67	59.71	52.25	46.44	41.80	38.00
5.50%	418.00	209.00	139.33	104.50	83.60	69.67	59.71	52.25	46.44	41.80
6.00%		418.00	209.00	139.33	104.50	83.60	69.67	59.71	52.25	46.44
6.50%			418.00	209.00	139.33	104.50	83.60	69.67	59.71	52.25
7.00%				418.00	209.00	139.33	104.50	83.60	69.67	59.71
7.50%					418.00	209.00	139.33	104.50	83.60	69.67
8.00%						418.00	209.00	139.33	104.50	83.60
8.50%							418.00	209.00	139.33	104.50
9.00%								418.00	209.00	139.33

Source: Company data, the BLOOMBERG PROFESSIONAL ™service and Credit Suisse estimates.

Another approach to considering the DDM valuation is using various inputs and solving for "k" meaning the required return. We employed this approach in past research (e.g., "Yearning for Yield: Valuing Canada's Dividend-Focused Stocks") and H's numbers now indicate the following:

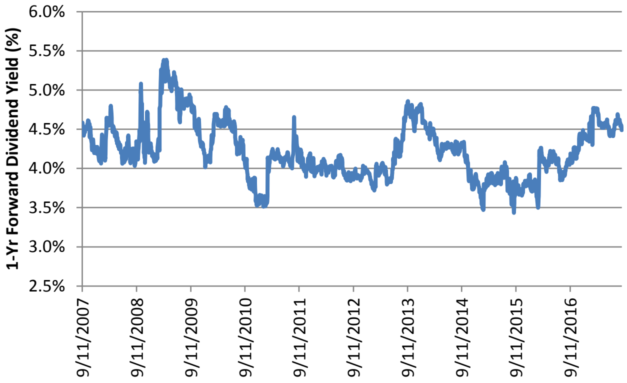
- Dividend: C$2.09/share;
- Share price: C$47.39;
- Growth rate: 8.0% (target annual dividend growth through 2020).

These figures solve for a "k" of 12.4% which is seemingly too high for a company having such a low risk profile – even with uncertainty associated with Hurricane Irma.

Dividend Yield

Figure 8 and Figure 9 show the historical 1-year and 2-year forward dividend yields for EMA.

Figure 8: Historical dividend yield (1-year forward)



Source: Thomson Reuters

Figure 9: Historical dividend yield (2-year forward)

Source: Thomson Reuters

Descriptive statistics for EMA's historical forward dividend yields are shown in Figure 10 .

Figure 10: Historical forward dividend yields descriptive statistics

	1-Yr Forward	2-Yr Forward
Mean	4.22%	4.42%
Median	4.17%	4.40%
Min	3.43%	3.32%
Max	5.39%	5.54%

Source: Thomson One

The dividend yield valuation sensitivity is very evident in the matrix at Figure 11.

Figure 11: Share Value Based on Various Dividends at Various Yields

		Dividend per share (C$)									
		1.70	1.80	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60
Dividend Yield (%)	3.00%	56.67	60.00	63.33	66.67	70.00	73.33	76.67	80.00	83.33	86.67
	3.25%	52.31	55.38	58.46	61.54	64.62	67.69	70.77	73.85	76.92	80.00
	3.50%	48.57	51.43	54.29	57.14	60.00	62.86	65.71	68.57	71.43	74.29
	3.75%	45.33	48.00	50.67	53.33	56.00	58.67	61.33	64.00	66.67	69.33
	4.00%	42.50	45.00	47.50	50.00	52.50	55.00	57.50	60.00	62.50	65.00
	4.25%	40.00	42.35	44.71	47.06	49.41	51.76	54.12	56.47	58.82	61.18
	4.50%	37.78	40.00	42.22	44.44	46.67	48.89	51.11	53.33	55.56	57.78
	4.75%	35.79	37.89	40.00	42.11	44.21	46.32	48.42	50.53	52.63	54.74
	5.00%	34.00	36.00	38.00	40.00	42.00	44.00	46.00	48.00	50.00	52.00
	5.25%	32.38	34.29	36.19	38.10	40.00	41.90	43.81	45.71	47.62	49.52
	5.50%	30.91	32.73	34.55	36.36	38.18	40.00	41.82	43.64	45.45	47.27
	5.75%	29.57	31.30	33.04	34.78	36.52	38.26	40.00	41.74	43.48	45.22
	6.00%	28.33	30.00	31.67	33.33	35.00	36.67	38.33	40.00	41.67	43.33

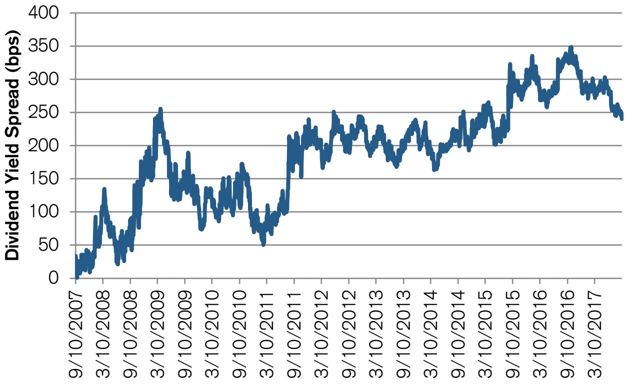
Source: Credit Suisse estimates.

Our C$58.00 target price is based upon an approximately 3.75% and 4.05% dividend yields on our estimated 2017 and 2018 dividends, respectively.

Dividend Yield Spread

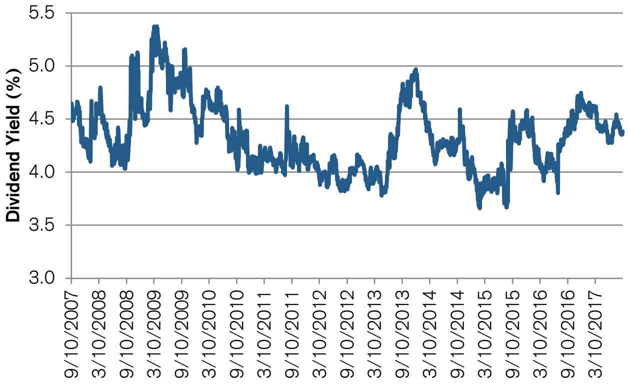
We believe that one should not solely rely upon distribution yield-based metrics. In our view, many yield-based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered EMA's historical dividend yield against the Government of Canada 10-year bond yield on a spread basis. Figure 12 highlights this relationship.

Figure 12: Historical dividend yield spread



Source: the BLOOMBERG PROFESSIONAL ™service

Figure 13: Historical dividend yield



Source: the BLOOMBERG PROFESSIONAL ™service

Descriptive statistics for EMA's historical dividend yield spreads and yields are shown in Figure 14.

Figure 14: Historical dividend yield spread and yields descriptive statistics

	Yield Spread (bps)	Dividend Yield (%)
Mean	187	4.32
Median	200	4.29
Min	0	3.66
Max	349	5.38

Source: the BLOOMBERG PROFESSIONAL ™service

The yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship; however, we must note that interest rate-sensitive investments like EMA do not exhibit perfect correlations. Some near-term uncertainty has affected the valuation of many interest rate sensitive investment vehicles. Yet, in historical terms, the interest rate environment remains accommodative, which underpins many corporate valuations. We, therefore apply a 175 bps spread to a "normalized" Canadian 10-year bond yield assumption of 2.00% (we note the actual is 1.98% currently) to obtain our C$58 target price.

Multiple methods

Within this section, we explore two multiples to help provide valuation perspective for EMA. A considerable amount of reliance is placed on Thomson Reuters data. The multiples are:

- Price/earnings; and,
- EV/EBITDA.

Each of these areas appears below.

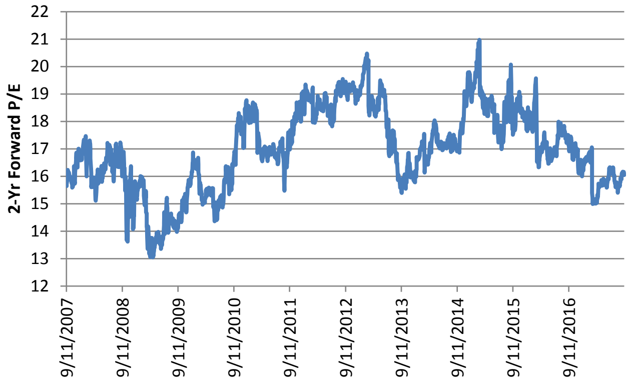
Price/earnings

For many industries P/E multiples are somewhat challenging, but they do provide a quick comparative with other sectors and the overall market on a simple basis. Figure 15 and Figure 16 provide a historical view for EMA's forward 1-year and 2-Year P/E multiples over the last 10 years.

Figure 15: Historical PE (1-year forward)

Source: Thomson Reuters

Figure 16: Historical PE (2-year forward)



Source: Thomson Reuters

Descriptive statistics for EMA's historical 1-year and 2-year forward P/E multiples are shown in Figure 17.

Figure 17: Historical forward P/E descriptive statistics

	1-Yr Forward	2-Yr Forward
Mean	17.9x	17.0x
Median	17.9x	17.0x
Min	13.4x	13.0x
Max	21.7x	21.0x

Source: Thomson One

For context our C$58 target price implies an approximate 20.6x multiple on our 2018 estimate. A valuation matrix appears in Figure 18.

Figure 18: Hypothetical share prices at different EPS and P/E multiples

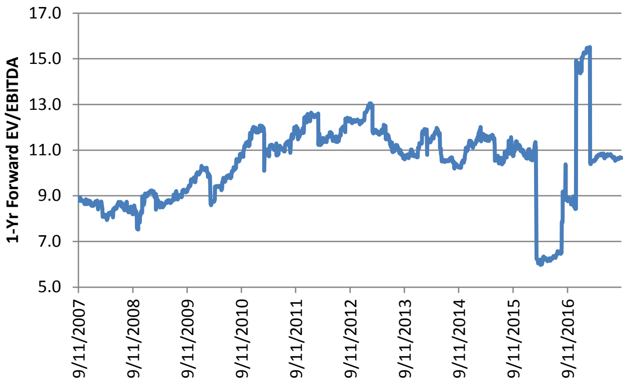
	Earnings per share (C$)									
P/E Multiple	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.10	3.20	3.30
15.0x	36.00	37.50	39.00	40.50	42.00	43.50	45.00	46.50	48.00	49.50
15.5x	37.20	38.75	40.30	41.85	43.40	44.95	46.50	48.05	49.60	51.15
16.0x	38.40	40.00	41.60	43.20	44.80	46.40	48.00	49.60	51.20	52.80
16.5x	39.60	41.25	42.90	44.55	46.20	47.85	49.50	51.15	52.80	54.45
17.0x	40.80	42.50	44.20	45.90	47.60	49.30	51.00	52.70	54.40	56.10
17.5x	42.00	43.75	45.50	47.25	49.00	50.75	52.50	54.25	56.00	57.75
18.0x	43.20	45.00	46.80	48.60	50.40	52.20	54.00	55.80	57.60	59.40
18.5x	44.40	46.25	48.10	49.95	51.80	53.65	55.50	57.35	59.20	61.05
19.0x	45.60	47.50	49.40	51.30	53.20	55.10	57.00	58.90	60.80	62.70
19.5x	46.80	48.75	50.70	52.65	54.60	56.55	58.50	60.45	62.40	64.35
20.0x	48.00	50.00	52.00	54.00	56.00	58.00	60.00	62.00	64.00	66.00
20.5x	49.20	51.25	53.30	55.35	57.40	59.45	61.50	63.55	65.60	67.65
21.0x	50.40	52.50	54.60	56.70	58.80	60.90	63.00	65.10	67.20	69.30
21.5x	51.60	53.75	55.90	58.05	60.20	62.35	64.50	66.65	68.80	70.95
22.0x	52.80	55.00	57.20	59.40	61.60	63.80	66.00	68.20	70.40	72.60
22.5x	54.00	56.25	58.50	60.75	63.00	65.25	67.50	69.75	72.00	74.25
23.0x	55.20	57.50	59.80	62.10	64.40	66.70	69.00	71.30	73.60	75.90

Source: Company data, Credit Suisse estimates.

EV/EBITDA

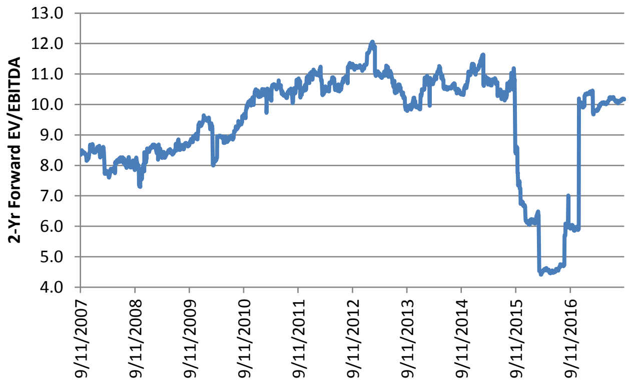
Figure 19 and Figure 20 provide historical perspectives for EMA's EV/EBITDA multiple over the last 10 years on a one-year and two-year forward basis.

Figure 19: Historical EV/EBITDA (1-year forward)



Source: Thomson Reuters

Figure 20: Historical EV/EBITDA (2-year forward)



Source: Thomson Reuters

We provide descriptive statistics for both 1-year and 2-year historical forward EV/EBITDA multiples for EMA in Figure 21 for additional perspective.

Figure 21: Historical forward EV/EBITDA descriptive statistics

	1-Yr Forward	2-Yr Forward
Mean	10.4x	9.4x
Median	10.8x	10.1x
Min	6.0x	4.4x
Max	15.5x	12.1x

Source: Thomson One

Figure 22 shows EMA valuation matrix with reasonable EBITDA and multiple ranges.

Figure 22: Hypothetical share prices at different EBITDA and EBITDA multiples

		EBITDA (C$)								
		2,200	2,300	2,400	2,500	2,600	2,700	2,800	2,900	3,000
EV/EBITDA Multiple	8.0x	3.64	7.41	11.18	14.95	18.72	22.49	26.26	30.03	33.80
	8.5x	8.82	12.83	16.83	20.84	24.84	28.85	32.85	36.86	40.87
	9.0x	14.00	18.25	22.49	26.73	30.97	35.21	39.45	43.69	47.93
	9.5x	19.19	23.67	28.14	32.62	37.10	41.57	46.05	50.53	55.00
	10.0x	24.37	29.08	33.80	38.51	43.22	47.93	52.65	57.36	62.07
	10.5x	29.56	34.50	39.45	44.40	49.35	54.30	59.25	64.19	69.14
	11.0x	34.74	39.92	45.11	50.29	55.48	60.66	65.84	71.03	76.21
	11.5x	39.92	45.34	50.76	56.18	61.60	67.02	72.44	77.86	83.28
	12.0x	45.11	50.76	56.42	62.07	67.73	73.38	79.04	84.69	90.35
	12.5x	50.29	56.18	62.07	67.96	73.85	79.74	85.64	91.53	97.42
	13.0x	55.48	61.60	67.73	73.85	79.98	86.11	92.23	98.36	104.49
	13.5x	60.66	67.02	73.38	79.74	86.11	92.47	98.83	105.19	111.55
	14.0x	65.84	72.44	79.04	85.64	92.23	98.83	105.43	112.03	118.62
	14.5x	71.03	77.86	84.69	91.53	98.36	105.19	112.03	118.86	125.69
	15.0x	76.21	83.28	90.35	97.42	104.49	111.55	118.62	125.69	132.76

Source: Company data and Credit Suisse estimates

Based on our analysis, our EV/EBITDA derived target is obtained from the application of a roughly 11.4x multiple to generate a C$58.00 target price on 2018e EBITDA.

Comparable considerations

For further comparative context, we provide a number of simple summary comp tables for the reasonably comparable universe. For clarity, the figures in each of the following comp tables (from Figure 23 to Figure 28) have been obtained from consensus data. Figure 23 starts with the broad based Canadian infrastructure names.

Figure 23: Canadian comparables

Company	Ticker	Price on 11-Sep-17		Target Price		Rating	P/E			Div Yield			EV/EBITDA		
							2017	2018	2019	2017	2018	2019	2017	2018	2019
Pipelines															
AltaGas	ALA.TO	C $	27.46		NR	NR	28.8x	28.1x	18.5x	7.8%	8.3%	8.8%	10.9x	8.4x	5.7x
Enbridge Inc.	ENB.TO	C $	49.55	C $	70.00	OUTPERFORM	24.5x	19.4x	17.9x	4.7%	5.3%	6.0%	11.3x	9.5x	8.5x
Enbridge Income Fund Holdings	ENF.TO	C $	30.91	C $	34.00	NEUTRAL	14.2x	12.7x	11.8x	6.6%	7.3%	8.0%	NA	NA	NA
Gibson Energy Inc.	GEI.TO	C $	17.46	C $	18.00	NEUTRAL	NA	50.8x	33.3x	7.6%	7.6%	7.7%	12.8x	11.0x	10.0x
Inter US	IPL.TO	C $	22.62		NR	NR	16.3x	15.1x	14.6x	7.1%	7.5%	7.8%	12.7x	12.2x	12.1x
Keyera Corp.	KEY.TO	C $	35.88	C $	38.00	NEUTRAL	22.7x	19.6x	18.1x	4.6%	4.8%	5.2%	13.6x	10.9x	10.3x
Kinder Morgan Canada Limited	KML.TO	C $	17.26	C $	17.00	NEUTRAL	37.2x	25.6x	23.5x	3.1%	3.9%	4.0%	NA	NA	NA
Pembina Pipeline Corporation	PPL.TO	C $	40.65	C $	44.00	NEUTRAL	23.3x	18.7x	16.3x	5.0%	5.4%	5.8%	12.7x	8.7x	7.8x
TransCanada Corp.	TRP.TO	C $	62.54	C $	74.00	OUTPERFORM	20.9x	19.0x	17.3x	3.9%	4.3%	4.8%	13.3x	12.0x	10.5x
Veresen	VSN.TO	C $	17.73		NR	NR	42.4x	26.7x	22.8x	5.6%	5.6%	4.5%	11.0x	10.4x	10.5x
Utilities															
Algonqn Pwr & Ut	AQN.TO	US $	13.35		NR	NR	19.6x	18.2x	17.5x	4.5%	4.9%	5.3%	10.2x	9.6x	9.2x
Canadian Utilities Limited	CU.TO	C $	39.05	C $	42.00	NEUTRAL	16.8x	16.4x	16.0x	3.7%	4.0%	4.2%	9.6x	9.3x	8.9x
Emera Inc.	EMA.TO	C $	47.39	C $	58.00	OUTPERFORM	17.8x	16.0x	15.6x	4.5%	4.9%	NA	10.1x	9.6x	9.5x
Fortis Inc.	FTS.TO	C $	45.46	C $	46.00	NEUTRAL	18.2x	17.5x	17.0x	3.6%	3.8%	NA	11.2x	10.6x	10.0x
Hydro One Limited	H.TO	C $	22.80	C $	26.00	NEUTRAL	20.6x	17.6x	16.1x	3.8%	4.1%	4.3%	11.9x	10.0x	8.2x
Power															
Boralex	BLX.TO	C $	22.65		NR	NR	66.0x	41.9x	38.9x	2.6%	2.8%	3.0%	9.8x	8.6x	8.0x
Brookfield Renewable Partners	BEP_u.TO	C $	43.19	C $	44.00	NEUTRAL	NA	NA	NA	4.3%	4.5%	4.8%	9.4x	8.6x	8.3x
Capital Power Corporation	CPX.TO	C $	25.87	C $	22.00	UNDERPERFORM	17.9x	17.2x	17.1x	6.2%	6.7%	7.1%	6.9x	6.3x	6.2x
Innergex	INE.TO	C $	15.56		NR	NR	38.2x	26.8x	48.6x	4.2%	4.3%	NA	13.9x	11.9x	12.3x
North Power	NPI.TO	C $	23.65		NR	NR	22.5x	16.4x	19.0x	4.6%	5.1%	5.7%	13.8x	10.9x	9.7x
TransAlta Corporation	TA.TO	C $	7.59	C $	7.00	UNDERPERFORM	NA	62.2x	69.6x	2.1%	2.1%	2.1%	5.9x	5.9x	5.9x
TransAlta Renew	RNW.TO	C $	14.53		NR	NR	16.8x	14.8x	13.8x	6.2%	6.5%	6.8%	10.7x	10.4x	10.6x
Avg.							**25.5x**	**23.8x**	**23.0x**	**4.8%**	**5.2%**	**5.6%**	**11.1x**	**9.7x**	**9.1x**

Source: Credit Suisse RAVE, I/B/E/S

Figure 24 focuses solely on the truly comparable Canadian utility companies – which is a rather small universe. Notably, aside from Canadian Utilities, each of Algonquin, Emera, Fortis and Hydro One have engaged in US targeted M&A as part of a growth strategy.

Figure 24: Canadian utilities

Company	Ticker	Price on 11-Sep-17		Target Price		Rating	P/E			Div Yield			EV/EBITDA		
							2017	2018	2019	2017	2018	2019	2017	2018	2019
Algonqn Pwr & Ut	AQN.TO	C $	13.35		NR	NR	19.6x	18.2x	17.5x	4.5%	4.9%	5.3%	10.2x	9.6x	9.2x
Canadian Utilities Limited	CU.TO	C $	39.05	C $	42.00	NEUTRAL	16.8x	16.4x	16.0x	3.7%	4.0%	4.2%	9.6x	9.3x	8.9x
Emera Inc.	EMA.TO	C $	47.39	C $	58.00	OUTPERFORM	17.8x	16.0x	15.6x	4.5%	4.9%	5.2%	10.1x	9.6x	9.5x
Fortis Inc.	FTS.TO	C $	45.46	C $	46.00	NEUTRAL	18.2x	17.5x	17.0x	3.6%	3.8%	4.0%	11.2x	10.6x	10.0x
Hydro One Limited	H.TO	C $	22.80	C $	26.00	NEUTRAL	20.6x	17.6x	16.1x	3.8%	4.1%	4.3%	11.9x	10.0x	8.2x
Average							**18.6x**	**17.1x**	**16.4x**	**4.0%**	**4.3%**	**4.6%**	**10.6x**	**9.8x**	**9.1x**

Source: Company data, Credit Suisse estimates

In relation to the US market, Figure 25 provides a broad-based comparable group.

Figure 25: US utilities

Company	Ticker	Price on 11-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
ALLETE	ALE	US $ 79.14	NR	NR	23.4x	21.7x	20.5x	2.7%	2.9%	3.0%	12.5x	11.9x	11.3x
Alliant Energy	LNT	US $ 43.60	NR	NR	21.7x	20.5x	19.4x	2.9%	3.1%	3.3%	12.3x	11.6x	10.7x
Ameren	AEE	US $ 60.91	NR	NR	21.7x	20.2x	19.1x	2.9%	3.0%	3.1%	9.6x	9.1x	8.6x
AEP Inc	AEP	US $ 74.55	NR	NR	20.4x	19.2x	18.2x	3.2%	3.4%	3.5%	11.0x	10.4x	9.9x
American Water	AWK	US $ 82.92	NR	NR	27.6x	25.3x	23.6x	2.0%	2.2%	2.3%	12.7x	11.9x	11.1x
Aqua America	WTR	US $ 34.62	NR	NR	25.5x	24.0x	22.3x	2.3%	2.5%	2.7%	16.8x	15.4x	14.1x
Avista US	AVA	US $ 51.56	NR	NR	26.5x	25.1x	23.6x	2.8%	2.9%	3.0%	11.5x	10.4x	8.9x
Black Hills Corp	BKH	US $ 70.83	US $ 75.00	OUTPERFORM	19.8x	18.9x	18.4x	2.5%	2.7%	2.8%	10.9x	10.4x	9.9x
CenterPoint Energy Inc	CNP	US $ 30.45	US $ 29.00	NEUTRAL	22.8x	21.5x	20.3x	3.5%	3.7%	3.8%	9.9x	9.5x	9.2x
CMS Energy Corp	CMS	US $ 49.10	US $ 50.00	OUTPERFORM	22.6x	21.0x	19.5x	2.7%	2.9%	3.1%	10.7x	10.1x	9.7x
Consolidated Edison	ED	US $ 86.05	US $ 73.00	UNDERPERFORM	21.0x	20.2x	19.2x	3.2%	3.3%	3.4%	10.5x	10.1x	9.5x
Dominion Energy	D	US $ 79.92	US $ 83.00	OUTPERFORM	22.0x	19.7x	18.8x	3.8%	4.1%	4.5%	13.3x	11.8x	10.9x
DTE Energy	DTE	US $ 113.51	US $ 110.00	NEUTRAL	21.0x	19.9x	18.8x	2.9%	3.1%	3.3%	11.9x	11.2x	10.3x
Duke Energy	DUK	US $ 88.34	US $ 89.00	NEUTRAL	19.2x	18.3x	17.3x	4.1%	4.3%	4.3%	11.4x	11.0x	10.6x
Edison Intl	EIX	US $ 81.49	NR	NR	19.2x	19.0x	17.5x	2.7%	2.9%	3.2%	8.5x	8.1x	7.5x
El Paso Electric	EE	US $ 56.35	NR	NR	21.7x	20.5x	19.7x	NA	NA	NA	12.3x	11.7x	11.3x
Entergy	ETR	US $ 80.34	NR	NR	12.3x	16.4x	16.1x	4.4%	4.5%	4.6%	8.0x	7.9x	7.7x
Exelon Corporation	EXC	US $ 38.47	US $ 43.00	OUTPERFORM	14.3x	13.4x	13.8x	3.4%	3.5%	3.6%	8.5x	7.8x	7.8x
Eversource Energy	ES	US $ 64.11	US $ 60.00	NEUTRAL	20.4x	19.3x	18.1x	3.0%	3.2%	3.4%	11.2x	10.7x	10.1x
FirstEnergy	FE	US $ 32.51	NR	NR	11.5x	12.8x	13.5x	4.3%	4.5%	4.5%	8.5x	8.5x	8.5x
Gt Plains Energy	GXP	US $ 31.01	NR	NR	19.5x	18.1x	16.2x	3.2%	3.8%	4.1%	8.9x	8.6x	8.1x
Hawaiian Elec	HE	US $ 34.42	NR	NR	21.1x	19.2x	18.1x	3.6%	3.6%	3.6%	10.0x	9.5x	9.0x
Idacorp	IDA	US $ 91.88	NR	NR	23.0x	22.2x	21.2x	2.4%	2.6%	2.7%	NA	NA	NA
Spire Inc.	SR	US $ 77.15	US $ 73.00	NEUTRAL	21.6x	20.8x	20.1x	2.8%	2.9%	3.0%	12.9x	12.0x	11.3x
MGE Energy	MGEE	US $ 65.15	NR	NR	28.3x	27.1x	26.1x	NA	NA	NA	NA	NA	NA
NextEra	NEE	US $ 151.40	NR	NR	22.5x	20.9x	19.5x	2.6%	2.9%	3.3%	11.1x	10.6x	9.8x
NiSource Inc.	NI	US $ 27.23	US $ 29.00	OUTPERFORM	22.9x	21.6x	20.3x	2.6%	2.7%	2.9%	10.8x	9.9x	9.2x
NorthWestern Energy	NWE	US $ 60.65	US $ 60.00	UNDERPERFORM	17.9x	17.5x	17.5x	3.5%	3.6%	3.8%	11.5x	11.2x	10.5x
OGE Energy	OGE	US $ 36.59	NR	NR	18.6x	17.9x	17.6x	3.4%	3.8%	4.2%	11.7x	11.1x	11.0x
Otter Tail	OTTR	US $ 43.20	NR	NR	24.7x	23.3x	21.2x	3.0%	3.0%	3.1%	NA	NA	NA
PG&E Us	PCG	US $ 71.56	NR	NR	19.5x	18.7x	17.8x	2.9%	3.1%	3.4%	8.8x	8.1x	7.7x
Pinnacle West Capital Corp.	PNW	US $ 90.75	NR	NR	21.3x	20.2x	19.1x	2.9%	3.1%	3.3%	10.1x	9.4x	8.9x
PNM Resources	PNM	US $ 42.95	NR	NR	23.2x	24.4x	20.7x	2.3%	2.5%	2.7%	10.5x	10.4x	9.7x
Portland Gen Ele	POR	US $ 48.19	NR	NR	21.7x	20.0x	19.4x	2.8%	3.0%	3.1%	9.3x	8.7x	8.4x
PPL	PPL	US $ 39.83	NR	NR	18.5x	17.1x	16.3x	4.0%	4.2%	4.3%	11.6x	10.6x	10.0x
PSEG	PEG	US $ 46.74	NR	NR	16.0x	15.9x	15.6x	3.7%	3.9%	4.1%	8.9x	8.9x	8.5x
PPL	PPL	US $ 39.83	NR	NR	18.5x	17.1x	16.3x	4.0%	4.2%	4.3%	11.6x	10.6x	10.0x
SCANA	SCG	US $ 59.63	NR	NR	14.2x	14.0x	13.6x	4.1%	4.3%	4.5%	10.4x	10.0x	10.4x
Sempra Ener	SRE	US $ 120.06	NR	NR	23.0x	21.6x	18.2x	2.7%	3.0%	3.2%	11.8x	11.2x	10.1x
Southern Company	SO	US $ 50.61	US $ 50.00	NEUTRAL	17.2x	16.7x	16.0x	4.6%	4.8%	5.0%	11.3x	10.5x	10.0x
Unitil	UTL	US $ 50.76	NR	NR	25.4x	23.7x	22.1x	2.8%	2.9%	3.0%	9.5x	8.8x	8.3x
Vectren	VVC	US $ 68.11	NR	NR	26.0x	24.3x	22.4x	2.6%	2.7%	2.8%	NA	NA	NA
Westar Energy	WR	US $ 51.28	NR	NR	20.5x	20.0x	18.8x	3.1%	3.3%	3.5%	10.4x	10.0x	9.5x
WEC Energy Group	WEC	US $ 67.04	NR	NR	21.6x	20.4x	19.4x	3.1%	3.3%	3.5%	12.3x	11.7x	11.1x
Xcel Energy	XEL	US $ 50.51	NR	NR	21.8x	20.5x	19.4x	2.9%	3.0%	3.2%	10.8x	10.3x	9.8x
Avg.					**21.0x**	**20.0x**	**18.9x**	**3.1%**	**3.3%**	**3.5%**	**10.9x**	**10.3x**	**9.7x**

Source: Credit Suisse RAVE, I/B/E/S

Yet, to provide a bit more specific focus, we segmented the US comp table into three groups. Figure 26 starts with largely regulated utility companies having a market cap of greater than US$25bn.

Figure 26: US utilities over US$25bn

Company	Ticker	Price on 11-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
AEP Inc	AEP	US $ 74.55	NR	NR	20.4x	19.2x	18.2x	3.2%	3.4%	3.5%	11.0x	10.4x	9.9x
Dominion Energy	D	US $ 79.92	US $ 83.00	OUTPERFORM	22.0x	19.7x	18.8x	3.8%	4.1%	4.5%	13.3x	11.8x	10.9x
Duke Energy	DUK	US $ 88.34	US $ 89.00	NEUTRAL	19.2x	18.3x	17.3x	4.1%	4.3%	4.3%	11.4x	11.0x	10.6x
Consolidated Edison	ED	US $ 86.05	US $ 73.00	UNDERPERFORM	21.0x	20.2x	19.2x	3.2%	3.3%	3.4%	10.5x	10.1x	9.5x
Edison Intl	EIX	US $ 81.49	NR	NR	19.2x	19.0x	17.5x	2.7%	2.9%	3.2%	8.5x	8.1x	7.5x
PG&E Us	PCG	US $ 71.56	NR	NR	19.5x	18.7x	17.8x	2.9%	3.1%	3.4%	8.8x	8.1x	7.7x
PPL	PPL	US $ 39.83	NR	NR	18.5x	17.1x	16.3x	4.0%	4.2%	4.3%	11.6x	10.6x	10.0x
Southern Company	SO	US $ 50.61	US $ 50.00	NEUTRAL	17.2x	16.7x	16.0x	4.6%	4.8%	5.0%	11.3x	10.5x	10.0x
Average					**19.6x**	**18.6x**	**17.6x**	**3.6%**	**3.8%**	**3.9%**	**10.8x**	**10.1x**	**9.5x**

Source: Credit Suisse RAVE, I/B/E/S

Figure 27 continues the largely regulated US utility comps with those having a market cap greater than US$5bn to US$25bn.

Figure 27: US utilities US$5bn to US$25bn

Company	Ticker	Price on 11-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
CMS Energy Corp	CMS	US $ 49.10	US $ 50.00	OUTPERFORM	22.6x	21.0x	19.5x	2.7%	2.9%	3.1%	10.7x	10.1x	9.7x
DTE Energy	DTE	US $ 113.51	US $ 110.00	NEUTRAL	21.0x	19.9x	18.8x	2.9%	3.1%	3.3%	11.9x	11.2x	10.3x
Eversource Energy	ES	US $ 64.11	US $ 60.00	NEUTRAL	20.4x	19.3x	18.1x	3.0%	3.2%	3.4%	11.2x	10.7x	10.1x
Pinnacle West Capital Corp.	PNW	US $ 90.75	NR	NR	21.3x	20.2x	19.1x	2.9%	3.1%	3.3%	10.1x	9.4x	8.9x
Alliant Energy	LNT	US $ 43.60	NR	NR	21.7x	20.5x	19.4x	2.9%	3.1%	3.3%	12.3x	11.6x	10.7x
OGE Energy	OGE	US $ 36.59	NR	NR	18.6x	17.9x	17.6x	3.4%	3.8%	4.2%	11.7x	11.1x	11.0x
SCANA	SCG	US $ 59.63	NR	NR	14.2x	14.0x	13.6x	4.1%	4.3%	4.5%	10.4x	10.0x	10.4x
Westar Energy	WR	US $ 51.28	NR	NR	20.5x	20.0x	18.8x	3.1%	3.3%	3.5%	10.4x	10.0x	9.5x
WEC Energy Group	WEC	US $ 67.04	NR	NR	21.6x	20.4x	19.4x	3.1%	3.3%	3.5%	12.3x	11.7x	11.1x
Xcel Energy	XEL	US $ 50.51	NR	NR	21.8x	20.5x	19.4x	2.9%	3.0%	3.2%	10.8x	10.3x	9.8x
Average					**20.4x**	**19.4x**	**18.4x**	**3.1%**	**3.3%**	**3.5%**	**11.2x**	**10.6x**	**10.1x**

Source: Credit Suisse RAVE, I/B/E/S

Our final group of regulated US utility comps consists of those with a market cap of less than US$5bn appearing in Figure 28.

Figure 28: US utilities under US$5bn

Company	Ticker	Price on 11-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
Black Hills Corp	BKH	US $ 70.83	US $ 75.00	OUTPERFORM	19.8x	18.9x	18.4x	2.5%	2.7%	2.8%	10.9x	10.4x	9.9x
ALLETE	ALE	US $ 79.14	NR	NR	23.4x	21.7x	20.5x	2.7%	2.9%	3.0%	12.5x	11.9x	11.3x
Spire Inc.	SR	US $ 77.15	US $ 73.00	NEUTRAL	21.6x	20.8x	20.1x	2.8%	2.9%	3.0%	12.9x	12.0x	11.3x
NorthWestern Energy	NWE	US $ 60.65	US $ 60.00	UNDERPERFORM	17.9x	17.5x	17.5x	3.5%	3.6%	3.8%	11.5x	11.2x	10.5x
Gt Plains Energy	GXP	US $ 31.01	NR	NR	19.5x	18.1x	16.2x	3.2%	3.8%	4.1%	8.9x	8.6x	8.1x
Portland Gen Ele	POR	US $ 48.19	NR	NR	21.7x	20.0x	19.4x	2.8%	3.0%	3.1%	9.3x	8.7x	8.4x
Average					**20.6x**	**19.5x**	**18.7x**	**2.9%**	**3.1%**	**3.3%**	**11.0x**	**10.5x**	**9.9x**

Source: Credit Suisse RAVE, I/B/E/S

Valuation summary

In summary, we rate Emera with an Outperform rating and a C$58 target price. That target price is obtained from multiple valuation approaches that include:

- Dividend yield (2017 / 2018): 3.75% / 4.05%;
- Yield spread: 175 bps / 205 bps;
- P/E: 22.4x / 20.6x; and,
- EV/EBITDA: 11.3x / 11.4x.

On a forward looking basis, we continue to believe some upside potential exists for EMA's capital plan that could be helpful for valuation. Yet, as with several of the other Canadian peers, an M&A overhang can surround the stock. In light of the near-term uncertainty with the primarily the TECO asset base, we are less concerned about M&A in the near-term.

Companies Mentioned *(Price as of 11-Sep-2017)*

ALLETE (ALE.N, $79.14)
Airwork Holdings (AWK.NZ, NZ$4.1)
Algonqn Pwr & Ut (AQN.TO, C$13.35)
Alliant Energy (LNT.N, $43.6)
AltaGas (ALA.TO, C$27.46)
Ameren (AEE.N, $60.91)
American Electric Power (AEP.N, $74.55)
Aqua America (WTR.N, $34.62)
Avista US (AVA.N, $51.56)
Black Hills Corp (BKH.N, $70.83)
Boralex (BLX.TO, C$22.65)
Brookfield Renewable Partners (BEP_u.TO, C$43.19)
CMS Energy Corp (CMS.N, $49.1)
Canadian Utilities Limited (CU.TO, C$39.05)
Capital Power Corporation (CPX.TO, C$25.87)
CenterPoint Energy Inc (CNP.N, $30.45)
Consolidated Edison (ED.N, $86.05)
DTE Energy (DTE.N, $113.51)
Dominion Energy (D.N, $79.92)
Duke Energy (DUK.N, $88.34)
Edison International (EIX.N, $81.49)
El Paso Electric (EE.N, $56.35)
Emera Inc. (EMA.TO, C$47.39, OUTPERFORM, TP C$58.0)
Enbridge Inc. (ENB.TO, C$49.55)
Enbridge Income Fund Holdings (ENF.TO, C$30.91)
Entergy Corp (ETR.N, $80.34)
Eversource Energy (ES.N, $64.11)
Exelon Corporation (EXC.N, $38.47)
FirstEnergy Corp (FE.N, $32.51)
Fortis Inc. (FTS.TO, C$45.46)
Gibson Energy Inc. (GEI.TO, C$17.46)
Gt Plains Energy (GXP.N, $31.01)
Hawaiian Elec (HE.N, $34.42)
Hydro One Limited (H.TO, C$22.8)
Idacorp (IDA.N, $91.88)
Innergex (INE.TO, C$15.56)
Inter US (IPL.TO, C$22.62)
Keyera Corp. (KEY.TO, C$35.88)
Kinder Morgan Canada Limited (KML.TO, C$17.26)
MGE Energy (MGEE.OQ, $65.15)
NextEra Energy Inc. (NEE.N, $151.4)
NiSource Inc. (NI.N, $27.23)
North Power (NPI.TO, C$23.65)
NorthWestern Energy (NWE.N, $60.65)
OGE Energy (OGE.N, $36.59)
Otter Tail (OTTR.OQ, $43.2)
PG&E Corp. (PCG.N, $71.56)
PNM Resources (PNM.N, $42.95)
PPL Corp (PPL.N, $39.83)
Pembina Pipeline Corporation (PPL.TO, C$40.65)
Pinnacle West Capital Corp. (PNW.N, $90.75)
Portland Gen Ele (POR.N, $48.19)
Public Service Enterprise Group (PEG.N, $46.74)
SCANA (SCG.N, $59.63)
Sempra Ener (SRE.N, $120.06)
Southern Company (SO.N, $50.61)
Spire Inc. (SR.N, $77.15)
TransAlta Corporation (TA.TO, C$7.59)
TransAlta Renew (RNW.TO, C$14.53)
TransCanada Corp. (TRP.TO, C$62.54)
Unitil (UTL.N, $50.76)
Vectren (VVC.N, $68.11)
Veresen (VSN.TO, C$17.73)
Westar Energy (WR.N, $51.28)
Wisconsin Energy Corporation (WEC.N, $67.04)
Xcel Energy (XEL.N, $50.51)

Disclosure Appendix

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3-Year Price and Rating History for Emera Inc. (EMA.TO)

EMA.TO Date	Closing Price (C$)	Target Price (C$)	Rating
22-Oct-14	35.85	40.00	O
18-Nov-14	38.78	44.00	
09-Feb-15	41.58	46.00	
08-Sep-15	42.01		R
01-Oct-15	44.27	50.00	O
04-Feb-16	45.87	54.00	
22-Jul-16	49.52	58.00	
28-Nov-16	45.71		R
19-Dec-16	45.07	58.00	O

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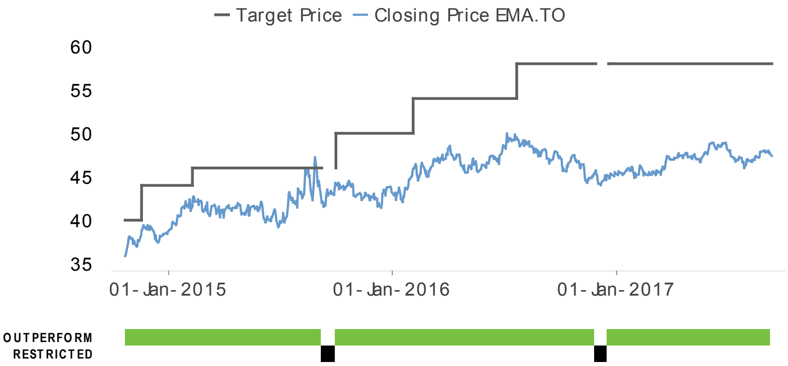

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for Emera Inc. (EMA.TO)

Method: We obtain our Outperform rating and C$58 target price for Emera Inc. by using multiple valuation methodologies, but primarily relies upon a dividend yield and yield spread methodology. The implied dividend yield to our target is 3.75% and a roughly 175 bps yield spread on a 2.0% Canadian 10-year baseline assumption. We rate Emera Outperform due to a large set of organic growth following the closing of the TECO acquisition. Emera has no exposure to the oil and gas industry in Alberta.

Risk: There are a number of risks to Emera's achievement of our Outperform rating and C$58.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business. With a larger US asset base, any changes to CAD/USD could affect the performance. Cost overruns in major projects could also affect the stock.

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12 September 2017
Americas/Canada
Equity Research
Multi Utilities

Fortis Inc. (FTS.TO)

COMPANY UPDATE

Irma's Impact; Catastrophe Considerations

Rating	**NEUTRAL**
Price (11-Sep-17, C$)	45.46
Target price (C$)	46.00
52-week price range (C$)	46.92 - 39.75
Market cap(C$ m)	19,002

Target price is for 12 months.

Research Analysts

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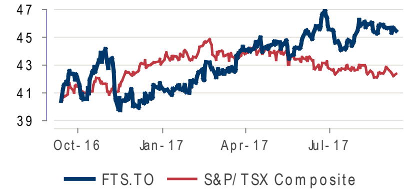
- *Our thoughts are with those affected by the rather dramatic hurricane season impacting vast areas of the Caribbean and the Southern US. Obviously, the situation remains fluid with the continuing devastation from current storms.*
- **Calibrating the Catastrophe:** With the severity of the recent storm season, this note aims to put some perspective around Fortis exposure to the recent and ongoing events. Obviously, we are not attempting to minimize the human element of the most recent storms. Yet, on a factual basis, Fortis has rather minor exposure to utilities in the Caribbean and no exposure in the southern US which can be contrasted to one of the company's closest peers: Emera (see the parallel note). On a country basis, the Fortis exposure comes from Belize, the Cayman Islands (via Caribbean Utilities) and Turks and Caicos. Of these areas, only Turks and Caicos was directly impacted which looks to account for approximately 2% of overall FTS earnings.
- **Currency and Capital**: We continue to focus on the robust FTS capital plan that is almost exclusively focused on regulated assets and the conversion of that plan into dividend growth. Moreover, despite the recent CAD run, we favour USD earners like FTS versus more domestic CAD exposed names.
- **Investment thesis:** We view Fortis as a skilled acquirer of assets that deliver a reliable and reasonable organic growth. The organic growth translates into guided 6% average annual dividend growth through 2021 which may have upside from larger scale projects that have yet to be officially sanctioned.
- **Valuation:** Our C$46 target and Neutral rating are based on a yield of 3.52% and a yield spread of roughly 152 bps on a 2.0% Canadian 10-year. We maintain our Neutral rating. Risk to our target and rating includes lower economic growth in US and Canada, increased interest rates and CAD strengthening.

Share price performance



On 11-Sep-2017 the S&P/TSX Composite closed at 15040.3
Daily Sep12, 2016 - Sep11, 2017, 09/12/16 = C$41.05

Quarterly EPS	Q1	Q2	Q3	Q4
2016A	0.66	0.46	0.53	0.64
2017E	0.69	0.54	0.57	0.64
2018E	0.79	0.56	0.54	0.68

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (CS adj.) (C$)	2.30	2.45	2.56	2.68
Prev. EPS (C$)	-	-	-	-
P/E (x)	19.8	18.6	17.7	17.0
P/E rel. (%)	93.9	110.3	116.8	125.1
Revenue (C$ m)	6,838.0	8,747.0	9,662.0	10,077.7
EBITDA (C$ m)	2,466.0	3,791.3	4,100.3	4,277.9
OCFPS (C$)	5.77	5.48	5.96	6.23
P/OCF (x)	7.2	8.3	7.6	7.3
EV/EBITDA (current)	16.7	10.9	10.0	9.6
Net debt (C$ m)	22,490	23,157	24,238	24,844
ROIC (%)	3.12	4.87	5.16	5.24

Number of shares (m)	417.99	IC (current, C$ m)	38,940.00
BV/share (Next Qtr., C$)	33.6	EV/IC (x)	1.0
Net debt (Next Qtr., C$ m)	22,499.2	Dividend (current, C$)	1.60
Net debt/tot eq (Next Qtr.,%)	131.2	Dividend yield (%)	0.88

Source: Company data, Thomson Reuters, Credit Suisse estimates

Fortis Inc. (FTS.TO)

Price (11 Sep 2017): **C$45.46**; Rating: **NEUTRAL**; Target Price: **C$46.00**; Analyst: **Andrew M. Kuske**

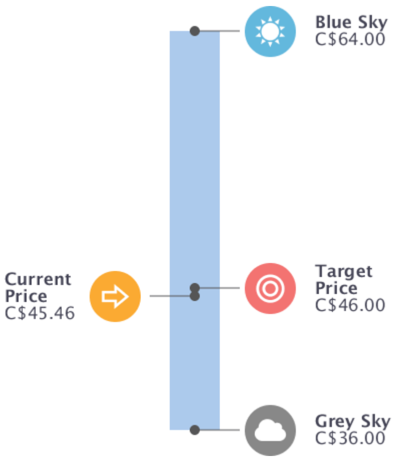
Income Statement	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Revenue (C$ m)	**6,838.0**	**8,747.0**	**9,662.0**	**10,077.7**
EBITDA	**2,466**	**3,791**	**4,100**	**4,278**
Depr. & amort.	(983)	(1,184)	(1,246)	(1,308)
EBIT (C$)	**1,483**	**2,608**	**2,854**	**2,970**
Net interest exp	(678)	(1,036)	(1,181)	(1,229)
PBT (C$)	**805**	**1,571**	**1,673**	**1,741**
Income taxes	(145)	(381)	(399)	(414)
Profit after tax	**660**	**1,190**	**1,275**	**1,327**
Minorities	(53)	(130)	(141)	(145)
Reported net income (C$)	**585**	**1,009**	**1,046**	**1,094**
Other NPAT adjustments	(136)	13	0	0
Adjusted net income	**721**	**996**	**1,046**	**1,094**
Cash Flow	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EBIT	1,483	2,608	2,854	2,970
Net interest	(678)	(1,036)	(1,181)	(1,229)
Change in working capital	22	(164)	0	0
CAPEX	(6,753)	(2,894)	(2,811)	(2,406)
Free cashflow to the firm	**(4,869)**	**(582)**	**(291)**	**229**
Aquisitions	(149)	(40)	0	0
Divestments	50	1	0	0
Cash flow from investments	**(6,891)**	**(2,944)**	**(2,811)**	**(2,406)**
Cashflow from financing activities	(17,467)	(34)	(791)	(835)
Changes in Net Cash/Debt	**(22,490)**	**(667)**	**(1,082)**	**(606)**
Balance Sheet (C$)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Assets				
Cash & cash equivalents	269	50	171	115
Total current assets	**2,166**	**1,904**	**2,025**	**1,969**
Total assets	**47,904**	**49,139**	**50,826**	**51,867**
Liabilities				
Total current liabilities	**3,944**	**4,406**	**4,656**	**4,656**
Total liabilities	**31,454**	**31,755**	**32,958**	**33,507**
Total liabilities and equity	**47,904**	**49,139**	**50,826**	**51,867**
Net debt	22,490	23,157	24,238	24,844
Per share	**12/16A**	**12/17E**	**12/18E**	**12/19E**
No. of shares (wtd avg)	313	407	408	409
CS adj. EPS	2.30	2.45	2.56	2.68
Prev. EPS (C$)	-	-	-	-
Dividend (C$)	1.53	1.62	1.73	1.83
Free cash flow per share	(15.54)	(1.43)	(0.71)	0.56
Earnings	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Sales growth (%)	-	27.9	10.5	4.3
EBIT growth (%)		75.8	9.5	4.0
Net profit growth (%)		38.2	4.9	4.6
EPS growth (%)	-	6.3	4.7	4.4
EBITDA margin (%)	36.1	43.3	42.4	42.4
EBIT margin (%)	21.7	29.8	29.5	29.5
Pretax margin (%)	11.8	18.0	17.3	17.3
Net margin (%)	10.5	11.4	10.8	10.9
Valuation	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EV/Sales (x)	6.07	4.82	4.48	4.35
EV/EBITDA (x)	16.7	10.9	10.0	9.6
EV/EBIT (x)	28.0	16.2	15.1	14.8
P/E (x)	19.8	18.6	17.7	17.0
Price to book (x)	1.1	1.3	1.3	1.3
Asset turnover	0.1	0.2	0.2	0.2
Returns	**12/16A**	**12/17E**	**12/18E**	**12/19E**
ROE stated-return on (%)	-	7.5	7.5	7.6
ROIC (%)	3.1	4.9	5.2	5.2
Gearing	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Net debt/equity (%)	136.7	133.2	135.7	135.3
Interest coverage ratio (X)	2.2	2.5	2.4	2.4
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2016A	0.66	0.46	0.53	0.64
2017E	0.69	0.54	0.57	0.64
2018E	0.79	0.56	0.54	0.68

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving approximately 2,100,000 gas and electricity customers. Its regulated holdings include electric distribution utilities located in Canada, Belize, and the Cayman Islands.

Blue/Grey Sky Scenario



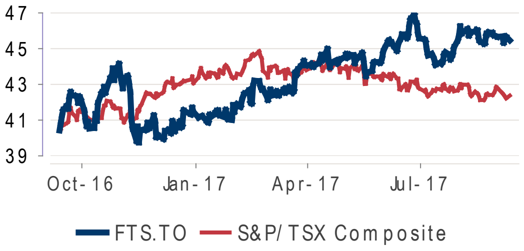
Our Blue Sky Scenario (C$)	**64.00**

Fortis Inc.'s Blue Sky scenario includes rate base growth in its utilities in various regions (Canada, United States and Caribbean), lower risk free ratess and stronger US dollar. We lower the yield valuation by 100 bps.

Our Grey Sky Scenario (C$)	**36.00**

Fortis Inc.'s Grey Sky scenario includes lower rate base growth in its utilities in various regions (Canada, United States and Caribbean), higher risk free rates and a weaker US dollar. We increase the yield valuation by 100 bps.

Share price performance



On 11-Sep-2017 the S&P/TSX Composite closed at 15040.3
Daily Sep12, 2016 - Sep11, 2017, 09/12/16 = C$41.05

There are three parts to this note:

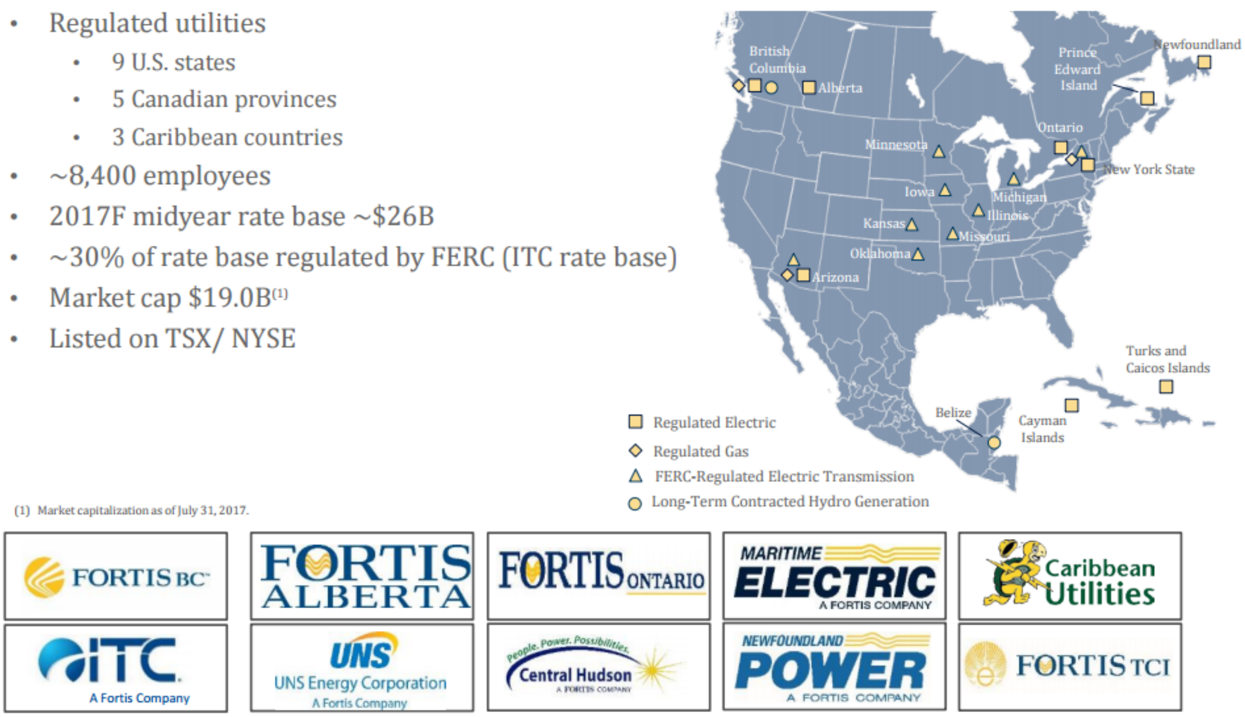
- Asset assessment;
- Regulatory Regimes; and,
- Valuation.

Each of these areas is addressed in more detail below.

Asset assessment

At this stage in time, the Fortis asset exposure to the Caribbean is rather small as partially illustrated by Figure 1.

Figure 1: FTS asset base



- Regulated utilities
  - 9 U.S. states
  - 5 Canadian provinces
  - 3 Caribbean countries
- ~8,400 employees
- 2017F midyear rate base ~$26B
- ~30% of rate base regulated by FERC (ITC rate base)
- Market cap $19.0B(1)
- Listed on TSX/ NYSE

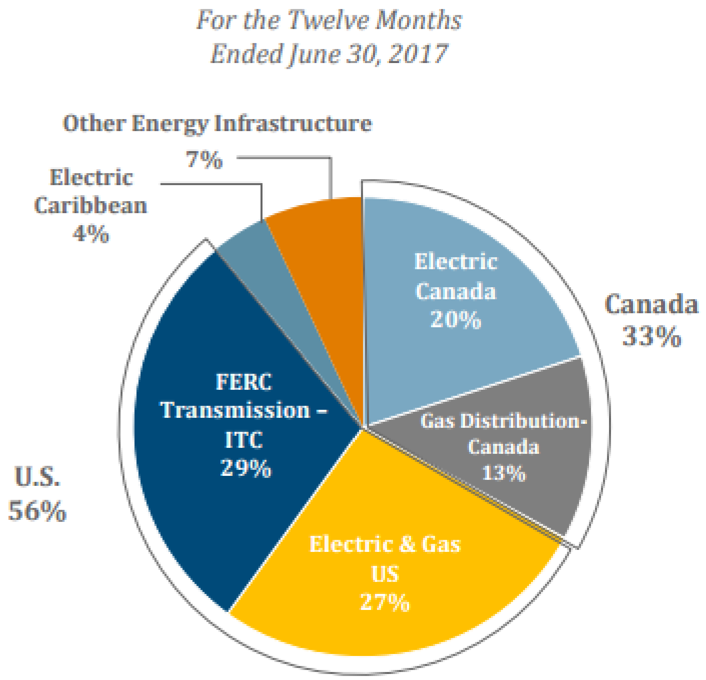
(1) Market capitalization as of July 31, 2017.

☐ Regulated Electric
◇ Regulated Gas
△ FERC-Regulated Electric Transmission
○ Long-Term Contracted Hydro Generation

Source: Company data

The assets in Belize and Turk and Caicos Islands are balanced by a 60% position in the publicly traded Caribbean Utilities (CUPu.TO) which has exposure in the Cayman Islands. As per FTS disclosures, Caribbean utilities are only a small part of the overall enterprise totaling only ~4% as per Figure 2.

Figure 2: Pro forma net earnings



Source: Company data

Looking at the last twelve months or revenues, EBITDA and earnings, compare the rough amounts for the Caribbean exposure to the overall entity in Figure 3 and Figure 4.

Figure 3: FTS LTM financial (millions)

Revenue	7,893.0
EBITDA	3,144.0
Net income	938.0

Source: Bloomberg

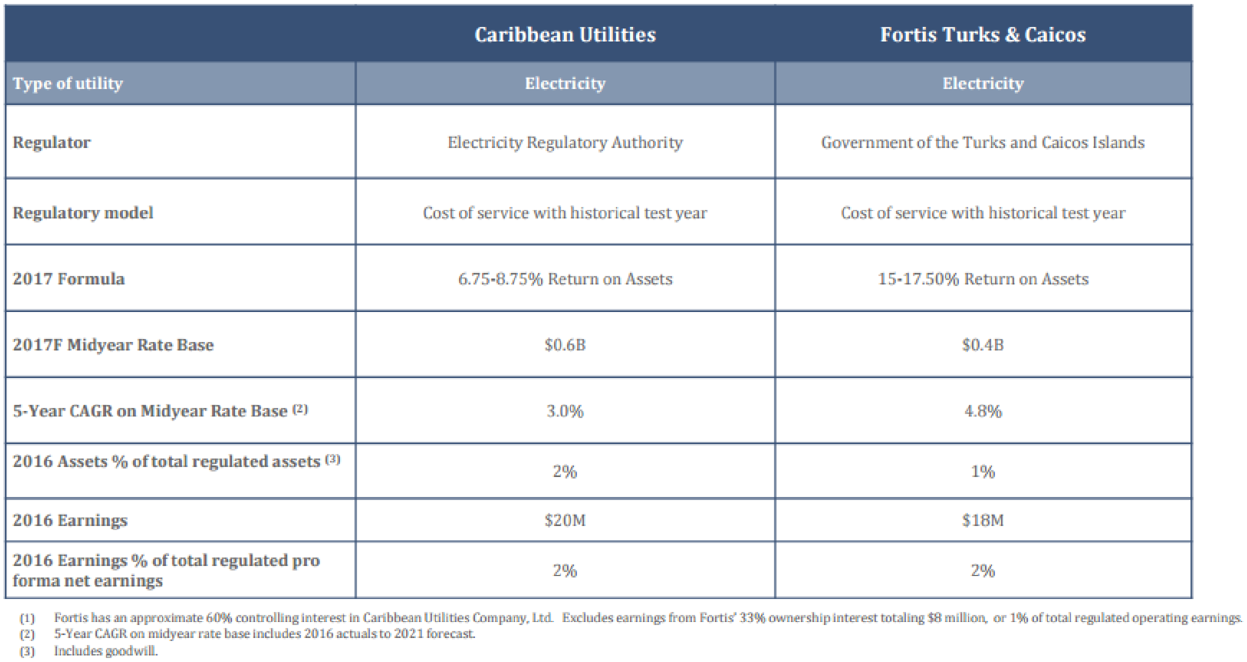
Figure 4: FTS Caribbean LTM financial (millions)

Revenue	305.0
EBITDA	122.0
Net earnings	54.0

Source: Bloomberg

From FTS, Figure 5 provides another perspective in this exposure with a bit of a regulatory backdrop for the Caribbean utility segment.

Figure 5: Caribbean regulated electric utilities



	Caribbean Utilities	Fortis Turks & Caicos
Type of utility	Electricity	Electricity
Regulator	Electricity Regulatory Authority	Government of the Turks and Caicos Islands
Regulatory model	Cost of service with historical test year	Cost of service with historical test year
2017 Formula	6.75-8.75% Return on Assets	15-17.50% Return on Assets
2017F Midyear Rate Base	\$0.6B	\$0.4B
5-Year CAGR on Midyear Rate Base (2)	3.0%	4.8%
2016 Assets % of total regulated assets (3)	2%	1%
2016 Earnings	\$20M	\$18M
2016 Earnings % of total regulated pro forma net earnings	2%	2%

(1) Fortis has an approximate 60% controlling interest in Caribbean Utilities Company, Ltd. Excludes earnings from Fortis' 33% ownership interest totaling \$8 million, or 1% of total regulated operating earnings.
(2) 5-Year CAGR on midyear rate base includes 2016 actuals to 2021 forecast.
(3) Includes goodwill.

Source: Company data

At time of writing this report, we note that only Fortis Turks & Caicos (FortisTCI) in the FTS portfolio of companies was notably affected by the current series of storms. On September 8th, FTS provided a full statement in a press release and following commentary came from the CEO of the FortisTCI. Naturally, we do not look to diminish the human element of the storms. Yet, on a financial basis, the impact is not overly meaningful.

Regulatory Regimes

Versus much of the capital market, regulated utilities and assets very specific fundamental nuances that revolve around their critical role for the functioning of society. Essentially, that critical role is underpinned by the notion of a "regulatory compact". Clearly, there are many specific nuances and differences to the application of regulatory principles between jurisdictions. Yet, there are some basic concepts that tend to exist. We address some of these issues in this section.

Critical regulatory compact

Very simply, utility assets tend to provide broad-based benefits for societal functioning. In the case of regulated electric and gas utilities in North America (and most jurisdictions), an extremely high capital intensity typically translates into the need for natural or near-natural monopolies to exist. Such an approach can deliver the most efficient capital allocation, but needs to be balanced to prevent the exercise of monopoly power. Accordingly, regulators are very cognizant of this delicate balancing act.

Balancing acts of God with rate shocks and restoration

In time of extreme exogenous events and effective *force majeure* arising from acts of God (in particular weather related impacts), regulators routinely allow for rate base recovery. To avoid significant rate shock, a variety of smoothing mechanisms may be used, but the core principles of recovery effectively remain intact. Naturally, these recovery mechanisms are subject to reasonableness and prudency doctrines along with formal regulatory processes ahead of major capital spends. Given these fundamental views, FTS's path to regulatory recovery for storm related damages should not be negatively affected for the underlying utilities. At this time, the sheer magnitude of the capital spending to restore utility service is a significant unknown. Therefore, amount of the future spend, regulatory mechanisms to be put place and the balancing act of utility and corporate holdco cash flows are critical to watch in the weeks, months and quarters ahead. As outlined above, these figures are not meaningful to the overall FTS enterprise.

Valuation

Based on the above, FTS is not overly impacted by the recent set of storms. In any event, we believe it useful to revisit historical valuation with a series of valuation charts appearing in this section. Accordingly, as per our typical practice, we use a variety of methodologies to consider share valuation. Continuing this approach, we divided this section into several parts, including:

- Yield related analysis; and,
- Multiple methods.

These areas are addressed below.

Yield related analysis

Our yield-based approaches focus on three related areas: (a) dividend discount model; (b) the dividend yield; and, (c) a dividend yield spread.

Dividend discount model

A preferred approach

For a long time, we have advocated using the dividend discount model as a valuation tool. Very simply, there are many ways to consider yield-driven valuation, but we believe the dividend discount model is one of the preferred methodologies, in part, because of simplicity. Using standard Bloomberg figures, we considered the cost of equity and the potential dividend growth. A dividend discount model would be a useful valuation tool for yield-oriented vehicles such as FTS We used the following assumptions in our DDM:

- Current annual dividend: C$1.60/share;
- Cost of equity: 10.2% (Bloomberg); and,
- Growth rate: 6.0% (target annual dividend growth through 2021).

A dividend discount model would produce share price value of roughly C$38.

Clearly, a major downfall of the DDM is the hypersensitivity under certain assumptions. As a result, we generated the following range of valuations highlighted in Figure 6. A matrix approach may best be used to consider "normalized" growth rates and a cost of equity.

Figure 6: Share Value Under Different Dividend Discount Model Assumptions

		Cost of Equity (%)									
		7.0%	7.50%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
Dividend Growth	1.0%	26.67	24.62	22.86	21.33	20.00	18.82	17.78	16.84	16.00	15.24
	1.5%	29.09	26.67	24.62	22.86	21.33	20.00	18.82	17.78	16.84	16.00
	2.0%	32.00	29.09	26.67	24.62	22.86	21.33	20.00	18.82	17.78	16.84
	2.5%	35.56	32.00	29.09	26.67	24.62	22.86	21.33	20.00	18.82	17.78
	3.0%	40.00	35.56	32.00	29.09	26.67	24.62	22.86	21.33	20.00	18.82
	3.5%	45.71	40.00	35.56	32.00	29.09	26.67	24.62	22.86	21.33	20.00
	4.0%	53.33	45.71	40.00	35.56	32.00	29.09	26.67	24.62	22.86	21.33
	4.5%	64.00	53.33	45.71	40.00	35.56	32.00	29.09	26.67	24.62	22.86
	5.0%	80.00	64.00	53.33	45.71	40.00	35.56	32.00	29.09	26.67	24.62
	5.5%	106.67	80.00	64.00	53.33	45.71	40.00	35.56	32.00	29.09	26.67
	6.0%	160.00	106.67	80.00	64.00	53.33	45.71	40.00	35.56	32.00	29.09
	6.5%	320.00	160.00	106.67	80.00	64.00	53.33	45.71	40.00	35.56	32.00
	7.0%		320.00	160.00	106.67	80.00	64.00	53.33	45.71	40.00	35.56
	7.5%			320.00	160.00	106.67	80.00	64.00	53.33	45.71	40.00
	8.0%				320.00	160.00	106.67	80.00	64.00	53.33	45.71

Source: Company data, Bloomberg and Credit Suisse estimates.

Another approach to considering the DDM valuation is using various inputs and solving for "k" meaning the required return. We employed this approach in past research (e.g., "Yearning for Yield: Valuing Canada's Dividend-Focused Stocks") and FTS's numbers now indicate the following:

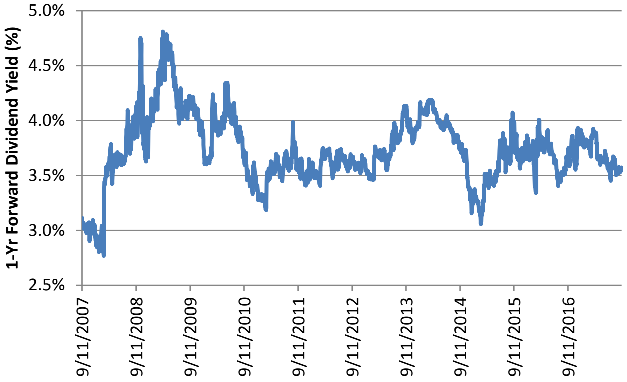
- Dividend: C$1.60/share;
- Share price: C$45.46; and,
- Growth rate: 6.0% (average annual dividend growth through 2021).

These figures solve for a "k" of 9.5% which is seemingly too high for a company having such a low risk profile and growth rate.

Dividend Yield

Figure 7 and Figure 8 shows the historical 1-year and 2-year forward dividend yields for FTS.

Figure 7: Historical dividend yield (1-year forward)



Source: Thomson Reuters

Figure 8: Historical dividend yield (2-year forward)

Source: Thomson Reuters

Descriptive statistics for FTS's historical forward dividend yields are shown in Figure 9.

Figure 9: Historical forward dividend yields descriptive statistics

	1-Yr Forward	2-Yr Forward
Mean	3.73%	3.95%
Median	3.69%	3.94%
Min	2.77%	3.61%
Max	4.81%	4.39%

Source: Thomson One

The dividend yield valuation sensitivity is very evident in the matrix at Figure 10.

Figure 10: Share Value Based on Various Dividends at Various Yields

Dividend Yield (%)	Dividend per share (C$)									
	1.40	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.80	1.85
2.00%	70.00	72.50	75.00	77.50	80.00	82.50	85.00	87.50	90.00	92.50
2.25%	62.22	64.44	66.67	68.89	71.11	73.33	75.56	77.78	80.00	82.22
2.50%	56.00	58.00	60.00	62.00	64.00	66.00	68.00	70.00	72.00	74.00
2.75%	50.91	52.73	54.55	56.36	58.18	60.00	61.82	63.64	65.45	67.27
3.00%	46.67	48.33	50.00	51.67	53.33	55.00	56.67	58.33	60.00	61.67
3.25%	43.08	44.62	46.15	47.69	49.23	50.77	52.31	53.85	55.38	56.92
3.50%	40.00	41.43	42.86	44.29	45.71	47.14	48.57	50.00	51.43	52.86
3.75%	37.33	38.67	40.00	41.33	42.67	44.00	45.33	46.67	48.00	49.33
4.00%	35.00	36.25	37.50	38.75	40.00	41.25	42.50	43.75	45.00	46.25
4.25%	32.94	34.12	35.29	36.47	37.65	38.82	40.00	41.18	42.35	43.53
4.50%	31.11	32.22	33.33	34.44	35.56	36.67	37.78	38.89	40.00	41.11
4.75%	29.47	30.53	31.58	32.63	33.68	34.74	35.79	36.84	37.89	38.95
5.00%	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00	36.00	37.00
5.25%	26.67	27.62	28.57	29.52	30.48	31.43	32.38	33.33	34.29	35.24
5.50%	25.45	26.36	27.27	28.18	29.09	30.00	30.91	31.82	32.73	33.64

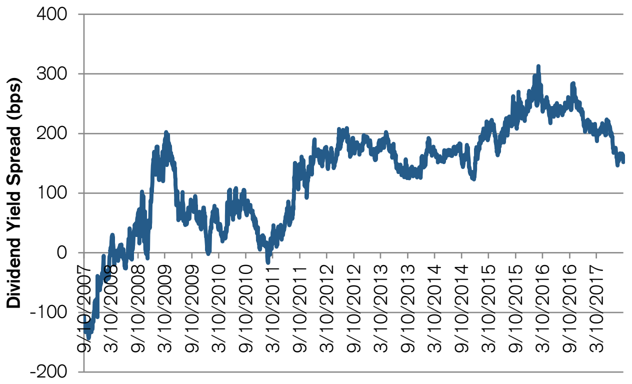
Source: Credit Suisse estimates.

Our C$46.00 target price is based upon an approximately 3.52% and 3.75% dividend yields on our estimated 2017 and 2018 dividends, respectively.

Dividend Yield Spread

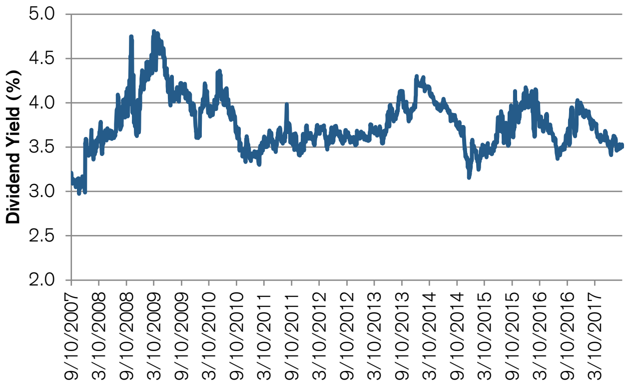
We believe that one should not solely rely upon distribution yield-based metrics. In our view, many yield-based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered FTS's historical dividend yield against the Government of Canada 10-year bond yield on a spread basis Figure 11 highlights this relationship.

Figure 11: Historical dividend yield spread



Source: the BLOOMBERG PROFESSIONAL ™service

Figure 12: Historical dividend yield



Source: the BLOOMBERG PROFESSIONAL ™service

Descriptive statistics for FTS's historical dividend yield spreads and yields are shown in Figure 13.

Figure 13: Historical dividend yield spread and yields descriptive statistics

	Yield Spread (bps)	Dividend Yield (%)
Mean	131	3.76
Median	157	3.70
Min	(143)	2.97
Max	313	4.81

Source: the BLOOMBERG PROFESSIONAL ™service

The yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship; however, we must note that interest rate-sensitive investments like FTS do not exhibit perfect correlations. Some near-term uncertainty has affected the valuation of many interest rate sensitive investment vehicles. Yet, in historical terms, the interest rate environment remains accommodative, which underpins many corporate valuations. We, therefore apply a 152 bps spread to a "normalized" Canadian 10-year bond yield assumption of 2.00% (we note the actual is 1.98% currently) to obtain our C$46 target price.

Multiple methods

Within this section, we explore two multiples to help provide valuation perspective for FTS. A considerable amount of reliance is placed on Thomson Reuters data. The multiples are:

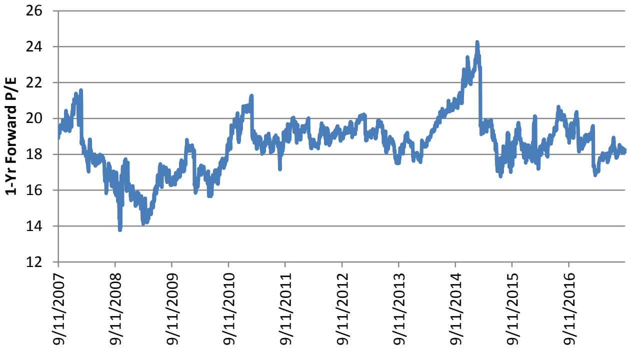
- Price/earnings; and,
- EV/EBITDA.

Each of these areas appears below.

Price/earnings

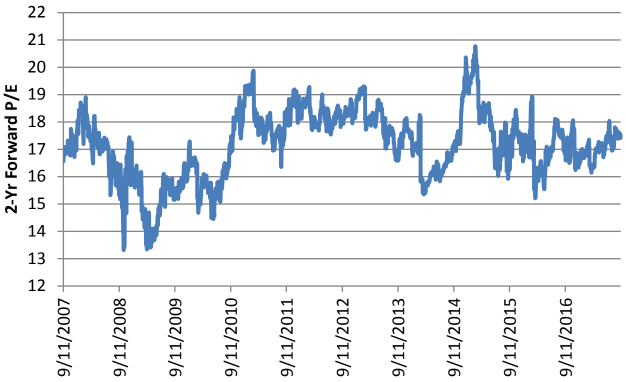
For many industries P/E multiples are somewhat challenging, but they do provide a quick comparative with other sectors and the overall market on a simple basis. Given the relative degree of consistency with regulated asset bases, there is greater merit in P/E multiples for more pure utilities versus some of the pipeline and other infrastructure stocks under our coverage. Figure 14 and Figure 15 provide a historical view for FTS's forward 1-year and 2-Year P/E multiples over the last 10 years.

Figure 14: Historical PE (1-year forward)



Source: Thomson Reuters

Figure 15: Historical PE (2-year forward)



Source: Thomson Reuters

Descriptive statistics for FTS's historical 1-year and 2-year forward P/E multiples are shown in Figure 16.

Figure 16: Historical forward P/E descriptive statistics

	1-Yr Forward	2-Yr Forward
Mean	18.6x	17.2x
Median	18.7x	17.3x
Min	13.8x	13.3x
Max	24.3x	20.8x

Source: Thomson One

For context our C$46 target price implies an approximate 18.0x multiple on our 2018 estimate of C$2.56. A valuation matrix appears in Figure 17.

Figure 17: Hypothetical share prices at different EPS and P/E multiples

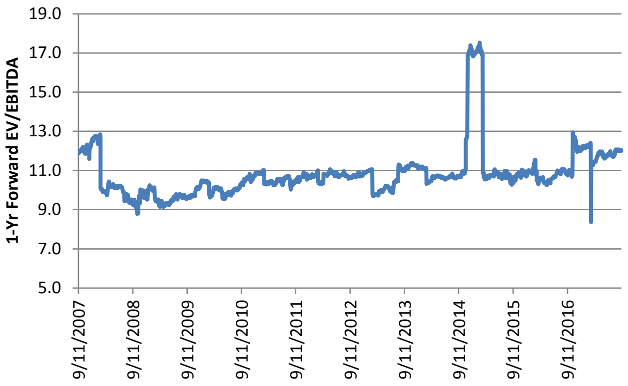
	Earnings per share (C$)									
P/E Multiple	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.00
10.0x	21.00	22.00	23.00	24.00	25.00	26.00	27.00	28.00	29.00	30.00
11.0x	23.10	24.20	25.30	26.40	27.50	28.60	29.70	30.80	31.90	33.00
12.0x	25.20	26.40	27.60	28.80	30.00	31.20	32.40	33.60	34.80	36.00
13.0x	27.30	28.60	29.90	31.20	32.50	33.80	35.10	36.40	37.70	39.00
14.0x	29.40	30.80	32.20	33.60	35.00	36.40	37.80	39.20	40.60	42.00
15.0x	31.50	33.00	34.50	36.00	37.50	39.00	40.50	42.00	43.50	45.00
16.0x	33.60	35.20	36.80	38.40	40.00	41.60	43.20	44.80	46.40	48.00
17.0x	35.70	37.40	39.10	40.80	42.50	44.20	45.90	47.60	49.30	51.00
18.0x	37.80	39.60	41.40	43.20	45.00	46.80	48.60	50.40	52.20	54.00
19.0x	39.90	41.80	43.70	45.60	47.50	49.40	51.30	53.20	55.10	57.00
20.0x	42.00	44.00	46.00	48.00	50.00	52.00	54.00	56.00	58.00	60.00
21.0x	44.10	46.20	48.30	50.40	52.50	54.60	56.70	58.80	60.90	63.00
22.0x	46.20	48.40	50.60	52.80	55.00	57.20	59.40	61.60	63.80	66.00
23.0x	48.30	50.60	52.90	55.20	57.50	59.80	62.10	64.40	66.70	69.00
24.0x	50.40	52.80	55.20	57.60	60.00	62.40	64.80	67.20	69.60	72.00
25.0x	52.50	55.00	57.50	60.00	62.50	65.00	67.50	70.00	72.50	75.00

Source: Company data, Credit Suisse estimates.

EV/EBITDA

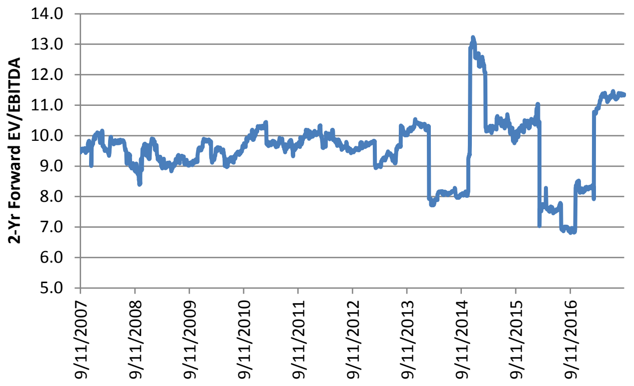
Figure 18 and Figure 19 provide historical perspectives for FTS's EV/EBITDA multiple over the last 10 years on a one-year and two-year forward basis.

Figure 18: Historical EV/EBITDA (1-year forward)



Source: Thomson Reuters

Figure 19: Historical EV/EBITDA (2-year forward)



Source: Thomson Reuters

We provide descriptive statistics for both 1-year and 2-year historical forward EV/EBITDA multiples for FTS in Figure 20 for additional perspective.

Figure 20: Historical forward EV/EBITDA descriptive statistics

	1-Yr Forward	2-Yr Forward
Mean	10.8x	9.6x
Median	10.7x	9.7x
Min	8.4x	6.8x
Max	17.5x	13.2x

Source: Thomson One

Figure 21 shows FTS valuation matrix with reasonable EBITDA and multiple ranges.

Figure 21: Hypothetical share prices at different EBITDA and EBITDA multiples

EV/EBITDA Multiple	EBITDA (C$)								
	3,000	3,200	3,400	3,600	3,800	4,000	4,200	4,400	4,600
8.0x				2.07	5.99	9.91	13.83	17.75	21.67
8.5x			2.31	6.48	10.65	14.81	18.98	23.14	27.31
9.0x		2.07	6.48	10.89	15.30	19.71	24.13	28.54	32.95
9.5x	1.33	5.99	10.65	15.30	19.96	24.62	29.27	33.93	38.59
10.0x	5.01	9.91	14.81	19.71	24.62	29.52	34.42	39.32	44.22
10.5x	8.68	13.83	18.98	24.13	29.27	34.42	39.57	44.71	49.86
11.0x	12.36	17.75	23.14	28.54	33.93	39.32	44.71	50.10	55.50
11.5x	16.04	21.67	27.31	32.95	38.59	44.22	49.86	55.50	61.13
12.0x	19.71	25.60	31.48	37.36	43.24	49.12	55.01	60.89	66.77
12.5x	23.39	29.52	35.64	41.77	47.90	54.03	60.15	66.28	72.41
13.0x	27.07	33.44	39.81	46.18	52.56	58.93	65.30	71.67	78.04
13.5x	30.74	37.36	43.98	50.59	57.21	63.83	70.45	77.06	83.68
14.0x	34.42	41.28	48.14	55.01	61.87	68.73	75.59	82.46	89.32
14.5x	38.10	45.20	52.31	59.42	66.53	73.63	80.74	87.85	94.96
15.0x	41.77	49.12	56.48	63.83	71.18	78.53	85.89	93.24	100.59

Source: Company data and Credit Suisse estimates

Based on our analysis, our EV/EBITDA derived target is obtained from the application of a roughly 11.4x multiple to generate a C$46.00 target price on 2018e EBITDA.

Comparable considerations

For further comparative context, we provide a number of simple summary comp tables for the reasonably comparable universe. For clarity, the figures in each of the following comp tables (from Figure 22 to Figure 27) have been obtained from consensus data. Figure 22 starts with the broad based Canadian infrastructure names.

Figure 22: Canadian comparables

Company	Ticker	Price on 11-Sep-17		Target Price		Rating	P/E			Div Yield			EV/EBITDA		
							2017	2018	2019	2017	2018	2019	2017	2018	2019
Pipelines															
AltaGas	ALA.TO	C $	27.46		NR	NR	28.8x	28.1x	18.5x	7.8%	8.3%	8.8%	10.9x	8.4x	5.7x
Enbridge Inc.	ENB.TO	C $	49.55	C $	70.00	OUTPERFORM	24.5x	19.4x	17.9x	4.7%	5.3%	6.0%	11.3x	9.5x	8.5x
Enbridge Income Fund Holdings	ENF.TO	C $	30.91	C $	34.00	NEUTRAL	14.2x	12.7x	11.8x	6.6%	7.3%	8.0%	NA	NA	NA
Gibson Energy Inc.	GEI.TO	C $	17.46	C $	18.00	NEUTRAL	NA	50.8x	33.3x	7.6%	7.6%	7.7%	12.8x	11.0x	10.0x
Inter US	IPL.TO	C $	22.62		NR	NR	16.3x	15.1x	14.6x	7.1%	7.5%	7.8%	12.7x	12.2x	12.1x
Keyera Corp.	KEY.TO	C $	35.88	C $	38.00	NEUTRAL	22.7x	19.6x	18.1x	4.6%	4.8%	5.2%	13.6x	10.9x	10.3x
Kinder Morgan Canada Limited	KML.TO	C $	17.26	C $	17.00	NEUTRAL	37.2x	25.6x	23.5x	3.1%	3.9%	4.0%	NA	NA	NA
Pembina Pipeline Corporation	PPL.TO	C $	40.65	C $	44.00	NEUTRAL	23.3x	18.7x	16.3x	5.0%	5.4%	5.8%	12.7x	8.7x	7.8x
TransCanada Corp.	TRP.TO	C $	62.54	C $	74.00	OUTPERFORM	20.9x	19.0x	17.3x	3.9%	4.3%	4.8%	13.3x	12.0x	10.5x
Veresen	VSN.TO	C $	17.73		NR	NR	42.4x	26.7x	22.8x	5.6%	5.6%	4.5%	11.0x	10.4x	10.5x
Utilities															
Algonqn Pwr & Ut	AQN.TO	US $	13.35		NR	NR	19.6x	18.2x	17.5x	4.5%	4.9%	5.3%	10.2x	9.6x	9.2x
Canadian Utilities Limited	CU.TO	C $	39.05	C $	42.00	NEUTRAL	16.8x	16.4x	16.0x	3.7%	4.0%	4.2%	9.6x	9.3x	8.9x
Emera Inc.	EMA.TO	C $	47.39	C $	58.00	OUTPERFORM	17.8x	16.0x	15.6x	4.5%	4.9%	NA	10.1x	9.6x	9.5x
Fortis Inc.	FTS.TO	C $	45.46	C $	46.00	NEUTRAL	18.2x	17.5x	17.0x	3.6%	3.8%	NA	11.2x	10.6x	10.0x
Hydro One Limited	H.TO	C $	22.80	C $	26.00	NEUTRAL	20.6x	17.6x	16.1x	3.8%	4.1%	4.3%	11.9x	10.0x	8.2x
Power															
Boralex	BLX.TO	C $	22.65		NR	NR	66.0x	41.9x	38.9x	2.6%	2.8%	3.0%	9.8x	8.6x	8.0x
Brookfield Renewable Partners	BEP_u.TO	C $	43.19	C $	44.00	NEUTRAL	NA	NA	NA	4.3%	4.5%	4.8%	9.4x	8.6x	8.3x
Capital Power Corporation	CPX.TO	C $	25.87	C $	22.00	UNDERPERFORM	17.9x	17.2x	17.1x	6.2%	6.7%	7.1%	6.9x	6.3x	6.2x
Innergex	INE.TO	C $	15.56		NR	NR	38.2x	26.8x	48.6x	4.2%	4.3%	NA	13.9x	11.9x	12.3x
North Power	NPI.TO	C $	23.65		NR	NR	22.5x	16.4x	19.0x	4.6%	5.1%	5.7%	13.8x	10.9x	9.7x
TransAlta Corporation	TA.TO	C $	7.59	C $	7.00	UNDERPERFORM	NA	62.2x	69.6x	2.1%	2.1%	2.1%	5.9x	5.9x	5.9x
TransAlta Renew	RNW.TO	C $	14.53		NR	NR	16.8x	14.8x	13.8x	6.2%	6.5%	6.8%	10.7x	10.4x	10.6x
Avg.							**25.5x**	**23.8x**	**23.0x**	**4.8%**	**5.2%**	**5.6%**	**11.1x**	**9.7x**	**9.1x**

Source: Credit Suisse RAVE, I/B/E/S

Figure 23 focuses solely on the truly comparable Canadian utility companies – which is a rather small universe. Notably, aside from Canadian Utilities, each of Algonquin, Emera, Fortis and Hydro One have engaged in US targeted M&A as part of a growth strategy.

Figure 23: Canadian utilities

Company	Ticker	Price on 11-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
Algonqn Pwr & Ut	AQN.TO	C $ 13.35	NR	NR	19.6x	18.2x	17.5x	4.5%	4.9%	5.3%	10.2x	9.6x	9.2x
Canadian Utilities Limited	CU.TO	C $ 39.05	C $ 42.00	NEUTRAL	16.8x	16.4x	16.0x	3.7%	4.0%	4.2%	9.6x	9.3x	8.9x
Emera Inc.	EMA.TO	C $ 47.39	C $ 58.00	OUTPERFORM	17.8x	16.0x	15.6x	4.5%	4.9%	5.2%	10.1x	9.6x	9.5x
Fortis Inc.	FTS.TO	C $ 45.46	C $ 46.00	NEUTRAL	18.2x	17.5x	17.0x	3.6%	3.8%	4.0%	11.2x	10.6x	10.0x
Hydro One Limited	H.TO	C $ 22.80	C $ 26.00	NEUTRAL	20.6x	17.6x	16.1x	3.8%	4.1%	4.3%	11.9x	10.0x	8.2x
Average					**18.6x**	**17.1x**	**16.4x**	**4.0%**	**4.3%**	**4.6%**	**10.6x**	**9.8x**	**9.1x**

Source: Company data, Credit Suisse estimates

In relation to the US market, Figure 24 provides a broad-based comparable group.

Figure 24: US utilities

Company	Ticker	Price on 11-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
ALLETE	ALE	US $ 79.14	NR	NR	23.4x	21.7x	20.5x	2.7%	2.9%	3.0%	12.5x	11.9x	11.3x
Alliant Energy	LNT	US $ 43.60	NR	NR	21.7x	20.5x	19.4x	2.9%	3.1%	3.3%	12.3x	11.6x	10.7x
Ameren	AEE	US $ 60.91	NR	NR	21.7x	20.2x	19.1x	2.9%	3.0%	3.1%	9.6x	9.1x	8.6x
AEP Inc	AEP	US $ 74.55	NR	NR	20.4x	19.2x	18.2x	3.2%	3.4%	3.5%	11.0x	10.4x	9.9x
American Water	AWK	US $ 82.92	NR	NR	27.6x	25.3x	23.6x	2.0%	2.2%	2.3%	12.7x	11.9x	11.1x
Aqua America	WTR	US $ 34.62	NR	NR	25.5x	24.0x	22.3x	2.3%	2.5%	2.7%	16.8x	15.4x	14.1x
Avista US	AVA	US $ 51.56	NR	NR	26.5x	25.1x	23.6x	2.8%	2.9%	3.0%	11.5x	10.4x	8.9x
Black Hills Corp	BKH	US $ 70.83	US $ 75.00	OUTPERFORM	19.8x	18.9x	18.4x	2.5%	2.7%	2.8%	10.9x	10.4x	9.9x
CenterPoint Energy Inc	CNP	US $ 30.45	US $ 29.00	NEUTRAL	22.8x	21.5x	20.3x	3.5%	3.7%	3.8%	9.9x	9.5x	9.2x
CMS Energy Corp	CMS	US $ 49.10	US $ 50.00	OUTPERFORM	22.6x	21.0x	19.5x	2.7%	2.9%	3.1%	10.7x	10.1x	9.7x
Consolidated Edison	ED	US $ 86.05	US $ 73.00	UNDERPERFORM	21.0x	20.2x	19.2x	3.2%	3.3%	3.4%	10.5x	10.1x	9.5x
Dominion Energy	D	US $ 79.92	US $ 83.00	OUTPERFORM	22.0x	19.7x	18.8x	3.8%	4.1%	4.5%	13.3x	11.8x	10.9x
DTE Energy	DTE	US $ 113.51	US $ 110.00	NEUTRAL	21.0x	19.9x	18.8x	2.9%	3.1%	3.3%	11.9x	11.2x	10.3x
Duke Energy	DUK	US $ 88.34	US $ 89.00	NEUTRAL	19.2x	18.3x	17.3x	4.1%	4.3%	4.3%	11.4x	11.0x	10.6x
Edison Intl	EIX	US $ 81.49	NR	NR	19.2x	19.0x	17.5x	2.7%	2.9%	3.2%	8.5x	8.1x	7.5x
El Paso Electric	EE	US $ 56.35	NR	NR	21.7x	20.5x	19.7x	NA	NA	NA	12.3x	11.7x	11.3x
Entergy	ETR	US $ 80.34	NR	NR	12.3x	16.4x	16.1x	4.4%	4.5%	4.6%	8.0x	7.9x	7.7x
Exelon Corporation	EXC	US $ 38.47	US $ 43.00	OUTPERFORM	14.3x	13.4x	13.8x	3.4%	3.5%	3.6%	8.5x	7.8x	7.8x
Eversource Energy	ES	US $ 64.11	US $ 60.00	NEUTRAL	20.4x	19.3x	18.1x	3.0%	3.2%	3.4%	11.2x	10.7x	10.1x
FirstEnergy	FE	US $ 32.51	NR	NR	11.5x	12.8x	13.5x	4.3%	4.5%	4.5%	8.5x	8.5x	8.5x
Gt Plains Energy	GXP	US $ 31.01	NR	NR	19.5x	18.1x	16.2x	3.2%	3.8%	4.1%	8.9x	8.6x	8.1x
Hawaiian Elec	HE	US $ 34.42	NR	NR	21.1x	19.2x	18.1x	3.6%	3.6%	3.6%	10.0x	9.5x	9.0x
Idacorp	IDA	US $ 91.88	NR	NR	23.0x	22.2x	21.2x	2.4%	2.6%	2.7%	NA	NA	NA
Spire Inc.	SR	US $ 77.15	US $ 73.00	NEUTRAL	21.6x	20.8x	20.1x	2.8%	2.9%	3.0%	12.9x	12.0x	11.3x
MGE Energy	MGEE	US $ 65.15	NR	NR	28.3x	27.1x	26.1x	NA	NA	NA	NA	NA	NA
NextEra	NEE	US $ 151.40	NR	NR	22.5x	20.9x	19.5x	2.6%	2.9%	3.3%	11.1x	10.6x	9.8x
NiSource Inc.	NI	US $ 27.23	US $ 29.00	OUTPERFORM	22.9x	21.6x	20.3x	2.6%	2.7%	2.9%	10.8x	9.9x	9.2x
NorthWestern Energy	NWE	US $ 60.65	US $ 60.00	UNDERPERFORM	17.9x	17.5x	17.5x	3.5%	3.6%	3.8%	11.5x	11.2x	10.5x
OGE Energy	OGE	US $ 36.59	NR	NR	18.6x	17.9x	17.6x	3.4%	3.8%	4.2%	11.7x	11.1x	11.0x
Otter Tail	OTTR	US $ 43.20	NR	NR	24.7x	23.3x	21.2x	3.0%	3.0%	3.1%	NA	NA	NA
PG&E Us	PCG	US $ 71.56	NR	NR	19.5x	18.7x	17.8x	2.9%	3.1%	3.4%	8.8x	8.1x	7.7x
Pinnacle West Capital Corp.	PNW	US $ 90.75	NR	NR	21.3x	20.2x	19.1x	2.9%	3.1%	3.3%	10.1x	9.4x	8.9x
PNM Resources	PNM	US $ 42.95	NR	NR	23.2x	24.4x	20.7x	2.3%	2.5%	2.7%	10.5x	10.4x	9.7x
Portland Gen Ele	POR	US $ 48.19	NR	NR	21.7x	20.0x	19.4x	2.8%	3.0%	3.1%	9.3x	8.7x	8.4x
PPL	PPL	US $ 39.83	NR	NR	18.5x	17.1x	16.3x	4.0%	4.2%	4.3%	11.6x	10.6x	10.0x
PSEG	PEG	US $ 46.74	NR	NR	16.0x	15.9x	15.6x	3.7%	3.9%	4.1%	8.9x	8.9x	8.5x
PPL	PPL	US $ 39.83	NR	NR	18.5x	17.1x	16.3x	4.0%	4.2%	4.3%	11.6x	10.6x	10.0x
SCANA	SCG	US $ 59.63	NR	NR	14.2x	14.0x	13.6x	4.1%	4.3%	4.5%	10.4x	10.0x	10.4x
Sempra Ener	SRE	US $ 120.06	NR	NR	23.0x	21.6x	18.2x	2.7%	3.0%	3.2%	11.8x	11.2x	10.1x
Southern Company	SO	US $ 50.61	US $ 50.00	NEUTRAL	17.2x	16.7x	16.0x	4.6%	4.8%	5.0%	11.3x	10.5x	10.0x
Unitil	UTL	US $ 50.76	NR	NR	25.4x	23.7x	22.1x	2.8%	2.9%	3.0%	9.5x	8.8x	8.3x
Vectren	VVC	US $ 68.11	NR	NR	26.0x	24.3x	22.4x	2.6%	2.7%	2.8%	NA	NA	NA
Westar Energy	WR	US $ 51.28	NR	NR	20.5x	20.0x	18.8x	3.1%	3.3%	3.5%	10.4x	10.0x	9.5x
WEC Energy Group	WEC	US $ 67.04	NR	NR	21.6x	20.4x	19.4x	3.1%	3.3%	3.5%	12.3x	11.7x	11.1x
Xcel Energy	XEL	US $ 50.51	NR	NR	21.8x	20.5x	19.4x	2.9%	3.0%	3.2%	10.8x	10.3x	9.8x
Avg.					**21.0x**	**20.0x**	**18.9x**	**3.1%**	**3.3%**	**3.5%**	**10.9x**	**10.3x**	**9.7x**

Source: Credit Suisse RAVE, I/B/E/S

Yet, to provide a bit more specific focus, we segmented the US comp table into three groups. Figure 25 starts with largely regulated utility companies having a market cap of greater than US$25bn.

Figure 25: US utilities over US$25bn

Company	Ticker	Price on 11-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
AEP Inc	AEP	US $ 74.55	NR	NR	20.4x	19.2x	18.2x	3.2%	3.4%	3.5%	11.0x	10.4x	9.9x
Dominion Energy	D	US $ 79.92	US $ 83.00	OUTPERFORM	22.0x	19.7x	18.8x	3.8%	4.1%	4.5%	13.3x	11.8x	10.9x
Duke Energy	DUK	US $ 88.34	US $ 89.00	NEUTRAL	19.2x	18.3x	17.3x	4.1%	4.3%	4.3%	11.4x	11.0x	10.6x
Consolidated Edison	ED	US $ 86.05	US $ 73.00	UNDERPERFORM	21.0x	20.2x	19.2x	3.2%	3.3%	3.4%	10.5x	10.1x	9.5x
Edison Intl	EIX	US $ 81.49	NR	NR	19.2x	19.0x	17.5x	2.7%	2.9%	3.2%	8.5x	8.1x	7.5x
PG&E Us	PCG	US $ 71.56	NR	NR	19.5x	18.7x	17.8x	2.9%	3.1%	3.4%	8.8x	8.1x	7.7x
PPL	PPL	US $ 39.83	NR	NR	18.5x	17.1x	16.3x	4.0%	4.2%	4.3%	11.6x	10.6x	10.0x
Southern Company	SO	US $ 50.61	US $ 50.00	NEUTRAL	17.2x	16.7x	16.0x	4.6%	4.8%	5.0%	11.3x	10.5x	10.0x
Average					**19.6x**	**18.6x**	**17.6x**	**3.6%**	**3.8%**	**3.9%**	**10.8x**	**10.1x**	**9.5x**

Source: Credit Suisse RAVE, I/B/E/S

Figure 26 continues the largely regulated US utility comps with those having a market cap greater than US$5bn to US$25bn.

Figure 26: US utilities US$5bn to US$25bn

Company	Ticker	Price on 11-Sep-17		Target Price		Rating	P/E			Div Yield			EV/EBITDA		
							2017	2018	2019	2017	2018	2019	2017	2018	2019
CMS Energy Corp	CMS	US $	49.10	US $	50.00	OUTPERFORM	22.6x	21.0x	19.5x	2.7%	2.9%	3.1%	10.7x	10.1x	9.7x
DTE Energy	DTE	US $	113.51	US $	110.00	NEUTRAL	21.0x	19.9x	18.8x	2.9%	3.1%	3.3%	11.9x	11.2x	10.3x
Eversource Energy	ES	US $	64.11	US $	60.00	NEUTRAL	20.4x	19.3x	18.1x	3.0%	3.2%	3.4%	11.2x	10.7x	10.1x
Pinnacle West Capital Corp.	PNW	US $	90.75		NR	NR	21.3x	20.2x	19.1x	2.9%	3.1%	3.3%	10.1x	9.4x	8.9x
Alliant Energy	LNT	US $	43.60		NR	NR	21.7x	20.5x	19.4x	2.9%	3.1%	3.3%	12.3x	11.6x	10.7x
OGE Energy	OGE	US $	36.59		NR	NR	18.6x	17.9x	17.6x	3.4%	3.8%	4.2%	11.7x	11.1x	11.0x
SCANA	SCG	US $	59.63		NR	NR	14.2x	14.0x	13.6x	4.1%	4.3%	4.5%	10.4x	10.0x	10.4x
Westar Energy	WR	US $	51.28		NR	NR	20.5x	20.0x	18.8x	3.1%	3.3%	3.5%	10.4x	10.0x	9.5x
WEC Energy Group	WEC	US $	67.04		NR	NR	21.6x	20.4x	19.4x	3.1%	3.3%	3.5%	12.3x	11.7x	11.1x
Xcel Energy	XEL	US $	50.51		NR	NR	21.8x	20.5x	19.4x	2.9%	3.0%	3.2%	10.8x	10.3x	9.8x
Average							**20.4x**	**19.4x**	**18.4x**	**3.1%**	**3.3%**	**3.5%**	**11.2x**	**10.6x**	**10.1x**

Source: Credit Suisse RAVE, I/B/E/S

Our final group of regulated US utility comps consists of those with a market cap of less than US$5bn appearing in Figure 27 .

Figure 27: US utilities under US$5bn

Company	Ticker	Price on 11-Sep-17		Target Price		Rating	P/E			Div Yield			EV/EBITDA		
							2017	2018	2019	2017	2018	2019	2017	2018	2019
Black Hills Corp	BKH	US $	70.83	US $	75.00	OUTPERFORM	19.8x	18.9x	18.4x	2.5%	2.7%	2.8%	10.9x	10.4x	9.9x
ALLETE	ALE	US $	79.14		NR	NR	23.4x	21.7x	20.5x	2.7%	2.9%	3.0%	12.5x	11.9x	11.3x
Spire Inc.	SR	US $	77.15	US $	73.00	NEUTRAL	21.6x	20.8x	20.1x	2.8%	2.9%	3.0%	12.9x	12.0x	11.3x
NorthWestern Energy	NWE	US $	60.65	US $	60.00	JNDERPERFORM	17.9x	17.5x	17.5x	3.5%	3.6%	3.8%	11.5x	11.2x	10.5x
Gt Plains Energy	GXP	US $	31.01		NR	NR	19.5x	18.1x	16.2x	3.2%	3.8%	4.1%	8.9x	8.6x	8.1x
Portland Gen Ele	POR	US $	48.19		NR	NR	21.7x	20.0x	19.4x	2.8%	3.0%	3.1%	9.3x	8.7x	8.4x
Average							**20.6x**	**19.5x**	**18.7x**	**2.9%**	**3.1%**	**3.3%**	**11.0x**	**10.5x**	**9.9x**

Source: Credit Suisse RAVE, I/B/E/S

Valuation summary

In summary, we rate Fortis Inc. with a Neutral rating and a C$46 target price. That target price is obtained from multiple valuation approaches that include:

- Dividend yield (2017 / 2018): 3.52% / 3.75%;
- Yield spread: 152 bps / 175 bps;
- P/E: 18.8x / 18.0x; and,
- EV/EBITDA: 12.0x / 11.4x.

On a forward looking basis, we continue to believe some upside potential exists for FTS's capital plan that could be helpful for valuation. Yet, as with several of the other Canadian peers, an M&A overhang can surround the stock. In light of FTS's relative degree of size, we are less concerned about M&A at this time and focus more on the upcoming investor day and Edison Electric Institute Conference appearance.

Companies Mentioned *(Price as of 11-Sep-2017)*

ALLETE (ALE.N, $79.14)
Algonqn Pwr & Ut (AQN.TO, C$13.35)
Alliant Energy (LNT.N, $43.6)
AltaGas (ALA.TO, C$27.46)
Ameren (AEE.N, $60.91)
American Electric Power (AEP.N, $74.55)
American Water Works (AWK.N, $82.92)
Aqua America (WTR.N, $34.62)
Avista US (AVA.N, $51.56)
Black Hills Corp (BKH.N, $70.83)
Boralex (BLX.TO, C$22.65)
Brookfield Renewable Partners (BEP_u.TO, C$43.19)
CMS Energy Corp (CMS.N, $49.1)
CUC (CUPu.TO, $13.02)
Canadian Utilities Limited (CU.TO, C$39.05)
Capital Power Corporation (CPX.TO, C$25.87)
CenterPoint Energy Inc (CNP.N, $30.45)
Consolidated Edison (ED.N, $86.05)
DTE Energy (DTE.N, $113.51)
Dominion Energy (D.N, $79.92)
Duke Energy (DUK.N, $88.34)
Edison International (EIX.N, $81.49)
El Paso Electric (EE.N, $56.35)
Emera Inc. (EMA.TO, C$47.39)
Enbridge Inc. (ENB.TO, C$49.55)
Enbridge Income Fund Holdings (ENF.TO, C$30.91)
Entergy Corp (ETR.N, $80.34)
Eversource Energy (ES.N, $64.11)
Exelon Corporation (EXC.N, $38.47)
FirstEnergy Corp (FE.N, $32.51)
Fortis Inc. (FTS.TO, C$45.46, NEUTRAL, TP C$46.0)
Gibson Energy Inc. (GEI.TO, C$17.46)
Gt Plains Energy (GXP.N, $31.01)
Hawaiian Elec (HE.N, $34.42)
Hydro One Limited (H.TO, C$22.8)
Idacorp (IDA.N, $91.88)
Innergex (INE.TO, C$15.56)
Inter US (IPL.TO, C$22.62)
Keyera Corp. (KEY.TO, C$35.88)
Kinder Morgan Canada Limited (KML.TO, C$17.26)
MGE Energy (MGEE.OQ, $65.15)
NextEra Energy Inc. (NEE.N, $151.4)
NiSource Inc. (NI.N, $27.23)
North Power (NPI.TO, C$23.65)
NorthWestern Energy (NWE.N, $60.65)
OGE Energy (OGE.N, $36.59)
Otter Tail (OTTR.OQ, $43.2)
PG&E Corp. (PCG.N, $71.56)
PPL Corp (PPL.N, $39.83)
Pembina Pipeline Corporation (PPL.TO, C$40.65)
Pinnacle West Capital Corp. (PNW.N, $90.75)
Portland Gen Ele (POR.N, $48.19)
Public Service Enterprise Group (PEG.N, $46.74)
SCANA (SCG.N, $59.63)
Sempra Ener (SRE.N, $120.06)
Southern Company (SO.N, $50.61)
Spire Inc. (SR.N, $77.15)
TransAlta Corporation (TA.TO, C$7.59)
TransAlta Renew (RNW.TO, C$14.53)
TransCanada Corp. (TRP.TO, C$62.54)
Unitil (UTL.N, $50.76)
Vectren (VVC.N, $68.11)
Veresen (VSN.TO, C$17.73)
Westar Energy (WR.N, $51.28)
Wisconsin Energy Corporation (WEC.N, $67.04)
Xcel Energy (XEL.N, $50.51)

Disclosure Appendix

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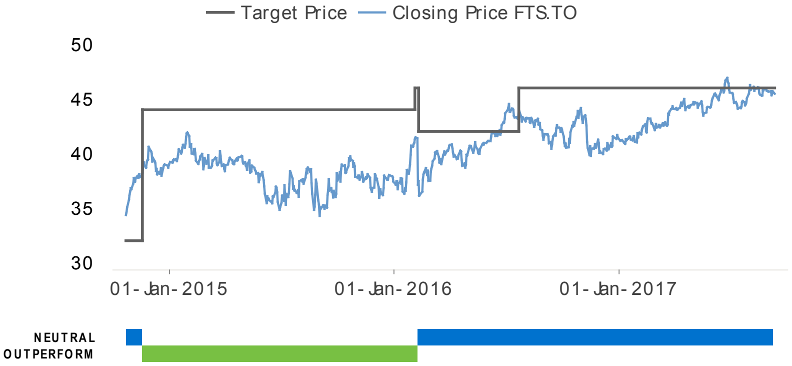
I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Fortis Inc. (FTS.TO)

FTS.TO	Closing Price	Target Price	
Date	(C$)	(C$)	Rating
22-Oct-14	34.34	32.00	N
18-Nov-14	38.17	44.00	O
04-Feb-16	41.32	46.00	
10-Feb-16	37.47	42.00	N
22-Jul-16	44.03	46.00	

** Asterisk signifies initiation or assumption of coverage.*



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Target Price and Rating
Valuation Methodology and Risks: (12 months) for Fortis Inc. (FTS.TO)

Method: We obtain our Neutral rating and C$46 target price for Fortis Inc. by using a 3.52% estimated yield and an estimated 152 bps spread over a 2.00% Canadian 10-year bond. We rate Fortis Neutral as the total return we project is in line with our coverage.

Risk: Risks to Fortis' achievement of our Neutral rating and C$46 target price are: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business. Fortis faces a number of risks including: the integration efforts associated with past acquisitions; construction and capital project management issues; and, potential changes to US taxes that may impact cross-border financing structures.

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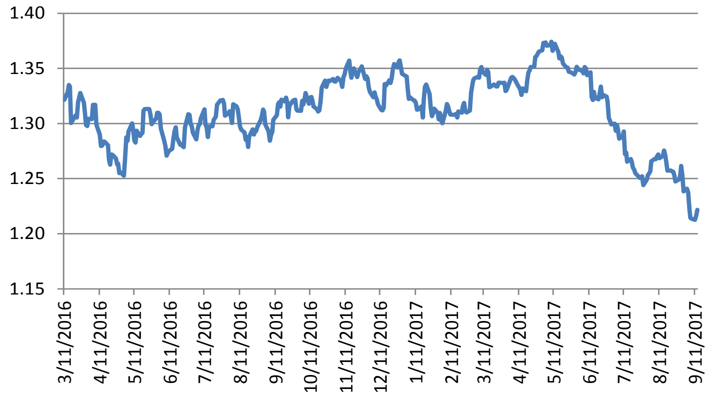
FX Fixations: A Dollar (CAD) Dilemma?

- **Running of the Bulls:** Our foreign exchange team recently revised several forecasts in "FX Compass: Nowhere to hide". We specifically focus on the USD/CAD which is now at 1.22 and the FX team calls for 1.20 and 1.15 over 3 months and 12 months, respectively (previously 1.22 and 1.32). A few reasons underpin the change in view, including: strong economic data, Bank of Canada's faster than anticipated rate increases; and more limited concerns over new trade issues with the US. Figure 1 provides perspective on USD/CAD over the last 18 months. From our equities vantage point, this FX bias creates a dollar dilemma that is briefly discussed below.

Figure 1: CAD



Source: the BLOOMBERG PROFESSIONAL™ service

- **M&A action**: As per past notes (e.g. Favouring Fundamental Foreign Exposure", "Timing A Canadian Commodity Centric Shift" and "Foreign Exchange Fluctuations"), the CAD swings require trading agility. A strong CAD favours domestic oriented businesses – especially for foreigners. Yet, domestic names tend not to be the most US acquisitive. Simply, a stronger CAD makes the financing of US assets less expensive. With a dearth of realistic nearer-term potential Canadian domiciled assets, an elevated CAD may help support the economics of further US focused M&A. Beyond the currency, a swing factor is the potential for US tax reform to meaningfully impact cross-border deals which looks more distant at this time.
- **Selected stocks:** Largely domestic stocks include: CU, ENF, GEI, H (albeit acquiring Avista), KEY, KML and PPL. Two utility stocks have significant USD exposure: EMA (~75% of earnings) and FTS (~60% of earnings) and are among the acquisitive players. Others include the Brookfield Group (with multiple currency pairs of exposure), ENB, and TRP.

Very simply, this note addresses the skew of Canadian-led M&A into the US (especially in the utility sector) along with a selection of comparative tables. Figure 2 starts with a perspective on a number of past North American utility transactions.

Active M&A

Figure 2: Transactions comparables

Announce Date	Target	Acquirer	Share Price Premium*	20 Day Avg Share Price Premium	P/E (Y+2)		
					Implied P/E	Group P/E	Premium
7/19/2017	AVA	H.TO	24.0%	24.8%	24.1x	17.1x	40.9%
7/29/2016	Oncor	NEE	NA	NA	23.8x	17.9x	32.8%
5/31/2016	WR	GXP	36.1%	34.6%	22.9x	16.5x	38.8%
2/9/2016	ITC	FTS.TO	33.0%	38.0%	18.9x	15.6x	21.0%
2/9/2016	EDE	AQN.TO	20.6%	19.4%	20.6x	15.6x	32.1%
2/1/2016	STR	D	22.6%	30.3%	18.9x	18.4x	2.9%
10/26/2015	PNY	DUK	42.1%	46.1%	28.6x	19.0x	50.4%
9/4/2015	TE	EMA.TO	48.4%	52.1%	21.7x	13.9x	56.1%
8/24/2015	GAS	SO	37.9%	36.1%	20.9x	18.1x	15.8%
2/25/2015	UIL	IBE.MC	24.6%	20.8%	19.2x	15.6x	23.0%
10/20/2014	CNL	Macquarie/ Investor Group	14.7%	12.5%	18.7x	14.8x	26.0%
4/29/2014	POM	EXC	19.5%	28.1%	20.0x	15.3x	31.0%
12/11/2013	UNS	FTS.TO	31.4%	26.4%	18.8x	14.0x	34.5%
5/28/2013	NVE	MidAmerican	23.2%	15.0%	17.2x	14.5x	18.7%
	Average		**29.1%**	**29.6%**	**21.0x**	**16.2x**	**30.1%**
	Median		**24.6%**	**28.1%**	**20.3x**	**15.6x**	**30.3%**

Note: *Unaffected price. (WR-GXP): Although approved by the Boards of each company, Kansas regulators rejected the transaction as too highly levered. The companies are now seeking approval to merge as equals without a premium. Source: Company data, Credit Suisse estimates

Specifically, in relation to the Canadian-led transactions, the following bullets highlight the USD/CAD value at the time of deal announcement:

- Hydro One-Avista (July 19th): 1.2598;
- Fortis-ITC (February 9th, 2016): 1.3828;
- Algonquin-Empire (February 9th, 2016): 1.3828;
- Emera-TECO Energy (September 4th, 2015): 1.3257; and,
- Fortis-UNS Energy (December 11th, 2013): 1.059.

Rise of the loonie

As shown above, four of the five deals were done at weaker currency levels than exist today. Only FTS-UNS stands out with the CAD being significantly stronger at that time. Obviously, FX is a minor reason behind M&A; however, the current rise of the loonie may provide a positive tailwind for deal economics.

For further comparative context, we provide a number of simple summary comp tables for the reasonably comparable universe. For clarity, the figures in each of the following comp tables (from Figure 3 to Figure 9) have been obtained from consensus data. Figure 3 starts with the broad based Canadian infrastructure names.

Figure 3: Canadian comparables

Company	Ticker	Price on 13-Sep-17		Target Price		Rating	P/E			Div Yield			EV/EBITDA		
							2017	2018	2019	2017	2018	2019	2017	2018	2019
Pipelines															
AltaGas	ALA.TO	C $	27.59		NR	NR	29.0x	28.2x	18.6x	7.7%	8.2%	8.8%	11.0x	8.4x	5.7x
Enbridge Inc.	ENB.TO	C $	49.87	C $	70.00	OUTPERFORM	24.7x	19.5x	18.1x	4.6%	5.2%	6.0%	11.4x	9.5x	8.5x
Enbridge Income Fund Holdings	ENF.TO	C $	30.90	C $	34.00	NEUTRAL	14.2x	12.7x	11.8x	6.6%	7.3%	8.0%	NA	NA	NA
Gibson Energy Inc.	GEI.TO	C $	18.01	C $	18.00	NEUTRAL	NA	52.2x	34.3x	7.3%	7.4%	7.5%	13.0x	11.2x	10.2x
Inter US	IPL.TO	C $	22.70		NR	NR	16.4x	15.2x	14.6x	7.1%	7.5%	7.7%	12.8x	12.3x	12.1x
Keyera Corp.	KEY.TO	C $	36.72	C $	38.00	NEUTRAL	23.3x	20.0x	18.5x	4.5%	4.7%	5.0%	13.8x	11.1x	10.5x
Kinder Morgan Canada Limited	KML.TO	C $	17.56	C $	17.00	NEUTRAL	37.8x	26.1x	23.9x	3.1%	3.9%	4.0%	NA	NA	NA
Pembina Pipeline Corporation	PPL.TO	C $	41.46	C $	44.00	NEUTRAL	23.7x	19.0x	16.6x	4.9%	5.3%	5.7%	12.9x	8.8x	8.0x
TransCanada Corp.	TRP.TO	C $	62.75	C $	74.00	OUTPERFORM	21.0x	19.0x	17.3x	3.9%	4.3%	4.8%	13.3x	12.0x	10.5x
Veresen	VSN.TO	C $	17.97		NR	NR	43.0x	27.1x	23.1x	5.6%	5.6%	4.5%	11.1x	10.5x	10.6x
Utilities															
Algonqn Pwr & Ut	AQN.TO	US $	13.20		NR	NR	19.4x	18.0x	17.3x	4.6%	4.9%	5.4%	10.2x	9.6x	9.1x
Canadian Utilities Limited	CU.TO	C $	38.69	C $	42.00	NEUTRAL	16.7x	16.3x	15.9x	3.7%	4.0%	4.2%	9.6x	9.3x	8.8x
Emera Inc.	EMA.TO	C $	46.38	C $	58.00	OUTPERFORM	17.4x	15.6x	15.3x	4.6%	5.0%	NA	10.0x	9.5x	9.4x
Fortis Inc.	FTS.TO	C $	44.43	C $	46.00	NEUTRAL	17.7x	17.1x	16.6x	3.6%	3.9%	NA	11.1x	10.5x	9.9x
Hydro One Limited	H.TO	C $	22.62	C $	26.00	NEUTRAL	20.4x	17.5x	16.0x	3.8%	4.1%	4.3%	11.8x	10.0x	8.2x
Power															
Boralex	BLX.TO	C $	22.11		NR	NR	64.5x	40.9x	37.9x	2.7%	2.9%	3.1%	9.7x	8.5x	7.9x
Brookfield Renewable Partners	BEP_u.TO	C $	41.86	C $	44.00	NEUTRAL	NA	NA	NA	4.5%	4.7%	4.9%	9.2x	8.5x	8.2x
Capital Power Corporation	CPX.TO	C $	25.79	C $	22.00	UNDERPERFORM	17.8x	17.2x	17.0x	6.2%	6.7%	7.1%	6.9x	6.3x	6.2x
Innergex	INE.TO	C $	15.13		NR	NR	40.6x	28.9x	47.3x	4.4%	4.5%	NA	13.7x	11.8x	12.1x
North Power	NPI.TO	C $	23.60		NR	NR	22.5x	16.4x	19.0x	4.6%	5.1%	5.7%	13.8x	10.9x	9.7x
TransAlta Corporation	TA.TO	C $	7.50	C $	7.00	UNDERPERFORM	NA	61.5x	68.8x	2.1%	2.1%	2.1%	5.9x	5.9x	5.9x
TransAlta Renew	RNW.TO	C $	14.31		NR	NR	16.5x	14.6x	13.6x	6.3%	6.6%	6.9%	10.6x	10.3x	10.5x
Avg.							**25.6x**	**23.9x**	**22.9x**	**4.8%**	**5.2%**	**5.6%**	**11.1x**	**9.7x**	**9.1x**

Source: Credit Suisse RAVE, I/B/E/S

A tale of two pipes

In general, the largest transactions by Canadians were in the energy infrastructure space with Enbridge Inc.'s (ENB) purchase of Spectra Energy (SE) and TransCanada's (TRP) Columbia Pipeline Group purchase being at the top and near-the-top of deal tables. From our view, ENB is focused on delivering synergies from the SE deal, executing the capital program along with addressing the real and perceived structural issues from the larger organization. For these reasons, we do not view ENB as being a high probability candidate for incremental M&A. TransCanada's Columbia related transactions were smaller and very successful from a stock re-rating perspective. Despite that success, we see no urgency in TRP looking to execute additional M&A; however, the market looks open and opportunism may be possible in selected circumstances.

To provide some context on the US energy infrastructure landscape, we focus on the US MLP universe as appears in Figure 4.

Figure 4: US MLP comparables

Company	Ticker	Price on 13-Sep-17		Target Price		Rating	P/E			Div Yield			EV/EBITDA		
							2017	2018	2019	2017	2018	2019	2017	2018	2019
Buckeye Partners, LP	BPL	US $	56.58	US $	74.00	NEUTRAL	15.9x	14.2x	13.4x	NA	9.3%	9.6%	10.5x	9.8x	9.3x
Enbridge Energy Partners, LP	EEP	US $	15.62	US $	20.00	NEUTRAL	18.1x	15.9x	13.4x	9.9%	9.8%	9.4%	8.5x	8.2x	7.3x
Energy Transfer Equity, LP	ETE	US $	17.75	US $	23.00	OUTPERFORM	13.6x	9.0x	7.4x	6.5%	7.1%	8.0%	9.1x	7.8x	7.2x
Energy Transfer Partners, LP	ETP	US $	18.82	US $	29.00	OUTPERFORM	38.0x	21.4x	17.3x	11.9%	12.9%	13.8%	4.7x	3.9x	3.8x
Enterprise Products Partners, LP	EPD	US $	26.15	US $	34.00	OUTPERFORM	19.3x	17.3x	15.9x	6.4%	6.8%	7.1%	14.2x	12.8x	11.8x
EQT GP Holdings, LP	EQGP	US $	28.89	US $	32.00	OUTPERFORM	30.3x	26.6x	20.4x	2.8%	3.7%	4.5%	NA	NA	NA
EQT Midstream Partners, LP	EQM	US $	75.53	US $	102.00	OUTPERFORM	13.7x	13.9x	11.8x	5.0%	5.9%	6.9%	10.2x	8.4x	6.3x
AmeriGas Partners, L.P.	APU	US $	43.70	US $	43.00	UNDERPERFORM	47.0x	16.1x	16.2x	8.7%	8.8%	8.9%	11.9x	9.9x	9.8x
Suburban Propane Partners, LP	SPH	US $	24.30	US $	26.00	UNDERPERFORM	41.7x	16.2x	13.3x	13.9%	11.4%	11.5%	11.2x	9.1x	8.6x
Ferrellgas Part	FGP	US $	5.31		NR	NR	NA	24.4x	18.3x	10.1%	7.5%	7.5%	11.1x	8.8x	8.5x
Kinder Morgan, Inc.	KMI	US $	19.44	US $	27.00	OUTPERFORM	30.3x	27.5x	24.8x	2.6%	4.0%	5.3%	11.6x	11.1x	10.7x
Magellan Midstream Partners , LP	MMP	US $	70.78	US $	84.00	NEUTRAL	18.1x	17.1x	16.0x	5.1%	5.5%	5.9%	15.6x	14.3x	13.5x
MPLX LP	MPLX	US $	34.60	US $	45.00	OUTPERFORM	36.1x	19.4x	19.1x	6.6%	7.4%	8.1%	9.6x	5.9x	5.5x
ONEOK, Inc.	OKE	US $	56.48	US $	61.00	OUTPERFORM	33.7x	26.1x	24.8x	5.1%	5.7%	6.3%	15.7x	14.1x	13.2x
Phillips 66 Partners, LP	PSXP	US $	48.02	US $	68.00	OUTPERFORM	18.2x	13.8x	14.9x	5.3%	6.4%	7.4%	10.3x	7.3x	5.5x
Plains All American Pipeline, LP	PAA	US $	22.31	US $	25.00	NEUTRAL	14.4x	13.5x	11.8x	8.0%	6.0%	6.5%	13.5x	11.6x	10.7x
Plains GP Holdings, LP	PAGP	US $	23.25	US $	26.00	NEUTRAL	21.3x	12.9x	11.3x	8.0%	6.2%	6.9%	8.2x	7.0x	6.5x
Spectra Energy Partners, LP	SEP	US $	44.45	US $	52.00	OUTPERFORM	13.9x	13.6x	13.4x	6.5%	6.9%	7.4%	9.4x	8.7x	8.1x
Tallgrass Energy GP, LP	TEGP	US $	27.10	US $	33.00	OUTPERFORM	29.4x	24.3x	19.7x	5.0%	6.5%	7.4%	17.0x	10.4x	9.4x
Targa Resources Corp.	TRGP	US $	47.18	US $	54.00	NEUTRAL	NA	NA	NA	7.7%	7.7%	7.9%	13.3x	11.6x	10.1x
TC PipeLines	TCP	US $	51.88		NR	NR	16.1x	15.0x	15.4x	7.6%	8.0%	8.5%	12.3x	10.5x	9.1x
Valero Energy Partners, LP	VLP	US $	42.66	US $	57.00	OUTPERFORM	14.4x	12.5x	11.3x	4.4%	5.3%	6.4%	11.3x	8.6x	6.8x
VTTI Energy Partners, LP	VTTI	US $	19.45	US $	19.50	NEUTRAL	16.3x	22.1x	26.8x	7.0%	7.2%	7.6%	7.8x	7.7x	7.8x
Williams Companies, Inc	WMB	US $	30.42	US $	36.00	OUTPERFORM	35.9x	30.5x	27.3x	4.0%	4.5%	5.3%	10.8x	10.4x	9.7x
Williams Partners, LP	WPZ	US $	39.58	US $	48.00	OUTPERFORM	21.1x	22.0x	19.4x	6.2%	6.4%	7.0%	12.8x	12.0x	11.2x
Average							**24.2x**	**18.5x**	**16.8x**	**6.8%**	**7.1%**	**7.6%**	**11.3x**	**9.6x**	**8.8x**

Source: Credit Suisse RAVE, I/B/E/S

Acquisitions aplenty Figure 5 focuses solely on the truly comparable Canadian utility companies – which is a rather small universe. Notably, aside from Canadian Utilities, each of Algonquin, Emera, Fortis and Hydro One have engaged in US targeted M&A as part of a growth strategy.

Figure 5: Canadian utilities

Company	Ticker	Price on 13-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
Algonqn Pwr & Ut	AQN.TO	C $ 13.20	NR	NR	19.4x	18.0x	17.3x	4.6%	4.9%	5.4%	10.2x	9.6x	9.1x
Canadian Utilities Limited	CU.TO	C $ 38.69	C $ 42.00	NEUTRAL	16.7x	16.3x	15.9x	3.7%	4.0%	4.2%	9.6x	9.3x	8.8x
Emera Inc.	EMA.TO	C $ 46.38	C $ 58.00	OUTPERFORM	17.4x	15.6x	15.3x	4.6%	5.0%	5.3%	10.0x	9.5x	9.4x
Fortis Inc.	FTS.TO	C $ 44.43	C $ 46.00	NEUTRAL	17.7x	17.1x	16.6x	3.6%	3.9%	4.1%	11.1x	10.5x	9.9x
Hydro One Limited	H.TO	C $ 22.62	C $ 26.00	NEUTRAL	20.4x	17.5x	16.0x	3.8%	4.1%	4.3%	11.8x	10.0x	8.2x
Average					**18.3x**	**16.9x**	**16.2x**	**4.1%**	**4.4%**	**4.7%**	**10.5x**	**9.8x**	**9.1x**

Source: Credit Suisse RAVE, I/B/E/S

In relation to the US market, Figure 6 shows a broad-based comparable group for the utility group.

Figure 6: US utilities

Company	Ticker	Price on 13-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
ALLETE	ALE	US $ 77.56	NR	NR	22.9x	21.2x	20.1x	2.8%	2.9%	3.1%	12.4x	11.7x	11.1x
Alliant Energy	LNT	US $ 42.45	NR	NR	21.1x	19.9x	18.9x	3.0%	3.2%	3.4%	12.0x	11.4x	10.5x
Ameren	AEE	US $ 58.89	NR	NR	21.0x	19.6x	18.5x	3.0%	3.1%	3.3%	9.4x	8.9x	8.5x
AEP Inc	AEP	US $ 72.59	NR	NR	19.9x	18.7x	17.7x	3.3%	3.4%	3.6%	10.8x	10.3x	9.7x
American Water	AWK	US $ 81.36	NR	NR	27.1x	24.8x	23.2x	2.0%	2.2%	2.4%	12.5x	11.7x	11.0x
Aqua America	WTR	US $ 33.70	NR	NR	24.8x	23.4x	21.8x	2.4%	2.5%	2.8%	16.4x	15.1x	13.8x
Avista US	AVA	US $ 51.33	NR	NR	26.4x	25.0x	23.5x	2.8%	2.9%	3.0%	11.4x	10.4x	8.9x
Black Hills Corp	BKH	US $ 69.48	US $ 75.00	OUTPERFORM	19.4x	18.6x	18.1x	2.6%	2.7%	2.9%	10.8x	10.3x	9.8x
CenterPoint Energy Inc	CNP	US $ 29.94	US $ 29.00	NEUTRAL	22.4x	21.1x	20.0x	3.6%	3.8%	3.9%	9.8x	9.4x	9.1x
CMS Energy Corp	CMS	US $ 47.50	US $ 50.00	OUTPERFORM	21.9x	20.4x	18.9x	2.8%	3.0%	3.2%	10.5x	9.9x	9.5x
Consolidated Edison	ED	US $ 83.76	US $ 73.00	UNDERPERFORM	20.5x	19.7x	18.7x	3.3%	3.4%	3.5%	10.4x	10.0x	9.4x
Dominion Energy	D	US $ 78.07	US $ 83.00	OUTPERFORM	21.5x	19.3x	18.3x	3.9%	4.2%	4.6%	13.1x	11.6x	10.7x
DTE Energy	DTE	US $ 110.23	US $ 110.00	NEUTRAL	20.4x	19.3x	18.2x	3.0%	3.2%	3.4%	11.7x	11.0x	10.1x
Duke Energy	DUK	US $ 86.77	US $ 89.00	NEUTRAL	18.9x	18.0x	17.0x	4.2%	4.3%	4.4%	11.3x	10.9x	10.5x
Edison Intl	EIX	US $ 80.98	NR	NR	19.1x	18.9x	17.3x	2.7%	2.9%	3.2%	8.4x	8.0x	7.5x
El Paso Electric	EE	US $ 55.00	NR	NR	21.2x	20.0x	19.2x	NA	NA	NA	12.1x	11.5x	11.1x
Entergy	ETR	US $ 78.23	NR	NR	12.0x	15.9x	15.7x	4.5%	4.6%	4.8%	7.9x	7.8x	7.6x
Exelon Corporation	EXC	US $ 37.80	US $ 43.00	OUTPERFORM	14.1x	13.2x	13.5x	3.5%	3.6%	3.7%	8.4x	7.8x	7.8x
Eversource Energy	ES	US $ 62.37	US $ 60.00	NEUTRAL	19.8x	18.8x	17.7x	3.0%	3.2%	3.5%	11.0x	10.5x	9.9x
FirstEnergy	FE	US $ 31.48	NR	NR	11.2x	12.4x	13.1x	4.5%	4.6%	4.6%	8.3x	8.4x	8.4x
Gt Plains Energy	GXP	US $ 30.48	NR	NR	19.1x	17.8x	16.0x	3.2%	3.9%	4.1%	8.8x	8.5x	8.0x
Hawaiian Elec	HE	US $ 33.74	NR	NR	20.7x	18.8x	17.8x	3.7%	3.7%	3.7%	9.9x	9.4x	8.9x
Idacorp	IDA	US $ 89.50	NR	NR	22.4x	21.6x	20.6x	2.5%	2.7%	2.8%	NA	NA	NA
Spire Inc.	SR	US $ 74.85	US $ 73.00	NEUTRAL	21.0x	20.2x	19.5x	2.8%	3.0%	3.1%	12.7x	11.8x	11.1x
MGE Energy	MGEE	US $ 64.55	NR	NR	28.1x	26.9x	25.8x	NA	NA	NA	NA	NA	NA
NextEra	NEE	US $ 148.18	NR	NR	22.0x	20.5x	19.1x	2.7%	3.0%	3.3%	10.9x	10.4x	9.7x
NiSource Inc.	NI	US $ 26.68	US $ 29.00	OUTPERFORM	22.4x	21.2x	19.9x	2.6%	2.8%	3.0%	10.7x	9.8x	9.1x
NorthWestern Energy	NWE	US $ 59.22	US $ 60.00	UNDERPERFORM	17.5x	17.1x	17.1x	3.5%	3.7%	3.9%	11.4x	11.1x	10.3x
OGE Energy	OGE	US $ 35.95	NR	NR	18.2x	17.6x	17.3x	3.5%	3.8%	4.3%	11.6x	11.0x	10.8x
Otter Tail	OTTR	US $ 42.15	NR	NR	24.1x	22.7x	20.7x	3.0%	3.1%	3.2%	NA	NA	NA
PG&E Us	PCG	US $ 69.55	NR	NR	18.9x	18.2x	17.3x	3.0%	3.2%	3.5%	8.6x	7.9x	7.5x
Pinnacle West Capital Corp.	PNW	US $ 88.12	NR	NR	20.7x	19.7x	18.5x	3.0%	3.2%	3.3%	9.9x	9.2x	8.7x
PNM Resources	PNM	US $ 41.80	NR	NR	22.6x	23.8x	20.2x	2.3%	2.5%	2.8%	10.3x	10.2x	9.6x
Portland Gen Ele	POR	US $ 46.88	NR	NR	21.1x	19.4x	18.9x	2.9%	3.0%	3.2%	9.1x	8.6x	8.3x
PPL	PPL	US $ 38.82	NR	NR	18.0x	16.7x	15.9x	4.1%	4.3%	4.5%	11.4x	10.5x	9.9x
PSEG	PEG	US $ 45.48	NR	NR	15.6x	15.5x	15.2x	3.8%	4.0%	4.2%	8.7x	8.7x	8.3x
PPL	PPL	US $ 38.82	NR	NR	18.0x	16.7x	15.9x	4.1%	4.3%	4.5%	11.4x	10.5x	9.9x
SCANA	SCG	US $ 59.19	NR	NR	14.1x	13.9x	13.5x	4.1%	4.3%	4.5%	10.4x	10.0x	10.4x
Sempra Ener	SRE	US $ 118.12	NR	NR	22.6x	21.2x	17.9x	2.8%	3.0%	3.3%	11.7x	11.1x	10.0x
Southern Company	SO	US $ 49.42	US $ 50.00	NEUTRAL	16.8x	16.3x	15.6x	4.7%	4.9%	5.1%	11.1x	10.4x	9.9x
Unitil	UTL	US $ 49.17	NR	NR	24.6x	23.0x	21.4x	2.9%	3.0%	3.1%	9.3x	8.6x	8.2x
Vectren	VVC	US $ 66.10	NR	NR	25.2x	23.6x	21.8x	2.6%	2.8%	2.9%	NA	NA	NA
Westar Energy	WR	US $ 50.56	NR	NR	20.3x	19.7x	18.5x	3.2%	3.4%	3.6%	10.3x	9.9x	9.4x
WEC Energy Group	WEC	US $ 65.14	NR	NR	21.0x	19.8x	18.9x	3.2%	3.4%	3.6%	12.1x	11.4x	10.9x
Xcel Energy	XEL	US $ 49.16	NR	NR	21.3x	20.0x	18.9x	2.9%	3.1%	3.3%	10.7x	10.1x	9.6x
Avg.					**20.5x**	**19.6x**	**18.5x**	**3.2%**	**3.4%**	**3.6%**	**10.7x**	**10.1x**	**9.6x**

Source: Credit Suisse RAVE, I/B/E/S

For more context, we divided the comps into three groups. Figure 7 starts with largely regulated utility companies having a market cap of greater than US$25bn.

Figure 7: US utilities over US$25bn

Company	Ticker	Price on 13-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
AEP Inc	AEP	US $ 72.59	NR	NR	19.9x	18.7x	17.7x	3.3%	3.4%	3.6%	10.8x	10.3x	9.7x
Dominion Energy	D	US $ 78.07	US $ 83.00	OUTPERFORM	21.5x	19.3x	18.3x	3.9%	4.2%	4.6%	13.1x	11.6x	10.7x
Duke Energy	DUK	US $ 86.77	US $ 89.00	NEUTRAL	18.9x	18.0x	17.0x	4.2%	4.3%	4.4%	11.3x	10.9x	10.5x
Consolidated Edison	ED	US $ 83.76	US $ 73.00	UNDERPERFORM	20.5x	19.7x	18.7x	3.3%	3.4%	3.5%	10.4x	10.0x	9.4x
Edison Intl	EIX	US $ 80.98	NR	NR	19.1x	18.9x	17.3x	2.7%	2.9%	3.2%	8.4x	8.0x	7.5x
PG&E Us	PCG	US $ 69.55	NR	NR	18.9x	18.2x	17.3x	3.0%	3.2%	3.5%	8.6x	7.9x	7.5x
PPL	PPL	US $ 38.82	NR	NR	18.0x	16.7x	15.9x	4.1%	4.3%	4.5%	11.4x	10.5x	9.9x
Southern Company	SO	US $ 49.42	US $ 50.00	NEUTRAL	16.8x	16.3x	15.6x	4.7%	4.9%	5.1%	11.1x	10.4x	9.9x
Average					**19.2x**	**18.2x**	**17.2x**	**3.6%**	**3.8%**	**4.0%**	**10.6x**	**9.9x**	**9.4x**

Source: Credit Suisse RAVE, I/B/E/S

Figure 8 continues the largely regulated US utility comps with those having a market cap greater than US$5bn to US$25bn.

Figure 8: US utilities US$5bn to US$25bn

Company	Ticker	Price on 13-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
CMS Energy Corp	CMS	US $ 47.50	US $ 50.00	OUTPERFORM	21.9x	20.4x	18.9x	2.8%	3.0%	3.2%	10.5x	9.9x	9.5x
DTE Energy	DTE	US $ 110.23	US $ 110.00	NEUTRAL	20.4x	19.3x	18.2x	3.0%	3.2%	3.4%	11.7x	11.0x	10.1x
Eversource Energy	ES	US $ 62.37	US $ 60.00	NEUTRAL	19.8x	18.8x	17.7x	3.0%	3.2%	3.5%	11.0x	10.5x	9.9x
Pinnacle West Capital Corp.	PNW	US $ 88.12	NR	NR	20.7x	19.7x	18.5x	3.0%	3.2%	3.3%	9.9x	9.2x	8.7x
Alliant Energy	LNT	US $ 42.45	NR	NR	21.1x	19.9x	18.9x	3.0%	3.2%	3.4%	12.0x	11.4x	10.5x
OGE Energy	OGE	US $ 35.95	NR	NR	18.2x	17.6x	17.3x	3.5%	3.8%	4.3%	11.6x	11.0x	10.8x
SCANA	SCG	US $ 59.19	NR	NR	14.1x	13.9x	13.5x	4.1%	4.3%	4.5%	10.4x	10.0x	10.4x
Westar Energy	WR	US $ 50.56	NR	NR	20.3x	19.7x	18.5x	3.2%	3.4%	3.6%	10.3x	9.9x	9.4x
WEC Energy Group	WEC	US $ 65.14	NR	NR	21.0x	19.8x	18.9x	3.2%	3.4%	3.6%	12.1x	11.4x	10.9x
Xcel Energy	XEL	US $ 49.16	NR	NR	21.3x	20.0x	18.9x	2.9%	3.1%	3.3%	10.7x	10.1x	9.6x
Average					**19.9x**	**18.9x**	**17.9x**	**3.2%**	**3.4%**	**3.6%**	**11.0x**	**10.4x**	**10.0x**

Source: Credit Suisse RAVE, I/B/E/S

Our final group of regulated US utility comps consists of those with a market cap of less than US$5bn appearing in Figure 9 .

Figure 9: US utilities under US$5bn

Company	Ticker	Price on 13-Sep-17	Target Price	Rating	P/E			Div Yield			EV/EBITDA		
					2017	2018	2019	2017	2018	2019	2017	2018	2019
Black Hills Corp	BKH	US $ 69.48	US $ 75.00	OUTPERFORM	19.4x	18.6x	18.1x	2.6%	2.7%	2.9%	10.8x	10.3x	9.8x
ALLETE	ALE	US $ 77.56	NR	NR	22.9x	21.2x	20.1x	2.8%	2.9%	3.1%	12.4x	11.7x	11.1x
Spire Inc.	SR	US $ 74.85	US $ 73.00	NEUTRAL	21.0x	20.2x	19.5x	2.8%	3.0%	3.1%	12.7x	11.8x	11.1x
NorthWestern Energy	NWE	US $ 59.22	US $ 60.00	UNDERPERFORM	17.5x	17.1x	17.1x	3.5%	3.7%	3.9%	11.4x	11.1x	10.3x
Gt Plains Energy	GXP	US $ 30.48	NR	NR	19.1x	17.8x	16.0x	3.2%	3.9%	4.1%	8.8x	8.5x	8.0x
Portland Gen Ele	POR	US $ 46.88	NR	NR	21.1x	19.4x	18.9x	2.9%	3.0%	3.2%	9.1x	8.6x	8.3x
Vectren	VVC	US $ 66.10	NR	NR	25.2x	23.6x	21.8x	2.6%	2.8%	2.9%	10.0x	9.0x	9.5x
Average					**20.9x**	**19.7x**	**18.8x**	**2.9%**	**3.2%**	**3.3%**	**10.7x**	**10.1x**	**9.7x**

Source: Credit Suisse RAVE, I/B/E/S

There are some clear twists and turns in the FX theme that require a degree of nimbleness to navigate effectively. From our perspective, these shorter-term movements can be very important for portfolio returns and provide M&A opportunities.

Companies Mentioned *(Price as of 13-Sep-2017)*

ALLETE (ALE.N, $77.56)
Algonqn Pwr & Ut (AQN.TO, C$13.2)
Alliant Energy (LNT.N, $42.45)
AltaGas (ALA.TO, C$27.59)
Ameren (AEE.N, $58.89)
AmeriGas Partners, L.P. (APU.N, $43.7)
American Electric Power (AEP.N, $72.59)
American Water Works (AWK.N, $81.36)
Aqua America (WTR.N, $33.7)
Avista US (AVA.N, $51.33)
Black Hills Corp (BKH.N, $69.48)
Boralex (BLX.TO, C$22.11)
Brookfield Renewable Partners (BEP_u.TO, C$41.86)
Buckeye Partners, LP (BPL.N, $56.58)
CMS Energy Corp (CMS.N, $47.5)
Canadian Utilities Limited (CU.TO, C$38.69)
Capital Power Corporation (CPX.TO, C$25.79)
CenterPoint Energy Inc (CNP.N, $29.94)
Consolidated Edison (ED.N, $83.76)
DTE Energy (DTE.N, $110.23)
Dominion Energy (D.N, $78.07)
Duke Energy (DUK.N, $86.77)
EQT GP Holdings, LP (EQGP.N, $28.89)
EQT Midstream Partners, LP (EQM.N, $75.53)
Edison International (EIX.N, $80.98)
El Paso Electric (EE.N, $55.0)
Emera Inc. (EMA.TO, C$46.38)
Enbridge Energy Partners, LP (EEP.N, $15.62)
Enbridge Inc. (ENB.TO, C$49.87)
Enbridge Income Fund Holdings (ENF.TO, C$30.9)
Energy Transfer Equity, LP (ETE.N, $17.75)
Energy Transfer Partners, LP (ETP.N, $18.82)
Entergy Corp (ETR.N, $78.23)
Enterprise Products Partners, LP (EPD.N, $26.15)
Eversource Energy (ES.N, $62.37)
Exelon Corporation (EXC.N, $37.8)
Ferrellgas Part (FGP.N, $5.31)
FirstEnergy Corp (FE.N, $31.48)
Fortis Inc. (FTS.TO, C$44.43)
Gibson Energy Inc. (GEI.TO, C$18.01)
Gt Plains Energy (GXP.N, $30.48)
Hawaiian Elec (HE.N, $33.74)
Hydro One Limited (H.TO, C$22.62)
Idacorp (IDA.N, $89.5)
Innergex (INE.TO, C$15.13)
Inter US (IPL.TO, C$22.7)
Keyera Corp. (KEY.TO, C$36.72)
Kinder Morgan Canada Limited (KML.TO, C$17.56)
Kinder Morgan, Inc. (KMI.N, $19.44)
MGE Energy (MGEE.OQ, $64.55)
MPLX LP (MPLX.N, $34.6)
Magellan Midstream Partners , LP (MMP.N, $70.78)
NextEra Energy Inc. (NEE.N, $148.18)
NiSource Inc. (NI.N, $26.68)
North Power (NPI.TO, C$23.6)
NorthWestern Energy (NWE.N, $59.22)
OGE Energy (OGE.N, $35.95)
ONEOK, Inc. (OKE.N, $56.48)
Otter Tail (OTTR.OQ, $42.15)
PG&E Corp. (PCG.N, $69.55)
PNM Resources (PNM.N, $41.8)
PPL Corp (PPL.N, $38.82)
Pembina Pipeline Corporation (PPL.TO, C$41.46)
Phillips 66 Partners, LP (PSXP.N, $48.02)
Pinnacle West Capital Corp. (PNW.N, $88.12)
Plains All American Pipeline, LP (PAA.N, $22.31)
Plains GP Holdings, LP (PAGP.N, $23.25)
Portland Gen Ele (POR.N, $46.88)
Public Service Enterprise Group (PEG.N, $45.48)
SCANA (SCG.N, $59.19)
Sempra Ener (SRE.N, $118.12)
Southern Company (SO.N, $49.42)
Spectra Energy Partners, LP (SEP.N, $44.45)
Spire Inc. (SR.N, $74.85)
Suburban Propane Partners, LP (SPH.N, $24.3)
TC PipeLines (TCP.N, $51.88)
Tallgrass Energy GP, LP (TEGP.N, $27.1)
Targa Resources Corp. (TRGP.N, $47.18)
TransAlta Corporation (TA.TO, C$7.5)
TransAlta Renew (RNW.TO, C$14.31)
TransCanada Corp. (TRP.TO, C$62.75)
Unitil (UTL.N, $49.17)
VTTI Energy Partners, LP (VTTI.N, $19.45)
Valero Energy Partners, LP (VLP.N, $42.66)
Vectren (VVC.N, $66.1)
Veresen (VSN.TO, C$17.97)
Westar Energy (WR.N, $50.56)

Williams Companies, Inc (WMB.N, $30.42)
Williams Partners, LP (WPZ.N, $39.58)
Wisconsin Energy Corporation (WEC.N, $65.14)
Xcel Energy (XEL.N, $49.16)

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Underperform/Sell*	14%	(53% banking clients)
Restricted	2%	

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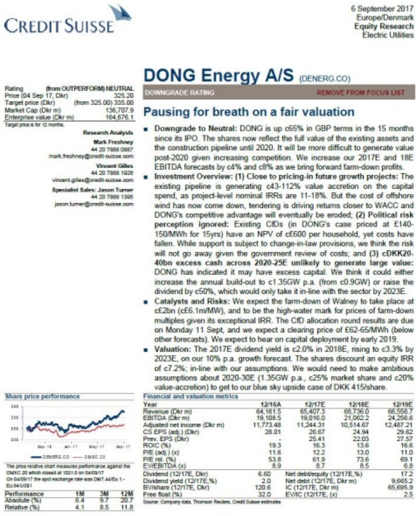
Bright Light – 14 September 2017

Our fortnightly Bright Light compiles the latest research reports published by the Global Utilities Team, our high conviction stock ideas, valuation tools and key market performance data.

Report of the week: DONG Energy - Pausing for breath on a fair valuation

Mark Freshney downgrades DONG to Neutral (from Outperform). Click here

- **Downgrade to Neutral:** DONG is up c65% in GBP terms in the 15 months since its IPO. The shares now reflect the full value of the existing assets and the construction pipeline until 2020. It will be more difficult to generate value post-2020 given increasing competition. Mark increases his 2017E and 18E EBITDA forecasts by c4% and c8% as he brings forward farm-down profits.
- **Investment Overview**: **(1) Close to pricing-in future growth projects:** The existing pipeline is generating c43-112% value accretion on the capital spend, as project-level nominal IRRs are 11-18%. But the cost of offshore wind has now come down, tendering is driving returns closer to WACC and DONG's competitive advantage will eventually be eroded; **(2) Political risk perception ignored:** Existing CfDs (in DONG's case priced at £140-150/MWh for 15yrs) have an NPV of c£600 per household, yet costs have fallen. While support is subject to change-in-law provisions, Mark thinks the risk will not go away given the government review of costs; and **(3) cDKK20-40bn excess cash across 2020-25E unlikely to generate large value:** DONG has indicated it may have excess capital. Mark thinks it could either increase the annual build-out to c1.35GW p.a. (from c0.9GW) or raise the dividend by c50%, which would only take it in-line with the sector by 2023E.
- **Catalysts and Risks:** He expects the farm-down of Walney to take place at c£2bn (c£6.1m/MW), and to be the high-water mark for prices of farm-down multiples given its exceptional IRR. He expects to hear on capital deployment by early 2019.
- **Valuation:** The 2017E dividend yield is c2.0% in 2018E, rising to c3.3% by 2023E, on his 10% p.a. growth forecast. The shares discount an equity IRR of c7.2%; in-line with his assumptions. He would need to make ambitious assumptions about 2020-30E (1.35GW p.a., c25% market share and c20% value-accretion) to get to his blue sky upside case of DKK 415/share.



CREDIT SUISSE

6 September 2017
Europe/Denmark
Equity Research
Electric Utilities

DONG Energy A/S (DENERG.CO)

DOWNGRADE RATING — REMOVE FROM FOCUS LIST

Pausing for breath on a fair valuation

Rating	(from OUTPERFORM) NEUTRAL
Price (04 Sep 17, Dkr)	325.20
Target price (Dkr)	(from 325.00) 335.00
Market Cap (Dkr m)	136,707.9
Enterprise value (Dkr m)	164,676.1

Target price is for 12 months.

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- **Downgrade to Neutral:** DONG is up c65% in GBP terms in the 15 months since its IPO. The shares now reflect the full value of the existing assets and the construction pipeline until 2020. It will be more difficult to generate value post-2020 given increasing competition. We increase our 2017E and 18E EBITDA forecasts by c4% and c8% as we bring forward farm-down profits.
- **Investment Overview: (1) Close to pricing-in future growth projects:** The existing pipeline is generating c43-112% value accretion on the capital spend, as project-level nominal IRRs are 11-18%. But the cost of offshore wind has now come down, tendering is driving returns closer to WACC and DONG's competitive advantage will eventually be eroded; **(2) Political risk perception ignored:** Existing CfDs (in DONG's case priced at £140-150/MWh for 15yrs) have an NPV of c£600 per household, yet costs have fallen. While support is subject to change-in-law provisions, we think the risk will not go away given the government review of costs; and **(3) cDKK20-40bn excess cash across 2020-25E unlikely to generate large value:** DONG has indicated it may have excess capital. We think it could either increase the annual build-out to c1.35GW p.a. (from c0.9GW) or raise the dividend by c50%, which would only take it in-line with the sector by 2023E.
- **Catalysts and Risks:** We expect the farm-down of Walney to take place at c£2bn (c£6.1m/MW), and to be the high-water mark for prices of farm-down multiples given its exceptional IRR. The CfD allocation round results are due on Monday 11 Sept, and we expect a clearing price of £62-65/MWh (below other forecasts). We expect to hear on capital deployment by early 2019.
- **Valuation:** The 2017E dividend yield is c2.0% in 2018E, rising to c3.3% by 2023E, on our 10% p.a. growth forecast. The shares discount an equity IRR of c7.2%; in-line with our assumptions. We would need to make ambitious assumptions about 2020-30E (1.35GW p.a., c25% market share and c20% value-accretion) to get to our blue sky upside case of DKK 415/share.

Share price performance

The price relative chart measures performance against the OMXC 20 which closed at 1021.0 on 04/09/17
On 04/09/17 the spot exchange rate was Dkr7.44/Eu 1.- Eu.84/US$1

Performance	1M	3M	12M
Absolute (%)	6.4	9.7	20.7
Relative (%)	4.1	8.5	11.8

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
Revenue (Dkr m)	64,161.5	65,407.3	68,736.0	66,556.7
EBITDA (Dkr m)	19,108.5	19,016.0	21,062.2	24,256.6
Adjusted net income (Dkr m)	11,773.48	11,244.31	10,514.67	12,487.21
CS EPS (adj.) (Dkr)	28.01	26.67	24.94	29.62
Prev. EPS (Dkr)	-	25.41	22.03	27.57
ROIC (%)	19.3	16.3	13.6	16.6
P/E (adj.) (x)	11.6	12.2	13.0	11.0
P/E rel. (%)	53.8	61.9	73.6	69.1
EV/EBITDA (x)	8.9	8.7	8.5	6.8

Dividend (12/17E, Dkr)	6.60	Net debt/equity (12/17E,%)	17.2
Dividend yield (12/17E,%)	2.0	Net debt (12/17E, Dkr m)	9,665.2
BV/share (12/17E, Dkr)	120.6	IC (12/17E, Dkr m)	65,695.9
Free float (%)	32.0	EV/IC (12/17E, (x)	2.5

Source: Company data, Thomson Reuters, Credit Suisse estimates

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Recent Research

Europe

Gas Natural Fenosa
Underperform
TP €19.2

- **Stefano Bezzato** updates his estimates for **Gas Natural Fenosa** (€20, TP €19.2, U/P) to reflect the disposal of a 20% stake in gas distribution network in Spain. He increases his TP to €19.2 (from €19) with the positive impact of the €1.5bn net debt reduction more than offsetting the 3% dilution at the EPS level from 2018E. He thinks investors wait for more clarity on the use of the proceeds, with possible new acquisitions perceived as a risk. A business plan update would be welcome, also to provide clarity on the 2018E targets, as the current 2018E net income target of €1.6bn looks increasingly challenging (CSe €1.38bn, Reuters consensus €1.45bn). Click here

National Grid
Underperform
TP 850p

- **Mark Freshney** reiterates his Underperform rating for **Global Utilities Conviction Stock National Grid** (956p, TP 850p, U/P). OFGEM indicated that it remains committed to competitive tendering, and is proposing new structures for the Hinkley Point C capex. While the amount to be tendered is small (c£0.66bn), it reinforces falling returns and his view that asset base growth will be lower than NG's c5-7% aspiration. He forecasts c5% p.a. asset base growth over 2017-22E. Growth >5% is needed to offset falling returns at the EPS level and sustain the dividend growth. Click here

North America

Southern Company
Neutral
TP US$50

- **Michael Weinstein** comments on **Southern Company** (US$49.4, TP US$50, N) as the company recommend continued construction of Vogtle Units 3 and 4. The new target in-service dates for Units 3/4 are 29 months delayed from the prior schedule to Nov 2021/Nov 2022, respectively. Main risks include major project execution risk with variable cost contracts and regulator acceptance of the additional costs and delays (and possible future 2021+ writedowns of disallowed capex). Click here

Exelon
Outperform
TP US$43

- **Michael** raises his TP for **Global Utilities Conviction Stock Exelon** (US$37.8, TP US$43, O/P) U$1 to US$43 and maintains his Outperform with no changes to estimates. The increase reflects partial credit for the potential uplift in energy gross margin, resulting from expected price formation reform in PJM in 2018 where the energy market could be restructured to provide more support for 'inflexible' baseload generation. Click here

Spire
Neutral
TP US$73

- **Michael** comments on **Spire** (US$74.9, TP US$73, N) following the Missouri Public Service Commission Staff's recommendation for rate increases far below the requests filed by SR. He views this as the lowest possible outcome, about US$0.14 EPS below his currently modeled assumptions. He expects the final outcome/settlement to be better. Click here

Dominion Energy
Outperform
TP US$83

- **Michael** reviews **Dominion Energy**'s (US$78.1, TP US$83, O/P) capital plan after 2020. With the current 5-year capital plan through 2020 focused on discrete large project investments, the company intends to transition to a more programmatic approach with longterm investment programs under various forms of tracked/rider recovery post-2020. Click here

Eversource Energy
Neutral
TP US$60

- **Michael** comments on the New Hampshire Site Evaluation Committee's vote to postpone their final decision on **Eversource Energy**'s (US$62.4, TP US$60, N) Northern Pass Transmission project for another six months to the end of March 2018. He does not see it as a surprise. His estimates and TP remain unchanged. He assumes a 50% probability of NPT success in his valuation worth c$2/sh (3% of valuation), although the lack of a sizeable replacement project could lead to a re-rating of the equity value without a stock repurchase plan given this single project is responsible for nearly 2% of ES's 5%-7% long-term EPS growth projection. Click here

Keyera Corp.
Neutral
TP C$38

- **Andrew Kuske** updates his estimates for **Keyera Corp.** (C$36.7, TP C$38, N), following the Q2 results and some structural adjustments to the business modeling for KEY that focus upon reduced marketing margins. The company continues to grow an integrated asset network in Western Canada. The core infrastructure assets provide connectivity and, a degree of stability given the competitive positioning. Click here

Brookfield Group

- Following a report published by CS Brazilian strategy team on the potential significant number of asset and company privatizations in the future in Brazil (click here), **Andrew** comments on **Brookfield Group**. In his view, as partly highlighted by CS Strategy team, this round of possible Brazilian privatizations may provide opportunities for the broader Brookfield Group. He believes that Brookfield focus should be directed to the major public LPs aside from **Brookfield Property Partners** (US$23.5, not covered). Click here

Latin America

Equatorial Energia
Outperform
TP R$62

- **Vinicius Canheu** comments on **Equatorial Energia** (R$63.9, TP R$62, O/P), as the company announced the acquisition of a 51% stake in Intesa, a transmission company, for R$273m. This deal is very small and unlikely to make any significant difference in Equatorial's valuation. He sees it as an opportunistic deal looking to extend EQTL's presence in the transmission segment with the addition of an operational asset to its newly created division. Click here

Asia

China Utilities Sector

- Given the on-going shift of policies, **Dave Dai** believes that **the China utilities** space continues to see earnings divergence. New energy/environmental space (waste & water, nuclear, solar, gas and T&D) saw stronger growth than the traditional ones (such as IPPs and hydro). Beyond the results season, he reorganises his recommendations into two groups: Structural and event-driven camp. Gas and environment remain his structural picks, with the former benefiting from continuing volume recovery and the latter on strong capacity growth. For A-shares, he also likes structural winners in solar mono-wafers and power distribution. For the event-driven group, he likes coal-fired IPPs with likely normalising coal prices in 2H17 and potential tariff hike in January 2018. Wind farms should also benefit from policy clarity on green certificates before the year end. Both the sectors are below book. Click here
- **Dave** comments on the local news saying that NEA recently issued a consultation paper proposing tax and fee cuts for renewables (wind, solar, hydro, biomass, etc.), such as extension of VAT rebate policies, land cost savings and lower borrowing costs. He expects hydro to be one of the biggest beneficiaries of the proposed VAT cuts, implying an average of 6-7% FY17-18E earnings upside for companies under our coverage. Solar power may also see small benefits from the proposed two-year VAT rebate extension. Other policies like lower land taxes and preferential borrowing costs (10% below benchmark) should benefit most renewables companies (wind, solar and biomass). Click here

Longyuan Power
Outperform
TP HK$7.6

- **Dave** comments on **Longyuan Power**'s (HK$6, TP HK$7.6, O/P) wind output in August 2017 that grew 23% y-y (13% y-y in 8M17), further improving from 18% in July and 11% in 1H17. Despite weak wind resources, curtailment rate continued to improve, which is positive. In his view, current valuation for wind sector is very attractive at 0.6x FY18E P/B. He remains positive on wind operators as event-driven camp. Click here

Huaneng Renewables Corporation
Outperform
TP HK$3.6

- **Dave** comments on **Huaneng Renewables Corporation** 's (HK$2.5, TP HK$3.6, O/P) reporting its August wind output growth of 15% y-y (+13% y-y in 8M17), further improving from 2% in July and 14% in 1H17 despite weak wind resources. Despite curtailment ease, he attributes sector's YTD weakness to the uncertainties of green certificate pricing (affecting tariffs of future projects). However, he expects more clarity of green certificate rules before the scheduled mandatory trading in 2018, including renewables quotas (quantify demand size) and floor prices (to reduce tariff downside and protect investment incentives). Click here

China Oil & Gas Sector

- **Horace Tse** comments on the **China Oil & Gas Sector**, as China's NDRC announced the implementation of c15% cut on midstream transmission tariff. Non-residential city-gate gas prices are cut by Rmb0.1/cm (c5%) as a result. For city-gas operators, he expects cost savings to be passed on to consumers to boost demand. He stays positive on city-gas operators, which could see relieved margin pressure after the 1H17 drop and cheaper gas prices should also help promote gas demand further. For **Kunlun** (HK$7.4, TP HK$5.5, N) it's better than his estimates, as it suggests a c20% cut for S-J pipeline. He factors this in and raises 2017-19 EPS by 14-16% and revises up his TP to HK$5.5 (from HK$5.2). Click here

Australia / New Zealand

AGL Energy
Neutral
TP A$23.25

- **Peter Wilson** comments on the commitment by **AGL Energy** (A$24.07, TP A$23.25, N) to revert with an alternate plan to the Government's preference of keeping Liddell operating beyond its 2022 end of life. He notes that the process is now slightly accelerated and much more politicised, as the company had earlier committed to provide a plan at their investor day. As AGL acknowledges, the market may need some generation capacity, however the most efficient way to deliver this is unlikely to be coal fired given the additional wind and solar will dramatically alter the operating profile. He feels that keeping Liddell in normal operation would depress prices and reduce the value of the company's other generation assets. Click here

Closing prices as of 13th September 2017

Global Utilities Conviction List

MOST PREFERRED STOCKS	Currency	TP	Last close	Upside	Inclusion date	Price on inclusion	Performance since inclusion (vs. MSCI World Utilities)*	YTD performance (vs. MSCI World Utilities)*	Investment rationale
Cheung Kong Infrastructure	HKD	84.0	69.4	21%	8 May 2017	67.4	(5%)	(5%)	The three reasons for choosing the stock as our sector top-pick are: (i) lowest earnings exposure to Hong Kong, (ii) continuing overseas expansion and the acquisition momentum as exhibited by the recent bid for DUET group, and (iii) the recent correction in the share price. **Our latest research:** Cheung Kong Infrastructure - Further overseas expansion; proposing to buy 35% stake in European energy service provider
Enel	EUR	5.70	5.16	10%	21 Feb 2017	4.01	31%	22%	Enel's growth prospects remain at the top end of the sector, with an 11% net income CAGR in 2016-19E (excluding the impact of minority buyouts/share buybacks), more than double the average of the sector. We recall that in the latest plan Enel targeted €16.2bn 2018E EBITDA and €17.2bn EBITDA in 2019E. We see upside risk on the company's targets driven by regulation in Latin America and efficiency in the network/supply business. We do not see any rationale to the stock's discount to the sector, given its superior growth prospects, improved track record and restructuring progress. We expect an acceleration in minority buyouts in Q4, following the recent announcement of the corporate reorganization in Chile. Trading at 12.6x 2018E P/E (integrated peers 14.0x, sector 14.9x) and 7.0x 2018E EV/EBITDA (integrated peers 8.2x, sector 9.0x), we believe the current price provides an attractive entry point. **Our latest research:** Enel - Unjustified discount
Powergrid Corporation	INR	250	214	17%	8 May 2017	210	(5%)	7%	We reiterate an Outperform rating on attractive valuation and steady medium-term growth of 10% CAGR over FY17-22E despite potential returns cut. PGCIL is trading at par with Asian utilities and is cheaper than European and US utilities. It has much stronger growth of 15% CAGR vs. low mid-single digit growth rates for others. P/B valuation is positively correlated with benign rates and general market valuation. **Our latest research:** Powergrid Corporation - Powergrid Corporation: 1Q results: Steady quarter; commissioning progress tad soft, can catch up during the year. Maintain Outperform
Exelon	USD	43.0	37.8	14%	7 Feb 2017	36.0	(11%)	(10%)	EXC remains our highest conviction top pick after incorporating the company-specific results for the PJM 2020/21 capacity auction; we increase our TP US$2, to US$42, on an increase in capacity revenues which we account for within our capacity payments NPV in our sum of the parts valuation. Risks to our call include ExGen power price/commodity exposure, nuclear operator risk, and PHI regulatory risks. **Our latest research:** Exelon Corporation - Highlighting Potential from Energy Reforms

LEAST PREFERRED STOCKS	Currency	TP	Last close	Downside	Inclusion date	Price on inclusion	Performance since inclusion (vs. MSCI World Utilities)*	YTD performance (vs. MSCI World Utilities)*	Investment rationale
Hong Kong Electric	HKD	5.30	7.13	(26%)	21 Feb 2017	6.72	(9%)	(6%)	The stock faces uncertainties in regulated return negotiation and debt re-financing. 100% of its earnings are exposed to regulatory uncertainty in Hong Kong. We also highlight that re-financing risk remains in 2017. The company expects there could be increase in total finance costs after debt refinancing in 2017, if there are further US interest rate hikes. We estimate that a 25bp effective interest rate increase would lower the company's FY17E EPS by 2.5%. **Our latest research:** Hong Kong Electric Investments: 1H17 distributed income flat despite asset growth; prefer CKI for strong growth
CGN Power	HKD	1.65	2.22	(26%)	21 Feb 2017	2.37	(21%)	(13%)	The stock is the most expensive vs. H-share power peers trading on 1.6x FY17E P/B. We are less convinced that the management target operations for the Taishan units for 2H17/1H18 will be met on time as no fueling license has been granted. We also feel that utilisation and tariff risks are key downsides for the stock. **Our latest research:** CGN Power - 1H17 results in line with output momentum but tariff overhang in 2H17
National Grid	GBp	850	956	(11%)	14 Jan 2015	908	(26%)	(10%)	Concerns core to our Underperform thesis are based upon lower asset base growth. We also believe the company is at peak returns and earns a c12% all-in return on equity. We see most of the £4bn capex comes from the US (7% p.a. rate base growth), where returns are lower than in the UK (5% p.a. RAB growth). We note that the stock is sensitive to the recent rise in bond yields (we estimate each +/-50bps on discount rates is +/-6% on our TP) and this has driven the shares over the past year. We see a lack of short-term catalysts. The stock trades on a c46% premium to combined RAB and ratebase. **Our latest research:** National Grid - Risk of competitive tendering comes back

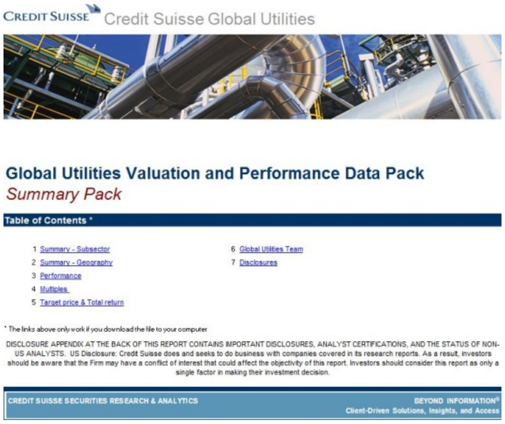
*Source: Credit Suisse Research, Thomson Reuters, * - USD terms; All MOST PREFERRED STOCKS are Outperform rated and all LEAST PREFERRED STOCKS are Underperform rated. Data as of 13th September 2017*

Recent Rating Changes

Company	Old rating	New rating	Change	Change on	Currency	TP	Last close	Country	Rationale for change
DONG Energy	Outperform	**Neutral**	▼	22 Aug	DKK	335	332	Denmark	DONG is up c65% in GBP terms in the 15 months since its IPO. The shares now reflect the full value of the existing assets and the construction pipeline until 2020. It will be more difficult to generate value post-2020 given increasing competition. We increase our 2017E and 18E EBITDA forecasts by c4% and c8% as we bring forward farm-down profits. The 2017E dividend yield is c2.0% in 2018E, rising to c3.3% by 2023E, on our 10% p.a. growth forecast. The shares discount an equity IRR of c7.2%; in-line with our assumptions.

Source: Credit Suisse Research, Thomson Reuters, Data as of 13th September 2017

Global Utilities Valuation Pack



CREDIT SUISSE Credit Suisse Global Utilities

Global Utilities Valuation and Performance Data Pack

Summary Pack

Table of Contents *

1 Summary - Subsector
2 Summary - Geography
3 Performance
4 Multiples
5 Target price & Total return
6 Global Utilities Team
7 Disclosures

* The links above only work if you download the file to your computer

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The Valuation and Performance Data Pack comprises wide-ranging information, including company financials, company and sector multiples, relative and absolute stock price performance, Credit Suisse and consensus estimates as well as details on our global coverage universe.

Follow the links to download this week's edition:
Summary Pack
Global Valuation Tables by Geography
Global Valuation Tables by Sub-sector

Source: Credit Suisse Research, Thomson Reuters

Utilities Indices Worldwide

Indices	1 Week	1 Month	3 months	YTD	12 months
MSCI World Utilities	(0%)	1%	2%	17%	15%
MSCI US Utilities	0%	1%	1%	11%	12%
MSCI Europe Utilities	0%	2%	(0%)	10%	7%
MSCI Asia Utilities	0%	(0%)	1%	10%	3%
MSCI Australia Utilities	1%	0%	(6%)	5%	20%
MSCI China Utilities	2%	2%	10%	23%	9%
MSCI Brazil Utilities	4%	13%	25%	15%	12%
MSCI Japan Utilities	2%	(0%)	(5%)	(1%)	15%
MSCI Europe-Ex UK Utilities	0%	2%	3%	20%	18%
MSCI UK Utilities	(2%)	(1%)	(5%)	(5%)	(9%)
MSCI Emerging Europe Utilities	(1%)	2%	3%	21%	19%

Source: Thomson Reuters, Data as of 13th September 2017

Links to Selected Research Reports

Europe

DONG Energy A/S: Pausing for breath on a fair valuation (6 Sep 2017, Mark Freshney)
Gas Natural Fenosa: Bleak outlook after recent disposal (31 Aug 2017, Stefano Bezzato)
National Grid: Risk of competitive tendering comes back (31 Aug 2017, Mark Freshney)
CEZ: Gloomy outlook post 2017 (29 Aug 2017, Vincent Gilles)
VINCI: Delivering growth from diversified assets (16 Aug 2017, Guy MacKenzie)
RWE: Post-H1 estimates update (15 Aug 2017, Vincent Gilles)

North America

Spire Inc.: A Shot Across the Bow, but Expected (13 Sep 2017, Michael Weinstein)
The Brookfield Group: A Potential Brookfield's Brazilian Bonanza? The Start of the Privatization Parade (8 Sep 2017, Andrew M. Kuske)
Dominion Energy: From Projects to Programs after 2020 (8 Sep 2017. Michael Weinstein)
Exelon Corporation: Highlighting Potential from Energy Reforms (7 Sep 2017, Michael Weinstein)
Eversource Energy: Northern Pass gets Stretched Out (1 Sep 2017, Michael Weinstein)
Southern Company: It's a Go; Let the Neutrons Flow (31 Aug 2017, Michael Weinstein)
Keyera Corp.: Structural Shift to Avoid the Marketing Miss "Bounce Trade"; Lowering Estimates (30 Aug 2017, Andrew M. Kuske)

Asia

Huaneng Renewables Corporation: Quick Take: Stable August wind output growth (11 Sep 2017, Dave Dai)
China Utilities Sector: Potential tax/fee cuts positive for renewables (8 Sep 2017, Dave Dai)
Longyuan Power: Quick Take: August wind output grew by 23% YoY despite weak wind resources (7 Sep 2017, Dave Dai)
China Utilities Sector: Beyond the period of ice and fire and our new pecking order (4 Sep 2017, Dave Dai)
China Oil & Gas Sector: 15% midstream tariff cut & Rmb0.1/cm city-gate price cut: -ve to PetroChina, +ve to city-gas operators (31 Aug 2017, Horace Tse)
China Power Sector: The Shenhua-Guodian merger approved by SASAC; industry consolidation positive to IPPs (29 Aug 2017, Dave Dai)
ENN Energy Holdings Ltd - Maintain OUTPERFORM: Key takeaways from analyst briefing (28 Aug 2017, Dave Dai)
Kunlun Energy - Maintain UNDERPERFORM: 1H17 results a big miss vs consensus (in line with CS); LNG recovery not coming through (23 Aug 2017, Horace Tse)
China Wind Power Sector - Maintain OVERWEIGHT: 1H17 results in a nutshell (22 Aug 2017, Dave Dai)
Malakoff Bhd: Sticking to our NEUTRAL call (21 Aug 2017, Joanna Cheah)
China Resources Gas - Maintain OUTPERFORM: 1H17 results in line: 8% profit growth despite very high base (21 Aug 2017, Dave Dai)
India Utilities Sector: Powerful dynamics: Coal tolling bid, AT&C loss reduction, and ever-growing renewables amid weak demand (21 Aug 2017, Lokesh Garg)
China Resources Power Holdings: No surprise for the 65% 1H17 profit decline; dividend commitment unchanged (16 Aug 2017, Dave Dai)
China Everbright International Ltd - Maintain OUTPERFORM: Strong 1H17 results and positive guidance (15 Aug 2017, Dave Dai)

Latin America

Equatorial Energia: Equatorial Acquires Operating Transmission Line (31 Aug 2017, Vinicius Canheu)
Sabesp: Negotiations With Guarulhos Move Forward (29 Aug 2017, Vinicius Canheu)
Brazilian Utilities: Lessons from 2Q17's Earnings Season (21 Aug 2017, Vinicius Canheu)

Australia & New Zealand

AGL Energy: Liddell less conversation, little more action (12 Sep 2017, Peter Wilson)
Spark Infrastructure Group: 1H17: Good result, cash flow outlook deteriorating (28 Aug 2017, Peter Wilson)
Vector: FY17 in line with flat FY18 outlook (24 Aug 2017, Gregory Main)
Meridian Energy: Jekyll and Hyde hydro inflows balance out (24 Aug 2017, Nevill Gluyas)
APA Group: FY17: Moving forward as uncertainty prevails (23 Aug 2017, Peter Wilson)
Mercury NZ: FY17 Northern inflow bonus (22 Aug 2017, Nevill Gluyas)

Genesis Energy: FY17: Only a brief glimpse of a dry year (22 Aug 2017, Nevill Gluyas)
Origin Energy: Utility delivers, reflating cost expectations (16 Aug 2017, Mark Samter)

Global Utilities Coverage

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Companies Mentioned *(Price as of 13-Sep-2017)*

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CK Infrastructure (1038.HK, HK$69.4)
DONG Energy A/S (DENERG.CO, Dkr331.8)
Dominion Energy (D.N, $78.07)
Enel (ENEI.MI, €5.16)
Equatorial Energia (EQTL3.SA, R$63.92)
Eversource Energy (ES.N, $62.37)
Exelon Corporation (EXC.N, $37.8)
Gas Natural Fenosa (GAS.MC, €19.98)
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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.80 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Utilities' Valuations Reach Another Peak, but Yield Paradox Persists

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Important Disclosure

The primary analyst covering this company does not own its stock.

Research as of 14 Sep 2017
Estimates as of 05 Sep 2017
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Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 14 Sep 2017

U.S. utilities' valuations reached a 14-month high this week when the median price/fair value ratio hit 1.17 for the 40 U.S. utilities in Morningstar's coverage.

This is the highest median P/FV ratio for U.S. utilities since the all-time peak of 1.21 in July 2016. Other valuation metrics such as price/earnings (22) and price/book (2.1) for U.S. utilities also hit 2017 highs this week and are approaching peak levels from mid-2016. Morningstar's U.S. Utilities Sector Total Return Index also hit an all-time high, up 15% year to date including dividends. This outpaces the S&P 500 (up 13%) and all sectors except healthcare and technology year to date.

Even though utilities' valuations appear exceedingly rich on an absolute basis, the sector's yield paradox--as we call it--continues to give bullish signs. Impressive dividend growth has kept the sector's average yield near 3.5% even with the runup in utilities' stock prices. This is a historically attractive yield premium to market interest rates. During the past 30 years, utilities' average dividend yields have been in line with 10-year U.S. Treasury yields, which held near 2.1% this week. If this historical relationship holds, utilities could have another leg of upside. Alternatively, the sector shouldn't suffer much on an absolute basis if interest rates rise.

We are reaffirming our fair value estimates and moat and moat trend ratings for all the U.S. utilities we cover. Our top picks are utilities like Dominion Energy and Duke Energy, which have transparent, high-quality growth investment opportunities but trade at average sector multiples. They also include utilities facing risks that the market is overly discounting. These include Scana and Southern, which are facing new nuclear project cost overruns, and FirstEnergy, whose nonregulated FirstEnergy Solutions subsidiary faces bankruptcy.

Vital Statistics

Market Cap (USD Mil)	36,291
52-Week High (USD)	38.78
52-Week Low (USD)	29.82
52-Week Total Return %	18.3
YTD Total Return %	9.3
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	3.4
5-Yr Forward EPS CAGR %	6.7
Price/Fair Value	1.15

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	11.2	13.2	*14.3*	*12.8*
EV/EBITDA	6.6	9.5	*8.7*	*8.1*
EV/EBIT	10.2	21.5	*15.6*	*14.0*
Free Cash Flow Yield %	0.0	-0.3	*-1.0*	*0.5*
Dividend Yield %	4.3	3.6	*3.4*	*3.5*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	29,447	31,360	*30,869*	*34,380*
Revenue YoY %	7.4	6.5	*-1.6*	*11.4*
EBIT	4,409	3,112	*4,633*	*5,148*
EBIT YoY %	42.4	-29.4	*48.9*	*11.1*
Net Income, Adjusted	2,224	2,484	*2,510*	*2,850*
Net Income YoY %	7.7	11.7	*1.0*	*13.5*
Diluted EPS	2.49	2.68	*2.64*	*2.95*
Diluted EPS YoY %	4.2	7.6	*-1.3*	*11.7*
Free Cash Flow	561	-6,417	*287*	*889*
Free Cash Flow YoY %	365.5	-1,243.2	*-104.5*	*209.7*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Since acquiring Pepco in 2016, Exelon serves more customers than any other U.S. utility with 10 million power and gas customers at its six regulated utilities in Illinois, Pennsylvania, Maryland, New Jersey, Delaware, and Washington, D.C. Exelon owns 11 nuclear plants and 33 gigawatts of generation capacity throughout North America, producing 20% of U.S. nuclear power and 5% of all U.S. electricity. The company is the largest power retailer in the U.S., serving about 200 terawatt hours of load.

Exelon Corp EXC (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.80 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	*2017*	*2018*	*5-Year Proj. CAGR*
Revenue	*8.0*	10.2	7.4	6.5	*-1.6*	*11.4*	*3.4*
EBIT	*-5.2*	-15.3	42.4	-29.4	*48.9*	*11.1*	*15.0*
EBITDA	*6.7*	-6.9	26.8	2.8	*17.5*	*8.0*	*8.2*
Net Income	*4.9*	-4.0	7.7	11.7	*1.0*	*13.5*	*7.7*
Diluted EPS	*2.3*	-4.4	4.2	7.6	*-1.3*	*11.7*	*6.7*
Earnings Before Interest, after Tax	*14.3*	53.5	13.7	-14.4	*-0.6*	*-0.4*	*3.3*
Free Cash Flow	*-262.0*	-92.0	365.5	-1,243.2	*-104.5*	*209.7*	—

Profitability	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Operating Margin %	*12.1*	11.3	15.0	9.9	*15.0*	*15.0*	*15.5*
EBITDA Margin %	*21.8*	19.7	23.3	22.5	*26.8*	*26.0*	*26.8*
Net Margin %	*7.7*	7.5	7.6	7.9	*8.1*	*8.3*	*8.7*
Free Cash Flow Margin %	*-6.0*	0.4	1.9	-20.5	*0.9*	*2.6*	*5.1*
ROIC %	*3.1*	2.7	4.4	2.2	*5.1*	*5.4*	*5.5*
Adjusted ROIC %	*3.3*	2.9	4.6	2.4	*5.6*	*6.0*	*6.0*
Return on Assets %	*1.8*	2.0	2.5	1.1	*2.2*	*2.4*	*2.5*
Return on Equity %	*6.9*	7.1	9.3	4.4	*9.5*	*10.2*	*10.1*

Leverage	3-Year Hist. Avg	2014	2015	2016	*2017*	*2018*	*5-Year Proj. Avg*
Debt/Capital	*0.53*	0.49	0.50	0.58	*0.58*	*0.57*	*0.55*
Total Debt/EBITDA	*4.35*	4.12	3.84	5.10	*4.49*	*4.26*	*4.09*
EBITDA/Interest Expense	*5.44*	5.08	6.64	4.59	*5.26*	*5.65*	*5.93*

Valuation Summary and Forecasts

	2015	2016	*2017(E)*	*2018(E)*
Price/Fair Value	0.79	1.11	—	—
Price/Earnings	11.2	13.2	*14.3*	*12.8*
EV/EBITDA	6.6	9.5	*8.7*	*8.1*
EV/EBIT	10.2	21.5	*15.6*	*14.0*
Free Cash Flow Yield %	0.0	-0.3	*-1.0*	*0.5*
Dividend Yield %	4.3	3.6	*3.4*	*3.5*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	6.6
Long-Run Tax Rate %	30.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	30.0
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	7,164	11.1	7.71
Present Value Stage II	19,850	30.7	21.38
Present Value Stage III	37,695	58.3	40.59
Total Firm Value	**64,708**	**100.0**	**69.68**
Cash and Equivalents	635	—	0.68
Debt	-35,913	—	-38.67
Preferred Stock	—	—	—
Other Adjustments	60	—	0.06
Equity Value	**29,490**	**—**	**31.76**
Projected Diluted Shares	929		
Fair Value per Share (USD)	**33.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.80 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Revenue	**27,429**	**29,447**	**31,360**	***30,869***	***34,380***
Cost of Goods Sold	13,003	13,084	12,640	*11,742*	*14,509*
Gross Profit	**14,426**	**16,363**	**18,720**	***19,127***	***19,871***
Selling, General & Administrative Expenses	8,568	8,322	10,048	*9,125*	*9,165*
Other Operating Expense (Income)	1,154	1,200	1,576	*1,719*	*1,758*
Other Operating Expense (Income)	-706	-18	48	—	—
Depreciation & Amortization (if reported separately)	2,314	2,450	3,936	*3,650*	*3,800*
Operating Income (ex charges)	**3,096**	**4,409**	**3,112**	***4,633***	***5,148***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,096**	**4,409**	**3,112**	***4,633***	***5,148***
Interest Expense	1,065	1,033	1,536	*1,575*	*1,583*
Interest Income	455	-53	389	*700*	*700*
Pre-Tax Income	**2,486**	**3,323**	**1,965**	***3,758***	***4,265***
Income Tax Expense	666	1,073	761	*1,240*	*1,407*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-184	32	-62	—	—
(Preferred Dividends)	-13	-13	-8	*-8*	*-8*
Net Income	**1,623**	**2,269**	**1,134**	***2,510***	***2,850***
Weighted Average Diluted Shares Outstanding	864	893	927	*949*	*964*
Diluted Earnings Per Share	**1.88**	**2.54**	**1.22**	***2.64***	***2.95***
Adjusted Net Income	2,065	2,224	2,484	*2,510*	*2,850*
Diluted Earnings Per Share (Adjusted)	**2.39**	**2.49**	**2.68**	***2.64***	***2.95***
Dividends Per Common Share	1.24	1.24	1.26	*1.31*	*1.34*
EBITDA	**6,964**	**8,396**	**8,688**	***8,283***	***8,948***
Adjusted EBITDA	**5,410**	**6,859**	**7,048**	***8,283***	***8,948***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.80 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Cash and Equivalents	1,878	6,502	635	*241*	*205*
Investments	—	—	—	—	—
Accounts Receivable	4,709	4,099	5,359	*5,328*	*5,934*
Inventory	1,603	1,566	1,638	*1,544*	*1,908*
Deferred Tax Assets (Current)	244	—	—	—	—
Other Short Term Assets	3,663	3,167	4,780	*4,600*	*4,500*
Current Assets	**12,097**	**15,334**	**12,412**	***11,714***	***12,547***
Net Property Plant, and Equipment	52,087	57,439	71,555	*75,555*	*78,405*
Goodwill	2,672	2,672	6,677	*6,677*	*6,677*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,076	6,065	10,046	*9,800*	*9,700*
Long-Term Non-Operating Assets	13,882	13,874	14,214	*14,214*	*14,214*
Total Assets	**86,814**	**95,384**	**114,904**	***117,960***	***121,543***
Accounts Payable	3,056	2,891	3,449	*3,217*	*3,776*
Short-Term Debt	2,262	2,033	3,697	*3,697*	*3,697*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,444	4,194	6,311	*6,100*	*6,100*
Current Liabilities	**8,762**	**9,118**	**13,457**	***13,014***	***13,573***
Long-Term Debt	20,010	24,286	32,216	*33,516*	*34,416*
Deferred Tax Liabilities (Long-Term)	13,019	13,776	18,138	*19,000*	*19,500*
Other Long-Term Operating Liabilities	4,550	4,201	4,187	*4,400*	*4,400*
Long-Term Non-Operating Liabilities	16,340	16,681	19,294	*19,294*	*19,294*
Total Liabilities	**62,681**	**68,062**	**87,292**	***89,224***	***91,183***
Preferred Stock	—	28	—	—	—
Common Stock	16,709	18,676	18,794	*18,794*	*18,794*
Additional Paid-in Capital	—	—	—	*60*	*120*
Retained Earnings (Deficit)	10,910	12,068	12,030	*13,309*	*14,873*
(Treasury Stock)	-2,327	-2,327	-2,327	*-2,327*	*-2,327*
Other Equity	-2,491	-2,431	-2,660	*-2,700*	*-2,700*
Shareholder's Equity	**22,801**	**26,014**	**25,837**	***27,136***	***28,760***
Minority Interest	1,332	1,308	1,775	*1,600*	*1,600*
Total Equity	**24,133**	**27,322**	**27,612**	***28,736***	***30,360***

Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.80 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2014	2015	2016	*2017*	*2018*
Net Income	1,820	2,250	1,204	*2,518*	*2,858*
Depreciation	3,868	3,987	5,576	*3,650*	*3,800*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	502	752	664	*862*	*500*
Other Non-Cash Adjustments	1,514	891	1,482	—	—
(Increase) Decrease in Accounts Receivable	-318	240	-432	*31*	*-606*
(Increase) Decrease in Inventory	-380	4	7	*94*	*-364*
Change in Other Short-Term Assets	-2,758	-387	-827	*180*	*100*
Increase (Decrease) in Accounts Payable	209	-121	771	*-232*	*559*
Change in Other Short-Term Liabilities	—	—	—	*-211*	—
Cash From Operations	**4,457**	**7,616**	**8,445**	***6,892***	***6,847***
(Capital Expenditures)	-6,077	-7,624	-8,553	*-7,250*	*-6,650*
Net (Acquisitions), Asset Sales, and Disposals	-386	-40	-6,934	*-400*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	1,864	-158	-16	*459*	*100*
Cash From Investing	**-4,599**	**-7,822**	**-15,503**	***-7,191***	***-6,550***
Common Stock Issuance (or Repurchase)	35	1,900	55	*60*	*60*
Common Stock (Dividends)	-1,065	-1,105	-1,166	*-1,231*	*-1,285*
Short-Term Debt Issuance (or Retirement)	122	80	-575	—	—
Long-Term Debt Issuance (or Retirement)	1,918	4,022	2,780	*1,300*	*900*
Other Financing Cash Flows	-599	-67	97	*-183*	*-8*
Cash From Financing	**411**	**4,830**	**1,191**	***-54***	***-333***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*-40*	—
Net Change in Cash	**269**	**4,624**	**-5,867**	***-394***	***-36***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

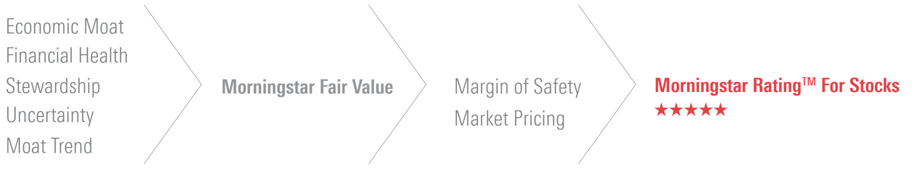
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

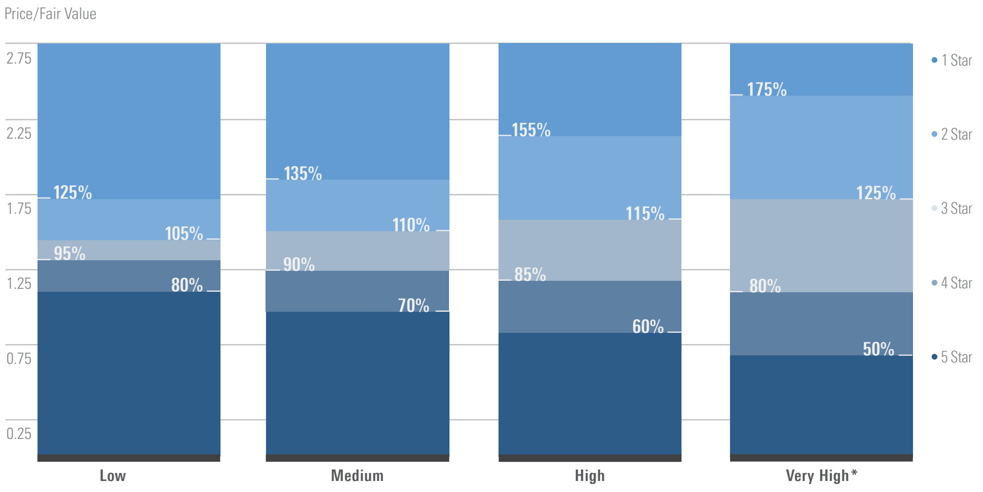
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

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- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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Exelon Corp EXC (NYSE) | ★★

Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
37.80 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.80 USD	33.00 USD	Medium	Narrow	Stable	Standard	Utilities - Regulated

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 13 Sep 2017 21:32, UTC	37.80 USD 13 Sep 2017	33.00 USD 06 Sep 2017 13:07, UTC	1.15	3.44 13 Sep 2017	3.47 13 Sep 2017	36.29 13 Sep 2017	Utilities - Diversified	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Fairly Valued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.04	0.92	1.03	0.94
Price/Earnings	20.0	17.0	17.8	22.2
Forward P/E	13.1	—	16.0	16.2
Price/Cash Flow	5.2	4.5	7.1	13.3
Price/Free Cash Flow	—	57.1	13.7	20.3
Trailing Dividend Yield%	3.44	4.40	3.47	2.21

Source: Morningstar

Bulls Say

- Nuclear power plants run year-round, produce electricity at low variable costs, and generate large energy margins, even with currently depressed power prices.
- Higher natural gas and coal prices, rising electricity demand, and environmental regulations help Exelon more than any other utility because of its large nuclear fleet.
- Exelon's regulated utilities have good growth opportunities and regulation that can support earnings and dividend growth.

Bears Say

- Exelon's performance in part is driven by volatile power prices that fluctuate based on natural gas prices, coal prices, and regional electricity demand.
- The Constellation and Pepco acquisitions diluted Exelon's economic moat by adding more no-moat retail business and narrow-moat distribution earnings.
- Many of Exelon's growth projects come with regulated or contracted returns, reducing shareholders' leverage to a rebound in power markets.

Utilities' Valuations Reach Another Peak, but Yield Paradox Persists

Investment Thesis

Travis Miller, Strategist, 06 September 2017

As the largest nuclear power plant owner in the United States, Exelon has struggled to maintain margins as low natural gas prices have slashed power prices since 2008. We think cheap gas will remain an advantage for competing generators and pressure nuclear plant returns for the foreseeable future. But Exelon has shown its political clout recently, winning subsidies in key states to keep its nuclear fleet mostly in tact.

However, Exelon's growth engine is its regulated gas and electric distribution utilities. Following the $12 billion acquisition of Pepco Holdings in March 2016, we expect Exelon's regulated electric and gas distribution utilities to drive all of our forecast 5% average annual consolidated earnings growth at least through 2019. By then, the regulated utilities' earnings should easily top Exelon's generation earnings based on current energy market conditions.

Even with more diversified earnings, Exelon can't escape its leverage to Eastern and Midwestern U.S. power prices, which contribute about half of total earnings. Nuclear's low fuel costs and clean emission profile make Exelon the utilities sector's biggest winner if power prices rise, capacity markets tighten, and environmental regulations make fossil-fuel power generation more costly.

Exelon's world-class operating efficiency preserves its nuclear fleet's upside. But persistently low margins in the short run make it difficult to justify investing billions of dollars annually to keep its nuclear fleet running. This is why we think at least five of Exelon's plants remain uneconomic without state subsidies that face stiff legal and regulatory challenges.

Exelon has moved past its 41% dividend cut in 2013 and now should be able to grow the dividend modestly given the earnings growth from the regulated utilities. Exelon's generation unit still faces falling margins at least through 2019, so dividend growth will be limited until those earnings stabilize. Growth at the Constellation retail business it acquired in 2012 has cushioned some of that weakness and remains an area for growing albeit volatile earnings as it gains scale.

Analyst Note

Travis Miller, Strategist, 14 September 2017

U.S. utilities' valuations reached a 14-month high this week when the median price/fair value ratio hit 1.17 for the 40 U.S. utilities in Morningstar's coverage.

This is the highest median P/FV ratio for U.S. utilities since the all-time peak of 1.21 in July 2016. Other valuation metrics such as price/earnings (22) and price/book (2.1) for U.S. utilities also hit 2017 highs this week and are approaching peak levels from mid-2016. Morningstar's U.S. Utilities Sector Total Return Index also hit an all-time high, up 15% year to date including dividends. This outpaces the S&P 500 (up 13%) and all sectors except healthcare and technology year to date.

Even though utilities' valuations appear exceedingly rich on an absolute basis, the sector's yield paradox--as we call it--continues to give bullish signs. Impressive dividend growth has kept the sector's average yield near 3.5% even with the runup in utilities' stock prices. This is a historically attractive yield premium to market interest rates. During the past 30 years, utilities' average dividend yields have been in line with 10-year U.S. Treasury yields, which held near 2.1% this week. If this historical relationship holds, utilities could have another leg of upside. Alternatively, the sector shouldn't suffer much on an absolute basis if interest rates rise.

We are reaffirming our fair value estimates and moat and moat trend ratings for all the U.S. utilities we cover. Our top picks are utilities like Dominion Energy and Duke Energy, which have transparent, high-quality growth investment opportunities but trade at average sector multiples. They also include utilities facing risks that the market is overly discounting. These include Scana and Southern, which are facing new nuclear project cost overruns, and FirstEnergy, whose nonregulated FirstEnergy Solutions subsidiary faces bankruptcy.

Economic Moat

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 13 Sep 2017 21:32, UTC	37.80 USD 13 Sep 2017	33.00 USD 06 Sep 2017 13:07, UTC	1.15	3.44 13 Sep 2017	3.47 13 Sep 2017	36.29 13 Sep 2017	Utilities - Diversified	Standard

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Public Service Enterprise Group Inc PEG	USD	23,008	9,265	8.38	51.02
Entergy Corp ETR	USD	14,044	10,980	-13.74	0.00
FirstEnergy Corp FE	USD	13,987	14,153	-49.07	0.00

Travis Miller, Strategist, 06 September 2017

Considering Exelon's full suite of businesses, we think the firm earns a narrow economic moat.

Most nuclear generation still has wide-moat characteristics, with returns on capital above costs of capital for the foreseeable future. However, the spread between long-term returns on capital and Exelon's cost of capital has shrunk, based on our midcycle outlook for power prices in the Eastern United States. Exelon's increasing diversification into narrow- and no-moat businesses, together with the shrinking returns at its nuclear generation business, supports our narrow moat rating.

Nuclear generation's wide-moat economics are based on two primary competitive advantages. First, nuclear plants take more than seven years to site and build, cost several billion dollars, and typically face community opposition. These are significant barriers to entry, giving operators an effective low-cost monopoly in a given region. Exelon's large fleet gives it scale advantages that allow it to add capacity at its plants at a fraction of the cost and risk of a greenfield project. It is unlikely a competitor would be able to earn sufficient returns on capital by building a nuclear plant in close proximity to any of Exelon's plants.

Second, no other reliable power generation source can match the cost or scale of a nuclear plant. Nuclear plants' low variable costs and low greenhouse gas emissions relative to competing fossil fuel power generation sources, such as coal and natural gas, reduce substitution threats. Renewable energy, with effectively no marginal costs, has depressed wholesale power prices and hurt Exelon's returns on capital in some of its regions. We believe this is a market distortion that fails to recognize the value of Exelon's nuclear fleet reliability relative to intermittent renewable energy. State policy and legislation particularly in Illinois and New York have recognized some of that zero-emissions power from nuclear plants.

As long as electricity remains a critical energy source in the U.S. and nuclear investment requirements remain near current levels, we expect nuclear plants will maintain a low-cost advantage and generate high returns on capital. To monetize this competitive advantage, Exelon must retain access to wholesale power markets. Any reregulation of its generation fleet would shrink its moat. In addition, nuclear generation must maintain regulatory and political support in the U.S. and states where Exelon operates. If that support erodes, it could affect the economics of routine maintenance investments and lead to plant shutdowns, as we've seen elsewhere in the U.S. and overseas.

We believe Exelon's regulated distribution utilities have narrow economic moats. Regulatory caps on profits offsets the service territory monopolies and network efficient scale advantages. Utility regulation in the U.S. aims to fix customer rates at levels that ensure capital providers earn fair returns on their investments while keeping customer costs as low as possible. We believe this regulatory compact ensures Exelon's utilities will earn greater than their costs of capital in the long run.

We believe Exelon's retail supply business has no economic moat. Retail power and gas markets are highly competitive with virtually no barriers to entry, switching costs, or product differentiation. Although customer relationships can be sticky, retailers mostly end up competing on price.

Valuation

Travis Miller, Strategist, 06 September 2017

We are raising our fair value estimate to $33 per share from $32 per share after incorporating time-value appreciation since our last update and year-to-date results in line with our expectations.

On a consolidated basis, our midcycle earnings estimate is now $3.40 per share after adding the New York and Illinois zero emissions credits. Our midcycle EBITDA estimate at Exelon Generation is $2.7 billion, up from trough EBITDA in 2019 when weak power prices and at least two nuclear plant closures will hurt earnings at Exelon Generation. We assume a $3 per million btu midcycle Henry Hub gas price, a negative $0.50/mmbtu gas basis in the mid-Atlantic region and market heat rates 15% above current 2018 forwards in all regions.

We continue to expect earnings growth at the regulated utilities to drive 6% consolidated annual earnings growth through 2020. Our forecasts show Exelon's regulated utilities contributing two thirds of consolidated earnings on a midcycle basis. We assume the regulated utilities earn 10% returns on equity on average starting in 2020 and increase their rate bases 5% annually on average during 2016-20.

Our midcycle forecasts assume Exelon retires as many as five nuclear plants even though we expect three of them to keep running for the next 10 years based on Illinois legislation that passed in December 2016. We remove the Oyster Creek (N.J.) and Three Mile Island (Pa.) plants in 2019 per Exelon's current plants. TMI failed to clear the last three PJM capacity auctions but could survive if Pennsylvania passes legislation that would subsidize the state's nuclear plants. Nuclear subsidy legislation in Pennsylvania could have a slight positive impact on our fair value estimate.

At the retail business, we assume 20% long-term normalized gross margins and volumes that grow to 245 terawatt hours by 2020.

We assume a 9% cost of equity and a 6.6% cost of capital. Our cost of equity assumption is in line with the 9% rate of return that we expect investors to demand of a diversified equity portfolio. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Risk

Travis Miller, Strategist, 06 September 2017

Investors should pay the most attention to political developments that would reregulate competitive electricity markets in the Midwest and Mid-Atlantic. As the nation's largest wholesale generator and retail supplier, Exelon's competitive edge requires Eastern U.S. power markets to remain deregulated. Similarly, Exelon is exposed to regulatory changes within deregulated power and capacity markets in the mid-Atlantic region since it has such a large presence in those markets.

Even though sharp increases in power prices would result in an earnings windfall for Exelon's generation fleet, it could lead politicians and regulators to pursue price caps as they did when markets first deregulated. Although we think this is unlikely based on recent legal precedent, some regulators have made targeted attempts to bring back pseudo-regulation to encourage new generation or save plant retirements. If market power prices are capped or regulated, Exelon loses its primary profit source.

As Exelon's regulated utilities generate a greater share of earnings, shareholders' returns will be more exposed to state and federal regulatory risk. Illinois and Maryland are two historically tough regulatory environments, and punitive rate decisions could have a material impact on earnings and growth. However, Exelon has done a solid job developing good regulatory relationships that mitigate some of this risk. We expect Exelon will be able to maintain solid-- albeit not spectacular--returns at its regulated utilities.

Management

Travis Miller, Strategist, 06 September 2017

We assign Exelon's management team a Standard stewardship rating. The company's management faces a tough task given half the business is highly sensitive to commodity energy markets that they can't control.

Given this challenge, we're particularly impressed by management's ability to operate its nuclear fleet at world-class levels. We're also impressed with the lobbying success they have had, particularly in New York and Illinois, to extend the lives of its distressed nuclear plants. This is the one thing it can control and preserves the value-creation opportunities if power prices rise. President and CEO Chris Crane led the generation segment to world-class results in his five years as COO. Exelon's nuclear capacity factors routinely approach 94% across its nuclear fleet. The rest of the nuclear industry averages in the mid-80s.

Crane and board chairman Mayo Shattuck III have focused growth investment on the regulated utilities, continuing a strategic shift that former CEO and chairman John Rowe made before his departure in 2013. Crane's biggest move so far is the $12 billion (including debt) Pepco acquisition that closed in 2016. This increases Exelon's share of regulated utilities earnings and dilutes shareholders' aggregate exposure to wholesale power markets. Management showed strong conviction in the value of the deal based on nearly two years of regulatory negotiations.

The Constellation acquisition reshaped the board along with the executive suite. Only 2 of the current 16 directors were on the board when Exelon formed in 2000. Shattuck, who came from Constellation, is by far the largest shareholder among executives and directors with 2.6 million shares and vested options as of January 2017.

Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	37.80 USD	33.00 USD	1.15	3.44	3.47	36.29	Utilities - Diversified	Standard
13 Sep 2017 21:32, UTC	13 Sep 2017	06 Sep 2017 13:07, UTC		13 Sep 2017	13 Sep 2017	13 Sep 2017		

Analyst Notes Archive

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

Power Conference Takeaways: No End to Renewable Energy and Infrastructure Growth

Travis Miller, Strategist, 19 April 2017

We are reaffirming our fair value estimates, moat ratings and moat trends for all U.S. utilities after Morningstar analysts attended and presented at two recent power industry conferences.

The key theme at both conferences was how utilities should navigate the transition to a cleaner, smarter electricity system. Our most conservative forecasts for the next eight years show U.S. renewable energy capacity doubling, gas continuing to steal power generation market share from coal, and carbon emissions falling near Obama administration-era targets. Consensus is building that President Donald Trump's policies will not disrupt--and could even promote--a move toward lower-carbon generation through state renewable portfolio standards, low-cost gas, and favorable tax policy.

We think valuations across the sector are stretched, but utilities that can navigate the regulatory processes to address grid modernization and infrastructure siting are best-positioned to protect or widen their economic moats. We forecast annual earnings and dividend growth hitting 8% for some utilities with constructive state regulatory relationships supporting investment in renewable energy, transmission, natural gas-fired generation and distribution. A few well-positioned U.S. utilities include Dominion Resources, Duke Energy, American Electric Power, Southern Co., NextEra Energy, Edison International, and Xcel Energy.

Grid modernization is critical to enabling more consumer energy choice, a trend we anticipate during the next decade. First-movers could benefit from investment and new business opportunities while laggards could face falling central-network load and earnings.

Easing siting constraints is one way we think the Trump administration can promote investment. We think more gas pipelines, grid expansion and system integration are essential to achieving state renewable energy goals and grid modernization.

Exelon's Core Growth Intact as We Await Initial Decisions in Nuclear Subsidy Challenges

Travis Miller, Strategist, 03 May 2017

We are reaffirming our $32 per share fair value estimate, narrow moat and stable moat trend for Exelon after the company announced earning $0.65 per share on an adjusted basis during the first quarter of 2017, down from $0.68 per share in the first quarter of 2016. Earnings are tracking in line with our 2017 full-year estimate, and management reaffirmed its $2.50-$2.80 per share guidance range.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed with Exelon's ability remain the world's premier nuclear operator. The fleet realized a 94% capacity factor in the quarter despite three refueling outages. This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations.

Legal developments this month related to New York and Illinois nuclear subsidies, or Zero Emissions Credits, could have a material impact on our earnings and fair value estimates. We assume legal and regulatory challenges ultimately will be successful and do not include the subsidies in our long-term projections.

We found it telling that management pledged to bid the subsidized units into capacity markets on an economic basis, a response to challengers who suggest subsidized plants would distort market bidding. However, presumably, economic bidding of subsidized units could result in higher capacity prices that would be a huge benefit for the rest of Exelon's fleet. This appears to be a win-win strategy for Exelon if the legal challenges are not successful.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020.

PJM Capacity Auction Results: Surprisingly, No Surprises

Travis Miller, Strategist, 24 May 2017

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities that participated in the 2020-21 mid-Atlantic capacity auction last week. Clearing prices were in line with our expectations and market expectations, a rarity during the 14 years that the region's grid operator, PJM, has conducted the base residual auctions.

As we expected, Exelon announced that two of its distressed nuclear plants, Quad Cities (Illinois) and Three Mile Island (Pennsylvania), did not clear. This typically would lead to plant retirements, but new Illinois state law grants subsidies for Quad Cities starting June 1 that will keep it running, at least until regulators and courts rule on challenges to the state's zero emission credits. We are awaiting a decision from the District Court in Northern Illinois on an injunction request after oral arguments Nat 22. Pennsylvania is debating similar subsidies. Ultimately, we think the subsidies will be ruled illegal and both plants will close.

Presumably, Quad Cities' nonclearing offer was one reason ComEd zone prices cleared highest of all zones at $188.12 per megawatt-day. This is a big lift for its four larger nuclear plants in the zone. One year of strong pricing doesn't have a material impact on our fair value estimate, but the clear is 45% higher than our long-term normalized estimate. If prices persist at this level it could offer 5%-10% upside to our $32 fair value estimate for Exelon.

Dynegy's 13.5 gigawatts of generation is worst off from a relatively low $76.53/MW-day RTO clear, down from $100/MW-day in the 2019-20 auction. Every $100/MW-day change in capacity prices represents roughly $500 million of pretax earnings in our forecast. For Calpine, its primary EMACC zone cleared at a premium $187.87/MW-day, but its PJM fleet represents only about 20% of its total fleet.

NRG Energy and Public Service Enterprise Group cleared capacity in line with our expectations.

Exelon's Three Mile Island Closure Pressures Pennsylvania Lawmakers

Travis Miller, Strategist, 30 May 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced it plans to close the Three Mile Island nuclear plant in Pennsylvania in 2019. We already assumed the plant would close in 2019, so the announcement has no impact on our fair value estimate. We continue to forecast mostly flat generation gross margin at least through 2020.

Although we agree with Exelon that Three Mile Island is probably struggling to meet its cost of capital, we think this announcement is a clear political move to force Pennsylvania policy makers to decide whether to subsidize distressed nuclear generators. Three Mile Island has not cleared the last three mid-Atlantic base capacity auctions, and it was widely anticipated the plant would close in 2019 absent state subsidies.

If Exelon is able to win political support for subsidies, we think regulators and the courts ultimately will find the subsidies illegal based on recent precedent rulings. Subsidies in Pennsylvania would probably be similar to so-called zero emission credits in New York and Illinois, which are supporting three of Exelon's plants that otherwise would have closed this year. We continue to believe Exelon's three distressed nuclear plants in those states ultimately will close when the subsidies are declared illegal, although that could be a multiyear process.

We also expect the courts will require Exelon to refund cash payments it is collecting in New York as of April 1 and starting June 1 in Illinois, pending a ruling from a federal court judge on an injunction filing. Policy-making at the Federal Energy Regulatory Commission and the Illinois injunction ruling are key mile markers. If the subsidies survive legal and regulatory challenges, it could raise our fair value estimate by $2-$3 per share.

Trump's Announcement to Exit Paris Agreement Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 02 June 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities after President Trump announced plans to exit the Paris Climate Agreement.

Despite the withdrawal, we continue to forecast U.S. renewable energy capacity doubling during the next eight years. State renewable portfolio standards, or RPS, and other local policies remain the industry's primary growth driver, not federal environmental policy. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use by 2025, up from 15% now, based solely on existing state RPS.

We think Trump's move to abandon the U.S. Clean Power Plan and Paris Agreement could even embolden states to strengthen renewable energy standards, offering upside to our forecasts. Supportive tax policy and pro-manufacturing initiatives also offer upside. And corporate renewable energy purchases should continue to grow as businesses realize the economic and public perception benefits. Thus, we are not surprised that many business leaders denounced Trump's decision.

We also forecast carbon emissions from the power generation sector will keep falling toward Paris Agreement targets given the growth in renewable energy and gas generation. Low natural gas prices and turbine efficiency improvements are forcing coal plant shutdowns and reduced run times for competing coal generators, which emit twice as much carbon as an equivalent gas plant.

Utilities operating in states with constructive regulation and environmental policy support could realize 7%-9% annual earnings and dividend growth the next three to five years. Best positioned are utilities like Dominion Energy, Duke Energy, American Electric Power, and CMS Energy that are investing billions of dollars in new infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

U.S. Nuclear: Down but Not Out

Travis Miller, Strategist, 27 July 2017

We are reaffirming our fair value estimates, moat and moat trend ratings for all U.S. utilities with nuclear exposure after analyzing the economics, regulation, and sustainability attributes of nuclear generation in the U.S.

Nuclear power is at an inflection point in the U.S., with a wide gap developing between the anti-nuclear and pro-nuclear factions. This is a critical debate. The 99 nuclear units in the U.S. provide 20% of the nation’s electricity and meet essential reliability needs for major cities. Competition from cheap natural gas generation and renewable energy are pinching profits now, but we think a long-term perspective is important.

Our forecast for flat or growing U.S. nuclear capacity is more bullish than most forecasts. In particular, we think the U.S. could add as much as 5% net new nuclear capacity by 2040 primarily due to nuclear uprates. Most market forecasts assume natural gas is the marginal generation source, but our calculations show nuclear uprates have similar economic returns and less long-term capital reinvestment risk. We think nuclear has a more favorable environmental, social, and governance, or ESG, profile than most other nonrenewable energy sources. Its low carbon-emissions profile and reliability make it a critical contributor to meeting state and federal environmental policy goals.

We think the best opportunity for investors is to take advantage of the market's concerns about spiraling new-build nuclear costs and regulatory risk. Scana and Southern Company trade at steep discounts to peers even after adjusting for their new-build project risks. Among existing plant owners, only one utility has maintained a big bet on nuclear: Exelon. The stock looks pricey now, but its scale and political clout as the largest U.S. operator give it more option upside than any U.S. utility. We also think top-tier nuclear operators such as Exelon and Xcel Energy should earn premium valuations for their positive ESG characteristics.

With Nuclear Subsidy Debate Past, Exelon Hits Core Growth Expectations

Travis Miller, Strategist, 02 August 2017

We are reaffirming our $32 fair value estimate and narrow moat and stable moat trend ratings for Exelon after the company announced earnings per share of $0.54 on an adjusted basis during the second quarter of 2017, down from $0.65 in the second quarter of 2016. Earnings are tracking in line with our full-year estimate, and management reaffirmed its $2.50-$2.80 EPS guidance range.

Exelon achieved two key court victories in July affirming the legality of nuclear subsidies it began receiving this year in New York and Illinois. We think this is just the start of the legal and regulatory debate. We do not include the five subsidized plants in our long-term forecast, but including them would not have a sizable impact on our fair value estimate because the subsidies limit their value upside and downside.

As expected, Exelon's wholesale generation fleet continues to be a drag on earnings with lower energy, hedge, and capacity prices. We continue to forecast mostly flat generation gross margin at least through 2020. However, we continue to be impressed by Exelon's ability remain the world's premier nuclear operator. The fleet realized a 91% capacity factor in the quarter despite six refueling outages.

This operational excellence ensures investors realize all upside that might develop in the Eastern U.S. energy markets and gives Exelon leverage in regulatory negotiations. Its next area of focus is in Pennsylvania, where it has committed to close its Three Mile Island nuclear plant by September 2019 unless it receives subsidies. We assume TMI closes as scheduled.

Exelon's regulated utilities continue to perform well and are on track to support our 5% consolidated earnings growth forecast through 2020. Management reported the utilities' returns on equity are near 10% with upside potential at the Pepco Holdings utilities. This return is better than many of Exelon's peers'.

Utilities' Valuations Reach Another Peak, but Yield Paradox Persists

Travis Miller, Strategist, 14 September 2017

U.S. utilities' valuations reached a 14-month high this week when the median price/fair value ratio hit 1.17 for the 40 U.S. utilities in Morningstar's coverage.

This is the highest median P/FV ratio for U.S. utilities since the all-time peak of 1.21 in July 2016. Other valuation metrics such as price/earnings (22) and price/book (2.1) for U.S. utilities also hit 2017 highs this week and are approaching peak levels from mid-2016. Morningstar's U.S. Utilities Sector Total Return Index also hit an all-time high, up 15% year to date including dividends. This outpaces the S&P 500 (up 13%) and all sectors except healthcare and technology year to date.

Even though utilities' valuations appear exceedingly rich on an absolute basis, the sector's yield paradox--as we call it--continues to give bullish signs. Impressive dividend growth has kept the sector's average yield near 3.5% even with the runup in utilities' stock prices. This is a historically attractive yield premium to market interest rates. During the past 30 years, utilities' average dividend yields have been in line with 10-year U.S. Treasury yields, which held near 2.1% this week. If this historical relationship holds, utilities could have another leg of upside. Alternatively, the sector shouldn't suffer much on an absolute basis if interest rates rise.

We are reaffirming our fair value estimates and moat and moat trend ratings for all the U.S. utilities we cover. Our top picks are utilities like Dominion Energy and Duke Energy, which have transparent, high-quality growth investment opportunities but trade at average sector multiples. They also include utilities facing risks that the market is overly discounting. These include Scana and Southern, which are facing new nuclear project cost overruns, and FirstEnergy, whose nonregulated FirstEnergy Solutions subsidiary faces bankruptcy.

Exelon Corp EXC ★★★^{Q} 14 Sep 2017 02:00 UTC

Last Close	Fair Value^{Q}	Market Cap	Sector	Industry	Country of Domicile
13 Sep 2017 37.80	14 Sep 2017 02:00 UTC 36.29	13 Sep 2017 36,291.3 Mil	Utilities	Utilities - Diversified	USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Exelon Corp is one of the largest power retailer engaged in the utilities sector of United States. The company involves in the power generation and transmission activities.

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	94	90	90
Valuation	Fairly Valued	30	42	20
Quantitative Uncertainty	Medium	96	86	94
Financial Health	Moderate	64	61	64

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.04	0.92	1.03	0.94
Price/Earnings	20.0	17.0	17.8	22.2
Forward P/E	13.1	—	16.0	16.2
Price/Cash Flow	5.2	4.5	7.1	13.3
Price/Free Cash Flow	—	57.1	13.7	20.3
Trailing Dividend Yield %	3.44	4.40	3.47	2.21
Price/Book	1.3	1.3	1.4	2.5
Price/Sales	1.1	1.1	1.5	2.2

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	6.6	7.0	9.4	12.0
Return on Assets %	1.5	1.9	3.1	4.5
Revenue/Employee (K)	966.9	942.4	1,242.5	316.0

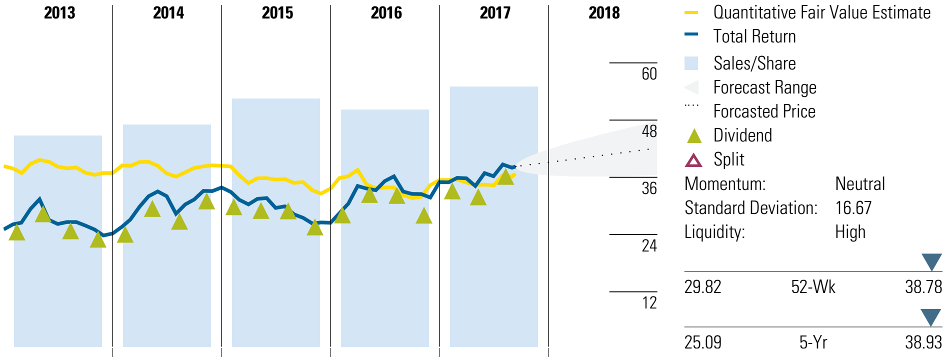
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	601.8	—	606.7	582.6
Assets/Equity	4.4	3.8	2.6	1.7
Long-Term Debt/Equity	1.2	0.9	0.7	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	6.5	8.0	10.5	7.2
Operating Income %	-29.4	-5.3	-7.0	-1.5
Earnings %	-52.0	-15.2	-20.1	-6.4
Dividends %	1.9	-4.6	-9.7	-2.3
Book Value %	-0.3	1.8	5.2	6.5
Stock Total Return %	18.3	8.2	4.6	-3.2

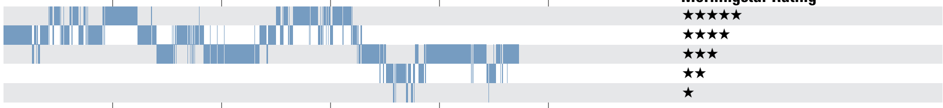
Price vs. Quantitative Fair Value



Momentum:	Neutral
Standard Deviation:	16.67
Liquidity:	High

2013	2014	2015	2016	2017	2018	
-3.0	39.9	-21.8	32.4	9.3		Total Return %
-36.1	27.1	-22.5	19.9	-3.5		+/– Market (Morningstar US Index)
5.31	3.34	4.47	3.56	—		Trailing Dividend Yield %
—	—	—	—	3.44		Forward Dividend Yield %
14.6	15.2	12.4	26.9	20.0		Price/Earnings
0.9	1.2	0.8	1.1	1.1		Price/Revenue

Morningstar Rating^{Q}



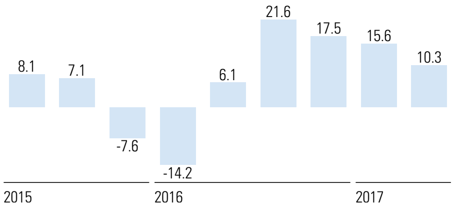
2012	2013	2014	2015	2016	TTM	**Financials** (Fiscal Year in Mil)
23,489	24,888	27,429	29,447	31,360	33,256	Revenue
24.1	6.0	10.2	7.4	6.5	6.0	% Change
2,380	3,656	3,096	4,409	3,112	3,510	Operating Income
-46.9	53.6	-15.3	42.4	-29.4	12.8	% Change
1,160	1,719	1,623	2,269	1,134	1,770	Net Income
6,131	6,343	4,457	7,616	8,445	6,790	Operating Cash Flow
-5,810	-5,395	-6,077	-7,624	-8,553	-7,909	Capital Spending
321	948	-1,620	-8	-108	-1,119	Free Cash Flow
1.4	3.8	-5.9	0.0	-0.3	-3.4	% Sales
1.42	2.00	1.88	2.54	1.22	1.89	EPS
-62.1	40.8	-6.0	35.1	-52.0	54.9	% Change
0.39	0.48	-0.03	-1.04	0.82	-1.20	Free Cash Flow/Share
2.10	1.46	1.24	1.24	1.26	1.29	Dividends/Share
25.07	25.51	27.44	28.01	28.17	28.69	Book Value/Share
855,000	857,000	860,000	920,000	924,000	960,088	Shares Outstanding (K)

2012	2013	2014	2015	2016	TTM	**Profitability**
6.5	7.8	7.2	9.4	4.4	6.6	Return on Equity %
1.7	2.2	2.0	2.5	1.1	1.5	Return on Assets %
4.9	6.9	5.9	7.7	3.6	5.3	Net Margin %
0.35	0.31	0.33	0.32	0.30	0.29	Asset Turnover
3.7	3.5	3.8	3.7	4.4	4.3	Financial Leverage
56.8	56.9	52.6	55.6	59.7	58.2	Gross Margin %
10.1	14.7	11.3	15.0	9.9	10.6	Operating Margin %
18,346	18,271	20,010	24,286	32,216	30,956	Long-Term Debt
21,624	22,925	22,801	25,793	25,837	27,546	Total Equity
0.6	0.5	0.6	0.5	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2017	8,757.0	7,623.0	—	—	—
2016	7,573.0	6,910.0	9,002.0	7,874.0	31,360.0
2015	8,830.0	6,514.0	7,401.0	6,701.0	29,447.0
2014	7,237.0	6,024.0	6,912.0	7,256.0	27,429.0
Earnings Per Share ()					
2017	1.07	0.09	—	—	—
2016	0.19	0.29	0.53	0.22	1.22
2015	0.80	0.74	0.69	0.32	2.54
2014	0.10	0.60	1.15	0.02	1.88

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

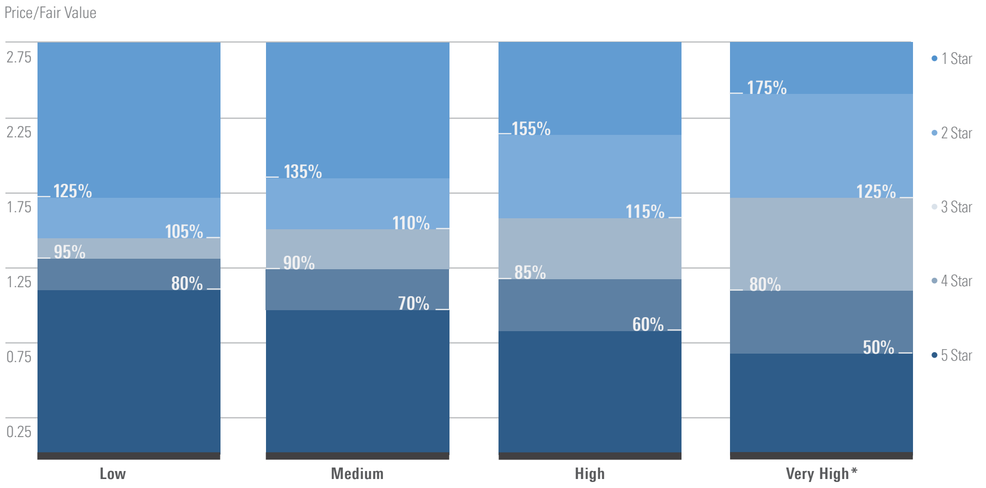
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- **One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- **Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- **Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- **Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- **Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

Research Methodology for Valuing Companies

ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★	37.80 USD	33.00 USD	1.15	3.44	3.47	36.29	Utilities - Diversified	Standard
13 Sep 2017 21:32, UTC	13 Sep 2017	06 Sep 2017 13:07, UTC		13 Sep 2017	13 Sep 2017	13 Sep 2017		

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Prices noted with the Report are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

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Exelon Corp EXC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 13 Sep 2017 21:32, UTC	37.80 USD 13 Sep 2017	33.00 USD 06 Sep 2017 13:07, UTC	1.15	3.44 13 Sep 2017	3.47 13 Sep 2017	36.29 13 Sep 2017	Utilities - Diversified	Standard

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Electric Utilities

WEEKLY ANALYSIS

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Things We've Learned This Week

Our Take: Utilities continue to bleed off in September some of the outperformance seen this past summer, with 120 bps underperformance vs the S&P 500 in the past week alone. We continue to see the sector as fairly valued (about 2% expensive) based on the CS forecast for a 2.8% 10-year bond yield by yearend. As DUK, SO, NEE, and other utilities dig out from Hurricane Irma, we see most storm damage recoverable through a mix of storm reserves (DUK has $60M remaining in Florida and another $22M in the Carolinas) and cost deferrals for future ratecases. Any incremental ratebase spend would depend on whether utilities seek to accelerate or add to existing capital plans as a result of the storm.

- **D received a favorable decision** from the VA Supreme Court this week on the dismissal of challenges to the state's legislative freeze on biennial rate reviews through the end of the decade. Looking forward, we await the commissioning of the Cove Point LNG export terminal in Nov, which is expected to help add as much as $600M-$800M of incremental EBITDA in 2018 and beyond, allowing the company to pay down $3B-$4B of debt over the next few years.
- **SR received a poor (but expected) Staff recommendation** for its ongoing ratecase this week. We view Staff's position in-line with our low-end expectation for ~$0.15 at risk in the case, although we also expect any settled or litigated outcome to be materially better than Staff.
- **Investor interest (calls, model requests, etc…)** has picked up for D (Outperform) and SO (Neutral), both leaning to the long side. BKH (Outperform) interest has also picked up after recent underperformance heading into the Oct analyst day. As such, we see skew toward positive (neutral at least) surprise vs expectations for BKH, with no change to its previously articulated 2018 timeframe for a Mancos disposition (we think little chance for a COSG program). We also expect an extension of the company's capex projection to 2021, if only in broad strokes (no segment breakout).
- **EEI Financial Conference 2017 Meetings Signup Now Open**: Please join us in Orlando 11/5-11/7 as we host 24 management meetings and a takeaways dinner on 11/7: *WEC, NI, BKH, AVA, ED, DUK (dinner), DTE, AEP, EXC, NEE, NWE, ES, EIX, D, SRE, CMS, CNP, PNW, XEL, PPL, PEG, PCG, SO, ETR.*

Figure 1: CS Utilities Catalyst Calendar – 2017

Company	Ticker	Description	Timing	Comments
Duke Energy	DUK	Appeals Decision RE: Constitution Pipeline Water Quality Certificate	Mid-2017	Fed court: denial of water quality permit upheld
Eversource	ES	ISO-NE Midyear Analysis, expected to support ANE	Mid-2017	
ALL Regulateds		FOMC September Meeting	9/20/2017	
All Solar		USITC preliminary decision on 201 trade case against solar imports	9/22/2017	
NiSource	NI	PULJ Proposed order in Columbia of MD ratecase	9/26/2017	Expected 9/26
Centerpoint	CNP	Decision in OK PBR Proceeding	September, 2017	
CMS Energy	CMS	MPSC Commission Order on Palisades Securitization	September, 2017	From Aug to End of Sept
Eversource	ES	Northern Pass NHSEC Decision	9/30/2017	Decision postponed six months to March 2018
Southern	SO	DOE additional loan request for Vogtle Plant	September, 2017	"By End of Sept" - Oglethorpe investor call
Southern	SO	Final Decision in Kemper Proceeding	10/6/2017	Decision postponed to January 2018
DTE Energy	DTE	Possible PSC Decision on Interim Rates in Electric ratecase	10/13/2017	Docket No. C-U-18255
Duke Energy	DUK	Piedmont Natural Gas (PNG) ratecase settlement	10/15/2017	Decision required by PSC
Spire	SR	Rebuttal Testimony on Revenue Requirement in Ratecase	10/17/2017	for MGE and Laclede gas
Exelon	EXC	ALJ proposed order in FRP case	10/19/2017	
Eversource	ES	CT draft decision on Aquarion for ES	10/27/2017	Draft decision due
Eversource	ES	CT final decision on Aquarion for ES	10/27/2017	Decision due
Duke Energy	DUK	Settled outcome for DEP rate request	October, 2017	DEP outcome expected Oct/Nov
Dominion	D	Rider BW, U-2 filing	October, 2017	
Spire	SR	Mobile Gas 4-year review of RSE Filing	October, 2017	
ALL Regulateds		FOMC October/November Meeting	11/1/2017	
ALL Utilities		EEI Financial Conference	11/5/2017	*Capex/Guidance Updates*
NiSource		Columbia Gas of MD ratecase - final decision	11/5/2017	final order due
Pinnacle West	PNW	2018 EPS Guidance	3Q17	On the 3Q Call
Duke Energy	DUK	Lee CCGT Completion	November, 2017	
Spire	SR	STL Pipeline Milestone; FERC Final Order	November, 2017	
Eversource	ES	WMECO and NSTAR Electric Ratecase Decisions	November, 2017	decision in Nov, rate design in Dec
ALL Regulateds		FOMC December Meeting	12/13/2017	
Dominion	D	Cove Point In-Service	2H17	on-line in late 2017
Black Hills Corp	BKH	Sale of Non-Core Oil and Gas Properties Completed	2H17	Complete by YE
Northwestern Corp	NWE	Colstrip Litigation Resolution	2H17	Expected 'end of year'
Northwestern Corp	NWE	FERC/DGGS Resolution	2H17	Second half at the earliest'
Southern Company	SO	Mississippi PSC decision on Kemper Settlement	4Q17	If approved, SO expects additional cost of $100-200M
Black Hills Corp	BKH	Renewable RFP Issuance - Approval at year-end	4Q17	Issued June 23rd, up to 60 MW
Southern	SO	Sanmen (China) AP1000 Reactor - Fuel Loaded	4Q17	previously at some point in the summer
DTE Energy	DTE	NEXUS Pipeline completed	4Q17	Before year end, early approval late Aug
All Solar		Trump to decide solar import duty under 201 trade case	Nov-Dec, 2017	60 days approval period starting Nov 11
Spire	SR	Missouri PSC - Commissioner Stoll Term Expires	December, 2017	(D)
Exelon	EXC	Deadline for Decision in FRP proceeding	December, 2017	
Eversource	ES	PSNH Generation Divestiture	2017	Late-2017
Eversource	ES	Aquarion transaction expected close date	2017	Expected to close by 12/31
Eversource	ES	Massachusetts Solar Filing Facility Completion	2017	YE 2017
Black Hills Corp	BKH	Colorado IRP Approval	2017	Expected by YE
Black Hills Corp	BKH	IRP for South Dakota and Wyoming	2017	
DTE Energy	DTE	IRP Filing in Michigan	2017	"later this year", 4q16 call
Black Hills Corp	BKH	Cost of Service Gas Filing	2018	Previously 1H17, 2Q/3Q17
Dominion	D	Millstone study order results	2018	Millstone study order on 7/25, results due Feb. 2018
Spire	SR	Spire Missouri and MGE ratecase decisions	2018	Expected by March 8th 2018
Duke Energy	DUK	Duke Energy Kentucky Ratecase Expected Decision	2018	Expected April 2018

Source: Company data, Credit Suisse estimates

- **Hurricane Irma Aftermath.** Earlier this week, Hurricane Irma rampaged through Florida and Georgia leaving a path of destruction behind. Electric utilities affected include Florida Power & Light Co. (FPL), a subsidiary of NextEra Energy (NEE), Duke Energy Florida (DEF), Tampa Electric Co. (TECO), a subsidiary of Emera Inc., and Georgia Power (GP), a subsidiary of Southern Co. (SO). As of Sept 14th, FPL reported that less than 1.4M of its 4.9M customers were without power and has restored power to over 3M customers. DEF reported that less than 176K of its 1.8M customers were without power and has restored power to over 824K customers. TECO reported 90K of its 730K customers were without power and has restored power to 335K customers. Georgia Power reported that 155K customers were without power and has restored power to 830K customers.

  FPL expects restoration of the eastern portion of its service area by Sept 17th and of the western portion by Sept 22nd. DEF expects restoration of the western portion of its service by Sept 15th and restoration of the central and northern portions by Sept 17th. TECO expects restoration to all customers by Sept 17th. Georgia Power states that it “will take numerous days in some areas of the state to get power restored."

Although electric utilities in affected areas have suffered heavy infrastructure damage primarily to (transmission/distribution lines), gas utilities have emerged relatively unscathed with minimal infrastructure damage.

While power is expected to be fully restored over the course of days, rebuilding infrastructure in areas that were heavily affected will be a more drawn out process. The CEO of FPL stated that over the next few months the utility is planning to rebuild infrastructure with additional storm hardening and will upgrade its system with additional smart grid equipment.

- **DUK: Storm reserves help offset repairs.** While it’s still too early to determine the financial extent of Irma damages, it may be useful to recall that Hurricane Matthew in 2016 resulted in outages for 1.7M customers in Florida and the Carolinas and about $140M deferred repair costs (for which the pending DEP rate request includes $30M/yr recovery of $116M). The company currently has $60M remaining in customer-funded storm reserves in Florida plus another $22M in the Carolinas. Generally, storm reserves are used to offset operating expense repair work, while any capital replacement is accomplished with debt and equity. Utilities may petition regulators for replenishment (the current reserves were established under a prior rate settlement). Any amount of incremental capital spending and ratebase would depend on whether the company chose to accelerate existing capital plans or needs to replace major equipment outside of existing plans.
- **SO says no; Kemper decision postponed again.** After receiving a settlement proposal in late August, SO has again failed to reach an agreement with the Mississippi Public Service Commission (PSC) over the Kemper facility. As a result, the PSC announced that their final decision regarding how much customers should pay for the Kemper facility has been postponed to January 2018. SO stated that accepting the settlement would harm both the company financially as well as its ability to service customers.
    - **Mississippi Staff on Kemper Settlement Proposal: 'You can do with less'.** On August 21st, SO filed its settlement proposal for the Kemper facility, continuing collection of $126M annually under existing rates to recover the CCGT component, reflecting a 9.413% ROE. However, the Mississippi Public Service Commission (PSC) Staff recommended (in a separate filing) lowering the annual revenue requirement for the CCGT to $122M, representing a 9.225% ROE. The gasification portion for Kemper has now been completely written off, with $1B of equity announced for 2017, while settlement discussions are expected to provide clarity on future cancellation costs (estimated at $100M-$200M) and the recovery of ~$500M combined cycle investment not already in rates. SO also contended that it would have been able to justify a $209M revenue requirement, but limited it to $126M to be consistent with the PSC's request (June 21st) to not increase customer rates. In the filing, SO stated "Far from offering certainty or a path to rebuilding MPC's financial strength, these offers would have required significant additional write-offs in excess of the approximately $6B already written off by the Company, and would have created a continuous, annual financial drain on the MPC that is simply not consistent with the terms and spirit of the Commissioners or the statutory requirement that rates be 'just and reasonable'". The next step in the process will be for the PSC to review SO's proposed settlement and to order a status conference.
- **Appalachian power rider denied.** VA regulators turned down AEP subsidiary Appalachian Power Co.’s request for a voluntary renewable energy rider, Rider REO, due to concerns regarding proposed pricing design and cost recovery. Rider REO would give customers the option to pay to receive all power from renewable energy resources. Intervenors argued the rider would lead to significantly higher charges for

resources already included in the standard tariff for participating customers. The charges would be $15 per MWh more than the cost of PPAs for renewable energy. Due to these concerns, the application was denied by regulators.

- **Now you permit, now you don't - Mountain Valley Pipeline.** Recall that **ED** owns 12.5% equity interest in this proposed project. The West Virginia Department of Environmental Protection (DEP) retracted a Clean Water Act Permit for EQR Midstream's Mountain Valley natural gas pipeline. The DEP had previously granted the permit for the pipeline on March 28th. The DEP stated that its "decision will allow the agency to reevaluate the complete application to whether the state's certification is in compliance with Section 401 of the federal Clean Water Act." In particular, the agency is evaluating the pipeline's potential to discharge waste into waterways.
    - ***From our 6/30 weekly*: Progress on Pipeline Construction – FERC EIS for Mountain Valley Pipeline.** FERC staff issued their final environmental impact statement (EIS) for the Mountain Valley Pipeline (MVP) this week, affirming that the project could move forward without significant impact to the environment. Opponents of MVP have said they believe the pipeline will harm water supplies and that the review relied too much on consultants who were biased in favor of the project. The largest owner of the project is EQT Midstream (45.5% owner) who will also act as the pipeline's operator. Project owners are still targeting a late 2018 in-service date, and the project will need to be issued a certificate of construction which will require a quorum at FERC.
    - ***From our 4/4 ED note*: Proposed Mountain Valley Pipeline.** In Jan 2016, ED acquired a 12.5% equity interest in the proposed Mountain Valley Pipeline. If approved, the 300-mile pipeline (2 MMDt/day) would connect Equitrans (EQT) pipeline in northwestern West Virginia to Columbia Gas Transmission and Transco pipelines through to Virginia with a target in-service date of 4Q18. Total cost is projected to be $3.0B-$3.5B, with ED having already contributed $41M through Sept 2016. Key shippers include EQT Energy, NextEra Midstream, Con Edison 4 April 2017 Consolidated Edison (ED) 4 (CECONY/O&R), WGL Midstream, Vega Energy, Roanoke Gas. The Federal Energy Regulatory Commission (FERC) issued a Draft Environmental Impact Statement in Sept 2016 with final approvals remain pending. On March 31, FERC announced a 3-month delay for their review.
- **Hydro-Québec offers a hand to NY.** Recall in June, the NY governor's office issued a request for proposals (RFP) to build renewable energy projects that will generate 2.5 MWh/year to help the state meet its climate and renewable energy targets. In response, Hydro-Québec (HQ) submitted two proposals, an 80 MW upgrade of the Cedars Rapid Transmission intertie between Quebec's power grid with NYISO's network and an offer to deliver 5.8-8.3 TWh/year "over a major new or expanded interconnection into New York from Québec". HQ's proposals would help address NYISO's transmission congestion issue.
- **CNP Arkansas ratecase settlement.** On Sept 6th, the Arkansas Public Service Commission (PSC) issued an order adopting a settlement in CenterPoint Energy Resources' ratecase. The settlement authorized a $7.6M rate increase at a 9.5% ROE, 31.02% equity ratio, and $699.1M ratebase using test year ending Sept. 30, 2018. CNP initially requested a $9.1M rate increase at a 9.5% ROE, 31.56% equity ratio, and $705M ratebase.
- **Washington Gas ratecase settlement.** On Sept 8th, the Virginia State Corporation Commission (SCC) issued an order adopting a settlement in Washington Gas Light Co.'s gas ratecase. The settlement authorized a $34M rate increase and a 52.337% equity ratio. The agreement is silent to other traditional ratecase parameters, but specifies that a 9.5% ROE is to be used "in any application or filing, other than for a

change in base rates." Washington Gas Light initially requested a $45.6M rate increase at a 10.25% ROE, 57.55% equity ratio, and $925.4M ratebase. The SCC rejected provisions outlining programs designed to expand the availability of natural gas service to unserved areas, in particular the targeted conversion program (deemed not in public interest) and the contribution payment plan (requires additional customer protections).

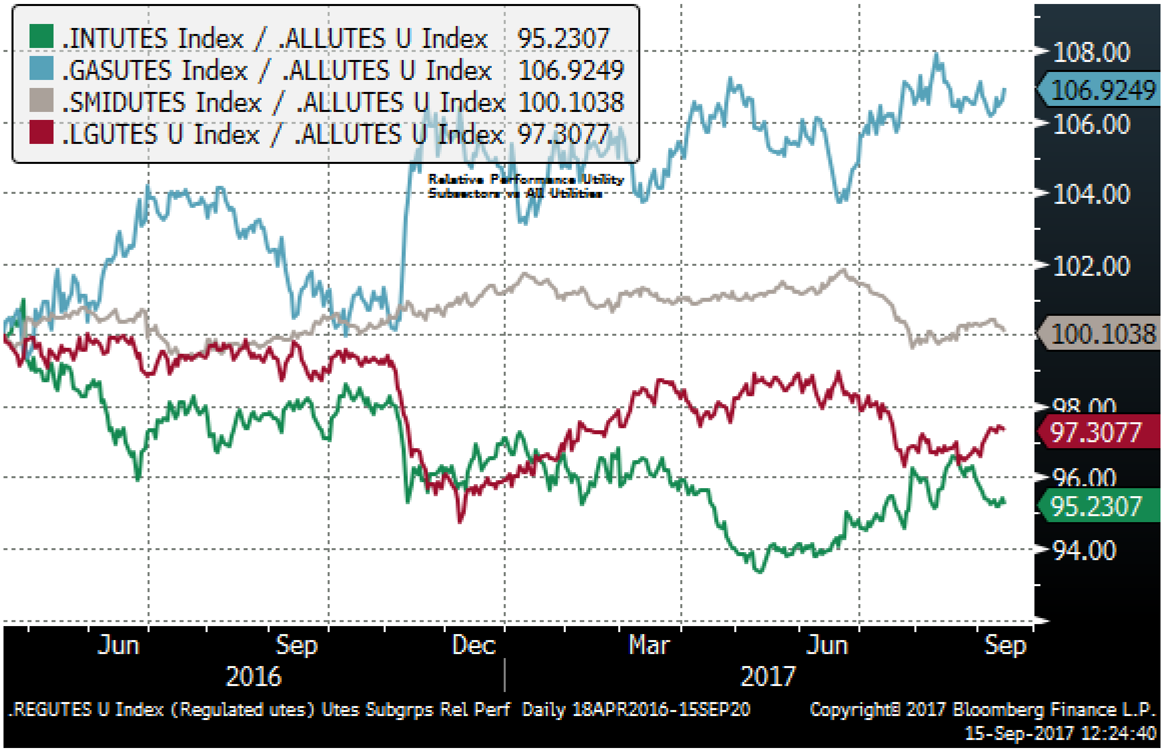
- **Southern Connecticut Gas ratecase settlement.** On Sept 5th, the Connecticut Public Utilities Regulatory Authority (PURA), the Office of Consumer Counsel, and the Southern Connecticut Gas Co. (a subsidiary of Avangrid Inc.) filed a settlement in the company's pending rate case. The settlement authorized a three step $11.6M rate increase at a 9.25% ROE. The first, second, and third step rates increases are respectively: $1.9M at a 9.25% ROE, 52.42% equity ratio, and a $540.2M rate base / incremental $4.7M at a 9.25% ROE, 52.4% equity ratio, and a $577.1M rate base / incremental $5M at a 9.25% ROE, 52.19% equity ratio, and a $624.6M rate base. The step rate increases are proposed to become effective Jan. 1st 2018, 2019, and 2020 respectively. Southern Connecticut Gas initially requested a $19.2M rate increase at a 9.95% ROE.
- **Cleaning up California Peak Demand.** Senate Bill 338, introduced as the Clean Peak Reliability Requirement, has been sent to the Governor Brown for approval following approval in the California Senate and Assembly. The bill would require utilities to alter their integrated resource planning (IRP) process to "consider the role of existing renewable generation, grid operational efficiencies, energy storage, and distributed energy resources" in meeting peak demand. The bill was introduced due to concerns regarding the "duck curve" representing the timing imbalance between solar generation midday and peak demand in the evening.
- **HydroOne & Avista file merger application.** Following HydroOne's proposed acquisition announcement in July, the companies have filed applications for approval of the merger to state utility commissions as well as FERC, seeking approval by Aug 14, 2018.
- **Utilities underperforming in September after a strong July/Aug.** Group performance vs the S&P 500 appears to have waned this month as the 10-Year Treasury yield picked up 15 bps in what has been a longer-term downward trend since March. Even at record high P/Es, the utility sector continues to trade in strong correlation to the 10-year bond. We illustrate in the correlation tables below that historical association would suggest that the sector is **still about 2% expensive** at the current 4% premium P/E vs the S&P 500 based on the CS forecast for a 2.8% yield by yearend. **The premium suggests defensive posturing, buttressed by a low-yield environment.**

Figure 2: 10-Year Treasury Yield vs. Utilities / SPX Relative Performance

Source: the BLOOMBERG PROFESSIONAL™ service

The subsector breakout below shows that the Integrated names exposed to weakening and backwardated commodity pricing have weakened in recent weeks with investors preferring small/mid-cap regulated utilities instead. Meanwhile, gas utilities have plateaued this month after strong outperformance over the summer.

Figure 3: Utility Subsector Relative Performance



Source: the BLOOMBERG PROFESSIONAL™ service

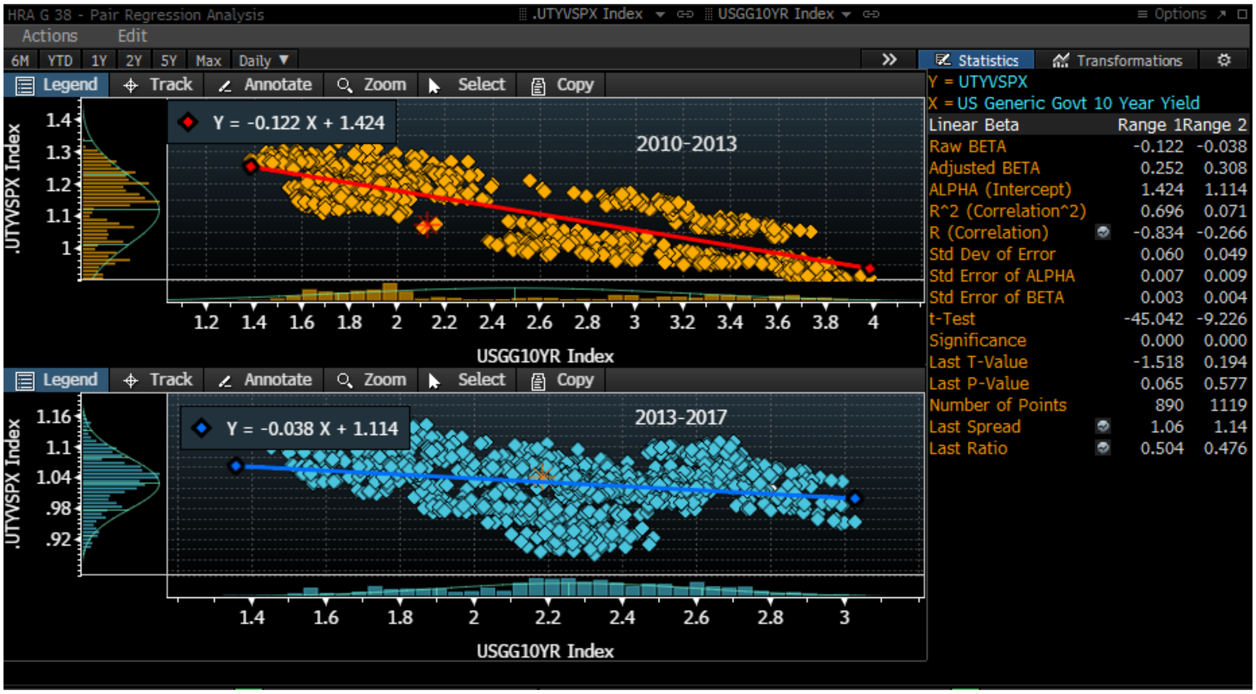
Yield spreads stay steady after all. The spread between dividend yields and 10-year bond yields remains around 117 bps despite a temporary dip earlier this month to ~130 bps. Historically (pre-2008), this spread has been closer to zero, so the spread continues to suggest defensive yield support for utility sector P/Es. There is usually a high degree of correlation between the 10-year yield and the premium/discount P/E that utilities trade at vs. the S&P 500. This spread acts as a sort of shock absorber, reducing the “control” rates should have over utility valuation if rates begin to rise sustainably. As the Fed gets closer to finalizing its tightening cycle over the next couple of years, longer-duration bond yields should begin to rise as the yield curve steepens. Once over ~4% yield for the 10-Year, we would expect a return to a more historically “normal” relationship between utility equities and bonds (i.e., no spread between the 10-year and dividend yields and utilities trading at about 70%-80% of the S&P 500 forward P/E).

Figure 4: Spread Between Utility Dividend Yield and 10-Year Treasury Bond Yield

Source: the BLOOMBERG PROFESSIONAL™ service

For now, historical correlation as illustrated below suggests utilities are about 2% overvalued at a 4% relative premium forward P/E vs the S&P 500 based on the CS forecast for a 2.8% 10-year yield by yearend 2017. Note the weaker correlation for 2013 – 2017 vs. stronger correlation from 2010 – 2013, a phenomenon that we attribute, in part, to the spread between bond yields and dividend yields that has persisted through the recent period of unusually low interest rates.

Figure 5: Correlation between Utility P/E Premium/Discount and the 10-Yr Treasury, 2010-2013 vs. 2013-2017



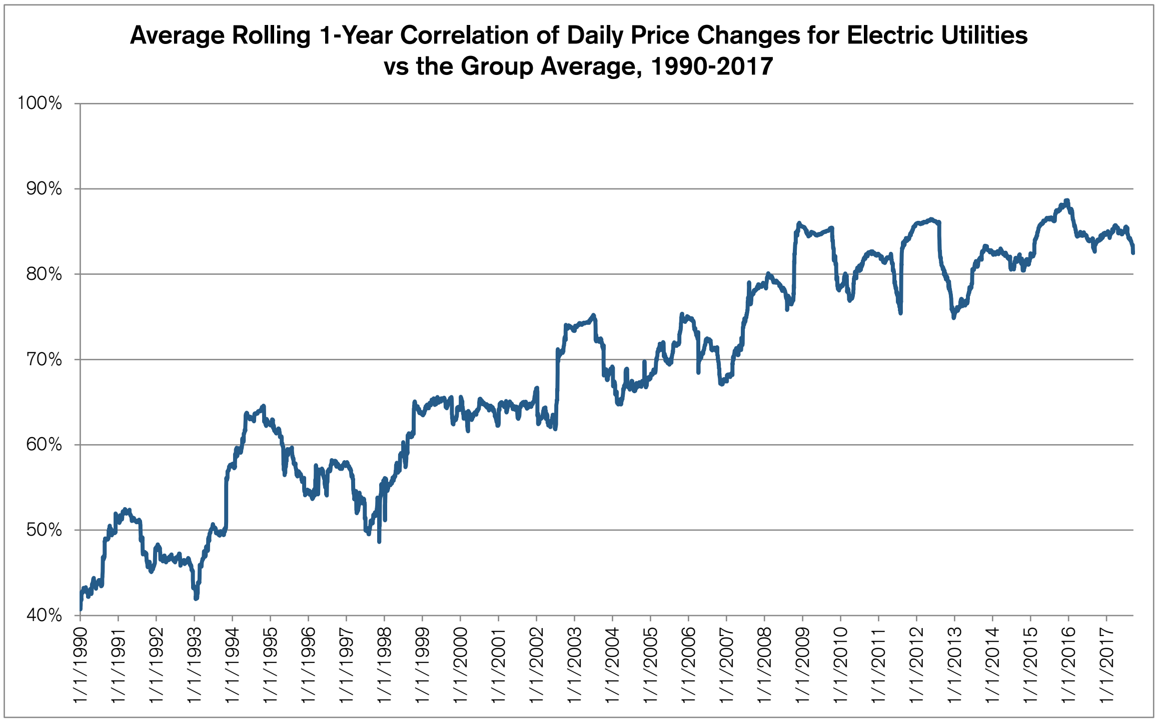
Y = UTYVSPX
X = US Generic Govt 10 Year Yield

Linear Beta	Range 1	Range 2
Raw BETA	-0.122	-0.038
Adjusted BETA	0.252	0.308
ALPHA (Intercept)	1.424	1.114
R^2 (Correlation^2)	0.696	0.071
R (Correlation)	-0.834	-0.266
Std Dev of Error	0.060	0.049
Std Error of ALPHA	0.007	0.009
Std Error of BETA	0.003	0.004
t-Test	-45.042	-9.226
Significance	0.000	0.000
Last T-Value	-1.518	0.194
Last P-Value	0.065	0.577
Number of Points	890	1119
Last Spread	1.06	1.14
Last Ratio	0.504	0.476

Source: the BLOOMBERG PROFESSIONAL™ service

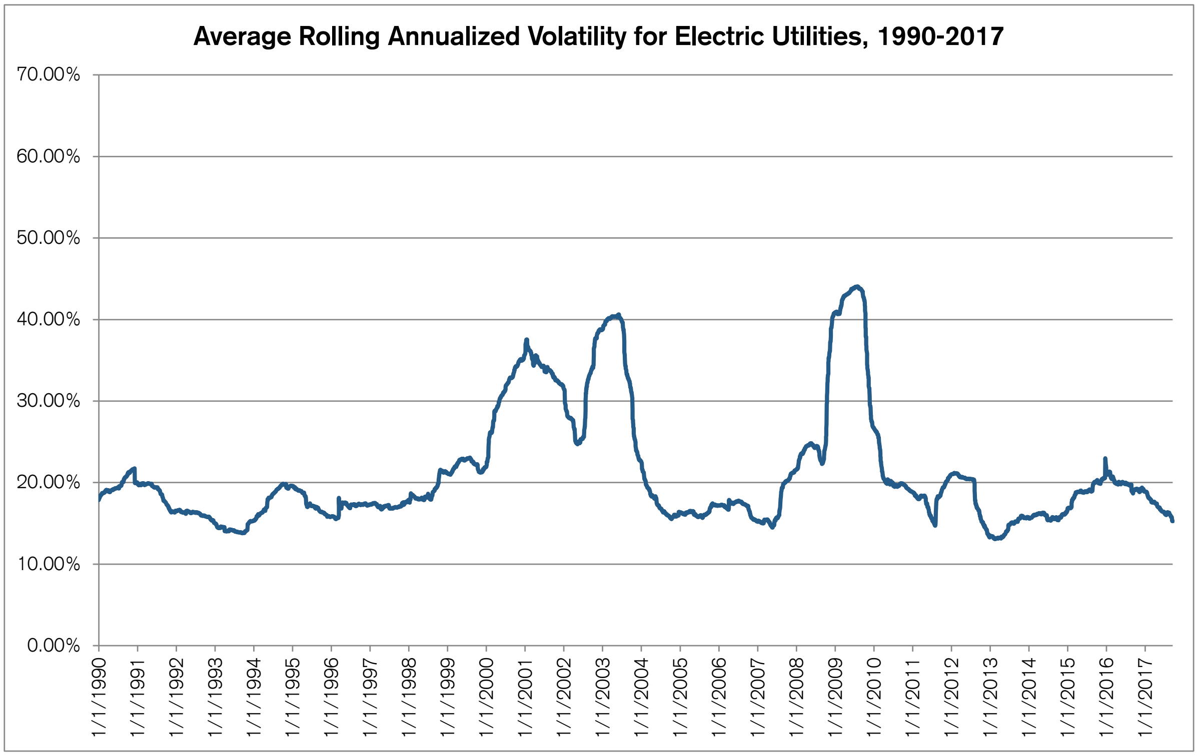
The next two charts illustrate the increasing correlation between utility stock movements since 1990 (an average of each stock's correlation vs the group average daily movement), even while annualized volatility has remained fairly steady aside from recessionary spikes in 2001-2003 and 2007-2010. We see this largely as a symptom of increased programmatic trading and the popularity of Exchange Traded Funds (ETFs), with higher correlations making it tougher on market/beta-neutral strategies typically run by sector-focused hedge funds.

Figure 6: Average Rolling 1-Year Correlation of Daily Price Changes for Electric Utilities vs the Group Average, 1990-2017



Source: the BLOOMBERG PROFESSIONAL™ service

Figure 7: Average Rolling Annualized Volatility for Electric Utilities, 1990-2017



Source: the BLOOMBERG PROFESSIONAL™ service

Recent Excerpts:

- **D: The Freeze Stays Frozen:** On 9/14, the Virginia Supreme Court dismissed consumer group arguments 6-1 that had sought to declare unconstitutional the suspension of biennial reviews for Appalachian Power (AEP's APCO) and Virginia Power (D's VEPCO) through 2020 and 2021, respectively. Although we have noted that this was the most likely outcome, the decision had been watched closely by investors and eliminates a risk that the effective rate freeze established by the state legislature might have been reversed.
    - The relevant passage from the Virginia constitution of 1971 is "***Subject to such criteria and other requirements as may be prescribed by law***, the [State Corporation] Commission shall have the power and be charged with the duty of regulating the rates, charges, and services and, except as may be otherwise authorized by the Constitution or by general law, the facilities of railroad, telephone, gas, and electric companies." Va. Const. art. IX, § 2." The court cited precedent cases and agreed that the suspension is a constitutional exercise of the legislature's right to set "requirements" for rate regulation. Furthermore, the court also noted that a finding of violation would require the law to be "plainly repugnant to Article IX", and that the statute suspending biennial reviews is not.
- **SR: A Shot Across the Bow, but Expected. A poor Staff recommendation but in-line with overall expectations:** On 9/8, the Missouri Public Service Commission (PSC) Staff recommended rate increases far below the requests filed by SR for its former Laclede and MGE gas utility subsidiaries. We view this as the lowest possible outcome, about $0.14 EPS below our currently modeled assumptions. This remains in-line with our prior expectation for about $0.15 EPS at risk (see our 4/11 note). We expect the final outcome/settlement to be better.
    - **Staff ROE and equity are low, but matches SR's $2B ratebase.** The recommended 9.25% ROE and 48.84% equity ratio is based on lower risk for gas utilities (vs the recent KCP&L 9.5% decision) and a lower consolidated capital structure. However, these negative attributes are partially offset by Staff's near-concurrence with SR's request for a combined $2B ratebase. Staff recommended a combined $21M base rate increase (which includes a transfer and reset of $49M ISRS rider revenues into base) on a combined $1.961B ratebase for test year ending 12/2016. This compares to the company's initial request for a $108M increase based on 10.35% ROE and 57.2% utility equity ratio on $2.024B ratebase. We expect this to be updated in mid-Oct to include the impact of an incremental $170M debt that will bring the equity layer down to ~54%. **Our estimates are currently based** on only $1.72B of ratebase but at a higher 10% ROE and 55.5% equity ratio, which is about $0.14 higher than Staff.
    - **Expect a settled outcome later this year.** The procedural schedule calls for a March 2018 decision, notably after Commissioner Stoll's term ends in Dec and a new Republican and possibly Chairman is appointed. SR is seeking a settled outcome later this year that is likely better than Staff.

Last Week's Things We've Learned This Week (9/1): Our Take: As we watch Hurricane Irma approach Florida, it would appear that the Carolinas are likely to escape serious harm. Nevertheless, we recall that DUK's $25B grid modernization plan includes a 10-year, $13B Power Forward Carolinas utility investment initiative, with $4.9B of undergrounding and $3.5B of storm hardening (DUK has been making storm hardening investments in Florida for years). When this was initially proposed earlier this year (citing the impact from last year's Hurricane Matthew), we noted caution around these programs given PEG's experience in NJ with regulator pushback after Hurricane Sandy. However, we tend to think that on the margin, this Hurricane season is likely to help the company gain buy-in for such long-term plans. See our Feb 20th note "Stronger 5-Year Plan Bears Watching" and May 10th note "Carolinas on their Minds" for more detail.

Companies Mentioned *(Price as of 14-Sep-2017)*

ALLETE (ALE.N, $78.2)
Ameren (AEE.N, $59.56)
American Electric Power (AEP.N, $72.9)
Avangrid (AGR.N, $47.42)
Avista US (AVA.N, $51.39)
Azure Power Global Limited (AZRE.N, $14.5)
BP (BP.N, $36.33)
Black Hills Corp (BKH.N, $69.82, OUTPERFORM, TP $75.0)
CMS Energy Corp (CMS.N, $47.89)
Calpine (CPN.N, $14.7)
CenterPoint Energy Inc (CNP.N, $30.14)
Cheniere Energy, Inc. (LNG.A, $43.75)
Consolidated Edison (ED.N, $84.51)
DTE Energy (DTE.N, $111.58)
Dominion Energy (D.N, $79.17, OUTPERFORM, TP $83.0)
Duke Energy (DUK.N, $87.5)
Dynegy Corporation (DYN.N, $9.27)
EQT Midstream Partners, LP (EQM.N, $75.58)
Edison International (EIX.N, $81.03)
Emera Inc. (EMA.TO, C$46.59)
Enable Midstream Partners (ENBL.N, $14.79)
Enbridge Inc (ENB.N, $41.14)
Energy Transfer Partners, LP (ETP.N, $18.82)
Entergy Corp (ETR.N, $79.14)
Eversource Energy (ES.N, $63.05)
Exelon Corporation (EXC.N, $38.1)
Gt Plains Energy (GXP.N, $30.76)
MDU Rsrcs Group (MDU.N, $27.12)
NRG Energy (NRG.N, $23.1)
National Grid (NG.L, 952.0p)
New Jersey Rsrce (NJR.N, $43.25)
NextEra Energy Inc. (NEE.N, $149.55)
NiSource Inc. (NI.N, $26.92)
NorthWestern Energy (NWE.N, $59.23)
OGE Energy (OGE.N, $36.27)
PG&E Corp. (PCG.N, $70.09)
PPL Corp (PPL.N, $39.12)
Pinnacle West Capital Corp. (PNW.N, $88.97)
Public Service Enterprise Group (PEG.N, $45.8)
SCANA (SCG.N, $59.62)
Sempra Ener (SRE.N, $119.09)
Southern Company (SO.N, $50.4, NEUTRAL, TP $50.0)
Spectra Energy Partners, LP (SEP.N, $44.5)
Spire Inc. (SR.N, $75.5)
TECO Energy (TE.N^G16)
TECO Energy (TE.N^G16)
TECO Energy (TE.N^G16)
Unitil (UTL.N, $49.47)
Westar Energy (WR.N, $50.67)
Wisconsin Energy Corporation (WEC.N, $65.81)
Xcel Energy (XEL.N, $49.1)

Disclosure Appendix

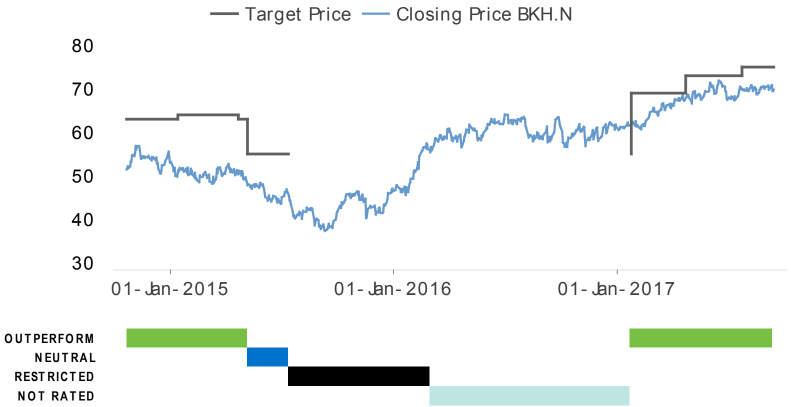
Analyst Certification

Michael Weinstein, Khanh Nguyen, CFA and Maheep Mandloi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Black Hills Corp (BKH.N)

BKH.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
21-Oct-14	51.42	63.00	O
13-Jan-15	50.67	64.00	
22-Apr-15	50.33	63.00	
07-May-15	47.81	55.00	N
13-Jul-15	45.70		R
02-Mar-16	56.61		NR
24-Jan-17	61.87	69.00	O *
23-Apr-17	67.33	73.00	
24-Jul-17	69.84	75.00	

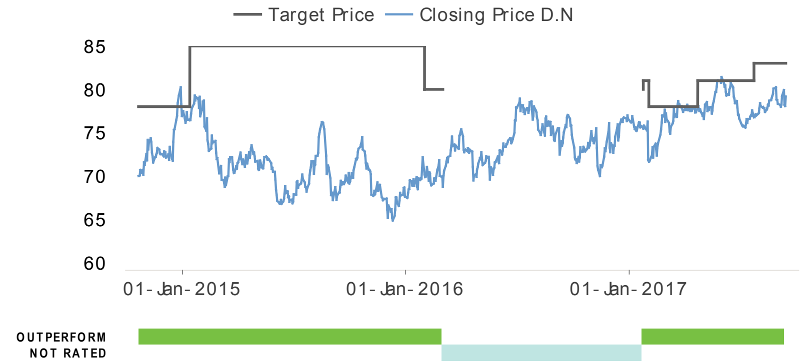
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Dominion Energy (D.N)

D.N Date	Closing Price (US$)	Target Price (US$)	Rating
21-Oct-14	70.01	78.00	O
13-Jan-15	76.44	85.00	
01-Feb-16	70.18	80.00	
02-Mar-16	68.77		NR
24-Jan-17	75.47	81.00	O *
02-Feb-17	71.68	78.00	
23-Apr-17	77.54	81.00	
24-Jul-17	76.77	83.00	

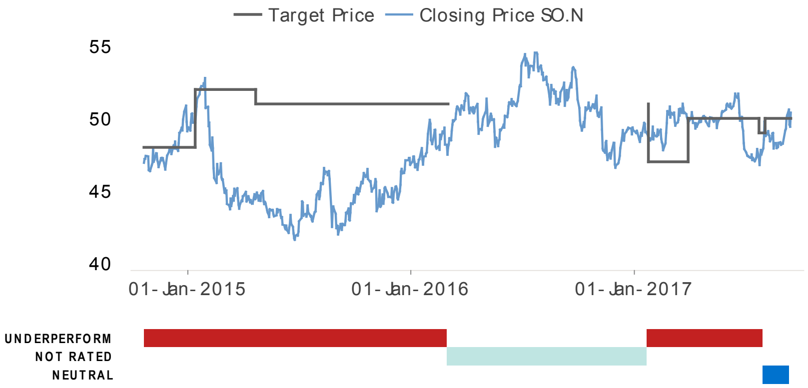
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Southern Company (SO.N)

SO.N Date	Closing Price (US$)	Target Price (US$)	Rating
21-Oct-14	46.93	48.00	U
13-Jan-15	49.68	52.00	
22-Apr-15	44.48	51.00	
02-Mar-16	47.98		NR
24-Jan-17	48.57	47.00	U *
30-Mar-17	49.67	50.00	
24-Jul-17	47.25	49.00	
03-Aug-17	49.36	50.00	N

** Asterisk signifies initiation or assumption of coverage.*



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for Black Hills Corp (BKH.N)

Method: We arrive at our $75 price target using a sum of the parts valuation methodology; applying multiples specific to the individual businesses that BKH operates in. We apply a 2019 P/E multiple of 17.0x to the electric utility business, the group average which we feel is warranted given the company's growth prospects and solid base of utility earnings and capex spend under trackers and riders; we apply a 1.0x discount to the Colorado electric business to reflect the unfavorable regulatory environment in the state. We apply a 20.0x 2019 P/E multiple to the gas utility, a 1.0x premium to the group given the solid base of utility earnings and capex spend under trackers and riders. We then apply a 16.5x 2019 P/E multiple to the power generation and coal mining segments, we arrive at this multiple by applying a discount of 0.5x to our average 2019 P/E multiple of 17.0x. We then use a weighted probability methodology to value the E&P business, applying an 80% chance the assets are sold and not assuming that the assets are placed into the cost of service gas program, we apply a 50% discount to our PDP calculation to value the reserves in the event of a sale of the assets. Our Outperform rating reflects a forecasted total return higher than the group average.

Risk: We believe there are several risks to our $75 target price and Outperform rating on BKH: (a) earnings dependent on regulatory relationships, we would highlight the rehearing of the Pueblo CT rate increase (b) success at the utilities in finding the next newbuild cycle (c) Power Price Sensitivity - within its utilities, off-system sales, and merchant generator operations, earnings are tied to power demand and commodity prices (d) unknown environmental compliance (e) ability for management to successfully execute on their Cost of Service Gas plan across the 5 regulatory jurisdictions, (f) ability to monetize the proven reserves.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Dominion Energy (D.N)

Method: Our $83 TP for D is based on the sum of the part methodology in which we apply a P/E multiple to the 2019 estimates for the utilities segments while use an EV/ EBITDA multiple approach to value the non-utilities segments. We use a 17x P/E multiple for the electric utilities and an 20x P/E multiple for the gas distribution segment. A 1.0x P/E premium to the group's average of 17x was applied to the electric utilities to reflect the suspension of rate review until 2022 in VA while a group's average P/E multiple is applied to the gas distribution segment accounting for the business' in-line growth potential with peers. A 7.5x EV/EBITDA multiple is applied to the Merchant Generation's 2019 EBITDA to derive the value of the business and an EV/ EBITDA multiple of 8.0x is used to derive the value of the gas transmission and storage business. An incremental value of DM to D is calculated by comparing the value of the gas distribution segment and the discounted value of payments received from DM. Our Outperform rating reflects a forecasted total return greater than the group average.

Risk: Risks to our $83 target price and Outperform rating for Dominion are 1) execution risk of Cove Point, Atlantic Coast Pipeline and the Greensville Generation project, which represent major capital projects for the company 2) removal of the D's rate freeze in Virginia 3) regulatory risk, 4)legislative risk 5) commodity price risk and power market/power price risk 6) interest rate risk 7) derivative risk, 8) load growth risk 9) weather risk, 10) environmental and climate change risk, 11) physical infrastructure and cyber security risk, and 12) execution risk on the major ongoing capital projects.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Southern Company (SO.N)

Method: We derived our $50 TP for SO using a SOTP methodology. For the regulated utilities segments, we value the segments separately by applying a group P/E target multiple to the segment's 2019 earnings to derive the segment's value while taking into account the risks in these segments through giving a discount to the group multiple. The peer group average P/E multiples are 17x and 20x for the electric and gas utilities respectively. Given the regulatory risks related to the large capital project construction in Mississippi and Georgia we apply a 0.5x discount for Mississippi, 0.5x for Georgia, and 0.5x for Alabama and Florida. The regulated electric and gas utilities account for about ~80% of SO's total value. We use an EV/ EBITDA multiple approach to value Southern Power segment whose earnings is derived from long-term PPAs of contracted merchant assets. An EV/ EBITDA multiple of 10x is applied to the segment's 2019 EBITDA to derived the total value of the segment. We used a peer group average EV/EBITDA of 9.5 to value the gas midstream segment and used a 12x P/E to derive the value of the gas marketing segment. Our Neutral rating reflects a forecasted total return in-line than the group average.

Risk: Risks to our $50 target price and Neutral rating SO are: 1) further cost overruns and construction delays at Kemper, 2) Vogtle construction execution risk, 3) potentially lower ROEs out of ratecase filings across the Gas LDCs, Mississippi Power, and Gulf Power, along with general business risks in the utility industry: 1) regulatory risk, 2) legislative risk, 3) commodity price risk, 4) interest rate risk, 4) derivative risk, 6) load growth risk, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cyber security risk

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Forward Power Curves, GenCo MtM and Weekly Commentary

SECTOR: Power and Utilities

September 15, 2017

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Forward Power/Gas Curves – 09/14/17. Below, we provide estimated forward curves for power, heat rates, spark, dark, and quark spreads for peak, off-peak, and around-the-clock for various regions in the United States, broken down by each RTO/ISO in North America. In addition, we model forward gas, basis, as well as coal through the 2026 time frame.

Investors should use this link to open an Excel spreadsheet of various curves that can be used for power and utility models (click here to download our weekly price deck summary).

Forward Curve Weekly Highlights: Power and Heat Rates, for the week of 9/14 versus the prior week, **2018 national peak power prices** ($/MWh) were up 0.7% to $34.38 from $34.13 and around-the-clock power was up 0.8% to $29.72 from $29.50. Peak power in PJM was up 1.0% to $37.13 from $36.75; ERCOT was down 1.2% to $32.14 from $32.52; NE-ISO was up 0.4% to $44.45 from $44.25; NY-ISO was down 0.2% to $45.98 from $46.06; and MISO was up 0.7% to $34.68 from $34.45. **2018 peak heat rate (Btu/kWh) contractions:** 2.3% to 10,679 in ERCOT, 0.8% to 11,451 in NYISO, 0.7% to 11,792 in MISO, 0.2% to 10,030 in NE-ISO. **2018 peak heat rate (Btu/kWh) expansions:** 0.1% to 11,671 in PJM. See full price deck for additional details on various other curves and regions.

Forward Curve Weekly Highlights: Spark and Dark Spreads versus the prior week, **2018 Peak Spark Spreads** ($/MWh) in PJM were up 1.1% to $14.86 from $14.69; ERCOT was down 5.3% to $11.08 from $11.69; NE-ISO was up 0.1% to $13.44 from $13.43; NYISO was down 1.5% to $17.87 from $18.14; and MISO was down 0.3% to $14.09 from $14.14. **2018 Around-the-Clock Dark Spreads** ($/MWh) in PJM were up 1.2% to $24.97 from $24.68; ERCOT was down 0.6% to $20.27 from $20.39; NE-ISO was up 0.4% to $31.90 from $31.79; NYISO was down 0.3% to $32.01 from $32.12; and MISO was down 0.1% to $22.98 from $22.99.

Illustrative impact of marking our IPP and integrated utility models to the current forward curves versus published live estimates: PEG, FE, EXC, NRG, DYN, CPN and VST are lower overall. **See the next page for illustrative MtM implications on Guggenheim's IPP and Integrated Utility coverage throughout our forecast period.**

Natural Gas Storage Levels and Eastern Gas Basis Tracker, Gas in storage increased to 3,311 Bcf as of 09/08/2017 a weekly increase of 91 Bcf, resulting in storage 5.1 Bcf below one year ago, 1.3 Bcf above the five-year average for this week. Eastern gas basis (TETCO M3) is currently reflecting a discount to Henry Hub for 2017 and a premium from 2018 through 2020 (-$0.68/$0.10/$0.07/$0.06 for '17/'18/'19/'20), expanding since last week.

Continued on the next page…

Illustrative Impact: Marking IPPs and Integrated Utilities to 09/14 Forward Curves

Henry Hub Natural Gas Price		2017E	2018E	2019E	2020E
Live Estimates(1)	$ / MMBtu	3.11	2.99	2.85	2.84
Current Curves	$ / MMBtu	3.16	3.08	2.90	2.83
Delta		*1.5%*	*2.9%*	*2.0%*	*(0.1%)*

INTEGRATED UTILITIES / INDEPENDENT POWER PRODUCERS (IPPs)

Exelon (EXC)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	8,204	8,456	8,473	8,519
	EPS	2.71	2.93	2.89	2.87
Current curves	Adj. EBITDA	8,185	8,425	8,397	8,395
	EPS	2.69	2.91	2.84	2.81
Delta	*Adj. EBITDA*	*(0.2%)*	*(0.4%)*	*(0.9%)*	*(1.5%)*
	EPS	*(0.6%)*	*(0.7%)*	*(1.8%)*	*(2.1%)*

FirstEnergy (FE)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	4,150	4,291	4,345	4,428
	EPS	2.82	2.49	2.37	2.27
Current curves	Adj. EBITDA	4,150	4,320	4,332	4,378
	EPS	2.81	2.53	2.35	2.22
Delta	*Adj. EBITDA*	*(0.0%)*	*0.7%*	*(0.3%)*	*(1.1%)*
	EPS	*(0.2%)*	*1.6%*	*(0.7%)*	*(2.4%)*

PSEG (PEG)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	4,435	4,026	4,142	4,274
	EPS	2.94	2.90	2.93	3.00
Current curves	Adj. EBITDA	4,432	4,016	4,112	4,227
	EPS	2.93	2.89	2.90	2.95
Delta	*Adj. EBITDA*	*(0.1%)*	*(0.2%)*	*(0.7%)*	*(1.1%)*
	EPS	*(0.4%)*	*(0.3%)*	*(1.0%)*	*(1.7%)*

Calpine (CPN)		2017E	2018E	2019E	2020E
Live Estimates(2)	Adj. EBITDA	1,826	2,027	1,971	2,042
Current curves	Adj. EBITDA	1,808	1,998	1,955	2,060
Delta	*Adj. EBITDA*	*(0.9%)*	*(1.4%)*	*(0.8%)*	*0.9%*

NRG		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	2,613	2,881	3,183	3,146
Current curves	Adj. EBITDA	2,603	2,865	3,104	3,128
Delta	*Adj. EBITDA*	*(0.4%)*	*(0.6%)*	*(2.5%)*	*(0.6%)*

Dynegy (DYN)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	1,312	1,544	1,370	1,314
Current curves	Adj. EBITDA	1,293	1,508	1,331	1,286
Delta	*Adj. EBITDA*	*(1.4%)*	*(2.3%)*	*(2.9%)*	*(2.1%)*

Vistra (VST)		2017E	2018E	2019E	2020E
Live Estimates(3)	Adj. EBITDA	1,487	1,467	1,484	1,395
Current curves	Adj. EBITDA	1,490	1,443	1,482	1,385
Delta	*Adj. EBITDA*	*0.2%*	*(1.6%)*	*(0.2%)*	*(0.7%)*

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(1) Priced off June 29, 2017 forward curves.

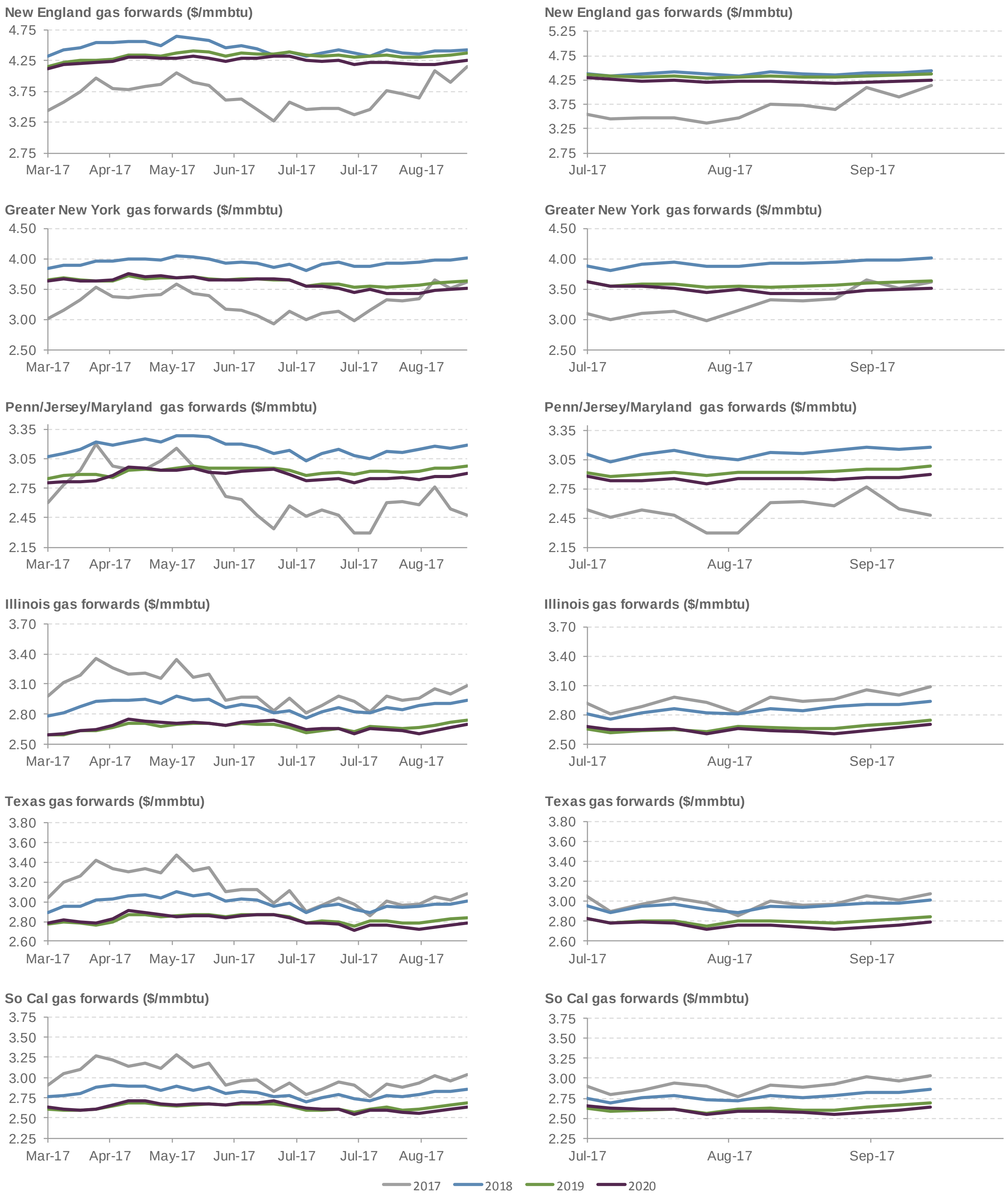
(2) Priced off August 17, 2017 forward curves.

(3) Priced off August 24, 2017 forward curves.

Source: Guggenheim Securities, LLC estimates, ICE, Bentek Energy, NYMEX, ISO/RTO.

Gas Forward Curves 2017-2020

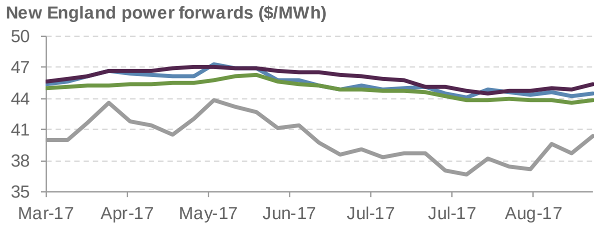
Rolling 6 months **Quarter-to-date**

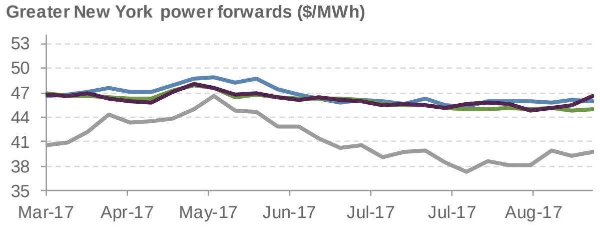


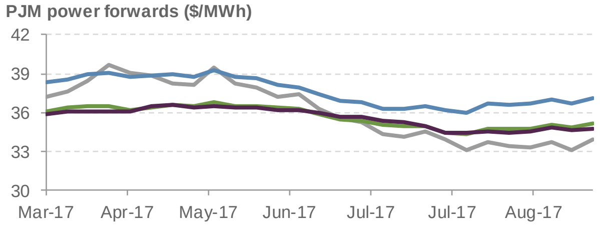
Source: ICE, Bentek, Guggenheim Securities, LLC.

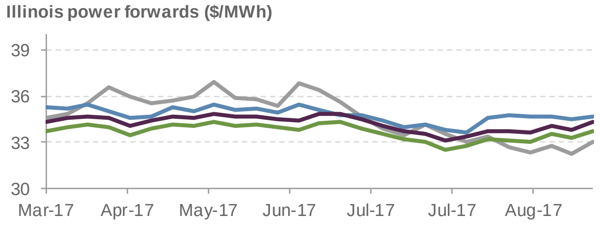
Power Forward Curves 2017-2020

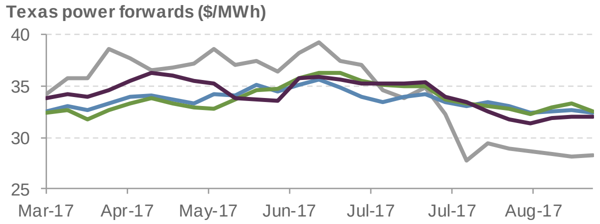
Rolling 6 months

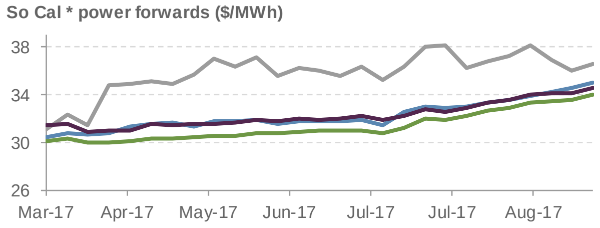

New England power forwards ($/MWh)


Greater New York power forwards ($/MWh)

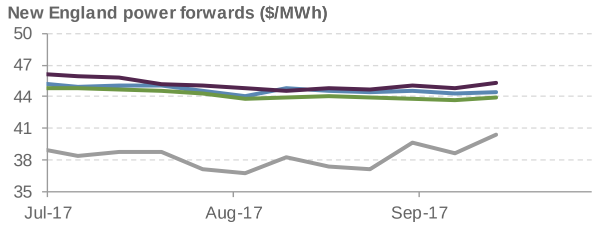

PJM power forwards ($/MWh)

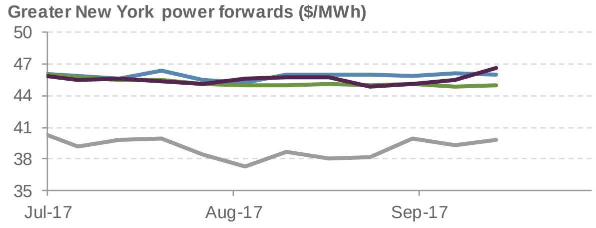

Illinois power forwards ($/MWh)

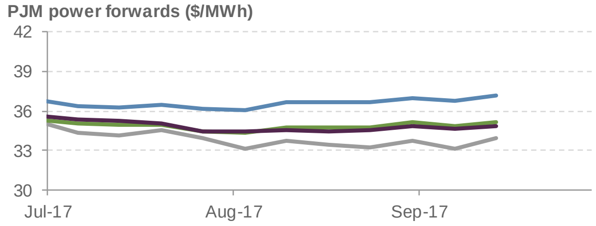

Texas power forwards ($/MWh)

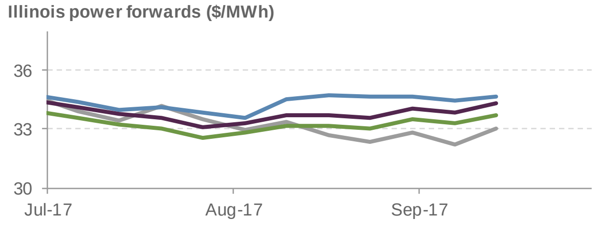

So Cal * power forwards ($/MWh)

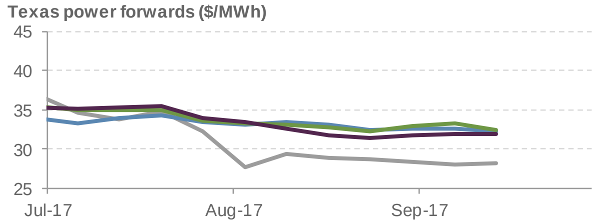
Quarter-to-date

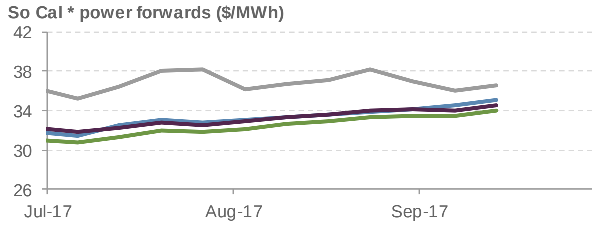

New England power forwards ($/MWh)


Greater New York power forwards ($/MWh)


PJM power forwards ($/MWh)


Illinois power forwards ($/MWh)


Texas power forwards ($/MWh)


So Cal * power forwards ($/MWh)

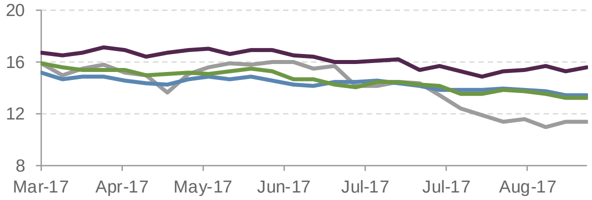
2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC.

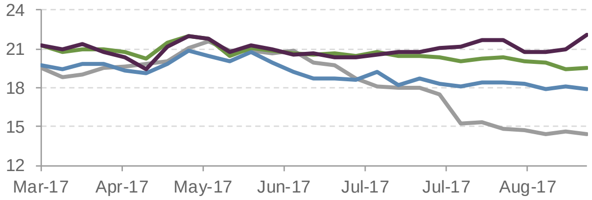
Forward Spark Spreads 2017-2020

Rolling 6 months

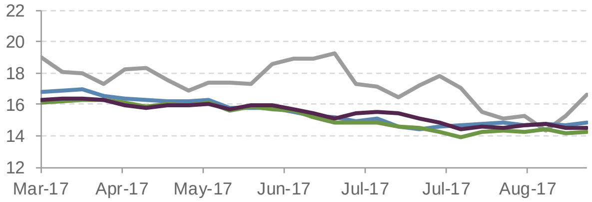
New England spark spreads ($/MWh)



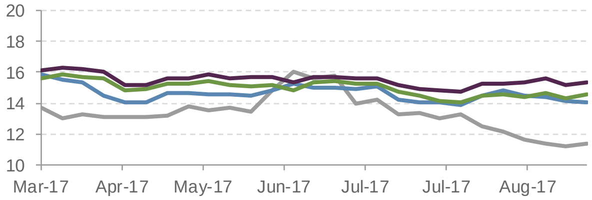
Greater New York spark spreads ($/MWh)



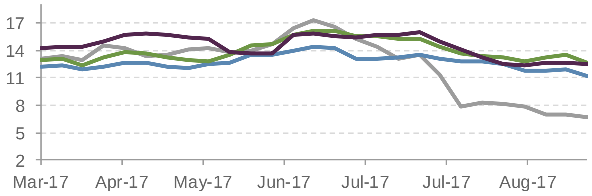
PJM Average spark spreads ($/MWh)



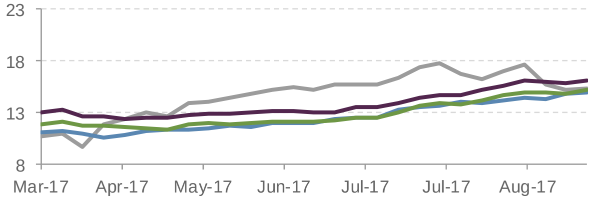
Illinois spark spreads ($/MWh)



Texas spark spreads ($/MWh)

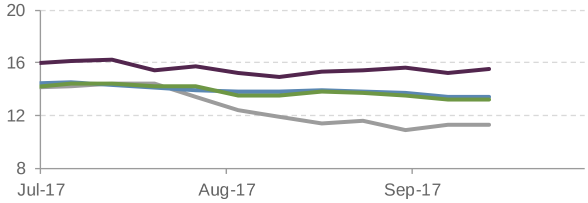


So Cal * spark spreads ($/MWh)

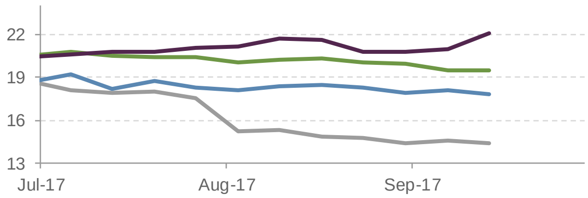


Quarter-to-date

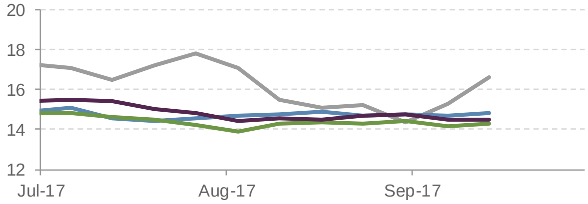
New England spark spreads ($/MWh)



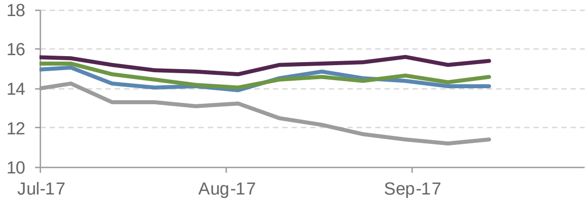
Greater New York spark spreads ($/MWh)



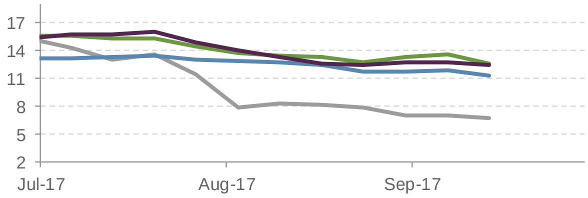
PJM Average spark spreads ($/MWh)



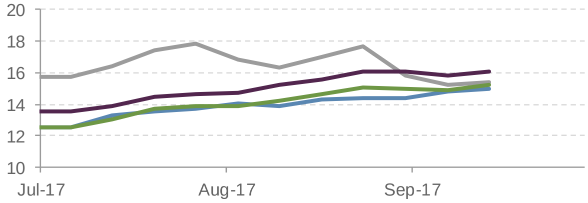
Illinois spark spreads ($/MWh)



Texas spark spreads ($/MWh)



So Cal * spark spreads ($/MWh)

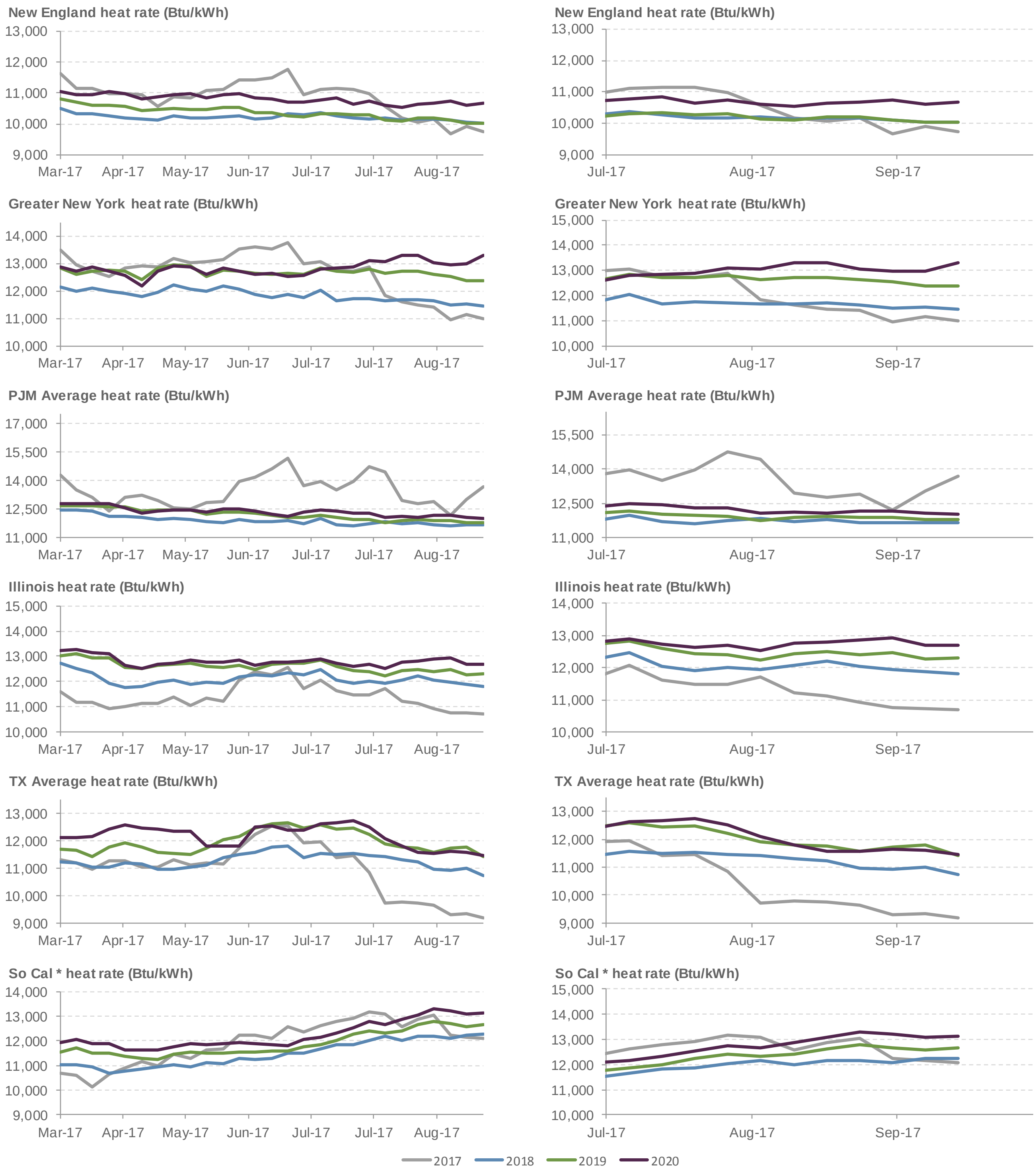


2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC

Forward Heat Rate 2017-2020

Rolling 6 months **Quarter-to-date**

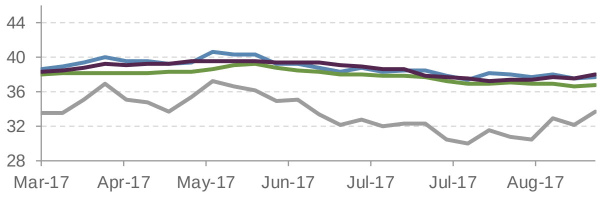


Source: ICE, Bentek, Guggenheim Securities, LLC

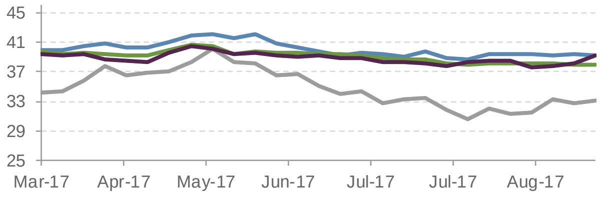
Forward 2017-2020 ATC PRB Dark Spreads

Rolling 6 months

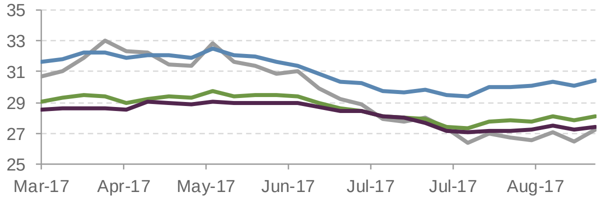
New England ATC darkspreads ($/MWh)



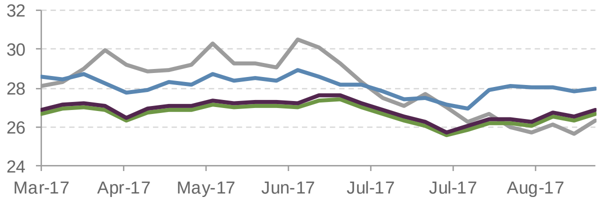
Greater New York ATC darkspreads ($/MWh)



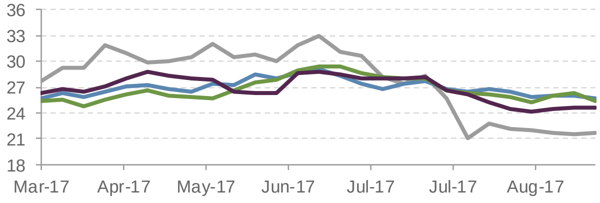
PJM Average ATC darkspreads ($/MWh)



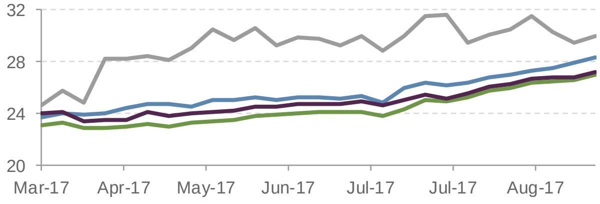
Illinois ATC darkspreads ($/MWh)



TX Average ATC darkspreads ($/MWh)

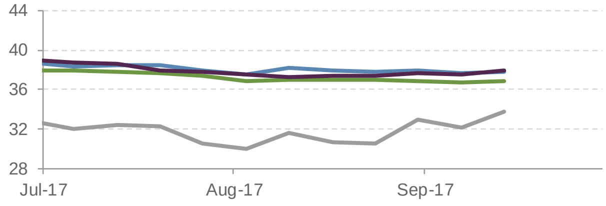


So Cal * ATC darkspreads ($/MWh)

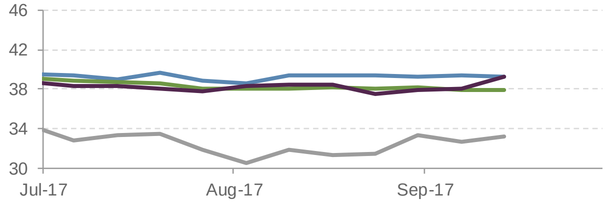


Quarter-to-date

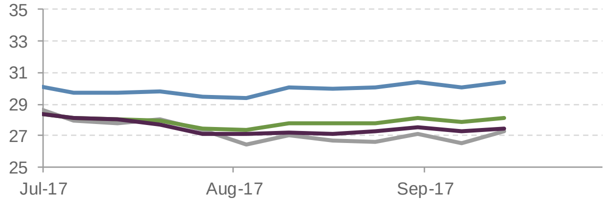
New England ATC darkspreads ($/MWh)



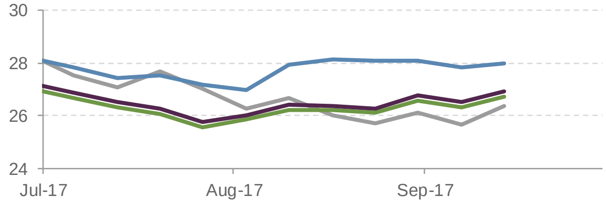
Greater New York ATC darkspreads ($/MWh)



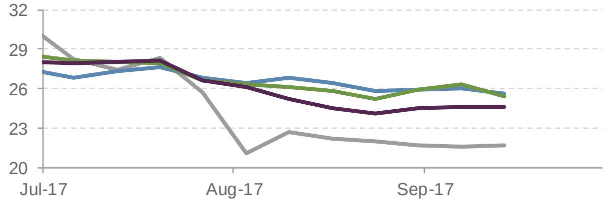
PJM Average ATC darkspreads ($/MWh)



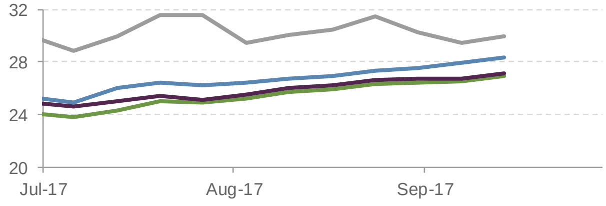
Illinois ATC darkspreads ($/MWh)



TX Average ATC darkspreads ($/MWh)



So Cal * ATC darkspreads ($/MWh)



2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC

Ticker	Rating	Share Price (previous close)
CPN	NEUTRAL	$14.70
DYN	BUY	$9.27
EXC	BUY	$38.10
FE	BUY	$31.64
NRG	BUY	$23.10
PEG	BUY	$45.80
VST	BUY	$17.80

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenue, which includes investment banking revenue.

Please refer to this website for company-specific disclosures referenced in this report: https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

RATINGS EXPLANATION AND GUIDELINES

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

Restricted - Describes issuers where, in conjunction with Guggenheim Securities, LLC engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Under Review (UR) - Following the release of significant news from this company, the rating has been temporarily placed under review until sufficient information has been obtained and assessed by the analyst.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

Equity Valuation and Risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at https://guggenheimlibrary.bluematrix.com/client/library.jsp, contact the primary analyst or your Guggenheim Securities, LLC representative, or email GSResearchDisclosures@guggenheimpartners.com.

Prior to 12/8/14, Guggenheim Securities, LLC's BUY, NEUTRAL, and SELL ratings definitions were as follows (no other ratings definitions were changed):

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	190	60.70%	20	10.53%
Neutral	121	38.66%	11	9.09%
Sell	2	0.64%	0	0.00%

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Industry Update

What if tax reform actually moved?

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Tax back on the agenda in DC; dusting off DB tax reform calibrator work

With tax reform back under discussion in Washington in recent days, we revisit our work on the topic from earlier in the year and provide a brief investor refresher on the key issues along with some potential utility tax reform trade ideas. While passing something on tax is widely seen as a must-do for Republicans ahead of next year's mid-term elections, investors may reasonably question whether anything meaningful can actually get done in DC with the current political backdrop. Attention is currently focused on passing a budget resolution that would open the door to passing tax reform via "reconciliation", i.e.requiring only 51 Senate votes. Recent reports have suggested the Trump Administration may reveal its detailed tax reform plan as soon as next week, although prior announcements have tended to come up short on detail.

We see tax reform as a relative fundamental and trading negative for utilities

While the devil would be in the details, at a high level we see tax reform as a relative fundamental headwind for utilities. Whereas most non-utility businesses would see higher earnings on a lower corporate tax rate, regulated utilities would not since tax is a component of their cost of service and a lower rate would be passed back to consumers through lower utility bills. While an industrial might see the benefit of lower taxes "competed away" over time, for utilities the benefit would be "regulated away" - potentially immediately. In addition to the fundamental angle, there is also a negative asset allocation angle given utilities' bond proxy status. To the extent passing tax reform added fuel to the "reflation trade" we would expect utility stocks to be relative losers vs. other sectors.

DB Utilities tax reform trade ideas

Underweight S&P Utilities relative to S&P 500. Tax reform a relative fundamental negative with utility earnings benefiting less than market average. Reflation trade and resulting higher rates a potential catalyst for utility underperformance.

Overweight Buy-rated hybrids PEG and EXC. Both have meaningful earnings outside of utilities and are therefore positively exposed to lower tax rate. Border tax no longer being considered, removing potential nuclear fuel cost drag.

Cautious FE, WEC, ETR. Relative losers with high parent leverage and limited earnings outside of utility. Negative exposure to lower tax rate and potential loss of interest deductibility. Merchant losses (FE) an incremental headwind.

Companies featured

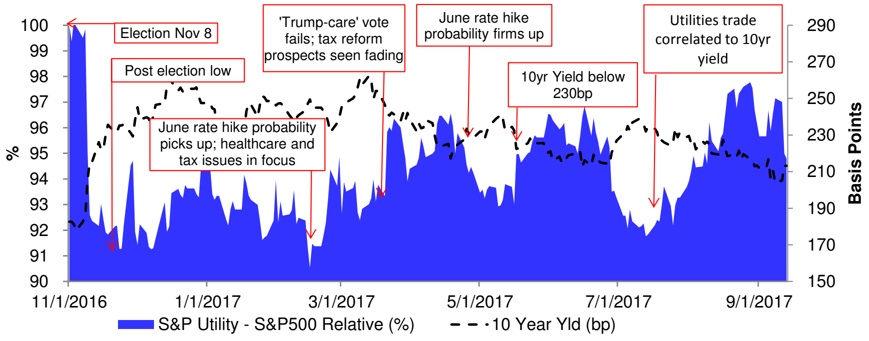
PSEG (PEG.N),USD45.80	Buy
Exelon (EXC.N),USD38.10	Buy
FirstEnergy (FE.N),USD31.64	Hold
WEC Energy Group (WEC.N),USD65.81	Hold
Entergy Corp. (ETR.N),USD79.14	Hold
American Electric Power (AEP.N),USD72.90	Buy
CMS Energy (CMS.N),USD47.89	Buy
CenterPoint Energy (CNP.N),USD30.14	Hold
Dominion Energy (D.N),USD79.17	Hold
DTE Energy (DTE.N),USD111.58	Hold
Duke Energy (DUK.N),USD87.50	Hold
Con Edison (ED.N),USD84.51	Sell
Edison International (EIX.N),USD81.03	Hold
Eversource Energy (ES.N),USD63.05	Hold
NextEra Energy (NEE.N),USD148.18	Hold
PG&E Corp (PCG.N),USD70.09	Buy
PPL Corp. (PPL.N),USD39.12	Hold
Southern Company (SO.N),USD50.40	Buy
Xcel Energy (XEL.N),USD49.10	Hold

Source: Deutsche Bank

Investor focus on growth, tax reform could spark another pull back in sector

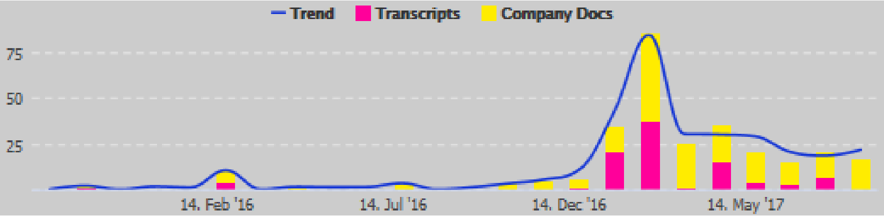
US utilities are currently trading near all-time P/E multiple highs (18.3x 12m forward P/E vs. peaks a little closer to 19x and a 5-year average of 16.2x). This in large part reflects stubbornly low bond yields with 10-Year Treasury yields lately testing post-election lows in the low-2% range. Conventional wisdom would suggest that progress on tax reform would be met with increased investor confidence around economic growth and higher rates and potentially provide a catalyst for a correction in utility valuations. Looking back to the period following the November election, we saw utility indices underperform by 500-600bps through year-end (see Figure 1). The group then continued to lag through most of the first quarter as tax reform was in-focus (see Figure 2) until sentiment around legislative activity waned with the stalling of the healthcare bill and subsequent sharp decline in both bond yields and inflation expectations. While the ensuing utility rally has been somewhat on-again, off-again, investors bullish on prospects for tax reform and implications for growth should be approaching utilities with caution. Since the start of September in fact utilities have given up 140bp of relative performance while 10-Year yields have been more or less unchanged. Whether or not this is an early sign of tax reform moving back into focus remains to be seen and we continue to see the derivative implications for yields as the primary driver of the group's relative fortunes.

Figure 1: S&P Utility Performance to Relative S&P500 (%) with 10-Yr Yield



Source: DB Research, FactSet

Figure 2: Utility sector mentions of "tax reform"

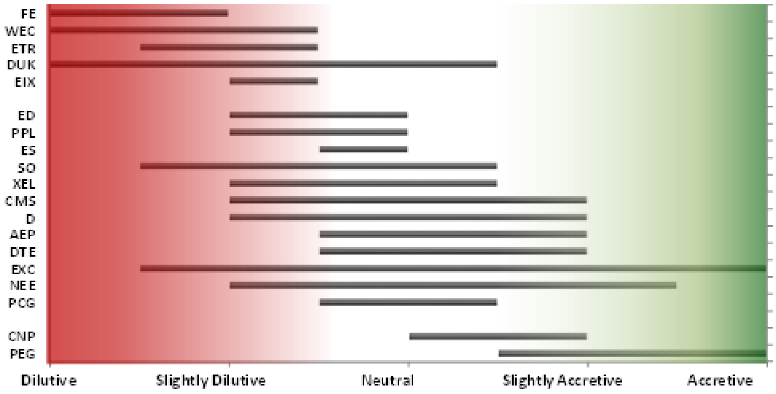


Source: AlphaSense
Note: Company docs include Investor Relations presentations and press releases

See our March tax note for detailed discussion and relative company exposures

Readers may recall our March 2017 piece on tax reform with company-by-company exposure analysis (DB Tax Reform Calibrator). While our report was based on specific book-end proposals being discussed at the time, the ultimate elements of any package remain unknown. In the meantime our piece remains a helpful reference for investors as tax reform discussions get under way and we will likely update the specifics after more formal proposals are introduced. The summary graphic from our Calibrator note is reproduced below and was intended to highlight relative propensity for EPS dilution or accretion on a wide range of tax reform scenarios. In addition the width of each company's bar highlighted relative differences in the range of outcomes for each name. As discussed at the time, we grouped our utility coverage into three buckets: (1) likely laggards; (2) somewhere in between; and (3) likely winners. Our likely laggards group of FE, WEC, ETR, DUK and EIX mostly comprised names with larger than average parent leverage likely to be more costly on an after-tax basis with a lower tax rate and potential loss of interest deductibility. At the other end of the spectrum we showed PEG and CNP as the two names from our coverage most likely to see earnings accretion under most scenarios. In terms of notable changes since we ran this analysis in March, the most tangible may be the border adjustment tax (BAT) which no longer appears to be part of the discussion. This was mainly an exposure for nuclear fuel in non-regulated entities and as such would raise the low end of the spectrum for EXC as well as PEG. Our March analysis also assumed a 15% tax rate scenario under the Administration Plan at the time. To the extent pay-for requirements mean having to settle for a somewhat higher rate - as has been widely suggested of late - this would trim the accretion end of the spectrum for those with significant non-utility profits, namely PEG, CNP, NEE and EXC.

Figure 3: DB Summary of Potential Impacts of Tax Reform - March 2017



Source: Deutsche Bank

Note to online readers: please open the attached document to view the charts referenced herein, as well as our updated analysis on the 7 hot-button issues in the tax code for electric utilities on the following pages.

What are the key tax reform issues to watch for utilities?

Tax reform is a simple header for a complex, interconnected set of proposed changes to the tax code. Investor-owned regulated utilities have an added level of complexity as their business model essentially represents a sort-of public-private grand bargain with the utility allowed to earn a set rate of return, premised on a regulator-directed shadow accounting framework, which may differ slightly depending on the state involved. One key premise of these frameworks is a revenue requirement that covers the utility for its expected costs of doing business, plus a fair return. Under this framework, utilities collect revenue for book accounting taxes, whether or not they pay them today, under the premise that they'll eventually be paid at some point in the future. Therefore, if tax expense is lower, revenue should decline commensurately, albeit not necessarily right away depending on timing of the regulatory rate adjustment cycle. For this reason, utilities are unlike other sectors where revenue is more a function of what the market will bear, and profit is the difference between a market driven revenue and expense. If expenses (such as tax expense) decline, most companies will have higher profits. For regulated utilities, revenues will be adjusted lower to hit the unchanged targeted return on equity or profit. On top of that, most larger investor-owned utilities own non-regulated businesses alongside their regulated utility and/or have often significant amounts of debt at the parent level that would be subject to the more normal tax rules - i.e. a lower rate is better if they are collectively profit-making, a higher (deduction) rate is better if they are collectively loss-making.

Calculating the tax expense that gets recovered in rates is not straight forward and several key elements like interest deductibility, capital expenditure expensing, deductions for state and local taxes and the regulatory treatment of deferred taxes (e.g. normalization rules) could materially swing whether and to what extent utilities benefit or are harmed by tax reform. We discuss the current variables to watch during the legislative negotiations in more detail below:

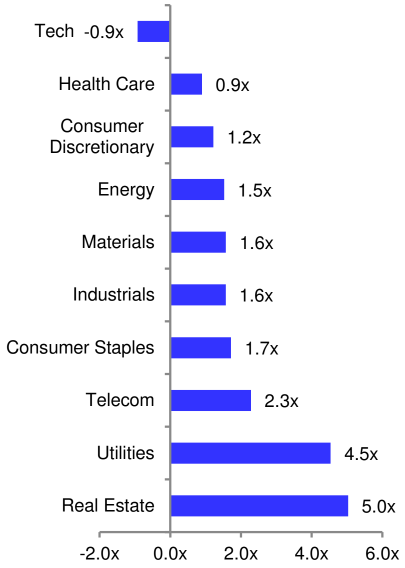
Lower corporate tax rate: As discussed above, for the average fully regulated utility, simply lowering the corporate tax rate will result in lower revenue collections from customers given the reduction in the cost of service. Earnings are unaffected given the lower tax charge. That said, cash flow is reduced – particularly if the utility is already in an NOL position as many have tended to be recently due to multiple years of bonus deprecation and heavy capital spending. This is different from the average US corporate where lowering the tax rate would increase earnings all else equal. For some utilities the tax revenue requirement would be trued-up in near real time (e.g. for those with FERC formula transmission rates) whereas for others the rate adjustment might not occur until the next rate case, which could be soon or several years in the future. That said, other parameters such as return caps could come into play and prior experience from the tax cuts in the 1980s would point to state-level generic proceedings to change the tax gross-up of rates across the board.

Utility managements generally support lowering the corporate tax rate on the basis that this would benefit their customers in the form of lower rates and theoretically gives them more headroom on a longer-term basis to ramp up spending on infrastructure (a longer-term positive for EPS). Also, those utilities with large and (importantly) profitable non-utility businesses and/or limited debt at the parent look to be relatively better off all else equal. On the flip side, those facing the biggest challenge will be holding companies with significant parent leverage, limited profits outside the utility and where parent credit metrics leave little cushion if the utility cash flows end up being curtailed due to reduced cost of service (lower revenues) and an NOL position (no cash tax offset).

Eliminating interest expense deductibility: As one of the largest non-financial users of debt financing across the economy, utilities are publicly supportive of the ability to deduct interest expense in operating profit before calculating tax expense. If tax reform were to remove this key deduction, the effective rate utilities (and their customers) faced would be higher, potentially offsetting some or all of the rate relief associated with lower rates. More importantly for investors, eliminating interest deductibility will negatively impact earnings for utility holding companies with substantial parent leverage. This would also call into question the already questionable logic of recent high premium debt-financed M&A deals.

While this issue was seen to have faded earlier in the year, rules around "reconciliation" mean that lowering the tax rate may have to be paid for with elimination of other "loopholes". Deductions for charitable giving and mortgage interest seem unlikely candidates while removing deductions for state and local taxes as some in the Administration would like may be hard to do against opposition from large delegations in high-tax states such as New York and California. Political reality may therefore put interest deductibility in the firing line, a move which has been aggressively opposed by utilities on the basis that it would raise utility bills and the cost of infrastructure financing. Companies we have spoken with seem reasonably confident that the industry's lobbying efforts may be rewarded with a carve-out, or alternatively that non-deductibility should only apply to prospective debt issuances, although we note the inherent conflict here with the desire for tax code simplification. How such a carve-out would work in practice and what portion of revenues (or some other measure) might have to be regulated in order for an entity to qualify would be key uncertainties and potential risk factors for the few genuine hybrid names remaining (EXC, NEE, PEG). All told, losing the deduction would be particularly impactful for those with large parent leverage (equivalent to reducing the tax shield to zero).

Figure 4: Net Debt to EBITDA by S&P Sector (ex-Financials)



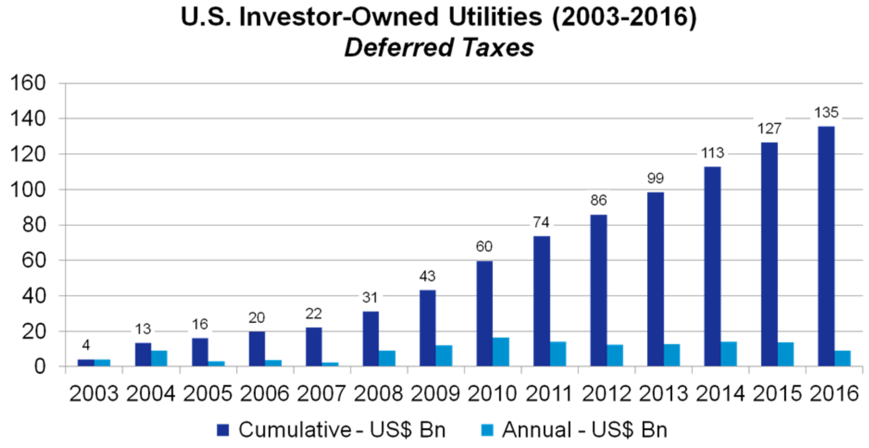
Source: Deutsche Bank, Factset

Eliminating state and local tax deductibility: Similar to interest expense, state and local taxes, including property taxes, are currently generally deductible for federal tax purposes. Several federal tax reform proposals have discussed eliminating that deduction. For regulated utilities, this would raise the amount needed to collect in rates from ratepayers, all else equal, but not change net income. Importantly, as state and local taxes vary significantly nationwide, impacts on utility customers would likely vary drastically. Northeast and west coast utility customers would likely see the largest impacts due to high state income tax rates coupled with high property tax assessments, while utility customers in Florida, for example, which has no state income taxes, would be relatively better off. As with the personal income tax debate, such discrepancies and the large congressional delegations of some high-tax states such as New York and California may make such a change challenging to implement in practice.

Full expensing of capital investments: Another component of a potential tax package may be immediate expensing of capital investments as opposed to expensing over asset life through depreciation. It remains to be seen whether this would be required or optional, and whether it would be combined with the elimination of the interest deduction. As with the current 50% bonus deprecation, expensing of capital investments would mean a reduction to the earning rate base which is adjusted for the deferred tax benefit (i.e. free federal financing). While most utilities are in favor publicly as it lowers customer bills all else equal, full capital expensing (also referred to as 100% bonus depreciation) is a negative for longer-term earnings growth for regulated utilities as the tax benefit lowers utility earnings through a reduction to rate base. In commentary earlier in the year most utilities have presented asset expensing as largely manageable from an earnings perspective given expectations that a lower tax rate and potential for higher capital investment would provide sufficient offsets. The good news for those utilities already in an NOL position is that the rate base offset would not get any larger – assuming it is already "maxed out" – although it would take longer to work off and with 100% expensing it would effectively be permanent. On the other hand for those (few) utilities still paying some cash taxes this change would potentially mean an incremental earnings power headwind versus today.

Deferred tax adjustment, normalization risk: Most utilities, like most corporates, have substantial deferred tax liabilities (DTL) from prior investments owing to the mismatch in taxes expensed for book accounting purposes with cash taxes paid to the IRS. This is typically due to miscellaneous deductions that the corporates avail themselves of like accelerated depreciation. A change in the corporate tax rate reduces this future liability. Financially speaking the deferred tax liability acts like an interest-free loan from the government and lowering the future tax rate amounts to forgiving a portion of the loan. For the typical corporate this results in a one-time income statement gain. For utilities, which have been collecting taxes from customers at the higher current rate, a reduction in the tax rate theoretically triggers a substantial and immediate refund liability. The last time this was an issue, in the 1986 tax cuts, the tax legislation specifically directed state utility regulators to "normalize" this refund or spread it over a longer period – typically the life of the underlying assets. Most utilities seem confident that this language will be repeated in any 2017/2018 tax reform package and/or their states would choose to have this normalized anyway. That said, if normalization is not mandated, it could mean an immediate, potentially multi-billion-dollar refund that the utility would need to give its ratepayers, a potentially large political score for regulators/local politicians. On the positive side, any refund of the DTL, whether upfront or over time, results in higher rate base and earnings for the utility.

Figure 5: Deferred tax liabilities for utilities



Source: Deutsche Bank, EEI

Border Adjustment Tax (BAT): The BAT idea which was discussed earlier in the year would have had negative consequences for merchant nuclear generators (particularly EXC) which purchase fuel components internationally. Vocal opposition - notably from large retailers - seems to have rendered this idea a non-starter politically and it appears to no longer be under disucssion.

Dividends: In addition to the corporate tax items discussed above, utilities and their shareholders are very focused on the tax treatment of qualified dividends. Currently, qualified dividends are taxed at between 0% and 20% depending on the tax bracket, on an equal footing to capital gains. Utilities are concerned that reforms to the personal tax code could remove the preferential treatment dividends receive today. This treatment is an important consideration for income-focused investors when choosing between utility stock dividends, which curry a maximum 20% federal tax rate and bond interest, which is taxed up to 39.6%. Similarly, if tax reform manifests such that there was no longer parity between dividend tax rate and capital gains tax rate, with capital gains taxed at a lower rate, it could lead money to move from dividend focused sectors like utilities and REITS to more growth and capital appreciation-focused sectors like technology.

Appendix 1

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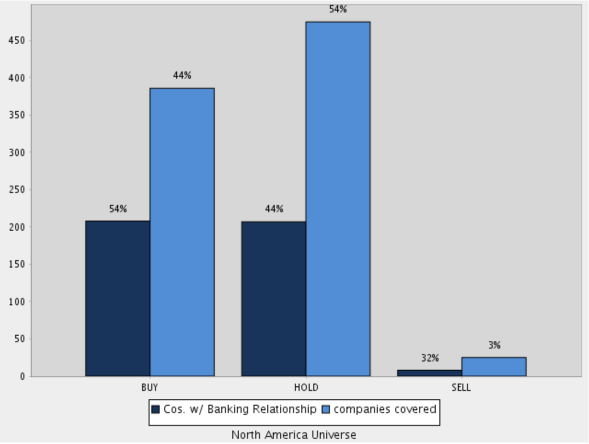

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September 15, 2017 | Equity Research

Utility Figure Of The Week

Valuation Sub-Sector Scatter Plots: 2018 P/E And EV/EBITDA

Utilities

- Please see Figure on Page 2

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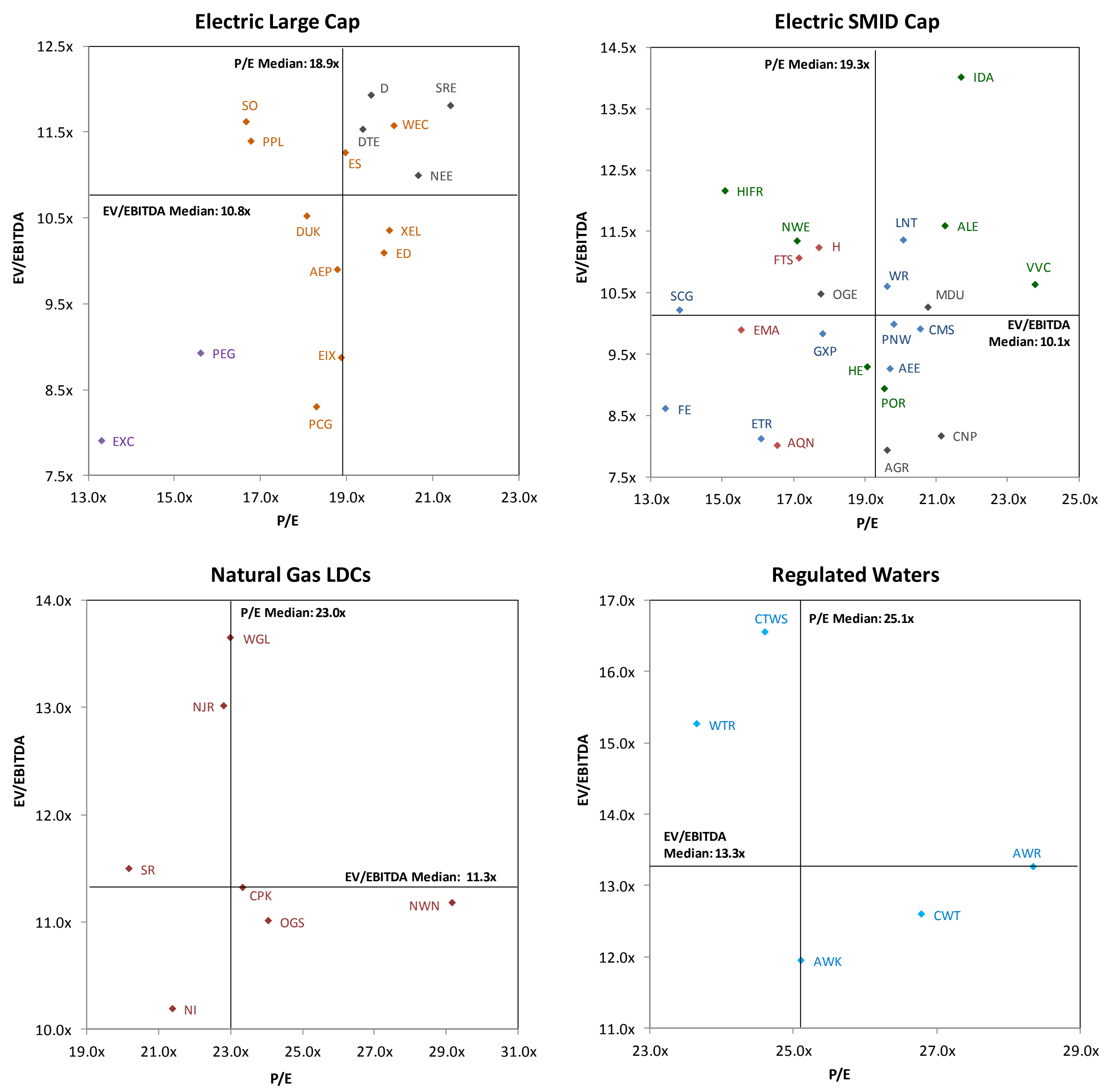
Together we'll go far



Valuation Sub-Sector Scatter Plots: 2018 P/E and EV/EBITDA

Electric Large Cap

Electric SMID Cap

Natural Gas LDCs

Regulated Waters

Source: Wells Fargo Securities, LLC and FactSet
Note: EBITDA for some companies are adjusted for tax credits or other income/equity earnings
LDC - Local Distribution Company
Multiples reflect intra-day prices on 9/15/2017

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September 17, 2017

WATTS COOKING? Weekly

WATTS On Your Mind

This past week, many conversations revolved around SO and the future treatment of the Vogtle construction project. Many investors have focused on the possibility that Southern's utility, Georgia Power (GP), could monetize the Toshiba guarantee ($3.7 billion overall, of which $1.7 billion is committed to GP). A key debate is whether the proceeds can be used to offset the equity needs that Southern has due to the re-capitalization of its Mississippi utility, Mississippi Power. While the Georgia commission could order proceeds to be used as a rate refund, we sense that most investors believe that a successful monetization would help Southern's balance sheet. Sentiment among a broad group of investors is turning more positive on SO.

We have also received a number of inquiries regarding how to be positioned for the remainder of 2017. We believe that sentiment is shifting toward an achievable tax reform (possibly on the back of a DACA compromise). This would favor the broader market relative to utilities, making the group less attractive in the coming months. This would hurt the more defensive names like ED but have a lesser effect on hybrid names like EXC. However, we would not be surprised to see a switch back to a more defensive positioning around the end of the year. Our more bearish view on utilities over the next few months is predicated on no major macro event that throws the financial market into a tizzy, which brings us to the next section.

WATTS On Our Mind

N. Korea concerns as felt from the south. (From Insoo): My recent vacation took me to South Korea, a periodic journey to visit family. During my time there, I was able to observe and feel how South Koreans were dealing with recent North Korean tensions. My past numerous trips to my birth country have led me to the conclusion that the U.S. media outlets historically place more emotional gravity on North Korean news than its South Korean counterparts; in addition, residents of South Korea typically dismiss these periodic threats with no impact to their daily lives. While I largely felt a similar sense of business-as-usual during this visit as well, I did notice that people I interacted with did seem a bit more on edge, a departure from previous experiences. We could very well see this current situation tempered down as well; however, the sense I got from the trip is that perhaps this time it is just that much more serious, which could potentially extend its impact on the global markets more than it's currently pricing in.

WATTS On The ShUFL

Our ShUFL line-up is unchanged.

Shelby's Utility Focus List (ShUFL)

Best Plays

Ticker	Rating	Dividend Yield	Price Target	Tot. Implied Return
EXC	OP	3.5%	$40.00	9.8%
EIX	OP	2.7%	$84.00	6.1%
BKH	OP	2.6%	$73.00	7.4%
NEE	OP	2.6%	$150.00	2.6%

Defensive Plays

Ticker	Rating	Dividend Yield	Price Target	Tot. Implied Return
EIX	OP	2.7%	$84.00	6.1%
DUK	OP	4.1%	$87.00	3.7%
PCG	OP	3.0%	$70.00	2.6%
PNW	SP	2.9%	$89.00	2.6%

Least Favorite Plays

Ticker	Rating	Dividend Yield	Price Target	Tot. Implied Return
UTL	SP	2.9%	$47.00	-2.7%
ED	SP	3.3%	$78.00	-4.4%

Source: Factset; RBC Capital Markets estimates

Upcoming RBC P&U Events

9/18-9/22 – NEE NDRS (Europe)
10/2-10/3 – California roundtable (San Fran)
10/4-10/5 – XEL NDRS (West Coast)
11/5-11/7 – 1x1 meetings at EEI (Florida)
11/13-11/15 – ABY NDRS (New York/Boston)
11/15-11/16 – RBC Midstream conf. (Dallas)

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All values in USD unless otherwise noted.

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Shelby's Utility Focus List (ShUFL)

We are maintaining our ShUFL line-up.

Exhibit 1: EXC tops Best Plays; EIX tops Defensive Plays

Best Plays

Name	Ticker	Rating	Last Price	Dividend Yield	Price Target	Total Implied Return
Exelon Corp.	EXC	Outperform	$37.61	3.5%	$40.00	9.8%
Edison International	EIX	Outperform	$81.20	2.7%	$84.00	6.1%
Black Hills	BKH	Outperform	$69.63	2.6%	$73.00	7.4%
NextEra Energy, Inc.	NEE	Outperform	$150.09	2.6%	$150.00	2.6%

Defensive Plays

Name	Ticker	Rating	Last Price	Dividend Yield	Price Target	Total Implied Return
Edison International	EIX	Outperform	$81.20	2.7%	$84.00	6.1%
Duke Energy	DUK	Outperform	$87.30	4.1%	$87.00	3.7%
PG&E Corp.	PCG	Outperform	$70.28	3.0%	$70.00	2.6%
Pinnacle West	PNW	Sector Perform	$89.27	2.9%	$89.00	2.6%

Least Favorite Plays

Name	Ticker	Rating	Last Price	Dividend Yield	Price Target	Total Implied Return
Unitil Corp.	UTL	Sector Perform	$49.76	2.9%	$47.00	-2.7%
Consolidated Edison	ED	Sector Perform	$84.44	3.3%	$78.00	-4.4%

Source: FactSet; RBC Capital Markets; priced as of market close September 15, 2017. Past performance is not necessarily indicative of future performance. Please refer to specific company research for the investment thesis for each stock included in ShUFL List as well as a discussion of valuation and risks.

WATTS On Our Mind

VA Supreme Court upholds 2015 biennial review law. On Thursday, the Virginia Supreme Court upheld (on a 6-1 vote) a state law that suspended biennial base rate reviews for Dominion (D) subsidiary VEPCO until 2021 and AEP subsidiary Appalachian Power (APCO) until 2020. In 2015 the state law originally passed the House 72-24 and the Senate 32-6. **Our view: We believe this decision provides rate clarity around VEPCO and APCO through the end of the decade without the potential overhang of a biennial review.**

AZ commissioner Doug Little to resign. On September 13, Arizona Corporation Commission (ACC) commissioner Doug Little (R) announced his resignation and is set to join the U.S. Department of Energy (DOE) effective October 2. Although Arizona selects commissioners through a general election process, the governor appoints mid-term replacements for a term expiring at the next election. Governor Ducey (R) has not named a successor at this time. **Our view: We expect the governor to appoint another Republican to fill the vacancy, maintaining the all-Republican ACC. For Pinnacle West (PNW), we see little near-term impact from this change given the recent completion of its rate case; however, given Commissioner Little's push for increasing renewable mandates for Arizona (30% by 2030 proposed, up from current 15% by 2025 mandate), we could see somewhat of a moderation of this agenda.**

Recent Notable Publications

Spire Inc - Takeaways from the Road – 2017.09.15

WATTS COOKING? Weekly – 2017.09.10

NextEra Energy Partners (NEP): Announces dropdown offer from NextEra Energy Resources, along with a $300M convertible senior note offering – 2017.09.08

Global Energy Best Ideas – 2017.09.05

Southern Company (SO): Georgia Power recommends Vogtle be continued; estimates net additional capital costs of $1.4 billion – 2017.08.31

Southern Company (SO): Separate filings between Mississippi Power and Public Utilities Staff indicate a settlement has not yet been reached – 2017.08.22

Calpine Corporation - End of the Road; Downgrading to Sector Perform – 2017.08.21

Calpine (CPN): Enters into agreement to be acquired by investor consortium led by Energy Capital Partners – 2017.08.18

PNM Resources, Inc. - It's been a fun ride – 2017.08.18

Pinnacle West (PNW): APS rate case settlement approved by ACC – 2017.08.15

Pattern Energy Group Inc. - Growth outlook remains unchanged, but dividend growth should lag – 2017.08.09

U.S. Independent Power Producers (IPPs): Dynegy files shelf to sell up to 19.5 million shares on behalf of ECP (Correction) – 2017.08.08

U.S. Power & Utilities: 2Q17 Earnings Recap - Week 2 – 2017.08.07

U.S. Power & Utilities: 2Q17 Earnings Recap - Week 1 – 2017.07.31

WATTS UP! - U.S. smid-cap utilities M&A playbook – 2017.07.25

InfraREIT (HIFR): HIFR announces asset exchange with Oncor – 2017.07.24

CenterPoint Energy (CNP): Amended 13D filing states potential for ENBL unit sale via open market - 2017.07.19

NRG Yield (NYLD): NRG Energy announces plan to monetize 50-100% of its interest in NYLD and Renewables platform – 2017.07.12

NextEra Energy Inc. - No Oncor, No Problem – 2017.07.06

NextEra Energy Partners LP - The Lean Green Clean Machine – 2017.07.06

Southern Company - SO Here's the Story from K to V 2017.06.27

Calpine Corporation - Takeout Food for Thought – 2017.06.22

Pinnacle West Capital Corporation - PNW in Cali—outlook as long as the PCH? – 2017.06.18

2017 RBC Capital Markets' Global Energy and Power Executive Conference - Updates from Day 2 – 2017.06.08

2017 RBC Capital Markets' Global Energy and Power Executive Conference - Updates from Day 1 – 2017.06.07

Unitil Corporation - In review: travels with management – 2017.06.05

U.S. Power & Utilities: 2020/2021 PJM Capacity Auction results are in! – 2017.05.23

Atlantica Yield plc - Time to ACT – 2017.05.17

WATTS UP? - Can the PJM Capacity Auction Provide a Spark? – 2017.05.12

PNM Resources, Inc. - Some compromises, but settlement reached – 2017.05.08

Chesapeake Utilities Corporation - Chasing the peake; initiate with Sector Perform – 2017.04.26

Global Energy Research Commodity Price Update - Tweaking our Outlook – 2017.04.25

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WATTS UP? – Growth of Renewables and the Impact of Potential Tax Reforms – 2017.01.23

The AES Corporation - Potential headwinds concerning; downgrading to Sector Perform – 2017.01.04

InfraREIT, Inc. - Uncertain Year; Downgrading to Sector Perform – 2017.01.04

RBC Capital Markets Power and Utility Universe

Ticker	Company	Rating	Price 09/17/17	Price Target	Current Yield	Implied Tot. Return	Cap. ($MM)	EPS				P/E			Div. Payout	3-Yr Growth	'17 EV/ EBITDA	'18 EV/ EBITDA	Price/ BV	Debt/ EBITDA
								2016A	2017E	2018E	2019E	2017E	2018E	2019E						
DEFENSIVE ELECTRIC UTILITIES																				
AEP	**American Electric Power**	**Sector Perform**	**$73.03**	**$71.00**	**3.2%**	**0.5%**	**35,919**	**$3.94**	**$3.66**	**$3.89**	**$4.13**	**20.0**	**18.8**	**17.7**	**64.5%**	**2%**	**10.0**	**9.2**	**2.02**	**3.8**
CMS	**CMS Energy**	**Sector Perform**	**$47.87**	**$46.00**	**2.8%**	**-1.1%**	**13,500**	**$2.02**	**$2.18**	**$2.34**	**$2.53**	**22.0**	**20.5**	**18.9**	**61.0%**	**8%**	**10.2**	**9.5**	**3.03**	**4.6**
CPK	**Chesapeake Utilities**	**Sector Perform**	**$81.25**	**$78.00**	**1.6%**	**-2.4%**	**1,328**	**$2.86**	**$2.92**	**$3.43**	**$3.63**	**27.8**	**23.7**	**22.4**	**44.5%**	**8%**	**13.2**	**11.2**	**2.88**	**3.1**
DUK	**Duke Energy**	**Outperform**	**$87.30**	**$87.00**	**4.1%**	**3.7%**	**61,106**	**$4.66**	**$4.60**	**$4.82**	**$5.10**	**19.0**	**18.1**	**17.1**	**77.4%**	**3%**	**11.2**	**10.6**	**1.48**	**5.8**
ED	**Consolidated Edison**	**Sector Perform**	**$84.44**	**$78.00**	**3.3%**	**-4.4%**	**26,161**	**$3.97**	**$4.10**	**$4.27**	**$4.49**	**20.6**	**19.8**	**18.8**	**67.3%**	**4%**	**10.3**	**9.6**	**1.78**	**4.1**
EIX	**Edison International**	**Outperform**	**$81.20**	**$84.00**	**2.7%**	**6.1%**	**26,456**	**$3.92**	**$4.27**	**$4.23**	**$4.63**	**19.0**	**19.2**	**17.5**	**50.8%**	**6%**	**9.1**	**8.9**	**2.18**	**3.0**
PCG	**PG&E Corp.**	**Outperform**	**$70.28**	**$70.00**	**3.0%**	**2.6%**	**36,041**	**$3.72**	**$3.72**	**$3.84**	**$4.01**	**18.9**	**18.3**	**17.5**	**57.0%**	**3%**	**9.0**	**8.5**	**1.93**	**3.3**
PNM	**PNM Resources**	**Sector Perform**	**$42.50**	**$40.00**	**2.3%**	**-3.6%**	**3,385**	**$1.65**	**$1.83**	**$1.70**	**$2.02**	**23.2**	**25.0**	**21.0**	**53.0%**	**7%**	**10.2**	**10.2**	**1.96**	**5.2**
PNW	**Pinnacle West**	**Sector Perform**	**$89.27**	**$89.00**	**2.9%**	**2.6%**	**9,965**	**$3.95**	**$4.24**	**$4.50**	**$4.75**	**21.1**	**19.8**	**18.8**	**61.8%**	**6%**	**10.2**	**9.5**	**2.05**	**3.6**
PPL	**PPL Corp.**	**Sector Perform**	**$39.31**	**$38.00**	**4.0%**	**0.7%**	**26,856**	**$2.45**	**$2.15**	**$2.40**	**$2.45**	**18.3**	**16.4**	**16.0**	**73.5%**	**0%**	**12.6**	**11.2**	**2.57**	**5.1**
SR	**Spire Inc.**	**Sector Perform**	**$75.80**	**$73.00**	**2.8%**	**-0.9%**	**3,658**	**$3.42**	**$3.58**	**$3.70**	**$3.88**	**21.2**	**20.5**	**19.5**	**58.7%**	**4%**	**12.3**	**11.5**	**1.80**	**5.6**
SO	**Southern Co.**	**Sector Perform**	**$50.64**	**$53.00**	**4.6%**	**9.2%**	**50,613**	**$2.89**	**$2.99**	**$3.04**	**$3.13**	**16.9**	**16.7**	**16.2**	**77.6%**	**3%**	**11.1**	**11.9**	**2.17**	**6.4**
UTL	**Unitil Corp.**	**Sector Perform**	**$49.76**	**$47.00**	**2.9%**	**-2.7%**	**702**	**$1.94**	**$2.02**	**$2.12**	**$2.23**	**24.6**	**23.5**	**22.3**	**71.3%**	**5%**	**9.3**	**8.7**	**2.34**	**3.7**
XEL	**Xcel Energy**	**Sector Perform**	**$49.08**	**$48.00**	**2.9%**	**0.7%**	**24,921**	**$2.21**	**$2.33**	**$2.44**	**$2.60**	**21.1**	**20.1**	**18.9**	**61.8%**	**6%**	**10.4**	**9.9**	**2.24**	**4.3**
	Average				**3.5%**	**0.8%**						**20.7**	**19.7**	**18.6**	**67.3%**	**5%**	**10.6**	**10.0**	**2.17**	**4.41**
DEREGULATED ELECTRIC UTILITIES																				
ETR	**Entergy Corp.**	**Sector Perform**	**$78.87**	**$80.00**	**4.4%**	**5.8%**	**14,159**	**$7.11**	**$6.87**	**$4.93**	**$5.02**	**11.5**	**16.0**	**15.7**	**50.7%**	**-11%**	**9.6**	**8.5**	**1.69**	**4.8**
EXC	**Exelon Corp.**	**Outperform**	**$37.61**	**$40.00**	**3.5%**	**9.8%**	**36,109**	**$2.68**	**$2.70**	**$2.88**	**$2.77**	**13.9**	**13.1**	**13.6**	**48.5%**	**1%**	**8.2**	**7.9**	**1.31**	**4.4**
FE	**FirstEnergy**	**Sector Perform**	**$31.62**	**$33.00**	**4.6%**	**8.9%**	**14,049**	**$2.63**	**$2.83**	**$2.49**	**$2.35**	**11.2**	**12.7**	**13.5**	**50.9%**	**-4%**	**8.1**	**8.3**	**2.22**	**5.2**
PEG	**Public Service Enterprise Grp.**	**Sector Perform**	**$45.82**	**$47.00**	**3.8%**	**6.3%**	**23,180**	**$2.90**	**$2.93**	**$2.89**	**$3.00**	**15.6**	**15.9**	**15.3**	**58.7%**	**1%**	**9.4**	**9.1**	**1.79**	**3.2**
	Average				**3.9%**	**7.7%**						**12.6**	**14.8**	**14.8**	**51.9%**	**-3%**	**8.8**	**8.4**	**1.75**	**4.39**
DIVERSIFIED ELECTRIC UTILITIES																				
BKH	**Black Hills**	**Outperform**	**$69.63**	**$73.00**	**2.6%**	**7.4%**	**3,724**	**$3.19**	**$3.55**	**$3.72**	**$3.85**	**19.6**	**18.7**	**18.1**	**50.1%**	**6%**	**10.8**	**10.3**	**2.22**	**6.5**
CNP	**CenterPoint Energy**	**Sector Perform**	**$30.27**	**$29.00**	**3.5%**	**-0.7%**	**13,047**	**$1.16**	**$1.34**	**$1.45**	**$1.53**	**22.6**	**20.9**	**19.8**	**79.9%**	**10%**	**9.7**	**8.3**	**3.66**	**4.0**
D	**Dominion Energy**	**Sector Perform**	**$79.50**	**$77.00**	**3.8%**	**0.7%**	**51,086**	**$3.80**	**$3.67**	**$4.04**	**$4.23**	**21.7**	**19.7**	**18.8**	**82.3%**	**4%**	**13.8**	**11.9**	**3.35**	**6.4**
NEE	**NextEra Energy, Inc.**	**Outperform**	**$150.09**	**$150.00**	**2.6%**	**2.6%**	**70,267**	**$6.19**	**$6.73**	**$7.28**	**$7.75**	**22.3**	**20.6**	**19.4**	**58.4%**	**8%**	**11.4**	**10.6**	**2.72**	**4.0**
SRE	**Sempra Energy**	**Outperform**	**$119.29**	**$117.00**	**2.8%**	**0.8%**	**29,951**	**$4.73**	**$5.18**	**$5.40**	**$6.47**	**23.0**	**22.1**	**18.4**	**63.5%**	**11%**	**12.3**	**11.7**	**2.25**	**4.9**
	Average				**3.1%**	**2.2%**						**21.9**	**20.5**	**18.8**	**68.1%**	**8%**	**11.6**	**10.6**	**2.84**	**5.16**
	Total Average				**3.4%**	**2.3%**						**19.5**	**19.0**	**17.9**	**65.2%**	**4%**	**10.5**	**9.9**	**2.24**	**4.57**
INDEPENDENT POWER PRODUCERS																				
AES	**The AES Corp.**	**Sector Perform**	**$11.35**	**$12.00**	**4.2%**	**10.0%**	**7,494**	**$0.98**	**$1.05**	**$1.20**	**$1.31**	**10.8**	**9.5**	**8.7**	**45.7%**	**10%**	**8.1**	**7.5**	**2.48**	**5.6**
CPN	**Calpine**	**Sector Perform**	**$14.69**	**$15.25**	**0.0%**	**3.8%**	**5,298**	**-$0.08**	**$0.52**	**$0.97**	**$0.91**	**28.3**	**15.1**	**16.1**	**0.0%**	**-325%**	**8.8**	**8.3**	**1.77**	**6.2**
DYN	**Dynegy Inc.**	**Sector Perform**	**$9.35**	**$8.00**	**0.0%**	**-14.4%**	**1,228**	**-$8.57**	**-$0.60**	**$0.88**	**$0.12**	**N/A**	**10.6**	**77.9**	**N/A**	**-124%**	**7.4**	**6.5**	**0.71**	**7.4**
	Average				**1.4%**	**-0.2%**						**26.8**	**11.8**	**-30.2**	**22.9%**	**-146%**	**8.1**	**7.4**	**1.65**	**6.43**
YIELDCOs & REITs																				
ABY	**Atlantica Yield**	**Outperform**	**$19.85**	**$23.00**	**5.2%**	**21.1%**	**1,989**	**$0.08**	**$0.14**	**$0.36**	**$0.47**	**141.8**	**55.1**	**42.2**	**742.9%**	**N/M**	**9.6**	**9.2**	**1.06**	**7.2**
HIFR	**InfraREIT Inc.**	**Sector Perform**	**$22.69**	**$22.00**	**4.4%**	**1.4%**	**1,376**	**$1.20**	**$1.20**	**$1.25**	**$1.23**	**18.9**	**18.2**	**18.4**	**83.3%**	**1%**	**15.2**	**14.7**	**1.46**	**5.9**
NEP	**NextEra Energy Partners**	**Sector Perform**	**$42.89**	**$39.00**	**3.5%**	**-5.5%**	**6,082**	**$2.05**	**$0.97**	**$0.97**	**$1.17**	**44.2**	**44.2**	**36.7**	**156.7%**	**-17%**	**13.7**	**8.9**	**1.34**	**6.0**
NYLD.A	**NRG Yield**	**Sector Perform**	**$18.72**	**$17.00**	**6.0%**	**-3.2%**	**3,437**	**$0.98**	**$0.88**	**$1.03**	**$0.99**	**21.3**	**18.2**	**18.9**	**127.3%**	**0%**	**8.6**	**7.0**	**1.89**	**6.0**
PEGI	**Pattern Energy Group**	**Outperform**	**$26.30**	**$25.00**	**6.4%**	**1.4%**	**2,304**	**-$0.21**	**$0.50**	**$0.67**	**$0.72**	**52.6**	**39.3**	**36.5**	**334.4%**	**N/M**	**14.3**	**13.7**	**2.42**	**5.7**
	Average				**5.1%**	**3.0%**						**35.4**	**29.3**	**26.7**	**288.9%**	**-5%**	**12.3**	**10.7**	**1.63**	**6.16**
SP50	Standard & Poor's 500 Index		$2,500.23	UTY target	2.2%			$119.00	$128.00	$140.00	N/A	19.5	17.9	N/A						
UTY	Philadelphia Utility Index		$693.45	$680		1.3%					Utility P/E relative to S&P:	-0.4%	6.3%	N/A						

A - Actual; E - Estimated; *Estimates based on consensus, when available.

Source: Factset; RBC Capital Markets estimates

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As of 30-Jun-2017

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**826**	**52.01**	**293**	**35.47**
HOLD [Sector Perform]	**657**	**41.37**	**144**	**21.92**
SELL [Underperform]	**105**	**6.61**	**7**	**6.67**

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SECTOR UPDATE
September 18, 2017

Electric Power and Utilities

SunTrust Robinson Humphrey

Power/Utilities Macro Trends Tracker: Modest Increase In Forward Dark Spreads

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What's Inside

Page 2 includes the Table of Contents for all the relevant macro trends that we track.

What's Incremental To Our View

This report includes our analysis of the key macro factors impacting the power/ utility sector, including: forward power prices, spark spread, dark spread, and gas/coal spread trends; domestic electric consumption growth; and national weather patterns. Based on the latest peer group valuations, we are changing our price targets on CNP, PNW, and SO.

IMPORTANT POINTS

- On-Peak spark spreads currently suggest an increase over the 2017-2020 period ($12.7/MWh - $15.8/MWh) but were flat versus the prior week.
- On-Peak dark spreads currently suggest an increase over the 2017-2020 period ($5.9/MWh - $7.7/MWh) but increased 2% versus the prior week.
- Forward power prices increased 1% last week, versus a 1% increase in forward gas prices and a 1% increase in forward coal prices.
- Domestic electric consumption decreased 12% for the week ended September 9 and has decreased 2% year to date.
- The STRH Power Index was flat for the week (versus +2% for the S&P 500) and has increased 14% year to date (versus +12% for the S&P 500).
- The STRH Power Index is trading at a P/E multiple of 17.6x our 2019 estimates (a 13% premium to historical levels); an EV/EBITDA multiple of 9.7x our 2019 estimates (an 11% premium); P/B multiple of 2.0x (a 20% premium); and a Treasury-dividend yield spread of -108 basis points (an 11% discount).
- Based on the latest peer group valuations, we make the following changes to our price targets: CNP is increased to $29 from $28; PNW is decreased to $86 from $87; SO is increased to $53 from $52.

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Figure 1: Historical Natural Gas Prices, Electricity Prices, and Spark Spread by NERC Region

	Average Quarterly Gas Price ($/MMBtu)					Average Quarterly Electricity Price ($/MWh)					Implied Spark Spread ($/MWh)				
	1Q12	**2Q12**	**3Q12**	**4Q12**	**2012**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**2012**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**2012**
TRE	2.39	2.20	2.81	3.32	2.68	25	38	45	31	35	8.6	22.1	25.5	8.2	16.1
FRCC	2.67	2.82	3.71	3.82	3.25	28	34	40	36	34	9.6	13.9	14.1	9.0	11.6
MRO	2.45	2.22	2.86	3.46	2.75	28	32	38	33	33	10.7	16.0	18.4	9.0	13.5
NPCC	3.25	2.53	3.15	4.25	3.30	37	37	48	48	42	13.9	19.5	26.1	17.8	19.3
RFC	2.58	2.34	2.93	3.52	2.84	32	37	43	38	37	14.4	20.3	22.6	13.1	17.6
SERC	2.44	2.25	2.85	3.37	2.73	27	29	34	33	31	10.0	13.7	14.4	9.6	11.9
SPP	1.58	1.44	1.84	2.20	1.76	24	26	31	30	28	12.7	15.9	18.2	14.7	15.4
WECC	2.51	2.24	2.82	3.45	2.75	26	22	34	34	29	8.0	6.7	14.6	10.1	9.8
Average	**2.48**	**2.25**	**2.87**	**3.42**	**2.76**	**28**	**32**	**39**	**35**	**34**	**11.0**	**16.0**	**19.2**	**11.4**	**14.4**
	1Q13	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**
TRE	3.42	3.93	3.48	3.79	3.65	30	40	41	36	37	6.5	12.9	16.9	9.1	11.3
FRCC	3.73	4.26	3.92	4.02	3.98	33	40	36	38	37	6.9	9.8	8.8	9.9	8.9
MRO	3.58	3.97	3.55	3.97	3.77	34	40	39	37	38	8.8	12.3	14.4	9.0	11.1
NPCC	7.69	4.35	3.82	5.80	5.41	75	48	52	57	58	20.9	17.2	25.5	16.6	20.1
RFC	3.66	4.11	3.57	3.83	3.79	38	44	46	39	42	12.9	15.4	20.5	12.1	15.2
SERC	3.47	3.98	3.51	3.79	3.69	33	40	36	36	36	8.9	11.7	11.5	9.8	10.5
SPP	2.28	2.56	2.27	2.50	2.40	30	36	34	34	34	14.3	18.5	18.6	16.9	17.1
WECC	3.53	3.88	3.50	3.94	3.71	37	41	44	44	41	12.1	13.6	19.6	16.0	15.3
Average	**3.92**	**3.88**	**3.45**	**3.96**	**3.80**	**39**	**41**	**41**	**40**	**40**	**11.4**	**13.9**	**17.0**	**12.4**	**13.7**
	1Q14	**2Q14**	**3Q14**	**4Q14**	**2014**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014**
TRE	5.08	4.46	3.88	3.63	4.26	53	45	43	38	45	17.1	13.5	15.5	12.5	14.6
FRCC	6.32	4.84	4.25	3.98	4.85	53	42	42	37	44	9.1	8.5	12.1	8.7	9.6
MRO	8.51	4.56	3.92	3.83	5.21	64	44	37	37	46	4.7	12.5	9.7	10.4	9.3
NPCC	17.27	4.35	3.35	4.20	7.29	149	48	42	44	71	28.3	17.1	18.9	14.7	19.7
RFC	8.43	4.19	3.28	3.29	4.80	89	49	40	40	55	30.4	19.7	17.4	17.4	21.2
SERC	5.06	4.52	3.90	3.69	4.29	62	43	40	38	46	26.2	11.9	12.8	11.9	15.7
SPP	3.76	2.90	2.52	2.38	2.89	52	53	40	38	46	25.7	32.4	22.2	21.0	25.3
WECC	5.41	4.54	4.00	3.73	4.42	53	44	46	40	46	14.7	12.1	18.1	14.0	14.7
Average	**7.48**	**4.30**	**3.64**	**3.59**	**4.75**	**72**	**46**	**41**	**39**	**50**	**19.5**	**16.0**	**15.8**	**13.8**	**16.3**
	1Q15	**2Q15**	**3Q15**	**4Q15**	**2015**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015**
TRE	2.70	2.60	2.67	2.03	2.50	29	27	45	22	31	10.1	9.1	25.9	8.1	13.3
FRCC	3.13	3.11	3.10	2.35	2.92	36	35	31	29	33	14.3	13.1	9.1	12.1	12.1
MRO	3.20	2.59	2.72	2.11	2.66	34	31	33	27	31	11.7	12.7	13.5	11.8	12.4
NPCC	8.61	2.58	2.58	2.32	4.02	81	33	38	31	46	20.6	15.1	20.0	14.9	17.7
RFC	3.18	2.22	2.16	1.74	2.32	49	37	36	31	38	26.5	21.0	21.2	19.1	21.9
SERC	2.83	2.67	2.70	2.03	2.56	38	33	28	26	31	17.8	14.5	9.5	11.6	13.3
SPP	1.75	1.66	1.74	1.32	1.62	33	31	39	30	33	20.6	19.7	26.5	21.0	22.0
WECC	2.64	2.55	2.70	2.18	2.52	27	31	36	27	30	8.8	13.0	17.0	11.2	12.5
Average	**3.50**	**2.50**	**2.55**	**2.01**	**2.64**	**41**	**32**	**36**	**28**	**34**	**16.3**	**14.8**	**17.9**	**13.7**	**15.7**
	1Q16	**2Q16**	**3Q16**	**4Q16**	**2016**	**1Q16**	**2Q16**	**3Q16**	**4Q16**	**2016**	**1Q16**	**2Q16**	**3Q16**	**4Q16**	**2016**
TRE	1.90	2.00	2.74	2.88	2.38	20	24	33	27	26	6.4	10.2	13.9	6.8	9.3
FRCC	2.34	2.54	3.56	3.23	2.92	24	30	39	32	31	7.9	11.9	14.0	8.9	10.7
MRO	1.96	2.00	2.70	2.91	2.39	24	28	38	33	31	10.5	14.2	19.1	12.3	14.0
NPCC	2.72	2.08	2.52	3.18	2.63	31	30	42	35	35	12.4	15.9	24.8	13.2	16.5
RFC	1.76	1.84	2.13	2.53	2.06	29	30	39	34	33	16.8	17.6	24.4	16.1	18.7
SERC	1.93	2.03	2.78	2.91	2.41	25	28	35	31	30	11.0	13.3	15.7	11.0	12.7
SPP	1.22	1.29	1.75	1.87	1.53	23	33	39	38	33	14.8	24.2	26.7	25.2	22.7
WECC	1.88	1.94	2.70	2.84	2.34	22	22	35	30	27	8.5	8.6	16.6	10.0	10.9
Average	**1.96**	**1.97**	**2.61**	**2.79**	**2.33**	**25**	**28**	**38**	**32**	**31**	**11.0**	**14.5**	**19.4**	**12.9**	**14.5**
	1Q17	**2Q17**	**3Q17**	**4Q17**	**2017**	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**2017**	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**2017**
TRE	2.88	2.93	2.81			24	27	34			3.4	6.2	14.1		
FRCC	3.11	3.40	3.33			29	32	34			7.2	8.2	10.4		
MRO	2.88	2.81	2.71			30	33	33			9.6	13.2	14.4		
NPCC	3.74	2.84	2.53			36	34	36			10.3	14.2	18.5		
RFC	2.87	2.75	2.41			31	33	34			11.3	14.1	17.3		
SERC	2.91	2.97	2.85			29	32	32			8.7	11.3	12.2		
SPP	1.84	1.82	1.73			36	42	39			23.0	29.0	27.1		
WECC	2.85	2.76	2.72			27	27	45			6.8	8.1	26.1		
Average	**2.88**	**2.79**	**2.64**			**30**	**33**	**36**			**10.0**	**13.0**	**17.5**		

Notes:
1) Implied spark spread assumes 7,000 Btu/kWh heat rate.
2) Calculations use On-Peak power pricing.
3) 3Q17 includes July, August only

Sources: Fossil Data Corp.; STRH estimates.

Figure 2: Around-The-Clock Power Prices, 2014A-2020E, as of September 15, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	35.07	38.47	47.59	47.52	48.11	41.44	42.86	43.93	40.59	40.64	41.06	55.66	57.63	69.37	50.92	66.24	**47.94**
2015A	24.00	25.33	33.01	31.96	33.55	29.92	30.28	29.80	26.69	27.72	27.93	38.40	41.18	45.40	33.66	41.32	**32.51**
2016A	21.21	23.43	29.33	28.55	29.79	29.93	30.26	28.46	23.33	24.34	24.98	31.31	30.53	32.07	28.97	30.98	**27.97**
2017E	23.45	29.40	34.84	34.15	29.82	33.42	30.42	27.97	24.16	26.80	30.10	29.90	29.98	31.72	26.70	31.65	**29.65**
2018E	23.53	28.32	34.90	33.51	32.84	35.75	32.67	30.41	27.53	29.76	31.32	32.91	34.29	40.56	31.04	39.15	**32.41**
2019E	22.95	28.39	34.81	32.76	31.19	33.85	32.00	29.31	27.49	29.62	30.05	31.35	32.73	40.43	30.17	38.22	**31.58**
2020E	24.56	29.98	36.10	33.65	30.02	32.97	31.19	28.20	27.76	29.73	30.16	30.66	32.84	40.93	29.53	38.89	**31.70**

Sources: SNL and SunTrust Robinson Humphrey estimates.

Figure 3: On-Peak Power Prices, 2014A-2020E, as of September 15, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	38.71	42.49	51.15	51.22	54.24	45.13	48.02	50.60	44.80	44.86	45.33	62.71	62.71	76.97	57.55	73.60	**53.13**
2015A	26.37	27.32	35.31	33.74	37.27	33.13	33.41	33.86	30.39	30.76	31.00	42.82	46.15	50.28	39.08	46.10	**36.06**
2016A	23.23	25.54	31.61	30.46	33.26	33.80	34.09	32.27	26.85	27.74	28.47	35.03	34.53	35.90	35.04	34.30	**31.38**
2017E	26.60	32.79	38.36	37.22	32.88	37.47	33.71	31.66	26.66	29.70	33.37	32.91	33.25	34.76	31.29	34.43	**32.94**
2018E	25.71	30.51	37.50	35.57	36.38	39.49	36.27	34.22	30.80	33.49	35.42	36.42	38.23	44.40	36.43	43.07	**35.87**
2019E	24.91	30.32	37.32	34.66	34.43	37.22	35.41	32.81	31.15	34.02	34.36	34.57	36.32	44.12	35.26	41.29	**34.88**
2020E	26.28	31.93	38.55	35.26	32.90	35.98	34.26	31.47	31.71	34.10	34.66	33.77	36.56	44.87	34.32	43.03	**34.98**

Sources: SNL and SunTrust Robinson Humphrey estimates.

Figure 4: Gas-Coal Spread, 2003A-2020E, as of September 15, 2017

($/mmBtu)

	NYMEX Henry Hub Gas Futures	NYMEX Spec Coal Futures	Gas-Coal Spread
2003A	5.483	1.378	4.105
2004A	5.892	2.257	3.635
2005A	8.907	2.390	6.516
2006A	6.734	2.024	4.710
2007A	6.956	1.861	5.095
2008A	8.853	3.884	4.969
2009A	3.942	2.037	1.905
2010A	4.386	2.553	1.833
2011A	3.995	3.083	0.913
2012A	2.758	2.413	0.345
2013A	3.730	2.338	1.392
2014A	4.394	2.403	1.990
2015A	2.635	1.886	0.749
2016A	2.581	1.835	0.746
2017E	3.037	2.253	0.784
2018E	3.075	2.271	0.804
2019E	2.912	2.271	0.641
2020E	2.844	2.271	0.574

Sources: Bloomberg, SNL, and SunTrust Robinson Humphrey estimates.

Figure 5: 2014A-2020E Implied On-Peak Spark Spreads, as of September 15, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	8.25	10.36	16.84	19.09	23.93	14.38	13.41	12.42	14.36	14.42	14.89	24.83	24.83	18.90	24.68	40.73	**18.52**
2015A	9.30	8.95	14.33	15.37	19.57	14.69	15.06	14.60	12.40	12.78	13.02	23.82	27.15	16.02	18.35	25.37	**16.30**
2016A	7.56	8.60	12.66	13.52	16.82	15.73	17.45	14.96	9.74	10.63	11.36	22.75	22.25	13.83	17.31	16.57	**14.49**
2017E	7.70	12.44	15.04	16.87	12.89	16.21	16.04	11.03	5.69	8.73	12.40	15.96	16.31	10.96	10.70	13.85	**12.68**
2018E	6.74	10.50	14.82	15.56	16.50	17.97	19.36	13.76	9.75	12.45	14.37	14.34	16.15	13.86	19.46	26.10	**15.10**
2019E	7.05	11.49	15.50	15.82	16.46	16.83	19.17	13.63	11.20	14.07	14.41	13.70	15.45	13.93	19.68	25.72	**15.26**
2020E	8.75	13.43	17.04	16.76	15.52	16.07	18.77	12.56	12.12	14.51	15.07	13.60	16.39	14.93	19.03	27.74	**15.77**

Notes:

1) Assumes 7,000 Btu/kWh heat rate

2) NERC Region: WECC (Mid-C, Palo Verde, NP-15, SP-15); SPP (Entergy); RFC (AEP Dayton, Indiana, NI Hub, PJM); TRE (ERCOT North, ERCOT South, ERCOT West, ERCOT Houston); NPCC (NEPOOL, NY Zone A, NY Zone F)

Source: Bloomberg, SNL, Fossil Data Corp, SunTrust Robinson Humphrey estimates.

Figure 6: 2014A-2020E Implied On-Peak Dark Spreads, as of September 15, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	9.96	13.74	22.40	22.47	25.49	16.38	19.27	21.85	16.05	16.11	16.58	33.96	33.96	48.22	28.80	44.85	**24.38**
2015A	3.74	4.69	12.69	11.11	14.64	10.51	10.78	11.23	7.76	8.13	8.37	20.19	23.52	27.65	16.45	23.48	**13.43**
2016A	1.22	3.52	9.60	8.44	11.24	11.78	12.08	10.26	4.83	5.72	6.45	13.02	12.52	13.89	13.02	12.29	**9.37**
2017E	-0.43	5.76	11.32	10.18	5.84	10.44	6.68	4.62	-0.38	2.66	6.33	5.87	6.22	7.73	4.25	7.40	**5.91**
2018E	-1.54	3.26	10.25	8.32	9.13	12.24	9.02	6.97	3.55	6.24	8.17	9.17	10.98	17.15	9.18	15.82	**8.62**
2019E	-2.34	3.07	10.07	7.41	7.18	9.97	8.16	5.56	3.90	6.77	7.11	7.32	9.07	16.87	8.01	14.04	**7.63**
2020E	-0.97	4.68	11.30	8.01	5.65	8.73	7.01	4.22	4.46	6.85	7.41	6.52	9.31	17.62	7.07	15.78	**7.73**

Notes:

1) Assumes 12,000 Btu/kWh heat rate

2) NERC Region: WECC (Mid-C, Palo Verde, NP-15, SP-15); SPP (Entergy); RFC (AEP Dayton, Indiana, NI Hub, PJM); TRE (ERCOT North, ERCOT South, ERCOT West, ERCOT Houston); NPCC (NEPOOL, NY Zone A)

Source: Bloomberg, SNL, Fossil Data Corp, SunTrust Robinson Humphrey estimates.

Figure 7: Year to Date Domestic Electric Consumption Summary by Different Geographic Regions

Week Ended September 9 2017

	Current Week's Output		YTD		52-Weeks Ended	
Region	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**
New England	2,184	(14.7%)	83,981	(4.2%)	120,245	(2.7%)
Mid-Atlantic	7,463	(22.1%)	296,683	(4.3%)	422,800	(2.1%)
Central Industrial	11,431	(21.3%)	459,229	(4.4%)	655,606	(2.5%)
West Central	5,826	(14.4%)	226,433	(3.0%)	323,688	(1.6%)
Southeast	18,837	(14.7%)	710,311	(2.9%)	1,010,865	(0.6%)
South Central	14,236	(11.0%)	510,145	0.7%	719,821	2.0%
Rocky Mountain	6,083	7.5%	195,296	2.0%	279,111	0.3%
Pacific Northwest	2,691	10.5%	110,477	6.7%	159,184	4.4%
Pacific Southwest	6,654	16.3%	199,304	0.2%	284,057	(0.4%)
Total United States	**75,405**	**(11.7%)**	**2,791,859**	**(1.8%)**	**3,975,377**	**(0.5%)**

	1Q17A		2Q17A		3Q17 QTD	
Region	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**
New England	30,898	0.0%	28,213	(2.2%)	24,870	(11.1%)
Mid-Atlantic	105,796	(0.4%)	100,289	(1.6%)	90,598	(11.0%)
Central Industrial	167,052	(1.6%)	159,146	(2.3%)	133,031	(9.9%)
West Central	78,718	(0.9%)	79,132	(2.0%)	68,583	(6.6%)
Southeast	240,646	(3.8%)	250,212	0.0%	219,453	(5.0%)
South Central	160,357	1.9%	184,180	2.3%	165,608	(2.1%)
Rocky Mountain	65,862	2.3%	65,880	1.8%	63,554	1.9%
Pacific Northwest	47,047	11.1%	35,881	3.3%	27,549	4.2%
Pacific Southwest	64,687	0.7%	69,171	(2.6%)	65,446	2.8%
Total United States	**961,063**	**(0.4%)**	**972,104**	**(0.3%)**	**858,692**	**(5.0%)**

Notes:

Corresponding NERC Regions: New England (NPCC), Mid-Atlantic (RFC), Central Industrial (RFC and SERC), West Central (MRO), Southeast (SERC and FRCC), South Central (SPP and TRE), Rocky Mountain (WECC), Pacific Northwest (WECC), Pacific Southwest (WECC).

Source: Edison Electric Institute, SunTrust Robinson Humphrey

Figure 8: Cooling Degree Days by State

	COOLING DEGREE DAYS				
State	**Jul/Aug 2017 Actual**	**Jul/Aug 2016 Actual**	**Jul/Aug Norm**	**% Change vs. Yr-ago**	**% Change vs. Norm**
ALABAMA	940	1076	884	-13%	6%
ARIZONA	1258	1316	1273	-4%	-1%
ARKANSAS	883	1027	918	-14%	-4%
CALIFORNIA	664	592	461	12%	44%
COLORADO	312	310	195	1%	60%
CONNECTICUT	407	625	411	-35%	-1%
DELAWARE	702	865	650	-19%	8%
FLORIDA	1132	1165	1043	-3%	9%
GEORGIA	868	1022	828	-15%	5%
IDAHO	523	385	330	36%	58%
ILLINOIS	448	649	523	-31%	-14%
INDIANA	454	644	518	-30%	-12%
IOWA	447	503	504	-11%	-11%
KANSAS	733	835	833	-12%	-12%
KENTUCKY	653	825	655	-21%	0%
LOUISIANA	1053	1114	1047	-5%	1%
MAINE	188	293	191	-36%	-2%
MARYLAND	677	874	627	-23%	8%
MASSACHUSETTS	339	597	341	-43%	-1%
MICHIGAN	283	498	365	-43%	-22%
MINNESOTA	279	346	314	-19%	-11%
MISSISSIPPI	976	1093	950	-11%	3%
MISSOURI	655	765	722	-14%	-9%
MONTANA	351	229	186	53%	89%
NEBRASKA	557	583	610	-4%	-9%
NEVADA	1156	1142	987	1%	17%
NEW HAMPSHIRE	221	384	237	-42%	-7%
NEW JERSEY	506	719	511	-30%	-1%
NEW MEXICO	545	616	526	-12%	4%
NEW YORK	423	646	428	-35%	-1%
NORTH CAROLINA	792	954	744	-17%	6%
NORTH DAKOTA	332	321	304	3%	9%
OHIO	432	663	445	-35%	-3%
OKLAHOMA	931	1057	1005	-12%	-7%
OREGON	336	265	174	27%	93%
PENNSYLVANIA	444	668	430	-34%	3%
RHODE ISLAND	392	645	363	-39%	8%
SOUTH CAROLINA	935	1112	880	-16%	6%
SOUTH DAKOTA	462	477	474	-3%	-3%
TENNESSEE	693	871	726	-20%	-5%
TEXAS	1133	1201	1113	-6%	2%
UTAH	579	569	460	2%	26%
VERMONT	159	263	210	-40%	-24%
VIRGINIA	689	856	618	-20%	11%
WASHINGTON	269	241	149	12%	81%
WEST VIRGINIA	481	661	465	-27%	3%
WISCONSIN	237	403	334	-41%	-29%
WYOMING	309	267	217	16%	42%
UNITED STATES	648	761	611	-15%	6%

Sources: NOAA, SNL, SunTrust Robinson Humphrey estimates.

Figure 9: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder

		VALUATION DATA													FINANCIAL PROJECTIONS										
		Inv.	Price	Price Target		EV/EBITDA			P/E Multiples			Price/	Div.	FCF	14-'19E	Earnings Per Share						Estimated Operating EPS			
COMPANY	Ticker	Rating	9/15/17	12-Month	%	2019E	2018E	2017E	2019E	2018E	2017E	Book	Yield	Yield	CAGR	2019E	2018E	2017E	2016A	2015A	2014A	2Q17A		2Q16A	%
		(A)		(B)										(C)											
ALLIANT ENERGY CORP	LNT		43			11.0	12.0	12.5	19.0	20.1	21.4	2.3	3%		4%	$2.25	$2.13	$2.01	$1.88	$1.87	$1.87				
AMEREN CORPORATION	AEE		60			8.8	9.2	9.7	18.7	19.8	21.4	2.0	3%		4%	$3.19	$3.02	$2.80	$2.69	$2.68	$2.68				
AMERICAN ELECTRIC POWER	**AEP**	**B**	**73**	**80**	**10%**	**10.4**	**10.8**	**11.1**	**17.8**	**19.0**	**20.0**	**2.0**	**3%**	**(4%)**	**4%**	**$4.11**	**$3.85**	**$3.65**	**$3.94**	**$3.69**	**$3.43**	**$0.75**	**A vs**	**$0.95**	**(21%)**
AVISTA CORP	AVA		52			8.9	10.4	11.5	23.6	25.2	26.6	2.0	3%		0%	$2.19	$2.05	$1.95	$2.07	$2.17	$2.17				
CENTERPOINT ENERGY INC	**CNP**	**H**	**30**	**29**	**(4%)**	**8.5**	**8.9**	**9.3**	**20.3**	**21.5**	**22.8**	**3.7**	**4%**	**3%**	**3%**	**$1.49**	**$1.41**	**$1.33**	**$1.16**	**$1.10**	**$1.27**	**$0.29**	**A vs**	**$0.17**	**71%**
CMS ENERGY CORP	**CMS**	**H**	**48**	**49**	**2%**	**9.3**	**9.9**	**10.5**	**19.4**	**20.7**	**22.2**	**3.0**	**3%**	**(2%)**	**7%**	**$2.47**	**$2.31**	**$2.16**	**$2.02**	**$1.89**	**$1.77**	**$0.33**	**A vs**	**$0.45**	**(27%)**
CONSOLIDATED EDISON INC	ED		84			9.5	10.1	10.6	18.9	19.8	20.7	1.8	3%		2%	$4.47	$4.26	$4.09	$3.96	$3.96	$3.96				
DTE ENERGY COMPANY	DTE		111			10.3	11.3	12.1	18.5	19.5	20.6	2.1	3%		3%	$6.03	$5.71	$5.41	$5.28	$5.28	$5.28				
DUKE ENERGY CORP	**DUK**	**H**	**87**	**91**	**4%**	**10.3**	**10.7**	**11.1**	**17.2**	**18.0**	**18.9**	**1.5**	**4%**	**(4%)**	**2%**	**$5.09**	**$4.85**	**$4.61**	**$4.69**	**$4.54**	**$4.55**	**$1.01**	**A vs**	**$1.07**	**(6%)**
EDISON INTERNATIONAL	**EIX**	**B**	**81**	**90**	**11%**	**8.6**	**9.1**	**9.4**	**17.3**	**18.8**	**19.2**	**1.8**	**3%**	**(1%)**	**0%**	**$4.69**	**$4.33**	**$4.24**	**$3.97**	**$4.10**	**$4.59**	**$0.85**	**A vs**	**$0.86**	**(1%)**
EVERSOURCE ENERGY	ES		63			10.1	10.8	11.3	17.9	19.0	19.9	1.8	3%		3%	$3.52	$3.31	$3.15	$2.98	$2.96	$2.96				
GREAT PLAINS ENERGY INC	**GXP**	**H**	**31**	**32**	**4%**	**9.3**	**12.7**	**8.6**	**17.1**	**22.0**	**17.8**	**1.4**	**4%**	**2%**	**3%**	**$1.80**	**$1.40**	**$1.73**	**$1.85**	**$1.37**	**$1.57**	**$0.43**	**A vs**	**$0.55**	**(22%)**
P G & E CORP	PCG		70			7.6	8.1	8.6	17.5	18.4	19.1	1.9	3%		1%	$4.01	$3.83	$3.68	$3.71	$3.76	$3.76				
PNM RESOURCES INC	**PNM**	**H**	**43**	**37**	**(13%)**	**10.0**	**10.8**	**10.9**	**20.9**	**24.6**	**22.7**	**1.9**	**2%**	**(5%)**	**6%**	**$2.03**	**$1.73**	**$1.87**	**$1.65**	**$1.64**	**$1.49**	**$0.49**	**A vs**	**$0.40**	**NM**
PINNACLE WEST CAPITAL	**PNW**	**H**	**89**	**86**	**(4%)**	**9.7**	**10.1**	**10.6**	**19.0**	**20.0**	**21.2**	**2.0**	**3%**	**(2%)**	**6%**	**$4.71**	**$4.47**	**$4.22**	**$3.95**	**$3.92**	**$3.58**	**$1.49**	**A vs**	**$1.08**	**NM**
PORTLAND GENERAL ELECTRIC	POR		47			8.2	8.5	9.2	18.7	19.5	21.1	1.8	3%		3%	$2.51	$2.42	$2.23	$2.10	$2.16	$2.16				
PPL CORP	PPL		39			10.4	11.0	12.1	16.1	16.9	18.2	2.6	4%		(0%)	$2.44	$2.33	$2.16	$2.37	$2.45	$2.45				
SCANA CORP	SCG		60			10.9	10.8	11.2	13.6	13.8	14.2	1.5	4%		1%	$4.39	$4.34	$4.21	$4.13	$4.16	$4.16				
SOUTHERN CO/THE	**SO**	**H**	**51**	**53**	**5%**	**10.9**	**11.3**	**11.6**	**16.1**	**16.9**	**17.2**	**1.9**	**5%**	**(7%)**	**2%**	**$3.15**	**$3.00**	**$2.95**	**$2.90**	**$2.89**	**$2.80**	**$0.73**	**A vs**	**$0.74**	**(1%)**
WESTAR ENERGY INC	WR		51			9.6	10.2	10.6	18.1	19.9	20.4	1.9	3%		3%	$2.83	$2.56	$2.50	$2.47	$2.42	$2.42				
WEC ENERGY GROUP INC	WEC		66			10.4	11.2	11.8	19.3	20.2	21.3	2.3	3%		4%	$3.43	$3.27	$3.11	$2.95	$2.88	$2.88				
XCEL ENERGY INC	**XEL**	**H**	**49**	**47**	**(4%)**	**9.5**	**10.0**	**10.5**	**18.9**	**20.0**	**21.1**	**2.3**	**3%**	**(4%)**	**5%**	**$2.60**	**$2.46**	**$2.33**	**$2.21**	**$2.09**	**$2.03**	**$0.45**	**A vs**	**$0.39**	**15%**
Regulated Utilities Average						9.7	10.3	10.7	18.0	19.3	19.9	2.0	3%	(2%)	3%										1%
BLACK HILLS CORP	BKH		70			9.7	10.0	10.5	18.1	18.6	19.8	2.1	3%		4%	$3.84	$3.74	$3.53	$3.06	$3.19	$3.19				
DOMINION ENERGY INC	D		80			11.5	12.4	14.0	18.5	19.5	21.8	3.0	4%		2%	$4.29	$4.07	$3.65	$3.81	$3.80	$3.80				
ENTERGY CORP	ETR		79			8.0	8.3	8.6	15.9	16.3	13.6	1.7	4%		(7%)	$4.98	$4.85	$5.79	$6.89	$7.11	$7.11				
EXELON CORP	**EXC**	**B**	**38**	**41**	**9%**	**8.4**	**8.4**	**8.7**	**13.7**	**13.3**	**13.9**	**1.2**	**3%**	**(2%)**	**3%**	**$2.75**	**$2.83**	**$2.70**	**$2.68**	**$2.49**	**$2.39**	**$0.54**	**A vs**	**$0.65**	**(17%)**
FIRSTENERGY CORP	FE		32			8.5	8.5	8.5	13.1	12.5	11.3	2.2	5%		(2%)	$2.41	$2.53	$2.81	$2.64	$2.62	$2.62				
NEXTERA ENERGY INC	NEE		150			10.2	10.9	11.4	19.3	20.7	22.3	2.6	3%		6%	$7.77	$7.24	$6.74	$6.23	$5.75	$5.75				
MDU RESOURCES GROUP INC	MDU		27			NM	NM	NM	18.0	19.6	22.2	2.4	3%		(4%)	$1.50	$1.38	$1.22	$1.14	$1.87	$1.87				
PUBLIC SERVICE ENTERPRISE G	PEG		46			8.7	9.1	9.1	15.5	15.6	15.7	1.8	4%		0%	$2.97	$2.93	$2.92	$2.88	$2.91	$2.91				
SEMPRA ENERGY	SRE		119			10.8	12.1	12.7	18.0	21.4	22.9	1.9	3%		6%	$6.64	$5.57	$5.22	$4.83	$5.05	$5.05				
Hybrid Utilities Average						9.5	9.9	10.4	16.7	17.5	18.1	2.1	3%	(2%)	1%										(17%)
AES CORP	**AES**	**B**	**11**	**15**	**32%**	**7.1**	**7.3**	**7.8**	**8.6**	**9.1**	**10.8**	**1.1**	**4%**	**18%**	**0%**	**$1.32**	**$1.25**	**$1.05**	**$0.98**	**$1.22**	**$1.30**	**$0.25**	**A vs**	**$0.17**	**47%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**2%**	**8.5**	**8.6**	**9.3**	**NM**	**NM**	**NM**	**1.7**	**NA**	**10%**	**NM**	**$0.89**	**$0.80**	**$0.26**	**($0.08)**	**$1.06**	**$0.76**	**($0.35)**	**A vs**	**$0.09**	**NM**
DYNEGY INC	**DYN**	**B**	**9**	**11**	**18%**	**7.3**	**6.4**	**8.3**	**NM**	**NM**	**NM**	**0.6**	**NA**	**25%**	**NM**	**($0.46)**	**$0.53**	**($1.63)**	**($2.52)**	**$1.95**	**($2.51)**	**($1.31)**	**A vs**	**($1.23)**	**NM**
NRG ENERGY INC	**NRG**	**H**	**23**	**23**	**0%**	**9.2**	**9.8**	**10.0**	**NM**	**NM**	**NM**	**2.1**	**1%**	**15%**	**NM**	**$1.59**	**$1.10**	**$0.93**	**$1.64**	**($0.34)**	**$0.94**	**$0.41**	**A vs**	**$0.84**	**NM**
ORMAT TECHNOLOGIES INC	ORA		58			9.8	10.2	11.0	21.1	22.7	24.4	2.3	NA		4%	$2.73	$2.54	$2.37	$2.10	$2.19	$2.19				
VISTRA ENERGY CORP	VST		18			8.5	8.2	8.1	29.6	26.2	25.4	1.1	NA	11%	NM	60%	68%	$0.70	NM	NM	NM				
Independent Power Average						8.4	8.4	9.1	14.9	15.9	17.6	1.6	2%	17%	2%										47%
STRH Power Index						9.7	10.2	10.6	17.6	18.7	19.3	2.0	3%	(3%)	2%										4%
S&P 500	SPX		2500						19.1	15.6	17.2		2%			130.66	159.88	145.18	130.66	110.64	113.60				

Notes:
(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.
(B) Near-term price target over the next 12 months.
(C) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Reports.

Figure 9: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder (Cont'd)

			PRICE PERFORMANCE										TRADING DATA			LEVERAGE/PROFITABILITY			OWNERSHIP DATA			
		Inv.	Price	52-Week Range									30 Wk. Mov. Avg		Daily	Total	ROE	ROIC	Shares	Market	Ownership	
COMPANY	Ticker	Rating	9/15/17	Hi	Low	YTD	2016	2015	2014	2013	2012	2011	Act.	+/-	Vol.	D/C	2017E	2017E	Out.	Cap.	Insider	Instit.
														(A)	(B)				(mm)	($mm)	(C)	
ALLIANT ENERGY CORP	LNT		43	44	35	13%	21%	(6%)	29%	18%	(0%)	20%	$41	6%	864	52%	11%	5%	231.1	$9,913	0%	72%
AMEREN CORPORATION	AEE		60	61	47	14%	21%	(6%)	28%	18%	(7%)	18%	$56	7%	1,659	53%	NM	6%	242.6	$14,512	0%	74%
AMERICAN ELECTRIC POWER	**AEP**	**B**	**73**	**75**	**58**	**16%**	**8%**	**(4%)**	**30%**	**10%**	**3%**	**15%**	**69**	**5%**	**2,233**	**54%**	**10%**	**4%**	**491.8**	**35,919**	**0%**	**76%**
AVISTA CORP	AVA		52	53	38	29%	13%	0%	25%	17%	(6%)	14%	44	17%	418	53%	NM	NM	64.4	3,326	2%	74%
CENTERPOINT ENERGY INC	**CNP**	**H**	**30**	**30**	**22**	**23%**	**34%**	**(22%)**	**1%**	**20%**	**(4%)**	**28%**	**28**	**8%**	**3,224**	**71%**	**16%**	**6%**	**431.0**	**13,047**	**0%**	**85%**
CMS ENERGY CORP	**CMS**	**H**	**48**	**49**	**39**	**15%**	**15%**	**4%**	**30%**	**10%**	**10%**	**19%**	**46**	**4%**	**1,923**	**69%**	**14%**	**6%**	**282.0**	**13,500**	**1%**	**99%**
CONSOLIDATED EDISON INC	ED		84	86	69	15%	14%	(3%)	19%	(0%)	(10%)	25%	81	5%	1,437	53%	9%	5%	309.8	26,161	0%	59%
DTE ENERGY COMPANY	DTE		111	114	90	13%	23%	(7%)	30%	11%	10%	20%	106	5%	702	55%	10%	5%	179.4	19,993	1%	75%
DUKE ENERGY CORP	**DUK**	**H**	**87**	**88**	**72**	**13%**	**9%**	**(15%)**	**21%**	**8%**	**(3%)**	**24%**	**84**	**4%**	**2,363**	**56%**	**8%**	**5%**	**699.9**	**61,100**	**0%**	**62%**
EDISON INTERNATIONAL	**EIX**	**B**	**81**	**83**	**67**	**13%**	**21%**	**(10%)**	**41%**	**2%**	**9%**	**7%**	**79**	**2%**	**2,186**	**42%**	**9%**	**6%**	**325.8**	**26,456**	**0%**	**88%**
EVERSOURCE ENERGY	ES		63	64	51	14%	8%	(5%)	26%	8%	8%	13%	61	4%	1,272	51%	9%	6%	316.9	19,919	0%	82%
GREAT PLAINS ENERGY INC	**GXP**	**H**	**31**	**32**	**26**	**13%**	**0%**	**(4%)**	**17%**	**19%**	**(7%)**	**12%**	**30**	**4%**	**1,457**	**58%**	**4%**	**4%**	**272.0**	**13,872**	**0%**	**73%**
P G & E CORP	PCG		70	72	58	16%	14%	(0%)	32%	0%	(3%)	(14%)	67	4%	1,891	49%	10%	6%	512.8	36,041	0%	90%
PNM RESOURCES INC	**PNM**	**H**	**43**	**43**	**31**	**24%**	**12%**	**3%**	**23%**	**18%**	**13%**	**40%**	**38**	**10%**	**654**	**59%**	**8%**	**5%**	**79.7**	**3,385**	**1%**	**110%**
PINNACLE WEST CAPITAL	**PNW**	**H**	**89**	**91**	**71**	**15%**	**21%**	**(6%)**	**29%**	**4%**	**6%**	**16%**	**86**	**4%**	**530**	**49%**	**10%**	**6%**	**111.6**	**9,965**	**0%**	**93%**
PORTLAND GENERAL ELECTRIC	POR		47	48	40	9%	19%	(4%)	25%	10%	8%	17%	46	3%	473	50%	8%	5%	89.1	4,182	1%	102%
PPL CORP	PPL		39	40	32	16%	(0%)	(6%)	21%	5%	(3%)	12%	38	3%	3,207	66%	14%	6%	680.8	26,762	0%	78%
SCANA CORP	SCG		60	76	59	(18%)	21%	0%	29%	3%	1%	11%	66	(9%)	844	57%	10%	5%	142.9	8,552	0%	72%
SOUTHERN CO/THE	**SO**	**H**	**51**	**54**	**46**	**3%**	**5%**	**(5%)**	**19%**	**(4%)**	**(8%)**	**21%**	**49**	**2%**	**5,494**	**61%**	**11%**	**6%**	**999.5**	**50,613**	**0%**	**58%**
WESTAR ENERGY INC	WR		51	58	49	(9%)	33%	3%	28%	12%	(1%)	14%	53	(3%)	515	52%	10%	6%	142.1	7,257	1%	89%
WEC ENERGY GROUP INC	WEC		66	67	54	13%	14%	(3%)	28%	12%	5%	19%	62	7%	1,502	53%	11%	6%	315.6	20,850	0%	75%
XCEL ENERGY INC	**XEL**	**H**	**49**	**51**	**38**	**21%**	**13%**	**(0%)**	**29%**	**5%**	**(3%)**	**17%**	**46**	**6%**	**2,727**	**57%**	**11%**	**6%**	**507.8**	**24,921**	**0%**	**78%**
Regulated Utilities Average						13%	15%	(4%)	25%	9%	1%	17%		5%		55%	10%	6%			0%	80%
BLACK HILLS CORP	BKH		70	72	55	14%	32%	(12%)	1%	44%	8%	12%	68	2%	238	64%	11%	6%	53.5	3,724	1%	111%
DOMINION ENERGY INC	D		80	82	70	4%	13%	(12%)	19%	25%	(2%)	24%	78	2%	2,486	66%	14%	5%	642.6	51,086	0%	76%
ENTERGY CORP	ETR		79	82	67	8%	7%	(22%)	38%	(1%)	(13%)	3%	77	3%	928	65%	12%	5%	179.5	14,159	0%	91%
EXELON CORP	**EXC**	**B**	**38**	**39**	**30**	**6%**	**28%**	**(25%)**	**35%**	**(8%)**	**(31%)**	**4%**	**36**	**3%**	**4,349**	**54%**	**9%**	**5%**	**960.1**	**36,109**	**0%**	**84%**
FIRSTENERGY CORP	FE		32	35	28	2%	(3%)	(19%)	18%	(21%)	(6%)	20%	31	3%	4,214	78%	18%	7%	444.3	14,049	0%	106%
NEXTERA ENERGY INC	NEE		150	152	110	26%	15%	(2%)	24%	24%	14%	17%	138	8%	1,952	56%	12%	6%	469.2	70,427	0%	81%
MDU RESOURCES GROUP INC	MDU		27	30	23	(6%)	57%	(22%)	(23%)	44%	(1%)	6%	27	1%	618	44%	NM	NM	195.3	5,277	1%	66%
PUBLIC SERVICE ENTERPRISE (	PEG		46	47	39	5%	13%	(7%)	29%	5%	(7%)	4%	45	3%	2,224	49%	11%	6%	505.9	23,180	0%	73%
SEMPRA ENERGY	SRE		119	120	93	19%	7%	(16%)	24%	27%	29%	5%	113	6%	990	50%	10%	4%	251.1	29,951	0%	93%
Hybrid Utilities Average						9%	19%	(15%)	18%	15%	(1%)	11%		3%		59%	12%	5%			0%	87%
AES CORP	**AES**	**B**	**11**	**13**	**11**	**(2%)**	**21%**	**(31%)**	**(5%)**	**36%**	**(10%)**	**(3%)**	**11**	**0%**	**4,266**	**66%**	**10%**	**4%**	**660.3**	**7,494**	**0%**	**104%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**9**	**29%**	**(21%)**	**(35%)**	**13%**	**8%**	**11%**	**22%**	**$13**	**16%**	**7,182**	**79%**	**3%**	**5%**	**360.7**	**$5,298**	**1%**	**101%**
DYNEGY INC	**DYN**	**B**	**9**	**14**	**6**	**11%**	**(37%)**	**(56%)**	**41%**	**12%**	**(4%)**	**NM**	**8**	**15%**	**2,067**	**82%**	**(11%)**	**4%**	**131.4**	**1,228**	**1%**	**126%**
NRG ENERGY INC	**NRG**	**H**	**23**	**26**	**10**	**87%**	**4%**	**(56%)**	**(6%)**	**25%**	**27%**	**(7%)**	**19**	**19%**	**4,439**	**74%**	**8%**	**3%**	**316.5**	**7,256**	**1%**	**91%**
ORMAT TECHNOLOGIES INC	ORA		58	61	45	8%	47%	34%	(0%)	41%	7%	(39%)	58	(0%)	170	41%	10%	6%	49.9	2,878	0%	62%
VISTRA ENERGY CORP	VST		18	18	12	18%	NM	NM	NM	NM	NM	NM	16	9%	1,016	41%	NM	4%	427.6	7,603	0%	99%
Independent Power Average						25%	3%	(29%)	9%	24%	6%	(7%)		10%		68%	4%	4%			0%	97%
STRH Power Index						14%	15%	(10%)	21%	13%	1%	12%		5%		57%	10%	5%			0%	83%
S&P 500	SPX		$2,500	$2,500	$2,084	12%	9%	(1%)	11%	30%	13%	(0%)										

Notes:

(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.

(B) % current price above or below 30-wk. moving average.

(C) In thousands.

(D) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Reports.

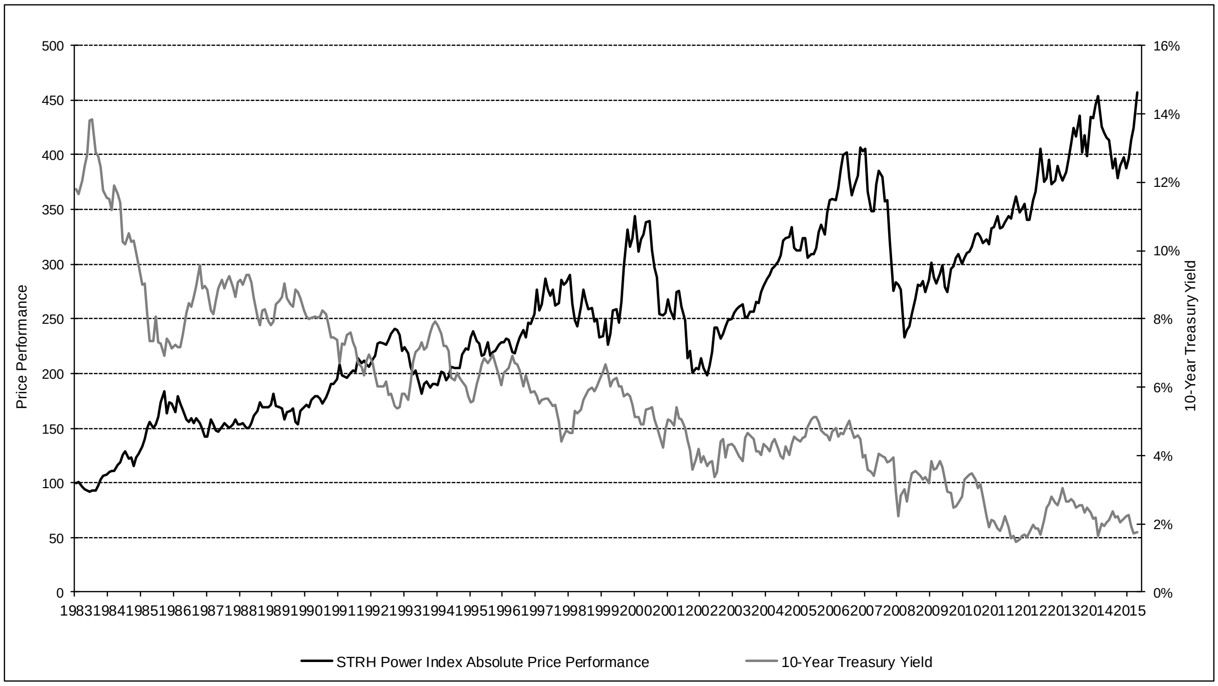
Figure 10: SunTrust Robinson Humphrey Power Index Price Performance Relative to the S&P 500 Index

12/31/83 - Present

Sources: Bloomberg, SunTrust Robinson Humphrey.

Figure 11: SunTrust Robinson Humphrey Power Index Absolute Price Performance vs 10-Year Treasury Yield

12/31/83 - Present



Sources: Bloomberg, SunTrust Robinson Humphrey.

VALUATION

AEP
Assuming a 19.5x P/E multiple (a 9% premium to the peer group to reflect the above average earnings growth profile) on our 2019 estimate of $4.11, we derive our price target of $80.

AES
Assuming an 11.4x P/E multiple (which would still imply a 10% "conglomerate" discount to the peer group) on our 2019 estimate of $1.32, we derive our price target of $15.

CMS
Assuming a 19.8x P/E multiple (a 10% premium to the peer group to reflect the above average growth outlook) on our 2019 estimate of $2.47, we derive our price target of $49.

CNP
Based on the market value of CNP's ownership in ENBL, we derive an $8/share value. Factoring a 19.0x P/E multiple (a 5% premium to the peer group to reflect its above average growth profile) on our 2019 Utility estimate of $1.09, we derive a $21/share value. Consequently, our sum of the parts price target is $29.

CPN
Based on the company's take out price, and our assumption that a higher bid will not emerge, we derive our price target of $15.

DUK
Assuming a 17.9x P/E multiple (in line with the peer group) on our 2019 estimate of $5.09, we derive our price target of $91.

DYN
Assuming an EV/EBITDA multiple of 7.8x (a 3% discount to the peer group to reflect the higher leverage at the company) on our 2019 EBITDA estimate of $1.30bn, coupled with implied net debt of $8.26bn (which factors in all the announced asset sales), we derive our price target of $11.

EIX
Assuming a 19.2x P/E multiple (a 7% premium to the peer group to reflect the company's above average earnings and dividend growth profile) on our 2019 estimate of $4.69, we derive our price target of $90.

EXC
Assuming a 14.8x P/E multiple (in line with the peer group) on our 2019 estimate of $2.75, we derive our price target of $41.

GXP
Assuming a 17.4x P/E multiple (a 2% discount to the peer group to reflect the uncertainties around the final merger approval) on our 2019 estimate of $1.80, we derive our price target of $32.

NRG
Based on the current market value of NRG's ownership in NYLD, we derive a $5/share equity value. Applying a 9.0x EV/EBITDA multiple (a 10% premium to the current peer average to reflect the potential upside from the successful execution of the Transformation Plan) to our residual NRG 2019 EBITDA estimate of $1.90 billion, coupled with implied residual Net Debt of $11.4 billion, we derive an $18/share value for the residual NRG. Consequently, our price target is $23.

PNM
Assuming an 18.1x P/E multiple (in line with the small cap peer group) on our 2019 estimate of $2.03, we derive our price target of $37.

PNW
Assuming a P/E multiple of 18.3x (in line with other small / mid cap peers) on our 2019 estimate of $4.71, we derive our price target of $86.

SO
Assuming a 16.9x P/E multiple (a 5% discount to the large cap peer group, reflecting ongoing uncertainty around the Vogtle project) on our 2019 estimate of $3.15, we derive our price target of $53.

XEL
Assuming a 18.0x P/E (in line with the peer group) on our 2019 EPS estimate of $2.60, we derive our price target of $47.

RISKS

AEP

- Final resolution of pending regulatory issues.
- Future earnings power post merchant exit
- Impact of proposed and future EPA regulations.

AES

- Potential regulatory/economic changes in key international markets.
- Investor sentiment regarding emerging/international markets.
- Successful execution of portfolio restructuring strategy.

CMS

- Outlook for Retail Open Access in Michigan.
- Change in the regulatory regime.
- Load growth trends.

CNP

- Macro trends and growth outlook for the MLP portfolio.
- Load growth trends in service territories.
- Ability to restructure MLP ownership position.

CPN
- Outlook for future spark spreads.
- Timing of additional EPA regulations.
- Electric load growth trends.

DUK
- O&M cost management.
- Future electric load growth trends.
- Impact of future regulatory initiatives.

DYN
- Outlook for forward commodity curves.
- Integration of the pending acquisitions.
- Final outcome of debt restructuring discussions.
- Implication of future EPA regulations.

EIX
- Capital investment and growth plans for non-utility operations.
- Final CPUC decision on applications to reopen SONGS retirement settlement.
- Outcome of pending and future regulatory cases.

EXC
- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

GXP
- Load growth outlook in service territories.
- Outcome of pending rate cases.
- Impact of higher property taxes and transmission costs.
- Completion of the WR acquisition.

NRG
- Execution of the Reset plan.
- Outlook for forward commodity curves.

PNM
- Final New Mexico PRC decision on the rate case settlement.
- Electric load growth trends in service territories.

PNW
- Impact of energy efficiency and distributed generation programs.
- Any regulatory changes regarding distributed generation
- Load growth outlook

SO

- Outlook for load growth.
- Dilution from additional equity issuance.
- Potential for further delays and cost increases at the large construction projects.
- Higher than expected accretion from AGL acquisition.

XEL

- Outcome of pending and future rate cases.
- Outlook for future capital expenditure (and rate base) growth.
- Load growth trends in service territories.

Companies Mentioned in This Note

American Electric Power Company, Inc. (AEP, $73.03, Buy, Ali Agha)
The AES Corporation (AES, $11.35, Buy, Ali Agha)
CMS Energy Corporation (CMS, $47.87, Hold, Ali Agha)
CenterPoint Energy, Inc. (CNP, $30.27, Hold, Ali Agha)
Calpine Corporation (CPN, $14.69, Hold, Ali Agha)
Duke Energy Corporation (DUK, $87.30, Hold, Ali Agha)
Dynegy Inc (DYN, $9.35, Buy, Ali Agha)
Edison International (EIX, $81.20, Buy, Ali Agha)
Exelon Corporation (EXC, $37.61, Buy, Ali Agha)
Great Plains Energy (GXP, $30.84, Hold, Ali Agha)
NRG Energy, Inc (NRG, $22.93, Hold, Ali Agha)
PNM Resources, Inc. (PNM, $42.50, Hold, Ali Agha)
Pinnacle West Capital Corporation (PNW, $89.27, Hold, Ali Agha)
Southern Company (SO, $50.64, Hold, Ali Agha)
Xcel Energy, Inc. (XEL, $49.08, Hold, Ali Agha)
Enable Midstream (ENBL, $14.76, Not Rated)

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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STRH Ratings System for Equity Securities

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STRH Rating System for Equity Securities

SunTrust Robinson Humphrey (STRH) rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

SunTrust Robinson Humphrey ratings distribution (as of 09/18/2017):

Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	419	59.86%	Buy	129	30.79%
Hold/Neutral	277	39.57%	Hold/Neutral	58	20.94%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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RESEARCH SUMMARY
September 18, 2017

Daily Spotlight

SunTrust Robinson Humphrey

At a Glance

Symbol	Rating		Est.	Price Target	
	Prior	Current		Prior	Current
RATING UPGRADES					
PAH	H	B		$13.00	$15.00
PRICE TARGET CHANGES					
CNP	H	H		$28.00	$29.00
MAC	H	H	▲▼	$63.00	$59.00
PNW	H	H		$87.00	$86.00
SO	H	H		$52.00	$53.00
SRC	H	H	▲▼	$7.50	$8.50
COMPANY UPDATES					
BURL	B	B		$109.00	$109.00
OA	B	B		$121.00	$121.00
OXM	B	B		$66.00	$66.00
REI	B	B	▲	$19.00	$19.00
AEP	B	B		$80.00	$80.00
ASB	H	H	▲	$24.00	$24.00
HOME	B	B		$30.00	$30.00
CPN	H	H		$15.00	$15.00
SCHW	B	B	▲	$47.00	$47.00
CMS	H	H		$49.00	$49.00
DDR	H	H	▲▼	$10.00	$10.00
DUK	H	H		$91.00	$91.00
DYN	B	B		$11.00	$11.00
ETFC	B	B	▲▼	$50.00	$50.00
EIX	B	B		$90.00	$90.00
EXC	B	B		$41.00	$41.00
FRT	H	H	▲▼	$130.00	$130.00
GGP	B	B	▲▼	$26.00	$26.00
GPT	H	H	▲▼	$30.00	$30.00
GXP	H	H		$32.00	$32.00
GNBC	H	H	▲▼	$22.00	$22.00
HTH	B	B	▲▼	$30.00	$30.00
IBTX	H	H	▲▼	$67.00	$67.00
KIM	H	H	▲▼	$20.00	$20.00
LH	B	B	▲	$190.00	$190.00
LTXB	B	B	▲▼	$44.00	$44.00
LPT	H	H	▲▼	$41.00	$41.00
MBFI	B	B	▲▼	$48.00	$48.00
MRTX	B	B		$13.00	$13.00
NWL	B	B	▼	$60.00	$60.00
NRG	H	H		$23.00	$23.00
PNM	H	H		$37.00	$37.00
QSII	H	H		$16.00	$16.00
REN	B	B		$40.00	$40.00
AES	B	B		$15.00	$15.00
UMPQ	B	B	▲▼	$20.00	$20.00

Morning Meeting Highlights

Platform Specialty Products (PAH, $11.18, Buy) - IPO Could Unlock Value, Lessen Debt Overhang. Upgrade to Buy - PAH plans to IPO the Ag segment in mid-2018. We view the planned separation positively, as we believe there are minimal synergies between Ag and Performance Solutions. PAH trades at 9.4x 2018E EBITDA vs an average of 10.7x for pure play specialty chemical peers. An IPO of Ag, coupled with an equity issuance, could well result in the shrinkage of PAH's valuation discount, which we believe is driven by the company's conglomerate structure and high leverage (6.2x). We upgrade to Buy and raise our PT to $15 (34% upside). - **James Sheehan**

Orbital ATK, Inc. (OA, $110.04, Buy) - Space Race...Northop Nearing Deal to Buy Orbital ATK; Likely Price of $135-$145 - **Michael Ciarmoli**

Ring Energy, Inc. (REI, $13.02, Buy) - Recent Central Platform Basin Asset Sale Highlights Ring's NAV - **Neal Dingmann**

Burlington Stores, Inc. (BURL, $90.13, Buy) - Inventory Availability Better Than its Ever Been - We recently traveled with BURL VP & Treasurer Bob LaPenta and VP, Investor Relations David Glick. We were encouraged by meetings and remain confident in NT and LT growth prospects. We believe BURL is uniquely positioned given: ongoing product improvements with robust inventory availability; continued margin expansion on better buys, lower markdowns and category expansion; significant store growth opportunity; a unique customer base; and high amount of cash/debit transactions (~60%) - which provides a moat against Amazon. Reiterate Buy, $109 PT (23.4x fwd ests. vs. 19.8x avg). - **Pamela Quintiliano**

Oxford Industries, Inc. (OXM, $60.32, Buy) - On-Track for OM Improvements - We recently had the opportunity to travel with OXM CFO Scott Grassmyer and VP, Capital Markets/Treasurer Anne Shoemaker. In conjunction, we toured the recently opened Tommy (Plano, TX) and Lilly (Dallas, TX) stores. This trip was esp. timely given exposure to TX (7.7% base, Houston area 2.9%) and FL (14.4% base). The majority of stores are in operation, but we're monitoring how long it will take for the customer to return. We believe initial impact was limited as 3Q is so small. Significant LT top- and bottom-line opportunity remains. Reiterate Buy, $66 PT (16.6x fwd. ests. vs. 17.2x avg.) - **Pamela Quintiliano**

Banking - Regional and Community Banks - Notes from Texas Bank Summit - We met with management at Buy rated HTH, LTXB, PB, and TCBI, as well as Hold rated BOKF, CMA, GNBC, and IBKC in Dallas last week. Our meetings affirmed our Bullish thesis on the Texas banks. The general key takeaways are below. We revised estimates for some of our banks due to Hurricane Harvey impacts (see note). - **Jennifer Demba**

SEE PAGE 8 FOR REQUIRED DISCLOSURE INFORMATION

WTFC	H	H	▲▼	$79.00	$79.00
WK	B	B		$22.00	$22.00
XEL	H	H		$47.00	$47.00

INDUSTRY UPDATES

Application Software - Tillman's Software Monday Morning Missives

Banking - Regional and Community Banks - Notes from Texas Bank Summit

Entertainment - STRH Digital Entertainment Weekly: ATVI, LGF, NFLX, P, Spotify

Lodging REITs - How Safe are Those Hotel REIT Common Dividends?

Tech, Semis, Components and Distributors - Semiconductor Cycle Path - Proprietary Macro Indicator Remains Strong

COVERAGE DROPPED/SUSPENDED

WBMD	H	NA	--

Today's Events

9/18	Energy Company Management Meetings - Denver - Dingmann
9/18	Macquarie Infrastructure Corporation (MIC) - Canada - Richardson
9/18	Quest Diagnostics (DGX) - Group Dinner - New York - MacDonald
9/18	Jennifer Demba and Michael Young - Analyst Trip - San Francisco
9/18	Youssef Squali and Naved Khan - Analyst Trip - West Coast

Other Focus Items Today

Consumer

Burlington Stores, Inc. (BURL, $90.13, Buy) - Inventory Availability Better Than its Ever Been - We recently traveled with BURL VP & Treasurer Bob LaPenta and VP, Investor Relations David Glick. We were encouraged by meetings and remain confident in NT and LT growth prospects. We believe BURL is uniquely positioned given: ongoing product improvements with robust inventory availability; continued margin expansion on better buys, lower markdowns and category expansion; significant store growth opportunity; a unique customer base; and high amount of cash/debit transactions (~60%) - which provides a moat against Amazon. Reiterate Buy, $109 PT (23.4x fwd ests. vs. 19.8x avg). - **Pamela Quintiliano**

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At Home Group, Inc. (HOME, $22.01, Buy) - Take Advantage of Pullback - The bifurcation of retail valuations continues, so it is important, in our opinion, to take advantage of pullbacks to buy the quality names. HOME is showing good operational momentum and has a solid growth outlook; the recent pullback is opportunistic, in our view. - **David Magee**

Newell Brands Inc. (NWL, $43.27, Buy) - Lowering Estimates for Resin Impact - Based on the company’s comments at an investor conference last week that commodity headwinds will likely persist into FY18 and its decision to increase brand investments, we are lowering our FY18 EPS estimate to $3.36, from $3.51. We note that our FY17 EPS estimate remains unchanged. We are maintaining our Buy rating and $60 price target which equates to 18x our FY18 EPS estimate (low end of peers). - **William Chappell, Jr.**

Electric Power and Utilities

Electric Power and Utilities - Power/Utilities Macro Trends Tracker: Modest Increase In Forward Dark Spreads - This report includes our analysis of the key macro factors impacting the power/utility sector, including: forward power prices, spark spread, dark spread, and gas/coal spread trends; domestic electric consumption growth; and national weather patterns.

Based on the latest peer group valuations, we are changing our price targets on CNP, PNW, and SO. - Ali Agha

Energy

Ring Energy, Inc. (REI, $13.02, Buy) - Recent Central Platform Basin Asset Sale Highlights Ring's NAV - **Neal Dingmann**

Resolute Energy Corporation (REN, $27.57, Buy) - Non-Core Sale Price as Expected; Sets up for Stronger Permian Growth - **Neal Dingmann**

Financials

Banking - Regional and Community Banks - Notes from Texas Bank Summit - We met with management at Buy rated HTH, LTXB, PB, and TCBI, as well as Hold rated BOKF, CMA, GNBC, and IBKC in Dallas last week. Our meetings affirmed our Bullish thesis on the Texas banks. The general key takeaways are below. We revised estimates for some of our banks due to Hurricane Harvey impacts (see note). - **Jennifer Demba**

Community Banks - Revising Estimates for Impact from Hurricane Harvey - Following several disclosures by companies and updates on conditions in Houston, we are updating our models for Buy rated HTH and LTXB, and Hold rated GNBC and IBTX to reflect the impact from Hurricane Harvey on the Houston market. Details of the revisions are below. - **Michael Young**

Associated Banc-Corp (ASB, $22.80, Hold) - Updating Model for the Whitnell Acquisition - Last week, ASB announced the acquisition of Whitnell & Co., a wealth management firm with ~$1 billion in AUM, based in Oak Brook, Illinois. According to management, the acquisition is expected to increase both ASB's assets under management and related run-rate revenue by more than 10%, or $6+ million annually. As such, we believe the acquisition should be $0.01 accretive to 2018 EPS and adjust our 2018 EPS estimate to $1.58 from $1.57. - **Michael Young**

Regional Banks - Regional Banks - Revising Estimates for Increase in September MBA Forecast - We are revising our models for Buy rated MBFI, and UMPQ, and Hold rated WTFC to reflect a more optimistic mortgage volume outlook (2% higher industry volume now expected in 2017). The EPS benefit is minor representing less than a 1% change in our estimates. Details of the revisions are below. - **Michael Young**

Charles Schwab Corporation (SCHW, $39.99, Buy) - Solid DARTs and Interest-Earning Asset Growth in August; Reiterate Buy - We reiterate our Buy rating following Schwab's monthly and weekly metrics report, which featured solid DARTs, improved client inflows and better than expected interest-earning asset growth. We are raising our 2017/2018 EPS estimates to $1.63/ $1.95 from $1.62/$1.93 due to revisions to our underlying assumptions detailed below. We maintain our $47 PT, which equals 29x 2017E EPS and 24x 2018E EPS, consistent with

SCHW's 5-year average (28x) and a premium to peers (19x). - **Douglas Mewhirter**

E*TRADE Financial Corporation (ETFC, $40.72, Buy) - August Metrics Feature Strong Customer Asset Growth; Reiterate Buy - We reiterate our Buy rating following E*TRADE's August monthly metrics report, which featured strong customer asset growth and better than expected DARTs. We are refining our 2017/2018 EPS estimates to $2.27/$2.53 from $2.28/$2.55, which reflects a higher commission revenue forecast, offset by a higher interest expense forecast, which is in turn driven by a correction to our cost of debt calculation from the company's recent debt refinancing. We reiterate our $50 PT, which equals 22x 2017E EPS, but only 20x 2018E EPS, compared to a 10-year median of 21x. - **Douglas Mewhirter**

Healthcare

Laboratory Corporation of America (LH, $153.58, Buy) - Model Update - Upping Estimates to Reflect The Chiltern Acquisition - **David MacDonald**

Quality Systems, Inc. (QSII, $15.98, Hold) - Back to the Future; Maintain Hold - We attended QSII's investor day and observed product demos of the recently acquired EagleDream and Entrada. Our impressions of the acquired assets were positive, and we expect QSII to drive incremental adoption of these offerings within its client base. We think the improving trend in client retention along with the opportunity to cross sell Entrada and EagleDream has the potential to reverse 7 consecutive quarters of y/y bookings declines. However, the turnaround story keeps reverting back to looking at the future--which remains murky, in our view. Limited upside to our PT keeps us at a Hold. - **Sandy Draper**

WebMD Health Corp (WBMD, $66.47, NA) - Dropping coverage of WebMD Health Corp - **Sandy Draper**

Mirati Therapeutics (MRTX, $4.75, Buy) - Two Teaser Pieces of Data, Hint at Further Upside - Following positive data tonight, we spoke with management to get a better handle on their results. Mirati’s sitravatinib+IO combo data showed encouraging initial responses in lung cancer patients that have failed immunotherapy. In addition, as a monotherapy, sitravatinib provided a deep partial response (77% tumor reduction) in lung cancer patient harboring CBL mutation (~1.5% of NSCLC patients) – which could also be helpful to another ~1000 patients with cancer of unknown origin that have no viable options. This data and additional data by YE help us reiterating our $13 PT and a BUY rating. - **Peter Lawson**

Industrials

Platform Specialty Products (PAH, $11.18, Buy) - IPO Could Unlock Value, Lessen Debt Overhang. Upgrade to Buy - PAH plans to IPO the Ag segment in mid-2018. We view the planned separation positively, as we believe there are minimal synergies between Ag and Performance Solutions. PAH trades at 9.4x 2018E EBITDA vs an average of 10.7x for pure play specialty chemical peers. An IPO of Ag, coupled with an equity issuance, could well result in the shrinkage of PAH's valuation discount, which we believe is driven by the company's conglomerate structure and high leverage (6.2x). We upgrade to Buy and raise our PT to $15 (34% upside). - **James Sheehan**

Orbital ATK, Inc. (OA, $110.04, Buy) - Space Race...Northop Nearing Deal to Buy Orbital ATK; Likely Price of $135-$145 - **Michael Ciarmoli**

Real Estate Investment Trusts

Lodging REITs - How Safe are Those Hotel REIT Common Dividends? - Considering the gradual and continued downward trends in RevPAR growth alongside REIT headwind of rising labor costs, we examine one of the key drivers that make these stocks relatively attractive for some investors: Common dividends that are yielding 4-6%. - **C. Patrick Scholes**

REITs - REITs - Adjusting Estimates Post Earnings - We are updating our earnings estimates for DDR, FRT, GGP, KIM, LPT, MAC, SRC and GPT based on second quarter results, earnings conference call commentary and adjusted revenue growth and expense assumptions. Furthermore, we are increasing our price target for LPT to $43 from $41 and for SRC to $8.50 from $7.50 while lowering our price target for MAC to $59 from $63. - **Ki Bin Kim**

TMT

Entertainment - STRH Digital Entertainment Weekly: ATVI, LGF, NFLX, P, Spotify - ATVI: Destiny 2 digital datapoints positive, physical mixed. P: SIRI CEO comments positive. LGF.A/B: 'American Assassin' ahead at the box office. NFLX: Expanded Orange distribution deal a positive. - **Matthew Thornton**

Application Software - Tillman's Software Monday Morning Missives - **Terry Tillman**

Workiva, Inc. (WK, $19.55, Buy) - Attractive Undervalued SaaS Business; Growth Could Re-Accelerate in 2018 - Following conversations with management and meetings with investors, we believe the company has a well thought out strategy that should lead to accelerating revenue growth driven by investments in the Wdesk platform to achieve enterprise-wide adoption coupled with steady growth coming from existing use cases including SEC, SOX, XBRL, corporate governance, etc. We believe the stock is significantly undervalued at 3.5x EV/'18E sales, especially with potential for growth re-acceleration and increased free cash flow generation expected in 2018. - **Terry Tillman**

Tech, Semis, Components and Distributors - Semiconductor Cycle Path - Proprietary Macro Indicator Remains Strong - Consumer sentiment momentum (our proprietary 5-month leading indicator for semiconductor industry growth) remained strong in September at +4.5%. Our other demand indicators are also mostly constructive: inventory momentum supports a gradual growth fade, cycle altitude/duration is at least benign for stocks, and while absolute valuation looks stretched, semis do not look expensive relative to the broader S&P, in our view. The constructive macro supports our more cyclically exposed long ideas: CY, AVGO, MSCC, and ADI. From a structural growth standpoint we like NVDA. - **William Stein**

Management Access / NDRs

Date	Event	Analyst(s)	Region
9/18/17	Energy Company Management Meetings - Denver	Dingmann	WEST COAST
9/18/17-9/19/17	Macquarie Infrastructure Corporation (MIC) - Canada	Richardson	CANADA
9/18/17	Quest Diagnostics (DGX) - Group Dinner - New York	MacDonald	NEW YORK
9/19/17-9/20/17	Digital Entertainment and Advertising Bus Tour - West Coast	Thornton	WEST COAST
9/19/17	DowDuPont,Inc. (DWDP) - Minneapolis	Sheehan	MIDWEST
9/19/17	Editas Medicine, Inc. (EDIT) - KC	Lawson	KC
9/19/17	Green Dot Corporation (GDOT) - Boston	Jeffrey	BOSTON
9/19/17	Leggett & Platt, Inc. (LEG) - Dallas	K Hughes	TEXAS
9/19/17-9/20/17	Noodles & Co. (NDLS) – Canada	Bartlett	CANADA
9/20/17	Editas Medicine, Inc. (EDIT) - Chicago	Lawson	MIDWEST
9/20/17	ICF International (ICFI) - Chicago/Wisconsin	Sommer	MIDWEST
9/20/17	Leggett & Platt, Inc. (LEG) - KC	K Hughes	KC
9/20/17	Lilis Energy, Inc. (LLEX) - Boston	Dingmann	BOSTON
9/20/17	Macquarie Infrastructure Corporation (MIC) - Ohio	Richardson	MIDWEST
9/20/17	Orthofix International N.V. (OFIX) - KC	Nudell	KC
9/21/17	ICF International (ICFI) - Kansas City	Sommer	KC
9/21/17	Lilis Energy, Inc. (LLEX) - Dallas	Dingmann	TEXAS
9/21/17	Orthofix International N.V. (OFIX) - Chicago	Nudell	MIDWEST
9/25/17-9/26/17	AAR Corp. (AIR) - New York	Ciarmoli	NEW YORK
9/25/17	JELD-WEN Holding, Inc. (JELD) – New York	K Hughes	NEW YORK
9/25/17	Spark Therapeutics, Inc. (ONCE) - Group Dinner - New York	Nash	NEW YORK
9/26/17	CenterPoint Energy, Inc. (CNP) - Group Dinner - New York	Agha	NEW YORK
9/27/17	Atlanta Market REIT Bus Tour	Lewis/Kim	SOUTHEAST
9/27/17	Colgate-Palmolive Company (CL) - Group Dinner - New York	Chappell	NEW YORK
9/27/17	Express Scripts Holding Company (ESRX) - Field Trip - St. Louis	MacDonald	KC
9/27/17	Prosperity Bancshares, Inc. (PB) - Houston	Demba	TEXAS
9/28/17	Achaogen, Inc. (AKAO) - Chicago	Nash	MIDWEST
9/28/17	ConforMIS, Inc. (CFMS) - Detroit	Nudell	MIDWEST
9/28/17	Edison International (EIX) - Chicago	Agha	MIDWEST
10/02/17-10/05/17	Management Meetings around G2E Conference and Property Tour – Las Vegas	Scholes	WEST COAST
10/02/17-10/03/17	Willis Towers Watson Public Limited Company (WLTW) - Canada	Sommer	CANADA

Analyst Marketing

Date	Event	Analyst(s)	Region
9/18/17-9/19/17	- Jennifer Demba & Michael Young - San Francisco	Demba/Young	WEST COAST
9/18/17-9/21/17	- Youssef Squali & Naved Khan - Analyst Trip - West Coast	Squali/Kahn	WEST COAST
9/19/17-9/20/17	- Ali Agha - Analyst Marketing - Boston	Agha	BOSTON
9/19/17-9/20/17	- Ki Bin Kim & Michael Lewis - Analyst Trip - TX	Kim/Lewis	TEXAS
9/19/17	- Mark Hughes - Analyst Trip - KC	M Hughes	KC
9/19/17-9/20/17	- Patrick Scholes - Analyst Trip - LA & SF	Scholes	WEST COAST
9/20/17	- Andrew Jeffrey - Analyst Trip - Boston	Jeffrey	BOSTON
9/20/17	- Charley Brady - Analyst Trip - Boston	Brady	BOSTON
9/20/17	- David Magee - Analyst Trip - Midwest	Magee	MIDWEST
9/20/17-9/21/17	- Matt Thornton - Analyst Trip - West Coast	Thornton	WEST COAST
9/21/17	- Jennifer Demba & Michael Young - Analyst Trip - KC	Demba/Young	KC
9/21/17-9/22/17	- Greg Miller - Analyst Trip - Texas	Miller	TEXAS
9/25/17	- Cabot Corp. (CBT) - Boston	Sheehan	BOSTON
9/25/17-9/26/17	- David MacDonald - Analyst Trip - Midwest	MacDonald	MIDWEST
9/25/17-9/26/17	- Michael Young - Analyst Trip - Texas	Young	TEXAS
9/26/17-9/27/17	- Andrew Jeffrey - Analyst Trip - Canada	Jeffrey	CANADA
9/26/17-9/27/17	- Bill Chappell - Analyst Trip - New York	Chappell	NEW YORK
9/26/17-9/27/17	- David MacDonald - Analyst Trip - St Louis/KC	MacDonald	KC
9/26/17	- Patrick Scholes - Analyst Trip - KC	Scholes	KC
9/27/17	- Eric Fleming - Analyst Trip - Chicago	Fleming	CHICAGO
9/27/17-9/28/17	- Greg Miller - Analyst Trip - West Coast	Miller	WEST COAST
9/28/17	- Andrew Jeffrey - Analyst Trip - Baltimore	Jeffrey	MID-ATLANTIC
9/28/17	- Michael Ciarmoli - Analyst Trip - Boston	Ciarmoli	BOSTON
9/28/17-9/29/17	- Yatin Suneja - Analyst Trip - TX	Suneja	TEXAS
9/29/17	- Andrew Jeffrey - Analyst Trip - New York	Jeffrey	NEW YORK
10/02/17	- Sandy Draper - Analyst Trip - Dallas	Draper	KC

Conferences

Date	Event	Analyst(s)	Region

Conference Call

Date	Event	Analyst(s)	Region

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STRH Ratings System for Equity Securities

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Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

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STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:

B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	419	59.86%	Buy	129	30.79%
Hold/Neutral	277	39.57%	Hold/Neutral	58	20.94%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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Itron, Inc.

ITRI - We Expect Swift Closing of SSNI Deal; Updating Estimates; Raising PT to $85.

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Incorporating SSNI acquisition into our estimates - raising PT to $85. To follow up on our initial thoughts on the ITRI/SSNI acquisition, we now update our ITRI model to reflect the impact of the deal starting in 2018. Given the non-controversial nature of the deal and its simple structure (all-cash, with financing in place), we expect it to close swiftly and on track by early 2018.

Updating our model: We model the combined entity eventually achieving $50m in cost synergies (per management guidance); however, we expect that realization of cost synergies will be gradual and that the full impact will be evident in starting in 2019. We assume that the majority of synergies will be realized in the Sales and G&A categories (we model 50%), with some modest accretion to gross profit (we model 5%).

Updating valuation: Since ITRI is tapping a faster-growing revenue stream with its acquisition of SSNI, we expect its multiple to re-rate accordingly. Prior to the announcement, SSNI was trading at 15x our 2018 EV/EBITDA forecast (acquired at 20x) and ITRI was trading at ~9.8x. Considering the new sales mix, and the fact that we expect ITRI to extract higher value from SSNI's technology due to its larger platform, we are increasing our target multiple for ITRI to 13x EV/EBITDA from 11x and **on our updated 2018 EBITDA estimate of $311m, our PT increases to $85 from $81.**

We expect that strong FCF profile will support rapid deleveraging: Immediately following the closing of the transaction, ITRI plans to take on an additional $830m of debt, pushing its leverage to 3x EBITDA. However, given the company's projected FCF profile, we model this figure to fall to 1.9x by the end of 2019.

Revenue synergies potential is significant but need more color before we can quantify it. As we have previously written, we view the SSNI deal as attractive on a stand-alone basis, because we think ITRI is getting solid growth at an attractive valuation. Itron is paying less than 15x EV/EBITDA on our 2019 EBITDA estimate of $51m, which combined with $50m in cost synergies is a much lower multiple. We also note that SSNI's revenue is substantially derisked given its $1.2B backlog, which includes such reputable clients as EXC (ComEd) and ED. That said, the potential for revenue synergies with ITRI intrigues us even more. SSNI has made a significant push into the indusrial/energy IOT, and has been in the process of deploying interesting pilot platforms using its technology. With the full force of ITRI's cash flows and reach behind it, we think the combined entity has significant revenue synergies potential. We will look for more guidance from the management team on the company's growth strategy - which we expect after the closing of the transaction.

(See page 2 for pro-forma analysis summary)

ITRI BUY

COMPANY UPDATE

SHARE PRICE $76.10
PRICE TARGET $85.00

EBITDA($M) (FY Dec)	1Q	2Q	3Q	4Q	FY
2016	40	52	63	54	209
EV/EBITDA					17.0x
2017	45	60	73E	72E	250E
EV/EBITDA					14.2x
2018	55E	66E	88E	103E	311E
Prior	*61E*	*58E*	*82E*	*82E*	*283E*
EV/EBITDA					11.4x

Market Data	
52-Week Range	$51.55 - $77.40
Market Cap (M)	$2,993
Enterprise Value (M)	$3,560
Dividend	$0.00
ADV (3 mo; 000)	178
Long Term Debt (M)	$974
Net Debt (M)	$566

We expect accretion to become evident by 2019

We see the deal as accretive to both EPS and EBITDA despite higher leverage – however we model the accretion gradually though 2018 as we don't expect ITRI to achieve full cost synergies on day one. We also assume that ITRI will use its FCF to develer, repaying ~$360m in debt through the end of 2019.

Figure 1. Accretion/Dilution Assumptions and Analysis

	Potential Cost Savings	
($mm ex per share)	**%**	**Amount**
G&A Synergies	60%	21.5
Sales Synergies	**60%**	20.0
Product Costs Synergies	5%	8.7

Pro-Forma Accretion/Dilution Analysis in Yr 1		
($mm ex per share)	**EPS**	**EBITDA**
ITRI Stand-Alone	$3.67	$283.0
Pro-Forma	$3.84	$336.1
Accretion/Dilution	4.6%	18.8%

Source: Guggenheim Securities, LLC estimates

Valuation

We value Itron based on projected 2018 adj. EBITDA of $311m, which includes the projected impact of the pending SSNI acquisition, and our target EV/EBITDA multiple of 13x. Our target multiple reflects a higher growth profile that we expect the company to achieve following the acquisition of SSNI and is 2x below the peer-group average 15x trading multiple – reflecting lower margins and ROIC in Itron's core business. Our valuation translates into an $85 12- month PT.

Figure 1. ITRI Valuation Summary

(mm ex. per share data)	2018E
Adj. EBITDA	$311.2
Target Multimple	13.0x
EV	4,045.1
less Net Debt	(704.4)
Equity Value	3,340.7
Shares Outstanding	39.3
Equity Value per Share	$85.00

Source: Guggenheim Securities, LLC

Risks

ITRI faces multiple risks including: Technology obsoleting risk; litigation risk related to the company's IP; execution risk related to various AMI deployment projects that the company is conducting; regulatory risk as the company's customers operate in a heavily regulated environment; and sovereign, regulatory and FX risks associated with the company's activities outside of the U.S. In addition, ITRI is facing deal execution and integration risks related to its pending acquisition of SSNI. Should the impact of any of these risks be greater than anticipated, the stock could underperform relative to our rating and PT.

Companies Mentioned

Ticker	Rating	Price (9/19/2017)
SSNI	Neutral	$16.13
EXC	Buy	$37.28
ED	Neutral	$83.41

GUGGENHEIM

ITRON, INC.

INCOME STATEMENT ($ Million)	**2013A**	**2014A**	**2015A**	1QA	2QA	3QA	4QA	**2016A**	1QA	2QA	3QE	4QE	**2017E**	1QE	2QE	3QE	4QE	**2018E**	**2019E**
Revenues	**1,948.7**	**1,970.7**	**1,883.5**	**497.6**	**513.0**	**506.9**	**495.7**	**2,013.2**	**477.6**	**503.1**	**529.2**	**518.1**	**2,027.9**	**579.9**	**607.1**	**627.0**	**616.5**	**2,430.4**	**2,511.7**
Cost of revenues	1,334.2	1,347.6	1,326.8	334.4	343.3	336.1	339.1	1,352.9	320.4	325.2	350.0	343.3	1,339.0	384.9	394.5	407.8	392.6	1,579.9	1,601.7
Gross profit	**614.5**	**623.1**	**556.7**	**163.2**	**169.7**	**170.7**	**156.7**	**660.3**	**157.2**	**177.9**	**179.1**	**174.8**	**688.9**	**194.9**	**212.6**	**219.2**	**223.8**	**850.5**	**910.1**
Gross profit margin	*31.5%*	*31.6%*	*29.6%*	*32.8%*	*33.1%*	*33.7%*	*31.6%*	*32.8%*	*32.9%*	*35.4%*	*33.8%*	*33.7%*	*34.0%*	*33.6%*	*35.0%*	*35.0%*	*36.3%*	*35.0%*	*36.2%*
Operating expenses																			
Sales and marketing	180.4	185.2	161.4	40.8	39.4	38.9	39.8	158.9	41.5	44.8	38.9	39.8	165.0	45.7	46.7	40.5	39.5	172.4	161.6
Product development	176.0	175.5	162.3	45.3	43.4	39.4	40.1	168.2	40.9	43.1	39.4	40.1	163.5	57.2	58.1	55.4	54.1	224.8	224.2
General and administrative	142.6	163.1	155.7	45.1	45.3	40.4	32.0	162.8	37.2	43.2	40.4	32.0	152.8	47.1	49.9	45.9	35.9	178.8	167.0
Amortization of intangible assets	42.0	43.6	31.7	6.2	7.8	5.0	6.1	25.1	4.5	5.0	5.0	6.1	20.6	4.5	5.0	5.0	6.1	20.6	20.6
Restructuring	35.5	50.9	(7.3)	2.2	(1.6)	40.7	7.8	49.1	3.1	5.0			8.1					0.0	0.0
Total operating expenses	**749.7**	**619.3**	**503.8**	**139.6**	**134.2**	**164.3**	**125.9**	**564.1**	**127.2**	**141.0**	**123.7**	**118.1**	**510.0**	**154.6**	**159.7**	**146.9**	**135.5**	**596.7**	**573.5**
Operating income	**(135.2)**	**3.8**	**52.8**	**23.6**	**35.5**	**6.4**	**30.8**	**96.2**	**30.0**	**36.8**	**55.4**	**56.6**	**179.0**	**40.3**	**52.9**	**72.3**	**88.3**	**253.8**	**336.6**
Other income (expense)																			
Interest income	1.6	0.5	0.8	0.3	0.2	0.1	0.3	0.9	0.3	0.5	0.1	0.3	1.1	0.3	0.5	0.1	0.3	1.1	1.1
Interest expense	(10.7)	(11.6)	(12.3)	(2.9)	(2.7)	(2.7)	(2.6)	(10.9)	(2.7)	(2.9)	(2.7)	(2.6)	(10.8)	(14.4)	(13.7)	(12.9)	(12.2)	(53.2)	(41.2)
Other income (expense), net	(4.0)	(7.6)	(4.2)	(1.5)	(0.3)	0.7	(0.4)	(1.5)	(2.6)	(2.8)	0.7	(0.4)	(5.1)	(2.6)	(2.8)	0.7	(0.4)	(5.1)	(5.1)
Total other income (expense)	**(13.1)**	**(18.7)**	**(15.7)**	**(4.2)**	**(2.8)**	**(1.9)**	**(2.8)**	**(11.6)**	**(5.0)**	**(5.3)**	**(1.9)**	**(2.8)**	**(14.9)**	**(16.7)**	**(16.1)**	**(12.1)**	**(12.3)**	**(57.3)**	**(45.3)**
Income before income taxes	**(148.3)**	**(14.9)**	**37.1**	**19.4**	**32.7**	**4.5**	**28.0**	**84.6**	**25.1**	**31.6**	**53.6**	**53.9**	**164.1**	**23.6**	**36.9**	**60.2**	**76.0**	**196.6**	**291.3**
Income tax provision	3.7	(6.6)	(22.1)	(8.6)	(12.2)	(13.4)	(15.3)	(49.6)	(9.0)	(16.6)	(20.4)	(20.5)	(66.4)	(9.0)	(14.0)	(22.9)	(28.9)	(74.7)	(110.7)
Tax Rate (%)	*2.5%*	*(44.5%)*	*59.6%*	*44.4%*	*37.3%*	*296.6%*	*54.7%*	*58.6%*	*36.1%*	*52.5%*	*38.0%*	*38.0%*	*40.5%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*
Net income	**(144.6)**	**(21.6)**	**15.0**	**10.8**	**20.5**	**(8.9)**	**12.7**	**35.1**	**16.0**	**15.0**	**33.2**	**33.4**	**97.6**	**14.6**	**22.9**	**37.3**	**47.1**	**121.9**	**180.6**
Minority Interest	2.2	1.4	2.3	0.7	0.6	1.0	1.0	3.3	0.2	0.9	1.0	1.0	3.1	0.2	0.9	1.0	1.0	3.1	3.1
Net income attributable to Itron	**(146.8)**	**(22.9)**	**12.7**	**10.1**	**19.9**	**(9.9)**	**11.6**	**31.8**	**15.8**	**14.1**	**32.2**	**32.4**	**94.6**	**14.4**	**21.9**	**36.3**	**46.1**	**118.8**	**177.5**
Earnings per common share - Ba	(3.74)	(0.58)	0.33	0.27	0.52	(0.26)	0.30	0.83	0.41	0.36	0.83	0.84	2.44	0.37	0.57	0.94	1.19	3.07	4.59
Earnings per common share - Dil	(3.74)	(0.58)	0.33	0.26	0.52	(0.26)	0.30	0.82	0.40	0.36	0.82	0.82	2.40	0.37	0.56	0.92	1.17	3.02	4.51
Weighted average common shares	39.3	39.2	38.2	38.1	38.2	38.2	38.3	38.2	38.5	38.7	38.7	38.7	38.7	38.7	38.7	38.7	38.7	38.7	38.7
Weighted average common shares	39.3	39.2	38.5	38.4	38.5	38.2	39.0	38.6	39.2	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3

EPS Reconciliation	**2013A**	**2014A**	**2015A**	1QA	2QA	3QA	4QA	**2016A**	1QA	2QA	3QE	4QE	**2017E**	1QE	2QE	3QE	4QE	**2018E**	**2019E**
Net Income - GAAP									15.8	14.1	32.2	32.4	94.6	14.4	21.9	36.3	46.1	118.8	177.5
add back Amort of Intangiles									4.6	5.0	5.0	6.1	20.7	4.6	5.0	5.0	6.1	20.7	20.7
add back Restructuring Charges									3.1	5.0	0.0	0.0	8.1	3.1	0.0	0.0	0.0	3.1	3.1
Other Non-Operating Expenses									0.6	6.7	0.0	0.0	7.3	0.6	0.0	0.0	0.0	0.6	0.6
Tax Effect									(1.8)	(2.9)	(1.8)	(1.8)	(8.4)	(1.8)	(1.8)	(1.8)	(1.8)	(7.3)	(7.3)
Adj. Net Income									22.2	27.9	35.4	36.7	122.2	20.8	25.1	39.5	50.4	135.8	194.5
Adj. EPS	**$1.90**	**$1.60**	**$1.01**	**$0.44**	**$0.65**	**$0.77**	**$0.68**	**$2.54**	**$0.57**	**$0.71**	**$0.90**	**$0.93**	**$3.11**	**$0.53**	**$0.64**	**$1.00**	**$1.28**	**$3.45**	**$4.94**

EBITDA Reconciliation	**2013A**	**2014A**	**2015A**	1QA	2QA	3QA	4QA	**2016A**	1QA	2QA	3QE	4QE	**2017E**	1QE	2QE	3QE	4QE	**2018E**	**2019E**
Net Income - GAAP	(146.8)	(22.9)	12.7	10.1	19.9	(9.9)	11.6	31.8	15.8	14.1	32.2	32.4	94.6	14.4	21.9	36.3	46.1	118.8	177.5
add back Restructuring Charges	35.5	50.9	(7.3)	2.2	(1.6)	40.7	7.8	49.1	3.1	5.0	0.0	0.0	8.1	0.0	0.0	0.0	0.0	0.0	0.0
add back Interest	9.1	11.1	11.5	2.6	2.5	2.6	2.3	10.1	2.4	2.4	2.6	2.3	9.7	14.2	13.2	12.8	11.9	52.1	40.1
add back Taxes	(3.7)	6.6	22.1	8.6	12.2	13.4	15.3	49.6	9.0	16.6	20.4	20.5	66.4	9.0	14.0	22.9	28.9	74.7	110.7
add back Depreciation	98.8	98.5	76.0	16.7	18.8	16.1	16.8	68.3	14.4	15.1	17.8	17.2	64.4	17.2	16.6	16.1	15.6	65.6	60.8
Other			(8.1)	0.0	(0.0)	(0.2)	0.0	(0.2)	0.3	6.5			6.8					0.0	0.0
EBITDA	**($7.1)**	**$144.1**	**$106.9**	**$40.3**	**$51.8**	**$62.7**	**$53.9**	**$208.7**	**$45.1**	**$59.7**	**$73.0**	**$72.3**	**$250.0**	**$54.7**	**$65.8**	**$88.1**	**$102.5**	**$311.2**	**$389.2**

Source: Guggenheim Securities LLC Estimates, Company Filings

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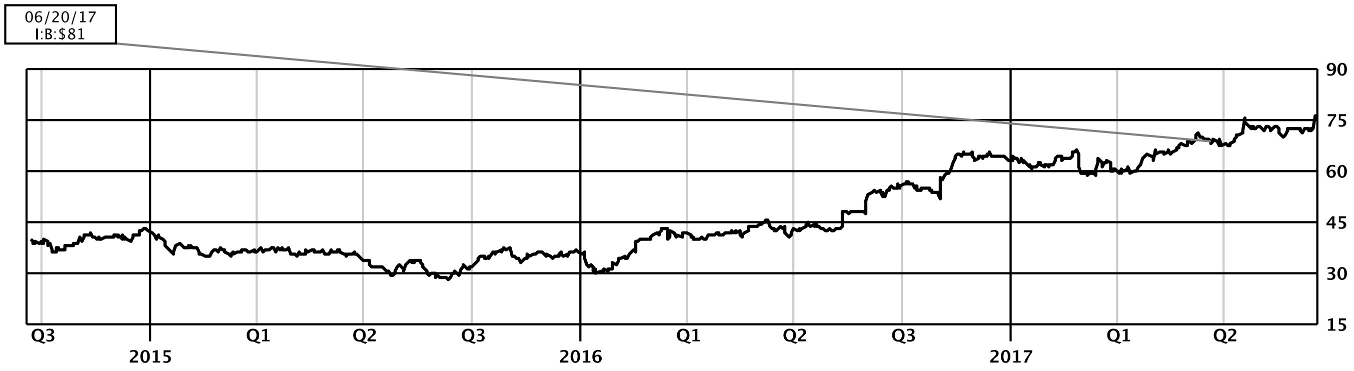
Rating and Price Target History for: Itron, Inc. (ITRI) as of 09-19-2017



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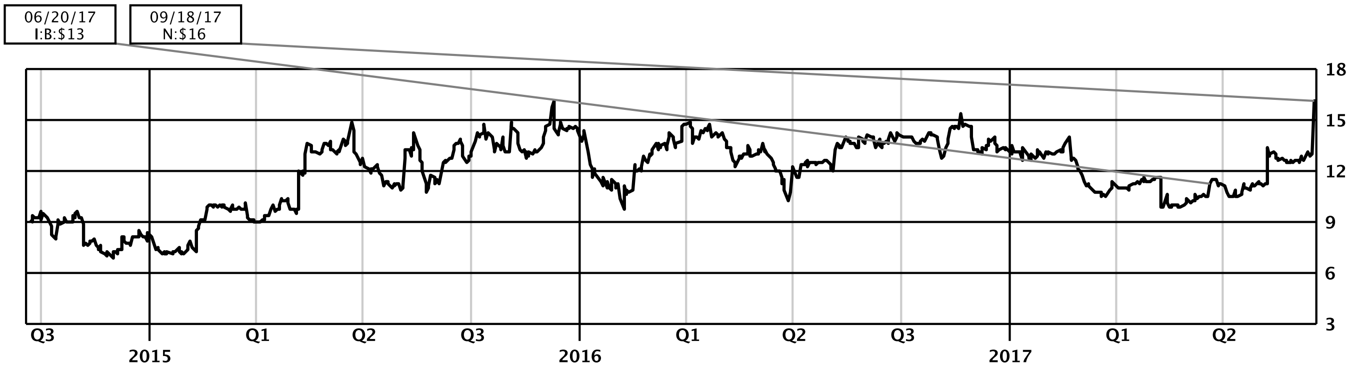

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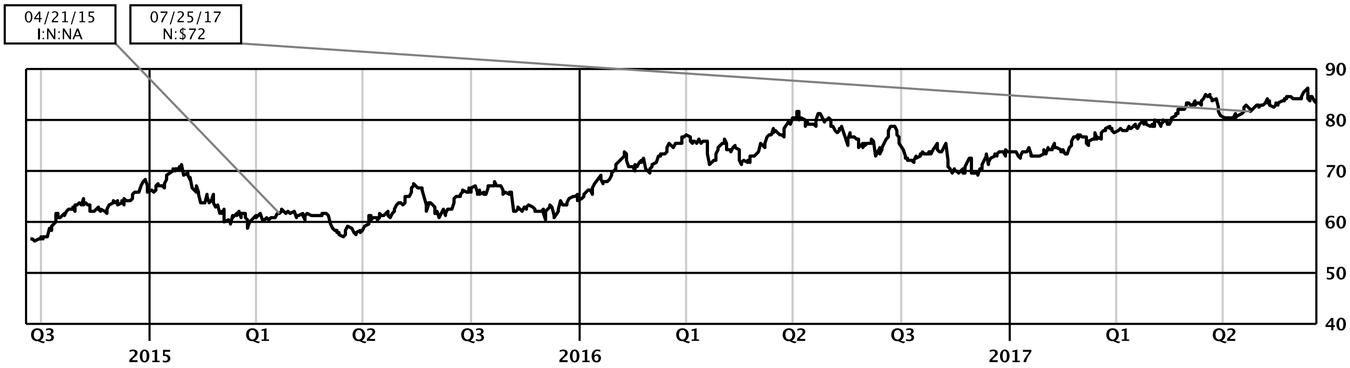
Rating and Price Target History for: Consolidated Edison, Inc. (ED) as of 09-19-2017



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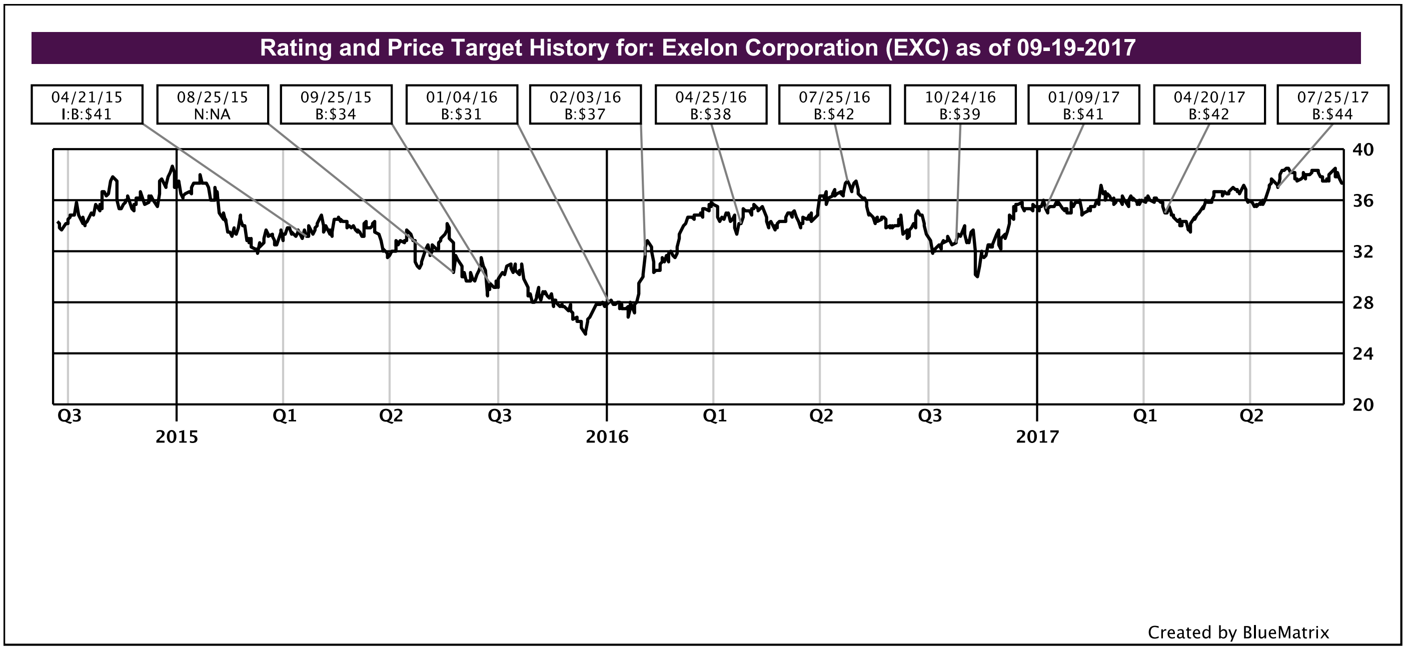

Rating and Price Target History for: Exelon Corporation (EXC) as of 09-19-2017

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			IB Serv./ Past 12Mos.	
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Neutral	121	38.78%	11	9.09%
Sell	2	0.64%	0	0.00%

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September 21, 2017 04:08 AM GMT

Diversified Utilities / IPPs

Attractive Value in a Sector with Few Bargains

We are revisiting the remaining diversified utilities: EXC, PEG, FE, and ETR. We think underperformance relative to regulated peers will reverse, and see a constructive backdrop driven by attractive valuations, market reforms, and merchant exits for FE and ETR. Upgrading PEG to OW and ETR to EW.

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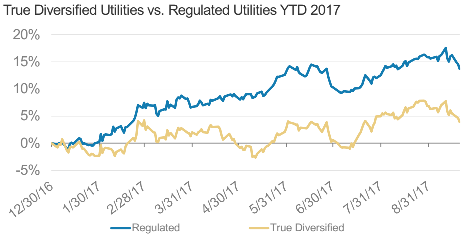
Diversified Utilities / IPPs

North America

IndustryView	**Attractive**

Diversified Utilities Have Underperformed Regulated Peers by ~10% Year-to-Date



The remaining diversified utilities (EXC, PEG, FE, and ETR) offer attractive valuations in a sector with few bargains. Year-to-date, these four diversified utilities have underperformed regulated peers by ~10%. This divergent trend within utilities was driven by: 1) company-specific issues, including concerns about liabilities from an over-leveraged merchant generation business at FE, nuclear cost escalation at ETR, and rate case risk at PEG. EXC has outperformed diversified peers on the back of several regulatory wins. 2) Low commodity prices and long-term risks associated with merchant power. As we revisit the stocks here, we see attractive valuations across the group and generally prefer diversified utilities to more expensive regulated peers. We see both stock-specific and macro catalysts over the next 6-12 months that we expect to help boost sentiment on the group and drive relative outperformance versus regulated peers. We are upgrading PEG to OW (Public Service Enterprise Group Inc: Many Ways to Win; Upgrading to OW), and prefer it to EXC through year-end; we are upgrading ETR to EW. Lastly, we reiterate our OW rating on FE and remain EW EXC.

- **PEG: Upgrading from EW to OW, $53 PT (unchanged).** We see attractive growth at a compelling valuation, with several ways to win, including the potential extension of capital programs, "utility of the future" investments, nuclear support, and power price changes. As a result, we are increasing our estimates and upgrading to OW.

- **FE: Remain OW, $40 PT (unchanged).** We believe continued progress in exiting the merchant business will narrow the large (~26%) valuation discount relative to peers. The stock is reflecting negative $8-9/share, or a $3.9b liability, for exiting its merchant power business, while we calculate a much smaller $1/share total drag, or $500m liability from exiting. We think consensus is overestimating the nuclear liability and underestimating the large tax benefits from exiting.

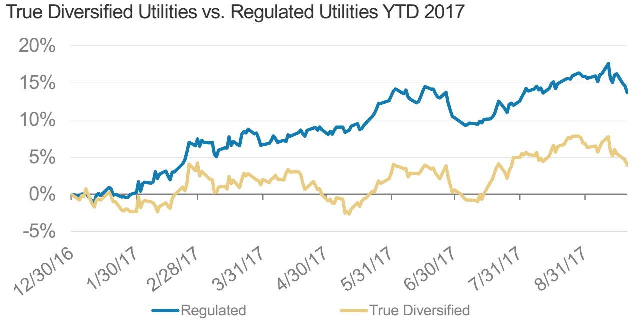
- **ETR: Upgrading from UW to EW, $82 PT (down from $84).** We conducted an in-depth review of the company's Arkansas nuclear cost filing, and though we still see risk that shareholders will be partially responsible for increased nuclear spending, this risk appears to be priced in at current levels. Following this year's 400bp underperformance, the stock reflects a more balanced risk-reward. Our $82 PT implies 5% upside and the 4.4% dividend yield offers a 9.4% total return.

- **EXC: Remain EW, $40 PT (unchanged).** Strong utility growth, but recent declines in forward prices push our estimates below consensus. We believe EXC is close to fairly valued at current levels, with few catalysts ahead; we prefer PEG and reiterate our Equal-weight rating.

Power price reform could benefit EXC and PEG. We expect FERC and RTOs to address power market design changes that are constructive for baseload generation under guidance from the recently released Department of Energy study on electricity markets (details here). Overall, we think the most impactful changes could be around price formation: allowing for inflexible power plants to set prices and potentially eliminating negative price offers from subsidized renewables. Each $1/MWh uplift to prices from market design changes would increase PEG's EPS by $0.07 (~2.5%) and EXC's by $0.13 (~5%), making them key beneficiaries.

Our Pitch: Attractive Valuation in a Sector with Few Bargains: Prefer Diversified Utes to Regulated Peers

Exhibit 1: Diversified Utilities Have Underperformed Regulated Peers by ~10% Year-to-Date



Source: Morgan Stanley Research. Note: Baskets are market-cap-weighted across constituents

The remaining diversified utilities (EXC, PEG, FE and ETR) offer attractive valuations in a sector with few bargains. Year-to-date, these four diversified utilities have underperformed regulated peers by ~10%. This divergent trend within utilities was driven by: 1) Company-specific issues, including concerns about liabilities from an over-leveraged merchant generation business at FE, nuclear cost escalation at ETR, and rate case risk at PEG. EXC has outperformed diversified peers on the back of several regulatory wins. 2) Low commodity prices and long-term risks associated with merchant power. As we revisit the stocks here, we see attractive valuations across the group and generally prefer diversified utilities to more expensive regulated peers. We see both stock-specific and macro catalysts over the next 6-12 months that we expect to help boost sentiment on the group and drive relative outperformance versus regulated peers. We are upgrading PEG to OW (Public Service Enterprise Group Inc: Many Ways to Win; Upgrading to OW), and prefer it to EXC through year-end; we are upgrading ETR to EW. Lastly, we reiterate our OW rating on FE and remain EW EXC.

- **PEG: Attractive growth at a compelling valuation, upgrading to Overweight.** PSEG (PEG) has underperformed regulated peers and its closest comp, EXC, year-to-date due to concerns around low commodities prices and power market regulatory risks, perceived lack of near-term catalysts, and uncertainty relating to the upcoming distribution rate case in New Jersey. However, the relative underperformance in the stock has far exceeded commodity price moves or the impact of any likely rate case risks. PEG's merchant business, PSEG Power, now screens cheaper than pure-play independent power producers despite having investment-grade credit metrics and a highly profitable generation platform. PEG has also continued to increase its potential utility investments, and there are several regulatory initiatives in NJ that could improve clarity on and recovery of capital spend going forward. We see a lot to like about the story, with many potential upside catalysts over the next year supporting an attractive risk-reward. We are upgrading to Overweight, with our $53 price target (unchanged) implying ~17% upside.

- **FE: Many pathways to recovering a significant portion of the current ~26% discount; remain OW.** We reiterate our OW rating on FirstEnergy (FE) as we believe continued progress in exiting the merchant business will narrow the large (~26%) valuation discount relative to peers. The stock is reflecting negative $8-9/share, or a $3.9b liability, for exiting its merchant power business, while we calculate a much smaller $1/share total drag or $500m liability from exiting. We think consensus is overestimating the nuclear liability (especially after we hosted a call with FE's chief nuclear officer; see that note here) and underestimating the large tax benefits from exiting.

- **ETR: Pricing in a bearish earnings outlook; upgrading to EW on more balanced risk-reward.** We are upgrading Entergy (ETR) from UW to EW given our view that the stock now reflects a bearish outcome for nuclear cost recovery (our Base Case) and a more balanced risk-reward following this year's underperformance. Though we still see risk that shareholders will be partially responsible for the company's increased nuclear spending in light of ETR's challenged nuclear operating history, this risk appears to be priced in at current levels. Our $82 PT implies 5% upside and the 4.4% dividend yield offers a 9.4% total return. Though we see modest upside potential, the lack of clarity on longer-term utility earnings power will likely remain an overhang.

- **EXC: Compelling strategy and execution, but limited upside at current levels; reiterate Equal-weight.** We continue to view EXC's business strategy as compelling, with strong growth driven by ROE improvements, a largely tracked capital spending program, and cash flow from ExGen. However, with the company deep into its ROE improvement path at the PHI utilities, potential incremental state nuclear support programs far down the road, and recent declines in forward prices pushing our estimates below consensus, we believe EXC is close to fairly valued at current levels, with only modest ~7% upside to our unchanged $40 PT. With few major catalysts ahead, we see a balanced risk-reward at current levels and remain comfortable with our Equal-weight rating.

Power price reform could benefit EXC and PEG. There are numerous pressures facing merchant power companies (subsidized nuclear generation, increasingly cheap renewables, weak power demand growth, and cheap natural gas). That being said, we believe potential upcoming market design changes, spearheaded by Regional Transmission Organizations (RTOs), skew to the positive relative to the highly bearish outlook reflected in the merchant power stocks. We expect FERC to largely be supportive of market design changes that are constructive for baseload generation under guidance from the recently released Department of Energy study on electricity markets (details here). Overall, we thing the most impactful changes could be around price formation: allowing for inflexible power plants to set prices and potentially eliminating negative price offers from subsidized renewables.

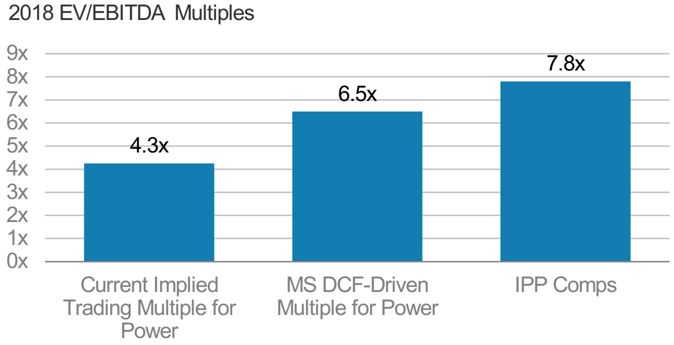
PJM is leading the charge on price formation. On June 15, PJM published a brief white paper exploring potential power price reform initiatives. PJM is focused on two key issues:

1. **Power price reform:** changing the way power prices are calculated to reflect the true marginal cost. Currently, inflexible resources often cannot reflect power prices.

2. **Impacts of negative offers:** addressing the issues associated with generation that offers into the market at negative prices, such as subsidized renewables.

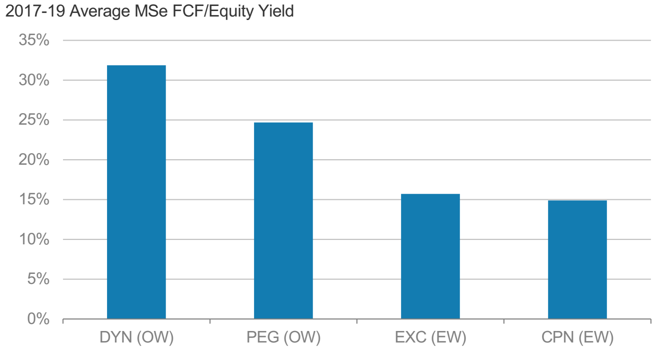
Price reform could increase energy prices while decreasing capacity over the long term, benefitting baseload resources such as nuclear and CCGTs. Each $1/MWh uplift to prices from market design changes would increase PEG's EPS by $0.07 (~2.5%) and EXC's by $0.13 (~5%), making them key beneficiaries.

Exhibit 2: PSEG Power Trades at a >2x EV/EBITDA Discount to Comps and Our DCF



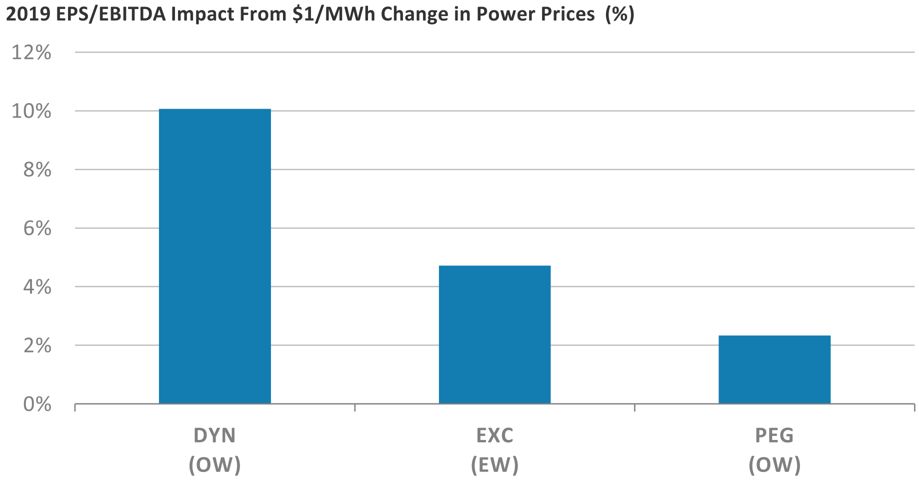
Source: Morgan Stanley Research

Exhibit 3: PEG Offers FCF/Equity Yield of ~25%, Well Above Most Peers, Despite Having the Strongest Credit Metrics



Source: Morgan Stanley Research

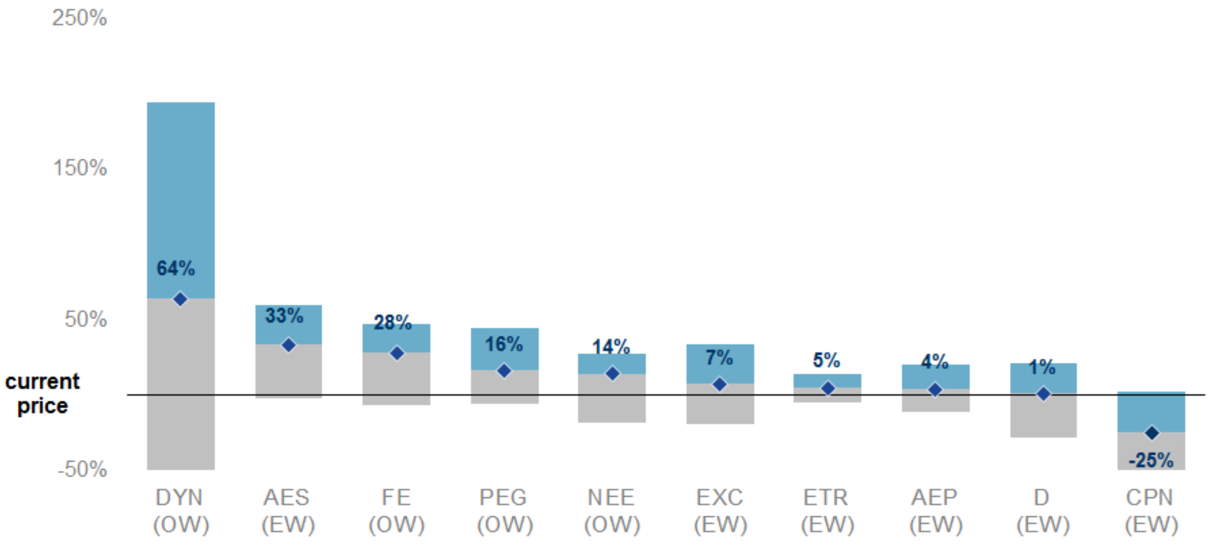
Exhibit 4: EPS/EBITDA Uplift Per $1/MWh Increase in Power Prices



Source: Morgan Stanley Research; Reflects 2019 EPS sensitivity for PEG and EXC, 2019 EBITDA sensitivity for DYN

Risk-Reward Summary

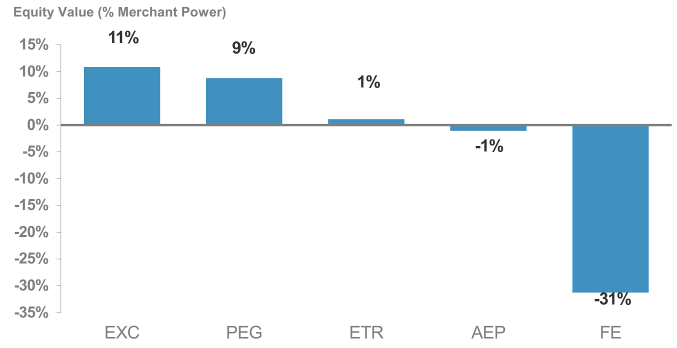
Exhibit 5: Diversified Utility and IPP Price Return & Risk/Reward Profiles



Source: Morgan Stanley Research estimates, Thomson Reuters

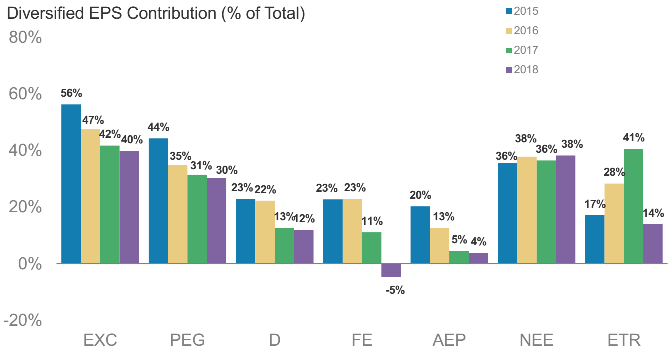
Merchant Estimates

Exhibit 6: Merchant Portion of Equity Value Among Diversified Utilities



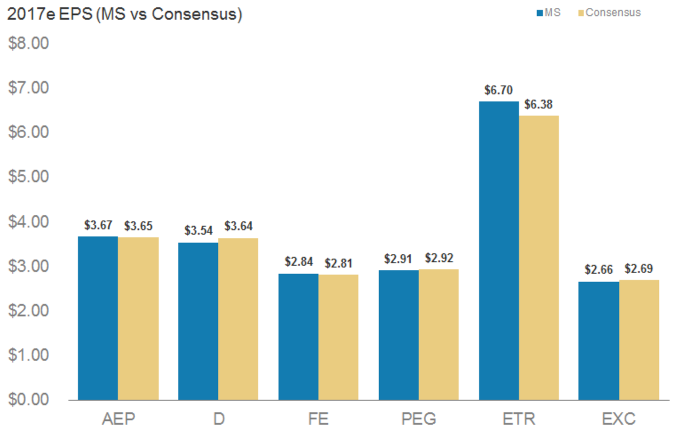
Source: Company Data, Morgan Stanley Research estimates

Exhibit 7: Diversified EPS Merchant Contribution (2015-18e)



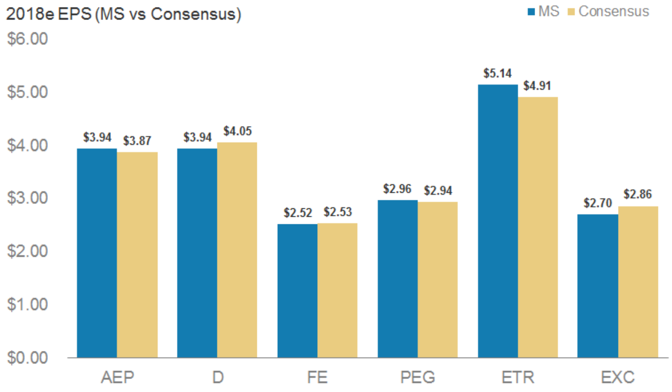
Source: Company Data, Thomson Reuters, Morgan Stanley Research estimates

Exhibit 8: 2017 Diversified EPS – MS vs. Consensus



Source: Company Data, Thomson Reuters, Morgan Stanley Research

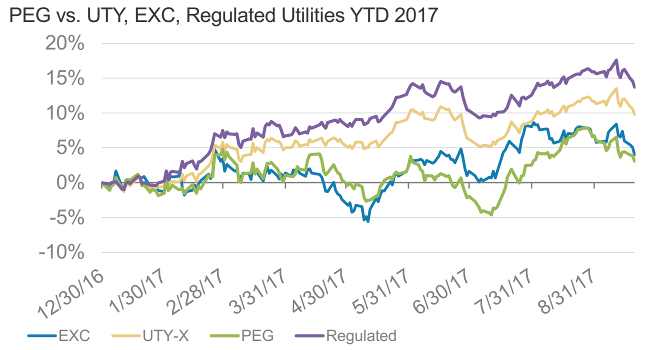
Exhibit 9: 2018 Diversified EPS – MS vs. Consensus



Source: Company Data, Thomson Reuters, Morgan Stanley Research

PEG: Attractive Growth + Upside at a Compelling Valuation

Exhibit 10: PEG Has Underperformed the UTY by ~7% YTD

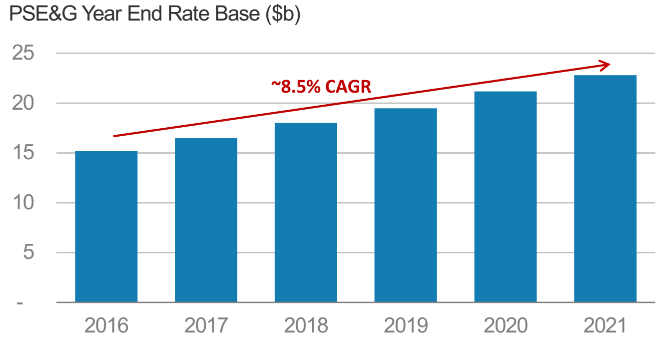


Source: Morgan Stanley Research. "Regulated" represents a market cap weighted basket of regulated utilities under coverage.

See our complete upgrade note Public Service Enterprise Group Inc: Many Ways to Win; Upgrading to OW.

Many ways to win, upgrading PEG to Overweight. PSEG (PEG) is a clean, well-run company with a high growth utility (PSE&G) and quality merchant power business (Power). After underperforming peers by ~7% year-to-date, the valuation screens attractive with a risk-reward profile skewed heavily to the upside. The current stock price reflects very limited value for PSEG Power despite its strong investment grade credit metrics at an unmatched ~25% free cash flow yield. Furthermore, we see several catalysts over the next year across both business segments that could further de-risk the story and/or increase earnings. These upsides are not yet in our or consensus estimates, and we see success on any as additive to an already attractive story and valuation. We are upgrading to Overweight, with our $53 price target (unchanged) implying ~17% upside. Compared to our other Overweights, PEG offers a relatively low-risk value play within the utility sector — one with catalysts ahead.

Exhibit 11: We Forecast A ~8.5% Rate Base CAGR 2016-21

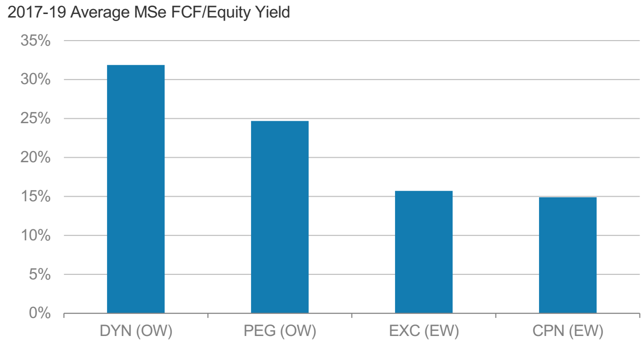


Source: Morgan Stanley Research

Best-in-class ~9% utility growth, supported by merchant free cash flow and robust $13.8b infrastructure investment plan. Our estimates assume that the Gas System Modernization Program (GSMP), which involves upgrading cast iron and unprotected steel mains, is extended and accelerated by $300m over the new 5-year window. We believe concerns around the upcoming November 2017 distribution rate case are overdone, and expect a constructive outcome likely via a settlement (rather than a fully litigated case). While our forecast assumes ROEs are reduced from 10.3% to 9.75%, the EPS impact is modest at $0.06. Outside of the rate case, we see several initiatives in New Jersey that could improve clarity and recovery mechanisms for future capital spending. These initiatives include the New Jersey Infrastructure Investment Program (IIP) and the Electric System Modernization Program (ESMP), as well as the potential extension of existing capital programs.

PSEG's merchant business, PSEG Power, now trades at a ~25% free cash flow to equity yield despite a high quality asset base and limited debt. PSEG Power owns and operates one of the highest quality generation businesses in the sector, and it is one of the largest owners of new and efficient combined cycle gas plants. We believe premium energy and capacity prices within PSEG Power's eastern PJM footprint are sustainable, positioning the business well relative to peers located further west where barriers to entry are lower. Furthermore, a declining capex profile supports robust and growing cash flow generation over the next several years. We estimate PEG's current stock price implies only ~$2b of equity value for PSEG Power, implying a 22-27% free cash flow to equity yield. Lastly, PSEG Power's strong balance sheet at 2-3x Net Debt/EBITDA mitigates leverage concerns and allows this cash to be redeployed for growth at the utility

Exhibit 12: PEG's FCF/Equity Yield of ~25% Is Well Above Most Peers Despite Having the Strongest Credit Metrics



Source: Morgan Stanley Research

business (rather than for less accretive debt reduction).

Many upside drivers, with several constructive regulatory initiatives pending. Our revised EPS estimates are now in-line with consensus, versus below previously. However, we see several potential positive drivers over the next year which could drive our estimates higher, including:

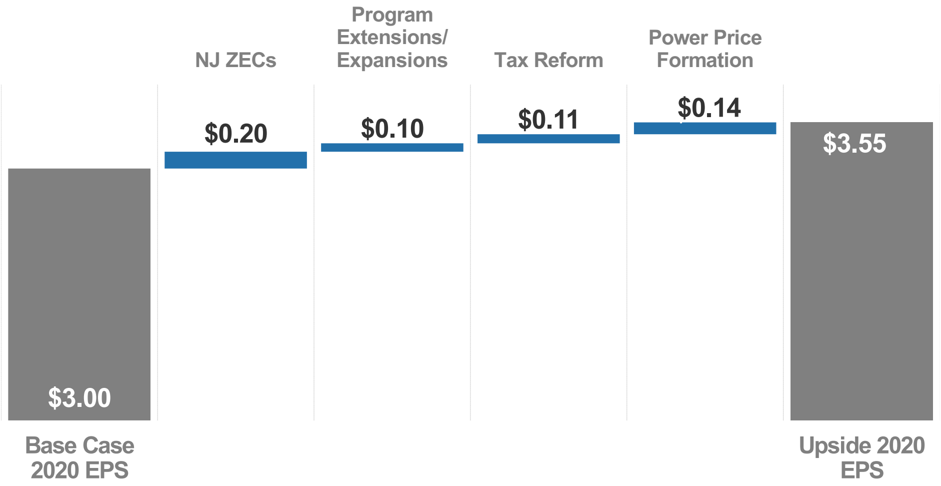
1. **Higher utility capex and extension of growth plan.** To date, we estimate PEG has identified ~$1.12b of potential upside investments above what management disclosed at the March 2017 Analyst Day. While our estimates do not yet reflect this additional upside, we estimate it could drive an incremental ~$0.10 of EPS by 2020, supporting either a higher growth rate or an extension of existing growth plans. Overall, we see the potential for PEG to extend the current growth rate into the mid-2020's, if not longer. Furthermore, several constructive regulatory initiatives in New Jersey could improve clarity on long-term capital spending and recovery. Lastly, we do not expect the distribution rate case to be a material event for the stock and see likely clarity in 1H18 as a positive catalyst for the stock.

2. **Introduction of Zero Emissions Credits (ZECs) and/or carbon pricing in NJ.** Following in the footsteps of recently approved zero emissions support payments for nuclear in New York and Illinois, PSEG is now engaged in similar discussions in New Jersey. Hypothetically, we estimate that a zero emissions credit (ZEC) in New Jersey, if similar to that in NY and Illinois, could increase EPS at PSEG Power by $0.20-0.40 depending on the structure (such as inclusion of a financial need clause or bill impact caps). We believe it is likely NJ will rejoin the Regional Greenhouse Gas Initiative, a carbon cap-and-trade program, which could be modest benefit to PSEG Power. Lastly, execution on additional cost improvements at the nuclear business could also improve profitability and cash flow, but we do not yet factor either of these upside drivers into our estimates.

3. **Changes to price formation in competitive power markets.** We expect FERC and RTOs to address power market design changes that are constructive for baseload generation under guidance from the recently released Department of Energy study on electricity markets (details here). Overall, we think the most impactful changes could be around price formation: allowing for inflexible power plants to set prices and potentially eliminating negative price offers from subsidized renewables. Each $1/MWh uplift to prices from market design changes would increase PSEG Power's EPS by $0.07, making it a key beneficiary. In our Bull Case, we assume power price reform drives $2/MWh of around-the-clock price uplift, equating to $0.14 of incremental EPS.

4. **Lower corporate taxes under federal tax reform.** PEG's profitable merchant business and low leverage make it one of the largest beneficiaries of any reduction in corporate tax rates within the utility sector.

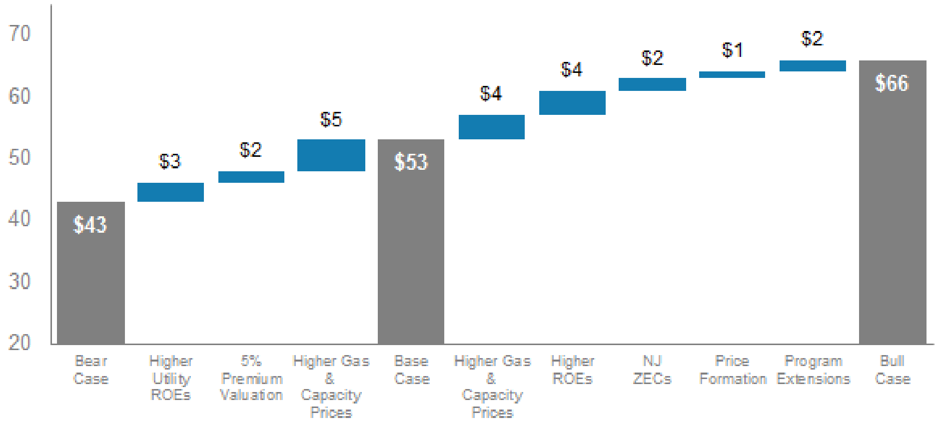
Exhibit 13: Nearly $0.60 of Potential EPS Upside By 2020, Not Yet in Estimates



Source: Morgan Stanley Research

We see an attractive risk-reward at current levels with our $53 price target representing ~17% upside. Our $53 valuation reflects ~$42 per share for PSE&G, the utility, and ~$11 per share for the merchant business, PSEG Power. We use a DCF valuation for PSEG Power, and an implied 5% premium 19.2x 2019 P/E multiple for the PSE&G. We expect PSE&G to achieve the high end of its 7-9% growth guidance, and see potential capital spend that could further extend or increase this growth rate, which is attractive relative to the 4-5% peer group average. We believe PSEG Power is one of the best run merchant generation businesses in the industry with a high quality asset base, currently at a compelling valuation. Our DCF-driven $11 valuation for the business implies a ~10% target 2019-21 free cash flow yield and a ~6.5x EV/EBITDA multiple on our 2018 estimate. While our forecasts do not reflect any improvement in commodities prices, we are closely watching the potential for ZECs in NJ or broader changes to power price formation. Overall, we see compelling value with several upside opportunities across PEG's business lines, driving our upgrade to Overweight.

Exhibit 14: PEG Bull-to-Bear Case Value Walk



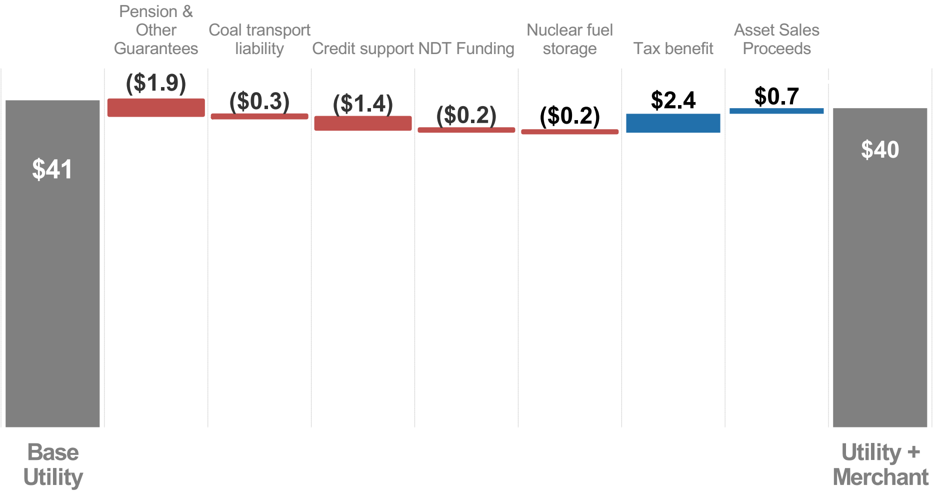
Source: Morgan Stanley Research

FE: Many Pathways to Recovering a Significant Portion of the Current ~26% Discount

We reiterate our OW rating on FirstEnergy (FE) as we believe continued progress in exiting the merchant business will narrow the large (~26%) valuation discount relative to peers. The stock is reflecting negative $8-9/share, or a $3.9b liability, for exiting its merchant power business, while we calculate a much smaller $1/share total drag, or $500m liability, from exiting. We think consensus is overestimating the nuclear liability (especially after we hosted a call with FE's chief nuclear officer; see that note here) and underestimating the large tax benefits from exiting.

Significant valuation disconnect in FE shares. The stock is reflecting negative $8-9/share, or a $3.9b liability, for exiting its merchant power business. We're expecting this subsidiary to file for chapter 11 and we calculate a much smaller $1/share total drag or $500m from exiting. We think consensus is overestimating the nuclear liability (especially after we hosted a call with FE's chief nuclear officer) and underestimating the tax benefits from exiting. Below we provide our valuation rationale, and we believe continued progress in exiting the merchant business will narrow the large valuation discount relative to peers.

Exhibit 15: FirstEnergy Valuation Walk



Source: Morgan Stanley Research. NDT = Nuclear Decommissioning Trust

Regulatory pursuits unlikely to alter the company's exit of the merchant business. Some investors had been concerned that the DOE study (released in late August) would cause FE to delay a decision on exiting this business, but we believe that is unlikely given there is nothing sufficiently large, concrete and certain in this DOE study that would result in the FE merchant business becoming solvent, in our view. The company has also pursued nuclear support payments in OH; recent comments from Ohio Governor Kasich, in which he stated his lack of support for payments to owners of struggling nuclear plants in order to keep the plants operational, further increases the likelihood that FE will take concrete steps to exit the generation business in our view.

High quality regulated utility subsidiaries. We believe the utility businesses are higher quality than appreciated, driven by constructive rate case settlements in PA, OH, and NJ, and higher than appreciated earnings power and growth. We estimate core utility value of $41 per share.

Several catalysts ahead. Bond payments due in late 2017 and early 2018 ($48m due in December, $99m due in April) could serve as catalysts in the company's ongoing discussions with bondholders, providing a potential incentive for the company to work out a settlement prior to making these payments. We believe FE would significantly prefer a settlement over a Chapter 11 process since this route would likely be much less time consuming and result in lower legal fees. Also in early 2018, the WV Commission is scheduled to potentially approve the addition of the Pleasants plant to rate base, with interim regulatory dates also in October. This transaction would bring in $195m of proceeds.

ETR: Pricing In a Bearish Earnings Outlook; Upgrading to EW on More Balanced Risk-Reward

We are upgrading Entergy (ETR) from UW to EW given our view that the stock now reflects a bearish outcome for nuclear cost recovery (our Base Case) and a more balanced risk-reward following this year's underperformance. Though we still see risk that shareholders will be partially responsible for the company's increased nuclear spending in light of ETR's challenged nuclear operating history, this risk appears to be priced in at current levels. Our $82 PT implies 5% upside and the 4.4% dividend yield offers a 9.4% total return. Though we see modest upside potential, the lack of clarity on longer-term utility earnings power will likely remain an overhang.

ETR shares have underperformed peers by ~400bps YTD and now price in weak utility EPS growth through 2019. We have been concerned that ETR's elevated nuclear spending in response to challenged operating performance would ultimately be split between shareholders and customers and result in a $0.28 earnings hit in 2019 relative to guidance. At this point however, ETR stock reflects an even greater level of disallowance, exceeding our conservative assumptions. Upon revisiting these rate proceedings, we also acknowledge that the company presented a reasonable case to the Arkansas commission that could justify a higher level of recovery than we incorporate. Though we remain concerned about the company's ability to recoup a portion of these costs, shares now adequately reflect this risk.

The utilities have achieved several recent regulatory wins... Entergy has received regulatory approval for its Advanced Metering Infrastructure (AMI) plans in LA and MI (with a settlement also filed in AK), and approvals of the Lake Charles CCGT in LA and Montgomery Power Station CCGT in TX. These approvals provide greater certainty around ETR's capex outlook and rate base growth opportunity for its utilities. Texas approvals this year for transmission and distribution revenue increases also provide incremental clarity for 2018 earnings.

...Though a few big ticket items remain, particularly approval of the company's 2018 formula rate request in AK (~$7b rate base), 3-year extension of LA's formula rate plan (~$8.5b rate base), and SERI ROE challenge ($1.25b rate base).

What would make us more constructive? Resolution of regulatory overhangs. Given the size of its LA and AK rate bases and important regulatory decisions ahead, we think the stock will remain under pressure before achieving further clarity around the recovery potential of nuclear costs and the future regulatory structure in LA. Clarity here would resolve overhangs that have deterred investors from stepping in despite the stock appearing inexpensive relative to peers, and further de-risk the utility earnings outlook.

Our $82 PT implies 4% upside. We apply a DDM-driven 5% discount 17.4x P/E to our 2019 Utility, Parent & Other EPS estimate of $4.71, resulting in a utility value of $82/share. We believe a discount is warranted due to below average earnings growth and risk around sales growth and recovery of nuclear costs. We utilize a DCF to value the merchant business, EWC, resulting in <$0.50/share. We note that mots of our EWC value comes from existing cash on the balance sheet as the business is cash flow negative in 2017-20 by our estimates.

ETR - Key Stock Drivers

Though we see a more balanced risk-reward in ETR stock, several regulatory overhangs and the prospect for disappointing load growth keep us on the sidelines. We revisit the company's Arkansas nuclear cost recovery filings from the 2018 FRP and find few specific red flags, suggesting recovery could be more constructive than our 50% assumption. However, O&M costs have risen since the previous filing, ETR provides little benchmarking vs. peers, and the commission may resist the ongoing customer rate increases required. We also see several other regulatory items that will be overhangs on the stock in the medium-term, including ETR's application to extend the LA formula rate plan for three years (40% of total rate base) and the SERI ROE review. Finally, we continue to see potential for disappointing load growth relative to ETR's outlook.

Arkansas nuclear costs. In July 2017 Entergy filed its Formula Rate Plan (FRP) with the Arkansas Public Service Commission, requesting a 9.75% ROE and $130m in total revenue. As part of the request, ETR provided additional information related to its increased nuclear costs that were scrutinized in the 2017 FRP, as well as a detailed breakdown of additional 2018 nuclear O&M and capex. At issue is whether this spending is part of normal ongoing nuclear operations that have simply built up over time, or if ETR's challenged operating history of its plants (it is the only operator with plants classified in Column 4 by the NRC, indicating a failure to meet safety and operational requirements) has caused the heightened spending at the plants.

We reviewed ETR's request in Arkansas in detail, and on the whole found many of their arguments to be reasonable in terms of the costs and improvements necessary to ensure strong nuclear operating performance. Below is a breakdown of the nuclear capex and O&M investments ETR has proposed for recovery in the 2018 FRP.

Capital projects ($166m):

1. Required to comply with regulatory standards - $34m
2. Needed for safe and reliable near-term operation (prior to 2023) - $84m
3. Needed to support operation to end of operating life (beyond 2023) - $47m
4. Other - $1m

ETR's proposed capital projects comprise ~100 separate projects, with the largest a $12m project. Many of the projects include replacement of old or obsolete equipment, as well as some enhancements and upgrades to improve safety and reliability of the plant. Entergy maintains this spending is driven by the age of the units (given they are approximately at the end of their original operating license periods), to resolve issues identified by the company and by NRC inspectors in 2015-2016, and to position the plant for improved operations longer-term. The company notes that it had historically sought to minimize costs and invested in the plant on a more reactionary basis, but now needs to adjust its approach to improve operations for the longer-term (through the ~20 years remaining on the plant's extended operating licenses). Of the requested capex, we think there is some risk to the bucket of investments intended for longer-term operations ($47m of capital outlined above), particularly around the timing of this spending given they are oriented to resolve longer-term issues.

O&M ($40.8m increase in expenses):

1. Payroll - $13m
2. Engineering program and other training - $8m
3. Design and licensing - $8m
4. Plant improvement and maintenance - $8m
5. Support services - $2m
6. Other - $2m

Exhibit 16: Entergy Arkansas Nuclear Staffing Increases

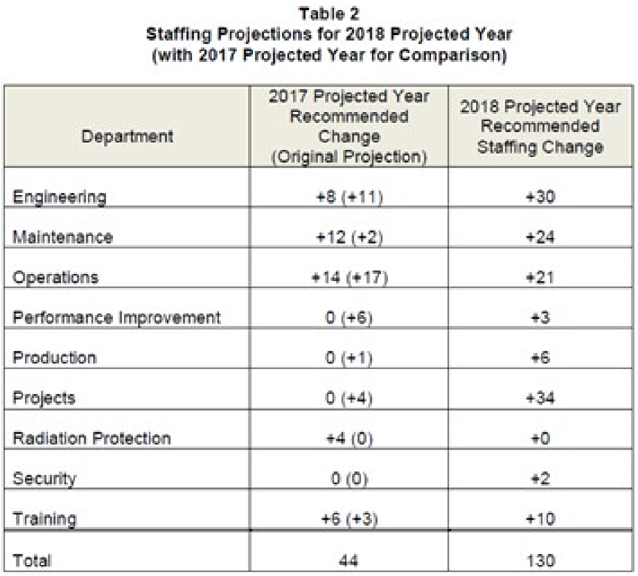


Table 2
Staffing Projections for 2018 Projected Year
(with 2017 Projected Year for Comparison)

Department	2017 Projected Year Recommended Change (Original Projection)	2018 Projected Year Recommended Staffing Change
Engineering	+8 (+11)	+30
Maintenance	+12 (+2)	+24
Operations	+14 (+17)	+21
Performance Improvement	0 (+6)	+3
Production	0 (+1)	+6
Projects	0 (+4)	+34
Radiation Protection	+4 (0)	+0
Security	0 (0)	+2
Training	+6 (+3)	+10
Total	44	130

Source: Company data

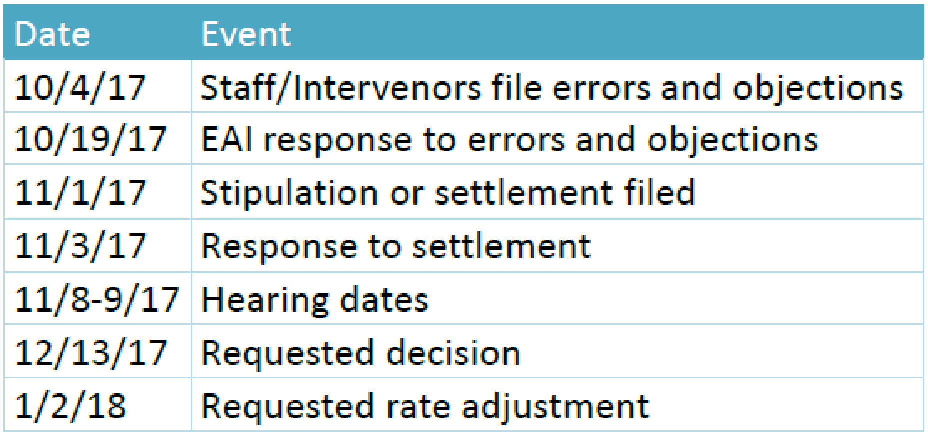
The increase in O&M expenses is intended to improve engineering programs, enhance training, create a more robust maintenance function, cut down backlogs of design changes, update processes/procedures, and improve management oversight. Staffing levels were a major focus, as the company intends to significantly increase headcount at the plant to position it for better performance and implement industry best practices. The company is adding 130 positions with the majority in special projects, engineering, maintenance, and operations. Headcount increases are coming in response to the increased workload from heightened maintenance and other operating activities detailed above, as well as training, balancing employee workloads, and adding management and supervisory positions. The special projects workforce increases will support planning, coordination, scheduling, and supervision of larger plant projects. We think the number of additional personnel and scale of the increase (+20% over the previous two years) may raise questions from the commission.

Nuclear costs requested for 2018 are still significant and will likely invite additional scrutiny. In ETR's 2017 FRP (approved earlier this year) the Arkansas commission requested additional information on O&M spending levels of ~$20m (including a +44 increase in headcount) and capex of $286m ($89m for 2016, $197m for 2017). In the 2018 FRP, ETR is requesting an additional $41m O&M (including a +130 incremental increase in headcount) and $166m in capex related to its nuclear spending plans. This is a big step-up particularly in O&M from the prior year and capex levels remain elevated. This level of spending also contributed to a total revenue request of $130m, which far exceeds the +4% rate increase cap in AK that is triggered at $71m and implies further rate inflation for customers in the coming years as ETR seeks to recoup the spending in subsequent FRP filings. This rate pressure (on top of weak load growth discussed below) may deter the commission from approving the full investment levels requested by ETR.

Lack of benchmarking vs. peers may be a point of contention. While the company in its filings emphasizes that the nuclear investments it is pursuing are not in response to the NRC Column 4 designation and would have been necessary whenever they were identified, we think the commission will be interested in how the plant O&M, staffing, and capex levels benchmark against peers. Entergy provided no explicit benchmarking to other utilities in its testimony. We think this could be an area of further investigation and pushback from the commission, and if the company is shown to be operating at higher headcount and O&M level or if its equipment replacement programs are more aggressive than peers, we think cost recovery would be at greater risk.

Intervenor and staff filings on October 4 will be an important signpost to evaluate the level of scrutiny on nuclear costs embedded in the 2018 FRP, and a final decision has been requested by December 13.

Exhibit 17: Key dates to track



Date	Event
10/4/17	Staff/Intervenors file errors and objections
10/19/17	EAI response to errors and objections
11/1/17	Stipulation or settlement filed
11/3/17	Response to settlement
11/8-9/17	Hearing dates
12/13/17	Requested decision
1/2/18	Requested rate adjustment

Source: Company data

Other regulatory risks ahead: FRP extension in Louisiana, and ROE complaint at SERI. Entergy is requesting a three-year extension of its formula rate plan in LA to cover the 2017-19 test years, and as part of this request is seeking a forward-looking mechanism for MISO investment in the state. The company is also seeking a reset in the allowed ROE midpoint back to 9.95%, a narrowing of the sharing bands, to +/- 40bps rather than +/- 80bps, and earlier recovery (forward-looking rates) for MISO transmission capex and expenses. The outcome of this case is a significant driver of earnings power for ETR since it could impact three years of returns on the ~$8.5b LA rate base, which represents ~40% of the company's total rate base.

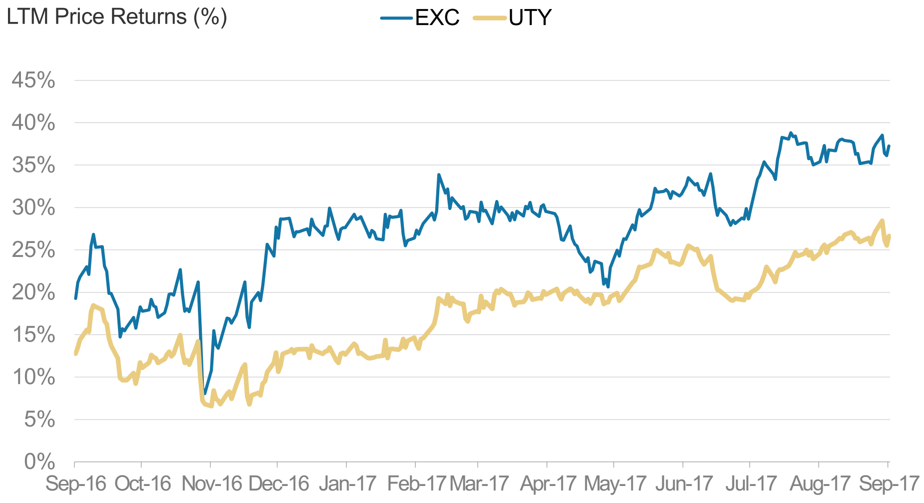
In addition, an ROE complaint was filed against ETR's SERI subsidiary in January. The rate base in question is $1.25b, and each 1% decline in the ROE (currently a 10.94% authorized level) would result in a $0.05 EPS impact by our estimates.

Sales growth has modestly disappointed thus far in 2017, growing 1.2% vs. guidance of 1.4%. Residential and commercial sales declined by 0.4% in 1H17 (vs. guidance of 0.2% growth) and industrial sales grew by 3.4% (vs. guidance of ~3% growth). Based on our deep dive analysis of electricity demand trends, we believe this is a structural headwind, not a short-term trend that will reverse. Our 2017-20 expectation of ~0.9% growth annually is ~40% below management's guidance. While some of the earnings headwind from lower sales will be recoverable via formula rate plans in Arkansas and Mississippi, we believe most of ETR's forecasted growth stems from Louisiana. This trend may put pressure on out-year growth because 1. A portion of growth spending is related to the expectation for higher demand, and may not be needed if sales disappoint to the downside; and 2. Lower sales would drive the need for higher customer rates to recover investments. We believe regulators in ETR's utility jurisdictions are very focused on keeping rates low, and are concerned that there may be pushback to growth plans and recovery of nuclear costs should sales growth miss expectations (which we see as a key risk).

EXC: Compelling Strategy and Execution, but Limited Upside at Current Levels; Reiterate Equal-weight

EXC continues to offer strong growth and a solid business strategy, but we see limited upside from current levels with few catalysts ahead; reiterate Equal-weight. EXC offers a compelling business strategy, with strong growth driven by ROE improvements, a largely tracked capital spending program, and cash flow from ExGen. To date we believe the company has executed well on achieving nuclear support for its challenged assets in several jurisdictions and on improving earned returns at the acquired PHI utilities. However, with EXC outperforming the broader utility group by ~7% over the last twelve months (while outperforming its remaining diversified peers by a similar margin), we see limited upside from current levels. Having received clarity on the majority of planned rate proceedings at the PHI utilities, and with potential incremental state nuclear support programs far down the road, EXC has few major catalysts ahead. EXC is also one of the most sensitive companies in our coverage to recent declines long-term natural gas and power forwards given its large baseload nuclear fleet, with the latest contractions driving us ~$0.15 below consensus estimates 2018-20. While we continue to see modest ~7% upside to our unchanged $40 price target, we see a balanced risk-reward going forward and remain comfortable with our Equal-weight rating.

Exhibit 18: EXC Has Outperformed the Broader Utility Group Over the Last 12 Months



Source: Bloomberg, Morgan Stanley Research

Strong execution on improving Pepco ROEs, but only modest upside left with majority of regulatory activity behind us. EXC has continued to make strong progress on executing its planned ROE improvements at the Pepco Holdings (PHI) utilities acquired in March 2016, following a number of regulatory wins. The company is now deep into its initiative to improve regulatory lag at the PHI utilities, having received material clarity in the majority of its planned rate proceedings (the company has said it would go through 2 rate case cycles across the PHI utilities), with visibility in 7 out of its 11 filings so far. While we believe this clarity helps alleviate concerns around execution risk and view it as indicative of the EXC's ability to work productively with regulators, we see only modest headroom for further PHI ROE improvement with the bulk of the company's rate proceedings behind us. Though much of EXC's growth story has been predicated on the successful execution of ROE improvements at the PHI utilities, we do note that we still see relatively attractive growth at legacy utilities driven by a comprehensive >$20b capital investment plan backed by strong recovery mechanisms which we believe will allow EXC to continue to earn compelling returns.

Below is a summary of recent rate outcomes at PHI that helped the company execute on ROE improvements at the PHI utilities:

1. On August 24, 2017, the New Jersey Board of Public Utilities (NJBPU) approved a settlement filed by Atlantic City Electric (ACE) and BPU staff a week prior. The settlement called for a ~$45m rate increase and a 9.75% ROE, in-line with recent New Jersey ROE outcomes. The authorized revenue increase represented ~57% of ACE's requested ~$79.4m increase.

2. On November 15, 2016,regulators issued a final order in Potomac Electric Power's Maryland rate case, authorizing a rate increase of ~$52.5m and ROE of 9.55%, relative to the staff recommended increase of ~$54.8m and ROE of 9.57%. The authorized revenue increase reflects ~51% of the Potomac's revised rate request of ~$102.8m

3. On February 15, 2017,the Maryland Public Service Commission issued a final order authorizing a rate increase of ~$38.3m and an ROE of 9.60% in Delmarva Power & Light's (DPL) electric rate case. The authorized revenue increase recommendation reflects ~67% of DPL's revised request of ~$57m.

4. On May 23, 2017,the Delaware Public Service Commission adopted a settlement in DPL's Delaware electric rate case, with the settlement filed with the PSC two months prior. The agreement called for a ~$31.5m rate increase and a 9.70% ROE, in-line with past decisions in the jurisdiction. The authorized revenue increase represented ~52% of DPL's revised rate request of ~$60.2m.

5. On June 6, 2017,the Delaware Public Service Commission adopted a settlement in DPL's Delaware gas rate case, with the settlement filed with the PSC two months prior. The agreement called for a ~$4.9m rate increase and a 9.70% ROE. The authorized revenue increase represented ~22% of DPL's revised rate request of ~$22.2m.

6. On July 24, 2017,regulators issued a final order in Potomac Electric Power's District of Columbia (D.C.) rate case, authorizing a rate increase of ~$36.9m and ROE of 9.5%, relative to the Office of People's Counsel's recommended increase of ~$25.9m and ROE of 8.60%. The authorized revenue increase reflects ~48% of the Potomac's revised rate request of ~$77.5m.

7. On June 30, 2017,the Maryland Public Service Commission staff recommended a rate increase of ~$24.9m and an ROE of 9.39% in Potomac Electric Power's 2nd Maryland electric rate case. The staff recommendation reflects ~36% of Potomac's request of ~$68.6m.

What's left to watch for on the regulatory front?:

1. A final decision on Potomac's 2nd Maryland electric rate case. The company expects

a final order by 10/20/17.

2. Clarity in ACE's 2nd New Jersey electric rate case. At the end of March, the company requested a $70.2m increase, with a 10.10% ROE. The company expects to receive an order by 1Q18.

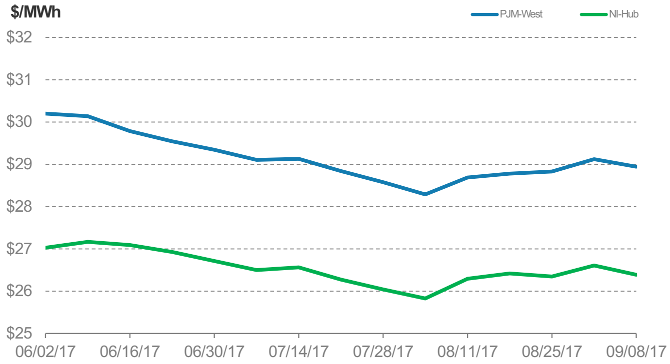
3. Clarity in DPL's Delaware electric & gas rate cases. In mid-August, the company requested a $37.3m increase in aggregate, with a 10.10% ROE.

4. Clarity in DPL's 2nd Maryland electric rate case. In early-September, the company modified its rate request to reflect ~$23.3m increase, with a 10.10% ROE. The company expects to receive an order by 2/14/18.

At the legacy utilities, a final order in ComEd's formula rate filing is all that is left on the regulatory agenda. On June 27, the Illinois commission staff recommended an increase of ~$99.1m (~99% of ComEd's supported revenue increase).

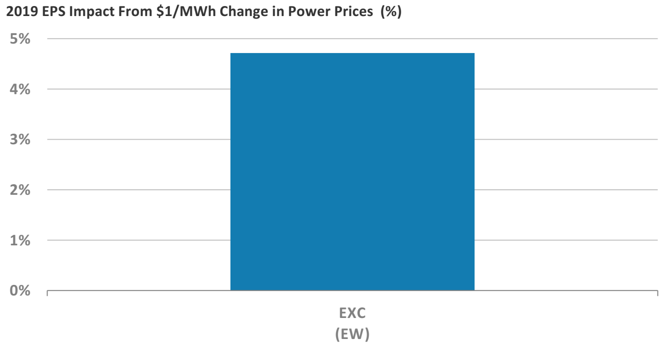
Legal resiliency of nuclear support programs positive, but declining forward commodity prices push us below consensus. While we continue to view Exelon's merchant business, ExGen, as an attractive source of investment grade cash flow that can be plowed back into utility spending, we see a number of dynamics that limit potential upside. On the positive side, we believe the recent dismissals of the federal level challenges to the NY and IL state Zero Emission Credit (ZEC) payments, which support EXC's at risk nuclear facilities, creates more certainty around future cash flows, and makes us confident that EXC will prevail in the ongoing appeals processes and the remaining NY state level case. However, we have also seen similar programs for nuclear assets in other states, such as Ohio, Connecticut and, Pennsylvania receive a fair amount of political pushback or get pushed further back in the legislative timeline. As such, we remain cautious around ascribing value to any potential ZEC programs outside of New York and Illinois. Furthermore, Given its large nuclear fleet, EXC's merchant business is one of the most levered to fluctuations in gas and power prices within our coverage universe. Over the last 3 months, forward spark spreads have fallen 5%-10% across PJM and the Northeast. As a result, our latest estimates have fallen ~$0.15 below 2018-20 consensus.

Exhibit 19: Forward Power Prices Have Fallen Across PJM, the Midwest and the Northeast Over the Last 3 Months



Source: Morgan Stanley Research

Exhibit 20: EXC's EPS Is Sensitive to Fluctuations in Long-Term Power Prices



Source: Morgan Stanley Research, Thomson One

We see a balanced risk-reward at current levels with few major catalysts ahead, and remain comfortable with our Equal-weight rating. After EXC's strong performance over

LTM, we see ~7% upside to our unchanged $40 PT. We continue to view EXC's business strategy as compelling, with attractive growth driven by strong, largely tracked capital spending program, benefits from recent regulatory wins, and utility investable cash flow from its large merchant segment. However, with the company deep into its ROE improvement path at the PHI utilities, potential incremental state nuclear support programs far down the road, and recent declines in forward prices pushing our estimates below consensus, we believe EXC is close to fairly valued at current levels. With few major catalysts ahead, we see a balanced risk-reward at current levels and remain comfortable with our equal-weight rating.

Changes to power price formation in competitive power markets could make use more constructive. Following the DOE's recent review of electricity market structures (as discussed here), we expect to see market design reform across competitive power markets. We believe potential changes in price formation (allowing for inflexible power plants to set prices and potentially eliminating negative price offers from subsidized renewables) would have a positive read across for power prices and ExGen margins, and would likely drive the stock and our estimates higher. We estimate each $1/MWh uplift to prices from market design changes would increase ExGen's EPS by $0.13, making it a key beneficiary.

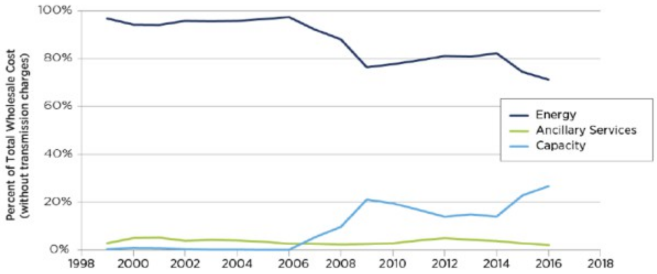
Assessing Power Market Changes: Outlook Skewed Positively for Merchants

There are numerous pressures facing merchant power companies (subsidized nuclear generation, increasingly cheap renewables, weak power demand growth, and cheap natural gas). That being said, we believe potential upcoming market design changes, spearheaded by Regional Transmission Organizations (RTOs), skew to the positive relative to the highly bearish outlook reflected in the merchant power stocks. We expect FERC to largely be supportive of market design changes that are constructive for baseload generation under guidance from the recently released Department of Energy study on electricity markets (details here). Overall, we thing the most impactful changes could be around price formation: allowing for inflexible power plants to set prices and potentially eliminating negative price offers from subsidized renewables.

PJM is leading the charge on price formation. On June 15, PJM published a brief white paper exploring potential power price reform initiatives. PJM is focused on two key issues:

1. **Power price reform:** changing the way power prices are calculated to reflect the true marginal cost. Currently, inflexible resources often cannot reflect power prices.
2. **Impacts of negative offers:** addressing the issues associated with generation that offers into the market at negative prices, such as subsidized renewables.

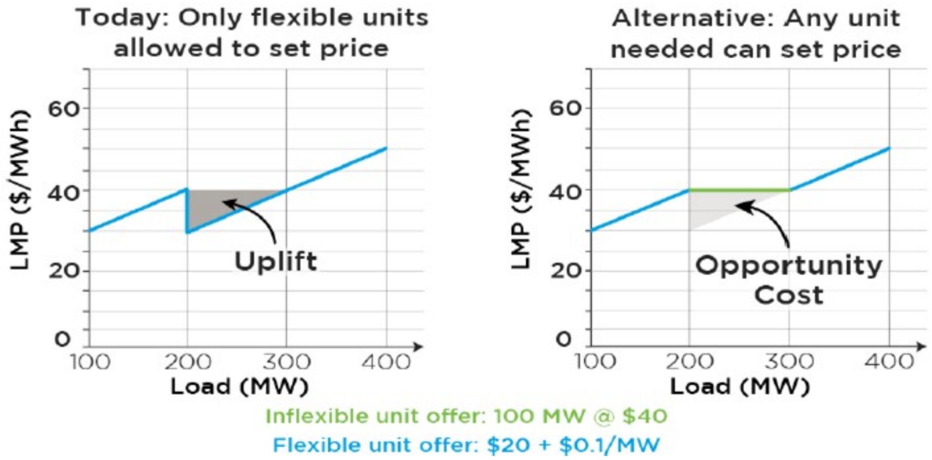
Exhibit 21: Capacity Has Been Increasing As a % of Market Costs, With Energy Declining



Source: PJM

Price reform could increase energy prices while decrease capacity over the long term, benefitting baseload resources such as nuclear and CCGTs. Over the past several years PJM energy market returns for power generation have been falling, resulting in a shift to the capacity market for a greater portion of revenue. PJM is concerned that this shift could lead to a market bias which favors lower capital cost (and lower fixed cost) resources. Interestingly, the decline in energy prices is driven in part by issues with the way power prices are calculated. Currently, the marginal power plan does not always set power prices. By design, only the output from power plant that is above a predetermined minimum generation level can set prices. As a result, an inflexible unit with one output level (such as a peaker) cannot set power prices. Instead, the inflexible unit would receive an out of market payment to make it whole if it were called to run and power prices were below its variable cost. As a result, market prices can be artificially lower than they should be - effectively failing to send the proper price signals. Instead allowing all units to set prices would result in prices more consistently increasing at higher demand levels, leading to more predictable and rational price signals.

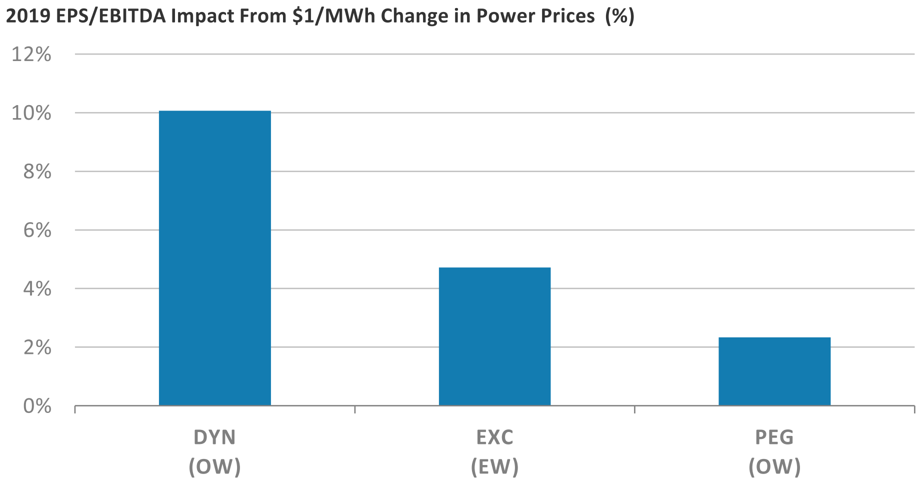
Exhibit 22: PJM Proposal Would Allow Inflexible Resources to Set Price, Driving More Rational Price Signals



Source: PJM

How much would price reform impact prices? Still unclear. PJM plans to release a study over the next few months calculating the impacts of proposed price reform measures on wholesale markets. Over the long term, we would expect the proposals to increase energy prices with an offsetting decrease in capacity prices. This would result in a net margin benefit to higher capacity factor resources (such as nuclear), and a hit to peakers and intermediate gas/coal. Since capacity prices are now locked in through mid 2021, a near term change to price formation could result in an increase in energy revenues with no offsetting decrease on the capacity price — benefitting all market participants.

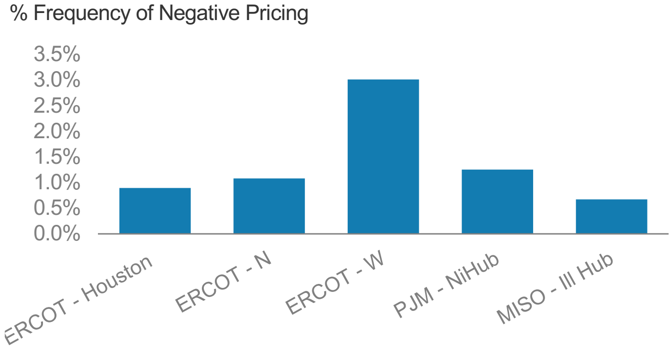
Exhibit 23: EPS/EBITDA Uplift Per $1/MWh Increase in Power Prices



Source: Morgan Stanley Research

PJMs intention to address negative offers would confer only marginal price uplift at the ISO level on our math. PJM also demonstrated interest in addressing "negative energy market offers from wind generation and the negative impact this has on all resources by distorting price and eroding revenue streams." However, as shown below, removing negative real-time hourly power prices, only shows a modest price uplift of $0.01-0.18, depending on the hub in question. This is largely due to the relatively small frequency in which negative pricing actually occurs, which is between 0.5% and 3% of the time. That being said, the frequency and the subsequent price impact could become more pronounced as renewables build out continues. Furthermore, although we found minimal impact at the ISO and trading hub level, there could be much more meaningful price uplift at the plant level in locations with transmission constraints.

Exhibit 24: The Frequency of Negative Price Hours Is Low...



Source: Morgan Stanley Research, ERCOT, PJM

Exhibit 25: ...Leading to a Minimal Impact on Power Prices When Zeroing Negative Price Hours

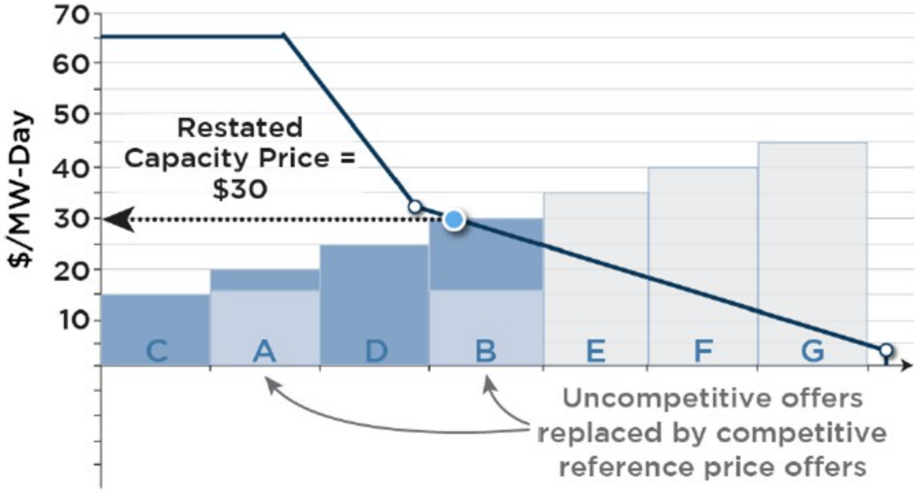
	Average Hourly RT Price ($/MWh)		
Region	**Unadjusted**	**Adjusted**	**Delta**
ERCOT - Houston	$25.37	$25.38	$0.01
ERCOT - N	$22.81	$22.83	$0.02
ERCOT - W	$22.31	$22.37	$0.06
PJM - NiHub	$26.85	$27.03	$0.18
MISO - Ill Hub	$26.13	$26.23	$0.10

Source: Morgan Stanley Research, ERCOT, PJM

Other Potential Reforms:

We believe PJM has a reasonable (but far from assured) probability of success in implementing its proposed constructive capacity market fixes. PJM has also released a capacity market repricing proposal aimed at maintaining the integrity of competitive markets while also achieving state policy goals. The goal of the proposal is to ensure that out-of-market subsidies, such as those recently awarded to some nuclear plants, do not artificially depress market prices. PJM's filing, available here, lays out options for a "two-stage" capacity auction. Stage one would determine the amount of capacity needed including subsidized plants, in order to prevent over-procuring capacity. Stage two would calculate an effective capacity price by increasing any subsidized offers to predetermined "competitive" levels and rerunning the auction. We see this proposal as a constructive step in the right direction to address the potential negative capacity price impacts related to incremental out-of-market subsidies. From here, it will be evaluated in the PJM stakeholder process through the Capacity Construct/Public Policy Senior Task Force (CCPPSTF).

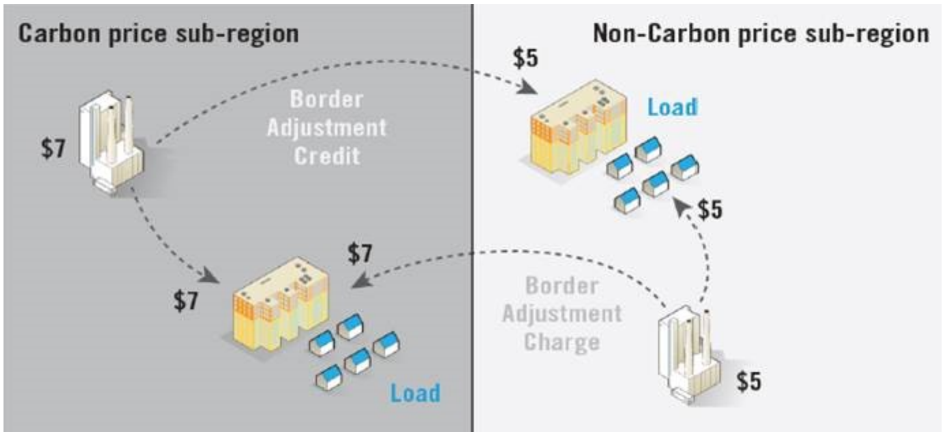
Exhibit 26: PJM's Capacity Market Proposal Would Recalculate Auction Prices Excluding the Impact of Subsidies



Source: PJM, Morgan Stanley Research

Using energy markets to advance state carbon emissions goals is a more sustainable solution in our view, rather than implementing accommodative tweaks to prevent price suppression, but we view this as low probability given lack of widespread support for carbon regulation and pricing. In coordination with its accommodative capacity market mitigation proposal, PJM also submitted a market based framework to advance state-level zero emissions objectives. The clearest way to preserve nuclear generation, in our view, is through accurately pricing the cost of carbon into wholesale power markets. However, given differing state-level perspectives on carbon pricing, implementing such measures across the entire market area would likely be challenging. Instead, PJM proposed a carbon pricing framework that would allow some states to participate while preventing "leakage" of generation into/from states that don't. "Leakage" of carbon pricing could occur in two ways: 1. When power from a plant not paying a carbon price is imported into a state or region with carbon pricing; and 2. When power from a plant paying a carbon price is exported into a state with no carbon pricing. To address these issues, PJM is proposing a border adjustment mechanism to appropriately adjust the pricing of imports into and exports from a state or region with a carbon regime. We believe such a mechanism could improve the function of the current Regional Greenhouse Gas Initiative (RGGI), and potentially facilitate its expansion, or the expansion of a similar program, in parts of PJM.

Exhibit 27: Carbon Price Mechanism: Designed to Address Regions Choosing Not to Have a Carbon price



Source: PJM

ISO-New England (ISO-NE) capacity market reforms focus on new subsidized resources. While PJM has focused on subsidies for existing generation, ISO-NE has proposed capacity reforms to mitigate the price suppression associated with state level subsidies for new generation, such as renewables. The proposal would separate the capacity auctions into two stages. Stage one would be the same as the current forward capacity auctions (FCAs) and would continue to apply minimum offer price rules (MOPR) to new resource offers. Stage two would allow capacity with price-based retirement offers to transfer their obligations to subsidized resources. If a transfer occurs, the existing resource would retire and could capture a margin in doing so — the goal being to prevent oversupply in the market. If no transfer occurs, new subsidized resources would not receive a capacity payment.

Tax Reform

We expect tax reform to be a key focus in the fourth quarter, and expect a reduction in federal corporate tax rates to be the most likely outcome. Diversified utilities are beneficiaries of lower taxes, as it would improve earnings and cash flow for the unregulated businesses of many stocks in the group. This contrasts to regulated utility peers which are unlikely to see a sustainable positive benefit from lower taxes.

Key elements of Republican tax reform proposals. We focus on one of the key elements of Republican tax reform proposals that would have important implications for utilities and merchant power companies: A reduction in the corporate income tax rate from 35% to 25% (the specific rate varies across the proposals). Based on our dialogue with numerous parties, we believe a reduction in the corporate tax rate has the highest chance of being passed, while other reform elements - expensing all capex and eliminating the interest deduction - are likely to face heightened pushback from lawmakers given the widespread ramifications these policies would have across numerous industries.

Diversified utilities are generally positioned favorably relative to regulated utilities in a tax reform scenario. By our estimates, for a hypothetical regulated utility with an NOL that would shield the utility from paying taxes for 3 years, a reduction in the tax rate would reduce cash flows during the NOL usage period by 10% (as the tax benefits are passed through to utility customers) while the annual earnings growth would rise by 1%. On the other hand, profitable unregulated operations will benefit directly from the decrease in the corporate tax rate and this benefit does not get passed through to customers. Several business model qualities maximize these benefits for a diversified utility: 1) A high percentage of (positive) unregulated earnings, 2) small or nonexistent NOL positions, and 3) minimal non-utility debt. Companies with large unregulated losses, high parent interest expenses, and a large existing NOL benefit less or in some cases are worse off from the tax reform proposals.

Diversified utility company impacts: In the following table we examine the potential impact of tax reform proposals on the diversified utilities under our coverage. This shows the EPS and FFO impact from a reduction in corporate tax rates from 35% to 25%, the most likely scenario in our view. We believe tax reform will come back into focus in 4Q17, with PEG being the biggest beneficiary.

Exhibit 28: PEG the Greatest Beneficiary from Potential Tax Reform of the Diversified Utility Group

	More Likely: Reduction in Corporate Tax Rate From 35% to 25%	
Company	2020 EPS (%)	2020 FFO Reduction (%) if Customer Rates Are Lowered
PEG	3.75%	2.07%
EXC	-1.20%	4.10%
ETR	-2.99%	-1.08%
FE	-3.09%	-1.44%

Source: Morgan Stanley Research

2020 EPS (%): Represents change from implementing 10% reduction in Corporate Tax Rate only

2020 FFO Reduction (%) - Lowered Customer Rates: Accounts for the cash impact from reduced utility customer rates from lower taxes, as well as the cash impact of the consolidated EPS change. Lower tax rates will reduce pre-tax income for regulated utilities. If the utility is in an NOL position (hence not a cash taxpayer) this will also reduce cash flow. This assumes that the benefit of lower taxes is passed through to customers, which may not necessarily be the case given various rate case stay out provisions among US utilities.

Positively Impacted:

1. PSEG (PEG) - Low levels of debt, meaningful non-utility earnings contribution from PSEG Power, and existing cash tax appetite make PEG a likely potential beneficiary of the House tax reform plan. If the corporate tax rate were to be reduced from 35% to 25%, this alone would be ~3.8% accretive to PEG earnings, and FFO would increase by ~2% on our estimates.

Negatively Impacted:

1. FirstEnergy (FE) - High levels of parent debt, as well as a sizeable NOL which becomes less valuable if corporate tax rates are reduced. A reduction in the corporate tax rate would result in a 3% decrease in EPS and ~1.5% reduction in FFO. We note that this analysis considers the tax reform impact on FE parent only, as we assume FE will exit the merchant business.

2. Entergy (ETR) - Above-average parent earnings drag. Entergy Wholesale Commodities (EWC), the unregulated business, is not included in the analysis as ETR is shutting down most of its unregulated fleet. A reduction in the corporate tax rate would result in a 3% decrease in EPS and 1% reduction in FFO.

3. **Exelon (EXC) -** Negative impact from material amount of non-utility debt, though partially offset from meaningful unregulated earnings contributions resulting from large merchant segment (ExGen). A reduction in the corporate tax rate would result in a ~1.2% decrease in EPS and a ~4% positive impact to FFO.

Estimates & Rating Summary

Exhibit 29: Morgan Stanley Estimates and Ratings - Diversified Utilities

Company	Ticker	Rating	Market Price	Old PT	New PT	Cap (mil)		EPS / EBITDA		
								2017e	2018e	2019e
Entergy Corp.	ETR	EW	$78.05	$84	$82	$14,012	*EPS - Prior*	$4.54	$5.18	$5.31
							EPS - Current	$6.70	$5.14	$5.15
							Consensus	$6.38	$4.91	$4.98
Exelon Corp.	EXC	EW	$37.28	$40	$40	$35,792	*EPS - Prior*	$2.66	$2.70	$2.66
							EPS - Current	$2.66	$2.70	$2.66
							Consensus	$2.69	$2.86	$2.80
FirstEnergy	FE	OW	$31.37	$40	$40	$13,938	*EPS - Prior*	$2.84	$2.52	$2.27
							EPS - Current	$2.84	$2.52	$2.27
							Consensus	$2.81	$2.53	$2.41
Public Service Enterprise Group	PEG	OW	$45.59	$53	$53	$23,064	*EPS - Prior*	$2.94	$2.87	$2.75
							EPS - Current	$2.91	$2.96	$2.81
							Consensus	$2.92	$2.94	$2.99

Source: Thomson Reuters, Morgan Stanley Research

Valuation Methodology & Risks

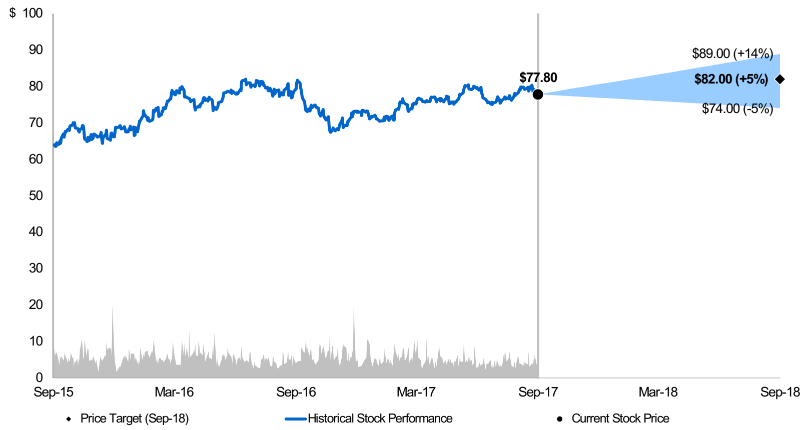
Exhibit 30: Diversified Utilities & IPP Valuation Methodology and Risk to Price Target Summary

Company	Ticker	Valuation Methodology	Risks
American Electric Power	AEP	We value AEP via a SOTP. We value the regulated utility by applying the regulated group P/E multiple to 2019 Utility EPS and a DCF analysis for the merchant business. For our DCF we use a 6.9% WACC, 3% Risk-Free Rate, and 1.5% Terminal Growth Rate.	1) Failure to execute on growth endevours; 2) Weaker than expected sales growth; 3) Execution of long-term contracts at the merchant business
Dominion Resources	D	We value D via a SOTP. We value the regulated utility by applying a 5% premium regulated group P/E multiple to 2019 Utility EPS to account for above average growth, a DCF analysis for the merchant business, and an EV / EBITDA multiple on the gas business. For our DCF we use a 6.8% WACC, 3% Risk-Free Rate, and 1.5% Terminal Growth Rate.	1) Gas and power price changes for merchant power; 2) DOE/FERC approval delays; and 3) Midstream gas market deterioration in OH/PA, which could negatively impact producer servicing contracts for the Blue Racer JV, 4) recovery in power demand growth, 5) Cove Point and Atlantic Coast Pipeline project execution.
Entergy Corp.	ETR	We value ETR via a SOTP. We value the regulated utility by applying the regulated group P/E multiple to 2019 Utility EPS and a DCF analysis for the merchant business. For our DCF we use a 9% WACC and 3% Risk-Free Rate.	1) Indian Point is forced to shut down by NY State; 2) Load growth does not materialize; 3) Low Marcellus/Utica gas prices spread to NY and New England
Exelon Corp.	EXC	Derived from our base case and driven by a 5% premium P/E compared to the regulated group average, and a DCF analysis for Generation and Energy Supply (ExGen). For our DCF we use an 8.2% WACC, 3% risk-free rate, and 1.5% terminal growth rate for ExGen (ex-ZECs benefit), with a 6.3% discount rate on the ZEC cashflows.	1) Natural gas and power prices decline further. EXC is the most sensitive diversified utility to natural gas prices on our math; 2) Additional states implementing carbon cap and trade programs. Additional carbon regulation would benefit EXC's large nuclear fleet
FirstEnergy	FE	Derived from our base case and driven by a 2019e P/E for utilities and DCF analysis for merchant power and retail assuming a spin-merger of the merchant business, using a ~6.9% WACC	1) Changes in gas and power prices could affect EPS meaningfully; every $1/mmBtu move in gas impacts open EPS by ~15-20%; 2) Potential for management to remain committed to owning merchant generation, which could trigger larger equity issuance needs than currently disclosed
NextEra Energy	NEE	Derived from base case and driven by 2019 P/E for utilities, cash distribution DDM analysis with target equity yield for contracted assets, and DCF analysis for merchant power. We apply a 6% terminal yield for the yieldco and 9% FCF/Equity yield for yieldco dropdown eligible assets. We apply 5% terminal yield for IDRs and a 10% FCF/Equity yield for remaining merchant assets.	1) Weak utility sales growth; 2) Failure to complete utility / renewables growth projects; 3) NEP underperforms due to deteriorating market for yield / growth
Public Service Enterprise Group	PEG	We value PEG via a SOTP. We value the regulated utility by applying the regulated group P/E multiple to 2019 Utility EPS and use a DCF analysis for the merchant business. For our DCF we use a 7.2% WACC, 3% Risk-Free Rate, and 1.5% Terminal Growth Rate.	1) Higher energy and capacity could be a positive for shares as the company's Power business is levered to commodities; 2) Strategic activity is not reflected in our valuation or estimates. But unregulated M&A has shown to be a positive in the sector due to considerable cost synergies

Source: Morgan Stanley Research .

ETR Risk-Reward

Weak nuclear cost recovery now priced in, with regulatory overhangs the key risks from here



Source: Thomson Reuters, Morgan Stanley Research

Price Target $82

Utilities/Parent: ~9.4% ROE; DDM-driven 5% discount applied to regulated group average P/EEWC (merchant power): $2.75 LT Gas; minimal cash flow after pension needs.

Bull $89

17.4x Utility/Parent EPS of $5.12 +$0.25 EWC

Utilities/Parent: ~10.2% earned ROE, full nuclear cost recovery; DDM-driven 5% discount applied to regulated group average P/E
EWC (merchant power): $3.50 LT Gas; Minimal value after pension needs

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Base $82

17.4x Utility/Parent EPS of $4.71 +$0.2 EWC

Utilities/Parent: ~9.4% ROE; DDM-driven 5% discount applied to regulated group average P/E; 50% of nuclear costs recovered
EWC (merchant power): $2.75 LT Gas; minimal cash flow after pension needs.

Bear $72

16.5x Utility/Parent EPS of $4.36 +$0 EWC

Utilities/Parent: ~8.5% ROE; DDM-driven 10% discount applied to regulated group average P/E
EWC (merchant power): $2.25 LT Gas; balance sheet cash just covers pension needs after NOL.

Investment Thesis

- **High likelihood that nuclear costs will be partially borne by shareholders, in our view.** We believe ETR is unlikely to fully recover incremental nuclear spending in customer rates - the prudence of these costs has not yet been determined, and we expect heightened regulatory scrutiny due to ETR's track record of challenged nuclear operational performance. We therefore think there is high risk that incremental spending will be partially borne by shareholders.
- **Further downside to load growth puts long-term capital plans at risk.** We see downside risk to ETR's ~1.5% sales growth forecast based on structural headwinds identified in our deep dive analysis of electricity demand trends. Our 2017-20 expectation of ~0.9% growth annually is ~40% below management's guidance. While some of the earnings headwind from lower sales will be recoverable via formula rate plans in Arkansas and Mississippi, we believe the trend will put pressure on out-year growth.
- **Several major regulatory uncertainties remain overhangs,** particularly approval of the company's 2018 formula rate request in AK (~$7b rate base), 3-year extension of LA's formula rate plan (~$8.5b rate base), and SERI ROE challenge ($1.25b rate base). Given the size of its LA and AK rate bases and important regulatory decisions ahead, we think the stock will remain under pressure before achieving further clarity around the recovery potential of nuclear costs and the future regulatory structure in LA.

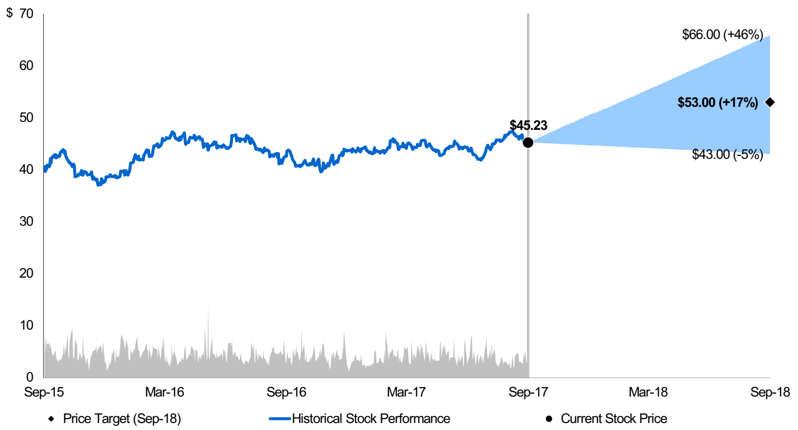
- **Our $82 PT implies 4% upside.** The stock now reflects a bearish outcome for nuclear cost recovery and a more balanced risk-reward. We apply a DDM-driven 5% discount 17.4x P/E to our 2019 Utility, Parent & Other EPS estimate of $4.71, resulting in a utility value of $82/share. We believe a discount is warranted due to below average earnings growth and risk around sales growth and recovery of nuclear costs. We utilize a DCF to value the merchant business, EWC, resulting in <$0.50/share.

Risks to Achieving Price Target

- Rebound in load growth in ETR's utility jurisdictions
- Favorable regulatory treatment of nuclear costs
- Extension of formula rate plan in Louisiana with supportive returns

PEG Risk-Reward

Attractive Risk-Reward Driven by Positive Leverage to Several Themes



Source: Morgan Stanley Research, Thomson Reuters

Price Target $53

Derived from our base case and driven by a 2019e P/E for utility (PSE&G) and a DCF analysis for merchant power (PSEG Power). Our DCF assumes an ~8% WACC and a 3x terminal debt/EBITDA.

Bull $66

$19/share Power

19.2x $2.45 2019e Utility EPS

Power ($19): $3.25 LT natural gas and market gas basis. $242/MW-day EMAAC capacity price, $248/MW-day PS capacity price. ~$100mil annual benefit from BGS auction. Power price reform increases margin by $2/MWh, NJ ZECs implemented and generate $0.20 of EPS.
Utility/Parent ($47): 12% earned ROE and a 5% P/E Premium to peers. Adds $0.09 to 2019 earnings at PSE&G from program extensions and increased capex.

Base $53

$11/share Power 19.2x $2.16 2019e Utility EPS

Power ($11): $2.75 LT natural gas and ($0.25) negative gas basis in PJM. $225/MW-day EMAAC and PS zone capacity prices. ~$100mil annual benefit from BGS auction.
Utility/Parent ($42): ~11% earned ROE with a ~51% equity ratio and a 5% premium valuation multiple to peers due to above average growth.

Bear $43

$6.50/share Power 18.3x $1.98 2019e Utility EPS

Power ($6): $2.25 LT natural gas with zero gas basis in PJM. $100/MW-day EMAAC/MAAC and $150/MW-day PS capacity prices. ~$100mil annual benefit from BGS auction.
Utility/Parent ($36): 10% earned ROE with a ~51% equity ratio and in-line valuation multiple with peers.

- **Above-average utility growth through 2021.** We estimate 8.5% year-end rate base growth and 7.2% EPS growth for PSE&G in 2016-2021 based on significant transmission investment opportunities that yield above-average returns, and robust distribution system modernization spending. We do not expect the November 2017 distribution rate case to have a meaningful earnings impact.
- **Beneficiary of potential power market reforms.** We expect FERC and RTOs to address power market design changes that are constructive for baseload generation under guidance from the recently released Department of Energy study on electricity markets (details here). Each $1/MWh uplift to prices from market design changes would increase Power's EPS by $0.07, making it a key beneficiary.
- **Potential tax reform should boost earnings and cash flow**. Low levels of debt, meaningful non-utility earnings contribution from PSEG Power, and existing cash tax appetite make PEG a likely beneficiary of tax reform. If the corporate tax rate were to be reduced from 35% to 25%, this alone would be ~4% accretive to PEG earnings, and FFO would increase by ~2% on our estimates.
- **Power's valuation screens attractive, with an implied long-term capacity price of only $25/MW-d and a free cash flow to equity yield of ~25%.** We estimate that Power represents only ~10% of PEG's current market cap, implying an attractive valuation for the business. In order to make Power fairly valued at current levels, we estimate long-term PJM capacity would need to average $25/MW-d, a level we see as unrealistically bearish.

Potential Catalysts

- Changes in gas & power prices
- May 2018 PJM capacity auction.
- Tax reform. Lower corporate tax rates would benefit PEG.

- Use of balance sheet capacity through M&A or other growth investments
- Rate case submission in 2017

Risks to Achieving Price Target

- Decline in energy or capacity prices as the company's Power business is levered to commodity prices.
- Compression in utility multiples due to rising interest rates
- Unfavorable regulatory outcome in the 2017 rate case.

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(as of August 31, 2017)

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	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1164**	**36%**	**306**	**41%**	**26%**	**555**	**37%**
Equal-weight/Hold	**1425**	**44%**	**349**	**46%**	**24%**	**701**	**46%**
Not-Rated/Hold	**61**	**2%**	**6**	**1%**	**10%**	**10**	**1%**
Underweight/Sell	**606**	**19%**	**91**	**12%**	**15%**	**242**	**16%**
TOTAL	**3,256**		**752**			**1508**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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INDUSTRY COVERAGE: DIVERSIFIED UTILITIES / IPPS

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/20/2017)
Devin McDermott		
Dynegy Inc. (DYN.N)	O (04/20/2015)	$9.66
Public Service Enterprise Group Inc (PEG.N)	O (09/21/2017)	$45.23
Stephen C Byrd		
AES Corp. (AES.N)	E (05/22/2014)	$11.28
American Electric Power Co (AEP.N)	E (08/04/2014)	$71.68
Calpine Corp. (CPN.N)	E (02/05/2017)	$14.72
Dominion Resources Inc (D.N)	E (08/08/2016)	$77.62
Entergy Corp (ETR.N)	E (09/21/2017)	$77.80
Exelon Corp (EXC.N)	E (03/28/2017)	$36.91
FirstEnergy Corp (FE.N)	O (08/08/2016)	$31.19
NextEra Energy Inc (NEE.N)	O (07/22/2014)	$146.74
NRG Energy Inc (NRG.N)	++	$24.14

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

Forward Power Curves, GenCo MtM and Weekly Commentary

SECTOR: Power and Utilities

September 22, 2017

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Forward Power/Gas Curves – 09/21/17. Below, we provide estimated forward curves for power, heat rates, spark, dark, and quark spreads for peak, off-peak, and around-the-clock for various regions in the United States, broken down by each RTO/ISO in North America. In addition, we model forward gas, basis, as well as coal through the 2026 time frame.

Investors should use this link to open an Excel spreadsheet of various curves that can be used for power and utility models (click here to download our weekly price deck summary).

Forward Curve Weekly Highlights: Power and Heat Rates, for the week of 9/21 versus the prior week, **2018 national peak power prices** ($/MWh) were down 0.4% to $34.25 from $34.38 and around-the-clock power was down 0.4% to $29.59 from $29.72. Peak power in PJM was down 0.2% to $37.04 from $37.13; ERCOT was down 0.8% to $31.89 from $32.14; NE-ISO was down 0.5% to $44.20 from $44.45; NY-ISO was down 0.4% to $45.80 from $45.98; and MISO was down 0.3% to $34.59 from $34.68. **2018 peak heat rate (Btu/kWh) contractions**: 0.1% to 10,021 in NE-ISO. **2018 peak heat rate (Btu/kWh) expansions**: 2.3% to 12,063 in MISO, 1.2% to 10,804 in ERCOT, 0.8% to 11,758 in PJM, 0.4% to 11,496 in NYISO. See full price deck for additional details on various other curves and regions.

Forward Curve Weekly Highlights: Spark and Dark Spreads versus the prior week, **2018 Peak Spark Spreads** ($/MWh) in PJM were up 0.9% to $14.99 from $14.86; ERCOT was up 1.4% to $11.23 from $11.08; NE-ISO was down 0.8% to $13.33 from $13.43; NYISO was up 0.2% to $17.91 from $17.87; and MISO was up 3.0% to $14.52 from $14.09. **2018 Around-the-Clock Dark Spreads** ($/MWh) in PJM were down 0.2% to $24.92 from $24.97; ERCOT was down 1.3% to $20.01 from $20.27; NE-ISO was down 0.7% to $31.69 from $31.90; NYISO was down 1.0% to $31.68 from $32.01; and MISO was down 0.8% to $22.80 from $22.98.

Illustrative impact of marking our IPP and integrated utility models to the current forward curves versus published live estimates: PEG, FE, EXC, NRG, DYN, CPN and VST are lower overall. **See the next page for illustrative MtM implications on Guggenheim's IPP and Integrated Utility coverage throughout our forecast period.**

Natural Gas Storage Levels and Eastern Gas Basis Tracker, Gas in storage increased to 3,408 Bcf as of 09/15/2017 a weekly increase of 97 Bcf, resulting in storage 3.8 Bcf below one year ago, 2.0 Bcf above the five-year average for this week. Eastern gas basis (TETCO M3) is currently reflecting a discount to Henry Hub for 2017 and a premium from 2018 through 2020 (-$0.62/$0.11/$0.07/$0.07 for '17/'18/'19/'20), contracting since last week.

Continued on the next page…

Illustrative Impact: Marking IPPs and Integrated Utilities to 09/21 Forward Curves

Henry Hub Natural Gas Price		2017E	2018E	2019E	2020E
Live Estimates(1)	$ / MMBtu	3.11	2.99	2.85	2.84
Current Curves	$ / MMBtu	3.04	3.04	2.90	2.83
Delta		*(2.2%)*	*1.6%*	*1.9%*	*(0.0%)*

INTEGRATED UTILITIES / INDEPENDENT POWER PRODUCERS (IPPs)

Exelon (EXC)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	8,204	8,456	8,473	8,519
	EPS	2.71	2.93	2.89	2.87
Current curves	Adj. EBITDA	8,185	8,420	8,391	8,334
	EPS	2.69	2.90	2.84	2.80
Delta	*Adj. EBITDA*	*(0.2%)*	*(0.4%)*	*(1.0%)*	*(2.2%)*
	EPS	*(0.6%)*	*(0.8%)*	*(1.9%)*	*(2.5%)*

FirstEnergy (FE)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	4,150	4,291	4,345	4,428
	EPS	2.82	2.49	2.37	2.27
Current curves	Adj. EBITDA	4,146	4,324	4,328	4,342
	EPS	2.81	2.54	2.35	2.21
Delta	*Adj. EBITDA*	*(0.1%)*	*0.8%*	*(0.4%)*	*(2.0%)*
	EPS	*(0.1%)*	*1.8%*	*(1.0%)*	*(2.8%)*

PSEG (PEG)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	4,435	4,026	4,142	4,274
	EPS	2.94	2.90	2.93	3.00
Current curves	Adj. EBITDA	4,432	4,032	4,130	4,238
	EPS	2.93	2.91	2.92	2.97
Delta	*Adj. EBITDA*	*(0.1%)*	*0.2%*	*(0.3%)*	*(0.8%)*
	EPS	*(0.2%)*	*0.3%*	*(0.5%)*	*(1.2%)*

Calpine (CPN)		2017E	2018E	2019E	2020E
Live Estimates(2)	Adj. EBITDA	1,826	2,027	1,971	2,042
Current curves	Adj. EBITDA	1,821	2,014	1,969	2,061
Delta	*Adj. EBITDA*	*(0.3%)*	*(0.6%)*	*(0.1%)*	*0.9%*

NRG		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	2,613	2,881	3,183	3,146
Current curves	Adj. EBITDA	2,601	2,861	3,105	3,126
Delta	*Adj. EBITDA*	*(0.5%)*	*(0.7%)*	*(2.5%)*	*(0.7%)*

Dynegy (DYN)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	1,312	1,544	1,370	1,314
Current curves	Adj. EBITDA	1,291	1,525	1,336	1,264
Delta	*Adj. EBITDA*	*(1.5%)*	*(1.2%)*	*(2.5%)*	*(3.8%)*

Vistra (VST)		2017E	2018E	2019E	2020E
Live Estimates(3)	Adj. EBITDA	1,487	1,467	1,484	1,395
Current curves	Adj. EBITDA	1,497	1,442	1,498	1,375
Delta	*Adj. EBITDA*	*0.7%*	*(1.7%)*	*0.9%*	*(1.4%)*

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(1) Priced off June 29, 2017 forward curves.

(2) Priced off August 17, 2017 forward curves.

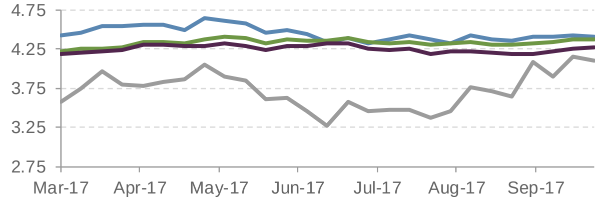
(3) Priced off August 24, 2017 forward curves.

Source: Guggenheim Securities, LLC estimates, ICE, Bentek Energy, NYMEX, ISO/RTO.

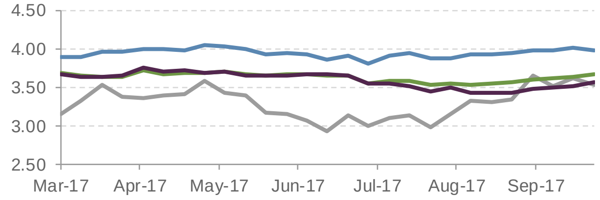
Gas Forward Curves 2017-2020

Rolling 6 months

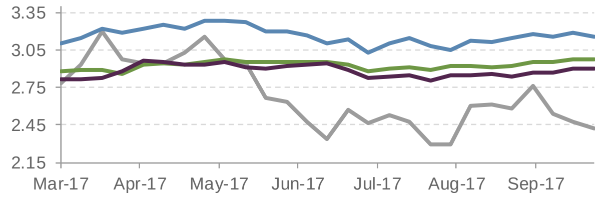
New England gas forwards ($/mmbtu)



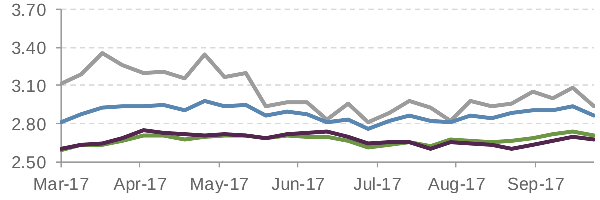
Greater New York gas forwards ($/mmbtu)



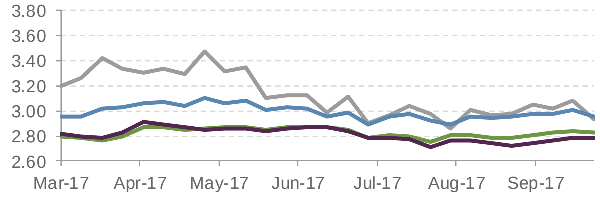
Penn/Jersey/Maryland gas forwards ($/mmbtu)



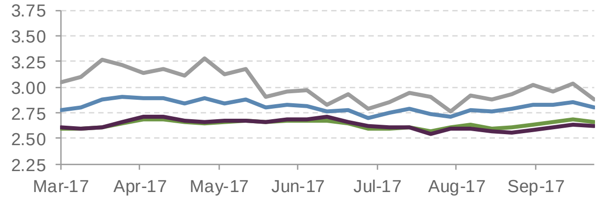
Illinois gas forwards ($/mmbtu)



Texas gas forwards ($/mmbtu)

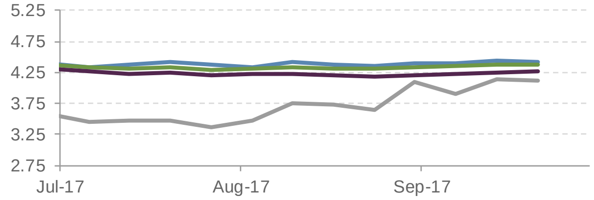


So Cal gas forwards ($/mmbtu)

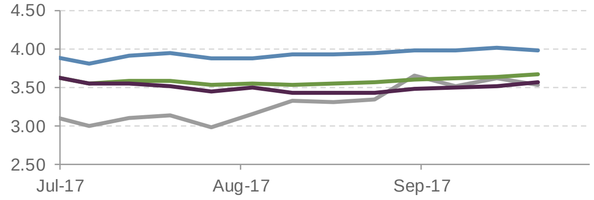


Quarter-to-date

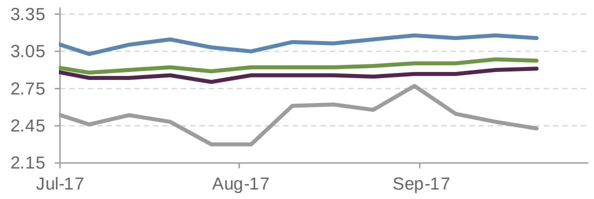
New England gas forwards ($/mmbtu)



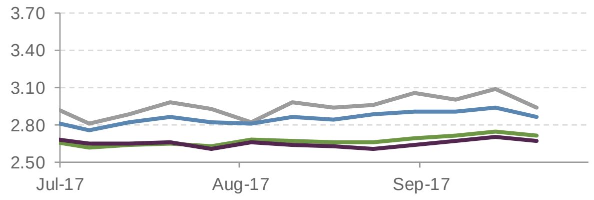
Greater New York gas forwards ($/mmbtu)



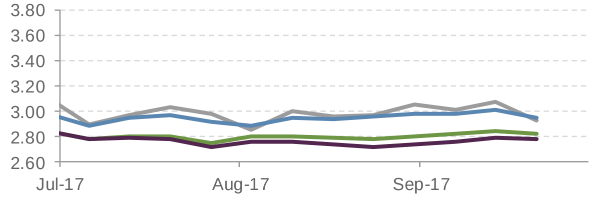
Penn/Jersey/Maryland gas forwards ($/mmbtu)



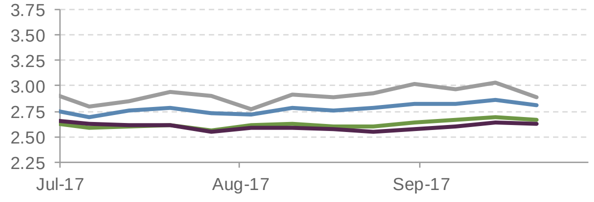
Illinois gas forwards ($/mmbtu)



Texas gas forwards ($/mmbtu)



So Cal gas forwards ($/mmbtu)

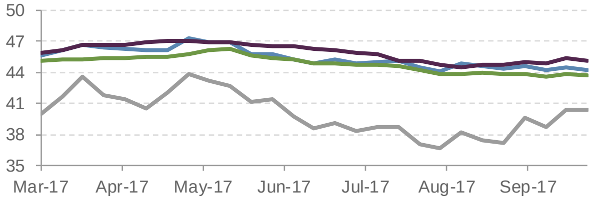


Source: ICE, Bentek, Guggenheim Securities, LLC.

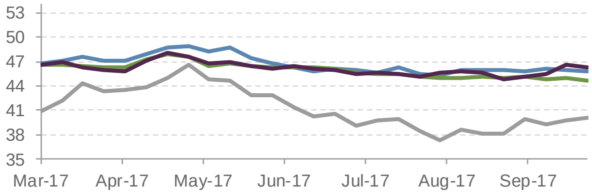
Power Forward Curves 2017-2020

Rolling 6 months

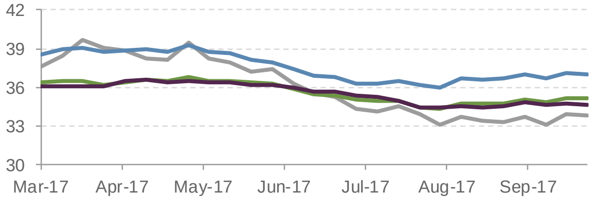
New England power forwards ($/MWh)



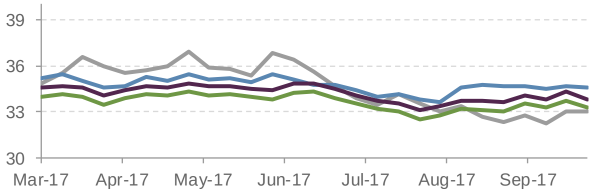
Greater New York power forwards ($/MWh)



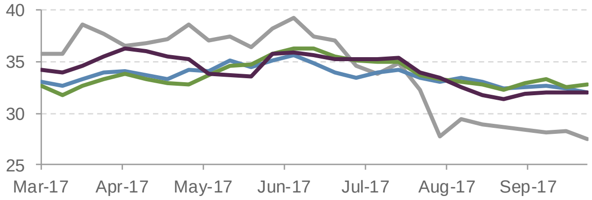
PJM power forwards ($/MWh)



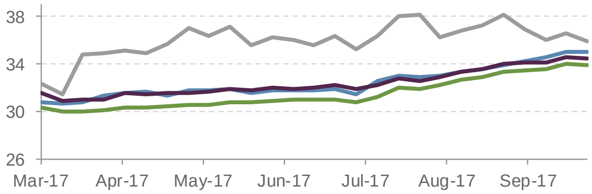
Illinois power forwards ($/MWh)



Texas power forwards ($/MWh)

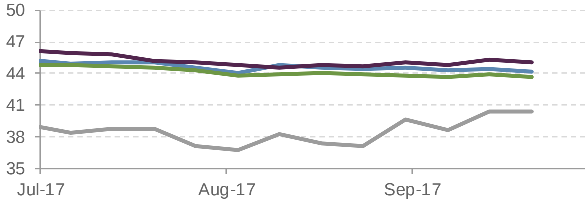


So Cal * power forwards ($/MWh)

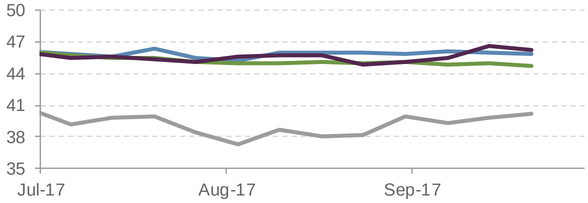


Quarter-to-date

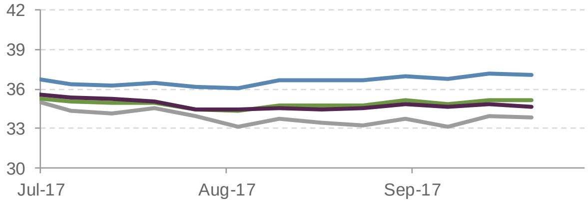
New England power forwards ($/MWh)



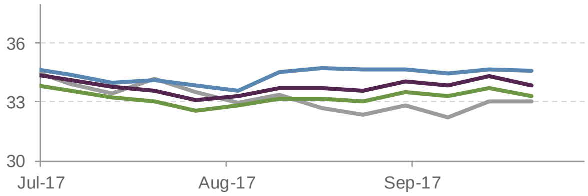
Greater New York power forwards ($/MWh)



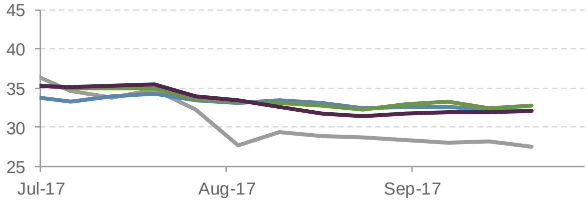
PJM power forwards ($/MWh)



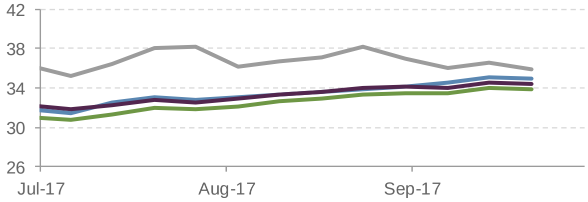
Illinois power forwards ($/MWh)



Texas power forwards ($/MWh)



So Cal * power forwards ($/MWh)

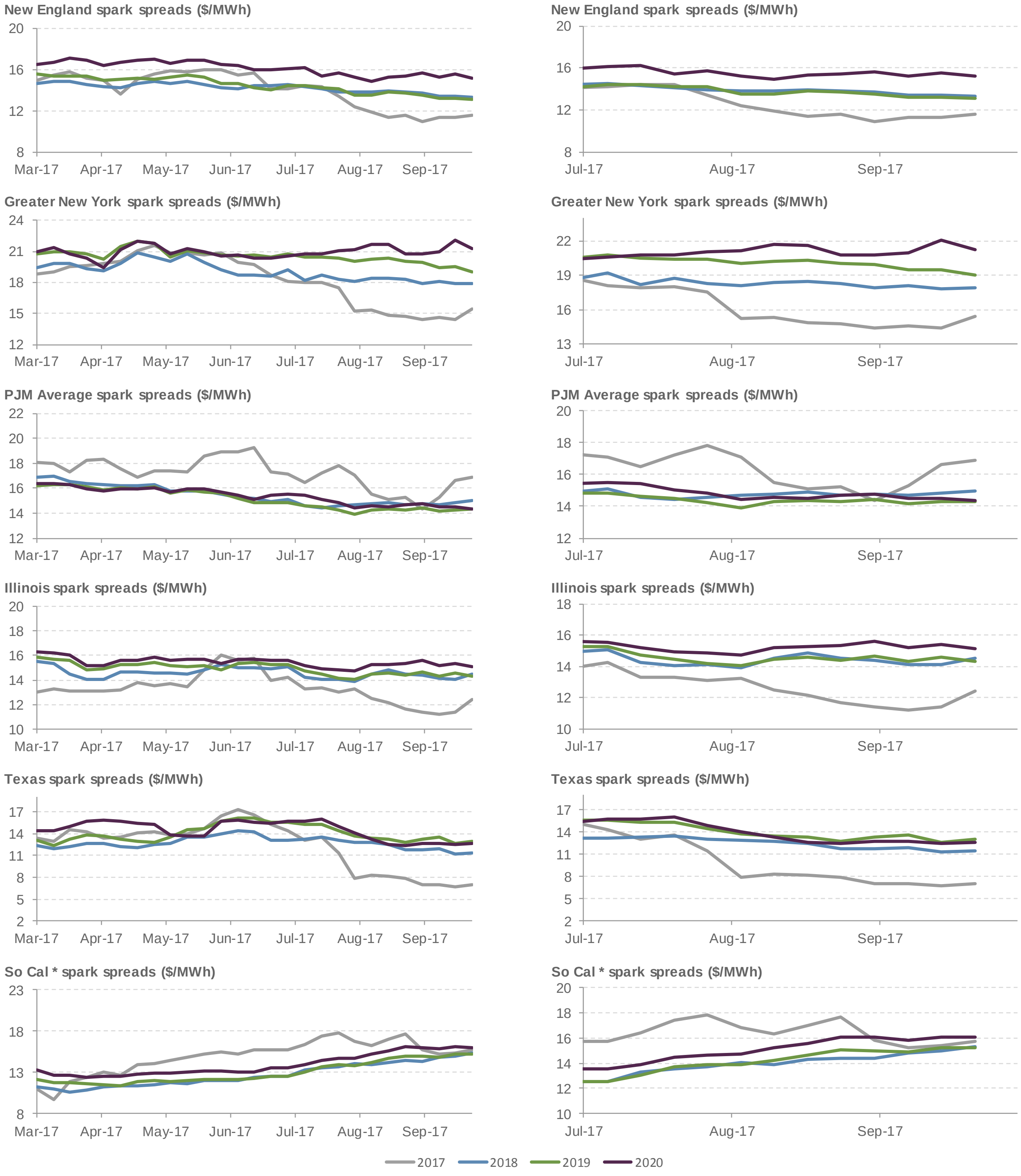


2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward Spark Spreads 2017-2020

Rolling 6 months **Quarter-to-date**

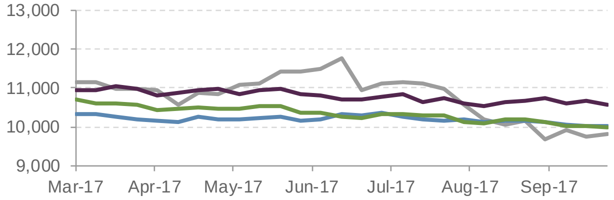


Source: ICE, Bentek, Guggenheim Securities, LLC

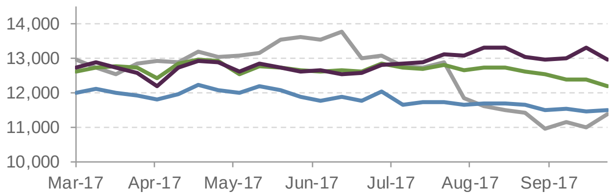
Forward Heat Rate 2017-2020

Rolling 6 months

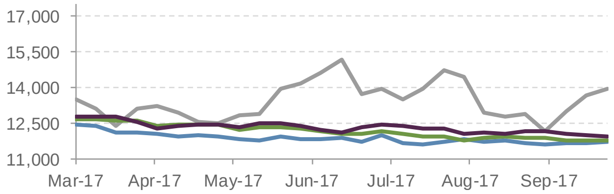
New England heat rate (Btu/kWh)



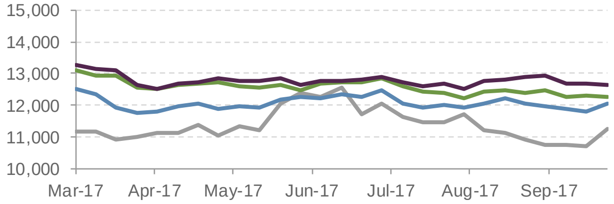
Greater New York heat rate (Btu/kWh)



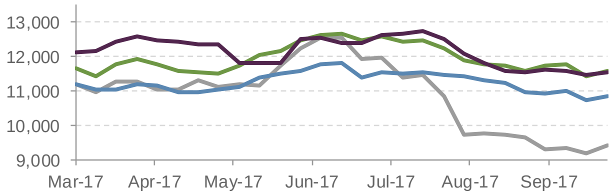
PJM Average heat rate (Btu/kWh)



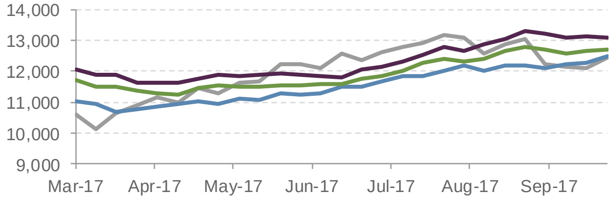
Illinois heat rate (Btu/kWh)



TX Average heat rate (Btu/kWh)

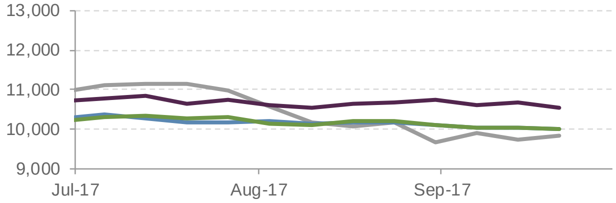


So Cal * heat rate (Btu/kWh)

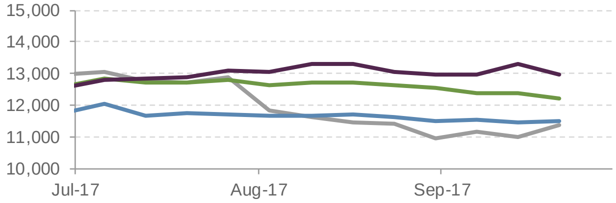


Quarter-to-date

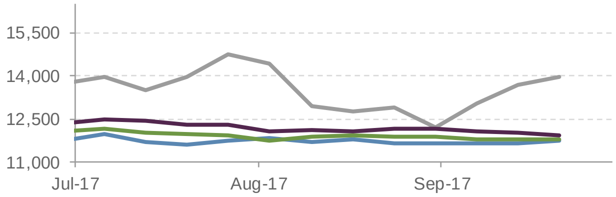
New England heat rate (Btu/kWh)



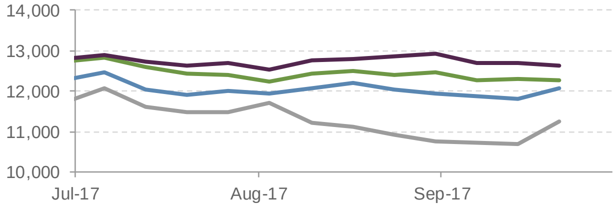
Greater New York heat rate (Btu/kWh)



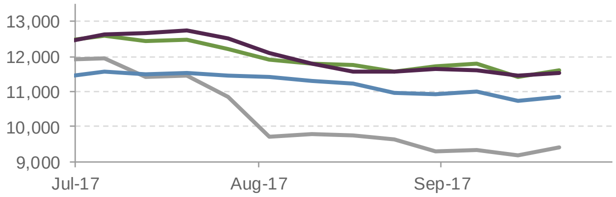
PJM Average heat rate (Btu/kWh)



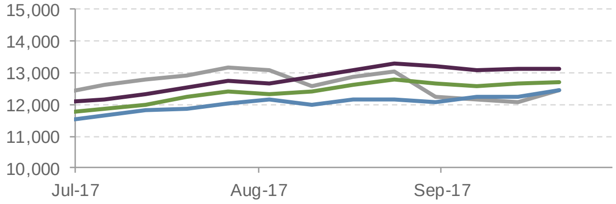
Illinois heat rate (Btu/kWh)



TX Average heat rate (Btu/kWh)



So Cal * heat rate (Btu/kWh)

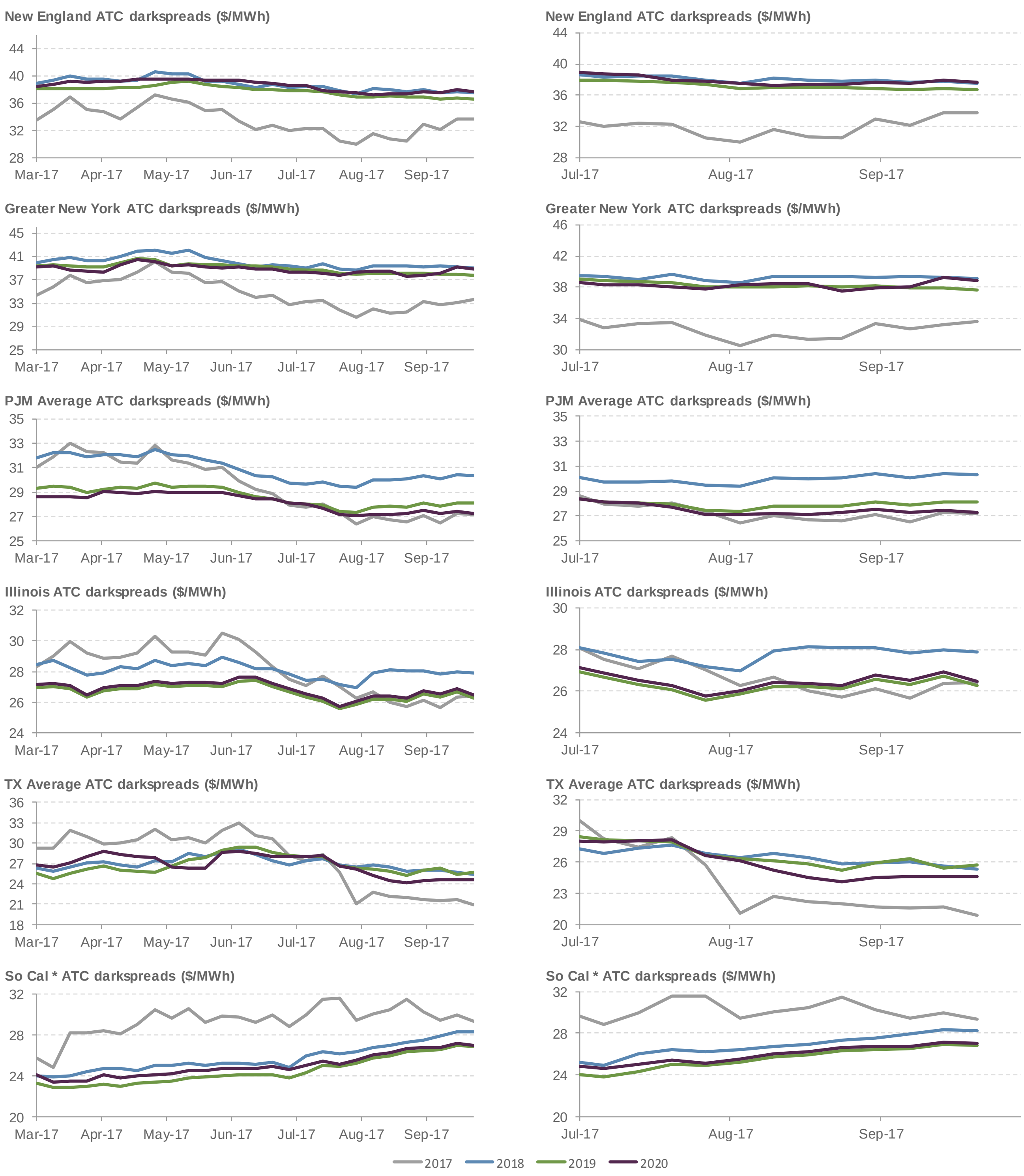


2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC

Forward 2017-2020 ATC PRB Dark Spreads

Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC

Ticker	Rating	Share Price (previous close)
CPN	NEUTRAL	$14.69
DYN	BUY	$9.76
EXC	BUY	$37.15
FE	BUY	$31.15
NRG	BUY	$24.19
PEG	BUY	$46.22
VST	BUY	$18.16

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
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Neutral	121	38.78%	11	9.09%
Sell	2	0.64%	0	0.00%

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September 22, 2017 | Equity Research

Utility Figure Of The Week

Coal Heavy Fleets Offer Replacement (Growth) Opportunities

Top Coal Footprints As % Of Total Regulated Generation

Utilities

- Please see Figure on Page 2

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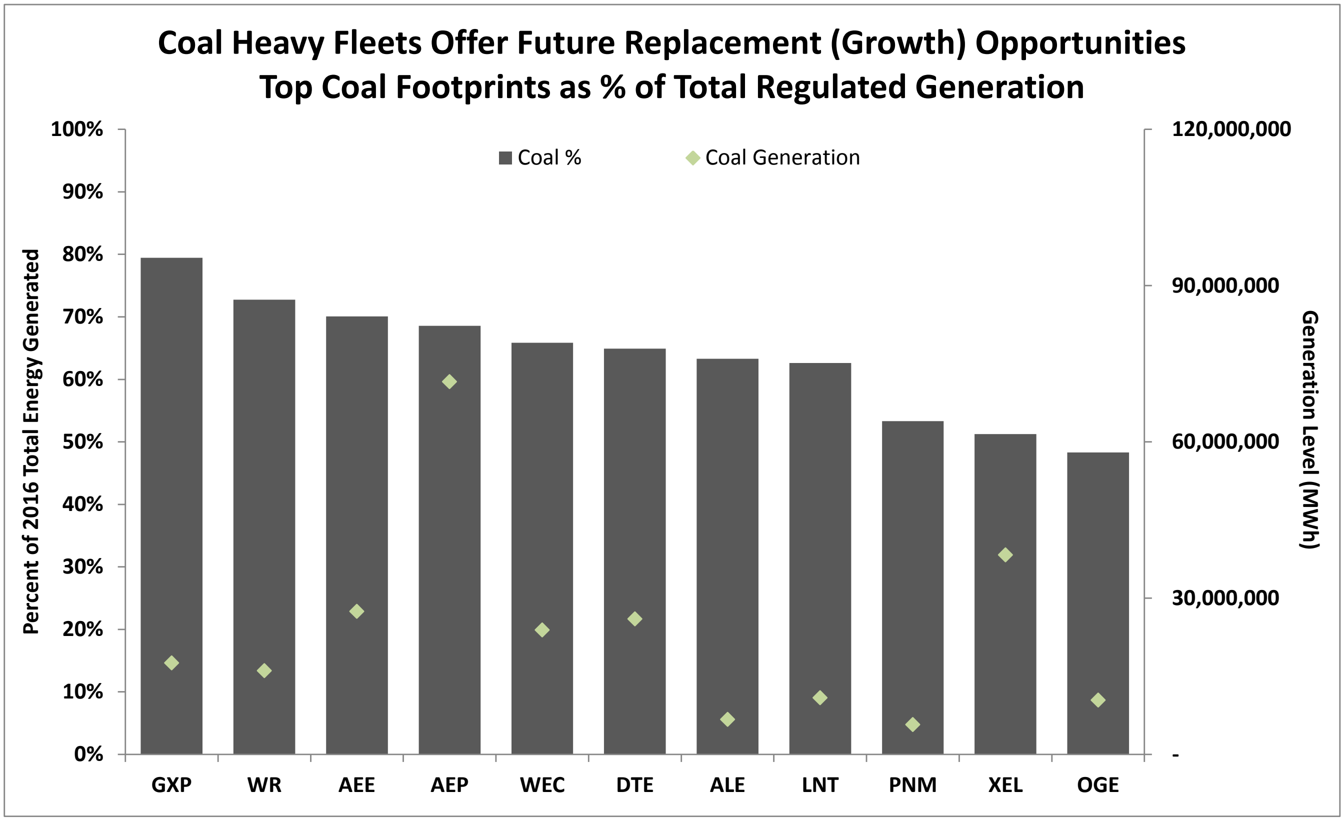

Coal Heavy Fleets Offer Future Replacement (Growth) Opportunities
Top Coal Footprints as % of Total Regulated Generation

Note: Does not include purchased power; owned regulated generation only
Excludes companies that generate less than 50% of consolidated earnings from vertically-integrated electric utility operations
Source: Wells Fargo Securities, LLC and SNL Financial LC
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WEEKLY ANALYSIS

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Things We've Learned This Week

Feedback from our initiations of VST and PNW: On VST (Outperform; TP $20), investors are focused on a potential deal with DYN. In a companion note, we enhance our analysis based on a more forward 2020 earnings in order to capture two factors: (1) falling capacity revenues at DYN, and (2) DYN's PRIDE program savings, for which the company guides to $200M in 2017/18. We continue to illustrate that significant synergies/savings >$200M would need to be generated to accrete $1-$2/sh value for VST at typical control premiums, which VST management considers to be in the range of 25%-30% vs an "unaffected" stock price. Furthermore, VST's balance sheet would quickly shift from the best to among the most levered IPPs, although cash from operations and asset sales could presumably repair that back to a targeted ~3.0x in a few years (leaving room for additional opportunities). Our understanding is that management sees potential value in a transaction, while private equity (PE) on the Board has been more cautious and less eager to stretch the balance sheet (placing lower-tier debt even more at risk) on a possibly risky expansion outside of Texas so soon after emerging from bankruptcy. On the other hand, the increased liquidity for shares of a combined company might be attractive to PE with 8-10 year vintages coming due soon. In our view, a merger with DYN poses significant risks with years to recover the balance sheet, although we would acknowledge VST's experienced management team. We also estimate DYN's NOLs could add up to another $2 of present value, but the ability to preserve benefits in a transaction is unclear at this time.

On PNW (Neutral; TP $90), investors are watching for 2018 guidance. As many saw last year's 2017 guidance initiation as a disappointment, there is some concern given PNW currently trades at a 4% premium 2019 P/E, with little upside to our $90 Target Price. We expect to provide a more granular view of 2018 guidance with our forthcoming 3Q earnings preview.

Other stocks of interest lately: We sense increasing long interest from investors in SO (Neutral; TP $50) ahead of the first expected $300M payment from Toshiba in Oct. The possibility of SO eventually presenting a comprehensive grid modernization plan (as peers DUK and D have done) has drawn some interest. CMS (Outperform; TP $50) received a negative order on securitization of a payment to Entergy for the Palisades contract, but we see minimal impact to valuation ahead of Monday's analyst day.

- **EEI Financial Conference 2017 Meetings Signup Now Open**: Please join us in Orlando 11/5-11/7 as we host 24 management meetings and a takeaways dinner on 11/7: *WEC, NI, BKH, AVA, ED, DUK (dinner), DTE, AEP, EXC, NEE, NWE, ES, EIX, D, SRE, CMS, CNP, PNW, XEL, PPL, PEG, PCG, SO, ETR.*

Figure 1: CS Utilities Catalyst Calendar – 2017

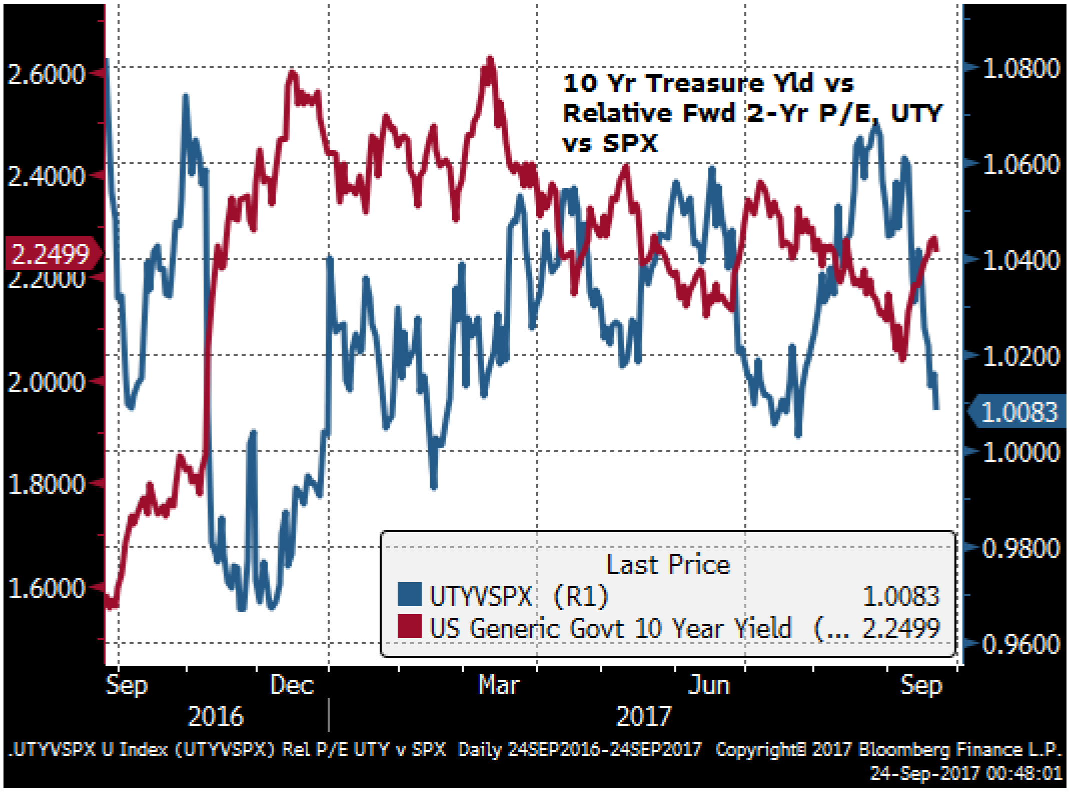
Company	Ticker	Description	Timing	Comments
Eversource	ES	ISO-NE Midyear Analysis, expected to support ANE	Mid-2017	
Centerpoint	CNP	Decision in OK PBR Proceeding	September, 2017	
Eversource	ES	Northern Pass NHSEC Decision	9/30/2017	Decision postponed six months to March 2018
Southern	SO	DOE additional loan request for Vogtle Plant	September, 2017	"By End of Sept" - Oglethorpe investor call
DTE Energy	DTE	Possible PSC Decision on Interim Rates in Electric ratecase	10/13/2017	Docket No. C-U-18255
Duke Energy	DUK	Piedmont Natural Gas (PNG) ratecase settlement	10/15/2017	Decision required by PSC
Spire	SR	Rebuttal Testimony on Revenue Requirement in Ratecase	10/17/2017	for MGE and Laclede gas
Exelon	EXC	ALJ proposed order in FRP case	10/19/2017	
Eversource	ES	CT draft decision on Aquarion for ES	10/27/2017	Draft decision due
Eversource	ES	CT final decision on Aquarion for ES	10/27/2017	Decision due
Duke Energy	DUK	Settled outcome for DEP rate request	October, 2017	DEP outcome expected Oct/Nov
Dominion	D	Rider BW, U-2 filing	October, 2017	
Spire	SR	Mobile Gas 4-year review of RSE Filing	October, 2017	
ALL Regulateds		FOMC October/November Meeting	11/1/2017	
ALL Utilities		EEI Financial Conference	11/5/2017	*Capex/Guidance Updates*
NiSource		Columbia Gas of MD ratecase - final decision	11/5/2017	final order due
Pinnacle West	PNW	2018 EPS Guidance	3Q17	On the 3Q Call
Duke Energy	DUK	Lee CCGT Completion	November, 2017	
Spire	SR	STL Pipeline Milestone; FERC Final Order	November, 2017	
Eversource	ES	WMECO and NSTAR Electric Ratecase Decisions	November, 2017	decision in Nov, rate design in Dec
ALL Regulateds		FOMC December Meeting	12/13/2017	
Dominion	D	Cove Point In-Service	2H17	on-line in late 2017
Black Hills Corp	BKH	Sale of Non-Core Oil and Gas Properties Completed	2H17	Complete by YE
Northwestern Corp	NWE	Colstrip Litigation Resolution	2H17	Expected 'end of year'
Northwestern Corp	NWE	FERC/DGGS Resolution	2H17	Second half at the earliest'
Southern Company	SO	Mississippi PSC decision on Kemper Settlement	4Q17	If approved, SO expects additional cost of $100-200M
Black Hills Corp	BKH	Renewable RFP Issuance - Approval at year-end	4Q17	Issued June 23rd, up to 60 MW
Southern	SO	Sanmen (China) AP1000 Reactor - Fuel Loaded	4Q17	previously at some point in the summer
DTE Energy	DTE	NEXUS Pipeline completed	4Q17	Before year end, early approval late Aug
All Solar		Trump to decide solar import duty under 201 trade case	Nov-Dec, 2017	60 days approval period starting Nov 11
Spire	SR	Missouri PSC - Commissioner Stoll Term Expires	December, 2017	(D)
Exelon	EXC	Deadline for Decision in FRP proceeding	December, 2017	
Eversource	ES	PSNH Generation Divestiture	2017	Late-2017
Eversource	ES	Aquarion transaction expected close date	2017	Expected to close by 12/31
Eversource	ES	Massachusetts Solar Filing Facility Completion	2017	YE 2017
Black Hills Corp	BKH	Colorado IRP Approval	2017	Expected by YE
Black Hills Corp	BKH	IRP for South Dakota and Wyoming	2017	
DTE Energy	DTE	IRP Filing in Michigan	2017	"later this year", 4q16 call
Southern	SO	Final Decision in Kemper Proceeding	January, 2018	Decision postponed to January 2018
Black Hills Corp	BKH	Cost of Service Gas Filing	January, 2018	Previously 1H17, 2Q/3Q17
Dominion	D	Millstone study order results	February, 2018	Millstone study order on 7/25, results due Feb. 2018
Southern	SO	PSC final decision on Vogtle	February, 2018	Expected Feb 2018
Spire	SR	Spire Missouri and MGE ratecase decisions	March, 2018	Expected by March 8th 2018
Duke Energy	DUK	Duke Energy Kentucky Ratecase Expected Decision	April, 2018	Expected April 2018

Source: Company data, Credit Suisse estimates

- **FOMC September Meeting.** Credit Suisse US Economics Team Takeaway/Excerpts from their 9/20 note:
  - "US Economics Comment: FOMC – Untroubled by low inflation, Fed is set to hike rates in December. The Federal Open Market Committee kept rates unchanged at their September meeting, but announced that they would begin implementing their balance sheet normalization program in October"
  - "The steadiness of near-term rate projections suggests that the committee remains determined to hike rates once more this year despite some deterioration in the inflation outlook. We continue to expect another rate hike in December and two more in 2018."
- **Utilities still underperforming in September after strong July/Aug.** Group performance vs the S&P 500 appears to have waned this month as the 10-Year Treasury yield picked up 15 bps in what has been a longer-term downward trend since March. Even at record high P/Es, the utility sector continues to trade in strong correlation to the 10-year bond. We illustrate in the correlation tables below that historical association would suggest that the sector is now **about 1% cheap** at the current 1% premium P/E vs the S&P

500 based on the CS forecast for a 2.8% yield by yearend. **Despite the downdraft in recent weeks, we continue to see the sector as more or less fairly valued vs the broader market, buttressed by a low-yield environment.**

Figure 2: 10-Year Treasury Yield vs. Utilities / SPX Relative Performance



Source: the BLOOMBERG PROFESSIONAL™ service

- **Hasta la vista, NEE Termination Fee Terminated**. On Sept. 19th, federal bankruptcy court judge Christopher Sontchi ruled that he made an error in approving the $275M termination fee associated with NextEra Energy's (NEE) failed acquisition of Energy Future Holding's (EFH) Oncor business. Judge Sontchi stated that he "would not have approved" the fee if he knew NEE could collect despite regulator's objections to the deal and as a result would reconsider the breakup fee order. With the court ruling dismissing the breakup fee, creditors of EFH may collect more money.
  - ***From our 9/8 weekly*: Third time's the charm, now can I get an Oncor?** Sempra Energy's (SRE) $9.45B cash bid to acquire Energy Future Holdings (EFH) and its 80% ownership interest in Dallas-area utility Oncor has taken the first step forward, receiving approval from bankruptcy court. The $9.45B offer will be financed with $3B of debt issued by a new holding company to ringfence Oncor from EFH's bankruptcy, with the remaining $6.45B funded 60% by SRE and 40% from currently undisclosed third party investors. This structure would give SRE an initial 48% ownership and the third party investors a 32% ownership, with SRE ultimately purchasing the 32% ownership. The next step is approval by the Public Utility Commission of Texas (PUCT), with Oncor and SRE expected to file a joint application in October.

Recall that the previous two offers made by Hunt Consolidated and NextEra Energy (NEE) fell through due to PUCT concerns regarding commitments related to infrastructure improvements and customer benefits, retention of existing strict ringfencing provisions, and independence of the utility over dividend payments, investment decision, and board members. In contrast, SRE indicated a commitment to meeting these conditions that had led to the demise of the previous transactions.

- **So it continues.** SCG was issued a subpoena to hand over documents related to the VC Summer expansion by the US District Attorney's Office for the District of South Carolina after an audit report released to Governor McMaster raised questions on how long SCG and Santee Cooper knew about issues with the plant.
    - **Newly released audit report bears more woes for VC Summer owners.** An audit report prepared in February 2016, which owners SCG and Santee Cooper previously claimed they did not have access to, was released to South Carolina Governor McMaster on Labor Day. The report warned that the development of the two reactors was not likely to be successful, highlighting multiple problems, including lack of a detailed construction schedule, the reactor design being "often not constructible", and contractor Westinghouse not being "commercially motivated" to finish the project. The report came ~1.5 years before the project was scrapped in late July 2017, and three months before regulators were asked for an $800M increase for the budget.
- **DUK charging up with plans to build first utility-scale and ratebased battery storage projects.** On Sept 21st, Duke Energy (DUK) announced plans to spend $30M by early 2019 to install North Carolina's two largest and first utility-scale battery storage systems. The battery storage projects will also be the first to be included in any utilities' rate base. The planned 9MW system in Asheville and 4MW system in Madison County (with a solar facility in conjunction under consideration) will be the first of several that DUK has planned from 2019-2021. Further details will be available when DUK files with the state utility commission in early 2018. The projects are expected to come online in 2019 as part of the company's $1B Western Carolinas Modernization Plan, which includes a $750M 560MW natural gas plant in Asheville to replace an existing coal plant. The systems will be utilized to serve remote areas, where extra resources are needed to support existing infrastructure, by providing improved grid reliability, through frequency regulation and other grid support services.
- **New bottle, new wine.** Media reports that the EPA might replace, instead of repealing, the clean power plan (CPP) with new rules with less stringent carbon emission requirements. The new direction is likely driven by fossil fuel businesses that prefer regulatory certainty for prices of carbon and emission levels, and also to legal and populistic support for emission reductions.
- **Calpine acquisition heads to FERC.** Energy Capital Partners (ECP) and Calpine Corp. filed an application with FERC on Sept 15th seeking approval for the $5.6B cash acquisition. FERC is asked to approve the proposal by mid-January 2018.
- **FERC Almost a Full House – McIntrye and Glick advance.** On Sept 19th, the Senate Energy and Natural Resources Committee approved the President's two FERC nominees, Kevin McIntrye (R) and Richard Glick (D). The nominees will next the full Senate for a confirmation vote. McIntrye is

expected to be named FERC's chairman if he is confirmed, replacing commissioner Neil Chatterjee (R), who is currently serving as chairman. Robert Powelson (R) was confirmed last month joining Chatterjee and Cheryl LaFleur (D). McIntrye and Glick are expected to be confirmed in the full Senate.

  - ***From our 8/11 weekly*: Officially In – Chatterjee and Powelson officially sworn in to FERC.** On Tuesday (8/8), Neil Chatterjee was officially sworn in to FERC to fill previous Commissioner Tony Clark's seat for a term expiring on June 30, 2021. Robert Powelson was officially sworn in on Thursday (8/10) and his term. Powelson stated "I start on Monday [8/14]…There are $80B of projects that need to be reviewed. The agency basically grounded to a halt."
  - ***From our 8/4 weekly*: Turn the music up – The pipeline party is back on.** On August 3rd the Senate confirmed Neil Chatterjee (R) and Robert Powelson (R) to FERC, restoring a quorum. The two remaining FERC nominations, for Richard Glick (D) and Kevin McIntyre (R), were moved to the Senate on August 2nd, the Senate Energy and Natural Resources committee will hold a hearing on the nominations on September 7th. This news comes as a relief to utilities with key pending pipeline approvals at FERC (within our coverage) – **D, DTE, DUK, SO, SR**.

- **PCG and nuclear supporters clash over plant closure plan.** Earlier this summer, Pacific Gas and Electric (PCG) announced its plan to close the 2240-MW Diablo Canyon nuclear plant after 2025, citing cost as the main factor, intending to replace it with a combination of renewables and energy efficiency. Among those against the plan include local mayors within the county the plant is located in and nuclear supporters, such as the Environmental Progress group. On Sept 15th, Environmental Progress filed for rejection of the plan with the California Public Utilities Commission (CPUC), claiming that PCG overestimated costs of complying with the state's once-through-cooling (OTC) regulations. PCG has stated that "there is no merit to Environmental Progress' claims regarding" cost estimates, and will file reply comments by Sept 26th.
- **NEER transmission transfer with FERC approval.** On Sept. 20th, FERC approved a request by NextEra Energy Resources (NEER) to sell its stake in a 240-kV 46-mile Sagebrush transmission line in California to Terra-Gen Power Holdings. Following the sale, Terra-Gen will own a combined ~75% interest in the transmission line, which connects several generators to the Edison International subsidiary, Southern California Edison's (SCE) transmission system.
- **El Paso Electric ratecase settlement.** On Sept 20th, the city of El Paso approved a settlement in the El Paso Electric's (EE) pending rate case before the Public Utility Commission of Texas (PUCT). The settlement authorized a $14.5M rate increase at a 9.65% ROE, a provision for recovery of ~$3M in ratecase costs through a separate surcharge over a three-year period, and recovery of $2.1M annually of nuclear decommissioning funding. The settlement also includes baseline revenue requirements for T&D allowing EE to file with the PUCT to adjust rates periodically. The terms also specify that residential customers with distributed generation that request interconnection after the PUC issues a final order for the ratecase must pay a fixed monthly charge of $30. EE initially requested a $42.5M rate increase at a 10.5% ROE, 48.35% equity ratio, and a $1.694B ratebase.
- **Columbia Gas of Maryland ratecase approved.** On Sept 19th, the Maryland Public Service Commission (PSC) approved a rate settlement for Columbia

Gas of Maryland (CGM), a subsidiary of NiSource (NI), authorizing a $2.4M rate increase at a 9.7% ROE. CGM initially filed for a $6M rate increase at a 10.9% ROE, 52.37% equity ratio, and a $97.7M ratebase.

- **Avista Corp. ratecase approved.** On Sept 20th, the Oregon Public Utility Commission (PUC) authorized a $3.5M rate increase at a 9.4% ROE, 50% equity ratio, and a $229.9M ratebase for Avista after adopting a settlement. The settlement specifies that the rates will be increased for residential and general service customers only. Avista initially filed for an $8.5M rate increase at a 9.9% ROE, 50% equity ratio, and a $243.4M rate base.
- **Portland General Electric ratecase settlement.** On Sept. 18th, the Oregon Public Utility Commission (PUC) staff and Portland General Electric (POR) reached a settlement in the company's pending rate case. The settlement authorized a $32M rate increase at a 9.5% ROE, 50% equity ratio, and a $4.506B ratebase. POR initially filed for a $99.9M rate increase, at a 9.75% ROE, 50% equity ratio, and a $4.594B ratebase.
- **Subsector relative performance.** The subsector breakout below shows that the Integrated names exposed to weakening and backwardated commodity pricing have weakened in recent weeks with investors preferring small/mid-cap regulated utilities instead. Meanwhile, gas utilities have plateaued this month after strong outperformance over the summer.

Figure 3: Utility Subsector Relative Performance

Source: the BLOOMBERG PROFESSIONAL™ service

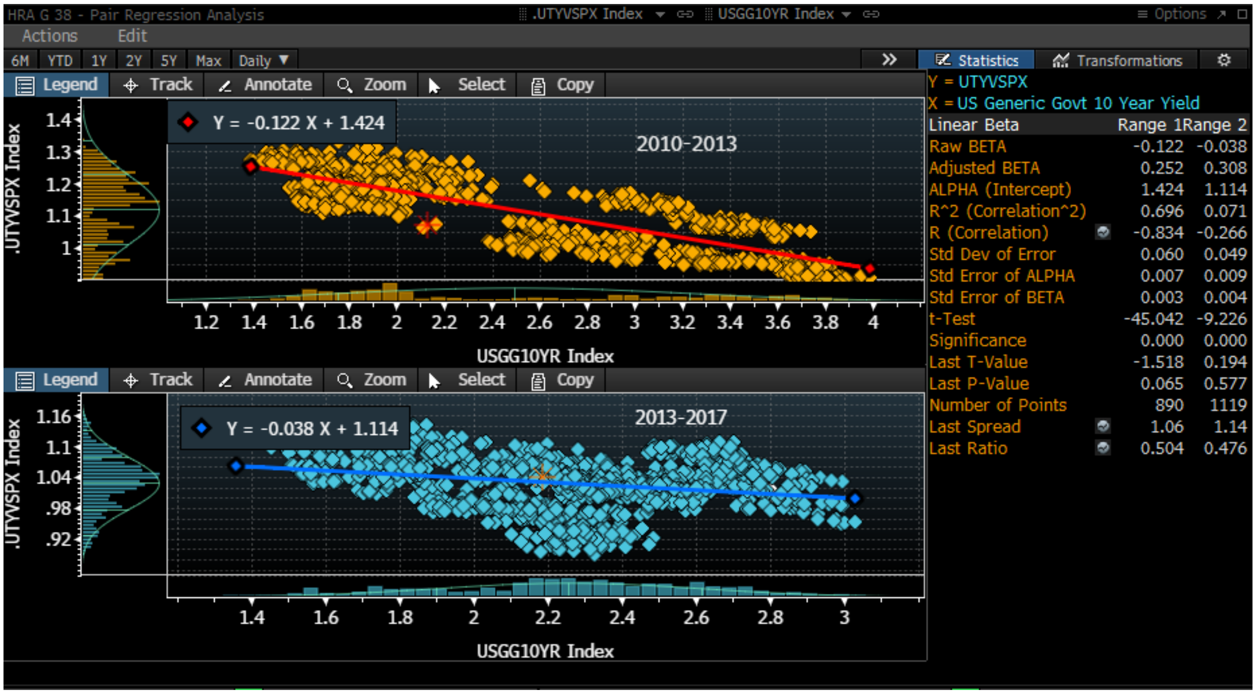
Yield spreads stay steady after all. The spread between dividend yields and 10-year bond yields remains around 121 bps despite a temporary dip earlier this month to ~130 bps. Historically (pre-2008), this spread has been closer to zero, so the spread continues to suggest defensive yield support for utility sector P/Es. There is usually a high degree of correlation between the 10-year yield and the premium/discount P/E that utilities trade at vs. the S&P 500. This spread acts as a sort of shock absorber, reducing the "control" rates should have over utility valuation if rates begin to rise sustainably. As the Fed gets closer to finalizing its tightening cycle over the next couple of years, longer-duration bond yields should begin to rise as the yield curve steepens. Once over ~4% yield for the 10-Year, we would expect a return to a more historically "normal" relationship between utility equities and bonds (i.e., no spread between the 10-year and dividend yields and utilities trading at about 70%-80% of the S&P 500 forward P/E).

Figure 4: Spread Between Utility Dividend Yield and 10-Year Treasury Bond Yield

Source: the BLOOMBERG PROFESSIONAL™ service

For now, historical correlation as illustrated below suggests utilities are about 1% undervalued at a 1% relative premium forward P/E vs the S&P 500 based on the CS forecast for a 2.8% 10-year yield by yearend 2017. Note the weaker 0.07 correlation for 2013 – 2017 vs. 0.7 stronger correlation from 2010 – 2013, a phenomenon that we attribute, in part, to the spread between bond yields and dividend yields that has persisted through the recent period of unusually low interest rates.

Figure 5: Correlation between Utility P/E Premium/Discount and the 10-Yr Treasury, 2010-2013 vs. 2013-2017



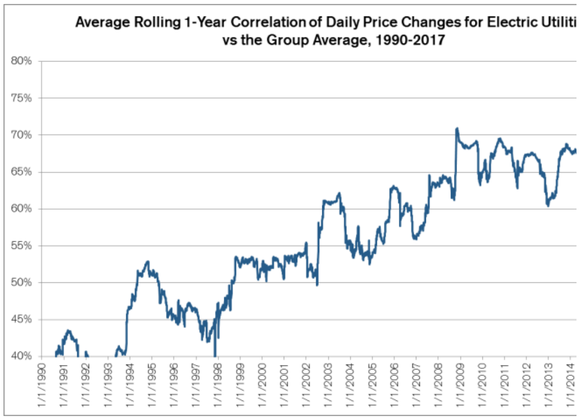
Y = UTYVSPX
X = US Generic Govt 10 Year Yield

Linear Beta	Range 1	Range 2
Raw BETA	-0.122	-0.038
Adjusted BETA	0.252	0.308
ALPHA (Intercept)	1.424	1.114
R^2 (Correlation^2)	0.696	0.071
R (Correlation)	-0.834	-0.266
Std Dev of Error	0.060	0.049
Std Error of ALPHA	0.007	0.009
Std Error of BETA	0.003	0.004
t-Test	-45.042	-9.226
Significance	0.000	0.000
Last T-Value	-1.518	0.194
Last P-Value	0.065	0.577
Number of Points	890	1119
Last Spread	1.06	1.14
Last Ratio	0.504	0.476

Source: the BLOOMBERG PROFESSIONAL™ service

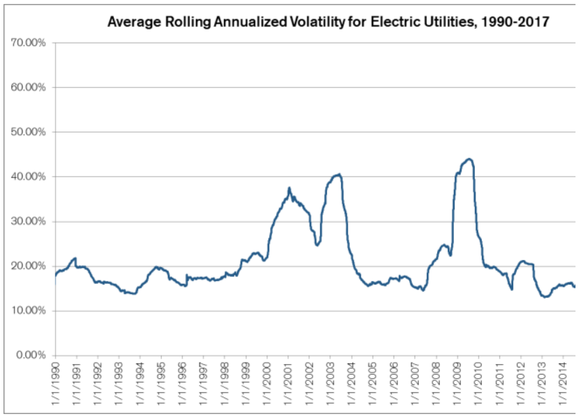
The next two charts illustrate the increasing correlation between utility stock movements since 1990 (an average of each stock's correlation vs the group average daily movement), even while annualized volatility has remained fairly steady aside from recessionary spikes in 2001-2003 and 2007-2010. We see this largely as a symptom of increased programmatic trading and the popularity of Exchange Traded Funds (ETFs), with higher correlations making it tougher on market/beta-neutral strategies typically run by sector-focused hedge funds.

Figure 6: Average Rolling 1-Year Correlation of Daily Price Changes for Electric Utilities vs the Group Average, 1990-2017



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Figure 7: Average Rolling Annualized Volatility for Electric Utilities, 1990-2017



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Recent Excerpts:

- **CMS: Palisades Remains Perched**: **Early shutdown for Palisades nuclear apparently thwarted. The** MI PSC issued a final order for only $136.7M vs CMS's request for securitization of $184.6M (including $172M payment to Palisades' owner ETR) for the early termination of the Palisades purchase power contract (PPA) that currently goes through May 2022. At this time, we do not believe that this will satisfy CMS, with the status quo for continuation of the PPA through 2022 the most likely outcome. While Staff opposed the full $172M payment on various grounds including estimates of cost savings and concerns over fuel diversity and reliability, both the Attorney General and consumer advocacy group, ABATE, supported CMS's request. It is unclear what recourse for appeal may exist at this time, but we note that Entergy is facing a 9/30 refueling decision. Our estimates and TP remain unchanged at this time.
    - **See minimal pressure to the upside for the 10-year capital forecast.** The current capital forecast through 2027 remains $18B, with $7B of possible upside, including gas infrastructure ($500M), grid modernization ($750M), and replacements for Palisades/MCV PPAs (~$3.5B). An early 2018 retirement of Palisades may have accelerated ~$500M of ratebase opportunity (e.g. possible ratebasing of DIG); a delay of four years would reduce valuation by $0.40, however, we did not give any credit for acceleration in our current target price. Rather, our $50 TP assumes 20% probability of $7B upside spread through 2027. Also we note that future capacity contract opportunities for DIG may lie in the $4.50-7.50/kW-mo range, or about $55M-$75M/yr for ~600-700 MW of uncontracted capacity after 2019
- **VST: Power to the People; Initiate at Outperform:** **Retail + Wholesale works in Texas:** We initiate unregulated power generator and retailer VST at Outperform with a $20 Target Price and 12% upside. Although some of VST's coal-fired power plants have been struggling with weak pricing in the fully deregulated Texas electricity market, we see the business as favorably balanced and supported by a high-margin retailing business that sells direct to residential and commercial consumers. VST also has the strongest balance sheet among its peers, which enables it to take advantage of cyclical acquisition opportunities and positions it well to transform away from struggling coal-fired facilities and toward a more gas-fired and solar portfolio.
    - **TXU Energy Provides a Steady Retail Hedge for Luminant's Plants:** With less than 1% residential customer attrition, VST's retail business provides one to three years of reliable high-margin hedging for a power fleet that was largely tailor engineered for its customers under its predecessor utility. We estimate >$20/MWh residential margins and >$10 commercial margins targeting ~$800M/yr retail EBITDA. While we see pressure on Luminant's merchant EBITDA from an oversupplied ERCOT market, our analysis shows retiring some of VST's coal plants could improve around-the-clock (ATC) energy pricing by ~3% or $0.60-0.70/MWh, allowing the company to offset lost EBITDA with only ~$200M-$450M of new gas-fired assets.
    - **Catalysts and Risks:** Catalysts include the EPA BART pollution control rules by Sep 30, the Operations Performance Initiative report in Oct, the coal retirement decision by year-end, and possible dividends/buybacks in 2018. Risks include

    environmental regulation, power/fuel price volatility, retail churn and credit.

    - **Valuation:** Our Target Price of $20 is based on a SOTP analysis with 7.5x 2019E EV/EBITDA for the merchant portfolio and a higher 8.0x multiple for retail results given low attrition and ability to reduce financial risk by matching physical load with physical generation. Our '17/'18/'19 EBITDA estimates are in line with consensus of $1.41B/$1.39B/$1.37B.

- PNW: The Desert Rose Blooms, but Fairly Priced: **We initiate PNW with a Neutral rating and a $90 target price,** implying ~4% total return, mostly from the dividend yield. The company is in a solid position to continue above-average 6%-7% ratebase growth through the early 2020s after receiving approval for a multi-party rate settlement in August. However, load and revenue growth remain suppressed as much as -1.5% from energy efficiency and distributed generation, with EPS and dividend growth of ~5% in-line with industry averages. We view PNW as fully valued after nearly 20% peer outperformance since mid-2015 on both expectations for a favorable rate settlement and M&A target eligibility as a single-state SMID-cap.
    - **Ratebase growth increasingly driven with grid modernization.** The current capex plan through 2019 is boosted with spending on pollution controls for the Four Corners coal plant and Ocotillo peaker plant modernization. However, it also includes a ramp-up of transmission and distribution grid modernization that we expect will continue past 2019, maintaining 6%-7% going forward. There is also opportunity to spend more on ratebased generation under multiple exceptions to the rate settlement moratorium on such projects through 2021 (and a need to replace the Navajo station as well as build more peakers in the early 2020s).
    - **Catalysts and Risks:** 2018 guidance – 3Q17 earnings call; All-Source RFP winners announced – year-end 2017; regulator evaluation of resource plan complete – Feb 2018; roll forward to 2020 capex plan – 4Q17 earnings call. Risks include regulatory risk in ongoing dockets and the outcome of Commissioner Burns' various legal challenges to the rate settlement, possible expansion of renewable portfolio standards (upside), outcome of AZ Supreme CT case for the Navajo reg asset, financing risk, and operating risk.
    - **Valuation:** Our $90 target price is based on a 1.5x premium to the average peer 2019E P/E, based on a continued favorable regulatory environment.

Last Week's Things We've Learned This Week (9/15)**: Our Take:** Utilities continue to bleed off in September some of the outperformance seen this past summer, with 120 bps underperformance vs the S&P 500 in the past week alone. We continue to see the sector as fairly valued (about 2% expensive) based on the CS forecast for a 2.8% 10-year bond yield by yearend. As DUK, SO, NEE, and other utilities dig out from Hurricane Irma, we see most storm damage recoverable through a mix of storm reserves (DUK has $60M remaining in Florida and another $22M in the Carolinas) and cost deferrals for future ratecases. Any incremental ratebase spend would depend on whether utilities seek to accelerate or add to existing capital plans as a result of the storm.

Companies Mentioned *(Price as of 22-Sep-2017)*

ALLETE (ALE.N, $76.91)
Ameren (AEE.N, $58.51)
Avangrid (AGR.N, $46.5)
Avista US (AVA.N, $51.4)
Azure Power Global Limited (AZRE.N, $16.0)
BP (BP.N, $37.82)
Black Hills Corp (BKH.N, $68.6)
CMS Energy Corp (CMS.N, $46.47)
Calpine (CPN.N, $14.66)
CenterPoint Energy Inc (CNP.N, $29.2)
Cheniere Energy, Inc. (LNG.A, $43.48)
Consolidated Edison (ED.N, $81.59)
DTE Energy (DTE.N, $108.38)
Dominion Energy (D.N, $77.04)
Duke Energy (DUK.N, $84.25)
Dynegy Corporation (DYN.N, $9.74)
EQT Midstream Partners, LP (EQM.N, $73.49)
Edison International (EIX.N, $78.28)
Enable Midstream Partners (ENBL.N, $14.93)
Enbridge Inc (ENB.N, $41.04)
Energy Transfer Partners, LP (ETP.N, $18.49)
Entergy Corp (ETR.N, $76.75)
Eversource Energy (ES.N, $60.71)
Exelon Corporation (EXC.N, $37.12)
Gt Plains Energy (GXP.N, $30.24)
MDU Rsrcs Group (MDU.N, $25.99)
NRG Energy (NRG.N, $23.94)
National Grid (NG.L, 944.1p)
New Jersey Rsrce (NJR.N, $41.65)
NextEra Energy Inc. (NEE.N, $146.36)
NiSource Inc. (NI.N, $25.69)
NorthWestern Energy (NWE.N, $57.75)
OGE Energy (OGE.N, $35.84)
PG&E Corp. (PCG.N, $68.9)
PPL Corp (PPL.N, $38.47)
Pinnacle West Capital Corp. (PNW.N, $86.15)
Public Service Enterprise Group (PEG.N, $46.19)
SCANA (SCG.N, $55.22)
Sempra Ener (SRE.N, $115.94)
Southern Company (SO.N, $48.82)
Spectra Energy Partners, LP (SEP.N, $43.83)
Spire Inc. (SR.N, $74.1)
Unitil (UTL.N, $48.85)
Vistra Energy (VST.N, $18.15)
Westar Energy (WR.N, $49.69)
Wisconsin Energy Corporation (WEC.N, $63.61)
Xcel Energy (XEL.N, $47.41)

Disclosure Appendix

Analyst Certification

I, Michael Weinstein, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.
The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Not Rated (NR) : Credit Suisse Equity Research does not have an investment rating or view on the stock or any other securities related to the company at this time.

Not Covered (NC) : Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

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Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.
Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.
**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	44%	(64% banking clients)
Neutral/Hold*	41%	(59% banking clients)
Underperform/Sell*	13%	(53% banking clients)
Restricted	2%	

**For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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See the Companies Mentioned section for full company names

Credit Suisse currently has, or had within the past 12 months, the following as investment banking client(s): D.N, EXC.N, SO.N, BKH.N, NWE.N, DUK.N, DTE.N, ES.N, SR.N, ETR.N, ENBL.N, and ETP.N.

Credit Suisse provided investment banking services to the subject company (D.N, EXC.N, BKH.N, DUK.N, SR.N, ENBL.N, and ETP.N) within the past 12 months.

Credit Suisse currently has, or had within the past 12 months, the following issuer(s) as client(s), and the services provided were non-investment-banking, securities-related: D.N, and NWE.N.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (D.N, DUK.N, ENBL.N, and ETP.N) within the past 12 months.

Within the past 12 months, Credit Suisse has received compensation for investment banking services from the following issuer(s): D.N, EXC.N, BKH.N, DUK.N, SR.N, ENBL.N, and ETP.N.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (D.N, EXC.N, SO.N, BKH.N, NWE.N, CMS.N, DUK.N, DTE.N, ES.N, ED.N, SR.N, ETR.N, ENBL.N, and ETP.N) within the next 3 months.

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September 24, 2017

WATTS COOKING? Weekly

WATTS On Your Mind

This past week, the weakness in the 10-year Treasury was a dominant piece of conversation. It reminded investors just how correlated utilities of all stripe are to bond yields. The most defensive names led the way (CMS, ED, XEL). As the 10-year Treasury has moved from 2.05% to 2.25% since Sept. 8, the XLU has underperformed the SPX by 550 basis points (bps). Most investors saw the movement as appropriate given the overwhelming belief that utilities were overvalued. What is puzzling to some investors is whether the next step taken will be up or down. In a context of escalating hostilities with North Korea, going defensive seems to be the right approach. While no one is assuming a war, some believe that, with the pullback, utilities have become a more affordable protection.

With the somewhat surreal string of natural disasters (Hurricanes Irma and Maria, Mexico City earthquake) causing havoc in the Caribbean, some investors this week wondered what level of impact the damage to Puerto Rico (PR), Dominican Republic (DR), and Mexico may have on AES. Our conversation with the company suggests that it's much too early to tell, although it will mostly be due to lost electricity sales (as AES has appropriate insurance). In Mexico, we note that AES's plants are not located near Mexico City (the are in Tamuin and Merida, both 300+ miles away), so we do not expect much, if any, impact there. PR and DR comprised around 40% of revenues for the Mexico, Central America, and the Caribbean (MCAC) segment in 2016. Assuming this percentage translates into earnings contribution, and with MCAC contributing 32% of consolidated earnings in 2016, this roughly implies $0.03 of EPS contribution from PR/DR per quarter. This seems to be a manageable amount in the scenario that AES's operations are shut down in these countries for three months (as some reports are forecasting for PR), although we certainly hope for a speedy recovery for all affected.

WATTS On Our Mind

Tax reform remains on our mind as a defining near-term catalyst for the group. During the AGA mini-forum last week in New York, former Whip Eric Cantor stated that he believes a tax package will occur, though the scope of the reform might be more modest. That has been our view and the reason for our more cautious stance on utilities for the next two months. However, a number of seemingly contradictory fiscal priorities have emerged that do not bode as well for a smooth passage as we were thinking. Maybe utilities will rally sooner that we thought.

WATTS On The ShUFL

Our ShUFL line-up is unchanged.

Shelby's Utility Focus List (ShUFL)

Best Plays

Ticker	Rating	Dividend Yield	Price Target	Tot. Implied Return
EXC	OP	3.5%	$40.00	11.3%
EIX	OP	2.8%	$84.00	10.1%
BKH	OP	2.6%	$73.00	9.0%
NEE	OP	2.7%	$150.00	5.2%

Defensive Plays

Ticker	Rating	Dividend Yield	Price Target	Tot. Implied Return
EIX	OP	2.8%	$84.00	10.1%
DUK	OP	4.2%	$87.00	7.5%
PCG	OP	3.1%	$70.00	4.7%
PNW	SP	3.0%	$89.00	6.3%

Least Favorite Plays

Ticker	Rating	Dividend Yield	Price Target	Tot. Implied Return
UTL	SP	2.9%	$47.00	-0.8%
ED	SP	3.4%	$78.00	-1.0%

Source: Factset; RBC Capital Markets estimates

Upcoming RBC P&U Events

10/2-10/3 – California roundtable (San Fran)
10/4-10/5 – XEL NDRS (West Coast)
11/5-11/7 – 1x1 meetings at EEI (Florida)
11/13-11/15 – ABY NDRS (New York/Boston)
11/15-11/16 – RBC Midstream conf. (Dallas)

Shelby's Utility Focus List (ShUFL)

We are maintaining our ShUFL line-up.

Exhibit 1: EXC tops Best Plays; EIX tops Defensive Plays

Best Plays

Name	Ticker	Rating	Last Price	Dividend Yield	Price Target	Total Implied Return
Exelon Corp.	EXC	Outperform	$37.12	3.5%	$40.00	11.3%
Edison International	EIX	Outperform	$78.28	2.8%	$84.00	10.1%
Black Hills	BKH	Outperform	$68.60	2.6%	$73.00	9.0%
NextEra Energy, Inc.	NEE	Outperform	$146.36	2.7%	$150.00	5.2%

Defensive Plays

Name	Ticker	Rating	Last Price	Dividend Yield	Price Target	Total Implied Return
Edison International	EIX	Outperform	$78.28	2.8%	$84.00	10.1%
Duke Energy	DUK	Outperform	$84.25	4.2%	$87.00	7.5%
PG&E Corp.	PCG	Outperform	$68.90	3.1%	$70.00	4.7%
Pinnacle West	PNW	Sector Perform	$86.15	3.0%	$89.00	6.3%

Least Favorite Plays

Name	Ticker	Rating	Last Price	Dividend Yield	Price Target	Total Implied Return
Unitil Corp.	UTL	Sector Perform	$48.85	2.9%	$47.00	-0.8%
Consolidated Edison	ED	Sector Perform	$81.59	3.4%	$78.00	-1.0%

Source: FactSet; RBC Capital Markets; priced as of market close September 22, 2017. Past performance is not necessarily indicative of future performance. Please refer to specific company research for the investment thesis for each stock included in ShUFL List as well as a discussion of valuation and risks.

WATTS on Our Mind

EIX held a call to provide an update on Edison Energy Group (EEG). EIX expects the segment, which is at a -$0.08 EPS run rate, to be breakeven by the end of 2019 (assuming it sells off SoCore, which is half of the segment's EPS drag). EEG aims to service large C&I customers in energy-intensive industries with engineering, renewable advisory, and supply and commodity hedging strategy/procurement. EIX estimates a TAM of $7–9B and potential capital deployment opportunity of $1B over the next 10 years. **Our view: While we would have liked to hear more progress on the SoCore sale, EIX does seem to be forward-thinking (and well positioned coming from a decoupled state) in developing an advisory business.**

DYN closed on the Dighton and Milford asset sales. The $119M transaction for the 310MW CCGTs in ISO-NE announced in July will go toward reducing DYN's debt load. **Our view: the deal closed very quickly, but due to the depressed sale price ($384/kW based on summer ratings) and lofty net leverage, we remain cautious.**

US ITC votes to proceed with the Suniva Section 201 trade case. The US International Trade Commission has unanimously voted (4-0) in favor of proceeding with the Section 201 trade case. This case was filed by Suniva and SolarWorld, which argued that cheap solar imports have stymied competition. The next step in this process will entail the commissioners determining what measures to recommend to the White House. President Trump is expected to formalize these recommendations (perhaps in the form of tariffs, price floors, etc.) in January 2018. **Our view: If trade penalties are ultimately imposed, we may see a slowdown in some solar development. However, we believe many of the larger developers have already secured solar panels for existing projects. We would expect any future projects to have PPAs that incorporate the higher panel prices. The ruling is likely to be more troubling for rooftop solar companies.**

Recent Notable Publications

CMS Energy (CMS): MPSC approves ~75% of requested securitization for Palisades PPA early termination – 2017.09.22

Dynegy Inc. (DYN): ECP Files Intent to Sell DYN Shares Below 10% Threshold – 2017.09.19

WATTS COOKING? Weekly – 2017.09.17

Spire Inc - Takeaways from the Road – 2017.09.15

NextEra Energy Partners (NEP): Announces dropdown offer from NextEra Energy Resources, along with a $300M convertible senior note offering – 2017.09.08

Global Energy Best Ideas – 2017.09.05

Southern Company (SO): Georgia Power recommends Vogtle be continued; estimates net additional capital costs of $1.4 billion – 2017.08.31

Calpine Corporation - End of the Road; Downgrading to Sector Perform – 2017.08.21

Calpine (CPN): Enters into agreement to be acquired by investor consortium led by Energy Capital Partners – 2017.08.18

PNM Resources, Inc. - It's been a fun ride – 2017.08.18

Pinnacle West (PNW): APS rate case settlement approved by ACC – 2017.08.15

Pattern Energy Group Inc. - Growth outlook remains unchanged, but dividend growth should lag – 2017.08.09

U.S. Power & Utilities: 2Q17 Earnings Recap - Week 2 – 2017.08.07

U.S. Power & Utilities: 2Q17 Earnings Recap - Week 1 – 2017.07.31

WATTS UP! - U.S. smid-cap utilities M&A playbook – 2017.07.25

InfraREIT (HIFR): HIFR announces asset exchange with Oncor – 2017.07.24

CenterPoint Energy (CNP): Amended 13D filing states potential for ENBL unit sale via open market - 2017.07.19

NRG Yield (NYLD): NRG Energy announces plan to monetize 50-100% of its interest in NYLD and Renewables platform – 2017.07.12

NextEra Energy Inc. - No Oncor, No Problem – 2017.07.06

NextEra Energy Partners LP - The Lean Green Clean Machine – 2017.07.06

Southern Company - SO Here's the Story from K to V 2017.06.27

Calpine Corporation - Takeout Food for Thought – 2017.06.22

Pinnacle West Capital Corporation - PNW in Cali—outlook as long as the PCH? – 2017.06.18

2017 RBC Capital Markets' Global Energy and Power Executive Conference - Updates from Day 2 – 2017.06.08

2017 RBC Capital Markets' Global Energy and Power Executive Conference - Updates from Day 1 – 2017.06.07

Unitil Corporation - In review: travels with management – 2017.06.05

Atlantica Yield plc - Time to ACT – 2017.05.17

WATTS UP? - Can the PJM Capacity Auction Provide a Spark? – 2017.05.12

Chesapeake Utilities Corporation - Chasing the peake; initiate with Sector Perform – 2017.04.26

Global Energy Research Commodity Price Update - Tweaking our Outlook – 2017.04.25

CenterPoint Energy, Inc. - Enabling CNP value already achieved; downgrade to Sector Perform – 2017.03.16

WATTS UP? – Growth of Renewables and the Impact of Potential Tax Reforms – 2017.01.23

The AES Corporation - Potential headwinds concerning; downgrading to Sector Perform – 2017.01.04

InfraREIT, Inc. - Uncertain Year; Downgrading to Sector Perform – 2017.01.04

Exhibit 2: RBC Capital Markets Power and Utility Universe

Ticker	Company	Rating	Price 09/22/17	Price Target	Current Yield	Implied Tot. Return	Cap. ($MM)	EPS				P/E			Div. Payout	3-Yr Growth	'17 EV/ EBITDA	'18 EV/ EBITDA	Price/ BV	Debt/ EBITDA
								2016A	2017E	2018E	2019E	2017E	2018E	2019E						
DEFENSIVE ELECTRIC UTILITIES																				
AEP	American Electric Power	Sector Perform	$70.57	$71.00	3.3%	4.0%	34,709	$3.94	$3.66	$3.89	$4.13	19.3	18.1	17.1	64.5%	2%	9.7	9.0	1.95	3.8
CMS	CMS Energy	Sector Perform	$46.47	$46.00	2.9%	1.9%	13,105	$2.02	$2.18	$2.34	$2.53	21.3	19.9	18.4	61.0%	8%	10.0	9.3	2.94	4.6
CPK	Chesapeake Utilities	Sector Perform	$79.05	$78.00	1.6%	0.3%	1,292	$2.86	$2.92	$3.43	$3.63	27.1	23.0	21.8	44.5%	8%	12.9	10.9	2.80	3.1
DUK	Duke Energy	Outperform	$84.25	$87.00	4.2%	7.5%	58,971	$4.66	$4.60	$4.82	$5.10	18.3	17.5	16.5	77.4%	3%	11.0	10.4	1.43	5.8
ED	Consolidated Edison	Sector Perform	$81.59	$78.00	3.4%	-1.0%	25,278	$3.97	$4.10	$4.27	$4.49	19.9	19.1	18.2	67.3%	4%	10.1	9.4	1.72	4.1
EIX	Edison International	Outperform	$78.28	$84.00	2.8%	10.1%	25,504	$3.92	$4.27	$4.23	$4.63	18.3	18.5	16.9	50.8%	6%	8.9	8.7	2.10	3.0
PCG	PG&E Corp.	Outperform	$68.90	$70.00	3.1%	4.7%	35,333	$3.72	$3.72	$3.84	$4.01	18.5	17.9	17.2	57.0%	3%	8.8	8.4	1.89	3.3
PNM	PNM Resources	Sector Perform	$41.30	$40.00	2.3%	-0.8%	3,290	$1.65	$1.83	$1.70	$2.02	22.6	24.3	20.4	53.0%	7%	10.0	10.0	1.90	5.2
PNW	Pinnacle West	Sector Perform	$86.15	$89.00	3.0%	6.3%	9,616	$3.95	$4.24	$4.50	$4.75	20.3	19.1	18.1	61.8%	6%	9.9	9.3	1.98	3.6
PPL	PPL Corp.	Sector Perform	$38.47	$38.00	4.1%	2.9%	26,282	$2.45	$2.15	$2.40	$2.45	17.9	16.0	15.7	73.5%	0%	12.4	11.1	2.51	5.1
SR	Spire Inc.	Sector Perform	$74.10	$73.00	2.8%	1.3%	3,576	$3.42	$3.58	$3.70	$3.88	20.7	20.0	19.1	58.7%	4%	12.1	11.4	1.76	5.6
SO	Southern Co.	Sector Perform	$48.82	$53.00	4.8%	13.3%	48,794	$2.89	$2.99	$3.04	$3.13	16.3	16.1	15.6	77.6%	3%	10.9	11.6	2.09	6.4
UTL	Unitil Corp.	Sector Perform	$48.85	$47.00	2.9%	-0.8%	690	$1.94	$2.02	$2.12	$2.23	24.2	23.0	21.9	71.3%	5%	9.2	8.6	2.30	3.7
XEL	Xcel Energy	Sector Perform	$47.41	$48.00	3.0%	4.3%	24,073	$2.21	$2.33	$2.44	$2.60	20.3	19.4	18.2	61.8%	6%	10.2	9.6	2.16	4.3
	Average				3.6%	3.8%						20.1	19.1	18.0	67.3%	5%	10.4	9.8	2.11	4.41
DEREGULATED ELECTRIC UTILITIES																				
ETR	Entergy Corp.	Sector Perform	$76.75	$80.00	4.5%	8.8%	13,778	$7.11	$6.87	$4.93	$5.02	11.2	15.6	15.3	50.7%	-11%	9.5	8.4	1.65	4.8
EXC	Exelon Corp.	Outperform	$37.12	$40.00	3.5%	11.3%	35,638	$2.68	$2.70	$2.88	$2.77	13.7	12.9	13.4	48.5%	1%	8.2	7.8	1.29	4.4
FE	FirstEnergy	Sector Perform	$30.89	$33.00	4.7%	11.5%	13,725	$2.63	$2.83	$2.49	$2.35	10.9	12.4	13.1	50.9%	-4%	8.0	8.2	2.17	5.2
PEG	Public Service Enterprise Grp.	Sector Perform	$46.19	$47.00	3.7%	5.5%	23,367	$2.90	$2.93	$2.89	$3.00	15.8	16.0	15.4	58.7%	1%	9.5	9.1	1.81	3.2
	Average				3.9%	9.3%						12.5	14.6	14.6	52.0%	-3%	8.8	8.4	1.73	4.39
DIVERSIFIED ELECTRIC UTILITIES																				
BKH	Black Hills	Outperform	$68.60	$73.00	2.6%	9.0%	3,668	$3.19	$3.55	$3.72	$3.85	19.3	18.4	17.8	50.1%	6%	10.7	10.3	2.19	6.5
CNP	CenterPoint Energy	Sector Perform	$29.20	$29.00	3.7%	3.0%	12,586	$1.16	$1.34	$1.45	$1.53	21.8	20.1	19.1	79.9%	10%	9.4	8.1	3.53	4.0
D	Dominion Energy	Sector Perform	$77.04	$77.00	3.9%	3.9%	49,505	$3.80	$3.67	$4.04	$4.23	21.0	19.1	18.2	82.3%	4%	13.5	11.7	3.24	6.4
NEE	NextEra Energy, Inc.	Outperform	$146.36	$150.00	2.7%	5.2%	68,521	$6.19	$6.73	$7.28	$7.75	21.7	20.1	18.9	58.4%	8%	11.2	10.4	2.65	4.0
SRE	Sempra Energy	Outperform	$115.94	$117.00	2.8%	3.8%	29,110	$4.73	$5.18	$5.40	$6.47	22.4	21.5	17.9	63.5%	11%	12.1	11.5	2.18	4.9
	Average				3.2%	5.0%						21.4	20.0	18.3	68.0%	8%	11.4	10.4	2.76	5.16
	Total Average				3.5%	5.0%						18.9	18.5	17.4	65.2%	4%	10.4	9.7	2.18	4.57
INDEPENDENT POWER PRODUCERS																				
AES	The AES Corp.	Sector Perform	$11.11	$12.00	4.3%	12.3%	7,335	$0.98	$1.05	$1.20	$1.31	10.6	9.3	8.5	45.7%	10%	8.0	7.4	2.43	5.6
CPN	Calpine	Sector Perform	$14.66	$15.25	0.0%	4.0%	5,287	-$0.08	$0.52	$0.97	$0.91	28.2	15.1	16.1	0.0%	-325%	8.8	8.3	1.76	6.2
DYN	Dynegy Inc.	Sector Perform	$9.74	$8.00	0.0%	-17.9%	1,279	-$8.57	-$0.60	$0.88	$0.12	N/A	11.1	81.2	N/A	-124%	7.4	6.5	0.74	7.4
	Average				1.4%	-0.5%						26.6	11.3	-32.4	22.9%	-146%	8.1	7.4	1.65	6.43
YIELDCOs & REITs																				
ABY	Atlantica Yield	Outperform	$19.92	$23.00	5.2%	20.7%	1,996	$0.08	$0.14	$0.36	$0.47	142.3	55.3	42.4	742.9%	N/M	9.6	9.2	1.06	7.2
HIFR	InfraREIT Inc.	Sector Perform	$22.23	$22.00	4.5%	3.5%	1,349	$1.20	$1.20	$1.25	$1.23	18.5	17.8	18.1	83.3%	1%	15.0	14.5	1.43	5.9
NEP	NextEra Energy Partners	Sector Perform	$41.55	$39.00	3.7%	-2.5%	5,892	$2.05	$0.97	$0.97	$1.17	42.8	42.8	35.5	156.7%	-17%	14.2	9.3	1.18	6.0
NYLD.A	NRG Yield	Sector Perform	$19.11	$17.00	5.9%	-5.2%	3,512	$0.98	$0.88	$1.03	$0.99	21.7	18.6	19.3	127.3%	0%	10.5	8.5	1.03	6.0
PEGI	Pattern Energy Group	Outperform	$25.90	$25.00	6.5%	3.0%	2,269	-$0.21	$0.50	$0.67	$0.72	51.8	38.7	36.0	334.4%	N/M	14.2	13.7	2.38	5.7
	Average				5.1%	3.9%						34.9	28.8	26.3	288.9%	-5%	12.7	11.0	1.42	6.16
SP50	Standard & Poor's 500 Index		$2,502.22	UTY target	2.2%			$119.00	$128.00	$140.00	N/A	19.5	17.9	N/A						
UTY	Philadelphia Utility Index		$674.72	$680		4.1%					Utility P/E relative to S&P:	-3.1%	3.4%	N/A						

A - Actual; E - Estimated; *Estimates based on consensus, when available.

Source: Factset; RBC Capital Markets estimates

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Power/Utilities Macro Trends Tracker: Decline In Forward Spreads

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What's Inside

Page 2 includes the Table of Contents for all the relevant macro trends that we track.

What's Incremental To Our View

This report includes our analysis of the key macro factors impacting the power/utility sector, including: forward power prices, spark spread, dark spread, and gas/coal spread trends; domestic electric consumption growth; and national weather patterns. Based on the latest peer group valuations, we are decreasing our price targets on CMS, DUK, GXP, PNM, PNW, SO, and XEL.

IMPORTANT POINTS

- On-Peak spark spreads currently suggest an increase over the 2017-2020 period ($12.9/MWh - $15.4/MWh) but decreased 1% versus the prior week.

- On-Peak dark spreads currently suggest an increase over the 2017-2020 period ($5.7/MWh - $6.0/MWh) but decreased 7% versus the prior week.

- Forward power prices were flat last week, versus no change in forward gas prices and a 5% increase in forward coal prices.

- Domestic electric consumption decreased 7% for the week ended September 16 and has decreased 2% year to date.

- The STRH Power Index decreased 3% for the week (versus flat for the S&P 500) and has increased 11% year to date (versus +12% for the S&P 500).

- The STRH Power Index is trading at a P/E multiple of 17.1x our 2019 estimates (a 10% premium to historical levels); an EV/EBITDA multiple of 9.5x our 2019 estimates (a 9% premium); P/B multiple of 2.0x (a 17% premium); and a Treasury-dividend yield spread of -112 basis points (a 12% discount).

- Based on the latest peer group valuations, we make the following decreases to our price targets: CMS to $47 from $49; DUK to $88 from $91; GXP to $31 from $32; PNM to $36 from $37; PNW to $84 from $86; SO to $51 from $53; XEL to $46 from $47.

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Figure 1: Historical Natural Gas Prices, Electricity Prices, and Spark Spread by NERC Region

	Average Quarterly Gas Price ($/MMBtu)					Average Quarterly Electricity Price ($/MWh)					Implied Spark Spread ($/MWh)				
	1Q12	**2Q12**	**3Q12**	**4Q12**	**2012**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**2012**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**2012**
TRE	2.39	2.20	2.81	3.32	2.68	25	38	45	31	35	8.6	22.1	25.5	8.2	16.1
FRCC	2.67	2.82	3.71	3.82	3.25	28	34	40	36	34	9.6	13.9	14.1	9.0	11.6
MRO	2.45	2.22	2.86	3.46	2.75	28	32	38	33	33	10.7	16.0	18.4	9.0	13.5
NPCC	3.25	2.53	3.15	4.25	3.30	37	37	48	48	42	13.9	19.5	26.1	17.8	19.3
RFC	2.58	2.34	2.93	3.52	2.84	32	37	43	38	37	14.4	20.3	22.6	13.1	17.6
SERC	2.44	2.25	2.85	3.37	2.73	27	29	34	33	31	10.0	13.7	14.4	9.6	11.9
SPP	1.58	1.44	1.84	2.20	1.76	24	26	31	30	28	12.7	15.9	18.2	14.7	15.4
WECC	2.51	2.24	2.82	3.45	2.75	26	22	34	34	29	8.0	6.7	14.6	10.1	9.8
Average	**2.48**	**2.25**	**2.87**	**3.42**	**2.76**	**28**	**32**	**39**	**35**	**34**	**11.0**	**16.0**	**19.2**	**11.4**	**14.4**
	1Q13	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**
TRE	3.42	3.93	3.48	3.79	3.65	30	40	41	36	37	6.5	12.9	16.9	9.1	11.3
FRCC	3.73	4.26	3.92	4.02	3.98	33	40	36	38	37	6.9	9.8	8.8	9.9	8.9
MRO	3.58	3.97	3.55	3.97	3.77	34	40	39	37	38	8.8	12.3	14.4	9.0	11.1
NPCC	7.69	4.35	3.82	5.80	5.41	75	48	52	57	58	20.9	17.2	25.5	16.6	20.1
RFC	3.66	4.11	3.57	3.83	3.79	38	44	46	39	42	12.9	15.4	20.5	12.1	15.2
SERC	3.47	3.98	3.51	3.79	3.69	33	40	36	36	36	8.9	11.7	11.5	9.8	10.5
SPP	2.28	2.56	2.27	2.50	2.40	30	36	34	34	34	14.3	18.5	18.6	16.9	17.1
WECC	3.53	3.88	3.50	3.94	3.71	37	41	44	44	41	12.1	13.6	19.6	16.0	15.3
Average	**3.92**	**3.88**	**3.45**	**3.96**	**3.80**	**39**	**41**	**41**	**40**	**40**	**11.4**	**13.9**	**17.0**	**12.4**	**13.7**
	1Q14	**2Q14**	**3Q14**	**4Q14**	**2014**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014**
TRE	5.08	4.46	3.88	3.63	4.26	53	45	43	38	45	17.1	13.5	15.5	12.5	14.6
FRCC	6.32	4.84	4.25	3.98	4.85	53	42	42	37	44	9.1	8.5	12.1	8.7	9.6
MRO	8.51	4.56	3.92	3.83	5.21	64	44	37	37	46	4.7	12.5	9.7	10.4	9.3
NPCC	17.27	4.35	3.35	4.20	7.29	149	48	42	44	71	28.3	17.1	18.9	14.7	19.7
RFC	8.43	4.19	3.28	3.29	4.80	89	49	40	40	55	30.4	19.7	17.4	17.4	21.2
SERC	5.06	4.52	3.90	3.69	4.29	62	43	40	38	46	26.2	11.9	12.8	11.9	15.7
SPP	3.76	2.90	2.52	2.38	2.89	52	53	40	38	46	25.7	32.4	22.2	21.0	25.3
WECC	5.41	4.54	4.00	3.73	4.42	53	44	46	40	46	14.7	12.1	18.1	14.0	14.7
Average	**7.48**	**4.30**	**3.64**	**3.59**	**4.75**	**72**	**46**	**41**	**39**	**50**	**19.5**	**16.0**	**15.8**	**13.8**	**16.3**
	1Q15	**2Q15**	**3Q15**	**4Q15**	**2015**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015**
TRE	2.70	2.60	2.67	2.03	2.50	29	27	45	22	31	10.1	9.1	25.9	8.1	13.3
FRCC	3.13	3.11	3.10	2.35	2.92	36	35	31	29	33	14.3	13.1	9.1	12.1	12.1
MRO	3.20	2.59	2.72	2.11	2.66	34	31	33	27	31	11.7	12.7	13.5	11.8	12.4
NPCC	8.61	2.58	2.58	2.32	4.02	81	33	38	31	46	20.6	15.1	20.0	14.9	17.7
RFC	3.18	2.22	2.16	1.74	2.32	49	37	36	31	38	26.5	21.0	21.2	19.1	21.9
SERC	2.83	2.67	2.70	2.03	2.56	38	33	28	26	31	17.8	14.5	9.5	11.6	13.3
SPP	1.75	1.66	1.74	1.32	1.62	33	31	39	30	33	20.6	19.7	26.5	21.0	22.0
WECC	2.64	2.55	2.70	2.18	2.52	27	31	36	27	30	8.8	13.0	17.0	11.2	12.5
Average	**3.50**	**2.50**	**2.55**	**2.01**	**2.64**	**41**	**32**	**36**	**28**	**34**	**16.3**	**14.8**	**17.9**	**13.7**	**15.7**
	1Q16	**2Q16**	**3Q16**	**4Q16**	**2016**	**1Q16**	**2Q16**	**3Q16**	**4Q16**	**2016**	**1Q16**	**2Q16**	**3Q16**	**4Q16**	**2016**
TRE	1.90	2.00	2.74	2.88	2.38	20	24	33	27	26	6.4	10.2	13.9	6.8	9.3
FRCC	2.34	2.54	3.56	3.23	2.92	24	30	39	32	31	7.9	11.9	14.0	8.9	10.7
MRO	1.96	2.00	2.70	2.91	2.39	24	28	38	33	31	10.5	14.2	19.1	12.3	14.0
NPCC	2.72	2.08	2.52	3.18	2.63	31	30	42	35	35	12.4	15.9	24.8	13.2	16.5
RFC	1.76	1.84	2.13	2.53	2.06	29	30	39	34	33	16.8	17.6	24.4	16.1	18.7
SERC	1.93	2.03	2.78	2.91	2.41	25	28	35	31	30	11.0	13.3	15.7	11.0	12.7
SPP	1.22	1.29	1.75	1.87	1.53	23	33	39	38	33	14.8	24.2	26.7	25.2	22.7
WECC	1.88	1.94	2.70	2.84	2.34	22	22	35	30	27	8.5	8.6	16.6	10.0	10.9
Average	**1.96**	**1.97**	**2.61**	**2.79**	**2.33**	**25**	**28**	**38**	**32**	**31**	**11.0**	**14.5**	**19.4**	**12.9**	**14.5**
	1Q17	**2Q17**	**3Q17**	**4Q17**	**2017**	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**2017**	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**2017**
TRE	2.88	2.93	2.81			24	27	34			3.4	6.2	14.1		
FRCC	3.11	3.40	3.33			29	32	34			7.2	8.2	10.4		
MRO	2.88	2.81	2.71			30	33	33			9.6	13.2	14.4		
NPCC	3.74	2.84	2.53			36	34	36			10.3	14.2	18.5		
RFC	2.87	2.75	2.41			31	33	34			11.3	14.1	17.3		
SERC	2.91	2.97	2.85			29	32	32			8.7	11.3	12.2		
SPP	1.84	1.82	1.73			36	42	39			23.0	29.0	27.1		
WECC	2.85	2.76	2.72			27	27	45			6.8	8.1	26.1		
Average	**2.88**	**2.79**	**2.64**			**30**	**33**	**36**			**10.0**	**13.0**	**17.5**		

Notes:
1) Implied spark spread assumes 7,000 Btu/kWh heat rate.
2) Calculations use On-Peak power pricing.
3) 3Q17 includes July, August only

Sources: Fossil Data Corp.; STRH estimates.

Figure 2: Around-The-Clock Power Prices, 2014A-2020E, as of September 22, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	35.07	38.47	47.59	47.52	48.11	41.44	42.86	43.93	40.59	40.64	41.06	55.66	57.63	69.37	50.92	66.24	**47.94**
2015A	24.00	25.33	33.01	31.96	33.55	29.92	30.28	29.80	26.69	27.72	27.93	38.40	41.18	45.40	33.66	41.32	**32.51**
2016A	21.21	23.43	29.33	28.55	29.79	29.93	30.26	28.46	23.33	24.34	24.98	31.31	30.53	32.07	28.97	30.98	**27.97**
2017E	23.12	28.94	34.26	33.53	30.27	33.91	31.16	28.24	24.04	26.63	30.02	30.32	30.41	32.14	27.03	31.72	**29.74**
2018E	22.86	27.78	34.47	33.01	32.67	35.60	33.22	30.10	27.23	29.43	31.22	32.89	34.28	40.68	31.16	38.01	**32.16**
2019E	22.46	27.73	34.22	32.20	30.86	33.63	32.30	28.64	27.30	29.42	30.10	31.26	32.76	40.45	30.24	37.26	**31.30**
2020E	24.03	29.49	35.49	33.08	29.93	33.18	31.89	27.47	27.41	29.37	30.06	30.46	32.75	40.91	29.51	37.81	**31.43**

Sources: SNL and SunTrust Robinson Humphrey estimates.

Figure 3: On-Peak Power Prices, 2014A-2020E, as of September 22, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	38.71	42.49	51.15	51.22	54.24	45.13	48.02	50.60	44.80	44.86	45.33	62.71	62.71	76.97	57.55	73.60	**53.13**
2015A	26.37	27.32	35.31	33.74	37.27	33.13	33.41	33.86	30.39	30.76	31.00	42.82	46.15	50.28	39.08	46.10	**36.06**
2016A	23.23	25.54	31.61	30.46	33.26	33.80	34.09	32.27	26.85	27.74	28.47	35.03	34.53	35.90	35.04	34.30	**31.38**
2017E	26.18	32.15	37.61	36.45	33.46	38.17	34.74	32.02	26.61	29.60	33.38	33.44	33.73	35.27	31.65	34.50	**33.06**
2018E	25.07	30.01	37.07	35.14	36.17	39.37	37.07	33.93	30.68	33.34	35.52	36.37	38.07	44.61	36.59	41.63	**35.66**
2019E	24.50	29.54	36.70	34.08	34.05	37.02	35.73	32.08	31.08	33.93	34.55	34.47	36.22	44.23	35.37	40.08	**34.60**
2020E	25.86	31.41	37.91	34.66	32.78	36.47	35.22	30.75	31.39	33.77	34.62	33.55	36.33	44.92	34.32	41.68	**34.73**

Sources: SNL and SunTrust Robinson Humphrey estimates.

Figure 4: Gas-Coal Spread, 2003A-2020E, as of September 22, 2017

($/mmBtu)

	NYMEX Henry Hub Gas Futures	NYMEX Spec Coal Futures	Gas-Coal Spread
2003A	5.483	1.378	4.105
2004A	5.892	2.257	3.635
2005A	8.907	2.390	6.516
2006A	6.734	2.024	4.710
2007A	6.956	1.861	5.095
2008A	8.853	3.884	4.969
2009A	3.942	2.037	1.905
2010A	4.386	2.553	1.833
2011A	3.995	3.083	0.913
2012A	2.758	2.413	0.345
2013A	3.730	2.338	1.392
2014A	4.394	2.403	1.990
2015A	2.635	1.886	0.749
2016A	2.581	1.835	0.746
2017E	3.026	2.284	0.742
2018E	3.057	2.396	0.661
2019E	2.925	2.396	0.529
2020E	2.860	2.396	0.464

Sources: Bloomberg, SNL, and SunTrust Robinson Humphrey estimates.

Figure 5: 2014A-2020E Implied On-Peak Spark Spreads, as of September 22, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	8.25	10.36	16.84	19.09	23.93	14.38	13.41	12.42	14.36	14.42	14.89	24.83	24.83	18.90	24.68	40.73	**18.52**
2015A	9.30	8.95	14.33	15.37	19.57	14.69	15.06	14.60	12.40	12.78	13.02	23.82	27.15	16.02	18.35	25.37	**16.30**
2016A	7.56	8.60	12.66	13.52	16.82	15.73	17.45	14.96	9.74	10.63	11.36	22.75	22.25	13.83	17.31	16.57	**14.49**
2017E	7.50	12.00	14.53	16.30	13.55	16.99	16.86	11.53	5.79	8.78	12.57	16.44	16.73	11.17	11.26	14.12	**12.88**
2018E	6.39	10.21	14.63	15.34	16.41	17.97	20.11	13.74	9.89	12.54	14.73	14.36	16.05	13.64	19.99	25.03	**15.06**
2019E	6.69	10.62	14.81	15.16	16.01	16.55	19.27	12.93	11.14	13.99	14.61	13.45	15.19	13.49	19.97	24.69	**14.91**
2020E	8.38	12.80	16.27	16.05	15.33	16.45	19.45	11.81	11.74	14.12	14.96	13.13	15.90	14.10	19.13	26.49	**15.38**

Notes:

1) Assumes 7,000 Btu/kWh heat rate

2) NERC Region: WECC (Mid-C, Palo Verde, NP-15, SP-15); SPP (Entergy); RFC (AEP Dayton, Indiana, NI Hub, PJM); TRE (ERCOT North, ERCOT South, ERCOT West, ERCOT Houston); NPCC (NEPOOL, NY Zone A, NY Zone F)

Source: Bloomberg, SNL, Fossil Data Corp, SunTrust Robinson Humphrey estimates.

Figure 6: 2014A-2020E Implied On-Peak Dark Spreads, as of September 22, 2017

($/MWh)

	Western				Central							Eastern					
	Mid-C	Palo Verde	NP-15	SP-15	AEP Dayton	Entergy	Indiana	NI Hub	ERCOT North	ERCOT South	ERCOT Houston	PJM-West	PJM - East	NEPOOL	NY Zone A	NY Zone F	Average
2014A	9.96	13.74	22.40	22.47	25.49	16.38	19.27	21.85	16.05	16.11	16.58	33.96	33.96	48.22	28.80	44.85	**24.38**
2015A	3.74	4.69	12.69	11.11	14.64	10.51	10.78	11.23	7.76	8.13	8.37	20.19	23.52	27.65	16.45	23.48	**13.43**
2016A	1.22	3.52	9.60	8.44	11.24	11.78	12.08	10.26	4.83	5.72	6.45	13.02	12.52	13.89	13.02	12.29	**9.37**
2017E	-1.23	4.74	10.20	9.04	6.05	10.76	7.33	4.61	-0.80	2.19	5.97	6.03	6.32	7.86	4.24	7.09	**5.65**
2018E	-3.68	1.26	8.32	6.39	7.42	10.62	8.32	5.18	1.93	4.59	6.77	7.62	9.32	15.86	7.84	12.88	**6.91**
2019E	-4.25	0.79	7.95	5.33	5.30	8.27	6.98	3.33	2.33	5.18	5.80	5.72	7.47	15.48	6.62	11.33	**5.85**
2020E	-2.89	2.66	9.16	5.91	4.03	7.72	6.47	2.00	2.64	5.02	5.87	4.80	7.58	16.17	5.57	12.93	**5.98**

Notes:

1) Assumes 12,000 Btu/kWh heat rate

2) NERC Region: WECC (Mid-C, Palo Verde, NP-15, SP-15); SPP (Entergy); RFC (AEP Dayton, Indiana, NI Hub, PJM); TRE (ERCOT North, ERCOT South, ERCOT West, ERCOT Houston); NPCC (NEPOOL, NY Zone A)

Source: Bloomberg, SNL, Fossil Data Corp, SunTrust Robinson Humphrey estimates.

Figure 7: Year to Date Domestic Electric Consumption Summary by Different Geographic Regions

Week Ended September 16 2017

	Current Week's Output		YTD		52-Weeks Ended	
Region	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**
New England	2,184	(1.5%)	86,293	(4.2%)	120,208	(2.6%)
Mid-Atlantic	7,463	(8.5%)	304,583	(4.4%)	422,066	(2.4%)
Central Industrial	11,431	(8.0%)	471,054	(4.5%)	654,580	(2.7%)
West Central	5,826	5.9%	233,129	(2.8%)	324,065	(1.5%)
Southeast	18,837	(18.7%)	727,632	(3.3%)	1,006,868	(1.3%)
South Central	14,236	(6.3%)	524,944	0.5%	718,820	1.8%
Rocky Mountain	6,083	9.9%	201,117	2.2%	279,638	0.6%
Pacific Northwest	2,691	2.0%	113,010	6.6%	159,233	4.5%
Pacific Southwest	6,654	9.5%	205,348	0.5%	284,580	0.0%
Total United States	**75,405**	**(6.6%)**	**2,867,110**	**(2.0%)**	**3,970,058**	**(0.7%)**

	1Q17A		2Q17A		3Q17 QTD	
Region	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**	**GWh Output**	**% Change 2016**
New England	30,898	0.0%	28,213	(2.2%)	27,182	(10.3%)
Mid-Atlantic	105,796	(0.4%)	100,289	(1.6%)	98,498	(10.8%)
Central Industrial	167,052	(1.6%)	159,146	(2.3%)	144,856	(9.8%)
West Central	78,718	(0.9%)	79,132	(2.0%)	75,279	(5.6%)
Southeast	240,646	(3.8%)	250,212	0.0%	236,774	(6.2%)
South Central	160,357	1.9%	184,180	2.3%	180,407	(2.5%)
Rocky Mountain	65,862	2.3%	65,880	1.8%	69,375	2.5%
Pacific Northwest	47,047	11.1%	35,881	3.3%	30,082	4.1%
Pacific Southwest	64,687	0.7%	69,171	(2.6%)	71,490	3.3%
Total United States	**961,063**	**(0.4%)**	**972,104**	**(0.3%)**	**933,943**	**(5.1%)**

Notes:

Corresponding NERC Regions: New England (NPCC), Mid-Atlantic (RFC), Central Industrial (RFC and SERC), West Central (MRO), Southeast (SERC and FRCC), South Central (SPP and TRE), Rocky Mountain (WECC), Pacific Northwest (WECC), Pacific Southwest (WECC).

Source: Edison Electric Institute, SunTrust Robinson Humphrey

Figure 8: Cooling Degree Days by State

	COOLING DEGREE DAYS				
State	**Jul/Aug 2017 Actual**	**Jul/Aug 2016 Actual**	**Jul/Aug Norm**	**% Change vs. Yr-ago**	**% Change vs. Norm**
ALABAMA	940	1076	884	-13%	6%
ARIZONA	1258	1316	1273	-4%	-1%
ARKANSAS	883	1027	918	-14%	-4%
CALIFORNIA	664	592	461	12%	44%
COLORADO	312	310	195	1%	60%
CONNECTICUT	407	625	411	-35%	-1%
DELAWARE	702	865	650	-19%	8%
FLORIDA	1132	1165	1043	-3%	9%
GEORGIA	868	1022	828	-15%	5%
IDAHO	523	385	330	36%	58%
ILLINOIS	448	649	523	-31%	-14%
INDIANA	454	644	518	-30%	-12%
IOWA	447	503	504	-11%	-11%
KANSAS	733	835	833	-12%	-12%
KENTUCKY	653	825	655	-21%	0%
LOUISIANA	1053	1114	1047	-5%	1%
MAINE	188	293	191	-36%	-2%
MARYLAND	677	874	627	-23%	8%
MASSACHUSETTS	339	597	341	-43%	-1%
MICHIGAN	283	498	365	-43%	-22%
MINNESOTA	279	346	314	-19%	-11%
MISSISSIPPI	976	1093	950	-11%	3%
MISSOURI	655	765	722	-14%	-9%
MONTANA	351	229	186	53%	89%
NEBRASKA	557	583	610	-4%	-9%
NEVADA	1156	1142	987	1%	17%
NEW HAMPSHIRE	221	384	237	-42%	-7%
NEW JERSEY	506	719	511	-30%	-1%
NEW MEXICO	545	616	526	-12%	4%
NEW YORK	423	646	428	-35%	-1%
NORTH CAROLINA	792	954	744	-17%	6%
NORTH DAKOTA	332	321	304	3%	9%
OHIO	432	663	445	-35%	-3%
OKLAHOMA	931	1057	1005	-12%	-7%
OREGON	336	265	174	27%	93%
PENNSYLVANIA	444	668	430	-34%	3%
RHODE ISLAND	392	645	363	-39%	8%
SOUTH CAROLINA	935	1112	880	-16%	6%
SOUTH DAKOTA	462	477	474	-3%	-3%
TENNESSEE	693	871	726	-20%	-5%
TEXAS	1133	1201	1113	-6%	2%
UTAH	579	569	460	2%	26%
VERMONT	159	263	210	-40%	-24%
VIRGINIA	689	856	618	-20%	11%
WASHINGTON	269	241	149	12%	81%
WEST VIRGINIA	481	661	465	-27%	3%
WISCONSIN	237	403	334	-41%	-29%
WYOMING	309	267	217	16%	42%
UNITED STATES	648	761	611	-15%	6%

Sources: NOAA, SNL, SunTrust Robinson Humphrey estimates.

Figure 9: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder

	VALUATION DATA														FINANCIAL PROJECTIONS										
		Inv.	Price	Price Target		EV/EBITDA			P/E Multiples			Price/	Div.	FCF	14-'19E	Earnings Per Share						Estimated Operating EPS			
COMPANY	Ticker	Rating	9/22/17	12-Month	%	2019E	2018E	2017E	2019E	2018E	2017E	Book	Yield	Yield	CAGR	2019E	2018E	2017E	2016A	2015A	2014A	2Q17A		2Q16A	%
		(A)		(B)										(C)											
ALLIANT ENERGY CORP	LNT		42			10.8	11.8	12.3	18.5	19.6	20.8	2.3	3%		4%	$2.25	$2.13	$2.01	$1.88	$1.87	$1.87				
AMEREN CORPORATION	AEE		59			8.7	9.0	9.6	18.3	19.4	20.9	1.9	3%		4%	$3.19	$3.02	$2.80	$2.69	$2.68	$2.68				
AMERICAN ELECTRIC POWER	**AEP**	**B**	**71**	**80**	**13%**	**10.2**	**10.6**	**10.8**	**17.2**	**18.3**	**19.3**	**1.9**	**3%**	**(4%)**	**4%**	**$4.11**	**$3.85**	**$3.65**	**$3.94**	**$3.69**	**$3.43**	**$0.75**	**A vs**	**$0.95**	**(21%)**
AVISTA CORP	AVA		51			8.9	10.4	11.5	23.5	25.0	26.4	2.0	3%		0%	$2.19	$2.05	$1.95	$2.07	$2.17	$2.17				
CENTERPOINT ENERGY INC	**CNP**	**H**	**29**	**29**	**(1%)**	**8.3**	**8.7**	**9.1**	**19.6**	**20.7**	**22.0**	**3.5**	**4%**	**3%**	**3%**	**$1.49**	**$1.41**	**$1.33**	**$1.16**	**$1.10**	**$1.27**	**$0.29**	**A vs**	**$0.17**	**71%**
CMS ENERGY CORP	**CMS**	**H**	**46**	**47**	**1%**	**9.2**	**9.7**	**10.3**	**18.8**	**20.1**	**21.5**	**2.9**	**3%**	**(2%)**	**7%**	**$2.47**	**$2.31**	**$2.16**	**$2.02**	**$1.89**	**$1.77**	**$0.33**	**A vs**	**$0.45**	**(27%)**
CONSOLIDATED EDISON INC	ED		82			9.3	9.9	10.3	18.3	19.2	20.0	1.7	3%		2%	$4.47	$4.26	$4.09	$3.96	$3.96	$3.96				
DTE ENERGY COMPANY	DTE		108			10.2	11.1	11.9	18.0	19.0	20.0	2.0	3%		3%	$6.03	$5.72	$5.42	$5.28	$5.28	$5.28				
DUKE ENERGY CORP	**DUK**	**H**	**84**	**88**	**4%**	**10.1**	**10.5**	**10.9**	**16.6**	**17.4**	**18.3**	**1.4**	**4%**	**(4%)**	**2%**	**$5.09**	**$4.85**	**$4.61**	**$4.69**	**$4.54**	**$4.55**	**$1.01**	**A vs**	**$1.07**	**(6%)**
EDISON INTERNATIONAL	**EIX**	**B**	**78**	**90**	**15%**	**8.4**	**8.9**	**9.2**	**16.8**	**18.1**	**18.5**	**1.7**	**3%**	**(1%)**	**0%**	**$4.67**	**$4.32**	**$4.24**	**$3.97**	**$4.10**	**$4.59**	**$0.85**	**A vs**	**$0.86**	**(1%)**
EVERSOURCE ENERGY	ES		61			9.9	10.5	11.1	17.3	18.3	19.3	1.7	3%		3%	$3.52	$3.31	$3.15	$2.98	$2.96	$2.96				
GREAT PLAINS ENERGY INC	**GXP**	**H**	**30**	**31**	**3%**	**9.3**	**12.7**	**8.5**	**16.8**	**21.6**	**17.5**	**1.4**	**4%**	**2%**	**3%**	**$1.80**	**$1.40**	**$1.73**	**$1.85**	**$1.37**	**$1.57**	**$0.43**	**A vs**	**$0.55**	**(22%)**
P G & E CORP	PCG		69			7.5	8.0	8.5	17.2	18.0	18.7	1.9	3%		1%	$4.01	$3.83	$3.68	$3.71	$3.76	$3.76				
PNM RESOURCES INC	**PNM**	**H**	**41**	**36**	**(13%)**	**9.9**	**10.6**	**10.7**	**20.3**	**23.9**	**22.1**	**1.8**	**2%**	**(5%)**	**6%**	**$2.03**	**$1.73**	**$1.87**	**$1.65**	**$1.64**	**$1.49**	**$0.49**	**A vs**	**$0.40**	**NM**
PINNACLE WEST CAPITAL	**PNW**	**H**	**86**	**84**	**(2%)**	**9.5**	**9.9**	**10.3**	**18.3**	**19.3**	**20.4**	**1.9**	**3%**	**(2%)**	**6%**	**$4.71**	**$4.47**	**$4.22**	**$3.95**	**$3.92**	**$3.58**	**$1.49**	**A vs**	**$1.08**	**NM**
PORTLAND GENERAL ELECTRIC	POR		46			8.1	8.4	9.0	18.1	18.8	20.5	1.7	3%		3%	$2.52	$2.42	$2.23	$2.10	$2.16	$2.16				
PPL CORP	PPL		38			10.3	10.9	11.9	15.8	16.5	17.8	2.5	4%		(0%)	$2.44	$2.33	$2.16	$2.37	$2.45	$2.45				
SCANA CORP	SCG		55			10.4	10.4	10.7	13.2	13.1	13.1	1.4	4%		0%	$4.19	$4.23	$4.21	$4.13	$4.16	$4.16				
SOUTHERN CO/THE	**SO**	**H**	**49**	**51**	**4%**	**10.7**	**11.1**	**11.4**	**15.5**	**16.3**	**16.6**	**1.8**	**5%**	**(7%)**	**2%**	**$3.15**	**$3.00**	**$2.95**	**$2.90**	**$2.89**	**$2.80**	**$0.73**	**A vs**	**$0.74**	**(1%)**
WESTAR ENERGY INC	WR		50			9.5	10.0	10.5	17.6	19.4	19.8	1.8	3%		3%	$2.83	$2.57	$2.51	$2.47	$2.42	$2.42				
WEC ENERGY GROUP INC	WEC		64			10.1	11.0	11.5	18.6	19.5	20.5	2.2	3%		4%	$3.43	$3.26	$3.10	$2.95	$2.88	$2.88				
XCEL ENERGY INC	**XEL**	**H**	**47**	**46**	**(3%)**	**9.3**	**9.8**	**10.3**	**18.2**	**19.3**	**20.4**	**2.2**	**3%**	**(4%)**	**5%**	**$2.60**	**$2.46**	**$2.33**	**$2.21**	**$2.09**	**$2.03**	**$0.45**	**A vs**	**$0.39**	**15%**
Regulated Utilities Average						9.6	10.1	10.5	17.5	18.7	19.3	1.9	3%	(2%)	3%										1%
BLACK HILLS CORP	BKH		69			9.6	9.9	10.4	17.9	18.3	19.5	2.1	3%		4%	$3.84	$3.74	$3.53	$3.06	$3.19	$3.19				
DOMINION ENERGY INC	D		77			11.2	12.0	13.7	18.1	19.0	21.2	2.9	4%		2%	$4.25	$4.06	$3.64	$3.81	$3.80	$3.80				
ENTERGY CORP	ETR		77			7.9	8.2	8.4	15.5	15.7	12.8	1.6	5%		(7%)	$4.96	$4.88	$5.99	$6.89	$7.11	$7.11				
EXELON CORP	**EXC**	**B**	**37**	**41**	**10%**	**8.4**	**8.3**	**8.6**	**13.5**	**13.1**	**13.8**	**1.2**	**4%**	**(2%)**	**3%**	**$2.75**	**$2.83**	**$2.70**	**$2.68**	**$2.49**	**$2.39**	**$0.54**	**A vs**	**$0.65**	**(17%)**
FIRSTENERGY CORP	FE		31			8.4	8.4	8.4	12.9	12.2	11.0	2.2	5%		(2%)	$2.40	$2.53	$2.81	$2.64	$2.62	$2.62				
NEXTERA ENERGY INC	NEE		146			9.7	10.5	11.2	18.8	20.2	21.7	2.6	3%		6%	$7.77	$7.25	$6.74	$6.23	$5.75	$5.75				
MDU RESOURCES GROUP INC	MDU		26			NM	NM	NM	17.3	18.9	21.1	2.3	3%		(4%)	$1.50	$1.38	$1.23	$1.14	$1.87	$1.87				
PUBLIC SERVICE ENTERPRISE G	PEG		46			8.8	9.2	9.1	15.6	15.7	15.8	1.8	4%		0%	$2.97	$2.94	$2.92	$2.88	$2.91	$2.91				
SEMPRA ENERGY	SRE		116			10.6	11.8	12.5	17.5	20.8	22.2	1.9	3%		6%	$6.64	$5.57	$5.22	$4.83	$5.05	$5.05				
Hybrid Utilities Average						9.3	9.8	10.3	16.3	17.1	17.7	2.0	3%	(2%)	1%										(17%)
AES CORP	**AES**	**B**	**11**	**15**	**35%**	**7.0**	**7.3**	**7.8**	**8.4**	**8.9**	**10.6**	**1.1**	**4%**	**18%**	**0%**	**$1.32**	**$1.25**	**$1.05**	**$0.98**	**$1.22**	**$1.30**	**$0.25**	**A vs**	**$0.17**	**47%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**2%**	**8.5**	**8.6**	**9.3**	**NM**	**NM**	**NM**	**1.7**	**NA**	**10%**	**NM**	**$0.89**	**$0.80**	**$0.26**	**($0.08)**	**$1.06**	**$0.76**	**($0.35)**	**A vs**	**$0.09**	**NM**
DYNEGY INC	**DYN**	**B**	**10**	**11**	**13%**	**7.3**	**6.4**	**8.3**	**NM**	**NM**	**NM**	**0.6**	**NA**	**24%**	**NM**	**($0.46)**	**$0.53**	**($1.63)**	**($2.52)**	**$1.95**	**($2.51)**	**($1.31)**	**A vs**	**($1.23)**	**NM**
NRG ENERGY INC	**NRG**	**H**	**24**	**23**	**(4%)**	**9.3**	**9.9**	**10.1**	**NM**	**NM**	**NM**	**2.1**	**1%**	**14%**	**NM**	**$1.59**	**$1.10**	**$0.93**	**$1.64**	**($0.34)**	**$0.94**	**$0.41**	**A vs**	**$0.84**	**NM**
ORMAT TECHNOLOGIES INC	ORA		58			9.8	10.2	11.0	21.2	22.7	24.4	2.3	NA		4%	$2.73	$2.54	$2.37	$2.10	$2.19	$2.19				
VISTRA ENERGY CORP	VST		18			8.6	8.3	8.2	30.3	26.7	25.9	1.2	NA	11%	NM	60%	68%	$0.70	NM	NM	NM				
Independent Power Average						8.4	8.4	9.1	14.8	15.8	17.5	1.6	2%	17%	2%										47%
STRH Power Index						9.5	10.0	10.4	17.1	18.2	18.7	2.0	3%	(3%)	2%										4%
S&P 500	SPX		2502						19.2	15.7	17.3		2%			130.54	159.66	144.85	130.54	110.64	113.60				

Notes:
(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.
(B) Near-term price target over the next 12 months.
(C) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Reports.

SunTrust Robinson Humphrey

Figure 9: SunTrust Robinson Humphrey Electric Power & Utilities Fact Finder (Cont'd)

			PRICE PERFORMANCE										TRADING DATA			LEVERAGE/PROFITABILITY			OWNERSHIP DATA			
		Inv.	Price	52-Week Range									30 Wk. Mov. Avg		Daily	Total	ROE	ROIC	Shares	Market	Ownership	
COMPANY	Ticker	Rating	9/22/17	Hi	Low	YTD	2016	2015	2014	2013	2012	2011	Act.	+/-	Vol.	D/C	2017E	2017E	Out.	Cap.	Insider	Instit.
														(A)	(B)				(mm)	($mm)	(C)	
ALLIANT ENERGY CORP	LNT		42	44	35	10%	21%	(6%)	29%	18%	(0%)	20%	$41	3%	1,356	52%	11%	5%	231.1	$9,642	0%	72%
AMEREN CORPORATION	AEE		59	61	47	12%	21%	(6%)	28%	18%	(7%)	18%	$56	4%	1,414	53%	NM	6%	242.6	$14,197	0%	74%
AMERICAN ELECTRIC POWER	**AEP**	**B**	**71**	**75**	**58**	**12%**	**8%**	**(4%)**	**30%**	**10%**	**3%**	**15%**	**70**	**1%**	**2,324**	**54%**	**10%**	**4%**	**491.8**	**34,709**	**0%**	**76%**
AVISTA CORP	AVA		51	53	38	29%	13%	0%	25%	17%	(6%)	14%	44	16%	481	53%	NM	NM	64.4	3,311	2%	74%
CENTERPOINT ENERGY INC	**CNP**	**H**	**29**	**30**	**22**	**19%**	**34%**	**(22%)**	**1%**	**20%**	**(4%)**	**28%**	**28**	**3%**	**3,248**	**71%**	**16%**	**6%**	**431.0**	**12,586**	**0%**	**85%**
CMS ENERGY CORP	**CMS**	**H**	**46**	**49**	**39**	**12%**	**15%**	**4%**	**30%**	**10%**	**10%**	**19%**	**46**	**0%**	**2,728**	**69%**	**14%**	**6%**	**282.0**	**13,105**	**1%**	**99%**
CONSOLIDATED EDISON INC	ED		82	86	69	11%	14%	(3%)	19%	(0%)	(10%)	25%	81	1%	1,513	53%	9%	6%	309.8	25,278	0%	59%
DTE ENERGY COMPANY	DTE		108	114	90	10%	23%	(7%)	30%	11%	10%	20%	106	2%	980	55%	10%	5%	179.4	19,442	1%	75%
DUKE ENERGY CORP	**DUK**	**H**	**84**	**88**	**72**	**9%**	**9%**	**(15%)**	**21%**	**8%**	**(3%)**	**24%**	**84**	**0%**	**3,336**	**56%**	**8%**	**5%**	**699.9**	**58,965**	**0%**	**62%**
EDISON INTERNATIONAL	**EIX**	**B**	**78**	**83**	**67**	**9%**	**21%**	**(10%)**	**41%**	**2%**	**9%**	**7%**	**80**	**(2%)**	**2,267**	**42%**	**9%**	**6%**	**325.8**	**25,505**	**0%**	**88%**
EVERSOURCE ENERGY	ES		61	64	51	10%	8%	(5%)	26%	8%	8%	13%	61	0%	1,545	51%	9%	6%	316.9	19,238	0%	82%
GREAT PLAINS ENERGY INC	**GXP**	**H**	**30**	**32**	**26**	**11%**	**0%**	**(4%)**	**17%**	**19%**	**(7%)**	**12%**	**30**	**2%**	**1,465**	**58%**	**4%**	**4%**	**272.0**	**13,872**	**0%**	**73%**
P G & E CORP	PCG		69	72	58	14%	14%	(0%)	32%	0%	(3%)	(14%)	68	2%	2,251	49%	10%	6%	512.8	35,333	0%	90%
PNM RESOURCES INC	**PNM**	**H**	**41**	**43**	**31**	**20%**	**12%**	**3%**	**23%**	**18%**	**13%**	**40%**	**39**	**7%**	**606**	**59%**	**8%**	**5%**	**79.7**	**3,290**	**1%**	**110%**
PINNACLE WEST CAPITAL	**PNW**	**H**	**86**	**91**	**71**	**11%**	**21%**	**(6%)**	**29%**	**4%**	**6%**	**16%**	**86**	**0%**	**785**	**49%**	**10%**	**6%**	**111.6**	**9,616**	**0%**	**93%**
PORTLAND GENERAL ELECTRIC	POR		46	48	40	5%	19%	(4%)	25%	10%	8%	17%	46	(0%)	613	50%	8%	5%	89.1	4,059	1%	102%
PPL CORP	PPL		38	40	32	13%	(0%)	(6%)	21%	5%	(3%)	12%	38	0%	3,499	66%	14%	6%	680.8	26,190	0%	78%
SCANA CORP	SCG		55	76	55	(25%)	21%	0%	29%	3%	1%	11%	65	(15%)	1,098	57%	10%	5%	142.9	7,892	0%	72%
SOUTHERN CO/THE	**SO**	**H**	**49**	**54**	**46**	**(1%)**	**5%**	**(5%)**	**19%**	**(4%)**	**(8%)**	**21%**	**49**	**(1%)**	**4,795**	**61%**	**11%**	**6%**	**999.5**	**48,794**	**0%**	**58%**
WESTAR ENERGY INC	WR		50	58	49	(12%)	33%	3%	28%	12%	(1%)	14%	52	(5%)	549	52%	10%	6%	142.1	7,061	1%	89%
WEC ENERGY GROUP INC	WEC		64	67	54	9%	14%	(3%)	28%	12%	5%	19%	62	2%	1,776	53%	11%	6%	315.6	20,074	0%	75%
XCEL ENERGY INC	**XEL**	**H**	**47**	**51**	**38**	**17%**	**13%**	**(0%)**	**29%**	**5%**	**(3%)**	**17%**	**46**	**2%**	**3,009**	**57%**	**11%**	**6%**	**507.8**	**24,073**	**0%**	**78%**
Regulated Utilities Average						9%	15%	(4%)	25%	9%	1%	17%		1%		55%	10%	6%			0%	80%
BLACK HILLS CORP	BKH		69	72	55	12%	32%	(12%)	1%	44%	8%	12%	68	0%	422	64%	11%	6%	53.5	3,668	1%	111%
DOMINION ENERGY INC	D		77	82	70	1%	13%	(12%)	19%	25%	(2%)	24%	78	(1%)	3,028	66%	14%	5%	642.6	49,505	0%	76%
ENTERGY CORP	ETR		77	82	67	5%	7%	(22%)	38%	(1%)	(13%)	3%	77	(0%)	1,177	65%	13%	5%	179.5	13,778	0%	91%
EXELON CORP	**EXC**	**B**	**37**	**39**	**30**	**5%**	**28%**	**(25%)**	**35%**	**(8%)**	**(31%)**	**4%**	**36**	**2%**	**7,759**	**54%**	**9%**	**5%**	**960.1**	**35,638**	**0%**	**86%**
FIRSTENERGY CORP	FE		31	35	28	(0%)	(3%)	(19%)	18%	(21%)	(6%)	20%	31	0%	3,983	78%	18%	7%	444.3	13,725	0%	106%
NEXTERA ENERGY INC	NEE		146	152	110	23%	15%	(2%)	24%	24%	14%	17%	139	5%	1,690	56%	12%	6%	469.2	68,677	0%	81%
MDU RESOURCES GROUP INC	MDU		26	30	24	(10%)	57%	(22%)	(23%)	44%	(1%)	6%	27	(2%)	798	44%	NM	NM	195.3	5,076	1%	66%
PUBLIC SERVICE ENTERPRISE (	PEG		46	47	39	5%	13%	(7%)	29%	5%	(7%)	4%	45	3%	2,799	49%	11%	6%	505.9	23,367	0%	73%
SEMPRA ENERGY	SRE		116	120	93	15%	7%	(16%)	24%	27%	29%	5%	113	2%	1,275	50%	10%	4%	251.1	29,110	0%	93%
Hybrid Utilities Average						6%	19%	(15%)	18%	15%	(1%)	11%		1%		59%	12%	5%			0%	87%
AES CORP	**AES**	**B**	**11**	**13**	**11**	**(4%)**	**21%**	**(31%)**	**(5%)**	**36%**	**(10%)**	**(3%)**	**11**	**(2%)**	**4,864**	**66%**	**10%**	**4%**	**660.3**	**7,335**	**0%**	**104%**
CALPINE CORP	**CPN**	**H**	**15**	**15**	**9**	**28%**	**(21%)**	**(35%)**	**13%**	**8%**	**11%**	**22%**	**$13**	**15%**	**9,236**	**79%**	**3%**	**5%**	**360.7**	**$5,287**	**1%**	**101%**
DYNEGY INC	**DYN**	**B**	**10**	**14**	**6**	**15%**	**(37%)**	**(56%)**	**41%**	**12%**	**(4%)**	**NM**	**8**	**20%**	**2,574**	**82%**	**(11%)**	**4%**	**131.4**	**1,280**	**1%**	**126%**
NRG ENERGY INC	**NRG**	**H**	**24**	**26**	**10**	**96%**	**4%**	**(56%)**	**(6%)**	**25%**	**27%**	**(7%)**	**20**	**22%**	**7,264**	**74%**	**8%**	**3%**	**316.5**	**7,576**	**1%**	**91%**
ORMAT TECHNOLOGIES INC	ORA		58	61	45	8%	47%	34%	(0%)	41%	7%	(39%)	58	(0%)	212	41%	10%	6%	49.9	2,879	0%	62%
VISTRA ENERGY CORP	VST		18	18	12	21%	NM	NM	NM	NM	NM	NM	16	11%	1,525	41%	NM	4%	427.6	7,761	0%	99%
Independent Power Average						27%	3%	(29%)	9%	24%	6%	(7%)		11%		68%	4%	4%			0%	97%
STRH Power Index						11%	15%	(10%)	21%	13%	1%	12%		2%		57%	10%	5%			0%	83%
S&P 500	SPX		$2,502	$2,509	$2,084	12%	9%	(1%)	11%	30%	13%	(0%)										

Notes:

(A) Investment Rating: Buy (B) = the stock's total return is expected to outperform the S&P 500 over the next 12-18 months; Hold (H) = the stock's total return is expected to perform in line with the S&P 500 over the next 12-18 months; Sell (S) = the stock's total return is expected to underperform the S&P 500 over the next 12-18 months. Only stocks under coverage are assigned an investment rating.

(B) % current price above or below 30-wk. moving average.

(C) In thousands.

(D) 2017 FCF is calculated as cash flow from operations minus capex.

Sources: SunTrust Robinson Humphrey, Bloomberg, Company Reports.

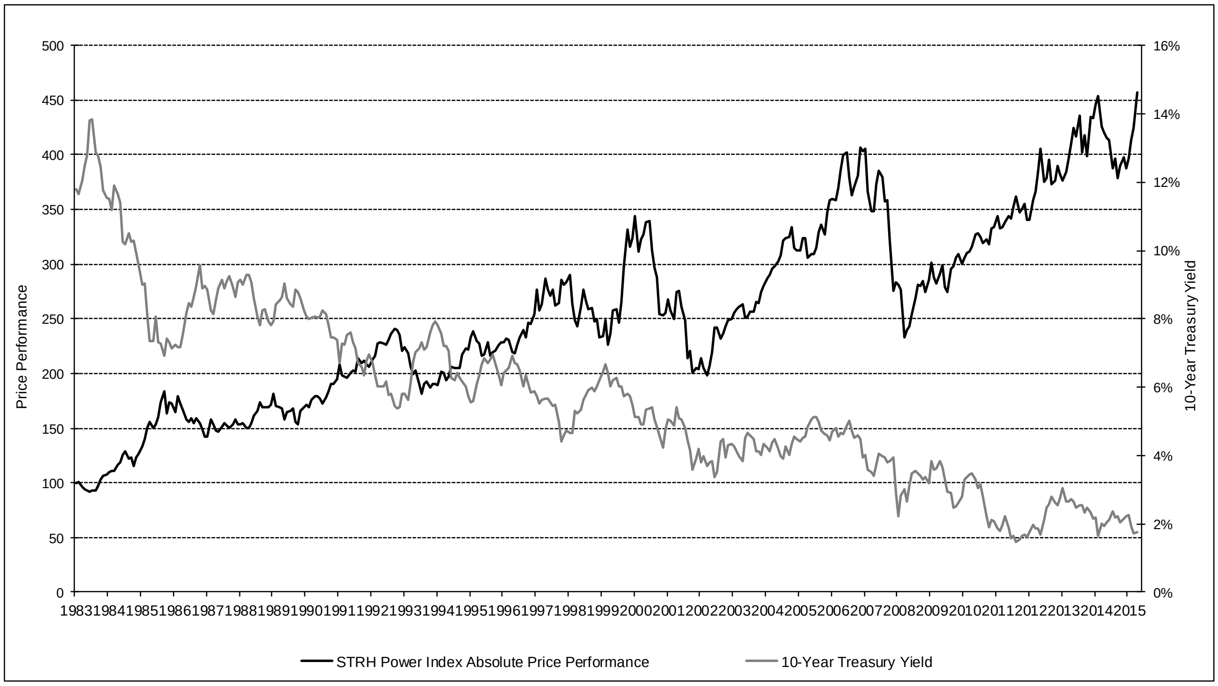
Figure 10: SunTrust Robinson Humphrey Power Index Price Performance Relative to the S&P 500 Index

12/31/83 - Present

Sources: Bloomberg, SunTrust Robinson Humphrey.

Figure 11: SunTrust Robinson Humphrey Power Index Absolute Price Performance vs 10-Year Treasury Yield

12/31/83 - Present



Sources: Bloomberg, SunTrust Robinson Humphrey.

VALUATION

AEP
Assuming a 19.5x P/E multiple (a 9% premium to the peer group to reflect the above average earnings growth profile) on our 2019 estimate of $4.11, we derive our price target of $80.

AES
Assuming an 11.4x P/E multiple (which would still imply a 10% “conglomerate” discount to the peer group) on our 2019 estimate of $1.32, we derive our price target of $15.

CMS
Assuming a 19.3x P/E multiple (a 10% premium to the peer group to reflect the above average growth outlook) on our 2019 estimate of $2.47, we derive our price target of $47.

CNP
Based on the market value of CNP’s ownership in ENBL, we derive an $8/share value. Factoring an 18.9x P/E multiple (which represents the blended peer group average based on the company’s electric and gas utility earnings mix) on our 2019 Utility estimate of $1.09, we derive a $21/share value. Consequently, our sum of the parts price target is $29.

CPN
Based on the company's take out price, and our assumption that a higher bid will not emerge, we derive our price target of $15.

DUK
Assuming a 17.5x P/E multiple (in line with other large cap peers) on our 2019 estimate of $5.09, we derive our price target of $88.

DYN
Assuming an EV/EBITDA multiple of 7.8x (a 3% discount to the peer group to reflect the higher leverage at the company) on our 2019 EBITDA estimate of $1.30bn, coupled with implied net debt of $8.26bn (which factors in all the announced asset sales), we derive our price target of $11.

EIX
Assuming a 19.2x P/E multiple (a 7% premium to the peer group to reflect the company’s above average earnings and dividend growth profile) on our 2019 estimate of $4.69, we derive our price target of $90.

EXC
Assuming a 14.8x P/E multiple (in line with the peer group) on our 2019 estimate of $2.75, we derive our price target of $41.

GXP
Assuming a 17.2x P/E multiple (a 2% discount to the peer group to reflect some uncertainty in the regulatory approval process for the merger) on our 2019 estimate of $1.80, we derive our price target of $31.

NRG
Based on the current market value of NRG's ownership in NYLD, we derive a $5/share equity value. Applying a 9.0x EV/EBITDA multiple (a 10% premium to the current peer average to reflect the potential upside from the successful execution of the Transformation Plan) to our residual NRG 2019 EBITDA estimate of $1.90 billion, coupled with implied residual Net Debt of $11.4 billion, we derive an $18/share value for the residual NRG. Consequently, our price target is $23.

PNM
Assuming a 17.8x P/E multiple (in line with the small cap peer group) on our 2019 estimate of $2.03, we derive our price target of $36.

PNW
Assuming a P/E multiple of 17.8x (in line with other small / mid cap peers) on our 2019 estimate of $4.71, we derive our price target of $84.

SO
Assuming a 16.6x P/E multiple (a 5% discount to the large cap peer group, reflecting ongoing uncertainty around the Vogtle project) on our 2019 estimate of $3.15, we derive our price target of $51.

XEL
Assuming a 17.5x P/E (in line with the peer group) on our 2019 EPS estimate of $2.60, we derive our price target of $46.

RISKS

AEP
- Final resolution of pending regulatory issues.
- Future earnings power post merchant exit
- Impact of proposed and future EPA regulations.

AES
- Potential regulatory/economic changes in key international markets.
- Investor sentiment regarding emerging/international markets.
- Successful execution of portfolio restructuring strategy.

CMS
- Outlook for Retail Open Access in Michigan.
- Change in the regulatory regime.
- Load growth trends.

CNP
- Macro trends and growth outlook for the MLP portfolio.
- Load growth trends in service territories.
- Ability to restructure MLP ownership position.

CPN
- Outlook for future spark spreads.
- Timing of additional EPA regulations.
- Electric load growth trends.

DUK
- O&M cost management.
- Future electric load growth trends.
- Impact of future regulatory initiatives.

DYN
- Outlook for forward commodity curves.
- Integration of the pending acquisitions.
- Final outcome of debt restructuring discussions.
- Implication of future EPA regulations.

EIX
- Capital investment and growth plans for non-utility operations.
- Final CPUC decision on applications to reopen SONGS retirement settlement.
- Outcome of pending and future regulatory cases.

EXC
- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

GXP
- Load growth outlook in service territories.
- Outcome of pending rate cases.
- Impact of higher property taxes and transmission costs.
- Completion of the WR acquisition.

NRG
- Execution of the Reset plan.
- Outlook for forward commodity curves.

PNM
- Final New Mexico PRC decision on the rate case settlement.
- Electric load growth trends in service territories.

PNW
- Impact of energy efficiency and distributed generation programs.
- Any regulatory changes regarding distributed generation
- Load growth outlook

SO
- Outlook for load growth.
- Dilution from additional equity issuance.
- Potential for further delays and cost increases at the large construction projects.
- Higher than expected accretion from AGL acquisition.

XEL
- Outcome of pending and future rate cases.
- Outlook for future capital expenditure (and rate base) growth.
- Load growth trends in service territories.

Companies Mentioned in This Note

American Electric Power Company, Inc. (AEP, $70.57, Buy, Ali Agha)
The AES Corporation (AES, $11.11, Buy, Ali Agha)
CMS Energy Corporation (CMS, $46.47, Hold, Ali Agha)
CenterPoint Energy, Inc. (CNP, $29.20, Hold, Ali Agha)
Calpine Corporation (CPN, $14.66, Hold, Ali Agha)
Duke Energy Corporation (DUK, $84.25, Hold, Ali Agha)
Dynegy Inc (DYN, $9.74, Buy, Ali Agha)
Edison International (EIX, $78.28, Buy, Ali Agha)
Exelon Corporation (EXC, $37.12, Buy, Ali Agha)
Great Plains Energy (GXP, $30.24, Hold, Ali Agha)
NRG Energy, Inc (NRG, $23.94, Hold, Ali Agha)
PNM Resources, Inc. (PNM, $41.30, Hold, Ali Agha)
Pinnacle West Capital Corporation (PNW, $86.15, Hold, Ali Agha)
Southern Company (SO, $48.82, Hold, Ali Agha)
Xcel Energy, Inc. (XEL, $47.41, Hold, Ali Agha)
Enable Midstream (ENBL, $14.76, Not Rated)

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Required Disclosures

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STRH Ratings System for Equity Securities

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Please email the Research Department at STRHEquityResearchDepartment@SunTrust.com or contact your STRH sales representative.

The rating system effective as of Oct. 7, 2016:

STRH Rating System for Equity Securities

SunTrust Robinson Humphrey (STRH) rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

SunTrust Robinson Humphrey ratings distribution (as of 09/25/2017):

Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	420	59.91%	Buy	132	31.43%
Hold/Neutral	277	39.51%	Hold/Neutral	62	22.38%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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RESEARCH SUMMARY
September 25, 2017

Daily Spotlight

SunTrust Robinson Humphrey

At a Glance

Symbol	Rating		Est.	Price Target	
	Prior	Current		Prior	Current
PRICE TARGET CHANGES					
CMS	H	H		$49.00	$47.00
DUK	H	H		$91.00	$88.00
GXP	H	H		$32.00	$31.00
PNW	H	H		$86.00	$84.00
PNM	H	H		$37.00	$36.00
SO	H	H		$53.00	$51.00
ONCE	B	B		$85.00	$95.00
XEL	H	H		$47.00	$46.00
COMPANY UPDATES					
CHK	B	B	▼	$8.00	$8.00
LH	B	B		$190.00	$190.00
DGX	H	H		$120.00	$120.00
AEP	B	B		$80.00	$80.00
BMY	H	H		$55.00	$55.00
CPN	H	H		$15.00	$15.00
CNP	H	H		$29.00	$29.00
DYN	B	B		$11.00	$11.00
EIX	B	B		$90.00	$90.00
EDIT	H	H		$17.00	$17.00
EXC	B	B		$41.00	$41.00
MRK	B	B		$73.00	$73.00
MHK	B	B		$275.00	$275.00
NRG	H	H		$23.00	$23.00
OFIX	B	B		$56.00	$56.00
AES	B	B		$15.00	$15.00

INDUSTRY UPDATES

Application Software - Tillman's Software Monday Morning Missives

Banking - Regional and Community Banks - Regional and Community Banks - Desperately Seeking Deposits

Entertainment - STRH Digital Entertainment Weekly: ATVI, LGF, NFLX, P, Roku, Spotify

Leisure Products - August U.S. Golf equipment sales up 4% (ELY/GOLF)

Self Storage REITs - REITs - The "Ki" to Self-Storage

Today's Events

9/25	AAR Corp. (AIR) - New York - Ciarmoli
9/25	Analog Devices, Inc. (ADI) - Los Angeles - Stein
9/25	JELD-WEN Holding, Inc. (JELD) - New York - K. Hughes
9/25	Korn/Ferry International (KFY) - St. Louis and Kansas City - Sommer
9/25	Spark Therapeutics, Inc. (ONCE) - Group Dinner - New York - Nash
9/25	Cabot Corp. (CBT) - Boston - Sheehan
9/25	David MacDonald - Analyst Trip - Midwest
9/25	Michael Young - Analyst Trip - Texas

Morning Meeting Highlights

SunTrust Robinson Humphrey Lodging Speaker Series Conference Call today at 11: a.m. with CBRE Hotels' Americas Research

2018 Outlook: Asset Valuations, Labor Costs, and RevPAR

Hear from one of the leading hotel consultancies on the latest lodging trends—from the top line to the bottom line and the latest on hotel transactions activity.

CBRE Hotels' Americas Research offers a unique perspective with an 80-year history of analyzing hotel financial statements as well as insights through their related brokerage and appraisal services.

Topics to be covered include: Occupancy, ADR, and RevPAR forecasts for 2017 and 2018 by segment and market, Cap Rate and hotel transactions trends, and a special focus on the emerging topic of rising labor costs.

Led by
R. Mark Woodworth, Senior Managing Director, CBRE Hotels' Americas Research

Jamie Lane, Senior Economist, CBRE Hotels' Americas Research

C. Patrick Scholes, Senior Analyst, SunTrust Robinson Humphrey

Sectors
Lodging and Lodging REITs

Dial-In Numbers:
U.S. and Canada: 888-469-3051
International: 1-517-319-9392
Conference Passcode: 2975786
Replay Dial-In:
U.S. and Canada: 800-395-6236
International: 1-203-369-3270
Available through 10/5

Chesapeake Energy (CHK, $4.22, Buy) - Powder River Presentation Highlights Notable Progress and Upside - Chesapeake presented at the SunTrust Robinson Humphrey Power River Basin (PRB) Summit last week. Highlights included a new positive Turner well, full development company operations in the Turner and Sussex formations, along with a long-term production forecast for Chesapeake in the play to rival its Eagle Ford in a few years. Though Chesapeake still has a number of quarters before likely achieving FCF neutrality, the PRB provides a highly economic play for the company along with the Eagle Ford and Mid Continent; all which can help drive materially higher upcoming earnings. - Neal Dingmann

9/25	11AM ET Conference Call with CBRE Hotels' Americas Research - Scholes

Banking - Regional and Community Banks - Regional and Community Banks - Desperately Seeking Deposits - Banks with high loan/deposit ratios and strong loan growth like STRH covered companies ABCB, ASB, CADE, CATY, GNBC, LTXB, OZRK and PACW are seeking incrementally more core funding via an acquisition. Starting on page 4, we highlight about 100 of the most core deposit heavy $1 billion-$5 billion asset franchises. Banks with the most balance sheet liquidity and best core funding are Buy rated STBZ and non-covered companies like CVCY, HTBK, FNRN, CCBG and BMRC. Franchises like these should get higher valuation levels as deposit costs increase for the industry. - **Jennifer Demba**

Self Storage REITs - REITs - The "Ki" to Self-Storage - In September 2017, net rents decreased by -2.6% YoY (-2.4% street rates, promotions +0.2% higher), which was slightly weaker than August's trend of -0.8% YoY. As we stated last month, although August was improved from previous months' trends of -3% to -5% YoY, one month does not make a trend. - **Ki Bin Kim**

Application Software - Tillman's Software Monday Morning Missives - **Terry Tillman**

Clinical Labs - Diagnostic Labs (LH, DGX) Comments On Proposed Clinical Lab Fee Schedule Rates - **David MacDonald**

Other Focus Items Today

Consumer

Leisure Products - August U.S. Golf equipment sales up 4% (ELY/GOLF) - **Michael Swartz**

Electric Power and Utilities

Electric Power and Utilities - Power/Utilities Macro Trends Tracker: Decline In Forward Spreads - This report includes our analysis of the key macro factors impacting the power/utility sector, including: forward power prices, spark spread, dark spread, and gas/coal spread trends; domestic electric consumption growth; and national weather patterns. Based on the latest peer group valuations, we are decreasing our price targets on CMS, DUK, GXP, PNM, PNW, SO, and XEL. - **Ali Agha**

Energy

Chesapeake Energy (CHK, $4.22, Buy) - Powder River Presentation Highlights Notable Progress and Upside - Chesapeake presented at the SunTrust Robinson Humphrey Power River Basin (PRB) Summit last week. Highlights included a new positive Turner well, full development company operations in the Turner and Sussex formations, along with a long-term production forecast for Chesapeake in the play to rival its Eagle Ford in a few years. Though Chesapeake still has a number of quarters before likely achieving FCF neutrality, the PRB provides a highly economic play for the company along with the Eagle

Ford and Mid Continent; all which can help drive materially higher upcoming earnings. - **Neal Dingmann**

Financials

Banking - Regional and Community Banks - Regional and Community Banks - Desperately Seeking Deposits - Banks with high loan/deposit ratios and strong loan growth like STRH covered companies ABCB, ASB, CADE, CATY, GNBC, LTXB, OZRK and PACW are seeking incrementally more core funding via an acquisition. Starting on page 4, we highlight about 100 of the most core deposit heavy $1 billion-$5 billion asset franchises. Banks with the most balance sheet liquidity and best core funding are Buy rated STBZ and non-covered companies like CVCY, HTBK, FNRN, CCBG and BMRC. Franchises like these should get higher valuation levels as deposit costs increase for the industry. - **Jennifer Demba**

Healthcare

Clinical Labs - Diagnostic Labs (LH, DGX) Comments On Proposed Clinical Lab Fee Schedule Rates - **David MacDonald**

Spark Therapeutics (ONCE, $85.15, Buy) - Strength Should Continue; Raising PT To $95 - ONCE has outperformed the biotech sector YTD, mainly driven by a continued stream of positive data from the hemophilia programs. We expect the strong trend to continue in 4Q17 and into 2018, with upcoming milestones likely providing strong momentum for the stock. We expect favorable votes on Luxturna at the FDA AdCom on 10/12, and expect improved efficacy data from SPK-8011, after the dose escalation in the ongoing Phase I/II study, to be reported in December at ASH. After adjusting discount period in our valuation matrices, we raise PT to $95 from $85 and reiterate Buy rating on ONCE shares. - **Edward Nash**

Bristol-Myers Squibb Company (BMY, $63.36, Hold) - Opdivo granted FDA approval & 1st mover advantage in 2L Hepatocellular Cancer - As we expected, Opdivo received FDA approval in 2L hepatocellular carcinoma (HCC or liver cancer) based on Ph-1/2 Checkmate-040 trial results. The HCC approval provides a small commercial opp'y (orphan indication) & 1st-mover adv. As oncologists gain experience using Opdivo in 2L liver cancer (vs. Bayer's Stivarga), it positions Opdivo well to move up into the 1L setting (vs. Nexavar) with Checkmate-459 data expected in 2H17. We model Opdivo '21E sales at $7.7B vs. the Street's $7.8B. BMY's IO+IO strategy hinges on CM-227 interim 4Q17/top-line data 1Q18. Reiterate Hold/$55PT on 17.5x '18E EPS. - **John Boris**

Merck & Co. Inc. (MRK, $65.60, Buy) - Keytruda granted FDA approval in 2L+ Gastric Cancer - As we expected, Keytruda secured FDA approval in 2L+ Gastric Cancer (PD-L1+ pts) based on KN-059 results presented at ESMO. MRK has 1st-mover adv. in the US gastric cancer mkt (26K/11K incidence/mortality), while BMY/Ono's Opdivo secured approval from the MHLW in Japan (38K/16K). We expect rapid adoption of Keytruda in 2L+ gastric patients. MRK is also pursuing Keytruda +/- chemo in 1L gastric cancer in KN-061, with readout expected in 2H19. Keytruda label expansions & data readouts support our ‘21E sales at $9.9B vs. the Street’s $9.7B. Reiterate Buy/$73PT on 17.7x ’18E EPS, supported by DCF. - **John Boris**

Editas Medicine (EDIT, $23.16, Hold) - On The Road - Positive Reception, Awaiting Clinical Data - We hosted a series of investor meetings with Editas’ management - Charlie Albright (CSO), and Mark Mullikin (IR). We liked management's tighter focus on two areas: (1) gene editing in the eye, and (2) ex-vivo cellular gene editing. While we are very positive on the influence that gene editing will likely have on many genetic mutation-based diseases, we need to get a step closer to human data before we can get more constructive on the name - but key events to watch are natural history data in mid-2018 and early Phase 1 data by YE18. Reiterate our HOLD rating and $17 PT (DCF/NPV). - **Peter Lawson**

Orthofix International N.V. (OFIX, $47.76, Buy) - Management Meeting Highlights - We traveled with OFIX management yesterday and they reiterated their commitment to the 4 key franchises, 5%+ organic growth over the mid-term and 300 BPS of adjusted EBITDA improvement over the next three years. Management continues to believe that a down-classification of the BioStim indication by the FDA is highly unlikely, and that even it were to occur, that the commercial impact would be negligible. - **Bruce Nudell**

Industrials

Mohawk Industries, Inc. (MHK, $254.11, Buy) - Reiterate Buy Rating On Weakness - **Keith Hughes**

Real Estate Investment Trusts

Self Storage REITs - REITs - The "Ki" to Self-Storage - In September 2017, net rents decreased by -2.6% YoY (-2.4% street rates, promotions +0.2% higher), which was slightly weaker than August’s trend of -0.8% YoY. As we stated last month, although August was improved from previous months’ trends of -3% to -5% YoY, one month does not make a trend. - **Ki Bin Kim**

TMT

Application Software - Tillman's Software Monday Morning Missives - **Terry Tillman**

Entertainment - STRH Digital Entertainment Weekly: ATVI, LGF, NFLX, P, Roku, Spotify - P: SIRI completes investment, Maffei named P Chairman. LGF: ‘Outlander’ viewership could bode well for Starz subs. ATVI: Destiny 2 tops UK chart for 2nd consecutive week while Overwatch League sells final 3 teams for inaugural season set to begin 1/10 (preseason 12/6). We hosted investor meetings last week with NFLX, ATVI, EA, LGF, P, and others (LINK 1, LINK 2). - **Matthew Thornton**

Management Access / NDRs

Date	Event	Analyst(s)	Region
9/25/17-9/26/17	AAR Corp. (AIR) - New York	Ciarmoli	NEW YORK
9/25/17	Analog Devices, Inc. (ADI) - Los Angeles	Stein	WEST COAST
9/25/17	JELD-WEN Holding, Inc. (JELD) – New York	K Hughes	NEW YORK
9/25/17-9/26/17	Korn/Ferry International (KFY) – St. Louis & KC	Sommer	KC
9/25/17	Spark Therapeutics, Inc. (ONCE) - Group Dinner - New York	Nash	NEW YORK
9/26/17	CenterPoint Energy, Inc. (CNP) - Group Dinner - New York	Agha	NEW YORK
9/26/17	On Assignment, Inc. (ASGN) - San Francisco	Sommer	WEST COAST
9/27/17	Atlanta Market REIT Bus Tour	Lewis/Kim	SOUTHEAST
9/27/17	Colgate-Palmolive Company (CL) - Group Dinner - New York	Chappell	NEW YORK
9/27/17	Express Scripts Holding Company (ESRX) - Field Trip - St. Louis	MacDonald	KC
9/27/17	Prosperity Bancshares, Inc. (PB) - Houston	Demba	TEXAS
9/28/17	ConforMIS, Inc. (CFMS) - Detroit	Nudell	MIDWEST
9/28/17	Edison International (EIX) - Chicago	Agha	MIDWEST
10/02/17-10/05/17	Management Meetings around G2E Conference and Property Tour – Las Vegas	Scholes	WEST COAST
10/02/17-10/03/17	Willis Towers Watson Public Limited Company (WLTW) - Canada	Sommer	CANADA
10/03/17	Kinsale Capital Group, Inc. (KNSL) - Denver	M Hughes	WEST COAST
10/03/17	Natick Mall Tour - Natick, MA	Quintiliano	BOSTON
10/04/17	Euronet Worldwide, Inc. (EEFT) – Group Dinner - Kansas City	Jeffrey	KC
10/04/17	Kinsale Capital Group, Inc. (KNSL) - KC/Dallas	M Hughes	KC/TEXAS
10/05/17	Young Gunz in REITs Dinner - Chicago	Kim	MIDWEST
10/09/17	Carrizo Oil & Gas, Inc. (CRZO) - Ft. Worth & Dallas	Dingmann	TEXAS

Analyst Marketing

Date	Event	Analyst(s)	Region
9/25/17	- Cabot Corp. (CBT) - Boston	Sheehan	BOSTON
9/25/17-9/26/17	- David MacDonald - Analyst Trip - Midwest	MacDonald	MIDWEST
9/25/17-9/26/17	- Michael Young - Analyst Trip - Texas	Young	TEXAS
9/26/17-9/27/17	- Andrew Jeffrey - Analyst Trip - Canada	Jeffrey	CANADA
9/26/17-9/27/17	- Bill Chappell - Analyst Trip - New York	Chappell	NEW YORK
9/26/17-9/27/17	- David MacDonald - Analyst Trip - St Louis/KC	MacDonald	KC
9/26/17	- Patrick Scholes - Analyst Trip - KC	Scholes	KC
9/27/17	- Eric Fleming - Analyst Trip - Chicago	Fleming	CHICAGO
9/27/17-9/28/17	- Greg Miller - Analyst Trip - West Coast	Miller	WEST COAST
9/27/17	- Pam Quintiliano - Analyst Trip - Milwaukee	Quintiliano	MIDWEST
9/28/17	- Andrew Jeffrey - Analyst Trip - Baltimore	Jeffrey	MID-ATLANTIC
9/28/17	- Michael Ciarmoli - Analyst Trip - Boston	Ciarmoli	BOSTON
9/28/17-9/29/17	- Yatin Suneja - Analyst Trip - TX	Suneja	TEXAS
9/29/17	- Andrew Jeffrey - Analyst Trip - New York	Jeffrey	NEW YORK
10/02/17	- David MacDonald - Analyst Trip - Boston	MacDonald	BOSTON
10/02/17	- Sandy Draper - Analyst Trip - Dallas	Draper	TEXAS
10/03/17	- Andrew Jeffrey - Analyst Trip - New York	Jeffrey	NEW YORK
10/03/17-10/04/17	- Charley Brady - Analyst Trip - New York	Brady	NEW YORK
10/03/17	- Greg Miller - Analyst Trip - Chicago	Miller	MIDWEST
10/03/17-10/04/17	- Michael Swartz - Analyst Trip - New York	Swartz	NEW YORK
10/04/17	- Andrew Jeffrey - Analyst Trip - KC	Jeffrey	KC
10/04/17-10/05/17	- David MacDonald - Analyst Trip - Canada	MacDonald	CANADA
10/04/17	- Greg Miller - Analyst Trip - Minneapolis	Miller	MIDWEST
10/04/17	- Jake Bartlett - Analyst Trip - Boston	Bartlett	BOSTON
10/04/17-10/05/17	- Keith Hughes - Analyst Trip - New York	K Hughes	NEW YORK
10/05/17	- Youssef Squali & Naved Khan - Analyst Trip - KC	Squali/Kahn	KC

Conferences

Date	Event	Analyst(s)	Region

Conference Call

Date	Event	Analyst(s)	Region
9/25/17	11AM EST Conference Call with CBRE Hotels' Americas Research	Scholes	CONFERENCE CALL

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STRH Ratings System for Equity Securities

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Please email the Research Department at STRHEquityResearchDepartment@SunTrust.com or contact your STRH sales representative.

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SunTrust Robinson Humphrey (STRH) rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:

B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	420	59.91%	Buy	132	31.43%
Hold/Neutral	277	39.51%	Hold/Neutral	62	22.38%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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28 September 2017
Global
Equity Research
Utilities

Global Utilities

MARKET COMMENTARY/STRATEGY

Bright Light – 28 September 2017

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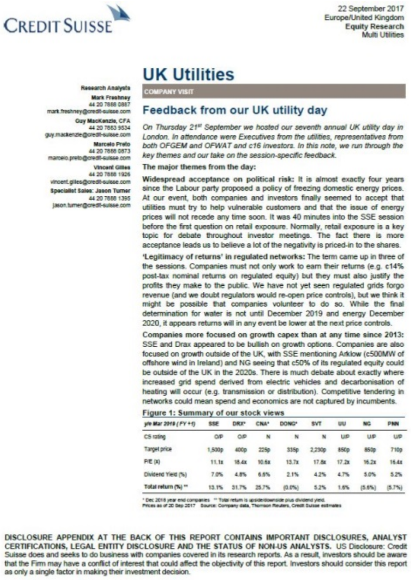
Our fortnightly Bright Light compiles the latest research reports published by the Global Utilities Team, our high conviction stock ideas, valuation tools and key market performance data.

Report of the week: UK Utilities – Feedback from the Credit Suisse UK utility day

Mark Freshney and Guy MacKenzie run through the key themes and their take on the session-specific feedback from the seventh annual UK utility day held on 21st September. Click here

- **Widespread acceptance on political risk:** It is almost exactly four years since the Labour party proposed a policy of freezing domestic energy prices. At the event, both companies and investors finally seemed to accept that utilities must try to help vulnerable customers and that the issue of energy prices will not recede any time soon. It was 40 minutes into the SSE session before the first question on retail exposure. Normally, retail exposure is a key topic for debate throughout investor meetings. The fact there is more acceptance leads them to believe a lot of the negativity is priced-in to the shares.
- **'Legitimacy of returns' in regulated networks:** The term came up in three of the sessions. Companies must not only work to earn their returns (e.g. c14% post-tax nominal returns on regulated equity) but they must also justify the profits they make to the public. They state that they have not yet seen regulated grids forgo revenue, but they think it might be possible that companies volunteer to do so. While the final determination for water is not until December 2019 and energy December 2020, it appears returns will in any event be lower at the next price controls.
- **Companies more focused on growth capex than at any time since 2013:** SSE and Drax appeared to be bullish on growth options. Companies are also focused on growth outside of the UK, with SSE mentioning Arklow (c500MW of offshore wind in Ireland) and NG seeing that c50% of its regulated equity could be outside of the UK in the 2020s. There is much debate about exactly where increased grid spend derived from electric vehicles and decarbonisation of heating will occur (e.g. transmission or distribution). Competitive tendering in networks could mean spend and economics are not captured by incumbents.



22 September 2017
Europe/United Kingdom
Equity Research
Multi Utilities

UK Utilities

COMPANY VISIT

Feedback from our UK utility day

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On Thursday 21st September we hosted our seventh annual UK utility day in London. In attendance were Executives from the utilities, representatives from both OFGEM and OFWAT and c16 investors. In this note, we run through the key themes and our take on the session-specific feedback.

The major themes from the day:

Widespread acceptance on political risk: It is almost exactly four years since the Labour party proposed a policy of freezing domestic energy prices. At our event, both companies and investors finally seemed to accept that utilities must try to help vulnerable customers and that the issue of energy prices will not recede any time soon. It was 40 minutes into the SSE session before the first question on retail exposure. Normally, retail exposure is a key topic for debate throughout investor meetings. The fact there is more acceptance leads us to believe a lot of the negativity is priced-in to the shares.

'Legitimacy of returns' in regulated networks: The term came up in three of the sessions. Companies must not only work to earn their returns (e.g. c14% post-tax nominal returns on regulated equity) but they must also justify the profits they make to the public. We have not yet seen regulated grids forgo revenue (and we doubt regulators would re-open price controls), but we think it might be possible that companies volunteer to do so. While the final determination for water is not until December 2019 and energy December 2020, it appears returns will in any event be lower at the next price controls.

Companies more focused on growth capex than at any time since 2013: SSE and Drax appeared to be bullish on growth options. Companies are also focused on growth outside of the UK, with SSE mentioning Arklow (c500MW of offshore wind in Ireland) and NG seeing that c50% of its regulated equity could be outside of the UK in the 2020s. There is much debate about exactly where increased grid spend derived from electric vehicles and decarbonisation of heating will occur (e.g. transmission or distribution). Competitive tendering in networks could mean spend and economics are not captured by incumbents.

Figure 1: Summary of our stock views

y/e Mar 2019 (FY +1)	SSE	DRX*	CNA*	DONG*	SVT	UU	NG	PNN
CS rating	O/P	O/P	N	N	N	U/P	U/P	U/P
Target price	1,500p	400p	225p	335p	2,230p	850p	850p	710p
P/E (x)	11.1x	18.4x	10.6x	13.7x	17.8x	17.2x	16.2x	16.4x
Dividend Yield (%)	7.0%	4.8%	6.6%	2.1%	4.2%	4.7%	5.0%	5.2%
Total return (%) **	13.1%	31.7%	25.7%	(0.0%)	5.2%	1.6%	(5.6%)	(5.7%)

* Dec 2018 year end companies ** Total return is upside/downside plus dividend yield.
Prices as of 20 Sep 2017 Source: Company data, Thomson Reuters, Credit Suisse estimates

Recent Research

Europe

Fortum
Neutral
TP €14.2

- **Vincent Gilles** comments on the potential acquisition of a 46.6% stake in **Uniper** (€23.2, TP €20, O/P) by **Fortum** (€16.7, TP €14.2, N) in early 2018. He estimates the positive EPS impact to be c30% for 2018E assuming that Fortum takes over 100% of Uniper in early 2018 and assuming no synergies, no change in tax positions and no disposals. He states that the deal could be positive for Fortum as it could boost EPS growth and reduce exposure to the Scandinavian power market. Click here
- **Vincent** analyses the agreement signed by **Fortum** (€16.7, TP €14.2, N) with **e.on** (€9.4, TP €8.4, N) to buy a 46.6% stake in **Uniper** (€23.2, TP €20, O/P). Fortum plans to launch a voluntary public takeover offer to all Uniper shareholders at €22ps in early 2018, unchanged from the previous announcement. The deal will be financed with existing cash and committed credit facilities and is subject to regulatory approval. He reiterates his view that not only Fortum would prefer controlling Uniper but also may find itself above 50% anyway. Click here

Uniper
Outperform
TP €20

- **Vincent** writes about the potential impact on **Uniper** (€23.2, TP €20, O/P) from the announcement by **Fortum** (€16.7, TP €14.2, N) on a possible acquisition of a stake in Uniper at €22ps. He believes that the share price of Uniper will stay slightly below the targeted €22 to allow for the value of time and a potential failure of the deal to complete. He does not assume investors to anticipate an increase of the offer. In his view, Fortum will have agreed the €22 price with **e.on** (€9.4 TP €8.4, N) already giving it close to full control without paying more. Click here

National Grid
Underperform
TP 860p

- **Mark Freshney** reiterates his Underperform rating for **Global Utilities Conviction Stock** **National Grid** (925p, TP 860p, U/P). NG earlier this month held an investor day on its New York business and gave 4-year targets. He increases his 4-year US EBIT growth CAGR from c7% to c10% as a result. He increases long-term US$:GBP rate to 1.33 (from 1.27); in-line with in-house assumptions. This results in changes in his FYmar18E and FYmar19E EPS forecasts by <c1%. He reiterates his Underperform rating as he sees premium to combined RAB and rate base still at elevated levels and he believes that UK allowed returns will fall even before the next price controls. Click here

SSE
Outperform
TP 1,500p

- **Mark Freshney** reviews the 1HFY18 pre-close statement of **SSE** (1,394p, TP 1,500p, O/P), whose first half profit makes c26% of his full-year estimate. He estimates that the retail business comes mostly for free at the current share price and notes that SSE has one of the most attractive dividend yields in the sector. The transmission business is subject to negative revenue adjustments in 2017/18, which he claims is a fact well-known. He also highlights the quality of investment pipelines of the company which generates >c10% project-level IRRs on onshore and offshore wind and >c8% on networks, versus a WACC of c5-6%. He maintains his Outperform rating and TP. Click here

Suez
Underperform
TP €13.1

- **Guy MacKenzie** downgrades **Suez** (€15.2, €13.1, U/P) to Underperform (from Neutral) as he sees unrealistic growth expectations priced in. He cuts his 2017-20E EPS estimates by c17-25% on FX, lower waste and water margins, a higher tax rate, and GE Water deal timing. He sees risk of higher landfill taxes in France in the near term, reducing operational leverage and driving margin pressure and also accounts for only minimal EBIT benefits by any cyclical recovery in France. He also notes the negative translation exposure the company has on account of having c50% of its EBIT outside the Eurozone. He does not expect dividend growth before 2022E and lowers his TP to €13.1 (from €14.5). Click here

North America

Pinnacle West Capital
Neutral
TP US$90

- **Michael Weinstein** initiates coverage of **Pinnacle West Capital** (US$84.8, TP US$90, N) with a Neutral rating and a TP of US$90 implying c4% total return, mostly from the dividend yield. He believes that the company is in a solid position to continue above-average 6%-7% ratebase growth through the early 2020s after receiving approval for a multi-party rate settlement in August. Nonetheless, he notes that load and revenue growth remain suppressed as much as -1.5% from energy efficiency and distributed generation. He views the stock as fully valued after nearly 20% peer outperformance since mid-2015 on both expectations for a favorable rate settlement and M&A target eligibility as a single-state SMID-cap. Click here

Vistra Energy
Outperform
TP US$20

- **Michael** initiates coverage of unregulated power generator and retailer **Vistra Energy** (US$18.7, TP US$20, O/P) at Outperform with a TP of US$20. He sees the business as favorably balanced and supported by a high-margin retail business despite some of its coal-fired power plants struggling with weak pricing in the fully deregulated Texas electricity market. He states that the company also has the strongest balance sheet among its peers, which enables it to take advantage of cyclical acquisition opportunities and positions it well to transform away from struggling coal-fired facilities and toward a more gas-fired and solar portfolio. Click here
- **Michael** shares feedback from his initiation of **Vistra Energy** (US$18.7, TP US$20, O/P) mostly focused on his opinion and analysis of a potential **Dynegy** (US9.9, not covered) acquisition. While he understands that management may see potential value in a combination, he continues to see this as challenging to accrete value, despite VST's stated preference for a sizable portfolio that could bring "influence" to new markets. He states that private equity on the Board may be more cautious and less eager to stretch the balance sheet on a possibly risky expansion outside of Texas so soon after emerging from bankruptcy. Click here

CMS Energy
Outperform
TP US$50

- **Michael** gives an update on **CMS Energy**'s (US$46.2, TP US$50, O/P) request for securitization of US$184.6m for the early termination of the Palisades purchase power contract that currently goes through May 2022. The Michigan Public Service Commission issued a final order for only US$136.7m. He does not believe that this will satisfy the company. He estimates that an early 2018 retirement of Palisades may have accelerated cUS$500m of ratebase opportunity and a delay of four years would reduce valuation by US$0.40ps. Click here

Dominion Energy
Outperform
TP US$83

- **Michael** comments on **Dominion Energy** (US$76.8, TP US$83, O/P) as the Virginia Supreme Court dismissed consumer group arguments that had sought to declare unconstitutional the suspension of biennial reviews for Appalachian Power and Virginia Power through 2020 and 2021, respectively. Although he notes that this was the most likely outcome, the decision had been watched closely by investors and eliminates a risk that the effective rate freeze established by the state legislature might have been reversed. Click here

Brookfield Infrastructure Partners
Neutral
TP US$44

- **Andrew Kuske** reinstates his coverage on **Brookfield Infrastructure Partners** (US$43, TP US$44, N) with a Neutral rating and a US$44 TP (both unchanged from prior). He believes that the company's organic growth capital is biased upwards and the M&A environment also look more positive than in the recent past. He continues to believe that its organic asset base growth underpins an attractive network story. Click here

Azure Power Global
Outperform
TP US$21

- **Maheep Mandloi** writes about the media reports saying that **Azure Power Global** (US$15.9, TP US$21, O/P) has won a 260MW project in Gujarat which increases its contracted portfolio by 24% to 1,329MW. He feels that the lower PPA price of INR2.67/kWh reflects the company's ability to outbid competitors by leveraging its lower cost of capital, post the recent US$500m green bond. He calculates unlevered project returns of c11%, below the mid-high teens seen for prior bids, but c350bps above its post-tax blended cost of capital. He keeps his estimates unchanged as his current estimates already factor in additional project development. Click here

Latin America

Cesp
Neutral
TP R$20

- **Vinicius Canheu** comments on the suspension of the privatization auction of **Cesp** (R$14.5, TP R$20, N) by the Sao Paulo State's Privatization Council. The company cited obtaining extra time to assess potential adjustments to the auction structure as the main reason behind this move. He expects a negative reaction by the market as the company's lower relative attractiveness is again brought to the spotlight. Click here

Brazilian Utilities

- **Vinicius** provides details on the auction of **Cemig's** (R$7.9, Restricted) expired plants for a total concession fee of R$12.1bn. **SPIC** (not listed), **Engie Brasil** (R$35.9, TP R$34, U/P) and **Enel Brasil** (not listed) won lots with the JV between Cemig and Vale not placing any bids. Engie Brasil won the Jaguara (424MW) and Miranda (408MW) plants. For them, the company will pay a total concession fee of R$3.5bn. He commends Engie Brasil's strategy and estimates positive NPV impact of c3.5% on the current market cap, depending on the leverage structure used. Click here

Asia

China Gas Holdings
Outperform
TP HK$16.5

- **Dave Dai** assesses the announcement made by **China Gas Holdings** (HK$22.6, TP HK$16.5, O/P) on the clean energy strategic cooperation framework agreements signed with ten cities in the Beijing-Tianjin-Hebei region regarding coal-to-gas conversion. The company has signed contracts to convert 2.1m rural households from coal to natural gas in Northern China and has completed the connection work for 0.6m households among them by the end of August 2017. These updates support his positive view on the company's rural gas potential and the company is on track to achieve its guidance of 0.8m rural gas connections in FY18E, in his view. Click here

China Solar Sector

- **Gary Zhou** comments on the recent 3-14% rally seen by the H-share solar companies. He believes they are catching up after the strong MTD performance of their A-share peers. He states that investor interest is rising amid the installation momentum in China/US this year. He is cautious on the Chinese ground-mounted solar farm operators due to subsidy delay and expanding low-tariff bidding. He prefers **LONGi** (Rmb27.2, Rmb33, O/P) as it is less affected by short-term uncertainties. Click here
- **Gary** writes a thematic note on the demand momentum in the **China Solar Sector**. He says that China added 38GW of solar capacity in 8M17 and believes that the demand momentum has improved not only in the near term, but also the long term which has led to his more positive view on upstream manufacturers. He expects the momentum to last and expects total new additions to reach 48GW in 2017. He believes that rush demand could remain intact in 4Q17 given the likely subsidy cut for distributed solar. He raises his TP for **Xinyi Solar** (HK$2.8, TP HK$2.7, N) and **LONGi Green Energy** (Rmb27.2, TP Rmb33, O/P) and raises **GCL-Poly** (HK$1.1, TP HK$1.4, O/P) to Outperform (from Neutral). Click here

India Utilities Sector

- **Lokesh Garg** thinks that spike in exchange prices in India reflects the shallowness of the market rather than change in demand-supply balance. He believes that the increase in demand is just c5% of the overall power market and is prima-facie seasonal. He notes that overall power market remains strongly in surplus, with all India plant load factors still well below 60%. He expects load factor to remain below 70% till FY22E on current dynamics. Click here
- **Lokesh** shares his thoughts on the recent household electrification scheme announced by the Indian government. He feels that the scheme is complementary to other schemes including the state wise comprehensive "24x7 power for all" initiative and

notes that it envisages free connections to below-poverty-line households. He believes that the impact on total power demand may not be material (2-3% range) given that unelectrified consumers are likely to be marginal consumers. Distribution infrastructure and metering investment is key, in his view. Click here

Banpu Power
Neutral
TP Bt29

- **Thaniya Kevalee** downgrades **Banpu Power** (Bt22.6, TP Bt29, N) to Neutral (from Outperform) with unchanged TP of Bt29. The stock is up 30% since its IPO and outperformed the SET index by 18% since its stock market debut. The stock offers another c7% potential upside to his target price while its ability to secure new projects with decent return could enhance the upside over the longer term. He cuts his earnings estimates for 2018-19 by 7-9% to reflect the likely delay in SLG project and a slightly higher coal price assumption. He also trims earnings expectations on Japan Solar based on the latest guidance. Click here

Australia / New Zealand

APA Group
Underperform
TP A$7.8

- **Peter Wilson** trims his TP for **APA Group** (A$8.3, TP A$7.8, U/P) from A$8.45 due to the change in arbitration rules. He shows that where revenues are sufficiently high to allow for accelerated capital recovery, arbitration will result in lower asset values at the conclusion of existing contracts and hence lower present values. He reiterates his Underperform rating. Click here

Australian Integrated Utilities

- **Peter Wilson** believes that the **Australian Integrated Utilities** sector is at the point of peak risk due to a collective failure by the domestic gas and electricity industry to anticipate and address market shortages. He also adds that the apparent risk is likely to be higher than realised and expects it to be an opportunity for investors. He states that the downside risk is contained from the moves to restrict LNG exports and to re-regulate retail electricity prices in Victoria. He upgrades **AGL Energy's** (A$23.2, TP A$27, O/P) to Outperform (from Neutral) as its market power remains intact and is arguably enhanced in the long run. Click here

Closing prices as of 27th September 2017

Global Utilities Conviction List

MOST PREFERRED STOCKS	Currency	TP	Last close	Upside	Inclusion date	Price on inclusion	Performance since inclusion (vs. MSCI World Utilities)*	YTD performance (vs. MSCI World Utilities)*	Investment rationale
Cheung Kong Infrastructure	HKD	84.0	67.3	25%	8 May 2017	67.4	(5%)	(6%)	The three reasons for choosing the stock as our sector top-pick are: (i) lowest earnings exposure to Hong Kong, (ii) continuing overseas expansion and the acquisition momentum as exhibited by the recent bid for DUET group, and (iii) the recent correction in the share price. **Our latest research:** Cheung Kong Infrastructure - Further overseas expansion; proposing to buy 35% stake in European energy service provider
Enel	EUR	5.70	5.11	12%	21 Feb 2017	4.01	31%	22%	Enel's growth prospects remain at the top end of the sector, with an 11% net income CAGR in 2016-19E (excluding the impact of minority buyouts/share buybacks), more than double the average of the sector. We recall that in the latest plan Enel targeted €16.2bn 2018E EBITDA and €17.2bn EBITDA in 2019E. We see upside risk on the company's targets driven by regulation in Latin America and efficiency in the network/supply business. We do not see any rationale to the stock's discount to the sector, given its superior growth prospects, improved track record and restructuring progress. We expect an acceleration in minority buyouts in Q4, following the recent announcement of the corporate reorganization in Chile. Trading at 12.5x 2018E P/E (integrated peers 13.8x, sector 14.8x) and 7.0x 2018E EV/EBITDA (integrated peers 8.2x, sector 9.0x), we believe the current price provides an attractive entry point. **Our latest research:** Enel - Unjustified discount
Powergrid Corporation	INR	250	207	21%	8 May 2017	210	(8%)	3%	We reiterate an Outperform rating on attractive valuation and steady medium-term growth of 10% CAGR over FY17-22E despite potential returns cut. PGCIL is trading at par with Asian utilities and is cheaper than European and US utilities. It has much stronger growth of 15% CAGR vs. low mid-single digit growth rates for others. P/B valuation is positively correlated with benign rates and general market valuation. **Our latest research:** Powergrid Corporation - Powergrid Corporation: 1Q results: Steady quarter; commissioning progress tad soft, can catch up during the year. Maintain Outperform
Exelon	USD	43.0	37.2	16%	7 Feb 2017	36.0	(10%)	(9%)	EXC remains our highest conviction top pick after incorporating the company-specific results for the PJM 2020/21 capacity auction; we increase our TP US$2, to US$42, on an increase in capacity revenues which we account for within our capacity payments NPV in our sum of the parts valuation. Risks to our call include ExGen power price/commodity exposure, nuclear operator risk, and PHI regulatory risks. **Our latest research:** Exelon Corporation - Highlighting Potential from Energy Reforms

LEAST PREFERRED STOCKS	Currency	TP	Last close	Downside	Inclusion date	Price on inclusion	Performance since inclusion (vs. MSCI World Utilities)*	YTD performance (vs. MSCI World Utilities)*	Investment rationale
Hong Kong Electric	HKD	5.30	7.18	(26%)	21 Feb 2017	6.72	(5%)	(2%)	The stock faces uncertainties in regulated return negotiation and debt re-financing. 100% of its earnings are exposed to regulatory uncertainty in Hong Kong. We also highlight that re-financing risk remains in 2017. The company expects there could be increase in total finance costs after debt refinancing in 2017, if there are further US interest rate hikes. We estimate that a 25bp effective interest rate increase would lower the company's FY17E EPS by 2.5%. **Our latest research:** Hong Kong Electric Investments: 1H17 distributed income flat despite asset growth; prefer CKI for strong growth
CGN Power	HKD	1.65	2.17	(24%)	21 Feb 2017	2.37	(20%)	(13%)	The stock is the most expensive vs. H-share power peers trading on 1.6x FY17E P/B. We are less convinced that the management target operations for the Taishan units for 2H17/1H18 will be met on time as no fueling license has been granted. We also feel that utilisation and tariff risks are key downsides for the stock. **Our latest research:** CGN Power - 1H17 results in line with output momentum but tariff overhang in 2H17
National Grid	GBp	860	925	(7%)	14 Jan 2015	908	(25%)	(9%)	Concerns core to our Underperform thesis are based upon lower asset base growth. We also believe the company is at peak returns and earns a c12% all-in return on equity. We see most of the £4bn capex comes from the US (7% p.a. rate base growth), where returns are lower than in the UK (5% p.a. RAB growth). We note that the stock is sensitive to the recent rise in bond yields (we estimate each +/-50bps on discount rates is +/-6% on our TP) and this has driven the shares over the past year. We see a lack of short-term catalysts. The stock trades on a c46% premium to combined RAB and ratebase. **Our latest research:** National Grid - US business strong. But UK remains weak.

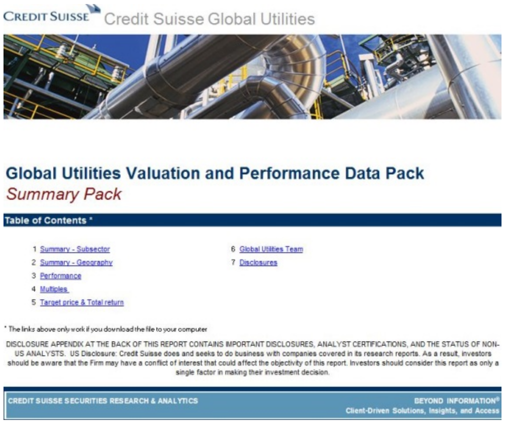
*Source: Credit Suisse Research, Thomson Reuters, * - USD terms; All MOST PREFERRED STOCKS are Outperform rated and all LEAST PREFERRED STOCKS are Underperform rated. Data as of 27th September 2017*

Recent Rating Changes

Company	Old rating	New rating	Change	Change on	Currency	TP	Last close	Country	Rationale for change
Banpu Power	Outperform	**Neutral**	▼	18 Sep	THB	29.0	26.3	Thailand	The company's share price has risen 30% since its IPO and outperformed the SET index by 18%. With Hongsa overcoming the technical issue we feel very comfortable about current and future performance of BPP's existing operations. Nonetheless, we see some challenges for BPP's expansion target. We cut our earnings estimates for 2018-19 by 7-9% to reflect the likely delay in SLG project and a slightly higher coal price assumption and downgrade to Neutral.
Suez	Neutral	**Underperform**	▼	20 Sep	EUR	13.1	15.2	France	We cut our 2017-20E EPS forecasts c17-25% on FX, lower waste and water margins, a higher tax rate, and GE Water deal timing. Our TP in turn falls c10% to €13.1/share (from €14.5), offset by a roll-forward to 2018E. We see unrealistic growth expectations priced in. Performance ytd appears to be driven by expectations of upside leverage to a cyclical recovery in France, but we estimate every 1% increase in French waste tonnage only benefits EBIT by c1%. Downgrade to Underperform.
AGL Energy	Neutral	**Outperform**	▲	27 Sep	AUD	27.0	23.2	Australia	We upgrade the stock to Outperform with TP increased to A$27/sh. With limited change to market structure, the drivers of above consensus FY17-20 growth are already in place and visible. We are 7.5% above consensus FY20 EBITDA, the electricity price recovery adds to confidence. We increase NPAT by 6.5% in FY20, primarily due to Coopers Gap, FY17 and FY18 are unchanged. Our target price represents approximately 9.0x forward EBITDA, at the top end of the 8.0-9.0x typical range but below recent peaks.
GCL-Poly Energy	Neutral	**Outperform**	▲	27 Sep	HKD	1.40	1.09	China	We upgrade GCL from Neutral to Outperform supported by near-term earnings recovery in 2H17E due to higher multi-Si wafer price and improved demand outlook in the long run. With better demand, we now expect less ASP impact on multi-Si wafer from expanding competing mono-Si products and raise our 2017-19E wafer ASP assumptions by 2-6% for GCL. We see upside on consensus FY17E earnings (Rmb2bn) which are yet to reflect the 2H17 wafer price recovery, in our view. We increase FY17-19E EPS by 21-44% mainly due to 2-6% higher wafer ASP.

Source: Credit Suisse Research, Thomson Reuters, Data as of 27th September 2017

Global Utilities Valuation Pack



Credit Suisse Global Utilities

Global Utilities Valuation and Performance Data Pack

Summary Pack

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Follow the links to download this week's edition:
Summary Pack
Global Valuation Tables by Geography
Global Valuation Tables by Sub-sector

Source: Credit Suisse Research, Thomson Reuters

Utilities Indices Worldwide

Indices	1 Week	1 Month	3 months	YTD	12 months
MSCI World Utilities	(2%)	(3%)	2%	14%	9%
MSCI US Utilities	(0%)	(2%)	3%	9%	6%
MSCI Europe Utilities	(1%)	(0%)	2%	9%	5%
MSCI Asia Utilities	(2%)	(3%)	(2%)	7%	(2%)
MSCI Australia Utilities	(2%)	(2%)	(11%)	0%	9%
MSCI China Utilities	(2%)	3%	4%	22%	8%
MSCI Brazil Utilities	(5%)	2%	18%	8%	(0%)
MSCI Japan Utilities	(1%)	(2%)	(6%)	(2%)	9%
MSCI Europe-Ex UK Utilities	(1%)	(1%)	5%	18%	15%
MSCI UK Utilities	(2%)	(4%)	(5%)	(8%)	(14%)
MSCI Emerging Europe Utilities	(3%)	(1%)	5%	18%	19%

Source: Thomson Reuters, Data as of 27th September 2017

Links to Selected Research Reports

Europe

SSE: Full year outlook maintained (27 Sep 2017, Mark Freshney)
National Grid: US business strong. But UK remains weak. (26 Sep 2017, Mark Freshney)
Fortum: Signed agreement with e.on (26 Sep 2017, Vincent Gilles)
UK Utilities: Feedback from our UK utility day (22 Sep 2017, Mark Freshney / Guy MacKenzie)
Uniper: Potential Fortum acquisition (20 Sep 2017, Vincent Gilles)
Fortum: Potential acquisition of Uniper – first reaction (20 Sep 2017, Vincent Gilles)
Suez: Growth impediments and earnings risk (20 Sep 2017, Guy MacKenzie)
DONG Energy A/S: Pausing for breath on a fair valuation (6 Sep 2017, Mark Freshney)
Gas Natural Fenosa: Bleak outlook after recent disposal (31 Aug 2017, Stefano Bezzato)
National Grid: Risk of competitive tendering comes back (31 Aug 2017, Mark Freshney)
CEZ: Gloomy outlook post 2017 (29 Aug 2017, Vincent Gilles)

North America

Vistra Energy: Feedback from the Initiation; a Focus on M&A (24 Sep 2017, Michael Weinstein)
CMS Energy Corp: Palisades Remains Perched (22 Sep 2017, Michael Weinstein)
Vistra Energy: Power to the People; Initiate at Outperform (20 Sep 2017, Michael Weinstein)
Pinnacle West Capital Corp.: The Desert Rose Blooms, but Fairly Priced (20 Sep 2017, Michael Weinstein)
Azure Power Global Limited: Out Shopping with a Lower Cost of Capital (19 Sep 2017, Maheep Mandloi)
Brookfield Infrastructure Partners LP: Reinstating Coverage with a Neutral rating and US$44 target; Organic and Acquisitions Ahead (15 Sep 2017, Andrew M. Kuske)
Dominion Energy: The Freeze Stays Frozen (14 Sep 2017, Michael Weinstein)
Spire Inc.: A Shot Across the Bow, but Expected (13 Sep 2017, Michael Weinstein)
The Brookfield Group: A Potential Brookfield's Brazilian Bonanza? The Start of the Privatization Parade (8 Sep 2017, Andrew M. Kuske)
Dominion Energy: From Projects to Programs after 2020 (8 Sep 2017. Michael Weinstein)
Exelon Corporation: Highlighting Potential from Energy Reforms (7 Sep 2017, Michael Weinstein)
Eversource Energy: Northern Pass gets Stretched Out (1 Sep 2017, Michael Weinstein)
Southern Company: It's a Go; Let the Neutrons Flow (31 Aug 2017, Michael Weinstein)
Keyera Corp.: Structural Shift to Avoid the Marketing Miss "Bounce Trade"; Lowering Estimates (30 Aug 2017, Andrew M. Kuske)

Asia

India Utilities Sector - Last mile connectivity scheme complementing other efforts; sector impact likely low (27 Sep 2017, Lokesh Garg)
China Solar Sector - New report: Riding on demand momentum (27 Sep 201, Gary Zhou)
China Gas Holdings Ltd: Quick Take: Good progress in rural gas Development (20 Sep 2017, Dave Dai)
China Solar Sector: Catch-up rally for H-share players with uncertainties remain; prefer structural winners (19 Sep 2017, Gary Zhou)
Banpu Power: Further upside depends on pace of expansion (18 Sep 2017, Thaniya Kevalee)
India Utilities Sector: Spike in exchange prices reflect shallowness of market rather than change in demand-supply balance (18 Sep 2017, Lokesh Garg)
Huaneng Renewables Corporation: Quick Take: Stable August wind output growth (11 Sep 2017, Dave Dai)
China Utilities Sector: Potential tax/fee cuts positive for renewables (8 Sep 2017, Dave Dai)
Longyuan Power: Quick Take: August wind output grew by 23% YoY despite weak wind resources (7 Sep 2017, Dave Dai)
China Utilities Sector: Beyond the period of ice and fire and our new pecking order (4 Sep 2017, Dave Dai)
China Oil & Gas Sector: 15% midstream tariff cut & Rmb0.1/cm city-gate price cut: -ve to PetroChina, +ve to city-gas operators (31 Aug 2017, Horace Tse)
China Power Sector: The Shenhua-Guodian merger approved by SASAC; industry consolidation positive to IPPs (29 Aug 2017, Dave Dai)
ENN Energy Holdings Ltd - Maintain OUTPERFORM: Key takeaways from analyst briefing (28 Aug 2017, Dave Dai)

Latin America

Brazilian Utilities: Expired Concessions: Engie, SPIC Go Big (27 Sep 2017, Vinicius Canheu)
Cesp: Privatization Auction Suspended (14 Sep 2017, Vinicius Canheu)

Equatorial Energia: Equatorial Acquires Operating Transmission Line (31 Aug 2017, Vinicius Canheu)
Sabesp: Negotiations With Guarulhos Move Forward (29 Aug 2017, Vinicius Canheu)

Australia & New Zealand

Australian Integrated Utilities: Lemonade: Upgrade AGL on peak risk (27 Sep 2017, Peter Wilson)
APA Group: c'APA'tal debase (18 Sep 2017, Peter Wilson)
AGL Energy: Liddell less conversation, little more action (12 Sep 2017, Peter Wilson)
Spark Infrastructure Group: 1H17: Good result, cash flow outlook deteriorating (28 Aug 2017, Peter Wilson)

Global Utilities Coverage

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Companies Mentioned *(Price as of 27-Sep-2017)*

AGL Energy (AGL.AX, A$22.85)
APA Group (APA.AX, A$8.3)
Azure Power Global Limited (AZRE.N, $15.9)
Banpu Power (BPP.BK, Bt26.25)
Brookfield Infrastructure Partners LP (BIP.N, $43.0)
CGN Power Co., Ltd. (1816.HK, HK$2.17)
CK Infrastructure (1038.HK, HK$67.25)
CMS Energy Corp (CMS.N, $46.23)
Cemig (CMIG4.SA, R$7.92)
Cesp (CESP6.SA, R$14.5)
China Gas Holdings Ltd (0384.HK, HK$22.6)
Dominion Energy (D.N, $76.78)
Dynegy Corporation (DYN.N, $9.87)
E.ON (EONGn.DE, €9.37)
Enel (ENEI.MI, €5.11)
Engie Brasil (EGIE3.SA, R$35.89)
Exelon Corporation (EXC.N, $37.15)
Fortum (FORTUM.HE, €16.66)
GCL-Poly Energy Holdings Ltd (3800.HK, HK$1.09)
Hong Kong Electric Investments (2638.HK, HK$7.18)
LONGi Green Energy Technology (601012.SS, Rmb27.24)
National Grid (NG.L, 925.3p)
Pinnacle West Capital Corp. (PNW.N, $84.76)
Powergrid Corporation (PGRD.BO, Rs207.45)
SSE (SSE.L, 1394.0p)
Suez (SEVI.PA, €15.22)
Uniper (UN01.DE, €23.2)
Vistra Energy (VST.N, $18.7)
Xinyi Solar Holdings (0968.HK, HK$2.76)

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September 29, 2017 | Equity Research

WELLS FARGO SECURITIES

Between The Lines: Wells Fargo Utility Monthly

Utilities

- **Utilities Fall Into Fall.** The S&P Utilities (-2.7%) meaningfully underperformed the S&P 500 (+2.1%) on a total return basis during September in response to the reflation trade (the 10-yr Treasury increased 20 bp to 2.33%) as well as the Trump administration's pivot towards federal tax reform. The pain was felt rather broadly across utility sub-sectors – water +0.4% was the exception – though some of the larger cap, liquid electric names in which generalists typically seek refuge (AEP, DUK & ED) fared modestly worse (-4-5%). Within our coverage, CTWS (+9.3%), CWT (+1.9%) & SO (+1.8%) led the way while SCG (-18.9%), PNW (-6.0%) & FE (-5.4%) lagged.

- **Utilities Appear Fully Valued.** The forward P/E is 107% of the S&P 500, above the 103% 10-yr median, and on an absolute basis the 20.4X forward P/E remains rich to the 10-yr median of 15.9X. More importantly, utilities screen modestly expensive versus interest rates.

- **Hurricanes Highlight Investment Needs.** Utilities were in the spotlight this month as weather-induced outages swept the Texas/Gulf area and the Southeast. By and large, the sector appears to have risen to the occasion as we heard glowing reviews of restoration efforts from regulators and other stakeholders at the FRI Public Utility Symposium. Based on comments at FRI, remarks by Southeast utilities (NEE & SO) and our discussions with CNP, Harvey and Irma highlighted the value of technology investments (customer communication, communications from smart meters and transformers, etc.) and the value of grid resiliency/hardening programs. We expect the hurricanes will lend further credence to distribution programs and smart grid initiatives that utilities are pursuing nationwide. In terms of the direct financial fallout on local IOUs, we expect related operating expenses will be capitalized as a regulatory asset for future recovery and costs to rebuild/replace damaged equipment can typically be securitized if necessary.

- **Renewable Accord Continues.** On 9/25, AEE unveiled an IRP that includes adding 700 MW of wind by 2020, making the company the latest in a string of utilities looking to shift generation mixes towards renewables (and away from fossil fuels). AEE joins AEP's "Wind Catcher" project (announced 7/26), XEL's broad "Steel for Fuel" strategy and more recent "Colorado Energy Plan" (announced 8/29), and AQN's 500-800 MW wind proposal for Empire District Electric (8/11 earnings call). The flurry of announcements appear to be spurred by the increasing economic competitiveness of wind due to significant technology advancements in recent years, along with the extension of renewable tax credits which allow utilities to book 100% of the PTC through 2020 under the safe harbor provision. This allows utilities to undertake significant investment programs (AEE's proposal totals $1B) without putting significant upward pressure on rates (AEE expects the plan to meet MO's RES requirement to have <1% annual impact on rates over a 10-year period). We continue to view renewables as an attractive capex driver for regulated utilities and merchant developers (NEE, PEGI, AGR) alike – and we're interested to see the interplay of the two (utility ownership versus PPAs) in the coming years.

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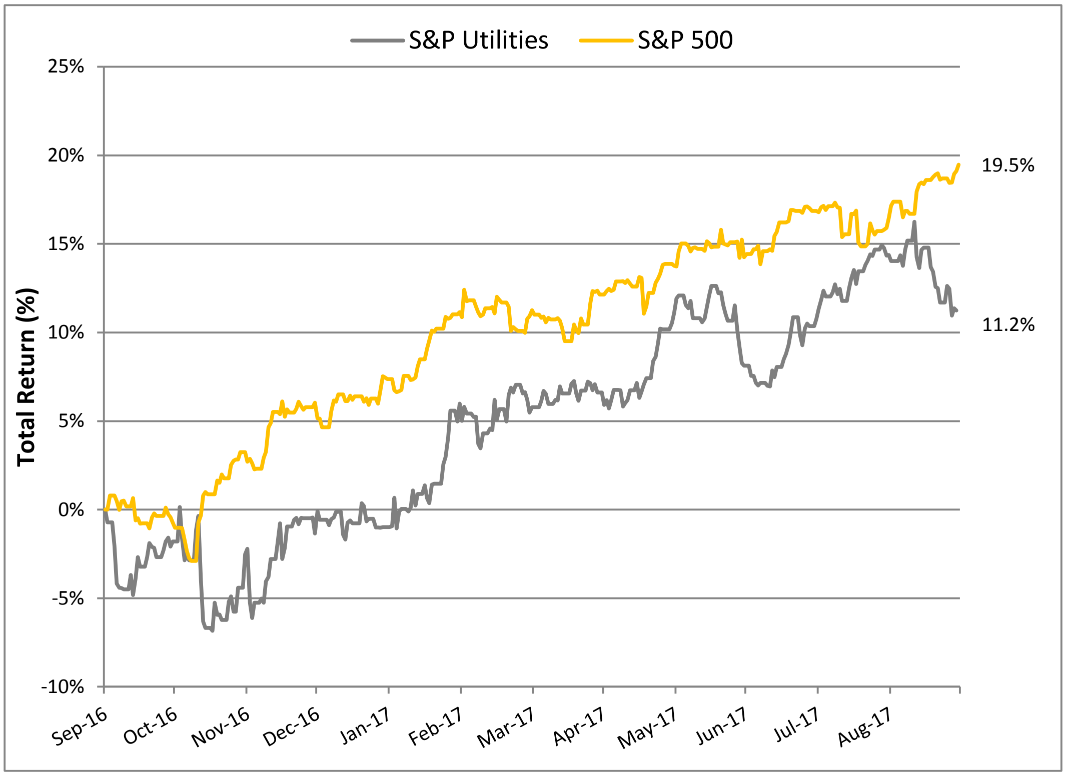
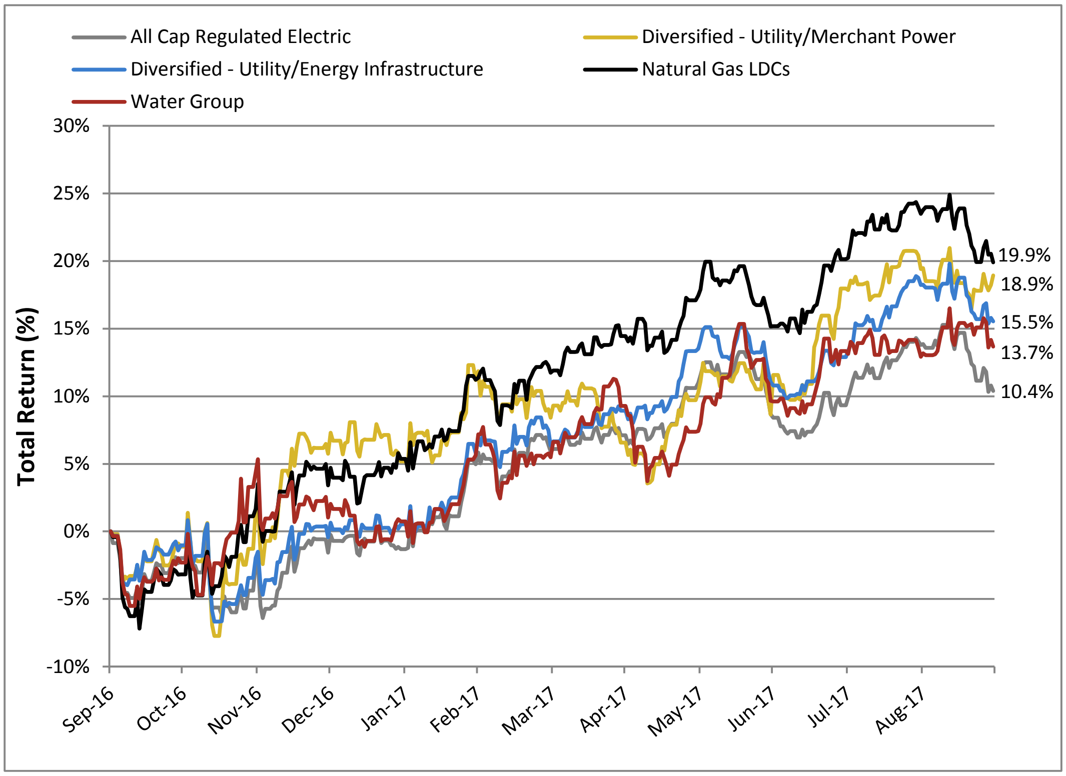
Together we'll go far

Figure 1: S&P Utilities Total Return vs S&P 500, Trailing Twelve Months



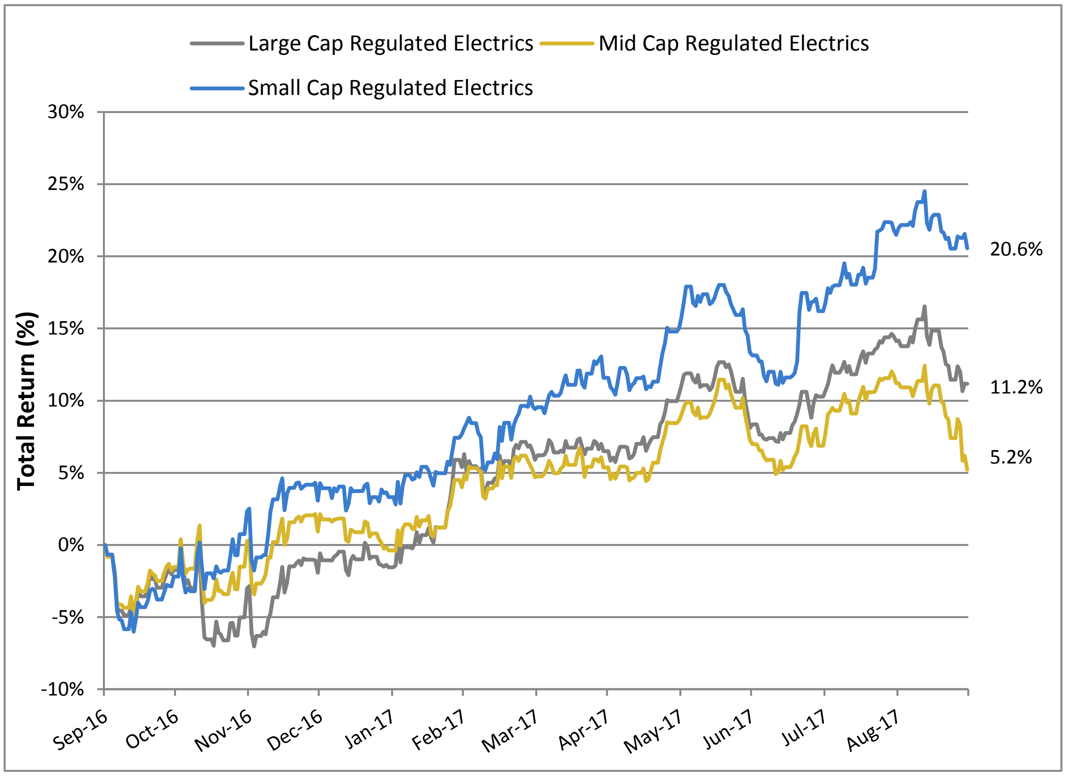
Source: FactSet and Wells Fargo Securities, LLC

Figure 2: Utility Industry Total Return by Sub-Group, Trailing Twelve Months



Source: FactSet and Wells Fargo Securities, LLC

Figure 3: Regulated Electrics Total Return by Market Cap, Trailing Twelve Months



Source: FactSet and Wells Fargo Securities, LLC

Figure 4: Year-to-Date and 1-, 3- & 12-Month Total Returns (Our Coverage Universe)

WELLS FARGO SECURITIES' UTILITY TEAM COVERAGE UNIVERSE

		Total Return			
	Symbol	YTD	1 Month	3 Month	1 Year
Yieldcos					
NextEra Energy Partners LP	NEP	62.7%	-2.8%	9.9%	51.2%
Pattern Energy Group	PEGI	33.9%	-2.5%	2.8%	14.5%
Yieldcos TR		**25.5%**	**-2.6%**	**3.4%**	**18.2%**
Small Cap Regulated Electrics					
Hawaiian Electric Industries	HE	3.8%	-0.1%	4.0%	14.0%
IDACORP	IDA	11.4%	-1.2%	3.7%	14.9%
InfraREIT, Inc.	HIFR	29.7%	0.6%	18.1%	29.3%
NorthWestern Corp.	NWE	2.8%	-4.8%	-5.9%	1.5%
PNM Resources	PNM	19.8%	-5.0%	6.0%	24.5%
Portland General Electric	POR	7.6%	-3.2%	0.6%	10.1%
Vectren Corp.	VVC	28.9%	0.2%	13.3%	35.5%
Small Cap Group TR		**16.0%**	**-1.2%**	**6.6%**	**20.6%**
Mid Cap Regulated Electrics					
Alliant Energy Corp.	LNT	12.4%	-2.7%	4.3%	10.5%
Ameren Corp.	AEE	12.9%	-2.9%	6.6%	20.4%
CMS Energy	CMS	13.8%	-4.6%	0.9%	12.8%
Great Plains Energy	GXP	13.9%	-1.3%	4.4%	13.4%
Pinnacle West Capital	PNW	11.0%	-6.0%	0.1%	13.8%
SCANA Corp.	SCG	-31.9%	-18.9%	-26.9%	-30.9%
Westar Energy	WR	-10.0%	-2.6%	-5.7%	-10.0%
Mid Cap Group TR		**3.4%**	**-5.4%**	**-1.7%**	**5.2%**
Large Cap Regulated Electrics					
American Electric Power	AEP	14.5%	-4.6%	1.9%	12.8%
Consolidated Edison	ED	12.4%	-4.3%	0.7%	9.3%
Duke Energy	DUK	11.6%	-3.9%	1.4%	9.1%
Edison International	EIX	9.4%	-3.1%	-0.6%	9.2%
Entergy	ETR	7.6%	-3.5%	0.6%	3.5%
Eversource Energy	ES	12.0%	-3.3%	0.3%	14.1%
FirstEnergy Corporation	FE	3.1%	-5.4%	6.9%	-2.7%
PG&E Corp.	PCG	14.7%	-2.5%	3.4%	13.7%
PPL Corporation	PPL	14.9%	-2.3%	-0.8%	13.7%
Southern Company	SO	3.5%	1.8%	3.9%	-1.1%
Wisconsin Energy	WEC	9.8%	-3.7%	3.1%	7.6%
Xcel Energy	XEL	19.0%	-3.7%	3.9%	16.8%
Large Cap Group TR		**12.4%**	**-2.6%**	**2.6%**	**11.2%**
U.S. Regulated Electrics Group (All Cap) TR		**11.2%**	**-3.0%**	**1.8%**	**10.4%**

		Total Return			
	Symbol	YTD	1 Month	3 Month	1 Year
Canadian Utilities					
Emera Inc.	EMA-TSE	7.8%	-1.4%	-0.8%	4.9%
Hydro One Ltd.	H-TSE	-1.0%	-1.1%	-1.3%	-9.4%
Fortis Inc.	FTS-TSE	10.8%	-2.2%	-1.1%	9.6%
Algonquin Power & Utes Corp	AQN-TSE	19.9%	-1.5%	-2.2%	16.4%
Canadian Utilities TR		**11.9%**	**-1.3%**	**-2.4%**	**18.7%**
Natural Gas Local Distribution Companies (LDCs)					
Chesapeake Utilities Corp.	CPK	18.4%	-1.1%	4.8%	31.1%
New Jersey Resources	NJR	21.0%	-2.8%	6.9%	31.3%
Northwest Natural Gas Co.	NWN	10.2%	-2.9%	8.4%	9.9%
ONE Gas Inc.	OGS	17.3%	-2.1%	6.1%	21.4%
Spire Inc.	SR	18.3%	-1.8%	7.8%	21.1%
WGL Holdings	WGL	12.5%	-0.1%	1.5%	37.8%
LDC Group TR		**15.3%**	**-3.1%**	**4.1%**	**19.9%**
Regulated Water Group					
American States Water	AWR	9.8%	-0.1%	4.4%	27.4%
American Water Works	AWK	13.6%	0.0%	4.3%	10.2%
Aqua America	WTR	12.5%	-0.6%	0.3%	10.2%
California Water Service	CWT	14.3%	1.9%	4.2%	21.2%
Connecticut Water Service	CTWS	7.9%	9.3%	7.4%	21.1%
Water Group TR		**11.8%**	**0.4%**	**3.7%**	**13.7%**
Diversifieds - Utility/Merchant Power					
Exelon Corporation	EXC	9.1%	-0.5%	5.3%	17.6%
PS Enterprise Group	PEG	8.5%	-0.3%	8.5%	14.1%
Utility/Merchant Power Group TR		**11.4%**	**-0.5%**	**6.6%**	**18.9%**
Diversifieds - Utility/Energy Infrastructure					
AVANGRID	AGR	28.8%	-2.0%	8.4%	16.6%
CenterPoint Energy, Inc.	CNP	22.1%	-1.4%	7.7%	29.0%
Dominion Resources	D	3.4%	-2.3%	1.4%	6.9%
DTE Energy	DTE	11.5%	-3.7%	2.2%	19.1%
MDU Resources Group, Inc.	MDU	-7.8%	-3.3%	-0.2%	5.1%
NextEra Energy, Inc.	NEE	25.3%	-2.6%	5.3%	21.9%
OGE Energy Corp.	OGE	10.6%	0.9%	4.5%	16.4%
Sempra Energy	SRE	15.9%	-2.5%	2.7%	9.9%
Utility/Energy Infrastructure Group TR		**15.4%**	**-2.3%**	**4.3%**	**15.5%**
S&P Utilities		**11.9%**	**-2.7%**	**2.9%**	**11.2%**
S&P 500		**14.2%**	**2.1%**	**4.5%**	**19.5%**

	Highest Total Returns for the Month	
1	Connecticut Water Service	9.3%
2	California Water Service	1.9%
3	Southern Company	1.8%
4	OGE Energy Corp.	0.9%
5	InfraREIT, Inc.	0.6%

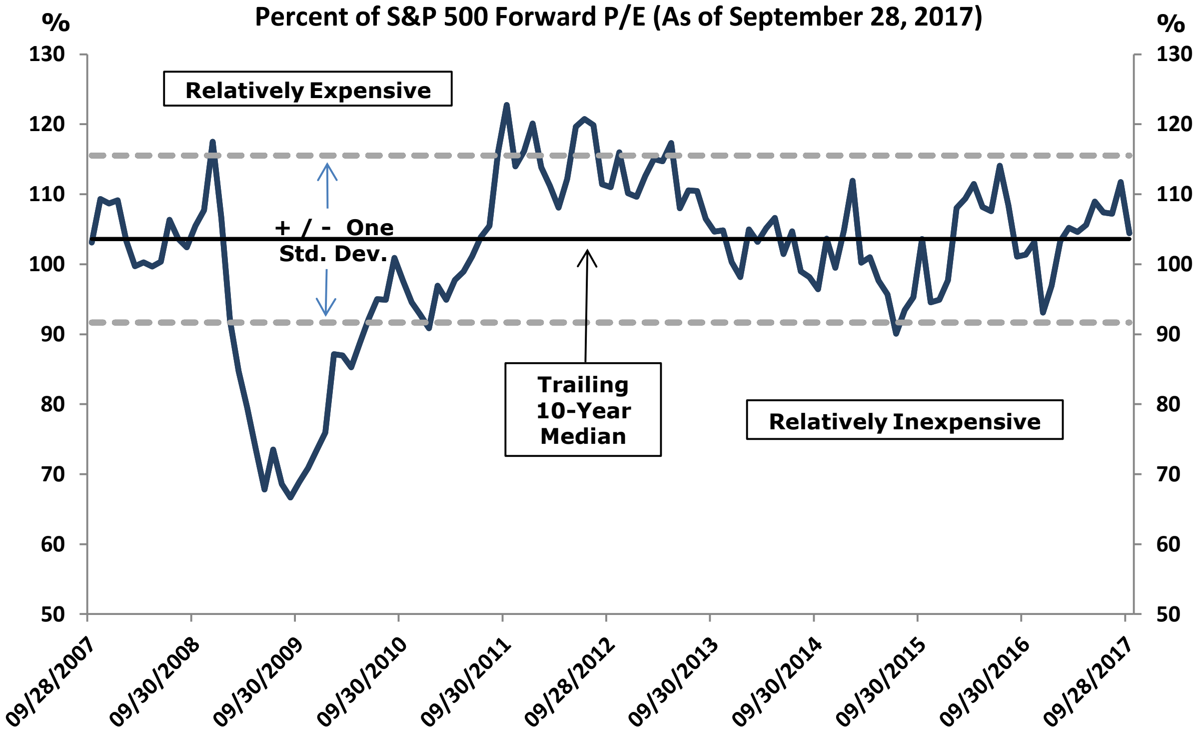
	Lowest Total Returns for the Month	
1	SCANA Corp.	-18.9%
2	Pinnacle West Capital	-6.0%
3	FirstEnergy Corporation	-5.4%
4	PNM Resources	-5.0%
5	NorthWestern Corp.	-4.8%

* 3 Month and 1 Year represent trailing 3 month and 12 month values, respectively; 1 Month represents a month-to-date value

Source: Wells Fargo Securities, LLC and Factset

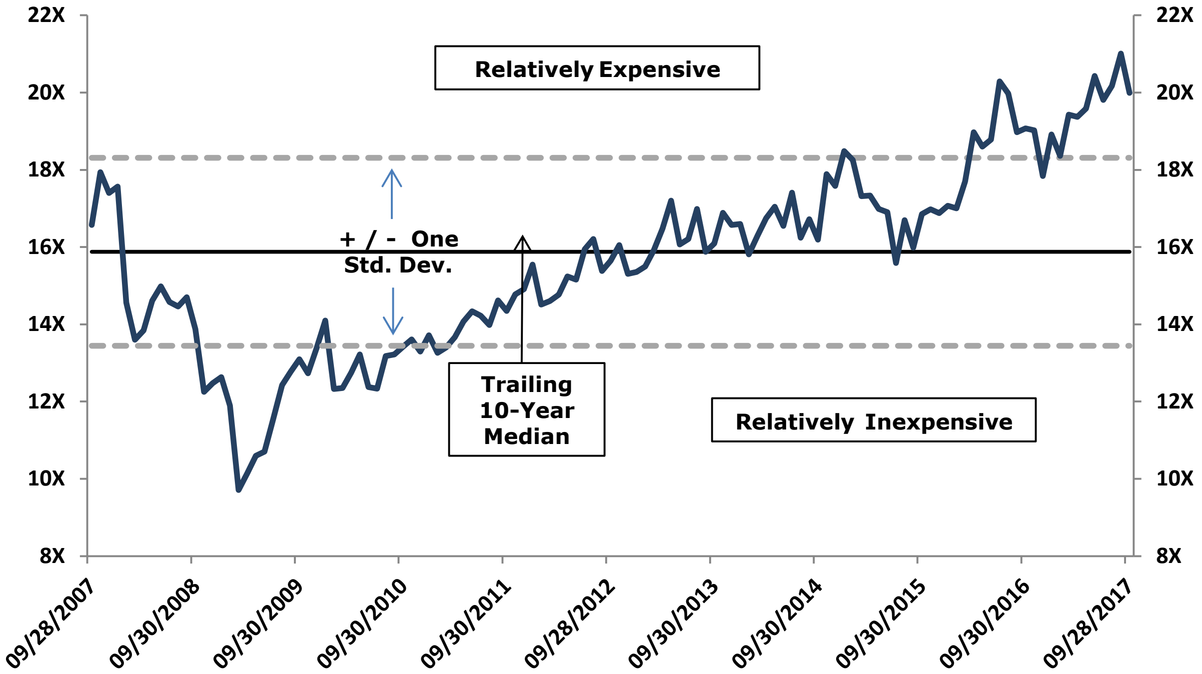
Figures 5-12: Utility Valuation and Dividend Graphs

Wells Fargo Securities Electric Power Universe Forward P/E as Percent of S&P 500 Forward P/E (As of September 28, 2017)



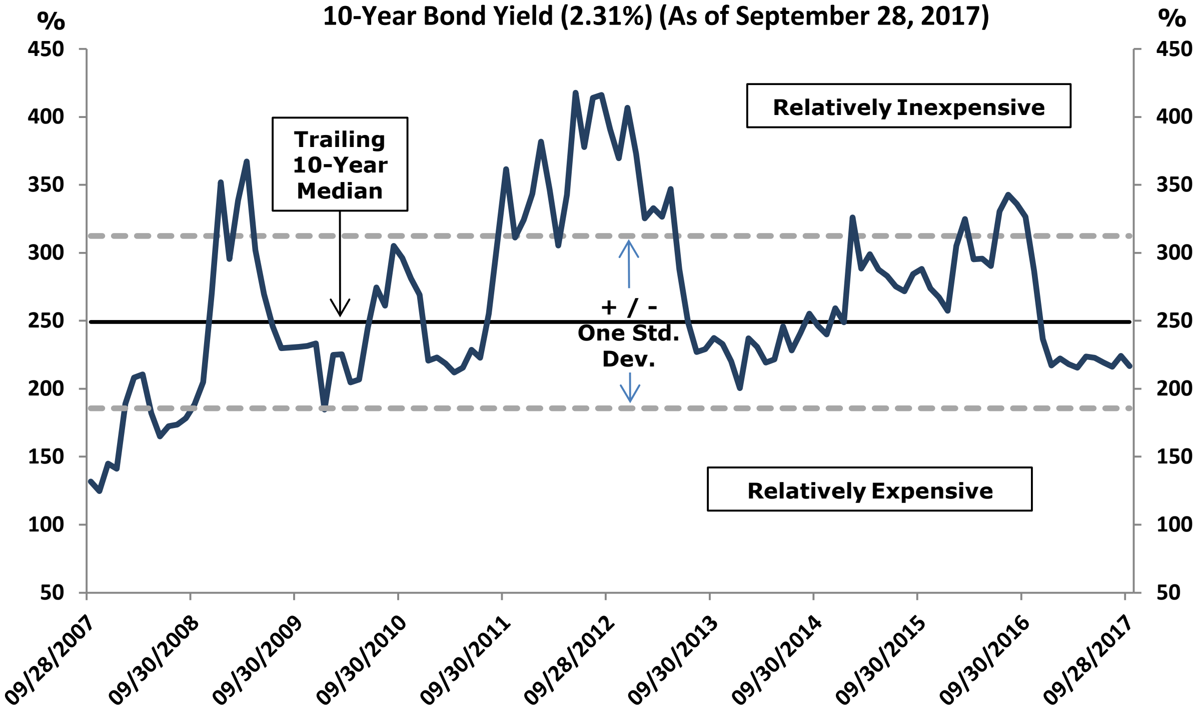
Source: FactSet and Wells Fargo Securities, LLC

Wells Fargo Securities Electric Power Universe Forward P/E vs 10-Year Median (As of September 28, 2017)



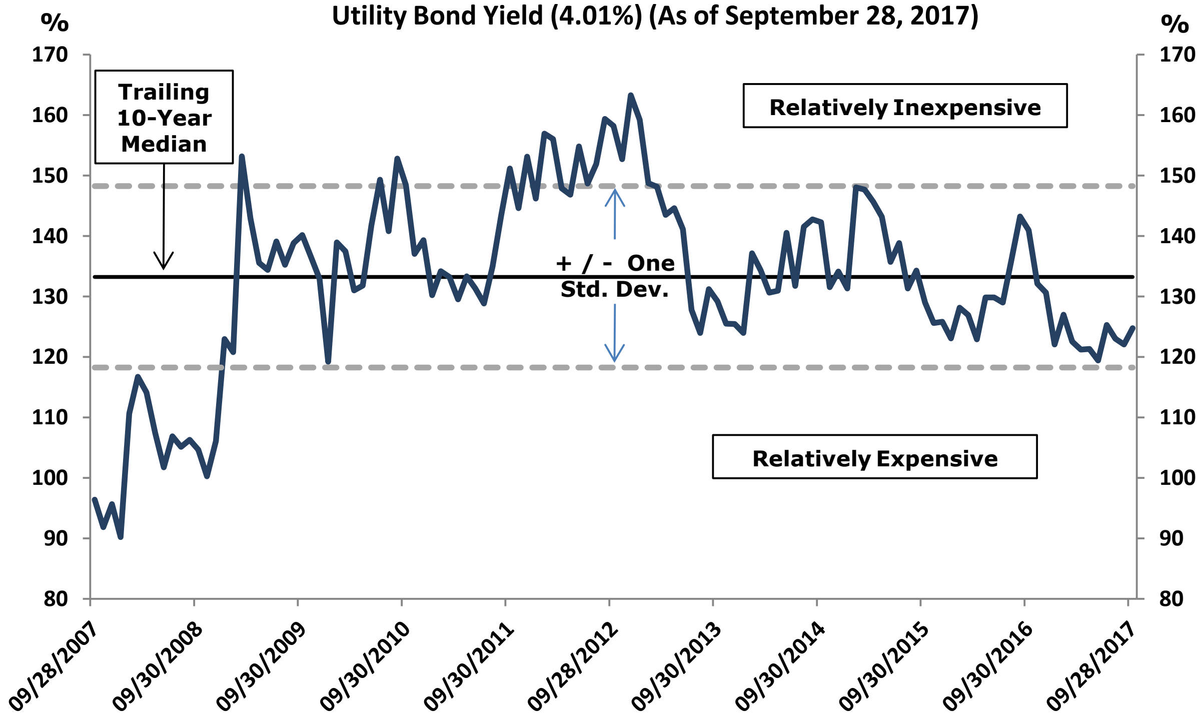
Source: FactSet and Wells Fargo Securities, LLC

Wells Fargo Securities Electric Power Universe Forward Earnings Yield as a % of 10-Year Bond Yield (2.31%) (As of September 28, 2017)

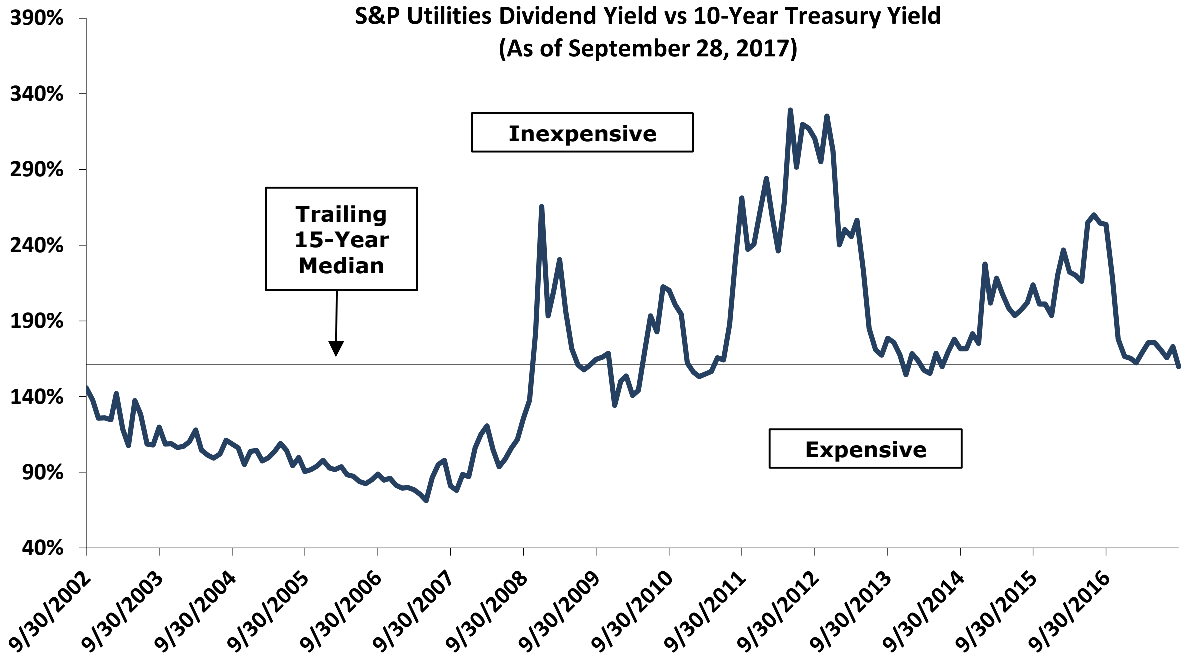


Source: FactSet and Wells Fargo Securities, LLC

Wells Fargo Securities Electric Power Universe Forward Earnings Yield as a % of Utility Bond Yield (4.01%) (As of September 28, 2017)

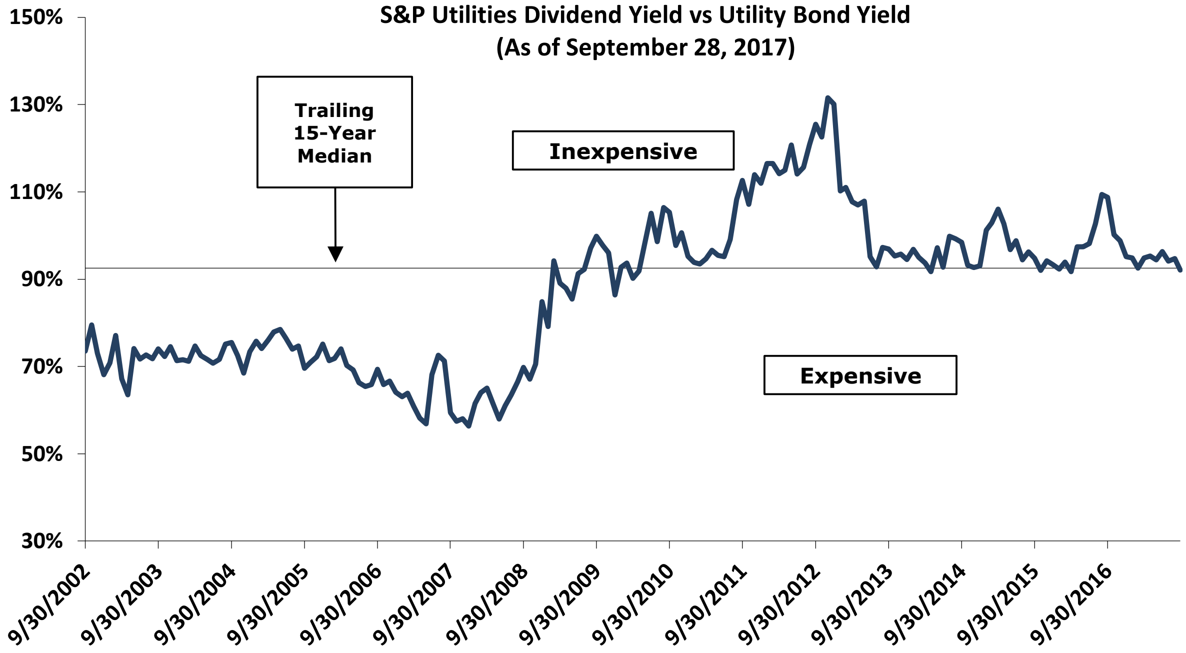


Source: FactSet and Wells Fargo Securities, LLC



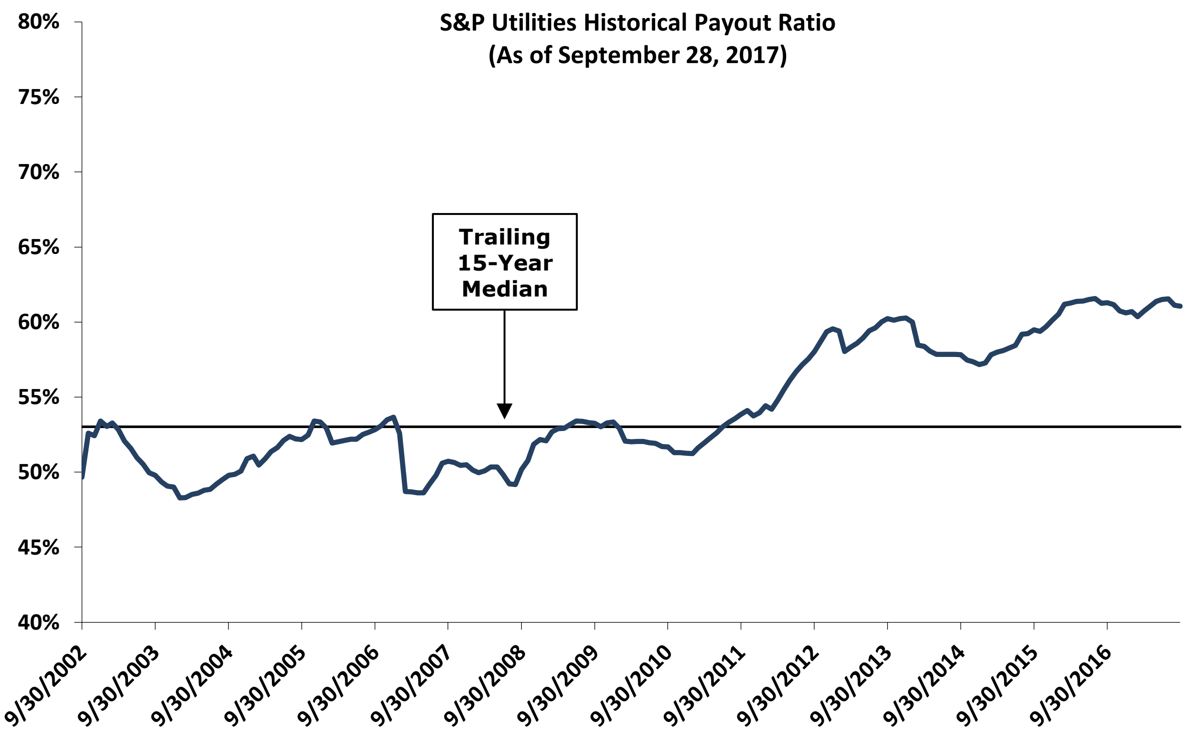
* Yields are calculated after-tax, assuming a 30% tax rate
** Beginning in May 2003, data is adjusted for 15% tax rate for S&P Utilities dividends.
*** Beginning in 2013, data is adjusted for 20% tax rate for S&P Utilities dividends.

Source: FactSet and Wells Fargo Securities, LLC

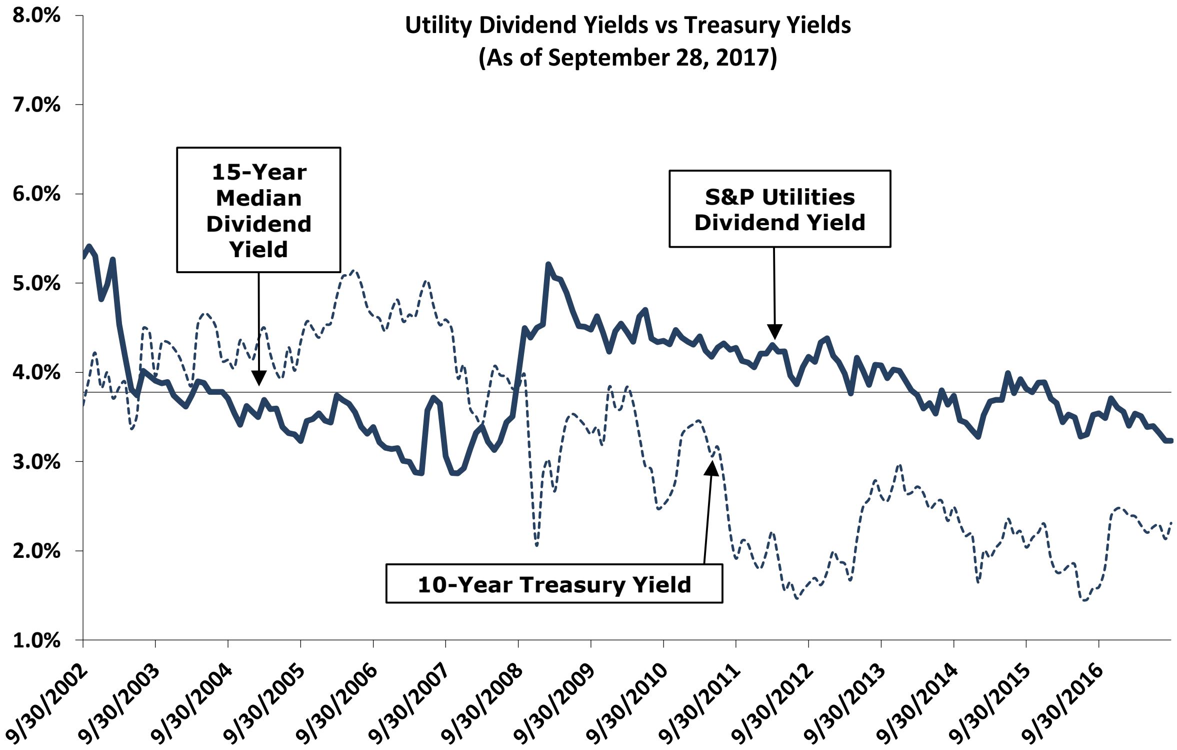


* Yields are calculated after-tax, assuming a 30% tax rate
** Beginning in May 2003, data is adjusted for 15% tax rate for S&P Utilities dividends.
*** Beginning in 2013, data is adjusted for 20% tax rate for S&P Utilities dividends.

Source: FactSet and Wells Fargo Securities, LLC

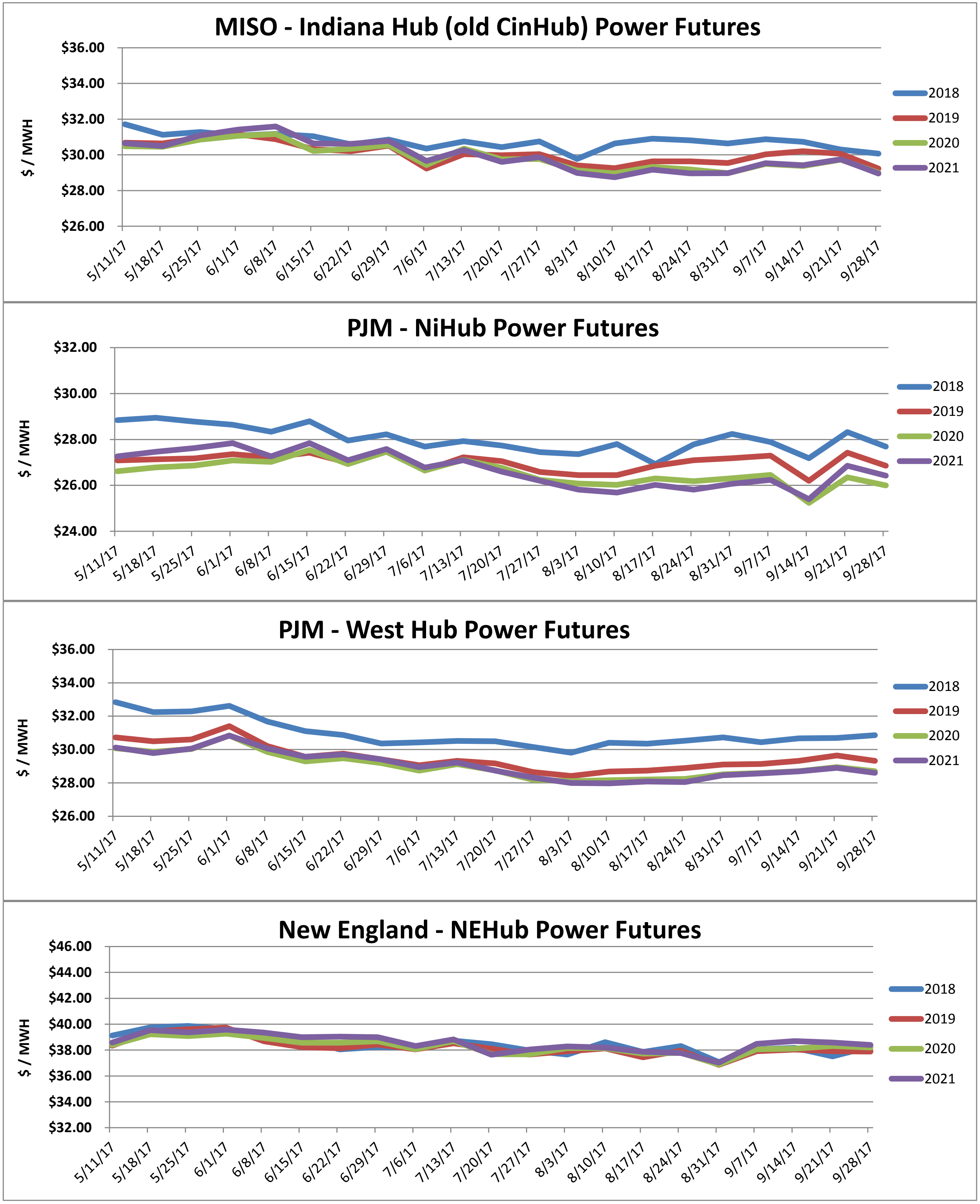


Source: FactSet and Wells Fargo Securities, LLC



Source: FactSet and Wells Fargo Securities, LLC

Figure 13-16: Power Price Futures by Hub *(prices are Around-the-Clock)*



Source for all graphs: Wells Fargo Securities, LLC and SNL Financial LC
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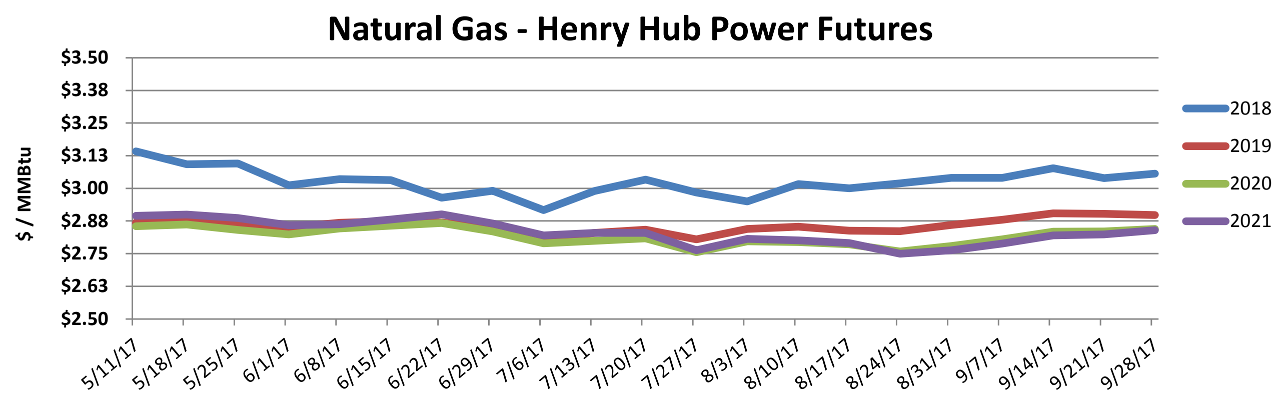
Figure 17: Natural Gas Price Futures



Source: Wells Fargo Securities, LLC and SNL Financial LC

Figure 18: Gas Price Basis Differential (Versus Henry Hub)

Gas Price Basis Differential vs Henry Hub

Thursday, September 28, 2017

	Henry Hub Price	Chicago	Michcon Detroit CG	NNG Ventura	Rex East
2018E	$3.06	($0.20)	($0.21)	($0.24)	($0.65)
2019E	$2.90	($0.21)	($0.22)	($0.25)	($0.64)
2020E	$2.84	($0.18)	($0.20)	($0.22)	($0.65)
2021E	$2.84	($0.15)	($0.17)	($0.19)	($0.66)
2022E	$2.86	($0.14)	($0.14)	($0.18)	($0.65)
2023E	$2.87	($0.12)	($0.13)	($0.18)	($0.64)

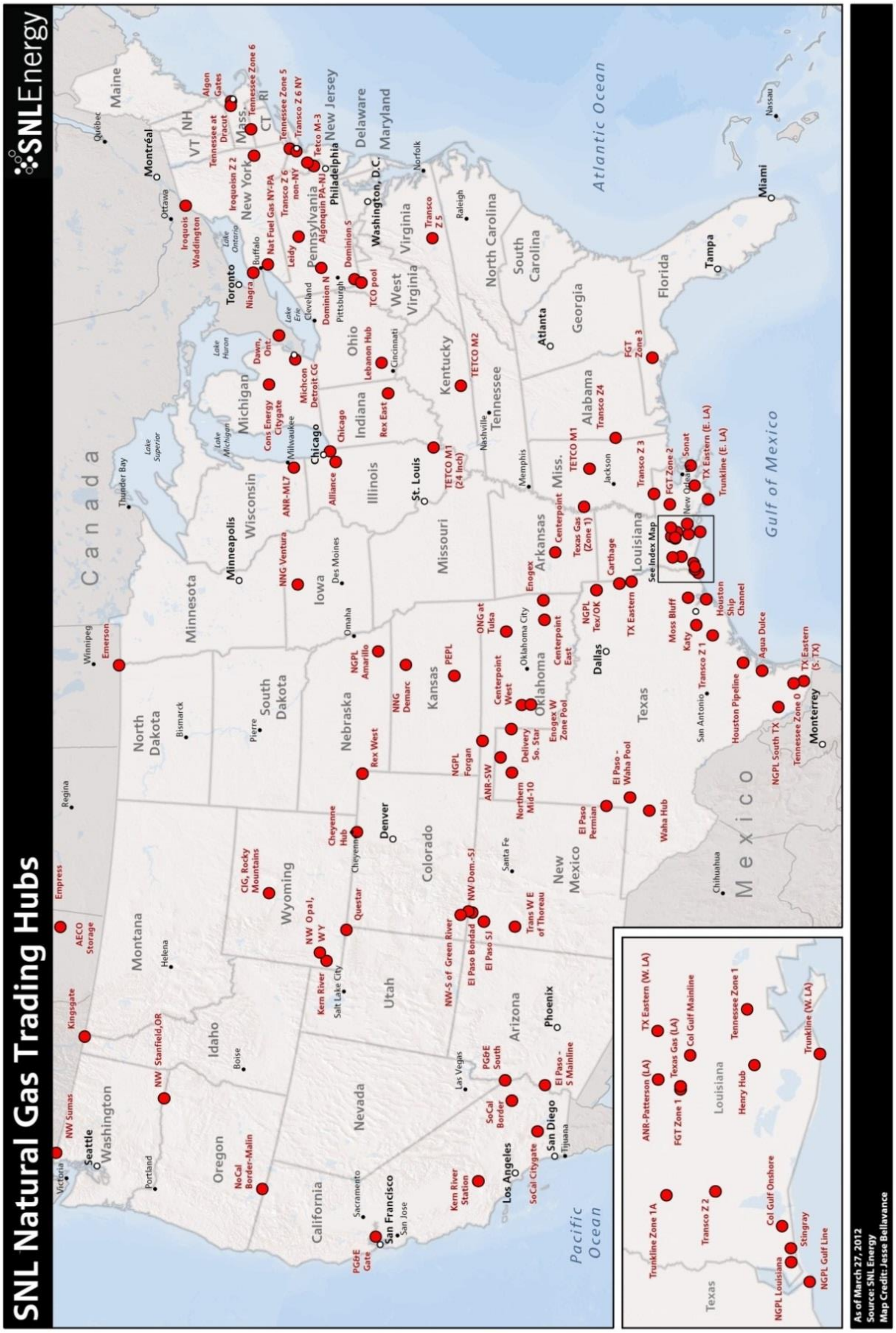
	Dawn - Ontario	Dominion S	Lebanon Hub	Leidy	Parkway - Ontario
2018E	($0.13)	($0.51)	($0.10)	($0.59)	($0.13)
2019E	($0.16)	($0.50)	($0.21)	($0.59)	($0.16)
2020E	($0.11)	($0.51)	($0.22)	($0.59)	($0.12)
2021E	($0.10)	($0.52)	($0.21)	($0.60)	($0.09)
2022E	($0.09)	($0.51)	($0.21)	($0.61)	($0.09)
2023E	($0.09)	($0.50)	($0.20)	($0.61)	($0.08)

	TCO pool	Tetco M-3	Transco Zone 6 Non-NY	Algon Gates	Iroquois Waddington
2018E	($0.23)	$0.07	$0.38	$1.37	$0.38
2019E	($0.34)	$0.06	$0.21	$1.43	$0.37
2020E	($0.35)	$0.04	$0.16	$1.48	$0.37
2021E	($0.34)	$0.03	$0.15	$1.50	$0.36
2022E	($0.34)	$0.02	$0.15	$1.50	$0.33
2023E	($0.33)	$0.02	$0.14	$1.48	$0.30

	Iroquois Zone 1	Iroquois Zone 2	Niagara	Tennessee at Dracut	Tennessee Zone 4
2018E	$0.66	$1.03	($0.70)	$1.59	($0.67)
2019E	$0.65	$0.92	($0.75)	$1.65	($0.67)
2020E	$0.65	$0.90	($0.70)	$1.70	($0.71)
2021E	$0.64	$0.89	($0.68)	$1.72	($0.71)
2022E	$0.61	$0.84	($0.65)	$1.72	($0.68)
2023E	$0.58	$0.80	($0.62)	$1.70	($0.64)

Source: Wells Fargo Securities, LLC and SNL Financial LC

Figure 19: North American Gas Trading Hubs



Source: SNL Financial LC

Appendix 1 – Utility Coverage Statistics

U.S. REGULATED ELECTRIC UTILITY UNIVERSE																		
	Symbol	Analyst	Rating	Price Target ($)	9/29/17 Price ($)	Equity Market Cap (Bil.)	EPS 2017E	EPS 2018E	EPS 2019E	3-5 Yr EPS Growth	P/E 2017E	P/E 2018E	P/E 2019E	EV/EBITDA 2017E	EV/EBITDA 2018E	EV/EBITDA 2019E	Dividend Payout 2017E	Dividend Yield
U.S. Small/Mid-Cap:																		
InfraREIT, Inc.	HIFR	NK	1	26.00	22.37	1.4	1.40	1.50	1.60	8.0%	16.0x	14.9x	14.0x	13.9x	12.1x	11.0x	71%	4.5%
El Paso Electric	EE		NR	–	55.25	2.2	2.56	2.74	2.90	5.0%	21.6x	20.2x	19.1x	12.5x	11.8x	11.4x	52%	2.4%
NorthWestern Corporation	NWE	JR	2	61.00	56.94	2.8	3.35	3.40	3.40	2.0%	17.0x	16.7x	16.7x	11.4x	10.9x	10.6x	63%	3.7%
Avista Corporation	AVA		NR	–	51.77	3.3	1.93	2.02	2.05	-	26.8x	25.6x	25.3x	11.5x	10.5x	8.9x	74%	2.8%
PNM Resources	PNM	JR	2	42.00	40.30	3.2	1.85	1.75	2.05	6.0%	21.8x	23.0x	19.7x	10.7x	10.7x	9.9x	52%	2.4%
Hawaiian Electric Industries	HE	NK	2	35.00	33.37	3.6	1.65	1.80	1.90	4.0%	20.2x	18.5x	17.6x	9.7x	9.1x	8.6x	75%	3.7%
ALLETE Inc.	ALE	SA	2	77.00	77.29	3.9	3.36	3.64	3.92	5.0%	23.0x	21.3x	19.7x	12.0x	11.4x	10.8x	64%	2.8%
Portland General Electric	POR	SA	2	49.00	45.64	4.1	2.27	2.38	2.45	4.2%	20.1x	19.2x	18.6x	9.0x	8.6x	8.3x	60%	3.0%
IDACORP, Inc.	IDA	SA	2	89.00	87.93	4.4	4.02	4.12	4.26	4.0%	21.9x	21.3x	20.6x	14.0x	13.6x	13.2x	55%	2.5%
Vectren Corp.	VVC	SA	2	63.00	65.77	5.5	2.60	2.80	3.03	6.0%	25.3x	23.5x	21.7x	11.0x	10.4x	9.7x	65%	2.6%
Great Plains Energy	GXP	SA	2	33.00	30.30	6.5	1.72	1.82	1.87	2.0%	17.6x	16.6x	16.2x	9.9x	9.7x	9.4x	64%	3.6%
Westar Energy, Inc.	WR	SA	2	55.00	49.60	7.0	2.50	2.52	3.12	4.0%	19.8x	19.7x	15.9x	10.7x	10.4x	9.6x	64%	3.2%
SCANA Corp.	SCG	NK	1	65.00	48.49	6.9	4.25	3.50	3.60	4.0%	11.4x	13.9x	13.5x	9.3x	9.2x	9.0x	58%	5.1%
Alliant Energy Corp.	LNT	NK	1	45.00	41.57	9.6	2.00	2.15	2.25	6.0%	20.8x	19.3x	18.5x	12.3x	11.0x	10.3x	63%	3.0%
Pinnacle West Capital Corp.	PNW	SA	1	96.00	84.56	9.4	4.25	4.47	4.60	5.0%	19.9x	18.9x	18.4x	10.3x	9.5x	9.0x	62%	3.1%
CMS Energy Corp.	CMS	NK	2	50.00	46.32	13.1	2.17	2.33	2.50	7.0%	21.3x	19.9x	18.5x	10.3x	9.6x	8.9x	61%	2.9%
Entergy Corp.	ETR	NK	1	90.00	76.36	13.7	4.40	4.70	5.10	7.0%	17.4x	16.2x	15.0x	8.1x	7.9x	7.7x	79%	4.6%
FirstEnergy Corp.	FE	NK	2	35.00	30.83	13.7	2.60	2.59	2.62	1.0%	11.9x	11.9x	11.8x	8.1x	8.4x	8.7x	55%	4.7%
Ameren Corp.	AEE	NK	1	63.00	57.84	14.0	2.80	3.00	3.20	6.0%	20.7x	19.3x	18.1x	9.6x	9.0x	8.5x	63%	3.0%
Small/Mid Cap Regulated Electric Group Median										**5.0%**	**20.2x**	**19.3x**	**18.4x**	**10.7x**	**10.4x**	**9.4x**	**63%**	**3.0%**
U.S. Large Cap:																		
Eversource Energy	ES	NK	1	67.00	60.44	19.2	3.15	3.35	3.55	6.0%	19.2x	18.0x	17.0x	11.2x	10.9x	10.5x	60%	3.1%
WEC Energy Group, Inc.	WEC	NK	1	69.00	62.78	19.8	3.10	3.25	3.40	6.0%	20.3x	19.3x	18.5x	11.7x	11.1x	10.6x	67%	3.3%
Xcel Energy	XEL	NK	1	54.00	47.32	24.0	2.32	2.47	2.65	6.0%	20.4x	19.2x	17.9x	10.6x	10.0x	9.4x	62%	3.0%
Consolidated Edison	ED	SA	2	86.00	80.68	25.0	4.05	4.25	4.42	4.0%	19.9x	19.0x	18.3x	10.3x	9.7x	9.3x	68%	3.4%
Edison International	EIX	NK	1	91.00	77.17	25.1	4.20	4.20	4.45	7.0%	18.4x	18.4x	17.3x	9.1x	8.6x	8.0x	52%	2.8%
PPL Corporation	PPL	NK	2	41.00	37.95	25.9	2.15	2.30	2.40	5.0%	17.7x	16.5x	15.8x	12.3x	11.1x	10.5x	73%	4.2%
PG&E Corporation	PCG	NK	1	79.00	68.09	34.9	3.65	3.85	4.00	6.0%	18.7x	17.7x	17.0x	8.6x	8.1x	7.6x	58%	3.1%
American Electric Power	AEP	NK	1	81.00	70.24	34.5	3.65	3.90	4.15	6.0%	19.2x	18.0x	16.9x	10.4x	9.6x	8.8x	65%	3.4%
Southern Company	SO	NK	2	53.00	49.14	49.1	2.95	3.00	3.15	5.0%	16.7x	16.4x	15.6x	12.1x	11.5x	10.9x	79%	4.7%
Duke Energy	DUK	NK	2	91.00	83.92	58.7	4.60	4.80	5.05	5.0%	18.2x	17.5x	16.6x	10.8x	10.3x	9.7x	77%	4.2%
Large Cap Regulated Electric Group Median										**6.0%**	**18.9x**	**18.0x**	**17.0x**	**10.7x**	**10.1x**	**9.5x**	**66%**	**3.3%**
U.S. Regulated Electric Group Median										**5.0%**	**19.9x**	**18.9x**	**17.6x**	**10.7x**	**10.3x**	**9.4x**	**63%**	**3.4%**

CANADIAN REGULATED UTILITIES																		
	Symbol	Analyst	Rating	Price Target (C$)	9/29/17 (C$)	Equity Mkt Cap (C$Bil.)	EPS (C$) 2017E	EPS (C$) 2018E	EPS (C$) 2019E	3-5 Yr EPS Growth	P/E 2017E	P/E 2018E	P/E 2019E	EV/EBITDA 2017E	EV/EBITDA 2018E	EV/EBITDA 2019E	Dividend Payout 2017E	Dividend Yield
Algonquin Power & Utes Corp.	AQN-CA	NK	2	15.00	13.19	3.6	0.72	0.80	0.89	15.0%	18.3x	16.5x	14.8x	8.9x	8.0x	7.2x	81%	4.4%
ATCO Ltd.	ACO.X-CA		NR	–	45.80	5.3	3.17	3.29	3.23	1.4%	14.4x	13.9x	14.2x	6.5x	6.2x	6.0x	41%	2.9%
Canadian Utilities Ltd.	CU-CA		NR	–	38.75	10.4	2.32	2.38	2.44	3.5%	16.7x	16.3x	15.9x	10.7x	10.1x	9.7x	62%	3.7%
Emera Inc.	EMA-CA	NK	2	52.00	47.26	10.0	2.70	3.00	3.20	7.0%	17.5x	15.8x	14.8x	10.6x	9.9x	9.4x	77%	4.4%
Fortis Inc.	FTS-CA	NK	1	51.00	44.78	18.7	2.48	2.60	2.75	5.0%	18.1x	17.2x	16.3x	11.7x	11.0x	10.4x	65%	3.6%
Hydro One Ltd.	H-CA	NK	2	25.50	22.72	13.5	1.20	1.28	1.37	5.0%	18.9x	17.8x	16.6x	11.9x	11.2x	10.5x	73%	3.9%
Canadian Regulated Group Median										**5.0%**	**17.8x**	**16.4x**	**15.4x**	**10.6x**	**10.0x**	**9.5x**	**69%**	**3.8%**

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Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg

DIVERSIFIED UTILITIES - UTILITIES/POWER & UTILITIES/INFRASTRUCTURE

	Symbol	Analyst	Rating	Price Target ($)	9/29/17 Price ($)	Equity Market Cap (Bil.)	EPS			3-5 Yr EPS Growth	P/E			EV/EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
Utility/Merchant Power																		
Exelon Corporation	EXC	NK	2	41.00	37.67	36.2	2.70	2.85	2.75	6.0%	14.0x	13.2x	13.7x	8.4x	7.8x	7.9x	49%	3.5%
Public Svc Enterprise Group	PEG	NK	2	49.00	46.25	23.4	2.90	3.00	3.10	3.0%	15.9x	15.4x	14.9x	9.5x	8.9x	8.6x	59%	3.7%
Utility/Merchant Power Group Median										**4.5%**	**15.0x**	**14.3x**	**14.3x**	**9.0x**	**8.4x**	**8.2x**	**54%**	**3.6%**
Utility/Energy Infrastructure																		
AES Corporation	AES		NR	–	11.02	7.3	1.05	1.21	1.31	8.0%	10.5x	9.1x	8.4x	6.5x	6.1x	5.9x	46%	4.4%
AVANGRID, Inc.	AGR	NK	1	53.00	47.42	14.7	2.24	2.40	2.55	9.0%	21.2x	19.8x	18.6x	8.3x	7.8x	7.4x	77%	3.6%
Black Hills	BKH		NR	–	68.87	3.7	3.57	3.80	3.91	5.8%	19.3x	18.1x	17.6x	10.7x	10.2x	9.6x	50%	2.6%
CenterPoint Energy	CNP	SA	2	29.00	29.21	12.6	1.32	1.44	1.52	5.0%	22.1x	20.3x	19.2x	8.5x	8.0x	7.5x	81%	3.7%
Dominion Resources	D	SA	2	81.00	76.93	49.4	3.65	4.05	4.25	6.0%	21.1x	19.0x	18.1x	13.5x	11.7x	11.1x	83%	3.9%
DTE Energy	DTE	NK	2	115.00	107.36	19.3	5.45	5.70	6.05	6.0%	19.7x	18.8x	17.7x	11.9x	11.2x	10.5x	61%	3.1%
MDU Resources Group, Inc.	MDU	SA	2	27.00	25.95	5.1	1.22	1.30	1.38	6.0%	21.3x	20.0x	18.8x	10.2x	9.8x	9.4x	63%	3.0%
NextEra Energy, Inc.	NEE	NK	1	164.00	146.55	68.6	6.70	7.25	7.85	7.0%	21.9x	20.2x	18.7x	11.4x	10.8x	9.6x	59%	2.7%
OGE Energy	OGE	SA	1	39.00	36.03	7.2	1.93	1.99	2.07	4.0%	18.7x	18.1x	17.4x	11.0x	10.4x	9.7x	69%	3.7%
Otter Tail Power	OTTR		NR	–	43.35	1.7	1.73	1.82	1.99	6.2%	25.1x	23.9x	21.8x	NA	NA	NA	74%	3.0%
Sempra Energy	SRE	SA	1	133.00	114.13	28.7	5.15	5.50	6.32	11.0%	22.2x	20.8x	18.1x	12.3x	11.5x	10.3x	64%	2.9%
Utility/Energy Infrastructure Group Median										**6.0%**	**21.2x**	**19.8x**	**18.1x**	**10.9x**	**10.3x**	**9.6x**	**64%**	**3.1%**

ALTERNATIVE STRUCTURES UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	9/29/17 Price ($)	Equity Market Cap (Bil.)	CAFD/Share			3-5 Yr CAFD Growth	P/CAFD			EV/ Adj. EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
Alternative Structures:																		
Atlantica Yield plc	ABY		NR	–	19.70	2.0	NE	NE	NE	NE	NA	NA	NA	9.2x	8.8x	8.3x	--	4.7%
8point3 Energy Partners	CAFD		SR	15.00	15.03	0.4	1.31	1.39	1.46	10.0%	11.5x	10.8x	10.3x	12.8x	10.9x	10.1x	83%	7.2%
NextEra Energy Partners LP	NEP	NK	1	47.00	40.29	6.3	2.10	2.31	2.66	18.0%	19.2x	17.4x	15.1x	16.4x	13.0x	7.7x	69%	3.6%
NRG Yield, Inc	NYLD		NR	–	19.30	1.5	NE	NE	NE	NE	NA	NA	NA	7.7x	7.1x	6.7x	--	5.5%
Pattern Energy Group	PEGI	NK	1	27.00	24.10	1.7	1.78	1.95	2.17	12.0%	13.5x	12.4x	11.1x	14.0x	11.6x	9.6x	94%	7.0%
TerraForm Power, Inc	TERP		NR	–	13.22	1.1	NE	NE	NE	NE	NA	NA	NA	10.3x	9.4x	9.6x	--	0.0%
Alternative Structures Group Median										**12.0%**	**13.5x**	**12.4x**	**11.1x**	**11.6x**	**10.1x**	**9.0x**	**83%**	**5.1%**

Analyst: NK = Neil Kalton, SA = Sarah Akers; Estimates for companies that are not covered are First Call consensus estimates.
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Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg

NATURAL GAS LOCAL DISTRIBUTION COMPANY (LDC) UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	9/29/17 Price ($)	Equity Market Cap (Bil.)	EPS			3-5 Yr EPS Growth	P/E			EV/EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
Natural Gas Local Distribution Companies (LDCs)																		
Atmos Energy Corp.	ATO		NR	–	83.84	8.9	3.62	3.83	4.17	-	23.2x	21.9x	20.1x	11.7x	10.8x	9.9x	50%	2.1%
Chesapeake Utilities Corp.	CPK	SA	2	81.00	78.25	1.3	2.84	3.42	3.58	6.0%	27.6x	22.9x	21.9x	13.3x	11.2x	10.3x	46%	1.7%
New Jersey Resources	NJR	SA	2	44.00	42.15	3.6	1.72	1.90	2.04	6.0%	24.6x	22.2x	20.7x	14.4x	12.7x	11.1x	64%	2.6%
NiSource Inc.	NI	SA	1	30.00	25.59	8.3	1.18	1.25	1.32	6.0%	21.7x	20.5x	19.4x	10.6x	9.9x	9.2x	59%	2.7%
Northwest Natural Gas	NWN	SA	2	68.00	64.40	1.8	2.15	2.28	2.62	5.0%	30.0x	28.2x	24.6x	11.3x	10.7x	9.5x	87%	2.9%
ONE Gas Inc.	OGS	SA	2	76.00	73.64	3.8	2.99	3.10	3.22	6.0%	24.6x	23.8x	22.9x	11.4x	10.8x	10.2x	56%	2.3%
South Jersey Industries, Inc.	SJI		SR	–	34.53	2.7	1.19	1.46	1.68	10.0%	29.0x	23.7x	20.6x	15.4x	12.0x	10.5x	91%	3.2%
Southwest Gas Corp.	SWX		NR	–	77.62	3.7	3.42	3.59	3.78	-	22.7x	21.6x	20.5x	9.9x	9.4x	8.9x	58%	2.6%
Spire Inc.	SR	SA	2	78.00	74.65	3.6	3.57	3.74	3.90	5.0%	20.9x	20.0x	19.1x	12.2x	11.3x	10.6x	59%	2.8%
WGL Holdings	WGL	SA	2	88.25	84.20	4.3	3.15	3.62	4.02	7.0%	26.7x	23.3x	20.9x	14.8x	13.6x	12.4x	65%	2.4%
Natural Gas LDC Group Median										**6.0%**	**24.6x**	**22.5x**	**20.6x**	**11.9x**	**11.0x**	**10.2x**	**59%**	**2.6%**
Gas LDC Premium/(Discount) to Regulated Electrics											**24%**	**19%**	**17%**	**12%**	**7%**	**9%**		

WATER UTILITY UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	9/29/17 Price ($)	Equity Market Cap (Bil.)	EPS			3-5 Yr EPS Growth	P/E			EV/EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
American States Water	AWR	JR	2	46.00	49.25	1.8	1.70	1.73	1.80	4.0%	29.0x	28.5x	27.4x	13.3x	12.8x	12.3x	60%	2.1%
American Water Works	AWK	JR	2	84.00	80.91	14.4	3.05	3.30	3.55	7.0%	26.5x	24.5x	22.8x	12.7x	11.8x	11.1x	54%	2.1%
Aqua America	WTR	JR	2	35.00	33.19	5.9	1.37	1.42	1.50	5.0%	24.2x	23.4x	22.1x	16.4x	14.8x	13.8x	60%	2.5%
Artesian Resources	ARTNA		NR	–	37.80	0.3	1.46	1.55	NE	-	25.9x	24.4x	NA	11.5x	10.9x	NA	63%	2.5%
California Water Service	CWT	JR	3	34.00	38.15	1.8	1.27	1.32	1.40	6.0%	30.0x	28.9x	27.3x	13.3x	12.6x	11.8x	57%	1.9%
Connecticut Water Service	CTWS	JR	2	60.00	59.30	0.7	2.20	2.35	2.50	6.0%	27.0x	25.2x	23.7x	20.3x	17.2x	15.3x	54%	2.0%
Middlesex Water	MSEX		NR	–	39.27	0.6	1.48	1.61	NE	-	26.5x	24.4x	NA	NA	NA	NA	57%	2.2%
SJW Corp.	SJW		NR	–	56.60	1.2	2.47	2.63	2.68	-	22.9x	21.5x	21.1x	NA	NA	NA	35%	1.5%
York Water	YORW		NR	–	33.90	0.4	0.96	0.99	NE	-	35.3x	34.2x	NA	17.7x	17.0x	NA	67%	1.9%
Water Utility Group Median										**6.0%**	**26.5x**	**24.5x**	**23.3x**	**13.3x**	**12.8x**	**12.3x**	**57%**	**2.1%**
Water Utility Premium/(Discount) to Regulated Electrics											**33%**	**30%**	**32%**	**25%**	**25%**	**31%**		

INFRASTRUCTURE UNIVERSE

	Symbol	Analyst	Rating	Price Target ($)	9/29/17 Price ($)	Equity Market Cap (Bil.)	FFO/Share			3-5 Yr EPS Growth	P/FFO			EV/Adj. EBITDA			Dividend Payout 2017E	Dividend Yield
							2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E		
Brookfield Infrastructure Partners LP	BIP	JR	1	44.00	43.14	11.9	3.13	3.55	3.92	11.0%	13.8x	12.2x	11.0x	15.0x	13.4x	12.5x	56%	4.0%
Macquarie Infrastructure Corp.	MIC	JR	1	90.00	72.18	6.0	6.98	7.88	8.14	8.0%	10.3x	9.2x	8.9x	12.1x	11.2x	10.4x	79%	7.6%
Brookfield Renewable Partners LP	BEP	JR	1	37.00	33.52	5.6	2.15	2.29	2.43	13.0%	15.6x	14.6x	13.8x	7.9x	7.7x	7.4x	87%	5.6%
Infrastructure Group Median										**11.0%**	**13.8x**	**12.2x**	**11.0x**	**12.1x**	**11.2x**	**10.4x**	**79%**	**5.6%**

Analyst: NK = Neil Kalton, SA = Sarah Akers, JR = Jonathan Reeder; Estimates for companies that are not covered are First Call consensus estimates.
Wells Fargo Securities, LLC. Ratings: 1 - Outperform, 2 - Market Perform, 3 - Underperform, NR - Not Rated, SR - Suspended Rating
Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg

Appendix 2 – Glossary of Terms Used in Cover Page Bullets

FRI - Financial Research Institute
IOU - Investor Owned Utility
IRP - Integrated Resource Plan
MW - Megawatt
PPA - Power Purchase Agreement
PTC - Production Tax Credit
RES - Renewable Energy Standard

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Date
29 September 2017

Breaking News

DOE pushes de facto re-regulation of baseload coal and nuclear

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Companies featured	
Dynegy Inc. (DYN.N),USD9.71	Hold
Dominion Energy (D.N),USD77.03	Hold
Calpine (CPN.N),USD14.78	Hold
Entergy Corp. (ETR.N),USD76.34	Hold
Exelon (EXC.N),USD37.40	Buy
FirstEnergy (FE.N),USD30.07	Hold
NRG Energy (NRG.N),USD24.90	Buy
PSEG (PEG.N),USD46.08	Buy

Source: Deutsche Bank

DOE takes baseload study and runs with it; puts ball in FERC's court

This morning, the Department of Energy (DOE) followed up its recent baseload study, with a bold call for fast-tracked action from the FERC and its approved Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs). Based on an initial reading of the materials and the scope of the underlying FERC docket (RM17-3) where this is being proposed, our understanding is that this action would apply to all of the regional competitive power markets with the exception of ERCOT (Texas). The basic premise from DOE would be to support unregulated power plants with on site fuel (defined as 90-day supply) that improve grid reliability and resiliency. This seems intended as a legally defensible way to support challenged coal and nuclear units operating in competitive markets. While the Administration's focus on this issue has been no secret, the scope, timing and format of this proposal is much bolder than most in the industry have been expecting - FE being the notable exception.

Plan sounds like de facto re-regulation of baseload coal and nuclear

Essentially, DOE is looking to have the FERC, via the RTOs and ISOs, guarantee that coal and nuclear plants do not continue retiring due to economic pressures. This would be accomplished by ensuring that such units' contributions to system "resiliency" are "fully valued" which DOE describes as an "urgent objective" while citing the Polar Vortex along with Superstorm Sandy and the three major hurricanes of recent weeks in support of its call to action. Per DOE, the FERC has developed a "vast record" on price formation matters "but has not done enough to address the crisis at hand". DOE's proposed rule would have the organized markets establish tariffs allowing in-scope units to recover "costs and a fair rate of return". This would seem to move towards applying Reliability-Must-Run (RMR) type arrangements across the board rather than only where dictated by critical locational needs. More broadly though, DOE's language really sounds like a de facto FERC-authorized re-regulation of coal and nuclear in competitive markets - a truly dramatic change to the status quo if actually implemented via the RTOs.

Invoking Section 403 authority and an extremely aggressive timeline

Procedurally, DOE indicates that it is invoking the Secretary of Energy's authority under Section 403 of its organizing statute. As described by DOE, their Notice of Proposed Rulemaking (NOPR) filed in ongoing FERC docket RM17-3 is requiring the FERC to take final action within 60 days of the NOPR being published in the Federal Register. Alternatively, DOE urges the FERC to issue its NOPR as an "interim final rule, effective immediately, with provision for later modifications after consideration of public comments". These timelines are clearly aggressive by normal standards and it certainly remains to be seen whether this construct can move anything like as fast as the DOE is demanding. We would also anticipate push-back on both the legal basis and timing front although at this early stage those battle lines have yet to be drawn.

Baseload owners obvious beneficiaries but existential threat to markets

Our initial reaction is that this could be a major subsidy to competitive power companies with struggling coal and nuclear plants (DYN, EXC, PEG, NRG, FE, ETR, D, GenOn and Talen to name a few). For those such as EXC, PEG and FE which have been pushing for state level clean energy subsidies for nuclear it provides a potentially more permanent solution. This said, the proposal also raises considerable existential questions for competitive power markets as we currently know them, with two out of the three primary fuels potentially getting a separate set of rules which presumably would have significant implications for future supply and demand balances.

Appendix 1

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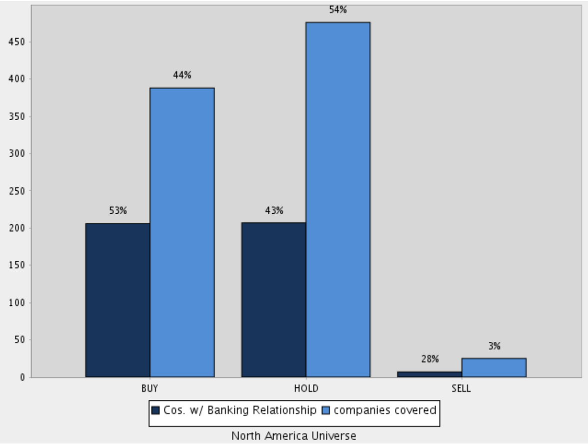

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DoE Gets Pushy

DOE today (9/29) proposed that FERC issue a final rule requiring RTOs and ISOs develop and implement new market rules that accurately compensate “fuel-secure” generation resources necessary to maintain grid “reliability and resiliency.” DoE’s proposal would allow for a loosely defined “recovery of costs” of primarily nuclear and coal generation not regulated by states. The timing (just one month after 8/23 DOE grid study), and prescription (seeking full cost recovery) in today's order come as a surprise to the market. However, we ultimately expect FERC to act independently of DOE's proposal and order regional grid operators to conduct more detailed studies to be followed by FERC orders under Section 206 in 2H 2018. **Bottom line – despite the requested short-fused 60-day deadline, we believe that the proposal is unspecific enough to be interpreted in-line with current expectations** as we outlined in our 9/7 note “EXC: Highlighting Potential from Energy Reforms”. The 45 day comment period and 60 days to act is simply too fast to come up with a reasonable solution to complex problems with energy market design that have been existed and been worked on for nearly two decades.

- **FERC is still an independent authority.** DOE's use of Section 403 requires FERC to act upon the rule within a "reasonable time limit". While the FERC has to “consider and take final action” within 60 days, this would appear to allow FERC to interpret “action” as an order to regional grid operators to submit more detailed proposals.
- **Seeking cost recovery on selected technologies.** Under DoE’s proposal, eligible units are defined as those that provide essential energy and ancillary reliability services (i.e. reliable capacity/generation, frequency and voltage support) with 90 days of fuel supply on site (most coal piles are 30-60 days currently). This highly narrow definition appears to limit eligible technologies to coal, nuclear, or energy storage (when coupled with other technologies). Renewables and gas power plants might also qualify, but that is likely subject to interpretation.
- **EPSA opposed.** The Electric Power Supply Association’s first take is that the proposal is “ill-advised in key respects.” It would leave out non-coal/nuclear assets from a scheme to “essentially re-regulate wholesale markets…This requires sufficient time for full public debate including a much longer public comment and review period than DOE has proposed. Failure to do so simply invites multiple legal challenges down the road.”
- **Why the forceful stance?** We note that the proposal comes on the heels of the Trump Administration’s recent refusal grant Murray Energy’s request to use DoE’s emergency authority under Sect 202 of the Federal Power Act to prevent further coal plant retirements.

Companies Mentioned *(Price as of 29-Sep-2017)*

Exelon Corporation (EXC.N, $37.67)

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September 29, 2017 | Equity Research

Electric Utility Risk Assessment

Earnings (Utility vs Unregulated) & Utility Asset (T&D vs Generation) Mix

Utilities

- Please see Figure on Page 2

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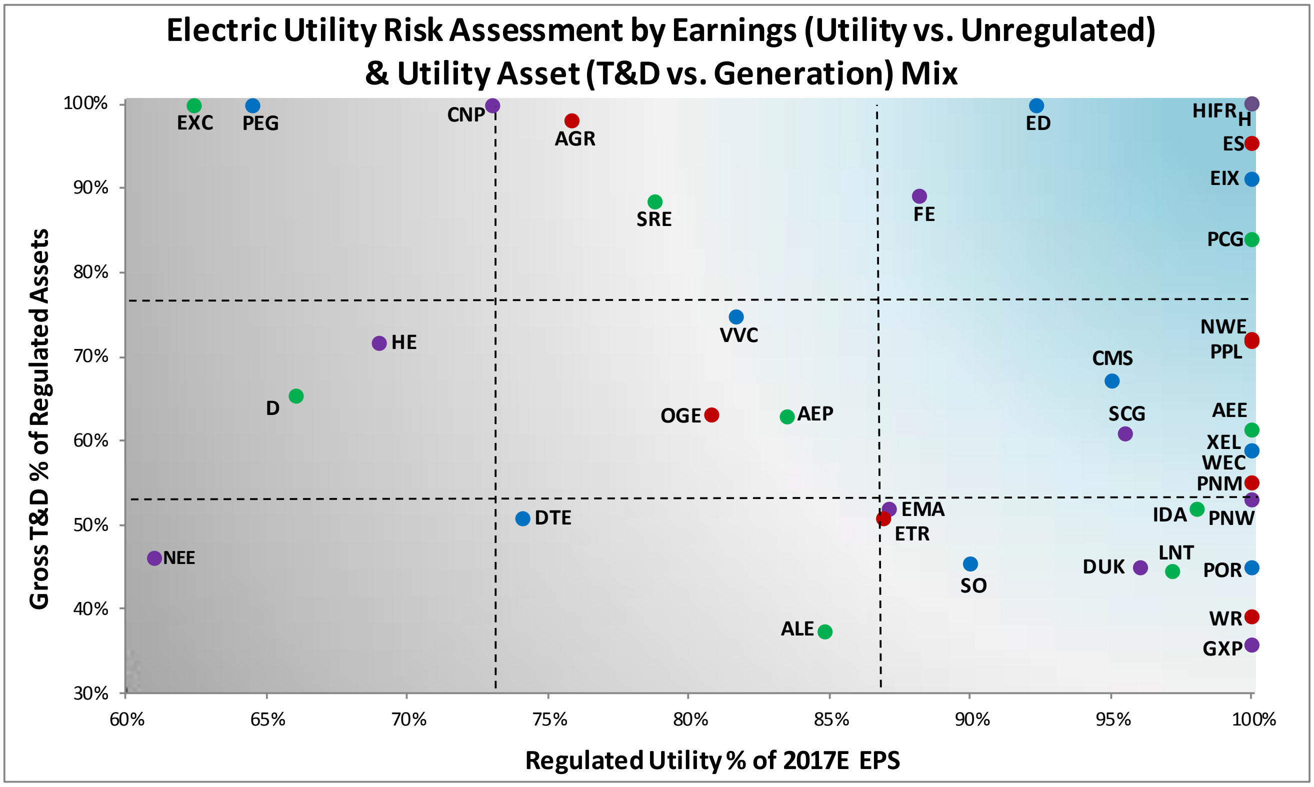
Electric Utility Risk Assessment by Earnings (Utility vs. Unregulated) & Utility Asset (T&D vs. Generation) Mix

Note: Gross plant was calculated using SNL data which pulls from FERC Form 1/1-F, FERC Form 3/3-A or EIA 861 filings.
Source: Wells Fargo Securities, LLC, company filings and SNL Financial LC

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As of: September 29, 2017

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GUGGENHEIM

Forward Power Curves, GenCo MtM and Weekly Commentary

SECTOR: Power and Utilities September 29, 2017

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Forward Power/Gas Curves – 09/28/17. Below, we provide estimated forward curves for power, heat rates, spark, dark, and quark spreads for peak, off-peak, and around-the-clock for various regions in the United States, broken down by each RTO/ISO in North America. In addition, we model forward gas, basis, as well as coal through the 2026 time frame.

Investors should use this link to open an Excel spreadsheet of various curves that can be used for power and utility models (click here to download our weekly price deck summary).

Forward Curve Weekly Highlights: Power and Heat Rates, for the week of 9/28 versus the prior week, **2018 national peak power prices** ($/MWh) were down 0.1% to $34.23 from $34.25 and around-the-clock power was down 0.1% to $29.58 from $29.59. Peak power in PJM was up 0.8% to $37.35 from $37.04; ERCOT was down 0.1% to $31.85 from $31.89; NE-ISO was down 0.1% to $44.19 from $44.20; NY-ISO was down 0.1% to $45.77 from $45.80; and MISO was up 0.5% to $34.78 from $34.59. **2018 peak heat rate (Btu/kWh) contractions**: 0.9% to 10,710 in ERCOT, 0.3% to 9,990 in NE-ISO. **2018 peak heat rate (Btu/kWh) expansions**: 1.5% to 11,673 in NYISO, 0.9% to 11,866 in PJM, 0.9% to 12,170 in MISO. See full price deck for additional details on various other curves and regions.

Forward Curve Weekly Highlights: Spark and Dark Spreads versus the prior week, **2018 Peak Spark Spreads** ($/MWh) in PJM were up 2.2% to $15.32 from $14.99; ERCOT was down 1.7% to $11.03 from $11.23; NE-ISO was down 0.7% to $13.23 from $13.33; NYISO was up 2.3% to $18.32 from $17.91; and MISO was up 1.7% to $14.77 from $14.52. **2018 Around-the-Clock Dark Spreads** ($/MWh) in PJM were up 0.7% to $25.10 from $24.92; ERCOT was up 0.2% to $20.05 from $20.01; NE-ISO was up 0.1% to $31.73 from $31.69; NYISO was down 0.3% to $31.58 from $31.68; and MISO was up 1.2% to $23.08 from $22.80.

Illustrative impact of marking our IPP and integrated utility models to the current forward curves versus published live estimates: PEG, FE, EXC, NRG, DYN and CPN are lower overall and VST is higher. **See the next page for illustrative MtM implications on Guggenheim's IPP and Integrated Utility coverage throughout our forecast period.**

Natural Gas Storage Levels and Eastern Gas Basis Tracker, Gas in storage increased to 3,466 Bcf as of 09/22/2017 a weekly increase of 58 Bcf, resulting in storage 3.5 Bcf below one year ago, 1.2 Bcf above the five-year average for this week. Eastern gas basis (TETCO M3) is currently reflecting a discount to Henry Hub for 2017 and a premium from 2018 through 2020 (-$0.17/$0.09/$0.05/$0.04 for '17/'18/'19/'20), contracting since last week.

Continued on the next page…

Illustrative Impact: Marking IPPs and Integrated Utilities to 09/28 Forward Curves

Henry Hub Natural Gas Price		2017E	2018E	2019E	2020E
Live Estimates(1)	$ / MMBtu	3.11	2.99	2.85	2.84
Current Curves	$ / MMBtu	3.10	3.06	2.90	2.84
Delta		*(0.2%)*	*2.2%*	*1.7%*	*0.3%*

INTEGRATED UTILITIES / INDEPENDENT POWER PRODUCERS (IPPs)

Exelon (EXC)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	8,204	8,456	8,473	8,519
	EPS	2.71	2.93	2.89	2.87
Current curves	Adj. EBITDA	8,158	8,428	8,405	8,377
	EPS	2.69	2.91	2.85	2.82
Delta	*Adj. EBITDA*	*(0.6%)*	*(0.3%)*	*(0.8%)*	*(1.7%)*
	EPS	*(0.7%)*	*(0.6%)*	*(1.6%)*	*(1.9%)*

FirstEnergy (FE)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	4,150	4,291	4,345	4,428
	EPS	2.82	2.49	2.37	2.27
Current curves	Adj. EBITDA	4,158	4,252	4,337	4,376
	EPS	2.83	2.44	2.36	2.22
Delta	*Adj. EBITDA*	*0.2%*	*(0.9%)*	*(0.2%)*	*(1.2%)*
	EPS	*0.4%*	*(2.1%)*	*(0.5%)*	*(2.2%)*

PSEG (PEG)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	4,435	4,026	4,142	4,274
	EPS	2.94	2.90	2.93	3.00
Current curves	Adj. EBITDA	4,414	4,029	4,133	4,245
	EPS	2.92	2.90	2.92	2.97
Delta	*Adj. EBITDA*	*(0.5%)*	*0.1%*	*(0.2%)*	*(0.7%)*
	EPS	*(0.6%)*	*0.2%*	*(0.4%)*	*(1.2%)*

Calpine (CPN)		2017E	2018E	2019E	2020E
Live Estimates(2)	Adj. EBITDA	1,826	2,027	1,971	2,042
Current curves	Adj. EBITDA	1,817	1,997	1,976	2,060
Delta	*Adj. EBITDA*	*(0.5%)*	*(1.5%)*	*0.3%*	*0.9%*

NRG		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	2,613	2,881	3,183	3,146
Current curves	Adj. EBITDA	2,600	2,868	3,098	3,132
Delta	*Adj. EBITDA*	*(0.5%)*	*(0.5%)*	*(2.7%)*	*(0.5%)*

Dynegy (DYN)		2017E	2018E	2019E	2020E
Live Estimates(1)	Adj. EBITDA	1,312	1,544	1,370	1,314
Current curves	Adj. EBITDA	1,285	1,522	1,341	1,275
Delta	*Adj. EBITDA*	*(2.0%)*	*(1.4%)*	*(2.1%)*	*(3.0%)*

Vistra (VST)		2017E	2018E	2019E	2020E
Live Estimates(3)	Adj. EBITDA	1,487	1,467	1,484	1,395
Current curves	Adj. EBITDA	1,491	1,436	1,502	1,409
Delta	*Adj. EBITDA*	*0.3%*	*(2.1%)*	*1.2%*	*1.0%*

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(1) Priced off June 29, 2017 forward curves.

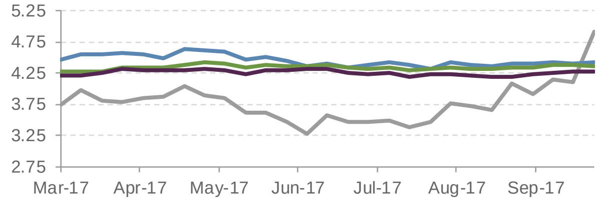
(2) Priced off August 17, 2017 forward curves.

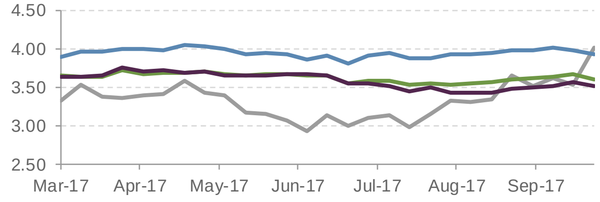
(3) Priced off August 24, 2017 forward curves.

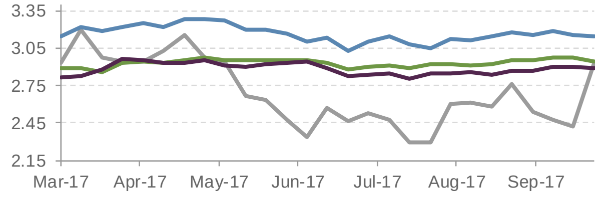
Source: Guggenheim Securities, LLC estimates, ICE, Bentek Energy, NYMEX, ISO/RTO.

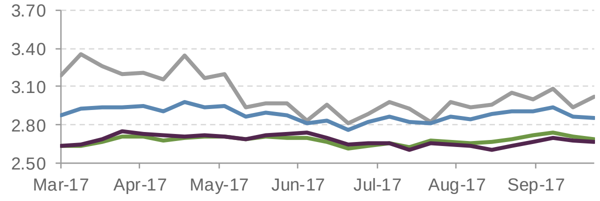
Gas Forward Curves 2017-2020

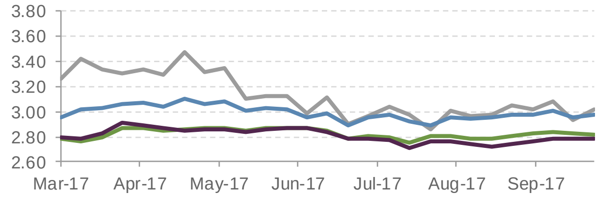
Rolling 6 months

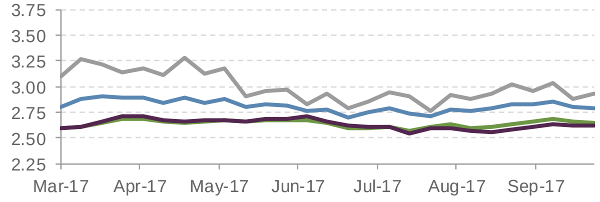

New England gas forwards ($/mmbtu)


Greater New York gas forwards ($/mmbtu)

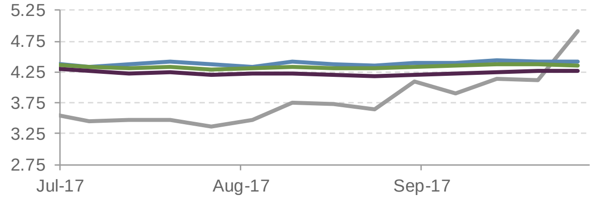

Penn/Jersey/Maryland gas forwards ($/mmbtu)

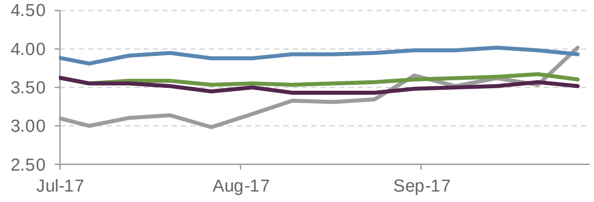

Illinois gas forwards ($/mmbtu)

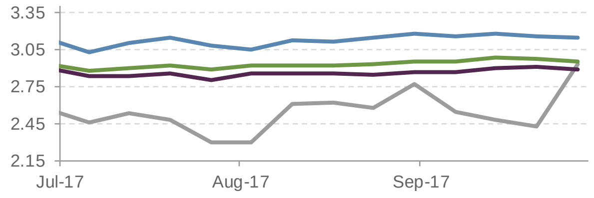

Texas gas forwards ($/mmbtu)

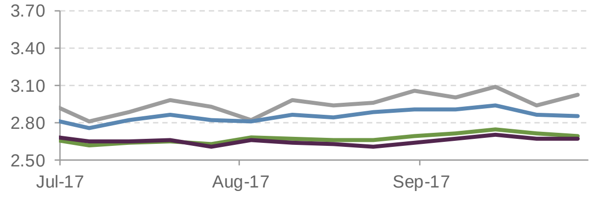

So Cal gas forwards ($/mmbtu)

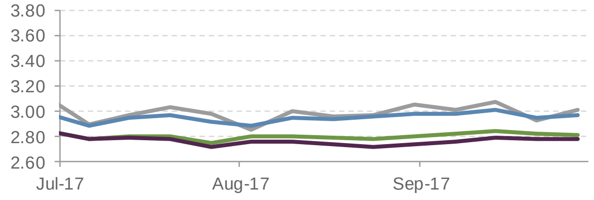
Quarter-to-date

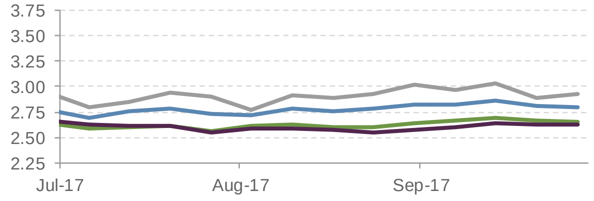

New England gas forwards ($/mmbtu)


Greater New York gas forwards ($/mmbtu)


Penn/Jersey/Maryland gas forwards ($/mmbtu)


Illinois gas forwards ($/mmbtu)


Texas gas forwards ($/mmbtu)

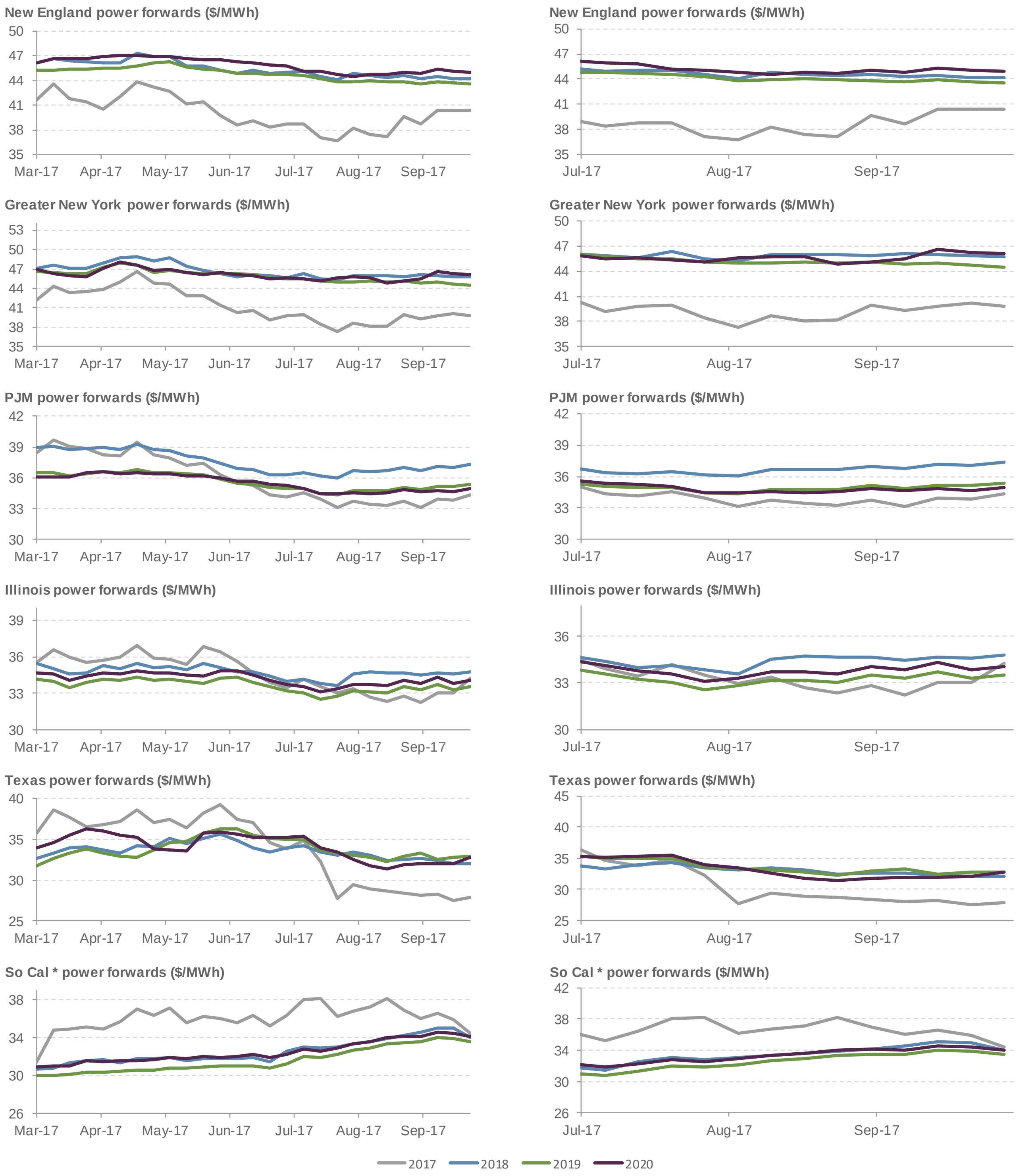

So Cal gas forwards ($/mmbtu)

2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC.

Power Forward Curves 2017-2020

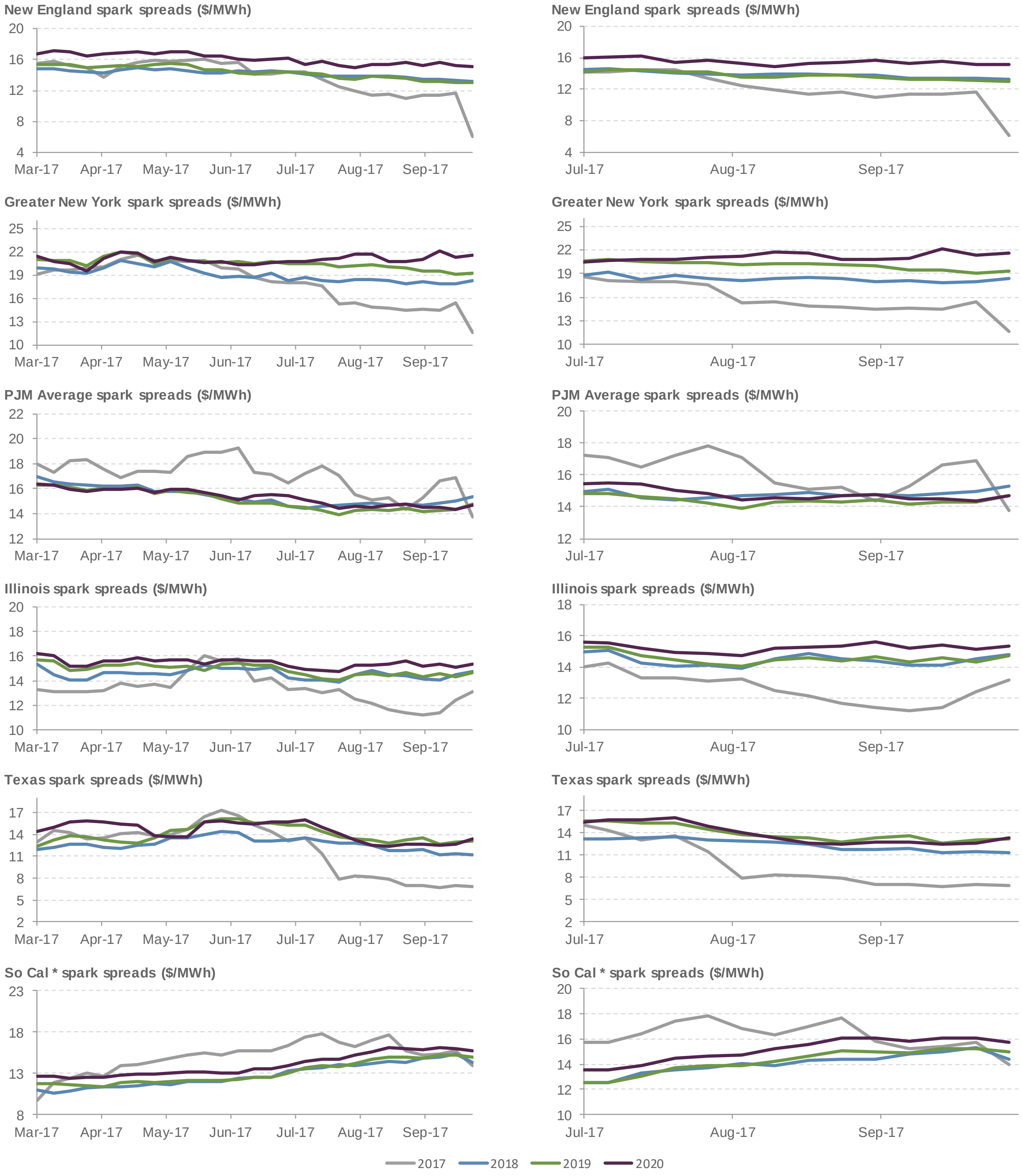
Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward Spark Spreads 2017-2020

Rolling 6 months **Quarter-to-date**

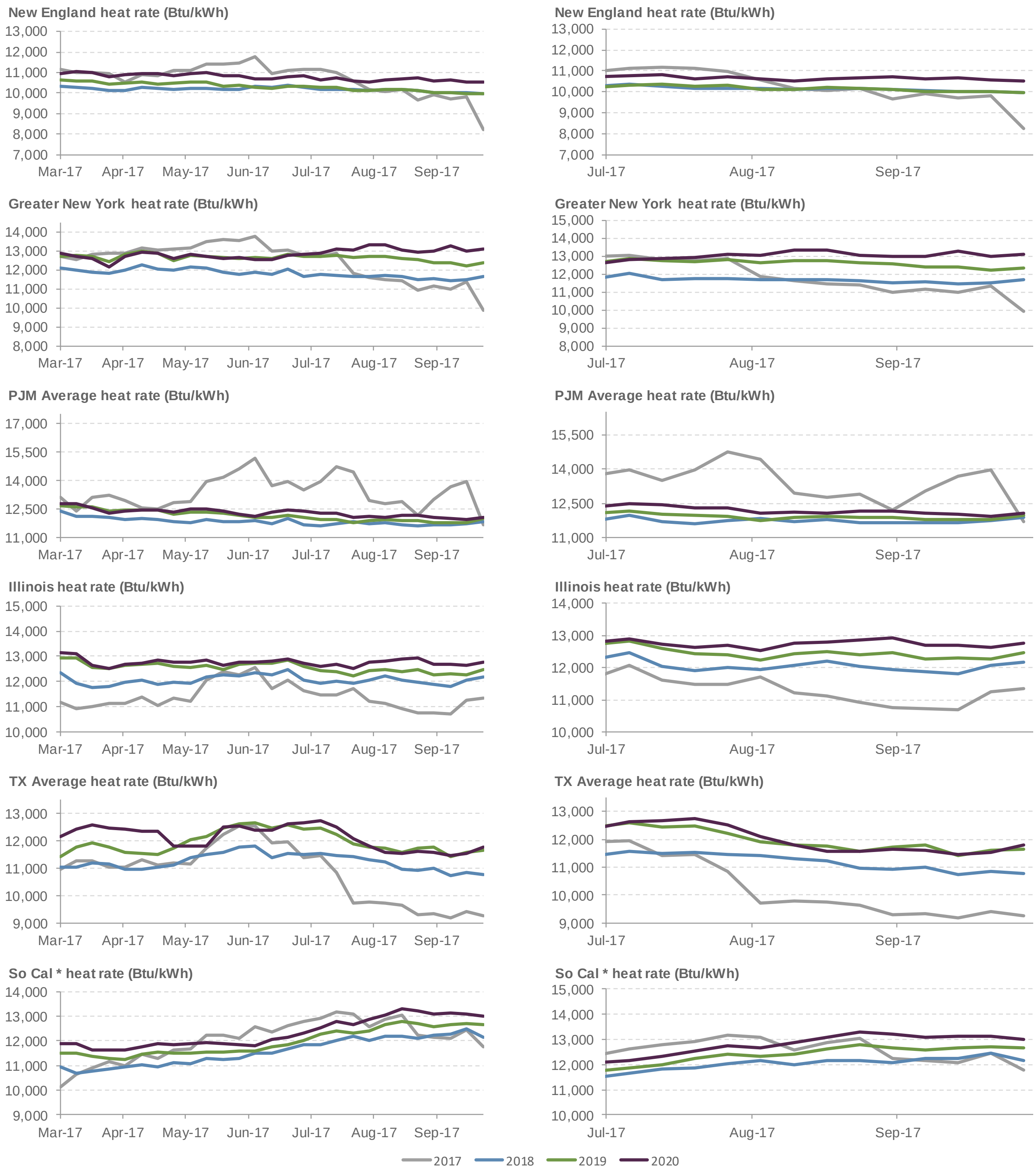


Source: ICE, Bentek, Guggenheim Securities, LLC

Forward Heat Rate 2017-2020

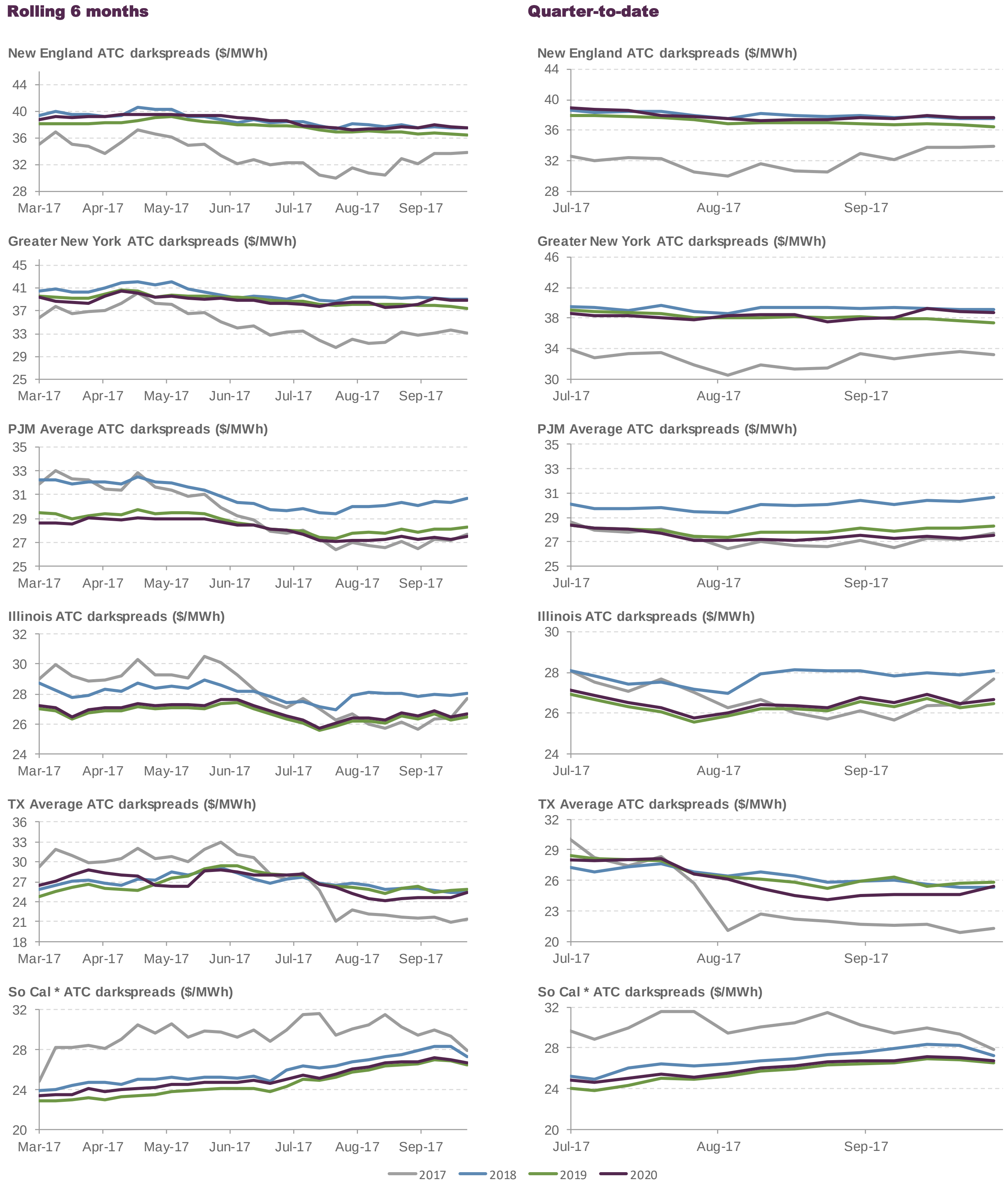
Rolling 6 months

Quarter-to-date



Source: ICE, Bentek, Guggenheim Securities, LLC

Forward 2017-2020 ATC PRB Dark Spreads



Source: ICE, Bentek, Guggenheim Securities, LLC

Ticker	Rating	Share Price (previous close)
CPN	NEUTRAL	$14.78
DYN	BUY	$9.71
EXC	BUY	$37.40
FE	BUY	$30.07
NRG	BUY	$24.90
PEG	BUY	$46.08
VST	BUY	$18.65

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Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	191	60.63%	22	11.52%
Neutral	122	38.73%	11	9.02%
Sell	2	0.63%	0	0.00%

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September 01, 2017 | 14:06 ET | 16:25 ET~

Exelon

BMO Capital Markets

Electric Utilities

Carl Kirst, CFA
carl.kirst@bmo.com (212) 885-4113
Legal Entity: BMO Capital Markets Corp.

EXC-NYSE	Rating	Price: Aug-31	Target
	Not Rated	$37.87	NA

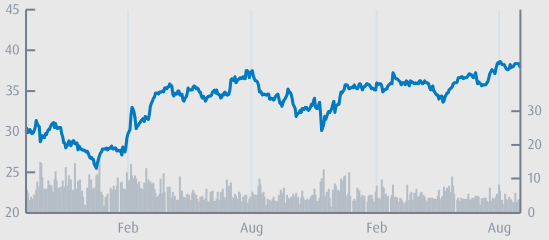
Coverage Discontinued

Bottom Line: Due to the planned retirement of Michael S. Worms effective September 1, research coverage of Exelon (EXC-NYSE) has been discontinued.

Key Points

Due to the planned retirement of Michael S. Worms effective September 1, research coverage of Exelon (EXC-NYSE) has been discontinued. The shares of Exelon have been rated Market Perform since March 12, 2009. Investors should no longer rely on BMO Capital Markets Research for an investment recommendation on Exelon.

2YR Price Volume Chart



LHS: Price ($) / RHS: Volume (mm)
Source: FactSet

Company Data			in $
Dividend	$1.31	Shares O/S (mm)	960.1
Yield	3.5%	Market Cap (mm)	$36,359
EV (mm)	$70,775	Net Debt (mm)	$37,875

BMO Estimates			in $
(FY-Dec.)	2014A	2015A	2016A
EBITDA	$5,865	$6,813	$7,461
FCF after Div.	$(1,207)	$(1,311)	$(1,274)
EPS	$2.39	$2.49	$2.68
Dividends	$1.24	$1.24	$1.26
CFPS	$(0.16)	$(0.23)	$(0.12)

Valuation			
	2014A	2015A	2016A
P/E	15.8x	15.2x	14.1x
P/CFPS	NM	NM	NM
EV/EBITDA	12.1x	10.4x	9.5x

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Exelon Rating History as of 08/31/2017

Source: FactSet, BMO Capital Markets

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Methodology and Risks to Target Price/Valuation for Exelon (EXC-NYSE)

Methodology: NA

Risks: NA

Distribution of Ratings (August 31, 2017)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe
Buy	Outperform	45.4%	22.5%	59.2%	47.7%	59.6%	53.9%
Hold	Market Perform	51.6%	13.3%	39.8%	49.4%	39.2%	41.1%
Sell	Underperform	3.0%	5.9%	1.0%	2.9%	1.2%	5.0%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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7 September 2017
Americas/United States
Equity Research
Electric Utilities

Exelon Corporation (EXC)

INCREASE TARGET PRICE

Rating	**OUTPERFORM**
Price (06-Sep-17, US$)	37.55
Target price (US$)	(from 42.00) 43.00
52-week price range (US$)	38.55 - 30.00
Market cap(US$ m)	34,762

Target price is for 12 months.

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Highlighting Potential from Energy Reforms

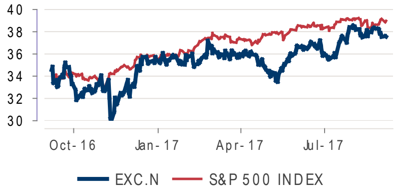
Our Take: We're raising our target price for EXC $1 to $43 and maintain Outperform with no changes to estimates at this time. The increase reflects partial credit for the potential uplift in energy gross margin resulting from expected price formation reform in PJM in 2018 where the energy market could be restructured to provide more support for 'inflexible' baseload generation.

- **"Soft" Section 206 changes could come in 2018.** As previously noted, we expect the 8/23 release of DoE's long-awaited grid reliability study to be the catalyst for FERC to issue a notification this Fall to all regional transmission operators (RTOs) to study problems with energy market designs across the country, with an eye toward avoiding undesirable early retirements of baseload resources. The RTO studies could then result in proposal filings with FERC around Feb/Mar 2018 followed by orders under Section 206 from FERC to make changes sometime thereafter. Sometimes referred to as a "soft 206", this could result in implementation without a full stakeholder review (in PJM, this would otherwise require a tough 66% assent). As such, we are looking closely to PJM's recent white paper review of energy market price formation at PJM, recommends more support for "inflexible" generation (including nuclear) that is harmed by ramped (lower) marginal pricing as well as negative pricing at night that results from nighttime oversupply of power coming from tax-advantaged wind turbines.

- **Our calculations** estimate potential off-peak price uplift ~$1.20-$4.30/MWh across PJMW and NI Hub, resulting in up to $210M-$370M incremental open (unhedged) EBITDA or about $0.15-$0.25 EPS.

- **Valuation and Risks.** Raising TP $1 to $43 to reflect a 50% probability of energy price reform uplift at a 7.5x 2019E EV/EBITDA multiple. Risks include ExGen commodity exposure and nuclear operator risk; regulatory outcomes.

Share price performance



On 06-Sep-2017 the S&P 500 INDEX closed at 2465.54
Daily Sep06, 2016 - Sep06, 2017, 09/06/16 = US$34.45

Quarterly EPS	Q1	Q2	Q3	Q4
2016A	0.68	0.65	0.91	0.44
2017E	0.65	0.54	0.89	0.56
2018E	-	-	-	-

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (CS adj.) (US$)	2.68	2.67	3.01	2.84
Prev. EPS (US$)	-	-	-	-
P/E (x)	14.0	14.1	12.5	13.2
P/E rel. (%)	66.2	73.8	72.5	84.6
EBITDA (US$ m)	8,091	8,466	9,120	8,922
EV/EBITDA (current)	8.8	8.4	7.8	8.0
Net debt (US$ m)	35,278	44,105	44,766	45,059
FFO/Interest	4.1	3.9	4.5	4.4
FFO/Total Debt	0.16	0.14	0.14	0.14

Number of shares (m)	926	BV/Share (Next Qtr., US$)	29
Net debt (Next Qtr., US$ m)	35,796	Dividend (current, US$)	1.4
Net debt/tot eq (Next Qtr., %)	122.2	Dividend yield (%)	3.61

Source: Company data, Thomson Reuters, Credit Suisse estimates

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, LEGAL ENTITY DISCLOSURE AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

- **Recall that on June 15th, PJM proposed energy market reforms to support "inflexible" baseload resources and address negative nodal pricing.** One proposal is to create more value for large baseload units that have little/no ramping capability by allowing them to set local marginal pricing (LMP) even when they are forced to flood the system with a chunk of MWhs upon activation (under current rules, their dispatch would immediately suppress the price that triggered their activation in the first place). Simultaneously, the value of flexibility would be enhanced through additional reforms, such as the development of a load-following product to compensate flexible resources forced to ramp up or down uneconomically. A second proposal would seek to end the prevalence of off-peak negative LMP pricing that comes from wind generation subsidized by federal wind production tax credits. These negative LMPs erode the value of revenue streams for baseload, particularly nuclear, and PJM suggests further stakeholder/regulator discussion on ways to address the problem. This may include more price-setting eligibility for inflexible resources as well as possibly some kind of floor price for marginal nodal energy.
- **Our calculations below show PJM energy price formation reform could raise off peak prices ~$1.20-$4.30/MWh across PJMW and NI Hub, although on-peak prices would likely remain mostly unchanged.** In Figures 5 and 6 below, we illustrate that allowing inflexible resources such as baseload nuclear and coal to set off-peak prices could eliminate negative night-time pricing and improve average off-peak prices in PJMW by ~$1.20-$2.70/MWh. Figures 7 and 8 show that off-peak prices in NI Hub could increase by $2.30-$4.30/MWh.
- **Our analysis below assumes that PJM will set a floor for marginal heat rates** to eliminate the negative pricing and suppressed positive pricing sometimes seen when in-merit tax-subsidized wind generation must be curtailed to allow out-of-merit baseload (particularly inflexible nuclear) to continue running, especially at night. Mechanically, we assume a system where energy prices are reset higher in the hours where implied market heat rates fall below a threshold level. We illustrate three scenarios: 4, 5 or 6 MMBtu/MWh. Our guiding assumption is that prices below the threshold are reset higher to a new reference level determined by a hypothetical 7 MMBtu/MWh heat rate.
- **We calculate a $130M - $370M improvement in EBITDA or $0.09 - $0.25 EPS uplift in 2019 coming from energy price formation reform.** The range depends on the heat rate floor level chosen under our hypothetical reform assumptions. In Figures 1, and 2 below, we demonstrate a range of potential impacts on ExGen's 2018 and 2019 EBITDA and EPS resulting from ~$1.30-$4.30/MWh uplift in off peak energy prices. The impact on 2018 ($61M-105M EBITDA and $0.04-0.07 EPS) is somewhat muted due to higher hedging percentages, while more upside can be realized in lesser-hedged 2019 ($129M-$225M and $0.09-$0.15 EPS). Note that we also assume that hedging is skewed heavier (60%) toward on-peak hours, where there's more liquidity, a factor that helps push ExGen's margins higher for off-peak improvements. Finally, in Figure 3 below, we illustrate the effect on open unhedged EBITDA (for 2019), with as much as $366M upside or $0.25 EPS.

Figure 1: 2018 – EBITDA and EPS Impact

2018		**Mid-Atlantic**				**Midwest**			
Total MWh		60,300				96,000			
Hedged %		81.5%				67.5%			
Hedged MWh		49,145				64,800			
	Assumed On/ Off								
Unhedged MWh	Hedge Skew	11,156				31,200			
Off Peak Unhedged MWh	60%	6,693				18,720			
On Peak Unhedged MWh	40%	4,462				12,480			
			Ref. HR - 4	Ref. HR - 5	Ref. HR - 6		Ref. HR - 4	Ref. HR - 5	Ref. HR - 6
Off Peak Energy Price Uplift ($/ MWh)			$ 1.33	$ 1.95	$ 2.58		$ 2.65	$ 3.47	$ 4.29
On Peak Energy Price Uplift ($/ MWh)	Margin		$ 0.02	$ 0.07	$ 0.19		$ 0.19	$ 0.30	$ 0.55
Off Peak EBITDA ($M)	100%		$ 9	$ 13	$ 17		$ 50	$ 65	$ 80
On Peak EBITDA ($M)	100%		$ 0	$ 0	$ 1		$ 2	$ 4	$ 7
EBITDA ($ M)			**$ 9**	**$ 13**	**$ 18**		**$ 52**	**$ 69**	**$ 87**
Share #			960	960	960		960	960	960
EPS			**$ 0.01**	**$ 0.01**	**$ 0.01**		**$ 0.04**	**$ 0.05**	**$ 0.06**
Total EBITDA ($ M)							**$ 61**	**$ 82**	**$ 105**
Total EPS							**$ 0.04**	**$ 0.06**	**$ 0.07**

Source: Company data, Credit Suisse estimates

Figure 2: 2019 (2Q17 Hedges) - EBITDA and EPS Impact

2019		**Mid-Atlantic**				**Midwest**			
Total MWh		58,500				97,000			
Hedged %		46.5%				35.5%			
Hedged MWh		27,203				34,435			
	Assumed On/ Off								
Unhedged MWh	Hedge Skew	31,298				62,565			
Off Peak Unhedged MWh	60%	18,779				37,539			
On Peak Unhedged MWh	40%	12,519				25,026			
			Ref. HR - 4	Ref. HR - 5	Ref. HR - 6		Ref. HR - 4	Ref. HR - 5	Ref. HR - 6
Off Peak Energy Price Uplift ($/ MWh)			$ 1.33	$ 1.95	$ 2.58		$ 2.65	$ 3.47	$ 4.29
On Peak Energy Price Uplift ($/ MWh)	Margin		$ 0.02	$ 0.07	$ 0.19		$ 0.19	$ 0.30	$ 0.55
Off Peak EBITDA ($M)	100%		$ 25	$ 37	$ 49		$ 100	$ 130	$ 161
On Peak EBITDA ($M)	100%		$ 0	$ 1	$ 2		$ 5	$ 8	$ 14
EBITDA ($ M)			**$ 25**	**$ 37**	**$ 51**		**$ 104**	**$ 138**	**$ 175**
Share #			960	960	960		960	960	960
EPS			**$ 0.02**	**$ 0.03**	**$ 0.03**		**$ 0.07**	**$ 0.09**	**$ 0.12**
Total EBITDA ($ M)							**$ 129**	**$ 175**	**$ 225**
Total EPS							**$ 0.09**	**$ 0.12**	**$ 0.15**

Source: Company data, Credit Suisse estimates

Figure 3: 2019 (Open) - EBITDA and EPS Impact

Open 2019		**Mid-Atlantic**				**Midwest**			
Total MWh		58,500				97,000			
Hedged %		-				-			
Hedged MWh		-				-			
	Assumed On/ Off								
Unhedged MWh	Hedge Skew	58,500				97,000			
Off Peak Unhedged MWh	60%	35,100				58,200			
On Peak Unhedged MWh	40%	23,400				38,800			
			Ref. HR - 4	Ref. HR - 5	Ref. HR - 6		Ref. HR - 4	Ref. HR - 5	Ref. HR - 6
Off Peak Energy Price Uplift ($/ MWh)			$ 1.33	$ 1.95	$ 2.58		$ 2.65	$ 3.47	$ 4.29
On Peak Energy Price Uplift ($/ MWh)	Margin		$ 0.02	$ 0.07	$ 0.19		$ 0.19	$ 0.30	$ 0.55
Off Peak EBITDA ($M)	100%		$ 47	$ 68	$ 91		$ 154	$ 202	$ 249
On Peak EBITDA ($M)	100%		$ 1	$ 2	$ 4		$ 7	$ 12	$ 21
EBITDA ($ M)			**$ 47**	**$ 70**	**$ 95**		**$ 162**	**$ 213**	**$ 271**
Share #			960	960	960		960	960	960
EPS			**$ 0.03**	**$ 0.05**	**$ 0.06**		**$ 0.11**	**$ 0.14**	**$ 0.18**
Total EBITDA ($ M)							**$ 209**	**$ 284**	**$ 366**
Total EPS							**$ 0.14**	**$ 0.19**	**$ 0.25**

Source: Company data, Credit Suisse estimates

- ***From our 8/27 weekly:*** **As expected, the DOE Grid Reliability Report supports baseload coal and nuclear. Next step: FERC changes to energy market structures.** On August 23, the DOE issued its long-awaited grid reliability study. Recall that back in April, Energy Secretary Perry ordered DOE staff to conduct a study evaluating the reliability of the nation's electric grid, pertaining to his concerns regarding closures of baseload power plants, particularly coal and nuclear. He had also warned that the DOE would overrule state renewable energy policies (such as renewable mandates) on the grounds of national security if reliability was found to be threatened.

  However, the study found that persistently low natural gas prices to be the greatest driver of baseload power plant retirements, followed by flat power demand, with increased costs from environmental regulations and the additions of renewables to the grid as lesser drivers. In addition, the study concluded that renewables are not a threat to grid reliability to the surprise of many utility and developer executives and other analysts. Many utility executives had feared that the study might preempt state policies, particularly hard-won financial supports for struggling nuclear fleets if the opposite conclusion had been reached. However, the study concluded that "ultimately, the continued closure of traditional baseload power plants calls for a comprehensive strategy for long-term reliability and resilience." **Perhaps most important, the study also suggested that existing market designs may not be able to address further challenges in the future and recommended that FERC expedite its study of wholesale power market structures to improve energy price formation and create fuel-neutral markets that compensate attributes that boost grid reliability.** The DOE also encouraged the EPA "to allow coal-fired power plants to improve efficiency and reliability without triggering new regulatory approvals and associated costs" as well as target an R&D portfolio to help those plants boost efficiency and that federal agencies accelerate and cut the costs of permitting for grid infrastructure for nuclear, hydropower, and coal generation.

  - ***From our 8/20 weekly*:** FERC support for baseload. Federal Energy Regulatory Commission (FERC) incoming commissioner Neil Chatterjee said on **FERC's podcast** that all generation facilities, especially coal and nuclear, need to be "properly compensated to recognize the value they provide to the system". We expect FERC to order RTOs to submit energy market reform proposals later this year.
  - ***From our 8/3 EXC report "ZECs in Hand; Looking for Market Reforms*: FERC action expected next.** The DoE release could be a catalyst for FERC to issue a notification this fall (once a quorum is in place) to all regional transmission operators (RTOs) to study problems with energy market designs across the country with an eye toward avoiding undesirable early retirements of baseload resources.
  - **"Soft" Section 206 changes could come in 2018.** The RTO studies could then result in proposal filings with FERC around Feb/Mar 2018 followed by orders under Section 206 from FERC to make changes sometime thereafter. Sometimes referred to as a "soft 206", this could result in implementation without a full stakeholder review. (In PJM, this would require 66% assent, a tough hurdle.)

- **For PJM, a focus on energy markets.** EXC has previously noted that it would be premature for RTOs to focus on capacity markets and MOPR (minimum offer price rule) extensions when the need to "fix" energy markets and fair energy price formation should be a much higher priority. As such, the company is more focused on PJM's whitepaper reviews of energy market price formation at PJM that among its conclusions, recommends more support for "inflexible" generation (including nuclear) that is harmed by ramped (lower) marginal pricing as well as negative energy pricing at night that results from nighttime oversupply of power coming from tax-advantaged wind turbines. On the capacity side, EXC's look at PJM's initial proposals for a two-stage capacity auction would appear to indicate that only Quad Cities would fail to clear, likely resulting in higher capacity prices for the remaining fleet. See 6/16 Goals Achievable Even Through ZEC Appeals, for full details.

- **Valuation.** Our valuation for EXC as shown in Figure 4 increased to $43 (from $42) after accounting for the average potential EBITDA upside of ~$286M (Figure 3). We assumed a 50% probability that EXC will realize this benefit giving rise to ~$1/sh incremental valuation based on a 7.5x multiple or ~15% upside vs current share price.

Figure 4: EXC - Base Case Valuation

	2019 EPS	2021 Cleared Capacity	2021 Eff. Price ($/ MW-d)	2021 Clearing Price ($/ MW-d)	2019 EBITDA less Maint. Capex	BASE CASE Probability	Prem / Disc	Effective P/E EV/ EBITDA	Equity	Equity / Sh
PECO EPS	$ 0.50						0.0x	17.0x	$ 7,934	$ 8.55
ComEd EPS	$ 0.69						0.0x	17.0x	$ 10,883	$ 11.73
BGE EPS	$ 0.35						0.0x	17.0x	$ 5,572	$ 6.01
PHI (7%-8% earned ROEs)	$ 0.41					70%	-0.5x	16.5x	$ 4,399	$ 4.74
PHI upside from ratecases	$ 0.48					30%	-0.5x	16.5x	$ 2,190	$ 2.36
ExGen										
EBITDA less Maint. Capex	$ 1.08				$ 2,196					
less MtM hedges					$ 255					
less ZECs (IL)					$ 235					
less ZECs (NY)					$ 317					
Less Capacity Revenue 2018					$ 1,266					
Net EBITDA					$ 123		0.0x	7.5x	$ 920	$ 0.99
JV with John Hancock					$ 170		0.0x	8.5x	$ 1,445	$ 1.56
AVSR					$ 80		0.0x	8.5x	$ 680	$ 0.73
EGTP					$ -		0.0x	4.5x	$ -	$ -
Remaining EBITDA					($ 127)		0.0x	6.0x	($ 764)	($ 0.82)
Incremental EBITDA from PJM Energy Market Reform					$ 286	50%		7.5x	$ 1,073	$ 1.16
Less ExGen Debt					$ 7,602				($ 7,602)	($ 8.19)
NPV of hedges					$ 245				$ 245	$ 0.26
NPV of ZECs (IL)					$ 1,158	100%			$ 1,158	$ 1.25
NPV of ZECs (NY)					$ 1,707	100%			$ 1,707	$ 1.84
NPV of Capacity Payments - PJM		16,200	$ 178	$ 122	$ 11,600				$ 11,600	$ 12.51
NPV of Capacity Payments - ISO-NE		2,330	$ 174	$ 174	$ 1,893				$ 1,893	$ 2.04
NPV of Capacity Payments - MISO		1,100	$ 72	$ 72	$ 311				$ 311	$ 0.34
Corp/ Other	($ 0.20)						0.0x	17.0x	($ 3,119)	($ 3.36)
Total EPS	**$ 2.84**								**$ 39,606**	**$ 43.00**
Diluted Shares Outstanding										928
Dividend										$ 1.31
Implied Yield										3.1%
Current Yield										3.5%
Implied P/E										15.1x
Prem / (Disc) To Group										(10.9%)
Upside/ (Downside) to Current Price										14.5%

Sensitivity to Henry Hub nat gas	
($0.10)	per MMbtu
($43)	ExGen Open EBITDA
7.5x	
($323)	Change in EV
($0.35)	Change in PT
-0.9%	**% Change in PT**

Source: Company data, Credit Suisse estimates

Figure 5: PJM West - Energy Price Impact – On Peak Hours

Date	Avg. Price	Avg. Mkt. HR	# Hours with HR < 4	Adj. Avg. Price	Delta	# Hours with HR < 5	Adj. Avg. Price	Delta	# Hours with HR < 6	Adj. Avg. Price	Delta
1/1/2015	$ 45.69	14.23	-	$ 45.69	$ -	-	$ 45.69	$ -	-	$ 45.69	$ -
2/1/2015	$ 83.09	26.70	-	$ 83.09	$ -	-	$ 83.09	$ -	-	$ 83.09	$ -
3/1/2015	$ 46.21	14.40	-	$ 46.21	$ -	-	$ 46.21	$ -	1	$ 46.22	$ 0.01
4/1/2015	$ 36.68	11.23	-	$ 36.68	$ -	1	$ 36.70	$ 0.02	5	$ 36.74	$ 0.06
5/1/2015	$ 40.87	12.62	-	$ 40.87	$ -	-	$ 40.87	$ -	5	$ 40.92	$ 0.05
6/1/2015	$ 37.38	11.46	1	$ 37.44	$ 0.05	2	$ 37.45	$ 0.07	5	$ 37.49	$ 0.11
7/1/2015	$ 41.92	12.97	1	$ 41.97	$ 0.04	1	$ 41.97	$ 0.04	4	$ 42.01	$ 0.08
8/1/2015	$ 35.22	10.74	-	$ 35.22	$ -	-	$ 35.22	$ -	5	$ 35.28	$ 0.06
9/1/2015	$ 38.08	11.69	-	$ 38.08	$ -	3	$ 38.14	$ 0.06	14	$ 38.27	$ 0.19
10/1/2015	$ 33.25	10.08	-	$ 33.25	$ -	2	$ 33.30	$ 0.04	10	$ 33.38	$ 0.12
11/1/2015	$ 32.30	9.77	1	$ 32.33	$ 0.03	11	$ 32.54	$ 0.24	22	$ 32.67	$ 0.38
12/1/2015	$ 29.88	8.96	1	$ 29.90	$ 0.03	10	$ 30.08	$ 0.20	34	$ 30.36	$ 0.49
1/1/2016	$ 35.71	10.90	-	$ 35.71	$ -	2	$ 35.76	$ 0.05	17	$ 35.93	$ 0.22
2/1/2016	$ 30.71	9.24	-	$ 30.71	$ -	4	$ 30.79	$ 0.08	29	$ 31.09	$ 0.37
3/1/2016	$ 26.39	7.80	7	$ 26.57	$ 0.18	19	$ 26.78	$ 0.39	72	$ 27.37	$ 0.98
4/1/2016	$ 34.91	10.64	-	$ 34.91	$ -	-	$ 34.91	$ -	7	$ 34.99	$ 0.08
5/1/2016	$ 29.48	8.83	5	$ 29.67	$ 0.20	13	$ 29.84	$ 0.36	31	$ 30.07	$ 0.60
6/1/2016	$ 31.55	9.52	1	$ 31.58	$ 0.03	4	$ 31.64	$ 0.09	30	$ 31.93	$ 0.38
7/1/2016	$ 37.69	11.56	-	$ 37.69	$ -	-	$ 37.69	$ -	2	$ 37.72	$ 0.03
8/1/2016	$ 40.66	12.55	-	$ 40.66	$ -	-	$ 40.66	$ -	6	$ 40.72	$ 0.06
9/1/2016	$ 35.48	10.83	1	$ 35.51	$ 0.03	2	$ 35.53	$ 0.05	8	$ 35.60	$ 0.11
10/1/2016	$ 34.08	10.36	-	$ 34.08	$ -	1	$ 34.10	$ 0.02	1	$ 34.10	$ 0.02
11/1/2016	$ 29.58	8.86	-	$ 29.58	$ -	-	$ 29.58	$ -	5	$ 29.64	$ 0.06
12/1/2016	$ 35.47	10.82	-	$ 35.47	$ -	-	$ 35.47	$ -	-	$ 35.47	$ -
1/1/2017	$ 34.73	10.58	-	$ 34.73	$ -	-	$ 34.73	$ -	1	$ 34.74	$ 0.01
2/1/2017	$ 27.85	8.28	-	$ 27.85	$ -	-	$ 27.85	$ -	5	$ 27.90	$ 0.06
3/1/2017	$ 33.67	10.22	-	$ 33.67	$ -	2	$ 33.70	$ 0.03	6	$ 33.75	$ 0.08
4/1/2017	$ 31.73	9.58	-	$ 31.73	$ -	-	$ 31.73	$ -	5	$ 31.79	$ 0.05
5/1/2017	$ 34.88	10.63	-	$ 34.88	$ -	-	$ 34.88	$ -	3	$ 34.92	$ 0.04
6/1/2017	$ 29.95	8.98	2	$ 30.02	$ 0.07	4	$ 30.06	$ 0.12	34	$ 30.40	$ 0.45
7/1/2017	$ 35.63	10.88	-	$ 35.63	$ -	-	$ 35.63	$ -	9	$ 35.74	$ 0.11
8/1/2017	$ 30.47	9.16	2	$ 30.55	$ 0.08	6	$ 30.63	$ 0.16	28	$ 30.86	$ 0.40
2015	**$ 41.71**	**12.90**	**4**	**$ 41.73**	**$ 0.01**	**30**	**$ 41.77**	**$ 0.06**	**105**	**$ 41.84**	**$ 0.13**
2016	**$ 33.48**	**10.16**	**14**	**$ 33.51**	**$ 0.04**	**45**	**$ 33.56**	**$ 0.09**	**208**	**$ 33.72**	**$ 0.24**
2017	**$ 32.36**	**9.79**	**4**	**$ 32.38**	**$ 0.02**	**12**	**$ 32.40**	**$ 0.04**	**91**	**$ 32.51**	**$ 0.15**

Source: Company data, Credit Suisse estimates, SNL

Figure 6: PJM West - Energy Price Impact – Off Peak Hours

Date	Avg. Price	Avg. Mkt. HR	# Hours with HR < 4	Adj. Avg. Price	Delta	# Hours with HR < 5	Adj. Avg. Price	Delta	# Hours with HR < 6	Adj. Avg. Price	Delta
1/1/2015	$ 31.14	9.38	3	$ 31.25	$ 0.10	10	$ 31.39	($ 14.30)	19	$ 31.51	($ 14.18)
2/1/2015	$ 59.51	18.84	-	$ 59.51	$ -	2	$ 59.56	($ 23.53)	13	$ 59.69	($ 23.40)
3/1/2015	$ 40.12	12.37	2	$ 40.19	$ 0.07	9	$ 40.33	($ 5.88)	17	$ 40.43	($ 5.78)
4/1/2015	$ 29.80	8.93	6	$ 30.01	$ 0.20	19	$ 30.28	($ 6.39)	51	$ 30.70	($ 5.98)
5/1/2015	$ 25.36	7.45	41	$ 28.73	$ 3.38	67	$ 29.20	($ 11.67)	104	$ 29.60	($ 11.27)
6/1/2015	$ 24.35	7.12	37	$ 25.91	$ 1.56	74	$ 26.73	($ 10.65)	122	$ 27.34	($ 10.05)
7/1/2015	$ 25.84	7.61	48	$ 27.72	$ 1.88	69	$ 28.13	($ 13.79)	112	$ 28.64	($ 13.28)
8/1/2015	$ 23.14	6.71	43	$ 25.58	$ 2.45	75	$ 26.19	($ 9.02)	135	$ 26.87	($ 8.34)
9/1/2015	$ 26.32	7.77	37	$ 27.70	$ 1.38	65	$ 28.30	($ 9.78)	125	$ 28.98	($ 9.10)
10/1/2015	$ 24.69	7.23	46	$ 26.31	$ 1.62	83	$ 27.06	($ 6.20)	136	$ 27.67	($ 5.58)
11/1/2015	$ 21.89	6.30	47	$ 23.39	$ 1.50	99	$ 24.38	($ 7.91)	164	$ 25.12	($ 7.18)
12/1/2015	$ 19.84	5.61	99	$ 23.44	$ 3.60	150	$ 24.46	($ 5.42)	217	$ 25.29	($ 4.59)
1/1/2016	$ 24.63	7.21	13	$ 25.01	$ 0.38	65	$ 25.95	($ 9.77)	159	$ 26.98	($ 8.73)
2/1/2016	$ 23.11	6.70	47	$ 24.65	$ 1.53	93	$ 25.69	($ 5.02)	149	$ 26.41	($ 4.31)
3/1/2016	$ 20.61	5.87	80	$ 23.24	$ 2.63	117	$ 24.02	($ 2.37)	191	$ 24.96	($ 1.43)
4/1/2016	$ 27.04	8.01	9	$ 27.37	$ 0.33	42	$ 28.02	($ 6.89)	93	$ 28.65	($ 6.26)
5/1/2016	$ 19.21	5.40	95	$ 22.31	$ 3.10	181	$ 23.94	($ 5.53)	247	$ 24.72	($ 4.75)
6/1/2016	$ 21.64	6.21	66	$ 24.20	$ 2.56	133	$ 25.64	($ 5.91)	207	$ 26.60	($ 4.95)
7/1/2016	$ 23.80	6.93	34	$ 25.17	$ 1.38	71	$ 25.83	($ 11.86)	165	$ 26.84	($ 10.85)
8/1/2016	$ 25.16	7.39	15	$ 25.78	$ 0.62	42	$ 26.35	($ 14.31)	114	$ 27.22	($ 13.44)
9/1/2016	$ 25.15	7.38	41	$ 26.57	$ 1.42	56	$ 26.88	($ 8.60)	125	$ 27.69	($ 7.79)
10/1/2016	$ 25.59	7.53	-	$ 25.59	$ -	5	$ 25.69	($ 8.39)	31	$ 25.95	($ 8.13)
11/1/2016	$ 22.71	6.57	6	$ 22.89	$ 0.18	25	$ 23.27	($ 6.31)	131	$ 24.50	($ 5.08)
12/1/2016	$ 27.08	8.03	1	$ 27.10	$ 0.03	6	$ 27.19	($ 8.27)	23	$ 27.38	($ 8.09)
1/1/2017	$ 28.83	8.61	4	$ 28.94	$ 0.11	7	$ 29.00	($ 5.73)	35	$ 29.32	($ 5.41)
2/1/2017	$ 23.43	6.81	-	$ 23.43	$ -	10	$ 23.66	($ 4.19)	99	$ 24.72	($ 3.12)
3/1/2017	$ 29.52	8.84	-	$ 29.52	$ -	-	$ 29.52	($ 4.15)	37	$ 29.93	($ 3.74)
4/1/2017	$ 24.34	7.11	7	$ 24.58	$ 0.24	21	$ 24.84	($ 6.89)	114	$ 25.92	($ 5.82)
5/1/2017	$ 23.60	6.87	10	$ 24.01	$ 0.42	20	$ 24.20	($ 10.68)	91	$ 24.97	($ 9.91)
6/1/2017	$ 21.50	6.17	37	$ 23.08	$ 1.57	102	$ 24.44	($ 5.51)	199	$ 25.70	($ 4.24)
7/1/2017	$ 24.38	7.13	10	$ 24.71	$ 0.33	49	$ 25.39	($ 10.24)	154	$ 26.52	($ 9.11)
8/1/2017	$ 22.76	6.59	10	$ 23.08	$ 0.32	62	$ 24.16	($ 6.31)	185	$ 25.74	($ 4.73)
2015	**$ 29.33**	**8.78**	**409**	**$ 30.81**	**$ 1.48**	**722**	**$ 31.33**	**$ 2.00**	**1,215**	**$ 31.82**	**$ 2.49**
2016	**$ 23.81**	**6.94**	**407**	**$ 24.99**	**$ 1.18**	**836**	**$ 25.71**	**$ 1.90**	**1,635**	**$ 26.49**	**$ 2.68**
2017	**$ 24.79**	**7.26**	**78**	**$ 25.17**	**$ 0.37**	**271**	**$ 25.65**	**$ 0.86**	**914**	**$ 26.60**	**$ 1.81**

Source: Company data, Credit Suisse estimates, SNL

Figure 7: NI Hub - Energy Price Impact – On Peak Hours

Date	Avg. Price	Avg. Mkt. HR	# Hours with HR < 4	Adj. Avg. Price	Delta	# Hours with HR < 5	Adj. Avg. Price	Delta	# Hours with HR < 6	Adj. Avg. Price	Delta
1/1/2015	$ 34.04	10.35	2	$ 34.10	$ 0.07	2	$ 34.10	$ 0.07	6	$ 34.15	$ 0.12
2/1/2015	$ 51.78	16.26	-	$ 51.78	$ -	1	$ 51.80	$ 0.02	3	$ 51.82	$ 0.04
3/1/2015	$ 36.14	11.05	2	$ 36.20	$ 0.06	2	$ 36.20	$ 0.06	8	$ 36.28	$ 0.13
4/1/2015	$ 27.84	8.28	11	$ 28.21	$ 0.36	18	$ 28.35	$ 0.51	38	$ 28.61	$ 0.77
5/1/2015	$ 30.22	9.07	16	$ 30.97	$ 0.74	24	$ 31.13	$ 0.91	47	$ 31.43	$ 1.21
6/1/2015	$ 32.09	9.70	10	$ 32.44	$ 0.35	13	$ 32.50	$ 0.41	22	$ 32.61	$ 0.52
7/1/2015	$ 34.65	10.55	5	$ 34.88	$ 0.23	11	$ 34.99	$ 0.33	16	$ 35.04	$ 0.39
8/1/2015	$ 32.38	9.79	5	$ 32.60	$ 0.22	9	$ 32.67	$ 0.30	22	$ 32.83	$ 0.45
9/1/2015	$ 32.67	9.89	4	$ 32.81	$ 0.14	10	$ 32.94	$ 0.26	21	$ 33.06	$ 0.38
10/1/2015	$ 29.97	8.99	10	$ 30.31	$ 0.34	18	$ 30.47	$ 0.50	31	$ 30.61	$ 0.64
11/1/2015	$ 30.94	9.31	6	$ 31.21	$ 0.26	23	$ 31.59	$ 0.64	48	$ 31.92	$ 0.97
12/1/2015	$ 28.39	8.46	7	$ 28.61	$ 0.22	22	$ 28.91	$ 0.52	66	$ 29.39	$ 1.00
1/1/2016	$ 28.92	8.64	3	$ 29.06	$ 0.14	11	$ 29.22	$ 0.31	42	$ 29.61	$ 0.69
2/1/2016	$ 27.25	8.08	2	$ 27.31	$ 0.06	8	$ 27.44	$ 0.18	53	$ 27.96	$ 0.71
3/1/2016	$ 25.01	7.34	11	$ 25.31	$ 0.29	30	$ 25.64	$ 0.63	116	$ 26.59	$ 1.58
4/1/2016	$ 29.81	8.94	6	$ 30.07	$ 0.25	11	$ 30.17	$ 0.35	48	$ 30.62	$ 0.80
5/1/2016	$ 26.35	7.78	6	$ 26.56	$ 0.21	19	$ 26.82	$ 0.47	52	$ 27.23	$ 0.87
6/1/2016	$ 30.63	9.21	5	$ 30.90	$ 0.27	11	$ 31.01	$ 0.37	39	$ 31.32	$ 0.68
7/1/2016	$ 35.25	10.75	1	$ 35.28	$ 0.03	4	$ 35.35	$ 0.09	18	$ 35.51	$ 0.26
8/1/2016	$ 39.55	12.18	-	$ 39.55	$ -	-	$ 39.55	$ -	11	$ 39.67	$ 0.13
9/1/2016	$ 35.11	10.70	1	$ 35.14	$ 0.03	2	$ 35.15	$ 0.05	13	$ 35.28	$ 0.17
10/1/2016	$ 33.35	10.12	-	$ 33.35	$ -	-	$ 33.35	$ -	4	$ 33.39	$ 0.04
11/1/2016	$ 27.48	8.16	1	$ 27.54	$ 0.06	3	$ 27.58	$ 0.10	26	$ 27.83	$ 0.35
12/1/2016	$ 32.39	9.80	5	$ 32.54	$ 0.15	6	$ 32.56	$ 0.17	16	$ 32.65	$ 0.27
1/1/2017	$ 30.75	9.25	1	$ 30.78	$ 0.03	2	$ 30.80	$ 0.06	10	$ 30.88	$ 0.14
2/1/2017	$ 26.33	7.78	-	$ 26.33	$ -	-	$ 26.33	$ -	23	$ 26.58	$ 0.25
3/1/2017	$ 30.43	9.14	4	$ 30.58	$ 0.15	7	$ 30.63	$ 0.20	13	$ 30.70	$ 0.26
4/1/2017	$ 29.14	8.71	2	$ 29.23	$ 0.09	6	$ 29.31	$ 0.17	20	$ 29.48	$ 0.33
5/1/2017	$ 35.21	10.74	14	$ 35.98	$ 0.76	14	$ 35.98	$ 0.76	17	$ 36.01	$ 0.80
6/1/2017	$ 34.55	10.52	3	$ 34.67	$ 0.12	7	$ 34.75	$ 0.20	32	$ 35.03	$ 0.49
7/1/2017	$ 37.93	11.64	-	$ 37.93	$ -	-	$ 37.93	$ -	10	$ 38.05	$ 0.11
8/1/2017	$ 28.34	8.45	1	$ 28.38	$ 0.04	7	$ 28.51	$ 0.17	42	$ 28.90	$ 0.56
2015	**$ 33.43**	**10.14**	**78**	**$ 33.68**	**$ 0.25**	**153**	**$ 33.80**	**$ 0.38**	**328**	**$ 33.98**	**$ 0.55**
2016	**$ 30.93**	**9.31**	**41**	**$ 31.05**	**$ 0.12**	**105**	**$ 31.15**	**$ 0.23**	**438**	**$ 31.47**	**$ 0.55**
2017	**$ 31.59**	**9.53**	**25**	**$ 31.73**	**$ 0.15**	**43**	**$ 31.78**	**$ 0.19**	**167**	**$ 31.95**	**$ 0.37**

Source: Company data, Credit Suisse estimates, SNL

Figure 8: NI Hub - Energy Price Impact – Off Peak Hours

Date	Avg. Price	Avg. Mkt. HR	# Hours with HR < 4	Adj. Avg. Price	Delta	# Hours with HR < 5	Adj. Avg. Price	Delta	# Hours with HR < 6	Adj. Avg. Price	Delta
1/1/2015	$ 24.74	7.25	12	$ 25.20	$ 0.46	25	$ 25.44	($ 8.60)	43	$ 25.63	($ 8.40)
2/1/2015	$ 35.18	10.73	4	$ 35.37	$ 0.19	10	$ 35.50	($ 16.28)	37	$ 35.85	($ 15.93)
3/1/2015	$ 28.37	8.46	21	$ 29.20	$ 0.83	42	$ 29.62	($ 6.52)	67	$ 29.92	($ 6.23)
4/1/2015	$ 21.00	6.00	72	$ 25.17	$ 4.17	102	$ 25.81	($ 2.03)	157	$ 26.52	($ 1.32)
5/1/2015	$ 18.14	5.05	113	$ 25.82	$ 7.69	159	$ 26.67	($ 3.55)	216	$ 27.31	($ 2.92)
6/1/2015	$ 20.30	5.77	86	$ 24.78	$ 4.49	124	$ 25.59	($ 6.50)	167	$ 26.11	($ 5.97)
7/1/2015	$ 23.01	6.67	60	$ 25.74	$ 2.73	86	$ 26.28	($ 8.38)	142	$ 26.98	($ 7.68)
8/1/2015	$ 20.64	5.88	67	$ 24.74	$ 4.10	102	$ 25.39	($ 6.99)	166	$ 26.12	($ 6.26)
9/1/2015	$ 25.79	7.60	41	$ 27.30	$ 1.51	69	$ 27.87	($ 4.80)	134	$ 28.61	($ 4.07)
10/1/2015	$ 20.66	5.89	81	$ 24.23	$ 3.56	120	$ 25.03	($ 4.95)	171	$ 25.59	($ 4.38)
11/1/2015	$ 21.15	6.05	61	$ 23.29	$ 2.14	101	$ 24.07	($ 6.87)	170	$ 24.89	($ 6.06)
12/1/2015	$ 18.70	5.23	110	$ 22.79	$ 4.09	176	$ 24.15	($ 4.24)	242	$ 24.96	($ 3.43)
1/1/2016	$ 19.46	5.49	55	$ 21.52	$ 2.06	137	$ 23.00	($ 5.92)	257	$ 24.30	($ 4.61)
2/1/2016	$ 18.24	5.08	92	$ 21.91	$ 3.66	154	$ 23.25	($ 4.00)	230	$ 24.24	($ 3.01)
3/1/2016	$ 18.55	5.18	99	$ 22.06	$ 3.51	156	$ 23.26	($ 1.75)	244	$ 24.39	($ 0.62)
4/1/2016	$ 19.44	5.48	80	$ 23.20	$ 3.76	138	$ 24.37	($ 5.45)	215	$ 25.31	($ 4.50)
5/1/2016	$ 17.95	4.98	117	$ 21.93	$ 3.98	199	$ 23.49	($ 2.86)	276	$ 24.38	($ 1.97)
6/1/2016	$ 21.62	6.21	77	$ 24.63	$ 3.01	147	$ 26.14	($ 4.50)	230	$ 27.24	($ 3.39)
7/1/2016	$ 22.01	6.34	50	$ 23.98	$ 1.97	106	$ 25.01	($ 10.24)	224	$ 26.26	($ 8.99)
8/1/2016	$ 22.17	6.39	28	$ 23.35	$ 1.18	66	$ 24.15	($ 15.40)	159	$ 25.29	($ 14.25)
9/1/2016	$ 24.11	7.04	50	$ 25.87	$ 1.76	75	$ 26.36	($ 8.75)	160	$ 27.39	($ 7.72)
10/1/2016	$ 23.92	6.97	13	$ 24.54	$ 0.62	20	$ 24.67	($ 8.68)	94	$ 25.44	($ 7.92)
11/1/2016	$ 20.45	5.82	30	$ 21.85	$ 1.40	67	$ 22.61	($ 4.87)	202	$ 24.18	($ 3.30)
12/1/2016	$ 24.65	7.22	22	$ 25.40	$ 0.75	37	$ 25.69	($ 6.70)	79	$ 26.17	($ 6.22)
1/1/2017	$ 23.54	6.85	13	$ 23.98	$ 0.44	24	$ 24.20	($ 6.54)	96	$ 24.99	($ 5.76)
2/1/2017	$ 21.80	6.27	9	$ 22.22	$ 0.42	28	$ 22.62	($ 3.71)	163	$ 24.36	($ 1.97)
3/1/2017	$ 25.08	7.36	15	$ 25.60	$ 0.53	26	$ 25.83	($ 4.60)	86	$ 26.54	($ 3.89)
4/1/2017	$ 21.65	6.22	36	$ 23.07	$ 1.43	69	$ 23.70	($ 5.44)	184	$ 25.06	($ 4.08)
5/1/2017	$ 18.73	5.24	72	$ 23.84	$ 5.11	95	$ 24.32	($ 10.89)	160	$ 25.03	($ 10.18)
6/1/2017	$ 20.41	5.80	52	$ 23.36	$ 2.95	116	$ 24.68	($ 9.87)	202	$ 25.84	($ 8.71)
7/1/2017	$ 24.36	7.12	20	$ 25.08	$ 0.73	66	$ 25.91	($ 12.02)	195	$ 27.26	($ 10.67)
8/1/2017	$ 20.95	5.98	29	$ 22.56	$ 1.62	91	$ 23.88	($ 4.46)	211	$ 25.47	($ 2.88)
2015	**$ 23.14**	**6.71**	**728**	**$ 26.14**	**$ 3.00**	**1,116**	**$ 26.78**	**$ 3.65**	**1,712**	**$ 27.37**	**$ 4.24**
2016	**$ 21.05**	**6.02**	**713**	**$ 23.35**	**$ 2.31**	**1,302**	**$ 24.33**	**$ 3.29**	**2,370**	**$ 25.38**	**$ 4.34**
2017	**$ 22.06**	**6.35**	**246**	**$ 23.72**	**$ 1.65**	**515**	**$ 24.39**	**$ 2.33**	**1,297**	**$ 25.57**	**$ 3.51**

Source: Company data, Credit Suisse estimates, SNL

Companies Mentioned *(Price as of 06-Sep-2017)*
Exelon Corporation (EXC.N, $37.55, OUTPERFORM, TP $43.0)

Disclosure Appendix

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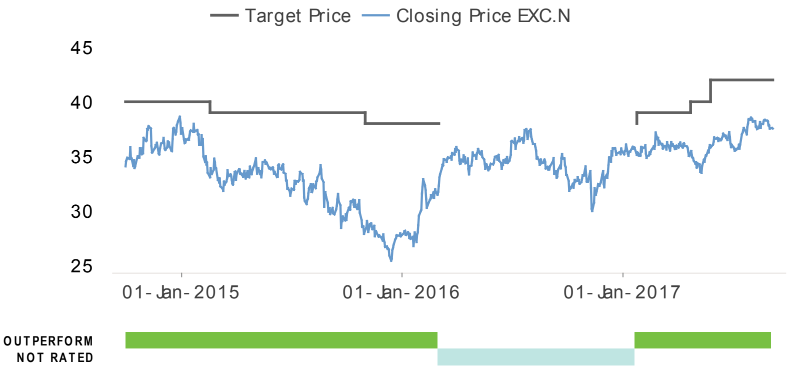
Michael Weinstein and Maheep Mandloi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Exelon Corporation (EXC.N)

EXC.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
30-Sep-14	34.09	40.00	O
17-Feb-15	33.09	39.00	
01-Nov-15	27.92	38.00	
02-Mar-16	32.32		NR
24-Jan-17	35.13	39.00	O *
23-Apr-17	35.03	40.00	
26-May-17	35.82	42.00	

** Asterisk signifies initiation or assumption of coverage.*



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Restricted	2%	

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Target Price and Rating
Valuation Methodology and Risks: (12 months) for Exelon Corporation (EXC.N)

Method: To arrive at our $43 target price for EXC we use a sum of the parts valuation methodology valuing each of the business segments separately. To value the utilities we use a peer average 2019 P/E multiple of 17x discounted to reflect the respective risks at each of the utilities. To value the generation business we apply a 7.5x EV/EBITDA multiple under our embedded power price scenarios. The values of ZECs and capacity payments are removed from EBITDA estimates and valued separately. Our Outperform rating for EXC reflects a forecasted total return greater than the group average.

Risk: Risks to our $43 price target and Outperform rating for EXC are 1) regulatory risk--PHI ratecase risk, 2) legislative risk, 3) commodity and power and capacity price risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk, 7) weather risk, 8) environmental and climate change risk, and 9) physical infrastructure and cybersecurity risk.

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Equities

11 Oct 2017 09:15:06 ET | 9 pages

Diversified Utilities
North America | United States

Exelon Corp (EXC)

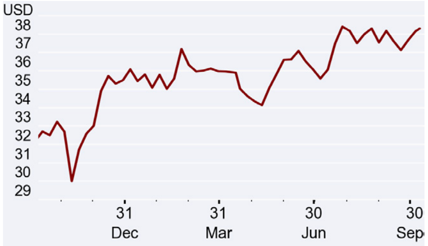
Model Update

- Estimate Change
- Target Price Change

- We have updated our model for 2Q financial results, hedge profile, and latest management guidance. Our model uses power curves as of 9/01/2017. We rolled valuation date to 09/30/2018 from 12/31/2017, which increased our TP by $2/share.

Buy	**1**
Price (10 Oct 17 16:00)	US$38.30
Target price	US$45.00
from US$43.00	
Expected share price return	17.5%
Expected dividend yield	3.5%
Expected total return	**21.0%**
Market Cap	US$36,771M

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	na	na	na	0.44A	2.68A	2.68A
2017E	**0.65A**	**0.54A**	**0.89E**	**0.65E**	**2.73E**	**2.68E**
Previous	0.65A	0.51E	0.96E	0.64E	2.76E	na
2018E	**na**	**na**	**na**	**na**	**2.84E**	**2.86E**
Previous	na	na	na	na	2.92E	na
2019E	**na**	**na**	**na**	**na**	**3.13E**	**2.80E**
Previous	na	na	na	na	3.26E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

EXC.N: Fiscal year end 31-Dec

Price: US$38.30; TP: US$45.00; Market Cap: US$36,771m; Recomm: Buy

Profit & Loss (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Sales revenue	29,447	31,360	30,358	27,306	27,977
Cost of sales	-13,084	-12,640	-11,099	-7,882	-7,958
Gross profit	16,363	18,720	19,259	19,424	20,019
Gross Margin (%)	55.6	59.7	63.4	71.1	71.6
EBITDA (Adj)	**6,841**	**8,357**	**8,675**	**9,143**	**9,753**
EBITDA Margin (Adj) (%)	23.2	26.6	28.6	33.5	34.9
Depreciation	-2,450	-3,936	-3,494	-3,508	-3,633
Amortisation	0	0	0	0	0
EBIT (Adj)	**4,409**	**3,112**	**4,543**	**5,634**	**6,120**
EBIT Margin (Adj) (%)	15.0	9.9	15.0	20.6	21.9
Net interest	-1,033	-1,536	-1,676	-1,726	-1,782
Associates	0	0	0	0	0
Non-op/Except	-28	365	745	233	233
Pre-tax profit	**3,330**	**1,989**	**3,382**	**4,141**	**4,571**
Tax	-1,073	-761	-903	-1,412	-1,563
Extraord./Min.Int./Pref.div.	12	-94	30	0	0
Reported net profit	**2,269**	**1,134**	**2,510**	**2,729**	**3,009**
Net Margin (%)	7.7	3.6	8.3	10.0	10.8
Core NPAT	2,227	2,488	2,592	2,733	3,012

Per share data	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Reported EPS ($)	2.54	1.22	2.65	2.84	3.12
Core EPS ($)	2.49	2.68	2.73	2.84	3.13
DPS ($)	1.24	1.26	1.31	1.34	1.38
CFPS ($)	8.53	9.14	7.62	7.59	7.72
FCFPS ($)	-0.01	-0.09	-0.71	0.05	0.71
BVPS ($)	28.98	27.96	29.87	31.10	32.81
Wtd avg ord shares (m)	890	924	949	958	959
Wtd avg diluted shares (m)	893	927	949	962	963

Growth rates	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Sales revenue (%)	7.4	6.5	-3.2	-10.1	2.5
EBIT (Adj) (%)	42.4	-29.4	46.0	24.0	8.6
Core NPAT (%)	37.2	11.7	4.2	5.4	10.2
Core EPS (%)	32.8	7.6	1.8	4.0	10.1

Balance Sheet (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Cash & cash equiv.	6,502	635	500	500	500
Accounts receivables	4,099	5,359	4,783	4,783	4,783
Inventory	1,566	1,638	1,601	1,601	1,601
Net fixed & other tangibles	69,916	84,648	89,050	91,888	94,077
Goodwill & intangibles	8,737	16,723	16,622	16,622	16,622
Financial & other assets	4,564	5,901	6,418	6,434	6,453
Total assets	**95,384**	**114,904**	**118,974**	**121,828**	**124,035**
Accounts payable	2,883	3,441	3,134	3,134	3,134
Short-term debt	2,033	3,697	4,975	4,709	4,005
Long-term debt	24,286	32,216	31,684	33,196	34,538
Provisions & other liab	38,888	47,938	49,089	49,261	49,149
Total liabilities	**68,090**	**87,292**	**88,882**	**90,300**	**90,826**
Shareholders' equity	25,986	25,837	28,347	29,784	31,465
Minority interests	1,308	1,775	1,744	1,744	1,744
Total equity	**27,294**	**27,612**	**30,091**	**31,528**	**33,209**
Net debt (Adj)	**19,817**	**35,278**	**36,159**	**37,405**	**38,043**
Net debt to equity (Adj) (%)	72.6	127.8	120.2	118.6	114.6

Valuation ratios	**2015**	**2016**	**2017E**	**2018E**	**2019E**
PE (x)	15.4	14.3	14.0	13.5	12.2
PB (x)	1.3	1.4	1.3	1.2	1.2
EV/EBITDA (x)	9.1	8.4	9.1	8.8	8.3
FCF yield (%)	0.0	-0.2	-1.9	0.1	1.9
Dividend yield (%)	3.2	3.3	3.4	3.5	3.6
Payout ratio (%)	50	47	48	47	44
ROE (%)	9.4	4.4	9.3	9.4	9.8

Cashflow (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
EBITDA	6,841	7,096	7,807	9,143	9,753
Working capital	-264	-481	-1,421	0	0
Other	1,039	1,854	845	-1,845	-2,314
Operating cashflow	**7,616**	**8,469**	**7,231**	**7,298**	**7,439**
Capex	-7,624	-8,553	-7,908	-7,250	-6,750
Net acq/disposals	-145	-6,755	-127	0	0
Other	-53	-195	-8	0	0
Investing cashflow	**-7,822**	**-15,503**	**-8,043**	**-7,250**	**-6,750**
Dividends paid	-1,105	-1,356	-1,241	-1,293	-1,327
Financing cashflow	**4,830**	**1,191**	**676**	**-48**	**-689**
Net change in cash	**4,624**	**-5,843**	**-135**	**0**	**0**
Free cashflow to s/holders	**-8**	**-84**	**-676**	**48**	**689**

For definitions of the items in this table, please click here.

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates six utilities in Pennsylvania, Illinois, New Jersey, DC, Delaware, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO, and Pepco. Exelon Generation operates the largest nuclear fleet in the United States, with plants concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Buy (1).

Our rating is not only based on the IL and NY ZECs but we believe that other states will follow suit in providing support for nuclear plants and that will further improve EXC's financial strength and valuation. We like this regulated utility's robust growth profile of 6-8% through 2020E.

Valuation

We value EXC using a sum-of-the-parts approach to get to our $45 price target. We value ExGen at ~$3/share and believe ExGen’s core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The legacy utility business is valued at $27/share based on a 18.0x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent net debt and add $12/share for ZECs to get to our rounded PT of $45/share.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the risks get rejected after further legal challenge then the stock has downside as some value of ZEC is already in the stock price

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	17-Oct-14 03:01:08	*2	*37.00	34.38
2	18-Dec-14 16:46:48	Coverage terminated		
3	17-Sep-15 16:01:15	*3	*27.00	31.57
4	26-Jan-16 17:07:46	*2	27.00	27.84

	Date	Rating	Target Price	Closing Price
5	22-Feb-16 16:00:00	*3	27.00	31.69
6	19-Jul-16 23:43:46	3	*29.00	36.58
7	04-Oct-16 03:14:34	3	*27.00	31.86
8	28-Nov-16 20:37:44	3	*29.00	33.39

	Date	Rating	Target Price	Closing Price
9	02-Dec-16 07:02:27	*2	*31.00	33.01
10	30-Mar-17 06:59:06	2	*35.00	35.70
11	07-Jun-17 06:52:17	2	*36.00	36.61
12	27-Jul-17 07:37:04	*1	*43.00	37.99

*Indicates Change

Rating/target price changes above reflect Eastern Time

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Flash Comment

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Sector Rating: Energy Team, NA

Quick thoughts from Wells Fargo Securities, LLC Utility & Infrastructure Team:

Utilities

Northeast Marketing Beat (Akers/Kalton) - Last week, we met with investors in Boston and NYC. The hot topics were fairly consistent across the 20+ meetings and, notably, did not include the potential impacts of tax reform. (1) DOE Study - though not without some skepticism of the ultimate outcome/impact of the grid study, the development has certainly revived interest in the integrated names (EXC/PEG/FE within our coverage); we sensed optimism heading into EEI. (2) Value Plays - there was a lot of discussion around the deep discount stocks including FE, SCG and, a little less so, ETR. Investors are sharpening their pencils on FE with many seeing value, but not all ready to step in at this stage of the bankruptcy process. Shifting to SCG, most investors expect the nuclear debacle to ultimately be resolved on reasonable terms relative to what's currently embedded in the stock - that said, the potential for things to get worse before they get better, along with concerns regarding potential revelations from the FBI investigation, are making SCG untouchable right now for many, in our view. ETR represents a more traditional risk/reward play, in our view - investors appear to be slowly coming on board (helped by the recent Arkansas Staff recommendation), though concerns about potential unregulated nuclear liabilities and operational risks at the regulated nuclear fleet continue to hold some back. (3) GXP/WR - investors appear to be largely on board with the long-term MOE (merger of equals) outlook, though we sense that full buy-in will require some positive regulatory data points as we're on the front end of the merger proceedings and rate cases. (4) SRE - while no one appears overly enthused by the $6B of planned equity, we believe that longer-term oriented investors like the addition of Oncor and are attracted to the post-Cameron story; hedge funds are generally not on board given the equity overhang and the potential for additional LNG construction delays. (5) CNP - investors generally view CNP's exit of the ENBL position positively, but are grappling with the potential for a deal (swap of ENBL shares with another larger midstream company) that would likely be dilutive near-term (albeit supportive of the long-term growth outlook). (6) OGE - picking up on the CNP discussion, some view a potential ENBL deal as a positive read-through to OGE (address the overhang on ENBL shares and possibly drive operational improvements), though longer-term concerns on Oklahoma regulation persist. (7) Major Projects - there are mixed opinions on Wind Catcher (AEP) and we sense that investors need to see positive movement before buying-into the upside; sentiments were a bit worse on Northern Pass (ES) with investors poking holes in the growth outlook.

Great Plains Energy (GXP/Outperform) / Westar Energy (WR/Outperform) (Akers) - Late last week GXP/WR, Staff and other key parties filed joint procedural schedules with the Kansas Corporation Commission (KCC) and Missouri Public Service Commission (MPSC). In Kansas, Staff/intervenor testimony is due 1/29/18 with a

3/7/18 settlement deadline and a final decision due 5/29/18. We note that the final order falls within Kansas' 300 day statutory requirement date of 6/21/18. In Missouri, Staff/intervenor testimony is due 1/16/18 with hearings scheduled for mid-March and a final order due 5/9/18. Though not particularly surprising, we are pleased that parties were able to reach agreements on the procedural schedules that keep the deal on track for a 1H2018 close. As a reminder, shareholder approval is needed with votes set to take place next month on 11/21. We remain confident that the deal will be approved on reasonable terms as the MOE appears to address concerns outlined in the KCC's order denying the original acquisition proposal. We reiterate our Outperform ratings.

Exelon Corporation (EXC)/Market Perform (2)
Price as of 10/13/2017: $39.24
FY 17 EPS: $2.70
FY 18 EPS: $2.85
Shares Out.: 926.1 MM
Market Cap.: $36,340.16 MM

Public Service Enterprise Group (PEG)/Market Perform (2)
Price as of 10/13/2017: $48.64
FY 17 EPS: $2.90
FY 18 EPS: $3.00
Shares Out.: 505.9 MM
Market Cap.: $24,606.98 MM

FirstEnergy Corp. (FE)/Market Perform (2)
Price as of 10/13/2017: $32.49
FY 17 EPS: $2.60
FY 18 EPS: $2.59
Shares Out.: 443.7 MM
Market Cap.: $14,415.81 MM

SCANA Corporation (SCG)/Outperform (1)
Price as of 10/13/2017: $49.85
FY 17 EPS: $4.25
FY 18 EPS: $3.50
Shares Out.: 142.9 MM
Market Cap.: $7,123.57 MM

Entergy Corp. (ETR)/Outperform (1)
Price as of 10/13/2017: $82.29
FY 17 EPS: $4.40
FY 18 EPS: $4.70
Shares Out.: 179.5 MM
Market Cap.: $14,771.06 MM

Great Plains Energy Incorporated (GXP)/Outperform (1)
Price as of 10/13/2017: $31.79
FY 17 EPS: $1.72
FY 18 EPS: $1.84
Shares Out.: 215.7 MM
Market Cap.: $6,857.1 MM

Westar Energy, Inc. (WR)/Outperform (1)
Price as of 10/13/2017: $52.06
FY 17 EPS: $2.50
FY 18 EPS: $2.52
Shares Out.: 142.0 MM
Market Cap.: $7,392.52 MM

Sempra Energy (SRE)/Outperform (1)
Price as of 10/13/2017: $114.87
FY 17 EPS: $5.15
FY 18 EPS: $5.54
Shares Out.: 250.8 MM
Market Cap.: $28,809.4 MM

CenterPoint Energy, Inc. (CNP)/Market Perform (2)
Price as of 10/13/2017: $29.36
FY 17 EPS: $1.32
FY 18 EPS: $1.44
Shares Out.: 431.0 MM
Market Cap.: $12,654.16 MM

OGE Energy Corp. (OGE)/Market Perform (2)
Price as of 10/13/2017: $36.82
FY 17 EPS: $1.93
FY 18 EPS: $1.99
Shares Out.: 199.7 MM
Market Cap.: $7,352.95 MM

Enable Midstream Partners LP (ENBL)/Outperform (1)
Price as of 10/13/2017: $15.73
FY 17 DCF/unit: $1.40
FY 18 DCF/unit: $1.47
Shares Out.: 432.6 MM
Market Cap.: $6,804.8 MM

American Electric Power Company, Inc. (AEP)/Outperform (1)
Price as of 10/13/2017: $73.16
FY 17 EPS: $3.65
FY 18 EPS: $3.90
Shares Out.: 491.7 MM
Market Cap.: $35,972.77 MM

Eversource Energy (ES)/Outperform (1)
Price as of 10/13/2017: $61.65
FY 17 EPS: $3.15
FY 18 EPS: $3.35
Shares Out.: 316.9 MM
Market Cap.: $19,536.88 MM

DISCLOSURE APPENDIX

Required Disclosures

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EXC: Risks include commodity price sensitivity and unfavorable regulatory/policy developments.
PEG: Risks to our valuation include earnings sensitivity to commodity prices, operational risks and unfavorable regulatory/political developments.
FE: Risks to our valuation include (1) unexpected costs associated with separation from merchant, (2) EPS risk related to potential corporate tax reform and (3) regulatory risk.
SCG: Primary risks include regulatory and abandonment plan execution as it relates to the halted new nuclear construction project.
ETR: Risks to our target include possible adverse regulatory outcomes, greater negative value for EWC than projected and potential EPS exposure to federal tax reform.
GXP: Key risks include regulatory (approval process and 2018 rate case filings) and execution (synergies, etc.) risks in conjunction with the pending merger.
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CNP: Risks include negative regulatory developments, lower than expected sales growth in Houston, and commodity risks at Enable.
OGE: Risks include negative regulatory developments, weaker than expected sales/cost controls, and midstream commodity risks.
ENBL: Risks to the units trading below our target include re-contracting at unfavorable terms, execution risk related to organic projects, volumetric risk, rising interest rates and potential partial sale of the General Partner.
AEP: Risks to our valuation include unfavorable regulatory decisions, strategic endeavors that increase the risk profile and ineffectual cost management.
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Exelon

Excellent prospects – Reinstate Buy, $43 PO

Bank of America Merrill Lynch

Reinstating Coverage: BUY | PO: 43.00 USD | Price: 39.57 USD

Equity | 23 October 2017

Reinstating coverage on EXC with a Buy rating & $43 PO

We are reinstating coverage on Exelon Corp (EXC) with a Buy rating and a $43 price objective, which we derive using a SOTP. We see the shares as favorably positioned to benefit from sustained ROE improvement trends as the company continues to execute on its rate case cycle and see clear opportunity to increase dividend growth from its current 2.5%, closer to average peers at 5% as early next year. We finally see material upside at ExGen as the entity continues to execute on its leverage targets and could well benefit from the potential market reforms and further propagation of nuclear energy credit legislations. Deployment of cash flow at ExGen or to accelerate deleveraging broadly and/or additional utility spend remains an understand aspect. We see a critical driver to EXC as tied to finding and executing on yet further spend opportunities.

Delivering on PHI ROE at utilities, along with more CapEx

Improving earned ROEs at EXC's subsidiary Pepco (PHI) remains an essential component of utility growth, with the cycle of rate case well under way. Further upside to the regulated segment includes smart grid CapEx (at ComEd) and further cost management initiatives, providing a use of additional ExGen FCF. Execution at the regulated businesses remains the core focus, albeit with our estimates above the mid-point of guidance, we see it as tracking nicely.

Tailwinds at ExGen

We believe the Street is not giving ExGen enough credit for its FCF yield, leverage position, and superior prospects. We see the subsidiary poised to exceed its leverage target while retaining the ability to significantly contribute to parent dividends, and potential upside from capital deployment. We highlight additional tailwinds such as the prospects of power market reforms as well as potential affirmation of the nuclear subsidies beyond IL and NY. We note that Exelon has hired restructuring advisors for its Texas subsidiary given the potential bankruptcy of this non-recourse entity, which should only serve to highlight its truly recourse obligations; similarly investors should carefully deconstruct ExGen to adjust for its highly leveraged renewables, also consolidated onto the balance sheet. Broadly, capital allocation across EXC beyond just DPS growth remains quite real.

Estimates (Dec)

(US$)	2015A	2016A	2017E	2018E	2019E
EPS	2.49	2.69	2.67	3.01	3.02
GAAP EPS	2.54	1.22	2.25	2.59	2.61
EPS Change (YoY)	NA	8.0%	-0.7%	12.7%	0.3%
Consensus EPS (Bloomberg)			NA	NA	NA
DPS	1.24	1.27	1.31	1.34	1.38

Valuation (Dec)

	2015A	2016A	2017E	2018E	2019E
P/E	15.9x	14.7x	14.8x	13.1x	13.1x
GAAP P/E	15.6x	32.4x	17.6x	15.3x	15.2x
Dividend Yield	3.1%	3.2%	3.3%	3.4%	3.5%
EV / EBITDA*	18.8x	15.5x	14.8x	13.8x	13.6x
Free Cash Flow Yield*	0%	-0.3%	-0.9%	2.7%	4.1%

* For full definitions of *iQmethod*SM measures, see page 25.

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Stock Data

Price	39.57 USD
Price Objective	43.00 USD
Date Established	23-Oct-2017
Investment Opinion	B-1-7
52-Week Range	29.82 USD - 39.88 USD
Mrkt Val (mn) / Shares Out (mn)	37,991 USD / 960.1
Average Daily Value (mn)	209.53 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2017E)	9.5%
Net Dbt to Eqty (Dec-2016A)	127.8%

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Refer to important disclosures on page 26 to 28. Analyst Certification on page 23. Price Objective Basis/Risk on page 23. **11799014**

Timestamp: 23 October 2017 04:11PM EDT

iQ*profile*^{SM} Exelon

iQmethod^{SM} – Bus Performance*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Return on Capital Employed	NA	3.0%	2.9%	3.2%	3.1%
Return on Equity	17.3%	9.6%	9.5%	10.2%	9.8%
Operating Margin	14.5%	15.3%	15.7%	16.8%	17.0%
Free Cash Flow	(8)	(131)	(341)	1,026	1,556

iQmethod^{SM} – Quality of Earnings*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash Realization Ratio	3.4x	3.4x	3.0x	2.9x	2.8x
Asset Replacement Ratio	1.9x	1.5x	1.5x	1.3x	1.2x
Tax Rate	34.1%	34.4%	33.7%	33.8%	34.0%
Net Debt-to-Equity Ratio	72.5%	127.8%	120.4%	116.0%	110.5%
Interest Cover	4.0x	3.5x	3.5x	3.7x	3.7x

Income Statement Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Sales	29,237	31,905	32,683	33,594	33,619
% Change	NA	9.1%	2.4%	2.8%	0.1%
Gross Profit	16,098	18,870	18,581	19,284	19,532
% Change	NA	17.2%	-1.5%	3.8%	1.3%
EBITDA	6,684	8,105	8,472	9,113	9,206
% Change	NA	21.3%	4.5%	7.6%	1.0%
Net Interest & Other Income	(822)	(1,094)	(1,289)	(1,258)	(1,300)
Net Income (Adjusted)	2,227	2,488	2,552	2,899	2,918
% Change	NA	11.7%	2.6%	13.6%	0.7%

Free Cash Flow Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Net Income from Cont Operations (GAAP)	2,185	3,842	2,952	3,299	3,318
Depreciation & Amortization	3,987	5,576	5,281	5,427	5,438
Change in Working Capital	(264)	(492)	0	0	0
Deferred Taxation Charge	752	664	350	350	350
Other Adjustments, Net	956	(1,156)	(800)	(800)	(800)
Capital Expenditure	(7,624)	(8,565)	(8,125)	(7,250)	(6,750)
Free Cash Flow	-8	-131	-341	1,026	1,556
% Change	NA	NM	-160.4%	NM	51.7%

Balance Sheet Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash & Equivalents	6,502	635	6	313	888
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	205	253	253	253	253
Property, Plant & Equipment	57,439	71,555	74,399	76,221	77,533
Other Non-Current Assets	31,238	42,461	42,461	42,461	42,461
Total Assets	95,384	114,904	117,118	119,248	121,135
Short-Term Debt	2,033	3,697	1,986	1,986	3,436
Other Current Liabilities	NA	NA	NA	NA	NA
Long-Term Debt	24,286	32,216	33,739	34,234	33,052
Other Non-Current Liabilities	41,743	51,379	51,729	52,079	52,429
Total Liabilities	68,062	87,292	87,454	88,299	88,917
Total Equity	27,322	27,612	29,664	30,949	32,218
Total Equity & Liabilities	95,384	114,904	117,118	119,248	121,135

* For full definitions of *iQmethod*^{SM} measures, see page 25.

Company Sector

Electric Utilities

Company Description

Exelon Corp (EXC) is an integrated electric and gas utility that operates four utilities in Pennsylvania, Illinois, DC, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, PEPCO in MD/DC, and Baltimore Gas & Electric (BGE) in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants in the Midwest and Mid-Atlantic regions.

Investment Rationale

We see a clear opportunity in shares given prospects of power market reforms and continued appreciation for capital deployment at ExGen as well as yet further affirmation of nuclear ZECs. Additionally, we perceive steady execution on the utilities should continue to yield positive benefits, with management seemingly heading towards the upper end of its regulated guidance range already. Finally, we see a clear line of sight for increased dividend payout.

Stock Data

Average Daily Volume	5,295,250

Quarterly Earnings Estimates

	2016	2017
Q1	0.68A	0.65A
Q2	0.65A	0.53A
Q3	0.91A	0.85A
Q4	0.44A	0.64E

Executive summary

What we think of the shares

We see a clear opportunity in shares as prospects of power market reforms and continued appreciation for capital deployment at ExGen are front and center heading into the Edison Electric Institute (EEI) conference in November (albeit a roll forward to 2021 power disclosures will be omitted pending a full update of the plant with 4Q).

Nuclear upside and power reforms are finally real

We believe shares could benefit from further affirmation of nuclear Zero Emission Credits (ZECs) that explicitly value carbon benefits from Exelon's nuclear portfolio, providing incremental cash flow; while successful in affirming prospects for these programs this last summer (NY and IL), we see states such as NJ as poised to evaluate their own programs (all the more emboldened by the legal statute affirmation of the two parallel states). Timing is potentially as soon as this year, but more likely pushed into next. Additionally, we perceive steady execution on the utilities should continue to yield positive benefits, with management seemingly heading toward the upper end of its regulated guidance range already. After years of waiting, nuclear subsidies and power market reforms on price formation appear set to happen within a year's time.

Deleveraging ExGen and cleaning up the balance sheet

We believe further corporate actions could also help illustrate value as well as further highlighting of the renewable debt and EBITDA (it already sold at double-digit EV/EBITDA multiple a 49% stake in this segment earlier this year) – more to sales to come here too, as its Antelope Valley (AVSR) solar project is dropped in 2019. And, a shift in dividend strategy is afoot and could double the DPS growth rate from 2.5% to 5% at a minimum, if not more, as it re-evaluates its cash flow position with ExGen rapidly below its 3x debt/EBITDA target (already there with healthy margin at 2.5x exclusive of non-recourse project contributions).

The retail question remains paramount—can it benefit from NRG/VST halo?

While we appreciate the investor concerns around the relative opacity of its retail business – the primary cash generator at its non-regulated ExGen business – management could adopt some incremental discussion points in an attempt to garner the similar uplift thus far realized by its close peers NRG Energy (NRG) and Vistra Energy (VST), both of which have outperformed EXC in dramatic fashion of late as investor comfort on their more residential retail has grown. The two IPPs have been addressing head-on investor discussion around the appropriate multiple for a principally residential retail business. While rates are quite high for these customers, the limited customer migration seen for both of these companies continues to drive increasing confidence in the resilience of this business.

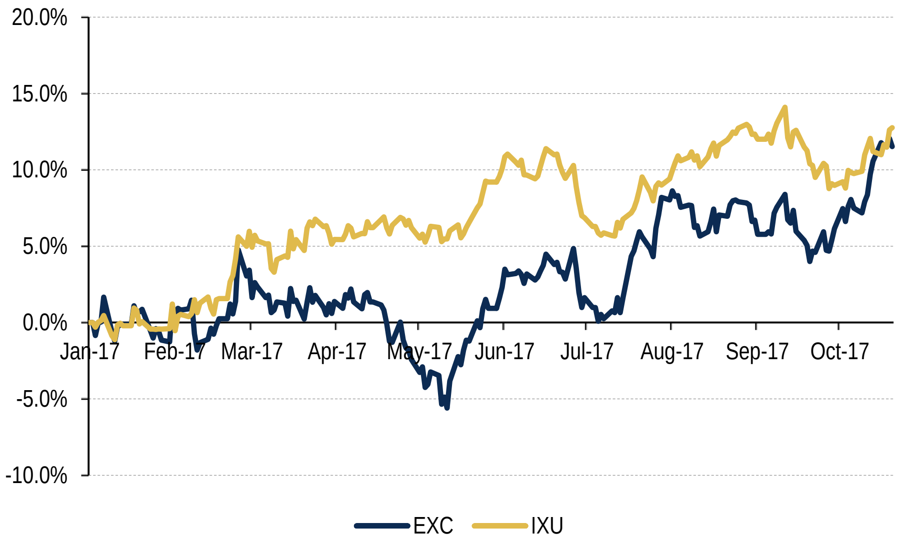
What's different about Exelon's business is the relative opacity of what constituents are held within its retail business. While it is principally commercial and industrial (C&I) – and hence a lower margin, but much higher volume business than its other peers, it does not have the same risk of customer migration to competitors offering better rates. Net-net, we continue to apply a reduced EV/EBITDA multiple on this segment, but see a clear upward bias in our multiple to 8x should investors follow the NRG/VST example – potentially triggered by any further elaboration of the constituent pieces within the ExGen retail business. The retail business involves the sale of electricity to retail end-users (as opposed to in the wholesale market), including residential, commercial and industrial customers. The retail business also engages in the sale of natural gas.

More retirements – nuclear is the Achilles heel

Ultimately, there are ongoing concerns on the viability of its nuclear business – and this is real. We expect incremental retirements will remain a reality and long-term decommissioning will prove a lingering question for shares. In the longer term, we see the entirety of the nuclear portfolio as an eventual liability with gradual decommissioning and shutdown of the portfolio upon current license expiration. We don't expect *any* merchant plants will seek a subsequent license extension to 80 years given the costs entailed. The positive emphasis here is just how little management derives from the nuclear business overall producing a breakeven to negative FCF profile across the entirety of this business (Midwest and East) – and as such, limited SOP value. As management winds down its nuclear business – and divests its remaining (saleable) merchant power assets, it will gradually trend toward a largely/fully regulated profile. Considering remaining nuclear plants will all require longer-term subsidies, we expect management will position these as contracted and not merchant, and therefore argue for a higher multiple of cash flows.

Despite these concerns, shares are clearly discounted, and we ascribe limited value to this segment in our SOTP.

Chart 1: YTD Price Performance



Source: FactSet

ROE improvements at PHI are underway

Executing on the ROE improvement strategy at PHI remains key to the regulated story, the bulk of the value reflected in EXC shares at this point, in our view. With the utility successfully navigating so far through its second cycle of rate cases, we are confident EXC will meaningfully improve its subsidiary's historically depressed earned ROEs. *Additionally, the fact that certain commissioners have already noticed operational improvements since EXC's involvement gives us greater confidence in a positive outcome, addressing a chronic challenge for Pepco prior to its acquisition*. The main question then becomes the extent to which the historical overearning at PECO can revert; as seen below, our model assumes the 275 bps of earned ROE improvement at Pepco (PHI) by 2020, which is partly offset by a 170 bps reduction in Earned ROE at PECO.

Table 1: Earned vs Authorized ROEs

Earned vs. Authorized ROEs	2016A	2017E	2018E	2019E	2020E	2021E	*CAGR*
ComEd							
Rate Base ($Mn)	11,900	13,200	14,000	14,800	15,500	16,330	*6.5%*
Avg. Authorized ROE	9.3%	9.4%	9.2%	9.4%	9.6%	9.8%	
Earned Book ROE (Avg.)	8.9%	9.9%	9.6%	9.5%	9.8%	10.1%	
∆ Earned vs. Authorized	*-35 bps*	*48 bps*	*41 bps*	*8 bps*	*20 bps*	*28 bps*	
PECO							
Rate Base ($Mn)	6,300	6,600	7,000	7,400	7,900	8,318	*5.7%*
Avg. Authorized ROE	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	
Earned Book ROE (Avg.)	13.4%	12.5%	11.9%	11.6%	11.7%	11.8%	
∆ Earned vs. Authorized	*285 bps*	*200 bps*	*141 bps*	*109 bps*	*115 bps*	*129 bps*	
BGE							
Rate Base ($Mn)	5,200	5,800	6,100	6,500	6,900	7,241	*6.8%*
Avg. Authorized ROE	9.8%	9.9%	9.9%	9.8%	9.9%	9.9%	
Earned Book ROE (Avg.)	10.1%	9.7%	9.9%	9.9%	9.8%	9.9%	
∆ Earned vs. Authorized	*26 bps*	*-18 bps*	*2 bps*	*5 bps*	*-4 bps*	*6 bps*	
PHI							
Rate Base ($Mn)	8,300	8,900	9,400	9,900	10,600	11,177	*6.1%*
Avg. Authorized ROE	9.5%	9.5%	9.6%	9.5%	9.6%	9.6%	
Earned Book ROE (Avg.)	6.8%	7.6%	8.1%	9.2%	9.6%	9.5%	
∆ Earned vs. Authorized	*-275 bps*	*-188 bps*	*-148 bps*	*-32 bps*	*-1 bps*	*-7 bps*	

Source: BofAML Estimates, Company Filings

Upside to the regulated business? Smart grid and further cost cuts

Smart grid and micro-grid deployment (we highlight the $4 Mn Bronzeville project recently completed in Chicago) could provide sizable CapEx upside over time, while other cost management initiatives could further increase customers' ability to absorb additional CapEx. We believe a scaling of a smartgrid exercise along its largely executed smartmeter installation programs could well be the next stage of CapEx for Exelon Utilities as well as several other industry peers. A core question within this effort is how to justify the spending on a specific segment of the service territory – and improving their resilience – while still socializing these costs across all customers.

The longer-term question for EXC's utility strategy remains whether it will need to shift externally once more to source additional ratebase growth investment opportunities as it seeks to deploy the bulk of its organic cash flow toward regulated opportunities and dilute the size of its merchant operations. Management cautions that any further utility acquisitions would necessarily need to resemble Baltimore Gas and Electric (BGE) or PHI, both of which had previously failed to earn their authorized ROEs rather than acquiring a utility at a premium to ratebase without an ability to make up this premium.

We see meaningful dividend growth upside

We expect an update on the current dividend strategy (2.5% annual growth through 2018) by early next year as the board of directors opens the discussion in September. As we estimate the regulated EPS will grow at a 7.0% CAGR through 2021as PHI ROEs continue to improve, and expect ExGen to keep generating robust cash flows (our model assumes $650 Mn/year of dividends to the parent), we see a tangible path to increased dividend growth. We estimate EXC could double its current annual DPS growth target to 5.0% and still maintain a utility payout ratio close to 80%, which would put the company closer to par with its diversified peers (see below).

The bigger question on the dividend comes from ExGen

While management's focus of late has been to bring the dividend back in line with a payout ratio from solely the utilities, we see the next step-up as focused on how to strategically view cash flows generated by the ExGen side of the business. The question is whether investors will ascribe value to the signaling benefits of on ongoing dividend derived from it. While management points to peers with high dividend yields as a cautious datapoint, there is clear latitude to employing at least some of the substantial FCF latitude today toward a more explicit dividend policy (even if just a baseline that doesn't grow). We expect management will pass on this concept, opting to keep the dividend solely predicated on the utilities, but there should be little hesitance in raising the DPS growth rate off today's 2.5% levels back to closer to utility growth rates of 2%. Further afield, the question is whether a variable dividend of any sorts would provide any value.

Exhibit 1: Utility Payout Sensitivity

	2017E	2018E	2019E	2020E	2021E
Base Case					
DPS	$1.312	$1.345	$1.379	$1.413	$1.448
DPS Growth		*2.5%*	*2.5%*	*2.5%*	*2.5%*
Utility EPS	$1.589	$1.694	$1.790	$1.897	$1.997
Utility EPS Growth		*6.6%*	*5.6%*	*6.0%*	*5.3%*
Utility Payout	*83%*	*79%*	*77%*	*74%*	*73%*

Utility Payout Sensitivity					
		Utility Payout by Year			
		2018E	2019E	2020E	2021E
	0.0%	77.4%	73.3%	69.2%	65.7%
	1.0%	78.2%	74.8%	71.3%	68.4%
	2.0%	79.0%	76.3%	73.4%	71.1%
Annual	2.5%	79.4%	77.0%	74.5%	72.5%
Dividend Growth	3.0%	79.8%	77.8%	75.6%	74.0%
	4.0%	80.5%	79.3%	77.8%	76.9%
	5.0%	81.3%	80.8%	80.1%	79.9%
	6.0%	82.1%	82.4%	82.4%	83.0%

Diversified DPS Growth Comps		2017E	2018E	2019E	2020E	CAGR
Ticker						
AGR	DPS	$1.730	$1.784	$1.859	$1.895	3.1%
	DPS Growth		3.2%	4.2%	1.9%	
D	DPS	$3.024	$3.313	$3.626	$3.910	8.9%
	DPS Growth		9.6%	9.5%	7.8%	
ETR	DPS	$3.520	$3.612	$3.703	$3.800	2.6%
	DPS Growth		2.6%	2.5%	2.6%	
NEE	DPS	$3.930	$4.438	$4.875	$5.250	10.1%
	DPS Growth		12.9%	9.8%	7.7%	
PEG	DPS	$1.720	$1.802	$1.917	$1.990	5.0%
	DPS Growth		4.7%	6.4%	3.8%	
SRE	DPS	$3.286	$3.574	$3.893	$4.110	7.7%
	DPS Growth		8.8%	8.9%	5.6%	
SO	DPS	$2.307	$2.383	$2.461	$2.560	3.5%
	DPS Growth		3.3%	3.3%	4.0%	
Diversified Comp Average						5.9%

Source: BofA Merrill Lynch Global Research, FactSet

ExGen is undervalued vs peers

We believe ExGen is undervalued vs peers. We see the fleet as essentially a combination of nuclear generation, which benefits from EXC's operational excellence for these types of assets, as well as a substantial retail footprint (Constellation is one of the largest electricity retailers in the country, with the retail business showing a very high free cash flow conversion profile).

Taking our estimated value of $33/sh for the utility, we note the market is currently valuing ExGen at an implied 5.8x multiple to our 2020E adjusted open EBITDA estimate, vs 8.1x for peers. We note that this is despite ExGen having a superior net leverage profile and in line free cash flow yield.

Table 2: ExGen Implied EV/EBITDA Multiple

ExGen Implied EV/EBITDA Multiple			
Current EXC Stock Price ($/Sh)			$39.77
Less: Estimated Value of Utility			$33.38
Implied ExGen Equity Value ($/Sh)			$6.39
2020E Shares Out.			968
Implied ExGen Equity Value ($Mn)			6,181
Plus: Net Debt			4,267
Implied ExGen Enterprise Value ($Mn)			10,449
2020E Open EBITDA ($Mn)			1,822
Implied ExGen EV/EBITDA Multiple			5.7x
Comps	*2020E EBITDA*	*EV Estimate*	*Implied Multiple*
VST	1,211	9,950	8.2x
DYN	1,151	9,184	8.0x
Average EV/EBITDA Multiple			8.1x

Source: BofA Merrill Lynch Global Research estimates

We highlight ExGen's superior net leverage profile, as we expect the EXC subsidiary to materially exceed the company's 3.0x target. We stress that our net debt numbers assume $650/Mn/year of dividends to the parent.

Table 3: ExGen has a superior net leverage profile

(In $Mn)	2017E	2018E	2019E	2020E	2021E
ExGen Total EBITDA	*2,873*	*3,122*	*2,855*	*2,072*	*2,099*
ExGen Net Debt	*8,542*	*7,352*	*6,262*	*5,565*	*4,837*
ExGen Net Leverage	3.0x	2.4x	2.2x	2.7x	2.3x
Comps					
DYN Total EBITDA	*1,192*	*1,548*	*1,367*	*1,151*	*982*
DYN Net Debt	*8,233*	*7,642*	*7,200*	*6,872*	*6,725*
DYN Net Leverage	6.9x	4.9x	5.3x	6.0x	6.8x
NRG Total EBITDA	*1,346*	*1,457*	*1,605*	*1,544*	*1,502*
NRG Net Debt	*7,046*	*6,467*	*5,487*	*4,549*	*3,648*
NRG Net Leverage - Pro Forma Transformation	5.2x	4.4x	3.4x	2.9x	2.4x
VST Total EBITDA	*1,366*	*1,499*	*1,327*	*1,273*	*1,264*
VST Net Debt	*2,573*	*1,467*	*559*	*(305)*	*(1,152)*
VST Net Leverage	1.9x	1.0x	0.4x	-0.2x	-0.9x
Average IPP Net Leverage	4.7x	3.5x	3.0x	2.9x	2.8x

Source: BofA Merrill Lynch Global Research estimates

We highlight ExGen's free cash flow yield generation remains remarkably consistent and in line with peers, if not higher in the later years.

Table 4: FCF yield remains very much in line with peers

ExGen FCF Yield	2017E	2018E	2019E	2020E	2021E
Cash From Operations	3,536	3,690	3,515	2,997	3,028
Plus: Interest Expense	400	386	331	292	261
Less: Base CapEx	-1,050	-1,000	-925	-875	-875
Less: Nuclear Fuel CapEx	-950	-900	-925	-850	-850
Excluding ExGen TX FCF	49	21	17	13	21
FCFF Before Dividends and Growth CapEx	1,985	2,198	2,013	1,577	1,585
EBITDA	2,873	3,122	2,855	2,072	2,099
EV Multiple	*7.3x*	*7.3x*	*7.3x*	*7.3x*	*7.3x*
Implied EV	20,920	22,737	20,793	15,091	15,283
Unlevered FCF Yield	9.5%	9.7%	9.7%	10.4%	10.4%
Comps					
VST Unlevered FCF ($Mn)	1,123	1,261	1,072	1,038	1,027
VST FCF Yield	10.9%	12.2%	10.4%	10.1%	10.0%
DYN Unlevered FCF ($Mn)	1,027	1,233	1,007	771	692
DYN FCF Yield	12.0%	14.4%	11.8%	9.0%	8.1%
Average Peer FCF Yield	11.4%	13.3%	11.1%	9.5%	9.0%

Source: BofA Merrill Lynch Global Research estimates

Excess capital helps deleveraging and could lead to upside

With the utility growing at a healthy rate (we project a 7% CAGR from 2016-2021) and ExGen generating large sums of surplus cash (we expect a cumulative ~$3.5 Bn of cash within 2017-2021 after accounting for $650 Mn/year of dividends), Exelon is finding itself in the comfortable position of having to allocate excess capital. The company could then explore various value-enhancing options, including raising its dividend, repaying debt at ExGen and/or the HoldCo, or opportunistic M&A similar to PHI, which would allow Exelon to backfill some of the later years CapEx.

As mentioned previously, we expect EXC to be able to raise its annual dividend growth target up to 5.0% relying only on utility growth; the question then becomes what to do with all the ExGen excess cash. Paying down ExGen debt appears to be the most obvious answer given the company's commitment to reduce leverage at the power producer to 3.0x and the sector's overall focus on balance sheet management. Moreover, from a purely mathematical standpoint, it would make more sense to pay down the ExGen debt over the parent debt. Indeed, reducing IPP leverage directly accrues to valuation as investors tend to use an EV/EBITDA approach while favoring a P/E methodology for parent drag, which simply capitalizes interest. Our model assumes the ~$3.5 Bn of excess ExGen cash is applied toward reducing the power producer's debt.

Where is debt paydown more "valuable"?

While technically fungible to paydown debt at either the holding company or at ExGen, our valuation approach (along with that of many investors and sell-side peers) appears to value the ExGen business as a traditional merchant power business by applying an EV/EBITDA and then netting out the debt at this segment. By contrast, we have typically opted to view the interest at the parent as tied to regulated operations, particularly seeing that the bulk of it was issued in conjunction with executing on its Pepco transaction. As such, we apply a P/E multiple to the interest expense at the holding company, essentially providing substantially less value to paydown at this level. Similarly, we perceive the rating agencies as quite focused on maintaining 35%+ or better FFO/debt at this segment.

Management appears to be pursuing a debt reduction strategy in parallel still at the holding company (HoldCo), focused on its $900 Mn 2018 maturity as the first example.

There is a (slight) chance for credit improvement too

Given the debt paydown targets at hand, management appears keen to improve its consolidated credit metrics, with the segment improving to BBB+ and in turn the consolidated rating to BBB at the HoldCo level (given the direct linkage between subsidiary ratings and the rating at the parent).

Regulatory matters add some uncertainty

With many investors left asking for more off the staid DOE report on the state of the grid issued this summer, we note several parallel efforts as still ongoing at the PJM and FERC level that could still drive reform. In particular, we see nascent efforts kickstarted earlier this year to evaluate strategies to address baseload plants as quite likely to succeed. Additionally, we perceive a clear sense of support from the latest FERC commissioners, where we believe the *quiet* implementation of the DOE grid studies' ambitions could yet be under way via the issuance of a directive out of FERC to the ISOs to review their tariffs. This approach could conceivably take a roundabout approach to avoid triggering a full stakeholder review process before the ISOs as well as provide ISOs the option as to whether they believe they believe their current processes comply (leaving MISO latitude to affirm its processes with regulated utilities are sufficient, while providing PJM the necessary latitude to swiftly implement long-desired reforms). What are these reforms? They can be categorized in two buckets:

1. **Energy price formation:** This appears to be principally focused on off-peak hours, limiting the negative impact from renewables on baseload assets. Expectations here appear to pin this as at least worth $2/MWh or more.

2. **Fuel resiliency.** These reforms would appear to focus on wintertime gas availability across the PJM footprint as the increasing prevalence of gas plants all linked to the same pipeline systems is reflected in capacity margin requirements.

What does a lack of a MOPR mean? A key uncertainty in policy debate

With the courts having struck down the Minimum Offer Price Rule (MOPR) mechanism in competitive power, the question is whether and how such a mechanism will be implemented once more. With several key stakeholders such as PJM's market monitor loudly advocating for a shift toward a more inclusive application of these capacity bidding rules, this could expand to affect existing assets including Dominion's generation in Virginia. At the minimum, we expect this to prove a protracted controversial subject. We see this as essentially only upside to the markets today, with the MOPR as implemented previously effectively having failed to limit any new generation from clearing the capacity auction. The MOPR is designed to prevent new resources to bid below-cost in the PJM capacity auction which would affect clearing prices negatively.

Will ZECs spread to other states? Not immediately

With the company having essentially won the legal fight in NY and IL, the question remains whether similar types of nuclear subsidies as the Zero Emission Credits (ZECs) could see the day in neighboring states, namely NJ and PA. While the current administration in NJ appears supportive of the state's nuclear assets (Salem, which is co-owned with PSEG, will be EXC's only nuke in the state after Oyster Creek is retired in 2019), it remains unlikely whether a legislature could come to fruition prior to the gubernatorial election in November given how polarizing the issue could prove. Having said that, a rule in PA is unlikely to precede NJ and might found more challenging given the likely more vigorous opposition notably from the natural gas and coal industries, the divided political landscape (Democratic governor but Republican-controlled General Assembly), as well as the need to deal with a multitude of parties on the power side (EXC, First Energy, PSEG, Riverstone, etc.). To summarize, we believe any ZEC-like legislation will probably not materialize until at least next year, with NJ likely leading the way. ZECs are payments to certain nuclear plants in IL and NY designed to ensure the long-term profitability of nuclear facilities.

See less confidence on a ZEC program in Pennsylvania

We perceive less likelihood for a Nuclear ZEC program in PA given the difficulties in aligning the various energy interests in the state, specifically getting both the coal interests (who are themselves keen to receive form of compensation) as well as the oil & gas interests, keen to expand the potential for gas generation in the state. As such, we see a growing likelihood for Three Mile Island (TMI) plant to formally close after its latest refueling is completed in early 2019 (potentially delaying its final refueling cycle from Fall 2018). Additionally, we see both Beaver Valley units as substantially at risk as soon as its next outage cycle given the substantial cash flow deficits projected; the question is just how and whether management will be able to buy back its capacity obligations.

New Jersey could be next to provide nuclear support

Meanwhile, we understand PSEG continues to pursue reforms in NJ, particularly under a new administration next year; the current Christie Administration is in its last months. We note the presence of a nuclear plant in NJ Senate President Steve Sweeney's district would appear to only further provide a sense of urgency to aiding the plants. While they remain among the most profitable versus peer plants, PSEG has steadily advocated that on a fully allocated basis the plants are at best breakeven (we see them slightly positive), but more importantly that they fail to earn near an adequate cost of capital to continue to invest to maintain these units.

The nuclear effort could be part of a wider discussion in the state on energy market reforms, as candidates in the election cycle have cited their interest in rejoining the Regional Greenhouse Gas Initiative (RGGI) carbon market in the Northeast as well as wider renewable energy mandates. Comprehensive energy reform appears a real possibility in the state with multiple beneficiaries.

Asset sales: don't expect much besides ExGen TX

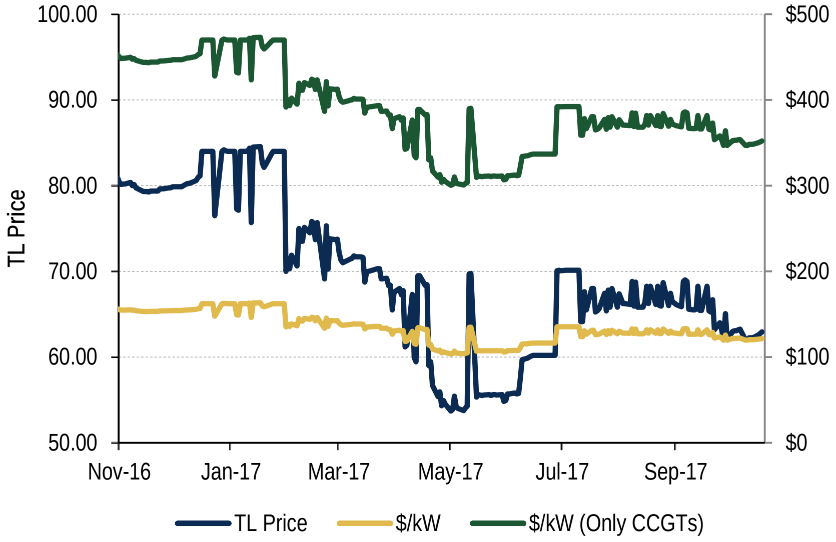
As we expect the entity to continue generating negative EBITDA/FCF in the near future (see below), and with the term loan maturing in 2021, the necessity of selling or restructuring ExGen TX becomes a more and more pressing matter. We note the sale process is well under way with second-round bids due early September and with the company hoping to announce a bidder by 3Q. We highlight the term loan is currently trading at $0.65 on the dollar, which suggests a valuation of $130/kW on the entire portfolio or $370/kW for the CCGTs assuming no value for the gas peakers. A sale of the distressed entity would bear not any impact on either ExGen or EXC given the non-recourse nature of the debt, nor will it affect the new TX CCGTs given how the shared services agreement was written. A sale would not impact our valuation, as we are already excluding the entity; but, nonetheless, it would contribute to ExGen's deleveraging.

Table 5: ExGen TX Projections

ExGen TX Projections	2017E	2018E	2019E	2020E	2021E
CCGTs EBITDA	*(0)*	*20*	*23*	*26*	*21*
Gas Peakers EBITDA	*(32)*	*(25)*	*(23)*	*(22)*	*(25)*
Total ExGen TX EBITDA	(32)	(5)	(0)	4	(4)
Less: Interest Expense	(40)	(40)	(39)	(39)	(19)
Less: Scheduled Debt Amortization	(7)	(7)	(7)	(7)	(633)
Less: CapEx	(17)	(17)	(17)	(17)	(17)
Total ExGen TX FCF	(96)	(68)	(63)	(58)	(673)

Source: BofA Merrill Lynch Global Research estimates

Chart 2: ExGen TX TL Price



Source: Bloomberg

Renewable JV: A *small* very defined selldown

Beyond ExGen TX, we do not expect much more in the form of asset sales. We believe the renewable JV recently formed with John Hancock was more of a valuation arbitrage rather than a long-term drop-down platform. We perceive the only assets left to drop include AVSR (post-ITC recapture) in 2019 as well as the Albany biomass plant in Georgia. We anticipate EXC will retain a 51% ownership interest, as it appears keen to maintain some semblance of a renewable energy company to complement its efforts on the nuclear energy front to garner carbon value.

That said, we wouldn't doubt a further scaling back of its renewable development business in an effort to pursue additional cost cuts – effectively ensuring the only real 'droppable' assets into this new JV structure would be from its more modestly sized C&I efforts tied to its retail business (investment here is around $100-200 Mn/yr).

We expect management increasingly to identify explicitly the debt and EBITDA attributable to this JV as it seeks to fine-tine investor valuations given the substantial de-leveraging on an overall basis achieved by deconsolidating both the earnings and debt (leverage is >8x EBITDA).

New Texas CCGTs: no Sale for Now

Additionally, we do not expect monetizing the new TX CCGTs (Wolf Hollow II and Colorado Bend II, which came online this summer) to be a close priority unless the company can recoup its construction costs ($700/kW), which seems far-fetched given the current state of the market (Vistra purchased Odessa for less than $350/kW, Panda Temple Unit 2 is valued at $430/kW using the current market value of the term loan as a proxy). Moreover, as the potential retirement of Vistra's older coal plants in the near future would improve market fundamentals, the timing of a sale does not make sense right now, especially since the plants are generating positive returns, albeit lower than initially planned. Bottom line, management intends to maintain this power market exposure given the clear prospects for market improvement and its view of limited value embedded in the market place.

Mystic: staying the course here too

Following the recent aborted sale auction (according to SparkSpread, EXC was taking final bids for the 1.7 GW Massachusetts-located CCGT in December 2016), we do not expect the company to actively continue to market Mystic.

Valuation: $43 PO

Our $43 price objective is derived using a SOTP approach, with the regulated utilities and parent segment valued on a 2019E EPS basis, and the generation segment valued on a 2020E EBITDA basis. We use a *2020* valuation year as it coincides with the latest PJM capacity auction year, which sets the reference year given the substantial exposure across the IPP sector to these revenues.

Regulated utilities

Execution story as implement BGE playback at POM

Our 18.0x base P/E multiple is based on the average 2019E P/E for regulated utilities. We apply a 1.0x premium to ComEd to account for formulaic rates and decoupling on the distribution business which aids in earnings predictability. We also apply a 1.0x premium to PECO to reflect its superior regulatory environment and consistent ROE overearning. We apply an in-line utility multiple on Pepco, effectively giving credence to management's hopes of improving the overall earned ROEs. While successful on improving its earned utilities at the BGE segment, we believe investors could still be discounting their ability to do the same at POM.

Note on ExGen valuation

We highlight we break down ExGen 2020E open EBITDA by segment and by fuel as we assign discounts/premiums to our Base 8.0x IPP multiple to reflect fuel-specific characteristics and our views on the different segments. Specifically:

- We assign a 2.0x discount to the retail business given that its favorable cash flow conversion is dimmed by its relative opacity. We continue to believe the lack of transparency of this business even relative to peers NRG and VST will continue to garner a discounted multiple.

- We exclude ExGen Texas from our analysis given the distressed and non-recourse nature of the debt.

- We reflect a premium multiple to the renewables JV EBITDA and call out the debt in our liabilities section for this non-recourse subsidiary. We caution investors that ascribing *only* a consolidated 7-8x EV/EBITDA multiple on the renewables business would implicitly ascribe a net negative value given the substantial leverage more than offsets the ascribed equity value. Recall EXC was recently able to divest a stake in these businesses at a clearly double-digit EV/EBITDA multiple (10x+).

  Nuclear valuation increasingly has garnered attention for the equity given the potential for positive EBITDA but negative FCF for the plants with meaningful maintenance CapEx. Even ascribing a reduced EV/EBITDA multiple to the segment to reflect the limited value of these units results in limited changes to our consolidated valuation given the limited EBITDA remaining.

  We believe there is legitimate concern in the long term around how much value remains in the merchant nuclear portfolio units but note the largely funded decommissioning (NDT) funds for retirement purposes and the clear potential positive cash flow from implementing new ZEC like programs in NJ and PA alike, alongside reforms aimed at improving the prospects for these units.

- We take the present value of the cumulative ZEC payments in IL and NY as opposed to capitalizing them, given the finite nature of the current rules. We use an 8% discount rate.

Exhibit 2: EXC SOTP yields a $43/sh valuation

	2019E		P/E Multiple				Equity Value		
Segment	Net Income	EPS	Low	Disc.	Base	High	Low	Base	High
Regulated Utilities									
Large Cap Utilities P/E Multiple					*18.0x*				
ComEd	699	$0.72	18.0x	1.0x	19.0x	20.0x	12,584	13,283	13,982
PECO	429	$0.44	18.0x	1.0x	19.0x	20.0x	7,726	8,155	8,584
BGE	321	$0.33	17.0x	0.0x	18.0x	19.0x	5,462	5,783	6,104
PHI	473	$0.49	17.0x	0.0x	18.0x	19.0x	8,033	8,505	8,978
Parent and Other	(193)	($0.20)	17.0x	0.0x	18.0x	19.0x	-3,281	-3,474	-3,667
Total Regulated Utilities	1,729	$1.79	17.7x		18.7x	19.7x	30,523	32,252	33,981
Est. 2019E Shares Outstanding							966.1	966.1	966.1
Regulated Utilities Equity Value Per Share							$31.60	$33.38	$35.17

	2020E	EBITDA Multiple				Enterprise Value		
Segment	EBITDA	Low	Disc.	Base	High	Low	Base	High
Generation								
Base IPP EBITDA Multiple				*8.0x*				
Midwest Generation	56	5.7x	-1.3x	6.7x	7.7x	319	375	431
Nuclear	*47*	*5.0x*	*-2.0x*	*6.0x*	*7.0x*	*235*	*283*	*330*
Wind	*10*	*9.0x*	*2.0x*	*10.0x*	*11.0x*	*88*	*98*	*108*
Gas Peakers	*(1)*	*6.0x*	*-1.0x*	*7.0x*	*8.0x*	*-5*	*-6*	*-7*
Mid-Atlantic Generation	467	5.9x	-1.1x	6.9x	7.9x	2,767	3,234	3,701
Nuclear	*237*	*5.0x*	*-2.0x*	*6.0x*	*7.0x*	*1,184*	*1,420*	*1,657*
Hydro	*233*	*7.0x*	*0.0x*	*8.0x*	*9.0x*	*1,630*	*1,863*	*2,095*
Wind	*(11)*	*9.0x*	*2.0x*	*10.0x*	*11.0x*	*-97*	*-108*	*-118*
Gas Peakers	*17*	*6.0x*	*-1.0x*	*7.0x*	*8.0x*	*99*	*116*	*132*
Oil	*(8)*	*6.0x*	*-1.0x*	*7.0x*	*8.0x*	*-49*	*-57*	*-65*
ERCOT CCGTs (Excl. ExGen Texas)	75	*12.0x*	*5.0x*	*13.0x*	*14.0x*	*902*	*977*	*1,052*
New York Generation	(106)	5.0x	-2.0x	6.0x	7.0x	-532	-639	-745
New England Generation	142	6.7x	-0.3x	7.7x	8.7x	955	1,097	1,239
CCGTs	*104*	*7.0x*	*0.0x*	*8.0x*	*9.0x*	*729*	*833*	*937*
Oil	*38*	*6.0x*	*-1.0x*	*7.0x*	*8.0x*	*227*	*265*	*302*
Other Generation	149	9.0x	2.0x	10.0x	11.0x	1,345	1,495	1,644
Renewable JV	124	9.0x	2.0x	10.0x	11.0x	1,117	1,241	1,365
Retail & Wholesale	915	5.0x	-2.0x	6.0x	7.0x	4,573	5,488	6,402
Total Open EBITDA	1,822	6.3x	-0.7x	7.3x	8.3x	11,445	13,267	15,089
<u>*Adjustments:*</u>								
Less: Sr. Unsecured Notes						(5,912)	(5,912)	(5,912)
Less: PCNs						(436)	(436)	(436)
Less: Non-Reg Debt						(2,234)	(2,234)	(2,234)
Plus: ExGen Texas Debt						656	656	656
Plus: ExGen Cash						265	265	265
Plus: PV of NY ZEC Payments						2,286	2,286	2,286
Plus: PV of IL ZEC Payments						1,107	1,107	1,107
Total Adjustments						(4,267)	(4,267)	(4,267)
Total Generation Equity Value						7,178	9,000	10,822
Est. 2020E Shares Outstanding						968.1	968.1	968.1
Generation Equity Value Per Share						$7.41	$9.30	$11.18
Total EXC Equity Value						$39.00	$43.00	$46.00
Upside to Current Share Price (As of 10/20/17)						*(1.5%)*	*8.6%*	*16.2%*
2017E Dividend Yield						*3.3%*	*3.3%*	*3.3%*
Total Expected Return						1.8%	12.0%	19.5%

Source: BofA Merrill Lynch Global Research, company filings, FactSet

EPS estimates

We include below our EPS projections by segment. We highlight our utility EPS remains at or slightly above midpoint guidance as the utility continues to deliver on its ROE improvement strategy at PHI. Our consolidated EPS is above Consensus in 2018 and 2019 likely due to our ExGen estimates, which remain sensitive to power markets.

Table 6: EBITDA estimates; Utility EPS in line with guidance

EPS By Segment	2016A	2017E	2018E	2019E	2020E	2021E	*CAGR*
ComEd	$0.57	$0.68	$0.71	$0.72	$0.77	$0.82	*7.5%*
PECO	$0.48	$0.46	$0.45	$0.44	$0.46	$0.47	*(0.4%)*
BGE	$0.31	$0.30	$0.32	$0.33	$0.34	$0.36	*2.8%*
PHI	$0.25	$0.36	$0.42	$0.49	$0.53	$0.55	*17.1%*
Parent And Other	($0.19)	($0.20)	($0.20)	($0.20)	($0.20)	($0.20)	*0.8%*
Total Utility EPS	$1.42	$1.59	$1.69	$1.79	$1.90	$2.00	*7.1%*
Utility EPS Growth		*11.9%*	*6.6%*	*5.6%*	*6.0%*	*5.3%*	
Utility EPS Guidance Range		$1.40-$1.70	$1.50-$1.80	$1.60-$1.90	$1.75-$2.05		
Utility EPS Guidance MidPoint		$1.55	$1.65	$1.75	$1.90		
ExGen	$1.27	$1.08	$1.31	$1.23	$0.73	$0.79	
Consolidated EPS	$2.69	$2.67	$3.01	$3.02	$2.63	$2.79	
Consolidated EPS Growth		*-0.6%*	*12.5%*	*0.5%*	*-13.0%*	*5.9%*	
Consolidated EPS Guidance Range		$2.50-$2.80					
Consolidated EPS Guidance Mid-Point		$2.65					
Consensus		$2.69	$2.86	$2.81	$2.65		

Source: BofA Merrill Lynch Global Research, company filings, FactSet

Retail remains the concern still for investors

We believe retail margins and their sustainability remains a clear focus for the company and investors alike. Management stresses margins have seen near record sustainability at $2-4/MWh, while maintaining excellent customer statistics around its C&I business including 28% market share on new wins (24-25% overall), 78% customer renewal, and 28-month average contract duration.

Business overview

Exelon Corp (EXC) is an integrated electric and gas utility that operates four utilities in Pennsylvania, Illinois, DC, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, PEPCO in MD/DC, and Baltimore Gas & Electric (BGE) in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants in the Midwest and Mid-Atlantic regions.

Capital structure

Exelon corporate debt capital structure

We include below EXC's corporate debt capital structure, which is composed of senior unsecured notes. The key question for management will be just how it positions debt paydown as it takes a view toward Holding company borrowings relative to paying down additional debt at ExGen.

Table 7: EXC Corporate Capital Structure

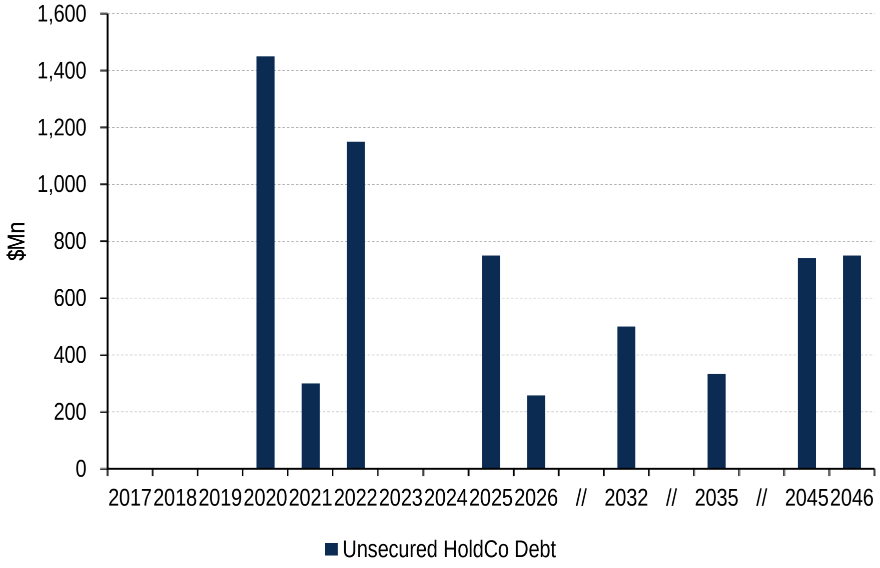
EXC Corporate Debt	06/30/17 Book Value	10/20/17 Price	Market Value	Effective Rate	Interest Expense	Maturity	YTM	Credit Rating	Debt / 2019E EBITDA	
									Book	Market
EXC Corporate Cash	24		24							
Credit Facilities										
Commercial Paper	*0*		*0*	*1.15%*	0					
Syndicated Revolver	*0*		*0*	*2.64%*	2	*May-21*		Baa2		
Total Credit Facilities	0		0		2				0.0x	0.0x
Unsecured HoldCo Debt										
2.850% Sr. Unsecured Notes due 2020	*900*	*101.8*	*916*	*2.85%*	*26*	*Jun-20*	*2.16%*	*Baa2/BBB-*		
5.150% Sr. Unsecured Notes due 2020	*550*	*107.6*	*592*	*5.15%*	*28*	*Dec-20*	*2.60%*	*Baa2/BBB-*		
2.450% Sr. Unsecured Notes due 2021	*300*	*99.9*	*300*	*2.45%*	*7*	*Apr-21*	*2.49%*	*Baa2/BBB-*		
3.500% Junior Sub Notes due 2022	*1,150*	*102.7*	*1,182*	*3.50%*	*40*	*Jun-22*	*2.86%*	*Baa2/BBB-*		
3.950% Sr. Unsecured Notes due 2025	*807*	*104.6*	*844*	*3.95%*	*32*	*Jun-25*	*3.26%*	*Baa2/BBB-*		
3.400% Sr. Unsecured Notes due 2025	*750*	*100.6*	*755*	*3.40%*	*26*	*Apr-25*	*3.31%*	*Baa2/BBB-*		
7.600% Sr. Unsecured Notes due 2026	*258*	*132.0*	*340*	*7.60%*	*20*	*Apr-26*	*3.25%*	*Baa2/BBB-*		
5.625% Sr. Unsecured Notes due 2032	*500*	*119.9*	*600*	*5.63%*	*28*	*Apr-32*	*3.82%*	*Baa2/BBB-*		
4.950% Sr. Unsecured Notes due 2035	*334*	*111.5*	*372*	*4.95%*	*17*	*Jun-35*	*4.03%*	*Baa2/BBB-*		
5.100% Sr. Unsecured Notes due 2045	*741*	*114.6*	*849*	*5.10%*	*38*	*Jun-45*	*4.20%*	*Baa2/BBB-*		
4.450% Sr. Unsecured Notes due 2046	*750*	*105.0*	*787*	*4.45%*	*33*	*Apr-46*	*4.15%*	*Baa2/BBB-*		
Total Unsecured HoldCo Debt	7,039		7,536		294				0.8x	0.8x
Total EXC Corporate Debt	7,039		7,536		297				0.8x	0.8x
Total EXC Corporate Net Debt	*7,015*		*7,512*						*0.8x*	*0.8x*
Memo:										
2018E Consolidated EBITDA	9,113									

Source: BofA Merrill Lynch Global Research, company filings, Bloomberg

Exelon corporate debt maturity wall

We include below the company's corporate debt maturity wall and note the upcoming maturities in 2020, with $900 Mn and $550 Mn due in June and December, respectively.

Chart 3: EXC Corporate Debt Maturity Wall



Source: Company filings

ExGen capital structure

We include below ExGen's capital structure as of 6/30/17. We highlight the low leverage vs peers even prior to the large estimated future debt repayments (we project repayments of ~$3.5 Bn in the 2017-2021 timeframe). We finally point to the low yields particularly for the short and medium-dated maturities (2-3% average for the 2019-2022 maturities vs average peer of 4-6% for comparable issues), which seem to indicate a disconnect between how equity and fixed income investors view and value the entity.

Table 8: ExGen Capital Structure

	06/30/17	10/20/17	Market	Effective	Interest			Credit	Debt / 2019E EBITDA	
ExGen Debt	Book Value	Price	Value	Rate	Expense	Maturity	YTM	Rating	Book	Market
ExGen Cash	265		265							
Credit Facilities										
Total Credit Facilities	699		699		35				0.3x	0.3x
Sr. Unsecured Notes										
6.200% Sr. Unsecured Notes due 2017	*700*		*700*	*6.20%*	*43*	*Oct-17*	*n/a*	*Baa2/BBB*		
5.200% Sr. Unsecured Notes due 2019	*600*	*105.9*	*635*	*5.20%*	*31*	*Oct-19*	*2.09%*	*Baa2/BBB*		
2.950% Sr. Unsecured Notes due 2020	*1,000*	*101.7*	*1,017*	*2.95%*	*30*	*Jan-20*	*2.17%*	*Baa2/BBB*		
4.000% Sr. Unsecured Notes due 2020	*550*	*104.7*	*576*	*4.00%*	*22*	*Oct-20*	*2.35%*	*Baa2/BBB*		
3.400% Sr. Unsecured Notes due 2022	*500*	*103.1*	*515*	*3.40%*	*17*	*Mar-22*	*2.65%*	*Baa2/BBB*		
4.250% Sr. Unsecured Notes due 2022	*523*	*106.6*	*558*	*4.25%*	*22*	*Jun-22*	*2.73%*	*Baa2/BBB*		
6.250% Sr. Unsecured Notes due 2039	*900*	*112.4*	*1,012*	*6.25%*	*56*	*Oct-39*	*5.29%*	*Baa2/BBB*		
5.750% Sr. Unsecured Notes due 2041	*350*	*105.5*	*369*	*5.75%*	*20*	*Oct-41*	*5.34%*	*Baa2/BBB*		
5.600% Sr. Unsecured Notes due 2042	*788*	*104.3*	*822*	*5.60%*	*44*	*Jun-42*	*5.29%*	*Baa2/BBB*		
Total Sr. Unsecured Notes	5,912		6,204		286				2.4x	2.5x
PCNs										
Total PCNs	436		436		11				0.2x	0.2x
Non-Reg Debt (Non-Recourse to EXC)										
3.35% NUKEM Uranium due 2018	*26*		*26*	*3.35%*	*1*	*Jun-18*	*n/a*			
3.25% NUKEM Uranium due 2018	*22*		*22*	*3.25%*	*1*	*Jun-18*	*n/a*			
3.15% NUKEM Uranium due 2020	*57*		*57*	*3.15%*	*2*	*Sep-20*	*n/a*			
ExGen Renewables I	*275*	*99.1*	*272*	*5.61%*	*15*	*Feb-21*	*5.92%*	*WR/BB-*		
ExGen Texas TL-B	*656*	*63.3*	*415*	*6.11%*	*40*	*Sep-21*	*20.12%*	*Caa3/CCC-*		
Continental Wind	*527*	*103.3*	*544*	*6.00%*	*32*	*Feb-33*	*5.68%*	*Baa3/BBB-*		
Clean Horizons Solar TL	*30*		*30*	*3.61%*	*1*	*Sep-30*	*n/a*			
Sacramento PV Energy Loan	*31*		*31*	*3.61%*	*1*	*Dec-30*	*n/a*			
Denver Airport Solar Loan	*6*		*6*	*5.50%*	*0*	*Jun-31*	*n/a*			
Holyoke Solar	*10*		*10*	*5.25%*	*1*	*Dec-31*	*n/a*			
FCC Coleman	*42*		*42*	*3.71%*	*2*	*Oct-35*	*n/a*			
AVSR	*552*		*552*	*3.00%*	*17*	*Jan-37*	*n/a*			
Total Non-Reg Debt	2,234		2,007		112				0.9x	0.8x
Total ExGen Debt	9,280		9,346		444				3.8x	3.8x
Total ExGen Net Debt	*9,015*		*9,081*						*3.7x*	*3.7x*
Memo:										
2019E ExGen Open EBITDA	*2,434*	*BofAML Estimate*								
3M LIBOR	1.36%									

Source: BofA Merrill Lynch Global Research, company filings, Bloomberg

Management review and biographies

We see the latest shift in strategy toward regulated utilities in recent periods as the appropriate strategy to diversify its substantial holdings in power assets. Management has been quiet to acknowledge the shift toward a more full regulated profile, as it seeks to dilute down the size of its merchant portfolio through utility acquisitions as well as selling/levering up remaining merchant assets. Given the latest set of plant retirements in ERCOT, another opening for plant transactions at higher multiples could yet be available for its two recently in-service CCGT assets.

We believe the challenges and set of circumstances that led toward the company's dividend cut in recent years have evolved into a new appreciation for the challenges of merchant power. We anticipate management will continue to take a conservative approach to its dividend policy.

We note an unusually qualified board of directors for the company, although the sector knowledge still did not prevent the company from steering clear of merchant power woes in recent years. We believe the DPS cut in recent years from $2.10 had a substantial impact on the company's view of merchant prospects as well as its own risk tolerance.

Chris Crane, president and CEO

Christopher (Chris) Crane has been the chief executive officer and president of Exelon Corporation since March 12, 2012 and September 23, 2008 respectively. He has been in the nuclear industry, in progressively more responsible leadership roles, for nearly 25 years. He served as the President of Exelon Generation Company, LLC since June 18, 2009 until 2013 and its chief operating officer from September 6, 2007 to May 2010. He served as the chief operating officer of Exelon Corp. from September 23, 2008 to April 28, 2011. He served as the president and chief executive officer of AmerGen and Constellation Energy Group, Inc. He joined Exelon in 1998. He studied electrical technology at New Hampshire Technical College, as well as at Harvard Business School's Advanced Management Program. He has a Senior Reactor Operator Certification.

Jack Thayer, CFO

Jonathan (Jack) Thayer has been the chief financial officer at Exelon Corporation since March 12, 2012 and has been its senior executive vice president since 2012. He served as the chief financial officer and senior vice president of Constellation Energy Group, Inc. from October 2008 to 2012. Thayer joined Chicago-based Exelon Corporation in January 2012. He served as an executive vice president of Exelon Corporation since March 12, 2012. He has a bachelor's degree in history from Middlebury College and a MBA from Harvard University.

Main acronyms used in the report

Table 9: List of acronyms

Acronym	Meaning	Notes
Companies		
NRG	NRG Energy	
VST	Vistra Energy	
CPN	Calpine Corp.	
DYN	Dynegy Inc.	
Power markets		
ISO	Independent System Operator	Independent entity responsible for operating competitive wholesale electricity markets and ensuring grid reliability
RTO	Regional Transmission Operator	See ISO
PJM	PJM Interconnection LLC	ISO covering all or parts of DE, IL, IN, KY, MD, MI, NJ, NC, OH, PA, TN, VA, WV, and DC
ERCOT	Energy Reliability Council Of Texas	ISO covering 90% of Texas' electricity load
ISO-NE	ISO New England	ISO covering CT, ME, MA, NH, RH, and VT
NYISO	New York ISO	ISO covering New York State
MISO	Midcontinent ISO	ISO covering the Midwest region of the US, all or parts of AR, MS, LA, and TX, as well as Manitoba, Canada
CAISO	California ISO	ISO covering California
Other terms		
CCGT	Combined Cycle Gas Turbine	Power plant using both a gas and steam turbine; more efficient than simple cycle technology such as CT or ST
CT	Combustion Turbine	Power plant using a combustion turbine as an electric generator
ST	Steam Turbine	Power plant using a steam turbine as an electric generator
MWh	Megawatt-hour	Unit equivalent to one million watts produced for one hour
GWh	Gigawatt-hour	Unit equivalent to one billion watts produced for one hour
Btu	British Thermal Unit	Energy unit; amount of energy require to raise the temperature of one pound of water by one degree Fahrenheit

Source: BofA Merrill Lynch Global Research, PJM, ERCOT, ISO-NE, NYISO, MISO

Appendix

Consolidated Income Statement

Table 10: Consolidated Income Statement

Income Statement	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Total Operating Revenues	29,237.0	31,905.0	32,683.3	33,594.5	33,618.6	32,507.2	33,215.8
Less: Purchased Power And Fuel	-13,139.0	-13,035.0	-14,102.7	-14,310.8	-14,086.7	-13,282.7	-13,435.3
Less: Operating And Maintenance	-8,232.0	-9,199.0	-8,475.0	-8,524.3	-8,648.7	-8,782.9	-8,934.6
Less: Depreciation And Amortization	-2,450.0	-3,232.0	-3,331.5	-3,477.3	-3,488.2	-3,561.6	-3,643.4
Less: Taxes Other Than Income	-1,200.0	-1,575.0	-1,633.4	-1,646.0	-1,676.7	-1,672.3	-1,717.3
Total Operating Expenses	-25,021.0	-27,041.0	-27,542.6	-27,958.4	-27,900.3	-27,299.4	-27,730.7
Plus: Gain (Loss) On Sale Of Assets	18.0	9.0	0.0	0.0	0.0	0.0	0.0
Operating Income	4,234.0	4,873.0	5,140.6	5,636.1	5,718.3	5,207.8	5,485.2
Less: Interest Expense	-1,060.0	-1,383.0	-1,489.4	-1,533.3	-1,550.4	-1,576.4	-1,612.5
Plus: Other, Net	238.0	289.0	200.0	275.0	250.0	250.0	250.0
EBT	3,412.0	3,779.0	3,851.3	4,377.8	4,417.9	3,881.4	4,122.6
Less: Income Taxes	-1,165.0	-1,299.0	-1,298.9	-1,478.9	-1,499.9	-1,336.3	-1,420.6
Less: Equity In Losses Of Unconsolidated Affiliates	-7.0	-24.0	0.0	0.0	0.0	0.0	0.0
Less: Earnings Attributable To Noncontrolling Interests And Preferred Stock Dividends	-13.0	32.0	0.0	0.0	0.0	0.0	0.0
Recurring Earnings	2,227.0	2,488.0	2,552.4	2,898.8	2,918.0	2,545.1	2,702.0
Plus: GAAP Adjustments	42.0	-1,354.0	-400.0	-400.0	-400.0	0.0	0.0
GAAP Earnings	2,269.0	1,134.0	2,152.4	2,498.8	2,518.0	2,545.1	2,702.0
Weighted Average Shares Outstanding							
Basic	889.75	924.25	952.61	962.06	964.06	966.06	968.06
Diluted	893.00	926.50	954.61	964.06	966.06	968.06	970.06
Basic Recurring EPS	$2.50	$2.69	$2.68	$3.01	$3.03	$2.63	$2.79
Diluted Recurring EPS	$2.49	$2.69	$2.67	$3.01	$3.02	$2.63	$2.79
EPS Growth	*5.2%*	*7.7%*	*-0.4%*	*12.5%*	*0.5%*	*-13.0%*	*5.9%*
EPS Guidance			$2.50-$2.80				
EPS Consensus			$2.69	$2.86	$2.81	$2.65	
Basic GAAP EPS	$2.55	$1.23	$2.26	$2.60	$2.61	$2.63	$2.79
Diluted GAAP EPS	$2.54	$1.22	$2.25	$2.59	$2.61	$2.63	$2.79

Source: BofA Merrill Lynch Global Research, company filings, FactSet

Consolidated Statement of Cash Flows

Table 11: Cash Flow Statement

Cash Flow Statement	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Cash Flows From Operating Activities							
Net (Loss) Income	2,250.0	1,204.0	2,152.4	2,498.8	2,518.0	2,545.1	2,702.0
Adjustments To Reconcile NI To Net Operating CFS:							
Depreciation, Amortization And Accretion	3,987.0	5,576.0	5,281.5	5,427.3	5,438.2	5,111.6	5,193.4
Deferred Taxes And Amortization Of ITCs	752.0	664.0	350.0	350.0	350.0	0.0	0.0
Other Non-Cash Operating Activities	891.0	1,482.0	0.0	0.0	0.0	0.0	0.0
Changes In Assets And Liabilities:							
Income Taxes	97.0	576.0	0.0	0.0	0.0	0.0	0.0
Post-Retirement Benefit Contributions	-502.0	-397.0	0.0	0.0	0.0	0.0	0.0
Other Assets And Liabilities	141.0	-671.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flows Provided By Operating Activities	7,616.0	8,434.0	7,783.9	8,276.1	8,306.2	7,656.7	7,895.5
Cash Flows From Investing Activities							
Capital Expenditures	-7,624.0	-8,565.0	-8,125.0	-7,250.0	-6,750.0	-6,675.0	-6,675.0
Net Change In NDT Funds	-252.0	-242.0	0.0	0.0	0.0	0.0	0.0
Net Change In Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net PP&E Investments	-40.0	-6,934.0	0.0	0.0	0.0	0.0	0.0
Other Investing Activities	94.0	249.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flows Used In Investing Activities	-7,822.0	-15,492.0	-8,125.0	-7,250.0	-6,750.0	-6,675.0	-6,675.0
Cash Flows From Financing Activities							
Net Change In Debt	4,102.0	2,205.0	-188.0	494.6	268.1	897.6	715.3
Contribution From Parent	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Paid On Common Stock	-1,105.0	-1,166.0	-1,250.0	-1,293.9	-1,329.1	-1,365.1	-1,402.1
Dividends Paid On Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Change In Common Equity	1,868.0	0.0	1,150.0	80.0	80.0	80.0	80.0
Net Change In Preferred Equity	0.0	-190.0	0.0	0.0	0.0	0.0	0.0
Other Financing Activities	-35.0	342.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flows Used In Financing Activities	4,830.0	1,191.0	-288.0	-719.3	-980.9	-387.5	-606.8
Increase In Cash And Cash Equivalents	4,624.0	-5,867.0	-629.1	306.8	575.3	594.2	613.7
Cash And Cash Equivalents At Beginning Of Period	1,878.0	6,502.0	635.0	5.9	312.7	887.9	1,482.1
Cash And Cash Equivalents At End Of Period	6,502.0	635.0	5.9	312.7	887.9	1,482.1	2,095.8

Source: BofA Merrill Lynch Global Research, company filings

Consolidated Balance Sheet

Table 12: Balance Sheet

Balance Sheet	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Assets							
Cash And Cash Equivalents	6,502.0	635.0	5.9	312.7	887.9	1,482.1	2,095.8
Restricted Cash	205.0	253.0	253.0	253.0	253.0	253.0	253.0
Unamortized Energy Contracts	570.0	535.0	535.0	535.0	535.0	535.0	535.0
Regulatory Assets	6,824.0	11,388.0	11,388.0	11,388.0	11,388.0	11,388.0	11,388.0
NDT Funds	10,342.0	11,061.0	11,061.0	11,061.0	11,061.0	11,061.0	11,061.0
Goodwill	2,672.0	6,677.0	6,677.0	6,677.0	6,677.0	6,677.0	6,677.0
Property, Plant And Equipment, Net	57,439.0	71,555.0	74,398.5	76,221.3	77,533.0	79,096.4	80,578.0
Other	10,830.0	12,800.0	12,800.0	12,800.0	12,800.0	12,800.0	12,800.0
Total Assets	95,384.0	114,904.0	117,118.4	119,247.9	121,135.0	123,292.6	125,387.8
Liabilities And Shareholders Equity							
Short Term Borrowing	533.0	1,267.0	1,267.0	1,267.0	1,267.0	1,267.0	1,267.0
Long-Term Debt Due Within One Year	1,500.0	2,430.0	719.0	719.0	2,169.0	1,019.0	1,869.0
Long-Term Debt Of VIE Due Within One Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	23,645.0	31,575.0	33,098.0	33,592.6	32,410.8	34,458.4	34,323.7
Long-Term Debt To Financing Trust	641.0	641.0	641.0	641.0	641.0	641.0	641.0
Long-Term Debt Of Variable Interest Entity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Income Taxes And Unamortized ITCs	13,776.0	18,138.0	18,488.0	18,838.0	19,188.0	19,188.0	19,188.0
Regulatory Liabilities	4,570.0	4,789.0	4,789.0	4,789.0	4,789.0	4,789.0	4,789.0
Unamortized Energy Contracts	217.0	1,237.0	1,237.0	1,237.0	1,237.0	1,237.0	1,237.0
Asset Retirement Obligations	8,585.0	9,111.0	9,111.0	9,111.0	9,111.0	9,111.0	9,111.0
Pension Obligations	3,385.0	4,248.0	4,248.0	4,248.0	4,248.0	4,248.0	4,248.0
Non-Pension Postretirement Benefits Obligations	1,618.0	1,848.0	1,848.0	1,848.0	1,848.0	1,848.0	1,848.0
Spent Nuclear Fuel Obligation	1,021.0	1,024.0	1,024.0	1,024.0	1,024.0	1,024.0	1,024.0
Other	8,571.0	10,984.0	10,984.0	10,984.0	10,984.0	10,984.0	10,984.0
Total Liabilities	68,062.0	87,292.0	87,454.0	88,298.6	88,916.8	89,814.4	90,529.7
Shareholders Equity							
Preferred Securities	193.0	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock	18,676.0	18,794.0	19,944.0	20,024.0	20,104.0	20,184.0	20,264.0
Treasury Stock	-2,327.0	-2,327.0	-2,327.0	-2,327.0	-2,327.0	-2,327.0	-2,327.0
Retained Earnings	12,068.0	12,030.0	12,932.4	14,137.3	15,326.2	16,506.2	17,806.1
Noncontrolling Interest	1,336.0	1,775.0	1,775.0	1,775.0	1,775.0	1,775.0	1,775.0
ACI	-2,624.0	-2,660.0	-2,660.0	-2,660.0	-2,660.0	-2,660.0	-2,660.0
Total Shareholders Equity	27,322.0	27,612.0	29,664.4	30,949.3	32,218.2	33,478.2	34,858.1
Total Liabilities And Shareholders Equity	95,384.0	114,904.0	117,118.4	119,247.9	121,135.0	123,292.6	125,387.8

Source: BofA Merrill Lynch Global Research, company filings

Price objective basis & risk

Exelon (EXC)

Our $43 PO is based on a Sum-Of-The-Part valuation (SOTP) of the Utility and Generation segments.

Our Utility valuation is based on applying a P/E multiple to our EPS estimates. Our base P/E multiple is based on the average 2019E P/E for large-cap regulated utilities. We apply an in-line multiple for Pepco and BGE. We apply a 1.0x premium to ComEd to account for formulaic rates and decoupling on the distribution business which aids in earnings predictability. We also apply a 1.0x premium to PECO to reflect its superior regulatory environment and consistent ROE overearning.

Our Generation valuation is based on a 2020E SOTP. We start with our EBITDA estimates at each segment and capitalize them at an 8.0x base multiple (based on the long-term average forward EV/EBITDA in the sector) to which we apply a premium/discount based on our views of the specific region and portfolio.

Upside/Downside risks: 1) the company may or may not experience adverse regulatory rulings in its future rate cases, 2) Rate making mechanisms may or may not change in the future, 3) the company may or may not experience an increase in the price of key inputs such as natural gas and coal 4) the company may or may not experience a decrease in wholesale power prices 5) the company may or may not have to deal with stricter environmental or safety regulations 6) the company may or may not be able to access capital markets, 7) the company's operations could be materially impacted by weather events.

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I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Electric Utilities & Alternative Energy Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
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	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Yield	ABY	ABY US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dynegy	DYN	DYN US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Great Plains Energy Inc	GXP	GXP US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Westar Energy Inc	WR	WR US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	NRG Yield	NYLDA	NYLD/A US	Julien Dumoulin-Smith
	NRG Yield	NYLD	NYLD US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	SCANA	SCG	SCG US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
UNDERPERFORM				
	8Point3 Energy Partners	CAFD	CAFD US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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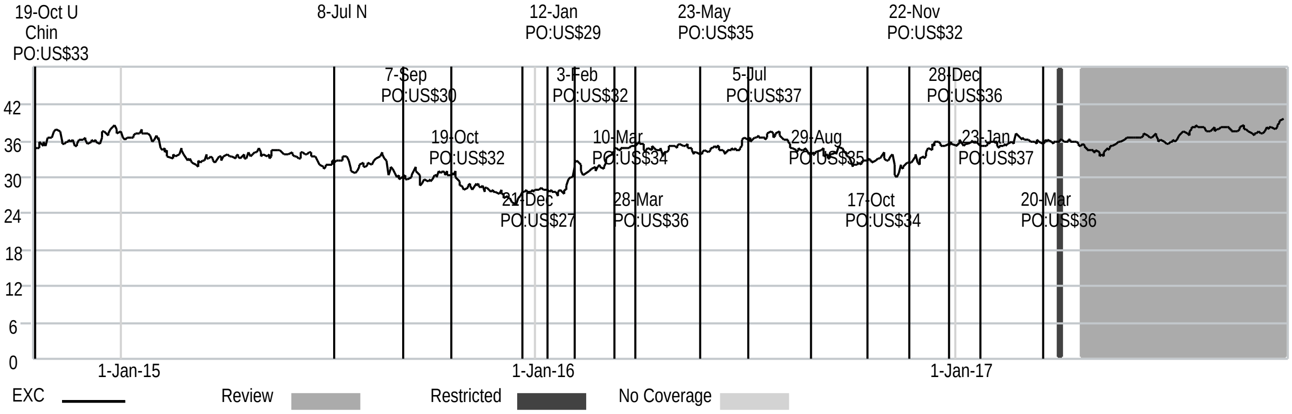
EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of September 30, 2017 or such later date as indicated.

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	49	50.00%	Buy	32	65.31%
Hold	24	24.49%	Hold	16	66.67%
Sell	25	25.51%	Sell	12	48.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1513	51.82%	Buy	956	63.19%
Hold	646	22.12%	Hold	396	61.30%
Sell	761	26.06%	Sell	359	47.17%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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KeyBanc
Capital Markets

Alert

November 2, 2017

Energy: Electric Utilities

NYSE: EXC

Exelon Corporation

EXC - ALERT: 3Q17 Results Slightly Miss; Guidance Narrowed

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We expect a slightly negative response to a slight miss and lower ExGen margin commentary, partly offset by maintaining the 2017 guidance midpoint, despite $0.09 of ZEC earnings moving from 2017 to 2018.

November 1, 2017 Close: $40.15

3Q17 Ongoing EPS: $0.85 vs. $0.91 in 3Q16 / Consensus of $0.86 / KBCM of $0.88

Initial Take: We expect a slightly negative response to a slight miss and lower ExGen margin commentary, partly offset by maintaining the 2017 guidance midpoint, despite $0.09 of ZEC earnings moving from 2017 to 2018.

2017 KBCM EPS Estimate: $2.70 (Consensus: $2.69)

2018 KBCM EPS Estimate: $2.90 (Consensus: $2.87)

Guidance: Exelon narrowed its 2017 EPS guidance to $2.55-$2.75 from $2.50-$2.80; the revised guidance reflects a delay in Illinois ZEC revenue (shifting $0.09 from 2017 into 2018).

Highlights:

- Results were slightly below our estimate as ExGen results came in lower than we had expected and milder weather had a greater impact at the Utilities.
- TTM Consolidated Earned ROE came in at 9.5% vs. 9.7% sequentially.
- EXC reported EPS of $0.85 vs. $0.91 in 3Q16 as primary drivers include: weaker results at ExGen (-$0.05), lower ComEd (-$0.01), lower PECO (-$0.01), and Corp. (-$0.01), partly offset by BGE (+$0.01) and PHI (+$0.01).
- Generation segment ongoing earnings fell to $0.36 vs. $0.41 as poor market conditions (-$0.19) were partially offset by ZEC revenue (+$0.08) and capacity pricing (+$0.05). We note rounding differences.
- ComEd ongoing results were $0.19 vs. $0.20 as rate base (+$0.01) and Treasuries/ROE (+$0.01) were offset by weather (-$0.03).
  - Weather-normalized electric sales fell 1.3%
- PECO ongoing results were $0.12 vs. $0.13 from weather (-$0.02) and a tax repair (+$0.01).
  - Weather-normalized electric sales were flat, while weather-normalized gas sales decreased 14.5%.
- BGE earnings increased to $0.07 vs. $0.06 due to increased transmission rates (+$0.01).
  - Weather-normalized electric sales fell 4.0% and gas fell 14.3%.
- PHI earned $0.15 vs. $0.14 in the quarter from increased distribution rates (+$0.03), slightly offset by weather (-$0.01) and other (-$0.01).
  - Weather-normalized electric sales fell 1.7% at Pepco, increased 1.2% at DPL electric, fell 2.0% at DPL gas, and fell 7.8% at ACE.
- HoldCo reported a loss of $0.04 vs. a loss of $0.03 due to higher income taxes (-$0.01).

10:00 A.M. ET Conference Call #: (800) 690-3108 ID#: 44852720

We will be focused on:

- View of the market for the Generation segment and Potential Subsidies
- Commentary on mitigating regulatory lag across regulated jurisdictions
- Capital Opportunities
- Deleveraging Efforts

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

Disclosure Appendix

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Exelon Corporation is an investment banking client of ours.

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We expect to receive or intend to seek compensation for investment banking services from Exelon Corporation within the next three months.

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As of the date of this report, we make a market in Exelon Corporation.

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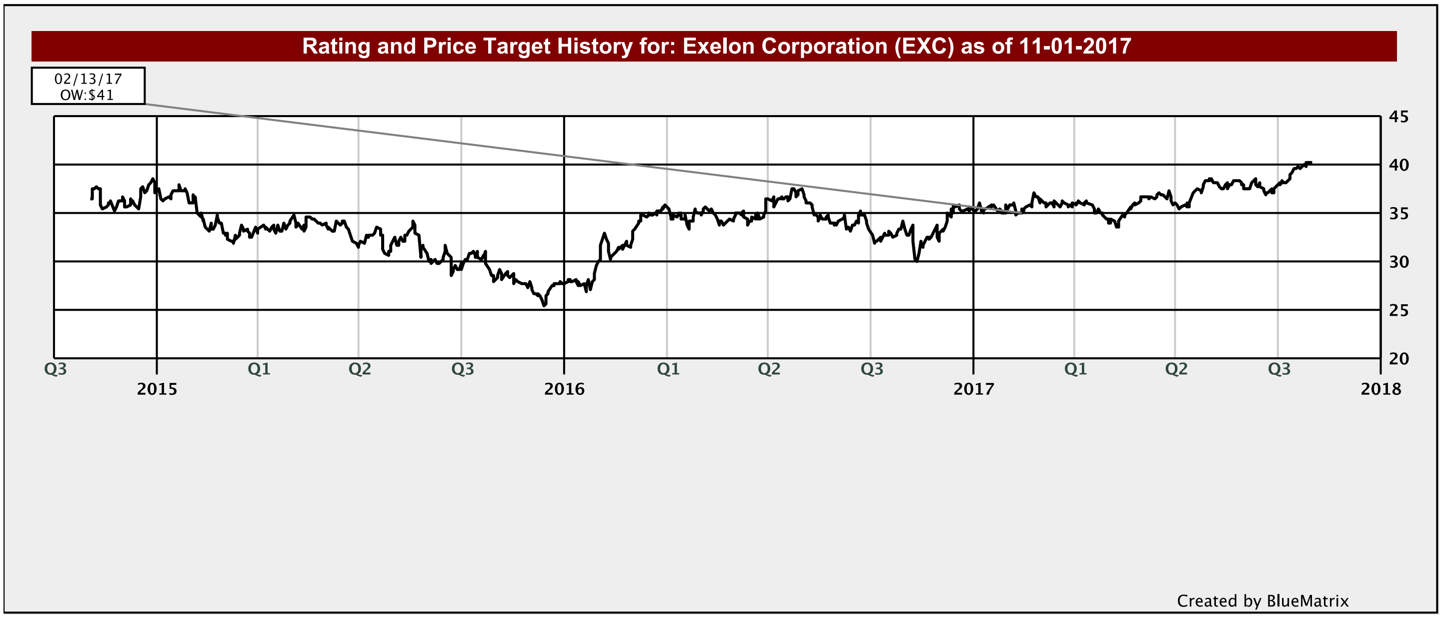

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			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	300	44.31	68	22.67	**Overweight [OW]**	29	46.03	18	62.07
Sector Weight [SW]	366	54.06	52	14.21	**Sector Weight [SW]**	34	53.97	16	47.06
Underweight [UW]	11	1.62	1	9.09	**Underweight [UW]**	0	0.00	0	0.00

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Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

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Buy

North America
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Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
2 November 2017

Results

Price at 1 Nov 2017 (USD)	40.15
Price target	41.00
52-week range	40.25 - 30.00

Thank you, Mr. Secretary

Value play on PJM pricing reforms and utility discount remains

EXC has outperformed the average regulated utility YTD with recent relative gains coming in the wake of the US DOE releasing its proposed NOPR or grid resiliency rule in September, which effectively would result in re-regulation for merchant coal and nuclear plants able to show 90 days of fuel supply. As they reminded us today, EXC concur with DOE's decision to act but are supporting more market-based solutions. We continue to see EXC stock as a good way to play the overall power market reform theme with tangible upside leverage to planned energy price formation reforms in PJM alongside fast-growing regulated T&D utility businesses and an ongoing debt reduction play at the Genco/HoldCo. We reiterate our Buy and $41 price target while noting further upside potential from either marking our below-market regulated multiple to market ($2/sh) or baking in $3/MWh of hoped-for PJM price formation ($3/sh).

ExGen gross margin down on more challenging retail conditions

EXC introduced some unexpected changes to their 2018 and 2019 gross margin forecasts for ExGen this quarter, with 2018 and 2019 down $50M and $200M, respectively. Within these adjustments, EXC reduced their forecast for "Power New Business / To Go" margin in 2017, 2018, and 2019 by $50M, $100M, and $100M, respectively. The reductions reflect pressure the Constellation business is seeing on wholesale margins and commercial & industrial retail growth from "aggressive bidding" by competitors. Per EXC, the competition is not appropriately pricing in risk following a bout of mild weather and minimal volatility. As a result, where EXC previously assumed 80% renewal rates for existing customers they are now seeing levels in the low 70% range. They also have lowered 2018 and 2019 gross margin by $100M each to reflect lower energy (basis differentials in PJM east) and capacity prices (MISO and NY). In 2018, these changes were mostly offset by the delay in IL ZEC revenue collection for the June 2017 to December 2017 period ($150M) from 2017 into 2018. And for 2019 EXC noted that roughly half of the energy price decline has been recovered, with the price increases seen since the slide deck was priced based on end-September numbers.

Cost reduction plans offset lower ExGen gross margin

Offsetting the negative from reduced margin expectations, EXC announced plans to cut ExGen O&M by $250M by 2020. This is in addition to the reductions to O&M from the sale/bankruptcy of the ExGen Texas Portfolio assets and the closure of Three Mile Island that were discussed earlier this year. Accounting for these changes allows us to keep our 2018E and 2019E EPS of $2.85 and $2.65, which

Valuation & Risks

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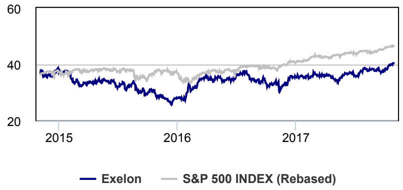
Key changes

EPS (USD)	2.70 to 2.65	↓	-2.0%
Revenue (USDm)	31,848.1 to 31,707.9	↓	-0.4%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.6	4.2	20.7
S&P 500 INDEX	2.4	4.2	22.1

Source: Deutsche Bank

Key indicators (FY1)	
ROE (%)	8.7
ROA (%)	2.2
Net debt/equity (x)	120.0
Book value/share (USD)	31.75
Price/book (x)	1.3
Net interest cover (x)	3.3
EBIT margin (%)	15.5

Source: Deutsche Bank

continue to assume growth at the utility consistent with prior 6-8%/yr targets and unchanged Generation forecasts, with lower gross margin offset by lower O&M. For 2017, guidance was narrowed to $2.55-$2.75 from $2.50-$2.80. Meanwhile, we are trimming our estimate by a nickel to $2.65 due mostly to the negative impact to generation earnings from delaying the IL ZEC revenue collection into next year ($0.09/sh in total).

Stock option liquidity data

Market cap (USDm)	38,002.3
Shares outstanding (m)	946.5
Free float (%)	100
Volume (1 Nov 2017)	1,292,597
Option volume (und. shrs., 1M avg.)	532,137
Institutional ownership (%)	–
DPS (USD)	1.29

Source: Deutsche Bank

Looking for upside from PJM price formation changes

EXC discussed what they believe could be a two-step process for the FERC to address the grid resiliency challenges identified by the DOE in its Section 403 filing in September. They believe the FERC could direct PJM to take action on deficiencies in energy price formation in power markets which they believe could add $2-$5/MWh to current power price curves, as a first step, and that PJM could implement these changes by mid-2018. As a second step, the FERC could then take more time to carefully evaluate potential market reforms to ensure power supply resiliency. This was not particularly surprising and aligns fairly well with our view that DOE is primarily looking to prompt action from the FERC and RTOs.

Potential acceleration in dividend growth on the horizon

Based on management's comments earlier in the year and on today's call we believe investors should be looking for EXC to provide a new multi-year dividend growth target early in 2018. EXC's current 2.5% per year dividend growth runs only through 2018 and did not push back on suggestions that they are in a better position now to deliver dividend growth closer to regulated peers. Factors cited included continued growth at the regulated utilities, strong free cash flow generation and debt reduction at ExGen as well as having a more stable merchant generation with the introduction of ZECs in IL and NY. Plans are likely to be reviewed with the Board as part of the long-term planning process in Q1 and announced thereafter. This year we will also have to wait for the Q4 call for 2018 EPS guidance and 2020 gross margin forecasts, which EXC has historically provided at the EEI conference.

Q3 result relatively in line, stronger PHI results offset ExGen

EXC reported Q3 operating EPS of $0.85 in line with our estimate and a penny below consensus. Versus DB, ExGen results were weaker than expected with mild weather weighing on volumes and pricing. This was offset by stronger than expected performance at the Pepco utilities, while the legacy EXC utilities performed in line with our estimates. Despite weak weather in Q3 and the delay into 2018 of Illinois ZEC earnings, EXC still is tracking toward the midpoint of original 2017 EPS guidance.

Forecasts and ratios

Year End Dec 31	2016A	2017E	2018E
FY EPS (USD)	2.68	2.65	2.85
OLD FY EPS (USD)	2.68	2.70	2.85
% Change	0.0%	-2.0%	-0.0%
P/E (x)	12.5	15.2	14.1
DPS (USD)	1.26	1.29	1.33
Dividend yield (%)	3.8	3.2	3.3

Source: Deutsche Bank estimates, company data

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	40.72 (USD) 2 Nov 2017	6, 9, 14

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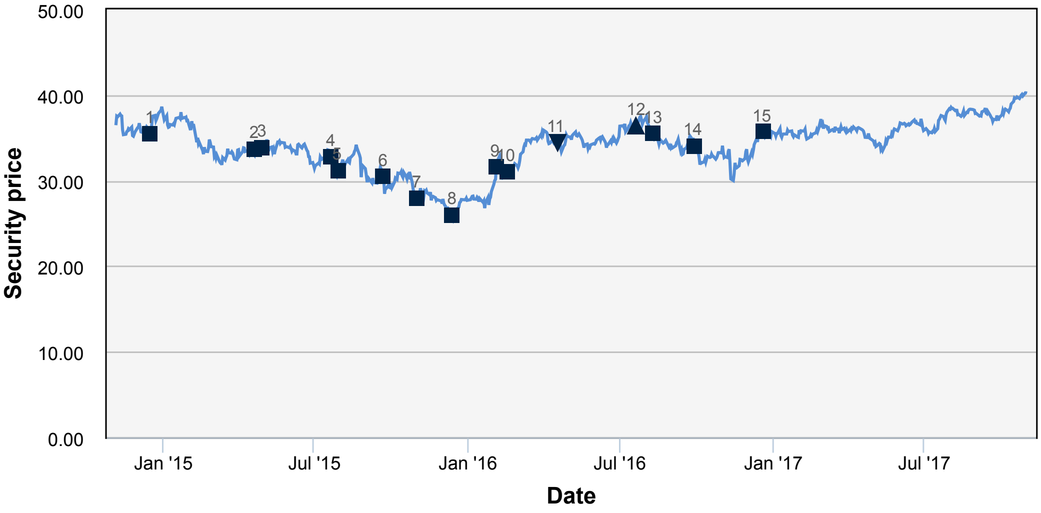
Historical recommendations and target price. Exelon (EXC.N)

(as of 11/01/2017)



<u>Current Recommendations</u>

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	12/17/2014	Buy, Target Price Change USD 43,00 Jonathan Arnold
2.	04/21/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
3.	04/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
4.	07/22/2015	Buy, Target Price Change USD 40,00 Jonathan Arnold
5.	07/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
6.	09/22/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
7.	11/02/2015	Buy, Target Price Change USD 37,00 Jonathan Arnold
8.	12/14/2015	Buy, Target Price Change USD 35,00 Jonathan Arnold
9.	02/04/2016	Buy, Target Price Change USD 36,00 Jonathan Arnold
10.	02/17/2016	Buy, Target Price Change USD 34,00 Jonathan Arnold
11.	04/18/2016	Downgraded to Hold, Target Price Change USD 36,00 Jonathan Arnold
12.	07/22/2016	Upgraded to Buy, Target Price Change USD 39,00 Jonathan Arnold
13.	08/11/2016	Buy, Target Price Change USD 40,00 Jonathan Arnold
14.	09/29/2016	Buy, Target Price Change USD 38,00 Jonathan Arnold
15.	12/20/2016	Buy, Target Price Change USD 41,00 Jonathan Arnold

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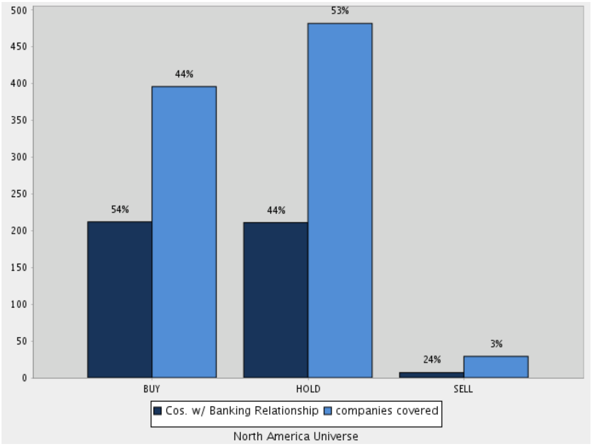
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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Exelon

Regaining its Income Orientation

Bank of America Merrill Lynch

Reiterate Rating: BUY | PO: 43.00 USD | Price: 40.72 USD

Equity | 03 November 2017

Maintaining midpoint EPS guidance despite challenges

Exelon Corp (EXC) reported 3Q17 results in line with our estimate at $0.85 down from $0.91 YoY as the increase in regulated rates was offset by weather items at ComEd and PECO and challenging market conditions in the power space. We further note that EXC narrowed the EPS guidance range for the full year to $2.55-$2.75 while maintaining the midpoint at $2.65, despite the delayed payment of the IL ZEC which shifted $0.09 of EPS from 2017 to 2018. We continue to see the shares favorably positioned as EXC continues to execute on the regulated ROE improvements and we emphasize ExGen's cash flow resiliency (particularly vs. IPP peers which have been more affected by the mild summer weather) bode well for the next update in 4Q.

Poised to raise dividend growth rate in early 2018

We estimate an increase in the target DPS growth rate is even more likely into early '18. We stress the continuous ROE improvements and the high EPS growth rate at the Utilities (we estimate about 7.0% CAGR through 2021), as well as the increased stability of the Generation cash flows thanks to the nuclear credits in NY/IL can support a raise in the target DPS growth rate from 2.5% currently to a level closer to peers (in the 5-6% range). We note management appears candid about the issue and recognizes that the potential growth for the dividend is now well anchored. We believe the board could announce an increase by early next year.

Pressures emerge in retail sector; cost cuts are offset

We highlight Exelon reduced its retail guidance by $100 Mn in 2018 and 2019 as the company sees slower-than-expected growth at the C&I business due to lower C&I renewal rates (from 80% previously to the low 70% range) which has been driving flat volumes YoY, while the intensifying competition in the space has put downward pressure on margins (although we note the company continues to observe C&I margins in the $2-4/MWh range). We see the guidance reduction as a cautious datapoint for NRG's retail margin enhancement endeavors but particularly for DYN as its retail business already operates under tight margins.

Estimates (Dec)

(US$)	2015A	2016A	2017E	2018E	2019E
EPS	2.49	2.69	2.64	2.96	2.99
GAAP EPS	2.54	1.22	2.22	2.55	2.58
EPS Change (YoY)	NA	8.0%	-1.9%	12.1%	1.0%
Consensus EPS (Bloomberg)			2.69	2.87	2.88
DPS	1.24	1.27	1.31	1.34	1.38

Valuation (Dec)

	2015A	2016A	2017E	2018E	2019E
P/E	16.4x	15.1x	15.4x	13.8x	13.6x
GAAP P/E	16.0x	33.4x	18.3x	16.0x	15.8x
Dividend Yield	3.0%	3.1%	3.2%	3.3%	3.4%
EV / EBITDA*	18.9x	15.6x	15.1x	14.0x	13.6x
Free Cash Flow Yield*	0%	-0.3%	-1.0%	2.5%	4.2%

* For full definitions of *iQmethod*^{SM} measures, see page 10.

Key Changes

(US$)	Previous	Current
2017E Rev (m)	32,683.3	35,872.6
2018E Rev (m)	33,594.5	36,990.2
2019E Rev (m)	33,618.6	37,008.6
2017E EPS	2.67	2.64
2018E EPS	3.01	2.96
2019E EPS	3.02	2.99

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Stock Data

Price	40.72 USD
Price Objective	43.00 USD
Date Established	23-Oct-2017
Investment Opinion	B-1-7
52-Week Range	29.82 USD - 40.81 USD
Mrkt Val (mn) / Shares Out (mn)	39,095 USD / 960.1
Average Daily Value (mn)	189.21 USD
BofAML Ticker / Exchange	EXC / NYS
Bloomberg / Reuters	EXC US / EXC.N
ROE (2017E)	9.4%
Net Dbt to Eqty (Dec-2016A)	127.8%

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Timestamp: 03 November 2017 12:41PM EDT

iQ*profile*^{SM} Exelon

iQmethod ^{SM} – Bus Performance*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Return on Capital Employed	NA	3.0%	2.9%	3.1%	3.1%
Return on Equity	17.3%	9.6%	9.4%	10.0%	9.7%
Operating Margin	14.5%	15.3%	14.1%	15.1%	15.4%
Free Cash Flow	(8)	(131)	(399)	958	1,653

iQmethod ^{SM} – Quality of Earnings*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash Realization Ratio	3.4x	3.4x	3.1x	2.9x	2.9x
Asset Replacement Ratio	1.9x	1.5x	1.5x	1.3x	1.2x
Tax Rate	34.1%	34.4%	33.7%	33.8%	34.0%
Net Debt-to-Equity Ratio	72.5%	127.8%	120.7%	116.7%	110.9%
Interest Cover	4.0x	3.5x	3.4x	3.6x	3.7x

Income Statement Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Sales	29,237	31,905	35,873	36,990	37,009
% Change	NA	9.1%	12.4%	3.1%	0%
Gross Profit	16,098	18,870	18,482	19,253	19,552
% Change	NA	17.2%	-2.1%	4.2%	1.6%
EBITDA	6,684	8,105	8,373	9,030	9,296
% Change	NA	21.3%	3.3%	7.8%	2.9%
Net Interest & Other Income	(822)	(1,094)	(1,264)	(1,262)	(1,306)
Net Income (Adjusted)	2,227	2,488	2,519	2,856	2,891
% Change	NA	11.7%	1.3%	13.4%	1.2%

Free Cash Flow Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Net Income from Cont Operations (GAAP)	2,185	3,842	2,919	3,256	3,291
Depreciation & Amortization	3,987	5,576	5,256	5,402	5,563
Change in Working Capital	(264)	(492)	0	0	0
Deferred Taxation Charge	752	664	350	350	350
Other Adjustments, Net	956	(1,156)	(800)	(800)	(800)
Capital Expenditure	(7,624)	(8,565)	(8,125)	(7,250)	(6,750)
Free Cash Flow	-8	-131	-399	958	1,653
% Change	NA	NM	-204.9%	NM	72.5%

Balance Sheet Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash & Equivalents	6,502	635	6	313	888
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	205	253	253	253	253
Property, Plant & Equipment	57,439	71,555	74,424	76,271	77,459
Other Non-Current Assets	31,238	42,461	42,461	42,461	42,461
Total Assets	95,384	114,904	117,143	119,298	121,061
Short-Term Debt	2,033	3,697	1,986	1,986	3,436
Other Current Liabilities	NA	NA	NA	NA	NA
Long-Term Debt	24,286	32,216	33,797	34,360	33,081
Other Non-Current Liabilities	41,743	51,379	51,729	52,079	52,429
Total Liabilities	68,062	87,292	87,512	88,425	88,946
Total Equity	27,322	27,612	29,631	30,873	32,115
Total Equity & Liabilities	95,384	114,904	117,143	119,298	121,061

* For full definitions of *iQmethod*^{SM} measures, see page 10.

Company Sector

Electric Utilities

Company Description

Exelon Corp (EXC) is an integrated electric and gas utility that operates four utilities in Pennsylvania, Illinois, DC, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Commonwealth Edison Company (ComEd) in IL, PECO Energy Company (PECO) in PA, PEPCO in MD/DC, and Baltimore Gas & Electric (BGE) in MD. Exelon Generation operates the largest nuclear fleet in the United States, with plants in the Midwest and Mid-Atlantic regions.

Investment Rationale

We see a clear opportunity in shares given prospects of power market reforms and continued appreciation for capital deployment at ExGen as well as yet further affirmation of nuclear ZECs. Additionally, we perceive steady execution on the utilities should continue to yield positive benefits, with management seemingly heading towards the upper end of its regulated guidance range already. Finally, we see a clear line of sight for increased dividend growth rate.

Stock Data

Average Daily Volume	4,791,627

Quarterly Earnings Estimates

	2016	2017
Q1	0.68A	0.65A
Q2	0.65A	0.53A
Q3	0.91A	0.85A
Q4	0.44A	0.61E

We see clear latitude to increase the DPS growth rate

We estimate the company has clear latitude to raise its DPS growth target beyond the current 2.5% level and note the outpacing growth in Utility EPS would result in a declining payout ratio should EXC leave its target unchanged. We estimate *the company could double its DPS growth rate to 5.0% while maintaining a Utility payout of about 80%*, which would put the company closer to par with its diversified peers at 5.7%.

Exhibit 1: Utility payout sensitivity

	2017E	2018E	2019E	2020E	2021E
Base Case					
DPS	$1.312	$1.345	$1.379	$1.413	$1.448
DPS Growth		*2.5%*	*2.5%*	*2.5%*	*2.5%*
Utility EPS	$1.589	$1.694	$1.790	$1.897	$1.997
Utility EPS Growth		*6.6%*	*5.6%*	*6.0%*	*5.3%*
Utility Payout	*83%*	*79%*	*77%*	*74%*	*73%*

Utility Payout Sensitivity

		Utility Payout by Year			
		2018E	2019E	2020E	2021E
	0.0%	77%	73%	69%	66%
	1.0%	78%	75%	71%	68%
	2.0%	79%	76%	73%	71%
Annual Dividend Growth	2.5%	79%	77%	74%	73%
	3.0%	80%	78%	76%	74%
	4.0%	81%	79%	78%	77%
	5.0%	81%	81%	80%	80%
	6.0%	82%	82%	82%	83%

Diversified DPS Growth Comps		2017E	2018E	2019E	2020E	CAGR
Ticker						
AGR	DPS	$1.729	$1.774	$1.833	$1.840	2.1%
	DPS Growth		2.6%	3.3%	0.4%	
D	DPS	$3.033	$3.328	$3.642	$3.910	8.8%
	DPS Growth		9.7%	9.5%	7.4%	
ETR	DPS	$3.517	$3.613	$3.698	$3.790	2.5%
	DPS Growth		2.8%	2.3%	2.5%	
NEE	DPS	$3.930	$4.440	$4.875	$5.250	10.1%
	DPS Growth		13.0%	9.8%	7.7%	
PEG	DPS	$1.719	$1.802	$1.913	$1.975	4.7%
	DPS Growth		4.8%	6.2%	3.2%	
SRE	DPS	$3.285	$3.572	$3.893	$4.110	7.8%
	DPS Growth		8.7%	9.0%	5.6%	
SO	DPS	$2.306	$2.383	$2.461	$2.560	3.5%
	DPS Growth		3.4%	3.3%	4.0%	
Diversified Comp Average						5.7%

Source: BofA Merrill Lynch Global Research, company filings, FactSet

ExGen: lowering guidance for 2018/2019

The company *lowered its gross margin guidance for ExGen in 2018 and 2019 by $50 Mn and $200 Mn*, respectively. The decrease was mainly driven by lower assumptions for MISO and NY capacity prices ($100 Mn impact) as well as the reduction in retail margin previously mentioned ($100 Mn impact), partially offset by higher hedge values. We emphasize the expected decrease in gross margin should be *mitigated on the EBITDA side as management released another round of O&M cost cuts with run-rate savings of $250 Mn by 2020*. We note the cost cuts will be realized mainly on the nukes as well as on the retail part of the business, and help mitigate the expected decline in C&I growth.

Allocation of capital remains the key question at ExGen

The company estimates that ExGen will generate an estimated $6.8 Bn of cumulative FCF over 2017-2020, of which $3 Bn is expected to be applied towards ExGen and HoldCo debt reduction, with the remainder being utilized to fund ExGen's committed growth CapEx ($1.3 Bn) as well as Utility growth (~2.5 Bn).

Which debt paydown is more "valuable"?

While technically fungible to pay down debt at either the holding company or at ExGen, our valuation approach (along with that of many investors and sell-side peers) appears to value the ExGen business as a traditional merchant power business by applying an EV/EBITDA and then netting out the debt at this segment. By contrast, we have typically opted to view the interest at the parent as tied to regulated operations, particularly seeing that the bulk of it was issued in conjunction with executing on its Pepco transaction. As such, we apply a P/E multiple to the interest expense at the holding company, essentially providing substantially less value to paydown at this level. Similarly, we perceive the rating agencies as quite focused on maintaining 35%+ or better FFO/debt at this segment.

Table 1: FCF yield shows more stability than peers

ExGen FCF Yield	2017E	2018E	2019E	2020E	2021E
Cash From Operations	3,452	3,623	3,612	3,149	3,173
Plus: Interest Expense	400	390	336	291	253
Less: Base CapEx	-1,050	-1,000	-925	-875	-875
Less: Nuclear Fuel CapEx	-950	-900	-925	-850	-850
FCFF Before Dividends and Growth CapEx	1,852	2,113	2,098	1,715	1,701
EBITDA	2,774	3,039	2,945	2,242	2,254
EV Multiple	*7.4x*	*7.4x*	*7.4x*	*7.4x*	*7.4x*
Implied EV	20,423	22,372	21,681	16,504	16,597
Unlevered FCF Yield	9.1%	9.4%	9.7%	10.4%	10.2%
Comps					
VST Unlevered FCF ($Mn)	1,123	1,261	1,072	1,038	1,027
VST FCF Yield	10.9%	12.2%	10.4%	10.1%	10.0%
DYN Unlevered FCF ($Mn)	1,027	1,233	1,007	771	692
DYN FCF Yield	12.0%	14.4%	11.8%	9.0%	8.1%
Average Peer FCF Yield	11.4%	13.3%	11.1%	9.5%	9.0%
Average Peer FCF Yield	11.4%	13.3%	11.1%	9.5%	9.0%

Source: BofA Merrill Lynch Global Research estimates

We continue to see tailwinds for the Power business

Despite the lower guidance, we continue to see multiple avenues of upside for the Power business. Specifically, we highlight nuclear support legislations could potentially spread to other states beyond NY and IL; we highlight the positive momentum following the recent passage of the Millstone bill in CT, and note the company indicated constructive discussions in PA and NJ.

Furthermore, we see potential for increased volatility and probability of scarcity pricing in ERCOT next summer following the announcements of around 4.7 GW of plant retirements, which would benefit the company's new CCGTs.

Finally, we note ExGen could stand to benefit from the potential PJM market reforms. Given the company's 135 TWh of generation within PJM and assuming a $2-5/MWh uplift, we could see margins potentially increase by $270-$675 Mn. We emphasize such benefit would only accrue as the existing hedges roll off, and note the company believe that the uplift would likely decrease any further potential ZEC payments on a dollar-for-dollar basis.

We include recent relevant notes below:

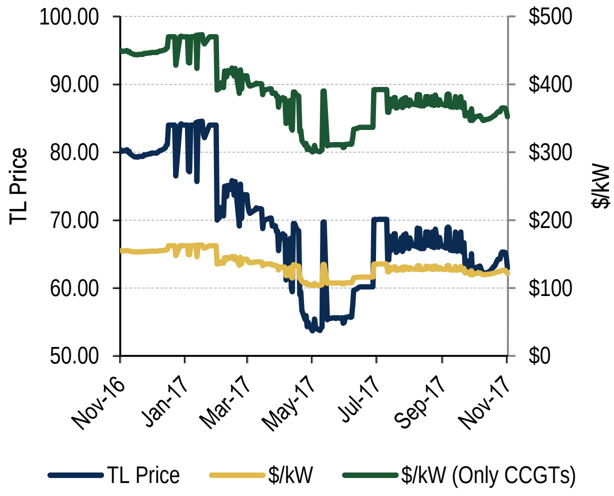
Recent BofA Merrill Lynch Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Electric Utilities & IPPS: Can Subsidies Win? Examining the Letter of the Law on ZECs and DOE's NOPR	Julien Dumoulin-Smith	02 November 2017
US Electric Utilities & IPPS: Reconciling PJM's Power reforms with the outstanding FERC NOPR	Julien Dumoulin-Smith	30 October 2017
US Electric Utilities & IPPS: Making sense of the legal landscape around nuclear & coal financial support	Julien Dumoulin-Smith	24 October 2017

Expect a wind down of ExGen TX in the near future

We note Exelon had reached an agreement with the lenders earlier this year to pursue a sale of the ExGen TX assets. After removing the assets from its guidance at the 2Q call, the company expects ExGen TX to declare bankruptcy from now through the end of the year due to the large amount of negative FCF generated by the portfolio. We emphasize *Exelon does not expect to make any significant payments* as part of the reorganization process due to the non-recourse nature of the subsidiary. We emphasize the market value of the term loan implies around $350/kW valuation on the two CCGTs (Wolf Hollow and Colorado Bend), close to what VST paid for the recent acquisition of Odessa.

Chart 1: ExGen TX TL-B due 2021 is trading in the low 60s



Source: Bloomberg

(yet more) cost cuts: benefiting the story too

We see the latest cost cuts as coming at an appropriate time to offset the otherwise troubling headwinds at the retail segment. We note the $250 Mn/year of run-rate benefits by 2020 are derived principally from the nuclear business as well as the Constellation retail platform itself.

Progress continues at state-level for ZECs despite limited discussion

While the subject of state-level nuclear support was non-existent on the call, we perceive progress as continuing into year-end. While legislative success in NJ is unlikely until there is resolution on pending FERC and PJM efforts, we still see this as a possible real eventuality under any wider comprehensive energy reform in the state.

Updated EPS estimates

We include below our updated EPS estimates to reflect the latest disclosures. While we did not change our Utility estimates, we lowered our ExGen estimates to reflect the pressures on the retail business which was offset by further O&M cost cuts as well as the uptick in power prices of late. Specifically, we highlight our 2017E EPS estimate for ExGen decreased by $0.03 to $1.05 and is now at the midpoint of updated guidance of $1.00-$1.10/sh. Overall, we continue to project a full year 2017E EPS around the midpoint of guidance at $2.64 vs. $2.65.

Table 2: Updated EPS Estimates

EPS By Segment	2016A	2017E	2018E	2019E	2020E	2021E	CAGR
ComEd	$0.57	$0.68	$0.71	$0.72	$0.77	$0.82	*7.5%*
PECO	$0.48	$0.46	$0.45	$0.44	$0.46	$0.47	*(0.4%)*
BGE	$0.31	$0.30	$0.32	$0.33	$0.34	$0.36	*2.8%*
PHI	$0.25	$0.36	$0.42	$0.49	$0.53	$0.55	*17.1%*
Parent And Other	($0.19)	($0.20)	($0.20)	($0.20)	($0.20)	($0.20)	*0.8%*
Total Utility EPS	$1.42	$1.59	$1.69	$1.79	$1.90	$2.00	*7.1%*
Utility EPS Growth		*11.9%*	*6.6%*	*5.6%*	*6.0%*	*5.3%*	
Utility EPS Guidance Range		$1.40-$1.70	$1.50-$1.80	$1.60-$1.90	$1.75-$2.05		
Utility EPS Guidance MidPoint		$1.55	$1.65	$1.75	$1.90		
ExGen	$1.27	$1.05	$1.27	$1.20	$0.77	$0.83	
Consolidated EPS	$2.69	$2.64	$2.96	$2.99	$2.67	$2.83	
Consolidated EPS Growth		*-1.9%*	*12.3%*	*1.0%*	*-10.8%*	*5.9%*	
Consolidated EPS Guidance Range		$2.55-$2.75					
Consolidated EPS Guidance Mid-Point		$2.65					
Consensus		$2.69	$2.87	$2.82	$2.60		

Source: BofA Merrill Lynch Global Research, company filings, FactSet

Capital deployment remains the upside on the story

Among the more critical updates into 4Q reporting will be the use of the projected FCF. We anticipate management could well be poised to discuss more specifics around debt reduction at both ExGen and the parent. With ExGen Texas likely one by 4Q and clear indications of just what is recourse at the ExGen segment, we believe the balance sheet it will become increasingly apparent at just how underlevered its prospects are.

Updated valuation: Maintaining $43 PO

We are maintaining our $43 price objective which remains based on a SOTP approach. Our regulated utility estimates remain unchanged, while we lowered our ExGen estimates to reflect the dimmer outlook on the C&I side of the retail business, which was offset by the cost cuts just announced as well as the higher hedge value. We stress the difficulties encountered by the C&I segment highlight the challenges associated with lower margin businesses within the Retail sector and explain the lower multiple assigned to EXC's retail business (6.0x) vs. other peers such as VST or NRG at 8.0x and 7.0x, respectively.

Exhibit 2: EXC SOTP yields a $43/sh valuation

Regulated Utilities								
Large Cap Utilities P/E Multiple				*18.0x*				
	2019E		P/E Multiple			Equity Value		
Segment	Net Income	EPS	Low	Base	High	Low	Base	High
ComEd	699	$0.72	18.0x	19.0x	20.0x	12,584	13,283	13,982
PECO	429	$0.44	18.0x	19.0x	20.0x	7,726	8,155	8,584
BGE	321	$0.33	17.0x	18.0x	19.0x	5,462	5,783	6,104
PHI	473	$0.49	17.0x	18.0x	19.0x	8,033	8,505	8,978
Parent and Other	(193)	($0.20)	17.0x	18.0x	19.0x	-3,281	-3,474	-3,667
Total Regulated Utilities	1,729	$1.79	17.7x	18.7x	19.7x	30,523	32,252	33,981
Est. 2019E Shares Outstanding						966.1	966.1	966.1
Regulated Utilities Equity Value Per Share						$31.60	$33.38	$35.17

Generation							
Base IPP EBITDA Multiple			*8.0x*				
	2020E	EBITDA Multiple			Enterprise Value		
Segment	EBITDA	Low	Base	High	Low	Base	High
Midwest Generation	33	6.1x	7.1x	8.1x	205	239	272
Mid-Atlantic Generation	458	5.9x	6.9x	7.9x	2,699	3,157	3,616
ERCOT CCGTs (Excl. ExGen Texas)	91	*12.0x*	*13.0x*	*14.0x*	*1,091*	*1,182*	*1,273*
New York Generation	(88)	5.0x	6.0x	7.0x	-441	-529	-617
New England Generation	145	6.7x	7.7x	8.7x	978	1,123	1,268
Other Generation	150	9.0x	10.0x	11.0x	1,350	1,500	1,650
Renewable JV	124	9.0x	10.0x	11.0x	1,117	1,241	1,365
Retail & Wholesale	870	5.0x	6.0x	7.0x	4,350	5,220	6,090
Total Open EBITDA	1,784	6.4x	7.4x	8.4x	11,349	13,132	14,916
Adjustments:							
Less: Sr. Unsecured Notes					(5,912)	(5,912)	(5,912)
Less: PCNs					(436)	(436)	(436)
Less: Non-Reg Debt					(2,234)	(2,234)	(2,234)
Plus: ExGen Texas Debt					656	656	656
Plus: ExGen Cash					265	265	265
Plus: PV of NY ZEC Payments					2,257	2,257	2,257
Plus: PV of IL ZEC Payments					1,107	1,107	1,107
Total Adjustments					(4,297)	(4,297)	(4,297)
Total Generation Equity Value					7,052	8,836	10,619
Est. 2020E Shares Outstanding					968.1	968.1	968.1
Generation Equity Value Per Share					$7.28	$9.13	$10.97
Total EXC Equity Value					$39.00	$43.00	$46.00
Upside to Current Share Price (As of 11/01/17)					*(2.9%)*	*7.1%*	*14.6%*
2017E Dividend Yield					*3.3%*	*3.3%*	*3.3%*
Total Expected Return					0.4%	10.4%	17.8%

Source: BofA Merrill Lynch Global Research, company filings, Bloomberg

Price objective basis & risk

Exelon (EXC)

Our $43 PO is based on a Sum-Of-The-Part valuation (SOTP) of the Utility and Generation segments.

Our Utility valuation is based on applying a P/E multiple to our EPS estimates. Our base P/E multiple is based on the average 2019E P/E for large-cap regulated utilities. We apply an in-line multiple for Pepco and BGE. We apply a 1.0x premium to ComEd to account for formulaic rates and decoupling on the distribution business which aids in earnings predictability. We also apply a 1.0x premium to PECO to reflect its superior regulatory environment and consistent ROE overearning.

Our Generation valuation is based on a 2020E SOTP. We start with our EBITDA estimates at each segment and capitalize them at an 8.0x base multiple (based on the long-term average forward EV/EBITDA in the sector) to which we apply a premium/discount based on our views of the specific region and portfolio.

Upside/Downside risks: 1) the company may or may not experience adverse regulatory rulings in its future rate cases, 2) Rate making mechanisms may or may not change in the future, 3) the company may or may not experience an increase in the price of key inputs such as natural gas and coal 4) the company may or may not experience a decrease in wholesale power prices 5) the company may or may not have to deal with stricter environmental or safety regulations 6) the company may or may not be able to access capital markets, 7) the company's operations could be materially impacted by weather events.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Electric Utilities & Alternative Energy Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Yield	ABY	ABY US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Great Plains Energy Inc	GXP	GXP US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Westar Energy Inc	WR	WR US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	NRG Yield	NYLDA	NYLD/A US	Julien Dumoulin-Smith
	NRG Yield	NYLD	NYLD US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	SCANA	SCG	SCG US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
UNDERPERFORM				
	8Point3 Energy Partners	CAFD	CAFD US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith

*iQ*method SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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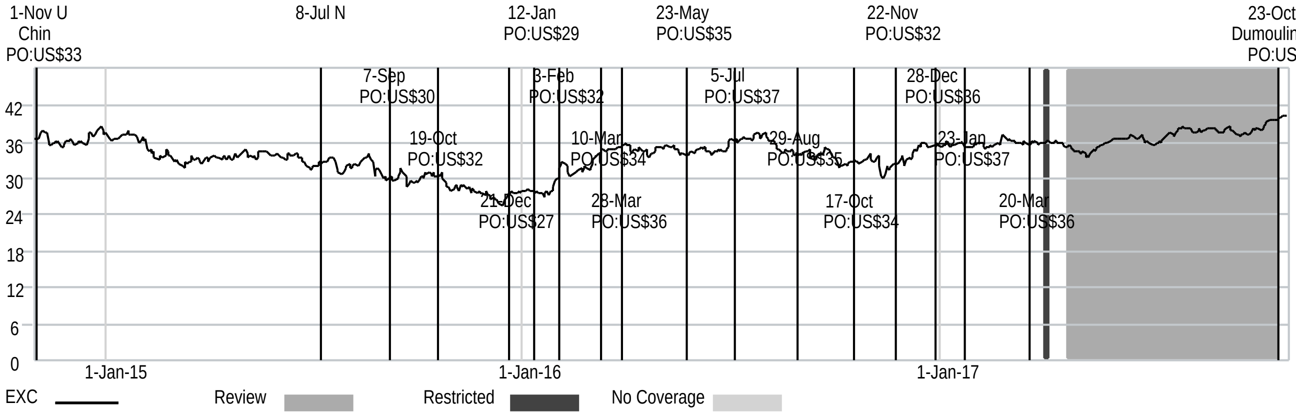
Disclosures

Important Disclosures

EXC Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of September 30, 2017 or such later date as indicated.

Equity Investment Rating Distribution: Alternative Energy Group (as of 30 Sep 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	3	42.86%	Buy	3	100.00%
Hold	3	42.86%	Hold	2	66.67%
Sell	1	14.29%	Sell	1	100.00%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	49	50.00%	Buy	32	65.31%
Hold	24	24.49%	Hold	16	66.67%
Sell	25	25.51%	Sell	12	48.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1513	51.82%	Buy	956	63.19%
Hold	646	22.12%	Hold	396	61.30%
Sell	761	26.06%	Sell	359	47.17%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

***INCOME RATINGS*, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend.** *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Merrill Lynch report referencing the stock.

Price charts for the securities referenced in this research report are available at http://pricecharts.baml.com, or call 1-800-MERRILL to have them mailed.
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Diversified Utilities
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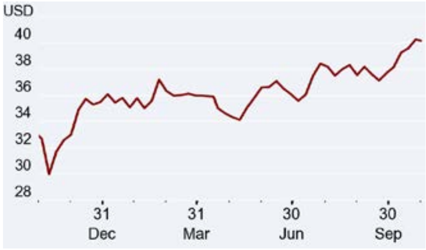
Exelon Corp (EXC)

Results: Keep Eye on Prize: Market Reform & ZECs.

- **Citi's Take — Results slightly below than expectations.** EXC reported consolidated operational Q'3 EPS of $0.85/share vs. our expectations of $0.89/share and consensus estimates of $0.86/share. ExGen's operating EPS came in at $0.36/share vs. our estimates of $0.39/share. Lower gross margins at Constellation drove the weaker results than expected. Regulated utilities came in at $0.49/share in-line with our estimates.
- **FY2017 guidance narrowed due to ZEC's timing.** The company narrowed FY2017 guidance range to $2.55-$2.75/share from $2.50-$2.80/share vs. our estimates of $2.73/share. Delay in Illinois ZEC revenue recognition drove the shift of $0.09/share into 2018. Company clarified that timing of revenue recognition wouldn't impact the cash flows or valuation.
- **Cost savings of $250m at ExGen offset market weakness.** Management introduced a cost savings program of $250m - expected to be achieved in 3 years. This helps offset lower gross margins of ~$200m in 2018/2019 though improving curves have already offset $50m and return of volatility would help further.
- **Buy EXC for the Prize – Market Reforms and ZECs:** Given, the company is already meeting its financial goals and credit metric targets, potential benefit from price formation, additional ZECs or market resiliency payments will all accrue as additional sources of value and capital allocation opportunities for EXC. Price formation of an additional $2-$5/share in PJM could be worth ~$270m-$675m of additional EBITDA. If reinvested in the utility platform, this could unlock even more value. Tax reform would help EXC 'retain' a lot more of these ExGen cash flows as well. We think investors should keep their eyes on this significant prize at EXC.
- **Implications — We Eye the Prize and Reiterate our Buy rating.** Regulated Utility has a strong growth profile with ~7% CAGR through 2020 and benefits from cash from ExGen. We think price reform and further support for nuclear is coming and reiterate our Buy rating and $45/share price target.

Buy	1
Price (03 Nov 17 09:54)	US$41.39
Target price	US$45.00
Expected share price return	8.7%
Expected dividend yield	3.2%
Expected total return	11.9%
Market Cap	US$39,738M

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	na	na	na	0.44A	2.68A	2.68A
2017E	0.65A	0.54A	0.89E	0.65E	2.73E	2.68E
Previous	0.65A	0.54A	0.89E	0.65E	2.73E	na
2018E	na	na	na	na	2.84E	2.87E
Previous	na	na	na	na	2.84E	na
2019E	na	na	na	na	3.13E	2.81E
Previous	na	na	na	na	3.13E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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Exelon Corp

Valuation

We value EXC using a sum-of-the-parts approach to get to our $45 price target. We value ExGen at ~$3/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The legacy utility business is valued at $27/share based on a 18.0x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent net debt and add $12/share for ZECs to get to our rounded PT of $45/share.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the risks get rejected after further legal challenge then the stock has downside as some value of ZEC is already in the stock price

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	18-Dec-14 16:46:48	Coverage terminated		
2	17-Sep-15 16:01:15	*3	*27.00	31.57
3	26-Jan-16 17:07:46	*2	27.00	27.84
4	22-Feb-16 16:00:00	*3	27.00	31.69
5	19-Jul-16 23:43:46	3	*29.00	36.58
6	04-Oct-16 03:14:34	3	*27.00	31.86
7	28-Nov-16 20:37:44	3	*29.00	33.39
8	02-Dec-16 07:02:27	*2	*31.00	33.01
9	30-Mar-17 06:59:06	2	*35.00	35.70
10	07-Jun-17 06:52:17	2	*36.00	36.61
11	27-Jul-17 07:37:04	*1	*43.00	37.99
12	11-Oct-17 09:15:06	1	*45.00	38.46

*Indicates Change

Rating/target price changes above reflect Eastern Time

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COMPANY UPDATE
November 3, 2017

Exelon Corporation (EXC)

SunTrust Robinson Humphrey

Revising 2017-19 Estimates

What's Incremental To Our View

Based on revised assumptions, we have reduced our 2017 and 2019 estimates but increased our 2018 estimate.

IMPORTANT POINTS

- EXC reported 3Q results of $0.85 vs $0.91, below our estimate of $0.88 and consensus of $0.86. The shortfall (vs our estimate) was primarily due to the impact of mild weather.

- Based on the following key assumptions: latest forward commodity curves, updated hedge disclosure, revised timing of Illinois ZEC payments (which will now be booked from January 2018 vs our previous assumption of June 2017), lower Retail marketing volume, and revised cost assumptions (we have factored in 75% of management's incremental cost reduction targets over 2018-2020), we make the following adjustments to our estimates: 2017 is reduced to $2.65 from $2.70, 2018 is increased to $2.88 from $2.83, and 2019 is reduced to $2.73 from $2.75. Our preliminary 2020 estimate is $2.83.

- Assuming a 15.6x P/E multiple (in line with the peer group) on our 2019 estimate of $2.73, we derive our price target of $43. We reiterate our **Buy** recommendation.

- We have included our revised 2017-19 earnings and cash flow models in this report.

Buy

Price Target: $43.00
Prior: $43.00

Δ Key Drivers

- *Latest forward commodity curves and hedge disclosures*
- *Revised timing of ZEC payments*
- *Lower Retail marketing volume*
- *Revised cost assumptions*

Price (Nov. 2, 2017)	$40.72
52-Wk Range	$40.72-$30.00
Market Cap ($M)	$37,699
ADTV	3,348,500
Shares Out (M)	925.8
Short Interest Ratio/% Of Float	1.5%
Dividend/Yield	$1.31/3.2%
TR to Target	8.8%
Enterprise Value ($M)	$74,822.8

Debt/Cap	54%
5 Year EPS Growth	3.0%
ROE	9.0%
P/B	1.20x

	2017E	2018E		2019E	
		Curr.	Prior	Curr.	Prior
EPS Adjusted					
1Q	$0.65A	$0.71	$0.68	$0.67	$0.66
2Q	$0.54A	$0.59	$0.57	$0.56	$0.55
3Q	$0.85A	$0.92	$0.89	$0.88	$0.87
4Q	$0.61	$0.66	$0.69	$0.63	$0.67
CY	$2.65	$2.88	$2.83	$2.73	$2.75
P/E	15.4x	14.1x		14.9x	
Consensus					
CY	$2.68	$2.87		$2.82	
Revenue ($M)					
CY	$33,975	$34,545	$34,545	$34,955	$34,955
Operating Margin (%)					
CY	14.50%	15.40%	15.20%	14.50%	14.60%
EBITDA ($M)					
CY	$8,220	$8,727	$8,663	$8,559	$8,588
EV/ EBITDA	9.1x	8.6x		8.7x	
FYE Dec					

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Exelon Corporation (EXC)

Earnings Model, 2012A-2019E

(dollars in millions, except per share)

	2019E		2018E		2017E		2016A		2015A		2014A		2013A		2012A	
Revenues (% change)																
Com Ed	5,650		5,485		5,380		5,246		4,905		4,564		4,464		5,443	
PECO	3,605		3,500		3,430		2,994		3,032		3,094		3,100		3,186	
BGE	3,470		3,370		3,300		3,233		3,135		3,165		3,065		2,204	
PEPCO	5,530		5,370		5,265		3,643									
Generation	18,000		18,070		18,000		18,304		18,925		17,853		16,190		15,502	
Other	(1,300)		(1,250)		(1,400)		(1,515)		(760)		(787)		(1,377)		(1,661)	
Total Revenues	34,955	1.2%	34,545	1.7%	33,975	6.5%	31,905	9.1%	29,237	4.8%	27,889	9.6%	25,442	3.1%	24,674	NMF
Operating Income (% sales)																
Com Ed	1,400	24.8%	1,350	24.6%	1,285	23.9%	1,200	22.9%	1,026	20.9%	984	21.6%	956	21.4%	891	16.4%
PECO	800	22.2%	765	21.9%	710	20.7%	712	23.8%	634	20.9%	574	18.6%	675	21.8%	640	20.1%
BGE	645	18.6%	615	18.2%	555	16.8%	555	17.2%	563	18.0%	441	13.9%	446	14.6%	186	8.4%
PEPCO	790	14.3%	750	14.0%	700	13.3%	485	13.3%								
Generation	1,454	8.1%	1,877	10.4%	1,695	9.4%	1,969	10.8%	2,033	10.7%	1,956	11.0%	1,928	11.9%	2,616	16.9%
Other	(30)		(30)		(25)		(48)		(22)		(19)		(64)		(46)	
Equity Income (Loss)											(8)		102		59	
Total Operating Income	5,059	14.5%	5,327	15.4%	4,920	14.5%	4,873	15.3%	4,234	14.5%	3,928	14.1%	4,043	15.9%	4,346	17.6%
Interest Expense, net	(1,340)		(1,395)		(1,430)		(1,383)		(1,098)		(931)		(986)		(941)	
Other Income (Expense)	305		315		345		289		276		262		238		252	
Pretax income	4,024		4,247		3,835		3,779		3,412		3,259		3,295		3,657	
Taxes (rate)	1,368	34.0%	1,444	34.0%	1,304	34.0%	1,299	34.4%	1,165	34.1%	1,057	32.4%	1,132	34.4%	1,316	36.0%
Preferred / Non Controlling Interest	5		5		5		(32)		13		134		14		11	
Equity Income (Loss)	0		(6)		(10)		(24)		(7)							
Net Income (% change)	2,651	-5.1%	2,792	11.0%	2,516	1.1%	2,488	11.7%	2,227	7.7%	2,068	-3.8%	2,149	-7.8%	2,330	-15.7%
Shares Outstanding (ful. dil.)	972.0		968.0		949.0		927.0		893.0		864.0		860.0		819.0	
Operating EPS -- ful. dil. (% change)	$2.73	-5.2%	$2.88	8.7%	$2.65	-1.3%	$2.68	7.8%	$2.49	4.2%	$2.39	-4.4%	$2.50	-12.3%	$2.85	-31.5%
Extraordinary Items																
Reported GAAP EPS																
Regulated Utility (net Parent) EPS	$1.80		$1.70		$1.60		$1.41		$1.09		$1.06		$1.10		$0.95	
Generation EPS	$0.93		$1.18		$1.05		$1.27		$1.40		$1.33		$1.40		$1.90	
EBITDA	8,559		8,727		8,220		8,105		6,684		6,242		6,191		6,180	
ComEd																
Total Retail Sales (millions mw hs)	92.0		91.0		90.0		88.9		86.7		88.6		89.1		90.0	
Implied Operating Margin ($/MWh)	$15.2		$14.8		$14.3		$13.5		$11.8		$11.1		$10.7		$9.9	
PECO																
Total Electric Retail Sales (millions mw hs)	40.0		39.5		39.0		37.9		38.0		37.5		37.8		37.5	
Implied Operating Margin ($/MWh)	$20.0		$19.4		$18.2		$18.8		$16.7		$15.3		$17.9		$17.1	
PEPCO																
Total Electric Retail Sales (millions mw hs)	47.0		46.0		45.0		26.1									
Implied Operating Margin ($/MWh)	$16.8		$16.3		$15.6		$18.6									
Generation																
Total Pow er Sales (millions mw hs)	212.0		209.0		203.0		203.0		196.4		199.2		214.7		219.5	
Implied Operating Margin ($/mw h)	$6.9		$9.0		$8.3		$9.7		$10.4		$9.8		$9.0		$12.2	
Net Income By Segment																
Com Ed	700		660		615		524		432		410		421		381	
PECO	480		460		430		444		380		353		393		387	
BGE	345		325		285		289		277		199		195		46	
Generation	900		1,145		1,000		1,181		1,253		1,155		1,202		1,548	
PHI	385		360		330		228									
Other	(159)		(158)		(144)		(178)		(115)		(49)		(62)		(32)	
Total	2,651		2,792		2,516		2,488		2,227		2,068		2,149		2,330	

Note

1) Rate Base - Com Ed: $10.6bn in 2015, $11.9bn in 2016, $13.2bn in 2017E, $14.0bn in 2018E, $14.8bn in 2019E; PECO: $6.0bn in 2015, $6.2bn in 2016, $6.6bn in 2017E, $7.0bn in 2018E, $7.4bn in 2019E;
BGE: $5.0bn in 2015, $5.3bn in 2016, $5.7bn in 2017E, $6.1bn in 2018E, $6.5bn in 2019E; PEPCO: $8.3bn in 2016, $8.9bn in 2017E, $9.4bn in 2018E, $9.9bn in 2019E.

2) Earned ROE - Com Ed: 8.0% in 2015, 8.8% in 2016, 9.3% in 2017, 9.4% in 2018, 9.5% in 2019; PECO: 11.7% in 2015, 13.3% in 2016, 12.1% in 2017, 12.2% in 2018, 12.1% in 2019;
BGE: 10.7% in 2015, 10.5% in 2016, 9.7% in 2017, 10.3% in 2018, 10.3% in 2019; PEPCO: 5.5% in 2016, 7.4% in 2017, 7.7% in 2018, 7.8% in 2019.

3) We assume the Illinois legislature's changes to Com Ed formula rates represent $0.02 of earnings in 2013 and $0.04 of annual earnings from 2014 onwards.

4) We assume that the DOE nuclear disposal fee is removed from May 2014; represents $0.06 of earnings in 2014 and $0.11 annually thereafter.

5) We have included the impact of the $1.15bn Equity Units (2.5% interest rate) from mid 2014 and assume conversion to equity (33m shares) on 6/1/17.

6) We have factored in the impact of the $6.8bn PEPCO acquisition from Q2 2016 (including the settlement of the 57.5m share forward equity sale on 7/14/15).

7) We assume the New York ZEC payments and the acquisition of the Fitzpatrick plant (838mw , nuclear $110m price) from Q2 2017.

8) We have factored the IL ZEC payments for Clinton (1069mw) and Quad City (1403mw) from 6/1/17.

9) Total ZEC payments represent $500m / year of pre tax income (from 2018 onwards).

10) We assume retirement of TMI (September 2019), Oyster Creek (December 2019), and exit from EGTP (2018 onwards).

11) We have factored in 75% of management's cost reduction targets over the 2018-2020 period.

12) Forward curves as of 11/1/17.

Sources: Company reports and SunTrust Robinson Humphrey estimates.

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Exelon Corporation (EXC)

Cash Flow Model, 2012A-2019E

($ in millions except per share)

	2019E	2018E	2017E	2016A	2015A	2014A	2013A	2012A
Net income	2,651	2,792	2,516	2,488	2,227	2,068	2,149	2,330
Depreciation, depletion, amortization	5,100	5,000	4,925	5,576	3,987	3,868	3,779	4,079
Working Capital Change / Other	(125)	(125)	(125)	381	1,420	(1,479)	415	(278)
Cash Flow From Operations	7,626	7,667	7,316	8,445	7,634	4,457	6,343	6,131
Dividends	(1,201)	(1,196)	(1,174)	(1,166)	(1,105)	(1,065)	(1,249)	(1,716)
Capital expenditures	(6,750)	(7,250)	(8,125)	(8,553)	(7,624)	(6,077)	(5,395)	(5,789)
Free Cash Flow	(325)	(779)	(1,983)	(1,274)	(1,095)	(2,685)	(301)	(1,374)

Sources: Company reports and SunTrust Robinson Humphrey estimates.

Company Description

Exelon, a utility services holding company, operates through its principal subsidiaries: Generation, ComEd, PECO, and BGE. Generation's business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and its competitive retail supply operations. ComEd's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in northern Illinois, including the City of Chicago. PECO's energy delivery business consists of the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. BGE is a regulated electric transmission and distribution utility company and a regulated gas distribution utility company with a service territory that covers the City of Baltimore and all or part of 10 counties in central Maryland.

Investment Thesis

Discounted valuation, and potential for earnings upside (from recently completed Pepco acquisition and changes to the nuclear portfolio), provide an attractive return opportunity, in our opinion.

Valuation and Risks

VALUATION

Assuming a 15.6x P/E multiple (in line with the peer group) on our 2019 estimate of $2.73, we derive our price target of $43.

RISKS

- Outlook for forward power prices.
- Timing of upcoming EPA regulations.
- Outcome of pending and future rate cases.

Analyst Certification

I, Ali Agha , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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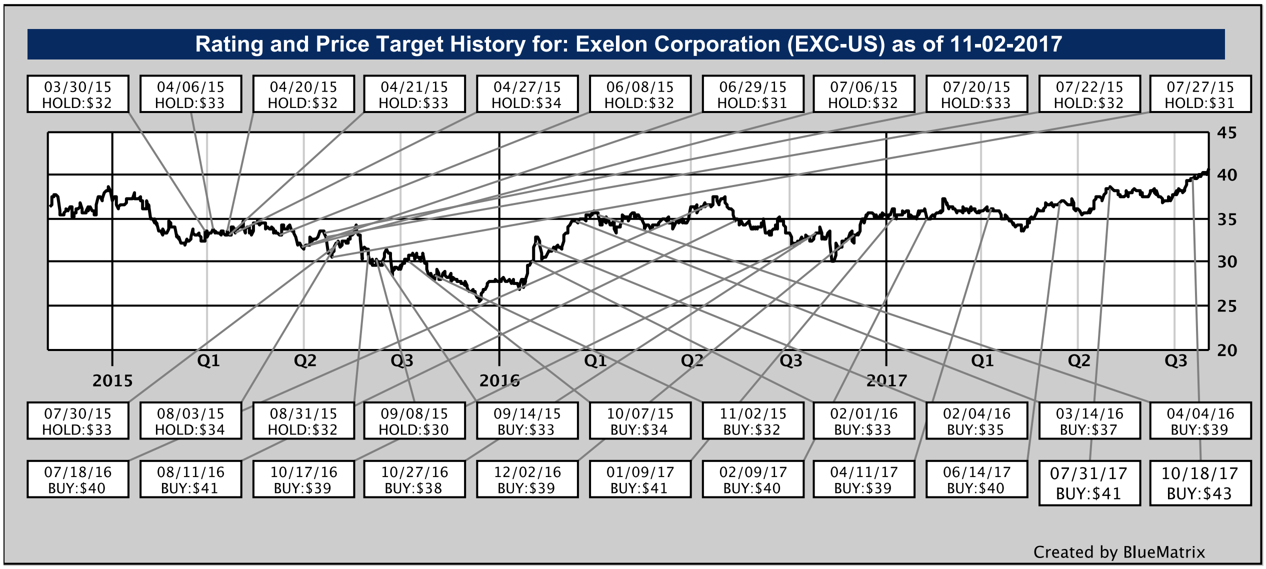

STRH Ratings System for Equity Securities

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Please email the Research Department at STRHEquityResearchDepartment@SunTrust.com or contact your STRH sales representative.

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Buy (B) – the stock’s total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock’s total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock’s total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

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exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage
CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

<u>The prior rating system until Oct. 7, 2016:</u>

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

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Coverage Universe			**Investment Banking Clients Past 12 Months**		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	421	59.80%	Buy	133	31.59%
Hold/Neutral	279	39.63%	Hold/Neutral	63	22.58%
Sell/Reduce	4	0.57%	Sell/Reduce	1	25.00%

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RBC Capital Markets

November 5, 2017

Company: Exelon Corporation, EXC - Analyst Shelby Tucker, Currency: USD, Price Target: 43.00, Rating: Outperform

FY Dec	**2016A**	**2017E**	**2018E**	**2019E**
EPS, Adj Diluted	2.69	2.68	2.93	2.80
Prev.		2.70	2.88	2.77
DPS	1.26	1.31	1.35	1.39
P/AEPS	15.2x	15.3x	14.0x	14.6x
Div Yield	3.1%	3.2%	3.3%	3.4%

EPS, Adj Diluted	**Q1**	**Q2**	**Q3**	**Q4**
2016	0.68A	0.65A	0.91A	0.44A
2017	0.65A	0.54A	0.85A	0.63E
Prev.			0.84E	

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Diversified Utilities
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2017 EEI Conference Takeaways

Reconfirmed Buys on EXC, ETR; HoldCo debt Problems Persist.

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- **We hosted more than twenty 1x1 meetings with management teams and three corporate dinners at the EEI conference in Orlando, FL.**
- **Tax Reform – Uncertainty on Parent Interest Deduction for now.** Most management teams thought, as currently drafted, interest at the parent level may not be tax deductible. Most teams, though, expected the language to get ‘cleaned up’ to allow for deductibility. Note that impact, if language isn’t cleaned up, is meaningful for companies with high holdco debt like DUK and SO with EPS dilution in the 5-7% range. See Figure 2.
- **Tax Reform – Lower Tax Rate Negatively Impacts HoldCo EPS.** Even if holdco interest deductibility is allowed, a lower tax rate lowers the tax shield on parent debt. This results in dilution for companies with high holdco leverage like DUK and SO in the 2-3% range. See Figure 3.
- **Reevaluation of DTL balance would have negative cash flow impact.** Reduction of tax rate would require Deferred Tax Liability (DTL) reevaluation and refund to rate payers. Refund would be “normalized” through average asset life and impact cash flows on annual basis. This impact would hurt credit metrics with annual cash flow ranging from ~$70m to ~$200m. See Figure 5.
- **EXC Big Winner: Price Formation – the logical step forward.** We think this will likely be the first action taken by FERC/PJM by mid-2018. Applying the suggested price formation changes to historical prices suggest a $2-5/MWh impact to LMP. This could increase EXC’s EBITDA by $270m-$675m. This incremental EBITDA, could be used to bolster dividend and reinvest in the utility business.
- **ETR Story continues to reflect transformation.** ETR management continues to improve both operations and regulatory relationships and is on track for the wind-down of EWC. Next event to watch: FRP decision in AR in 4Q17.
- **FES bankruptcy filing likely April 2018. DOE push on any form of re-regulation will take time.** While price formation is expected in 2018, we don’t think re-regulating coal/nuclear assets moves forward by April 2018 – the time when $600m of FES debt matures. We think FES will file for bankruptcy protection and that restructuring process can complicate and delay the FE pure-play growth story.
- **ES Growth story now includes water acquisitions. NPT critical and management reflected confidence.** Management reflected a lot of confidence on the approvals for NPT. Next event to watch is the NHPUC approval and presidential permit. The increasing focus on the water business and the potential for distressed acquisitions could suggest a potential weakness in organic growth.
- **PG&E – SDG&E outcome could be the leading indicator.** The outcome of the SDG&E case for an expense memorandum account related to 2007 Southern California wildfires would be a leading indicator for how regulators want to tackle inverse condemnation. While it is logical for regulators to allow utilities to recover costs in excess of insurance from customers, the outcome is far from certain. The CPUC has the case on the agenda for its November 30th meeting, although it has already been delayed several times. The exact language of the decision will give us insight into CPUC’s thinking on recovery.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Key Takeaways from EEI Meetings

- **Notes below highlight the key INCREMENTAL takeaways on each company's story from EEI.**

Figure 1. Summary of INCREMENTAL takeaways from EEI meetings.

Comp.	Positives	Concerns	Key Near Term Events
ES	• Increasing confidence on NPT • Capital plan to be finalized in Feb. with potential additional capex of up to ~$525m	• Looking at distressed water acquisitions for growth suggests some weakness on organic growth • NPT approval critical to story	• NPT - Presidential permit Q4 '17 • NPT - NHPUC approval; MA RFP proposal selections on January 25th • Rate cases for NSTAR, WMECO decision expected in 4Q17
ETR	• 'New ETR' thesis reconfirmed given regulatory outcome and management focus on execution	• No new concerns	• The APSC decision in Q'4 2017 • Column 4 exit for ANO in Jul 2018 and Pilgrim in Spring 2019
ED	• Continue to be impressed with disciplined management team	• PTC could impact renewables pipeline though minimal impact to story	• New York TransCo decision expected in 1Q18
D	• Millstone - Plan to work with and disclose information to regulators • ATP and Cove Point on track	• No new concerns	• VEPCO rider adjustments expected in 1H18 • Cove point in-service expected 4Q17
DUK	• Ample opportunities to deploy capital on grid mod initiatives	• Ongoing concern on DEP rate case with ~$400m ask vs. ~$2m staff recommendation driven by contested ROE, cap structure & coal ash recovery	• Hearing for DEP rate case to begin on 11/20/2017
AEP	• Wind catcher OK under PTC changes • Confidence on wind catcher approvals given benefits	• No new concerns	• Wind Catcher decision 1Q18 • Decisions on rate cases: TX – 4Q17; PSO – 1Q18; KYP – 1Q17; Michigan – 2Q17; Indiana – 3Q18
PEG	• Higher confidence on price formation changes: + ~$2-4/MWh on 60TWh • ZECs argument stays robust though timing likely 2018 • Well positioned on tax reform	• No new concerns	• FERC's response to DOE NOPR on Dec 11th • NJ Distribution Rate Case filing on Dec 1st, 2017
EIX	• Constructive efforts together with other utilities on inverse condemnation	• SONGs, GRC uncertainty in near term shadow strong growth story	• GRC final decision expected in 2018 • Songs party memorandums preliminarily due Nov. 30th
EXC	• Higher confidence on price formation changes: + ~$2-4/MWh on 125TWh • One of the best positioned utilities on tax reform • Steady improvements at utilities	• No new concerns	• FERC's response to DOE NOPR on Dec 11th • Decision on rate cases: ComEd 4Q17, Delmarva MD and DE in 2Q/3Q17; Delmarva DE Gas 3Q17
FE	• Improved growth profile at utilities business • PJM price formation reform could help with FES restructuring	• Given FES April maturity, we think filing for bankruptcy is most likely outcome	• FES maturity Apr 1st, 2017 • FERC's response to DOE NOPR on Dec 11th
PCG	• PCG does have robust vegetation maintenance program • All CA utilities coming together on inverse condemnation in SDG&E case	• Cal fire investigation could take 12-15 months and likely limited clarity till that point	• SDG&E fire case will be a leading indicator; on CPUC's Nov 30th agenda

Source: Citi Research

- **Interest deductibility at HoldCo is unclear.** In the current version of the tax bill, it is unclear if interest rate deductibility at the parent level would be disallowed. We expect there would be many changes in the bill before it passes the congress and house; however it still creates substantial risk to the entire industry. DUK and SO dilution could be in the 5-7% range.

Figure 2. HoldCo Interest Deductibility Impact on EPS

Elimination of HoldCo Int. Deductability	Units	D	DUK	SO	PCG	ED	AEP	PEG	EIX	ES	EXC	ETR	FE
HoldCo Int. Expense	$m	$945	$681	$435	$10	$88	$50	$81	$15	$66	$340	$90	$249
Tax Rate	%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Interest Tax Shield	$m	($331)	($238)	($152)	($4)	($31)	($18)	($28)	($5)	($23)	($119)	($31)	($87)
Shares Outstanding	m	631	704	1,003	519	310	492	507	326	317	962	180	480
Int. Tax shield per share	$/share	($0.52)	($0.34)	($0.15)	($0.01)	($0.10)	($0.04)	($0.06)	($0.02)	($0.07)	($0.12)	($0.17)	($0.18)
2018 EPS	$/share	$4.04	$4.78	$3.04	$3.79	$4.27	$3.89	$3.03	$4.32	$3.30	$2.84	$4.77	$2.54
Dilution if Int. Tax Shield Disallowed	%	NA	(7.1%)	(5.0%)	(0.2%)	(2.3%)	(0.9%)	NA	(0.4%)	(2.2%)	NA	(3.6%)	(7.1%)

Source: Citi Research

We have indicated "NA" for D, EXC, PEG as the parent interest deductibility could be supported by EBITDA of non-utility business. Non-utility businesses would also be winners with a lower of the tax rate. DUK interest expense at parent based on interest expense noted in 2016 10K for 'other segment' less 'eliminations'. ED interest expense at parent based on Citi assumed 4.5% rate.

- **Lower Tax Rate Negatively Impacts HoldCo EPS Anyway.** Lower tax rate would reduce parent interest tax shield and result in dilution. In the table below we highlight the impact if the rate is reduced from 35% to 20%. DUK and SO dilution is in the 2-3% range.

Figure 3. Reduction of Tax Rate Impact on EPS

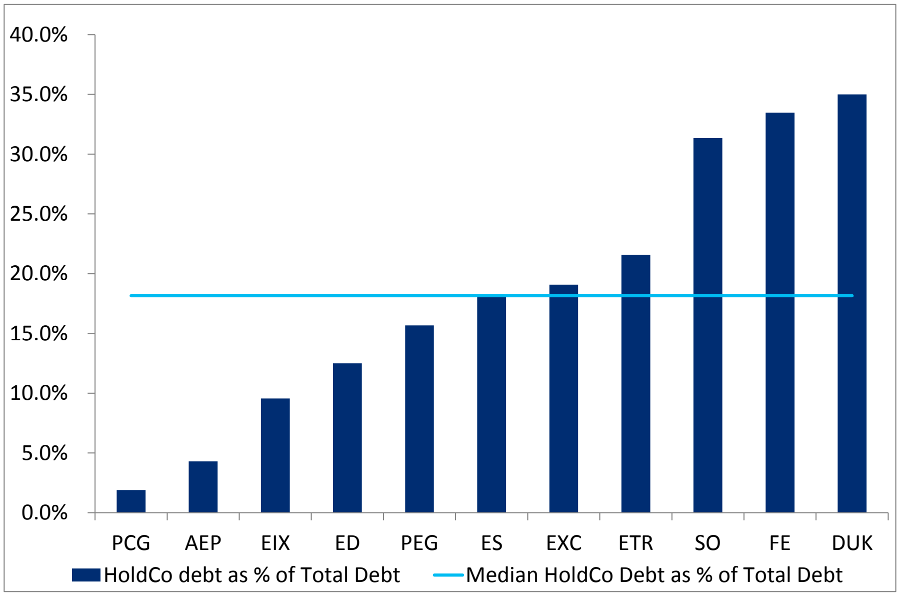
Lower Tax Rate	Units	D	DUK	SO	PCG	ED	AEP	PEG	EIX	ES	EXC	ETR	FE
HoldCo Int. Expense	$m	$945	$681	$435	$10	$88	$50	$81	$15	$66	$340	$90	$249
Change in Tax Rate	%	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)
Lower Int. Tax Shield	$m	($142)	($102)	($65)	($2)	($13)	($8)	($12)	($2)	($10)	($51)	($13)	($37)
Shares Outstanding	m	631	704	1,003	519	310	492	507	326	317	962	180	480
Int. Tax shield per share	$/share	($0.22)	($0.15)	($0.06)	($0.00)	($0.04)	($0.02)	($0.02)	($0.01)	($0.03)	($0.05)	($0.07)	($0.08)
2018 EPS	$/share	$4	$5	$3	$4	$4	$4	$3	$4	$3	$3	$5	$3
Dilution due to lower tax rate	%	NA	(3.0%)	(2.1%)	(0.1%)	(1.0%)	(0.4%)	NA	(0.2%)	(1.0%)	NA	(1.6%)	(3.1%)

Source: Citi Research

We have indicated "NA" for D, EXC, PEG as the benefits of the tax savings at the unregulated business will more than outweigh the reduction in tax shield of parent interest associated with a reduction in tax rate from 35% to 20%.

- **Parent debt is in focus.** Given the negative impacts on parent interest expense below, we highlight the companies with the highest parent debt as a percentage of total debt as of 6/30/2017. Note, Dominion's parent debt supports significant other Energy and midstream businesses and therefore isn't included in the table below.

Figure 4. HoldCo Debt as a % of Total Debt



Source: Citi Research

DUK parent debt based on 2017 guidance of 35% applied to debt as of 6/30/2017.

- **DTL Reevaluation would impact cash flows over the long-term.** Reduction in tax rates (from 35% to 20%) would require the re-evaluation of Deferred Tax Liability (DTL) balances at regulated utilities. The change in DTL would be returned to rate payers through average useful life of assets. This amount would have cash flow impact but no income statement impact unless it triggers an equity issuance. Management talked about different ways to mitigate this impact but we think this impact is mostly going under the radar for now. We think there could be a negative credit impact (FFO/Debt) with cash out flow ranging from ~$70m to ~$200m as show in the table below.

Figure 5. Annual Cash Impact of DTL reevaluation

DTL Reevaluation	Units	D	DUK	SO	PCG	ED	AEP	PEG	EIX	ES	EXC	ETR	FE
DTL Balance (12/31/2016)	$m	$8,602	$14,155	$14,092	$10,213	$10,205	$8,758	$4,983	$8,327	$5,607	$13,774	$6,363	$7,088
Current Tax Rate	%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Pre-Tax DTL	$m	$24,577	$40,443	$40,263	$29,180	$29,157	$25,023	$14,237	$23,791	$16,020	$39,354	$18,180	$20,251
New Tax Rate	%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Reevaluate DTL Balance	$m	$4,915	$8,089	$8,053	$5,836	$5,831	$5,005	$2,847	$4,758	$3,204	$7,871	$3,636	$4,050
Refund to Rate Payers	$m	$3,687	$6,066	$6,039	$4,377	$4,374	$3,753	$2,136	$3,569	$2,403	$5,903	$2,727	$3,038
Average Asset Life	yr	30	30	30	30	30	30	30	30	30	30	30	30
Ann. Cash Impact of DTL Reevaluation	$m	($123)	($202)	($201)	($146)	($146)	($125)	($71)	($119)	($80)	($197)	($91)	($101)

Source: Citi Research

DTL balance reflects 2016 10k DTL related to PP&E. Citi assumption of 30 year asset life.

Appendix A-1

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Equities

UNITED STATES

EXC US Outperform

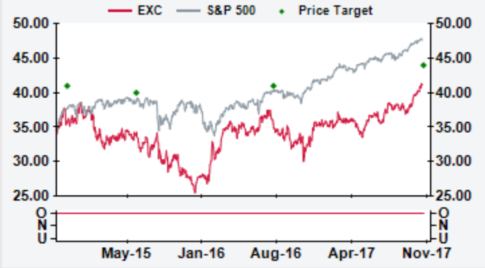
Price (at 23:00, 11 Nov 2017 GMT) US$41.14

Valuation - PER	**US$**	**44.00**
12-month target	**US$**	**44.00**
12-month TSR	**%**	**+10.2**
GICS sector		**Utilities**
Market cap	**US$m**	**39,498**
30-day avg turnover	**US$m**	**169.1**
Number shares on issue	**m**	**960.1**

Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
EPS adj	US$	2.68	2.65	2.90	2.88
PER adj	x	15.3	15.5	14.2	14.3
Total DPS	US$	1.26	1.30	1.34	1.38
Total div yield	%	3.1	3.1	3.3	3.4

EXC US vs S&P 500, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Capital (USA), November 2017

(all figures in USD unless noted)

Exelon Corp

Still a value name, despite recent strength

Event

- EXC remains our top pick for diversified utilities given its attractive valuation and upside to estimates for both regulated utilities and merchant power.
- We met with EXC's management during the EEI conference in Orlando.

Impact

- **Strong utility growth with upside potential:** EXC expects a 6-8% EPS CAGR through 2020 for its regulated utilities less parent. The growth is a function of a 6.5% rate base CAGR and improving realized ROEs for Pepco (PHI). Out of the US$9bn rate base growth for EXC's regulated utilities between 2017 and 2020, ~75% will be recovered through formula rates and/or tracker mechanisms. While the company has kept its regulated earnings ranges unchanged through 2020, PHI seems to be improving its realized ROEs slightly faster than originally expected. We also see upside to EXC's regulated utility capex along with grid modernization initiatives, especially outside of IL.
- **Regulatory support for ExGen:** Forward power/gas curves look undeniably weak, but we are encouraged by growing state and federal support for baseload power plants such as EXC's nukes. Last week, FERC Commissioner Chatterjee mentioned that the Commission won't delay its response to the DOE NOPR. FERC seems likely to endorse a temporary support for the most challenged coal/ nuclear assets, before regional power markets (PJM in particular) implement their price formation reforms. While ExGen is unlikely to benefit from this interim step (with the Three Mile Island nuke in PA still likely to close, in our opinion), the FERC ruling by December 12 should instruct PJM to implement power market changes by the summer of 2018. Our earnings estimates do not reflect this likely benefit to ExGen's fleet, which could exceed US$400m (EBITDA) on an annualized basis. That could provide an almost 20% increase in our 2020 EBITDA estimate for ExGen, though we recognize that the pick-up in energy prices could weigh on future capacity prices in PJM. Separately, we have not given up on some legislative support for PEG's and EXC's nukes in NJ, though a proposed change in the Speaker of the NJ Assembly could delay the process.

Earnings and target price revision

- We have updated our earnings estimates to reflect a delay in IL ZECs from 2017 to 2018, changes in forward power/gas curves, lower O&M expenses at ExGen, and lower retail volumes at Constellation. Our new '17/'18/'19/'20 EPS estimates are US$2.65/2.90/2.88/2.78 vs. US$2.70/2.85/2.82/2.64, respectively. We have raised our TP to US$44 (from US$41) in recognition of higher projected earnings and meaningful upside potential to both regulated earnings and merchant power results. Please review our SOP valuations based on base and upside cases (Figs. 1 and 2).

Price catalyst

- 12-month price target: US$44.00 based on a Sum of Parts methodology.
- Catalyst: FERC's response to DOE's NOPR (December 12th); potential state support for nuclear plants in NJ (December/January).

Action and recommendation

- We reiterate our Outperform rating.

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13 November 2017
Macquarie Capital (USA) Inc.

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Fig 1 EXC: 2020 sum-of-the-parts valuation (base case)

Exelon Generation			**Multiple**	
	2020 EBITDA (US$m)	2,261	7.0x	15,826
	2020 Net debt (US$m)			-6,086
ExGen value per share (US$)				**10.04**
Exelon Utilities (US$)	2020 EPS (US$)	2.11	17.4x	**36.75**
Parent drag (US$)	2020 EPS (US$)	-0.20	17.4x	**-3.57**
Exelon valuation per share (US$)				**43.22**

Source: Macquarie Capital (USA), November 2017

Fig 2 EXC: 2020 sum-of-the-parts valuation (upside case includes ($135*$3/MWh) in annualized PJM upside starting in 2019)

Exelon Generation			**Multiple**	
	2020 EBITDA (US$m)	2,666	6.5x	17,329
	2020 Net debt (US$m)			-5,479
ExGen value per share (US$)				**12.22**
Exelon Utilities (US$)	2020 EPS (US$)	2.11	17.4x	**36.75**
Parent drag (US$)	2020 EPS (US$)	-0.20	17.4x	**-3.57**
Exelon valuation per share (US$)				**45.40**

Source: Macquarie Capital (USA), November 2017

Fig 3 EXC: EPS breakdown by segment (US$)

	2016	**2017E**	**2018E**	**2019E**	**2020E**
Regulated utilities	$ 1.61	$ 1.76	$ 1.86	$ 1.97	$ 2.11
Parent	$ (0.20)	$ (0.15)	$ (0.20)	$ (0.20)	$ (0.20)
ExGen	$ 1.27	$ 1.04	$ 1.24	$ 1.10	$ 0.88
Total EPS	**$ 2.67**	**$ 2.65**	**$ 2.90**	**$ 2.88**	**$ 2.78**
DPS	**$ 1.26**	**$ 1.30**	**$ 1.34**	**$ 1.38**	**$ 1.42**

Source: FactSet, Macquarie Capital (USA), November 2017

Fig 4 EXC: Financial projections (US$m except per share data)

	2016	2017E	2018E	2019E	2019E
Sales	31,905	32,365	32,684	32,601	32,534
Operating expenses	27,041	26,892	26,811	26,907	26,889
EBITDA	8,096	8,823	9,272	9,252	9,187
Depreciation	3,232	3,350	3,399	3,559	3,542
Operational EBIT	4,864	5,473	5,872	5,693	5,645
Net interest expense	(1,383)	(1,742)	(1,704)	(1,677)	(1,712)
Ordinary Profit Before Tax	3,787	3,932	4,369	4,216	4,132
Income tax	(1,299)	(1,414)	(1,562)	(1,434)	(1,435)
Net profit	2,488	2,518	2,807	2,782	2,697
S/O (m)	**927**	**949**	**967**	**970**	**970**
EPS	**$2.68**	**$2.65**	**$2.90**	**$2.88**	**$2.78**
Current assets	8,971	9,073	9,134	9,127	9,130
Property, plant, and equipment	59,774	62,799	64,875	66,791	68,723
Total assets	**92,452**	**95,954**	**98,465**	**100,747**	**103,057**
Current liabilities	7,076	7,141	7,168	7,176	7,112
Long-term debt	20,349	22,144	23,165	24,044	24,972
Shareholders' equity	33,531	34,573	35,435	36,230	37,075
Total liabilities and equity	**92,452**	**95,954**	**98,465**	**100,747**	**103,057**
Net income	2,488	2,518	2,807	2,782	2,697
Operating cashflow	5,924	6,430	6,772	6,957	6,947
Investing cashflow	(6,975)	(6,375)	(5,475)	(5,475)	(5,475)
Dividends paid	(1,160)	(1,226)	(1,292)	(1,334)	(1,374)
Financing cashflow	1,051	(55)	(1,297)	(1,482)	(1,472)
Cash at end of period	700	700	700	700	700

Source: FactSet, Macquarie Capital (USA), November 2017

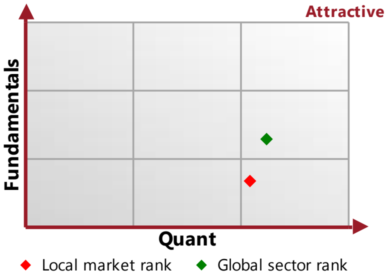
Macquarie Quant View

The quant model currently holds a reasonably positive view on Exelon Corp. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Quality, indicating this stock is likely to have a weaker and less stable underlying earnings stream.

111/435

Global rank in Utilities

% of BUY recommendations	79% (15/19)
Number of Price Target downgrades	0
Number of Price Target upgrades	10

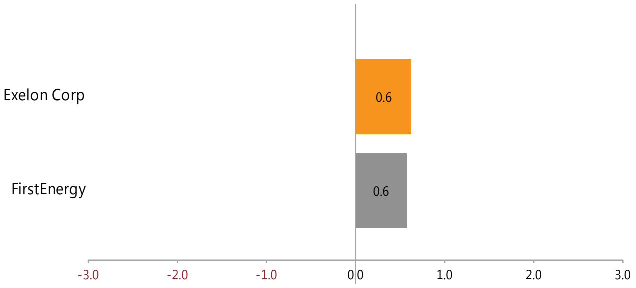


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (United States) and Global sector (Utilities)

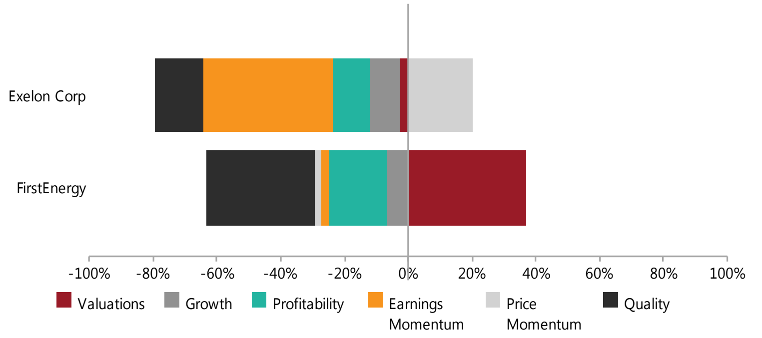
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



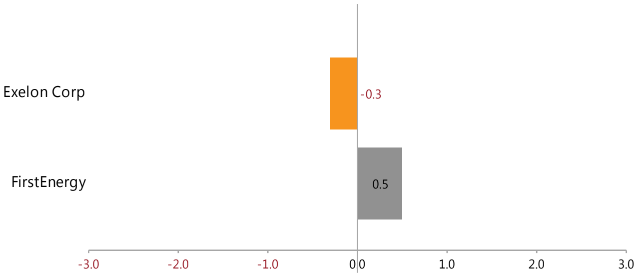
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



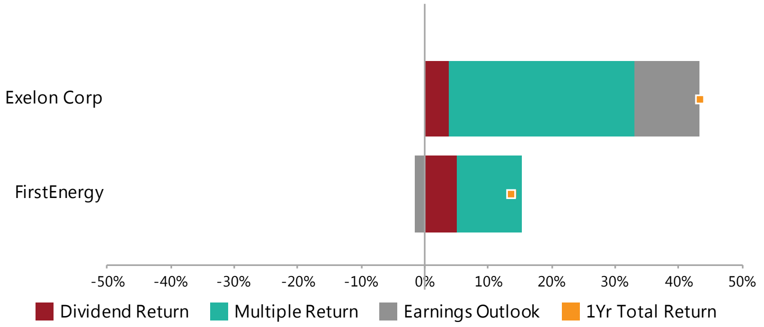
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



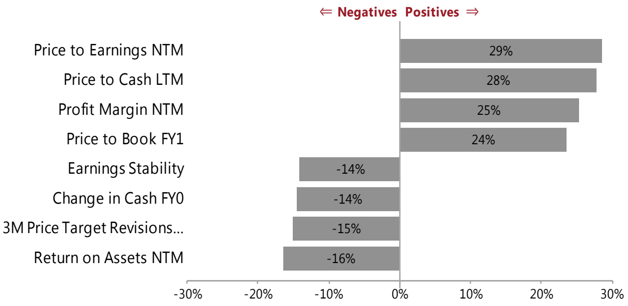
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



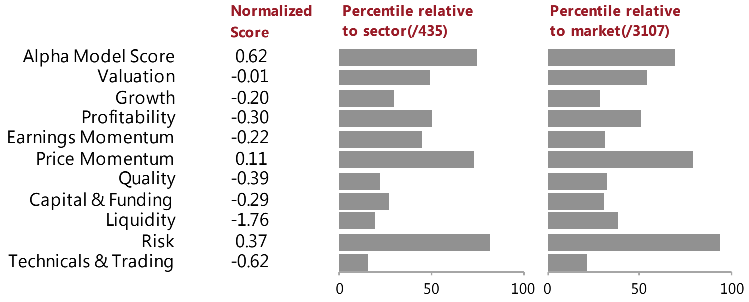
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

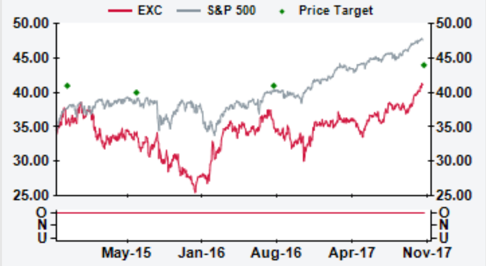
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.38%	56.22%	40.70%	46.21%	63.85%	41.61%	(for global coverage by Macquarie, 4.18% of stocks followed are investment banking clients)
Neutral	37.50%	28.16%	43.02%	47.52%	30.00%	39.51%	(for global coverage by Macquarie, 2.68% of stocks followed are investment banking clients)
Underperform	12.12%	15.62%	16.28%	6.27%	6.15%	18.88%	(for global coverage by Macquarie, 1.08% of stocks followed are investment banking clients)

EXC US vs S&P 500, & rec history



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Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Capital (USA), November 2017

12-month target price methodology

EXC US: US$44.00 based on a Sum of Parts methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
11-Aug-2016	EXC US	Outperform	US$41.00
17-Jun-2015	EXC US	Outperform	US$40.00
17-Nov-2014	EXC US	Outperform	US$41.00

Target price risk disclosures:
EXC US: Our US$44 price target is based on our ’19 SOP valuation which includes base case merchant power projections and upside case projections for the PJM power market (proposed price formation reform). Risks include the upside to PJM power prices, forward power/gas prices as well as capacity prices in PJM, as well as the outcome of regulatory rate cases for EXC's regulated utilities.

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16 November 2017
Americas/United States
Equity Research
Electric Utilities

Exelon Corporation (EXC)

COMMENT

Reaffirm PJM Energy Reform Uplift

Rating	**OUTPERFORM**
Price (15-Nov-17, US$)	41.77
Target price (US$)	43.00
52-week price range (US$)	42.39 - 31.49
Market cap(US$ m)	38,669

Target price is for 12 months.

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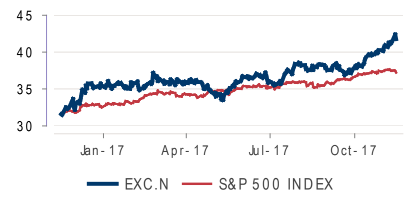
- **Our Take: Following the release of PJM's proposal for energy market reform, we are reaffirming our optimism on the potential energy gross margin uplift for EXC under the extended LMP framework.** We are maintaining our $43 TP for EXC with an Outperform rating. As noted in our 9/7 note "Highlighting Potential from Energy Reforms", our valuation for EXC reflects partial credit given to the potential uplift in energy gross margin that the company now expects to be effective in PJM in mid-2018 where the energy market would be restructured to provide more support for 'inflexible' baseload generation.
- **PJM making progress toward an improved energy market** with its proposed enhancements to energy price formation report released on Nov 15th. Besides providing more details and supports for an energy market where prices reflect more accurately the real costs of serving load, PJM's proposal also presents the simulation impacts of the new rules on energy and capacity prices. PJM's simulation results suggest that the total payment increases by 2%-5% with the uplift in energy price partially offset by lower capacity prices.
- PJM's simulated $3.60 higher energy pricing minus some reduced capacity revenue is consistent with our prior estimate of $1-$4 around-the-clock uplift that could add about $200m-$400m EBITDA to EXC, or $0.15-$0.25 in EPS. We assign 50% credit to that outcome which adds $1 to our $43 target price. Implementation of PJM's proposal would add an incremental $1 to our valuation. We continue to see energy price reforms as among the most investable themes in the space now (see our most recent weekly note for more commentary – 11/10 Things We've Learned This Week).

Share price performance



On 15-Nov-2017 the S&P 500 INDEX closed at 2564.62
Daily Nov15, 2016 - Nov15, 2017, 11/15/16 = US$32.07

Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2016A	0.68	0.65	0.91	0.44
2017E	0.65	0.54	0.85	0.62
2018E	-	-	-	-

Financial and valuation metrics

Year	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EPS (CS adj.) (US$)	2.68	2.67	3.01	2.84
Prev. EPS (US$)	-	-	-	-
P/E (x)	15.6	15.6	13.9	14.7
P/E rel. (%)	70.9	78.3	77.8	90.5
EBITDA (US$ m)	8,091	8,529	9,087	8,862
EV/EBITDA (current)	9.1	8.6	8.1	8.3
Net debt (US$ m)	35,278	34,874	34,796	34,342
FFO/Interest	4.1	4.0	4.7	4.7
FFO/Total Debt	0.16	0.17	0.18	0.18

Number of shares (m)	926	BV/Share (Next Qtr., US$)	29
Net debt (Next Qtr., US$ m)	34,874	Dividend (current, US$)	1.4
Net debt/tot eq (Next Qtr., %)	114.2	Dividend yield (%)	3.30

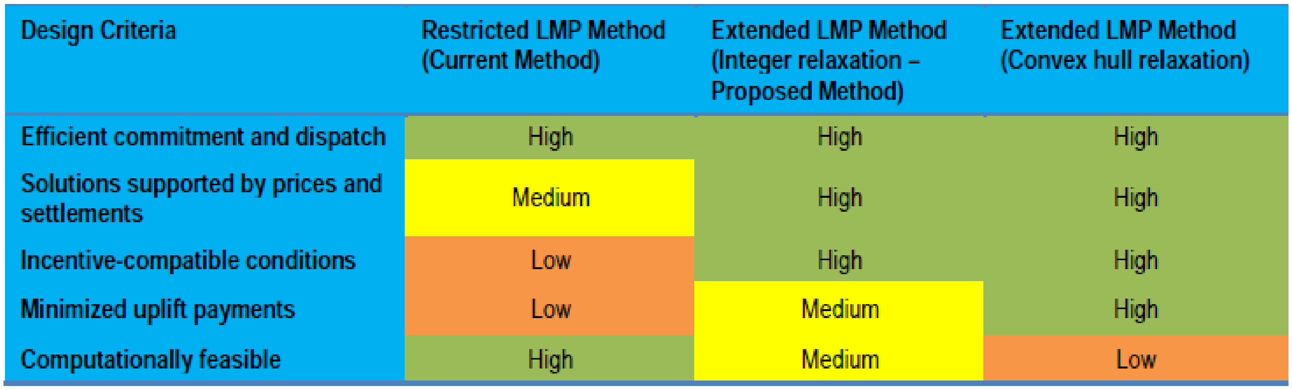
Source: Company data, Thomson Reuters, Credit Suisse estimates

- **Improved energy prices with an extended LMP method similar to what was implemented in MISO in 2015.** Essentially, PJM's proposal would allow needed, but "inflexible" units to set marginal pricing without the current problem of reducing LMP to zero by flooding a node with unnecessary MWs that these units can't turn off. This problem has always required undesirable uplift payments that have distorted the market and reduced the incentive to build more flexible units. In recent commentary, PJM had been criticized for considering a new marginal price calculation method called "convex hull relaxation" because it is widely considered too computationally complex to implement practically (but would allow inflexible units to set appropriately higher marginal pricing). However, PJM has instead opted to go with an easier approximation of the method called "integer relaxation", which essentially means allowing an inflexible unit to set marginal pricing using only a portion of its supply (i.e., less than 100% or an integer less than 1) (Figure 1).

  Furthermore, PJM is continuing to consider compensation schemes to incent more "load following" generation that would, over time, reduce the system's dependence on inflexible units in the first place.

  PJM is also proposing compensation for a new 30-minute reserve service in order to reduce/eliminate current shortage conditions that may occur with 10-minute reserves.

Figure 1: Alternative LMP Pricing Methods



Design Criteria	Restricted LMP Method (Current Method)	Extended LMP Method (Integer relaxation – Proposed Method)	Extended LMP Method (Convex hull relaxation)
Efficient commitment and dispatch	High	High	High
Solutions supported by prices and settlements	Medium	High	High
Incentive-compatible conditions	Low	High	High
Minimized uplift payments	Low	Medium	High
Computationally feasible	High	Medium	Low

Source: PJM

- **FERC contemplating interim measures to support at-risk coal and nuclear**. In an interview with Utility Dive, the FERC acting chairman, Nell Chatterjee, indicated that FERC is looking at short-term solution, i.e. a Section 206 order under the Federal Power Act, which will direct ISOs/ RTOs to provide temporary relief for power plants that are at risk of retiring before FERC can fully evaluate the DOE's NOPR and reaches a longer-term solution for reliability and resiliency.
- **DOE playing defense following backlash.** Following widespread criticism and pushback from energy industry associations, FERC itself, industrial energy consumers and many others, Energy Secretary Perry defended his agency's Notice of Proposed Rulemaking (NOPR). Secretary Perry responded to the criticism by dismissing concerns over market impact, stating "there is no free market in the energy industry". On Oct. 10th, a revised proposal was filed, such that the cost recover rule would only apply to power plants in regions with active "energy and capacity markets".

  The House Energy and Commerce subcommittee vice chairman Pete Olson (R-TX) noted FERC Commissioner Powelson's comments and expressed concern that the proposal would hurt consumers, driving up power prices by "picking winners and losers" for power generation. An analysis by consultancy ICF estimated the DOE proposal would cost ratepayers $800M to $3.8M annually through 2030.

During testimony before the subcommittee on Oct. 12th, Secretary Perry further defended his plan stating costs are "secondary to ensuring grid resiliency" in emergencies. One question the secretary faced was whether it would be more effective to improve grid infrastructure rather than to support specific types of generation, citing a Rhodium study that showed only 0.0007% of major electricity disruptions from 2012-2016 were a result of fuel supply problems. Secretary Perry stated that although the DOE has not considered "better options" and that his proposal is not the "be all, end all" but rather a way of "getting the conversation going."

- ***From our 10/6 weekly*: FERC, industry push back on DoE.** As we noted in our ***9/29 note: DoE Gets Pushy,*** the US DoE proposed rulemaking to fast-track support for unregulated coal and nuclear baseload has proven highly controversial and unlikely to alter an ongoing energy market reform process expected to play out over the next 12-18 months (see our 9/7 note). Fourteen energy industry associations filed a motion with FERC to extend deadlines, stating that "all [industry experts] demonstrate that no emergency exists that would justify such an action." Furthermore, on Oct. 4th, FERC Commissioner Powelson stated that FERC "will not destroy the marketplace", while emphasizing FERC's status as an independent agency: "FERC does not do politics." Commissioner LaFleur endorsed these views.
- ***From our 8/27 weekly*: As expected, DOE Grid Reliability Report supports baseload coal and nuclear. Next step: FERC changes to energy market structures.** On August 23, the DOE issued its long-awaited grid reliability study. Recall that back in April, Energy Secretary Perry ordered DOE staff to conduct a study evaluating the reliability of the nation's electric grid, pertaining to his concerns regarding closures of baseload power plants, particularly coal and nuclear. He had also warned that the DOE would overrule state renewable energy policies (such as renewable mandates) on the grounds of national security if reliability was found to be threatened. However, the study found that persistently low natural gas prices to be the greatest driver of baseload power plant retirements, followed by flat power demand, with increased costs from environmental regulations and the additions of renewables to the grid as lesser drivers. In addition, the study concluded that renewables are not a threat to grid reliability to the surprise of many utility and developer executives and other analysts. Many utility executives had feared that the study might preempt state policies, particularly hard-won financial supports for struggling nuclear fleets if the opposite conclusion had been reached. However, the study concluded that "ultimately, the continued closure of traditional baseload power plants calls for a comprehensive strategy for long-term reliability and resilience." **Perhaps most important**, the study also suggested that existing market designs may not be able to address further challenges in the future and **recommended that FERC expedite its study of wholesale power market structures** to improve energy price formation and create fuel-neutral markets that compensate attributes that boost grid reliability. The DOE also encouraged the EPA "to allow coal-fired power plants to improve efficiency and reliability without triggering new regulatory approvals and associated costs" as well as target an R&D portfolio to help those plants boost efficiency and that federal agencies accelerate and cut the costs of permitting for grid infrastructure for nuclear, hydropower, and coal generation.

Companies Mentioned *(Price as of 15-Nov-2017)*
Exelon Corporation (EXC.N, $41.77, OUTPERFORM, TP $43.0)

Disclosure Appendix

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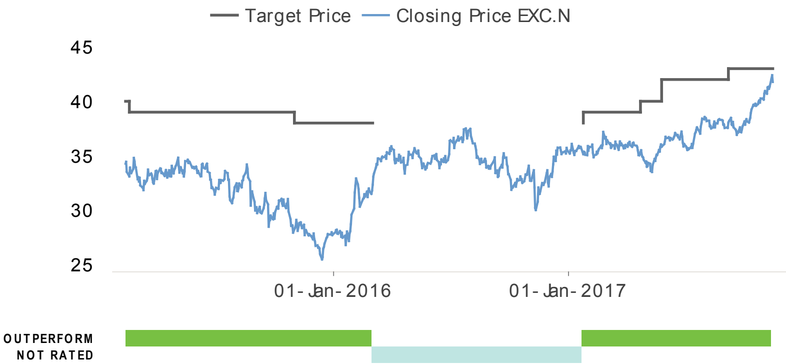
EXC.N Date	Closing Price (US$)	Target Price (US$)	Rating
11-Feb-15	34.26	40.00	O
17-Feb-15	33.09	39.00	
01-Nov-15	27.92	38.00	
02-Mar-16	32.32		NR
24-Jan-17	35.13	39.00	O *
23-Apr-17	35.03	40.00	
26-May-17	35.82	42.00	
07-Sep-17	38.03	43.00	

** Asterisk signifies initiation or assumption of coverage.*



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Target Price and Rating
Valuation Methodology and Risks: (12 months) for Exelon Corporation (EXC.N)

Method: Our $43 target price and Outperform rating for EXC are based on a sum of the parts. To value the utilities we use a peer average 2019 P/E multiple of 17.5x discounted to reflect the respective risks at each of the utilities. To value the generation business we apply a 7.5x EV/EBITDA multiple under our embedded power price scenarios. The values of ZECs and capacity payments are removed from EBITDA estimates and valued separately. We rate EXC Outperform as we forecast its total return to exceed the group average.

Risk: Risks to our $43 target price and Outperform rating for EXC are 1) regulatory risk--PHI ratecase risk, 2) legislative risk, 3) commodity and power and capacity price risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk, 7) weather risk, 8) environmental and climate change risk, and 9) physical infrastructure and cybersecurity risk.

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Thursday, November 16, 2017
Americas / United States
Equity Research
Global Product Marketing

LAST EDITION – U.S.

U.S. MARKET OVERVIEW

US markets started firmer following positive macros. Major averages continued to trade at elevated levels throughout the session before closing broadly firmer. Crude declined while gold remained flat. Consumer goods sector led the pack.

SELECTED U.S. EQUITY RESEARCH

Exelon Corporation (EXC)	**OUTPERFORM**		**M. Weinstein**
CP: US$ 41.77	**TP: US$ 43**	**CAP: US$ 38669.1m**	**212 325 0897**

Reaffirm PJM Energy Reform Uplift

- Our Take: Following the release of PJM's proposal for energy market reform, we are reaffirming our optimism on the potential energy gross margin uplift for EXC under the extended LMP framework. We are maintaining our $43 TP for EXC with an Outperform rating. As noted in our 9/7 note "Highlighting Potential from Energy Reforms", our valuation for EXC reflects partial credit given to the potential uplift in energy gross margin that the company now expects to be effective in PJM in mid-2018 where the energy market would be restructured to provide more support for 'inflexible' baseload generation.
- PJM making progress toward an improved energy market with its proposed enhancements to energy price formation report released on Nov 15th. Besides providing more details and supports for an energy market where prices reflect more accurately the real costs of serving load, PJM's proposal also presents the simulation impacts of the new rules on energy and capacity prices. PJM's simulation results suggest that the total payment increases by 2%-5% with the uplift in energy price partially offset by lower capacity prices.
- PJM's simulated $3.60 higher energy pricing minus some reduced capacity revenue is consistent with our prior estimate of $1-$4 around-the-clock uplift that could add about $200m-$400m EBITDA to EXC, or $0.15-$0.25 in EPS. We assign 50% credit to that outcome which adds $1 to our $43 target price. Implementation of PJM's proposal would add an incremental $1 to our valuation. We continue to see energy price reforms as among the most investable themes in the space now (see our most recent weekly note for more commentary - 11/10 Things We've Learned This Week).

[Full Note]

Synchrony Financial (SYF)	**OUTPERFORM**		**M. Orenbuch**
CP: US$ 32.53	**TP: US$ 41**	**CAP: US$ 25457.7m**	**212 538 6795**

Acquisition Of Paypal's Portfolio: Will Add To EPS In 2019, Increase Price Target To $41 (from $39); Lowering Estimates

- Earlier today, it was announced that SYF is going to acquire $6.8 Bn in receivables (link), which consist of Paypal's U.S. consumer credit receivables portfolio (currently $5.8 Bn and will include loans originated between now and closing) and participation interests in receivables held by third parties ($1 Bn). Transaction is expected to close in 3Q18. At closing, SYF will also become the sole underwriter of Paypal online consumer financing program in the U.S. for 10 years - SYF had previously managed the Paypal credit card program. Paypal will also become one of the top 5 retail partners at SYF at closing (we believe most likely will replace Gap). The company also noted that ROA from this portfolio acquisition (adjusted for initial allowance build, pre-funding and onboarding costs) is consistent with the existing business. Given that e-retailers segment of the retail card business has been growing almost twice as fast as the overall SYF's business and our expectation that at closing the portfolio acquired will account for more than 7% of existing receivables base, we believe the transaction will be ~5-6% accretive to SYF 2019 EPS (we expect some catch up reserve build for the acquired portfolio in 2019) and 8-9% thereafter.
- Investment conclusion. Post today's announcement, we adjust our estimates accordingly to reflect initial up-front costs, catch up reserve build as well as accretion to loan balance starting from 3Q18 due to the acquired portfolio. We lower our 2017/2018 EPS to $2.62/$3.04 (old: $2.65/$3.28). We raise our target price to $41 (old: $39), implying shares can trade at ~13x our 2018 estimate. Risks to our estimates include higher reserve build and worse credit quality than our estimates.

[Full Note]

Best Buy (BBY) **NEUTRAL** **S. Sigman**
CP: US$ 57.30 **TP: US$ 60** **CAP: US$ 17143.3m** **212 538 8043**

Good Underlying Trends, but Sentiment Battle to Continue; Lowering Estimates Slightly

- BBY's Q3 included in line sales, but slightly lower EPS (adjusted for the tax benefit), and lower EPS guidance for Q4, sending the stock down today. The underlying trend actually appears healthy and there is the potential for upside to Q4, as we discuss below. But, a few factors keep us on the sidelines; First, the market had already expected comps upside in Q4 vs. prior guidance; Second, the stock tends to not trade well into year-end; Third, there are difficult product and market share comparisons ahead; Fourth we don't see the same level of upward EPS revisions over the next twelve months - that had served as the catalyst for valuation and stock upside this past year. Trimming '17 EPS to $3.98 from $4.04/ '18 to 4.27 from $4.29.
- EPS for Q3 was in line at $0.78 (+29% y/y), with a ~$0.02 benefit from a lower tax rate vs. consensus, while comps were in line (US +4.5%, in line with expectations). Excluding that, EPS would have come in lower, though it was also negatively impacted by -140 bps impact to comps from shift in mobile and hurricane (-120 bps mobile = ~$0.03 by our math, and 15-20 bps hurricane = $0.03). Gross margin was slightly lower, partially offset by SG&A.
- Guidance for Q4 is below at $1.98-1.99 vs CS $2.02/ consensus $2.03; Comps guidance is in line (+1-3% vs. 1.8% expectations), but EPS guidance comes in lower due to investments, lower profit share ($0.04) which didn't seem fully accounted for in consensus, and a net -$0.02 from tax rate/ share count (-$0.04 from tax rate, partially offset by +$0.02 from shares).
- BBY will need to deliver upside Q4; Comps guidance of 1-3%, on top of -0.9% in 4Q16 (and -1.7% in 4Q15), implies a sharp deceleration on a one, two and three year basis. Further, guidance implies minimal growth in the base business, assuming it recoups some lost sales from a year ago (~$350 mn) and from Q3 ($100 mn). That seems conservative based on trends in other categories (comps +5.3% ex mobile/computing, accelerating from Q2).

[Full Note]

Spire Inc. (SR) **NEUTRAL** **M. Weinstein**
CP: US$ 78.20 **TP: US$ 77** **CAP: US$ 3774.1m** **212 325 0897**

Moving Along in Missouri; Raising Target Price to $77 (from $73)

- Our Take: SR delivered a good quarter reporting 4FQ17 EPS of -$0.22 vs cons. -$0.26 or FY17 at $3.57 vs guidance of $3.50-$3.60. Management reiterated LT annual earnings growth target of 4% - 6% and expects to provide formal FY2018 earnings guidance following the completion of the MO ratecase (likely ~2FQ18). SR continues to make progress on its STL pipeline and reaffirmed its 5-year capex plan of $2.3B for 2017-2021. Maintain Neutral rating and raise our TP to $77 (from $73) to reflect a higher 2019 P/E multiple.
- STL pipeline on track with a target in-service date in FY19 (Nov 2018). The total investment on the pipeline remains at $190M-210M. During the quarter (Sep 29th), STL received a favorable environmental assessment from FERC while final approval is still expected by calendar year-end 2017.
- MO ratecase progressing toward public hearings in Dec 2017. SR filed its true-up testimony in late October reflecting a higher ratebase of $2.1B vs $2B previously and a lower equity ratio of 54% (from 57%) due to the $170M first mortgage bond issuance in mid-Sep. Discussions are underway for various parties in the case to clarify their positions and identify common grounds with more updates on this process to come in Jan/ Feb 2018. Our estimates are currently based on $2.1B of ratebase at a 9.75% ROE (vs 9.25% for Staff) and 54% equity.
- RSE filings made with the APSC on Oct 28th to present the FY18 budgets for Spire Alabama and Spire Gulf. The filings are being reviewed with new rates expected to be effective Dec 1st.
- Estimates and Valuation. Our estimates for 2018-20 remain at $3.72, $3.89, and $4.07 respectively. Our TP increased $4 to $77 reflecting a higher 2019 P/E multiple. Risks include ROE risk related to the upcoming Missouri General Rate Case at Laclede Gas and MGE.

[Full Note]

NOW Inc. (DNOW) **NEUTRAL** **A. Buscaglia**
CP: US$ 10.25 **TP: US$ 12** **CAP: US$ 1105m** **212 325 5870**

CFO Transitioning Roles

- CFO Molinaro Transitioning Roles; New CFO Announced: DNOW announced today its current CFO, Dan Molinaro, will transition to a new role as Executive VP assisting with treasury, investor relations and employee benefits matters, effective February 16, 2018. David Cherechinsky, currently VP - Corporate Controller and Chief Accounting Officer, will succeed Mr. Molinaro as of the effective date. Mr. Molinaro has been DNOW's CFO since the company's spin-off from National Oilwell Varco (NOV) in May 2014 and had a very impressive fifty years of combined experience with DNOW and NOV, having served most recently at NOV as VP and Treasurer. We wish Mr. Molinaro all the best in his new role.
- New CFO Background: David Cherechinsky brings a wealth of experience to the CFO role and has been serving as DNOW's Chief Accounting Officer since the spin-off in May 2014. Prior to the spin-off, Mr. Cherechinsky served a number of roles at NOV, most recently as Senior VP - Finance for NOV's Distribution & Transmission business segment. He has 28 years of combined experience with DNOW/NOV, having started with NOV in January 1989.

[Full Note]

Scorpio Tankers Inc. (STNG)	**OUTPERFORM [V]**		**G. Lewis**
CP: US$ 3.39	**TP: US$ 6**	**CAP: US$ 949.9m**	**212 325 6418**

Lackluster Rates Point To A Challenging Q4; Lowering Estimates and Target Price to $6 (from $7)

- No Surprises. As expected Q3 earnings were worse than Q2 with STNG posting an adjusted EPS loss of $0.15 below Consensus/CS (-$0.12). STNG's LR2 and MR fleets both averaged $13k/d in Q3 which was expected given management guided to 90% of its Q3 MR days booked at ~$13k/d and 87% of its Q3 LR2 days booked at ~$14k/d. With Q4 booked days looking a lot like Q3 we expect STNG to post another loss in Q4. We lower our 2017 EPS estimate to a -$0.41 (from -$0.18), below consensus of -$0.27. We are lowering our 2018 EPS estimates to $0.80 (from $0.91). We maintain our Outperform, but lower our TP to $6 (from $7) which is 8x our 2018 EBITDA. Risks include oil prices, ton-miles, and refinery disruptions.
- Stuck in the Mud. Product tanker rates continue to disappoint with MR rates averaging roughly $11-12k/d QTD in-line with both the Q3 and YTD average. LR2s have shown some positive momentum averaging $14k/d QTD up from $13k/d in Q3 and the YTD average of $12k/d. STNG has already booked 55% of its MR days at $11.8k/d and 60% of its LR2 at $16.5k/d for Q4 versus current MR/LR2 rates at $13k/$12k/d. Q4 looks like another throw away.
- Going Big. Post the Navig8 acquisition which closed in September, STNG has a balanced fleet with 57 Handy/MRs and 50 LR1/LR2s. We expect STNG to generate roughly 55% of 2018 revenues with its LR fleet and 45% from its Handy/MR fleet. We like the tilt towards larger vessels given our expectation of increasing ton-miles as more product volumes flow to Asia from both Middle East and the Atlantic basin.
- Balance Sheet. Net Debt stands at $2.6B with cash at $207M (including restricted cash), up from $1.7B in net in Q2 due to the Navig8 acquisition. Net debt to capital is 59% (51% in Q2). Post Navig8 we expect STNG to focus on paying down debt in the near/medium term. We expect net debt to EBITDA to finish 2018 at 4x (down from 7x following the Navig8 acquisition).

[Full Note]

Oilfield Services & Equipment	**J. Wicklund**
Things We've Learned This Week	**214 979 4111**

- Don't Count Your Chickens. On Wednesday, Reuters reported SLB said Ecuador's ministry of finance failed to make a $350M payment (of $850M owed) to SLB. Unfortunately, this follows heightened investor scrutiny of SLB's SPM business and the company's comments on the 3Q17 call that resolution of the "current and future payment situation in Ecuador" pointed to the company's improving ability to manage counterparty risk. We think this latest development will add fuel to the fire of investor consternation over the risk profile of SLB's growing SPM business.
- Downgrade. Following its Q3 results and profit warning, we downgraded TRE.MC to Underperform on November 10. Although the multiples may screen cheap and such warnings have often provided decent entry points to TRE.MC in the past, we see fundamentals undermined. In particular, we are concerned that should the financial close at Duqm and Sitra slip meaningfully to the right, the revised guidance may turn out to be optimistic. Until TRE returns to positive operational momentum, we think the marginal buyer may be hard to attract. We discuss this and more in the note: TRE: 2018 has a project gap.
- Next Stop-Offshore Mexico. A total of 29 operators have started or completed the pre-qualification process for the upcoming offshore bidding round in Mexico, Round 2.4, which will be held on January 31, 2018. Operators undergoing the prequalification process include: BP, BHP, CVX, XOM, STO, TOT, HES, RDS, and Repsol. Given the high interest in the auction, the Mexico National Hydrocarbons Commission (CNH) pushed out several prequalification deadlines by ~2 weeks. The prequalification deadline is currently set for December 18 with the final list of participants set to be released on December 21. Following the recent offshore bidding round in Brazil (see our note Gradually Awakening the Giant for more) Mexico will be the next offshore bidding round in focus.
- Maersk Saga Continues. Maersk appears to be on track to exit offshore drilling with the Maersk parent company (AP Moeller Maersk) classifying the drilling business as discontinued operations aiming to have a long-term solution for the business within the next 12 months. The drilling business is one of three that Maersk classified as discontinued operators along with the Tanker business (sold to Maersk family) and the Maersk oil businesses. On the 3Q17 earnings call, management declined to comment on the potential for a deal with RDC. We believe the easiest path, and there is no easy path given the size of Maersk, would be to cut the drilling business up into two or three pieces. See our note Offshore Drillers: More Shoes to Drop for more.

[Full Note]

Healthcare	**A. Rice**
ACA Enrollment Tracker; Week 2: Exchange Enrollment Tops Last OEPs Comparable Period	**212 325 8134**

- Launching ACA Enrollment Tracker. We are launching our ACA enrollment tracker for the 2018 open enrollment period. This report evaluates the enrollment data released by CMS for the ACA market.
- Cumulative 2018 Exchange Enrollment at Roughly 1.5 mln. On November 15th, CMS released its Week Two Enrollment Snapshot report. As in past years, enrollment weeks are measured Sunday through Saturday. Recall that last year, CMS released biweekly enrollment reports; however, due to the shortened time frame of this OEP, CMS will be releasing weekly reports. CMS has also not released state-by-state data for FFM thus far. Roughly 876.8K individuals enrolled from Nov 5-11, bringing the total enrollment from Weeks 1-2 to 1.478 mln. By way of background, S&P has projected there will be 10.6-11.4 mln enrollees on public exchanges by the end of 2018 OEP (a 7-13% Y/Y decrease), which would represent a 0.3-1.1 mln increase versus the March 15, 2017 effectuated exchange enrolment of 10.3 mln.
- New Consumers Breakdown. Of the roughly 1.5 mln individuals selecting plans on FFM for the first two weeks of the open enrollment period (OEP), there were 345.7K new consumers and 1.133 mln individuals that renewed coverage. The roughly 23.4% of new plan selections during the first two weeks of 2018 OEP compares to the roughly 24.4% and 34.5% for the first two week period in 2017 OEP and 2016 OEP, respectively.

[Full Note]

All headline prices are as of the previous day's close unless otherwise noted.

Companies Mentioned *(Price as of 16 Nov 17)*
BHP Billiton (BHP.AX, A$27.27, NEUTRAL, TP A$26.5)
BP (BP.L, 491.15p, OUTPERFORM, TP 575.00p)
Best Buy (BBY, US$54.87, NEUTRAL, TP US$60)
Exelon Corporation (EXC, US$41.3, OUTPERFORM, TP US$43)
NOW Inc. (DNOW, US$10.17, NEUTRAL, TP US$12)
National Oilwell Varco (NOV, US$31.69, NEUTRAL, TP US$30)
PayPal Holdings, Inc. (PYPL, US$76.86, OUTPERFORM, TP US$74)
Repsol (REP.MC, €14.89, UNDERPERFORM, TP €14.5)
Royal Dutch Shell plc (RDSa.L, 2,331.00p, OUTPERFORM, TP 2,635.00p)
Schlumberger (SLB, US$61.45, OUTPERFORM, TP US$71)
Scorpio Tankers Inc. (STNG, US$3.34, OUTPERFORM, TP US$6)
Spire Inc. (SR, US$78.45, NEUTRAL, TP US$77)
Synchrony Financial (SYF, US$33.44, OUTPERFORM, TP US$41)
Tecnicas Reunidas (TRE.MC, €23.92, UNDERPERFORM, TP €20)
Total (TOTF.PA, €46.3, NEUTRAL, TP €46)
ExxonMobil Corporation (XOM)
Statoil (STL.OL, Nkr164.00, UNDERPERFORM, TP Nkr140.00)
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Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

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Analyst Notes

ROBO-ANALYST RESEARCH

Closing Price as of 11/17/2017: $41.26
Dividend Yield: 3.2%
Period End Date: 09/30/2017

Exelon Corporation (EXC)

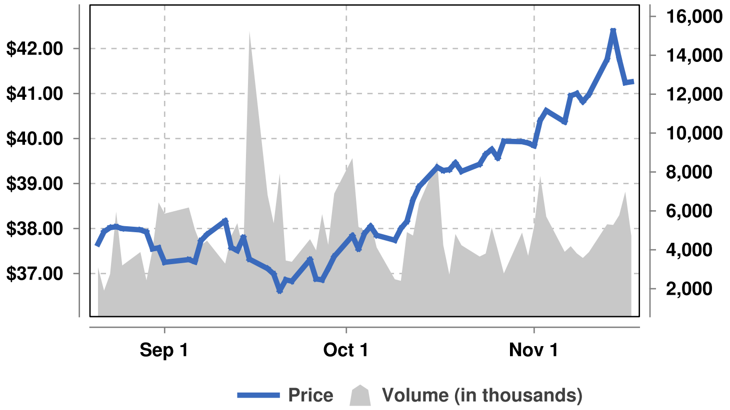
Very Unattractive

NYSE - Utilities

Investment Recommendation

- We strongly recommend investors sell EXC.
- EXC earns our Very Unattractive rating. See Investment Rating Details below.
- A Very Unattractive rating means this stock has far more downside risk than upside potential.
- EXC ranks in the 3rd percentile of the 3000+ stocks we cover.
- Ranks 75th out of 76 Utilities Sector stocks.

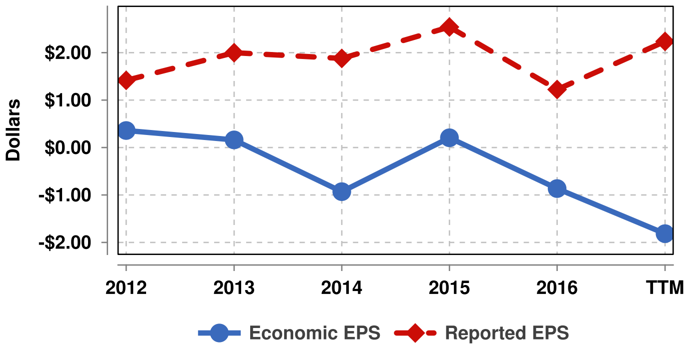
Price 11/17/2017:	$41.26
Economic Book Value per share	$4.73
52-Week Range	$30.45 - $42.67



Investment Rating Details

Risk/Reward Rating	Quality of Earnings: Economic vs Reported EPS	Quality of Earnings: Return on Invested Capital (ROIC)	Valuation: FCF Yield	Valuation: Price-to-EBV Ratio	Valuation: Growth Appreciation Period (yrs)
Very Unattractive	Misleading Trend	Bottom Quintile	<-5%	> 3.5 or -1 < 0	> 50
Unattractive	False Positive	4th Quintile	-5%<-1%	2.4 < 3.5 or < -1	20 < 50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6 < 2.4	10 < 20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	Top Quintile	>10%	0 < 1.1	0 < 3
Actual Values	($1.82) vs. $2.24	2%	-1%	8.7	20
Sector ETF (XLU)	Positive EE	4%	-1%	1.9	6
S&P 500 ETF (SPY)	Positive EE	18%	2%	2.9	32

Accounting vs Economic Earnings



Earnings & Valuation Diligence Summary

- EXC's accounting earnings overstate its economic earnings.
- For EXC, we made 36 income statement and balance sheet adjustments to convert accounting earnings to economic earnings in FY16 for a total value of $30,235 million.
- We made 5 adjustments equal to $64,090 million in our DCF valuation of the stock.
- EXC ranks 2,717 of all the companies we cover for the number of earnings adjustments and 2,729 for the number of valuation adjustments.
- See Appendix 1 for details on our calculations of key metrics and Appendices 2 and 3 for details on our adjustments.

Stock Performance

Year to Date	20.5%
Last 30 Days	5.0%
Last 60 Days	11.2%
Last 90 Days	9.5%
Last Year	35.8%

Key Market Statistics

Enterprise Value (MM)	$103,081
Market Value (MM)	$39,645
EV/EBITDA	10.82
EBV per Share	$4.73
Shares Outstanding (Thousands)	960,852
P/E (TTM)	18.45

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Get More Ratings
Stock Rating Methodology

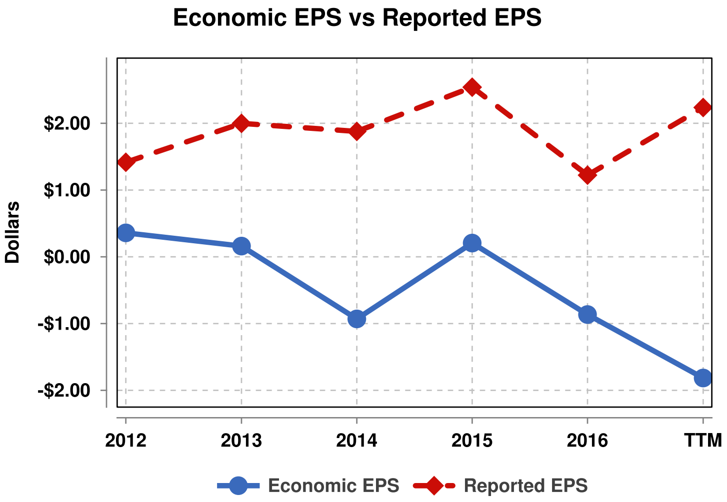
Economic vs Reported Earnings

Economic Earnings are Unattractive

Economic Earnings are almost always meaningfully different than reported earnings. We believe Economic Earnings provide a truer measure of profitability and shareholder value creation than reported earnings because they have been adjusted to remove over twenty accounting distortions.

The majority of data required to reverse accounting distortions is available only in the Footnotes and MD&A, which we analyze rigorously. Our core competency is gathering and analyzing all relevant financial data from filings so that we can deliver earnings analysis that best represents the true profitability of businesses.

Economic Earnings per share (EEPS) for EXC for the trailing twelve months are ($1.82) compared to reported earnings per share of $2.24 and earn an Unattractive rating. See Appendix 1 for a detailed reconciliation.



Return on Invested Capital (ROIC)

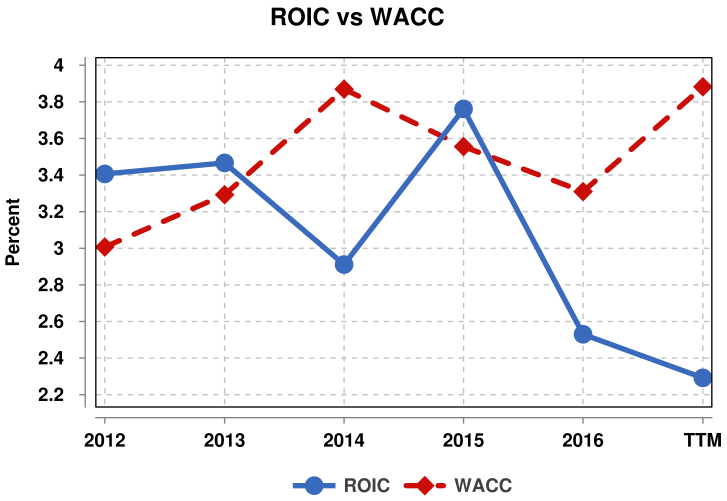
ROIC is Very Unattractive

ROIC measures a company's return on all cash invested in the business. It is the truest measure of profitability. Stock valuations are more highly correlated to ROIC than any other metric.

Weighted-Average Cost of Capital (WACC) is the average of debt and equity capital costs that all publicly traded companies with debt and equity stakeholders incur as a cost of operating.

Companies must earn an ROIC greater than WACC to generate positive economic earnings and create value for shareholders.

EXC's ROIC of 2.3% for the trailing twelve months earns a Very Unattractive rating. ROIC is calculated as NOPAT of $2,639 million divided by Average Invested Capital of $115,166 million. See Appendix 1 for a detailed reconciliation.



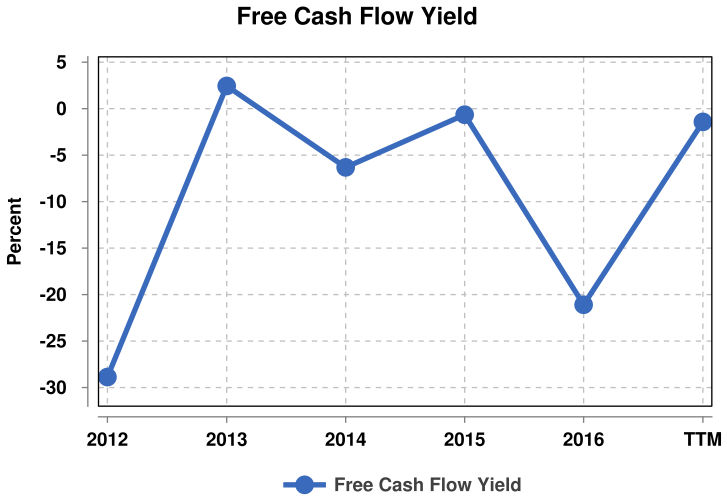
Free Cash Flow Yield (FCF Yield)

Free Cash Flow Yield is Unattractive

Free Cash Flow reflects the amount of cash free for distribution to all stakeholders (including debt & equity). FCF Yield divides free cash flow by enterprise value.

Using Free Cash Flow Yield to pick stocks is not a new strategy. However, our strategy yields superior results because we use a better measure of Free Cash Flow. In the same way our Economic EPS are better measures of profitability than reported EPS, our measure of Free Cash Flow is better than traditional accounting-based Free Cash Flow.

EXC's FCF is ($1,466) million for the trailing twelve months and its current Enterprise Value is $103,081 million. FCF Yield is (1.4%) and earns an Unattractive rating. See Appendix 1 for a detailed reconciliation.



Price-to-EBV Ratio

Price-to-EBV Ratio is Very Unattractive

Price-to-Economic Book Value (EBV) measures the difference between the market's expectations for future profits and the no-growth value of the stock.

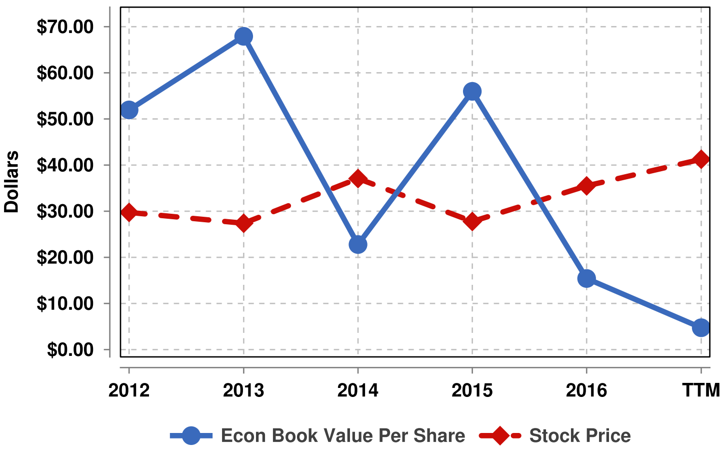
EBV measures the no-growth value of the company based on the company's current Net Operating Profit After Tax (NOPAT).

When prices are higher than EBV, the market predicts the NOPAT of the company will increase and expectations for profit growth are reflected in the stock. If the stock price equals EBV, the market predicts NOPAT will remain the same and there are no expectations for profit growth reflected in the stock. When stock prices are lower than EBV, the market predicts NOPAT will decrease and expectations for permanent profit decline are reflected in the stock.

In general, we like to buy stocks with low expectations for profit growth and sell/short stocks with high expectations for profit growth.

EXC's current Price-to-EBV per share is 8.7 and earns a Very Unattractive rating. EXC's stock price is $41.26 and its EBV per share for the trailing twelve months is $4.73. See Appendix 1 for a detailed reconciliation.

Stock Price vs Economic Book Value (EBV) Per Share



Growth Appreciation Period

The Growth Appreciation Period is Unattractive

The market-implied duration of profit growth or GAP measures the number of years the company must maintain an edge over its competitors by earning ROIC greater than the weighted-average cost of capital on new investments.

We believe EXC embeds an Unattractive level of market expectations because there is a large difference between the expected financial performance implied by its market price and the company's historical performance.

At EXC's current stock price of $41.26, the market is expecting revenue to grow at 2.7% for the next 20 years. Over this period, EXC is also expected to generate an average Economic Earnings Margin of (0.7%).

These results are derived using our dynamic discounted cash flow model.

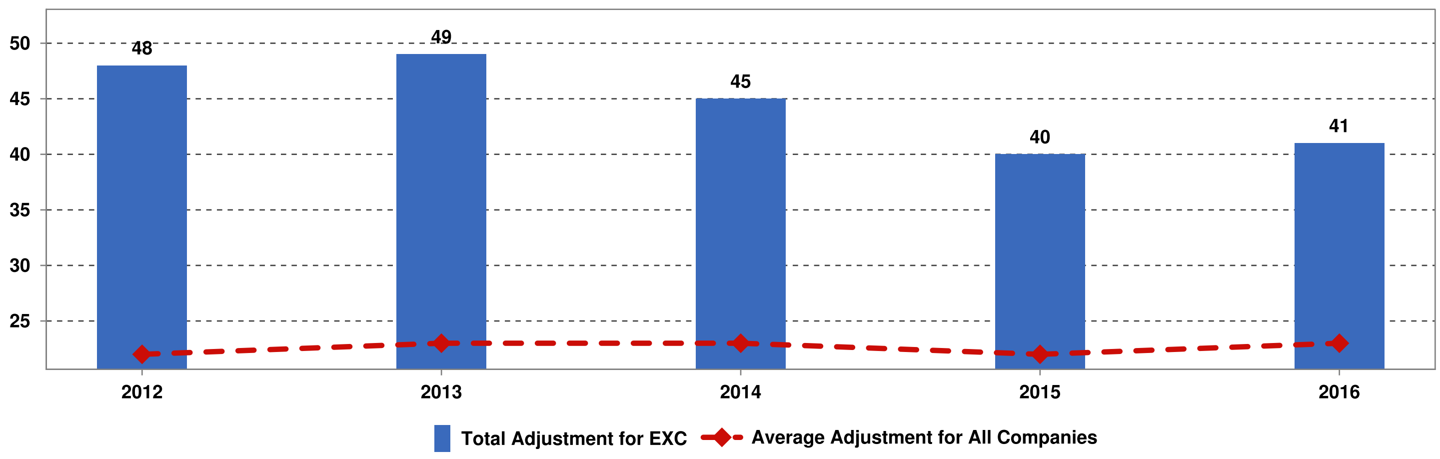
Performance Hurdles	Historical Performance			Market Expectations
	5 Yr	3Yr	Last FY	Default based on current price
Stock Price	$29.74	$37.08	$35.49	**$41.26**
Revenue CAGR	7.5%	6.9%	9.4%	**2.7%**
ROIC - WACC	(0.9%)	(0.6%)	(1.6%)	**(0.7%)**
Growth Appreciation Period	-	-	-	**20 years**

Protecting You From Misleading Accounting Loopholes

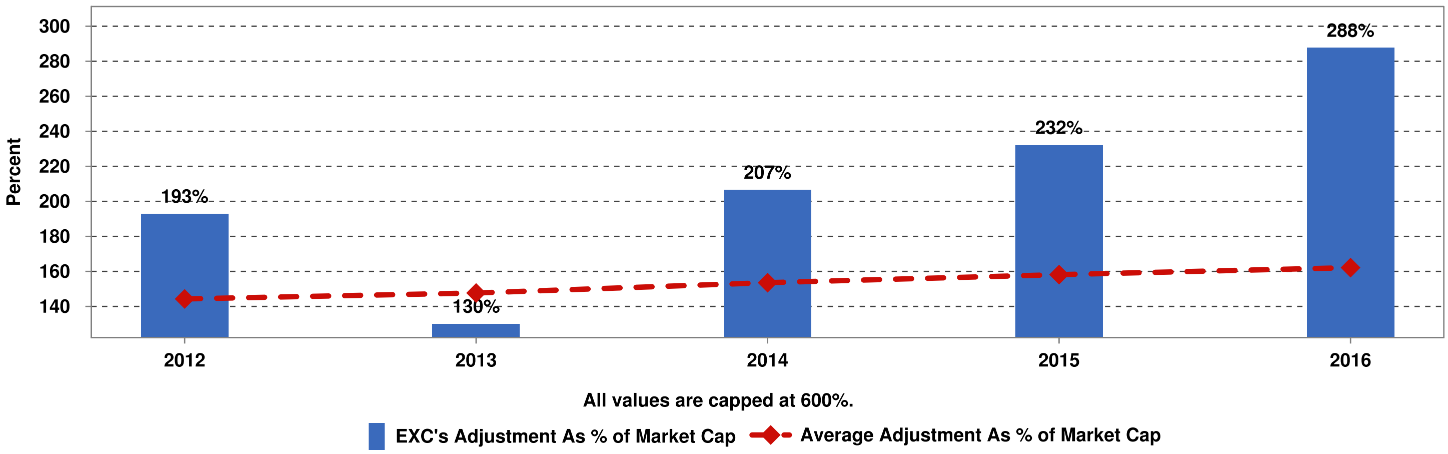
Our experts know where the (accounting) bodies are buried. Since 1996, we have combed through 70,000+ corporate filings. We know how to find what companies may try to hide. We protect clients from the constantly changing landscape of accounting loopholes and hidden items buried deep in footnotes, the Management Discussion & Analysis ("MD&A") and other disclosures. Our experts review thousands of pages of corporate disclosures and filings to ensure that you have the best possible research on earnings quality and valuation.

Values in millions	2012	2013	2014	2015	2016
Total Adjustments Summary for Exelon Corporation					
Number of Adjustments	48	49	45	40	41
Average for all companies	22	23	23	22	23
Total Value of Adjustments	$63,268	$42,667	$67,741	$76,136	$94,325
Total Value of Adjustments as % of market cap	193%	130%	207%	232%	288%
Average for all companies	144%	148%	154%	158%	162%

Number of Adjustments



$ Value of Adjustments As % of Market Cap



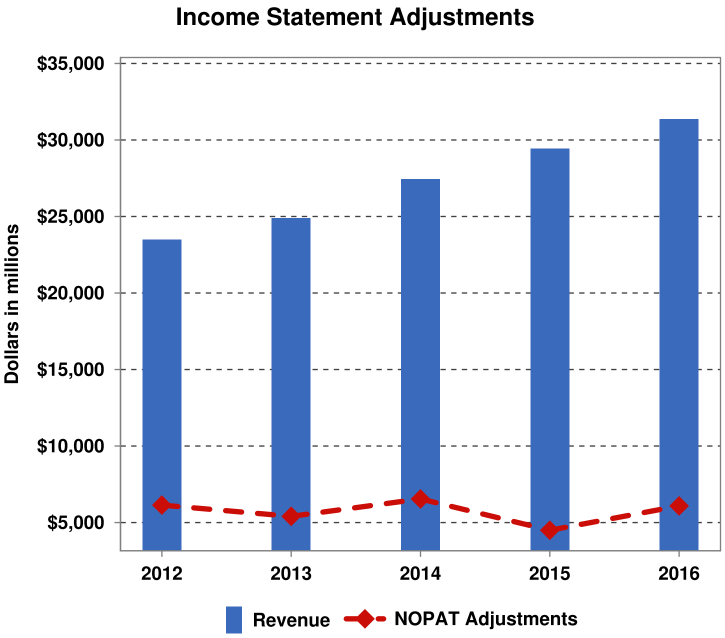
Income Statement Adjustments

We made 20 adjustments to convert Exelon Corporation's reported 2016 earnings to NOPAT, for a net impact of $1,459 million. We net 4 income adjustments of $2,314 million against 16 expense adjustments of $3,772 million.

23% of companies require more adjustments to reported earnings as a percent of revenue than EXC to calculate NOPAT.

The most notable accounting distortion to reported Net Income for EXC in 2016 is $244 million (1% of revenue) of non-operating expenses hidden in operating line items. Non-operating expenses are unusual charges that don't appear on the income statement because they are bundled in other line items. Without carefully studying the footnotes, investors would miss these non-operating expenses located in operating line items.

Our adjustments to reported earnings enable us to calculate an accurate NOPAT, a key component of our ROIC and economics earnings calculations. There are, in general, 9 types of adjustments that we make to convert reported net income to NOPAT. NOPAT is the after-tax operating cash generated by the business, excluding unusual items, financing costs and other non-cash items.



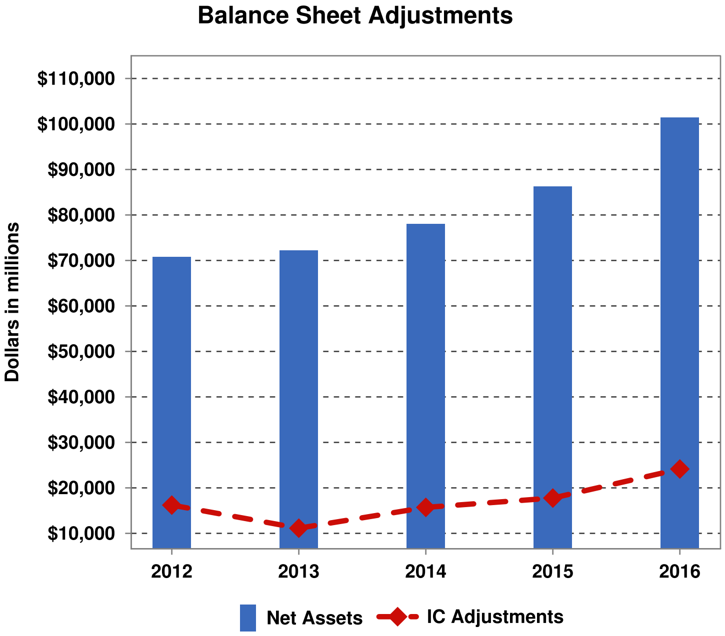
Balance Sheet Adjustments

We made 16 adjustments to convert Exelon Corporation's reported 2016 net assets to Invested Capital, for a net impact of $1,027 million. We net 3 asset decrease adjustments of $11,561 million against 13 increase adjustments of $12,588 million.

75% of companies require more adjustments than EXC to calculate Invested Capital.

The most notable accounting distortion to reported net assets for EXC in 2016 is $4,659 million in adjustments for asset write downs, which is 5% of reported net assets. Write-downs allow management to erase assets from the balance sheet, which inflates any return on asset/capital metric. Therefore, we add back asset write-downs (after tax) to our measure of invested capital.

Our adjustments to reported net assets enable us to calculate an accurate Invested Capital, a key component of our ROIC and economics earnings calculations. There are, in general, 12 types of adjustment that we make to convert reported net assets to Invested Capital. Invested Capital is the sum of all cash that has been invested in a company over its life without regard to financing form or accounting name.

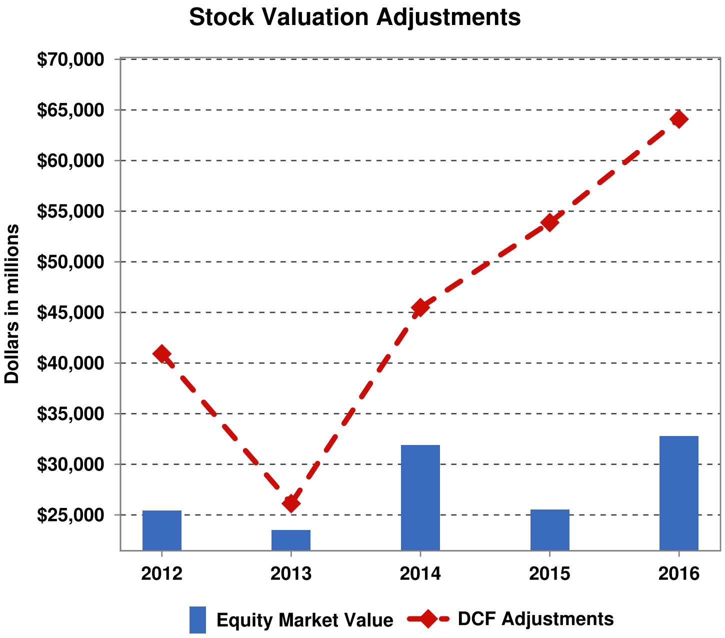


Stock Valuation Adjustments

We made 6 adjustments for a net impact of $63,437 million to our DCF model for Exelon Corporation in the trailing twelve months. 5 adjustments decrease value by $64,873 million and 1 adjustment increases value by $1,436 million.

11% of companies require more adjustments as a percent of market value to calculate valuation metrics.

The most notable accounting distortion to these valuation metrics for EXC in the trailing twelve months was the net deferred tax liability. We adjusted shareholder value by $19,250 million, which is 49% of the firm's market value. We subtract net deferred tax liabilities (DTLs minus DTAs) from our calculation of shareholder value as they are real future cash obligations that limit the amount of money available for distribution to shareholders.



Our valuation adjustments protect clients from unknowns that could blow stocks up. These adjustments enable us to derive more accurate calculations for Economic Book Value, Enterprise Value and our Discounted Cash Flow Model. There are, in general, 10 types of adjustments that we apply to our valuation metrics.

Appendix 1: Key Metrics & Calculations

This appendix provides reconciliations of the calculations we use in our stock ratings. The Education section of our website offers full details on all our calculations and ratings methodolgies.

*Economic Earnings ((ROIC - WACC) * Invested Capital)*

Values in millions	2012	2013	2014	2015	2016	Current/TTM
Return on Invested Capital (ROIC)	3.4%	3.5%	2.9%	3.8%	2.5%	2.3%
WACC	3.0%	3.3%	3.9%	3.6%	3.3%	3.3%
Economic Earnings Margin (ROIC - WACC)	0.4%	0.2%	(1.0%)	0.2%	(0.8%)	(1.6%)
Average Invested Capital	$73,368.01	$79,261.12	$83,442.85	$89,106.90	$102,473.99	$115,166.25
Economic Earnings	**$292.80**	**$137.79**	**($799.76)**	**$183.30**	**($799.04)**	**($1,700.95)**
Change in Economic Earnings	($503.40)	($155.00)	($937.55)	$983.06	($982.34)	($482.14)
Economic Earnings per Share	**$0.36**	**$0.16**	**($0.93)**	**$0.21**	**($0.86)**	**($1.82)**
Economic Earnings per Share Growth	(70.1%)	(55.1%)	(677.7%)	122.1%	(519.9%)	(37.5%)
GAAP Net Income / FFO	**$1,160.00**	**$1,719.00**	**$1,623.00**	**$2,269.00**	**$1,134.00**	**$2,103.00**
Change in GAAP Net Income / FFO	($1,335.00)	$559.00	($96.00)	$646.00	($1,135.00)	$909.00
Diluted GAAP EPS	**$1.42**	**$2.00**	**$1.88**	**$2.54**	**$1.22**	**$2.24**
Diluted GAAP EPS Growth	(62.2%)	41.1%	(6.0%)	35.3%	(51.9%)	73.4%

Return on Invested Capital (ROIC) (ROIC = NOPAT / Average Invested Capital)

Values in millions	2012	2013	2014	2015	2016	Current/TTM
Total Operating Revenue	$23,489.00	$24,888.00	$27,429.00	$29,447.00	$31,360.00	$33,024.00
NOPAT	$2,499.02	$2,747.55	$2,428.94	$3,351.61	$2,592.57	$2,639.45
Average Invested Capital	$73,368.01	$79,261.12	$83,442.85	$89,106.90	$102,473.99	$115,166.25
Return on Invested Capital (ROIC)	**3.4%**	**3.5%**	**2.9%**	**3.8%**	**2.5%**	**2.3%**
Change in ROIC	(1.9%)	0.1%	(0.6%)	0.9%	(1.2%)	0.3%
NOPAT Margin	10.6%	11.0%	8.9%	11.4%	8.3%	8.0%
Average Invested Capital Turns	0.32	0.31	0.33	0.33	0.31	0.29
Incremental Return on Invested Capital	(16.4%)	1.2%	(20.5%)	12.9%	(20.0%)	2.5%

Free Cash Flow (FCF) Analysis (FCF = NOPAT - Change in Invested Capital, FCF Yield = FCF / Enterprise Value)

Values in millions	2012	2013	2014	2015	2016	Current/TTM
NOPAT	$2,499.02	$2,747.55	$2,428.94	$3,351.61	$2,592.57	$2,639.45
Change in Invested Capital	$21,007.46	$1,557.29	$7,169.97	$3,794.34	$23,026.90	$4,105.85
Free Cash Flow (FCF)	**($18,508.44)**	**$1,190.27**	**($4,741.02)**	**($442.72)**	**($20,434.33)**	**($1,466.40)**
Change in FCF	($18,549.15)	$19,698.71	($5,931.29)	$4,298.30	($19,991.61)	$19,186.09
FCF Growth	(45,565.6%)	106.4%	(498.3%)	90.7%	(4,515.6%)	92.9%
Enterprise Value	**$64,110.90**	**$48,699.16**	**$75,071.21**	**$68,305.60**	**$96,882.73**	**$103,081.50**
FCF Yield	**(28.9%)**	**2.4%**	**(6.3%)**	**(0.6%)**	**(21.1%)**	**(1.4%)**
FCF as % of Revenue	(78.8%)	4.8%	(17.3%)	(1.5%)	(65.2%)	(4.4%)

Price to Economic Book Value per Share (NOPAT / WACC + Adjustments - see our website for full details)

Values in millions	2012	2013	2014	2015	2016	Current/TTM
NOPAT	$2,499.02	$2,747.55	$2,428.94	$3,351.61	$2,592.57	$2,639.45
WACC	3.0%	3.3%	3.9%	3.6%	3.3%	3.9%
Excess Cash	$1,116.22	$454.60	$1,000.55	$5,556.65	$0.00	$1,435.80
Net Assets from Discontinued Operations	$0.00	$0.00	$147.00	$4.00	$0.00	$0.00
Net Deferred Tax Liability	($11,420.00)	$0.00	($12,775.00)	($13,776.00)	($18,138.00)	($19,250.00)
Net Deferred Compensation Assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Fair Value of Unconsolidated Subsidiary Assets (non-op)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Fair Value of Total Debt	($21,939.27)	($21,352.94)	($24,863.85)	($27,957.29)	($38,017.08)	($37,234.08)
Fair Value of Preferred Capital	($193.00)	($193.00)	($193.00)	($193.00)	($0.00)	($0.00)
Fair Value of Minority Interests	($106.00)	($15.00)	($1,332.00)	($1,336.00)	($1,775.00)	($2,217.00)
Value of Outstanding ESO After-Tax	($12.58)	($7.09)	($23.29)	($4.56)	($11.89)	($23.45)
Pensions Net Funded Status	($6,128.00)	($4,101.00)	($5,149.00)	($5,051.00)	($6,148.00)	($6,148.00)
Economic Book Value (EBV)	**$44,422.42**	**$58,231.64**	**$19,585.23**	**$51,504.98**	**$14,241.95**	**$4,548.78**
Split Adjusted Shares Outstanding (thousands)	855,019	857,420	859,833	920,000	924,000	960,852
EBV per Share	$51.95	$67.91	$22.78	$55.98	$15.41	$4.73
Stock Price (closing)	$29.74	$27.39	$37.08	$27.77	$35.49	$41.26
PEBV (Price to Economic Book Value per Share)	**0.57**	**0.40**	**1.63**	**0.50**	**2.30**	**8.72**

Appendix 2: Adjustments for our Discounted Cash Flow Model, Economic Book Value, and Enterprise Value Calculations

We use a dynamic discounted cash flow (DCF) model to quantify the market expectations for future cash flows in stock prices. This approach, also known as "expectations investing" or "reverse DCF", is the most transparent and objective approach to valuing stocks. More in our DCF model video tutorial.

Values in millions	2012	2013	2014	2015	2016	Current/TTM
Excess Cash	$1,116.22	$454.60	$1,000.55	$5,556.65	$0.00	$1,435.80
Net Assets from Discontinued Operations	$0.00	$0.00	$147.00	$4.00	$0.00	$0.00
Net Deferred Tax Liability	($11,420.00)	$0.00	($12,775.00)	($13,776.00)	($18,138.00)	($19,250.00)
Net Deferred Compensation Assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Fair Value of Unconsolidated Subsidiary Assets (non-op)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Fair Value of Total Debt	($21,939.27)	($21,352.94)	($24,863.85)	($27,957.29)	($38,017.08)	($37,234.08)
Fair Value of Preferred Capital	($193.00)	($193.00)	($193.00)	($193.00)	($0.00)	($0.00)
Fair Value of Minority Interests	($106.00)	($15.00)	($1,332.00)	($1,336.00)	($1,775.00)	($2,217.00)
Value of Outstanding ESO After-Tax	($12.58)	($7.09)	($23.29)	($4.56)	($11.89)	($23.45)
Pensions Net Funded Status	($6,128.00)	($4,101.00)	($5,149.00)	($5,051.00)	($6,148.00)	($6,148.00)
Total Valuation Adjustments	**($38,682.63)**	**($25,214.43)**	**($43,188.59)**	**($42,757.20)**	**($64,089.97)**	**($63,436.73)**

Appendix 3: Adjustments for Economic Earnings

Reported earnings don't tell the whole truth of a company's profits. We scour the footnotes and fine print so clients have the whole truth. Full details on our adjustment methodologies are here. See our Company Models tutorials to learn how you can modify adjustments and see where we find them in SEC filings.

Values in millions	2012	2013	2014	2015	2016
Income Statement Adjustments					
GAAP Net Income	$1,160.00	$1,719.00	$1,623.00	$2,269.00	$1,134.00
Total Non-Operating Expense Hidden in Operating Earnings	$1,525.00	$633.00	$1,176.00	$483.00	$744.00
Reported Net Non-Operating Items	$582.00	$883.00	($116.00)	$1,061.00	$1,171.00
Change in Total Reserves	($9.00)	$5.00	$3.00	$8.00	$7.00
Implied Interest for PV of Operating Leases	$37.48	$31.94	$41.57	$41.94	$64.39
Non-Operating Tax Adjustment	($807.47)	($534.38)	($495.63)	($492.33)	($597.82)
Net After-Tax Non-Operating Expense/(Income)	$11.00	$10.00	$197.00	($19.00)	$70.00
NOPAT	**$2,499.02**	**$2,747.55**	**$2,428.94**	**$3,351.61**	**$2,592.57**
Balance Sheet Adjustments					
Total Assets (unadjusted)	$78,554.00	$79,924.00	$86,814.00	$95,384.00	$114,904.00
Total Current/Investment Liabilities	($7,784.00)	($7,728.00)	($8,762.00)	($9,118.00)	($13,457.00)
Reported Net Assets	**$70,770.00**	**$72,196.00**	**$78,052.00**	**$86,266.00**	**$101,447.00**
Short-Term Debt	$1,257.00	$1,850.00	$2,262.00	$2,033.00	$3,697.00
Excess Cash	($1,116.22)	($454.60)	($1,000.55)	($5,556.65)	($0.00)
Total Reserves	$53.00	$58.00	$95.00	$105.00	$113.00
Unconsolidated Subsidiary Assets (non-operating)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)
Discontinued Operations Adjustment	$0.00	$0.00	($147.00)	($4.00)	$0.00
Deferred Compensation Adjustment	$0.00	$0.00	$0.00	$0.00	$0.00
Deferred Tax Adjustment	($131.00)	($533.00)	($244.00)	$0.00	$0.00
Over Funded Pensions (Asset)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)
Off-Balance-Sheet Operating Leases	$739.27	$629.94	$819.85	$827.29	$1,270.08
Accumulated Unrecorded Goodwill	$0.00	$0.00	$0.00	$0.00	$0.00
Accumulated Goodwill Amortization	$185.00	$185.00	$185.00	$185.00	$185.00
Accumulated Asset Write-Downs After-Tax	$3,958.43	$4,068.43	$4,503.43	$4,524.43	$4,658.89
Accumulated OCI (Other Comprehensive Income)	$2,767.00	$2,040.00	$2,684.00	$2,624.00	$2,660.00
Invested Capital	**$78,482.48**	**$80,039.77**	**$87,209.73**	**$91,004.07**	**$114,030.97**
Average Invested Capital	**$73,368.01**	**$79,261.12**	**$83,442.85**	**$89,106.90**	**$102,473.99**

Appendix 4: Explanation of New Constructs' Stock Ratings

Ratings

In-depth risk/reward analysis underpins our stock rating. Our stock rating methodology grades every stock according to what we believe are the 5 most important criteria for assessing the quality of a stock. Each grade reflects the balance of potential risk and reward of buying that stock. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Unattractive and Unattractive correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

Risk/Reward Rating	Quality of Earnings		Valuation		
	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield	Price-to-EBV Ratio	Growth Appreciation Period
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4 < 3.5 or < -1	20 < 50
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3

Ratings

Economic earnings and return on capital metrics are significantly more accurate when as-reported financial statements have been adjusted to reverse accounting distortions and Red Flags. The majority of the data required to reverse accounting distortions is available only in the Notes to the Financial Statements, which we analyze rigorously. Our core competency is gathering and analyzing all relevant financial data (from the Financial Statements and Notes) so that we can deliver earnings analysis that best represents the true profitability of businesses. See the figure below for a list of the Red Flag adjustments we make to a company's reported GAAP profits in order to reverse accounting distortions and arrive at a better measure of a firm's profits.

Accounting Issues and Red Flags that Distort GAAP

- Employee Stock Options
- Pension Over/Under Funding
- Excess Cash
- Restructuring Charges
- Pooling Goodwill
- Minority Interests
- Discontinued Operations
- Preferred Stock
- Mid-Year Acquisitions
- Off-Balance-Sheet Financing
- LIFO Reserve
- Unrealized Gains/Losses
- Goodwill Amortization
- Unconsolidated Subsidiaries
- Capitalized Expenses
- Deferred Compensation
- Net Deferred tax Assets and Liabilities

New Constructs® - Research to Fulfill the Fiduciary Duty of Care

Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide tangible, quantifiable correlation to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing with Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our robo-analyst technology empowers us to perform for thousands of stocks, ETFs and mutual funds.

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Electric Utilities
North America

Tax Reform – Watch for Credit Impact

EXC, PEG win while DUK, SO, FE see tightening metrics

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- **EXC, PEG Winners at generation business - translates to ~1.0x higher EBITDA multiple:** EXC and PEG have taxable income of ~$1.1B and $0.7B at their generation businesses. With a lower tax rate of 15%, they would save $174m and $106m on their cash taxes, effectively increasing their free cash flow (FCF) conversion. This increased conversion means ~1.0x higher EBITDA multiple which would mean ~$2/share of value. Note that they would retain more cash from ZECs/price formation further increasing benefits of tax reform. See Figure 3.
- **DUK, SO, FE impacted by lower earnings and weaker credit:** While utility subsidiaries are primarily earnings neutral from tax reform, the negative cash flow impacts could be meaningful. Cash and credit pressures will come from deferred tax liability refund, lower parent interest tax shield and lower tax shield from bonus depreciation. We currently estimate DUK, SO, FE's FFO/Debt metrics would decline by 1.5%, 1.4%, and 1.1% with these cash impacts holding other factors constant. We acknowledge that all companies will find ways to mitigate some of these impacts. As bill cushion opens doors for further capex, cash flow and credit may constrain some utilities' growth.
- **EPS Impacts: lost tax shield at Parent, rate base changes with DTL:** With a lower tax rate, the interest tax shield at the parent reduces increasing drag of parent losses. As the DTL get revalued and credited to customers, the rate base will grow, helping to improve earnings. The impact of the lower tax shield at the parent level translates to 2-3% EPS dilution impact on EPS for DUK, SO, and FE, respectively.
- **Cash Flow Impact 1: Deferred Tax Liability Credit to customers:** With a lower tax rate, the DTL at each utility will be revalued at the 20% rate. The reduction in the DTL will be refunded to customers over asset life. Assuming a 30yr life, we expect this impact to be ~$200m for DUK, SO and EXC. See Figure 1.
- **Cash Flow Impact 2: Tax shield related to bonus depreciation reduces by 15%.** Utilities have been collecting taxes from customers based on straight line depreciation and paying minimal cash taxes thanks to bonus depreciation. The difference between tax and book depreciation, times the tax rate was the cash flow benefit utilities were enjoying. Now, with a lower tax rate, this cash tax saving will go down by 15% times the difference in tax and book depreciation. It is worth ~$477m and ~$464m at SO and DUK. See Figure 1.
- **Cash Flow Impact 3: Parent debt tax shield reduction:** A lower tax rate lowers the tax shield on parent debt. This results in dilution for companies with high holdco leverage and also lost cash flows of about ~$65m and ~$102m at SO and DUK.
- **Cash Flow Impact 4: Positive - lower cash taxes at generation businesses:** Lower tax rates would benefit merchant generation businesses at hybrids utilities such as EXC and PEG. Impact of cash savings would be ~$174m and ~$106m, respectively and is worth about ~1.0x in EBITDA multiple.
- **Net Impact on FFO/Debt:** Most utilities FFO/Debt metrics weaken by about 1-2% when we incorporate all impacts above. We also highlight current and proforma FFO/Debt metrics and how that compares vs target metrics.

Cash Flow Impact of Tax Reform Quantified

- We expect the tax reform to have neutral impact on utility subsidiaries earnings. However, the negative cash flow impact related to deferred tax liability refund, lower parent tax shield and the lower tax shield from bonus depreciation will likely put meaningful pressure on credit metrics of utilities like DUK, SO and FE. Impact of cash flows is summarized below:

Figure 1. Cash Flow Impact of Tax Reform

Current FFO/Debt	**Units**	**AEP**	**ETR**	**EXC**	**PEG**	**FE**	**ED**	**D**	**DUK**	**EIX**	**ES**	**PCG**	**SO**
2017 FFO	$mm	$4,381	$3,175	$8,652	$3,016	$2,939	$3,223	$5,153	$7,801	$4,017	$2,123	$5,445	$7,162
add / (less) rating agency adjustments	$mm	(275)	0	0	0	143	0	0	0	506	0	0	1,328
Adjusted FFO	$mm	$4,106	$3,175	$8,652	$3,016	$3,083	$3,223	$5,153	$7,801	$4,522	$2,123	$5,445	$8,490
2017 Debt Balance	$mm	$21,996	$17,264	$36,659	$14,037	$23,169	$16,960	$38,179	$54,937	$12,994	$11,446	$19,897	$51,282
add / (less) rating agency debt adjustments	$mm	$1,400	$2,136	$2,490	$790	$502	$1,932	($2,016)	($3,649)	$4,570	$1,292	$6,210	$3,123
Adjusted Debt	$mm	$23,396	$19,400	$39,149	$14,827	$23,671	$18,892	$36,163	$51,288	$17,564	$12,738	$26,107	$54,405
Current FFO/Debt	**%**	**17.6%**	**16.4%**	**22.1%**	**20.3%**	**13.0%**	**17.1%**	**14.2%**	**15.2%**	**25.7%**	**16.7%**	**20.9%**	**15.6%**
Impact of Tax Reform	**Units**	**AEP**	**ETR**	**EXC**	**PEG**	**FE**	**ED**	**D**	**DUK**	**EIX**	**ES**	**PCG**	**SO**
2017 FFO	$mm	$4,381	$3,175	$8,652	$3,016	$2,939	$3,223	$5,153	$7,801	$4,017	$2,123	$5,445	$7,162
(less) lower tax collection from customers (depreciation)	$mm	($413)	($177)	($158)	($231)	($119)	($160)	($143)	($464)	($71)	($142)	($242)	($477)
(less) Deferred Tax Liability Credit to Customers	$mm	(125)	(91)	(197)	(71)	(101)	(146)	(123)	(202)	(119)	(80)	(146)	(201)
(less) Lower tax shield on parent interest	$mm	(8)	(13)	(51)	(12)	(37)	(13)	(142)	(102)	(2)	(10)	(2)	(65)
add tax saving at unregulated businesses	$mm	0	0	174	106	0	0	105	0	0	0	0	0
Pro Forma FFO	$mm	$3,836	$2,895	$8,420	$2,807	$2,682	$2,904	$4,850	$7,033	$3,825	$1,891	$5,056	$6,418
add / (less) S&P FFO Adjustments	$mm	(275)				143				506			1,328
Adjusted FFO	**$mm**	**$3,561**	**$2,895**	**$8,420**	**$2,807**	**$2,825**	**$2,904**	**$4,850**	**$7,033**	**$4,330**	**$1,891**	**$5,056**	**$7,747**
2017 Debt Balance	$mm	$21,996	$17,264	$36,659	$14,037	$23,169	$16,960	$38,179	$54,937	$12,994	$11,446	$19,897	$51,282
add / (less) S&P Debt Adjustments	$mm	1,400	2,136	2,490	790	502	1,932	(2,016)	(3,649)	4,570	1,292	6,210	3,123
Adjusted Debt	**$mm**	**$23,396**	**19,400**	**$39,149**	**$14,827**	**$23,671**	**$18,892**	**$36,163**	**$51,288**	**$17,564**	**$12,738**	**$26,107**	**$54,405**
FFO / Debt pro forma	%	15.2%	14.9%	21.5%	18.9%	11.9%	15.4%	13.4%	13.7%	24.7%	14.8%	19.4%	14.2%
Change in FFO / Debt	%	(2.3%)	(1.4%)	(0.6%)	(1.4%)	(1.1%)	(1.7%)	(0.8%)	(1.5%)	(1.1%)	(1.8%)	(1.5%)	(1.4%)
Target (per management / rating agency)	%	17.5%	18.0%	19.0%	18.0%	13.0%	18.0%	15.0%	16.0%	18.0%	15.0%	20.0%	16.0%

Source: Citi Research

Tax collection from customers = Difference between tax and book depreciation at regulated utility x 15%. The 15% represents the difference between 35% and 20% tax rate.

We have assumed Refund to customers would be implemented over the 30 years. DTL balance reflect 2016 10k DTL related to PP&E.

Unregulated businesses at EXC, PEG and D have EBTs of $1161m, $706m, and $697m, respectively.

Target FFO/Debt: For PEG, 18% is based on management's target guidance of high teens. For ETR, we used the average of company guided range of 13-23%. AEP, DUK, EXC, SO based on management's guidance on target FFO/Debt. D, ED, ES, EIX, FE and PCG target metrics based on minimum level of FFO/Debt noted by rating agencies before a potential downgrade.

- **Lower Tax Rate Negatively Impacts HoldCo EPS Anyway.** Lower tax rate would reduce parent interest tax shield and result in dilution. In the Figure below we highlight the impact if the rate is reduced from 35% to 20%. DUK and SO dilution is in the 2-3% range. Please see following note for details: 2017 EEI Conference Takeaways: Reconfirmed Buys on EXC, ETR; HoldCo debt Problems Persist.

Figure 2. Reduction of Tax Rate Impact on EPS

Lower Tax Rate	Units	D	DUK	SO	PCG	ED	AEP	PEG	EIX	ES	EXC	ETR	FE
HoldCo Int. Expense	$m	$945	$681	$435	$10	$88	$50	$81	$15	$66	$340	$90	$249
Change in Tax Rate	%	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)
Lower Int. Tax Shield	$m	($142)	($102)	($65)	($2)	($13)	($8)	($12)	($2)	($10)	($51)	($13)	($37)
Shares Outstanding	m	631	704	1,003	519	310	492	507	326	317	962	180	480
Int. Tax shield per share	$/share	($0.22)	($0.15)	($0.06)	($0.00)	($0.04)	($0.02)	($0.02)	($0.01)	($0.03)	($0.05)	($0.07)	($0.08)
2018 EPS	$/share	$4	$5	$3	$4	$4	$4	$3	$4	$3	$3	$5	$3
Dilution due to lower tax rate	%	NA	(3.0%)	(2.1%)	(0.1%)	(1.0%)	(0.4%)	NA	(0.2%)	(1.0%)	NA	(1.4%)	(3.1%)

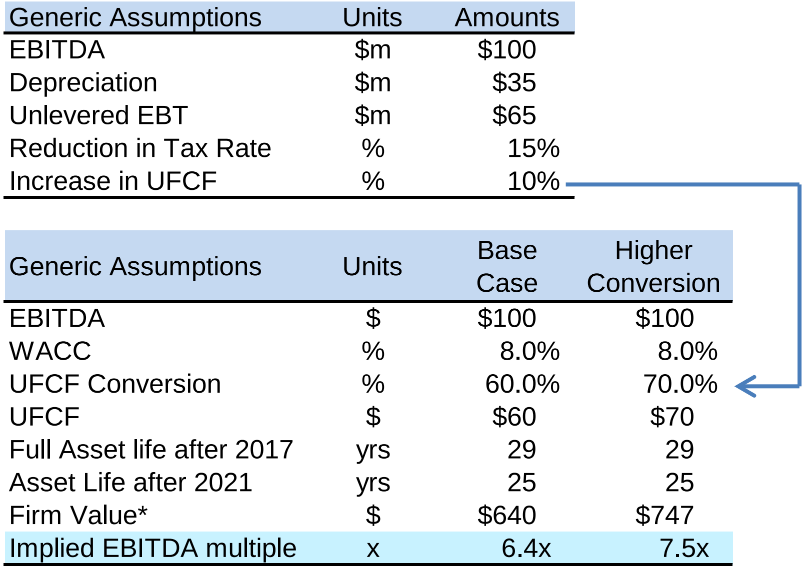
Source: Citi Research

We have indicated "NA" for D, EXC, PEG as the benefits of the tax savings at the unregulated business will more than outweigh the reduction in tax shield of parent interest associated with a reduction in tax rate from 35% to 20%.

- **EXC, PEG winners at generation business. Translates to ~1.0x higher EBITDA multiple.** EXC and PEG have taxable income of ~$1.1B and $0.7B at their generation businesses. With a lower tax rate of 15%, they would save $174m and $106m on their cash taxes effectively increasing their free cash flow

(FCF) conversion. This increased conversion means ~1.0x higher EBITDA multiple which would mean $2/share of value. The Figure below shows a generic EBTIDA multiple model including the benefits of lower taxes:

Figure 3. Generation EBITDA Multiple Math



Generic Assumptions	Units	Amounts
EBITDA	$m	$100
Depreciation	$m	$35
Unlevered EBT	$m	$65
Reduction in Tax Rate	%	15%
Increase in UFCF	%	10%

Generic Assumptions	Units	Base Case	Higher Conversion
EBITDA	$	$100	$100
WACC	%	8.0%	8.0%
UFCF Conversion	%	60.0%	70.0%
UFCF	$	$60	$70
Full Asset life after 2017	yrs	29	29
Asset Life after 2021	yrs	25	25
Firm Value*	$	$640	$747
Implied EBITDA multiple	x	6.4x	7.5x

``Source: Citi Research

*Firm Value based on a DCF using UFCF for the asset life discounted at WACC

Entergy Corporation

(ETR.N; US$85.52; 1; 01 Dec 17; 16:00)

Valuation

Our target price is $91/share. Our valuation is based on a sum-of-the-parts valuation with the utility business valued at $98/share, EWC valued at $4/share, and the negative impact of parent and other valued at $(12)/share.

Risks

Commodity risk – Forward natural gas prices can have a significant effect on the nuclear merchant financial outlook and per share value. This is because natural gas prices are the marginal fuel for deregulated power generation. We currently assume a long-term gas price based on the current forward curve. If natural gas and power prices were to rise significantly, this could have positive implications for ETR shares.

Nuclear operations – The State of New York will continue to have Entergy shut down the Indian Point plant. A shutdown could be incrementally negative for shares. Conversely, if Entergy is successful in renewing the licenses for the plant, shares could rise materially above our target price.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Exelon Corp

(EXC.N; US$41.83; 1; 01 Dec 17; 16:00)

Valuation

We value EXC using a sum-of-the-parts approach to get to our $45 price target. We value ExGen at ~$3/share and believe ExGen's core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The legacy utility business is valued at $27/share based on a 18.0x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent net debt and add $12/share for ZECs to get to our rounded PT of $45/share.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon's earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon's generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen's credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the risks get rejected after further legal challenge then the stock has downside as some value of ZEC is already in the stock price

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

Analyst Certification

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Entergy Corporation (ETR)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	15-Dec-14 03:00:00	*2	*85.00	86.37
2	18-Dec-14 16:46:45	Coverage terminated		
3	17-Sep-15 16:01:15	2	*69.00	64.42
4	26-Jan-16 17:07:46	2	*71.00	68.70
5	26-Apr-16 00:50:10	2	*72.00	74.61
6	19-Jul-16 23:43:46	2	*83.00	80.39
7	04-Oct-16 03:14:34	2	*76.00	74.02
8	14-Dec-16 17:00:00	2	*71.00	71.67
9	14-Dec-16 17:00:00	2	*74.00	71.67
10	10-Jan-17 07:36:15	2	*73.00	71.24
11	17-Apr-17 16:16:34	2	*77.00	77.13
12	07-Jun-17 06:52:17	2	*80.00	80.45
13	12-Oct-17 22:52:49	*1	*91.00	81.80

*Indicates Change

Rating/target price changes above reflect Eastern Time

Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	18-Dec-14 16:46:48	Coverage terminated		
2	17-Sep-15 16:01:15	*3	*27.00	31.57
3	26-Jan-16 17:07:46	*2	27.00	27.84
4	22-Feb-16 16:00:00	*3	27.00	31.69
5	19-Jul-16 23:43:46	3	*29.00	36.58
6	04-Oct-16 03:14:34	3	*27.00	31.86
7	28-Nov-16 20:37:44	3	*29.00	33.39
8	02-Dec-16 07:02:27	*2	*31.00	33.01
9	30-Mar-17 06:59:06	2	*35.00	35.70
10	07-Jun-17 06:52:17	2	*36.00	36.61
11	27-Jul-17 07:37:04	*1	*43.00	37.99
12	11-Oct-17 09:15:06	1	*45.00	38.46

*Indicates Change

Rating/target price changes above reflect Eastern Time

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Goldman Sachs | Equity Research

7 December 2017 | 5:08AM EST

Exelon Corp. (EXC): A lot more going on for EXC than many realize - eyes on several events in the next 90 days

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We remain Sell rated on EXC, a relative call among Diversified Utilities and still prefer stocks like NEE, FE and PEG compared to EXC. That said, we recognize a host of events will occur in the coming weeks that could impact EXC's shares:

- **EXC would likely benefit from any significant changes supporting baseload technology in merchant power markets driven by the Federal Energy Regulatory Commission (FERC) given that first indications from the FERC's initial response to the DOE are expected on December 11th.** The FERC, in its Notice of Proposed Rulemaking process, seeks to evaluate changes to regional power markets – in order to ensure grid reliability – with many of the potential outcomes discussed by companies and investors focused on mechanisms that provide more revenue to coal and nuclear plants.
    - **We note, however, significant opposition** during the official comment process emerged from multiple areas, including (1) customer groups – consumer and industrial – concerned about the price impact, (2) regional grid operators like PJM, which highlighted that their systems did not incur reliability issues over the past few years, despite retirements of baseload plants, (3) multiple industry trade groups, including the various energy related ones which are concerned that power market changes would benefit coal/nuclear plants to the detriment of gas-fired ones, and (4) environmental groups focused on emissions impacts.
    - **The outcome could lead to a complex multi-month, or even longer, review and implementation process**. Concerns exist regarding the impact on competitive power markets and the need for significant changes to how markets pay generators for various services. We partially expect the FERC to seek more detail, over the coming months, from the various regional transmission operators (RTOs) and independent system operators (ISOs) on how best to change power markets. We note PJM – the nation's largest grid operator – already released a version of its proposed power market design changes, which it estimated would impact power prices by only a few percent.
- **Risks still exist regarding Zero Emissions Credits (ZECs) for EXC's nuclear power plants; Jan 3rd remains the next key date**. In 2017, federal district courts in both New York and Illinois upheld challenges to regulations

implementing ZECs, a payment for environmental attributes that EXC's nuclear plants in these markets receive, starting in 2017. We note both cases remain on appeal at the US Circuit Court of Appeals level – with oral argument in the Illinois case set for January 3rd and a date for argument in the New York one coming soon. We do not expect a ruling until mid-2018, but view this as risk to the EXC story given losing these ZECs and retiring the plants would weigh on EPS by $0.25-$0.30.

- **PJM details should emerge in late December and in early February which we view as likely a positive for PEG, neutral or even a slight negative for others**. PJM will issue two sets of data ahead of its May 2018 capacity auctions that impact revenues from 2021-2022 – (1) the final demand forecast in late December and (2) the annual planning parameters in early February 2018.
    - ☐ **Demand may prove a tad bearish system wide, including in areas where EXC owns significant capacity**. We note the preliminary peak demand 2021 forecast details implied a slightly lower forecast across PJM, compared to the 2017 forecast – this impacts the amount of generation (MWs) PJM will procure in the May 2018 auctions. We note the biggest changes occur in a few service territories, including (1) SWMAAC (DC, Baltimore, etc.), down roughly 2% on a YoY basis, and (2) EMAAC, down over 1.5% versus last year – EXC's eastern nuclear fleet in PJM operates primarily in these zones. These could, barring significant retirement announcements in the next month, negatively impact supply/demand fundamentals shown in the February planning parameter details.
    - ☐ ...**and while even the PS zone saw a reduction of power demand expectations, removal of the Con Edison (ED, Sell) "wheel" may tighten that market**. In the preliminary demand detail, the PSE&G zone showed the biggest decline – by almost 2.5% – in forecast demand. However, we view the cancellation of the "wheel" across the Con Edison system – where power could flow from New York into upper New Jersey and into the PSE&G zone – as reducing supply in that zone. Thus, while demand may come in lower, supply may decline as well (by almost 1 GW) – a positive for Buy-rated PEG, an owner of capacity in this zone.
    - ☐ **In summary, we view the PJM demand detail and planning parameter data as neutral to slightly bearish** for most generators, including EXC – barring an uptick in retirement announcements in the coming weeks.

We remain Sell rated and base our $36, 12-month target price for EXC on a 2019 sum of the parts analysis. Key risks include power prices, rate base growth, O&M cost management and regulation.

Pricing information: Consolidated Edison Inc. ($88.02), Public Service Enterprise Group ($52.68)

EXC	12m Price Target: **$36.00**	Price: **$41.12**	Downside: **12.5%**

Sell

Market cap: $38.5bn
Enterprise value: $76.2bn
3m ADTV: $194.9mn
United States
America-Diversified Utilities: Cautious
M&A Rank: 3

GS Forecast

	12/16	**12/17E**	**12/18E**	**12/19E**
Revenue ($ mn)	31,360.0	31,878.9	27,286.2	27,129.1
EBITDA ($ mn)	7,095.0	7,622.4	9,070.3	9,080.6
EBIT ($ mn)	3,159.0	3,744.2	5,005.3	5,117.2
EPS ($)	2.68	2.61	2.82	2.79
P/E (X)	12.5	15.8	14.6	14.7
EV/EBITDA (X)	9.6	10.0	8.5	8.5
FCF yield (%)	(0.4)	0.6	3.0	3.5
Dividend yield (%)	3.8	3.2	3.3	3.3
Net debt/EBITDA (X)	5.0	4.6	3.9	3.9

	9/17	**12/17E**	**3/18E**	**6/18E**
EPS ($)	0.85	0.56	0.68	0.59

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6 Dec 2017 close.

Disclosure Appendix

Reg AC

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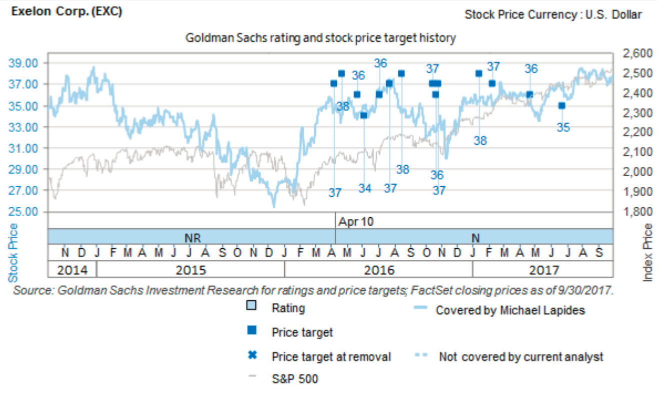

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GUGGENHEIM

December 12, 2017

The Guggenheim Daily Transmission: EIX, SRE, SCG, FERC, PEG, PJM, NEE, ED, ES, EXC

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Ticker	Price	Rating
ED	89.66	Neutral
EIX	72.98	Neutral
ES	65.70	Buy
EXC	41.92	Buy
NEE	159.25	Buy
PEG	52.40	Buy
SCG	42.38	Neutral
SRE	118.03	Buy

Scroll down for Guggenheim's Non-Deal Roadshow Schedule

What's New?

EIX – CAL FIRE investigation expands to include possible role of EIX facilities
SRE – FERC approves acquisition of Energy Future Holdings/Oncor
SCG – Santee Cooper Chairman not going quietly
FERC – Commissioner highlights importance of LT resilience study over interim solutions
FERC – Government Accountability Office finds more action needed to improve capacity market
PEG – NJ governor considers nuclear subsidy bill
PJM – FERC rejects proposed MOPR revisions
NEE – Judge rejects bid for $275mm break-up fee
NEE/ED – Environmental group pushes back on VA water permit for MVP
ES – EDF served with a letter to cease and desist false claims around ES gas procurement
EXC – Completes internal transfer of Fitzpatrick

EIX – CAL FIRE investigation expands to include possible role of EIX facilities

- In a press release, EIX disclosed CAL FIRE investigations now include locations beyond those identified last week as the apparent origin of the wildfires.
- EIX noted they believe the investigations now include the possible role of their facilities.
- The company continues to cooperate with the investigations.

Guggenheim takeaway: *An unfortunate development, particularly as we noted many analysts/investors were defending EIX as fires emerged in their service territory last week… When shares were down 11% intra-day last week (vs. UTY -1.1%), recovering from their -13% low on the news of these wild fires in EIX's southern California service territory, we noted (see our recent EIX note HERE) that anyone arguing that this sell-off was excessive was egregiously over-simplifying the situation, and that analysts/investors defending the stock before the company had even conducted its own damage assessment may likely be reaching to catch a falling knife. As it stands, utilities can be held liable for damages in these events, irrespective and exclusive of cause, and at the end of the day may not see commensurate rate relief for costs incurred beyond their insured coverage (as was the case for SRE recently, see HERE); that said, based on these circumstances, and coupled with the increasing frequency and disruption of these events, the insurance market has been challenging for utilities in CA to say the least, and we've only seen signs pointing to tighter conditions ahead (see HERE for an ex parte communication filed by SRE on the CA insurance market following their disappointing decision)…*

SRE – FERC approves acquisition of Energy Future Holdings/Oncor

- FERC approved SRE's proposed acquisition of Energy Future Holdings, the indirect owner of ~80% of Oncor.

Guggenheim takeaway: *In line with expectations. Remaining regulatory approvals include the PUCT, expected by April 2018, and further approvals by the U.S. Bankruptcy Court. See our note HERE, for more takeaways around the proposed Oncor transaction.*

SCG – Santee Cooper Chairman not going quietly

- According to local reports, the chairman of Santee Cooper will not step down unless the governor of S.C. stops accusing the state-owned utility of lying to lawmakers.

Guggenheim takeaway: *The saga continues… Santee Cooper has been on the defensive with SCG since they decided to abandon construction of new nuclear reactors at V.C.*

Summer, and while we can appreciate heightened emotions that likely come with such wide-spread scrutiny from every angle, it isn't clear to us what the chairman might hope to accomplish here – At the end of the day Santee Cooper is engaged in a sale process initiated by the Governor and other state policy-makers, and this just might not be the time or place to stand ground; and regardless of whether or not there's a position to defend here, political stakeholders are likely looking for names they can hold accountable for their constituents… And as a reminder, we believe a sale of Santee Cooper would likely have to be a package deal with SCG to make the math work – For a deep-dive on the evolving saga around V.C. Summer for both Santee Cooper and SCG in South Carolina, and our mosaic theory supporting the possibility of a resolution by way of M&A in a package deal with Santee Cooper and SCG, see our recent upgrade of SCG HERE.

FERC – Commissioner highlights importance of LT resilience study over interim solutions

- FERC Commissioner Neil Chatterjee pulled back on his proposal for payments for coal and nuclear plants as interim solutions to solve the grid resilience issue, saying that longer-term assessment of grid resilience is more important.

Guggenheim takeaway: *It seems like Chatterjee has softened his position on the interim solution that he strongly proposed, although not a surprise to us as the five-member FERC is trying to reach consensus with respect to the commission's response to the DOE NOPR, which was highlighted during our recently hosted client conference call with EPSA CEO – a notice of inquiry (NOI) from FERC to the RTOs could be the likely outcome, with possibility to see something stronger like a show cause proposal here. For additional takeaways from our conference call with the CEO of EPSA, see our note HERE.*

FERC – Government Accountability Office finds more action needed to improve capacity market

- The U.S. Government Accountability Office released a report indicating that FERC needs to do more to evaluate the performance of capacity markets and pursue changes with the information gathered.

Guggenheim takeaway: *No surprise of the findings from the governing agency, especially given the issues that various capacity markets have been facing – could further facilitate proposals of improvements to the capacity market construct.*

PEG – NJ governor considers nuclear subsidy bill

- NJ governor Chris Christie said he is considering supporting a nuclear subsidy bill to be introduced in the lame duck session, although highlighted that it won't be "irresponsible."
- The comment received opposition from NRG, EPSA as well as Natural Resources Defense Counsil.
- As a reminder, NJ legislature hosted a hearing to discuss nuclear legislation earlier this month and PEG delivered a very consistent message that the company doesn't need legislation to guarantee payments but to provide a "Safety Net" through multiple steps of verification.

Guggenheim takeaway: *We shall wait and see as the lame duck session ends in January. NJ could eventually introduce nuclear legislation to keep the nuclear plants online sooner or later, in our view, especially with PEG's political assets in the state and the ambitious clean energy agenda with the incoming Murphy administration. It's a tight lame duck session to get something done by now and January but we believe the CEO of PEG will eventually get something over the finish line.*

PJM – FERC rejects proposed MOPR revisions

- FERC rejected proposed revisions to the PJM's MOPR, which would replace the unit-specific review process with two broad, categorical self-supply and competitive entry exemptions, which apply to (1) utilities that operate under long-standing self-supply models and (2) competitive units that receive no out-of-market funding, as well as state-sponsored units selected through a "competitive and nondiscriminatory" procurement process.
- As a reminder, the U.S. Court of Appeals D.C. Circuit ruled that FERC overstepped its jurisdiction when conditionally accepted revisions of PJM's MOPR while requesting PJM to retain the existing unit-specific exemption process.

Guggenheim takeaway: *The purpose of PJM's proposal was to address many of PJM generators' complaint that the unit-specific review lacked transparency and potentially allowed new market entrants to submit below-cost bids that depressed PJM's capacity market clearing prices (i.e. entities in bankruptcy). As a reminder, PJM's proposed revisions of the rule passed the Markets and Reliability Committee and the Membership Committee with nearly 90% support back in 2012. That said, the new rule would provide certainty and transparency in the MOPR exception process, although we would not expect material impact to PJM capacity auction as there was no request for unit-specific exemptions in the previous three auctions.*

NEE – Judge rejects bid for $275mm break-up fee

- A bankruptcy judge rejected NEE's attempt to halt a decision over the $275mm break-up fee for its failed effort to acquire Energy Future Holdings.

Guggenheim takeaway: *NEE might walk away from TX empty handed, although their mind is already in Carolina in our view - For a walk-through of our mosaic theory supporting resolution of the V.C. Summer situation in South Carolina by way of M&A, where we believe NEE (or any prospective acquirer for that matter) may ultimately need a package deal with Santee Cooper and SCG in order to effectuate a transaction with a politically palatable rate impact, see HERE.*

NEE/ED – Environmental group pushes back on VA water permit for MVP

- Attorneys for a number of environmental groups have asked the U.S. Court of Appeals to review the VA decision to issue a water quality permit.

Guggenheim takeaway: *Not likely to gain much traction as the VA DEQ held public meetings and thoroughly vetted the project before issuing the water permit.*

ES – EDF served with a letter to cease and desist false claims around ES gas procurement

- EDF was put on notice by ES, as the company issued a Cease & Desist letter suggesting that it will pursue legal action if EDF doesn't halt false and defamatory statements regarding ES's gas procurement practices.

Guggenheim takeaway: *A bold remedy for bold accusations… As a reminder, EDF claimed ES intentionally withheld natural gas pipeline capacity at the expense of its customers; ES adamantly refuted these claims with support from other industry participants since EDF published a report with these suggestions earlier in the year.*

EXC – Completes internal transfer of Fitzpatrick

- EXC notified FERC that the internal restructuring transaction of James A. Fitzpatrick nuclear plant has completed.

Guggenheim takeaway: *No surprise as the transfer was approved by FERC back in October and see our note HERE for additional takeaway on the transaction.*

Guggenheim's Power & Utility Comp Sheet

Price as of Saturday, December 09, 2017

									GUGGENHEIM								Consensus							
Regulated Utilities (1)		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
AEP	American Electric Power	37.8	Neutral	$64	$76.93	3.2%	64%	492	3.64	3.86	4.06	4.28	21.1	19.9	18.9	18.0	3.61	3.89	4.11	4.30	21.3	19.8	18.7	17.9
ALE	ALLETE	4.0	Neutral	$69	$79.33	2.9%	62%	51	3.35	3.72	3.90	4.09	23.7	21.3	20.3	19.4	3.28	3.60	3.87	3.96	24.2	22.0	20.5	20.1
AVA	Avista*	3.3	Neutral	$53	$51.58	2.9%	73%	64	1.81	2.05	2.31	2.42	28.5	25.2	22.3	21.3	1.88	2.05	2.20	2.42	27.4	25.2	23.4	21.3
CMS	CMS Energy	14.1	Neutral	$48	$49.87	2.8%	61%	282	2.19	2.34	2.51	2.67	22.8	21.3	19.9	18.7	2.17	2.33	2.50	2.67	23.0	21.4	19.9	18.7
CNP	CenterPoint	12.5	Neutral	$30	$28.91	3.9%	78%	431	1.33	1.43	1.51	1.58	21.7	20.2	19.1	18.3	1.33	1.43	1.50	1.56	21.8	20.2	19.3	18.6
D	Dominion	54.0	Buy	$87	$83.88	4.1%	84%	644	3.60	4.06	4.35	4.55	23.3	20.7	19.3	18.4	3.58	4.02	4.26	4.53	23.4	20.8	19.7	18.5
DTE	DTE Energy	20.7	Buy	$118	$115.49	3.0%	60%	179	5.49	5.77	6.07	6.46	21.0	20.0	19.0	17.9	5.52	5.68	6.04	6.34	20.9	20.3	19.1	18.2
DUK	Duke Energy	61.6	Buy	$94	$88.05	4.2%	79%	700	4.60	4.68	4.90	5.10	19.1	18.8	18.0	17.3	4.56	4.83	5.08	5.28	19.3	18.2	17.3	16.7
ED	Consolidated Edison	27.6	Neutral	$76	$88.92	3.2%	67%	310	4.08	4.25	4.56	4.65	21.8	20.9	19.5	19.1	4.10	4.26	4.49	4.67	21.7	20.9	19.8	19.0
EIX	Edison International	23.4	Neutral	$73	$71.80	3.3%	55%	326	4.35	4.30	4.68	5.06	16.5	16.7	15.3	14.2	4.30	4.28	4.65	4.91	16.7	16.8	15.4	14.6
ES	Eversource Energy	20.7	Buy	$67	$65.22	3.2%	62%	317	3.15	3.35	3.60	3.80	20.7	19.5	18.1	17.2	3.13	3.32	3.55	3.73	20.8	19.6	18.4	17.5
LNT	Alliant Energy	10.4	Neutral	$38	$44.94	3.0%	64%	231	1.92	2.12	2.24	2.41	23.4	21.2	20.1	18.6	1.97	2.13	2.24	2.39	22.9	21.1	20.1	18.8
NEE	NextEra	74.8	Buy	$166	$159.03	2.8%	61%	470	6.90	7.30	7.78	8.36	23.0	21.8	20.4	19.0	6.74	7.25	7.74	8.33	23.6	21.9	20.5	19.1
OGE	OGE Energy	6.9	Buy	$40	$34.46	3.9%	67%	200	1.90	2.04	2.14	2.18	18.1	16.9	16.1	15.8	1.93	2.00	2.10	2.19	17.9	17.3	16.4	15.7
PCG	PG&E Corporation	27.4	Neutral	$60	$53.46	4.1%	58%	513	3.70	3.83	4.03	4.11	14.4	14.0	13.3	13.0	3.68	3.82	3.99	4.15	14.5	14.0	13.4	12.9
PNW	Pinnacle West	10.1	Neutral	$90	$90.75	3.1%	64%	112	4.29	4.44	4.76	5.03	21.2	20.4	19.1	18.0	4.27	4.44	4.75	4.99	21.3	20.4	19.1	18.2
POR	Portland General Electric	4.3	Neutral	$44	$48.68	2.9%	61%	89	2.28	2.33	2.45	2.56	21.4	20.9	19.9	19.0	2.26	2.32	2.43	2.56	21.5	21.0	20.0	19.0
PPL	PPL Corporation	23.6	Neutral	$39	$34.50	5.0%	75%	683	2.15	2.32	2.39	2.50	16.0	14.9	14.4	13.8	2.17	2.33	2.42	2.53	15.9	14.8	14.3	13.6
SCG	SCANA	6.5	Neutral	$45	$45.78	5.6%	93%	143	4.06	2.76	2.87	3.03	11.3	16.6	16.0	15.1	4.05	3.20	3.29	3.82	11.3	14.3	13.9	12.0
SO	Southern Company	51.2	Buy	$56	$51.06	4.7%	77%	1004	3.00	3.09	3.16	3.33	17.0	16.5	16.2	15.3	2.95	3.04	3.15	3.30	17.3	16.8	16.2	15.5
WEC	WEC Energy	21.8	Buy	$71	$68.96	3.1%	65%	316	3.11	3.35	3.54	3.75	22.2	20.6	19.5	18.4	3.10	3.28	3.47	3.72	22.2	21.0	19.9	18.5
***Average** (Excl. AVA for P/E)*						**3.6%**	**68%**						**20.0**	**19.2**	**18.1**	**17.2**					**20.1**	**19.1**	**18.1**	**17.2**

Integrated Utilities (2)		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
ETR	Entergy	15.1	Buy	$91	$84.04	4.3%	73%	180	6.90	4.91	5.00	5.25	12.2	17.1	16.8	16.0	6.90	5.06	5.30	5.42	12.2	16.6	15.9	15.5
EXC	Exelon	39.4	Buy	$45	$41.05	3.3%	48%	960	2.65	2.88	2.82	2.63	15.5	14.3	14.6	15.6	2.66	2.88	2.82	2.74	15.4	14.3	14.6	15.0
FE	FirstEnergy	14.6	Buy	$40	$32.83	4.5%	59%	445	3.05	2.50	2.36	2.18	10.8	13.1	13.9	15.1	2.98	2.52	2.36	2.09	11.0	13.0	13.9	15.7
PEG	PSEG	26.3	Buy	$52	$51.93	3.5%	62%	506	2.92	2.93	2.96	3.01	17.8	17.7	17.5	17.3	2.92	2.98	3.02	3.09	17.8	17.4	17.2	16.8
Average						**3.9%**	**61%**						**14.1**	**15.6**	**15.7**	**16.0**					**14.1**	**15.3**	**15.4**	**15.7**

Independent Power Producers (IPPs) (3)		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Adjusted EBITDA**				**EV / EBITDA**				**Adjusted EBITDA**				**EV / EBITDA**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
CPN	Calpine	5.4	Neutral	$15	$15.09	0.0%	0%	361	1,876	2,013	1,976	2,073	9.1	8.1	8.0	7.4	1,850	2,002	1,958	2,042	8.7	7.7	7.3	NA
DYN	Dynegy	1.5	Buy	$18	$11.31	0.0%	0%	131	1,199	1,436	1,305	1,274	8.0	6.2	6.4	6.2	1,217	1,455	1,302	1,162	7.5	5.9	6.5	7.4
NRG	NRG Energy	8.9	Buy	$35	$28.25	0.4%	0%	317	2,420	2,914	3,184	3,185	7.8	6.0	5.0	4.5	2,493	2,464	2,175	1,845	9.2	8.9	8.9	11.4
VST	Vistra Energy	7.6	Buy	$21	$17.75	0.0%	0%	428	1,442	1,436	1,415	1,401	7.6	7.1	6.7	6.3	1,425	1,412	1,416	1,374	7.3	7.0	6.5	5.7
Average													**8.1**	**6.9**	**6.5**	**6.1**					**8.2**	**7.4**	**7.3**	**8.2**

Gas Utilities (4)		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
NI	NiSource	9.1	Buy	$29	$27.14	2.8%	59%	337	1.20	1.28	1.38	1.45	22.6	21.2	19.7	18.7	1.19	1.28	1.36	1.43	22.8	21.2	19.9	19.0
NJR	New Jersey Resources	3.8	Buy	$47	$43.60	2.5%	61%	87	1.73	1.83	1.97	2.13	25.2	23.8	22.1	20.5	1.73	1.81	1.97	2.15	25.2	24.0	22.2	20.3
NWN	NW Natural Gas	1.9	Neutral	$59	$67.20	2.8%	82%	29	2.18	2.30	2.44	2.60	30.8	29.2	27.5	25.8	2.18	2.29	2.52	2.60	30.8	29.4	26.7	25.8
SJI	South Jersey Industries	2.6	Neutral	$34	$32.99	3.4%	73%	79	1.15	1.54	1.68	1.83	28.7	21.4	19.6	18.0	1.16	1.45	1.64	1.79	28.5	22.8	20.1	18.4
SR	Spire	3.9	Buy	$82	$80.20	2.7%	59%	48	3.56	3.72	3.80	4.11	22.5	21.6	21.1	19.5	3.56	3.72	3.85	4.00	22.5	21.6	20.8	20.1
SRE	Sempra Energy	29.3	Buy	$127	$116.69	3.0%	63%	251	5.32	5.66	6.65	7.55	21.9	20.6	17.5	15.5	5.25	5.59	6.58	7.55	22.2	20.9	17.7	15.5
VVC	Vectren	5.7	Buy	$73	$69.09	2.7%	66%	83	2.65	2.79	3.05	3.23	26.1	24.8	22.7	21.4	2.63	2.81	3.04	3.23	26.3	24.6	22.8	21.4
Average						**2.9%**	**66%**						**25.4**	**23.2**	**21.5**	**19.9**					**25.5**	**23.5**	**21.5**	**20.1**

Other		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
AWK	American Water Works	16.3	Buy	$95	$91.52	1.9%	54%	178	3.00	3.26	3.52	3.81	30.5	28.1	26.0	24.0	3.01	3.28	3.53	3.76	30.4	27.9	25.9	24.3

		Market Cap ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Adjusted EBITDA**				**EV / EBITDA**				**Adjusted EBITDA**				**EV / EBITDA**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
NYLD	NRG Yield	1.8	Neutral	$18	$18.55	6.8%	NA	183	915	1,046	1,062	1,120	7.2	6.3	6.2	5.8	933	989	1,122	1,160	9.7	9.2	8.1	8.9

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(3) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

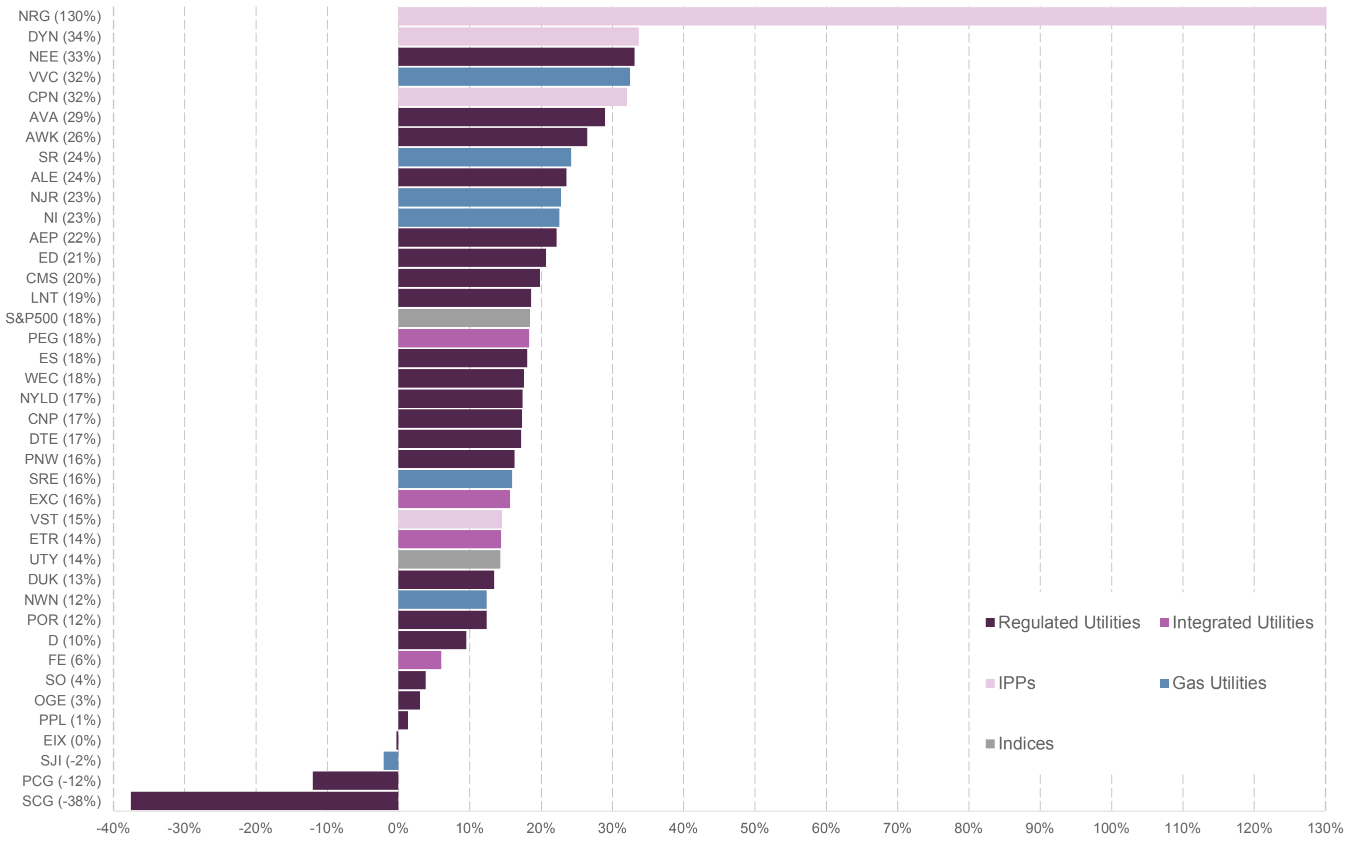
(4) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Note: Coverage of WR and GXP suspended due to investment banking activity

Share Price Performance (Year-to-Date)

Year-to-Date Share Price Performance



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(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(3) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

(4) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Coverage of WR and GXP suspended due to investment banking activity

Guggenheim 2017 Non Deal Roadshow Schedule

Ticker	Dates	Regions
NYLD	1/10-11	Boston
WEC	2/17	Boston
ETR	2/21-22	West Coast
EXC	3/9-10	Chicago/Minneapolis
AWK	3/13	NYC
EIX	3/15	Connecticut
OGE	3/27-28	West Coast
NEE	3/29-30	Mid Atlantic
SJI	4/11	Boston
ALE	4/12-13	Mid Atlantic
AWK	5/9	Boston
VVC	5/10	New York
SJI	5/11	New York
SO	5/11-12	NYC/Mid Atlantic
POR	5/15	New York
DUK	5/31-6/2	West Coast

Ticker	Dates	Regions
CNP	6/5	Boston
LNT	6/6-7	Midwest
D	6/13-14	Midwest
SR	6/20-21	Chicago/Minneapolis
DTE	6/26-27	Chicago & Toronto
PNW	6/28-30	Midwest
NRG	7/19	Chicago
DYN	8/17-18	NYC/Boston
NWN	9/12	Chicago/Minneapolis
ES	10/11	Mid Atlantic
NI	10/18-20	West Coast
PPL	11/28	Boston
PEG	11/30-12/1	Canada
CMS	12/5	NYC
AVA	12/6	NYC

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
12/12	SCG	ORA request to suspend BLRA-approved rates	SCE&G	SC	2017-305-E	Commission hearing at 10:30am
12/12	EXC	IL ZECs		IL		EPSA side reply briefs due.
12/13	POR	2016 IRP	PGE	OR	LC-66	Public hearing on POR IRP
12/13	ETR	EAI 2018 FRP	Entergy Arkansas	AK	16-036-FR	Requested decision
12/14	*NERC*	2017 Long-Term Reliability Assessment				Release of the 2017 Long-Term Reliability Assessment
12/14	ALE	MN Rate Case	MN Power	MN		MPUC hearing on MN rate case
12/14	AWK	CA Cost of Capital	CA American Water	CA		Final Commission decision for CA cost of capital for water utilities
12/15	ERCOT	Capacity, Demand and Reserves Report				Release of Capacity, Demand and Reserves Report
12/15 - 12/19	ETR	New Orleans Power Station	ENOI	NOLA	UD-16-02	New Orleans Power Station regulatory approval hearing
12/15 - 12/31	DUK	Duke Energy Progress rate case	Duke Energy Progress	NC	D-E-2	Commission decision expected
12/19	D	Millstone Public Hearing		CT		Millstone public hearing on draft report from DEEP and PURA
12/21	*PJM*	MOPR Extension				PJM Markets and Reliability Committee vote
12/27	ETR	Company testimony	ELL	LA	U-34472	Washington Parish Energy Center regulatory approval staff and intervenor testimony
12/29	DUK	KY rate case	Duke Energy Kentucky	KY	C-2017-00321	Intervenor testimony due
Dec.	WEC	Illinois System Modernization filing	Peoples Gas Light	IL	16-0376	Final written order expected in Illinois System Modernization filing
Dec.	PNW	Demand Side Management filing	Arizona Public Service	AZ	E-01345A-17-0134	Decision expected in Demand Side Management filing
Dec.	ES	MA rate filings	Nstar Electric Western Mass. Electric	MA	DPU 17-05 (NSTAR) DPU 17-05 (WMECO)	DPU decision
Dec.	OGE	OK GRC	Oklahoma Gas and Electric	OK		Filing expected for recovery of environmental costs for Mustang CT
Dec.	SR	MO rate case	Laclede Gas Co.	MO	C-GR-2017-0215	Hearings and Briefs
Dec.	VVC	Indiana IRP	VVC Indiana	IN		IN Commission's Final IRP Comments

Guggenheim's Forward Commodity Curves

- *Forward Commodity Curves for Power & Utility Modeling*

Key Industry Research

1. *Guggenheim EEI Takeaways - Day 1*
2. *Guggenheim EEI Takeaways - Day 2*
3. *Guggenheim EEI Takeaways - Day 3*
4. *Utility and IPP 3Q17 Model Sweep*
5. *DOE Texas Tango – Will FERC Dance?*
6. *2Q17 PREVIEW: Benign Earnings Season, but No Shortage of Topics or NT Catalysts to Watch*
7. *AGA Conference Highlights and Management Meeting Takeaways*
8. *2017 Outlook: Riding the Cyclical Wave As It Crashes Through Regulated Utilities*
9. *Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call*
10. *Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities*
11. *Power Breakfast: Guggenheim-Hosted Commissioner Meetings*
12. *Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings*
13. *PJM Capacity Auction – Introducing 2020/2021 PJM Capacity Auction Forecast – Through the Doomsday Cloud, We See a Silver Lining*
14. *Tax Reform: Lessons, Expectations, and Implications for Utilities from Industry Thought Leaders at ConEd*
15. *Guggenheim Levelized Cost of Energy Analysis – Balance of Power Continues to Shift Toward Gas and Renewables, Irrespective of Policy Direction*
16. *Fundamentals "Trump" Ideology: Our Reaction to the Reaction and Early Look at the New Administration - Not Quite Black & White for Utilities*
17. *IPPs Heating Up for Winter; CF Machines Trading at Unsustainable Yields*
18. *Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes*
19. *Texas Showdown: Has Wave of Coal Retirement Reached Texas?*
20. *Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance*

Key Company Research

1. *SCG – Upgrading to NEUTRAL – Balancing Risk/Reward: Tough Short with Wind Blowing in SC; Is SCG the Special Sauce?*
2. *NI – Management Roadshow: 20/20 Vision – Open your Eyes to See the Runway Through the Event Horizon*
3. *PCG – Shares Continue to Slide as Insurance Isn't Much of a Safety Net; Tough to Call a Bottom without a Safety Net*
4. *VST – Further Coal Shutdowns with One Surprise; Ain't Waiting Around for Nobody but Consistent w/ Our Thoughts*
5. *VST – Part Deux for Today on Coal Retirement Announcements – Surprise? No Surprise.*
6. *DM - Welcome to the "New" Dominion; Initiating Coverage with a BUY Rating, $39 PT*
7. *SRE – You Can't Have Your Growth and Dilute It Too – $6bn Equity Check is a Bitter Pill to Swallow*
8. *VST – Someone's Bailing - Could the Prisoner's Dilemma Finally Get Solved?*
9. *CMS – Analyst Day Quick Take: Same Strong Story, Different Day; No Real Surprises but Value-Added Details Provided*
10. *SO – Upgrading to BUY – Shaking off the Hangover with Some Hair of the Dog; Raising Price Target*
11. *VST – Initiating with a BUY Rating – How Can You Not?*
12. *CMS – Initiating with NEUTRAL – Late to the Party but Here for the Show; Valuation Keeps Us on Sidelines, for Now*
13. *DYN – Mgmt. Roadshow Through The Event Horizon – Stars Will Align; Raising TP by 29%*
14. *CPN – Another One Down: Downgrading to Neutral on Acquisition; Can't Rule Out Superior Go-Shop Bid, but Not Likely*
15. *SO - GA Commission Prodding Parties to "Go" In Our View*
16. *SCG – No Change in Stance; No Easy Way Out – Can Stakeholders Reach the Same Conclusion or Other Forces at Play?*
17. *NRG - Management Roadshow: Reinforced Message, Incremental Insight; Raising PT, Again*
18. *EXC - Illinois Judge Rules in Favor of EXC in ZECs Case, Direct Read-Through to NY*
19. *EXC - Stood In Line but NY State of Mind Didn't Keep Us Waiting Too Long: Rules In Favor of ZECs*
20. *PNW - Mgmt. Roadshow: Solid. What Else Can You Ask For? Just a Slightly Better Entry Point*
21. *DTE - BUY - Management Roadshow: If You Build It, They Will Come*
22. *SR – Mgmt. Roadshow: All About Clearing Up Misconceptions: Time to Put M&A Bias to Bed and Move Past MO Discount*
23. *NEE – Analyst Day Reinforces Growth; Likely Even Higher, But Whose Counting At This Point*
24. *D – BUY – Mgmt. Roadshow: Lucky Enough to Catch a June Bug?*
25. *LNT Mgmt. Roadshow: The Wind Continues to Blow in the Right Direction But Not Towards M&A*
26. *DUK Mgmt. Roadshow: Refreshing Message—Rate Cases, Legislation, Coal/Gas Conversion and Infrastructure Should Bear Fruit*
27. *DYN – Piecing Together Logic of a Potential Combination with VST - So You're Tellin' Me There's a Chance!?*
28. *POR – Management Roadshow: Filling the Capacity Gap; More Clarity to Emerge Soon*
29. *SO - Mgmt Roadshow Goes Down To The Wire; Extended Assessment Period Aligns With Strategy*
30. *SJI Mgmt Roadshow - Jersey Strong in NY*
31. *VVC Mgmt. Roadshow: Reinforces BUY – Valuation Looks Good; Continues Getting Gassier While Protecting Strong Balance*
32. *AWK Management Roadshow – Keep Doing What You Are Doing: Block & Tackle*

33. CPN - From Coast to Valley, CCGTs Get No Love In Cali: Not a One-Sided Debate at 25% CF Yield, A Free Call Option
34. ALE Mgmt. Roadshow: Wind Blowing in the Right Direction But Will Water Dampen Investor Excitement? Mgmt Has a Plan
35. SCG – Show Goes on for Now; Still Wait-and-See Mode, Although Turning Our Focus to Toshiba – An M&A Catalyst in Disguise?
36. SRE – See the Forest Through the Trees: The Humblest, Top of the Humble List
37. NEE – Management Roadshow and the Texas Tango
38. OGE Mgmt. Roadshow: What to Do With All That Cash? Oklahoma PSC – Ball's in Your Court!
39. EIX Mgmt. Roadshow: Execution Key While Investors Continue to Take a Wait and See Approach
40. EXC - Mgmt Roadshow: Please Don't Let Me Be Misunderstood – Message Was Loud and Clear
41. NRG – GenOn or GenOff?
42. PPL – NEUTRAL – NT Uncertainty Removed, but No Less Complex; Sum-of-the-Parts Just Won't Add Up
43. ES - BUY - Management Roadshow – Growth Concerns? Despite Noise, No…And Levers to Pull Post 2019
44. ETR – Upgrading to BUY – The Past Is the Past: Fully-Regulated Growth Utility Emerging from a Mushroom Cloud
45. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
46. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
47. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
48. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power

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NEUTRAL	136	39.77%	13	9.56%
SELL	1	0.29%	0	0.00%

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Citi Research

Equities

13 Dec 2017 13:07:32 ET │ 9 pages

Diversified Utilities

North America │ United States

Exelon Corp (EXC)

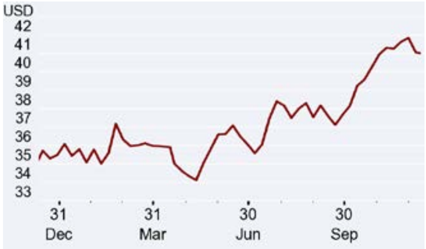
Model Update

- Estimate Change

- We have updated our model for 3Q financial results, hedge profile, seasonality, and latest management guidance. Our model uses power curves as of 9/01/2017. We have incorporated the cost saving initiatives on the generation side, which were partially offset by reduction in gross margins. Our updated consolidated EPS estimates are $2.64, $2.77, and $3.06 for 2017, 2018, and 2019, respectively. We extended our model to 2021 from 2019.

Buy	1
Price (12 Dec 17 16:00)	US$41.01
Target price	US$45.00
Expected share price return	9.7%
Expected dividend yield	3.2%
Expected total return	13.0%
Market Cap	US$39,405M

Price Performance
(RIC: EXC.N, BB: EXC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	na	na	na	0.44A	2.68A	2.68A
2017E	0.65A	0.54A	0.85A	0.59E	2.64E	2.65E
Previous	0.65A	0.54A	0.89E	0.65E	2.73E	na
2018E	na	na	na	na	2.77E	2.89E
Previous	na	na	na	na	2.84E	na
2019E	na	na	na	na	3.06E	2.82E
Previous	na	na	na	na	3.13E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

EXC.N: Fiscal year end 31-Dec

Price: US$41.01; TP: US$45.00; Market Cap: US$39,405m; Recomm: Buy

Profit & Loss (US$m)	2015	2016	2017E	2018E	2019E
Sales revenue	29,447	31,360	31,503	27,026	27,702
Cost of sales	-13,084	-12,640	-12,283	-7,655	-7,748
Gross profit	16,363	18,720	19,221	19,371	19,954
Gross Margin (%)	55.6	59.7	61.0	71.7	72.0
EBITDA (Adj)	6,841	8,357	8,567	9,240	9,893
EBITDA Margin (Adj) (%)	23.2	26.6	27.2	34.2	35.7
Depreciation	-2,450	-3,936	-3,707	-3,732	-3,920
Amortisation	0	0	0	0	0
EBIT (Adj)	4,409	3,112	4,222	5,508	5,973
EBIT Margin (Adj) (%)	15.0	9.9	13.4	20.4	21.6
Net interest	-1,033	-1,536	-1,611	-1,706	-1,741
Associates	0	0	0	0	0
Non-op/Except	-28	365	1,007	233	233
Pre-tax profit	3,330	1,989	3,388	4,035	4,465
Tax	-1,073	-761	-910	-1,375	-1,525
Extraord./Min.Int./Pref.div.	12	-94	-13	0	0
Reported net profit	2,269	1,134	2,465	2,661	2,940
Net Margin (%)	7.7	3.6	7.8	9.8	10.6
Core NPAT	2,227	2,488	2,502	2,664	2,943
Per share data	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Reported EPS ($)	2.54	1.22	2.60	2.77	3.05
Core EPS ($)	2.49	2.68	2.64	2.77	3.06
DPS ($)	1.24	1.26	1.31	1.34	1.38
CFPS ($)	8.53	9.14	7.94	7.76	7.96
FCFPS ($)	-0.01	-0.09	-0.05	0.23	0.95
BVPS ($)	28.98	27.96	29.88	31.03	32.66
Wtd avg ord shares (m)	890	924	949	958	959
Wtd avg diluted shares (m)	893	927	949	962	963
Growth rates	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Sales revenue (%)	7.4	6.5	0.5	-14.2	2.5
EBIT (Adj) (%)	42.4	-29.4	35.7	30.5	8.4
Core NPAT (%)	37.2	11.7	0.6	6.5	10.5
Core EPS (%)	32.8	7.6	-1.7	5.0	10.3
Balance Sheet (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Cash & cash equiv.	6,502	635	500	500	500
Accounts receivables	4,099	5,359	4,804	4,804	4,804
Inventory	1,566	1,638	1,668	1,668	1,668
Net fixed & other tangibles	69,916	84,648	88,733	91,347	93,249
Goodwill & intangibles	8,737	16,723	16,915	16,915	16,915
Financial & other assets	4,564	5,901	6,111	6,127	6,146
Total assets	95,384	114,904	118,731	121,361	123,282
Accounts payable	2,883	3,441	3,132	3,132	3,132
Short-term debt	2,033	3,697	3,388	3,129	3,021
Long-term debt	24,286	32,216	32,424	33,759	34,281
Provisions & other liab	38,888	47,938	49,221	49,407	49,302
Total liabilities	68,090	87,292	88,164	89,427	89,735
Shareholders' equity	25,986	25,837	28,349	29,717	31,330
Minority interests	1,308	1,775	2,217	2,217	2,217
Total equity	27,294	27,612	30,566	31,934	33,547
Net debt (Adj)	19,817	35,278	35,312	36,388	36,801
Net debt to equity (Adj) (%)	72.6	127.8	115.5	113.9	109.7

Valuation ratios	2015	2016	2017E	2018E	2019E
PE (x)	16.4	15.3	15.6	14.8	13.4
PB (x)	1.4	1.5	1.4	1.3	1.3
EV/EBITDA (x)	9.5	8.7	9.5	8.9	8.4
FCF yield (%)	0.0	-0.2	-0.1	0.5	2.3
Dividend yield (%)	3.0	3.1	3.2	3.3	3.4
Payout ratio (%)	50	47	50	49	45
ROE (%)	9.4	4.4	9.1	9.2	9.6
Cashflow (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
EBITDA	6,841	7,096	7,699	9,240	9,893
Working capital	-264	-481	-1,245	0	0
Other	1,039	1,854	1,083	-1,774	-2,229
Operating cashflow	7,616	8,469	7,537	7,466	7,664
Capex	-7,624	-8,553	-7,587	-7,250	-6,750
Net acq/disposals	-145	-6,755	-245	0	0
Other	-53	-195	-69	0	0
Investing cashflow	-7,822	-15,503	-7,901	-7,250	-6,750
Dividends paid	-1,105	-1,356	-1,238	-1,293	-1,327
Financing cashflow	4,830	1,191	232	-216	-914
Net change in cash	4,624	-5,843	-133	0	0
Free cashflow to s/holders	-8	-84	-51	216	914

For definitions of the items in this table, please click here.

Exelon Corp

Company description

Exelon Corp (EXC) is an integrated electric and gas utility that operates six utilities in Pennsylvania, Illinois, New Jersey, DC, Delaware, and Maryland and the largest deregulated nuclear fleet in the United States. Exelon's regulated businesses consist of Atlantic City Electric, BGE, ComEd, Delmarva Power, PECO, and Pepco. Exelon Generation operates the largest nuclear fleet in the United States, with plants concentrated in the Midwest and the Mid-Atlantic regions.

Investment strategy

We rate the shares of Exelon Corp Buy (1).

Our rating is not only based on the IL and NY ZECs but we believe that other states will follow suit in providing support for nuclear plants and that will further improve EXC's financial strength and valuation. We like this regulated utility's robust growth profile of 6-8% through 2020E.

Valuation

We value EXC using a sum-of-the-parts approach to get to our $45 price target. We value ExGen at ~$3/share and believe ExGen’s core coal and nuclear assets will continue to experience weak economics. Valuation is based on a 5.5x 2019 EBITDA multiple and WACC of 8.5%. The legacy utility business is valued at $28/share based on a 18.5x terminal PE multiple. We also add $8/share value provided by PEPCO. We back out $5/share for the parent net debt and add $12/share for ZECs to get to our rounded PT of $45/share.

Risks

Commodity price risk affecting merchant generation – If natural gas prices rise, wholesale power prices will likely rise, raising commodity margins.

Exelon is inherently a long natural gas position since natural gas generation sets the price of power in its key generation markets. If forward natural gas prices rise significantly from current prices, Exelon’s earnings will likely exceed our forecasts.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

Credit rating – Exelon’s generation business is currently two notches above a high yield credit rating, but declining cash flows at the merchant business presents some risk of a possible credit rating downgrade barring deleveraging through an equity issuance, asset sale, or other means. If ExGen’s credit rating is lowered to high yield status, ExGen would likely have to increase their collateral and it could pressure hedging activities going forward, which would reduce our earnings outlook.

If the risks get rejected after further legal challenge then the stock has downside as some value of ZEC is already in the stock price

If the impact on the company from any of these factors proves to be more negative/positive than we anticipate, the stock will likely have difficulty achieving our financial and price targets.

Appendix A-1

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Exelon Corp (EXC)

Ratings and Target Price History
Fundamental Research

Analyst: Praful Mehta
Covered since September 17 2015

	Date	Rating	Target Price	Closing Price
1	18-Dec-14 16:46:48	Coverage terminated		
2	17-Sep-15 16:01:15	*3	*27.00	31.57
3	26-Jan-16 17:07:46	*2	27.00	27.84
4	22-Feb-16 16:00:00	*3	27.00	31.69
5	19-Jul-16 23:43:46	3	*29.00	36.58
6	04-Oct-16 03:14:34	3	*27.00	31.86
7	28-Nov-16 20:37:44	3	*29.00	33.39
8	02-Dec-16 07:02:27	*2	*31.00	33.01
9	30-Mar-17 06:59:06	2	*35.00	35.70
10	07-Jun-17 06:52:17	2	*36.00	36.61
11	27-Jul-17 07:37:04	*1	*43.00	37.99
12	11-Oct-17 09:15:06	1	*45.00	38.46

*Indicates Change

Rating/target price changes above reflect Eastern Time

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Rating
Buy

North America
United States

Industrials
Utilities and Power

Company
Exelon

Reuters	Bloomberg	Exchange	Ticker
EXC.N	EXC UN	NYS	EXC

Date
14 December 2017

Company Update

Price at 12 Dec 2017 (USD)	41.01
Price target	41.00
52-week range	42.39 - 33.50

Catch up with Crane

Valuation & Risks

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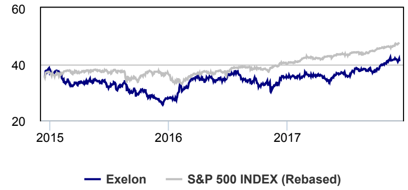
Investor meetings focus on taxes and the FERC

On Tuesday and Wednesday, we hosted Exelon CEO Chris Crane and CFO Jack Thayer for investor meetings in NYC and Boston. With tax reform and potential regulatory changes emanating from the FERC on the horizon, it was a good time to catch up with management. We believe EXC is well positioned to benefit from both tax reform and potential action by the FERC on the US Department of Energy's (DOE's) grid resiliency proposal as well as further nuclear support measures coming from the states. Further, we believe the company is executing well on above-average growth plans at the utility, including narrowing the gap between earned and authorized returns at the recently acquired Pepco Holdings utilities, and deleveraging at ExGen. While the stock is trading close to our current $41 PT, we note that we have yet to factor in upside from tax reform changes, PJM energy price formation reforms, or the potential passage of nuclear-friendly legislation in New Jersey which is under discussion in the current lame duck session. Further, our valuation will also benefit when we roll forward to 2020 from 2019, capturing another year of above-average growth at the utilities.

Tax changes likely material positive for EXC

With the US Congress expected to pass a revised tax code as soon as next week, impacts of anticipated changes were a key focus. Overall, EXC is well positioned versus most utility peers given their large and profitable merchant generation business, which will benefit from a lower corporate tax rate (~20% versus 27-28% otherwise expected for 2019/2020) and 100% bonus depreciation. These changes will favorably impact both EPS and cash flows at ExGen. At the utilities, tax reform should be a cash negative with the regulated utility industry giving up bonus depreciation and flowing the majority of excess deferred taxes back to customers over time. However, utility EPS should benefit with upside to ratebase stemming from the loss of bonus depreciation and the roll back of deferred tax. Further, EXC's goal of narrowing the gap between earned and authorized returns at the PHI utilities should be easier to achieve with a lower tax rate and the return of deferred tax balances providing some headroom on customer rates. From an interest expense perspective, EXC also believes they will not lose the ability to deduct non-utility interest expense due to their falling below both 30% EBIT or EBITDA on a consolidated basis. On net CFO Thayer sees the cash flow accretion at the competitive business to exceed cash flow dilution on the regulated side and therefore keeping de-leveraging plans on track. The company expects to quantify impacts in new disclosure when, and if, a new tax law passes. While many have

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.7	8.3	18.8
S&P 500 INDEX	3.2	6.7	18.0

Source: Deutsche Bank

Key indicators (FY1)	
ROE (%)	8.7
ROA (%)	2.2
Net debt/equity (x)	120.0
Book value/share (USD)	31.75
Price/book (x)	1.3
Net interest cover (x)	3.3
EBIT margin (%)	15.5

Source: Deutsche Bank

expected the changes to be positive for EXC for some time, we believe more granular disclosures could be a positive catalyst.

Investment Tax Credit bill introduced for nuclear plants in House

On a related topic, we also learned that a bill had been introduced in the House earlier this week that would benefit US nuclear power plant owners. Representative Patrick Meehan (R-PA) introduced HR 4614 which would establish a 30% Investment Tax Credit for nuclear power plants, if passed. A bipartisan group from states with nuclear power co-sponsored the legislation. While the bill may face long odds it is designed to include nuclear in the tax extenders discussion and level the playing field versus other fuel types. In essence it would allow nuclear generators to claim the ITC on fuel and other capital expenditures related to their operating nuclear plants. This could be a more material benefit to the extent that industry efforts to extend nuclear plant lives another 20 years (from 60 to 80) come to fruition. Per CEO Crane half of Exelon’s current nuclear units could be candidates for such extensions down the road.

NJ legislation faces challenging but not impossible timetable

While NJ-based PEG, EXC's closest hybrid peer, is taking the lead on pushing through new state legislation in New Jersey to support the state’s nuclear power plants EXC are closely watching developments in the state. As a reminder, the company owns the Oyster Creek nuclear facility, although this is scheduled to close in late 2019, and co-owns Salem with PEG. Lame-duck NJ Governor Christie has stated publicly that he is willing to sign a bill to support NJ nuclear plants as long as there are no further subsidies added for renewables. While a hearing was held on the concept early last week, an actual bill has yet to be introduced and there is limited time before the lame duck session ends (January 9). While passing a bill in the limited time available is clearly a challenge, EXC were encouraged by the support from key stakeholders (notably labor interests) and noted the important election boost received by Senate President Sweeney in whose district the state’s nuclear units are located. They also noted the differences in the NJ political landscape versus Illinois with much of the process likely to be conducted out of the public view between the key players in the state legislature.

FERC and the most likely response to the DOE NOPR

We initially had expected to be hosting this non-deal roadshow the day after the FERC was expected to rule on the Department of Energy's section 403 notice of proposed rulemaking on grid resiliency. As a reminder, the DOE in October put forth a proposal which calls for cost plus rates (defacto re-regulation) for all plants with 90 days of on site fuel (i.e coal and nuclear plants). Despite coming from the Secretary of Energy, the proposed rule has no force unless adopted by the FERC, which was requested within 60 days (by December 11 initially). However, late last week, the new Trump-appointed Chairman of the FERC asked for a 30-day extension, noting that both he and Commissioner Glick had only recently been sworn in and needed more time to review the many comments that had been filed on the proposal. Secretary Perry reluctantly granted the extension, and action is now expected in early January (1/10).

EXC's expectations regarding how the FERC will react to the NOPR remain relatively unchanged from the views expressed at the EEI Financial Conference in early November. The company expects the FERC to direct near-term changes to the RTOs and also commence a longer-term investigation into resiliency and what can be done to make the grid more resilient. This near-term action could include a directive to PJM to move forward with energy price formation reforms already under discussion, allowing the proposal to move forward without a stakeholder vote. Assuming EXC is correct about what the FERC will do, this would theoretically put PJM in position to file a Section 206 (or something of that nature) on price formation reforms by April or May, which would then likely start a 60-90 day clock for review at the FERC. All together, these reforms could take effect as soon as Q3-18. As a reminder, EXC has endorsed the view that price formation reforms would add $2-$5/MWh to around-the-clock prices in PJM.

In terms of a longer-term investigation into resiliency, EXC believes this could take years to play out and will require better defining resiliency and establishing a design basis. They also would expect this to be highly controversial and gain the attention of powerful lobbies in DC.

Some signs that retail pressures have at least stabilized

On the 3Q call Exelon lowered their gross margin outlook in the Power New Business To Go category by $100M for both 2018 and 2019. This was attributed to aggressive pricing by competitors pressuring realized margins in the supply business to below EXC's target $2-$4/MWh range and pushing renewal rates from close to 80% to the low 70s range and new business win rates down from the 30s into the 20s. At the time management was asked whether they felt they had been sufficiently conservative in reflecting such pressures and were confident that they had. In our meetings this confidence was reiterated with EXC also noting that warm weather late in 3Q had created some helpful volatility in PJM prices since when there have been some signs that the competitive landscape has at least stopped deteriorating with some encouraging signs in terms of recent business wins.

Next steps? Dividend announcement, Q4 disclosures

Outside developments related to the FERC and potential tax related changes, we also expect new disclosures from the company on the Q4 call on ExGen gross margin, including a roll out to 2020, and updated thoughts on dividend growth beyond 2018. EXC have indicated that investors should expect another multi-year growth commitment with a rate more competitive with sector average growth. We also expect 2018 guidance and likely more specifics on the impacts of tax reform.

Forecasts and ratios

Year End Dec 31	2016A	2017E	2018E
FY EPS (USD)	2.68	2.65	2.85
P/E (x)	12.5	15.5	14.4
DPS (USD)	1.26	1.29	1.33
Dividend yield (%)	3.8	3.2	3.2

Source: Deutsche Bank estimates, company data

Appendix 1

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Company	Ticker	Recent price*	Disclosure
Exelon	EXC.N	41.01 (USD) 12 Dec 2017	6, 9, 14

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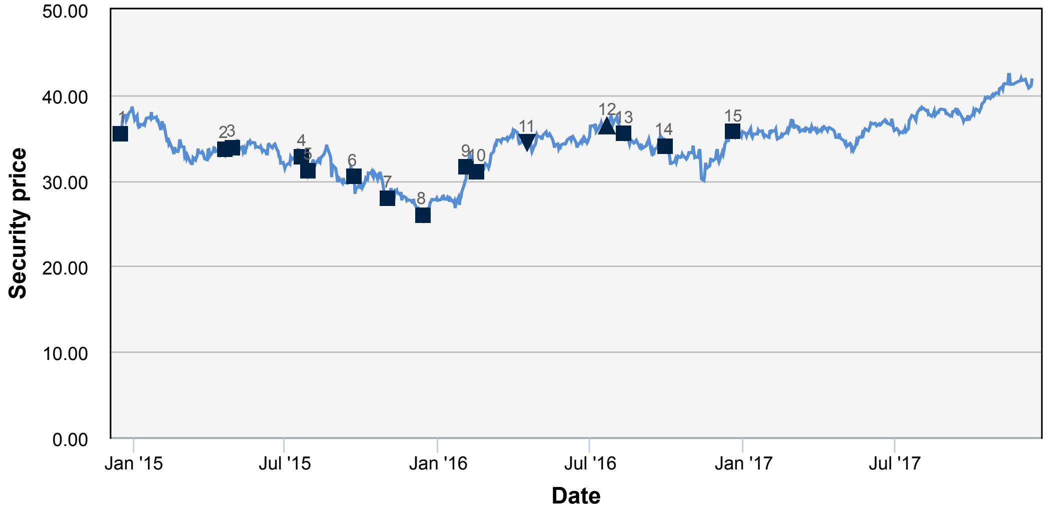
(as of 12/12/2017)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

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2.	04/21/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
3.	04/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
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5.	07/30/2015	Buy, Target Price Change USD 41,00 Jonathan Arnold
6.	09/22/2015	Buy, Target Price Change USD 42,00 Jonathan Arnold
7.	11/02/2015	Buy, Target Price Change USD 37,00 Jonathan Arnold
8.	12/14/2015	Buy, Target Price Change USD 35,00 Jonathan Arnold
9.	02/04/2016	Buy, Target Price Change USD 36,00 Jonathan Arnold
10.	02/17/2016	Buy, Target Price Change USD 34,00 Jonathan Arnold
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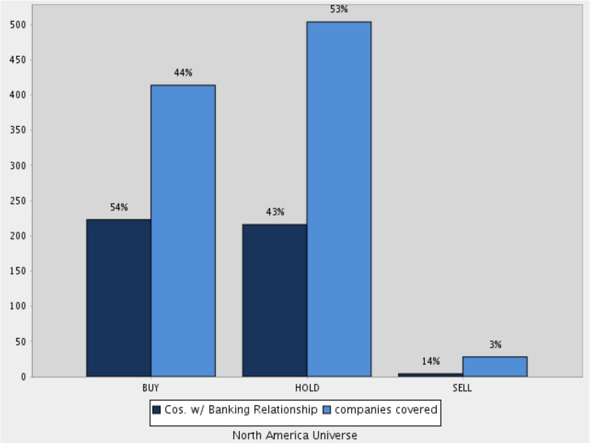

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U.S. Equity Research December 15, 2017

Energy Research
Power, Utilities & Alternative Energy
Initiating Coverage

Exelon Corporation

Exelon Corporation - Initiating Coverage - Underperform

Summary

We initiate coverage of Exelon Corporation (EXC) with an Underperform rating and a $36.00 per share, 12-month price target. Our rating reflects an expected earnings decline at its ExGen subsidiary due to weak forward gas and power prices, as well as the high amount of parent-level debt.

Key Points

We initiate coverage on Exelon Corp. with an Underperform rating and a $36.00 price target. Our Underperform rating reflects the following key points:

- **Mizuho is projecting a 5-year CAGR in earnings of 2.4% through 2021.** Growth in the earnings of the Utility, Parent and Other is expected to be largely offset by an earnings decline at ExGen. A key risk is the weak commodity outlook. Additionally, Mizuho believes the company's retail supply business, should be valued at a lower multiple.

- **Although ExGen is expected to benefit from proposed New Jersey legislation to implement a ZEC, as well as the potential for PJM Market Reform, we believe it is already priced into the stock.** Our estimates incorporate an uplift to EBITDA of $11.50 per MWh from NJ ZECs, which we expect to pass as law by the end of the lame duck session, and give a 50% probability of PJM Reform in the valuation.

- **Mizuho estimates a relative high level of parent debt as a percent of total debt of 20% in 2021. Mizuho estimates a FFO/Debt ratio of 17% 2020, which screens average relative to regulated companies and weak relative to companies with riskier commodity businesses.**

- **Strengths include:** (i) strong 4-year utility rate base growth of 6.5% as a result of increased capex; (ii) the potential to increase dividend growth above 2.5% beginning in 2022, assuming a 70% target payout for UPO; (iii) tax reform benefits, including increased earnings at ExGen resulting from a lower tax rate, and deferred tax cash benefit associated with the extension of bonus depreciation; (iv) the opportunity to pay down debt following bankruptcy of EGTP and targeted debt pay down of $3.0 billion at ExGen.

Valuation: We are initiating our consolidated 2017-21 estimates for EXC as $2.66, $3.06, $2.84, $2.68, and $3.03 respectively. We derive a price target of $36.00/share using sum of the parts analysis. Based on yesterday's closing price of $40.81, Mizuho estimates price depreciation potential of 11.8% and total return potential of (8.58)%, including the company's current yield of 3.21%.

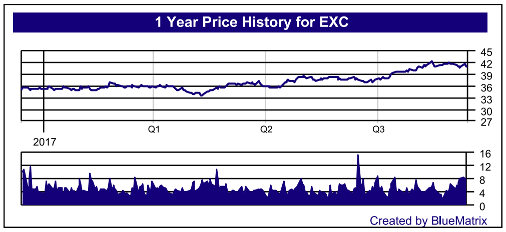
Rating	**Underperform**
Price (12/14)	**$40.81**
Price Target	**$36.00**

Key Data

Symbol	EXC (NYSE)
52-Week Range	$42.67 - $33.30
Market Cap ($mm)	$39,181
Shares Outstanding (mm)	960.1
Float	958.7
Average Daily Volume	5,214,177
Dividend/Yield	$1.26/3.1%
% Change YTD	15
1 year Return	20

Fiscal Year-End: Dec 31

	2016E	2017E		2018E	
		Prior	Curr	Prior	Curr
Earnings per Share ($)					
1Q	–	–	–	–	–
2Q	–	–	–	–	–
3Q	–	–	–	–	–
4Q	–	–	–	–	–
Yr	**2.68E**	**–**	**2.66E**	**–**	**3.06E**
P/E	15.2x	–	15.3x	–	13.3x
EBITDA ($mm)					
1Q	–	–	–	–	–
2Q	–	–	–	–	–
3Q	–	–	–	–	–
4Q	–	–	–	–	–
Yr	**8,105.0E**	**–**	**8,330.0E**	**–**	**8,849.0E**


1 Year Price History for EXC

Created by BlueMatrix

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Company Description

Exelon Corporation (EXC) is a utility holding company, established in 1999, that is engaged in the energy generation and energy delivery business. Exelon has six regulated utility subsidiaries including, Commonwealth Edison (CWE), PECO Energy (PECO), Baltimore Gas & Electric Company (BGE), Potomac Electric Power Company (PEPCo), Delmarva Power & Light Company (DPL) and Atlantic City Electric Company (ACE). Collectively, the subsidiaries provide electric and gas service to distribution customers in Illinois, Pennsylvania, Maryland, Delaware, New Jersey and Washington DC.

Exelon's unregulated subsidiary, Exelon Generation (ExGen), owns and operates more than 30,000 megawatts of generation including roughly 18,000 megawatts of nuclear plants. Roughly 75% of the company's generation is located in the Com Ed and PJM East zones of the PJM Regional Transmission Organization. ExGen is also engaged in the retail energy supply business providing electricity and gas to customers throughout the US.

Investment Thesis

Using a sum of the parts analysis on 2020 results we derive a price target of $36.00 per share. Based on the December 14, 2017 closing price of $40.81, this represents price depreciation potential of 11.8% and total negative return potential of 8.58% including the company's current yield of 3.21%. Our price target is derived as follows:

We value the regulated electric distribution and transmission 2020 earnings of $1.77 using a P/E multiple of 17.6 times, equivalent to the electric group average multiple, resulting in a price target of $31.50

We value the regulated gas distribution 2020 earnings of $0.33 using a P/E multiple of 20.3 times, equivalent to the gas group average multiple, resulting in a price target of $7.00.

We value ExGen 2020 generation EBITDA less maintenance capex of $814 million (including a $236 million from market reform at a 50% probability weighting) at a 7.0 times EV/EBITDA multiple resulting in a price target of ($1.00).

We value ExGen retail 2020 EBITDA of $998 million at a 5 times EV/EBITDA multiple resulting in a price target of $5.50.

Adjusting for unallocated debt reduces our price target by $8.00, while adjusting for a current 3% trading premium (calculated on our current coverage universe) adds another $1.00 to our price target. This adjustment results in a net $7.00 reduction to our price target.

Consistent with our methodology our price targets are dynamic changing with the group average P/E multiples and EV/EBITDA multiples recalculated daily.

Acquisitions

- On March 23, 2016, Exelon completed a merger with Pepco Holdings Inc., (PHI) for total consideration of approximately $7.1 billion. The merger brought together EXC's existing three electric and gas utilities (BGE, ComEd, and PECO) and Pepco's three electric and gas utilities (ACE, DPL, and PEPCo). The transaction was approved by FERC, and all five state utility commissions. Pursuant to the orders approving the mergers, Exelon made $168 million of equity contributions in the second quarter of 2016 to PHI subsidiaries to fund the after tax amounts of bill credits and customer base rate credit commitments. Exelon also committed to develop 37 MW's of new generation in Maryland, Delaware and Washington DC. Exelon reported $4.0 billion of goodwill associated with the purchase which has been assigned to PHI utility subsidiaries as follows: PEPCo, $1.7 billion; DPL, $1.1 billion; and ACE, $1.2 billion.
- On September 1, 2016, ExGen acquired the competitive retail energy supply business of Consolidated Edison Solutions, Inc., for a purchase price of $257 million, including net working capital of $204 million.
- On March 31, 2017 ExGen acquired the 838 MW single unit Fitzpatrick Nuclear Plant from Entergy for a total purchase price of $289 million, including $179 million of cost reimbursement to Entergy primarily for operating and maintenance costs associated with refueling and operating the plant past the middle of 2016.

Divestitures & Bankruptcy Filings

On May 2, 2017, ExGen Texas Power LLC., (EGTP) entered into a consent agreement with its lenders to draw on its bank facility and initiate an orderly sales process to sell its portfolio of five Texas generating plants. As of September 30, 2017 certain EGTP assets were classified as "held for sale". On November 7, 2017, EGTP filed voluntary petitions under Chapter 11 of the US Bankruptcy Code. Prior to the filing, ExGen negotiated an agreement with EGTP's lenders that, pending a competitive bidding process and receipt of the necessary approvals, would allow ExGen to continue to own and operate the Handley Plant in exchange for $60 million. Second, the lenders have agreed to exchange the debt for equity in EGTP's four remaining plants, effectively assuming control.

On June 16, 2016, ExGen initiated the sale of its upstream business segment by executing a forbearance agreement with lenders. By December 2016, ExGen sold substantially all of the upstream assets.

On April 21, 2016, ExGen completed the sale of its retired New Boston generating site resulting in a pre-tax gain of $32 million.

Regulatory Matters

Illinois

On April 13, 2017, CWE filed its annual distribution performance based formula rate with the Illinois Commerce Commission (ICC) pursuant to the 2011 Energy Infrastructure Modernization Act (EIMA), requesting a $96 million increase in annual rates. A final order is due from the ICC in December 2017, and establishes the revenue requirement for the company in 2018. The revenue requirement is based on actual costs in 2016 and projected capital spending in 2017. Additionally, rates are trued up to actual costs incurred in 2016. The revenue requirement in 2017 is based on a return on equity of 8.4%, reflecting the average 30 year treasury rate plus 580 basis points.

In December 2016, the Illinois Commerce Commission (ICC) issued a final order approving the 2016 formula rate including an annual rate increase of $126 million.

Pennsylvania

In December 2015, the Pennsylvania Public Utilities Commission (PPUC) approved a settlement in PECO's distribution rate case implementing an annual increase in rates of $127 million, effective in January 2016. No overall ROE was specified in the settlement. PECO had requested an annual rate increase of $190 million predicated on a requested ROE of 10.95%.

In February 2012, Pennsylvania adopted a law providing the PPUC with authority to approve the implementation of a distribution system improvement charge (DISC) providing that the utility has an approved long term infrastructure improvement plan approved by the Commission. In October 2015, the PPUC approved PECO's electric plan to spend $275 million over a five year period. PECO's modified gas infrastructure improvement plan was approved by the PPUC in June 2017, authorizing spending of $762 million over a ten year period through 2022.

Maryland

On March 24, 2017, PEPCo filed an application with the Maryland Public Service Commission (MPSC) seeking to increase its annual distribution rates by $67 million (as modified in August) predicated on a return on equity of 10.1%. In October 2017, the MPSC approved a $32 million increase predicated on a ROE of 9.5%, with new rates effective in November 2017.

In July 2017, DPL filed a request with the MPSC to increase annual rates by $22 million (updated September) predicated on a 10.1% return on equity. The company is expecting a final rate order in the first quarter of 2018.

The MPSC had previously approved a $38 million annual increase for DPL in February 2017 predicated on a 9.6% ROE.

Delaware

In August 2017, DPL filed a request with the Delaware Public Service Commission (DPSC) to increase annual electric and gas rates by $31 million (updated October) and $13 million, respectively, predicated on a 10.1% ROE. A final rate order is expected by year end 2018 pursuant to recent changes to the procedural calendar. In October 2017, the DPSC staff and Public Advocate filed a motion to dismiss the electric filing on procedural grounds. The DPSC rejected the motion, but the schedule was pushed out to accommodate due process objections.

In May 2017, the DPSC approved a $31.5 million annual electric rate increase and in June a $4.9 million natural gas increase, both predicated on a 9.7% ROE. Both increases had been agreed to under settlement agreements with the DPSC staff and the Division of Public Advocate. The company had originally requested a $63 million electric rate increase and a $22 million gas increase.

The District of Columbia

In July 2017, the District of Columbia Public Service Commission (DCPSC) approved a $37 million annual increase in DPL rates predicated on a 9.5% ROE. New rates became effective in August 2017. DPL had originally requested a $77 million increase predicated on a 10.6% ROE.

The DCPSC has authorized a joint project to spend $500 million ($250 million to be funded by PEPCo) to underground transmission lines over a six year period. PEPCo’s spending on the project including a return will be recoverable through a volumetric surcharge on electric bills.

New Jersey

In September 2017, the New Jersey Board of Public Utilities (NJBPU) approved a settlement agreement providing ACE with a $43 million increase in annual sales, with new rates effective in October 2017.

Effective June 2017, ACE reduced rates by $32 million to reflect savings realized under contracts with non-utility generators.

Zero Emission Credits (ZEC’s)

New York

In August 2016, the New York Public Service Commission (NYPSC) issued an order establishing the Clean Energy Standard (CES) targeted at preserving the environmental attributes of nuclear generation in the state, thus authorizing the state nuclear subsidy. As a result, the New York State Energy Research and Development Authority (NYSERDA) will centrally procure ZEC’s from eligible plants under a 12 year contract, to be administered in 6 two year tranches, extending from April 2017 to March 2029. The ZEC price for the first tranche has been set at $17.48 per MWh. Following the first tranche the price will be updated bi-annually. Each load serving entity (LSE) will be obligated to purchase an amount of ZEC’s equivalent to its load ratio share of the total electric energy in the New York control area. Cost recovery from customers will be incorporated into the commodity charges on customer bills. The NYPSC initially identified the Fitzpatrick, Ginna and Nine Mile Point nuclear facilities (all partly owned and operated by Exelon) as eligible for the ZEC program.

The New York ZEC program was challenged in US Federal District Court with plaintiffs arguing that the program interferes with FERC jurisdiction on wholesale rates. The District Court dismissed the case on July 25, 2017, with a judgment in favor of New York. Plaintiffs have subsequently appealed the case to the US Court of Appeals for the Second Circuit. Plaintiff filed its opening brief in October and reply briefs were filed on December 1. The next step in the trial is oral arguments.

Illinois

On December 7, 2016, Illinois adopted a new law providing compensation for certain Illinois nuclear plants including Clinton and Quad Cities owned and operated by Exelon, effective June 1, 2017. The Zero Emission Credit standard compensation for nuclear plants extends over a 10 year period expiring May 31, 2027. The ZEC price will be based on the current social cost of carbon as determined by the Federal Government and is initially established at $16.50 per MWh. However, an initial limit on annual collections of $235 million effectively reduces the ZEC price to $11.75 per MWh. The ZEC price is also subject to adjustments based on escalation and pricing adjustment mechanisms designed to mitigate ZEC pricing based on market based increases in energy and capacity prices. Illinois load serving entities will be required to purchase from eligible nuclear facilities an amount of ZEC’s equal to 16% of the amount of electricity delivered in 2014. LSE’s will be permitted to recover the cost of ZEC’s from customers through a rate rider mechanism with a true up provision. CWE’s share of ZEC costs in the first year is approximately $170 million.

In February 2017, two separate parties filed a legal challenge to the Illinois ZEC program in Federal District Court alleging that the state program interfered with the FERC jurisdiction over wholesale rates. The Federal District Court dismissed the suits on July 14, 2017. On July 17, 2017 the plaintiffs appealed the decision to the Seventh Circuit Appeals Court, which consolidated the two cases. Initial briefs were filed in August, Exelon’s briefs were filed in October and reply briefs were filed on December 12. The next step in the proceeding is oral arguments.

New Jersey

Proposed legislation was introduced during the lame duck session to provide ZEC support to nuclear plants located in the state of New Jersey. The proposal would include a ZEC for Exelon’s 50% ownership interest in the Salem Nuclear Plant.

Potential Early Nuclear Plant Retirements: ExGen announced that it will permanently cease generation operations at its Three Mile Island Plant in Pennsylvania on or about September 2019. The current NRC license for the plant expires in 2034. ExGen filed a deactivation notice with PJM on May 30, 2017 and notification to the NRC on June 20, 2017. PJM subsequently approved the proposed deactivation. The plant did not clear in the May 2017 PJM capacity auction for the 2020-2021 planning period. This represents the third consecutive year that the plant failed to clear the auction. The plant is currently committed to operate through May 2019.

Like-Kind Exchange

On September 19, 2016, the Internal Revenue Service rejected Exelon's position on its 1999 income tax return to defer under the like-kind exchange provisions of the IRS code, $1.2 billion of tax gain on the sale of CWE's fossil generation assets. A tax court also held Exelon responsible for penalty payments of $106 million and interest payments of $86 million. Exelon appealed the IRS decision to the US Court of Appeals for the Seventh Circuit.

Exelon expects to pay the $1.3 billion related to the like-kind exchange in the fourth quarter of 2017. While Exelon will receive a tax benefit of roughly $350 million associated with the deduction of the interest, Exelon has a net operating loss carryforward and thus does not expect to realize the cash benefit until 2018. After taking into consideration the interest deduction tax benefits, the total estimated net cash outflow is expected to be approximately $950 million, of which $300 million is expected to be at CWE. Of the amounts payable, Exelon deposited $1.25 billion with the IRS in October 2016. The remaining amounts due will be paid by the company in the fourth quarter of 2017.

Strengths

1) ***Utility Rate Base Growth:*** The principal driver of growth at the utility is increased capital spending resulting in higher rate base. Exelon is projecting 4-year utility rate base growth of 6.5% through 2020. Our forecast incorporates reasonable rate outcomes at Exelon's operating utilities over the forecast period. Capital Allocation: Exelon's capital allocation is focused on utility growth, dividend growth and debt repayment. Exelon projects that it will invest more than $20 billion at its utilities between 2017 and 2020 to improve system reliability. Roughly 70% of this projected spending level is recoverable contemporaneously under FERC formula rates, CWE's formula rate plan or capital riders.

2) ***Targeted Debt Pay Down:*** Exelon is targeting the repayment of $3.0 billion of debt at its ExGen subsidiary. Also, following the bankruptcy of EGTP, $666 million of EGTP debt will be deconsolidated from ExGen's balance sheet. Our forecast model projects FFO/Debt adjusted for pension was 17% at the end of 2016 and is projected to be 18% in 2021. Our FFO/Debt calculations differ from those calculated by the company because Mizuho excludes nuclear fuel amortization from FFO. Nuclear fuel amortization is estimated by the company to be $1.1 billion in 2017. We exclude this from our calculation, as there is typically an off-setting capital expenditure for fuel purchases. The company is targeting FFO/debt levels of 18%-20%. We are forecasting ExGen Debt to EBITDA of 2.9 times at the end of 2016 declining to 2.6 times in 2021. This is consistent with ExGen's target level of no more than 3 times.

3) ***Potential Uplift from Nuclear Subsidy Payments and PJM Market Reform:*** ExGen is expected to benefit from proposed New Jersey legislation to implement a ZEC. Mizuho is expecting the possible passage of a law by the end of the lame duck session which ends on January 8, 2018. We have already included an $11.50 per MWh uplift in Exelon's 50% ownership interest in the Salem nuclear plant. Additionally, FERC is considering market reform measures that could add between $2.00 and $5.00 per MWh to base load prices in PJM. Exelon has endorsed the mid-point of this range to calculate a potential benefit. It has also identified 135 Terawatt- hours that will benefit from this pricing uplift. We have not factored this potential EBITDA uplift of roughly $500 million into our estimates at this point in time. The FERC was expected to render a decision on this proposal at its open meeting on December 11, but implemented a 30 day delay, to allow recently appointed commissioners the opportunity to familiarize themselves with the issues.

4) ***Uplift from Tax Reform:*** Our forecast includes potential benefits from tax reform legislation proposals. Among the benefits to the company would be an increase in ExGen earnings resulting from a lower tax rate. Additionally, there would be a deferred tax cash benefit associated with an extension of bonus depreciation calculated at a 100% rate starting in 2018. Partly offsetting this would be increased losses at Exelon parent based on a lower tax shield of parent interest expense. For the most part Mizuho’s valuation would not change materially as we value ExGen on an EV/EBITDA basis versus P/E.

5) ***Potential to Accelerate Dividend Growth:*** In practice, Exelon's utility subsidiaries pay out 70% of their earnings to help fund the Exelon dividend and holding company interest expense. Exelon's Board of Directors has approved a policy of 2.5% dividend growth through 2018. Management is working with the Board of Directors and plans to provide an update on a multi-year outlook as part of its planning and budgeting process currently underway. Based on our Utility, Parent and Other (UPO) estimates the payout on UPO operations will decline from 80.5% in 2017 to 69% in 2021, reflecting the higher growth rate of UPO earnings. Assuming a 70% target payout for UPO provides the company with flexibility to increase the dividend growth above 2.5% beginning in 2022.

Risks

1) ***Weak Consolidated Growth:*** Mizuho is projecting 5-year compound annual growth in earnings of 2.4% through 2021. Growth in the earnings of the utility less Holdco is expected to be largely offset by an earnings decline at ExGen. The projected earnings decline at ExGen reflects current weak forward gas and power prices (updated as of September 30) and the run off of in the money hedges partly offset by higher expected ZEC and capacity payments.

2) ***PHI Subsidiary Risk:*** Exelon is currently under-earning at its PHI subsidiaries, in our assessment. Exelon has filed numerous rate cases in these jurisdictions since the merger closed in early 2016 and we assume that Exelon will continue to file rate requests in the future. Although our forecast model includes improvements in earned ROE's at all of its PHI subsidiaries over the forecast period, the subsidiaries will likely be subject to regulatory risk at both the state and federal level. Exelon has outstanding rate filings today at its CWE and DPL subsidiaries.

3) ***Commodity Exposure:*** ExGen is exposed to changes in the commodity prices for gas and power. It is also exposed to changes in the auction price for capacity in annual auctions conducted by PJM. The next PJM capacity auction is scheduled to begin in May 2018. ExGen also derives a significant amount of its EBITDA from its retail supply business. Wholesale margins in these businesses have come under pressure recently, approaching the low end of a $2.00-$4.00 historical range. Partly offsetting this negative trend in ExGen margins is cost cutting initiatives put forward by the company. On its third quarter earnings call, ExGen identified $250 million of savings in its businesses between now and 2020. The weakening commodity outlook for gas, power and retail supply is reflected in our forecast for declining margins and EBITDA in Power.

4) ***High Parent Debt:*** Parent debt as a percent of total debt is high relative to peers. We estimate parent debt to be roughly 23% in 2016, declining in our forecast to 20% in 2021. The lower level projected in the out year of our forecast is consistent with Moody's rating practice of applying a one notch rating adjustment for the holding company. Parent debt represents a drag in Mizuho's valuation approach and, under tax reform. will potentially reduce the level of tax shield with respect to holding company losses.

Management

Chris Crane, President and Chief Executive Officer

Crane is president and chief executive officer of Chicago-based Exelon Corporation. Crane previously served as president and chief operating officer of Exelon Corporation. He joined Exelon (then ComEd) in 1998, and was named chief nuclear officer in 2004. Crane assumed responsibility for Exelon's fossil, hydro and renewables facilities, in addition to the nuclear fleet, in 2007. Crane was named president of Exelon Generation in 2008, with added responsibility for Power Team, Exelon's former wholesale power trading and competitive retail organization (now part of Constellation). Prior to joining Exelon, Crane served as Browns Ferry site vice president for Tennessee Valley Authority, and worked in new plant start-up at the Comanche Peak Nuclear Power Plant in Texas and Palo Verde Nuclear Generating Station in Arizona.

Jonathan (Jack) W. Thayer, Senior Executive Vice President and Chief Financial Officer

Jonathan (Jack) W. Thayer joined Exelon Corporation in January 2012 and serves as senior executive vice president and chief financial officer. Additionally, in his role, Thayer leads the treasury function in developing and implementing financing plans as well as the investor relations department. Prior to joining Exelon, Thayer was appointed Senior Vice President and Chief Financial Officer of Constellation Energy in October 2008. Thayer joined Constellation Energy in 2003, serving as Director, Investor Relations. In 2004, he was appointed Vice President and Managing Director, Corporate Strategy & Development. He was appointed Treasurer in August 2008. Prior to joining Constellation Energy, Thayer held financial positions at Deutsche Bank Securities Inc. and SBC Warburg Dillon Read Inc., primarily focusing on mergers and acquisitions and financing transactions in the health care services, medical technology, biotechnology, and pharmaceuticals industries.

Estimates & Earnings Forecast

We are initiating our 2017-2021 estimates for EXC Consolidated as $2.66, $3.06, $2.84, $2.68, and $3.03 respectively. **We are initiating our 2017-2021 Utility, Parent and Other estimates as $1.61, $1.67, $1.77, $1.90 and $2.06, respectively.** Our consolidated 2018 and 2021 estimates are significantly above consensus due in part to tax reform and commodity price assumptions for ExGen which are based on September 30,2017 forward prices. Our estimates also include assumed passage of ZEC's legislation in New Jersey during the lame duck session. We do not include any potential benefit from market reform to our EPS estimates.

Mizuho is projecting UPO 3-year compound annual earnings growth of 5.8% through 2020, which is at the low end of the company's 6%-8% targeted growth for the period 2017-20. Mizuho is forecasting 6.4% growth in UPO rate base which in turn, is the major driver of UPO earnings growth. Our rate base forecast is in line with the company's projected growth rate of 6.5%. UPO funding for its capital spending in part is derived from surplus cash flow generated by ExGen during the forecast period. Surplus cash from ExGen is also used in our forecast to reduce the level of parent debt. Parent losses are flat to declining in our forecast model.

ExGen earnings are projected to decline 8.5% over the four-year period 2021. The principal driver of the earnings decline is the roll off of in-the-money hedges and lower commodity prices for electricity and gas partly offset by increased contribution from ZEC and capacity payments and lower operating and maintenance costs. The company announced a $250 million cost saving initiative on its 3Q17 earnings call which will be fully realized in 2020. ExGen surplus cash can help fund utility rate base investment and debt repayment and be a driver of future dividend growth

Company Models

In the pages that follow, we highlight our detailed consolidated financial model, including both historical and projections for income statement, cash flow and balance sheet for Exelon from 2014 to 2020. To derive the consolidated results, we modeled full financials for each operating subsidiary. Clients that would like the full models may obtain them through their MSUSA representative or from the authors.

Exhibit 1: Income Statement

Consolidated Income Statement *($ millions)*	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Revenues	$20,700	$31,905	$34,890	$35,186	$34,983	$34,848	$35,478
Cost of Goods Sold	4,602	13,035	15,119	15,166	15,141	15,074	15,121
O&M	8,232	9,196	9,715	9,417	9,294	9,222	9,132
Other Expenses	(4)	(6)	16	15	14	15	15
Taxes Other then Income	1,200	1,575	1,711	1,739	1,766	1,795	1,823
EBITDA	**$6,670**	**$8,105**	**$8,330**	**$8,849**	**$8,767**	**$8,742**	**$9,386**
D&A	2,450	3,232	3,406	3,572	3,725	3,872	4,018
EBIT	**$4,220**	**$4,873**	**$4,924**	**$5,276**	**$5,042**	**$4,870**	**$5,368**
Interest	1,079	1,383	1,448	1,491	1,478	1,450	1,493
Other Income	271	289	301	304	304	302	301
EBT	**$3,412**	**$3,779**	**$3,777**	**$4,089**	**$3,868**	**$3,723**	**$4,177**
Taxes	1,165	1,299	1,276	1,224	1,202	1,204	1,338
Preferred Dividends	20	(8)	32	32	32	32	32
Net Income	**$2,227**	**$2,488**	**$2,469**	**$2,833**	**$2,635**	**$2,487**	**$2,807**
EPS	**$2.49**	**$2.68**	**$2.66**	**$3.06**	**$2.84**	**$2.68**	**$3.03**

Source: Company reports, MSUSA estimates

Exhibit 2: Cash Flow Statement

Consolidated Cash Flow Statement *($ millions)*	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Net Income	$2,227	$2,467	$2,469	$2,833	$2,635	$2,487	$2,807
Depreciation	2,355	3,282	3,304	3,470	3,623	3,770	3,916
Deferred Taxes	657	774	735	1,155	821	277	260
Maintenance Cap-Ex	(2,292)	(2,958)	(3,066)	(3,148)	(3,300)	(3,347)	(3,470)
Growth Cap-Ex	(3,574)	(4,545)	(3,984)	(3,127)	(2,600)	(2,528)	(2,350)
Net Cash Generation	(627)	(980)	(542)	1,184	1,178	659	1,163
EBITDA + Other Income	6,897	8,554	8,528	9,047	8,965	8,941	9,585
Interest Expense	325	735	699	650	709	826	874
Pfd. Dividends	(14)	(9)	(9)	(9)	(9)	(9)	(9)
Common Dividends	1,105	1,166	1,197	1,227	1,258	1,289	1,322

Source: Company reports, MSUSA estimates

Exhibit 3: Balance Sheet

Consolidated Balance Sheet ($ millions)	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Cash & Equivalents	$2,940	$1,882	$1,026	$1,418	$767	$767	$767
Short Term Debt	$1,154	$1,331	$751	$751	$751	$751	$751
Revolver	0	0	1,125	0	97	829	729
Current Portion of Long Term Debt	1,674	2,032	1,431	1,899	2,137	1,337	6
Long Term Debt	23,273	32,462	32,557	32,998	31,436	31,299	33,249
0	0	0	0	0	0	0	0
Total Debt	**$26,101**	**$35,825**	**$35,864**	**$35,648**	**$34,421**	**$34,216**	**$34,735**
Preferred Stock	0	0	0	0	0	0	0
Total Debt & Preferred	**$26,101**	**$35,825**	**$35,864**	**$35,648**	**$34,421**	**$34,216**	**$34,735**
Shareholder's Equity	25,793	25,837	23,478	24,119	24,362	22,134	20,832
Goodwill Portion of Equity	0	0	0	0	0	0	0
Goodwill / Shareholder's Equity	0	0	0	0	0	0	0
Total Book Capitalization	**$51,894**	**$61,662**	**$59,342**	**$59,768**	**$58,783**	**$56,349**	**$55,567**
Off-Balance Sheet Debt	0	0	0	0	0	0	0
Consolidated Debt/Pfd. Assoc. w/Min. Int. Exp	0	0	0	0	0	0	0
Total Credit Capitalization	**$51,894**	**$61,662**	**$59,342**	**$59,768**	**$58,783**	**$56,349**	**$55,567**

Source: Company reports, MSUSA estimates

Price Target Calculation and Key Risks

Price Target Calculations: Using a sum of the parts analysis on 2020 results we derive a price target of $36.00 per share. Our price target is derived as follows: (i) we value the regulated electric distribution and transmission 2020 earnings of $1.77 using a P/E multiple of 17.6 times, equivalent to the electric group average multiple, resulting in a price target of $31.50; (ii) we value the regulated gas distribution 2020 earnings of $0.33 using a P/E multiple of 20.3 times, equivalent to the gas group average multiple, resulting in a price target of $7.00; (iii) we value ExGen 2020 generation EBITDA less maintenance capex of $814 million (including a $236 million from market reform at a 50% probability weighting) at a 7.0 times EV/EBITDA multiple resulting in a price target of ($1.00); (iv) we value ExGen retail 2020 EBITDA of $998 million at a 5 times EV/EBITDA multiple resulting in a price target of $5.50; (v) adjusting for unallocated debt reduces our price target by $8.00, while adjusting for a current 3% trading premium (calculated on our current coverage universe) adds another $1.00 to our price target. This adjustment results in a net $7.00 reduction to our price target. Consistent with our methodology our price targets are dynamic changing with the group average P/E multiples and EV/EBITDA multiples recalculated daily.

Key Risks: Weak commodity outlook, general economic conditions, changes in state and/or Federal regulation, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

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Investment Risks and Valuation Methods can be located in the following section of this research report - Price Target Calculation and Key Risks.

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Neutral: Stock's total return is expected to be within the average total return of the analyst's industry coverage universe, on a risk-adjusted basis, over the next 12 months.

Underperform: Stock's total return is expected to depreciate below the average total return of the analyst's industry coverage universe, on a risk-adjusted basis, over the next 12 months.

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NR: No Rating - not covered, and therefore not assigned a rating.

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Neutral:	Stocks for which the anticipated share price appreciation is within 10% of the share price.
Underperform:	Stocks for which the anticipated share price falls by 10% or more.
RS:	Rating Suspended - rating and price objective temporarily suspended.
NR:	No Rating - not covered, and therefore not assigned a rating.

Rating Distribution

(As of 12/14)	**% of coverage**	**IB service past 12 mo**
Buy (Buy)	44.55%	48.15%
Hold (Neutral)	50.17%	43.42%
Sell (Underperform)	5.28%	50.00%

For disclosure purposes only (NYSE and FINRA ratings distribution requirements), our Buy, Neutral and Underperform ratings are displayed as Buy, Hold and Sell, respectively.

Rating and Price Target History for: Exelon Corporation (EXC) as of 12-13-2017

Created by BlueMatrix

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December 20, 2017

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Ticker	Price	Rating
AEP	74.51	Neutral
AWK	89.00	Buy
D	81.34	Buy
ES	62.59	Buy
EXC	39.62	Buy
FE	31.01	Buy
NJR	39.25	Buy
PEG	51.32	Buy
SJI	31.03	Neutral
SO	49.81	Buy

The Guggenheim Daily Transmission: SO, D, ES, AEP, NJ Nuclear, PEG, NJR, SJI, AWK, EXC, FE, Tax

Scroll down for Guggenheim's Non-Deal Roadshow Schedule

What's New?

SO – Reports indicate that payments to contractors working on Plant Vogtle have halted
D – ACP receives National Park Service construction permit
D – DEEP and PURA hold public meetings on Millstone
D – Cove Point tested and ready for service
ES – Requests to delay rate implementation to Feb
AEP – Reaches agreement to transfer operational control of ~2.5GW of generation
ES – Mass. Labor union supports Northern Pass in MA Clean Energy RFP
NJ Nuclear – EPSA expresses concerns on nuclear bill
PEG/NJR/SJI/AWK/EXC/FE – NJ BPU adopts rules to minimize regulatory lag
EXC – Pepco files rate case in D.C.
Tax – Senate rejects three provisions, forcing House to vote again
Tax – NJ BPU proposes rule on consolidated tax adjustment

SO – Reports indicate that payments to contractors working on Plant Vogtle have halted

- According to reports, payments to contractors working on Plant Vogtle have halted.

***Guggenheim takeaway:** Potentially coming to a halt ahead of the commission's vote tomorrow on whether or not they go along with SO's recommendation to proceed with construction.*

D – ACP receives National Park Service construction permit

- The U.S. National Park Service approved permits for ACP.

***Guggenheim takeaway:** Another approval under the belt with a few more administrative tasks outstanding. ACP will likely be able to begin pre-construction activity contingent upon receiving a Historical Preservation permit and a notice of intent from FERC to allow for tree-felling. Given most of the pipelines route is located away from bodies of water, the tree-felling activity can be done without the state-level water quality permits that remain outstanding and would allow the in-service date to remain on track.*

D – DEEP and PURA hold public meetings on Millstone

- DEEP and PURA held public meetings on the Millstone Power plant.

***Guggenheim takeaway:** Lots of puts and takes, but most of the discussions/opinions have already been spelled out by all parties involved in the past. Additional public hearings will be held today and the DEEP and PURA will consider stakeholders' comments, so stay tuned.*

D – Cove Point tested and ready for service

- Cove Point has been tested and ready for service, expecting to be fully operational in early 2018.

***Guggenheim takeaway:** Project is nearing the finish line. **We expect we could see drops into the MLP earlier than anticipated, potentially in 1Q18** with a mix of equity and debt at the DM level. Once commissioning is complete, Cove Point will begin shipping LNG and can begin accruing revenue and billing off-takers.*

AEP – Reaches agreement to transfer operational control of ~2.5GW of generation

- AEP reached an agreement to transfer control of operations the 1.8GW Cardinal station, 200MW Greenville station and the 510MW Robert P. Mone station to Buckeye Power.
- AEP will still own 590MW of Cardinal unit 1.

Guggenheim takeaway: *AEP shed most of its merchant power generation interests over the past couple of years, transforming the business into a fully-regulated story, and has been shedding what remains of their merchant power facilities/activities.*

ES – Mass. Labor union supports Northern Pass in MA Clean Energy RFP

- The International Brotherhood of Electrical Workers announced their support of Northern Pass in the MA Clean Energy RFP

Guggenheim takeaway: *Not a surprise to see labor workers that are employed by ES support the project. MA is expected to announce a winner of its clean energy RFP soon, so stay tuned.*

NJ Nuclear – EPSA expresses concerns on nuclear bill

- EPSA expressed concern on the newly introduced bill to compensate nuclear plants in NJ, indicating that there is no rush to pass the legislation as the plants are not in imminent danger.

Guggenheim takeaway: *We certainly did not expect the bill to pass without a fight. NJ Senate Environment and Energy and the Assembly Telecommunications and Utility committees will host another joint hearing to discuss issues around the nuclear legislature, see link HERE for live broadcast at 10 am.*

PEG/NJR/SJI/AWK/EXC/FE – NJ BPU adopts rules to minimize regulatory lag

- NJ Board of Public Utilities voted to approve two new rules that are intended to address regulatory lag, including an Infrastructure Improvement Plan process to expedite recovery of new investment and the implementation of interim rates during a pending rate case.

Guggenheim takeaway: *Constructive data point as regulatory lag has been a persistent issue for some of the NJ utilities; we see the new rule as potentially accelerating infrastructure investments in the state. As a reminder, PEG expects to file a rate case on 2/1/2018, pursuing recovery of distribution investment and storm related costs since the last rate case in 2010 as well as more constructive rate mechanism including decoupling, interim rates, etc.*

EXC – Pepco files rate case in D.C.

- Pepco, EXC's subsidiary, filed an application with the D.C. Public Service Commission, requesting $66mm electric rate increase premised on a 10.1% ROE.
- As a reminder, D.C. PSC authorized 9.5% ROE in the prior rate case.

Guggenheim takeaway: *EXC keeps the momentum going with very good traction in achieving 8-9% ROE at former Pepco utilities by 2020, in our view, with serial rate filings to shore up regulatory lag, and ultimately could deliver better than expected accretion from the acquisition. As a reminder, the Chairwoman who was against the merger will end her term in 2018, at which point the governor, who was supportive of the merger (and who also appointed the current two Commissioners), will appoint a new Chair.*

Tax – Senate rejects three provisions, forcing House to vote again

- After the House approved the tax bill, the Senate rejected three provisions during its deliberations stating the bill violated the Byrd rule, forcing the House to hold another vote.

Guggenheim takeaway: *A setback but we don't believe policy-makers carried tax reform this far to let it fail – We continue to expect a final bill on the president's desk soon. Stay tuned…*

Tax – NJ BPU proposes rule on consolidated tax adjustment

- The NJ BPU proposed a rule that would codify a generic order from 2014 regarding consolidated tax adjustments.

Guggenheim takeaway: *As a reminder, an appeals court previously remanded the issue, and with a new governor taking over in NJ, we'll have to wait and see if the latest proposal becomes final.*

Guggenheim's Power & Utility Comp Sheet

Price as of Tuesday, December 19, 2017

									GUGGENHEIM								Consensus							
Regulated Utilities [1]		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
AEP	American Electric Power	36.7	Neutral	$64	$74.51	3.3%	64%	492	3.64	3.86	4.06	4.28	20.5	19.3	18.4	17.4	3.61	3.89	4.12	4.30	20.7	19.2	18.1	17.3
ALE	ALLETE	3.8	Neutral	$69	$74.75	3.1%	62%	51	3.35	3.72	3.90	4.09	22.3	20.1	19.2	18.3	3.28	3.60	3.87	3.96	22.8	20.8	19.3	18.9
AVA	Avista*	3.3	Neutral	$53	$51.25	2.9%	73%	64	1.81	2.05	2.31	2.42	28.3	25.0	22.2	21.2	1.88	2.05	2.20	2.42	27.3	25.0	23.3	21.2
CMS	CMS Energy	13.5	Neutral	$48	$47.72	3.0%	61%	282	2.19	2.34	2.51	2.67	21.8	20.4	19.0	17.9	2.17	2.33	2.50	2.67	22.0	20.5	19.1	17.9
CNP	CenterPoint	12.1	Neutral	$30	$28.01	4.0%	78%	431	1.33	1.43	1.51	1.58	21.1	19.6	18.5	17.7	1.33	1.43	1.50	1.56	21.1	19.6	18.6	18.0
D	Dominion	52.4	Buy	$87	$81.34	4.2%	84%	644	3.60	4.06	4.35	4.55	22.6	20.0	18.7	17.9	3.58	4.03	4.26	4.54	22.7	20.2	19.1	17.9
DTE	DTE Energy	19.6	Buy	$118	$109.01	3.2%	60%	179	5.49	5.77	6.07	6.46	19.9	18.9	18.0	16.9	5.52	5.68	6.04	6.34	19.7	19.2	18.1	17.2
DUK	Duke Energy	59.5	Buy	$94	$85.01	4.3%	79%	700	4.60	4.68	4.90	5.10	18.5	18.2	17.3	16.7	4.56	4.83	5.07	5.28	18.7	17.6	16.8	16.1
ED	Consolidated Edison	26.6	Neutral	$76	$85.56	3.3%	67%	310	4.08	4.25	4.56	4.65	21.0	20.1	18.8	18.4	4.10	4.26	4.49	4.67	20.9	20.1	19.0	18.3
EIX	Edison International	22.8	Neutral	$73	$69.85	3.4%	55%	326	4.35	4.30	4.68	5.06	16.1	16.2	14.9	13.8	4.31	4.27	4.63	4.91	16.2	16.4	15.1	14.2
ES	Eversource Energy	19.9	Buy	$67	$62.59	3.3%	62%	317	3.15	3.35	3.60	3.80	19.9	18.7	17.4	16.5	3.13	3.32	3.55	3.73	20.0	18.8	17.6	16.8
LNT	Alliant Energy	9.9	Neutral	$38	$42.77	3.2%	64%	231	1.92	2.12	2.24	2.41	22.3	20.2	19.1	17.7	1.96	2.13	2.24	2.39	21.8	20.1	19.1	17.9
NEE	NextEra	72.6	Buy	$166	$154.10	2.9%	61%	470	6.90	7.30	7.78	8.36	22.3	21.1	19.8	18.4	6.74	7.25	7.75	8.33	22.9	21.3	19.9	18.5
OGE	OGE Energy	6.7	Buy	$40	$33.34	4.1%	67%	200	1.90	2.04	2.14	2.18	17.5	16.3	15.6	15.3	1.93	1.99	2.10	2.19	17.3	16.8	15.9	15.2
PCG	PG&E Corporation	26.7	Neutral	$60	$52.05	4.2%	58%	513	3.70	3.83	4.03	4.11	14.1	13.6	12.9	12.7	3.68	3.82	3.99	4.15	14.1	13.6	13.0	12.5
PNW	Pinnacle West	9.7	Neutral	$90	$86.59	3.3%	64%	112	4.29	4.44	4.76	5.03	20.2	19.5	18.2	17.2	4.27	4.44	4.74	4.99	20.3	19.5	18.3	17.4
POR	Portland General Electric	4.2	Neutral	$44	$46.43	3.1%	61%	89	2.28	2.33	2.45	2.56	20.4	19.9	19.0	18.1	2.26	2.32	2.43	2.56	20.5	20.0	19.1	18.2
PPL	PPL Corporation	22.2	Neutral	$39	$32.42	5.4%	75%	683	2.15	2.32	2.39	2.50	15.1	14.0	13.6	13.0	2.18	2.32	2.42	2.53	14.9	13.9	13.4	12.8
SCG	SCANA	6.0	Neutral	$45	$41.90	6.2%	93%	143	4.06	2.76	2.87	3.03	10.3	15.2	14.6	13.8	4.05	3.20	3.29	3.82	10.3	13.1	12.7	11.0
SO	Southern Company	50.0	Buy	$56	$49.81	4.8%	77%	1004	3.00	3.09	3.16	3.33	16.6	16.1	15.8	15.0	2.95	3.04	3.15	3.30	16.9	16.4	15.8	15.1
WEC	WEC Energy	20.9	Buy	$71	$66.13	3.3%	65%	316	3.11	3.35	3.54	3.75	21.3	19.7	18.7	17.6	3.10	3.28	3.47	3.72	21.3	20.1	19.1	17.8
***Average** (Excl. AVA for P/E)*						**3.7%**	**68%**						**19.2**	**18.4**	**17.4**	**16.5**					**19.2**	**18.4**	**17.4**	**16.4**

Integrated Utilities [2]		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
ETR	Entergy	14.6	Buy	$91	$81.03	4.4%	73%	180	6.90	4.91	5.00	5.25	11.7	16.5	16.2	15.4	6.90	5.09	5.36	5.42	11.8	15.9	15.1	15.0
EXC	Exelon	38.1	Buy	$45	$39.62	3.5%	48%	960	2.65	2.88	2.82	2.63	15.0	13.8	14.0	15.1	2.65	2.89	2.82	2.73	14.9	13.7	14.0	14.5
FE	FirstEnergy	13.8	Buy	$40	$31.01	4.8%	59%	445	3.05	2.50	2.36	2.18	10.2	12.4	13.1	14.2	3.02	2.54	2.41	2.09	10.3	12.2	12.9	14.8
PEG	PSEG	26.0	Buy	$52	$51.32	3.5%	62%	506	2.92	2.93	2.96	3.01	17.6	17.5	17.3	17.0	2.92	2.98	3.02	3.11	17.6	17.2	17.0	16.5
Average						**4.1%**	**61%**						**13.6**	**15.0**	**15.2**	**15.4**					**13.6**	**14.8**	**14.8**	**15.2**

Independent Power Producers (IPPs) [3]		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Adjusted EBITDA**				**EV / EBITDA**				**Adjusted EBITDA**				**EV / EBITDA**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
CPN	Calpine	5.4	Neutral	$15	$15.09	0.0%	0%	361	1,876	2,013	1,976	2,073	9.1	8.1	8.0	7.4	1,845	2,025	1,958	2,042	8.7	7.6	7.3	NA
DYN	Dynegy	1.5	Buy	$18	$11.47	0.0%	0%	131	1,199	1,436	1,305	1,274	8.1	6.2	6.5	6.2	1,217	1,455	1,302	1,162	7.5	5.9	6.5	7.5
NRG	NRG Energy	8.6	Buy	$35	$27.25	0.4%	0%	317	2,420	2,914	3,184	3,185	7.7	5.9	4.9	4.4	2,493	2,464	2,175	1,845	9.1	8.8	8.7	11.3
VST	Vistra Energy	7.8	Buy	$21	$18.00	0.0%	0%	428	1,442	1,436	1,415	1,401	7.7	7.2	6.8	6.4	1,425	1,412	1,416	1,374	7.4	7.0	6.5	5.7
Average													**8.1**	**6.9**	**6.5**	**6.1**					**8.2**	**7.3**	**7.3**	**8.2**

Gas Utilities [4]		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
NI	NiSource	8.5	Buy	$29	$25.30	3.0%	59%	337	1.20	1.28	1.38	1.45	21.1	19.8	18.3	17.4	1.19	1.28	1.36	1.43	21.3	19.8	18.6	17.7
NJR	New Jersey Resources	3.4	Buy	$47	$39.25	2.8%	61%	87	1.73	1.83	1.97	2.13	22.7	21.4	19.9	18.4	1.73	1.81	1.97	2.08	22.7	21.6	20.0	18.9
NWN	NW Natural Gas	1.7	Neutral	$59	$60.55	3.1%	82%	29	2.18	2.30	2.44	2.60	27.8	26.3	24.8	23.3	2.19	2.28	2.53	2.60	27.7	26.6	24.0	23.3
SJI	South Jersey Industries	2.5	Neutral	$34	$31.03	3.6%	73%	79	1.15	1.54	1.68	1.83	27.0	20.1	18.5	17.0	1.16	1.44	1.64	1.79	26.8	21.5	18.9	17.3
SR	Spire	3.6	Buy	$82	$75.05	2.9%	59%	48	3.56	3.72	3.80	4.11	21.1	20.2	19.8	18.3	3.56	3.72	3.85	3.97	21.1	20.2	19.5	18.9
SRE	Sempra Energy	28.3	Buy	$127	$112.19	3.2%	63%	251	5.32	5.66	6.65	7.55	21.1	19.8	16.9	14.9	5.26	5.59	6.55	7.55	21.3	20.1	17.1	14.9
VVC	Vectren	5.5	Buy	$73	$65.90	2.8%	66%	83	2.65	2.79	3.05	3.23	24.9	23.6	21.6	20.4	2.63	2.81	3.03	3.23	25.1	23.4	21.7	20.4
Average						**3.1%**	**66%**						**23.7**	**21.6**	**20.0**	**18.5**					**23.7**	**21.9**	**20.0**	**18.8**

Other		**Market Cap** ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Earnings Per Share**				**Price / Earnings**				**Earnings Per Share**				**Price / Earnings**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
AWK	American Water Works	15.9	Buy	$95	$89.00	2.0%	54%	178	3.00	3.26	3.52	3.81	29.7	27.3	25.3	23.4	3.01	3.28	3.54	3.79	29.6	27.2	25.2	23.5

		Market Cap ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend ('18E)**		**Diluted Shares**	**Adjusted EBITDA**				**EV / EBITDA**				**Adjusted EBITDA**				**EV / EBITDA**			
						Yield	**Payout**		**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**	**'17E**	**'18E**	**'19E**	**'20E**
NYLD	NRG Yield	1.8	Neutral	$18	$18.60	6.8%	NA	183	915	1,046	1,062	1,120	7.2	6.3	6.2	5.8	933	989	1,122	1,160	9.7	9.3	8.2	8.9

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(3) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

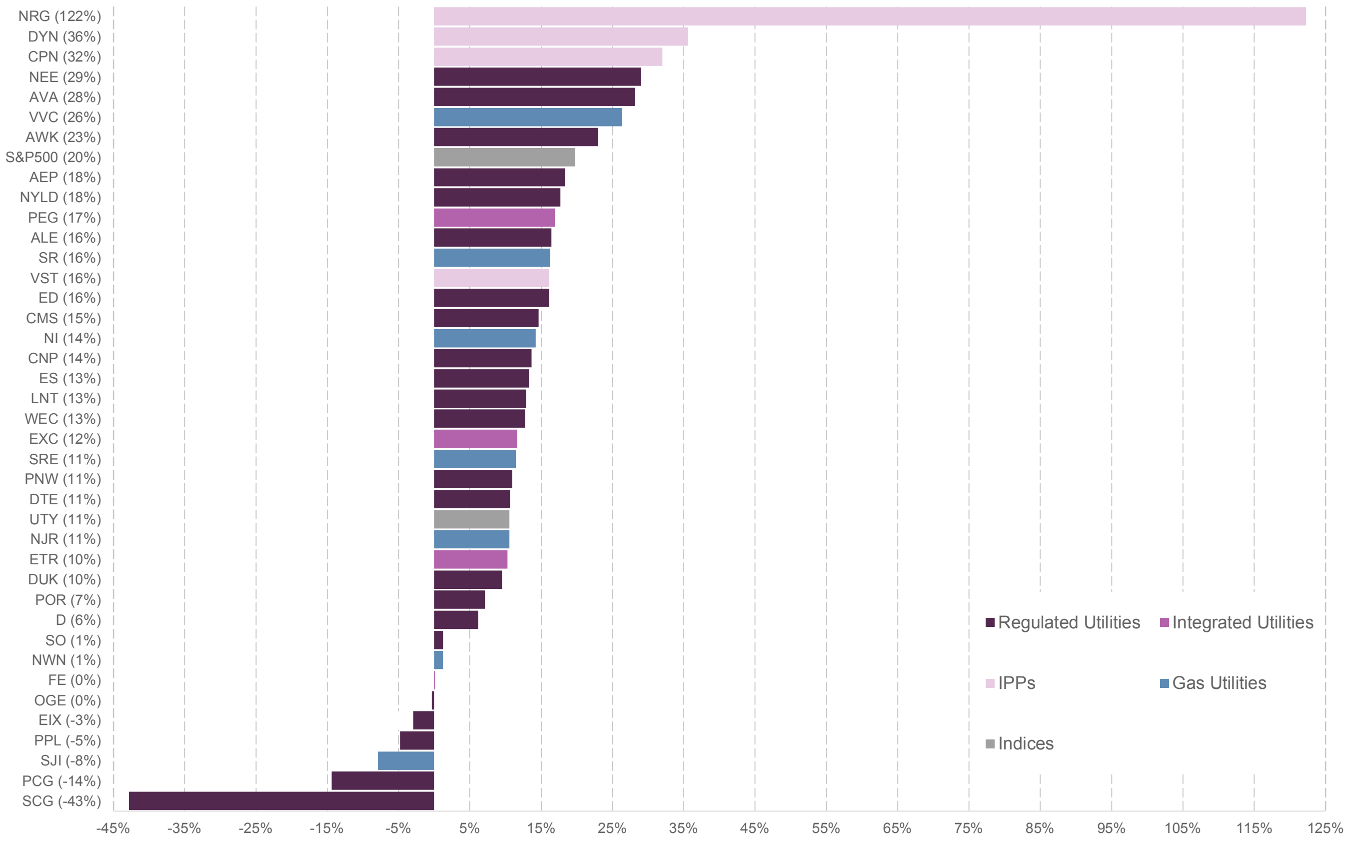
(4) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Note: Coverage of WR and GXP suspended due to investment banking activity

Share Price Performance (Year-to-Date)

Year-to-Date Share Price Performance



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Source: Bloomberg, Guggenheim Securities, LLC estimates.

Coverage of WR and GXP suspended due to investment banking activity

Guggenheim 2017 Non Deal Roadshow Schedule

Ticker	Dates	Regions
NYLD	1/10-11	Boston
WEC	2/17	Boston
ETR	2/21-22	West Coast
EXC	3/9-10	Chicago/Minneapolis
AWK	3/13	NYC
EIX	3/15	Connecticut
OGE	3/27-28	West Coast
NEE	3/29-30	Mid Atlantic
SJI	4/11	Boston
ALE	4/12-13	Mid Atlantic
AWK	5/9	Boston
VVC	5/10	New York
SJI	5/11	New York
SO	5/11-12	NYC/Mid Atlantic
POR	5/15	New York
DUK	5/31-6/2	West Coast

Ticker	Dates	Regions
CNP	6/5	Boston
LNT	6/6-7	Midwest
D	6/13-14	Midwest
SR	6/20-21	Chicago/Minneapolis
DTE	6/26-27	Chicago & Toronto
PNW	6/28-30	Midwest
NRG	7/19	Chicago
DYN	8/17-18	NYC/Boston
NWN	9/12	Chicago/Minneapolis
ES	10/11	Mid Atlantic
NI	10/18-20	West Coast
PPL	11/28	Boston
PEG	11/30-12/1	Canada
CMS	12/5	NYC
AVA	12/6	NYC

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
12/15 - 12/31	DUK	Duke Energy Progress rate case	Duke Energy Progress	NC	D-E-2	Commission decision expected
12/21	SO	Vogtle hearings	Georgia Power (GP)	GA	29849	Special Energy Committee meeting with decision expected
12/21	*PJM*	MOPR Extension				PJM Markets and Reliability Committee vote
12/27	ETR	Company testimony	ELL	LA	U-34472	Washington Parish Energy Center regulatory approval staff and intervenor testimony
12/29	SO	Vogtle hearings	Georgia Power (GP)	GA	29849	GP may file rebuttal testimony if the Commission fails to render decision
12/29	DUK	KY rate case	Duke Energy Kentucky	KY	C-2017-00321	Intervenor testimony due
Dec.	WEC	Illinois System Modernization filing	Peoples Gas Light	IL	16-0376	Final written order expected in Illinois System Modernization filing
Dec.	PNW	Demand Side Management filing	Arizona Public Service	AZ	E-01345A-17-0134	Decision expected in Demand Side Management filing
Dec.	ES	MA rate filings	Nstar Electric Western Mass. Electric	MA	DPU 17-05 (NSTAR) DPU 17-05 (WMECO)	DPU decision
Dec.	OGE	OK GRC	Oklahoma Gas and Electric	OK		Filing expected for recovery of environmental costs for Mustang CT
Dec.	SR	MO rate case	Laclede Gas Co.	MO	C-GR-2017-0215	Hearings and Briefs
Dec.	VVC	Indiana IRP	VVC Indiana	IN		IN Commission's Final IRP Comments
Longer-term dates						
01/02	ETR	EAI 2018 FRP	Entergy Arkansas	AK	16-036-FR	Requested rate adjustment
01/03	EXC	IL ZECs		IL		U.S. Court of Appeals 7th Circuit oral argument
01/04	ETR	Vermont Yankee Transaction		VT	8880	Second public hearing by Vermont PUC
01/04	POR	2016 IRP	PGE	OR	LC-66	Public hearing on POR IRP
01/05	CMS	Consumers Electric GRC	Consumers Electric	MI	U-17990	ALJ proposed decision expected in electric GRC
01/08-01/10	SO	Vogtle hearings	Georgia Power (GP)	GA	29849	Preliminary hearings and hearings on rebuttal testimony
01/10	EIX	SONGS proceeding	Southern California Edison	CA	12-10-013	Party concurrent testimony served
01/10	*FERC / DOE*	DOE Rulemaking Proposal			RM18-1	Deadline for FERC to issue a final order.
01/11	AVA	Washington GRC	Avista Utilities	WA	UE-171113	Public Hearings for GRC befroe the WUTC
01/19	SO	Vogtle hearings	Georgia Power (GP)	GA	29849	Simultaneous filings of briefs and/or propsed orders due if no decision rendered
01/26	DTE	DTE Electric GRC	DTE Electric	MI	U-18255	ALJ proposed decision expected
01/31	EIX	SONGS proceeding	Southern California Edison	CA	12-10-013	Party Concurrent Reply/Rebuttal Testimony Served
01/31	DUK	Duke Energy Progress rate case	Duke Energy Progress	NC	D-E-2	Possible NCUC order

Guggenheim's Forward Commodity Curves

- Forward Commodity Curves for Power & Utility Modeling

Key Industry Research

1. Guggenheim EEI Takeaways - Day 1
2. Guggenheim EEI Takeaways - Day 2
3. Guggenheim EEI Takeaways - Day 3
4. Utility and IPP 3Q17 Model Sweep
5. DOE Texas Tango – Will FERC Dance?
6. 2Q17 PREVIEW: Benign Earnings Season, but No Shortage of Topics or NT Catalysts to Watch
7. AGA Conference Highlights and Management Meeting Takeaways
8. 2017 Outlook: Riding the Cyclical Wave As It Crashes Through Regulated Utilities
9. Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call
10. Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities
11. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
12. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
13. PJM Capacity Auction – Introducing 2020/2021 PJM Capacity Auction Forecast – Through the Doomsday Cloud, We See a Silver Lining
14. Tax Reform: Lessons, Expectations, and Implications for Utilities from Industry Thought Leaders at ConEd
15. Guggenheim Levelized Cost of Energy Analysis – Balance of Power Continues to Shift Toward Gas and Renewables, Irrespective of Policy Direction
16. Fundamentals "Trump" Ideology: Our Reaction to the Reaction and Early Look at the New Administration - Not Quite Black & White for Utilities
17. IPPs Heating Up for Winter; CF Machines Trading at Unsustainable Yields
18. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
19. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
20. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance

Key Company Research

1. SCG – Upgrading to NEUTRAL – Balancing Risk/Reward: Tough Short with Wind Blowing in SC; Is SCG the Special Sauce?
2. NI – Management Roadshow: 20/20 Vision – Open your Eyes to See the Runway Through the Event Horizon
3. PCG – Shares Continue to Slide as Insurance Isn't Much of a Safety Net; Tough to Call a Bottom without a Safety Net
4. VST – Further Coal Shutdowns with One Surprise; Ain't Waiting Around for Nobody but Consistent w/ Our Thoughts
5. VST – Part Deux for Today on Coal Retirement Announcements – Surprise? No Surprise.
6. DM - Welcome to the "New" Dominion; Initiating Coverage with a BUY Rating, $39 PT
7. SRE – You Can't Have Your Growth and Dilute It Too – $6bn Equity Check is a Bitter Pill to Swallow
8. VST – Someone's Bailing - Could the Prisoner's Dilemma Finally Get Solved?
9. CMS – Analyst Day Quick Take: Same Strong Story, Different Day; No Real Surprises but Value-Added Details Provided
10. SO – Upgrading to BUY – Shaking off the Hangover with Some Hair of the Dog; Raising Price Target
11. VST – Initiating with a BUY Rating – How Can You Not?
12. CMS – Initiating with NEUTRAL – Late to the Party but Here for the Show; Valuation Keeps Us on Sidelines, for Now
13. DYN – Mgmt. Roadshow Through The Event Horizon – Stars Will Align; Raising TP by 29%
14. CPN – Another One Down: Downgrading to Neutral on Acquisition; Can't Rule Out Superior Go-Shop Bid, but Not Likely
15. SO - GA Commission Prodding Parties to "Go" In Our View
16. SCG – No Change in Stance; No Easy Way Out – Can Stakeholders Reach the Same Conclusion or Other Forces at Play?
17. NRG - Management Roadshow: Reinforced Message, Incremental Insight; Raising PT, Again
18. EXC - Illinois Judge Rules in Favor of EXC in ZECs Case, Direct Read-Through to NY
19. EXC - Stood In Line but NY State of Mind Didn't Keep Us Waiting Too Long: Rules In Favor of ZECs
20. PNW - Mgmt. Roadshow: Solid. What Else Can You Ask For? Just a Slightly Better Entry Point
21. DTE - BUY - Management Roadshow: If You Build It, They Will Come
22. SR – Mgmt. Roadshow: All About Clearing Up Misconceptions: Time to Put M&A Bias to Bed and Move Past MO Discount
23. NEE – Analyst Day Reinforces Growth; Likely Even Higher, But Whose Counting At This Point
24. D – BUY – Mgmt. Roadshow: Lucky Enough to Catch a June Bug?
25. LNT Mgmt. Roadshow: The Wind Continues to Blow in the Right Direction But Not Towards M&A
26. DUK Mgmt. Roadshow: Refreshing Message—Rate Cases, Legislation, Coal/Gas Conversion and Infrastructure Should Bear Fruit
27. DYN – Piecing Together Logic of a Potential Combination with VST - So You're Tellin' Me There's a Chance!?
28. POR – Management Roadshow: Filling the Capacity Gap; More Clarity to Emerge Soon
29. SO - Mgmt Roadshow Goes Down To The Wire; Extended Assessment Period Aligns With Strategy
30. SJI Mgmt Roadshow - Jersey Strong in NY
31. VVC Mgmt. Roadshow: Reinforces BUY – Valuation Looks Good; Continues Getting Gassier While Protecting Strong Balance
32. AWK Management Roadshow – Keep Doing What You Are Doing: Block & Tackle

33. *CPN - From Coast to Valley, CCGTs Get No Love In Cali: Not a One-Sided Debate at 25% CF Yield, A Free Call Option*
34. *ALE Mgmt. Roadshow: Wind Blowing in the Right Direction But Will Water Dampen Investor Excitement? Mgmt Has a Plan*
35. *SCG – Show Goes on for Now; Still Wait-and-See Mode, Although Turning Our Focus to Toshiba – An M&A Catalyst in Disguise?*
36. *SRE – See the Forest Through the Trees: The Humblest, Top of the Humble List*
37. *NEE – Management Roadshow and the Texas Tango*
38. *OGE Mgmt. Roadshow: What to Do With All That Cash? Oklahoma PSC – Ball's in Your Court!*
39. *EIX Mgmt. Roadshow: Execution Key While Investors Continue to Take a Wait and See Approach*
40. *EXC - Mgmt Roadshow: Please Don't Let Me Be Misunderstood – Message Was Loud and Clear*
41. *NRG – GenOn or GenOff?*
42. *PPL – NEUTRAL – NT Uncertainty Removed, but No Less Complex; Sum-of-the-Parts Just Won't Add Up*
43. *ES - BUY - Management Roadshow – Growth Concerns? Despite Noise, No…And Levers to Pull Post 2019*
44. *ETR – Upgrading to BUY – The Past Is the Past: Fully-Regulated Growth Utility Emerging from a Mushroom Cloud*
45. *DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive*
46. *CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements*
47. *ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront*
48. *PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power*

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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RATINGS EXPLANATION AND GUIDELINES

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SELL	1	0.29%	0	0.00%

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Ticker	Price	Rating
DYN	11.53	Buy
EXC	38.99	Buy
PCG	44.68	Neutral

The Guggenheim Daily Transmission: PCG, DYN, EXC, FERC, EPA

Scroll down for Guggenheim's Non-Deal Roadshow Schedule

What's New?

PCG – Rating agencies put PCG on review for downgrade
DYN – Response to comments on MISO Zone 4 resource adequacy issues
EXC – Started pilot program on electric vehicles
FERC – Proposes new standards for cybersecurity reporting
EPA – State attorneys general file suit on smog pollution control

PCG – Rating agencies put PCG on review for downgrade

- Moody's placed the ratings and outlooks of both PCG and its utility PG&E on review for downgrade, highlighting the suspension of dividends as “materially credit negative”.
- S&P Global Ratings also placed ratings on both entities on CreditWatch negative with negative implications, stating that the suspension of the dividend reduces access to equity capital and thus financial flexibility, despite helping to build cash reserves and equity cushion.
- Fitch Ratings has yet to take an action, although indicated that cash retention from the dividend suspension will be somewhat offset by cost of capital concerns due to pressure on shares.

Guggenheim takeaway: *We wouldn’t imagine PCG was intending to protect bondholders with their decision to suspend the dividend, as it effectively closes access to public equity without really resolving anything for bondholders, or at all really. We suspect PCG might have wanted to telegraph a message to powers that be in CA to animate some sense of urgency around the issue of inverse condemnation, although management emphasized it was not a strategic decision when we caught up shortly after the dividend announcement, and we wouldn’t expect that message to be received well in CA either, as investor interests simply aren’t a priority in CA. At the end of the day, we still question how PCG found itself faced with such a major decision around its dividend, frankly, regardless of nuances in CA’s utility dividend rules, without any developments worth disclosing around CalFire investigations or their potential role in the wildfires.*

DYN – Response to comments on MISO Zone 4 resource adequacy issues

- DYN submitted a response to comments from other participants on MISO Zone 4 resource adequacy issues post the initial workshop, including issues related to MISO/OMS load and capacity forecast in the 2017 survey, at-risk status of DYN’s downstate generating units, timing of action considering the proposed VST/DYN merger as well as FERC response to DOE NOPR, amongst other items.
- DYN suggested a second workshop on 1/16/2018 as requested by the Staff.

Guggenheim takeaway: *DYN continues to push for reforms in MISO Zone 4 to address the resource adequacy issues. The ICC is expected to produce a final report for presentation to the governor and General Assembly in February 2018. The results should provide an important catalyst for DYN’s legislation that would create a regional capacity market administered by the Illinois Power Agency. Stay tuned…*

EXC – Started pilot program on electric vehicles

- Commonwealth Edison, an EXC subsidiary, started a pilot program to study energy use of electric vehicles.

Guggenheim takeaway: *Not likely a very material driver at least in the NT.*

FERC – Proposes new standards for cybersecurity reporting

- FERC proposed a revised Critical Infrastructure Protection (CIP) Reliability Standard to improve mandatory reporting of cybersecurity incidents.

Guggenheim takeaway: *FERC is proactively taking actions to address the cybersecurity issues that could potentially harm the reliability of the electric system.*

EPA – State attorneys general file suit on smog pollution control

- The attorneys general of NY, CT, DE, MD, MA, PA, RI and VT filed suit against the EPA as the agency failed to require 9 additional upwind states to join the "Ozone Transport Region" to control smog pollution.

Guggenheim takeaway: *Policy makers at the state level have continued to push their clean energy agendas with a lack of leadership regarding clean energy policy at the federal level.*

Guggenheim's Power & Utility Comp Sheet

Price as of Wednesday, December 27, 2017

Regulated Utilities [1]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('18E) Yield	Dividend ('18E) Payout	Diluted Shares	GUGGENHEIM Earnings Per Share '17E	'18E	'19E	'20E	GUGGENHEIM Price / Earnings '17E	'18E	'19E	'20E	Consensus Earnings Per Share '17E	'18E	'19E	'20E	Consensus Price / Earnings '17E	'18E	'19E	'20E
AEP	American Electric Power	36.0	Neutral	$64	$73.24	3.4%	64%	492	3.64	3.86	4.06	4.28	20.1	19.0	18.0	17.1	3.61	3.89	4.12	4.30	20.3	18.8	17.8	17.0
ALE	ALLETE	3.7	Neutral	$69	$73.71	3.1%	62%	51	3.35	3.72	3.90	4.09	22.0	19.8	18.9	18.0	3.28	3.60	3.87	3.96	22.5	20.5	19.1	18.6
AVA	Avista*	3.3	Neutral	$53	$51.53	2.9%	73%	64	1.81	2.05	2.31	2.42	28.5	25.1	22.3	21.3	1.88	2.05	2.20	2.42	27.4	25.2	23.4	21.3
CMS	CMS Energy	13.3	Neutral	$48	$47.21	3.0%	61%	282	2.19	2.34	2.51	2.67	21.6	20.2	18.8	17.7	2.17	2.33	2.50	2.67	21.7	20.3	18.9	17.7
CNP	CenterPoint	12.1	Neutral	$30	$28.15	4.0%	78%	431	1.33	1.43	1.51	1.58	21.2	19.7	18.6	17.8	1.33	1.43	1.50	1.56	21.2	19.7	18.7	18.1
D	Dominion	51.9	Buy	$87	$80.66	4.2%	84%	644	3.60	4.06	4.35	4.55	22.4	19.9	18.5	17.7	3.58	4.03	4.26	4.54	22.5	20.0	18.9	17.8
DTE	DTE Energy	19.5	Buy	$118	$108.74	3.2%	60%	179	5.49	5.77	6.07	6.46	19.8	18.8	17.9	16.8	5.52	5.68	6.04	6.34	19.7	19.1	18.0	17.1
DUK	Duke Energy	58.8	Buy	$94	$83.98	4.4%	79%	700	4.60	4.68	4.90	5.10	18.3	17.9	17.1	16.5	4.56	4.83	5.07	5.28	18.4	17.4	16.6	15.9
ED	Consolidated Edison	26.3	Neutral	$76	$84.66	3.4%	67%	310	4.08	4.25	4.56	4.65	20.8	19.9	18.6	18.2	4.10	4.26	4.49	4.67	20.7	19.9	18.8	18.1
EIX	Edison International	21.0	Neutral	$73	$64.40	3.7%	55%	326	4.35	4.30	4.68	5.06	14.8	15.0	13.8	12.7	4.31	4.27	4.63	4.91	14.9	15.1	13.9	13.1
ES	Eversource Energy	19.8	Buy	$67	$62.53	3.3%	62%	317	3.15	3.35	3.60	3.80	19.9	18.7	17.4	16.5	3.13	3.32	3.55	3.73	20.0	18.8	17.6	16.8
LNT	Alliant Energy	9.8	Neutral	$38	$42.42	3.2%	64%	231	1.92	2.12	2.24	2.41	22.1	20.0	18.9	17.6	1.96	2.12	2.24	2.39	21.7	20.0	19.0	17.8
NEE	NextEra	73.0	Buy	$166	$155.29	2.9%	61%	470	6.90	7.30	7.78	8.36	22.5	21.3	20.0	18.6	6.74	7.25	7.75	8.33	23.0	21.4	20.0	18.6
OGE	OGE Energy	6.5	Buy	$40	$32.75	4.2%	67%	200	1.90	2.04	2.14	2.18	17.2	16.1	15.3	15.0	1.93	1.99	2.10	2.19	17.0	16.5	15.6	15.0
PCG	PG&E Corporation	22.9	Neutral	$60	$44.68	4.9%	58%	513	3.70	3.83	4.03	4.11	12.1	11.7	11.1	10.9	3.68	3.82	3.99	4.15	12.1	11.7	11.2	10.8
PNW	Pinnacle West	9.5	Neutral	$90	$84.62	3.3%	64%	112	4.29	4.44	4.76	5.03	19.7	19.1	17.8	16.8	4.27	4.44	4.74	4.99	19.8	19.0	17.9	17.0
POR	Portland General Electric	4.0	Neutral	$44	$45.38	3.1%	61%	89	2.28	2.33	2.45	2.56	19.9	19.5	18.5	17.7	2.26	2.32	2.43	2.56	20.1	19.6	18.7	17.7
PPL	PPL Corporation	21.1	Neutral	$39	$30.83	5.6%	75%	683	2.15	2.32	2.39	2.50	14.3	13.3	12.9	12.3	2.18	2.33	2.42	2.53	14.2	13.2	12.7	12.2
SCG	SCANA	5.6	Neutral	$45	$39.48	6.5%	93%	143	4.06	2.76	2.87	3.03	9.7	14.3	13.8	13.0	4.05	3.20	3.29	3.82	9.7	12.4	12.0	10.3
SO	Southern Company	48.2	Buy	$56	$48.05	5.0%	77%	1004	3.00	3.09	3.16	3.33	16.0	15.6	15.2	14.4	2.95	3.02	3.14	3.29	16.3	15.9	15.3	14.6
WEC	WEC Energy	20.8	Buy	$71	$65.88	3.3%	65%	316	3.11	3.35	3.54	3.75	21.2	19.7	18.6	17.6	3.10	3.28	3.47	3.72	21.2	20.1	19.0	17.7
***Average** *(Excl. AVA for P/E)*						**3.8%**	**68%**						**18.8**	**18.0**	**17.0**	**16.2**					**18.9**	**18.0**	**17.0**	**16.1**

Integrated Utilities [2]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('18E) Yield	Dividend ('18E) Payout	Diluted Shares	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E
ETR	Entergy	14.5	Buy	$91	$80.50	4.5%	73%	180	6.90	4.91	5.00	5.25	11.7	16.4	16.1	15.3	6.90	5.09	5.36	5.42	11.7	15.8	15.0	14.9
EXC	Exelon	37.4	Buy	$45	$38.99	3.5%	48%	960	2.65	2.88	2.82	2.63	14.7	13.5	13.8	14.8	2.65	2.89	2.82	2.75	14.7	13.5	13.8	14.2
FE	FirstEnergy	13.5	Buy	$40	$30.32	4.9%	59%	445	3.05	2.50	2.36	2.18	9.9	12.1	12.8	13.9	3.02	2.54	2.41	2.09	10.0	11.9	12.6	14.5
PEG	PSEG	25.8	Buy	$52	$51.01	3.6%	62%	506	2.92	2.93	2.96	3.01	17.5	17.4	17.2	16.9	2.92	2.98	3.02	3.11	17.5	17.1	16.9	16.4
Average						**4.1%**	**61%**						**13.4**	**14.9**	**15.0**	**15.3**					**13.5**	**14.6**	**14.6**	**15.0**

Independent Power Producers (IPPs) [3]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('18E) Yield	Dividend ('18E) Payout	Diluted Shares	Adjusted EBITDA '17E	'18E	'19E	'20E	EV / EBITDA '17E	'18E	'19E	'20E	Adjusted EBITDA '17E	'18E	'19E	'20E	EV / EBITDA '17E	'18E	'19E	'20E
CPN	Calpine	5.5	Neutral	$15	$15.12	0.0%	0%	361	1,876	2,013	1,976	2,073	9.1	8.1	8.0	7.4	1,845	2,025	1,958	2,042	8.8	7.6	7.3	NA
DYN	Dynegy	1.7	Buy	$18	$11.53	0.0%	0%	144	1,199	1,436	1,305	1,274	8.2	6.3	6.6	6.4	1,216	1,457	1,329	1,134	7.6	6.0	6.5	7.8
NRG	NRG Energy	8.8	Buy	$35	$27.70	0.4%	0%	317	2,420	2,914	3,184	3,185	7.8	6.0	4.9	4.5	2,493	2,464	2,175	1,845	9.2	8.8	8.8	11.3
VST	Vistra Energy	7.6	Buy	$21	$17.85	0.0%	0%	428	1,442	1,436	1,415	1,401	7.6	7.2	6.7	6.3	1,422	1,407	1,413	1,363	7.4	7.1	6.6	6.0
Average													**8.2**	**6.9**	**6.6**	**6.1**					**8.2**	**7.4**	**7.3**	**8.4**

Gas Utilities [4]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('18E) Yield	Dividend ('18E) Payout	Diluted Shares	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E
NI	NiSource	8.5	Buy	$29	$25.24	3.0%	59%	337	1.20	1.28	1.38	1.45	21.0	19.7	18.3	17.4	1.19	1.28	1.37	1.43	21.2	19.7	18.5	17.7
NJR	New Jersey Resources	3.4	Buy	$47	$39.25	2.8%	61%	87	1.73	1.83	1.97	2.13	22.7	21.4	19.9	18.4	1.73	1.81	1.97	2.08	22.7	21.6	20.0	18.9
NWN	NW Natural Gas	1.7	Neutral	$59	$58.90	3.2%	82%	29	2.18	2.30	2.44	2.60	27.0	25.6	24.1	22.7	2.19	2.28	2.53	2.60	26.9	25.8	23.3	22.7
SJI	South Jersey Industries	2.5	Neutral	$34	$31.14	3.6%	73%	79	1.15	1.54	1.68	1.83	27.1	20.2	18.5	17.0	1.16	1.44	1.64	1.79	26.9	21.6	19.0	17.4
SR	Spire	3.6	Buy	$82	$74.50	3.0%	59%	48	3.56	3.72	3.80	4.11	20.9	20.0	19.6	18.1	3.56	3.72	3.85	3.97	20.9	20.0	19.3	18.7
SRE	Sempra Energy	27.1	Buy	$127	$107.83	3.3%	63%	251	5.32	5.66	6.65	7.55	20.3	19.1	16.2	14.3	5.26	5.59	6.55	7.55	20.5	19.3	16.5	14.3
VVC	Vectren	5.4	Buy	$73	$64.63	2.9%	66%	83	2.65	2.79	3.05	3.23	24.4	23.2	21.2	20.0	2.63	2.81	3.03	3.23	24.6	23.0	21.3	20.0
Average						**3.1%**	**66%**						**23.3**	**21.3**	**19.7**	**18.3**					**23.4**	**21.6**	**19.7**	**18.5**

Other		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('18E) Yield	Dividend ('18E) Payout	Diluted Shares	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E
AWK	American Water Works	16.2	Buy	$95	$90.84	1.9%	54%	178	3.00	3.26	3.52	3.81	30.3	27.9	25.8	23.8	3.01	3.28	3.54	3.79	30.2	27.7	25.7	24.0

		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('18E) Yield	Dividend ('18E) Payout	Diluted Shares	Adjusted EBITDA '17E	'18E	'19E	'20E	EV / EBITDA '17E	'18E	'19E	'20E	Adjusted EBITDA '17E	'18E	'19E	'20E	EV / EBITDA '17E	'18E	'19E	'20E
NYLD	NRG Yield	1.8	Neutral	$18	$18.80	6.7%	NA	183	915	1,046	1,062	1,120	7.2	6.3	6.2	5.9	933	989	1,122	1,160	9.8	9.3	8.2	8.9

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(3) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

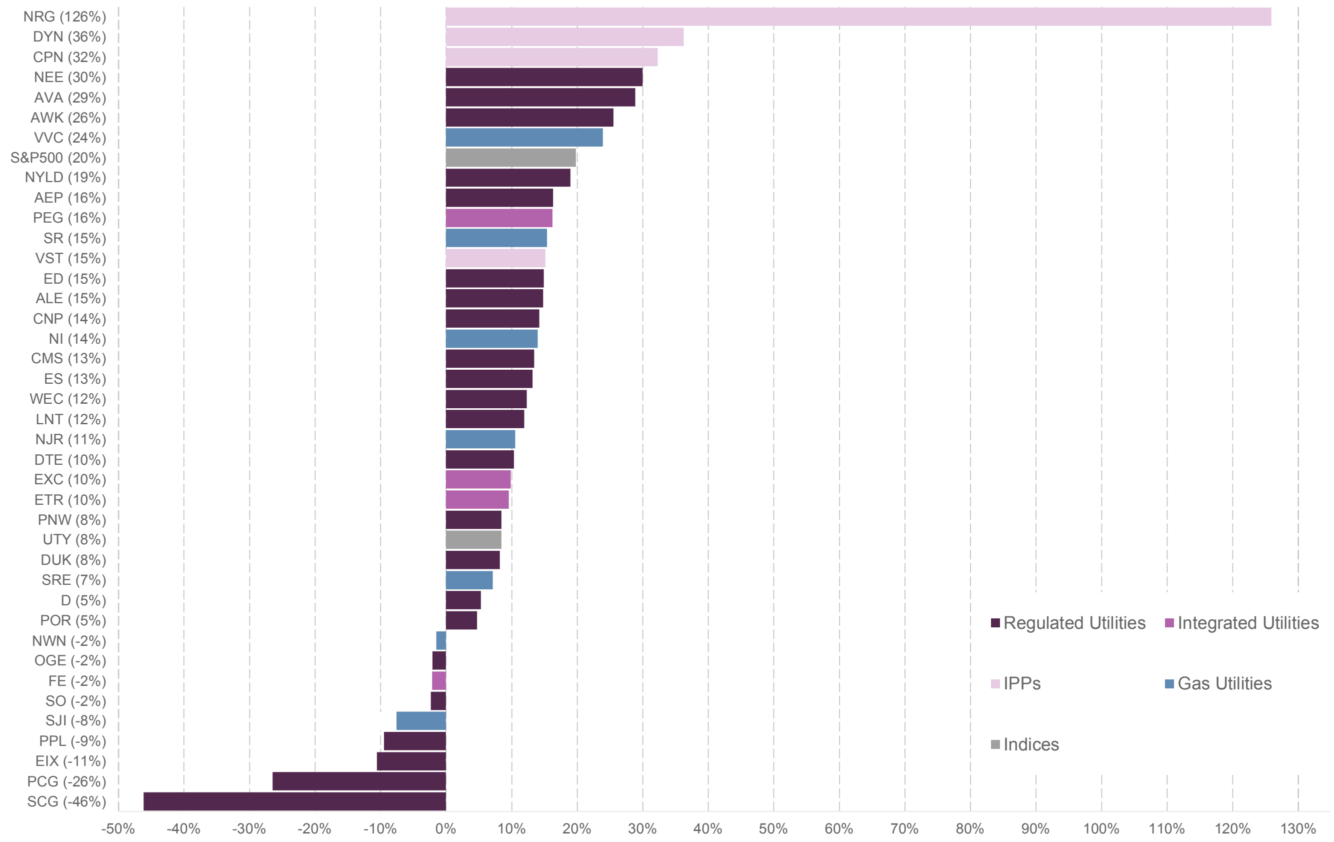
(4) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Note: Coverage of WR and GXP suspended due to investment banking activity

Share Price Performance (Year-to-Date)

Year-to-Date Share Price Performance



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(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

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(4) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

Source: Bloomberg, Guggenheim Securities, LLC estimates.

Coverage of WR and GXP suspended due to investment banking activity

Guggenheim 2017 Non Deal Roadshow Schedule

Ticker	Dates	Regions
NYLD	1/10-11	Boston
WEC	2/17	Boston
ETR	2/21-22	West Coast
EXC	3/9-10	Chicago/Minneapolis
AWK	3/13	NYC
EIX	3/15	Connecticut
OGE	3/27-28	West Coast
NEE	3/29-30	Mid Atlantic
SJI	4/11	Boston
ALE	4/12-13	Mid Atlantic
AWK	5/9	Boston
VVC	5/10	New York
SJI	5/11	New York
SO	5/11-12	NYC/Mid Atlantic
POR	5/15	New York
DUK	5/31-6/2	West Coast

Ticker	Dates	Regions
CNP	6/5	Boston
LNT	6/6-7	Midwest
D	6/13-14	Midwest
SR	6/20-21	Chicago/Minneapolis
DTE	6/26-27	Chicago & Toronto
PNW	6/28-30	Midwest
NRG	7/19	Chicago
DYN	8/17-18	NYC/Boston
NWN	9/12	Chicago/Minneapolis
ES	10/11	Mid Atlantic
NI	10/18-20	West Coast
PPL	11/28	Boston
PEG	11/30-12/1	Canada
CMS	12/5	NYC
AVA	12/6	NYC

Key Events Calendar

Date	Ticker	Event / Proceeding	Utility	State	Docket	Description
12/15 - 12/31	DUK	Duke Energy Progress rate case	Duke Energy Progress	NC	D-E-2	Commission decision expected
12/29	SO	Vogtle hearings	Georgia Power (GP)	GA	29849	GP may file rebuttal testimony if the Commission fails to render decision
12/29	DUK	KY rate case	Duke Energy Kentucky	KY	C-2017-00321	Intervenor testimony due
Dec.	WEC	Illinois System Modernization filing	Peoples Gas Light	IL	16-0376	Final written order expected in Illinois System Modernization filing
Dec.	PNW	Demand Side Management filing	Arizona Public Service	AZ	E-01345A-17-0134	Decision expected in Demand Side Management filing
Dec.	ES	MA rate filings	Nstar Electric Western Mass. Electric	MA	DPU 17-05 (NSTAR) DPU 17-05 (WMECO)	DPU decision
Dec.	OGE	OK GRC	Oklahoma Gas and Electric	OK		Filing expected for recovery of environmental costs for Mustang CT
Dec.	SR	MO rate case	Laclede Gas Co.	MO	C-GR-2017-0215	Hearings and Briefs
Dec.	VVC	Indiana IRP	VVC Indiana	IN		IN Commission's Final IRP Comments
Longer-term dates						
01/02	ETR	EAI 2018 FRP	Entergy Arkansas	AK	16-036-FR	Requested rate adjustment
01/03	EXC	IL ZECs		IL		U.S. Court of Appeals 7th Circuit oral argument
01/04	ETR	Vermont Yankee Transaction		VT	8880	Second public hearing by Vermont PUC
01/04	POR	2016 IRP	PGE	OR	LC-66	Public hearing on POR IRP
01/05	CMS	Consumers Electric GRC	Consumers Electric	MI	U-17990	ALJ proposed decision expected in electric GRC
01/08-01/10	SO	Vogtle hearings	Georgia Power (GP)	GA	29849	Preliminary hearings and hearings on rebuttal testimony
01/10	EIX	SONGS proceeding	Southern California Edison	CA	12-10-013	Party concurrent testimony served
01/10	*FERC / DOE*	DOE Rulemaking Proposal			RM18-1	Deadline for FERC to issue a final order.
01/11	AVA	Washington GRC	Avista Utilities	WA	UE-171113	Public Hearings for GRC befroe the WUTC
01/19	SO	Vogtle hearings	Georgia Power (GP)	GA	29849	Simultaneous filings of briefs and/or propsed orders due if no decision rendered

Source: Company filings, Guggenheim Securities, LLC.

Guggenheim's Forward Commodity Curves

- Forward Commodity Curves for Power & Utility Modeling

Key Industry Research

1. Guggenheim EEI Takeaways - Day 1
2. Guggenheim EEI Takeaways - Day 2
3. Guggenheim EEI Takeaways - Day 3
4. Utility and IPP 3Q17 Model Sweep
5. DOE Texas Tango – Will FERC Dance?
6. 2Q17 PREVIEW: Benign Earnings Season, but No Shortage of Topics or NT Catalysts to Watch
7. AGA Conference Highlights and Management Meeting Takeaways
8. 2017 Outlook: Riding the Cyclical Wave As It Crashes Through Regulated Utilities
9. Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call
10. Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities
11. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
12. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
13. PJM Capacity Auction – Introducing 2020/2021 PJM Capacity Auction Forecast – Through the Doomsday Cloud, We See a Silver Lining
14. Tax Reform: Lessons, Expectations, and Implications for Utilities from Industry Thought Leaders at ConEd
15. Guggenheim Levelized Cost of Energy Analysis – Balance of Power Continues to Shift Toward Gas and Renewables, Irrespective of Policy Direction
16. Fundamentals “Trump” Ideology: Our Reaction to the Reaction and Early Look at the New Administration - Not Quite Black & White for Utilities
17. IPPs Heating Up for Winter; CF Machines Trading at Unsustainable Yields
18. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
19. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
20. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance

Key Company Research

1. SCG – Upgrading to NEUTRAL – Balancing Risk/Reward: Tough Short with Wind Blowing in SC; Is SCG the Special Sauce?
2. NI – Management Roadshow: 20/20 Vision – Open your Eyes to See the Runway Through the Event Horizon
3. PCG – Shares Continue to Slide as Insurance Isn't Much of a Safety Net; Tough to Call a Bottom without a Safety Net
4. VST – Further Coal Shutdowns with One Surprise; Ain’t Waiting Around for Nobody but Consistent w/ Our Thoughts
5. VST – Part Deux for Today on Coal Retirement Announcements – Surprise? No Surprise.
6. DM - Welcome to the "New" Dominion; Initiating Coverage with a BUY Rating, $39 PT
7. SRE – You Can’t Have Your Growth and Dilute It Too – $6bn Equity Check is a Bitter Pill to Swallow
8. VST – Someone’s Bailing - Could the Prisoner’s Dilemma Finally Get Solved?
9. CMS – Analyst Day Quick Take: Same Strong Story, Different Day; No Real Surprises but Value-Added Details Provided
10. SO – Upgrading to BUY – Shaking off the Hangover with Some Hair of the Dog; Raising Price Target
11. VST – Initiating with a BUY Rating – How Can You Not?
12. CMS – Initiating with NEUTRAL – Late to the Party but Here for the Show; Valuation Keeps Us on Sidelines, for Now
13. DYN – Mgmt. Roadshow Through The Event Horizon – Stars Will Align; Raising TP by 29%
14. CPN – Another One Down: Downgrading to Neutral on Acquisition; Can’t Rule Out Superior Go-Shop Bid, but Not Likely
15. SO - GA Commission Prodding Parties to “Go” In Our View
16. SCG – No Change in Stance; No Easy Way Out – Can Stakeholders Reach the Same Conclusion or Other Forces at Play?
17. NRG - Management Roadshow: Reinforced Message, Incremental Insight; Raising PT, Again
18. EXC - Illinois Judge Rules in Favor of EXC in ZECs Case, Direct Read-Through to NY
19. EXC - Stood In Line but NY State of Mind Didn't Keep Us Waiting Too Long: Rules In Favor of ZECs
20. PNW - Mgmt. Roadshow: Solid. What Else Can You Ask For? Just a Slightly Better Entry Point
21. DTE - BUY - Management Roadshow: If You Build It, They Will Come
22. SR – Mgmt. Roadshow: All About Clearing Up Misconceptions: Time to Put M&A Bias to Bed and Move Past MO Discount
23. NEE – Analyst Day Reinforces Growth; Likely Even Higher, But Whose Counting At This Point
24. D – BUY – Mgmt. Roadshow: Lucky Enough to Catch a June Bug?
25. LNT Mgmt. Roadshow: The Wind Continues to Blow in the Right Direction But Not Towards M&A
26. DUK Mgmt. Roadshow: Refreshing Message—Rate Cases, Legislation, Coal/Gas Conversion and Infrastructure Should Bear Fruit
27. DYN – Piecing Together Logic of a Potential Combination with VST - So You’re Tellin’ Me There’s a Chance!?
28. POR – Management Roadshow: Filling the Capacity Gap; More Clarity to Emerge Soon
29. SO - Mgmt Roadshow Goes Down To The Wire; Extended Assessment Period Aligns With Strategy
30. SJI Mgmt Roadshow - Jersey Strong in NY
31. VVC Mgmt. Roadshow: Reinforces BUY – Valuation Looks Good; Continues Getting Gassier While Protecting Strong Balance
32. AWK Management Roadshow – Keep Doing What You Are Doing: Block & Tackle

33. *CPN - From Coast to Valley, CCGTs Get No Love In Cali: Not a One-Sided Debate at 25% CF Yield, A Free Call Option*
34. *ALE Mgmt. Roadshow: Wind Blowing in the Right Direction But Will Water Dampen Investor Excitement? Mgmt Has a Plan*
35. *SCG – Show Goes on for Now; Still Wait-and-See Mode, Although Turning Our Focus to Toshiba – An M&A Catalyst in Disguise?*
36. *SRE – See the Forest Through the Trees: The Humblest, Top of the Humble List*
37. *NEE – Management Roadshow and the Texas Tango*
38. *OGE Mgmt. Roadshow: What to Do With All That Cash? Oklahoma PSC – Ball's in Your Court!*
39. *EIX Mgmt. Roadshow: Execution Key While Investors Continue to Take a Wait and See Approach*
40. *EXC - Mgmt Roadshow: Please Don't Let Me Be Misunderstood – Message Was Loud and Clear*
41. *NRG – GenOn or GenOff?*
42. *PPL – NEUTRAL – NT Uncertainty Removed, but No Less Complex; Sum-of-the-Parts Just Won't Add Up*
43. *ES - BUY - Management Roadshow – Growth Concerns? Despite Noise, No…And Levers to Pull Post 2019*
44. *ETR – Upgrading to BUY – The Past Is the Past: Fully-Regulated Growth Utility Emerging from a Mushroom Cloud*
45. *DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive*
46. *CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements*
47. *ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront*
48. *PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power*

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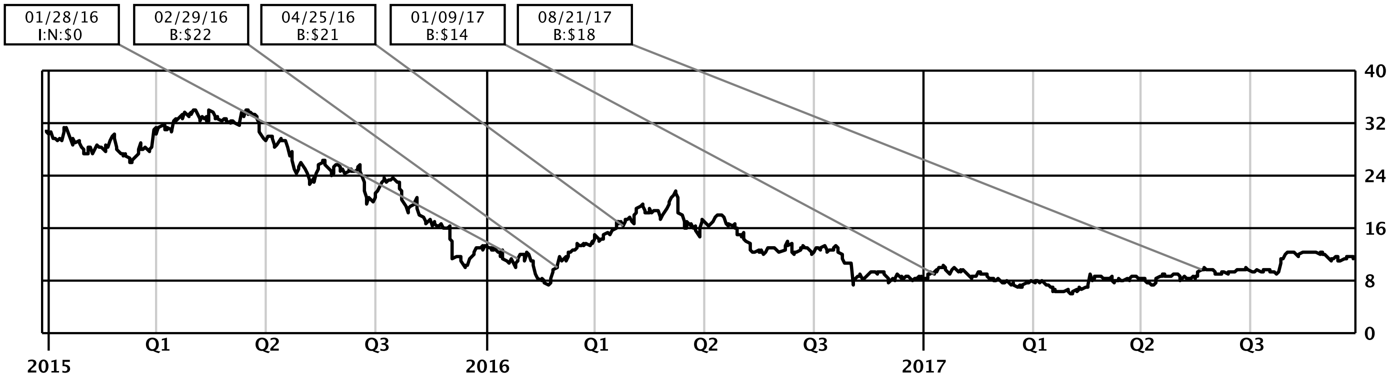
Rating and Price Target History for: Dynegy Inc. (DYN) as of 12-27-2017



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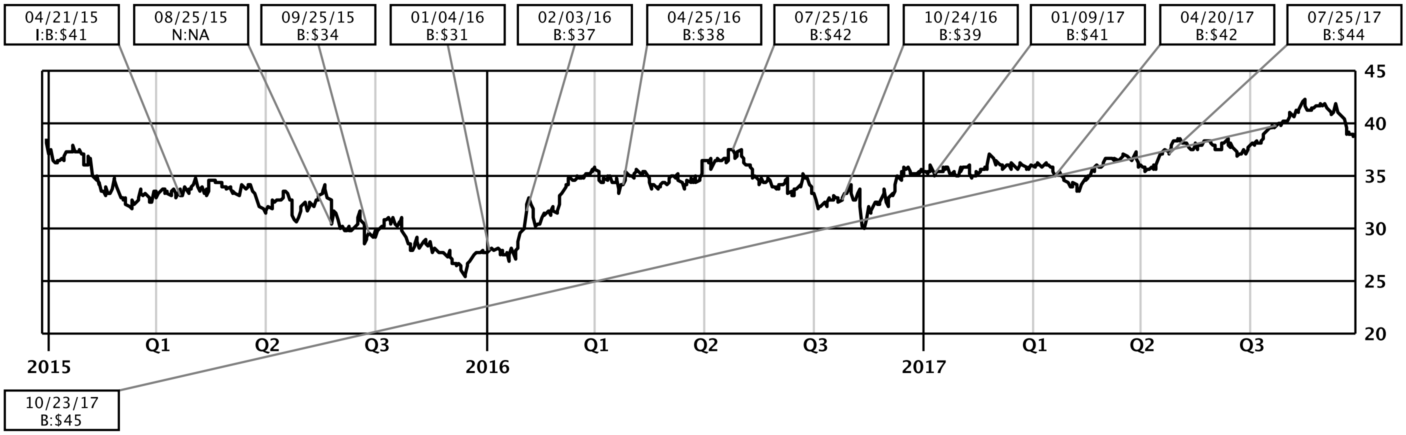
Rating and Price Target History for: Exelon Corporation (EXC) as of 12-27-2017



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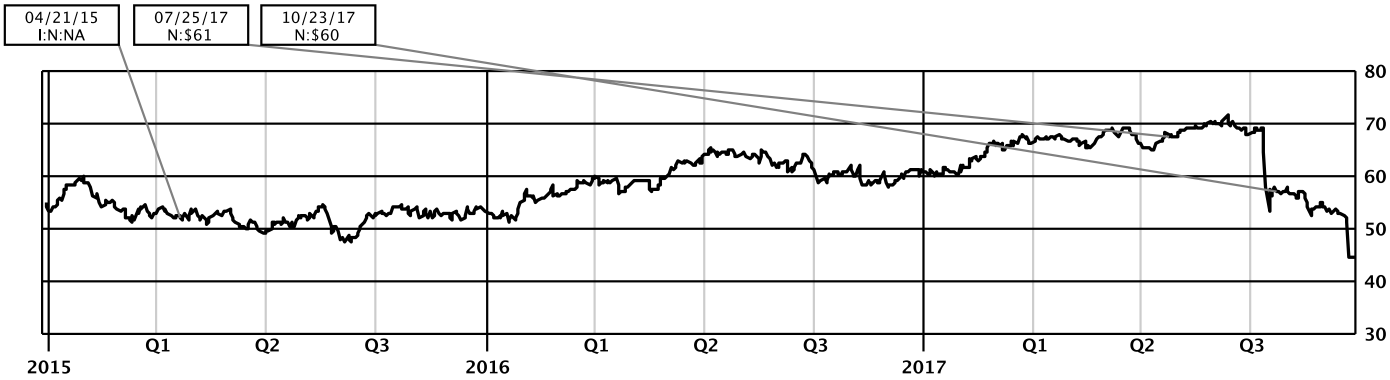
Rating and Price Target History for: PG&E Corporation (PCG) as of 12-27-2017



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BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

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			IB Serv./ Past 12Mos.	
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NEUTRAL	135	39.59%	14	10.37%
SELL	1	0.29%	0	0.00%

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SDR-ROR-11
Page 1 of 1
Phillip S. Barnett

Q. SDR-ROR-11 If applicable, please supply a listing of all common equity infusions from the parent to the Company over the past five years. In each case, identity date and dollar amount.

A. SDR-ROR-11 Not applicable. No common equity infusions from the parent to the Company were made over the past five years.

SDR-ROR-12
Page 1 of 1
Scott A. Bailey

Q. SDR-ROR-12 If applicable, please identify the Company's common dividend payments to its parent for each of the last five years.

A. SDR-ROR-12 PECO's dividends on common stock paid to its parent for the last five years are as follows:

2013 - $ 331,000,000
2014 - $ 320,000,000
2015 - $ 278,000,000
2016 - $ 277,160,000
2017 - $ 288,000,000

Q. SDR-ROR-13	Please provide the latest year-by-year financial projections for the Company for the next five years. Also, please indicate the date these projections were prepared; whether approved by management; and whether the projections have been submitted to bond rating agencies. (Information should be treated in a confidential manner.)
A. SDR-ROR-13	Refer to Public Attachment SDR-ROR-13(a) for the 2018 - 2019 projections that the Company finalized in January 2018, which were approved by management**.** These projections were provided to the rating agencies in February 2018. **CONFIDENTIAL ATTACHMENT SDR-ROR-13(a) IS CONFIDENTIAL IN REGARD TO THE LATEST YEAR-BY-YEAR FINANCIAL PROJECTIONS FOR THE COMPANY FOR 2020 THROUGH 2022 AND IS SUBMITTED ONLY IN THE NON-PUBLIC VERSION OF THIS RESPONSE FILED WITH THE COMMISSION.**

PECO Electric
(Thousands of dollars)
(Distribution Only)

Public
SDR-ROR-13(a)

		Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1	**Operating Revenues**	**$ 2,180,285**	**$ 2,211,725**			
2	**Operating Expenses**					
3	Fuel & Power	814,311	780,767			
4	O&M Expense	562,236	571,473			
5	Reg Asset O&M	70,444	90,912			
6	Depreciation	206,098	227,601			
7	Taxes Other Than Income	144,810	147,607			
8	**Total Operating Expenses**	**1,797,899**	**1,818,360**			
9	**Income From Operations**	**382,386**	**393,365**			
10	Interest Expense & Other	81,225	84,486			
11	**Income Before Income Taxes**	**301,162**	**308,879**			
12	Equity Earnings in Non-Consolidated Affiliates	-	-			
13	Income Taxes	34,420	58,919			
14	**Net Income Available to Common Stockholders**	**$ 266,742**	**$ 249,960**			

Q. SDR-ROR-14 Please provide the Company's five-year construction budget.

A. SDR-ROR-14 Refer to the table below for 2018 through 2019 construction budget for electric distribution and an allocated portion of common plant:

	Capital Budget	
2018	$	474,830,730
2019	$	534,926,314
2020		
2021	**CONFIDENTIAL**	
2022		

The information for 2020-2022 is **CONFIDENTIAL AND IS SUBMITTED ONLY IN THE CONFIDENTIAL NON-PUBLIC VERSION FILED WITH THE COMMISSION.**

Q. SDR-ROR-15 Please identify the Company's and, if applicable, its parent's capital structure targets (percentages of capital types). Provide the complete basis for the capital structure targets.

A. SDR-ROR-15 The Company's long term capitalization target is 53% in order to support the Company's strong investment grade credit rating and ability to issue debt even during difficult capital market conditions.

Exelon Corporation's capital structure is not the basis for the Company's claim and is therefore not applicable.

Q. SDR-ROR-16 For each month, of the most recent 24 months, please supply the Company's

a) short-term debt balance;
b) short-term debt interest rate;
c) balance of construction work in progress; and
d) balance of construction work in progress which is eligible for AFUDC accrual.

A. SDR-ROR-16

a) Refer to Attachment SDR-ROR-16(a).
b) Refer to Attachment SDR-ROR-16(b).
c) Refer to Attachment SDR-ROR-16(c).
d) Refer to Attachment SDR-ROR-16(d).

Attachment SDR-ROR-16(a)

PECO 10200
Short-term debt
2016 through December 2017

Month	2016 Balance	2017 Balance
January	300,000,000	-
February	300,000,000	-
March	300,000,000	500,000,000
April	300,000,000	500,000,000
May	300,000,000	500,000,000
June	300,000,000	500,000,000
July	300,000,000	500,000,000
August	300,000,000	500,000,000
September	300,000,000	500,000,000
October	-	500,000,000
November	-	500,000,000
December	-	500,000,000

NOTE: The 2016 short-term debt terminated in September 2016 and the 2017 short-term debt terminates in March 2018.

PECO 10200
Short-term debt
2016 through December 2017

Month	2016 Interest Rate	2017 Interest Rate
January	1.20%	-
February	1.20%	-
March	1.20%	5.35%
April	1.20%	5.35%
May	1.20%	5.35%
June	1.20%	5.35%
July	1.20%	5.35%
August	1.20%	5.35%
September	1.20%	5.35%
October	-	5.35%
November	-	5.35%
December	-	5.35%

NOTE: The 2016 short-term debt terminated in September 2016 and the 2017 short-term debt terminates in March 2018.

Construction Work in Progress
2016 - 2017

Month	2016	2017
January	151,985,723	176,543,632
February	168,997,929	179,241,008
March	185,610,333	198,019,793
April	198,508,638	209,911,760
May	169,216,322	208,115,399
June	160,476,690	181,762,607
July	163,635,405	198,933,966
August	173,601,253	222,130,733
September	181,060,521	247,336,412
October	167,786,462	265,718,553
November	175,093,361	279,817,460
December	178,049,689	230,075,906

CWIP Eligible for AFUDC
2016 - 2017

Month	2016	2017
January	136,236,845	138,724,663
February	142,890,014	137,223,974
March	158,108,233	147,952,981
April	170,013,145	156,773,793
May	170,035,870	174,086,806
June	149,820,025	165,685,461
July	141,779,115	143,027,528
August	140,751,675	159,576,134
September	151,957,507	173,387,028
October	150,847,622	195,616,707
November	138,398,249	211,735,178
December	146,710,670	223,603,079

Q. SDR-ROR-17 If applicable, please provide the currently authorized returns on equity for each of the parent's utility subsidiaries of the same industry type as the Company. In each case identify the approximate date when the current return on equity was approved by the state commission.

A. SDR-ROR-17 In addition to PECO Energy Company, Exelon Corporation has five other subsidiaries that are electric distribution companies: Commonwealth Edison Company (ComEd) located in Northern Illinois, Baltimore Gas and Electric Company (BGE) located in Maryland, Atlantic City Electric located in Southern New Jersey, Delmarva Power located in Delaware and Maryland, and Pepco located in Washington, D.C. and Maryland.

Section 16-108.5 of the Illinois Public Utilities Act (Act) authorizes ComEd to determine its electric delivery service charges through the application of a formula rate that operates in a standardized manner with annual updates using information published by ComEd in accordance with various federal and state reporting requirements. Pursuant to the Act, ComEd's authorized rate of return on common equity for electric delivery service is set statutorily at the average of the monthly average 30-year Treasury yields plus 580 basis points.

The currently authorized electric distribution rate of return on common equity for BGE is 9.75%, which was determined in a base rate proceeding for which the final order was issued on June 3, 2016.

The currently authorized electric distribution rate of return on common equity for Atlantic City Electric is 9.60%, which was determined in a base rate proceeding for which the final order was issued on September 22, 2017.

The currently authorized electric distribution rate of return on common equity for Delmarva Power - Delaware is 9.70%, which was determined in a base rate proceeding for which the final. order was issued on May 23, 2017.

The last base rate proceeding for Delmarva Power – Maryland was resolved by settlement. The settlement agreement was approved on February 9, 2018 and is silent with respect to the rate of return that the approved base rates will provide Delmarva Power an opportunity to earn.

The currently authorized electric distribution rate of return on common equity for PEPCO - Maryland is 9.50%, which was determined in a base rate proceeding for which the final order was issued on October 20, 2017.

The currently authorized electric distribution rate of return on common equity for PEPCO – District of Columbia is 9.50%, which was determined in a base rate proceeding for which the final order was issued on July 25, 2017.

Q. SDR-ROR-18 Has the Utility reacquired or repurchased any debt within the last five years? If so, provide a summary of each gain or loss on reacquired debt, the date on which the utility commenced amortization of such a gain or loss, the regulatory commission decision addressing the treatment of such gain or loss on reacquired debt, if any, on interest expense.

A. SDR-ROR-18 No.

Q. SDR-ROR-19 Fully identify all debt (other than instruments in public markets) owed to all shareholders, corporate officers, or members of the board of directors, its affiliates, parent company, or subsidiaries.

A. SDR-ROR-19 PECO Energy Capital Corp (PECC), PECO Energy Capital Trust III (PECO Trust III), and PECO Energy Capital Trust IV (PECO Trust IV) are non-consolidated subsidiaries of PECO that have issued preferred securities and lent the proceeds to PECO.

As of December 31, 2017, PECO's long-term debt owed to affiliates consisted of the following:

Description	**Interest Rate**	**Maturity Date**	**Debt Outstanding**
PECO Trust III Subordinated Debentures	Variable	On Demand	$805,206
PECO Trust III Subordinated Debentures	7.380%	4/6/2028	80,520,619
PECO Trust IV Subordinated Debentures	5.750%	6/15/2033	103,092,784
		Total	$184,418,609

Q. SDR-ROR-20 Provide a summary statement of all stock dividends, splits, or par value changes during the two (2) calendar periods preceding the rate case filing.

A. SDR-ROR-20 During the calendar years 2017 and 2016, there were the following:

2017

	Common Stock Dividends Declared ($ millions)	**Preferred Stock Dividends Declared ($ millions)**	**Stock Splits**	**Par Value Changes**
Exelon Corporation	$1,243	None **	None	None
PECO Energy Company	$288	None	None	None

2016

	Common Stock Dividends Declared ($ millions)	**Preferred Stock Dividends Declared ($ millions)**	**Stock Splits**	**Par Value Changes**
Exelon Corporation	$1,172	$8	None	None
PECO Energy Company	$277	None	None	None

**During Q3 2016, BGE redeemed all of its outstanding preferred shares. As there were no preferred shares outstanding at Exelon Corporation during 2017, no preferred stock dividends were declared or paid in 2017.

Q. SDR-ROR-21 If a claim of the filing utility is based on utilization of the capital structure or capital costs of the parent company and system – consolidated, the reasons for this claim must be fully stated and supported.

A. SDR-ROR-21 The Company has not proposed the use of the capital structure or capital costs of the parent company or system – consolidated -- in this filing.

Q. SDR-ROR-22 To the extent not provided in SDR-ROR-13, supply projected capital requirements and sources of the filing utility, its parent and system--consolidated--for the test year and each of three (3) comparable future years.

A. SDR-ROR-22 Refer to Attachment III-F-2(a) for the Company’s projected capital requirements and sources. Forward-looking data for Parent and System consolidated are not applicable.

Q. SDR-ROR-23 To the extent not provided elsewhere, supply financial data of Company and/or parent for the last (5) years.

a. Times interest earned ratio – pre and post tax basis.
b. Preferred stock dividend coverage ratio – post tax basis.
c. Times fixed charges earned ratio – pre tax basis.
d. Dividend payout ratio.
e. AFUDC as a percent of earnings available for common equity.
f. Construction work in progress as a percent of net utility plant.
g. Effective income tax rate.
h. Internal cash generations as a percent of total capital requirements.

A. SDR-ROR-23

a. Times interest earned ratio – pre and post tax basis:

Pre-tax basis

PECO Energy Consolidated (SEC)	
2013	9.67
2014	8.98
2015	9.46
2016	9.41
2017	8.73

Post-tax basis

PECO Energy Consolidated (SEC)	
2013	8.29
2014	8.72
2015	8.94
2016	8.77
2017	7.99

b. Preferred stock dividend coverage ratio – post-tax basis:

PECO Energy Consolidated (SEC) [in millions]	
2013	395*
2014	N/A - No preferred stock
2015	N/A - No preferred stock
2016	N/A - No preferred stock
2017	N/A - No preferred stock

* Preferred stock redeemed in 2013

c. Times fixed charges earned ratio – pre-tax basis

PECO Energy Consolidated (SEC)	
2013	5.6
2014	5.0
2015	5.4
2016	5.6
2017	5.1

d. Dividend payout ratio:

PECO Energy Consolidated (SEC)	
2013	85%
2014	91%
2015	74%
2016	63%
2017	66%

e. AFUDC as a percent of earnings available for common equity:

PECO Energy Consolidated (SEC)	
2013	1.55%
2014	2.27%
2015	1.85%
2016	2.51%
2017	2.77%

f. Construction work in progress as a percent of net utility plant:

PECO Energy Consolidated (FERC - Electric Only)	
2013	1.70%
2014	2.66%
2015	2.52%
2016	2.85%
2017	3.20%

g. Effective income tax rate:

PECO Energy Consolidated (SEC)	
2013	29.1%
2014	24.5%
2015	27.4%
2016	25.4%
2017	19.3%

h. Internal cash generations as a percent of total capital requirements:

PECO Energy Consolidated (SEC)	
2013	77.8%
2014	67.8%
2015	86.4%
2016	83.7%
2017	69.0%

Q. SDR-RR-1 Please provide a detailed breakdown of other operating revenues (non-KWh sales) by source for the preceding three calendar years and each month of the current year to date (showing a year to date total). Update this information as additional months' data become available.

A. SDR-RR-1

Other Operating Revenues - Electric
12 months ended Dec 31

		2015	**2016**	**2017**
450	Forfeited Discounts	12,784,445	11,991,591	11,698,752
451	Misc Service Revenues	4,496,511	4,824,201	5,040,073
453	Sales of water and water power	-	-	-
454	Rents from Electric Property	28,278,387	26,724,608	25,586,905
455	Intd Rents	-	-	-
456	Other electric revenues	(17,869,270)	(16,431,292)	(11,377,709)
456.1	Revenues from Transmission of Electricity of Others	179,608,908	175,895,682	183,177,041
	Total Other Operating Revenues	**207,298,981**	**203,004,790**	**214,125,062**

		January 2018
450	Forfeited Discounts	843,743
451	Misc Service Revenues	201,187
453	Sales of water and water power	-
454	Rents from Electric Property	2,169,574
455	Intd Rents	-
456	Other electric revenues	530,437
456.1	Revenues from Transmission of Electricity of Others	16,500,129
	Total Other Operating Revenues	**20,245,070**

Forfeited Discounts (Account 450) are late payment charges on customer billings. Miscellaneous Service revenues (Account 451) primarily consist of connection charges, fees for theft of services and returned check charges.

Pursuant to the Commission's Final Order in PECO's restructuring proceeding, PECO is authorized to recover in distribution rates each year an amount to be added to the decommissioning trusts for nuclear power plants PECO formerly owned in order to fully fund the cost of decommissioning by the time those plants are retired. Pursuant to the Commission's authorization for PECO to transfer its ownership interest in its formerly-owned nuclear power plants to Exelon Generation Company, LLC (Generation), the amounts it recovers annually in distribution rates are transferred to Generation for deposit in the applicable decommissioning trusts. PECO records the amounts it recovers to fund the decommissioning trusts in electric operating revenue Accounts 440, 442, 444, and 446. PECO records the remittances of those funds to Generation by charging Account 456 – Other electric revenues. The remittances are offset, only in part, by other electric revenues collected for make-ready work and for miscellaneous PJM revenues that PECO receives for being a transmission owner, which is why Account 456 shows a debit (negative) balance for each of the full calendar years of 2015, 2016 and 2017.

Q. SDR-RR-2 Please provide all workpapers and supporting documentation showing the development of the future test year revenues. Explain how the number of customers and usage per customer were derived.

A. SDR-RR-2 Refer to Exhibit BSY-1, with respect to the fully projected future test year, Exhibit BSY-2, with respect to the future test year, and PECO Statement No. 3, the direct testimony of Benjamin S. Yin. See also PECO Statement No. 2, the direct testimony of Phillip S. Barnett.

Q. SDR-RR-3 If not provided in response to the previous question, please identify the growth in the number of customers by rate schedule for the preceding three calendar years.

A. SDR-RR-3 Refer to the schedule below.

PECO Energy Company
Customer Numbers as of December 31

Year	Month	R	CAP	RH	GS	POL	PD	HT	SL	EP	Total*
2015	12	1,135,435	144,960	163,943	149,201	2,722	475	2,616	9,800	5	1,606,435
2016	12	1,155,773	133,079	167,733	150,142	2,638	466	2,630	9,818	5	1,619,646
2017	12	1,179,026	119,604	171,286	151,552	2,571	450	2,662	9,564	5	1,634,149

* Total customers do not include POL customers to avoid double counting, as POL customers are also GS customers

Q. SDR-RR-4 Please identify the actual number of customers by rate schedule for the preceding three calendar years and include monthly data for the most recent twelve months. Update as additional data become available.

A. SDR-RR-4 Refer to the schedule below.

PECO Energy Company

Customer Numbers as of December 31

Year	Month	R	CAP	RH	GS	POL	PD	HT	SL	EP	Total*
2015	12	1,135,435	144,960	163,943	149,201	2,722	475	2,616	9,800	5	1,606,435
2016	12	1,155,773	133,079	167,733	150,142	2,638	466	2,630	9,818	5	1,619,646
2017	12	1,179,026	119,604	171,286	151,552	2,571	450	2,662	9,564	5	1,634,149

* Total customers do not include POL customers to avoid double counting, as POL customers are also GS customers

Customer Numbers as of December 31

Year	Month	R	CAP	RH	GS	POL	PD	HT	SL	EP	Total*
2017	1	1,158,325	131,708	168,288	150,254	2,639	462	2,628	9,810	5	1,621,480
2017	2	1,160,511	130,598	168,583	150,366	2,626	461	2,640	9,795	5	1,622,959
2017	3	1,162,692	129,930	169,040	150,580	2,625	460	2,640	9,793	5	1,625,140
2017	4	1,163,579	129,636	169,213	150,656	2,623	458	2,643	9,792	5	1,625,982
2017	5	1,163,358	129,121	169,214	150,601	2,612	456	2,650	9,791	5	1,625,196
2017	6	1,164,699	127,897	169,335	150,783	2,604	455	2,650	9,790	5	1,625,614
2017	7	1,164,948	126,343	169,213	150,747	2,599	454	2,645	9,788	5	1,624,143
2017	8	1,168,070	125,222	169,786	150,883	2,586	455	2,650	9,787	5	1,626,858
2017	9	1,170,042	123,840	170,024	150,964	2,581	454	2,658	9,660	5	1,627,647
2017	10	1,172,425	122,799	170,303	151,076	2,582	452	2,659	9,660	5	1,629,379
2017	11	1,175,576	121,149	170,831	151,364	2,575	450	2,662	9,588	5	1,631,625
2017	12	1,179,026	119,604	171,286	151,552	2,571	450	2,662	9,564	5	1,634,149

* Total customers do not include POL customers to avoid double counting, as POL customers are also GS customers

Q. SDR-RR-5 If not provided previously, provide the budgeted number by customers by rate schedule for each month of the future test year.

A. SDR-RR-5 Refer to schedule below.

PECO Energy Company

Budgeted Monthly Customers by Rate Schedule

Year	Month	R	CAP	RH	GS	POL	PD	HT	SL	EP	Total*
2018	1	1,179,025	119,218	171,901	151,431	2,571	450	2,661	9,683	5	1,634,374
2018	2	1,180,609	118,339	172,373	151,643	2,571	450	2,661	9,683	5	1,635,764
2018	3	1,182,086	118,086	172,796	151,859	2,571	450	2,661	9,683	5	1,637,626
2018	4	1,182,918	118,530	172,995	151,905	2,571	450	2,661	9,683	5	1,639,147
2018	5	1,182,607	118,446	172,655	151,935	2,571	450	2,661	9,683	5	1,638,442
2018	6	1,182,610	118,063	172,784	152,092	2,571	450	2,661	9,683	5	1,638,349
2018	7	1,183,136	117,438	172,816	152,115	2,571	450	2,661	9,683	5	1,638,305
2018	8	1,184,346	117,016	173,212	152,189	2,571	450	2,661	9,683	5	1,639,563
2018	9	1,185,981	116,545	173,333	152,281	2,571	450	2,661	9,683	5	1,640,940
2018	10	1,187,146	116,083	173,548	152,444	2,571	450	2,661	9,683	5	1,642,019
2018	11	1,188,758	115,359	173,894	152,497	2,571	450	2,661	9,683	5	1,643,307
2018	12	1,190,313	114,496	174,010	152,530	2,571	450	2,661	9,683	5	1,644,146

* Total customers do not include POL customers to avoid double counting, as POL customers are also GS customers

Budgeted Monthly Customers by Rate Schedule

Year	Month	R	CAP	RH	GS	POL	PD	HT	SL	EP	Total*
2019	1	1,194,053	114,694	174,502	151,659	2,571	450	2,661	9,683	5	1,647,707
2019	2	1,196,004	114,294	174,928	151,714	2,571	450	2,661	9,683	5	1,649,738
2019	3	1,197,231	114,542	175,283	151,741	2,571	450	2,661	9,683	5	1,651,596
2019	4	1,197,594	115,510	175,362	151,752	2,571	450	2,661	9,683	5	1,653,017
2019	5	1,196,494	115,972	174,970	151,710	2,571	450	2,661	9,683	5	1,651,945
2019	6	1,195,917	116,153	174,767	151,732	2,571	450	2,661	9,683	5	1,651,369
2019	7	1,195,701	116,034	174,639	151,726	2,571	450	2,661	9,683	5	1,650,898
2019	8	1,197,053	116,081	174,800	151,766	2,571	450	2,661	9,683	5	1,652,498
2019	9	1,197,485	116,027	174,841	151,781	2,571	450	2,661	9,683	5	1,652,933
2019	10	1,198,605	115,926	175,043	151,827	2,571	450	2,661	9,683	5	1,654,200
2019	11	1,200,051	115,567	175,441	151,882	2,571	450	2,661	9,683	5	1,655,739
2019	12	1,202,205	115,040	175,652	151,921	2,571	450	2,661	9,683	5	1,657,617

* Total customers do not include POL customers to avoid double counting, as POL customers are also GS customers

Q. SDR-RR-6 Please provide a breakdown of actual kWh sales by rate schedule for each month of the historic test year, showing annual totals and for each subsequent month for which data are available. Update as additional data become available.

A. SDR-RR-6 Refer to the schedule below for the Company’s actual kWh sales by rate schedule, including the impacts of weather, for each month of 2017.

PECO Energy Company

Actual 2017 Monthly kWh Sales by Rate Schedule

Year	Month	R	CAP	RH	GS	POL	PD	HT	SL	EP	IC	Total
2017	1	789,079,057	127,980,695	305,220,563	689,184,184	932,090	36,512,267	1,244,694,834	16,121,762	69,604,330	250,625	3,279,580,407
2017	2	691,268,838	106,614,644	250,416,639	599,045,424	901,663	33,165,815	1,057,669,230	15,692,116	50,668,451	4,812,539	2,810,255,359
2017	3	733,841,416	93,353,731	280,027,264	681,750,554	927,327	32,194,103	1,219,653,612	16,179,306	56,042,699	280,553	3,114,250,565
2017	4	570,796,845	82,082,023	136,122,624	579,449,200	936,161	31,600,502	1,194,140,114	16,290,984	47,504,805	2,351,454	2,661,274,713
2017	5	627,917,902	65,018,656	130,035,154	590,154,306	911,002	30,857,299	1,269,758,720	16,125,644	48,917,161	2,246,864	2,781,942,707
2017	6	984,916,356	75,716,223	136,518,491	739,232,202	926,539	34,469,353	1,265,752,536	16,098,715	51,020,791	1,338,176	3,305,989,382
2017	7	1,175,360,132	109,219,984	175,639,498	755,135,751	928,588	40,419,745	1,443,742,136	16,042,233	50,099,109	2,505,028	3,769,092,204
2017	8	987,390,803	104,344,737	163,383,412	759,256,505	900,712	35,939,022	1,339,690,960	15,975,915	53,475,919	2,576,045	3,462,934,030
2017	9	819,435,895	81,721,042	135,908,469	637,908,002	924,200	35,847,063	1,235,502,700	15,781,348	46,842,745	2,883,220	3,012,754,684
2017	10	656,716,458	75,153,121	131,553,138	612,727,463	890,461	34,475,583	1,249,087,268	14,389,945	50,597,656	2,188,149	2,827,779,242
2017	11	654,012,782	68,523,506	193,165,383	590,771,547	922,852	31,496,511	1,233,242,426	15,701,262	43,388,481	1,577,943	2,832,802,693
2017	12	863,178,778	94,912,905	347,061,251	710,532,155	922,551	33,562,094	1,248,593,811	15,164,073	50,994,849	2,073,877	3,366,996,344
Annual Total		**9,553,915,262**	**1,084,641,267**	**2,385,051,886**	**7,945,147,293**	**11,024,146**	**410,539,357**	**15,001,528,347**	**189,563,303**	**619,156,996**	**25,084,473**	**37,225,652,330**

Q. SDR-RR-7 Please provide budgeted kWh sales by rate schedule, or if unavailable then by customer class, for each month of the future test year showing annual totals.

A. SDR-RR-7 Refer to the schedule below for budgeted kWh sales by rate schedule.

PECO Energy Company
Budgeted Monthly kWh Sales by Rate Schedule

Year	Month	R	RH	GS	POL	PD	HT	SL	EP	IC	Total
2018	1	970,542,769	398,408,723	706,283,015	948,846	36,055,750	1,240,452,085	15,303,112	58,610,448	3,111,652	3,429,716,401
2018	2	786,656,663	324,766,476	630,495,728	898,896	32,501,733	1,119,403,454	15,144,423	49,391,112	3,111,652	2,962,370,136
2018	3	793,404,393	284,669,793	662,632,871	939,392	34,270,659	1,201,656,662	15,163,219	57,372,803	3,111,652	3,053,221,443
2018	4	671,930,409	178,728,308	595,278,029	906,730	32,106,560	1,146,007,181	15,410,201	49,772,799	3,111,652	2,693,251,869
2018	5	704,741,944	147,238,182	617,171,622	918,953	34,835,250	1,232,727,094	15,351,435	47,650,295	3,111,652	2,803,746,426
2018	6	989,545,884	166,481,729	708,894,533	957,825	36,888,999	1,282,873,307	15,355,228	53,390,701	3,111,652	3,257,499,857
2018	7	1,241,573,244	186,961,495	761,450,719	1,012,508	40,664,304	1,415,700,049	15,284,153	53,776,374	3,111,652	3,719,534,498
2018	8	1,161,844,067	176,401,449	755,171,739	1,001,778	39,288,902	1,383,968,934	15,338,592	52,953,593	3,111,652	3,589,080,706
2018	9	827,412,804	138,938,818	648,137,210	936,062	35,873,711	1,246,686,082	15,333,842	52,722,729	3,111,652	2,969,152,910
2018	10	707,445,004	150,948,021	605,800,438	916,903	33,807,869	1,213,744,861	15,291,056	52,216,687	3,111,652	2,783,282,490
2018	11	740,637,245	223,956,605	611,346,099	876,961	32,827,491	1,183,518,527	15,303,784	43,344,991	3,111,652	2,854,923,355
2018	12	947,888,304	358,509,753	726,021,020	1,002,123	33,701,607	1,211,734,895	15,521,700	51,406,225	3,111,652	3,348,897,279
Annual Total		**10,543,622,731**	**2,736,009,351**	**8,028,683,022**	**11,316,978**	**422,822,838**	**14,878,473,130**	**183,800,747**	**622,608,757**	**37,339,818**	**37,464,677,371**

Budgeted Monthly kWhs Sales by Rate Schedule

Year	Month	R	RH	GS	POL	PD	HT	SL	EP	IC	Total
2019	1	968,253,727	396,237,654	706,535,888	946,603	34,589,751	1,241,220,488	15,110,669	58,895,306	3,111,652	3,424,901,739
2019	2	784,801,320	322,996,709	630,720,644	897,735	31,112,406	1,120,163,279	14,953,976	49,631,162	3,111,652	2,958,388,882
2019	3	791,533,135	283,118,527	662,869,497	937,924	32,796,751	1,202,455,151	14,972,535	57,651,646	3,111,652	3,049,446,817
2019	4	670,345,649	177,754,355	595,488,944	907,092	30,737,880	1,146,732,037	15,216,411	50,014,705	3,111,652	2,690,308,724
2019	5	703,079,798	146,435,830	617,389,854	919,760	33,319,206	1,233,550,430	15,158,384	47,881,885	3,111,652	2,800,846,799
2019	6	987,212,023	165,574,511	709,147,481	956,437	35,297,984	1,283,743,089	15,162,129	53,650,190	3,111,652	3,253,855,495
2019	7	1,238,644,973	185,942,676	761,718,076	1,015,354	38,897,031	1,416,671,437	15,091,948	54,037,738	3,111,652	3,715,130,884
2019	8	1,159,103,838	175,440,175	755,442,671	998,821	37,695,319	1,384,784,725	15,145,703	53,210,958	3,111,652	3,584,933,860
2019	9	825,461,337	138,181,691	648,372,837	930,455	34,608,102	1,247,250,788	15,141,012	52,978,972	3,111,652	2,966,036,846
2019	10	705,776,483	150,125,452	606,013,355	918,995	32,456,595	1,214,414,364	15,098,764	52,470,470	3,111,652	2,780,386,129
2019	11	738,890,440	222,736,186	611,560,541	879,481	31,601,403	1,184,079,897	15,111,332	43,555,656	3,111,652	2,851,526,587
2019	12	945,652,694	356,556,107	726,275,479	1,005,308	32,429,372	1,212,326,514	15,326,508	51,656,069	3,111,652	3,344,339,703
Annual Total		**10,518,755,417**	**2,721,099,872**	**8,031,535,267**	**11,313,964**	**405,541,802**	**14,887,392,197**	**181,489,372**	**625,634,756**	**37,339,818**	**37,420,102,465**

Q. SDR-TAX-1 Please provide the most recent actual property tax assessments and rates for each taxing jurisdiction whose annual assessment is $20,000 or more.

A. SDR-TAX-1 See Confidential Attachment SDR-TAX-1(a) for the most recent assessments and rates for each taxing jurisdiction.

See Confidential Attachment SDR-TAX-1(b) for the latest Pennsylvania Utility Realty Tax Act (PURTA) tax return.

THE ATTACHMENTS ARE CONFIDENTIAL AND ARE SUBMITTED ONLY IN THE NON-PUBLIC VERSION OF THIS RESPONSE FILED WITH THE COMMISSION.

Q. SDR-TAX-2 Please indicate whether FTY taxes include any assessments or refunds related to prior period taxes. Indicate the amount, the dates covered by the assessment or refund and the period in which the related income or expense was included, and the date the assessment or refund was reflected on the Company’s books.

Explain whether reserves had been established prior to being billed for any assessment or any account receivable had been recorded prior to the Company’s receiving a refund.

A. SDR-TAX-2 The fully projected future test year and future test year tax claims do not include any assessments or refunds related to prior period taxes. Reserves and accounts receivable have been established and recorded on PECO Energy Company’s financial statements according to Generally Accepted Accounting Principles (GAAP). The reserves and accounts receivables are not reflected in fully projected future test year or future test year taxes.

Q. SDR-TAX-3 Has the Company applied for or is it attempting to negotiate refunds from federal, local, or state taxing authorities? If so, please provide a full explanation and quantify the possible refund or abatement in question. Provide similar information if additional assessments are anticipated.

A. SDR-TAX-3 Exelon’s 2010 federal income tax return included requests for changing PECO’s method of accounting for repairs and maintenance costs as well as for retirements. The Section 481(a) adjustments for repairs and for retirements, the 2010 deduction for repairs, and the 2010 adjustment to depreciation were based on the best information available to PECO for the preparation of its federal income tax return. Subsequent to Exelon filing its federal consolidated tax return for the 2010 tax year, PECO refined its computations for these Section 481(a) adjustments and the 2010 deductions for repairs, retirements, and the related depreciation. As a result, an affirmative adjustment was submitted to accurately reflect these deductions for Exelon’s 2010 federal consolidated tax return. The amount of the Federal income tax refund related to this adjustment is approximately $13.9 million. Exelon’s Federal audit cycle for tax year 2010 was in 2017. The related audit adjustment for state purposes has been submitted to the state, and settlement is expected in 2018. The state income tax refund would be approximately $3.4 million after accounting for the Federal tax benefit.

Q. SDR-TAX-4 Please provide workpapers and supporting documentation showing the derivation of the future test year level of each tax other than income taxes reflected in the Company's filing.

A. SDR-TAX-4 Refer to Exhibit BSY-1, Schedule D-16, pages 1-3, for 2019,and Exhibit BSY-2, Schedule D-16, pages 1-3, for 2018.

Q. SDR-TAX-5 Please provide a breakdown by source or timing difference of the deferred income tax balances which have not been included in rate base.

A. SDR-TAX-5 Refer to Attachment SDR-TAX-5(a) for the breakdown.

PECO Energy Company
Prepaid and Deferred Taxes
12 Months Ended December 31, 2017
(Thousand $)

	Electric
Accrued Benefits	849
Addback Of Non-Qualified Stock Expense	1,878
Addback Of Other Equity Compensation Expense	1,248
Bad Debt	13,778
Charitable Contributions	1,570
Customer Advances For Construction	159
Deferred Compensation Liability	2,078
Deferred Rent	98
Deferred Revenue	221
Electric Bill Credit	9,574
FASB112	208
Incentive Pay	9,948
Miscellaneous Deferred Charges	1,154
Obsolete Inventory	430
Other Current	287
Other Unearned Revenue	168
Payroll Taxes AIP 481(a)	627
Pennsylvania NOL	6,077
SA Unbilled Reserve	3,828
Severance Payments	62
Vacation Pay Change	1,005
Vegetation Management Accrual	1,561
Workers Compensation Reserve	10,806
AEC Receivable	(1,727)
Amortization on Loss of Reacquired Debt	(433)
Interest Rate Swap	(568)
Pension	(90,087)
Regulatory Asset	(26,091)
State Deferred Tax Adj	(577)
State Tax Reserve	(3,254)
FAS 109 - Deferred Tax Liabilities	(148,820)
	(203,945)
Regulatory Asset - FAS 109 Flowthrough Items	148,820
	(55,125)

Q. SDR-TAX-6 Please provide all workpapers and supporting documentation for the consolidated tax savings adjustment reflected in the Company’s filing.

A. SDR-TAX-6 Refer to PECO Exhibits BSY-1 and BSY-2, Schedule D-18 and PECO Statement No. 3, the direct testimony of Benjamin S. Yin.

Q. SDR-TAX-7 To the extent not provided for in DFR 11.D-23 please provide a copy of the corporate federal tax returns and supporting schedules for the preceding three years and, if applicable, a copy of the calculation workpapers for the Company's consolidated tax savings adjustment.

A. SDR-TAX-7 Refer to Confidential Attachments SDR-TAX-7(a), SDR-TAX-7(b), and SDR-TAX- 7(c) for the Exelon Corporation corporate Federal income tax returns for the preceding three years, 2014, 2015, and 2016, respectively.

Refer to PECO Exhibit SY-1, Schedule D-18, for the workpapers supporting the calculation of what the consolidated tax savings adjustment would have been in the absence of Section 1301.1(a) of the Public Utility Code.

THE ATTACHMENTS ARE CONFIDENTIAL AND ARE SUBMITTED ONLY IN THE NON-PUBLIC VERSION OF THIS RESPONSE FILED WITH THE COMMISSION.

Q. SDR-TAX-8 Supply a schedule detailing the actual tax liability for a five-year period ending with the historic test year for each of the following taxes. Include the dates and amount of all payments made to satisfy the respective tax liabilities.

a. PA Capital Stock Tax
b. PA Corporate Net Income Tax
c. PA Gross Receipts Tax
d. PA Public Utility Realty Tax

A. SDR-TAX-8 Refer to Attachment SDR-TAX-8(a).

PECO Energy Company
Schedule of PA Tax Liability & Payments
12 Months Ended December 31, 2013, 2014, 2015, 2016, 2017

(Thousand $)

	Date	PA Capital Stock	Date	PA Corporate Net Income	Date	PA Gross Receipts Tax	Date	PA Public Utility Realty Tax
2017		NOTE 1						
Liability				2,850		126,187		8,320
Payments								
Overpayments/Prepayments					**3/15/2017**	128,000	**5/1/2017**	8,300
Q1 Estimate	**3/15/2017**		**3/15/2017**	-				
Q2 Estimate	**6/15/2017**		**6/15/2017**	-				
Q3 Estimate	**9/15/2017**		**9/15/2017**	-				
Q4 Estimate	**12/15/2017**		**12/15/2017**	-				
Extension								
Final					**3/15/2018**			
Transfers/Credits				9,707				
Liability net of Payments		-		(6,857)		(1,813)		20
2016		NOTE 1						
Liability				9,324		135,472		8,290
Payments								
Overpayments/Prepayments					**3/15/2016**	136,069	**5/2/2016**	8,400
Q1 Estimate	**3/15/2016**		**3/15/2016**	2,500				
Q2 Estimate	**6/15/2016**		**6/15/2016**	2,000				
Q3 Estimate	**9/15/2016**		**9/15/2016**	2,000				
Q4 Estimate	**12/15/2016**		**12/15/2016**	8,000				
Extension								
Final					**3/15/2017**			
Transfers/Credits		4,013						
Liability net of Payments		(4,013)		(5,176)		(597)		(110)
2015								
Liability		1,603		6,592		131,978		8,397
Payments								
Overpayments/Prepayments					**3/16/2015**	130,000	**4/9/2015**	7,700
Q1 Estimate	**3/16/2015**		**3/16/2015**					
Q2 Estimate	**6/15/2015**		**6/15/2015**					
Q3 Estimate	**9/15/2015**		**9/15/2015**					
Q4 Estimate	**12/15/2015**	2,000	**12/15/2015**	2,000				
Extension								
Final					**3/15/2016**	1,978		
Transfers/Credits		7,759						
Liability net of Payments		(8,156)		4,592		-		697
2014								
Liability		2,061		352		127,911		8,745
Payments								
Overpayments/Prepayments					**3/17/2014**	126,000	**4/22/2014**	8,200
Q1 Estimate	**3/17/2014**	500	**3/17/2014**	2,500				
Q2 Estimate	**6/16/2014**	500	**6/16/2014**	2,500				
Q3 Estimate	**9/15/2014**	-	**9/15/2014**					
Q4 Estimate	**12/15/2014**	-	**12/15/2014**					
Extension								
Final					**3/16/2015**	1,911		
Transfers/Credits		3,724						
Liability net of Payments		(2,663)		(4,648)		-		545
2013								
Liability		2,176		15,934		130,537		7,519
Payments								
Overpayments/Prepayments					**3/15/2013**	118,690	**4/30/2013**	8,400
Q1 Estimate	**3/15/2013**		**3/15/2013**					
Q2 Estimate	**6/15/2013**		**6/15/2013**					
Q3 Estimate	**9/15/2013**		**9/15/2013**					
Q4 Estimate	**12/15/2013**		**12/15/2013**					
Extension			**4/15/2014**	3,000				
Final					**3/17/2014**	11,847		
Transfers/Credits		21,863						
Liability net of Payments		(19,687)		12,934		-		(881)

NOTE 1: Pennsylvania Capital Stock has been phased out after 12/31/15.

Q. SDR-TAX-9 Provide complete copies of the most recently filed PA Corporate Net Income and PA Capital Stock Tax Reports. Include a copy of the official settlement and a copy of the Federal Form 1120 as submitted to the Department of Revenue.

A. SDR-TAX-9 Refer to Confidential Attachment SDR-TAX-9(a) for a copy of the PA 2016 RCT-101, including the Federal Form 1120. The PA Capital Stock Tax has been eliminated effective January 1, 2016. We have not received an official settlement from PA for 2016.

THE ATTACHMENT IS CONFIDENTIAL AND IS SUBMITTED ONLY IN THE NON-PUBLIC VERSION OF THIS RESPONSE FILED WITH THE COMMISSION.

Q. SDR-TAX-10 Provide copies of the most recently filed PA Gross Receipts Tax and PA Public Utility Realty Tax Reports with copies of the official settlements.

A. SDR-TAX-10 Refer to Confidential Attachments SDR-TAX-10(a) and Attachment SDR-TAX-10(b) for copies of the most recent PA Gross Receipt Tax filing and PA Public Utility Realty Tax Reports.

THE ATTACHMENTS ARE CONFIDENTIAL AND ARE SUBMITTED ONLY IN THE NON-PUBLIC VERSION OF THIS RESPONSE FILED WITH THE COMMISSION.